Quarterly Report on the Greek Economy 04 / 24

January 23rd, 2025

ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Overview of the report

Continuation of positive trends, but with increased uncertainties and risks

Global environment

- Steady growth of the world economy
  - Heterogeneity across countries, mild average rate
  - Gradual de-escalation of inflation and interest rates
- Increased levels of uncertainty
  - Resurgence of trade protectionism
  - Geopolitical tensions and war zones
  - Slowdown of climate change mitigation
  - Risk of non-linear further de-escalation of inflation and financing costs

Greece

- Positive performance of the Greek economy in the short term
  - Gradual economic convergence with the rest of Europe
  - Fiscal targets exceeded
- Importance of qualitative dimensions of growth in the medium term
  - Attracting investment
  - Balance in the external balance & extroversion
  - Shift of production towards more competitive products and services
  - Higher value jobs and positions
  - Education and technology
  - Funding and Innovation

The transition path of the Greek economy to the new production model

Three complementary channels

- Higher contribution of investments and exports to GDP
- Shift of natural and human resources to sectors with high productivity
- Shift to the production of products and services with higher added value

The role of tax policy

- The goal is to broaden the tax base
- It is necessary that the tax burden on labor be reduced

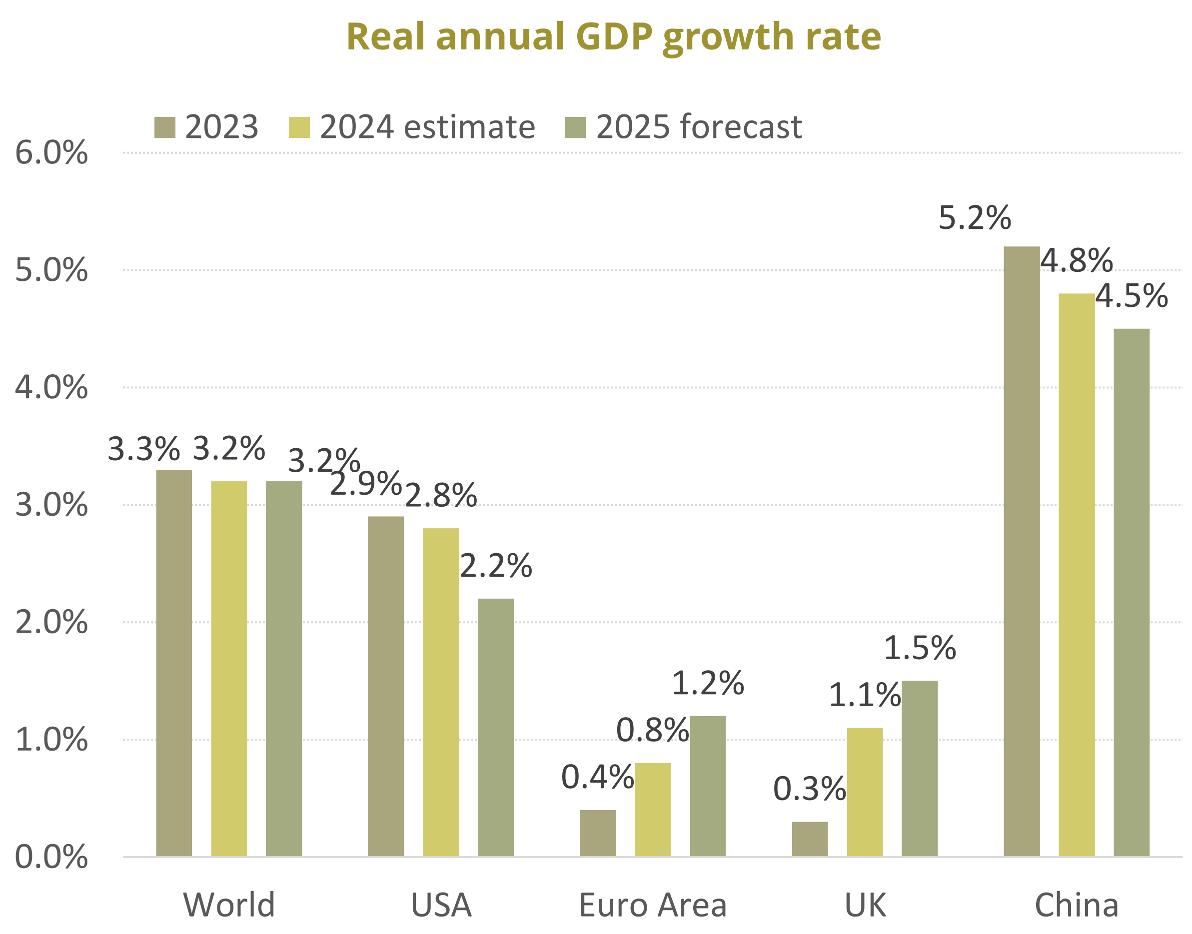
External risks

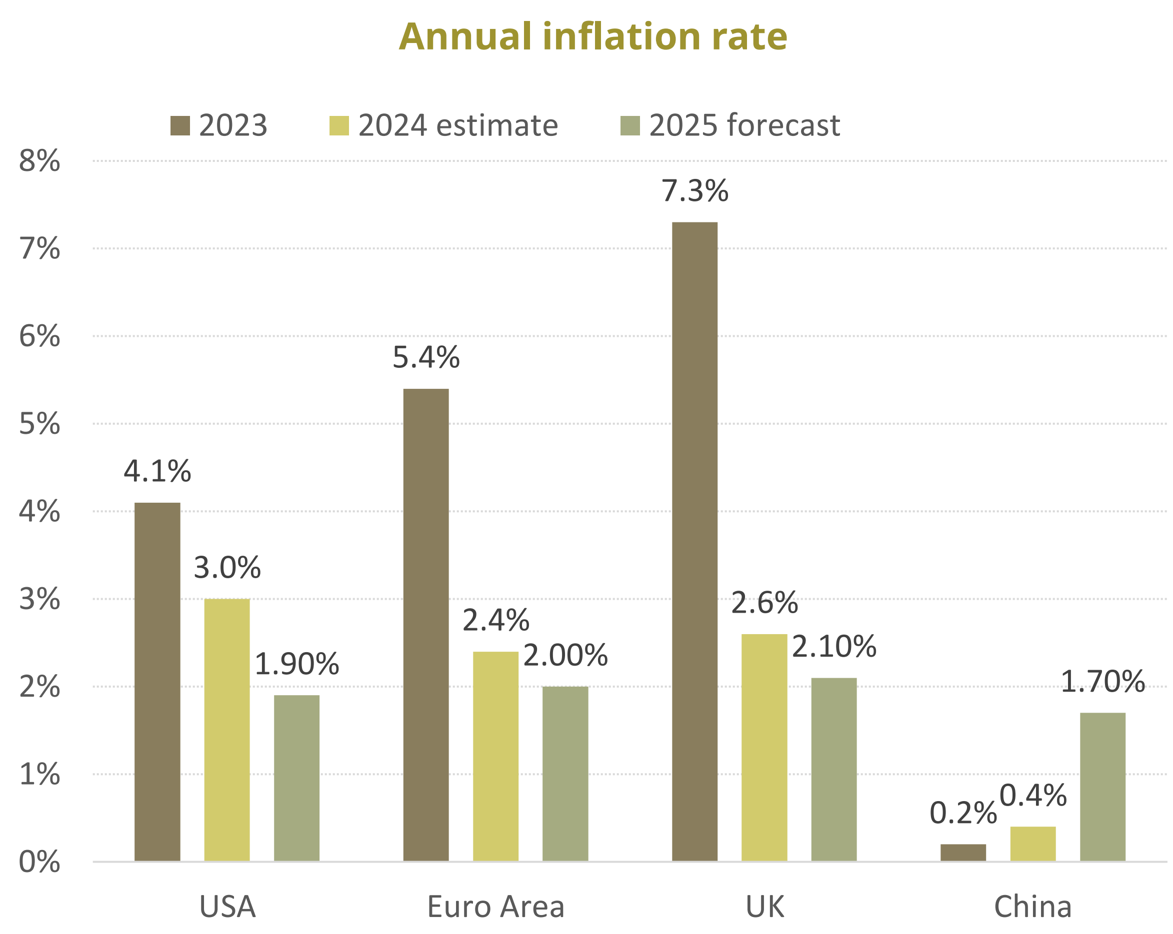
- Resurgence of protectionist tendencies in international trade
- Slowdown or reversal in the downward trend of inflation and interest rates

Global environment: resilient economic activity amid deflation

- **Global growth stabilized** around a mild rate **in the third quarter,** under the influence of **high inflation and tight monetary stance.**
  - 0.9% y/y growth in the Eurozone in Q3 (up from 0.6% in the previous quarter), 2.7% in the US (down from 3.0%), 4.6% in China (down from 4.7%), 1.7% (from 1.6%) in OECD countries.
- **Inflation** in OECD countries remains high (4.5% in November, core inflation stood at 4.9%), but is decelerating in developed countries
- A further reduction in interest rates is expected by the **central banks**; 25 b.p. reduction by the ECB and the FED
- 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 (estimate) and 3.3% in 2025 (up from 3.2% in 2023).
  - ECB: +0.7% growth in the Eurozone in 2024 (estimate) and 1.1% in 2025 (up from 0.5% in 2023), 2.4% and 2.1% inflation, respectively.

