



Greece

Highlights

- **Growth continues in 2023, but at a slower pace.** Following two years of rapid growth in 2021 and 2022, gross domestic product (GDP) rose by 2.4 per cent year on year in the first half of 2023, driven by rising consumption and exports of goods and services, as well as a significant pick-up in investment and a strong start to the tourist season.
- **Greece has returned to investment grade.** High post-Covid economic growth rates and continued structural reforms have led to international ratings agencies successively raising the country's sovereign rating in recent years. In September 2023 DBRS Morningstar raised Greece's rating to an investment-grade BBB (low), while in October 2023, Standard & Poor's upgraded its rating to BBB-, with a stable outlook.
- **Implementation of the country's Recovery and Resilience Plan (RRP) is progressing well.** By August 2023 around €11 billion had been allocated in cash receipts, with a focus on the green transition and digitalisation of the economy.

Key priorities for 2024

- **Continued implementation of the revised RRP is essential to boost investment.** Greece should capitalise on the substantial European Union (EU) funds available in the coming years to make fundamental improvements to the whole economy.
- **Adhering to the green agenda at an accelerated pace is crucial.** Greece is already facing the consequences of climate change, highlighting the need to move away from fossil fuels and vigorously promote investments in renewable energy, along with vital improvements to the national electricity grid.
- **Judicial reform is urgently needed.** The legal system remains plagued by lengthy delays and inefficiencies, hampering the smooth functioning of businesses. Efforts should be stepped up to reduce the length of time cases take to be resolved.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	1.8	-9.0	8.4	5.9	2.4
Inflation (average)	0.5	-1.3	0.6	9.3	4.1
Government balance/GDP	0.0	-10.5	-7.7	-2.3	-1.6
Current account balance/GDP	-2.2	-7.3	-7.1	-10.1	-6.9
Net FDI/GDP [neg. sign = inflows]	-2.1	-1.4	-2.3	-2.2	-1.9
External debt/GDP	244.6	298.7	305.3	262.8	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	81.0	82.3	57.1	n.a.	n.a.

Macroeconomic developments and policy response

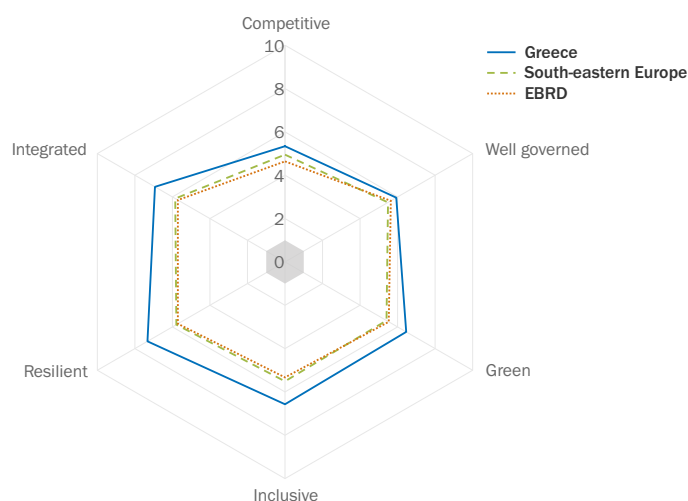
Growth is continuing in 2023, but at a reduced pace. After two years of very strong economic performance, the pace of growth has slowed, to 2.4 per cent year on year in the first half of 2023. Private consumption and gross fixed capital formation continue to drive growth, and most indicators are moving in the right direction. Economic confidence was steadily improving in the first eight months of 2023. The Purchasing Managers' Index had been on an upward trend since December 2022, reaching 52.9 in August 2023, and the Economic Sentiment Indicator hit a 17-month high (111.7 points) in August 2023. Both indicators have since fallen, however, to 50.8 and 106.4 respectively in October. Unemployment maintains a steady downward trend, coming in at 10 per cent (seasonally adjusted) in September 2023. Despite some concerns about the current account deficit (10.1 per cent of GDP in 2022), exports were up by 8.9 per cent year on year in the first quarter of 2023. And the ratio of gross fixed capital formation to GDP is rising steadily, albeit from a very low base – from below 11 per cent in 2019 to nearly 14 per cent in 2022.

Inflation has fallen markedly from its peak in 2022. The inflation rate rose sharply in 2022, mainly because of rising food and energy costs, peaking at 12 per cent in September 2022. Since then, it has been falling rapidly, to 1.6 per cent in September 2023 (CPI measure). A mild pick-up in the rate is possible later in the year and into 2024 due to the end of government support measures, but the prospect of a sharp rise in prices seems remote.

