The Greek Economy

Quarterly Bulletin

02/23

FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

Editorial Policy

The analysis of the Greek Economy is the product of a collective effort by the research staff of the Foundation. The views presented here represent a reached consensus and no individual bears sole responsibility for all or part of it. Furthermore, the views expressed do not necessarily reflect those of other organisations that may support, finance, or cooperate with the Foundation.

IOBE

The Foundation for Economic and Industrial Research (IOBE) is a private, non-profit, public benefit research organisation. Its purpose is to promote research on current problems and prospects of the Greek Economy and its sectors and to generate reliable information, analysis and proposals for action that can be of value to policy makers.

ISSN 1108-1198

Sponsor of the Issue

AVIS

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 second quarter of 2023, 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 highlighting the need to address imbalances and structural lags of the economy with positive dynamics and political stability. 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 first quarter of 2023 and the outlook for the rest of the year, b) presentation of the economic climate in Greece in the second quarter 2023, according to the results of the business and consumer surveys of IOBE, c) assessment of the balance of the State Budget for January-May this year and d) developments in the domestic financial system up until April 2023.

The third section focuses on the performance of the Greek economy. It outlines recent macroeconomic developments with an emphasis on the first quarter of 2023 and presents the forecasts overall for 2023, based on assumptions and taking into account the latest available data. It analyses developments in key production sectors in the first quarter of this 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 first quarter. It then analyses the inflation trends in the first five months of 2023.

The fourth section presents the main findings from a recent IOBE study on the intergenerational mobility in education in Greece. The current report contains three text boxes. The first describes the European Commission's proposals for the revision of the fiscal rules in the European Union (section 2.2.B). The second shows the evolution of the rate of private savings in Greece in 2022, compared to other European countries (section 3.1.A). The third reflects on the relationship between exports and productivity by sector, before and after the Greek crisis (section 3.3).

This report refers to and is based on data available until 30/6/2023.

IOBE's next quarterly report on the Greek economy will be published in October 2023.

THE NEED TO ADDRESS IMBALANCES AND STRUCTURAL LAGS IN THE ECONOMY WITH POSITIVE DYNAMICS AND POLITICAL STABILITY

The period of double parliamentary elections ended, leading to the formation of a government that has a comfortable parliamentary majority and is a continuation of the government of the previous four years. In relation to the risk of political instability, this result seems to ensure stability and visibility for the coming years. To the extent that political uncertainty always leads to hesitancy and shifts in the economy, this development is conducive to favourable economic developments in the coming period, which to some extent has already been shown by the course of the country's borrowing costs and capital markets.

Twin momentum of domestic recovery?

The positive impetus from the election result adds to the twin momentum of recovery that characterises the Greek economy. First, there is a strong recovery taking place after the deep recession induced by the pandemic. This was characterised by a strong return of tourists, as well as an increase in consumption, but also a reduction in the high uncertainty that had been caused, resulting in a general recovery in economic activity in all areas. Second, there is a long-term trend of recovery from the deep ten-year crisis, filling the output gap, as the economy gradually shifted to normal functioning and the crisis conditions were lifted. European policies, on the monetary and fiscal side, also contributed to the positive course of the economy, which supported the individual economies by boosting confidence during the recent strong exogenous crises.

Despite positive dynamics and prospects, there are significant challenges on many fronts to improve the economy, public administration, and overall prosperity in the country. Also, further imported crises and disturbances in the European and global environment are far from being ruled out in the near future. It will be crucial for the country to deal with them from the strongest possible position. In this respect, the trends in our European and wider economic environment are worrying mainly in relation to the continued rise in interest rates to address persistent inflation. Therefore, the priorities set by the new government will play a crucial role in the direction of the economy over the next four years.

Major challenges at home and abroad

The first issue is of course to ensure the country's smooth financing in the coming years at a cost that will not significantly exceed that of other eurozone economies. Although the Greek public debt has been restructured with medium to long-term features, it is critical that the fiscal path is fully credible, especially given that the interest rate hikes maintain continued pressure in our external environment. Reaching an investment grade in the coming months may facilitate the financing of the real economy, although this has already been discounted to some extent in the cost of financing. Nevertheless, it will also be critical as a shield against external turbulence. The assessment of the economy in this dimension depends not so much on the temporary return to a balanced budget, which is of course necessary, but on whether there can be fiscal stability in the coming period along with systematic income growth. This requires continuity in structural reforms in the public sector and markets.

Three main economic policy priorities

The second issue concerns the improvement of the production model. Such a development is doubly critical in view of the negative demographic outlook, as it should be compensated by productivity growth but also by attracting capital and people to the country. While there is progress in strengthening production in individual sectors, overall, there is still a lag in the integration of new technologies and in the link between education and innovation and production. Since this is about a significant increase in real wages, this can only be achieved systematically if high-value jobs are created. This certainly means a shift in production towards foreign markets much more than has been the case so far.

Finally, a crucial issue will be the distribution of jobs and incomes among the population. It is not only the average or total income in a country that matters, but also the opportunities created for social mobility as well as wider social cohesion. The growth of the economy today creates a strong trend of wage growth in areas where there is a shortage of supply, such as in the more specialised segments of the labour market but also in those of unskilled labour, such as construction and primary production. However, for many other workers, their work speciality and skills do not easily ensure a path of wage growth, which necessitates relevant interventions both in the labour market and in education and training programmes and their link with employment.

In addition to these three major economic policy priorities, there are also related specific issues of critical urgency.

Need for specific reform interventions

The first of these is concerns the new conditions of the energy sector, adapting to global trends, linking with new technologies and environmental priorities, such as adjustments to taxation and transfer policy.

The second concerns the issue of persistent structural inflation, which, in addition to imported costs, is directly related to the ability of firms to enter and compete in the product and service markets.

Another important issue is the effort to further strengthen labour, by gradually reducing the shadow economy and by adapting the tax and insurance systems.

A final critical issue concerns the strengthening of the efficiency of the public sector and of the health and education systems, in particular, which should contribute to both economic development and social cohesion.

Conditions for a systematic increase in real incomes

Important steps have been taken in our economy since the end of the adjustment programmes. More recently, and despite the crisis of the pandemic and energy markets, there have been positive developments in terms of strengthening exports, investment, and credibility in the country's financing. However, there is still a great deal of room and a need to consolidate the conditions for systematic growth to increase real incomes. Our economy, along with many other European peers, is a small open economy, in the sense that it does not shape its external environment but must take advantage of the opportunities it is given. But compared to most peers, its overall dynamics and performance in recent decades have been lagging behind. The long-term growth rate in other European countries of similar size was higher and so they gradually surpassed ours. Can the growth rate of the economy rise from just 1% a year, on average over the last decades, to about twice the rate in the next few decades? Especially if the negative demographic outlook is taken into account? The necessary shift to the desired new production model, with an increase in the participation of investments and exports in GDP compared to the current model, presupposes the systematic implementation in the coming years of a plan that incorporates decisive choices.

1 BRIEF OVERVIEW

International environment: The global economy is growing mildly, under inflationary pressures

Based on the latest OECD forecasts (June 2023), a marginally higher global economy growth is projected in 2023, at 2.7%, compared to the March forecast (2.6%). Inflation is gradually falling, as international energy prices have stabilised at lower levels, albeit remaining high, especially in basic necessities and food. For example, in the 38 OECD countries, inflation fell in April to 7.4%, systematically receding from the 10.7% peak recorded in October 2022. Core inflation (excluding energy and food) in the same month remained at 7.1%, while energy prices rose marginally by 0.7% and food prices by 12.1%. The continued deviation of inflation from the target level in most countries increases the likelihood that the cost of money will remain high worldwide for longer. Although a smooth landing of the economies is the most likely possibility, the need for tighter monetary and fiscal policies retains the risk of a sharp fall in economic activity. A more extensive analysis is presented in section 2.1A.

