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Foundation for Economic and Industrial Research (IOBE)
11, Tsami Karatassou Street, 117 42 Athens, Tel.: (+30210 921120010), Fax: (+30210 9233977),
URL: www.iobe.gr, Email: info@iobe.gr,

Foreword

IOBE is publishing its report for the first quarter of 2024, as part of the periodic reviews of the Greek economy. It contains four sections, accompanied by an annex of structural indicators, comparing the performance of Greece with that of the remaining countries in the Euro area. It is preceded by an introductory text, which highlights the positive dynamics, the external risks and the structural change challenges. 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 fourth quarter of 2023 and the outlook for 2024, b) presentation of the economic climate in Greece in the first 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 2023 and January-February 2024 and d) developments in the domestic financial system up until February 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 fourth quarter of 2023 and presents forecasts for 2024, based on assumptions and taking into account the latest available data. It analyses developments in key production sectors in the fourth quarter of last year 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 fourth quarter of 2024. It then analyses the inflation trends in the first quarter of 2024.

The fourth section presents the main findings from a recent IOBE study on the financials of public hospitals in Greece. The current report contains three text boxes. The first captures the degree of progressivity of income taxation in Greece (section 2.2.B). The second presents data on the evolution of key components of the current account balance and its sources of financing (section 3.3). The third highlights the evolution of the minimum wage with the three-year adjustments in Greece after the crisis (section 3.4). This report refers to and is based on data available until 15/4/2024.

IOBE's next quarterly report on the Greek economy will be published in July 2024.

POSITIVE MOMENTUM, EXTERNAL RISKS AND THE CHALLENGE OF STRUCTURAL CHANGES

In a volatile European and global environment, the Greek economy is moving with positive momentum. The recovery wave that it is experiencing has a growth rate well above the European average, even if the latest estimates understate it relative to previous ones. This growth rate is expected to continue this year, with a slight further decline in unemployment, provided that there is a significant increase in investment. This increase in investment is crucial, given the role of the Recovery and Resilience Fund, as it can contribute to the structural transformation of the economy in addition to its growth. The overall stability of economic policy has contributed in recent times to the gradual reduction of the large gap between the Greek economy and the European average, in a way that makes the country's public debt a progressively smaller percentage of GDP and relatively more manageable in the future.

Key global and domestic challenges

The current positive momentum of the Greek economy does not, however, negate the fact that it will face significant challenges in the coming period as it tries to put itself on a strong growth path in the medium term. To summarise the challenge, the economy's growth rates over the next decade need to be around twice as high as in the past to remain on a positive trajectory of prosperity. After all, our economy has started its current trajectory from a very low base and its performance is still far from the desired level and from the one that will ensure a high level of prosperity and security for its citizens. So while it is recovering faster than European averages, following the recent pandemic and energy crises, and at the same time gradually filling the gaps that were created after the deep debt crisis by reducing unemployment and increasing investment, the key questions are now twofold. Whether the global economic environment and especially the developments in Europe will benefit or burden the Greek economy. Whether the qualitative upgrading of the economy, with changes in its structure, is sufficient to meet the challenge of systematic income growth in the coming years.

In the broader context, it is hard to ignore the density with which risks are accumulating in the global economy. Since the financial crisis of 2008, the severe imbalances have been redressed to a relatively small extent through institutional interventions, notably with continued money supply from the central banks. Specific crises ensued, with that of the pandemic having unprecedented characteristics, and more recently geopolitical tensions have been rising. In general, even when risks are recognised, no systematic plan for dealing with them is emerging. Instead, a situation seems to be perpetuated in which a series of risks are ignored, perhaps because it is assumed that the global economy is inherently very resilient. But whatever resilience the economy has, it is not unlimited, especially when some of the policy responses shift part of the problem down the line.

The sharp rise in central bank interest rates, in response to the steep rise in inflation, may not have led to a recession in the major Western economies, as it was feared it would, but it was not without side effects, nor can deep problems really be solved by monetary policy interventions. There is a combination of economic and political challenges ahead.

A first set of issues relates to the pace of the Western economies. Brexit has had a negative impact on the UK economy, but also on the rest of Europe, albeit a smaller one. The decoupling of energy supplies from Russia has hit the economy of Germany in particular, and then the rest of Europe. The next presidential election in the US looks likely to change the country's interconnection with Europe, profoundly redrawing the economic and defence map. Any path of disengagement will put pressure on the European economies in the medium term, while more directly it will be affect the evolution of the Russian invasion in Ukraine.

Even the European elections at the beginning of the summer may lead to a result that would make it difficult to achieve the necessary strengthening of the European Union. This may happen precisely when the Union is facing a lag in productivity and innovation on the economic front, demographic pressures and the inability to implement an effective immigration policy on the social front and, at the same time, a weakening of its role on the global political chessboard. The combination of these factors can lead to a gradual or sudden loss of prosperity, but no credible plan for a response or alternative path is apparent.

Geopolitical and military tensions are of course emerging as the biggest problem. Neither in Ukraine, after the Russian invasion, nor in the Middle East does there seem to be any road map for de-escalation in the short term and resolution in the long term. On the contrary, the latest developments raise new concerns and worries. These manifestations of intense aggression, which directly affect the lives of many people, in critical areas geographically and culturally close to our country, are taking place in a broader context of a power reshuffle on the global chessboard. China's economic growth, as well as its convergence on matters of cutting-edge technologies with the West, also raises issues of hegemony and power realignment around two poles. Overall, significant tensions are building up in the global context. Regardless of developments, the pressures on the European economy, and of course on our own, are here to stay.

Positive domestic trends in the short term

Within the economy, there are many positive signs and developments. The impact of the Recovery and Resilience Fund has been significant in critical aspects of the economy, both in terms of the facilitation of financing and the reforms that it includes. The business environment is improving. The country's cost of funding is gradually converging towards that of other European economies, and the related spread is narrowing. Inbound tourism is growing strongly, contributing to the external balance. But there are also worrying developments. Inflation remains a problem, although it is falling. The refusal of Moody's to upgrade the Greek sovereign credit rating is a reminder that the normalisation of relations with international markets, which is underway, does not happen linearly or automatically. Recent official ELSTAT data show a relative slowdown in the economy and reduce, even if only slightly, the estimated growth rate. The data also raise questions about the course of investment, as well as its financing. There is a slowdown in the reduction of unemployment. Economic sentiment, measured monthly by the IOBE for the European Commission, has recently shown signs of fatigue and consumer confidence is weak. Relatedly, there are several areas that deserve attention, such as public finances, the labour market and demographics, market competition and more broadly the integration of new technologies and the shift in the production model towards growth.

On the fiscal front, the surplus has recently recorded a better-than-expected performance over the past year, which provides a positive basis for the next period. However, there are a number of challenges ahead as an overall positive fiscal performance without slippages is a prerequisite for the overall growth of the economy. On the revenue side, the positive contribution from inflation through indirect taxes will weaken, and the positive contribution from the reduction of tax evasion, in particular through the expansion of electronic means of payment, should intensify. A significant imbalance still remains, as in direct taxes there is too much concentration of payments in a very small part of the population. On the expenditure side, as a gap will gradually emerge with the end of the implementation of the Recovery and Resilience Facility, it is important to shift priorities, which will include addressing the consequences of climate change and of demographic developments. Of course, the fiscal developments in the country will also be critically linked to the new fiscal framework of the European Union and to the evolution of the interest rates in the global markets, as this significantly affects a country with a high level of public debt.

A regulatory role for economic policy

Another crucial area of interest will be the functioning of markets for goods and services. More recently, high inflation, but also previously the sharp rise in energy costs and the unprecedented pandemic restrictions on travel, work and consumption, led to a series of major and systematic interventions, following on the heels of those that took place during the debt crisis. This may gradually create the impression, especially in the public debate, that essential economic problems can be solved relatively swiftly by state intervention. If commodity prices are high, government intervention can reduce them, as well as raise wages, reduce rents and lending rates and increase deposit rates. Government intervention in markets is effective in periods of abnormality when the effects of the crisis cannot be contained otherwise. But they do not solve the underlying problems and, if they are extended, the momentum of the economy is curtailed. Investment may not be directed to where it is most efficient, firms do not compete with each other and incentives for workers are distorted. Just as importantly, an economy with many and changing constraints has difficulty attracting new productive capital and people. Ultimately, when interventions become the norm, the result is to the detriment of those who need to be empowered.

In this respect, our economy is at a turning point where many of the intervention or support measures that have been implemented out of necessity will have to be withdrawn and normal functioning will have to be restored. Economic policy therefore has to balance between two priorities, helping those affected by current weaknesses in the economy but also further strengthening the economy. The fact that policy is not effective to regulate directly in the long run does not mean that there is no role for it in the medium term, far from it. This role, in view of the need to raise growth rates, should be primarily aimed at strengthening the productive base. In the necessary mix of priorities, boosting competition, an area in which there has been a decades-long lag, remains a crucial intermediate objective.

Priorities for the medium term

Developments in the labour market also need special attention. Following the significant and systematic reduction in unemployment in recent years, and the rises in average wages, there is a new set of challenges. In the short term, the dynamics of unemployment reduction appear to be weakening at the same time as significant labour shortages appear in many sectors and industries of the economy, both in unskilled and highly skilled labour. In the medium term, such labour shortages are expected to intensify given the negative demographic dynamics in the country. These negative trends can be mitigated to a significant extent by measures to strengthen incentives for labour market participation, including effective training of the labour force.

Of course, and in connection with all the above, the course of an economy over time ultimately depends on the growth of its productivity, which in turn is critically influenced by the functioning of the institutional framework and in particular by the integration of new technologies. In this respect, the shift in the production model towards a higher participation of exports and investment in the economy will be commensurate with the pace of its technological transformation. By way of illustration, the faster development of AI-based technologies and systems can affect the Greek economy in several ways: by drastically changing various markets for services and goods, increasing overall productivity, shaping new conditions for the public sector and changing its interconnection with production, and ultimately affecting the international competitiveness of Greek enterprises as the global "division of labour" shifts.

Overall, it is appropriate to take into account the current positive trend but also the challenges stemming from the external environment and the need to upgrade the structure of our economy. The conclusion with regard to economic policy is that, in itself, efficient resource management and allocation of the benefits of current growth does not ensure a favourable continuity. Broadening the investment base, both sectorally and financially, is a critical prerequisite. Faster and more efficient management of non-performing loans is also essential for increasing productivity and economic growth. Opening up the economy to facilitate new activities and the continued integration of new entrepreneurship and labour is key. Stability of market rules and drastic simplification of procedures in the public sector are conditions for high-value production. Overall, a high level of ambition and continued policy interventions to upgrade the structure of the economy are necessary to ensure that the future course of the country is also systematically positive.

1 BRIEF OVERVIEW

International environment: Steady growth in the fourth quarter of 2023

The global economy continued to expand in the fourth quarter of 2023, at a low but steady pace as a consequence of high inflation and the maintenance of a tight monetary stance. Based on the latest OECD forecasts (February 2024), the global economy is estimated to grow marginally higher in 2024 than in the November forecast (2.9% compared to 2.7%). The OECD economies grew at an annual rate of 1.7% in the fourth quarter of 2023, after GDP growth of 1.6% in the previous quarter and growth of 1.4% in the corresponding quarter of 2022. Inflation is gradually easing, yet it remains at higher-than-desirable levels, while core inflation is proving persistent in many economies. For example, in February inflation in the 38 OECD countries reached 5.7%, while core inflation (i.e. excluding energy and food) stood at 6.4%.

As inflation rates exceed the targets, central banks continue to maintain a restrictive monetary stance. However, the markets are anticipating gradual rate cuts through the year if price pressures continue to ease, although the cost of money is expected to remain higher than in early 2022. Despite solid GDP growth in late 2023, tight monetary and fiscal conditions and increasing geopolitical instability pose risks to global economic activity. A more detailed analysis is presented in Section 2.1A.

European economy: A marginally positive recovery in late 2023

In the fourth quarter of 2023, the annual rate of change in real GDP in the EU-27 and the euro area stood at 0.2% and 0.1% respectively, up from zero in the previous quarter. For 2023 as a whole, 8 of the 27 EU member states recorded negative annual GDP growth rates for 2023, including Germany. Economic sentiment moved slightly up in Europe in the first quarter of 2024, after a negative trend in the same period last year.

Eurozone inflation fell in the first quarter of the year to 2.6%, from 8.0% in the same period in 2023, but still above the target of close to 2%. The ECB has kept its key interest rates at the high level recorded in September 2023. Markets expect the cost of money to decline gradually throughout 2024, while remaining at levels higher than in early 2022, while there is a risk of a slower decline due to the flare-up in the Middle East and possible upward repercussions on energy prices.

According to the European Commission's latest forecasts (February 2024), the annual rate of change in real GDP for 2024 is expected to be 0.9% and 0.8% in the EU-27 and the euro area. For 2025, a rate of 1.7% and 1.5% is expected in the two blocs respectively. Regarding inflation, it is estimated to hover around 3.0% and 2.7% this year in the EU-27 and the euro area, before falling to 2.5% and 2.2%, respectively, in 2025.

The ongoing wars in Ukraine and the Middle East, the longer duration of the high cost of money and the limited fiscal space pose risks to the recovery of the European economy. The timely implementation of the Member States' Growth and Resilience Plans presents an opportunity. It is crucial to accelerate the deepening of Eurozone institutions, such as the Banking Union, the Capital Markets Union and the adoption of simpler and more effective new fiscal rules. The trends in the European economy are presented in detail in section 2.1B.

Growth in Greece slows in the fourth quarter, negative surprise from investment

Annual economic growth slowed to 1.2% in the fourth quarter of 2023 (from 2.1% in the previous quarter). In seasonally adjusted terms, the rate of change in GDP from the previous quarter was +0.2%. The slowdown was mainly driven by a -5.7% contraction in fixed investment, while total investment declined by -1.2% year-on-year. The largest contribution to growth was made by consumption (+1.8% p.a.), driven by the strengthening of private (+1.8%) and public consumption (+2.7%). In the external balance of the fourth quarter of 2023, total exports strengthened by +2.1% p.a., driven by the strong growth rate of exports of services (+4.7%), while exports of goods continued their downward trend (-1.6%). By contrast, total imports remained stagnant, with the external deficit in national accounting terms improving by some €371 million compared to a year ago.

For 2023 as a whole, annual growth is estimated at 2.0%, driven primarily by consumption (+1.5% y-o-y). Positive developments for 2023 also include an improvement in the current account deficit by 4.0 p.p. of GDP, with exports rising (+2.8% y-o-y) at twice the rate of imports (+1.4% y-o-y). Fixed capital investment came in below expectations (+3.9% y-o-y), with total investment contracting (-1.2% y-o-y).

The further gradual strengthening of international investor confidence in the country, as reflected by the reduction in the differential cost of public and private sector financing compared to other European countries, stands out among the positive developments in the first quarter of 2024. Positive aspects also include a higher domestic growth rate than the euro area average. Negative developments in the first quarter include a higher inflation rate than the euro area average, especially for necessities such as food. A detailed presentation of the macroeconomic performance in the fourth quarter of 2023 is included in Section 3.1A.

Positive momentum in Construction and Services in 2023 as a whole, mild strengthening in Manufacturing, slump in Retail Trade

Industrial production strengthened in 2023 as a whole, by 2.3%, down from 2.7% in the same period in 2022. An upward trend is recorded in early 2024. Construction showed strong momentum in 2023, with output increasing by 17.1%, after 21.8% expansion in 2022. Turnover in most Services subsectors increased in 2023. By contrast, Retail Trade declined in volume by 3.3% in 2023 as a whole, compared to a 3.3% increase a year earlier. Expectations for 2024 in Retail Trade also indicate a decline. Short-term trends in key sectors of the Greek economy are highlighted in section 3.2.

The external deficit is improving, but at a slow pace

On the side of exports of goods in the national accounts, a decline in nominal terms was recorded in 2023 as a whole, at a rate of -8.5%, although excluding petroleum products the fall was weaker (-2.9%). On the side of imports, a decline in current prices was recorded, at a rate of 13.8% in 2023. As a result, the trade deficit for the year as a whole decreased by 21.4% compared to 2022, to €29.5 billion. The historically high level of openness of the Greek economy was sustained in 2023. On the occasion of the war turmoil in Israel, it is worth noting that the total value of exports of goods to Israel and Lebanon in 2023 reached €2.1 billion, of which €657.0 million went to Israel.

On the Balance of Payments side, in 2023 as a whole, the current account deficit was reduced to €14.0 billion or 6.3% of GDP, compared to €21.2 billion or 10.3% of GDP in 2022. A significant correction of the deficit was recorded in the goods account (by 90% due to fuel, under the effect of lower energy prices) while the surplus in the services account (with historically high travel receipts) and the secondary income account, which also records the inflows from the Recovery and Resilience Facility, increased. The deficit of the goods account excluding fuel and ships reached €3.5 billion in the 12 months of 2023, down from €6.6 billion in the same period of 2022. The developments in the external balance are described in more detail in Section 3.3. The special text box at the end of the section highlights the relationship between the savings gap and the Current Account (CA), as well as the sources of CA financing.

Unemployment at 14-year low, but signs of labour market fatigue

In the fourth quarter of 2023 unemployment fell further to 10.5% from 11.9% in the same quarter of 2022. The decline in the unemployment rate was mainly the result of stronger employment. The sectors with the largest annual increase in employment were transport (+27.8k employees), construction (+27.2k), health (+23.5k), accommodation and food services (+21.1k). A fall in employment was recorded in education and recreation. The upward trend in the wage cost index stalled in the fourth quarter of 2023, while labour force participation recorded a decline. As the country approaches single-digit rates of unemployment, any declines in the coming quarters or years will inevitably be slower. In parallel with reducing cyclical unemployment, priority should be given to addressing remaining structural and frictional unemployment.

Employment is expected to strengthen more moderately in 2024, due to the upward trend in consumption, investment, exports and individual sectors of industry and services. These factors are expected to partially offset the negative impact of higher money costs on business demand for labour. The unemployment rate for 2024, according to IOBE estimates, is expected to be in the region of 10.3%. More details on developments and expectations of labour market trends are included in Section 3.4. The special text box at the end of the section presents the recent evolution of the weighted minimum wage and the degree of wage compression.

Slower decline in inflation, pressures on food prices in 2024

Inflation was recorded at 3.1% (CPI) and 3.2% (HICP) in the first quarter of 2024, compared to inflation of 5.9% (CPI) and 6.4% (HICP) in the first quarter of 2023. The domestic inflation rate has exceeded the EA average since late 2023 (Appendix, Figure 4), after running at a lower average rate in the first nine months of 2023. A significant part of the price pressure in 2024 relates to non-energy goods, in particular food, while world prices of energy goods moved softer in the first quarter. Indicatively, the rate of change in HICP with fixed taxes and excluding energy was at 3.9% in the first two quarters of 2024, down from a rise of 8.3% a year earlier.

The main assumptions for the inflation forecast are: (a) the evolution of the Brent oil price in euro terms, which is expected to increase annually by an average of 8% in 2024 (b) the evolution of consumer demand, which is expected to rise more moderately by around 1.2% in 2024. Against this background, inflation is projected to be in the region of 3.0% in 2024. Section 3.5 describes in more detail recent trends in consumer and producer prices and expectations for their evolution in 2024.

Slight recovery in the domestic economic climate in the first quarter of 2024

The Economic Sentiment Indicator in Greece slightly improved in the first quarter of 2024 compared to the immediately preceding quarter (106.9 from 105.6 points). The improvement is marginal compared to the corresponding quarter of last year (106.6 points). Business expectations strengthened mildly in the first quarter compared to the immediately preceding quarter in Services, improved more strongly in Construction and Manufacturing, while weakening in Retail Trade. The Consumer Confidence Indicator weakened slightly in January-March compared to the previous quarter, to -46.1 (from -43.5) points. At the same time, it moved slightly lower compared to a year earlier (-43.3 points). A detailed description of the trends in the economic sentiment components is included in section 2.2A.

Public finances: cash targets exceeded in early 2024 as well

In 2023 as a whole, the state budget execution was better than the target in cash terms, driven by the economic recovery and inflation. The year-on-year improvement in the balance is mainly due to a stronger increase in net revenues (+12.4% or +€7.38 billion). A cash primary surplus of €3,920 million (1.8% of GDP) was recorded in 2023. According to the 2024 Budget Introductory Report, the target for the primary surplus is set at 2.1% of GDP in 2024. The general government debt-to-GDP ratio is estimated at 161.9% in 2023.

In the first two months of 2024, the execution of the state budget was better than the target in cash terms, as a surplus of €1,437 million (0.6% of GDP) was recorded against a target of a surplus of €101 million in the Budget Introductory Report of November 2023. The developments in public finances are presented in section 2.2B. The degree of progressivity of declared income taxation on the basis of administrative data from tax authorities is outlined in a special text box at the end of the section.

Improving bank fundamentals, with challenges

The systematic improvement in the international investment community's confidence in the Greek economy is reflected in the gradual narrowing of the gap in the cost of new public and private sector borrowing relative to other countries. In the banking system, positive trends include a recovery in credit expansion to businesses, a further reduction in NPLs, and improvements in organic profitability, liquidity and capital adequacy indicators, while private sector borrowing costs have stabilised.

Negative trends include the increase in banks' exposure to government bonds, the high stock of non-performing loans on and off bank balance sheets, the credit contraction to households, the stagnation in private deposits and the high interest rate margin. An important opportunity lies in accelerating the implementation of the revised National Recovery and Resilience Plan, which still has €21.25 billion of committed European resources for the three-year period 2024-2026, of which €10.4 billion is for the loan component, i.e. business loans on favourable terms, to be leveraged with further private and bank capital to finance new productive investments. Recent trends and challenges for the domestic financial system are described in detail in section 2.2C. The special text box at the end of the section presents the resources committed under the revised Recovery and Resilience Plan for Greece up to 2026.

Macroeconomic forecasts for 2024

The slowdown of the Eurozone economy, the gradual deceleration of inflation and interest rates, geopolitical instability, fiscal targets and the implementation of the revised Recovery and Resilience Plan are the most decisive factors for the evolution of GDP in 2024.

The assumptions of the baseline scenario are presented in detail in section 3.1B, and include (a) weak growth in the euro area of 0.6% in 2024, in line with the ECB baseline scenario (b) continued geopolitical instability with international energy commodity prices on an upward path in 2024, in line with the EIA baseline scenario; (c) interest rates follow the trend of current forward rates, i.e. Euribor gradually declining to around 3.1% at the end of 2024; (d) timely implementation of the revised 'Greece 2.0' plan in 2024, (e) tourism revenue performance in 2024 similar to 2023.

The projections by GDP component are described in detail in section 3.1B. For 2024, IOBE forecasts growth of 2.1% in constant prices, with uncertainty about the magnitude of the risks stemming from the international environment. As regards the components of growth in 2024, fixed investment is expected to strengthen significantly (+9.5%) and private consumption is expected to maintain its momentum (+1.3%). In the external sector, the current account is expected to improve slightly, with exports and imports growing annually by +2.2% and +1.9% respectively in 2024. Inflation for 2024 is expected to average slightly higher than the euro area average, in the region of 3.0%, while unemployment is projected to ease further, albeit at a slower pace, to around 10.3%.

The forecast in the IOBE's baseline macroeconomic projections scenario (Table 1.1) bears both positive prospects and risks for 2024, which are discussed in detail in section 3.1B.

Table 1.1

IOBE macroeconomic forecasts (April 2024)

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

	2023 (actual)	2024 (forecast)
GDP	2.0%	2.1%
Consumption	1.5%	1.0%
Private consumption	1.6%	1.3%
Public consumption	1.5%	-0.6%
Gross capital formation	-1.2%	7.8%
Gross fixed capital formation	3.9%	9.5%
Exports	2.8%	2.2%
Imports	1.4%	1.9%
Inflation rate	4.2%	3.0%
Unemployment (% labour force)	11.2%	10.3%

Special study: Analysis of the financial performance of public hospitals in Greece

A study conducted by IOBE analyses the financial data of public hospitals in a sample of about 90 hospitals annually and 828 financial statements for the period 2012-2020, showing significant changes due to the extensive reforms carried out with the economic adjustment programmes implemented during this period. The evolution of several indicators over the period under review can be characterized by a relatively strong initial trend towards financial risk reduction and consolidation, stabilization thereafter and a gradual return to levels closer to long-term averages. In terms of aggregate magnitudes, there is also a fairly strong year-to-year volatility. The analysis of the financial data of public hospitals is an important step in assessing the progress of the country's health sector. In particular, the analysis of structural variables of public hospitals offers clues to assess the progress of rationalization of healthcare facilities against targets for efficient use of resources based on existing needs. A summary of the study is presented in Chapter 4 of this report.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- Based on the OECD's February report, the global economy is forecast to grow by 2.9% in 2024, slightly higher than in previous forecasts.
- Inflation continues its downward trend, however, still remaining higher than the desired level.
- Monetary policy globally is expected to gradually start easing through the year in line with inflation developments.

The global economy continued to expand in the fourth quarter of 2023, at a steady but low pace as a consequence of high inflation and monetary tightening. The OECD economies grew at an annual rate of 1.7% in the fourth quarter of 2023, after an annual GDP growth of 1.6% in the previous quarter and growth of 1.4% in the corresponding quarter of 2022. The annual rate of GDP change in the major developed economies (G7) was 1.9%, down from 1.8% in the previous quarter and 0.8% in the corresponding quarter of 2022. The 20 largest OECD economies grew at a rate of 3.2% in the fourth quarter of 2023, up from 3.0% in the previous quarter, and after growing by 2.3% in the corresponding quarter of 2022.

Inflation remains at higher-than-desirable levels, despite the significant deceleration, while structural inflation is proving persistent in many economies. Last February, inflation fell in the 38 OECD countries to 5.7%, while structural inflation (i.e. excluding energy and food) fell to 6.4%. At the same time, energy prices fell by 0.5% and food prices strengthened by 5.3% in the same month.

Central banks in several major economies continue to maintain a restrictive monetary stance to deal with persistent inflation. The inflation rates have eased significantly, with the tighter financial conditions having a marked impact on both inflation and economic activity. However, the level of inflation continues to exceed targets, while central banks are preparing for interest rate cuts later this year if price pressures continue to ease. An important challenge for monetary policymakers will be to successfully manage the convergence of inflation towards the target by shaping monetary policy in line with the underlying inflation dynamics.

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	3.1	2.9	0.2	3.0	0.0
USA	2.5	2.1	0.6	1.7	0.0
Japan	1.9	1.0	0.0	1.0	-0.2
Canada	1.1	0.9	0.1	1.9	0.0
United Kingdom	0.3	0.7	0.0	1.2	0.0
Eurozone	0.5	0.6	-0.3	1.3	-0.2
Germany	-0.1	0.3	-0.3	1.1	-0.1
France	0.9	0.6	-0.2	1.2	0.0
Italy	0.7	0.7	0.0	1.2	0.0
Turkey	4.1	2.9	0.0	3.1	-0.1
China	5.2	4.7	0.0	4.2	0.0
India	6.7	6.2	0.1	6.5	0.0
Brazil	3.1	1.8	0.0	2.0	0.0
World trade	1.1	2.7	0.0	3.3	0.0

* Difference in percentage points from previous OECD forecasts (OECD Economic Outlook, November 2023).
Source: OECD Interim Economic Outlook, February 2024.

According to the latest OECD report, the rate of change in global GDP was 3.1% in 2023, while growth of 2.9% is forecast for 2024, up from 2.7% in the November report. The growth rate of the volume of world trade slowed to 1.1% in 2023, while an acceleration to 2.7% is forecast for 2024. Table 2.1 includes annual changes in GDP in 2023 and the latest OECD projections (February 2024) for annual changes in 2024 and 2025 in the world economy and in selected developed and developing countries.

Next, we analyse recent and expected trends in the economies of major countries and blocs for 2023 and the current year.

Among the major developed countries, the US recorded an annual growth rate of 3.1% in the fourth quarter of 2023, the fastest in two years, up from 2.9% in the previous quarter and 0.7% in the corresponding quarter of 2022. Compared with the previous quarter, there was strong growth of 3.4% on an annualised seasonally adjusted basis, reflecting increases in consumer and government spending, exports and fixed capital investment, partly offset by a decline in private investment in inventories. Inflation accelerated for the second month in a row to 3.5% in March, the highest since September, from 3.2% in February. In order to control inflation, the country's central bank has kept its key interest rate at 5.25%-5.50% since July 2023. Although the Fed intends to make cuts in borrowing costs later this year, their size and timing will depend on inflation developments. In 2023 as a whole, the US economy grew at a rate of 2.5%, while growth of 2.1% is forecast for 2024.

The euro area economy recorded a marginally positive annual growth rate (0.1%) in the fourth quarter of 2023, unchanged from the previous quarter, and compared with a rate of 1.9% in the same quarter of 2022. Compared with the previous quarter, economic activity remained unchanged on a seasonally adjusted basis. A positive contribution to the quarterly rate was made by fixed investment (+0.2 p.p.), public consumption (+0.1 p.p.), while private consumption had a zero contribution. Net exports (-0.3 p.p.) and the change in inventories (-0.1 p.p.) made a negative contribution. Among the largest economies in the bloc, GDP grew year-on-year in the fourth quarter of 2023 in Spain (+0.6%), the Netherlands (+0.4%), Italy (+0.2%) and France (+0.1%), while it fell in Germany (-0.3%). Inflation fell to 2.6% in February in the euro area, while structural inflation also fell, to 3.2%. The ECB kept interest rates high and said it may consider easing its restrictive policy if it becomes more confident that inflation is moving steadily towards the 2% target. Officials also acknowledged that inflation continued to fall, with most measures of underlying inflation and wage growth easing. However, they cautioned that domestic price pressures remain strong, leading to high inflation in prices for services. President Lagarde said that the ECB is not committed to a specific path for interest rates in advance and that future moves will depend on the data. Based on the ECB's latest forecasts, inflation will fall to 2.3% in 2024 from 5.4% in 2023 and converge to the 2% target in 2025. In 2023 as a whole, the euro area economy grew at a rate of 0.5%, while growth of 0.6% is forecast for 2024. The outlook and challenges for the European economy are presented in more detail in section 2.1B.

In the UK, GDP contracted annually by 0.2% in the fourth quarter of 2023, the same as in the previous quarter, from growth of 0.6% a year ago. Inflation fell to 3.2% in March from 3.4% the previous month, with structural inflation at 4.2% from 4.5%. The central bank kept its key interest rate unchanged at 5.25% in March, a 16-year high, but signalled a cut later in the year, though it did not specify an exact timing. Overall for 2023, marginal growth of 0.3% was recorded, while growth of 0.7% is forecast for this year.

In Japan, GDP grew at an annual rate of 1.3% in the fourth quarter of 2024, after growing 1.6% in the previous quarter and 0.7% a year earlier. In 2023, the Japanese economy grew at a rate of 1.9%, while growth of 1.0% is forecast for 2024.

Next, the current subsection presents recent trends and economic policy challenges in four developing countries, which together produce almost one-third of global GDP.

In detail, China's economy recorded an acceleration in its annual growth rate in the fourth quarter of 2023, to 5.2%, from 4.9% in the previous quarter. The high annual expansion was boosted by ongoing support measures. In the first three months of 2024, fixed investment rose by 4.5%, the largest increase in almost a year. According to the statistics office, the economy got off to a good start, laying a strong foundation for achieving the GDP growth target of around 5% this year. However, March data showed that industrial production and retail sales grew less than forecast, underscoring that more policy easing remains necessary for the economy. Growth in 2024 is forecast to slow slightly to 4.7% from 5.2% in 2023.

India's economy recorded an acceleration in annual growth to 8.5% in the fourth quarter of 2023, up from 7.6% growth in the previous quarter and 4.4% growth a year ago. Strong performances by private consumption and investment were the main drivers of GDP growth, while government spending declined. Overall, annual growth of 6.7% was recorded in 2023, while 6.2% growth is forecast for 2024.

Turkey's economy grew at an annualized rate of 4.8% in the fourth quarter of 2023, down from 5.0% in the previous quarter, compared with 3.4% growth a year ago. Growth was mainly driven by private consumption (+9.3%) and fixed investment (+10.7%), while public consumption slowed (+1.7% from +7.6% in the previous quarter). The annual inflation rate intensified to 67.1% in February, while the Turkish lira continued to depreciate. The shift to a more rational monetary policy stance led to a rapid increase in the key interest rate to 45%, however, the annual appreciation of the dollar and euro against the Turkish lira reached 66.1% and 65.5%, respectively, in February. For the whole of 2023, the Turkish economy grew at a rate of 4.1%, while growth of 2.9% is forecast for 2024.

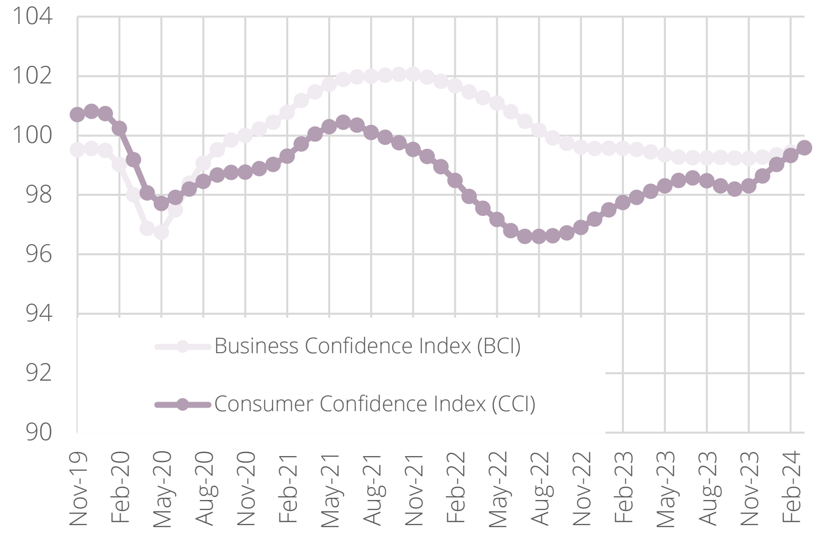
Among the Latin American countries, the Brazilian economy recorded growth of 2.2% in the fourth quarter of 2023, down from 2.4% in the previous quarter and 3.4% in the corresponding quarter of 2022. GDP growth of 3.1% was recorded in 2023, while growth of 1.8% is forecast for 2024.

The OECD business confidence index strengthens for the fourth consecutive month, close to but below the long-term average. The consumer confidence index also continued its upward trend for the fifth month in a row, remaining marginally below its long-term average (Figure 2.1).

Figure 2.1

Economic sentiment indicators for the OECD countries

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



Global consumer and business confidence indicators rose, close to their long-term average

Source: OECD

B. EU and Euro area economies

- A marginally positive annual rate of change in real GDP in the EU and the euro area in the fourth quarter of 2023, at 0.2% and 0.1% respectively.
- Stronger growth and lower inflation in 2024 and 2025 according to the European Commission's economic forecast report. Downward revision compared to the forecast in Autumn.
    - Eurozone: 0.8% and 1.5% growth, 2.7% and 2.2% inflation for 2024 and 2025
    - EU27: 0.9% and 1.7% growth, 3.0% and 2.5% inflation for 2024 and 2025
- The ECB maintained a tight monetary policy stance with an expectation of gradual interest rate cuts in the future.
- Rising geopolitical tensions in the Middle East raise concerns. Supply chains strained by the conflict in the Red Sea.

Last year's positive growth rate stems largely from the momentum of the economic recovery after the pandemic of the previous two years. Already towards the end of 2022, growth rates reached zero and economic activity has since remained broadly stagnant due to the decline in household purchasing power, the collapse in external demand, strong monetary tightening and the gradual withdrawal of fiscal support in 2023. As a result, the European Commission's forecasts have been revised downwards compared to the autumn.[1]

However, there were also positive developments in the last quarter, in particular with regard to inflation. The sharp fall in energy prices was followed by a moderation in price pressures. Despite pressure from higher shipping costs in the wake of the Red Sea trade disruptions, inflation has continued to steadily decline. Credit conditions remain tight, but markets expect the easing process to start soon. The EU labour market continues to perform strongly.

The conditions for a gradual acceleration of economic activity this year remain in place. As inflation declines, real wage growth and resilient employment should lead to a recovery in consumption. Despite squeezed profit margins, investment is expected to benefit from the gradual easing of credit conditions and the further use of the Recovery and Resilience Facility. Growth is expected to reach its potential rate in the second half of this year.

Growing geopolitical tensions in the Middle East and the escalating conflict in the Red Sea are raising concerns for the European economy. Additional trade disruptions could strain supply chains, hampering production and putting pressure on prices. At the European level, a faster than expected recovery in consumption, higher than expected wage growth and a lower than expected fall in profit margins could hinder the deflationary process. By contrast, a more persistent transmission of still-tight monetary conditions could further delay the recovery in economic activity, pushing inflation lower. Climate change and the increasing frequency of extreme weather events continue to pose risks.

[1] European Economic Forecasts Winter 2024, European Commission, February 2024

Economic activity in the fourth quarter of 2023

Economic activity in the fourth quarter of 2023 in the European Union (EU) and the euro area (EA) improved slightly. Year-on-year, GDP grew by 0.2% in the EU and 0.1% in the euro area, down from 0.1% growth in both regions in the previous quarter. In terms of seasonally adjusted quarterly change, GDP remained stable in the EU and recorded a marginal decline of 0.1% in the EA, on the heels of stability in the EU and a decline of 0.1% in the EA.[2] Among the large Member States, real GDP grew in Spain, Italy and France in 2023. In Germany, GDP fell by 0.3% and in Ireland by 3.2%. The Appendix (Figure 1) shows the growth rate by EA country.

After declining in late 2022, private consumption failed to recover in 2023. Sluggish consumption was a key factor for the poor performance of real GDP in 2023. In Q4 it grew by 0.3% year-on-year in both the EA and the EU after declining by 0.1% in both regions in the previous quarter. Public consumption increased in both the EU and the euro area in the fourth quarter of 2023 by 0.3% on an annual basis after rising by 0.3% in both regions in the third quarter. Exports of goods and services in the EU (-0.7%), and in the euro area (-1.5%), fell on an annual basis in the fourth quarter, after larger declines of 1.3% and 1.6% in the previous quarter and strong increases in the fourth quarter of 2022 (2.8% and 2.4%). Imports also fell on an annual basis, by 0.9% in the EU and 1.2% in the EA. The decline in the third quarter was much larger, -2.2% and -2.1% respectively. An increase of 2.3% is forecast in 2024 for both the EU and the EA.

In the fourth quarter of 2023, lower energy prices and weaker economic momentum alleviated the price pressures more than expected. Headline inflation in the fourth quarter averaged 2.9% year-on-year in the euro area, about 0.7 p.p. below the autumn forecast. The decline was mainly driven by energy prices. In addition, weaker-than-expected economic momentum reduced price pressures on services and non-energy industrial goods. The variation of inflation within the EU remains heightened (see Annex, Figure 4).

The EU labour market continued to perform strongly in the third quarter of 2023, despite the slowdown in economic growth. According to national accounts, employment in the EU and the euro area continued to grow in the third quarter of 2023 (by 0.2% on a quarterly basis, up from 0.1% in the second quarter). Over the same period, based on the Labour Force Survey, the employment rate of persons aged 20-64 in the EU stood at 75.3% (74.8% in the euro area), close to the record high reached in the previous quarter. The unemployment rate remained stable in December at 5.9% in the EU and 6.4% in the euro area, close to the historic lows reached in May and June. The highest year-on-year employment growth was recorded in Ireland, Spain and Malta. Only three Member States (Croatia, Latvia and Finland) experienced a decline in employment. The Appendix (Figures 5 and 6) shows the employment rate and change for each EA country.

In the fourth quarter, the unemployment rate ranged from 2.6% in Malta to 11.5% in Spain. Among the large Member States, it stood at 3.0% in Germany, 2.8% in the Netherlands, 7.5% in France and 7.4% in Italy. The Appendix (Figure 7) shows the unemployment rate by EA country.

The average general government deficit in the EU countries is estimated to have fallen in 2023. After reaching an all-time high of 6.7% of GDP in 2020 following the pandemic, the average EU deficit fell to 3.3% in 2022, despite significant measures to mitigate the economic and social impact of high energy prices. The European Commission's autumn report estimates a reduction to 2.5%

[2] Eurostat GDP release, 19 Απριλίου 2024

for both the EA and the EU in 2023. After reaching an all-time high of close to 92% at the end of 2020, the EU's total debt-to-GDP ratio fell significantly, reaching 85% at the end of 2022. The EU debt-to-GDP ratio is expected to continue to decline and reach 83% in 2023, helped by inflation. The largest falls by the end of 2025 are expected in Greece (25 pp), Cyprus (19 pp) and Portugal. The Appendix (Figures 2 and 3) shows the fiscal balance and the public debt-to-GDP ratio by EA country.

According to a statement released on 11 April 2024, the European Central Bank decided not to change its three key interest rates, maintaining the same inflation expectations with a view to ensuring a timely return of inflation to the ECB's medium-term target of 2.0%. Given that there is a gradual deceleration in inflation, markets expect monetary policy to ease over the remainder of the year. The ECB's exposure under the asset purchase programme (APP) portfolio is declining at a steady pace as the Eurosystem is no longer reinvesting principal payments from maturing securities.

With respect to the Pandemic Emergency Purchase Programme (PEPP), the Board intends to continue to fully reinvest principal payments from securities maturing under the programme during the first half of 2024. In the second half of the year, it intends to reduce the portfolio by an average of €7.5 billion per month. The Board intends to discontinue reinvestments under the PEPP at the end of 2024. Finally, the Transmission Protection Instrument (TPI) is available to hedge against undesirable, unpredictable market movements that may adversely affect the transmission of monetary policy in the euro area, with a view to price stability.

Contribution of GDP components

Based on these developments in the components of GDP in the euro area (Figure 2.2), the contribution of net exports was negative (-0.3%), clearly lower than in the previous quarter (+0.5%). The negative contribution of net exports in the fourth quarter this year was driven by an increase in the negative contribution of imports. The contribution of domestic demand was in the order of 0.3% of GDP, down from a negative 0.4 percentage point contribution in the previous quarter. The contribution of private consumption turned positive again in Q4 2023, reaching 0.3% from -0.1% in the previous quarter.

