

Quarterly Report on the Greek Economy

02 / 23

July 5th 2023



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Overview of the report





In an environment of positive domestic dynamics and political stability...

Dual dynamics of the domestic recovery

- Positive boost from the election result
- Uncertainty is declining after the deep recession during the pandemic
- Gradual closing of the output gap after a ten-year debt crisis

Important contribution of EU policies

- Monetary stance
- Fiscal measures

Challenges domestically and abroad

- Public administration and markets
- External shocks, persistent inflation, longer duration of high interest rates

Three economic policy priorities

- 1) Ensuring **smooth financing** of the country in the medium term, on competitive terms
 - Investment grade recovery
 - Fiscal stability and predictability
- 2) Improving the **production model**
 - Increasing productivity, attracting capital, both physical and human, to offset adverse demographic trends
 - Integration of new technologies, innovation in production, creation of high value jobs
 - Extroversion
- 3) Jobs and incomes **distribution**
 - Social mobility opportunities
 - Employee training programs



...the need to address imbalances and structural lags in the economy remains

Need for individual reform interventions

- Adapt to the new conditions of the **energy sector** and the **green transition**, including taxation and transfer policies
- Address **persistent core inflation**, competition in product and service markets
- Enhance the **labor market** by shrinking the informal economy and changing the tax and insurance systems
- Boost the efficiency of the **public sector** e.g., in the health and education systems

Conditions for systematic growth of real incomes

- Main challenge: how to increase the medium-term growth rate
- Under certain conditions, the improvement of the long-term potential growth rate is possible despite the demographic outlook



Global environment: slowdown in Q1/2023

- **Global growth slowed down in the first quarter**, under the influence of **high inflation** and **monetary tightening**.
 - 1% growth in the Eurozone (down from 1.8% in the previous quarter), 1.6% in the US (up from 0.9%), 4.5% in China (up from 2.9%), 1.5% in OECD countries (up from 1.4%).
- **Inflation** in OECD countries is gradually declining; it reached 7.4% in April, and is still high now (core inflation is at 7.1%)
 - The international prices of energy commodities are gradually falling.
 - Central banks are systematically raising interest rates, the ECB has made 8 consecutive increases since July 2022 resulting in a 400bps cumulative increase.
 - Uncertainty remains about the duration of the **war in Ukraine**.
- The OECD forecasts **global growth of 2.7% in 2023** (up from 2.6% in March 2023).
- The ECB forecasts low levels of growth in the Eurozone in 2023 (+0.9%) and acceleration in 2024 (+1.5%). 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 between 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 core inflation
- Effects of ECB **monetary policy tightening** and rising borrowing costs
- Diversification of **energy sources and energy security** in the medium term
- Pending **revision of EU fiscal rules**
- Effective utilization of the **European Recovery Fund**



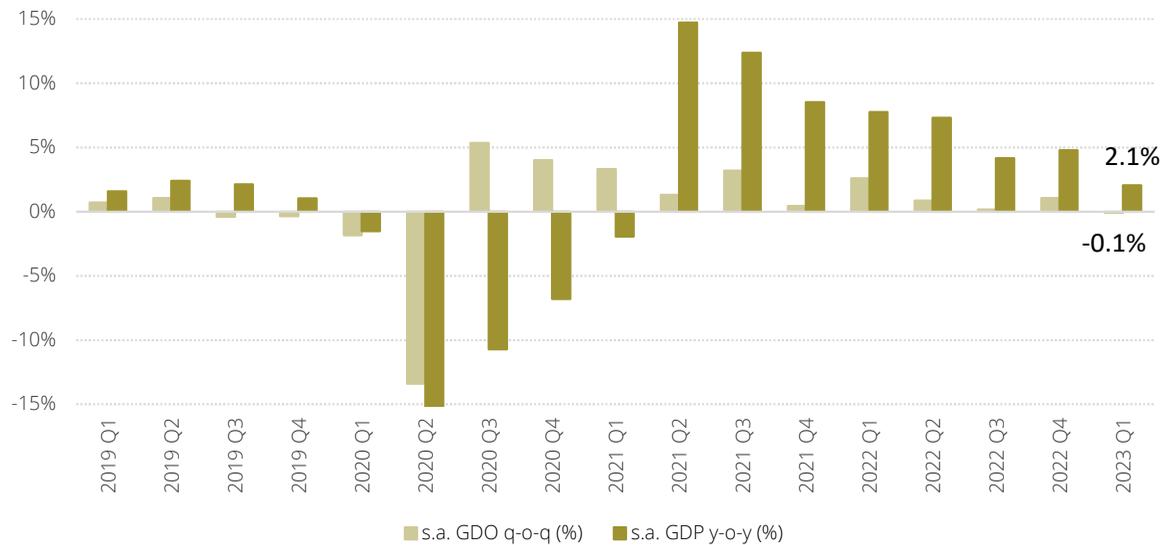
Greece 2022: Domestic recovery slowed down

Real GDP Q1/2023: +2,1% y/y

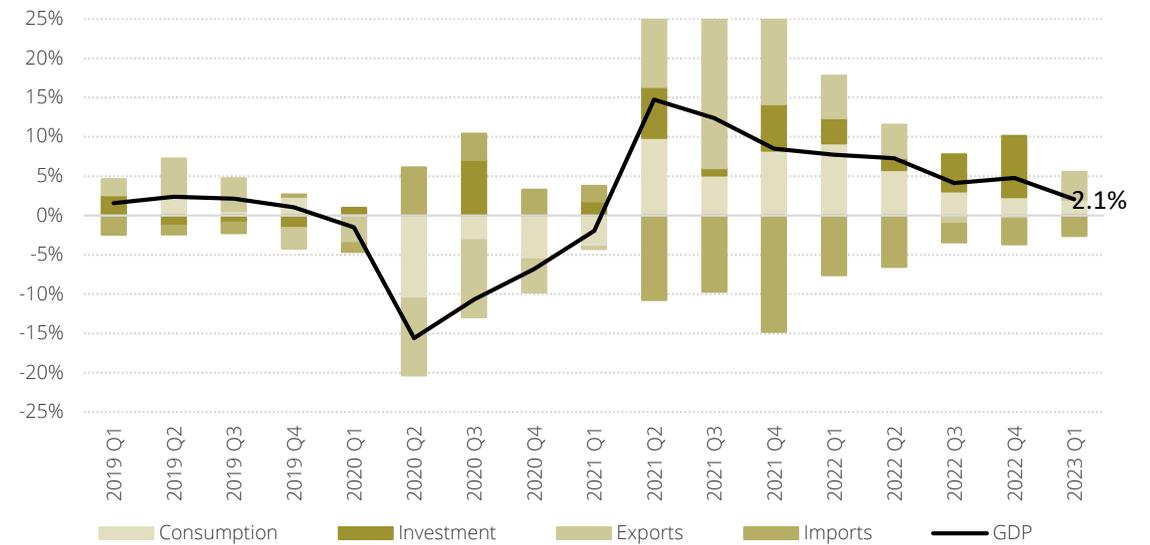
Growth slowdown, (down from +4,8% y/y in Q4), driven by exports and consumption

<p>Resilient consumption (private +2,9% y/y, public +1,4% y/y)</p>	<p>Significant increase of exports (+8,9% y/y, goods exports +10,6% y/y)</p>	<p>Investment shrinkage due to inventory depletion (-0,7% y/y, fixed investments +8,2% y/y)</p>	<p>Slight slowdown in imports (+5,6% y/y)</p>	<p>Consistently high extroversion (83% of GDP)</p>
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seasonally adjusted GDP



