The Greek Economy

Quarterly Bulletin **04/24**

FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

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ISSN 1108-1198

Sponsor of the Issue

ATHENS
INTERNATIONAL AIRPORT
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Foreword

IOBE is publishing its report for the fourth quarter of 2024, as part of the periodic reviews of the Greek economy. It contains four sections, accompanied by an annex of macroeconomic indicators, comparing the performance of Greece with that of the remaining countries in the Euro area. It is preceded by an introductory text highlighting that the trends remain positive but with increasing uncertainties and risks. 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 2024 and the outlook for 2025, b) presentation of the economic climate in Greece in the fourth quarter of 2024, according to the results of the business and consumer surveys of IOBE, c) assessment of the balance of the State Budget for January-November 2024 and d) developments in the domestic financial system up until November 2024.

The third section focuses on the macroeconomic performance and outlook of the Greek economy. It outlines recent macroeconomic developments with an emphasis on the third quarter of 2024 and presents estimates for 2024 and forecasts for 2025, based on assumptions and considering the latest available data. It analyses developments in key production sectors in the first nine months of 2024 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 of 2024. It then analyses the inflation trends overall in 2024.

The fourth section presents the main findings of a recent IOBE study on the impact of the reduction of NPLs and zombie firms on the Greek economy. The current report contains three text boxes. The first highlights recent trends in the VAT revenue gap in Greece and Europe (Section 2.2.B). The second one examines the evolution of the degree of public sector participation in the economy in Greece and Europe before and after the pandemic (Section 3.2). The third presents some indicators of the level of participation in lifelong learning in Greece and Europe (section 3.4).

This report refers to and is based on data available until 20/01/2025.

IOBE's next quarterly report on the Greek economy will be published in April 2025.

THE TRENDS REMAIN POSITIVE, BUT WITH GREATER UNCERTAINTIES AND RISKS

The Greek economy is on a positive path, both from a macroeconomic and a fiscal point of view. Its growth rates in terms of real GDP show no signs of fatigue, while the required surpluses in the public finances are being achieved without a strong negative impact on the rest of the economy. It is now well documented that our economy is growing faster than most other European economies. It has recently joined a small group of peripheral European economies that have performed better than the European average, both at the macroeconomic level and in terms of individual short-term and sectoral indicators. In addition to the underlying macroeconomic trend, labour market developments have also been positive, with unemployment continuing to decline, supporting real income growth.

Gradual economic convergence with the rest of Europe

With stability largely achieved, the overall assessment is that this growth trend will be maintained in the new year without major changes. In this respect, although the impact of some of the internal factors is likely to be mitigated, the expected easing of interest rates and the, albeit modest, strengthening of growth in Europe are expected to keep the trend of the Greek economy broadly unchanged, barring any new strong external shocks.

However, while the positive trend in the economy is clear, it is also clear that the growth of our economy is only gradually raising the low level reached during the prolonged crisis. As a result, it is estimated that in a year's time the Greek economy will be in a similar situation to the one it is in now, with further expansion, of course, in line with the expected, though not self-evident, trend, but with the questions of how it will evolve thereafter and how it will face the new challenges posed by the external environment remaining open. The main indicators that reflect the aspects of our economy that are still weak are the attraction of investments, especially those that will have a more favourable impact on productivity, and the external deficit.

In particular, the prior stabilisation of the economy, with a gradual decline in unemployment and an increase in investment, should allow real growth in the new year to be similar to last year, above 2% and closer to 2.5% in real terms, especially if we take into account the continuing impact of the Recovery and Resilience Fund, which is expected to peak in the new year, the expected decline in inflation to 2.5% and the gradual easing of interest rates, which, barring unforeseen circumstances, will continue for several months. The crucial question is not which trend will prevail over the next twelve months, but rather its qualitative dimensions and the policy decisions that will be taken. These will also set the boundaries for economic growth in the coming years.

The qualitative dimensions of growth are of great importance in the medium term

The performance of any economy is clearly influenced by temporary factors, such as crises in the financial and business environment. But much of that performance is determined by choices made in the past, the effects of which, whether positive or negative, can only be changed gradually. The growth limits and development potential of our economy today are closely linked to its starting point. A higher growth rate than the current one would be desirable to bring the majority of households to a higher level of security and prosperity. However, the current growth rate is critically constrained by the investment gap, which accumulated sharply after 2010, and by the decline in the working-age population, especially among the highly skilled, which together do not allow for a drastic strengthening of the productive base. The complexity of regulations, which has only recently been partially reduced, especially at the interface between businesses and the public sector, also limits growth potential. The memory of the debt crisis and the restrictions imposed on banks and capital movements, which only recently allowed investment to recover, has not been erased, and this will require persistence on the path of stability and a systematic reduction in the level of public debt, as an increasing proportion of it will be negotiated on the markets.

The dimensions that should be closely monitored in the period ahead relate to the shift in production towards more competitive products and services. Will there be a significant reduction in the current account deficit, taking into account possible turbulence in the capital and energy markets? Will product exports continue to grow, and will our manufacturing companies be able to link up with new European Union policies for higher value-added? Will there be a qualitative shift in tourism and support for infrastructure and regulations that respect the natural and cultural environment? Will more innovative business activities be supported? Will there be a shift towards higher quality jobs and better pay for workers? Will the education system adapt to the technological demands of the times? Such developments, even if they have no visible short-term macroeconomic or fiscal impact, must be at the centre of attention for those interested in how the Greek economy can grow in the medium term.

Three specific questions deserve special mention. What might be the implications of the gradual adoption of a new production model, how might tax policy relate to this, and what disruptions are likely to be caused by the decisions of the new US administration in a weak global environment?

Three complementary channels for transition to the new production model

The question of adopting a new production model has entered the public debate in the context of how to achieve higher rates of economic growth and real incomes in the future. This necessary change can be expressed in three ways. First, by increasing the contribution of exports and investment to GDP, with a corresponding relative (though not necessarily absolute) decline in the share of consumption and imports. Second, by increasing production and shifting physical and human resources to sectors with higher productivity growth potential, such as manufacturing and technology firms, where little progress has been achieved. Third, and more broadly, across all sectors and industries, by shifting towards the production of higher value-added products and services that are internationally tradable and that target the global market in terms of innovation. These three approaches are not mutually exclusive; they are interlinked and essentially represent a common trend. In recent years, there has been a gradual shift in the Greek economy towards such a production model, but it is still weak. Unless it is intensified and made systematic, it will be impossible to attract new investment, highly skilled people and, ultimately, high incomes to the country.

What is the role of tax policy in the new productive model?

Fiscal performance is generally improving. After the new imbalance created by the pandemic, public finances are moving in a stable direction. The achievement of significant primary surpluses without stifling the economy is a positive development. At the same time, there is an "over-performance" on the revenue side and public debt as a percentage of GDP is falling, probably faster than planned. Given the recent past, fiscal discipline is an essential pillar of our economic growth in the coming years. There are various reasons for the current positive trend, primarily the growth of the economy itself, which is contributing to revenues as it recovers from a low base; the gradual reduction of the informal economy, in particular with the gradual spread of electronic payments; and inflation, which is coming down from very high levels but has not yet reached sufficiently low levels. In the current situation, however, a major problem remains that income tax is borne by a small proportion of taxpayers who are subject to very high rates. This equilibrium is unstable and does not provide a basis for sustainable growth. Although the burden on citizens has been reduced in recent years through measures such as the gradual reduction of social security contributions and the abolition of the special solidarity contribution, following the high accumulation of inflation, workers face higher tax rates on increasingly lower real incomes. As long as this situation persists, it will create an incentive to reduce work or to work in the informal sector. The high combined tax and social security burden on middle incomes is a brake on real income growth, investment and the shift towards high value-added activities. A drastic reduction of this burden, as soon as possible and in a sustainable manner, is one of the necessary steps for strong growth in the future.

External factors threaten the transition to the new model

As regards the European and global environment, there is no shortage of challenges and sources of uncertainty and concern. In the wake of the debt crisis in its periphery, Europe is emerging weaker than other economies from successive crises, including the pandemic, the energy shock, geopolitical tensions and hostilities in its neighbourhood. The relative lag in innovative investment, productivity and competitiveness will not be easy to reverse. The election of a new US president and the announcement of economic policies that reverse the course of recent years could lead to turmoil with a variety of adverse effects on our economy. If most of the pre-election promises in the US are implemented, there are three potential channels of impact on the global economy. First, if the US adopts strong protectionist measures, it will not be easy to avoid countermeasures by other major economies, including the European Union, leading to a decline in world trade, which in the short term means higher production costs and prices for products and services, and in the medium term a reduction in the efficiency of resource allocation through the division of labour according to comparative advantages. The resulting price increases will counteract the ongoing disinflationary trend and reduce the incentives for central banks in major economies to lower policy rates. As a result, the scope for reducing inflation and interest rates in the US itself and in other economies, including European ones, will become less predictable and straightforward. The same applies to policies on the environmental impact of production decisions, with a focus on the energy market and heavy industry, where the trends that have prevailed globally for a decade or more are, if not being reversed, at least being blurred. Finally, these uncertainties, combined with the recent accumulation of high levels of liquidity and debt in some economies and the reduced effectiveness of global organisations and institutions for economic cooperation, increase the likelihood of a crisis in the period ahead.

It could be argued that all these relatively elevated risks are somewhat less relevant to our economy because it is not exposed to high levels of exports, at least not directly to the US and not in high-tech products. However, the argument that our economy is somewhat autonomous and therefore sheltered from international turmoil does not stick, as was painfully demonstrated in the past during the debt crisis. The Greek economy is still relatively vulnerable in the sense that its systematic growth depends on attracting further investment, reducing financing costs and increasing exports, especially of high-value products and services. A cycle of uncertainty and turmoil will certainly not have a negligible impact on our economy, even if the effects on other economies more closely linked to the global production network may be felt relatively sooner.

The Greek economy has stabilised and recovered strongly, but it has not yet overcome the hard core of problems that have held it back over the past decades. Despite significant progress, it still lags behind in terms of openness, as it does not reward those who work or do business when they create value as much as when they exploit more sporadic opportunities. The complexity of regulations and the inadequacy of critical public sector functions continue to act as a drag on new production. As policy choices move the economy away from these characteristics, gradually but with steady determination, its dynamism will be strengthened in many ways and incomes will grow in real and systematic terms. Whether it will continue on its current path, be affected by external developments or enter a new phase of strong and sustainable growth remains an open question.

It remains to be seen whether the economy will embark on a new path of sustainable growth.

1 BRIEF OVERVIEW

International environment: Economic growth in a fragile context

The global economy continued to expand in the third quarter of 2024, at a steady but low pace, with heterogeneity across geographical regions as a result of relatively high inflation and increasing sources of uncertainty. OECD economies grew at an annual rate of 1.7% in the third quarter of 2024, slightly higher than in the previous quarter and unchanged from the corresponding quarter of 2023. Based on the latest OECD forecasts (December 2024), global economic growth in 2025 is estimated to be slightly higher than in the September forecast (3.3% versus 3.2%). The new US administration is creating uncertainty in international trade, as protectionist policies are likely to return and international coordination of action on climate change is expected to stall.

Inflation continues to decline but, despite the marked slowdown, remains at higher than desirable levels, while core inflation is also proving to be persistent in many economies. Central banks in major economies are gradually easing monetary policy as inflationary pressures abate, but interest rates remain relatively high to ensure sustained inflation containment. For example, in November 2024 inflation in the 38 OECD countries reached 4.5%, while core inflation (i.e. excluding energy and food) was 4.9%. At the same time, energy prices rose by 1.2% and food prices by 4.3% in the same month. With the risk of renewed inflationary pressures looming in countries such as the US, while economic activity is growing modestly, markets are discounting fewer further rate cuts in 2025 and as long as price pressures continue to ease. Despite GDP growth, ongoing geopolitical instability and policy changes by the new US administration are creating uncertainty for global economic activity. A more detailed analysis is provided in section 2.1A.

European economy: Faster recovery in 2025 amid international pressures

In the third quarter of 2024, annual real GDP growth in the EU-27 and the euro area accelerated to 1.0% and 0.9%, respectively, from 0.8% and 0.6% in the previous quarter. On an annual basis, 7 of the 27 EU Member States, including Germany, continue to record negative annual GDP growth rates. Economic sentiment in Europe deteriorated in the fourth quarter, especially after the US elections.

Inflation in the EU-27 and the euro area fell to 2.5% and 2.2% respectively in the fourth quarter of 2024, and to 2.6% and 2.4% for 2024 as a whole. Against this backdrop, the ECB cut key rates by 25 basis points in December for the fourth time in a row. Markets are pricing in a gradual, further decline in policy rates in 2025, but they will remain at a higher level than at the beginning of 2022.

According to the latest European Commission forecasts (November 2024), the annual rate of change of real GDP is expected to be 1.5% in the EU-27 and 1.3% in the euro area in 2025. In 2026, the rate is expected to be 1.8% and 1.6% respectively in the EU-27 and the euro area. As for inflation, it is estimated to be around 2.4% and 2.1% in the EU-27 and the euro area respectively this year, with a further decline to 2.0% and 1.9% in 2026.

The policy shift of the new US administration, with possible tariffs on European exports, the ongoing war in Ukraine and the Middle East, potential energy supply disruptions and high budget deficits in the core euro area countries pose risks to the recovery of the European economy and the smooth disinflation process. Accelerating the implementation of Member States' recovery and resilience plans presents an opportunity. It is crucial to further deepen the institutions of the euro area and to implement reforms that will raise the productivity and potential growth rates of the European economy, which is also burdened by an unfavourable demographic outlook. Trends in the European economy are presented in detail in Section 2.1B.

The Greek economy continues to grow in the third quarter

The annual rate of change of real GDP accelerated slightly to 2.4% in the third quarter (2.3% in the previous quarter). Seasonally adjusted GDP increased by 0.3% compared to the second quarter, after +1.2% in the previous quarter. The increase in GDP was mainly driven by the rise in total investment, which increased by +18.7% year-on-year, mainly due to an increase in inventories, while fixed capital formation increased marginally by +0.3%. Private consumption continued its upward trend and grew by +2.1% year on year. Public consumption, by contrast, fell by -1.4%, resulting in an overall increase in consumption of +1.3%.

The change in total exports had a positive impact on domestic growth, increasing by +3.3% (after +1.7% in the previous quarter). Exports of goods rose by +1.2% year on year (similar to the previous quarter), while exports of services increased by +5.1% year on year, much higher than in the previous quarter (+2.7%).

The positive contribution of exports was more than offset by the negative impact of the increase in imports, which grew by 4.2% year on year, compared to 8.7% in the previous quarter. The increase was due to both a strengthening in the annual growth rate of goods (+2.3%) and, above all, of services (+12.5%). As a result, the external deficit in national accounting terms worsened by about €354 million compared to the same period of the previous year.

Among the positive developments in the third quarter of 2024, domestic growth continued to outpace the euro area average (see Appendix), while the economy remained more open to the outside world (exports and imports together accounted for around 81% of GDP). Negative developments in the third quarter include the persistent negative trade balance, low fixed investment and higher inflation than the euro area average. A detailed presentation of the macroeconomic performance in the third quarter of 2024 can be found in Section 3.1A.

Strong performance in industry and construction at the end of 2024, mixed trends in tourism, decline in retail trade

Industrial production strengthened in the first eleven months of 2024, rising by 5.3%, higher than the 2.1% recorded in the same period of 2023. Construction strengthened its momentum in the first nine months of 2024, with annual activity rising by 17.4%, compared to 12.9% in the same period of 2023, with a corresponding increase in new building permits. In the first nine months of 2024, turnover increased in most service activities, albeit at a slower pace. In tourism, turnover indicators for accommodation and total tourism receipts (balance of payments) declined in the middle and at the end of the year, after a positive first four months. In contrast, the Bank of Greece's balance of payments data show an annual increase in tourism receipts of 4.9% in the first eleven months, with a longer tourist season. Finally, retail trade continued to decline by 1.5% in the first ten months of 2024, compared with a sharper decline of 3.4% a year earlier. Expectations for retail trade in the fourth quarter of 2024 show mixed trends. Short-term trends in key sectors of the Greek economy are highlighted in section 3.2.

The box at the end of the section analyses the evolution of the public sector's share in the economy over time and compared to the European average.

Persistently high external deficit

In the first ten months of 2024, exports of goods in the national accounts fell by 2.6% in nominal terms, while a marginal increase of 0.3% was recorded when petroleum products were excluded. Over the same period, imports of goods increased at an annual rate of 1.8% at current prices. As a result, the trade deficit increased by €2.3 billion to €28.3 billion in the first ten months of the year. On the positive side, the degree of openness (total trade flows as a percentage of GDP) of the Greek economy remained high at the end of 2024.

In terms of the balance of payments, the current account deficit widened to €11.5 billion in the first 11 months of 2024, compared to €11.0 billion in the same period of 2023. The deficits in the goods account and the primary income account worsened, while the services account and the secondary income account, which includes inflows from the recovery fund, improved. Note that tourism receipts fell slightly in the period from July to August but rose in the rest of the year. Furthermore, the deficit in the goods account excluding fuel and ships amounted to EUR 3.0 bn in the first eleven months of 2024, compared with EUR 1.6 bn in the same period of 2023. The developments in the external balance are described in more detail in section 3.3.

Unemployment continued to fall in the third quarter

The unemployment rate fell to 9.0% in the third quarter of 2024, from 10.8% in the same quarter of 2023. The fall in the unemployment rate was the result of a decrease in the number of unemployed (-86,200) and a simultaneous increase in the number of employed (+67,700). Meanwhile, the balance of private sector hires and separations was negative (-36,500) in the third quarter, compared to a positive balance (+7,200) in the same quarter of 2023.

The sectors with the highest annual employment growth were wholesale and retail trade, repair of motor vehicles and motorcycles (+33,400), construction (+19,600) and transport and storage (+17,200). The largest decrease in employment was recorded in public administration and defence

(-20,700). At the same time, the labour force participation rate (for persons aged 15 and over) decreased slightly by 0.1 percentage points on an annual basis to 52.7% in the third quarter of 2024. After nine consecutive quarters of growth, the seasonally adjusted labour cost index fell by 1.7% year on year in the third quarter.

As the country has returned to single-digit unemployment, further reductions will be slower in the coming quarters, as mismatches between labour supply and demand emerge due to high structural unemployment. Employment is expected to increase at a more moderate pace in 2025 due to the upward trend in consumption, investment, exports and certain industrial and service sectors. According to IOBE estimates, the unemployment rate is expected to be around 10.1% in 2024 and 9.3% in 2025. Section 3.4 provides more detailed information on labour market developments and expectations.

The evolution over time of adult participation in training programmes in Greece, as well as a comparison with the European average, is analysed in a box at the end of this section.

Slower decline in inflation, remains higher than in the euro area

Inflation for 2024 as a whole was 2.7% (CPI) and 3.0% (HICP), compared with 3.5% (CPI) and 4.2% (HICP) in 2023. Domestic inflation has been above the EU average since the end of 2023 (Appendix, Figure 4). A significant part of the price pressure in 2024 is related to non-energy goods. Indicatively, the HICP rate excluding energy and taxes was 3.1% in the first eleven months of 2024, down from 6.8% a year earlier, but also compared with 2.6% in the euro area over the same period.

The main assumptions underlying the inflation forecast are (a) the evolution of the Brent crude oil price in euro terms, which is expected to decline slightly on average in 2025, despite the depreciation of the euro, with developments in the Middle East exerting further pressure on the energy market; (b) consumer demand, which is expected to grow more moderately by around 1.6% in 2025. Against this background, inflation is projected to hover around 2.4% in 2025. Section 3.5 provides a more detailed description of recent trends in consumer and producer prices and expectations for their evolution in 2025.

Slight dip in the domestic economic sentiment in the fourth quarter of 2024

The economic sentiment indicator in Greece recorded a slight decline in the fourth quarter of 2024 compared with the previous quarter (106.4 points compared with 107.6 points). However, there was a slight improvement compared to the corresponding quarter of last year (105.4 points). Business expectations weakened slightly in the fourth quarter compared to the previous quarter in the services sector and more markedly in the retail trade and construction sectors, while they remained unchanged in industry. The consumer confidence index rose slightly in the October-December period compared with the previous quarter, to -47.4 (from -47.8) points. At the same time, it is significantly lower than a year ago (-43.5 points). A detailed description of the development of the components of economic sentiment can be found in Section 2.2A.

Public finances: cash targets exceeded in the first eleven months

In the period January-November 2024, the execution of the State budget in cash terms was better than expected, recording a surplus of €4,375 million (1.8% of GDP), compared to a target surplus of €2,293 million in the explanatory report of the 2025 budget and a deficit of €1,032 million (0.5% of GDP) in the corresponding period of 2023. At the same time, a cash primary surplus of €12,011 million (5.0% of GDP) was recorded, compared to a target of €9,912 million and a primary surplus of €5,826 million (2.6% of GDP) for the same period in 2023. The improvement in the cash balance compared to last year is due to the higher increase in net revenue (+12.8% or +€7.56 billion) compared to expenditure (+3.6% or +€2.15 billion).

With regard to the fiscal targets for 2025, as set out in the explanatory report accompanying the 2025 budget, the following stand out: (a) a general government primary surplus target of 2.4 percent of GDP; (b) a general government deficit target of -0.6 percent of GDP; and (c) a general government debt target of 147.5 percent of GDP. Public finance developments are presented in Section 2.2B.

The text box at the end of the section analyses recent developments in the VAT gap in Greece over time and compared to the European average.

Historically low levels of non-performing loans (NPLs) on bank balance sheets

Positive trends in bank fundamentals in late 2024 include a reduction in nonperforming loans to 4.6 percent of total loans, a historic low (since 2002, when relevant data became available), strong credit expansion to businesses, improved profitability, high liquidity, and a strengthening of private sector deposits. Accelerating the implementation of the credit component of the National Recovery and Resilience Plan is an opportunity to finance productive investment on favourable terms.

Negative trends in the financial system include the increase in banks' exposure to government bonds, the high interest rate spread, the divergence of private financing costs from those in other EU countries, the high share of deferred taxes in equity, and the high stock of nonperforming loans off the banks' balance sheets. Recent trends and challenges for the domestic financial system are described in detail in section 2.2C.

Macroeconomic estimates for 2024 and forecasts for 2025

The moderate pace of growth of the euro area economy in 2025, geopolitical instability and uncertainty about international trade developments, the gradual decline in inflation and interest rates, and the timely implementation of the Recovery and Resilience Plan are the main drivers of GDP growth in 2024 and 2025.

The assumptions underlying the baseline scenario are detailed in Section 3.1B and include (a) euro area growth of 0.7% in 2024 and 1.1% in 2025 and inflation of 2.4% in 2024 and 2.1% in 2025, in line with the ECB's December 2024 baseline scenario, (b) a prolongation of geopolitical instability and economic uncertainty at regional and international levels, (c) international energy prices follow the EIA baseline, with steady trends in 2025, below their 2024 levels, (c) interest rates follow the trend of current forward contracts, i.e. Euribor gradually declining to around 1.9% at the end of 2025, (d) timely implementation of the revised "Greece 2.0" plan in 2025, (e) tourism receipts in 2025 similar in real terms to 2024.

Detailed forecasts by GDP component are presented in section 3.1B. For 2024, IOBE estimates growth of 2.3% at constant prices. Among the growth components in 2024, fixed investment is expected to increase slightly (+3.0%) and private consumption is expected to expand (+1.7%). In the external sector, the external balance is expected to deteriorate significantly, with exports increasing by 1.1% per year and imports by +5.0% per year. Average inflation in 2024 is estimated to be higher than in the euro area, with the HICP rate at 3.0% (2.4% in the euro area), while unemployment is expected to fall to around 10.1% in 2024 as a whole.

For 2025, IOBE forecasts similar growth of around 2.4% at constant prices, with uncertainty due to risks arising from the international environment, such as trade protectionism and geopolitical instability. In terms of the components of growth in 2025, fixed investment is expected to strengthen significantly (+9.5%) and private consumption to slow slightly (+1.6%). In the external sector, the external balance is expected to improve slightly, with exports increasing by 2.8% per year and imports by +1.9% per year. Average inflation in 2025 is expected to be slightly higher than the euro area average, at around 2.4%, while unemployment is expected to decline further to around 9.3%.

The forecast in the IOBE's baseline macroeconomic scenario (Table 1.1) points to positive prospects but also risks for 2025, which are discussed in detail in Section 3.1B. In summary, the previous estimates for a recovery of the domestic economy of +2.3% in 2024 remain unchanged, as does the forecast for growth in 2025, with a negative outlook, due to the risks mentioned above, the most important of which are the unstable external environment, the external deficit and the persistence of inflation above the euro area average.

Table 1.1

IOBE macroeconomic forecasts (January 2025)

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

	2023 (actual)	2024 (estimate)	2025 (forecast)
GDP	2.3%	2.3%	2.4%
Consumption	1.8%	0.4%	1.2%
Private consumption	1.7%	1.7%	1.6%
Public consumption	2.5%	-4.2%	-0.4%
Gross capital formation	1.3%	22.0%	6.0%
Gross fixed capital formation	7.0%	3.0%	9.5%
Exports	1.9%	1.1%	2.8%
Imports	1.0%	5.0%	1.9%
Inflation rate (HICP)	4.2%	3.0%	2.4%
Unemployment (% labour force)	11.2%	10.1%	9.3%

Special study: Impact of the reduction of zombie firms on the Greek economy

A study conducted by the Foundation for Economic and Industrial Research (IOBE), with the support of the Bank of Greece, analyses the recent evolution of "zombie" firms and non-performing business loans by sector of economic activity. It shows that a faster resolution of non-performing loans, both on and off bank balance sheets, allows for a more efficient allocation of resources, enhancing investment, employment and productivity in the Greek economy. A summary of the study is presented in Chapter 4 of this report.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

A. The Global Environment

- According to the OECD's December report, global economic growth is estimated at 3.2% in 2024 and is expected to remain at the same rate in 2025.
- Inflation continues its downward trend but remains above desired levels.
- Central banks in most major economies are proceeding with modest rate cuts while maintaining a tight monetary stance to ensure that inflation continues to decline in a sustainable manner.
- The new US administration is creating uncertainty in international trade, as protectionist policies are likely to return, while international coordination to tackle climate change is expected to weaken.

The world economy continued to expand in the third quarter of 2024, at a steady but low pace as a result of high inflation and monetary tightening. The economies of the OECD countries grew at an annual rate of 1.7% in the third quarter of 2024, slightly higher than the previous quarter and unchanged from the same quarter of 2023. The annual rate of change in GDP for the major economies (G7) increased slightly to 1.7% from 1.6% in the previous quarter, compared with 1.9% in the corresponding quarter of 2023. The 20 largest OECD economies grew at a rate of 2.8% in the third quarter of the year, down from 3.0% in the previous quarter, after growing at a rate of 3.1% in the corresponding quarter of 2023.

Inflation remains higher than desired, despite the significant moderation recorded, while core inflation is persistent in many economies. Last November, inflation in the 38 OECD countries fell to 4.54%, while core inflation (excluding energy and food) fell to 4.90%. At the same time, energy prices rose by 1.18% and food prices by 4.28% in the same month.

Central banks in major economies are gradually easing monetary policy as inflationary pressures ease, but interest rates remain relatively high to ensure that inflation remains under control. While headline inflation has declined and is close to central bank targets in many countries, core inflation remains elevated, reflecting ongoing pressures in services and housing prices. The restrictive monetary stance has dampened growth and affected financial conditions, with clear implications for both inflation dynamics and economic activity. As inflation continues to decline gradually, central banks face the critical challenge of synchronizing and calibrating interest rate adjustments to support the economic recovery without risking a resurgence of inflation, while closely monitoring underlying economic trends and labour market conditions.

Table 2.1

Global Environment (annual % GDP growth, in real terms, unless stated otherwise)

Economy	2023	2024		2025	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.2	3.2	0.0	3.3	0.1
USA	2.5	2.9	0.3	2.4	0.8
Japan	1.7	-0.3	-0.2	1.5	0.1
Canada	1.2	1.1	0.0	2.0	0.2
United Kingdom	0.3	0.7	-0.4	1.7	0.5
Eurozone	0.5	0.8	0.1	1.3	0.0
Germany	-0.1	0.0	-0.1	0.7	-0.3
France	1.1	1.1	0.0	0.9	-0.3
Italy	0.8	0.5	-0.3	0.9	-0.2
Turkey	5.1	3.5	0.3	2.6	-0.5
China	5.2	4.9	0.0	4.7	0.2
India	8.2	6.8	0.1	6.9	0.1
Brazil	2.9	3.2	0.3	2.3	-0.3
World trade	1.0	3.5	1.2	3.6	0.3

* Difference in percentage points from previous OECD forecasts (OECD Economic Outlook, September 2024).
Source: OECD Interim Economic Outlook, December 2024.

According to the latest OECD report, growth is estimated at 3.2% for 2024, as in the September report. The growth rate of world trade volume is estimated at 3.5% for the previous year, while a slight acceleration to 3.6% is forecast for 2025. Table 2.1 shows the annual changes in GDP in 2023 and the latest OECD estimates and forecasts (December 2024) for annual changes in 2024 and 2025 for the world economy and selected developed and developing countries.

Recent and expected trends in the economies of major countries and country groups for the current year are analysed next.

Among the major developed economies, the US recorded growth in the third quarter of 2024, with GDP rising by 2.7% year on year, down from 3.0% in the second quarter and compared with a rate of 3.2% in the same quarter of 2023. On a seasonally adjusted basis, annualised growth was 3.1% compared to the previous quarter. This increase mainly reflected growth in private consumption, exports, non-residential fixed investment and government spending. Inflation rose for the third consecutive month to 2.9% in December from 2.4% in September. The new US administration is creating uncertainty in international trade as protectionist policies are likely to return, while international coordination to tackle climate change is expected to weaken. Fed officials noted increased risks to inflation from possible policy changes by the new administration. While they expect inflation to move toward 2%, they cautioned that it could take more time. Officials also hinted at a slowdown in the pace of policy easing and emphasised the need for careful decision-making in the period ahead. The Fed cut its benchmark rate by 25 basis points to 4.25%-4.5% in December and forecast two more cuts in 2025, totalling 50 basis points. For 2024 as a whole, the US economy is estimated to have grown at a rate of 2.9%, while a slowdown to 2.4% is forecast for 2025.

The euro area economy grew at an annual rate of 0.9% in the third quarter of 2024, slightly higher than in the previous quarter (0.6%) and compared with 0.0% in the same quarter of 2023. Compared with the previous quarter, economic activity increased by 0.4% in seasonally adjusted terms, after 0.3% and 0.2% in the first two quarters of the year. Among the expenditure components, positive contributions came from fixed capital formation (+0.43 percentage points), changes in inventories (+0.38 p.p.), private consumption (+0.36 p.p.) and government consumption (+0.1 p.p.), while the external balance made a negative contribution (-0.85 p.p.). Among the largest economies in the euro area, GDP grew on an annual basis in the third quarter of 2024 in Spain (3.3%), in the Netherlands (+1.9%), in France (+1.2%) and in Italy (+0.4%). Headline inflation rose from 1.7% in September to 2.2% in November 2024, while core inflation stabilised at 2.7%. The ECB cut its key rate for the fourth time in October, by 25 basis points to 3.00%, as inflation fell to levels close to its 2% target. This move reflects the more favourable outlook for inflation and improvements in the transmission of monetary policy. Inflation is expected to decline gradually, with forecasts of 2.1% in 2025 and 1.9% in 2026. Core inflation, which excludes energy and food, is also expected to decline, with a target of 2% over the medium term. Despite the easing of financing conditions due to interest rate cuts, borrowing costs remain tight as previous increases continue to affect existing loans. The economic recovery is projected to be slower than previously expected, with growth of 0.7% in 2024, 1.1% in 2025 and 1.4% in 2026. The ECB remains focused on keeping inflation close to its 2% target and will adjust its policy based on incoming data, without committing to a fixed path for the interest rate.

For 2024 as a whole, the OECD estimates that the euro area economy grew by 0.8 per cent, while in 2025 it is projected to accelerate to 1.3 per cent. The outlook and challenges for the European economy are discussed in more detail in Section 2.1B.

In the United Kingdom, GDP grew by 0.9% year on year in the third quarter of 2024, following growth of 0.7% in the previous quarter and 0.3% a year earlier. Inflation fell to 2.5% in December 2024, from 2.6% the previous month. The Bank of England held its base rate steady at 4.75% at its December meeting, noting that monetary policy will remain tight for some time until the risks to a sustained return of inflation to its 2% target have diminished. Overall, growth is forecast to be 0.7% in 2024 and 1.7% next year.

In Japan, GDP grew by 0.5% year on year in the third quarter, after a contraction of 0.9% in the previous quarter and growth of 1.1% in the previous year. On a seasonally adjusted annualised basis, Japan's economy expanded by 1.2% compared with the previous quarter. Investment slowed sharply ahead of interest rate hikes, while government spending fell sharply. Meanwhile, private consumption rose steadily, reflecting the impact of wage increases. Overall, the Japanese economy is estimated to have contracted by 0.3% in 2024, with a rebound to 1.5% forecast for 2025.

Next, this subsection looks at recent trends and policy challenges in four developing countries that together account for almost a third of global GDP.

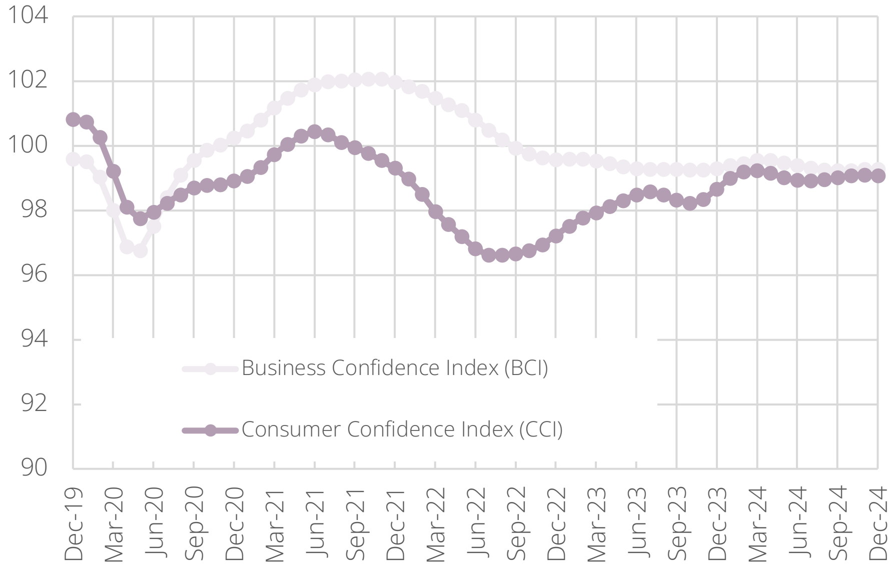
Specifically, China's economy recorded a slight slowdown in its annual growth rate to 4.6% in the third quarter of 2024, down from 4.7% in the previous quarter. It was the slowest annual growth rate since the first quarter of 2023, amid continued weakness in the property market, unstable domestic demand, deflationary risks and trade tensions with the West. The latest figures came as Beijing stepped up stimulus measures to support the economic recovery and restore confidence. There were some positive signs in September, with industrial production and retail sales posting their strongest growth in four months and the urban unemployment rate falling to a three-month low of 5.1%. On the trade front, however, exports grew at a slower pace than in the previous five months, while imports were sluggish. In the first three quarters of the year, the economy grew by 4.8%, compared with China's target of around 5% for the year as a whole. During this period, fixed investment grew by 3.4% year-on-year. The OECD expects growth to slow slightly to 4.9% in 2024 and further to 4.7% in 2025.

India's economy grew at a rate of 5.8% in the third quarter of 2024, down from 6.6% in the previous quarter and 8.0% a year earlier. This was the slowest expansion since the fourth quarter of 2022, largely due to a decline in manufacturing and electricity, gas, water and other utilities. Overall, annual growth is estimated at 6.8% in 2024, a rate that is expected to strengthen slightly to 6.9% in 2025.

Figure 2.1

Economic sentiment indicators for the OECD countries

(seasonally adjusted data, long-term average = 100)



Consumer and business confidence indicators stabilise globally, below their long-term averages.

Source: OECD

Turkey's economy grew at an annual rate of 1.9% in the third quarter of 2024, down from 2.4% in the previous quarter and compared with 5.6% a year ago. This was the slowest growth rate since the contraction in the second quarter of 2020, as high interest rates continue to weigh on the economy. The annual inflation rate continued to decline for the seventh month in a row in December 2024 to 44.4%, from a high of 75.5% in May 2024, while the Turkish lira continues to depreciate. The country's central bank proceeded with its first cut in the key interest rate in its December 2024 decision, from a 14-year high (50%). The shift to a more rational monetary policy has slowed the depreciation of the exchange rate, with the annual rise of the dollar and euro against the Turkish lira reaching 19.9% and 15.1%, respectively, in December 2024. For 2024 as a whole, the Turkish economy is estimated to have grown at a rate of 3.5%, while a slowdown to 2.6% is forecast for 2025.

Among the Latin American countries, Brazil's economy grew by 3.5% in the third quarter of 2024, up from 2.8% in the previous quarter and 2.8% in the same quarter of 2023. Growth is estimated at 3.2% in 2024, while a slowdown to 2.3% is forecast for 2025.

The OECD business and consumer confidence indicators point to a trend toward stability in the fourth quarter of 2024. Both indicators are close to, but below, their long-term averages (Figure 2.1).

B. EU and Euro area economies

- Positive annual real GDP growth in the EU and euro area in the third quarter of 2024, at 1.0% and 0.9% respectively.
- Positive growth and lower inflation in the euro area in 2025 and 2026, according to the European Commission's Autumn Economic Forecasts.
    - Euro area: 1.3% and 1.6% growth, 2.1% and 1.9% inflation in 2025 and 2026
    - EU27: 1.5% and 1.8% growth, 2.4% and 2.0% inflation in 2025 and 2026
- The ECB cut its three key interest rates by 25 basis points for the fourth time in six months. They will remain relatively high until inflation returns to the medium-term target of 2%.
- Geopolitical tensions in Ukraine and the Middle East remain a concern. In addition, the possible imposition of tariffs on EU exports to the US by the Trump administration will have a negative impact on the European and global economy.

Despite the uncertain global economic environment, the EU economy has the potential to move onto a stronger growth path. Employment is dynamic and continuing to grow, real incomes are recovering and financing costs are now falling after two years of disinflation. The necessary fiscal consolidation will weigh on growth, but the new economic governance framework allows for a more gradual adjustment over the medium term and provides room for investment and reform. Moreover, the implementation of the Recovery and Resilience Plans will help to mitigate the adverse effects of fiscal consolidation.

The growth outlook for the European economy is hampered by persistently high borrowing costs and structural challenges in industries such as the automotive sector. In addition, geopolitical risks and international policy uncertainty have increased. In addition to the risks posed by the ongoing wars in Ukraine and the Middle East, a further increase in protectionist measures by the EU's trading partners could weigh on international trade. The EU is particularly vulnerable due to its structural dependence on energy imports and its high degree of openness. The main sources of uncertainty for the EU are therefore outside its control, while political uncertainty within its borders is also increasing. To create a more predictable economic environment, it is important that policymakers at both EU and Member State level maintain their commitment to announced reforms and investment plans.

Economic activity in the third quarter of 2024

Economic activity improved in both the European Union (EU) and the euro area (EA) in the third quarter of 2024. On an annual basis, GDP grew by 1.0% in the EU and by 0.9% in the euro area, after growth of 0.8% and 0.5% respectively in the previous quarter. In seasonally adjusted terms, GDP grew by 0.4% in both the EU and the EA.[1] Among the large Member States, real GDP grew in Spain, France and Italy in the second quarter of 2024. GDP fell by 0.2% in Germany and by 3.6% in Ireland. The annual growth rate for the third quarter by EA country is shown in the Appendix (Figure 1).

Private consumption is on an upward trend. In the third quarter, it grew by 0.6% in the EU and by 0.5% in the euro area on a yearly basis, after increases of 0.5% and 0.3% respectively in the previous quarter. Government consumption rose by 0.5% in the EU and by 0.5% in the euro area in the third

[1] Eurostat GDP release, 6 December 2024

quarter of 2024, after an increase of 0.6% in both zones in the previous quarter. Exports of goods and services increased by 0.7% year on year in both zones in the third quarter of 2024, after rising by 1.1% in the EU and by 1.0% in the euro area in the previous quarter and falling sharply in the third quarter of 2023 (-0.9% and -1.4% respectively). Imports increased by 0.6% on an annual basis in both zones, after a fall of 0.1% in the EU and 0.3% in the EA in the second quarter.

Euro area inflation rose to 2.4% in December from 2.2% in November and 2.0% in October. The main drivers of inflation in December were services and food, tobacco and alcoholic beverages. The dispersion of inflation across the EU is similar to that of the previous quarter (see Figure 4 in the Appendix).

