Quarterly Report on the Greek Economy 01 / 24

April 23rd 2024

ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Overview of the report

Positive dynamics, external risks and the challenge of structural change (1)

Positive domestic trends in the short term

- Declining differential cost of financing, positive dynamics in tourism, improved business environment, fiscal performance exceeding targets
- Opportunity from the revised **Recovery and Resilience Fund** for investment and reforms

Key questions

- Will the **global environment** and developments in **Europe** favor or burden the Greek economy?
- Is the **qualitative upgrading of the economy**, with changes in its structure, sufficient to lead to a systematic increase in incomes in the medium term?

Risks in the global environment

- Geopolitical tensions and **war** without a clear path for de-escalation and resolution
- Orientation of **Western economies** under review, in view of the US and EU elections
- The resilience of the European economy is being tested: it is crucial that a **mix of policies** that will face and not shift problems be found. Monetary policy alone is not enough.

Positive dynamics, external risks and the challenge of structural change (2)

Domestic challenges

- Negative surprise from the **investment path** in 2023
- Fatigue in the **Labor market** and in **economic sentiment**
- Fiscal sustainability requires changes in the **fiscal policy mix**
- The **regulatory role of the state** is critical; mostly by ensuring healthy competition, less so by imposing complex and changing restrictions

Medium-term priorities for enhancing the productive base

- **Well-functioning labor market:** enhancement of participation incentives, effective training of the workforce
- **Productivity:** integration of new technologies, higher share of exports and investments
- **Reallocation of resources:** faster and more efficient resolution of non-performing loans in the economy
- **Innovation:** opening of the economy to new activities and entrepreneurship
- **Stability:** Transparency in market rules and drastic simplification of procedures in the public sector

Global economy: steady growth in Q4/2023

- **Global growth stabilized** around a low rate **in the fourth quarter,** under the influence of **high inflation and monetary policy tightening.**
  - 0.1% annual growth in the Eurozone in Q4 (same as in the previous quarter), 3.1% in the US (up from 2.9%), 5.2% in China (up from 4.9%), 1.7% (up from 1.6%) in OECD countries.
- **Inflation** in OECD countries is gradually declining; it reached 5.7% in February, but is still high (core inflation at 6.4%)
  - Inflation in the Eurozone reached 2.4% in March, with a forecast of 2.3% for the whole of 2024.
  - Central banks are maintaining high interest rates, intending only slow and gradual reductions in 2024
- Global **economic sentiment** is volatile
  - Fears of a wider **conflict in the Middle East**, **uncertainty** remains about the course of the **war in Ukraine.**
  - After declining in the fourth quarter, **global energy prices** rose in the first quarter of 2024.
- **International institutions** forecast…
  - OECD: 2.9% global growth in 2024 (down from 3.1% in 2023).
  - ECB: 0.6% growth in the Eurozone in 2024 (up from 0.5% in 2023)

Global environment: despite the "soft landing", risks lurk in the short term

Global challenges

- Geopolitical instability due to the armed conflicts in the Middle East and Ukraine
- Concern over a new round of rising energy prices and inflationary pressures
- Effects of a longer duration of tight monetary policy
- Political uncertainty due to elections taking place in 64 countries in 2024, including the US and India
- High public debt, limited fiscal space in developed economies
- Climate change and investment gap

European challenges

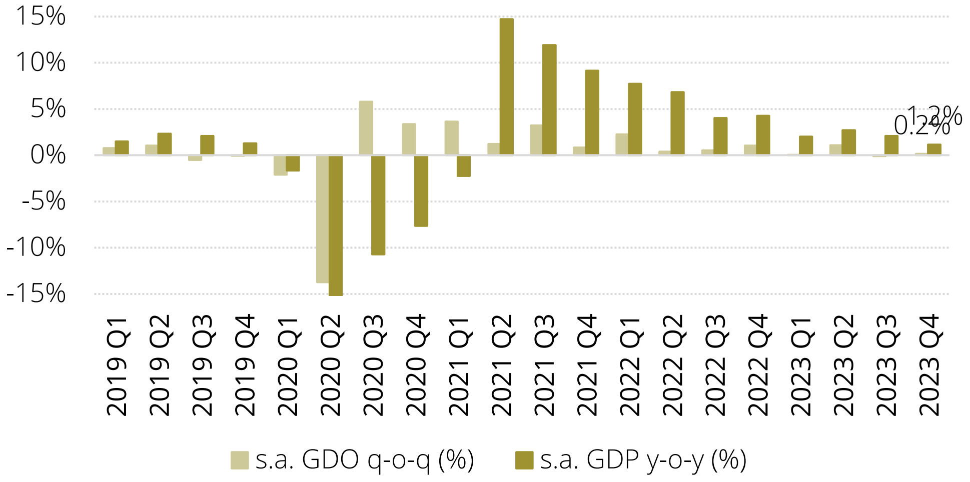
- Slower dynamics of economic activity compared to other developed economies
- Revision of EU fiscal rules
- Effective utilization of the European Recovery Fund
- Delays in the implementation of the Banking Union and the Capital Markets Union
- Adverse demographic trends

Greece Q4/2023: Domestic recovery slowed down

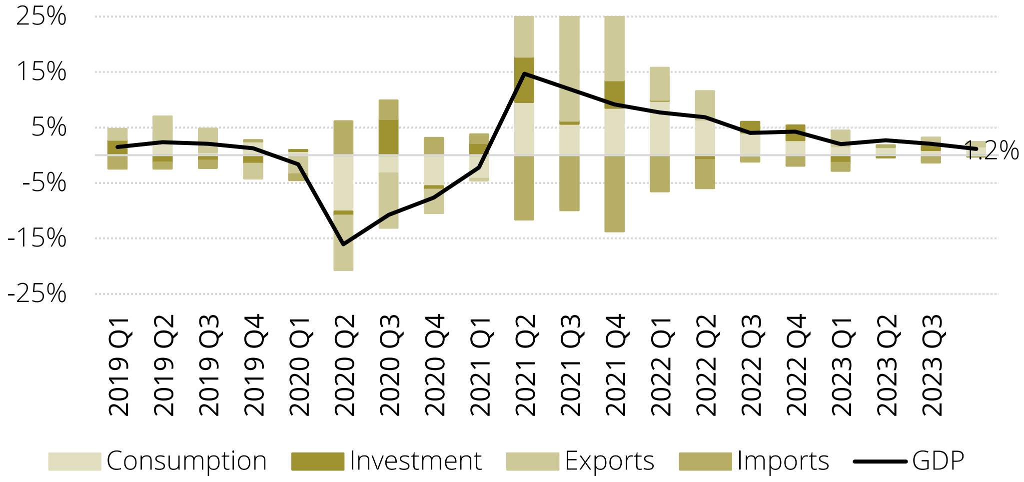
Real GDP Q4/2023: +1,2% y/y
Growth slowdown (from +2.1% y/y in Q3), due to shrinking investment. Boost from consumption.

Consumption boost (private +1,8% y/y, public +2,7% y/y)	Investment shrinkage (total -1,2% y/y, fixed -5,7% y/y)	Services exports increase (+4,7% y/y, goods -1,6% y/y)	Goods imports decrease (-4,0% y/y, services +1,6% y/y)	Consistently high extroversion (82% of GDP)

Seasonally Adjusted GDP



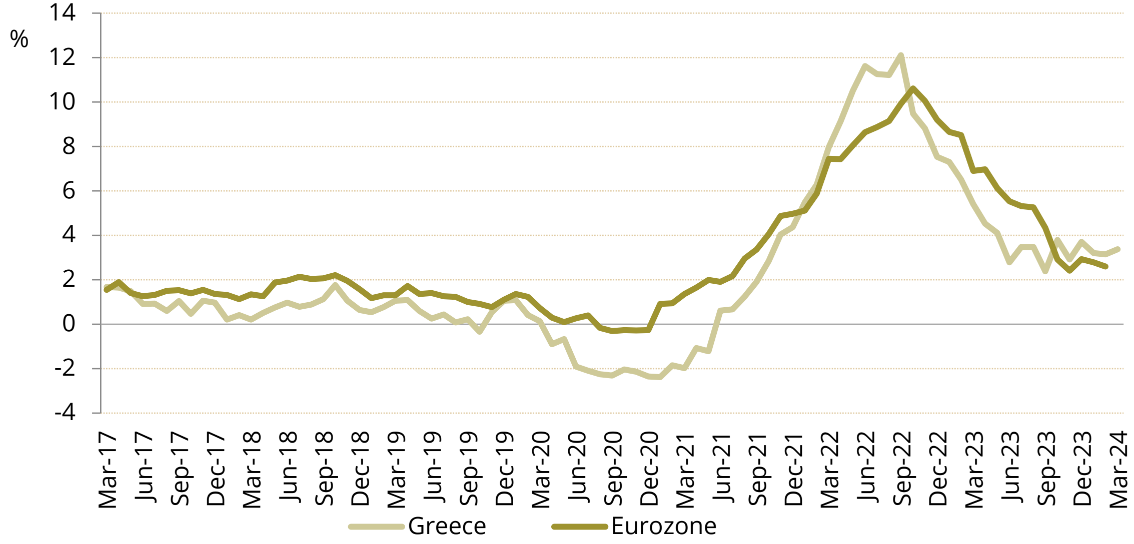
y-o-y % s.a. GDP growth and contributions



