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Editorial Policy

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IOBE

The Foundation for Economic and Industrial Research (IOBE) is a private, non-profit, public benefit research organisation. Its purpose is to promote research on current problems and prospects of the Greek Economy and its sectors and to generate reliable information, analysis and proposals for action that can be of value to policy makers.

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Foreword

IOBE is publishing its report for the third quarter of 2023, as part of the periodic reviews of the Greek economy. It contains four sections, accompanied by an annex of structural indicators, comparing the performance of Greece with that of the remaining countries in the Euro area. It is preceded by an introductory text highlighting the challenges of the external environment that jeopardise the positive dynamics. The remaining sections include the following:

The first section contains a brief overview of the report, setting out its highlights, analysed in detail in the following sections. The second section outlines the broader economic environment and includes: a) analysis of the international environment in the second quarter of 2023 and the outlook for the rest of the year, b) presentation of the economic climate in Greece in the third quarter 2023, according to the results of the business and consumer surveys of IOBE, c) assessment of the balance of the State Budget for January-August this year and d) developments in the domestic financial system up until July 2023.

The third section focuses on the performance of the Greek economy. It outlines recent macroeconomic developments with an emphasis on the second quarter of 2023 and presents the forecasts overall for 2023 and for 2024, based on assumptions and taking into account the latest available data. It analyses developments in key production sectors in the second quarter of this year and presents the export performance of the Greek economy for the same period, based on data from both the national accounts and the balance of payments. After that, it outlines developments in the labour market over the second quarter. It then analyses the inflation trends in the first eight months of 2023.

The fourth section presents the main findings from a recent IOBE study on the challenges and prospects for the Greek economy arising from adaptation to climate change. The current report contains three text boxes. The first box describes the long-term evolution of the cost of financing in Greece compared to the Eurozone (section 2.2.C). The second shows the degree of concentration of trade flows in Greece and the euro area before and after the crisis (section 3.3.A). The third shows distortions in the Greek labour market through an estimation of the Beveridge curve (section 3.4).

This report refers to and is based on data available until 10/10/2023.

IOBE's next quarterly report on the Greek economy will be published in January 2024.

THE CHALLENGES OF THE EXTERNAL ENVIRONMENT PUT THE POSITIVE DYNAMICS AT RISK

The Greek economy is moving within a dangerous global field, composed of geopolitical turmoil and economic challenges. The recent attacks on Israel and the possibility of a wider war in the Middle East are not simply a reminder that stability and peace in a critical region of the world and very close to our country are far from being achieved. They also highlight the volatile situation in the broader current geopolitical system. The crisis that began with the Russian invasion of Ukraine has not been resolved and its extension has become more visible, amid broader turbulence directly affecting Europe. Among other things, this means that the recent energy crisis cannot be considered to have closed its cycle. The global economy has for the time being avoided a recession, but it is moving in an area of heightened risk, as the de-escalation of strong inflation in most economies is slow and the maintenance of central interest rates at high levels is accompanied by a marked slowdown in growth. At a minimum, one can expect production to take place in the next period under conditions of higher cost of capital and energy than in previous years.

In this broader context, the Greek economy is moving in a positive direction. Growth rates are higher than in most other European economies, with a gradual increase in investment and a decline in unemployment. Following the large deficits to which it reverted, centred on the pandemic, the fiscal balance seems to be steadying, with small primary surpluses projected in the near future. The gradual recovery of the investment grade reflects a wider decline in doubts about its medium-term trajectory. In its major sectors, there is an increase in exports of products and services. In addition, European resources through the Recovery and Resilience Facility offer the possibility to finance investment and growth of the economy more broadly.

The Greek economy with a positive sign.

This mesh of intense challenges and positive features deserves attention, especially because in many critical respects the Greek economy starts from a low base and has a significant road to cover, especially through structural changes, to strengthen its output potential to such an extent as to achieve high prosperity for its citizens and not to worry about future challenges.

The global economy at a difficult turning point

In particular, as far as the global economy is concerned, it is at a more difficult turning point than perhaps widely understood. The sharp rise in central interest rates, even if close to its end, inevitably has and will have serious consequences. Monetary policy has for a long time channelled ample liquidity, at zero cost, into Europe and the United States. It culminated in the pandemic, but easy money policy was a central choice already for years after the debt crises. When inflation surged, there was a reversal towards an urgent reduction in liquidity. Inevitably, such a sharp change will make life more difficult for households and businesses in the near future. After all, the aim of the policy is precisely to slow down demand in order to contain prices.

Money adjustment policies, however, do not solve problems, they can only facilitate transitions. In previous years, quantitative easing policies have been able to soften, shift or hide many problems, but not solve them. Similarly, today, the rise in interest rates alone does not seem capable enough of easing inflationary pressures. At the same time, strong policies, with a sense of urgency, are not being implemented on the supply side. The central banks themselves point out that their own tools and mandates relate to price stability.

Boosting productivity is key

An effective policy involves structural changes to boost productivity. Rising public debt in most economies, including European ones, has reduced the degrees of fiscal freedom, which will intensify as borrowing costs remain high. Policies that change the economic policy mix and boost production are therefore necessary. Despite recent European initiatives in response to the pandemic and energy crises, such initiatives are needed especially in Europe, as many of the growth reserves that have existed in recent decades are depleting in the coming period. Trade is under pressure from geopolitical developments, the cost of money and uncertainty are affecting investment and the centre of gravity of the economy is moving away from Europe. Taking into account the needs of the green transition and demographic pressures, it appears that raising living standards in Europe depends on more effective rules, strengthening workers' capabilities, and integrating innovative technologies into production.

The importance of the broader developments for the Greek economy is high. In the short term, pressures in the external environment pose challenges in two of the most critical variables for the growth prospects of our economy, namely exports and investment. Investment is pressured by rising interest rates, uncertainty, but also lower expected growth rates abroad over the medium term. This is a key parameter, as despite the improvement in recent years, there is a high need for new investment, especially in more medium-term and innovative activities. That said, the lower growth rates of economies that are major trading partners mean that future exports of products or services are reduced. Moreover, if there is turmoil in the global finance markets, it will significantly affect all economies, including ours. In the medium term, the impression that with the reversal of monetary policy Europe will recover strongly, pulling our economy along, can be dangerous.

Short-term impetus for the domestic economy

Looking at the growth rate of the Greek economy today, it is higher than the corresponding European average and overall its recovery momentum after the pandemic was stronger than in many other countries. This development has been accompanied by a reduction in unemployment, and in many occupations, there is now a shortage of workers. At the same time, there is an increase in incomes, although this is not general and is threatened by high inflation. The gradual increase in the value of real estate, which is a large part of the total savings of the average Greek household, and more recently the positive trajectory of stocks and bonds, are important components of this positive trajectory.

Essentially, the economy is moving with a triple thrust. The post-pandemic recovery is supported by the impressive rebound of tourism and the high performance of consumption. The longer-term recovery after the 10-year crisis and the adjustment programmes, lifting uncertainty and stabilising expectations, helped to boost investment and domestic economic activity in general. Moreover, economic policy has recently helped with tax and regulatory interventions that boost production, and the attitude of the European institutions, with the recovery fund and other measures more broadly, has had a positive contribution.

If the growth trajectory of our economy is positive, is there a need for structural interventions? More importantly, is there a need for a systematic paradigm change? Reference is made to various reform interventions by the government, as well as analyses by European and international organisations. Even recent reports by rating agencies, when assessing the outlook of our public debt, indicate that for the recovery of the investment grade, achieving short-term fiscal balance is not enough, as the strengthening of the economy's production capacity in the medium term is also important.

Although it moves faster than many other European ones, our economy has started from a much lower base. The level of income in the country is not yet sufficiently high. It also faces greater demographic and debt challenges over a greater time horizon. Therefore, critical qualitative characteristics of growth need continuous monitoring, since strong growth is needed in the medium term. Many of the forces supporting the current strong recovery, naturally, will fade in the coming years, as unemployment is already decreasing, as is the investment gap, so further growth will require higher productivity and the attraction of new resources. Moreover, competitiveness is a comparative concept and if our country wants to improve the level of its exports it must not just run but run faster than other economies. Overall, the prospect of upgrading the economy through reforms that will put it on a higher trajectory than today is crucial.

Systematic convergence remains a challenge

For there to be a sustained and sustainable rise in incomes, and especially labour incomes, there is a need to shift to high-productivity activities that produce goods and services with high international competitiveness. Only by systematically increasing exports with such characteristics, which requires continued innovative investments, can there be high prosperity in the coming years. It is crucial that economic policy, with its tax, insurance, and regulatory aspects, systematically supports formal work, and in particular salaried labour, as a matter of priority. It is equally crucial, in addition to the recovery of sectors that have traditionally been of great importance to our economy, such as the property market and tourism, to systematically strengthen manufacturing and high-tech industries. Overall, changes in the state, infrastructure, and basic services, such as justice and education, need to support entrepreneurship, especially in innovative and outward-looking sectors.

1 BRIEF OVERVIEW

International environment: Steady growth in the second quarter, deteriorating climate in the third

The global economy continued to grow in the first half of 2023, albeit at a more subdued pace than in the previous year, under the influence of high inflation and monetary tightening. Based on the latest OECD forecast (September 2023), the global economy is projected to grow stronger in 2023, by 3.0% (compared to 2.7% in June), but weaker in 2024, by 2.7% (down from 2.9%). Annual growth in the second quarter was stronger in the United States (2.4% from 1.7%) and China (6.3% from 4.5%), stable in the OECD countries on average (1.6%), while the euro area recorded a slowdown (0.5% from 1.1%). Inflation declined systematically in the first half of the year, as international energy prices underwent a significant correction, but remained high in basic necessities and food.

Following positive investment sentiment in the first half of the year, the international environment deteriorated in the third quarter of 2023, along with the emerging longer-lasting monetary policy tightening and heightened uncertainty due to geopolitical instability. Despite the significant decline, inflation remains high worldwide, with a slight increase in the third quarter, while global energy prices have risen again since the summer. Indicatively, in September, inflation picked up in the 38 OECD countries to 6.4%, after declining to 5.7% in June.

International markets now anticipate that the cost of money will remain higher worldwide for longer. While the smooth “landing” of economies towards inflation close to target levels is most likely, the need for tighter monetary and fiscal policies increases the risk of a sharp fall in economic activity. A more detailed analysis is presented in Section 2.1A.

European economy: Slowdown in activity, new sources of uncertainty

In the second quarter of 2023, annual real GDP growth in the EU-27 and the euro area slowed to 0.4% and 0.5%, respectively, from 1.1% in the previous quarter. A negative annual rate was recorded in the second quarter in 12 out of 27 EU Member States, including Germany and the

Netherlands. Economic sentiment deteriorated further in Europe in the third quarter of 2023. The inflation rate declined systematically in the first eight months of the year, to 6.7%, but remained well above the target of close to 2%. The ECB has already introduced ten rounds of key interest rate hikes since mid-2022, by a cumulative 450 basis points. Market participants expect the cost of money to remain high for a longer period than initially expected.

According to the European Commission's latest forecast (September 2023), the annual rate of change in real GDP for 2023 as a whole is expected at 0.8%, both in the EU and the euro area. For 2024, 1.4% and 1.3% respectively are expected in both blocs. Regarding inflation, it is estimated to stand at 6.5% and 5.6% this year in the EU and the euro area, before declining to 3.2% and 2.9% respectively in 2024.

The ongoing war in Ukraine, the renewed outbreak of violence in the Middle East, increased volatility in international energy prices, high core inflation, the apparent prolongation of tighter monetary policy, and limited fiscal space pose risks to the European economy's recovery. The timely implementation of the national recovery and resilience plans presents opportunities. The European Commission's proposals to revise the fiscal rules framework present challenges for deepening the monetary union. The trends in the European economy are detailed in Section 2.1B.

Acceleration of growth in Greece in the second quarter, recovery of investment grade in the third quarter

Annualised economic growth accelerated to 2.7% in the first quarter of 2023 (from 2.0% in the previous quarter), in seasonally adjusted terms. The acceleration was mainly driven by household consumption, which increased annually by +3.2%. By contrast, public consumption contracted annually by -1.4%. Momentum was maintained by fixed capital formation, which grew by +7.9% year-on-year, while on account of the annual decline in inventories in the second quarter of the year (26.6%), total investment increased marginally annually by +0.2%. Total exports had no contribution to growth in the second quarter of 2023, due to a significant decline in the annual growth rate of services exports (+1.3%) and a contraction in goods exports (-1.8%). The decline in the annual rate of growth of imports was weaker than in exports (+0.6%), leading to a marginal widening of the external deficit in national accounts terms.

Greece's return to investment grade by an international rating agency recognised by the ECB, a higher rate of domestic growth than the average in the euro area, resilient consumption as well as strong performance in individual sectors such as construction and tourism stand out on the positive side. Negative developments in the second quarter included a slowdown in exports, a persistent trade deficit, a strongly negative contribution of inventories, and a fatigue in non-residential investment and construction. A detailed presentation of the macroeconomic performance in the third quarter of this year can be found in Section 3.1A.

Industrial and retail trade fatigue in the third quarter, strong dynamics in construction and services

Industrial production increased in the first eight months of 2023, by 0.7%, clearly weaker compared to 4.4% in the corresponding eight months of 2022. To a large extent, the slowdown was driven by the decline in activity in the energy sector. Construction experienced strong dynamics, with output growing by 17.2% in the first half of the year, after 21.8% in the same half of 2022. Turnover strengthened in most sub-sectors of services in the first half of the year. By contrast, retail trade declined in volume by 3.5% in the first seven months, against an increase of 5.1% one year earlier. Expectations, however, have improved in all sub-sectors of retail trade. Short-term trends in key sectors of the Greek economy are highlighted in Section 3.2.

Slight improvement in the external deficit

Exports of goods in national accounts decreased in nominal terms in the first seven months of 2023, at a rate of -4.1%, although excluding oil products, they increased by +3.8%. An increase in nominal terms was mainly observed in the categories of fuels and raw materials. Imports also decreased in current prices, at a rate of 9.7%, in the first seven months of 2023. As a result, the trade deficit improved by 19.7% year-on-year, to €16.5 billion in the first seven months of the year. The record-high openness of the Greek economy was maintained in 2023. The special box in section 3.3 highlights the increase in the sectoral concentration of Greek trade flows before and after the Greek crisis compared to trends in the euro area.

Regarding the balance of payments, in the first seven months of 2023, a decrease in the current account deficit was recorded, at €7.0 billion, from €10.6 billion in the same period in 2022. A significant correction of the deficit was recorded in the goods account, while the surplus of the services account and the secondary income account, which also records inflows from the recovery fund, increased. The deficit of the goods account excluding oil and ships stood at €2.8 billion, from €5.1 billion in the same period of 2022. Developments in the external balance are described in more detail in Section 3.3.

Unemployment reduction at a slower pace

The second quarter of 2023 saw a further decline in unemployment to 11.2% from 12.4% in Q2 2022. The decline in the unemployment rate was mainly the result of higher employment. The balance of hirings and departures in the private sector was positive at 280,800 in the first eight months of 2023 and higher than the positive balance for the same period of 2022 (+237,200 thousand). The sectors with the largest annual increase in employment in the second quarter of 2023 were transport-storage (+26,000 people), human health and social care activities (+14,800), financial and insurance activities (+14,600), and tourism (+12,700). Employment declined year-on-year in wholesale trade and arts-entertainment-recreation. The seasonally adjusted wage cost index recorded an annual increase of 4.3% in the second quarter of this year.

Employment is expected to be further boosted, albeit at a declining pace, by the strengthening of investment, exports, and the use of the recovery fund resources. These factors are expected to partly offset the negative impact of higher cost of money on firms' demand for labour. Therefore, a further decrease in unemployment is expected over the next few quarters, albeit with a clear slowdown. Taking into account the above effects, the unemployment rate is expected to be in the region of 11.0% for 2023 and 10.5% for 2024. Labour market trends and expectations are presented in more detail in Section 3.4. The special box at the end of the section presents the Beveridge curve for the Greek labour market, which shows signs of high structural unemployment, also owing to a likely skills mismatch between labour supply and demand.

Milder yet still high inflation

Inflation declined significantly in the first eight months of 2023, with an average growth rate of 3.8% in the first eight months of the year, compared with inflation of 9.9% a year earlier. The inflation rate in 2023 remains below the EA average, after posting a higher average rate in 2022 (Appendix). To a large extent, the decline in inflation is attributable to the drop in international energy prices in early 2023, unlike the prices of non-energy goods that remain on a strong upward path. Indicatively, the rate of change in the HICP at constant taxes and excluding energy was 7.6% in the first eight months of 2023, up from 5.1% a year earlier.

Key assumptions for the inflation forecast are: (I) the evolution of the price of Brent crude oil valued in euro, which is expected to decline in weighted average terms by 16% per annum in 2023 and to rise by 4% in 2024; (ii) the evolution of consumer demand, which is expected to increase less strongly, by around 1.6% in 2023 and 1.0% in 2024. Against this background, the Consumer Price Index is projected to have an inflation rate in the region of 4.3% in 2023 and 2.6% in 2024. Section 3.5 describes in more detail recent trends in consumer and producer prices and expectations about their development in 2023.

Weaker improvement in domestic economic sentiment in the third quarter

The Economic Sentiment Indicator in Greece in the third quarter of 2023 strengthened slightly compared with the previous quarter (109.9, from 108.7 percentage points). The improvement is greater year-on-year (12.3 percentage points). Business confidence strengthened slightly quarter on quarter in the recent quarter in retail trade, marginally in services, declining strongly in construction and to a lesser extent in industry. The Consumer Confidence Index improved marginally quarter-on-quarter in July-September, to -36.3 (from -36.7 points). At the same time, it was markedly higher than a year earlier (-53.6 percentage points). A detailed description of the trends in the economic sentiment components is provided in Section 2.2A.

Public finances: cash targets exceeded in mid-2023

In the first eight months of 2023, the state budget execution continued to move better than the target in cash terms, driven by the economic recovery and inflation. The improvement in the balance compared with the previous year is mainly due to a higher increase in net revenue (+9.9% or +€3.89 billion). In Jan.-August 2023, a cash deficit of €92 million was recorded, against a deficit target of €2,426 million (Explanatory Report to the 2023 Budget) and a deficit of €4,105 million in the same period of 2022. In the same period, a cash primary surplus of €5,596 million was recorded, against a primary surplus target of €2,314 million and a primary surplus of €19 million in the first eight months of 2022.

According to the draft 2014 State Budget, the primary surplus targets are 1.1% of GDP in 2023 and 2.1% of GDP in 2024. The targets for the general government debt-to-GDP ratio are set at 159.3% in 2023 and 152.2% in 2024. The reflection of developments in government finances is presented in Section 2.2B.

High costs of private finance, credit growth fatigue

Driven by tighter monetary policy, the cost of new borrowing to the private sector increased further in the third quarter of 2023. The "investment grade" recovery for the Greek government in the second half of 2023 has contributed to a slower increase in new government borrowing costs than in other European countries. The special box in Section 2.2C describes the evolution of the spread in financing costs in Greece compared with the rest of Europe before and after the Greek crisis.

Among the positive trends in bank fundamentals, core profitability ratios have improved significantly and private deposits are stable. The forthcoming agreement with the European Commission to expand the debt arm of the National Recovery and Resilience Plan, as well as its timely implementation, presents an opportunity to further boost credit for productive investment.

Among the negative trends in the financial system, credit expansion to firms has stalled while credit contraction to households has continued unabated. Among the challenges from the past, the high share of non-performing loans (NPLs) stands out, both on and off the bank balance sheets. After the conclusion of the Hercules state-guaranteed securitisation scheme at the end of 2022, the NPL ratio on the banks' balance sheets registered only a marginal improvement in the first half of 2023. At the same time, there is an increase in the cost of using long-term bank funding tools by the Eurosystem. Recent trends and challenges for the domestic financial system are described in detail in Section 2.2C.

Macroeconomic projections for 2023 and 2024

Geopolitical instability in Eastern Europe and the Middle East, the slowdown of the euro area economy, the slow decline mainly in structural inflation, public finances, and the execution of the "Greece 2.0" plan are now key drivers of GDP developments in 2023 and 2024.

The baseline assumptions are detailed in Section 3.1B, as they include: (i) weak growth in the euro area of 0.7% in 2023 and 1.0% in 2024, in line with the ECB's baseline scenario; (ii) sustained geopolitical instability with international energy prices following the EIA baseline scenario in 2024; (iii) interest rates following the trend of current forward contracts; (iv) timely implementation of the Greek plan "Greece 2.0" in 2024; (e) slightly higher public expenditure than in the 2024 Budget; (f) tourism revenue higher in 2023 than in 2019 (by up to 20%) and sustained performance in 2024; (g) upward impact on inflation from the recent natural disasters in the last quarter of 2023 and 2024; small negative effects on GDP in 2024.

The projections by GDP components are described in detail in Section 3.1B. In particular, for 2023, IOBE maintains a steady recovery forecast of 2.4%, at constant prices. In terms of growth components in 2023, consumption is expected to contribute significantly to growth, with an annual increase of +1.6%, combined with an annual boost in investment of +3.0% (fixed investment +10.0%). In the external sector, the high current account deficit is expected to improve slightly, with exports and imports increasing annually in 2023 by +3.5% and +2.6%, respectively. Average inflation in 2023 is expected to be slightly lower than the euro area average, in the region of 4.3%, while unemployment is forecast to decline further, but at a slower pace, to about 11%.

For 2024, IOBE estimates a similar annual growth of +2.4%. In terms of the components, only investment is expected to outperform this year's growth, with higher annual expansion in 2024 (+7.8%), while consumption growth is expected to slow down (+1.0%). In the external sector, the mild improvement in the current account is expected to continue, with exports and imports growing annually in 2024 by +2.6% and +2.3% respectively. Inflation is expected to average about

2.6% in 2024, while unemployment is projected to decline further, but at a slower pace, to about 10.5%.

The forecast in the IOBE's baseline macroeconomic forecast scenario (Table 1.1) entails positive prospects but also risks for 2023 and most notably 2024, as detailed in section 3.1B.

Table 1.1

IOBE macroeconomic forecasts (October 2023) for 2023 and 2024

(in constant market prices, annual % changes, unless indicated otherwise)

	2022 (actual)	2023	2024
GDP	5.9%	2.4%	2.4%
Consumption	5.5%	1.6%	1.0%
Private consumption	7.8%	2.0%	1.4%
Public consumption	-1.6%	0.6%	-1.0%
Gross capital formation	21.8%	3.0%	7.8%
Gross fixed capital formation	11.7%	10.0%	10.0%
Exports	4.9%	3.5%	2.6%
Imports	10.2%	2.6%	2.3%
Inflation rate	9.6%	4.3%	2.6%
Unemployment (% labour force)	12.5%	11.0%	10.5%

Special study: Climate adaptation - challenges and prospects for the Greek economy

A study carried out by IOBE, with the support of the Centre for Climate Change and Sustainability of the Bank of Greece, reflected the state of play and prospects of climate change adaptation actions. The benefits of adaptation investment were highlighted in two dimensions: preserving the value of private companies and the public sector and creating value from new products and services that support adaptation to climate change. Speeding up the implementation of climate change adaptation actions is crucial to improve the resilience of the Greek economy. Policy interventions were proposed in this direction. A summary of the study is presented in Chapter 4 of this report.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- Based on the latest September OECD forecast, slightly higher growth is projected for the global economy in 2023 than in the June forecast (3.0% from 2.7%). Conversely, lower growth is projected for 2024 (2.7% than 2.9%)
- Inflation remains high, despite a significant decline since the previous year.
- The global monetary policy tightening is projected to be maintained over a longer period of time, which increases financial risks and the possibility of an abrupt landing of economic activity.

The global economy continued to expand in the first half of 2023, albeit at a much more subdued pace as a consequence of high inflation and monetary tightening. The economies of OECD countries grew at an annual rate of 1.6% in the second quarter of 2023, following GDP growth of 1.6% in the previous quarter and growth of 3.3% in the same quarter of 2022. The annual rate of change in GDP in the major developed economies (G7) also stood at 1.6%, compared with 1.4% in the previous quarter and 2.4% in the same quarter of 2022. The OECD's 20 largest economies grew by 3.5% in the second quarter of 2023, up from 2.8% in the previous quarter, and following growth of 2.9% in the same quarter of 2022.

Inflation has remained at high levels, despite a significant decline since the previous year. In particular, core inflation is proving persistent in many economies, as cost pressures and high profit margins in some industries persist. In September and August, inflation picked up in the 38 OECD countries to 6.4%, from 5.9% in the previous month, after declining to 5.7% in June. Core inflation (i.e. excluding energy and food) has also risen to 6.8% over the same period, while energy prices fell by 1.4% and food prices rose by 8.8% in August.

Higher than desired inflation and a strong labour market in many countries led to further tightening of the monetary policy, with key interest rates now reaching or close to peak levels in most economies. However, most central banks in the major developed countries have made clear their intention to keep interest rates high for longer than previously foreseen. The tightening of financial conditions has already started to dampen both inflation and economic activity. While the possibility of a smooth landing of the economies is adopted as a baseline scenario, ongoing interventions and high interest rates for longer maturities increase financial risks and the possibility of a sharp fall in economic activity.

Table 2.1

Global Environment (annual % GDP growth, in real terms, unless stated otherwise)

Economy	2022	2023		2024	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.3	3.0	0.3	2.7	-0.2
USA	2.1	2.2	0.6	1.3	0.3
Japan	1.0	1.8	0.5	1.0	-0.1
Canada	3.4	1.2	-0.2	1.4	0.0
United Kingdom	4.1	0.3	0.0	0.8	-0.2
Eurozone	3.5	0.6	-0.3	1.1	-0.4
Germany	1.9	-0.2	-0.2	0.9	-0.4
France	2.5	1.0	0.2	1.2	-0.1
Italy	3.8	0.8	-0.4	0.8	-0.2
Turkey	5.6	4.3	0.7	2.6	-1.1
China	3.0	5.1	-0.3	4.6	-0.5
India	7.2	6.3	0.3	6.0	-1.0
Brazil	3.0	3.2	1.5	1.7	0.5
World trade	5.0	1.6	-	3.8	-

* Difference in percentage points from previous OECD forecasts (OECD Economic Outlook, June 2023).
Source: OECD Interim Economic Outlook, September 2023.

According to the latest OECD report, global GDP growth is projected to stand at 3.0% this year and at 2.7% in 2024, from 2.7% and 2.9% respectively in the June report. The growth rate of world trade volumes is forecast at 1.6% in 2023 from 5.0% in 2022, while for 2024 it is projected to accelerate to 3.8%. Table 2.1 shows the annual changes in GDP in 2022 and the latest OECD forecasts (September 2023) of its annual changes in 2023 and 2024, in the global economy and select developed and developing countries.

Next, we analyse recent and expected trends in the economies of major states and blocs of states for 2023 and 2024.

Among the most developed countries, the United States recorded an annual growth rate of 2.4% in the second quarter of 2023, up from 1.7% in the previous quarter and 1.9% in the same quarter of 2022. On a seasonally adjusted basis, the second quarter saw growth of 0.5% quarter on quarter (2.1% on an annualised basis), owing to stronger non-residential fixed investment, private and public consumption, which were partly offset by a decline in exports. Inflation accelerated for the second consecutive month to 3.7% last August from 3.2% in the previous month, interrupting the downward trend recorded for twelve consecutive months. In order to control inflationary pressures, the Fed has successively raised its key interest rate by a total of 525 basis points from March 2022 to July 2023, to 5.25%-5.50%. At its September meeting, it decided to leave the interest rate unchanged, thus signalling to keep it high for a considerable period of time, leaving room for a further increase in the interest rate if inflation did not slow down. For 2023 as a whole, the US economy is projected to grow by 2.2% from 2.1% in 2022, with growth of 1.3% projected for next year.

The euro area economy grew weakly at 0.5% in the second quarter of 2023, down from 1.1% in the previous quarter and 4.2% in the same quarter of 2022. Compared with the previous quarter, economic activity increased marginally (0.1%) on a seasonally adjusted basis, with a marginal improvement in private and public consumption, and fixed capital investment, partly offset by a deterioration in the trade balance. Among the largest economies in the bloc, GDP grew year-on-year in France (+0.5%) and Spain (+0.5%), stagnated in Germany, and declined in Italy (-0.4%) and the Netherlands (-0.2%). Inflation fell to 4.3% last September in the euro area, while core inflation also fell to 4.5%. The ECB did ten consecutive hikes in its key interest rate by 450 basis points in total from July 2022 to September 2023, to 4.00%. Depending on inflation developments, the ECB signals that it is close to the end of the upturn cycle, however, the interest rate is now expected to remain high for a longer period, with persistent inflation projected to ease from 5.6% in 2023 to 3.2% in 2024 and thereafter to 2.1% in 2025. For 2023 as a whole, the euro area economy is forecast to grow by 0.7% (from 8.4% in 2022), while growth of 3.2% is projected for 2024. The outlook and challenges for the European economy are presented in more detail in Section 2.1B.

In the United Kingdom, GDP increased annually by 0.6% in the second quarter of 2023, from 0.5% in the previous quarter and 3.9% a year earlier. Inflation remained high in August at 6.7%, almost unchanged from the previous month (6.8%), as core inflation stood at 6.2% from 6.9% in the previous month. The country's central bank has raised its main intervention rate to 5.25%, its highest level since 2008. Overall, a marginal growth of 0.3% from 4.1% in 2022 is projected for 2023, while growth of 0.8% is projected for the following year.

In Japan, GDP grew by 1.7% per year in the second quarter of 2023, following growth of 1.8% in the previous quarter and 0.4% one year earlier. For the current year, the Japanese economy is forecast to grow by 1.8%, up from 1.0% in 2022, while growth of 1.0% is forecast for 2024.

Next in this section, we present recent trends and economic policy challenges in four developing countries and economic regions, which together generate almost one-third of global GDP.

In detail, the Chinese economy recorded an increase in its annual growth rate in the second quarter of 2023, to 6.3%, from 4.5% in the previous quarter, partly due to the lower base of the previous year when many major cities were still subject to coronavirus restrictions. The policymakers have set a growth target of 5% this year, but they are hesitant to provide additional fiscal support, fearing a surge in public debt. In June, economic indicators showed a mixed picture with retail sales growing at a much slower pace, while growth in industrial production picked up. The urban unemployment rate remained unchanged at 5.2%, but youth unemployment reached a new high of 21.3%. Growth is forecast for this year at 5.1%, from 3.0% in 2022, while growth of 4.6% is forecast for 2024.

India's economy accelerated its annual growth rate to 7.3% in the second quarter of 2023, from 6.3% in the previous quarter and 13.1% one year earlier. The strong performance of the services sector was the main driver of GDP growth, accompanied by strong consumer demand and an increase in government capital expenditure. Overall, 6.3% growth is projected for 2023, from 7.2% in 2022. Growth of 6.0% is projected for 2024.

Turkey's economy grew by 5.1% year on year in the second quarter of 2023, up from 3.0% in the previous quarter, compared with growth of 7.0% a year earlier. Growth was driven mainly by consumption expenditure, which increased by 15.6%, the seventh consecutive quarter of double-digit growth. Annual inflation increased to 59.1% for the second consecutive month in August, after eight months of decline, while the exchange rate of the Turkish lira has continued to decline. The shift towards a more rational monetary policy led to a sharp increase in the key interest rate to 30% in July from 8.5% in May. Last September, the annual rise in the dollar and the euro relative to the Turkish lira reached 50.1% and 61.3% respectively. For 2023, the Turkish economy is projected to grow at 4.3% (from 5.6% in 2022), while growth in 2024 is forecast at 2.6%.

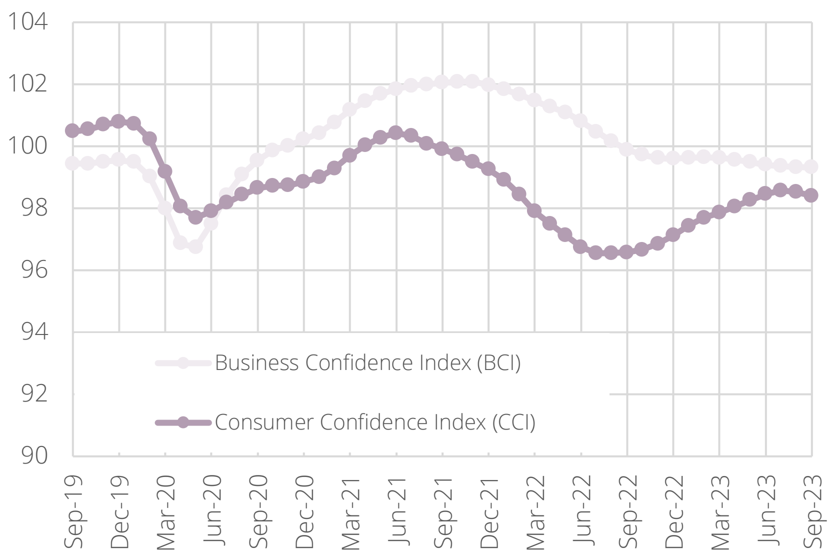
Among Latin American countries, the Brazilian economy expanded by 3.3% in the second quarter of 2023, from 3.4% in the previous quarter and 3.6% in the same quarter of 2022. GDP is projected to grow by 3.2% from 3.0% in 2022, while growth in 2024 is forecast at 1.7%.

The OECD business confidence index has steadied at levels marginally below its long-term average, while consumer confidence declined for the second month in a row, remaining below its long-term average (Figure 2.1).

Figure 2.1

Economic sentiment indicators for the OECD countries

(seasonally adjusted data, long-term average = 100)



The global consumer confidence indicator has declined, while business confidence has steadied at levels below, but close to, its long-term average.

Source: OECD

B. **EU and Euro area economies**

- Positive annual real GDP growth in the EU and the euro area in the second quarter of 2023, by 0.4% and 0.5% respectively.
- Slower growth and inflation for 2023 and 2024 according to the European Commission's economic forecast.
    - Euro area: 0.8% and 1.3% growth, 5.6% and 2.9% inflation for 2023 and 2024
    - EU27: 0.8% and 1.4% growth, 6.5% and 3.2% inflation for 2023 and 2024
- Continued monetary tightening by the ECB.
- The agreement on the new framework of fiscal rules in the EU is still pending, following up on the European Commission's proposals from April 2023.

The European economy is showing resilience despite successive disruptions in recent years, with energy prices and unemployment declining in the first half of 2023 and wages rising. However, in the first half of 2023, economic activity was weak, with consumption lower than expected. Lower growth rates, especially in industry but also in services, as well as a significant decline in bank credit as a result of monetary tightening, are also expected.[1] According to the European Commission's forecast, low growth rates are expected in 2024, with monetary tightening dampening growth, yet lower inflation and income recovery are also projected.

In particular, energy prices are expected to decrease further in 2023 and a small increase is projected in 2024 mainly due to the increase in the oil price. Services prices are also expected to fall further due to lower demand (due to monetary tightening). Non-energy commodity prices are projected to decline further as a result of supply chains returning to normal operations.

Geopolitical tensions in many regions of the world (mid-East, South Caucasus, Ukraine, and Western Balkans) lead to high levels of uncertainty for the future. Furthermore, monetary tightening may harm economic activity more than expected. But it can also reduce inflation faster than expected.

Economic activity in the second quarter of 2023

As regards the trend in economic activity in the second quarter of 2023 in the European Union (EU) and the euro area (EA), GDP grew less year-on-year, by 0.4% and 0.5%, respectively, compared with 1.1% in the previous quarter. Quarter-on-quarter in seasonally adjusted terms, GDP remained stable in the EU, recording a marginal increase of 0.1% in the EA, after growth of 0.1% and 0.2% respectively in the first quarter of the year.[2] Annual GDP declines were recorded in the second quarter in 12 out of 27 EU countries, including Germany (-0.1%) and the Netherlands (-0.3%). Among the other large Member States, annual growth was recorded in France (1.0%), Italy (0.4%), and Spain (1.8%). Figure 1 in the Appendix shows the growth rate by EA country.

In detail, in seasonally adjusted terms of quarter-on-quarter growth, private consumption stagnated in the second quarter of 2023 in the EU while it increased by 0.1% in the euro area. Consumption of goods continued to decline, while consumption of services remained stable. Public

[1] European Economic Forecasts Summer 2023, European Commission, September 2023

[2] Eurostat GDP release, 7 Σεπτεμβρίου 2023

consumption increased in the EU and the euro area in the second quarter of 2023 by 0.1% after no growth in the first quarter. In the second quarter of 2022, it increased by 0.2% and 0.3% respectively. Growth was recorded in the second quarter of the year in the exports of goods and services in the EU (0.3%), and in the euro area (0.4%), compared with stronger growth of 1.6% and 1.7% in the previous quarter and a stronger increase in Q2 2022 (4.2% and 4.1%). Imports decreased in the second quarter of 2023 in the EU by 0.3% while they increased by 0.2% in the euro area. The change in the first quarter was +0.7% and +1.1%, respectively. A further increase of 0.4% is forecast for 2024.

Overall inflation in the euro area continued to decline in June and July, to 5.5% and 5.3% respectively. The recent decline has been driven by lower inflation in goods, primarily energy, but also food and industrial goods. In the January-August 2023 period, the harmonised inflation rate varied strongly among euro area members, ranging from 3.1% for Luxembourg to 13.3% for Latvia (see Appendix, Figure 4), with Greece recording the 5th lowest rate (4.7%) while the average in the EA stood at 6.7%.

A marginal boost to employment occurred in the second quarter of 2023, by 0.1% in the EU and 0.2% in the EA, in seasonally adjusted terms, from 0.4% and 0.5% in the first quarter, respectively. The largest decrease in employment was recorded in Estonia (-1.5%), while the largest increase was recorded in Lithuania, Malta, and Portugal (+1.3%). Among the large Member States, employment increased by 0.3% in France and by 0.1% in Germany and the Netherlands, remaining stable in Spain and marginally declining in Italy and Poland. Figures 5 and 6 in the Appendix show the employment rate and the change in employment by EA country.

The unemployment rate remained at historically low levels. In July 2023, the unemployment rate in the EU remained unchanged at 5.9% in the EU and 6.4% in the euro area for the third and second consecutive months, respectively. These were the lowest values in the history of the series (since 2000 in the EU, since 1998 in the euro area). In July, the unemployment rate ranged from 2.5% in Malta to 11.6% in Spain. Among the large Member States, it stood at 2.8% in Poland, 2.9% in Germany, 3.6% in the Netherlands, 7.4% in France and 7.6% in Italy. The unemployment rate per EA country is shown in the Appendix (Figure 7).

In terms of fiscal performance, the general government deficit in the EU-27 in 2022 was 3.4% of GDP, while in the EA it reached 3.6%. The European Commission's recent report projects a decrease to 3.1% and 3.2% in 2023, respectively. Public debt in the previous year averaged 85.3% of GDP in the EU and 93.1% of GDP in the euro area. By 2024, the debt-to-GDP ratio is projected to decline in most EU countries. The largest falls are expected in Greece (52 pps), Cyprus (41 pps), Portugal (32 pps), Croatia (25 pps), and Ireland (20 pps). At the same time, public debt ratios will remain above their 2019 level. Figure 2 and 3 in the Appendix present the government balance and debt-to-GDP ratio, broken down by EA country.

