**GREEN RECOVERY TRACKER REPORT: GREECE**

The pandemic hit the Greek economy after a decade long crisis and stagnation, at a moment when economic growth was timidly picking up. On the eve of the pandemic Greece’s economy was still 18% lower than prior to the 2010 debt crisis, while economic activity is expected to shrink by 10% in 2020. Greece entered the pandemic with a public debt legacy of 180% of GDP, while the combination of additional spending to shield the economy and of economic contraction will substantially increase Greece’s debt-to-GDP ratio, to more than 200%.

A limited “fiscal space” means that the overwhelming majority of recovery expenditures is expected to come from the EU’s Recovery and Resilience Facility (RRF), of which Greece is one of the major net beneficiaries: available RRF grants and loans amount to €29 billion (constant 2018 prices), equivalent to 15.8% of Greece’s 2019 GDP. Additional €3bn in grants will come from other components under the Next Generation EU programme.

After a decade of dearth of investments in the real economy, high unemployment and weak economic performance, the national recovery and resilience plan (RRP) can be perceived as a unique opportunity both for responding to the crisis triggered by the pandemic and for boosting transformational investments.

**In focus: Green Spending**

Although the (draft) RRP submitted to the European Commission has not been fully disclosed, the publicly available information includes both positive elements for the green transition and some alarming investment plans.

According to the “Strategic directions of the National Recovery and Resilience Plan” published by the government, the green transition related reforms and investments to be funded from the RRF amount to €6.2 billion of grants. This represents 38% of RRF grants (€16.4bn), but only 21% of total RRF funds (€29bn; grants and loans). It is important to note, however, that the public draft RRP lacks the detail needed for a proper assessment. So, a calculation of the actual green spending share mirroring the Commission’s methodology for assessing national plans against the green spending benchmark of 37% will only be possible once more information is available.

According to publicly available information, the €6.2 billion grants dedicated to the green transition include investments in new fossil gas distribution infrastructure although the precise amounts haven’t been disclosed to this date. Similarly, the RRP seemingly includes substantial infrastructural investments, particularly transport road infrastructure that stabilizes a high carbon intensity status quo.

* A comprehensive quantitative assessment is not possible at this stage, due to partially disclosed information. We will update our assessment accordingly once this information is available.
OUR HIGHLIGHTS

Good Practice

**Linking the economic recovery to the just transition of coal regions**

Along with a number of clean energy, energy efficiency, and clean transport investments that can help Greece accelerate its decarbonization, a good practice worth flagging is the leveraging of RRF funds to support the coal phase out by mobilizing additional investment in coal regions for a just transition. Indeed, the EU's Just Transition Mechanism (JTM) provides relatively limited funds to support the economic restructuring of regions facing the consequence coal phase out (by 2028), and the leveraging of additional funds via the RRF can be classified as a good practice.

Bad Practice

**Using recovery funds for fossil gas infrastructure**

The inclusion of investments for new fossil gas distribution infrastructure in the national RRP is a bad practice, as new gas infrastructure could lock Greece’s energy system in a high carbon intensity path for many decades. Additionally, these investments have been classified as “contributors to the green transition” in the (draft) RRP, despite the fact that the RRF regulation clearly states that they should not be classified as such (not eligible in the minimum 37% of funds that need to be dedicated to the “green transition”).

To Our Surprise

**Green budgeting comes to Greece**

The 2021 budget introduces the notion of green budgeting for the first time in Greece. In 2020 the government joined the OECD’s Paris Collaborative on Green Budgeting, and the explanatory report accompanying the 2021 budget specifies that the government is in the process of developing methodologies for tracking the climate contribution of budgetary and fiscal policies. Although the examples provided in the explanatory report are fairly narrow and shallow compared to international best practice, and actual figures have yet to be produced, this is a step in the right direction.
GENERAL CONTEXT

Before the Covid-19 crisis hit the country, the political debate in Greece was dominated by economic and social issues as a consequence of Greece's decade long “great depression” and subsequent slow recovery.

Within this context, the government adopted a climate transition agenda notably as a means of catalyzing new investments and job creation. One of the first announcements of the Greek prime minister, leader of the neo-liberal conservative party New Democracy, when coming into office in 2019 was an ambitious strategy of full lignite phase out by 2028. This announcement was further elaborated in Greece’s 2019 national energy and climate plan (NECP), which projects a prompt replacement of lignite via a substantial increase of renewable energy systems and fossil gas (coal to gas switch) in the energy mix by 2030.