Employment grew 0.2% in the EU and remained stable in the euro area in the third quarter of 2024, compared with the same quarter of the previous year. In the second quarter of 2024, employment grew by 0.2% in the euro area and by 0.1% in the EU. The highest increases in employment are observed in Malta, Croatia and Ireland. The largest decreases were recorded in Latvia, Finland and Luxembourg. Figures 5 and 6 in the Appendix show the employment rate and the change in employment by country.

The unemployment rate was 6.3% in the EU in November 2024, the same as in October, compared with 6.5% in November 2023. The EU unemployment rate was 5.9% in November 2024, the same as in October, and 6.1% in November 2023. In the third quarter, the unemployment rate ranged from 2.8% in Malta to 10.9% in Spain. Among the large Member States, it was 3.4% in Germany, 3.1% in the Netherlands, 6.8% in France and 5.5% in Italy. The unemployment rate by country in the EU is shown in the Appendix (Figure 7).

The ratio of the budget deficit to GDP increased from 3.5% in 2022 to 3.6% in 2023 in the euro area and from 3.2% in 2022 to 3.5% in 2023 in the EU. In the euro area, the ratio of public debt to GDP decreased from 89.5% at the end of 2022 to 87.4% at the end of 2023, while in the EU it decreased from 82.5% to 80.8%. At the end of the second quarter of 2024, the ratio of general government gross debt to GDP in the euro area stood at 88.1%, compared with 87.8% at the end of the first quarter of 2024. In the EU, the ratio increased from 81.3% to 81.5%. Compared with the second quarter of 2023, the government debt ratio decreased in both the euro area (from 88.8% to 88.1%) and the EU (from 81.9% to 81.5%). The budget balance and the government debt ratio for each euro area country are shown in the Appendix (Figures 2 and 3).

As announced on 12 December, the European Central Bank decided to reduce its three key interest rates by 25 basis points, following similar reductions in June, September and October. In view of the dynamics of underlying inflation, the outlook for future inflation developments and the strength of monetary policy transmission, it was deemed appropriate to ease monetary policy further following the reductions in key ECB interest rates in October. The Governing Council is committed to ensuring that inflation returns to its medium-term objective of 2% in a timely manner. It will therefore keep interest rates sufficiently high to ensure that this objective is achieved. The exposure of the ECB's asset purchase programme (APP) portfolio is being steadily reduced, as the Eurosystem no longer reinvests the principal payments from maturing securities.

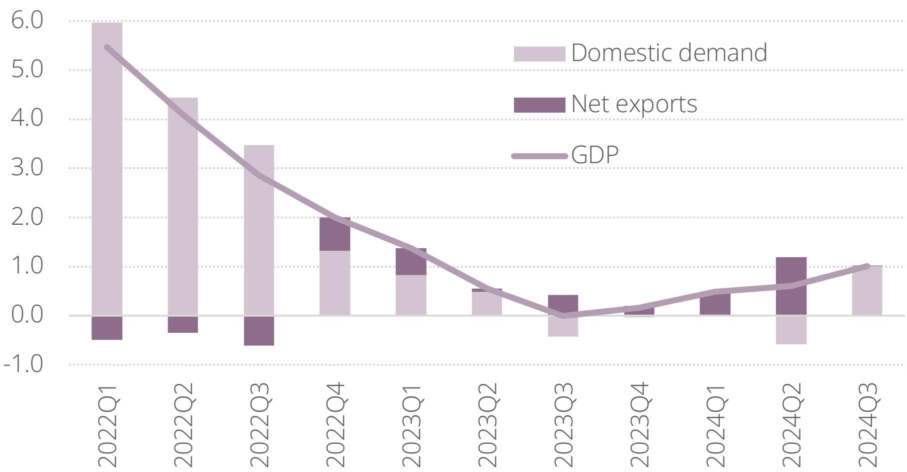
With regard to the Pandemic Emergency Purchase Programme (PEPP), the Governing Council reduced the Eurosystem's holdings under the PEPP by an average of €7.5 billion per month in the second half of 2024. The Governing Council has now discontinued reinvestments under the PEPP as of the end of 2024. Finally, the Transmission Protection Instrument (TPI) is available to counteract undesirable and unpredictable market developments that could adversely affect the transmission of monetary policy in the euro area with a view to maintaining price stability.

Contribution of GDP components

Based on these developments in the components of euro area GDP (Figure 2.2), the contribution of net exports was slightly positive (+0.2%), significantly lower than in the previous quarter (+1.2%). The decline in the contribution of net exports in the third quarter of this year was mainly due to the increase in the negative contribution of imports, but also to the decrease in the positive contribution of exports. The contribution of domestic demand was 0.8% of GDP, after a negative impact of 0.6 percentage points in the previous quarter. The contribution of private consumption increased from 0.3% in the second quarter to 0.5% in the third quarter, while the contribution of public consumption decreased from 0.6% in the second quarter to 0.5%. The contribution of gross fixed capital formation became less negative compared to the previous quarter (-0.2% compared to -1.5%).

Figure 2.2

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



Positive contribution of domestic demand and net exports to Eurozone GDP growth in Q3 2024.

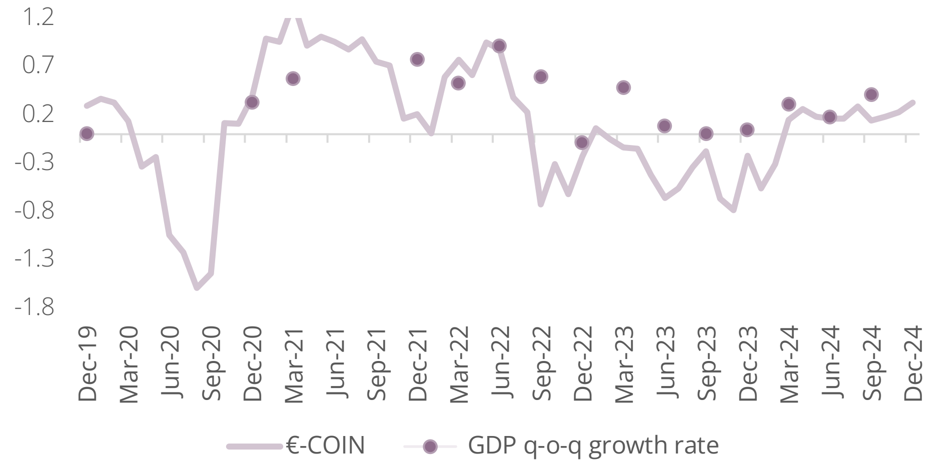
Source: Eurostat

€-COIN index and the Economic Sentiment Indicator

The main leading indicator for economic activity in the euro area and the European Union rose in the fourth quarter of 2024. The €-COIN index reached its lowest level in recent years in November 2023 but then rose until March 2024 and remained stable until July. Since August 2024, it has been on an upward trend. In December 2024, it reached 0.33 points, compared to 0.23 in November and 0.18 in October (Figure 2.3). The increase in the last quarter points to a possible increase in GDP in the next quarter.

Figure 2.3

Monthly €-COIN Index & Eurozone GDP*



Rise in the €-COIN index in the fourth quarter of 2024.

*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. Sources: CEPR, Bank of Italy, Eurostat.

The European Commission's Economic Sentiment Indicator for the EU-27 and the euro area deteriorated in the fourth quarter of 2024. In December 2024, following the US elections, the indicator stood at 94.5 points in the EU-27 and 93.7 points in the euro area, lower than both the previous month and a year earlier (Table 2.2).

Table 2.2

Economic Sentiment Indicator EU-27 & Euro Area (av. 2000-2020=100)

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)	97.9	98	97.5	97.7	95.9	94.7	94.5	93.8	93.4	93.9	94.2	96.4
Euro area	99.5	99.5	98.9	99.1	96.7	95.7	94.9	93.9	93.7	93.8	94.1	96.5

Month	Jan - 24	Feb - 24	Mar - 24	Apr-24	May - 24	June - 24	Jul-24	Aug-24	Sep-24	Oct - 24	Nov - 24	Dec -24
EU-27 (2020)	96.4	95.9	96.7	96.3	96.5	96.4	96.4	96.6	96.7	96.1	96.2	94.5
Euro area	96.2	95.6	96.4	95.7	96.2	96	95.9	96.4	96.2	95.6	95.6	93.7

Source: Eurostat, January 2025

Challenges

The European economy, and the euro area in particular, faces a number of challenges. In brief, the main ones are:

- The armed conflicts in Ukraine and the Middle East and their intense and protracted economic impact.
- New disruptions in energy supplies (especially oil and natural gas), which could have a significant impact on the EU's growth prospects and inflation.

- Possible imposition of tariffs on EU exports to the US by the Trump administration, with serious consequences for the European and global economy.
- High budget deficits in core eurozone countries such as France and Italy.
- The need to coordinate fiscal and monetary policies at the collective and national level in order to strike a balance between the objective of keeping inflation expectations in check and avoiding an economic recession.
- Increasing risks of natural disasters linked to climate change, such as the recent floods in Spain.

Forecasts for the evolution of key macroeconomic figures (September 2024)

Table 2.3 shows the European Commission's forecasts for the main economic variables of the EU and the euro area on an annual basis. The autumn estimates for GDP growth in 2024 and the forecasts for 2025 are similar to those made in the spring for both the EU and the euro area. The inflation projections are also similar.

Table 2.3

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

	EU			Eurozone		
	2024	2025	2026	2024	2025	2026
GDP	0.9	1.5	1.8	0.8	1.3	1.6
Private Consumption	1.2	1.4	1.6	0.9	1.2	1.4
Public Consumption	2.1	1.3	1.2	1.9	1.2	1.1
Gross Investment	-1.6	2.1	2.8	-1.9	1.8	2.5
Exports of Goods and Services	1.4	2.2	3.0	1.5	2.2	3.0
Imports of Goods and Services	0.2	2.6	3.0	0.0	2.5	3.0
Employment	0.8	0.6	0.5	0.9	0.6	0.6
Unemployment (% labour force)	6.1	5.9	5.9	6.5	6.3	6.3
Inflation	2.6	2.4	2.0	2.4	2.1	1.9
Balance of General Government (% GDP)	-3.1	-3.0	-2.9	-3.0	-2.9	-2.8
Debt of General Government (% GDP)	82.4	83.0	83.4	89.1	89.6	90.0
Current Account Balance (% GDP)	3.6	3.4	3.3	3.8	3.6	3.6

Source: European Economic Forecasts, Autumn 2024, European Commission, November 2024

According to the latest forecasts, growth in 2024 is estimated at 0.8% in the euro area and 0.9% in the EU, rising to 1.3% and 1.5% respectively in 2025. Even higher growth is forecast for 2026, at 1.6% in the euro area and 1.8% in the EU. Private consumption is estimated to increase by 0.9% in the euro area and by 1.2% in the EU in 2024, rising to 1.2% in the euro area and to 1.4% in the EU in 2025 (Table 2.3). Government consumption is projected to increase by 1.2% in the EU and by 1.3% in the euro area in 2025, and by 1.1% and 1.2% respectively in 2026. Gross investment is estimated to fall by 1.9% in the EU and by 1.6% in the EU in 2024, compared to zero growth projected earlier. A recovery to 1.8% and 2.1% is forecast for 2025.

Exports of goods and services are projected to grow by 2.2% in 2025 and by 3.0% in 2026 in both zones. Imports are projected to grow by 2.5% in the EA and 2.6% in the EU in 2025, and by 3.0% in 2026 in both zones. Inflation is projected to fall to 2.1% in the EA and 2.4% in the EU in 2025, with a further decline to 1.9% and 2.0% respectively in 2026. Employment is projected to increase by 0.6% in both the euro area and the EU in 2025 and by 0.6% in the euro area and 0.5% in the EU in 2026. The euro area debt is projected to be 89.6% in 2025 and 90.0% in 2026. The EU debt is projected to be lower, at 83.0% in 2025 and 83.4% in 2026. Finally, the current account balance is projected to change by 3.6% in both 2025 and 2026 in the euro area, while in the EU it is projected to change by 3.4% and 3.3% in 2025 and 2026, respectively.

2.2 The Economic Environment in Greece

A. Economic Sentiment

- The economic sentiment indicator for Greece declined slightly in the fourth quarter of 2002 compared with the previous quarter (106.4 from 107.6). Slight improvement compared with the same quarter of a year before (105.4).
- Compared with the previous quarter, business expectations in the fourth quarter weakened slightly in the services sector and more markedly in the retail trade and construction sectors, while they remained unchanged in industry.
- In the October-December period, the consumer confidence index rose slightly to -47.4 points (from -47.8 in the previous quarter). At the same time, it is significantly lower than a year ago (-43.5 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 final quarter of 2024, the Economic Sentiment Indicator decreased by 1.2 points compared to the previous quarter. The decline in the indicator was due to worsening business expectations in the construction, services and retail sectors, while expectations in industry remained broadly unchanged. At the same time, the consumer confidence indicator was slightly higher than in the previous quarter, at -47.4 (-47.8) points.

The economic climate at the end of 2024 remains volatile, reflecting on the one hand the positive development of the economy and on the other the sources of uncertainty, especially in the external environment, which have a significant impact on the expectations of companies and households. Among the sectors, industry is the one most exposed to the international environment and markets due to its greater openness, even among medium-sized companies, while relying heavily on medium-term contracts and orders, which are less affected by cyclical uncertainties. At the household level, inflation remains higher than desired and continues to have a negative impact on consumer confidence, which is now a problem with structural as well as cyclical characteristics. At the same time, the consumer confidence indicator remains below last year's level.

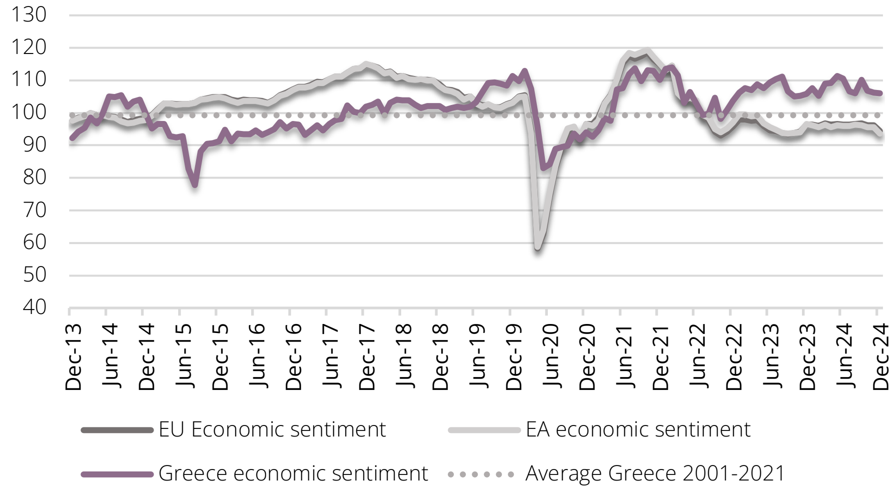
More specifically, the economic sentiment indicator for Greece was slightly weaker in the October-December quarter of 2024 than in the previous quarter (figure 2.4), falling from 107.6 to 106.4 points, although it remained slightly higher than the corresponding average for the previous year (105.4 points).

[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, 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.

In Europe, both in the EU and in the euro area, the average ESI declined slightly over the reference period. Specifically, the ESI stood at 95.6 (96.6) points in the EU and at 95.0 (96.2) points in the euro area in the final quarter of 2024.

Figure 2.4

Economic Sentiment Indicators: EU-27, Euro area and Greece (2000-2020=100, seasonally adjusted data)



The Economic Sentiment Indicator in the fourth quarter of 2024 declined by 1.2 points compared to the previous quarter.

Source: European Commission, DG ECFIN

At the sectoral level, business expectations in Greece declined slightly in the services sector, more markedly in construction and retail trade, but remained broadly unchanged in industry. On the consumer side, the consumer confidence index increased slightly compared to the previous quarter. Compared with the same quarter of a year before, the average indicators increased markedly in industry, more moderately in services, while they weakened markedly in retail trade and construction. In depth:

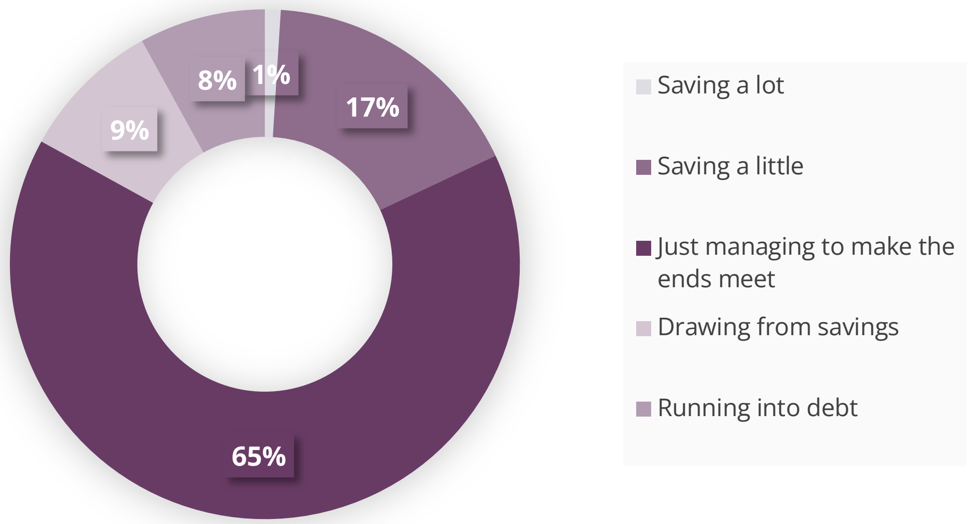
The average consumer confidence index in Greece for the October-December quarter of 2024 was slightly higher than in the third quarter of 2024, at -47.4 (-47.8) points, and significantly lower than in the corresponding quarter of 2023 (-43.5) points. The corresponding average index decreased slightly in the EU, to -12.4 (from -12.1) points, and in the euro area (-13.6 from -13.2 points). These levels are well above those recorded one year ago (-15.8 and -16.7 points respectively).

The trends in the individual underlying balances that make up the overall indicator were mainly upward in the last quarter of 2024 compared with the previous quarter. Accordingly, Greek consumers' gloomy forecasts for their household finances over the next 12 months eased slightly, as did those for the country's economic situation. At the same time, households' positive assessment of their current situation strengthened, while their intention to make major purchases in the near future weakened slightly.

More specifically, the percentage of those who are pessimistic about their household's financial situation over the next 12 months remained at 59%, while the percentage of those who are optimistic increased by 6%. At the same time, the percentage of consumers in Greece who are pessimistic about the country's economic situation remained at 67%, with 9% once again expecting an improvement. In terms of unemployment forecasts, the percentage of those who believe the situation will get worse fell to 39% (from 42%), with an average of 15% (from 14%) expressing the opposite view. The percentage of consumers who say they are 'running into debt' in the fourth quarter of 2024 fell to 8%, the same level as in the corresponding quarter of 2023 (8%). The percentage of respondents who say they are saving a little also fell slightly to 17% (18% in the corresponding quarter of 2023). Finally, the proportion of respondents who say they are 'just making ends meet' rose to 65%, and the proportion of households who say they are 'dipping into their savings' was 9-10%, compared with 13% in 2023 (Figure 2.5).

Figure 2.5

Consumer survey data on the financial situation of households (October-December 2024)



Source: IOBE

Increase in the percentage of households reporting that they are just making ends meet (65% from 61%) compared to the third quarter of 2024. Decrease in the percentage of those reporting that they are running into debt.

The business expectations index for industry stood at 103.7 points in the final quarter of 2024 (compared with 103.8 points in the third quarter of 2024), much higher than in 2023 (95.3 points). Among the key activity indicators, the index of short-term production expectations declined slightly in the quarter under review, from +19.9 points in the third quarter of 2024 to an average of +16.4 points. At the same time, the slightly negative assessments of the order books and demand weakened (the relevant index fell from -9.7 to -6.3 points). The assessment of the stocks of finished products remained unchanged (at +9.3 points), while the evolution of the export variables was mixed: forecasts for export momentum in the next quarter declined sharply (from +15.3 to +6.2 points), while the assessment of export orders and demand improved slightly (from -18.4 to -11.6 points). The relevant quarterly balance of the employment expectations decreased slightly to an average of +6.7 (from +9.5) points. The capacity utilisation rate was slightly lower at 78.4% (from 78.8%), while the number of months of assured production for companies increased slightly to an average of 6 (from 5.1).

The business expectations index for the retail trade sector fell slightly to 101.2 points in the current quarter (from 106.6 points in the previous quarter), and was much lower than in the corresponding quarter of the previous year (113.3 points). Among the main variables of the index, the average balance for the current sales expectations fell sharply to +12 points (from +29 in the previous quarter). Among the companies in the sector, 30% (up from 22%) reported a decrease in sales, while 42% reported an increase. The sales expectations index rose marginally to +25 points, while stocks of finished products increased slightly (to +15 points). expectations (to +15 points). Among the other activity indicators, the balance of forecasts for orders from suppliers stood at +14 points, compared with +6 points in the previous quarter, while in terms of employment in the sector, the average balance of forecasts weakened significantly to +31 (from +41) points. Finally, the balance for prices remained strongly inflationary (+24 compared to +25), with only 3% of businesses expecting prices to fall and 27% (from 25%) expecting the opposite. A decline in business expectations was recorded in most of the individual retail trade sectors surveyed in the final quarter of 2024, with the exception of food and beverages, where there was a slight improvement.

Business expectations for the construction industry weakened slightly in the final quarter of 2024, with the corresponding balance reaching an average of 144.5 points, down from 149.2 points in the previous quarter. This is lower than in the corresponding quarter of 2023 (153.2 points). Among the key variables, employment expectations in the sector remained unchanged at +25 points, with 32% (down from 38%) of firms expecting more jobs and 7% (up from 12%) expecting fewer jobs. The negative outlook for planned work intensified slightly (from -15 to -21 points), while the assessment of the current level of planned work decreased slightly (from +31 to +23 points).

The number of months of secured business activity in the sector improved markedly to 9.1, while the balance of price expectations edged down to +17 (from +30) points, with 7% of firms expecting prices to fall in the short term and 23% (from 37%) expecting them to rise. Finally, the share of firms reporting no obstacles to their operations increased to 16%, while among the remaining firms, 38% (from 46%) considered the lack of labour as the most important obstacle, 13% (from 11%) cited low demand, 2% a lack of machinery, and 15% 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 expectations declined slightly in private construction, while they strengthened significantly in public works.

The business expectations indicator for the services sector was marginally lower than in the previous quarter, at 114.5 points (from 115.6), and slightly higher than in the corresponding quarter of 2023 (113.8). Among the key variables, the assessment of the current demand situation declined slightly, with the corresponding indicator standing at +40 points, compared to +43 points in the previous quarter. By contrast, the assessment of the current business situation moved in the opposite direction (+38 from +33), with the balance of the industry's short-term demand expectations weakening slightly (+23 from +28). Among the other activity indicators, the balance of the employment expectations decreased slightly by 7 points to +10 points, while the average business expectations index for prices increased significantly to +13 (from -4) points.

Table 2.4

Economic Sentiment Indicators

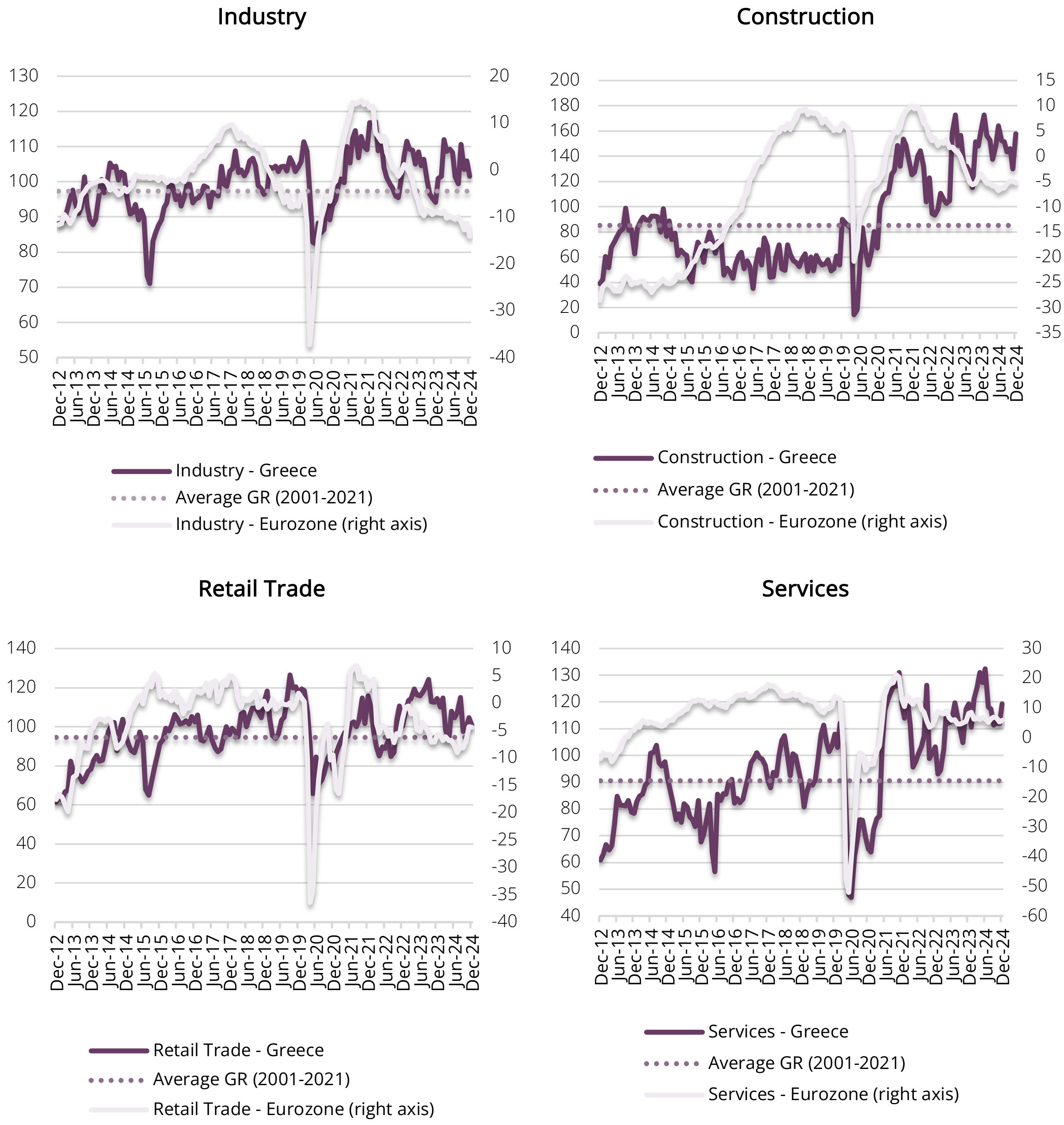
Time Period	Economic Sentiment Indicator			Business Expectations Index (Greece)				Consumer Confidence Index (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	98.6	98.3	85.5	79.9	52.2	61.3	68.1	-57.9
2011	98.3	98.4	83.9	81.1	37.7	60.9	66.1	-69.8
2012	89.0	89.0	83.6	81.4	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	97.7	99.2	106.9	109.4	145.2	111.6	96.6	-43.3
Q2 2023	96.1	97.2	108.6	107.5	145.8	117.2	113.8	-36.7
Q3 2023	94.0	94.3	109.5	103.8	125.0	120.7	114.5	-36.3
Q4 2023	94.9	94.8	105.3	95.3	153.2	113.3	113.8	-43.5
Q1 2024	96.3	96.0	107.2	104.8	160.8	107.6	119.1	-46.1
Q2 2024	96.4	95.9	110.4	108.7	150.0	101.9	130.3	-42.7
Q3 2024	96.6	96.2	107.6	103.8	149.2	106.6	115.6	-47.8
Q4 2024	95.6	95.0	106.4	103.7	144.5	101.2	114.5	-47.4

Sources: European Commission, DG ECFIN, IOBE

Finally, the share of respondents reporting that their business activities were not hindered increased to 85% (from 60%) on average, with 4% citing insufficient demand and 7% labour shortages as the main obstacles to their activities, and 2% citing other factors related to the general economic situation, energy prices, etc. Among the service sectors surveyed, the individual indicators for hotels, restaurants and travel agencies, land transport and the information sector declined significantly in the final quarter of 2024, while they improved significantly in financial intermediaries and miscellaneous business activities.

Figure 2.6

Business Confidence Indicators



Source: IOBE

In the fourth quarter of 2024, business expectations declined slightly quarter on quarter in the services sector and more markedly in the construction and retail trade sectors, while remaining broadly unchanged in industry.

B. Fiscal developments

- State budget balance, Jan-Nov 2024: cash surplus in the state budget balance of €4,375 million (1.8% of GDP), against a target surplus of €2,293 million for the corresponding period of 2024 included in the explanatory report of the 2025 budget and a deficit of €1,032 million (0.5% of GDP) for the corresponding period of 2023.
- Primary balance of the State Budget, January-November 2024: cash surplus of €12,011 million (5.0% of GDP), compared with a primary surplus target of €9,912 million and a primary surplus of €5,826 million (2.6% of GDP) for the same period of 2023.
- The improvement is due to higher net revenue growth (+12.8% or +7.56 bn euro) than expenditure growth (+3.6% or +2.15 bn euro).
- General government figures for 2023 (second notification): deficit of 1.3% of GDP and debt of 163.9%, compared with 1.6% and 161.9% of GDP, respectively, in the first notification. Improvement in the balance due to upward revision of GDP, but deterioration in the debt due to updating of debt figures.
- Estimates for the general government balance in 2024 (2025 budget): deficit of 0.7% of GDP and debt of 154.0% of GDP.
- State budget 2025: The general government balance is expected to deteriorate slightly compared to 2024. A deficit of €5,930 million, or 2.4% of GDP, is expected, compared with €5,361 million last year. The primary surplus is projected at €3,470 million or 1.4% of GDP, compared to an estimated €4,494 million or 1.9% of GDP in 2024.

General Government figures (national accounting basis)

Final General Government results 2023

According to the most recent[3] fiscal data compiled using the national accounts methodology (ESA 2010), the general government (GG) balance recorded a deficit of €2,962 million, or 1.3% of GDP, in 2023. In addition, the primary surplus of the GG for the same year reached €4,658 million or 2.1% of GDP (Table 2.5), against a primary surplus target of €1,668 million or 0.7% of GDP set in the budget for that year.

Table 2.5

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

	2020	2021	2022	2023	2024[1]		2025
					Initial	Estimate	
General Government balance	-9.6	-6.9	-2.5	-1.3	-1.1	-0.7	-0.6
GG primary balance	-6.6	-4.5	0.0	2.1	2.1	2.5	2.4
GDP (€ million)	167,540	184,575	207,854	225,197	233,775	236,965	247,514

Sources: ELSTAT press release, 22 October 2023 and Budget Introductory Reports 2024 and 2025, Ministry of Finance, November 2023 and 2024

1. Provisional data and estimates

The over-implementation is due to the central government result, which was a deficit of €3,304 million, compared to an initial forecast of €5,592 million. Social security funds (SSFs) and local government authorities (LGAs) performed worse than expected. The surplus of SSFs reached €927

[3] ELSTAT press release of 22 October 2024

million against a target surplus of €1,279 million, while the deficit of LGAs reached €595 million against a target deficit of €148 million. Hospitals also underperformed with a deficit of €310 million against a target surplus of €9 million.

Estimates of the 2024 General Government results

According to the explanatory report on the 2025 budget, the 2024 balance is projected to be in deficit by €1,714 million or 0.7% of GDP, compared with an initial forecast of a deficit of €2,486 million or 1.1% of GDP (Table 2.5). The improvement is estimated to have occurred in the central government balance, which is estimated to have outperformed the target by €718 million. The balances of social security funds and local government are also estimated to have improved by €7 and €48 million respectively. The balance of hospitals is estimated to have deteriorated by €1 million compared to the target.

Public debt

The level and evolution of government debt is a more complete reflection of fiscal performance than any other variable. This is because, for various reasons, certain transactions by public units, whether inside or outside general government, are not recorded in the annual accounts, but are recorded directly in government debt (stock-flow adjustments). For this reason, monitoring the evolution of government debt is essential to obtain a complete picture of the state of public finances. In addition, the level and changes in a country's debt are closely monitored by the investment community and international rating agencies. Any negative developments usually have a negative impact on the country's rating and lead to an increase in its borrowing rates.

Table 2.6

Consolidated General Government Debt (€ million)

	2019	2020	2021	2022	2023	2024*
Debt	334,721	350,798	364,141	368,005	369,099	365,000
% GDP	*180.6*	*209.4*	*197.3*	*177.0*	*163.9*	*154.0*

* Estimate

Sources: Eurostat, ELSTAT, EDP disclosure procedure, October 2024 and Budget Introductory Report 2025, Ministry of Finance, November 2024

General government debt increased in absolute terms in 2023 but decreased as a percentage of GDP (Table 2.6). The increase in government debt came mainly from the general government deficit, which amounted to €2,962 million, despite the achievement of a primary surplus of €4,658 million, as mentioned above. The decrease as a percentage of GDP was due to the significant increase in nominal GDP by 8.3%. Greece had the highest government debt to GDP ratio in the EU in 2023 (163.9%), followed by Italy (134.8%), France (109.9%) and Spain (105.1%).

The final estimate for 2024 shows a significant improvement in government debt. It is expected to fall in absolute terms for the first time since 2014. Strong growth also brings the debt to an even lower level as a percentage of GDP. The fiscal performance in 2024 was better than in 2023 due to the fading impact of the energy crisis, the easing of monetary policy by the central bank, a reduction in tax evasion combined with an increase in electronic transactions, and a rise in wages, which boosted tax revenues.

The outlook for 2025 is even brighter. High nominal growth rates are projected while debt remains flat in absolute terms. This implies a significant reduction in debt as a percentage of GDP. Greece's exit from enhanced surveillance and the recovery of its investment grade rating, leading to lower financing costs, also contribute to this outcome. The stance of rating agencies remained positive in 2024, with S&P Global Ratings upgrading the outlook for the Greek economy from stable to positive in April 2024, and DBRS Morningstar and Moody's doing the same in September 2024. In December, Scope Ratings also upgraded its outlook.

Execution of the 2024 State budget (January – November)

The global economy continued to be overshadowed by a high degree of uncertainty and instability as a result of interrelated geopolitical, economic and climatic turbulence. Inflation eased somewhat but remained high, while restrictive monetary policies by central banks until early summer continued to weigh on credit growth throughout the year. Despite the instability and continuing geopolitical turmoil in Ukraine and the Middle East, the Greek economy proved resilient. It is estimated to record high growth in 2024 as a whole, while the fiscal outlook is significantly improved compared to 2023. External conditions contributed to this performance, such as the fading impact of the energy crisis and the easing of monetary policy by central banks, as well as domestic developments, such as the reduction of tax evasion combined with the increase in electronic transactions and the rise in wages, which increased tax revenues. As a result, there was a budget surplus, which led to the submission of a supplementary budget that increased the public investment programme in 2024 by 900 million euros and allowed the economic team, after negotiations with the European Commission, to increase the spending limit for the coming years, essentially modifying the new medium-term fiscal and structural plan for 2025-2028, which will guide medium-term economic policy.

General government debt also continued to decline, falling from 163.9% of GDP in 2023 to 154% in 2024, according to ELSTAT estimates, strengthening the country's creditworthiness. In 2023, three of the four rating agencies recognised by the ECB reaffirmed their investment grade, while their stance remained positive in 2024, with S&P Global Ratings upgrading the outlook for the Greek economy from stable to positive in April 2024 and DBRS Morningstar and Moody's doing the same in September 2024. In December, Scope Ratings also upgraded its outlook.

State Budget Balance and Primary Balance

According to the data on the execution of the state budget, the general government balance on a modified cash basis for the period January-November 2024 is at a surplus of €4,375 million (1.8% of GDP), compared to a target surplus of €2,293 million for the corresponding period of 2024 included in the Explanatory Report of the 2025 Budget and a deficit of €1,032 million (0.5% of GDP) for the corresponding period of 2023. The primary balance on a modified cash basis was at a surplus of €12,011 million (5.0% of GDP), compared with a target of a primary surplus of €9,912 million and a primary surplus of €5,826 million (2.6% of GDP) for the corresponding period of 2023. The improvement in the SB balance compared with the previous year is due to the higher increase in net revenue (+12.8% or +7.56 billion euro) compared with expenditure (+3.6% or +€2.15 billion, Table 2.7). The difference from the target is mainly due to the timing of revenue and expenditure, which does not affect the outcome in fiscal terms.

Table 2.7

State Budget Execution: January-November 2024* (€ million)

	Jan. – November		% Change 24/23	2023*	2024* Budget	2024 Est.	% Change 24E/23
	2023*	2024*					
I. SB NET REVENUE (1+2)	59,162	66,721	12.8	67,005	72,738	72,889	8.8
1. Net OB revenue	54,490	61,935	13.7	60,093	64,987	67,916	13.0
OB revenue before tax refunds	*60,757*	*68,511*	12.8	67,086	71,575	75,238	12.2
Less Tax refunds	6,267	6,576	4.9	6,993	*6,588*	*7,322*	4.7
2. PIP revenue +RRF[4]	4,672	4,786	2.4	6,912	7,751	4,973	-28.1
II. SB EXPENDITURE (3+4)	*60,194*	*62,346*	3.6	70,765	75,736	76,490	8.1
3. OB expenditure	51,607	52,412	1.6	59,564	63,569	63,340	6.3
Primary expenditure OB	44,724	44,732	0.0	51,858	55,868	55,059	6.2
Interest	6,883	7,680	11.6	7,706	7,701	8,281	7.5
4. PIP expenditure + RRF [5]	8,587	9,934	15.7	11,201	12,167	13,150	17.4
III. SB Deficit (-)/Surplus (+)	*-1,032*	*4,375*		*-3,760*	-2,999	-3,601	
% of GDP	*-0.5*	*1.8*		*-1.7*	*-1.3*	-1.5	
IV. SB Primary Balance	5,826	12,011		3,920	4,703	4,635	
% of GDP	2.6	5.0		1.8	*2.0*	2.0	
GDP (in current prices)	225,197	236,965	5.2	222,766	233,775	236,965	6.4

Source: Monthly SB Execution Bulletin November 2024, Ministry of Finance, December 2024 and Budget Introductory Reports 2024 and 2025, Ministry of Finance, November 2023 and November 2024.

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

It should be noted that the primary balance in fiscal terms is different from the cash balance. Moreover, the above refers to the primary balance of the central government and not to the general government as a whole, which also includes the budgetary results of legal persons and the sub-sectors of local government and social security funds.

Ordinary budget revenue

Net revenues for the State budget amounted to €66,721 million, an increase of €303 million or 0.46% compared to the target included for the corresponding period in the explanatory report of the 2025 budget, mainly due to the collection of €206 million in October 2024 from the extraordinary levy on electricity suppliers, which had not been foreseen. They also show an increase of 12.8%, or €7.56 billion, compared to last year. Total revenue for the state budget amounted to €73.297 billion, an increase of €179 million or 0.2% compared to the target.

Most categories saw an increase over last year. Ordinary budget revenue increased by 12.8%, net OB revenue by 13.7% and tax refunds by 4.9%. Income tax revenues increased by 14.7% compared to last year, due to both an increase in revenues from taxation of natural persons (+14.3%) and an increase in revenues from taxation of legal entities (+13.1%).

Revenue from taxes on goods and services increased by 8.0% compared to the previous year, mainly due to a 9.1% increase in VAT revenue. Significant increases were recorded for sales of goods and services (+424.9%), sales of fixed assets (+28 million), and other current receipts

[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

(+12.7%). By contrast, other taxes on production fell by 51.2%, other current taxes (which had risen sharply last year) by 10.7%, and transfers by 8.5% (Table 2.8).

