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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 fourth 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 which highlights the stable economic fundamentals with uncertain shift of the production model. 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 third quarter of 2023 and the outlook for the rest of the year, b) presentation of the economic climate in Greece in the fourth quarter of 2023, according to the results of the business and consumer surveys of IOBE, c) assessment of the balance of the State Budget for January-November this year and d) developments in the domestic financial system up until November 2023.

The third section focuses on the performance of the Greek economy. It outlines recent macroeconomic developments with an emphasis on the third quarter of 2023 and presents estimates overall for 2023 and forecasts for 2024, based on assumptions and taking into account the latest available data. It analyses developments in key production sectors in the third quarter of last 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 third quarter. It then analyses the inflation trends overall in 2023.

The fourth section presents the main findings from a recent IOBE study on the economic and social footprint of the private insurance sector on the Greek economy. The current report contains three text boxes. The first box describes the evolution of the composition of public expenditure in Greece compared to the Eurozone (section 2.2.B). The second presents data on the evolution of electronic payments in Greece since the pandemic (section 2.2.C). The third highlights recent trends in the mix of domestic investment (section 3.1.A).

This report refers to and is based on data available until 19/1/2024.

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

STABLE ECONOMIC FUNDAMENTALS WITH UNCERTAIN SHIFT OF THE PRODUCTION MODEL

Despite the sharp turbulence and extreme fluctuations created by the latest successive exogenous crises - the pandemic, in the energy markets and the sharp escalation of inflation - the Greek economy seems to be gradually completing a strong recovery cycle that heals many of the wounds of the ten-year debt crisis, bringing it closer to normality.

Approaching "normality"

Many indicators are reflecting this recovery, as in all the recent quarters GDP is growing faster than European averages. This growth is accompanied by a systematic easing of unemployment and an increase in investment which is also higher than European growth rates. Domestic economic sentiment is also recovering, according to IOBE's latest measurements on behalf of the EC, to a 15-year high. The recovery of the investment grade, 13 years after its loss, consolidates the made progress. The same holds about the reduction of the spread in financing costs of the Greek government compared to other European economies. In the past year, the rise on the Athens Stock Exchange was also particularly strong.

Since the pandemic, incoming tourism has grown strong and has been a crucial component of the overall recovery, filling other gaps and contributing positively to the country's external balance. After all, tourism contributed critically to the economy during the 10-year crisis, easing it to a certain extent. A second area that moves strongly positively is real estate. In many parts of the country, property prices are now at levels close to those observed before 2008. In some cases, real estate receives foreign investment, but a large part of domestic household savings is also directed there. More broadly, foreign direct investment has a positive sign.

Strong investment growth is a prerequisite

All this composes a macroeconomic picture that is more positive than in most other European economies. The economy is projected to continue on this course this year, at a similar growth rate overall, provided that investment growth is strong. This is crucial because the external balance will be pressured by weaker growth abroad, while some of the reservoirs that have fuelled domestic consumption growth are depleted. In such an overall course of the economy, with similar dynamics to last year, it is crucial to assess whether the foundations for long-term strong growth of the Greek economy are laid by changing its structural characteristics and at the same time to assess risks that may affect this dynamic.

Mixed effects from the external environment

There are mixed trends in the country's external environment. One can positively assess that the cycle of strong interest rate hikes has not led to a generalised recession and severe individual crises, at least for the time being, despite concerns that this might happen. It seems, in this sense, that there is a "soft landing" of the global economy. This is accompanied by a positive trajectory in capital and major real estate markets, while global trade has not been hit hard.

This rather positive picture, given the circumstances, should be put in the right perspective. First, the strong rise in interest rates has not yet effectively reduced inflation, which is expected to remain a problem. The impact of this sharp rise in interest rates, which are not expected to decline rapidly, as well as of inflation, has not closed its cycle and will hurt the economy in the coming period. Second, there are regional crises that increase tension, as following the Russian invasion of Ukraine and the flare-up of violence in the Middle East, there are no easy solutions. Third, technological and geopolitical developments are now leading faster to an increase in polarisation tendencies that may have an extreme impact on global trade throughout the coming period. A significant change in the course of relations between the United States and China will of course have a critical impact on the world economy not only in the future but also currently. Fourth, all recent crises have had a greater negative impact in Europe than in other economies. It must be alarming that our continent's economies have weaker dynamics in all critical aspects - productivity and integration of technology, competitiveness of products and services and attraction and integration of migrants - while the deepening of institutions and further harmonisation of policies in the euro area is still pending.

The above trends in the external environment have several implications for our economy. Overall, the external sector cannot be expected to have a positive impact, with the exports of goods and services coming under pressure. The cost of money and energy will remain higher than before the latest crises. The risks of strong turmoil in international capital markets are not negligible, as they have a significant impact on the financing of a country with high public debt and a need to finance the economy as a whole. The redrawing of the trade map for many products and services, through intense technological developments and the green transition, creates pressure on some regions and significant opportunities in others.

In addition to the externalities, there are also structural issues of our economy and imbalances that are important to correct earlier than later. One could ask whether the basis for strong growth of the economy over the next decade is a strong recovery and a return to stability, which will increase prosperity and put aside the concern posed by the future management of high public debt combined with the negative demographic trend. Alternatively, the stabilisation of the economy, given its structure and the incentives it creates, may be causing behaviours forming the basis for a future crisis. In other words, the shift to a new production model is put into question.

The switch to a new production model remains a challenge

Some of the weaknesses and imbalances of our economy are also visible in its daily functioning. The first issue concerns the labour market, where, although there has been a sharp reduction in unemployment, its further decline will face significant obstacles while there is a growing shortage of skilled or unskilled labour. The question of the functioning of the product markets and what it entails for the problem of "greedflation" weighing on consumers is also relevant. In addition to the cyclical issue of imported inflation, the comparison of purchasing power with prices and the evolution of real incomes also reflects weaknesses in the production base and weaker than the desired intensity of competition in the markets. To the extent that it becomes easier for businesses to enter markets and grow, there will be a favourable effect for buyers of goods and services at the same time as jobs and incomes are created systematically.

Related here is the issue of formal versus informal economy, which concerns not only tax evasion but also the orientation of the production model as a whole. The strong recovery of the economy in recent years has to a significant extent included a recovery in informal activity. Whether the incentives will dominate in one direction or another will be crucial overall for the direction of our economy, including incentives created by the income tax and the social security systems.

There is of course also the sectoral dimension, which also to some extent expresses the shift in the production model, since on the one hand real estate and construction and on the other hand tourism are powerful drivers of our economy, but without further development of sectors that can integrate more new technologies, such as manufacturing, total productivity will be lagging behind. A specific critical issue concerns enhancing the efficiency of the public sector, including the health and education systems, which should contribute to both economic development and social cohesion. The timely and effective use of the resources of the Recovery and Resilience Facility is an opportunity to accelerate the necessary changes. Finally, the shift in the production model will be manifested by the robust and resilient growth in investment and exports, which in the medium term should be higher than in consumption, precisely so that the overall growth path is sustainable.

1 BRIEF OVERVIEW

International environment: Low growth in the third quarter, but better than expectations

The world economy continued to grow in the third quarter of 2023, at a low but steady pace due to high inflation and monetary tightening. Based on the latest OECD forecasts (December 2023), the global economy is estimated to grow marginally below the September forecast (2.9% from 3.0%). For 2024 the growth forecast is maintained at 2.7%. The economies of the OECD countries grew at an annual rate of 1.6% in the third quarter of 2023, after GDP growth of 1.6% in the previous quarter and growth of 2.5% in the corresponding quarter of 2022.

Inflation is still above the desired levels, despite the significant de-escalation recorded since last year, while core inflation is proving persistent in many economies. For example, in November last year, inflation fell in 38 OECD countries to 5.4%, while core inflation (excluding energy and food) fell to 6.3%.

With inflation rates above targets, central banks keep key interest rates at their highest levels in recent years, while the markets are anticipating a gradual, slow decline in interest rates, with the cost of money maintained at a higher level compared to early 2022. Despite stronger-than-expected GDP growth in 2023, geopolitical tensions and tighter financial and fiscal conditions are having a notable impact, affecting both inflation and economic activity. A more extensive analysis is presented in section 2.1A.

European economy: Stagnation of activity, expectations of recovery

In the third quarter of 2023, the annual rate of change in real GDP in the EU-27 and the euro area declined to zero, from 0.4% and 0.5% respectively, in the previous quarter. In 13 of the 27 EU countries, including Germany and the Netherlands, the quarterly rate was negative in the third quarter. Economic sentiment recovered in Europe in the fourth quarter of 2023, after the downward trend observed throughout the first nine months.

Inflation declined throughout the year, to 5.5%, from 8.4% in 2022, while remaining significantly above the target of close to 2%. The ECB has already conducted ten rounds of increase in key interest rates since mid-2022, cumulatively by 450 basis points. Markets expect the cost of money to decline gradually over the course of 2024, cumulatively by up to 150 basis points, while remaining at higher levels than in early 2022.

According to the European Commission's recent forecast (November 2023), the annual rate of change in real GDP for 2024 is expected at 1.3% and 1.2%, in the EU-27 and the euro area respectively. For 2025, a rate of 1.7% and 1.6% is expected respectively in the two blocs. Inflation is estimated to reach 3.5% and 3.2% this year in the EU-27 and the euro area, before falling to 2.4% and 2.2%, respectively, in 2025.

The ongoing war in Ukraine and the Middle East, high core inflation, the apparent longevity of the high cost-of-money regime and the limited fiscal space pose risks to the recovery of the European economy. The timely implementation of the EU member states' Recovery and Resilience Plans presents an opportunity. The political agreement reached in December 2023 at the European Council level on the new fiscal rules is crucial, while specific parameters remain to be determined and the negotiations with the European Parliament for a final agreement remain pending. Trends in the European economy are detailed in section 2.1B.

Greece's growth slowed in the third quarter; investment confidence strengthened in the second half

Annual economic growth slowed to 2.1% in the third quarter of 2023 (from 2.6% in the previous quarter). In seasonally adjusted terms, quarter-on-quarter GDP growth was close to zero. The slowdown stemmed mainly from household consumption, which increased annually by +0.9%, while government consumption declined annually by -0.7%. Investment, which increased annually by +8.9%, due to the annual strengthening of fixed capital investment (+4.9%) and inventories (+29.9%), contributed significantly to domestic growth in the third quarter of 2023.

The annual growth in total imports (+2.9%) contributed negatively to domestic GDP growth in the third quarter of 2023, due to the annual strengthening of the imports of goods (+3.4%) and services (+0.8%). The annual growth rate of exports (+1.0%) was lower than imports. As a result, the deficit of the external balance in national accounts terms increased by about €426 million compared with a year earlier.

The positive developments in the second half of 2023 include the strengthening of international investor confidence in the country, as reflected in (a) the impressive performance of domestic stock market valuations and (ii) the upgrade of the rating of the Greek state to investment grade by three of the four international rating agencies monitored by the ECB. A higher than the euro area average domestic growth performance and a lower inflation rate can also be included on the positive side. Negative developments in the third quarter include a deterioration in the trade balance. The mix of investment flows remains a challenge, as highlighted in the special text box in Section 3.1, as fixed investment dynamics in sectors excluding dwellings and construction remain modest. A detailed presentation of the macroeconomic performance in the third quarter of this year can be found in Section 3.1A.

Strong momentum in construction and services in the third quarter, resilience in industry, fatigue in retail trade

Industrial production increased in the first eleven months of 2023, by 2.0%, down from 2.7% in the same period of 2022. To a large extent, the slowdown was driven by the decline in activity in the energy sector. Construction grew strongly, with production growing by 13.9% in the first nine months, after 20.7% in the same period of 2022. An increase in turnover in most sub-sectors of Services is recorded in the first nine months of the year. By contrast, retail trade contracted in volume by 3.7% in the first ten months, against an increase of 4.0% a 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.

Reduced but still high external deficit

The nominal value of the exports of goods in national accounting terms decreased in the first ten months of 2023, at a rate of -7.2%, although excluding oil products it remained unchanged. An increase in nominal terms was recorded mainly in the categories of fuel and raw materials. Imports decreased at a rate of 12.8% at current prices in the first ten months of 2023. As a result, the trade deficit fell year-on-year by 21.1% in the first ten months of 2023, to €24.6 billion. A record-high trade openness of the Greek economy was maintained throughout 2023.

In the balance of payments, in the first eleven months of 2023, the current account deficit decreased to €11.9 billion, from €18.5 billion in the same period of 2022. A significant correction of the deficit was recorded in the goods account (by 90% due to fuel, driven by lower energy prices) and an increase in the surplus of the services account (with historically high travel receipts of over €20 billion) and the secondary income account, which also records inflows from the recovery fund. In the same period of 2022, the deficit of the goods account excluding fuel and ships stood at €2.0 billion, from €4.9 billion in the same period of 2022. Despite the annual improvement, the CA deficit remains high, estimated at around 7.5% of GDP in 2023, from 11.1% in 2022. Developments in the external balance are described in more detail in Section 3.3.

Reduction of unemployment to its lowest level in 14 years

The third quarter of 2023 saw a further decline in unemployment to 10.8% from 11.6% in Q3 2022. The decline in the unemployment rate was mainly the result of stronger employment. The entry-exit employment balance in the private sector in 2023 was positive, by 116,700, against a positive balance of 72,900 jobs in 2022. The sectors with the largest annual increase in employment in the third quarter of 2023 were construction (+25,000 persons employed), professional, scientific, and technical activities (+19,300), agriculture, forestry and fishing (+19,000) and human health - social care activities (+18,600). Employment declined annually in Wholesale-retail trade (-22,500 persons employed) and in education (-16,100). The seasonally adjusted wage cost index recorded an annual increase of 5.8% in the third quarter of the previous 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 decline in unemployment is expected over the next few quarters, albeit with a clear slowdown. Taking into account the above effects, the unemployment rate is estimated to have stood in the region of 11.2% in 2023 and is forecast to be close to 10.5% in 2024. Labour market trends, developments and expectations are presented in more detail in Section 3.4.

Significant decline in inflation, high for essentials

Inflation declined significantly in 2023 as a whole, with average growth rates of 3.5% (CPI) and 4.2% (HICP), compared with inflation of 9.6% and 9.3% respectively in 2022. The 2023 inflation rate was below the EA average (Annex, Figure 4), after recording a higher average rate in 2022. To a large extent, the decline in inflation is attributable to the fall in global energy prices in 2023, as opposed to the prices of non-energy goods that have remained on an upward path. For example, the rate of change in the HICP with constant taxes and excluding energy was 6.9% in 2023, up from 6.0% 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 be broadly unchanged annually in 2024; (ii) the evolution of consumer demand, which is expected to rise less strongly, by around 1.4% in 2024. In this context, inflation is projected to hover in the region of 2.8% in 2024. Section 3.5 describes in more detail recent trends in consumer and producer prices, as well as expectations about their evolution in 2024.

Small decline in domestic economic sentiment in the fourth quarter

The Economic Sentiment Indicator in Greece fell slightly in the fourth quarter of 2023 relative to the previous quarter (106.4, from 110.0 percentage points). There is a marked improvement in comparison with the corresponding quarter of last year (101.6 percentage points). Business confidence has softened in the last quarter compared with the previous one in services, declined more strongly in retail trade and industry, and strengthened considerably in construction. The Consumer Confidence Index weakened significantly in October-December compared with the previous quarter, to -43.5 (from -36.3 points). At the same time, it is markedly higher than a year earlier (-52.6 percentage points). A detailed description of the trends in the components of economic sentiment is provided in Section 2.2A.

Public finances: cash targets exceeded in 2023

In the first eleven months of 2023, the state budget execution performed better than the target in cash terms, driven by the economic recovery and inflation. The improvement in the balance compared with last year is mainly due to a higher increase in net revenue (+10.7% or +€5.73 billion). A primary surplus of €5,826 million was recorded in cash terms in Jan-Nov. 2023, against a primary surplus target of €3,771 million (introductory report to the 2023 Budget) and a primary deficit of €1,091 million in the same period of 2022.

According to the introductory report to the 2024 Budget, the primary surplus targets are 1.1% of GDP in 2023 and 2.1% of GDP in 2024. The general government debt-to-GDP ratio is estimated at 160.3% in 2023. The developments in government finances are presented in Section 2.2B. The more demanding budgetary targets for 2024 make it useful to record public expenditure in Greece by category, compared to the average in Europe, as done in the special text box at the end of the section.

Narrowing of the spread on Greek bonds, credit growth slowdown

In the second half of 2023, the Greek sovereign credit rating was upgraded to 'investment grade' by three of the four rating agencies monitored by the ECB, after 13 years. The improvement in the international investor community's confidence in the Greek economy was reflected both by a narrowing of the spread in the cost of new government borrowing and by the performance of stock prices on the domestic capital market, which in 2023 as a whole recorded the highest positive global performance (+39% of the general index).

In the banking system, the positive trends that stand out include the reduction of NPLs, improved operating profitability and the agreement to expand the loan leg of the National Recovery and Resilience Plan. The negative developments include a slowdown in corporate credit growth, an unabated credit contraction to households, a fatigue of private deposits and an increase in exposure to government bonds. Among the challenges, the acceleration of the clean-up of non-performing loans both on and off banks' balance sheets stands out. Recent trends and challenges for the domestic financial system are described in detail in Section 2.2C. The special text box at the end of the section presents the spread of electronic payments in Greece until 2022.

Macroeconomic estimates for 2023 and forecasts for 2024

Geopolitical instability in Eastern Europe and the Middle East, slow growth of the euro area economy, the gradual decline in inflation and interest rates, public spending and the implementation of the revised Recovery and Resilience Plan are now key drivers of GDP developments in 2024.

The baseline assumptions are detailed in section 3.1B, as they include (i) weak growth in the euro area of 0.6% in 2023 and 0.8% in 2024, according to the ECB's baseline scenario (ii) geopolitical instability with international energy prices remaining relatively stable in 2024, following the EIA baseline scenario, (iii) interest rates following the trend of current forward contracts, i.e. Euribor gradually receding to about 2.6% at the end of 2024, (iv) timely implementation of the revised "Greece 2.0" plan in 2024, (v) similar tourism revenues in 2024 as in 2023.

The projections by GDP component are described in detail in Section 3.1B. For 2023, IOBE estimates a growth of 2.2%, at constant prices (a marginally lower estimate than in the previous quarterly report), supported mainly by private consumption (+1.3%) and fixed capital formation (+7.3%). In addition, the external balance is estimated to improve slightly, due to a higher annual increase in exports (+2.3%) compared to imports (+1.1%). As regards the labour market, the unemployment rate is estimated to have reached 11.2% in 2023 as a whole.

For 2024, IOBE projects a recovery of 2.4% in constant prices, with uncertainty about the magnitude of risks stemming from the international environment. As regards the growth components in 2024, a significant strengthening of fixed investment (+11.0%) and continued private consumption momentum (+1.3%) are expected. In the external sector, the current account is expected to improve slightly, with exports and imports growing annually in 2024, by +2.6% and +2.2%, respectively. Average inflation in 2024 is expected to be slightly above the euro area average in the region of 2.8%, while unemployment is forecast 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 both positive prospects and risks for 2024, which are detailed in section 3.1B.

Table 1.1

IOBE macroeconomic forecasts (January 2024)

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

	2022 (actual)	2023 (estimate)	2024 (forecast)
GDP	5.7%	2.2%	2.4%
Consumption	6.3%	1.4%	0.7%
Private consumption	7.6%	1.3%	1.3%
Public consumption	2.3%	0.9%	-0.8%
Gross capital formation	5.5%	3.2%	10.8%
Gross fixed capital formation	11.6%	7.3%	11.0%
Exports	6.2%	2.3%	2.6%
Imports	9.3%	1.1%	2.2%
Inflation rate	9.6%	4.2%	2.8%
Unemployment (% labour force)	12.4%	11.2%	10.5%

Special study: The economic and social footprint of private insurance in the Greek economy

A study carried out by IOBE for the Hellenic Association of Insurance Companies (HAIC) highlights the contribution of the sector to the Greek economy, as well as the scope for even greater impact in the event of convergence with the rest of Europe. The penetration rate of private insurance in proportion to GDP remains very low in Greece compared to other European countries. In countries with higher GDP per capita across Europe, there is a higher activity and participation of the private insurance sector in the economy. The total contribution of private insurance to GDP is estimated at €2.5 billion in 2022, with significant room for growth if the sector converges in size to the European average. The total contribution of private insurance to domestic employment is estimated at 49,700 full-time jobs in 2022. 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

- According to the OECD December report, growth of the global economy is estimated marginally lower for 2023 than projected in September (2.9% from 3.0%). For 2024, the forecast for growth of 2.7% is maintained.
- Inflation has continued its downward trend, however, it continues to remain above its desired level.
- The global monetary tightening is projected to be maintained over a longer period of time, which increases financial risks and preserves the possibility of an abrupt fall of economic activity.

The global economy continued to expand in the third quarter of 2023, with a steady but subdued pace due to high inflation and monetary tightening. The economies of the OECD countries grew at an annual rate of 1.6% in the third quarter of 2023, after GDP growth of 1.6% in the previous quarter and 2.5% in the same quarter of 2022. The annual rate of GDP change in the most developed economies (G7) was 1.7%, unchanged from the previous quarter, compared with 1.8% in the same quarter of 2022. The OECD's 20 largest economies grew by 2.9% in the third quarter of 2023, from 3.6% in the previous quarter, and after growth of 3.3% in the same quarter of 2022.

Inflation remains above the desired levels, despite a significant decline since last year, while core inflation is persistent in many economies. In November last year, inflation declined in the 38 OECD countries to 5.4% on average, while core inflation (excluding energy and food) fell to 6.3%. At the same time, energy prices fell 5.1% and food prices rose by 6.7% in the same month.

Central banks in various major economies have adopted a restrictive monetary stance in response to persistently high inflation while labour markets remain robust. With inflation rates above target levels, central banks have responded by raising key interest rates to their highest levels in recent years. The tightening of monetary policy aims to ensure a continued reduction of inflationary pressures. Despite stronger-than-expected GDP growth in 2023, the impact of tighter financial conditions is evident, affecting both inflation and economic activities. The policy stance implies a commitment to maintain higher interest rates for longer than initially foreseen, as central banks prioritise price stability. However, financial risks and the possibility of a significant slowdown in economic activity remain, underscoring the delicate balance that central banks have to keep between containing inflation and sustaining economic growth.

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	2.9	-0.1	2.7	0.0
USA	1.9	2.4	0.2	1.5	0.2
Japan	0.9	1.7	-0.1	1.0	0.0
Canada	3.4	1.2	0.0	0.8	-0.6
United Kingdom	4.3	0.5	0.2	0.7	-0.1
Eurozone	3.4	0.6	0.0	0.9	-0.2
Germany	1.9	-0.1	0.1	0.6	-0.3
France	2.5	0.9	-0.1	0.8	-0.4
Italy	3.9	0.7	-0.1	0.7	-0.1
Turkey	5.5	4.5	0.2	2.9	0.3
China	3.0	5.2	0.1	4.7	0.1
India	7.2	6.3	0.0	6.1	0.1
Brazil	3.0	3.0	-0.2	1.8	0.1
World trade	5.2	1.1	-0.5	2.7	-1.1

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

According to the latest OECD report, global GDP growth is estimated to have reached 2.9% in 2023, while growth in 2024 is forecast at 2.7%, from 3.0% and 2.7% respectively in the September report. The growth rate of world trade volume is estimated at 1.1% for 2023 from 5.2% in 2022, while for 2024 an acceleration to 2.7% is foreseen. Table 2.1 shows the annual changes in GDP in 2022 and the latest OECD forecasts (November 2023) for its annual changes in 2023 and 2024, for the world economy and selected developed and developing countries.

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

Among the major developed economies, in the United States, annual growth reached 2.9% in the third quarter of 2023, up from 1.4% in the previous quarter and 1.7% in the same quarter of 2022. On a seasonally adjusted annualised basis, the third quarter saw strong growth of 4.9%, driven by expansion of private consumption and inventory accumulation. Inflation declined to 3.1% last November from 3.2% in the preceding month, continuing the downward trend from previous months. To control inflationary pressures, the FED has 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 December 2023 meeting, it decided to leave the interest rate unchanged for a third consecutive meeting and stated its intention to proceed with reductions of 75 basis points in 2024. In 2023 as a whole, the US economy is estimated to have grown by 2.4% from 1.9% in 2022, while growth of 1.5% is forecast for 2024.

The euro area economy grew at zero annual growth in the third quarter of 2023, down from 0.6% in the previous quarter and 2.4% in the same quarter of 2022. Compared with the previous quarter, economic activity declined marginally (-0.1%) on a seasonally adjusted basis, mainly owing to a negative impact from changes in inventories. Fixed investment remained unchanged and net external demand had a zero contribution. Among the largest economies in the bloc, GDP grew year-on-year in Spain (+1.8%), France (+0.6%), and Italy (+0.1), while it declined in the Netherlands (-0.6%) and Germany (-0.4%). Inflation fell to 2.9% last December in the euro area, while core inflation also fell to 3.4%. The ECB is also committed to keeping interest rates fairly tight for as long as necessary, looking at persistent inflation estimated at 5.4% in 2023, while for 2024 and 2025 it is projected to decline to 2.7% and 2.1%, respectively. In 2023 as a whole, the euro area economy is estimated to have grown by 0.6% (from 3.4% in 2022), while growth of 0.8% is forecast for 2024. The outlook and challenges for the European economy are presented in more detail in Section 2.1B.

In the United Kingdom, GDP grew by 0.3% per year in the third quarter of 2023, as in the previous quarter, from growth of 2.1% a year earlier. Inflation increased marginally to 4% last December from 3.9%, with core inflation remaining at 5.1% as one month earlier. The central bank maintained its main policy rate at 5.25%, its highest level since 2008. For 2023 as a whole, a marginal growth of 0.5% is estimated, from 4.3% in 2022, while growth of 0.7% is projected for the current year.

In Japan, GDP grew by 1.6% per year in the third quarter of 2023, after growth of 2.3% in the previous quarter and an increase of 1.5% a year earlier. For 2023, the Japanese economy is estimated to have grown at 1.7%, up from 0.9% in 2022, while for 2024 it is forecast to grow by 1.0%.

Next in the current sub-section, we present recent trends and economic policy challenges in four developing countries, which together generate almost one-third of world GDP.

In particular, China's annual growth rate strengthened in the fourth quarter of 2023, to 5.2%, from 4.9% in the previous quarter. Based on the December data, the industrial sector was significantly boosted, reaching its highest level of growth in almost two years. However, the retail trade sector performed less strongly, recording the lowest growth rate in three months. Moreover, the unemployment rate in December reached a high of four months, signalling possible challenges in the labour market. For 2023 as a whole, the economy grew by 5.2%, outperforming its official target of around 5.0%, recovering from an increase of 3.0% in 2022 amid various support measures from Beijing and a base effect from the previous year. Excluding the years of the pandemic up to 2022, GDP growth in 2023 is the slowest since 1990, underlining the impact of a protracted real estate crisis, persistent weak consumption and global turmoil. For 2024, growth is projected to slow down slightly to 4.7%.

India's economy accelerated its annual growth rate to 7.6% in the third quarter of 2023, from 7.8% in the previous quarter and 6.2% one year earlier. The strong performance of government expenditure and fixed investment were the main drivers of GDP growth, while consumer demand slowed. For 2023 as a whole, annual growth is estimated at 6.3% from 7.2% in 2022, while growth of 6.1% is projected for 2024.

Turkey's economy grew by 5.9% year on year in the third quarter of 2023, up from 3.9% in the previous quarter, compared with growth of 4.1% a year earlier. Growth was driven mainly by fixed investment (+14.7%), followed by consumption spending, which increased by 15.6%. The annual inflation rate increased to 62.1% in December 2023, while the exchange rate of the Turkish lira continued to decline. The rationality shift in monetary policy led to a sharp increase in the key interest rate to 42.5% in December 2023 from 8.5% in May of the same year. Last December, the annual increase in the dollar and euro rate relative to the Turkish lira reached 59.3% and 64.0% respectively. For 2023, the Turkish economy is estimated to have grown at a rate of 4.5% (from 5.5% in 2022), while growth of 2.9% is forecast for 2024.

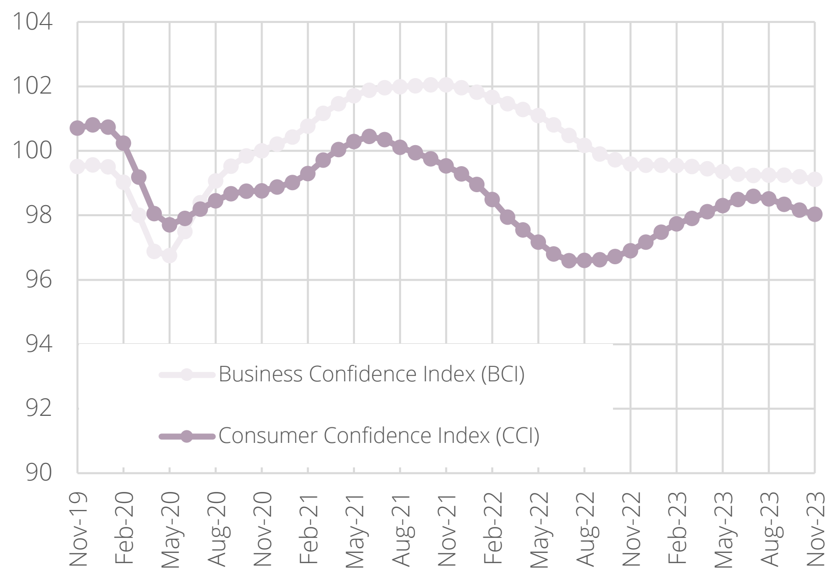
Among Latin American countries, the Brazilian economy expanded by 2.0% in the third quarter of 2023, from 3.5% in the previous quarter and 4.3% in the same quarter of 2022. GDP growth is estimated at 3.0% in 2023, unchanged from 2022, while growth in 2024 is projected at 1.8%.

The OECD business confidence indicator stabilised at levels marginally below its long-term average, while consumer confidence declined for the fourth 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, the average

Source: OECD

B. EU and Euro area economies

- Zero annual real GDP growth in the EU and the euro area in the third quarter of 2023.
- Stronger growth and lower inflation in 2024 and 2025 according to the European Commission's Economic Forecast.
    - Euro area: 1.2% and 1.6% growth, 3.2% and 2.2% inflation for 2024 and 2025
    - EU27: 1.3% and 1.7% growth, 3.5% and 2.4% inflation for 2024 and 2025
- The ECB maintains a tight monetary stance in anticipation of gradual interest rate cuts in 2024.
- Agreement at European Council level on the new fiscal rules, with specific parameters and negotiations for an agreement with the European Parliament still pending.

The European economy has lost momentum, not least due to the high cost of living, weak external demand and monetary tightening. While the EU economy recovered after the pandemic, the upward trend has started to weaken. Real GDP declined on a quarterly basis in the third quarter of 2023, after only marginal increases in the first two quarters of 2023. The cost of living was higher than expected and the slowdown in world trade was burdensome. Tight monetary policy (with a view to containing inflation) has also hurt economic activity. As a result, the European Commission's forecasts have been revised downwards since the summer and spring. However, a moderate recovery is expected going forward on account of rising consumption, continued wage growth and the gradual decline in inflation. Despite the tight monetary policy, investment is expected to continue to grow. Inflation in the euro area reached its lowest level for two years in November and is expected to continue declining.

Amid heightened geopolitical uncertainty, future energy price developments remain uncertain. As a result, the EU's cost competitiveness has been affected, especially for Member States with a large energy sector. Large differences in inflation levels, wage growth, and prices could lead to long-lasting competitiveness differentials for some member states. Oil prices rose sharply after the onset of the Middle East crisis in October but have fallen again since then. However, there is considerable uncertainty about their trajectory in 2024. The Commission has revised its oil price forecast upwards.

Geopolitical tensions in many regions of the world (especially in Ukraine and the Middle East) 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 third quarter of 2023

Economic activity stagnated in the third quarter of 2023 in the European Union (EU) and the euro area (EA). Year-on-year, GDP remained unchanged in both the EA and the EU, down from +0.6% and 0.5% respectively in the previous quarter. In seasonally adjusted quarter-on-quarter terms, GDP remained unchanged in the EU and recorded a marginal decrease of 0.1% in the EA, after a 0.1% increase in both the EA and the EU in the second quarter of the year.[1] Real GDP increased in the third quarter in France, Spain, Belgium and Latvia and stagnated in Italy. GDP fell by 0.1% in Germany and by 1.8% in Ireland. Figure 1 in the Appendix shows the growth rate by EA country.

[1] Eurostat GDP release, 7 December 2023

Private consumption stagnated quarter-on-quarter. This suggests that high consumer prices for most goods and services had a stronger impact than expected. Year-on-year, private consumption fell by 0.2% in the third quarter in both the EA and the EU. Public consumption increased year-on-year in the third quarter of 2023 by 0.2% and 0.1% in the EU and the euro area respectively, after zero second-quarter growth in the EU and a marginal 0.1% increase in the EA. A year-on-year decrease was recorded in the third quarter of the year in the exports of goods and services in the EU (-1.4%), and in the euro area (-1.5%), compared with marginal declines of 0%, and -0.2% in the previous quarter, and strong growth in the third quarter of 2022 (4.4% and 4.0%). Imports decreased even more annually, by 2.2% in the EU and 1.9% in the EA. The change in the second quarter was -0.3% and -0.1%, respectively. An increase of 2.3% is forecast for both the EU and the EA in 2024.

Overall inflation in the euro area continued to decline in October. It fell from 5.3% year-on-year in July to 2.9% in October and 2.4% in November, its lowest level in two years. The decrease was mainly driven by energy and food prices but was broadly based. Inflation dispersion within the EU remains elevated but is set to return to normal by 2025 (see Appendix, Figure 4).

The EU labour market continued to perform strongly in the first half of 2023, despite the slowdown in economic growth. In the second quarter of 2023, the unemployment rate reached a new low record of 6% of the labour force. Over the same period, the employment rate reached its highest level since the beginning of the Eurostat series in 2009, with 65.3% of the population aged 15–74. The highest year-on-year rise in employment was recorded in Estonia, Ireland, and Spain. Only three Member States (Romania, Lithuania, and Slovakia) experienced a decline in employment. Figures 5 and 6 in the Appendix show the employment rate and the change in employment by EA country. The largest expansion in the third quarter was recorded in Malta, Ireland, and Spain.

In the third quarter, the unemployment rate ranged from 2.3% in Malta to 11.5% in Spain. Among the major member states, it stood at 2.9% in Germany, 3.0% in the Netherlands, 6.9% in France and 7.2% in Italy. Figure 7 in the Appendix shows the unemployment rate per EA country.

The average general government deficit in the EU countries is estimated to have decreased in 2023. After reaching a record high of 6.7% of GDP in 2020 during the pandemic, the EU deficit fell to 3.3% in 2022, despite significant measures to mitigate the economic and social impact of high energy prices. The European Commission's recent report estimates a reduction to 2.5% for both the EA and the EU in 2023. After reaching a historically high level of close to 92% at the end of 2020, the overall EU debt-to-GDP ratio declined significantly, reaching 85% at the end of 2022. The EU debt-to-GDP ratio is expected to continue to decline and reach 83% in 2023, supported by inflation. The largest declines by the end of 2025 are expected in Greece (25 a.m.), Cyprus (19 a.m.) and Portugal. Figures 2 and 3 in the Appendix present the fiscal balance and the government debt-to-GDP ratio, by EA country.

According to an announcement of 14 December 2023, the European Central Bank decided not to change its three key interest rates, given revised inflation expectations to ensure a timely return of inflation to the ECB's medium-term objective of 2.0%. According to the ECB's estimates, inflation is expected to be close to the 2.0% target in 2025. The ECB's exposure under the asset purchase programme (APP) is decreasing at a steady pace as the Eurosystem no longer reinvests capital payments from maturing securities.

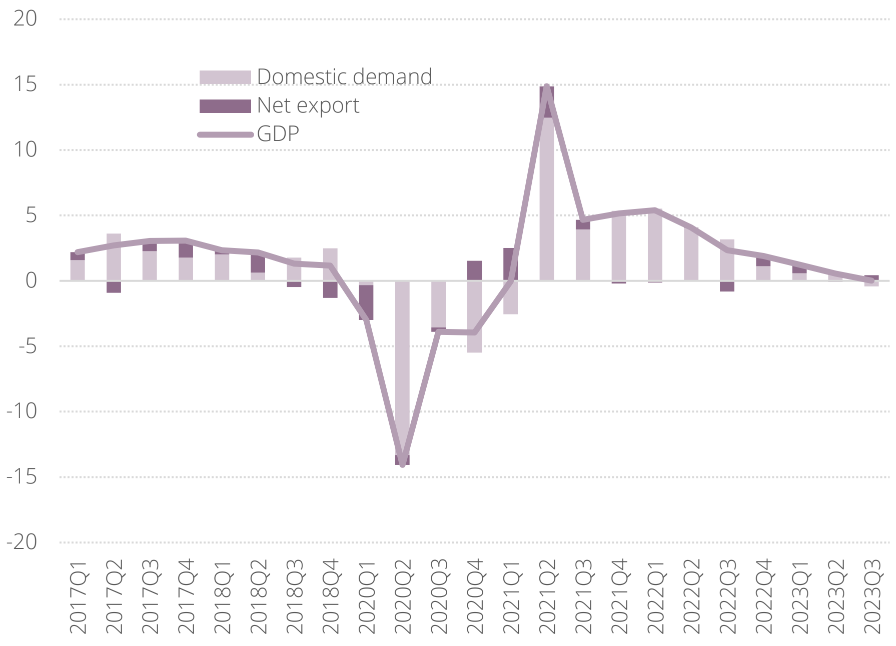
As regards the Pandemic Emergency Purchase Programme (PEPP), the Governing Council intends to continue to fully reinvest the principal payments from maturing securities during the first half of 2024. In the second half of the year, it plans to reduce the portfolio by an average of €7.5 billion per month. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024. Finally, the Transmission Protection Instrument (TPI) is available to offset undesirable, unforeseen market changes that may negatively affect the transmission of monetary policy in the euro area, with a view to price stability.

Contribution of GDP components

Based on the developments in the components of GDP in the euro area (Figure 2.2), the contribution of net exports was positive (+0.4%), higher than in the previous quarter (-0.1%). The increase in the contribution from net exports in the third quarter this year was driven by the larger decline in the contribution of imports relative to exports. The contribution of domestic demand was in the order of -0.4% of GDP, from a positive effect of 0.6 percentage points in the previous quarter. The contribution of private consumption turned negative in the third quarter of 2023, reaching -0.2% from +0.3% in the previous quarter.

Figure 2.2

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



A negative contribution to the change in euro area GDP from domestic demand but a positive contribution from net exports in the third quarter of 2023

Source: Eurostat

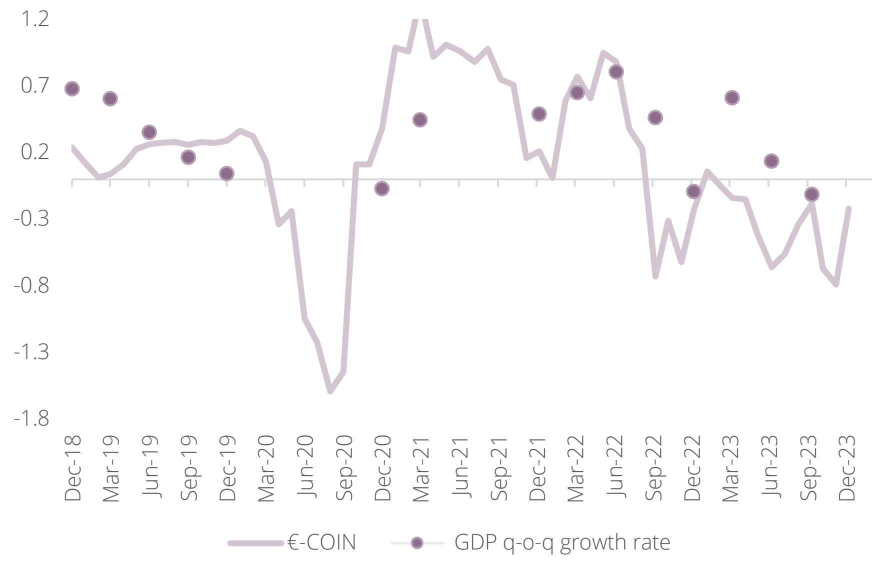
€-COIN index and the Economic Sentiment Indicator

The main leading indicator of economic activity in the euro area and the European Union deteriorated slightly in the fourth quarter of 2023. The €-COIN index decreased in December to -0.22 points from -0.18 in September (Figure 2.3). This small decline presupposes a possible decline in GDP in the coming quarter.