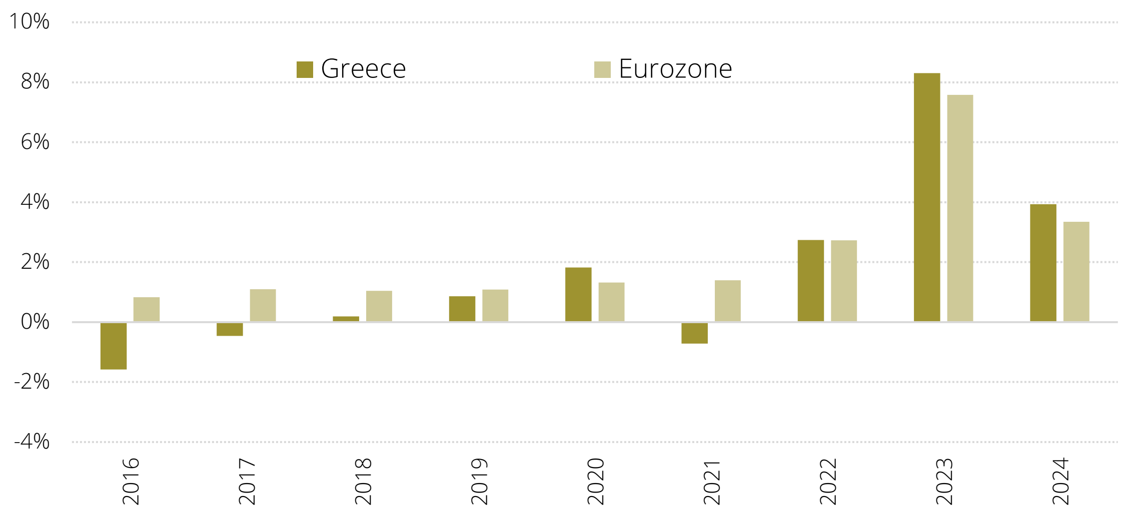
Source: ELSTAT

Annual inflation (CPI) declined to 3.1% in Q1/2024, down from 5.9% a year ago: annual decline in energy goods prices, the upward trend in food prices continues

Harmonized Inflation



HICP with constant taxes excluding energy



Sources: ELSTAT, Eurostat

Eurozone: Inflation declined to 2.7% in the first two months of 2024, down from 8.6% a year ago.

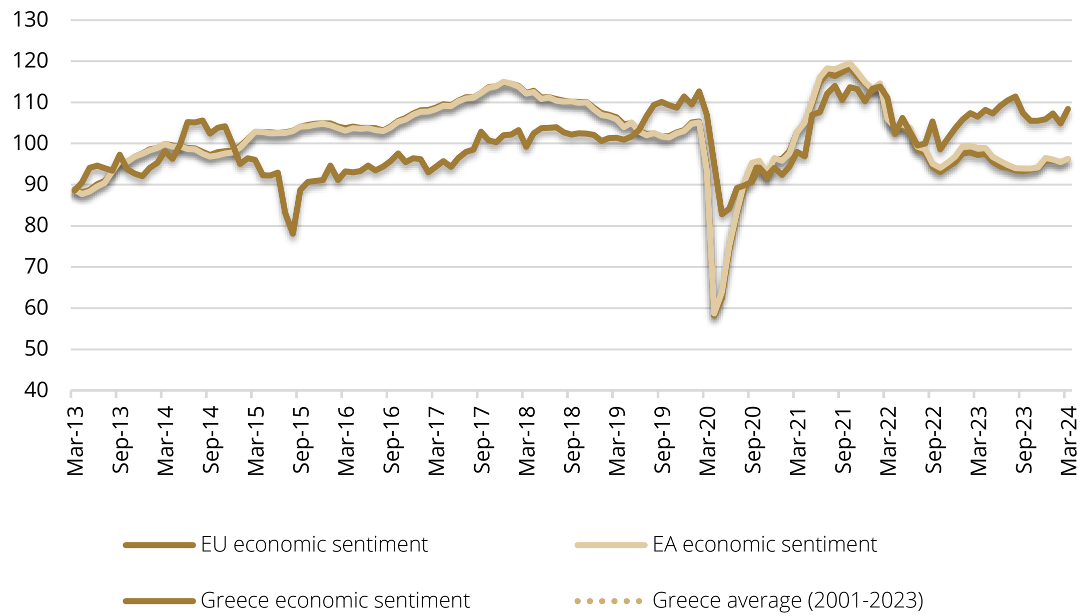
Greece: The Domestic Price Index rose by 3.2% in March 2023, up from 2.9% in February.

- First two months of 2024: **+3,2% HICP rate of change**, down from 6.9% a year ago, exclusively from the increasing effect of non-energy goods (3.9%). The effect of energy goods was negative (-0.7%), while the effect of indirect taxes was zero.

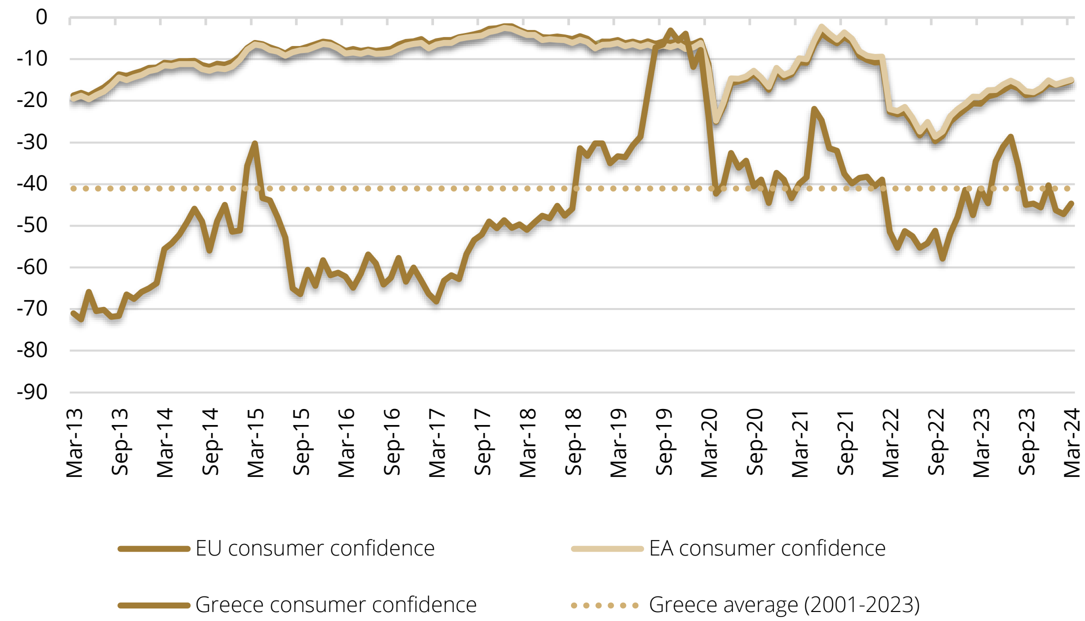
Producer Price Index (Jan. – Feb. 2024): **5.7% decline**, due to energy goods prices, compared to a 9.0% increase a year ago.