Table 2.8

State Budget Revenue: January-November 2024* (€ million)

	Jan. – November		% Change 24/23	2023*	2024* Budget	2024 Est.	% Change 24E/23
	2023*	2024*					
Net SB revenue	59,162	66,721	12.8	67,005	72,738	72,889	8.8
Net OB revenue	54,490	61,935	13.7	60,093	64,987	67,916	13.0
Tax refunds	*60,757*	*68,511*	12.8	67,086	71,575	75,238	12.2
OB revenue	6,267	6,576	4.9	6,993	*6,588*	*7,322*	4.7
Income tax, of which:	18,900	21,687	14.7	20,884	21,669	23,722	13.6
--Personal	11,447	13,089	14.3	12,439	13,263	*14,299*	15.0
--Corporate	*5,948*	*6,726*	13.1	6,782	*6,797*	*7,443*	9.7
Property tax	2,364	2,334	-1.3	2,491	2,487	2,433	-2.3
Taxes on donations, inheritance etc.	219	210	-4.1	240	239	235	-2.1
Tariffs	325	334	2.8	345	392	344	-0.3
Taxes on goods and services, of which:	31,292	33,806	8.0	33,970	35,173	36,380	7.1
--VAT	*21,663*	*23,637*	9.1	*23,385*	*24,391*	*25,317*	8.3
--Excise duties	*6,390*	*6,617*	3.6	*7,018*	7,065	*7,225*	2.9
Other production taxes	1,059	517	-51.2	1,164	536	695	-40.3
Other current taxes	1,882	1,680	-10.7	2,532	2,403	3,093	22.2
Social contributions	53	56	5.7	58	56	60	3.4
Transfers	5,423	4,964	-8.5	7,530	*7,960*	5,043	-33.0
Sales of goods and services, of which:	794	4,168	424.9	848	5,559	4,234	399.3
Other current revenue	*3,114*	*3,508*	12.7	*3,930*	2,828	*3,936*	0.2
Sales of fixed assets	5	33	560.0	6	23	36	500.0
PIP Revenue[6]	4,672	4,786	2.4	6,912	7,751	4,973	-28.1

Source: Monthly SB Execution Bulletin November 2024, Ministry of Finance, December 2024.
*On a modified cash basis. According to the new revenue classification valid from 01/01/2019

Ordinary budget expenditure

State budget expenditure for the period January-November 2024 amounted to €62,346 million. This represents a decrease of €1,778 million compared to the updated target (€64,124 million) included in the explanatory report of the 2025 budget. They also increased by €2,151 million compared to the corresponding period in 2023, mainly due to the increase in interest payments and RRF expenditure. In the ordinary budget, payments are lower than the target by €1,268 million, but higher than last year (+1.6%). Excluding the difference in unallocated expenditure of €331 million, which does not correspond to payments but to transfers to other categories from which payments will be made at a later stage, the difference in payments compared to the target is €937 million. This difference is explained by the timing of expenditure on armament programmes and transfers to SSFs of €432 million and €788 million respectively, which do not affect the budget balance.

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

Primary expenses remained unchanged compared to last year, while interest increased from €6,883 million to €7,680 million (+11.6%). Compared to the previous year, growth was recorded in other expenses (+110.4%), employee benefits (+5.8%) and purchases of goods and services (+3.3%). Large annual fall was recorded in subsidies (-37.6%), social benefits (-22.8%) and purchases of fixed assets (-9.6%). Finally, transfers decreased by 2.1%, of which those related to SSF decreased by 7.0% (Table 2.9).

Notable payments include: the payment of €43 million for heating allowances for 2024 (this amount relates to the winter period 2023-2024, for which total payments amounted to €218 million, and will be increased in December 2024 with the payment of the advance for the winter period 2024-2025; total payments for the winter period 2024-2025 are expected to increase to €270 million), the payment of €170 million by the Ministry of Rural Development and Food to ELGA to compensate agricultural holdings affected by the floods caused by the natural disasters DANIEL-ELIAS in September 2023 and for related land improvement projects, the grant of €297 million by the Ministry of Infrastructure and Transport to transport operators (OASA, OASTH and OSE), the grant of €414 million by the Ministry of Health to the National Central Authority for Health Procurement (EKAPY) to cover the cost of supplying medicines for the needs of hospitals in the National Health System and the Papageorgiou General Hospital, the payment by the state for the purchase of pharmaceutical and medical supplies of €119 million, the payment by the state of €50 million for textbooks for students of educational institutions, the payment of €188 million for the purchase of fuel, mainly to cover the needs of the Ministry of National Defence, and finally the payment of €161 million for the lease of aircraft by the Ministry for Climate Crisis and Civil Protection.

Table 2.9

State Budget Expenditure: January-November 2024* (€ million)

	January- November		**% Change 24/23**	**2023***	**2024* Budget**	**2024 Est.**	**% Change 24E/23**
	2023*	2024*					
SB Expenditure (1+2+3)	*60,194*	*62,346*	3.6	70,765	75,736	76,490	8.1
OB Expenditure (1+2)	51,607	52,412	1.6	59,564	63,569	63,340	6.3
1.Primary OB Expenditure	44,724	44,732	0.0	51,858	55,868	55,059	6.2
Compensation of employees	12,816	13,560	5.8	14,039	14,850	14,939	6.4
Social benefits	215	166	-22.8	417	411	346	-17.0
Transfers	28,410	27,810	-2.1	33,399	33,229	33,789	1.2
(of which SSFs)	*17,748*	*16,508*	-7.0	*20,603*	*20,947*	*21,033*	2.1
Purchase of goods and services	1,562	1,613	3.3	2,145	1,792	2,387	11.3
Subsidies	117	73	-37.6	118	81	76	-35.6
Other current expenditure	48	101	110.4	49	111	141	187.8
Non allocated expenditure	0	0	-	0	2,668	746	-
Purchase of fixed assets	1,557	1,407	-9.6	1,691	2,727	2,635	55.8
2. Interest (gross basis)	6,883	7,680	11.6	7,706	7,701	8,281	7.5
3. PIP Expenditure[7]	8,587	9,934	15.7	11,201	12,167	13,150	17.4

Source: Monthly SB Execution Bulletin November 2024, Ministry of Finance, December 2024.
* On a modified cash basis. According to the new revenue classification valid from 01/01/2019

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

Public Investment Programme (PIP)

Revenues from the Public Investment Programme (PIP) and the RRF amounted to €4,786 million, compared to €4,672 million last year, an increase of 2.4%. RRF revenues are lower than last year due to the early collection of the December 2023 tranche, with the remaining amount (€159 million) to be collected in January. In contrast, PIP revenues amounted to €3,629 million, €102 million below the updated target (€3,731 million) but €675 million or 22.9% higher than last year.

Payments on the investment expenditure side amounted to €9,934 million, showing a shortfall of €510 million compared to the updated target but an increase of €1,347 million or 15.7% compared to last year. More specifically, RRF expenditure more than doubled, from €848 million last year to €2,136 million this year (+151.9%). PIP expenditure increased by €59 million or 0.8%.

2025 Budget

The global economic environment remains fragile in early 2025, with geopolitical tensions remaining high and the risk of protectionist measures by EU trading partners weighing on international trade. However, the Greek economy is projected to continue to grow, at a rate of 2.3 per cent in 2025, up from 2.2 per cent in 2024, driven by increased investment, further growth in employment and incomes, and steady growth in private consumption.

In the fiscal area, the state budget balance is expected to deteriorate slightly compared to 2024, mainly due to the increase in expenditure resulting from the increase in the expenditure ceiling for the coming years by the economic team following negotiations with the European Commission based on the new medium-term fiscal and structural plan for 2025-2028. Revenues are expected to continue growing, mainly due to the high rate of economic growth, but expenditure is expected to increase even more due to a number of measures and reforms aimed at increasing disposable income and reducing social inequalities, as well as addressing social issues such as housing and demographics. In addition, measures to address the economic impact of the climate crisis will be stepped up. Finally, measures to support health, improve education and reduce tax evasion are included. The new permanent fiscal measures entail an additional fiscal cost of €1.1 billion in 2025 compared to 2024, while other measures are financed through the Public Investment Programme (PIP) and the Recovery and Resilience Facility (RRF).

Balance and primary balance of the State Budget, 2025

In 2025, the state budget balance is projected to deteriorate slightly compared to 2024, mainly due to the increase in expenditure resulting from the increase in the expenditure ceiling for the coming years by the economic team following negotiations with the European Commission under the new medium-term fiscal and structural plan for 2025-2028, which will guide the medium-term fiscal strategy. State budget expenditure is expected to increase by 5.2 percent compared to 2024, while net revenues are also projected to increase by 4.8 percent (Table 2.10). As a result, the general government deficit is projected at €5,930 million, or 2.4% of GDP, compared to €5,361 million last year. The primary surplus is expected to be €3,470 million or 1.4% of GDP, compared with €4,494 million or 1.9% of GDP estimated for 2024. The deterioration is expected to come from the ordinary budget, while the PIP balance is expected to improve.

Net revenue of the state budget is projected to amount to €74,573 million, an increase of €3.43 billion or 4.8% compared to the previous year. Total expenditure of the state budget for 2025 is projected to amount to €80,502 million, an increase of €5.2% compared to the previous year. Primary expenditure in the state budget is projected to amount to €57,002 million, an increase of €17.3% compared to 2024.

Table 2.10

Revenue, Expenditure, and Balance of the State Budget 2025* (in € million)

	2024 Estimates	2025 Budget	% Change 25B/24
I. SB Net revenues (1+2)	71,141	74,573	4.8
1. OB Net revenues	64,320	66,036	2.7
Tax refunds	7,322	*7,529*	2.8
OB Revenues	71,642	73,565	2.7
2. PIP and RRF Revenues[8]	6,821	8,537	25.2
II. SB Expenditure (3+4)	76,502	80,502	5.2
3. OB Expenditure	58,492	66,402	13.5
OB Primary expenditure	48,592	57,002	17.3
Interest expenditure	9,900	9,400	-5.1
4. PIP and RRF Expenditure[9]	13,150	14,100	7.2
III. SB Deficit (-)/Surplus (+)	-5,361	-5,930	
% of GDP	-2.3	*-2.4*	
IV. SB Primary balance	4,494	3,470	
% of GDP	1.9	*1.4*	
GDP (in current prices)	236,965	247,514	4.5

* In national accounting terms (ESA 2010)

Source: Budget Introductory Report 2025, Ministry of Finance, November 2024, Table 3.2

Ordinary Budget Revenue, 2025

Most sub-categories of income are expected to increase in 2025, with an overall increase of 4.8%. This increase is mainly due to projected economic growth. Net OB revenue is expected to increase by 2.7% to EUR 66 036 million in 2025 compared to 2024 (Table 2.11). OB revenues are also projected to increase by 2.7%, with tax refunds increasing by 2.8%. Income tax revenues are projected to increase by 4.2%, driven by an increase in revenues from individuals (+ 6.1%), mainly as a result of the projected increase in wages and the expected new increase in the minimum wage. Revenues from taxes on goods and services are expected to increase (+4.4%), with VAT revenues rising by 5.3%. Transfers are also expected to increase by 33.5%, mainly due to an increase in RRF receipts by €1,299 million. Purchases of goods and services are also expected to increase due to the extension of the Atiki Odos concession contract. Other taxes on output (-25.2 %) and other

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

[9] As above.

current receipts (-27.7 %, Table 2.11) are projected to fall, largely because of the abolition of the business tax for self-employed professionals.

Table 2.11

State Budget Revenues 2025* (€ million)

	2024 Est.	2025 Budget	% Change 25B/24
SB Net revenues	71,141	74,573	4.8
OB Net revenues	64,320	66,036	2.7
Tax refunds	7,322	*7,529*	2.8
OB Revenues	71,642	73,565	2.7
Income taxes Of which:	24,203	25,212	4.2
--Personal income taxes	14,363	15,244	6.1
--Corporate income taxes	*7,852*	*7,972*	1.5
Property taxes	2,433	2,394	-1.6
Taxes on inheritance, donations, etc.	235	235	0.0
Tariffs and import duties	344	362	5.2
Taxes on products and services Of which:	36,409	38,019	4.4
--VAT	*25,341*	*26,673*	5.3
--Excise duties	7,229	7,276	0.7
Other taxes on production	615	460	-25.2
Other current taxes	2,474	2,523	2.0
Social security contributions	60	60	0.0
Transfers	*6,588*	*8,794*	33.5
Sales of goods and services	856	965	12.7
Other current revenues	4,209	3,043	-27.7
Sales of fixed assets	36	37	2.8
PIP and RRF revenues [10]	6,821	8,537	25.2

* In national accounting terms (ESA 2010)

Source: Budget Introductory Report 2025, Ministry of Finance, November 2024, Table 3.2

Ordinary Budget Expenditure, 2025

The total expenditure of the State budget for 2025 is estimated at €80,502 million, an increase of €4 billion or 5.2% compared to the corresponding estimate for 2024, mainly due to the acceleration of projects financed by the RRF, increased physical deliveries of weapon systems by the Ministry of National Defence, the coverage by a subsidy of the loss of revenue of the EOPYY due to the reduction in social security contributions, the increase in civil servants' salaries and the increase in transfers to support the operation of the hospitals of the National Health System.

Several expenditure subcategories are projected to increase in 2024. OB expenditures are projected to increase by 13.5%, and primary expenditures are projected to increase by 17.3%. Compensation of employees is projected to decrease by 1.0%. Expenditure on social benefits is projected to increase by 22.8%, reflecting higher spending on heating allowances. Expenditure on

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

transfers to entities within and outside general government is projected to amount to €34,436 million, an increase of €1,062 million compared to the 2024 estimate, due to increased provisional grants to EOPYY (National Organisation for the Provision of Health Services) and support for hospital operations. Purchases of goods and services are expected to decrease by 15.4%, while other expenditure is also expected to decrease (-27.7%). A large increase is projected for purchases of fixed assets (+58.4%), mainly due to increased physical deliveries of weapons systems by the Ministry of National Defence. A significant increase is also expected for non-allocated expenditure (+22.5%, Table 2.12).

Table 2.12

State budget expenditure 2025* (€ million)

	2024 Est.	2025 Budget	% Change 25B/24
SB expenditure (1+2+3)	76,502	80,502	5,2
OB expenditure (1+2)	58,492	66,402	13,5
1.OB primary expenditure	48,592	57,002	17,3
Compensation of employees	14,934	14,790	-1,0
Social benefits	346	425	22,8
Transfers	33,374	34,436	3,2
(Of which to SSFs)	*21,028*	*21,692*	3,2
Purchases of goods and services	2,257	1,910	-15,4
Subsidies	76	81	6,6
Other expenditure	141	102	-27,7
Unallocated funds[11]	14,365	17,602	22,5
Purchases of fixed assets	1,109	1,757	58,4
2. Interest (in gross terms)	9,900	9,400	-5,1
3. PIP + RRF expenditure[12]	13,150	14,100	7,2

* In national accounting terms (ESA 2010)

Source: Budget Introductory Report 2025, Ministry of Finance, November 2024, Table 3.2

Public Investment Programme, 2025

PIP+RRF revenues are expected to increase by 25.2% in 2025 compared to last year, mainly due to higher RRF revenues (+€1,298 million). PIP+RRF expenditure is expected to reach €14,100 million in 2025 (+7.2% compared to last year), of which €9,200 million relates to the PIP, with total expenditure divided between projects co-financed by EU funds (€6,450 million) and projects financed exclusively by national funds (€2,750 million). The expenditure ceiling for the implementation of actions financed by the RRF grant component is €4,900 million for 2025, in addition to the expenditure ceiling for the national and co-financed components of the public investment budget.

[11] Περιλαμβάνουν τις δαπάνες ΠΔΕ+ΤΑΑ.

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

Special text box of section 2.2.B

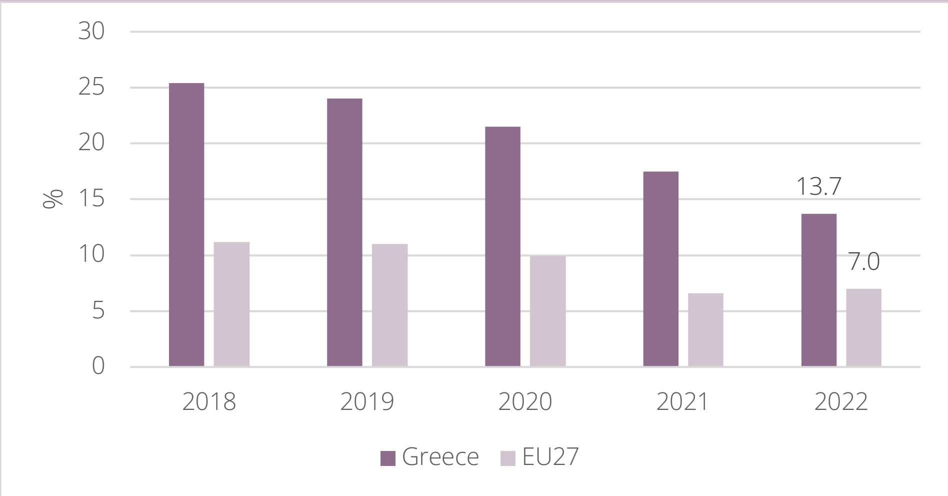
Recent trends in the VAT revenue gap in Greece and Europe

Value added tax (VAT) is a broad-based indirect tax levied on goods and services used or consumed within the EU. It is one of the main sources of revenue for Member States' governments: in 2023, VAT revenue accounted for 7.2% of EU GDP and 15.7% of total government revenue. In 2023, VAT revenue accounted for 62.0% of total indirect taxes (69.0% in the EU27) and 31.9% of total tax revenue (27.3% in the EU27).

The VAT compliance gap is defined as the difference between the revenue that would be collected if all taxpayers were in full compliance and the revenue actually collected by the authorities. The gap covers a wide range of revenue losses, such as the legal exploitation of loopholes in the tax system and large-scale organised tax evasion. Non-compliance may also be unintentional, due to administrative errors, omissions, non-fraudulent bankruptcies and other factors. Estimates of the VAT compliance gap are often used as an indicator of the effectiveness of VAT collection. Losses of VAT revenue have a negative impact on the budget balance and limit the scope for government spending on public goods and services such as schools, hospitals and national defence. Improving VAT compliance broadens the tax base, distributes the tax burden more fairly and also promotes healthy competition between businesses. The European Commission monitors and reports annually on the effectiveness of VAT collection in each EU country.

Figure B.2.2.1.

VAT compliance gap as % of total tax liability, Greece & EU-27, 2018-2022



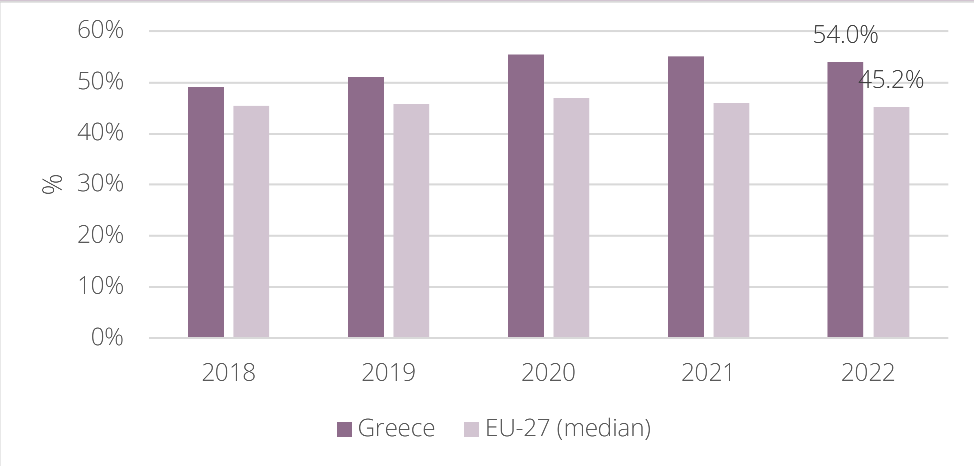
Source: European Commission. Data processing: IOBE

Figure B.2.2.1 shows the VAT compliance gap for Greece and the European Union as a percentage of the total tax liability, or otherwise of the theoretically expected revenue with full compliance, from 2018 to 2022. It can be seen that the gap in Greece is significantly higher than the European average throughout the period. However, significant progress has been made over time, with the gap decreasing from 25.4% in 2018 (the second highest in the EU) to 13.7% in 2022 (the fifth highest in the EU), the year for which the latest data are available. The reduction in the EU-27 over the same period is smaller, from 11.2% in 2018 to 7% in 2022.

Another important source of VAT revenue losses are policy decisions that restrict the tax base or reduce the amount of VAT due on certain parts of the tax base. These policies are usually designed to provide incentives to taxpayers at the expense of VAT revenue. They may also be the result of difficulties in enforcing payments from certain taxpayers or on certain types of goods and services. The VAT policy gap is an estimate of the VAT revenue lost due to the application of reduced VAT rates and exemptions compared to a standard VAT rate.

Figure B.2.2.2.

VAT policy gap (as % of theoretical maximum revenue), Greece & EU-27, 2018-2022



Source: European Commission. Data processing: IOBE

Figure B.2.2.2 shows the VAT policy gap for Greece and the European Union median (i.e. the middle value if countries are ranked in ascending order) as a percentage of the theoretical maximum revenue, i.e. the revenue that the government would collect if it applied a single VAT rate instead of applying reduced rates in certain sectors or granting exemptions, from 2018 to 2022. We note that the gap in Greece remains higher than the European median throughout the period. In fact, the gap in Greece has increased since 2018 without a similar evolution in the EU-27, thus widening the divergence. In 2021 and 2022, Greece had the third highest VAT policy gap among EU Member States.

In conclusion, Greece lags behind the rest of Europe in VAT revenue collection, both due to non-compliance and the implementation of policies that reduce actual revenue relative to potential revenue. On the compliance side, the gap decreased by 46.1% (11.7 percentage points) in 2022 compared to 2018, reducing the inequitable distribution of the tax burden and the unfair competition between businesses. The expansion of electronic payments (IOBE 2024, "Electronic payments in Greece after the pandemic") and e-commerce contributed to this improvement, with online sales increasing over the same period from 3.8% of business sales in 2018 to 6.9% in 2022 (European Commission 2024, "VAT gap in the EU - 2024 report"). The relative increase in online sales reduces cash transactions and improves VAT compliance through better control. Despite the progress, as there is significant room for improvement, further policy measures are considered appropriate to promote electronic payments in targeted transactions and the use of new technologies by tax administrations, which will further reduce the compliance gap in Greece. In contrast, the policy gap with the EU median is not large, although it has increased recently. This development was also influenced by the energy crisis, which led to support measures by the Greek government, including tax exemptions.

C. Financial developments

- The European Central Bank continued its gradual easing of monetary policy in the fourth quarter of 2024, with further key rate cuts expected in 2025.
- Non-performing loans on banks' balance sheets fell to 4.6% of total loans in the third quarter of 2024, a historic low since 2002.
- The expansion of credit to enterprises strengthened significantly in late 2024, while the contraction of credit to households eased.
- Greek banks' exposure to government bonds remained high in mid-2024, significantly diverging from the euro area average.
- Private bank deposits recorded a cumulative increase in the period September-November 2024, in contrast to a decline in the same period a year earlier.
- The cost of new public sector borrowing declined further in the fourth quarter of 2024, narrowing the spread with the corresponding cost for the German government.
- The cost of new borrowing for the private sector gradually declined, with the deviation from the corresponding average cost in Europe narrowing in the fourth quarter of 2024. The difference between the average interest rate on loans and deposits (interest rate margin) narrowed but remained at a high level.

In the fourth quarter of 2024, stock prices on the domestic capital market rose slightly. As a result, the overall stock price index increased by 13.7 percent in 2024 as a whole, while the banking index increased by 21.1 percent. Over the same period, the Hellenic Financial Stability Fund (HFSF) implemented its exit strategy from banks by gradually transferring its entire stake in Alpha and Piraeus to private investors. The HFSF aims to complete its disinvestment strategy in NBG and Attica Bank by the end of 2025.

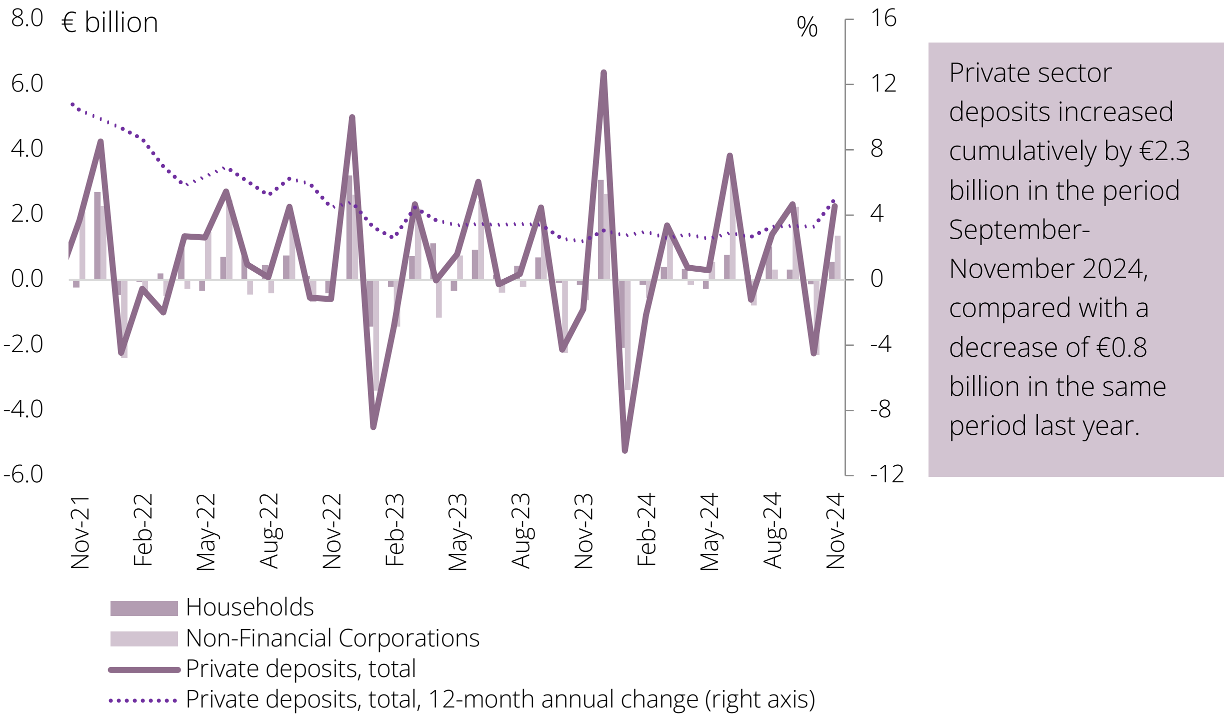
After two years of restrictive monetary policy, the European Central Bank (ECB) cut its key rates four times between June and December, by a total of around 100 basis points. In 2022-2023 there were ten successive hikes in key interest rates, with a cumulative increase of 450 basis points. Markets are pricing in a further gradual decline in policy rates next year, albeit still above the levels seen at the beginning of 2022. As an indication, the three-month Euribor in the interest rate futures markets is expected to be around 1.9% at the end of 2025, down from almost 4% at the end of 2023 and -0.5% at the beginning of 2022. In terms of quantitative easing instruments, the ECB has stopped reinvesting maturing bonds under the APP (from mid-2023) and the PEPP (from the end of 2024). Inflation expectations are easing, but risks remain from ongoing geopolitical tensions in the east of Europe and uncertainty over international energy prices.

Among the positive trends in banks' fundamentals, non-performing loans (NPLs) reached historic lows, corporate credit expansion strengthened significantly, organic profitability, liquidity and capital adequacy improved, while private deposits increased. The cost of borrowing for the public sector continued to decline, as did the spread vis-à-vis other countries.

Among the negative trends in the financial system at the end of the year, banks' exposure to government bonds is higher than in other European countries, housing credit continues to contract, and interest rate margins remain high. Among the challenges from the past, the high proportion of non-performing loans, mainly off-balance sheet, stands out. In addition, the share of deferred taxes in banks' capital remains high. The timely implementation of the loan component of the National Recovery and Resilience Plan is both an opportunity and a challenge for financing productive investment on favourable terms.

Figure 2.7

Monthly net flow of private deposits at Greek banks



Source: Bank of Greece

On the liabilities side of banks, private deposits increased in the period from September to November, with net new inflows of €1.6 billion from enterprises and €0.7 billion from households (Figure 2.7). On an annual basis, household deposits increased by €9.5 billion in November. The 12-month rate of change was 5.0% in November, higher than the 3.0% recorded in 2023.

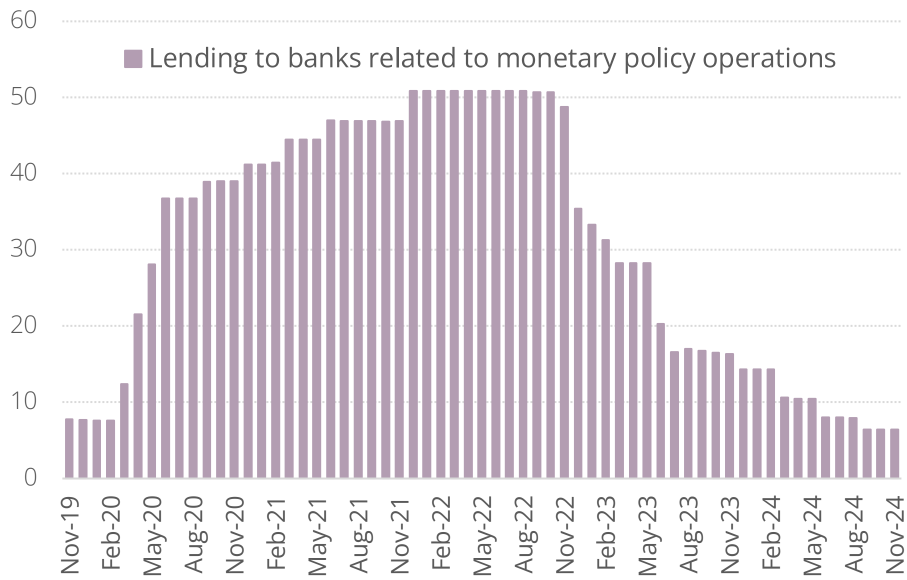
Private deposits are expected to grow slightly above inflation in 2025. As private consumption grows modestly in real terms and inflation slowly declines, household and corporate savings are expected to increase slightly, some of which will be reflected in deposits.

The second component of banks' liabilities relates to financing from the Eurosystem. The higher cost of liquidity provision by the ECB compared with the past has significantly reduced the use of long-term financing instruments by the Eurosystem, such as LTROs, by €9.9 billion on an annual basis in November 2024 (Figure 2.8). At the same time, the assets of the domestic banking system eligible as collateral for monetary policy operations of the Eurosystem, as reflected in the financial statements of the Bank of Greece, declined over the same period, reaching €24.1 billion in November 2024, from almost €69 billion in mid-2022.

With regard to the third part of banks' liabilities, i.e. funding from the capital markets, the gradual improvement in the creditworthiness of both government and private securities, on the one hand, and the gradual decline in interest rates, on the other, create a positive outlook for the current year.

Figure 2.8

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



The use of the Eurosystem's instruments for the provision of liquidity to Greek banks declined further to €6.4 billion in November.

Source: Bank of Greece

Table 2.13

Domestic bank financing and average interest rates per portfolio

Quarter/year	4/23	1/24	2/24	3/24	Oct.24	Nov.24
Annual % change of 12-month flows*						
Total private sector	2.8	3.8	5.2	6.6	9.1	10.0
Households & NPIs	-2.2	-1.7	-1.0	-0.7	-0.7	-0.7
Consumer credit	2.8	4.3	5.4	6.0	6.4	6.0
Mortgage credit	-3.6	-3.3	-2.9	-2.7	-2.8	-2.7
Sole proprietors and unincorporated	-2.4	-0.8	-0.1	0.3	0.4	0.5
Non-financial corporations	5.3	5.9	8.0	9.8	13.4	15.8
Interest rates on new loans (period average, %)						
Consumer credit	11.3	10.7	10.8	11.0	10.9	10.9
Mortgage credit	4.43	4.45	4.20	3.86	3.77	3.72
Loans to non-financial corporations	6.07	5.94	5.54	5.62	5.15	4.98

Source: Bank of Greece.

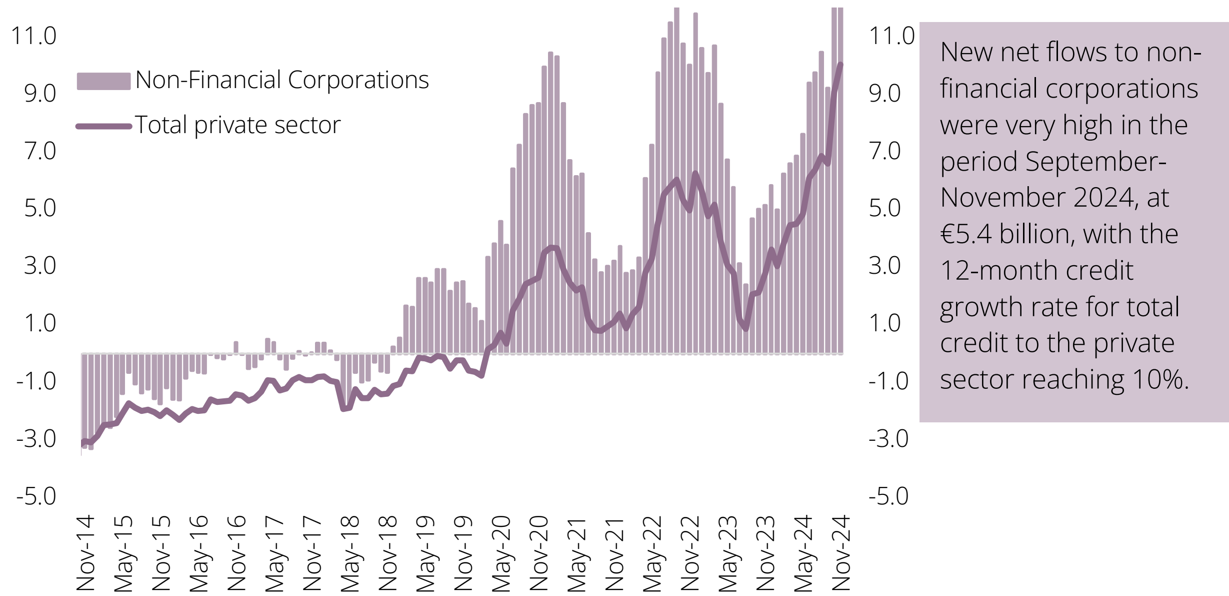
* The flows result from changes of outstanding balances corrected for loan write-offs, re-evaluation of securities, foreign exchange differences and reclassification/transfer of loans.

On the asset side of banks, the 12-month growth rate of loans to the domestic private sector strengthened significantly, reaching 10.0% in November 2024 (Table 2.10). The corresponding rate for non-financial corporations (NFCs) was 15.8% in the same month (Figure 2.9), while total net new flows to the corporate sector in the period September-November 2024 were strongly positive at

€5.8 billion, compared with €2.2 billion in the same period of 2023 and €2.0 billion in the first eight months of 2024. At the same time, lending to the self-employed and to sole proprietorships, as well as consumer loans, recovered, while credit in the housing portfolio continued to contract.

Figure 2.9

Bank financing of the domestic private sector (annual % change of 12-month flows*)



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.

Private sector financing is affected by changes in the supply and demand for credit under the influence of higher interest rates. On the supply side, the implementation of the credit component of the National Recovery and Resilience Plan creates opportunities to provide business loans on favourable terms.

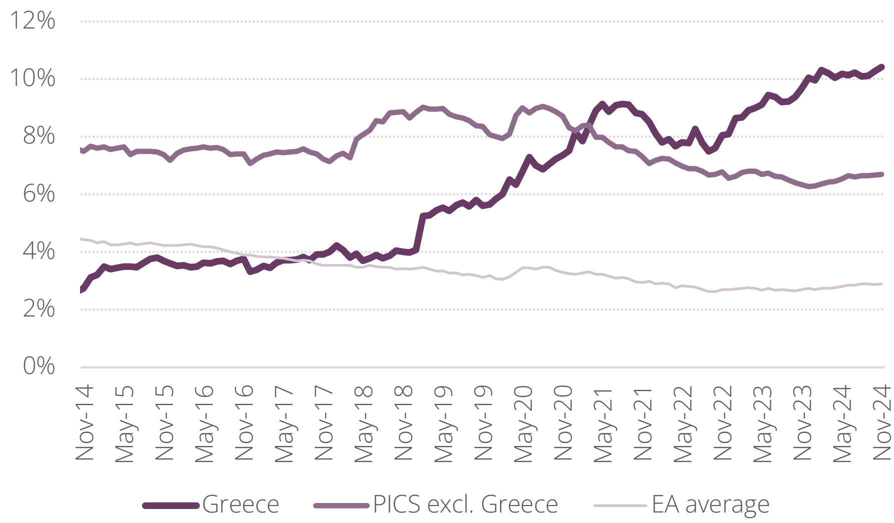
From the point of view of credit demand, the Bank of Greece's Bank Lending Survey for the third quarter of 2024 recorded a slight increase in demand for new loans to enterprises and consumers. Further strengthening of demand is expected in both large and small and medium-sized enterprises, mainly for long-term loans, while demand for housing loans is expected to increase slightly. Loan terms remained stable in the third quarter of 2024, and no significant changes are expected in the short term.

On the asset side, banks' exposure to government bonds remained high in the third quarter of 2024, reaching €33.7 billion in November, or 10.4% of total assets. As a result, the share of Greek banks' total assets invested in government bonds widened the gap with the rest of the euro area "South", which stands at 6.7%, well above the corresponding share for the euro area average, which stands at only 2.9% (Figure 2.10).

Non-performing loans (NPLs) on banks' balance sheets fell sharply to 4.6% of total bank loans in the third quarter of 2024, from 6.9% and €10.4 billion in the previous quarter. The overall level of NPLs thus reached a historic low since 2002 (the year from which data are published) and is now converging with the rest of the euro area. The NPL ratio fell from 9.8% to 8.4% of the relevant loans for housing loans, from 5.9% to 3.5% for loans to enterprises and from 11.5% to 7.7% for loans to consumers.

Figure 2.10

Banks' government bond holdings over total assets (%)

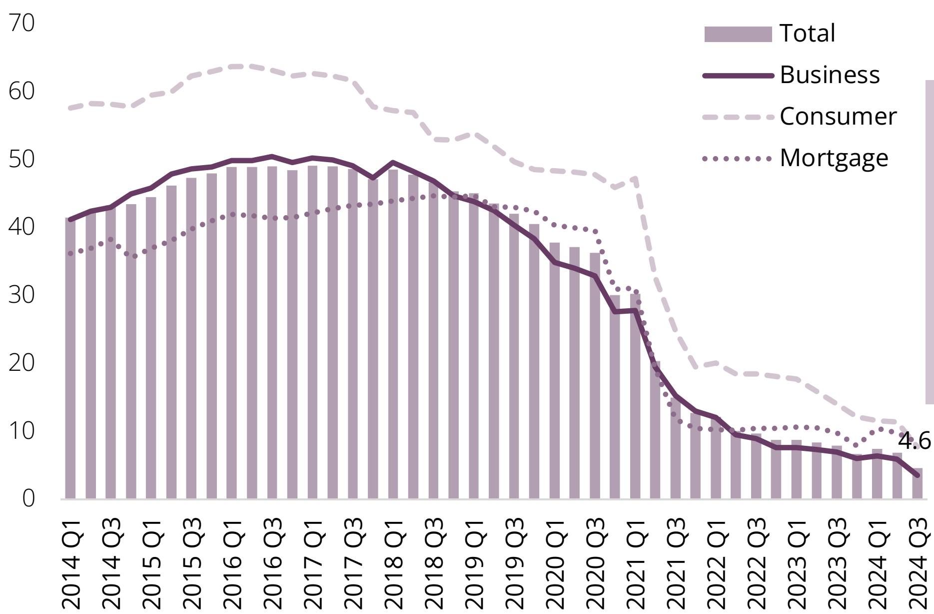


Greek banks' exposure to government bonds remained high at the end of 2024 and significantly deviated from the euro area average.

Source: ECB

Figure 2.11

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



In the third quarter of 2024, NPLs decreased to 4.6% of total bank loans, a historic low since 2002, when relevant data became available.

Source: Bank of Greece

* On-balance sheet loans (before provisions) on a non-consolidated level.

In addition to NPLs on banks' balance sheets, a very significant volume of loans, formerly bank NPLs, is recorded as being managed by Credit Servicing Firms (CSFs). Indicatively, the total nominal value of loans under CSFs reached EUR 70.8 bn in the third quarter of 2024. Thus, the stock of non-performing private debt, both on and off the balance sheets of the banking system, remains very high, with negative implications for the efficient allocation of financial resources and the prospects for economic recovery (see Chapter 4). For this reason, the smooth functioning of the secondary market for loans and credit claims, as well as instruments such as the out-of-court debt settlement mechanism, is considered to be of high importance.

