

# Quarterly Report on the Greek Economy

01 / 23

April 11, 2023



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Overview of the report





# Positive dynamics of the economy, inherent challenges, and pressures from the global environment

## Where does current growth come from?

- Strong consumption recovery
- Stimulation of international tourism
- Recovery and Resilience Fund
- Public debt at a fixed interest rate

## Crucial medium-term trends

- Increase in international export share
- Towards an open economy?

## External pressures

- Shift in monetary policy, with enduring characteristics.  
More expensive and more selective money
- Turmoil in the international banking system
- Energy crisis, Russian invasion, uncertainty

## Inherent, structural challenges

- Twin deficits
- High inflation in necessity goods

## Policy priorities

- Fiscal prudence and credibility
  - Sustainable primary surpluses, weaning from extraordinary benefit policies, targeted measures
  - Investment grade recovery
- Effective management of inflation
  - Market competition enhancement
- Improvement of the investment climate and facilitation of exports
  - Stable economic policy
  - Effective utilization of EU financial instruments
- Reforms in the public sector, the justice system, education
- Measures to transform the informal economy into formal



## Global environment: slowdown in Q4/2022

- **Global growth slowed down in the fourth quarter**, under the influence of **energy costs** and **monetary tightening**.
  - 1.4% growth in the Eurozone (down from 2.4%), 0.9% in the US (down from 1.9%), 2.9% in China (down from 3.9%), 1.4% in OECD countries (down from 2.6%).
- **Inflation** in OECD countries is gradually declining; it reached 8.8% in February, but is still high (core inflation at 7.3%)
  - The international prices of energy commodities are gradually falling.
  - Central banks are systematically raising interest rates, the ECB has made 6 consecutive increases since July 2022 resulting in a 300bps cumulative increase.
  - Uncertainty remains about the duration of the **war in Ukraine**.
- The OECD forecasts **global growth of 2.6% in 2023** (up from 2.2% in November 2022).
- The ECB forecasts low levels of growth in the Eurozone in 2023 (+1.0%) and acceleration in 2024 (+1.6%). Inflationary pressure is expected to remain strong in 2023.



# Global environment: challenges in the medium term

## Global challenges

- **Uncertainty** regarding the intensity and duration of the impact of the war in Ukraine
- Restraining **inflationary pressures without causing a recession**
  - Need for **monetary and fiscal policy coordination** with the aim of balancing price stability and targeted support measures
  - Tighter **monetary policy (FED, ECB)** → negative effect on demand visible → duration of maintaining high interest rates → financial stability
- **Acceleration** of economic activity in China

## European challenges

- Persistent 'food inflation'
- **Increased uncertainty** due to turmoil in financial markets
- Effects of ECB **monetary policy tightening** and rising borrowing costs
- Diversification of **energy** sources and **energy security** in the medium term
- Public consultation on the **revision of fiscal rules**
- Effective utilization of the **European Recovery Fund**



# Greece 2022: Strong domestic recovery

**Real GDP Q4/2022:** +5.2% y/y

Growth acceleration, (from +4.4% y/y in Q3), driven by investment and consumption

Resilient private consumption  
(private +4.2% y/y, public -1.9% y/y)

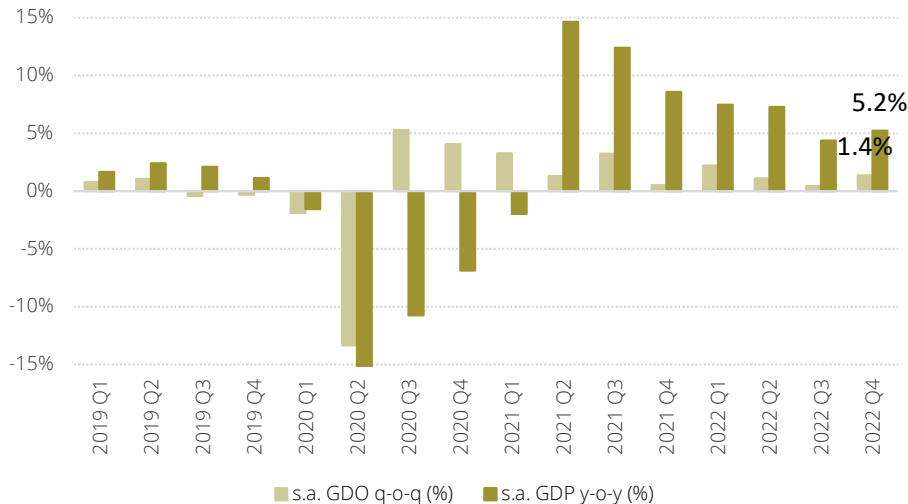
Decreased exports  
(-3.5% y/y, -5.1% y/y in services)

Significant increase in investment  
(+36.6% y/y)

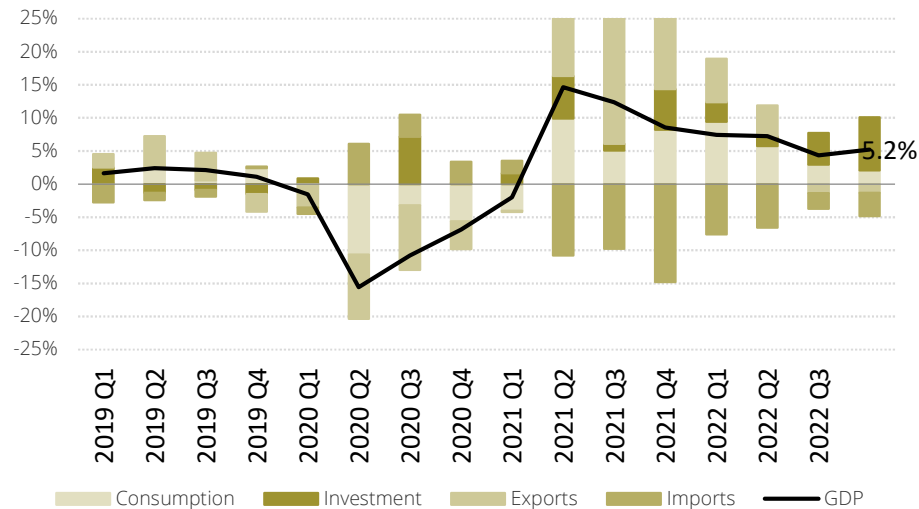
Increase in imports  
(+7.5% y/y)

Consistently high extroversion  
(82% of GDP)

seasonally adjusted GDP



y-o-y % s.a. GDP growth and contributions



## 2022 estimates

- **Growth:** ≈ 5.9%
- Private consumption: ≈ 7.8%
- Public consumption: ≈ -1.6%
- Investment: ≈ 21.8%
- Exports: ≈ 4.9%
- Imports: ≈ 10.2%
- Unemployment: ≈ 12.4%
- Inflation: ≈ 9.6%