The European Commission's Economic Sentiment Indicator in the EU-27 and the euro area improved in the fourth quarter. The trend was continuously negative from January to September 2023 for both the EU and the euro area, but since October it has been positive. By way of illustration, in December 2023 the economic sentiment indicator stood at 95.6 points in the EU-27 and 96.4 points in the euro area, higher than in the previous month and at levels similar to last year, 0.3 points higher in the EU and 0.3 points lower in the EA than a year earlier (Table 2.2).

Figure 2.3

Monthly €-COIN Index & Eurozone GDP*



The €-COIN index rose in the fourth quarter, halting its decline since the fourth quarter of 2022

*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	Jan -22	Feb -22	Mar -22	Apr-22	May -22	June -22	Jul-22	Aug-22	Sep-22	Oct -22	Nov -22	Dec -22
EU-27 (2020)	112.4	113.6	105.5	103.7	103.8	102.3	98.2	97.5	94.2	92.9	94.1	95.3
Euro area	112.8	114.1	105.8	103.9	104.3	103.4	99	98.3	94.8	94	95.2	96.7

Month	Jan -23	Feb -23	Mar -23	Apr-23	May -23	June -23	Jul-23	Aug-23	Sep-23	Oct -23	Nov -23	Dec -23
EU-27 (2020)	97.4	97.4	97.0	96.9	95.3	94.2	93.8	93.5	93.1	93.4	93.8	95.6
Euro area	99.3	99.1	98.7	98.8	96.4	95.3	94.7	93.8	93.6	93.7	94.0	96.4

Source: European Commission (DG ECFIN), January 2023

Challenges

Europe's economy, and in particular that of the euro area, is facing several challenges. In summary, the main ones are:

- Russia's invasion of Ukraine and its economic effects of high intensity and duration.
- Broader geopolitical tensions, especially in the Middle East (notably in Gaza and Yemen).
- New disruptions in energy supply could potentially have a significant impact on energy prices, global production, and the price level in general.
- Monetary tightening can weigh on economic activity over a longer period and to a greater extent than projected.
- There is a need to coordinate fiscal and monetary policies at the collective and national levels in order to balance the objective of containing inflation expectations and avoid economic downturns.
- The final agreement on the new framework of fiscal rules in the EU is pending, following the European Commission's proposals in April 2023 and the political agreement at the European Council level in December. Negotiations with the European Parliament began during this period.
- The participation in the upcoming European Parliament elections in June and the dynamics of Euro-scepticism constitute a source of uncertainty.
- Growing risks of natural disasters linked to climate change.

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

Table 2.3 shows the forecasts for the main economic variables of the EU and the euro area on an annual basis. According to the latest forecasts, growth in the euro area is estimated at 0.6% in 2023 and a stronger growth rate of 1.2% is projected for 2024. Similarly for the European Union, growth is estimated at 0.6% in 2023 and 1.3% in the current year. Growth is projected for 2025 at 1.6% and 1.7% for the EA and the EU respectively. Private consumption is projected to grow in the EU by 1.3% in 2024 and 1.6% in 2025. For the euro area, its growth is projected to be 1.2% in 2024 and 1.5% in 2025 (Table 2.3). For public consumption, growth of 1.2% in the EU and 1.0% in the EA is forecast for 2024, while expansion of 1.1% and 0.9%, respectively, is forecast for 2025. Gross investment growth is estimated at 1.2% for both the EU and the EA in 2023. For 2024, it is forecast to increase by 1.5% and 1.3% in the EU and the EA respectively. Exports of goods and services are projected to grow by 2.2% in 2024 in both the EA and the EU. Imports are projected to increase by 2.3% in both the EU and the EA in 2024. For 2024, inflation is projected at 3.5% in the EU and 3.2% in the EA.

Table 2.3

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

	EU			Eurozone		
	2023	2024	2025	2023	2024	2025
GDP	0.6	1.3	1.7	0.6	1.2	1.6
Private Consumption	0.4	1.3	1.6	0.6	1.2	1.5
Public Consumption	0.4	1.2	1.1	0.2	1.0	0.9
Gross Investment	1.2	1.5	2.3	1.2	1.3	2.0
Exports of Goods and Services	0.4	2.2	3.2	0.2	2.2	3.1
Imports of Goods and Services	-0.6	2.3	3.2	-0.3	2.3	3.0
Employment	1.0	0.4	0.4	1.1	0.5	0.5
Unemployment (% labour force)	6.0	6.0	5.9	6.6	6.6	6.4
Inflation	6.5	3.5	2.4	5.6	3.2	2.2
Balance of General Government (% GDP)	-3.2	-2.8	-2.7	-3.2	-2.8	-2.7
Debt of General Government (% GDP)	83.1	82.7	82.5	90.4	89.7	89.5
Current Account Balance (% GDP)	2.5	2.5	2.5	2.5	2.6	2.7

Source: European Economic Forecasts, Autumn 2023, European Commission, November 2023

2.2 The Economic Environment in Greece

A. Economic Sentiment

- A slight decline in the Economic Sentiment Indicator in Greece in the fourth quarter of 2023 compared with the previous quarter (106.4, from 110.0 percentage points). A noticeable improvement compared to the same quarter of last year (101.6 percentage points).
- Business confidence weakened in the past three months compared with the previous one in services, declined more strongly in retail trade and industry, while it strengthened considerably in construction.
- The Consumer Confidence Index weakened significantly in October-December compared with the previous quarter, to -43.5 (from – 36.3) points. At the same time, it was markedly higher than a year earlier (-52.6 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.[2]

In the last quarter of 2023, the Economic Sentiment Indicator declined compared with the previous quarter, by 3.6 points. The deterioration resulted from lower business confidence in retail trade, services and industry, with expectations in construction rising significantly without offsetting the overall trend. At the same time, the Consumer Confidence Index stood significantly lower than in the previous quarter, at -43.5 (from -36.3).

Political developments in 2023, both at the domestic and global levels, affected expectations in the industrial sector, but also in construction, systematically hit already from 2022 by the rise in energy and other raw materials prices as a result of the war in Ukraine, as well as by difficulties in the functioning of international supply chains. Especially for the construction sector, expectations surged in the first half of 2023, but its upward trend in the third quarter of 2023 weakened significantly, with expectations returning to high levels in the last quarter of the year. The protracted good weather has reduced the impact of energy costs concerning heating, while the general decline in energy prices has to some extent alleviated pressures in a number of sectors of the economy. On the household side, it is apparent from the beginning of this year that two opposing forces are weighing on developments in consumer confidence. On the one hand, the impact of the rising cost of living is raising the concerns of households about their financial situation in the near future. On the other, political developments in mid-2023 have significantly improved expectations and were crucial for the evolution of the indicator. Overall, however, for 2023 the economic sentiment indicator in Greece averaged 108.0 points, compared with 105.5

[2] 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.

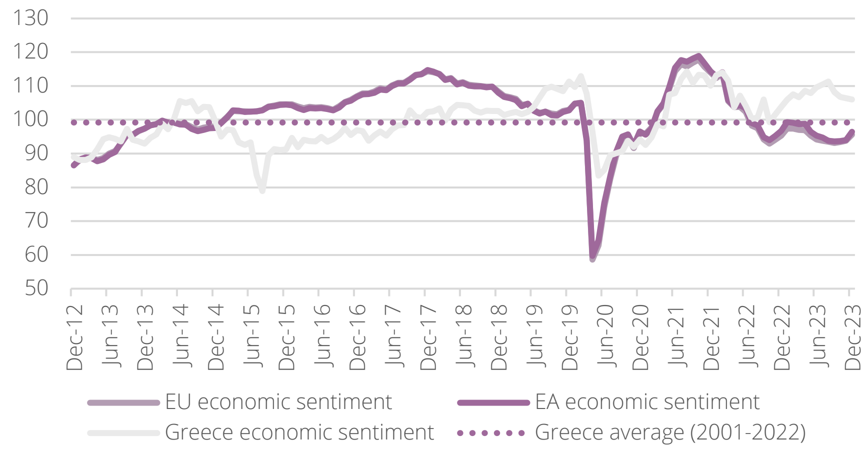
points in 2022, which is – in annual terms – its highest level in 15 years. By contrast, the relevant indicators in the EU-27 and the euro area deteriorated significantly.

In more detail, the Economic Sentiment Indicator in Greece in October-December 2023 mildly weakened compared with the previous quarter (Figure 2.4), to 106.4, from 110.0 points, while it stood at a significantly higher level than the average for the same year (101.6 percentage points).

In Europe, the respective average index stood mildly higher quarter-on-quarter in both the EU and the euro area. In particular, the Economic Sentiment Indicator stood at 94.3 (from 93.5) in the last quarter of 2023 in the EU, and 94.7 (from 94.0) 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 weakened quarter-on-quarter in the fourth quarter of 2023 by 3.6 points

Source: European Commission, DG ECFIN

At the sectoral level, business confidence in Greece weakened sharply in industry and retail trade, weaker in services, while it improved significantly in construction. On the consumer side, the Consumer Confidence Index weakened noticeably compared with the previous quarter. Compared with the corresponding quarter of last year, average indicators increased significantly in construction and to a lesser extent in retail trade and services, while they weakened marginally in industry. In more detail:

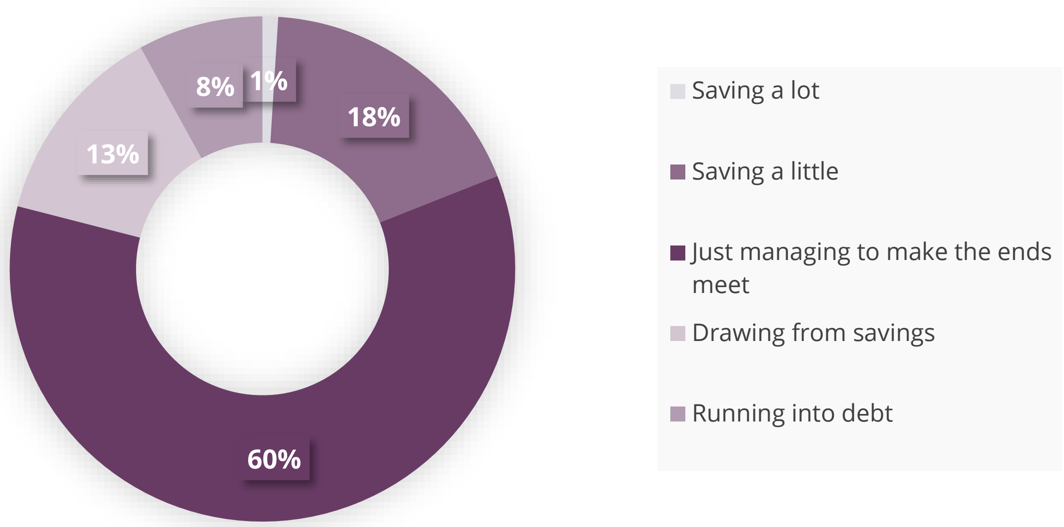
The Consumer Confidence Index in Greece stood marginally higher on average in October-December than in the third quarter of the previous year, at -43.5, from -36.3 points, a level significantly higher than last year (-52.6 percentage points). The corresponding average indicator declined marginally in the EU, to -17.4 (from -17.3 points) and in the euro area (-16.6 from 16.3 points). These levels are much higher than the corresponding levels from a year ago (-25.8 and -24.3 percentage points respectively).

Trends in the constituent response balances making up the overall indicator declined in the last quarter of 2023 compared with the immediately previous quarter. As a result, the Greek consumers' pessimistic expectations of the financial situation of their households over the next 12 months rose sharply, while those for the economic situation of the country strengthened moderately. At the same time, households' assessments of their current situation have eased only moderately, while the willingness to make major purchases in the near term weakened slightly.

In more detail, the percentage of those who are pessimistic about the financial situation of their household over the next 12 months rose sharply, to 56% (from 48% in the previous quarter), while the percentage of those stating the opposite weakened to 7% (down from 12%). At the same time, the proportion of consumers in Greece who hold pessimistic expectations about the country's economic situation increased to 59% (from 52%), with 13% (down from 19%) expecting an improvement. With regard to saving intentions, the percentage of households that do not see savings as likely over the next 12 months rose to 83% (from 81%), while the proportion of those who consider this likely fell to 15%. In the unemployment expectations, the proportion of those expecting the situation to deteriorate rose to 37% (up from 34%), with 21% on average taking the opposite view. The percentage of consumers reporting to be "running into debt" remained at 8% in the fourth quarter of 2023, almost at the same level as in the same quarter of 2022 (7%). The percentage of respondents reporting that they save a little also weakened modestly to 18% (from 21% and against 17% in the same quarter of 2022). Finally, the percentage of those reporting that they were 'just making ends meet' increased slightly to 60%, while the percentage of households reporting that they were 'drawing from their savings' stood at 13% (from 12%), at the same level as in 2022 (Figure 2.5).

Figure 2.5

Consumer survey data on the financial situation of households (October-December 2023)



Source: IOBE

The percentage of those indicating that they are just making ends meet increased compared to the third quarter of 2023 (60%). The percentage of those reporting that they are running into debt remained unchanged.

The business confidence indicator in Industry stood at 95.3 in the final quarter of 2023 (down from 103.8 in the third quarter of 2023), against 97.3 points in 2022. In the main activity data, the indicator for short-term output expectations weakened markedly in the quarter under consideration, averaging +5.0 points from +13.1 units in the third quarter of 2023. At the same time, the mildly negative assessment of the level of orders and demand strengthened (to -18.9, from -9.1 points). The estimates of stocks of finished products suggest a mild expansion (to +9.6 from +2.8 percentage points), while the trends in the export variables are exclusively downward: the expectations for export dynamics in the next quarter declined modestly (+2.3 from +9.3 points), with the assessment for order books and foreign demand weakening slightly (-29.7 from -21.6 percentage points). In the employment expectations, the relevant quarterly average balance marginally declined to -3.2 (from -2.5) on average. Capacity utilisation was significantly lower at 65.1% (down from 76.8%), whereas the months of assured production increased slightly to 5.2 (from 4.7) months on average.

The retail trade confidence indicator was mildly down quarter-on-quarter in the quarter under review, at 113.3 points (from 120.7), a slightly higher performance year-on-year (104.8 points). Among the main variables of the indicator, the average balance of current sales estimates decreased slightly to +43 (from +54) points. Of the companies in the sector, 13% (from 9%) reported that their sales decreased, with 56% reporting the opposite. In terms of projected sales, the +34 points index increased marginally to +40 points, with stocks escalating sharply (to +21 points). Among the other activity data, the balance of expectations for orders to suppliers stood at +17 points, from +22 points in the previous quarter, while concerning sector employment, the average balance of expectations mildly rose, to +33 (from +28) points. Finally, the balance of price expectations, although declining, remained at strongly inflationary levels (+22 from +31 points), with only 8% of the firms expecting a decline in prices and 30% (down from 36%) expecting the opposite. Business confidence deteriorated in the final quarter of 2023 in most of the individual examined branches of retail trade with the exception of household appliances and department stores, where there was a marginal improvement.

Business confidence strengthened sharply in construction in the fourth quarter of 2023, with the balance standing at 153.2 points on average, from 125.0 units in the previous quarter, the largest change among the main sectors of activity. This performance is significantly higher than in the same quarter of 2022 (126.2 points). In the main components, employment expectations in the sector strengthened moderately, as the balance rose from +31 points to +36 points, with 41% (from 36%) of the firms expecting job creation and 5% expecting job losses. The negative business expectations for planned work eased (to -20 from -55 points), while the assessment for the current level of the work programme significantly strengthened (to +21, from +7 points).

The months of secured activity of firms in the sector declined markedly, to 5.0, while the balance of price expectations rose markedly to +40 (from +26), with 4% of the firms expecting them to decline in the short term and 45% (from 28%) to increase. Finally, the percentage of enterprises reporting that no major obstacles to their operation weakened to 12%, while among the other enterprises, 33% (from 28%) reported as the biggest obstacles to their operation labour shortages, 10% (down from 22%) low demand and lack of machinery, and 12% factors such as the general economic situation in the country, high raw material prices, lack of projects, late payments by the State, etc. . At the sectoral level, business confidence rose strongly in private construction, in contrast to a mild upward trend in public construction.

Table 2.4

Economic Sentiment Indicators

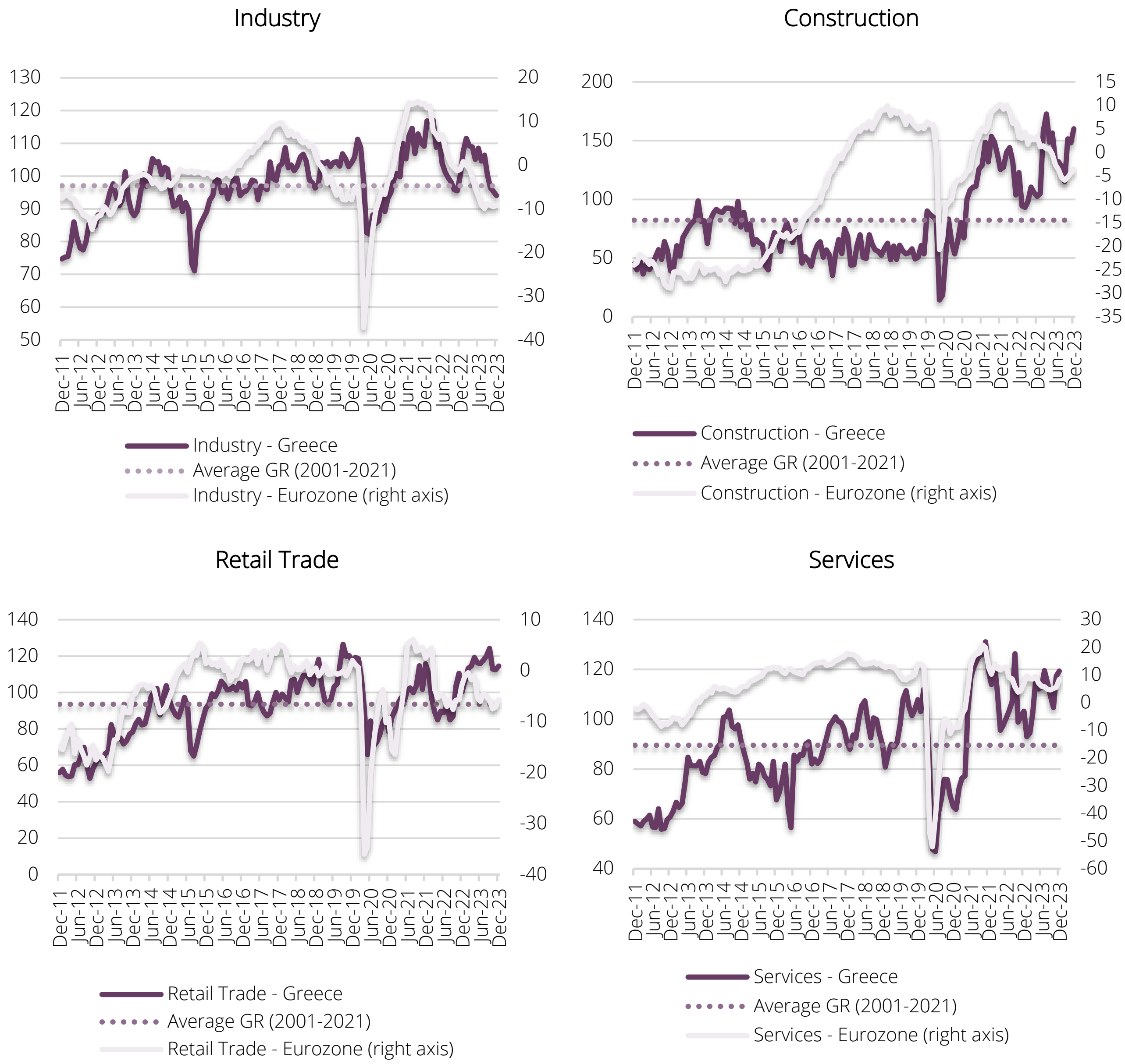
Time Period	Economic Sentiment Indicator			Business Expectations Index (Greece)				Consumer Confidence Index (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	98.6	98.3	85.5	79.9	52.2	61.3	68.1	-57.9
2011	98.3	98.4	83.9	81.1	37.7	60.9	66.1	-69.8
2012	89.0	89.0	83.6	81.4	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	97.3	99.0	106.7	109.4	145.2	111.6	96.6	-43.3
Q2 2023	95.5	96.8	108.7	107.5	145.8	117.2	113.8	-36.7
Q3 2023	93.5	94.0	110.0	103.8	125.0	120.7	114.5	-36.3
Q4 2023	94.3	94.7	106.4	95.3	153.2	113.3	113.8	-43.5

Sources: European Commission, DG ECFIN, IOBE

The confidence indicator in services in the quarter under review was marginally lower than in the previous quarter, at 113.8 points (from 114.5), a markedly higher performance compared with the corresponding quarter of 2022 (101.2 percentage points). Among the underlying variables, the assessment of current demand improved slightly, with the relevant indicator rising by an average of 4 points to +37 points. By contrast, the assessment of the company's current situation followed a downward trend (+31 from +33 percentage points), while the balance of the short-term demand expectations of the enterprises in the sector weakened moderately (+30 out of +35 points).

Figure 2.6

Business Confidence Indicators



Source: IOBE

Quarter-on-quarter, business confidence weakened modestly in the fourth quarter of 2023 in services, more strongly in industry and retail trade, improving significantly in construction.

Looking at the other activity data, the respondents reported a marginal improvement in their employment expectations, which strengthened by 1 point to +16 points, while in prices the average confidence indicator declined marginally to +15 (from +16) points. Finally, the proportion of respondents reporting a seamless business operation increased significantly to 77% on average, with only 7% indicating as the main obstacles to their operation low demand, 3% labour shortages, and 9% factors related to the general economic situation, energy prices, the war in Ukraine, etc. Of the services sectors examined, the indicators weakened slightly in the last quarter of 2023 in IT services, more strongly in land transport and hotels-restaurants-tourist agencies, while it strengthened modestly in miscellaneous business activities and remained unchanged in financial intermediaries.

B. Fiscal developments

- State Budget Balance, January-November 2023: a cash deficit of €1,032 million, overshooting the target of €3.001 million, against a deficit of €5,648 million in the corresponding period of 2022.
- State Budget primary balance, Jan.-November 2023: cash surplus of €5,826 million, against a primary surplus target of €3,771 million and a primary deficit of €1,091 million in the same period last year.
- The improvement was mainly the result of an increase in net revenue (+10.7% or + €5.73 billion) compared with the previous year.
- General government data 2022 (second notification): deficit of 2.4% of GDP and debt of 172.6%, from 2.3% and 171.3% of GDP in the first notification. Slight deterioration due to the downward revision of GDP.
- Estimates for the general government balance in 2023 (Budget 2024): deficit of 2.1% of GDP and debt of 160.3% of GDP.
- State Budget 2024: The state budget balance is projected to improve compared to 2023. A deficit of €6,253 million or 2.7% of GDP is expected from €8,338 million last year. A primary surplus of €2,547 million or 1.1% of GDP from an estimate of €851 million or 0.4% of GDP in 2023.
- Prudent fiscal management is crucial for the coming years.

General Government figures (national accounting basis)

Final General Government 2022 results

According to the latest[3] fiscal data, compiled using the National Accounts Methodology (ESA 2010), in 2022 the General Government (GG) recorded a deficit of €4,892 million or 2.4% of GDP. In addition, the GG primary surplus for that year reached €261 million or 0.1% of GDP (Table 2.5), against a primary deficit target for that year of €2,680 million or 1.4% of GDP.

Table 2.5

General government balance in national accounting terms (ESA 2010) (% GDP)

	2019	2020	2021	2022	2023[1]		2024
					Initial	Estimate	
General Government balance	0.9	-9.7	-7.0	-2.4	-2.0	-2.1	-1.1
GG primary balance	3.9	-6.7	-4.5	0.1	0.7	1.1	2.1
GDP (€ million)	183,347	165,016	181,500	206,620	224,134	222,766	233,775

Sources: ELSTAT press release, 23 October 2023 and Budget Introductory Reports 2023 and 2024, Ministry of Finance, November 2022 and 2023

1.Provisional data and estimates

[3] ELSTAT press release of 23 October 2023

The target overshooting is mainly due to the central government account, which was in a deficit of €7.310 million, compared with an initial deficit forecast of €8.436 million. The social security funds (SSFs) also achieved a better outcome than expected, posting a surplus of €2,743 million against a target of €960 million, while local government agencies had a deficit of €325 million, against a target of a surplus of €60 million. The hospitals also missed their target, reaching a deficit of €424 million, compared to a deficit target of €220 million.

Estimates of the 2023 General Government figures

According to the Introductory Report to the 2024 Budget, the balance for 2023, driven by the energy crisis, is expected to be in a deficit of €4,784 million or 2.1% of GDP, compared to an initial forecast of a deficit of €4,461 million or 2.0% of GDP (Table 2.5). The slight deterioration is estimated to come from the SSFs and local authorities, as their balances will deteriorate relative to the original targets by €153 million and €214 million respectively. The same applies to hospitals which are €119 million below the target. By contrast, the central government balance is projected to exceed the target by €132 million.

Public debt

The level and evolution of GG debt integrate and better reflect fiscal performance than any other variable. This is because some government transactions, within or outside GG, are not registered for various reasons in the annual balance, but are recorded directly under public debt (stock-flow adjustments). For this reason, the monitoring of GG debt developments is necessary in order to have a comprehensive picture of public finance developments. Moreover, a country's level and changes in debt are closely monitored by the investor community and international rating agencies. Negative developments usually adversely affect the country's assessment and lead to higher lending rates.

Table 2.6

Consolidated General Government Debt (€ million)

	2018	2019	2020	2021	2022	2023*
Debt	317,481	334,721	331,093	341,153	353,434	355,000
% GDP	*186.4*	*180.6*	*207.0*	*195.0*	*172.6*	*160.3*

* Estimate

Sources: Eurostat, ELSTAT, EDP disclosure procedure, October 2023 and Budget Introductory Report 2024, Ministry of Finance, November 2023

General government debt increased in 2022 in absolute terms but decreased as a percentage of GDP (Table 2.6). The expansion of public debt stemmed mainly from the deficit in the general government balance of €4,892 million despite achieving a primary surplus of €261 million, as mentioned above. The decline as a percentage of GDP was the result of significant GDP growth. Greece's public debt as a share of GDP (172.6%) was the highest in the EU in 2022, followed by Italy (141.7%), Portugal (112.4%) and France (111.8%).

The final estimate for 2023 points to a significant improvement in government debt. Despite a small increase in absolute terms, strong growth put debt as a percentage of GDP lower. The fiscal performance improved in 2023 compared to 2022 on account of the easing of the pandemic crisis and the associated increase in economic activity, the easing of the impact of the energy crisis, and the curtailment of the government's support measures from previous years.

For 2024, the performance is expected to be even better. A high nominal growth rate and a small reduction in debt in absolute terms, i.e. a significant reduction of the debt-to-GDP ratio, are projected. Greece's exit from the enhanced surveillance, following the implementation of the country's main commitments and agreed reforms, is contributing to this outcome. Recovering investment grade also leads to lower financing costs. A new 10-year government bond was issued in January 2024, with an interest rate of 3.3%.

Execution of the 2023 budget (January – November)

The budgetary performance in 2023 is clearly improved compared to 2022. The economy is recovering from the pandemic crisis and the war in Ukraine and there was less need for support measures. High inflation and stronger economic activity further supported the country's sound fiscal performance.

Fiscal interventions carried out since the beginning of 2023 have strengthened the country's resilience and growth path. These interventions focused on increasing disposable income and wages, smoothing social inequalities, and addressing the economic consequences of the energy crisis and natural disasters due to the climate crisis.

In particular, during 2023, income-enhancing interventions were carried out, including the reform of the special wage grid of doctors of the national health system, the abolition of a solidarity levy for civil servants, and the settlement of wage requests of armed forces.

In addition, to address the economic consequences of the energy crisis, households, businesses and farmers continued to receive support against high electricity prices. Although this support was smaller than in 2022, due to the de-escalation of prices, especially in the second half of the year, there was a continued effort to provide support.

Finally, new tools, such as the market pass, were adopted to address the high cost of food purchases between February and October 2023. This tool was extended until December 2023 for Evros and areas affected by floods. Furthermore, an additional budget of €600 million was adopted in September 2023 to address the economic consequences of natural disasters.

State Budget Balance and Primary Balance

According to State budget implementation data, on a modified cash basis, for the period January – November 2023, a deficit of €1,032 million was recorded in the State budget balance against a deficit target of €3.001 million included for the corresponding period of 2023 in the explanatory report to the 2024 Budget and a deficit of €5.648 million in the corresponding period of 2022. The primary balance stood at a surplus of €5,826 million, against a primary surplus target of €3,771 and a primary deficit of €1,091 million for the same period in 2022. The improvement in the state budget balance compared with last year is mainly due to an increase in net revenue (+10.7% or +€5.73 billion, Table 2.7). A major part of the difference with the target is due to deferred payments of expenditure, which are estimated to be lower by €1774 million compared to the target.

Ordinary budget revenue

The state budget's net revenue amounted to €59.162 million, an increase of €195 million or 0.5% compared to the estimate for the corresponding period included in the explanatory report to the 2023 Budget and by €5.73 billion or 10.7% over the previous year. The total revenue of the state budget amounted to €65.430 million, an increase of €328 million or 0.5% compared to the target.

Table 2.7

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

	Jan. – November		% Change 23/22	2022*	2023* Budget	2023 Est.	% Change 23E/22
	2022*	2023*					
I. SB NET REVENUE (1+2)	53,430	59,162	10.7	59,623	63,885	65,195	9.3
1. Net OB revenue	48,844	54,490	11.6	54,324	56,000	59,714	9.9
OB revenue before tax refunds	*54,395*	*60,757*	11.7	60,477	62,110	66,391	9.8
Less Tax refunds	5,551	6,267	12.9	6,153	6,110	*6,677*	8.5
2. PIP revenue +RRF[4]	4,586	4,672	1.9	5,299	7,885	5,481	3.4
II. SB EXPENDITURE (3+4)	*59,078*	*60,194*	1.9	71,279	71,871	73,533	3.2
3. OB expenditure	50,255	51,607	2.7	60,254	59,909	62,711	4.1
Primary expenditure OB	45,662	44,724	-2.1	55,215	54,058	55,208	0.0
Interest	4,593	6,883	49.9	5,039	5,851	7,503	48.9
4. PIP expenditure + RRF[5]	8,823	8,587	-2.7	11,025	11,962	10,822	-1.8
III. SB Deficit (-)/Surplus (+)	*-5,648*	*-1,032*		-11,656	-7,985	-8,338	
% of GDP	*-2.7*	*-0.5*		-5.5	-3.6	-3.7	
IV. SB Primary Balance	-1,091	5,826		-6,652	-2,134	851	
% of GDP	-0.5	2.6		-3.2	-1.0	-0.4	
GDP	210,170	224,134	6.6	210,170	224,134	222,766	6.0

Source: Monthly SB Execution Bulletin November 2023, Ministry of Finance, December 2023 and Budget Introductory Reports 2023 and 2024, Ministry of Finance, November 2022 and November 2023.

* On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

Most categories increased compared with last year. Ordinary Budget revenue increased by 11.7%, while the net revenue of the ordinary budget increased by 11.6%, with tax refunds increasing by 12.9%. Revenue from income tax was 22.4% higher than last year, due to both higher corporate tax revenue (+46.6%) and higher personal tax revenues (+12.4%).

Tax revenue from goods and services expanded from last year by 8.0%, primarily as a result of a 9.3% increase in VAT revenue. There were significant increases in other current taxes (+21.4%) and other current revenue (+15.9%). By contrast, tariffs, which had increased much last year, fell by 19.4%, and so did property taxes (-7.1%, Table 2.8).

Ordinary Budget Expenditure

State budget expenditure for the period January – November 2023 amounted to €60.194 million, €1774 million lower than the target (€61.969 million) included in the explanatory report to the 2023 Budget but higher by €1,116 million or 1.9% compared to last year, mainly due to higher interest spending by €2,291 million, taking into account contrasting changes in other expenditure

[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

categories. Under the Ordinary Budget, payments are also lower than the target (by €1270 million) but higher than last year (+2.7%). The over-performance compared to the target is mainly due to the deferral of cash payments of the Ministry of Defence's armament programmes by €568 million, as well as the deferred use of non-allocated expenditure. The drop in primary expenditure compared to last year reached 2.1% while interest increased from €4,593 million to €6.883 million (+49.9%). An increase was also recorded in social benefits (+13.8%). A large decrease was recorded in subsidies (-51.9%) and fixed assets (-30.8%, Table 2.9).

Table 2.8

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

	Jan. – November		% Change 23/22	2022*	2023* Budget	2023 Est.	% Change 23E/22
	2022*	2023*					
Net SB revenue	53,430	59,162	10.7	59,623	63,885	65,195	9.3
Net OB revenue	48,844	54,490	11.6	54,324	56,000	59,714	9.9
Tax refunds	*54,395*	*60,757*	11.7	60,477	62,110	66,391	9.8
OB revenue	5,551	6,267	12.9	6,153	6,110	*6,677*	8.5
Income tax, of which:	15,436	18,900	22.4	17,012	18,476	20,566	20.9
--Personal	10,186	11,447	12.4	11,047	11,460	*12,288*	11.2
--Corporate	*4,057*	*5,948*	46.6	4,629	5,662	*6,709*	44.9
Property tax	2,545	2,364	-7.1	2,692	2,380	2,539	-5.7
Taxes on donations, inheritance etc.	200	219	9.5	226	226	239	5.8
Tariffs	403	325	-19.4	431	424	369	-14.4
Taxes on goods and services, of which:	28,986	31,292	8.0	31,584	32,517	33,707	6.7
--VAT	*19,828*	*21,663*	9.3	21,422	22,217	*23,231*	8.4
--Excise duties	*6,344*	*6,390*	0.7	6,984	7,115	*7,038*	0.8
Other production taxes	1,058	1,059	0.1	1,165	1,029	1,245	6.9
Other current taxes	1,550	1,882	21.4	2,108	2,369	2,353	11.6
Social contributions	51	53	3.9	56	55	56	0.0
Transfers	5,278	5,423	2.7	6,357	7,953	6,230	-2.0
Sales of goods and services, of which:	774	794	2.6	833	2,418	968	16.2
Other current revenue	*2,687*	*3,114*	15.9	3,301	2,124	*3,592*	8.8
Sales of fixed assets	12	5	-58.3	12	24	7	-41.7
PIP Revenue[6]	4,586	4,672	1.9	5,299	7,885	5,481	3.4

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

Notable payments include: the €786 million grant to Information Society, to serve the needs of the Market Pass and its extension, to the Energy Transition Fund of €367 million for the period from 1 October 2021 to 30 June 2022, as well as the payments of the heating oil subsidy of €100 million. All the above expenses were covered by redeployment from the reserve to fund actions in response to the energy crisis (non-allocated expenditure).

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

Public Investment Programme (PIP)

The revenue of the Public Investment Programme (PIP) and the RRF (measured together under the new classification) amounted to €4672 million, up 1.9% from the previous year. However, without taking into account the disbursement of the RRF tranche, the PIP revenue amounted to €2,954 million, €340 million lower than the target (€3,294 million) yet higher by 86 million or 2.9% compared to last year.

Table 2.9

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

	January- November		% Change 23/22	2022*	2023* Budget	2023 Est.	% Change 23E/22
	2022*	2023*					
SB Expenditure (1+2+3)	*59,078*	*60,194*	1.9	71,279	71,871	73,533	3.2
OB Expenditure (1+2)	50,255	51,607	2.7	60,254	59,909	62,711	4.1
1.Primary OB Expenditure	45,662	44,724	-2.1	55,215	54,058	55,208	0.0
Compensation of employees	12,418	12,816	3.2	13,640	13,796	14,150	3.7
Social benefits	189	215	13.8	391	397	414	5.9
Transfers	28,943	28,410	-1.8	35,086	32,476	33,870	-3.5
(of which SSFs)	*18,172*	*17,748*	-2.3	21,420	21,182	*21,164*	-1.2
Purchase of goods and services	1,575	1,562	-0.8	2,145	1,541	2,364	10.2
Subsidies	243	117	-51.9	400	80	180	-55.0
Other current expenditure	43	48	11.6	55	81	96	74.5
Non allocated expenditure	0	0	-	0	3,156	1,777	-
Purchase of fixed assets	2,251	1,557	-30.8	3,496	2,531	2,358	-32.6
2. Interest (gross basis)	4,593	6,883	49.9	5,039	5,851	7,503	48.9
3. PIP Expenditure[7]	8,823	8,587	-2.7	11,025	11,962	10,822	-1.8

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

Payments on the investment expenditure side amounted to €8,586 million, representing a decrease of €504 million relative to the target and a decrease of €236 million compared to last year. The PIP expenditure includes an amount of €124 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 biological samples and provide nursing aid to coronavirus cases at home and the grant to existing small and medium-sized enterprises in the retail sector that have a physical shop, to develop, upgrade and manage online shops.

2024 Budget

The world economy is undergoing a gradual recovery following the challenges posed by the pandemic and the war in Ukraine, and the resulting higher cost of living. Despite the turmoil in energy and food markets due to the war in Ukraine, as well as strict monetary policies aimed at reducing inflation, the global economy is showing significant resilience. However, economic activity is on a path that is lower than before the pandemic. The European economy, in particular, is showing signs of recession and stagnation. Factors such as high cost of living, weak support for global trade, a tightening of monetary policy and a significant reduction in fiscal support have

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

affected the economy. Growth is expected to pick up slightly, with consumption expected to improve on the back of elevated real wages, investment activity support and rising external demand. Beyond that, the effects of the climate crisis and geopolitical developments have an additional influence on the recovery and the functioning of the world economy.

Regarding fiscal policy, and following the fall in energy prices, the European Commission announced in March 2023 the deactivation of the general escape clause of the Stability and Growth Pact as of 2024. Interventions now focus on targeted measures to support the most vulnerable groups. The revision of the fiscal rules is planned to be finalised in 2024 for their immediate application.

In the area of fiscal management, despite exceptional expenditure on natural disasters and budgetary interventions, a primary surplus of 1.1% is estimated to be achieved in 2023. This achievement reinforces the country's credibility, with the general government debt repayment path declining from 172.6% of GDP in 2022 to 160.3% in 2023. The upgrading of Greece's creditworthiness to investment grade by three of the four international rating agencies recognised by the ECB, and the double upgrading to one notch below the investment grade by the fourth agency, are important confirmations of the improvement of the country's reputation, despite the observed external crises.

Balance and primary balance of the State Budget, 2024

In 2024, the state budget balance is projected to improve compared to 2023, mainly due to projected growth in the economy. It will come from a 4.9% increase in the net revenue of the state budget and a 1.5% increase in expenditure (Table 2.10).