European growth rates have been lagging, while global inflation is expected to converge back to target in 2025



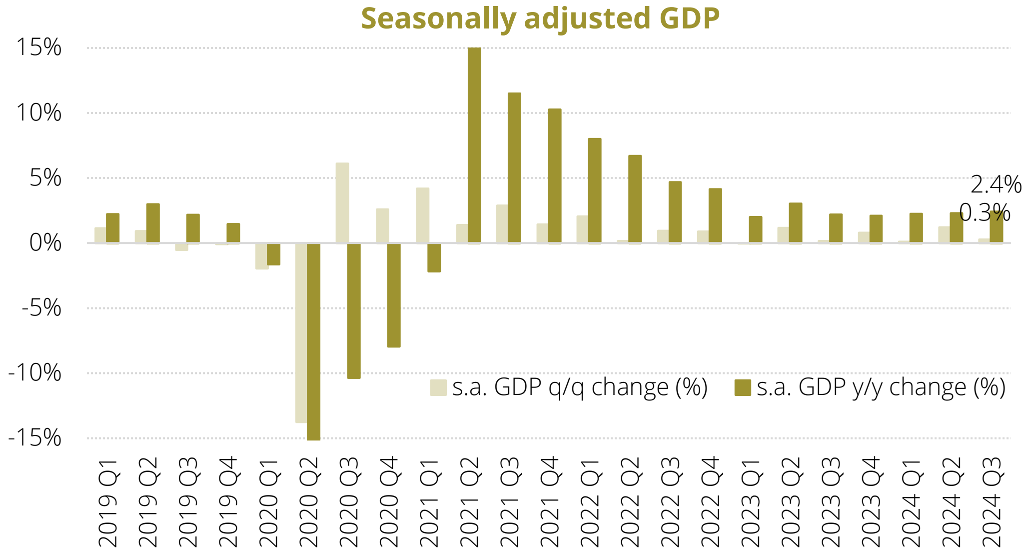


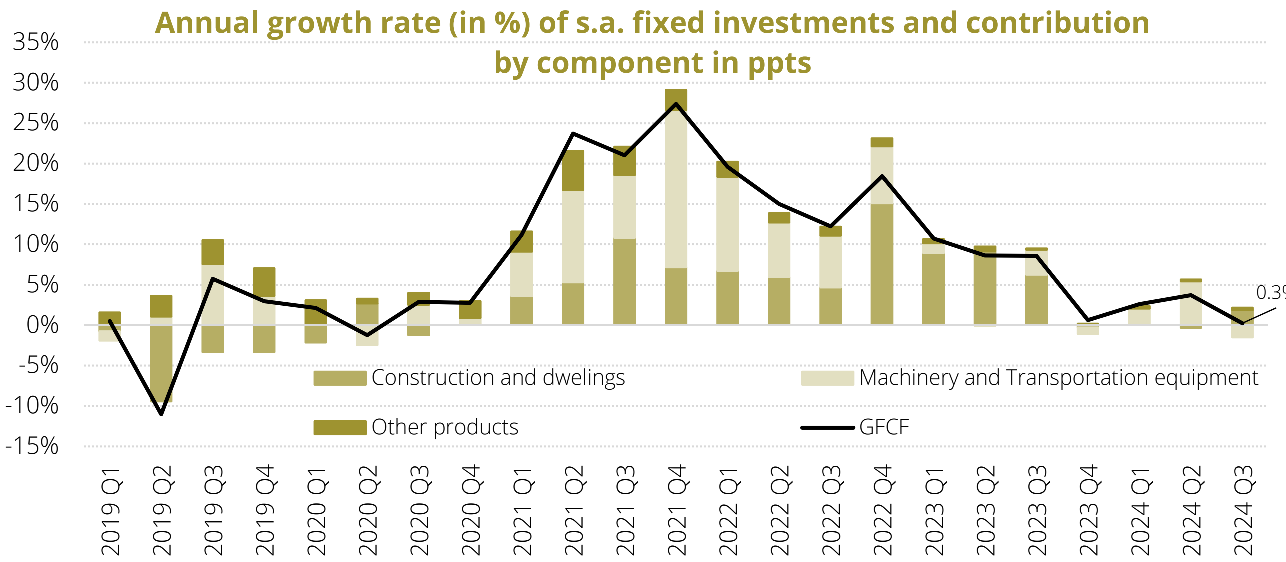
Source: IMF (WEO October 2024)

Greece in 2024 Q3: Stronger economic recovery

Real GDP in 2024 Q3: +2.4% y/y
Marginal acceleration of growth (from +2.3% y/y in Q2/2024), mainly due to higher investments. Boost from private consumption.

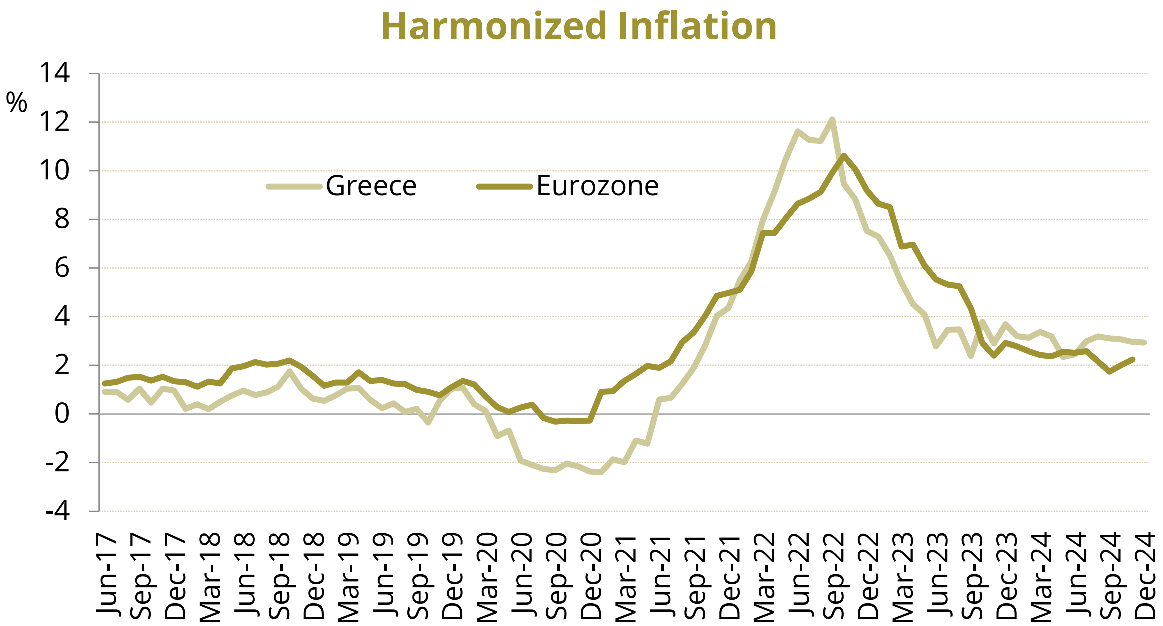
Diverging trends within consumption (private +2.1% y/y, public -1.4% y/y)	Investments increased, mainly inventories (total +18.7% y/y, fixed +0.3% y/y)	Exports increased (goods +1.2% y/y, services +5.1% y/y)	Imports rose (goods +2.3% y/y, services +12.5% y/y)	Extroversion remains high (81% of GDP)

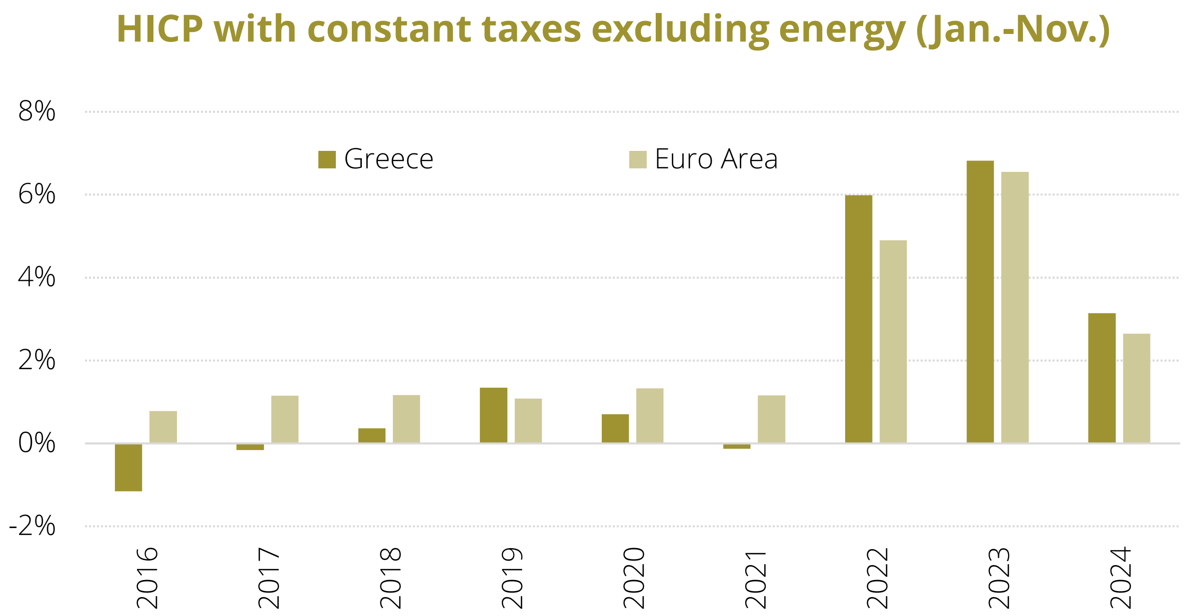




Source: ELSTAT

Inflation rate has eased in 2024 to 3.0% (HICP), from 4.2% in 2023: annual drop of energy prices





Sources: ELSTAT, Eurostat

Euro Area: Lower inflation in 2024, at 2.4% from 5.5% in 2023.