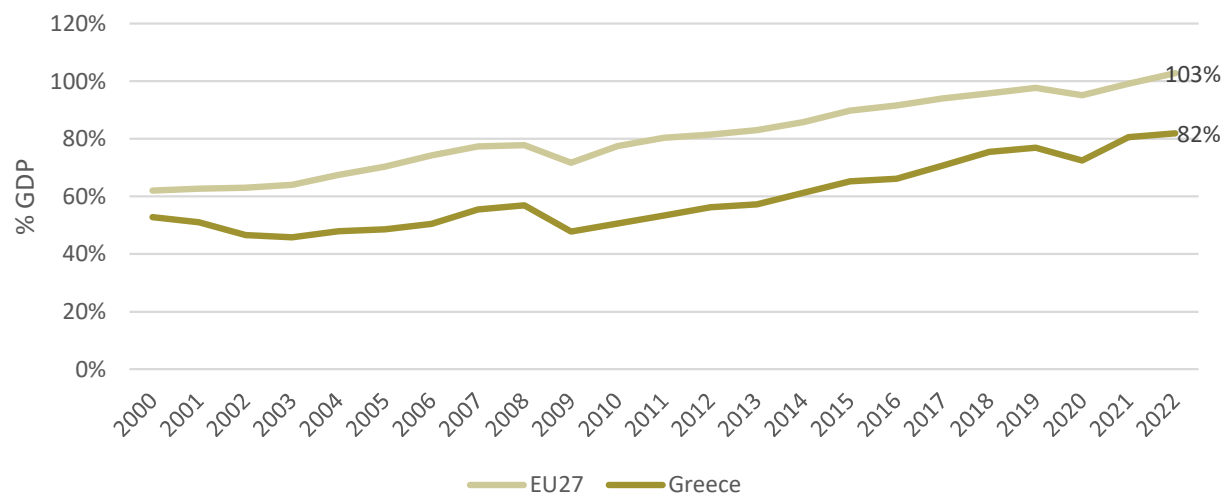
Source: ELSTAT



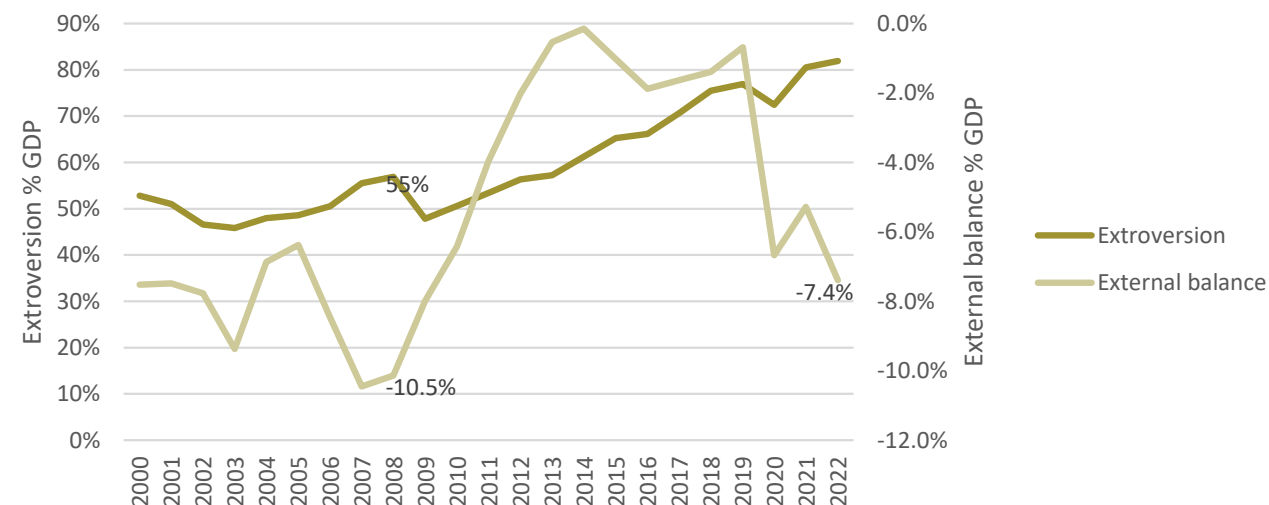


# The Greek economy's extroversion reached record levels in 2022

### Degree of extroversion (% of GDP)



### Extroversion and external balance (% GDP)

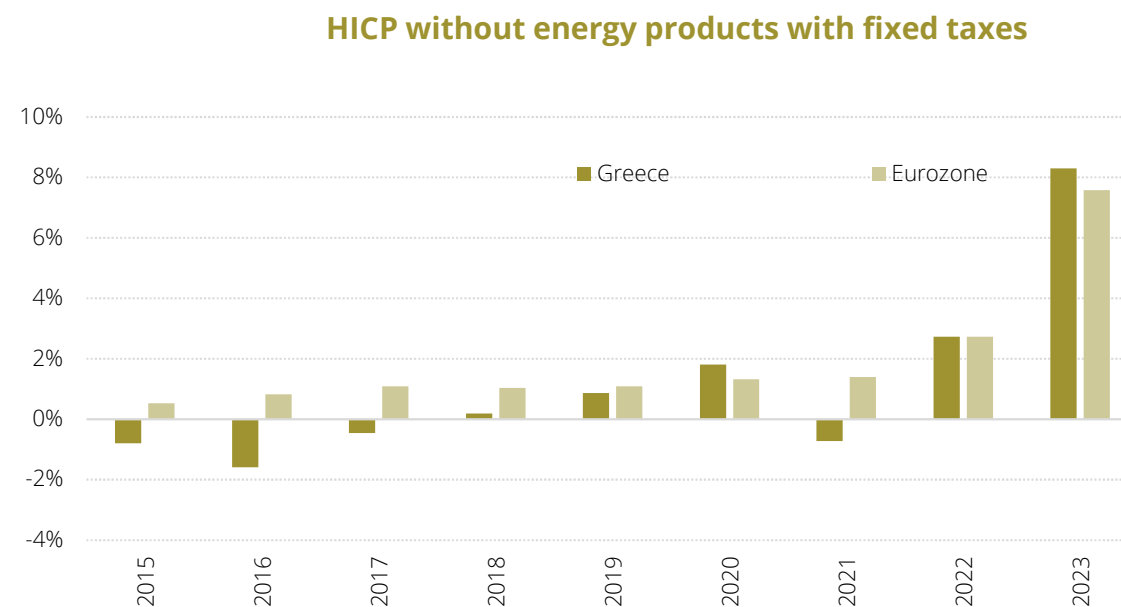
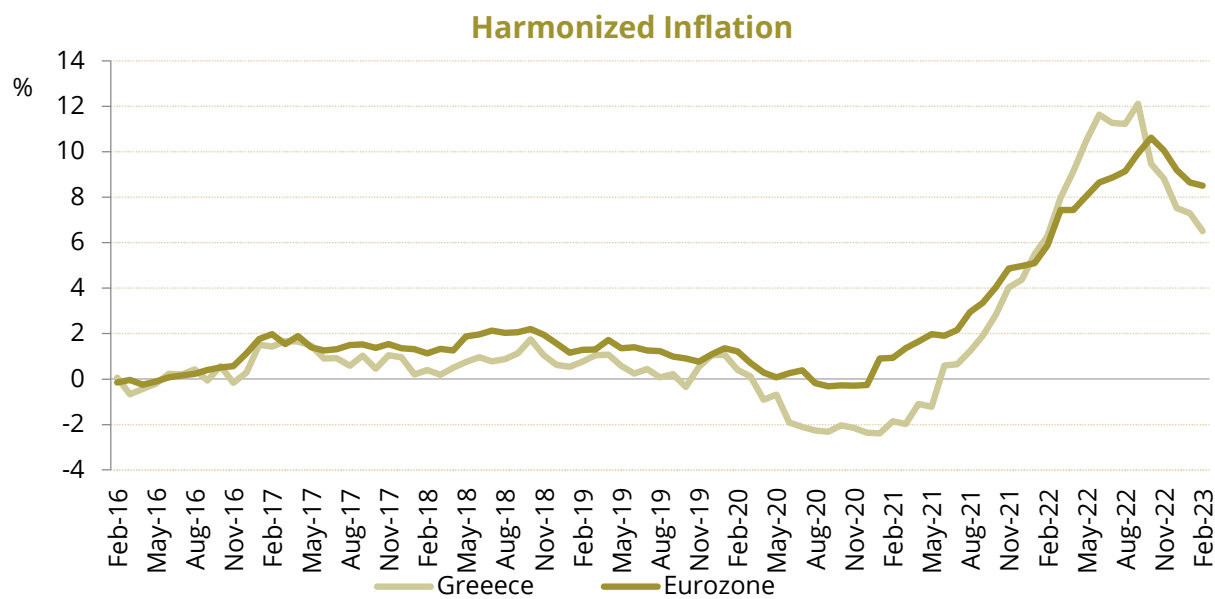


**Source:** Eurostat, **Data processing:** IOBE, **Note:** The degree of extroversion is calculated as the sum of the value of exports and the value imports at constant prices.

- After the Greek debt crisis of 2009, the open economy index for Greece began to gradually converge to the European average and reached a **historical record of 82% of GDP in 2022**.
- While increased extroversion undoubtedly has a **positive effect on an economy's growth rate**, when accompanied by continually increasing external deficits it may make the domestic economy vulnerable to external shocks.
- In Greece's case, where **imports are highly elastic with respect to consumption** and consumption represents a large part of the domestic product, an increased growth rate leads to increased extroversion but also a deteriorated external balance deficit.
- However, the large increase in extroversion recorded in the last two years has **led to smaller deficits compared to 2007 when the degree of extroversion was lower**.



# Inflation decreased in Q1/2023 to 5.9%: de-escalation in energy prices, high pressure on food



Sources: ELSTAT, Eurostat

**Eurozone:** Inflation reached a 25-year high in the first two months of 2023, 8.6%; up from 5.5% a year ago.

**Greece: Further decrease in the Domestic Price Index to 6.5% in February**, down from 7.3% in January.

- First two months of 2023: +6,9% HICP rate of change, up from 5.9% in the first two months of 2022, exclusively from the increasing effect of non-energy goods (8.2%). The effect of energy goods was negative (-1.3%), while the effect of indirect taxes was zero.
- In **March**, the rate of change of the HICP is expected to reach 5.4%, down from 8.0% a year ago

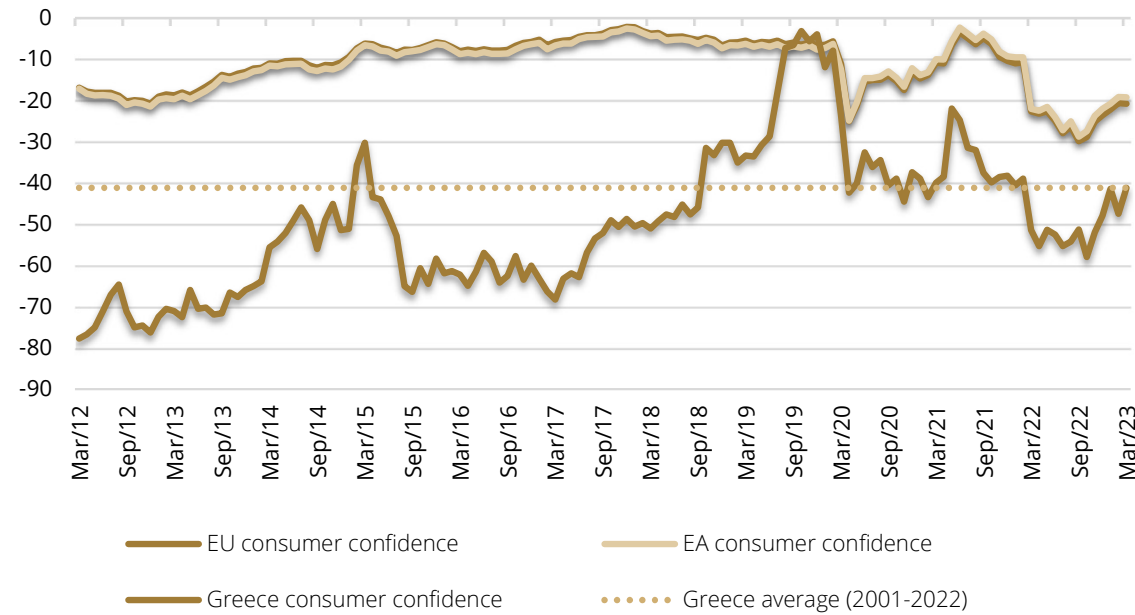
**Producer Price Index** (Jan. – Feb 2023): **9% increase**, driven by non-energy goods, down from a 32.6% increase a year ago.