Regarding the monetary policy framework, as announced on 14 September 2023, the ECB increased its three key interest rates by 25 basis points, given the revised inflation expectations to ensure a timely return to the ECB's medium-term target of 2.0%. The ECB's exposure to the Asset Purchase Programme (APP) is steadily declining, as the Eurosystem no longer reinvests principal payments from maturing securities.

Regarding the Pandemic Emergency Purchase Programme (PEPP), the Governing Council of the ECB intends to reinvest the principal payments under the programme until at least the end of 2024.

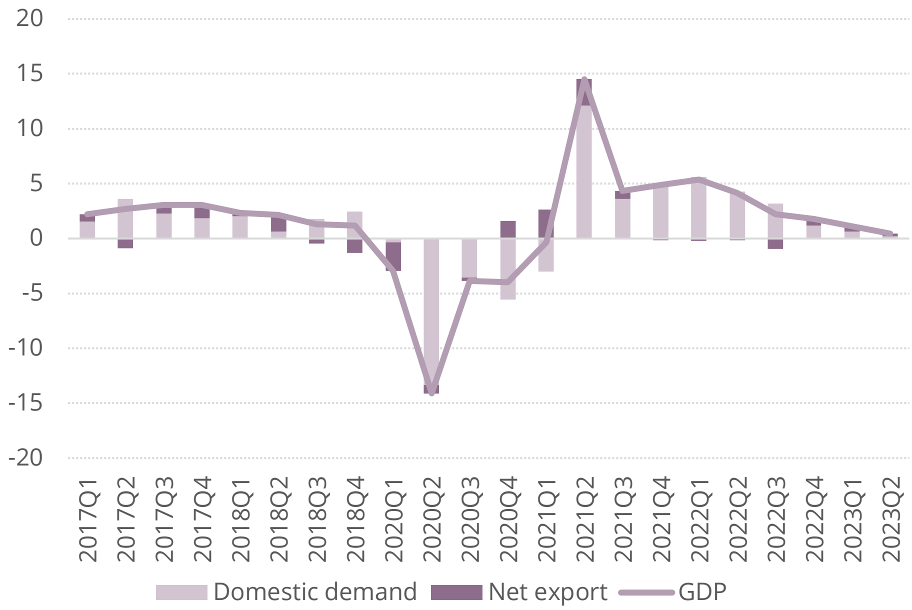
The future roll-off of the PEPP portfolio will be managed to be in line with monetary policy. Finally, the Transmission Protection Instrument (TPI) is available to offset undesirable, unpredictable market changes that may negatively affect the transmission of monetary policy in the euro area, aiming at price stability.

Contribution of GDP components

Based on these developments in the components of GDP in the euro area (figure 2.2), the contribution of net exports was positive (0.2%), less than in the previous quarter (0.5%). The smaller contribution from net exports in the second quarter of this year was the result of a stronger decline in the contribution of exports than imports. The contribution from domestic demand was 0.2% of GDP, down from a positive impact of 0.6 percentage points in the previous quarter. The contribution from private consumption declined significantly in the second quarter of 2023, to 0.1% from 0.7% in the previous quarter.

Figure 2.2.

Eurozone GDP change – Contribution of components to the real annual rate of change (in percentage points)



Small but positive contribution of domestic demand and net exports to the change in euro area GDP in the second quarter of 2023.

Source: Eurostat

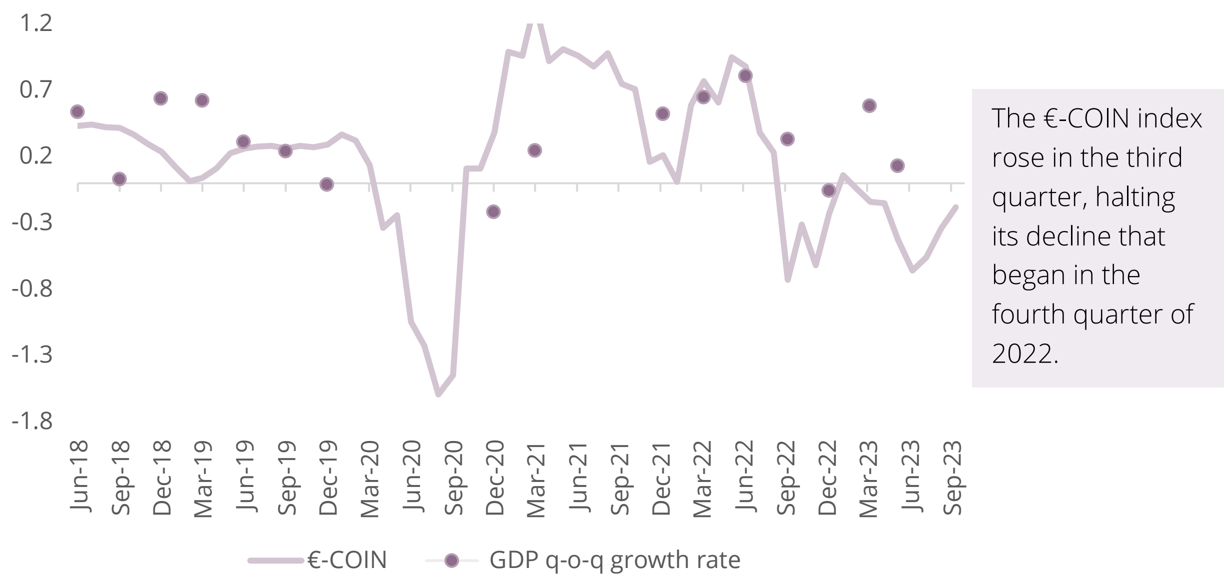
€-COIN index and the Economic Sentiment Indicator

With regard to trends in the economic climate and the main leading indicators of economic activity in the euro area and the European Union, the €-COIN index increased in September to -0.18 points from -0.66 in June (Figure 2.3). This pick-up points to possible GDP growth in the next quarter.

The European Commission's Economic Sentiment Indicator in the EU-27 and the euro area deteriorated in the third quarter. The trajectory has been declining since January 2023 for both the EU and the euro area. Indicatively, in September this year the Economic Sentiment Indicator stood at 92.8 points in the EU-27 and 93.3 units in the euro area, lower than in the previous month, and 1.2 and 1.3 points lower than a year ago, respectively in the EU-27 and the EA (Table 2.2).

Figure 2.3

Monthly €-COIN Index & Eurozone GDP*



* The Research Centre of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator is a forecast of quarterly GDP growth and is derived from the synthesis of a variety of different data, such as the evolution of industrial production, prices, labour market data, as well as financial data. Source: CEPR and Bank of Italy.

Table 2.2

Economic Sentiment Indicator EU-27 & Euro Area (av. 2000-2020=100)

Month	Oct - 21	Nov - 21	Dec - 21	Jan - 22	Feb - 22	Mar - 22	Apr-22	May - 22	June - 22	Jul-22	Aug-22	Sep-22
EU-27 (2020)	117.8	115.7	114.2	112.5	113.7	105.5	103.7	103.7	102.2	98.1	97.4	94
Euro area	118.8	116.6	114.5	112.9	114.2	105.8	104	104.3	103.4	98.9	98.2	94.6

Month	Oct - 22	Nov - 22	Dec - 22	Jan - 23	Feb - 23	Mar - 23	Apr-23	May - 23	June - 23	Jul-23	Aug-23	Sep-23
EU-27 (2020)	92.9	94.1	95.5	97.6	97.5	97	97	95.2	94.1	93.6	93.2	92.8
Euro area	93.9	95.1	96.9	99.5	99.3	98.8	98.9	96.4	95.3	94.6	93.6	93.3

Source: European Commission (DG ECFIN), October 2023

Challenges

Europe's economy, and in particular that of the euro area, is facing a number of challenges. Briefly, the main ones are:

- Russia's invasion of Ukraine and its lasting economic effects of high intensity.
- Broader geopolitical tensions, especially in the Middle East.

- Forecasts by international institutions that the euro area economy will slow down with inflation remaining high and monetary policy remaining tight.
- The termination of Russia's participation in the agreement to export wheat through the Black Sea.
- The need to coordinate fiscal and monetary policies at the collective and national levels in order to balance the objective of containing inflation expectations and avoiding economic downturns.
- The pending agreement on the new framework of fiscal rules in the EU, following up on the European Commission's proposals from April 2023.

Forecasts for the evolution of key macroeconomic figures (Sep. 2023)

Table 2.3 shows the forecasts for the key economic figures of the EU and the euro area on an annual basis. Based on the latest forecasts, growth in the euro area is estimated to have been 3.4% for 2022, while a lower growth rate of 0.8% is projected for 2023. Similarly for the European Union, growth in 2022 is estimated at 3.3% and 0.8% for this year. Private consumption is projected to grow in the EU by 0.5% in 2023 and 1.8% in 2024. For the euro area, it is projected to grow by 0.6% in 2023 and 1.7% in 2024 (Table 2.3). For public consumption, growth of 0.7% is projected in both the EU and EA in 2023, with an expansion of 0.7% and 0.8% respectively in 2024. Gross investment is forecast to increase by 0.9% and 1.0% in the EU and the EA respectively in 2023. Exports of goods and services are projected to grow by 3.0% and 3.1%, respectively, in 2023 and by 3.3% in 2024. Imports are projected to increase by 2.1% and 2.3% respectively in 2023. For 2023, inflation is forecast to increase by 6.5% and 5.6% in the EU and the EA respectively.

Table 2.3

Key macroeconomic figures, EE-27, Eurozone (real annual % changes, unless otherwise stated)

	EU			Eurozone		
	2022	2023	2024	2022	2023	2024
GDP*	3.4	0.8	1.4	3.3	0.8	1.3
Private Consumption	4	0.5	1.8	4.3	0.6	1.7
Public Consumption	1.1	0.7	0.8	1.3	0.7	0.7
Gross Investment	4	0.9	2.1	3.7	1	2.1
Exports of Goods and Services	7.1	3	3.3	7	3.1	3.3
Imports of Goods and Services	7.9	2.1	3.2	8.0	2.3	3.2
Employment	2	0.5	0.4	2.3	0.6	0.5
Unemployment (% labour force)	6.2	6.2	6.1	6.8	6.8	6.7
Inflation*	9.2	6.5	3.2	8.4	5.6	2.9
Balance of General Government (% GDP)	-3.4	-3.1	-2.4	-3.6	-3.2	-2.4
Debt of General Government (% GDP)	85.3	83.4	82.6	93.1	90.8	89.9
Current Account Balance (% GDP)	0.5	2.0	2.3	0.6	2.1	2.4

Source: European Economic Forecasts, Spring 2023, European Commission, May 2023

*Source: European Economic Forecasts Summer 2023, European Commission, September 2023

2.2 The Economic Environment in Greece

A. Economic Sentiment

- A slight increase in the Economic Sentiment Indicator in Greece in the third quarter of 2023 compared with the previous quarter (109.9 from 108.7 points). Significant improvement compared to the previous year (102.3 points).
- Business confidence has risen softly in the recent quarter compared with the previous one in retail trade, and marginally in services, while it declined strongly in construction and more modestly in industry.
- The Consumer Confidence Index improved marginally in July- September compared with the previous quarter, to -36.3 (from – 36.7) points. At the same time, they are markedly higher than a year earlier (-53.6 percentage points).

The IOBE business and consumer surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the indicators used in the surveys constitute leading indicators for various economic variables and can be used to predict near-term developments and even the course of GDP.[3]

In the third quarter of 2023, the Economic Sentiment Indicator strengthened compared to the immediately preceding quarter, by 1.2 points. The improvement was driven by the slight strengthening of business confidence in retail trade and services, with expectations weakening slightly in Industry and more strongly in Construction. At the same time, the Consumer Confidence Indicator stood marginally higher than in the previous quarter, at -36.3 (from -36.7 points).

Expectations in the industrial and construction sectors were systematically affected throughout 2022 by the rise in prices of energy and other raw materials due to the war in Ukraine, as well as by difficulties in the functioning of international supply chains, but partially recovered in the first half of 2023. Especially in the construction sector, expectations picked up sharply, but their increase weakened significantly in the third quarter of 2023. In the services sector, the strong momentum of international tourism had a positive impact on expectations during most of the previous year, propped up by the protracted good weather, especially in the last quarter of the year, but business confidence began to fall in early 2023, especially in some more vulnerable sectors. However, in the second quarter of the year, also in view of the start of the tourist season, expectations were optimistic, not only in the services sector, but also in the other sectors, with expectations weakening after that as the tourist season was approaching its end. On the household side, it is apparent from the beginning of this year that two opposing forces are weighing on developments in consumer confidence. The implications of rising costs of living are causing concerns for households about their financial situation ahead, but political developments

[3] Note that since March 2018, the base period of the series presented in the sectoral business sentiment indicators, i.e. the indicators in Manufacturing, Retail Trade, Services and Construction, has changed. In particular, the 2000-2010 period was designated as a new base (= 100). Until February 2018, the indicator was referenced to average values from the 1996-2006 period. The historical series of the indicators are fully revised, in order to ensure that the data series are comparable. As a result, the indicators with the new base period are overall higher compared with those with the older base period. The change in the base period by IOBE has not affected the overall economic sentiment indicator for Greece or any other country.

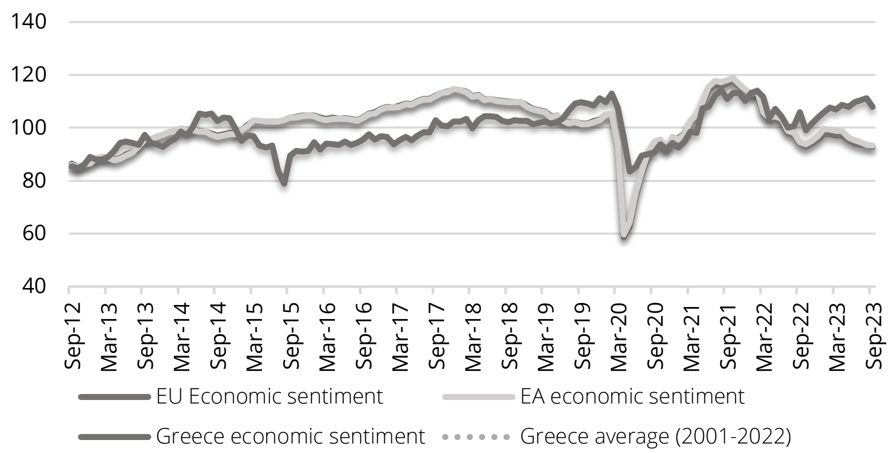
in mid-2023 significantly improved expectations and were key to the evolution of the index, while the natural disasters recorded in the third quarter weakened consumer confidence.

In more detail, the Economic Sentiment Indicator in Greece in July-September was mildly stronger compared with the previous quarter (Figure 2.4), from 108.7 to 109.9 points, while it stood at a significantly higher level than the average for the previous year's quarter (102.3 points).

In Europe, the respective average index stood moderately lower quarter-on-quarter, both in the EU and in the euro area. Specifically, the Economic Sentiment Indicator stood at 93.2 (down from 95.4) points in the third quarter of the year in the EU, and 93.8 (down from 96.9) in the euro area.

Figure 2.4

Economic Sentiment Indicators: EU-27, Euro area and Greece (2000-2020=100, seasonally adjusted data)



The Economic Sentiment Indicator in the third quarter of 2023 strengthened compared with the previous quarter by 1.2 points.

Source: European Commission, DG ECFIN

At the sectoral level, business confidence in Greece weakened modestly in industry and more strongly in construction, while it improved markedly in retail trade and to a lesser degree in services. On the consumer side, the Consumer Confidence Indicator rose marginally compared with the previous quarter. Compared with the corresponding quarter of the previous year, the average indicators increased significantly in construction and retail trade, while they improved more modestly in industry and services. In more detail:

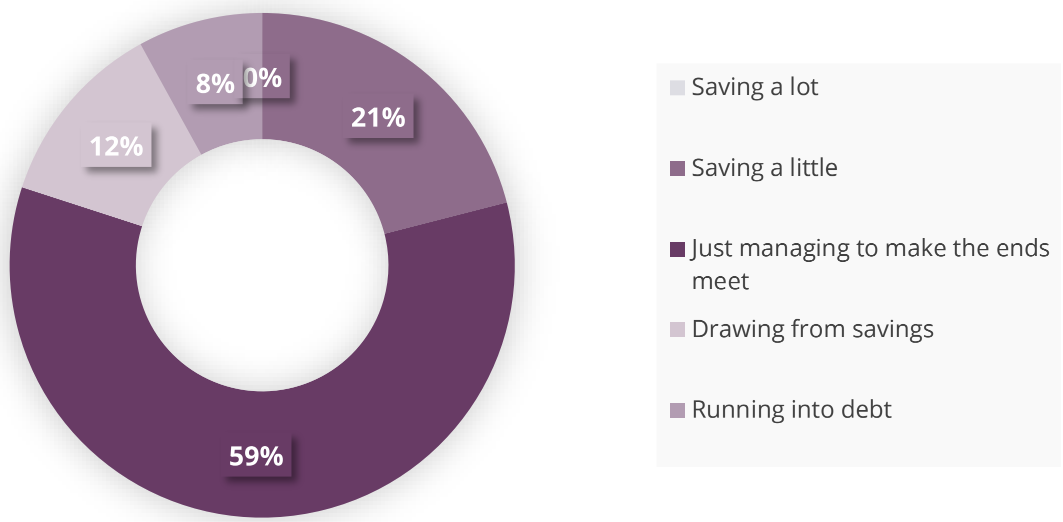
The Consumer Confidence Indicator in Greece in the three months from July to September this year stood marginally higher on average than in the second quarter of this year, at -36.3, from -36.7 points, at a level significantly higher than in the previous year (-53.6 points). The corresponding average indicator improved moderately in the EU, to -17.3 (from -18,1) points, and in the euro area (-16.3 from -17.0 points). These levels are much higher than the corresponding ones a year earlier (-28.0 and -27.0 points respectively).

The quarter-on-quarter trends in the constituent response balances making up the aggregate indicator were mixed in the third quarter of 2023. As a result, the negative consumer expectations of the financial situation of Greek households over the next 12 months eased marginally, while those on the country’s financial situation strengthened moderately. At the same time, the households' assessments of their current situation improved marginally, while the intention to make major purchases in the near term weakened sharply.

In more detail, the percentage of those who were pessimistic about the financial situation of their household over the next 12 months declined marginally, to 48% (from 49% in the previous quarter), while the percentage of those reporting the opposite figure rose to 12% (from 11%). At the same time, the proportion of consumers in Greece with pessimistic expectations about the country's economic situation increased to 52% (from 50%), with 19% (down from 20%) expecting an improvement. Concerning saving intentions, the percentage of households that did not consider savings as likely over the next 12 months declined to 81% (from 83%), while the proportion of those thinking it likely improved marginally to 18%. In the expectations of unemployment developments, the proportion of those expecting the situation to deteriorate fell to 34% (from 35%), with 25% on average taking the opposite view. The percentage of consumers reporting "running into debt" remained at 8% in the third quarter of 2023, at almost the same level as in the same quarter of 2022 (7%). The percentage of respondents reporting that they were saving a little also increased modestly to 21% (from 18% in the same quarter of 2022). Finally, the percentage of those reporting to be "just making ends meet" slightly weakened to 58% and the percentage of households reporting that they were "drawing from their savings" declined marginally to 12% (from 11%), with the figure for 2022 standing at 9% (Figure 2.5).

Figure 2.5

Consumer survey data on the financial situation of households (July-September 2023)



Source: IOBE

The percentage indicating that they were just making ends meet weakened compared with the second quarter of 2023 (59%). The percentage of those reporting that they were running into debt remained unchanged.

The industrial confidence indicator for the third quarter of 2023 stood at 103.8 (down from 107.5 in the second quarter of 2023), significantly higher than the corresponding outcome in 2022 (102.3 points). In the main activity data, the indicator in short-term output expectations weakened sharply, from +30.3 points in the second quarter of 2023, averaging +13.1 points in the quarter under review. By contrast, the assessment of the level of order books and demand remained mildly negative (at -9.1, down from -9.0 points). The assessment of the stocks of finished products points to a mild decline (to +2.8 from +9.4 points), while the trends in the export variables are mainly negative: the expectations for export dynamics in the next quarter declined modestly (+9.3 from +11.3 points) with the assessment for foreign order books and demand weakening slightly (-21.6 from -17.4 points). In the employment forecasts, the relevant quarterly average balance declined strongly to -2.5 (from +9.9) points on average. Capacity utilisation was moderately higher, at 76.8% (from 73.4%), whereas the months of secure production by firms declined slightly, to 3.8 (from 4.7) months on average.

The retail trade confidence indicator for the quarter under review was mildly higher than in the previous quarter, at 120.6 points (from 117.2), a markedly higher performance compared with the same quarter of the previous year (87.3 points). From the main variables of the indicator, the average balance for the assessment of current sales improved slightly to +54 (from +51) points. Of the companies in the sector, 9% (down from 12%) reported that their sales decreased, with 63% estimating the opposite. In terms of projected sales, the +36 points balance of the indicator weakened marginally to +34 points, with stocks declining markedly (to +2 points). Among the other activity figures, the balance of expectations for orders to suppliers remained unchanged at +17 points, while, in the case of sector employment, the average balance of expectations increased markedly to +28 (from +20) points. Finally, in price terms, the corresponding balance, although declining, remained at strong inflationary levels (+31 from +48 points), with only 5% of firms expecting a decline in prices and 36% (down from 49%) expecting the opposite. An improvement in business confidence was recorded in the third quarter of 2023 in almost all examined branches of retail trade, with the exception of the vehicles - spare parts, where there was a marginal decline.

Business confidence in construction declined significantly in the third quarter of 2023, with the relative balance standing at 125.0 points on average, from 145.8 points in the previous quarter, the largest change among the main sectors of activity. This performance is at a significantly higher level than in the corresponding quarter of 2022 (95.2 points). In the key variables, employment expectations in the sector weakened sharply, with the relative balance falling from +43 points to +31 points, with 36% (from 46%) of enterprises expecting job creation and 5% (from 3%) expecting a decrease in jobs. The firms' negative expectations for planned works intensified (to -55 from -37 points), while the assessment for the current level of the work programme strengthened slightly (to +7 from +1 point).

The months of activity assured by orders on hand declined slightly, to 9.0, while, at the same time, the balance of price expectations declined marginally to +26 (from +28), with 3% of firms expecting a decrease in the short term and 28% (from 31%) an increase. Finally, the percentage of enterprises reporting that they do not encounter obstacles to their operation remained at 15%, while for the rest, 28% (from 30%) reported as the biggest obstacles to their operation labour shortages, 22% (up from 15%) low demand and insufficient funding, and just 8% factors such as the general economic situation of the country, high raw material prices, lack of projects, late payments by the

State, etc. At the branch level, business confidence fell moderately in private construction, in contrast to the strong decline in public works.

Table 2.4

Economic Sentiment Indicators

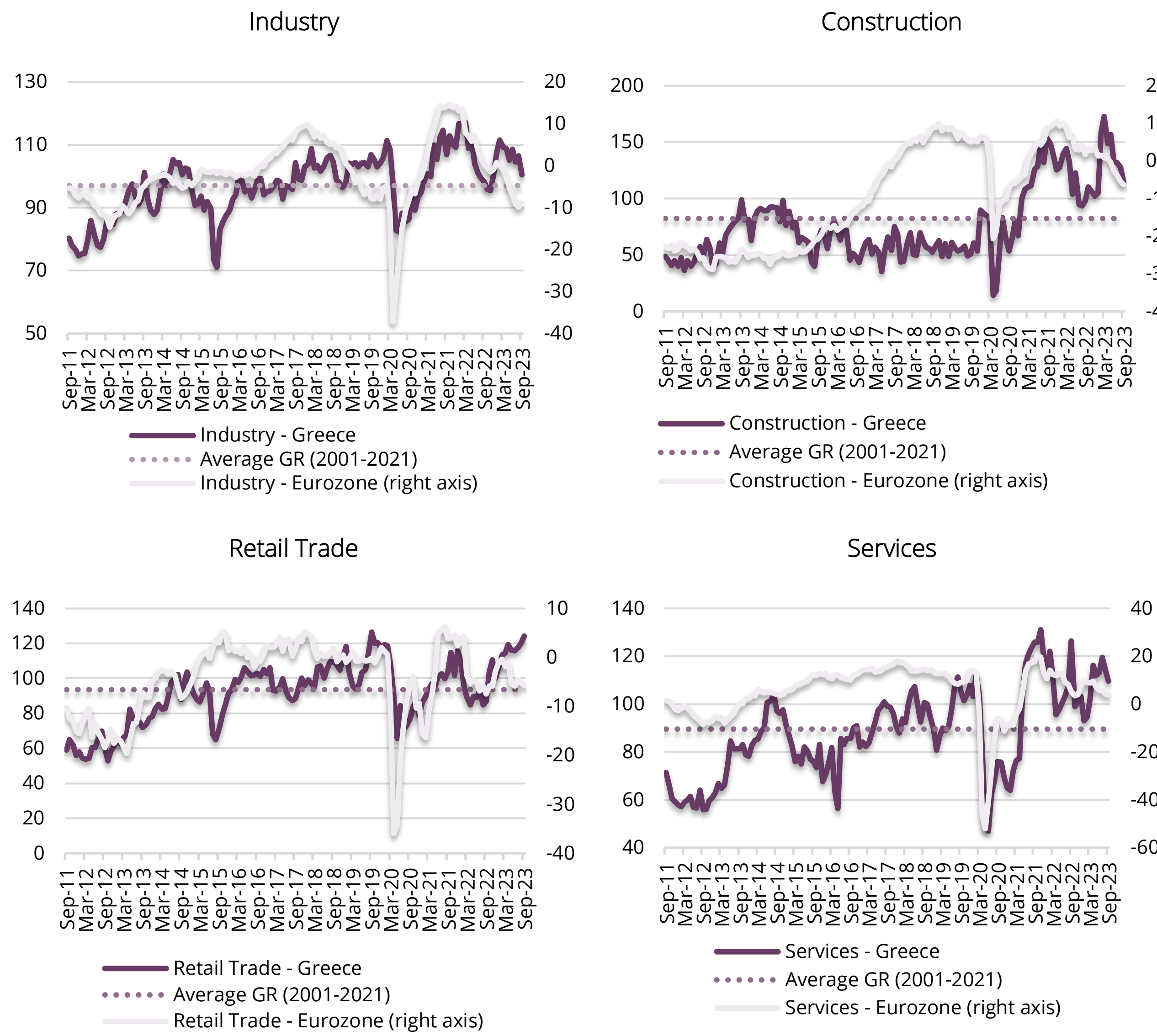
Time Period	Economic Sentiment Indicator			Business Expectations Index (Greece)				Consumer Confidence Index (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	98.6	98.3	85.5	79.9	52.2	61.3	68.1	-57.9
2011	98.3	98.4	83.9	81.1	37.7	60.9	66.1	-69.8
2012	89.0	89.0	83.6	81.4	47.5	59.1	58.8	-73.8
2013	91.9	91.8	93.6	92.6	71.5	72.6	75.3	-69.7
2014	98.6	98.3	101.7	99.7	88.4	92.3	93.3	-53.0
2015	102.9	102.8	91.6	86.3	62.0	83.9	78.2	-51.6
2016	104.4	104.1	95.0	96.1	61.3	101.4	79.3	-61.3
2017	110.7	110.5	98.5	98.1	55.4	94.6	92.7	-58.0
2018	111.1	110.9	103.3	102.8	58.1	104.5	97.0	-44.1
Q1 2019	106.9	106.5	102.1	101.8	56.7	105.8	85.7	-32.8
Q2 2019	104.3	104.3	103.8	103.8	54.8	97.8	92.6	-30.9
Q3 2019	102.0	101.9	108.7	104.8	52.7	115.5	108.2	-10.6
Q4 2019	102.3	101.7	109.1	104.1	68.1	119.1	104.4	-4.2
Q1 2020	102.0	101.5	109.9	108.6	84.9	115.1	106.5	-14.4
Q2 2020	65.9	67.5	89.1	87.6	28.1	80.3	58.6	-38.3
Q3 2020	88.5	89.8	90.0	86.7	67.0	73.5	68.8	-37.0
Q4 2020	93.9	94.5	93.1	92.6	70.7	83.0	70.0	-40.2
Q1 2021	99.2	99.1	96.5	98.2	106.2	90.2	70.9	-40.7
Q2 2021	109.5	110.6	105.5	105.0	121.9	97.9	99.3	-28.3
Q3 2021	115.8	117.4	111.6	111.3	144.7	102.0	123.4	-33.6
Q4 2021	115.1	115.9	112.8	110.7	137.2	110.7	125.4	-38.8
Q1 2022	110.7	111.2	113.4	116.9	137.2	98.8	115.7	-43.6
Q2 2022	103.1	103.9	105.2	108.0	119.6	87.9	97.9	-53.0
Q3 2022	96.3	96.9	102.3	99.6	95.2	88.3	112.3	-53.6
Q4 2022	94.2	95.3	101.6	97.3	106.2	104.8	101.2	-52.6
Q1 2023	97.4	99.2	106.8	109.4	145.2	111.6	96.6	-43.3
Q2 2023	95.4	96.9	108.7	107.5	145.8	117.2	113.8	-36.7
Q3 2023	93.2	93.8	109.9	103.8	125.0	120.7	114.5	-36.3

Sources: European Commission, DG ECFIN, IOBE

The confidence indicator in services in the quarter under review was mildly higher than in the previous quarter, at 114.5 points (from 113.8), while it was slightly higher than in the same quarter of 2022 (112.3 points). Among the main components, the assessment of current demand improved slightly, with the underlying indicator rising by 5 points on average to +33 points. The assessment of the firm's current situation increased accordingly (+33 from +28 points), with the balance in the short-term demand expectations of enterprises in the sector weakening moderately (+35 from +42 points). Among the other activity data, the respondents' balance of employment expectations weakened by 16 points to +15 points, while in terms of prices, the average confidence indicator declined marginally to 16 (from +19) points. Finally, the proportion of respondents reporting a seamless business operation increased significantly to 60% on average, with only 9% indicating as the main obstacles to their operation insufficient demand and labour shortages, 5% the shortfall in working capital, and 11% other factors related to the general economic situation, energy prices, war in Ukraine, etc. Of the examined branches of services, the indicators increased slightly in the third quarter of 2023 in miscellaneous business activities, computer programming, and air transport, with a stronger boost in financial intermediaries, while they weakened softly in hotels-restaurants-travel agencies.

Figure 2.6

Business Confidence Indicators



Source: IOBE

Business confidence weakened modestly in the third quarter of 2023 compared with the previous one in industry, falling sharply in construction, while it improved noticeably in retail trade and to a lesser degree in services.

B. Fiscal developments

- State Budget Balance, January-August 2023: cash deficit in the state budget balance of €92 million (0.0% of GDP) against a deficit target of €2,426 million included for the same period of 2023 in the explanatory report to the 2023 Budget and a deficit of €4.105 million (2.0% of GDP) in the respective period of 2022.
- State Budget primary balance, Jan.-August 2023: a cash surplus of €5,596 million (2.5% of GDP), against a primary surplus target of €2,314 million and a primary surplus of €19 million (0.0% of GDP) for the same period in 2022.
- The improvement was the result of an increase in net income (+9.9% or +€3.89 billion) compared with the previous year.
- Targets in the Draft State Budget 2024: General government primary surplus of 1.1% of GDP in 2023 and 2.1% of GDP in 2024. General government debt of 159.3% of GDP in 2023 and 152.2% in 2024.

Execution of the 2023 budget (January – August)

In early October, the draft state budget for 2024 was submitted to Parliament. It is the first budget in 13 years to find the country having regained an investment grade. However, it takes place a few weeks after successive natural disasters that hit the country and are expected to weigh on both the state budget and the economy at large. In the budget, measures are foreseen to shield the country from extreme natural events by building more resilient infrastructure and strengthening civil protection and prevention.

The budget also includes income-boosting measures with a total budgetary cost of around €2.13 billion, related to the new wage grid for civil servants, the increase in the tax-free allowance for families with children by €1000, and the reduction of ENFIA for housing insured for earthquake, fire, and flooding, among others. In addition, the health sector is strengthened by an increase of the hospital subsidy of around 15%, and changes to fight tax evasion are given priority. Spending of €8.5 billion from the Public Investment Programme and €3.6 billion from the Recovery and Resilience Facility are also foreseen in 2024.

It has also been taken into account that the EU will deactivate the general escape clause in 2024 and the new fiscal rules will come into effect, foreseeing, inter alia, debt reduction for countries where it is above 60% of GDP and low budget deficits (below 3%) for all Member States. In this context, the government's fiscal targets are the following: a primary surplus of 1.1% of GDP for 2023 (as planned in the stability programme) and a primary surplus of 2.1% of GDP for 2024 (also as projected in the stability programme). General government debt is expected to decrease from 171.4% of GDP in 2022 to 159.3% in 2023 and 152.2% in 2024.

Given that the global economy is showing signs of slowing down, fiscal risks in European countries are on the rise, inflation, although easing, continues to remain high internationally (especially in basic foods), and the tight monetary policy is having a negative impact on credit growth, there are reservations about the achievement of these targets and the course of the Greek economy in general. Nevertheless, the country appears to have entered a virtuous cycle of debt reduction and economic growth.

State Budget Balance and Primary Balance

According to the State budget implementation data, on a modified cash basis, for the period January-August 2023, a deficit in the state budget balance of €92 million is recorded against a deficit target of €2426 million included for the corresponding period of 2023 in the explanatory report to the 2023 Budget and a deficit of €4.105 million recorded in the corresponding period of 2022. The primary balance was in a surplus of €5,596 million, against a primary surplus target of €2,314 million and a primary surplus of €19 million for the same period in 2022. The improvement in the state budget balance compared with the previous year is due to higher net revenue (+9.9% or +€3.89 billion, Table 2.5).

Table 2.5

State Budget Execution: January-August 2023* (€ million)

	Jan. – August		% Change 23/22	2022*	2023* Budget	% Change 23E/22
	2022*	2023*				
I. SB NET REVENUE (1+2)	39,232	43,118	9.9	59,623	63,885	7.1
1. Net OB revenue	35,593	39,048	9.7	54,324	56,000	3.1
OB revenue before tax refunds	*39,168*	*43,565*	11.2	60,477	62,110	2.7
Less Tax refunds	3,575	4,517	26.3	6,153	6,110	-0.7
2. PIP revenue +RRF[4]	3,639	4,070	11.8	5,299	7,885	48.8
II. SB EXPENDITURE (3+4)	*43,337*	*43,210*	-0.3	71,279	71,871	0.8
3. OB expenditure	37,144	37,368	0.6	60,254	59,909	-0.6
Primary expenditure OB	32,990	31,667	-4.0	55,215	54,058	-2.1
Interest	4,154	5,701	37.2	5,039	5,851	16.1
4. PIP expenditure + RRF[5]	6,193	5,842	-5.7	11,025	11,962	8.5
III. SB Deficit (-)/Surplus (+)	*-4,105*	*-92*		-11,656	-7,985	
% of GDP	*-2.0*	*-0.0*		-5.5	-3.6	
IV. SB Primary Balance	19	5,596		-6,652	-2,134	
% of GDP	0.0	2.5		-3.2	-1.0	
GDP	210,170	224,134	6.6	210,170	224,134	6.6

Source: Monthly SB Execution Bulletin August 2023, Ministry of Finance, September 2023. *On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

Ordinary budget revenue

In January-August 2023, the state budget's net revenue amounted to €43.118 million, an increase of €61 million or 0.1% compared to the target included for that period in the explanatory report to the Budget and by €3.89 billion or 9.9% compared to the previous year. Compared to the target, there was a shortage of the Public Investment Programme's revenue. In addition, there was no receipt of: (a) €1496 million for the granting of the right to use and operate the motorway of Egnatia

[4] The PIP revenue category now includes the receipts from the Recovery and Resilience Facility

[5] The PIP expenditure category now includes the payments from the Recovery and Resilience Facility

Odos and its three vertical axes, for 35 years, which was expected to be collected in June, as the relevant procedure for the approval of the contract is ongoing, and (b) the third instalment of €1718 million from the Recovery and Resilience Fund (RRF), which was expected to be collected in August. By contrast, the remaining revenue categories showed an over-execution mainly due to the increased tax revenues in the first eight months, as well as €603 million collected from ANFAs, which were not foreseen in the 2023 Budget.

Table 2.6

State Budget Revenue: January-August 2023* (€ million)

	Jan. – August		% Change 23/22	2022*	2023* Budget	% Change 23E/22
	2022*	2023*				
Net SB revenue	39,232	43,118	9.9	59,623	63,885	7.1
Net OB revenue	35,593	39,048	9.7	54,324	56,000	3.1
Tax refunds	*39,168*	*43,565*	11.2	60,477	62,110	2.7
OB revenue	3,575	4,517	26.3	6,153	6,110	-0.7
Income tax, of which:	10,750	12,853	19.6	17,012	18,476	8.6
--Personal	7,577	8,487	12.0	11,047	11,460	3.7
--Corporate	*2,298*	*3,269*	42.3	4,629	5,662	22.3
Property tax	2,079	1,938	-6.8	2,692	2,380	-11.6
Taxes on donations, inheritance etc.	147	160	8.8	226	226	0.0
Tariffs	298	243	-18.5	431	424	-1.6
Taxes on goods and services, of which:	20,362	22,401	10.0	31,584	32,517	3.0
--VAT	*13,924*	*15,488*	11.2	21,422	22,217	3.7
--Excise duties	*4,511*	*4,594*	1.8	6,984	7,115	1.9
Other production taxes	896	807	-9.9	1,165	1,029	-11.7
Other current taxes	1,203	1,436	19.4	2,108	2,369	12.4
Social contributions	37	39	5.4	56	55	-1.8
Transfers	4,318	4,615	6.9	6,357	7,953	25.1
Sales of goods and services, of which:	555	590	6.3	833	2,418	190.3
Other current revenue	*2,155*	*2,553*	18.5	3,301	2,124	-35.7
Sales of fixed assets	7	1	-85.7	12	24	100.0
PIP + RRF Revenue[6]	3,639	4,070	11.8	5,299	7,885	48.8

Source: Monthly SB Execution Bulletin August 2023, Ministry of Finance, September 2023.
*On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

Most revenue categories increased compared with the previous year. Ordinary Budget revenue increased by 11.2%, while the net revenue of the ordinary budget increased by 9.7%, with tax refunds increasing by 26.3%. Tax refunds increased and exceeded the target as well, partly due to the reimbursement of VAT to the Renewable Energy and Guarantee Operator (DAPEEP S.A.) of approximately €220 million in March, which resulted from revenue collected by DAPEEP and transferred to the state from the temporary mechanism for clawing back a part of the revenue from the day-ahead market. The revenue from income tax increased by 19.6% compared to the

[6] The PIP revenues category includes the receipts from the Resilience and Recovery Facility.

previous year, mainly due to the increase in corporate tax revenues (+42.3%), while the increase in personal income tax revenues was also significant (+12.0%).

Tax revenue from goods and services expanded from the previous year by 10.0%, primarily due to an 11.2% increase in VAT revenue. Tax revenue overall amounted to €39.838 million, up by €3,344 million or 9.2% compared to the target included in the explanatory report to the 2023 Budget. Part of this increase, amounting to around €470 million, relates to the extension of the deadline for payment of road fees until the end of February 2023, while it was estimated that this amount would be collected in December 2022. The remaining amount of over-execution comes from the improved yield on personal and corporate income taxes of the previous year collected in instalments up to the end of February 2023, as well as from the better yield on tax collection of the current year.