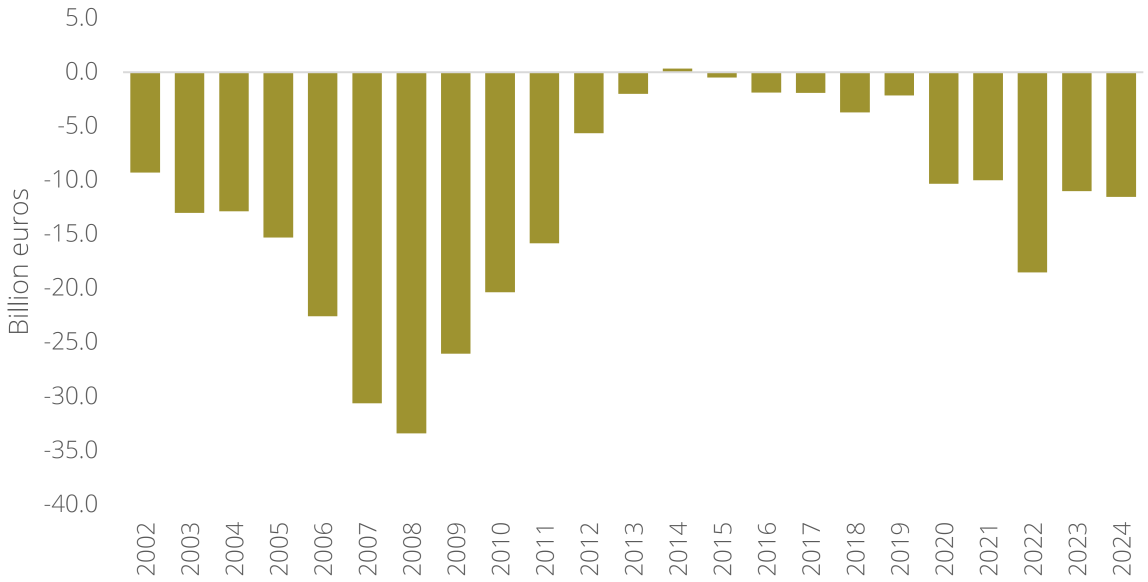
Greece: Rise in the domestic price index in December, by 2.6% y/y, from 2.4% y/y in November. In 2024, rise of the HICP by 3.0%, down from 4.2% in 2023.

- Jan.-Nov. 2024: Rise in HICP by **+3.0% y/y,** compared to 4.2% y/y in 2023, due to the rising price impact of non-energy goods (3.1%). Negative contribution from energy goods (-0.4%), while indirect taxation had a marginal effect (+0.2%).

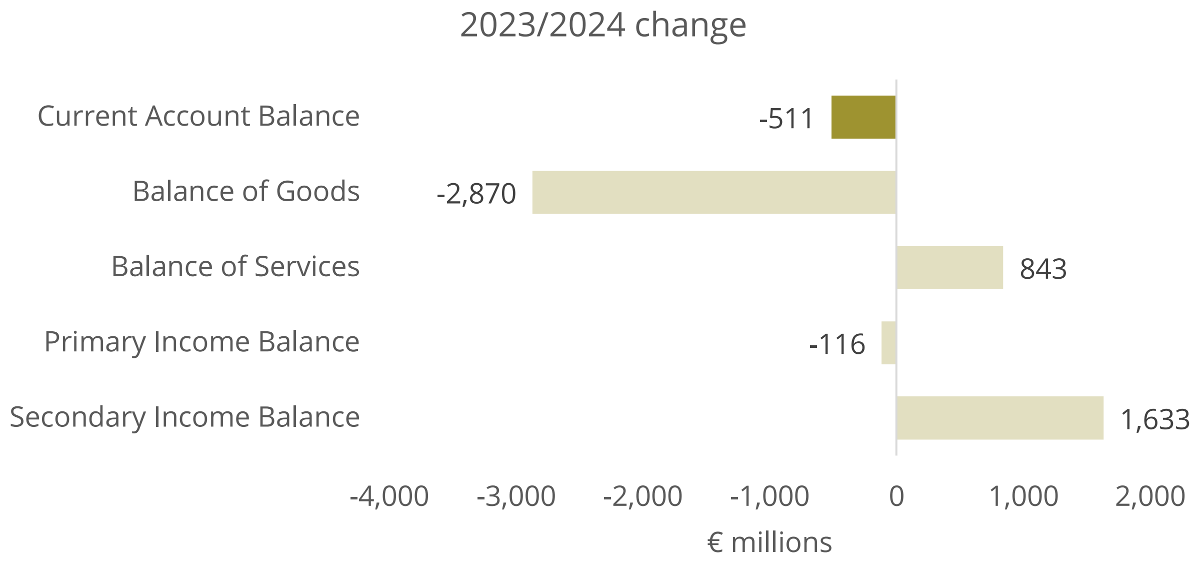
Producer Price Index (Jan.-Nov. 2024): **Drop by 2.3% y/y**, due to energy goods, compared to a reduction by 7.1% y/y in 2023.

The Current Account Balance (CAB) recorded a deficit of €11.5 billion during Jan-Nov 2024, €0.5 billion higher than in 2023

CAB, Jan-Nov 2002-2024



CAB components



Source: BoG

- Deterioration of **goods deficit** during Jan-Nov by €2.9 billion, due to lower energy exports and higher goods imports.
- Improvement in **services surplus** by €843 million, due to higher tourism revenues during Jan-Nov by €1.0 billion.
- Deterioration in **primary income balance** by €116 million, due to income outflows (profit, interest, dividends).
- Improvement in **secondary income balance** by €1.6 billion.

Public finances: cash target exceeded in 2024, similar primary surplus target in 2025

State budget execution Jan.-Nov. 2024 (cash basis)

- €4.38 billion surplus or 1.8% of GDP (target was €2.29 billion)
- €12.01 billion primary surplus or 5.0% of GDP (target was €9.91 billion)

Improvement from last year due to the larger increase in revenue (+12.8%) relative to spending (+3.6%)

Target exceeded mainly by expenditures (-€1.78 billion) due to delayed payments

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

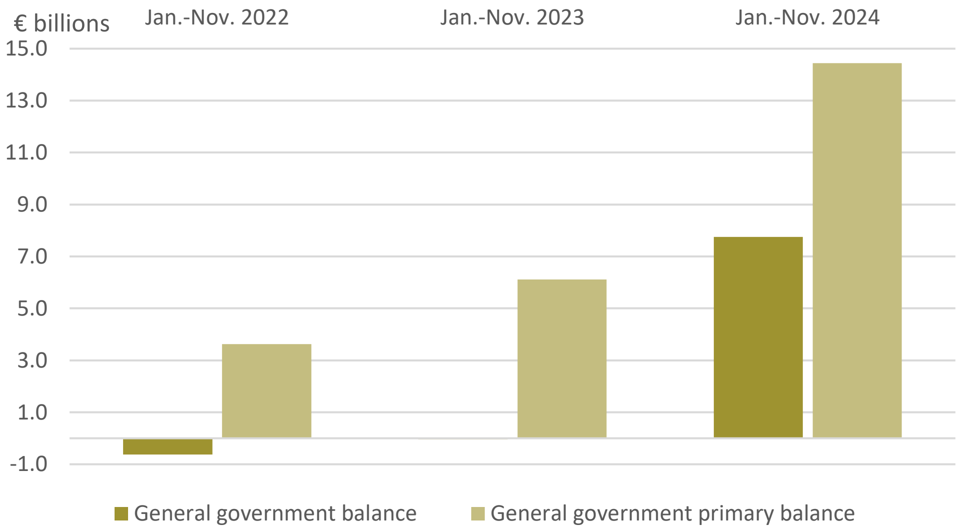
General Government Balance & Debt (% of GDP)

	2023	2024 (est.)	2025 (target)
Balance	-1,3%	-0,7%	-0,6%
Primary balance	2,1%	2,5%	2,4%
Debt	163,9%	154,0%	147,5%

State Budget 2025 (target)

- €5.93 billion deficit (2.4% of GDP)
- €3.47 billion primary surplus (1.4% of GDP)