€-COIN index and the Economic Sentiment Indicator

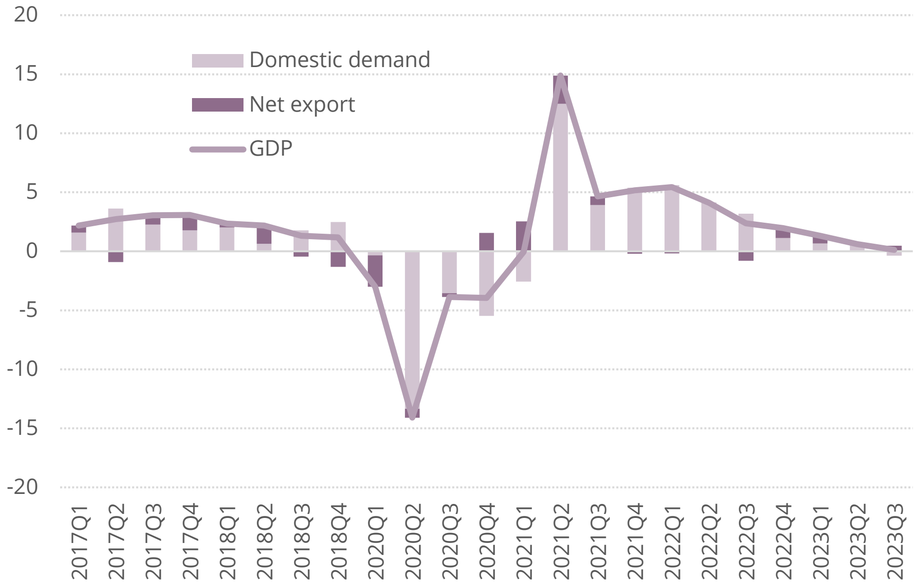
The key leading indicator of economic activity in the euro area and the European Union improved in the first quarter of 2024. The €-COIN index reached its lowest level in recent years in November 2023 but since then the trend has been positive. In March 2024 it reached 0.15 points from -0.22 in December. This is the first positive value since January 2023 (Figure 2.3). This rise in the last quarter foreshadows possible GDP growth in the next quarter.

The European Commission's Economic Sentiment Indicator for the EU-27 and the euro area moved at similar levels in the first quarter of 2024 as in the fourth quarter of 2023. The trend was negative from February 2023 until September for both the EU and the Eurozone but it has been slightly positive since October. Indicatively, in March 2024 the Economic Sentiment Indicator stood at 96.2 points in the EU-27 and 96.3 points in the euro area, higher compared to the previous month but 1 point lower year-on-year in the EU and 2.6 points lower in the EA (Table 2.2).

Figure 2.2

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

Positive contribution of domestic demand but negative contribution of net exports to Eurozone GDP change in Q2 2023.

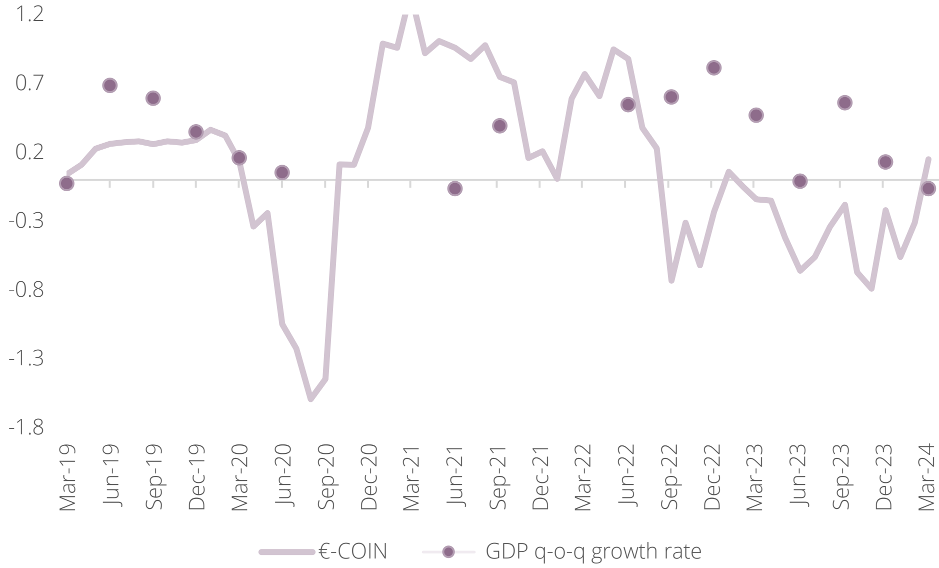


Source: Eurostat

Figure 2.3

Monthly €-COIN Index & Eurozone GDP*

Rise in the €-COIN index in the first 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. Source: CEPR and Bank of Italy.

Table 2.2

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

Month	Apr-22	May - 22	June - 22	Jul-22	Aug-22	Sep-22	Oct - 22	Nov - 22	Dec - 22	Jan - 23	Feb - 23	Mar - 23
EU-27 (2020)	104.1	104.3	102.6	98.6	97.7	94.3	93.1	94.3	95.5	97.6	97.8	97.2
Euro area	104	104.7	103.8	99.2	98.6	95.1	94.1	95.3	96.8	99.4	99.4	98.9

Month	Apr-23	May - 23	June - 23	Jul-23	Aug-23	Sep-23	Oct - 23	Nov - 23	Dec - 23	Jan - 24	Feb - 24	Mar - 24
EU-27 (2020)	97.4	95.6	94.4	94.1	93.5	93.2	93.6	94.	95.9	95.9	95.5	96.2
Euro area	98.9	96.7	95.7	94.8	94.	93.9	93.9	94.2	96.5	96.1	95.5	96.3

Source: European Commission (DG ECFIN), April 2023

Challenges

- Europe's economy, and in particular that of the euro area, faces a number of challenges. Briefly, the main ones are:
- The wars in Ukraine and the Middle East and their economic consequences of high intensity and duration.
- New disruptions in energy supply could potentially have a significant impact on energy prices and price levels in general.
- In the US, a slower-than-expected deflationary process could exacerbate global financial conditions.
- Monetary tightening may weigh on economic activity for longer and to a greater extent than anticipated.
- Need for coordination of fiscal and monetary policies at the collective and national level in order to strike a balance between the objective of containing inflation expectations and avoiding an economic downturn.
- The participation in the upcoming Euro-elections in June and the momentum of the Eurosceptics constitute a challenge.
- Growing risks of natural disasters linked to climate change.

Forecasts for the evolution of key macroeconomic figures (Feb. 2024)

Table 2.3 shows the European Commission's forecasts for the key economic indicators for the EU and the euro area on an annual basis. In the winter forecast, both growth rates and inflation were revised downwards compared to the autumn forecast. Based on the latest forecasts, growth in the Eurozone is estimated at 0.5% in 2023 and a higher growth rate of 0.9% is projected for 2024, similarly for the European Union growth in 2023 is estimated at 0.5% and 0.8% for the current year. For 2025, even higher growth is forecast, of 1.5% and 1.7% for the EA and the EU respectively. Private consumption is projected to grow by 1.3% in 2024 and 1.6% in 2025 in the EU. For the euro area, growth is projected at 1.2% in 2024 and 1.5% in 2025 (Table 2.3). For public consumption, growth is projected at 1.2% in the EU and 1.0% in the EA in 2024 and 1.1% and 0.9% respectively in

2025. Gross investment is projected to increase by 1.5% and 1.3% in the EU and EA in 2024, respectively. Exports of goods and services are projected to increase by 2.2% in 2024 in both the EA and the EU. Imports are projected to increase by 2.3% in both the EU and the EA in 2024. For 2024, inflation is projected at 3.5% and 3.2% in the EU and EA respectively.

Table 2.3

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

	EU			Eurozone		
	2023	2024	2025	2023	2024	2025
GDP*	0.5	0.9	1.7	0.5	0.8	1.5
Private Consumption	0.4	1.3	1.6	0.6	1.2	1.5
Public Consumption	0.4	1.2	1.1	0.2	1.0	0.9
Gross Investment	1.2	1.5	2.3	1.2	1.3	2.0
Exports of Goods and Services	0.4	2.2	3.2	0.2	2.2	3.1
Imports of Goods and Services	-0.6	2.3	3.2	-0.3	2.3	3.0
Employment	1.0	0.4	0.4	1.1	0.5	0.5
Unemployment (% labour force)	6.0	6.0	5.9	6.6	6.6	6.4
Inflation*	6.3	3.0	2.5	5.4	2.7	2.2
Balance of General Government (% GDP)	-3.2	-2.8	-2.7	-3.2	-2.8	-2.7
Debt of General Government (% GDP)	83.1	82.7	82.5	90.4	89.7	89.5
Current Account Balance (% GDP)	2.5	2.5	2.5	2.5	2.6	2.7

Source: European Economic Forecasts, Autumn 2023, European Commission, November 2023

*European Economic Forecasts, Winter 2024, European Commission, February 2024

2.2 The Economic Environment in Greece

A. Economic Sentiment

- A slight strengthening of the Economic Climate Index in Greece in the first quarter of 2024 compared to the immediately preceding quarter (106.9 from 105.6 points). A marginal improvement compared to the corresponding quarter of last year (106.6 points).
- Business expectations strengthened mildly in the current quarter compared to the immediately preceding quarter in Services, improved more strongly in Construction and Manufacturing, while weakening slightly in Retail Trade.
- The Consumer Confidence Indicator weakened mildly in the January-March period compared to the previous quarter, to -46.1 (from -43.5). At the same time, it moved slightly lower compared to a year earlier (-43.3 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.[3]

In the first quarter of 2024, the Economic Sentiment Indicator improved by 1.2 points quarter on quarter. The gain in the indicator was driven by stronger business expectations in Services, Manufacturing and Construction, with expectations in Retail Trade weakening slightly. At the same time, the Consumer Confidence Indicator was slightly lower than in the previous quarter , at -46.1 (from -43.5).

The political developments of the last two years, both domestically and globally, were catalytic for expectations in the Industry and Construction sectors, which have been systematically affected already from 2022 by rising prices in energy and other raw materials due to the war in Ukraine, as well as by difficulties in the running of international supply chains. For the Construction sector in particular, expectations were moving sharply upwards in the first half of 2023, but the rise was significantly curtailed in the third quarter of 2023, with expectations nevertheless returning to high levels in the last quarter of the year and continuing to rise in the first quarter of this year. Overall, the economic sentiment is proving volatile at the moment, reflecting on the one hand the fact that the Greek economy is on a positive trajectory, while on the other facing significant challenges, both in the external environment and domestically, which are having a major impact on businesses and households. The estimated strengthening of part of the international trade appears to favour export-oriented domestic industries, as well as sectors of internationally traded services. The sustained momentum in domestic demand appears to support relatively positive expectations, although inventories are still at high levels in general. Among households, the slight moderation in

[3] 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, in order 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.

inflation and the prolonged period of good weather in recent months appear to have eased some of the pressure on real incomes from the high price level, but the consumer confidence indicator remains below last year's levels.

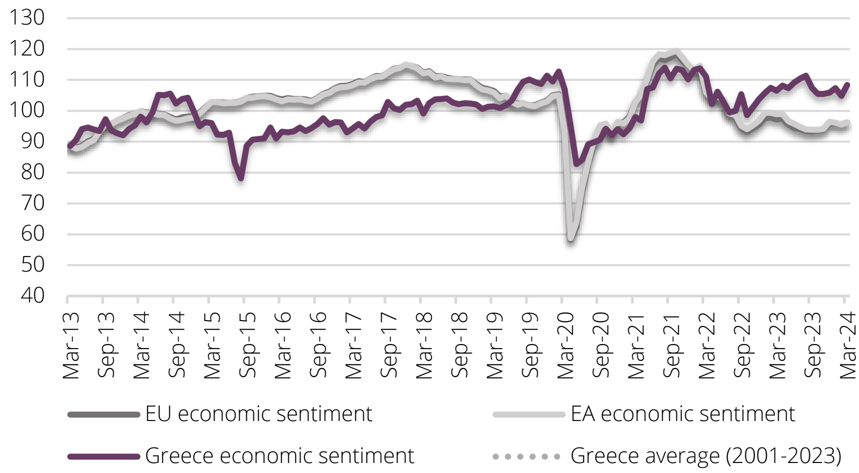
In detail, the Economic Sentiment Indicator in Greece stood at 106.9 points in the January-March quarter of 2024, slightly higher than in the previous quarter (Figure 2.4), up from 105.6 points, while it was marginally lower than the previous year's corresponding average (106.6 points).

In Europe, the corresponding average indicator was slightly higher year-on-year in the period under review, both in the EU and in the euro area. In particular, the Economic Sentiment Indicator stood at 95.9 (from 94.5) points in the first quarter of 2024 in the EU, and at 96.0 (from 94.9) points in the Eurozone.

Figure 2.4

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

The Economic Sentiment Indicator strengthened by 1.2 points in the first quarter of 2024 compared to the immediately preceding quarter.



Source: European Commission, DG ECFIN

At the sectoral level, business expectations in Greece improved markedly in Manufacturing and Construction and more moderately in Services, while they weakened slightly in Retail Trade. On the consumer side, the Consumer Confidence Index weakened slightly compared to the previous quarter. Compared to the same quarter of last year, the average indicators strengthened significantly in Services, more moderately in Construction, and weakened mildly in Manufacturing and Retail Trade. In more detail:

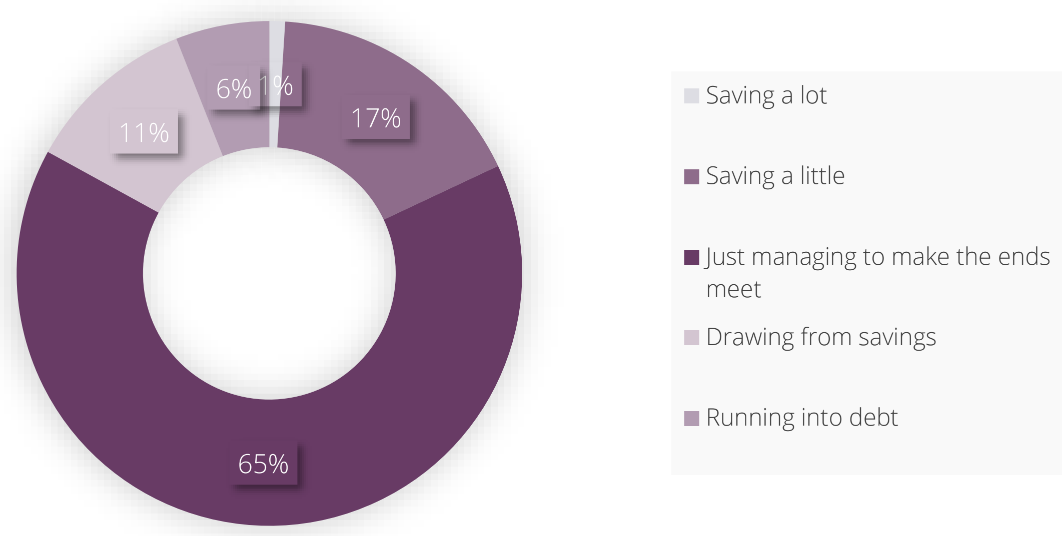
The Consumer Confidence Index in Greece in the January-March quarter of this year was slightly lower on average than in the fourth quarter of the previous year, at -46.1 from -43.5 points, at a level slightly lower year-on-year (-43.3 points). The corresponding average index strengthened slightly in the EU, at -15.7 (from -17.3) points, and in the euro area (-15.5 from -16.6 points). These levels are considerably higher compared to a year ago (-21.1 and -19.6 points respectively).

The trends in the individual key components of the overall index were down in the first quarter of 2024 compared to the immediately preceding quarter. Thus, the consumers' gloomy expectations in Greece about the economic situation of their households in the next 12 months intensified slightly, while those about the economic situation of the country marginally worsened. At the same time, the positive assessments of households of their current situation moderated slightly, while the intention to make major purchases in the near future weakened marginally.

More specifically, the percentage of those who were pessimistic about the financial situation of their household in the next 12 months increased slightly to 59% (from 56% in the previous quarter), while the percentage of those who stated the opposite remained at 7%. At the same time, the percentage of consumers in Greece who expressed gloomy expectations about the country's economic situation strengthened to 61% (from 59%), with 14% (from 13%) expecting an improvement. In terms of savings intentions, the percentage of households who did not rate saving as likely in the next 12 months increased marginally to 84% (from 83%), while the percentage of those who considered it likely remained at 15%. In the unemployment outlook, the proportion of those expecting the situation to worsen was maintained at 37%, with an average of 20% expressing a contrary view. The percentage of consumers reporting that they were "running into debt" in Q1 2024 eased to 6%, almost at the same level as in Q1 2023 (7%). The percentage of respondents stating that they were saving a little (16% in Q1 2023) also weakened slightly to 17% (from 18%). Finally, the proportion of those reporting that they were "just making ends meet" strengthened markedly to 65% and the proportion of households reporting that they were "drawing on their savings" rose to 11% (from 13%), with the corresponding figure for 2023 remaining at the same level (Figure 2.5).

Figure 2.5

Consumer survey data on the financial situation of households (January-March 2024)



Source: IOBE

Higher percentage reporting that they were just making ends meet (65%) compared to Q2 2023.
Decrease in the percentage reporting that they were running into debt.

The Business Expectations Index for Industry in the first quarter of 2024 stood at 104.8 points (from 95.3 in the fourth quarter of 2023), slightly lower compared to the corresponding performance in 2023 (109.4 points). In the key activity data, the index on the expectations for the short-term development of production rose sharply in the quarter under review from +5 points in Q2 2024 to an average of +29.6 points. At the same time, the mildly negative assessments of the level of orders and demand eased (at -15.9 points from -18.9 points for the relevant indicator). The estimates for stocks of finished goods remained at the same level (+9.7 from +9.6 points for the relevant indicator), while the trends in export variables are exclusively positive: the expectations for export dynamics in the next quarter improved slightly (+6.6 from +2.3 points) with the estimates for foreign orders and demand strengthening mildly (-26.2 from -29.7 points). In the employment outlook, the relevant quarterly average balance moved marginally upwards to -2.3 (from -3.2) points on average. The factory capacity utilization rate moved slightly lower, to 72.9% (from 76.3%), while by contrast, the months of assured production of firms strengthened slightly, to 5.5 (from 4.6) months on average.

The business expectations index in Retail Trade in the quarter under review was slightly lower than in the previous quarter, at 107.6 points (from 113.3), a slightly weaker performance compared to the corresponding quarter of last year (111.6 points). Among the key components of the index, the average balance for current sales estimates remained unchanged (+44 points from +43 points). Of the companies in the sector, 19% (up from 13%) considered that their sales had decreased, with 63% estimating the opposite. In terms of projected sales, the +40 point index fell sharply to +26 points, with inventories rising gently (at +27 points for the index). Among other activity data, the balance of expectations for orders to suppliers came in at +20 points from +22 points in the previous quarter, while in terms of employment in the sector, the average balance of expectations moved sharply down to +14 (from +33) points. Finally, in terms of prices, the corresponding balance remained strongly inflationary (+41 from +22 points), with only 2% of the firms expressing expectations of a price decline and 43% (from 30%) anticipating the opposite result. Business expectations deteriorated in the first quarter of 2024 in most of the examined individual sub-sectors of Retail Trade except for Household Equipment and Motor Vehicles & Parts, where there was a marginal improvement.

Business expectations in Construction strengthened significantly in the first quarter of 2024, with the relevant balance averaging 160.8 points, up from 153.2 points in the previous quarter, the second largest change among the main sectors of activity. This performance stood at a significantly higher level than in the corresponding quarter of 2023 (145.2 points). In the key components, the sector's employment outlook weakened slightly, with the relative balance moving from +36 points to +29 points, as 32% (down from 41%) of the firms were expecting more jobs, when 3% expected a decrease. The negative expectations of businesses for planned work eased significantly (to -2 from -20 points for the index), while the estimates for the current level of the work programme strengthened slightly (to +23 from +21 points for the relative balance).

The months of assured activity of the sector's businesses fell significantly to 3.5, while the balance of price expectations moved slightly down to +34 (from +40) points, with 6% of businesses expecting a decrease in the short term and 40% (from 45%) expecting an increase. Finally, the percentage of firms reporting that they were facing no obstacles in their operations remained at 12-13%, while among the remaining firms, 44% (up from 33%) considered the most important obstacle to be a lack of labour, 9% (up from 10%) low demand, 11% insufficient machinery, and 9%

factors such as the general economic situation of the country, high prices of raw materials, lack of projects, delayed payments from the state, etc. At the sectoral level, business expectations moved strongly up in the Public Construction sector, in contrast to the Private Construction sector which moved slightly down.

Table 2.4

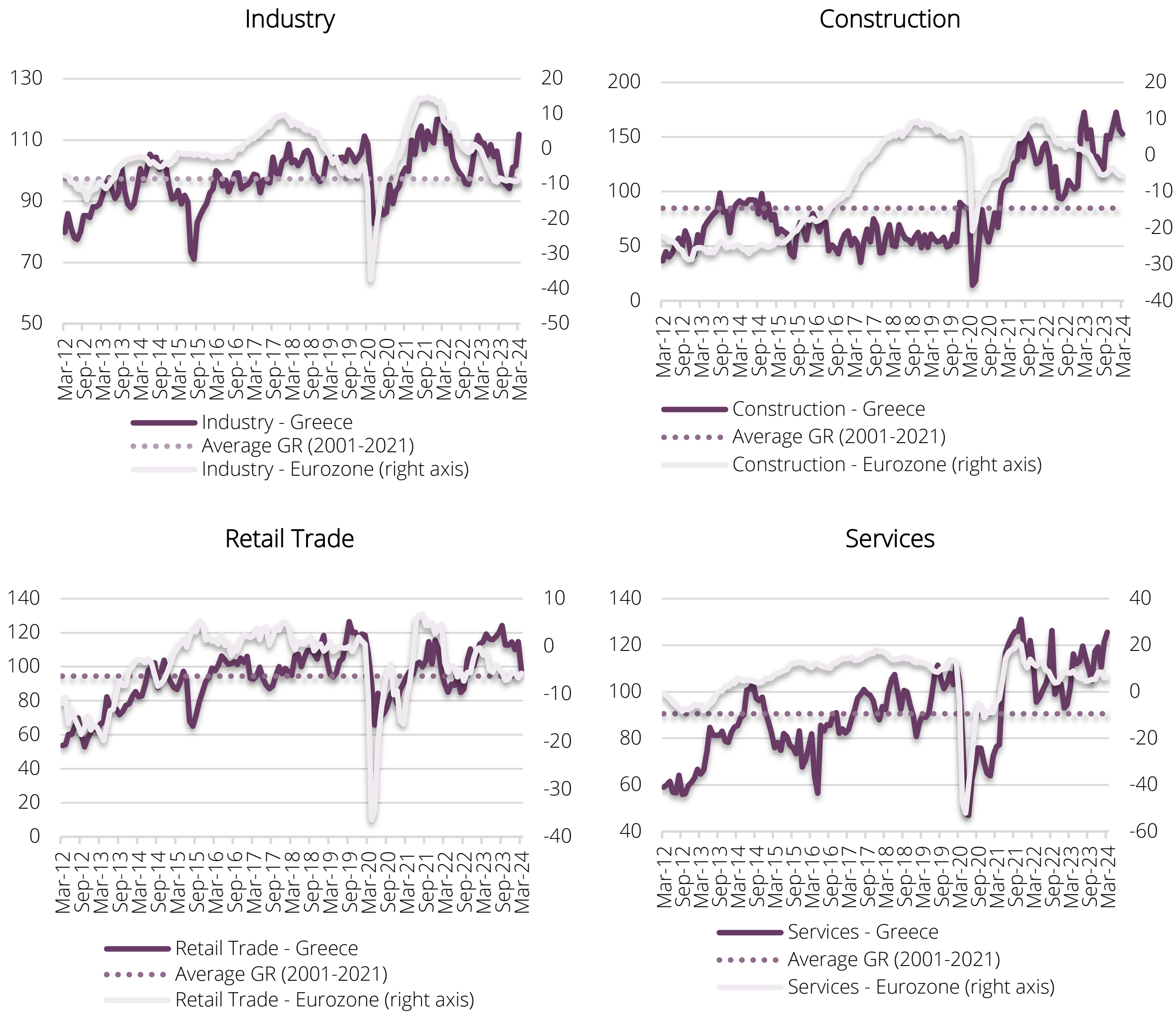
Economic Sentiment Indicators

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	97.5	99.2	106.6	109.4	145.2	111.6	96.6	-43.3
Q2 2023	95.8	97.1	108.2	107.5	145.8	117.2	113.8	-36.7
Q3 2023	93.6	94.2	109.8	103.8	125.0	120.7	114.5	-36.3
Q4 2023	94.5	94.9	105.6	95.3	153.2	113.3	113.8	-43.5
Q4 2024	95.9	96.0	106.9	104.8	160.8	107.6	119.1	-46.1

Sources: European Commission, DG ECFIN, IOBE

Figure 2.6

Business Confidence Indicators



Source: IOBE

Business expectations strengthened mildly in the first quarter of 2024 compared with the previous quarter in Services, more strongly in Manufacturing and Construction, while they declined slightly in Retail Trade.

The business expectations index for Services was significantly higher in the quarter under review compared to the previous quarter, at 119.1 points (from 113.8), a significantly stronger performance than in the corresponding quarter of 2023 (96.6 points). Among the key components, the estimates for current demand remained unchanged, with the relevant index at +36 points, up from +37 points in the previous quarter. The estimates of the current situation of the enterprises moved in a similar way (+30 from +31 points on average), while the balance of expectations for the short-term demand of enterprises in the sector strengthened sharply (+50 from +30 points). Among the other activity data, the balance of respondents' employment expectations improved significantly, increasing by 12 points to +28 points, while the average index of price expectations of businesses improved significantly to +26 (from +15) points. Finally, the average percentage of respondents reporting unhindered business operation remained at 76-77%, with only 9% stating insufficient demand and 4% stating insufficient workforce as the main obstacles to their operation, and 3% stating other factors related to the general economic situation, energy prices, the war in Ukraine, etc. Among the examined branches of Services, the individual indicators strengthened slightly in the first quarter of 2024 in Hotels-Restaurants-Tourism Agencies and Land Transport, more strongly in Financial Intermediaries, while they declined slightly in Miscellaneous Business Activities and Information Services.

B. Fiscal developments

- State Budget Balance 2023 on a cash basis: Deficit of €3,760 million (1.7% of GDP) against a target deficit of €8,338 million included for the corresponding period of 2023 in the 2024 Budget Introductory Report and a deficit of €11,656 million (5.6% of GDP) in the corresponding period of 2022.
- 2023 primary result on a cash basis: a surplus of €3,920 million (1.8% of GDP), against a target primary deficit of €851 million and a primary deficit of €6,652 million (3.2% of GDP) for the same period in 2022.
- The year-on-year improvement in the SB balance is due to an increase in net revenues (+12.4% or +€7.38 billion, Table 2.5).
- State Budget Balance, Jan-Feb 2024: A surplus of €1,437 million (0.6% of GDP) against a target of a surplus of €101 million included for the corresponding period of 2024 in the 2024 Budget Introductory Report and a surplus of €2,308 million (1.0% of GDP) in the corresponding period of 2023.
- State Budget primary result, Jan-Feb 2024: a surplus of €3,378 million (1.4% of GDP), against a target primary surplus of €1,981 million and a primary surplus of €4,215 million (1.9%) for the same period in 2023.
- The deterioration of the SB balance in the first two months compared to last year is due to both the year-on-year increase in expenditure (+€553 million or +5.2%) and the decrease in net revenue (-€318 million or -2.5%).

Final 2023 State Budget figures

The Greek economy performed better than the European average in 2023. Higher investment, privatisation, stronger markets and competition, and the digital transition have contributed to this performance. A dominant role in both investment and reforms is played by the Recovery Facility, which aims to address existing production and investment gaps as well as to boost growth and job creation.

The fiscal position in 2023 was clearly improved compared to 2022. The economy has recovered from the pandemic crises and the war in Ukraine and there has been less need for stimulus measures. High inflation and buoyant economic activity further reinforced the country's good fiscal performance.

Given the heightened geopolitical uncertainty in several regions of the world (especially in Ukraine and the Middle East), prudent fiscal management is considered crucial to ensure the continuation of the positive path that the Greek economy has been on over the last two years. The effective use of the resources of the Recovery Facility is one of the most critical factors in achieving this objective.

State Budget Balance and Primary Balance 2023

According to the state budget execution data, on a modified cash basis, for the period January - December 2023, there is a deficit in the state budget balance of €3,760 million (1.7% of GDP) against a target deficit of €8,338 million included for the corresponding period of 2023 in the 2024 Budget Report and a deficit of €11,656 million (5.6% of GDP) in the corresponding period of 2022. The primary balance on a modified cash basis was in a surplus of €3,920 million (1.8% of GDP), against a target primary deficit of €851 million and a primary deficit of €6,652 million (3.2% of GDP) for the same period in 2022. The year-on-year improvement in the SB balance can be attributed to an increase in net revenues (+12.4% or +€7.38 billion, Table 2.5).

Table 2.5

State Budget Execution (€ million)

	2022	2023	% Change 23/22	2023 Budget	2024* Budget	% Change 24B/23B
I. SB NET REVENUE (1+2)	59,623	67,005	12.4	63,885	68,379	7.0
1. Net OB revenue	54,324	60,093	10.6	56,000	60,567	8.2
OB revenue before tax refunds	60,477	67,086	10.9	62,110	67,155	8.1
Less Tax refunds	6,153	6,993	13.7	6,110	*6,588*	7.8
2. PIP revenue +RRF[4]	5,299	6,912	30.4	7,885	7,812	-0.9
II. SB EXPENDITURE (3+4)	71,279	70,765	-0.7	71,871	74,632	3.8
3. OB expenditure	60,254	59,564	-1.1	59,909	62,195	3.8
Primary expenditure OB	55,215	51,858	-6.1	54,058	53,395	-1.2
Interest	5,039	7,706	52.9	5,851	8,800	50.4
4. PIP expenditure + RRF[5]	11,025	11,201	1.6	11,962	12,167	1.7
III. SB Deficit (-)/Surplus (+)	*-11,656*	*-3,760*		-7,985	-6,253	
% of GDP	*-5.6*	*-1.7*		-3.6	*-2.7*	
IV. SB Primary Balance	-6,652	3,920		-2,134	2,547	
% of GDP	-3.2	1.8		-1.0	*1.1*	
GDP	206,620	222,766	7.8	224,134	233,775	4.3

* Estimates in the Budget Introductory Report for 2024

Sources: Monthly SB Execution Bulletin December 2023, Ministry of Finance, January 2024, Budget Introductory Report 2023, November 2022.

There is a difference against the targets in the primary balance in cash terms, mainly due to the timing of receipts and payments. In particular, an amount of €1,687 million from the Recovery and Resilience Facility, foreseen to be collected in the first quarter of 2024, was collected in December. Another example concerns most of the observed under-execution of cash expenditure payments of €2,767 million (such as the postponement of cash payments for armament expenditure, transfers to General Government entities, etc.). However, these differences mainly relate to

[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

amounts that do not affect the General Government balance in ESA terms, which is computed after incorporating the data of General Government entities and national accounting adjustments.

Ordinary Budget Expenditure

In January - December 2023, the net revenue of the state budget amounted to €67,005 million, an increase of €1,810 million compared to the target included for the corresponding period in the 2024 Budget's introductory report and an increase of 12.4% compared to last year. The overrun against the target is mainly due to the receipt of €1,687 million in December from the Recovery and Resilience Facility (RRF), which was projected to be received in March 2024. Excluding the above RRF amount, net revenue increased by €123 million or 0.2% against the target, despite the lower PIP revenue.

Table 2.6

State Budget Revenue (€ million)

	2022	2023	% Change 23/22	2023 Budget	2024* Budget	% Change 24B/23B
Net SB revenue	59.623	67.005	12,4	63.885	68.379	7,0
Net OB revenue	54.324	60.093	10,6	56.000	60.567	8,2
Tax refunds	60.477	67.086	10,9	62.110	67.155	8,1
OB revenue	6.153	6.993	13,7	6.110	*6.588*	7,8
Income tax, of which:	17.012	20.884	22,8	18.476	21.652	17,2
--Personal	11.047	12.439	12,6	11.460	13.337	16,4
--Corporate	4.629	6.782	46,5	5.662	*6.696*	18,3
Property tax	2.692	2.491	-7,5	2.380	2.487	4,5
Taxes on donations, inheritance etc.	226	240	6,2	226	239	5,8
Tariffs	431	345	-20,0	424	392	-7,5
Taxes on goods and services, of which:	31.584	33.970	7,6	32.517	35.169	8,2
--VAT	*21.422*	*23.385*	9,2	22.217	*24.379*	9,7
--Excise duties	*6.984*	*7.018*	0,5	7.115	7.067	-0,7
Other production taxes	1.165	1.164	-0,1	1.029	593	-42,3
Other current taxes	2.108	2.532	20,1	2.369	2.428	2,5
Social contributions	56	58	3,6	55	56	1,8
Transfers	6.357	7.530	18,5	7.953	*6.902*	-13,2
Sales of goods and services, of which:	833	848	1,8	2.418	889	-63,2
Other current revenue	*3.301*	*3.930*	19,1	2.124	4.138	94,8
Sales of fixed assets	12	6	-50,0	24	23	-4,2
PIP Revenue[6]	5.299	6.912	30,4	7.885	7.812	-0,9

* Estimates in the Budget Introductory Report for 2024

Sources: Monthly SB Execution Bulletin December 2023, Ministry of Finance, January 2024, Budget Introductory Report 2023, November 2022.

Most categories increased compared to 2022. Ordinary Budget revenues increased by 10.9%, while net OB revenues increased by 10.6%, with a 13.7% increase in tax refunds. Income tax revenues increased by 22.8% compared to 2022, driven both by an increase in revenues from taxes on legal persons (+46.5%) and an increase in revenues from taxes on individuals (+12.6%); revenues from

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

taxes on goods and services expanded by 7.6%, primarily driven by a 9.2% increase in VAT revenues. Significant growth was recorded in other current taxes (+20.1%), other current revenue (+19.1%) and transfers (+18.5%), which include revenue from the RRF that increased due to the early disbursement mentioned above. By contrast, there was a decline in import duties and taxes (-20.0%), property taxes (-7.5%) and sales of fixed assets (-50.0%) which had experienced a significant increase last year (Table 2.6).

Ordinary Budget Expenditure

State Budget expenditure for the period January - December 2023 amounted to €70,765 million, down by €2,767 million compared to the target (€73,533 million) included in the 2024 Budget's introductory report and down by €514 million or 0.7% compared to last year. The year-on-year decrease is mainly due to lower cash payments for the Ministry of Defence's armament programmes, taking into account offsetting changes in other expenditure categories.

On the side of the Ordinary Budget, payments are lower than the target by €3,147 million. This development is mainly due to the underspending of €557 million in cash payments of the armament programmes of the Ministry of Defence, as well as to the underspending of €471 million in transfers. This was also due to the fact that part of the needs of the General Government agencies were met using own resources, without the need for additional state subsidies.

Table 2.7

State Budget Expenditure (€ million)

	2022*	2023*	% Change 23/22	2023 Budget	2024* Budget	% Change 24B/23B
SB Expenditure (1+2+3)	71,279	70,765	-0.7	71,871	74,632	3.8
OB Expenditure (1+2)	60,254	59,564	-1.1	59,909	62,195	3.8
1.Primary OB Expenditure	55,215	51,858	-6.1	54,058	53,395	-1.2
Compensation of employees	13,640	14,039	2.9	13,796	14,833	7.5
Social benefits	391	417	6.6	397	411	3.5
Transfers	35,086	33,399	-4.8	32,476	32,282	-0.6
(of which SSFs)	*21,155*	*20,603*	-2.6	21,182	*20,942*	-1.1
Purchase of goods and services	2,145	2,145	0.0	1,541	1,626	5.5
Subsidies	400	118	-70.5	80	81	1.3
Other current expenditure	55	49	-10.9	81	111	37.0
Non allocated expenditure	0	0	-	3,156	15,210	381.9
Purchase of fixed assets	3,496	1,691	-51.6	2,531	1,277	-49.5
2. Interest (gross basis)	5,039	7,706	52.9	5,851	8,800	50.4
3. PIP Expenditure[7]	11,025	11,201	1.6	11,962	12,167	1.7

* Estimates in the Budget Introductory Report for 2024

Sources: Monthly SB Execution Bulletin December 2023, Ministry of Finance, January 2024, Budget Introductory Report 2023, November 2022.

Compared to last year, OB expenditure fell by 1.1% while the fall in primary expenditure reached 6.1%, with an increase in expenditure on interest by 52.9%. Transfers decreased by 4.8% with those relating to SSFs decreasing by 2.6%. Employee benefits increased by 2.9% while social benefits

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

increased by 6.6%. A significant decrease was recorded in subsidies (-70.5%) and purchases of fixed assets (-51.6%, Table 2.7).

Notable payments include: the €821 million grant to the Information Society for the needs of the Market Pass and its expansion, the €367 million reimbursement to the Energy Transition Fund from energy producers' excess profits for the period from 1 October 2021 to 30 June 2022, and the €100 million diesel heating subsidy payments in the first five months of 2023. All the above payments were covered by a reallocation of funds from the reserve for actions to address the energy crisis (non-allocated expenditure).

Public Investment Programme implementation

Total revenues of the Public Investment Programme (PIP) and the revenues of the RRF (counted together under the new categorisation) totalled €3,507 million, down by €256 million from the target (€3,763 million) but up by €1,613 or 30.4% compared to last year mainly due to the early collection of the RRF instalment mentioned above. Without taking into account the disbursement of the RRF instalment, the revenue of the PIP amounted to €3,507 million, down by €74 million compared to last year.

Payments in the investment expenditure component amounted to €11,201 million, an increase of €379 million compared to the target and an increase of 1.6% compared to last year. MFF expenditure includes an amount of €133 million, for COVID-19 measures, the most important of which are the reinforcement of health institutions with auxiliary staff to respond to the needs due to the COVID-19 pandemic in the Regions, support for start-ups under Elevate Greece, the creation of a network of nurses to take biological samples and provide nursing assistance to home-based suspected coronavirus cases, and subsidies to existing small and medium-sized enterprises in the retail sector, which have a physical store, for the development, upgrading and management of an online store.

Execution of the 2024 budget (January - February)

In late December, the EU's Council of Finance Ministers (ECOFIN) reached an agreement on the revision of the European framework for economic governance (Stability Pact). Greece's positions and aspirations were adequately addressed.

First, Greece's long-standing request for special treatment of defence spending was met. In particular, it is foreseen that if a Member State has higher defence investment than the European average, or makes a significant increase in its defence investment, the possibility is introduced that such expenditure will not be taken into account for the purposes of the Member State's inclusion or not in the Excessive Deficit Procedure.

Second, the reduction of public debt will be gradual, in order to protect the momentum of the recovery of the European economy. Under the current rules, any Member State with a debt of more than 60% of GDP is obliged to reduce its debt by 1/20th of the excess amount each year. In practice, for Greece this would mean an annual debt reduction of 4.5%-5% over the next few years. Under the new rules, the required debt reduction will be calculated on the basis of each member state's characteristics, with the minimum threshold for high-debt countries (>90% of GDP) such as

Greece being set at an annual average debt reduction of 1%. A single and less stringent deficit ceiling is also introduced, which stipulates that the deficit should not exceed 1.5% of GDP.

Third, it ensures that the inclusion of interest on official loans in public debt, scheduled for 2033, will not be taken into account in the calculations of the evolution of Greek public debt with regard to the implementation of the new fiscal rules.

State Budget Balance and Primary Balance

According to the state budget execution data, on a modified cash basis, for the period January - February 2024, the state budget balance is in a surplus of €1,437 million (0.6% of GDP) against a target for a surplus of €101 million included for the corresponding period of 2024 in the 2024 Budget Report and a surplus of €2,308 million (1.0% of GDP) in the corresponding period of 2023. The primary balance on a modified cash basis was in a surplus of €3,378 million (1.4% of GDP), against a target primary surplus of €1,981 million and a primary surplus of €4,215 million (1.9%) for the same period in 2023. The deterioration of the SB balance in the first two months compared to last year is due to both the year-on-year increase in expenditure (+€553 million or +5.2%) and the decrease in net revenue (-€318 million or -2.5%, Table 2.8).

Table 2.8

State Budget Execution: January-February 2023* (€ million)

	Jan. – February		% Change 24/23	2023*	2024* Budget	% Change 24B/23
	2023*	2024*				
I. SB NET REVENUE (1+2)	12,966	12,648	-2.5	67,005	68,379	2.1
1. Net OB revenue	9,832	10,857	10.4	60,093	60,567	0.8
OB revenue before tax refunds	*10,616*	*12,065*	13.6	67,086	67,155	0.1
Less Tax refunds	784	1,208	54.1	6,993	*6,588*	-5.8
2. PIP revenue +RRF[8]	3,134	1,791	-42.9	6,912	7,812	13.0
II. SB EXPENDITURE (3+4)	*10,658*	*11,211*	5.2	70,765	74,632	5.5
3. OB expenditure	*9,339*	*9,156*	-2.0	59,564	62,195	4.4
Primary expenditure OB	7,431	7,198	-3.1	51,858	53,395	3.0
Interest	1,908	1,958	2.6	7,706	8,800	14.2
4. PIP expenditure + RRF[9]	1,319	2,055	55.8	11,201	12,167	8.6
III. SB Deficit (-)/Surplus (+)	2,308	1,437		*-3,760*	-6,253	
% of GDP	*1.0*	*0.6*		*-1.7*	*-2.7*	
IV. SB Primary Balance	*4,215*	*3,378*		3,920	2,547	
% of GDP	1.9	1.4		1.8	*1.1*	
GDP (in current prices)	222,766	233,775	4.9	222,766	233,775	4.9

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

It is noted that most of the difference in the primary surplus against the target in cash terms is not counted in the 2024 primary result in fiscal terms. Indicatively, an amount of €159 million related to the Recovery and Resilience Facility revenues that were collected later than expected does not affect the outcome in fiscal terms, while a significant part of the difference in tax revenue

[8] The PIP revenue category now includes the receipts from the Recovery and Resilience Facility
[9] The PIP expenditure category now includes the payments from the Recovery and Resilience Facility

collections of €647 million is counted in the 2023 fiscal result. An additional €301 million relates to the deferred timing of transfer payments expected to be made in the coming months. Therefore, the primary outcome in fiscal terms differs significantly from the outcome in cash terms. Furthermore, it should be noted that the above applies to the primary outcome of the Central Administration and not to the General Government as a whole, which includes the financial results of Legal Entities and subsectors of Local Authorities and Social Security Funds.