The preparation for a just transition plan for coal regions has been the subject of a prominent policy debate over the course of 2019 and 2020. Further, in line with the objectives set out by the NECP, over the course of 2020 the government notably introduced new legislation providing substantial subsidies for the purchase of electric vehicles, and a new energy efficiency scheme destined to enhance the energy performance of the buildings stock.

However, current policies contain a number of blind spots and debatable policy directions in the fields of climate and wider environmental policy. First, the partial switch from coal to new gas infrastructure (instead of coal to renewables) bears the substantial risk of locking Greece's energy system in fossil fuel infrastructure for the forthcoming decades. Second, both the decarbonization of the transport system and energy efficiency targets set by the NECP are relatively unambitious. Third, in the realm of wider environmental policy, Greece presents significant delays in the application of EU environmental policy and legislation regarding biodiversity and circular economy targets. Greece has been the object of infringement processes, for instance concerning the protection of its Natura-2000 network and waste management practices. Fourth, the current government has not challenged the decision of previous governments to grant rights on a large amount of Greece’s territory, onshore and offshore, for the upstream exploration, and possible future extraction, of oil and gas.

Within this wider context, the major stake is whether the RRF funds will be harnessed to invest in the necessary infrastructure for achieving more ambitious climate and environmental targets, while avoiding investments that are likely to harm medium to long-term green transition prospects.
On November 25, 2020, the Greek government published its “Strategic directions of the National Recovery and Resilience Plan”, which was open to consultation until December 20. The full (draft) NRRP was submitted to the European Commission immediately, without waiting for the conclusion of the consultation period. The disclosure of an updated draft plan is still pending.

### Context indicators

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<tr>
<th></th>
<th>Greece</th>
<th>EU average</th>
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<tr>
<td>GDP (2019)</td>
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<tr>
<td>GDP (per capita, 2019, provisional)</td>
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<td>Debt (% of GDP, 2019Q4)</td>
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<tr>
<td>Debt (% of GDP, 2020Q3, provisional)</td>
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<td>Unemployment Rate (December 2019)</td>
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<tr>
<td>Unemployment Rate (August 2020)</td>
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<td>7.4 %</td>
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<tr>
<td>Unemployment Rate (November 2020)</td>
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<tr>
<td>EU recovery funding</td>
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(Grants only, constant 2018 prices)

### KEY FOCUS AREAS OF THE GREEK RECOVERY DEBATE AND THE RECOVERY PACKAGE

Greece’s RRP is structured around four pillars: (1) the green transition (€6.2 billion), (2) the digital transition (€2.1 billion), (3) employment, skills and social cohesion (€4.1 billion), and (4) accelerating private investment (€4 billion). The total sum of €16.4 billion reflects the grants component of the RRF, while the government has not publicly specified where the €3 billion of the REACT-EU facility and the €12.6 billion available through the loan component of the RRF will be spent.
A number of reforms and investments included in the (draft) RRP are based on the recommendations of a separate document, the “Growth strategy for Greece” drafted by an expert commission headed by Nobel laureate Christopher Pissarides. Many elements of this medium to long-term growth strategy have been politically divisive, with major opposition parties openly criticizing a number of its key reform recommendations, namely its proposal for changing the auxiliary pension scheme from distributive to individual capitalization its lack of concrete proposals to reduce inequality beyond trickle down, its concept of enhancing enterprise size to increase international competitiveness by merging SME, the backbone of the Greek economy with the few large ones, its proposals for further relaxation of labor rights and its underlying reliance on markets to address, through growth, social needs.

In terms of the green transition components of the RRP, these are split among four major categories, mirroring some of the EU’s RRF flagship areas, namely:

- Power up
- Renovate
- Recharge and refuel
- Sustainable use of resources, climate resilience

Although no major players are opposing the principle of dedicating a substantial share of recovery funds for green transition investments, dividing lines are evident on the details and content of the plan.

A first dividing line concerns the development of new fossil fuel infrastructure. While the government and industry lobbyists insist in financing new fossil gas infrastructure, the view that fossil gas can still be considered a “transition fuel” for the 2020s and 2030s is being increasingly challenged both by civil society organizations and some political parties. On the more extreme side of the spectrum, a recent report on Greece’s “Green Deal”, written by former minister Ioannis Maniatis, even classified upstream oil and gas projects as “green transition” investments.