Small increase in economic sentiment in the first quarter of 2024; it is marginally higher than it was in Q1/2023

Economic Sentiment Indicator



Consumer Confidence Index



Sources: IOBE, European Commission

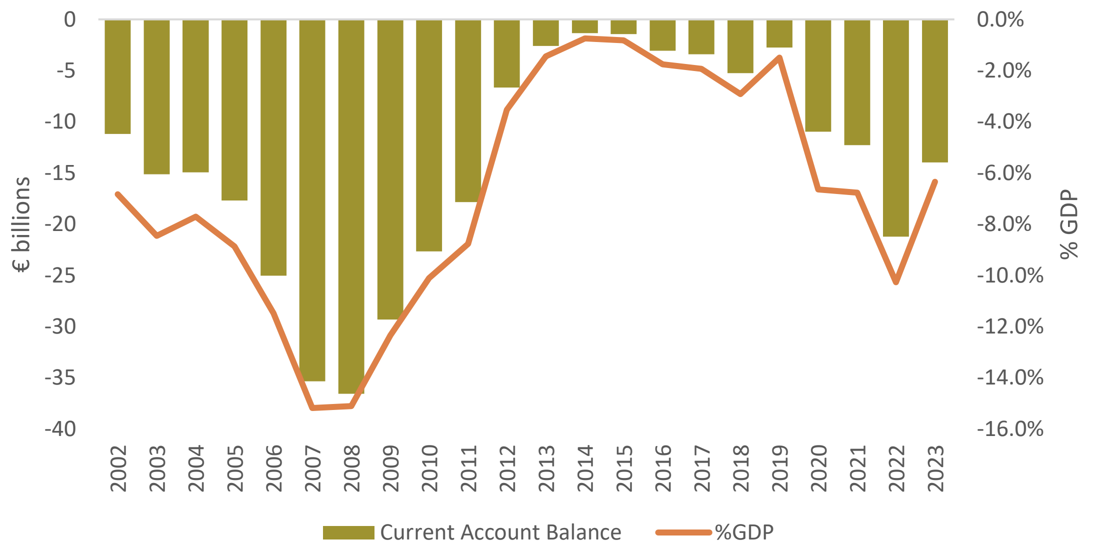
Small decline in Consumer Confidence during 2024; the EU and the Eurozone moved in opposite directions.

Short-term activity indicators: solid momentum in construction and tourism, mild increase in industry, decline in retail trade

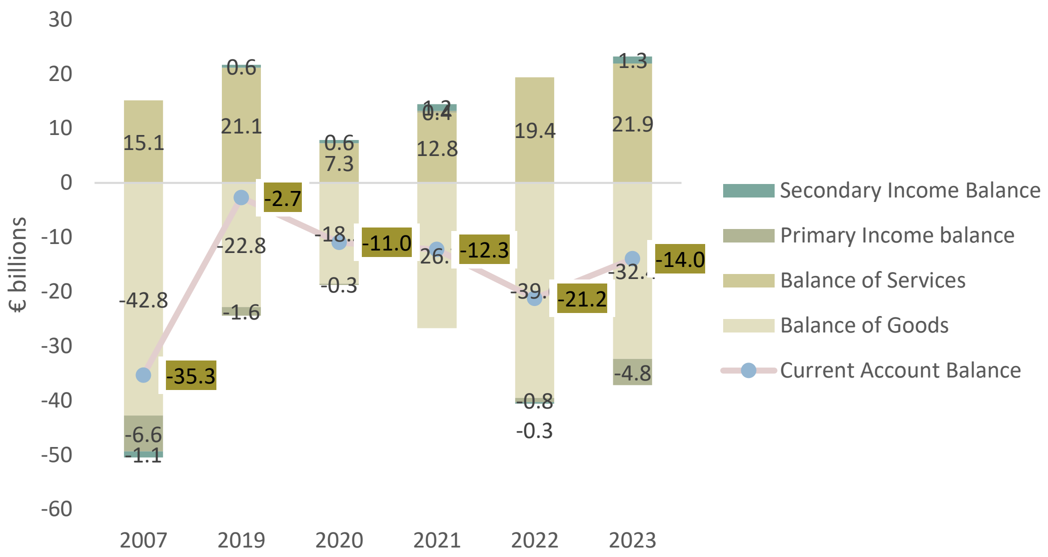
Industry	• Industrial production increased by 2.3% in 2023, down from 2.7% in 2022. Upward trend in the first two months of 2024. • Decrease in turnover ratio by 4.1% in 2023.
Construction	• Construction output rose by 17.1% in 2023, down from 21.8% in 2022. • The number of Construction Projects increased by 12.7% (following a 17.2% increase in 2022).
Tourism	• Tourism turnover continues to grow – 8.4% increase in 2023
Retail trade	• 3.3% decline in Retail Trade volume in 2023, down from a 3.3% increase in 2022. • The decline continued in January 2024 (-8.9% y/y) • Expectations are also declining in the first quarter of 2024.

The current account deficit reached €14.0 billion (6.3% of GDP) in 2023, €7.2 billion lower than in 2022 (10.3% of GDP).

Current Account Balance, 2002-2023



CAB components

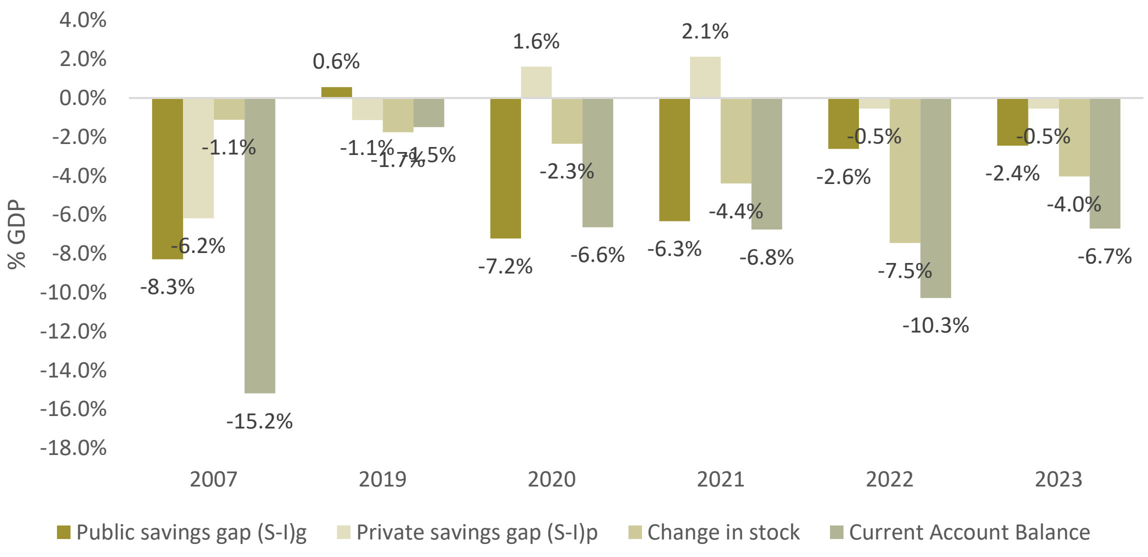


Source: BoG

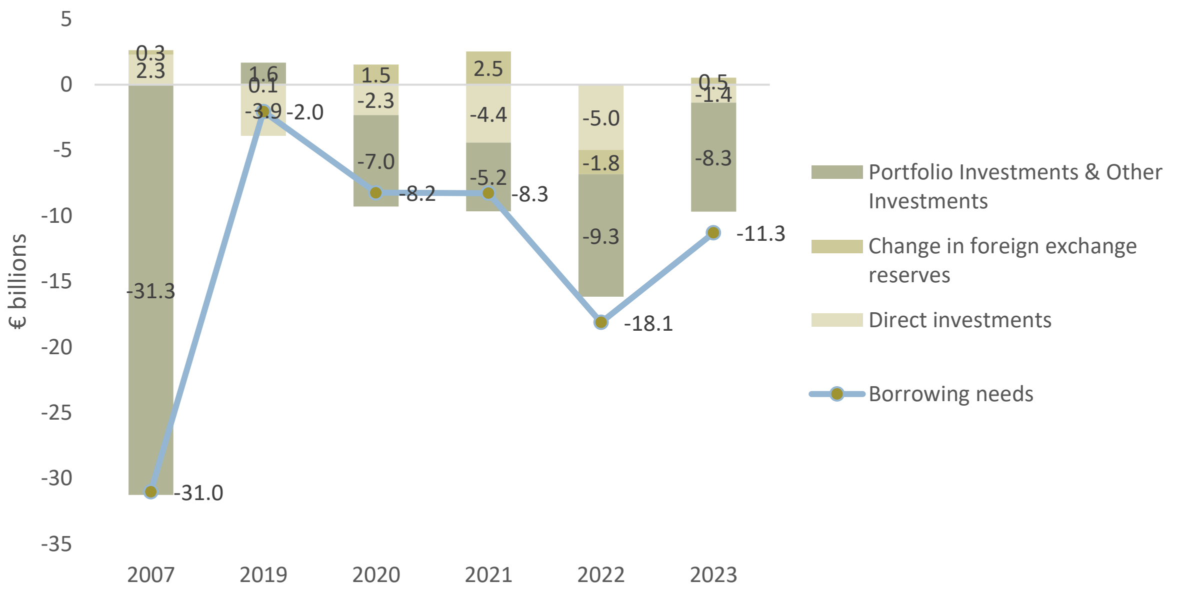
Gradual increase in the Services surplus, with a correction of very large deficits in goods in 2023