Ordinary budget revenue

In January - February 2024, the net revenue of the state budget amounted to €12,648 million, an increase of €1,570 million or 14.2% compared to the target included for the same period in the 2024 Budget's introductory report. This increase is mainly due to: a) higher tax revenues of €423 million after deduction of refunds; b) higher PIP revenues of €751 million; c) higher revenues from expenditure refunds of €245 million; and d) the receipt of €159 million from the Recovery and Resilience Fund which was anticipated to be received in March 2024.

Table 2.9

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

	Jan. – February		% Change 24/23	2023*	2024* Budget	% Change 24B/23
	2023*	2024*				
Net SB revenue	12,966	12,648	-2.5	67,005	68,379	2.1
Net OB revenue	9,832	10,857	10.4	60,093	60,567	0.8
Tax refunds	*10,616*	*12,065*	13.6	67,086	67,155	0.1
OB revenue	784	1,208	54.1	6,993	*6,588*	-5.8
Income tax, of which:	3,149	4,065	29.1	20,884	21,652	3.7
--Personal	1,966	2,225	13.2	12,439	13,337	7.2
--Corporate	*875*	*1,486*	69.8	6,782	*6,696*	-1.3
Property tax	222	217	-2.3	2,491	2,487	-0.2
Taxes on donations, inheritance etc.	46	34	-26.1	240	239	-0.4
Tariffs	58	42	-27.6	345	392	13.6
Taxes on goods and services, of which:	5,644	6,055	7.3	33,970	35,169	3.5
--VAT	*4,107*	*4,443*	8.2	*23,385*	*24,379*	4.3
--Excise duties	*979*	*1,023*	4.5	*7,018*	7,067	0.7
Other production taxes	99	99	0.0	1,164	593	-49.1
Other current taxes	772	797	3.2	2,532	2,428	-4.1
Social contributions	10	10	0.0	58	56	-3.4
Transfers	2,952	1,651	-44.1	7,530	*6,902*	-8.3
Sales of goods and services, of which:	143	165	15.4	848	889	4.8
Other current revenue	*655*	*706*	7.8	*3,930*	4,138	5.3
Sales of fixed assets	0	15	-	6	23	283.3
PIP Revenue[10]	3,134	1,791	-42.9	6,912	7,812	13.0

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

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

Compared to last year, however, net revenues were lower mainly due to lower revenues from PIP+RRF. Ordinary Budget revenues increased by 13.6%, while net revenues of the OB increased by 10.4%, with a 54.1% increase in tax refunds. Income tax revenues increased by 29.1% compared to the same period in 2023, both from the increase in revenues from the taxation of legal entities (+69.8%) and from the increase in revenues from taxation on individuals (+13.2%).

Revenues from taxes on goods and services increased by 7.3%, mainly due to an 8.2% increase in VAT revenues and a 4.5% increase in excise duties. There was a large decrease in transfers (-44.1%) after the large increase of 69.8% last year. Growth was recorded in the sales of goods and services (+15.4%) and in other current revenue (+7.8%). By contrast, revenue from ENFIA (-2.3%) and inheritance taxes (-26.1%, Table 2.9) decreased.

Ordinary budget expenditure

State Budget expenditure for the period January - February 2024 amounted to €11,211 million, up by €234 million compared to the target (€10,976 million) included in the 2024 Budget preamble and by €553 million or 5.2% compared to the same period last year, due to an increase of €735 million in investment expenditure.

On the side of the Ordinary Budget, payments are down against the target by €399 million and by 2.0% compared to last year. The shortfall is mainly due to the timing of the transfer payments to SSFs by €301 million. The primary expenditure of the OB decreased by 3.1% year-on-year, with an increase in interest by 2.6%. Most categories experienced a decrease. Transfers decreased by 10.2%, with those relating to social security funds decreasing by 12.8%. Social benefits fell by 44.7% following last year's increase and subsidies fell to zero (-100.0%). Growth was recorded in employee benefits (+8.8%), purchases of goods and services (+16.2%) and purchases of fixed assets (+191.7%).

Table 2.10

State Budget Expenditure* (€ million)

	Jan.- February		% Change 24/23	2023*	2024* Budget	% Change 24B/23
	2023*	2024*				
SB Expenditure (1+2+3)	*10.658*	*11.211*	5,2	70.765	74.632	5,5
OB Expenditure (1+2)	*9.339*	*9.156*	-2,0	59.564	62.195	4,4
1.Primary OB Expenditure	7.431	7.198	-3,1	51.858	53.395	3,0
Compensation of employees	2.256	2.454	8,8	14.039	14.833	5,7
Social benefits	76	42	-44,7	417	411	-1,4
Transfers	4.869	4.373	-10,2	33.399	32.282	-3,3
(of which SSFs)	*3.103*	*2.707*	-12,8	*20.603*	*20.942*	1,6
Purchase of goods and services	99	115	16,2	2.145	1.626	-24,2
Subsidies	54	0	-100,0	118	81	-31,4
Other current expenditure	5	5	0,0	49	111	126,5
Non allocated expenditure	0	0	-	0	15.210	-
Purchase of fixed assets	72	210	191,7	1.691	1.277	-24,5
2. Interest (gross basis)	1.908	1.958	2,6	7.706	8.800	14,2
3. PIP Expenditure[11]	1.319	2.055	55,8	11.201	12.167	8,6

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

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

Public Investment Programme (PIP)

Public Investment Programme (PIP) and RRF revenues amounted to €1,632 million, up by €751 million from the target (€881 million) but significantly lower than last year (-42.9%). The decrease is due to a decrease in RRF revenue (€159 million from €1,718 million last year). PIP revenue increased by €881 million or 15.3% compared to last year.

Payments in the investment expenditure component amounted to €2,055 million, an increase of €633 million compared to the target, as there was an overrun in both the PIP and the Recovery and Resilience Facility. There was also an increase compared to last year of 55.8%.

Special text box 2.2.B

Progressivity in declared income taxation in Greece, 2012 and 2021

The impact of the economic crisis on the incomes of the Greek public was great. Apart from the reduction in incomes, in absolute terms, there was also a significant reduction in purchasing power as inflation did not fall in proportion to incomes. Moreover, using data on incomes declared to the tax authorities, some inequality indicators worsened, such as the total income of lower (higher) paid individuals as a percentage of total income.

We make use of the publicly available data of the Independent Authority for Public Revenue (AADE) on personal income and taxation and compare the year with the latest available data (2021) with the oldest available data (2012). In addition, we use the Eurostat price index in order to be able to compare the incomes of different years with each other (the price level was slightly lower in 2021 than in 2012). The results are presented in table B.2.2.B.1.

Table B.2.2.B.1. Income range per quintile in 2012 and 2021 (in 2012 prices)

2012		2021	
Income quintile	Income bracket (€)	Income quintile	Income bracket (€)
Bottom 20%	0-4000	Bottom 20%	0-1016
Second quintile	4000-8000	Second quintile	1016-6098
Third quintile	8000-14000	Third quintile	6098-11180
Fourth quintile	14000-24000	Fourth quintile	11180-19312
Top 20%	24000+	Top 20%	19312+

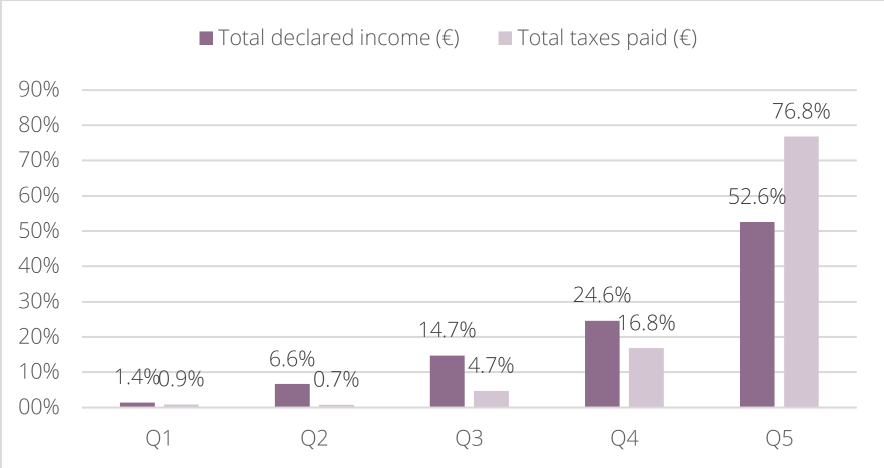
Sources: AADE, Eurostat. Data processing: IOBE.

We observe that there was a 7.2% decrease in total declared (real) income from 2012 to 2021, confirming that the impact of the economic crisis on people's incomes was significant. We also observe that, based on the data of income declared to the tax authorities, a large proportion of the population is at the poverty line, which, according to the ELSTAT definition for 2021, stood at €5,712 per year for a single person household and €11,995 for households with two adults and two dependent children under the age of 14.

Figure B.2.2.B.1 presents the total declared income by quintile and the corresponding total tax burden for 2012. Based on the declared income, high levels of income inequality are observed, as the bottom 20% received only 1.4% of the total income while the top 20% received 52.6% of the total income of

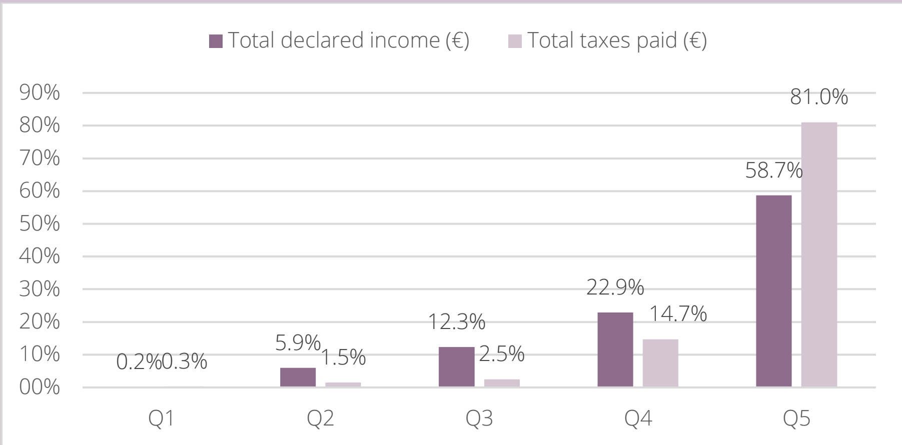
Greece. The Gini inequality index estimated by the World Bank ranks Greece 57th in the world for 2021. Given that Greece's tax system is progressive (i.e. the tax rates increase as income rises), it is not surprising that the overall tax burden is increasing, partly smoothing out inequality. The degree of progressivity in terms of accrued taxes is remarkable, with the bottom 40% of the population paying 1.63% of total taxes and the top 20% paying 76.84% of total taxes.

Figure B2.2.B.1. Total declared income and taxes payable by income quintile in 2012 (as % of total)



Source: AADE, Data processing: IOBE. Note: Reported data refer to total income regardless of source and employment status.

Figure B2.2.B.2. Total declared income and taxes payable by income quintile in 2021 (as % of total)



Source: AADE, Data processing: IOBE. Note: Reported data refer to total income regardless of source and employment status.

Figure B.2.2.B.2 provides a similar analysis to that of Figure B.2.2.B.1 for the year 2021. Increased levels of income inequality are observed compared to 2012, as the bottom 20% received only 0.2% of total income (compared to 1.4% in 2012) while the top 20% received 58.7% of total income (compared to 52.6% in 2012) in Greece. There is a corresponding increase in taxes payable, with 60% of the population paying just 4.3% of total income taxes, while the top 20% of the population pays 81% of total taxes.

In conclusion, the economic crisis that the country has gone through has had a negative and significant impact on the incomes of the population and the effect has not yet been overcome. Moreover, on the basis of the incomes declared to the tax authorities, income inequality, which is revealed by comparing the distribution of shares of total income, has been exacerbated despite the current system of progressive taxation. Despite a slight decrease in the progressivity of total income taxation over the last decade, there has been a systematically increasing level of progressivity, with higher declared income earners bearing a disproportionately high share of total taxes.

C. Financial developments

- The European Central Bank kept key interest rates unchanged in the first quarter of 2024, after their peak in September 2023, with expectations for a gradual but slow decline in the following quarters.
- Non-performing loans (NPLs) on banks' balance sheets recorded a further improvement in the fourth quarter of 2023, to 6.2% of total loans, the lowest since 2008.
- The cost of new public and private sector borrowing stabilised in the first quarter of 2024.
- The difference between the average interest rate on loans and deposits (interest rate margin) recorded a slight decline in February, after a sustained high in 2023.
- Greek banks' exposure to government bonds increased further in early 2024, deviating significantly from the euro area average.
- Private bank deposits stagnated in the period Dec. 2023-Feb. 2024 taken together.
- Credit expansion to firms picked up in early 2024, while credit to households continued to contract.

The systematic improvement in the international investment community's confidence in the Greek economy is reflected in the gradual narrowing of the gap in the cost of new public and private sector borrowing relative to other countries. At the same time, however, the challenges in the international environment are intensifying, including the apparent slower deceleration of high interest rates, political uncertainty due to the upcoming US and EU elections, as well as economic uncertainty stemming from the ongoing military conflicts in Ukraine and the Middle East.

In the first two months of 2024, stock prices in the domestic capital market continued their rise, with a small correction in March. The general index recorded a cumulative gain of 10% in the first quarter, while the banking index rose by 12.6% in the same period. At the same time, the Hellenic Financial Stability Fund (HFSF) proceeded with its divestment strategy from the four systemic banks by gradually selling part of its stake in these banks to private investors.

The risk of a new round of pressures on international energy prices, combined with persistent inflation in essential goods, raises concerns that the cost of money may remain high for longer. After the last rate hike in September, the ECB kept rates steady into the first quarter of 2024. Markets are discounting a gradual, but slow, decline in key rates towards the end of 2024, remaining at levels higher than before the start of the upward path. Indicatively, in interest rate derivatives markets, the 3-month Euribor is estimated to reach around 3.1% in late 2024, from close to 4% in late 2023 and -0.5% in early 2022. Regarding quantitative easing tools, the ECB has stopped reinvesting bonds maturing under the APP since mid-2023, while it continues reinvesting bonds maturing under the PEPP schemes, with a view to the end of 2024, with no net new purchases.

Among the negative trends in the financial system, private deposits have stagnated in early 2024, the interest rate margin remains at very high levels, while credit to households continues to shrink. Among the challenges from the past, the high share of bad loans, both on and off bank balance sheets, stands out. In addition, the share of deferred taxes in equity remains high.

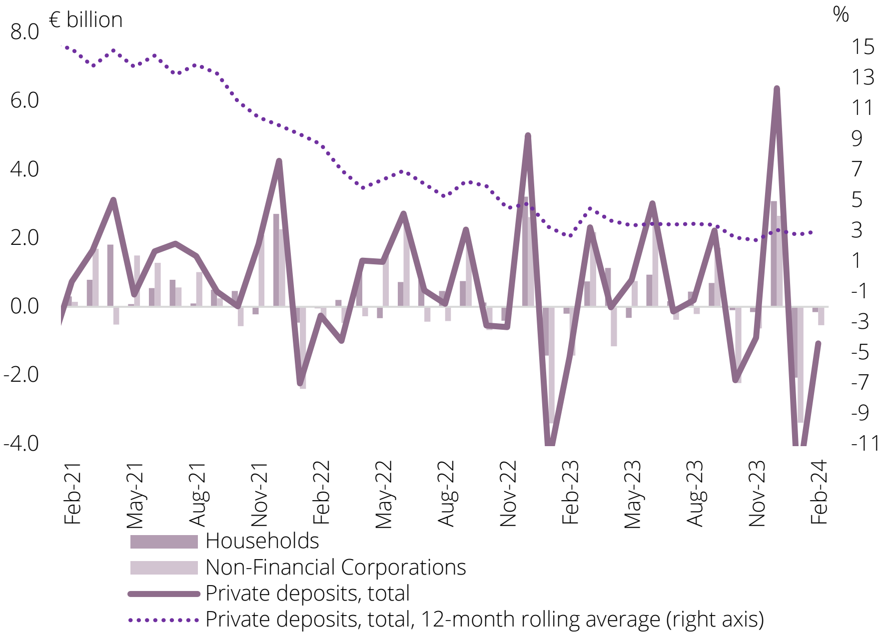
Among the positive trends in banks' fundamentals, credit expansion to businesses recovered, the NPL ratio on banks' balance sheets declined further, organic profitability, liquidity and capital adequacy ratios improved, while private sector borrowing costs stabilised. The implementation of the extended loan component of the National Recovery and Resilience Plan is an opportunity to further stimulate the financing of productive investment on favourable terms, while its timely implementation remains a challenge.

Among the new challenges for the banks, their increasing exposure to government bonds stands out, to a greater extent than in other European countries. The apparent prolongation of the tighter monetary policy regime is slowing down growth rates, affecting the outlook for the financial sector, including in terms of asset quality, cost of refinancing from the Eurosystem and capital markets, risks of a new round of red loans and profitability outlook.

On the liability side of the banks' balance sheet, private deposits remained stable in December 2023-February 2024, as inflows of around €0.8 billion from households were offset by corresponding cumulative outflows from businesses (Figure 2.7). On an annual basis, private deposits increased by €1.0 billion in the same period. The twelve-month rate of change stood at 3.0% in February, a similar level to 2023.

Figure 2.7

Monthly net flow of private deposits at Greek banks



Private sector deposits remained stagnant in December 2023-February 2024, compared to a decrease of €1.0 billion in the same period last year.

Source: Bank of Greece

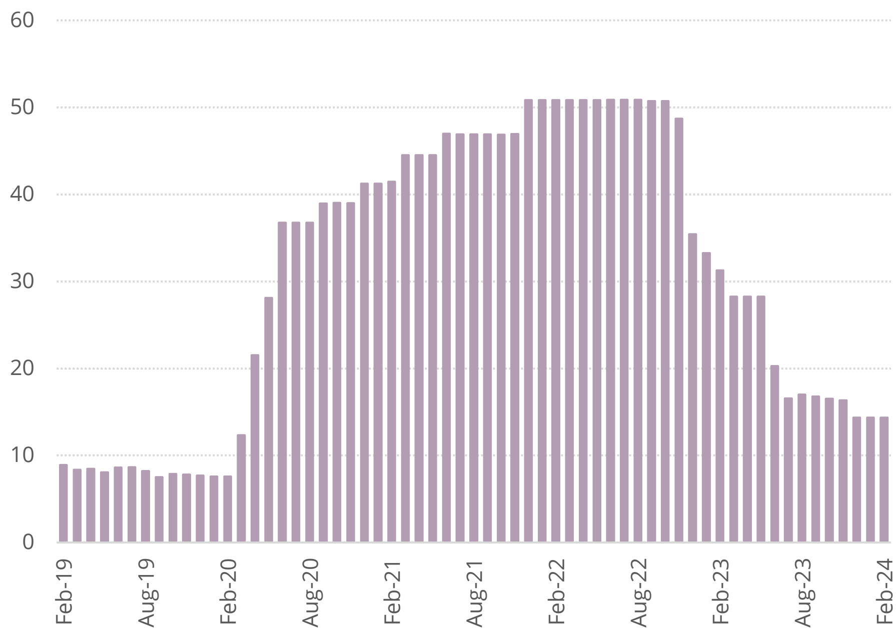
For 2024, private deposits are expected to remain relatively stable, with a mild upward trend. As private consumption growth and tourism receipts slow down and inflation remains persistent, especially on essential goods, real disposable income and household and business savings are expected to remain under pressure.

The second part of banks' liabilities relates to funding from the Eurosystem. The gradual increase in the ECB's cost of providing liquidity has significantly reduced the use of long-term Eurosystem funding instruments, such as LTROs, by €36.5 billion annually in February 2024 (Figure 2.8). At the same time, domestic banking system assets eligible as collateral for monetary policy operations by the Eurosystem, as reflected in the financial statements of the Bank of Greece, declined over the same period, reaching €28.5 billion in February 2024, down from almost €69 billion in mid-2022.

In the third leg of the banks' liabilities, which relates to funding from capital markets, the gradual improvement of the credit rating for both government and private securities creates positive prospects, which are, however, partially offset by the international environment of high funding costs.

Figure 2.8

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



The use of the Eurosystem's liquidity-providing instruments by Greek banks decreased further in early 2024 to €14.3 billion in February.

Source: Bank of Greece

On the asset side of the banks' balance sheet, the 12-month rate of credit expansion to the domestic private sector strengthened, reaching 3.8% in February 2024 (Table 2.10). The corresponding rate to non-financial corporations (NFCs) stood at 6.1% in the same month (Figure 2.9), while total new net flows to corporates in 2023 were positive at €5.0 billion, but down from €7.9 billion in 2022. At the same time, credit in the mortgage portfolio continued to shrink unabated, credit to self-employed persons and sole proprietorships recorded a milder negative change, while consumer loans strengthened.

Table 2.11

Domestic bank financing and average interest rates per portfolio

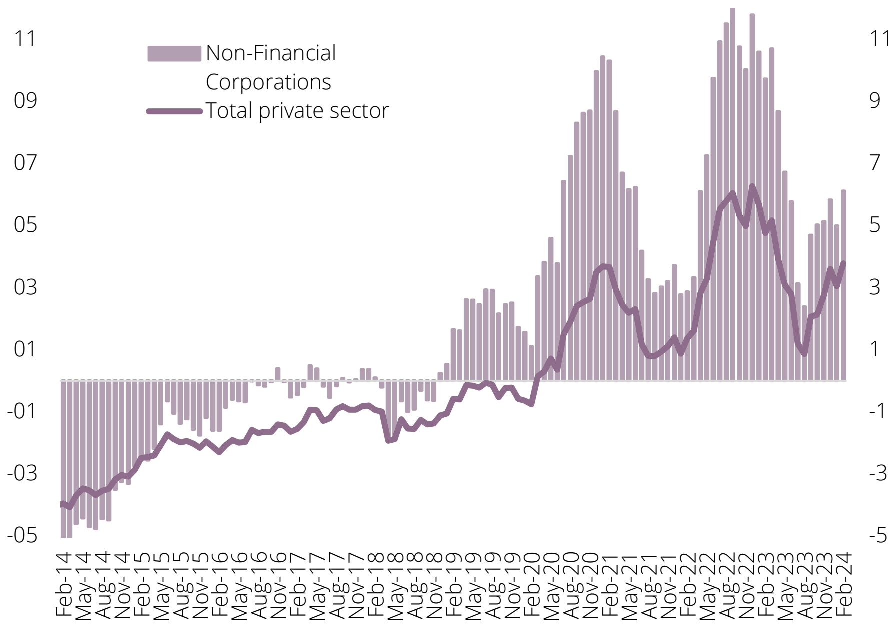
Quarter/year	1/23	2/23	3/23	4/24	Jan.24	Feb.24
Annual % change of 12-month flows*						
Total private sector	5.2	3.3	1.4	2.8	3.0	3.8
Households & NPIs	-2.5	-2.7	-2.4	-2.2	-1.9	-1.8
Consumer credit	1.8	1.5	2.1	2.8	3.8	4.4
Mortgage credit	-3.6	-3.9	-3.7	-3.6	-3.5	-3.6
Sole proprietors and unincorporated	-1.6	-2.4	-3.3	-2.4	-1.1	-0.7
Non-financial corporations	10.3	7.1	3.4	5.3	5.0	6.1
Interest rates on new loans (period average, %)						
Consumer credit	10.9	11.4	11.6	11.3	11.1	10.0
Mortgage credit	3.76	3.96	4.24	4.43	4.58	4.53
Loans to non-financial corporations	5.32	5.79	6.23	6.07	6.00	5.52

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.

Figure 2.9

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



New net flows to non-financial corporations were positive in December 2023-February 2024 at 2.1 billion with the 12-month credit expansion rate to NFCs reaching 6.1%

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.

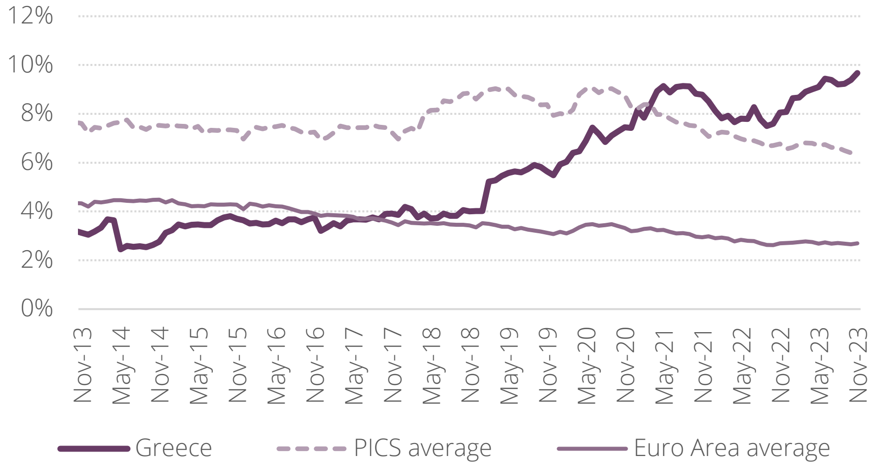
Private sector financing is affected by changes in the supply and demand for loans, under the influence of higher interest rates. On the supply side, the implementation of the loan component of the National Recovery and Resilience Plan is creating opportunities for the provision of business credit on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

From the perspective of loan demand, the Bank of Greece's survey of bank lending in the first quarter of 2024 recorded a slight strengthening in demand for new loans in business and consumer credit, following the slowdown in 2023. The expectation of further strengthening of demand centres on small and medium-sized enterprises, long-term loans and consumer credit, while demand for housing credit is expected to remain relatively stagnant, after declining last year. Credit criteria eased slightly in early 2024, but no significant changes are expected in the short term.

On the asset side, banks' exposure to government securities increased further in early 2024, to €32.4 billion in February 2024, or 10.3% of total assets. Thus, the share of Greek banks' total assets invested in government bonds widened the gap with the corresponding share for the rest of the "southern" euro area countries, which stood at 6.3%, much higher than the corresponding share for the average euro area countries, which stood at just 2.7% (Figure 2.10).

Figure 2.10

Banks' government bond holdings over total assets (%)



Greek banks' exposure to government bonds increased further in early 2024, deviating significantly from the euro area average

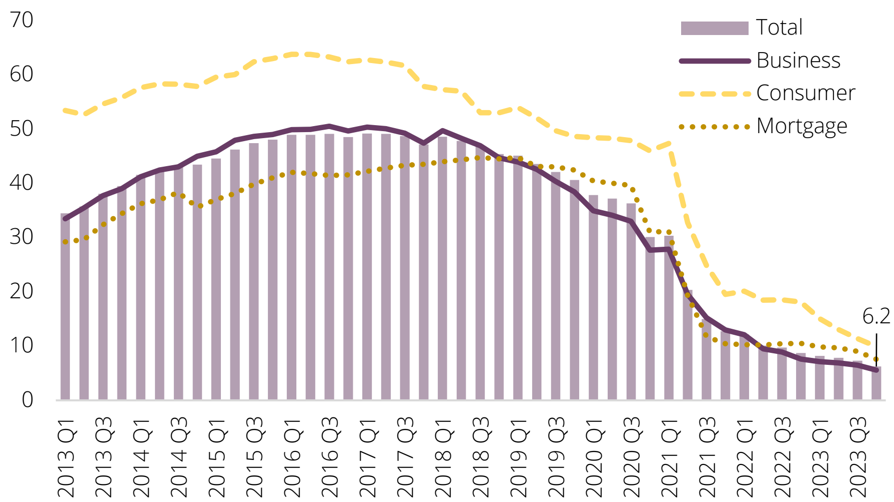
Source: ECB

The non-performing loans (NPLs) on banks' balance sheets improved further slightly in the fourth quarter of 2023, to 6.2% of banks' total loans, at €10.2 billion, from 7.3% and €12.1 billion in the previous quarter. The pace of decline in NPLs intensified in late 2023, after a milder downward trend recorded after the expiry of the state-guaranteed securitisation programme, Hercules, in late 2022. The overall level of NPLs remains higher than in the rest of the Eurozone, which stands at 2.3%, according to the annual report of the Governor of the Bank of Greece (April 2024). In business credit, the share of NPLs decreased from 6.5% to 5.6% of the relevant loans; in consumer loans, the share of NPLs decreased from 11.4% to 9.9%; and in mortgages, from 9.0% to 7.6%.

In addition to the NPLs on banks' balance sheets, a very significant volume of loans, formerly bank NPLs, is recorded under management by Credit Servicing Firms (CSFs). For example, in the fourth quarter of 2023 the total nominal value of loans under CSFs reached €69.5 billion. Thus, the stock of non-performing private debt, both on and off the balance sheets of the banking system, remains very high, with negative effects on the efficient allocation of financial resources and the prospects for economic recovery. For this reason, the proper functioning of the secondary market for loans and credit claims, as well as instruments such as the out-of-court debt settlement mechanism, is of high importance.

Figure 2.11

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



In Q4 2023, NPLs recorded a further decline, to 6.2% of banks' total loan portfolio

Source: Bank of Greece

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

In the medium term, the decline in NPLs is expected to continue at a slow pace, also due to their lower base. The ongoing new round of the Hercules III securitisation programme will have a positive impact. At the same time, however, the risk of new NPLs in individual floating rate portfolios such as the mortgage portfolio is apparent as a result of higher long-term interest rates.

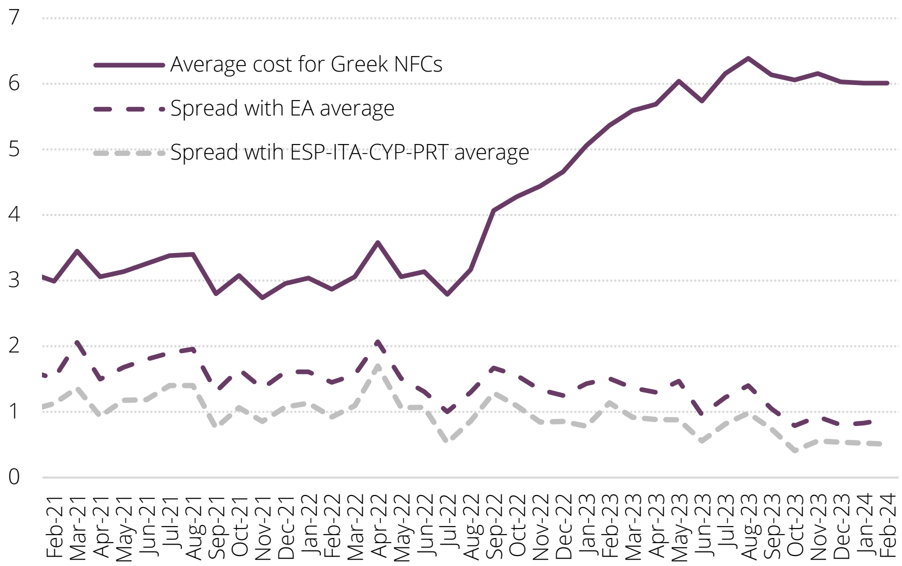
As regards new credit in 2024 as a whole, on the one hand, credit expansion to businesses is expected to pick up, with the acceleration in the implementation of the loan component of the National Recovery and Resilience Plan, for which the revised total perimeter now reaches €17.7 billion by 2026. On the other hand, the credit contraction to households is expected to be milder, mainly due to the resilience of consumer demand.

New deposit rates rose slightly in the first two months of the year (Jan.-Feb. 2024), to 0.83% and 0.53% for Non-Financial Corporations (NFCs) and households respectively. During the same period, the average interest rate on new loans hovered at 6.0%, standing at around 6.3% for individuals and 5.8% for MFIs. The spread between the average interest rate on loans and deposits (interest rate margin) remained at very high levels over the same period, although it declined to 5.4% from an average margin of 5.6% in 2023 as a whole, which is a 20-year high (period for which data are available).

The average cost of new bank funding for private sector MFIs fell to 6.0% in February (Figure 2.12). However, the cost of financing for Greek firms is higher than in the rest of the euro area. Indicatively, according to the ECB's weighted bank lending cost index, the cost for non-financial corporations in February 2024 was 5.1% in the euro area, and 5.5% in the "southern" euro area countries (Portugal, Italy, Cyprus, Spain). Subsequently, the spread of the cost of borrowing for Greek firms relative to the euro area and "south" average stood at 89 bp. and 51 bp respectively. Compared to the pre-financial crisis level of 2010, the spread of borrowing costs for Greek firms relative to the average of other 'southern' euro area countries remains significantly higher.

Figure 2.12

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



New private sector borrowing rates stabilised at 6.0% at the beginning of the year, with the gap with the average cost of borrowing in the "southern" euro area countries at 51 bps.

Source: ECB

Amid rising government bond yields internationally in early 2024, Greek government bond yields showed relative stability, with the 10-year bond yield hovering around 3.4% in the first quarter of 2024, as the spread from other European countries narrowed slightly. This was helped by the boost in confidence from the gradual upgrade of the country's credit rating by international rating agencies. Thus, for the 10-year security, the average yield was recorded at 4.0% in 2023 as a whole and 3.4% in March 2024 (Figure 2.13). The additional burden on new 10-year Greek government borrowing relative to the rest of the euro area declined further in early 2024. Thus, it stood in March 2024 at 102 basis points and 9 bps relative to the German bond and the average of the 'southern' euro area countries respectively, down from 157 bps and 27 bps in 2023 as a whole. Despite the progress, the spread against the German bond remains significantly higher than their averages in the first decade of Eurozone membership (54 bps).

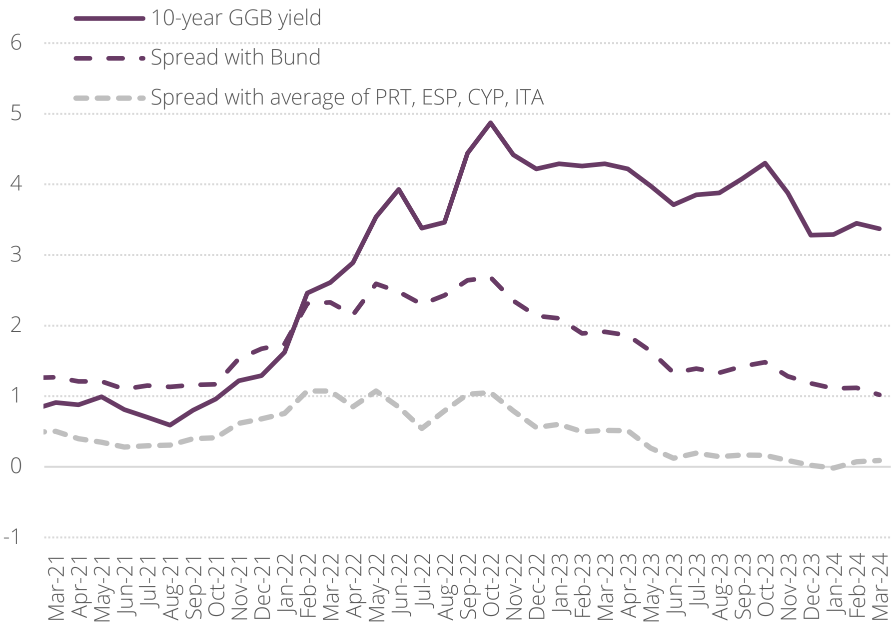
As part of the Greek government's financing strategy, during 2023, the Public Debt Management Agency (PDMA) raised over €9.5 billion from the long-term bond markets. For 2024, the "Financing Strategy" published by the PDMA in December referred to total borrowing needs of the Greek government of €18.9 billion, if the primary surplus target of around €6.9 billion is achieved. Of the borrowing needs, €10 billion will be covered by bond issues, €4.1 billion will come from other sources such as the European Investment Bank and the NGEU, €1.6 billion will come from the sale of shares and other assets and the rest from the government's liquid assets. In early February 2024, a new 10-year bond was issued and the Greek government raised €4.0 billion at an interest rate of 3.38%, with a coverage ratio of more than 10. At the same time, the Hellenic Republic reissued 5-year and 15-year bonds in the first quarter of 2024 where smaller amounts were raised, also with a very satisfactory market demand response.

In the second half of 2023, after 13 years, the Greek securities regained the desired "investment grade" from five international rating agencies, R&I, DBRS, Scope, S&P and Fitch. Another agency (Moody's) rates the Hellenic Republic just one notch lower. The level of Greek public debt remains among the highest internationally as a percentage of GDP (165.5% in Q3 2023, as shown in the

Annex). Offsetting this quantitative characteristic are its qualitative features, such as the long average repayment period, and the large share of fixed and low interest rates.

Figure 2.13

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



The average yield of the 10-year government bond stabilized at 3.4% in the first quarter of 2024, while the average spread narrowed to 108 bp against the corresponding German Bund

Source: ECB

Specific text box of Section 2.2.C

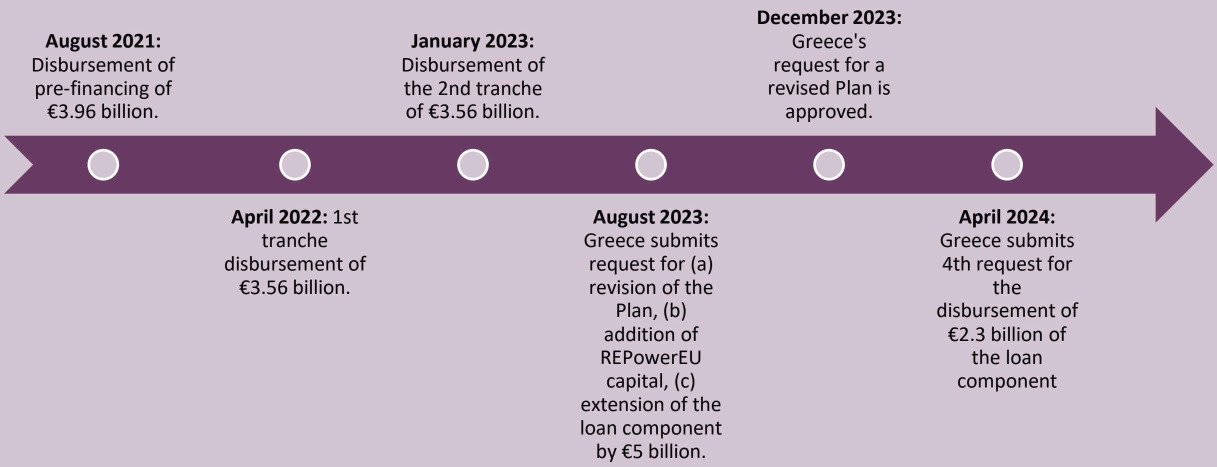
Resources for Greece from the revised National Recovery and Resilience Plan

The Recovery and Resilience Facility (RFF) is funded through NextGenerationEU, the EU's instrument to address the economic and social consequences of the coronavirus pandemic. Greece received the third performance-based tranche in December 2023 following the successful completion of 39 milestones and four targets. The Figure below shows the disbursement schedule of the plan's tranches.

The revised plan resulting from Greece's August 2023 proposal covers 75 reforms and 103 investment projects worth €35.95 billion, of which €18.22 billion are grants and €17.73 billion are loans. The plan reinforces the green transition by allocating 38.1% of the available funds to measures that support climate targets. The Plan also contributes to the digital transition with 22.1% of its funds (Table B2.2C.1). Overall, the broad set of investments and reforms are expected to contribute to economic growth while promoting a sustainable growth model.

The Greek economy's performance over the last two years has exceeded the European average with investments and reforms under the Recovery and Resilience Fund contributing significantly to this achievement. An important opportunity is to accelerate the implementation of the revised National Recovery and Resilience Plan, which still has €21.25 billion of committed European resources for 2024-2026, of which €10.4 billion is for the loan component, i.e. business loans on favourable terms, to be leveraged with further private and bank capital to finance new productive investments. There is therefore no room for complacency as in the coming years Greece will need to accelerate both reforms and investments under the RRF, amidst various global, regional and national challenges.

Figure B2.2C.1. Disbursement schedule of Recovery and Resilience Fund tranches in Greece



Source: European Commission. Data processing: IOBE

Table B2.2C.1. Allocation of resources of the revised Recovery and Resilience Plan for Greece, April 2024

	Amounts in € billion	% of total
Total resources of the revised RRF	35.95	100%
of which:		
Grants	18.22	50.7%
Loans	17.73	49.3%
Green Transition	13.70	38.1%
Digital transformation	7.94	22.1%
Other investments	14.31	39.8%
Amounts already disbursed	14.70	40.9%
Amounts outstanding until 2026	21.25	59.1%

Source: European Commission. Data processing: IOBE

3 MACROECONOMIC PERFORMANCE AND OUTLOOK

3.1 GDP components

A. Recent developments

- With economic growth slowing in Q4 2023, annual growth for 2023 is estimated at 2.0%, driven primarily by consumption (+1.5% y-o-y). Positive developments for 2023 also include an improvement in the current account deficit by 4.0 p.p. of GDP, with exports rising (+2.8% y-o-y) at twice the rate of imports (+1.4% y-o-y). Fixed capital investment came in below expectations (+3.9% y-o-y), with total investment contracting (-1.2% y-o-y).
- In Q4 last year, annual GDP growth was +1.2%, down from +2.1% in Q3 2023 (+0.2% q-o-q).
- Consumption made the largest contribution to growth (+1.8% y-o-y), driven by stronger private (+1.8% y-o-y) and public consumption (+2.7% y-o-y).
- Fixed capital investment, which contracted (-5.7% y-o-y) for the first time since Q2 2020, had a negative contribution to GDP growth in Q4. Total investment fell by -1.2% y-o-y.
- On the external balance in Q4 2023, total exports strengthened by +2.1% y-o-y, driven by strong growth in exports of services (+4.7% y-o-y), while exports of goods continued their downward trend (-1.6% y-o-y).
- By contrast, total imports remained stagnant, resulting in an improvement in the external deficit in national accounting terms of around €371 million compared to a year ago.

