

Quarterly Report on the Greek Economy

03 / 24

October 22nd, 2024



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Overview of the report





Higher growth rates in the short term but more concerns in the medium term

Global environment

- Steady growth of the world economy
 - Heterogeneity across countries, mild average rate
 - Gradual but faster de-escalation of inflation and interest rates
 - International trade with high flows
- Increased levels of uncertainty
 - Geopolitical tensions and war zones
 - Risk of destabilization in energy and capital markets
 - Rising public debt and deficits in advanced economies and core Eurozone countries

Greece

- Good performance of the Greek economy in the short term
 - Higher growth rates than the European average
 - Fiscal goals achieved
- Challenges for the Greek economy in the medium term
 - Need for stronger investment dynamics
 - External deficit
 - Fiscal stability in the medium term



The Greek economy needs to adapt to central global trends

Consumption

- Consumption resilience was a global trend and is now declining

Investment

- Need for investment, focus on cutting edge technologies (e.g., Draghi 2024 report)
- The aim is to improve overall productivity and competitiveness in Greece and the EU

International trade

- International trade has increased the interdependence of economies

⇒ **An immediate priority for the Greek economy is the specialization of production in areas of high value and innovation which are less vulnerable to international shocks**



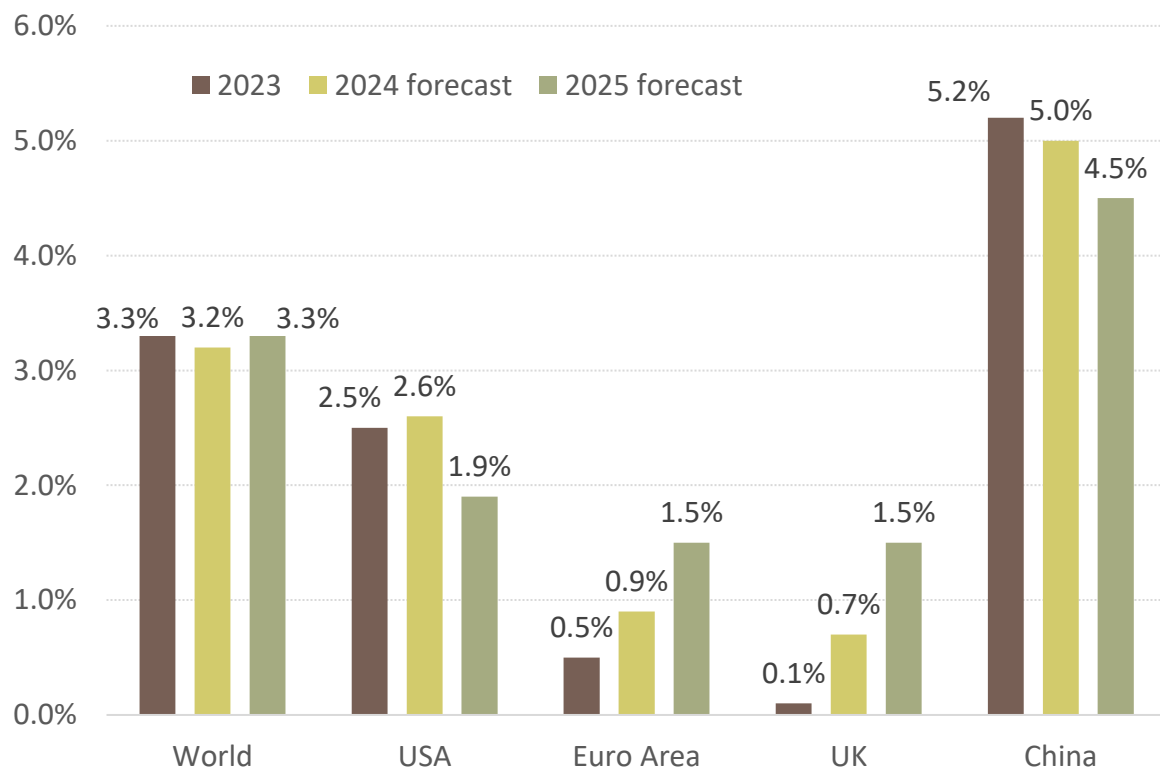
Global environment: resilient economic activity amid deflation

- **Global growth stabilized** around a mild rate **in the second quarter**, under the influence of **high inflation and tight monetary stance**.
 - 0.6% y/y growth in the Eurozone in Q2 (up from 0.5% in the previous quarter), 3.0% in the US (up from 1.6%), 4.7% in China (down from 5.3%), 1.7% (unchanged) in OECD countries.
- **Inflation** in OECD countries remains high (4.7% in August, core inflation stood at 5.5%), but is decelerating in developed countries
- A further reduction in interest rates is expected by the **central banks**; the ECB and the FED reduce interest rates
- 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: 3.2% global growth in 2024 and 3.2% in 2025 (up from 3.1% in 2023).
 - ECB: +0.8% growth in the Eurozone in 2024 and 1.3% in 2025 (up from 0.6% in 2023), 2.5% and 2.2% inflation, respectively.

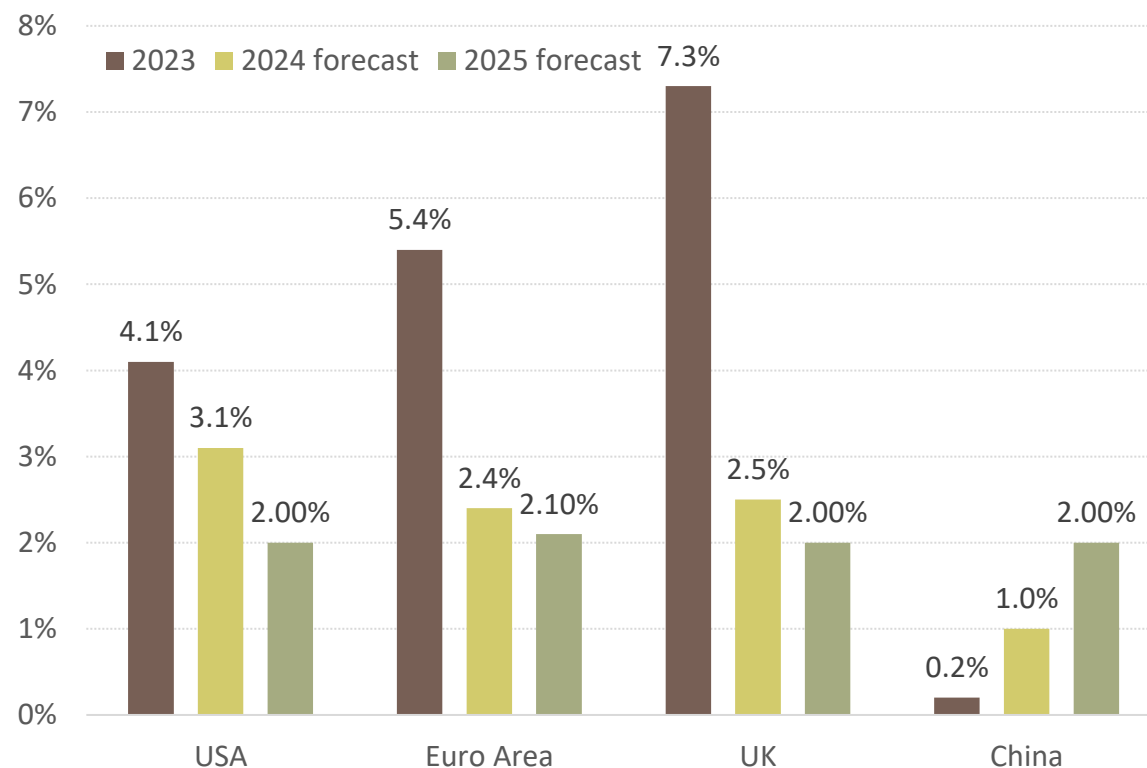


Europe's growth rates are lagging; inflation is expected to be within target by the end of 2025

Real annual GDP growth rate



Annual inflation



Source: IMF (WEO July 2024)

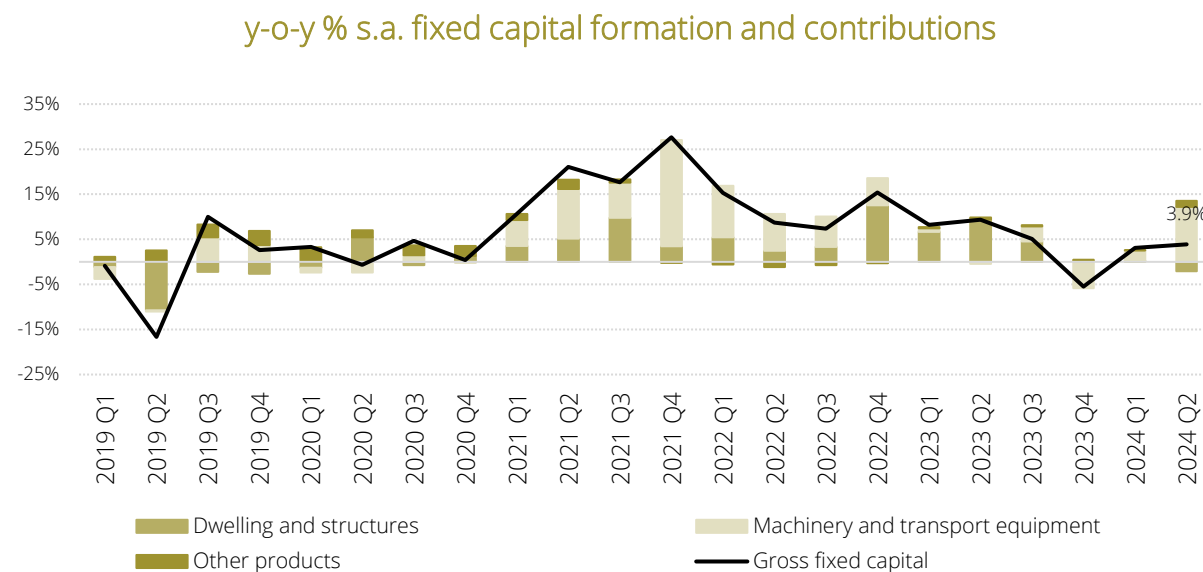
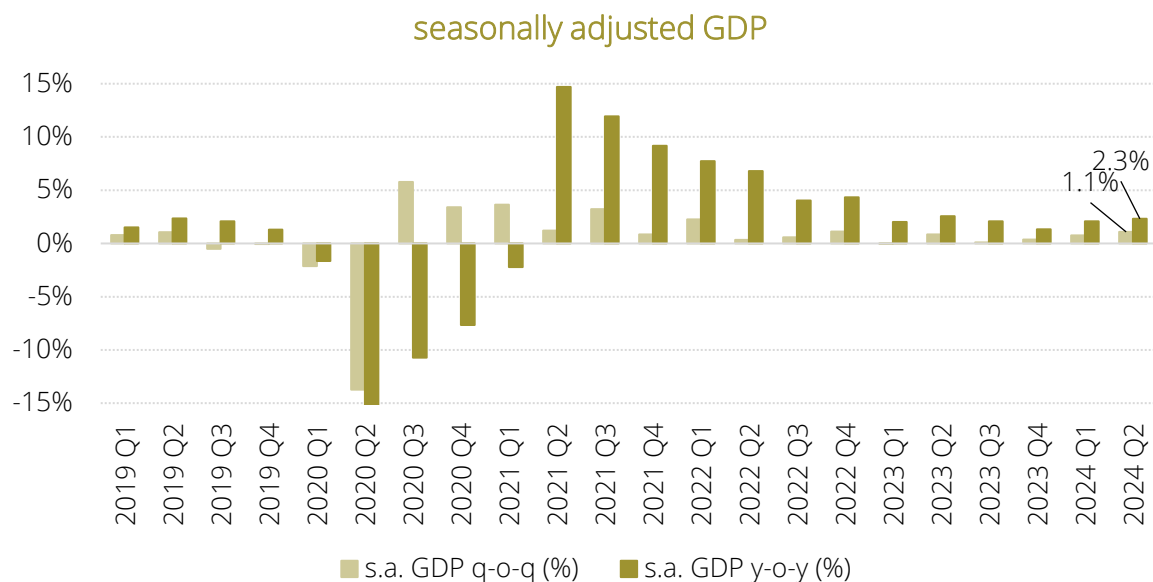


Greece Q2/2024: Domestic recovery was enhanced

Real GDP Q2/2024: +2.3% y/y

Marginal growth acceleration (from +2.1% y/y in Q1/2024), due to increased investment; boost from private consumption.