- Significant reduction in the **balance of goods deficit** by €7.2 billion, with 90% of the correction coming from fuel.
- **Improvement in the surplus of services,** with Tourism revenue reaching a **historically high level** (€20.2 billion); transport revenue declined, however, by €2.4 billion.
- **Deterioration in primary incomes** by €4.0 billion, due to income outflow (profits, interest, dividends).
- **Improvement in the secondary income balance.**

The private savings gap was the main cause of the CAB deficit in 2022-2023, in contrast to 2007 and during the pandemic when it was the public savings gap that led to twin deficits.



Sources: BoG, AMECO



- The contribution of **foreign direct investment** to financing the CAB deficits was significant in the 2019-2023 period, with a large share coming from the real estate market; in contrast, financing had a more short-term horizon in 2007.
- The production model needs to be adapted, by attracting productive direct investments in more sectors; there is also a need to stimulate **domestic private savings**.

Public finances: Cash target exceeded in 2023 and in the first two months of 2024

2023 State budget 2023 (cash basis)

- €3.76 billion deficit (target was €8.34 billion)
- €3.92 billion primary surplus (target was €851 million)

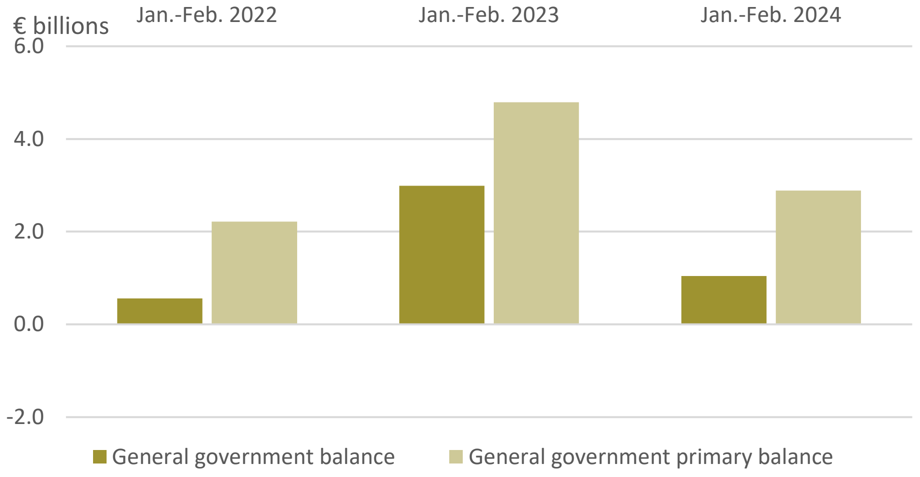
Improvement from last year due to higher revenue (+12,4% y/y)

- Increase from last year in most revenue categories
- Reduced cash payments of the armament programs of the Ministry of National Defense

Jan.-Feb. 2024 state budget (cash basis)

- €1.4 billion surplus (0,6% of GDP)
- €3.4 billion primary surplus (1,4% of GDP)

General government cash balance



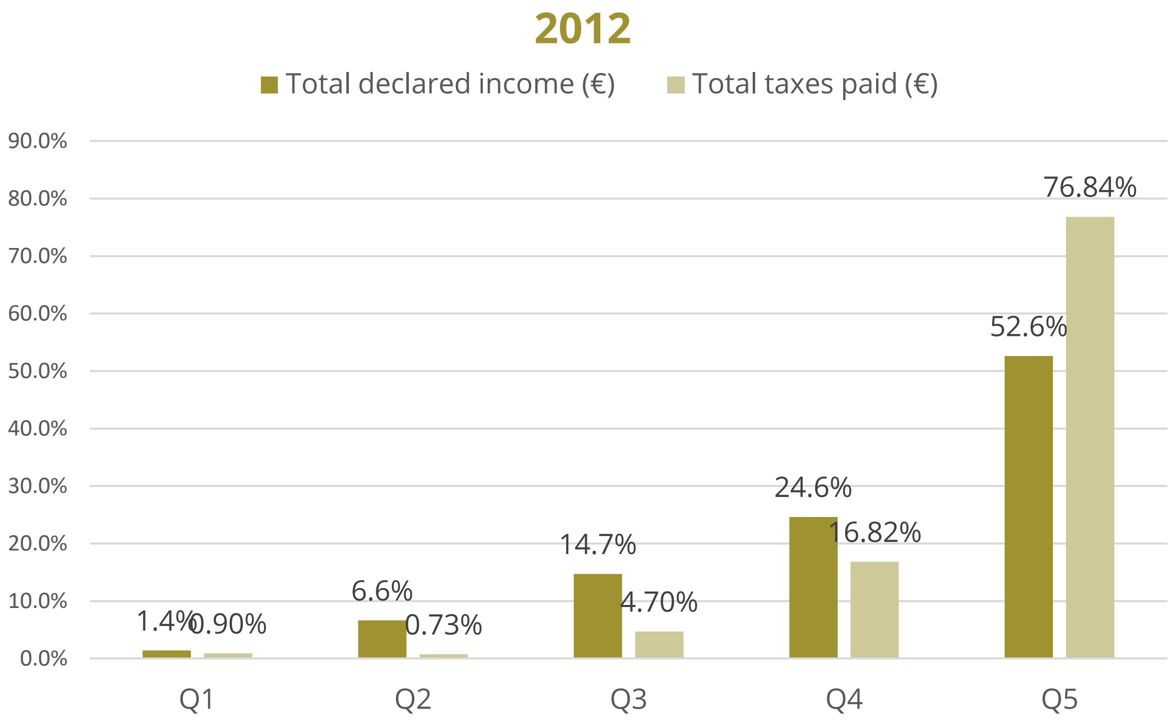
Source: Ministry of Finance

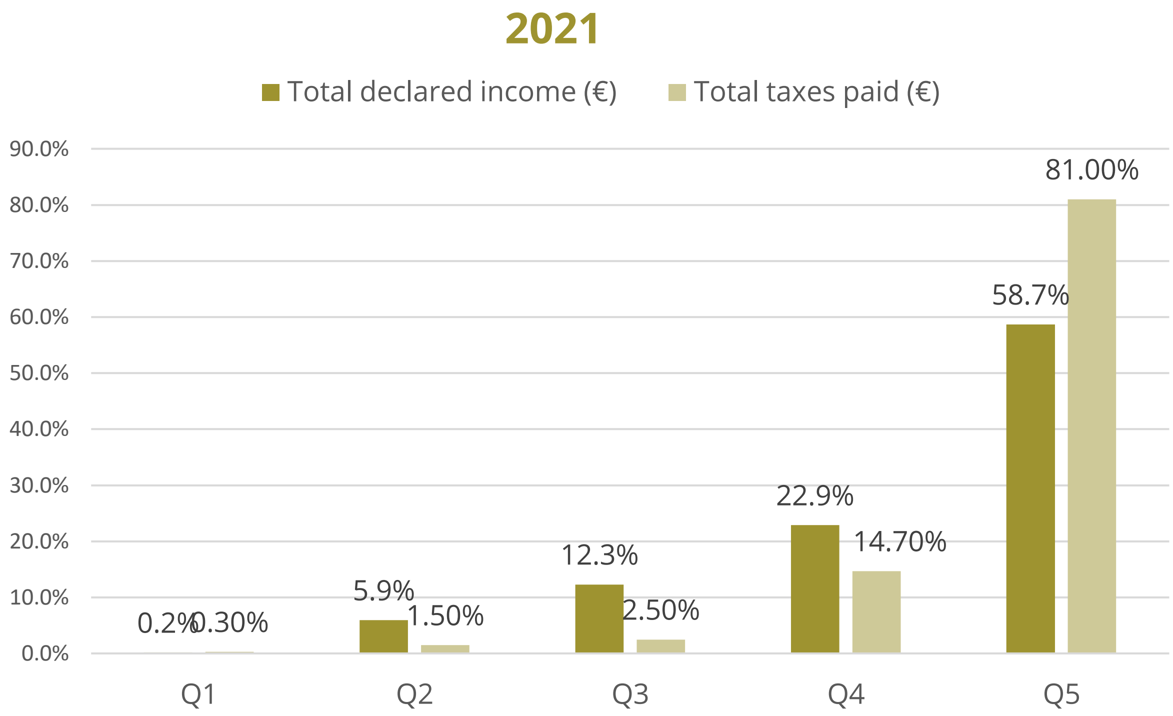
Deterioration compared to last year, both due to an increase in expenditure (+5.2% y/y) and a decrease in net revenue (-2.5% y/y).
Target exceeded on the revenue side (+€1.57 billion) but not on the expenditure side (+€234 million)

