

# Quarterly Report on the Greek Economy

02 / 24

July 18th 2024



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Overview of the report





# The importance of investment in the new production model

## **Investment is crucial both in the short-run and in the long-run**

- It's a prerequisite for maintaining and increasing the growth rates
- The goal is to converge to the investment rate of other countries in Europe in the medium-term
- Benefits: Gradual closing of the investment gap, productivity enhancement, public debt management

## **Investment mix and prerequisites**

- Exports and new production
- Product and service areas that incorporate innovation
- The adverse demographic trends and the weak domestic demand prospects act as counterbalance
- Stable and simple regulatory and tax framework, infrastructure, and human capital enhancement

## **The important role of the labor market**

- Conditions for reducing unemployment and strengthening the workforce
- Jobs in higher value production chains



# 50 years of democracy, challenges in the global environment, priorities for the future

## Post-dictatorship regime change: Progress and missed opportunities

- Incomes have increased, large inequalities have decreased, property values have increased, infrastructure, healthcare, and education have improved
- Integration into European institutions, increased stability, increased financing from abroad, transfers from European funds and higher levels of public borrowing
- Development lag compared to most other European countries
- Qualitative characteristics of expansion that do not ensure a strong growth trajectory in the long term
- Deep and prolonged debt crisis

## Challenges in the global environment

- Economic, geopolitical, demographic
- Questions regarding the deepening of European institutions

⇒ **Investments in physical and human capital are an immediate priority for the Greek economy**



# Global environment : resilient economic activity amid persistent inflation

- **Global growth stabilized** around a low rate **in the first quarter**, under the influence of **high inflation and tight monetary stance**.
  - 0.4% y/y growth in the Eurozone in Q1 (up from 0.2% in the previous quarter), 2.9% in the US (down from 3.1%), 5.3% in China (up from 5.2%), 1.7% (unchanged) in OECD countries.
- **Inflation** in OECD countries remains high (5.9% in May, core inflation stood at 6.1%), but is decelerating in developed countries
- A slowdown of interest rate cuts is expected by **central banks**; the ECB started with 25 b.p. in June
- The global **economic sentiment** is volatile; there is uncertainty about international energy prices
  - Continuing tensions in the **Middle East**; **uncertainty** remains about the course of the **war in Ukraine**.
- **International institutions** forecast...
  - OECD: 3.1% global growth in 2024 (same as in 2023).
  - ECB: +0.9% growth in the Eurozone in 2024 (up from 0.6% in 2023), 2.5% inflation.

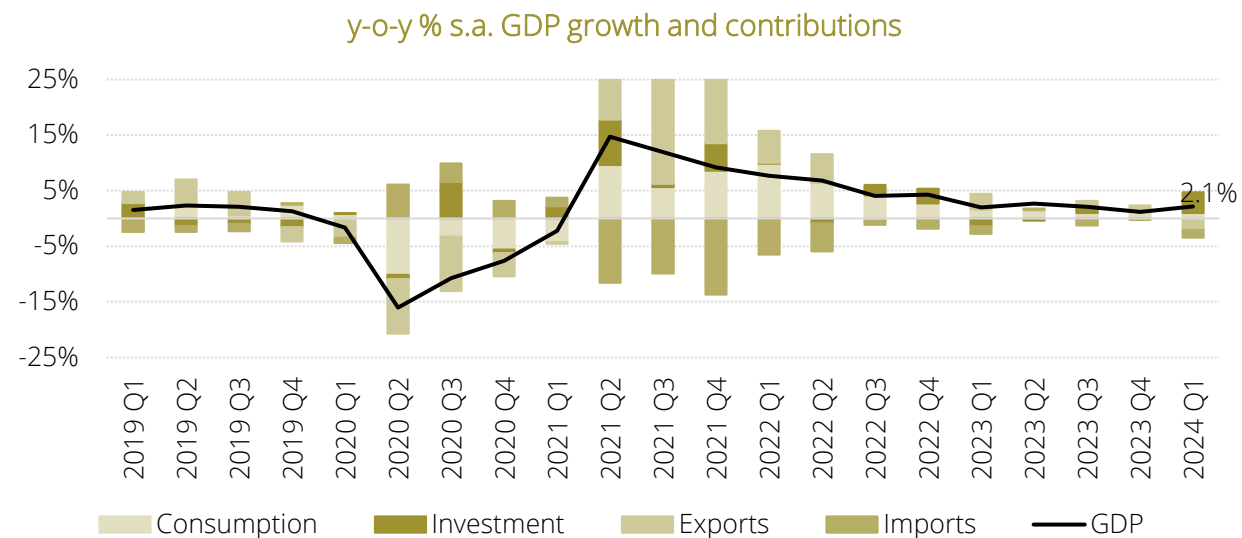
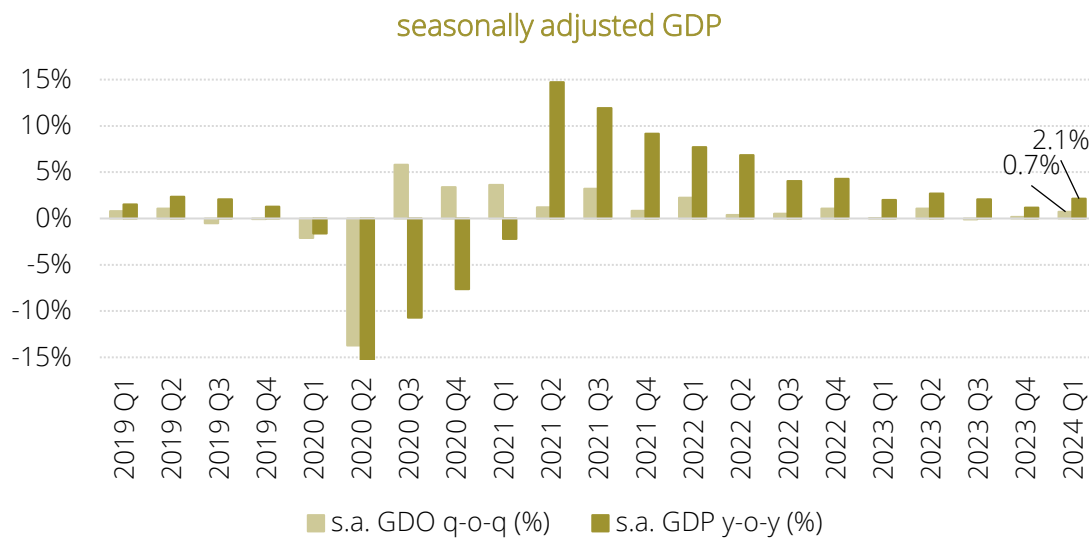


# Greece Q1/2024: Domestic recovery was enhanced

**Real GDP Q1/2024: +2,1% y/y**

Growth accelerated (from +1,3% y/y in Q4/2023), due to increased investment; boost from private consumption.

<p>Countervailing consumption trends (Private +2,2% y/y, Public -4,0% y/y)</p>	<p>Investment increased (Total +22,3% y/y, Fixed +2,9% y/y)</p>	<p>Goods exports declined (-8,8% y/y, services +1,5% y/y)</p>	<p>Imports increased (goods +2,5% y/y, services 4,8% y/y)</p>	<p>High levels of extroversion (81% of GDP)</p>
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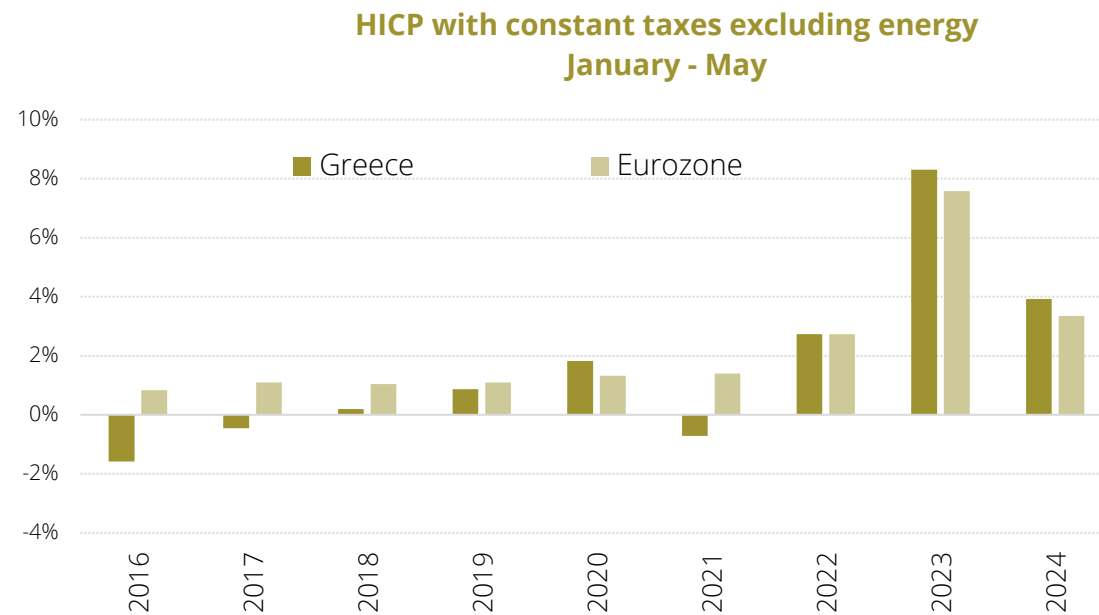
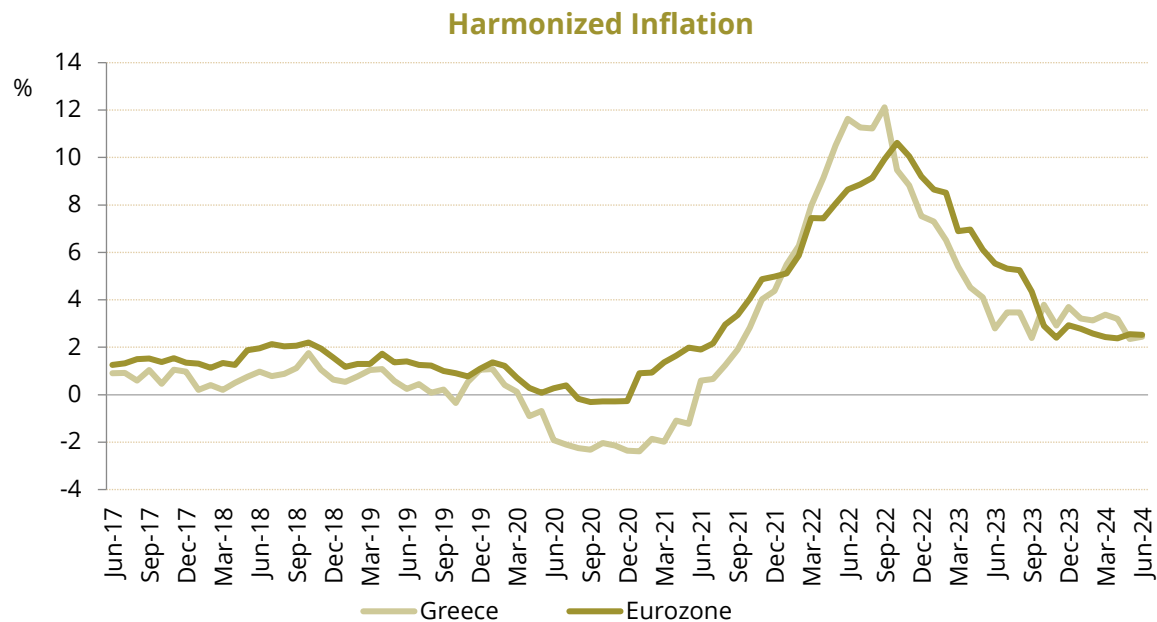