European economy: Tighter monetary policy, low growth rate

As Russia's war in Eastern Europe continues, Europe's economies have slowed significantly and are expected to record the lowest rate of growth in the last decade, with the exception of 2020, the first year of the pandemic. The annual rate of change in real GDP for 2023 as a whole is projected at around 1.0%, both in the EU and the euro area. Increased volatility in the energy market combined with the need for tighter monetary and fiscal policies over the medium term poses a risk to the recovery of the European economy. The European Commission's proposals to revise the EU fiscal framework provide an opportunity and a challenge to deepen the monetary union. The proposals are summarised in a special textbox in Section 2.2B.

The annual rate of change in real GDP in the euro area in the first quarter of 2023 declined to 0.9% from 1.9% in the previous quarter. The economic climate deteriorated further in Europe in the second quarter of 2023. The ECB has already conducted eight rounds of hiking key interest rates since mid-2022, cumulatively by 400 basis points, with obvious implications for the cost of private and public sector financing. The persistent rate of inflation, despite a slow de-escalation, presupposes a continuation of the ECB's systematic increase in key interest rates in the second half of 2023. Trends in the European economy are detailed in section 2.1B.

Growth slowed in Greece in the first quarter, remaining higher than the euro area average

Annualised economic growth slowed to 2.1% in the first quarter of 2023 (from 4.8% in the previous quarter), in seasonally adjusted data. The slowdown stemmed mainly from an annual contraction in investment of -0.7%, as the large annual decline in inventories (-29.7%) offset the expansion in fixed capital investment (+8.2%). Growth was driven by exports (+8.9%) of both goods and services, while import growth slowed (+5.6%). As a result, the contribution of net exports to growth strengthened. Private consumption continued its upward trend for the 8th quarter, growing annually by +2.9%, supported by growth of employment and nominal wages. Public consumption also increased by 1.4%. In addition, following a slight revision of data for the fourth quarter of the previous year, annual growth for 2022 as a whole is estimated at 6.0%.

The negative developments for 2022 include a sharp decline in private savings. A more extensive analysis of the evolution of the saving rate of Greek households is presented in the special textbox of section 3.1A.

The positive developments at the beginning of 2023 include the gradual reduction in the external deficit, higher domestic growth than the euro area average, as well as maintaining the momentum of the growing openness of the Greek economy. A detailed presentation of the macroeconomic performance in the third quarter of this year is included in section 3.1A.

Fatigue in Industry and Retail Trade in the second quarter, growth in Construction and Services

Industrial production strengthened in the first quarter of 2023, by 2.4%, compared with a similar growth rate in the same quarter of 2022, but well below the average growth rate over the past two years. Construction is recording a strong acceleration of output, by 26.7% in the first quarter, up from 14.1% in the same quarter of 2022. Turnover increased in most sub-sectors of Services in the first quarter. By contrast, retail trade fell in volume by 2.1% in the first quarter, against an increase of 10.2% a year earlier. Short-term trends in key sectors of the Greek economy are highlighted in section 3.2.

Gradual correction of the external deficit

Exports in the national accounts continued to grow in nominal terms in the first quarter of 2023, at a rate of 12.1%. The increase in exports excluding petroleum products was milder (+8.0%). Nominal growth was recorded mainly in the categories of Fuel, Industrial products, and Agricultural products. On the import side, there was a decrease in current prices, at a rate of 1.8% in the first quarter of 2023. As a result, the trade deficit improved significantly compared with 2022 by 20.6%, to €9.3 billion in the first four months. On the positive side, the Greek economy continues to post record high openness in 2023.

In terms of balance of payments, in the first quarter of 2023, the current account deficit fell to €5.6 billion, compared with €8.6 billion in the same period of 2022. The deficit in the goods account underwent a significant correction, while the surplus of the secondary income account, which also recorded inflows from the recovery fund, increased. Fuel covers more than 50% of export growth and 90% of the fall in imports. The deficit of the balance of goods excluding fuel and ships in 2023 stood at €7.5 billion, down by €967 million. The developments in the external balance are described in more detail in Section 3.3.

Unemployment declined at a slower pace

The first quarter of 2023 saw a further decline in unemployment to 11.8% from 13.8% in the first quarter of 2022. The private sector balance of hirings and exits was positive by 180,600 in the first quarter of 2023, higher than the positive balance in the corresponding period of 2022 (+148,100). The sectors with the highest growth in employment were the primary sector (+30,100) and human health - social care activities (+29,400). The seasonally adjusted wage cost index increased by 5.5% year-on-year in the first quarter of this year.

Employment is expected to further strengthen, albeit at a weakening pace, through higher investment, the utilisation of the resources of the recovery fund, and higher exports, including tourism. These factors are expected to partially offset the negative impact of the higher cost of capital on firms' demand for labour. Therefore, unemployment is expected to decline further in the coming quarters, albeit with a clear slowdown trend. In view of the above effects, the unemployment rate is expected to be in the region of 11.0% for 2023. The developments and expectations for the labour market trend are presented in more detail in Section 3.4.

Decline in inflationary pressures, high core inflation

Inflation declined systematically in early 2023, with an average growth rate of 5.6% in the first five months of the year, compared with 7.9% a year ago. Inflation in the first five months of 2023 remains below the EA average, after posting a higher average rate in 2022 (Annex). To a large extent, the decline in inflation is attributed to the fall in international energy prices in early 2023, while the prices of non-energy goods remain on a strong upward path. Indicatively, the rate of change in the HICP with fixed taxes and excluding energy stood at 8.2% in the first five months of 2023, up from 3.9% a year ago.

Key assumptions for the inflation forecast are: (I) the evolution of the price of Brent oil, valued in euro, which is expected to decline annually by around 21% in 2023, (ii) the development of private consumer demand, which is expected to increase slightly, by around 1.8%. For 2023 as a whole, the Consumer Price Index is projected to increase in the area of 4.3%. Section 3.5 describes in more detail recent trends in consumer and producer prices, as well as expectations for their evolution in 2023.

Domestic economic sentiment strengthened in the second quarter

The Economic Sentiment Indicator in Greece recorded a small increase in the second quarter of 2023 compared with the previous quarter (109.0 from 106.9 points). There was a small improvement compared to the same quarter of last year (105.1 points). Business confidence strengthened significantly in the recent quarter compared to the previous one in Services, to a milder extent in Retail and Construction, while it weakened mildly in Industry. The Consumer Confidence Index improved significantly in the April-June period compared with the previous quarter, to -36.7 (from -43.3 points). At the same time, it moved sharply higher than a year earlier (from -53.0 points). A detailed description of trends in the components of economic climate can be found in Section 2.2A.

Public finances outperformed targets, mainly thanks to higher revenues

For 2022, on an accrual basis according to ESA, the general government deficit decreased to 2.3% of GDP, against a deficit target of 4.0% of GDP and a deficit of 7.1% a year earlier. Respectively, a primary surplus of 0.1% of GDP was recorded, against a deficit target of 1.4% of GDP and a deficit of 4.7% in 2021. To a large extent, this is due to the over-performance of revenues, of both tax and other inflows from the EU. General government debt decreased to 171.3% in 2022 (Annex) from 194.6% in 2021, despite an increase in absolute terms from €353.489 million to €356.256 million.

In early 2023, the state budget execution continued to move better than the target in cash terms, under the influence of economic recovery and inflation. The improvement in the balance compared to last year is due to a stronger increase in net revenue (+17.8% or +€3.97 billion) relative to expenditure (+3.9% or +€1.106 million). In Jan-May 2023, a deficit of €1,116 million was recorded in cash terms, against a deficit target of €4,446 million (Budget explanatory report 2023) and a deficit of €4,066 million in the corresponding period of 2022. Over the same period, a primary surplus of €2,300 million was recorded in cash terms, against a primary deficit target of €1,396 million and a primary deficit of €1,487 million in the first five months of 2022. The mapping of developments in government finances is presented in Section 2.2B.

Increase in financing costs, expectation of higher interest rates for longer period

The slow de-escalation of inflationary pressures internationally has led to systematic hikes in key interest rates by central banks, with an expectation of a continuation of the trend, albeit at an easing pace also for the rest of 2023. The increase in the cost of money directly affects banks and the cost of financing businesses and households. The cost of new lending to the private sector increased further in mid-2023. At the same time, the spread of the average interest rate on loans and deposits (interest margin) has increased to a record high level, unseen for at least 20 years.