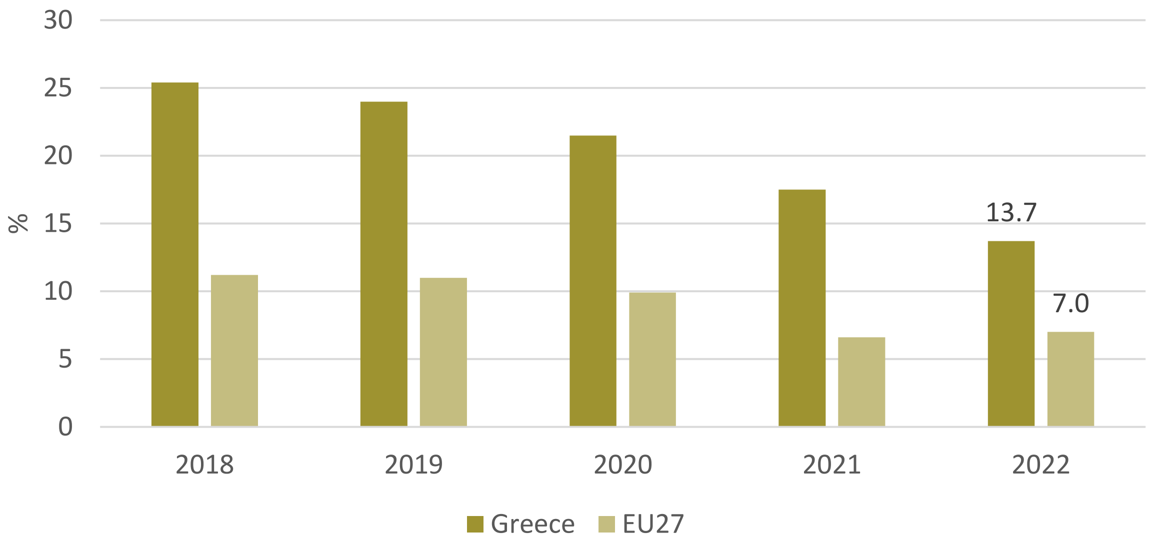
General government cash balance



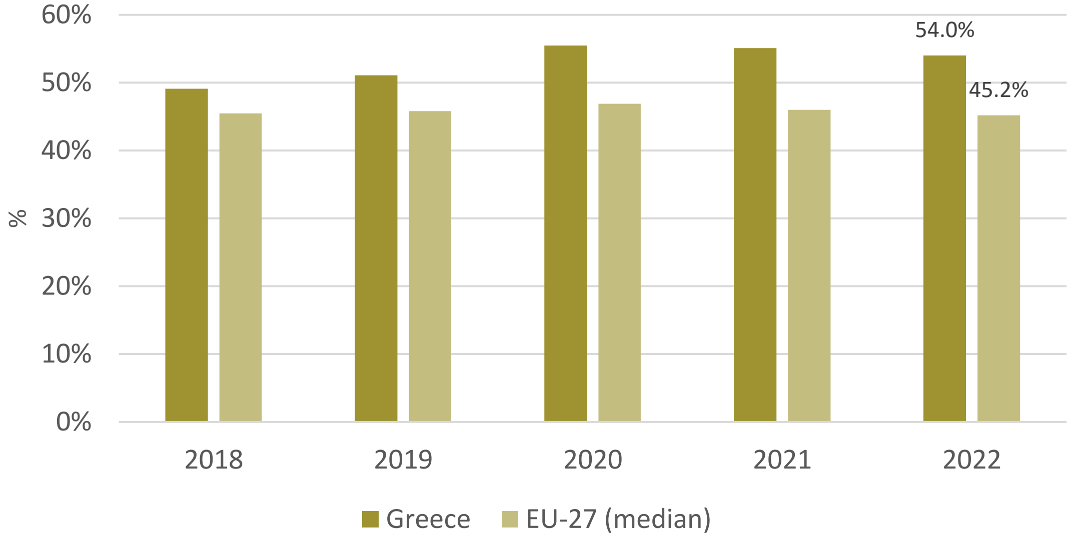
Source: Ministry of Finance

The VAT "compliance gap" has almost halved in Greece during 2018-2022, albeit remains high

VAT compliance gap, as a % of VAT total tax liability, Greece & EU27, 2018-2022



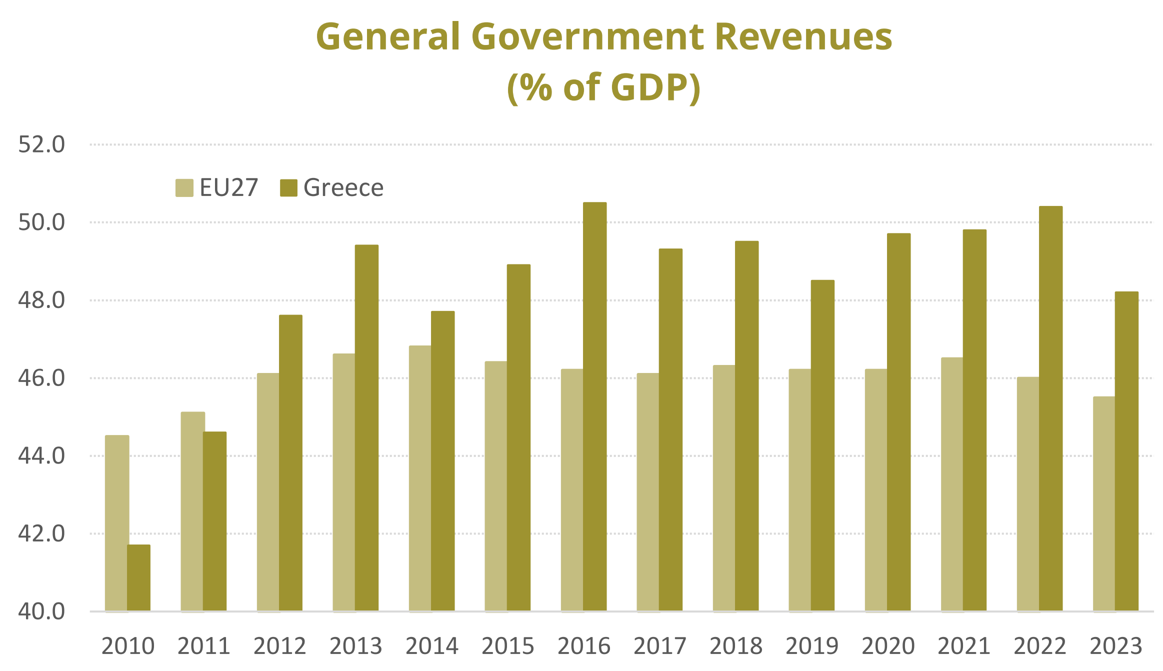
VAT policy gap, as a % of notional VAT revenue, Greece & EU-27, 2018-2022

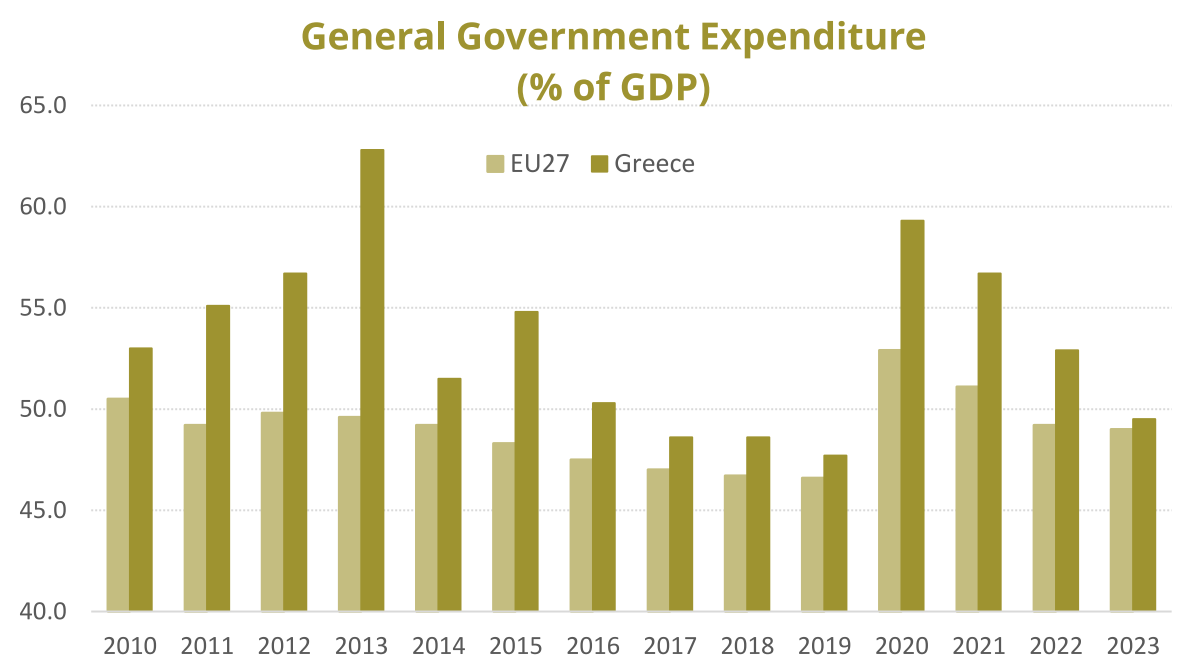


Source: Eurostat

- The **VAT compliance gap** is the estimated difference between potential VAT revenue under full compliance and the actual amount collected by tax authorities.
- The gap from EU average remains significant (11.7 ppts). Greece ranked 5th from last in the EU in 2022, up from 2nd to last in 2018.
- The **VAT policy gap** represents an estimate of the VAT revenues foregone due to the application of reduced VAT rates and exemptions, compared to a single, flat statutory VAT rate. The deviation from the median in the EU is smaller compared to the compliance gap, but it has increased recently.