Source: ELSTAT





# Annual inflation (CPI) declined to 3.0% in H1/2024, down from 5.1% a year ago: annual decline in energy goods prices



Sources: ELSTAT, Eurostat

**Eurozone:** Inflation declined to 2.5% y/y in the first six months of 2024, down from 7.1% a year ago.

**Greece:** The Domestic Price Index rose by 2.3% y/y in June 2024, down from 2.4% in May. In H1/2024, the HICP increased by 3.0% y/y, down from 5.1% a year ago.

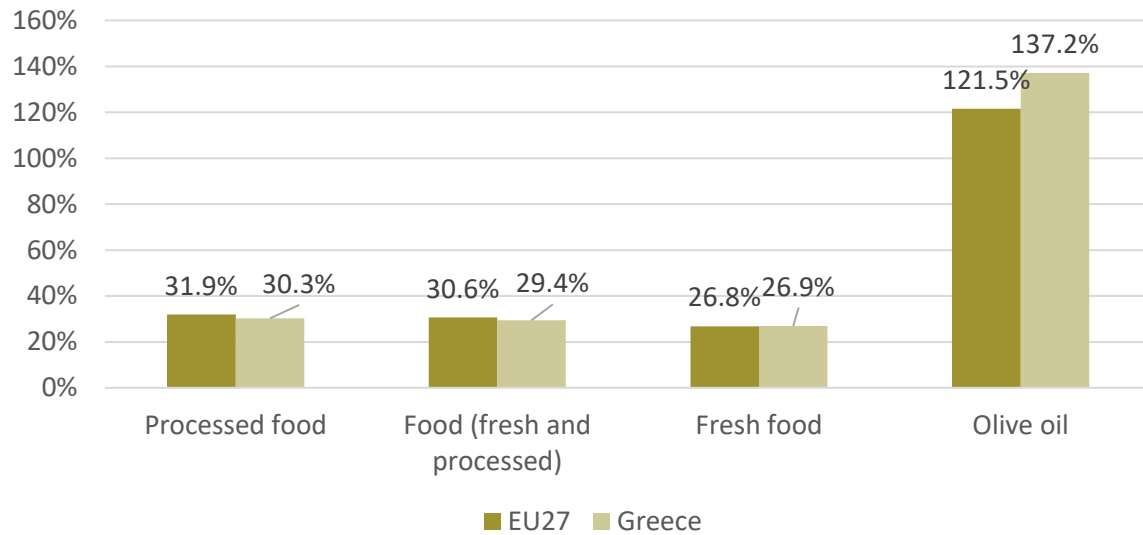
- First five months of 2024: +3,1% HICP rate of change y/y, down from 5.6% a year ago, exclusively from the increasing effect of non-energy goods (3.5%). The effect of energy goods was negative (-0.5%), while the effect of indirect taxes was marginally positive (0.1%).

**Producer Price Index** (Jan. – May 2024): **2.9% y/y decline**, due to energy goods prices, down from a 4.5% increase a year ago.



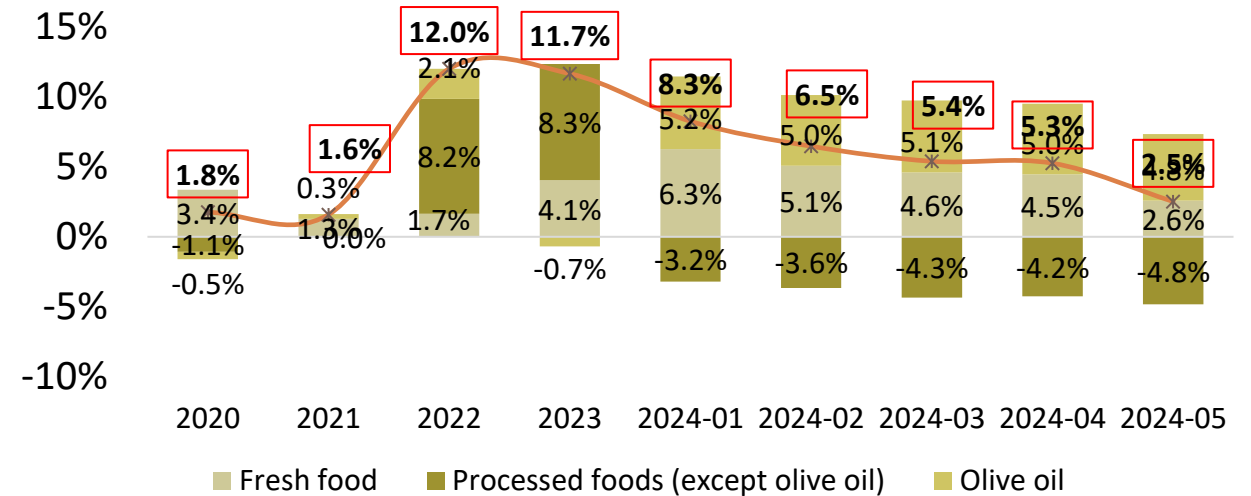
# Cumulatively, food inflation in Greece followed a similar trend to the rest of Europe over the 2021-2024 period but with differences in its components

Consumer price index  
Cumulative change Jan. 2021 - May 2024



Sources: ELSTAT, Eurostat

Contribution of individual food categories to the change in the HICP in Food, Greece



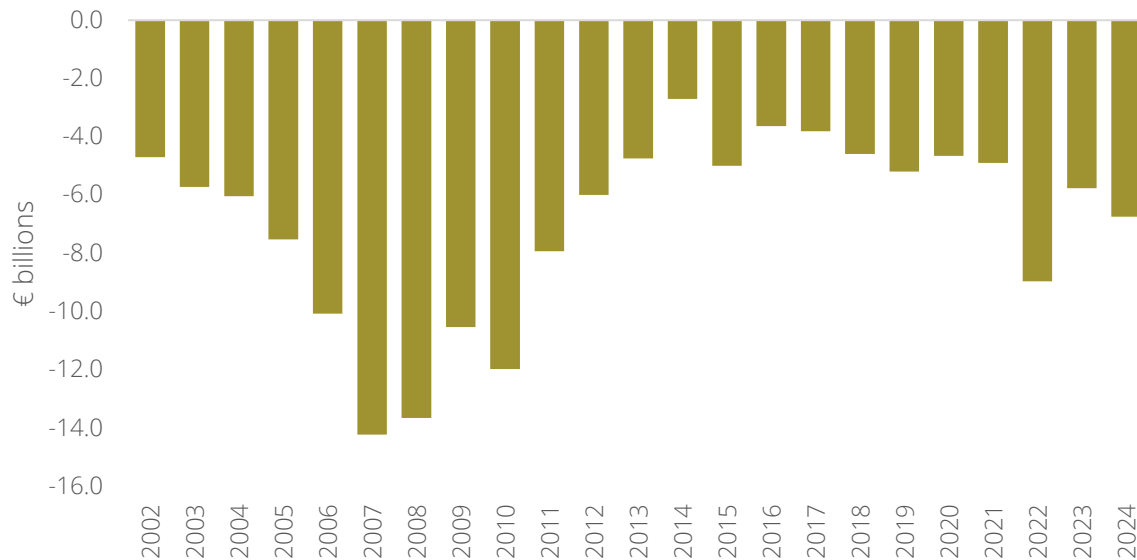
- Fresh food and olive oil recorded higher inflation in Greece than the EU27 cumulatively over the three-year period; in contrast, processed food recorded lower inflation.
- During the first five months of 2024, fresh food and olive oil had a stronger upward effect on the price index compared to the EU27, while processed food partially contributed to the de-escalation of inflationary pressure.