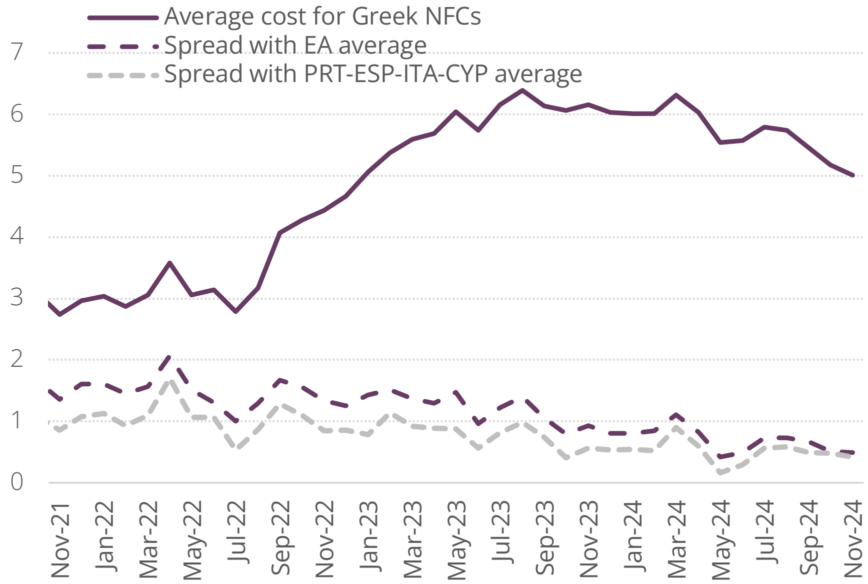
In the medium term, NPLs are expected to continue to decline at a slower pace, partly because they're already quite low. The new round of the Heracles III securitisation programme, which is already underway, will help. However, there is a visible risk of new NPLs arising in certain portfolios with floating interest rates, such as mortgage loans, as a result of higher interest rates for a prolonged period.

In terms of new lending in 2025 as a whole, on the one hand, credit to enterprises will continue to expand as the implementation of the credit component of the National Recovery and Resilience Plan accelerates, for which the revised total envelope now stands at €17.7 billion by 2026. On the other hand, lending to households is expected to contract at a more moderate pace, mainly reflecting the resilience of consumer demand.

Interest rates on new deposits fell slightly in October-November to 0.71% and 0.45% for non-financial corporations (NFCs) and households respectively. Over the same period, the average interest rate on new loans fell to 5.34%, standing at around 5.9% for individuals and 5.1% for NFCs. The difference between the average interest rate on loans and deposits (interest rate margin) remained high over the same period, although it declined from an average margin of 5.6% in 2023 as a whole to 4.8% in the first nine months of 2024.

Figure 2.12

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



New lending interest rates in the private sector stood at 5.0% in November, with the spread vis-à-vis the average borrowing costs in the southern euro area countries narrowing to 41 basis points.

Source: ECB

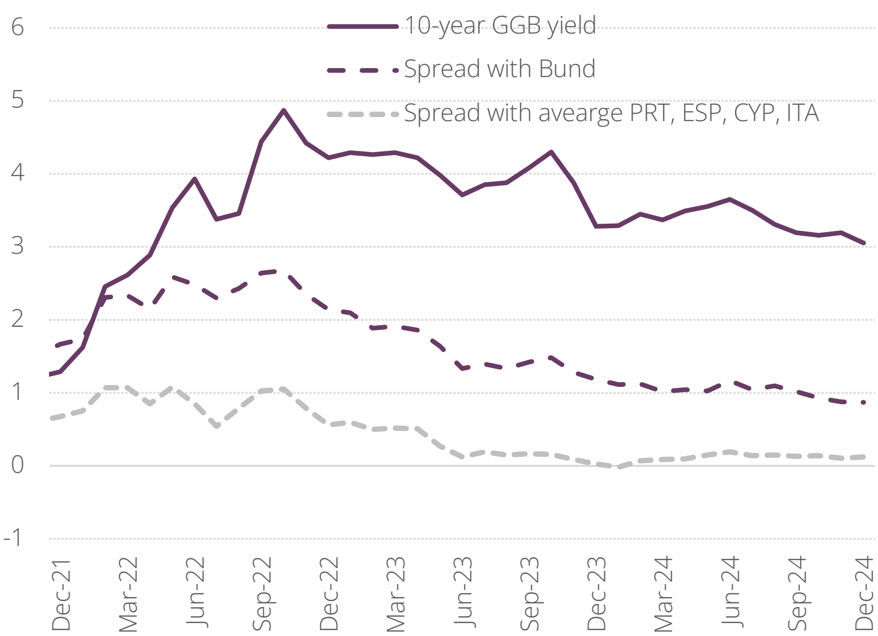
The average cost of new bank financing for NFCs in the private sector fell to 5.0% in November (Figure 2.12). However, the cost of financing for Greek companies is higher than in the rest of the euro area. As an indication, according to the ECB's weighted bank lending cost index, the cost for non-financial corporations in November 2024 was 4.5% in the euro area and 4.6% in the "southern" euro area countries (Portugal, Italy, Cyprus, Spain). Subsequently, the spread of Greek firms' borrowing costs over the euro area average and the southern euro area average was 49 bp and 41 bp, respectively. The spread of borrowing costs for Greek companies relative to the average of other southern euro area countries remains higher than before the financial crisis of 2010.

Greek government bond yields declined further in late 2024. Indicatively, the yield on 10-year bonds hovered around 3.1% in the fourth quarter of 2024, narrowing the spread vis-à-vis other European countries. The additional cost of new 10-year borrowing by the Greek government relative to other euro area countries was 89 basis points in the fourth quarter of 2024 and 12 basis points relative to the German bund and the average of the southern euro area countries, down from 107 basis points and 12 basis points, respectively, in the first nine months of 2024 (Figure 2.13). Despite the progress made, the spread vis-à-vis the German bund remains well above the average of the first decade of euro area membership (54 bps). Further convergence in borrowing costs will require a combination of prudent fiscal policies and reform measures aimed at raising potential growth rates.

As part of the Greek government's financing strategy, the PDMA raised around €9.5bn from the long-term bond markets in 2024, with the annual funding strategy (December 2024) referring to a target of raising around €8bn from bond issues for the whole of the current year.

Figure 2.13

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



The average yield on 10-year government bonds fell marginally to 3.1% in the fourth quarter of 2024, while the average spread against the corresponding German bund narrowed to 89 basis points from 105 bps in the previous quarter.

Source: ECB

In early February 2024, a new 10-year bond was issued, raising €4.0 billion for the Greek government at an interest rate of 3.38%, with a coverage ratio above 10. In June 2024, a new 30-year bond was issued, raising €3.0 billion for the Greek government at a coupon of 4.15%. At the same time, the PDMA reissued 5-year, 10-year and 15-year bonds in 2024, raising smaller amounts with a particularly satisfactory market response. At the same time, at the end of 2024, approximately €8bn of debt from the first memorandum was redeemed early. In January 2025, a new 10-year bond was issued, raising €4.0 billion for the Greek government at an interest rate of 3.6%, with a coverage ratio of more than 10.

Greek securities are rated investment grade by five international rating agencies (R&I, DBRS, Scope, S&P and Fitch), while one agency (Moody's) rates Greek government bonds just one notch below investment grade. The level of Greek public debt as a percentage of GDP remains among the highest in the world (163.6% in the second quarter of 2024, as shown in the Appendix). This quantitative feature is offset by qualitative features such as long average maturity and a large share of fixed and low interest rates.

3 MACROECONOMIC PERFORMANCE AND OUTLOOK

3.1 GDP components

A. Recent developments

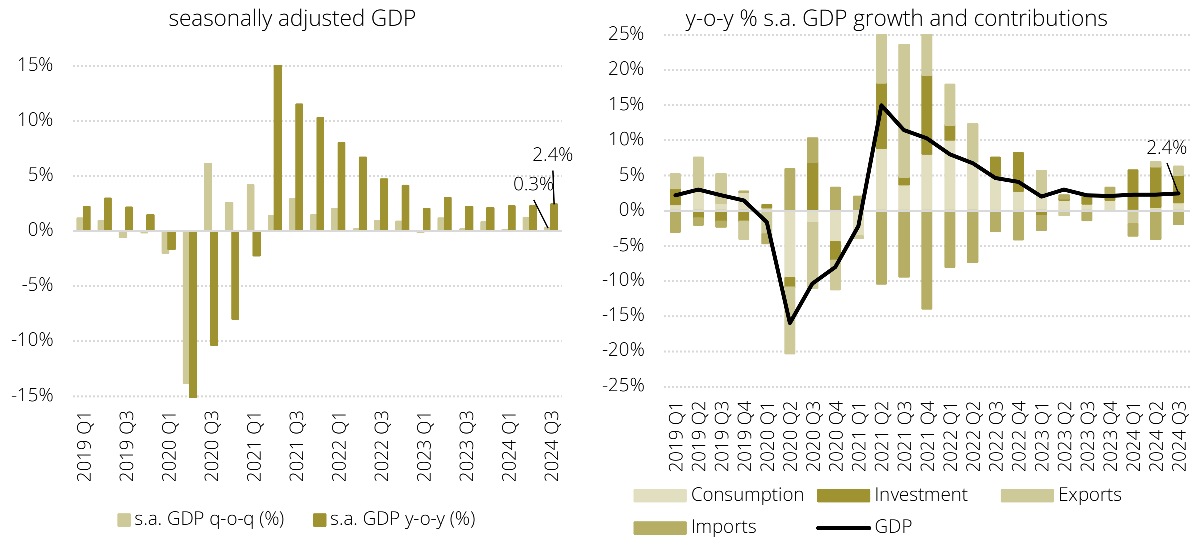
- Domestic growth accelerated slightly in the third quarter of 2024 (+2.4% year-on-year, compared to +2.3% in the previous quarter), with GDP growing by +0.3% compared to the previous quarter.
- The main driver of domestic growth in the third quarter of 2024 was total investment, which rose by +18.7% y-o-y (compared to +28.5% in the previous quarter), mainly due to an increase in inventories. In the same period, fixed capital formation increased marginally by +0.3%.
- Private consumption continued its upward trend and recorded an annual increase of +2.1% (after +1.8% in the previous quarter), while public consumption fell by -1.4%, limiting the increase in total consumption to +1.3%.
- The change in total exports made a positive contribution to growth with an increase of +3.3% (after +1.7% in the previous quarter). Exports of goods rose by +1.2% year on year (the same rate as in the previous quarter), while exports of services recorded an annual increase of +5.1%, much higher than the +2.7% recorded in the previous quarter.
- However, the positive contribution of export growth was not enough to offset the significant increase in total imports, which recorded an annual growth rate of +4.2% (compared to +8.7% in the previous quarter), due to the acceleration in the annual growth rate of imports of both goods (+2.3%) and services (+12.5%).

Recent macroeconomic developments in Greece

In the third quarter of 2024, the Greek economy recorded an annual growth rate of +2.4%, maintaining the momentum of the previous quarter (+2.3%). It should be noted, firstly, that this performance is well above the euro area average, which was limited to +0.4% in the same period and, secondly, that economic growth has remained consistently strong for 14 consecutive quarters since the country's recovery from the pandemic. This dynamism is mainly due to the increase in private consumption, traditionally the main driver of the Greek economy, and secondarily to the significant rise in investment, mainly due to inventory accumulation. By contrast, public consumption expenditure fell sharply, while the external balance deteriorated as export growth was more than offset by an even larger increase in imports (Figure 3.1).

Figure 3.1

Evolution of GDP and the contribution of its components



Source: ELSTAT, Data processing IOBE

Growth in the third quarter of 2024 was driven by private consumption and total investment.

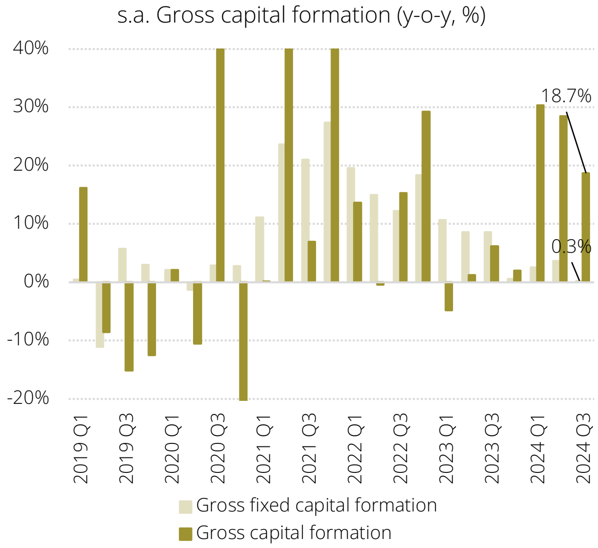
Among the components of GDP, total domestic consumption improved in the third quarter of last year with an annual growth rate of +1.3% (after +0.6% in the previous quarter). As already mentioned, private consumption - the main contributor to GDP growth - recorded positive momentum for the 14th consecutive quarter, with annual growth reaching +2.1% (+1.8% in the previous quarter). This performance is largely due to the increase in employment and part of nominal wages, as well as the reduction in savings. Meanwhile, public consumption continued to fall, albeit at a slower pace, recording an annual decline of -1.4%, compared to a larger decline of -4.2% in the previous quarter.

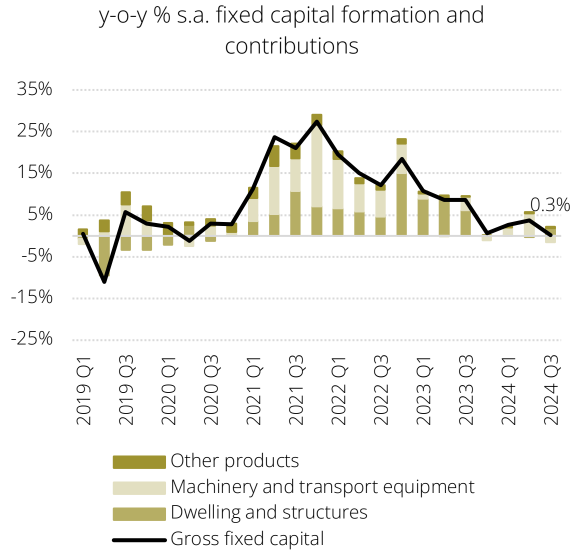
The marginal increase in fixed capital formation of +0.3% on an annual basis shows a marked slowdown in momentum compared with the previous quarter (+3.7%). In contrast, total investment recorded strong annual growth of +18.7% in the third quarter of 2024, mainly due to the significant increase in inventories (Figure 3.2). Among the components of fixed capital formation, investments in dwellings and buildings increased at an annual rate of +4.8% (compared with -0.9% in the previous quarter), followed by investments in other products, which increased at an annual rate of

+1.8% (compared with +1.4% in the previous quarter). By contrast, investments in machinery and transport equipment decreased by -3.3% (after +11.9% in the previous quarter). More specifically, among the individual categories of fixed capital formation, the annual rate of change was positive in five out of seven sectors. In particular, annual growth was recorded for dwellings (+7.2% compared with -6.9% in the previous quarter), for agricultural products (+3.8% compared with -4.8% in the previous quarter), for other construction (+3.3%, stable compared with the previous quarter), for machinery and equipment (+2.4% compared with +16.1% in the previous quarter) and for other products (+1.8% compared with +1.5% in the previous quarter). In contrast, investment declined on a yearly basis for transport equipment (-19.3% compared to +12.8% in the previous quarter) and for information and communication technology equipment (-3.7% compared to +1.1% in the previous quarter).

Figure 3.2

Evolution of investment and the contribution of its components





Source: ELSTAT, Data processing IOBE

Marginal increase in fixed investments in the third quarter of 2024. In contrast, the significant increase in inventories led to growth in total investments.

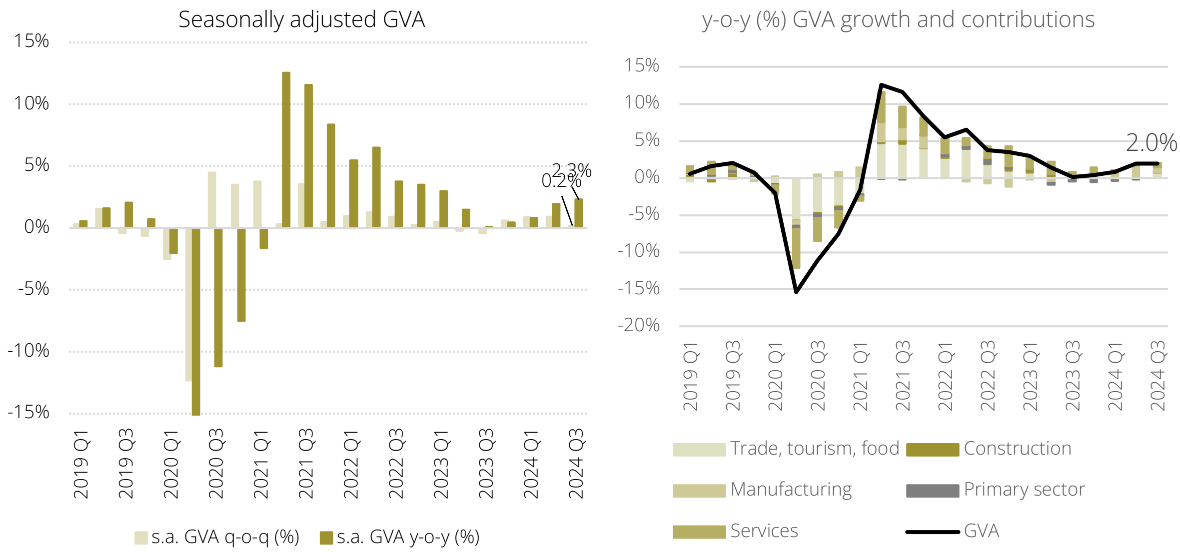
Concerning the development of the external balance of the economy, despite the significant increase in exports (+3.3% compared to +1.7% in the previous quarter), an even stronger increase in imports (+4.2% compared to +8.7% in the previous quarter) led to a deterioration of the deficit in national accounting terms by around EUR 354 million compared to the same period of the previous year. In particular, exports of goods grew steadily (+1.2%), while exports of services continued their upward trend for the seventh consecutive quarter (+5.1% compared to +2.7% in the previous quarter). Meanwhile, despite a significant slowdown in the growth of imports of goods (+2.3% on a yearly basis from +9.9% a quarter earlier), the growth of imports of services accelerated for the third consecutive quarter on an annual basis (+12.5% from +5.2% a quarter earlier). Finally, the openness of the Greek economy, defined as the sum of exports and imports in relation to GDP, remained stable at 81% in the third quarter of 2024 (compared to the previous quarter).

In output terms (Figure 3.3), domestic gross value added (GVA) grew for the 14th consecutive quarter, with an annual increase of +2.3% (+2.4% in the previous quarter), mainly thanks to a significant reduction in taxes (-4.6% compared with +11.9% in the previous quarter) and despite a marked reduction in subsidies (-34.1% compared with +56.9% in the previous quarter).

At the sectoral level, all branches made a positive contribution to GDP growth in the third quarter of 2024. Specifically, the sector with the largest contribution was Industry, with an annual increase of +4.5% (compared to +11.3% in the previous quarter), followed by Construction (+3.2% compared to -3.2% in the previous quarter), Tourism-Transport-Trade (+3.0% compared to +2.4% in the previous quarter), Other services (+1.5% compared to +0.7% in the previous quarter), and the Primary sector (+0.7% compared to -3.6% in the previous quarter).

Figure 3.3

Evolution of GVA and the contribution of its components



Source: ELSTAT, Data processing IOBE

Increase in GVA due to support from all production sectors. Industry made a decisive contribution to the increase in GVA, followed by construction, tourism, transport, trade, other services, and the primary sector.

The expansion of other services was reflected in five of its six subsectors, with the exception of public administration, defence and compulsory social security (-0.7% compared with -0.5% in the previous quarter). In particular, the highest annual growth was recorded in Professional, scientific, technical and administrative activities (+8.1 % compared to +2.0 % in the previous quarter), followed by Information and communication (+5.4 % compared to +4.2 % in the previous quarter), Financial intermediation (+2.6 % compared to +1.1 % in the previous quarter) and Real estate (+0.4 %, unchanged compared to the previous quarter).

To sum up, the Greek economy grew significantly faster than the euro area in the third quarter of 2024, with GDP rising for the 14th consecutive quarter, thanks to stronger private consumption and investment. In contrast, government consumption expenditure fell, while the external balance deteriorated as the increase in imports exceeded that of exports.

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
2014	**174726**	**0.9%**	**154168**	**0.1%**	**21699**	**5.3%**	**51595**	**8.3%**	**53143**	**6.7%**
2015	**174314**	**-0.2%**	**155176**	**0.7%**	**21928**	**1.1%**	**54295**	**5.2%**	**57507**	**8.2%**
2016	**174227**	**-0.1%**	**155673**	**0.3%**	**22788**	**3.9%**	**54080**	**-0.4%**	**59044**	**2.7%**
2017	**176704**	**1.4%**	**158483**	**1.8%**	**22079**	**-3.1%**	**58626**	**8.4%**	**63390**	**7.4%**
2018	**180177**	**2.0%**	**159994**	**1.0%**	**23788**	**7.7%**	**64039**	**9.2%**	**68133**	**7.5%**
2019	**184165**	**2.2%**	**163583**	**2.2%**	**22520**	**-5.3%**	**67139**	**4.8%**	**70057**	**2.8%**
2020 Q1	45100	-1.6%	40873	0.5%	6633	2.1%	14731	-10.3%	18023	3.1%
2020 Q2	38895	-16.0%	37078	-10.0%	5131	-10.5%	12574	-28.7%	14650	-15.7%
2020 Q3	41270	-10.4%	39859	-1.7%	6794	42.1%	11874	-32.5%	16409	-8.4%
2020 Q4	42337	-8.0%	39185	-4.8%	3911	-29.1%	13513	-12.7%	15769	-8.8%
2020	**167602**	**-9.0%**	**156995**	**-4.0%**	**22469**	**-0.2%**	**52692**	**-21.5%**	**64851**	**-7.4%**
2021 Q1	44114	-2.2%	39229	-4.0%	6635	0.0%	14605	-0.9%	17067	-5.3%
2021 Q2	44723	15.0%	40697	9.8%	7847	52.9%	15703	24.9%	18342	25.2%
2021 Q3	46018	11.5%	41508	4.1%	7270	7.0%	17656	48.7%	19953	21.6%
2021 Q4	46681	10.3%	42656	8.9%	6885	76.0%	17569	30.0%	20698	31.3%
2021	**181535**	**8.3%**	**164091**	**4.5%**	**28637**	**27.5%**	**65534**	**24.4%**	**76060**	**17.3%**
2022 Q1	47641	8.0%	43555	11.0%	7539	13.6%	16934	15.9%	20269	18.8%
2022 Q2	47720	6.7%	43798	7.6%	7812	-0.4%	17935	14.2%	21295	16.1%
2022 Q3	48179	4.7%	43757	5.4%	8385	15.3%	17519	-0.8%	21140	6.0%
2022 Q4	48612	4.1%	43983	3.1%	8903	29.3%	17476	-0.5%	22424	8.3%
2022	**192153**	**5.8%**	**175093**	**6.7%**	**32639**	**14.0%**	**69864**	**6.6%**	**85127**	**11.9%**
2023 Q1	48599	2.0%	44698	2.6%	7181	-4.7%	18400	8.7%	21186	4.5%
2023 Q2	49169	3.0%	44566	1.8%	7907	1.2%	17622	-1.7%	21087	-1.0%
2023 Q3	49242	2.2%	44271	1.2%	8902	6.2%	17521	0.0%	21795	3.1%
2023 Q4	49640	2.1%	44732	1.7%	9084	2.0%	17625	0.9%	21886	-2.4%
2023	**196650**	**2.3%**	**178267**	**1.8%**	**33074**	**1.3%**	**71168**	**1.9%**	**85955**	**1.0%**
2024 Q1	49691	2.2%	44693	0.0%	9361	30.3%	17419	-5.3%	21966	3.7%
2024 Q2	50298	2.3%	44826	0.6%	10161	28.5%	17930	1.7%	22920	8.7%
2024 Q3	50439	2.4%	44851	1.3%	10569	18.7%	18098	3.3%	22713	4.2%

* Provisional data

Source: Quarterly National Accounts, ELSTAT, December 2024

B. Assumptions and forecasts

Medium-term outlook

- The main factors driving GDP growth in 2024 are the low growth rate of the euro area economy, the gradual decline in inflation and interest rates, geopolitical instability, the trajectory of public finances and the implementation of the revised Recovery and Resilience Plan.
- Domestic growth estimated at 2.3% in 2024.
- Significant increase in fixed investment (+3.0%) and private consumption (+1.7%).
- Deterioration in the current account balance, with the increase in imports (+5.0%) outweighing the increase in exports (+1.1%) in 2024.
- Inflation (HICP) is estimated at 3.0% in 2024 and 2.4% in 2025, and the unemployment rate at 10.1% in 2024 and 9.3% in 2025.
- The main factors driving GDP growth in 2025 are a slight acceleration in the euro area economy, the possible return of protectionist tendencies in international trade by the new US administration, a further decline in inflation and interest rates, and an acceleration in the implementation of the Recovery and Resilience Plan to complete the planned measures on schedule.
- Growth is projected to continue at a similar pace of 2.4% in 2025, with a slight slowdown in private consumption (+1.6%) and a strengthening of fixed investment (+9.5%).
- A slight improvement in the current account balance, with exports and imports increasing by +2.8% and +1.9% per year respectively in 2025.

Despite the risks stemming from geopolitical and economic instability at regional and international level, the possible return of protectionist tendencies in international trade by the new US administration, persistent inflation, high public debt and external deficits, as well as the opportunities offered by the accelerated implementation of the revised Recovery and Resilience Plan, the easing of interest rates and increased openness, the Greek economy is expected to maintain its growth trajectory in both 2024 and 2025.

Persistent inflation

In 2024, inflation reached 2.7% (from 3.5% in the previous year) according to the domestic Consumer Price Index (CPI) and 3.0% (from 4.2% in the previous year) according to the Harmonized Index of Consumer Prices (HICP). Based on the same indices, inflation in December 2024 stood at 2.6% (from 3.5% in the same month of 2023) and 2.9% (from 3.7% in the same month of 2023), respectively.

In the period January-November 2024, core inflation in Greece was 3.4%, compared with 6.2% in the corresponding period of 2023. The 3.0% rise in the HICP in the period January-November 2024 was due to increased domestic demand, with the percentage change in the index at constant taxes and excluding energy goods reaching 3.1%, compared with 6.9% in the previous year. Indirect taxes had a positive impact on prices of 0.2 percentage points, compared with no impact in the previous year (a more detailed analysis of inflation and its main drivers is given in Section 3.5).

Regarding recent energy price developments and their impact on the HICP, the average international oil price fell in the period January-November 2024 compared with the same period of the previous year. The slight appreciation of the average euro exchange rate against the dollar in the first nine months of 2024 contributed to the decline in oil prices in euro terms, while the fall in oil prices led to a decline in both energy prices and the rate of change of the HICP in Greece in the period January-November 2024, as well as in the corresponding period of 2023.

The strengthening of domestic demand in the face of new increases in the minimum wage and unemployment benefits, as well as the increase in some indirect taxes, is expected to have a positive impact on maintaining high prices in 2025. In addition, the possibility of escalating geopolitical tensions (in the Middle East, Ukraine) and the possible implementation of protectionist policies by the new US administration will increase uncertainty about inflation.

According to the European Commission (November 2024), inflation in the euro area is expected to reach 2.4% in 2024 and 2.1% in 2025, while in Greece it is expected to be higher, at 3.0% in 2024 and 2.4% in 2025. The ECB's forecasts for inflation in the euro area are similar, according to its revised December projections for 2024. In Greece, inflation is expected to be slightly above the euro area average, mainly due to wage pressures, fuelled by growing labour shortages and the increase in the minimum wage.

Eurozone growth accelerates as private consumption picks up

In the period January-September 2024, most of the world's economies experienced strong growth rates, leading the OECD to slightly revise upwards its global economic growth forecast for 2024 to 3.3%.

Specifically, the economies of the OECD countries recorded an annual growth rate of 1.7% in the third quarter of 2024 (slightly higher than the 1.6% recorded in the previous quarter), while the US economy recorded an annual growth rate of 2.7% in the same period (down from 3.0% in the second quarter of 2024), with private consumption performing at its best since the first quarter of 2023.

In the same period, euro area GDP recorded a remarkable increase of 0.9% on an annualised basis (after 0.5% in the previous quarter), thanks to higher household consumption, investment (through an increase in inventories) and public spending. However, the negative contribution of foreign trade, due to a decline in exports and marginal growth in imports, limited overall growth. At the same time, labour markets remained strong, with unemployment close to historically low levels and employment growth expected to continue, albeit at a slower pace. Finally, the steady easing of inflationary pressures, combined with improved credit conditions, is supporting a recovery in investment (for more information on changes in key macroeconomic indicators for EU countries and the world, see sections 2.1A and 2.1B). For 2024 as a whole and for 2025, the OECD (December 2024) forecasts growth rates of +0.8% and +1.3% respectively for the euro area, while the ECB (December 2024) forecasts growth rates of +0.7% and +1.1% (in 2024 and 2025 respectively), slightly lower than in the previous quarter.

Steadily declining interest rates

Thanks to the further decline in inflation in the euro area in the third quarter of 2024, the ECB cut interest rates again in December 2024, the fourth consecutive cut since September 2023. Specifically, it reduced its key interest rates (deposit facility, main refinancing operations, marginal lending facility) by 25 basis points each. This decision was based, on the one hand, on the decline in euro area inflation by 3 percentage points since September 2023 and, on the other, on the projections for mild growth and moderating inflationary pressures over the medium term. Working in the opposite direction (towards a rate hike) are strong domestic price pressures in the services sector and the possibility of a further increase in international energy prices due to intensifying geopolitical turmoil. It should be noted that the ECB's growth and inflation forecasts for 2024 (0.7% from 0.8% and 2.4% from 2.5%) and 2025 (1.1% from 1.3% and 2.1% from 2.2%) have been revised slightly downwards compared with the previous quarter. In the same context, in December 2024 the Fed continued its strategy of cutting its key rate, which stood at 4.48% (from 5.13% in the previous quarter), with analysts pointing out that further cuts in 2025 were unlikely due to persistent inflation and the general climate of uncertainty.

Finally, we assume that interest rates will follow the trend of current futures contracts, i.e. that Euribor will gradually decline from almost 2.8% at the beginning of the year to around 1.9% at the end of 2025 (from an expectation of 1.8% in the previous quarter).

Fiscal over-performance and successful execution of the 2024 State Budget (January - November)

Despite the instability and ongoing geopolitical crises in Ukraine and the Middle East, the Greek economy showed resilience and presented a significantly improved fiscal performance compared to 2023. In particular, the implementation of the State budget in the period January-November 2024 was successful, with the primary surplus reaching +5.0% of GDP and the fiscal balance recording a surplus of +1.8% of GDP. This performance was supported by external factors, such as the easing of the energy crisis and the loosening of monetary policy, as well as domestic factors, such as reduced tax evasion (combined with an increase in electronic transactions) and higher tax revenues because of higher wages. The fiscal outperformance allowed for an increase in the expenditure ceiling for the coming years, bringing structural changes to the new medium-term fiscal and structural plan for 2025-2028 (more information on the implementation of the state budget is presented in section 2.2B).

For 2025, the State Budget balance is projected to deteriorate slightly (-2.4% compared to 2024), mainly due to higher expenditure resulting from the increase in the expenditure ceiling for the coming years. In contrast, the primary surplus is estimated to stand at 1.4% of GDP.

Continued downward trend in government debt-to-GDP ratio, significant reduction in non-performing loans

According to the 2024 Stability Program, public debt as a percentage of GDP is projected to rise to 152.7% of GDP in 2024 and 146.3% of GDP in 2025. The fiscal outlook is assessed to be in line with the provisions of the revised Stability and Growth Pact.

Greece's public debt increased in the third quarter of 2024, reaching €370.478 billion, up from €369.442 billion in the previous quarter. Data from the Public Debt Management Agency (PDMA) show that 53.5% of the annual new borrowing came from interest-bearing bills, 45.5% from bonds and 11.6% from the Recovery and Resilience Facility. The average weighted maturity of new borrowing was 16.18 years, with an average cost of 3.6%. The debt structure reduces refinancing uncertainty as 74% of the debt is held by institutional partners, has an average maturity of 19 years and low fixed interest rates. However, the financing needs in the coming years will be affected by the repayment of loans granted to the country by the EU institutions.

On the private debt side, the ratio of non-performing loans (NPLs) to total loans declined from 6.9% in the previous quarter to 4.6% in the third quarter, reaching a historical low since 2002 (the year from which relevant data are available) and now converging with the rest of the euro area (see Section 2.2.C).

The momentum of fixed investment is just about maintained

In the third quarter of 2024, fixed capital formation only just maintained its momentum, growing by 0.3% year-on-year, but falling by 1.1% compared with the second quarter of the previous year. Inventories continued to rise for the sixth consecutive quarter. Factors such as the easing of monetary policy, the improvement in the business climate and the accelerated implementation of the Greek Recovery and Resilience Plan are expected to contribute positively to investment growth both in late last year and in 2025. Among the components of fixed capital formation, investment in housing and construction recorded annual growth, followed by investment in other products, while investment in machinery and transport equipment declined. Maximising the benefits of increased investment activity is inextricably linked to strengthening the export orientation of the economy, with a strategic focus on high value-added sectors such as technology, green energy, and quality tourism. In addition, stimulating innovation, improving access to international markets, and encouraging domestic savings are considered essential and will be supported by policies that encourage savings over consumption while strengthening the production base.

Deterioration of the external deficit

Based on the national accounts, the external balance was in deficit in the third quarter of 2024, amounting to -8.0% of GDP, but showing a significant improvement both compared to the previous quarter and to the corresponding quarter of the previous year.

The overall deterioration in the balance was due to an increase in imports, which more than offset the increase in exports. More specifically, although total exports increased by 3.3% (compared to +1.7% in the previous quarter), due to the growth of both exports of goods (+1.2% compared to +1.2% in the previous quarter) and exports of services (+5.1% compared to +2.7% in the previous quarter), total imports recorded an even higher increase of +4.2% (compared to +8.7% in the previous quarter), due to the acceleration of the annual growth rate of both imports of goods (+2.3%) and services (+12.5%).

In the same vein, the current account (CA) recorded a deficit of €11.5 billion in the period January-November 2024, an increase of €511 million compared to 2023. This increase is mainly due to the deterioration in the goods account and, to a lesser extent, the primary income account, while improvements in the services and secondary income accounts partially offset the widening (the evolution of the external balance is discussed in detail in section 3.3.).

Labour market continues to improve, but with clear signs of slowdown

According to the ELSTAT labour force survey, the unemployment rate fell from 10.8% in the same quarter of 2023 to 9.0% in the third quarter of 2024 (see Appendix, Figure 7). This decline is due to a decrease in the number of unemployed by 86,200 and an increase in employment (an analysis of the development of the domestic labour market is presented in section 3.4).

The baseline macroeconomic scenario envisages a slight further improvement in the labour market in the remainder of 2024 and 2025, albeit with clear signs of a slowdown as the scope for reducing cyclical unemployment narrows, while both tackling structural unemployment and increasing labour force participation remain challenging.

Employment is expected to be boosted by increased investment, thanks to improved international investor confidence in the country and the implementation of the National Recovery and Resilience Plan. Robust consumption and growth in the euro area will also contribute positively to employment, while monetary policy and lower interest rates will support investment, consumption, and exports.

For 2025, geopolitical instability and economic uncertainty, both at regional and international level, are the main factors of concern. Despite lower international energy prices, uncertainty about their evolution has increased, while inflation is expected to be slightly higher than the euro area average.

High core inflation in the Greek economy is a drag on competitiveness and employment. Based on IOBE's estimates of a slowdown in consumption in 2025, employment growth is expected to slow accordingly. With unemployment approaching single digits, further reductions are expected to be slower, while reducing structural and frictional unemployment is a priority. In this context, skills mismatches and the need to provide adequate and quality training are seen as key issues.

Challenges in the banking sector

At the end of 2024, banks' increased exposure to government bonds, the continued decline in mortgage lending and high interest rate margins pose significant challenges to the domestic financial system, while among the long-term challenges, the share of non-performing loans (mainly off-balance sheet) and the share of deferred taxes in equity remain high. By contrast, positive developments include historically low levels of non-performing loans (NPLs), increased corporate credit growth, improved organic profitability, stronger liquidity and capital adequacy, and growth in retail deposits.

On the liabilities side of Greek banks, the increase in private deposits in autumn 2024 improves their liquidity and credibility, while reducing their exposure to a high-interest-rate environment. At the same time, the improvement in credit ratings and the gradual decline in interest rates create a positive outlook for 2025, when private deposits are expected to grow moderately due to higher household and corporate savings, combined with a slight increase in private consumption and a slow decline in inflation. However, the higher cost of ECB liquidity has limited the use of long-term financing instruments.

On the asset side, the credit expansion to the domestic private sector strengthened significantly, with consumer loans and loans to the self-employed and sole proprietors rebounding strongly, while the credit contraction in the housing portfolio continued unabated. Looking ahead to 2025, credit to enterprises is expected to expand further, thanks to the faster implementation of the loan arm of the National Recovery and Resilience Plan, while credit to households is expected to contract at a slower pace, mainly due to the resilience of consumer demand (see Section 2.2C for an analysis of developments in the financial system).

Upward trend in domestic production excluding trade

In the first eleven months of 2024, the industrial production index in Greece recorded an increase of 5.3%, compared to 2.1% in the same period of 2023. In contrast, industrial production in the euro area fell by 3.1%, after a decline of 2.3% in the same period of 2023. Among the other indices, construction recorded a significant increase (+17.4% in the first nine months of 2024, after +12.9% in 2023), as did most of the services branches. As regards retail trade, the decline in the volume index slowed (-1.5% in the first nine months of 2024, compared with -3.4% in 2023), while wholesale trade fell sharply, by -11.9% in the first nine months of 2024, compared with an increase of 3.3% in the same period of 2023 (for more information on the main production sectors, see section 3.2).

Slight deterioration in the domestic economic climate

Despite the dynamic performance of the Greek economy over the past year, the domestic economic sentiment indicator deteriorated slightly, falling to 106.4 points from 107.6 in the third quarter of 2024. The sharpest decline in business expectations was recorded in the retail trade and construction sectors, while the services sector recorded a slight decline and the industrial sector remained stable. In addition, the capacity utilisation rate fell slightly compared with the previous quarter, while the number of months of secured production increased slightly in the final quarter of the year.

Over the same period (Q4 2024), the average economic sentiment indicator fell slightly in both the EU (95.6 points, down from 96.6 in the previous quarter) and the euro area (95.0 points, down from 96.2 in the previous quarter).

The consumer confidence index in Greece improved slightly in the final quarter of 2024 (-47.4 points compared with -47.8 points) but remains lower than a year ago. In contrast, the corresponding index in the EU and the euro area declined slightly, although it remains higher than a year ago. The gloomy outlook for the economic situation of Greek households in particular, but also for the country in general, eased slightly, leading to a decline in households' intentions to make major purchases in the near future, while their assessment of their current situation became more positive (for more information on the economic climate, see Section 2.2A).

Medium-term forecast

Based on an analysis of the international and domestic economic climate, the evolution of key macroeconomic indicators and the adoption of certain basic assumptions, we have developed short-term forecasts for the components of domestic GDP for 2024 and 2025.

Private consumption is expected to maintain its momentum until the end of the previous year (2024), supported by rising employment and wages, the gradual decline in inflation, the further narrowing of the VAT gap and the increased openness of the economy. In addition, the expected reduction in interest rates and the accelerated implementation of the Greek Recovery and Resilience Plan strengthen the prospects for maintaining the positive trend in 2025. However, factors such as the slow decline in unemployment, the contraction in household credit, the high cost of borrowing, the negative savings ratio and the possible rise in international energy prices may limit the further strengthening of consumption. As regards public consumption, the budget surplus targets are expected to lead to a decline in both 2024 and 2025. In particular, the annual change in private and public consumption is estimated at +1.7% and -4.2% respectively in 2024 and at +1.6% and -0.4% in 2025. Total final consumption is expected to increase by +0.4% in 2024 and by +1.2% in 2025.

Fixed investment is expected to continue its upward trend until the end of 2024 and throughout 2025. The main drivers of this growth are the further easing of monetary policy, the acceleration of the implementation of the Greek Recovery and Resilience Plan and the improvement of the business climate (investment grade). In addition, the faster decline in interest rates is expected to facilitate the expansion of credit to businesses. In 2024, fixed investment is projected to increase by +3.0% y-o-y, while in 2025 its growth rate is estimated to reach +9.5%.

Text Box 3.1

Macroeconomic forecast drivers

Risks

- The escalation of geopolitical tensions in Ukraine and the Middle East is a major concern for energy security, supply chains and international political developments.
- A sharp increase in international energy prices, with negative effects on production costs and interest rates.
- A large external deficit with structural features.
- Loss of competitiveness due to above-average inflation in the euro area.
- Labour market: slower decline in the unemployment rate, partly due to high structural unemployment.
- High interest-rate margins between loans and deposits and a persistently negative household savings rate.
- Delays in the resolution of non-performing loans off banks' balance sheets, hampering the reallocation of resources.

