INVESTGR
FOREIGN INVESTMENT IN GREECE

THE INITIATIVE FOR FOREIGN INVESTMENTS IN GREECE

SYNOPSIS

As Greece graduates from its third memorandum, the Greek economy offers significant opportunities, in spite of the numerous obstacles. Greece has an urgent need to attract FDI on a large scale. The country needs larger enterprises and more multinationals. Establishing such firms in Greece can significantly reduce the investment gap in the economy. Their international character can also help link the Greek economy with international networks and global supply chains. Foreign businesses bring valuable know-how and innovative practices, boost productivity, and can contribute to the overall upgrading and growth of the Greek economy.

Of the 170 companies operating in Greece with turnover of more than €100 million, 51 are controlled by multinationals and with a combined revenue of €11.2 billion. The total inflow of foreign direct investment (FDI) in 2017 reached €3.6 billion, up from €2.8 billion in 2016. This is the best annual performance since the beginning of the crisis. However, the overall ratio of FDI relative to GDP remains among the lowest in the Eurozone.

Greece can become an attractive destination for foreign investment, direct and indirect. Particularly in sectors where Greece presents comparative advantages. One such sector is ICT, where Greece, for several reasons, can be attractive to investors.

During the crisis years, Greece has made steady and decisive steps in implementing reforms to address weaknesses in attracting foreign investment. However, there is still significant room for improvement in key aspects of the ecosystem for business activity, such as bureaucratic procedures, the regulatory, judicial and fiscal framework, human and intellectual capital, and infrastructure.

PUBLIC ADMINISTRATION AND REGULATORY FRAMEWORK

Dysfunctional public administration and red tape continue to serve as deterrents to investment. Overregulation, poorly drafted laws, complex and contradictory processes and rules, and difficulties obtaining licenses are key problems.

Suggestions include: measures to alleviate the administrative burden of businesses; better training of civil servants; greater use of technology and automation in public administration; a “one-in, one-out” rule when adopting new regulations; creating help desks for all public sector services; simplifying and establishing an electronic licensing process; reducing preemptive regulation with stronger oversight; better management and utilization of Big Data by public administration; simplification and recodification of the legal code; strategic management of human resources in public administration; adopting best international practices to remove business obstacles, in cooperation with the private sector; anti-corruption initiatives to improve ranking in relevant indices.

ACCESS TO JUSTICE AND DISPUTE RESOLUTION

The enforcement of contracts, adherence to agreements and legal remedies to disputes are among the most important factors influencing investment decisions. The enormous delays that plague Greece's justice system are a deterrent to foreign investment.

Suggestions include: speeding up court decisions; better exploiting technology available in the digital age; incentives and disincentives to limit the number of lawsuits; reducing the caseload in the court system by strengthening out-of-court dispute resolution; adopting modern technologies throughout the legal process; continuous instruction and training of judges.

TAXATION

A constant problem in Greece has been the frequent changes to the tax code. The perpetually changing tax framework reduces visibility for businesses and deters potential investors from Greece. The tax rates on capital and labor are excessive, especially when combined with social security contributions. In the most recent Global Competitiveness Report by the World Economic Forum (2017-2018), Greece is ranked last out of 137 countries in providing tax incentives for investment.

Suggestions include: restoring transparency and stability of the tax regime; simplification and comprehensive revision of the tax code; reducing tax rates and social security contributions for companies and labor; tax incentives for foreign executives; reducing tax rates for companies that re-invest their profits; adopting best practices for the establishment of a unified national tax policy; technological upgrading and digitalization of all tax-related procedures and of the tax administration; improving tax justice and tax-related dispute resolution procedures; continuous training of tax administration staff.

HUMAN RESOURCES

Greece has high-quality human resources, but the labor market remains inflexible and is characterized by a skills mismatch, high unemployment, and the relocation of talented Greeks abroad. The biggest challenges in the Greek labor market are: inadequate professional orientation of young people; mismatch between market needs and the educational system; low level of interconnection between educational institutions and businesses; absence of soft skills; state inability to reintegrate thousands of unemployed into the labor market through vocational and ongoing training; low private sector demand for high-skilled, well paid jobs.

Suggestions include: gradual reduction of social security contributions, especially for the lower pay scales; subsidized social security contributions for new entrants to the labor market; tax incentives to employers who add jobs and provide benefits to their employees; simplification and codification of the labor law; increasing flexibility in work schedules; strengthening the skills of the unemployed, based on the needs of the market; bringing the educational system in line with the 4^{th} industrial revolution; modernizing vocational guidance; strengthening the link between higher education and the labor market; upgrading and rendering mandatory student internships at businesses and organizations; implementing targeted policies and incentives for repatriating Greek professionals from abroad.

RESEARCH & DEVELOPMENT

Greece has a comparative advantage, but also significant weaknesses, in the key area of research, technology and development. These weaknesses are an important factor contributing to the brain drain from Greece. It should be a strategic priority for the Greek economy to induce large multinationals to set up and develop R&D departments in the country. By positioning Greece as a center of innovation, this would have a significant multiplier effect on the economy, education, and society. Suggestions include: introduction of tax and other incentives to invest in R&D, based on successful international practices; strict implementation of laws to protect innovation and intellectual rights; supportive regulatory framework for start-ups; patent box regime; easing regulatory restrictions on universities to allow them to better develop research partnerships and partnerships with the private sector.

INFRASTRUCTURE

Infrastructure plays a very important role in the productivity and competitiveness of the Greek economy. The state of infrastructure in the country is generally good, mainly due to the stock of infrastructure created during the pre-crisis period. Suggestions for improvement include: planning investments in infrastructure for efficient operation (increase of productivity, lower business costs, more direct access to foreign markets); emphasis on ICT infrastructure; modernization of infrastructure in industrial zones; development of sewage treatment systems and municipal waste management; modernizing the system of power production and removal of existing barriers, with the aim of reducing energy costs; creation of business parks; speeding up privatizations; drawing up an integrated transport development plan (ports – railways – motorways – airports); expanding public-private partnerships; providing tax incentives for green growth infrastructure investment.

As a final word: no national campaign to attract foreign investment, no attempt to consolidate and expand the presence of high-quality multinational enterprises in Greece can succeed without the basic preconditions of macroeconomic and political stability.