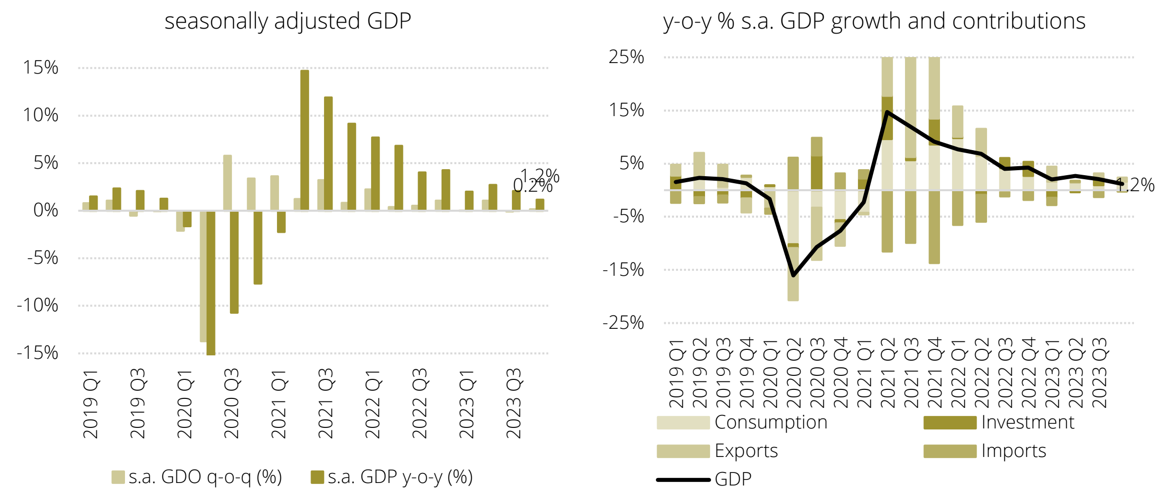
Recent macroeconomic developments in Greece

Following the slowdown in the growth of the Greek economy in the fourth quarter of last year, the annual growth rate is estimated at 2.0% for 2023, significantly exceeding the euro area average (+0.9%) for the third consecutive year. The growth of last year was primarily driven by consumption (+1.5%), with an equal annual expansion of both private and public consumption (+1.6%). Positive developments for 2023 include an improvement in the current account deficit (6.3% as a share of GDP), with exports, supported mainly by exports of services, growing annually (+2.8%) at twice the rate of imports (+1.4%). Fixed capital investment strengthened less than expected (+3.9%), with total investment contracting annually by 1.2%.

Focusing on Q4 2023, the Greek economy saw a milder year-on-year recovery of +1.2%, compared to +2.1% a quarter earlier, primarily due to the contraction of total investment (-1.2% y-o-y), due to the decline in fixed capital investment (-5.7% y-o-y), for the first time since Q2 2020. Consumption (+1.8% y-o-y) and exports (+2.1% y-o-y) contributed positively to domestic growth, while total imports remained stagnant (Figure 3.1).

Figure 3.1

Evolution of GDP and the contribution of its components



Source: ELSTAT, Data processing IOBE

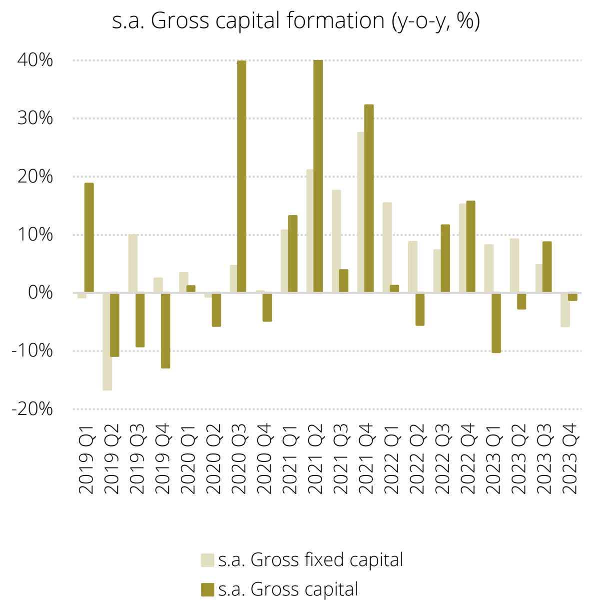
Consumption was the key driver of recovery in Q4 2023.

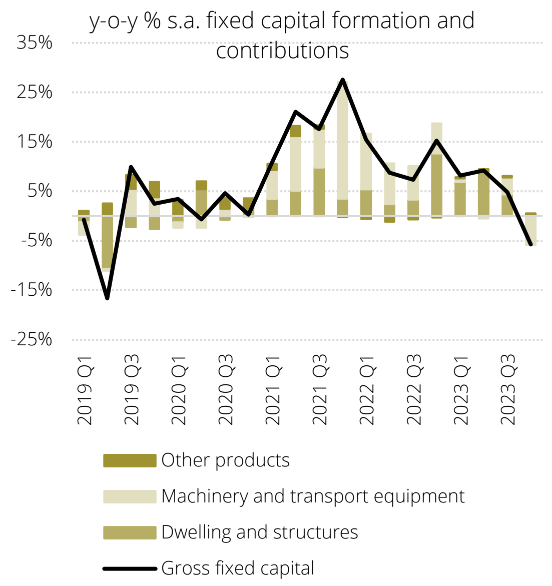
As regards the detailed developments of the GDP components in the fourth quarter of last year, the annual growth rate of total domestic consumption increased by +1.8%, from +1.1% a quarter earlier, due to the growth of both components. In particular, private consumption proved particularly resilient to inflationary pressures and continued to expand by +1.8% (y-o-y), a higher rate than in the previous quarter (+1.2% y-o-y). Public consumption also strengthened significantly, expanding at an annual rate of +2.7%, while a quarter earlier it was marginally decreasing by -0.4% (y-o-y). In 2023 as a whole, private and public consumption strengthened equally by +1.6%, amid rising employment and fiscal support, increasing their share of GDP and becoming the main driver of growth for the previous year.

Fixed capital investment recorded strong momentum in the first three quarters of 2023, which was halted in the last quarter of the year. In the previous year as a whole, investment in Dwellings and construction (+12.8%) contributed positively to the increase in fixed capital formation, with investment in Other products (+2.3%) coming next. By contrast, investment in Machinery and transport equipment (-1.7%) decreased. Total investment contracted by -1.2% due to a reduction in inventories and the effect of the higher comparison base.

Figure 3.2

Evolution of investment and the contribution of its components





Source: ELSTAT, Data processing IOBE

A decline in the growth rate of fixed capital investment in Q4 2023, for the first time since Q2 2020. A significant slowdown in investment in Dwellings and Construction.

Focusing on Q4 2023, total investment fell by -1.2% year-on-year from +8.7% in the previous quarter, due to a -5.7% decline in fixed capital investment, down from +4.8% a quarter earlier. The contraction in fixed capital investment in the last quarter of the previous year was due to the year-on-year decline in investment in Machinery and Transport Equipment (-12.9%), on top of a significant slowdown in the year-on-year growth rate of investment in Dwellings and Construction (+0.2%). Investment in Other products strengthened year-on-year by +2.8% (Figure 3.2). More specifically, in the individual categories of fixed capital investment, the annual rate of change of investment was negative in five of its seven sectors. In particular, the largest annual rates of decline were recorded for investment in Agricultural products (-19.8% compared to -13.9% in the previous quarter) and ICT equipment (-19.0% compared to -17.5% in the previous quarter), continuing their downward trend since the second quarter of the previous year. Investments in Dwellings (-18.7%), Machinery and Weapons Systems (-14.7%), and Transport Equipment (-1.7%) also declined year-on-year, from growth of +27.7%, +16.8% and +11.8% respectively a quarter earlier. In contrast, investments in Other Construction (+13.1% y-o-y vs +4.0% in the previous quarter), and Other Products (+3.0% y-o-y vs +2.0% in the previous quarter) maintained their growth.

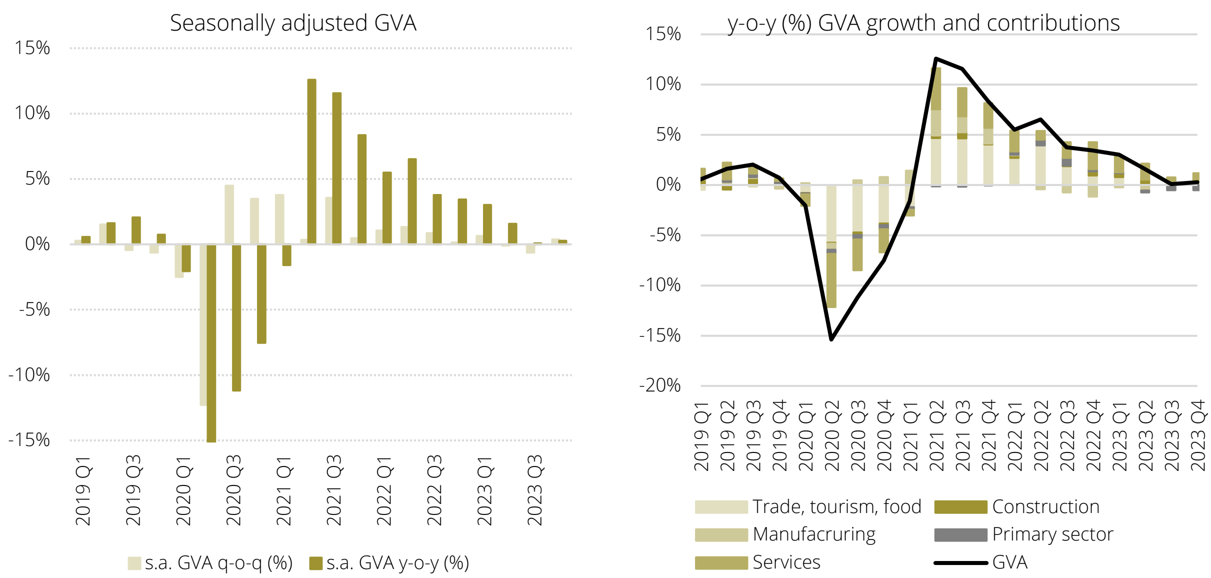
Positive developments for 2023 include an improvement in the current account deficit by 4.0 p.p. of GDP, with exports growing annually (+2.8%) at twice the rate of imports (+1.4%). In Q4 2023, total exports strengthened by +2.1% y-o-y, up from +1.9% in the previous quarter, driven by the sustained high growth rate of exports of services (+4.7% y-o-y vs. +4.2% in the previous quarter), while exports of goods continued to decline (-1.6% y-o-y vs. -1.3% in the previous quarter).

Meanwhile, the stagnation of total imports (+0.0% y-o-y from 2.9% in the previous quarter) improved the external deficit in national accounting terms, compared to a year ago, by about €371 million or +0.7 p.p. of quarterly GDP. As for the import components, imports of goods grew more moderately compared to the previous quarter (+1.6% y-o-y vs. +3.5% in the previous quarter), while imports of services contracted (-4.0% y-o-y vs. +0.8% in the previous quarter). It is also worth noting that the openness of the Greek economy, defined as the sum of exports and imports relative to GDP, remained at a historically high level of 82% in 2023.

On the output side, domestic gross value added (GVA) strengthened only marginally for another quarter (+0.3% y-o-y from +0.1% in the previous quarter), due to the annual decline in subsidies, which are counted in GVA but do not constitute domestic output. Specifically, the annual rate of change in subsidies was -13.8% in Q4, down from -16.5% in the previous quarter, while taxes increased by +5.9% y-o-y from +13.8% in Q3 2023.

Figure 3.3

Evolution of GVA and the contribution of its components



Source: ELSTAT, Data processing IOBE

Marginal growth in GVA due to the strengthening of all production sectors except the primary sector. Other Services made the largest contribution to GVA growth for the fifth consecutive quarter, followed by Industry.

At the sectoral level, the largest contribution to the growth rate of GVA in Q2 2023 again came from Other Services, with the Manufacturing and Construction sectors following, while the broader services sector of Tourism, Transport and Trade (wholesale and retail) stagnated and the Primary Sector continued to contract (Figure 3.3).

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
2012	180484	-7.2%	163337	-7.0%	20220	-21.0%	48968	2.0%	52765	-5.7%
2013	175920	-2.5%	156834	-4.0%	19580	-3.2%	49843	1.8%	50682	-3.9%
2014	176882	0.5%	156657	-0.1%	20431	4.3%	53954	8.2%	54107	6.8%
2015	176462	-0.2%	156611	0.0%	21369	4.6%	56661	5.0%	58360	7.9%
2016	175612	-0.5%	156023	-0.4%	22767	6.5%	56426	-0.4%	59868	2.6%
2017	177461	1.1%	158863	1.8%	21627	-5.0%	61229	8.5%	64371	7.5%
2018 Q1	44946	1.8%	40272	2.3%	5318	-10.5%	16246	9.4%	16677	4.7%
2018 Q2	45057	1.7%	39723	0.1%	6234	16.4%	16500	7.8%	17221	8.4%
2018 Q3	44945	0.5%	39865	0.2%	5308	-1.4%	16614	7.1%	17636	8.9%
2018 Q4	45270	2.2%	39833	-0.5%	6430	30.0%	17451	12.2%	17677	8.0%
2018	180217	1.6%	159693	0.5%	23289	7.7%	66812	9.1%	69210	7.5%
2019 Q1	45625	1.5%	40350	0.2%	6317	18.8%	17110	5.3%	17711	6.2%
2019 Q2	46110	2.3%	40744	2.6%	5559	-10.8%	18457	11.9%	17716	2.9%
2019 Q3	45877	2.1%	40142	0.7%	4819	-9.2%	18347	10.4%	18230	3.4%
2019 Q4	45849	1.3%	40948	2.8%	5607	-12.8%	16163	-7.4%	17565	-0.6%
2019	183461	1.8%	162184	1.6%	22302	-4.2%	70076	4.9%	71222	2.9%
2020 Q1	44878	-1.6%	40699	0.9%	6392	1.2%	15381	-10.1%	18147	2.5%
2020 Q2	38716	-16.0%	36346	-10.8%	5245	-5.7%	13100	-29.0%	14907	-15.9%
2020 Q3	40958	-10.7%	38747	-3.5%	6739	39.8%	12408	-32.4%	16750	-8.1%
2020 Q4	42343	-7.6%	38418	-6.2%	5338	-4.8%	14107	-12.7%	16114	-8.3%
2020	166894	-9.0%	154210	-4.9%	23713	6.3%	54996	-21.5%	65918	-7.4%
2021 Q1	43878	-2.2%	38735	-4.8%	7238	13.2%	15252	-0.8%	17436	-3.9%
2021 Q2	44412	14.7%	40200	10.6%	7714	47.1%	16406	25.2%	18948	27.1%
2021 Q3	45842	11.9%	41180	6.3%	7001	3.9%	18388	48.2%	20460	22.2%
2021 Q4	46220	9.2%	42039	9.4%	7061	32.3%	18248	29.4%	20979	30.2%
2021	180351	8.1%	162155	5.2%	29014	22.4%	68293	24.2%	77823	18.1%
2022 Q1	47261	7.7%	42926	10.8%	7328	1.2%	17608	15.5%	20105	15.3%
2022 Q2	47442	6.8%	43034	7.0%	7290	-5.5%	18564	13.2%	21113	11.4%
2022 Q3	47689	4.0%	43063	4.6%	7813	11.6%	18179	-1.1%	20795	1.6%
2022 Q4	48194	4.3%	43302	3.0%	8168	15.7%	18208	-0.2%	21805	3.9%
2022	190586	5.7%	172326	6.3%	30600	5.5%	72560	6.2%	83819	7.7%
2023 Q1	48206	2.0%	43689	1.8%	6581	-10.2%	18885	7.2%	20760	3.3%
2023 Q2	48724	2.7%	43723	1.6%	7092	-2.7%	18611	0.3%	20981	-0.6%
2023 Q3	48681	2.1%	43520	1.1%	8493	8.7%	18519	1.9%	21405	2.9%
2023 Q4	48756	1.2%	44062	1.8%	8069	-1.2%	18585	2.1%	21811	0.0%
2023	194367	2.0%	174994	1.5%	30235	-1.2%	74600	2.8%	84956	1.4%

* provisional data

Source: Quarterly National Accounts, ELSTAT., March 2023

In more detail among the production sectors, the activity of five out of the six sectors of Other services, i.e. excluding Tourism-Transport-Trade services, expanded year-on-year. The highest annual growth was also recorded, as a quarter earlier, in Arts-Entertainment-Recreation (+8.6% from +6.2% in the previous quarter), with Information-Communications (+5.9% from +1.0% in the previous quarter), Financial-Insurance (+2, 3% from +2.1% in the previous quarter), Professional-Scientific-Technical-Administrative Activities (+1.5% from +4.9% in the previous quarter) and Real Estate Management (+0.4% from +0.4% in the previous quarter) coming next. In contrast, Public Administration-Defence-Social Security recorded a marginal year-on-year decrease in its activity (-0.1% from -0.7% in the previous quarter). Among the remaining sectors, activity increased year on year in Construction (+5.1% from +8.2% in the previous quarter) and Industry (+2.9% from +0.7% in the previous quarter), while the broader Tourism-Transport-Trade sector stagnated (+0.1% y-o-y from -0.8% in the previous quarter). Finally, activity in the Primary Sector (-17.6% y-o-y from -9.7% in the previous quarter) contracted significantly for the third consecutive quarter.

In summary, the Greek economy recorded positive growth rates in all quarters of 2023, boosted by consumption and exports. For 2024, investment, supported by the resources of the European Recovery and Resilience Facility, together with the reduction in unemployment and the gradual deceleration of interest rates, is expected to be the main driver of domestic growth.

B. Assumptions and forecasts

Medium-term outlook

- The slowdown of the Eurozone economy, the gradual deceleration of inflation and interest rates, geopolitical instability, fiscal performance and the implementation of the revised Recovery and Resilience Plan are the key determinants of GDP growth in 2024.
- Estimated growth of 2.1% in constant prices in 2024 (lower estimate compared to 2.4% in the previous quarterly report), due to uncertainty about the magnitude of risks stemming from the international environment.
- Significant strengthening of fixed investment (+9.5%) and sustained momentum in private consumption (+1.3%) in 2024.
- A slight improvement in the current account balance, with exports and imports growing annually in 2024, by +2.2% and +1.9% respectively.
- Inflation estimated at 3.0% and the unemployment rate at 10.3% for 2024.

Amid risks stemming from geopolitical and economic instability at the regional and international level, persistent inflation, slow deceleration of borrowing costs, high public debt and external deficit, the Greek economy is expected to maintain its growth momentum and openness in 2024, supported by European resources, fiscal discipline and productivity gains through reforms.

Persistent inflation

In the first two months of 2024, the Harmonised Index of Consumer Prices (HICP) rose by 3.2% (less compared to +6.9% a year ago), placing our country in the middle of the ranking among the Eurozone countries in terms of the rate of change, above the weighted average (+2.7%, from +8.6%

a year ago). In the HICP components, the rise in the index in January-February was due to the positive impact of domestic demand, as the percentage change in the index with fixed taxes and excluding energy goods was 3.9%, up from 8.3% a year ago. Indirect taxation had virtually no impact on prices in the period under review, as it did a year earlier. In the same period, core inflation, a measure of the competitiveness of the domestic economy, rose to 3.4% from 8.2% in the same period in 2023. It is also worth noting that a further rise in the rate of change of the HICP was recorded last March, by 3.4% (from 5.4% in the same month last year) (a more complete analysis on inflation and its main determinants can be found in section 3.5).

Regarding the world energy prices, the average international price of oil in €, which is a key component of energy costs, weakened in January - February 2024 (-1.9% lower than in the corresponding period of 2023), supported by the rise in the average euro/dollar exchange rate. By contrast, in the previous month, the average price of oil in euro terms rose by 7.2% compared to a year earlier, despite the continued upward trend of the euro against the dollar. The increase in global demand, due to a pick-up in economic growth, and the recent military turmoil in the Middle East, which poses a significant risk to the stability of energy markets, may put further upward pressure on the Brent oil price.

In the current year, the disinflationary trend is expected to strengthen moderately as competition in markets for goods and services is strengthened through reforms. The decline in inflation is being held back by domestic demand, which, supported by falling unemployment, wage increases and measures to support vulnerable social groups, is expected to maintain its momentum. In addition, possible supply-side shocks to certain categories of goods, such as foods, coupled with the new package of sanctions imposed by EU members that affect international trade, as well as the escalation of unrest in the Israeli region, may have an upward impact on inflation in 2024.

According to the European Commission's February 2024 forecasts, inflation in the EA will reach 2.7% in 2024, while the inflation rate for Greece is estimated to be similar. A marginally lower inflation rate of 2.3% (from 2.7% three months ago) for the EA is estimated by the ECB, according to its revised forecast in March this year. In Greece, inflation is expected to be slightly higher than the EA average, mainly due to a slower pace of decline in food prices.

Slowdown in economic activity in the euro area

The European and global economies continued to grow in the last quarter of 2023, at a steady but low rate, as a consequence of high inflation and monetary tightening. In particular, the OECD economies grew at a marginally higher annual rate of 1.7% in the fourth quarter of 2023 (following GDP growth of 1.6% in the previous quarter), while the US economy in the same period recorded an annual growth rate of 3.1% (up from +2.9% in the previous quarter), the fastest in the last two years, driven by growth in consumer spending, exports and fixed capital investment.

By contrast, over the same period, economic activity in the Eurozone, Greece's main trading partner, remained almost stagnant (+0.1% y-o-y), due to weak domestic and external demand, with net exports making a negative contribution to growth as European trade is under pressure from geopolitical developments, the cost of money and uncertainty (for more information on changes in the main macroeconomic variables of the EU countries and globally, see sections 2.1A and 2.1B).

The OECD, in its latest report of February 2024, revised upwards its forecast for global economic growth to 2.9% in 2024, due to estimates of stronger global trade (+2.7%), coupled with a gradual deceleration of inflation and interest rates. However, it has revised downwards its forecast for the growth rate of the euro area economy (+0.6%). Finally, the economies of the United States (+2.1%), China (+4.7%) and India (+6.2%) are expected to record stronger growth rates.

Interest rates to remain at high levels

As inflation in the EA, as in the US, remains above the central banks' medium-term target, mainly due to economic growth, albeit anaemic in the case of the EA, combined with the dynamics of the labour market and the corresponding increase in wage costs, the central bankers kept their key interest rates unchanged in their first meetings for 2024.

In particular, the FED at its last meeting last March kept its key interest rate at 5.25%-5.50%, the highest rate in the last 20 years, with analysts expecting a rate cut no earlier than September 2024.

In the same vein, the ECB at its last meeting this month kept its key interest rates unchanged, stressing that despite the gradual deceleration of inflation in the EA and the slowdown in wage growth, interest rates will remain sufficiently restrictive for as long as necessary, with the aim of a timely reduction of inflation to the medium-term target of 2%. Strong domestic pressures on prices for services, as well as the possibility of another rise in global energy prices, are acting as a drag on interest rate cuts, raising expectations of a slightly slower rate reduction in Europe in 2024. It is also worth noting that last March the ECB revised down its forecasts for growth (0.6% from 0.8% three months ago) and inflation (2.3% from 2.7% three months ago) in the EA for 2024.

Regarding the Pandemic Emergency Purchase Programme (PEPP), the ECB Governing Council intends to continue to fully reinvest the main principal payments from securities maturing in the first half of 2024, while reducing the portfolio in the second half of the year, with the aim of ending the reinvestments at the end of this year.

Despite interest rates remaining high and the suspension of ample liquidity, coming at almost zero cost since the debt crisis, the ECB expects the EA economy to recover significantly in 2025, mainly due to rising real incomes, as consumers benefit from falling inflation and rising wages, and improving external demand. Moreover, an eventual interest rate cut in the second half of this year would also foster credit expansion and ease the servicing of existing debt. Finally, note that current interest rates are following the trend of forward rates, i.e. Euribor is gradually declining from close to 3.9% at the beginning of the year to around 3.2% at the end of 2024.

Successful execution of the State Budget in 2023

The fiscal performance of the Greek economy in 2023 markedly improved compared to 2022, with the balance and the primary balance of the SB exceeding the respective cash targets. The implementation of the SB was also successful in the first two months of 2024, with the balance and the primary outcome of the SB recording surpluses (+0.6% of GDP and +1.4% of GDP respectively), higher than the targets included in the 2024 Budget's introductory report. The outperformance of the fiscal balance is attributed to higher-than-expected revenues due to four positive factors: economic growth, albeit at a declining pace; spread of e-payments; higher indirect tax revenues due to inflation and resilient domestic demand; higher income tax revenues due to the progressive scale (more information on the execution of the SB is presented in section 2.2B).

Beyond 2024, fiscal discipline is necessary for the Greek economy to maintain its recovery while complying with the new fiscal framework of the revised Stability and Growth Pact, agreed at the end of last year, which maintains the 3% and 60% targets for budget deficits and public debt. It is also worth noting that the revised Stability and Growth Pact provides for the exclusion of defence investment in the deficit calculation, an expenditure that has been a significant burden on the domestic SB over time, as well as of interest on official loans in the calculation of the evolution of Greek government debt in terms of compliance with the new fiscal rules.

For the whole of 2024, the State Budget balance is estimated to improve further compared to 2023, due to a stronger expansion of government revenues, supported by the projected growth of the economy, compared to expenditure, which is expected to contract. However, timely and effective use of existing (Public Investment Programme, Recovery and Resilience Facility) and new financial instruments (REPowerEU), as well as the implementation of structural reforms, will be important for achieving the fiscal targets.

Declining public debt and rising private debt as a percentage of GDP

Despite the expansion of public debt in absolute terms in 2023, due to the government's borrowing through bonds and interest-bearing securities, as well as the disbursement of the tranches of the loan component of the recovery fund, the strong nominal performance of the Greek economy combined with high inflation, which favours the creation of fiscal surpluses, have significantly reduced the debt-to-GDP ratio (general government debt fell to 165.5% in Q3 2023 from 177.5% in the same period in 2022).

In particular, in 2023, in an environment of rising global government bond yields and restrictive monetary policy, the Greek government managed to cover its 2023 financing needs on favourable terms, benefiting from the recovery of the investment grade of the domestic economy, which allowed for a softer increase in the cost of new public borrowing than in other European countries, as well as early repayments of part of the debt, allowing for an improvement in short-term debt service conditions. According to data from the Public Debt Management Agency (PDMA), the largest share of new gross annual borrowing in 2023 came from Treasury bills (44%), followed by bonds (42%) and recovery fund loans (14%). Similarly, the average maturity of new borrowing was around 7.5 years, while the weighted average cost was 3.7%. The debt structure that reduces refinancing uncertainty is also worth noting, as more than 70% of public debt is held by institutional partners, has an average maturity of 20 years and carries fixed and low interest rates. That said, the financing needs of the domestic economy in the coming year are also affected by the repayment of instalments on loans received by Greece from the EU institutions (loans from the European Investment and Development Bank, European Financial Stability Fund (EFSF), SURE, etc.).

In order to maintain the growth momentum of the Greek economy, it is crucial to ensure the sustainability of external debt, especially given the high current account deficit and the slow decline in interest rates. Fiscal discipline, which will allow the rules of the revised Stability and Growth Pact to be respected, will be crucial for the smooth financing of public debt in the coming period at a cost that does not significantly exceed that of other euro area economies. These new rules allow for a gradual reduction of public debt to the 60% target in order to protect the momentum of the recovery of the domestic economy. In particular, under the revised rules, the required debt reduction will be calculated on the basis of the characteristics of each Member State, while the minimum threshold for highly indebted countries (>90% of GDP) such as Greece is set at an annual average debt reduction of 1%. A single and less stringent deficit ceiling is also introduced, which provides that the deficit should not exceed 1.5% of GDP.

As regards private debt, the share of non-performing loans (NPLs) on banks' balance sheets fell in Q4 2023 to its lowest level since 2008 (6.2% of total loans), while maintaining the overall level of NPLs higher than in the rest of the euro area. Also, a very significant volume of loans, formerly bank NPLs, is held outside banks in Credit Service Firms (CSFs), and as a result, the overall stock of non-performing private debt remains very high, with negative effects on the efficient allocation of financial resources and the prospects for economic recovery. In the medium term, the reduction in NPLs is expected to continue at a slow pace, due to high interest rates and cost of living, as well as the lower base.

Positive prospects for accelerated investment

Fixed capital investment growth in 2023 was below expectations, resulting in total investment contracting for the first time since 2019. For 2024, fixed investment is expected to increase, significantly higher than in 2023 in absolute real terms, due to incoming European funds (revision of the "Greece 2.0" Plan in 2023, extension of the loan component of the RRF, approval of the REPowerEU Plan), which, combined with the stabilisation of the political and broader framework of the domestic economy, may "unlock" international capital for productive and longer-term investments. In particular, following the 2023 revision of the RRF in 2023, Greece expects a total inflow of €35.95 billion for the period 2021-2026, of which it has already received a total of €14.8 billion in 2021-2023, following the successful completion of milestones covering reforms and investments in specific areas, including energy efficiency, labour market, taxation, healthcare and public transport.

Apart from maintaining a high investment rate as a percentage of GDP, a crucial measure for assessing the dynamics of the domestic economy, equally important is the production model that these new funds finance. From the creation of the Eurozone until the financial crisis of 2008, the Greek economy recorded higher rates of investment growth (total and fixed capital) than the corresponding Eurozone average. However, as documented in the special text box 3.1 of the previous quarterly report, pre-crisis investment, directed primarily to the housing and construction sector, did not finance a production model capable of protecting the domestic economy from external and domestic shocks. In the first three quarters of 2023, the largest share of fixed investment growth was again in the housing and construction sector, although this trend stalled in the last quarter of the year.

Therefore, for the domestic economy to reap the medium-term benefits of enhanced investment flows, they should be directed to domestic sectors with high value added and openness. Moreover, in addition to changing the mix of investment, it is particularly crucial to change the growth mix of the domestic economy by slowing down consumption while boosting national savings, so that the latter can finance an increasing share of investment and avoid further deterioration of the current account deficit and the risks arising from investors' willingness to lend to indebted countries in an environment of high interest rates and uncertainty.

Improvement of the high current account deficit

A significant reduction in the current account (CA) deficit in 2023 was achieved, by 4 p.p. compared to 2022 (to -6.3% as a percentage of GDP from -10.3%). The narrowing of the deficit mainly reflects the correction of the deficit in the goods account, derived 90% from lower fuel prices, and an increase in the surplus in the services account, with record-breaking tourism receipts. Secondary incomes also improved, with a significant deterioration in primary incomes. It is worth noting here that the main imbalance in the external sector of the domestic economy over time is the deficit in the goods account, due to the 'pro-cyclicality' of imports (the 'import content' of domestic consumption, as well as of investment and exports, is high) and the only slight strengthening of the export performance of the Greek economy (trends in the external account are described in detail in section 3.3).

A key factor that may strengthen the decline in the CA deficit in the coming years is the increase in the productivity and competitiveness of the domestic economy, combined with the strengthening of investment in export-oriented sectors and national savings. For 2024, the expected stagnation of domestic demand, the gradual improvement of the external environment and the sustained positive performance of inbound tourism in real terms are expected to improve only marginally the high external deficit of the Greek economy, with maintained extroversion and an increase in the share of services in exports and the share of goods in imports. By contrast, a possible increase in energy commodity prices, as well as the expected increase in investment, which is likely to boost demand for imports of both goods and services, may weigh on the CA.

Signs of fatigue in the labour market

The unemployment rate is on a downward trend throughout 2023, but at a slowing rate, as the continuous growth of the domestic economy reduces its productivity gap and the structural unemployment rate remains high. Last year's growth appears to have been supported by an increase in both employment and hours worked per employee in 2023 compared to 2022, while labour productivity (a variable measured as the ratio of real GDP per hour worked) recorded a decline.

According to the ELSTAT Labour Force Survey, the unemployment rate in Q4 2023 decreased to 10.5%, from 11.9% in Q2 2022, keeping Greece with the second highest unemployment rate in the Eurozone, with a significant difference from the other countries (see Annex, Figure 7). The decline in the unemployment rate was the result of both a reduction in the number of unemployed and a strengthening of employment (an analysis of trends in the domestic labour market is presented in section 3.4).

In the current year, factors that will favour job creation include strong tourism demand, the mild growth in domestic consumption and exports, as well as the expected strengthening of investment in export-oriented industry and construction activities, combined with the gradual maturation of major infrastructure projects and the high backlog of construction projects. By contrast, the expansion of production costs due to the increase in nominal wages is acting as an impediment to job creation, with the seasonally adjusted wage cost index for the Greek economy as a whole trending up by 5.5% in Q4 2023 compared to the same quarter of 2022.

To further reduce unemployment, it is necessary to maintain the growth momentum of the Greek economy, together with reducing structural unemployment, through a more effective matching between the qualifications of the unemployed and those demanded by the labour market, and increasing the participation of specific population groups, such as women and young people, in the labour force. However, as the rate of change in employment is determined, if only in the long term, by demographic trends, it follows that maintaining the growth rate of the domestic economy and the living standards of its people will depend on enhancing the productivity of workers and integrating innovative technologies into production.

Challenges in the banking sector

The slow deceleration in private sector borrowing costs, which is putting pressure on credit expansion and worsening the servicing of existing lending, private deposit fatigue, the level of non-performing loans, as well as geopolitical instability and regional and international economic uncertainty, are creating new challenges for the financial system in terms of banks' funding conditions and the quality of their balance sheets.

Focusing on the Greek banks' balance sheet, on the liability side, the slowdown in private deposits leaves the domestic banking system more exposed to the high interest rate environment. For the whole of 2024, private deposits are expected to remain relatively stable, with a mild upward trend. As structural inflation is slowly decelerating and fiscal stimulus measures are tapering off, real disposable income and household and business savings are expected to come under pressure.

On the asset side, credit expansion to corporates recovered with the acceleration in the implementation of the loan component of the National Recovery and Resilience Plan, while credit contraction to households appeared unabated in early 2024. The strengthening of credit expansion may significantly support banks' profitability as the spread between the average loan and deposit rate (interest rate margin), although slightly declining in February due to the stabilisation of private sector borrowing costs, remains at a historically high (for at least 20 years) level. The positive trends in bank fundamentals include a further decline in NPLs, although their overall level remains significantly higher than in other European countries. By contrast, a challenge for the asset quality of Greek banks is the increase in their exposure to government bonds, significantly higher than the euro area average, which further reinforces the risky links between the banking and public sectors (see Section 2.2C for an analysis of developments in the financial system).

Positive trends in the domestic production sectors except trade

As regards developments in the supply sector in 2023, the trends in Industrial Production and Construction were positive, while the volume of Retail Trade decreased.

In particular, the production indicators in Industry (+2.3% from +2.4% in 2022) and Construction (+17.1% from +21.8% in 2022) strengthened and outperformed the corresponding EA indicators. In contrast, in the EA, industrial production contracted by 2.4% in 2023 (+2.2% in 2022), while the construction sector recorded a marginal increase (+0.2% from +4.3% in 2022). The momentum of the domestic Construction sector is reflected also in the growth of building works production (12.7% following a 17.2% increase in 2022) and building permits (7.2% from 4.6% in 2022), while business expectations in the first quarter of 2024 are at an all-time high.

On the trade side, Retail Trade volumes declined in 2023 (-3.3% from +3.3% in 2022), resulting in a decline in expectations in the first quarter of 2024 compared to the same period in 2023 (-3.9 from +12.7 points). By contrast, the volume index in Wholesale Trade recorded an increase in 2023 (+4.8% from -5.3% in 2022). Finally, in 2023 as a whole, turnover in services strengthened year-on-year in eleven of its thirteen sectors, with the largest increase recorded in Professional and Scientific Activities (more information on the main production sectors is presented in section 3.2).

Slight strengthening of the domestic economic sentiment

Estimates that the Greek economy will maintain its growth momentum in 2024 and beyond are gradually strengthening the domestic Economic Sentiment Indicator, which increased slightly in the first quarter of 2024 compared to the previous quarter (to 106.9 from 105.6 points). It is worth noting, however, that the indicator remains below its average (108.0) for 2023, a year in which its performance was - on an annual basis - the highest in 15 years. The strengthening of the indicator was driven by stronger business expectations in Services, Manufacturing and Construction, with expectations in Retail Trade weakening slightly. In the same quarter, the factory capacity utilization rate, a measure of the degree of utilization of physical capital as a production factor (e.g., machinery and transport equipment), edged gently lower to 72.9% (from 76.3%).

Expectations in Europe are similar, with the corresponding average indicator recording a slight improvement over the period under review compared to the previous one, both in the EU and in the euro area. In particular, the Economic Sentiment Indicator stood at 95.9 (from 94.5) points in the first quarter of 2024 in the EU, and at 96.0 (from 94.9) points in the euro area.

Finally, on the household side, the Consumer Confidence Index weakened slightly in the first quarter of 2024 compared to the previous quarter (-46.1 points from -43.5 points), as the impact of the rising cost of living is troubling the households (more information on the evolution of economic sentiment is presented in section 2.2A).

Medium-term forecast

Based on the above analysis of the international and domestic economic sentiment and the main macroeconomic figures, as well as on some key assumptions, we formulate short-term forecasts regarding the components of domestic GDP for 2024.

On the consumption side, private consumption is expected to maintain the momentum of the previous year in 2024, supported by an expansion in employment and wages, as well as a gradual decline in inflation. At the same time, the withdrawal of the fiscal support measures for households last year, the credit contraction to households combined with high borrowing costs and the negative savings rate of the last three years, and the possibility of a new round of rising energy commodity prices are acting as a drag on consumption. Regarding public consumption, it is expected to contract in 2024, with the aim of achieving fiscal surpluses. The annual change in private and public consumption is estimated at +1.3% and -0.6% respectively, with total consumption at +1.0%.

Box 3.1

Macroeconomic forecast drivers

Risks

- Further geopolitical instability and economic uncertainty at regional and international level (war in Ukraine and the Middle East, elections in the US and the European Parliament).
- Slower decline in interest rates in Europe in 2024, especially in an alternative scenario of a large increase in global energy prices.
- High external deficit with structural features.
- Labour market: Slower deceleration of the unemployment rate, including due to high structural unemployment.
- Progressively tighter fiscal targets. The tax base in Greece remains narrow.
- Loss of competitiveness due to higher-than-average euro area inflation after mid-2023. Persistent inflation in essential goods, such as food, higher than the EA's average in 2024.
- High loan-to-deposit interest rate margins and systematically negative household savings rates.
- Risk of a new spike in arrears and NPLs due to rising interest rates and cost of living. Non-performing loans on and off bank balance sheets are an obstacle to the reallocation of resources.
- Investment mix: investment in housing/construction and transport equipment, decline in other sectors.

Positive outlook

- The acceleration in the implementation of the revised Recovery and Resilience Plan, together with the expansion of its loan component and REPowerEU, may unlock international capital for productive and longer-term investments.
- The reduction in interest rates, if initiated earlier towards the middle of the year, will provide an opportunity to accelerate investment.
- The challenge is to strengthen the economy's openness, with a gradual improvement in the external balance.
- Reforms with a medium-term horizon of 2024-2027 can raise productivity, which is diverging from the European average.
- Reducing NPLs at the level of the whole economy will free up productive resources for a more efficient allocation.
- Significant volume of construction backlog.

Fixed capital investment is expected to maintain its growing momentum in 2024, boosted by the acceleration in the implementation of the revised Recovery and Resilience Plan and REPowerEU, as European resources are expected to encourage international investors for productive and longer-term investments. Moreover, an eventual interest rate reduction in the second half of the year is expected to boost the low credit expansion to businesses.

In 2024 as a whole, we expect fixed investment to grow significantly faster than in 2023 in absolute real terms, translating into higher annual change. Specifically, the annual change in fixed investment is estimated at +9.5% (total investment +7.8%) for 2024. The change in inventories in 2024 is expected to be similar to 2023 in absolute real terms.

Box 3.2

Baseline scenario assumptions

- The euro area economy follows the ECB's (March 2023) baseline scenario for growth of 0.6% in 2024 (from 0.8% in the previous quarter) and inflation of 2.3% in 2024 (from 2.7%), energy prices and interest rates.
- Interest rates follow the trend of current futures rates, i.e. Euribor gradually declines from near 3.9% at the beginning of the year to around 3.1% at the end of 2024.
- The war in Ukraine continues at a similar intensity to that of 2023. Due to the flare-up in the Middle East, international energy commodity prices are expected to trend upwards in 2024, following the EIA's baseline scenario.
- Timely implementation of the revised Recovery and Resilience Plan in 2024 without further delays.
- Inflation in Greece is projected to be slightly higher than the EZ average in 2024, mainly due to a slower rate of decline in food prices.
- Inbound tourism for 2024 is expected to maintain its positive performance of 2023, in real terms.

Table 3.2

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

	MinFin	EC	IOBE	IMF	OECD
	2024	2024	2024	2024	2024
GDP	2.5%*	2.3%*	2.1%	2.1%	2.0%
Consumption	:	:	1.0%	:	:
Private Consumption	1.3%	1.9%	1.3%	1.5%	1.4%
Public Consumption	-1.6%	-2.3%	-0.6%	-1.5%	0.0%
Gross Fixed Capital Formation	15.1%	7.5%	9.5%	9.9%	5.2%
Exports	5.6%	5.0%	2.2%	3.7%	0.9%
Imports	4.6%	3.8%	1.9%	3.0%	2.0%
Harmonised Index of Consumer Prices (%)	2.6%	2.7%*	3.0%	2.8%	2.8%
Unemployment (% of labour force)	10.6%	10.7%	10.3%	9.2%	10.0%*
General Government Balance (% of GDP)	:	1.1%	:	2.1%	1.6%
Current Account Balance (% of GDP)	:	-8.6%	:	-6.4%	-6.7%*

Sources: Budget Introductory Report 2024, November 2023, * State Budget Office at the Parliament - European Economic Forecast, Autumn 2023, European Commission, November 2023, *Winter 2024, February 2024 - The Greek Economy 04/23. IOBE, January 2024 - IMF Country Report No. 24/23, ΔNT, January 2024, - Economic Outlook 114, OECD , November 2023

On the external balance, we expect a marginal improvement in 2024 compared to the previous year, with sustained openness and an increase in the share of goods in exports and imports. The gradual strengthening of the pace of recovery of Greece's main trading partners is expected to support exports, while resilient domestic demand and rising investment are expected to support imports in 2024. Taking into account the assumptions on the Eurozone growth rate, the continuation of the positive performance of tourism in real terms in 2024, and assuming that energy commodity prices remain stable, we anticipate exports to grow at an annual rate of change of +2.2% and imports to grow at an annual rate of change of +1.9% in 2024, mildly improving the current account balance.