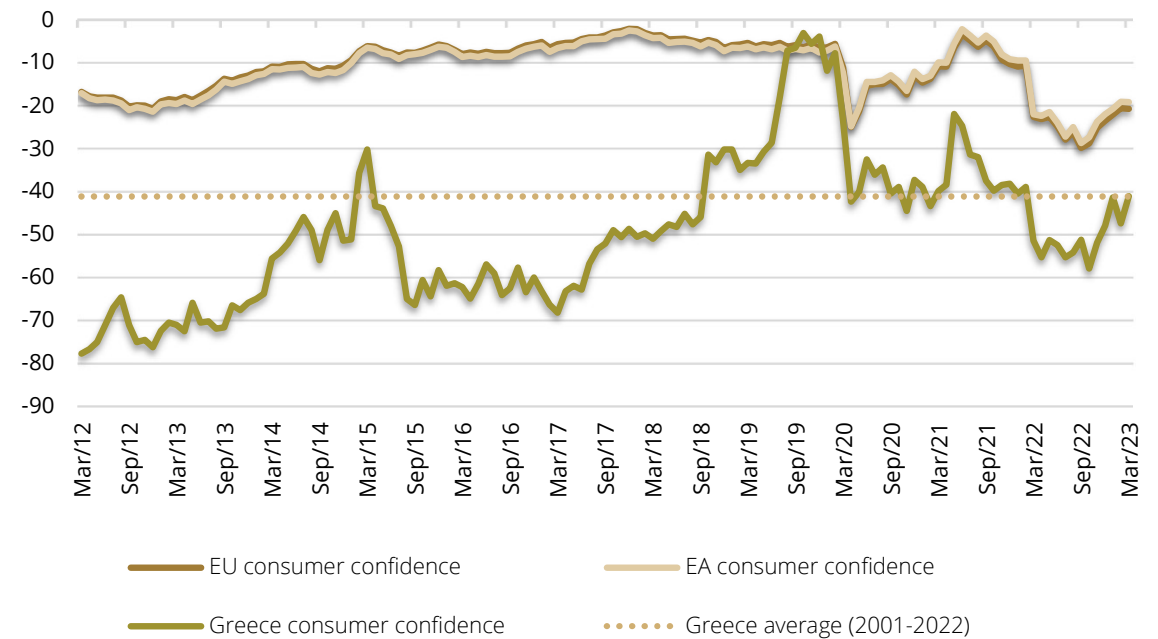


# Small improvement in Economic Sentiment in the first quarter of 2023; still significantly lower than last year

### Economic Sentiment Indicator



### Consumer Confidence Index



Sources: IOBE, European Commission

Significant improvement in Consumer Confidence in early 2023; much lower compared to the Eurozone, however.



# Public finances: target exceeded both in 2022 and in the first two months of 2023

## State Budget Balance 2022 (cash basis)

- Deficit €11.7 billion deficit (€13.4 billion target)
- Primary deficit €6.7 billion (€8.5 billion target)

Improvement from last year came from the larger increase in revenue (+8.6%) compared to spending (+2.2%)

Target exceeded due to decreased expenditure (-€1.98 billion)

- Increase in most revenue categories compared to last year
- Major emergency spending payments to address the energy crisis.

## State Budget Jan.-Feb. 2023 (cash basis)

- €2.3 billion surplus (1.0% of GDP)
- €4.2 billion primary surplus (1.9% of GDP)

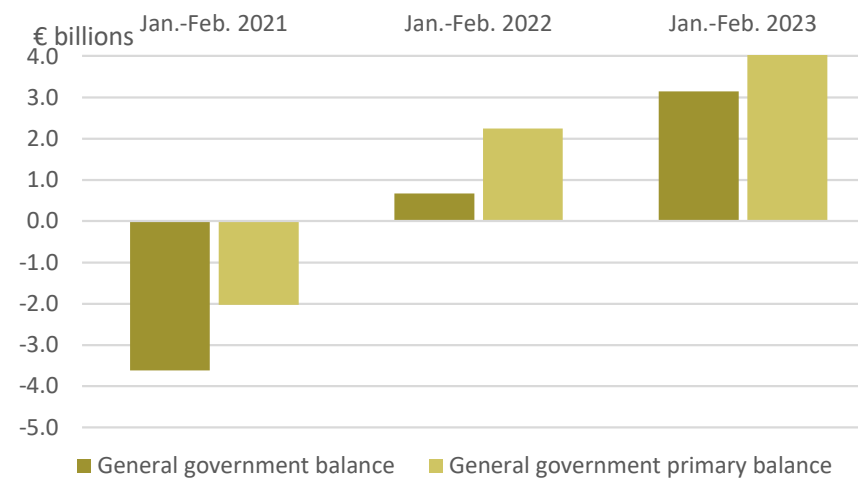
Improvement from last year due to the larger increase in revenue (+46.5%) relative to spending (+9.2%)

Target exceeded mainly from increased revenue (+€1.96 billion) but also from

Decreased expenses (-€309 million)

- Increase in most revenue categories compared to last year
- Increased transfers due to support measures and deferral of payments

## General government cash balance



Source: Ministry of Finance



## Short-term activity indicators: slowdown in the industry and retail trade, positive dynamics in construction and tourism

### Industry

- Industrial production increased by 2.2% in 2022 (2.2% in the Eurozone), following a 10.1% increase in 2021

### Construction

- Construction output rose by 23.0% in 2022, up from 7.3% in 2021
- The number of Construction Projects increased by 17.1% (following 15.6% in 2021)

### Tourism

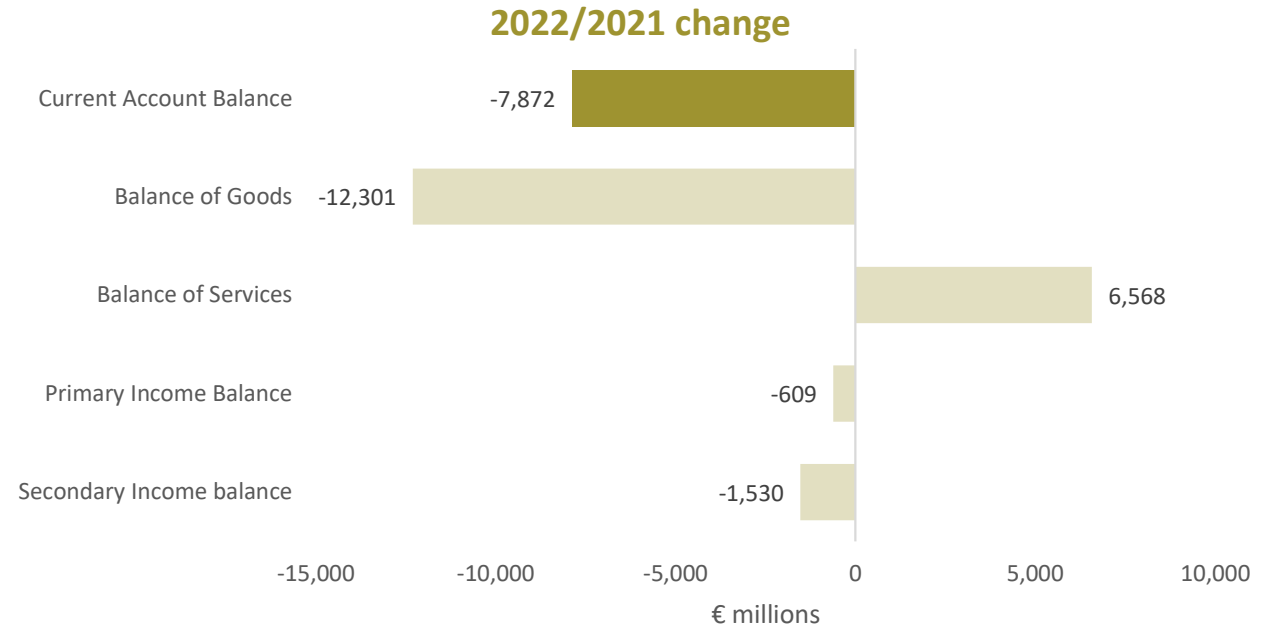
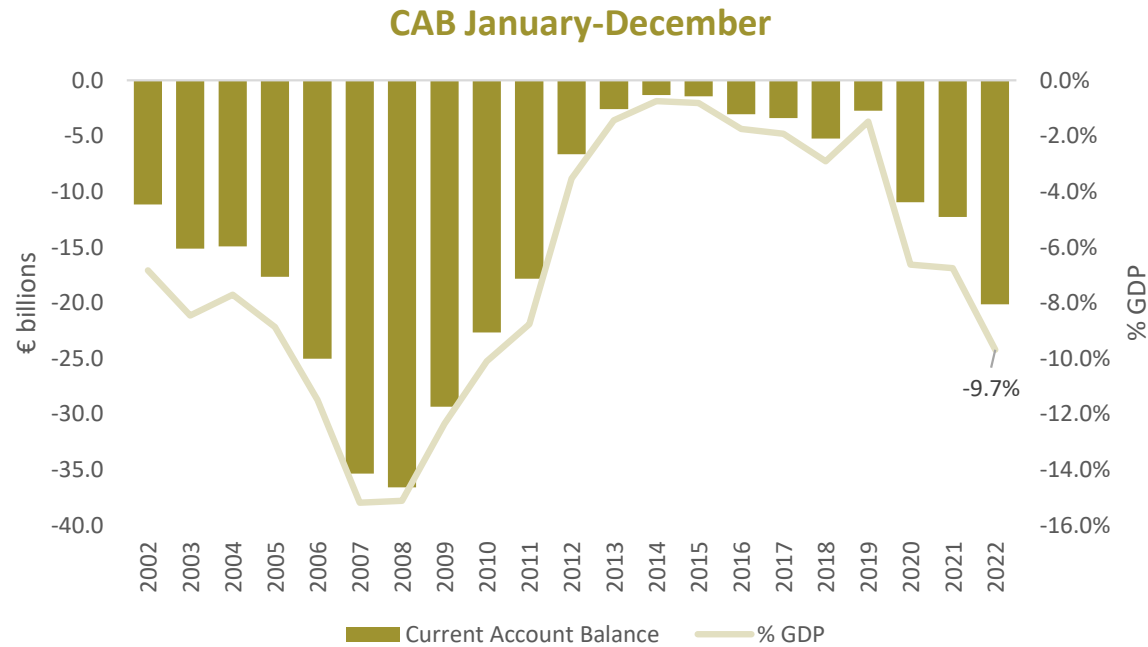
- 54.9% YoY growth in 2022 following a large increase in 2021 (+82.0% YoY change)