Positive outlook

- Accelerating the implementation of the revised Recovery and Resilience Plan could unlock international finance for productive and longer-term investment.
- Lower interest rates provide an opportunity to accelerate investment.
- The increased openness of the economy is a positive factor, with a gradual improvement in the value added of exports.
- The continued narrowing of the VAT gap and the corresponding divergence from the EU is a positive development.

Text Box 3.2

Baseline scenario assumptions

- The euro area economy follows the ECB's baseline scenario (December 2024) of 0.7% growth in 2024 (0.8% in the previous quarter) and 1.1% in 2025 (1.3% in the previous quarter) and inflation of 2.4% in 2024 (2.5% in the previous quarter) and 2.1% in 2025 (2.2% in the previous quarter).
- Interest rates follow the trend of current forward contracts, i.e. the Euribor gradually declines from almost 2.8% at the beginning of the year to around 1.9% at the end of 2025 (from 1.8% in the previous quarter). The marked decline in European interest rates in 2024 (by one percentage point from September 2023) is expected to continue in 2025 as long as growth remains subdued and inflation decelerates more slowly than expected.
- International energy prices follow the EIA baseline, with stabilising trends in 2025, slightly below their 2024 levels.
- Continued geopolitical instability and economic uncertainty at regional and international levels (war in Ukraine and the Middle East).
- The implementation of the Recovery and Resilience Plan will be accelerated in 2025 to complete the planned actions on time.
- Inbound tourism in 2025 is expected to maintain its positive performance of 2024 in real terms.

The external balance is projected to deteriorate in 2024 compared with 2023, as the increase in total imports more than offsets the positive impact of the rise in exports in the third quarter, while the Greek economy maintains its high degree of openness. A slight improvement is expected in 2025, due to the acceleration in exports and the slowdown in imports, because of the recovery in external demand and the undervalued euro exchange rate. Specifically, the annual rate of change in exports and imports is projected to be +1.1% and +5.0%, respectively, in 2024 and +2.8% and +1.9%, respectively, in 2025.

In view of the above, we maintain our October forecast for the domestic economy unchanged, estimating growth of +2.3% in 2024 and +2.4% in 2025, while highlighting certain negative prospects, such as the low growth rate of the euro area economy, the deterioration of the external balance, persistent inflation, the possible return of protectionist policies in international trade and the ongoing uncertainty at regional and international level.

Table 3.2

Comparison of forecasts for selected economic indicators for 2024 and 2025 (at constant market prices, annual % changes)

	MinFin		EC		IOBE		IMF		OECD	
	2024	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**
GDP	2.2%	2.3%	2.1%	2.3%	2.3%	2.4%	2.3%	2.0%	2.3%	2.2%
Consumption	:	:	:	:	0.4%	1.2%	:	:	:	
Private Consumption	1.7%	1.6%	1.8%	1.7%	1.7%	1.6%	:	:	1.8%	1.2%
Public Consumption	0.4%	0.0%	0.9%	1.1%	-4.2%	-0.4%	:	:	-2.4%	1.0%
Gross Fixed Capital Formation	6.7%	8.4%	7.4%	8.9%	3.0%	9.5%	:	:	7.5%	8.8%
Exports	5.4%	4.0%	2.3%	3.7%	1.1%	2.8%	:	:	0.7%	3.3%
Imports	4.0%	3.6%	5.0%	4.1%	5.0%	1.9%	:	:	6.0%	3.3%
Harmonised Index of Consumer Prices (%)	2.8%	2.1%	3.0%	2.4%	3.0%	2.4%	2.9%	2.1%	3.0%	2.7%
Unemployment (% of labour force)	10.3%	9.7%	10.4%	9.8%	10.1%	9.3%	10.5%	10.1%	10.1%	9.4%
General Government Balance (% of GDP)	2.5%	2.4%	-0.6%	-0.1%	:	:	2.1%	2.1%	2.4%	2.4%
Current Account Balance (% of GDP)	:	:	-7.1%	-7.5%	:	:	-6.5%	-5.3%	-5.4%	-5.2%

Sources: Budget Introductory Report 2025 – November 2024 – Ministry of National Economy and Finance, European Economic Forecast Autumn 2024 – November 2024 – European Commission (EC), The Greek Economy 04/24 – January 2025 – IOBE, IMF World Economic Outlook and Fiscal Monitor October 2024 – October 2024 – IMF, Economic Outlook 116 – December 2024 – OECD.

3.2 Trends in key sectors

- Industrial production increased by 5.3% in the first eleven months of 2024, which is a faster rate of improvement than in 2023 (2.1%).
- Construction continued to improve, with production rising by 17.4% in the first nine months of 2024 compared to 12.9% in 2023. There was a 17.2% increase in new permits.
- Retail trade volume declined by 1.5% in the first ten months of 2024, compared to a sharper decline of 3.4% in 2023.
- Turnover increased in most service sub-sectors in the first nine months of 2024, albeit at a slower pace.

Industry

In the first eleven months of 2024, for which the latest data is available, Greece's industrial production index grew by 5.3%, up from 2.1% in 2023. Meanwhile, industrial production in the eurozone contracted by 3.1%, following a 2.3% decline in the same period of 2023.

During this period, the overall industrial producer price index fell by 2.3%, at a slower rate than in 2023 (-7.1%). This decline was primarily driven by the international market (-9.4%, compared to an increase of 41.8% in 2023), rather than the domestic market (-2.6%, compared to -5.4%). Additionally, the average turnover index up to October 2024 increased by 2.3%, compared to a 3.4% decline in the same period last year.

Figure 3.4

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

Increase in the overall index by 5.3% in the first eleven months of 2024

Sources: ELSTAT, Eurostat

Compared to the same period in 2023, growth was recorded in three of the four main sub-sectors of Greek industry. More specifically, production increased in electricity supply (by 11.7% instead of a fall of 6.1%), water supply (by 4.5% instead of no change in 2023) and manufacturing (by 4.0% instead of a rise of 4.2%). In contrast, production in mining fell by 1.3%, with the relevant index declining by 1.3% compared to an increase of 8.4% a year earlier.

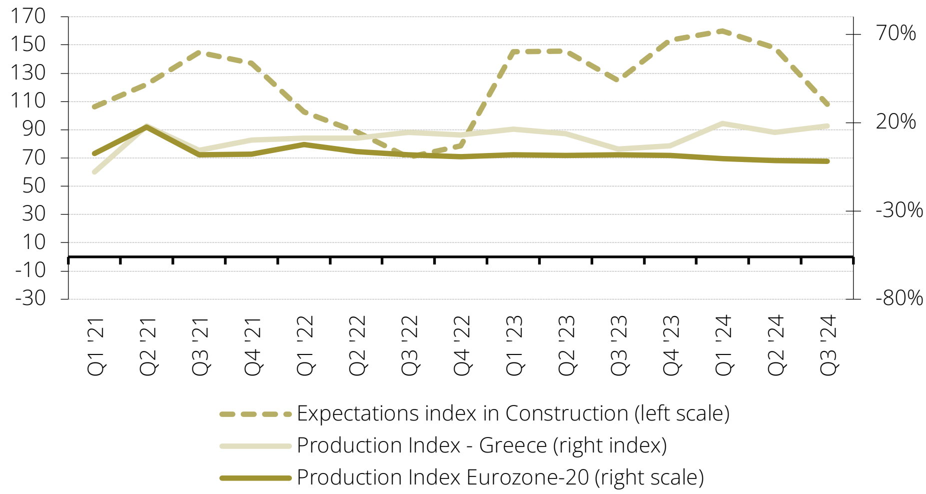
Construction

In the first nine months of 2024, the production index in the construction sector increased by 17.4%, following a more modest rise of 12.9% in the same period of 2023. An upward trend was recorded in all three quarters of 2024, with construction growing at a similar rate each time. During the same period, construction output in the eurozone fell by 1.3%, compared with an increase of 1.6% the previous year.

In Greece, the civil engineering index increased by 22.9%, compared to a more modest rise of 17.5% in 2023. There was also an increase in the issuance of new building permits, rising from 9.1% in the first nine months of 2023 to 17.2%. This upturn in activity was reflected in the IOBE's leading economic indicators, with expectations for 2024 as a whole rising by around six points compared to 2023.

Figure 3.5

Production Index in Construction and Building Activity Index



Construction activity accelerated in the first nine months of 2024, increasing by 22.9% instead of 17.5%. Sector expectations have also strengthened.

Source: ELSTAT, IOBE

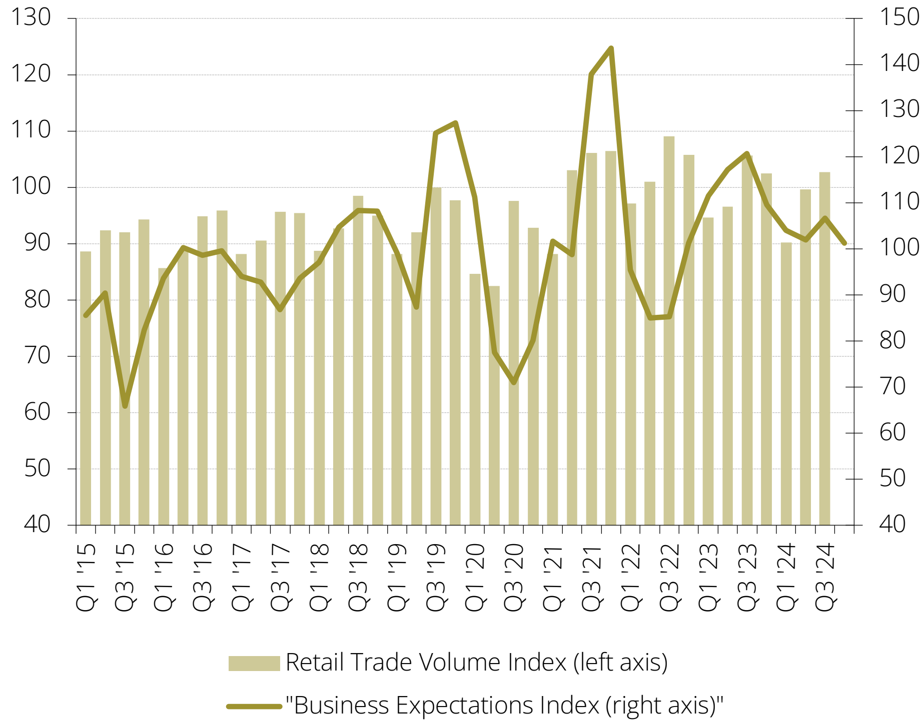
Retail Trade

In the first ten months of 2024, the volume index in retail trade decreased by 1.5% compared with the same period the previous year, when it had fallen more sharply (-3.7%). Turnover increased in four of the eight sub-sectors. The largest increase was in pharmaceuticals (up 5.9%, compared to a decline of 4.6% in the same period in 2023), followed by supermarkets (up 2.7%, compared to down 4.0%) and fuels and lubricants (up 1.2%, compared to down 1.3%). In contrast, a decline in volume was recorded in furniture and electrical equipment (-11.6%, compared to an increase of 2.5% last year), food and beverages (-8.5%, compared to an increase of 1.5%), and books and stationery (-3.1%, compared to an increase of 0.2%).

Expectations for the retail trade sector in 2024 are lower than in 2023. The relevant cumulative index fell by 11.4 points compared to an increase of 20.8 points in 2023. This was due to lower expectations in three retail trade sub-sectors. Expectations in the food and beverages sub-sector declined by 15.9 points (compared to an increase of 36.7 points in 2023), in the vehicles and parts sub-sector by 12.3 points (compared to an increase of 13.1 points in 2023), and in the department stores sub-sector by 11.5 points (compared to an increase of 40.2 points in 2023). Conversely, expectations improved in textiles and clothing (up 6.3 points, compared to an increase of 16.3 points in 2023), and in household equipment (up 0.5 points, compared to an increase of 17.3 points a year earlier).

Figure 3.6

Retail Trade Volume Index (2021=100) and Retail Trade Confidence Indicator (2000-2010=100)



There was a 1.5% decline in retail trade volume in the first ten months of 2024. Expectations were mixed, with a decline in 2024 as a whole.

Sources: ELSTAT, IOBE

In particular, the Business Expectations Index for motor vehicles stood at 111.7 points for 2024, compared to 124 points in 2023. A corresponding decline was also recorded in the final quarter of 2024. The balance of current sales declined to 14 points for the year, compared with 29 points in 2023. There was an increase in the percentage of respondents who predicted a decline in sales. The decline in the balance was even greater in the final quarter of the year. Inventories increased, with the relevant balance rising to 20 points compared to -3 points in 2023, and more respondents considered inventories to be high. The positive balance for orders declined to three points, compared to nine points in 2023. There was a larger increase in the percentage of businesses expecting orders to decline, and a similar trend was observed in the final quarter of 2024. The balance of sales expectations remains positive and stable at around 25 points, with an increase in the percentage of businesses expecting sales to rise in the coming period. However, this result stems from developments in the first part of the year, as recently, this figure has declined. In terms of employment, there are strong stabilisation trends, while the number of those expecting an increase in prices in the coming period is declining.

Table 3.3

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan.-Oct. 2022	Jan.-Oct. 2023	Jan.-Oct. 2024	Change 2023/2022	Change 2024/2023
Overall Index	102.6	98.9	97.4	-3.7%	-1.5%
Overall Index (excluding automotive fuels and lubricants)	101.2	98.6	98.0	-2.6%	-0.6%
Store Categories					
Supermarkets	98.4	94.4	96.9	-4.0%	2.7%
Department Stores	102.3	108.3	103.8	5.9%	-4.1%
Automotive Fuels	102.2	100.9	102.0	-1.3%	1.2%
Food – Drink – Tobacco	98.5	99.9	91.4	1.5%	-8.5%
Pharmaceuticals – Cosmetics	108.2	103.2	109.2	-4.6%	5.9%
Clothing – Footwear	100.4	100.9	101.3	0.5%	0.3%
Furniture – Electric Equipment – H. Appliances	108.4	111.1	98.2	2.5%	-11.6%
Books – Stationary	107.5	107.3	104.0	-0.2%	-3.1%

Source: ELSTAT

Table 3.4

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

	2022	2023	2024	Change 2023/2022	Change 2024/2023
Food-Drinks-Tobacco	72.5	109.2	93.3	36.7	-15.9
Textiles - Clothing – Footwear	97.9	113.9	120.2	16.0	6.3
Household Appliances	95.3	112.6	113.1	17.3	0.5
Vehicles-Spare Parts	110.9	124.0	111.7	13.1	-12.3
Department Stores	70.3	110.5	99.0	40.2	-11.5
Total Retail Trade	**94.9**	**115.7**	**104.3**	**20.8**	**-11.4**

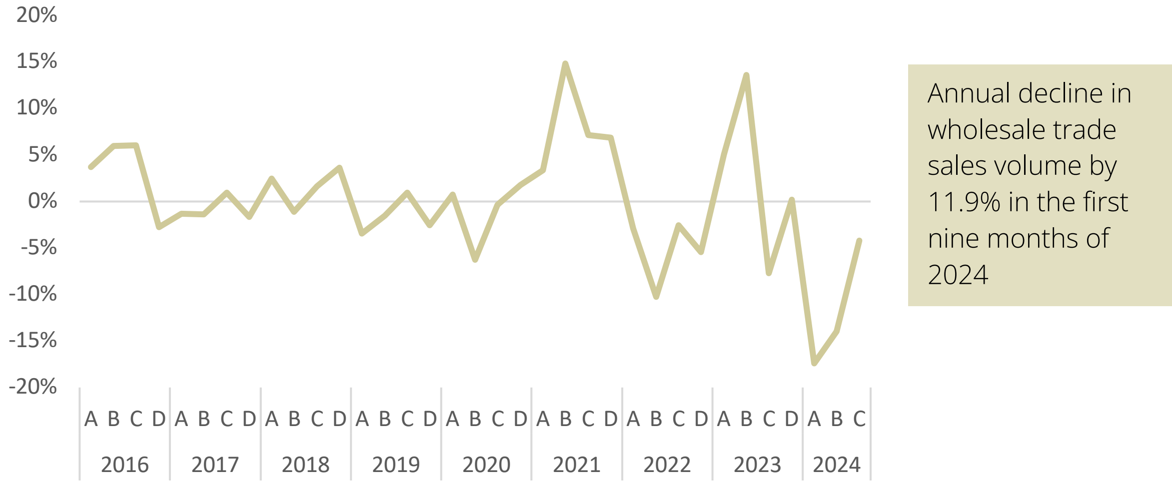
Source: IOBE

Wholesale Trade

In the first nine months of 2024, the wholesale trade volume index fell by 11.9%, compared to an increase of 3.3% in 2023. This downward trend was evident in all three quarters, with the most significant declines occurring in the first and second quarters (-17.4% and -14.0%, respectively), while the decline was more moderate in the third quarter (-4.2%). During the same period, the turnover index, which incorporates price changes, fell by 8.4%, following a 15.1% decline in the same period of 2023.

Figure 3.7

Volume Index in Wholesale Trade (2021=100)



Source: ELSTAT

Services

In the first nine months of 2024, the turnover index increased in five of the six main sub-sectors of services, albeit at a slower pace. Specifically, the Administrative and Support Services sector recorded an increase of 15.9% compared to 17.8% in the same period of 2023, followed by the Transport sector (10.5% compared to 7.2% a year earlier). Meanwhile, the turnover of the information and communication sector increased by 4.0% (compared to 7.5% in 2023), and the professional, scientific, and technical services sector saw a slight increase of 2.6% (compared to 9.5% a year earlier).

Table 3.5

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

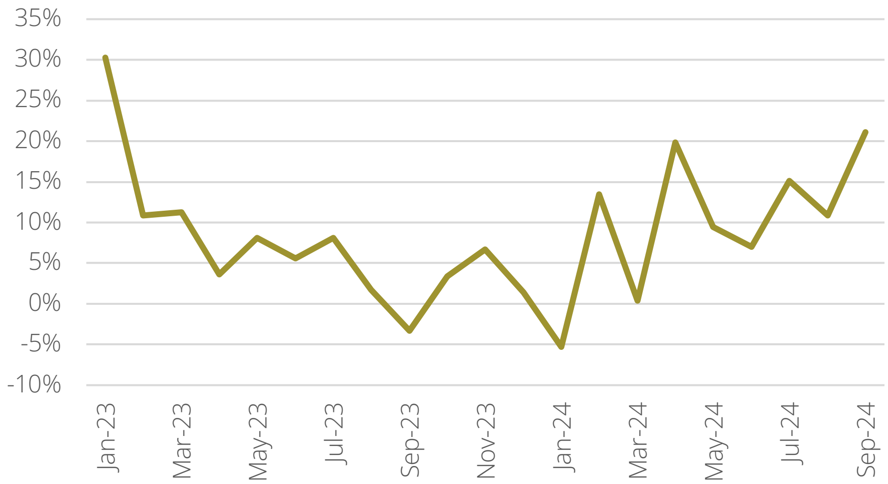
	2022	2023	2024	Change 2023/2022	Change 2024/2023
Hotels – Restaurants – Travel Agencies	122.8	129.2	134	6.4	4.8
Financial Intermediation	105.5	120.8	142	15.3	21.2
Other Business Services	112.9	112.7	113.7	-0.2	1
Information Services	100.3	104.4	104.4	4.1	0.0
Total Services	**106.8**	**109.7**	**119.8**	**2.9**	**10.1**

Real Estate Services recorded a marginal increase, with the relevant index rising by just 0.1% compared to a 58.2% increase in the same period of 2023. Conversely, the Tourism sector declined by 14.8%, compared to an increase of 9.1% last year, due to the negative change in accommodation and food services. It should be noted that the relevant turnover index recorded negative annual changes in the three summer months and September 2024. Therefore, the significant increase observed earlier in the year, which indicates an extension to the tourist season, is insufficient to put tourism on a positive course for the first nine months of 2024.According to recent trends in leading indicators from the IOBE business and consumer surveys for 2024, expectations strengthened in almost all service sub-sectors, with the overall sector index improving by 10.1 points compared to a more modest 2.9-point increase in 2023.

The strongest improvement in expectations was recorded in financial intermediation (up 21.2 points compared to 15.3 points in 2023), followed by hotels, restaurants and travel agencies (up 4.8 points compared to 6.4 points last year) and business services (up 1.0 points compared to down 0.2 points last year). Expectations in IT services remained unchanged, having increased by 4.1 points in 2023.

Figure 3.8

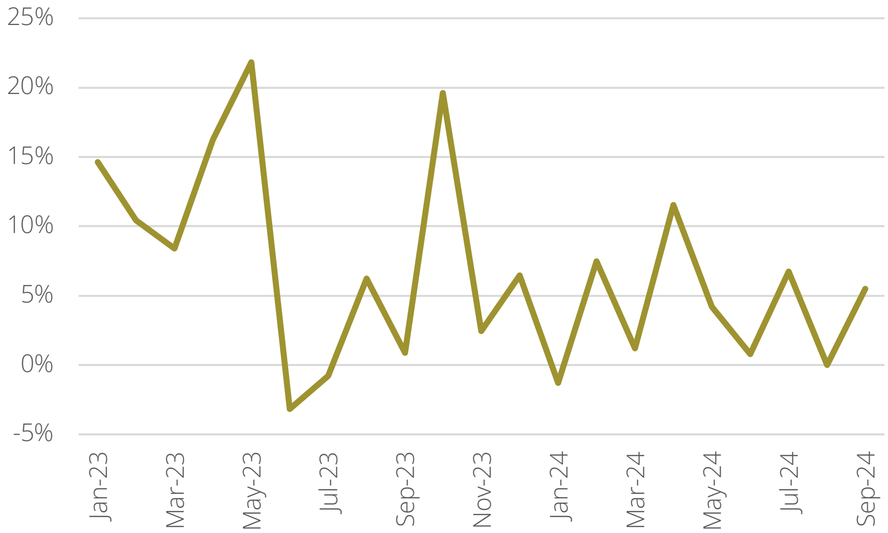
Annual Change in the Turnover Index in Transport



10.5% increase in the first nine months of 2024 compared to 7.2% in the same period of 2023

Figure 3.9

Annual Change of the Turnover Index in Information and Communications



A 4.0% increase in the first nine months of 2024, compared to 7.5% a year earlier.

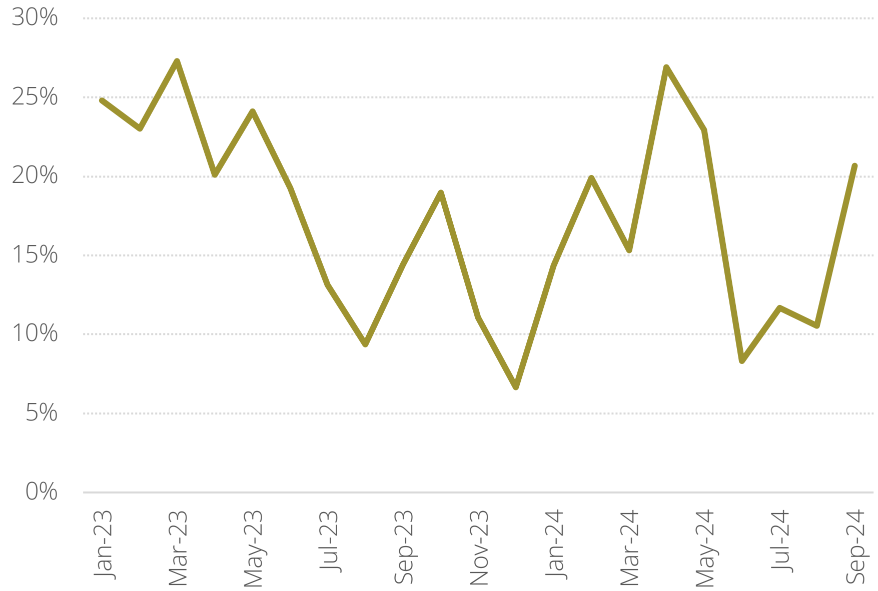
Figure 3.10

Annual Change of the Turnover Index in Computer Programming, Consultancy and Related Activities

Improvement in turnover of 2.6% in the first nine months of 2024, compared to 9.5% in the same period of 2023

Figure 3.11

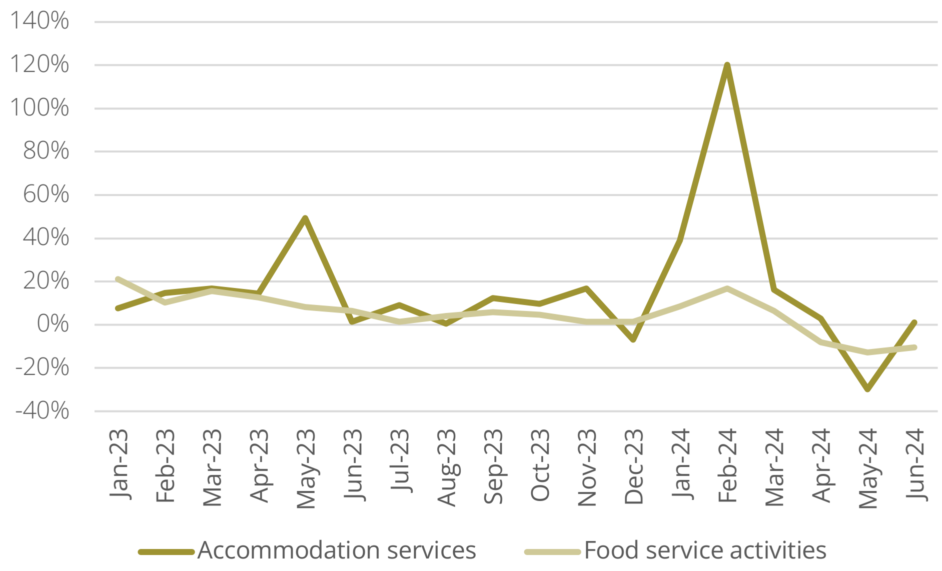
Annual Change in the Turnover indicator for Administrative Services



Increase of 15.9% in the first nine months of 2024, following an improvement of 17.9% a year

Figure 3.12

Turnover of Tourism (Accommodation and food service activities) (Sectors 55 & 56)



Annual decline in Accommodation and Food Services by 12.0% and 13.0% in the first nine months of 2024, compared to an increase of 10.1% and 7.5% respectively in 2023.

Source: ELSTAT

Text box of section 3.2.

Evolution of the public sector's share in the economy in Greece and Europe

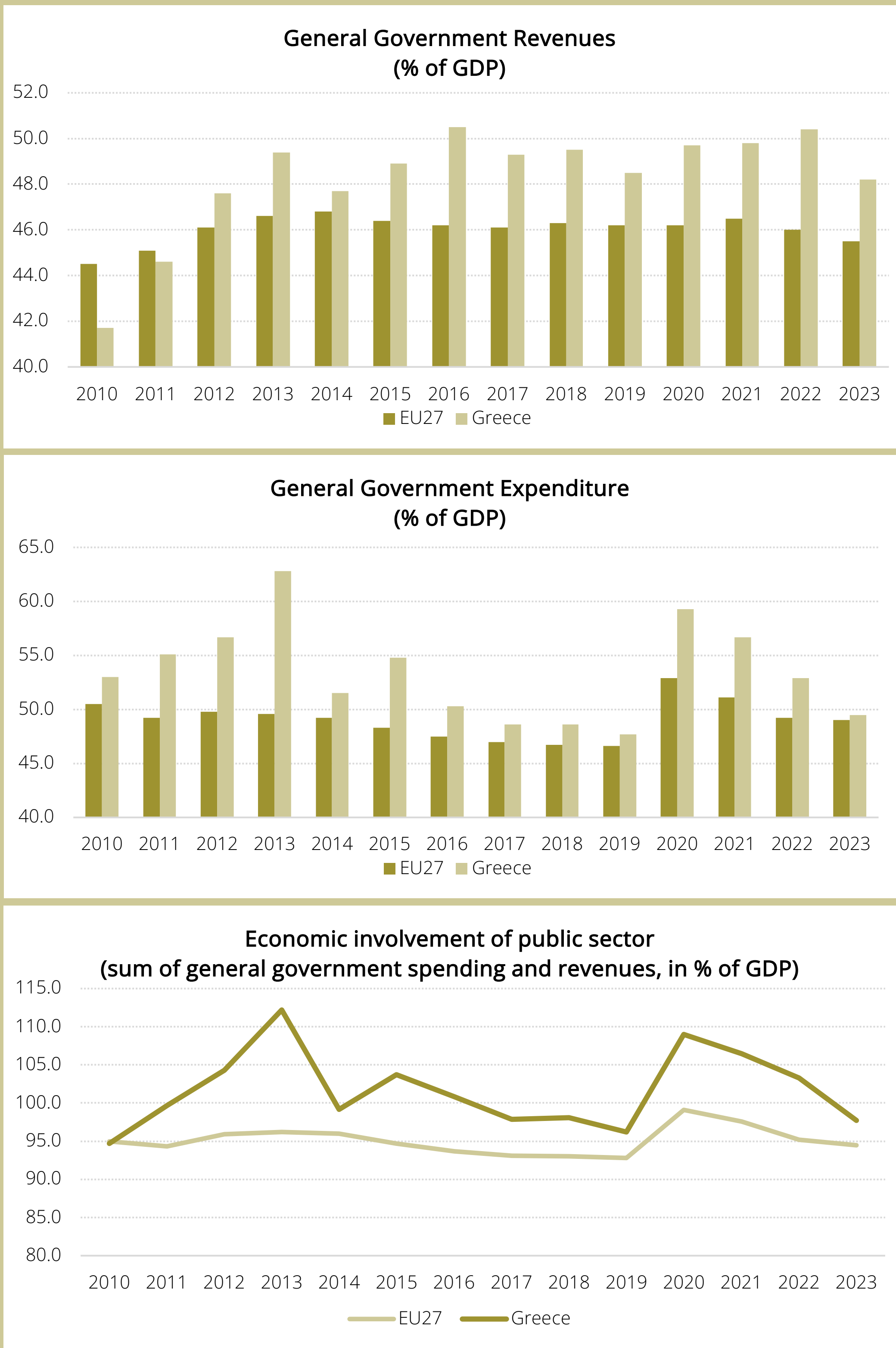
The public sector is the cornerstone of the economy because it ensures property rights are protected and markets function smoothly. Without the goods and services provided by the state, such as policing, the judicial system and national defence, an economy cannot function effectively. Furthermore, government intervention can address market failures such as 'externalities' and monopoly power. The government can also use tools such as taxation and subsidies to redistribute income and mitigate economic inequality. However, beyond these basic benefits and functions, there is often disagreement among economists about the optimal size and precise role of the public sector in the economy. State intervention complements the private sector to contribute to economic growth and strike a balance between equality and economic efficiency — one of the primary goals societies strive to achieve. Countries such as the US tend to have high growth rates but lower levels of equality and social welfare than countries such as Sweden, which have a large public sector.

Figure B.3.2.1 illustrates the evolution of general government revenue and expenditure as a percentage of GDP in Greece and the EU-27 average between 2010 and 2023. Throughout the period under review, we observe that public expenditure in Greece exceeds that of the EU-27 relative to GDP, while the same applies to public revenue after 2012. The difference in expenditure was significant during the early years of the Greek economic crisis but narrowed from 2014 onwards. This divergence is partly due to the burden of the social security system: public spending on old-age pensions accounted for 12.2% of GDP in 2022 (the second-highest share in the EU after Italy), despite improving since 2012 when it accounted for 15.8% of GDP (the highest share in the EU). Deviation increased during the 2020–2022 period due to extensive support measures implemented by Greece to address the consequences of the pandemic and the energy crisis. Similarly, public revenues have significantly exceeded the European average since 2015. The difference between revenues and expenditure in 2023 narrowed to 2.7 and 0.5 percentage points, respectively. Levels of public expenditure and revenue, as well as the sum of revenue and expenditure, are measures of the degree of public sector participation in the economy. Before and after the major fiscal consolidation preceding the adjustment programmes, the size of the Greek public sector in the economy appears to have remained higher than the European average. During the pandemic, the Greek public sector's share of the economy increased by more than the European average, with the gap gradually closing in 2023.

Despite having a larger public sector, Greece lags behind the rest of Europe in important subcategories of spending that affect society and economic inequality, such as education, health, and social protection (excluding pensions). Furthermore, according to the World Bank's Gini inequality index, Greece was ranked 57th in the world in 2021. Therefore, there is significant scope for the country's high level of public spending to be used more effectively.

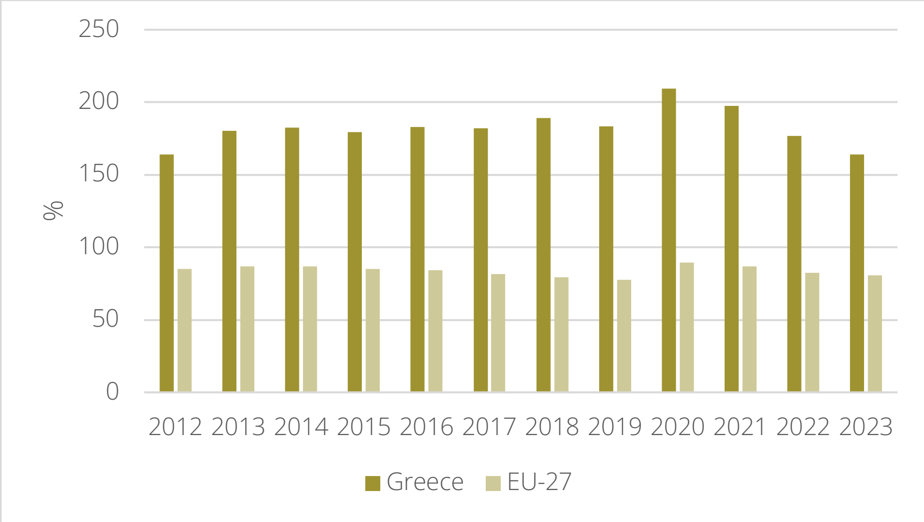
Significant government expenditure can put pressure on the state budget if it is not matched by similarly high levels of revenue. When government expenditure consistently exceeds revenue, public debt accumulates, forcing the government to borrow more, which can undermine its competitiveness and credibility. Figure B.3.2.2 shows the general government debt of Greece and the EU-27 as a percentage of GDP for the period 2012–2023. Greece's debt far exceeds the European average throughout this period. More specifically, Greece consistently ranked first, significantly ahead of Italy in second place. Furthermore, the deviation from the EU-27 average was stable or increasing until 2020. Since then, there have been signs of improvement.

Figure B.3.2.1 Public revenue and expenditure in Greece and the EU27, 2010-2023, as % of GDP



Source: Eurostat. Data processing: IOBE

Figure B.3.2.2. General government debt in Greece and the EU27, 2012-2023, % of GDP



Source: Eurostat, Data processing: IOBE

In conclusion, Greece has a large public sector compared to the rest of Europe yet does not enjoy correspondingly higher levels of equality or social welfare. Expenditure in critical subcategories lags behind the European average, and Greece ranks poorly on inequality indicators. Furthermore, high levels of government spending have not been matched by equally high levels of revenue in the past, leading to the 2009 debt crisis. Public debt levels as a percentage of GDP remained high throughout the previous decade, improving only in the last three years. In an economy with very high public debt, the opportunity cost of public resources is also high. Consequently, policies that increase the efficiency of public spending and revenue collection should be prioritised.

3.3 External balance

A. Analysis of exports and imports based on national accounts

- Decline in exports of goods in nominal terms in the first ten months of 2024, at a rate of 2.6%, with a slight increase in exports excluding petroleum products and ships (0.3%).
- Increase in imports of goods in the period January-October 2024, by 1.8% at current prices, reaching €70.2 billion, from €68.9 billion a year earlier.
- Annual increase in the trade deficit in the first 10 months of 2024 by €2.3 billion to €28.3 billion.
- Decline in most categories of exports of goods, with the largest decline in goods and transactions not classified by category (-16.4%), but also an increase in agricultural products (+2.2%) and raw materials (+6.0%).
- Decrease in demand from Eurozone countries (-6.3% or -€1.1 billion), increase from North American countries (+16.0% or €331.0 million).

Goods exports amounted to €41.9 billion between January and October 2024, compared to €42.9 billion a year ago, marking a 2.6% decline at current prices. Excluding petroleum products and ships, exports rose by 0.3% to €29.6 billion, up from €29.5 billion in 2023. Meanwhile, imports of goods increased by 1.2% in 2024, reaching €69.8 billion compared to €68.9 billion the previous year. Excluding petroleum products and ships, other imports increased by 3.3% to €52.3 billion, up from €50.6 billion in 2023. Due to these trends in the main components of the external goods account, the trade deficit was €2.3 billion higher than in 2023, reaching €28.3 billion compared to €26.0 billion. Consequently, in the first ten months of 2024, the value of the Greek economy's exports of goods corresponded to 59.7% of its imports, whereas a year earlier this figure was 62.3%.

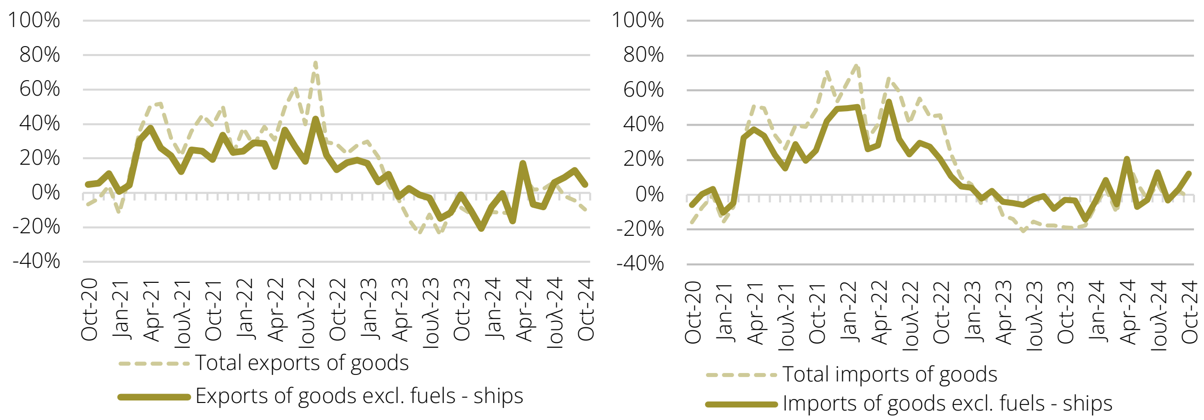
In detail, exports of agricultural products increased by 2.2% in current prices between January and October 2024, reaching €8.9 billion compared to €8.7 billion in 2023. Meanwhile, fuel exports fell by 8.6% in nominal terms, amounting to €12.8 billion compared to €13.9 billion in 2023. Together, exports of these two categories accounted for 51.5% of the value of domestic exports of goods in 2024, down from 52.5% the previous year.

In the first ten months of 2024, exports of industrial products declined by 0.8%, with their value falling from €18.9 billion in 2023 to €18.8 billion. This was primarily due to a 1.2% decrease in exports of manufactured goods classified chiefly by material, falling from €6.5 billion to €6.4 billion. Similarly, international demand for transport equipment and machinery declined by 1.8%, with their value standing at €4.1 billion, while exports of miscellaneous industrial goods also declined by 2.2%, with their value falling from €3.1 billion to €3.0 billion in the same period in 2023. In contrast, exports of chemicals and related products increased by 1.2% to €5.2 billion.

In terms of export trends by geographical area, exports to euro area countries fell by 6.3% in the first ten months of 2024, reaching €17.1 billion compared to €18.3 billion in 2023. Exports to the EU fell by 7.1%, or €1.8 billion, year on year to reach €23.1 billion compared to €24.9 billion the previous year. Among the Eurozone countries that absorb the largest share of Greek exports, exports to France fell by 20.0%, from €1.6 billion to €1.3 billion, and exports to Spain fell by 25.1%, from €1.7 billion to €1.3 billion. Exports to Italy, the top destination for Greek goods, also declined by 15.4%, to €4.4 billion in 2024 from €5.1 billion in 2023.

Figure 3.13

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



Source: ELSTAT. Data processing: IOBE

Exports excluding petroleum products and ships totalled €29.6 billion between January and October 2024, which was 0.3% higher than in 2023. In the same period, imports excluding oil and ships stood at €52.3 billion, which was 3.3% higher than in 2023.

