

# Quarterly Report on the Greek Economy

04 / 23

January 25<sup>th</sup> 2024



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Overview of the report





# The economy on stable base, amid mixed impact from abroad...

## Positive domestic trends

- Gradual GDP convergence with European average
- Easing unemployment, gradual but slow coverage of investment gap
- Restoring investment confidence, lower spread on public funding cost
- Strong momentum in tourism and real estate, recovery of FDI

## Pre-conditions for stronger growth

- Short-term: significant boost of productive investments
- Long-term: change in the structural features of the economy

## Mixed trends in the global environment

- “Smooth landing” for the global economy, strong investment sentiment
- Challenges stemming from higher interest rates and inflation, geopolitical tensions, bipolar trends, EU lagging in growth momentum



...the bet for changing the production model remains crucial

## External challenges for the Greek economy

- Slowdown of trade partners, high cost of money, risks for capital markets, global trade rebalancing and green transition

## Internal challenges and imbalances

- Labor market: structural unemployment, mismatch between supply and demand
- Product and services markets: degree of competition, barriers to entry, imported inflation
- Informal economy: incentives towards the formal economy, e.g., through tax and social security systems
- Sectoral diversification of production base: manufacturing as complementary driving force to tourism and construction
- Public sector efficiency, focus on health and education systems
- Boosting extroversion and investments as drivers for long-term growth
- Opportunity for timely and effective use of RRF resources



## Global economy: steady growth in Q3

- **Global growth stabilized** around a low rate **in the third quarter**, under the influence of **high inflation and monetary policy tightening**.
  - Zero annual growth in the Eurozone (down from 0.6% in the previous quarter), 2.9% in the US (up from 2.4%), 4.9% in China (down from 6.3%), 1.6 % (same as in the previous quarter) in OECD countries.
- **Inflation** in OECD countries is gradually declining; it reached 5.4% in November, but is still high (core inflation at 6.3%)
  - Central banks are maintaining high interest rates, intending only slow and gradual reductions in 2024
- The global **economic sentiment** is volatile
  - New **flare-up in the Middle East, uncertainty** remains about the duration of the **war in Ukraine**
  - After rising in the third quarter, **international energy prices** fell in the fourth quarter.
- **International institutions** forecast...
  - OECD: 2.9% global growth in 2023, 2.7% in 2024.
  - ECB: 0.6% growth in the Eurozone in 2023, +0.8% (down from 1.0%) in 2024. Inflationary pressure 5.4% (down from 5.6%) in 2023 and 2.7% (down from 3.2%) in 2024.



# Global environment: immediate challenges

## Global challenges

- **Uncertainty** regarding the development of the crisis in the Middle East and the intensity and duration of the impact of the war in Ukraine
- Restraining **inflationary pressures without causing a recession**
  - Need for **monetary and fiscal policy coordination**
  - Expectation of slow interest rate reduction (**FED, ECB**), longer duration of holding high cost of money
- **High public debt**, limited fiscal space in developed economies

## European challenges

- Persistent **core** inflation
- Effects of ECB **monetary policy tightening** and rising borrowing costs
- Pending **revision** of EU fiscal rules
- Effective utilization of the **European Recovery Fund**
- Diversification of **energy** sources and **energy security** in the medium term
- Adverse **demographic** trends



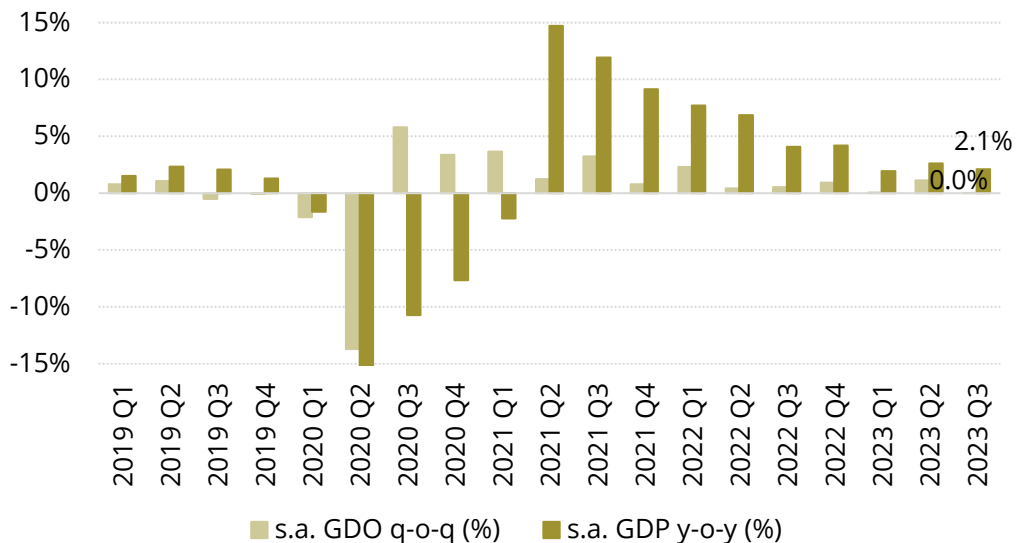
# Greece Q3/2023: Domestic recovery slowed down

**Real GDP Q3/2023:** +2.1% y/y

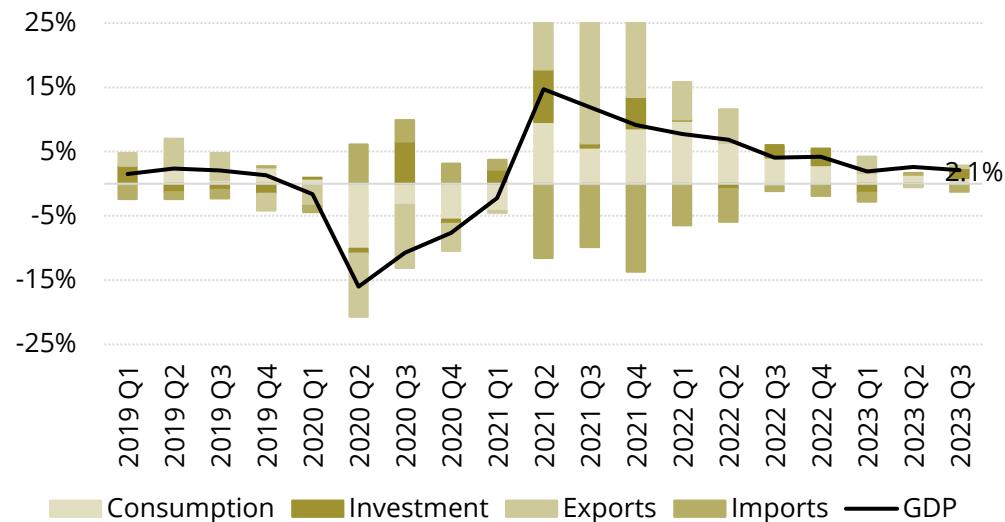
Growth slowdown (from +2.6% y/y in Q2), due to milder annual growth in private consumption. Boost from investments.

<p><b>Consumption slowdown</b> (private +0.9% y/y, public -0.7% y/y)</p>	<p><b>Investment boost</b> (+8.9%y/y, fixed capital formation +4.9% y/y)</p>	<p><b>Recovery of export services</b> (+2.9% y/y, goods -1.1%y/y)</p>	<p><b>Higher increase of imports</b> (goods +3.4%y/y, services +0.8% y/y)</p>	<p><b>Consistently high extroversion</b> (82% του ΑΕΠ)</p>
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seasonally adjusted GDP