### Retail

- 3.3% growth in Retail Trade volume in 2022, down from a 10.2% increase in 2021.
- Expectations recovered in the first quarter of 2023



# The Current Account deficit was €20.1 billion in 2022 (9.7% of GDP)

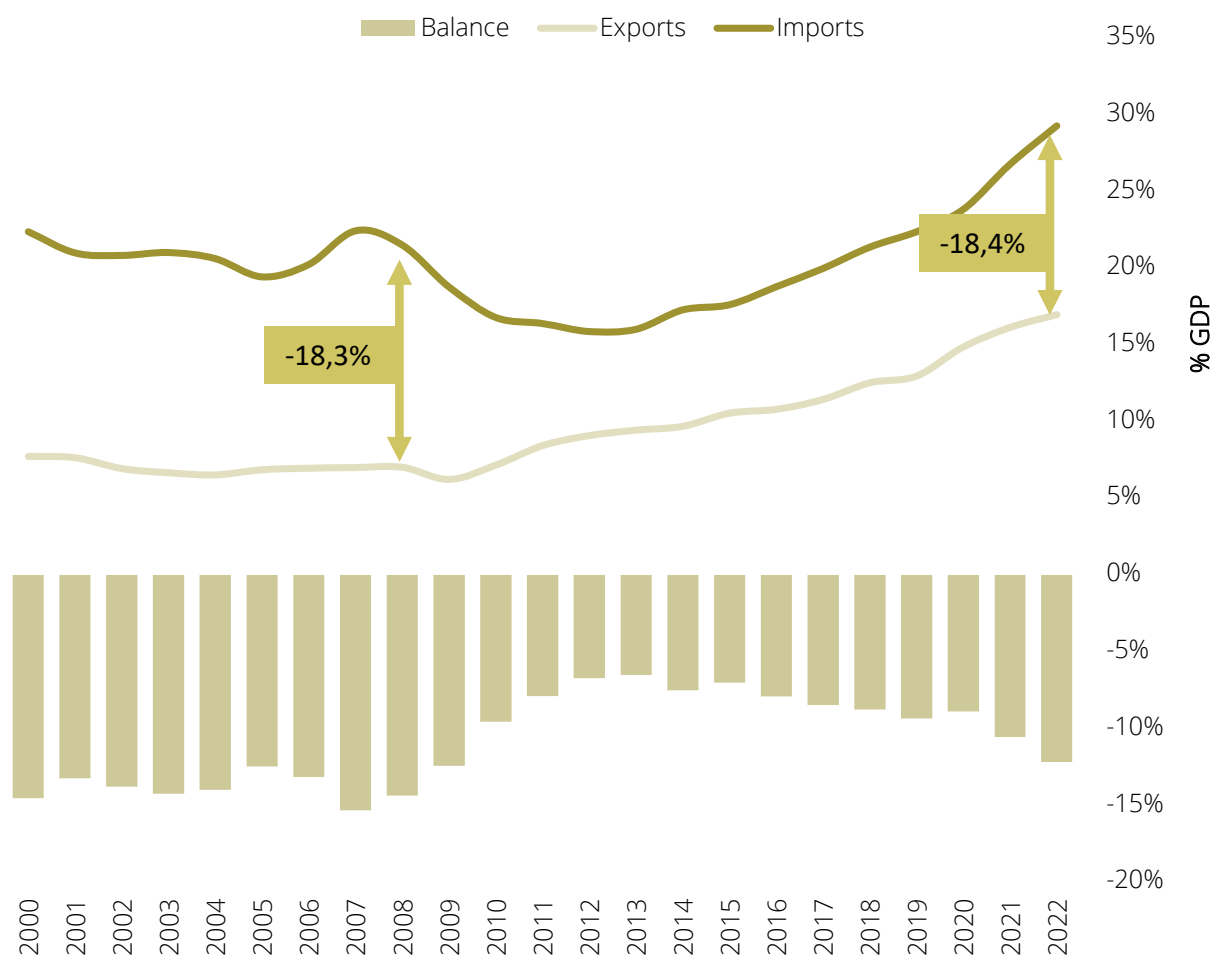


Source: BoG

- Large increase in the goods balance deficit (+€12.3 billion)
- 60% of the increase is due to fuel
- Transport revenue reached its highest ever level (€23.4 billion)
- Tourism revenue reached €17.6 billion, close to its 2019 levels



# The goods deficit returned to its 2008 levels in 2022 (€39 billion - 18.4% of GDP)



Has there been a structural change in the mix of goods imports and goods exports over the 2008-2022 period?

### Imports (shares)

- ↓ **Consumer goods** 21.9% versus 28.9% in 2008
- ↑ **Intermediate goods** 68.4% versus 54.5% in 2008
- ↓ **Capital goods** 9.6% versus 16.6% in 2008

### Exports (shares)

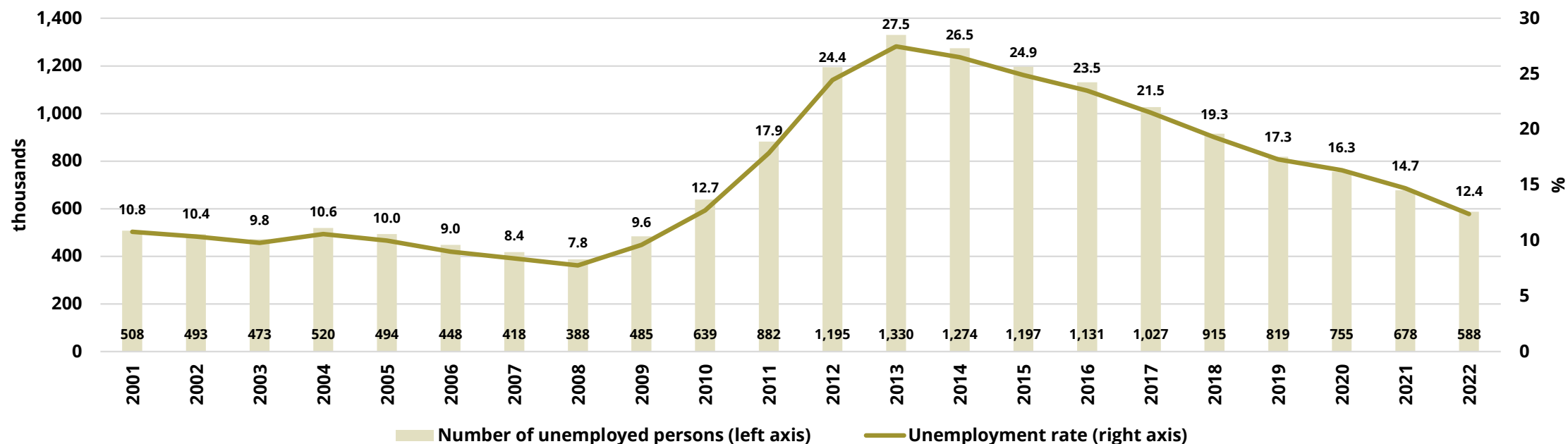
- ↓ **Consumer goods** 28.5% versus 32.9% in 2008
- ↑ **Intermediate goods** 65.9% versus 59.9% in 2008
- ↓ **Capital goods** 5.6% versus 7.2% in 2008

Decrease in the shares of consumer and capital goods trade flows with a corresponding increase in intermediate goods (smaller change without fuel). Gradual increase in the presence of the Greek economy in **global value chains**, with the aim of **increasing added value**