- Increase in many revenue categories compared to last year, decrease in RRF revenue
- Overspending in both the PIP and the Recovery and Resilience Fund

Under the current tax system, taxpayers with higher declared incomes bear a disproportionately large share of total taxes

Declared income by individuals and taxes payable by income quintile (as a % of total)





Source: Independent Agency for Public Revenue, Eurostat. Data processing: IOBE. Note: The data concern total income regardless of source and employment status.

- 60% of taxpayers had to pay just 4.3% of total income taxes in 2021, while 20% of taxpayers had to pay 81% of total income taxes.
- Despite the slight decrease in total income tax progressivity over the last decade, there is still a high **level of progressivity**, as well as a **narrow tax base**.

The revised National Recovery and Resilience Plan has committed European funds of €21.25 billion for the 2024-2026 three-year period

Summary of disbursements to Greece from the EU Recovery and Resilience Fund

August 2021: €3.96 billion pre-financing disbursement.

April 2022: Disbursement of the 1st tranche of €3.56 billion.

January 2023: Disbursement of the 2nd tranche of €3.56 billion.

August 2023: Greece submits a request for (a) a revision of the Plan, (b) addition of REPowerEU capital, (c) extension of the loan component by €5 billion.

December 2023: Disbursement of the 3rd tranche of €3.64 billion and approval of Greece's request for a revised Plan

April 2024: Greece submits a 4th payment request of €2.3 billion for the loan leg

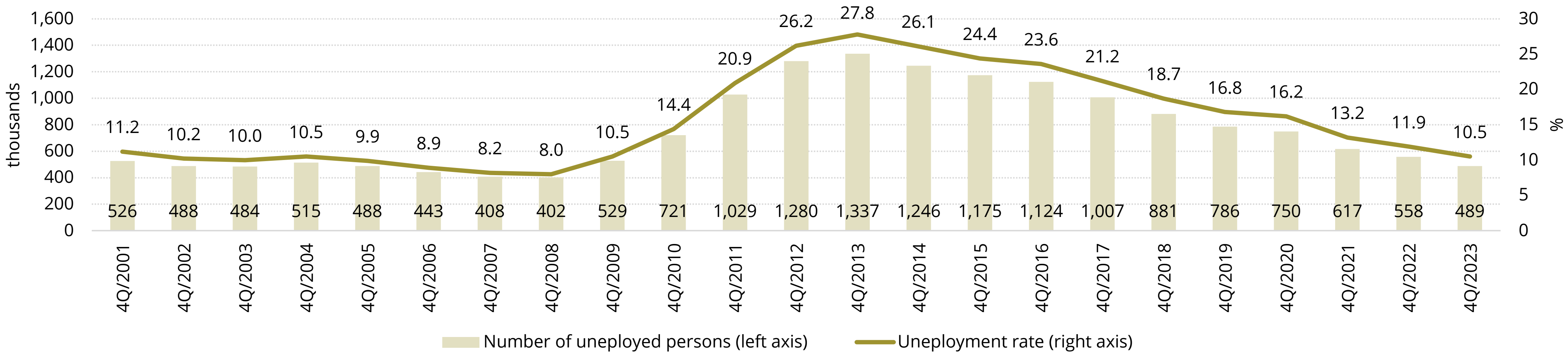
Table. Allocation of funds of the revised Recovery and Resilience Plan for Greece, April 2024

	€ billion	**% of total**
Total resources of the revised Greek RRF	35,95	100%
of which:		
Grants	18,22	50,7%
Loans	17,73	49,3%
Investments related to green transition	13,70	38,1%
Investments related to digital transformation	7,94	22,1%
Other investments	14,31	39,8%
Funds already disbursed	14,70	40,9%
Funds pending until 2026	**21,25**	**59,1%**

Source: European Commission, Data processing: IOBE

The unemployment rate has reached a 14-year low, but a slowdown was recorded in early 2024

Number of unemployed persons and unemployment rate in Greece

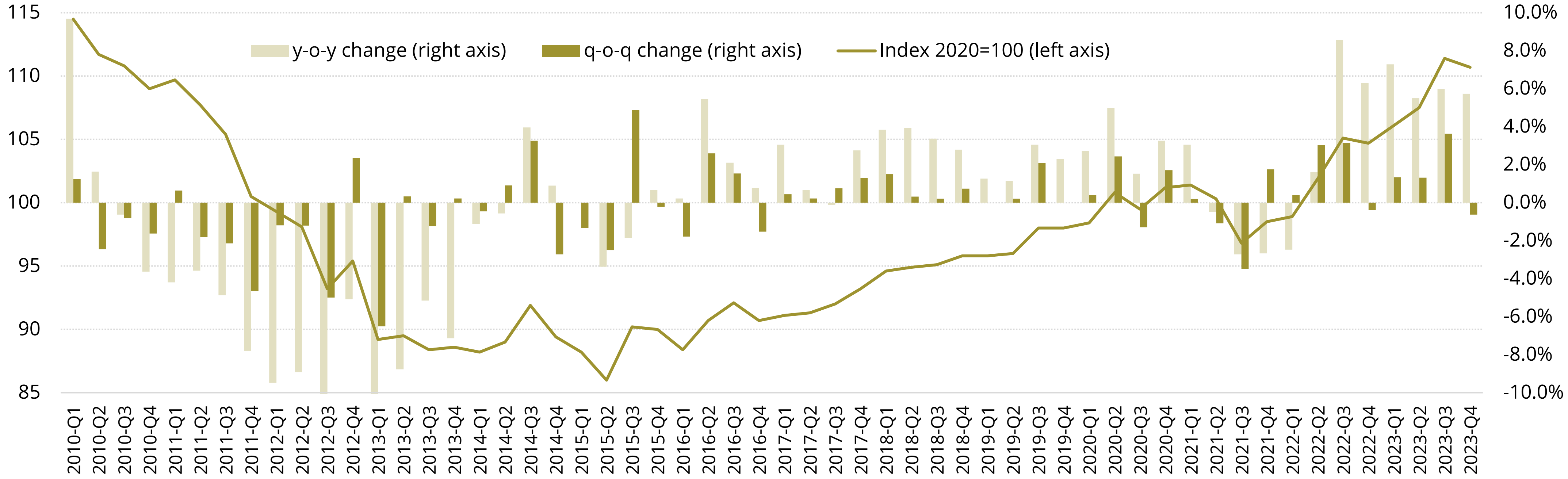


Source: ELSTAT

- The **unemployment rate** reached 10.5% in Q4/2023, down from 11.9% in Q4/2022, while labor market **participation** declined.
- **Employment increased** in sectors like **Transport and Storage** (+27.8 thousand employees), professional, construction (+27.2 thousand), Healthcare and social care (+23.5 thousand).
- **Employment decreased** in sectors like **Education** (-51.7 thousand) and Arts & Entertainment (-13.3 thousand)
- The employment inflow-outflow balance was positive (+116.7 thousand) in 2023 and higher compared to the balance of 2022 (+72.9 thousand).