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



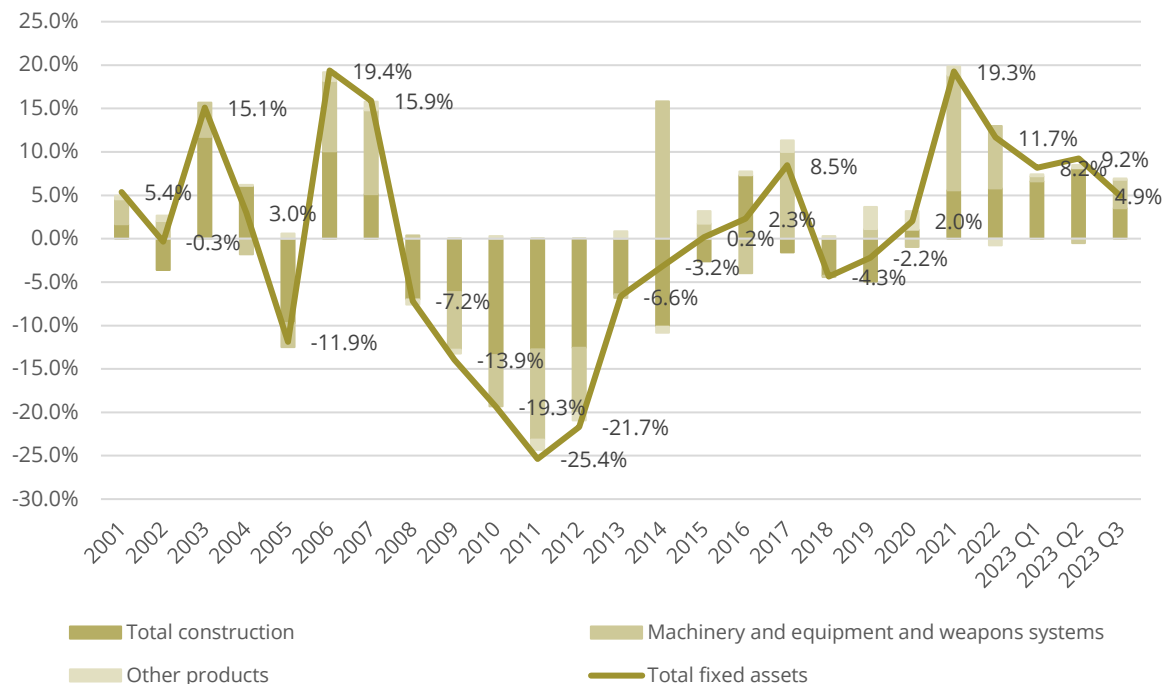
Source: ELSTAT



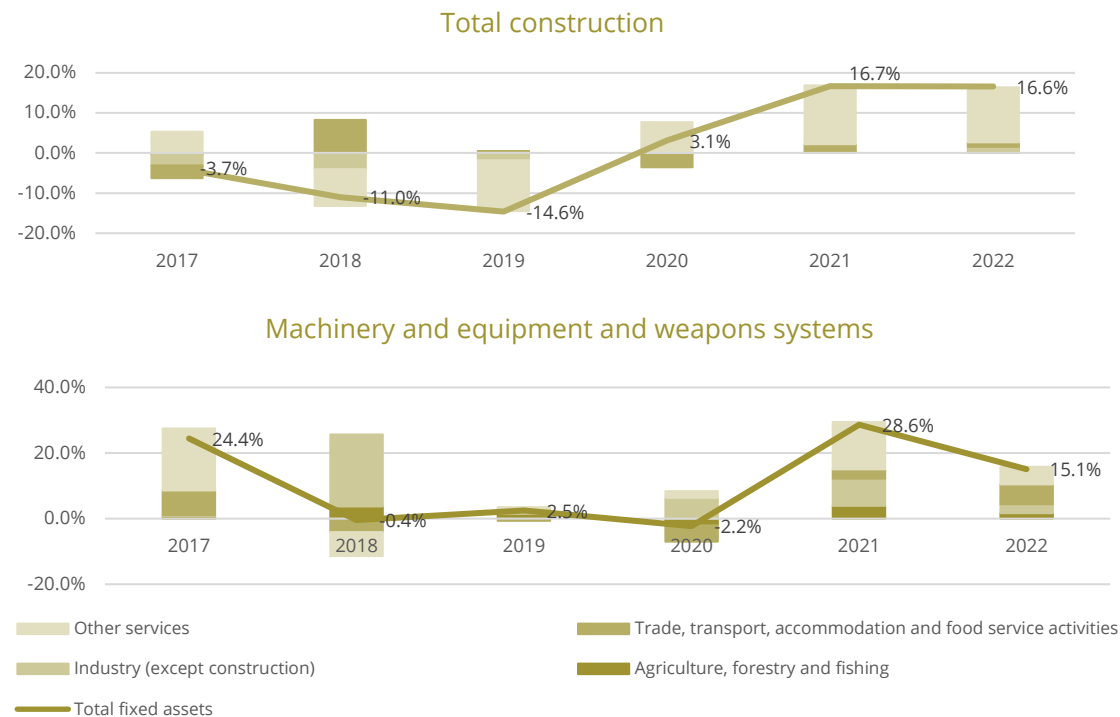


# Evolution of the mix of investments in Greece: a large contribution of fixed investments in construction

y-o-y % s.a. fixed capital formation growth and contributions



y-o-y % s.a. fixed capital formation growth and contributions per productive sector

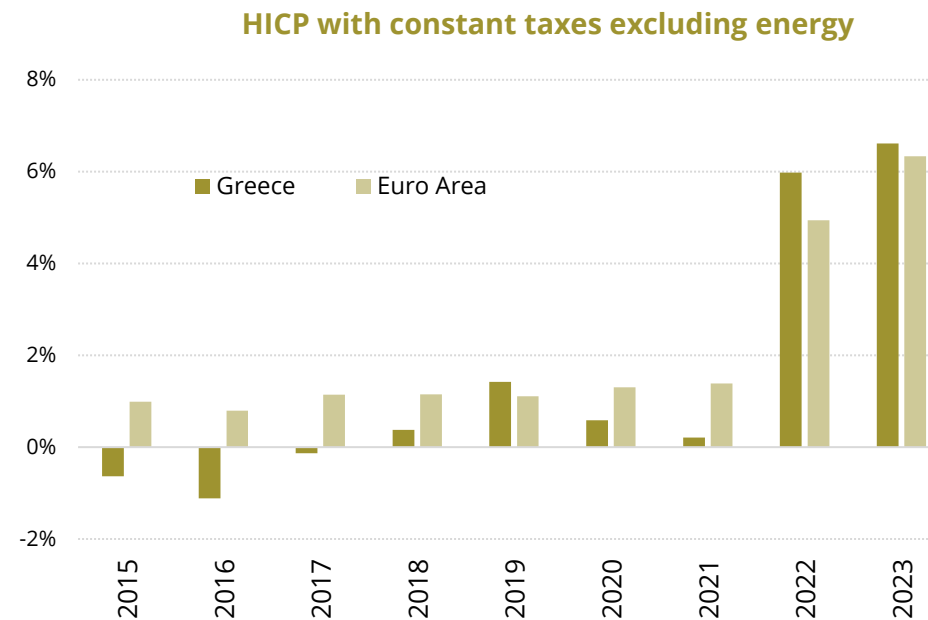
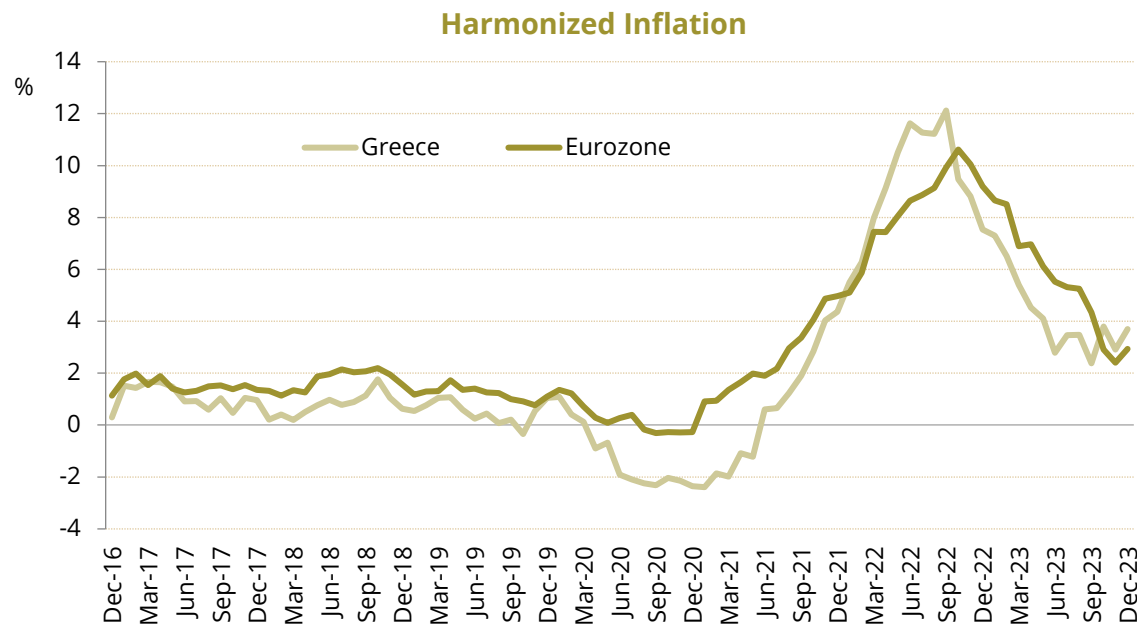


- Following a decade of very low investment flows, **fixed capital formation has been gradually recovering since the mid-2020s**, supported by European funds and the stabilization of the political and broader framework of the domestic economy.
- The mix of recent fixed capital formation is focused on **Total construction**, with **Machinery and equipment** to follow.
- The recovery of fixed capital formation in period 2017-2022 was supported by **enterprises in tertiary sector**, followed by **industry** and less by the primary sector.