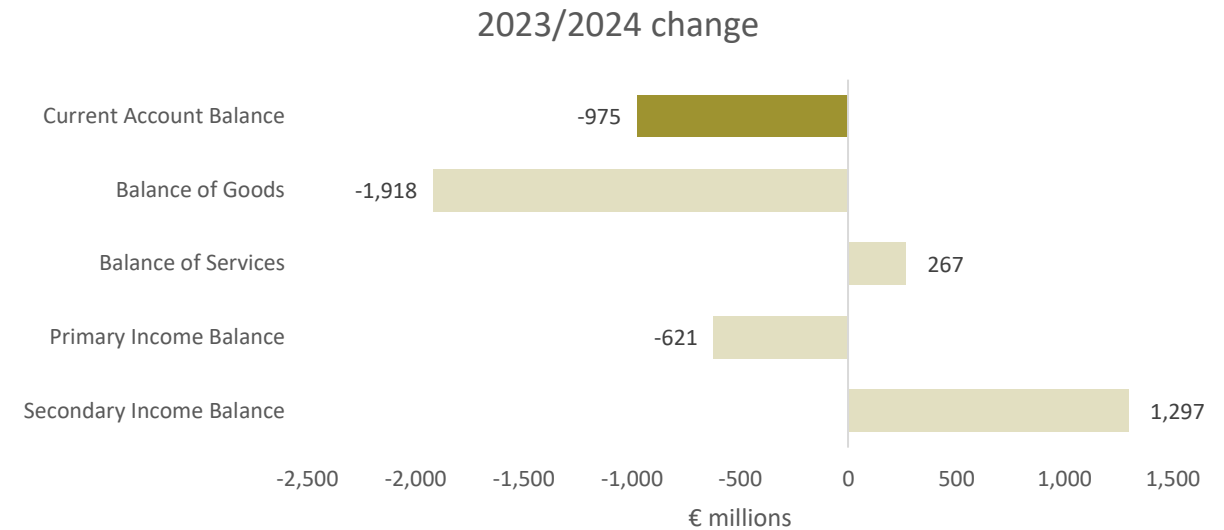


The current account deficit reached €6.7 billion in the first four months of 2024, €975 million higher than in the first four months of 2023

Current Account Balance, Jan.-Apr. 2002-2024



CAB components



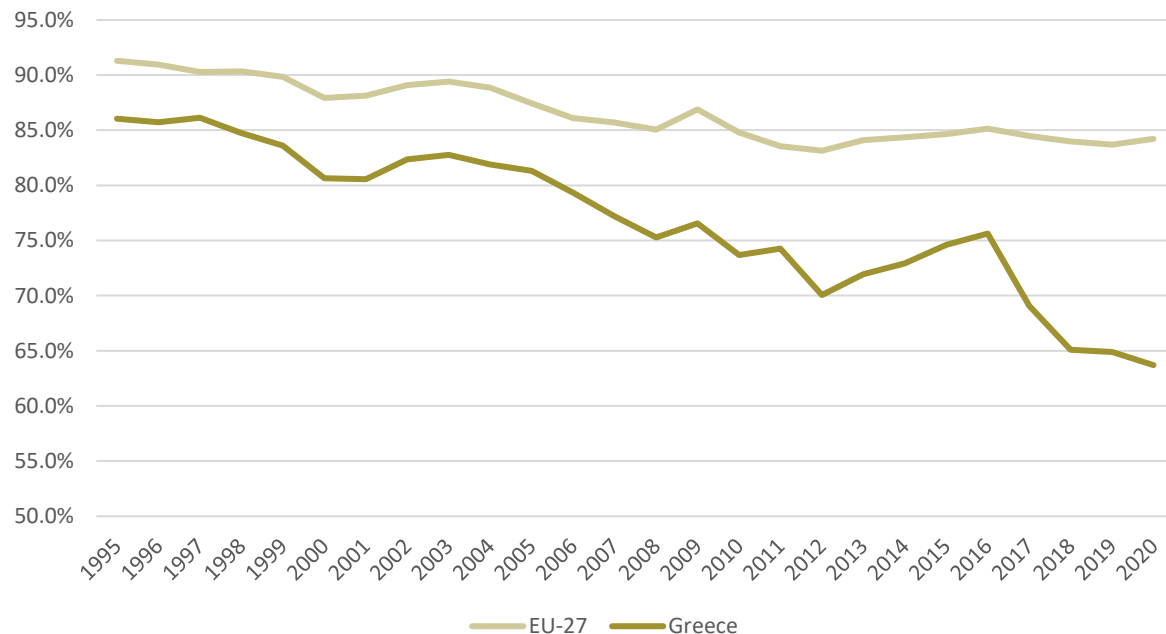
Source: BoG

- The **deficit in the balance of goods** increased in the first 4 months of 2024 by €1.9 billion, with exports decreasing by the same amount that imports increased.
- **Improvement in the surplus of services**, reaching €2.1 billion with an increase in tourism revenue in the first 4 months.
- **Deterioration in primary income** by €621 million, due to income outflow (profits, interest, dividends).
- **Improvement in the secondary income balance** by €1.3 billion (inflow of monetary income redistribution of the Eurosystem to the Central Bank).

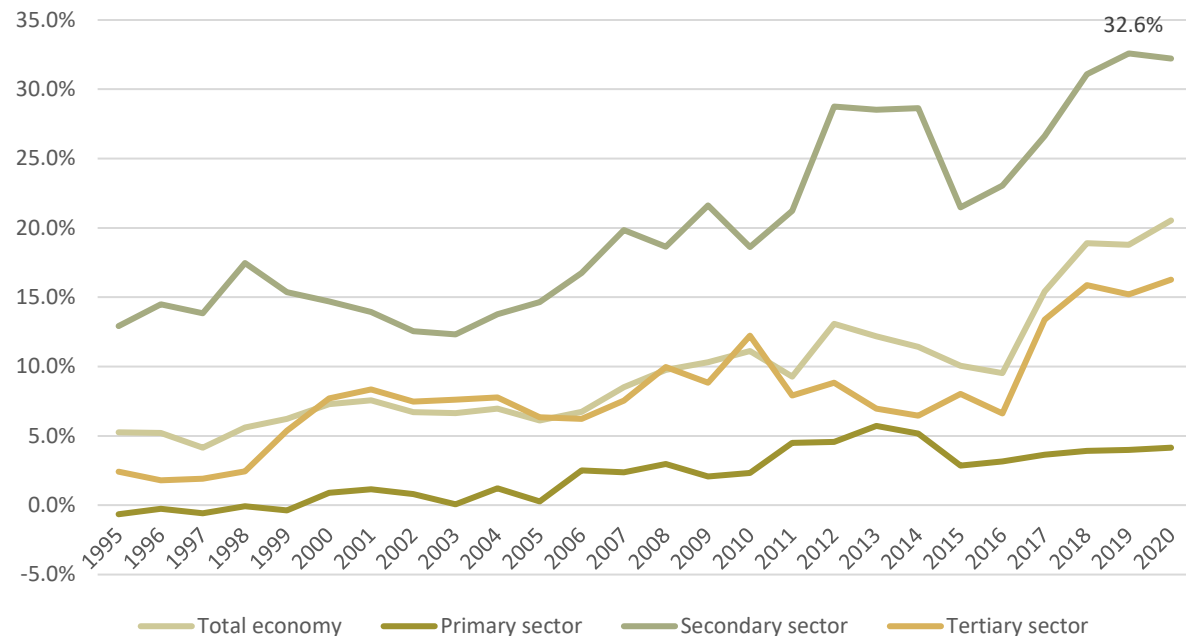


# The domestic value added of Greek exports falls short of the European average

Domestic value-added of gross exports as a percentage of exports, in Greece and the EU-27, 1995-2020



Difference in domestic value-added share of gross exports between the EU-27 and Greece, by sector, 1995-2020



Source: OECD Tiva database, Data processing: IOBE

- The **import content** of Greek exports is consistently greater than that of the EU and it continues to increase.
- The biggest gap between Greece and the EU is recorded in exports of the **secondary sector**, where the import content was higher by about 32.6 p.p. of the sector's exports in 2019. On the contrary, the difference in the primary sector does not exceed 7%.



# Public finances: cash target exceeded in the first five months of 2024

## Jan.-May 2024 state budget (cash basis)

- €535 million deficit (0.2% of GDP)
- €3.2 million primary surplus (1.4% of GDP)

Improvement from last year due to the larger increase in revenue (+2.4%) relative to spending (+0.2%)

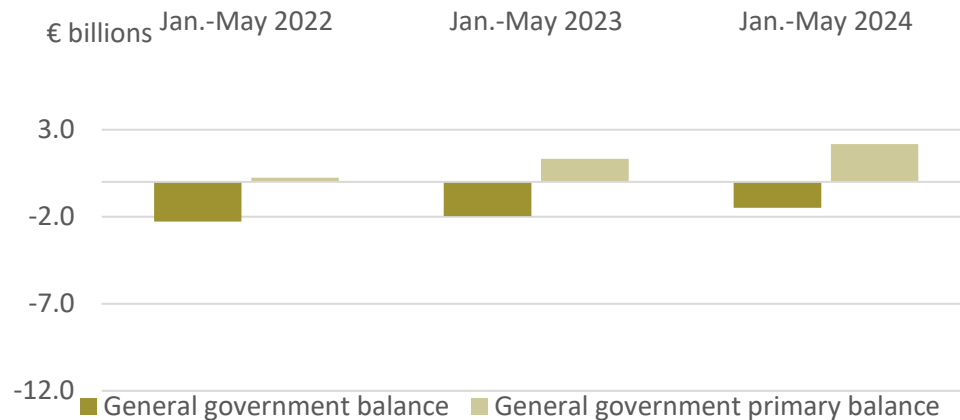
**Target exceeded mainly on the revenue side (+€1.47 billion)**  
but also by expenses (-€721 million)

- Increase in most revenue categories compared to last year
- Reduced expenses due to deferral of transfer payments to social security organizations

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

Public finances improved in 2023,  
with better fiscal balance and lower debt as a percentage of GDP.