The increase in wage costs was halted in the fourth quarter of 2023

Seasonally adjusted wage cost index, current prices

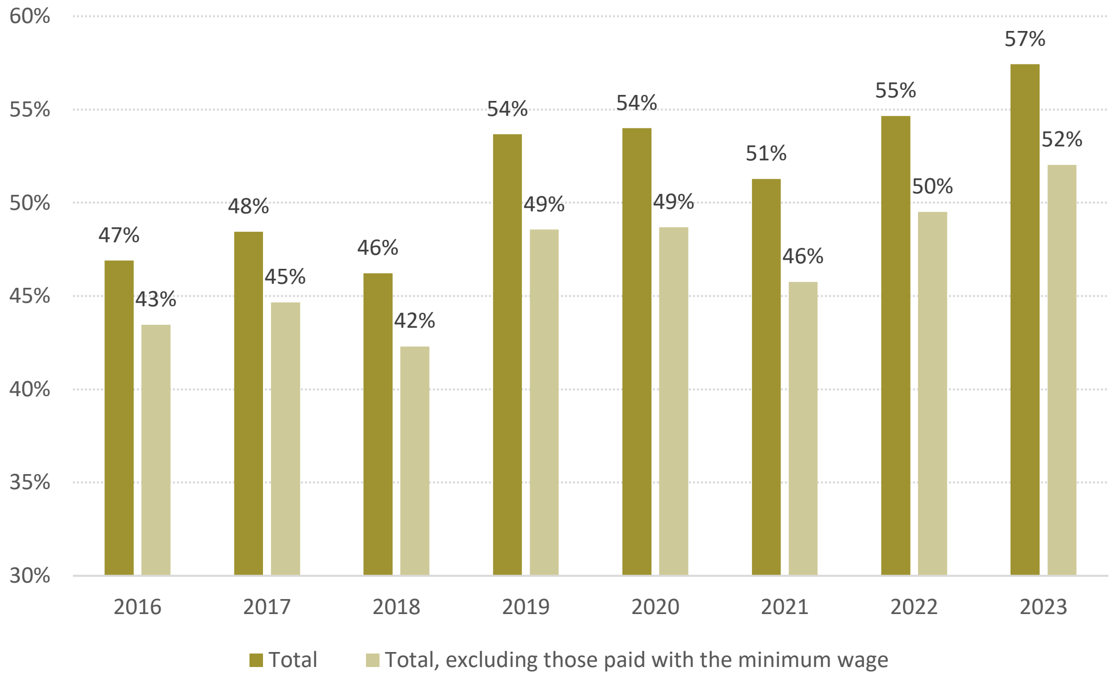


Sources: ELSTAT & Eurostat

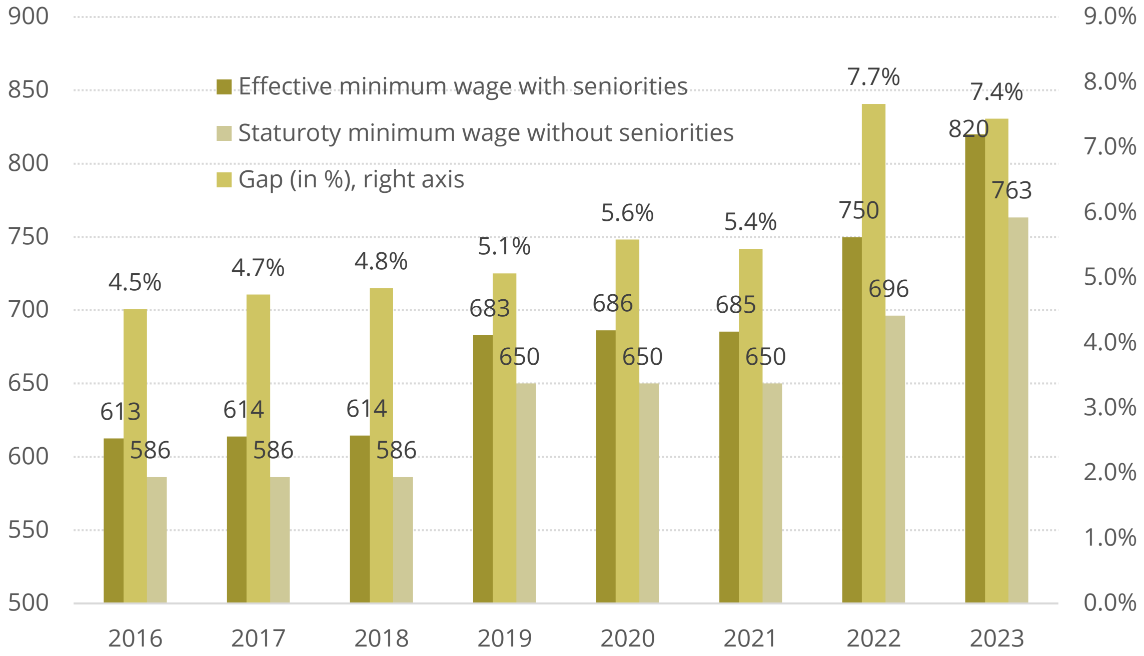
- In the fourth quarter of 2023, labor costs increased by 5.5% y-o-y but declined by 0.6% q-o-q.
- **Since the beginning of 2022, cumulative wage cost growth (12.3%)** has lagged CPI growth over the same period (13.4%).

The rate of wage compression in the Greek economy is high, especially among small businesses...

Ratio of effective minimum wage to average wage for all full-time workers, 2016-2023



Minimum wage with and without three-year periods for full-time workers, total economy, 2016-2023

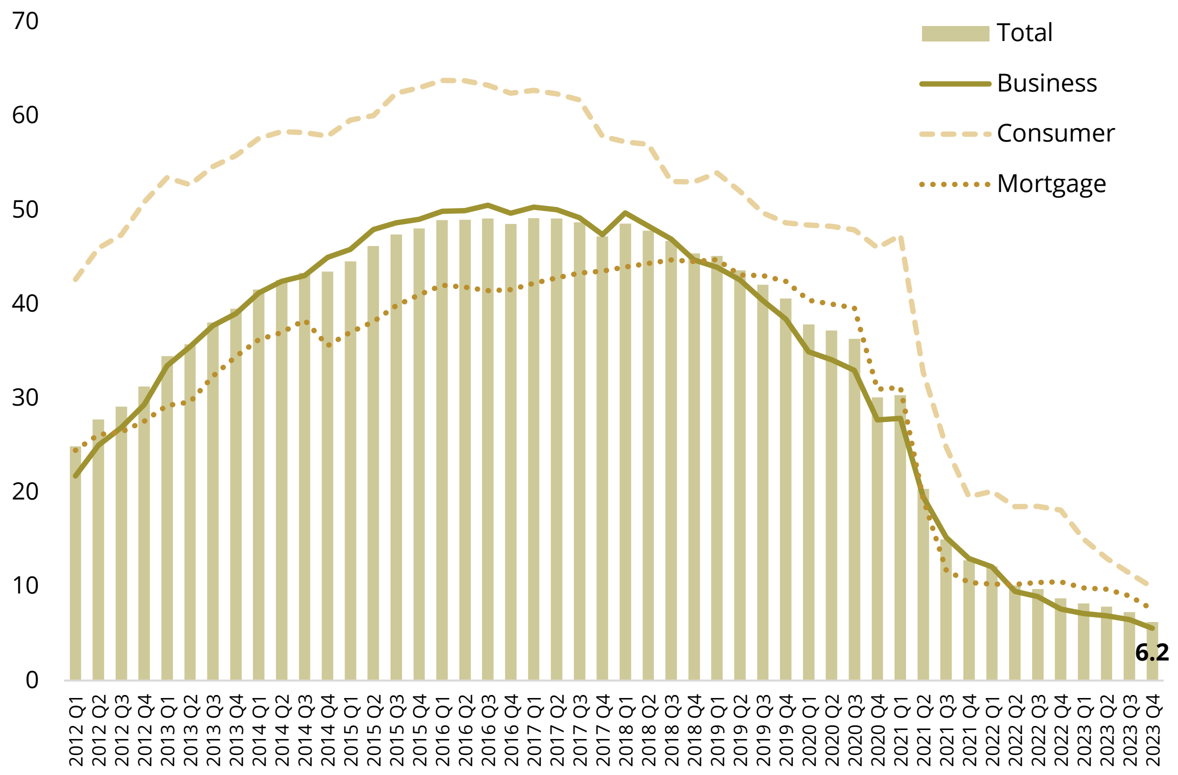


Source: Ergani database of the Ministry of Labor, Data processing: IOBE.
Note: The effective minimum wage is calculated as a weighted average for all those who are paid the minimum allowed wages, including the three-year seniority allowances.