Other current revenue amounted to €2,553 million, up by €1,251 million against the target and by 18.5% compared to the previous year, mainly due to higher revenue from reimbursements by €649 million and interest on deposits in Bank of Greece, by €260 million in June. A reduction was recorded in sales of fixed assets (85.7%), duties and import taxes (-18.5%), other taxes on production (-9.9%), and property taxes (-6.8% - Table 2.6).

Ordinary Budget Expenditure

State budget expenditure in January-August 2023 totalled €43,210 million, €2,273 million less than the target (€45,483 million) included in the explanatory report to the 2023 Budget and lower by €127 million or 0.3% compared to the previous year. The small decrease compared with the previous year is mainly due to the deferral of the payment of grants to the SSFs by €1,084 million, also taking into account counteracting changes in other expenditure categories. Under the Ordinary Budget, payments are lower than the target by €1,484 million, but 0.6% higher than in the previous year. The better performance against the target is mainly due to the underspending of grants to the social security funds by €1284 million. The fall in primary expenditure reached 4.0% while there was a strong increase in interest payments (+37.2%).

Despite overall expenditure reduction, employee benefits and social benefits increased compared with the previous year, by 3.5% and 16.0%, respectively (Table 2.7). Most of the other categories recorded a decline compared with the previous year. Transfers decreased by 3.9% (-8.0% to SSFs), purchases of goods and services by 6.6%, subsidies by 3.3%, and purchases of fixed assets by 44.2%.

Significant payments include the €503 million grant to the Information Society, to serve the needs of the Market Pass, the reimbursement to the Energy Transition Fund of €367 million of windfall profits of energy producers for the period from 1 October 2021 to 30 August 2022, as well as €100 million payments for heating oil grants for this year. All of the above-mentioned payments were made by redeployment from the reserve to support actions in response to the energy crisis (non-allocated expenditure).

Table 2.7

State Budget Expenditure: January-August 2023* (€ million)

	January- August		% Change 23/22	2022*	2023* Budget	% Change 23E/22
	2022*	2023*				
SB Expenditure (1+2+3)	*43,337*	*43,210*	-0.3	71,279	71,871	0.8
OB Expenditure (1+2)	37,144	37,368	0.6	60,254	59,909	-0.6
1.Primary OB Expenditure	32,990	31,667	-4.0	55,215	54,058	-2.1
Compensation of employees	8,997	9,309	3.5	13,640	13,796	1.1
Social benefits	156	181	16.0	391	397	1.5
Transfers	20,852	20,029	-3.9	35,086	32,476	-7.4
(of which SSFs)	*13,613*	*12,530*	-8.0	21,420	21,182	-1.1
Purchase of goods and services	1,102	1,029	-6.6	2,145	1,541	-28.2
Subsidies	121	117	-3.3	400	80	-80.0
Other current expenditure	40	42	5.0	55	81	47.3
Non allocated expenditure	0	0	-	0	3,156	-
Purchase of fixed assets	1,723	961	-44.2	3,496	2,531	-27.6
2. Interest (gross basis)	4,154	5,701	37.2	5,039	5,851	16.1
3. PIP + RRF Expenditure[7]	6,193	5,842	-5.7	11,025	11,962	8.5

Source: Monthly SB Execution Bulletin August 2023, Ministry of Finance, September 2023.
*On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

Public Investment Programme (PIP)

The revenues from the Public Investment Programme (PIP) and the RRF amounted to €4,070 million, up by 11.8% from €3,639 million in the previous year. The RRF revenue was exactly the same as in the previous year (due to the fact that the third tranche of €1,718 million as mentioned above was not yet disbursed) while the revenue of the Public Investment Programme increased by €431 million or 22.4% compared to the previous year, yet €988 million lower than the target (€3,340 million). Payments on the investment expenditure side amounted to €5,842 million, falling short of the target by €789 million due to an under-execution of the Recovery and Resilience Facility by €1,381 million, while compared to the previous year they were down by €351 million or 5.7%. More specifically, compared to the previous year, RRF expenditure fell by €800 million or 64%, while the expenditure of the Public Investment Programme was up by €449 million or 9.1%. The PIP expenditure includes an amount of €91 million to serve COVID-19 measures, the most important of which are the strengthening of health institutions with ancillary staff to respond to the needs of the COVID-19 pandemic in the regions, support start-ups under Elevate Greece, set up a network of nurses to take samples of biological material and to provide nursing aid to suspected coronavirus cases at home, and the grant to existing small and medium-sized enterprises in the retail sector, which maintain a physical outlet, to develop, upgrade, and manage digital shops.

[7] The PIP category now includes the flows of the Recovery and Resilience Fund for 2021 and 2022

C. Financial developments

- The European Central Bank raised its key interest rates in the third quarter for the 10th time since mid-2022, with the expectation of no change in the coming quarters.
- In the third quarter of 2023, the 'investment grade' for the Greek State was recovered from some international rating agencies, after a pause of 13 years.
- The cost of new government borrowing shows a milder increase than that in other European countries.
- The cost of new lending to the private sector increased further in the third quarter of 2023.
- The difference between the average interest rate on loans and deposits (interest margin) has increased to a historically high level (for at least 20 years).
- Private deposits expanded in June-August, but less than in the previous year.
- Credit growth to firms stagnated in mid-year, while the credit to households continued to contract.
- Non-performing loans (NPLs) on banks' balance sheets stagnated in the second quarter of 2023, at 8.8% of total loans.

The Hellenic Republic recovered its investment grade in September, after 13 years, from one of the four international rating agencies recognised by the ECB. This confirmed the positive outlook of the Greek economy and the narrowing of the spread in the cost of new Greek government borrowing compared to other countries. At the same time, however, under the influence of the deterioration in the international environment, the investment euphoria of the summer of 2023 was succeeded by a climate of caution and risk avoidance. International aggravating factors include the apparent longer duration of the high-interest-rates environment, volatility in international energy prices, and the conflicts in Ukraine and the Middle East.

Against this background, stock prices on the domestic capital market fluctuated very strongly throughout the year. Following an impressive increase in the value and volume of transactions in the domestic stock exchange in the first seven months of the year by an average of 44% and 48% respectively, the overall index declined by 11% in August - September. Similarly, the bank index at the end of July traded around 70% higher than at the end of 2022, before falling by 19% in August - September.

The persistent rate of inflation internationally, albeit at clearly lower levels, has led to the expectation that the cost of money will remain high for longer than initially expected. The ECB has raised its key interest rates ten times since mid-2022, cumulatively by 450 basis points, of which 50 basis points in the third quarter of 2023. Markets are anticipating a stabilisation of key interest rates in the coming quarters, with a slow, gradual decline in 2024, converging to levels higher than before the start of their rise. In addition to the interest rate increases, with regard to quantitative easing tools, the ECB has ceased since July 2023 the reinvestments of maturing bonds under the APP, while continuing the reinvestments of maturing bonds under the PEPP programmes until the end of 2024, without net new purchases.

Among the negative trends in the financial system, the cost of new private sector borrowing continued to increase, credit growth to firms stagnated and the credit contraction to households was unabated. Among the challenges from the past, the high share of Non-Performing Loans

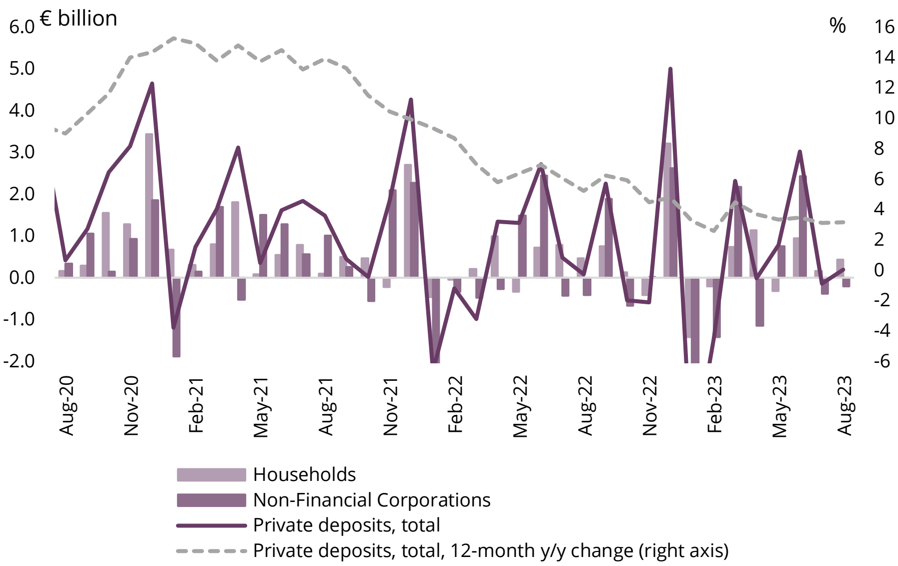
(NPLs) both on and off bank balance sheets stands out. Following the expiry of the Hercules State-guaranteed securitisation programme at the end of 2022, the NPL ratio on banks' balance sheets recorded only marginal improvement in the first half of 2023. Moreover, the share of deferred taxation in equity remains high.

Among the positive trends in banks' fundamentals, organic profitability indicators improved significantly, and private deposits are stable. The upcoming agreement with the European Commission to extend the loan component of the National Recovery and Resilience Plan and its timely implementation is an opportunity to further boost credit for productive investments.

The new challenges for banks include a deterioration in the ability of borrowers to repay at a variable rate and an increase in the cost of financing from the Eurosystem and the capital markets. The apparent long duration of tighter monetary policy is slowing down growth rates and is affecting the financial sector's outlook, including in terms of asset quality and profitability prospects.

Figure 2.7

Monthly net flow of private deposits at Greek banks



Private sector deposits increased by €3.1 billion in June-August 2023, compared with an increase of €3.3 billion in the same period of 2022.

Source: Bank of Greece

On the liabilities side of banks, private deposits increased by €3.1 billion in June-August, of which €1.5 billion came from firms and €1.6 billion from households (Figure 2.7). On an annual basis, private deposits declined marginally in June-August by €0.2 billion. The year-on-year rate of change stood at 3.2% in August, down from an average rate of 4.8% in 2022.

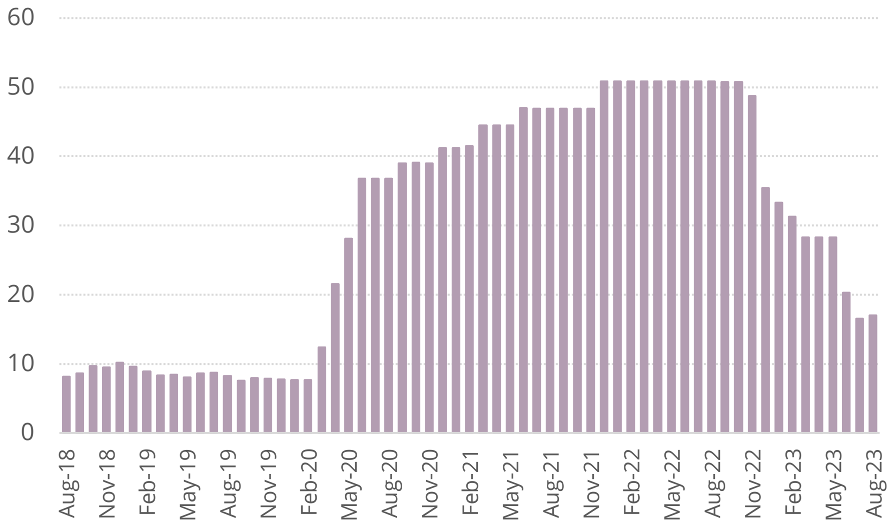
Further fatigue in private deposits is expected in 2024, with an overall mild upward trend. As economic support measures dwindle but inflation remains higher than before the 2022 crisis, real disposable income and savings of households and businesses are expected to continue to be under pressure.

The second part of banks' liabilities concerns funding from the Eurosystem. The gradual increase in the cost of providing liquidity by the ECB has significantly reduced the use of long-term financing tools by the Eurosystem, such as the LTROs, by €33.9 billion year-on-year in August 2023 (Figure 2.8). At the same time, domestic banking assets eligible by the Eurosystem as collateral for monetary policy operations, as reflected in the Bank of Greece's financial statements, declined over the same period, reaching €32.0 billion in August 2023, from almost €69 billion in mid-2022.

On the third pillar of banks' liabilities concerning funding from the capital markets, the recovery of the investment grade for both sovereign and private securities creates positive prospects, yet these are partly offset by the increase in the cost of money globally.

Figure 2.8

Long-term financing of the Greek banks from the Eurosystem (billion €)



The use of Eurosystem liquidity-supply tools by the Greek banks declined further in mid-2023, to €17.0 billion in August.

Source: Bank of Greece

On the banks' asset side, the 12-month growth rate of credit to the domestic private sector declined to 0.9% in August 2023 (Table 2.10). The rate for non-financial corporations (NFCs) declined to 2.4% in the same month (Figure 2.9), while the new flows to enterprises netted to zero in June-August. At the same time, the change in credit to self-employed and sole proprietors, as well as to households, continued to be negative.

Private sector financing is affected by changes in loan supply and demand, under the influence of higher interest rates. On the supply side, delays in the implementation of the loan component of the National Recovery and Resilience Plan "Greece 2.0" have a negative impact on the provision of business credit.

From a loan demand perspective, the increase in the cost of money and international sources of geopolitical instability act as a deterrent to new investment projects, but this is partly offset by the elimination of domestic political risk in the short term. The Bank of Greece's bank lending survey in the second quarter of 2023 recorded expectations of stronger demand for new loans to businesses, following the decline in the first quarter. The expectation of stronger demand is found in large firms and for long-term loans, while demand for housing and consumer credit is expected to be relatively stagnant. Credit standards remained stable for another quarter, without expectations for changes in the short term.

Table 2.8

Domestic bank financing and average interest rates per portfolio

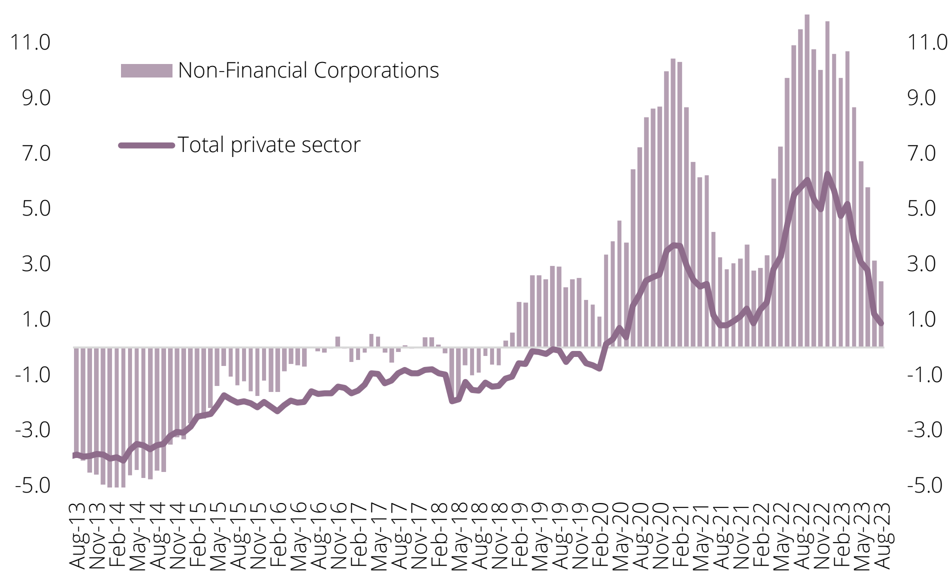
Quarter/Year	3/22	4/22	1/23	2/23	Jul.23	Aug.23
Annual % change of 12-month flows*						
Total private sector	5.8	5.5	5.2	3.3	1.2	0.9
Households & NPIs	-2.2	-2.3	-2.5	-2.7	-2.6	-2.4
Consumer credit	1.1	1.0	1.8	1.5	1.8	2.0
Mortgage credit	-3.1	-3.2	-3.6	-3.9	-3.8	-3.7
Sole proprietors and unincorporated	0.6	0.0	-1.6	-2.4	-3.3	-3.2
Non-financial corporations	11.6	10.9	10.3	7.1	3.1	2.4
Interest rates on new loans (period average, %)						
Consumer credit	10.6	10.7	10.9	11.4	11.9	11.9
Mortgage credit	3.17	3.60	3.76	3.96	4.22	4.22
Loans to non-financial corporations	3.29	4.43	5.32	5.79	6.15	6.40

Source: Bank of Greece.

* The flows result from changes of outstanding balances corrected for loan write-offs, re-evaluation of securities, foreign exchange differences and reclassification/transfer of loans.

Figure 2.9

Bank financing of the domestic private sector (annual % change of 12-month flows*)



Zero new net flows to corporations in June-August 2023, with the pace of 12-month credit expansion slowing down.

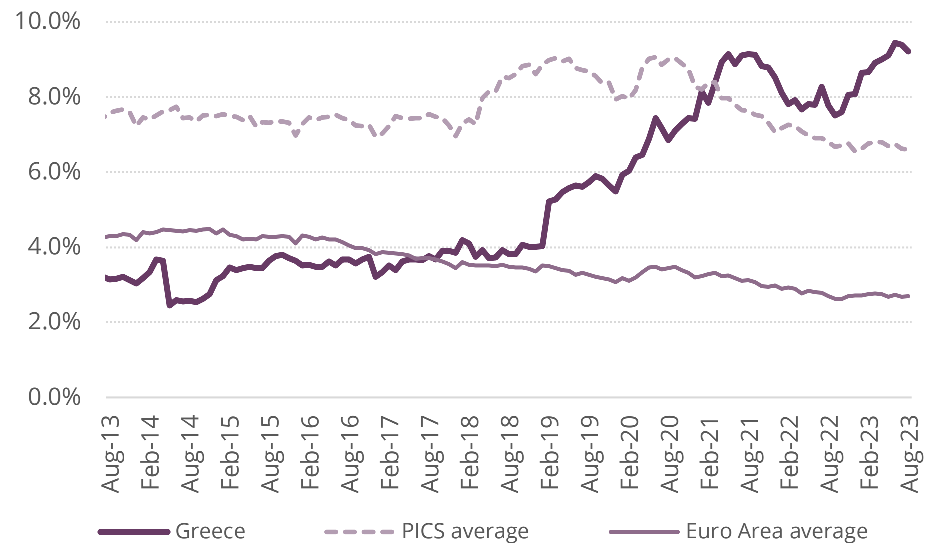
Source: Bank of Greece

* Flows after correcting for write-offs, exchange rates and statistical reclassifications.

On the asset side, banks' exposure to sovereign debt remained relatively stable, reaching €29.0 billion in August 2023, or 9.2% of their total assets. Thus, the share of total assets of Greek banks placed in government bonds remains higher than that of the rest of the euro area's "south" countries and significantly higher than the euro area average (Figure 2.10).

Figure 2.10

Banks' government bond holdings over total assets (%)



Greek banks' relative exposure to government bonds remains above the euro area average.

Source: ECB

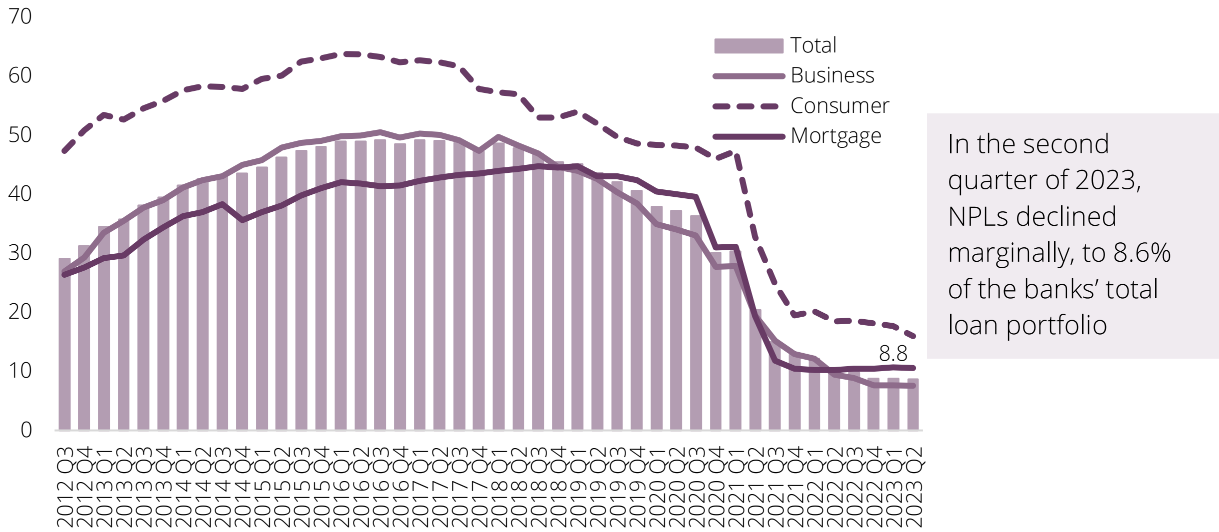
Non-performing loans (NPLs) on banks' balance sheets showed a marginal improvement in the second quarter of 2023, to 8.6% of banks' total loans, to €12.7 billion, from 8.8% and €13.0 billion in the previous quarter. The pace of decline in NPLs has weakened markedly in 2023, after the expiry of the sovereign-guaranteed securitisation programme Hercules at the end of 2022. The overall level of NPLs remains higher than in other European countries, where it is at low single-digit rates. In business credit, the share of NPLs remained stable at 7.6% of loans, while it decreased from 17.7% to 16.0% in consumer loans and marginally from 10.7% to 10.6% in housing loans.

In addition to NPLs on banks' balance sheets, a very significant volume of loans, formerly bank NPLs, is recorded under management by Credit Servicing Firms (CSFs). Indicatively, in the second quarter of 2023, the total nominal value of loans under the CSFs reached €71.2 billion. Thus, the stock of non-performing private debt, both inside and outside the banking system, remains very high, with negative effects on the efficient allocation of economic resources and the prospects for economic recovery. For this reason, the proper functioning of the secondary market for debt and credit claims, as well as tools such as the out-of-court debt settlement mechanism, are of high importance.

In the medium term, the reduction of NPLs is expected to continue to weaken, also due to a lower base effect. A new round of the Hercules securitisation programme is likely to have a positive impact. At the same time, however, there is a notable risk of new NPLs appearing in individual portfolios with variable interest rates such as housing, as a result of higher interest rates over a long term.

Figure 2.11

Non-Performing Loans, % of total loans by category*



Source: Bank of Greece

* On-balance sheet loans (before provisions) for all Greek banks on a non-consolidated level

As regards new credit at the end of 2023 and in 2024 overall, on the one hand, the credit contraction to households is expected to carry over. On the other hand, credit growth to businesses is expected to recover, with the acceleration in the implementation of the loan arm of the National Recovery and Resilience Plan, for which the overall perimeter of €12.7 billion agreed for Greece by 2026 is likely to be extended by an additional €5.0 billion. The agreement with the European Commission about the revision of the Greece 2.0 plan and the proposal regarding the utilisation of REPowerEU resources is still pending.

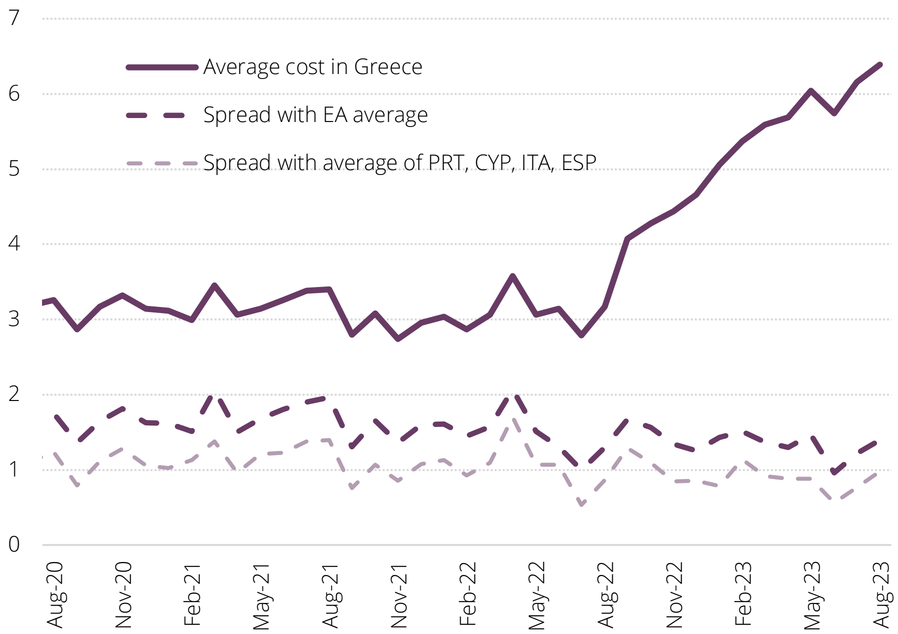
Interest rates on new deposits increased slightly in June-August 2023, to 0.49% and 0.31% for non-financial corporations (NFCs) and households respectively. Over the same period, the average new lending rate increased significantly to 6.1%, standing at around 6.2% for individuals and 6.1% for NFCs. The spread of the average interest rate on loans and deposits (interest margin) increased further to 5.8% over the same period, which is a 20-year high (period for which data are available), compared with 4.2% in 2022 as a whole.

The average cost of new bank financing of private sector NFCs increased to 6.4% in August (Figure 2.12). At the same time, the cost of financing Greek businesses is higher than in other euro area countries. Indicatively, according to the ECB's weighted bank borrowing cost index, the cost for non-financial corporations in August 2023 stood at 5.0% in the euro area and 5.4% in the countries of the "south" of the Eurozone (Portugal, Italy, Cyprus, Spain). As a result, the spread of borrowing costs for the Greek companies in relation to the euro area average and the average for the euro area "south" stood at 140 bps and 98 bps respectively. Compared to the level before the 2010 debt crisis, the spread of borrowing costs for the Greek companies compared to the average of the other countries of the euro area "south", remains significantly higher.

Amid rising international government bond yields in mid-2023, Greek government bond yields showed relative stability at levels of around 4%, with their spread from other European countries narrowing. This has been supported by the strengthening of confidence from the gradual recovery of the investment grade and the reduction of domestic political risk. Thus, for the 10-year bond, the yield averaged 3.9% in August (Figure 2.13). The additional cost burden on the new 10-year Greek government borrowing compared to other euro area countries decreased further in mid-2023. In August, it stood at 134 bps and 15 bps compared to the German bond and the average of the euro area's "south" countries, respectively, from 235 bps and 87 bps in 2022 as a whole. Despite this progress, the spreads remain significantly higher than their average values in the first decade of the country's accession to the Eurozone (54 bps and 2 bps respectively).

Figure 2.12

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

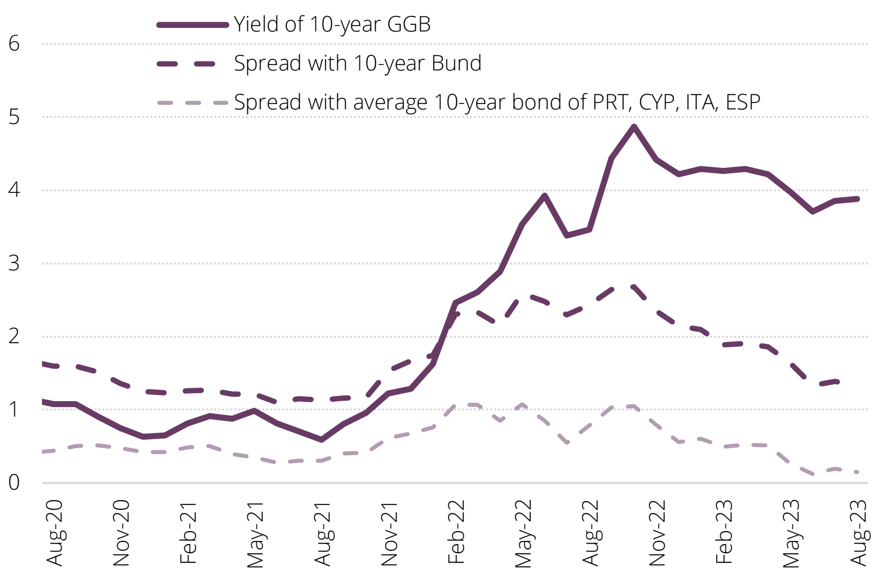


Interest rates for new private sector loans rose to 6.4% in August, with the spread from average borrowing costs in the euro area's "south" countries at 98 bps.

Source: ECB

Figure 2.13

Yield and spread of the 10-year Greek sovereign bond (%)



The average yield on the 10-year government bond stabilised at 3.9% in August 2023, while the average spread declined to 134 basis points against the corresponding German bond.

Source: ECB

As part of the Greek government's funding strategy, in 2023, the PDMA has already raised more than €9.5 billion from long-term bond markets. In mid-January 2023, a new 10-year bond was issued, with which the Greek government raised €3.5 billion at an interest rate of 4.27%, of which 78% was absorbed by international investors. At the end of March 2023, a new 5-year bond was issued, with which the Greek government raised €2.5 billion at an interest rate of 3.92%. In May and June 2023, three Greek bonds were reissued (10-year, 15-year, and 25-year) with which the Greek government drew €0.25 billion, €0.15 billion and €0.20 billion, at an interest rate of 3.97%, 4.14%, and 3.99% respectively. In July 2023, a new 15-year bond was issued in which the Greek government raised €3.5 billion at an interest rate of 4.45%.

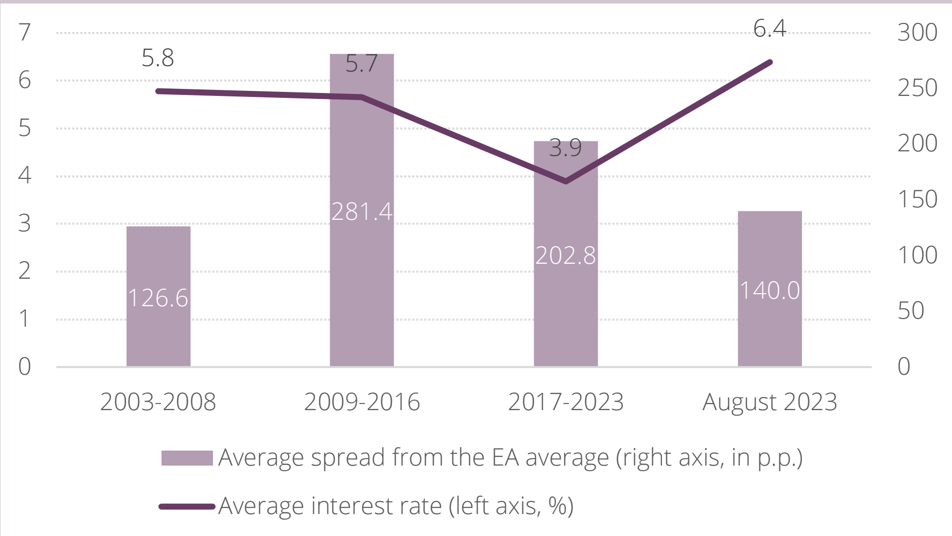
In mid 2023, after 13 years, the Greek creditworthiness recovered the long-desired "investment grade" from two international rating agencies, R&I and DBRS. Two more agencies (S&P, Scope) evaluate the Greek state one notch below the investment grade. The level of Greek public debt remains among the largest in the world as a percentage of GDP (168.3% in the first quarter of 2023, as presented in the Appendix). Its qualitative characteristics, such as its long average repayment maturity and large share in fixed and low interest rate loans, counteract this quantitative feature.

Special Box of section 2.2

Comparison of the relative cost of financing in Greece and the euro area before and after the Greek debt crisis

The cost of new borrowing by the public and private sector is a catalyst for the prospects of new productive investments. As Greece has accumulated a significant investment gap in recent decades and continues to record an investment-to-GDP ratio lower than other European countries, it is appropriate to highlight the long-term evolution in the relative cost of financing in Greece compared to the rest of the euro area.

Figure B2.2.1. Cost of new bank financing of businesses, Greece relative to the Eurozone

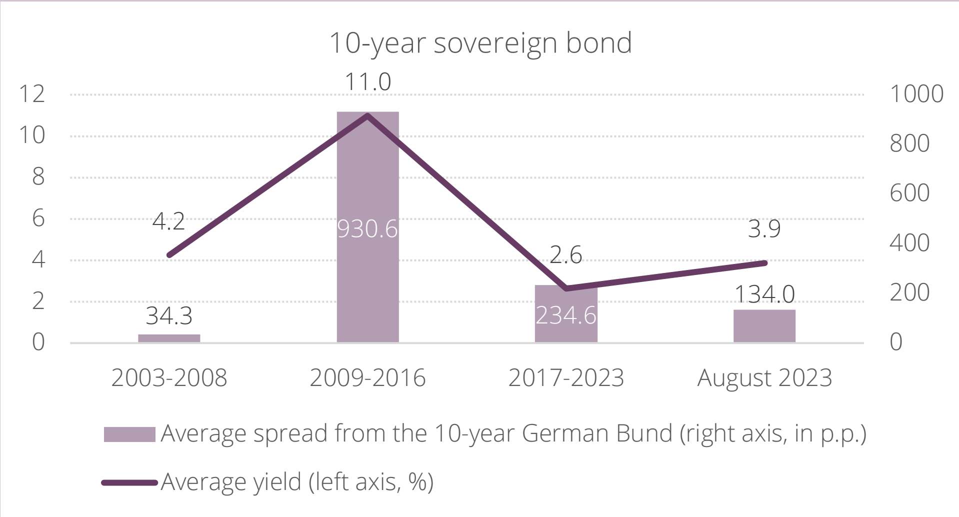


Source: ECB. Data processing: IOBE

As regards bank financing to the private sector, over time, the cost of private business borrowing in Greece has been more expensive than the corresponding European average. In recent years and in 2023, the cost of private sector financing has converged towards that in Europe, allowing Greek households and businesses to access financing at relatively more similar terms compared with the rest of Europe. However, in absolute terms, costs increase as a result of monetary policy tightening.

Regarding the Greek state, the debt crisis shot up the cost of new borrowing from the markets in 2009-2016 to levels largely offset by the intervention of the international 'official' sector. After the debt crisis, there has been a gradual but systematic rebound in market confidence in the creditworthiness of the Greek state. Amid the recent rise in global sovereign bond yields, the rise in Greek bonds is slower than the corresponding increase in euro area government bond yields, leading to a narrowing of the spread. However, the spread of Greek government bond yields remains significantly higher (around 100 basis points in August) than in the pre-crisis period 2003-2008.

Figure B2.2.2. Cost of new public financing, Greece in relation to Germany



Source: ECB. Data processing: IOBE

For the Greek economy, an important objective is for the financing costs of private and public investment to be comparable and competitive with that of the rest of the economies within the monetary union. To achieve this, reforms that systematically enhance the creditworthiness of domestic producers and strengthen the return on domestic productive investment are essential.

3 PERFORMANCE AND OUTLOOK

3.1 GDP components

A. Recent developments

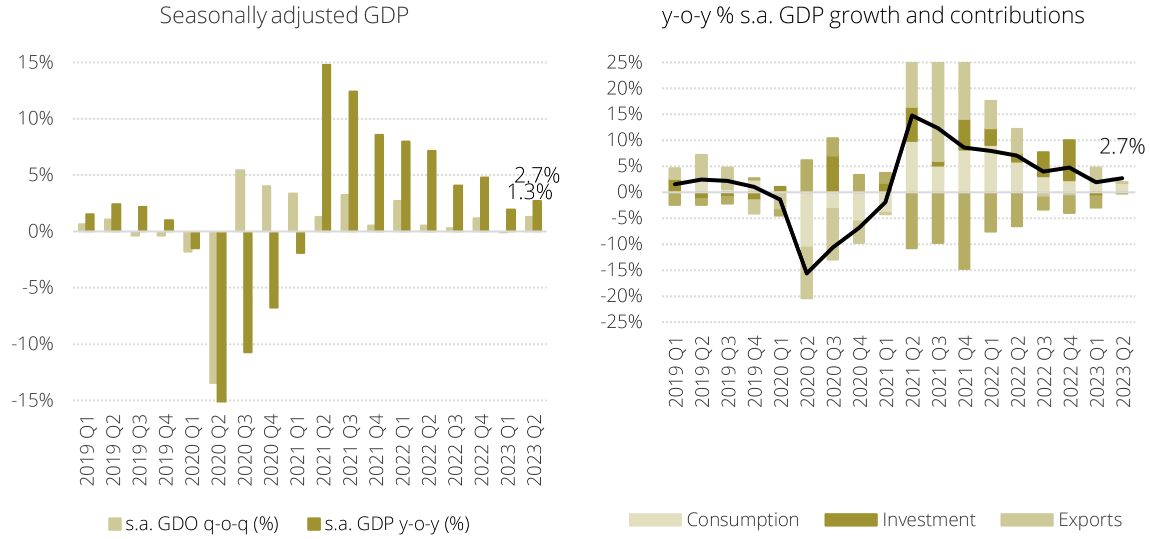
- Acceleration of annual recovery to +2.7% (y-o-y) in the second quarter of 2023 and GDP growth by +1.3% compared with the previous quarter.
- The growth in domestic GDP was primarily driven by household consumption, which strengthened annually by +3.2%, while public consumption contracted annually by -1.4%.
- Fixed capital formation maintained momentum, growing by +7.9% annually, while as a result of the annual decline in inventories in the second quarter of the year as well (26.6%), total investment increased marginally by +0.2% annually.
- Total exports did not contribute to growth in the second quarter of 2023, due to the significant decline in the annual growth rate of exports of services (+1.3%) and a contraction in the exports of goods (-1.8%).
- A milder, compared with exports, slowdown in the annual growth rate of imports (+0.6%) and, as a result, the external deficit in national accounts terms increased by about €110 million, compared with a year earlier.

Recent macroeconomic developments in Greece

The recovery of the Greek economy strengthened in the second quarter of 2023 compared to the previous quarter, despite the continued slowdown of the EA economy. In particular, the annual growth rate of GDP was +2.7% in Greece (+0.5% in the EA), while quarter-on-quarter GDP increased by +1.3%. The pick-up in domestic economic activity was primarily due to the resilient to inflationary pressures household consumption, and secondarily due to fixed capital formation, which maintained its momentum. By contrast, exports, which were the main driver of GDP growth in the previous quarter, did not contribute to the recovery in the second quarter of 2023, due to the significant decline in the annual growth rate of exports of services and the contraction of exports of goods (Figure 3.1).