A second dividing line concerns the role of citizens in the energy transition. The governing majority seems to favor large-scale, concentrated renewables deployment, with a recent piece of legislation curtailing the role of community energy projects in the green transition. On the other hand, the largest left-wing opposition party places a heavier emphasis on the role of distributed energy systems through the active participation of citizens via Greece’s community energy scheme (law on energy communities).
FINANCING AND ADDITIONALITY OF GREECE’S RECOVERY PACKAGE

Greece’s €32 billion support package (constant 2018 prices) is expected to be largely financed through the EU’s Recovery and Resilience Facility, from which Greece will receive €16.4bn in grants and €12.7bn in loans. Further sources of funding are grants from other Next Generation EU-components, namely REACT-EU (€2.3bn), the Just Transition Fund (€0.4bn) and the European Agricultural Fund for Rural Development (0.3bn). The MFF grants allocated to Greece for the period 2021-27 (€38 billion in constant 2018 prices) remain roughly at the same level of the previous MFF 2014-20 (€36 billion in constant 2018 prices). As such, the main “difference maker” in terms of the short- to medium-term economic recovery from the pandemic is clearly the RRF, not only considering its additionality but also in view of its frontloaded structure.

The 2021 budget projects that Greece will manage to spend €2.6 of grants and €1.2 billion of loans from the RFF, in addition to €1.6 billion available via the REACT-EU facility.

Although the RRF clearly consists of additional funds, a major question regarding its impact on the medium- to long-term recovery is whether it will be harnessed to finance investments for reaching additional climate and biodiversity targets, over and above those already planned to 2030; or whether it will instead be used to fulfill investments for hitting existing targets.

To give one example, Greece’s NECP already planned the upgrading of approximately 60,000 private buildings (including in the households and services sector) annually, in order to reach a target of upgrading 12-15% of Greece’s building stock by 2030. Whilst the RRP includes a “renovate” component for increasing the energy efficiency of the building stock, it remains unclear whether this component will deliver additional or deeper renovations (compared to those already planned) or simply be used to fulfill the NECP’s target.

The additionality of the RRP’s investments compared to Greece’s current NECP is crucial, as the latter will need to be revised over the course of 2021 to reflect the EU’s decision to raise its emissions reduction target to 55% by 2030.

GOVERNANCE OF THE RECOVERY PACKAGE

The recovery package is loosely linked to the targets of Greece’s NECP (to 2030) and Long Term Energy and Climate Plan (to 2050).
To this date, the governance process of the RRP has been very centralized and intransparent. There has been limited public consultation throughout the design of the plan, and the only document formally put to public consultation was the “Strategic directions of the Recovery and Resilience Plan”, a report disclosing very limited information on the full (draft) RRP sent to the European Commission. Further, the full (draft) RRP has not been submitted to Parliament for detailed scrutiny.

In October 2020, the government created an ad hoc public body attached to the Ministry of Finance, the “special department for the management of the recovery fund”, which is expected to manage the RRP and oversee its implementation. The RRP will be centrally managed, while regional and local governments are expected to have a secondary role.

Overall, civil society organizations, opposition parties and MPs have been stressing the need for a more transparent process in the design of the RRP and its subsequent execution. Demands for greater transparency have been largely ignored to this date.

**NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS (“COMPANY BAIL-OUTS”)**

Starting from the first lockdown in March, the Government provided direct income support to employees who were laid off or furloughed, loans to enterprises compelled to close and loan guarantees, postponed VAT payments and tax obligations, covered in part social security contributions and selected enterprise rent payments.

The total support provided to the Greek economy over the course of 2020 amounts, according to Government announcements, to €23.9 billion that include additional spending and foregone or deferred revenue. Of this total, approximately €7.5 billion were mobilized for the provision of liquidity support to firms via guarantees and “below the line” measures (e.g. equity injections and loans). Support measures for firms did not have any climate or environmental conditionality attached, despite the fact that the vast majority of liquidity support was absorbed by large companies. Crucially, neither the €120 million grant to Aegean Airlines (Greece’s largest airline) nor the various support measures offered to shipping companies, and energy companies, included any green conditionality.
DEEP DIVE: THE MOST IMPORTANT RECOVERY MEASURES AND HOW WE PRELIMINARILY ASSESS THEM

Although the government has provided no detailed investment cost breakdowns and we rely on partial information, the most important measures included in the RRP with an effect on the green transition are:

- The upgrade of electricity infrastructure, a measure we consider necessary to increase the penetration of renewable energy systems in the energy mix.