<p>Countervailing consumption trends (Private +2.0% y/y, Public -3.6% y/y)</p>	<p>Investment increased, mostly stock (Total +29.7% y/y, Fixed +3.9% y/y)</p>	<p>Exports increased (Goods +2.0% y/y, services +2.8% y/y)</p>	<p>Imports increased (goods +10.5% y/y, services 6.9% y/y)</p>	<p>Extroversion increased (85% of GDP)</p>
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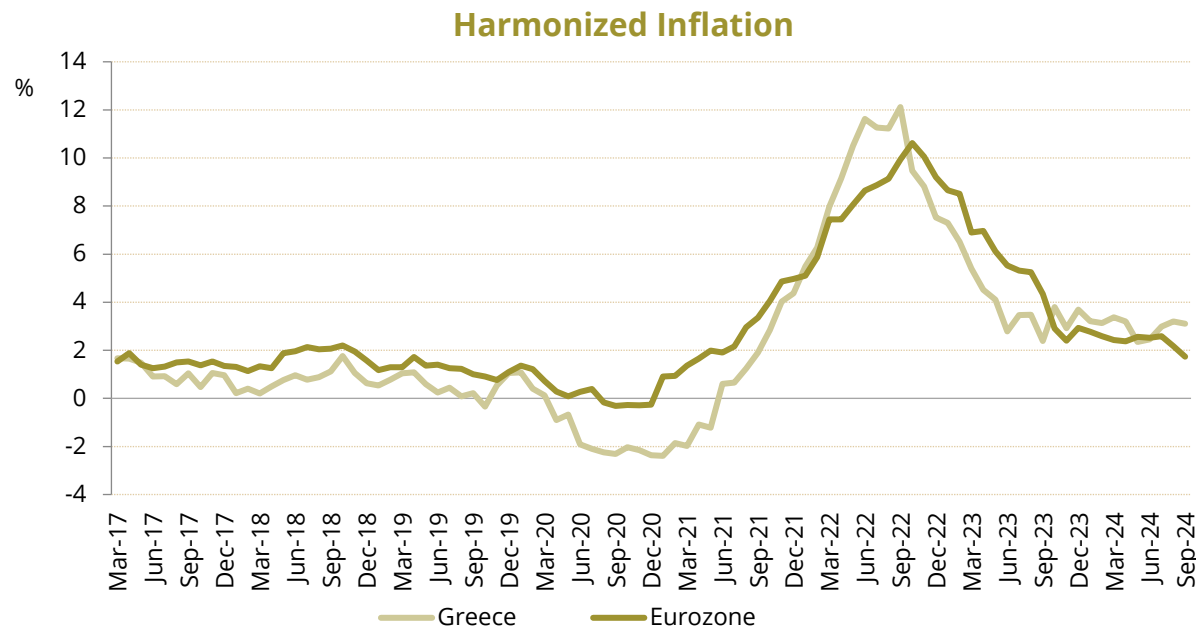


Source: ELSTAT

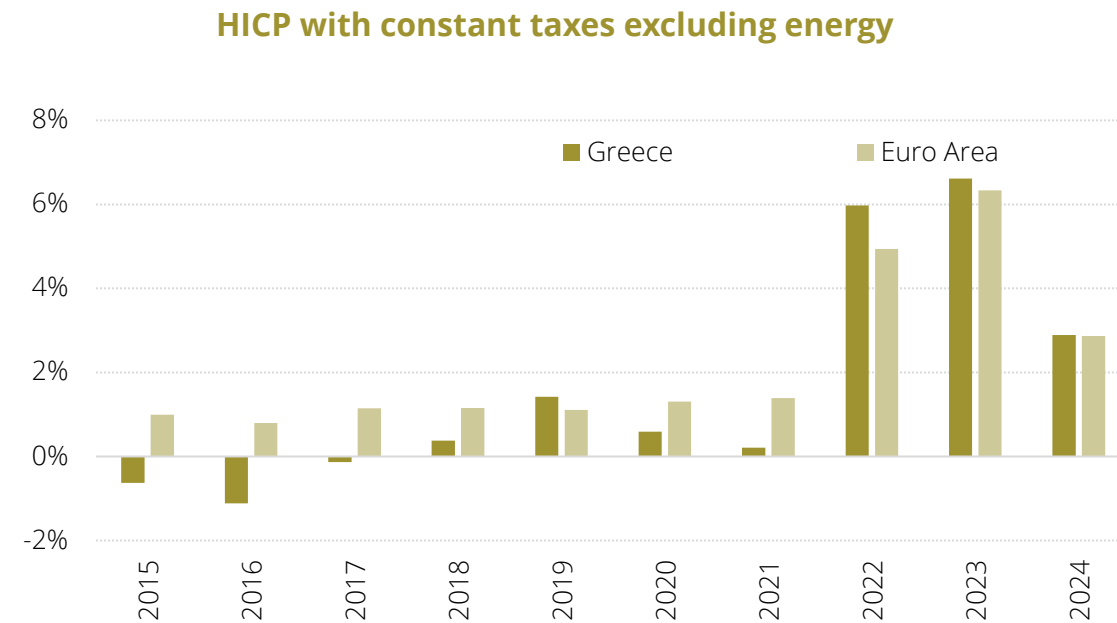




Inflation (CPI) declined to 3.0% in the first nine months of 2024, down from 4.4% a year ago: annual decline in energy goods prices



Sources: ELSTAT, Eurostat



Eurozone: Inflation declined to 2.4% y/y in the first nine months of 2024, down from 6.4% y/y a year ago.

Greece: The Domestic Price Index rose by 2.9% y/y in September 2024, down from 3.0% y/y in August. In the first nine months of 2024, the HICP increased by 3.0% y/y, down from 4.4% a year ago.

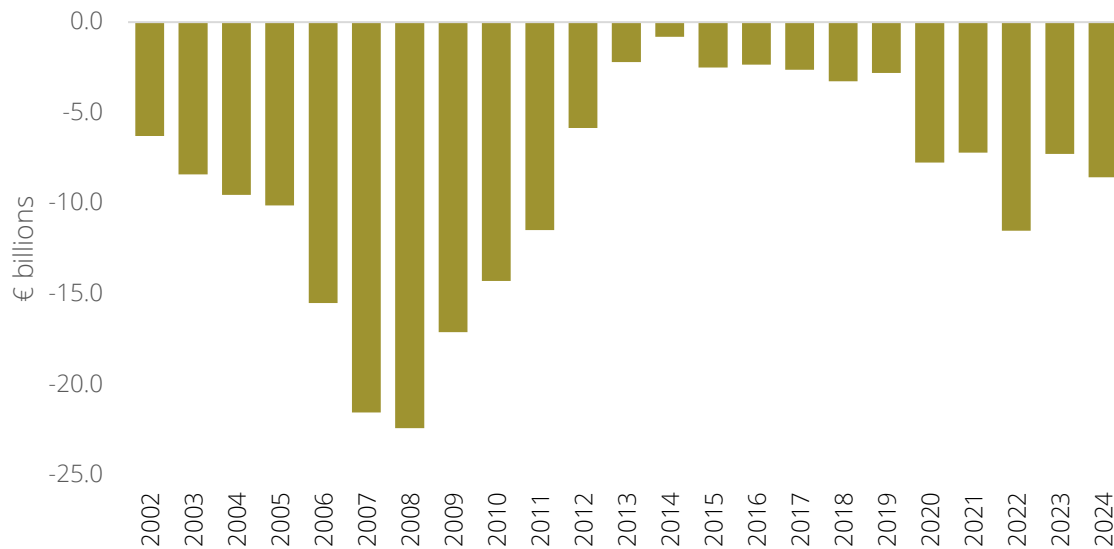
- First eight months of 2024: **+3.0% HICP y/y rate of change**, down from 4.7% a year ago, exclusively from the increasing effect of non-energy goods (3.2%). The effect of energy goods was negative (-0.4%), while the effect of indirect taxes was marginally positive (0.2%).

Producer Price Index (Jan. – Aug. 2024): **2.2% y/y decline** due to energy goods prices, down from a 6.4% decline a year ago.

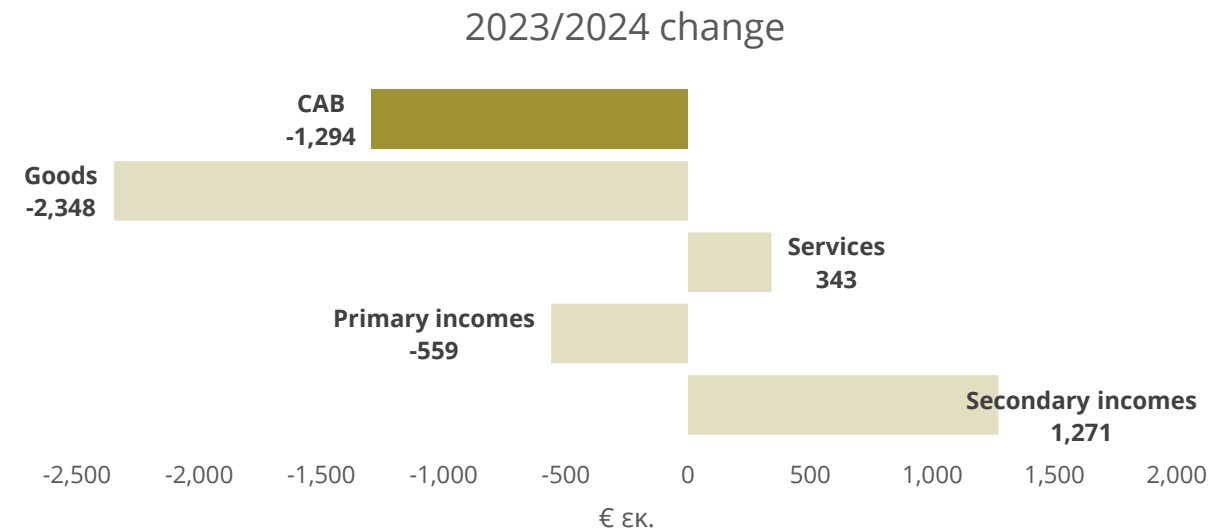


The current account deficit reached €8.6 billion in the first seven months of 2024, €1.3 billion higher than in the first seven months of 2023

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



CAB components



Source: Bank of Greece

- The **deficit in the balance of goods** increased in the first 7 months of 2024 by €2.3 billion, with a decrease in exports of goods (except fuel) and an increase in imports of goods.
- **Small improvement in the surplus of services** by €343 million (smaller than last year), with an increase in tourism revenue in the first 7 months of 2024 by €578 million.
- **Deterioration in primary income** by €559 million, due to income outflow (profits, interest, dividends).
- **Improvement in the secondary income balance** by €1.3 billion.