Figure 3.1

Evolution of GDP and the contribution of its components



Source: ELSTAT, Data processing IOBE

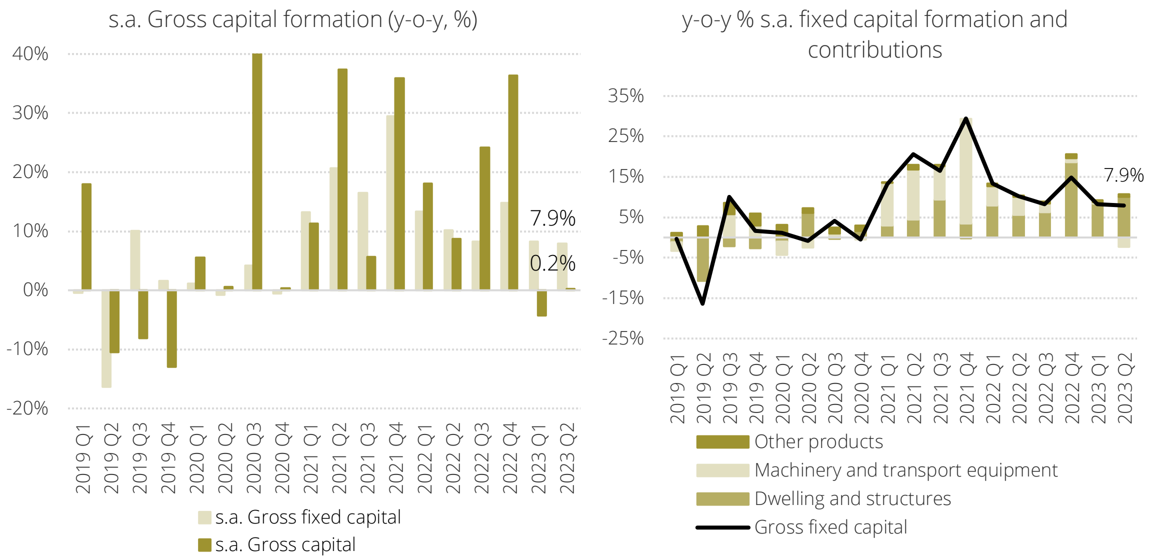
Private consumption was the main driver of recovery in Q2 2023.

Looking closer at the developments in the GDP components in the second quarter of this year, the annual growth rate of domestic consumption remained positive (+2.0%), marginally lower than in the previous quarter (+2.2%). Private consumption, supported by rising employment and nominal wages, grew by +3.2% per year, up by +0.9% quarter on quarter, and was the largest contributor to the recovery in Q2 2023. By contrast, public consumption contracted annually by -1.4%, while a quarter earlier it had risen by +2.1%.

Benefiting from the resources of the Recovery and Resilience Facility, fixed capital formation managed to maintain momentum, growing annually by +7.9%, from +8.2% one quarter earlier. However, due to the annual reduction in inventories, which accumulated in the previous year amid high uncertainty, in the second quarter of the year (-26.6% from -44.2% a quarter earlier), total investment increased marginally by +0.2% y-o-y (from -4.3% in the previous quarter - Figure 3.2).

Figure 3.2

Evolution of investment and the contribution of its components



Source: ELSTAT, Data processing IOBE

Total investment stalled as a result of the continued annual decline in stocks, while fixed capital formation grew more strongly in the housing sector.

In particular, dwellings and other buildings and structures contributed primarily to the increase in fixed capital formation (+24.4%), with other products (+3.7%) coming next (figure 3.2). By contrast, for the first time since 2020, investment in machinery and equipment, including transport, ICT, weapon systems, and other equipment, contracted (-5.9%, Figure 3.2). In more detail, the annual rate of change in investment was positive in four of the seven components of fixed capital formation. Specifically, the largest annual boost was recorded for another quarter in dwellings (+47% from 48% a quarter earlier), followed by investment in transport equipment, which weakened compared with the previous quarter (+41.8%), growing annually by +16.7%. Investment in other buildings and structures also followed an upward trend (+15% y-o-y compared with +10.4% in the previous quarter), as did the investment in other products (+3.8% y-o-y compared with +3.6% in the previous quarter). By contrast, investment fell by -22.6% (from +0.5% a quarter earlier) in ITC equipment and by -6.3% (down from -9.9% one quarter earlier) in transport equipment and weapons systems. Finally, investment in cultivated biological resources continued to contract (-4.0% from -1.8% one quarter earlier).

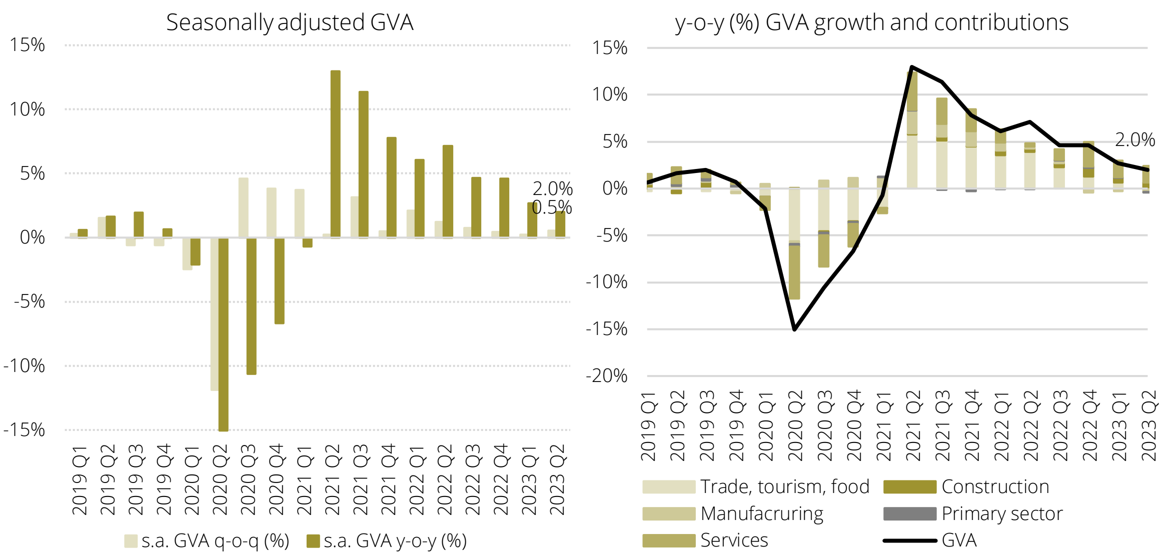
Turning to developments in the external balance of the economy, exports slowed down significantly (+0.1% per year from +7.1% in the previous quarter), mainly due to the contraction in economic activity worldwide, as well as a higher base effect. Specifically, exports of goods, which made the largest contribution to the previous quarter's recovery, declined annually by -1.8% (from +10.7% a quarter earlier), while exports of services continued to grow at a weaker pace (+1.3% per year from +6.2% in the previous quarter).

The slowdown in exports combined with a smaller decline in the annual growth rate of imports (+0.6% from +5.2% in the previous quarter), slightly worsened the external balance deficit in national accounts terms, compared with a year earlier, by about €110 million or -0.05 percentage points of quarterly GDP. Looking at the import components, imports of services rose by +6.1% year-on-year (from +11.8% a quarter earlier), while imports of goods decreased annually by -1.2% (from +2.9% in the previous quarter). Finally, it is worth noting that the domestic economy maintains a high degree of openness, with the annual average of the ratio of the sum of imports and exports to GDP remaining close to 82%.

Approaching GDP on the production side, domestic gross value added (GVA) expanded in the second quarter of the current year less than GDP (+2.0% per year), with taxes and subsidies on products, following the partial phasing-out of energy support measures since the beginning of this year, continuing to decline annually by -5.9% (from -11.6% in the previous quarter) and -37.7% (from -18.8% in the previous quarter) respectively.

Figure 3.3

Evolution of GVA and the contribution of its components



Source: ELSTAT, Data processing IOBE

After a contraction in most GVA components, other services made the largest contribution to GVA growth for the third consecutive quarter.

At the sectoral level, other services contributed most to GVA growth for yet another quarter, followed by the construction sector, while the broader tourism-transport-trade (wholesale and retail) sector and the primary sector (Figure 3.3) saw a contraction in their activities. In greater detail, the other sectors of the tertiary sector, excluding tourism-transport-trade (wholesale and retail), recorded an annual expansion of their activity, with the highest annual growth recorded in professional-scientific-technical-administrative activities (+12.8% from +15.5% in the previous quarter), followed by arts-entertainment-recreation (+11.1% from +11.8% in the previous quarter); information-communication (+9.3% from +7.6% in the previous quarter), financial-insurance activities (+3.8% from +3.7% in the previous quarter), public administration-defence-compulsory social security (+2.0% from +1.3% in the previous quarter), and finally real estate management (+0.4% from +0.5% in the previous quarter).

Table 3.1

Trends in key macroeconomic figures – National Accounts (seasonally adjusted data, 2015 constant prices), provisional data

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change
2012	180465	-7.2%	163392	-7.0%	20238	-21.0%	48968	2.0%	52762	-5.7%
2013	175875	-2.5%	156839	-4.0%	19583	-3.2%	49843	1.8%	50684	-3.9%
2014	176833	0.5%	156595	-0.2%	20434	4.3%	53954	8.2%	54109	6.8%
2015	176446	-0.2%	156668	0.0%	21391	4.7%	56661	5.0%	58361	7.9%
2016	175604	-0.5%	156041	-0.4%	22784	6.5%	56426	-0.4%	59864	2.6%
2017	177461	1.1%	158841	1.8%	21637	-5.0%	61229	8.5%	64365	7.5%
2018 Q1	44935	1.8%	40332	2.5%	5215	-11.0%	16248	9.4%	16691	4.7%
2018 Q2	45027	1.7%	39687	0.1%	6252	16.8%	16503	7.8%	17229	8.4%
2018 Q3	44950	0.5%	39836	0.1%	5463	-0.7%	16615	7.1%	17627	8.9%
2018 Q4	45313	2.3%	39829	-0.5%	6365	29.4%	17446	12.2%	17662	8.0%
2018	180225	1.6%	159683	0.5%	23296	7.7%	66812	9.1%	69210	7.5%
2019 Q1	45612	1.5%	40423	0.2%	6152	18.0%	17103	5.3%	17721	6.2%
2019 Q2	46105	2.4%	40815	2.8%	5595	-10.5%	18455	11.8%	17726	2.9%
2019 Q3	45926	2.2%	40113	0.7%	5020	-8.1%	18350	10.4%	18227	3.4%
2019 Q4	45758	1.0%	40907	2.7%	5543	-12.9%	16169	-7.3%	17547	-0.7%
2019	183401	1.8%	162259	1.6%	22311	-4.2%	70076	4.9%	71221	2.9%
2020 Q1	44944	-1.5%	40511	0.2%	6492	5.5%	15386	-10.0%	18206	2.7%
2020 Q2	38903	-15.6%	36158	-11.4%	5630	0.6%	13103	-29.0%	14947	-15.7%
2020 Q3	41010	-10.7%	38775	-3.3%	7081	41.1%	12405	-32.4%	16743	-8.1%
2020 Q4	42661	-6.8%	38367	-6.2%	5565	0.4%	14101	-12.8%	16032	-8.6%
2020	167519	-8.7%	153812	-5.2%	24768	11.0%	54996	-21.5%	65928	-7.4%
2021 Q1	44083	-1.9%	38659	-4.6%	7224	11.3%	15275	-0.7%	17302	-5.0%
2021 Q2	44650	14.8%	40150	11.0%	7733	37.4%	16397	25.1%	18773	25.6%
2021 Q3	46090	12.4%	41009	5.8%	7484	5.7%	18338	47.8%	20415	21.9%
2021 Q4	46327	8.6%	41876	9.1%	7566	36.0%	18242	29.4%	21210	32.3%
2021	181149	8.1%	161695	5.1%	30007	21.2%	68252	24.1%	77700	17.9%
2022 Q1	47590	8.0%	42605	10.2%	8533	18.1%	17435	14.1%	20371	17.7%
2022 Q2	47830	7.1%	42793	6.6%	8407	8.7%	18425	12.4%	21514	14.6%
2022 Q3	47957	4.1%	42434	3.5%	9294	24.2%	17850	-2.7%	21480	5.2%
2022 Q4	48529	4.8%	42974	2.6%	10321	36.4%	17874	-2.0%	22649	6.8%
2022	191906	5.9%	170806	5.6%	36555	21.8%	71584	4.9%	86015	10.7%
2023 Q1	48527	2.0%	43549	2.2%	8167	-4.3%	18674	7.1%	21423	5.2%
2023 Q2	49140	2.7%	43638	2.0%	8427	0.2%	18442	0.1%	21641	0.6%

* provisional data

Source: Quarterly National Accounts, ELSTAT, September 2023

By contrast, the broader sector of tourism-transport-trade recorded a marginal decline in activity for the first time since the lifting of the health restrictions (-0.5% from +3.1% in the previous quarter), while the industrial sector also continued to contract, at a similar rate as in the previous quarter (-2.0% y-o-y). Finally, the primary sector also recorded an annual decline of -1.9%, compared with +2.0% in the previous quarter.

To sum up, the structure of the recovery of the Greek economy changed in the second quarter of this year compared with the previous one, with consumption making the largest contribution to growth, after a significant slowdown in total exports. Fixed capital formation maintained momentum, but due to the continued decline in inventories, total investment had no contribution to growth in the second quarter of 2023.

B. Assumptions and forecasts

Medium-term outlook

- Geopolitical instability in Eastern Europe and the Middle East, the slowdown of the euro area economy, the slow decline in core inflation, fiscal aggregates, and the execution of the "Greece 2.0" plan, are the major drivers of GDP change in 2023 and 2024.
- Inflation is estimated at 4.3% for 2023 and 2.6% for 2024, and unemployment at 11.0% and 10.5% respectively.
- Growth is estimated at 2.4% at constant prices in 2023 (unchanged from the previous quarter), mainly supported by private consumption (+2.0%) and fixed capital formation (+10.0%). Slight improvement in the external balance, due to a higher annual increase in exports (+3.5%) compared to imports (+2.6%).
- An estimate for similar growth of 2.4% in 2024, with uncertainty about the magnitude of risks stemming from the international environment.
- Private consumption is expected to slow down (+1.4%), while fixed capital formation is expected to maintain its momentum (+10%) in 2024.
- Marginal improvement in the current account balance, with exports and imports increasing annually in 2024, by +2.6% and +2.3% respectively.

Against the backdrop of an unfavourable international environment, characterised by a slowdown in economic activity in the EA and worldwide, geopolitical instability, high global debt, persistent inflation, financial risks, and a heavy investment climate, the Greek economy is expected to maintain its growth momentum in 2024. The successful implementation of the revised plan "Greece 2.0", broadening of the investment base, and maintaining openness and fiscal discipline are the main factors that are expected to contribute to domestic growth next year.

Persistently lower energy price levels – high core inflation

Inflation continued its downward trend since late in the previous year in the first eight months of 2023, with the average rate of change in the Harmonised Index of Consumer Prices (HICP) standing at +4.7%, on account of an upward impact on non-energy goods prices, remaining significantly below the average rate of change in the EA (+6.7%). However, alarming for the strengthening of the competitiveness of the domestic economy is the fact that the rise in the index is due to the positive impact of domestic demand, as the percentage change in the index with fixed taxes and excluding energy goods was +7.6%, marginally higher than the increase in the EA (+7.2%). It should be noted that at the same time, core inflation in Greece rose to +7.4% from +4.5% a year earlier.

As regards international energy prices, the average international oil price in euro, which is a key component of energy costs, weakened in January-August this year, -25.8% lower than in the corresponding period of 2022, propped up by the rise in the average euro exchange rate against the dollar over the same period. In 2023 as a whole, the average oil price in euro is expected to decline by -19.4% compared to the previous year, while for 2024 it is expected to increase modestly by about +4%, mainly driven by stronger global demand. In addition, the conflict in the Middle East is expected to have a positive effect on energy prices, with OPEC indicating that current war-related developments will not influence its decisions.

In the next quarters of 2023, as well as in 2024, the decline in inflation is expected to strengthen further on account of relative stability in energy prices, the expected weakening of post-COVID-19 demand, as well as a high base effect. It is worth noting, however, that despite the fall in inflation, the decline seems to be slower than initially expected, with central banks in most economies indicating that they will continue their aggressive monetary policy tightening until inflation is brought back promptly to the 2% medium-term objective. Measures to boost household disposable income, such as subsidies on electricity bills, the new increase in pensions and minimum wages as of April 2024, the return of three-year salary maturations, the payment of benefits to the private sector, and the new wage grid for public employees as of 1 January 2024 are expected to counteract the decline of domestic demand. Also, on the supply side, natural disasters may have upward effects on inflation at the end of 2023 and in the following year.

According to the forecasts announced by the IMF in October 2023, inflation in the EA in 2023 will be 5.6% (a forecast concurred by the ECB and the European Commission) and 3.3% in 2024, while for Greece inflation is projected at 4.2% in 2023 and 2.8% in 2024. A more comprehensive analysis of inflation and its main determinants can be found in Section 3.5.

Global economic slowdown

The recovery of the European and global economy is slowing down amid high inflation and monetary tightening. In the second quarter of 2023, most of the world economies recorded a small quarter-on-quarter increase in activity, with the economies of the OECD and the major developed economies (G7) growing at an annualised rate of 1.6% (from 1.6% and 1.4% respectively in the previous quarter). It is also worth noting that the US economy, despite the decline in exports and the high debt management risk, recorded an annual growth rate of 2.4% in the second quarter of 2023, up from 1.7% in the previous quarter, while the US economy is projected to grow by 2.2% in 2023 as a whole and by 1.3% in 2024 (more information on changes in the macroeconomic fundamentals of EU countries and globally can be found in Sections 2.1A and 2.1B).

By contrast, over the same period, economic activity in the euro area, which is Greece's main trading partner, slowed down, with an annual growth rate of 0.5% from 1.1% in the previous quarter. Among the largest economies in the bloc, GDP expanded year-on-year in France (+0.5%) and Spain (+0.5%), remained stable in Germany, and declined in Italy (-0.4%) and the Netherlands (-0.2%).

For 2023 as a whole, the OECD revised in September this year marginally upwards its growth forecast for the global economy to 3.0% (from 2.7%) and 2.7% for 2024. The growth rate of the euro area economy is estimated at 0.6% and 1.1% in 2023 and 2024, respectively. By contrast, the Chinese economy is expected to experience significantly stronger growth (5.1% and 4.6% in 2023 and 2024 respectively).

The current account deficit remains high

The slowdown of the EA is affecting the domestic economy in critical aspects such as exports and investment. In the first seven months of 2023, exports of goods declined at current prices by -3.1%, owing mainly to a decline in petroleum products. The larger contraction in the imports of goods improved the deficit of the goods account by €3.4 billion compared with 2022, but remained high, close to its 2009 level. It is also worth noting that Greek exports of goods are expected to be moderately negatively affected in the coming period by devastating fires and floods, which have affected the country's agricultural and animal production.

In the services sector, the surplus in the services account increased by 10.6% in the first 7 months of the year, mainly on account of travel receipts. The surplus in the secondary income account also turned significant in 2023, due to the last ESM tranche in the context of the reimbursement of profits on Greek bonds, as well as the disbursement of the second tranche of the Recovery and Resilience Facility (RRF), while the primary income account turned into a deficit in 2023, due to higher investment payments (gains, dividends, interest). Overall, the current account deficit in the first 7 months of 2023 improved but remained high, making the domestic economy vulnerable to external shocks (the external balance trends are detailed in Section 3.3).

Next year, the expected slowdown in domestic demand, as well as a gradual improvement in the external environment coupled with low energy prices and a possible decline in the high deflator of exports mainly, are expected to improve the Greek economy's high trade deficit, while maintaining the openness of the economy (at a high level of 82% of GDP) and expanding the share of services in exports and the share of goods in imports. However, it is worth noting that high current account deficits during periods of growing investment reflect the negative savings rate of domestic households, which hampers the long-term growth potential of the Greek economy and the improvement of the living standards of its population.

Tight monetary policy due to persistent inflation

Persistent inflation, which reinforces fears of an upward shift in inflation expectations, alongside low unemployment in many countries, has led central banks to continue their tight monetary policy, which began in mid-2022. In particular, the Fed has successively increased its base rate by a total of 525 basis points from March 2022 to July 2023, to 5.25%-5.50%. At its September meeting, it decided to leave the interest rate unchanged, signalling a further rise in the interest rate if inflation did not slow down, and its intention to keep it high for a considerable period.

By contrast, following an upward revision of its forecast for EA inflation in 2023 and 2024, which is mainly due to an expected increase in energy prices, the ECB decided at its last meeting in September this year on a further increase in its key interest rates by 25 basis points, bringing the interest rates on its main refinancing operations, marginal lending and deposits to 4.50%, 4.75% and 4.00% respectively. In its latest communication, the Governing Council of the ECB announced that key interest rates are expected to remain high for a sufficiently long period to meet the main objective of returning in a timely manner to the medium-term target of 2% by curbing demand and anchoring long-term expectations.

With regard to quantitative easing policies, and its Asset Purchase Program in particular, the ECB no longer reinvests principal payments from maturing securities. Regarding the Pandemic Emergency Purchase Programme (PEPP), the Governing Council announced its intention to reinvest the main payments from maturing securities until at least the end of 2024. Finally, as private banks repay a large part of their borrowing after the completion of the third series of targeted long-term refinancing operations (TLTRO III) in June 2022, the ECB will continue to monitor bank funding conditions to ensure the smooth transmission of central monetary policy.

The sharp increase in central bank interest rates, even if coming to an end, as well as the halt of ample liquidity supply at close to zero cost in Europe and the United States, which peaked with the pandemic, but was already present for years after the debt crises, will inevitably have a serious economic impact. As a direct consequence, higher cost of money causes debt servicing difficulties for businesses and consumers, as well as for countries with high borrowing needs, especially if they have both weak growth and fiscal deficits. Also, in the absence of strong supply-side policies, higher interest rates can only dampen inflationary pressures if accompanied by economic recession. Especially in Europe, where trade is squeezed by geopolitical developments and investment by money costs and uncertainty and, taking into account the needs of the green transition and demographic pressures, it appears that raising the living standards will depend on increasing workers' productivity and integrating innovative technologies into production.

Successful implementation of the State budget

Despite the slowdown in growth in most economies in the EA, governments are urged to implement a tighter fiscal framework, which will enable compliance with the rules of the Stability and Growth Pact, contributing to a gradual reduction of the debt-to-GDP ratio as well as inflation.

In line with European practices, in its draft state budget for 2024 submitted to Parliament in early October, taking into account the general escape clause as well as the new fiscal rules that are expected to enter into force (which foresee, inter alia, debt reduction for the countries with debt above 60% of GDP and budget deficits of below 3% for all Member States), the Greek government projects a primary surplus of 1.1% in 2023 and 2.1% in 2024, very close to the IMF's estimates of fiscal developments in the Greek economy.

According to the state budget execution data, the balance and the primary balance of the state budget continue to exceed the respective cash targets in the first eight months of this year, as reflected in the explanatory report to the 2023 budget. The overperformance of the fiscal balance is due to higher-than-expected revenues driven by four positive factors: economic growth, albeit at a declining pace; dispersion of electronic payments; higher indirect tax revenues due to inflation and resilient domestic demand; and finally higher income tax revenues due to the progressive scale. On the expenditure side, there was a small shortfall, as the grants to the social security funds undershot the set target (more information on the execution of the state budget is presented in Section 2.2B).

For 2024, timely and effective use of existing (Public Investment Programme, Recovery and Resilience Facility) and new funding tools (REPowerEU) as well as advancing structural reforms is important for achieving the budgetary targets. Pressure on the budget balance is expected to come from the 2023 natural disasters on the expenditure side and the narrow tax base on the revenue side.

Declining public debt and rising private debt as percentage of GDP

The high indebtedness of most economies worldwide, which as a share of GDP soared during the pandemic and is expected to remain high according to the forecasts of international institutions, at a time of high interest rates, poses an increasing challenge for policy-makers. According to its latest report of October this year, the IMF urges governments to implement stringent fiscal policies, not only to contain possible fiscal risks, but also to contribute to central banks' efforts to reduce inflation.

Domestically, despite the widening of the absolute level of public debt in the first half of 2023, due to government borrowing via bonds and the disbursement of the loan tranche of the recovery fund, the strong nominal performance of the Greek economy combined with high inflation, which is conducive to fiscal surpluses, significantly reduced the debt-to-GDP ratio (general government debt is expected to decrease from 171.4% of GDP in 2022 to 159.3% in 2023 and 152.2% in 2024).

In 2023, as early as in its first quarter, the Greek State has covered around 90% of its issuance needs for the year, as estimated by the Public Debt Management Agency (PDMA), in an effort to avoid a possible further increase in interest rates by the ECB. According to data from the PDMA, the largest share of new gross annual borrowing in January-June took place via interest-bearing bills (69%), followed by bonds (20.4%) and recovery fund loans (10.8%). Similarly, the average maturity of new lending stood at 5 years, while the weighted average cost stood at 3.3%. As regards the cost of repaying government debt, the repayment of the instalments of loans received by Greece from the European Financial Stability Facility (EFSF), as well as the repayment of other loans made to Greece by the EU institutions (loans from the European Investment and Development Bank, SURE, etc.) started in 2023.

To maintain the growth momentum of the domestic economy, it is crucial to ensure the sustainability of external debt, especially in times of high current account deficits, as well as its smooth financing in the period ahead at a cost that does not significantly exceed that of the other euro area economies. It is worth noting here that the Hellenic Republic recovered in September, after 13 years, the investment grade from one of the four international rating agencies recognised by the ECB, which confirmed the positive outlook for the Greek economy. However, although the spread of the cost of new Greek government borrowing relative to other countries has declined, and Greek public debt has already been restructured with long-term characteristics, fiscal discipline is crucial, especially in the context of an international environment of high interest rates and uncertainty. A restrictive fiscal policy in the economic recovery phase, and especially when based more on spending cuts rather than an increase in taxation, is expected to be more effective in reducing the debt ratio. However, especially in the case of Greece, where net credit to households and enterprises has been particularly low since the beginning of this year, cutting public expenditure may lead to a larger-than-expected slowdown in economic activity, holding back the reduction of the debt-to-GDP ratio.

Meanwhile, the stagnation of the non-performing loans (NPLs) reduction in the banking system in the first half of 2023, after the expiry of the Hercules state guarantee securitisation scheme, weighs on the evolution of private debt. The volume of non-performing loans outside banks' balance sheets is also significant, which continues to weigh on the economy and the allocation of resources. The impact of higher interest rates on these obligations is also expected to be particularly significant and negative.

Strong fixed capital investment and foreign direct investment

In the second quarter of 2023, and for the tenth consecutive quarter, fixed capital formation maintained an upward trend, supported by resources from the EU Recovery and Resilience Facility (RRF), together with the stabilisation of the political and broader context of the domestic economy. However, it is worth noting that in the first half of 2023, the annual change in total investment was negative due to a significant decline in inventories, which accumulated amid high uncertainty in 2022.

Medium-term trends in fixed investment growth, following a ten-year recession, and as long as the country is still far from its potential output, could reach higher levels, if unemployment continues to decline and the investment gap gradually closes. The strong momentum of fixed capital formation this year and next is expected to be supported by European funds (revision of the "Greece 2.0" plan in 2023, expansion of the RFF loan window, approval of the REPowerEU plan), while regaining investment grade by several international rating agencies will strengthen confidence in the Greek economy, creating prospects for a further broadening of the investment base. That said, the persistence of uncertainty, the slow disinflation with the likelihood of a renewed increase in energy commodity prices over the next year, and the persistence of high financing costs for a longer period are the main factors dampening investment risk taking.

The main contributors to the above-mentioned increase in the components of fixed capital formation were, in all quarters of the previous year, as well as in the first half of this year, dwellings and other construction, boosting significantly prices in this sector. House price growth was also driven by the sharp rise in foreign direct real estate investment recorded in recent years, which in 2022 reached a historical high of +68% compared to 2021. The rise in foreign direct investment, which together accounted for more than 20% of total private investment at the end of 2022, is expected to continue next year, possibly at a weaker pace, due to positive, albeit small, growth of the domestic and international economy, strong tourism, and the golden visa programme.

Maintaining the growth momentum of investment, as well as directing them to export-oriented sectors of the Greek economy and public sectors with a high degree of positive externalities, are crucial to expanding the productive potential of the Greek economy and strengthening competitiveness and real wages. However, for the domestic economy to reap the benefits of investment flows and avoid medium-term disruptions in their financing, it is necessary to strengthen national savings to reduce the association between investment growth and the current account deficit.

Challenges in the banking sector

Rising borrowing costs in the private sector, deteriorating repayment ability of variable rate borrowers, fatigue of private deposit growth, stagnating non-performing loans (NPLs), as well as uncertainty about the extent and duration of the slowdown in the real economy, pose new challenges to the financial system regarding banks' funding conditions and asset quality. That said, the increase in the average interest rate differential on loans and deposits (interest rate margin) to a historic high level (for at least 20 years) significantly supports their profitability (an analysis of developments in the financial system is presented in Section 2.2C).

On the liabilities side, deposits and lending via the Eurosystem and capital markets are the main sources of funding for Greek banks. The slowdown in private deposits growth, which in August this year recorded a year-on-year rate of 3.2%, clearly down from an average rate of 9.0% in 2020-2021, amid a surge in savings, and 4.8% in 2022, leaves the domestic banking system more exposed to the high-interest-rate environment. For the whole of 2023, the slowdown of private deposits is expected to continue, with an overall moderate upward trend. As core inflation slows down, while economic support measures expire, real disposable income and savings of households and businesses are expected to come under pressure.

Regarding the second pillar of banks' liabilities, the gradual increase in the cost of liquidity supply by the ECB has significantly reduced the use of long-term funding instruments from the Eurosystem (LTROs decreased by €33.9 billion on an annual basis in August 2023), while the assets of the domestic banking system that are eligible as collateral for monetary policy operations, as reflected in the financial statements of the Bank of Greece, also decreased (by €32.0 billion in August 2023, down from almost €69 billion in mid-2022). It is worth noting, however, that financing of Greek banks is expected to be facilitated by the recoupment of investment grade by more rating agencies next year, allowing funds to be raised on the capital markets on more favourable terms.

On the assets side, corporate credit growth stalled and credit contraction to households continued unabated. Credit developments in the private sector are supported by both changes in the supply of, and demand for, loans. On the demand side, uncertainty and rising borrowing costs act as a deterrent to new investments, which appear to be offset by the projects included in the National Recovery and Resilience Plan and the REPowerEU programme. On the supply side, the share of non-performing loans (NPLs) is considerably higher than the euro area average. After the expiry of the Hercules state-guaranteed securitisation scheme at the end of 2022, the NPL ratio on banks' balance sheets registered only a marginal improvement in the first half of 2023. In addition, the share of deferred taxation in equity remains high.

Signs of fatigue in the labour market

With the gradual slowdown of the Greek economy in 2023 compared with the previous year, the rate of decline in unemployment is also showing signs of fatigue. According to the Eurostat Labour Force Survey, in the second quarter of this year, the unemployment rate in Greece fell year-on-year by 1.2 percentage points to 11.2% (in the first quarter of 2023, the unemployment rate had fallen by 2 percentage points, to 11.8%), keeping Greece with the 2nd highest unemployment rate among the euro area countries (see Appendix, Figure 7). The decrease in the unemployment rate was mainly the result of stronger employment rather than from a decline in the number of unemployed (an analysis of trends in the domestic labour market is presented in Section 3.4).

At the sectoral level, the largest employment growth in the second quarter of 2023 was recorded in transportation-storage, human health, and social work activities (+14,800), and in financial-insurance activities, while employment growth in tourism and construction was weaker, two sectors with a particularly strong performance in GVA terms in 2023. The decline in employment in wholesale-retail trade, the largest among all sectors in the first half of 2023, is also noteworthy.

The decline in unemployment in recent years has been driven by the recovery of the Greek economy since mid-2021, rising nominal wages, as well as extensive fiscal support measures to businesses, which prevented labour demand from falling. In 2023, as well as in the following year, the drivers of job creation include strong tourism demand, a mild upward trend in domestic consumption and exports, as well as stronger investment in export-oriented sectors of industry and construction, combined with the gradual maturing of large infrastructure projects and the high backlog of construction projects.

By contrast, the rise in production costs due to higher nominal wages is holding back job creation. The trend of the seasonally adjusted wage cost index in the Greek economy as a whole has been positive for the fifth consecutive quarter. This increase, combined with still relatively high energy costs, and the possibility of a new surge in international energy prices, is likely to put strong pressure on firms, which may lead them to favour flexible forms of employment, as well as create a spiral of wage and price increases. Finally, investment risk-taking is hampered by persistent inflation and a significant increase in firms' borrowing costs.

Slowdown in the sectoral diversification of the production base

As regards developments on the supply side, strong disruptions over the past year continue to slow the upward trend in domestic production, with the only exception being the construction sector which appears to maintain its momentum. In the main domestic production sectors, growth was recorded in the first seven months of 2023 in the production index of manufacturing and construction, in turnover in most sub-sectors of services, and in the volume index of wholesale trade, which did not allow for a strengthening of the sectoral diversification of the production base.

Specifically, in the first half of 2023, the production index in the construction sector rose by 17.2%, as growth was also stronger in permits, at a higher rate than a year earlier. By contrast, a -3.5% drop was recorded in the volume of retail trade in the first seven months of 2023, against an increase of 5.1% in 2022, but expectations in all sub-sectors improved in the first nine months of 2023 compared with 2022. Finally, in the industrial sector in the first eight months of 2023, the production index increased marginally by 0.7%, due to the decline in electricity supply, a rate significantly lower than in 2022 (4.4%).

Stronger domestic economic sentiment

Early this year, cautious expectations in the euro area due to the slowdown in economic activity, persistent inflation and aggressive monetary policy tightening by the ECB are reflected in a mild decline in the economic sentiment indicator. Consumer confidence improved to levels higher than a year earlier, while business confidence appears to be stabilising.

On the domestic side, the dynamics of the Greek economy in the previous year, as well as in the first half of this year, gradually strengthened the Economic Sentiment Indicator, which recorded a small increase in the third quarter of 2023 compared with the previous quarter, while its improvement is significant compared with the corresponding quarter of the previous year. In the same quarter, business confidence weakened, as the indicator increased quarter-on-quarter modestly in retail trade and marginally in services, while it declined sharply in construction and to a lesser extent in industry. The industrial capacity utilisation rate increased mildly.

Finally, on the household side, the Consumer Confidence Index improved marginally in July-September compared with the previous quarter, while moving markedly higher than a year earlier (more information on the evolution of economic sentiment is presented in Section 2.2A).

Medium-term forecasts

Based on the above analysis of the international and domestic economic sentiment, key macroeconomic aggregates, and some key assumptions, we make short-term forecasts for the domestic GDP components for 2023 and 2024.

On the consumption side, private consumption growth is expected to slow this year and next, relative to its explosive post-pandemic rate, mainly on account of a decline in households' real disposable income, as well as a base effect. Household disposable income is dampened mainly by high and persistent inflation in essential goods, such as food, the reduction of fiscal support from the second half of this year, the contraction of credit to households, as well as the negative saving rate of the previous and current year. However, the pick-up in employment and the income-boosting fiscal measures for 2024 are restraining the slowdown in consumption. Public consumption is expected to decrease in the second half of 2023 and throughout 2024, to achieve budget surpluses, despite the pressure expected to be exerted by the new wage grid for civil servants and the government support for those affected by natural disasters.

For 2023, private and government consumption are estimated to increase by 2.0% and 0.6%, respectively, with total consumption growth standing at 1.6%. Consumption is projected to slow down to 1.0% in 2024, with private consumption expanding less strongly by 1.4% and public consumption contracting by -1.0%.

Investment is expected to keep growing in the second half of 2023 and in 2024, supported with resources from the recovery fund and the new REPowerEU tool, while the regaining of investment grade from several international rating agencies will bolster confidence in the Greek economy and create prospects for a broadening of the investment base.

That said, persistent uncertainty, volatility in international energy prices, and the emerging persistence of high financing costs over a longer period are the main factors that may dampen investment dynamics in the coming year. Elevated production costs, driven by high prices of energy and other intermediate goods, as well as nominal wage growth coupled with higher borrowing costs from the banking system, are projected to depress corporate profits significantly, reducing available investment resources, which combined with negative household savings in previous years, do not create the necessary space for investment combined with a sustainable external balance.

In 2023 as a whole, we expect fixed investment to increase similarly to 2022 in absolute real terms, but this translates into a slightly lower annual rate of change. Changes in inventories are weighing on the trend in total investment, but at a weakening pace in the second half of 2023. In particular, the annual change in fixed investment is estimated at 10.0% for the current year. For 2024 as a whole, we expect a higher increase in fixed investment than in 2023 in absolute real terms, which translates into a similar annual change of 10%. The change in inventories is expected to be the same as in 2023 in absolute real terms.

Box 3.1

Macroeconomic forecast drivers

Risks

- Further geopolitical instability at the international level (war in Ukraine, Middle East). A scenario of a stronger increase in global energy prices in late 2023.
- Expectations of a longer duration of the high interest rate period.
- Gradually tighter fiscal frameworks in Europe and uncertainty about the new rules. The tax base in Greece remains narrow.
- Persistent inflation in essential goods, such as food, not higher than the EA average. Loss of competitiveness due to higher than EA core inflation after mid-2022.
- An increase in the loan-deposit interest rate spread and systematically negative household saving rate.
- Risk of a further surge in arrears and NPLs, owing to rising interest rates and the cost of living.
- A slowdown in the sectoral diversification of the production base.
- An increase in the debt of developed economies and ten-year sovereign bond yields.
- Investment mix: Investment in dwellings/construction and transport equipment, reduction in other sectors.
- Pressure on the fiscal balance, as a result of natural disasters.

Positive outlook

- The acceleration of the implementation of the revised RRF combined with the extension of its debt arm may unlock international funds for productive and longer-term investments.
- The recuperation of an investment grade from several international rating agencies fosters a broadening of the investment base.
- Enhancing the openness of the economy, with a gradual improvement in the external balance, remains a challenge.
- Reforms with a medium-term horizon 2023-2027, following the formation of a government with a strong majority.
- Timely use of existing (RRF) and new financial tools (REPowerEU).
- Reducing NPLs at the economy-wide level will free up productive resources for their more efficient allocation.
- A significant volume of construction backlog.

Regarding the external balance, we expect a small improvement in 2023 and 2024, with a rise in the share of services in exports and in the share of goods in imports, and a relative stagnation in the openness indicator. In particular, a gradual slowdown in domestic demand is expected to dampen import growth, while a gradual strengthening of the pace of recovery of Greece's main trading partners will support exports. Possible risks include an increase in international energy prices in late 2023 and in 2024, which is expected to act as a drag on imports due to the reliance of domestic production on imported energy, putting upward pressure on the already high export deflator.

Box 3.2

Baseline scenario assumptions

- The euro area economy follows the ECB's baseline scenario (September 2023) for growth of 0.7% in 2023 (from 0.9% projected three months ago) and 1.0% in 2024 (from 1.5%), inflation of 5.6% in 2023 (against 5.4% three months ago) and 3.2% in 2024 (from 3.0%).
- The war in Ukraine continues at a similar intensity as in 2022. Combined with geopolitical instability in the Middle East, global energy prices move moderately up in 2024, as per the EIA baseline scenario.
- Interest rates follow the trend of current forward contracts, i.e. Euribor is expected to peak in the fourth quarter of 2023 at 4%, before gradually declining towards the region of 3.7% on average in 2024.
- Agreement in 2023 with the EU on the revised Greek 2.0 plan, extension of the loan leg, and approval of the REPowerEU Plan, with their timely implementation in 2024 without further delays.
- Slightly higher public expenditure compared to SB 2024.
- Inbound tourism has increased year-on-year since 2019, higher nominal annual revenues are expected in 2023 (by up to 20%). For 2024, its performance is expected to remain positive in real terms.
- Natural disasters have an upward impact on inflation in the final quarter of 2023 and in 2024, with small negative effects on GDP in 2024.