- Additional support to coal regions in transitions, notably via investments in district heating systems, energy efficiency, and the financing of soil rehabilitation works. We consider that leveraging the RRF to complement the (more limited) funds provided by the JTF (Just Transition Fund) is certainly positive, in principle.

- A new dedicated scheme to accelerate investments in energy upgrades (retrofitting), combined with support measures for the installation of onsite renewable energy power generation systems (PV), electricity storage infrastructure (batteries), charging stations for electric vehicles, and smart meters.

- A scheme providing financial support for rolling out of an accessible electric vehicles charging network across Greece. Although this is certainly a positive measure for enhancing e-mobility, it is partial at best. Indeed, no measures to increase clean public (or shared) transport infrastructure, notably in urban centers, seem included in the RRP. Similarly, the RRP seems to ignore necessary investments for expanding the rail network (one of the smallest in the EU) and/or fully electrifying the existing part.

- The expansion of natural gas grids to substitute fossil fuel products in energy consumption. We consider this a negative development from the standpoint of the green transition. Even though it is evident that fuel substitution will momentarily bring emissions down in the short-term, investing in gas infrastructure could lock Greece into a high emissions intensity path for many decades. As such, the government’s decision to transition from coal (and oil used for heating) to gas, instead of harnessing the RFF for “leapfrogging” directly to renewables, storage, efficiency, and demand management, is a risk to the green transition.

- Investments for the sustainable use of resources and climate resilience, notably including reforms and investments for: promoting sustainable agriculture, enhancing the sustainable use of resources, restoring forest ecosystems, accelerating the
transition to a circular economy, upgrading the infrastructure of protected areas, and enhancing the protection to floods and forest fires. Although we consider the inclusion of such investments positive in principle, the lack of details makes the effectiveness of the measures impossible to assess at this stage. We will consequently provide an update once further details are made public.

The package furthermore contains a significant number of measures that do not directly relate to the green transition but are still important and potentially transformative, such as:

- The digital pillar of the plan (€2.1 billion of grants), which for instance includes investments and reforms to (a) improve broadband connectivity and digital inclusion across the territory, (b) accelerate the digitization of businesses, and (c) digitize public services.

- The employment, skills and social cohesion pillar of the plan (€4.1 billion of grants), which includes among others investments and reforms to (a) improve the accessibility of the healthcare system, (b) enhance digital skills of the population at multiple levels (education system, vocational training, lifelong learning etc.), and (c) employment support measures via both active and passive labor market policies.

It is worth repeating, however, that the details of the plan remain undisclosed and consequently that more information is needed for a comprehensive assessment of both green transition related and other measures of the plan. As such, we will complement our assessment as more information becomes available.

**IMPORTANT CLIMATE POLICY DECISIONS TAKEN DURING THE CRISIS AND RECOVERY PERIOD**

The Greek government introduced a series of (positive and negative) new laws and announced a number of climate related initiatives during the pandemic period.

On the legislation front, it notably introduced new legislation aiming to catalyze the development of e-mobility, including economic incentives and the roll-out of charging infrastructure. The government also introduced a relatively ambitious (compared to previous similar schemes) energy upgrade scheme for buildings.
On the policy front, the 2021 budget introduces for the first time the notion of “green budgeting”, although the way it is implemented is narrow and shallow compared to international best practices, hence falling short of expectations.

A series of negative developments should also be highlighted. First, a recent law strongly curtailed the prospects of community/cooperative energy schemes (as per Greece’s law on energy communities). Second, in early 2021, the government (along with 9 other EU Member States) decided to block the delegated acts of the EU taxonomy regulation on the grounds that fossil gas infrastructure is not eligible to be classified as a “green” investment by the EU taxonomy’s technical screening criteria.

This report was written by Olivier Vardakoulas (WWF Greece) and Dimitris Lalas (FACE3TS S.A.). We are grateful to Antonia Brand (Wuppertal Institute) and Helena Mölter (Wuppertal Institute) for providing valuable inputs.

REFERENCES

3 In nominal terms the grants available to Greece are of 17.8 billion (or 16.45 billion in 2018 prices based on fixed deflators used by the European Commission). On top of grants, Greece can claim loans of a maximum of 6.8% of its 2019 Gross National Income i.e. 12.9 billion. The latest allocation calculations for the recovery and resilience facility are available in the following document: https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/recovery_and_resilience_facility_.pdf.