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

Jan.-August 2024 state budget (cash basis)

- €1.0 billion surplus or 0.4% of GDP (target was €2.8 billion)
- €7.6 billion primary surplus or 3.2% of GDP (target was €3.3 billion)

Improvement from last year due to the larger increase in revenue (+4.7%) relative to spending (+2.0%)

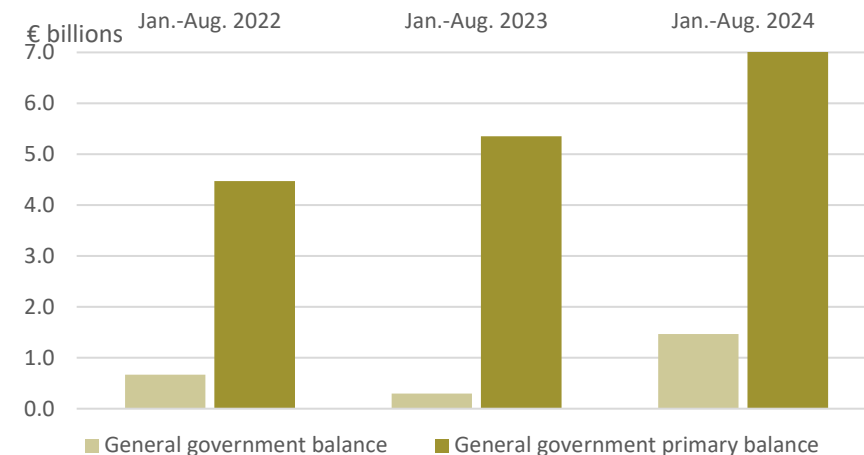
Target exceeded mainly on the spending side (-€3.59 billion)

- Individual and business income tax revenue exceeded the target
- Reduced expenses due to deferral of transfer payments to social security organizations

Draft of the 2024 state budget and medium-term fiscal-structural plan 2025-2028

- Target for a general government **primary surplus** of 2.4% of GDP in 2024, 2.5% of GDP in 2025, and 2.4% each year from 2026-2028.
- Target for **general government debt** of 153.7% of GDP in 2024, 149.1% in 2025, and 133.4% in 2028.
- Include measures to support incomes, boost investment, deal with demographic decline, etc. with an estimated additional fiscal cost of €1.1 billion in 2025 compared to 2024

General government cash balance

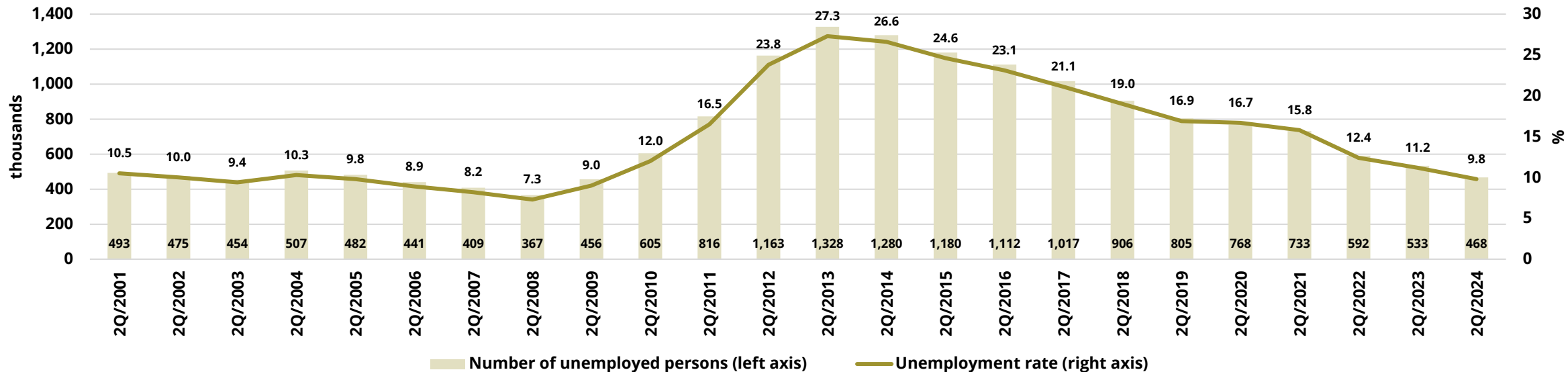


Source: Ministry of Finance



The unemployment rate reached single digits in the second quarter of 2024

Number of unemployed persons and unemployment rate in Greece



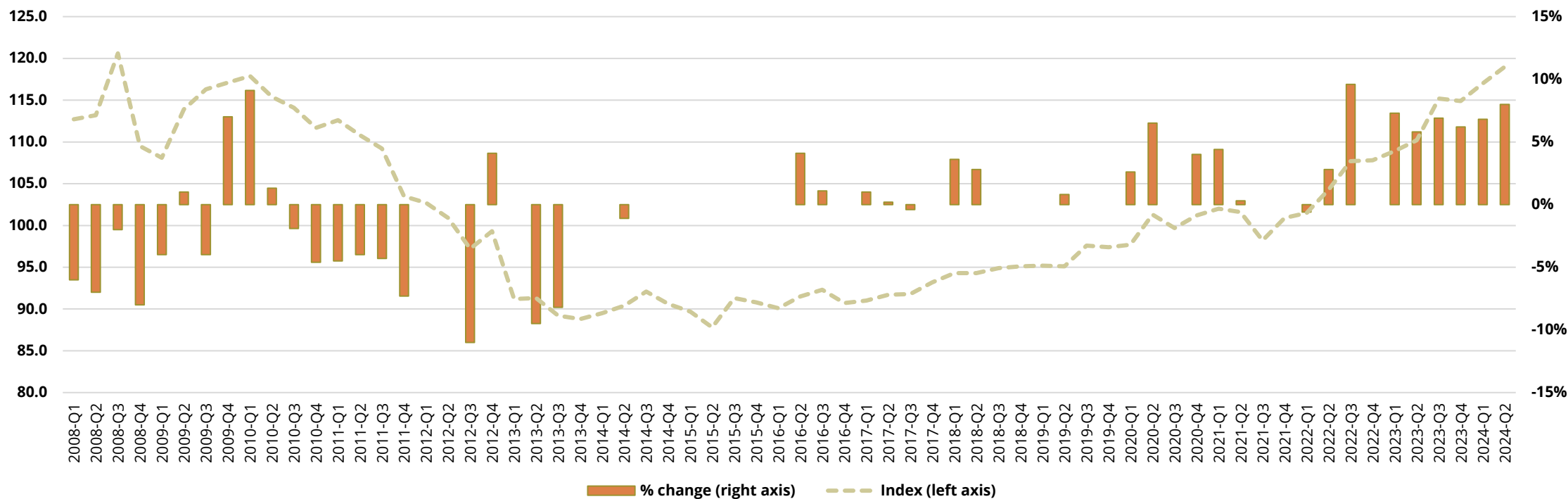
Source: ELSTAT

- The **unemployment rate** reached 9.8% in Q2/2024, down from 11.2% in Q2/2023, while labor market **participation** increased.
- **Employment increased** in sectors such as **Professional, Scientific, Technical Activities** (+27.7 thousand people), **Accommodation and Catering Services** (+25.7 thousand), **Construction** (+18.6 thousand).
- **Employment decreased** in sectors such as **Other Services** (-9.2 thousand), **Manufacturing** (-8.0 thousand).
- The private employment **inflow-outflow balance** was positive (+94.3 thousand) in Q2/2024 and higher compared to the balance of Q2/2023 (+82.5 thousand).