## General government cash balance



Source: Ministry of Finance

## General government ESA data (% of GDP)

	2020	2021	2022	2023
Balance	-9,8%	-7,0%	-2,5%	-1,6%
Primary balance	-6,8%	-4,5%	0,0%	1,9%
Debt	207,0%	195,0%	172,7%	161,9%

Source: ELSTAT



# The unemployment rate increased in the first quarter of 2024

## Number of unemployed persons and unemployment rate in Greece



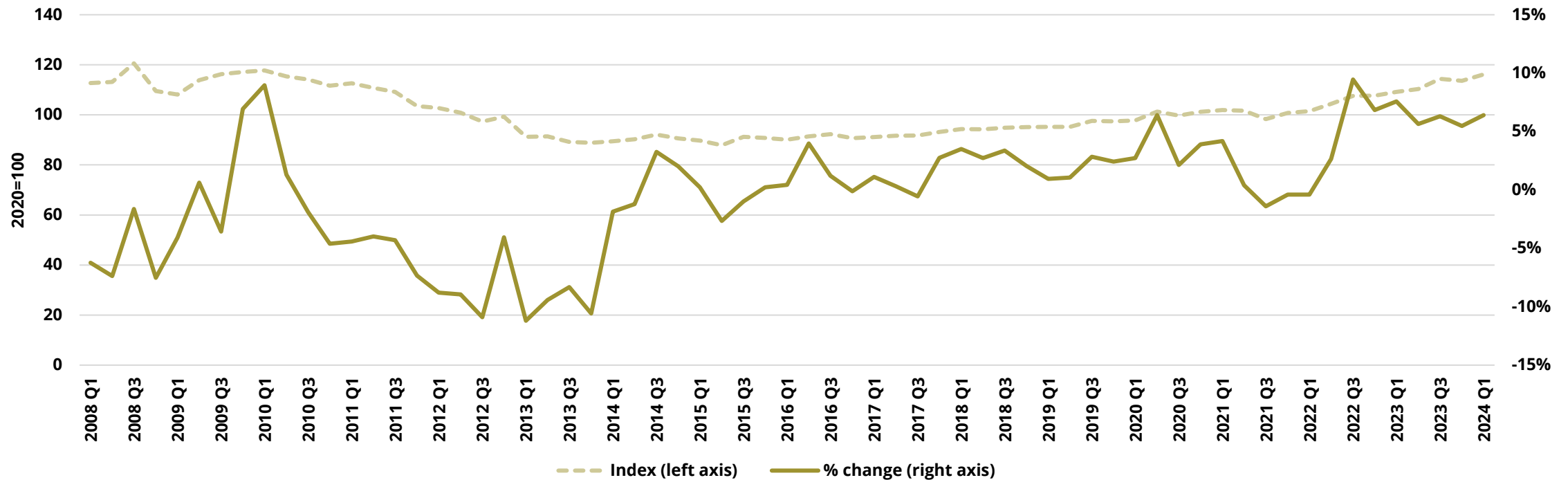
Source: ELSTAT

- The **unemployment rate** reached 12.1% in Q1/2024, down from 11.8% in Q1/2023, while labor market **participation** increased.
- **Employment increased** in sectors such as the **Hospitality Industry (+28.3 thousand employees)**, Transport and Storage (+27.4 thousand employees), Construction (+27.2 thousand).
- **Employment decreased** in sectors such as **Education (-20.7 thousand)**, Public Administration and Defense (-15 thousand).
- The private employment inflow-outflow balance was positive (+126.7 thousand) in May 2024 and higher compared to the balance of May 2023 (+31 thousand).



# Wage cost increased in the beginning of 2024

## Seasonally adjusted wage cost index, current prices



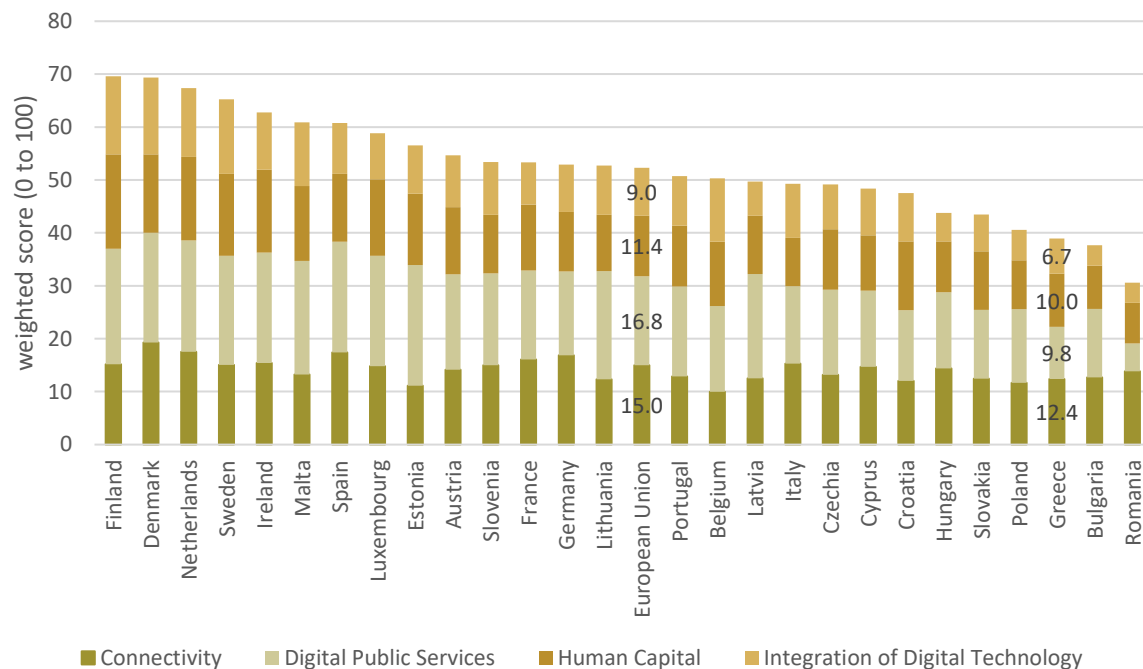
Sources: ELSTAT, Eurostat

- In Q1/2024, wage costs increased by 6.8% y-o-y, 1.5% q-o-q.
- **The cumulative increase in wage costs** (15.3%) since the beginning of 2022 is marginally smaller than the cumulative **increase in the CPI** over the same period (15.9%).

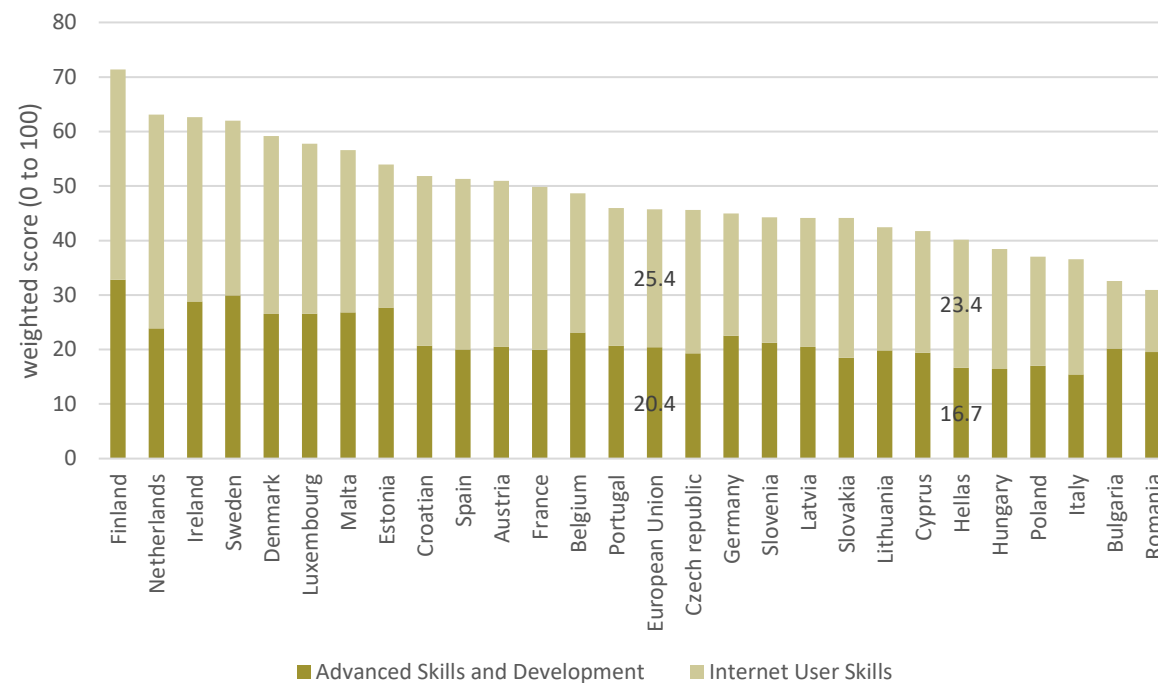


# Despite recent progress, Greece ranks 25th out of 27 EU Member States in the 2022 Digital Economy and Society Index (DESI)