Table 3.2

Comparison of forecasts for selected economic indicators for 2023 and 2024 (at constant market prices, annual % changes)

	MinFin		EC		IOBE		IMF		OECD	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
GDP	2.3%	3.0%	2.4%	1.9%	2.4%	2.4%	2.5%*	2.0%*	2.2%	1.9%
Consumption	:		:	:	1.6%	1.0%	:		:	
Private Consumption	2.5%	1.6%	1.6%	1.4%	2.0%	1.4%	1.1%		1.7%	1.6%
Public Consumption	0.3%	-1.3%	-0.2%	-1.4%	0.6%	-1.0%	-3.1%		-0.4%	0.8%
Gross Fixed Capital Formation	8.3%	12.1%	7.2%	6.0%	10.0%	10.0%	10.5%		8.9%	4.4%
Exports	2.7%	6.3%	6.5%	5.2%	3.5%	2.6%	5.7%		-0.2%	4.2%
Imports	2.2%	4.5%	4.7%	3.8%	2.6%	2.3%	2.5%		6.7%	3.4%
Harmonised Index of Consumer Prices (%)	4.0%	2.4%	4.2%	2.4%	4.3%	2.6%	4.1%*	2.8%*	4.5%	2.6%
Unemployment (% of labour force)	11.2%	10.6%	12.2%	11.8%	11.0%	10.5%	10.8%*	9.3%*	11.2%	10.4 %
General Government Balance (% of GDP)	1.1%	2.1%	1.9%	2.5%	:	:	1.0%*	2.0%*	0.7%	1.0%
Current Account Balance (% GDP)	:	:	-9.2%	-7.8%	:	:	-6.9%*	- 6.0%*	-9.6%	-8.7%

Sources: Draft State Budget, 2024, October 2023 - European Economic Forecast, Spring 2023, European Commission, May 2023 - The Greek Economy 03/23. IOBE, October 2023 - IMF Country Report No. 22/173, IMF, June 2022, *World Economic Outlook, IMF, October 2023 - Economic Outlook 113, OECD, June 2023

Taking into account the assumptions for euro area growth, prices of energy and intermediate goods, the overall climate of uncertainty, and the weak dynamics of net exports in the first quarter of the year, we estimate the annual rate of change in exports to stand at 3.5% and 2.6% in 2023 and 2024 respectively, while the annual rate of change in imports will stand at 2.6% and 2.3% in 2023 and 2024 respectively, improving modestly the current account balance in both years.

As a result of all the above, we maintain our previous forecast of a 2.4% recovery of the domestic economy for 2023, while we estimate a similar growth rate for 2024 but with a negative outlook, due to the above-mentioned risks, notably slower growth of the global economy and sustained inflation and uncertainty.

3.2 Trends in key sectors

- Industrial production strengthened by 0.7% in the first eight months of 2023 – significantly weaker than in the same period of 2022 (+4.4%).
- The recovery in construction continues, with production growing by 17.2% in the first half of 2023, against a slightly stronger growth rate of 21.8% in 2022. Strong growth also in permits, at a higher rate than a year earlier.
- A 3.5% decrease in the volume of retail trade in the first seven months of 2023 against an increase of 5.1% in 2022. Expectations have improved across all sub-sectors in the first nine months of 2023 compared to 2022.
- An increase in turnover in most sub-sectors of services during the first half of 2023.

Industry

In the January-August 2023 period, the industrial production index increased by 0.7%, a rate significantly lower than in 2022 (4.4%). In August 2023, the month with the latest available data, production decreased by 0.5%, while in the same month of 2022, the relevant indicator had increased by 5.1%.

Over the same period, the overall industrial producer price index decreased by 6.4%, against an increase of 39.8% in the first eight months of 2022, under pressure from international energy prices. The price decrease in the overall indicator came entirely from the domestic market (-5.1% against +37.9% in 2022) as export prices increased significantly (+45.8% against a milder increase of 14.7% in 2022).

As a result, in the latest period with available data (January — July 2023) the turnover index in industry decreased by 3.7%, when in 2022 the index had increased by 40.1%.

At the same time, in the first seven months of 2023, industrial production in the euro area fell by 0.8%, against an increase of 1.8% in the corresponding period of 2022. Moreover, in July 2023, industrial production fell by 0.3%, after a sharper decline a year earlier (-1.3%).

In the key sectors of Greek industry, production declined in the first eight months of 2023 in electricity generation (-11.5% against an increase of 3.2% in the same period of 2022) and in water supply (-0.7% against -1.9% in 2022). In contrast, production expanded in mining (7.9% against -8.7% in the previous year) and manufacturing (+4.0% compared to +5.4% in 2022).

In Manufacturing, output increased in 13 out of 26 industries. Among the sectors most important for the Greek economy, production of pharmaceuticals rose by 24.8%, after an increase of 10.0% a year earlier. Production in the basic metals decreased by 1.3% (against +6.3% in the same period of 2022), while food production improved at a slightly slower pace than a year earlier (4.8% against 6.4%).

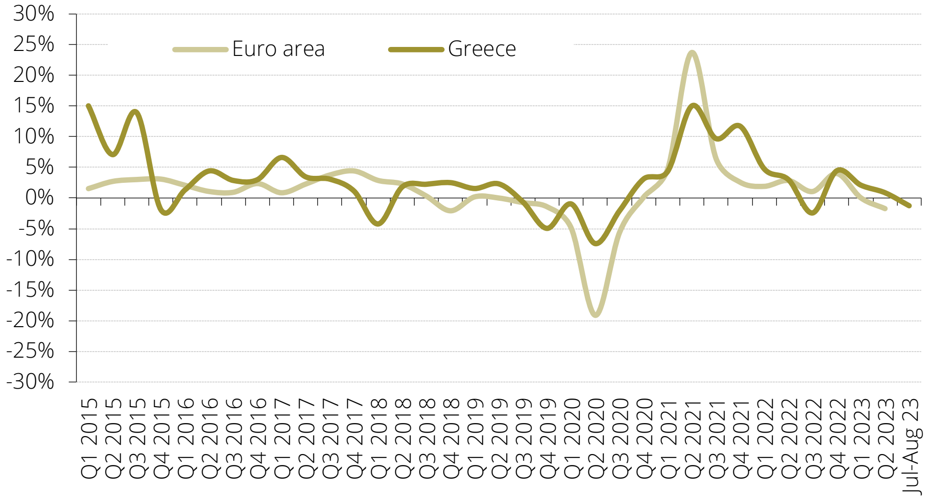
Among the remaining sectors of manufacturing, production increased strongly in the leather industry (22.7% against 6.6% in 2022), electronic equipment production (10.6% against 13.7% in the previous year), and the manufacture of motor vehicles (+8.6% against a significantly stronger increase of 40.5%, one year earlier). By contrast, the industries with the largest decrease in production include the manufacture of clothing (-8.8% against a 16.6% increase in 2022), printing (-7.8% against an increase of 28.1%), and electrical equipment production (-5.3% against a 21.9% increase).

Among the main industrial groupings, production declined in Energy (-5.9% against -1.8% in 2022) and intermediate goods (-1.1% against +3.8%). By contrast, output expanded in non-durable consumer goods (7.8% against +7.1%), durable goods (5.7% against 22.4%), and capital goods (4.8% against 3.9% in 2022).

Figure 3.4

Industrial Production Index in Greece and in the Euro area (year-on-year % change)

The overall index increased by 0.7% in the first eight months of the year. Significantly weaker than in the same period of 2022 (4.4%). Negative change in July-August.



Sources: ELSTAT, Eurostat

Construction

In the first half of 2023, the production index in the construction sector increased by 17.2% following an increase of 21.8% in the same period of 2022. In the second quarter of the year, the indicator continued to expand compared with the previous year, albeit at a lower rate (10.9% against 27.5%).

In the second quarter in the euro area (20 Member States), the production index in construction did not change compared with the corresponding second quarter of 2022 (0.0%). In the first half as a whole, however, output marginally expanded (0.2% against 4.3% in the previous year).

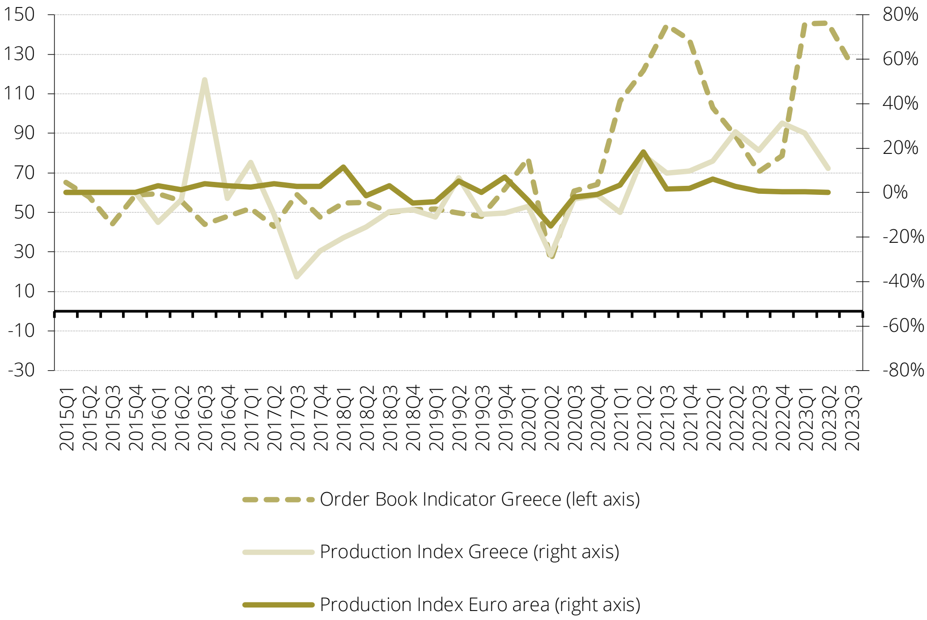
In Greece, in individual construction activities, in the first half of 2023, building activity expanded by 20.4% following an increase of 18.1% in the same period of 2022. In addition, the indicator for civil engineering projects increased by 15.0%, a rate lower than in 2022 (+24.5%).

Over the same period, in the constituent data on building activity, permits increased by 11.6% (against +1.4% in 2022), while new buildings increased year-on-year in terms of both area (15.0%) and volume (+15.9%).

However, it should be noted that business confidence in the sector, which reached historically high levels in the first two quarters of 2023 (145 points), fell by more than 20 points in the third quarter.

Figure 3.5

Production Index in Construction and Building Activity Index



Increase in the production index in the first half of the year (17.2%) – increase also in building activity (11.6%) with larger buildings. Decline in expectations in the third quarter.

Source: ELSTAT, IOBE

Retail Trade

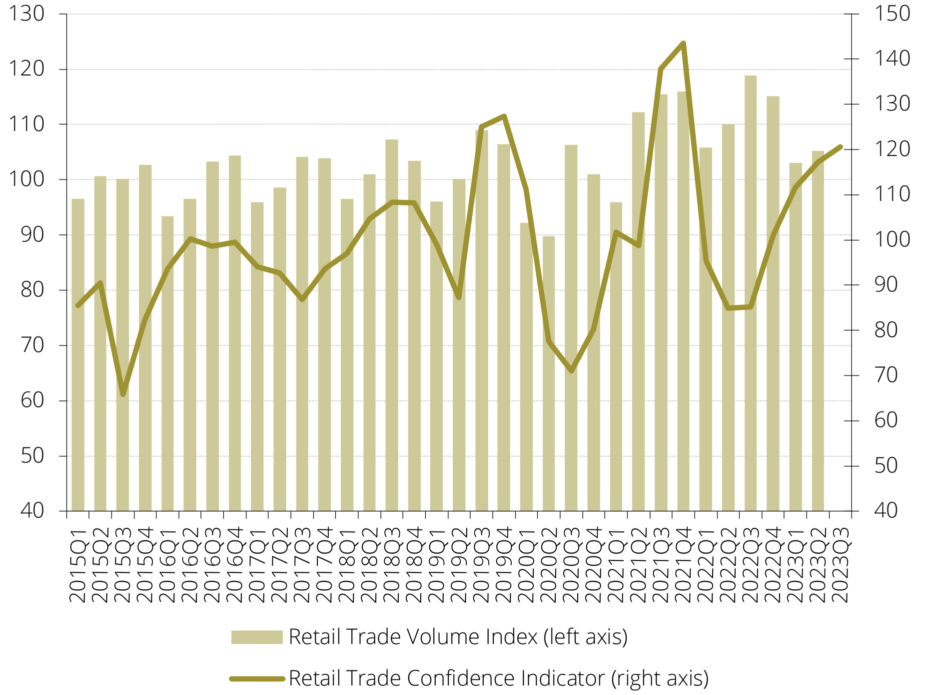
The volume index in retail trade in the first seven months of 2023 decreased by 3.5%, against an increase of 5.1% in 2022. The volume of activity increased in 4 of the 8 sub-sectors. The largest expansion was recorded in furniture and electrical appliances (8.2% following an increase of 10.5% a year earlier), supermarkets (5.8% against 5.4% in 2022), and clothing-footwear (2.7% against 3.9% in the previous year). There was a smaller increase in food sales (0.8% against -1.1%). By contrast, sales volumes decreased in supermarkets (-5.4% following a decline of -1.8% one year earlier), pharmacies (-4.7% against an increase of 13.1%), and gas stations (-1.1% against -11.8% in the previous year).

Retail trade expectations in January-September 2023 rebounded year-on-year. The relevant cumulative indicator increased by 24.8 points against a decrease of 5.1 points in the same period of 2022.

At the level of specific activities, expectations have improved in all sub-sectors of retail trade. In more detail, the largest increase was recorded in food-beverages (45.5 points against a decrease of 8.4 points in the same period of 2022), department stores (+38.0 points against an increase of 6.4 in 2022), textiles – clothing (up by 20.2 points following a rise of 7.7 points in the previous year) and vehicles (18.8 against -12.5 points one year earlier). The smallest increase was recorded in household appliances (a growth of 12.3 points, against 9.4 in 2022).

Figure 3.6

Retail Trade Volume Index (2010=100) and Retail Trade Confidence Indicator (1996-2006=100)



Decrease in retail trade volume in the first seven months of 2023 (-3.5% against +5.1% in 2022). Expectations were recovering up until the third quarter.

Sources: ELSTAT, IOBE

Table 3.3

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan.-Jul 2021	Jan.-Jul 2022	Jan.-Jul 2023	Change 2022/2021	Change 2023/2022
Overall Index	104.2	109.5	105.7	10.2%	-3.5%
Overall Index (excluding automotive fuels and lubricants)	108.8	112.6	110.0	10.5%	-2.3%
Store Categories					
Supermarkets	112.7	110.6	104.6	-1.8%	-5.4%
Department Stores	83.9	88.7	93.5	5.8%	5.4%
Automotive Fuels	79.9	82.7	82.4	3.4%	-0.4%
Food – Drink – Tobacco	84.5	83.6	84.3	-1.1%	0.8%
Pharmaceuticals – Cosmetics	135.5	153.3	146.1	13.1%	-4.7%
Clothing – Footwear	104.8	108.9	111.8	3.9%	2.7%
Furniture – Electric Equipment – H. Appliances	131.2	145.0	157.0	10.5%	8.2%
Books – Stationary	127.1	148.6	151.9	16.9%	2.2%

In greater detail, the business confidence indicator for motor vehicles stood at 127.5 points in the third quarter of 2023, 16% higher than in the same period of 2022, and close to its 2018-2019 levels. The current sales balance showed a significant improvement, returning to a positive sign, at 36 points, compared with -17 points in 2022, with a tripling of the percentage of those who reported sales growth, to exceed 50%, and a drop of firms reporting reduced sales in the current period. On the stock side, the balance remains negative but with strong stabilisation trends, a sign of normalisation in supply chains. Orders are also stabilising, with the balance returning to marginally positive territory, standing at 3 points, compared with -13 in 2022, with 85% expecting orders to remain unchanged. The balance of sales expectations turned positive at 18 points, compared with -15 in 2022, with a significant drop in the share of firms expecting a decrease in sales. On the employment side, in parallel with the strengthening of no-change responses, the proportion of those who believed that jobs would be boosted increased. Prices are expected to continue to increase going forward, with 51% of the companies expecting an increase, from 61% in 2022.

Table 3.4

Business Confidence Indicators in Retail Trade (1996-2006=100)

	Jan. - Sep. 2021	Jan. - Sep. 2022	Jan. - Sep. 2023	Change 2022/2021	Change 2023/2022
Food-Drinks-Tobacco	70.8	62.4	107.9	-8.4	45.5
Textiles - Clothing – Footwear	88.3	96.0	116.2	7.7	20.2
Household Appliances	89.7	99.1	111.4	9.4	12.3
Vehicles-Spare Parts	120.3	107.8	126.6	-12.5	18.8
Department Stores	64.1	70.5	108.5	6.4	38.0
Total Retail Trade	96.7	91.6	116.4	-5.1	24.8

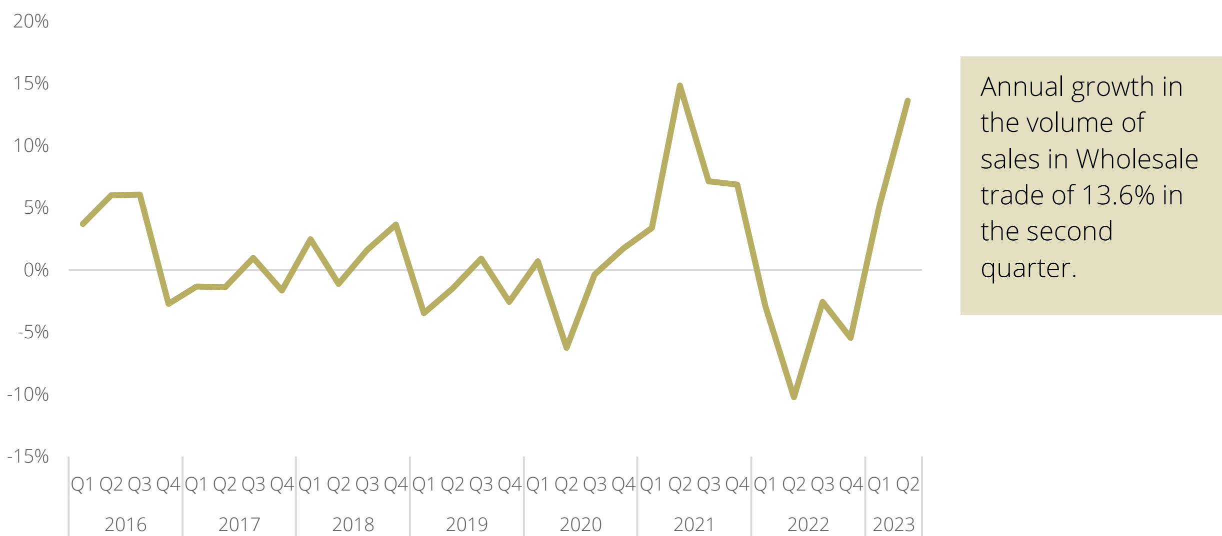
Source: IOBE

Wholesale trade

In the second quarter of this year, the turnover index in Wholesale trade increased by 13.6%, when a year earlier it was falling by 10.2%. The turnover index, which also incorporates the price effect, decreased by 1.7% over the same period, when it had increased by 23.4% in the same period of 2022.

Figure 3.7

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

In the first half of 2023, turnover in services increased year-on-year in eleven out of its thirteen sub-sectors.

The largest increase was recorded in other professional and scientific activities (31.9% against -6.8% in 2022), architectural activities (25.9% against -13.2%), and computer programming activities (22% against 0.5% in the previous year). Next came security services (16.6% against 6.3%) and publishing activities (10.2% vs 22.4%). Information services expanded their turnover by 9.6% (against 21.3% in the previous year), while a similar increase was recorded in advertising services (8.4% compared to a milder improvement of 1.4%) and telecommunications (6.3% against -1.7%).

By contrast, a decline in turnover relative to the first half of 2022 was recorded in courier services (-4.7% against a sharper decline of 12.9%) and employment services (-1.7% against 14.5% a year earlier).

According to the latest trends in the leading indicators from the IOBE business surveys, referring to the first nine months of 2023, expectations declined in one of the four examined sub-sectors of services. Nevertheless, the general indicator of the sector was down by 0.3 points against an increase of 3.8 points in the same period of 2022.

In more detail, expectations fell by 4.7 points in various business services (against an increase of 13.8 points a year earlier). By contrast, expectations improved in computer programming (+5.4 against +9.7 a year earlier), hotels – restaurants – tourist agencies (+7.0 points against 27.5 in the previous year), and financial institutions (+6.0 points against -6.9 points in the same period of 2022).

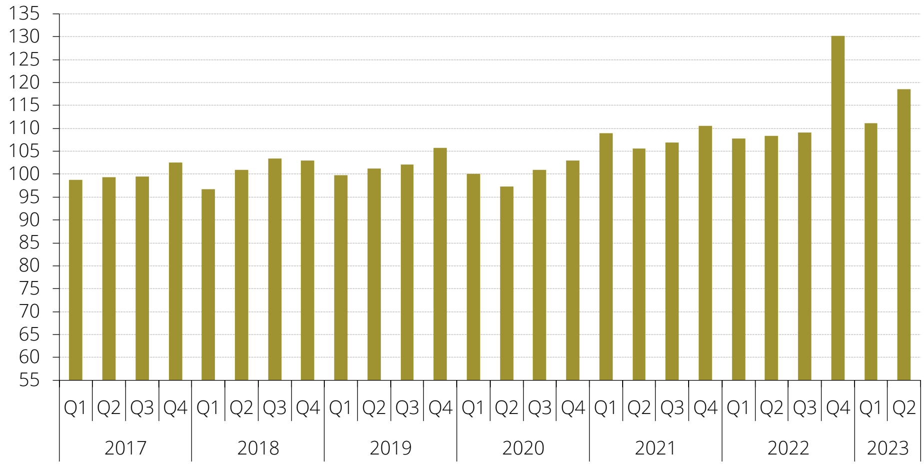
Table 3.5

Business Confidence Indicators in Services (2000-2010=100)

	Jan. - Sep. 2021	Jan. - Sep. 2022	Jan. - Sep. 2023	Change 2022/2021	Change 2023/2022
Hotels – Restaurants – Travel Agencies	97.9	125.4	132.4	27.5	7
Financial Intermediation	118.5	111.6	117.6	-6.9	6
Other Business Services	100.2	114	109.3	13.8	-4.7
Information Services	88.8	98.5	103.9	9.7	5.4
Total Services	104.8	108.6	108.3	3.8	-0.3

Figure 3.8

Turnover Index in Telecommunications (branch 61)

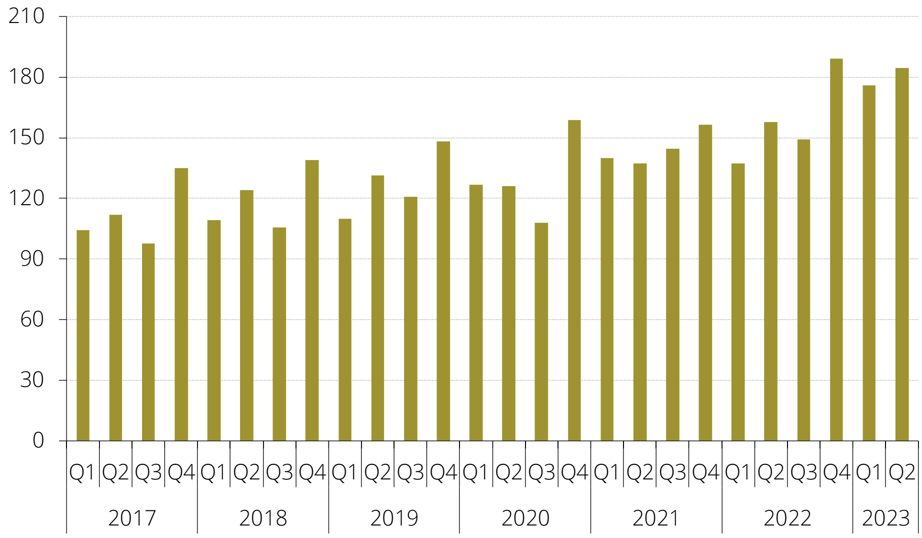


Annual increase of 9.5% in Q2 – stronger than in 2022 (2.6%)

Source: ELSTAT

Figure 3.9

Turnover Index in Computer Programming, Consultancy and Related Activities (branch 62)

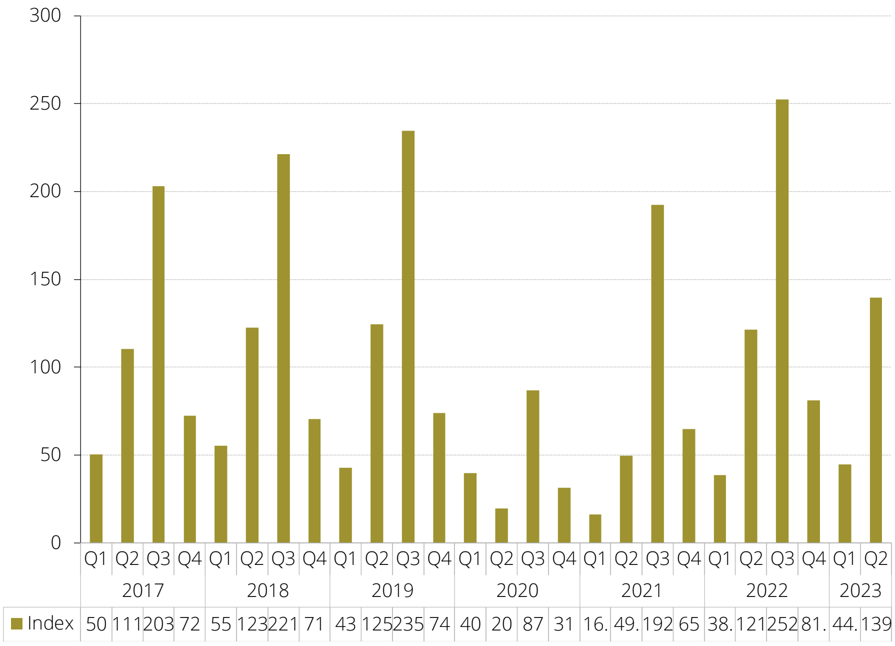


Annual increase of 16.9% in Q2, similar to 2022 (14.8%)

Source: ELSTAT

Figure 3.10

Turnover Index in Tourism (Accommodation and Food Services Activities, branches 55 & 56)



Tourism expanded year-on-year by around 15.0% in Q2 2023

Source: ELSTAT

3.3 External balance

A. Analysis of exports and imports from national accounts

- A decline in nominal exports of goods in the first seven months of 2023, by 3.1%, and an increase in exports excluding petroleum products (+3.8%).
- A decline in imports in January-July 2023, by 9.7% at current prices, to €47.6 billion, from €52.2 billion a year earlier.
- A trade deficit reduction compared with 2022 of 19.7% to €16.5 billion.
- Growth in industrial products and agricultural products and a decline in fuel, raw materials, and articles and transactions not classified in categories.
- A rise in demand from the euro area countries (+3.3% or +€400.6 million) and a decline from the countries of MENA (-10.9% or €438.1 million) and Asia (-11.6% or €171.5 million).

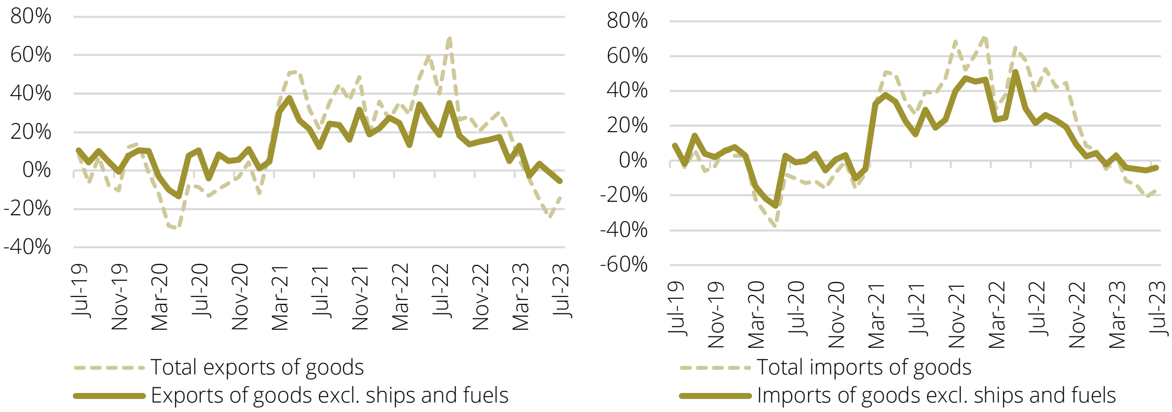
Exports of goods stood at €29.8 billion in the period January-July 2023, compared with €30.7 billion a year earlier, declining by 3.1% at current prices. Excluding petroleum product exports, the remaining exports increased by 3.8%, to €21.0 billion, from €20.2 billion in 2022. Imports of goods declined in the first seven months of 2023, by 9.7% at current prices, to €47.6 billion, down from €52.2 billion a year earlier. Excluding imports of petroleum products and ships, the remaining imports decreased by 2.1%, to €34.9 billion, from €35.6 billion in 2022. As a result of the above trends in the main components of the external balance of goods, the trade deficit stood €4.0 billion lower than in 2022 (-19.7%), at €16.5 billion, down from €20.6 billion. As a result, the value of exports of products of the Greek economy in the first seven months of 2023 corresponded to 64.3% of its imports, while one year earlier this indicator stood at 59.9%.

In detail, exports of agricultural products increased by 22.8% at current prices in January-July 2023, to €6.3 billion, from €5.1 billion in 2022. Exports of fuels registered a nominal decline of 18.3% to €9.0 billion, down from €11.0 billion in 2022. Exports in these two categories represent 51.3% of the value of domestic exports of goods this year, from 52.5% a year earlier. Exports of industrial products marginally increased in the first seven months of 2023 (+0.6%), with their value approaching €13.2 billion, from €13.1 billion in 2022. This development was driven mainly by an increase of 3.1% in exports of chemicals and related products, from €3.6 billion to €3.7 billion. Exports of transport equipment and machinery also rose, by 10.0% to €3.0 billion from €2.7 billion, while exports of other industrial goods increased by +4.0%, to €2.0 billion. By contrast, international demand for industrial goods classified chiefly by raw material, fell by 8.3%, with their value reaching €4.4 billion.

As regards the trends by geographical area, exports to the other euro area countries expanded by 3.3% in the first seven months of 2023, approaching €12.4 billion, up from €12.0 billion in the same period of 2022. The EU as a whole saw an annual increase of 3.5% or €580.2 million, with Greek exports to this bloc reaching €17.1 billion, up from €16.5 billion a year earlier. Among the euro area countries that absorb the largest share of Greek products, exports expanded by 22.7%, from €997.6 million to €1.2 billion to France, and by 1.9%, from €2.07 billion to €2.11 billion, to Germany. The exports of goods increased also to the main destination, Italy, by 8.6%, to €3.4 billion in 2023 from €3.2 billion in 2022.

Figure 3.11

Total exports-imports of goods and exports-imports of goods except fuels and ships (current prices)



Source: ELSTAT, Processing: IOBE

Exports excluding petroleum products and ships stood at €21.0 billion in January-July 2023, 3.8% higher than in 2022. Imports excluding petroleum products and ships stood at €34.9 billion in the same period, 2.1% lower than in 2022.

Among the remaining European Union countries, where total exports increased by 3.9% or €179.6 million, reaching €4.7 billion, Bulgaria continued to be the main export destination, with product outflows to it rising by 12.7% or €243.2 million. Exports to two other countries that absorb a significant share of Greek products, expanded in the case of Romania (+1.5% or €14.6 million to €1.0 billion) and contracted in Poland (-3.1% or €18.2 million, respectively €556.4 million).

Table 3.6

Exports per one-digit category at current prices, January – July (€ million)*

Product	Value		% Change	% Share	
	2023	2022	23/22	2023	2022
AGRICULTURAL PRODUCTS	6,261.6	5,099.9	22.8%	21.0%	16.6%
Food and Live Animals	4,420.1	3,997.6	10.6%	14.9%	13.0%
Beverages and Tobacco	781.0	616.1	26.8%	2.6%	2.0%
Animal and vegetable oils and fats	1,060.5	486.2	118.1%	3.6%	1.6%
RAW MATERIALS	975.5	1,087.5	-10.3%	3.3%	3.5%
Non-edible Raw Materials excluding Fuels	975.5	1,087.5	-10.3%	3.3%	3.5%
FUELS	8,990.8	11,006.3	-18.3%	30.2%	35.8%
Mineral fuels, lubricants, etc	8,990.8	11,006.3	-18.3%	30.2%	35.8%
INDUSTRIAL PRODUCTS	13,167.6	13,084.3	0.6%	44.3%	42.6%
Chemicals and Related Products	3,711.5	3,598.9	3.1%	12.5%	11.7%
Manufactured goods classified chiefly by raw material	4,438.2	4,839.0	-8.3%	14.9%	15.8%
Machinery and transport equipment	2,972.4	2,679.1	10.9%	10.0%	8.7%
Miscellaneous manufactured articles	2,045.6	1,967.3	4.0%	6.9%	6.4%
OTHER	354.8	426.0	-16.7%	1.2%	1.4%
Transactions not classified by category	354.8	426.0	-16.7%	1.2%	1.4%
TOTAL EXPORTS	29,750.4	30,704.1	-3.1%	100.0%	100.0%

* Provisional data

Source: ELSTAT, PSE-KEEM

Demand for Greek exports fell to the rest of Europe, by 10.1%, from €5.8 billion in 2022 to €5.3 billion a year later. This was manifested primarily by Turkey, to which exports decreased by 8.5%, from €1.3 billion to €1.2 billion, and secondarily from Gibraltar, with a 25.6% decrease from €801.6 million in 2022 to €506.6 million a year later.

Exports to North America declined by 7.9% from €1.6 billion in 2022 to €1.5 billion in 2023, mainly due to a 10.5% decline in exports to the US, from €1.3 billion in 2022 to €1.2 billion in 2023. Exports to Canada decreased marginally, by 1.0% or 1.6 million to €148.1 million, while exports to Mexico increased (+28.2%).

Table 3.7

Exports by destination, January- July 2023 (€ million)*

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2023	2022	23/22
EU (27)	17.124,6	16.544,3	3,5%
Euro Area	12.395,5	11.994,9	3,3%
G7	9.469,5	9.130,0	3,7%
North America	1.452,9	1.572,7	-7,6%
BRICS	451,0	564,3	-20,1%
Middle East & North Africa	3.593,7	4.031,8	-10,9%
Oceania	121,5	164,4	-26,1%
Central-Latin America	223,5	242,6	-7,9%
Asia	1.300,8	1.472,3	-11,6%

* Provisional data

Source: ELSTAT, PSE-KEEM

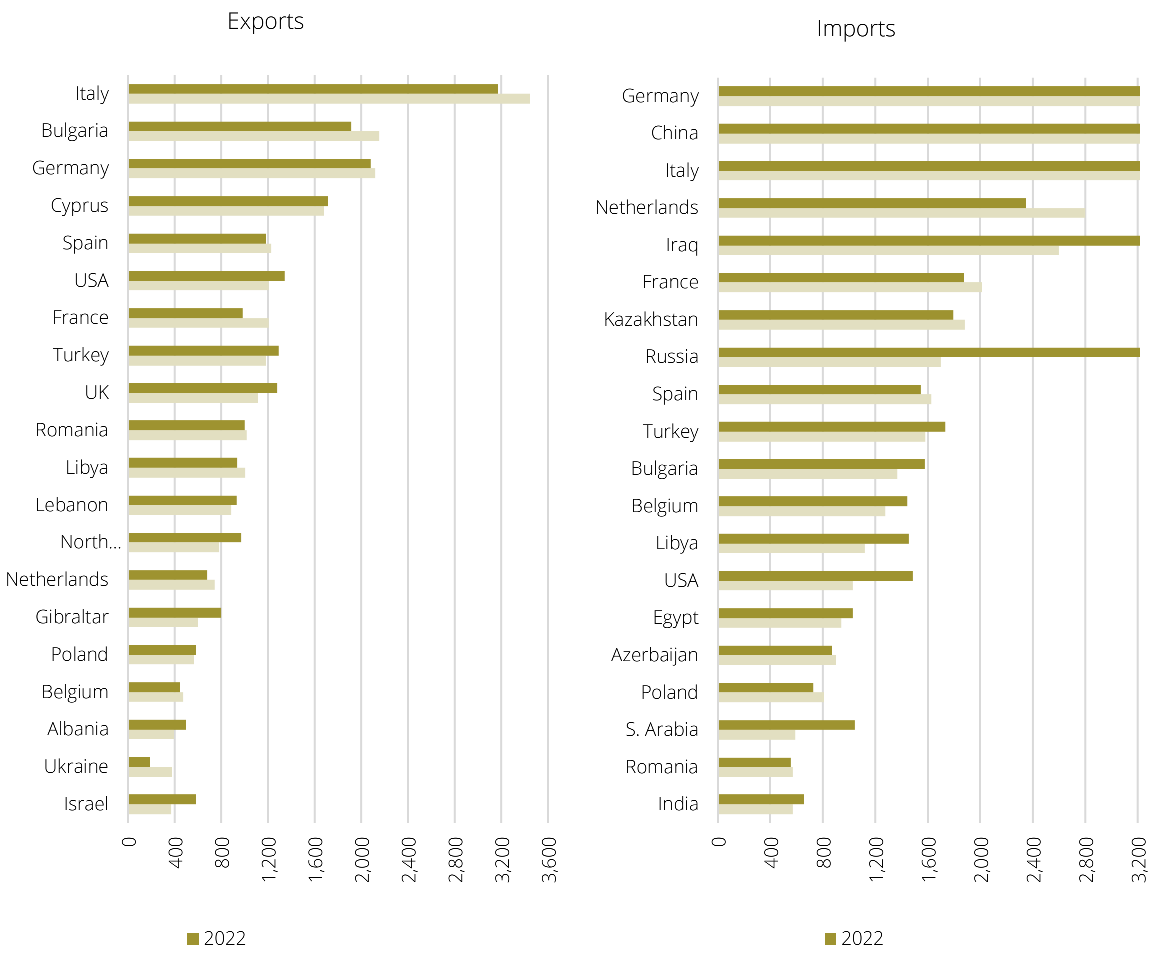
The period January-July 2023 saw a 7.9% decrease in exports to the markets of Central-Latin America countries, with their value falling to €223.5 million from €242.6 million in 2022. The decrease in exports to the countries of this region is mainly due to the drop in Panama's demand for Greek products by 26.8%, which brought their value to €92.0 million from €125.7 million a year earlier. Exports to the Bahamas declined as well (-22.6% or -€11.8 million).

Exports to the Middle East and North African countries also declined, by 10.9% to €3.6 billion from €4.0 billion, mainly due to a sharp decline in exports to Tunisia (-75.1%), where exports in the seven months from January to July 2023 fell to €99.1 million, compared with €397.8 million a year earlier, and to Lebanon (-5.0%), where exports fell year-on-year by €46.3 million in January-July 2023 and reached €885.0 million. In two other major destinations in the Middle East, exports to the United Arab Emirates increased by 11.2% to €228.1 million, while to Saudi Arabia exports fell by 33.7%, to €242.5 million. In response to the recent war in Israel, it is worth noting that the total value of exports of goods to Israel and Lebanon reached €2.4 billion overall in 2022, of which €850 million went to Israel.