Wage costs increased during the second quarter of 2024

Seasonally adjusted wage cost index, current prices

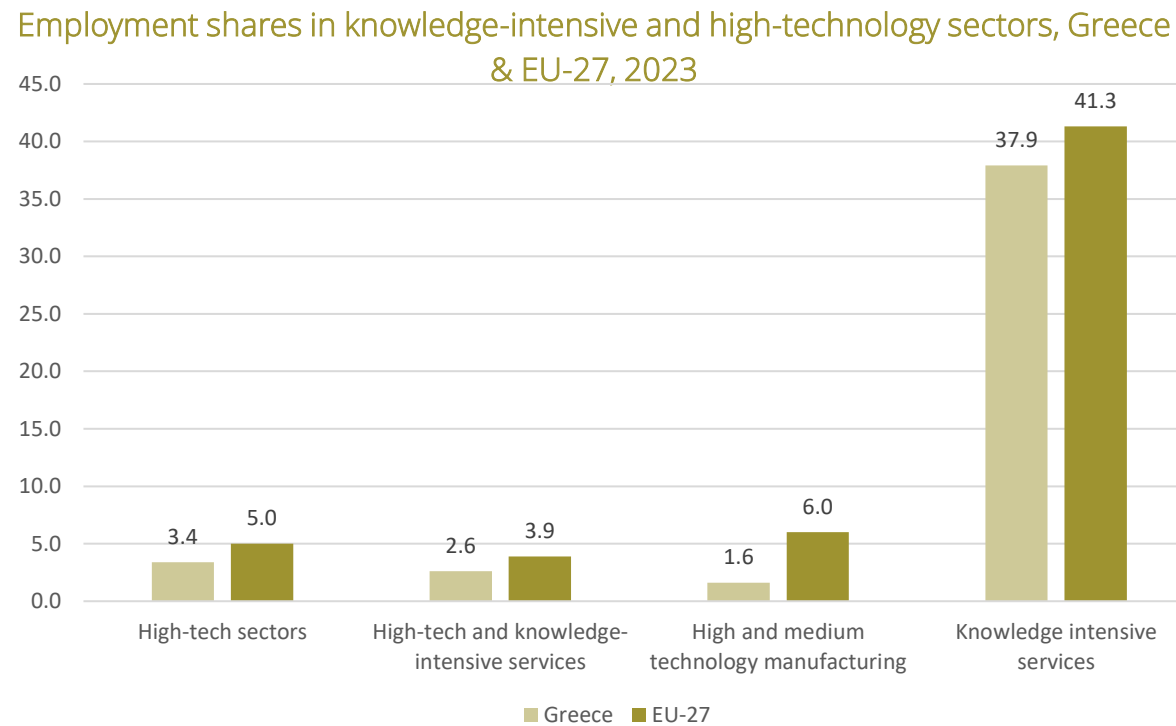
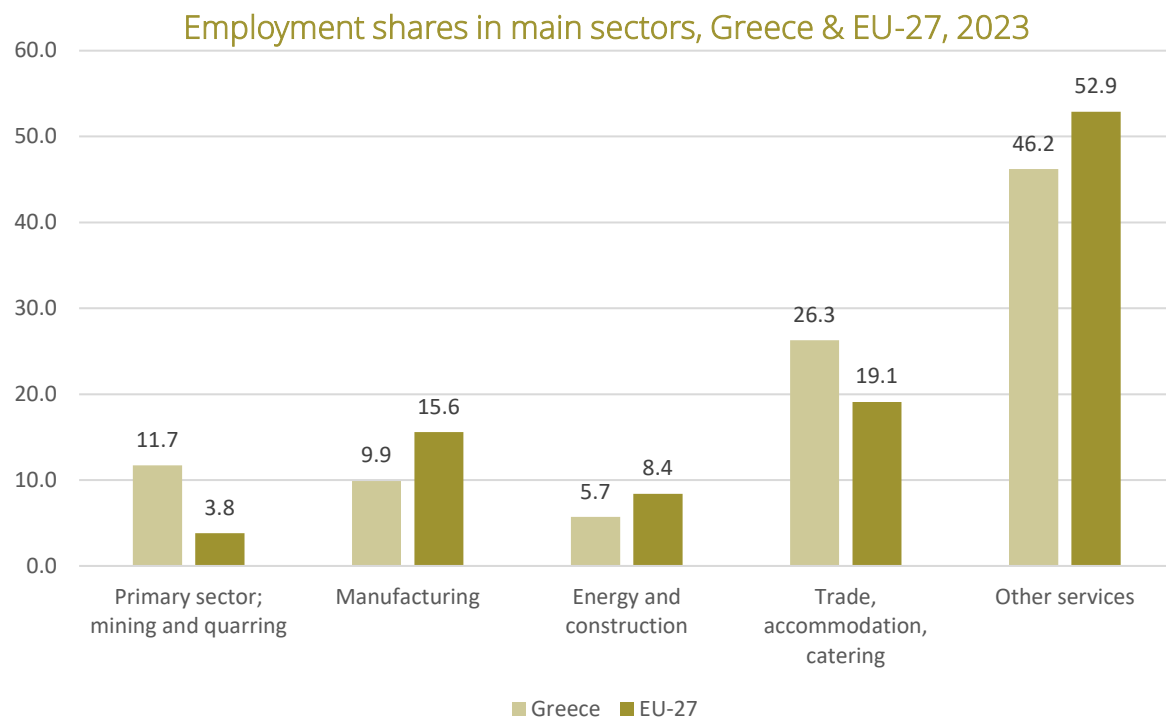


Sources: ELSTAT, Eurostat

- In Q2/2024, wage costs increased by 8.0% y-o-y, 1.7% q-o-q.
- **The cumulative increase in wage costs (17.9%) since the beginning of 2022 marginally exceeds the cumulative increase in the CPI over the same period (16.8%).**



Employment shares in knowledge-intensive and high-technology sectors in Greece lag those of the EU



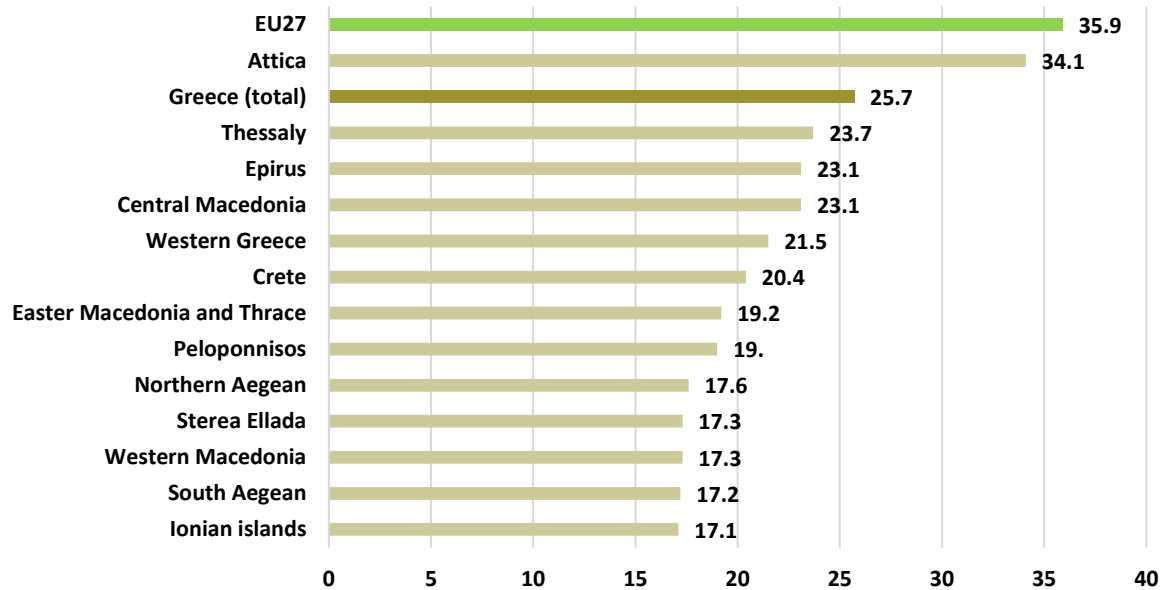
Source: Eurostat, Data processing: IOBE

- Greece employs comparatively higher shares of the workforce in the primary sector, as well as in trade, accommodation and catering services. On the contrary, it traditionally employs a lower percentage of workers in manufacturing and other services.
- Despite the recent increase in employment shares in knowledge-intensive and high-tech sectors, Greece's gap from the European average increased in services, while in high- and medium-tech manufacturing, the gap remained constant.



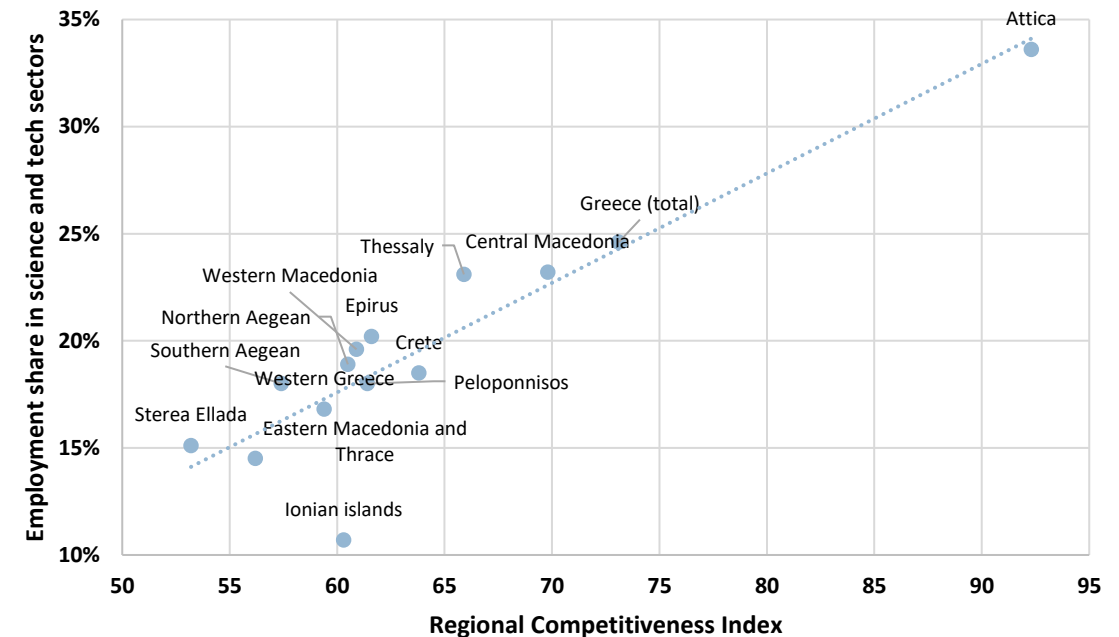
The share of employment in science and technology sectors is also positively correlated to competitiveness, nationally and regionally

Share of employment in science and technology sectors in Greece and the EU-27 by region, 2023



Source: Eurostat, Data processing: IOBE

Share of employment in science and technology sectors and Competitiveness Index, by region, 2022

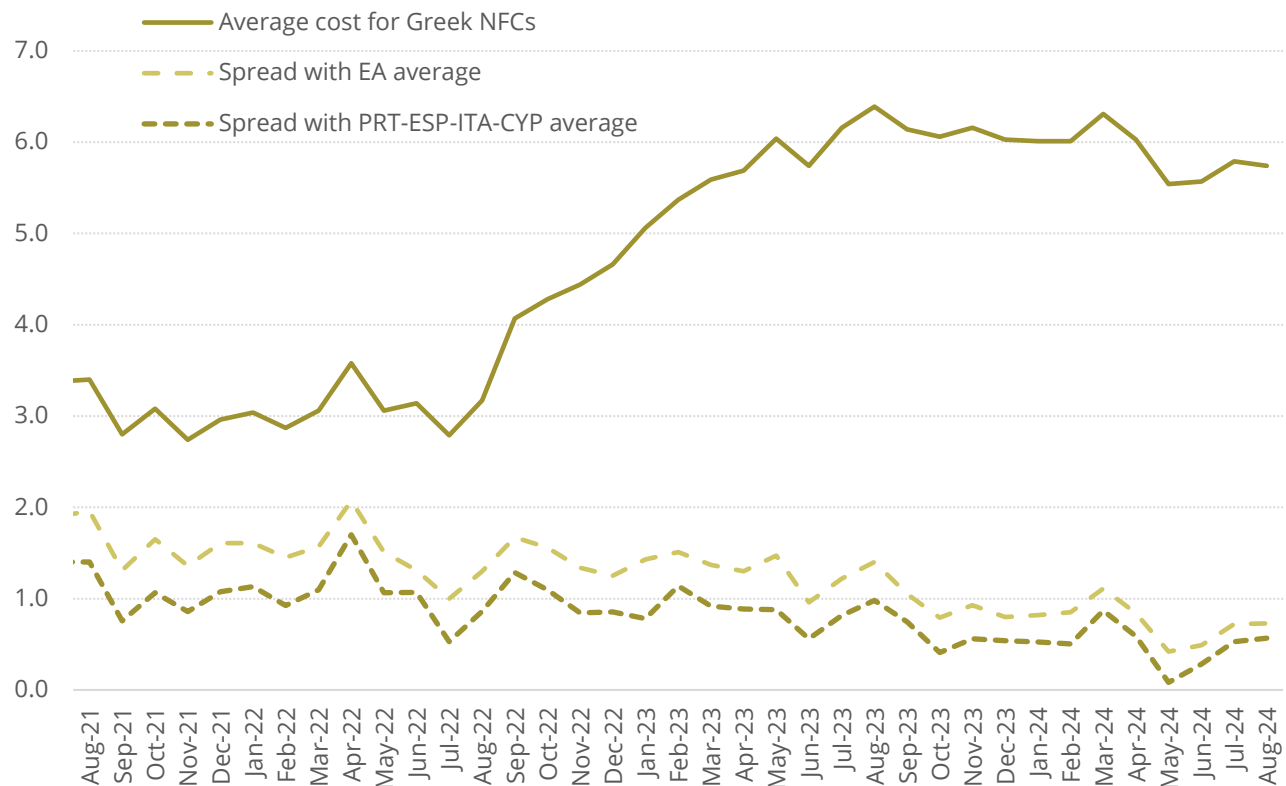


- Despite the recent improvement, employment shares in science and technology sectors in Greece remain significantly lower than the European average. Moreover, there are high levels of heterogeneity across regions.
- Greek regions also record high levels of heterogeneity in terms of competitiveness and lag the European average.
- National and regional policies that will encourage the shift of the production model to sectors that support jobs related to technology and Research & Development should be prioritized.