The size of the Greek government remains higher than the European average



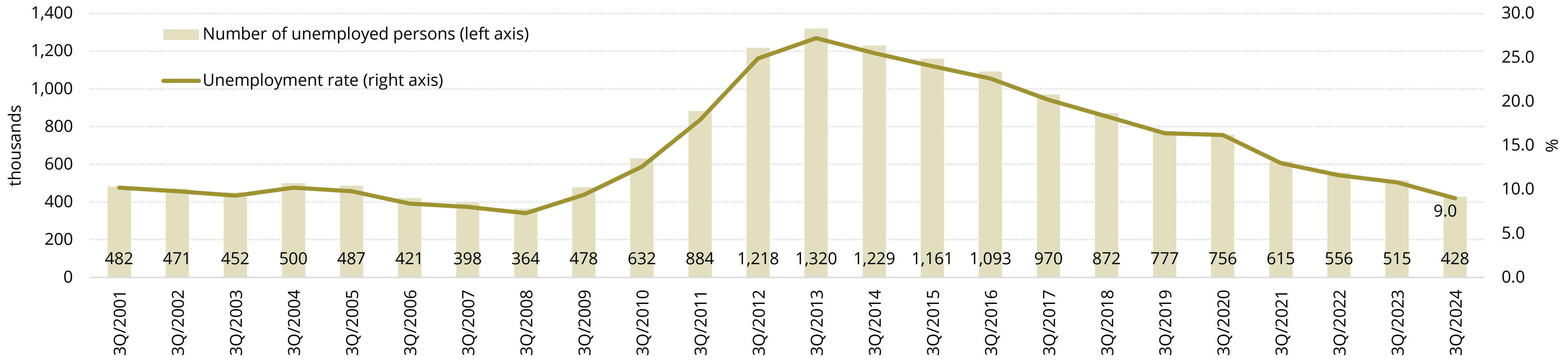


Source: Eurostat

- **Public spending** in Greece (as a % of GDP) exceeded public spending in the EU-27, throughout the entire period from 2010-2023, while the same applied to **public revenues** after 2012.
- **During the pandemic and the energy crisis** (2020-2022), the size of the Greek public sector increased more than the European average, with the gap narrowing in 2023.

Unemployment rate has reached single digits in 2024 Q3

Number of unemployed persons and unemployment rate in Greece

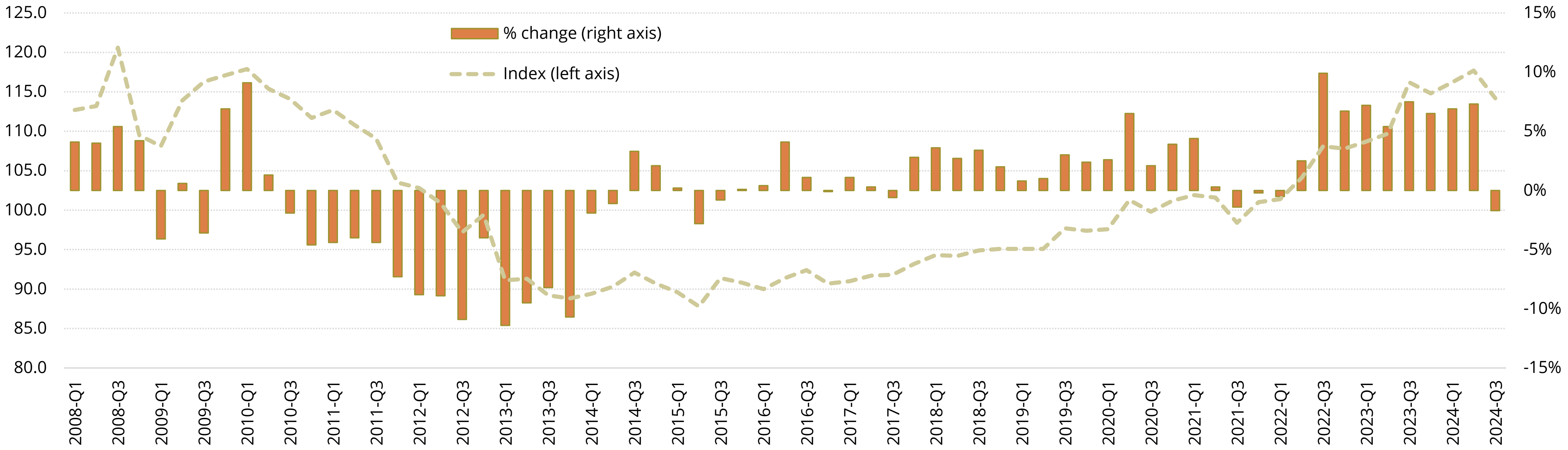


Source: ELSTAT

- The **unemployment rate** reached 9.0% in 2024 Q3, down from 10.8% a year ago. Marginal drop of the **labor market participation** rate.
- **Increase of employment** in Retail and Wholesale Trade (33.4 thousand), Construction (19.6 thousand), Transportation and Logistics (17.2 thousand).
- **Drop of employment** in Public Administration (-20.7 thousand) and Primary sector (-13.1 thousand).
- Negative **hiring-firing balance in the private sector** by 36.5 thousand in 2024 Q3, compared to positive balance in 2023 Q3 by 7.2 thousand.

Labor cost declined in 2024 Q3, following nine consecutive quarters of increase

Seasonally adjusted labor cost in current prices

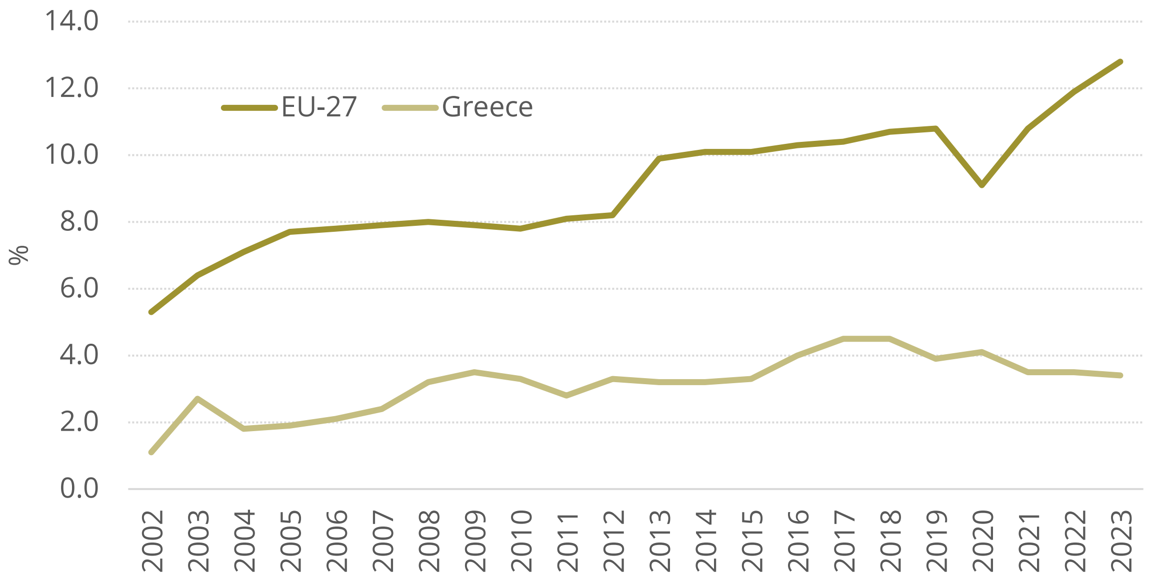


Sources: ELSTAT & Eurostat

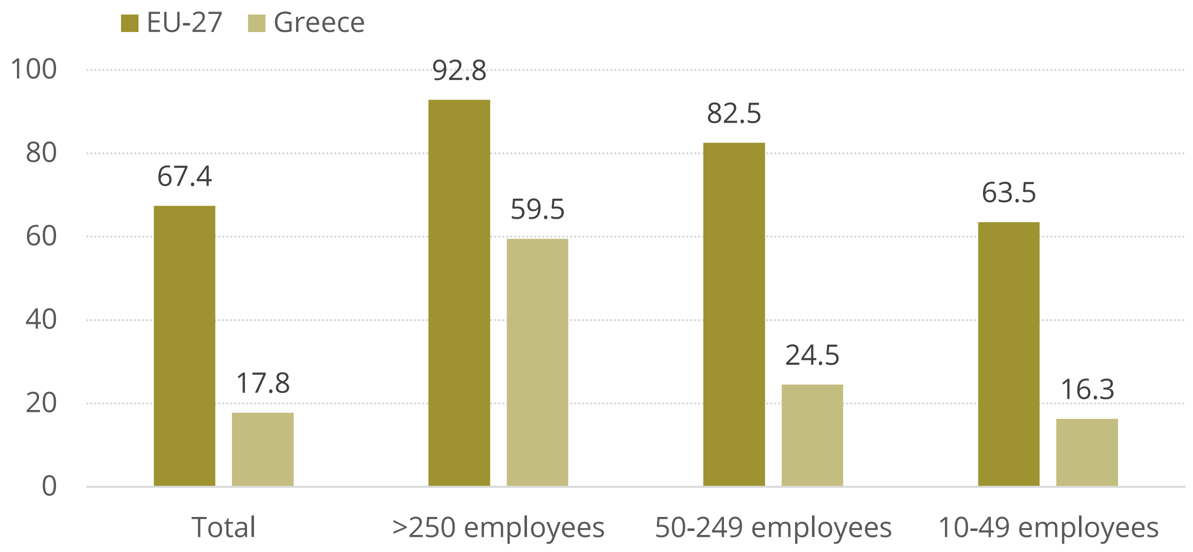
- During 2024 Q3, the labor cost decreased by 1.7% y/y and by 3.0% q/q.
- The **cumulative increase of labor cost** (13.1%) since early 2022 is marginally smaller than the cumulative increase of the consumer price index during the same period (13.4%).