# Annual inflation (CPI) declined to 3.5% in 2023, down from 9.6% in 2022: reduction in energy goods prices, the upward trend in food prices continues



Sources: ELSTAT, Eurostat

**Eurozone:** Inflation declined to 5.5% in 2023, down from 8.4% a year ago.

**Greece:** The Domestic Price Index rose by 3.5% in December 2023, up from 3.0% in November.

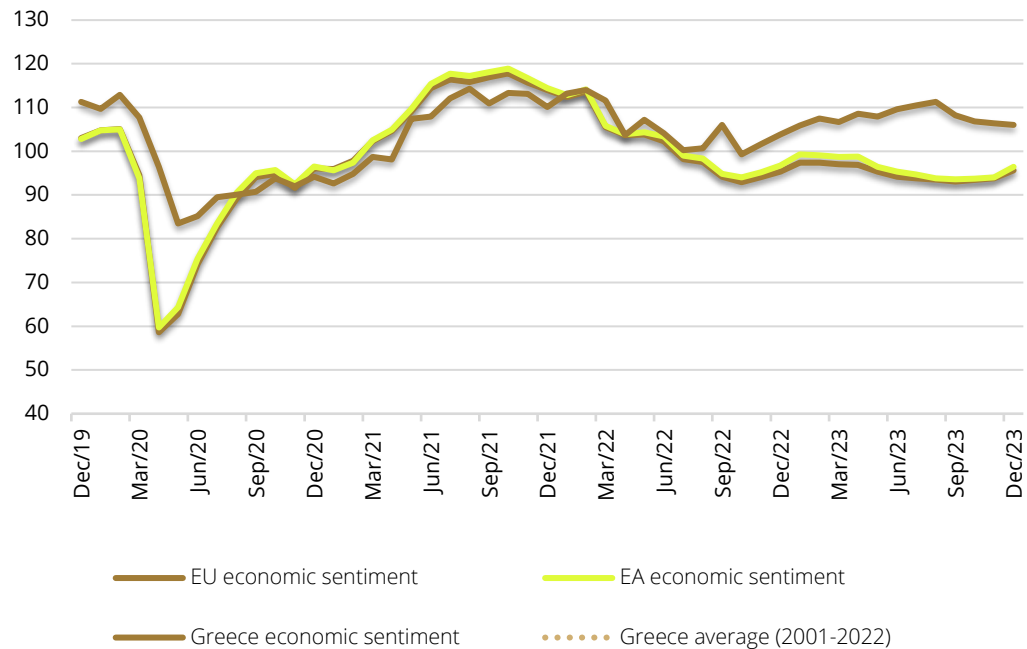
- 2023 (whole year): +4,2% HICP rate of change, down from 9.3% in 2022, exclusively from the increasing effect of non-energy goods (6.5%). The effect of energy goods was negative (-2.3%), while the effect of indirect taxes was zero.

**Producer Price Index** (Jan. – Nov. 2023): **7.1% y/y decline**, due to energy goods prices, compared to a 37.0% y/y increase a year ago.

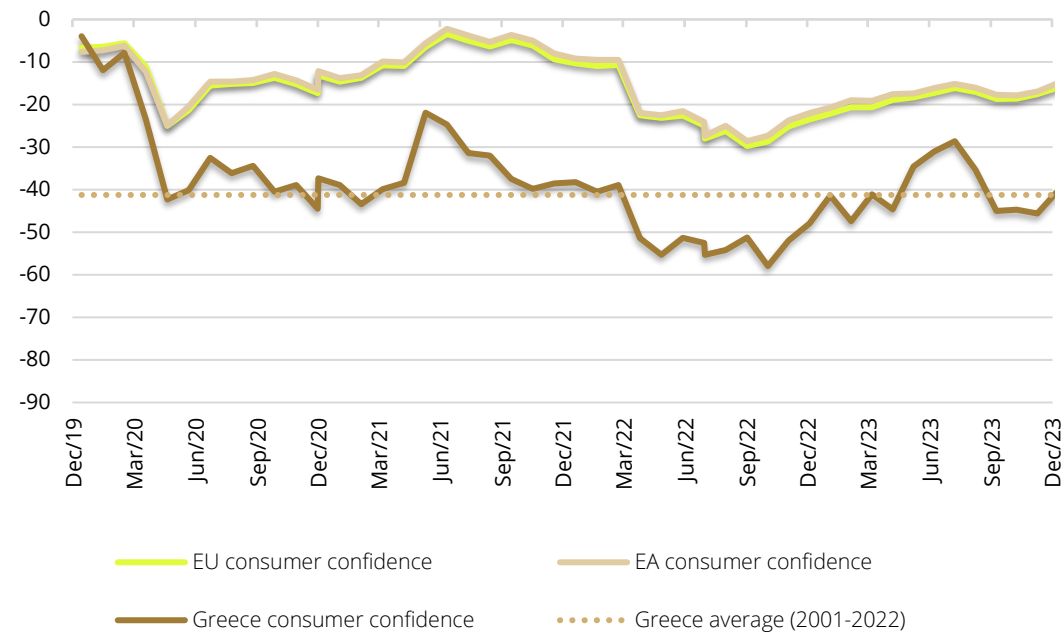


# Economic sentiment declined slightly in Q4/2023; remains higher than last year

### Economic Sentiment Indicator



### Consumer Confidence Index



Sources: IOBE, European Commission

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



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

## Industry

- Industrial production increased by 2.0% in the first eleven months of 2023; smaller increase compared to the first eleven months of 2022 (2.7%).

## Construction

- Construction output rose by 13.9% in the first nine months of 2023, down from 20.7% in the first nine months of 2022.
- The number of Construction Projects increased by 17.2% (following a 13.4% increase in 2022).

## Tourism

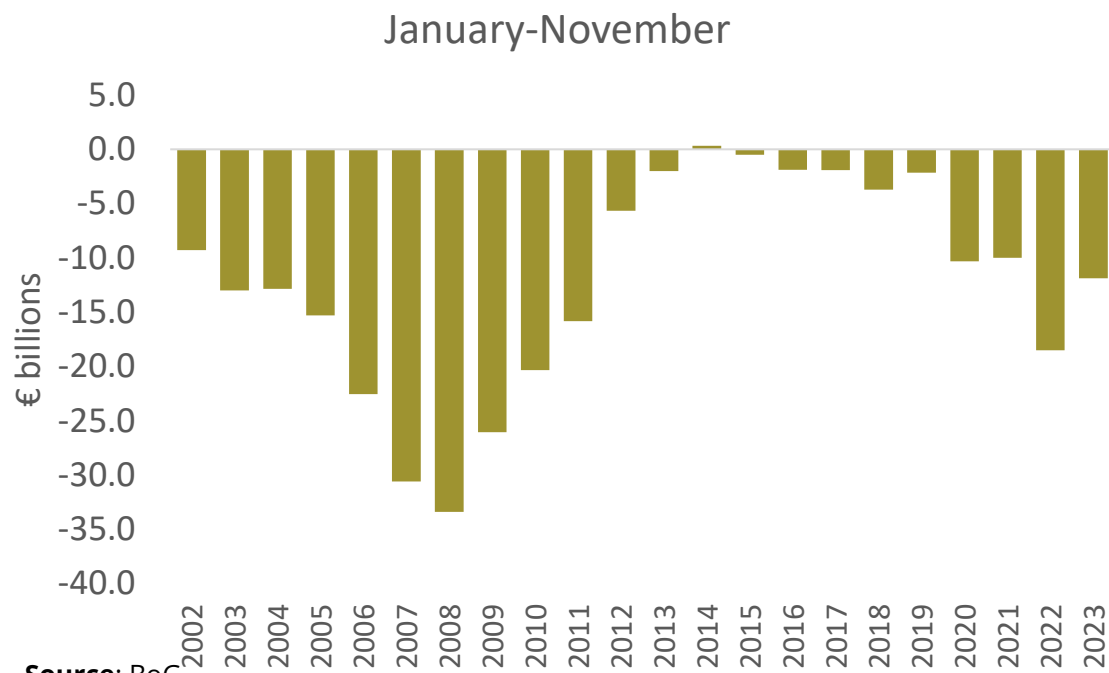
- Tourism turnover continues to grow: 5.7% year-on-year growth in Q3/2023. Travel services revenue exceeded €20 billion in the first 11 months of 2023 period, a historical record.