Improvement in fundamental indicators and banks credit ratings, but challenges remain...

Weighted average cost of bank lending to non-financial corporations (%)



Source: ECB, Data processing: IOBE

...such as the spread of private financing costs with other "southern" EU countries.

Positive trends: Improvement of organic profitability indicators, high liquidity, enhancement of private deposits, recovery of credit expansion to businesses.

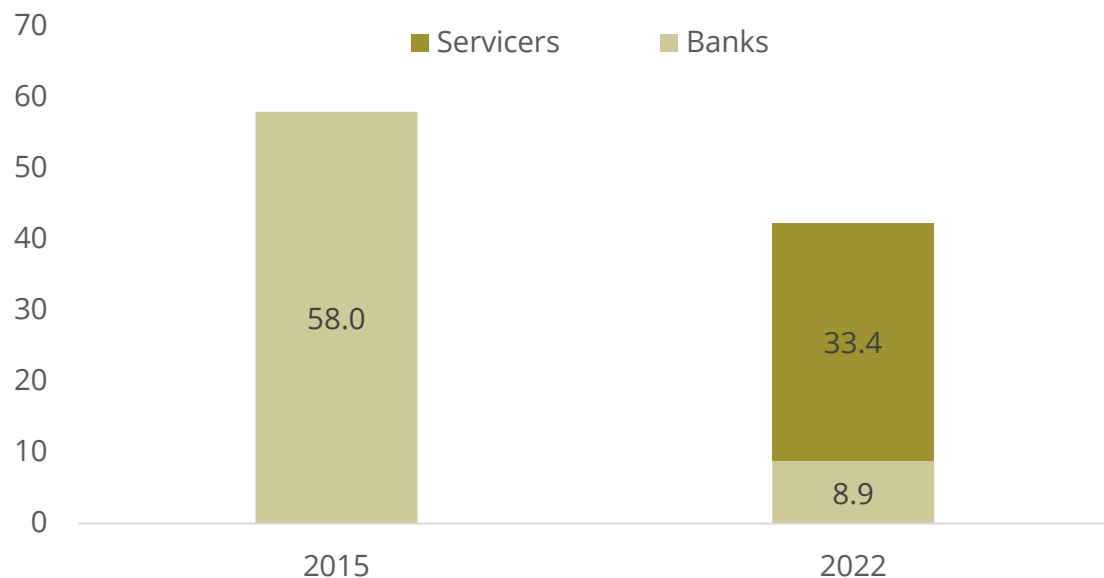
Negative trends: Increased exposure of banks to government bonds, high interest margin, high stock of NPLs on and off bank balance sheets, contraction of credit to households

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



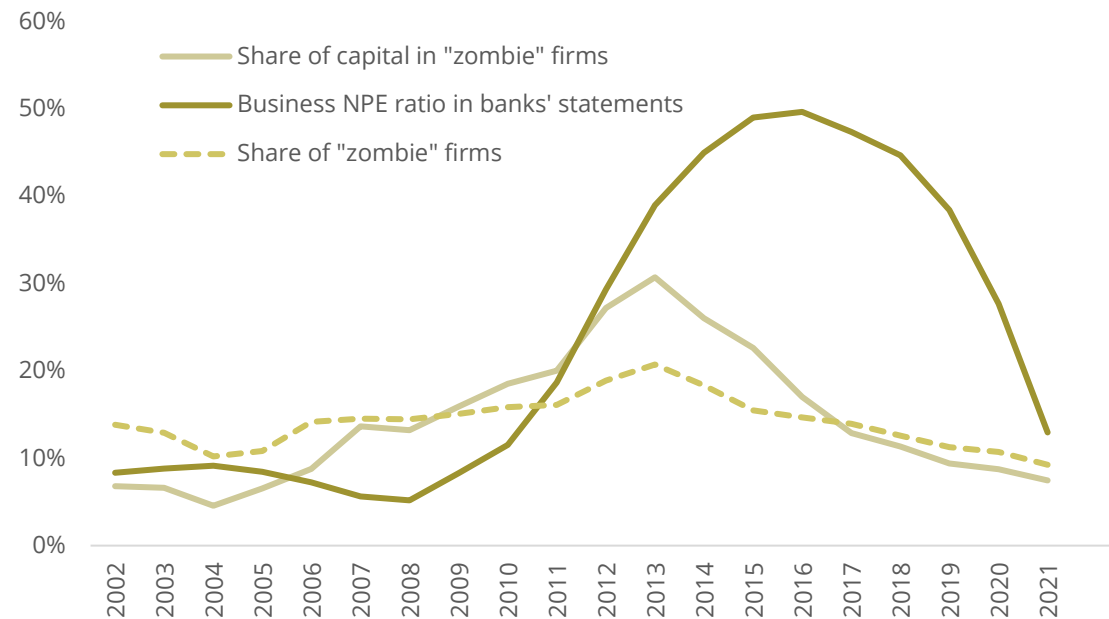
Faster reduction of zombie companies and NPLs frees up financing resources and investment flows

Non-performing exposures to NFEs from banks and servicers, 2015 and 2022, in € billions.



Source: BoG, ICAP data.prisma, Data processing: IOBE

Evolution of estimated percentage of zombie companies in Greece, percentage of corporate NPEs and concentration of capital in zombie companies, 2002-2021

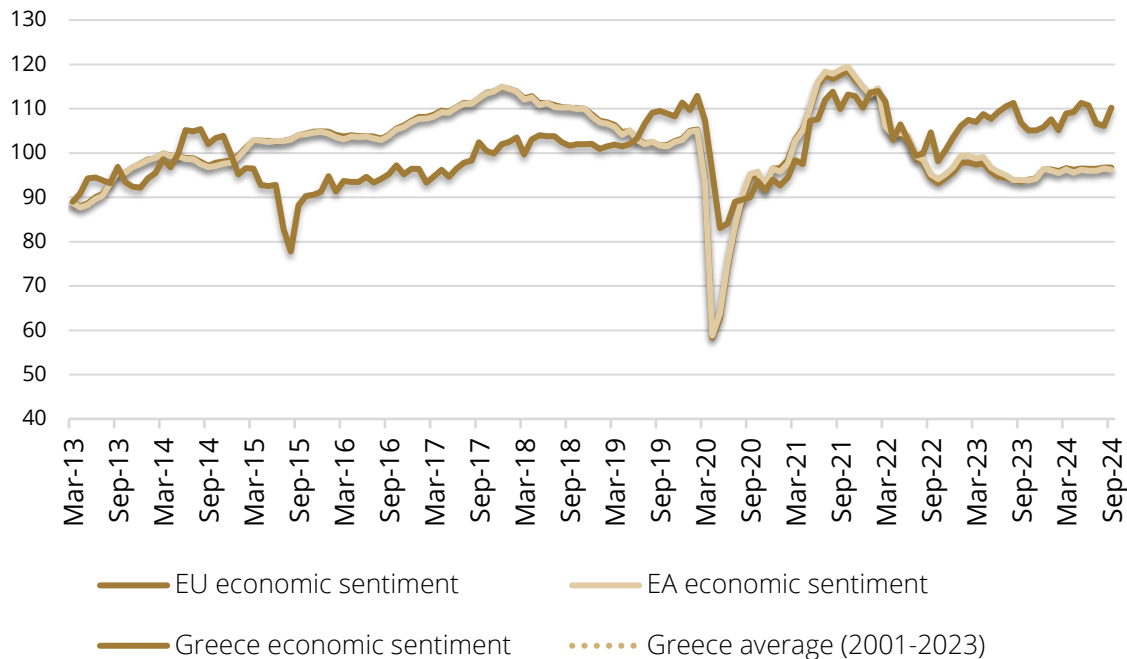


- Non-performing business loans, on and off bank balance sheets, fell by 28% during the 2016-2022 period, reaching approximately €42 billion in 2022.
- The trend of the percentage of **zombie companies** in the economy leads the trend of the NPL ratio on bank balance sheets.
- The density (in number) and the concentration of capital (congestion) in zombie companies have negative effects on healthy businesses, in terms of investment, employment and productivity, as shown in a recent [study](#) by IOBE (the study was supported by the Bank of Greece)

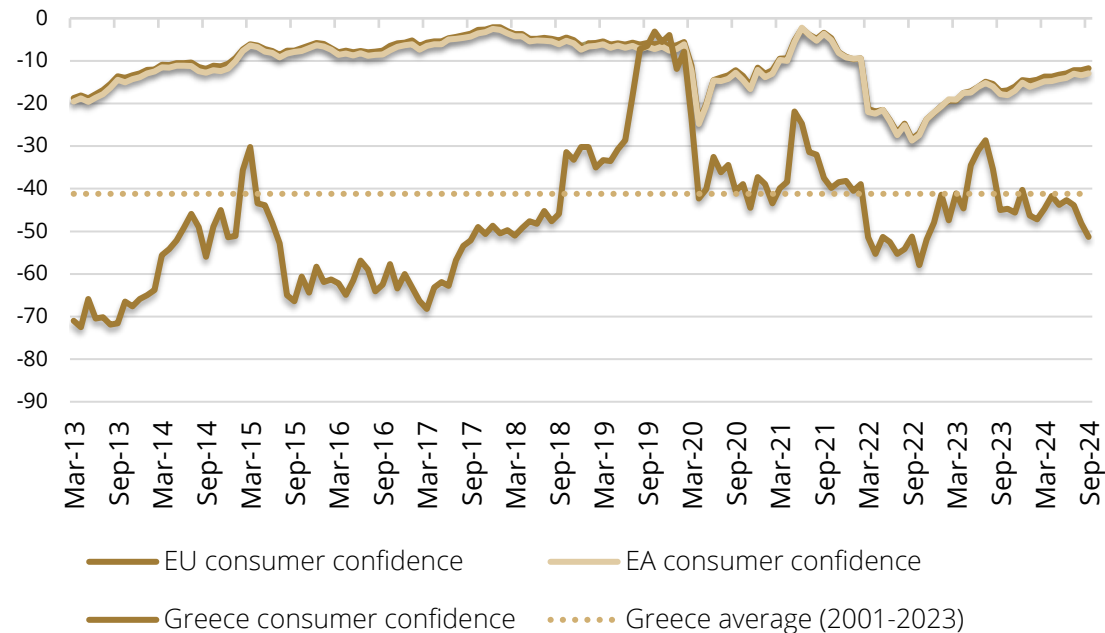


Slight weakening of economic sentiment in Q3/2024; it is mildly lower than it was in Q3/2023

Economic Sentiment Indicator



Consumer Confidence Index



Sources: IOBE, European Commission

Slight decline in Consumer Confidence in Greece in 2024 but increase in consumer confidence in the Eurozone.