Table 3.6

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

Product	Value		% Change	% Share	
	2024	2023	24/23	2024	2023
AGRICULTURAL PRODUCTS	8,871.7	8,681.3	2.2%	21.2%	20.2%
Food and Live Animals	6,796.8	6,292.7	8.0%	16.2%	14.6%
Beverages and Tobacco	1,196.2	1,083.9	10.4%	2.9%	2.5%
Animal and vegetable oils and fats	878.6	1,304.7	-32.7%	2.1%	3.0%
RAW MATERIALS	1,423.4	1,343.1	6.0%	3.4%	3.1%
Non-edible Raw Materials excluding Fuels	1,423.4	1,343.1	6.0%	3.4%	3.1%
FUELS	12,701.5	13,899.0	-8.6%	30.3%	32.3%
Mineral fuels, lubricants, etc.	12,701.5	13,899.0	-8.6%	30.3%	32.3%
INDUSTRIAL PRODUCTS	18,772.5	18,928.8	-0.8%	44.8%	44.0%
Chemicals and Related Products	5,195.3	5,134.1	1.2%	12.4%	11.9%
Manufactured goods classified chiefly by raw material	6,422.1	6,497.7	-1.2%	15.3%	15.1%
Machinery and transport equipment	4,143.0	4,218.5	-1.8%	9.9%	9.8%
Miscellaneous manufactured articles	3,012.2	3,078.4	-2.2%	7.2%	7.2%
OTHER	101.8	121.7	-16.4%	0.2%	0.3%
Transactions not classified by category	101.8	121.7	-16.4%	0.2%	0.3%
TOTAL EXPORTS	41,870.8	42,974.0	-2.6%	100.0%	100.0%

* Provisional data

Source: Eurostat, Processing IOBE

Total exports to other European Union countries fell by 6.9% (€464.5 million) to reach €6.3 billion. Bulgaria remained the main export destination, with exports to that country declining by 21.1% (€641.5 million) compared to 2023. Meanwhile, upward trends were recorded for two other significant export destinations: Romania (+3.3%, or €49.9 million, reaching €1.5 billion), and Poland (+2.3%, or €167.8 million, reaching €954.9 million).

Table 3.7

Exports by destination, January- October 2024 (€ million)*

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2024	2023	24/23
EU (27)	23,055.9	24,830.6	-7.1%
Euro Area	17,108.6	18,255.5	-6.3%
G7	12,769.4	13,476.3	-5.2%
North America	2,403.1	2,072.1	16.0%
BRICS	635.6	629.9	0.9%
Middle East & North Africa	4,990.4	4,989.6	0.0%
Oceania	201.9	169.9	18.8%
Central-Latin America	331.0	371.1	-10.8%
Asia	1,852.4	1,851.6	0.0%

* Provisional data

Source: Eurostat

Demand for Greek exports in other European countries increased by 5.6% from €7.7 billion in 2023 to €8.2 billion the following year. This was primarily driven by exports to Ukraine, which increased by 68.2% (from €628.8 million to €1.1 billion), and to a lesser extent by exports to the United Kingdom, which increased by 5.0% (from €1.6 billion to €1.7 billion).

Exports to North American countries increased by 16.0%, rising from €2.1 billion in the first ten months of 2023 to €2.4 billion in the same period of 2024. This was primarily driven by a 18.3% surge in exports to the US, growing from €1.7 billion to €2.0 billion over the same period. Meanwhile, exports to Canada increased by 11.1%, or €25.7 million, reaching €256.8 million. However, exports to Mexico decreased by 3.8%, reaching €134.2 million.

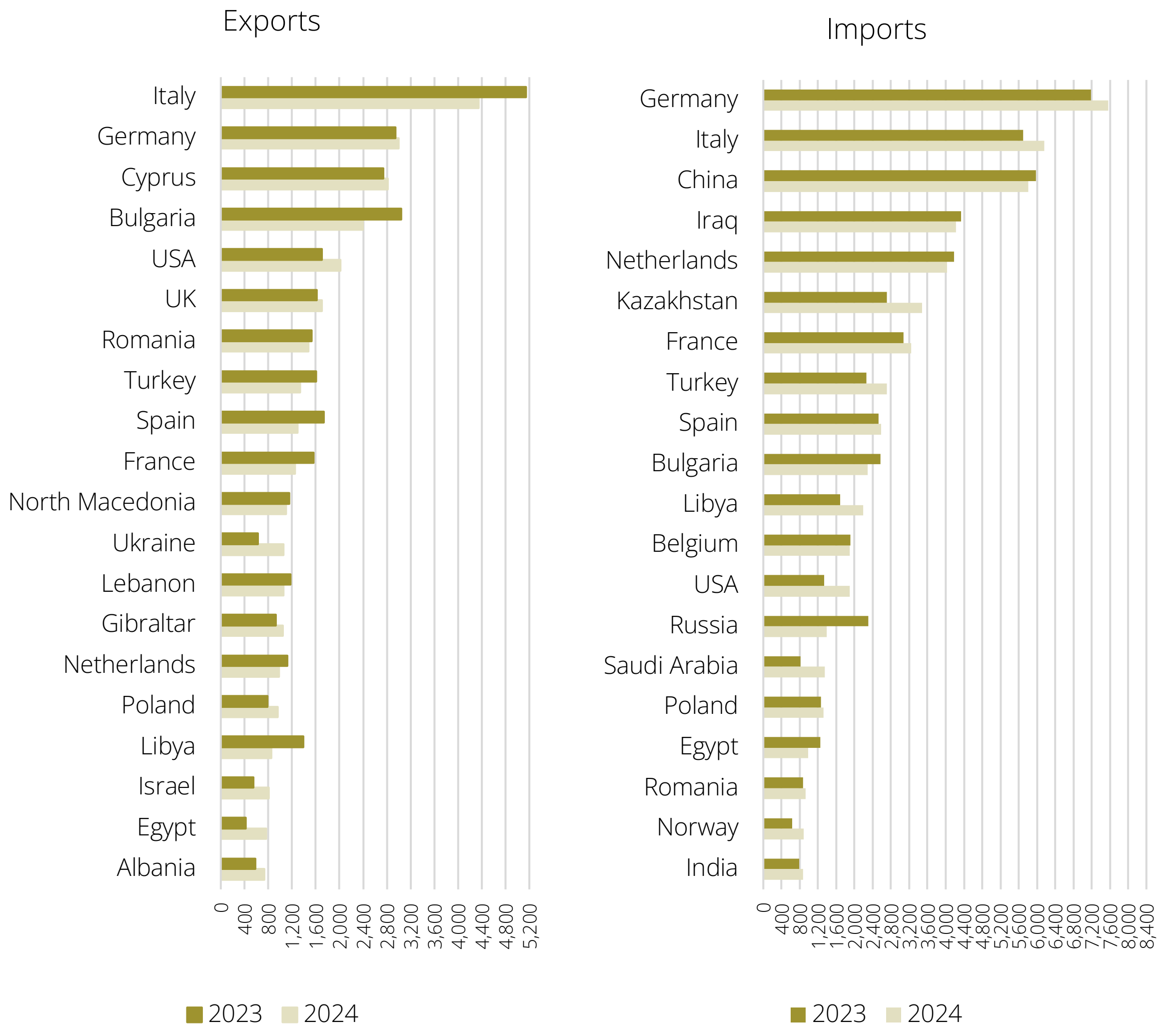
Exports to Central and Latin American countries fell by 10.8% in the January–October 2024 period, with their value standing at €331.0 million — down from €371.1 million in 2023. This decline is primarily due to a 78.4% drop in demand for Greek products from Argentina, amounting to €17.6 million — down from €81.5 million the previous year.

Exports to the Middle East and North Africa increased by a marginal 0.01%, rising from €4.98 billion to €4.99 billion. This was mainly due to increased exports to Egypt, which stood at €766.6 million in the ten months from January to October 2024, compared to €418.4 million a year earlier. Exports to Tunisia also increased, rising by €145.5 million in 2024 compared to 2023, reaching €275.7 million. Exports to the United Arab Emirates, another major export destination in the Middle East, declined by 10.8% to €302.1 million, while exports to Saudi Arabia increased by 17.8% to €377.6 million.

Demand for Greek goods in Asian countries increased slightly, with exports rising by 0.04% in the first ten months of 2024 to reach €1.9 billion. This is primarily due to exports to China increasing by 10.1%, from €313.3 million in 2023 to €344.8 million in 2024. Demand also increased from Hong Kong, rising by 51.0% to €98.9 million from €65.5 million in 2023.

Figure 3.14

Countries with the largest share in the exports and imports of Greek goods, January – October 2024 (€ million, current prices)



Source: Eurostat. Processing: IOBE

In the first ten months of 2024, the largest increase in exports of goods in absolute terms was to Ukraine (+€428.6 million). The largest decline was to Italy (-€788.8 million). However, Italy still has the highest share of exports. The largest increase in imports in the same period was from Kazakhstan (+ €771.5 million), and the largest decrease was from Russia (- €919.2 million).

The value of Greek exports to Oceania increased by 18.8% in the first ten months of 2024, standing at €201.9 million compared to €169.9 million a year earlier. This growth was driven by a similar trend towards Australia, where exports increased by 17.3% to €182.9 million, up from €155.8 million the previous year. There was also an increase in exports to New Zealand, rising by 34.8% to €19.0 million.

In summary, the 2.6% decline in Greek exports of goods in the January–October 2024 period, at current prices, was due to decreases in most product categories, including fuels (-8.6%), industrial products (-0.8%), and commodities and transactions not classified elsewhere (-16.4%). The five countries with the highest demand for Greek products were Italy, Germany, Cyprus, Bulgaria, and the USA. Meanwhile, imports increased by 1.8%, raising the trade deficit to €28.3 billion (+8.9%). The five countries with the largest share of Greek imports in the first ten months of 2024 were Germany, Italy, China, Iraq, and the Netherlands. Despite the positive sign recorded by exports excluding oil products, Greek exports continued to decline in the first ten months of 2024. Uncertainty regarding the outlook for international trade in 2025 prevails, stemming from resurgent protectionist tendencies following the election of a new US administration.

B. Balance of payments

- In the first eleven months of 2024, the current account deficit increased to €11.5 billion, up from €11.0 billion in 2023.
- Deficits increased in the goods and primary income accounts, while surpluses improved in the services and secondary income accounts.

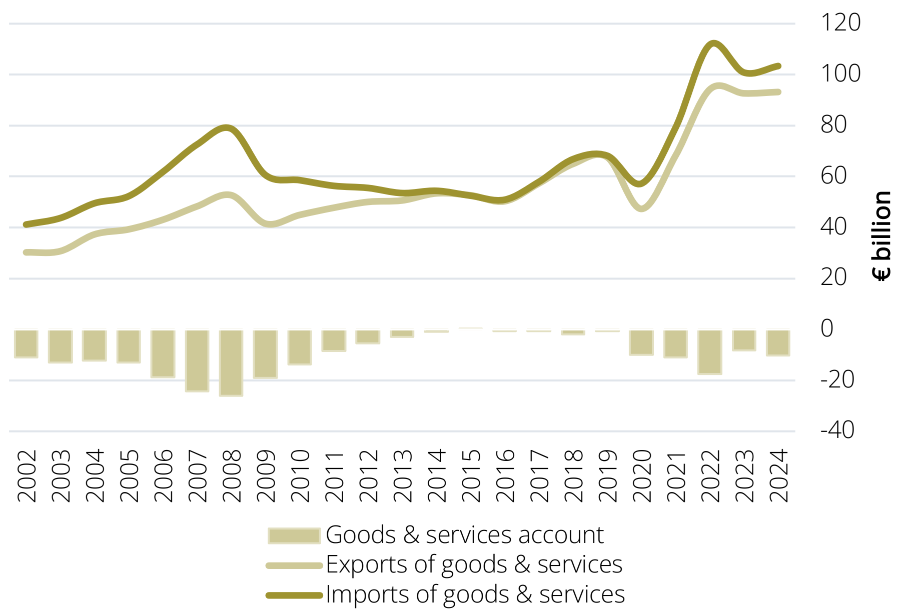
Current Account

January – November 2024

In the first eleven months of 2024 (January–November), the current account deficit stood at €11.5 billion, an increase of €511 million compared to 2023. This increase was primarily due to the deterioration of the goods account and, to a lesser extent, the primary income account. This was offset by improvements in the services and secondary income accounts.

Figure 3.15

Imports-Exports of Goods and Services (January – November), 2002-2024



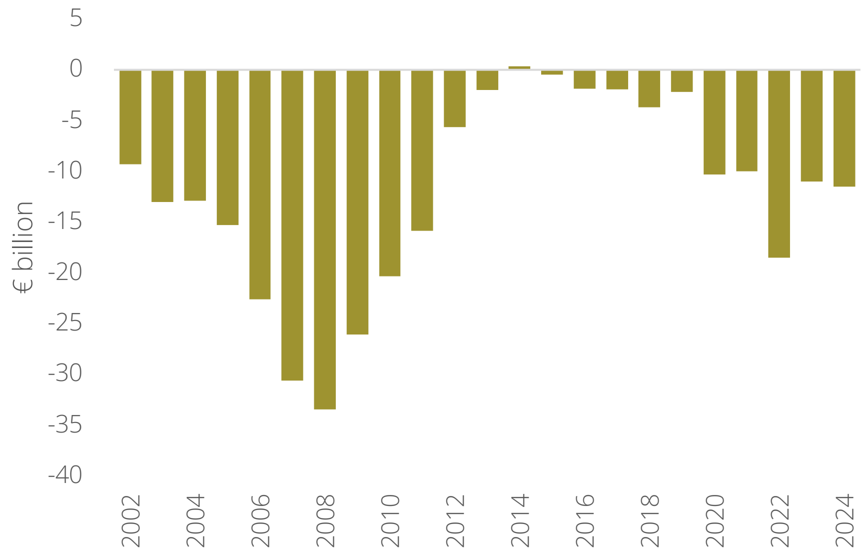
The goods account deficit widened to €10.2 billion in the first 11 months of 2024, an increase of €2.0 billion.

Source: Bank of Greece, Data processing: IOBE

In detail, the goods account deficit amounted to €32.5 billion in 2024, marking a €2.9 billion increase compared to 2023. Exports fell to €44.7 billion (-€1.7 billion),[13] mainly due to a €1.7 billion fall in fuel exports, while the value of exports in the other goods category increased by just €42 million. Meanwhile, imports of goods rose to €77.2 billion, up by €1.2 billion, primarily due to a substantial increase in imports of other goods, up by €2.3 billion. This was partially offset by a decline of €1.2 billion in the value of fuel imports.

Figure 3.16

Current Account (January – November), 2002-2024

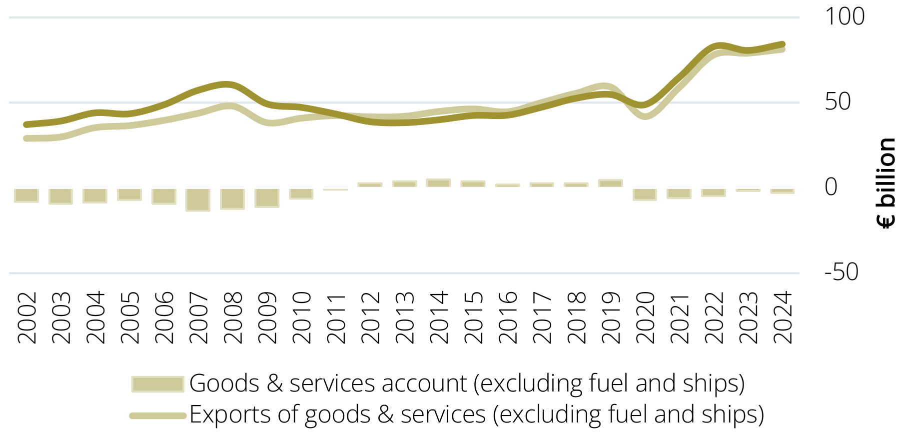


The current account deficit stood at €11.5 billion in the first 11 months of 2024, compared to €11.0 billion in 2023.

Source: Bank of Greece, Data processing: IOBE

Figure 3.17

Imports-Exports of Goods excluding fuel and ships (January – November), 2002-2024



Widening of the deficit in the goods and services account excluding fuel and ships to €3.0 billion in 2024, compared to €1.6 billion in 2023

Source: Bank of Greece, Data processing: IOBE

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

In the first eleven months of 2024, the surplus in the services account increased by €843 million to reach €22.3 billion, compared to an increase of €2.4 billion in 2023. Total receipts from services reached €48.5 billion, an increase of €2.2 billion compared to 2023, while payments totalled €26.2 billion, an increase of €1.4 billion. Revenue from travel services reached €21.3 billion, an increase of €1.0 billion, surpassing the annual results of 2023. Revenues from transport services reached €19.5 billion, an increase of €230 million compared to last year's sharp decline, while receipts from other services reached €7.7 billion, an increase of €995 million. Payments for travel services increased to €2.5 billion (an increase of €296 million); payments for transport services increased to €16.7 billion (an increase of €400 million); and payments for other services reached €7.0 billion (an increase of €686 million).

The primary income account deficit increased to €3.6 billion in 2024, compared to €3.5 billion in the first eleven months of 2023. Revenues rose to €10.3 billion (an increase of €1.2 billion), while payments increased to €13.9 billion (an increase of €1.3 billion). The main reason for the increase in payments was the category of investment-related payments (profits, dividends, and interest).

The secondary income account improved significantly in the first eleven months of 2024, rising to €2.3 billion compared to €649 million in 2023. Receipts increased by €2.0 billion to €6.5 billion, while payments strengthened by €406 million to €4.2 billion.

Capital Account

In the first eleven months of 2024, the capital account[14] was almost balanced, with a small deficit of €35 million compared to a surplus of €1.8 billion in 2023. This was mainly due to a decrease in receipts to €901 million (-€1.5 billion) and an increase in payments to €936 million (+€338 million). The Current Account Balance, which reflects a country's relationship with the rest of the world as a lender or borrower, showed a deficit of €11.6 billion, compared to €9.2 billion in 2023.

Financial Account

The financial account recorded a deficit of €9.5 billion in the first eleven months of 2024, compared with €6.4 billion in 2023.

In the component accounts, residents' net claims on direct investment abroad increased by €1.4 billion, compared with an increase of €3.9 billion in 2023, while net liabilities to non-residents (non-residents' investments in the country) rose by €4.8 billion, compared with an increase of €4.4 billion in 2023. Notably, net direct investment in real estate approached €1.9 billion in the first nine months of 2024, compared to €1.6 billion in 2023.

In the portfolio investment category, residents' claims on non-residents increased by €5.5 billion, while liabilities to non-residents rose by €10.9 billion. This was mainly due to an increase in investments in Greek bonds and interest-bearing notes of €8.9 billion. The remainder came from the purchase of shares.

[14] 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 'other investments' category, claims on non-residents decreased by €1.4 billion, primarily due to a €7.1 billion reduction in deposits and repos. Meanwhile, liabilities fell by €756 million due to a €2.5 billion drop in non-residents' deposits and repos in Greece.

Finally, the country's foreign exchange reserves totalled €14.6 billion at the end of November 2024, up from €12.3 billion in 2023.

Table 3.8. Balance of payments (€ million)

		January – November			November		
		2022	2023	2024	2022	2023	2024
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-18,517.8**	**-11,012.7**	**-11,523.6**	**-3,908.9**	**-3,184.0**	**-3,152.2**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-17,534.6**	**-8,167.7**	**-10,195.4**	**-3,393.3**	**-2,384.9**	**-2,556.5**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-36,565.8**	**-29,603.3**	**-32,473.6**	**-3,753.2**	**-2,833.3**	**-3,233.8**
	Oil balance	-12,405.4	-6,504.3	-7,043.7	-1,706.2	-499.1	-786.0
	Trade balance excluding oil	-24,160.5	-23,099.0	-25,430.0	-2,047.0	-2,334.1	-2,447.8
	Ships balance	-268.6	-51.7	-112.6	-10.8	13.9	-0.6
	Trade balance excluding ships	-36,297.3	-29,551.6	-32,361.1	-3,742.4	-2,847.1	-3,233.2
	Trade balance excluding oil and ships	-23,891.9	-23,047.3	-25,317.4	-2,036.2	-2,348.0	-2,447.2
I.A.1	**Exports of Goods**	**49,274.1**	**46,402.2**	**44,708.9**	**4,715.3**	**4,188.5**	**3,947.3**
	Oil	16,158.2	13,420.7	11,710.0	1,503.7	1,236.6	922.2
	Ships (sales)	100.1	202.9	178.2	9.4	26.0	9.6
	Goods excluding oil and ships	33,015.9	32,778.6	32,820.8	3,202.3	2,925.9	3,015.5
I.A.2	**Imports of Goods**	**85,840.0**	**76,005.5**	**77,182.6**	**8,468.5**	**7,021.8**	**7,181.2**
	Oil	28,563.6	19,925.0	18,753.6	3,209.9	1,735.8	1,708.2
	Ships (buying)	368.6	254.6	290.7	20.1	12.1	10.2
	Goods excluding oil and ships	56,907.8	55,825.8	58,138.2	5,238.5	5,273.9	5,462.7
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**19,031.2**	**21,435.6**	**22,278.3**	**359.9**	**448.4**	**677.4**
I.B.1	**Receipts**	**44,921.3**	**46,247.8**	**48,472.4**	**3,020.7**	**2,815.3**	**3,067.4**
	Travel	17,433.0	20,267.3	21,266.9	337.3	426.9	617.9
	Transportation	21,530.6	19,274.7	19,504.3	2,042.0	1,795.1	1,693.7
	Other services	5,957.7	6,705.8	7,701.2	641.4	593.3	755.9
I.B.2	**Payments**	**25,890.1**	**24,812.2**	**26,194.1**	**2,660.8**	**2,366.9**	**2,390.1**
	Travel	1,748.3	2,203.0	2,498.7	138.8	197.0	198.0
	Transportation	17,965.8	16,266.1	16,665.9	1,880.6	1,533.0	1,499.0
	Other services	6,176.0	6,343.1	7,029.5	641.4	636.8	693.1
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**-675.0**	**-3,493.8**	**-3,609.9**	**-327.3**	**-590.6**	**-371.5**
I.C.1	**Receipts**	**6,908.9**	**9,122.9**	**10,282.3**	**539.4**	**662.8**	**664.1**
	From work (wages, compensation)	204.0	191.4	210.2	19.0	18.1	21.0
	From investments (interest, dividends, profit)	3,757.0	5,830.4	7,348.7	382.5	584.5	508.1
	Other primary income	2,947.8	3,101.1	2,723.4	137.9	60.2	135.1
I.C.2	**Payments**	**7,583.9**	**12,616.7**	**13,892.2**	**866.7**	**1,253.4**	**1,035.5**
	From work (wages, compensation)	1,373.8	1,217.2	1,253.0	122.7	110.2	117.0
	From investments (interest, dividends, profit)	5,588.6	10,921.7	12,201.0	705.7	1,101.1	868.3
	Other primary income	621.5	477.8	438.2	38.3	42.1	50.2
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**-308.2**	**648.8**	**2,281.6**	**-188.2**	**-208.6**	**-224.2**
I.D.1	**Receipts**	**4,012.5**	**4,480.6**	**6,519.0**	**178.0**	**172.5**	**222.6**
	General government	2,467.6	2,415.7	1,430.5	46.0	20.1	45.0
	Other sectors	1,544.9	2,064.9	5,088.4	132.0	152.5	177.6
I.D.2	**Payments**	**4,320.7**	**3,831.8**	**4,237.3**	**366.2**	**381.1**	**446.8**
	General government	2,837.2	2,165.8	2,483.3	217.0	238.7	284.5
	Other sectors	1,483.5	1,665.9	1,754.0	149.3	142.4	162.3
II	**CAPITAL ACCOUNT (II.1-II.2)**	**2,926.1**	**1,823.6**	**-34.6**	**272.5**	**-148.6**	**58.4**
II.1	**Receipts**	**3,453.4**	**2,421.1**	**900.9**	**294.4**	**4.2**	**73.1**
	General government	2,288.1	1,896.5	638.7	193.2	0.1	0.2
	Other sectors	1,165.3	524.6	262.2	101.2	4.0	73.0
II.2	**Payments**	**527.3**	**597.5**	**935.6**	**21.9**	**152.7**	**14.7**
	General government	6.6	6.4	6.5	0.6	0.6	0.5
	Other sectors	520.8	591.1	929.1	21.4	152.2	14.2
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	**-15,591.8**	**-9,189.1**	**-11,558.3**	***-3,636.4***	***-3,332.5***	***-3,093.8***
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**-13,434.8**	**-6,364.5**	**-9,536.3**	**-3,767.9**	**-3,045.1**	**-2,671.8**
III.A	**DIRECT INVESTMENT***	**-5,365.4**	**-476.6**	**-3,346.8**	**-148.6**	**216.0**	**-1,699.4**
	Assets	2,107.8	3,931.6	1,450.7	420.1	723.3	-97.1
	Liabilities	7,473.2	4,408.2	4,797.4	568.7	507.3	1,602.4
III.B	**PORTFOLIO INVESTMENT***	**9,339.5**	**-2,611.9**	**-5,317.2**	**-386.8**	**-3,379.0**	**1,601.6**
	Assets	10,587.3	2,977.8	5,548.0	799.3	-1,780.0	1,426.6
	Liabilities	1,247.8	5,589.8	10,865.2	1,186.0	1,599.0	-175.0
III.C	**OTHER INVESTMENT***	**-15,300.8**	**-3,685.1**	**-621.2**	**-3,235.1**	**16.2**	**-2,377.6**
	Assets	-2,436.5	-1,745.3	-1,377.3	157.1	170.0	985.2
	Liabilities	12,864.3	1,939.8	-756.2	3,392.2	153.8	3,362.7
	(Loans of general government)	-1,991.7	-68.1	113.3	-11.4	130.3	-12.8
III.D	**CHANGE IN RESERVE ASSETS****	**-2,108.1**	**409.2**	**-251.2**	**2.6**	**101.7**	**-196.4**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**2,157.0**	**2,824.6**	**2,021.9**	**-131.5**	**287.5**	**422.0**
	RESERVE ASSETS (STOCK)***				**11,118**	**12,276**	**14,632**

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

- Reduction of the unemployment rate in the third quarter of 2024 to 9.0% from 10.8% in the third quarter of 2023.
- The annual decrease in the unemployment rate was the result of a decrease in the number of unemployed (-86,200) and a simultaneous increase in the number of employed (+67,700).
- The largest annual increase in employment in the third quarter of 2024 was in Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles (+33,400 employed), Construction (+19,600 employed) and Transport and Storage (+17,200 employed).
- Strongest annual decline in employment in the Public Administration and Defence sector (-20,700 employees).
- Negative balance of hires and separations in the private sector in Q3 2024, by 36,500 persons, compared to a positive balance in Q3 2023 (+7,200).
- Marginal decrease in labour market participation in the third quarter of 2024 (52.7% for those aged 15 and over), down 0.1 percentage points compared to last year.
- The seasonally adjusted wage cost index decreased by 1.7% in the third quarter of 2024 compared to the same quarter of 2023, after nine consecutive quarters of growth.

According to the latest data from the ELSTAT Labour Force Survey, the unemployment rate decreased by 1.8 percentage points year on year in the third quarter of 2024, falling from 10.8% in the same quarter of 2023 to 9.0%. During this period, the number of unemployed individuals fell by 86,200 (16.8%) to 428,400, while the number of employed individuals increased by 67,700 (1.6%) to 4,323,900. Therefore, the decrease in the unemployment rate is due to a fall in the number of unemployed people (-86,200) and an increase in employment (+67,700). Based on monthly data, it should be noted that labour market indicators improved in the third quarter, as the seasonally unadjusted unemployment rate fell from 10.7% in November 2023 to 9.7% in November last year (-1.0 percentage points). According to the latest ERGANI information system data on private sector employment flows (January–October), the cumulative balance of hires and separations was positive by 171,200 jobs, though this was lower than in the same period of 2023 (180,600 jobs).

Regarding the evolution of unemployment in the Eurozone in Q3 2024, the picture is mixed: nine countries showed a decrease in their unemployment rate, ten countries showed an increase, and one country's rate remained unchanged. Spain had the highest unemployment rate, falling to 11.2% in Q3 2024 from 11.9% a year earlier (-0.7 percentage points), followed by Greece (see Appendix). Conversely, the lowest unemployment rates in Q3 2024 were recorded in Malta (3.1%), Germany (3.5%), and the Netherlands (3.7%). The strongest annual increase in the unemployment rate was recorded in Luxembourg (+1.4 percentage points, rising from 5.5% to 6.9%), while the sharpest decline was recorded in Greece (-1.8 percentage points, falling from 10.8% to 9.0%) and Italy (-1.7 percentage points, falling from 7.3% to 5.6%). In the euro area, the unemployment rate reached 6.2%.

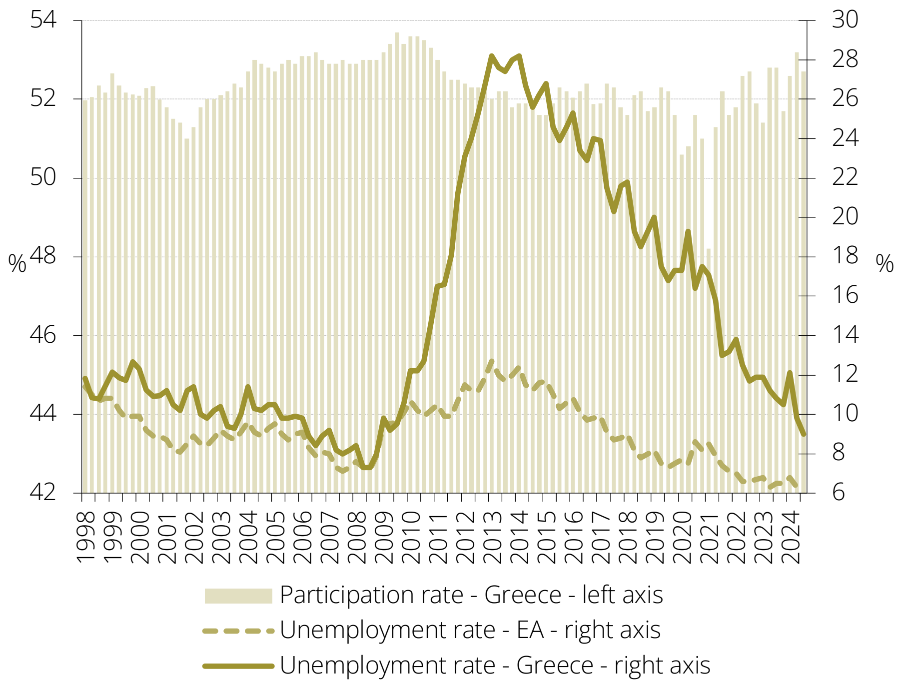
Regarding the evolution of the unemployment rate by gender in Greece, it remains higher for women, but the decline was more pronounced among them. Specifically, the unemployment rate for women fell from 14.4% in the third quarter of 2023 to 11.5% in the same quarter of 2024, a decline of 2.9 percentage points. For men, it fell from 7.9% to 7.1%, a decline of 0.8 percentage points. During the same period in the Eurozone, the unemployment rate for women fell from 7.0% to 6.5% (-0.5 percentage points), while remaining unchanged for men at 6.1%.

Regarding the distribution and evolution of the unemployment rate by age, it is lower among older age groups. In the third quarter of 2024, the unemployment rate fell across all age groups. The most significant decline, of 20.9 percentage points, was observed among 15–19-year-olds, where the rate fell from 39.9% to 19.0%. The second-largest decline was among 20–24-year-olds, with the unemployment rate falling by 6.8 percentage points to 15.0% from 21.8%. The smallest decrease was among 45–64-year-olds, with the unemployment rate falling by 0.7 percentage points to 6.8% from 7.5%. The lowest unemployment rates were recorded in the 45–64 and over-65 age groups.

In terms of the duration of unemployment, the percentage of long-term unemployed fell, as did their number. The long-term unemployment rate fell to 56.5% (as a percentage of the unemployed) in the third quarter of 2024, from 60.3% in the same quarter of 2023 (-3.8 percentage points) while the number of long-term unemployed fell to 242,000 from 310,300 (-68,300 or -22.0%).

Figure 3.18

Labour force participation and unemployment rates



Reduction of the unemployment rate in Greece in Q3 2024 to 9.0%, from 10.8% in Q3 2023. The share of the working population aged 15+ approached 53%.

Sources: ELSTAT – Labour Force Survey, Eurostat

Regarding the distribution and evolution of the unemployment rate by level of education, it decreases as the level of education improves. In the third quarter of 2024, the unemployment rate fell across all educational levels, except for individuals with a doctorate or master's degree and those who attended some years of primary school or did not attend school. The biggest drop in unemployment, by 3.7 percentage points, was among people with a lower secondary education certificate, where the unemployment rate fell to 7.4% from 11.1% in the same quarter of 2023. The second-largest decrease (2.7 percentage points) was observed among individuals with a primary school diploma, where the unemployment rate fell from 11.8% to 9.1%. The lowest unemployment rates were recorded among individuals with higher education and doctoral or postgraduate qualifications. In this category, however, the unemployment rate increased by 1.6 percentage points, rising to 7.5%.

Regarding trends in regional unemployment, the rate fell in all regions except South Aegean, where it rose. The highest seasonally adjusted unemployment rate was recorded in Eastern Macedonia and Thrace, falling to 12.7% from 12.8% in Q3 2023 (-0.1 percentage points). The second highest rate was observed in Central Macedonia, where it fell to 12.3% in the third quarter of 2024, down from 13.8% in the third quarter of 2023 (-1.5 percentage points). The strongest decline was observed in Western Macedonia, where the unemployment rate fell by 6.2 percentage points to 11.1% from 17.3%. The lowest unemployment rate in the same period was recorded in the South Aegean region, where it increased by 0.1 percentage points to 3.1%. This was the only region to see an increase in unemployment. The regions of Epirus, Crete and Thessaly followed. In the former, it fell from 15.4% to 10.6% (-4.8 percentage points), while in the latter two it fell from 8.7% to 5.3% and from 13.2% to 9.8% (-3.4 percentage points), respectively.

In terms of employment trends by occupational status, employment increased in all categories except for self-employed persons without staff. The largest annual employment increase, at 2.6% or 77,800 people, was among employees, with 3,020,800 people employed in the third quarter of 2024. An increase of 0.6% or 1,800 people was also recorded among the self-employed with employees, with 312,600 people employed in the third quarter of 2024. Family business assistants followed, with 151,300 persons employed in this category, representing an annual increase of 0.5% or 700 persons. By contrast, the number of self-employed persons without staff fell to 839,200, representing an annual decrease of 1.5% or 12,600 persons.

The number of full-time employees in the third quarter of 2024 increased by 72,600 (1.8%) compared to the same quarter of 2023, reaching 4,046,300. Meanwhile, the number of part-time employees decreased by 8,200 (3.0%), reaching 267,900.

In terms of employment trends by occupational category, six occupations saw an increase in employment, while four saw a decrease. The strongest increase in absolute terms was recorded in the service and sales workers category, with 64,000 more people employed in the third quarter of 2024 than in the same period of 2023 (1,004,300 compared to 960,800). The number of clerical support workers also increased, by 20,800 people, from 959,600 in the third quarter of 2023 to 980,400 in the same period of 2024. The sharpest decline in absolute terms was among technicians and associate professionals in the third quarter of 2024, with a fall in numbers from 291,300 to 274,700 in the corresponding quarter of 2023 (-16,600). This was followed by a decrease among managers, whose number fell from 130,300 to 118,900 in the same quarter of 2023 (-11,400).

Regarding employment trends in key sectors, employment increased in the secondary and tertiary sectors, while it decreased in the primary sector. The strongest increase was in the tertiary sector, where employment rose by 43,600, or 1.4%, to 3,139,400. In the secondary sector, employment increased by 36,400, or 5.4%, reaching 713,700 in the third quarter of 2024. In the primary sector, employment decreased by 13,100, or 2.7%, bringing the total to 468,200.

In terms of economic activity, employment increased in eleven sectors, declined in ten and remained unchanged in one. The strongest increase in employment in the third quarter of 2024 was seen in the wholesale and retail trade, repair of motor vehicles and motorcycles, and construction sectors. In the former sector, the number of employed persons increased by 33,400 (4.8%) to reach 727,000, up from 693,600. In the latter sector, the increase was 19,600 (11.2%), rising from 174,500 to 194,100. The increase in employment in transport and storage was also significant (by 17,200 employees, or 7.5%), rising from 228,400 to 245,600. Conversely, the sharpest decline in employment occurred in public administration and defence, with employment falling from 374,000 to 353,300 (-20,700 or -5.3%). The education sector remained unchanged, with the number of employed persons recorded at 312,600.

In conclusion, sector-level employment data shows that the increase in the third quarter of 2024 compared to the same quarter in 2023 was mainly driven by growth in the following sectors:

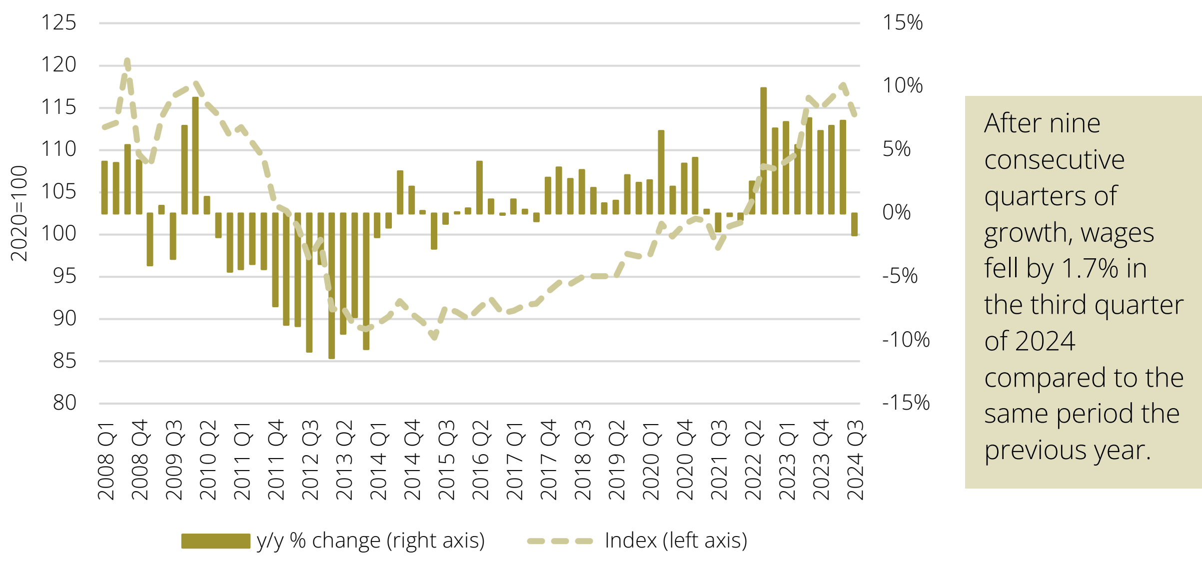
- Wholesale and retail trade, repair of motor vehicles and motorcycles (+33,400 employees);
- Construction (+19,600 employees);
- Transportation and storage (+17,200 employees).

Additionally, the employment rate for individuals aged 15 and over in Q3 2024 stood at 48.0%, marking a 0.9 percentage point increase from Q3 2023's rate of 47.1%. Regarding the evolution of the Eurozone's employment rate in Q3 2024, it increased from 54.2% in Q3 2023 to 54.5%, an increase of 0.3 percentage points. By contrast, Greece's employment rate remained significantly lower than the Eurozone average in Q3 2024, deviating by 6.5 percentage points from the 7.1-percentage-point difference observed in the same period of 2023.

Regarding the trend in the seasonally adjusted wage cost index for the Greek economy, the third quarter of 2024 saw a 1.7% decline compared to the same quarter in 2023, following nine consecutive quarters of growth.

Figure 3.19

Seasonally adjusted wage cost index



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	39.0	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	39.9	1,130.9	23.5
2017	9,176.9	52.1	3,752.7	40.9	1,027.1	21.5
2018	9,140.2	51.9	3,828.0	41.9	915.0	19.3
2019	9,103.5	52.0	3,911.0	43	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	42.4	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	42.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	43.3	756.4	16.2
Q4 2020	9,074.2	51.0	3,878.5	42.7	750.1	16.2
2020	9,079.0	51.0	3,878.5	42.7	755.0	16.3
Q1 2021	9,070.8	48.2	3,625.1	40.0	745.4	17.1
Q2 2021	9,067.1	51.3	3,915.3	43.2	732.5	15.8
Q3 2021	9,063.5	52.2	4,118.3	45.4	615.4	13.0
Q4 2021	9,060.0	51.6	4,053.3	44.7	617.4	13.2
2021	9,065.4	50.8	3,928.0	43.3	677.7	14.7
Q1 2022	9,055.8	51.8	4,044.0	44.7	647.2	13.8
Q2 2022	9,051.9	52.6	4,167.2	46.0	591.6	12.4
Q3 2022	9,048.2	52.7	4,216.0	46.6	555.6	11.6
Q4 2022	9,044.7	51.9	4,135.2	45.7	558.4	11.9
2022	9,050.2	52.3	4,140.6	45.8	588.2	12.4
Q1 2023	9,041.4	51.4	4,098.0	45.3	550.5	11.8
Q2 2023	9,038.4	52.8	4,236.5	46.9	533.3	11.2
Q3 2023	9,035.5	52.8	4,256.2	47.1	514.6	10.8
Q4 2023	9,032.7	51.7	4,183.1	46.3	488.7	10.5
2023	9,037.0	52.2	4,193.5	46.4	521.8	11.1
Q1 2024	9,025.7	52.6	4,173.4	46.2	574.1	12.1
Q2 2024	9,020.5	53.2	4,327.8	48.0	467.6	9.8
Q3 2024	9,015.4	52.7	4,323.9	48.0	428.4	9.0

Source: ELSTAT, Labour Force Survey

Medium-term outlook

The labour market is set to experience a slight improvement in 2025, according to the baseline macroeconomic scenario, although this positive trend is expected to slow down. There is limited scope for further reductions in cyclical unemployment, while reducing structural unemployment and increasing labour participation remain a challenge.