## Retail trade

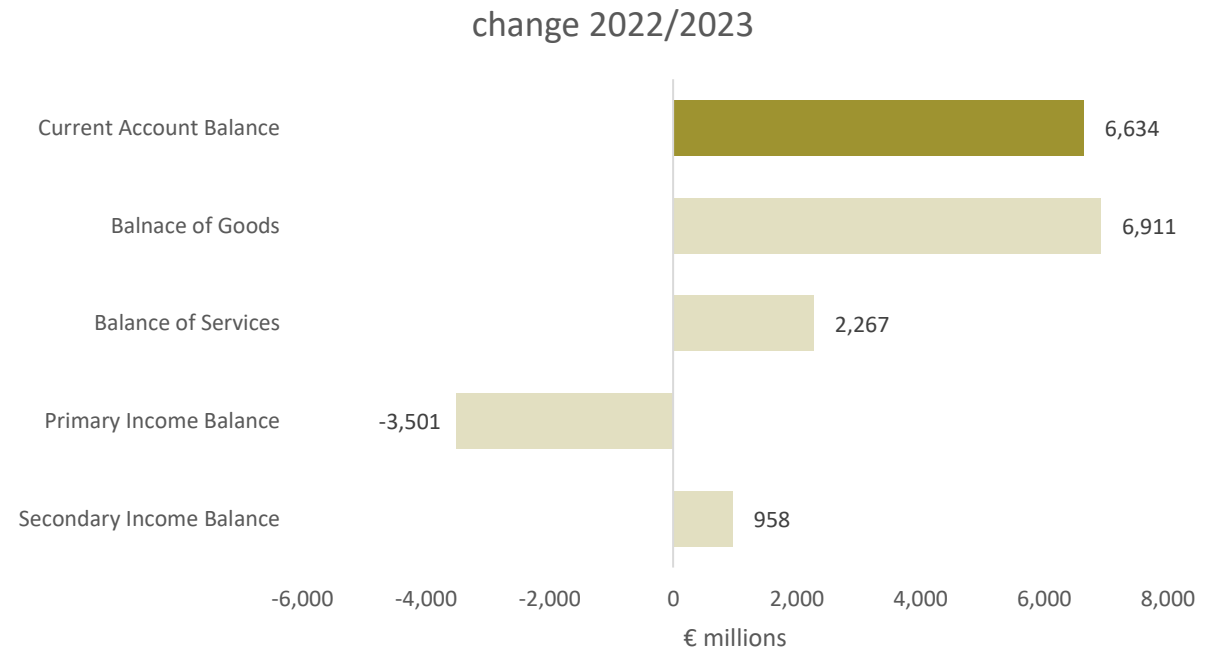
- 3.7% decline in Retail Trade volume in the first ten months of 2023, down from a 4.0% increase in the same period in 2022.
- Expectations recovered in 2023.



# Significant improvement in the current account deficit in the first 11 months of 2023; it reached €11.9 billion, down from €18.5 billion in 2022



Source: BoG



- Significant reduction in the **balance of goods deficit** by €6.9 billion, with a reduction in exports and a greater decline in imports.
- 90% of the goods balance correction comes from fuel.
- **Improvement in the surplus of services**, with Tourism revenue increasing by €2.7 billion and transport revenue decreasing by €2.3 billion. Tourism revenue reached a **historically high level** (€20.1 billion).
- **Deterioration in primary incomes**, due to income outflow (profits, interest, dividends).
- **Improvement the secondary income balance.**



# Public finances: Cash target exceeded in 2023, target for higher primary surplus in 2024

## State budget Jan.-Nov. 2023

- €1,03 billion deficit (vs target of €3,0 billion)
- €5,8 billion primary surplus (vs target of €3,8 billion)

Improvement compared to last year due to higher revenue (+10,2%)

Target exceeded mainly due to lower expenditure (-€1,77 billion)

- Increase in most revenue categories compared to last year
- Postponement of expenditure payments

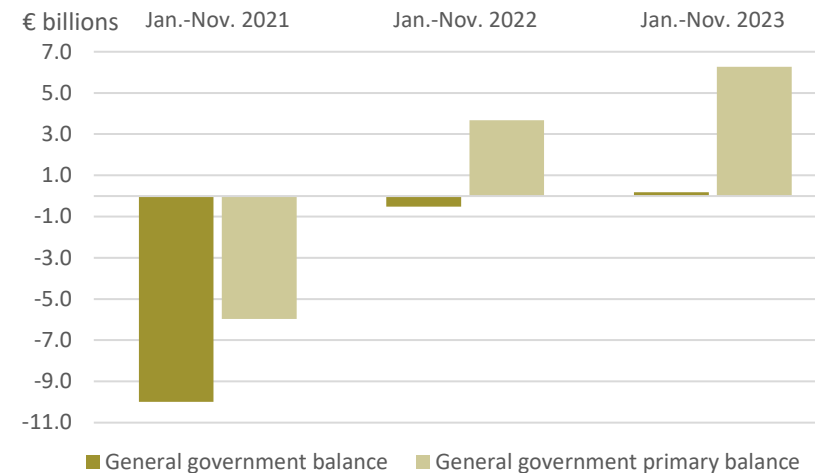
## General Government Balance & Debt (% of GDP)

	2022	2023 (est.)	2024 (target)
Balance	-2,4%	-2,1%	-1,1%
Primary balance	0,1%	1,1%	2,1%
Debt	172,6%	160,3%	152,3%

## 2024 State Budget (target)

- €6,3 billion deficit or 2,7% of GDP
- €2,5 billion primary surplus or 1,1% of GDP

## General government cash balance



Source: Ministry of Finance



# The unemployment rate has reached a 14-year low

## Number of unemployed persons and unemployment rate in Greece



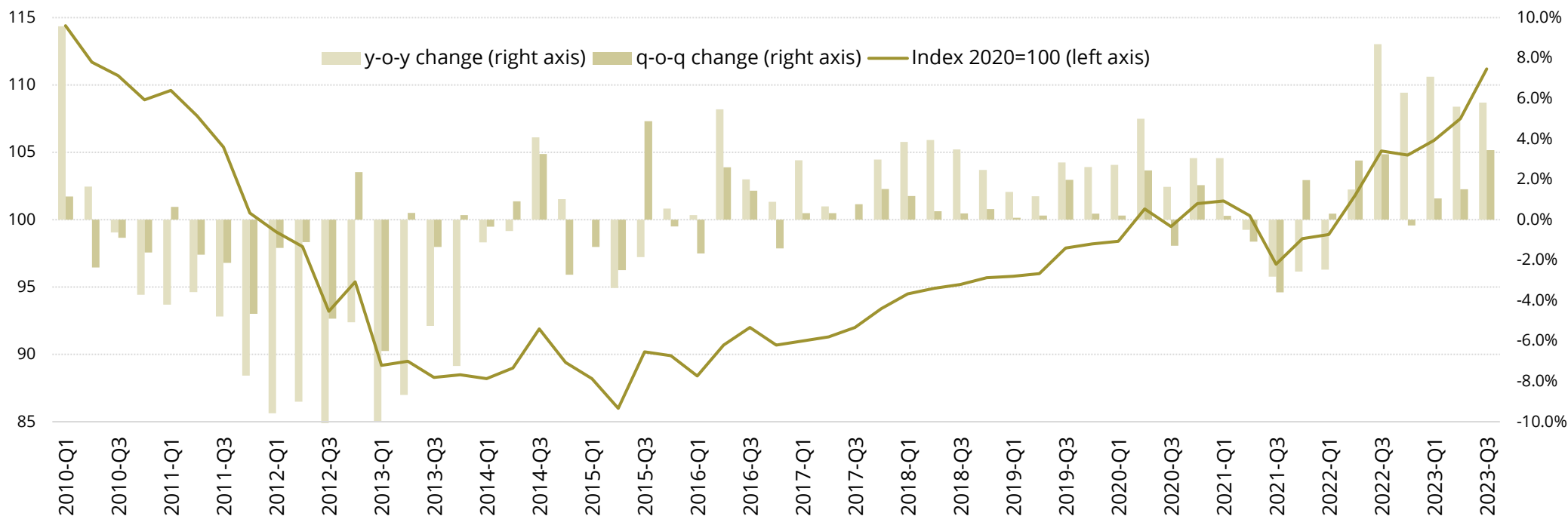
Source: ELSTAT

- The unemployment rate reached 10.8% in Q3/2023, down from 11.6% in Q3/2022 and 13.0% in Q3/2021.
- **Employment increased** in sectors like **Construction** (+25.0 thousand), professional, scientific and technical activities (+19.3 thousand), Agriculture, forestry and fishing (+19.0 thousand).
- **Employment decreased** in sectors like **Wholesale-Retail trade** (-22.5 thousand), Education (-16.1 thousand)
- The employment inflow-outflow balance was positive (+116.7 thousand) in 2023 and higher compared to the balance of 2022 (+72.9 thousand).