Similarly, a downturn in demand for Greek goods occurred in Asian countries, where exports declined in the first seven months of 2023 by 11.6%, to €1.3 billion from €1.5 billion in 2022. This development is mainly due to a 60.6% decrease in exports to Singapore, from €184.8 million in 2022 to €72.8 million in 2023. By contrast, there was a small increase in demand from China (+1.5%, to €219.0 million from €210.6 million in 2022).

Figure 3.12

Countries with the largest share in the exports and imports of Greek goods, January – July 2023 (€ million, current prices)



Source: ELSTAT, PSE-KEEM. Processing: IOBE

Exports of goods increased most in the first seven months of 2023 in absolute terms to Italy (+€272.2 million). Largest drop in Tunisia (-€298.7 million). Italy's share in exports remains the highest. The largest increase in imports over the same period of 2023 in absolute terms came from the Netherlands (+€457.0 billion) and the largest decline from Russia (-€2.8 billion).

The flow of exports of Greek products to Oceania fell by 26.1%, with their value reaching €121.5 million in the first seven months of 2023 from €164.4 million a year earlier. The decrease was driven by a similar trend in Australia, where exports decreased by 22.3% to €111.5 million from €143.6 million a year earlier. Similarly, a decrease was recorded in New Zealand (-52.1%).

To sum up, Greece's exports of goods in January-July 2023 fell by 3.1% at current prices, as a result of a decrease in petroleum products (-18.3%), raw materials (-10.3%), and non-classified items and transactions (-16.7%). The decline in the value of Greek exports is to some extent related to the fall in energy prices and the slowdown in the world economy. The top five countries with the highest demand for Greek products were Italy, Bulgaria, Germany, Cyprus, and Spain. Meanwhile, imports declined, reducing the trade deficit to €16.5 billion (-19.7%). The five countries with the largest share of imports of goods in the first seven months of 2023 were Germany, China, Italy, the Netherlands, and Iraq. Greek exports and imports are expected to be affected in the coming period by the devastating fires and floods, which have affected the country's agricultural and animal production.

In addition to the objectives of balancing the external balance and increasing openness, the recent energy crisis and geopolitical tensions have highlighted the importance of diversifying trade flows. The diversification of trade flows, both geographical and sectoral, offers more resilience to exogenous shocks. The special text box 3.3 presents the recent evolution of the degree of sectoral concentration of trade flows in Greece and the euro area.

Special text box of section 3.3

Degree of concentration of Greek exports of goods before and after the crisis, in comparison with the EU

The country's economic crisis in previous years has been driven by large deficits, especially in the external trade of goods, which, although still present today, are significantly better compared with the pre-crisis period. Greece has improved its trade balance not only in the petroleum products sector which has become more notable in recent years, but also in all sectors of business activity. In this direction, the reduction in the country's trade deficits was driven mainly by the exports of goods.

In addition to the objectives of balancing the external balance and increasing openness, the recent energy crisis and geopolitical tensions have highlighted the importance of diversifying trade flows. Diversification, both geographical and sectoral, offers greater resilience to exogenous shocks, such as volatility in international energy prices or deteriorating diplomatic relations with specific countries.

The aim of the analysis is to explore: (a) The degree of concentration of Greek exports of goods before and after the crisis compared to the euro area; (b) The concentration of Greek imports of goods before and after the crisis compared to the euro area; (c) the total value of trade flows of goods before and after the debt crisis; (d) the share of the three 1-digit product categories with the highest value of exports (imports) to the total value of exports (imports). The indicators are analysed at two different points in time, the first one refers to 2008, before the onset of the Greek economic crisis, and to 2022 as the most recent year with available data.

The analysis focuses on industries based on the Standard International Trade Classification (SITC) for external trade statistics (value and volume of exports and imports of goods) allowing international comparisons of commodities and industrial products. In particular, we examine the main (1-digit) categories: (0) Food and live animals; (1) Beverages and tobacco; (2) Crude materials, inedible, except fuels; (3) Mineral fuels, lubricants and related materials; (4) Animal and vegetable oils, fats and waxes; (5) Chemicals and related products (N.E.C.); (6) Manufactured goods classified chiefly by material; (7) Machinery & transport equipment; (8) Miscellaneous manufactured articles; (9) Commodities and transactions not classified elsewhere in the SITC.

The post-crisis export dynamics of Greece are shown in Figure B.3.3.1. The total value of Greek exports at current prices, from €21.2 billion in 2008, more than tripled in 2022, as it approached €66 billion. By contrast, imports increased cumulatively by 70% at current prices from €54.7 billion in 2008 to €93.0 billion in 2022.

Among the sectors with the largest nominal share of exports, fuel exports had the strongest growth, up from 21.6% of total exports of products in the pre-crisis period, to 36.8% in 2022, driven by higher international energy prices. Manufactured goods classified chiefly by material declined from 21.3% in 2008 to 14.8% of total exports in 2022, while food and live animal exports declined less, from 14.3% to 12.7% in 2022.

Figure B.3.3.1. Total value of trade flows of goods before and after the debt crisis, Greece, at current prices

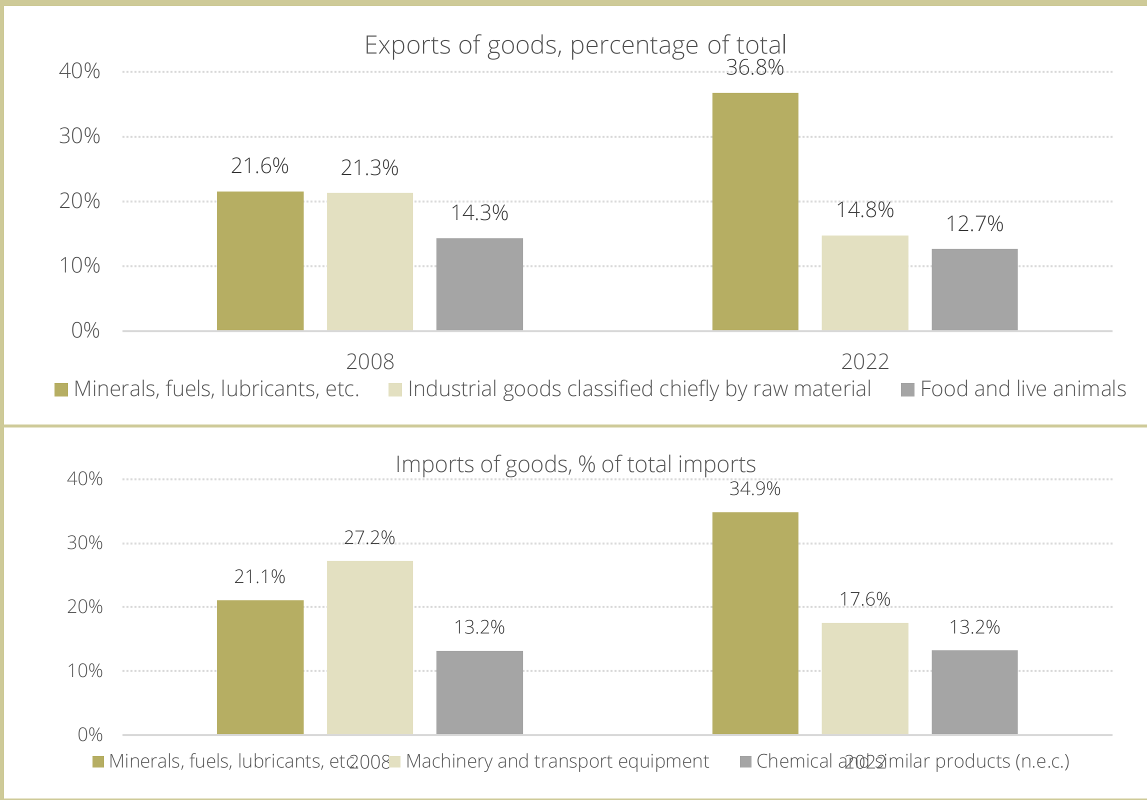
Source: Eurostat, Data processing: IOBE

In terms of imports of sectors with the highest nominal share of value, the largest increase was recorded for fuels as their share in total imports increased from 21.1% in the pre-crisis period to 34.9% in 2022. Machinery and transport equipment declined, from 27.2% of total imports in 2008 to 17.6% of total imports in 2022, while the imports of chemicals kept their share at 13.2%.

Next, we estimate the degree of concentration of exports of products as the sum of the shares of the first three sectors in nominal value in Greece and the EA in the total exports of products of Greece and the EA respectively. Accordingly, we examine the aggregate shares of imports of the first three sectors at nominal value in Greece and EA in total imports of goods. The concentration of exports of goods in Greece shows an increasing trend from 57.2% in 2008 to 64.2% in 2022 remaining at a lower level than that of the EA. By contrast, the concentration of exports of goods in the EA decreased from 73.8% in 2008 to 69.9% in 2022. The concentration of imports of products into Greece increased from 61.5% in 2008 to 65.7%, exceeding that of the EA (64.8%), which fell from 67.3% in 2008.

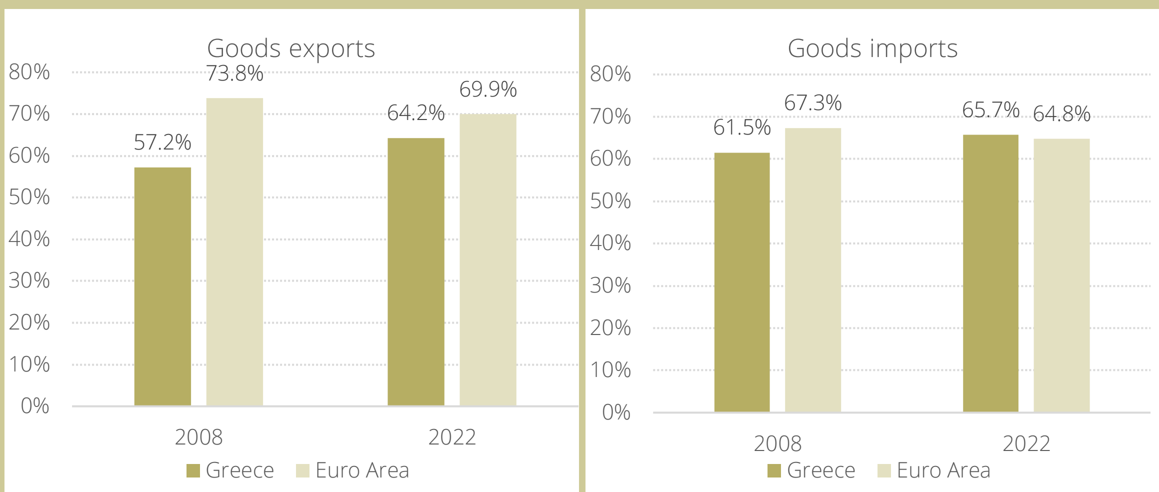
In conclusion, the Greek sectors with the largest share of exports in nominal value terms in 2008 before the economic crisis and in 2022 are food, fuel, and manufactured goods classified chiefly by material. For the EA, the first three categories of products are chemicals, manufactured goods classified chiefly by material, and machinery - transport equipment. Greek exports of goods show a greater degree of differentiation in product categories than the EA average. On the import side, the categories that account for the largest share in Greece are fuels, chemicals, and machinery - transport equipment. The categories with the largest share in the EA in nominal value terms for the years 2008 and 2022 are fuels, manufactured goods classified chiefly by material, and machinery - transport equipment. Greek imports of goods are more concentrated in individual product categories than the EA average. The concentration of Greek trade flows into individual product categories has increased since the crisis, in contrast to the concentration of trade flows in the euro area, which declined in 2008-2022.

Figure B.3.3.2. Top three 1-digit categories (SITC) of products with the largest share of value of trade flows, at current prices



Source: Eurostat, Data processing: IOBE

Figure B.3.3.3. Degree of concentration of trade flows in Greece and EA, 2008 and 2022



Source: Eurostat. Data processing: IOBE. Note: The concentration is calculated as the aggregate share of the three 1-digit product categories with the highest nominal value of exports (imports) to the total nominal value of exports (imports) of goods.

B. Balance of payments

- • In the first 7 months of 2023, the current account showed a smaller deficit compared with 2022, at €7.0 billion, compared with €10.6 billion.
- • A significant correction of the deficit in the goods account and an increase in the surplus of the services account and the secondary income account.

Current Account

January – July 2023

In the first 7 months of 2023, the current account showed a deficit of €7.0 billion, down by €3.6 billion compared with 2022 (€10.6 billion). The correction resulted from a significant decrease in the deficit of the goods account and an increase in the surplus of the services and the secondary income accounts, while a deficit was recorded in the primary income account.

In more detail, the deficit of the goods account stood at €18.0 billion in January-July 2023, down by €3.4 billion compared with 2022, but remaining at a high level (close to its 2009 level). Exports were down to €29.5 billion (-€883 million),[8] with the category of other goods recording an increase of €649 million, while the decrease was driven by fuel exports (-€1.6 billion). Imports of goods fell to €47.5 billion (-€4.3 billion), from a high level in 2022 (€51.8 billion) on account of inflation. The decrease was driven by the fuels category, with a fall of €3.8 billion, while for other goods the decrease was relatively small (-€550 million). The correction of the fuels account covers 65% of the fall in the goods account, standing at -€4.2 billion in 2023, compared with €6.4 billion in 2022, while the other goods account improved by €2.0 billion.

The surplus in the services account increased in the first 7 months of the year to €10.9 billion, compared with €9.9 billion. Total receipts from services stood at €26.3 billion, up by €875 million year-on-year, while payments amounted to €15.4 billion, with a decrease of €169 million. Travel receipts increased significantly in the first 7 months, by €1.7 billion to €10.3 billion, reaching their highest level on record since 2002. Transport services stood at €11.9 billion, down by €1.5 billion, compared with 2022, while receipts from other services reached €4.1 billion, up by €601 million. Payments for travel services increased to €1.4 billion (+€317 million), payments for transport services dropped by €685 million, to €10.1 billion, while payments for other services reached €3.9 billion, with payments for other services increasing by 5%.

The primary income account turned into a deficit of €1.4 billion in the first 7 months of 2023, against a surplus of €522 million in 2022. Receipts increased to €5.7 billion, up by 36%, and payments doubled to €7.0 billion. The main reason for the increase in payments is the expansion of the investment payment category (gains, dividends, interest) by €3.6 billion.

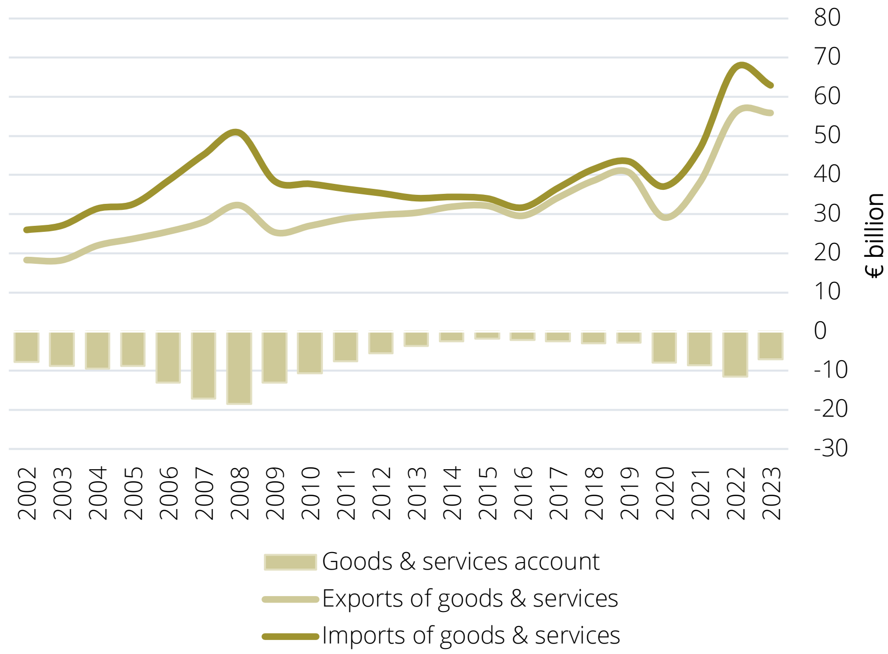
The surplus in the secondary income account widened significantly in 2023, to €1.4 billion, from €404 million in 2022, due to the disbursement of the second instalment from the Recovery and Resilience Facility (RRF) in January, but after April a negative change was recorded, partly offsetting

[8] The figures in brackets express the absolute change compared to the corresponding period of the previous year, in current prices, unless otherwise stated.

this increase. As a result, receipts increased to €3.8 billion (€464 million), while payments decreased to €2.4 billion (-€515 million).

Figure 3.13

Imports-Exports of Goods and Services (January – July), 2002-2023

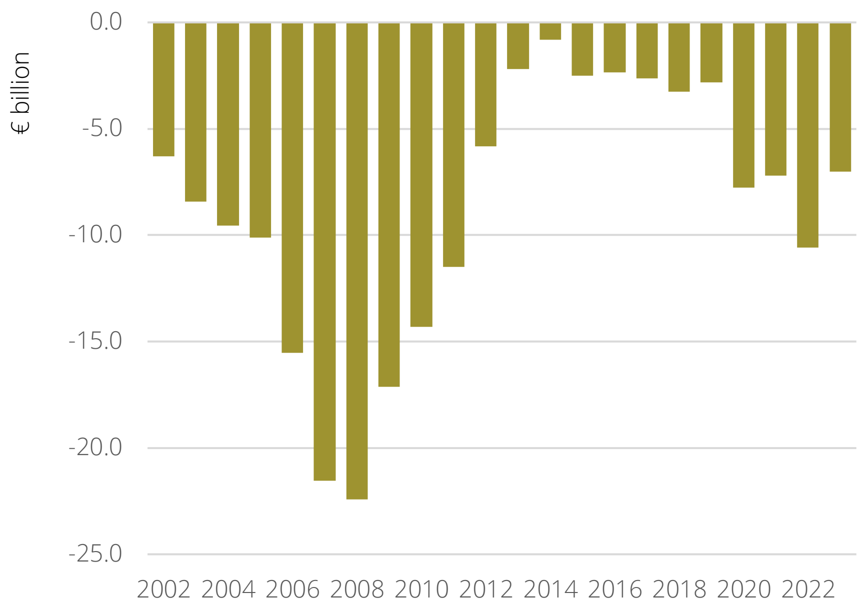


The deficit in the balance of goods and services narrowed to €7.0 billion in January-September 2023, compared with €11.5 billion in 2022.

Source: Bank of Greece, Data processing: IOBE

Figure 3.14

Current Account (January – July), 2002-2023

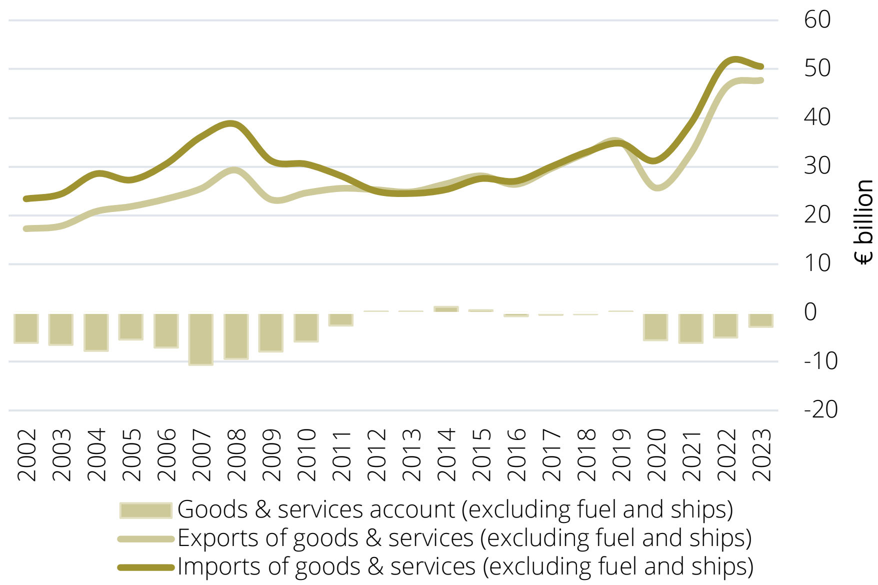


At €7.0 billion the current account deficit in the first 7 months of 2023, compared with €10.6 billion in 2022.

Source: Bank of Greece, Data processing: IOBE

Figure 3.15

Imports-Exports of Goods excluding fuel and ships (January – July), 2002-2023



Contraction of the deficit in the goods and services account excluding fuels and ships to €2.8 billion, from €5.1 billion in 2022

Source: Bank of Greece, Data processing: IOBE

Capital Account

The capital account surplus[9] stood at €1.9 billion in the first 7 months of 2023, compared with €2.0 billion in 2022, with an increase in receipts to €2.1 billion, and a decrease in payments to €2998 million. Lastly, the current and capital account, reflecting the position of an economy as a lender or borrower to the rest of the world, was in a deficit of €5.2 billion, compared with €8.6 billion deficit in 2022.

Financial Account

The financial account had a deficit of €3.7 billion in the first 7 months of 2023, compared with a deficit of €7.4 billion in the same period of 2022.

In the constituent accounts, residents' net assets from direct investment abroad increased by €318 million, while net liabilities to non-residents (non-residents' investment in the country) increased by €2.6 billion.

Under portfolio investment, residents' external assets rose by €5.1 billion, as did liabilities to non-residents (€5.1 billion), on account of a rise in the holdings of bonds and treasury bills in both categories.

[9] The capital account shows capital transfers, i.e., unilateral receipts and payments between residents and non-residents linked to fixed capital formation. Capital transfers mainly comprise part of the transfers (receipts) from the Community budget of the European Union to the General Government (withdrawals from the Structural Funds – except for the European Social Fund – and from the Cohesion Fund under the NSRFs).

Under other investment, residents' external assets fell by €2.4 billion, mainly owing to a €4.4 billion decrease in investment in deposits and repos, which was partly offset by the statistical adjustment from the issuance of banknotes, while liabilities declined by €105 million. Finally, Greece's reserve assets stood at €12.2 billion at end-July 2023, compared with €11.0 billion in 2022.

Table 3.8

Balance of payments (€ million)

		January – July			July		
		2021	2022	2023	2021	2022	2023
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	**-7.208,6**	**-10.597,8**	**-7.030,5**	**415,1**	**962,7**	**827,5**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-8.621,4**	**-11.523,0**	**-7.037,4**	**114,0**	**729,8**	**1.679,0**
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	**-13.279,3**	**-21.421,5**	**-17.980,4**	**-2.352,9**	**-3.099,2**	**-2.621,1**
	Oil balance	-2.442,3	-6.367,2	-4.161,9	-672,3	-1.161,0	-567,3
	Trade balance excluding oil	-10.837,0	-15.054,3	-13.818,5	-1.680,7	-1.938,3	-2.053,9
	Ships balance	-31,4	-83,5	-46,4	-1,3	-21,6	-26,9
	Trade balance excluding ships	-13.247,9	-21.338,0	-17.934,0	-2.351,6	-3.077,6	-2.594,3
	Trade balance excluding oil and ships	-10.805,7	-14.970,7	-13.772,1	-1.679,4	-1.916,6	-2.027,0
I.A.1	Exports of Goods	**21.756,5**	**30.426,6**	**29.543,6**	**3.489,7**	**4.876,6**	**4.175,3**
	Oil	5.299,5	9.619,8	8.010,2	803,0	1.631,0	1.104,0
	Ships (sales)	63,6	72,5	150,2	9,9	11,6	10,3
	Goods excluding oil and ships	16.393,4	20.734,3	21.383,1	2.676,7	3.234,1	3.061,1
I.A.2	Imports of Goods	**35.035,9**	**51.848,1**	**47.524,0**	**5.842,6**	**7.975,9**	**6.796,5**
	Oil	7.741,8	15.987,0	12.172,2	1.475,2	2.791,9	1.671,2
	Ships (buying)	95,0	156,0	196,6	11,2	33,2	37,2
	Goods excluding oil and ships	27.199,0	35.705,1	35.155,2	4.356,1	5.150,7	5.088,1
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	**4.657,9**	**9.898,5**	**10.943,1**	**2.467,0**	**3.829,1**	**4.300,2**
I.B.1	Receipts	**16.323,3**	**25.456,8**	**26.331,9**	**4.640,0**	**6.235,2**	**6.549,2**
	Travel	3.481,9	8.584,6	10.321,1	2.288,0	3.601,7	4.146,2
	Transportation	9.568,7	13.340,4	11.878,5	1.691,1	2.011,7	1.718,1
	Other services	3.272,7	3.531,7	4.132,3	660,9	621,9	685,0
I.B.2	Payments	**11.665,3**	**15.558,2**	**15.388,8**	**2.173,0**	**2.406,1**	**2.249,0**
	Travel	454,5	1.062,8	1.379,6	129,1	192,1	261,4
	Transportation	7.679,5	10.827,3	10.142,6	1.477,0	1.619,4	1.393,4
	Other services	3.531,3	3.668,2	3.866,6	566,8	594,7	594,2
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	**1.115,6**	**521,6**	**-1.375,4**	**-368,3**	**-331,5**	**-658,6**
I.C.1	Receipts	**4.559,2**	**4.148,4**	**5.659,6**	**465,5**	**450,2**	**701,9**
	From work (wages, compensation)	113,6	132,0	123,2	16,5	19,5	15,9
	From investments (interest, dividends, profit)	1.823,1	1.694,6	2.947,0	307,6	302,1	594,2
	Other primary income	2.622,5	2.321,7	2.589,4	141,3	128,5	91,8
I.C.2	Payments	**3.443,6**	**3.626,8**	**7.035,0**	**833,7**	**781,7**	**1.360,5**
	From work (wages, compensation)	727,2	872,1	769,6	108,0	129,9	108,0
	From investments (interest, dividends, profit)	2.383,2	2.283,0	5.933,6	705,9	618,1	1.216,4
	Other primary income	333,2	471,7	331,9	19,9	33,7	36,1
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	**297,2**	**403,6**	**1.382,3**	**669,3**	**564,4**	**-193,0**
I.D.1	Receipts	**2.486,2**	**3.297,9**	**3.761,6**	**915,5**	**914,8**	**169,5**
	General government	1.621,9	2.258,9	2.239,1	794,8	790,5	30,6
	Other sectors	864,3	1.039,0	1.522,5	120,7	124,3	138,9
I.D.2	Payments	**2.188,9**	**2.894,3**	**2.379,3**	**246,2**	**350,4**	**362,5**
	General government	1.372,0	1.988,3	1.339,1	112,6	190,9	204,5
	Other sectors	817,0	906,0	1.040,2	133,6	159,5	158,0
II	CAPITAL ACCOUNT (II.1-II.2)	**665,9**	**1.962,6**	**1.851,7**	**-48,4**	**475,7**	**-39,8**
II.1	Receipts	**1.309,0**	**2.422,1**	**2.149,4**	**28,8**	**490,8**	**13,9**
	General government	1.045,3	1.897,0	1.640,3	19,9	382,0	8,4
	Other sectors	263,6	525,1	509,1	8,9	108,8	5,5
II.2	Payments	**643,0**	**459,5**	**297,6**	**77,2**	**15,1**	**53,7**
	General government	2,6	4,2	4,1	0,4	0,6	0,6
	Other sectors	640,4	455,3	293,5	76,8	14,5	53,2
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-6.542,6***	***-8.635,3***	***-5.178,7***	***366,7***	***1.438,4***	***787,7***
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-5.324,7**	**-7.368,0**	**-3.750,9**	**539,2**	**1.198,4**	**1.064,3**
III.A	DIRECT INVESTMENT*	**-2.672,8**	**-3.414,8**	**-2.275,8**	**-505,2**	**776,9**	**-972,8**
	Assets	737,9	1.127,2	318,0	-48,2	731,3	-373,1
	Liabilities	3.410,6	4.541,9	2.593,8	457,1	-45,6	599,7
III.B	PORTFOLIO INVESTMENT*	**11.905,1**	**8.207,8**	**47,6**	**2.024,7**	**1.640,9**	**-2.764,8**
	Assets	14.801,4	10.472,9	5.131,5	1.654,7	397,9	-655,8
	Liabilities	2.896,3	2.265,2	5.083,9	-370,1	-1.243,0	2.109,0
III.C	OTHER INVESTMENT*	**-14.168,3**	**-9.688,9**	**-2.266,7**	**-1.040,3**	**-1.170,2**	**4.666,1**
	Assets	2.450,2	-1.893,8	-2.371,4	680,8	-48,3	-755,9
	Liabilities	16.618,5	7.795,1	-104,8	1.721,1	1.121,9	-5.422,0
	(Loans of general government)	-1.423,1	-1.615,6	135,5	-152,3	-153,8	-111,3
III.D	CHANGE IN RESERVE ASSETS**	**-388,8**	**-2.472,1**	**743,9**	**60,0**	**-49,3**	**135,8**
IV	BALANCE ITEMS (I +II +IV +V = 0)	**1.217,9**	**1.267,3**	**1.427,8**	**172,5**	**-240,0**	**276,6**
	RESERVE ASSETS (STOCK)***				**9.393**	**10.962**	**12.203**

Source: Bank of Greece

* (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, increases in demand are presented with a positive sign while the decrease in receivables is displayed with a negative sign. Similarly, the increase in liabilities is captured with a positive sign, while the reduction of liabilities with a negative sign. ** (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchange reserves with a negative sign. * * * Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" in the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outside the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB.

3.4 Labour market

- A decrease in the unemployment rate in the second quarter of 2023 to 11.2% from 12.4% in the second quarter of 2022.
- The decline in the unemployment rate was mainly the result of an increase in employment (+69,300) and less from the decrease in the number of unemployed (-58,300).
- The entry-exit balance in the private sector in the first eight months of 2023 was positive by 280,800 jobs, compared with a positive balance of 237,200 jobs in the first eight months of 2022.
- Higher employment growth in Q2 2023 in transport-storage (+26,000 employees), human health - social protection (+14,800), financial - insurance activities (+14,600), tourism (+12,700).
- Strongest drop in employment in wholesale-retail trade (-25,100 employed) and in arts-recreation-entertainment (-10,900).
- An increase in the seasonally adjusted wage cost index in the second quarter of 2023 by 4.3% compared to the same quarter of 2022.

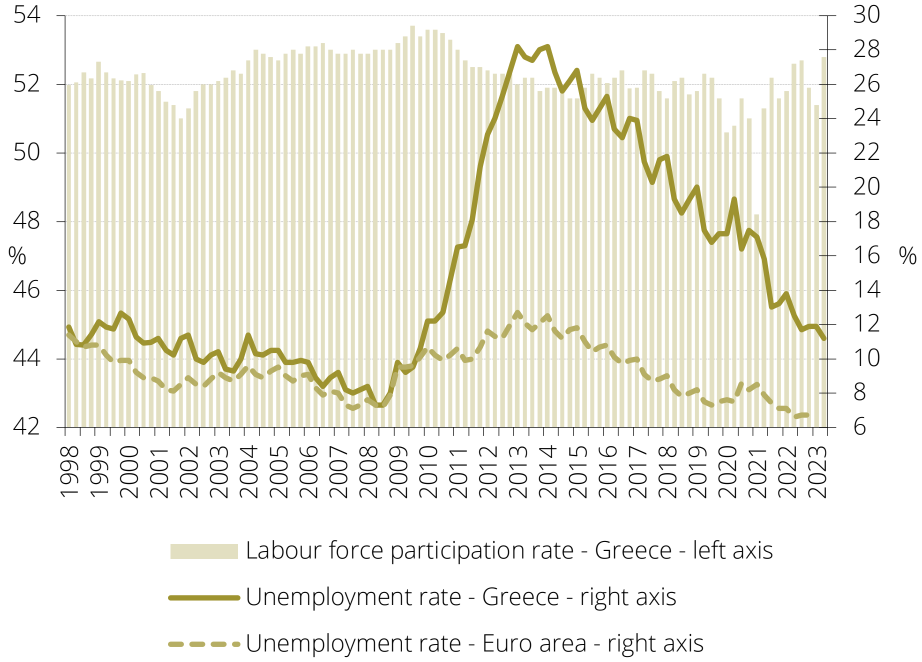
According to the latest available data from the ELSTAT Labour Force Survey, the unemployment rate fell by 1.2 percentage points in the second quarter of 2023, to 11.2%, from 12.4% in the same quarter of 2022. Over the same period, the number of unemployed fell to 533,300, from 591,600, down by 58,300, or 9.9%, while the number of persons employed rose by 1.7% or 69,300 to 4,236,500 from 4,167,200. As a result, the decline in the unemployment rate was mainly due to an increase in employment (+69,300), rather than to a decline in the number of unemployed (-58,300). It should be noted that the seasonally unadjusted unemployment rate in August of this year fell to 10.7% from 11.6% in August 2022 (-0.9 percentage points). Finally, according to the latest data from the ERGANI information system on salaried employment flows in the private sector, the entry-exit balance in the January-August 2023 period was positive by 208,800 (28,400 hires and 1,857,600 terminations), against a positive balance of 237,200 (1,918,000 hires and 1,680,800 terminations) in the first eight months of 2022.

As regards the euro area, unemployment declined in 13 countries and increased in seven. The highest unemployment rate is recorded traditionally in Spain, where it fell to 11.6% in Q2 2023 from 12.5% in Q2 2022 (-0.9 pps). After Spain and Greece, the highest unemployment rates are found in Finland and Italy. In the former, the unemployment rate stood at 8.0%, from 7.2% (+0.8 percentage points), and in the latter, it fell by 0.5 percentage points to 7.5%, from 8.0%. In France, the unemployment rate fell in the second quarter of this year to 6.9% from 7.1% in Q2 2022 showing a decrease of 0.2 percentage points. By contrast, the lowest unemployment rate in Q2 2023 was seen in Malta, where it fell to 2.5% from 2.9% in Q2 2022 (-0.4 pp), followed by Germany, where it declined marginally to 3.0% from 3.1% (-0.1 pp). It should be noted that, apart from Finland, the strongest increase in the unemployment rate was registered in Estonia (+0.9 percentage points, from 5.8% to 6.7%) and Lithuania (+0.7 percentage points, from 5.3% to 6.0%), while the strongest decline was recorded in Croatia, where it fell by -1.7 percentage points (from 7.3% to 5.6%). In the euro area, the unemployment rate for the period under review reached 6.1% (Annex, Figure 7).

Regarding the evolution of the unemployment rate by gender in Greece, it remains higher among women, despite a stronger decline. In more detail, the female unemployment rate fell to 14.6% in the second quarter of 2023 from 16.6% in Q2 2022 to 2.0 percentage points, while for men it fell to 8.4%, from 9.2% (-0.8 pps). It should be noted that over the same period in the euro area, the female unemployment rate fell to 6.6%, from 7.0% (-0.4 percentage points), and for men to 6.0% from 6.3% (-0.3 percentage points).

Figure 3.16

Labour force participation and unemployment rates



Decrease in the unemployment rate in Greece in Q2 2023 to 11.2%, from 12.4% in Q2 2022

Sources: ELSTAT – Labour Force Survey, Eurostat

The unemployment rate remains lower among older age cohorts. In the second quarter of this year, the unemployment rate declined across all age categories. The sharpest decline of 23.8 percentage points was recorded among 15–19-year-olds, where it fell to 30.5% from 54.3%. Next come those aged 20-24, where the unemployment rate fell by 2.8 percentage points to 26.2%, from 29.0%, while the milder decline in the unemployment rate (-0.6 percentage points) was seen among those aged 25-29 and 30-44. In the former, it decreased from 19.5% to 18.9%, and in the latter from 12.1% to 11.5%. Finally, unemployment in the second quarter of this year was lowest in the 45-64 and over 65 age categories. In both categories, the decline in the unemployment rate was the same (-1.6 percentage points). In the former, it fell to 7.6% from 9.2% and, in the latter, from 8.4% to 6.8%.

With regard to the duration of unemployment, both the rate and the number of long-term unemployed declined. The long-term unemployment rate fell to 59.9% in the second quarter of 2023, from 62.6% in Q2 2022 (-2.7 percentage points), while the number of long-term unemployed fell to 314,400, from 370,400 (-51,000 or -13.8%).

The unemployment rate remained lower at higher levels of education. In the second quarter of 2023, the unemployment rate decreased across all education categories. The strongest decline and the lowest unemployment rate were recorded among people who completed some classes of primary education or did not go to school at all, where it fell to 31.9% in Q2 2023 from 36.9% in

Q2 2022 (-5.0 percentage points). The second largest decline, by 2.6 percentage points, was recorded among those with lower secondary education, where the unemployment rate fell to 12.2% from 14.8% in Q2 2022, while the lowest unemployment rate was recorded among those with doctoral or postgraduate degrees, which fell to 4.1% from 4.7%. Finally, the mildest decline was registered among those with primary education, where it fell to 14.7% from 15.0% (-0.3 percentage points).

With regard to trends in the regional dimension of unemployment, in four regions the unemployment rate increased and in the remaining nine regions it decreased. The highest unemployment rate and its strongest increase occurred in the Ionian Islands region, where it reached 17.0% in Q2 2023 from 16.1% in Q2 2022 (+0.9 pp). Next came the Western Macedonia region, where the unemployment rate declined to 14.5%, from 19.7% (-5.2 percentage points). The strongest decline was recorded in Thessaly, where the unemployment rate fell by 5.8 percentage points, to 11.4% from 17.2%. The lowest unemployment rate during the same period was registered in the South Aegean region, where it stood at 4.2%, up from 7.5% (-3.3 percentage points), followed by the Northern Aegean region and Crete. In the former region, unemployment fell to 9.8% from 11.0% (-1.2 percentage points) and in the latter to 9.8% from 9.3% (+0.5 pp).

Concerning employment developments by occupational status, all categories saw an increase in employment. The strongest increase in absolute numbers was recorded among salaried employees, where the number of employed persons rose to 2,951,800 in the second quarter of this year from 2,913,600 in the second quarter of last year (+38,200 or +1.3%), followed by the self-employed where it increased by 30,000 (or +2.7%, from 1,117,400 to 1,147,400). Finally, the number of unpaid family workers increased by 1,100 employees, or 0.8%, to 137,300, from 136,200.

Full-time workers in the second quarter of 2023 increased by 108,300, or 2.8% compared with the second quarter of 2022, to 3,921,500, from 3,813,200, while part-time workers fell by 36,400 or 10.5% to 309,100 from 345,500.

In relation to employment developments by occupational category, eight occupations saw an increase and two declines in employment. Plant and machine operators and assemblers rose most strongly in absolute terms to 18,700 employees, growing from 281,900 to 300,600 (+6.6%). Next came scientific, artistic, and related professionals, as their number rose by 18,000 people, from 910,000 to 928,000 (+2.0%). The sharpest decline in the second quarter of this year was recorded in office clerks, whose number fell to 451,600, from 473,600 in Q2 2022 (-22,000 or -4.6%).

With regard to the trend in employment at the sectoral level, employment increased in all sectors. In absolute terms, the strongest increase was recorded in the tertiary sector where employment rose by 40,400 persons or by 1.3%, to 3,108,400, from 3,068,000. In the secondary sector, employment rose by 21,700, or 3.4%, to 659,700 in Q2 2023, from 638,000 in Q2 2022. Finally, in the primary sector, employment rose by 10,000 or 2.2% to 447,400, from 457,400.