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

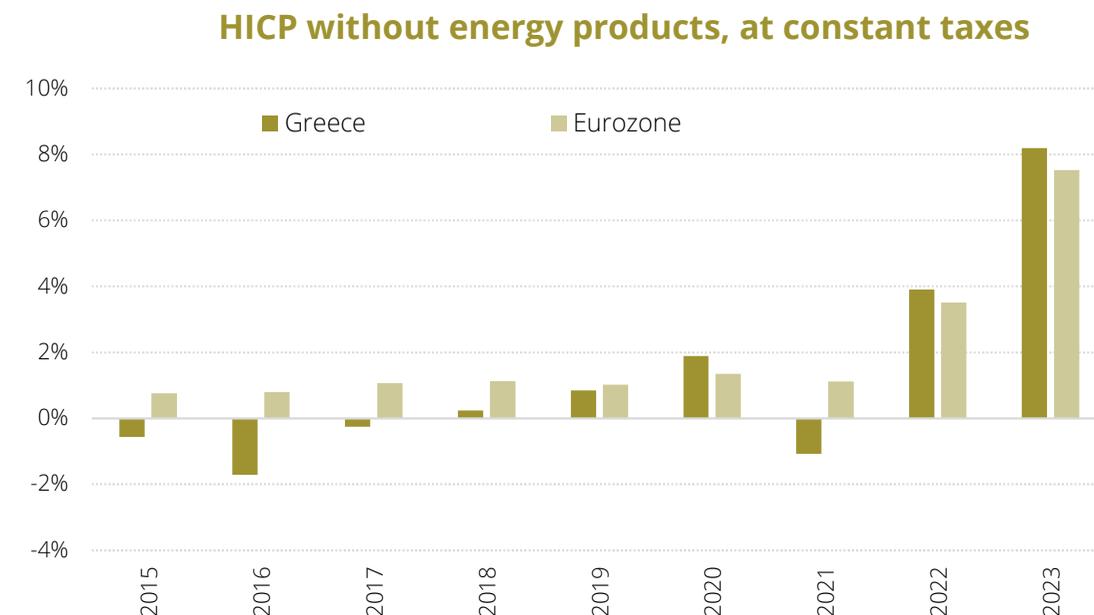
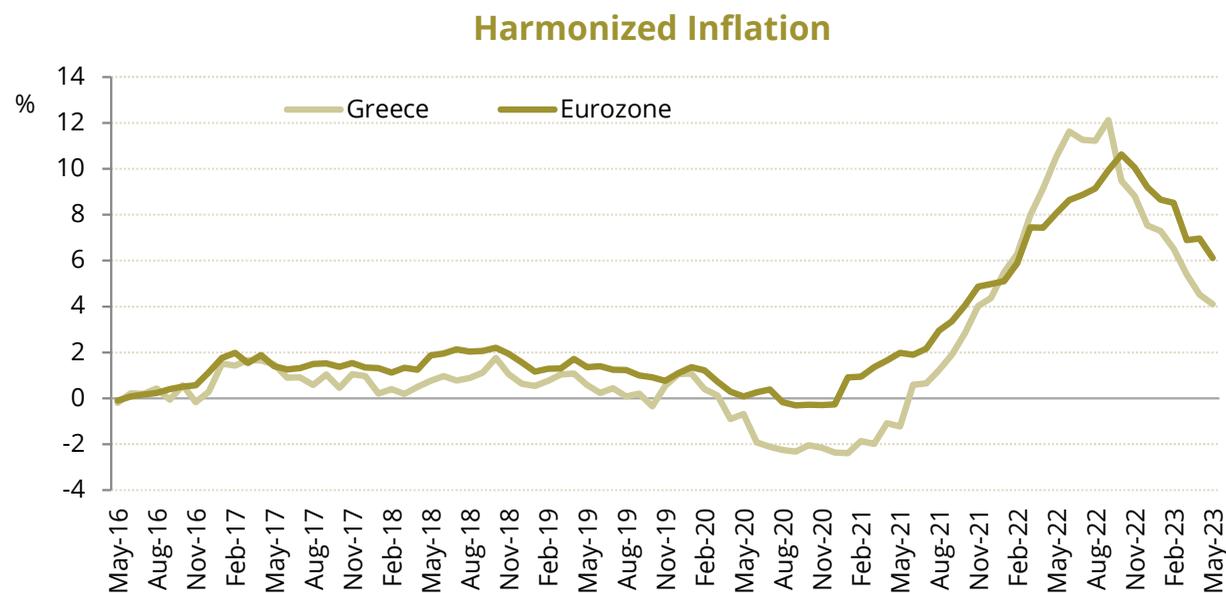


Source: ELSTAT





Inflation decreased in the first five months of 2023 to 5.6% y/y: energy goods prices fell, but there is still pressure on food prices



Sources: ELSTAT, Eurostat

Eurozone: Inflation reached a 25-year high in the first five months of 2023, 7.4% y/y; up from 6.8% a year ago.

Greece: Further deceleration in the increase of the Domestic Price Index to 2.8% in May, down from 3.0% in April.

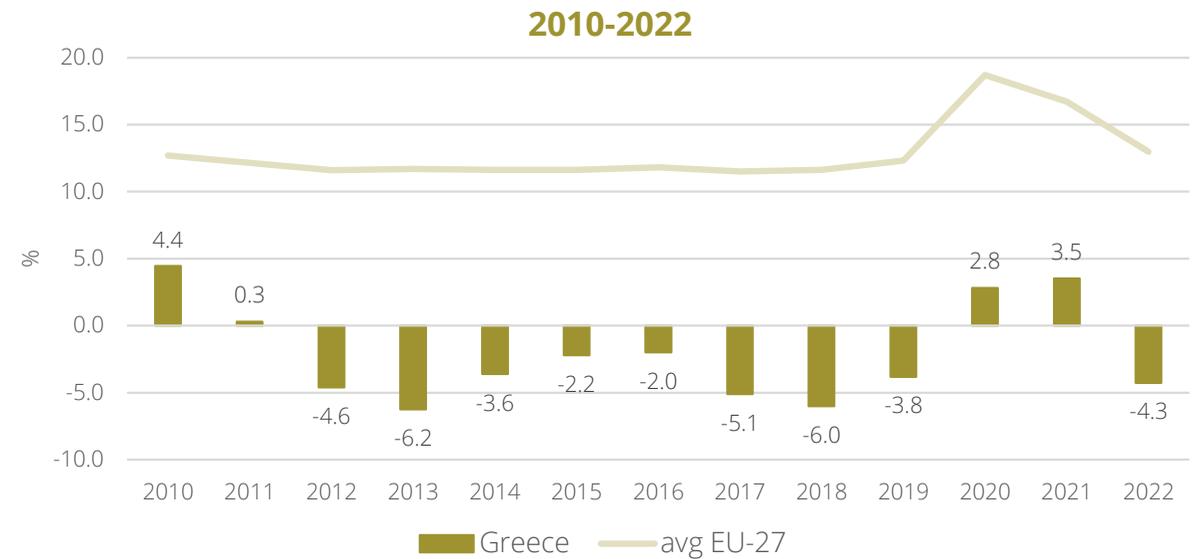
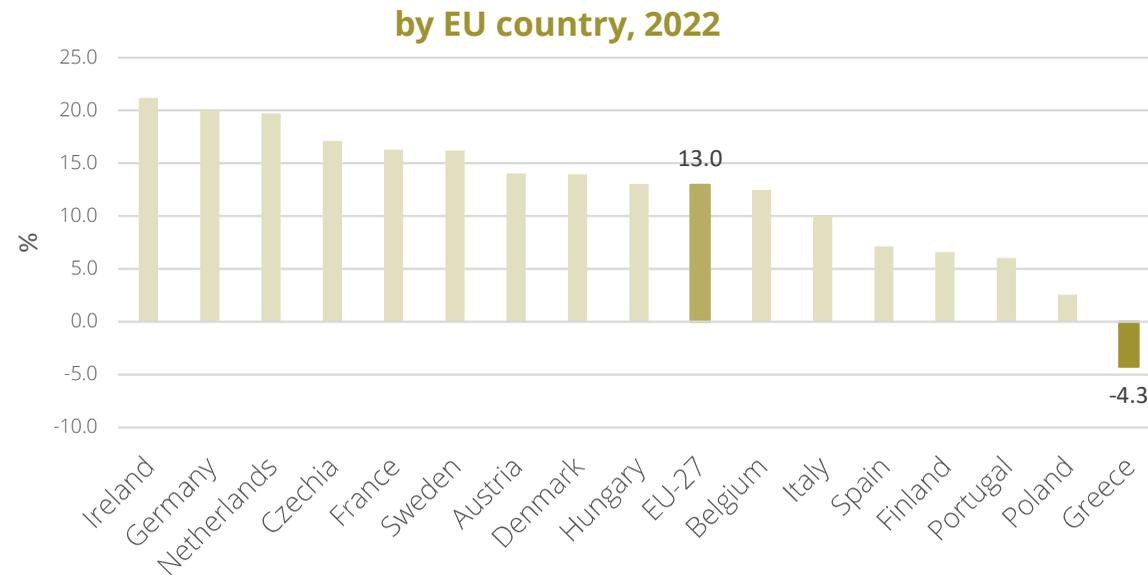
- First five months of 2023: +5.6% HICP rate of change, down from 7.9% in the first five months of 2022, exclusively from the increasing effect of non-energy goods (8.0%). The effect of energy goods was negative (-2.4%), while the effect of indirect taxes was zero.
- In **June**, the rate of change of the HICP is expected to reach 2.7%, down from 11.6% a year ago

Producer Price Index (Jan. – April 2023): **2,3% y/y decline**, driven by energy goods, following a 40.1% y/y increase a year ago.