# The increase in wage costs further accelerated in the third quarter of 2023

## Seasonally adjusted wage cost index, current prices



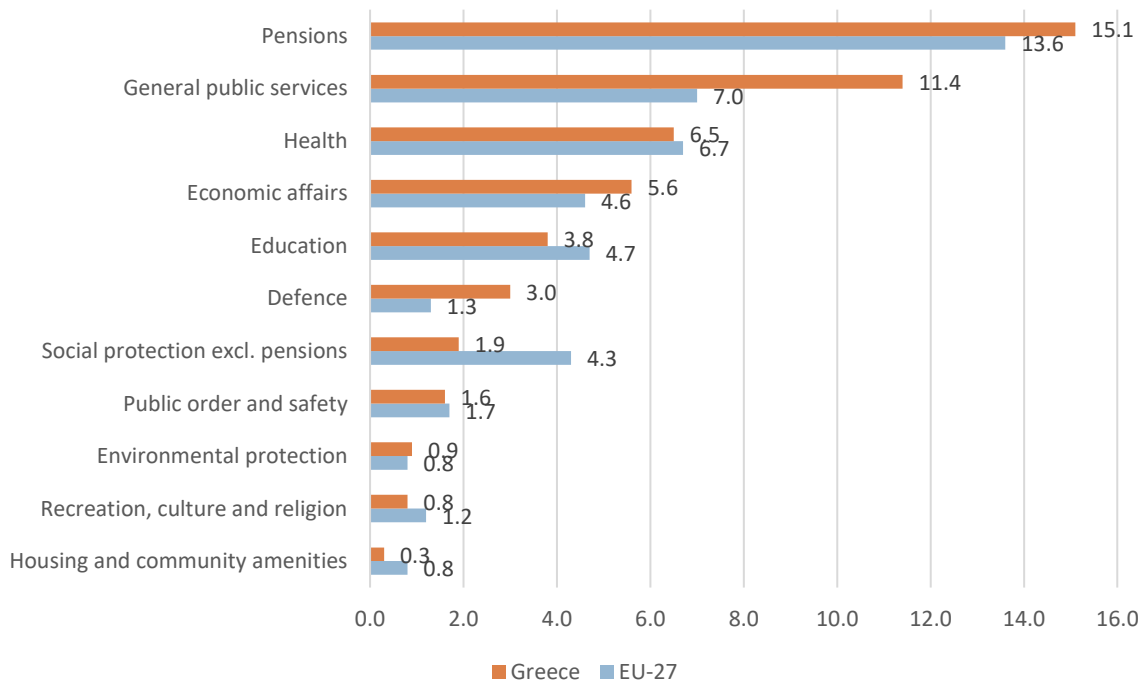
Sources: ELSTAT & Eurostat

- In the third quarter of 2023, wage costs recorded a 5.8% annual increase, a 3.4% q-o-q increase.
- **Since the beginning of 2022, the cumulative increase in wage costs (12.8%)** is slightly lower than the CPI increase over the same period (13.4%).

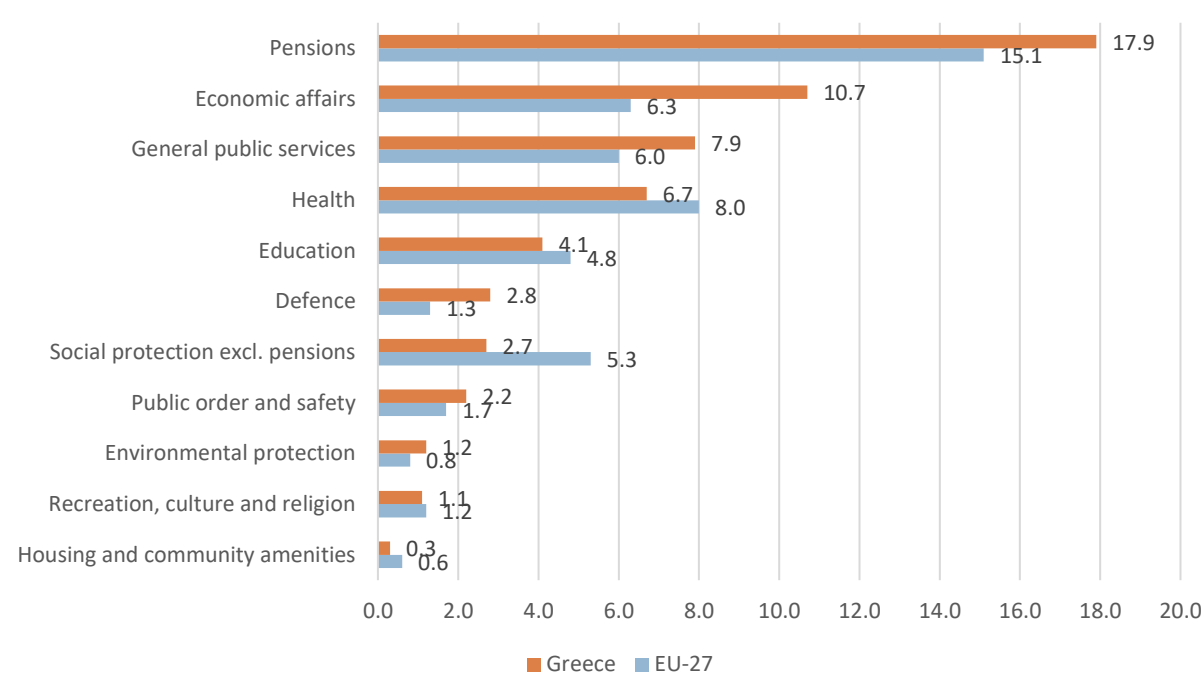


# Public spending (as a % of GDP) is higher in Greece compared to the EU average

### General government expenditure by function, % of GDP, 2008



### General government expenditure by function, % of GDP, 2021



Source: Eurostat, Data processing: IOBE

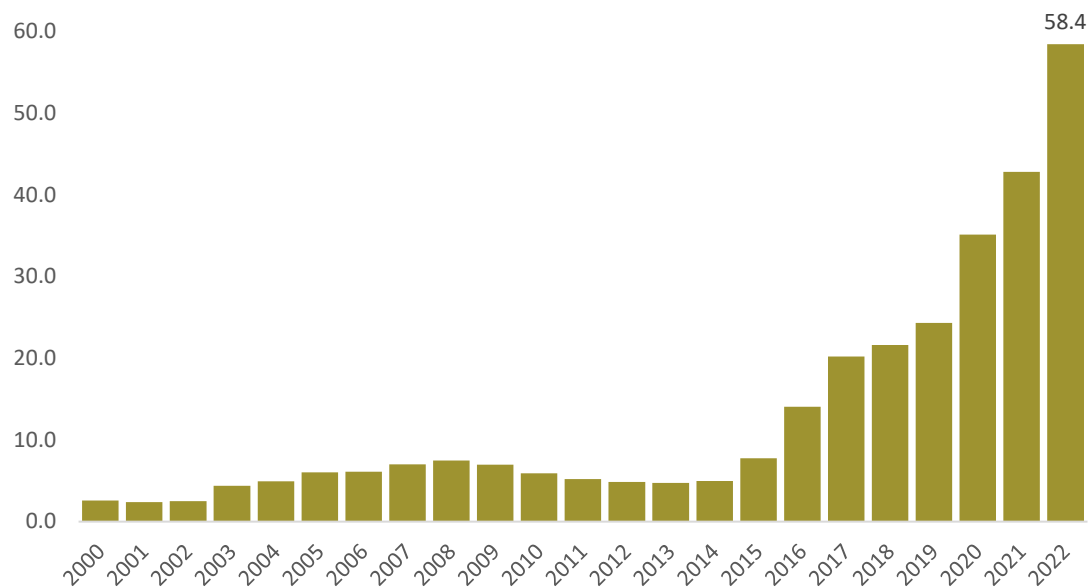
- **Higher** spending on **pensions, defense, economic affairs, and General public services** (i.e., public sector wages and public debt payments).
- **Lower** spending on **education, health, and social protection excluding pensions** (unemployment insurance benefits, family policies, etc.).
- A convergence with the EU-27 average in Economic affairs and General public services could gradually free up fiscal resources of more than 6 p.p. of GDP annually, with beneficial prospects for functions like Health, Education, and Social protection excluding pensions, which have been lagging compared to the EU average.