The timely formation of a government eliminated the risk of political instability and led to a significant strengthening of the domestic investment climate that significantly affected bank equity valuations. At the same time, expectations of regaining an “investment grade” in the second half of 2023 have strengthened. As a result, the cost of new government borrowing and its spread from other European countries is already declining.

Among the negative trends in the banking system, credit growth to firms slowed and the credit contraction to households continued unabated. Among the challenges from the past, the high share of Non-Performing Loans (NPLs) stands out. It remained stable on the banks’ balance sheets in the first quarter of 2023, following the expiry of the state-guaranteed securitisation programme “Hercules”. Moreover, the share of deferred taxation in bank equity remains high.

Among the positive trends in bank fundamentals, organic profitability indicators and equity valuations are improving, the trend of private deposits has been reversed to positive, while the implementation of the loan arm of the National Recovery and Resilience Plan continues. In addition, an application has been submitted for the loan strand of the REPowerEU programme, creating opportunities to further stimulate credit for productive investments.

New challenges arising from the current conditions include a deterioration in the ability of borrowers to repay at a variable rate and an increase in the cost of using banks' long-term funding tools by the Eurosystem. Recent trends and challenges for the domestic financial system are described in detail in Section 2.2C.

Macroeconomic forecast for 2023

The growth slowdown in the euro area, the slow easing of mainly core inflation, the tighter fiscal and monetary environment, the execution of the "Greece 2.0" plan, and the allocation of investment grade, will be the major drivers of GDP change in 2023. Economic growth is supported by a resilient labour market and the implementation of the Recovery and Resilience Plan.

The base scenario assumptions are detailed in Section 3.1B, while they include (a) weak growth in the euro area of 0.9% in 2023, in line with the ECB's baseline scenario (b) no further exacerbation of geopolitical instability, (c) acquisition of investment grade in the second half of 2023, (d) a slight delay in the implementation of the plan "Greece 2.0", (e) slightly higher public expenditure compared to the 2023 Budget and (f) tourism revenue performance similar to 2019 in nominal terms.

Detailed projections by GDP component are presented in Section 3.1B. In particular, IOBE maintains a stable estimate for a recovery in 2023, at 2.4%, at constant prices. In terms of growth components in 2023, exports are expected to make the highest contribution, with an annual expansion of 4.5%, followed by fixed investment at 10.0%, while consumption is expected to increase by 1.5% due to resilient private consumption. A small improvement in the external balance is also expected, with imports increasing annually in 2023 more slowly than imports, by 3.3%. The economy's openness, the share of services in exports, and the share of goods in imports are also expected to increase. Average inflation for 2023 is expected to be slightly milder than the euro area average, in the 4.3% region, while unemployment is projected to ease further, but at a slower pace, to the region of 11%. The forecast in IOBE's baseline macroeconomic scenario (Table 1.1) contains positive prospects and risks for 2023, which are detailed in section 3.1B.

Table 1.1

IOBE macroeconomic forecasts (July 2023) for 2023

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

	2022 (actual)	2023
GDP	6.1%	2.4%
Consumption	5.5%	1.5%
Private consumption	7.9%	1.8%
Public consumption	-1.5%	0.6%
Gross capital formation	21.8%	4.0%
Gross fixed capital formation	11.6%	10.0%
Exports	4.9%	4.5%
Imports	10.9%	3.3%
Inflation rate	9.6%	4.3%
Unemployment (% labour force)	12.4%	11.0%

Special study: Intergenerational mobility in education in Greece

The IOBE study highlighted here focuses on three axes: (a) the role of socio-economic status and other important factors in the cognitive performance and future professional plans of Greek secondary school pupils; (b) their trends over time taking into account the recent economic crisis; (c) potential differences from other EU/OECD countries in terms of the impact of socio-economic and other factors on intergenerational educational mobility.

Among the findings, there are large and significant correlations between student scores and certain socio-economic and parental background characteristics that seem to be of greater importance to children: educational and cultural resources at home and emotional support from parents. The socio-economic position of parents seems to be channelled to children through these cultural and emotional pathways, but also through attending private schools. The relationship between the socio-economic background and students' performance is evident, statistically significant, and generally stable before, during and after the Greek crisis, highlighting the need for a coherent strategy to alleviate inequalities in education.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- Based on the latest OECD June forecasts, for 2023, the global economy is projected to grow slightly stronger than in the March forecast (2.7% from 2.6%).
- Inflation is gradually declining, but still at high levels.
- The global restrictive monetary policy is projected to be maintained for a longer period, which increases the chances of a sharp fall of economic activity.

The global economy continued to grow in early 2023, albeit at a much weaker pace as a consequence of high inflation and monetary tightening. The economies of the OECD countries grew at an annual rate of 1.5% in the first quarter of 2023, after GDP growth of 1.4% in the previous quarter and 4.6% growth in the corresponding quarter of 2022. The annual rate of change of GDP in the major developed economies (G7) stood at 1.3%, compared with 0.9% in the previous quarter and growth of 4.0% in the corresponding quarter of 2022. OECD's 20 largest economies grew at a rate of 2.7% in the first quarter of 2023, up from 2.3% in the previous quarter, after growth of 4.5% in the corresponding quarter of 2022.

Headline inflation is declining, mainly as a result of falling energy prices, while core inflation is also declining, but at a slower pace. Inflation in the 38 OECD countries last April reached 7.4%, falling for a sixth month in a row from a 10.7% high in October 2022. Core inflation (excluding energy and food) remains high at 7.1% while energy prices rose marginally by 0.7% and food prices by 12.1%.

Inflation remaining above the desired level and a strong labour market in many countries have resulted in a further tightening of monetary policy and a prolonged intention to keep interest rates high by global central banks. The tightening of financial conditions has already started to negatively affect both inflation and economic activity. While the possibility of a smooth landing of the economies remains likely, ongoing interventions and keeping interest rates high for longer periods increases the risk of a sharper fall in economic activity.

Table 2.1

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

Economy	2022	2023		2024	
	Actual	Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.3	2.7	0.1	2.9	0.0
USA	2.1	1.6	0.1	1.0	0.1
Japan	1.0	1.3	-0.1	1.1	0.0
Canada	3.4	1.4	0.3	1.4	0.0
United Kingdom	4.1	0.3	0.1	1.0	0.1
Eurozone	3.5	0.9	0.1	1.5	0.0
Germany	1.9	0.0	-0.3	1.3	-0.4
France	2.5	0.8	0.1	1.3	0.0
Italy	3.8	1.2	0.6	1.0	0.0
Turkey	5.6	3.6	0.8	3.7	-0.1
China	3.0	5.4	0.1	5.1	0.2
India	7.2	6.0	0.1	7.0	-0.1
Brazil	3.0	1.7	0.1	1.2	0.1
World trade	5.0	1.6	-1.3	3.8	0.0

* Difference in percentage points from previous OECD forecasts (OECD Economic Outlook, March 2023).
Source: OECD Economic Outlook, June 2023

Global GDP growth last year stood at 3.3%, while the latest OECD report projects 2.7% growth for 2023, from 2.6% projected in the March report. World trade volume growth is forecast at 1.6% for 2023 from 5.0% in 2022, while for 2024 it is projected to increase to 3.8%. Table 2.1 shows the annual changes in GDP in 2022 and the latest OECD forecasts (June 2023) for its annual changes in 2023 and 2024, in the world economy and in selected developed and developing countries.