The planned increase in investment is expected to have a positive impact on employment in 2025. Two factors will contribute to this increase. Firstly, there has been a gradual reduction in financing costs resulting from the actions of international monetary authorities and the systematic strengthening of international investor confidence in the country, which has reduced the spread of public and private sector financing costs. Secondly, the accelerated implementation of the revised National Recovery and Resilience Plan and the use of the expanded loan facility with favourable financing terms is expected to boost investment, particularly in the infrastructure and energy sectors.

The expectation of resilient consumption, which is expected to increase at a slower pace in 2025, will have a mildly positive impact on employment. An increase in exports, stemming from accelerated growth in the euro area and the euro's undervalued exchange rate, is also expected to positively impact employment in 2025. Monetary policy undoubtedly influences these trends, and the prospect of faster interest rate cuts will have a positive impact on the short-term outlook for investment, consumption, and exports.

From a sectoral perspective, the results of the business surveys indicate a weakening of the employment outlook in industry, retail, and services. However, construction has maintained its momentum. The gradual maturation of major infrastructure projects and the execution of the large number of building permits recorded in 2024 will also have a positive effect on employment. Following a new record number of arrivals in 2024, positive performance in the tourism sector is expected to continue in 2025. However, the sector's impact on employment in 2025 is expected to be smaller than in 2024. Finally, the public sector is expected to support employment through planned recruitment in the current year.

In terms of risks, geopolitical instability and economic uncertainty are expected to persist at regional and international levels in 2025. Additionally, although international energy prices are fluctuating at lower levels, uncertainty surrounding their future trajectory has increased. Inflation in 2025 is also expected to exceed the euro area average.

A significant obstacle to competitiveness and overall employment is the relatively high core inflation rate in the Greek economy. In line with IOBE's predictions of a slowdown in consumption in 2025, employment growth is also expected to slow down.

Now that the country has reached single-digit unemployment rates, any further reductions in the coming quarters or years are bound to be slower. Alongside reducing cyclical unemployment, the focus is on tackling residual structural and frictional unemployment. In this regard, skills mismatches in the Greek labour market and the need for adequate, quality initial and lifelong training are considered important issues.

Taking the above effects on the labour market into account, the unemployment rate is expected to be around 10.1% in 2024 and 9.3% in 2025.

According to the latest IOBE Business and Consumer Surveys, there was a slight deterioration in the short-term employment outlook in industry, retail trade and services in the September–December quarter of 2024 compared to the third quarter, while the outlook in construction remained unchanged. Compared to the same period in 2023, there was a slight improvement in industry, while the decline in retail trade, services and construction was mild. In more detail:

In the industry sector, the average balance for the fourth quarter of 2024 weakened slightly compared to the previous quarter, standing at +7 points. However, compared to the same period last year, the average quarterly index is approximately 10 points higher. During the quarter under review, 9% of industrial companies expected a decline in employment in the coming period, while 16% expected an increase in the number of jobs (down from 19%). Nevertheless, the vast majority of companies in the sector (76%) anticipated stable employment levels.

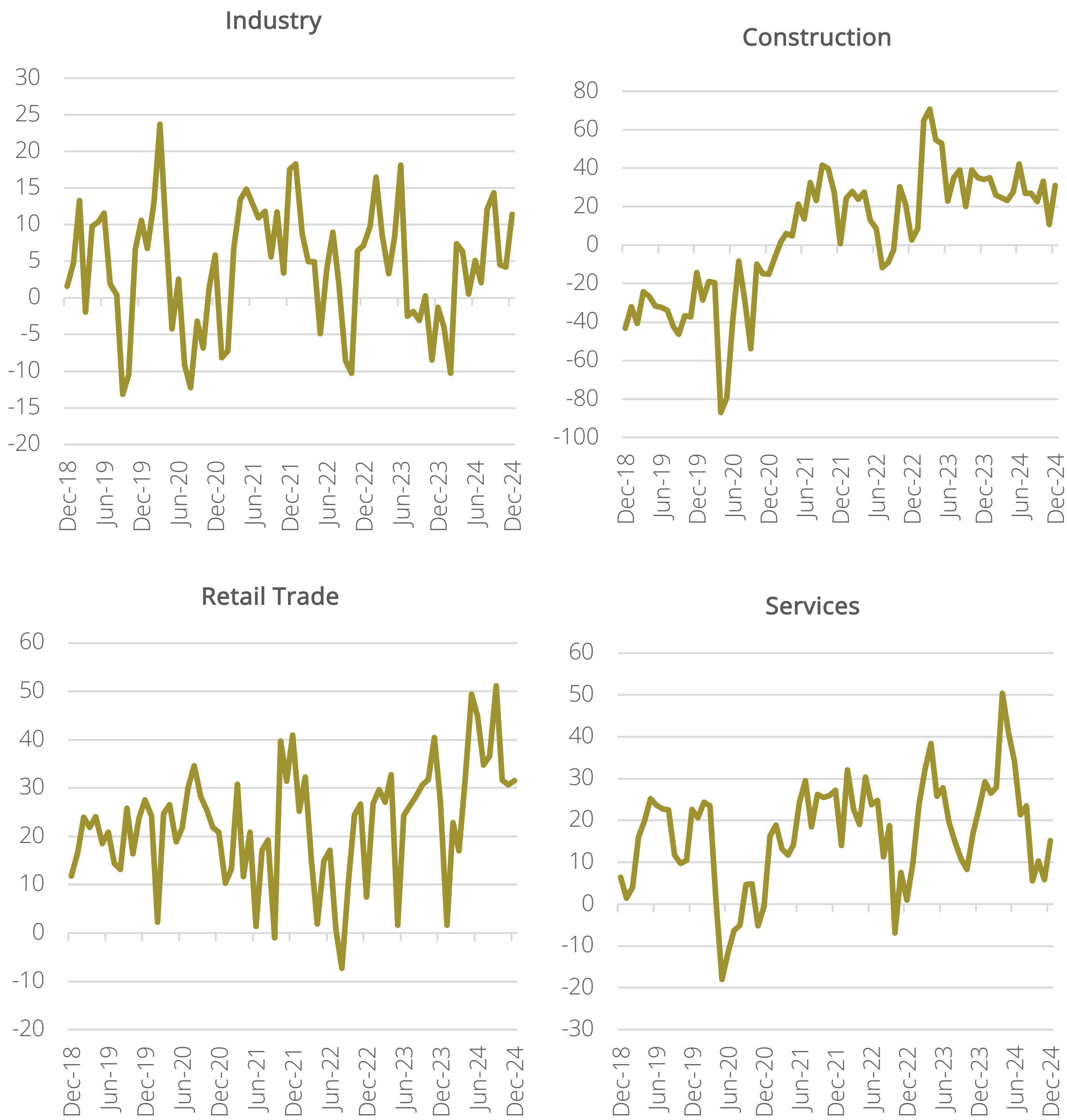
In the construction sector, the relevant forecasts indicate stability in employment, with the balance remaining at +25 points — slightly lower than in the same period of 2023, when it was +36 points. During the quarter under review, 7% of businesses in the sector anticipated fewer jobs, while the percentage of respondents expecting an increase in employment fell to 32% (down from 38%). At the sectoral level, the relevant indicator declined sharply in private construction (from +46 to +29 points), while it strengthened significantly in public works (from -1 to +21 points).

The employment outlook indicator for the retail trade sector weakened slightly in the fourth quarter of last year, falling from +41 points to +31 points. This represents a marginally lower performance than in the corresponding quarter of 2023, when the figure was +33 points. As in the previous quarter, only 2% of businesses in the sector expected job losses, while 33% (down from 42%) anticipated an increase in employment. Those expecting stability accounted for 64% of the total. Of the individual sectors examined, the relevant balance weakened in all except department stores, where it strengthened slightly.

In the services sector, the relevant forecasts for the quarter under review indicate a slight decline compared with the previous quarter, as well as a corresponding weakening compared with the same period last year. Accordingly, the balance for the fourth quarter of 2024 fell by 6 points to +10, while compared to the same period in 2023, it fell by 6 points. Ten per cent of companies in the sector expect a decline in employment, while the percentage forecasting an increase stands at 21 per cent (down from 23 per cent). At the sectoral level, the trend is noticeably negative in hotels and restaurants, information technology and land transport, while it is strongly positive in financial intermediaries and other business activities.

Figure 3.20

Employment expectations (difference between positive and negative responses)



Source: IOBE

Compared with the previous quarter, there was a slight deterioration in the short-term employment outlook in industry, retail trade and services in the fourth quarter of 2024, while expectations in construction remained unchanged.

Special box of section 3.4.

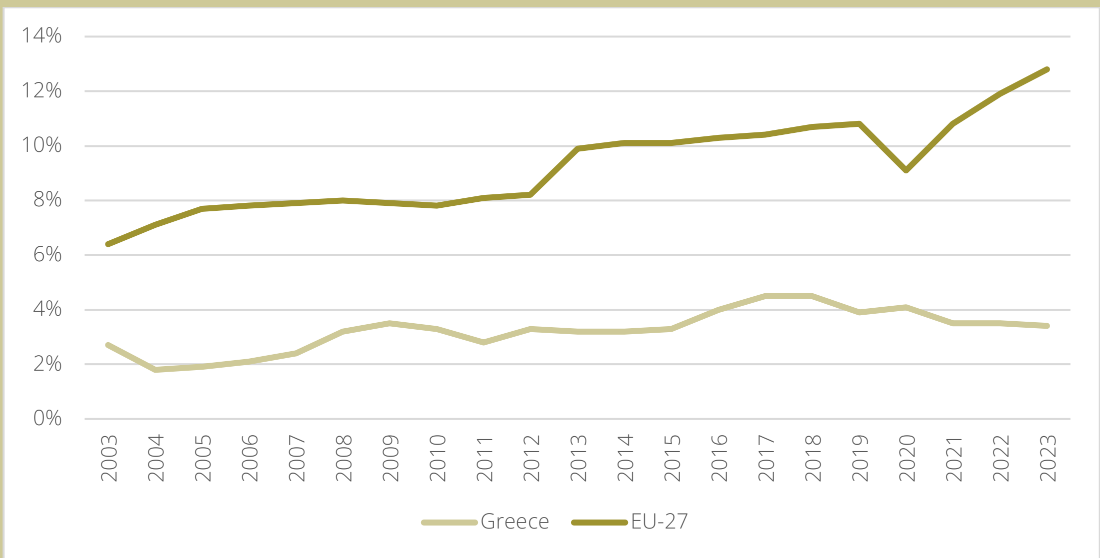
Vocational training and lifelong learning over time in Greece and Europe

Education is not just important for society as a whole, but also for the economy. Compulsory education lays the foundations for developing the skills and knowledge of the workforce, while tertiary education increases the availability of skilled workers involved in developing innovative products and applications. Lifelong learning enables workers to develop and adapt their skills in response to technological and economic changes. A key component of lifelong learning is vocational training, which provides the knowledge and skills necessary for specific occupations or the broader labour market.

The European Commission collects detailed data on lifelong learning and vocational training. This includes information on adult participation rates in education and lifelong learning programmes, as well as data on vocational training programmes within EU companies.

Figure B.3.4.1 illustrates the participation rate of people aged 25–64 in education and vocational training in Greece and the EU-27 over time. Throughout the period under review, we observe that Greece lags significantly behind the European average. In fact, the difference has increased in recent years, with the maximum deviation of 9.4 percentage points recorded in 2023, which is the year with the most recent available data.

Figure B.3.4.1 Participation rate in education and vocational training for persons aged 25-64

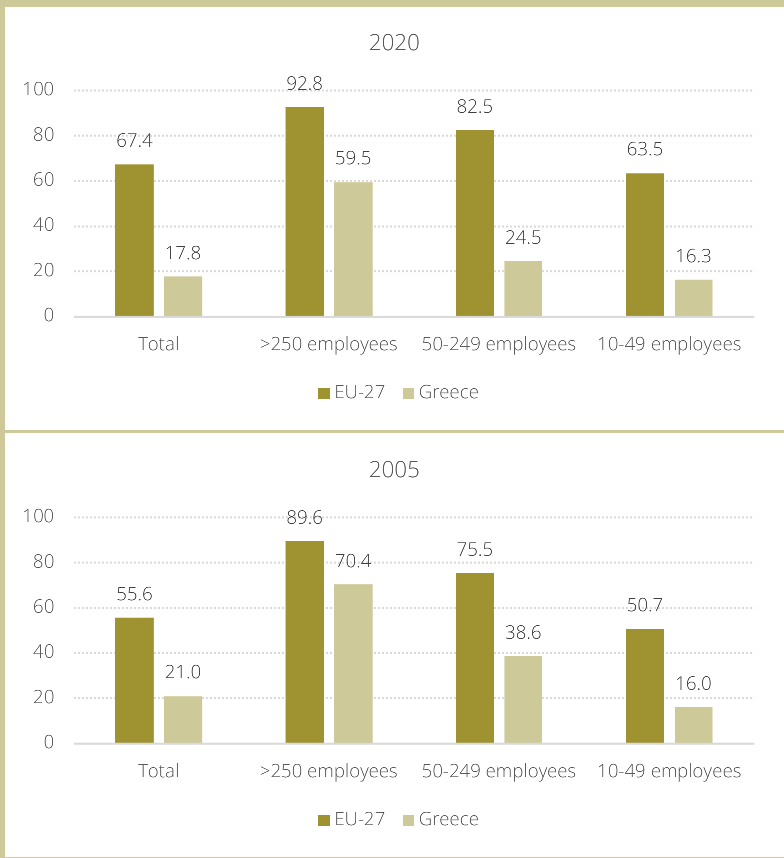


Source: Eurostat, Data processing: IOBE

Figure B.2.2.2 shows the percentage of enterprises providing vocational training to employees, categorised by enterprise size, for the years 2020 (the most recent year for which data is available) and 2005 (the oldest year for which data is available). Vocational training includes various forms of learning, such as planned and guided training in the workplace; participation in face-to-face or online courses offered either internally or externally; and participation in conferences and trade fairs for learning purposes. Greece lags significantly behind the European average in both years, with the difference increasing from 34.6 to 49.6 percentage points over time. This is primarily due to a decrease in the percentage of small enterprises (10–49 employees) and medium-sized enterprises (50–249 employees) offering vocational training in Greece. At the same time, the corresponding rates in the

European average increased. The maximum difference in relation to the EU-27 (58 percentage points) in 2020 is recorded in medium-sized enterprises, followed by large enterprises (>250 employees) with a difference of 47.2 percentage points.

Figure B.3.4.2. Percentage of enterprises (% of total) providing training to employees, by size of enterprise

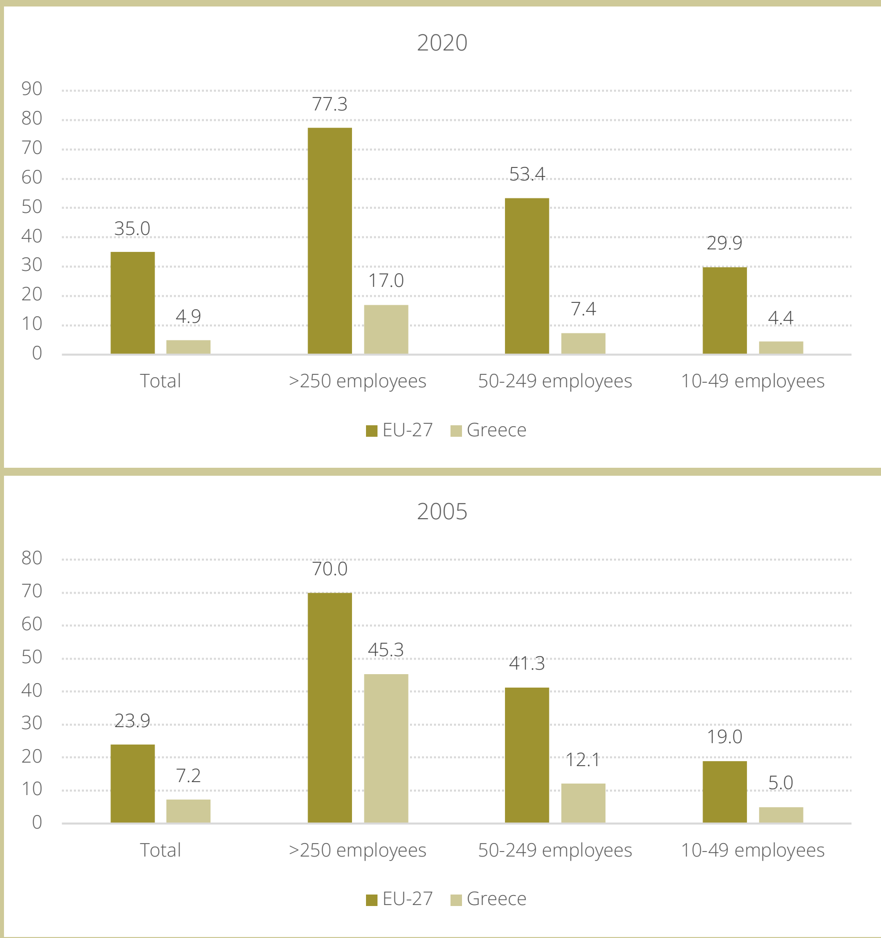


Source: Eurostat, Data processing: IOBE

Figure B.3.4.3 shows the percentage of enterprises offering internal training courses to employees, by enterprise size. As with the previous figure, there is a significant difference between Greece and the European average in both years, with this difference increasing from 16.7 to 30.9 percentage points over time. This difference is mainly due to a decrease in the percentage of small enterprises offering internal training in Greece, and an increase in the percentage of medium and large enterprises offering internal training in Europe. The maximum difference in relation to the EU-27 (60.3 percentage points) is recorded in large enterprises in 2020, with medium-sized enterprises lagging behind (46 percentage points).

In conclusion, Greece lags behind the rest of Europe in terms of important indicators related to lifelong learning and vocational training, and the gap is widening compared to the European average. The participation rates of adults in education and vocational training, as well as the proportion of enterprises offering in-house or external vocational training programmes, are significantly lower than the European averages. Furthermore, the gap has widened over time. Given the significant impact of lifelong learning on a country's economic development, among other things, the challenges emerging from these negative trends are becoming more acute. In this context, investment in human capital is critical, as are policy priorities aimed at upgrading lifelong learning and vocational training programmes offered by the state and businesses.

Figure B.3.4.3. Percentage of enterprises (% of total) offering internal training to employees, by size of enterprise



Source: Eurostat, Data processing: IOBE

3.5 Consumer and Producer Prices

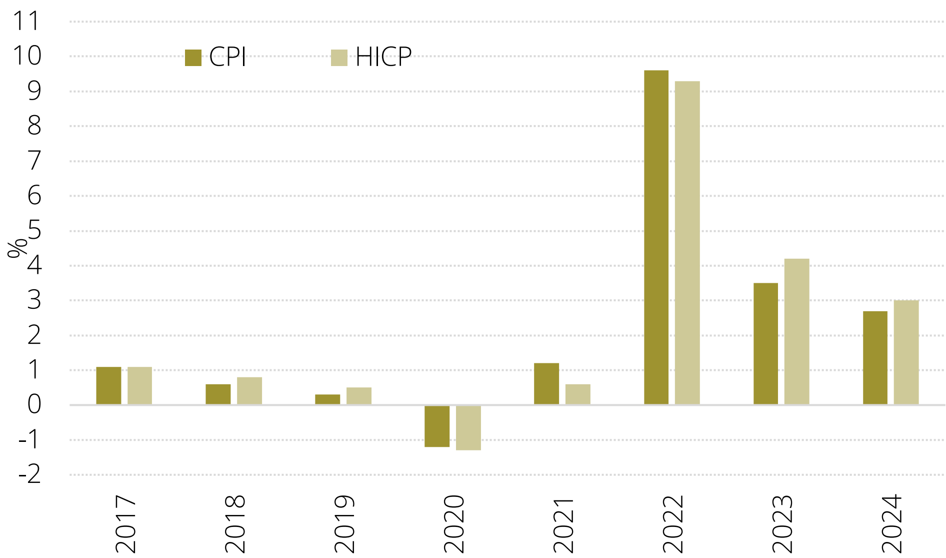
- A milder rise in the HICP (CPI) was recorded in 2024, reaching 3.0% (2.7%), compared to inflation of 4.2% (3.5%) the previous year. This is mainly due to the upward effect on non-energy goods prices. The HICP rate with constant taxes and excluding energy was 3.1% in the first eleven months of this year, down from 6.9% a year ago.
- For 2025, the Consumer Price Index is projected to rise by around 2.4%. Key assumptions:
    - consumer demand will strengthen by around 1.6%;
    - the price of Brent crude oil will decline slightly on an annual basis; however, developments in the Middle East will exert further pressure on the energy market.

Recent developments

In 2024, prices increased compared to the previous year, with the average rate of change in the domestic Consumer Price Index (CPI) standing at 2.7%, down from 3.5%. The Harmonised Index of Consumer Prices (HICP) increased by 3.0% last year, following a 4.2% rise in 2023. In December, the rate of change in the CPI stood at 2.6%, down from 3.5% in December 2023. An upward trend was also observed in the HICP, with the rate of change standing at 2.9% in December 2024 compared to 3.7% in December the previous year. It should be noted that core inflation in Greece stood at 3.4% in 2024, down from 6.2% in 2023.

Figure 3.21

Annual change in the domestic CPI and the HICP in Greece (January – December, %)



Domestic CPI up 2.7% in 2024 compared to a year earlier, από 3,5% το 2023.

Source: ELSTAT, data processing IOBE

Regarding the impact of HICP components on the trend, the 3.0% rise in the harmonised index in the January–November 2024 period, for which data are available, is due to the positive impact of domestic demand. The percentage change in the index with constant taxes and excluding energy goods stood at 3.1%, compared with an increase of 6.9% a year earlier. Indirect taxation positively impacted prices by 0.2 percentage points during this period, compared to having no impact a year earlier.

Figure 3.22

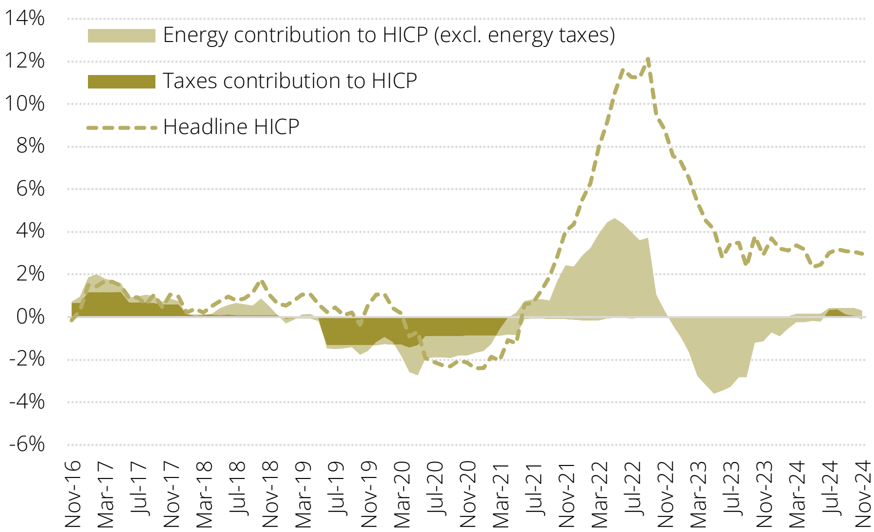
CPI in Greece (annual percentage change per month)

Stronger rise in domestic CPI in December 2024 (2.6% from 2.4% a month earlier). The rate of change was lower than in the corresponding month of 2023 (3.5%).

Source: ELSTAT, data processing IOBE

Figure 3.23

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



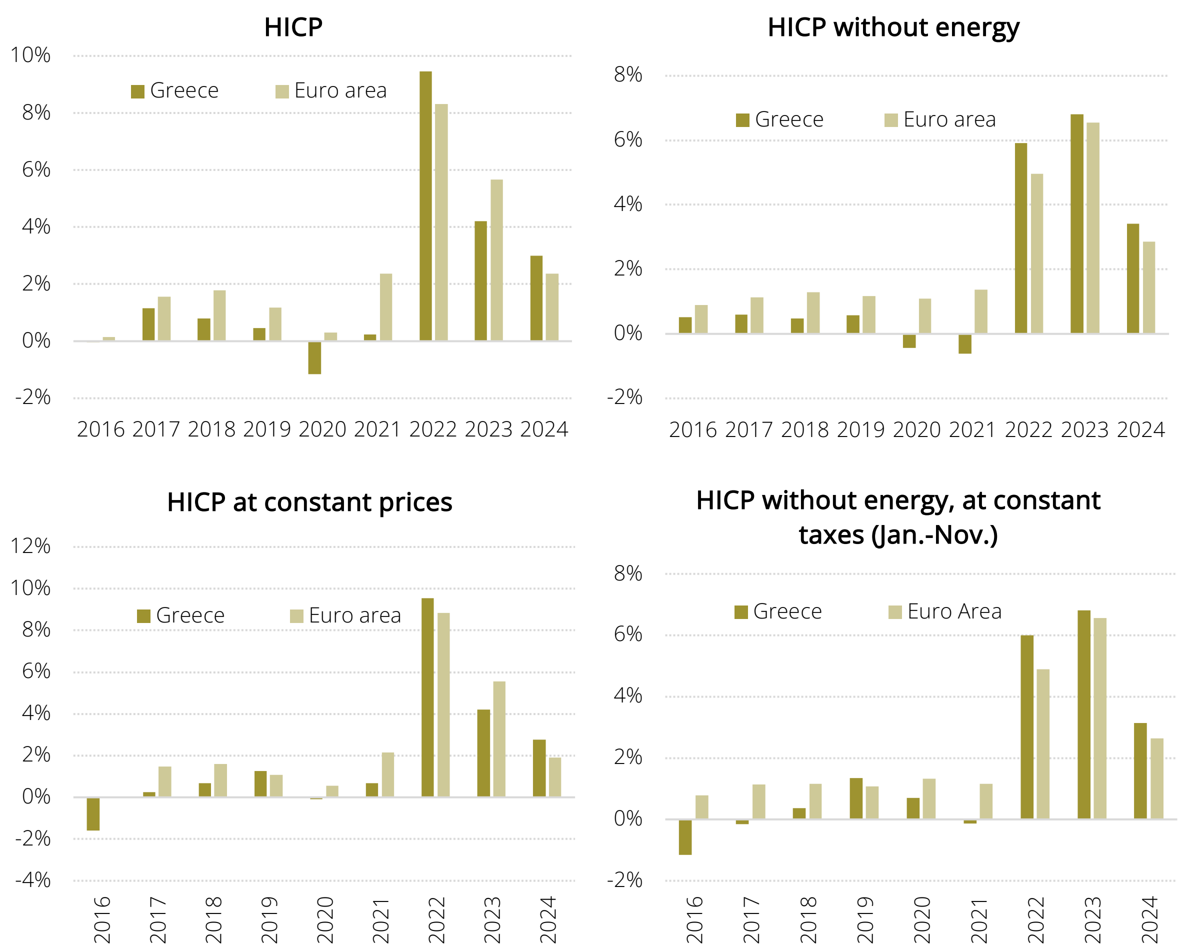
The increase in the HICP during the first nine months of 2024 was driven by rising prices of non-energy goods, with the impact of taxes now having a marginally positive effect.

Source: Eurostat, data processing IOBE

Regarding recent trends in energy prices and their impact on the HICP, the average international oil price in January–November 2024 declined compared with the same period a year earlier. Specifically, the average price of Brent crude oil was $81.1/barrel, down from $82.9/barrel a year earlier — a decline of 2.1%. The slight appreciation of the euro against the dollar in the first nine months of 2024 reinforced this decline, with the average price of oil in euros standing at €74.8/barrel compared to €76.7/barrel in the same period of 2023. The decline in oil prices, a key component of energy costs, accounted for the 0.4 percentage point negative impact of energy prices on the rate of change of the domestic HICP in January–November 2024, compared with a negative impact of 2.4 percentage points in the corresponding period of 2023.

Figure 3.24

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



Source: Eurostat, data processing IOBE

In the first eleven months of 2024, domestic price inflation was higher than the Eurozone average. The inflationary impact of non-energy goods was 3.1 percentage points, which was higher than the Eurozone average of 2.7 percentage points.

With an increase of 3.0%, Greece ranks highly among Eurozone countries in terms of rate of change in the HICP in 2024, above the weighted average (2.4%). Over the January–November 2024 period, the average HICP change in the eurozone was 2.4%, down from 5.7% a year earlier. Domestic demand appears to have been the main driver of price increases in the Euro area, as the price index at constant taxes and excluding energy goods rose by 2.7% in the examined period, following an increase of 6.6% a year earlier.

Regarding trends in the individual product and service categories included in the domestic Consumer Price Index, hotels recorded the sharpest rise in 2024. Prices in the hotels category increased by 6.0%, down from a 6.5% increase the previous year. The clothing category saw a change of 5.0%, following a 6.0% increase. This was followed by health and food, which recorded a 3.4% increase, after increases of 6.0% and 11.6%, respectively, a year earlier. Education and other goods recorded increases of 3.3% and 2.1% respectively, following increases of 2.6% and 4.2% respectively a year earlier. Prices in the recreation and transport categories rose by 1.9%, following increases of 3.2% and 0.2%, respectively, a year earlier. Price increases for alcoholic beverages and housing (including energy bills) were 1.7% and 1.5% respectively, compared to 3.1% and an 8.3% decline respectively in 2023. In contrast, the decline in prices for durable goods was marginal at 0.1% in 2024, compared to an increase of 6.7% the previous year. Prices fell by 0.3% in communications, following a sharper decline of 2.5% in 2023.

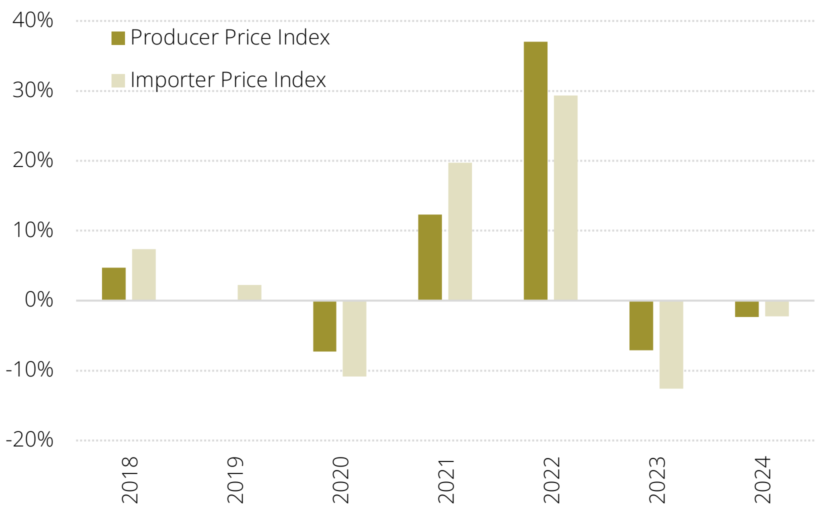
Regarding price trends in production in the period from January to November 2024, the Producer Price Index (PPI) for domestic and foreign markets as a whole declined compared to the same period in 2023 (-2.3%), primarily due to falling energy prices. Specifically, the PPI excluding energy increased by 1.9% in the first eleven months of last year, compared to a more significant rise of 4.9% the previous year. Regarding trends in industrial product prices, the highest increases were recorded in crude petroleum and other transport equipment, with rises of 18.1% and 9.9% respectively, compared to more moderate increases of 10.5% and 8.1% respectively a year earlier. Meanwhile, producer prices rose by 5.9% for motor vehicles and by 5.5% for minerals, following no change and a decline of 1.5%, respectively, in the same period of 2023. Prices of pharmaceutical products and electronic computers rose by 5.0% and 4.8%, respectively, following a decline of 0.6% and an increase of 0.1%, respectively, in the first eleven months of 2023. Upward trends in producer prices were recorded in the January–November 2024 period for furniture, with an increase of 4.1%, compared to a stronger increase of 4.5% a year earlier. This was followed by leather goods and beverages, with an increase of 4.0%, both of which followed increases of 6.0% and 6.6%, respectively, a year earlier. In contrast, producer prices fell for refined petroleum products and electricity by 6.5% and 6.0%, respectively, following stronger declines of 21.5% and 12.7% a year earlier.

Regarding the evolution of the Import Price Index (IPI) over the period from January to November of the previous year, a year-on-year decrease of 2.3% was recorded, compared to a more pronounced decline of 12.6% the previous year. The 2.1% decline in domestic import prices over the first ten months of last year ranks Greece among the lowest of the fourteen euro-area countries for which data were available in that period. The highest import price declines were recorded in Slovakia and the Netherlands at 4.8% and 3.4% respectively, compared to declines of 4.3% and 5.8% respectively a year earlier. They were followed by Slovenia with a decline of 2.6%, compared to a decline of 0.3% a year earlier. The same index fell by 2.6% in the euro area, compared with a decline of 6.0% in the same period in 2023. Notably, none of the euro area countries for which data are available recorded an increase in import prices.

Among the individual categories of imported products, the largest increase in the period January - November 2024 was recorded in the prices of tobacco products, 7.9% from a milder increase of 2.0% a year earlier, while the increase in the prices of minerals was lower, at 6.8% compared to a stronger increase of 11.5%. This was followed by beverages and motor vehicles, with increases of 1.5% and 1.2% respectively in the first eleven months of the previous year, from increases of 4.5% and 2.0% respectively a year earlier. Prices for furniture rose by 1.0% in the period under review, following an increase of 5.7% a year earlier. This was followed by mining and quarrying products and plastic products, both up 0.9%, following increases of 1.1% and 3.1% a year earlier. In contrast, import prices fell in coal and lignite and electricity supply, by 8.4% and 7%, following increases of 41.9% and a sharper decline of 23.3% a year earlier.

Figure 3.25

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



Decline in import prices (-2.3%) in the first eleven months of 2024, mainly due to the negative impact of energy prices. Producer prices also fell over the same period (-2.3%).

Source: ELSTAT, data processing IOBE.

Medium-term outlook

An analysis of the main components of the domestic Consumer Price Index in 2024 revealed that the increase was primarily driven by rising non-energy prices. The decline in energy prices last year appears to have had a slight dampening effect on inflation. Conversely, although price increases in key product categories slowed in the final months of last year, prices remained high.

In December 2024, the EU Member States imposed a new set of sanctions in response to Russia's military attack on Ukraine. This was the 15th set of sanctions concerning individual sanctions and restrictive measures. Specifically, the EU introduced further controls and restrictions on the import and export of goods and technologies that could strengthen Russia's international position, as well as banning access to ports and maritime transport services. Additionally, the travel restrictions and asset freezes targeting individuals and entities were extended.

Regarding energy prices, the average international oil price in 2024 increased slightly compared to the previous year. Specifically, the average price of Brent crude oil was $80.5 per barrel, down from

$82.5 per barrel a year earlier — a decrease of 2.4%.[15] The stability of the average exchange rate of the euro against the dollar in 2024 kept the price of oil in euros stable, with an average price of €74.4/barrel.

However, an escalation of unrest in the Middle East could lead to economic instability and supply chain disruption, particularly for energy goods. This would create uncertainty in the energy market regarding expected price trends for these goods.

Demand effects

In terms of anticipated changes in consumer demand, the increase in the minimum wage for the current year — which now affects the pay scale for civil servants under the new remuneration system — and the increase in unemployment benefits are expected to increase disposable income and, consequently, domestic demand.

Disposable income is also expected to be boosted by pension increases averaging 2.4%, retroactive payments, and the exemption of low-income pensioners from pharmaceutical expenses. The reinstatement of the three-year maturation period from 1 January 2024, alongside the new public sector pay scale, will also have a positive impact on domestic demand.

Payments of allowances in the private sector, an increase in the tax-free threshold, and a reduction in the ENFIA property tax are expected to boost disposable income. Additionally, measures to support young couples and families with children, including a new phased increase in allowances which will apply retroactively, are expected to further increase disposable income and, consequently, domestic consumer demand.

In addition, the reduction in social security contributions by 1%, the abolition of the business activity tax for freelancers, the self-employed, and sole proprietorships, and the reduction in ENFIA for insured residences are expected to stimulate disposable income in 2025. This strategy aims to improve liquidity for workers and employers while boosting business activity. As part of the changes to income taxation, reducing tax rates for middle incomes is being considered, which is expected to increase the disposable income of middle-income households.

Finally, it is expected that additional measures such as exempting children up to 18 years of age from health insurance tax, abolishing the fixed telephone fee (5%) for fibre optic connections and granting a three-year income tax exemption for rented out vacant properties will boost disposable income and subsequently stimulate domestic demand further.

By contrast, the average increase in wholesale electricity prices since October last year is expected to push up electricity bills and reduce household disposable income.

Taking the above factors into account, it is estimated that total consumer demand will strengthen by around 1.6% in 2025, which will maintain prices high, to a certain extent.

In contrast, the average increase in wholesale electricity prices since October last year is expected to push up electricity bills and reduce household disposable income.

Taking these factors into account, it is estimated that total consumer demand will strengthen by around 1.6% in 2025, maintaining high prices to a certain extent.

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[15] Average prices for the period 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

Tax effects

Regarding the expected impact of indirect tax measures, they are anticipated to have a modestly positive effect on price index changes in the current year. The restoration of the VAT rate on non-alcoholic beverages (soft drinks, non-alcoholic beers, and sparkling waters) to 24% on 1 July 2024 is expected to have a mildly positive impact on prices until 1 July 2025, as this development concerns a specific product category.

By contrast, the reduced VAT rates on certain goods and services (transport, gyms, dance schools and entertainment) will remain in place throughout 2025. The measures supporting the real estate sector will also remain in place until December 2025. However, as more than a year has elapsed since their implementation, they are not expected to have any impact. Additionally, the reduced VAT rate of 13% on non-alcoholic beverages not served, as well as on taxi fares, is being made permanent. This is not expected to affect prices.

Energy effects

In terms of recent developments in energy goods, the international price of Brent crude oil averaged at $73.8 per barrel in December 2023, which was 4.9% lower than the previous year. In the same month, the euro/dollar exchange rate stood at 1.05, which was 4% lower than in the same month of 2023. Consequently, the average oil price in euros was €70.5 per barrel, a 1% decrease compared to the previous year.

Regarding oil supply, at its last meeting in December, OPEC+ (including Russia) decided to extend the voluntary reduction in oil production by 2.2 million barrels per day until April 2025. It should be noted that an increase in daily oil production had initially been planned for January this year. However, relatively sluggish global demand, high interest rates and growing US production competition mean that easing the daily oil production cuts is not feasible, as maintaining oil prices is a key objective for the organisation's members. Indeed, some countries, including Algeria, Iraq, Kazakhstan, Kuwait, Oman, Russia, Saudi Arabia, and the United Arab Emirates, have already implemented voluntary cuts.

On average, the OPEC+ production cuts resulted in a reduction in global oil reserves of approximately 0.4 million barrels per day (b/d) in 2024. By April 2025, it is estimated that stocks will have fallen by a further 0.7 million barrels per day.

The increase in oil production in 2025 is expected to come mainly from countries outside OPEC, due to OPEC+'s continued production restraint. Specifically, the United States is expected to increase production this year following a 9% rise in 2023–24. According to analysts' estimates,[16] crude oil production in the United States is expected to rise by 300,000 barrels per day this year. At the same time, US refineries are expected to process 0.2 million fewer barrels of crude oil per day this year.

It is estimated that total non-OPEC supply growth will reach around 1.4 million barrels per day by 2025. The countries outside the United States with the highest production are expected to be Guyana, Canada, and Brazil.

[16] Energy International Agency, Short-Term Energy Outlook, October 2024

According to analysts' estimates, global liquid fuel production increased by 0.6 million barrels per day in 2024. Production outside OPEC+ increased by 1.9 million barrels per day this year, driven by rises in the United States, Canada, and Guyana. However, this rise was partially offset by OPEC+ participants reducing production by 1.3 million barrels per day.