As a consequence of all the above, we are revising mildly downwards our previous estimate of a 2.1% recovery of the domestic economy in 2024, due to the above-mentioned risks, most notably the slowdown in the EA economy and the persistence of inflation and uncertainty at regional and international level.

3.2 Trends in key sectors

- Industrial production strengthened by 2.3% in 2023 (corresponding increase in 2022 - 2.7%). However, the turnover index decreased by 4.1%.
- Continued strong recovery in Construction, with output expanding by 17.1% in 2023, after a 21.8% increase in 2022. Business expectations for the first quarter of 2024 are also at an all-time high
- A 3.3% decline in Retail Trade volume in 2023, against a corresponding increase (+3.3%) in 2022.
- Growth in turnover in most sub-sectors of Services in 2023.

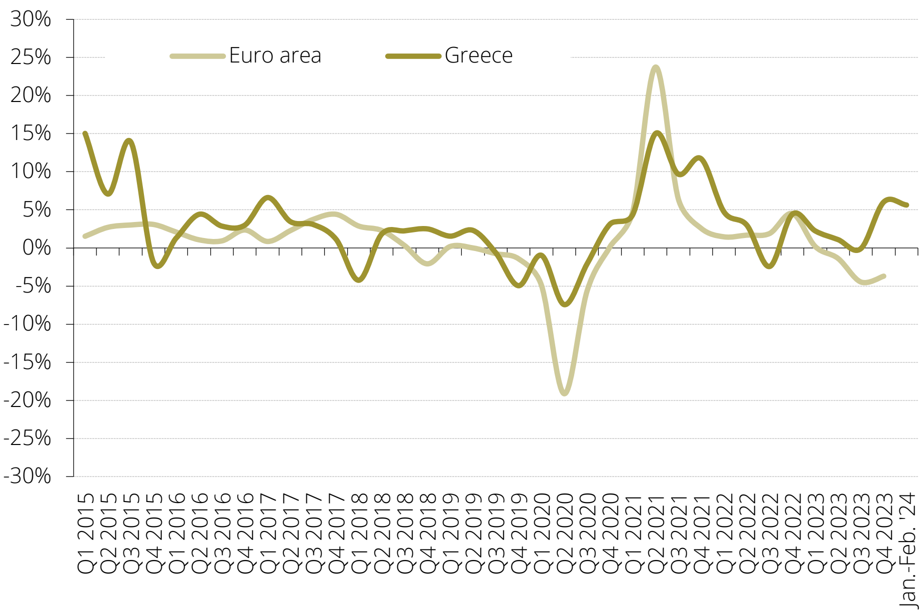
Industry

In 2023 as a whole, the industrial production index in Greece increased by 2.3%, relatively unchanged from 2022 (2.4%). In the same period, at the euro area level, industrial production contracted by 2.4%, compared with 2.2% in 2022.

The overall producer price index in industry in 2023 as a whole fell by 7.1%, compared with an increase of 35.0% in 2022. The price decline in the general index was entirely driven by the domestic market (-6.5% instead of +33.5% in 2022) as the price level in exports strengthened by 39.8% against a milder increase of 20.0% in 2022. By contrast, the turnover index of industry fell by 4.1% compared to an increase of 33.1% in 2022.

Figure 3.4

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



The overall index increased by 2.3% in 2023 as a whole

Sources: ELSTAT, Eurostat

More specifically, among the main sectors of Greek industry, output increased in Mining & Quarrying (8.7% against a 7.9% decline last year) and in Manufacturing (4.1% following a 4.6%

increase in 2022). By contrast, output decreased in Electricity (-5.5% against -3.7%), while it remained almost unchanged in Water Supply (+0.04% against -2.2%).

In Manufacturing, output rose in 14 of its 26 branches. Among the branches with the greatest importance for the Greek economy, Pharmaceuticals production strengthened 20.6%, after rising by 11.3% in 2022. Production in Basic Metals fell by 1.6% (against +4.2% in 2022), while Food production was up but at a slower pace than a year ago (3.6% against 5.2%).

Among the other manufacturing sectors, the manufacture of motor vehicles (16.8% instead of +24.0% in 2022), the manufacture of leather goods (16.6% instead of 8.8%), and the production of tobacco products (+16.7% instead of 0.4%) moved up. By contrast, output declined in 2023 in Clothing (-10.8 against +9.0% in 2022), Transport equipment (-6.0% against -5.1%), Printing (-3.8% against +19.4%), Textiles (-3.1% against -2.9%) and Paper products (-0.3% against -2.9%).

Among the main industrial groupings, output contracted exclusively in Energy (-1.9% against -2.5% in 2022). By contrast, it rose in Consumer Durables (7.1% against 22.9% in 2022), Non-durable Consumer Goods (6.5% against +6.4%), Capital Goods (5.9% against 5.4% in 2022) and, finally, Intermediate Goods (0.3% against +1.9).

Construction

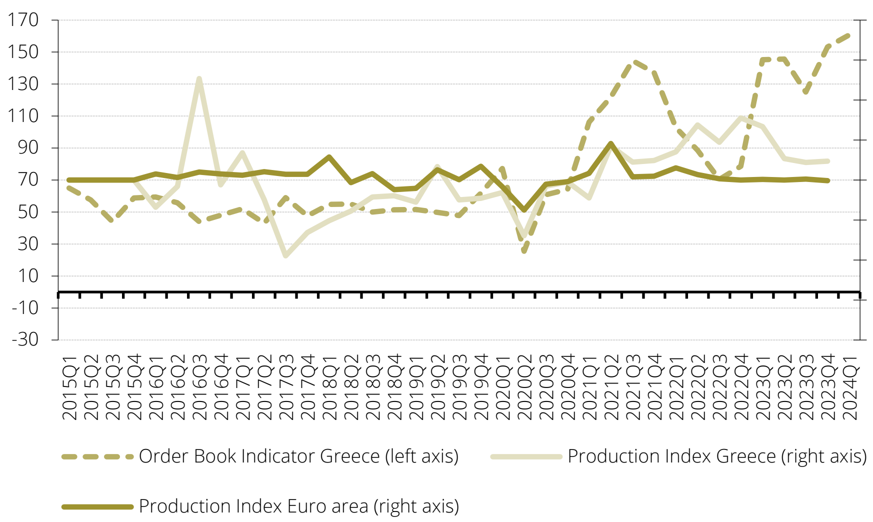
In 2023 as a whole, the production index in the Construction sector increased by 17.1%, after a 21.8% increase in 2022. Note that in 2023 as well, an increase was recorded in all quarters of the year.

Over the same period in the Eurozone (20 Member States), the Construction sector recorded a slight increase (0.2%) compared to +4.3% in 2022.

Figure 3.5

Production Index in Construction and Building Activity Index

In 2023 the production index strengthened (17.1%), with an increase in building activity (7.2%) with larger constructions



Source: ELSTAT, IOBE

During the same period in Greece, in the constituent construction activities, the production of Building works increased by 12.7%, after a 17.2% increase in 2022. In addition, the index of Civil Engineering works strengthened by 12.1%, a significantly lower rate than in 2022 (+29.3%). Moreover, in the construction activity data, building permits increased by 7.2% (up from 4.6% in 2022), while new construction is higher both in terms of surface area (11.9%) and volume (15.9%).

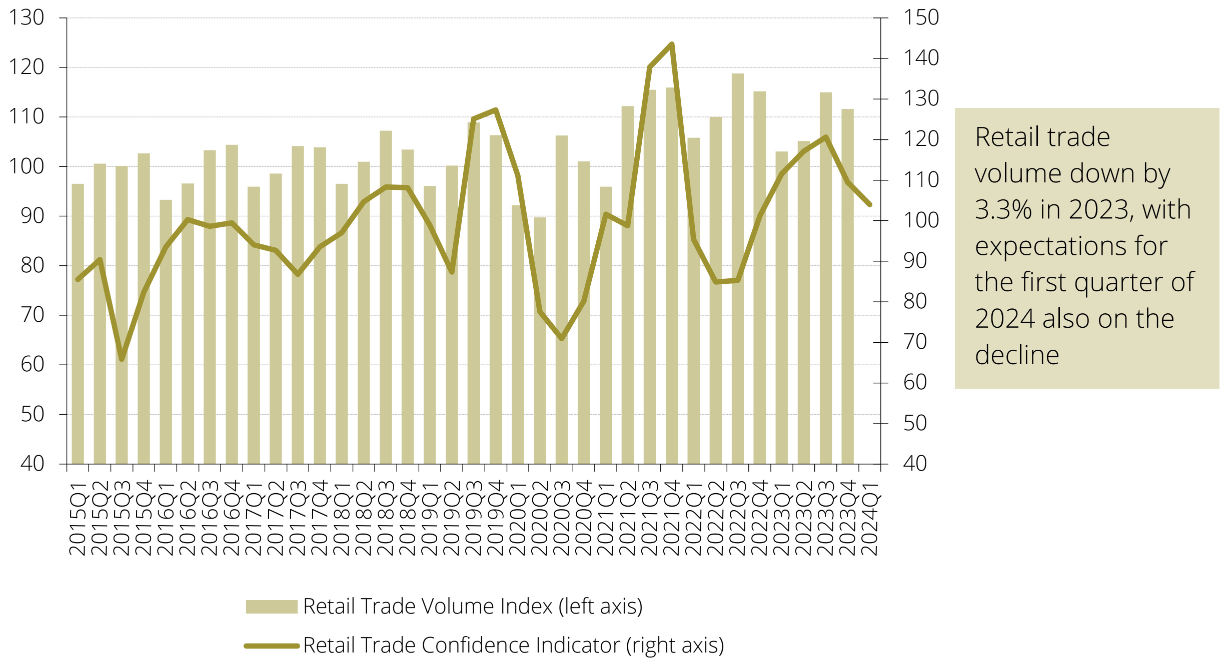
It should be noted that after the historically high level of business expectations for the sector in 2023, in the first quarter of 2024 expectations continued to strengthen with a further 18 additional points compared to the 2023 average.

Retail Trade

The volume index in Retail Trade in January 2024 decreased by 8.9% compared to a year earlier. For all of 2023, the Retail Trade volume index decreased by 3.3%, compared to a corresponding increase (+3.3%) in 2022. The volume of trade strengthened in 4 of the 8 sub-sectors. The largest increase was recorded in Department Stores (4.2% after 3.2% last year), followed by Furniture & Electrical Goods (2.4% against a 10.8% increase a year ago) and Food (1.8% against -1.6%). In contrast, a decrease in sales volume was recorded in Pharmaceuticals (-3.5% against +8.0%), Supermarkets (-3.1% against -2.5%), Fuels (-1.0% against a 3.2% increase) and Books & Stationery (-0.6% against a 13.0% increase a year ago).

Figure 3.6

Retail Trade Volume Index (2010=100) and Retail Trade Confidence Indicator (1996-2006=100)



Sources: ELSTAT, IOBE

Expectations in the Retail Trade sector in the first quarter of 2024 receded compared to the same period in 2023. The relevant cumulative index decreased by 3.9 points compared to an increase of 12.7 points in 2023.

At the activity level, expectations declined in three subsectors of Retail Trade. In particular, the largest declines were recorded in Clothing-Footwear (-17.5 points against a 45.7-point increase in 2023), Motor Vehicles & Parts (-7.4 points against +10.0 points) and Food-Beverages (-3.2 points against +39.7 points in 2023). By contrast, there is greater optimism in Household Equipment (+10.5 points against +3.3 in 2023) and Department Stores (+1.3 points against +18.6).

Table 3.3

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	2021	2022	2023	Change 2022/2021	Change 2023/2022
Overall Index	108.9	112.4	108.7	10.2%	-3.3%
Overall Index (excluding automotive fuels and lubricants)	113.4	115.5	113.1	10.5%	-2.1%
Store Categories					
Supermarkets	113.9	111.1	107.6	-2.5%	-3.1%
Department Stores	88.9	91.7	95.5	3.2%	4.2%
Automotive Fuels	83.8	86.5	85.6	3.2%	-1.0%
Food – Drink – Tobacco	88.1	86.7	88.3	-1.6%	1.8%
Pharmaceuticals – Cosmetics	142.0	153.3	147.9	8.0%	-3.5%
Clothing – Footwear	110.9	113.7	114.8	2.5%	0.9%
Furniture – Electric Equipment – H. Appliances	138.1	153.0	156.7	10.8%	2.4%
Books – Stationary	144.0	162.7	161.8	13.0%	-0.6%

Source: ELSTAT

More specifically, the Business Confidence Indicator for Automobiles - Vehicles stood at 117.3 points in the first quarter of 2024, down 6.0% compared to the same period in 2023, higher than the 2020-2022 average. The current sales balance is stronger, at 33 points, compared to 14 points in 2023, with an increase in the percentage of those estimating higher sales. However, on the inventory side, the balance increased significantly, with a marked drop in those who considered inventories to be low. Orders improved, with the balance rising to 26 points from 8 points last year and 40% believing orders would increase in the coming period. The balance for sales expectations also increased, to 29 points, up from 18 points in 2023, with a strengthening in the proportion of firms expecting sales growth. On the employment side, expectations steadied, while the strong inflationary pressures eased, with 40% of the businesses expecting an increase, compared to 70% in 2023.

Table 3.4

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

	Q1 2022	Q1 2023	Q1 2024	Change 2022/2021	Change 2023/2022
Food-Drinks-Tobacco	55.7	95.4	92.2	39.7	-3.2
Textiles - Clothing – Footwear	72.7	118.4	100.9	45.7	-17.5
Household Appliances	102.8	106.1	116.6	3.3	10.5
Vehicles-Spare Parts	114.7	124.7	117.3	10.0	-7.4
Department Stores	94.5	113.1	114.4	18.6	1.3
Total Retail Trade	98.8	111.5	107.6	12.7	-3.9

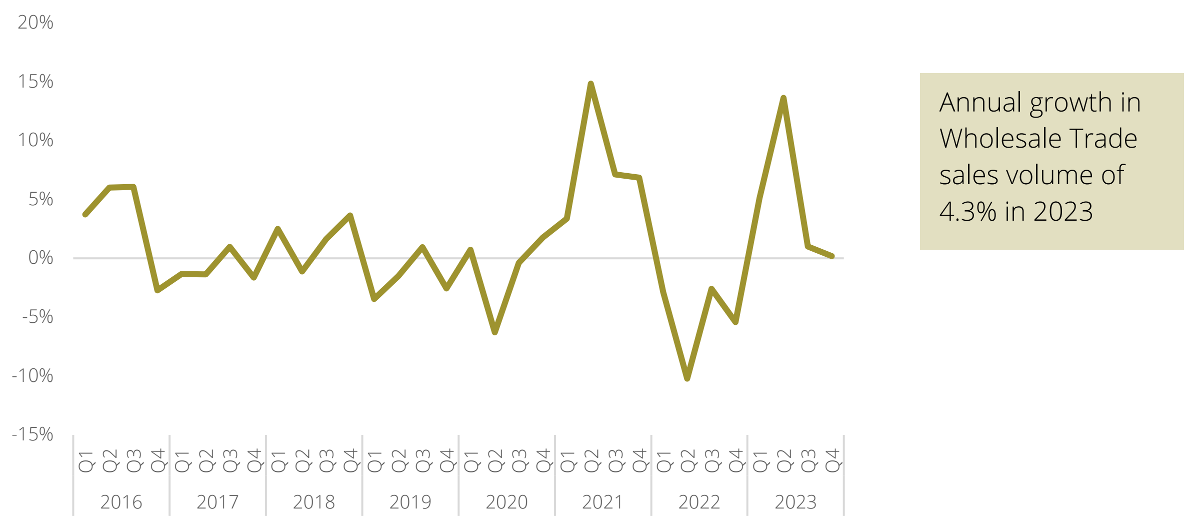
Source: IOBE

Wholesale Trade

In 2023 as a whole, the volume index in Wholesale Trade increased by 4.8% compared to a decrease of 5.3% in 2022. In the same year, the turnover index, which incorporates the price effect, declined by 2.3%, compared to a 21.5% gain in 2022. This may also be linked to a deceleration of prices in wholesale trade goods.

Figure 3.7

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

In 2023 as a whole, turnover in services strengthened from 2022 in eleven of its thirteen sectors.

Table 3.5

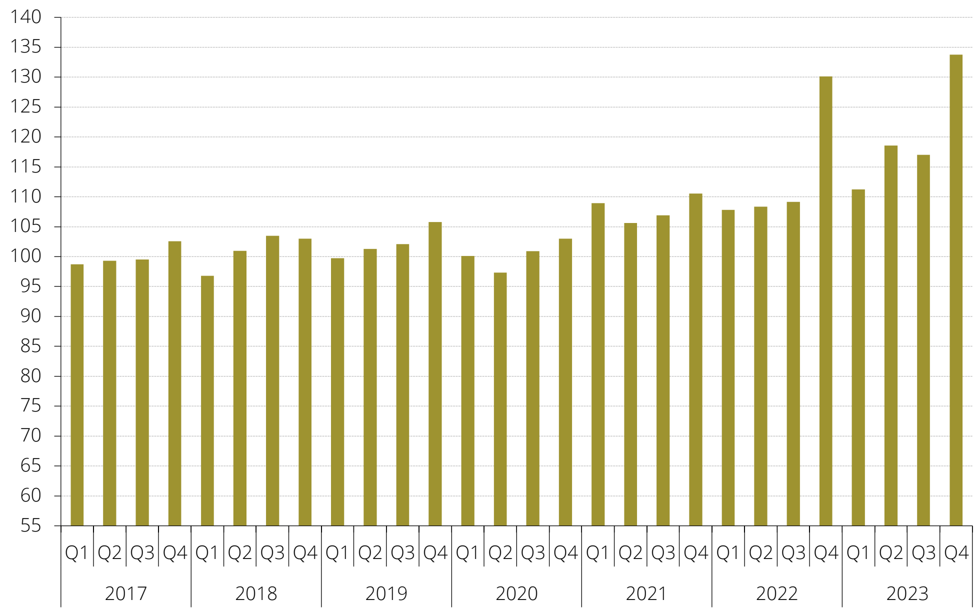
Business Confidence Indicators in Services (2000-2010=100)

	Q1 2022	Q1 2023	Q1 2024	Change 2023/2022	Change 2024/2023
Hotels – Restaurants – Travel Agencies	106.4	110.9	122.9	4.5	12
Financial Intermediation	127.4	107	149.2	-20.4	42.2
Other Business Services	118.4	102.6	115	-15.8	12.4
Information Services	112.1	96.6	99.4	-15.5	2.8
Total Services	115.7	96.6	119.1	-19.1	22.5

Figure 3.8

Turnover Index in Telecommunications (branch 61)

Annual growth of 5.5% in the first nine months of the year against a milder improvement of 5.4% in 2022

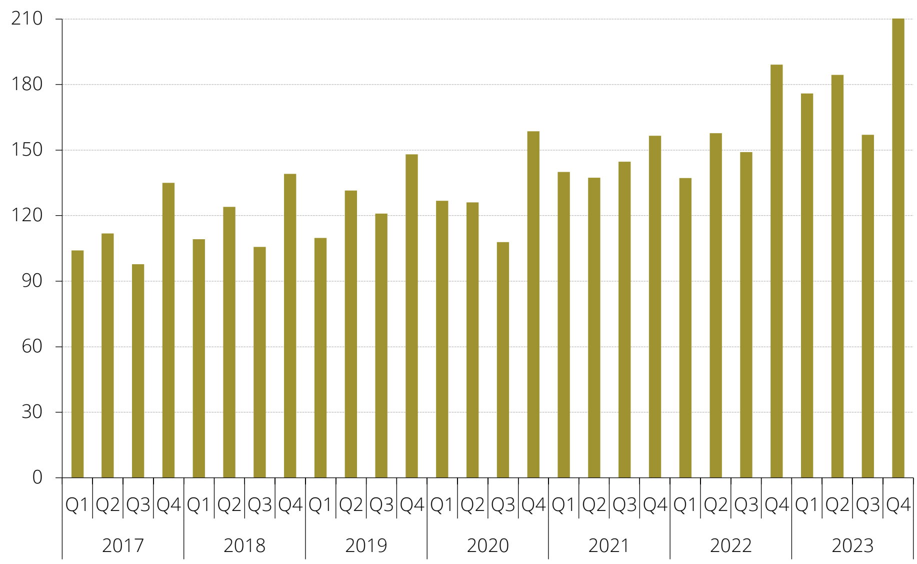


Source: ELSTAT

Figure 3.9

Turnover Index in Computer Programming, Consultancy and Related Activities (branch 62)

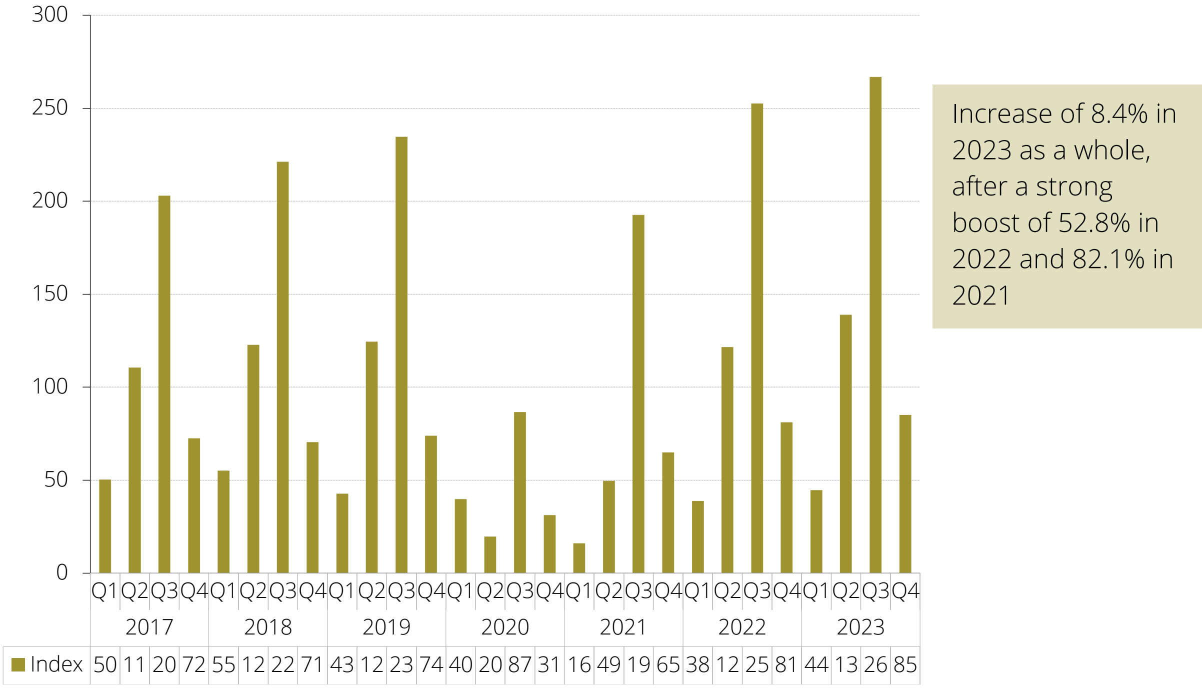
Turnover improved by 20.8% compared to 11.4% in 2023



Source: ELSTAT

Figure 3.10

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



It increased most in Other Professional and Scientific Services (20.0% vs. +8.3% in 2022), Information Services (20.0% vs. 9.6% in 2022), Security and Investigation Services (15.5% vs. 10.9%), and Engineering Services (12.1% vs. 8.8%). Legal Services/Legal Consulting Activities (6.9% against 22.2%), Telecommunication Services (5.5% against 5.8% in 2022) and Publishing Activities (3.0% against 2.5%) followed at a distance. In contrast, Postal and Courier Services (-3.4% against -4.9%) and Employment-Related Services (-0.1% against +2.0%) experienced a decrease in turnover.

According to the latest trends in the leading indicators from the IOBE's business and consumer surveys, whose values refer to the first quarter of 2024, expectations strengthened in all examined branches of the Services sector, while the overall index of the sector improved by 22.5 points compared to a decline of 19.1 points in the corresponding quarter of 2023.

More specifically, expectations strengthened the most in Financial Intermediaries (+42.2 points against a decline of -20.4 in 2023), followed by Miscellaneous Business Services (+12.4 points against -15.8 in 2023), Hotels - Restaurants - Travel Agencies (+12 points against 4.5 last year) and Information Services (2.8 points against -15.5 in 2022).

3.3 External balance

A. Analysis of exports and imports from national accounts

- Exports of goods declined in nominal terms in 2023, at a rate of 8.5% and exports excluding petroleum products fell by 2.9%.
- Imports in January-December 2023 decreased by 13.8% in current prices to €79.9 billion, down from €92.6 billion a year earlier.
- The trade deficit decreased by 21.4% year-on-year in 2022 to €29.5 billion.
- Decline in all product categories, and rise only for Agricultural products.
- Demand from Eurozone countries (-4.1% or -€876.1 million), from Middle East & North Africa (-12.5% or €849.4 million) and Asia (-18.3% or €513.9 million) declined.

The exports of goods in January-December 2023 amounted to €50.4 billion, compared to €55.1 billion a year ago, a decline of 8.5% at current prices. Excluding the exports of petroleum products-ships, other exports fell by 2.9%, to €34.4 billion, from €35.4 billion in 2022. Imports of goods declined in 2023, by 13.8% at current prices, to €79.9 billion, from €92.6 billion a year earlier. Excluding imports of petroleum products-ships, other imports fell by 3.8% to €59.3 billion, from €61.6 billion in 2022. As a result of the above trends in the main components of the balance of trade in goods, the trade deficit was €8.0 billion lower than in 2022 (-21.4%), at €29.5 billion, down from €37.5 billion in 2022. As a result, the value of the Greek economy's exports of goods in the first ten months of 2023 accounted for 63.1% of its imports, compared to 59.5% a year earlier.

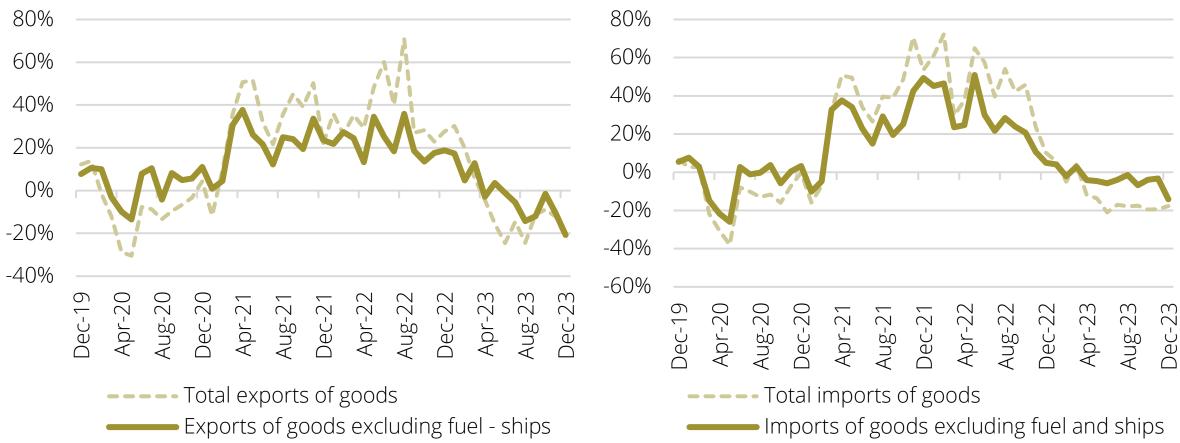
In more detail, exports of agricultural products increased by 12.8% at current prices in the period January - December 2023, to €10.2 billion, from €9.0 billion in 2022. Exports of Fuels saw a nominal decrease, by 21.5%, to €16.5 billion, from €21.0 billion in 2022. Exports of the two specific categories accounted for 52.8% of the value of domestic exports of goods in 2023, from 54.4% a year earlier. Exports of manufactured goods declined in 2023 (-4.0%), with their value reaching €21.6 billion in 2023, down from €22.5 billion in 2022. This development was mainly driven by a 9.4% decrease in exports for manufactured goods classified chiefly by raw material, from €8.0 billion to €7.3 billion. Miscellaneous manufactured articles also experienced a decline in exports (-3.2%, to €3.5 billion). Similarly, international demand for chemicals and related products decreased by 1.8%, with their value reaching €5.9 billion, while exports of machinery and transport equipment increased by 1.5%, with their value reaching €4.95 billion, from €4.87 billion in the same period in 2022.

In terms of the trends of the exports of goods by geographical region, exports to the Eurozone countries decreased in 2023 by 4.1%, reaching €20.7 billion, down from €21.6 billion in 2022. To the EU as a whole there was an annual decline of 6.5% or €2.0 billion, with exports to this region reaching €28.5 billion, down from €30.5 billion a year earlier. Among the Eurozone countries absorbing the largest share of Greek exports, there was a 6.4% increase to France, from €1.7 billion to €1.8 billion, and to the Netherlands, by 5.3%, from €1.2 billion to €1.3 billion. Exports of goods to the major destination, Italy, decreased by 8.8%, to €5.8 billion in 2023 from €6.4 billion in 2022.

Among the other countries of the European Union, to which total exports decreased by 12.4% or €1.1 billion, reaching €7.9 billion, Bulgaria continued to be the main export destination, with outflows to this country decreasing by 22.2% or €990.1 million compared to 2022. Growth was recorded towards two other countries that absorb a significant share of Greek exports, Romania (+0.1% or €1.2 million to €1.8 billion) and Poland 1.9% or €17.0 million, at €927.7 million respectively.

Figure 3.11

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



Source: ELSTAT, Data processing: IOBE

Exports excluding oil products - ships totalled €50.3 billion in January-December 2023, 8.6% lower than in 2022. Imports excluding petroleum products - ships amounted to €59.6 billion in the same period, 3.8% lower than in 2022.

Greek export demand to the rest of Europe declined by 10.1%, from €10.3 billion in 2022 to €9.3 billion a year later. This was primarily driven by Turkey, where exports fell by 27.3%, from €2.5 billion to €1.8 billion, and secondarily by the UK, with a 10.2% decline, from €2.2 billion in 2022 to €1.9 billion in 2023.

Exports to North American countries moved down by 3.0%, from €2.6 billion in 2022 to €2.6 billion in 2023, due to a 5.0% decline in exports to the US, from €2.2 billion in 2022 to €2.1 billion in 2023. In contrast, exports increased to Canada, by 4.2% or €11.0 million to €274.0 million, and to Mexico (+15.9%).

Exports to the markets of Central and Latin American countries increased by 2.7% in 2023, with their value reaching €431.6 million from €420.3 million in 2022. The rise in exports to the countries of this region is mainly due to the increase in demand for Greek products from Argentina, by 434.4%, which brought their value to €82.5 million from €15.4 million a year earlier. Exports to Panama declined (-17.9% or -€37.0 million) to €170.1 million.

Exports to the countries of the Middle East and North Africa also decreased, by 12.5%, to €5.9 billion from €6.8 billion, mainly due to the sharp decline in exports to Tunisia (-67.4%), where exports in January - December 2023 amounted to €175.5 million, compared to €539.1 million a year earlier, but also to Libya (-14.7%), where they fell by €271.5 million in 2023 compared to 2022 and reached €1.6 billion. For two other important export destinations in the Middle East, exports to the United Arab Emirates increased by 11.9% to €395.1 million, whereas exports to Saudi Arabia declined by 29.4% to €382.8 million. In light of the military turmoil in Israel, it is worth noting that the total value of exports of goods to Israel and Lebanon in 2023 reached €2.1 billion, of which €657.0 million to Israel.

Table 3.6

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

Product	Value		% Change	% Share	
	2023	2022	23/22	2023	2022
AGRICULTURAL PRODUCTS	10,162.9	9,012.0	12.8%	20.2%	16.4%
Food and Live Animals	7,471.3	6,842.9	9.2%	14.8%	12.4%
Beverages and Tobacco	1,267.2	1,136.0	11.5%	2.5%	2.1%
Animal and vegetable oils and fats	1,424.4	1,033.1	37.9%	2.8%	1.9%
RAW MATERIALS	1,566.7	1,919.4	-18.4%	3.1%	3.5%
Non-edible Raw Materials excluding Fuels	1,566.7	1,919.4	-18.4%	3.1%	3.5%
FUELS	16,476.2	20,995.6	-21.5%	32.7%	38.1%
Mineral fuels, lubricants, etc	16,476.2	20,995.6	-21.5%	32.7%	38.1%
INDUSTRIAL PRODUCTS	21,595.1	22,494.8	-4.0%	42.8%	40.8%
Chemicals and Related Products	5,860.3	5,965.5	-1.8%	11.6%	10.8%
Manufactured goods classified chiefly by raw material	7,267.4	8,020.7	-9.4%	14.4%	14.6%
Machinery and transport equipment	4,945.7	4,871.5	1.5%	9.8%	8.8%
Miscellaneous manufactured articles	3,521.6	3,637.1	-3.2%	7.0%	6.6%
OTHER	605.9	695.2	-12.8%	1.2%	1.3%
Transactions not classified by category	605.9	695.2	-12.8%	1.2%	1.3%
TOTAL EXPORTS	50,406.8	55,117.0	-8.5%	100.0%	100.0%

* Provisional data

Source: ELSTAT, PSE-KEEM

Similarly, the demand for Greek goods declined in Asia, where exports fell by 18.3% in 2023, to €2.3 billion from €2.8 billion in 2022. This development was mainly due to a 56.8% decrease in exports to Singapore, from €278.3 million in 2022 to €120.2 million in 2023. Similarly, there was a decrease in demand from South Korea (-16.7%, to €605.4 million from €726.8 million in 2022).

Table 3.7

Exports by destination, January- December 2023 (€ million)*

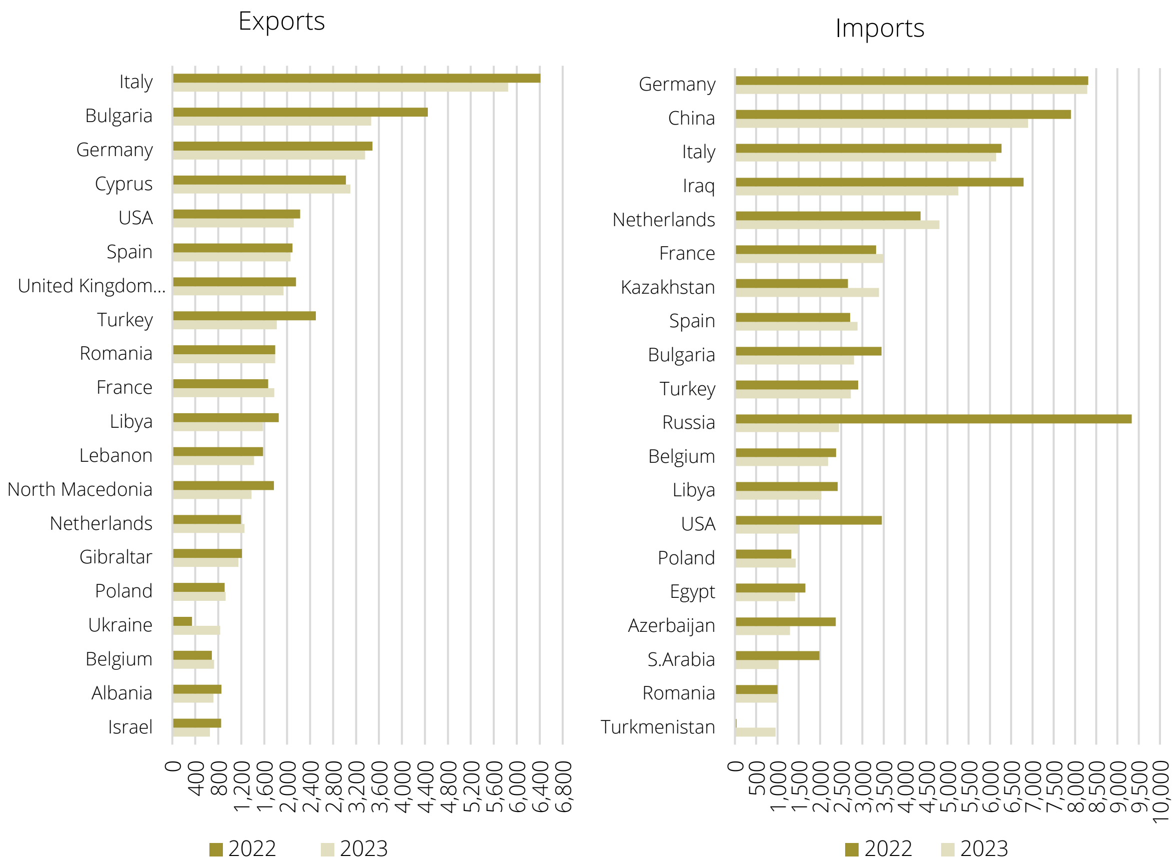
ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2023	2022	23/22
EU (27)	28,538.8	30,525.7	-6.5%
Euro Area	20,677.2	21,553.3	-4.1%
G7	15,618.9	16,527.6	-5.5%
North America	2,554.5	2,632.5	-3.0%
BRICS	775.7	969.8	-20.0%
Middle East & North Africa	5,937.7	6,787.1	-12.5%
Oceania	207.7	265.7	-21.8%
Central-Latin America	431.6	420.3	2.7%
Asia	2,292.5	2,806.3	-18.3%

* Provisional data

Source: ELSTAT, PSE-KEEM

Figure 3.12

Countries with the largest share in the exports and imports of Greek goods, January – December 2023 (€ million, current prices)



Source: ELSTAT, PSE-KEEM. Processing: IOBE

Largest increase in exports of goods in 2023 in absolute terms to Ukraine (+€487.8 million). Largest decrease to Bulgaria (-€990.1 million). Italy's share of exports remained the highest. Largest increase in imports over the same period in 2023 in absolute terms from Turkmenistan (+€920.5 billion), largest decrease from Russia (-€6.9 billion).

The flow of Greek exports to Oceania was down by 21.8%, with their value in 2023 standing at €207.7 million, down from €265.7 million a year earlier. The decline was driven by a similar trend towards Australia, where exports fell by 18.7% to €190.1 million from €233.8 million in the previous year. Similarly, there was a decrease to New Zealand (-44.9%).

To recap, the 8.5% decline in Greece's exports of goods in 2023 at current prices was driven by a decrease in petroleum products (-21.5%), raw materials (-18.4%), manufactured goods (-4.0%) and goods and transactions not classified elsewhere (-12.8%). The top five countries with the highest demand for Greek products are Italy, Bulgaria, Germany, Cyprus and the US. Meanwhile, imports fell by 13.8%, reducing the trade deficit to €29.5 billion (-21.4%). The five countries with the largest share of imports of goods in 2023 are Germany, China, Italy, Iraq and the Netherlands. Greek exports moved down in 2023 which is to some extent related to international uncertainty and the military conflicts in Gaza and Ukraine.

B. Balance of payments

- - In 2023 as a whole, the Current Account (CA) deficit decreased compared to 2022, to €14.0 billion, from €21.2 billion, corresponding to 6.3% of GDP, compared to 10.3% in 2022.
- - A significant correction of the deficit in the goods account, stemming 90% from lower fuel prices, and an increase in the surplus in the services account with record tourism receipts. Improvement in secondary incomes with a significant deterioration in primary incomes.

Current Account

January – February 2024

In the first 2 months of 2024, the current account stood at €1.5 billion, the same level as in 2023. The deficit in the goods account increased by €1.0 bn compared to 2023, with a fall in exports and an increase in imports, while a slight improvement was recorded in the services account (+€174 million). The Primary Income account deteriorated by €894 million, due to the large increase in payments, while the surplus on the Secondary Income account widened by €1.8 billion, due to the inflow of Eurosystem monetary income to the Bank of Greece.

January - December 2023

In 2023 as a whole (January - December), the Current Account (CA) deficit stood at €14.0 billion, corresponding to 6.3% of GDP, down by €7.3 billion compared to 2022, when it had approached 10.3% of GDP. The correction came from a significant reduction in the deficit in the goods account, an increase in the surplus in the services account and an improvement in secondary incomes, while the primary income account deteriorated.

In more detail, the goods account deficit stood at €32.4 billion in 2023, down by €7.2 billion compared to 2022, approaching 14.7% of GDP, as in 2021. Almost 90% of the deficit correction came from the fuel category, with a decrease of €6.4 billion, due to the easing of energy prices in 2023 compared to 2022, while in 2022 fuel accounted for 57% of the deficit expansion. Exports fell to €49.5 billion, (-€4.3 billion),[12] with the category of other goods recording a decline of €1.1 billion and fuel by -€3.3 billion. Imports of goods decreased to €81.9 billion (-€11.5 billion). A strong decline in imports was recorded for fuels, with a fall of €9.7 billion, while the decrease in imports of other goods was more moderate (-€1.7 billion).

The surplus in the Services Account strengthened in 2023 to €21.9 billion at 9.9% of GDP, compared to €19.4 billion in 2022. Total receipts from Services stood at €49.1 billion, up €1.3 billion compared to 2022, while payments amounted to €27.2 billion, down €1.2 billion. Receipts from travel services were at an all-time high of €20.6 billion (9.3% of GDP), while transport services reached €21.0 billion, down by €2.4 billion, and receipts from other services reached €7.5 billion (+€846 million). Payments for travel services increased to €2.4 billion.(+€507 million), payments for transport services decreased to €17.7 billion (-€1.9 billion), while finally payments for other services reached €7.0 billion, an increase of €193 million.