# Unemployment decreased for the ninth year in a row. The unemployment rate reached the levels of 2010

## Number of unemployed persons and unemployment rate in Greece

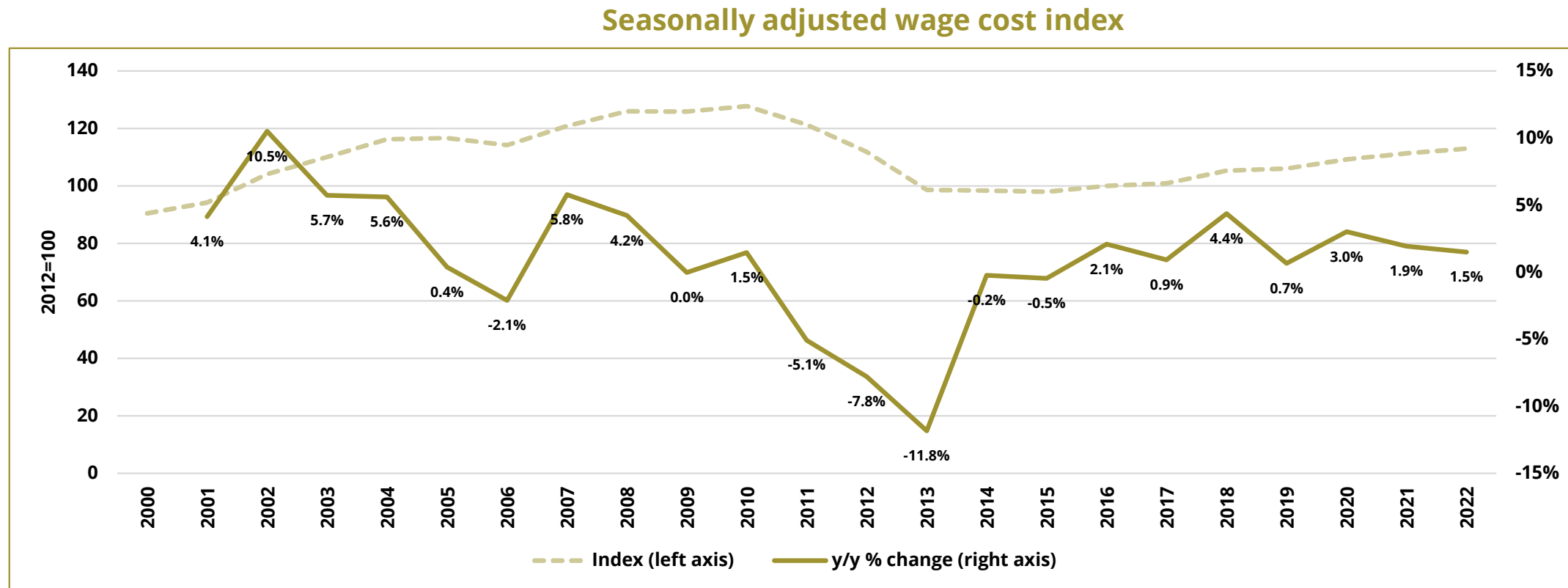


Source: ELSTAT

- The unemployment rate reached 12.4% in 2022, down from 14.7% in 2021; this was the **largest annual decline since 2014 (-2.3 percentage points)**.
- Employment increased in 17 sectors. Indicatively: Tourism (+52.2 thousand), Education (+32.3 thousand), Manufacturing (+22.9 thousand), Wholesale-Retail (+19.9 thousand).
- Employment declined in 4 sectors. Indicatively: Public administration (-10.3 thousand), Transport-Storage (-4.0 thousand).
- The employment inflow-outflow balance was positive (+72.9 thousand) but lower than in 2021 (+133.1 thousand).



The seasonally adjusted wage cost index rose for the seventh year in a row; more modest increase compared to 2021, however



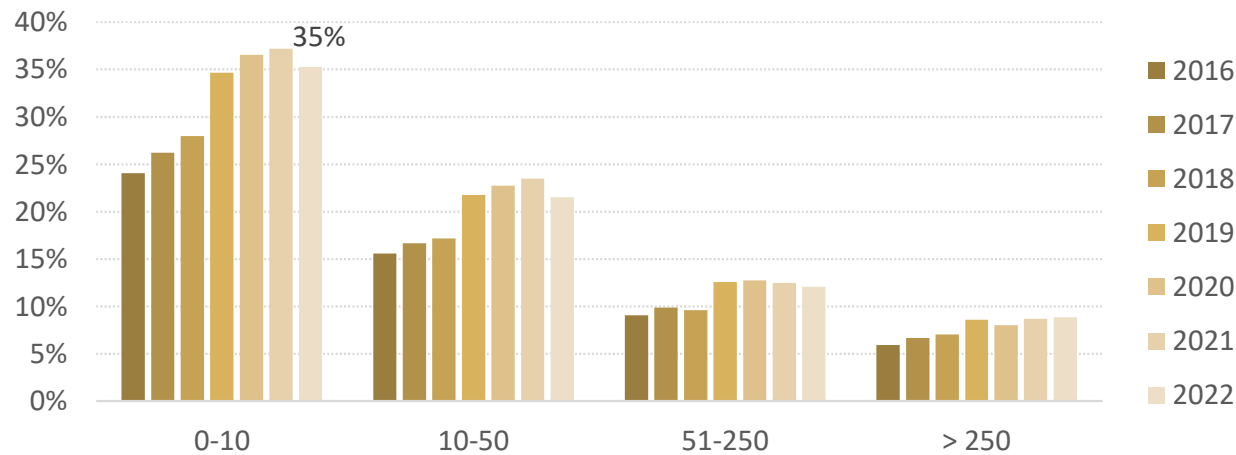
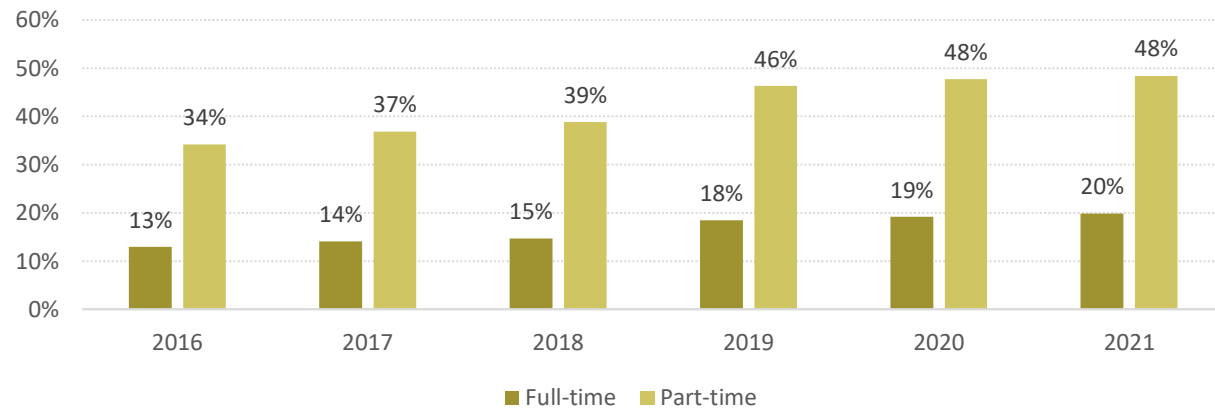
Source: ELSTAT

It increased by 1.5% in 2022, following a 1.9% rise in 2021 and a 3.0% rise in 2020



# High proportion of minimum wage earners in flexible forms of employment and small businesses

Proportion of employees earning the minimum wage, 2016-2021



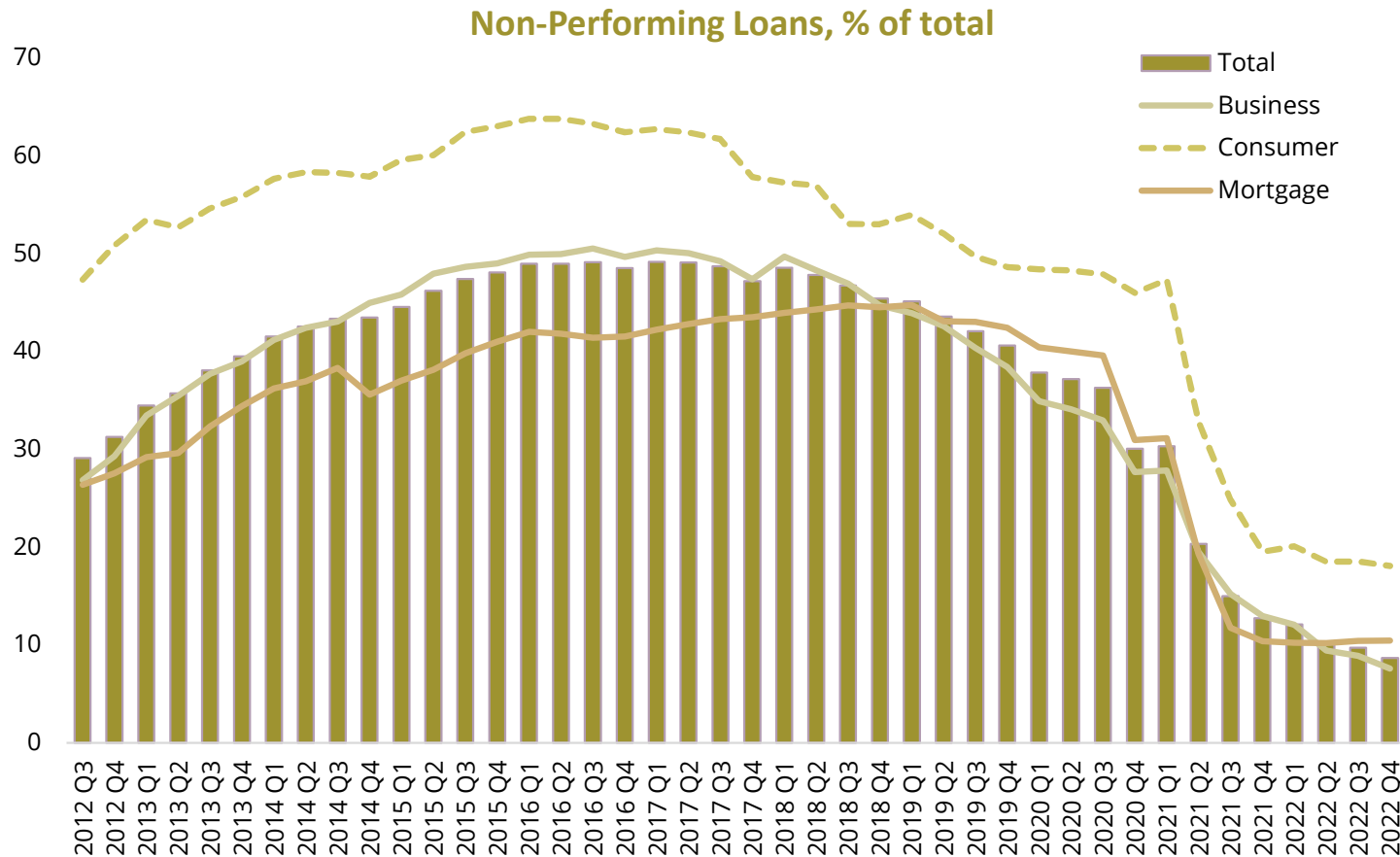
- Nearly **1 in 5 full-time workers** in Greece were paid the minimum wage in 2022, while the corresponding share for those employed in flexible forms of employment was twice as high
- A large share of employees (about 700,000 or 29.6% of the total) were employed in **small businesses** of less than 10 people in 2022. Among them, 35% were paid the minimum wage.
- **Changes to the minimum wage**, such as the recent one in April 2023, are expected to have direct effects on a greater share of workers in flexible forms of employment, as well as on workers in small and medium-sized enterprises.
- The **high degree of wage compression** in the Greek economy warrants a prioritization of policies that will stimulate productivity and the average wage; they will also incentivize workers to remain in the formal labor market