As a result, the budget deficit is expected to reach €6,253 million or 2.7% of GDP from €8.338 million last year. The primary surplus is expected to stand at €2,547 million or 1.1% of GDP, up from €851 million or 0.4% of GDP in 2023. The improvement is projected to come from both an increase in the surplus in the ordinary budget and a reduction in the deficit of the PIP.

The net revenue of the State Budget is projected at €68.379 million, up by €3.18 billion or 4.9% compared with the previous year. Total State budget expenditure for 2024 is projected at €74.632 million, an increase of €1.5% on the previous year. Primary expenditure in the State Budget is projected at €53.395 million, €3.3% less than in 2023.

Table 2.10

Revenue, Expenditure, and Balance of the State Budget 2024 (in € million)

	2023* estimates	2024** budget	% change 24B/23
I. SB Net revenues (1+2)	65,195	68,379	4.9
1. OB Net revenues	59,714	60,567	1.4
Tax refunds	6,677	*6,588*	-1.3
OB Revenues	66,391	67,155	1.2
2. PIP and RRF Revenues[8]	5,481	7,812	42.5
II. SB Expenditure (3+4)	73,533	74,632	1.5
3. OB Expenditure	62,711	62,195	-0.8
OB Primary expenditure	55,208	53,395	-3.3
Interest expenditure	7,503	8,800	17.3
4. PIP and RRF Expenditure[9]	10,822	12,167	12.4
III. SB Deficit (-)/Surplus (+)	-8,338	-6,253	
% of GDP	-3.7	*-2.7*	
IV. SB Primary balance	851	2,547	
% of GDP	-0.4	*1.1*	
GDP (in current prices)	222,766	233,775	4.9

Sources: Monthly SB Execution Bulletin November 2023, Ministry of Finance, December 2024 and Budget Introductory Report 2024, Ministry of Finance, November 2023, Table 3.2.

* On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

** In national accounting terms (ESA 2010)

Ordinary Budget Revenue, 2024

An increase in most revenue sub-categories and an overall increase of 4.9% is forecast for 2024. This increase is due to the high growth rates of the Greek economy, due to its return to normality after the impact of the Covid-19 pandemic and the support measures for households and businesses, to a significant increase in tourism receipts, which in the first eight months of 2023 exceeded their levels in the respective period of 2019 by around 11%, to an increase in wages and pensions, which mainly affects revenues from direct taxes (income taxes), the widespread use of payment cards and the overall increase in electronic transactions and inflationary pressures as a result of the global energy crisis. The special textbox in Section 2.2.C captures the dynamic evolution of the use of payment cards in Greece up to 2022.

The net revenue of the OB is expected to increase by 1.4% in 2024 compared to 2023, to €60.567 million (Table 2.11). Ordinary budget revenue is projected to increase by 1.2%, together with a 1.3% decrease in tax refunds. Income tax revenues are expected to increase by 5.3%, due to higher

[8] The PIP category includes the flows of the Recovery and Resilience Facility for 2021 and 2022.

[9] As above.

personal income (+8.5%) mainly due to the expected increase in wages as well as the new way of taxing the self-employed. A significant increase is expected in fixed asset sales (+228.6%), other current revenue (+15.2%) and transfers (+10.8%).

The increase in transfers is expected to come mainly due to higher ESA-adjusted revenue of the RRF by €1239 million and the co-financed part of the Public Investment Programme by €274 million. A significant reduction is expected in other production taxes (-52.4%), mainly due to the inclusion of a forecast of no reimbursement of the GG by the Bank of Greece and a €106 million reduction in the lumpsum tax on the self-employed. A decrease is also expected in sales of goods and services (-8.2%) and regular property taxes (-2.0%), mainly due to a 10% decrease in ENFIA for owners who will insure their dwellings for natural disasters (Table 2.11).

Ordinary Budget Expenditure, 2024

Total State budget expenditure for 2024 is projected at €74.632 million, €1,762 million or 2.4% higher than the corresponding estimate for 2023, mainly due to the acceleration of projects financed by the RRF, whose expenditure will increase by €1,545 million compared to 2023, as well as higher physical deliveries of weapon systems of the Ministry of Defence.

Table 2.11

State Budget Revenues 2024 (€ million)

	2023* Est.	2024** Budget	% Change 24B/23
SB Net revenues	65,195	68,379	4.9
OB Net revenues	59,714	60,567	1.4
Tax refunds	6,677	*6,588*	-1.3
OB Revenues	66,391	67,155	1.2
Income taxes *Of which:*	20,566	21,652	5.3
--Personal income taxes	*12,288*	13,337	8.5
--Corporate income taxes	*6,709*	*6,696*	-0.2
Property taxes	2,539	2,487	-2.0
Taxes on inheritance, donations, etc.	239	239	0.0
Tariffs and import duties	369	392	6.2
Taxes on products and services *Of which:*	33,707	35,169	4.3
--VAT	*23,231*	*24,379*	4.9
--Excise duties	*7,038*	7,067	0.4
Other taxes on production	1,245	593	-52.4
Other current taxes	2,353	2,428	3.2
Social security contributions	56	56	0.0
Transfers	6,230	*6,902*	10.8
Sales of goods and services	968	889	-8.2
Other current revenues	*3,592*	4,138	15.2
Sales of fixed assets	7	23	228.6
PIP and RRF revenues [10]	5,481	7,812	42.5

Sources: Monthly SB Execution Bulletin November 2023, Ministry of Finance, December 2024 και Budget Introductory Report 2024, Ministry of Finance, November 2023, Table 3.2,

* On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

** In national accounting terms (ESA 2010)

[10] The PIP category includes the flows of the Recovery and Resilience Facility for 2021 and 2022.

A decrease is foreseen in several of the sub-categories of expenditure in 2024. OB expenditure is projected to decrease by 0.8%, with primary expenditure increasing by 3.3%. Employee benefits are projected to increase by 4.8% mainly due to the reform of the public sector wage grid, according to which the basic salaries of all civil servants, family benefits and the position of responsibility allowance are steadily and horizontally increased. Expenditure on transfers to entities within and outside the general government is projected at €32.282 million, down by €1,222 million compared to the 2023 estimate, due to the reduction of measures to tackle the energy crisis. Purchases of goods and services are projected to decline by 31.2% mainly due to lower spending in response to the energy crisis. The subsidies are planned to amount to €81 million, down by €99 million or 55% compared to 2023, mainly due to the increased costs incurred in 2023 from the subsidy to the price of heating oil.

Purchases of goods and services are projected to decline by 37.7% and subsidies by 80.9% mainly due to higher subsidies for motor and heating oil throughout 2022. A large decrease is also expected in the purchases of fixed assets (-85.9%) due to the timing of the physical delivery of the Ministry of Defence's armaments programmes in 2022 and 2023. There was a large increase last year due to the increase in physical deliveries of the Ministry of Defence's armaments programmes. An increase is foreseen in social benefits (+7.9%), due to the increase in the heating allowance, unallocated funds (+14.2%) and interest (+16.7%, Table 2.12). A large increase (83.5%) is foreseen in the purchases of fixed assets, mainly due to higher physical deliveries of weapon systems by the Ministry of Defence.

Table 2.12

State budget expenditure 2024 (€ million)

	2023* Est.	2024** Budget	% Change 24B/23
SB expenditure (1+2+3)	73,533	74,632	1.5
OB expenditure (1+2)	62,711	62,195	-0.8
1.OB primary expenditure	55,208	53,395	-3.3
Compensation of employees	14,150	14,833	4.8
Social benefits	414	411	-0.7
Transfers	33,870	32,282	-4.7
(Of which to SSFs)	21,164	20,942	-1.0
Purchases of goods and services	2,364	1,626	-31.2
Subsidies	180	81	-55.0
Other expenditure	96	111	15.6
Unallocated funds[11]	12,882	15,210	18.1
Purchases of fixed assets	696	1,277	83.5
2. Interest (in gross terms)	7,503	8,800	17.3
3. PIP + RRF expenditure[12]	10,822	12,167	12.4

Sources: Monthly SB Execution Bulletin November 2023, Ministry of Finance, December 202 and Budget Introductory Report 2024, Ministry of Finance, November 2023, Table 3.2.

* On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

[11] Περιλαμβάνουν τις δαπάνες ΠΔΕ+ΤΑΑ.

[12] The PIP category includes the flows of the Recovery and Resilience Facility for 2021 and 2022.

** In national accounting terms (ESA 2010)

The special text box in section 2.2.B shows the breakdown of Greek public expenditure by main categories before and after the debt crisis, as well as compared to the average in Europe.

Public Investment Programme, 2024

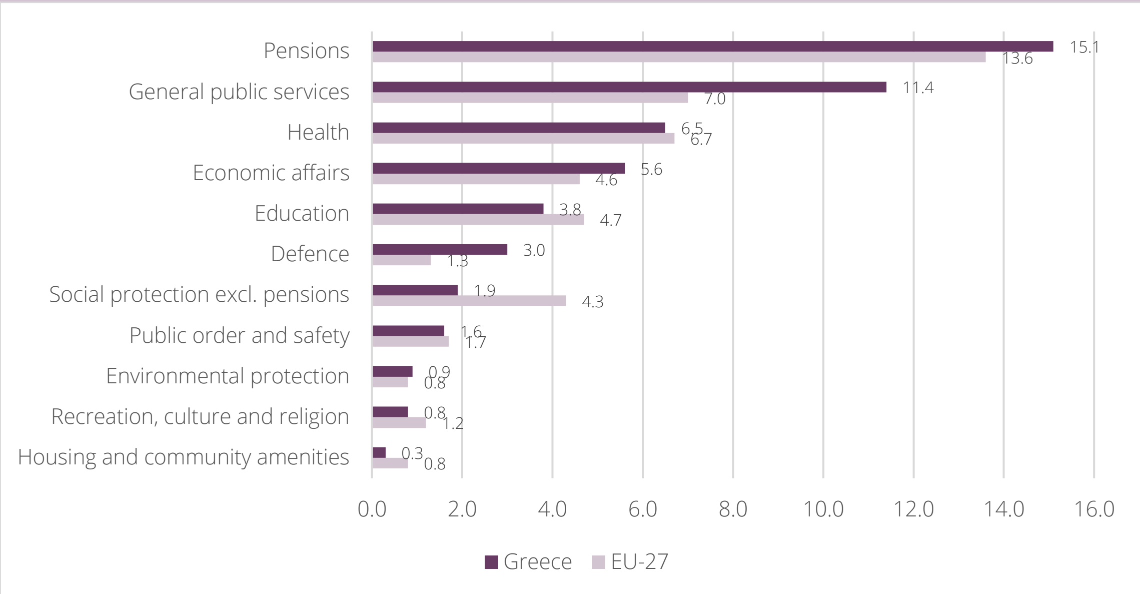
A 42.5% increase in revenue from the PIP+RRF is expected in 2024 compared to last year. Expenditure under the PIP+RRF is expected to amount to €8,750 million (+12.4% compared to last year), of which €6,800 million relates to projects co-financed by the EU and €1,950 million relates to projects financed purely from national resources. The higher expenditure of the national component includes the financing of measures such as compensation, financial support and subsidies to relieve affected enterprises and households from natural disasters and to repair the damage caused by these disasters.

Special text box of section 2.2.B

Evolution of public expenditure in Greece by main categories before and after the crisis, relative to the rest of Europe

Both in Greece and in the countries of the European Union, public spending accounts for a large share of GDP. In fact, this share has been increasing over time as in both Greece and the EU it was higher in 2021 (the year with the latest available data) than in 2008. In particular, general government total government expenditure accounted for 46.7% of EU-27 GDP in 2008 and reached 51.1% in 2021. The corresponding figures for Greece were 50.8% and 57.4%. Both before and after the economic crisis, Greece has a larger public sector than the EU average.

Figure B2.2B.1. General government expenditure by category in 2008 (as % of GDP)

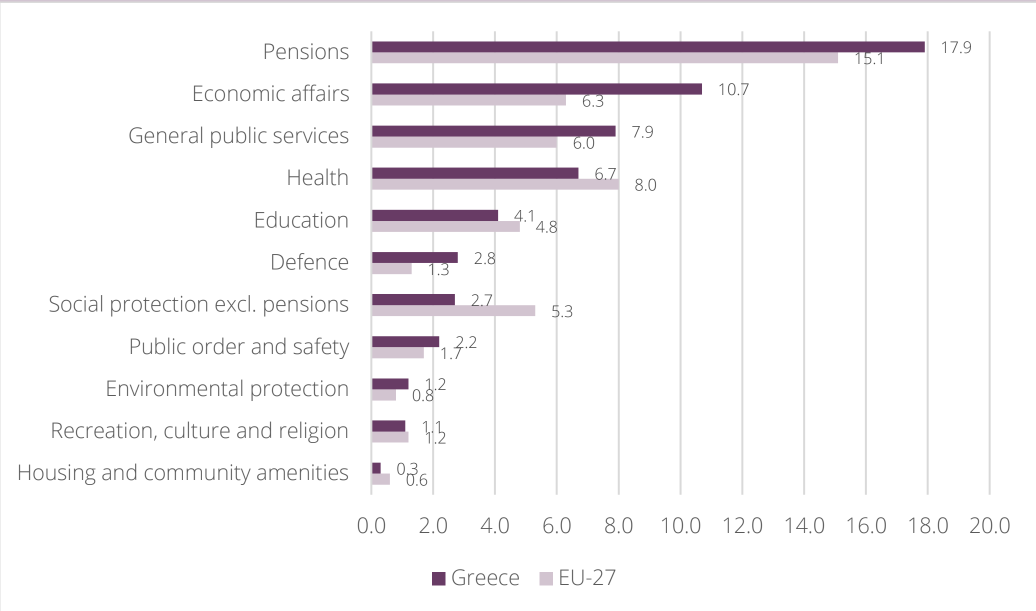


Source: Eurostat, Data processing: IOBE.

Figure B.2.2B.1 provides a breakdown of public expenditure by category for 2008. We observe that spending was at similar levels in several categories. However, there are differences in critical areas such as education and social protection other than pensions, with Greece falling short in both categories. By contrast, Greece spent a higher share of GDP on pensions, defence (more than double), general public services and economic affairs. The higher spending on pensions is due to the large share of the pay-as-you-go pillar in the pension system coupled with adverse demographic trends, in defence it is related to heightened geopolitical instability in the region, while general public services include the remuneration of civil servants and the cost of servicing public debt.

Figure B.2.2B.2 provides an analysis similar to that in Figure B.2.2B.1 but for the year 2021. In the field of social protection other than pensions (unemployment, family policies, etc.) there is an increase compared to 2008, for both Greece and the EU, and a trend towards convergence of Greece with the European average, although the distance remains long. There is also some convergence in the education sector, although expenditure in Greece remains quite low. In the health sector, the gap has increased, despite the higher percentage for both. Defence spending is at a similar level to 2008. Payments to general public services are reduced, largely due to the restructuring of Greek public debt under the adjustment programmes, but there is still a divergence with the EU. Pension expenditure is higher in both the EU-27 and Greece compared to 2008. Greece's deviation from the European average is also growing. Higher spending in Greece is also recorded for public order, environmental protection, economic affairs (including energy, fuel, agriculture, forestry, labour relations, etc.) and recreation- culture-religion. Spending on economic affairs has increased in the EU as well.

Figure B2.2B.2. General government expenditure by category in 2021 (as % of GDP)



Source: Eurostat, Data processing: IOBE

The fiscal space for Greece is projected to be limited and invaluable in the medium to long term due to the high public debt and the need for systematic primary surpluses. The country's general fiscal performance has improved, as public debt gradually decreases as a % of GDP and primary surpluses are being achieved. However, further improvements in both the quality of public services and fiscal performance can be brought about by streamlining some services and increasing convergence with European averages, especially in the general public services category. A convergence with the EU27 average in the expenditure on economic affairs and general public services could gradually release budgetary resources above 6 pp. of GDP per year, with beneficial prospects for public health, education and social protection other than pensions, where there is a chronic shortfall.

C. Financial developments

- The European Central Bank has kept key interest rates unchanged in the fourth quarter, following 10 successive hikes since mid-2022, with the expectation of a gradual decline in the following quarters.
- In the fourth quarter of 2023, the “investment grade” for the Greek State was recovered from two additional international rating agencies, S&P and Fitch, following R&I, Scope and DBRS.
- The cost of new government borrowing shows a milder increase than in other European countries.
- The cost of new borrowing in the private sector increased further in the fourth quarter of 2023.
- The difference between the average interest rate on loans and deposits (interest margin) has increased to its highest level in at least 20 years.
- Credit growth to firms recorded a significant slowdown in 2023, while the credit contraction to households continued.
- Non-performing loans (NPLs) on banks’ balance sheets recorded a slight further improvement in the third quarter of 2023, to 7.9% of total loans.

The Hellenic Republic recovered its investment grade in the second half of 2023, after 13 years, from three of the four international rating agencies recognised by the ECB (DBRS, S&P, Fitch) while the fourth agency (Moody’s) ranks Greece only one notch below investment grade. The systematic improvement of the international investment community’s confidence in the Greek economy was also reflected in the reduction of the spread in the cost of new borrowing of the Greek government compared to other countries. At the same time, however, challenges in the international environment are intensifying, including the apparent persistence of high interest rates this year, political uncertainty due to upcoming elections in the US and the EU, as well as the risks of economic instability stemming from the ongoing wars in Ukraine, Middle East, and Yemen.

In 2023 as a whole, stock prices in the domestic capital market recorded one of the highest positive performances worldwide. The overall index increased by 39% throughout the year, while the banking index increased by 65.7% over the same period.

Despite the de-escalation of the rate of inflation internationally, it remains above the desired levels, resulting in a market expectation that the cost of money will remain high for longer than initially expected. After ten successive hikes in key interest rates since mid-2022, cumulatively by 450 basis points, the ECB maintained interest rates stable in the fourth quarter of 2023. Markets are anticipating a stabilisation of key interest rates, with a gradual decline towards the end of 2024, cumulatively by up to 150 basis points, but remaining above levels before the start of the upward path. Indicatively, in interest rate derivatives markets, the 3-month Euribor is anticipated to stand at 2.6% at the end of 2024, from close to 4% at the end of 2023 and -0.5% at the beginning of 2022. With regard to quantitative easing tools, the ECB has ceased the reinvestments of maturing bonds under the APP since mid-2023, while continuing the reinvestments of maturing bonds under the PEPP until the end of 2024, without net new purchases.

Among the negative trends in the financial system, private deposits declined at the end of 2023, credit growth to firms recorded a significant slowdown throughout the year, while the credit contraction to households appeared unabated. Among the challenges inherited 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, the NPL ratio on the banks' balance sheets showed only a slight improvement in the first nine months of 2023. Moreover, the share of deferred taxation in equity remains high, while banks' exposure to government bonds has increased.

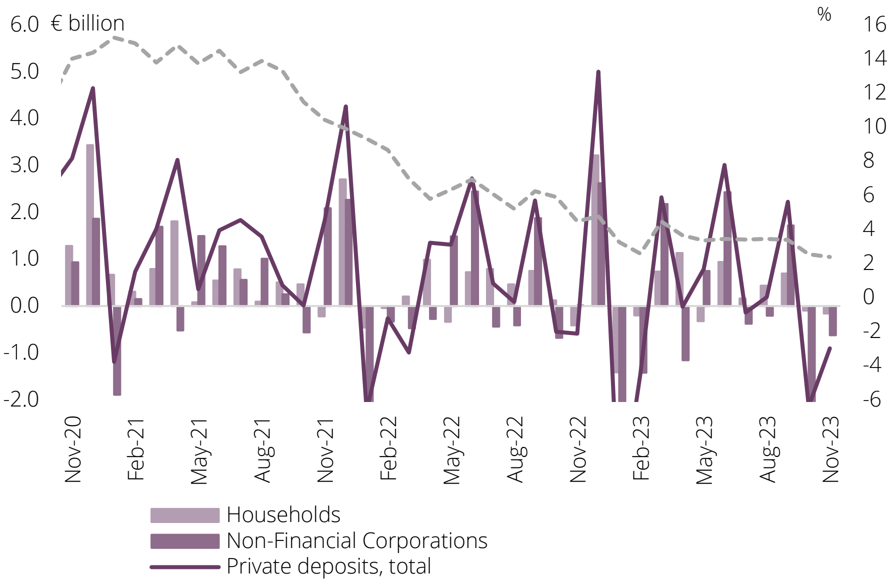
Among the positive trends in bank fundamentals, the spread in private sector borrowing costs vis-à-vis other countries narrowed, while organic profitability indicators improved significantly. The recent agreement with the European Commission to extend the loan strand of the National Recovery and Resilience Plan is an opportunity to further stimulate credit for productive investments, while its timely implementation remains a challenge.

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 capital markets. The seemingly durable tighter monetary policy is slowing down growth rates, affecting the financial sector's outlook, including its asset quality and profitability prospects.

On the banks' liabilities side, private deposits decreased by €0.8 billion in September-November, of which €1.2 billion came from corporate outflows and €0.4 billion from household inflows (Figure 2.7). On an annual basis, private deposits decreased by €1.9 billion in September-November. The year-on-year rate of change stood at 2.4% in November, down from an average rate of 4.8% in 2022.

Figure 2.7

Monthly net flow of private deposits at Greek banks



Private sector deposits decreased by €0.8 billion in September-November 2023, compared with an increase of €1.1 billion in the same period of 2022

Source: Bank of Greece

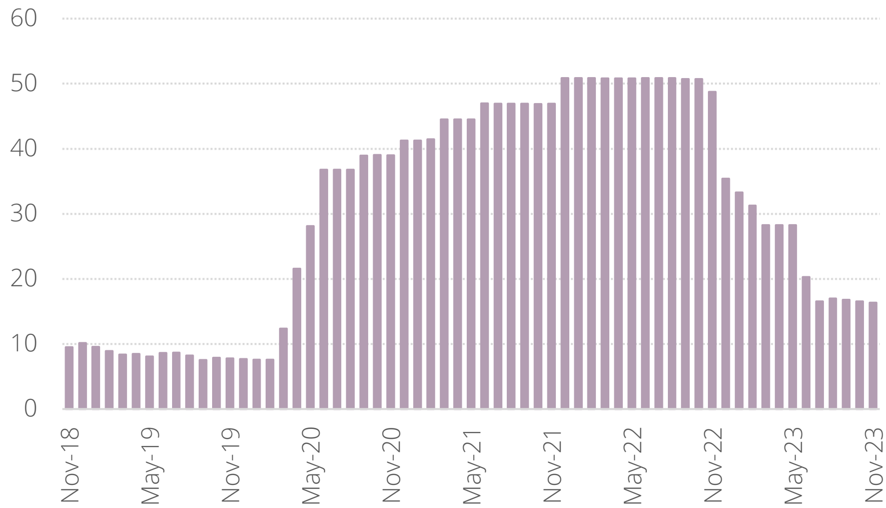
For 2024, the strain on private deposits is expected to continue, with an overall moderate upward trend. As private consumption and tourism earnings slow down, while inflation remains higher than before the crisis in 2022, pressure on real disposable income and on household and corporate savings is expected to continue.

The second part of banks' liabilities relates to Eurosystem funding. The gradual increase in the cost of providing liquidity by the ECB has significantly reduced the use of long-term Eurosystem funding tools such as LTROs, by €32.4 billion on an annual basis in November 2023 (figure 2.8). At the same time, the assets of the domestic banking system that are eligible as collateral for monetary policy operations, as reflected in the Bank of Greece's financial statements, decreased over the same period, reaching €30.6 billion in November 2023, down from almost €69 billion in mid-2022.

On the third part of banks' liabilities relating to capital market financing, on the one hand, the recoupment of investment grade for the state as well as gradually for private securities creates a positive outlook, on the other, this is partly offset by the international increase in the cost of money.

Figure 2.8

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



The use of Eurosystem liquidity-providing tools to Greek banks further declined at the end of 2023, to €16.3 billion in November

Source: Bank of Greece

On the bank assets side, the 12-month growth rate of credit to the domestic private sector remained low, at 1.5% in November 2023 (Table 2.10). The corresponding rate to non-financial corporations (NFCs) was 4.3% in the same month (Figure 2.9), while the new net flows to enterprises were positive but significantly reduced in the first 11 months of 2023, to €1.2 billion. At the same time, the change of credit to sole proprietors and households continues to be negative.

Private sector financing is being dampened by changes in the supply of and demand for loans, driven by higher interest rates. On the supply side, delays in the implementation of the loan leg of the National Recovery and Resilience Plan "Greece 2.0" weigh on the provision of business credit.

From a loan demand perspective, rising money costs and international outbreaks 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 for the third quarter of 2023 showed expectations of a small pick-up in demand for new loans in business credit, after a downturn in the first half of the year. The expectation of stronger demand concerns small and medium-sized enterprises, long-term loans, and consumer credit, while demand for housing credit is expected to stagnate. Credit terms remained stable for another quarter and were not expected to change in the short term.

Table 2.13

Domestic bank financing and average interest rates per portfolio

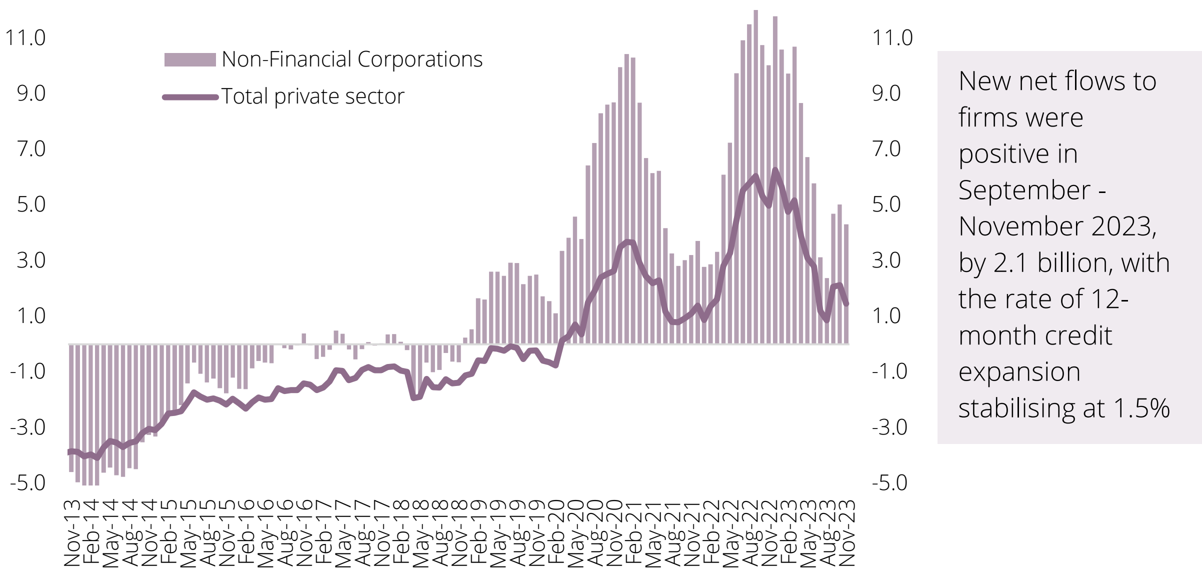
Quarter/Year	4/22	1/23	2/23	3/23	Oct.23	Nov.23
Annual % change of 12-month flows*						
Total private sector	5.5	5.2	3.3	1.4	2.1	1.5
Households & NPIs	-2.3	-2.5	-2.7	-2.4	-2.2	-2.2
Consumer credit	1.0	1.8	1.5	2.1	2.9	2.7
Mortgage credit	-3.2	-3.6	-3.9	-3.7	-3.6	-3.6
Sole proprietors and unincorporated	0.0	-1.6	-2.4	-3.3	-3.0	-4.3
Non-financial corporations	10.9	10.3	7.1	3.4	5.0	4.3
Interest rates on new loans (period average, %)						
Consumer credit	10.7	10.9	11.4	11.6	11.3	11.6
Mortgage credit	3.60	3.76	3.96	4.24	4.49	4.44
Loans to non-financial corporations	4.43	5.32	5.79	6.23	6.05	6.15

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*)



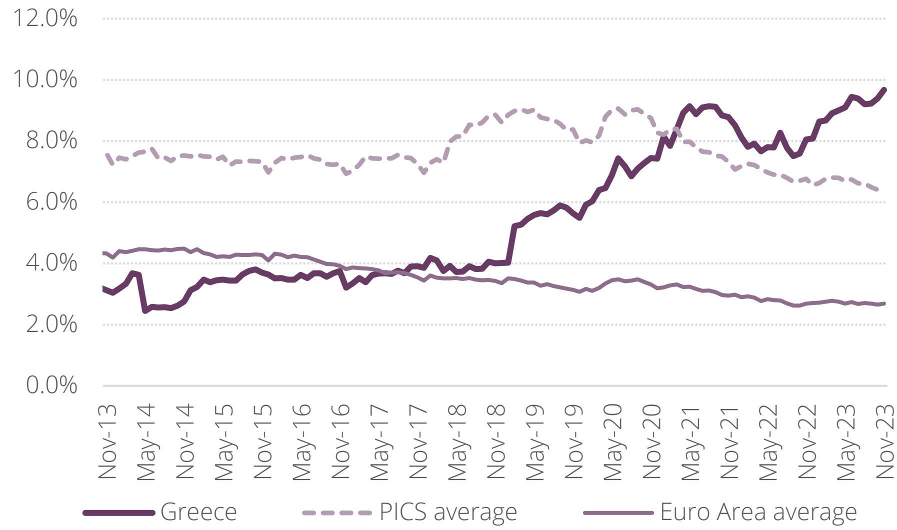
Source: Bank of Greece

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

On the assets side, banks' exposure to sovereign debt increased, standing at €30.4 billion in November 2023 or 9.7% of their total assets. Thus, the share of Greek banks' total assets held in government bonds has widened the divergence from the remaining "south" euro area countries, which have a significantly higher share than the euro area average (Figure 2.10).

Figure 2.10

Banks' government bond holdings over total assets (%)



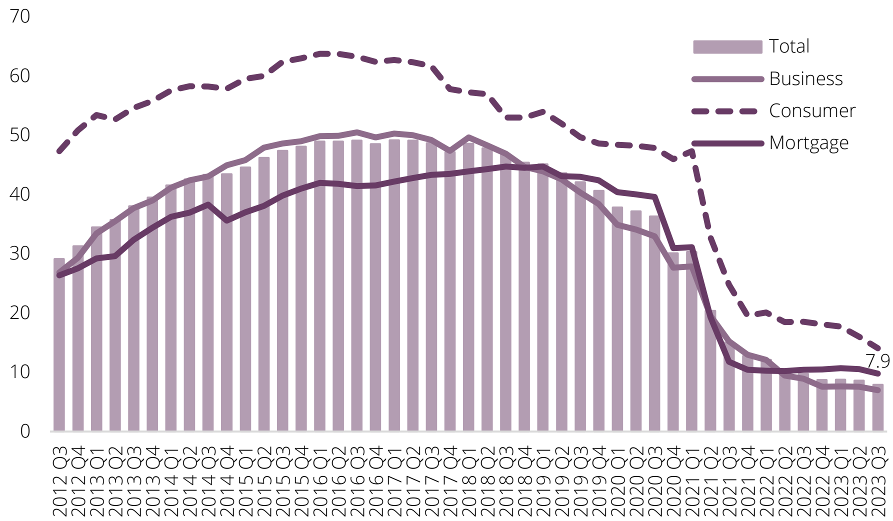
The relative exposure of Greek banks to sovereign bonds expanded in late 2023 and deviates significantly from the euro area average

Source: ECB

The non-performing loans (NPLs) on banks' balance sheets registered a further slight improvement in the third quarter of 2023, to 7.9% of banks' total loans, to €11.7 billion, from 8.4% and €12.5 billion in the previous quarter. The pace of NPL reduction has declined noticeably in 2023, after the expiry of the state guarantee securitisation scheme Hercules at the end of 2022. The overall level of NPLs remains higher than in the other European countries, where it stands at low single digits. In business credit, the NPL ratio decreased from 7.3% to 7.0% of relevant loans, in consumer loans, it decreased from 16.0% to 14.1% and for housing loans, it fell from 10.6% to 9.8%.

Figure 2.11

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



In the third quarter of 2023, NPLs registered a small decline, to 7.9% of banks' total loan portfolio

Source: Bank of Greece

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

In addition to NPLs on banks' balance sheets, a very significant volume of loans, formerly bank NPLs, is managed by Credit Servicing Firms (CSFs). Indicatively, in the third 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 within and outside the banking system's balance sheets, remains very high, with negative effects on the efficient allocation of financial resources and the prospects for economic recovery. For this reason, a well-functioning secondary market for loan and credit claims and tools such as the out-of-court workout mechanism are of high importance.

In the medium term, the fatigue in reducing NPLs is expected to persist, also owing to their lower base. A possible new round of the "Hercules" securitisation scheme under discussion is likely to have a positive effect. At the same time, there is a notable risk of new NPLs in portfolios with variable rates such as housing, as a result of persistently elevated interest rates. According to the Bank of Greece's Interim Monetary Policy Report (December 2023), new NPL flows were recorded in 2023.

In terms of new credit in late 2023 and in 2024 as a whole, credit to households is expected to continue to contract. By contrast, a significant recovery of credit expansion to enterprises is expected, with the acceleration in the implementation of the loan component of the National Recovery and Resilience Plan, for which the €12.7 billion envelope agreed for Greece until 2026 was extended by an additional €5.0 billion. Furthermore, an agreement was reached with the European Commission on the revision of the Greece 2.0 Plan and on the proposal to use REPowerEU funding.

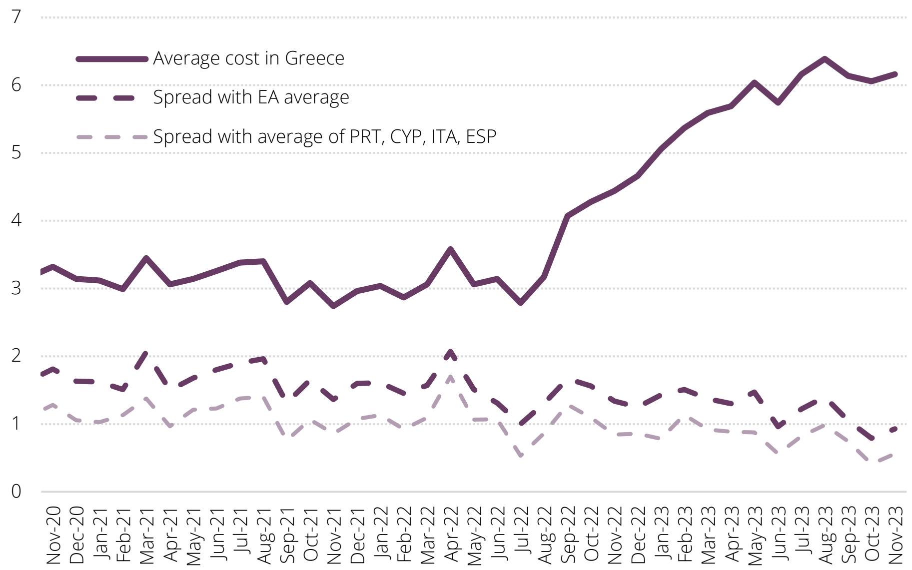
Interest rates on new deposits increased slightly in September - November 2023, to 0.70% and 0.39% for non-financial corporations (NFCs) and households, respectively. Over the same period, the average interest rate on new loans increased to 6.2%, standing at around 6.3% for individuals and 6.1% for NFCs. The spread of the average interest rate on loans and deposits (interest rate margin) remained very high in the same period, at 5.7%, its highest level in 20 years (for which data are available), compared to 4.2% in 2022.

The average cost of new bank financing for private sector NFCs decreased to 6.1% in November (Figure 2.12). However, the cost of financing Greek businesses is higher than in the rest of the euro area. By way of illustration, according to the ECB's weighted cost of bank lending, the cost to non-financial corporations in November 2023 stood at 5.2% in the euro area, and 5.6% in the countries of the euro area "south" (Portugal, Italy, Cyprus, Spain). As a result, the spread of borrowing costs for Greek businesses relative to the euro area average and the "south" reached 93 bps and 56 bps respectively. Compared with the pre-fiscal crisis level of 2010, the spread of borrowing costs for Greek businesses relative to the average of the other euro area countries of the "south" remains significantly higher.

Amid rising global sovereign bond yields in mid-2023, Greek sovereign bond yields were relatively stable, declining to around 3.3% in late 2023, with the spread narrowing vis-à-vis other European countries. This was supported by a pick-up in confidence from a gradual return to investment grade and a reduction in domestic political risk. Thus, for the 10-year security, the average yield was 4.0% in 2023 as a whole and 3.3% in December (figure 2.13). The additional burden on the new 10-year borrowing costs for the Greek State relative to the rest of the euro area decreased further in late 2023. It stood in December 2023 at 118 bps and 2 bps relative to the German bond and the average of the euro area countries of the "south", respectively, down from 214 bps and 56 bps at the end of 2022. Despite this progress, the spread vis-à-vis the German bond remains significantly higher on average compared to the first decade of the country's accession to the euro area (54 bps).

Figure 2.12

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



Interest rates on new private sector borrowing fell to 6.2% in November, with the spread to the average cost of borrowing in the "south" euro area countries at 56 bps

Source: ECB

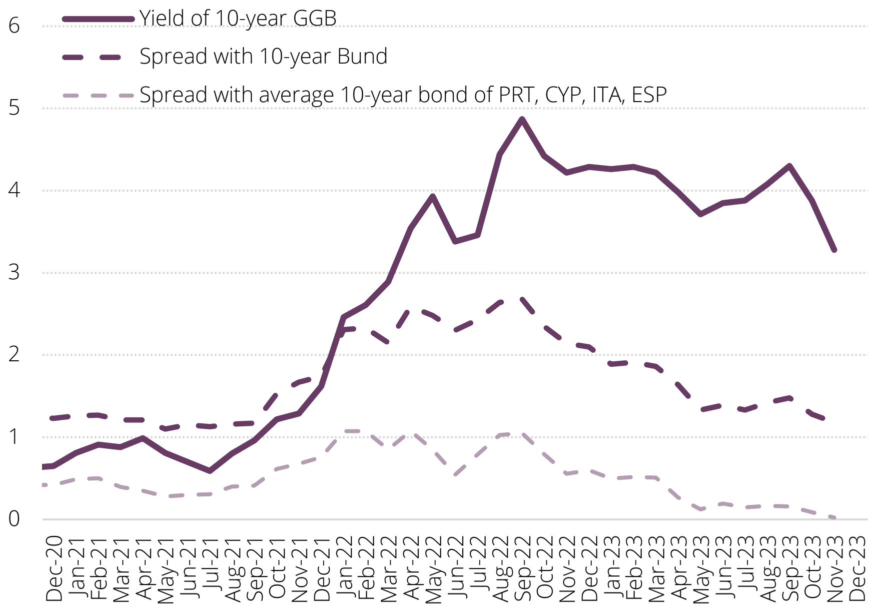
In the context of the financing strategy of the Greek public sector, in the course of 2023 the PDMA drew more than €9.5 billion from long-term bond markets. In mid-January 2023, a new 10-year bond was issued, with which the Greek State raised €3.5 billion at an interest rate of 4.27%, of which 78% was absorbed by international investors. In late March 2023, a new 5-year bond was issued, in which the Greek State raised €2.5 billion at an interest rate of 3.92%. In May and June 2023, three Greek bonds were re-issued (10-year, 15-year and 25-year), from which the Greek State raised €0.25 billion, €0.15 billion and €0.20 billion, at 3.97%, 4.14% and 3.99%, respectively. In July 2023, a new 15-year bond was issued in which the Greek State raised €3.5 billion at an interest rate of 4.45%. In the fourth quarter, the PDMA successfully proceeded to smaller re-issuances of long-term bonds. It also repaid €5.3 billion of GLF loans early on 15 December to further reduce short-term debt servicing.