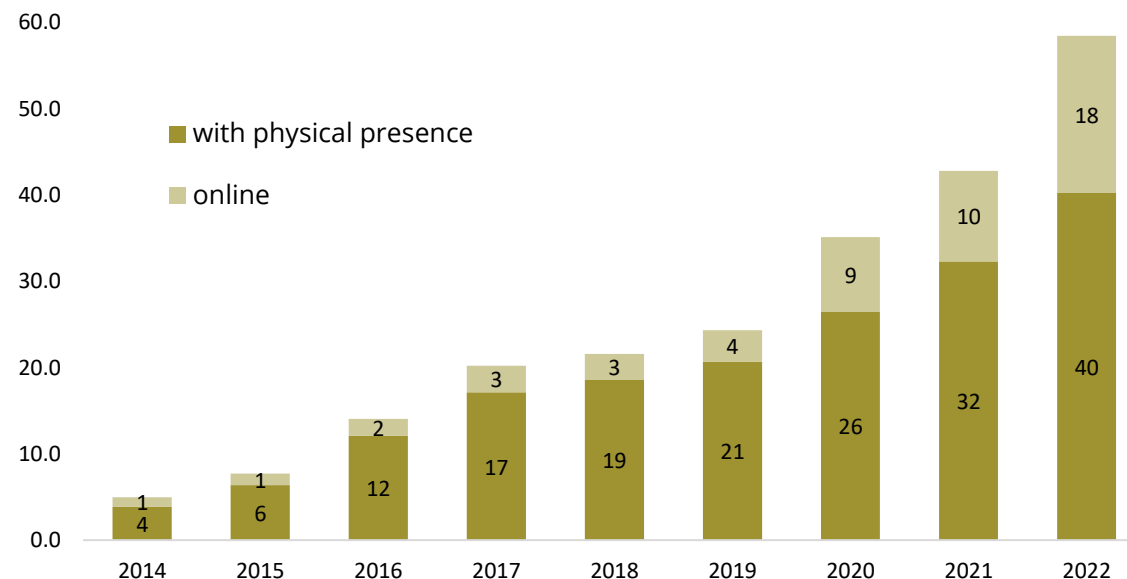


# The expansion of card payments in Greece during 2015-2022 has been the fastest in Europe

Total card transactions value, Greece 2000-2022 (€ billion)



Card transactions value by channel, Greece (€ billion)



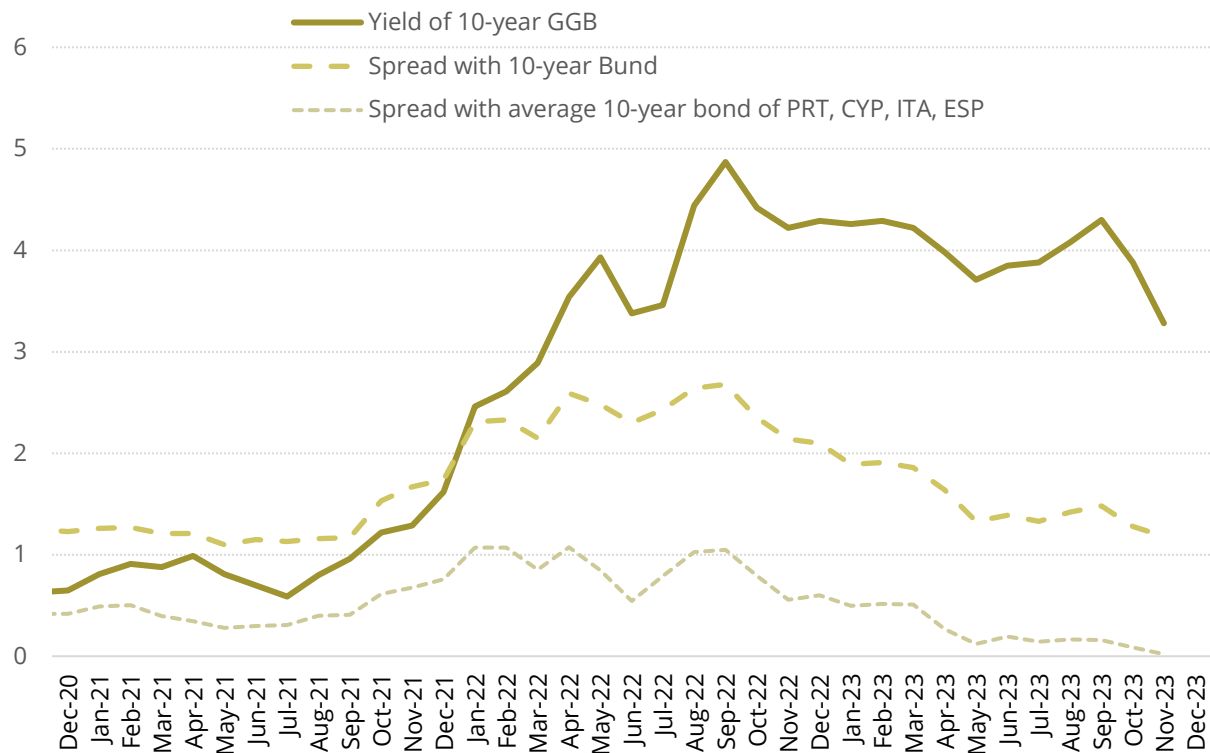
Source: ECB, Data processing: IOBE

- In 2022 there was a further impressive annual increase in **card transactions value**, by 36.5%; it reached a level corresponding to 42.2% of the total consumption of Greek households in the same year.
- **Remote transactions** have proportionally compared to face-to-face transactions increased since the pandemic; they now account for nearly 1 in 3 transactions made in 2022, up from around 1 in 6 transactions in 2015.
- As the momentum of the spread of electronic payments will decrease in the coming years, it is critical to enhance **positive incentives** for the **targeted use of electronic payments** in transactions that remain in the informal economy.



# Public borrowing cost decreased towards the end of 2023...

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



Source: ECB, Data processing: IOBE

...narrowing the spread from other Euro Area countries, following the recovery of the investment grade by the Greek sovereign. As for the **banking sector**:

**Positive developments:** Lower NPEs, higher organic profitability, agreement for expansion of loan component of the Greek RRP

**Negative developments:** Lower net credit flows to businesses in 2023, credit contraction to households, fatigue in private deposits, increase of exposure to government bonds

**Challenge and opportunity:** High stock of red loans both within and outside the banks' balance sheets



# Macroeconomic forecasts for 2024

## 2024 baseline scenario

- The Eurozone economy follows the ECB's baseline scenario (December 2023) of 0.6% growth in 2023 (down from 0.7% three months ago) and 0.8% in 2024 (down from 1.0%), 2.7% inflation in 2024 (up from 3.2%); energy prices and interest rates also evolve according to the ECB's baseline scenario.
- Interest rates follow the trend of today's futures, i.e., Euribor falls from close to 3.9% at the start of the year to around 2.6% at the end of 2024.
- The war in Ukraine continues at a similar intensity to that of 2022. Despite the geopolitical instability in the Middle East, international prices of energy commodities will remain stable in 2024, following the EIA's baseline scenario.
- Timely implementation of the "Greece 2.0" Plan in 2024, without further delays.
- Inflation in Greece will be slightly higher than in the Eurozone average in 2024.
- Inbound tourism recorded an annual increase in 2023. In 2024, the positive performance in real terms is maintained.