Source: Ergani database, Data processing: IOBE





# Non-performing loans (NPLs) decreased in the fourth quarter to 8.7% of the banks' total loans...



Source: Bank of Greece

\* The data are individual-level and concern on-balance sheet loans (before provisions) of the Greek

...for the first time since mid-2009. However, they remain higher than the Eurozone average, as well as a significant aggravating factor for the economy.

**Positive developments:** Credit expansion to businesses continues and so does the implementation of the loan arm of "Greece 2.0".

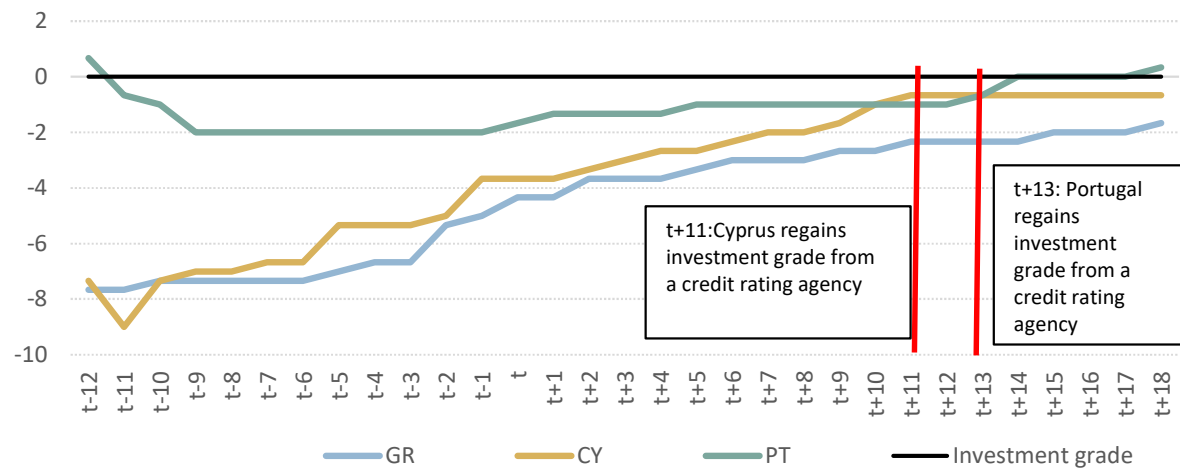
**Negative developments:** Positive private deposit trend reversed, rising financing costs, shrinking credit to households

**Risk:** Deterioration in borrowers' ability to repay due to significantly higher costs of energy and necessities



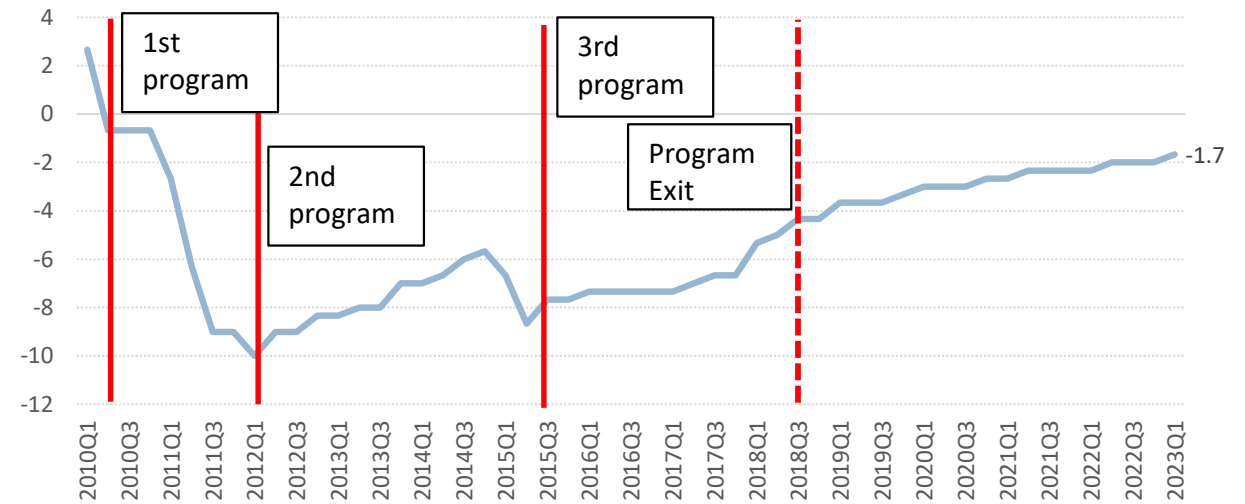
# The Greek government bond has been rated below the investment grade...

### Government bond credit rating by country\*: Number of notches above/below investment grade



Time is measured in quarters and t is the end quarter of each country's adjustment program

### Credit rating of Greek government bonds\*: Number of notches above/below investment grade



Sources: Three credit rating agencies (S&P, Moodys, Fitch), Data processing: IOBE. \*Note: Arithmetic mean of the credit ratings of the three agencies (S&P, Moodys, Fitch)

...for a longer period than the rest of the Eurozone countries facing a crisis, after their programs ended.

Cyprus and Portugal regained investment grade within 3 and 4 years respectively after the end of their programs

2023 is the 5th year since the end of the last Greek program.

Subject to conditions, the markets' expectation is that investment grade can be regained sometime in 2023.



# 2023 macroeconomic forecasts

## 2023 baseline scenario

- The Eurozone economy will follow the ECB's baseline scenario (March 2023) of 1.0% growth and 5.3% inflation in 2023; energy prices and interest rates will also evolve according to the ECB's baseline scenario.
- Geopolitical instability in Eastern Europe and the Mediterranean continues at a similar intensity to that of 2022.
- Small delay (1-2 months) in the implementation of the "Greece 2.0" Plan.
- Slightly higher public spending compared to the 2023 Budget prediction.
- Investment grade recovery in the second half of 2023 by at least one rating agency.
- Inflation in Greece will remain slightly lower than the Eurozone average in 2023.
- Inbound tourism will perform as well as it did in 2019.

## 2023 forecast

- **Growth:  $\approx 2.4\%$**
- Private consumption:  $\approx 1.3\%$
- Public consumption:  $\approx 0\%$
- Investment (Fixed):  $\approx 7.1\%$  (10.0%)
- Exports:  $\approx 3.2\%$
- Imports:  $\approx 2.6\%$
- Unemployment:  $\approx 11.0\%$
- Inflation:  $\approx 4.3\%$



# Risks and positive prospects in 2023

## Risks

- Delays in government formation
- High external deficit
- Persistent inflation in necessity goods
- Further increases in energy good prices at the end of 2023
- Instability in the global financial system
- Gradually tighter fiscal framework
- Delays in the implementation of "Greece 2.0" reforms
- New surge in arrears due to rising interest rates and cost of living
- Slowdown in the sectoral diversification of the productive base

## Positive prospects

- Increase in fiscal revenues and decrease in public debt, as a % of GDP
- Maintenance of high levels of extroversion, with an improvement in the external balance
- Investment grade recovery
- Acceleration of the implementation of the loan arm of the National Recovery and Resilience Plan and implementation of reforms
- Reduction of NPLs and gradual reintegration into the banking system
- Design of a new framework of fiscal rules in the EU and timely use of new financing tools such as REPowerEU