### DESI Index 2022



### DESI Index 2022 - Human Capital (digital skills)



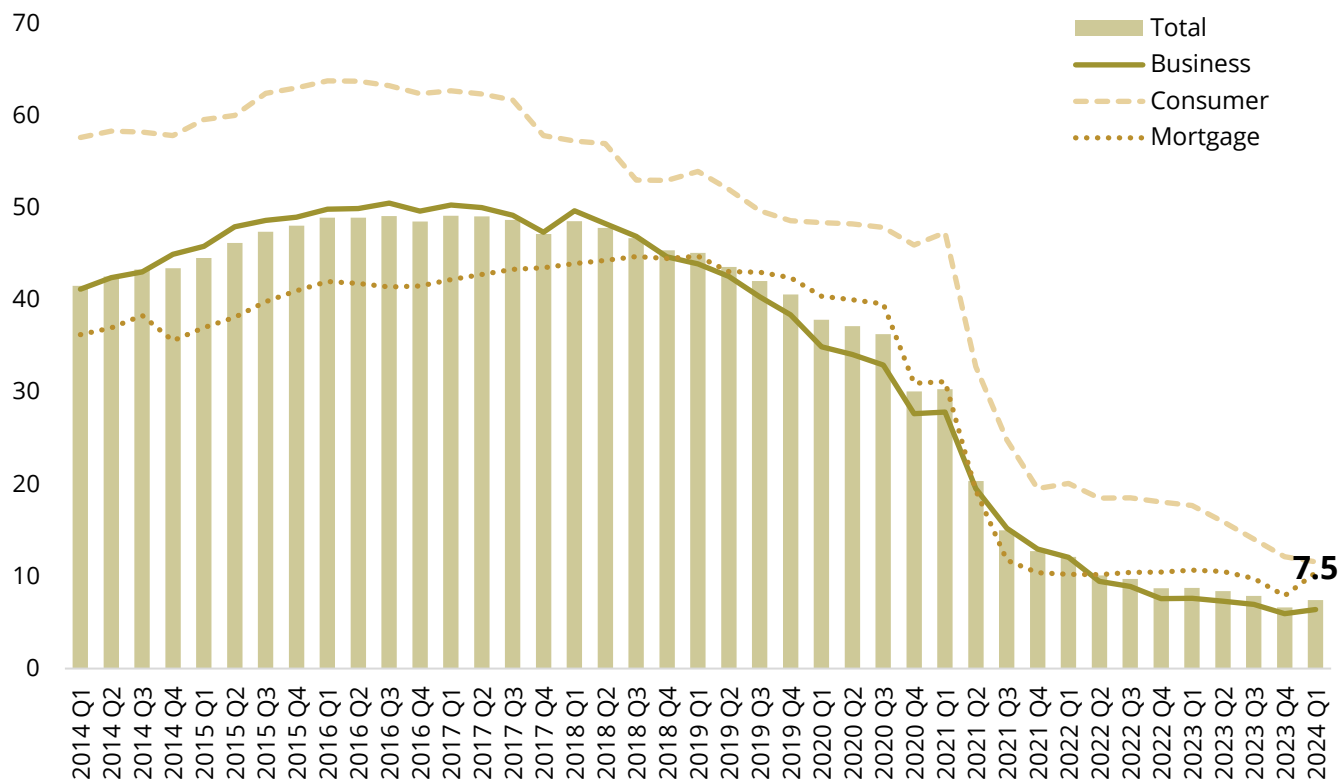
Source: European Commission. Data processing: IOBE

- The biggest **lag** compared to the European average is in digital public services, followed by connectivity.
- Greece ranks 22nd among the 27 EU countries in the **human capital** subcategory, with a score that falls short of the EU average.
- Over time, however, there's been an improvement in Greece's overall digital performance, with a similar trajectory to the EU-27.



# Bank fundamentals are improving in mid-2024, but challenges remain...

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



Source: Bank of Greece, Data processing: IOBE

Note: On-balance sheet loans (before provisions) on an individual basis

...for example, the reversal of the downward trend in NPLs in the first quarter of 2024, after eight consecutive years.

**Positive trends:** Improvement of organic profitability indicators, high liquidity, reduction of private borrowing costs, recovery of credit expansion to businesses.

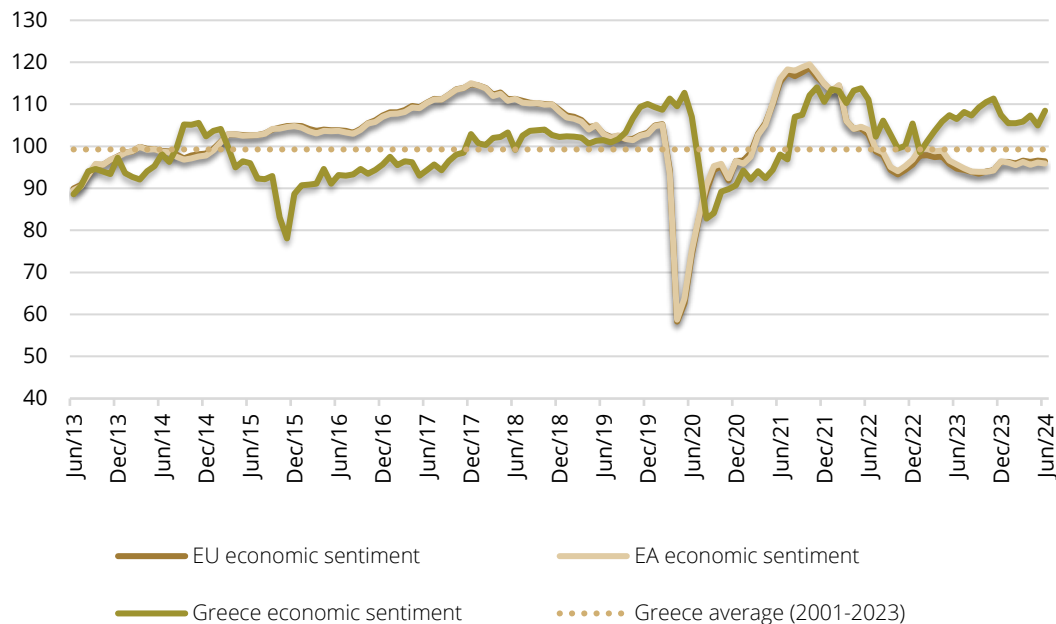
**Negative trends:** Increased exposure of banks to government bonds, high stock of NPEs on and off bank balance sheets, contraction of credit to households, high interest rate margin.

**Challenge and opportunity:** timely implementation of the loan arm of the revised "Greece 2.0" program.

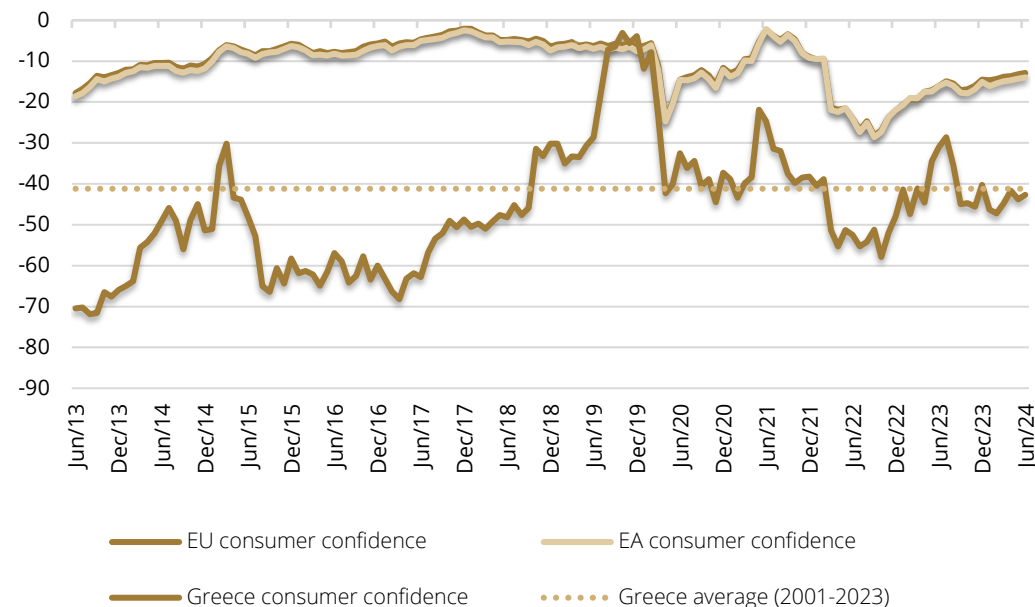


# Small improvement in economic sentiment in Q2/2024; it is slightly better than it was in Q2/2023

### Economic Sentiment Indicator



### Consumer Confidence Index



Sources: IOBE, European Commission

Small boost in Consumer Confidence during 2024; the EU and the Eurozone moved in the same direction.





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

## Industry

- Industrial production increased by 5.8% y/y in the first five months of 2024, up from 2.7% in 2023.
- The turnover ratio decreased by 4.5% due to deflation

## Construction

- Construction output rose by 4.7% y/y in Q1/2024, down from 26.7% in 2023.
- Large increase in the number of new licenses (42.2% vs 13.5%) and in business expectations

## Tourism

- 52% y/y increase in the first quarter of 2024 in the housing land supply index (up from 14% in 2023)
- Smaller increase in food/catering (+10%, down from +16% last year).

## Retail trade

- 5.1% y/y decline in Retail Trade Volume in the first four months of 2024, down from -3.2% in the first four months of 2023
- Expectations also declined in the first half of 2024.



## 2024 baseline scenario

- The Eurozone economy follows the ECB's baseline scenario (June 2024) of 0.9% growth (up from 0.6% three months ago) and 2.5% inflation in 2024 (up from 2.3%); energy prices and interest rates also evolve according to the ECB's baseline scenario.
- Interest rates follow the trend of today's futures, i.e., Euribor falls from close to 3.9% at the start of the year to around 3.3% (up from a 3.1% expectation in the previous quarter) at the end of 2024.
- International energy commodity prices follow the EIA's baseline scenario, with stabilizing trends in the second half of 2024.
- The wars in Ukraine and Israel continue at a similar intensity.
- Timely implementation of the "Greece 2.0" Plan in 2024, without delays.
- Inbound tourism in 2024 is expected to match 2023's good performance, in real terms.