The Greek creditworthiness recovered in the second half of 2023, after 13 years, the desired "investment grade" by five international rating agencies, R&I, DBRS, Scope, S&P and Fitch. Another agency (Moody's) assesses the Greek State as just one notch below investment grade. The stock of Greek public debt remains among the largest worldwide as a percentage of GDP (166.5% in the second quarter of 2023, as presented in the Annex). Its qualitative characteristics, such as the long average repayment period, and a large share of a fixed and low interest rate, counteract this quantitative feature.

For 2024, the "Funding Strategy" published by the PDMA in December refers to a total borrowing requirement of the Greek State of €18.9 billion if the primary surplus target of around €6.9 billion is met. Of the borrowing requirements, the €10 billion will be covered by bond issuance, €4.1 billion will come from other sources such as the European Investment Bank and NGEU, €1.6 billion will come from the sale of shares and other assets and the remainder from liquid assets held by the State.

Figure 2.13

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



The average yield of the ten-year government bond declined to 3.3% in December 2023, while the average spread fell to 1318 bps vis-à-vis the German bond

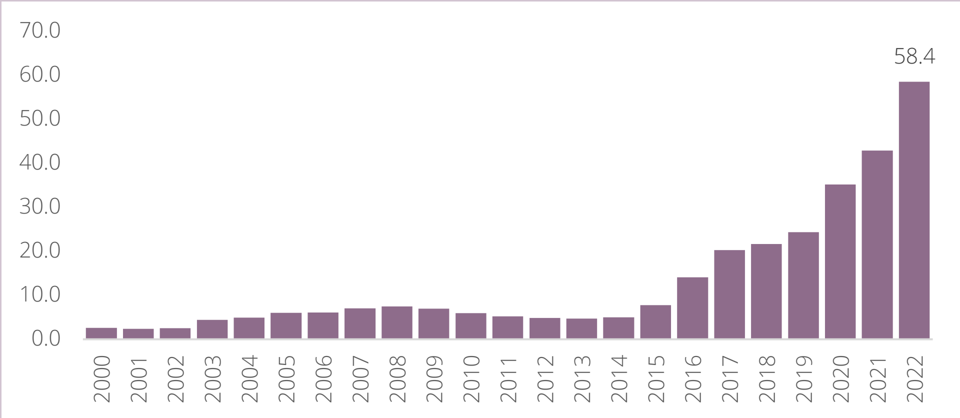
Source: ECB

Special text box of section 2.2.C

Evolution of e-payments with cards in Greece in 2022

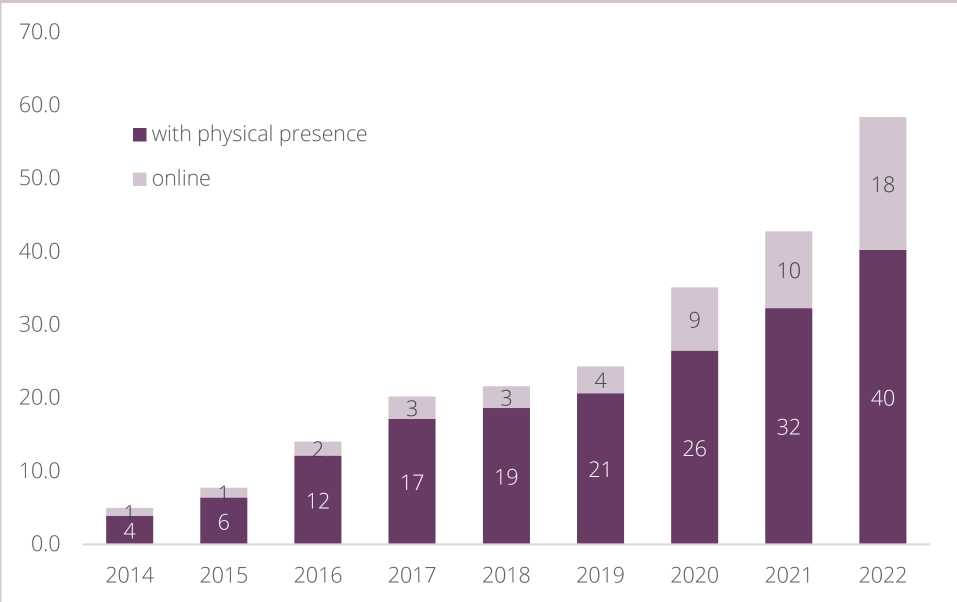
Following the dynamic penetration that started after 2015, 2022 saw a further impressive increase in the value of card transactions, amounting to a total of €58.4 billion (domestic card transactions to domestic providers). This represents an increase of 36.5% on the previous year and corresponds to 42.2% of the total consumption of Greek households in the same year. During 2015-2022, an impressive average annual growth of 33.5% is observed, which is the fastest penetration of card usage recorded in an EU country in the same period.

Figure B2.2C.1. Total value of payment card transactions, Greece 2000-2022 (€billion)



Source: ECB. Data processing: IOBE. Note: The data relate to domestic cards and transactions with domestic providers.

Figure B2.2C.2. Value of card transactions per payment channel, Greece 2014-2022 (€billion)



Source: ECB. Data processing: IOBE. Note: The data relate to domestic cards and transactions with domestic providers.

The pandemic has had a significant impact on payment habits, with a significant positive boost in remote digital transactions. The online trading channel strengthened during and after the pandemic, compared to transactions requiring physical presence, now accounting for almost 1 out of 3 transactions in 2022 from around 1 out of 6 transactions in 2015. This increase, among other things, reflects the impact of fintech technology applications and changes in payment habits, as consumers and firms increasingly choose the internet and remote methods for their transactions.

Recent studies by institutions such as IOBE and Bank of Greece have highlighted the positive correlation between electronic payments and tax compliance. As the dynamics of the spread of electronic payments fade in the coming years due to achieving a higher base, it is crucial to strengthen policy measures that include positive incentives for the targeted use of electronic payments in transactions that remain in the informal economy. This will have beneficial fiscal and social effects, enhancing a sense of tax fairness, in a context where the fiscal “space” remains systematically valuable due to the need to achieve primary surpluses in the medium to long term.

3 MACROECONOMIC PERFORMANCE AND OUTLOOK

3.1 GDP components

A. Recent developments

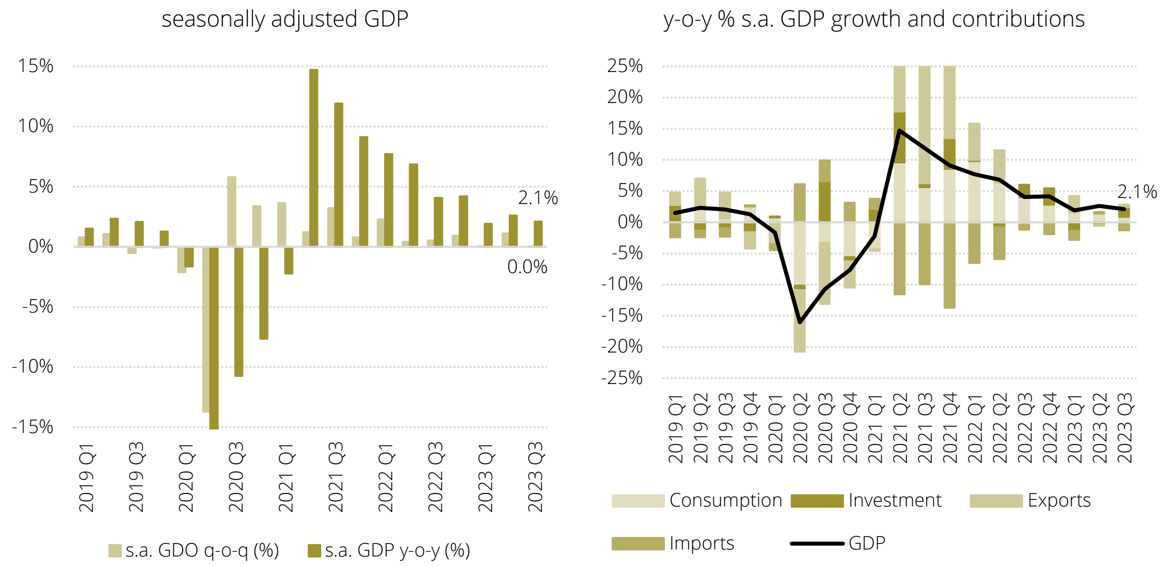
- A slight slowdown in the annual recovery to +2.1% (y-o-y) in the third quarter of 2023 and stagnation of +0.02% compared with the previous quarter (q-o-q).
- The contribution of investment to domestic growth was significant in the third quarter of 2023, growing annually by +8.9% as a result of the annual strengthening of fixed investment (+4.9%) and inventories (+29.9%).
- Household consumption continued to grow, albeit at a declining rate, in the same quarter, by +0.9% on an annual basis, while government consumption declined annually by -0.7%.
- A negative contribution to domestic GDP growth in the third quarter of 2023 came from the annual growth in total imports (+2.9%), due to the annual strengthening of imports of goods (+3.4%) and imports of services (+0.8%).
- Lower growth than in imports was recorded in the annual growth rate of exports (+1.0%) and, as a result, the external balance deficit in national accounts terms increased by around €426 million compared with a year earlier.

Recent macroeconomic developments in Greece

The annual recovery of the Greek economy slowed by 0.5 pps in the third quarter of 2023 compared with the previous quarter, but remained significantly higher than the average for the EA. In particular, the annual growth rate of domestic GDP stood at +2.1% (+0.5% in the EA), while it stagnated on a quarterly basis (+0.02%). The slowdown in domestic growth came from slower annual growth in household consumption and a stronger annual boost of imports compared to exports. By contrast, the contribution of investment to the growth rate of domestic GDP was significant, due to the annualised increase in fixed investment and inventories (Figure 3.1).

Figure 3.1

Evolution of GDP and the contribution of its components



Source: ELSTAT, Data processing IOBE

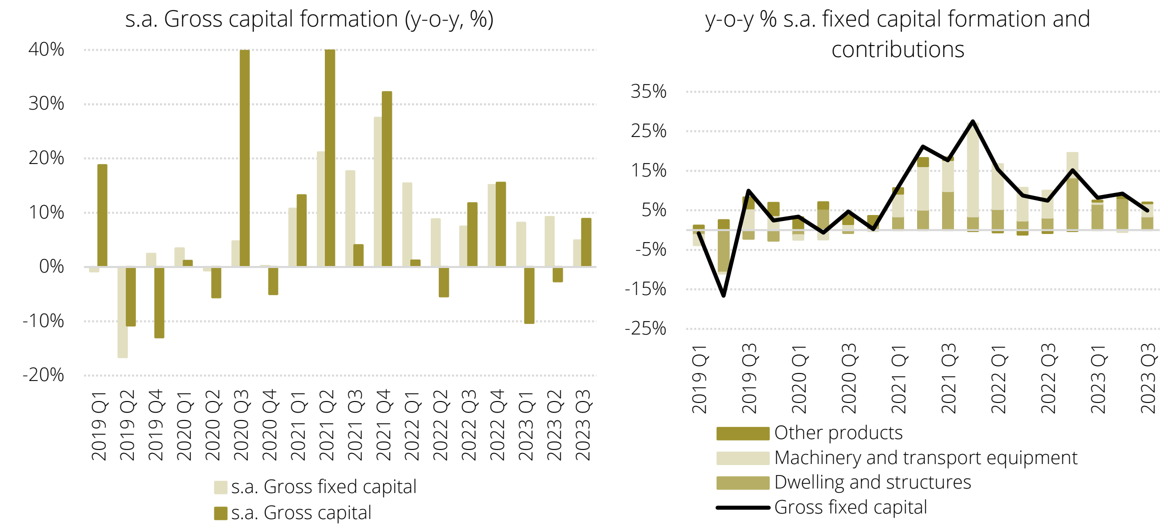
Investment was the main driver of recovery in Q3 2023.

Looking at the precise developments of the components of GDP in the third quarter of 2023, total consumption grew by +1.0% per year, decelerating compared with the previous quarter (+1.5%). Following the expected weakening of the explosive post-pandemic demand, the annual growth rate of private consumption almost halved, rising by +0.9%, from +1.7% a quarter earlier. By contrast, public consumption contracted annually by -0.7%, while a quarter earlier it had risen by +1.2%.

Benefiting from the resources of the Recovery and Resilience Fund, fixed capital formation managed to maintain its upward trend, growing annually, but at a slower pace of +4.9%, compared with +9.2% one quarter earlier. Stock accumulation also increased (+29.9% from -96.0% a quarter earlier), leading to a rebound in total investment growth (+8.9% from -2.6% a quarter earlier), making the latter the component with the largest contribution to the recovery in the third quarter of 2023 (Figure 3.2).

Figure 3.2

Evolution of investment and the contribution of its components



Source: ELSTAT, Data processing IOBE

A pick-up in total investment as a result of continued annual growth in fixed investment, which was larger than that of the residential sector, while inventories also increased.

In particular, the residential and construction sector contributed most to the increase in fixed capital formation (+9.5%), with machinery and transport equipment (+6.6%) and other products (+0.7%) coming next (Figure 3.2). In more detail, within fixed capital formation, the annual rate of change in investment was positive in five of its seven sectors. In particular, investments in dwellings (+28.2% from +46.2% a quarter earlier) and machinery - equipment - weapons systems (+16.4% from +0.9% one quarter earlier) posted the largest annual growth for another quarter. Investment in transport equipment increased as well (+11.6% y-o-y compared with +17.2% in the previous quarter), while investment marginally strengthened in other products (+0.8% y-o-y compared with +2.2% in the previous quarter) and other construction (+0.6% y-o-y compared with +10.8% in the previous quarter). By contrast, investment continued to decline in information technology and communication equipment (-17.5% y-o-y compared with -15.5% in the previous quarter) and agricultural products (-7.6% y-o-y compared with -3.2% in the previous quarter).

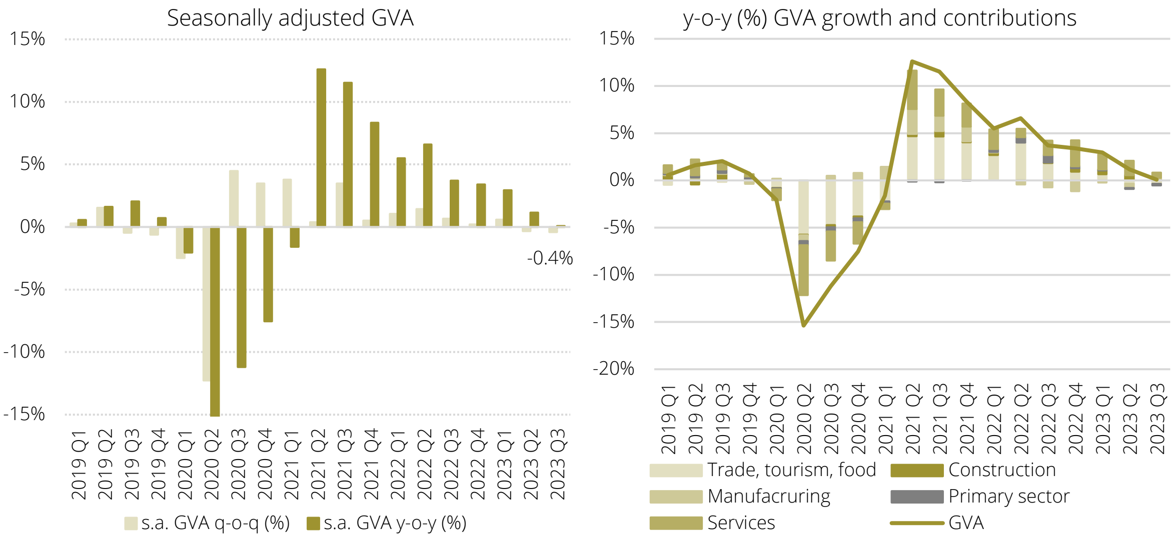
Turning to developments in the external balance of the economy, exports of goods continued to contract (-1.1% y-o-y from -0.7% in the previous quarter), while exports of services rebounded (+2.9% y-o-y from -0.2% in the previous quarter). In total, exports grew by 1.0% per year (from -0.5% one quarter earlier).

By contrast, higher annual import growth (+2.9% from -0.6% in the previous quarter) worsened the external balance deficit in national accounting terms, compared with a year earlier, by about €426 million or -0.8 pps. of quarterly GDP. With regard to the import components, the recovery in imports of goods was significant, which expanded annually by +3.4% (from -2.6% a quarter earlier), while imports of services increased marginally on an annual basis, by +0.8% (from +5.5% in the previous quarter). Finally, it is worth noting that the domestic economy maintained 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) stagnated in the third quarter of 2023, boosted by only +0.1% per year (compared with +1.2% in the previous quarter). The near-zero growth rate of GVA is due to the partial lifting of energy support measures, with taxes and subsidies on products decreasing annually by -4.4% (from -5.1% in the previous quarter) and -61.7% (from -58.7% in the previous quarter) respectively.

Figure 3.3

Evolution of GVA and the contribution of its components



Source: ELSTAT, Data processing IOBE

GVA stalled following the slowdown of most of its components in the third quarter of 2023. Other services made the largest contribution to GVA growth for the fourth consecutive quarter, followed by construction.

At the sectoral level, the largest contribution to the GVA growth rate was recorded for yet another quarter in other services, followed by construction and industry, while the broader sector of tourism-transport-trade (wholesale and retail) and the primary sector (Figure 3.3) saw a contraction in their activities. In more detail, four of the remaining six sectors of services, i.e. excluding tourism-transport-trade, experienced an annual expansion of their activity, albeit at a slower pace than in the previous quarter. The highest annual increase was recorded, as a quarter earlier, in the field of professional, scientific, technical and administrative activities (+6.6% from +10.0% in the previous quarter), with arts, entertainment and recreation (+5.7% from +6.3% in the previous quarter), information-communication (+2.0% from +9.1% in the previous quarter) and financial-insurance activities (+2.0% from +4.7% in the previous quarter) to follow. By contrast, real estate activity stagnated (+0.4% y-o-y), while activity in public administration - defence - compulsory social security declined (-1.0% from +2.1% in the previous quarter). In the remaining sectors, activity increased in construction (+8.5% from +25.8% in the previous quarter) and industry (+0.9% from -3.3% in the previous quarter), while tourism-transport-trade (-1.7% y-o-y from -1.8% in the previous quarter) and the primary sector (-4.5% y-o-y from -2.2% in the previous quarter) continued to contract.

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	180476	-7.2%	163346	-7.0%	20220	-21.0%	48968	2.0%	52765	-5.7%
2013	175917	-2.5%	156843	-4.0%	19580	-3.2%	49843	1.8%	50683	-3.9%
2014	176881	0.5%	156666	-0.1%	20430	4.3%	53954	8.2%	54108	6.8%
2015	176456	-0.2%	156620	0.0%	21369	4.6%	56661	5.0%	58360	7.9%
2016	175605	-0.5%	156032	-0.4%	22767	6.5%	56426	-0.4%	59868	2.6%
2017	177454	1.1%	158873	1.8%	21626	-5.0%	61229	8.5%	64370	7.5%
2018 Q1	44942	1.9%	40274	2.3%	5314	-10.5%	16246	9.4%	16680	4.7%
2018 Q2	45056	1.7%	39726	0.1%	6238	16.4%	16500	7.8%	17218	8.4%
2018 Q3	44945	0.5%	39868	0.2%	5322	-1.3%	16614	7.1%	17628	8.9%
2018 Q4	45267	2.2%	39835	-0.5%	6414	29.9%	17451	12.2%	17685	8.0%
2018	180210	1.6%	159703	0.5%	23288	7.7%	66812	9.1%	69211	7.5%
2019 Q1	45625	1.5%	40353	0.2%	6312	18.8%	17110	5.3%	17713	6.2%
2019 Q2	46110	2.3%	40745	2.6%	5566	-10.8%	18457	11.9%	17713	2.9%
2019 Q3	45876	2.1%	40144	0.7%	4838	-9.1%	18347	10.4%	18222	3.4%
2019 Q4	45848	1.3%	40952	2.8%	5585	-12.9%	16163	-7.4%	17574	-0.6%
2019	183458	1.8%	162193	1.6%	22301	-4.2%	70076	4.9%	71223	2.9%
2020 Q1	44876	-1.6%	40703	0.9%	6385	1.1%	15382	-10.1%	18150	2.5%
2020 Q2	38716	-16.0%	36346	-10.8%	5254	-5.6%	13101	-29.0%	14904	-15.9%
2020 Q3	40956	-10.7%	38748	-3.5%	6765	39.8%	12408	-32.4%	16740	-8.1%
2020 Q4	42338	-7.7%	38422	-6.2%	5307	-5.0%	14105	-12.7%	16125	-8.2%
2020	166886	-9.0%	154219	-4.9%	23711	6.3%	54996	-21.5%	65919	-7.4%
2021 Q1	43876	-2.2%	38738	-4.8%	7228	13.2%	15248	-0.9%	17439	-3.9%
2021 Q2	44413	14.7%	40201	10.6%	7727	47.1%	16403	25.2%	18944	27.1%
2021 Q3	45842	11.9%	41179	6.3%	7038	4.0%	18388	48.2%	20449	22.2%
2021 Q4	46203	9.1%	42052	9.4%	7018	32.2%	18254	29.4%	20992	30.2%
2021	180334	8.1%	162170	5.2%	29012	22.4%	68293	24.2%	77824	18.1%
2022 Q1	47258	7.7%	42925	10.8%	7315	1.2%	17623	15.6%	20109	15.3%
2022 Q2	47457	6.9%	43029	7.0%	7307	-5.4%	18577	13.3%	21109	11.4%
2022 Q3	47703	4.1%	43040	4.5%	7865	11.8%	18168	-1.2%	20782	1.6%
2022 Q4	48140	4.2%	43382	3.2%	8109	15.5%	18192	-0.3%	21819	3.9%
2022	190557	5.7%	172377	6.3%	30596	5.5%	72560	6.2%	83818	7.7%
2023 Q1	48164	1.9%	43693	1.8%	6562	-10.3%	18805	6.7%	20766	3.3%
2023 Q2	48695	2.6%	43695	1.5%	7116	-2.6%	18482	-0.5%	20975	-0.6%
2023 Q3	48702	2.1%	43469	1.0%	8561	8.9%	18347	1.0%	21387	2.9%

* provisional data

Source: Quarterly National Accounts, ELSTAT, December 2023

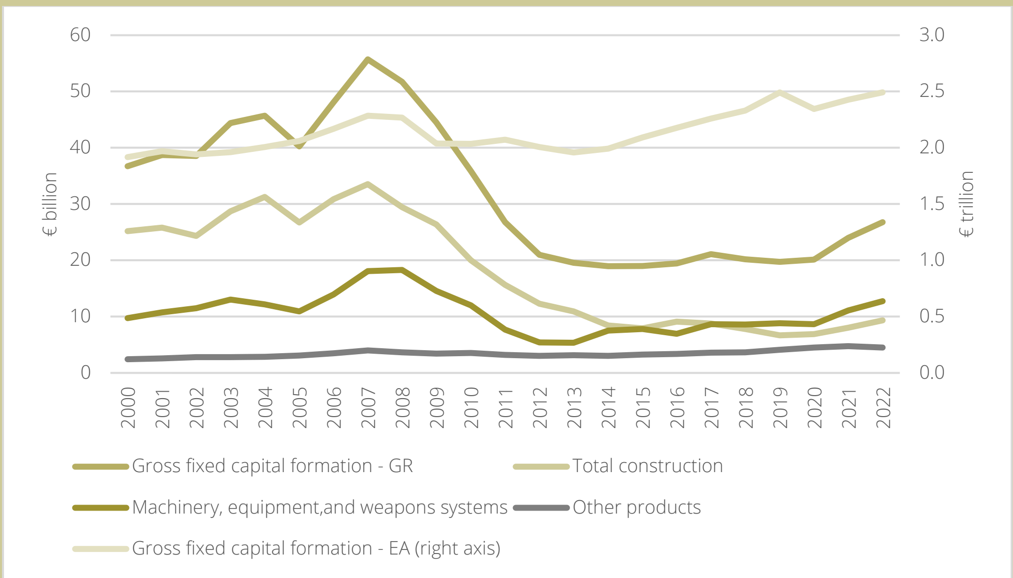
To sum up, the structure of the recovery of the Greek economy changed in the third quarter of 2023 compared with the previous one, with investment making the largest contribution, after the slowdown in total consumption. The positive contribution of exports to growth was fully offset by an increase in imports.

Special text box of section 3.1

Evolution of the investment mix in Greece after the crisis

The global financial crisis of 2007-2008 and, subsequently, the domestic fiscal crisis of 2010, led to the sudden stop of Greek and foreign capital flows into the Greek economy (figure B.3.1.1). [13] However, the gradual recovery of the domestic economy since 2017, and in particular its strong growth rate after the end of the pandemic, allowed for a significant boost of fixed capital investment in recent years (19.1% and 11.6% in 2021 and 2022 respectively, while the growth rate of fixed investment in the first three quarters of 2023 was positive). The dynamic growth rate of fixed capital formation is supported by European funds (revision of the "Greece 2.0" plan in 2023, expansion of the RRF loan window, adoption of the REPowerEU Plan), while the recovery of investment grade by several international rating agencies strengthens confidence in the Greek economy, creating prospects for a further widening of the investment base and closing the high investment gap, estimated at around €17 billion at the end of 2022 from 2009.

Figure B.3.1.1. Evolution of fixed capital formation (s.a., chain-linked volumes 2015)

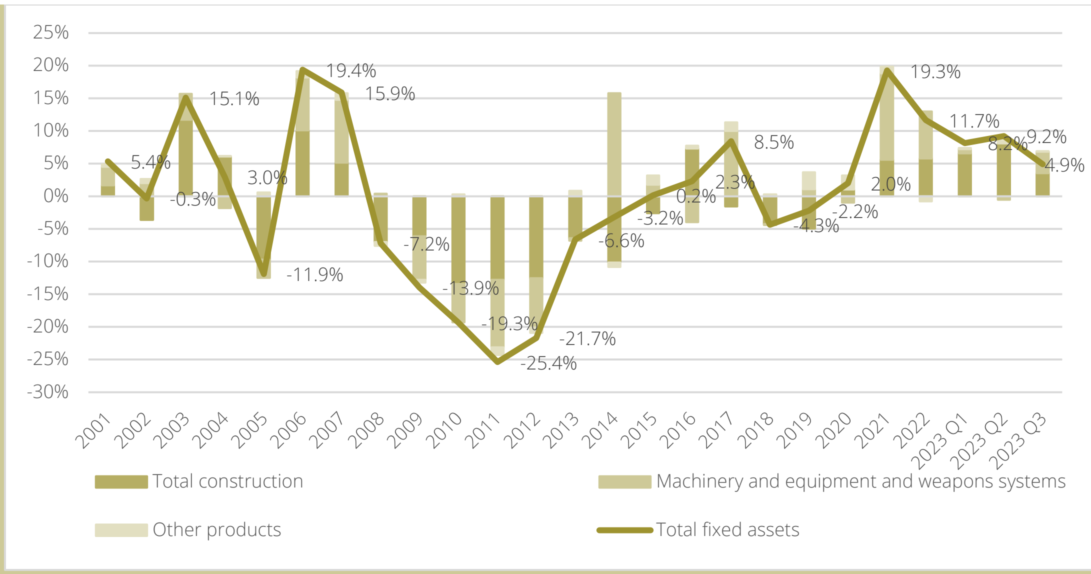


Source: Eurostat, Data processing: IOBE

In the components of fixed capital formation (figure B.3.1.2), the largest contribution to fixed investment growth before 2007 came from dwellings - constructions, a sector attracting the most savings from Greek households, with the fixed investment of this sector being in absolute terms significantly higher than the corresponding investment in machinery and transport equipment. By contrast, after 2017, when the domestic economy started gradually to recover, and following the collapse in fixed investment in dwellings - constructions, fixed investment in machinery and transport equipment started to account for a larger share of total investment growth, even exceeding investment in dwellings - constructions in size. However, this trend seems to be reversing again in 2023. It is also worth noting that the previous two years have seen a sharp rise in foreign direct investment in real estate, which in 2022 reached a historical high of +68% compared to 2021, while total foreign direct investment in the same year accounted for more than 20% of total private investment.

Figure B.3.1.2. Evolution of fixed capital formation (s.a., chain-linked volumes 2015)

[13] The dwellings-constructions sector includes residential and other constructions, the machinery-transport equipment sector includes transport equipment, IT and communication technology equipment and machinery and weapon systems, while other products include agricultural and remaining products.



Source: Eurostat, Data processing: IOBE

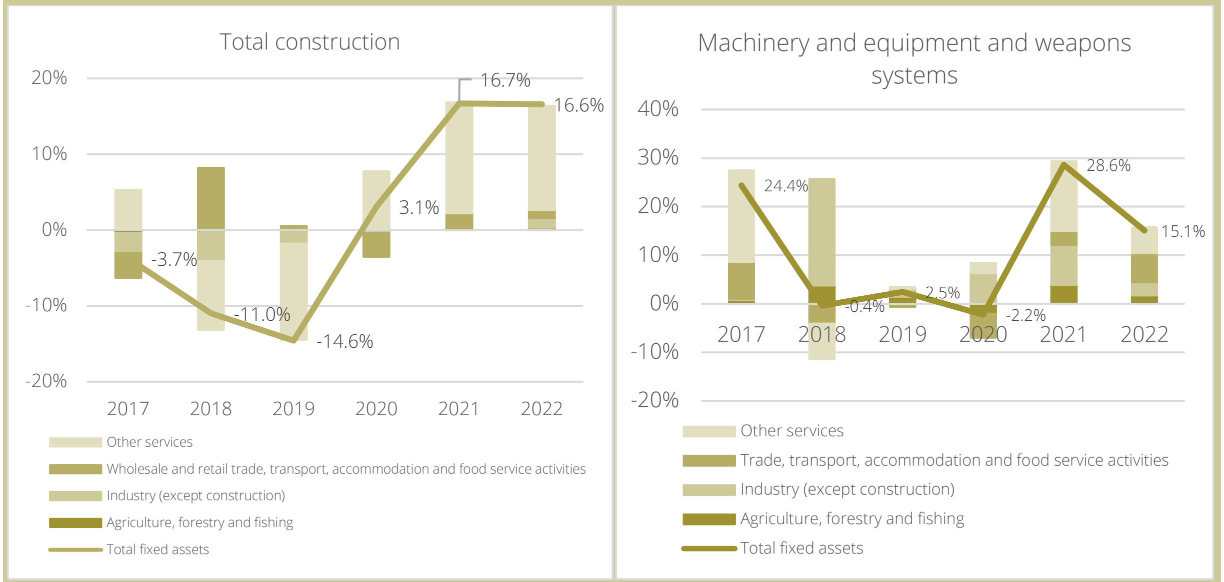
While maintaining a positive and high growth rate of total fixed investment is a prerequisite for domestic growth, it is also crucial that the key productive sectors of the Greek economy become more involved in total investment in order to enhance the diversification of the domestic productive base and the competitiveness of the Greek economy. Figure B.3.1.3 shows, with the latest available data for 2022, the contribution of the main domestic productive sectors of the domestic economy to the gradual increase in fixed investment in dwellings-constructions and machinery - transport equipment, which account for most fixed investment, after 2017.[14] As expected, other services, which include all services other than tourism and trade, contribute most to fixed investment in dwellings - constructions, followed by tourism - trade. By contrast, the sources of fixed investment in machinery and transport equipment are more diversified, while its growth dynamics are strongly boosted by contributions from fixed investment in industry, a sector particularly affected by the crisis of the previous 12 years.

To sum up, fixed capital formation appears to remain on an upward path since mid-2020, supported by resources from the European Recovery and Resilience Fund, combined with a stabilisation of the political and broader framework of the domestic economy as well as the gradual recovery of the investment grade. The mix of recent fixed investment focuses on dwellings - constructions, with machinery - transport equipment coming next. The recovery in fixed investment in 2017-2022 was supported in turn by enterprises in the tertiary sector, followed by industry and to a lesser extent by the primary sector.

However, in order for the domestic economy to reap the benefits of investment flows, they need to be directed to high-value-added and export-oriented domestic sectors, as well as to public sectors with a high degree of positive externalities. Finally, in order to avoid medium-term disruptions in the financing of fixed investment, amid high interest rates that are expected to be sustained for a longer period, domestic savings need to be strengthened to reduce the correlation between investment growth and the current account deficit.

[14] Figure B3.1.3 excludes the construction sector on the production side due to the small size of the fixed investment of this sector relative to the other sectors. The tertiary sector includes the following services: information - communication, financial - insurance activities, real estate activities, professional - scientific - technical activities, administrative - support activities, public administration - defence, compulsory social security, education, human health - social work activities, and arts - recreation - entertainment, household repairs - other services.

Figure B.3.1.3. Annual % change for s.a. fixed investment, contribution in pps by production sector



Source: Eurostat, Data processing: IOBE

B. Assumptions and forecasts

Medium-term outlook

- The slowdown of the euro area economy, the gradual decline in inflation and interest rates, geopolitical instability, fiscal aggregates and the implementation of the revised Recovery and Resilience Plan are key drivers of GDP developments in 2024.
- Growth estimate of 2.2% at constant prices in 2023 (marginally lower than in the previous quarterly report), supported mainly by private consumption (+1.3%) and fixed capital formation (+7.3%). Slight improvement in the external balance, due to a higher annual increase in exports (+2.3%) compared to imports (+1.1%).
- Estimate of a marginally higher growth rate of 2.4% in 2024, with uncertainty about the magnitude of risks stemming from the international environment.
- A significant boost of fixed investment (+11.0%) and sustained private consumption dynamics (+1.3%) in 2024.
- A slight improvement in the current account balance, with exports and imports growing annually in 2024, by +2.6% and +2.2% respectively.
- Inflation at 2.8% and the unemployment rate at 10.5% for 2024.

Amid risks stemming from regional and international geopolitical and economic instability, persistent inflation, rising borrowing costs, high public debt and a deficit in the external balance, the Greek economy is expected to maintain its growth momentum and openness in 2024, supported by European resources, fiscal discipline, and productivity gains through reforms.

Persistently lower energy price levels – high core inflation

The domestic Harmonised Index of Consumer Prices (HICP) decelerated more sharply than in the euro area (EA) in 2023, rising by 4.2% (from an increase of 9.3% in 2022), while the corresponding index in the EA stood at 5.5% (from an increase of 8.4% in 2022). Among the HICP components, the increase in the domestic index in 2023 was boosted by domestic demand, with the percentage change in the index with fixed taxes and excluding energy goods standing at 6.7% (from an increase of 6.1% a year earlier), while indirect taxes essentially had no impact on prices. Alarming for the strengthening of the competitiveness of the domestic economy is the fact that core inflation over the same period rose to 6.2% in 2023 from 5.7% a year earlier (a more comprehensive analysis of inflation and its key determinants can be found in section 3.5).

As regards international energy prices, the average global oil price in euro, which is a key component of energy costs, weakened between January and November 2023, reinforced by the rise in the average euro exchange rate against the dollar over the same period, and was -21.2% lower than in the corresponding period of 2022. For 2024, the price of Brent oil is expected to remain almost unchanged.

For 2024, disinflation is expected to strengthen further due to expected fluctuations in energy prices at a similar level to last year, as the recent turmoil in the Israeli region does not appear to have a stimulating effect on energy prices, while the EU Member States have also not imposed a new set of sanctions on Russia. Disinflation is supported by the expected further weakening of post-COVID-19 demand, despite fiscal policies related to wage increases and measures to support vulnerable social groups, as well as enhanced competition in goods and services markets through reforms. However, geopolitical tensions with side effects on international trade (e.g. in the Red Sea), as well as possible new supply-side disruptions, in certain categories of goods, such as dairy and cheese products, legumes and meat, due to the natural disasters in Thessaly in September last year, can have upward effects on inflation in 2024.

The European Commission's November 2023 forecast projects inflation in the EA in 2024 at 3.2%, while a lower inflation rate of 2.8% is forecast for Greece. With regard to inflation in the EA, the ECB estimates a significantly lower inflation rate of 2.7%, marginally lower than Greece's inflation.

Global economic slowdown

The European and global economy continued to expand in the third quarter of 2023, at a steady, but low, pace, as a consequence of high inflation and monetary tightening. In particular, the OECD economies (1.6% y-o-y) and the major developed economies (G7) (1.7% y-o-y) recorded unchanged annual growth rates compared with the previous quarter. By contrast, the US economy recorded higher annual growth of 2.9% (from 1.4% in the previous quarter) due to stronger private consumption and inventory investment.

Over the same period, economic activity in the EA, which is Greece's main trading partner, stagnated due to weak domestic as well as external demand, as European trade has been squeezed by geopolitical developments, while high money costs and uncertainty have affected investment and the centre of gravity of the economy has moved outside Europe (more information on changes in the macroeconomic fundamentals of EU countries and globally can be found in Sections 2.1A and 2.1B).

According to the latest OECD report issued in November 2023, global GDP growth is estimated to have reached 2.9% in 2023, while growth of 2.7% is projected for next year. The growth rate of the euro area economy is estimated at 0.6% and 0.9% for 2023 and 2024, respectively. By contrast, the economies of China (5.2% and 4.7% for 2023 and 2024) and India (6.3% and 6.1% for 2023 and 2024 respectively) are expected to grow at a high rate.

The current account deficit remains high

The current account is an important aggregate measuring a country's trade, financial and capital flows relative to the rest of the world, reflecting the productive capacity and competitiveness of the domestic economy. The high current account deficit of the Greek economy (a small open economy that is part of a monetary union and therefore cannot mitigate any macroeconomic imbalances through the exchange rate), especially during the post-pandemic period, when it was accompanied by stronger domestic growth, shows that a significant part of the recovery has not been driven by gains in productivity and competitiveness in the domestic economy, but from a boost in domestic demand.

Specifically, in January-November 2023, the current account (CA) recorded a high deficit of €11.9 billion, but €6.6 billion less than in 2022 (CA deficit as a percentage of GDP in 2022 was -9.7%, the highest among the EA countries). The correction resulted from a significant decline in the deficit of the goods account, which is almost exclusively attributable to the fuel category, and an increase in the services surplus, as travel receipts in the January-November 2023 period stood at a higher level even compared with the annual data for 2019. Secondary income accounts improved, while a deficit was recorded in the primary income account, due to an expansion in investment payments (profits, dividends, interest). It is worth noting here that the main imbalance in the external sector of the domestic economy over time, which seems to determine the trade balance and thus the CA, is the deficit in the goods account, owing to the "pro-cyclicality" of imports (the "import content" of domestic consumption, as well as investment and exports is high) and the rather small strengthening of the export performance of the Greek economy (the trends in the external balance are described in detail in Section 3.3).

This year, the expected stagnation in domestic demand and energy prices, as well as a gradual improvement in the external environment, together with the continued positive performance of inbound tourism in real terms, are expected to improve only marginally the high external deficit of the Greek economy, as it maintains its openness, increasing the share of services in exports and the share of goods in imports. That said, the expected pick-up in investment in 2024, if combined with a positive savings rate of domestic households, could weigh on the CA (the European Commission in its latest report of November 2023 estimates a negative rate of household savings of -1.6% in 2023 and -1.7% in 2024).

High interest rates for longer due to persistent inflation

With the gradual decline in inflation, mainly driven by energy price stability, most central banks halted the upward revision of their interest rates, which started in mid-2022, in the last quarter of last year. However, as inflation remains above the medium-term target of 2%, mainly on account of labour market dynamics, and correspondingly wage costs, central bankers signal that they are expected to keep key interest rates high for a sufficiently long period of time, with the aim of reducing inflation in a timely manner, by curbing demand and anchoring long-term expectations.