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

The deficit in the Primary Income Account deteriorated in 2023 to €4.8 billion, compared to €758 million in 2022. Receipts strengthened to €9.9 billion, up by €2.0 billion, and payments increased to €14.6 billion, compared to €8.6 billion in 2022. The main reason for the increase in payments is the doubling of payments for investments (earnings, dividends, interest), which reached €12.8 billion.

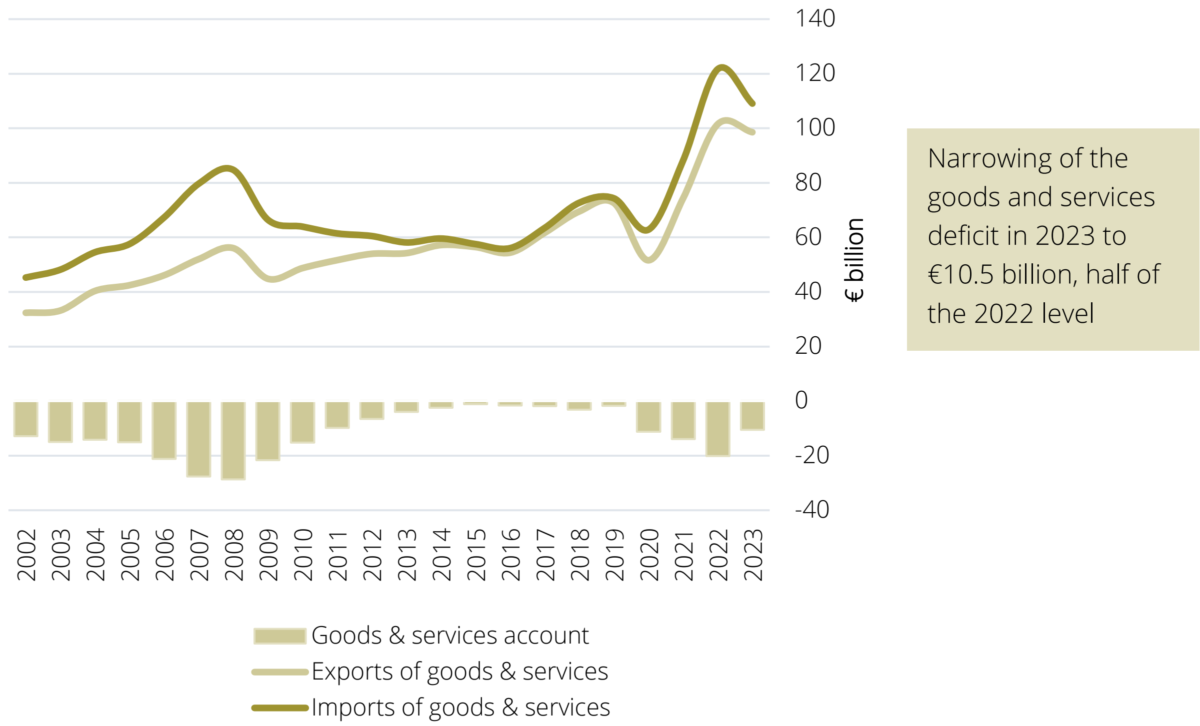
The Secondary Income Account improved significantly in 2023 to €1.3 billion compared to a deficit of €302 million in 2022, with an increase in receipts to €5.5 billion (€1.1 billion) and a decrease in payments to €4.2 billion (-€476 million).

Capital Account

The capital account surplus[13] shrank to €2.7 billion in 2023, compared to €3.1 billion in 2022, mainly due to a decline in receipts to €3.4 billion, (-€1.1 billion), and payments by €55 million. Finally, the current and capital account, which reflects the relationship of an economy with the rest of the world as a lender or borrower, was in deficit, at €11.3 billion, compared to €18.1 billion in 2022.

Figure 3.13

Imports-Exports of Goods and Services (January – December), 2002-2023

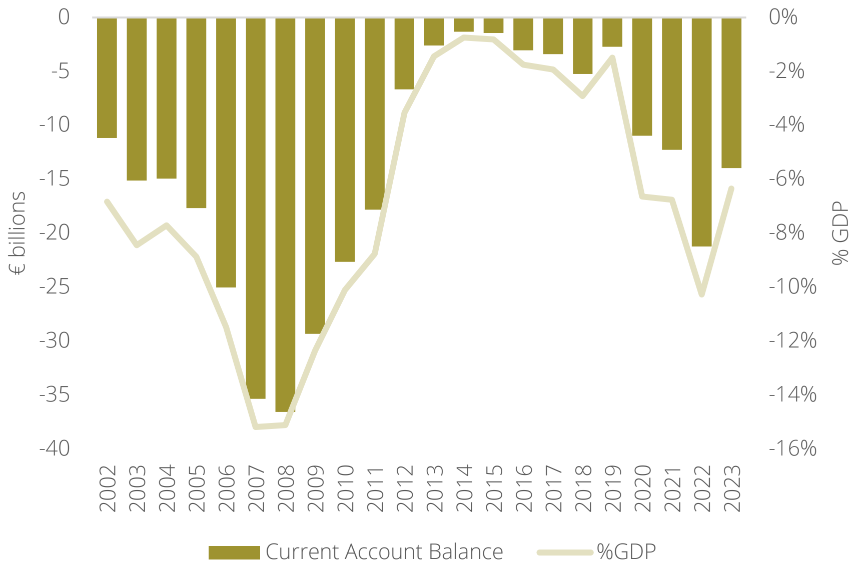


Source: Bank of Greece, Data processing: IOBE

[13] 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).

Figure 3.14

Current Account (January – December), 2002-2023

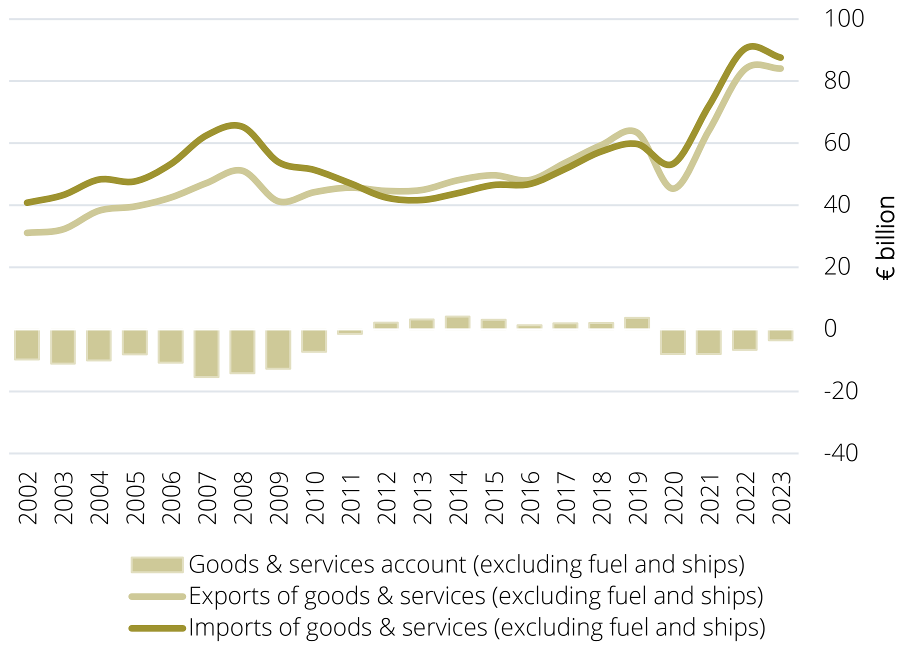


Current account deficit at €14.0 billion in 2023, at 6.3% of GDP, compared to 10.3% in 2022

Source: Bank of Greece, Data processing: IOBE

Figure 3.15

Imports-Exports of Goods excluding fuel and ships (January – December), 2002-2023



Narrowing of the deficit in the goods and services account excluding fuel and ships to €3.5 billion in 2023, from €6.6 billion in 2022

Source: Bank of Greece, Data processing: IOBE

Financial Account

The Financial Account was in deficit at €9.2 billion in 2023, compared to a deficit of €16.2 billion in 2022.

In the component accounts, residents' net claims on direct investment abroad increased by €3.2 billion, while net liabilities to non-residents (non-resident investment in the country) increased by €4.6 billion.

In the portfolio investment category, residents' claims on foreign residents increased by €2.6 billion, while liabilities to non-residents increased by €5.6 billion, mainly due to a €4.1 billion increase in bond and note holdings.

In the other investment category, claims on residents vis-à-vis the rest of the world decreased by €1.7 billion, mainly due to a €7.1 billion decrease in investments in deposits and repos, partly offset by the statistical adjustment from the issuance of banknotes, while liabilities decreased by €3.6 billion. Finally, the country's foreign exchange reserves stood at €12.3 billion at end-December 2023, about the same as at end-February (€12.4 billion).

Table 3.8. Balance of payments (€ million)

		January – December			February		
		2021	2022	2023	2022	2023	2024
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-12,271.6	-21,225.6	-13,970.5	-2,420.4	-1,338.3	-3,160.9
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-13,874.1	-20,166.3	-10,514.7	-3,147.3	-1,925.1	-2,728.4
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-26,719.1	-39,557.6	-32,395.8	-3,374.2	-2,276.2	-3,103.9
	Oil balance	-5,877.1	-13,251.5	-6,887.7	-1,309.6	-469.7	-771.7
	Trade balance excluding oil	-20,841.9	-26,306.0	-25,508.0	-2,064.7	-1,806.5	-2,332.2
	Ships balance	-23.1	-293.8	-96.3	-8.9	5.7	-19.8
	Trade balance excluding ships	-26,696.0	-39,263.7	-32,299.5	-3,365.4	-2,281.9	-3,084.1
	Trade balance excluding oil and ships	-20,818.8	-26,012.2	-25,411.8	-2,055.8	-1,812.2	-2,312.4
I.A.1	Exports of Goods	39,327.9	53,755.0	49,457.4	3,610.5	4,360.2	3,911.6
	Oil	10,210.2	17,601.7	14,267.8	893.0	1,440.7	1,013.3
	Ships (sales)	121.4	110.0	207.2	9.1	51.3	8.0
	Goods excluding oil and ships	28,996.3	36,043.3	34,982.4	2,708.3	2,868.2	2,890.3
I.A.2	Imports of Goods	66,046.9	93,312.6	81,853.2	6,984.7	6,636.4	7,015.5
	Oil	16,087.3	30,853.2	21,155.6	2,202.6	1,910.4	1,785.0
	Ships (buying)	144.4	403.8	303.5	18.0	45.6	27.8
	Goods excluding oil and ships	49,815.1	62,055.5	60,394.1	4,764.1	4,680.4	5,202.7
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	12,845.0	19,391.3	21,881.1	227.0	351.1	375.5
I.B.1	Receipts	35,056.4	47,761.9	49,091.4	2,167.0	2,317.0	2,583.8
	Travel	10,502.7	17,676.2	20,593.6	133.3	238.5	291.4
	Transportation	18,728.1	23,434.0	20,999.8	1,578.1	1,510.9	1,621.8
	Other services	5,825.7	6,651.8	7,498.0	455.7	567.6	670.6
I.B.2	Payments	22,211.5	28,370.7	27,210.4	1,940.0	1,965.9	2,208.3
	Travel	1,112.5	1,924.6	2,431.7	78.4	122.4	174.1
	Transportation	15,078.7	19,609.7	17,749.0	1,340.3	1,307.6	1,414.1
	Other services	6,020.3	6,836.3	7,029.8	521.4	535.8	620.1
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	368.7	-757.7	-4,781.3	660.0	511.8	-278.4
I.C.1	Receipts	6,608.1	7,875.5	9,856.8	1,230.4	1,444.6	1,018.4
	From work (wages, compensation)	220.2	224.7	208.8	21.6	18.1	20.0
	From investments (interest, dividends, profit)	3,019.2	4,177.7	6,303.7	277.6	367.7	451.7
	Other primary income	3,368.8	3,473.0	3,344.3	931.2	1,058.8	546.6
I.C.2	Payments	6,239.4	8,633.1	14,638.1	570.4	932.7	1,296.8
	From work (wages, compensation)	1,309.7	1,493.8	1,327.1	111.6	104.3	108.9
	From investments (interest, dividends, profit)	4,433.3	6,478.8	12,795.1	416.5	785.3	1,128.5
	Other primary income	496.5	660.6	515.9	42.2	43.2	59.4
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	1,233.8	-301.6	1,325.5	66.8	74.9	-154.1
I.D.1	Receipts	5,008.2	4,390.6	5,541.5	410.6	451.9	322.3
	General government	3,561.7	2,642.7	3,255.8	310.4	352.9	182.2
	Other sectors	1,446.5	1,747.9	2,285.8	100.2	99.0	140.1
I.D.2	Payments	3,774.4	4,692.2	4,216.1	343.8	377.0	476.4
	General government	2,297.1	3,058.7	2,381.9	239.2	244.8	336.6
	Other sectors	1,477.2	1,633.5	1,834.2	104.5	132.2	139.8
II	CAPITAL ACCOUNT (II.1-II.2)	4,000.9	3,111.6	2,677.0	27.7	275.3	-149.5
II.1	Receipts	4,915.0	3,857.0	3,367.7	93.0	290.3	4.6
	General government	4,055.5	2,523.2	2,824.7	87.7	170.5	0.6
	Other sectors	859.5	1,333.7	543.0	5.3	119.9	4.0
II.2	Payments	914.1	745.3	690.8	65.3	15.1	154.0
	General government	5.0	7.2	7.0	0.6	0.5	0.5
	Other sectors	909.1	738.1	683.8	64.7	14.6	153.5
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	-8,270.7	-18,113.9	-11,293.5	-2,392.7	-1,063.1	-3,310.4
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-7,107.6	-16,152.0	-9,160.4	-1,677.3	-690.8	-3,108.7
III.A	DIRECT INVESTMENT*	-4,412.6	-4,988.9	-1,366.9	-1,100.1	-248.6	-439.4
	Assets	1,147.7	2,538.5	3,240.4	71.3	141.5	41.1
	Liabilities	5,560.4	7,527.5	4,607.3	1,171.4	390.1	480.5
III.B	PORTFOLIO INVESTMENT*	23,829.9	8,934.9	-3,020.4	2,600.4	2,952.8	-2,086.2
	Assets	27,316.7	10,206.3	2,601.4	2,051.7	2,654.9	1,112.8
	Liabilities	3,486.7	1,271.4	5,621.8	-548.7	-297.9	3,199.0
III.C	OTHER INVESTMENT*	-29,060.9	-18,252.5	-5,303.6	-3,173.7	-3,578.6	-856.8
	Assets	3,713.7	-3,688.1	-1,673.7	-1,667.8	127.8	-474.3
	Liabilities	32,774.6	14,564.4	3,630.0	1,505.9	3,706.4	382.6
	(Loans of general government)	-957.9	-4,496.0	-3,501.3	-1.7	-1,417.4	-1,416.2
III.D	CHANGE IN RESERVE ASSETS**	2,536.0	-1,845.4	530.6	-3.8	183.6	273.8
IV	BALANCE ITEMS (I +II +IV +V = 0)	1,163.1	1,962.0	2,133.2	715.4	372.3	201.7
	RESERVE ASSETS (STOCK)***				13,032	11,819	12,414

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.

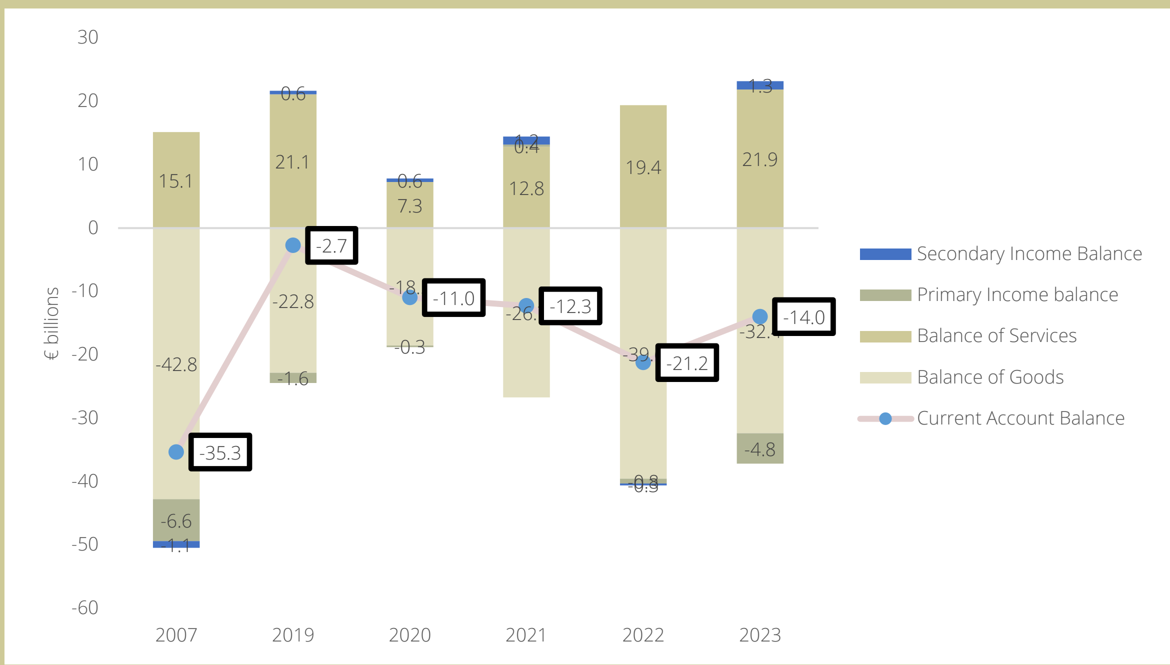
Special Text Box of section 3.3B

Current account - Determining and financing factors

The Current Account (CA) is an important economic indicator, reflecting the economy's dynamics in world trade, its potential exposure to borrowing, and contribution to income through net exports. In addition, since the euro area debt crisis it has also been included as a key indicator in the macroeconomic imbalances process, reflecting stability prospects and acting as a leading indicator for the evolution of the fiscal situation. The CA has been in deficit in Greece over time, with a significant deterioration after 1994 and the liberalisation of short-term capital flows, revealing also the significant competitiveness deficit of the Greek economy. The CA deficit was significant in 2006-2009 (double-digit percentage of GDP), which was followed by the debt crisis. Since then, the internal devaluation policy has corrected the significant competitiveness gap with the deficit reaching its lowest level in 2014 (0.7% of GDP).

Before the pandemic, the CA deficit was relatively low, as the increase in imports of goods due to the gradual recovery of the economy was offset by a boost in receipts, especially tourism. The CA deficit reached €2.7 billion in 2019, but the pandemic caused severe volatility in the economy, causing the deficit to derail to €11.0 billion in 2020 and €12.2 billion in 2021, close to 6.6%-6.8% of GDP. The pandemic widened the CA deficit by €8.2bn, mainly due to a runaway deficit in the services account of €13.8bn, with a significant decline in tourism receipts, while there was a relative improvement in the goods account of €4.3bn due to a larger decline in imports of goods. In 2022, the deficit deteriorated again to €21.2 billion, due mainly to higher fuel prices initially and then prices of other goods, as a result of the energy crisis that followed Russia's invasion of Ukraine in February 2022. In all the above changes it is useful to consider both the factors shaping the deficit and the ways of financing it.

Figure Π.3.3B.1. Current account and its components



Source: Bank of Greece, Data processing: IOBE

Theoretically, when domestic production falls short of domestic demand, the difference is made up by imports, creating a deficit in the external sector, and this deficit is financed by borrowing from abroad. Thus, the evolution of the current account balance is the economy's savings gap, i.e. the difference between savings and investment, which can be divided into the public savings gap (almost identical to the general government balance) and the private savings gap.

Based on the Balance of Payments methodology, as documented in IMF (2009), Balance of Payments and International Investment Position Manual, Sixth edition (BPM6), the macroeconomic relationships are as follows:

- Gross Domestic Product (GDP): GDP = C + G + I + X - M, where C is private consumption, G is government expenditure, I is gross capital formation (investment), X and M are exports and imports of goods and services.

- Current account (CA): CA = X - M + NY + NCT, where NY and NCT are net income and net current transfers from abroad.

- Gross National Disposable Income (GNDI): GNDI = C + G + I + CA

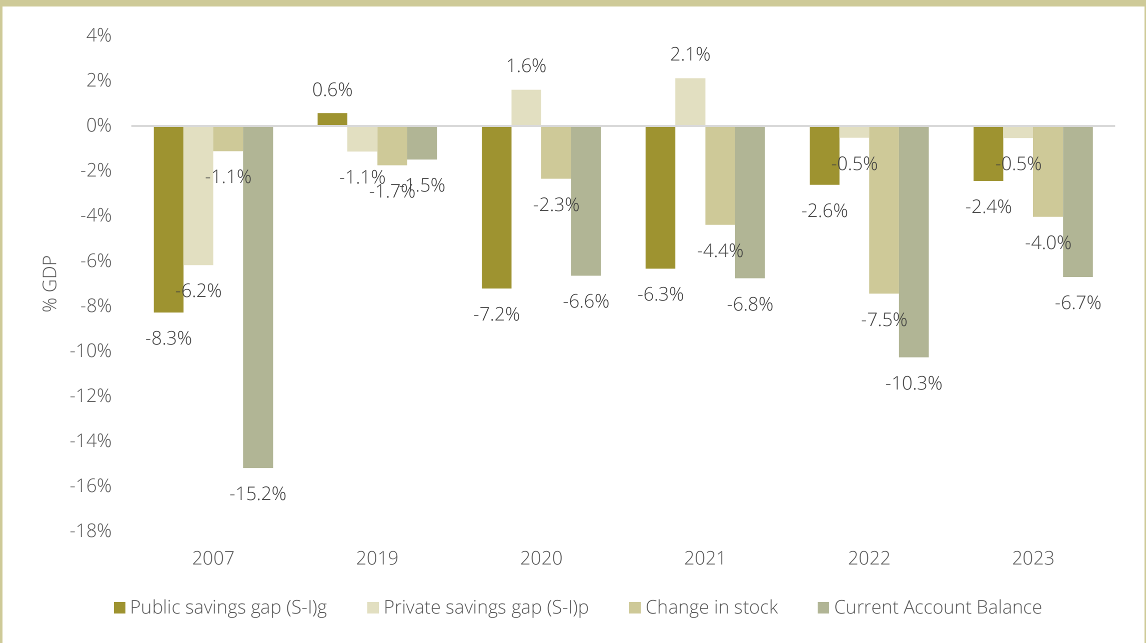
- Gross saving: S = GNDI - C - G

- CA = S - I = (Sp - Ip) + (Sg - Ig)

Thus, the CA can be expressed as the difference between savings and investment, while in more detail it can be expressed as the difference between public savings minus public investment (public savings gap) plus the difference between private savings and private investment (private savings gap). For reasons of data availability, investment refers to fixed assets, i.e. excluding the change in stocks. The change in stocks is therefore analysed separately.

In 2007, the year before the global financial crisis and the debt crisis, the public sector deficit as a percentage of GDP approached 8.3%, while the difference between private savings and private fixed investment was in deficit and equal to 6.2%, creating a cumulative deficit in the CA of 15.2%, which was covered by large-scale borrowing.

Figure B.3.3B.2. Public and private sector savings gap and the current account

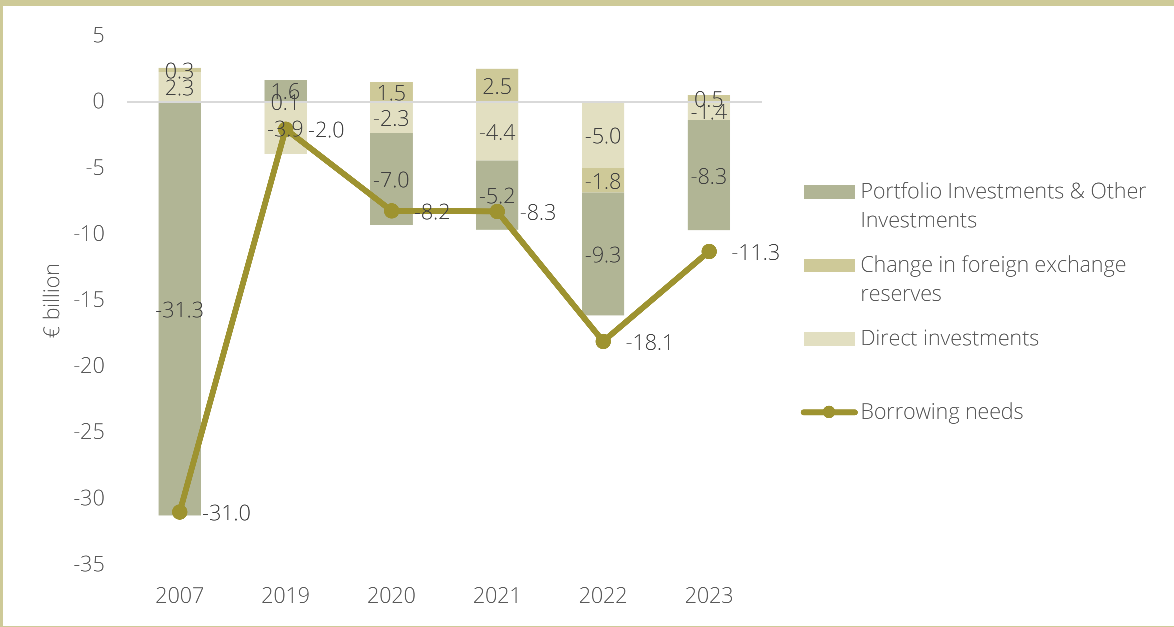


Source: AMECO, Data processing: IOBE. Note: The data are from the national accounts, so the CA figures are not exactly the same as those from the Bank of Greece.

In 2019, the fiscal surplus, combined with the small private sector savings gap, resulted in a small deficit in the CA and limited borrowing needs, thus correcting the significant macroeconomic imbalances of the previous decades. The pandemic, however, triggered a significant need for public sector support to the economy, with the fiscal deficit reaching 7.2 percent of GDP, partly offset by a private sector surplus due to constrained consumption. Thus, the CA deficit reached 6.6% of GDP, creating the conditions of twin deficits, i.e. a deficit in the public and external sectors of the economy. These conditions continued in 2021, with a change in 2022 and 2023 when the private sector was the main source of the CA deficit, as the government reduced its deficit to close to 2.5%. Reducing the fiscal deficit was imperative, as Greece had to gradually return to meeting the fiscal rules from 2024, as did the other countries. The increase in the private savings gap was also due to rising prices of energy and other goods, so the economy continued to need to borrow in 2022 and 2023, but this time the need came from the private sector.

In addition to the causes and determinants of the CA deficit, the way in which the deficit is covered is also of interest. The Current Account together with the Capital Account reflect the borrowing needs of the economy, which are covered by the inflow of funds into the Direct Investment, Portfolio and Other Investment accounts or by a reduction in foreign exchange reserves, according to the structure of the Balance of Payments.

Figure B.3.3.3B.3. Financing of borrowing needs from the financial account



Source: Bank of Greece, Data processing: IOBE. Note: In each account the result reflects the net inflow, i.e. the difference between the change in claims and liabilities. Borrowing needs correspond to the sum of the Current and Capital accounts. The difference between borrowing needs and the other accounts is due to outstanding items. Other and Portfolio Investments are recorded as a total, as due to significant loan securitizations there are significant adjustments between the two balances which offset each other.

The deficit stood at €31.0 billion in 2007, financed mainly by portfolio and other investments, while net direct investment inflows were negative. Thus, funding in 2007 was largely based on so-called "hot" speculative money from portfolio investments, sometimes with a short-term horizon.

The low deficit level in 2019, close to €2.0 billion, can be explained by the fact that the deficit in the goods account was almost covered by the surplus in the services account, creating little need for financing with capital inflows from abroad. In particular, net FDI inflow was €3.9 billion, which was offset by a €1.6 billion decline in portfolio and other investments. Note that in the direct investment component, about 17% involved an inflow of €723 million for real estate investments. In 2022, the financing of the significant deficit came from portfolio and other investments, less from direct investments and a smaller part from foreign exchange reserves. In particular, direct investment recorded a net inflow of €5.0 billion, with an inflow of investments mainly in the banking and real estate management sectors.

In 2023 the CA deficit fell to €14.0 billion, lower than in 2022 but still higher than in 2021. The correction compared to 2022 came from the goods account with an improvement of €7.2bn, with 90% of the correction coming from the fuel account due to a significant decline in energy prices. An improvement of €2.5 billion was recorded in the services account, with a significant boost from tourism receipts setting an all-time record, while the primary income account deteriorated by €4.0 billion mainly due to an increase in payments for interest, dividends and profits. Although the CA deficit narrowed, it remained at a high level, sustaining the borrowing needs. Almost 75% of the financing came from other investments and portfolio investments, and 12%, almost €1.4 billion, from direct investments. The inflow of direct investment was €4.6 billion, with the remainder representing outflows, while of the inflow of funds, €850 million was for the purchase of real estate, and €1.4 billion for property management, for a total of 45% of total direct investment compared to 56% in 2019.

In summary, the factors that created the twin deficits of 2007-2009 have weakened after a long period of fiscal adjustment of the Greek economy, reappearing in 2020-2021 due to exogenous factors such as the pandemic. The correction of the fiscal deficits in 2022-2023 strengthened the Greek economy, despite a deterioration in private savings, resulting in reduced borrowing needs. However, the need to mitigate the structural savings gap that the private sector has been systematically recording in the medium term, through the stimulation of domestic private savings, is critical. The sources of deficit financing have also diversified compared to the period before the transition, as while in the past a large part of the deficits were covered by portfolio and other investments, direct investment is now also involved. However, there is still room for improvement in the direct investment component as well, as a large part of it concerns the purchase and management of real estate, as well as the financial sector. The change in the production model of the Greek economy can be based on more investment in both manufacturing and services sectors with high value added.

3.4 Labour market

- Reduction of the unemployment rate in Q4 2023 to 10.5% from 11.9% in Q4 2022.
- The decrease in the unemployment rate was the result of both the strengthening of employment (+47.9k) and the reduction in the number of unemployed (-69.7k).
- The largest employment growth in Q4 2023 was recorded in Transport & Storage (+27.8k employed), Construction (+27.2k), Human Health & Social Work Activities (+23.5k), Accommodation & Food Services (+21.1k).
- Employment fell most sharply in Education (-51.7k employed) and Arts, Entertainment and Recreation (-13.3k).
- A fall in the labour market participation rate in Q4 2023 (51.7% for those aged 15 and over), resulting in no change over the past year as a whole.
- Increase in the seasonally adjusted wage cost index in Q4 2023 by 5.5% compared to the same quarter in 2022.

According to the latest available data from the ELSTAT Labour Force Survey, the unemployment rate in Q4 2023 decreased by 1.4 percentage points year-on-year to 10.5% from 11.9% in the same quarter of 2022. In the same period, the number of unemployed persons decreased to 488.7k, down by 69.7k or 12.5%, while the number of employed persons increased by 1.2% or 47.9k to 4,183.1k. Therefore, the decrease in the unemployment rate was driven by both the increase in employment (+47.9k) and the decrease in the number of unemployed persons (-69.7k). Note that the seasonally unadjusted unemployment rate in February this year increased to 11.7% from 11.5% in February 2023 (+0.2 percentage points). Finally, according to the latest data from the ERGANI information system on private sector payroll employment flows (February data), the balance of hires and exits was positive at 24.5k jobs (196.5k hires and 171.9k exits) compared to a positive balance of 23.2k jobs (183.2k hires and 160k exits) in February 2023.

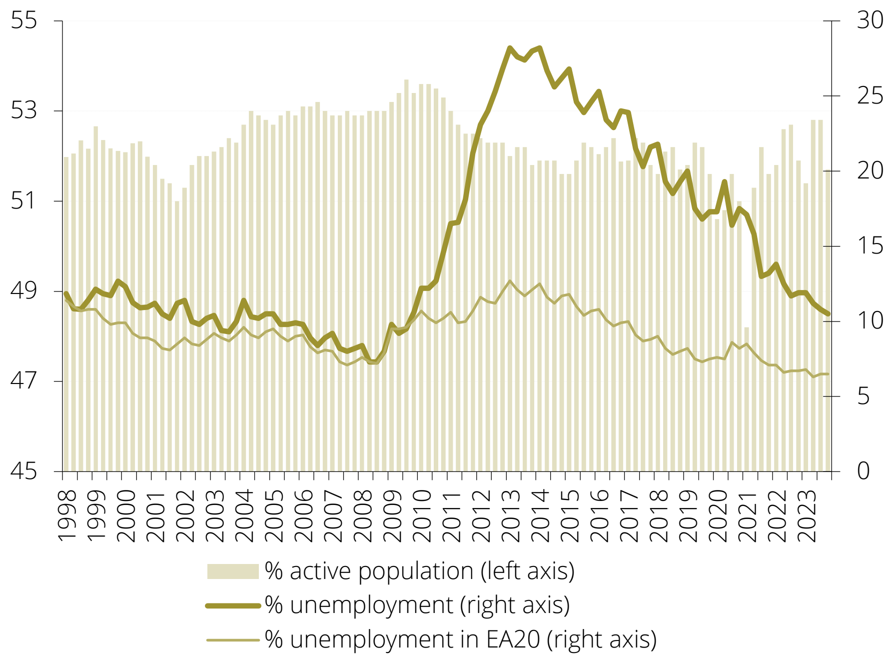
Regarding the evolution of unemployment in the Eurozone in the fourth quarter of 2023, the performance was mixed, as the unemployment rate decreased in 9 countries, increased in 9 countries and remained unchanged in 2 countries. Over time, the highest unemployment rate has been recorded in Spain, where the unemployment rate in Q2 2023 fell to 11.8% from 12.9% a year earlier (-1.1 percentage points). After Spain and Greece, the highest unemployment rates are found in France, Italy and Lithuania. In France the unemployment rate stood at 7.7%, while in Italy and Lithuania it reached 7.5%. Relatively high rates are also recorded in Finland (6.9%), Latvia (6.8%) and Portugal (6.7%). By contrast, the lowest unemployment rate in Q4 2023 was recorded in Malta (2.9%) and Germany (3.1%). Note that the sharpest annual increase in the unemployment rate was observed in Lithuania (+1.1 percentage points, from 6.4% to 7.5%), while the strongest decrease was observed in Greece (-1.4 percentage points, from 11.9% to 10.5%). In the euro area, the unemployment rate in the period under review reached 6.5% (Annex, Figure 7).

Regarding the evolution of the unemployment rate by gender in Greece, it remains higher for women but the fall in the unemployment rate for women was stronger. More specifically, the unemployment rate for women fell to 12.9% in Q2 2023 from 15.7% in Q2 2022, a drop of 2.8 percentage points, while for men it fell to 8.5% from 8.9% (-0.4 percentage points). Note that over the same period in the euro area, the unemployment rate for women decreased to 6.9% from 7.1% (-0.2 percentage points) and for men to 6.2% from 6.3% (-0.1 percentage points).

Regarding the evolution of the unemployment rate by age, it decreases as age increases. In Q4 2023, the unemployment rate decreased in all age groups except for the 15-19 age group and the over-65 age group. In the other age groups, the strongest decline of 4.7 percentage points occurred in the 25-29 age group where it decreased to 18.2% from 22.9%. This was followed by those aged 45-64 where the unemployment rate narrowed by 1.5 percentage points to 6.8% from 8.3%, while the softest decrease in the unemployment rate occurred among those aged 30-44 (-0.8 percentage points, from 11.4% to 10.6%). Finally, the lowest unemployment rates were recorded in the fourth quarter of last year in the 45-64 and over-65 age groups. The 45-64 age group experienced a decrease in the unemployment rate from 8.3% to 6.8% by 1.5 percentage points, while the 65+ age group saw an increase in the unemployment rate to 6.8% from 6.1%, up by 0.7 percentage points.

Figure 3.16

Labour force participation and unemployment rates



The unemployment rate in Greece declined to 10.5% in Q4 2023, from 11.9% in Q4 2022. The share of the active population over 15 years old remained below 52%.

Sources: ELSTAT – Labour Force Survey, Eurostat

In relation to the duration of unemployment, both the share and the number of long-term unemployed decreased. The long-term unemployment rate declined in Q2 2023 to 50.8% (as a percentage of the unemployed) from 63.7% in Q2 2022 (-12.9 percentage points), while the number of long-term unemployed fell to 248.2k from 355.7k (-107.5k or -30.2%).

Regarding the evolution of the unemployment rate by level of education, it decreases as the level of education increases. In Q4 2023 in all education categories the unemployment rate decreased. The strongest decline in unemployment occurred among individuals who had completed some grades of primary school or did not attend school at all, where it fell to 23.2% in Q4 2023 from 28.6% in Q4 2022 (-5.4 percentage points). The second largest decrease, by 5.1 percentage points, occurred among persons with a three-year secondary school diploma, where the unemployment rate fell to 9.4% from 14.5% in Q4 2022, while the lowest unemployment rate was among persons with a doctoral or postgraduate degree. In this category the unemployment rate fell to 4.7% from 5.1%.

Regarding trends in the regional dimension of unemployment, in three regions the unemployment rate increased, in one region it remained stable and in the remaining nine it decreased. The highest unemployment rate was recorded in the region of Western Macedonia where it reached 19.5% in Q4 2023 from 15.2% in Q4 2022 (+4.3 percentage points), which also registered the highest increase in the unemployment rate. The region of Central Macedonia recorded the second highest unemployment rate (14%), down by 0.9 percentage points compared to Q2 2022. The strongest decrease was recorded in the Peloponnese region where the unemployment rate fell by 7.4 percentage points to 6.8% from 14.2%. The lowest unemployment rate in the same period was found in the South Aegean region where it fell to 4.2% from 7.5% (-3.3 percentage points), followed by the Peloponnese and Central Greece regions. In the former, unemployment fell to 6.8% from 14.2% (-7.4 percentage points) and in the latter it fell to 7.7% from 13.5% (-5.8 percentage points).

In relation to the evolution of employment by occupational status, a notable annual increase in employment of 16.4% or 21.4k persons was recorded in the category of family business helpers (152.5k persons in Q2 2023), while an increase of 4.6% was also recorded for self-employed persons without staff (854.9k workers). In contrast, a decrease was recorded for both self-employed with personnel (by -0.8% percentage points, from 309.9k to 307.3k) and employees (by -0.3 percentage points, from 2,876.7k to 2,868.4k).

Full-time employees in the second quarter of 2023 increased by 67.5k or by 1.8% compared to the second quarter of 2022, reaching 3,862.8k, while part-time employees decreased by 21.3k or by 6.4% to 312.3k.

In relation to the evolution of employment by occupational category, employment increased in five occupations and decreased in five. The strongest increase in absolute terms (by 76.5k persons employed) occurred in the category of persons employed in the provision of services and salespersons in shops and open-air markets, reaching 942.6k persons in the second quarter of 2023 compared to 866.1k persons in the same period of 2022. The rise in employment in skilled craftsmen and practitioners and related technical occupations followed, also in absolute terms. The strongest decline in the fourth quarter of 2023 occurred in persons engaged in scientific, artistic and related occupations, where employment fell to 904.0k from 927.9k in the same quarter of 2022 (-23.9k or -2.6%).

As regards the employment trend at the level of the main sectors, employment in the Primary and Secondary Sectors increased, while employment in the Tertiary Sector remained at roughly similar levels as in Q4 2022. In absolute terms, the strongest rise was recorded in the Secondary Sector where employment increased by 21.2k people or 3.2%, to 678.8k. In the Primary Sector, employment increased by 18.8k people or 4%, to 491.9k in Q4 2023. Finally, in the tertiary sector, employment decreased marginally by -7.7k persons, bringing their number to 3,008.2k.

At the level of economic activity, employment rose in 11 sectors and fell in eleven others. In absolute terms, the strongest employment growth in Q4 2023 occurred in Transport & Storage and Construction. In the former, the number of persons employed increased by 27.8k (or by 13.7%) to 230.9k from 203.1k, while in the latter it rose by 27.2k (or by 18%) to 178.1k from 150.9k. Also notable in absolute terms was the increase in employment in Human health and social work activities (by 23.5k employees or 7.8%) from 299.4k to 322.9k. On the other hand, the strongest decline in employment occurred in Education where employment was reduced to 308.6 thousand persons from 360.3 thousand (-51.7 thousand or -14.3%). The decline in employment was lowest in Arts, Entertainment and Recreation where the number of persons employed fell by 13.3k to 47.3k from 60.6k. Finally, in Accommodation and food services and Agriculture, Forestry and Fishing, employment increased by 21.1k (or 6.3%, to 358.5k from 337.4k) and 18.8k (or 4%, to 491.9k from 473.1k), respectively.

In conclusion, the employment data at sectoral level show that the increase in employment in the fourth quarter of 2023 compared to the fourth quarter of 2022 came mainly from the following sectors:

- Transport and storage (+27.8k employed),
- Construction (+27.2k persons employed)
- Human health and social work activities (+23.5k)
- Accommodation and food services (+21.1k),

despite a fall in employment in Education of -51.7k, and in Arts, Entertainment and Recreation of -13.3k.

Figure 3.17

Seasonally adjusted wage cost index and its percentage change

Source: ELSTAT & Eurostat

In addition, the employment rate for the 4th quarter of 2023 rose to 46.3% from 45.7% in the 2nd quarter of 2022, an increase of 0.6 percentage points. The annual employment rate for the year 2023 averaged 46.3% from 45.8% in 2022, an increase of 0.7 percentage points. As regards the evolution of the employment rate in the euro area in 2023, it increased to 70.1% from 69.4% for the year 2022, i.e. by 0.7 percentage points. By comparison, Greece's employment rate is significantly lower than the Eurozone average, with a deviation of 23.8 percentage points in 2023 and 23.6 percentage points in 2022.

As for the trend of the seasonally adjusted wage cost index in the Greek economy as a whole, it showed a slight decline of 0.7% in Q2 2023 compared to the previous quarter, while continuing to record an annual increase of 5.5%. The special text box at the end of the section presents the evolution of the minimum wage as well as the degree of wage compression in Greece in recent years.