Therefore, global oil production is expected to increase by 1.6 million barrels per day (b/d) in 2025. Nearly 90% of this increase is expected to come from countries outside OPEC+. However, a subsequent rise in OPEC+ production alongside continued growth in non-OPEC+ supply is predicted to result in an average inventory increase of 0.1 million barrels per day for the remainder of 2025.

Global liquid fuel consumption is expected to increase by 1.3 million barrels per day by 2025, with almost all of the projected global increase in oil consumption coming from non-OECD countries. A large proportion of this growth will be in Asia, with India becoming the primary source of global oil demand growth.

World demand

According to the macroeconomic forecasts of international organisations, the prospects for global growth in 2025 appear to be marginally improving. Global GDP growth is expected to reach around 3.3%, which is slightly higher than the 3.2% forecast in September. This improvement is mainly due to higher incomes and a more accommodating monetary policy. However, growth in the United States and many emerging economies is being offset by a slowdown in most European countries.

Annual GDP growth in the United States is expected to remain virtually unchanged, rising from 2.5% in 2023 to 2.8% in 2024 and 1.4% in 2025 due to a more accommodating monetary policy.[17] Growth in the Eurozone is expected to be lower at 0.8% and 1.3% in 2024 and 2025 respectively, driven by strengthening real incomes and investment stimulus from credit easing and disbursed funds, as well as private consumption. Meanwhile, growth in China is expected to slow to 4.9% in 2024 and 4.7% in 2025, primarily due to sluggish consumer demand.

In this context, the estimated average price of oil in 2025 is $74 per barrel, which is 8.1% lower than in 2024, primarily due to lower global demand. The euro/dollar exchange rate is expected to be 1.06 in 2025, which is a 0.2% decrease compared to the previous year.[18] Consequently, the average oil price in euros is expected to be €69.8/barrel, which is a 6.2% decrease compared to 2024.

Considering the above trends and developments in the main factors affecting consumer prices**, it is expected that the Consumer Price Index will rise moderately this year, by around 2.4%, primarily due to stronger domestic demand.**

That said, there is a great deal of uncertainty surrounding this year's prices, given the potential for geopolitical tensions to escalate and the new challenges that the evolving global political landscape may present, particularly in the realm of international trade.

An escalation in military unrest in the Middle East could lead to instability in energy markets, resulting in further increases in oil prices and, consequently, inflation.

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[17] OECD, Economic Outlook, Global growth to remain resilient in 2025 and 2026 despite significant risks, December 2024
[18] Macroeconomic projections, ECB, December 2024

In addition, the new US presidency is raising concerns, particularly regarding its potential impact on international trade and the possible implementation of protectionist policies. Specifically, the new administration supports the imposition of tariffs and the renegotiation of trade agreements with countries that it perceives as competing unfairly with US industry. Consequently, the imposition of trade restrictions could lead to disruptions in trade flows and product shortages, which could further push up inflation.

A further weakening of the euro could also push prices up. The resulting increase in the prices of imported goods would lead to higher production costs for domestic companies, which would in turn lead to further price increases.

Finally, the unrest in the Red Sea has caused delays to the transportation of goods to Europe, as commercial, container and tanker ships now must pass around the Cape of Good Hope. This has led to increased transport costs, which ultimately push up prices.

The IOBE's monthly business and consumer surveys also provide valuable insight into future price trends, acting as leading indicators on the supply side.

Compared with the third quarter of the previous year, trends in price change expectations are mixed in the third quarter of 2024. Specifically, price expectations have weakened slightly in retail trade and more sharply in construction, while there has been a marginal improvement in industry and a significant strengthening in services. Compared with the same quarter last year, expectations for price developments have increased slightly in retail trade, more strongly in industry, and declined in private construction and services. In more detail:

In the fourth quarter of the year, price expectations in industry strengthened slightly compared with the previous quarter. Specifically, the index stood at +6 points, up from +4 points in the previous quarter and up 11 points compared to the same quarter in 2023. Nine per cent of companies in the sector expected prices to fall in the short term, while the percentage anticipating an increase rose to 15 per cent (up from 13 per cent), with the remaining 76 per cent expecting stability.

In the retail trade sector, the balance of +25 points in prices fell by 1 point in the previous quarter, although it was still 2 points higher than in the same period in 2023. Only 3% of companies in the sector expected prices to fall in the short term, while the percentage forecasting an increase rose to 27%. The remaining 69% (down from 75%) expected stability. Changes in price expectations for the fourth quarter of 2024 compared with the previous quarter were mixed across the surveyed retail sectors. The price balance rose significantly in the Food-Beverage and Textiles-Clothing-Footwear sectors, while the relevant index moved marginally downwards in the Vehicle Parts and Household Equipment sectors. The balance in Department Stores weakened significantly.

The average indicator for price change expectations in the services sector improved significantly in the quarter under review, rising from -4 to +13 points. However, this figure was marginally lower than the corresponding average performance in Q4 2023 (+15 points). During this period, 5% of businesses in the sector (down from 26%) expected prices to fall, while 17% (down from 21% in the previous quarter) expected them to rise. Of the individual sectors examined, the relevant index strengthened significantly in almost all of them, except for the Hotels-Restaurants-Travel Agencies sector, where there was a noticeable decline.

In the private construction sector, the positive balance fell sharply from +53 points in the previous quarter to +33 points. This was also a significant decline compared to the corresponding level in

2023 (+58 points). Furthermore, only 2% of businesses in the sector anticipated a decline in prices, while 36% (down from 54%) expected an increase. The remaining 62% (up from 45%) anticipated stable prices.

Figure 3.26

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

Source: IOBE

Expectations of price changes are mixed in the fourth quarter of 2024 compared with the third quarter of the year. In retail trade, price expectations are moving slightly downwards. In construction, they are moving more sharply downwards. In industry, there is a marginal improvement. In services, there is a significant strengthening.

4 BENEFITS FOR THE GREEK ECONOMY FROM RESOLVING BAD LOANS AND ZOMBIE FIRMS[19]

- The study examines the significant negative externalities stemming from maintaining "zombie" firms in the Greek economy, i.e. firms that have been struggling for years to repay the interest on their loan obligations.
- The descriptive analysis reveals a high positive correlation in the trends between non-performing business loans and the number of zombie companies in the Greek economy over the last twenty years.
- Through quantitative analysis, significant direct and indirect effects emerge from the degree of density of zombie firms at the total economy and sectoral levels.
- Healthy firms outperform zombie firms in terms of investment growth, employment growth and productivity levels.
- A high concentration of capital in zombie firms negatively affects the rate of investment growth of healthy firms in specific sectors of economic activity, while preventing the reallocation of capital to more productive investments across firms and sectors of activity.
- Finally, younger and larger companies generally perform better in terms of investment and employment growth, and productivity levels.
- Overall, a faster resolution of zombie firms and non-performing corporate loans, both on and off bank balance sheets, allows a more efficient allocation of resources and can boost investment, employment and growth rates in the Greek economy in the medium to long term.

[19] This chapter is based on a recent study carried out by IOBE, with the support of the Bank of Greece, part of which was published in issue 59 of the Bank of Greece's Economic Bulletin.

Non-performing debt in the Greek economy

The high proportion of non-performing business loans, both on and off bank balance sheets, and the proliferation of zombie companies pose significant challenges to the Greek economy.[20] Although corporate non-performing exposures (NPEs)[21] and the number of zombie firms in Greece have declined significantly since peaking in 2015 and 2013 respectively, they remain at high levels, particularly in certain sectors. Analysis of the Greek economy confirms the findings of international studies that the prolonged presence of non-performing business loans and 'zombie' companies hinders investment and employment prospects while negatively impacting productivity and the efficient allocation of resources. These effects are direct at company level and broader at the level of the economy, spreading to healthy companies in every sector and undermining healthy competition in the markets for products and services.

The analysis focuses on three research questions. The first one attempts to estimate the number and share of zombie firms in the Greek economy, by sector of economic activity, and their correlation with the trend in NPEs. The second question examines the direct effects of zombie firms on the Greek economy, with a focus on investment, employment, and productivity, and assesses whether these effects vary by sector of activity. The third question investigates the indirect economic impact of zombie firms, for example through their side effects on existing healthy firms.

Descriptive analysis of NPEs and zombie companies

The descriptive analysis reveals a strong positive correlation between business non-performing exposures (NPEs) and the number of zombie companies in the Greek economy between 2002 and 2021. Firstly, we conduct a distinct analysis of NPEs by sector, both on and off the balance sheet. Secondly, we present aggregate data on the amount of collateral secured by NPEs. Additionally, we examine the trend in the number of zombie companies by sector, as well as the degree of capital concentration in these companies relative to the total fixed capital of each sector.

We analyse data on the amount of non-performing loans to non-financial corporations (NFCs), whether on or off banks' balance sheets and under servicers' management, for the economy as a whole and by economic activity. Over the period 2016-2022, non-performing loans on banks' balance sheets declined by 85%, falling from €58 billion (47.0% of total loans to NFCs) in 2015 to €8.9 billion (8.1%) in 2022. This substantial decrease in NPEs is primarily due to write-offs, sales, and securitisations during the period from 2016 to 2022, rather than organic improvement. Consequently, the largest stock of NPEs, amounting to €33.4 billion at the end of 2022, has moved off banks' balance sheets and is now managed by servicers. Accordingly, corporate NPEs in the economy decreased by just 28% between 2016 and 2022, reaching approximately €42 billion in 2022 (Figure 4.1).

It is generally accepted in the literature that the existence of non-performing loans in banks has a negative effect on credit expansion rates, while a reduction in non-performing loans frees up resources that stimulate credit expansion. Using estimates from existing literature (Tölö and Virén

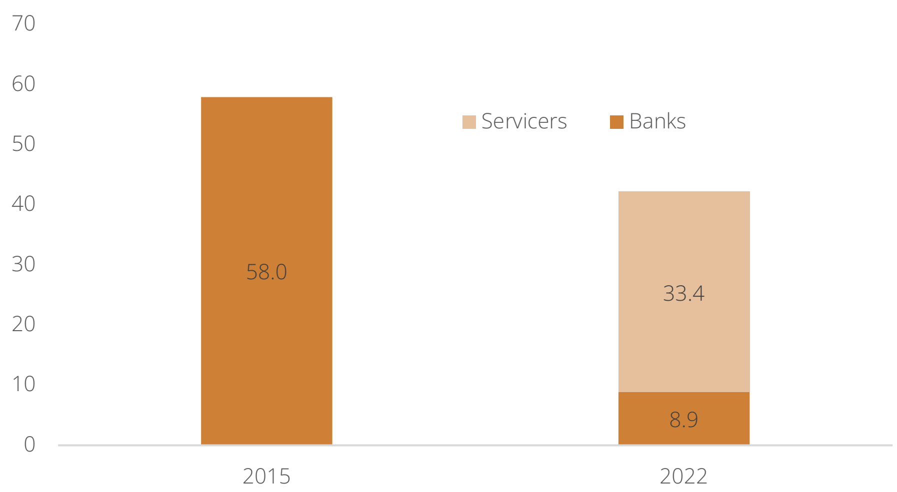
[20] Following criteria suggested by existing literature, presented in detail in the study, a firm is defined as zombie if, in a given year, it (a) is at least 10 years old; and (b) has an interest coverage ratio of less than 1 for the last three consecutive years.

[21] NPEs are defined by supervisory authorities as exposures (loans) which are more than 90 days past due, as well as exposures unlikely to pay, regardless of the number of days past due.

2021), the cumulative reduction in NPEs on banks' books by more than 40 bps over the period 2016-2023 is estimated to have led to an increase in net business loan flows of about €8 billion, out of a total increase of €22.5 billion recorded in this period (36% of credit expansion). However, this approach does not differentiate the effects of "organic" workouts (forbearance, reperformance of loans) vs. "non-organic" (sales, securitisations). Thus, the analysis below focuses on NPEs from a firm perspective.

Figure 4.1.

Non-performing exposures of banks and servicers to NFCs for the years 2015 and 2022, in € billion



Source: Bank of Greece. IOBE estimates.

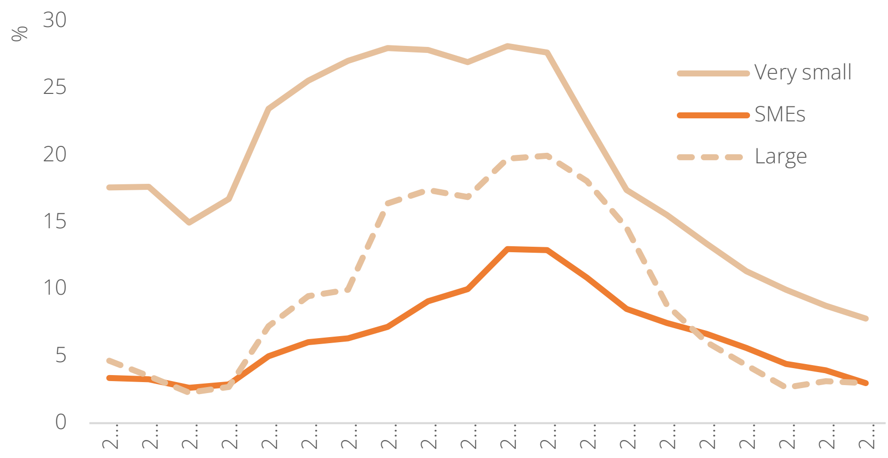
NPEs absorb a significant proportion of the economy's financial and physical resources through collateral. The value of this collateral is mainly (85% of the total) related to commercial (53%) and residential (32%) real estate. It is also closely linked to the level of the NPE recovery rate. The total value of collateral amounts to €19.8 billion (47% of total NPEs), which equates to 9.5% of GDP. Therefore, resolving non-performing loans more quickly could free up significant financial and physical resources, which could then be reallocated to more productive uses and contribute to faster economic growth.

Similarly, the evolution of the estimated percentage of zombie firms in the Greek economy shows a similar trend to that of NPEs, but it occurs earlier in time. Based on a range of widely applied criteria, the percentage of zombie firms increased from 10% to 18.6% between 2005 and 2013, before declining to 8.9% in 2022. In relation to enterprise size by turnover, a higher proportion of zombie enterprises is observed among micro enterprises, with a downward trend in all size classes after 2013. Notably, during 2005–2016, the proportion of zombie firms was higher among large firms than among small and medium-sized enterprises, which is consistent with previous research.

The estimated share of zombie firms is positively correlated with the share of business NPEs in bank balance sheets over the period 2002-2021 (Figure 4.3). However, the increase in the share of zombie firms preceded the increase in the share of NPEs in bank balance sheets, while the decrease in the share of zombie firms preceded the decrease of NPE ratios. This suggests leading indicator properties of the zombie rate for the NPE ratio. In the recent period, the faster decline in the number of zombies relative to that in NPEs may be partly due to the accumulation and delayed resolution of nonperforming loans owed by firms that have ceased operations and are, therefore, no longer included in the ICAP database. Moreover, the share of zombie firms is larger than the share of capital concentration in zombie firms up to 2008 and after 2017, implying that the average zombie firm was smaller in size before and after the Greek crisis.

Figure 4.2.

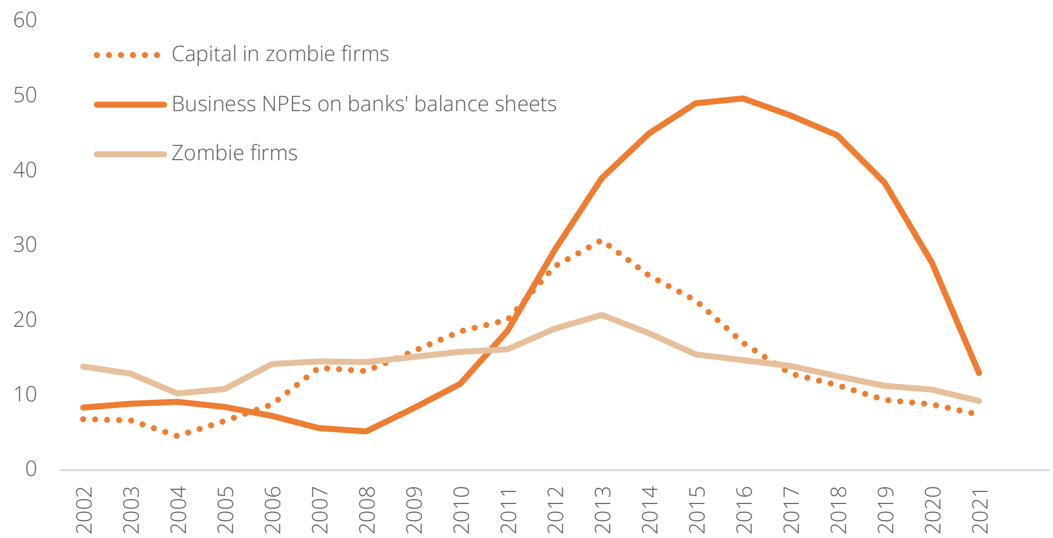
Share of zombie firms by turnover size class in the ICAP data sample (2002-2021)



Source: ICAP data.prisma. IOBE estimates.

Figure 4.3.

Evolution of estimated shares of zombie firms, business NPEs and capital in zombie firms in Greece, 2002-2021

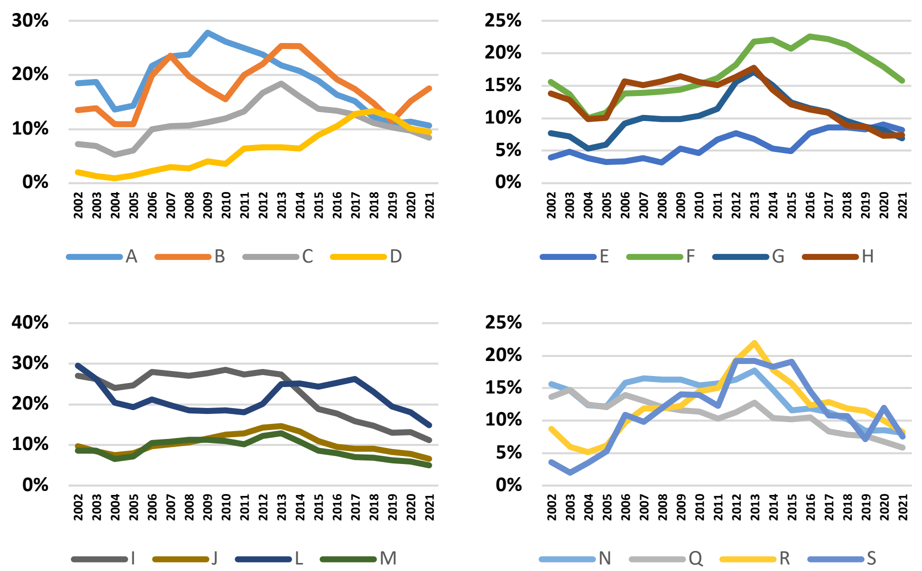


Source: BoG, ICAP data.prisma. IOBE estimates.

A sectoral analysis of the evolution of zombie firms (Figure 4.4) shows a relatively higher density of zombie firms in sectors (F) Construction, (I) Accommodation and food service activities and (L) Real estate activities. At the same time, the degree of concentration of fixed capital in zombie companies was higher than the economy average in sectors such as Manufacturing (C), Energy (D), Transport and Storage (H), Information and Communication (J), Real Estate Activities (L), and Professional and Technical Activities (M). Looking at the level of NFCs' liabilities to banks, the Construction sector consistently shows the highest liabilities from zombie firms, especially since the global financial crisis in 2008. Zombie firms in Manufacturing (C) and Trade (G) have consistently shown substantial levels of liabilities to banks.

Figure 4.4.

Share of zombie firms by NACE economic activity in the ICAP database (2002-2021)



Source: ICAP data.prisma. IOBE estimates.

The impact of zombie companies on the economy

We use econometric models to estimate the effect of the density and concentration of capital ('congestion') in zombie firms on healthy firms, both overall and in specific business sectors. Specifically, we examine how an increase in the amount of capital accumulated by zombie firms affects the performance of healthy firms. Our econometric analysis shows that non-zombie firms perform better in terms of indicators such as the growth rate of net fixed assets, the rate of change in employment, and total factor productivity. In line with international literature, we observe that young and larger firms generally perform better than the rest.

Healthy firms across the economy show higher overall productivity than zombie firms. This is particularly evident in business sectors such as manufacturing (C), trade (G), accommodation and food services (I), information and communication (J), and professional and technical activities (M). The productivity gap between healthy and zombie companies increases with the amount of capital congestion within zombie companies in the same industry. This is particularly evident in sectors such as manufacturing (C), construction (F), trade (G), transport and storage (H), and real estate activities (L). While the presence of zombie firms does not appear to create 'congestion' or reduce the ability of non-zombie firms to grow in the business economy as a whole, the findings differ when the analysis focuses on single-digit sectors of activity.

The indirect crowding-out effects on healthy firms vary across economic sectors. Typically, the greater the capital congestion in zombie companies, the lower the investment growth rate in healthy companies in Manufacturing (C), Water Supply, Sewage Treatment and Remediation (E), Accommodation and Food Services (I) and Real Estate Activities (L). The heterogeneity of results across sectors is related to factors such as the degree of capital intensity and the concentration of firms. Similarly, a slower rate of capital reallocation to productive investment is observed in Manufacturing (C), Trade (G), Accommodation and Food Services (I), Real Estate Activities (L), and Professional and Technical Activities (N).

Indicatively, focusing solely on healthy companies in the manufacturing sector, the estimated impact suggests that gross investment in manufacturing would increase by 4.2% (or €108 million in 2015 prices) for every 1 percentage point reduction in the share of capital in zombie companies within the same sector. Summarising the quantitative analysis, five key findings emerge. First, non-zombie firms outperform zombie firms in terms of investment growth, employment growth and productivity levels. Second, a high concentration of capital in zombie firms negatively affects the rate of investment and productivity growth of healthy firms in certain sectors of economic activity. Third, a high concentration of capital in zombie firms forces healthy firms in many sectors of activity to increase their overall productivity and investment to survive. Fourth, a high concentration of capital in zombie firms prevents the reallocation of capital to more productive investments across firms and sectors of activity. Fifth, younger and larger firms generally perform better in terms of investment growth, employment growth and productivity levels.

Conclusions

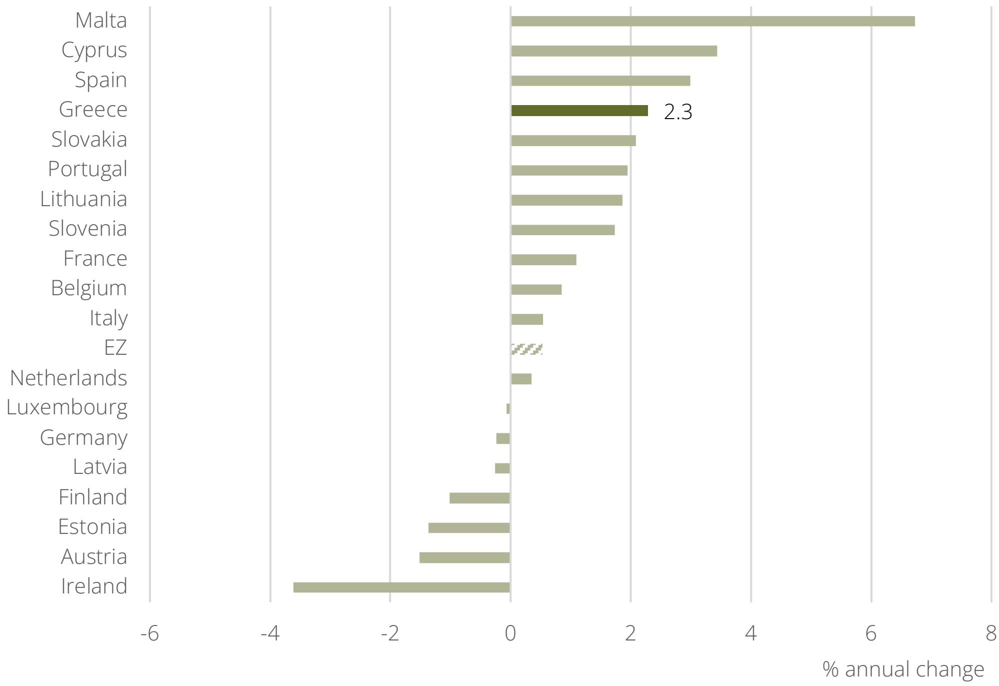
In conclusion, we highlight the importance for the Greek economy of rapidly resolving non-performing loans and further reducing the number of 'zombie' companies. The expected increase in investment, employment, and productivity due to a higher proportion of healthy businesses is a direct positive effect. Indirect positive effects include improved operating and growth prospects for existing healthy businesses, thanks to the release and more efficient allocation of financial and physical resources across the economy and within individual economic sectors.

Policy priorities aiming at a rapid and effective reduction in the amount of NPEs and the number of zombie companies are expected to accelerate the narrowing of the investment gap in the Greek economy, as well as to reduce the unemployment rate. Moreover, they may enhance the prospect of strengthening the overall productivity of the economy, as well as the reallocation of capital to productive investments, which are necessary conditions for achieving strong and sustainable growth rates of the Greek economy in the medium to long term.

APPENDIX

Figure 1

Real GDP growth rate, Q3 2024 (*)

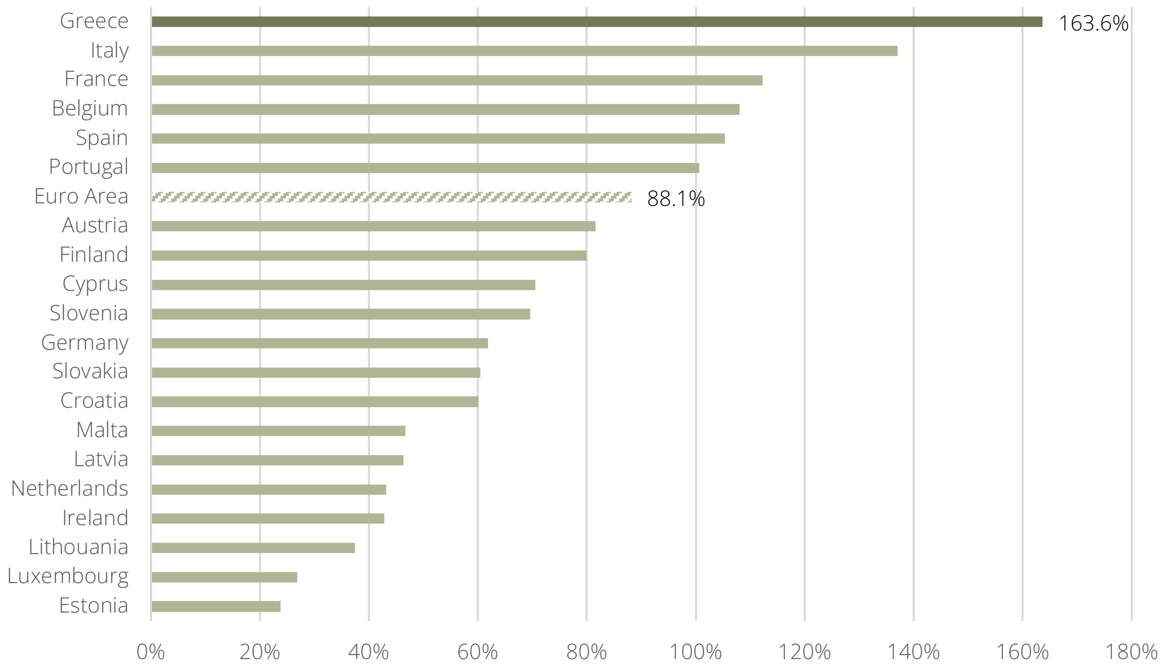


(*) Annualised GDP data (4 quarter moving average, up to Q3 2024)

Source: Eurostat

Figure 2

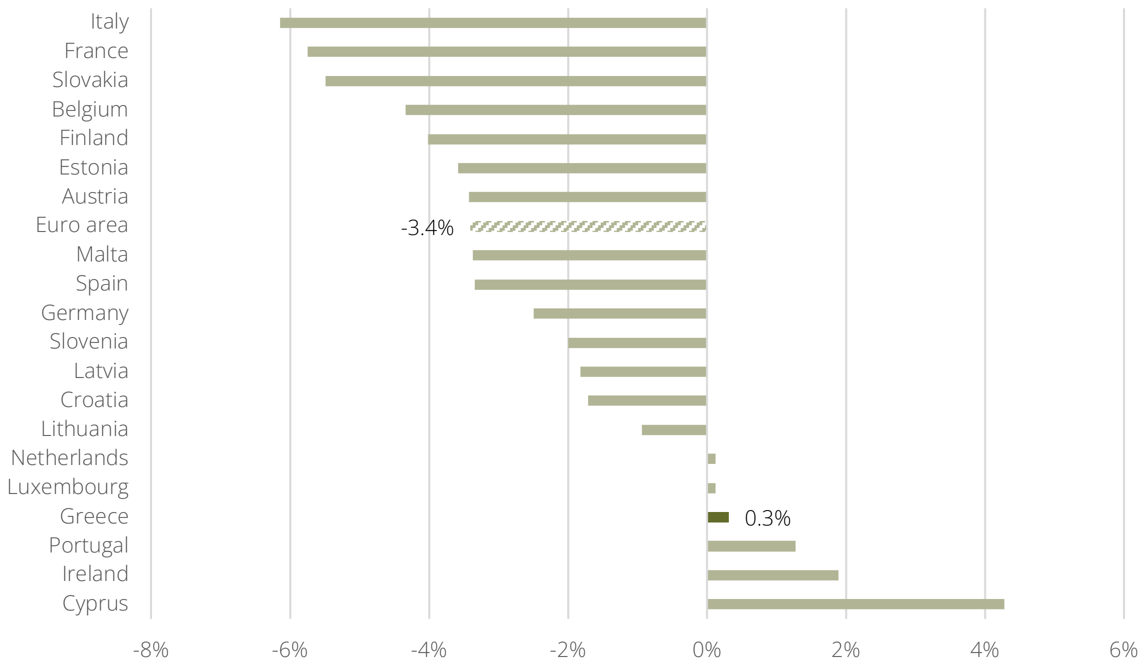
General Government Debt as % of GDP, Q2 2024



Source: Eurostat

Figure 3

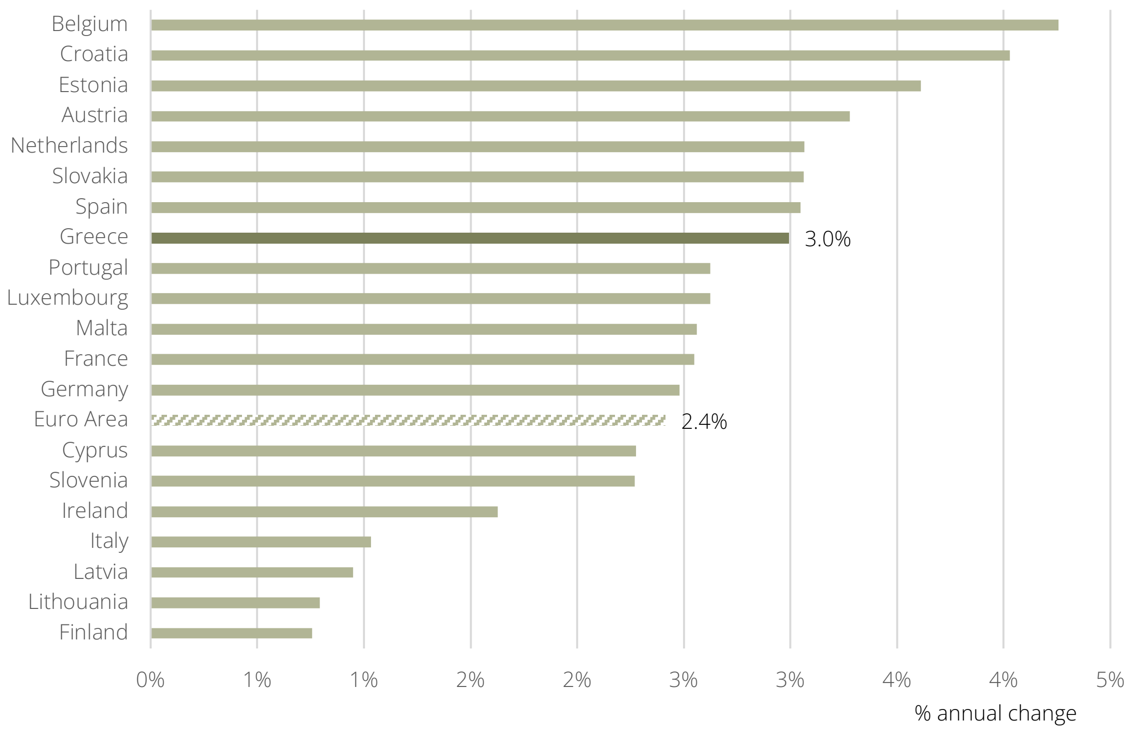
General government balance as % of GDP, Q2 2024



Source: Eurostat

Figure 4

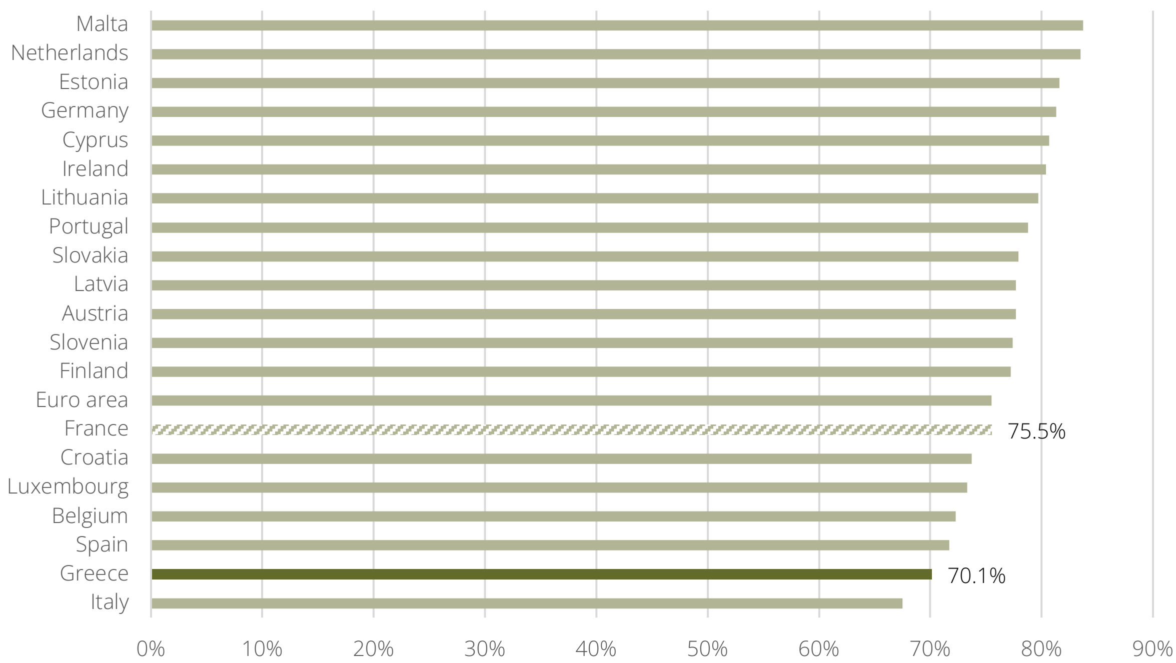
Harmonised Index of Consumer Prices, January -December 2024



Source: Eurostat

Figure 5

Employment, Q3 2024 (*)

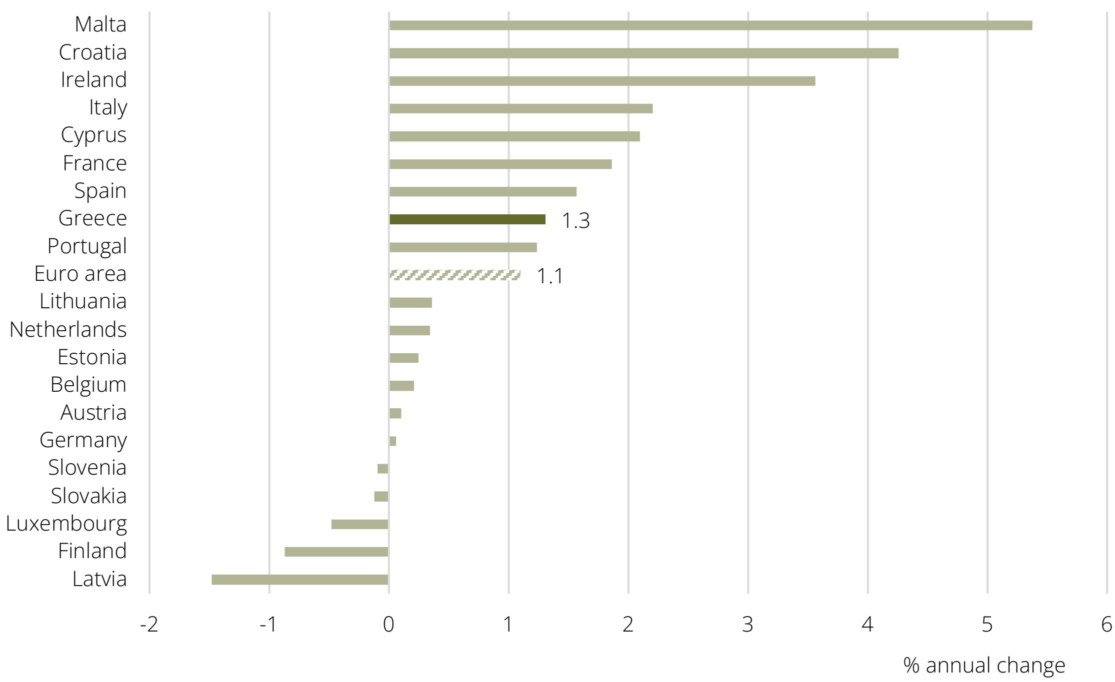


(*) % of employed people aged between 20 and 64 in the total population of the same age group.

Source: Eurostat

Figure 6

Change in employment, Q3 2024 (*)

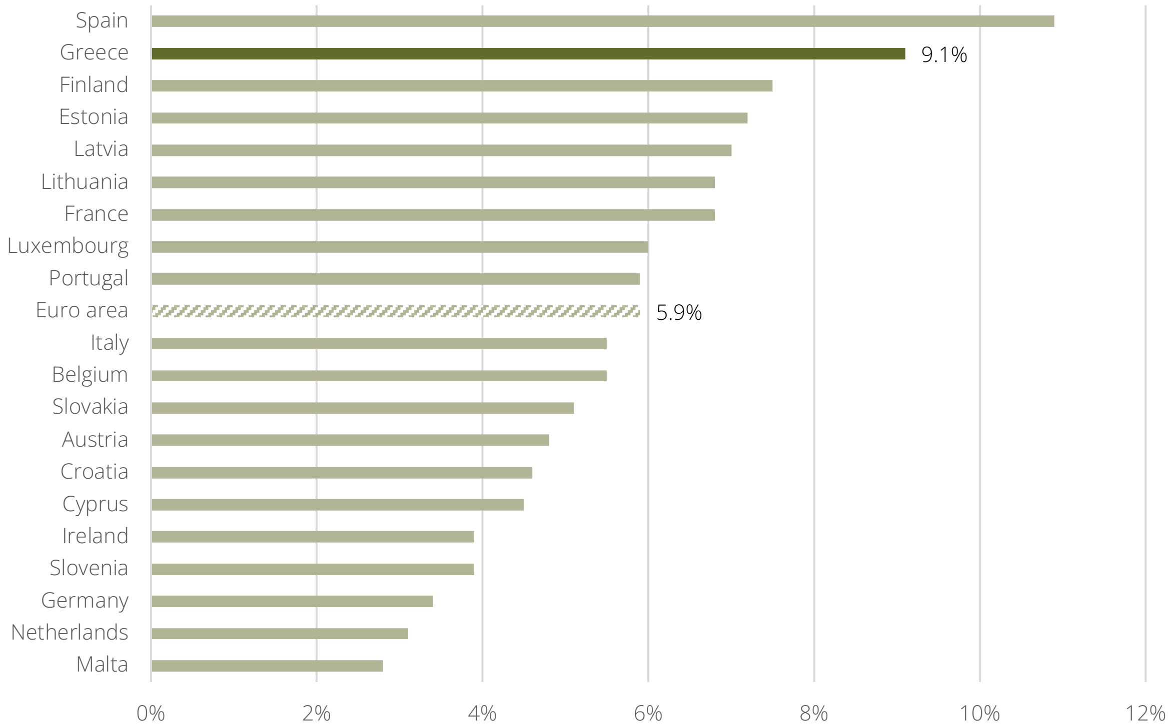


(*) employed people aged between 20 and 64.

Source: Eurostat

Figure 7

Unemployment, Q3 2024 (*)



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

Source: Labour Force Survey, Eurostat