In particular, the ECB at its last meeting in December 2023, revising downwards its estimates for growth in the EA (marginally, estimating growth of 0.6% in 2023, from 0.7% three months earlier, and 0.8% in 2024, from 1.0%), and for inflation of 2.7% in 2024 (from 3.2%), decided to keep its three key interest rates unchanged, judging that past interest rate increases continued to be transmitted dynamically in the economy. Regarding the Pandemic Emergency Purchase Programme (PEPP), the Governing Council of the ECB intends to continue reinvesting the principal payments from maturing securities in the first half of 2024 in full but reducing the portfolio in the second half of the year, with the aim of ending the reinvestments at the end of this year. Markets anticipate gradual reductions in key interest rates by the ECB in the course of 2024, cumulatively by up to 150 basis points, albeit remaining significantly higher than at the beginning of 2022.

Strong central interest rate increases, even if peaking in late 2023, as well as an unwinding of ample liquidity at close to zero costs in Europe and the United States following the debt crises will inevitably have a severe impact on economies. As a direct consequence, higher cost of money dampens credit growth and causes difficulties in servicing existing debt by businesses and consumers, as well as from countries with high borrowing needs, leading to lower demand and thus growth. However, at least in the EA, the ECB considers that the economy is expected to rebound soon, due mainly to rising real incomes, as consumers benefit from falling inflation and rising wages, and improved external demand.

Successful implementation of the State budget

Despite the slowdown in growth of most economies in the EA, governments are urged to implement a tighter fiscal framework, which will allow compliance with the rules of the revised Stability and Growth Pact, which keeps the fiscal deficits and debt targets of 3% and 60%, albeit with an increased degree of flexibility, contributing to a gradual reduction of the debt-to-GDP ratio as well as inflation.

In its Explanatory Report to the 2024 State Budget submitted to Parliament in November last year, taking into account the general escape clause and despite exceptional spending on natural disasters and fiscal interventions, the Greek government projected a primary surplus of 1.1% in 2023 and 2.1% in 2024.

According to state budget implementation data, the fiscal balance, as well as the state budget primary balance, continued to exceed their respective cash targets in January-November 2023. The overperformance of the fiscal balance was due to higher-than-expected revenues due to four positive factors: economic growth, albeit at a declining pace, dispersion of electronic payments (described in the special text box in Section 2.2.C), higher inflation-related revenue from indirect taxes and resilient domestic demand, and finally higher income tax revenues, due to its progressive scale (more information on the execution of the state budget is presented in Section 2.2B).

In 2024, the state budget balance is estimated to improve further compared to 2023, due to a stronger boost of government revenue, supported by the projected growth of the economy, than expenditure. However, timely and effective use of existing financial tools (Public Investment Programme, Recovery and Resilience Facility, REPowerEU), together with the promotion of structural reforms, is important to achieve the budgetary targets. Finally, it is worth noting that the revised Stability and Growth Pact foresees the exclusion of defence investment in the deficit calculation, an expenditure which has significantly burdened the domestic state budget over time.

Declining public debt and rising private debt as percentage of GDP

The high indebtedness of most economies in the world at a time of high interest rates calls on governments to implement strict fiscal policies, postponed in the light of the crises of the previous decades, in order to contain possible fiscal risks, while at the same time strengthening central banks' efforts to reduce inflation.

On the domestic side, despite the widening of the absolute level of public debt in the previous year, 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 favours the build-up of budget surpluses, significantly reduced the debt-to-GDP ratio (general government debt is expected to decrease from 172.6% to GDP in 2022, to 161% in 2023 and 152% in 2024).

In particular, in 2023, against the background of increasing sovereign yields and monetary policy tightening globally, the Greek government managed to meet its financing needs on favourable terms, also benefiting from recovering investment grade from the domestic economy, which allowed for a milder increase in the cost of new government borrowing than in other European countries, as well as early repayments of part of the debt. According to data from the Public Debt

Management Agency (PDMA), the largest percentage of new gross annual borrowing in January-September took place via interest-bearing treasury bills (48%), followed by bonds (44%) and recovery fund loans (8%). Similarly, the average maturity of new lending stood at around 5 years, while the weighted average cost stood at 3.7%. It is also worth noting that the structure of the Greek debt significantly reduces its refinancing uncertainty, as over 70% of public debt is held by institutional partners, has an average maturity over 20 years and bears stable and low interest rates. That said, the financing needs of the domestic economy in the coming years are also reinforced by the repayment of loan instalments received by Greece from the EU institutions (loans from the European Investment and Development Bank, European Financial Stability Facility - EFSF, SURE, etc.).

In order to maintain the growth momentum of the Greek economy, it is crucial to ensure the sustainability of external debt, in particular in view of the high current account deficit and the expected slowdown of the recovery domestically, as well as the climate of uncertainty and the slowdown of the economies globally, which weigh on Greece in key areas such as investment and exports. A key factor for the smooth financing of public debt in the period ahead, at a cost that does not significantly exceed that of the other euro area economies, is fiscal discipline that will allow for elevated budget surpluses.

As regards private debt, the share of non-performing loans (NPLs), both on and off banks' balance sheets, remains high, weighing on the economy and on resource allocation. According to the Bank of Greece's Interim Monetary Policy Report (December 2023), new NPL flows were recorded in the course of 2023. The impact of rising interest rates and the cost of living on these obligations is also expected to be significant and negative.

Strong fixed capital investment

Since the third quarter of 2020, fixed capital formation has been on an upward trend, supported by resources from the European Recovery and Resilience Facility (RRF), together with a reduction in unemployment and a stabilisation of the political and broader framework of the domestic economy. For 2024, we expect a significantly larger increase in fixed investment than in 2023 in absolute real terms, owing to incoming European funds (revision of the "Greece 2.0" plan in 2023, the expansion of the RRF loan window, approval of the REPowerEU Plan), while the recovery of investment grade by international rating agencies strengthens confidence in the Greek economy, creating prospects for a further broadening of the investment base.

As recorded in the special text box of Section 3.1, the largest contribution to investment growth in 2021-2022 came from fixed investment in machinery and transport equipment, which exceeded investment in dwellings and constructions in absolute terms. However, in the first three quarters of 2023, this trend was reversed, pushing house prices significantly up. The contribution of the industrial sector, which was particularly affected by the crisis of the previous 12 years, to fixed investment in machinery and transport equipment is also important for the growth dynamics of the Greek economy.

However, if the domestic economy is to reap the benefits of stronger investment flows, they should be directed to high-value-added and export-oriented domestic sectors. Finally, it is crucial to systematically increase the share of investment financed by national savings in order to avoid a simultaneous deterioration of the current account deficit and any risks arising from investors' lending to highly indebted countries in an environment of high interest rates.

Challenges in the banking sector

The continued rise in borrowing costs in the private sector, which is putting pressure on credit growth and exacerbating existing lending capacity, the strain on private deposits, the slow further improvement of non-performing loans (NPLs), as well as uncertainty about a possible slowdown in the real economy, coupled with political uncertainty due to forthcoming elections in the United States and the EU, pose new challenges to the domestic financial system, regarding bank funding conditions and quality of assets.

By contrast, the profitability of Greek banks is supported by the increase in the average interest rate differential on loans and deposits (interest rate margin) to its highest level in at least 20 years, with the cost of financing Greek businesses higher than in the rest of the euro area. In addition to market (demand and supply) forces, the over-concentration of the banking sector in Greece, as a result of the stabilisation of the banking system around the four systemic banks following the 2010-2015 crisis, also seems to favour the preservation of a large interest rate margin in Greece. However, in order for the domestic banks to take advantage of this profit margin, it is essential to strengthen credit expansion, which weakened substantially in 2023, while credit to households continued to contract.

Focusing on the balance sheet of Greek banks, on the liability side, deposits and lending through the Eurosystem and capital markets are the main funding sources. The slowdown in private deposits, which in November 2023 recorded a year-on-year rate of 2.4%, clearly down from an average rate of 4.8% in 2022, leaves the domestic banking system more exposed to the high-interest-rate environment. However, it is worth noting that the upgrade of the Greek sovereign credit rating will lead to a corresponding upgrade of banks and lower market borrowing costs. For 2024 as a whole, the strain on private deposits is expected to continue, with an overall moderate upward trend. As core inflation slows down, while economic support measures are contained, real disposable income and savings of households and businesses are expected to come under pressure (the European Commission in its latest report of November 2023 estimates a negative rate of household savings and a decline in total private sector savings for 2024).

On the assets side, credit growth to firms slowed, while the contraction in credit to households was sustained overall in 2023. By contrast, banks' exposure to sovereign debt has increased and, as a result, the share of total assets of Greek banks placed in government bonds has widened its gap from the share of the remaining euro area "south" countries, significantly higher than the corresponding share for the average of the euro area countries. Finally, the rate of decline of non-performing loans (NPLs) weakened markedly in 2023, after the expiry of the State-guarantee securitisation scheme, "Hercules", at the end of 2022, with the overall level of NPLs remaining higher than in the other European countries, where it hovers at low single-digit rates, while the risk of a new surge in arrears and NPLs, due to rising interest rates and the cost of living, is notable, in line with the first indications of the BoG's Interim Monetary Policy Report in December. For 2024, credit expansion to businesses is expected to strengthen significantly, with the acceleration in the implementation of the loan leg of the National Recovery and Resilience Plan and the credit support programmes of the Hellenic Development Bank and the European Investment Bank (analysis of developments in the financial system is presented in Section 2.2C).

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 was weakened. According to the Labour Force Survey of ELSTAT, in the third quarter of 2023, the unemployment rate in Greece fell by 0.4 percentage points, to 10.8% (in the second quarter of last year the unemployment rate in Greece fell by 1.2 points, while in the first quarter of 2023 the unemployment rate fell by 2 percentage points), keeping Greece in the 2nd position with the highest unemployment rate in the euro area, with a significant difference from the remaining countries (see Appendix, Figure 7). The decrease in the unemployment rate was mainly the result of a decrease in the number of unemployed and less from an increase in employment (a discussion of trends in the domestic labour market is presented in Section 3.4).

As regards the trend in employment at the level of key sectors of the Greek economy, employment increased in the primary and secondary sectors, while in the tertiary sector employment remained at similar levels as in the third quarter of 2022. In absolute terms, the largest expansion in the third quarter of 2023 was recorded in construction (+25,000 persons employed), occupational, scientific and technical activities (+19,300), agriculture, forestry, forestry and fishing (+19,000), and human health and social care activities (+18,600), while employment declined most in wholesale-retail trade (-22,500 employees) and education (-16,100).

The decline in unemployment in recent years has been driven by the recovery of the Greek economy since mid-2021, as well as by extensive fiscal support measures to businesses, which prevented labour demand from falling. This year, the drivers of new job creation include strong tourism demand, a mild upward trend in domestic consumption and exports, as well as a significant strengthening of investment in export-oriented industries and construction, coupled with the gradual maturing of large infrastructure projects and the high backlog of construction projects.

Therefore, the contribution of the labour factor of production to the real growth rate of domestic GDP is expected to remain positive in the coming years, due to a further increase in the labour force participation rate (lagging behind the euro area average) and a decline in the unemployment rate (much higher than the euro area average). However, as the rate of change in employment is driven, albeit in the long run, by demographic trends, which are particularly negative in Greece, it appears that raising the potential growth rate of the domestic economy, and thus in people's living standards, will depend primarily on the strengthening of workers' productivity and the integration of innovative technologies into production.

By contrast, the rise in production costs due to higher nominal wages, with the seasonally adjusted wage cost index in the Greek economy as a whole expanding year-on-year by 5.4% in the third quarter of 2023, is holding back new job creation. This increase, combined with the relatively high core inflation of the Greek economy, is likely to put strong pressure on firms, possibly leading them to favour flexible forms of employment and create a "spiral" of wage and price increases. It is worth noting in this respect that rising wage costs, and the resulting inflationary risks, constituted one of the main arguments of the ECB for maintaining high interest rates. A major challenge for the Greek economy is therefore to reduce the natural rate of unemployment, through appropriate labour market reforms, while avoiding further inflationary pressures domestically.

Positive trends in domestic production excluding the trade sector

Turning to supply developments, the latest available data for 2023 revealed positive trends in industrial production and construction, while retail trade volumes declined.

More specifically, the indicators of production in industry (up by 2.0% in the first eleven months of 2023, from 2.7% in the same period of 2022) and construction (up by 13.9% in the first nine months of 2023, from 20.7% one year earlier) performed better in Greece than in the euro area. The dynamics of construction are characterised by a strengthening of building permits, while business confidence is at a historically high level.

By contrast, while retail trade confidence overall in 2023 recovered significantly year-on-year, the volume index decreased by -3.7% in the first ten months of 2023 (against an increase of 4.0% in 2022), while the volume index in Wholesale trade also declined in the third quarter of last year (-0.3%, followed by a decrease of -2.6%, one year earlier). Finally, in the first nine months of 2023, turnover in services rose in eleven of its thirteen sub-sectors year-on-year, with the largest increase recorded in professional and scientific activities (more information on the main production sectors is presented in Section 3.2).

A slight weakening of the domestic economic climate

Over the past year, cautious expectations in the euro area due to the slowdown in economic activity, persistent inflation and high borrowing costs have been reflected in a significant decline in the economic sentiment indicator, which nevertheless showed some signs of recovery in the last quarter of 2023.

By contrast, domestically, the dynamics of the Greek economy over the past year gradually strengthened the Economic Sentiment Indicator, which for 2023 as a whole averaged 108.0 points, compared with 105.5 points in 2022, which is – on an annual basis – the highest level recorded in 15 years. It is worth noting, however, as the indicator is often used to forecast near-term developments, that in the final quarter of last year, the economic sentiment indicator registered a slight deterioration, owing to lower business confidence in retail trade, services, and industry, while expectations in construction, the production sector that posted the highest growth rates in the first three quarters of 2023, strengthened significantly. In the same quarter, a marked decline was also recorded in the capacity utilisation rate, a measure of the use of capital (e.g. machinery and transport equipment), which stood at 65.1% (from 76.8%).

Finally, on the household side, the Consumer Confidence Index in the fourth quarter of 2023 stood markedly lower than in the previous quarter, at -43.5 (from -36.3) points, as the impact of the rising cost of living is raising concerns for the households (more information on the shaping of economic sentiment is presented in Section 2.2A).

Medium-term forecasts

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

Box 3.1

Macroeconomic forecast drivers

Risks

- Further geopolitical and economic instability at regional and international levels (war in Ukraine and the Middle East, elections in the US and for the European Parliament).
- Caution over a longer duration of the high-interest-rate phase.
- A large deficit in the external balance, with structural characteristics.
- Gradually tighter fiscal targets. The tax base in Greece remains narrow.
- Loss of competitiveness due to higher than the euro-area average core inflation (excluding energy and food) after mid-2022. Persistent inflation in essential goods, such as food, albeit lower than the average of the EA.
- A high interest rate loans-deposits margin and systematically negative household saving rate.
- Risk of a further surge in arrears and NPLs, owing to rising interest rates and cost of living. The non-performing loans on and off banks' balance sheets acting as a barrier to the reallocation of resources.
- Investment mix: Investment in dwellings-constructions and transport equipment, reduction in other investment sectors.

Positive outlook

- Regaining the investment grade by international rating agencies bolsters confidence in the Greek economy and creates prospects for broadening the investment base.
- The acceleration of the implementation of the revised Recovery and Resilience Plan, along with the extension of its debt arm and Repower EU, may unlock international funds for productive and longer-term investments.
- An enhanced openness of the economy, with a gradual improvement in the external balance, remains a challenge.
- Reforms over the medium term 2024-2027 may increase productivity which deviates from the average in Europe.
- Reducing NPLs at the economy-wide level will free up productive resources for more efficient allocation.
- A significant amount of unfulfilled construction works.

As regards consumption, private consumption is expected to maintain last year's momentum in 2024, supported by employment gains, fiscal measures increasing income, as well as gradually declining inflation. That said, the withdrawal of fiscal support to households since the second half of last year, high borrowing costs and contraction of credit to households, as well as the negative saving ratio of the past two years, are holding back consumption growth. Public consumption is expected to contract in 2024, to achieve budget surpluses.

For 2023, the annual change in private and government consumption is estimated at +1.3% and +0.9%, respectively, with that of total consumption reaching +1.4%. Consumption is projected to slow down to +0.7% in 2024, due to a contraction in public consumption by -0.8%, while private consumption is projected to maintain its annual growth rate of +1.3%.

Box 3.2

Baseline scenario assumptions

- The euro area economy follows the ECB's baseline scenario (December 2023) for growth of 0.6% in 2023 (from 0.7% projected three months earlier) and 0.8% in 2024 (from 1.0%) and inflation of 2.7% in 2024 (from 3.2%).
- Interest rates follow the trend of current forward contracts, i.e. Euribor gradually declines from close to 3.9% at the beginning of the year towards 2.6% by the end of 2024.
- The war in Ukraine is continuing at an intensity similar to that of 2023. Despite geopolitical instability in the Middle East, international energy prices are expected to remain relatively stable in 2024, following the EIA baseline scenario.
- Timely implementation of the revised Recovery and Resilience Plan in 2024 without further delays.
- Inflation in Greece slightly above the average in the EA in 2024.
- Inbound tourism in 2023 rose year-on-year compared with 2019. For 2024, the trend is expected to remain positive in real terms.

Investment is expected to sustain its upward trend, at an increasing pace, in 2024, reinforced by an acceleration in the implementation of the revised Recovery and Resilience Plan and Repower EU. European funds and the recovery of investment grade by international rating agencies, which strengthens confidence in the Greek economy, can broaden the investment base by unlocking international capital for productive and longer-term investments. That said, stagnating expansion of credit to enterprises combined with high borrowing costs in the private sector are the main factors that may limit the dynamics of investment this year.

For 2023 as a whole we estimate an increase in fixed investment, weaker than in 2022 in absolute real terms, which translates into a slightly lower annual rate of change, while for 2024 as a whole we expect an increase in fixed investment significantly stronger than in 2023 in absolute real terms, which translates into a higher annual rate of change. Specifically, the annual change in fixed investment is estimated at +7.3% (total investment +3.2%) for 2023, while in 2024 we expect fixed investment to increase by +11.0% (total investment +10.8%). The change in inventories in 2024 is expected to be similar to 2023 in absolute real terms.

On the external balance, we expect a marginal improvement in 2023 and 2024, with continued openness and an increase in the share of goods in exports and imports in 2024. The gradual strengthening of the recovery in Greece's main trading partners is expected to support exports, while resilient domestic demand and investment growth are expected to support imports in 2024. Taking into account the assumptions on the growth rate of the euro area, the maintenance of the positive trend of tourism in real terms in 2024, and the stability of energy prices, we estimate that the annual rate of change in exports will stand at +2.3% and +2.6% in 2023 and 2024 respectively, while the annual rate of change in imports will stand at +1.1% and +2.2% in 2023 and 2024 respectively, improving modestly the current account balance both years.

Against this background, we are revising marginally down the previous estimate of a recovery of the domestic economy by 2.2% in 2023, while maintaining a 2.4% recovery forecast for the domestic economy for 2024, but with a negative outlook, due to the above risks and most notably the slowdown of the global economy and persistent inflation and uncertainty.

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	2.4%	2.9%	2.4%	2.3%	2.2%	2.4%	2.5%**	2.0%**	2.4%	2.0%
Consumption	:		:	:	1.4%	0.7%	:		:	
Private Consumption	2.9%	1.3%	2.8%	1.9%	1.3%	1.3%	1.1%		3.1%	1.4%
Public Consumption	-0.4%	-1.6%	4.1%	-2.3%	0.9%	-0.8%	-3.1%		0.5%	0.0%
Gross Fixed Capital Formation	7.1%	15.1%	6.9%	7.5%	7.3%	11.0%	10.5%		6.4%	5.2%
Exports	2.7%	5.6%	5.7%	5.0%	2.3%	2.6%	5.7%		3.1%	0.9%
Imports	2.2%	4.6%	3.0%	3.8%	1.1%	2.2%	2.5%		0.7%	2.0%
Harmonised Index of Consumer Prices (%)	4.1%	2.6%	4.3%	2.8%	4.2%	2.8%	4.1%*	2.8%*	4.3%	2.8%
Unemployment (% of labour force)	11.2%	10.6%	11.4%	10.7%	11.2%	10.5%	10.8%*	9.3%*	10.9%	10.0%
General Government Balance (% of GDP)	1.1%	2.1%	1.1%	2.5%	:	:	1.1%**	2.1%**	1.1%	1.6%
Current Account Balance (% GDP)	:	:	-7.0%	-6.1%	:	:	-6.9%*	-6.0%*	-6.6%	-6.7%

Sources: Budget Introductory Report 2024, November 2023 - European Economic Forecast, Autumn 2023, European Commission, November 2023 - The Greek Economy 04/23. IOBE, January 2024 - IMF Country Report No. 22/173, IMF, June 2022, *World Economic Outlook, IMF, October 2023, **Article IV Consultation Mission, IMF, November 2023 - Economic Outlook 114, OECD, November 2023

3.2 Trends in key sectors

- Industrial production expanded by 2.0% in the first nine months of 2023 – increase in the same period of 2022 by 2.7%.
- The momentum in construction continues, with production strengthening by 13.9% in the first nine months of 2023, after growth of 20.7% in the same period of 2022. Business confidence at a historically high level.
- A 3.7% decrease in the volume of retail trade in the first ten months of 2023 instead of an increase of 4.0% in 2022.
- An increase in turnover in most sub-sectors of services over the first nine months of 2023.

Industry

In January-November 2023, the industrial production index increased by 2.0%, against an increase by 2.7% in the same period of 2022. In October-November 2023, production increased by 6.6%, while the relevant indicator fell by 1.9% in the same period of 2022. At the euro area level, in the first ten months of 2023, industrial production in the euro area fell by 2.4%, instead of an increase of 2.6% in the corresponding period of 2022. The slowdown in production is intensifying, reaching -5.7% in October.

Over the same period in Greece, the producer price index in Industry declined by 7.1%, against an increase of 37.0% in the corresponding eleven months of 2022, under pressure from international energy prices. The decrease in the price index came exclusively from the domestic market (-6.4%

against +35.5% in 2022) as export prices strengthened by 41.8% against a clearly milder increase of 19.4% in 2022. By contrast, the turnover index of Industry in January-October 2023 (the period with the latest available data) declined by 4.0%, against an increase of 36.8% in 2022.

More specifically, in the main sectors of Greek industry, output increased in Mining & Quarrying (7.5% instead of a 7.7% decrease last year) and in Manufacturing (4.0% following a corresponding increase in 2022). By contrast, output decreased in Electricity (-6.1% instead of -1.7%) and Water Supply (-0.1% instead of -2.1%).

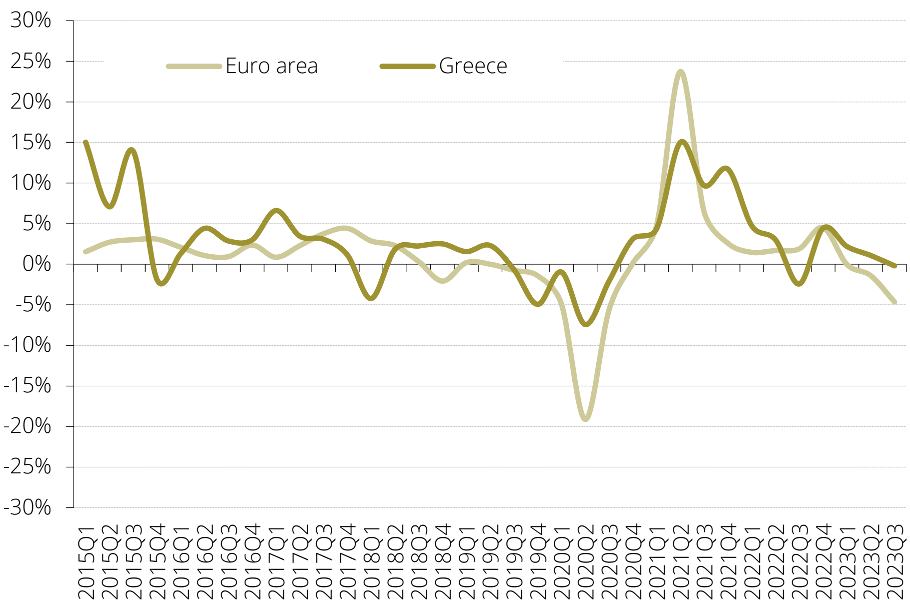
In Manufacturing, production rose in 12 out of its 26 sub-sectors. Among the sub-sectors of greatest importance to the Greek economy, Pharmaceuticals production rose 22.0% from 10.7% a year earlier. Production in Basic Metals fell by 1.5% (from +4.8% in the corresponding period of 2022), while in Food production improved but at a slower pace than a year ago (4.0% instead of 4.5%).

Among the other manufacturing sectors, Tobacco Products (18.9% instead of -1.4%), Leather Goods (17.0% instead of 9.3% in 2022), and Motor Vehicle manufacturing (+13.8% instead of a significantly stronger growth of 34.9% a year ago), were strongly up. By contrast, the sectors with the largest decline in output include Clothing Manufacturing (-10.8% instead of 10.6% growth in 2022), Transport Equipment Manufacturing (-7.1% instead of 0.7%), Printing (-5.3% instead of 20.8% growth) and Electrical Equipment Manufacturing (-5.3% instead of 21.9% growth).

Among the main industry groups, output declined in Energy (-2.2% instead of -1.7% in 2022) and Intermediate Goods (-0.3% instead of +2.2%). By contrast, growth was recorded in Durable Goods (7.4% instead of 21.9%), Consumer Non-Durable Goods (6.9% instead of +6.3%), and Capital Goods (4.6% instead of 5.5% in 2022).

Figure 3.4

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



Increase of the index by 2.0% in the first 11 months of 2023 against 2.7% in the corresponding period of 2022

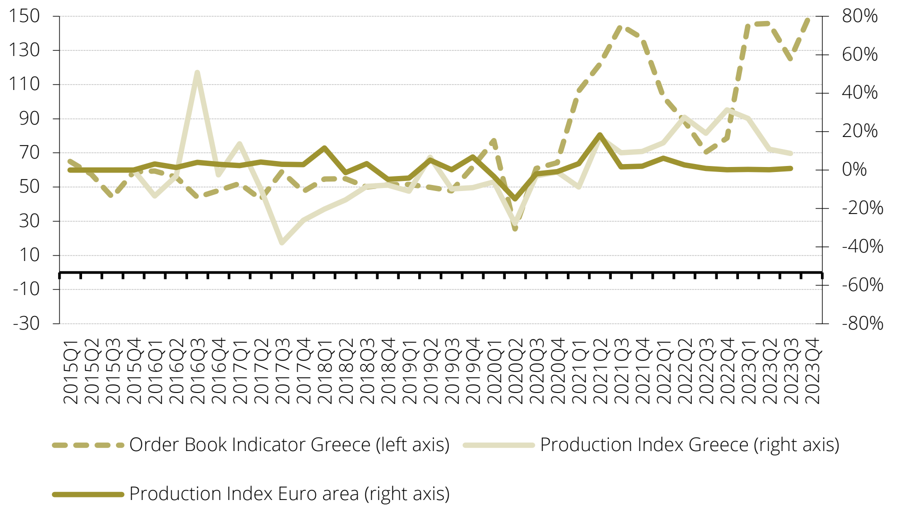
Sources: ELSTAT, Eurostat

Construction

In the first nine months of 2023, the production index in the Construction sector increased by 13.9%, after a 20.7% increase in the corresponding period of 2022. In the third quarter of last year, the index continued to strengthen compared to a year earlier, but at a significantly slower pace (8.7% instead of 18.9%).

Figure 3.5

Production Index in Construction and Building Activity Index



Strengthening of the production index in the first nine months (13.9%) - increase also in construction activity (9.1%) with larger constructions. Historic high levels of expectations in 2023

Source: ELSTAT, IOBE

In the third quarter of 2023 in the euro area (20 Member States), the production index in Construction is up slightly compared with the third quarter of 2022 (0.7%). Overall in the first nine months of 2023, the construction sector appears to be growing marginally (0.4%), compared with the same period in 2022 (3.1%).

In the same period in Greece, in the individual construction activities, the construction of buildings increased by 17.2%, following a 13.4% increase in the same period of 2022. In addition, the Civil Engineering index strengthened by 11.8%, a rate lower than in 2022 (+26.0%). Furthermore, in the construction activity data, building permits increased by 9.1% (against 2.4% in the first nine months of 2022), while new construction strengthened both in terms of area (13.9% against 15.9% in 2022) and volume (15.9% against -1.5%).

It is also noted that business expectations for the sector as a whole in 2023 are at an all-time high, having strengthened by 62 points compared to 2022.

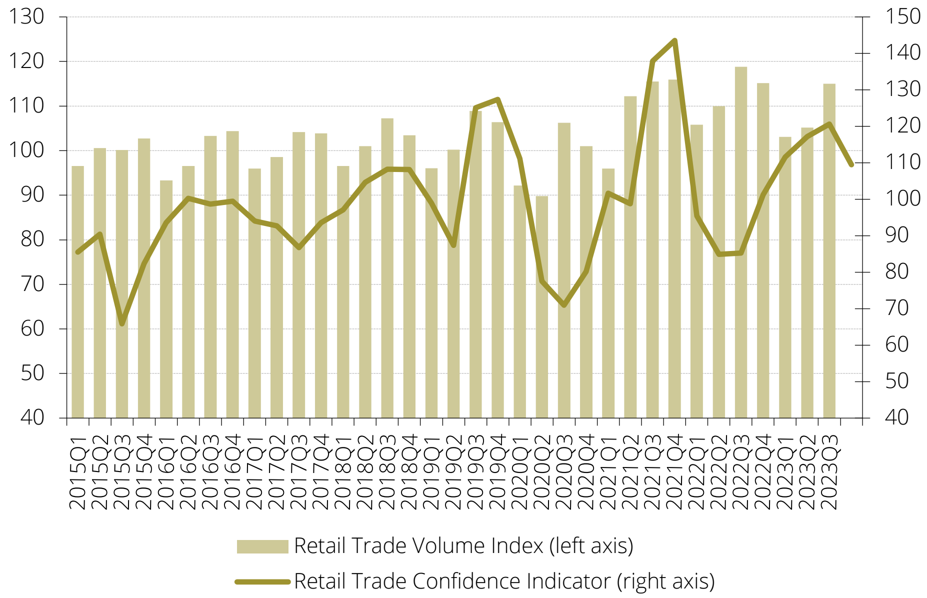
Retail Trade

The volume index in Retail Trade in the first ten months of 2023 decreased by 3.7%, against a 4.0% increase in 2022. Volume strengthened in 4 of its 8 sub-sectors. The largest increase was recorded in Department Stores (6.1% vs. 3.3% a year ago), followed by Furniture & Electrical Goods (2.0% vs. 11.8% growth a year ago) and Food (0.7% vs. 1.5%). The index was unchanged in Books & Other Stationery (0.0% vs. +14.0% in 2022). By contrast, a decrease in sales volume was recorded in

Pharmaceuticals (-4.7% against +9.6%), Large Food Stores (-4.1% against -2.0%) and Fuels (-1.2% against a 3.3% boost).

Figure 3.6

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



A decline in the volume of retail trade in 2023 (-3.7% against +4.0% in 2022). Expectations recover throughout 2022

Sources: ELSTAT, IOBE

Expectations in the Retail sector in 2023 as a whole are recovering significantly compared to the same period in 2022. The corresponding cumulative index strengthened by 20.0 points against a decline of 5.1 points in 2022.

Table 3.3

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan.-Oct. 2021	Jan.-Oct. 2022	Jan.-Oct. 2023	Change 2022/2021	Change 2023/2022
Overall Index	107.5	111.8	107.6	10.2%	-3.7%
Overall Index (excluding automotive fuels and lubricants)	112.0	114.8	111.8	10.5%	-2.6%
Store Categories					
Supermarkets	114.3	112.1	107.5	-2.0%	-4.1%
Department Stores	88.0	90.9	96.4	3.3%	6.1%
Automotive Fuels	82.9	85.6	84.6	3.3%	-1.2%
Food – Drink – Tobacco	88.2	86.8	88.0	-1.5%	1.4%
Pharmaceuticals – Cosmetics	140.1	153.5	146.4	9.6%	-4.7%
Clothing – Footwear	109.7	111.4	112.1	1.5%	0.7%
Furniture – Electric Equipment – H. Appliances	133.8	149.7	152.7	11.8%	2.0%
Books – Stationary	135.8	154.9	154.8	14.0%	0.0%

Source: ELSTAT

At the activity level, expectations improved in all Retail Trade sub-sectors. In particular, the largest increases were recorded in Department Stores (41.3 points, instead of no change in 2022) and Food & Beverage (36.6 points as opposed to a 2.0-point decrease in 2022). This was followed by Household Equipment (17.0 points improvement against -0.2 in 2022), Clothing/Footwear (+17.0 against a 0.2-point decrease), while a milder improvement in the index was recorded in Vehicles - Spare Parts (12.1 points against -10.5 points in 2022).

Table 3.4

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

	2021	2022	2023	Change 2022/2021	Change 2023/2022
Food-Drinks-Tobacco	74.6	72.6	109.2	-2.0	36.6
Textiles - Clothing – Footwear	97.2	100.5	116.9	3.3	16.4
Household Appliances	94.4	94.2	111.2	-0.2	17.0
Vehicles-Spare Parts	112.8	102.3	114.4	-10.5	12.1
Department Stores	72.2	72.2	113.5	0.0	41.3
Total Retail Trade	96.8	91.7	111.7	-5.1	20.0

Source: IOBE

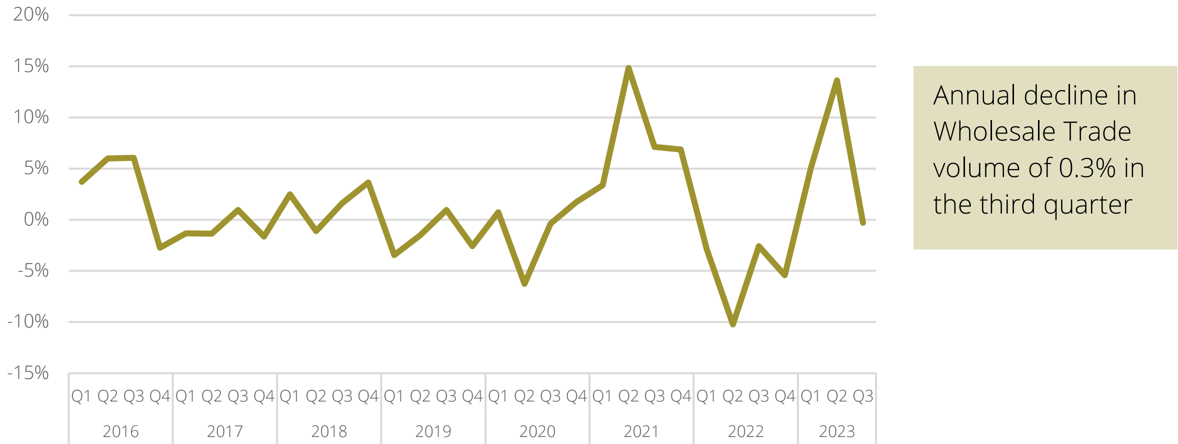
In detail, the Business Sentiment Indicator for Automobiles - Vehicles strengthened to 124 points in 2023, compared to 110.9 points in 2022, making up for the 9.3% losses recorded in 2022. The index rose despite a decline in the last quarter of 2023 due to a swelling inventory. For 2023 as a whole, the current sales balance improved significantly, to 29 points compared with -24 points in 2022, with a significant boost in the proportion of firms estimating increased sales, and a decline in the proportion of firms reporting decreased sales. 65% of firms report that inventories are at normal levels, with an increase in the proportion of firms reporting elevated inventories. The balance of orders returned to positive territory at 9 points, up from -10 in 2022, with a decline in those expecting a decrease in orders in the coming period. The balance for sales expectations also turned positive, at 24 points in 2023, compared with a marginally negative balance in 2022, with a decline in negative expectations. On the employment side, strong signs of stabilisation solidified, while on the price side, firms' inflationary expectations eased, but kept the balance positive.

Wholesale Trade

In the third quarter of last year, the volume index in Wholesale Trade fell by 0.3% year-on-year, after a 2.6% decline a year earlier. The turnover index, which incorporates the impact of prices, fell by 7.6% in the same period, compared with a 27.7% strengthening in the corresponding period of 2022.

Figure 3.7

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

In the first nine months of 2023, services turnover strengthened year-on-year in eleven of its thirteen branches.

The largest gains were recorded in Other Professional and Scientific Activities services (34.8% against -5.3% in 2022), Information Technology services (16.5% against 5.2% in 2022), Security and Investigation activities (15.3% against 1.9%) and Engineering activities (14.5% against 1.2%). Following at a distance are Telecommunication services (7.1% against 1.4%), Publishing activities (6.2% against -6.3%) and Legal activities/legal advisory services (6.0% against 17.8%). By contrast, Postal and courier services (-5.9% against -9.5%) and Employment services (-2.8% against +2.1%) experienced a turnover decline.

According to the latest trends in leading indicators from the IOBE's Business and Consumer Surveys, for the whole of 2023, expectations strengthened in three of the four Services branches surveyed, while the overall sector index improved by 2.9 points against an increase of 2.0 points in 2022.

In particular, the greatest strengthening of expectations was recorded in Financial intermediaries (+40.5 points against a decrease of 42.1 points in 2022), followed by Hotels - Restaurants - Tourist agencies (+6.5 points against 19.9 last year) and Information services (+4.1 points against 7.6 points in 2022). In contrast, a decrease in the index, albeit limited, was recorded in miscellaneous business activities (-0.2 against +4.5 in 2022).