Participation in adult learning and vocational training programs is low in Greece

Participation rate in education and vocational training, adults aged 25-64



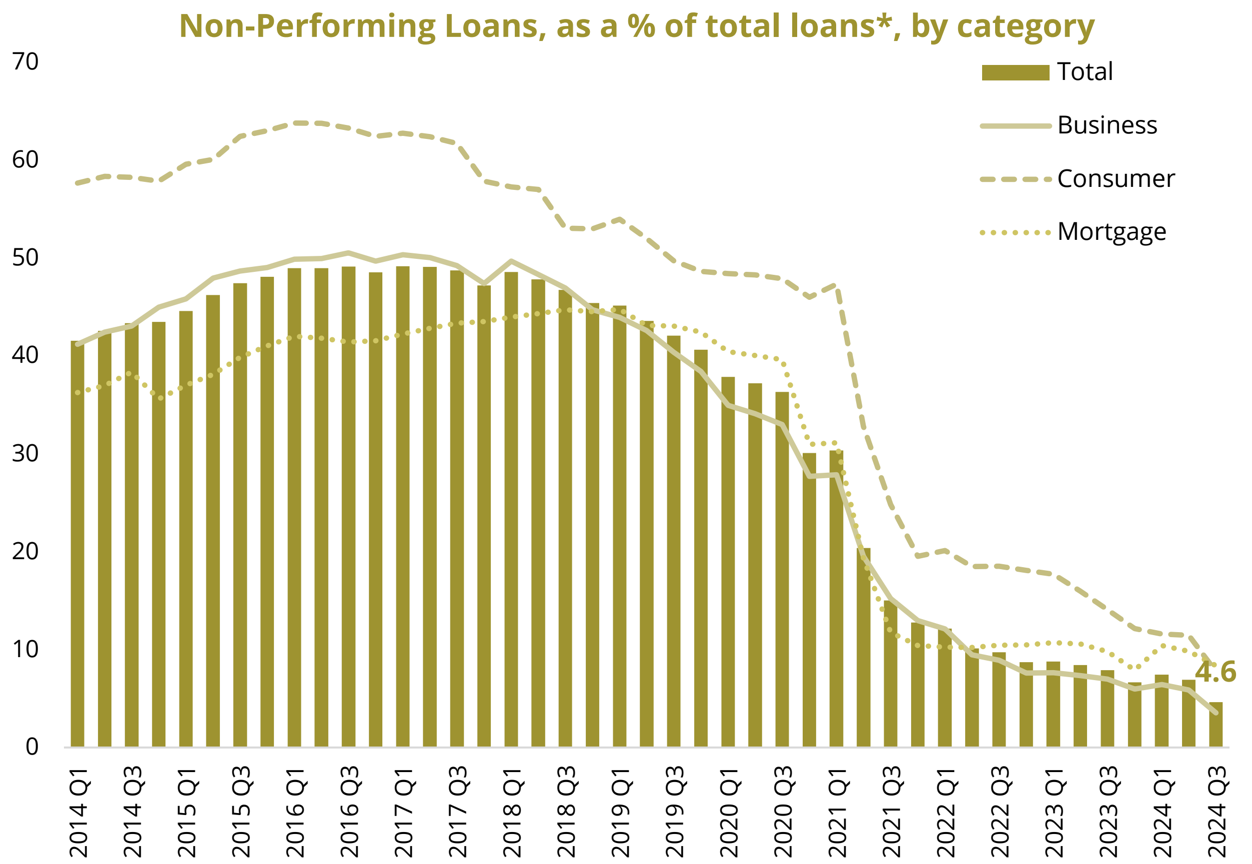
Enterprises (% of total) that offer training to employees, by enterprise size



Source: Eurostat,

- The **share of enterprises offering some form of vocational training programs** are lower among small and medium-sized businesses, which also record a higher **deviation from European enterprises**.
- The percentages of enterprises that offer internal vocational training programs are lower among small and medium-sized enterprises, however the deviation of Greek from European enterprises is equally large among large enterprises.
- The importance of **investment in human capital** is highlighted, through policy priorities that will aim to upgrade lifelong learning and vocational training programs offered by both the state and businesses.

On balance sheet non-performing loans reached a historical low in 2024 Q3...



Source: Bank of Greece

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

...albeit remain high, in the overall economy and under the management of Servicers (€70 billion).

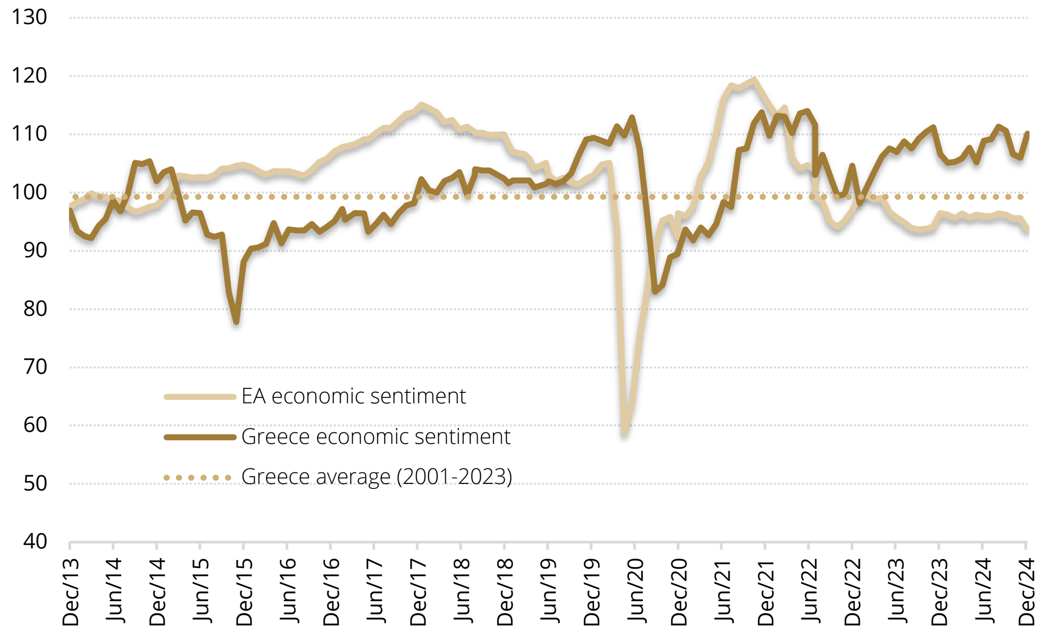
Positive trends: Strong recovery in credit expansion to businesses, improved profitability, high liquidity, increase of private deposits.

Challenges: Increased exposure of banks to government bonds, high interest rate margin, higher private lending rates than other EU countries

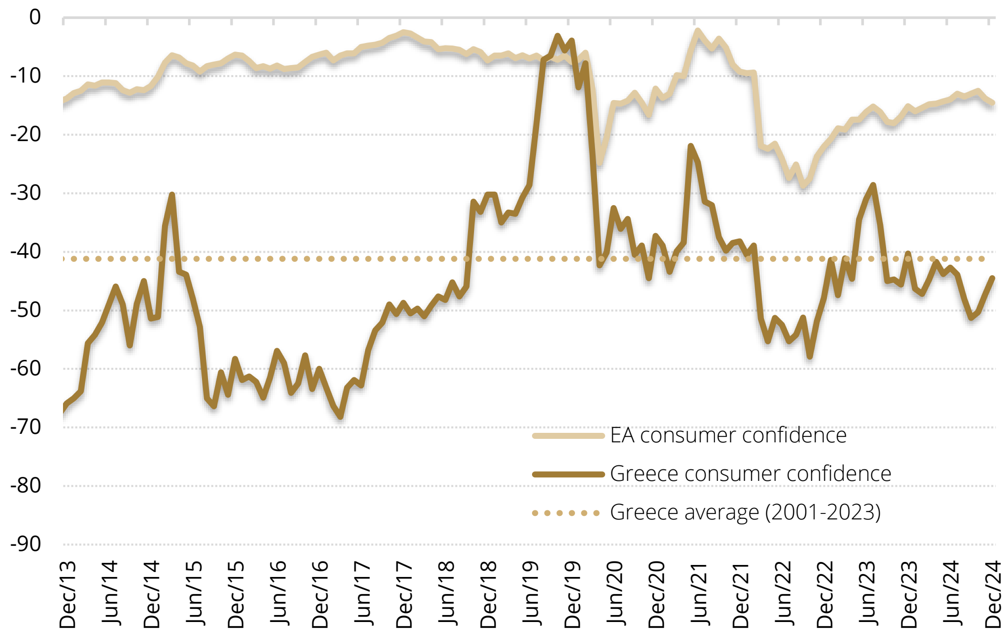
Opportunity: acceleration of the implementation of the loan arm of the "Greece 2.0" program.