## Forecasts for 2024

- **Growth:**  $\approx 2.1\%$
- Private consumption:  $\approx 1.3\%$
- Public consumption:  $\approx -1.5\%$
- Investment (Fixed):  $\approx 14.1\%$  (9.7%)
- Exports:  $\approx -0.4\%$
- Imports:  $\approx 1.8\%$
- **Unemployment:**  $\approx 10.3\%$
- **Inflation:**  $\approx 3.0\%$



# Risks and positive prospects

## Risks

- Further geopolitical and economic instability regionally and internationally (war in Ukraine, Middle East, US elections).
- Slower interest rate cuts in Europe, especially if international energy prices rise substantially.
- High deficit in the external balance, with structural characteristics.
- Loss of competitiveness due to higher than the Eurozone average inflation. Persistent inflation in necessities.
- Labor market: Slower decline in the unemployment rate, partly due to high structural unemployment.
- Progressively tighter fiscal targets. The tax base in Greece remains narrow.
- High loan-deposit interest rate spread and systematically negative household savings rate.
- Delays in the consolidation of non-performing loans off bank balance sheets, which inhibit resource redistribution.
- Slow rate of closing the investment gap with low contribution from sectors other than construction.

## Positive prospects

- Acceleration in the implementation of the revised Recovery and Resilience Plan, combined with the expansion of its loan arm and REPowerEU, can "unlock" international funds for productive and more long-term investments.
- The reduction of interest rates is an opportunity to accelerate investments.
- The Greek economy's enhanced extroversion is a step in the right direction, with a gradual increase in the domestic value added of exports.
- Reforms with a medium-term horizon of 2024-2027 can increase productivity which currently lags compared to the European average.
- The reduction of NPLs will free up productive resources and trigger their more efficient re-allocation.

Special study\*

# Contribution of shipping to the Greek economy: Challenges and outlook

*The study was funded by*

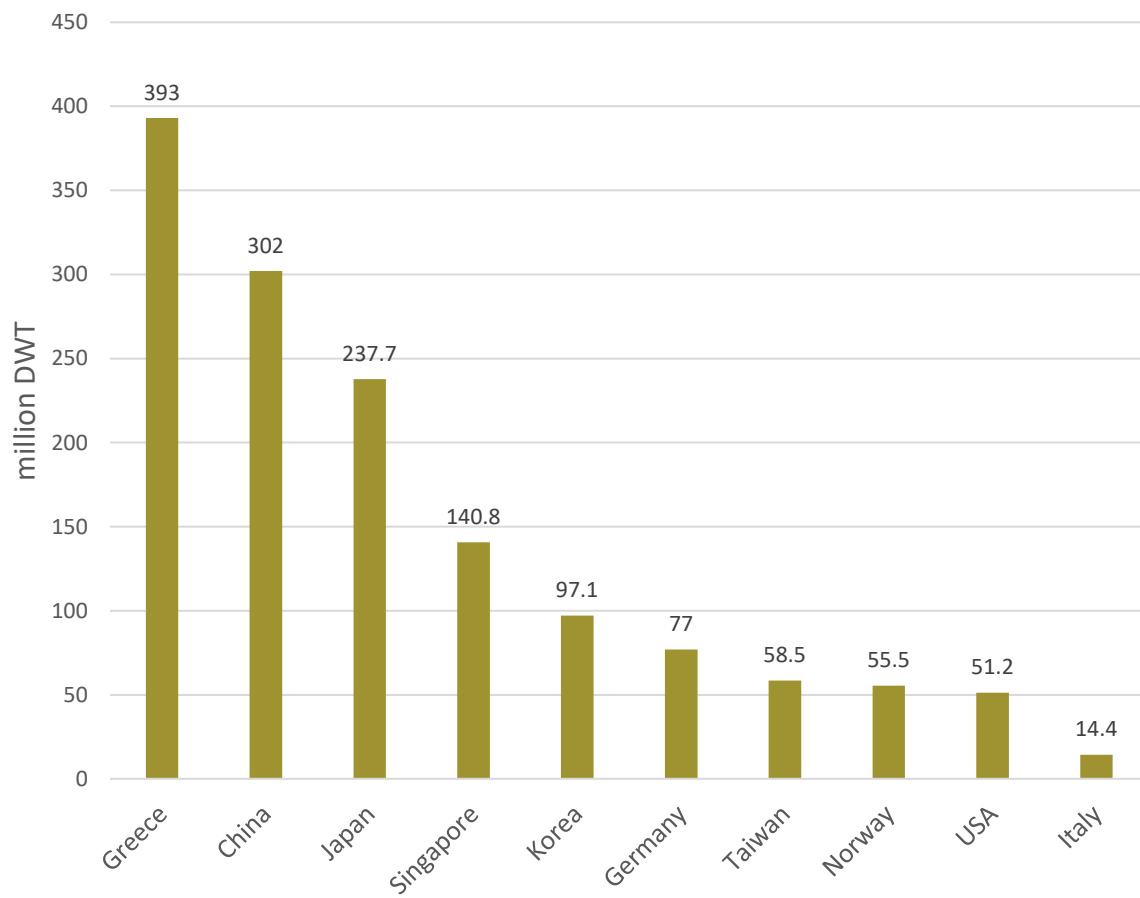


\*IOBE study (2023). Available [here](#)

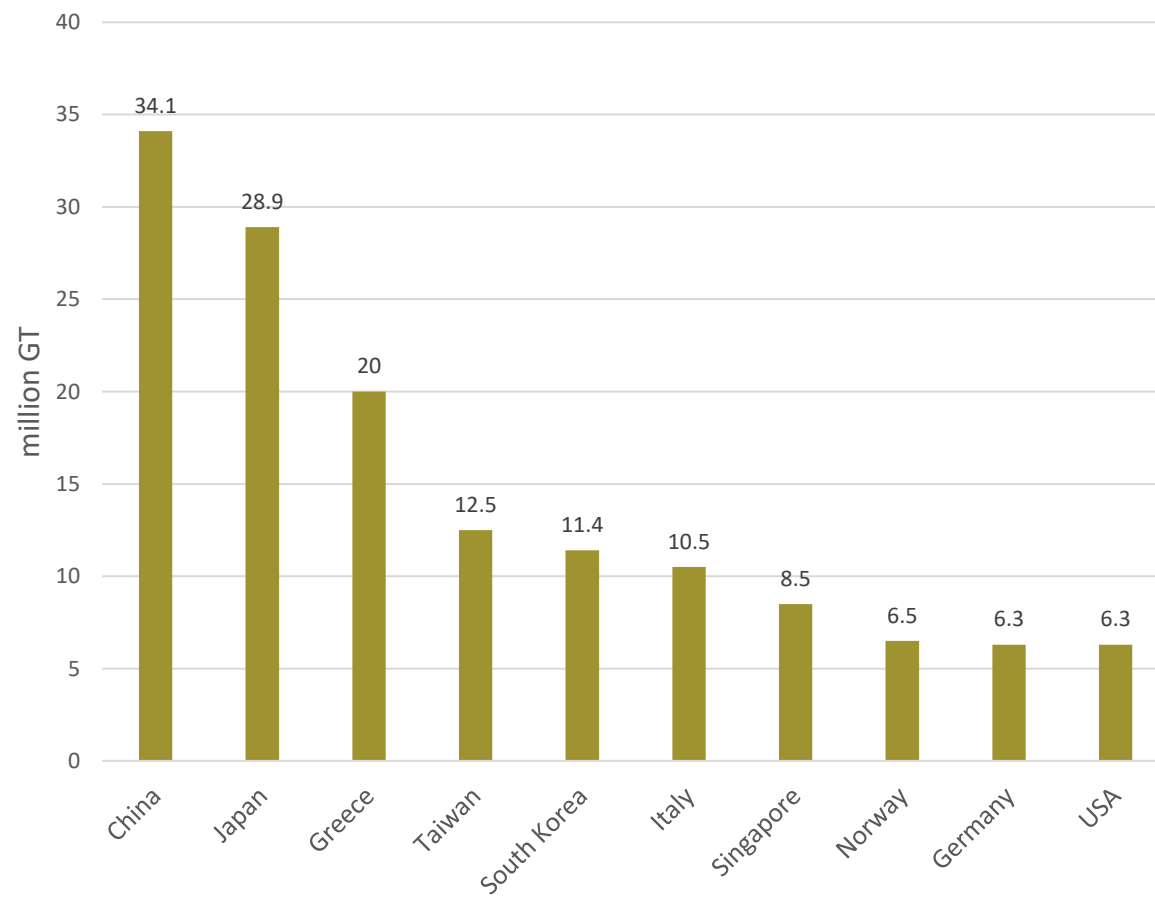


# The Greek-owned fleet is first in terms of DWT, considerably larger than China's and Japan's, with significant investments in newly built ships