Special study\*

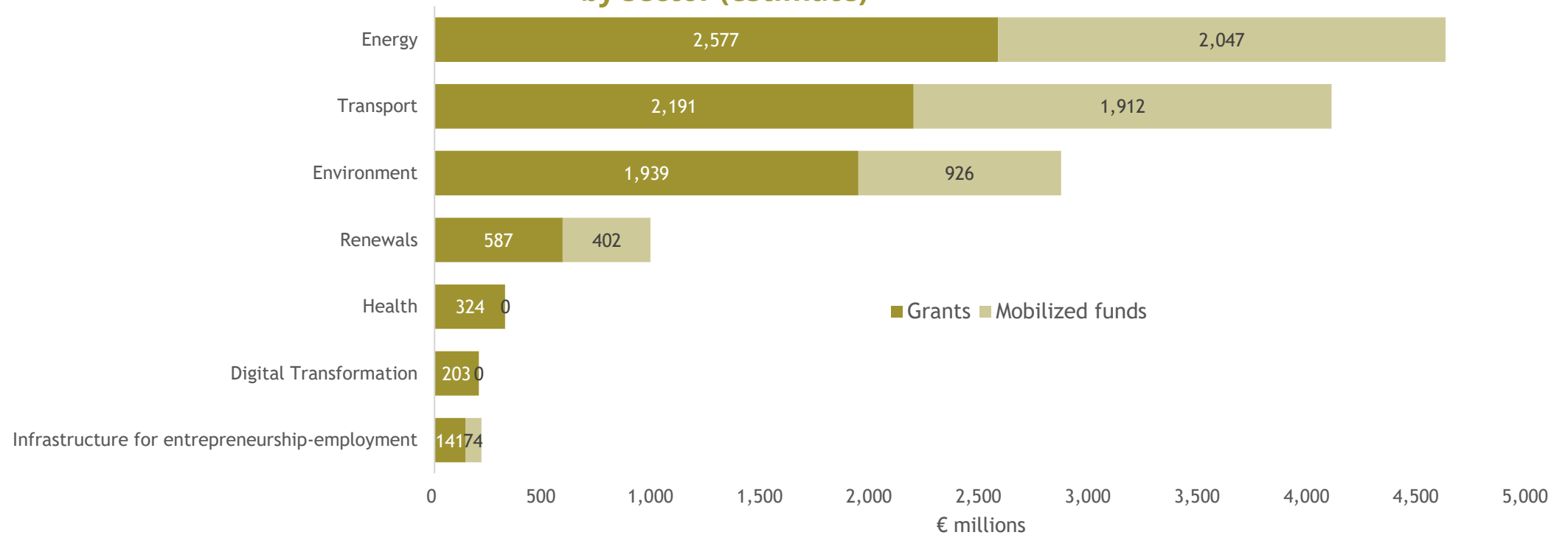
«Development prospects and financing needs of the  
Construction sector»

\*IOBE study (2022). Available [here](#)



# The Recovery and Resilience Fund (RRF) along with the rest of the European Funds and National resources will fuel the strong growth of Construction in the coming years

**Total investment resources mobilized by RRF grants in projects directly related to Construction, by sector (estimate)**



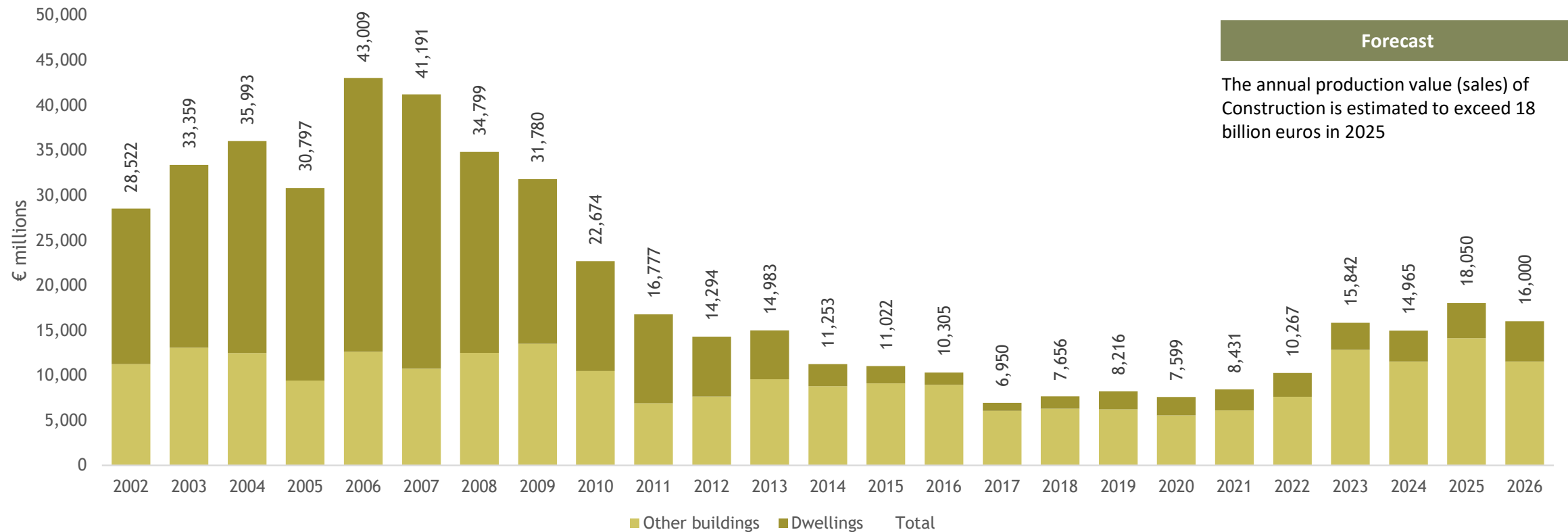
Source: Greece 2.0 National Recovery and Resilience Plan. IOBE estimates

€7.96 billion worth of RRF grants are estimated to go to projects directly related to Construction, mobilizing a total of €13.3 billion.



# The output value of construction infrastructure and buildings is estimated to more than double compared to 2020

## Construction production value



Forecast

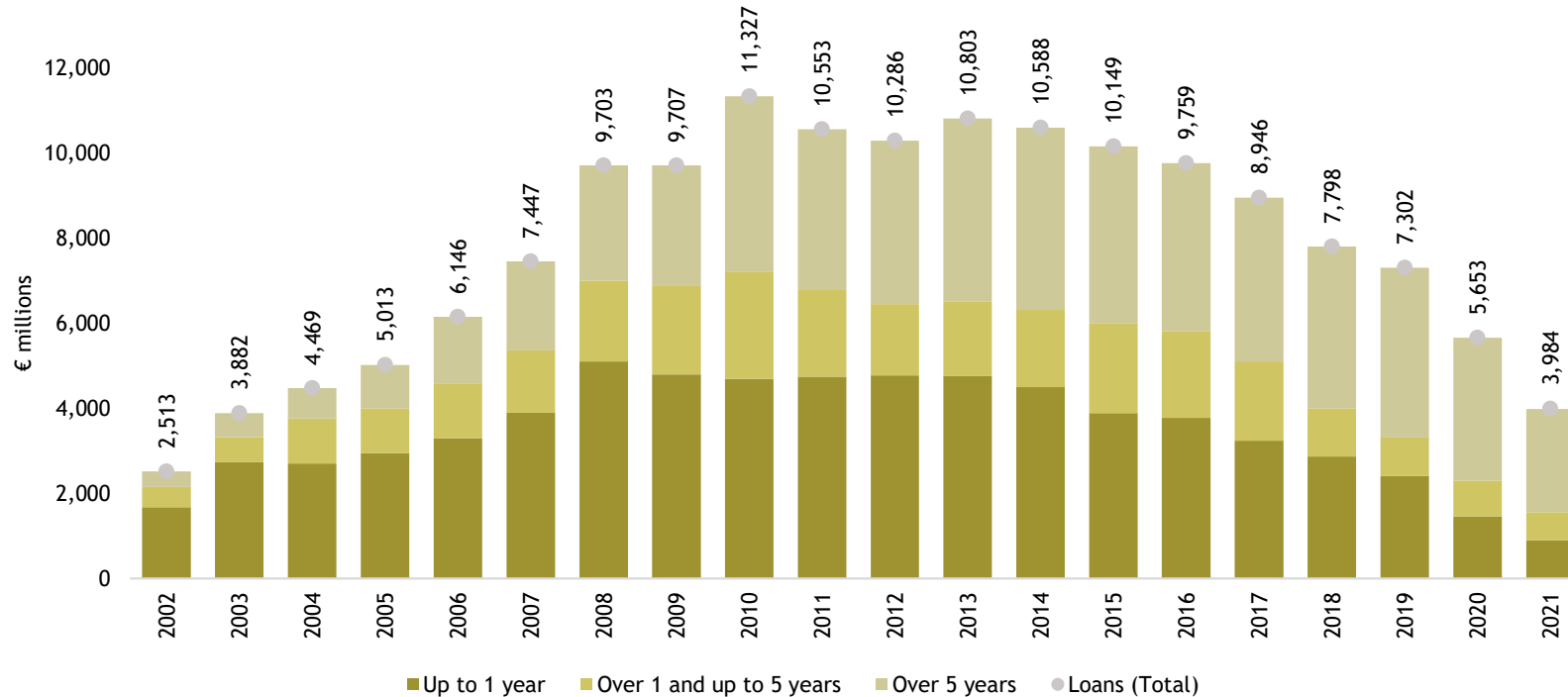
The annual production value (sales) of Construction is estimated to exceed 18 billion euros in 2025

Source: Eurostat and IOBE estimates



# In 2021 construction loan balances reached €4bn - 64% lower than in 2010

Loan balances of domestic MFIs to Construction



Source: Bank of Greece

- The decrease in fund balances indicates that loan repayments are exceeding new loan disbursements to Construction.
- However, a significant part of this reduction is due to (non-performing) loan write-offs.