Marginal deterioration of economic sentiment in 2024 Q4, slightly higher than one year earlier

Economic Sentiment Index



Consumer Confidence Index



Sources: IOBE, European Commission

Considerable decline of consumer confidence during 2024.
Diverging trend in the Euro Aera where confidence has been improving.

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

Industry	• Industrial production increased by 5.3% y/y in the first eleven months of 2024, up from 2.1% in the first eleven months of 2023. • The turnover ratio (first 10 months of 2024) increased by 2.3%, up from a 3.4% decline in 2023.
Construction	• Construction output rose by 17.4% y/y in the first nine months of 2024, up from 12.3% in 2023. • The increase in the issuance of new licenses (17.2%) continues – improvement in business expectations.
Tourism	• The accommodation turnover ratio declined by 12.0% y/y in the first nine months of 2024, down from a 10.1% y/y increase in 2023. • Food/catering turnover declined by 13.0% y/y, down from a 7.5% y/y increase in 2023. • Travel revenues (BoG) increased by 4.9% in the first eleven months of 2024.
Retail trade	• 1.5% y/y decline in Retail Trade Volume in the first eleven months of 2024, up from a 3.7% decline in the first eleven months of 2023. • Mixed trend in expectations in Q4/2024.

Macroeconomic forecasts for 2025

2025 baseline scenario

- The **Eurozone economy** follows the ECB's baseline scenario (December 2024): 0.7% growth in 2024 (down from 0.8% three months ago) and 1.1% in 2025 (down from 1.3% in the previous quarter), 2.4% inflation in 2024 (down from 2.5% in the previous quarter) and 2.1% in 2025 (down from 2.2% in the previous quarter).
- **Interest rates** follow the trend of futures, i.e., Euribor falls from close to 2.8% at the start of the year to around 1.9% (up from a 1.8% expectation in the previous quarter) at the end of 2025. The notable reduction of interest rates in Europe in 2024 (by one percentage point since September 2023) is expected to continue in 2025, as long as growth remains mild, and inflation decelerates at a slower than expected pace.
- **International energy commodity prices** follow the EIA's baseline scenario with stabilizing trends in 2025 and remain lower than in 2024.
- **Geopolitical instability** and economic uncertainty are prolonged at the regional and global level (wars in Ukraine and the Middle East).
- The implementation of the **Recovery and Resilience Plan** accelerates in 2025, with the aim of completing the planned actions within schedule.
- Inbound **tourism** in 2025 is expected to match 2024's good performance, in real terms.

Estimates for 2024

- **Growth:** ≈ **2.3%**
- Private consumption: ≈ 1.7%
- Public consumption : ≈ -4.2%
- Investments (Fixed): ≈ 22.0% (3.0%)
- Exports: ≈ 1.1%
- Imports: ≈ 5.0%
- **Unemployment** : ≈ 10.1%
- **Inflation (HICP)**: ≈ 3.0%

Forecasts for 2025

- **Growth:** ≈ **2.4%**
- Private consumption: ≈ 1.6%
- Public consumption: ≈ -0.4%
- Investments (Fixed): ≈ 6.0% (9.5%)
- Exports: ≈ 2.8%
- Imports: ≈ 1.9%
- **Unemployment**: ≈ 9.3%
- **Inflation (HICP)**: ≈ 2.4%

Risks and positive prospects

Risks

- The escalation of **geopolitical tensions** in Ukraine and the Middle East is a major concern regarding energy security, supply chains, and international political developments.
- 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 reallocation.

Positive prospects

- Acceleration in the implementation of the revised **Recovery and Resilience Plan**, 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.
- The continuous **reduction in the VAT gap** and the corresponding deviation from the EU is positive.

Special study*

Benefits for the Greek economy from resolving bad loans and “zombie” firms

The study was conducted with the support of the Bank of Greece

*IOBE study (2024). Available here

Why is the reduction of so-called "zombie" firms crucial for the Greek economy?

Study objectives

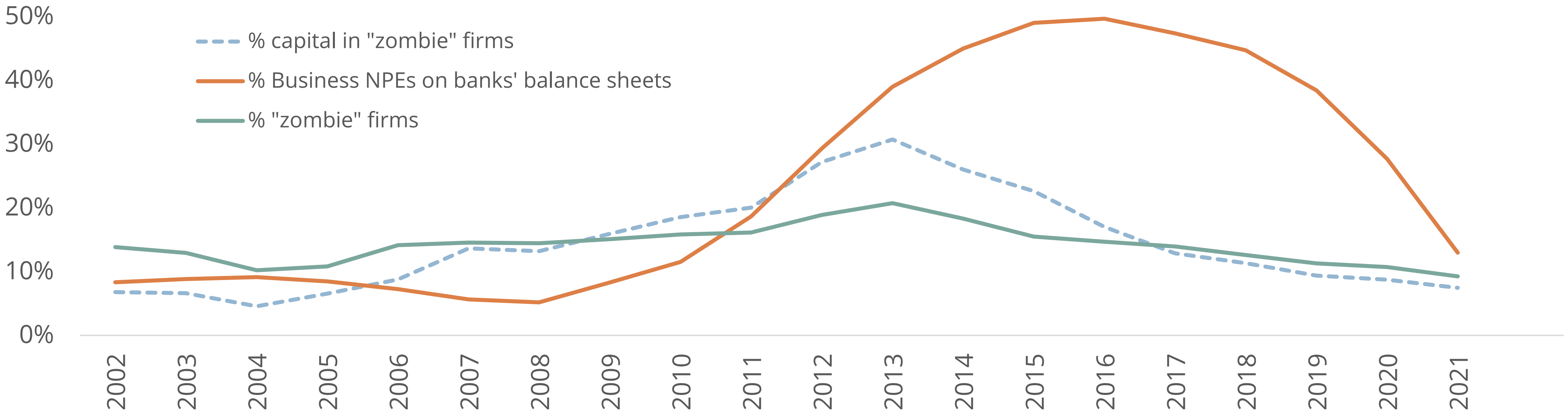
- ✓ Estimation of the share of zombie firms by sector and their correlation with Non-Performing Exposures (NPE) trends
- ✓ Analysis of the direct and indirect effects of zombie firm congestion in a sector on overall economic activity
- ✓ Investigation of the sectoral heterogeneity of the effects of zombie firms
- ✓ Highlight policy priorities in relation to resolving the bottleneck of zombie firms and NPEs

Questions

- ➢ Are there obstacles to the productive redistribution of resources, due to long-standing weaknesses, exacerbated by the crisis?
- ➢ What is the cost of maintaining zombie firms, given their negative side effects on investment, employment, and productivity?

The estimated share of “zombie” firms in Greece is related to the share of business NPEs

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

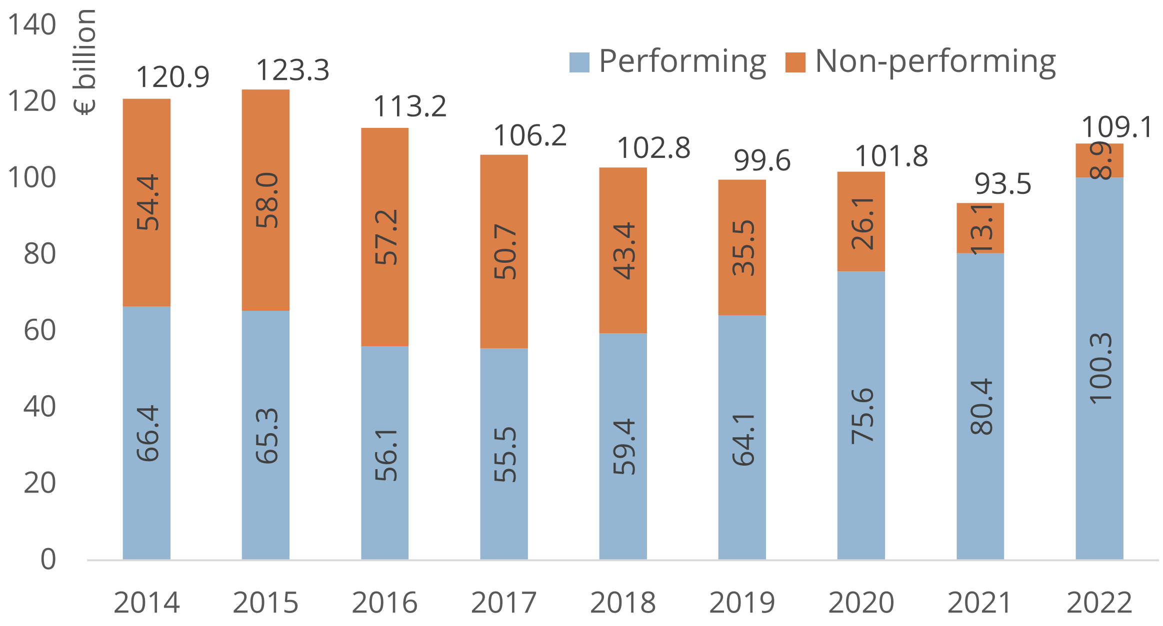


Sources: BoG, ICAP data.prisma.