Next, we analyse recent and expected trends in the economies of major states and associations of states for 2023 and 2024. Among the major developed economies, the United States recorded annual growth of 1.6% in the first quarter of 2023, from 0.9% in the previous quarter and 3.7% in the corresponding quarter of 2022. On a seasonally adjusted basis, the first quarter saw growth compared with the previous quarter (annualised at 1.1%), on account of growth in private and public consumption, growth in exports, and non-residential fixed capital investment. This growth was partly offset by a decline in inventories, a decline in residential investment, and an increase in imports. Inflation fell to 4.0% last May, falling for the eleventh consecutive month from a 40-year high in June 2022 (9.1%). In order to control inflationary pressures, the Fed increased its base rate by 500 basis points in total in successive hikes between March 2022 and May 2023, to 5.00%-5.25%. At the June meeting, it decided to leave the interest rate unchanged, yet it signalled a further increase in the interest rate to 5.6% by the end of the year if the economy and inflation did not slow further. In 2023, the US economy is forecast to grow by 1.6% from 2.1% growth in 2022, while next year it is projected to grow by 1.0%.

The euro area economy grew at a rate of 1.0% in the first quarter of 2023, from 1.8% in the previous quarter and 5.5% in the same quarter of 2022. Compared with the previous quarter, economic activity declined marginally (-0.1%) on a seasonally adjusted basis, with household consumption declining by 0.3%, dampened by high inflation and increased borrowing costs. Government consumption also declined, by 1.6%, as governments gradually withdrew the budget support aimed at partially offsetting rising energy costs. By contrast, gross fixed capital formation recovered (+0.6%) after declining in the previous quarter (-3.5%). Exports also declined by 0.1% and imports fell by 1.3%. Among the bloc's largest economies, GDP contracted in Germany (-0.3%) and the Netherlands (-0.7%), while expansion was recorded in France (0.2%), Italy (0.6%) and Spain (0.5%). Inflation fell to 6.1% last May in the euro area, its lowest since February 2022, while core inflation fell to 5.3% after a record high level (5.7%) posted in last March. The ECB has made eight successive hikes in its base rate of 400 basis points in total between July 2022 and June 2023, to 3.50%. A further increase of 50 basis points of its base rate (to 4%) is expected, with that level maintained for a longer period of time, due to persistent inflation, which is projected to decline from 5.4% in 2023 to 3.0% in 2024 and thereafter to 2.2% in 2025. In 2023 as a whole, a marginal growth of 0.9% is forecast for the euro area economy (from 3.5% in 2022), while for 2024 growth is projected at 0.8%.

In the United Kingdom, GDP increased by 0.2% in the first quarter of 2023, from 0.6% in the previous quarter and growth of 10.6% a year ago. As inflation remained high in May at 8.7%, unchanged from the previous month, and core inflation is at a 31-year high at 7.1%, the country's central bank decided last June to raise its key interest rate by 50 basis points to 5.0%. Overall, marginal growth at 0.3% is forecast for 2023, from 4.1% in 2022, while for the following year growth is projected at 1.0%.

In Japan, GDP grew by 1.8% in the first quarter of 2023, after a 0.4% increase in the previous quarter and a 0.6% increase a year ago. For this year, the Japanese economy is projected to grow at a rate of 1.3%, from 1.0% in 2022, while for 2024 growth is forecast at 1.1%.

Next in this section, we present recent trends and economic policy challenges in four developing countries and economic regions, which taken together generate almost a third of global GDP. China's economy recorded an acceleration in its annual growth rate in the first quarter of 2023, to 4.5%, the strongest growth rate since the first quarter of 2022, amid Beijing's efforts to boost the post-pandemic recovery. It had recorded a growth rate of 2.9% in the previous quarter and 4.8% in the first quarter of 2022. According to the National Bureau of Statistics, the complex global environment and insufficient domestic demand suggest that the foundations for the country's recovery are not yet solid. Growth of 5.4% is projected for this year, from 3.0% in 2022, while for 2024 growth is forecast at 5.1%.

India's economy recorded an annual growth rate of 6.1% in the first quarter of 2023, from 4.6% growth in the previous quarter and 3.6% growth a year ago. High inflation, in particular for energy and food, and the resulting monetary tightening to stabilise inflation expectations, weigh on household purchasing power and consumption, especially in urban areas. Overall for 2023, growth is forecast at 6.0% from 7.2% in 2022. A growth of 7.0% is forecast for 2024.

Türkiye's economy recorded a growth rate of 3.0% year-on-year in the first quarter of 2023, up from 3.5% in the previous quarter, compared with 7.2% growth a year ago. The annual inflation rate fell for the seventh consecutive month to 39.6% last May, while the Turkish lira fell sharply after the second round of presidential elections on May 28, as President Tayyip Erdogan decided to put an end to unorthodox economic policies. The shift to a more rational monetary policy led to a 650 basis point increase in the base rate in June to 15%, although markets expected a stronger increase (to 21%) and an end to exchange rate support measures. By the end of June, the annual increase of the dollar and euro relative to the Turkish lira reached 54.8% and 55.3% respectively, while in the period since the end of the elections alone, the rates changed by 27.4% and 29.2%, respectively. For 2023 the Turkish economy is projected to grow at a rate of 3.6% (from 5.6% in 2022), while for 2024 growth is forecast at 3.7%.

Among the Latin American countries, Brazil's economy grew by 3.4% in the first quarter of 2023, up from 2.5% in the previous quarter and 2.3% in the corresponding quarter of 2022. For 2023, GDP is projected to grow by 1.7% from 3.0% in 2022, while for 2024 growth is projected at 1.2%.

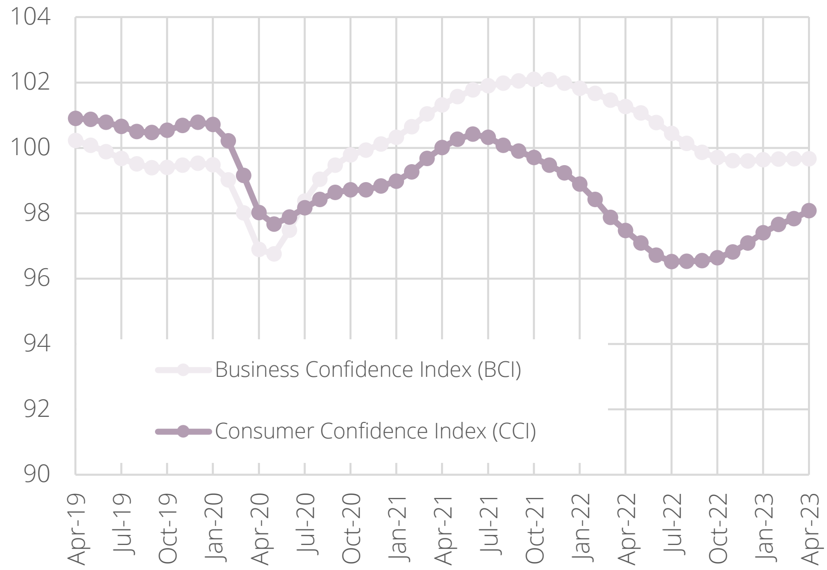
The OECD's business confidence index stabilised at levels marginally below its long-term average, while the consumer confidence index continued to improve for the ninth month in a row but remained below the long-term average (Figure 2.1).

Figure 2.1

Economic sentiment indicators for the OECD countries

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

The global consumer confidence index is increasing, while the business confidence index is stabilising close to its long-term average.



Source: OECD

B. EU and Euro area economies

- Positive annual growth in real GDP in the EU and the euro area in the first quarter of 2023, by 0.9% in both blocs.
- Slower growth and inflation for 2023 according to the European Commission's Economic Forecast.
- Continued systematic hikes in key interest rates by the ECB.
- Public consultation launched on the European Commission's proposals for the revision of the Stability and Growth Pact.

As the energy crisis gradually eases, the growth rate of the European economy remains positive, while inflation is slowly but steadily declining. Conditions in the EU have improved thanks to the achievement of diversification of energy supply sources while limiting its consumption. The risk of significant shortfalls in the coming period has decreased to a significant extent, but price developments remain uncertain.[1] At the same time, excessively large increases in energy and food prices, demand-side pressures stemming from the relaunch of the economy after the expiry of the containment measures, and supply rigidities contribute to a sustained rise in inflation. According to the latest forecast by the European Central Bank (June 2023), inflation is expected to average 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025. As current inflation factors weaken over time and monetary policy interventions are passed on to the economy and to the price level, inflation is expected to decline.