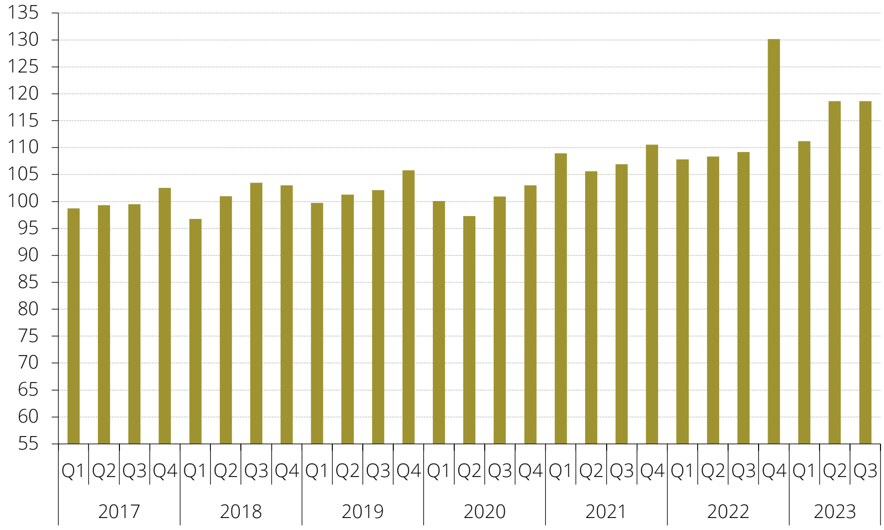
Table 3.5

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

	2021	2022	2023	Change 2022/2021	Change 2023/2022
Hotels – Restaurants – Travel Agencies	102.9	122.8	129.3	19.9	6.5
Financial Intermediation	122.4	80.3	120.8	-42.1	40.5
Other Business Services	108.4	112.9	112.7	4.5	-0.2
Information Services	92.7	100.3	104.4	7.6	4.1
Total Services	104.8	106.8	109.7	2.0	2.9

Figure 3.8

Turnover Index in Telecommunications (branch 61)

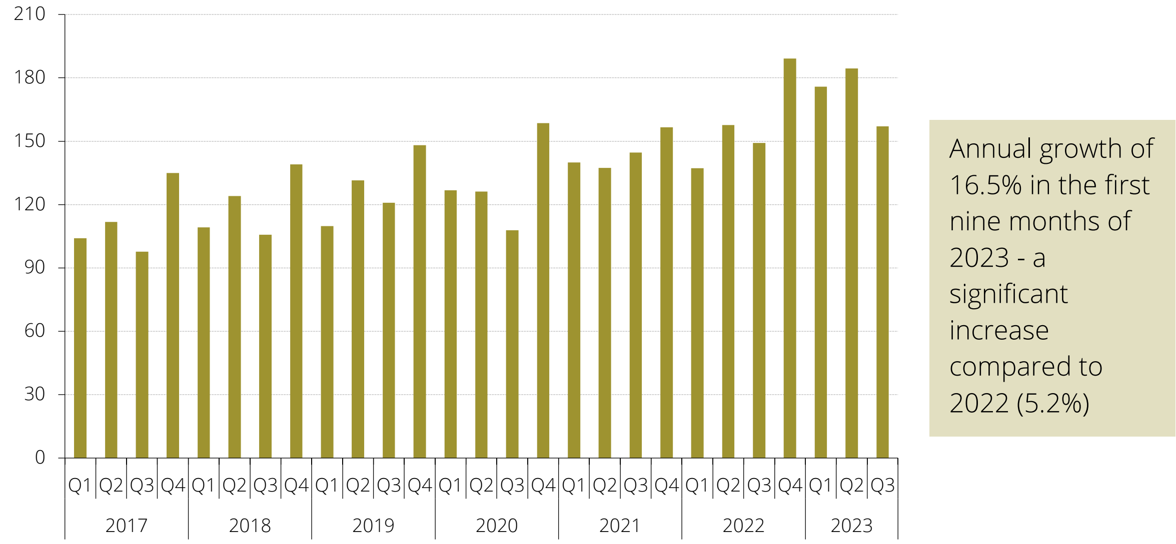


Annual growth of 7.1% in the first nine months of the year against a milder improvement of 1.2% in 2022

Source: ELSTAT

Figure 3.9

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



Source: ELSTAT

3.3 External balance

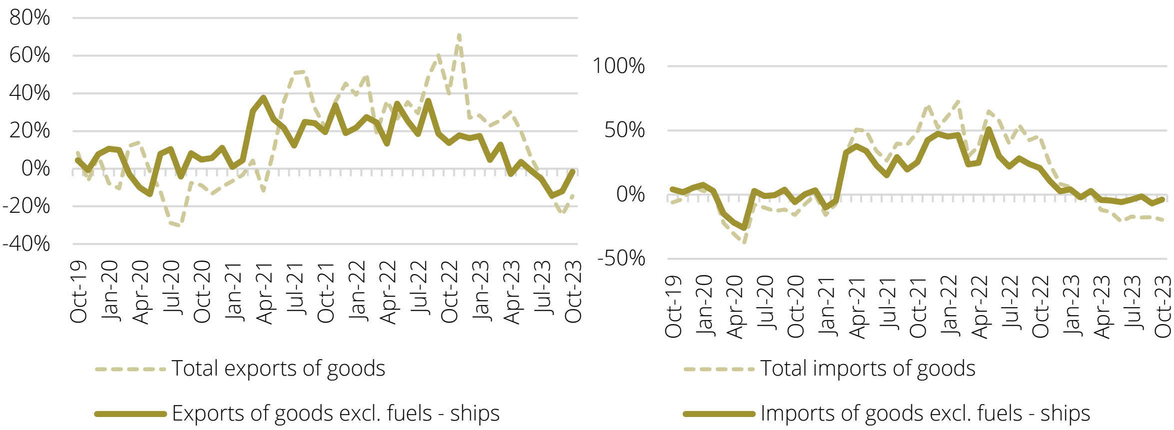
A. Analysis of exports and imports from national accounts

- Exports of goods in nominal terms declined in the first ten months of 2023, at a rate of 7.2%, with exports excluding petroleum products falling marginally (-0.04%).
- Decline in imports in January-October 2023, by 12.8% in current prices, as they stood at €67.0 billion, down from €76.0 billion a year earlier.
- A 21.1% decrease in the trade deficit compared to 2022, to €24.6 billion. Decline in all product categories, and rise only for Agricultural products.
- Decrease in the value of exports to Eurozone countries (-1.3% or -€241.6m), Middle East & North Africa (-15.2% or €893.8m) and Asia (-17.1% or €382.0m).

Exports of goods in the period January-October 2023 stood at €42.4 billion, compared to €45.7 billion a year ago, down 7.2% at current prices. Excluding exports of petroleum products-ships, other exports declined by 0.04%, to €28.88 billion, from €28.89 billion in 2022. Imports of goods recorded a decline in the first ten months of 2023, by 12.8% at current prices, to €67.0 billion, from €76.0 billion a year earlier. Excluding imports of petroleum products-ships, other imports declined by 2.7% year-on-year to €49.6 billion, from €51.0 billion in 2022. As a result of the above trends in the main components of the external goods account, the 10-month trade deficit was €6.6 billion lower than in 2022 (-21.1%), at €24.6 billion, down from €31.1 billion in 2022. Subsequently, the value of the Greek economy's exports of goods in the first 10 months of 2023 accounted for 63.3% of its imports, compared to 59.5% a year earlier.

Figure 3.10

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



Source: ELSTAT, Processing: IOBE

Exports excluding petroleum products - ships stood at €28.9 billion in January-October 2023, 0.04% lower than in 2022. Imports excluding petroleum products - ships totalled €49.6 billion in the same period, 2.7% lower than in 2022.

In detail, exports in Agricultural Products increased by 22.8% at current prices in the period January - October 2023, to €8.5 billion, from €7.2 billion in 2022. Exports of Fuels saw a nominal decrease, by 21.4%, to €13.9 billion, from €17.7 billion in 2022. Exports of the two specific categories account for 52.8% of the value of domestic exports of goods in the period under review, down from 54.6% a year earlier. Exports of Industrial Products declined in the first ten months of 2023 (-2.6%), with their value reaching €18.2 billion, down from €18.7 billion in 2022. This development was mainly driven by a 10.3% decrease in exports for Industrial Goods Classified Chiefly by Raw Material, to €6.1 billion from €6.8 billion. In addition, Miscellaneous Industrial Goods also showed a marginal decrease in exports (-0.7%, to €2.9 billion). By contrast, international demand rose for Chemicals & related products, by 0.2%, with their value reaching €5.0 billion, while exports of Machinery & transport equipment increased by 5.9%, with their value reaching €4.1 billion, up from €3.9 billion in the same period of 2022.

In terms of trends in the exports of goods by geographic region, they declined in the first ten months of 2023 to Eurozone countries by 1.3%, reaching €17.7 billion, down from €17.9 billion in the same period of 2022. To the EU as a whole, there was an annual decrease of 3.4% or €860.0 million, with exports to this region reaching €24.3 billion, down from €25.2 billion a year earlier. Among the Eurozone countries that absorb the largest share of Greek exports, there was a 10.7% increase to France, from €1.4 billion to €1.5 billion, and to Spain, by 2.1%, from €1.67 billion to €1.71 billion. Exports of goods to the major destination, Italy, decreased by 1.5%, to €5.09 billion in 2023 from €5.17 billion in 2022.

Table 3.6

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

Product	Value		% Change	% Share	
	2023	2022	23/22	2023	2022
AGRICULTURAL PRODUCTS	8,513.8	7,232.2	17.7%	20.1%	15.8%
Food and Live Animals	6,148.6	5,652.5	8.8%	14.5%	12.4%
Beverages and Tobacco	1,073.1	904.9	18.6%	2.5%	2.0%
Animal and vegetable oils and fats	1,292.0	674.8	91.5%	3.0%	1.5%
RAW MATERIALS	1,281.5	1,466.0	-12.6%	3.0%	3.2%
Non-edible Raw Materials excluding Fuels	1,281.5	1,466.0	-12.6%	3.0%	3.2%
FUELS	13,909.6	17,706.4	-21.4%	32.8%	38.7%
Mineral fuels, lubricants, etc	13,909.6	17,706.4	-21.4%	32.8%	38.7%
INDUSTRIAL PRODUCTS	18,220.3	18,707.3	-2.6%	42.9%	40.9%
Chemicals and Related Products	5,016.3	5,005.8	0.2%	11.8%	11.0%
Manufactured goods classified chiefly by raw material	6,131.5	6,838.9	-10.3%	14.4%	15.0%
Machinery and transport equipment	4,133.4	3,902.5	5.9%	9.7%	8.5%
Miscellaneous manufactured articles	2,939.1	2,960.1	-0.7%	6.9%	6.5%
OTHER	507.8	592.3	-14.3%	1.2%	1.3%
Transactions not classified by category	507.8	592.3	-14.3%	1.2%	1.3%
TOTAL EXPORTS	42,433.0	45,704.3	-7.2%	100.0%	100.0%

* Provisional data

Source: ELSTAT, PSE-KEEM

Among the other countries of the European Union, to which total exports decreased by 8.5% or €618.5 million, reaching €6.6 billion, Bulgaria continued to be the main export destination, with outflows to this country decreasing by 14.0% or €483.6 million compared to 2022.There were small changes towards two other countries that absorb a significant share of Greek exports, Romania

(+0.2% or €2.8 million to €1.5 billion) and Poland -0.5% or €4.0 million, at €777.1 million respectively.

Greek exports to the rest of Europe declined by 8.4%, from €8.5 billion in 2022 to €7.7 billion a year later. This was manifested primarily by Turkey, to which exports fell by 16.3%, from €1.9 billion to €1.6 billion, and secondarily by the UK, with a 12.3% decline, from €1.8 billion in 2022 to €1.6 billion a year later.

Exports to North American countries moved down by 7.1%, from €2.2 billion in 2022 to €2.1 billion in 2023, mainly due to a 10.0% decline in exports to the US, from €1.9 billion in 2022 to €1.7 billion in 2023. By contrast, exports to Canada increased by 1.6% or €3.6 million to €231.1 million and exports to Mexico increased by 23.4%.

Exports to the markets of Central-Latin American countries increased by 0.6% in the period January-October 2023, with their value reaching €366.0 million from €363.7 million in 2022. The rise in exports to the countries of this region is mainly due to the increase in demand for Greek products from Argentina, by 482.2%, which brought their value to €81.5 million from €14.0 million a year earlier. Exports declined to Panama (-21.3% or -€38.1 million) to €140.6 million.

Exports to the countries of the Middle East and North Africa also decreased, by 15.2%, to €5.0 billion from €5.9 billion, mainly due to the sharp decline in exports to Tunisia (-70.8%), where exports in the first ten months of January - October 2023 amounted to €130.2 million, compared to €445.3 million a year earlier, but also to Libya (-14.7%), where they fell by €240.2 million in 2023 compared to 2022 and reached €1.4 billion. To two also important export destinations in the Middle East, the United Arab Emirates, exports increased by 16.8% to €338.5 million, while exports to Saudi Arabia fell by 35.7%, to €320.5 million. In light of the recent military turmoil in Israel, it is worth noting that the total value of exports of goods to Israel and Lebanon in the first ten months of 2023 reached €1.7 billion, of which €547.4 million went to Israel.

Similarly, demand for Greek goods declined in Asia, to which exports fell by 17.1% in the first ten months of 2023, to €1.9 billion from €2.2 billion in 2022. This development was mainly due to a 61.7% decrease in exports to Singapore, from €258.2 million in 2022 to €98.8 million in 2023. By contrast, there was an increase in demand from Japan (+29.8%, to €280.3 million from €216.0 million in 2022).

The flow of Greek exports to Oceania decreased by 24.0%, with their value in the first ten months of 2023 standing at €169.9 million, down from €223.7 million a year earlier. The decline was driven by a similar trend towards Australia, to which exports fell at a rate of 20.7% to €155.8 million from €196.5 million a year earlier. Similarly, there was a decrease to New Zealand (-48.1%).

To recap, the 7.2% decline in Greece's exports of goods in January-October 2023 at current prices was caused by the decrease in petroleum products (-21.4%), raw materials (-12.6%), industrial products (-2.6%) and goods and transactions not classified by categories (-16.7%). The decline in the value of Greek exports is to some extent related to the deterioration of the international economic climate and the military conflict in Israel. The top five countries with the highest demand for Greek products are Italy, Bulgaria, Germany, Cyprus and Spain. At the same time, imports fell, reducing the trade deficit to €24.6 billion (-21.1%). The five countries with the largest share of imports of goods for the first ten months of 2023 are Germany, China, Italy, Iraq and the Netherlands. Greek exports and imports are expected to be affected in the coming period by the geopolitical tensions in the region, centred on the Middle East and the Israel-Hamas war, the Russia-Ukraine conflict and the tensions in Yemen, all of which are causing uncertainty.

Table 3.7

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

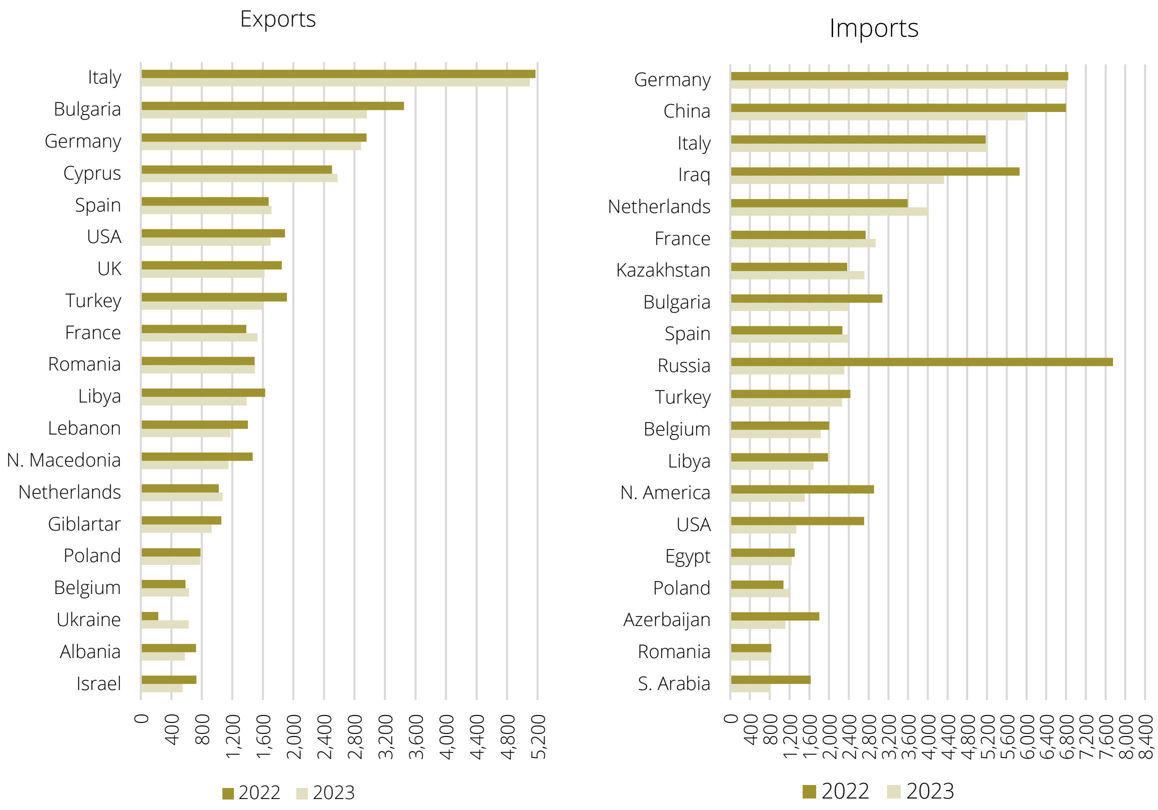
ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2023	2022	23/22
EU (27)	24,293.6	25,153.6	-3.4%
Euro Area	17,657.9	17,899.4	-1.3%
G7	13,350.9	13,694.7	-2.5%
North America	2,072.0	2,230.8	-7.1%
BRICS	629.9	843.4	-25.3%
Middle East & North Africa	4,991.2	5,885.0	-15.2%
Oceania	169.9	223.7	-24.0%
Central-Latin America	366.0	363.7	0.6%
Asia	1,851.5	2,233.5	-17.1%

* Provisional data

Source: ELSTAT, PSE-KEEM

Figure 3.11

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



Source: ELSTAT, PSE-KEEM. Processing: IOBE

Largest increase in exports of goods in absolute terms to Ukraine (+€398.4 million) in the first ten months of 2023. Largest decrease to Bulgaria (-€483.6 million). Italy's share of exports remains the highest. Largest import growth in the same period of 2023 in absolute terms from Turkmenistan (+€712.6 million), largest decrease from Russia (-€5.4 billion).

B. Balance of payments

- In the first 11 months of 2023, the Current Account (CA) showed a reduced deficit compared to 2022, at €11.9 billion, compared to €18.5 billion.
- A significant correction of the deficit in the goods account (90% due to fuel, under the effect of lower energy prices) and an increase in the surplus in the services account (with historically high travel receipts of over 20 billion) and secondary income account, with a deterioration in primary income.
- Despite the annual improvement, the CA deficit remains high, estimated at around 7.5 percent of GDP in 2023, down from 11.1 percent in 2022.

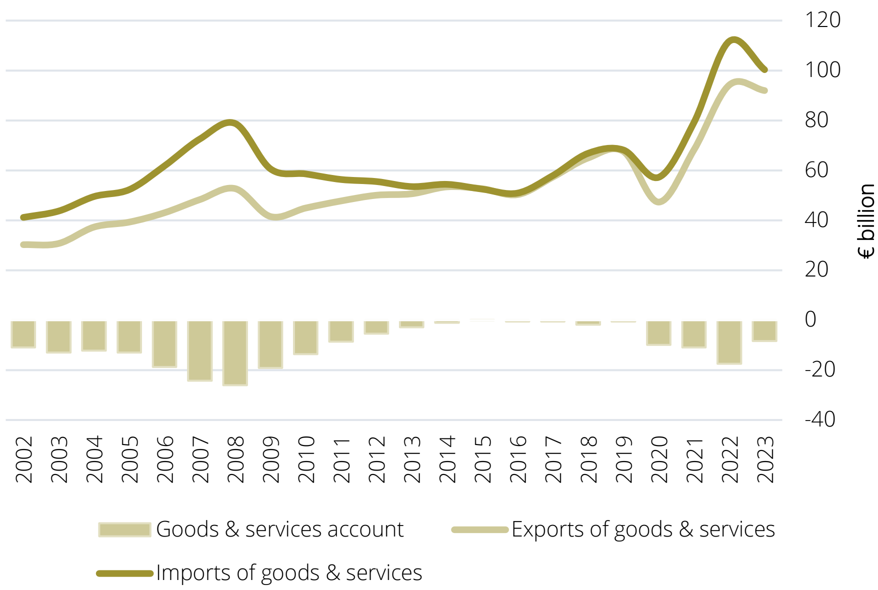
Current Account

January – November 2023

In January-November 2023, the current account (CA) recorded a deficit of €11.9 billion, down by €6.6 billion compared to 2022 (€18.5 billion). The correction came from a significant reduction in the deficit in the goods account, an increase in the surplus in the services account and an improvement in secondary income, while a deficit emerged in the primary income account.

Figure 3.12

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



Narrowing of the goods and services deficit in the first 11 months of 2023 to €8.4 billion, compared to €17.5 billion in 2022.

Source: Bank of Greece, Data processing: IOBE

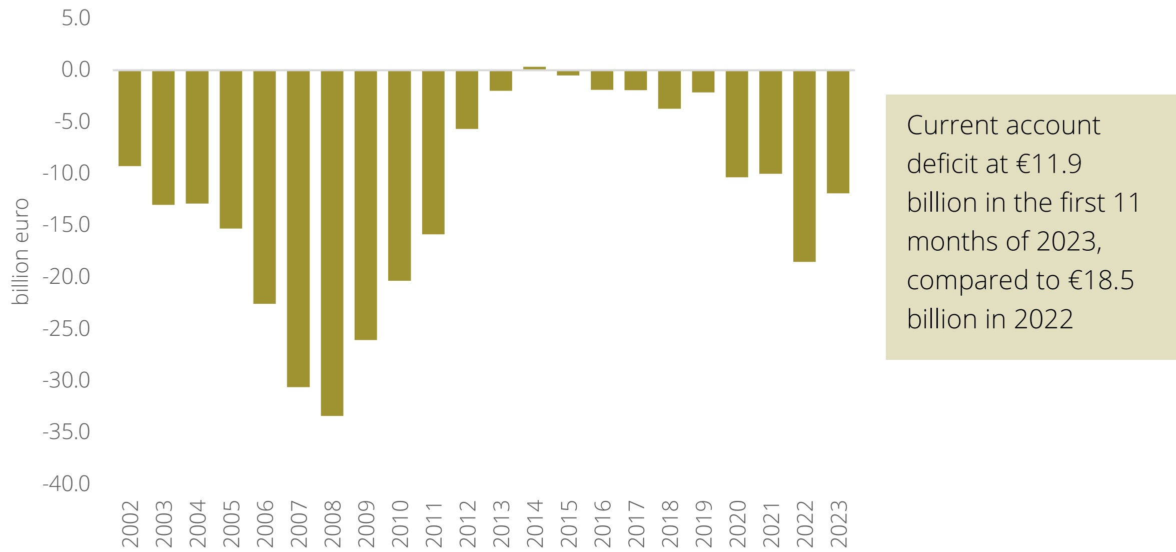
In detail, the goods deficit stood at €29.7 billion in January-November 2023, down by €6.9 billion compared to 2022. Almost 90% of the deficit correction came from the fuel category, with a decrease of €6.1 billion, under the effect of lower energy prices in 2023. Exports fell to €45.8 billion, (-€3.4 million)[15], with the category of other goods recording a decline of €509 million and fuel by -

[15] The amounts in brackets express the absolute change in relation to the corresponding period of the previous year, in current prices, unless otherwise indicated.

€3.0 billion. Imports of goods were down to €75.5 billion (-€10.3 billion), after a historically high level in 2022 (€85.5 billion). A strong decline in imports was recorded in fuels, with a fall of €9.1 billion, due to price decompression, while other goods recorded a relatively limited decrease (-€1.1 billion).

Figure 3.13

Current Account (January – November), 2002-2023



Source: Bank of Greece, Data processing: IOBE

The surplus on the Services Account widened in the first 11 months of 2023 to €21.3 billion, compared with €19.0 billion in 2022. Total receipts from Services stood at €46.1 billion, up €1.2 billion compared to 2022, while payments amounted to €24.8 billion, down €1.0 billion. Receipts from travel services strengthened significantly in the 11-month period by €2.7 billion. and stood at €20.1 billion, the highest recorded level even compared to the annual figures for 2019. Transport services stood at €19.3 billion, down €2.3 billion, while receipts from other services reached €6.8 billion, (+€792 million). Payments for travel services increased to €2.2 billion (+€468 million), payments for transport services decreased to €16.2 billion (-€1.7 billion), while finally payments for other services reached €6.4 billion, an increase of €220 million.

The deficit in the Primary Income Account worsened in 2023 to €4.2 billion in January-November 2023, compared to €675 million in 2022. Receipts strengthened to €8.9bn, up 29%, and payments increased to €13.1bn, compared to €7.6bn in 2022. The main reason for the increase in payments is the expansion of payments for investments (profits, dividends, interest) by €5.8 billion.

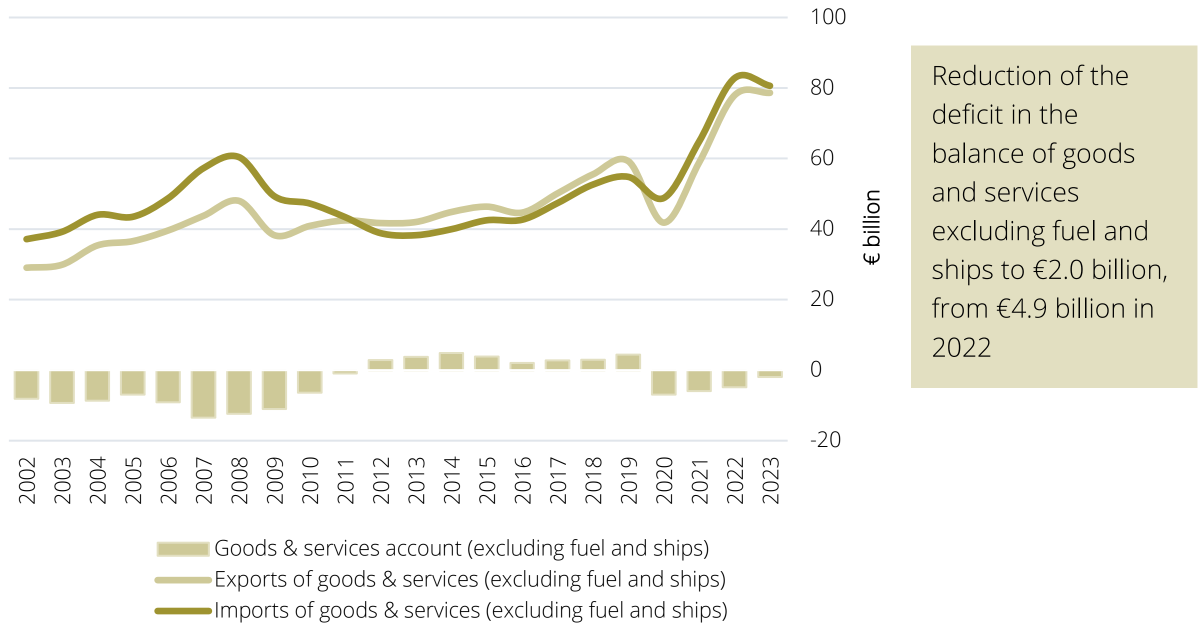
The Secondary Income Account improved significantly in 2023 to a €650 million surplus compared to a deficit of €308 million in 2022, with an increase in receipts to €4.5 billion (€468 million), and a decrease in payments to €3.8 billion (-€490 million).

Capital Account

The surplus on the capital account[16] contracted to €1.8 billion in the first 11 months of 2023, compared to €2.9 billion in 2022, mainly due to a decline in receipts to €2.4 billion (-€1.0 billion), while payments strengthened by €70 million. Finally, the Current and Capital Account, which reflects the position of an economy as a lender or borrower with the rest of the world, was in deficit at €10.1 billion, compared to €15.6 billion in 2022.

Figure 3.14

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



Source: Bank of Greece, Data processing: IOBE

Financial Account

The Financial Account was in deficit of €7.1 billion in the first 11 months of 2023, compared to a deficit of €13.4 billion in the same period of 2022.

In the individual accounts, residents' net claims on direct investment abroad increased by €3.5 billion, while net liabilities to non-residents (non-resident investment in the country) increased by €4.6 billion.

[16] 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).

In the portfolio investment category, residents' assets abroad increased by €3.0 billion and liabilities to non-residents increased by €5.6 billion, mainly due to the increase in bond and treasury bill holdings in both categories.

In the other investment category, claims from residents on the rest of the world decreased by €1.7 billion, mainly due to a €7.2 billion decrease in investments in deposits and repos, partly offset by the statistical adjustment from the issuance of banknotes, while liabilities decreased by €2.0 billion. Finally, the country's foreign exchange reserves stood at €12.3 billion at end-November 2023, compared with €11.1 billion in 2022.

Table 3.8

Balance of payments (€ million)

		January – November			November		
		2021	2022	2023	2021	2022	2023
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	**-9,994.6**	**-18,517.8**	**-11,883.4**	**-2,740.7**	**-3,908.9**	**-3,304.2**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-10,979.8**	**-17,534.6**	**-8,356.8**	**-2,422.7**	**-3,393.3**	**-2,454.2**
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	**-23,414.4**	**-36,565.8**	**-29,654.9**	**-2,907.6**	**-3,753.2**	**-2,866.9**
	Oil balance	-5,012.8	-12,405.4	-6,320.4	-972.1	-1,706.2	-529.5
	Trade balance excluding oil	-18,401.6	-24,160.5	-23,334.5	-1,935.5	-2,047.0	-2,337.4
	Ships balance	-22.2	-268.6	-46.4	7.8	-10.8	13.9
	Trade balance excluding ships	-23,392.2	-36,297.3	-29,608.5	-2,915.5	-3,742.4	-2,880.9
	Trade balance excluding oil and ships	-18,379.4	-23,891.9	-23,288.1	-1,943.4	-2,036.2	-2,351.4
I.A.1	Exports of Goods	**35,812.2**	**49,274.1**	**45,837.8**	**3,977.1**	**4,715.3**	**4,179.2**
	Oil	9,252.7	16,158.2	13,128.2	1,106.9	1,503.7	1,239.9
	Ships (sales)	113.0	100.1	203.2	26.1	9.4	26.0
	Goods excluding oil and ships	26,446.5	33,015.9	32,506.4	2,844.1	3,202.3	2,913.4
I.A.2	Imports of Goods	**59,226.6**	**85,840.0**	**75,492.8**	**6,884.7**	**8,468.5**	**7,046.2**
	Oil	14,265.5	28,563.6	19,448.6	2,079.0	3,209.9	1,769.4
	Ships (buying)	135.2	368.6	249.6	18.3	20.1	12.0
	Goods excluding oil and ships	44,825.9	56,907.8	55,794.5	4,787.4	5,238.5	5,264.8
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	**12,434.6**	**19,031.2**	**21,298.1**	**484.9**	**359.9**	**412.7**
I.B.1	Receipts	**32,446.8**	**44,921.3**	**46,139.9**	**2,519.5**	**3,020.7**	**2,796.2**
	Travel	10,316.6	17,433.0	20,115.4	271.0	337.3	401.1
	Transportation	16,944.4	21,530.6	19,274.7	1,762.0	2,042.0	1,795.1
	Other services	5,185.8	5,957.7	6,749.7	486.5	641.4	600.0
I.B.2	Payments	**20,012.2**	**25,890.1**	**24,841.7**	**2,034.5**	**2,660.8**	**2,383.4**
	Travel	999.9	1,748.3	2,215.9	116.2	138.8	194.8
	Transportation	13,598.7	17,965.8	16,229.6	1,436.6	1,880.6	1,532.7
	Other services	5,413.6	6,176.0	6,396.2	481.7	641.4	655.9
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	**347.1**	**-675.0**	**-4,176.2**	**-151.1**	**-327.3**	**-641.8**
I.C.1	Receipts	**6,071.7**	**6,908.9**	**8,884.0**	**429.4**	**539.4**	**658.3**
	From work (wages, compensation)	192.0	204.0	191.4	18.9	19.0	18.1
	From investments (interest, dividends, profit)	2,761.3	3,757.0	5,591.5	304.2	382.5	580.0
	Other primary income	3,118.4	2,947.8	3,101.1	106.3	137.9	60.2
I.C.2	Payments	**5,724.7**	**7,583.9**	**13,060.2**	**580.5**	**866.7**	**1,300.0**
	From work (wages, compensation)	1,186.5	1,373.8	1,217.2	116.7	122.7	110.2
	From investments (interest, dividends, profit)	4,071.1	5,588.6	11,365.2	430.9	705.7	1,147.8
	Other primary income	467.2	621.5	477.8	33.0	38.3	42.1
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	**638.1**	**-308.2**	**649.6**	**-166.9**	**-188.2**	**-208.2**
I.D.1	Receipts	**4,104.8**	**4,012.5**	**4,480.6**	**136.7**	**178.0**	**172.5**
	General government	2,833.8	2,467.6	2,415.7	35.4	46.0	20.1
	Other sectors	1,271.0	1,544.9	2,064.9	101.3	132.0	152.5
I.D.2	Payments	**3,466.8**	**4,320.7**	**3,831.0**	**303.6**	**366.2**	**380.8**
	General government	2,131.0	2,837.2	2,165.8	186.8	217.0	238.7
	Other sectors	1,335.8	1,483.5	1,665.1	116.9	149.3	142.1
II	CAPITAL ACCOUNT (II.1-II.2)	**3,569.4**	**2,926.1**	**1,823.6**	**464.0**	**272.5**	**-148.6**
II.1	Receipts	**4,438.7**	**3,453.4**	**2,421.1**	**493.5**	**294.4**	**4.2**
	General government	3,594.9	2,288.1	1,896.5	158.2	193.2	0.1
	Other sectors	843.8	1,165.3	524.6	335.3	101.2	4.0
II.2	Payments	**869.3**	**527.3**	**597.5**	**29.6**	**21.9**	**152.7**
	General government	4.5	6.6	6.4	0.6	0.6	0.6
	Other sectors	864.8	520.8	591.1	29.0	21.4	152.2
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	**-6,425.2**	**-15,591.8**	**-10,059.8**	***-2,276.8***	***-3,636.4***	***-3,452.8***
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-5,384.6**	**-13,434.8**	**-7,064.8**	**-1,897.1**	**-3,767.9**	**-3,108.7**
III.A	DIRECT INVESTMENT*	**-4,140.2**	**-5,365.4**	**-1,152.2**	**-672.3**	**-148.6**	**177.1**
	Assets	847.7	2,107.8	3,457.3	-141.8	420.1	680.1
	Liabilities	4,987.9	7,473.2	4,609.5	530.6	568.7	503.1
III.B	PORTFOLIO INVESTMENT*	**18,550.5**	**9,339.5**	**-2,611.9**	**4,018.2**	**-386.8**	**-3,379.0**
	Assets	22,862.4	10,587.3	2,977.8	4,298.8	799.3	-1,780.0
	Liabilities	4,311.9	1,247.8	5,589.8	280.6	1,186.0	1,599.0
III.C	OTHER INVESTMENT*	**-22,177.2**	**-15,300.8**	**-3,709.9**	**-5,204.0**	**-3,235.1**	**-8.6**
	Assets	4,672.9	-2,436.5	-1,745.3	357.9	157.1	170.0
	Liabilities	26,850.1	12,864.3	1,964.6	5,561.9	3,392.2	178.6
	(Loans of general government)	-387.4	-1,991.7	-68.1	-8.8	-11.4	130.3
III.D	CHANGE IN RESERVE ASSETS**	**2,382.3**	**-2,108.1**	**409.2**	**-39.0**	**2.6**	**101.7**
IV	BALANCE ITEMS (I +II +IV +V = 0)	**1,040.7**	**2,157.0**	**2,994.9**	**379.7**	**-131.5**	**344.1**
	RESERVE ASSETS (STOCK)***				**12,480**	**11,118**	**12,276**

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 Q3 2023 to 10.8% from 11.6% in Q3 2022.
- The decline in the unemployment rate was both the result of a strengthening of employment (+49,200) and a reduction in the number of unemployed (-4100).
- The private sector hires-leavers balance for the 12 months of 2023 was positive by 116,700 jobs compared to a positive balance of 72,900 jobs in 2022.
- Higher employment growth in Q3 2023 in Construction (+25,000 employees), Professional, scientific and technical activities (+19,300), Agriculture, forestry and fishing (+19,000), Human health and social work activities (+18,600).
- Employment fell most sharply in Wholesale and Retail Trade (-22,500 persons employed) and Education (-16,100 persons employed).
- Increase in the seasonally adjusted wage cost index in Q3 2023 by 5.8% compared to the same quarter of 2022.

According to the latest available data from the ELSTAT Labour Force Survey, the unemployment rate in Q3 2023 decreased by 0.8 percentage points to 10.8% from 11.6% in the same quarter of 2022. In the same period, the number of unemployed decreased to 514,600, down by 4100 or by 7.4%, while the number of employed persons increased by 1% or by 40,200 to 4,256,200. Accordingly, the decrease in the unemployment rate is due to both the increase in employment (+40,200) and the decrease in the number of unemployed persons (-4,100). Note that the seasonally unadjusted unemployment rate in November last year fell to 9.1% from 11.7% in November 2022 (-2.5 percentage points). Finally, according to the latest data from the ERGANI information system on private sector wage employment flows (December data), the balance of hires and separations for the whole of 2023 was positive by 116,700 jobs (3,214,200 hires and 3,097,600 separations) against a positive balance of 72,900 jobs (2,911,300 hires and 2,838,500 departures) for the whole of 2022.

Regarding the evolution of unemployment in the Eurozone in Q3 2023, 12 countries experienced a decrease in the unemployment rate and the remaining eight an increase. Over time, the highest unemployment rate is recorded in Spain, where it fell to 11.8% in Q3 2023 from 12.7% a year earlier (-0.9 percentage points). After Spain and Greece, the highest unemployment rates are found in France, Italy and Estonia. In the former, the unemployment rate rose to 7.5% from 7.7% (+0.2 percentage points), while in the other two it was 7.3% (from 7.7% and 5.6% respectively). Relatively high rates were also recorded in Finland (6.9%) and in the other two Baltic countries (Latvia with 6.5% and Lithuania with 6.2%). Conversely, the lowest unemployment rate in Q3 2023 was recorded in Malta where it fell to 2.5% from 2.9% a year ago (-0.4 percentage points), followed by Germany where it fell marginally to 3.0% from 3.2% (-0.2 percentage points). Note that the strongest increase in the unemployment rate was found in Estonia (+1.7 percentage points, from 5.6% to 7.3%), while the strongest decrease occurred in Croatia where it fell by -1.2 percentage points (from 6.7% to 5.5%). In the euro area, the unemployment rate in the period under review reached 6.5% (Appendix, Figure 7).

Regarding the evolution of the unemployment rate by gender in Greece, it remains higher for women but the fall in the unemployment rate for women has been stronger. In more detail, the unemployment rate for women fell to 14.4% in Q3 2023 from 15.4% in Q3 2022, a drop of 1.0

percentage point, while for men it decreased to 6.0% from 6.2% (-0.2 percentage points). Note that over the same period in the euro area the unemployment rate for women narrowed to 6.9% from 7.2% (-0.2 percentage points) and for men it fell to 6.0% from 6.2% (-0.2 percentage points).

Regarding the evolution of the unemployment rate by age, it decreases as age increases. In Q3 2023, the unemployment rate decreased in all age groups except for the 25-29 age group. In the other age groups, the strongest decline of 5.8 percentage points occurred in the 20-24 age group where it fell to 21.8% from 27.6%. This was followed by the 30-44 age group where the unemployment rate decreased by 1.3 percentage points to 10.6% from 11.9%, while the weakest decrease in the unemployment rate (-0.3 and -0.5 percentage points respectively) occurred in the 15-19 and 65+ age groups. Among the former it fell from 40.2% to 39.9% and among the latter from 7.2% to 6.7%. Finally, the lowest unemployment rates in the third quarter of the previous year were recorded in the 45-64 and 65+ age groups. In both of these categories the decrease in the unemployment rate was similar (-0.6 and -0.5 percentage points respectively). In the former it fell to 8.1% from 7.5% and in the latter, it decreased from 7.2% to 6.7%.

In relation to the duration of unemployment, both the share and the number of long-term unemployed have decreased. The long-term unemployment rate decreased in Q3 2023 to 60.3% (as a percentage of the unemployed) from 62.9% in Q3 2022 (-2.6 percentage points), while the number of long-term unemployed fell to 310,300 from 349,500 (-39,200 or -11.2%).