Large decline in the private savings rate in Greece in 2022

Household savings (% of disposable income)



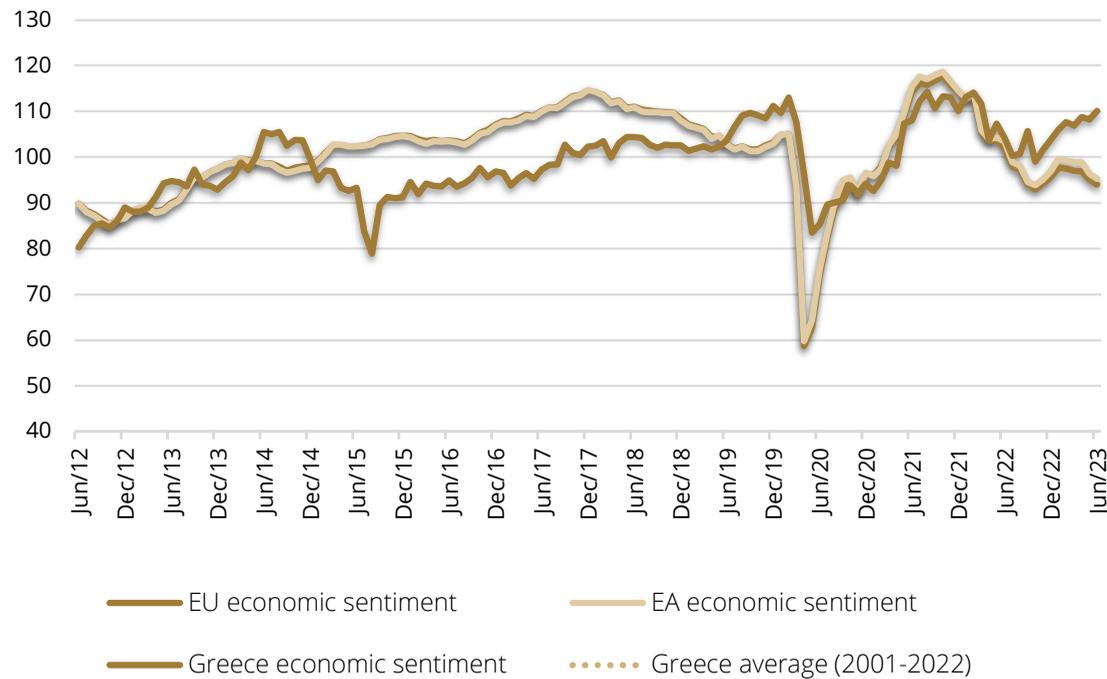
Sources: ELSTAT/Eurostat (provisional data)

- Greece was the **only** country in the EU with a **negative household savings rate in 2022**.
- The savings rate in 2022 was lower than it was before the pandemic, despite domestic growth in 2022, which was accompanied by a significant drop in unemployment and a gradual increase in wages.
- Factors negatively affecting the domestic savings rate: high inflation, low real deposit rates, weak consumer confidence.
- Policies like providing appropriate tax incentives for private long-term investments through the capital market, can support domestic private savings.

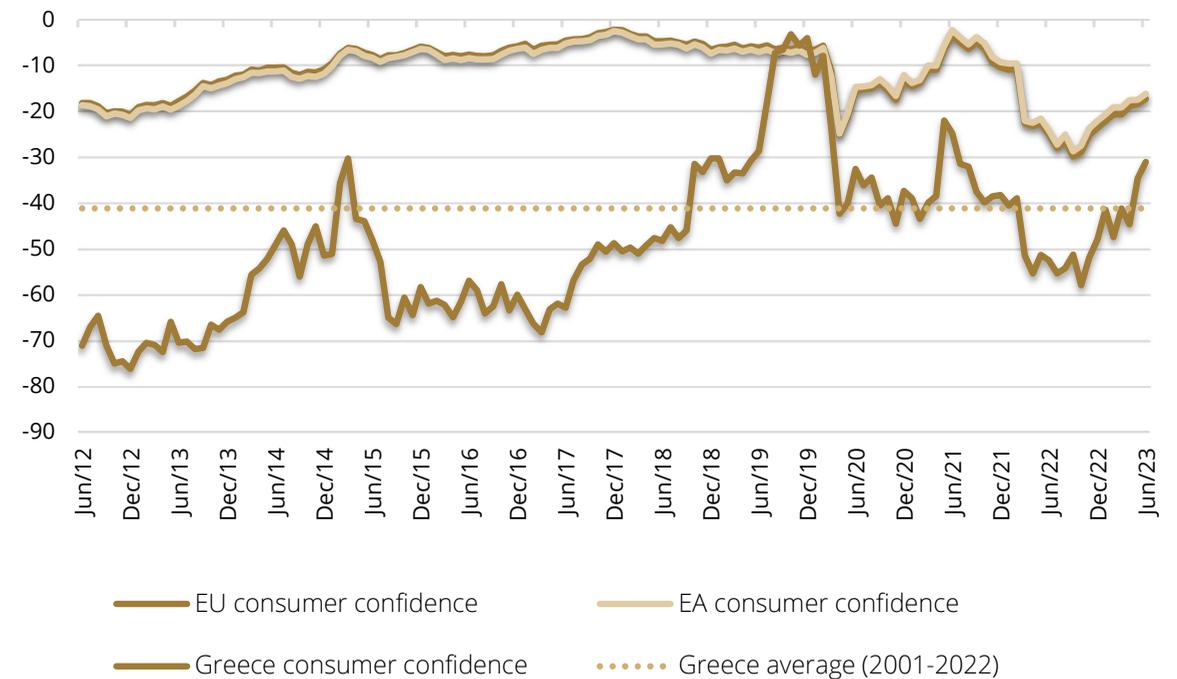


Economic sentiment improved in the second quarter of 2023, slightly higher than last year

Economic Sentiment Indicator



Consumer Confidence Index



Sources: IOBE, European Commission

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



Public finances: target exceeded in the first five months of 2023

State Budget Jan.-May 2023 (cash basis)

- €1.1 billion deficit (0.5% of GDP)
- €2.3 billion primary surplus (1.0% of GDP)

Improvement from last year due to higher revenue growth (+17.8%) relative to spending (+3.9%)

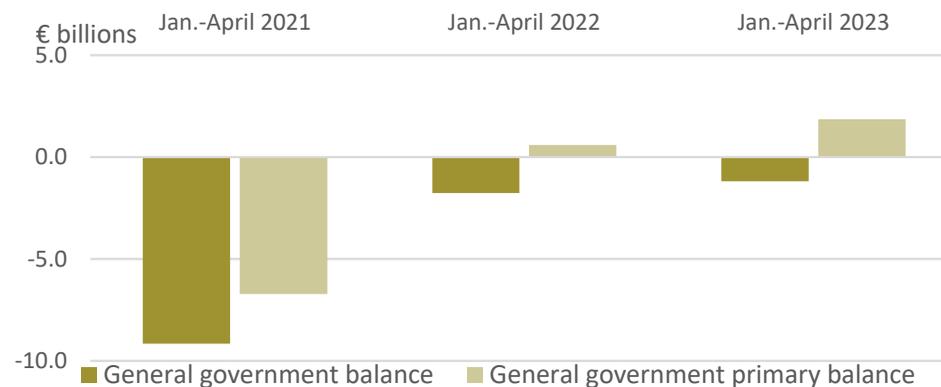
Target exceeded mainly from the revenue side (+€2.95 billion) but also from the expenditure side (-€383 million)

- Increase in most revenue categories compared to last year
- Increased expenditure due to increased interest payments, support measures, and deferral of payments

General Government Balance & Debt (% of GDP)

Public finances improved in 2022; balances were better and debt (as a percentage of GDP) was lower.

General government cash balance



Source: Ministry of Finance

General Government data (ESA)

	2020	2021	2022	2023 (target)
Balance	-9,7%	-7,1%	-2,3%	-1,8%
Primary balance	-6,7%	-4,7%	0,1%	1,1%
Public Debt	206,3%	194,6%	171,3%	162,6%

Source: ELSTAT



European Commission proposals for the revision of fiscal rules in the EU

Proposed fiscal rules for new economic governance

1

- As long as public deficit > 3% of GDP
- Minimum fiscal adjustment of 0.5% of GDP annually as long as the deficit remains above 3%.

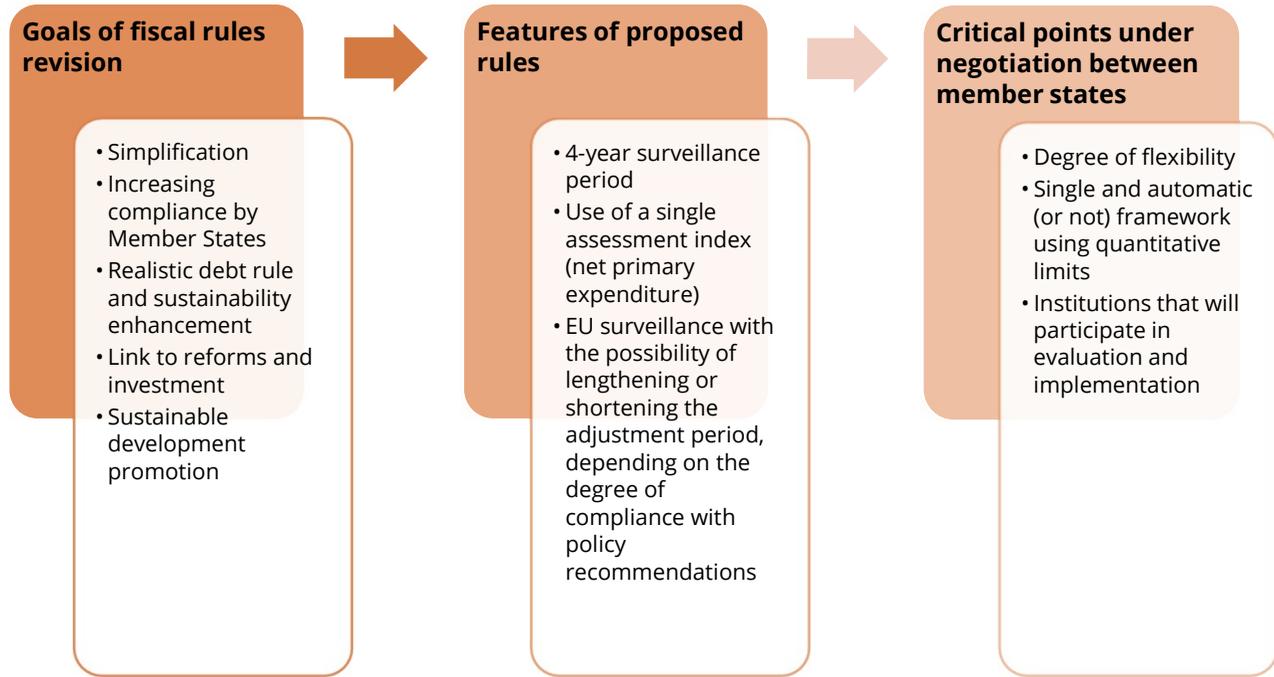
2

- If public debt > 60% of GDP
- Reduction of the debt/GDP ratio in the medium term (without a specific numerical target).