## Estimates for 2023

- **Growth:**  $\approx 2,2\%$
- Private consumption:  $\approx 1,3\%$
- Public consumption:  $\approx 0,9\%$
- Investment (Fixed):  $\approx 3,2\%$  (7,3%)
- Exports:  $\approx 2,3\%$
- Imports:  $\approx 1,1\%$
- **Unemployment:**  $\approx 11,2\%$
- **Inflation:**  $\approx 4,2\%$

## Forecasts for 2024

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



# Risks and positive prospects

## Risks

- Further geopolitical and economic instability regionally and internationally (war in Ukraine, Middle East, US elections, European Parliament).
- Wariness of a longer period of higher interest rates.
- High deficit in the external balance, with structural characteristics.
- Progressively tighter fiscal targets. The tax base in Greece remains narrow.
- Loss of competitiveness due to higher than the Eurozone average structural inflation after mid-2022. Persistent inflation in essential goods such as food, although lower than the EZ average.
- High loan-deposit interest rate spread and systematically negative household savings rate.
- Risk of a new surge in arrears and NPLs, due to rising interest rates and cost of living. An obstacle to the redistribution of resources are bad loans on and off bank balance sheets.
- Investment mix: Investments in Housing/Construction and transport equipment, decrease in other sectors.

## Positive prospects

- The recovery of the investment grade by international credit rating agencies enhances confidence in the Greek economy and creates prospects for expanding the investment base.
- The acceleration in the implementation of the revised Recovery and Resilience Plan, combined with the expansion of its loan arm and Repower EU, can "unlock" international funds for productive and more long-term investments.
- Enhanced extroversion of the economy is a challenge, along with a gradual improvement of the external balance.
- Reforms with a medium-term horizon of 2024-2027 can increase productivity which at the moment significantly lags compared to the European average.
- The reduction of NPLs will free up productive resources.
- Significant backlog of construction projects.

Special study\*

«The economic and social impact of private insurance in Greece in 2022»

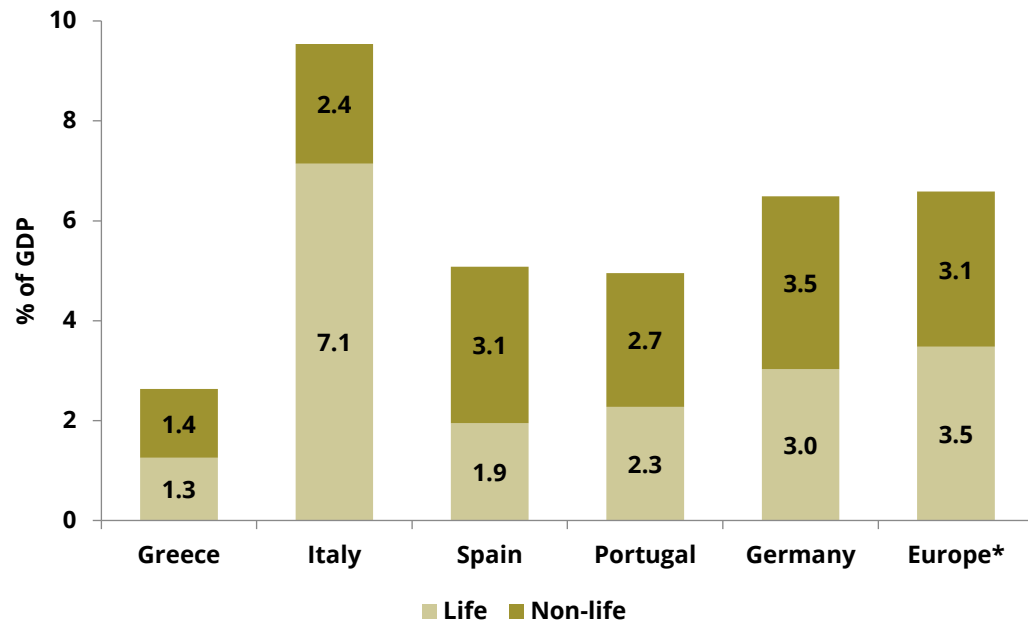
\*IOBE study (2023), on behalf of the Insurance Companies Union of Greece

Available [here](#)

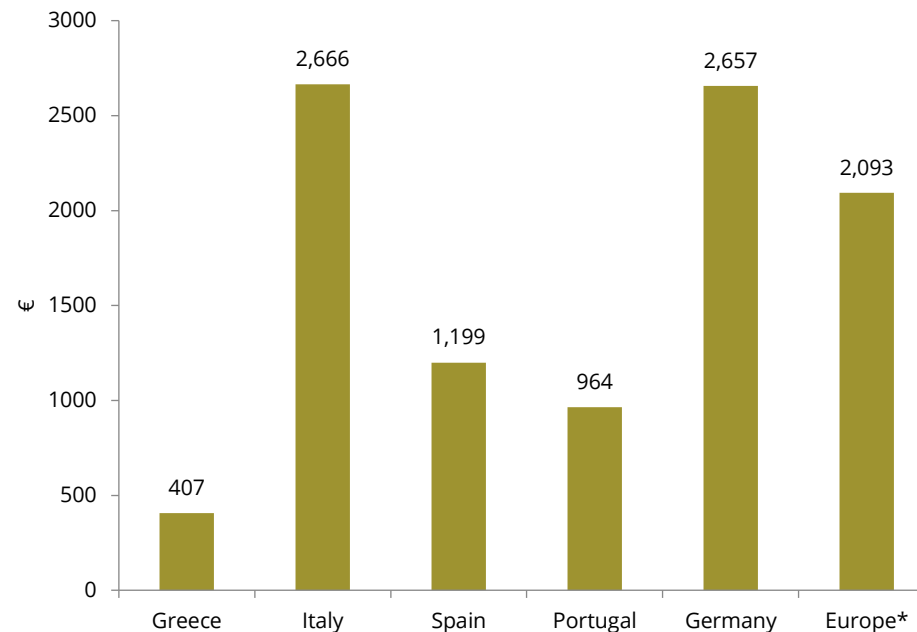


# Private insurance penetration in Greece remains proportionally very small, compared to other European countries

Insurance premiums as a percentage of GDP in selected countries, 2020



Per capita life and non-life insurance premiums, 2020



Sources: Insurance Europe, Eurostat. Data processing: IOBE  
\*Europe includes the EU-27, the UK, Switzerland, Norway, Iceland, and Turkey.

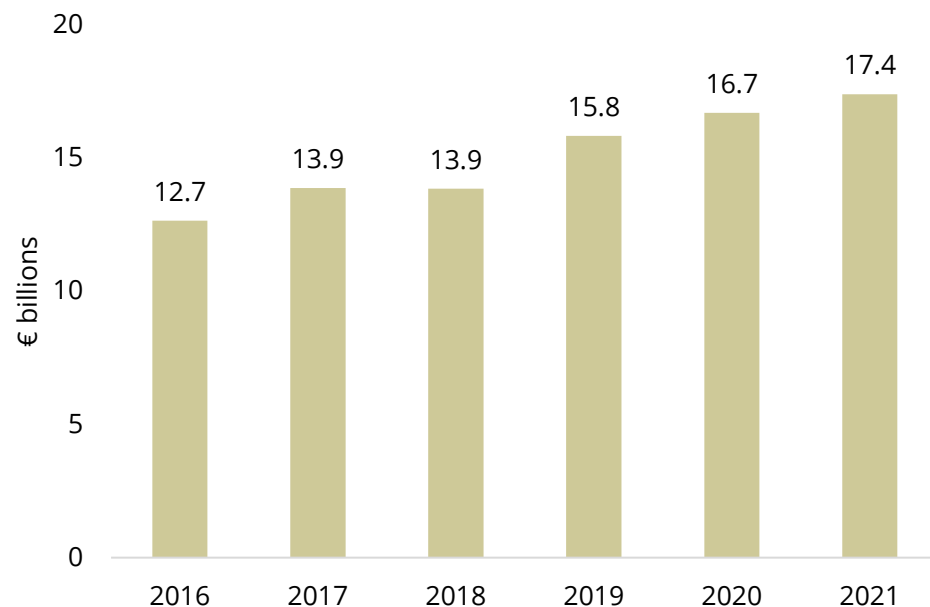
Insurance premiums as a percentage of GDP are lower in Greece in both insurance sectors (non-life and life), while non-life insurance covers a larger part of the entire market. Greece's greatest lag is in the development of life insurance.