Figure 3.15

Labour force participation and unemployment rates

Unemployment rate in Greece fell to 10.8% in Q3 2023, from 11.7% in Q3 2022. The share of the active population remains below 53%

Sources: ELSTAT – Labour Force Survey, Eurostat

Regarding the evolution of the unemployment rate by level of education, it decreases as the level of education improves. In Q3 2023 in all education categories the unemployment rate decreased, except for those with a primary school certificate. The strongest decline and the lowest unemployment rate occurred among those who have completed a few grades of primary school or did not attend school at all where it fell to 14.3% in Q3 2023 from 28.7% in Q3 2022 (-14.4 percentage points). The second largest decrease, by 2.0 percentage points, occurred among persons who have finished high school where the unemployment rate fell to 11.1% from 13.1% in Q3 2022, while the lowest unemployment rate was experienced by persons with a doctoral or postgraduate degree. In this category the unemployment rate fell to 5.9% from 7.2%. Finally, the only increase is found among people with a primary school certificate where the unemployment rate increased to 11.8% from 11.3% (-0.5 percentage points).

Regarding trends in the regional dimension of unemployment, in five regions the unemployment rate increased and in the remaining eight it decreased. The highest unemployment rate was recorded in the region of Western Macedonia where it reached 17.3% in Q3 2023 from 19.1% in Q3 2022 (-1.8 percentage points), while the highest increase was recorded in the Ionian Islands region from 7.3% in Q3 2022 to 9.8% in Q3 2023. The region of Epirus recorded the second highest unemployment rate (15.4%), up by 0.2 percentage points compared to Q3 2022. The strongest decline occurred in the region of Central Greece where the unemployment rate fell by 4.2 percentage points, to 8.7% from 12.9%. The lowest unemployment rate in the same period was found in the South Aegean region where it fell to 3.0% from 5.1% (-2.1 percentage points), followed by the regions of the North Aegean and Attica. In the former, unemployment fell to 6.4% from 8.9% (-2.5 percentage points) and in the latter it remained at the same level as in the third quarter of the previous year, at 9.9%.

In relation to the evolution of employment by occupational status, a notable increase in employment of 17.6% or 22,500 persons was recorded in the category of assistants in family businesses (150,600 persons in the third quarter of 2023), while an increase of 5.9% was recorded for self-employed persons without staff (851,800 workers). In contrast, a decrease was recorded for both self-employed with personnel (by -2.3% percentage points, from 318,000 to 310,800) and employees (by -0.8 percentage points, from 2,965,300 to 2,943,000).

Full-time employees in the third quarter of 2023 increased by 66,700 or by 1.7% compared to the third quarter of 2022, reaching 3,973.700, while part-time employees decreased by 26,600 or by 8.8% to 276,100.

In relation to the evolution of employment by occupational category, six occupations experienced an increase in employment and four a decrease. The strongest increase in absolute terms (by 16,100 persons employed) was recorded in the category of persons engaged in scientific, artistic and related occupations, reaching 917,900 persons in the third quarter of 2023 compared to 901,800 persons in the same period of 2022. Also in absolute terms, the rise in employment in skilled farmers, stockbreeders, foresters and fishermen comes next. The strongest decline occurred in the third quarter of 2023 in office and related occupations, whose number fell to 459,600 from 474,700 in the same quarter of 2022 (-15,100 or -3.2%).

As regards the employment trend at the level of the main sectors, employment in the Primary and Secondary Sectors increased, while employment in the Tertiary Sector remained at roughly similar levels as in Q3 2022. In absolute terms, the strongest rise was recorded in the Secondary Sector where employment increased by 26,000 or 4.0% to 677,300. In the Primary Sector, employment increased by 19,000 or 4.1% to 481,300 in Q3 2023. Finally, in the tertiary sector, employment fell marginally by -0,800 persons, bringing the number to 3,095,800 persons.

At the level of economic activity, employment rose in 11 sectors and fell in eleven others. In absolute terms, the strongest employment growth in Q3 2023 occurred in Construction and Professional, scientific and technical activities. In the former sector, the number of persons employed increased by 25,000 (or by 16.7%) to 174,500 from 149,500, while in the latter by 19,300 (or by 57.8%) to 267,400 from 248,100. Also notable in absolute terms was the increase in employment in Agriculture, Forestry and Fishing (by 19,000 workers or by 4.1%) from 462,300. At the other end of the spectrum, the strongest decline in employment occurred in the Wholesale and Retail Trade sector where employment fell to 693,600 from 716,100 (-22,500 or -3.1%). The decline in employment was lowest in the Education sector where the number of persons employed fell by 16,100, to 312,600 from 328,700. Finally, in Human health and social work activities and Transport and storage employment increased by 18,600 (or 6.4%, to 307,200 from 328,600) and by 18,300 (or 8.7%, to 228,400 from 210,100), respectively.

In conclusion, the employment data at sectoral level show that the increase in employment in the third quarter of 2023 compared to the third quarter of 2022 was mainly due to the increase in the following sectors:

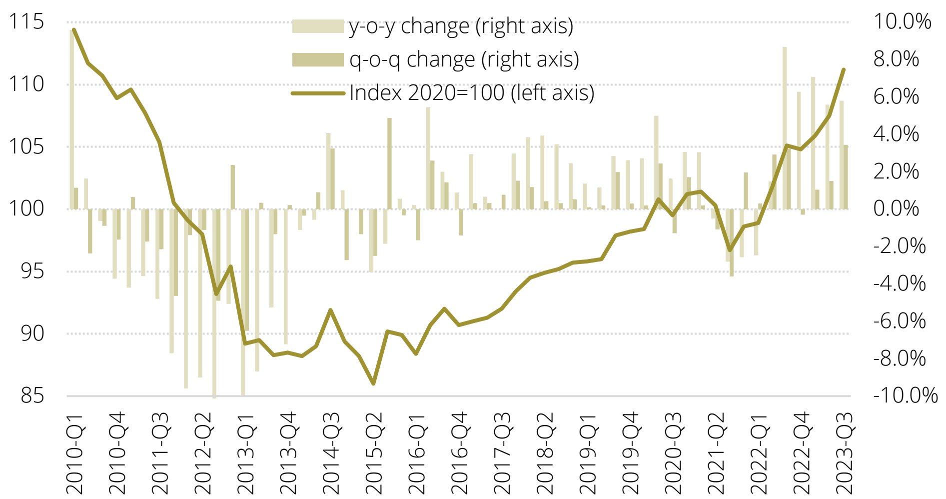
- Construction (+25,000 employees),
- Professional, scientific and technical activities (+19,300),
- Agriculture, forestry and fishing (+19,000),
- Human health and social work activities (+18,600),

despite a fall in employment in Wholesale and Retail Trade of -22,500 persons, and in Education of -16,100 persons.

As for the trend of the seasonally adjusted wage cost index for the Greek economy as a whole, it increased for the third consecutive quarter in Q3 2023, recording an annual increase of 5.8%, 3.4% higher than in the previous quarter.

Figure 3.16

Seasonally adjusted wage cost index and its percentage change



Increase in the seasonally adjusted wage cost index in Q3 2023 by 5.8% compared to the same quarter of 2022

Source: ELSTAT & Eurostat

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
Q3 2023	9,035.5	52.8	4,256.2	89.2	514.6	10.8

Source: ELSTAT, Labour Force Survey

Medium-term outlook

The recovery of the country's investment grade rating in the second half of 2023 (by three of the four international rating agencies recognised by the ECB) is expected to have further positive effects in terms of reducing Greek government borrowing costs and attracting new investments.

The acceleration of the implementation of the revised Recovery and Resilience Plan is also expected to have a positive impact on investment, and therefore employment, particularly in the energy sector and, in general, on longer-term investments. The employment effects of investment in the construction and infrastructure sectors are expected to be positive in 2024. Already since Q3 2023, an upward trend in employment in the construction sector has emerged (compared to Q3 2022). Positive employment effects will also come from the gradual maturing of major infrastructure projects. Finally, the forecast for a gradual acceleration of growth in the euro area, combined with the gradual improvement of the country's external balance are also expected to have mild positive effects in 2024 on employment, due to the increase in exports.

In the tourism sector, a record number of arrivals and departures were recorded for the whole of 2023 at the 14 main airports managed by Fraport (6.5% increase in passenger traffic compared to 2022). In addition, travel revenues in the current account reached an all-time high level, exceeding €20 billion. The extension of this year's tourist season played an important role in this direction, partly due to favourable climatic conditions, which is expected to be reflected in the relevant macroeconomic figures in Q4 2023 as well. While this positive trend is expected to continue into 2024, further positive effects on employment will be limited, as international competition in the tourism sector (and indeed from neighbouring countries) is also on the rise. In conclusion, while the tourism performance will be positive in the current year, the impact of the tourism sector on employment in 2024, compared to 2023, is expected to be neutral or marginally positive.

In terms of risks, geopolitical and economic instability is expected to persist or even intensify in 2024, both at the regional and international level (war in Ukraine and the Middle East, disruptions in international trade due to Yemen, elections in the US and the European Parliament). However, international energy commodity prices are expected to remain relatively stable in 2024, while inflation is expected to be slightly higher than the euro area average. The relatively high core inflation in the Greek economy, as well as persistent inflation in essential goods, is considered an important obstacle to competitiveness, and thus to overall employment. Challenges also arise from a possible extension of the period of elevated interest rates by the ECB. Finally, based on IOBE forecasts of a slowdown in consumption in 2024, the positive momentum in employment is expected to slow correspondingly.

Finally, the impact of the public sector on employment through subsidised programmes of the Public Employment Service and public sector recruitment should not be overlooked. Indicatively, in the first half of 2014, nine new programmes for work experience and labour market reintegration will be implemented for 115,500 unemployed people, while the government has planned additional recruitment of permanent and seasonal staff in the public sector (39,300 people).

As a concluding remark on the employment trend in Greece, as the country is now approaching single digits in terms of its unemployment rate, any reductions in the coming quarters or years will inevitably be slower. Alongside the country's gradual exit from the protracted crisis and the fight against cyclical unemployment, stronger efforts should be made to address remaining structural and frictional unemployment. In this direction, the issues of skills mismatch in the Greek labour market and the need to provide adequate and quality training, either as initial or ongoing, are considered important.

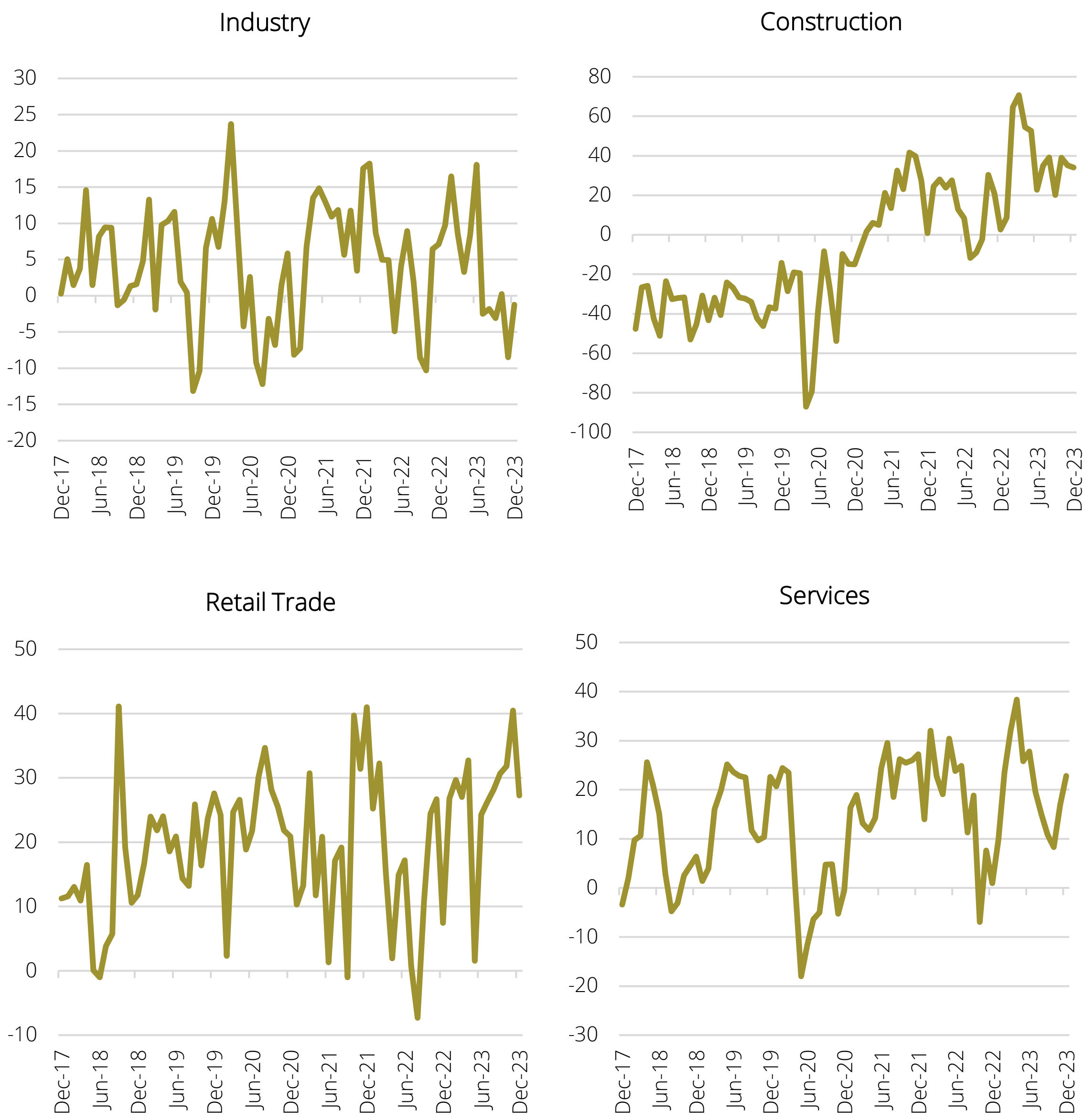
Taking into account the above labour market effects, the unemployment rate in 2023 is estimated to be in the region of 11.2%. As for 2024, the unemployment rate is expected to decrease to around 10.5%.

According to the latest IOBE Business and Consumer Survey data, in the October-December quarter of 2023 compared to the third quarter of the previous year, there was a marginal weakening in the short-term employment expectations in Industry, while in Services, Construction and Retail Trade the expectations improved slightly. Compared to the same period in 2022, there was a significant improvement in Construction, Retail Trade and Services, while there was a slight deterioration in Industry. In more detail:

In Industry, the average balance for the fourth quarter of 2023 weakened marginally compared to the immediately preceding quarter at -3 points. Compared to the same period last year, the quarterly average is lower by about 4 points. In the quarter under review, the percentage of industrial firms that anticipate a decline in employment in the near term strengthened slightly to 13%, up from 11% in the previous quarter, while the percentage of those expecting an increase in the number of jobs strengthened to 10% (from 8%). However, the vast majority of firms in the sector (78%) anticipate stability in employment terms.

Figure 3.17

Employment expectations (difference between positive and negative responses)



Source: IOBE

> In the fourth quarter of 2023, quarter on quarter, there is a marginal weakening in the short-term employment expectations in Industry, while in Services, Construction and Retail trade the expectations show a slight improvement

In Construction, the expectations suggest a slight improvement in the sector's employment balance, which strengthened from +31 points to +36 points, albeit at a significantly higher level compared to the same period in 2022 (+18 points). In the quarter under review, 5% of firms in the sector anticipate fewer jobs again, while the percentage of respondents expecting employment to rise improved to 41% (from 36%). At the level of individual sectors, there is a strong improvement in the indicator in Private Construction (+48 from +26 points) with the indicator in Public Works (+24 from +34 points) weakening significantly.

The Retail Trade employment expectations index strengthened mildly in the second quarter of last year compared to the immediately preceding quarter, to +33 points (from +28), a sharply higher performance than in 2022 (+20). Just 1% of firms in the sector expected jobs to decline as much as in the previous quarter, while 34% (up from 29%) expected employment to rise, with those expecting stability moving to 64% (from 69%) of the total. Among the individual sub-sectors surveyed, the relative balance is significantly stronger in Food & Beverages and less strongly in Textiles - Clothing & Footwear and Household Appliances, while a slight weakening is observed in Vehicles & Spare Parts and more strongly in Department Stores.

In Services, the expectations in the quarter under review suggest a marginal improvement compared to the previous quarter, and a significant strengthening compared to the same period last year. Accordingly, the balance for Q4 2023 strengthened by 1 point to +16 points in the quarter under review, while it improved by 15 points compared with the corresponding period in 2022. Of the firms in the sector, 10% (up from 4% in the previous quarter) expected a decrease in employment, with the percentage of those anticipating an increase coming in at 26% (up from 20%). At the branch level, the trend is sharply negative in Hotels-Restaurants, more moderate in Land Transport, while it is mildly positive in the other branches.

3.5 Consumer and Producer Prices

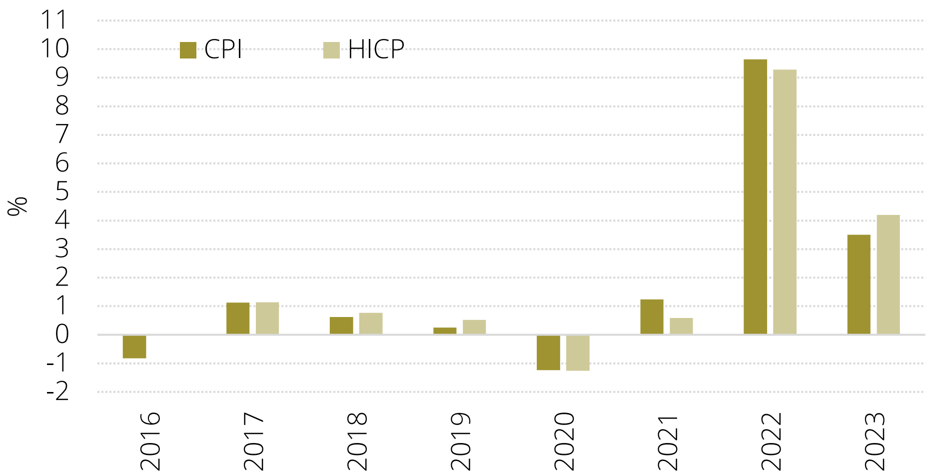
- Weaker increase in the HICP (CPI) in 2023, at 4.2% (3.5%) against inflation of 9.3% (9.6%) a year earlier. Price increases mainly from the upward effect in non-energy goods.
- Rate of change in HICP with fixed taxes and excluding energy at 6.9% in 2023, up from 6.0% a year ago.
- For 2024, the CPI is projected to strengthen at a rate in the region of 2.8%. Key assumptions:
    - consumer demand will strengthen by around 1.4%
    - the Brent oil price will remain almost unchanged annually on average

Recent developments

In 2023, prices increased compared to a year earlier, with the average rate of change in the domestic Consumer Price Index (CPI) at 3.5%, down from 9.6% a year earlier. The Harmonised Index of Consumer Prices (HICP) rose by 4.2% in the previous year, down from a 9.3% gain the year before. In December 2023, the rate of change in the country's Consumer Price Index (CPI) stood at 3.5%, down from 7.2% in the corresponding month of 2022. The HICP also saw an upward trend, with its rate of change standing at 3.7% in December 2023 from 7.5% in the same month a year ago. Note that core inflation[17] in Greece rose to 6.2% in 2023 from 5.7% a year earlier.

Figure 3.18

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



3.5% increase in the domestic CPI in 2023 year-on-year, down from 9.6% in 2022

Source: ELSTAT, data processing IOBE

Regarding the effects of the components of the HICP on its trend, the rise in the harmonised index was due to the positive impact of domestic demand, as the percentage change in the index with fixed taxes and excluding energy goods stood at 6.7%, up from 6.1% a year ago. Indirect taxation had virtually no impact on prices over the examined period, from a marginally negative impact of 0.1 percentage points a year ago.

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

As regards developments in energy commodity prices and their impact on the HICP, the average international oil price in 2023 recorded a decline compared to 2022. In particular, the average Brent oil price reached $82.5/barrel, down from $100.8/barrel a year earlier, recording a decrease of 18.2%.[18] The rise in the average euro/dollar exchange rate in 2023, by 2.6%, to 1.08 from 1.05 in 2022, reinforced the decline in the price of oil in euros, with the average price of oil at €76.2/barrel, 20.3% lower than in 2022. The decline in the price of oil, a key component of energy costs, is responsible for the negative contribution of energy commodity prices, by 2.3 p.p. to the rate of change of the HICP domestically in 2023, compared to a positive contribution of 3.1% in 2022.

Figure 3.19

CPI in Greece (annual percentage change per month)

The rise in the domestic CPI was higher in December 2023 (3.5%). The rate of change was lower than in the corresponding month of 2022 (7.2%)

Source: ELSTAT, data processing IOBE

The strengthening of HICP in Greece in 2023 places the country around the bottom of the ranking among euro area countries in terms of the rate of change, below the weighted average. The average rate of change of HICP in the euro area is 5.5% in 2023, down from 8.4% a year earlier. Domestic demand appears to have been the main driver of price increases in the euro area, as the price index with fixed taxes and excluding energy goods strengthened by 6.4% in the previous year, compared to 2022 (+5.1%).

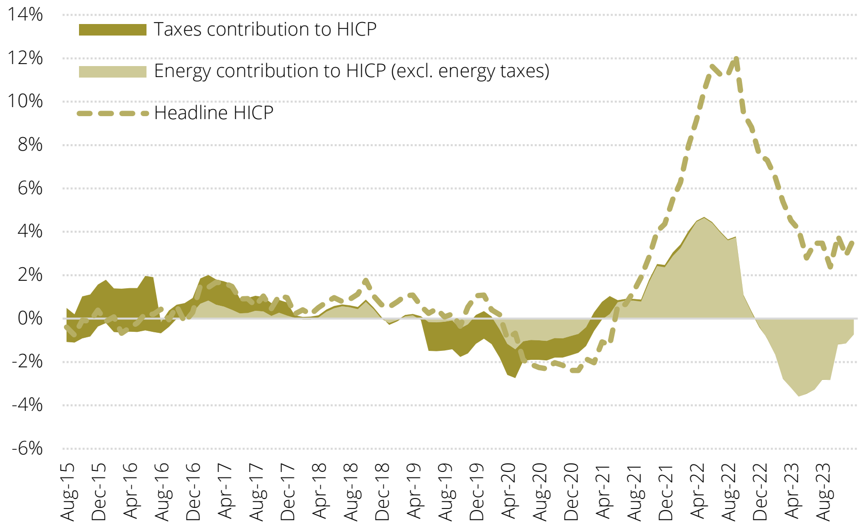
Regarding the trends in the individual categories of products and services included in the domestic General Price Index, the largest increase in 2023 was recorded in Food. Price growth in the Food category came in at 11.6%, from a nearly identical 11.7% gain a year ago. At lower level was the change in Durable Goods and Clothing where prices increased, by 6.7% in both categories, from a strengthening of 7.2% and 5.2%, respectively, a year earlier. Hotels saw a 6.5% strengthening following a 5.7% rise a year earlier, followed by Health at 6.0%, up from a milder 1.3% increase in 2022. Price increases were recorded in Other Goods, by 4.2% and Recreation, by 3.2%, from a 2.3% and 1.5% boost, respectively, a year ago. Price increases in Alcoholic Beverages and Education were 3.1% and 2.6%, respectively, up from an increase in the region of 1.3% both in 2022. In Transport, prices were marginally firmer in 2023 compared to a year earlier (0.2%), compared to a strong

[18] Period averages based on the Europe Brent Spot Price. Source: EIA, US Energy Information Administration https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

15.5% increase in 2022. By contrast, prices declined in Communications, by 2.5%, following a similar decline a year earlier, and in Housing (which includes energy bill costs), by 8.3%, after a rise of 24.7% in 2022.

Figure 3.20

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



The increase in HICP in 2023 is due to the prices of non-energy goods, while taxes now have no effect

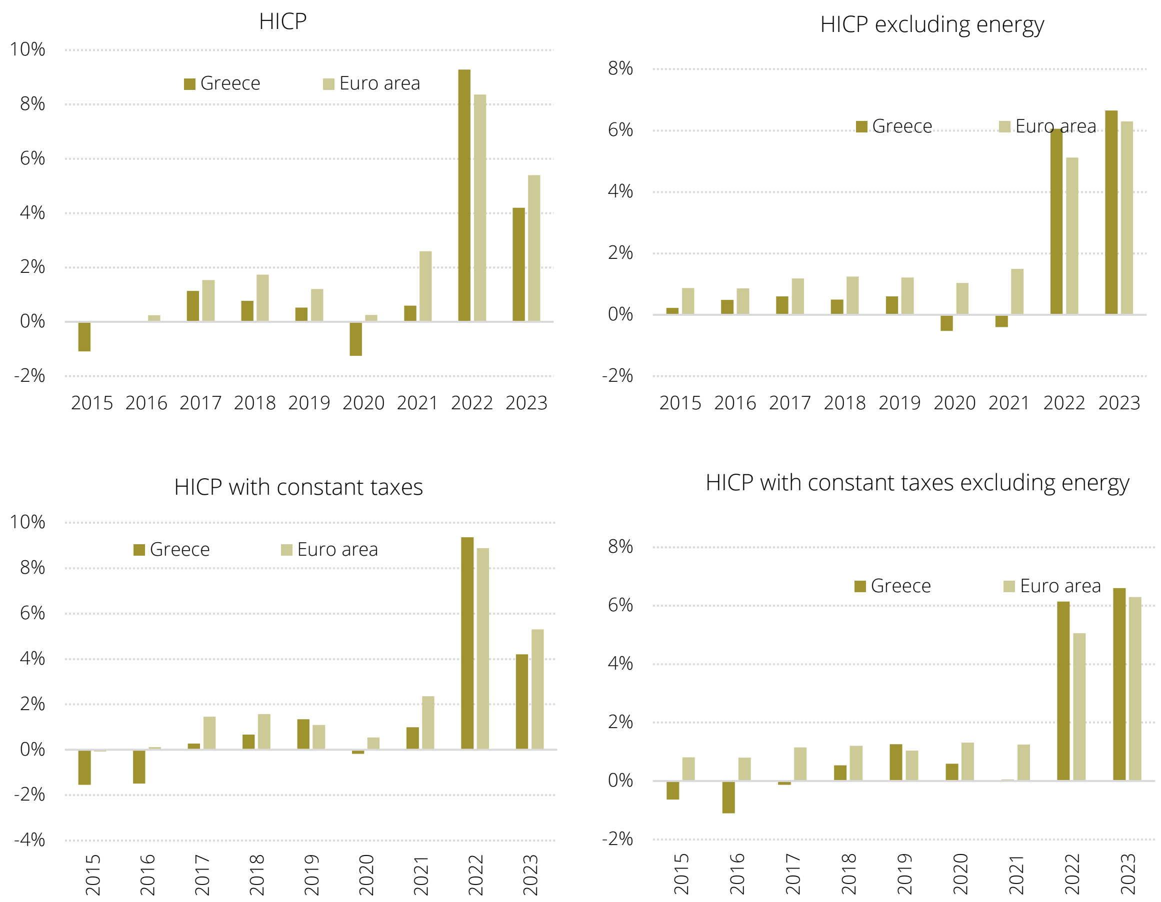
Source: Eurostat, data processing IOBE

As regards price trends on the production side in January - November 2023, the Producer Price Index (PPI), for the domestic and external market as a whole, declined compared to the same period in 2022 (-7.1%), mainly under the influence of the decrease in energy prices. In detail, the non-energy PPI strengthened by 4.9% over the period under review, compared to a sharper rise of 9.1% a year ago. Regarding trends in industrial commodity prices, Crude Oil and Wood Products recorded the highest increase, rising by 10.5% and 9.7%, respectively, compared to an increase of 23.5% and 16.5%, respectively, in the corresponding period of 2022. Producer prices rose in Food, by 9.4%, after a 9.0% increase a year ago. At lower levels was the boost to producer prices in Other Equipment, by 8.1%, and Paper Products, by 7.6%, compared to increases of 5.5% and 14.0%, respectively, in the first nine months of 2022. An increase in producer prices was recorded in the period under review last year in Non-metallic Minerals, by 7.1% compared to a rise of 7.5% a year ago, followed by Beverages, with a 6.6% strengthening, after a milder increase of 1.7% a year ago. In contrast, producer prices declined in Coal-Lignite Production and Refined Petroleum Products, by 28.8% and 21.5%, respectively, after a weakening of 30% and a stronger rise of 82%, respectively, a year ago.

Regarding the development of the Import Price Index (PPI) in January - November of last year, an annual decline of 12.6% was recorded, compared to a sharp rise of 29.3% a year ago. The fall in import prices places Greece last among the fourteen Eurozone countries for which data were available in the given period. A fall in import prices was recorded in Lithuania and Latvia, by 9.7% and 8.7%, respectively, compared to an increase of 28.9% and 21.7% respectively, a year ago. A decline in the same index was recorded in the Eurozone, by 7.1%, against a strong increase of 26.3% in the corresponding period of 2022. In contrast, an increase in import prices was recorded in Denmark (0.8%).

Figure 3.21

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



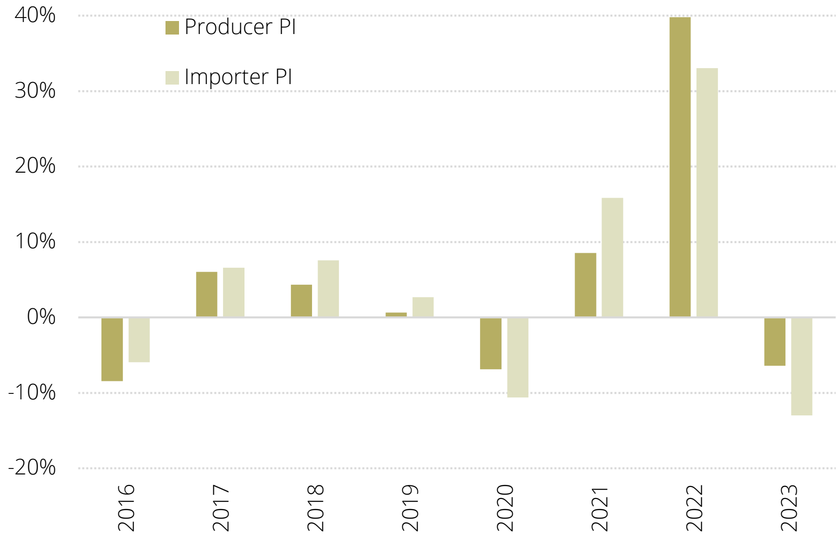
Source: Eurostat, data processing IOBE

Domestic price increases in 2023 as a whole lower than the euro area average, with the inflationary impact of non-energy goods (6.6 percentage points) marginally higher than the euro area average.

Among the individual categories of imported products, the largest increase in the first nine months of last year was recorded in the prices of Coal and lignite, 41.9% from a stronger increase of 58.0% a year ago, while the increase in the prices of Minerals was lower, by 11.5% against a 16.7% increase. In Furniture and Food, import prices rose by 5.7% and 5.2%, respectively, over the period under review last year, from a strengthening of 5.6% and 12.6%, respectively, a year earlier, followed by Electronics, up 4.7% after a rise of 8.7% a year earlier. Beverages and Non-metallic Minerals were recorded at lower levels, with price growth in these categories coming in at 4.5% and 4.0%, respectively, in the first half of 2023, up from a rise of 0.3% and 1.9%, respectively, a year earlier.

Figure 3.22

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



Import prices fall (-12.6%) in the first half of 2023, mainly due to the negative impact of the prices of energy goods. A decline in producer prices in the period Jan-Nov of the previous year (-7.1%)

Source: ELSTAT, data processing IOBE.

Medium-term outlook

Analysing the main components of the domestic Consumer Price Index in 2023, it was found that its rise is due to the positive impact of the prices of non-energy goods. Despite the deceleration of energy goods prices in the final quarter of last year, indirect, upward effects appear to have kept the upward price trend in key product categories albeit at lower rates than a quarter earlier. Note that, since June 2023, when the eleventh set of sanctions was imposed on Russia, the EU Member States have not imposed a new set of sanctions on international trade. However, the recent unrest in the Israeli region does not seem to have a stimulating effect on energy commodity prices for the time being.

Demand effects

As regards the expected trends in consumer demand, for this year as well the possible new increase in the minimum wage from 1 April 2024, the increase in unemployment benefits, the income support measures for vulnerable social groups (low pensioners, disabled persons, beneficiaries of minimum guaranteed income, etc.), as well as the return of the three-year wage maturation, are expected to boost disposable income and hence domestic demand.

In detail, the possible new increase in the minimum wage from 1 April 2024, pension hikes by an average of 3.1% from 1 January 2024, the return of three-year wage increments from 1 January this year, the payment of allowances in the private sector, as well as the new public sector wage grid to boost incomes, especially of low-wage earners from 1 January 2024, are expected to boost disposable income, thereby stimulating domestic demand. In addition, the reintroduction of the market pass, with extended criteria, until December this year, the extraordinary cost-of-living allowance, as well as housing measures for young people, are expected to boost domestic consumer demand. The increase in the tax-free allowance, the reduction in the ENFIA tax and the pension adjustment are expected to raise disposable income and subsequently domestic demand.

Finally, the support measures for electricity bills for 2024 are expected to have a positive impact on disposable income.

Consequently, aggregate consumer demand is expected to strengthen in 2024 by around 1.4%, maintaining prices at a high level to some extent.

It is noted that the natural disasters mainly in Thessaly in September are expected to exert upward effects on inflation in 2024, maintaining to some extent high prices in some categories of goods, such as dairy and cheese products, legumes and meat, mainly due to shortages and limited availability.

Tax effects

Regarding the expected effects of indirect tax interventions, in the current year no effects on price index changes are expected, as the reduced VAT rates on certain goods and services (transport, gyms, dance schools, entertainment) remain in place for the whole of 2024, as do the support measures for housing until December 2024. In addition, the reduced VAT rate on coffee and food services, as well as on taxi fares, is extended until 30 June 2024, a development that is not expected to have any impact on prices for the first half of the year. By contrast, the reinstatement of the VAT rate on served non-alcoholic beverages (soft drinks, non-alcoholic beers, sparkling water) at 24% as of 1 January 2024 is expected to have a positive impact on prices, but as it concerns a specific product category, it is unlikely to exert particularly strong upward pressure on the price index.

Energy effects

In terms of recent developments in energy commodities, the international Brent oil price averaged $77.6 per barrel in December 2023, down 4.1% from a year ago. The euro/dollar exchange rate in the same month stood at 1.09, up 3% from the same month in 2022. Subsequently, the average euro-denominated oil price stood at €71.2 per barrel, registering a 6.8% decline compared to a year earlier.

Regarding oil supply, at its last meeting last November, OPEC+, including Russia, decided not to impose cuts in its daily production for 2024. However, some member countries, led by Saudi Arabia, announced voluntary cuts totalling 2.2 million barrels per day for the first quarter of 2024. Specifically, Riyadh agreed to extend its voluntary production cut of 1 million barrels per day - in place since last July - until the end of the first quarter of 2024. Russia announced it would cut supply by 500,000 barrels per day over the same period, while Iraq reduced output by 223,000 barrels per day. Voluntary cuts in daily production were announced by the United Arab Emirates, Kuwait, Kazakhstan, Algeria and Oman.[19] By contrast, the U.S. increased its production by 9% in 2023, a strategy it is expected to follow this year. According to analysts' estimates, U.S. crude oil production is expected to reach 13.2 million barrels per day in 2024, setting a new record, with production growth slightly outpacing demand, allowing inventories to rise modestly and, by extension, depressing crude oil prices. However, recent developments in the Middle East, in turn, increase the risk of disruptions, which could lead to uncertainty about price developments. In this regard, OPEC is signalling that the current developments surrounding the war in the Middle East will not affect its decisions.

[19] ΟΠΕΚ, Press Release, No 25/2023

Note that, domestically, the measures to deal with high energy costs during the current year have had a certain restraining effect on energy price changes, as the energy prices taken into account in the CPI include subsidies.

World demand

The outlook for global growth in 2024 appears to be weakening gently, according to macroeconomic forecasts by international organisations. In particular, global GDP growth is expected to be around 2.7% in 2024, slightly lower than the growth rate projected in September (3.0%) mainly due to the tight monetary policy needed to contain inflation.[20] Growth in emerging market economies appears to be generally holding up better than in advanced economies, with growth in Europe relatively subdued compared to that in North America and the major Asian economies.

The upward trend in energy prices appears to be easing, with inflation, however, remaining in place, albeit at lower levels. Growth in China is estimated to come in at 5.2% in 2023 and 4.7% in 2024, mainly due to sluggish domestic demand and structural pressures in property markets. Growth in the euro area is expected to be lower, at 0.6% in 2023 (OECD, November 2023), while growth of 0.9% is forecast for 2024, as the negative impact of inflation on incomes has now faded. At the same time, higher financing costs and uncertainty will weigh on private investment, while stronger employment in some sectors keeps core inflation high in 2024, despite continued declines in headline inflation. Annual GDP growth in the US is expected to slow from 2.4% in the previous year to 1.5% in 2024, as private consumption and investment growth is expected to be moderated by the effects of tighter monetary and financial conditions.[21]

Finally, note that the recent unrest in the Red Sea has caused delays in the movement of goods to Europe and increased transport costs, as the number of transits of merchant ships, container ships and tankers through the Suez Canal has decreased significantly, with data showing an increase in the number of ships transiting the Cape of Good Hope.[22] As a result, the increase in transport costs may lead to an acceleration of prices.

Against this backdrop, it is estimated that the average oil price in 2024 will be $82.5/barrel, remaining almost unchanged compared to 2023 (-16.3%), mainly due to global demand.[23] The euro/dollar exchange rate this year is expected to remain on average at 1.08, the same as last year.[24] Thus, the average euro oil price is expected to reach €76.4/barrel in 2024, remaining almost stable compared to the previous year.

Taking into account the above trends and developments in the main factors affecting consumer prices, **the Consumer Price Index is projected to strengthen mildly this year, at a rate of around 2.8%, mainly due to non-energy goods**.

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 price change expectations are mainly bearish in Q4 compared to Q3 2023. In particular, price expectations are marginally down in Industry, mildly down in Services and Retail

[20] OECD Economic Outlook, November 2023: Restoring growth
OECD Economic Outlook, November 2023: Restoring growth
[22] International Monetary Fund, PORTWATCH
[23] Energy International Agency, Short-Term Energy Outlook, January 2024
[24] Macroeconomic projections, ECB, December 2023

Trade, while in Construction, by contrast, there is a marked increase. Year-on-year, price expectations recorded a sharp decline in Industry and in Retail Trade and a slight decline in Services, while prices in Private Construction rose slightly. In more detail:

In Industry, price expectations in the fourth quarter of the year weakened marginally compared with the immediately preceding quarter. Specifically, the index stood at -5 points, from -4 points in the previous quarter, falling by 32 points compared to the corresponding quarter of 2022. Of the firms in the sector, 15% expected prices to fall in the short term, while the percentage of those expecting them to rise fell to 10% (from 13%), with the remaining 75% expecting prices to remain stable.