3

- If public deficit ≤ 3% and public debt ≤ 60% of GDP
- Maintain the deficit below 3% in the medium term.

Summary of European Commission proposals for new economic governance in Europe



Source: European Commission. Data processing: IOBE

The Commission proposes there be a separate negotiation with each member country rather than a single adjustment framework for all countries. Some member-states, including France and Germany, disagree on whether automatic and uniform rules should be set (e.g., numerical benchmarks and automatic adjustments)



Short-term activity indicators: boost in industry, construction and tourism – decline in retail

Industry

- Industrial production increased by 2.4% in the first four months of 2023 (0.3% in the Eurozone), following a similar increase in first four months of 2022

Construction

- Construction output rose by 26.7% in Q1/2023, up from 14.1% in Q1/2022
- The number of Construction Projects increased by 24.1% (following a 19.8% increase in 2022)

Tourism

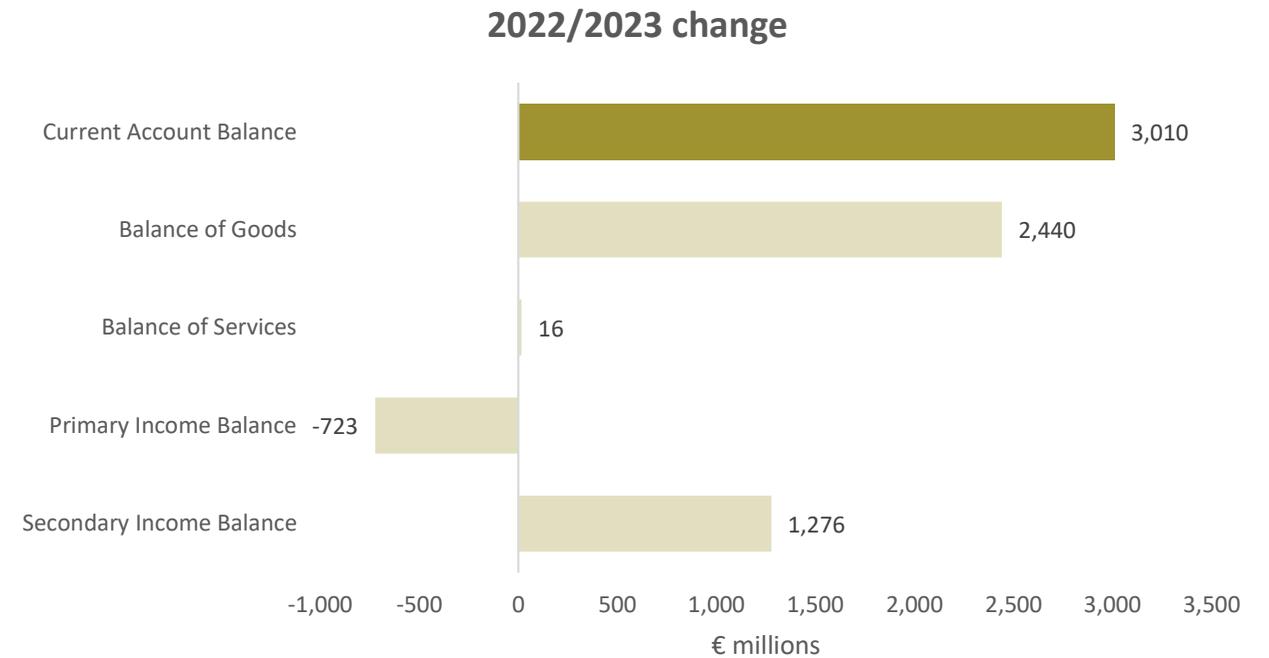
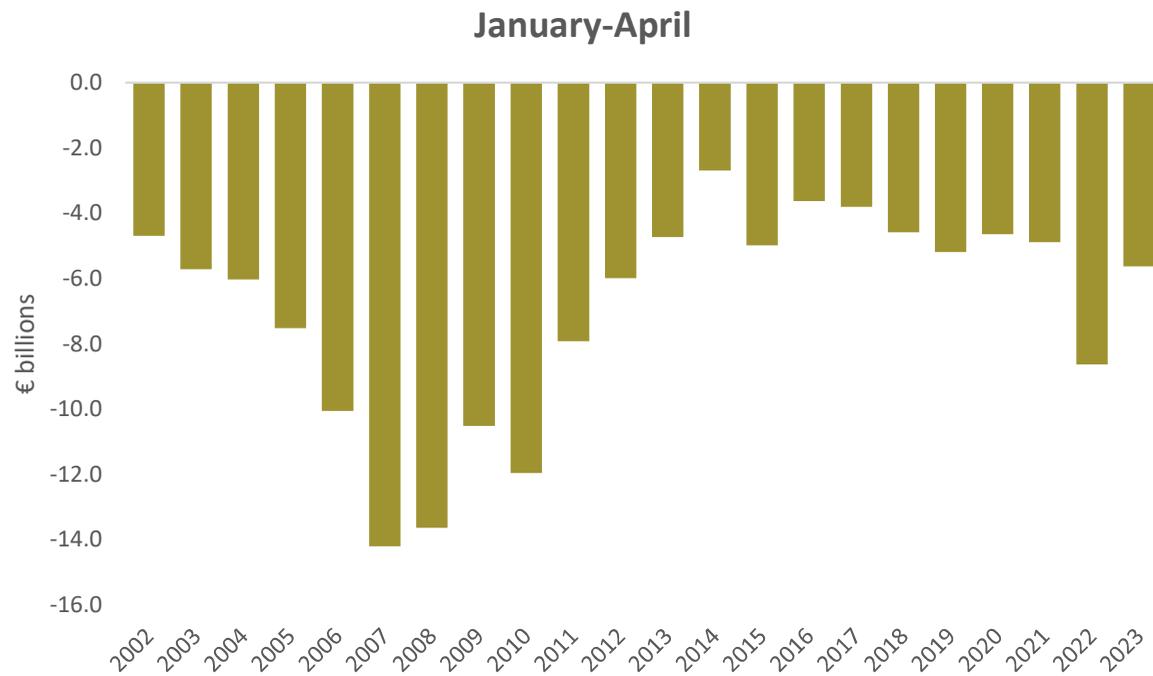
- 27.8% YoY growth in Q1/2023 continuing the upward trend since the pandemic

Retail Trade

- 2.1% decline in Retail Trade volume in Q1/2023, following a 10.2% increase in the same period last year.
- Expectations recovered in the first half of 2023



Significant improvement in the current account deficit in the first four months of 2023, it dropped from €8.6 billion in 2022 to €5.6 billion in 2023