Top-10 fleets (million DWT), August 2023



Orders in million GT (orderbook), August 2023

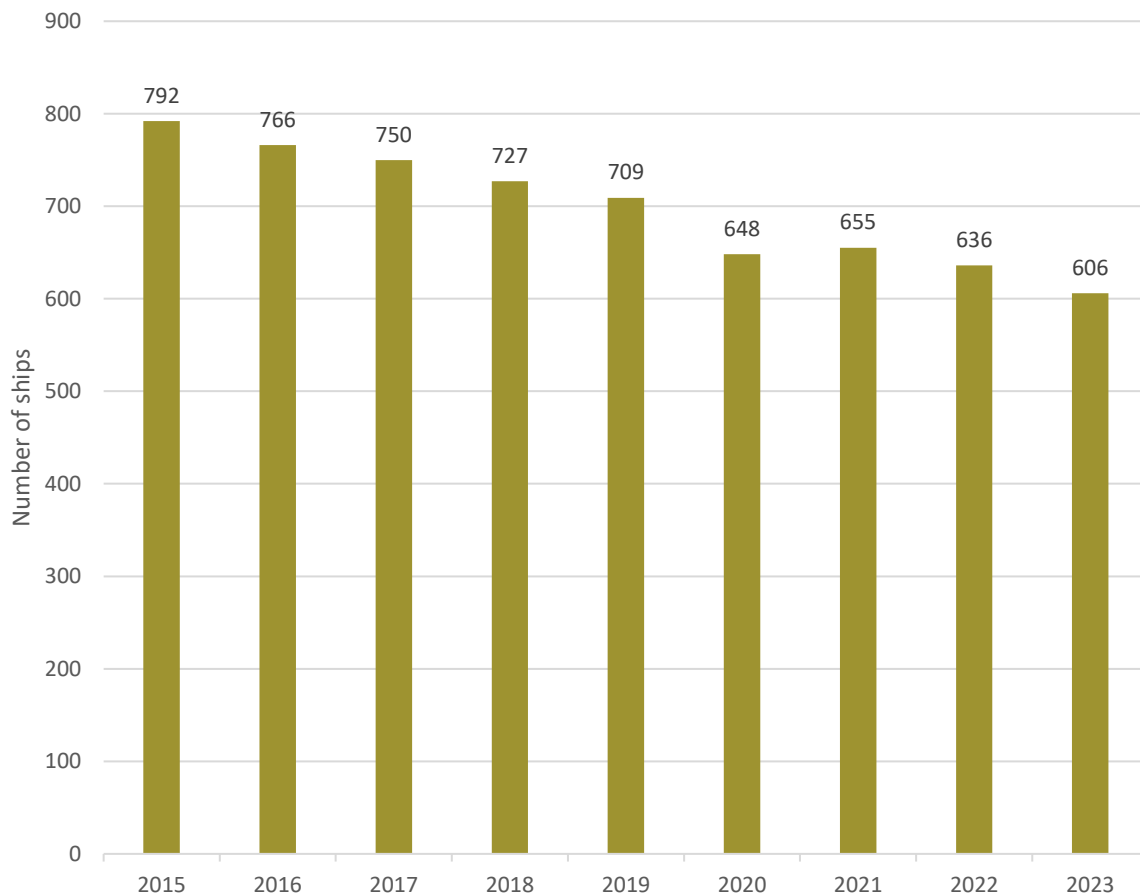


Source: UNCTAD

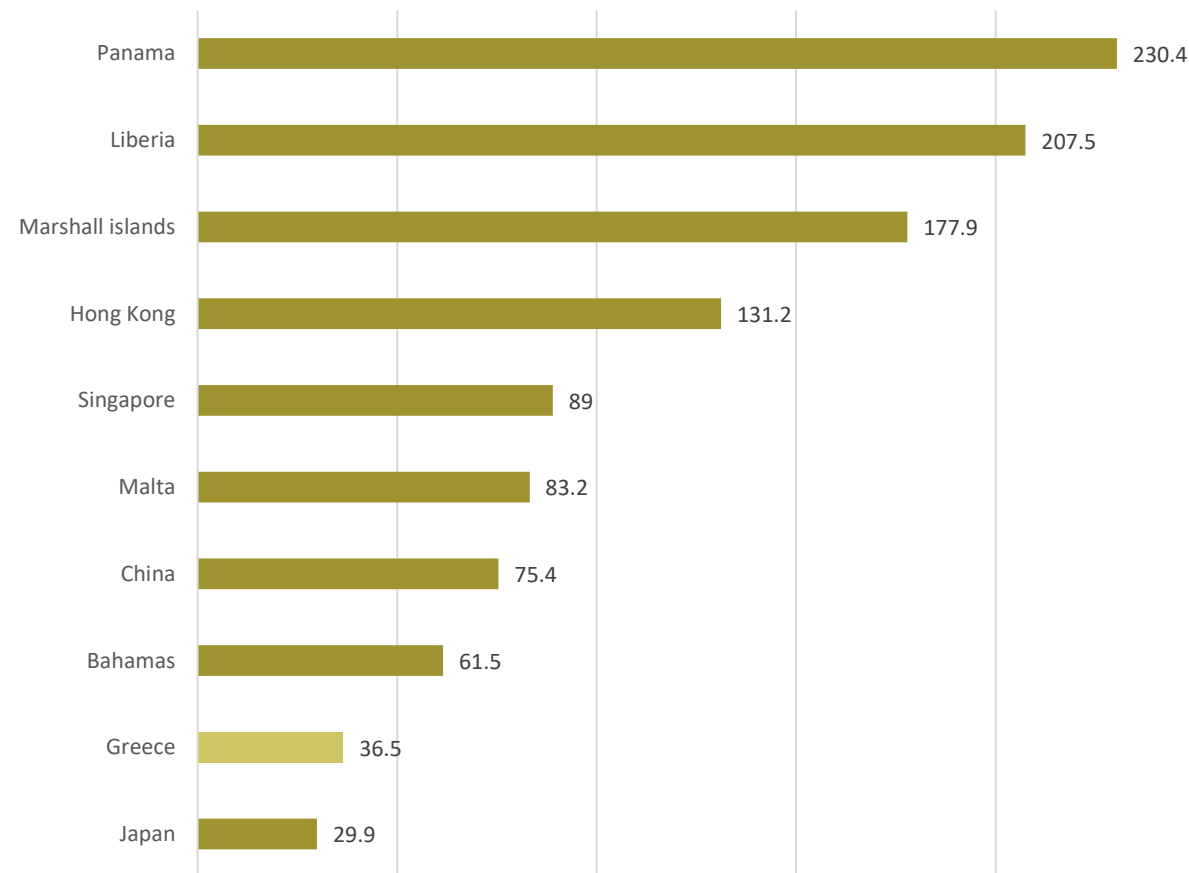


# The Greek registry is less and less preferred for Greek-owned shipping, especially for large ocean-going ships (over 30 thousand registered tons)

### Greek flag ships weighing over 3000 GRT



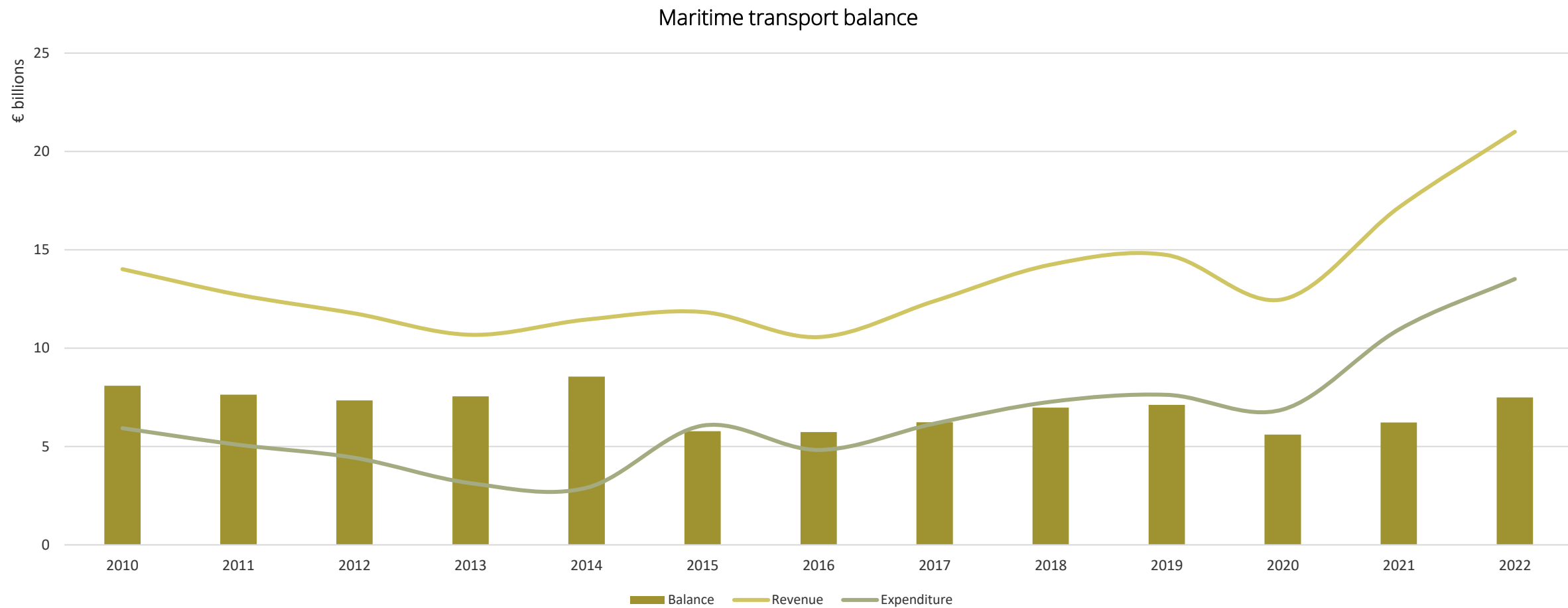
### Merchant fleet by flag, based on tonnage in GT (top 10 flags)