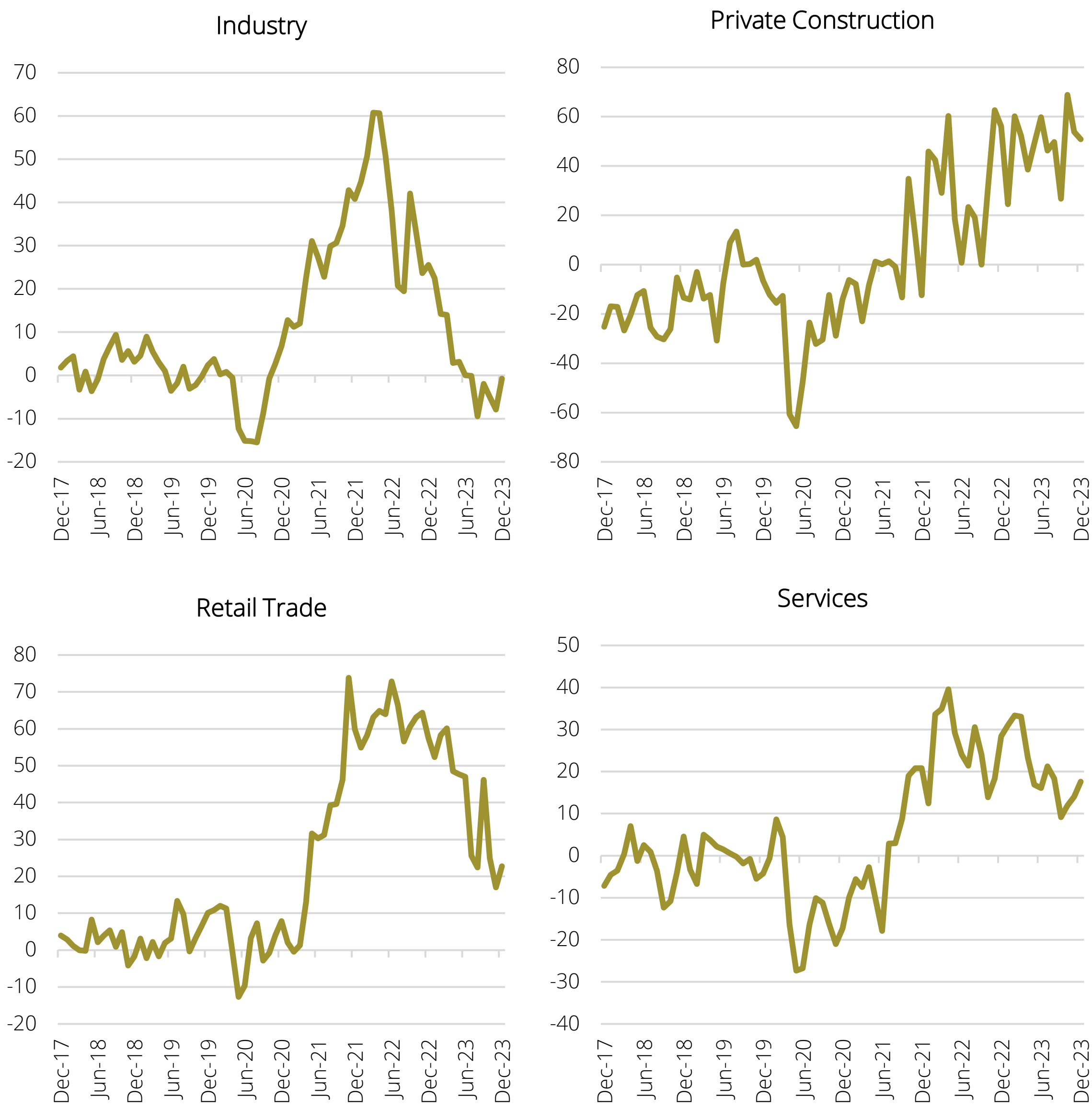
In Retail Trade, the price balance of +31 points in the sector's businesses in the previous quarter retreated by 10 points, while being 40 points lower than the corresponding period in 2022. Of the sector's businesses, just 8% expected prices to fall in the short term, while the proportion of those expecting them to rise fell to 30%, with the remaining 62% (from 59%) expecting prices to remain stable. In the individual branches of Retail Trade, the quarterly changes in price expectations in Q4 2023 were mixed. In Food-Beverages and Vehicles-Spare Parts, the price balance moved sharply downwards, while in the Textile-Clothing-Footwear, Household Equipment and Department Stores sectors, the price balance moved mildly upwards.

The average price change expectations indicator for Services in the quarter under review decreased marginally compared to the previous quarter and stood at +15 (from +16) points, while at the same time it moved slightly lower compared to the corresponding average performance of the fourth quarter of 2022 (-6 points). In the quarter under review, 6% (from just 1%) of companies in the sector expected prices to fall and 20% expected them to rise. The indicator weakened slightly in most of the surveyed branches, with the exception of Land Transport and IT, which strengthened slightly.

Finally, in the Private Construction sector, the strongly positive balance of +41 points of the previous quarter strengthened further to +58 points, having also turned mildly positive compared to the corresponding level of 2022 (+8 points). Moreover, just 2% of the sector's firms anticipated a decline in industry prices, while the percentage of those expecting a rise was 60% (up from 41%), with the remaining 37% (down from 59%) anticipating price stability.

Figure 3.23

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



Source: IOBE

The trends in price change expectations are mainly bearish in Q4 compared to Q3 2023. Price expectations are marginally down in Manufacturing, and mildly down in Services and Retail Trade, while in Construction there is a marked increase.

4 THE ECONOMIC AND SOCIAL FOOTPRINT OF PRIVATE INSURANCE IN GREECE IN 2022[25]

- The degree of penetration of private insurance in Greece remains relatively low compared to other European countries. Premiums as a percentage of GDP are lower in Greece in both non-life and life insurance, with Greece lagging further behind in the degree of development of life insurance.
- In countries with higher GDP per capita across Europe, there is a higher activity and participation of the private insurance sector in the economy.
- The total contribution of the private insurance sector to GDP is estimated at €2.5 billion in 2022, with a significant opportunity for further contribution if the size of the sector converges with Europe. The total contribution of private insurance to domestic employment is estimated at 49,700 full-time jobs in 2022.

Key figures and indicators of private insurance in Greece

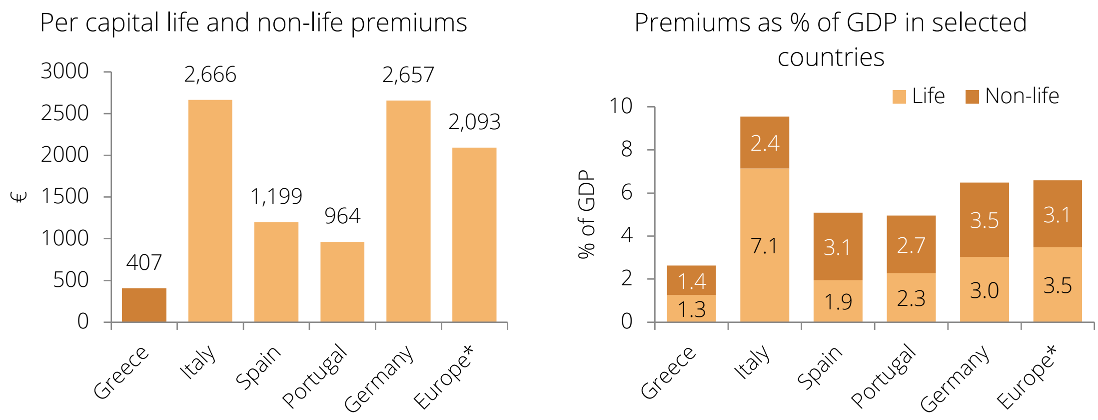
The penetration of private insurance in Greece, as expressed by the ratio of premium production to GDP (at current prices), was 2.4% of GDP in 2022. The gap in the degree of private insurance penetration that separates Greece from other countries is large, as premiums as a percentage of GDP are much lower in Greece in both non-life and life insurance (Figure 4.1).

With a total insurance market size corresponding to per capita premiums of €405 (2020 data), Greece ranks one of the lowest in Europe based on this indicator. The corresponding average for the European market as a whole is 5.2 times higher (€2,087/person), while compared to other countries,[26] Greece's gap ranges from 2.4 times compared to Portugal to 6.6 times compared to Italy.

[25] The chapter is based on a recent IOBE study on the economic and social footprint of private insurance in Greece in 2022. The full text of the study is available here: http://iobe.gr/research_dtl.asp?RID=300
[26] We examine data from the countries of the European "south" (Italy, Spain, Portugal) and Germany.

Figure 4.1

Premiums per capita and premiums as a percentage of GDP in select countries, 2020

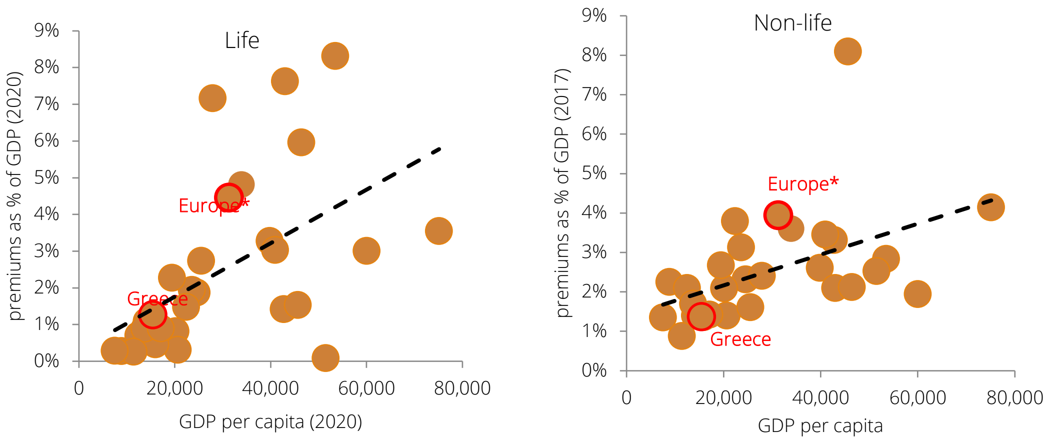


Source: Insurance Europe. * Europe includes the EU-27, the UK, Switzerland, Norway, Iceland, Switzerland, Iceland and Turkey.

The variation in the degree of private insurance penetration between countries is partly a result of different levels of economic development. Countries with higher GDP per capita have higher private insurance activity in the economy (Figure 4.2). The correlation is stronger in life insurance, but there is also greater dispersion in the degree of penetration.

Figure 4.2

Private life insurance penetration and level of economic growth in Europe, 2020

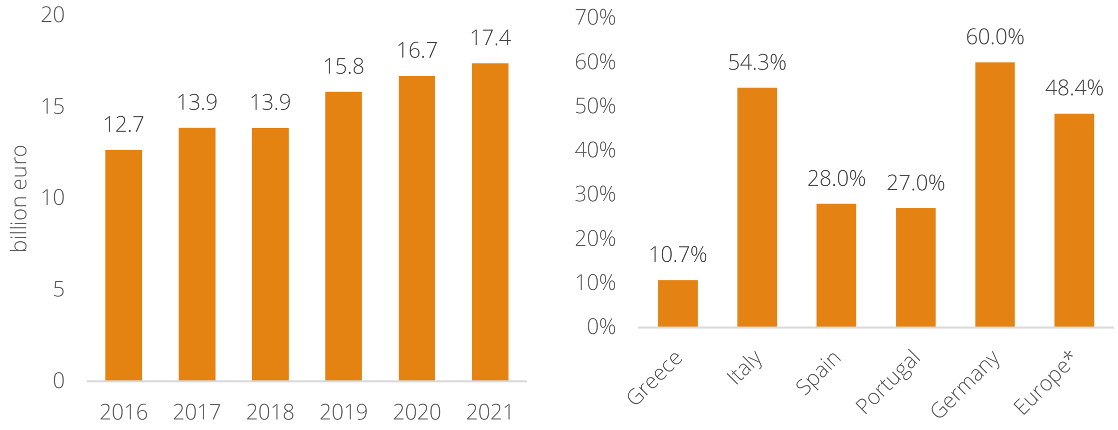


Source: Insurance Europe, Eurostat, IOBE analysis. Europe includes the EU-27, the UK, Switzerland, Norway, Iceland, Switzerland, Iceland and Turkey. Luxembourg is not included as it is an outlier.

The nature of the insurance business requires the short-term and/or long-term investment of collected premiums and other income. The investment choices of insurance companies depend to a large extent on the characteristics of the future liabilities arising from the policies in their portfolio. The size and flow of premium production, combined with the long-term nature of a large proportion of the liabilities, make insurance companies important institutional investors. The investments of insurance companies operating in Greece amounted to €17.4 billion in 2021 (Figure 4.3).

Figure 4.3

Investments of insurance companies in Greece. Evolution and percentage of GDP compared to other countries in 2020



Source: Financial data of insurance companies in HAIC, Insurance Europe.

Investment by insurance companies is significantly lower in Greece than in other countries, especially in the life sector. The large gap reflects the accumulated past differences in the penetration of private insurance. It is worth noting here that, due to the high penetration of private insurance, insurance companies are the largest institutional investors in Europe, with an investment portfolio that, according to Insurance Europe, exceeded €10.6 trillion in 2020.

Contribution of private insurance to the Greek economy and society

Private insurance, with its risk pooling and risk management services and the compensation it pays, provides essential support and protection to individuals, businesses and organisations, making a catalytic contribution to entrepreneurship, economic growth and social stability. At the same time, the provision of insurance protection is a service that contributes to GDP and, by performing their core functions, insurance companies create jobs in the economy and revenues for the public sector.

The output value, value added, jobs and tax revenues generated by the industry's activity constitute its direct effect on the economy. The provision of insurance protection requires the use of goods and services from other sectors of the economy, such as the services of insurance intermediaries and other partners of insurance companies, real estate, energy, communications, banking, legal, consulting and other services, etc. In addition, the production of these goods by the direct suppliers of the private insurance industry relies on supplies from other sectors of the economy. In this way, expenditure on the purchase of insurance products creates value added and supports jobs in a chain of economic activities.

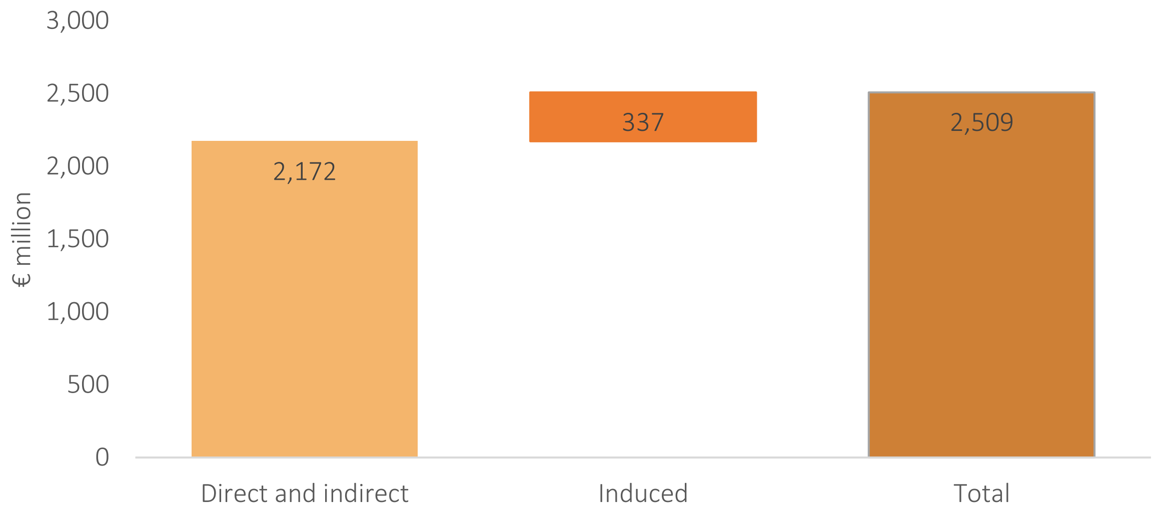
The activity that is generated throughout the value chain and that goes beyond the direct activity in the insurance industry is called an "indirect effect" in the terminology of socio-economic impact analysis. The employees (direct and indirect) are remunerated and then they spend their wages on purchases of goods and services, generating revenues in sectors and firms that provide these goods and services (induced effect). The total contribution of the insurance industry to the economy is the sum of the direct, indirect and induced effect.

Impact on GDP

The direct and indirect contribution of private insurance in Greece is estimated at €2.2 billion in terms of Gross Domestic Product and corresponds to 1.0% of the country's GDP in 2022. Taking into account also the effect of the consumption expenditure of employees in the sectors participating in the private insurance value chain (induced effect), the total contribution of the insurance sector to the Greek economy in 2022 is estimated at €2.5 billion or 1.2% of GDP (Figure 4.4).

Figure 4.4

Total impact of private insurance on GDP, 2022



Source: IOBE analysis.

Contribution to employment

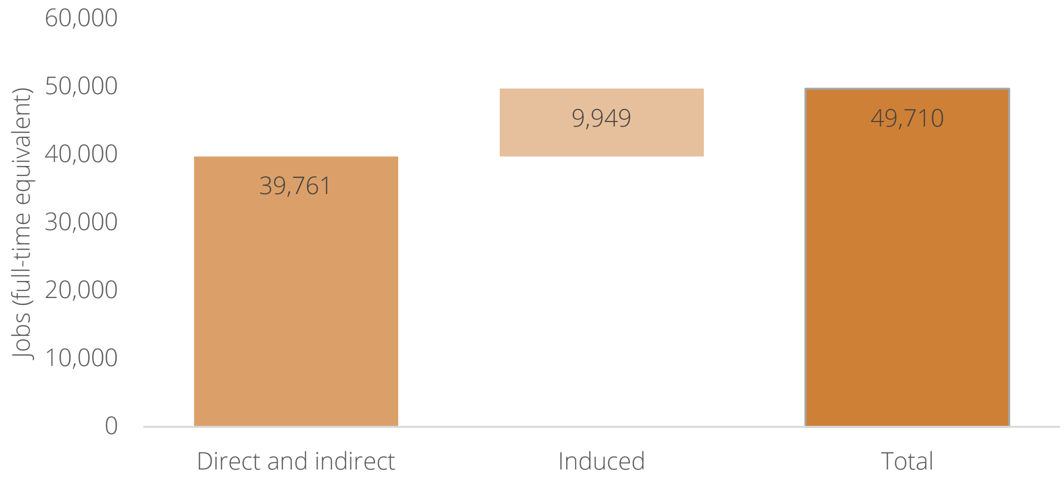
The private insurance sector also makes a significant contribution to employment, a variable with a strong economic and social dimension. The direct and indirect impact of the private insurance value chain is estimated at 39,800 jobs (in full-time equivalents), corresponding to 0.8% of total employment in Greece in 2022. The total contribution of the private insurance value chain to employment is estimated at 49,700 jobs (Figure 4.5). This level is equivalent to 1.0% of total employment in Greece in 2022. In this way, each direct job in the private insurance sector supports a further 5.7 jobs in the Greek economy.

Contribution to public revenues

The provision of services by the private insurance industry contributes to the tax revenues of the state and to the receipts of social security funds. In particular, the state's revenues from taxes and contributions resulting from activities in the private insurance value chain (direct and indirect contribution of the private insurance sector to public revenues) are estimated at €921 million and constitute 1.7% of the state's tax revenues in 2022. Including induced effects, the total contribution of the private insurance sector to government revenues is estimated at €1.12 billion, constituting 2.0% of government tax revenues (Figure 4.6).

Figure 4.5

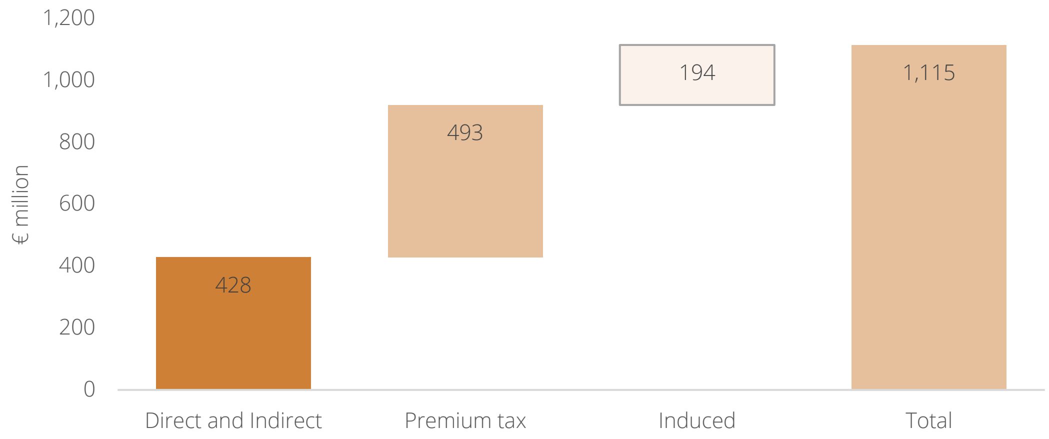
Total impact of private insurance on employment, 2022



Source: IOBE analysis.

Figure 4.6

Total contribution of private insurance to public revenues, 2022



Source: IOBE Analysis. * Including social security contributions.

Conclusions

The domestic insurance market continued its expansionary course in 2022. However, compared to other European countries, the gap in penetration rates in Greece in the two main insurance sectors remains wide, even taking into account differences in income levels.

Apart from the level of GDP per capita, the different degrees of penetration of private insurance in Greece compared to other European countries can be explained by factors such as the lack of a complementary role of private insurance in the social security system, the lack of implementation of tax incentives, the public perception of the safety net that the Greek state should provide in case of events that cause major damage, the fewer regulations for compulsory insurance in sectors other than motor vehicles and the lack of basic financial public education in Greece.

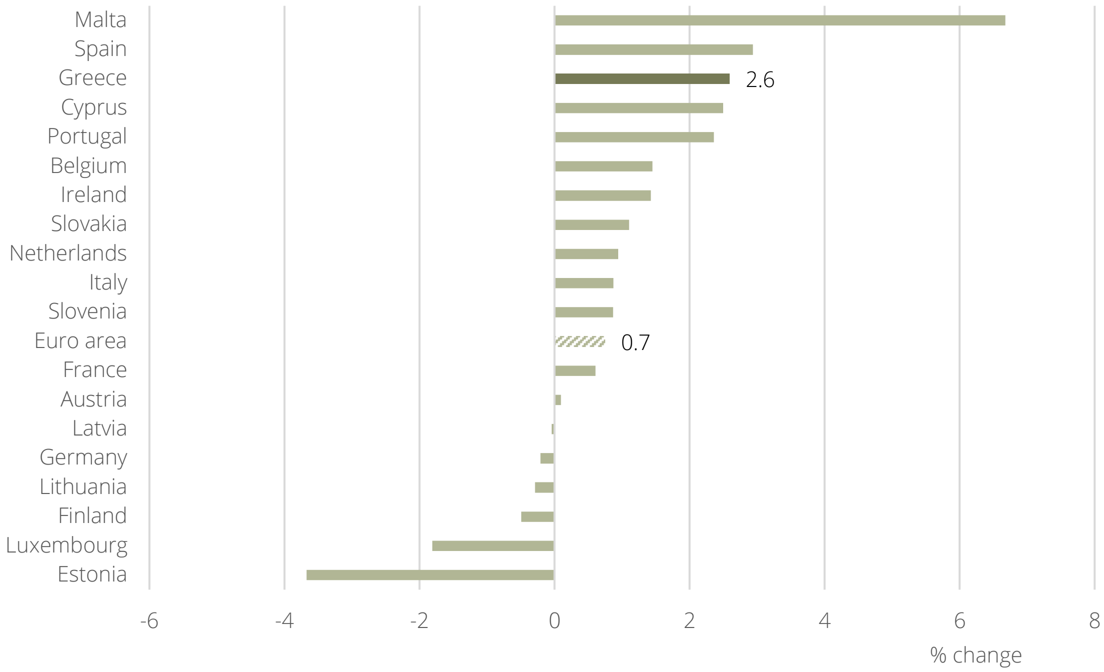
The contribution of the insurance sector to the Greek economy is particularly significant in terms of GDP, employment and public revenues. Particularly substantial are the indirect (multiplier) effects of the sector's activity, but also the catalytic effects, both at the economic level (stability of living standards, strengthening entrepreneurship and growth, fiscal and other macroeconomic effects, etc.) and at the social level (strengthening social stability, safeguarding jobs in the economy, risk prevention and management, etc.), which are, however, difficult to quantify.

Given the significant contribution of private insurance to the Greek economy, but also the low level of penetration compared to more developed European countries, incentives (tax and other) for long-term savings/pensions/health, as well as the introduction of compulsory home insurance schemes (e.g. for natural disasters, earthquakes), through cooperation between the Public Sector and the private insurance industry, could be considered.

APPENDIX

Figure 1

Real GDP growth rate, Q3 2023 (*)

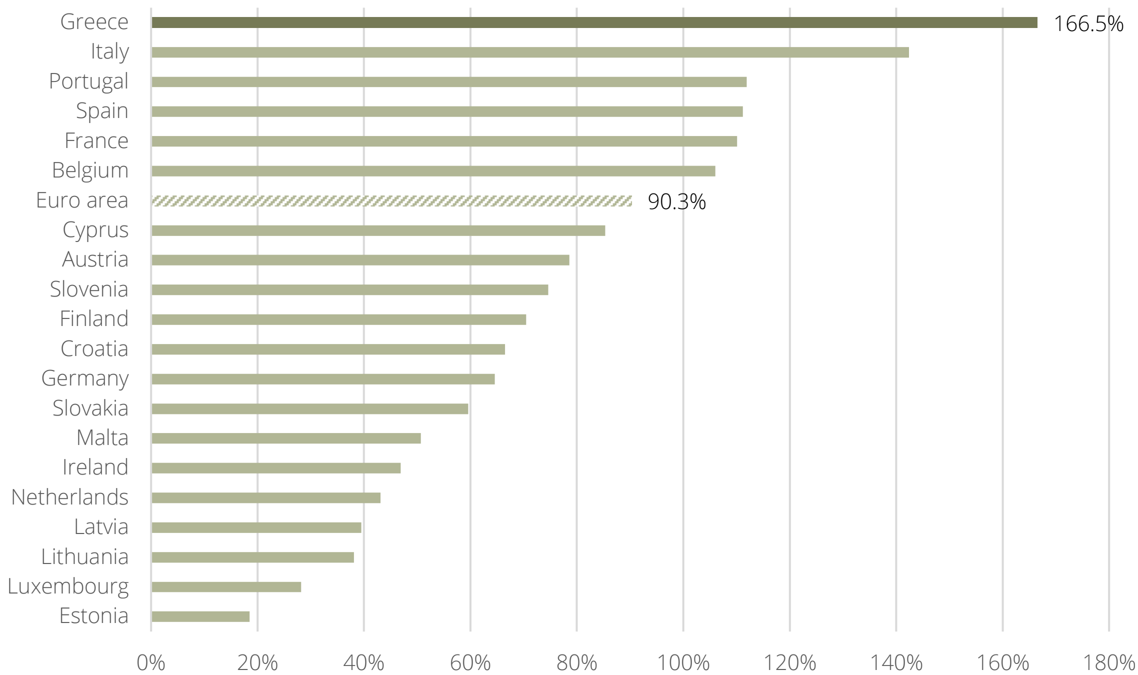


(*) Annualised GDP data (moving average of 4 quarters, up to and including Q3 of 2023)

Source: Eurostat

Figure 2

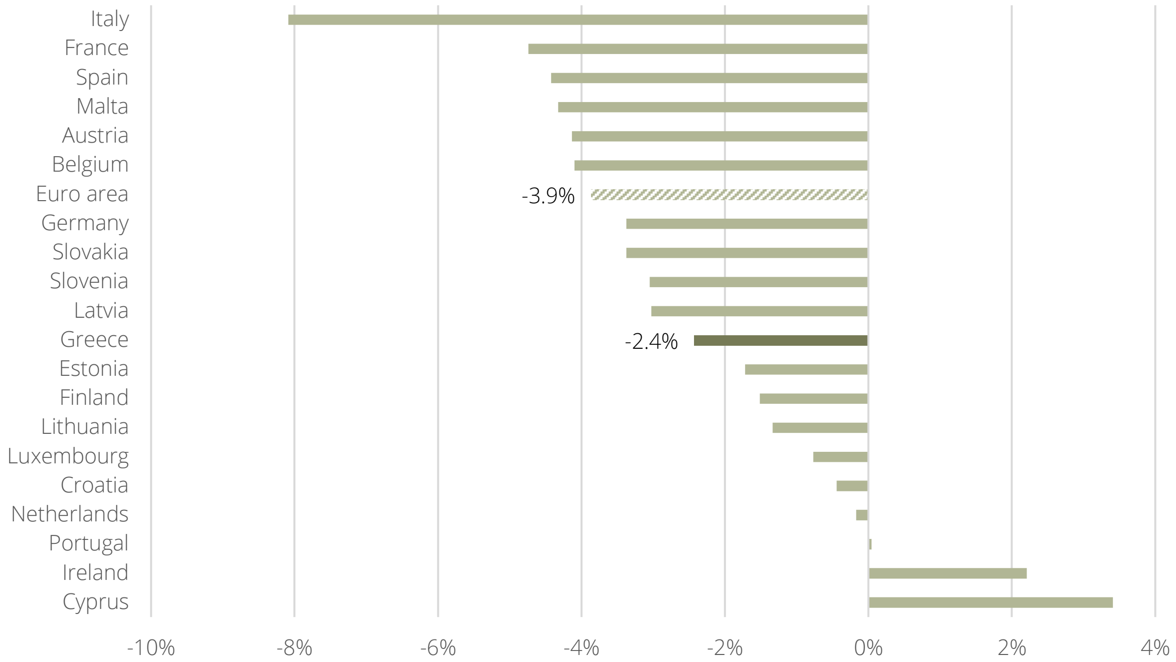
General Government Debt as % of GDP, Q2 2023



Source: Eurostat

Figure 3

General government balance as % of GDP, Q2 2023

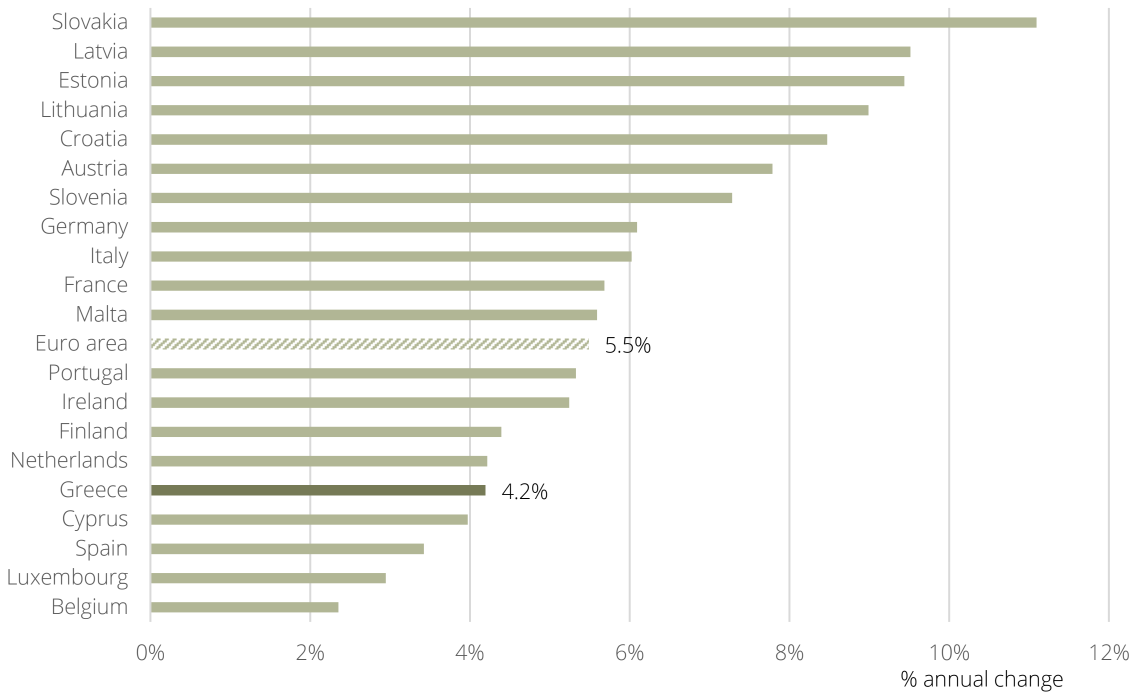


(*) Annualised data (moving average of 4 quarters, up to Q2 2023)

Source: Eurostat

Figure 4

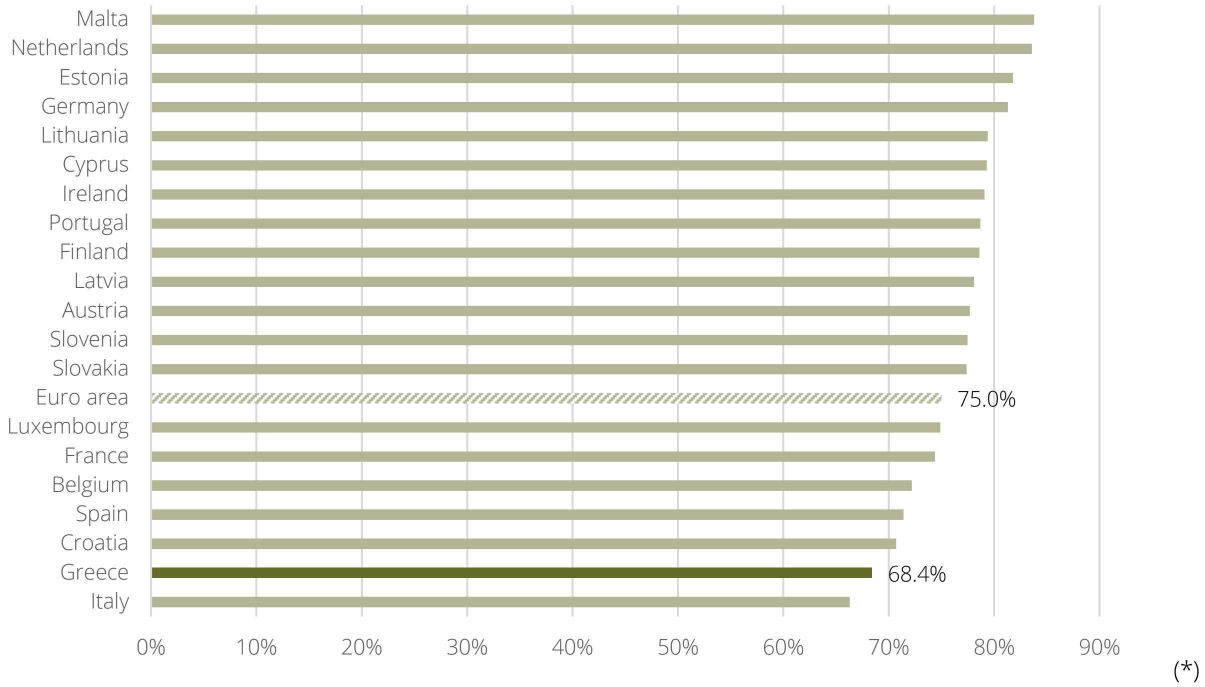
Harmonised Index of Consumer Prices, January - December 2023



Source: Eurostat

Figure 5

Employment, Q3 2023 (*)

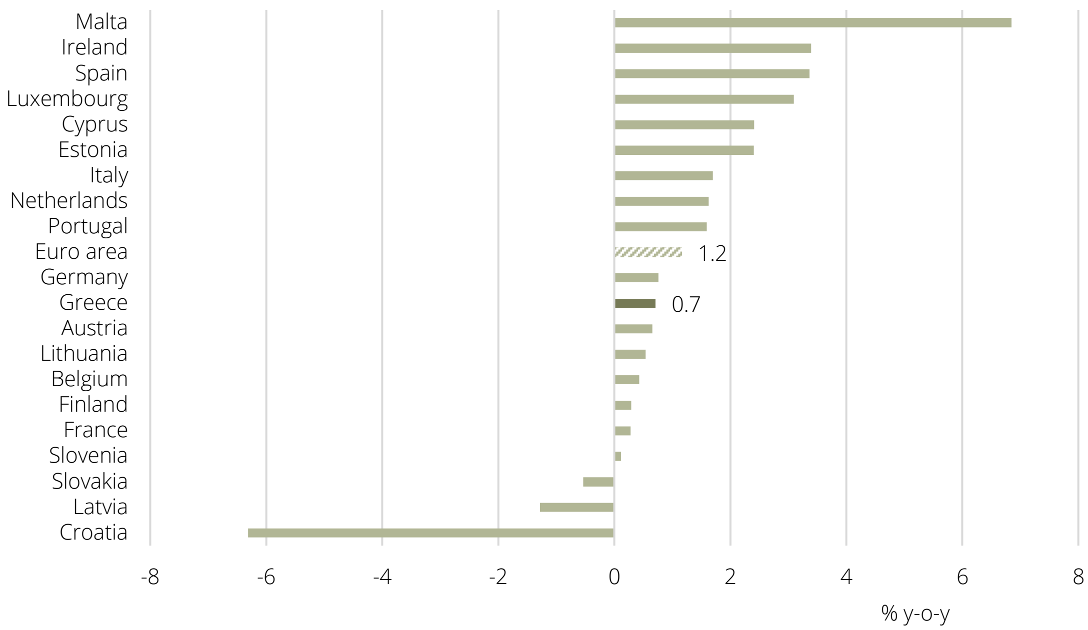


% of employed people aged between 20 and 64 in relation to their total population

Source: Eurostat

Figure **6**

Change in employment, Q3 2023 (*)

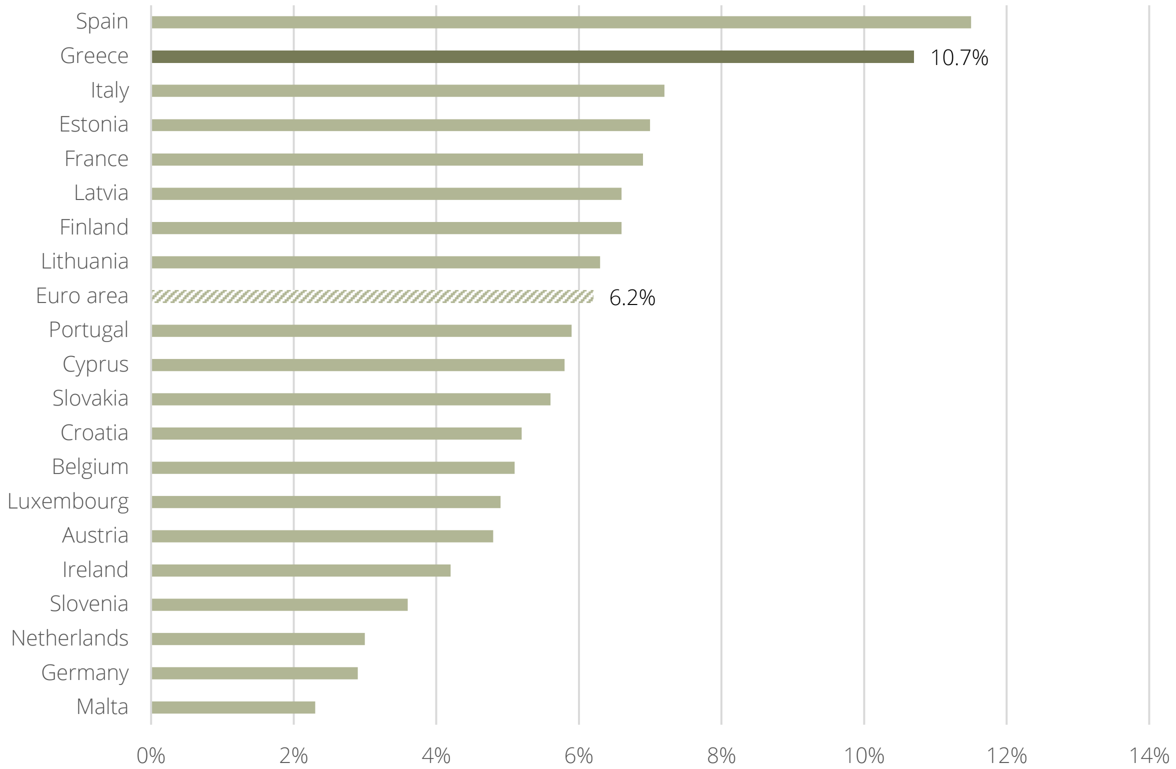


(*) employed people aged between 20 and 64

Source: Eurostat

Figure 7

Unemployment, Q3 2023 (*)



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

Source: Labour Force Survey, Eurostat