Employment increased in 12 branches of economic activity, fell in eight and remained unchanged in one (mining-quarrying, 12,300 persons employed). In absolute terms, the strongest employment growth in the second quarter of this year was recorded in transport-storage and human health - social protection. In the former, the number of persons employed increased by 26,000 (or 12.6%) to 232,600, from 206,600, while in the latter, by 14,800 (or by 5.2%) to 296,400 thousand, from 284,600. In financial - insurance activities, employment increased by 14,600 people (or +20.5%), reaching 85,700 in the second quarter of 2023, from 71,100 in the second quarter of 2022. By contrast, the strongest decline in employment was recorded in wholesale - retail trade, where employment fell to 699,300, down from 724,400 (-25,100 or -3.5%). A much lower decline was recorded in employment in arts-entertainment-recreation, where the number of persons employed fell by 10,900, to 47,500 from 58,400. In accommodation - food activities, manufacturing, and construction employment rose by 12,700 (or 3.2%, to 414,000, from 401,300), by 8,200 (or 2.0% to 415,500, from 407,300) and 7,400 (or +4.9%, to 156,900 from 149,500), respectively.

In conclusion, the data on employment at the sectoral level show that its rise in Q2 2023 compared to Q2 2022 was mainly driven by growth in the following sectors:

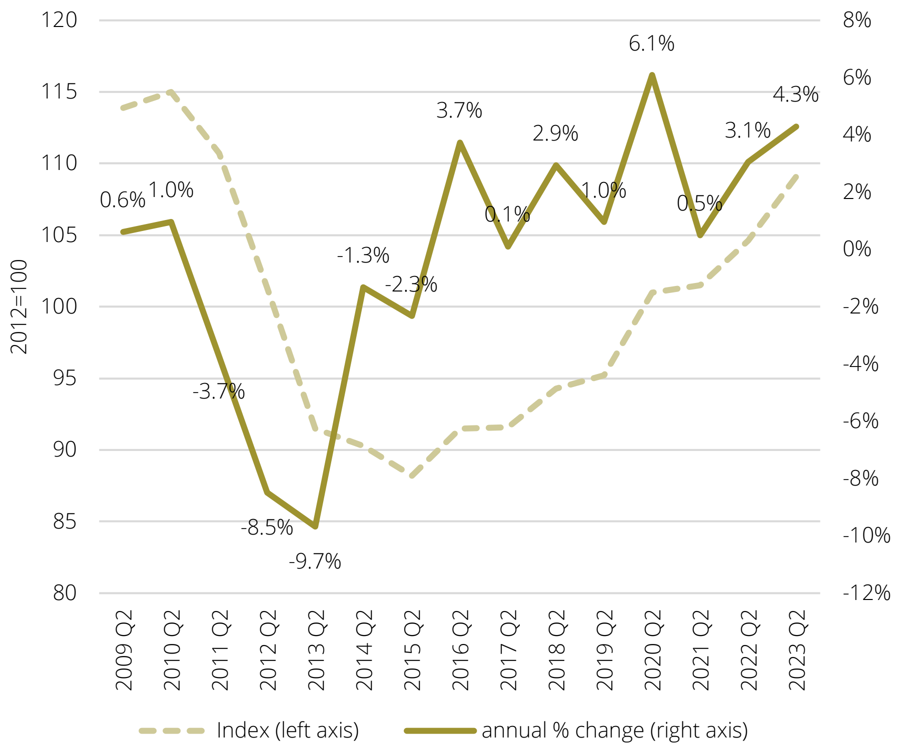
- Transport-storage (+26,000 persons employed)
- Human health - social work activities (+14,800)
- Financial - insurance activities (+14,600)
- Accommodation - food service activities (+12,700)

despite the fall in employment in wholesale - retail trade by -25,100 people, and in the arts-entertainment-recreation by 10,900 people.

The seasonally adjusted wage cost index in the Greek economy as a whole increased for the fifth consecutive quarter. In Q2 2023, it stood at 109.1 points, from 104.6 points in the second quarter of 2022 (+4.3%).

Figure 3.17

Seasonally adjusted wage cost index and its percentage change



Increase in the seasonally adjusted wage cost index in Q2 2023 by 4.3% compared to the same quarter of 2022.

Source: ELSTAT

Table 3.9

Population aged 15 years and over by employment status (in thousands)

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
2019	9,103.5	52.0	3,911.0	82.7	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	83.8	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	83.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	83.8	756.4	16.2
Q4 2020	9,074.2	51.0	3,878.5	83.8	750.1	16.2
2020	9,079.0	51.0	3,878.5	83.7	755.0	16.3
Q1 2021	9,070.8	48.2	3,625.1	82.9	745.4	17.1
Q2 2021	9,067.1	51.3	3,915.3	84.2	732.5	15.8
Q3 2021	9,063.5	52.2	4,118.3	87.0	615.4	13.0
Q4 2021	9,060.0	51.6	4,053.3	86.8	617.4	13.2
2021	9,065.4	50.8	3,928.0	85.2	677.7	14.7
Q1 2022	9,055.8	51.8	4,044.0	86.2	647.2	13.8
Q2 2022	9,051.9	52.6	4,167.2	87.6	591.6	12.4
Q3 2022	9,048.2	52.7	4,216.0	88.4	555.6	11.6
Q4 2022	9,044.7	51.9	4,135.2	88.1	558.4	11.9
2022	9,050.2	52.3	4,140.6	87.6	588.2	12.4
Q1 2023	9,041.4	51.4	4,098.0	88.2	550.5	11.8
Q2 2023	9,038.4	52.8	4,236.5	88.8	533.3	11.2

Source: ELSTAT, Labour Force Survey

Medium-term outlook

The formation of a government by a comfortable parliamentary majority after the June parliamentary elections removed the political uncertainty, which in turn has affected the functioning of the economy. At the same time, the regaining of Greece's investment grade by DBRS in September is expected to have a positive impact on the economy through the reduction of the borrowing costs of the Greek State and thus of Greek banks, as well as by attracting new investment. That said, the natural disasters that took place in the summer and autumn led to negative developments. Fires in Rhodes and Evros and floods in Thessaly – in addition to the apparent negative effects on the natural environment – are expected to have negative effects more on inflation than on GDP, due to higher prices of products from the primary sector. The cost of the above natural disasters should also include damage repairs and assistance to affected persons (households and businesses), which cannot yet be accurately assessed. Existing risks in the geopolitical environment (war in Ukraine and the Middle East) are not expected to significantly affect the evolution of the economy, while the negative effects on energy are expected to be less pronounced as energy prices move at lower average levels than in 2022. For 2023, positive effects on employment are expected to come from tourism, exports, investment, and consumption.

On Tourism, the latest data show that in the first eight months of 2023 international arrivals at major airports of the country were 12.4% higher than in the same period of 2022 (+1.9 million arrivals, from 15.5 million to 17.4 million), while tourism receipts (in current prices) in the first seven months of 2023 increased by 20.1% or €1.73 billion (from €8.58 billion to €10.31 billion). These developments are expected to have a positive impact on employment in the sector, mainly in the second and third quarters of the year. In this regard, it should be noted that in January-August 2023, the balance of hires and terminations in the sector turned positive by 268,700 (828,600 hires and 639,900 terminations), higher by 7.8% or 19.500 jobs compared with the corresponding positive balance in the first eight months of 2022 (+249,200, with 889,400 hires and 580,300 terminations).

Exports of goods are expected to rise for another year (+1.6% according to IOBE's forecast), with corresponding positive effects on employment. The weaker recovery compared to 2022 in both the European Union and the euro area, at 0.8% in both blocs according to the latest European Commission report, will contribute to this development. At the same time, inflation according to the European Commission's forecast is expected to be lower than in 2022, at 6.5% in the European Union (down from 9.2% in 2022) and 5.6% in the euro area (down from 8.4% in 2022). While the first seven months of 2023 saw exports with fuel and ships (in current prices) decrease by 2.8% (or by €848.4 million, to €29.6 billion from €30.5 billion) compared to the same period in 2022, excluding fuel and ships, they increased by 3.1% (or €636.4 million, to €21.5 billion).

While investment growth is expected to have a positive impact on employment, this effect is expected to be milder. On the one hand, positive effects will come from the resources of the recovery fund. By the end of May, 425 investment projects related to industry, retail trade, electricity generation – RES, telecommunications, tourism, and services had been submitted, with a total budget of €15.7 billion, while 178 loan contracts had been signed for a total budget of €6.82 billion. Furthermore, positive effects on employment will come from the gradual maturing of large infrastructure projects, the high backlog of construction works, and the construction sector activity in general. On the other hand, inflation (IOBE forecast for inflation of 4.3% in 2023 from 9.6% in 2022) and the continuous increase in interest rates by the ECB will dampen investment risk-taking, albeit less strongly than in the previous year.

Private consumption is expected to be mildly growing in 2023 as well (+2.0% according to IOBE's projections, from 7.9% in 2022) with corresponding positive effects on employment in respective sectors. However, it will continue to be negatively affected by inflation in Greece – especially on food – as well as by a decline in the discretionary income of households and firms due to rising borrowing costs as a result of the continued hikes in interest rates by the ECB. These negative effects are to some extent offset by the recent increase in the minimum wage and the energy support measures, but the suspension of the market pass issuing since October 2023 and the expiry of the fuel pass extension should be noted.

For 2024, the employment trend will again be significantly affected by the course of tourism which is expected to broadly maintain its positive performance. Concerning private consumption, its growth is expected to be milder (1.4% according to the IOBE forecast), with the positive effects on private consumption stemming from the expected new increase in the minimum wage in April 2024, increases in public wages as of 01/01/2024, and the reinstatement of the three-year maturation period. By contrast, negative effects will come from inflation, which will be lower than in 2023 (at 2.6% according to the IOBE forecast), high – but lower than in 2023 – Euribor levels (down to about 3.7% on average), and a mild increase in international energy prices due to the wars in Ukraine and the Middle East – provided that the geopolitical environment does not change dramatically. On the investment front, an acceleration of the disbursement of the funds from the recovery facility is expected, while we should also note Greece's request to revise the Greece 2.0 plan, which, if adopted, would increase the fund's resources by €5.8 billion to a total budget of €36 billion. The stronger GDP growth in the euro area and the European Union in 2024 (1.3% and 1.4%, respectively, according to the European Commission) and lower inflation (2.9% and 3.2%, respectively) are expected to have a positive effect on exports of goods (+4.0% according to the IOBE forecast). Finally, the impact of the public sector on employment should not be ignored, as four new programmes for training and job placement of 52,000 unemployed people are expected to be implemented by DYPA in the autumn, maturing in 2024, while the government plans the recruitment of 16,000 permanent staff in 2024.

Taking into account the above effects on the labour market, the unemployment rate in 2023 is expected to stand in the region of 11.0%. For 2024, the unemployment rate is expected to stand in the region of 10.5%.

According to the latest IOBE Business and Consumer Surveys, in July-September 2023, there was a marked quarter-on-quarter deterioration in the short-term outlook for employment in industry, services, and construction, with expectations strengthening slightly in retail trade. Compared to the same period of 2022, there was a sharp improvement in construction and retail trade, while the deterioration in Industry and Services was marginal. In more detail:

In industry, the average balance in the third quarter of this year weakened slightly compared with the previous quarter to -2 points. Compared with last year's corresponding performance, the average quarterly indicator was around 3 points lower. In the three months under review, the percentage of industrial firms expecting a fall in employment in the near term edged up slightly to 11%, from 7% in the previous quarter, while at the same time, the proportion of those expecting an increase in the number of jobs fell to 8% (from 17%). However, the vast majority of companies in the sector (81%) were anticipating stability in terms of employment.

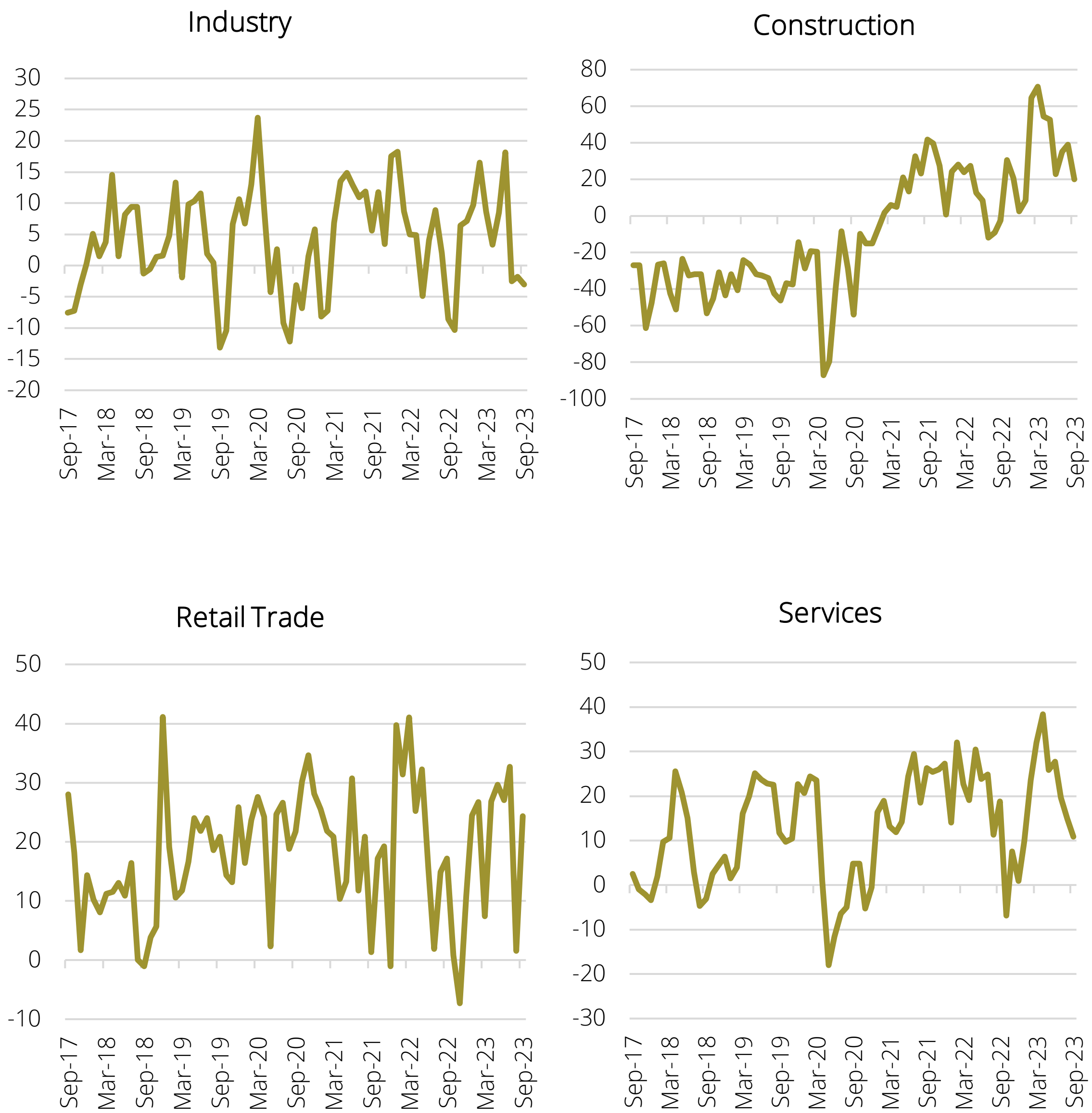
In construction, the relevant projections point to a marked deterioration in the employment balance of the sector, declining from +43 points to +31 points, albeit to a markedly higher level compared to the same period of 2022 (+39 points). In the quarter under review, 5% (from 3%) of firms in the sector were expecting fewer jobs, while the proportion of respondents expecting an increase in employment declined markedly to 36% (from 46%). At the sectoral level, there was a marked decline in the relevant index for private construction (+26 from +37 points) with the relevant index for public works (+34 from +49 points) decreasing significantly.

The indicator for retail trade employment expectations strengthened modestly in the third quarter of 2023 compared with the immediately preceding quarter, to +28 points (from +20), markedly higher performance than in 2022 (+27). Only 1% of firms in the sector were expecting a decrease in jobs as in the previous quarter, while 29% (from 21%) were anticipating an increase in employment, with those expecting stability reaching 69% (from 78%) of the total. The examined individual subsectors show a significant increase in the relative balance in department stores and textiles - clothing - footwear, while a small weakening can be observed in household equipment, vehicles - spare parts, and food - drinks.

In services, forecasts for the quarter under review point to a sharp decline compared with the previous quarter, with a mild weakening compared with the corresponding period of last year. In particular, the relevant balance in the third quarter of 2023 fell by 16 points to +15 points in the quarter under review, while it weakened by 3 points year-on-year. Of the enterprises in the sector, 4% (from 2% in the previous quarter) were expecting employment to decline, and 20% (from 32%) for it to increase. At the sub-sector level, the trend is strongly negative in hotels - restaurants, weaker in various business activities, and mildly positive in the remaining sectors.

Figure 3.18

Employment expectations (difference between positive and negative responses)



Source: IOBE

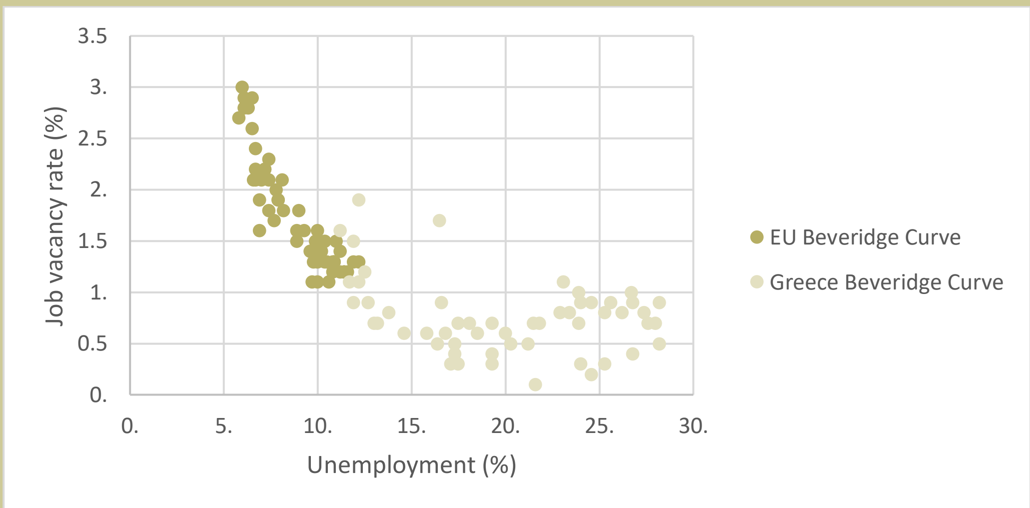
In the third quarter of 2023, compared with the previous quarter, the expectations for short-term employment prospects deteriorated markedly in industry, construction, and services, with the expectations improving slightly in retail trade.

Special box of section 3.4

Beveridge curve in Greece and the EU-27 from 2010 to 2023

The Beveridge curve, named after the British economist William Henry Beveridge, shows the relationship between unemployment and job vacancies in an economy. The expected relationship between the two variables is negative and the position along the curve reflects the phase of the economic cycle in which the economy is. In a boom phase, we are at a high point on the curve where the unemployment rate is low and the number of vacancies high. By contrast, in a period of recession, we are at a low level of the curve with a high unemployment rate and few vacancies. We can draw useful conclusions on the natural unemployment rate, however, also from the position of the curve in the chart. If the curve is close to the origin of the axes, the labour market is effective. Workers find employers easily and both the unemployment and the job vacancy rates are low. But if the curve is distant from the origin of the axes, then we have a high unemployment rate and a high vacancy rate at the same time, i.e. there are difficulties in matching workers and employers.

Figure B.3.4.1. Beveridge curve for Greece and EU27, Q1 2010 – Q2 2023

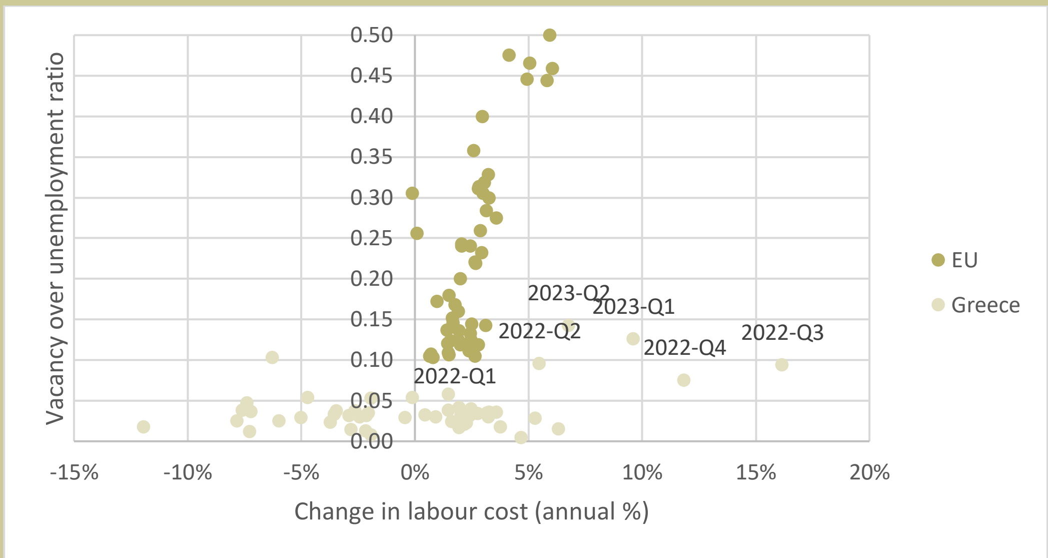


Source: Eurostat, Data processing: IOBE

In Figure B.3.4.1, we see the Beveridge curves for Greece and the EU (27 countries) drawn using Eurostat data from Q1 2010 to Q2 2023. The first observation is that both curves have the expected negative relationship. The negative correlation, however, is clearly stronger in the case of the EU. This difference is a sign that the EU-27 labour market is more efficient than the Greek labour market, because there are quarters in which the Greek economy had both high unemployment and a high vacancy rate. As a result, there is more difficulty for workers and employers to "find each other" in Greece (high frictional unemployment). The second thing we see is that the Beveridge curve for the EU is higher and more to the left than that of Greece. This difference in position shows that Greece has consistently higher unemployment rates than the EU-27 as well as systematically fewer vacancies. It can be concluded that Greece's natural unemployment rate, i.e. the unemployment rate when the output gap is zero, is higher than that of the EU. This may be the case because there is a high rate of structural unemployment, i.e. there is a mismatch between the skills and characteristics of the workers and the skills and characteristics requested in the labour market. Moreover, the fact that job vacancies are systematically lower in Greece than in the EU may indicate that not that many new jobs are created. When interpreting the data, it should be borne in mind that Greece was experiencing an economic crisis in much of the period under review. In any event, however, it is worth noting the great disparity between the domestic and the EU labour markets.

Figure B.3.4.2

Correlation of labour market saturation and labour cost: Greece & EU-27, Q1 2010 – Q2 2023



Source: Eurostat. Data processing: IOBE

Similar conclusions can be drawn from Figure B.3.4.2, which shows the correlation of the saturation indicator (ratio of the job vacancy rate to the unemployment rate) with the change in the labour cost index for the same period as before. An increase in the saturation index implies the creation of more jobs in the economy (which have not yet been filled). If the positions are not filled within a reasonable period of time, employers may increase wages to give an additional incentive to workers to fill vacancies. In an efficient labour market, the relationship between these two variables shown in the figure is therefore positive. On the other hand, if wage increases do not lead to jobs being filled (or the existence of vacancies is not accompanied by wage increases), we have evidence of mismatch between supply and demand in the labour market, i.e. structural unemployment.

We observe that the correlation is more positive in the EU-27 than in Greece. Wage increases in Greece are not related to a higher saturation rate in the labour market, to the extent that this is the case in the EU and in an efficient labour market. The weak correlation, even after the Greek crisis, is also a sign of a skills and competencies mismatch between supply and demand in the labour market.

3.5 Consumer and Producer Prices

- A milder increase of the HICP (CPI) in the first eight months of 2023, by 4.7% (3.8%) against inflation of 9.2% (9.9%) one year earlier. The price rise is mainly due to an upward momentum of the prices of non-energy goods.
- Rate of change in HICP with constant taxes and excluding energy, at 7.6% in the first half of 2023, up from 5.1% one year earlier.
- For 2023, the Consumer Price Index is projected to increase at a rate of about 4.3%. Key assumptions:
    - Brent oil prices will decline in weighted average terms by around 16% per annum.
    - Consumer demand will strengthen by about 1.6%.
- The Consumer Price Index for 2024 is projected to increase at a rate of about 2.6%. Key assumptions:
- The price of Brent crude oil will increase in weighted average terms by around 4% per annum.
    - Consumer demand will strengthen by about 1.0%

Recent developments

In January-August 2023, prices rose compared with a year earlier, with the average rate of change in the domestic Consumer Price Index (CPI) standing at 3.8%, from 9.9% a year earlier. The Harmonised Index of Consumer Prices (HICP) rose by 4.7% in the same period of 2023, from 9.2% last year. In September this year, the rate of change in the domestic CPI stood at 1.6%, from 12% in the same month of 2022. HICP also increased, with the rate of change standing at 2.4% in September, from 12.1% in the same month last year. It should be noted that in the first half of this year, core inflation[10] in Greece rose to 7.4%, up from 4.5% a year earlier, and stood at 6.0% in August, from 7.2% last year.

As regards the contribution of HICP components to its trend, the rise in the harmonised index in the first eight months of this year was due to the positive contribution of domestic demand, as the percentage change in the index with constant taxes and excluding energy was 7.6%, up from 5.1% a year earlier. Indirect taxes essentially had no impact on prices in the period under review, from a marginally negative contribution of 0.1 percentage points a year earlier.

Turning to developments in energy prices and their impact on the HICP, the average international oil price over the period from January to August this year weakened compared with the same period last year. In particular, the average price of Brent crude oil stood in the first eight months of this year at $80.5/barrel, from $107.1/barrel a year earlier, down by 24.8%.[11] The increase in the average exchange rate of the euro against the US dollar over the same period, by 1.3%, to 1.08 compared with 1.07 a year earlier, reinforced the decline in the price of oil in euro, with its average price standing at €74.2/barrel, 25.8% lower than in the same period of 2022. The decline in the price of oil, which is a key component of energy costs, reflects the negative contribution of energy goods prices, by 2.7 percentage points to the rate of change in the HICP domestically in the period

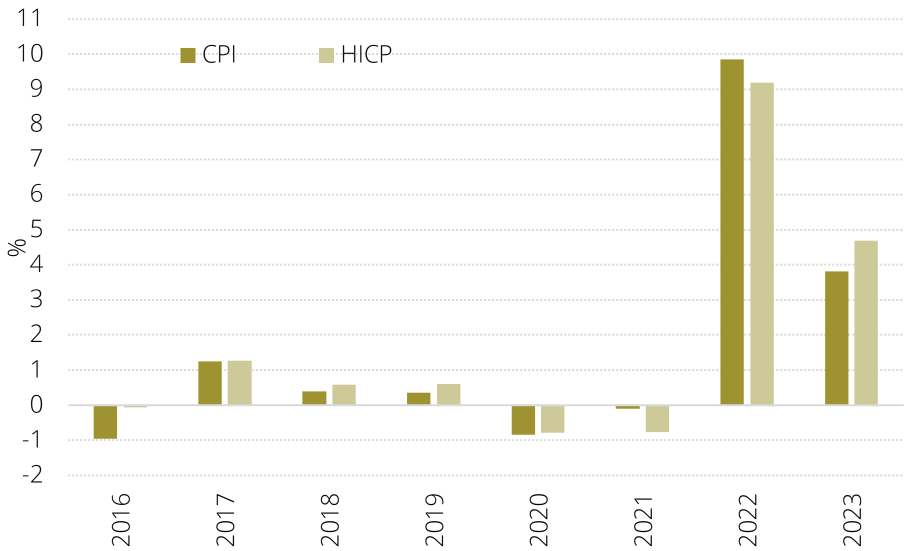
[10] Core inflation refers to the HICP excluding energy and unprocessed food.

[11] Μέσες τιμές περιόδου με βάση τη Europe Brent Spot Price. Source: EIA, US Energy Information Administration https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

January-August this year, compared with a positive contribution of 4.0% in the corresponding period of 2022.

Figure 3.19

Annual change in the domestic CPI and the HICP in Greece (%)

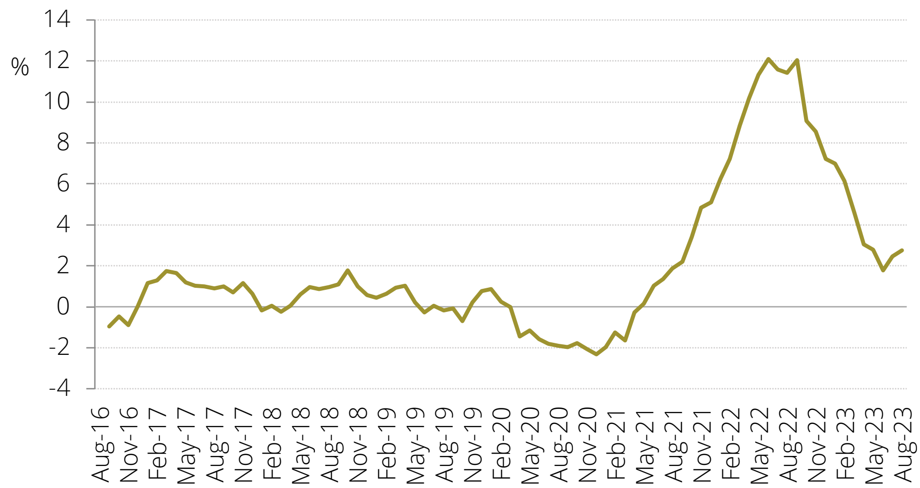


Domestic CPI increased by 3.8% year-on-year in the first eight months of 2023, from 9.9% in the same period of 2022.

Source: ELSTAT, data processing IOBE

Figure 3.20

CPI in Greece (annual percentage change per month)



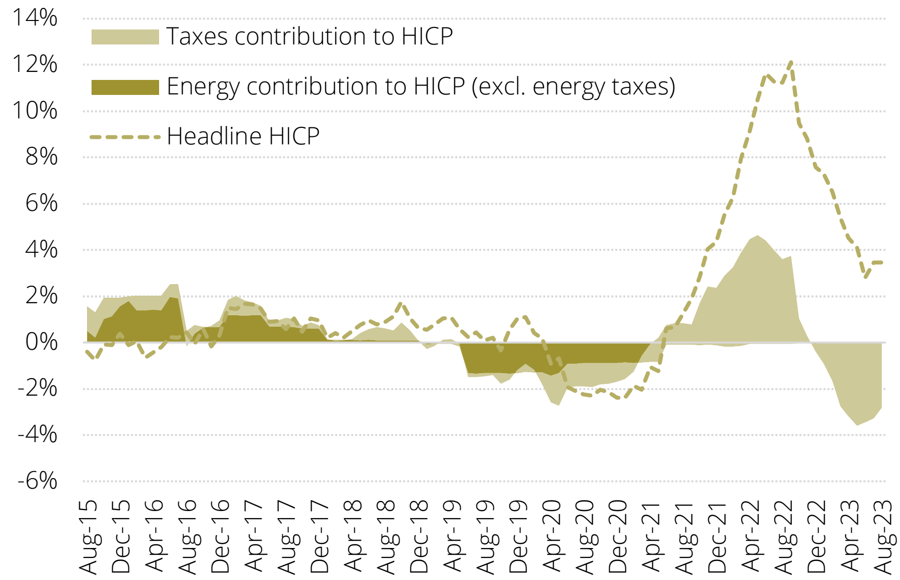
Stronger domestic CPI growth in August (2.7%). Lower than in the corresponding month of 2022 (11.4%).

Source: ELSTAT, data processing IOBE

The increase of the HICP in Greece in January - August 2023, by 4.7%, brings the country to the bottom of the inflation ranking among the euro area countries, below the weighted average for the bloc. The average change in the HICP in the euro area stood at 6.7% in the first eight months of the year, from 7.6% a year earlier. Domestic demand appears to have been the main driver of price increases in the euro area, with the price index with constant taxes and excluding energy goods rising by 7.2% in the period under review, compared with 4.2% in the first eight months of 2022.

Figure 3.21

Annual rate of HICP change in Greece and impact of energy product prices and tax changes



The increase in the HICP in the first eight months of 2023 was driven by prices of non-energy goods, while taxes had no impact.

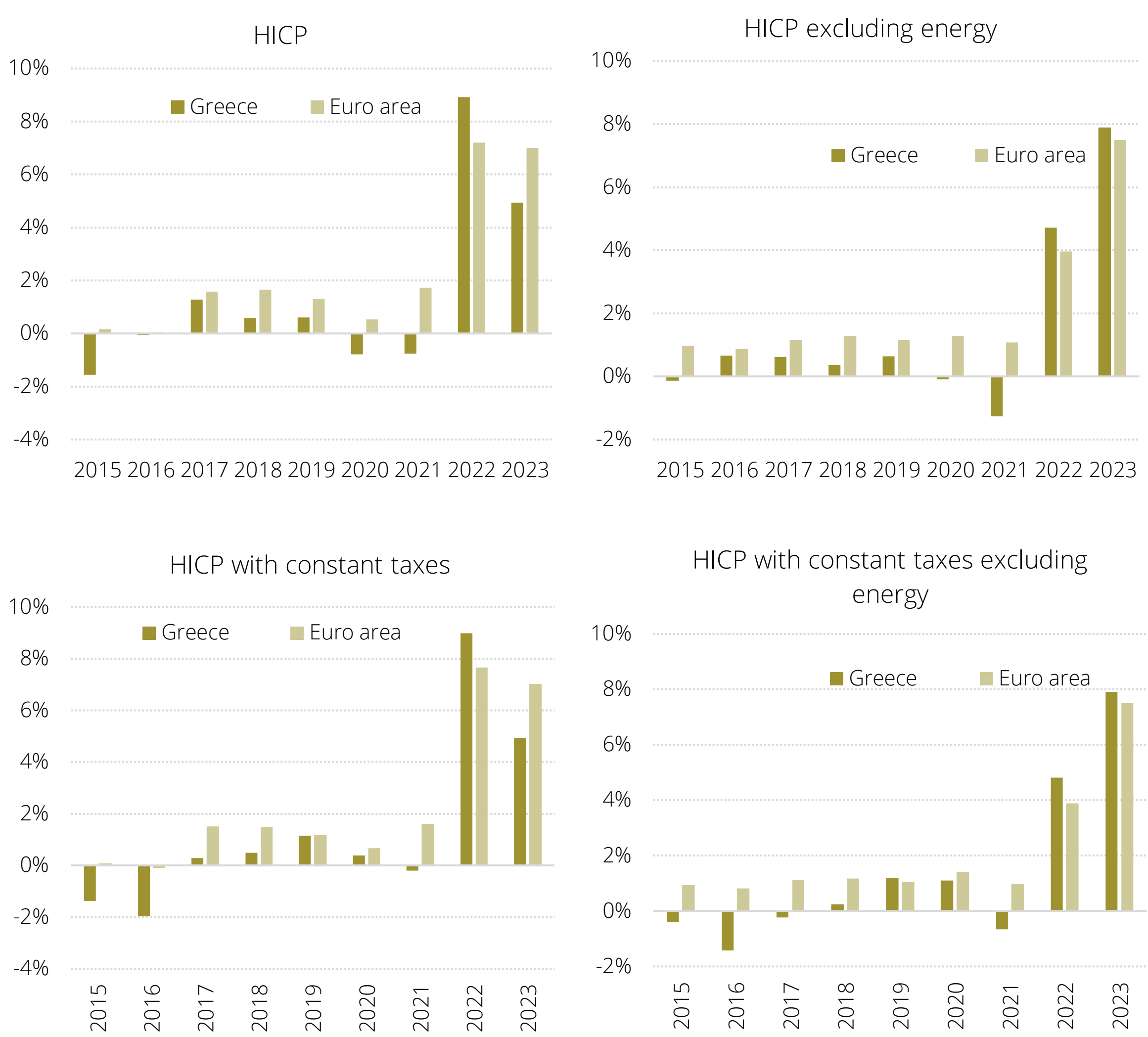
Source: Eurostat, data processing IOBE

Turning to trends in the individual categories of goods and services included in the domestic Consumer Price Index, the strongest increase in the first eight months of the year was recorded for food and durable goods. The increase in food prices stood at 12.8%, compared with a milder increase of 10.3% a year earlier, while prices of durable goods rose by 9.1%, following a milder increase of 5.5% a year earlier. At lower levels was the change in clothing, with a rise of 7.9% from an increase of 4.6% one year earlier, followed by hotels with 7.2%, up from 4.3% in the same period of 2022. Prices rose in health and other goods, by 6.2% and 5.3%, respectively, compared with increases of 0.5% and 1.2%, respectively, a year earlier. Prices for recreation and alcoholic beverages rose by 3.4% both, from 1.0% and 0.65%, respectively, in the same period of 2022. In education, prices strengthened year-on-year in January - August 2023 by 2.2%, compared with a milder increase of 0.9%, respectively, in the first eight months of 2022. Next came transport with a marginal increase of 0.6%, after a stronger increase of 16.8% a year earlier. By contrast, prices fell by 2.2% in communications, after a decline of 2.6% a year earlier. Prices also fell in housing, by 9.7% in the first eight months of this year, from an increase of 30.2% in the corresponding period of 2022.

With regard to price trends on the production side in the first eight months of 2023, the Producer Price Index (PPI), for the domestic and external markets as a whole, weakened compared with the same period of 2022 (-6.4%). In detail, PPI excluding energy increased by 5.8% between January and August this year, compared with a stronger increase of 8.7% a year earlier. Regarding trends in industrial prices, food and wood products rose the most, growing by 10.4% both, compared with increases of 7.8% and 17.7%, respectively, in the previous year. Producer prices rose in paper products, by 10.1%, after an increase of 12% a year earlier. At a lower level was the increase of producer prices for transport equipment, at 8.3%, and non-metallic minerals, at 7.6%, after increases of 5.2% and 6.9%, respectively, in the respective period of 2022. A boost in producer prices was recorded in beverages during this year, by 6.3% compared with a marginal increase of 0.9% a year earlier. Next came leather goods, with an increase of 5.1%, after a more moderate inflation of 0.8% a year earlier. By contrast, producer prices of coal-lignite and refined petroleum products declined by 38.6% and 23.6%, respectively, after a decline of 18.3% and growth of 94.3%, respectively, one year earlier.

Figure 3.22

Annual HICP change in Greece and the Euro area (January - August)



Source: Eurostat, data processing IOBE

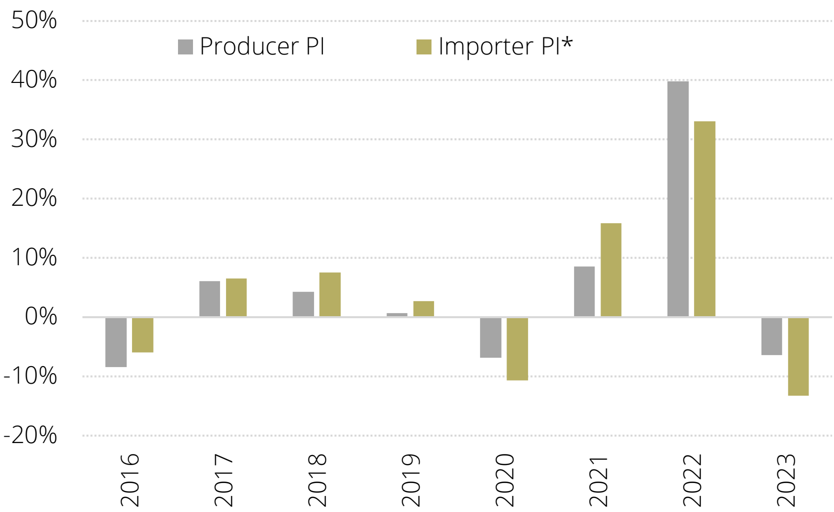
A rise in domestic prices in the first eight months of 2023, lower than the euro area average, with the inflation effect of non-energy goods (7.6 percentage points) still higher than the euro area average.