As regards the trend in economic activity in the first quarter of 2023 in the European Union and the euro area, growth slowed from the previous quarter to 0.9%, from 1.7% and 1.9% respectively, against a recovery of 5.7% and 5.5% in the EU and EA respectively one year earlier. According to the European Commission's latest forecast,[2] growth in the euro area is estimated at 3.5% for 2022, while for 2023 a lower growth rate of 1.1% is projected. Similarly, for the European Union growth is estimated at 3.5% in 2022 and 1.0% for this year.

Growth in the economies of the European Union in January-March 2023 was partly driven by growth in domestic demand, with the contribution of investment being almost zero, down from 0.3% in the previous quarter. The contribution of consumption was 0.3%, compared with a higher contribution in the fourth quarter of 2022, at 0.6 pp. of GDP. The impact of net exports on GDP change in the first quarter of 2023 was positive, at 0.8%, similar to the previous quarter. In relation to the structure of growth in the euro area economies, domestic demand is the main growth factor (0.5 pp. from 1.2 pp. in the fourth quarter of last year). There was also a marginal contribution of investment compared to the fourth quarter of the previous year (0.3% of GDP), marginally higher than in the previous quarter (0.2% of GDP), while the contribution of consumption was positive, at 0.4 pp. from a higher impact in the fourth quarter of 0.7 pp. In addition, in that quarter, the contribution of net exports in the euro area was also positive, at 0.4%, from 0.7% a quarter earlier.

The composition of GDP components on the expenditure side remains similar in the EU-27 and the euro area, with private consumption accounting for 52.1% and 52.3% of GDP respectively,

[1] European Economic Forecasts Spring 2023, European Commission, May 2023

[2] European Economic Forecasts Spring 2023, European Commission, May 2023

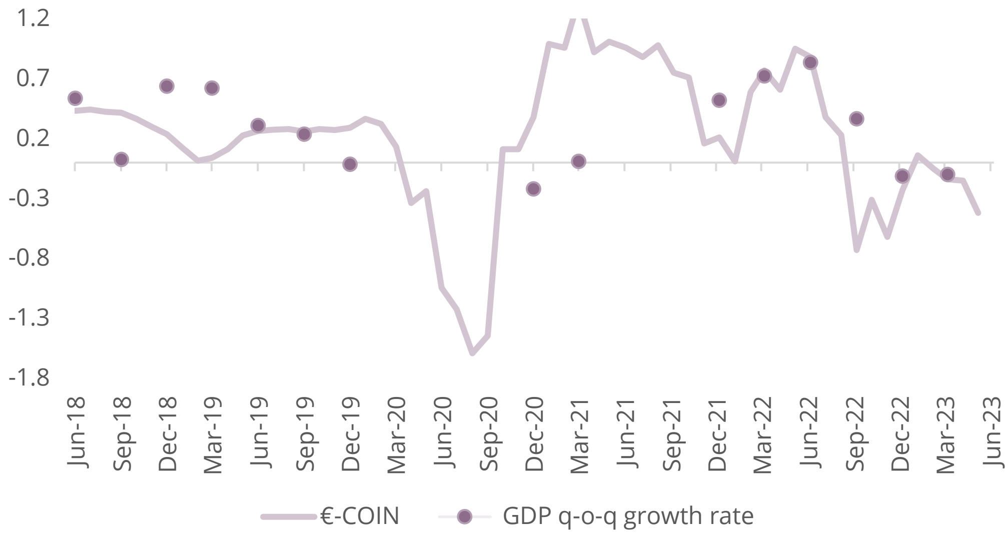
investment accounting for 22.7% and 22.2% of GDP, exports for 54.6% and 53.1% of GDP and imports for 50.6% and 49.1% of GDP.

The strongest growth (annual changes in seasonally adjusted data) among the EU countries in the first quarter of the year was recorded in Spain, where the rate reached 4.2%. Next came Cyprus (3.4%), Malta (3.2%), and Romania (2.8%). The countries with the deepest contraction were Estonia (3.7%), Lithuania (2.7%), and Hungary (1.1%). Based on the 12-month rolling average, Greece showed a positive growth rate of 4.6%, higher than the average rate in both the EU and EA by 2.4 pp. (see Figure 1 in the Annex). The only country to experience annual contraction was Estonia (2.7%), while the lowest year-on-year growth was recorded in Lithuania (0.1%), followed by Finland (0.8%). By contrast, the country with the largest positive 12-month rolling growth rate in the EU was Ireland (9.1%), followed by Malta (5.9%) and Croatia (5.1%).

Figure 2.2

Monthly €-COIN Index & Eurozone GDP*

The €-COIN index fell in the first quarter of this year to -0.04, followed by a further decline in April – May.



* 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.

Regarding the trends in economic sentiment and key leading indicators of economic activity in the euro area and the European Union, the €-COIN index declined further in April-May of the second quarter to -0.29 points (Figure 2.2). In particular, its monthly level was negative at -0.42 points in May 2023, much lower than in May 2022 (0.95), pointing to expectations of a decline in GDP.

The European Commission's economic sentiment indicator deteriorated in the EU-27 and the euro area in April-May compared with the first quarter. Indicatively, in May this year the economic sentiment indicator stood at 95.2 points in the EU-27 and 96.5 points in the euro area, lower than in the previous month, but also lower year on year by 8.6 and 7.2 points in the EU-27 and EA respectively (Table 2.2).

Among the EU's largest economies, France and Germany, in April-May this year the indicator fell from both the first quarter of 2023 (by 3.3 and 0.9 points respectively) and from the same two months in the previous year (by 8.6 and 9.5 points respectively). In Italy, the index increased marginally by 0.2 points compared to the first quarter of the year, while it decreased by 1.5 points compared with the corresponding two-month period in the previous year. Finally, in the two-month period of April-May 2023, the economic climate index in Greece increased by 1.6 points compared to the first quarter, to a level about 3.0 points higher than a year earlier.

Next in this sub-section, we present more detailed information on the changes in the GDP components and the remaining macroeconomic variables of the euro area and the EU in the first quarter of 2023, as well as on their expected trends in the coming period.

Table 2.2

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

Month	June - 21	Jul- 21	Aug- 21	Sep- 21	Oct - 21	Nov - 21	Dec - 21	Jan - 22	Feb - 22	Mar - 22	Apr- 22	May - 22
EU-27 (2020)	115.8	116.6	115.3	115.3	116.2	115.2	114	112.6	113.3	105.7	103.9	103.6
Euro area	116.7	117.6	116.3	116.4	117.2	116.2	114.3	113.1	114.1	106.1	104.3	104.2

Month	June - 22	Jul- 22	Aug- 22	Sep- 22	Oct - 22	Nov - 22	Dec - 22	Jan - 23	Feb - 23	Mar - 23	Apr- 23	May - 23
EU-27 (2020)	102	97.9	97.2	94	92.9	94.1	95.6	97.7	97.6	97.1	97.1	95.2
Euro area	103.3	98.8	98	94.6	93.9	95.1	96.9	99.6	99.4	98.9	99	96.5

Source: European Commission (DG ECFIN), March 2023

The projections for 2023-2024, as reported for the EU and the euro area, are presented in the latest forecast of the European Commission (Table 2.3). A summary of key macroeconomic variables by country member of the euro area is presented in the Annex.

In detail, according to Eurostat data for the first quarter of 2023 (annual changes in seasonally adjusted data), private consumption in the European Union increased by 0.5%, when in the previous quarter it had increased by 1.1%, while in the same period of 2021 it was growing by 8.0%. In the euro area, household consumption increased by 0.8%, from a higher growth of 1.4% in the previous quarter, while a year earlier it had increased by 8.4%. In May, the European Commission forecast a small increase in consumption in 2023 to 0.5%, after a 4.0% increase last year. For the euro area, it forecast a 0.6% increase in private consumption in 2023, well below the 4.3% recorded in 2022 (Table 2.3). At the country level, in Germany, private consumption fell by 1.5%, while in the fourth quarter of last year, it had increased by 9.6%, and in the previous quarter, it had increased by 1.1%. In France, consumption remained almost stable (0.1 %). In Italy, it increased by 3.4%, a smaller increase compared to a quarter ago, while in Spain it grew by 1.6% when last quarter it had risen by 3.0%. In Greece, private consumption rose 2.9%, up from 4.1% in the previous quarter, while in the same period of 2022, it had increased by 13.6%.

