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## **IOBE Quarterly report on the Greek economy**

**Issue 4/2022**

**Press conference | Athens 24 January 2023**

### **Information memo**

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#### **Main points of IOBE's Quarterly report on the Greek economy, presented on 24/1/2023:**

- The **global economy** continues to face significant challenges as growth rates shrink, while inflation remains high, as a consequence of Russia's invasion of Ukraine. Inflation in the 38 OECD countries reached 10.3% in November, marginally lower than 10.7% that was recorded in the previous month, the highest level in the last 39 years. Most central banks around the world have been systematically raising interest rates in a short period of time, with the resulting tightening of financial conditions having already begun to dampen inflationary expectations. Even though, the possibility of a "soft landing" of economies and the avoidance of recession remains as a likely scenario, the ongoing further interventions raise the possibility of a harder than intended landing of economic activity. Among the largest economies, in the third quarter of 2022 there was a marginal increase in the annual growth rate in the US (1.9% from 1.8% in the previous quarter), a slowdown in the Eurozone (2.3% from 4.2%) and an acceleration of economic activity in China (3, 9% from 0.4%).
- A **weaker** than expected **annual domestic growth** of 2.8% was recorded in **the third quarter of 2022**, relative to 7.1% growth in the previous quarter. The slowdown was mainly due to a large drop in the annual growth rate of services exports to 3.0% from 45.8% in the previous quarter, while goods exports declined marginally. The fall in the annual growth rate of goods imports was proportionally smaller to 8.6%, resulting in a significant deterioration in the external balance deficit, despite a 4.6% annual decline in services imports in the same quarter. The resilient consumption of households, which increased annually by 6.2%, and the investment boost by 12.3%, contributed to the domestic growth.
- IOBE revises downwards the **estimate for growth in 2022**, to 5.2%, in constant prices, mainly due to a smaller expansion of exports (5.8%) and a decrease in public consumption (-1.1%), while an increase in private consumption (7.7%), investment (12.1%) and imports (9.1%) is expected. **For 2023**, IOBE expects a smaller annual growth of 1.4% in real terms, mainly due to the slowdown in the global economy, amid high inflation and uncertainty. In terms of GDP components, investment is expected

to contribute the most to economic growth, with an annual increase of 8.5%, followed by a relatively resilient, clearly milder though, increase in private consumption of 0.8%. In the external sector, a slight further deterioration, in the already high current account deficit, is expected, with exports and imports increasing annually in 2023 by 2.1% and 2.7% respectively.

- **Budget execution** was close to the target for 2022. Cash flow targets were exceeded in the first eleven months of 2022 and a significant annual increase in public revenues (+10.2%) was recorded due to increased economic activity and inflation. At the general government level, the 2023 Budget targets budget deficits of 4.1% and 2.0% and primary balance of -1.6% and +0.7% for 2022 and 2023, respectively. Public debt as a percentage of GDP is expected to further decline this year to 159.3%. 2023 is an election year, the first year that Greece will not be under close fiscal surveillance since 2010, and the year in which it is expected to regain its investment grade rating. Prudent fiscal management is therefore quite important.
- The decrease in the **unemployment rate** was milder in the third quarter of 2022; it dropped from 13.0% in the third quarter of 2021 to 11.6% in the third quarter of 2022. The sectors that experienced the greatest increases in employment, in absolute terms, were Education (+36.6 thousand employed), Primary sector (+20.3 thousand) and Water Supply-Wastewater Treatment (+16.9 thousand). The sectors that experienced the largest declines, in absolute terms, were Public Administration (-20.9 thousand) and Transport-Logistics (-10.0 thousand). The trajectory of employment in 2022 was mainly determined by the very good performance of tourism, as well as the satisfactory performance of exports, consumption, and construction, despite high inflation and high energy costs. Employment in 2023 is expected to be positively affected by the milder strengthening of investments, the further utilization of the resources of the Recovery Fund, the milder rise in consumption and exports, and by tourism. These factors are expected to partially offset the-milder compared to 2022-rise in inflation and the rise in borrowing costs. The unemployment rate in 2022 is estimated around 12.3%, while in 2023 it is expected to be around 11.5%.
- The yearly **rate of change in the CPI** reached 9.6% in 2022, which is the highest since 1994. The inflation rate in 2021 was 1.2%. The large increase in prices is mainly due to the direct effect of energy goods in the first three quarters of 2022, and non-energy goods in the last quarter of 2022. IOBE estimates that prices will maintain an upward trajectory of 4% this year, mainly due to the resilience of consumer demand.
- Non-performing loans on **banks'** balance sheets decreased in the 3rd quarter to a single-digit percentage of total loans, the first time since 2009. However, they remain a significant burden on the economy, while the rate of their reduction is decreasing or even halted in some cases (mortgage loans). Positive developments at the end of the year include an enhanced credit expansion to businesses and the acceleration of the implementation of the loan component of "Greece 2.0". Challenges at the end of 2022 include a halt in the upward trend in private deposits, rising financing costs, the risk of a new round of arrears due to the energy crisis, and an unabated contraction in household credit. The main priorities of the banking system are the continued improvement of the quality of assets and equity and the effective implementation of the bankruptcy code and the out-of-court debt settlement mechanism.