...highlighting the importance of boosting productivity to increase average wages in the economy. The effective minimum wage accounting for seniority allowances was about 7.4% higher than the statutory minimum wage without seniority allowances in 2023.

Bank fundamentals are improving in early 2024…

Non-performing loans, % of total bank loans, by category



Source: Bank of Greece, Data processing: IOBE

Note: On-balance sheet loans (before provisions)

…however significant challenges remain for the domestic **banking sector**.

Positive trends: Further reduction of NPEs, improvement of organic profitability and liquidity indicators, increased credit expansion to businesses.

Negative trends: Increased exposure of banks to government bonds, high stock of NPEs on and off bank balance sheets, contraction of credit to households, stagnation in private deposits, high interest rate margin

Challenge and opportunity: acceleration of implementation of the loan arm of the revised "Greece 2.0" program

Macroeconomic forecasts for 2024

2024 baseline scenario

- The Eurozone economy follows the ECB's baseline scenario (March 2024) of 0.6% growth (down from 0.8% three months ago) and 2.3% inflation in 2024 (up from 3.2%); energy prices and interest rates also evolve according to the ECB’s baseline scenario.
- Interest rates follow the trend of today's futures, i.e., Euribor falls from close to 3.9% at the start of the year to around 3.1% at the end of 2024.
- The war in Ukraine continues at a similar intensity to that of 2022. Due to the geopolitical instability in the Middle East, international prices of energy commodities are expected to rise in 2024, following the EIA's baseline scenario.
- Timely implementation of the "Greece 2.0" Plan in 2024, without further delays.
- Inflation in Greece will be slightly higher than in the Eurozone average in 2024, mostly due to the slower decline in food prices.
- Inbound tourism in 2024 is expected to match 2023’s good performance, in real terms.

Forecasts for 2024

- **Growth:** ≈ **2.1%**
- Private consumption: ≈ 1.3%
- Public consumption: ≈ -0.6%
- Investment (Fixed): ≈ 7.8% (9.5%)
- Exports: ≈ 2.2%
- Imports: ≈ 1.9%
- **Unemployment rate**: ≈ 10.3%
- **Inflation rate**: ≈ 3.0%

Risks and positive prospects

Risks

- Further geopolitical and economic instability regionally and internationally (war in Ukraine, Middle East, US elections, European Parliament).
- Slower interest rate cuts in Europe in 2024, especially if international energy prices rise substantially.
- Labor market: Slower decline in the unemployment rate, partly due to high structural unemployment.
- Progressively tighter fiscal targets. The tax base in Greece remains narrow.
- Loss of competitiveness due to higher than the Eurozone average inflation after mid-2023. Persistent inflation in necessities such as food, higher than the EA average in 2024.
- High loan-deposit interest rate spread and systematically negative household savings rate
- Risk of a new surge in arrears and NPLs, due to rising interest rates and cost of living. An obstacle to the redistribution of resources are bad loans on and off bank balance sheets.
- Investment mix: Investments in Housing/Construction and transport equipment, decrease in other sectors.

Positive prospects

- The acceleration in the implementation of the revised Recovery and Resilience Plan, combined with the expansion of its loan arm and REPowerEU, can "unlock" international funds for productive and more long-term investments.
- The reduction of interest rates, if it starts earlier this year, will be an opportunity to accelerate investments.
- Enhanced extroversion of the economy is a challenge, along with a gradual improvement of the external balance.
- Reforms with a medium-term horizon of 2024-2027 can increase productivity which currently lags compared to the European average.
- The reduction of NPLs will free up productive resources.
- Significant backlog of construction projects.

Special study*

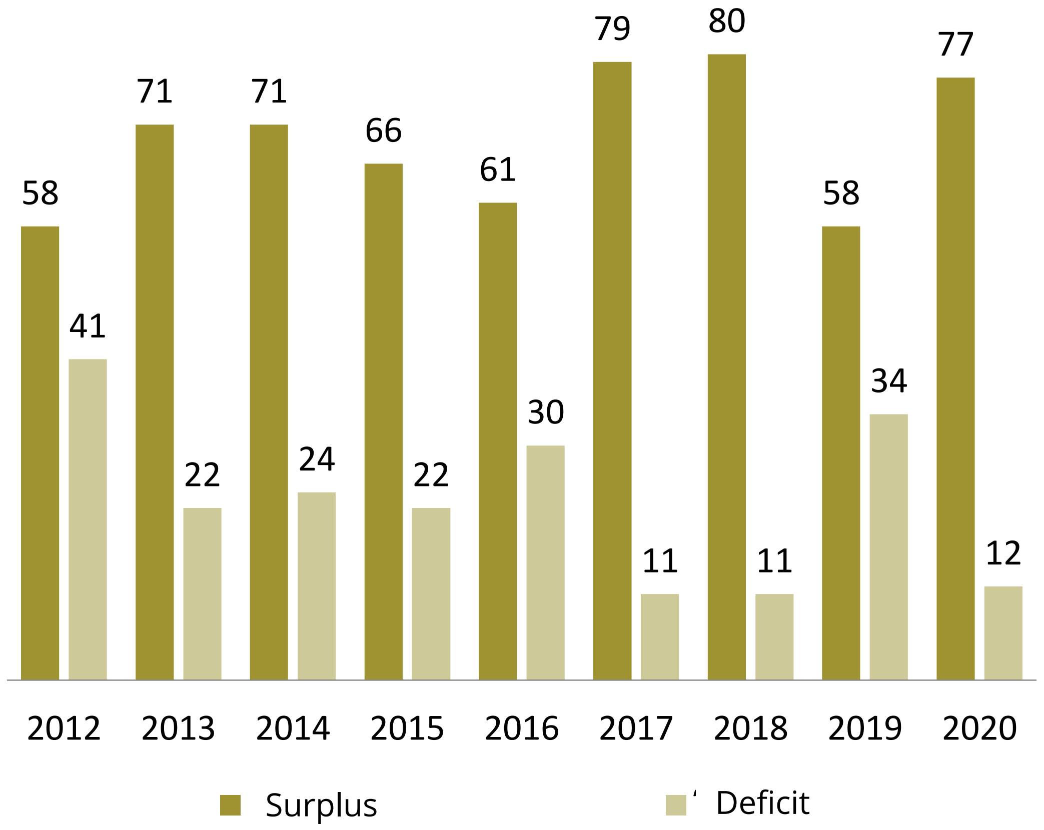
«Financial analysis of public hospitals in Greece»

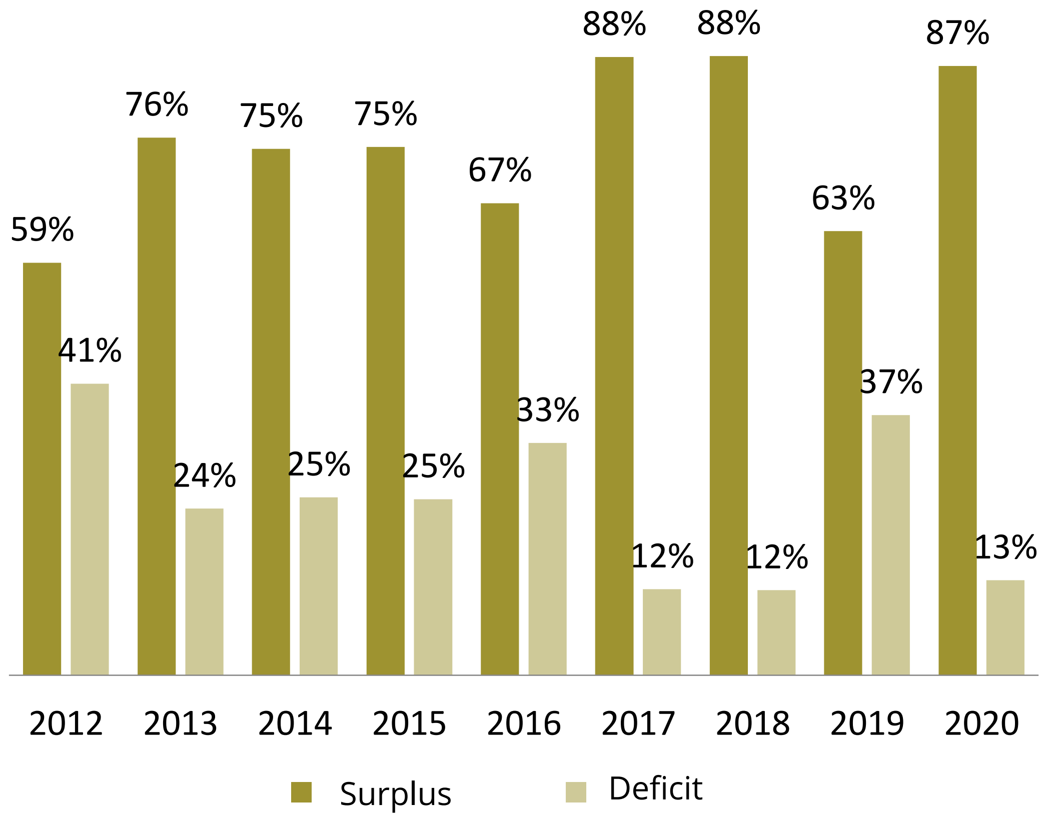
*IOBE study (2023). Available here

The analysis of public hospital financial data is necessary to evaluate the course of the healthcare sector in Greece