Sources: ELSTAT, Hellenic Merchant Navy, June 2023



# Maritime transport revenue (shipping exchange) amounted to €21.0 billion in 2022, up from €17.1 billion in 2020

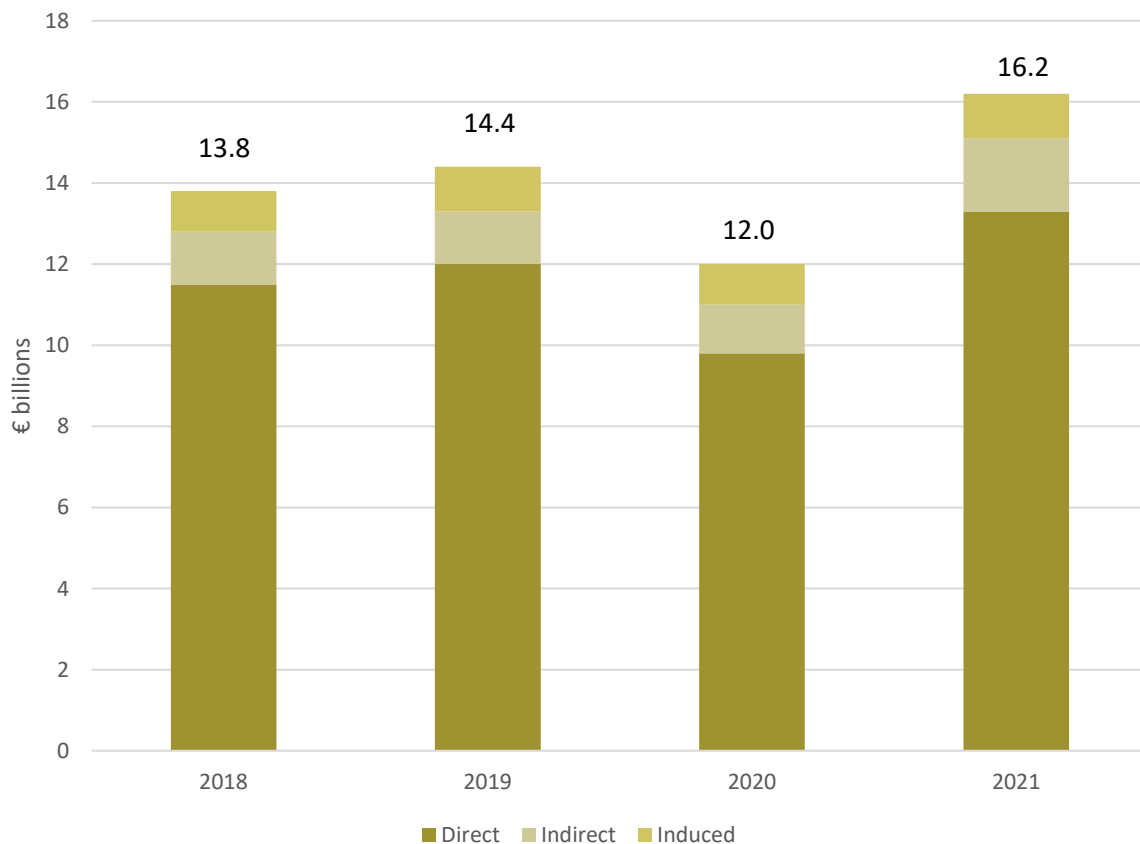


Source: Bank of Greece

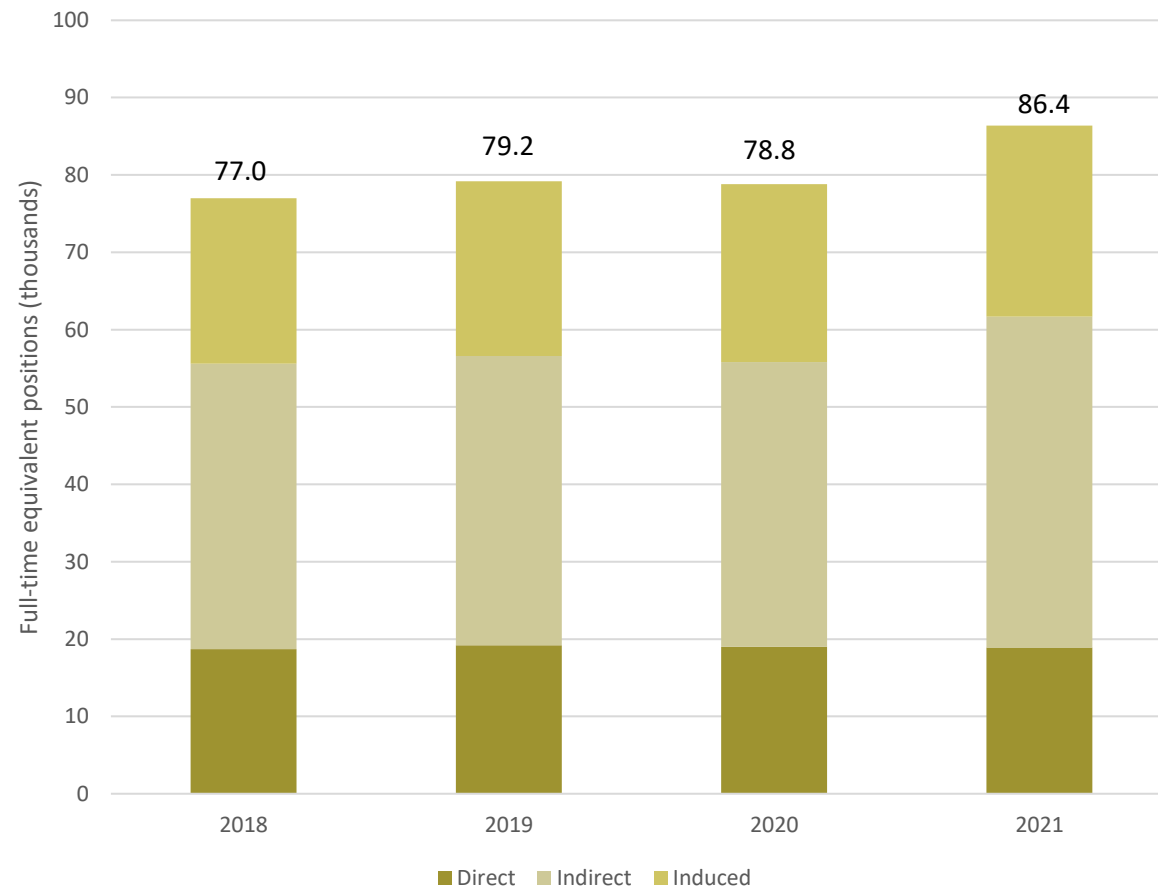


# The total contribution of shipping to GDP is estimated at €14.1 billion per year on average from 2018 to 2021

Contribution of shipping to the Greek economy, in terms of GDP, 2018-2021



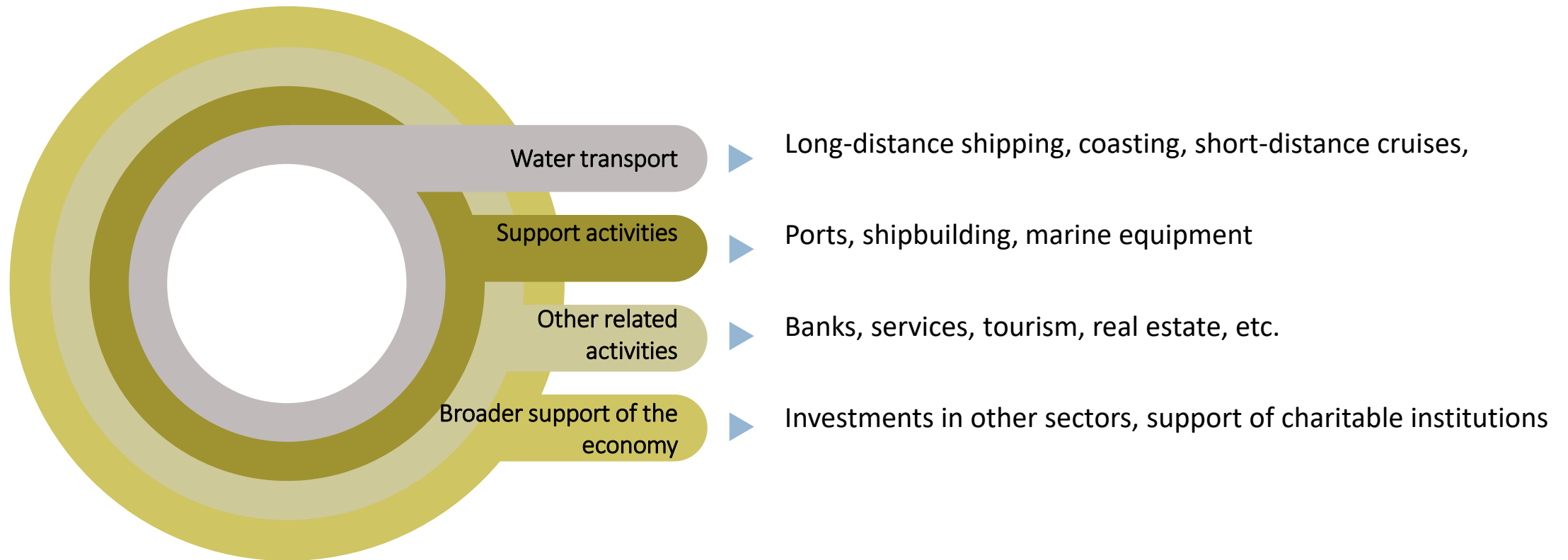
Contribution of shipping to employment, 2018-2021







# Shipping supports activities within and outside of water transport (maritime cluster)





# Adaptation and competitiveness of Greek shipping in the constantly changing global environment is a challenge

Global and European policies on climate change and environmental protection

Technological developments

Access to modern financial tools

Enhancement of the maritime profession in Greece

Tax framework



# Summary - conclusions

Major changes are taking place in shipping with the aim of achieving carbon neutrality by 2050, both globally (IMO) and in Europe

New generation of fuels – choosing the right ones is crucial to ensure competitive but also carbon-neutral shipping.

Comparative tax disadvantage of Greek shipping companies compared to others established in other tonnage tax regimes (within or outside the EU).

New financial tools that are closely linked to the environmental and social performance of shipping highlight the need for systematic monitoring and recording of their ESG performance.



# Issue sponsor



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