Short-term activity indicators: momentum in industry, mild increase in construction, mixed trend in tourism, decline in retail trade

Industry

- Industrial production increased by 6.7% y/y in the first eight months of 2024, up from 1.0% in the first eight months of 2023.
- The turnover ratio increased by 5.6% in the first seven months of 2024; up from a 3.8% decline in 2023.

Construction

- Construction output rose by 8.1% y/y in H1/2024, down from 17.1% in 2023.
- The increase in the issuance of new licenses (21.7% vs 11.6%) continues - stabilization in business expectations

Tourism

- The accommodation turnover ratio declined by 10.9% y/y in H1/2024, down from a 25.9% y/y increase in 2023 – driven solely by the negative performance in May 2024 (-29.8%).
- Food/catering turnover increased by 23.0% y/y, up from a 12.0% y/y decline in 2023.

Retail trade

- Marginal 1.0% y/y decline in Retail Trade Volume in the first seven months of 2024, down from a 0.6% decline in the first seven months of 2023
- Expectations recovered in Q3/2024.



Macroeconomic forecasts for 2024 and 2025

2024 baseline scenario

- The Eurozone economy follows the ECB's baseline scenario (September 2024): 0.8% growth (down from 0.9% three months ago) and 2.5% inflation in 2024 (same as in the previous quarter), 1.3% growth and 2.2% inflation in 2025.
- Interest rates follow the trend of today's futures, i.e., Euribor falls from close to 3.9% at the start of the year to around 2.7% (down from a 3.3% expectation in the previous quarter) at the end of 2024 and 1.8% at the end of 2025.
- International energy commodity prices follow the EIA's baseline scenario and remain lower than in the last twelve months, with stabilizing trends in Q4/2024 and in 2025.
- Geopolitical tensions escalate in Ukraine and the Middle East.
- Timely implementation of the "Greece 2.0" Plan in 2025, without delays.
- Inbound tourism in 2024 and 2025 is expected to match 2023 good performance, in real terms.

Forecasts for 2024

- **Growth:** ≈ 2.3%
- Private consumption: ≈ 2.2%
- Public consumption: ≈ -2.7%
- Investment (Fixed): ≈ 19.2% (8.8%)
- Exports: ≈ 1.8%
- Imports: ≈ 5.8%
- **Unemployment:** ≈ 10.1%
- **Inflation:** ≈ 3.0%

Forecasts for 2025

- **Growth:** ≈ 2.4%
- Private consumption: ≈ 1.7%
- Public consumption: ≈ -0.4%
- Investment (Fixed): ≈ 6.0% (11.0%)
- Exports: ≈ 4.0%
- Imports: ≈ 2.9%
- **Unemployment:** ≈ 9.3%
- **Inflation:** ≈ 2.4%



Risks and positive prospects

Risks

- Further geopolitical and economic instability regionally and internationally (war in Ukraine, Middle East, US elections).
- Alternative scenario of a large increase in international energy prices with negative effects on production costs and the de-escalation of interest rates.
- High deficit in the external balance, with structural characteristics.
- Loss of competitiveness due to higher than the Eurozone average inflation.
- Labor market: Slower decline in the unemployment rate, partly due to high structural unemployment.
- 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.

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.

Special study*

Trends, Challenges and Prospects of Construction in Greece

The study was funded by

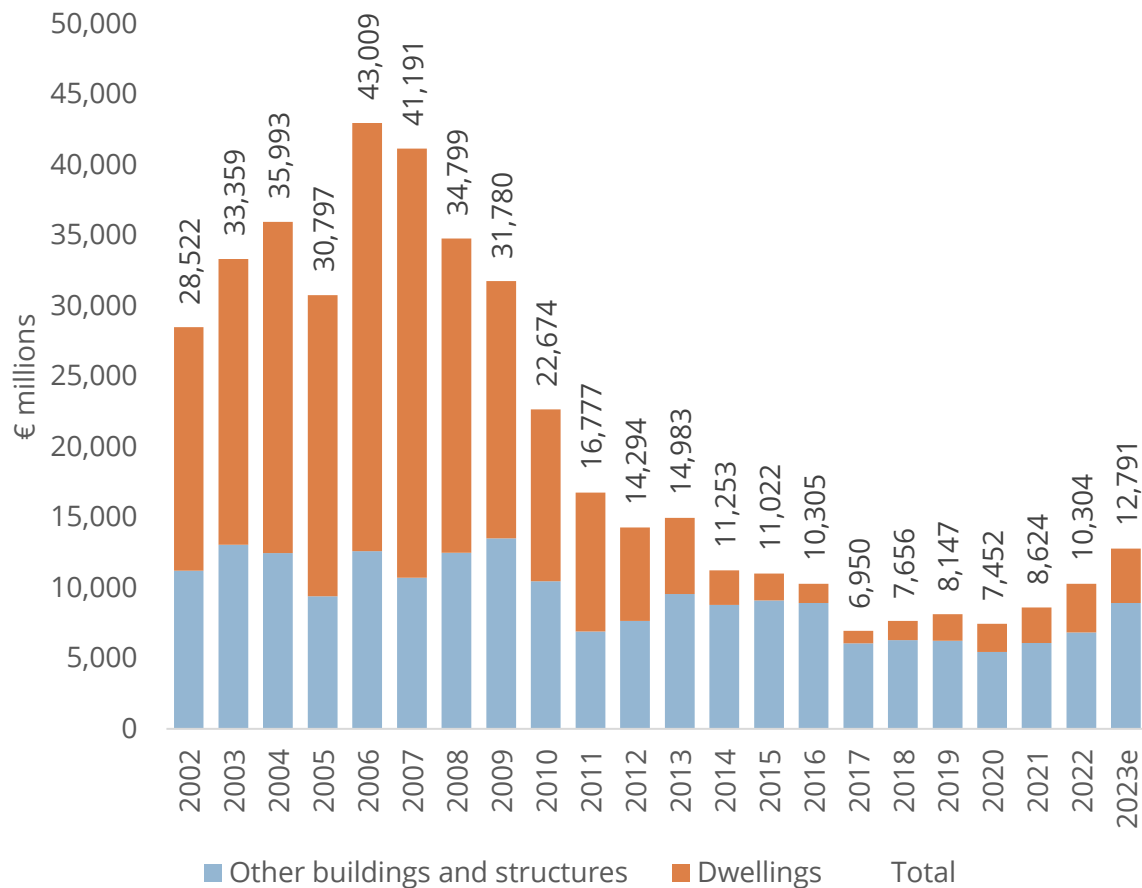


*IOBE study (2024). Available [here](#)

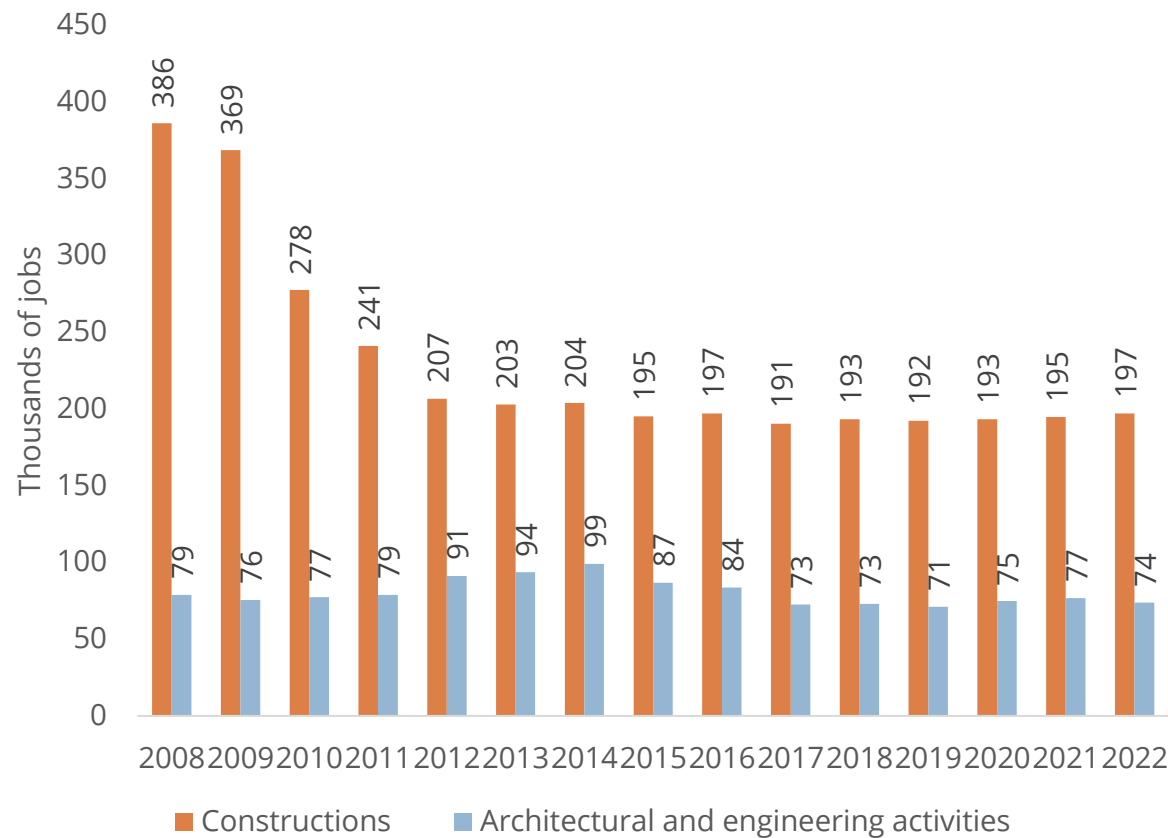


After a period of dramatic decline in construction activity, there are signs of recovery