**Table 1. IOBE macroeconomic forecasts (Jan. 2023)**  
(constant prices, annual % change, unless specified otherwise)

	2021 actual	2022	2023
GDP	8.1%	5.2%	1.4%
Consumption	5.1%	5.5%	0.3%
Private consumption	6.1%	7.7%	0.8%
Public consumption	2.4%	-1.1%	-2.0%
Gross Investments	21.2%	12.1%	8.5%
Exports	24.1%	5.8%	2.1%
Imports	18.0%	9.1%	2.7%
Inflation rate	1.2%	9.6%	4.0%
Unemployment rate (% labor force)	14.7%	12.3%	11.5%

During the presentation of the Quarterly Report, the General Director of IOBE, Professor Nikos Vettas, noted:

- During 2022, the Greek economy recorded high growth, following a cycle of economic fluctuations that began with the pandemic crisis. That growth rate has however been declining.
- The course of the economy in the short term was satisfactory, due to several positive developments. Overall, and starting from a lower base, the Greek economy can run faster than the European average.
- The idle capacity in human and physical capital is greater than that of most European economies. Unemployment, and in general the pool of unexploited labor, remains high, and the investment gap is even greater. The Recovery Fund and the other European inflows are of high importance and can mobilize wider investments. Export-oriented firms, mainly in manufacturing, have been placed in global value chains. Public debt, although very high, is currently less exposed to interest rate increases than the debt of other economies.
- The external environment is putting pressure on exports and investment due to the slowdown in Europe, continued interest rate increases and high uncertainty. Financial decisions tend to be risk-averse, and therefore more introspective and short-term, just the opposite of what is desired.
- The significant deterioration in the trade balance and the high core inflation highlight systematic weaknesses of the Greek economy. The tendency for the trade deficit to widen simultaneously with growth reflects relatively low competitiveness. The upward trend in prices of goods and services, as consumption recovers, indicates little potential for timely output response and low intensity of competition.

- It is critical for Greece to attain investment grade soon. This is a positive signal for the markets, improving expectations and leading to a broadening of the investment base and a de-escalation of funding costs.
- The stability of the fiscal balance is a prerequisite for the systematic development of the Greek economy.
- On the tax revenue side, there are currently four positive drivers: economic growth, spread of electronic payments, higher revenues from indirect taxes due to inflation and higher revenues from income taxes, as a progressive scale is applied.
- On the public expenditure side, government support policies through subsidies, on top of their effects on fiscal and macroeconomic balances, could have spillover effects on consumption and tax compliance.
- For Europe, handling the effects of the energy crisis, inflation and Russian invasion, will be crucial. The rules of the new fiscal framework could facilitate further fiscal integration.
- For our country, the parliamentary elections in a few months are important for the stability that will pave the way for investments, as well as the design of a medium-term policy that will be able to combine two desirable characteristics: seriousness in a dangerous environment and the intention for reforms.