Concerning the evolution of the Import Price Index (IPI) in January - July 2023, for which data are available, there was an annual decline of 13.2%, compared with a strong increase of 33.0% a year earlier. The weakening of import prices puts Greece in the last place in terms of their change among fourteen euro area countries for which data were available at that time. Import prices fell in France and Lithuania, by 7.0% and 6.2%, respectively, compared with an increase of 30.0% and 29.2%, respectively, one year earlier. The same indicator fell by 4.7% in the euro area, compared with a strong increase of 28.6% in the same period of 2022. Import prices increased in Denmark (2.3%) and Slovenia (1.2%).

Among the individual categories of imported products, the highest increase in the first seven months of this year was recorded in coal and lignite prices, 92.0% compared with a milder increase of 19.0% a year earlier, while at a lower level was the rise in mining prices, at 13%, compared with an increase of 15.7% in the previous year. In electricity and food supply, import prices rose by 9.7% and 8.8% respectively in this year, from 98.8% and 10.0%, respectively, a year earlier, followed by furniture, with 6.5% after an increase of 5.3% one year earlier. Paper products and non-metallic minerals came lower, with prices in these categories rising by 6.4% and 6.1%, respectively, in the first seven months of 2023, from 12.6% and 0.4% respectively a year earlier.

Figure 3.23

Annual change of PPI and IPI in Greece (January - August)



A weakening of import prices (-13.2%) in the first seven months of 2023, mainly due to a negative impact of energy goods prices. Producer prices also fell in Jan. – Aug. 2023 (-6.4%).

Source: ELSTAT, data processing IOBE.

*The import data refer to the period January – July

Medium-term outlook

Looking at the main components of the domestic Consumer Price Index between January and August this year, it emerged that its rise was mainly due to the positive effect of non-energy prices. The increase in energy prices came to a halt in the first half of this year, with indirect, though positive effects keeping the upward movement in commodity prices, weaker than in the previous quarter. Note that since June, when the eleventh set of sanctions was imposed on Russia, which included, inter alia, stricter restrictions on exports and bans on the transit of goods and technology through Russia, EU Member States have not imposed a new set of sanctions on international trade. However, the recent turmoil around Israel is expected to boost energy prices.

Against this background, the international price of Brent crude oil averaged USD 87.1 per barrel in the first nine months of 2023, down by 11.5% compared with a year earlier. The euro/dollar exchange rate over the period under review averaged 1.08, 4.5% higher than a year earlier. Subsequently, the price of oil in euros averaged €80.9/barrel in the first nine months of this year, down by 15.3% year-on-year.

Demand effects

With regard to expected trends in consumer demand, the new increase in the minimum wage as of 1 April 2023, the increase in unemployment benefits, and the income support measures for vulnerable social groups (low-pension beneficiaries, disabled, minimum guaranteed income beneficiaries, etc.) are expected to boost disposable income and thus domestic demand.

In addition, the electricity bill support measures for October are also expected to have a positive impact on disposable income. These measures include subsidies for household electricity tariffs for all primary and non-primary residences, without income criteria and regardless of provider.

Finally, the renewed increase in the minimum wage from April 2024, increases in pensions of 3.1% on average as of 1 January 2024, the return of the three-year wage maturation periods, the payment of benefits to the private sector, as well as the new public sector wage grid as of 1 January 2024, are expected to support disposable income, thereby also stimulating domestic demand. In addition, and in line with previous measures to address the high cost of living, mainly for vulnerable social groups, and if the fiscal targets allow for this, the market pass card is expected to be reinstated, with extended criteria, until December 2023, together with an extraordinary high-cost-of-living allowance, and housing support measures for young people, boosting domestic consumer demand.

As a result, it is estimated that total consumer demand is expected to strengthen in 2023 by about 1.6%, sustaining to some extent the prices high, while for 2024 it is estimated to grow by 1.0%.

It should be noted that recent natural disasters are expected to have upward effects on inflation in the fourth quarter of this year as well as in 2024, mainly due to a deficit or a limited supply of certain food products, such as dairy and cheese products, beans, and meats.

Tax effects

No indirect tax interventions are expected to affect the price index, as one whole year has now passed since the entry into force of the unconditional application of reduced VAT rates on all the Aegean islands. Similarly, the reduced VAT rates on some goods and services that remain for the whole of 2023, as well as the real estate support measures in place until December 2024, are not expected to have any impact on prices as a year has passed since the start of their implementation.

Energy effects

Regarding recent developments in energy goods, international Brent oil prices averaged USD 93.7 per barrel in September of 2023, marking a modest increase of 4.4% compared with a year earlier. The euro/dollar exchange rate in the same month this year stood at 1.07, 7.9% higher than in the corresponding month of 2022. Subsequently, the average price of oil in euros stood at €87.7 per barrel, a fall of 3.2% compared with a year earlier.

Concerning oil supply, OPEC+, including Russia, decided at its last meeting in early October to extend the cuts to its daily production until 2024. In fact, Russia agreed to restrict exports by

300.000 barrels per day by the end of December, while Saudi Arabia will continue its voluntary cut of 1 million barrels per day until the end of 2023, in order to maintain equilibrium in the international oil markets. According to international organisations,[12] Russia's production for 2024 is expected to remain relatively unchanged. Crude oil production by OPEC is expected to fall by 0.8 million barrels per day in 2023, while production is projected to increase by 0.4 million barrels per day in the following year. Global oil stocks will thus fall by 0.2 million barrels per day in the fourth quarter of 2023, resulting from the decision to prolong the cuts. It should be noted that in the first half of 2023, oil flows from Russia remained higher than expected, increasing global oil supply and exerting downward pressure on crude oil prices, while an increase in supply is also expected from the United States, Canada, Colombia, and Nigeria.

The military conflict in the Middle East is expected to boost energy prices, with OPEC indicating at the same time that the current war-related developments will not influence its decisions.

That said, global oil demand is expected to increase by 2.2 million barrels per day in 2023 to 102.2 million barrels per day, while for the following year, total consumption is expected to reach 104.3 million barrels per day.

It should be noted that, domestically, the measures to address high energy costs in 2023 have a dampening effect on energy price changes, as energy prices taken into account in the CPI include subsidies.

World demand

The outlook for global growth in 2023 appears to be improving according to the macroeconomic forecasts of international organisations. In particular, global GDP growth is expected to reach around 3.0% in 2023, slightly above the rate projected in June (2.7%), while for 2024 global GDP growth is forecast at 2.7% (from 2.9% projected in June), mainly due to the tight monetary policy needed to contain inflation.[13]

Energy prices appear to continue to rise, after a mild decline, mainly on account of strong demand, with inflation remaining elevated, albeit at lower levels than previously. The recovery in China is expected at 5.1% in 2023 and 4.6% in 2024, mainly due to weak domestic demand and structural pressures in real estate markets. Growth in the euro area is expected to be lower, at 0.7% in 2023 (ECB, September 2023), mainly due to weak demand, while growth of 1.0% is forecast for 2024 as the negative impact of inflation on real incomes starts to fade. Annual GDP growth in the United States is expected to slow from 2.2% this year to 1.3% in 2024, as tighter financial conditions moderate the demand pressures.[14]

Against this background, it is estimated that the oil price will average $84.5/barrel in 2023 from $100.9/barrel in 2022 (-16.3%), mainly due to weak demand. The EUR/USD exchange rate this year is expected to average 1.09, 3.8% higher than in 2022.[15] Thereafter, the oil price in euros is expected to average €77.5/barrel in 2023, down by 19.4% compared to the previous year. Similarly, for 2024 international oil prices are expected to rise to $88.2/barrel, a modest increase of about 4%, mainly driven by global demand. The EUR/USD exchange rate next year is expected to remain

[12] Energy Information Agency, Short-Term Energy Outlook, September 2023
[13] OECD Economic Outlook, September 2023: Confronting Inflation and Low Growth
[14] International Energy Agency, World Energy Outlook 2022
[15] Macroeconomic projections, ECB, September 2023

unchanged.[16] As a result, the oil price in euros is expected to average €80.9/barrel in 2024, up by 4% compared to the current year.

On the basis of the above trends and developments in the main factors affecting consumer prices, **the Consumer Price Index is projected to increase moderately this year, at a rate of about 4.3%, mainly driven by consumer demand. Similarly, for 2024, the Consumer Price Index is expected to increase by about 2.6%, mainly driven by energy prices.**

The results of the IOBE monthly business surveys provide important information on future price developments, serving as leading indicators of price evolution from the supply side.

The trends in the expectations of price changes were all negative quarter on quarter in the third quarter. In particular, the price expectations moved marginally down in services, while the decline was more pronounced in industry, retail trade, and construction. Year-on-year, price expectations registered a sharp decline in industry and retail trade and a small decline in services, while prices for private construction rose significantly. In more detail:

In Industry, the price expectations weakened significantly in the third quarter of the year, compared with the previous quarter. In particular, the index stood at -4 points, down from +2 points in the previous quarter, while it declined by 31 points year-on-year. Of the firms in the sector, 17% were expecting prices to fall in the short term, while 13% (down from 17%) were expecting an increase, with the remaining 70% expecting price stability.

In retail trade, the balance of +48 points for the prices of firms in the sector in the previous quarter declined by 17 points, while at the same time, it was 30 points lower than in the corresponding period of 2022. Of the firms in the sector, only 5% were expecting prices to fall in the short term, while the share of those projecting price increases fell to 36%, with the remaining 59% (down from 51%) expecting stability. Across the retail trade sub-sectors, the price expectations eased in the third quarter of 2023 compared with the previous quarter in most sub-sectors except for vehicles-spare parts, which they moved slightly up.

The average indicator on expectations for price change in services under review declined slightly compared with the previous quarter, standing at +16 in the examined quarter (from +19), while at the same time, it was slightly lower than the corresponding average of Q3 2022 (-9 points). In the examined quarter, only 1% (down from 3%) of firms in this sector were expecting prices to decline and 18% to increase. Across the sub-sectors under review, the indicator strengthened modestly in most sectors, except hotels and restaurants, where it declined markedly.

Finally, in private construction, the strongly positive balance of +49 points in the previous quarter weakened slightly, to +41 points, while rising sharply compared to the corresponding level in 2022 (+27 percentage points). Moreover, none of the firms in the sector were predicting a decline in prices, while the share of those expecting an increase reached 41% (from 49%), with the remaining 59% (down from 51%) anticipating price stability.

[16] Macroeconomic projections, ECB, September 2023

Figure 3.24

Price expectations over the coming quarter (difference between positive and negative answers)

Source: IOBE

The trends in price expectations are exclusively negative in the third quarter compared with the second quarter of this year. Price expectations are marginally down in Services, while in Industry, Retail, and Private Construction, the decline is more pronounced.

4 ADAPTATION TO CLIMATE CHANGE: CHALLENGES AND OPPORTUNITIES FOR THE GREEK ECONOMY

1. Climate change impacts extend across all economic sectors and activities
2. Material and regulatory risks and input price changes stand out among the biggest challenges for the enterprises
3. Uncertainty in estimating the size of impacts hampers the assessment of investment needs for adaptation, which for developing economies range between $160-340 billion per year (until 2030). For Greece, according to a study by the BoG, implementing climate change adaptation measures could reduce cumulative climate damage by up to €123 billion until 2100.
4. The regulatory framework recognises the importance of climate action, both globally (Paris Agreement) and at the European level (Green Deal). However, the framework focuses more on mitigation than on adaptation to climate change.
5. In Greece, the National Adaptation Strategy details adaptation actions for specific sectors of the economy. However, its implementation is significantly delayed.
6. Despite available resources and dedicated funds, there is a significant gap in financing adaptation, at the global, European, and national levels.
7. Alternative sources of adaptation financing include the private sector and the capital market more broadly.
8. Insurance can be a potential adaptation tool, limiting risk exposure and ensuring better efficiency of available public resources. However, a limiting factor in the proper functioning and support of adaptation with the use of insurance products is the existence of a sufficient number of policyholders sharing the climate risk.

Introduction

Climate change is one of the most serious challenges of the 21st century, affecting extensively the sectors of the economy. In agriculture and industry, warming creates material risks and disruptions to the supply networks of raw materials and energy. Building infrastructure and services in the wider public sector (civil protection, public transport, and utilities), as well as household discretionary income, are affected by labour supply disruptions and elevated spending on energy or for repairing damage caused by natural disasters. Finally, the private sector is called on to adopt adaptation actions within a new financing context, where borrowing costs are higher, and to support the development of innovative solutions that reduce the vulnerability of the economy.

Despite Greece's small contribution to global emissions, the economy is being tested by extreme climate events of increasing frequency and intensity. In this context, it is necessary to implement adaptation measures aimed at improving the resilience of the Greek economy and reducing losses in human, physical, and economic capital.

A study carried out by IOBE on behalf of the Centre for Climate Change and Sustainability of the Bank of Greece[17], reflected the current situation concerning the progress and prospects of financing adaptation actions while highlighting the benefits of adaptation investments in two dimensions: preserving the value of private enterprises and the public sector and creating value from new products and services supporting climate change adaptation.

The regulatory framework of adaptation

The Paris Agreement (2016) was the first universal, legally binding global climate agreement, under which adaptation is recognised as a global challenge. By 2021, 79% of the world's countries had adopted a national climate change adaptation plan or policy, but there is a significant lag in the degree of localisation and in the implementation of monitoring and evaluation mechanisms. In addition, the UN 2030 Agenda recognises climate change adaptation horizontally across most of the 17 Sustainable Development Goals.

At the European level, as part of the European Green Deal, the new European Adaptation Strategy and the European Climate Law aim to achieve smarter, systemic, and faster adaptation. At the same time, through the European Taxonomy, investments in sustainable activities related to climate change mitigation and adaptation are recognised, and other strategies more broadly related to the adaptation of the European economy to climate change (indicatively the European Building Renovation Strategy – EU renovation wave) are being promoted.

The financing gap for climate change adaptation

On the one hand, around $46 billion is available for adaptation actions worldwide. This represents less than 7.2% of global climate finance. On the other hand, estimates of the annual investment needs of adaptation financing in developing countries amount to $71 billion, while these are expected to increase to $160-340 billion per year by 2030 and $315-565 billion per year by 2050. The gap in financing adjustment, i.e. the difference between the estimated costs to achieve the adjustment objectives and the financial resources available, has widened in recent years.

[17] The study and related material are available here: http://iobe.gr/research_dtl.asp?RID=280

At the level of the European Union, around 30% of the budget (€557 billion) for the period 2021-2027 is devoted to climate change-related actions (without differentiation between mitigation and adaptation actions), while a multitude of European mechanisms and financial instruments contribute to the absorption of available resources with a view to their effective use and European cohesion.

Greece and climate change adaptation

Greece ranks 14th in vulnerability in the EU27 and 18th in preparedness to mobilise investments for adaptation actions. According to data from the Bank of Greece,[18] it is estimated that by 2100, the country's GDP can suffer an annual reduction of up to 6% if climate change mitigation and adaptation measures are not taken. The cumulative cost of climate change translates to €701 billion. These costs can be reduced by up to €123 billion if adaptation measures are taken.

The national climate change adaptation framework, which is in full alignment with the European climate change adaptation framework, includes the National Climate Change Adaptation Strategy (NCCAS), which is specialised at regional level with the Regional Plans (PCCAS) but progresses with significant delays, the National Climate Law, and other laws concerning the licensing of public and private projects.

Adaptation in Greece is financed almost exclusively with public national and European funds, through programmes that generally concern environmental protection and climate actions (e.g. the new NSRF 2021-2027, Greece 2.0, the national development programme, the European LIFE programme). Although there is no separate budget in the above programmes for adaptation projects, resources have already been earmarked for projects that will strengthen the country's ability to adapt to climate change (e.g. risk prevention and management projects).

In the direction of mobilising private resources, it appears that the available financing and the weak capital market, in general, are not sufficient to fund maturing technologies and innovation related to adaptation within the Greek economy. As a result, solutions developed and demonstrated under the auspices of a multitude of research projects supported by European and national funding do not find the way for mass use and upscale. Greece has the third worst performance in terms of equity and investment funds as a percentage of GDP compared to the EU27 for 2020.

The role of the private sector in adaptation

The role of the private sector in supporting adaptation actions is twofold. On the one hand, it needs to adapt to the new operating conditions of climate change which may limit productivity (higher operating costs, insurance costs, health and safety of workers, damage from extreme events, etc.). On the other hand, it can significantly narrow the adjustment financing gap by providing financial resources through the capital and money markets, although this currently accounts for only 1.6% of global climate finance. Sources of financing for the adjustment include green loans linked to sustainability clauses and green bonds (e.g. SLBs, SLLs) as well as stock market products whose performance is linked to the trajectory of sustainability monitoring indicators (e.g. S&P 500 ESG, SPI ESG (Switzerland), MSCI USA ESG Focus index, etc.).

[18] Bank of Greece (2011). Environmental, economic, and social impacts of climate change in Greece

The potential of the private sector for financing climate adaptation investment actions stems from its high know-how, its ability to innovate and produce new technologies, as well as from the nature of its economic leverage, which in the context of public-private partnerships (PPPs) leads to the mobilisation of both private and public sector resources to support investment projects and climate adaptation actions, saving public spending.

Insurance as an adaptation tool

Climate change insurance is a tool to cover damages arising from a loss or catastrophic event and concerns states, businesses of all sizes, and households, transferring climate risk from the insured to insurance providers. There is a multitude of insurance products available, while the number of beneficiaries participating in the insurance policy, the insurance sectors, and the amount of compensation determine the type of insurance as well as the premium amount.

However, a limiting factor in the proper functioning and support of adaptation is the existence of a sufficient number of policyholders who will share the climate risk, with several of these insurance products remaining expensive for the most vulnerable groups.

In Greece, climate risk insurance is not yet mandatory despite efforts to integrate it into the National Climate Law, yet it remains one of the potential measures to reduce risk exposure and protect public funds.

Policy suggestions

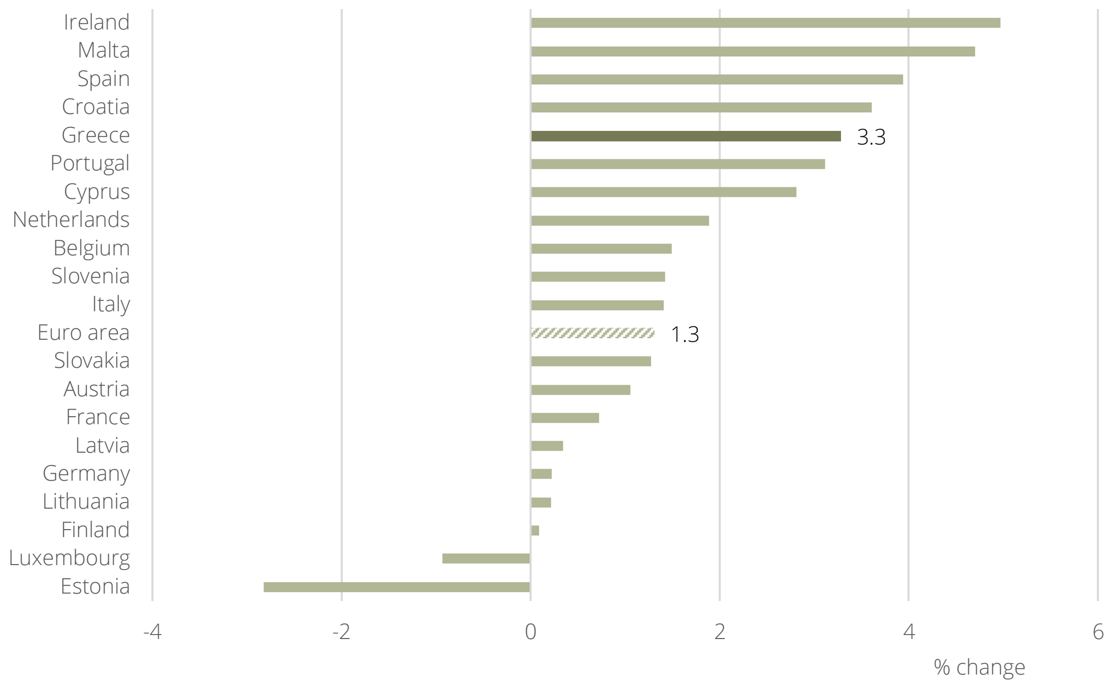
Accelerating the implementation of climate change adaptation actions is essential to improve the resilience of the Greek economy. In this context, the table below briefly presents relevant policy suggestions.

Summary of policy suggestions
Data on climate change: More effective climate risk assessment and reduction of uncertainty
- Cooperation with research teams to assess possible greenhouse gas emission scenarios - Systemic approach – recognition of the potential impacts of climate change across sectors - Data from previous climatic events – use of historical data to estimate the magnitude of the risk - Prioritisation of risks based on specific criteria related to the dimensions of sustainability (environment, economy, society) - Open data on climate change – transparency and availability for all parties involved - Collection of reliable data to estimate the costs of non-adaptation and reduce investment risk - Design and implementation of information measures for inclusive adaptation. Focus on vulnerable sectors (e.g. agricultural sector, households) - Use of European Union funds to enhance knowledge of the effects of climate change and to study adaptation actions - Search for good practices and implementation of solutions compatible with the Greek economy and the challenges of climate change
National regulatory framework: Linking the national strategy to other horizontal national policies and accelerating implementation
- Cooperation with the national council for adaptation to climate change - Acceleration of the adoption of regional adaptation plans – specific adaptation measures, regional risk assessment, strict timeframes, and cost estimation - Close cooperation with all the actors involved; timely and strategic planning
Separate Adaptation Budgets
- Consideration of the possibility of creating a specific section of the State budget dedicated exclusively to adaptation actions - Cooperation with competent ministries - Use of budget resources to facilitate adaptation monitoring in Greece (e.g. with higher frequency and/or using more efficient monitoring indicators)
Consideration of the establishment of a dedicated Adaptation Fund
- Funded with the sale of greenhouse gas emission allowances under the ETS and from a reform of the tax system - Consultative role in cooperation with relevant bodies for the absorption of European and national adaptation resources - Acceleration of recovery after catastrophic events (e.g. co-financing of climate risk insurance policies) - Cooperation with the Adaptation Observatory (monitoring available relevant resources)
Stronger private financing for adaptation
- Use of modern financing tools by the private sector (e.g. green bonds, sustainability loans and bonds, ESG-linked stock indices) - Examination of tax incentives to enhance investment in adaptation - Incentives to stimulate investor interest in sustainable investment products (e.g. consideration of coupon tax reductions, portfolio management costs, etc.)
Use of insurance products for faster recovery after a climate event
- Climate risk sharing - Use of insurance products to limit damage - Insurance of larger beneficiary units (e.g. cooperatives, enterprises of a municipality, etc.)

APPENDIX

Figure 1

Real GDP growth rate, Q2 2023 (*)

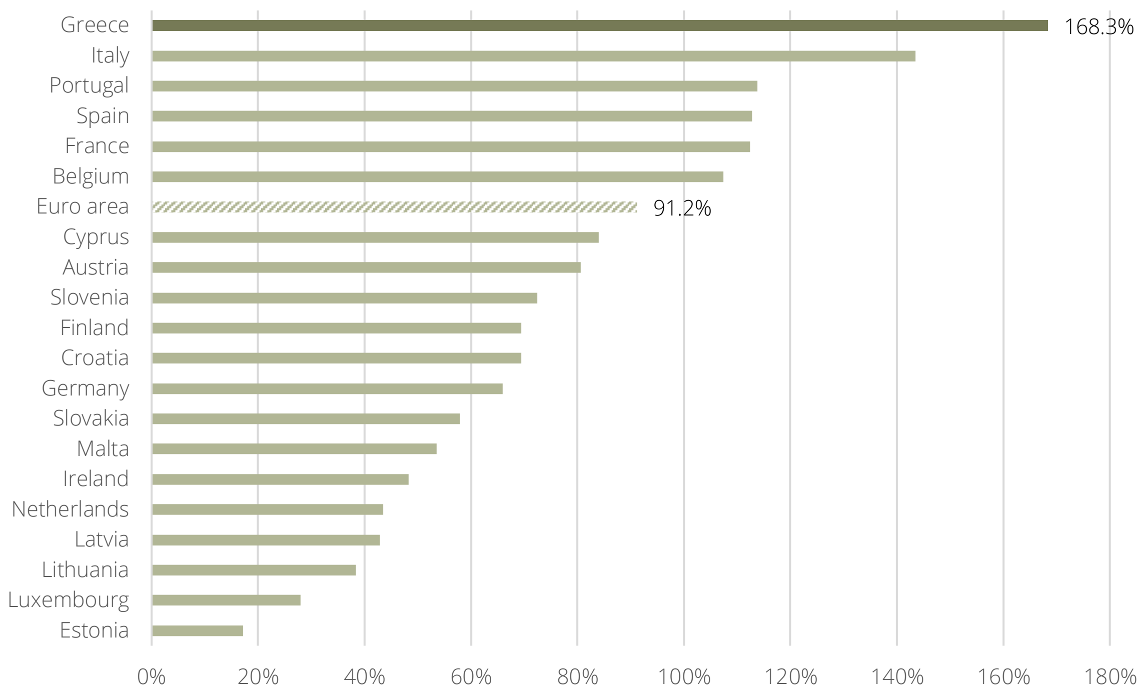


(*) Annualised GDP data (moving average of 4 quarters, up to and including the second quarter of 2023)

Source: Eurostat

Figure 2

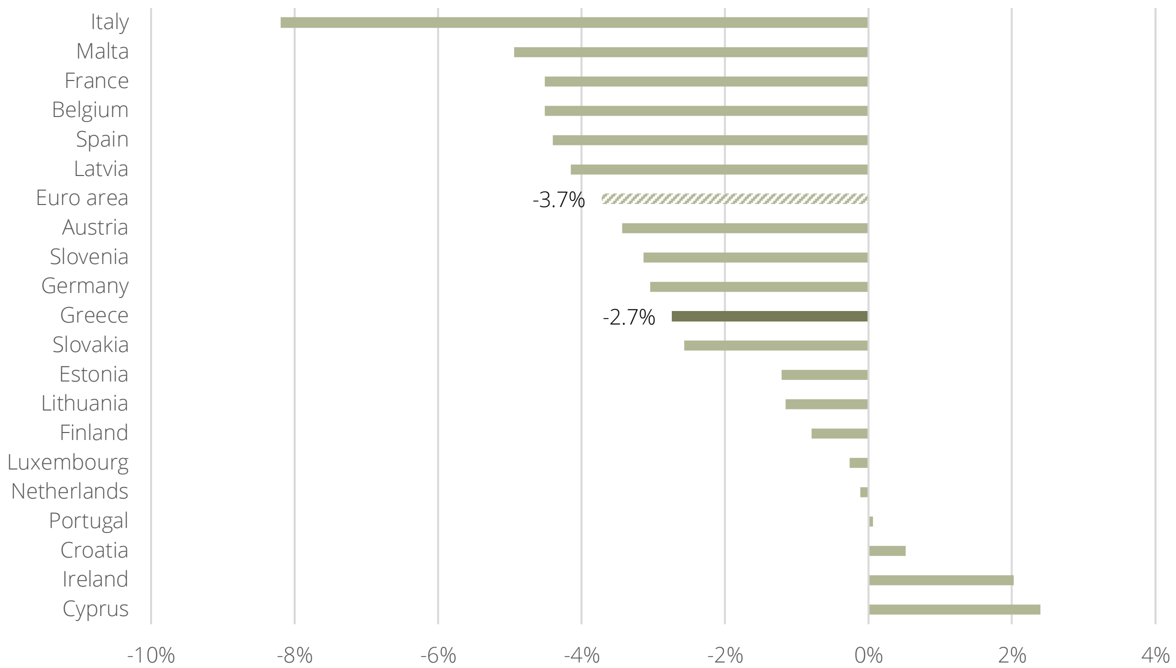
General Government Debt as % of GDP, Q1 2023



Source: Eurostat

Figure 3

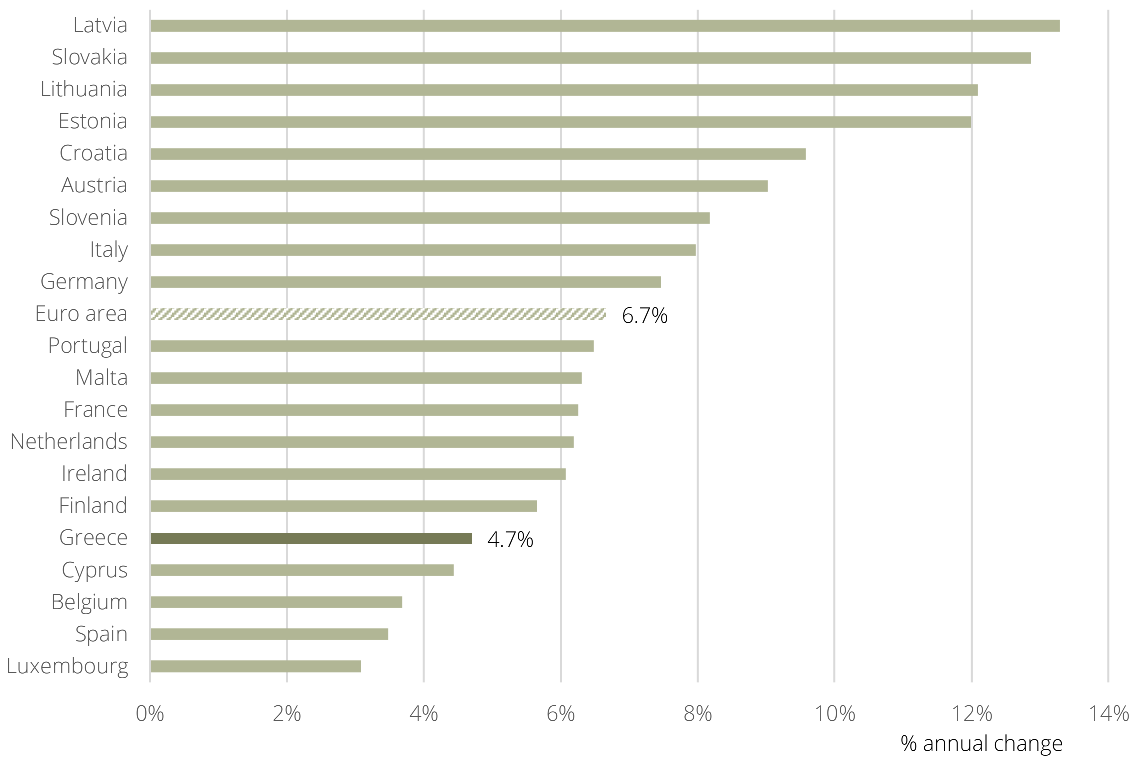
General government balance as % of GDP, Q1 2023



Source: Eurostat

Figure 4

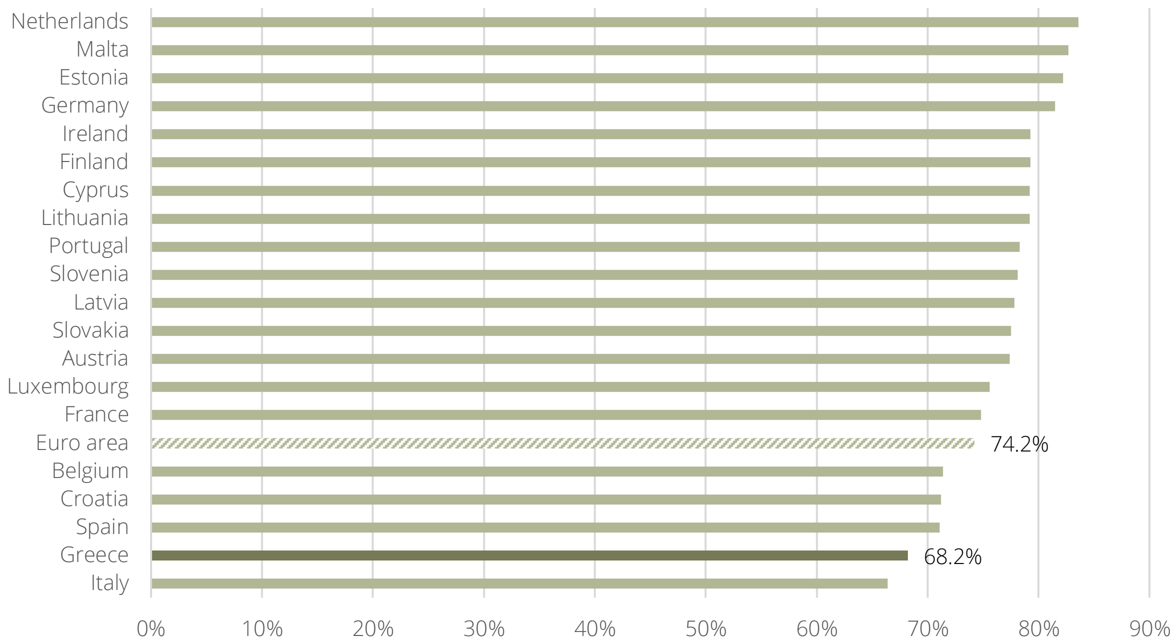
Harmonised Index of Consumer Prices, January - August 2023



Source: Eurostat

Figure 5

Employment, Q2 2023 (*)

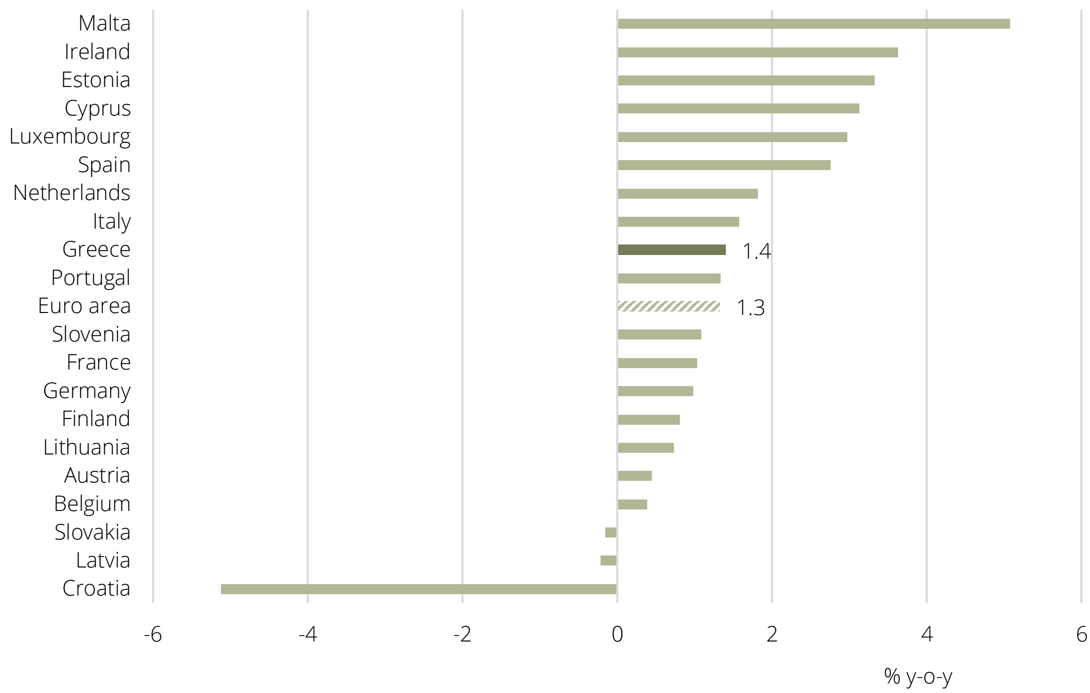


(*) % of employed people aged between 20 and 64 in relation to their total population

Source: Eurostat

Figure **6**

Change in employment, Q2 2023 (*)

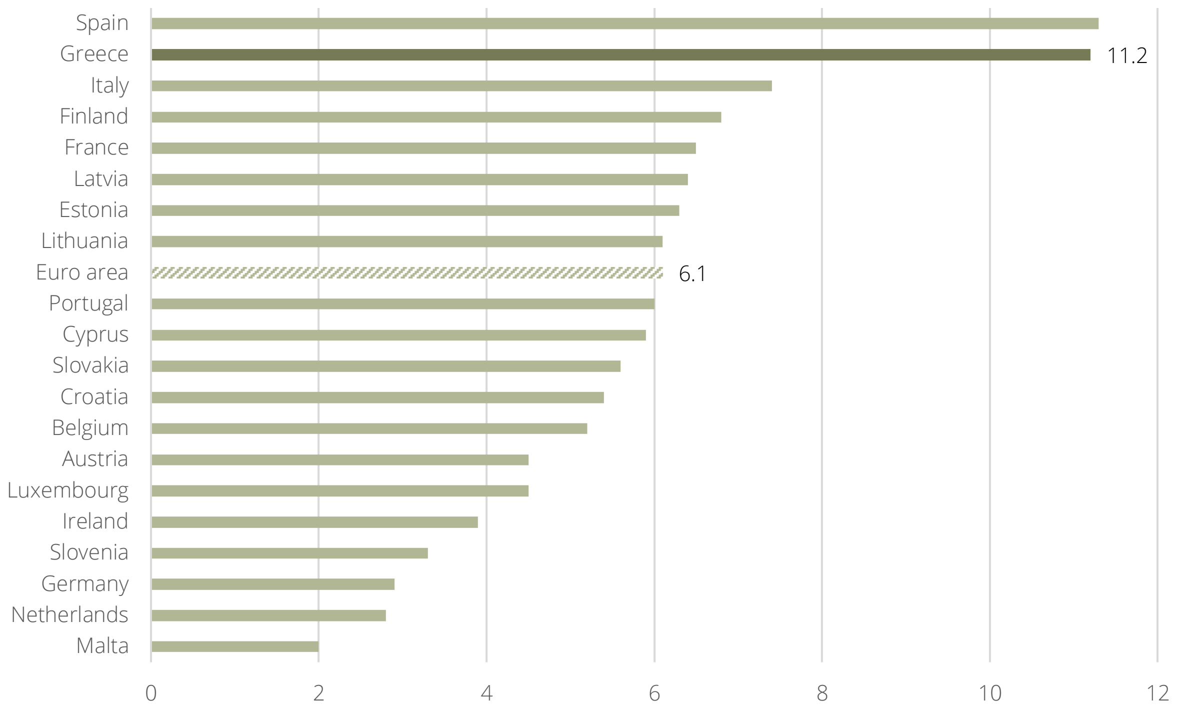


(*) employed people aged between 20 and 64

Source: Eurostat

Figure 7

Unemployment, Q2 2023 (*)



(*) % of unemployed aged 20-64 in the total active population of the corresponding age, seasonally adjusted data

Source: Labour Force Survey, Eurostat