Production value of the Construction sector



Employment in the Construction sector and Architectural & Engineering activities



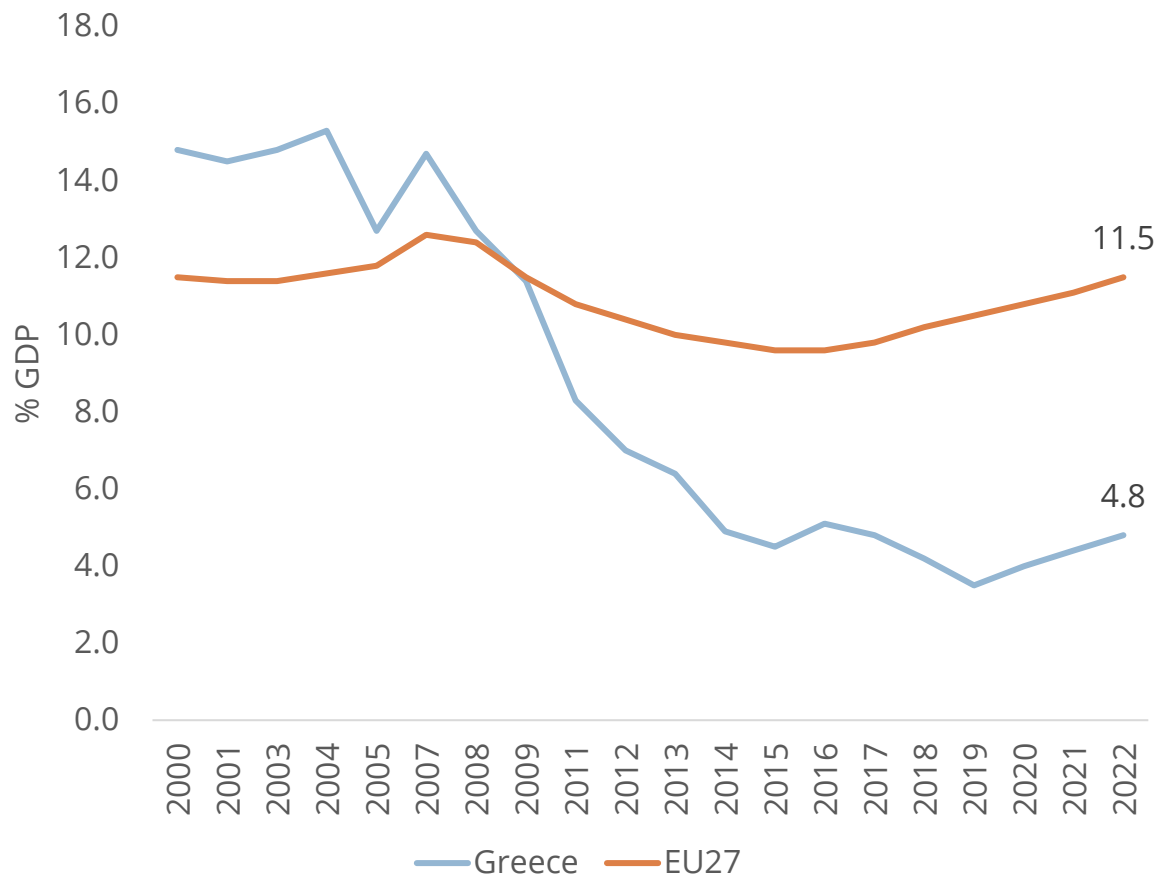
Source: Eurostat. Analysis IOBE



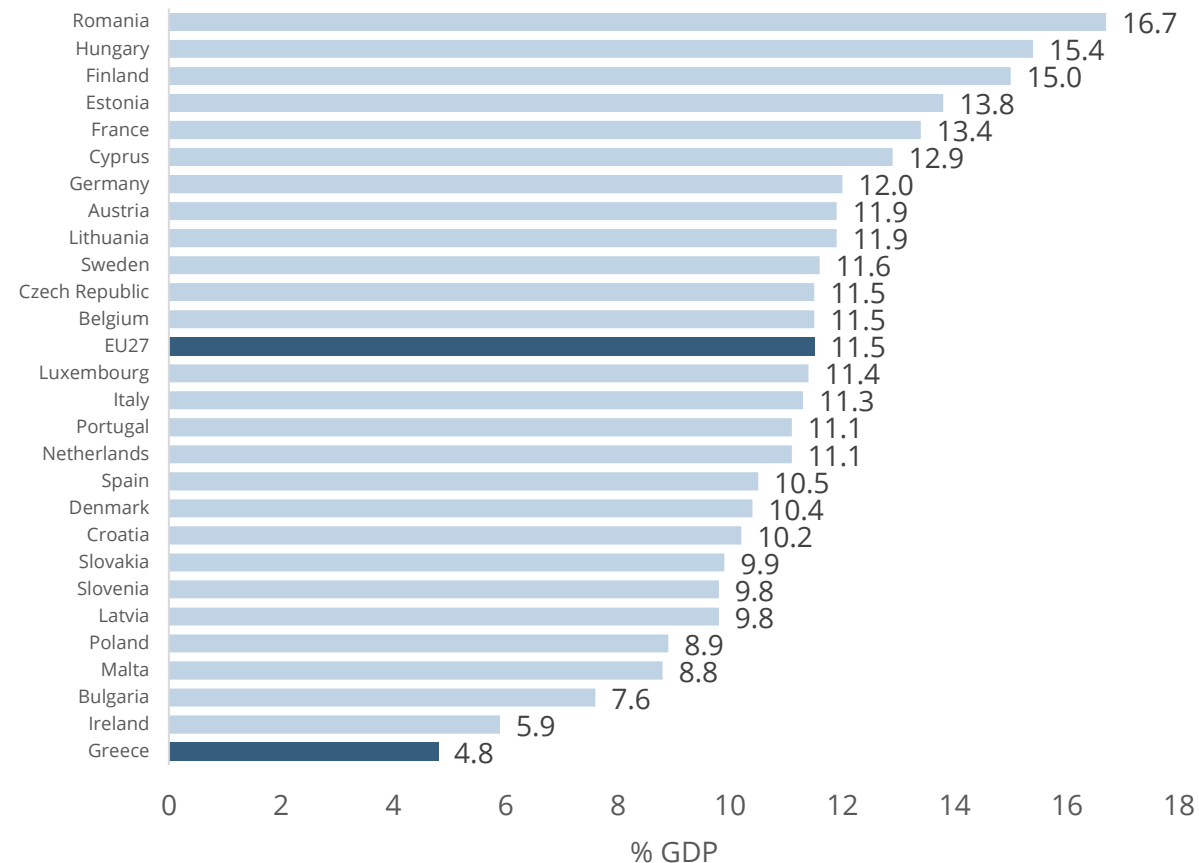


Greece records the lowest rate of investment in Construction as a percentage of GDP among EU countries

Investment in Construction



Investment in Construction (% of GDP) 2022



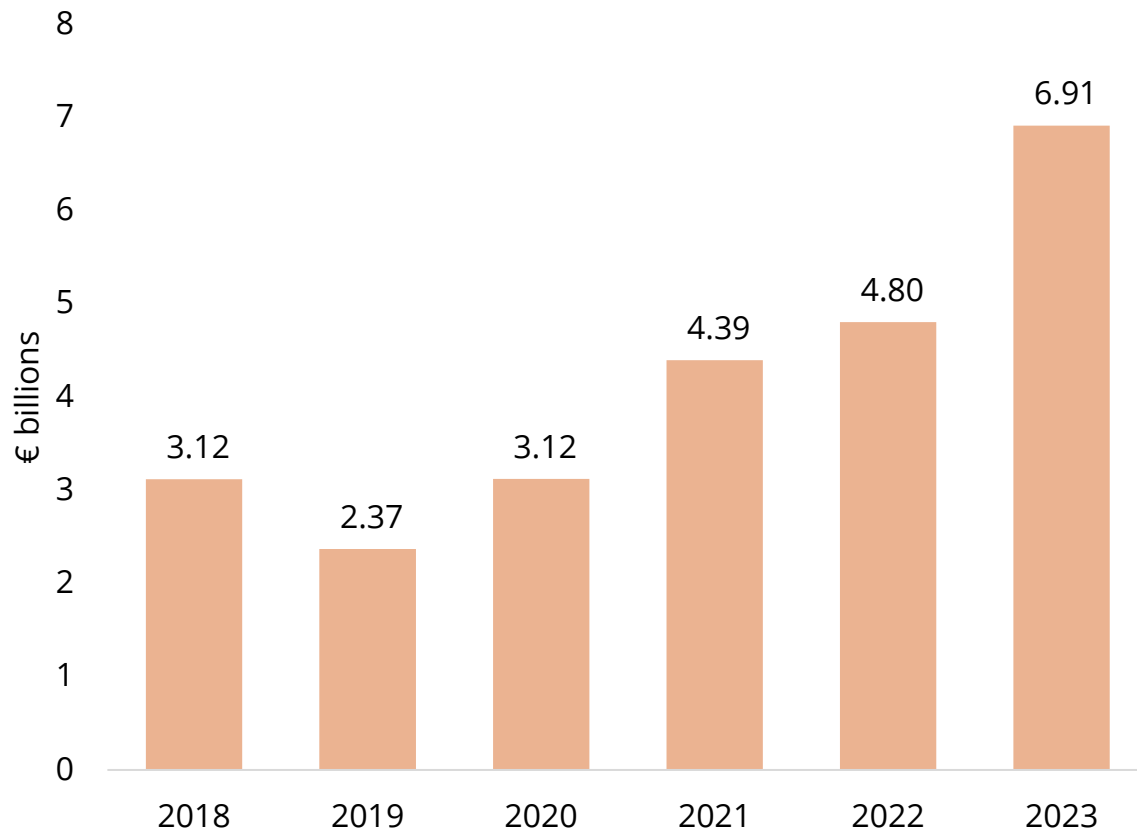
Source: Eurostat. Analysis: IOBE



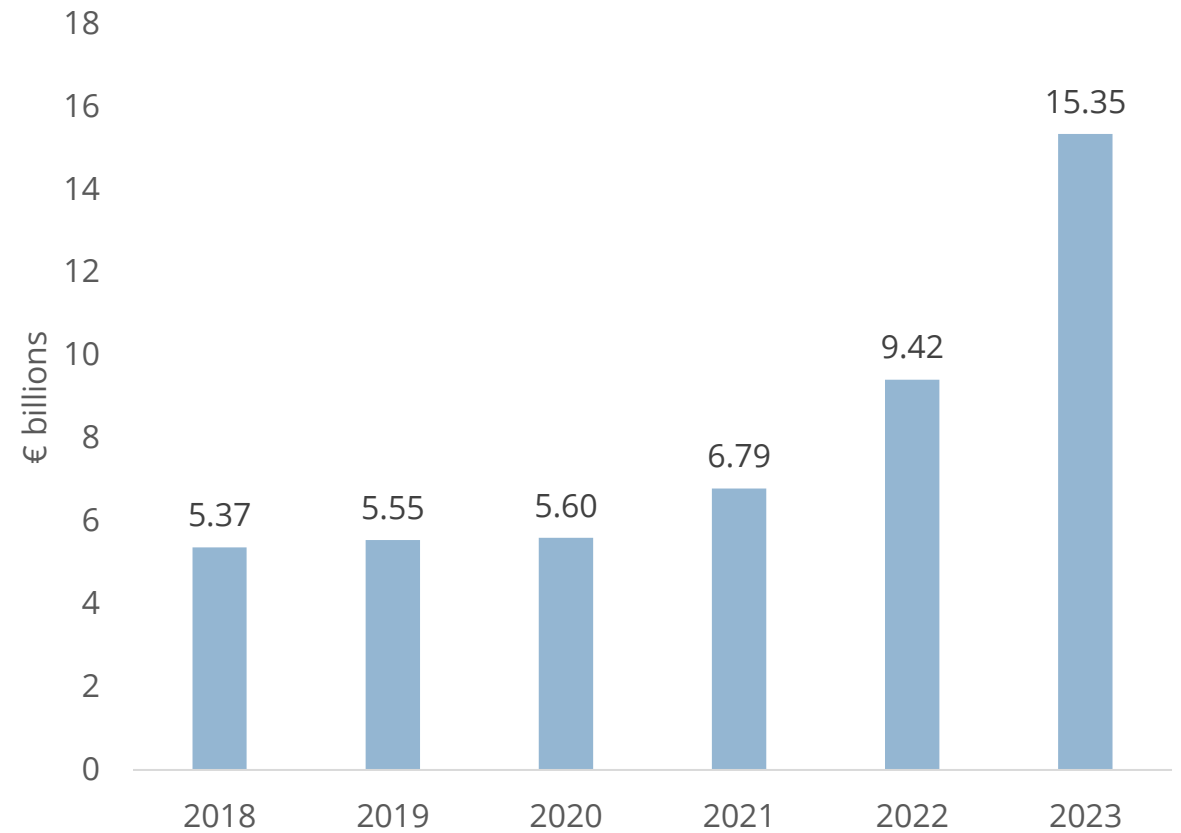


The total budget of tendered projects has increased significantly after 2021, while the backlog of the largest construction companies has almost tripled since 2020