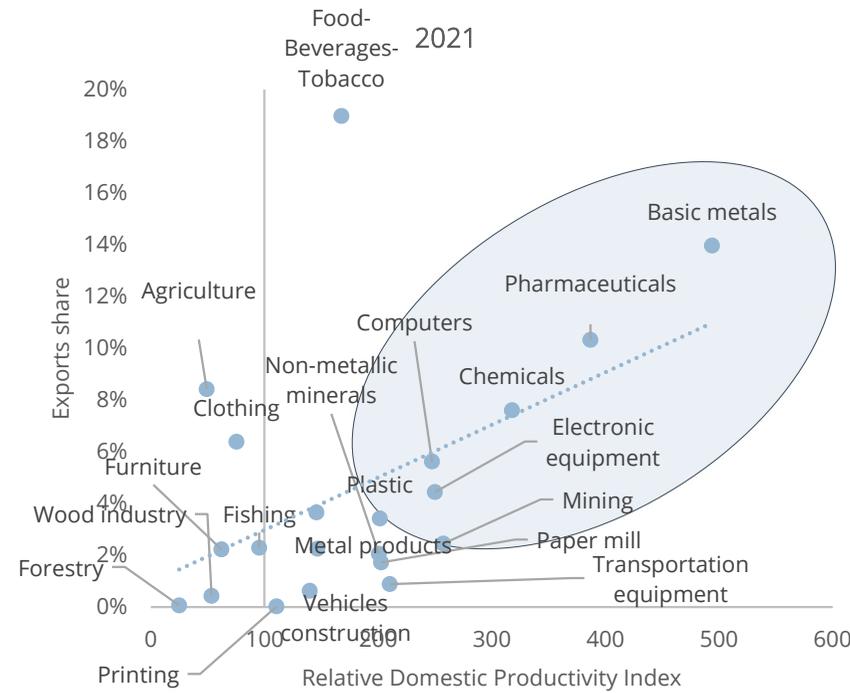
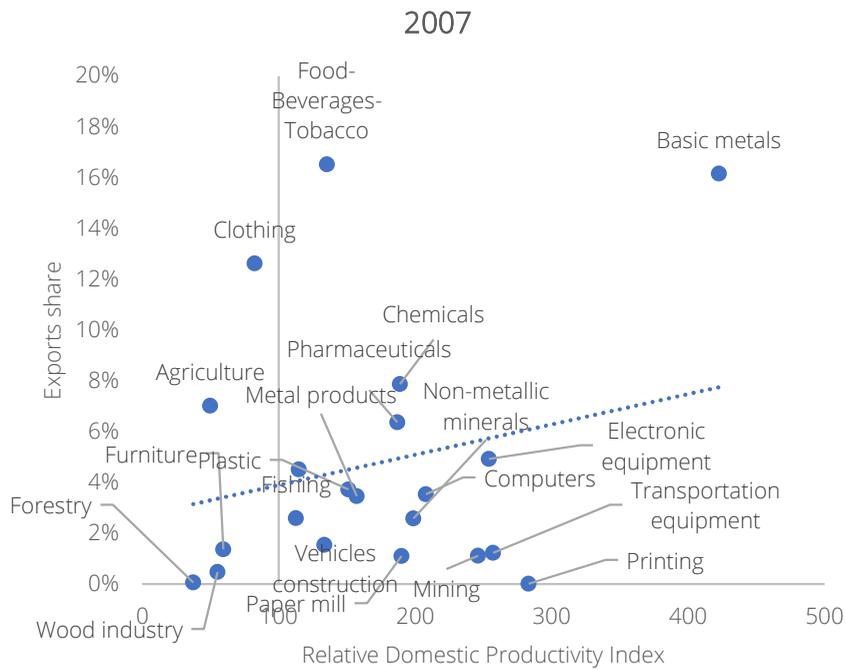
Source: BoG

- Large **decline in the goods deficit**, by €2.4 billion, with an increase in exports and a decrease in imports.
- Fuels account for more than 50% of the increase in exports, and for 90% of the decline in imports.
- **Marginal increase in the surplus of services**, with increased Tourism revenue and decreased transport revenue.
- **Improvement in the secondary income balance** due in part to the disbursement of the second tranche of the Recovery and Resilience Facility (RRF) in January.

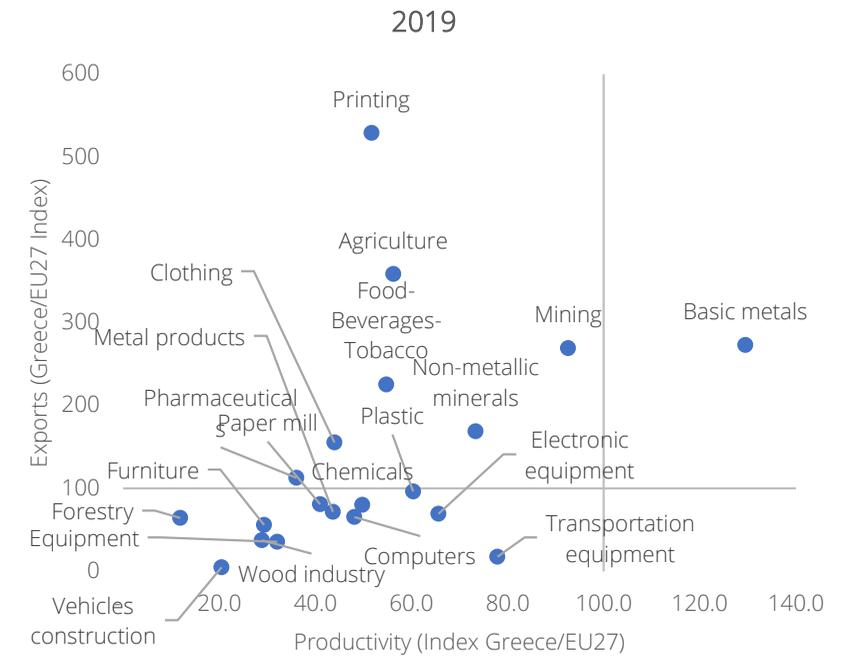


Positive correlation between productivity and exports, with the sectors exhibiting high productivity (**Basic Metals, Pharmaceuticals, Chemicals, Electronic Equipment**) recording the largest share of exports

Correlation of productivity and exports, Greece



Correlation of productivity and exports, Greece - EU27



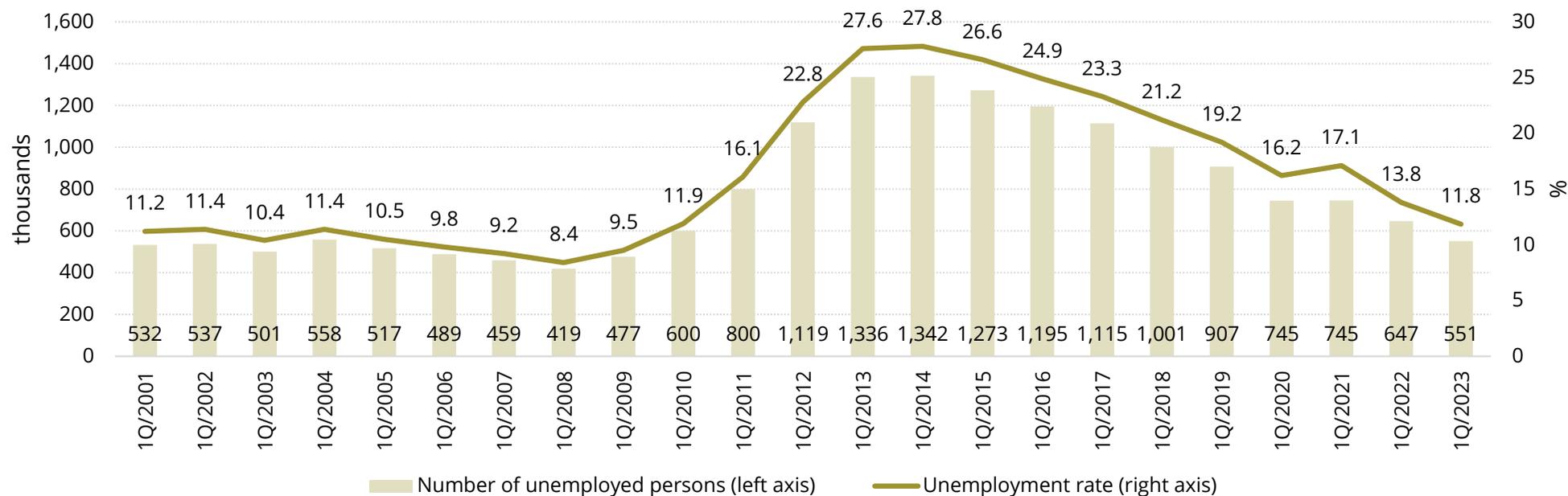
Source: Eurostat

- The **productivity increase** in certain sectors after 2007 was also accompanied by an increase in the **relative share of exports**, exploiting both the **absolute** and the **comparative advantage**.
- But Greece continues to **lag in productivity compared to the EU**, calling for reforms that will develop or improve comparative advantage in tradable goods sectors and create opportunity for further exports.