- The analysis is based on the information included in their financial statements
  - In addition, data on hospitalizations were collected from the Bi-forms database of the Ministry of Health.
- It does not consider other elements that may be useful in evaluating the financial situation, such as:
  - Auditors' comments on the financial statements
  - Qualitative features of hospitals
- The analysis using numerical indicators is an important tool in the decision-making process regarding financial management of public hospitals

In total, 207 financial statements of public hospitals recorded a deficit while 621 financial statements showed a surplus in the 2012-2020 period





Source: Hospital financial statements. Data processing: IOBE.

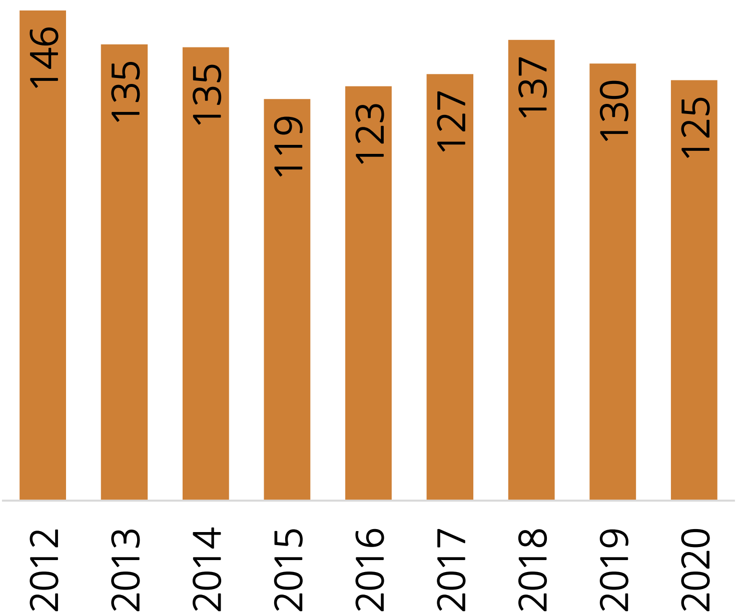
In 2012, 41 hospitals recorded a deficit, compared to 12 in 2020, with a high number of public hospital financial statements recording a surplus in 2017, 2018, and 2020.

Summary of findings for the 2012-2020 period

- Initially, there was a tendency to limit financial risks
  - Later, there was a gradual correction towards long-term averages.
  - Large year-to-year variability is observed.
- Hospital **assets** increased significantly by the middle of the period, due to an increase in reserves and receivables
  - In recent years, relative stabilization is recorded.
- **Liabilities** (practically all short-term) recorded large fluctuations
  - In the fixed sample of 60 public hospitals the lowest value is recorded in 2018 and in the total sample in 2017.
- In the 2016-2018 period **available** cash was sufficient to fully cover liabilities without any help from receivables or reserves
- **Operating expenses** recorded a sharp decline until 2016-2017, with a gradual recovery thereafter.
- Large volatility in **net results**
  - Higher positive values towards the end of the period compared to the 2012-2013 biennium.

The pandemic created the need for more available beds, as well as more costly and shorter hospital stays

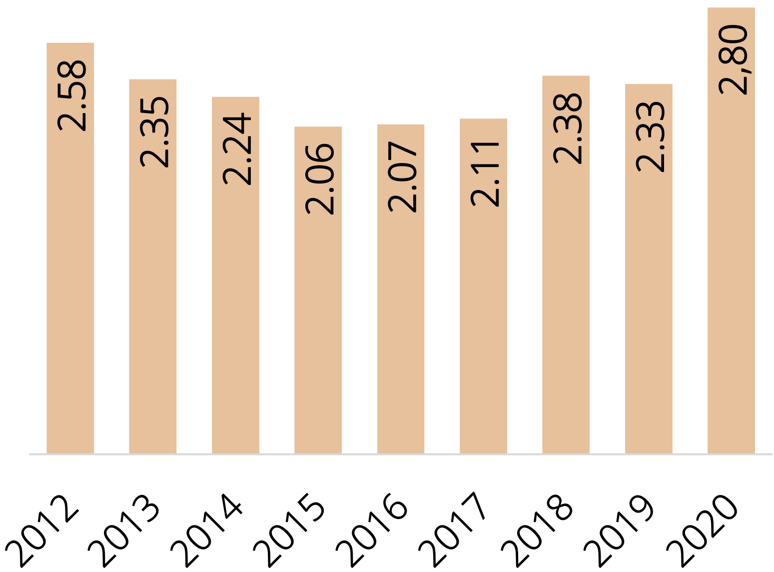
Operating cost per total number of beds (€ thousands)



Source: Hospital financial statements. Data processing: IOBE.

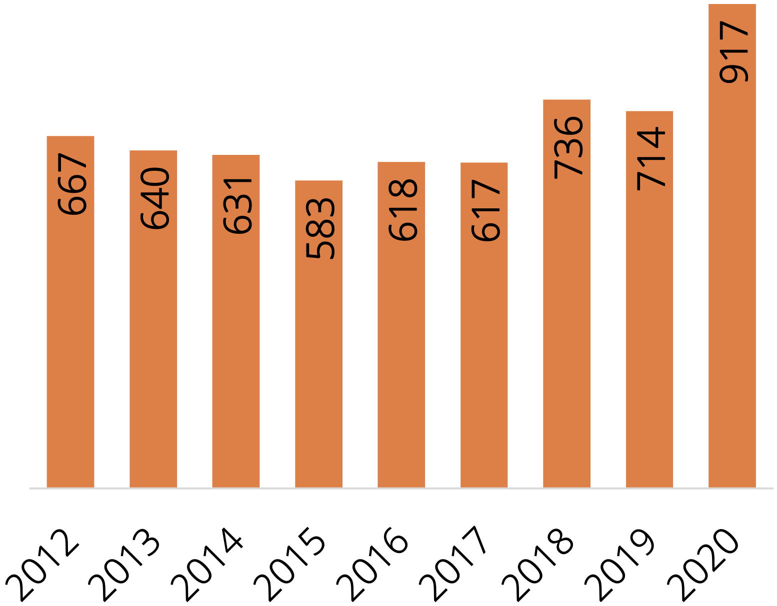
Reduction of operating costs per total number of beds in the 2012-2015 period, upward trend from 2015-2018, decline from 2019-2020

Operating cost per total hospitalized patients (€ thousands)



Reduction of operating costs per total hospitalized patients in the 2012-2015 period, stabilization in the 2015-2017 period, and increase in 2018 and 2020

Operating cost per days of hospitalization (€)



Declining trend for operating costs per days of hospitalization in the 2012-2015 period, stabilization in the 2016-2017 period, and rise in 2020

Conclusions

- The analysis shows significant changes in key figures and indicators that are partly due to the extensive **reforms** carried out due to the economic adjustment programs.
- The trajectory of several figures and indicators in the period under review can be characterized by a relatively **strong trend initially** in the direction of limiting financial risks and good **financial health, followed by stabilization and a gradual correction** by returning to levels closer to long-term averages.
- Financial statements prepared according to the **accrual principle** produce better information for decision-making and contribute to better management and sustainable financial management.
- The analysis of financial statements offers the opportunity, firstly to their administration, secondly to the administrations of the health districts, and finally to the leadership of the Ministry of Health to make decisions regarding the **orderly and more economically efficient operation of hospitals**, with the end goal of upgrading patient services.

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