Public consumption declined in the EU and the euro area in the first quarter of 2023 by 0.6% and 0.9% respectively, from 0.3% and 0.9% a quarter ago. In the same quarter of 2022, public consumption had increased by 2.9% in the EU and 3.1% in the euro area. For 2023, the European Commission expected in May a slowdown in public consumption growth in the EU and the euro area from 2022 to 0.7%.

Table 2.3

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

	EU			Eurozone		
	2022	2023	2024	2022	2023	2024
GDP	3.5	1	1.7	3.5	1.1	1.6
Private Consumption	4	0.5	1.8	4.3	0.6	1.7
Public Consumption	1.1	0.7	0.8	1.3	0.7	0.7
Gross Investment	4	0.9	2.1	3.7	1	2.1
Exports of Goods and Services	7.1	3	3.3	7	3.1	3.3
Imports of Goods and Services	7.9	2.1	3.2	8.0	2.3	3.2
Employment	2	0.5	0.4	2.3	0.6	0.5
Unemployment (% labour force)	6.2	6.2	6.1	6.8	6.8	6.7
Inflation	9.2	6.7	3.1	8.4	5.8	2.8
Balance of General Government (% GDP)	-3.4	-3.1	-2.4	-3.6	-3.2	-2.4
Debt of General Government (% GDP)	85.3	83.4	82.6	93.1	90.8	89.9
Current Account Balance (% GDP)	0.5	2.0	2.3	0.6	2.1	2.4

Source: European Economic Forecasts, Spring 2023, European Commission, May 2023

Investment declined slightly in January - March 2023 in the EU by 0.1%, while in the previous quarter, it had increased by 1.3%. In the euro area, the rise was 1.2%, compared with an expansion of 1.0% in the fourth quarter of last year. In the same quarter of 2022, investment increased by 5.2% in the EU and 2.7% in the euro area. The European Commission forecast a lower increase of 0.9% for 2023 in the EU and 1.0% in the euro area. In the first quarter of 2023, investment increased by 5.9% in Germany following an increase of 4.0% in the previous quarter, while Italy recorded a decrease of 3.5%, from a smaller decrease of 2.0% in the quarter of October to December 2022. The rate of change in investment in France was positive, at 2.0%, from 7.3% growth in the previous quarter.

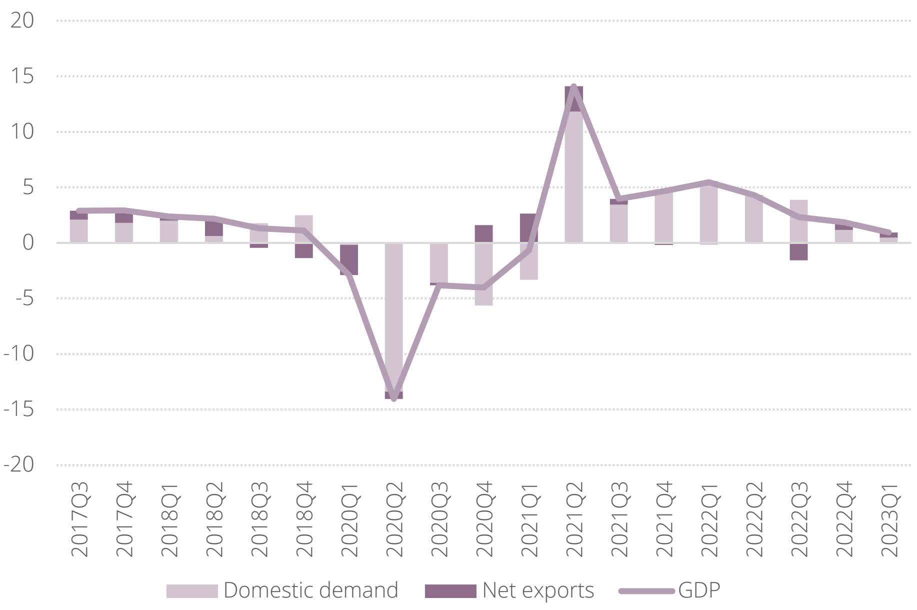
Exports of goods and services expanded in the first quarter of the year in the EU (3.2%) and the euro area (2.7%), against a higher increase of 4.9% and 4.6% respectively in the previous quarter and stronger growth in the first quarter of 2022 (8.6% and 9.0%). For 2023, the European Commission predicted an increase in exports compared to 2022 by 3.0% and 3.1% in the EU-27 and the euro area respectively (from 7.1% and 7.0% last year). At the country level, Germany saw export growth in the first quarter of 2023 by 1.2%, the same as in the fourth quarter of last year. In France, exports strengthened in the first quarter of this year by 1.1%, less than a quarter ago (2.5%). Italy saw an increase of 2.1%, from a stronger growth of 9.3% a quarter earlier. There was a strong expansion of exports in Spain, by 10.2%, following a smaller rise of 7.2% in the previous quarter.

Imports in the EU increased by 1.7% in the first quarter of 2023, less than a quarter ago (3.6%). A similar change was observed in the EA, by 2.0%, from a higher increase of 3.4% in the fourth quarter of 2022. A year earlier, there was an increase of 9.8% and 10.0% respectively. For 2023, the European Commission has forecast annual growth for the EU and the euro area of 2.1% and 2.3% respectively, from 7.9% and 8.0% recorded in 2022. At the country level, imports in Spain increased by 3.3% in the first quarter of 2023, compared with a lower increase of 2.1% in the previous quarter. In France, they expanded by 0.5%, from a stronger boost of 5.1% a quarter ago, while in Italy there was a 0.3% increase from a rise of 6.1%. A positive rate was recorded in Germany (1.4%), against a stronger growth in the fourth quarter of 2022 (2.7%).

Based on developments in the GDP components in the euro area (Figure 2.3), the contribution of net exports was positive (0.4%), lower than in the previous quarter (0.7%). The positive contribution of net exports in the first quarter this year came from a decline in the contribution of imports from 1.6% in the fourth quarter to 1.0% in the first quarter of the year. At the same time, the contribution of exports also decreased but not to the same level (2.4% in the fourth quarter of 2022 and 1.4% in the next quarter). As already mentioned, the contribution of domestic demand was in the order of 0.5% of GDP, from a positive impact of 1.2 percentage points in the previous quarter. The bulk of the contribution came mainly from private consumption, which acted positively in the first quarter of 2023 by 0.4% of GDP, while in the fourth quarter, its positive contribution was at 0.7 pp.

Figure 2.3.

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



Positive contribution of net exports to euro area GDP change in the first quarter of 2023. Positive impact of domestic demand.

Source: Eurostat

Harmonised inflation declined in the first quarter of 2023 in the EU and the euro area, recording rates of 9.5% and 7.7%, from 10.1% and 9.0% respectively one quarter earlier. In the first quarter of 2022, harmonised inflation had stood at 6.2% in the EU and 6.3% in the EA respectively. Overall for 2022, the European Commission recently reported (May 2023) that inflation increased sharply in 2022 in the EA to 8.4% from 2.6%, and in the EU to 9.2% from 2.9%, while in 2023 it will fall to 5.8% and 6.7% respectively.

Employment strengthened in the first quarter of 2023, by 1.2% in the EU and 1.5% in the EA, same as one quarter earlier, while in the same period of 2022 jobs had increased by 3.2% and 3.7% respectively in the two blocs. The European Commission forecasts annual employment growth in the EU and the euro area in 2023 of 0.5% and 0.6% respectively, compared with 2.0% and 2.3% the previous year. The strongest employment growth in the first quarter of 2023 was recorded in Malta (5.3%), Ireland (4.1%), Cyprus (3.4%) and Estonia (3.0%). Employment fell in Croatia (6.0%), Bulgaria (5.3%) Slovenia (0.6%), and Portugal (0.1%).