Unemployment decreased by 2.0 percentage points in the first quarter of 2023

Number of unemployed persons and unemployment rate in Greece



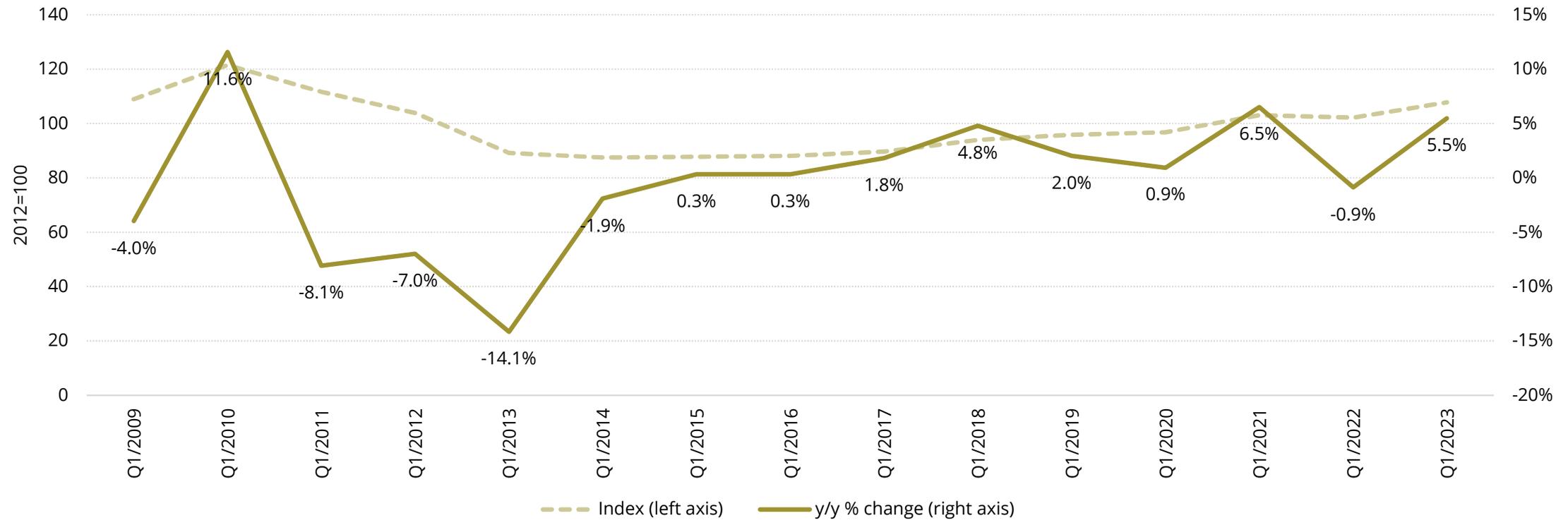
Source: ELSTAT

- The unemployment rate reached 11.8% in Q1/2023, down from 13.8% in Q1/2022.
- **Employment increased in 13 sectors.** Indicatively: Primary sector (+30.1 thousand), Health sector & social care (+29.4 thousand), Education (+11.2 thousand), Manufacturing (+10.4 thousand).
- Employment decreased in 8 sectors. Indicatively: Wholesale-Retail (-52.9 thousand), Public administration (-7.0 thousand), Arts-Entertainment-Recreation (-6.9 thousand), Tourism (-6.5 thousand).
- **The employment inflow-outflow balance was positive** (+180.6 thousand) in Q1/2023 and higher than in Q1/2022 (+148.13 thousand).



The seasonally adjusted wage cost index rose for the fourth quarter in a row

Seasonally adjusted wage cost index



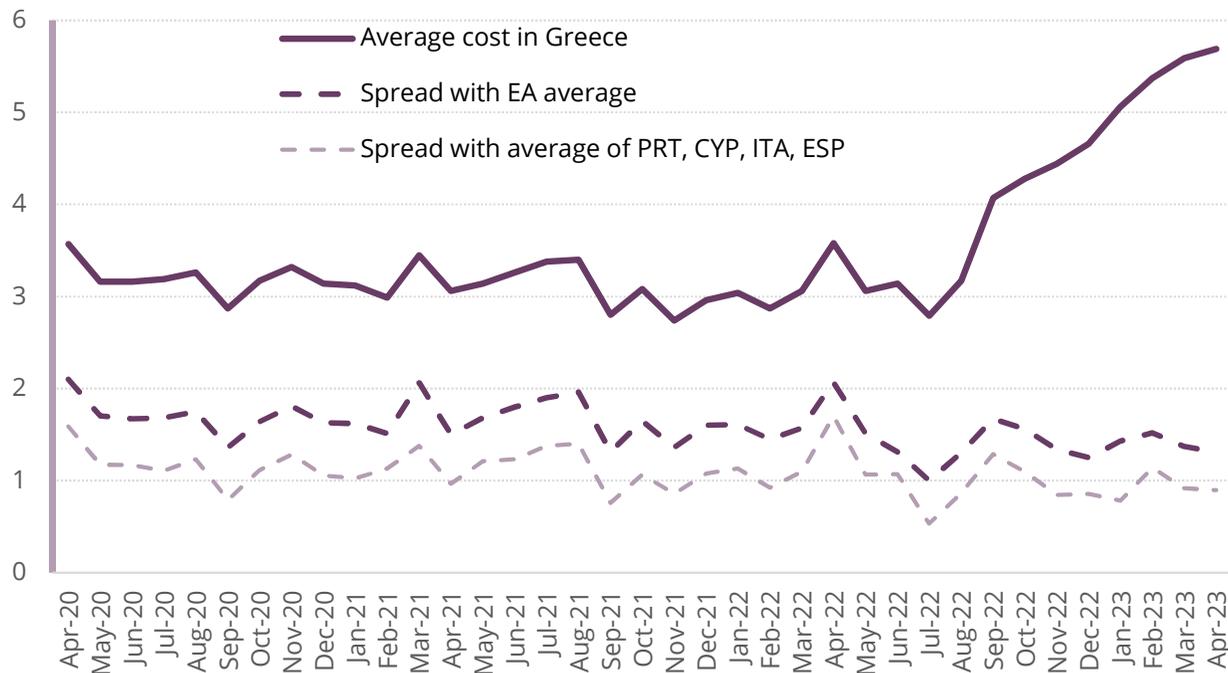
Source: ELSTAT

It increased by 5.5% y/y in Q1/2023.

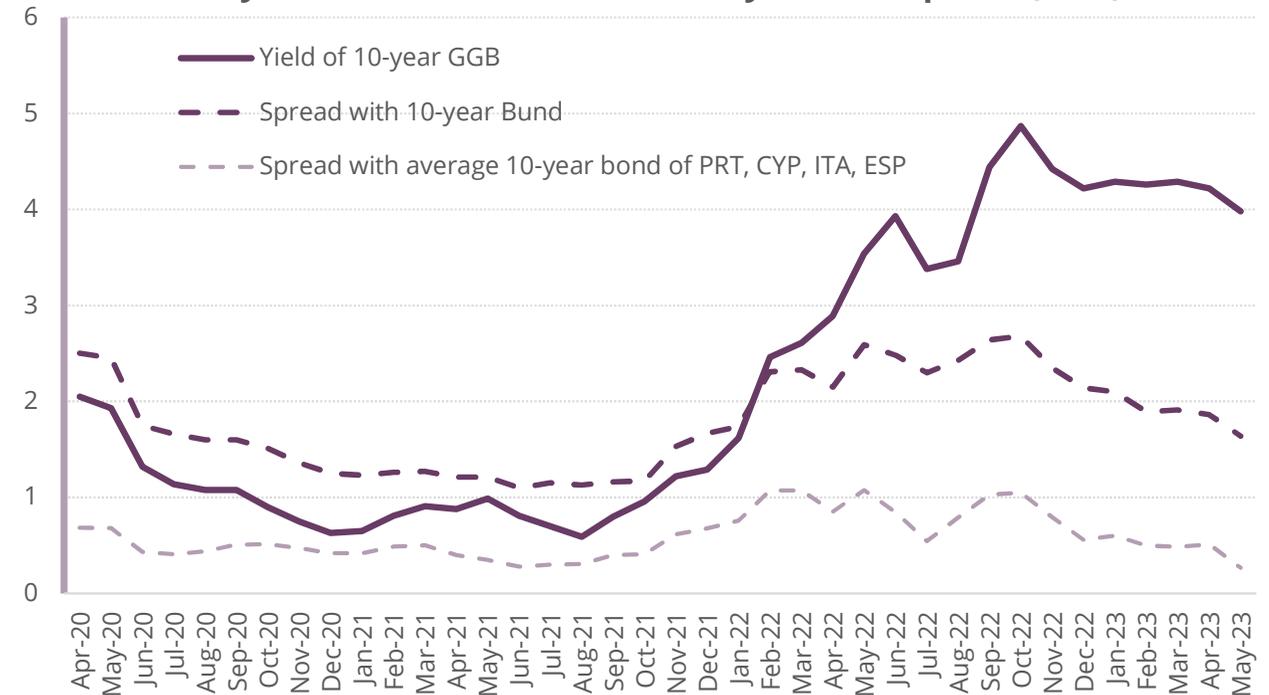


The cost of bank borrowing for businesses is increasing, the government borrowing cost gap with other Eurozone countries is narrowing...

Composite cost of borrowing for non-financial corporations (in %)



10-year Greek Government bond yield and spread (in %)



Sources: BoG, ECB

The following developments related to the **banking system** -in addition to the increase in the cost of money- have also been recorded in mid-2023...

- **Positive developments:** Increase in bank core profitability and improved investment sentiment, recovery of private deposits, implementation of "Greece 2.0" loan component
- **Negative developments:** Slowdown of credit expansion to businesses, contraction of credit to households, stagnation in the reduction of NPLs
- **Risks:** Deterioration in the ability to repay for borrowers with a floating rate, historically high interest margin



2023 macroeconomic forecasts

2023 baseline scenario

- The Eurozone economy will follow the ECB's baseline scenario (June 2023) of 0.9% growth (down from 1.0% three months ago) and 5.4% inflation in 2023 (up from 5.3% three months ago); 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.
- 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 increase in 2023. Relative to 2019, marginally higher nominal annual revenue is expected, but lower real annual revenue.
- Small delay (1-2 months) in the implementation of the "Greece 2.0" Plan.
- Slightly higher public spending compared to the 2023 Budget prediction.

2023 forecasts

- **Growth: $\approx 2,4\%$**
- Private consumption: $\approx 1,8\%$
- Public consumption: $\approx 0,6\%$
- Investment (Fixed): $\approx 4,0\%$ (10,0%)
- Exports: $\approx 4,5\%$
- Imports: $\approx 3,3\%$
- Unemployment rate: $\approx 11,0\%$
- Inflation: $\approx 4,3\%$



Risks and positive developments

Risks

- Geopolitical and economic instability at the regional and international level.
- Tighter fiscal and monetary framework both in Europe and domestically.
- Persistent inflation in necessities. Loss of competitiveness due to the higher than the Eurozone average core inflation after mid-2022.
- Increase in the loan-deposit interest rate margin and systematically negative household savings rate.
- Risk of a new surge in arrears and NPLs.
- Slowdown in the sectoral diversification of the productive base, e.g., fatigue and fluctuations in industrial production.