Total Public Works budget with a budget of over 1 million euros



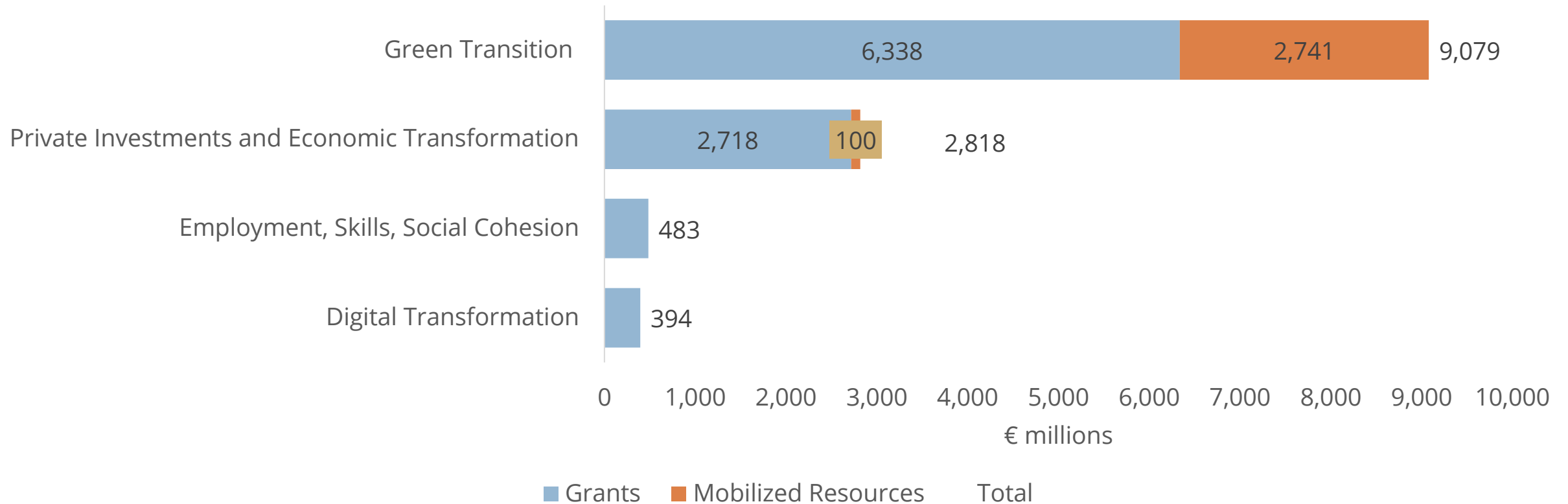
Outstanding balance of projects of 5 construction groups listed on the Athens Stock Exchange



Source: Association of Greek Contracting Companies (SATE) and construction companies reports



Grants amounting to €9.93 billion from the Recovery Fund are estimated to be directed to projects directly related to Construction, mobilizing total resources of €12.8 billion.



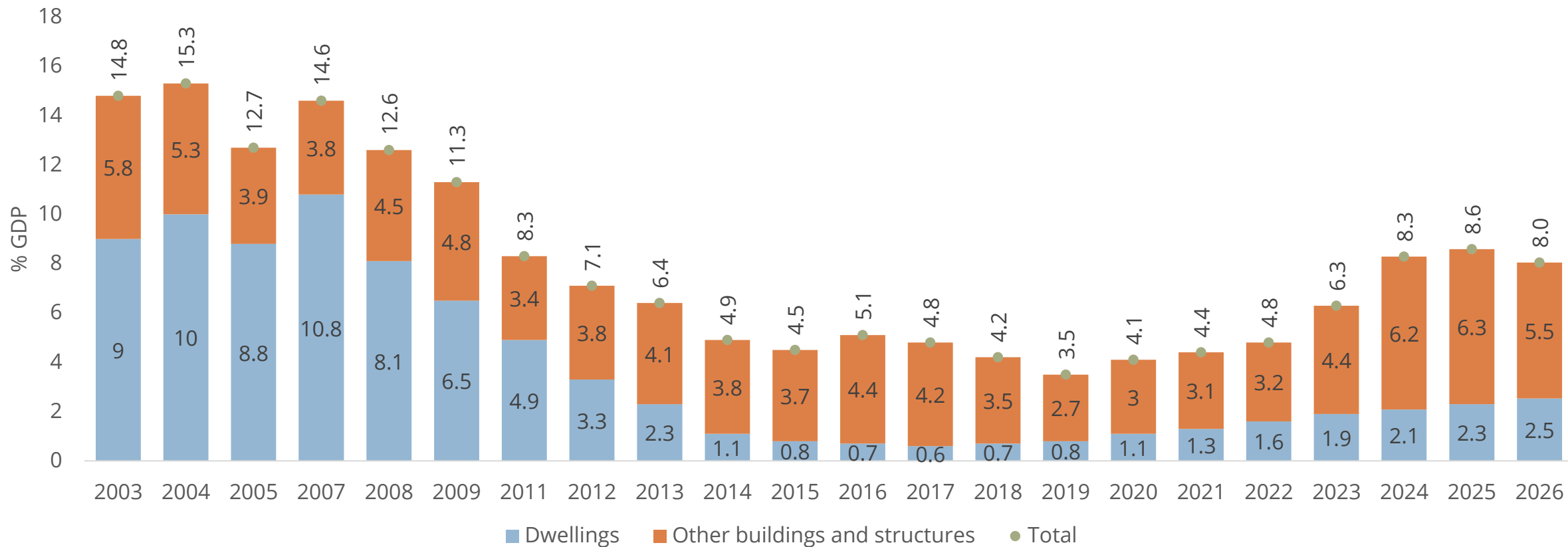
Source: Greece 2.0 National Recovery and Resilience Plan. IOBE estimates.

Together with the resources from the Recovery Fund loans, it is estimated that a total of €23.9 billion will be mobilized for projects directly related to Construction in the 2022-2026 period.



In the medium term, it is estimated that the share of GDP of construction investments will significantly increase

Projection of investments in Construction (% of GDP), 2023-2026

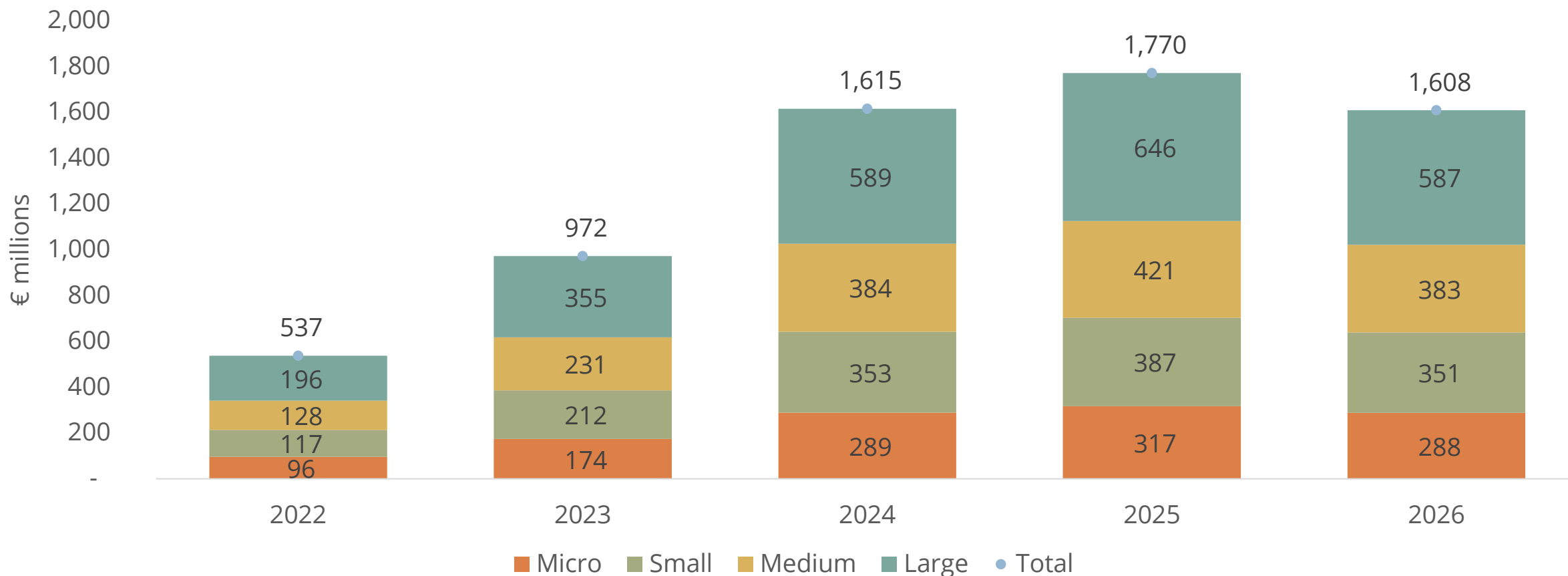


Source: Eurostat, IOBE Estimation 2023-2026.



The expected increase in turnover of technical and engineering companies will enhance the need to increase their bank lending

Estimated change in total bank loans by corporate category



Source: IOBE



Prospects and challenges

Strong growth from European and national resources

Need to increase funding of the sector and narrow the funding gap

Positive contribution from the use of various financial tools (e.g., guarantee funds, interest subsidy, etc.)

Labor shortages

Guarantees and late payments

Improvements in the institutional framework of the public works production system

National strategic planning for infrastructure

Integration of technology and digitization of Construction

Adoption of ESG standards by construction companies

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