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

Source: ELSTAT, Labour Force Survey

Medium-term outlook

In the baseline macroeconomic scenario, the labour market is expected to improve slightly further in 2024, albeit with clear signs of a slowdown in the positive trend. The scope for a further reduction in cyclical unemployment is narrowing, while the challenge is to reduce structural unemployment and increase labour force participation.

The anticipated strengthening of investment is expected to have a positive impact on employment in 2024. Two factors contribute to this boost. First, the systematic strengthening of confidence in the country by international investors, following the country's credit rating upgrades in 2023, has positive effects in terms of reducing the additional cost of financing the public and private sectors. Second, the acceleration of the implementation of the revised National Recovery and Resilience

Plan, as well as the utilisation of the expanded loan component, with favourable financing terms, are expected to boost investment activity, particularly in the infrastructure and energy sectors.

The expectation of resilient consumption and exports, components expected to grow, albeit at a slower pace in 2024, will also have a positive impact on employment. The forecast for a gradual acceleration of growth in the euro area, combined with the gradual improvement in the country's external balance, is also expected to have a mild positive impact in 2024 on employment, due to an increase in exports. The stance of monetary policy undoubtedly influences these trends, with scenarios of a slower decline in interest rates having a negative impact on the near-term outlook for investment, consumption, and exports.

From a sectoral point of view, according to the results of the business surveys, there is a recovery in the dynamics of activity in the industrial sector, sustained momentum in services, and a slowdown in construction and retail trade. Positive effects on employment will also come from the gradual maturing of major infrastructure projects. In the tourism sector, following the record arrivals-receipts in 2023, the positive performance is expected to continue in 2024, but the impact of the tourism sector on employment in 2024, compared to 2023, is expected to be neutral or marginally positive. Finally, the public sector is expected to continue to support employment through subsidised programmes of DYPA and planned recruitment in the current year.

In terms of risks, geopolitical instability and economic uncertainty are expected to persist or even intensify in 2024, both regionally and internationally (wars in Ukraine and the Middle East, disruptions in international trade due to Yemen, elections in the US and for the European Parliament). In addition, international energy prices are expected to move up in 2024, while inflation is expected to be slightly higher than the euro area average.

An important obstacle to competitiveness, and thus to overall employment, is the relatively high structural inflation in the Greek economy, together with persistent inflation in essential goods. Challenges also arise from a possible extension of the period of elevated interest rates by the ECB. Finally, based on IOBE's assessment of a slowdown in consumption in 2024, employment dynamics are expected to slow down accordingly.

As the country approaches single-digit unemployment rates, any reductions in the coming quarters or years will inevitably be slower. In parallel with reducing cyclical unemployment, priority is being given to addressing remaining structural and frictional unemployment. In this direction, the issues of the skills mismatch in the Greek labour market and the need to provide sufficient and high-quality training, both on an initial and ongoing basis, are considered important.

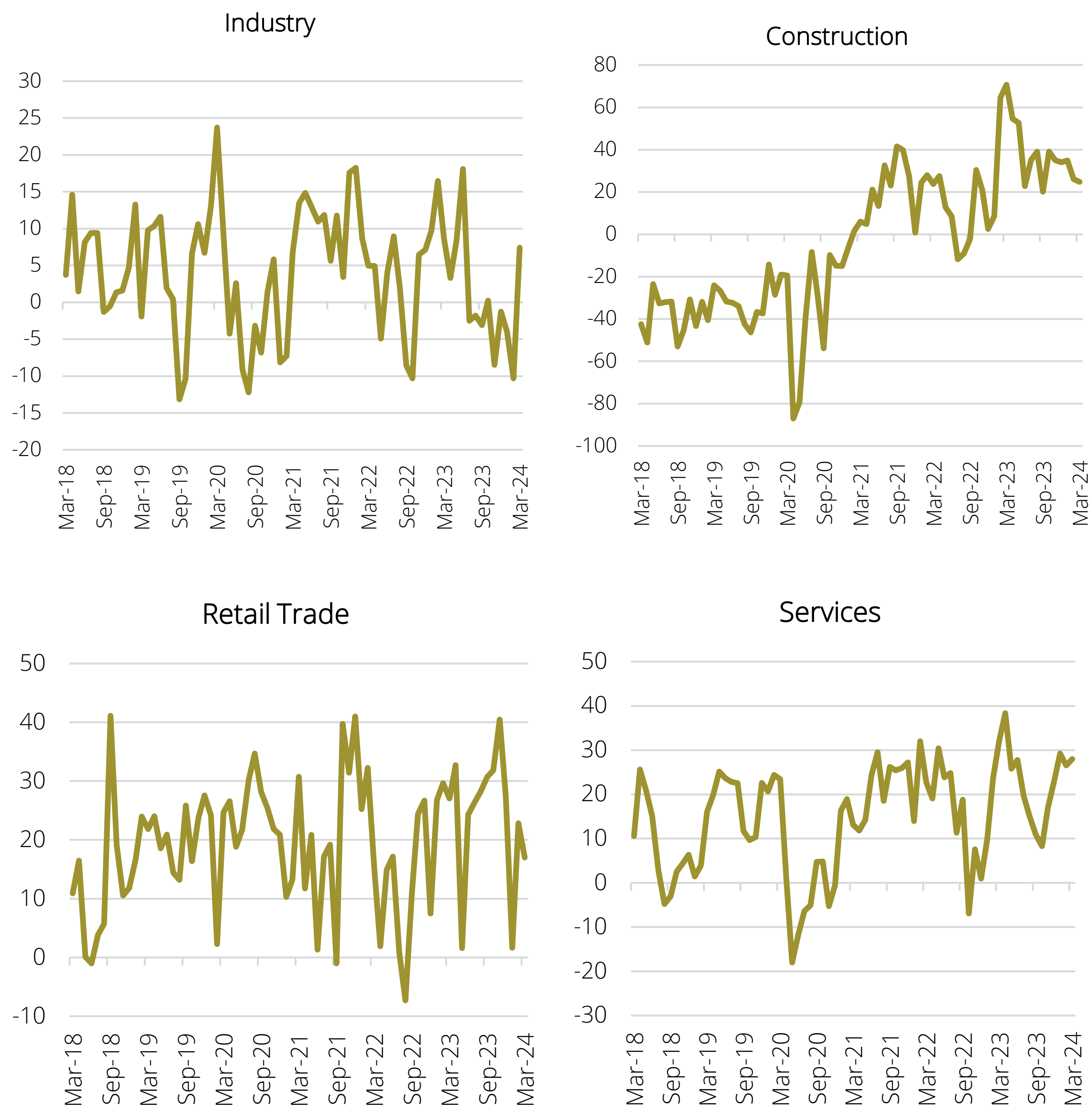
Taking into account the above labour market effects, the unemployment rate in 2024 is expected to stand at around 10.3%.

According to the latest data from the IOBE's Business and Consumers Surveys, in the quarter January-March 2024 compared to the second quarter of the previous year, employment expectations were slightly weaker in Construction with a stronger weakening in Retail Trade, while in Industry and Services the expectations improved slightly and strongly, respectively. Compared to the same period in 2023, the outlook for Construction, Retail Trade and Manufacturing weakened significantly, while there was a slight improvement in Services. In more detail:

In Industry, the average balance for the first quarter of 2024 improved marginally compared to the immediately preceding quarter to -2 points. Year-on-year, the quarterly average was lower by around 14 points. In the quarter under review, the percentage of industrial firms that anticipated a decline in employment in the coming period remained at 13%, while the percentage of those expecting an increase in the number of jobs strengthened to 11% (from 10%). However, the vast majority of firms in the sector (76%) were expecting employment to remain stable.

Figure 3.18

Employment expectations (difference between positive and negative responses)



Source: IOBE

> In the first quarter of 2024, compared to the previous quarter, expectations for the short-term employment outlook were slightly weaker in Construction with a stronger weakening in Retail Trade, while expectations improved slightly in Manufacturing and strongly in Services.

In Construction, the relevant expectations suggest a slight weakening in the sector's employment balance, which declined from +36 points to +29 points, at a significantly lower level compared to the same period in 2023 (+48 points). In the quarter under review, once again 3% of the sector's companies anticipated fewer jobs, while the percentage of respondents expecting employment to rise fell to 32% (from 41%). At the level of individual sectors, the relevant indicator declined sharply in Private Construction (+29 from +48 points) whilst in Public Works (+28 from +24 points) it strengthened slightly.

The Retail Trade employment expectations indicator fell sharply in the first quarter of this year compared to the immediately preceding quarter, to +14 points (from +33), a significantly lower performance than in 2023 (+28). Just 3% of the companies in the sector expected a decrease in jobs from 1% in the previous quarter, while 16% (down from 34%) anticipated an increase in employment, with those expecting no change moving to 81% (up from 64%) of the total. Among the individual branches examined, there is a significant weakening of the relative balance in Textiles - Clothing - Footwear and a milder one in Food - Beverages and Department Stores, while in contrast, a slight improvement is observed in Household Equipment, with the balance in Motor Vehicles & Parts remaining unchanged.

In Services, the projections for the quarter under review suggest a marked improvement compared to the previous quarter, and a slight strengthening compared to the same period last year. Accordingly, the relevant balance for Q1 2024 strengthened by 12 points to +28 points in the quarter under review, while it improved by 6 points compared to the corresponding period in 2023. Of the businesses in the sector, only 1% (down from 10% in the previous quarter) expected a decrease in employment, with the percentage of those anticipating an increase coming in at 29% (up from 26%). At the branch level, the trend is strongly positive in Hotels-Restaurants, milder in Financial Intermediaries, while it is mildly negative in the remaining branches.

Special text box of section 3.4

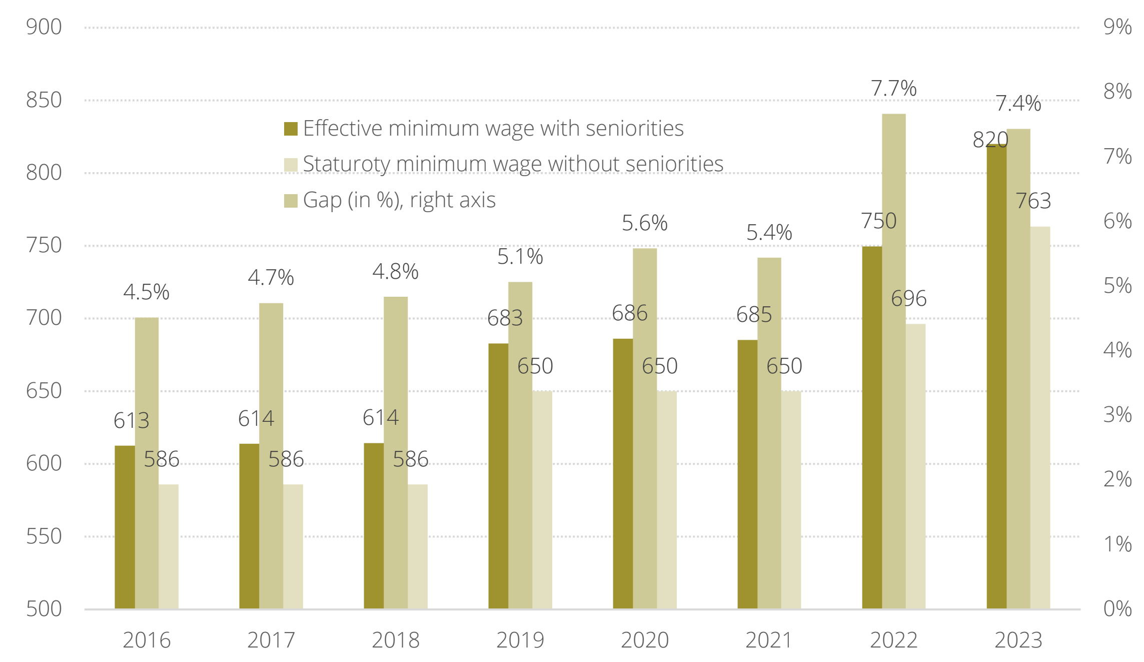
Minimum wage and wage compression in Greece in 2023

The new minimum wage of €830 (or €968.3 on a 12-month basis) came into force at the beginning of April 2024, up 6.4% from €780 as of the same month last year. In this context, we present descriptive data on the evolution of the median minimum wage taking into account the three-year maturation cycle and the degree of wage compression in Greece in 2016-2023. For this purpose, we make use of "micro-data" from the annual electronic registration of personnel records in the information system ERGANI (Ministry of Labour, Social Security and Social Solidarity) for all employees in the country with a dependent employment relationship under private law.

The minimum wage in Greece is defined as a grid of minimum wages conditional on the employee's length of service (three-year seniorities). Consequently, the 'statutory minimum wage' differs from the 'effective minimum wage', which is derived from the weighted average of the minimum wage applied taking into account the seniorities. In this way, the weighted average minimum wage as estimated from the micro-data of ERGANI was €820 in 2023, i.e. 7.4% higher than the minimum wage without the seniorities (Figure 3.4.1). The divergence is expected to widen in 2024 as the seniorities are reactivated. Therefore, the weighted average minimum wage is expected to increase annually at a higher rate than the statutory minimum wage without seniorities for the next few years.

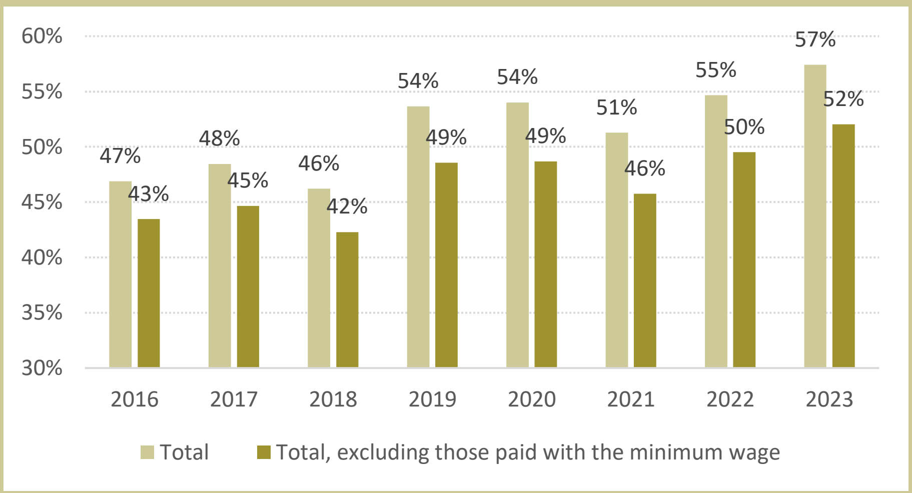
The weighted average minimum wage for full-time employment, as estimated from the micro-data of ERGANI, stood at €820 in 2023, i.e. €40 higher than the minimum wage without seniorities. The gap is expected to widen in 2024, as the weighted average minimum wage will increase annually at a higher rate than the minimum wage without seniorities for the next few years. The seniorities have a different impact on the weighted average minimum wage by sector. As an illustration, the primary, secondary and construction sectors record higher weighted average minimum wages in 2023 than the service sectors.

Figure B.3.4.1. Economy-wide minimum wage with and without seniorities for full-time employees, 2016-2023



Source: ERGANI, Data processing: IOBE.
Note: The minimum wage is presented on a 12-month basis.

Figure B.3.4.2. Ratio of the effective minimum wage to the average wage for all full-time employees, 2016-2023



Source: ERGANI, Data processing: IOBE.
Note: The minimum wage is calculated on an average basis for all those paid at the minimum allowable earnings, taking into account the seniorities.

In 2023, the minimum wage increased by 9.4%, while the average wage for all full-time employees increased by 4.9% in current prices, reaching €1,439. As a result, the ratio of the minimum to average wage for all full-time employees in all enterprises increased in 2023, to 57% including seniorities and 53% excluding seniorities. This figure highlights the particularly high degree of wage compression in the country when including all firms regardless of size. The share of employees paid at the minimum wage in Greece is significantly higher for small and micro enterprises. Wage compression is also more pronounced in the primary and tertiary sectors, in activities that employ a significant share of the labour force, such as tourism, trade, education and construction.

In summary, we highlight the high degree of wage compression in the Greek economy, which has intensified in recent years, especially among small and medium-sized enterprises and enterprises in the tertiary sector. Therefore, it seems appropriate to give priority to policies that boost labour productivity and average wages of workers, with incentives to keep them in the formal labour market.

3.5 Consumer and Producer Prices

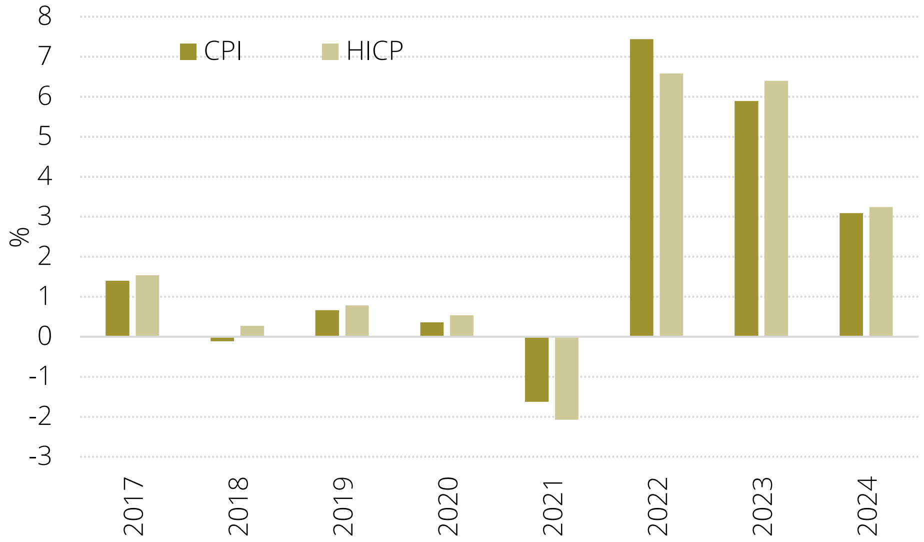
- A milder rise in HICP (CPI) in Q1 2024, by 3.2% (3.1%) compared to inflation of 5.9% (6.4%) a year ago. Price rise mainly from the inflationary impact on the prices of non-energy goods.
- Rate of change in HICP with fixed taxes and excluding energy at 3.9% in the first two months of this year, compared to a rise of 8.3% a year ago.
- For 2024, the CPI is projected to strengthen at a rate of around 3%. Key assumptions:
  - consumer demand will strengthen by around 1.2%
  - the Brent oil price will rise by an average of 8% on an annual basis, with developments in the Middle East, however, putting further pressure on the energy market

Recent developments

In January-March this year, prices rose compared to a year ago, with the average rate of change in the domestic Consumer Price Index (CPI) at 3.1%, down from 5.9% a year ago. The Harmonised Index of Consumer Prices (HICP) rose by 3.2% in the previous year, from a 6.4% expansion a year earlier. In March 2024, the rate of change in the domestic Consumer Price Index (CPI) stood at 3.2%, down from 4.6% in the corresponding month of 2023. The HICP also increased, with its rate of change at 3.4% in March this year from 5.4% in the same month last year. Note that core inflation[14] in Greece rose to 3.4% in the first two months of 2024 from 8.2% in the corresponding period of 2023.

Figure 3.19

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



A 3.1% rise in domestic CPI in Q1 2024 compared to a year ago, from 5.9% in the corresponding period of 2023.

Source: ELSTAT, data processing IOBE

[14] Core inflation refers to the HICP excluding energy and unprocessed food.

Regarding the effects of the components of the HICP on its trend, the 3.2% rise in the harmonised index in January-February this year was driven by the positive impact of domestic demand, as the percentage change in the index with fixed taxes and excluding energy goods stood at 3.9%, from 8.3% a year ago. Indirect taxation had virtually no impact on prices in the period under review, as it did a year earlier.

As regards developments in energy commodity prices and their impact on the HICP, the average international oil price in January - February 2024 weakened compared to one year ago. In particular, the Brent oil price averaged $81.8/barrel, down from $82.5/barrel a year ago, a decline of 0.9%. The rise in the average euro/dollar exchange rate in the first two months of 2024, by 1.0%, to 1.08, compared to 1.07 a year ago, reinforced the decline in the price of oil in euro, with the average price of oil at €75.4/barrel, 1.9% lower than in the first two months of 2023. The decline in the price of oil, which is a key component of energy costs, is responsible for the negative impact of energy prices, by 0.7 p.p. on the rate of change of the HICP domestically in January-February 2024, compared to an also negative impact of 1.3% in the corresponding period of 2023.

Figure 3.20

CPI in Greece (annual percentage change per month)

The rise in the domestic CPI was higher in March 2024 (3.2% from 2.9% a month ago). At a lower rate of change than in the same month of 2023 (4.6%).

Source: ELSTAT, data processing IOBE

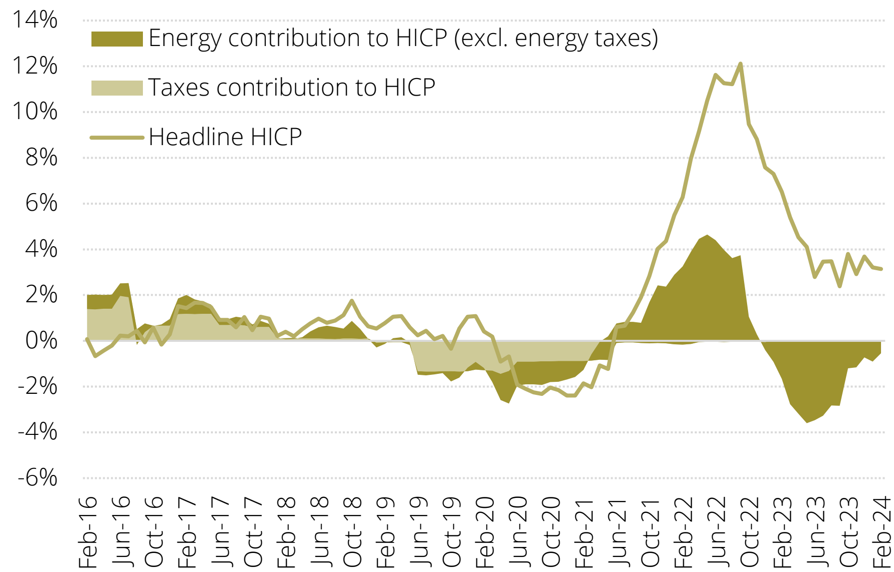
The strengthening of HICP in Greece in the first quarter of this year places the country in the middle of the ranking among the euro area countries in terms of the rate of change, above the weighted average. The rate of change of HICP in the euro area averaged 2.7% in January-February 2024, down from 8.6% a year ago. Domestic demand appears to have been the main driver of price rises in the euro area, as the price index with fixed taxes and excluding energy goods strengthened by 3.4% in the first two months of this year, from a stronger rise of 7.6% a year earlier.

Regarding the trends in the individual categories of products and services included in the domestic Consumer Price Index, the largest increase in the first quarter of 2024 was recorded in Food. Prices in the Food category rose 6.8%, compared to a sharper increase of 14.8% a year ago. The change was weaker in Hotels and Health Care, where prices strengthened by 6.4% and 4.5%, respectively, from a rise of 7.8% and 4.6%, respectively, a year earlier. Clothing and Education recorded a 3.5%

increase in both, in continuation of rises of 9.4% and 2.2%, respectively, a year earlier, followed by Recreation at 2.9%, from a stronger 3.3% increase in the corresponding period in 2023. Prices strengthened in Alcoholic Beverages, by 2.3% and Other Goods by 1.6%, after rising 3.2% and 5.8%, respectively, a year ago. Prices in Durable Goods and Transport rose 1.2% and 0.9%, respectively, from a stronger rise of 10.7% and 5.5%, respectively, in Q1 2023. In contrast, a decline in prices was recorded in Communications, by 2.0%, after a 1.6% decline a year ago, and in Housing (which includes the cost of energy bills), by 0.8%, after a weakening of 5.1% in the corresponding period of 2023.

Figure 3.21

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



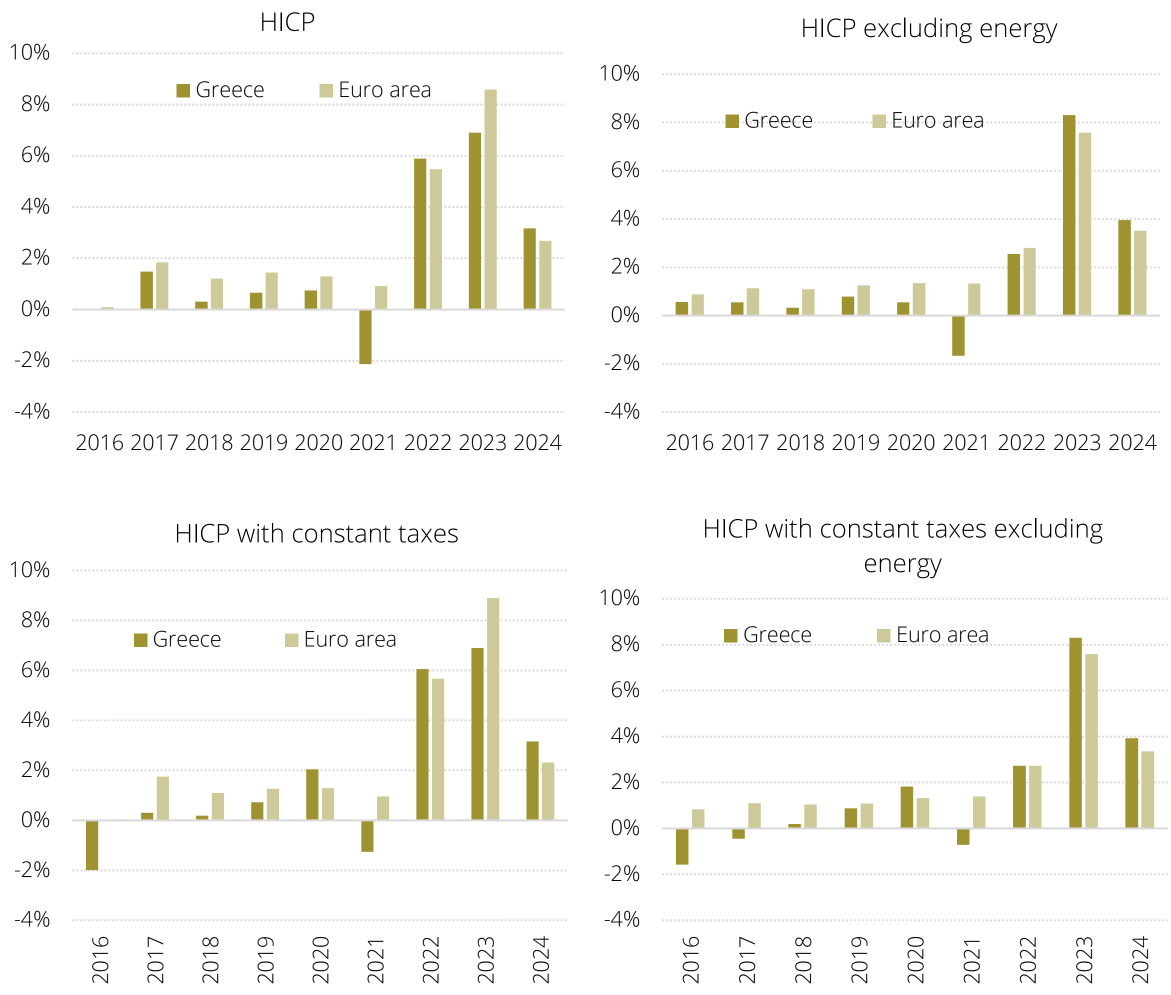
The increase in HICP in the first quarter of 2024 was driven by the prices of non-energy goods, while the impact of taxes is now zero.

Source: Eurostat, data processing IOBE

Regarding price trends on the production side in January - February 2024, the Producer Price Index (PPI), for the domestic and external market as a whole, decreased compared to the same period in 2023 (-5.7%), mainly under the influence of the decrease in energy prices. In detail, the PPI excluding energy strengthened over the period under review by 1.6%, compared to a stronger increase of 9.5% a year ago. Regarding trends in the prices of industrial commodities, Crude Oil and Coal-Lignite Production recorded the highest increase, rising 28.8% and 10.5%, respectively, compared to no change and a strong decline of 61.1%, respectively, in the corresponding period in 2023. Producer prices rose in Other Transport Equipment, by 9.0%, after strengthening 7.5% a year ago. At lower levels was the rise in producer prices of Computers, by 6.8%, and Beverages, by 6.3%, after a decline of 2.3% and an increase of 5.5%, respectively, in the first two months of 2023. Producer prices increased in the period under review in Furniture, by 5.6% compared to a milder increase of 2.9% a year ago, followed by Food, by 4.7%, after a stronger gain of 13.6% a year ago. In contrast, producer prices declined in Electricity and Electrical equipment, by 16.1% and 6.6%, respectively, after a rise of 12.2% and 4.8%, respectively, a year ago.

Figure 3.22

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



Source: Eurostat, data processing IOBE

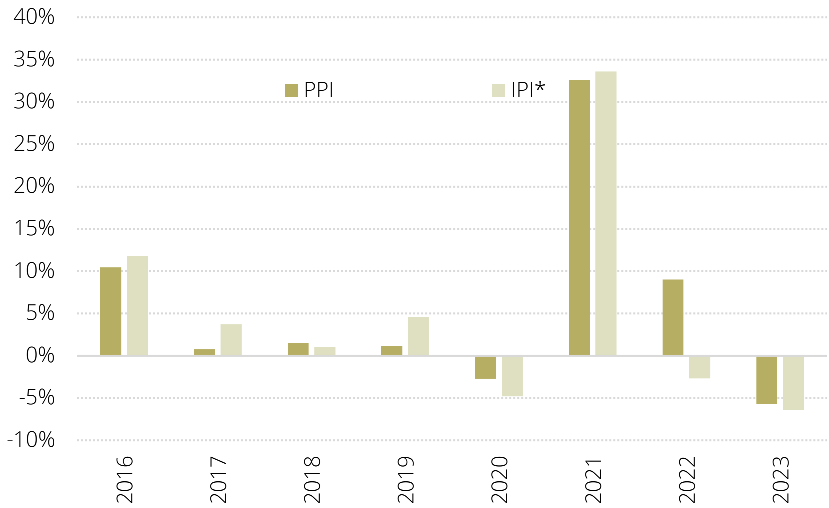
Domestic prices rising in Q1 2024 higher than the euro area average, with the inflationary impact of non-energy goods (3.9 pp) higher than the euro area average (3.1 pp).

Regarding the development of the Import Price Index (IPI) in January this year, it declined by 6.4% year-on-year, compared to a milder decline of 0.4% a year ago. The fall in import prices places Greece in the middle of the pack in change terms among the fourteen euro area countries for which data were available for this period. The strongest fall in import prices was recorded in the Netherlands, down by 11.2%, compared to an increase of 11.6% a year ago, followed by Italy and Slovakia with a decrease of 7%, both after an increase of 4.7% and an increase of 5.3% a year ago. The same index declined in the Eurozone, by 7.2%, compared to a milder 6.4% increase in the same period in 2023. In contrast, import prices rose in Estonia (0.9%).

Among the individual categories of imported products, the biggest rise in January this year was recorded in the prices of Coal and lignite, up by 6.9% from a stronger 15.4% increase a year ago, while the rise in the prices of Computers was lower, up by 5.1% against a milder 0.8% increase. In Beverages and Furniture, import prices rose by 3.7% and 2.4%, respectively, in the first month of this year, from a strengthening of 6.7% and 8.2%, respectively, a year ago. They were followed by Other Transport Equipment and Plastic Products, both up 1.1%, after no change and a 5.0% increase respectively a year earlier. Other Manufacturing Products were found at marginally lower levels, with price growth at 1.0% in January 2024, from an increase of 0.4% a year earlier.

Figure 3.23

Annual change of PPI and IPI in Greece (January - February)



Import prices fell (-6.4%) in January 2024, mainly due to the negative impact of energy prices. Producer prices also declined in Jan-Feb of this year (-5.7%).

Source: ELSTAT, data processing IOBE.
Note: The Import Price Index refers to January 2024 values

Medium-term outlook

Examining the main components of the domestic Consumer Price Index in the first two months of this year, it emerged that its rise was due to the positive impact of the prices of non-energy goods. The deceleration in the prices of energy goods in the first two months of 2024 seems to have had a mildly restraining effect on prices, with the upward trend in key product categories sustained, albeit at lower levels than in the last quarter of the previous year. It should be noted that, in February this year, the EU Member States imposed a new set of sanctions on international trade. The EU introduced further restrictions on, inter alia, exports of goods that contribute, in particular, to the strengthening of Russian industrial activities. Meanwhile, the strong escalation of unrest in the Israeli region is expected to destabilize the economic climate and especially the energy market.

Demand effects

Regarding the expected developments in consumer demand, the possible new increase in the minimum wage from 1 April 2024, the increase in unemployment benefits, the measures to support the income of vulnerable social groups (low-income pensioners, disabled persons, beneficiaries of guaranteed minimum income, etc.), as well as the return of the minimum wage seniorities are expected to boost disposable income and subsequently domestic demand.

In detail, the new increase in the minimum wage from 1 April 2024, the pension raises by an average of 3.1% from 1 January 2024, as well as the return of seniorities from 1 January this year, are expected to boost disposable income and thus strengthen domestic demand. In addition, the new public sector wage grid boosting incomes, especially for low-wage earners from 1 January 2024, as well as the payment of bonuses in the private sector, are expected to strengthen disposable income. Positive effects on disposable income and subsequently on domestic demand are expected to come from the increase in the tax-free allowance, the reduction in the ENFIA and the adjustment of pensions. Finally, measures to support vulnerable social groups against price pressures, such as the Market Pass 3, with extended criteria, the high-cost-of-living voucher, the social dividend, as well as measures for youth housing, are expected to boost domestic consumer demand.

As a result, aggregate consumer demand is expected to strengthen by around 1.2% in 2024, maintaining to some extent prices at high levels.

Note that the natural disasters in Thessaly in September last year are expected to have an upward impact on prices in 2024, keeping them at high levels, especially in some categories of goods, such as food products, due to shortages and limited availability.

Tax effects

As for the expected effects of indirect tax interventions, in the current year they are expected to have zero impact on price index changes, as the reduced VAT rates on some goods and services (transport, gyms, dance schools, entertainment activities) remain in place for the whole of 2024, as do the support measures for real estate until December 2024. In addition, the reduced VAT rate on coffee and food services, as well as on taxi fares, is extended until 30 June 2024, a development that is not expected to have any impact on prices for the first half of the year. By contrast, the reintroduction of the VAT rate on served non-alcoholic beverages (soft drinks, non-alcoholic beers, sparkling water) at 24% from 1 January 2024 is expected to have a boosting effect on prices, albeit mild as this development concerns a specific product category.

Energy effects

In terms of recent developments in energy commodities, the international Brent oil price averaged $85.4 per barrel in March 2024, up by 8.9% from a year ago. The euro/dollar exchange rate in the same month stood at 1.09, up 1.6% from the same month in 2023. As a result, the average euro-denominated oil price reached €78.6 per barrel, up 7.2% compared to a year earlier.

Regarding oil supply, at its last meeting in March, OPEC+, including Russia, decided to extend voluntary oil production cuts by 2.2 million barrels per day until the second quarter of 2024. However, some member countries, led by Saudi Arabia, announced that they would extend its supply cut by 1.0 million barrels per day until the end of June, with its total production standing at around 9 million barrels per day, below its capacity of 12 million barrels per day. In addition, Russia, which leads OPEC's allies, will cut oil production and exports by an additional 471,000 barrels per day in the second quarter. The restrictions on daily oil production for both countries are in addition to the 500,000 bpd cut announced in April 2023, lasting until the end of 2024. Voluntary cuts in daily production were announced by the United Arab Emirates, Kuwait, Iraq and Kazakhstan, announcing that they will extend existing voluntary cuts until the end of June[15]

In contrast, the US increased its production by 9% in 2023, a strategy it is expected to follow for this year. In detail, U.S. oil production averaged 12.9 million barrels per day in 2023, beating the

[15] OPEC, Press Release, No 3/2024

previous record of 12.3 million b/d set in 2019. According to analysts' estimates, U.S. crude oil production is expected to reach 13.2 million barrels per day in 2024, setting a new record, with production growth slightly outpacing the demand surge, allowing inventories to rise modestly and, by extension, putting downward pressure on crude oil prices.

OPEC estimates that global oil demand will increase by 2.25 million barrels per day (bpd) in 2024, mainly due to global growth and easing inflation. Stronger economic growth could provide an additional boost to oil prices. In addition, the recent military turmoil in the Middle East poses a significant risk to stability in energy markets, which could lead to uncertainty about price developments.

World demand

The outlook for global growth in 2024 appears to be marginally stronger according to macroeconomic forecasts by international organisations. In particular, global GDP growth is expected to be around 2.9% in 2024, slightly higher than the rate forecast in December (2.7%), mainly due to looser monetary policy with inflation falling faster than expected.[16] The strong growth in the United States and many emerging economies appears to be offset by a slowdown in most European countries.

The upward trend in energy prices appears to be easing, with a sustained, albeit lower, rate of inflation. Annual GDP growth in the US is expected to slow from 2.5% in the previous year to 2.1% in 2024, as private consumption and investment growth is expected to be moderated by the effects of tighter monetary and financial conditions.[17] Euro area growth is estimated to be lower at 0.6% in 2024, due to high financing costs, but investment is expected to recover as real incomes strengthen. Growth in China is expected to fall to 4.7% in 2024, despite additional policy stimulus, reflecting sluggish consumer demand, high debt and a weak housing market. In addition, the escalation of military disruptions could potentially put pressure on energy prices which could boost inflation and trigger repricing in financial markets, with expectations of monetary policy easing coming under review.

Finally, the turmoil in the Red Sea has caused delays in the movement of goods to Europe and has increased transport costs, as the passage of merchant ships, container ships and tankers through the Suez Canal has decreased significantly, by almost 30% annually.[18] As a result, rising transport costs are likely to push up prices.

Against this backdrop, it is estimated that the average oil price in 2024 will reach $89/barrel, up 7.9% compared to 2023, mainly due to global demand.[19] The euro/dollar exchange rate this year is expected to average 1.08, the same as last year.[20] Accordingly, the average euro oil price is expected to average €82.5/barrel in 2024, up 8.1% compared to the previous year.

Taking into account the above trends and developments in the main factors affecting consumer prices, **the Consumer Price Index is expected to strengthen mildly this year, at a rate of around 3.0%, mainly due to the expected rise in energy prices.**

[16] OECD Economic Outlook, February 2024: Strengthening the foundations for growth

OECD Economic Outlook, February 2024: Strengthening the foundations for growth

[18] IMF, PORTWATCH

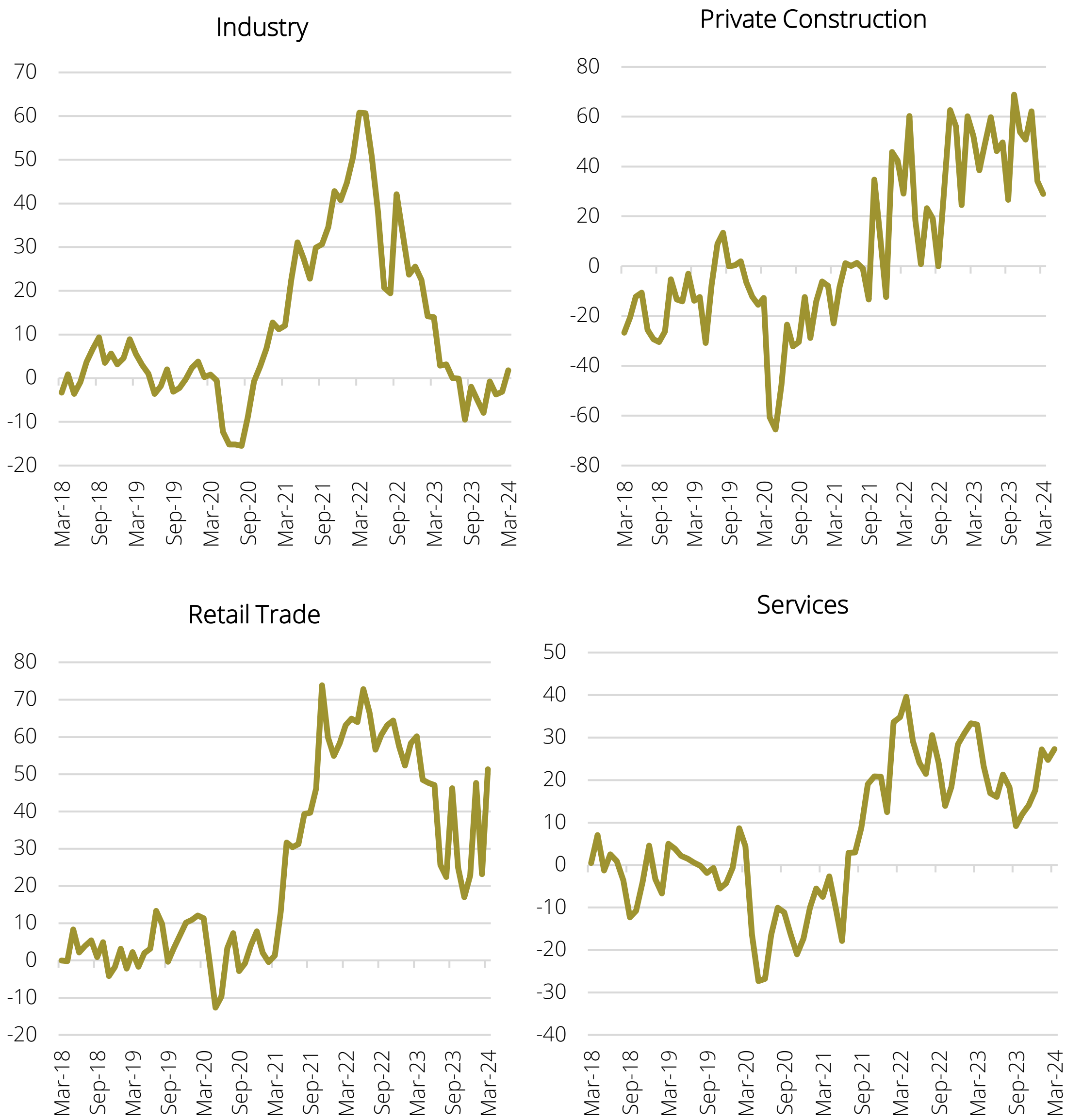
[19] Energy International Agency, Short-Term Energy Outlook, April 2024

[20] Macroeconomic projections, ECB, March 2024

Important information on the evolution of prices in the next period of time is also provided by the monthly business and consumer surveys of IOBE, which provide leading indications for their evolution on the supply side.