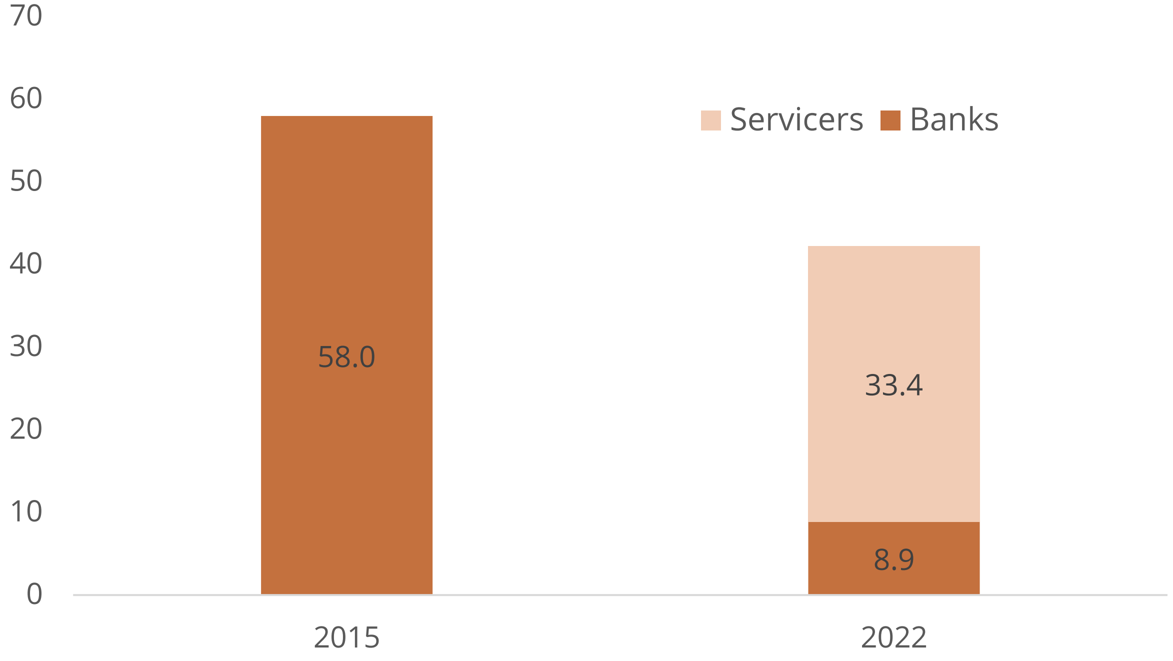
- The rise and fall of the share of “zombie” firms preceded the rise and fall of NPE ratios.
- During 2008-2017, the share of capital concentration in zombie firms was higher than the share of zombie firms

Reducing NPEs on banks' books is important, but is only one side of the coin

NPEs of the domestic banking system to non-financial corporations, 2014-2022



NPEs to non-financial corporations from banks and servicers in 2015 and 2022

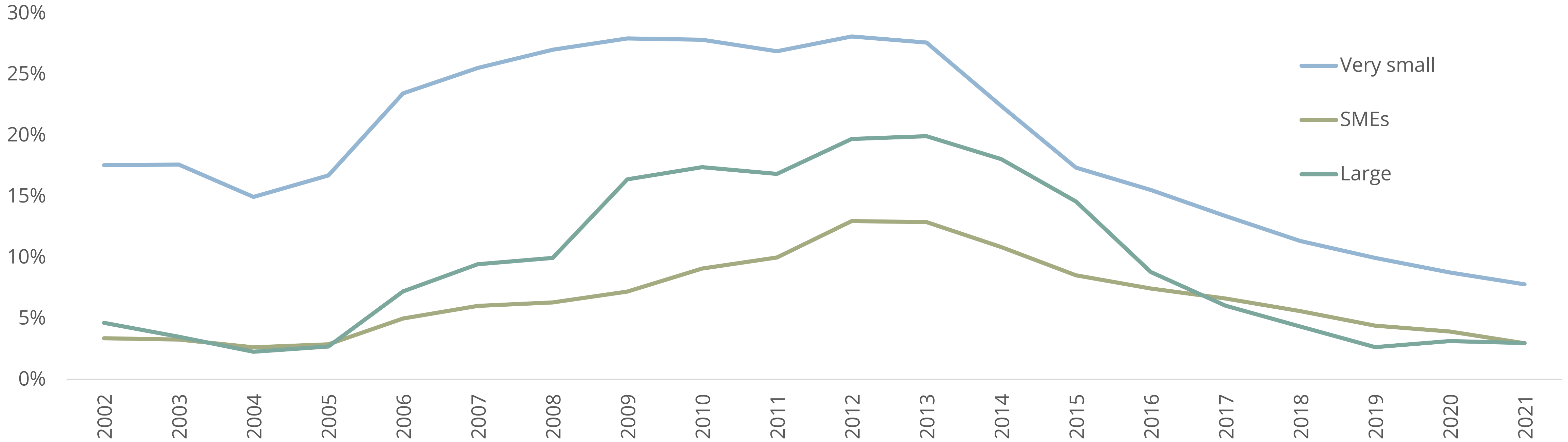


Sources: BoG, ICAP data.prisma.

- The reduction of NPEs on banks' balance sheets had a positive impact on the provision of new loans
- While NPEs on banks' balance sheets decreased by 85% over the 2016-2022 period, the reduction of NPEs in the whole economy was much smaller (28% cumulatively); a large part of the Servicers' portfolio remains non-performing

Very small businesses consistently have the highest share of "zombie" firms…

Percentage of zombie firms by size (based on turnover), ICAP sample, 2002-2021

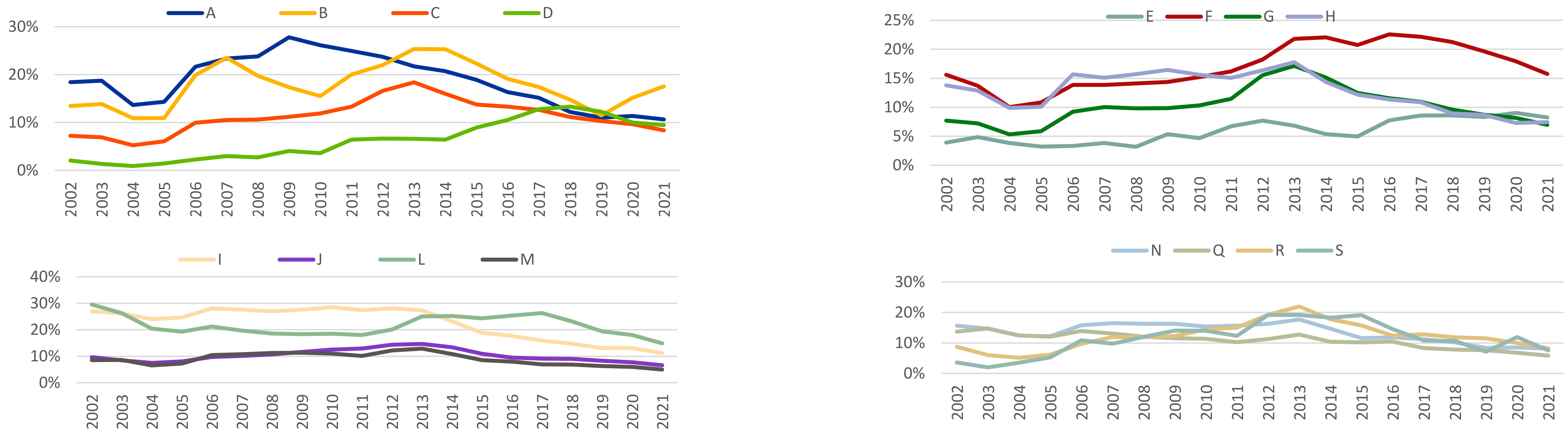


Source: ICAP data.prisma. Note. Thresholds for annual turnover used in the classification are <2 ml euros, between 2ml and 50ml euros, above 50ml euros.

- …however, the size-share relationship of "zombie" firms was not monotonic.
- A downward trend in the percentage of "zombie" firms is evident across all size categories after 2013.

Share of “zombie” firms by sector of economic activity

Share of zombie firms (as a % of the total number of businesses in each sector), Greece, 2002-2021



Source: ICAP data.prisma.

- Top average shares: (I) Tourism (22.5%), (L) Real Estate (21.6%), (A) Agriculture (18.7%), (B) Mining-Quarries (17.8%), (F) Construction (17.0%)
- Low average shares: (E) Water supply (5.9%), (D) Electricity-Gas (6.2%), (M) Professional, scientific and technical activities (9.0%).

Main findings

First, healthy businesses perform better than “zombie” firms, in terms of **investment** growth rate, **employment, and productivity levels.**

Second, high capital concentration in “zombie” firms **negatively affects the rate of investment growth in healthy businesses** in individual sectors of economic activity.

Third, the high concentration of capital in “zombie” firms forces **healthy businesses to increase their overall productivity** to survive.

Fourth, the high concentration of capital in “zombie” firms **prevents the reallocation of capital to more productive investments** across firms and sectors.

In conclusion, faster settlement of “bad” loans allows for a **more efficient allocation of resources** and can boost investment, employment, and productivity in the Greek economy.

Source: Eurostat.

Issue sponsor

ATHENS
INTERNATIONAL AIRPORT
ELEFTHERIOS VENIZELOS

Contact details

www.iobe.gr

@IOBE_FEIR

@iobe.foundation

@IOBE - Ίδρυμα Οικονομικών και Βιομηχανικών Ερευνών (FEIR)