Positive developments

- Investment grade recovery and acquisition of new international funds for productive and long-term investments.
- 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
- Reforms in the medium-term (2023-2027), following the formation of a single-party government.
- Design of a new framework of fiscal rules in the EU and timely use of new financing tools such as REPowerEU.
- The reduction of NPLs will free up productive resources.

Special study*

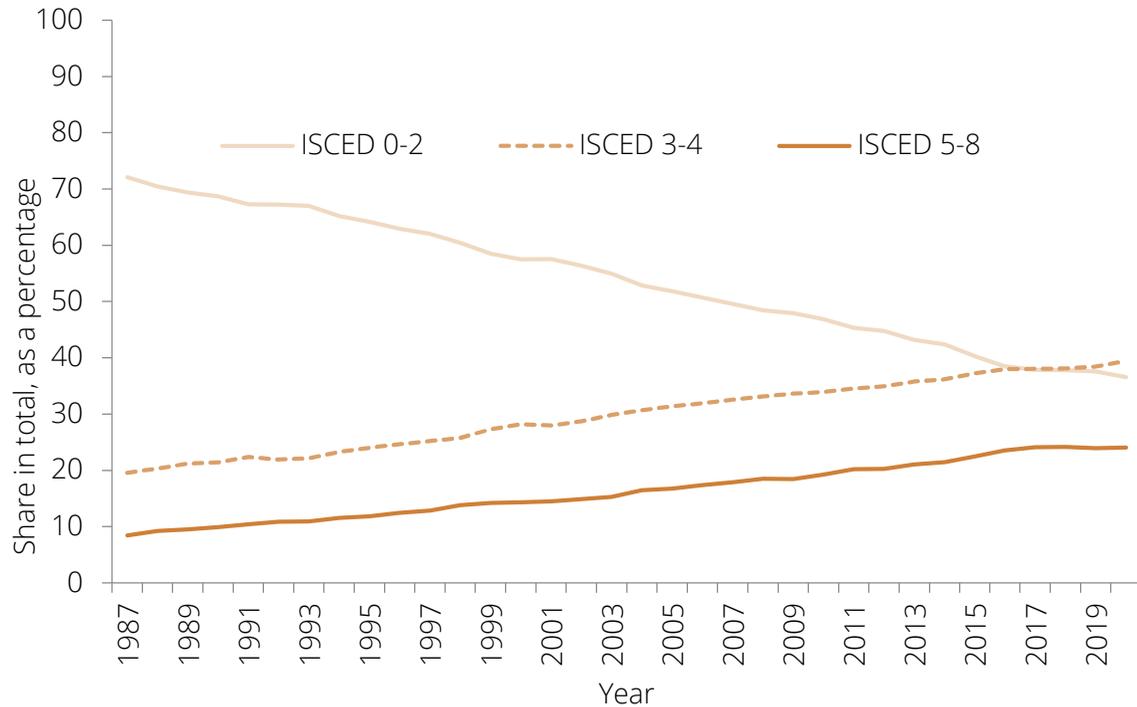
«Intergenerational Mobility in Education in Greece»

*IOBE study (2023), with the kind support of the Hellenic Observatory at the London School of Economics. Available [here](#)



In Greece, the education level of the population has increased significantly, but relative mobility in education remains low.

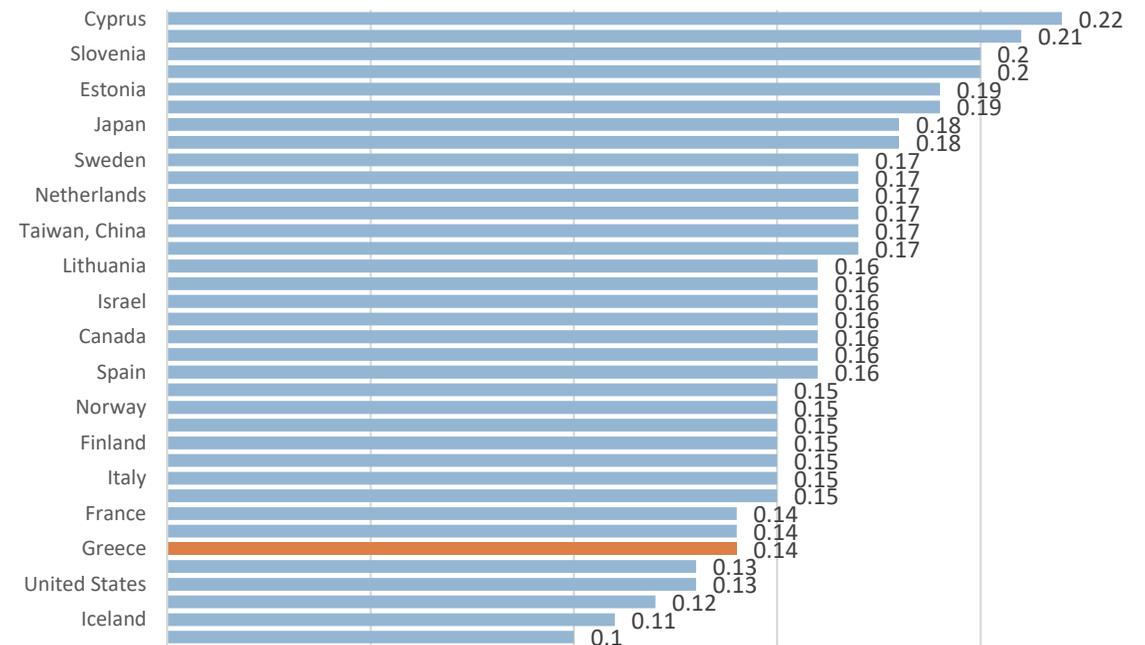
Trends in educational attainment (ages 25-74), 1987-2020



Source: ELSTAT Labor Force Survey (authors' calculations)

The share of the population aged 25-74 with lower secondary education (ISCED 0-2) decreased from 72% in 1987 to 37% in 2020, while the share of the population with tertiary education (ISCED 5-8) increased from 9% to 24 %

Probability of a child from the bottom half of the distribution ending up in the highest quartile



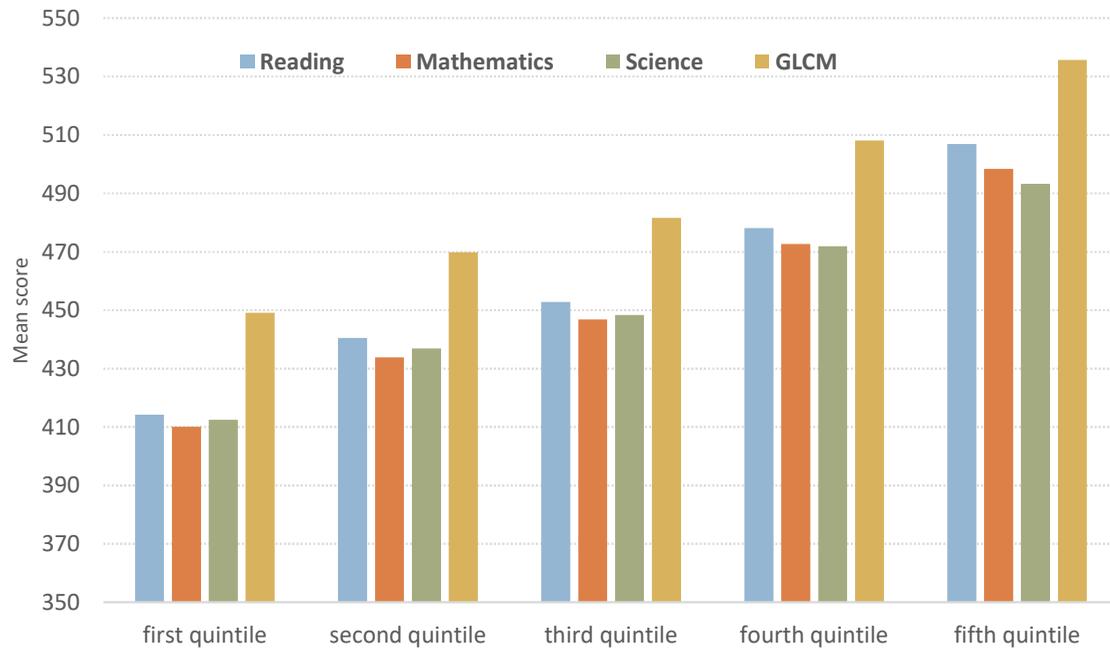
Source: Global Intergenerational Mobility Database (2020), World Bank

The probability of a child with parents from the bottom half of the educational distribution moving into the top quartile does not exceed 14% for the 1980s generation



Longitudinal inequalities based on socio-economic background are observed in all OECD PISA domains