Unemployment in the first quarter of 2023 remained almost stable compared to the fourth quarter of 2022 at 6.0% in the EU and 6.6% in the euro area (against 6.1% and 6.7% respectively). In the first quarter of last year, it stood at 6.2% in the EU and 6.8% in the EA. For 2022, the European Commission has estimated a decline in unemployment rates in the EU-27 and the euro area compared with the previous year, to 6.2% and 6.8%, similar to forecasts for 2023. In January-March 2023, the highest unemployment rate was recorded in Spain (12.8%), followed by Greece (11.0%) and Italy (7.8%), while in Lithuania unemployment stood at 7.7%.

In the area of fiscal performance, the general government deficit in the EU-27 in the fourth quarter of 2022 was 4.4% of GDP, while in the third quarter it stood at 3.7%. The European Commission has forecast that the budget deficit will stand at 3.4% and 3.1% of GDP respectively in 2022 and 2023. On the fiscal balance on average in the euro area, it expects a deficit of 3.6% of GDP in 2022 and 3.2% in 2023. As regards public debt, it stood in euro area countries in the fourth quarter of last year at 91.5% of GDP, while the average is expected to stand at 93.1% in 2022 and next year to fall to 90.8% of GDP. Government debt, as a percentage of GDP, declined in the fourth quarter of 2022 in many member countries, with the highest level recorded in Greece (171.3%), Italy (144.4%), Portugal (113.9%), Spain (113.2%) and France (111.6%).

As regards the monetary policy framework, according to the ECB's announcement of 15 June 2023, the ECB increased its three key interest rates by 25 basis points on revised inflation expectations to ensure a timely return of inflation to the ECB's medium-term objective of 2.0%. Reinvestments under the asset purchase programme portfolio (APP) will end at the end of July. With regard to the pandemic emergency purchase programme – PEPP, the ECB will continue to reinvest the principal amounts from the redemption of the purchased securities as a minimum until the end of 2024. The future roll-off of the PEPP portfolio will be set in a way that is consistent with monetary policy. Finally, the Transmission Protection Instrument (TPI) is available to offset undesirable, unforeseen market changes that may negatively affect the transmission of monetary policy in the euro area, with a view to price stability.

Briefly, the economy in Europe, and in the Eurozone in particular, is currently facing a number of challenges. The main ones are:

● Russia's invasion of Ukraine, with economic consequences of high intensity and duration.

● Forecasts by international organisations for a slowdown in the euro area economy, with inflation significantly above the target and with the expectation of a further tightening of monetary policy.

● The energy crisis with a potential re-intensification in late 2023 and the need for multilateral interventions to ensure energy security and to support demand. The likelihood of significant shortfalls has been significantly reduced, but there is strong uncertainty about price developments.

● The need for coordination of fiscal and monetary policies at the collective and national levels in order to strike a balance between the objective of containing inflation expectations and avoiding an economic downturn.

● The agreement on the new fiscal rules framework in the EU is pending, following the proposals of the European Commission published in April 2023 (see special textbox of section 2.2B).

2.2 The Economic Environment in Greece

A. Economic Sentiment

- A slight strengthening of the Economic Sentiment Indicator in Greece in the second quarter of 2023 compared with the immediately preceding quarter (109.0 out of 106.9). A slight improvement compared to the same quarter of last year (105.1 points).
- Business confidence strengthened in the recent quarter compared to the previous one significantly in Services and to a milder extent in Retail and Construction, while it declined mildly in Industry.
- The Consumer Confidence Indicator improved significantly in April-June compared with the previous quarter, to -36.7 (from – 43.3) points. At the same time, it moved sharply higher than a year earlier (-53.0 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 second quarter of 2023, the Economic Sentiment Indicator strengthened compared with the previous quarter, by 2.2 points. The improvement was driven by a significant increase in business confidence in services, while expectations in retail trade and construction moved up slightly, with industrial confidence declining slightly. At the same time, the Consumer Confidence Index stood significantly higher than in the previous quarter, at -36.7 (from -43.3 points).

Expectations in the industrial and construction sectors were systematically affected throughout 2022 by rising energy and other raw materials prices due to the war in Ukraine, as well as by difficulties in the functioning of international supply chains, but they recovered in 2023. Especially

[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.

in the construction sector, expectations have risen sharply. In the services sector, the strong dynamics of international tourism had a positive impact on expectations during most of last year, boosted by the protracted good weather conditions, especially in the last quarter of the year, with business confidence on a downward path, especially in some more vulnerable sectors, in early 2023. However, in the second quarter of the year, also in view of the start of the tourist season, expectations were encouraging, not only in the services sector but also in the other sectors, after the elimination of the risk of political instability. On the household side, it is apparent from the beginning of the current quarter that two opposing forces are weighing on developments in consumer confidence. On the one hand, the impact of the rising cost of living raises concerns for the households about their near-term financial situation, but recently successive packages of support measures for the most vulnerable, pre-election commitments, and the results of the two elections have significantly improved expectations and have been instrumental about the course of the indicator in this quarter.

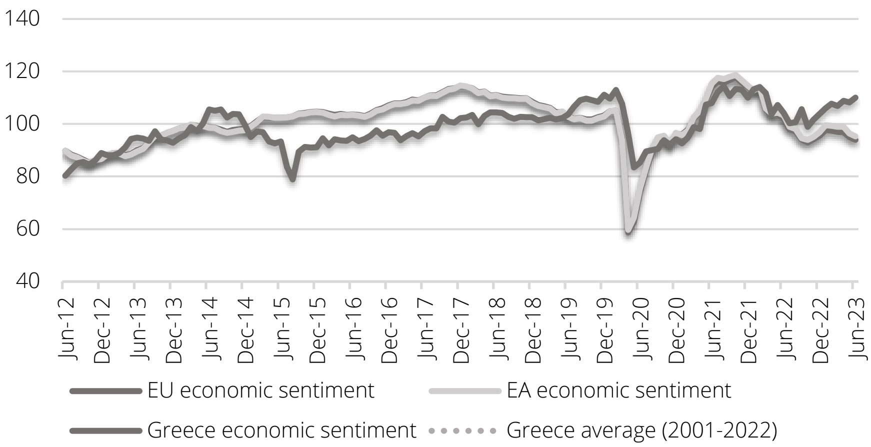
In more detail, the Economic Sentiment Indicator for Greece in the quarter from April to June was slightly higher than in the previous quarter (Figure 2.4), from 106.9 to 109.0 points, while it fluctuated at a slightly higher level than the average for the previous year (105.1 percentage points).

In Europe, the respective average index stood moderately lower 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 95.3 (down from 97.4) points in the second quarter of this year in the EU and 96.9 (down from 99.3) points in the euro area.

Figure 2.4

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

The Economic Sentiment Indicator strengthened in the second quarter of 2023 compared with the previous quarter by 2.2 points



Source: European Commission, DG ECFIN

At the sectoral level, business confidence in Greece weakened moderately in industry, strengthened marginally in construction, while improving significantly in retail trade and services. On the consumer side, the Consumer Confidence Index rose significantly compared with the previous quarter. Compared with the corresponding quarter of last year, average indices weakened modestly in industry, while they increased significantly in all other sectors. In more detail:

The Consumer Confidence Index in Greece in the April-June quarter of this year stood markedly higher on average than in the first quarter of this year, standing at -36.7, from -43.3 points, to a level significantly higher than last year (-53.0 points). The corresponding average index improved moderately in the EU, to -18.1 (from -21.1 points), and in the euro area (-17.0 from -199,6 points). These levels are much higher than the corresponding levels from a year ago (-23.5 and -22.7 percentage points respectively).