Figure 3.24

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



Source: IOBE

The trends in price change expectations were mainly positive in the first quarter of 2024 compared to the second quarter of 2023. Price expectations trended mildly downward in Construction, while in contrast there was a marked increase in Retail Trade and Services and a milder increase in Manufacturing.

The trends in price change expectations are mainly bullish in the first quarter of 2024 compared to the second quarter of 2023. In particular, price expectations moved mildly down in Construction, while in contrast there was a marked rise in Retail Trade and Services and a milder rise in

Manufacturing. Year-on-year, price expectations declined sharply in Industry and Retail Trade and fell slightly in Services and Private Construction. In more detail:

In Industry, price expectations in Q1 of the year strengthened slightly compared to the immediately preceding quarter. In particular, the indicator stood at -2 points, from -5 points in the previous quarter, while it fell by 19 points compared to the corresponding quarter of 2023. Among businesses in the sector, 13% expected prices to fall in the short term, while the percentage of those expecting prices to rise strengthened to 11% (from 10%), with the remaining 76% expecting prices to remain stable.

In Retail Trade, the balance of +22 points in the sector's price balance strengthened by 19 points in the previous quarter, while it was 16 points lower than in the corresponding period in 2023. Of the sector's businesses, just 2% expected prices to fall in the short term, while the proportion of those expecting them to rise strengthened to 43%, with the remaining 55% (from 62%) expecting prices to remain stable. In individual retail trade sectors, price expectations were mainly up in Q1 2024 compared to the immediately preceding quarter. In Food-Beverages the price balance moved mildly down, while in Textiles-Clothing-Footwear and Household Equipment the indicator went mildly up and in Department Stores the balance strengthened sharply.

The average indicator for price change expectations in Services increased slightly compared to the previous quarter and stood at +26 (from +15) points, while at the same time it moved slightly down compared to the corresponding average performance of Q1 2023 (+32 points). In the quarter under review, just 2% (down from 6%) of the companies in the sector were expecting prices to fall and 29% to rise. Among the individual examined branches, the indicator strengthened slightly in Hotel-Restaurants and Financial Intermediaries, while it declined in the remaining branches.

Finally, in the Private Construction sector, the strongly positive balance of +58 points of the previous quarter declined mildly to +42 points, having also changed slightly down compared to the corresponding level of 2023 (+46 points). Furthermore, 6% of the sector's businesses expected prices in the industry to decline, while the percentage of those expecting an increase stood at 47% (from 60%), with the remaining 47% (from 37%) anticipating price stability.

4 ANALYSIS OF THE FINANCIAL PERFORMANCE OF PUBLIC HOSPITALS IN GREECE[21]

- The analysis of the financial data of public hospitals is based on a sample of about 90 hospitals per year and 828 financial statements for the period 2012-2020. Significant changes are recorded due to the extensive reforms carried out with the economic adjustment programmes implemented in this period.
- In particular, liquidity indicators improved, hospitals recorded a low debt burden, revenues from own sources increased and the percentage of hospitals with a deficit decreased significantly. Meanwhile, the lack of infrastructure development by hospitals is reflected in the low value of the fixed to total assets ratio.
- The study shows a decrease in operating costs to number of beds to 125 thousand euros in 2020 from 146 thousand euros in 2012. Operating costs per inpatient decreased in 2012-2015 (€2.06k from €2.58k) and increased after 2017 from €2.11k to €2.8k in 2020. The same is true for the operating costs per day of hospitalisation, which decreased from €667 in 2012 to €583 in 2015 and increased to €917 in 2020.

[21] The chapter is based on a recent IOBE study on the financials of public hospitals in Greece in 2022. The full text of the study is available here: https://iobe.gr/research_dtl.asp?RID=308

Introduction

The analysis of the financial data of public hospitals is an important step in assessing the progress of the country's health sector. In particular, the analysis of structural indicators of public hospitals provides evidence to assess the progress in rationalising health facilities against targets for efficient use of resources based on existing needs. Making fuller use of the financial assessment tool through the analysis of financial and operational indicators contributes to further rationalisation of the system by identifying opportunities for further cost reductions, economies of scale and productivity gains, and helps to identify parts of the system that may require further strengthening.

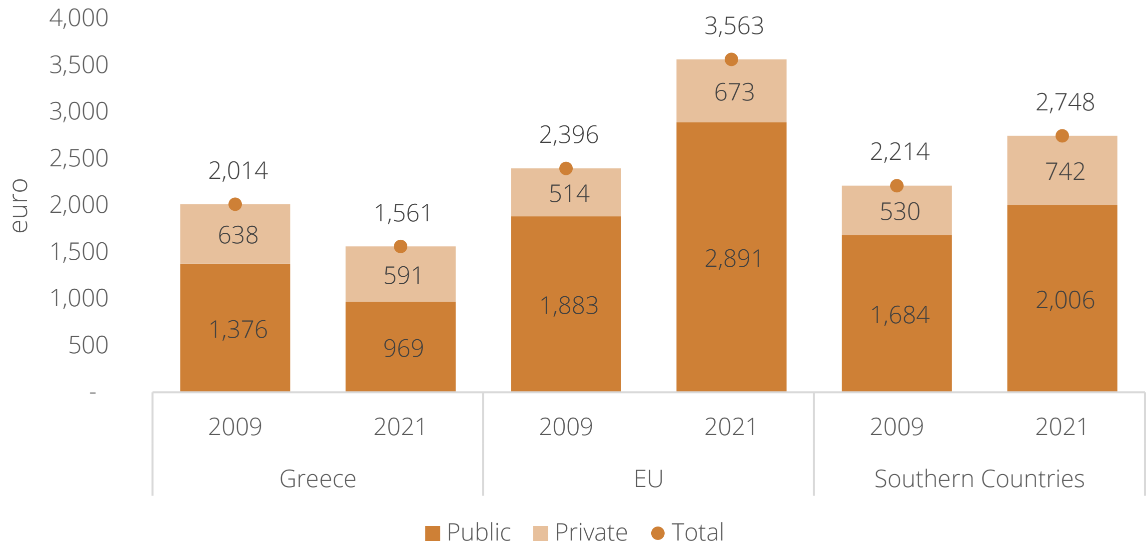
The analysis uses for the first time the information available in the balance sheets of public hospitals that is based on accrual accounting. Although public hospitals have been obliged, for several years now, under Decree 146/2003, to prepare end-of-year financial statements (i.e. Balance Sheet and Profit and Loss Account), verified by certified auditors, usually their evaluation and decision making is based on cash accounting data. Using the wealth of information in the financial statements that take into account the financial position and performance of hospitals, a more comprehensive financial assessment can be carried out.

The major challenges for the Greek health system

The EU's health systems, despite differences in their organisation, face a number of common challenges, such as an ageing population, rising costs due to technological innovations and shortages of qualified staff. In Greece, the health system faces additional challenges due to a number of specificities, such as high out-of-pocket expenditure and an enhanced role of hospitals compared to primary care facilities. In public hospitals in particular, there are significant staff shortages and an imbalance in the distribution of beds, clinics, laboratories and staff.

Figure 4.1

Health expenditure per capita Greece-EU27



Source: Eurostat, 2023 OECD Health Statistics, 2023, data processing: IOBE. Southern countries: Italy, Spain, Portugal.

In greater detail, the number of secondary care hospitals and clinics fell to 267 in 2021, down from 302 in 2012. The decrease is mainly due to a drop in the number of private clinics, from 164 in 2012 to 139 in 2021. The number of hospitals decreased in most EU countries in 2016-2021.

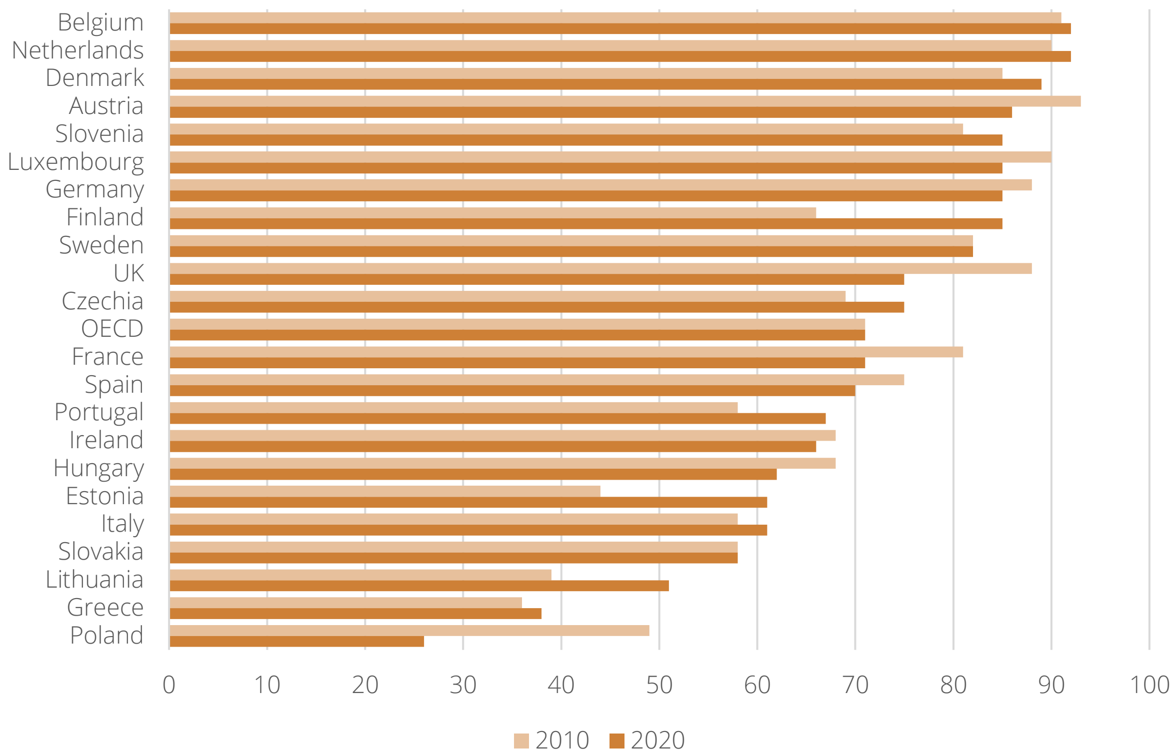
In terms of the number of hospitals per 1 million inhabitants, Greece is above the average ranking of OECD-EU countries (10th out of 22 countries). However, in terms of number of beds per capita, Greece is below the EU27 average (525 beds per 100,000 inhabitants), with 427 beds available per 100,000 inhabitants (2021). The total number of beds available in Greece at the end of 2021 is 48.9k compared to 52.4k in 2010.

The total funding for health expenditure was set at €16.7 billion in 2021. Over time, there has been a significant decline in funding for health expenditure in Greece compared to an increase in the EU. The annual public expenditure changed in constant prices cumulatively for the period 2009 - 2021 by -29.2% in Greece compared to +32.7% in the EU. Health expenditure per capita (Figure 4.1 in Greece decreased significantly (€1,561 in 2021 compared to €2,014 in 2009) and further deviated from the EU average (€3,563 in 2021 and €2,396 in 2009).

As a percentage of GDP, total health expenditure in Greece stood at 9.2% in 2021 (of which 5.7% public expenditure) compared to 10.9% in the EU (of which 8.9% public expenditure). Public funding amounts to 62.1% of total funding for health expenditure in Greece in 2020, well below the EU average (81.1%). Health expenditure of domestic households amounts to 8.1% of their total expenditure in 2021, down from 6.5% in 2009. The share of pharmaceutical care in household health expenditure increased to 31.3% in 2021, from 19.2% in 2009.

Figure 4.2.

Public satisfaction with the health system Greece-OECD , 2010 and 2020



Source: Gallup World Poll 2020 (database)

In the Euro Health Consumer Index (ECHI), the Greek health system is ranked 29th out of 35 European countries with 615 points, higher than Albania, Romania, Hungary, Poland, Bulgaria, and Latvia. The country scores relatively high in areas such as direct access to doctors, reduction in stroke mortality, childhood vaccination, reduced incidence of hypertension and moderate alcohol consumption. Conversely, low performance is achieved in areas such as information and patients' rights, family doctors, waiting lists for cancer patients, transplants, informal payments, smoking, lack of physical activity, deaths from road accidents, late introduction of innovative medicines and high consumption of antibiotics. Greece has one of the lowest rates of satisfaction with the provision of healthcare services, with 38% for 2020 from 36% in 2010.

Financial figures and indicators of public hospitals

The analysis, based on a sample of around 90 hospitals per year and 828 financial statements for the period 2012-2020, shows that the evolution of several indicators can be characterised by a relatively strong trend initially towards financial risk reduction and consolidation, followed by stability and a gradual reversal to levels closer to long-term averages. There is also a fairly strong year-to-year volatility in the aggregate figures.

Table 4.1.

Evolution of key financial figures (in € million)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR '12-'20	%Δ '12-'20
Number of hospitals	99	94	96	89	92	90	91	92	89	-	-
Cash	228	367	292	305	860	823	758	521	483	9#9%	112#3%
Receivables	3,460	3,048	4,573	5,084	3,400	4,245	5,552	4,489	5,808	6#7%	67#9%
Fixed assets	2,787	2,940	3,023	2,311	2,481	2,095	2,175	2,049	2,077	-3#6%	-25#5%
Total assets	7,442	7,256	9,039	8,483	7,759	7,991	9,507	8,066	9,255	2#8%	24#4%
Short-term liabilities	1,911	1,072	1,043	1,164	753	593	615	661	835	-9#8%	-56#3%
Long-term liabilities	0#199	0#080	0#062	0#220	0#160	0#163	0#085	0#042	0#058	-14#3%	-71#0%
Total liabilities	1,912	1,072	1,043	1,164	753	593	615	661	835	-9#8%	-56#3%
Equity capital	5,401	6,059	7,855	7,163	6,862	7,261	8,785	7,312	8,287	5#5%	53#4%
Revenue from own sources	1,835	2,019	1,891	1,589	1,845	1,828	2,012	2,038	1,887	0#3%	2#8%
Revenue from grants	2,646	2,619	2,302	1,894	2,397	1,917	1,928	1,782	2,014	-3#4%	-23#9%
Operating revenue	4,481	4,638	4,193	3,483	4,242	3,745	3,940	3,820	3,909	-1#7%	-12#8%
Cost of goods & services	3,658	3,400	3,373	2,671	2,893	2,850	2,915	2,969	3,128	-1#9%	-14#5%
Administrative expenses	540	465	432	376	373	378	381	345	374	-4#5%	-30#8%
Operating expenses	4,208	3,874	3,808	3,058	3,270	3,232	3,302	3,317	3,505	-2#3%	-16#7%
Net result for the year	272	263	531	437	338	530	768	157	557	9#4%	104#8%

Source: Financial statements of hospitals. Data processing: IOBE. CAGR: Compounded annual rate of change, %Δ: Percentage change. The annual aggregates are influenced by the number of hospitals and the individual hospitals included in the annual sample.

In particular, hospital assets increased significantly (+24.4% over the 2012-2020 period), due to an increase in cash and receivables (Table 4.1). Liabilities (practically all short-term) recorded strong fluctuations with the lowest value recorded in 2018 in a fixed sample of 60 public hospitals and in 2017 in the total sample, with an overall decrease of -56.3% over the period 2012 - 2020.

Operating costs declined sharply until 2016-2017, with a gradual recovery thereafter. Overall over the period 2012 - 2020, operating costs fell by -16.7%. There is a strong volatility in the net result, with higher positive values towards the end of the period compared to 2012-2013, and an overall increase of 104.8% in 2012 - 2020.

The significant reduction in short-term liabilities combined with the write-offs of EOPYY hospitals' receivables by the Ministry of Health resulted in an improvement in liquidity indicators, highlighting that the hospitals' ability to meet their current liabilities increased significantly during the period. Of particular interest was the fact that in 2016-2018 cash was sufficient to fully cover all liabilities, with no contribution from receivables or reserves.

The receivables turnover ratio expressed in days increased in 2012-2020, with strong fluctuations from year to year, indicating a growing inability of hospitals to collect receivables in a timely manner. The ratio of debt to assets of hospitals is low and strongly declining, with the hospitals' funding increasingly coming from equity. In addition, the indicators show that the hospitals have a particularly low level of debt, with almost no recourse to long-term borrowing. However, the downward trend in the fixed to total assets ratio reflects the limited development of new infrastructure by hospitals. With regard to the composition of the profit and loss account, it is noteworthy that the share of revenue from own sources in total operating income gradually increased until the start of the pandemic. Finally, most of the profitability ratios exhibited notable fluctuations between 2012 and 2020, with no clear upward or downward trend.

Evolution of hospital activity performance indicators

In the analysis for the performance indicators, the efficiency of hospital operation was examined based on the number of beds, the number of inpatients and the number of days of hospitalisation, both in a longitudinal perspective in the whole sample and by hospital size (small, medium, medium and large), as well as comparatively between the seven health regions of the country.

The analysis shows that towards the end of the period the cost per bed decreased, while the cost per hospitalised person increased, with an even more significant increase in the cost per day of hospitalisation. It appears that the pandemic conditions have created a need for more available beds and for more expensive and shorter hospital stays.

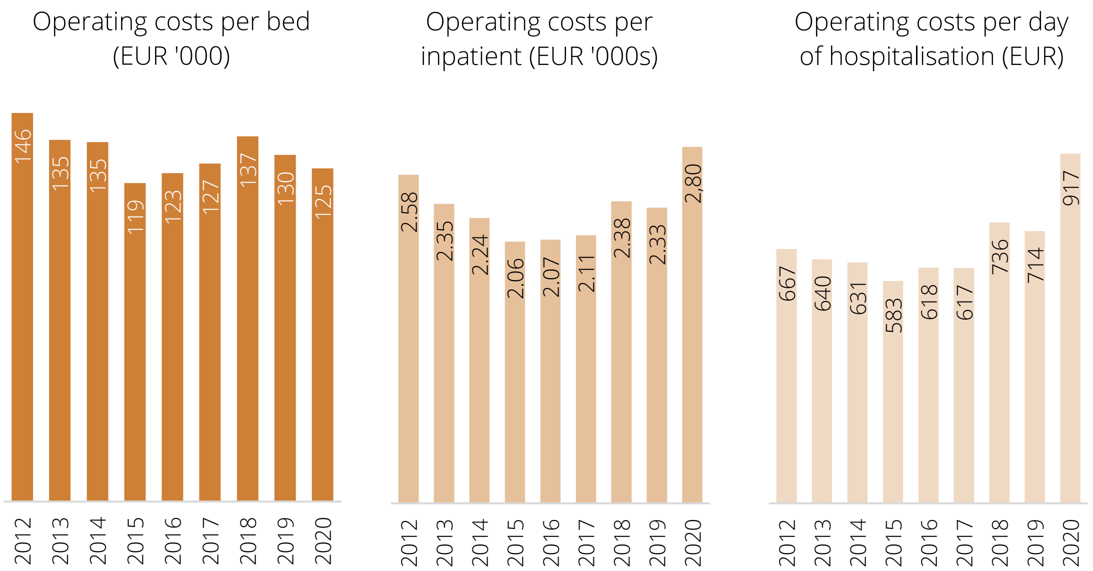
In particular, the operating costs per bed decreased to €125k in 2020 from €146k in 2012 (Figure 4.3). The operating costs per inpatient decreased in 2012-2015 to €2.06k (from €2.58k) and increased after 2017 from €2.11k to €2.8k in 2020. The same applies to the operating costs per day of hospitalisation, which fell from €667 in 2012 to €583 in 2015, rising to €917 in 2020, the first year of the pandemic.

There are significant differences in the indicator levels between the country's health care regions, as well as depending on the size of the hospitals. By far the highest operating cost per bed in 2020 was recorded in the 4th region (Macedonia and Thrace), while the lowest cost was recorded in the 7th region (Crete). Per hospitalised patient, the 4th region had the highest cost in 2020 (€4,110), while the lowest cost (€1,988) was recorded in the 3rd region (Macedonia). Finally, per day of hospitalisation, the highest operating cost was recorded in the 6th region (Peloponnese, Ionian Islands, Epirus and Western Greece) and in the 4th region (Macedonia and Thrace), while the lowest value of the indicator was recorded in the 1st region (Attica). It is worth noting that there are marked variations in the rankings of the regions by indicator from year to year.

Regarding the indicators by hospital size, the overall impression is that there are indeed significant economies of scale. In particular, small hospitals (up to 100 beds) record the highest values in the indicators of operating cost per inpatient and per hospital day in most years of the analysis. Similarly, the lowest values for operating cost per day of hospitalisation are always recorded in large hospitals (over 400 beds), although this is not the case in all years of the analysis for the ratio per hospitalised patient, with medium hospitals (251 to 400 beds) recording an even lower value in some years. Less obvious are the economies of scale in the cost per bed, where in 2018-2020 the lowest value is recorded in small and medium-sized hospitals (from 101 to 250 beds).

Figure 4.3

Hospital activity performance indicators, 2012-2020



Source: Hospital financial statements. Data processing: IOBE

Conclusions

The analysis of the financial statements of public hospitals for the period 2012-2020 reveals significant changes in key figures and indicators, partly due to the extensive reforms carried out under the economic adjustment programmes. The performance of several aggregates and indicators over the period under review can be characterised by a relatively strong trend initially towards financial risk reduction and consolidation, followed by stabilisation and a gradual return to levels closer to long-term averages. There is also a fairly strong year-to-year volatility in the aggregate figures.

In particular, hospital assets increased significantly until the middle of the period, due to an increase in cash and receivables, while in recent years there has been a relative stabilisation. Similarly, liabilities (mainly short-term) recorded strong fluctuations over the period, with the lowest value occurring in 2017-2018. The pattern is similar with regard to operating expenses, which recorded a sharp decline until 2016-2017, with a gradual recovery thereafter. There is strong volatility in net earnings, which in general show significantly higher positive values towards the end of the period compared to 2012-2013.

The analysis of the financial ratios shows an improvement in liquidity indicators, low debt burden, an increase in income from own sources, and a significant reduction in the percentage of hospitals with a deficit. Interestingly, based on the cash liquidity ratio, in 2016-2018 cash was sufficient to fully cover all liabilities. However, the infrastructure development by hospitals is lacking, as reflected in the low value of the fixed to total assets ratio.

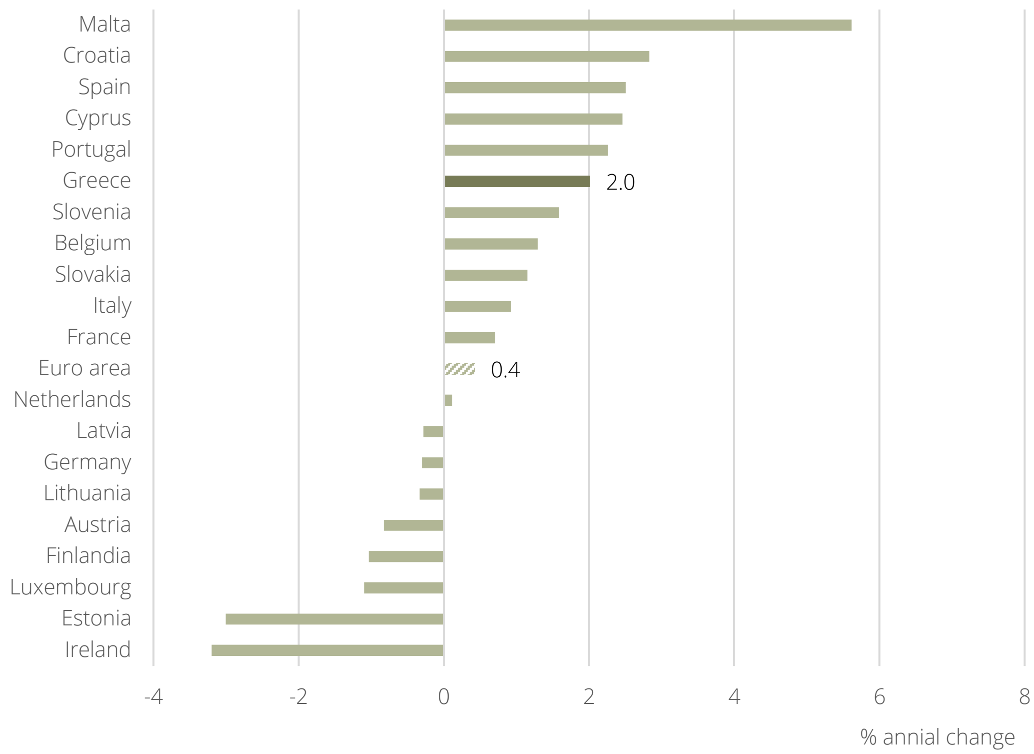
As this analysis has shown, financial statements prepared according to the accrual principle produce better information for decision making and contribute to better governance and sustainable financial management. In addition, the inspection of financial statements by external auditors is an important transparency and accountability mechanism for public hospitals. The examination of accrual-based figures and, in the future, their comparison with cash figures highlight additional aspects of the financial performance of hospitals and are of particular interest. Therefore, the obligation of public hospitals to prepare and publish their annual financial statements in the electronic online portal "Diavgeia", in accordance with the sectoral accounting regulation of public health care institutions (Decree 146/2003), with mandatory application as of 1/1/2006, was an important step in the modernisation of their accounting-costing organisation.

In conclusion, the financial statements provide exceptionally useful information on the financial position and performance of hospitals, in order to allow, in the first instance, their management, in the second instance the management of the health regions and, in the final stage, the leadership of the Ministry of Health, to take decisions on the proper and cost-effective operation of hospitals, using the data to achieve more effective management of the used resources, greater transparency, lower costs, and ultimately better service of the patient needs.

APPENDIX

Figure 1

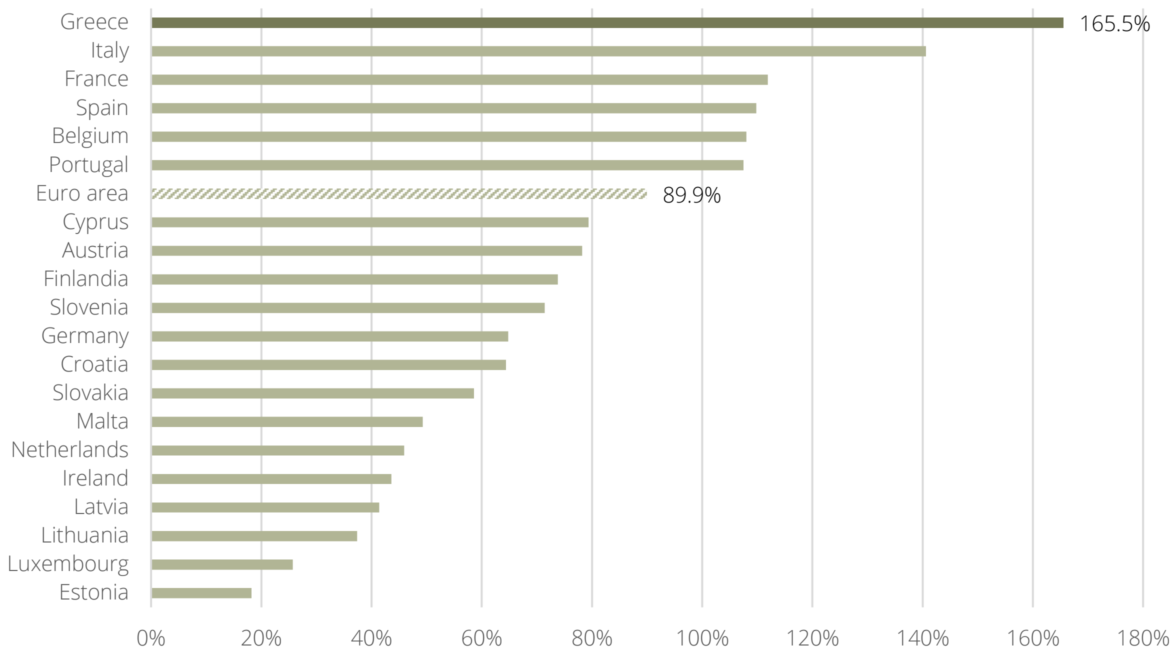
Real GDP growth rate, 2023



Source: Eurostat

Figure 2

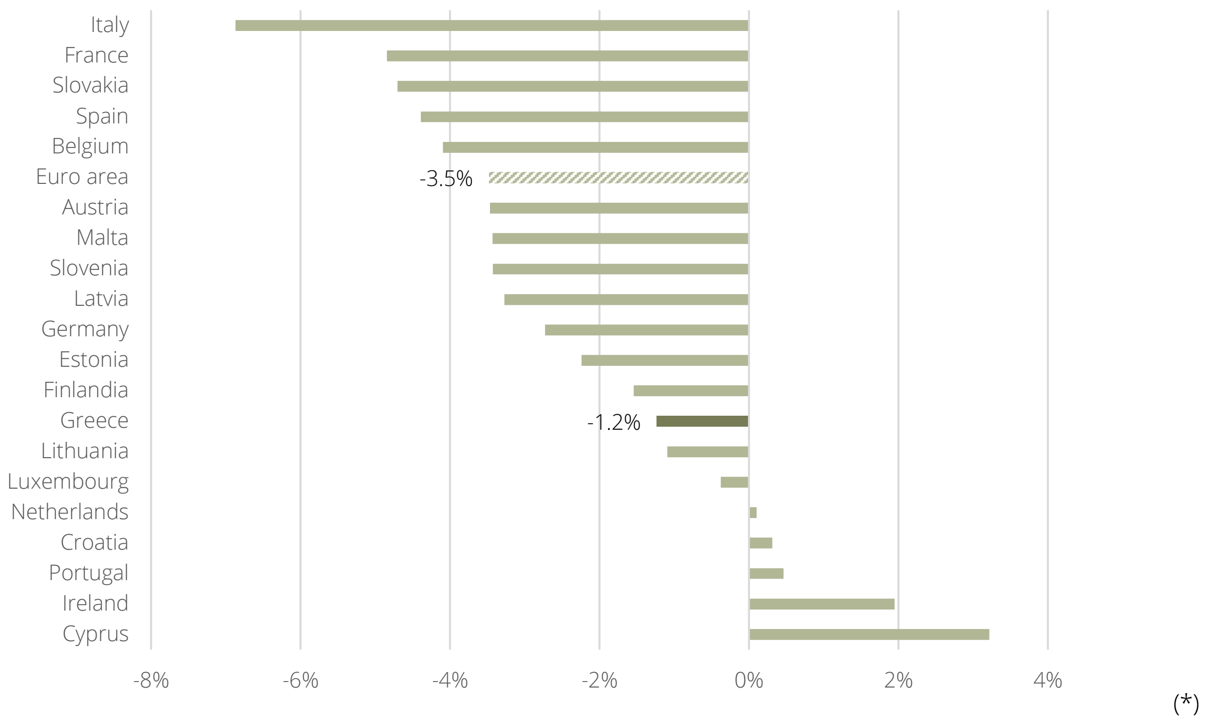
General Government Debt as % of GDP, Q3 2023



Source: Eurostat

Figure 3

General government balance as % of GDP, Q3 2023

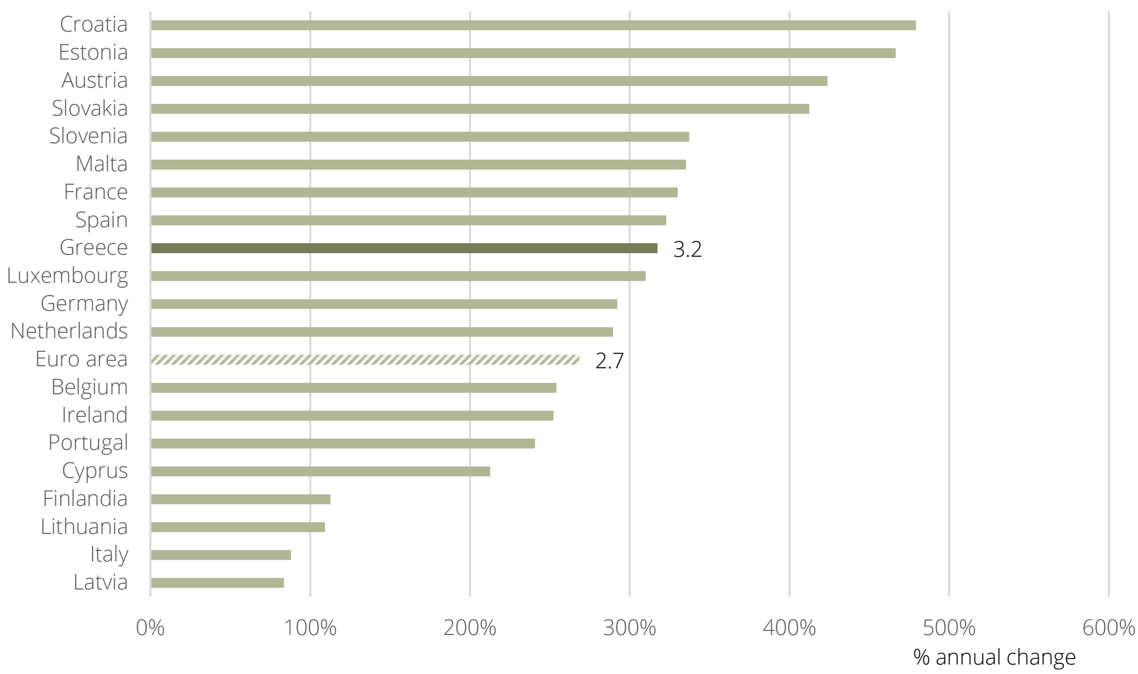


Annualised data (moving average of 4 quarters, up to Q3 2023)

Source: Eurostat

Figure 4

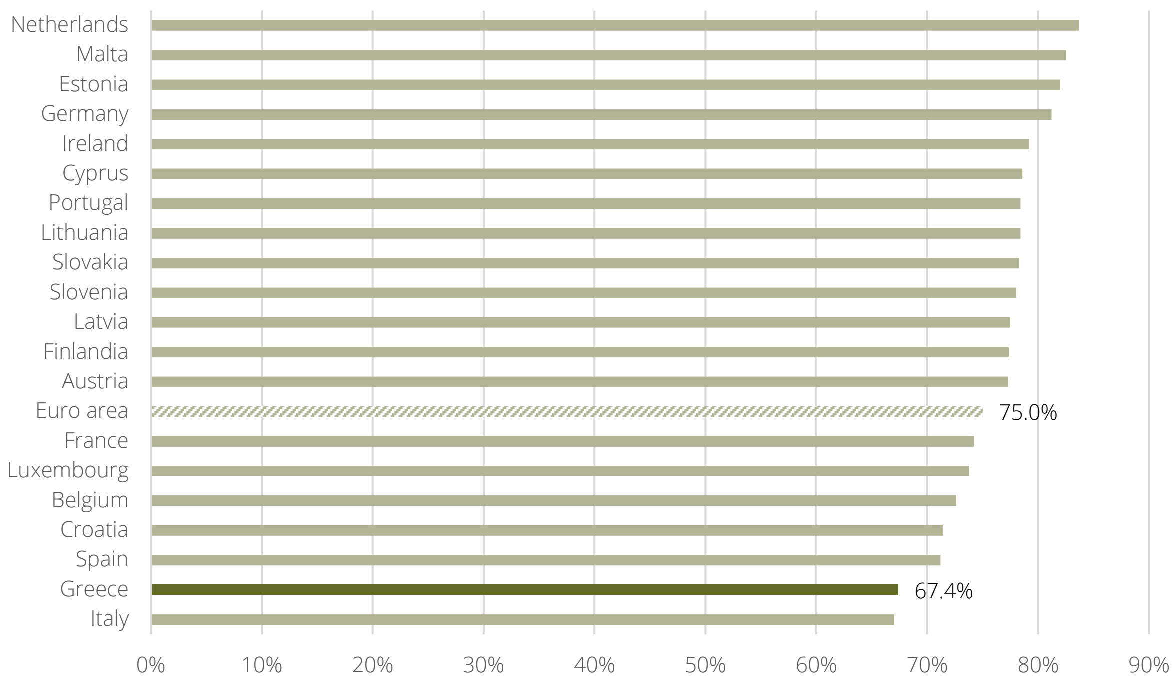
Harmonised Index of Consumer Prices, January - February 2024



Source: Eurostat

Figure 5

Employment, Q4 2023 (*)

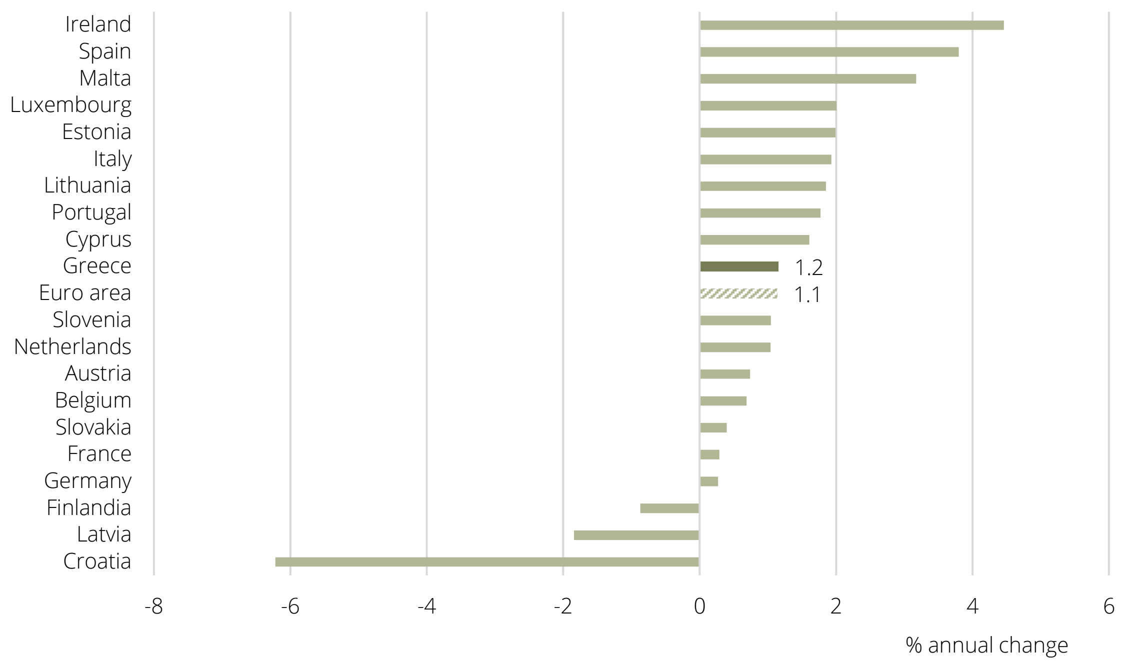


(*) % of employed people aged between 20 and 64 in relation to their total population

Source: Eurostat

Figure **6**

Change in employment, Q4 2023 (*)

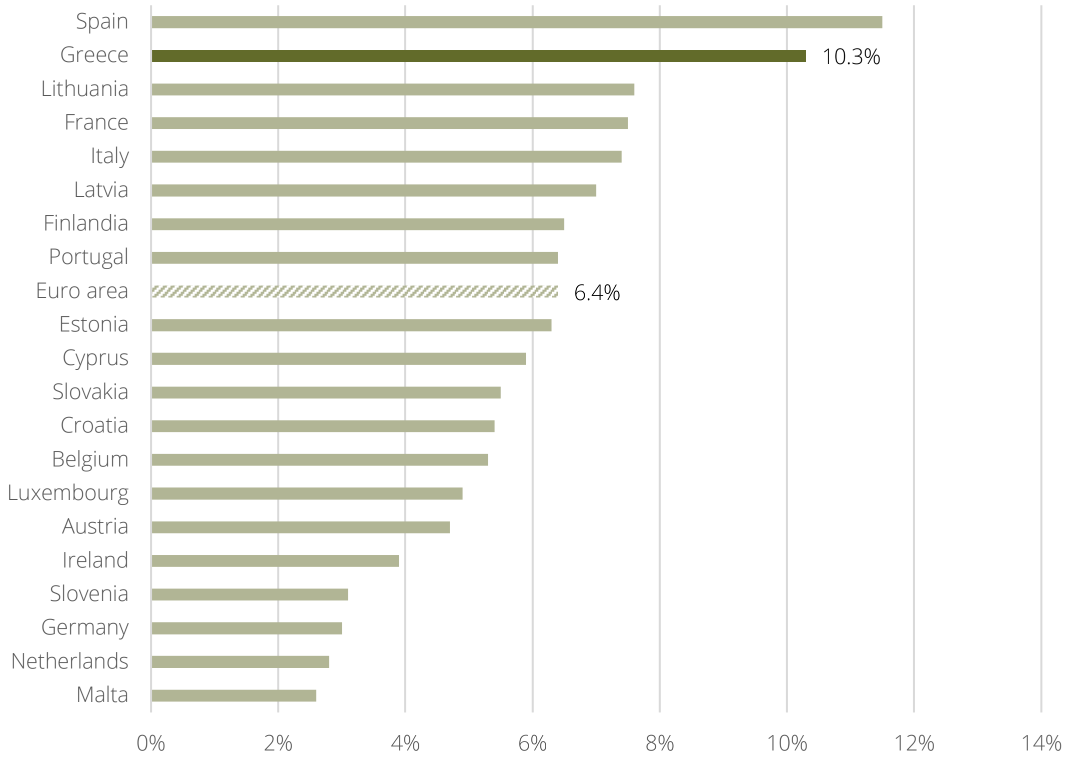


(*) employed people aged between 20 and 64

Source: Eurostat

Figure 7

Unemployment, Q4 2023 (*)



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

Source: Labour Force Survey, Eurostat