Fiscal performance has further improved. The government faced significant challenges in 2022 as a result of the energy crisis prompted by Russia's invasion of Ukraine. It responded with a series of mitigating measures, which came at a significant fiscal cost. Despite this, the government managed to achieve a small primary surplus (0.1 per cent of GDP) in 2022 and is on track for larger primary surpluses in 2023 and 2024, targeted at 1.1 per cent and 2.1 per cent of GDP, respectively. The country's public debt-to-GDP ratio remains the highest in Europe, but has fallen sharply in the past two years, from nearly 200 per cent at the end of 2020 to less than 170 per cent at the end of 2022, thanks to high nominal GDP growth and further debt-relief measures.

Moderate growth is likely to continue in the short run. We forecast GDP growth to continue at its current rate of 2.4 per cent in 2023, with a similar rate (2.3 per cent) in 2024. Significant risks to our forecast come from possible regional and global turbulence, while the wildfires and floods of summer 2023 are a reminder of how global warming could jeopardise the long-term health of the Greek economy. However, the good progress made in implementing projects funded by the Recovery and Resilience Facility (RRF), allied to improvements in the sovereign rating that will likely boost investor sentiment further, mitigate these downside risks.

Assessment of transition qualities (1-10)



Structural reform developments

Implementation of the RRP is advancing. Under the original plan approved by the European Commission, Greece was set to receive €17.8 billion in grants and €12.7 billion in loans overall from the RRF. In 2023, the authorities submitted a revised plan to the Commission, requesting a further €5 billion in loans and nearly €800 million in grants related to energy investments and reforms under the EU's REPowerEU scheme. By August 2023, cash receipts from the EU in grants and loans combined amounted to €11 billion, but the pace of disbursement to firms has been somewhat slow so far.

The development of renewable energy is proceeding rapidly. The law on licensing renewable energy projects was simplified in June 2022, and there have been a number of prominent investments since then. Renewable energy's share of the electricity production mix reached a record 54 per cent in May 2023, according to data from the independent power transmission operator. In May 2023, the government set out the timetable for a set of renewable energy auctions over the remainder of 2023 and 2024, along with maximum prices. Investment in renewable infrastructure is also progressing. Under the RRF's "electromobility" framework, the government is forging ahead with its plan for sustainable transport by replacing old buses and taxis with new electric ones and providing charging infrastructure.

Digitalisation is helping to tackle the shadow economy. Tax evasion and informal activities have long been features of the Greek economy. The size of the shadow economy could amount to around €40 billion (about one-fifth of GDP), according to 2023 research by Eurobank. The European Commission also estimates the size of the "VAT gap" (the difference between actual VAT receipts and what they should be according to consumption data) to be more than twice the EU-27 average. There have been efforts in recent years to tackle the problem through digitalisation. For instance, a budget of €258 million was allocated to the digital transformation of the tax and customs administration. By the end of March 2023, more than 447,500 businesses had connected their cash registers with myDATA to automatically track their retail transactions online.

Banking-system profitability remains strong and non-performing loans continue to decline. After a year of rising profits for the country's four systemic banks in 2022, helped by higher interest rates and a rapidly growing economy, banking-system profitability fell in the first half of 2023 on the back of rising operating expenses and lower income from trading and other activities. The ratio of non-performing to total loans has maintained a steady downward trend, from a peak of 49.2 per cent in mid-2017 to 8 per cent as of June 2023. The asset-backed Hercules resolution scheme, introduced in early 2020, may be extended with a focus this time on small banks. A key concern with regard to the banking system, however, remains the high share of deferred tax credits in banks' overall capital.

Privatisations are advancing, albeit slowly. Revenue from sales of state assets continued to underperform in 2022, at just €595.3 million versus a budgeted €2.2 billion. The Asset Development Plan of the Hellenic Republic Asset Development Fund (HRADF) was revised in November 2022 and includes 30 ongoing projects. Forecast revenues in 2023 are just under €2 billion, according to the state budget. In September 2023, GEK Terna, which had won the tender in 2021 for a 35-year concession for the Egnatia Odos highway, was declared the preferred bidder for a 25-year concession on the Attiki Odos highway, with a bid of €3.27 billion.

Labour-market reforms continue. Following the adoption of the framework-setting National Strategy for Active Labour Market Policies 2022-30, the Active Labour Market Policies (ALMP) reform aims to ensure the strategy is as effective as possible by redesigning, strengthening and reforming the ALMP toolbox. Recent reforms include a new framework for teleworking and various measures to make the labour market more flexible, including incentives for private-sector companies to convert part-time contracts to full-time ones.