Funding received by companies in the Construction sector is mainly directed to:

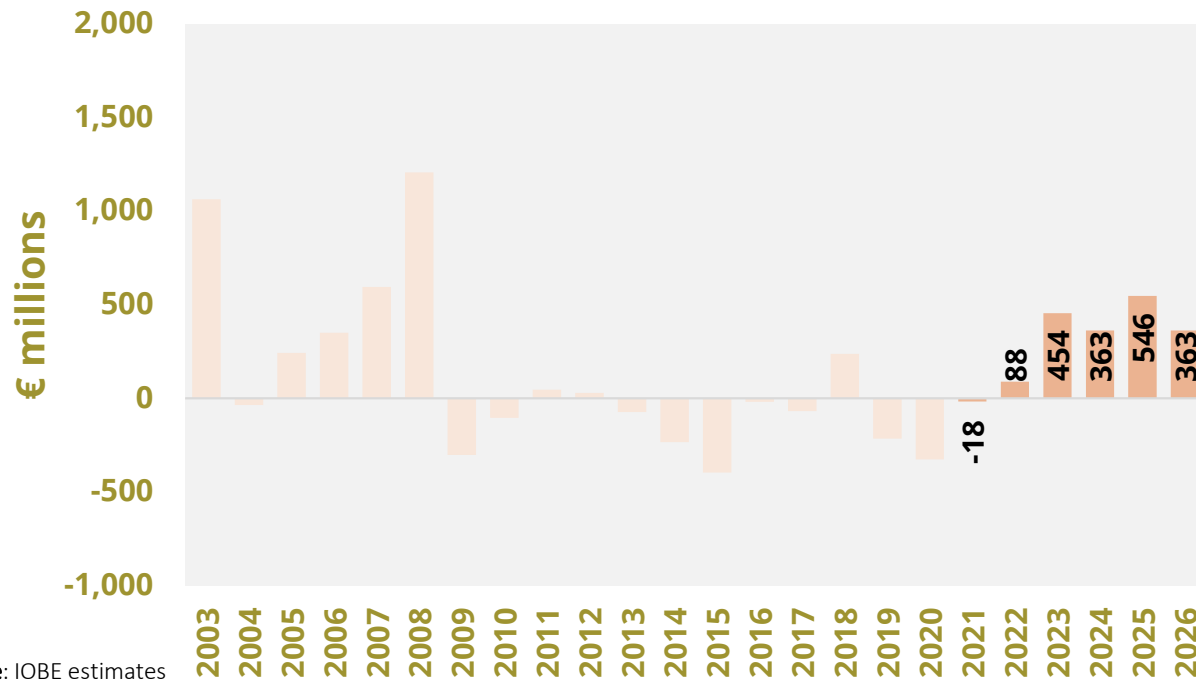
- **Working capital** to cover operational needs and finance trading
- **Purchase of fixed equipment** (e.g., machinery, other equipment), materials and real estate for business use - Long-term loans
- **Issuance of letters of guarantee:** participation in tenders, satisfactory execution of a project, taking reservations (replacement of tithes), Advance payment, Payment of obligations





# Based on the estimated development of construction activity, increased financing needs are expected in the medium term

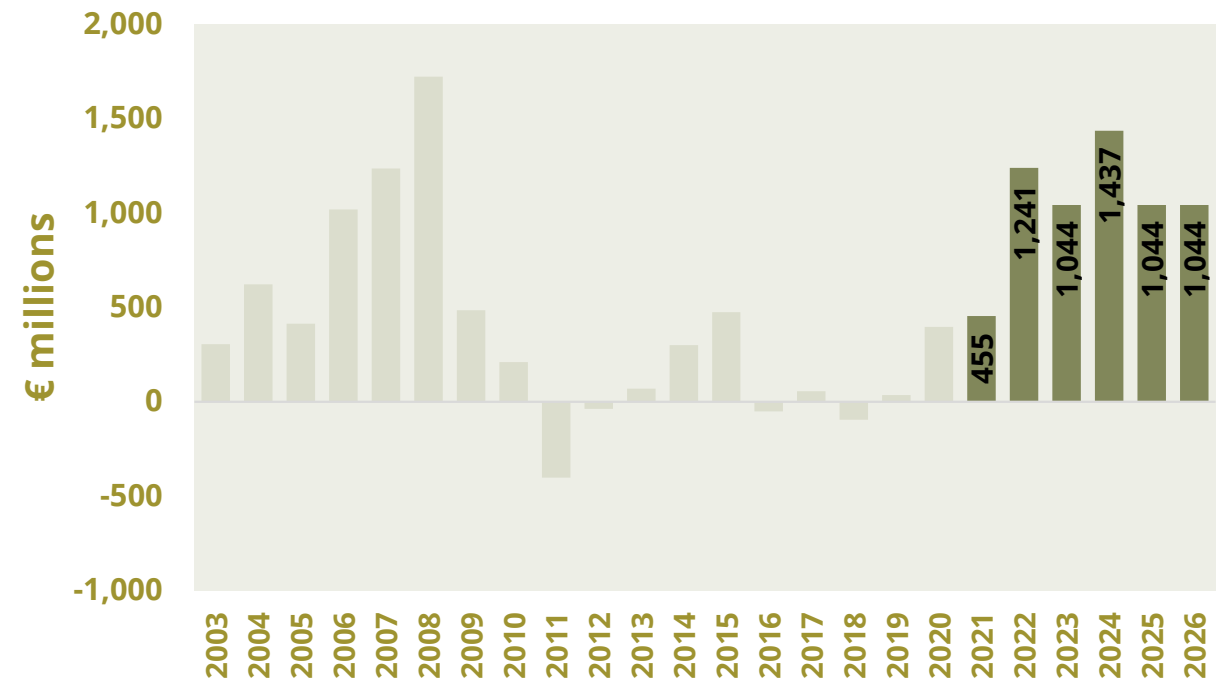
Net flows of loans with maturity up to 1-year in Construction, 2003-2026



Source: IOBE estimates

The net flows of loans with maturity up to 1-year (working capital) in Construction are estimated to range from €363-€546 million in the 2022-2026 period.

Net flow of loans with maturity > 1 year in Construction, 2003-2026

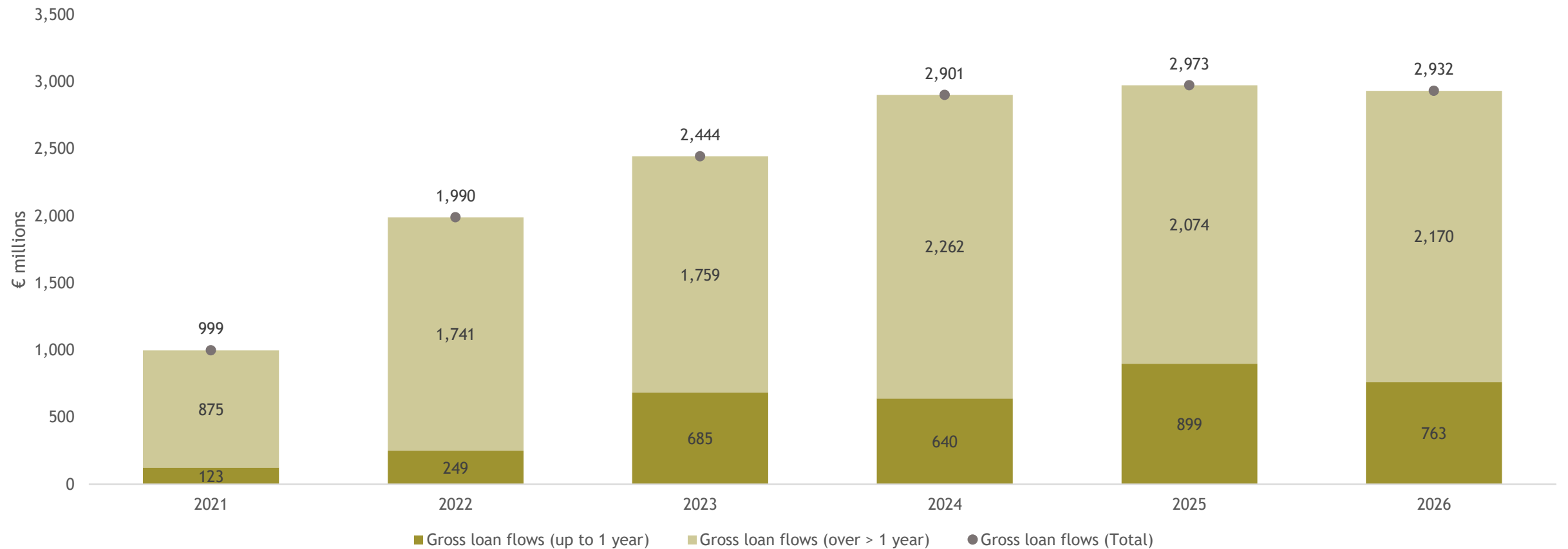


The net flows of loans with maturity longer than 1-year in Construction are estimated to range from €1.04 - €1.44 billion in the 2022-2026 period.



# Estimate of total gross loan flows to Construction and Architects & Engineers in the 2021-26 period

## Estimated gross loan flows\* to Construction and Architects & Engineers, 2021-2026



Source: IOBE estimates

\* Gross flows are derived from net flows adjusted for estimated loan repayments



## Summary of the study's key points

- After a decade of downsizing and disinvestment, **the outlook for Construction looks positive.**
- The **RRF** along with the rest of the European Funds and National resources will finance infrastructure projects that will **fuel the strong growth of Construction** in the coming years.
- The development of public and private construction projects, participation in public projects and the modernization of the productive potential of the sector **will require significant financing resources** from the financial system, both working capital and medium-term and long-term loan funds.
- Financing **remains a significant obstacle** to the operation of technical businesses and professionals, while the **financing gap** in Greece is consistently higher than the European average.
- These difficulties can also be alleviated through **various financial tools** (e.g., guarantee funds, interest rate subsidies, etc.), so that public and private investments in construction projects can be implemented smoothly in the coming years.

## Contact details



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