Πηγή:

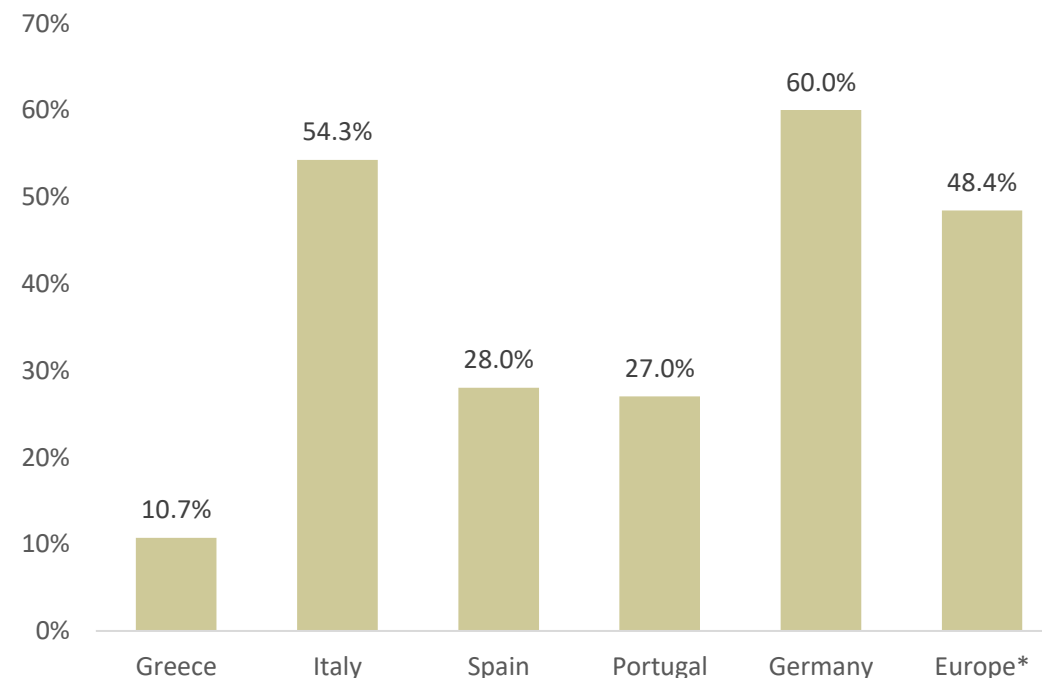


# Financial investments by insurance companies operating in Greece have been systematically increasing in recent years; they reached €17.4 billion in 2021...

Financial investments of insurance companies in Greece, 2016-2021



Financial investments of insurance companies as a percentage of GDP, 2020



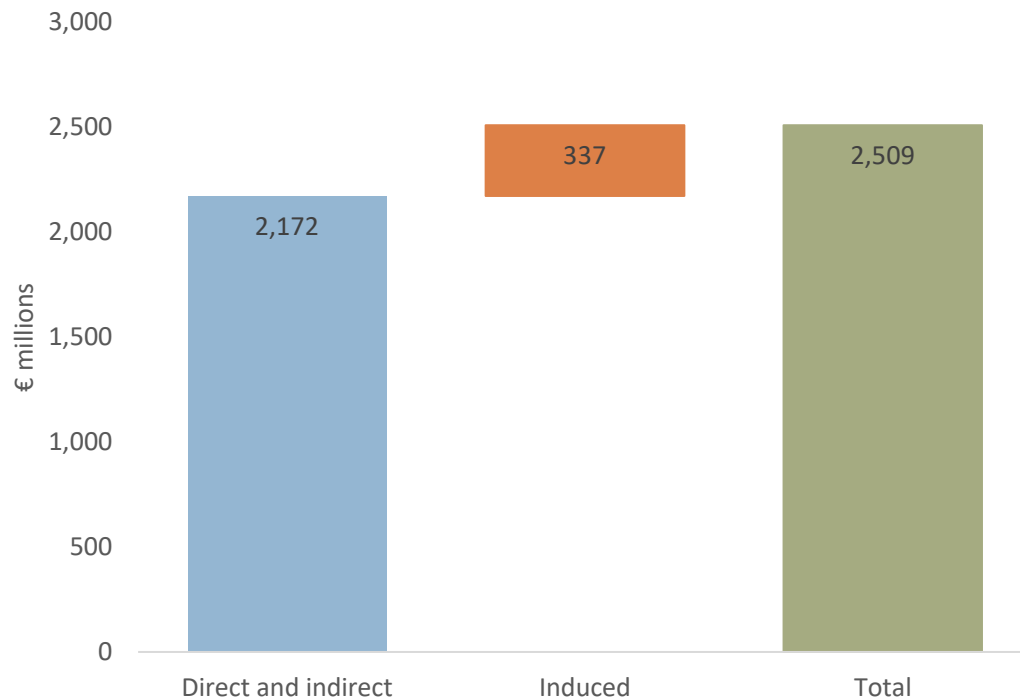
Sources: Financial data of EAEE insurance companies, Insurance Europe. Data processing: IOBE  
\*Europe includes the EU-27, the UK, Switzerland, Norway, Iceland, and Turkey.

...however, they remain significantly lower than in the rest of Europe, relative to GDP. The low base creates opportunities for the sector to make a significant contribution to the recovery of investments in the whole economy.

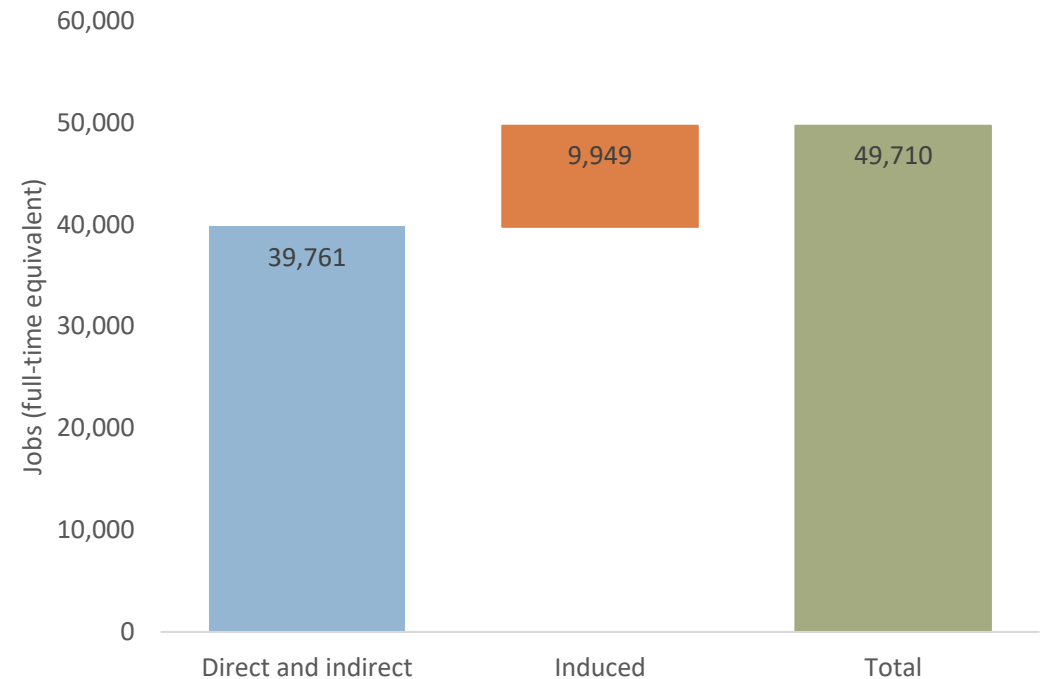


# The total impact on GDP of the private insurance industry is estimated at €2.5 billion in 2022; the impact could be even bigger if there is convergence with Europe

### Total impact of private insurance on GDP, 2022



### Total impact of private insurance on employment, 2022



Source: IOBE estimates based on the input-output model.

The total impact of private insurance on domestic employment is estimated at 49.7 thousand full-time jobs in 2022.





# Main findings

In European countries with high **GDP per capita**, there is higher activity and higher participation of the private insurance industry in the economy.

**The penetration of private insurance in Greece** remains proportionally very small, compared to other European countries. Insurance premiums as a percentage of GDP are lower in Greece in both insurance sectors (non-life and life), with Greece's greatest lag found in the development of life insurance.

**Financial investments** by insurance companies operating in Greece have been systematically increasing in recent years; however, they remain significantly lower than in the rest of Europe, in proportion to GDP. This creates opportunities for the sector to make a significant contribution to the recovery of investment in the whole economy.

The **total impact of the private insurance sector** on GDP is estimated at €2.5 billion in 2022; impact could be even bigger if there is convergence with Europe. The total impact of private insurance on domestic employment is estimated at 49.7 thousand full-time jobs in 2022.



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