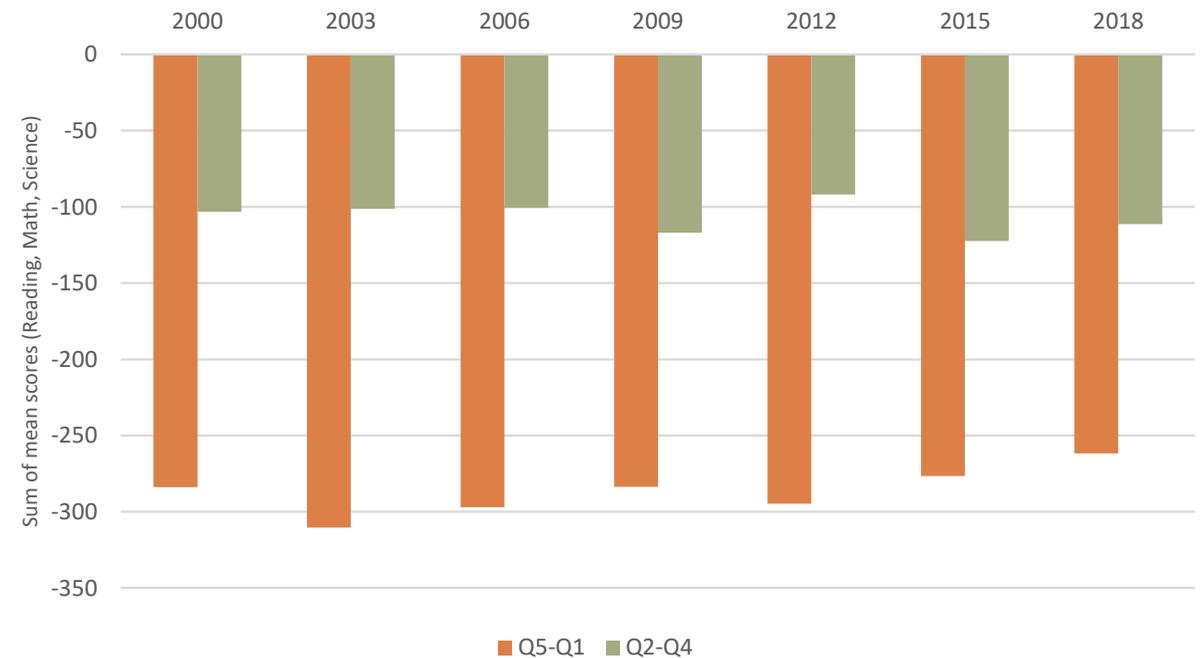
PISA scores per subject, by ESCS quintile, Greece 2018



Source: PISA microdata, authors' calculations

Greek students from privileged backgrounds perform better in PISA (in all 4 domains)

Achievement gap by indicator of socio-economic status (ESCS), Greece 2000-2018

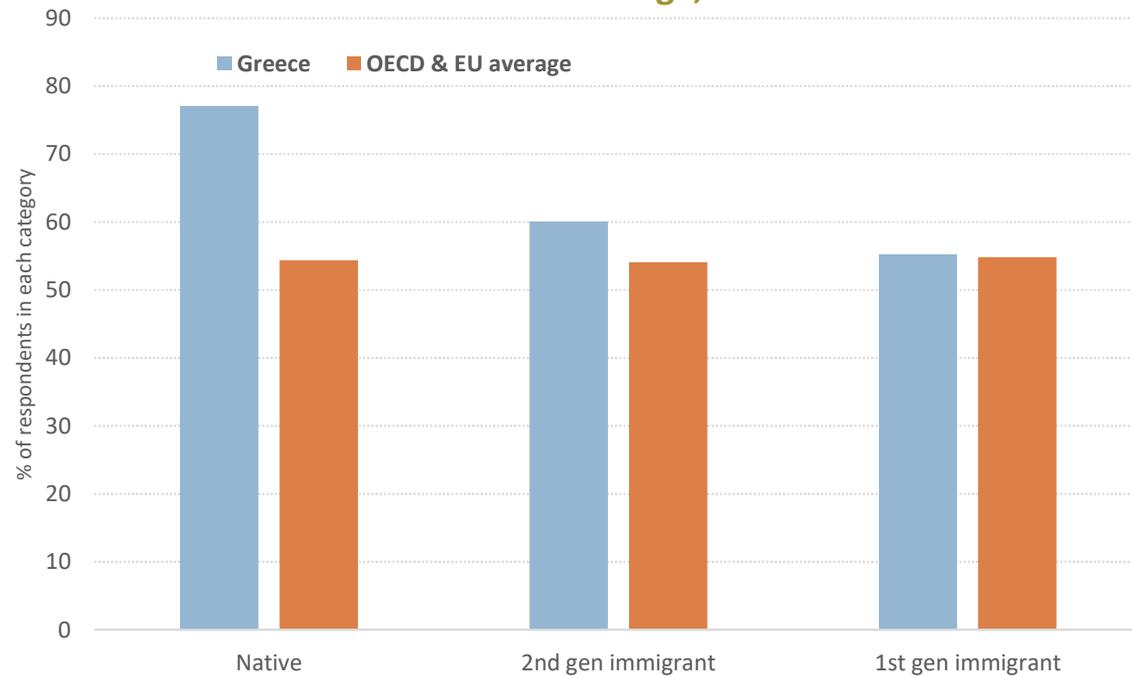


The achievement gap based on socioeconomic status (ESCS) is stable over time in Greece



Inequalities in student achievement and aspirations are also observed in relation to migrant background and gender

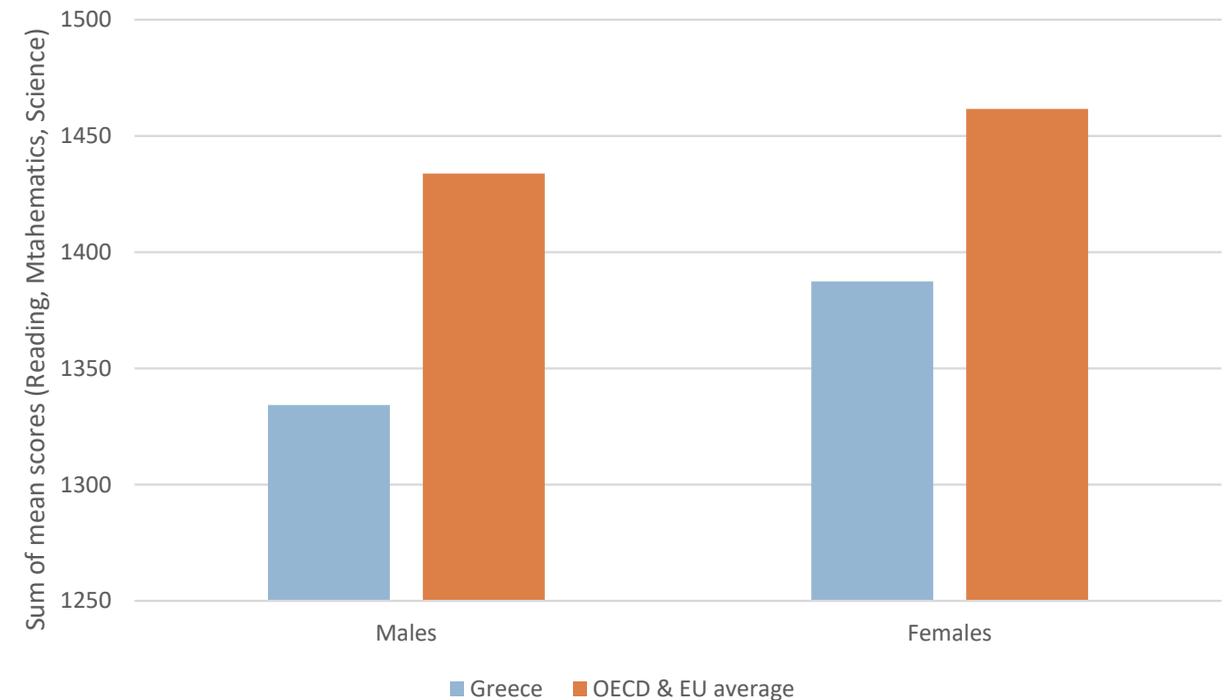
Aspiration for tertiary education by immigration status, Greece vs OECD average, 2018



Source: PISA microdata, authors' calculations

The difference in tertiary education expectations between immigrants and natives is more pronounced in Greece than in the EU and OECD averages

PISA scores by gender, Greece vs. OECD & EU average, 2018



Moreover, the econometric analysis revealed that boys score lower in Reading while girls score lower in Mathematics



Summary of the study's key points

The study investigates **intergenerational mobility in education** by focusing on **PISA performance** and **future aspirations of 15-year-old students in Greece** (as well as in a longitudinal and cross-country comparative context). The econometric analysis highlights the following:

- Large and significant **correlations** between student achievement and aspirations & parental socio-economic background;
- Important **socioeconomic background factors**: educational and cultural resources at home, emotional support from parents, private school education, parental education level,
- **Immigrant background** and **bullying** also have a significant negative correlation with students' cognitive outcomes and aspirations,
- Most of these results persist over time and demonstrate that Greece is not an exception when it comes to the relationship between socio-economic background and PISA performance,
- In fact, some of the inequalities between native students and students with an immigrant background are more pronounced in Greece than in other countries,
- **Targeted interventions** could narrow educational inequalities and stimulate intergenerational mobility in education.

Thank you!



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