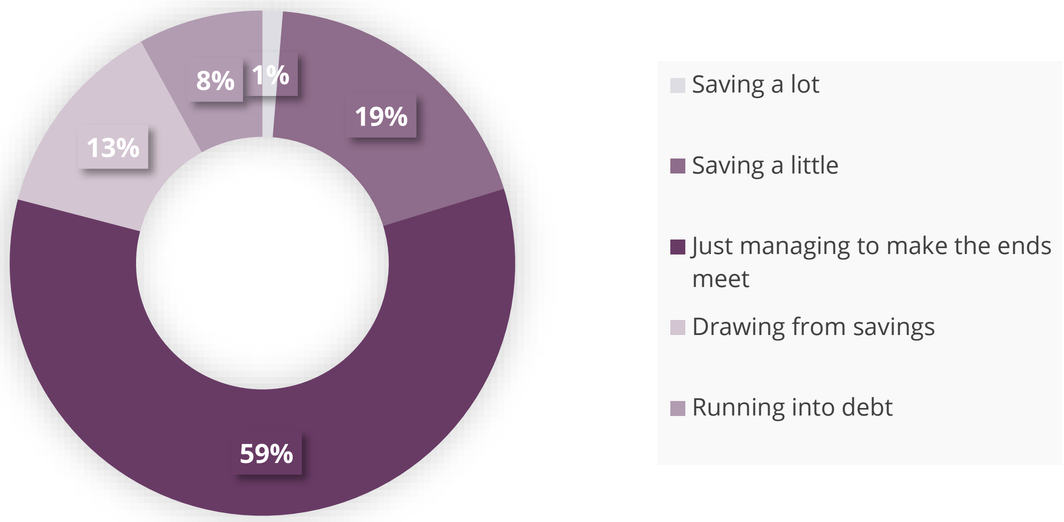
The trends in the key components of the aggregate indicator were mostly positive in the first quarter of 2023 compared with the immediately preceding quarter. As a result, the consumers' pessimistic expectations about the financial situation of their households over the next 12 months eased slightly, while those about the country's financial situation improved more significantly. At the same time, the households' assessments of their current situation improved marginally, while the intention for major purchases in the near term strengthened moderately.

In more detail, the percentage of those who are pessimistic about the financial situation of their household over the next 12 months fell mildly, to 49% (from 54% in the previous quarter), while the percentage of those stating the opposite rose to 11% (from 8%). At the same time, the proportion of consumers in Greece who are gloomy about the country's economic situation fell to 50% (from 58%), with 20% (from 13%) expecting an improvement. With regard to saving intentions, the percentage of households that do not rate savings as likely over the next 12 months declined to 83% (from 85%), while the proportion of households that consider it to be likely improved marginally to 16%. In the unemployment expectations, the proportion of those expecting the situation to deteriorate fell to 35% (from 41%), with 25% (from 22%) holding on average the opposite expectations. The percentage of consumers reporting to be "running into debt" in the second quarter of 2023 remained at 7-8%, the same level as in the same quarter of 2022 (8%). The proportion of respondents reporting that they were saving a little increased slightly to 19% (from 18% in the same quarter of 2022). Finally, the percentage of those reporting that they were "just making ends meet" slightly weakened to 59%, while the percentage of households reporting that they were drawing from their savings increased to 13% (from 11%), with the figure for 2022 at 9% (Figure 2.5).

The industrial confidence indicator stood at 107.5 in the second quarter of 2023 (down from 109.4 in the first quarter of 2023), marginally lower than the corresponding outcome in 2022 (108.0 points). In the main activity data, the short-term output expectations indicator strengthened moderately in the quarter under review, averaging +30.3 points, from +26.9 points in the first quarter of 2023. By contrast, the mildly negative estimates of the level of order books and demand strengthened further (to -9.0, from -5.9 points). The estimates of the stocks of finished products suggest a mild expansion (to +9.4 from +3.8 percentage points), while the trends in export variables were mainly negative: the expectations for export dynamics for the next three months declined noticeably (+11.3 from +21.6 points), with the estimates for order books and foreign demand falling moderately (-17.4 from -13.2 points), while current assessments for exports in the sector increased marginally (to +5.9 from +5.6 points). In the employment expectations, the relevant quarterly average balance declined mildly declining to +9.9 (from +11.6) points on average. Capacity utilisation was moderately lower, at 73.4% (down from 74.2%), whereas the months of secured production of firms increased slightly to 5.7 (from 5.2) months on average.

Figure 2.5

Consumer survey data on the financial situation of households (April -June 2023)



The share of consumers indicating that they were just making ends meet (59%) weakened compared with the first quarter of 2023. The share of those reporting that they were running into debt remained unchanged.

Source: IOBE

The retail trade confidence indicator for the quarter under review was significantly higher than in the previous quarter, at 117.2 points (up from 111.5), a markedly higher performance compared with the same quarter of last year (87.9 percentage points). From the main components of the indicator, the average balance for the assessment of current sales improved significantly to +51 (from +40) points. Of the companies in the sector, 12% (down from 16%) reported that their sales decreased, with 63% (from 56%) stating the opposite result. In terms of projected sales, the index increased significantly from +12 points, reaching +36 (from +17) points, with stocks escalating moderately (to +13 percentage points). Among the other activity data, the balance of expectations for order books to suppliers increased moderately, standing at +17 points (from +13 points), while, regarding employment in the sector, the average balance of expectations dropped markedly to +20 (from +28). Finally, in terms of price expectations, the balance remained at strong inflationary levels (+48 from +57 points), with only 1% of the firms expecting a decline in prices and 49% (down from 58%) anticipating the opposite. An improvement in business confidence was recorded in the second quarter of 2023 in almost all of the examined individual branches of retail trade, with the exception of textiles-clothing-footwear and department stores, which recorded a marked decline.

Business confidence strengthened marginally in construction in the second quarter of 2023, standing at 145.8 points on average, down from 145.2 points in the previous quarter, the smallest change among the main sectors of activity. This is significantly higher than in the same quarter of

2022 (119.6 percentage points). In the main components, employment expectations in the sector weakened slightly, with the relative balance reaching +43 points from +48 points, as 46% (down from 61%) of firms were expecting jobs to expand and 3% (down from 13%) were expecting them to decrease. The firms' negative balance of expectations on planned work eased (to -37 from -43 points), while their assessment for the current level of work remained unchanged (at +1 percentage point on balance).

The months of secured activity of firms in the sector increased marginally to 12.2 while the balance of price expectations moved mildly down to +28 (from +36) points, with 3% of firms expecting a decrease in the short-term and 31% (from 42%) expecting them to increase. Finally, the percentage of enterprises reporting that they do not encounter obstacles to their operation fell to 15% (from 16%). Of the remaining enterprises, 30% (from 16%) find as the biggest obstacles to their operation labour shortages, 15% (from 25%) low demand, 17% (from 20%) insufficient financing, and only 13 % factors such as the country's general economic situation, high prices of raw materials, lack of projects, late payments by the State, etc. At the branch level, business confidence edged up in private construction, in contrast to the mild decline in public works.

The confidence indicator in services was significantly higher in the quarter under review than in the previous quarter, at 113.8 points (up from 96.6), while also higher than in the same quarter of 2022 (97.9 points). From the underlying variables, the assessment of current demand improved significantly, with the underlying indicator rising by an average of 24 points to +28 points. The assessment of the firm's current situation also increased sharply (+28 from +10 percentage points), with the balance in the short-term demand expectations of the enterprises in the sector rising significantly (+42 from +23 points). Among the other activity data, the respondents' employment expectations increased by 9 points to +31 points, while the average indicator on price expectations declined sharply to +19 (from +32). Finally, the share of respondents reporting a seamless business operation declined marginally to 25% on average, with 22 % indicating as the main obstacle to their operation insufficient demand, 11% labour shortage, 14% shortage of working capital, and 24% (down from 27%) other factors related to the general economic situation, energy prices, the war in Ukraine, etc. Of the examined branches of services, the indicators strengthened slightly in the second quarter of 2023 in financial intermediaries, various business activities, and information technology, and more strongly in land transport and hotels-restaurants-travel agencies.

Table 2.4

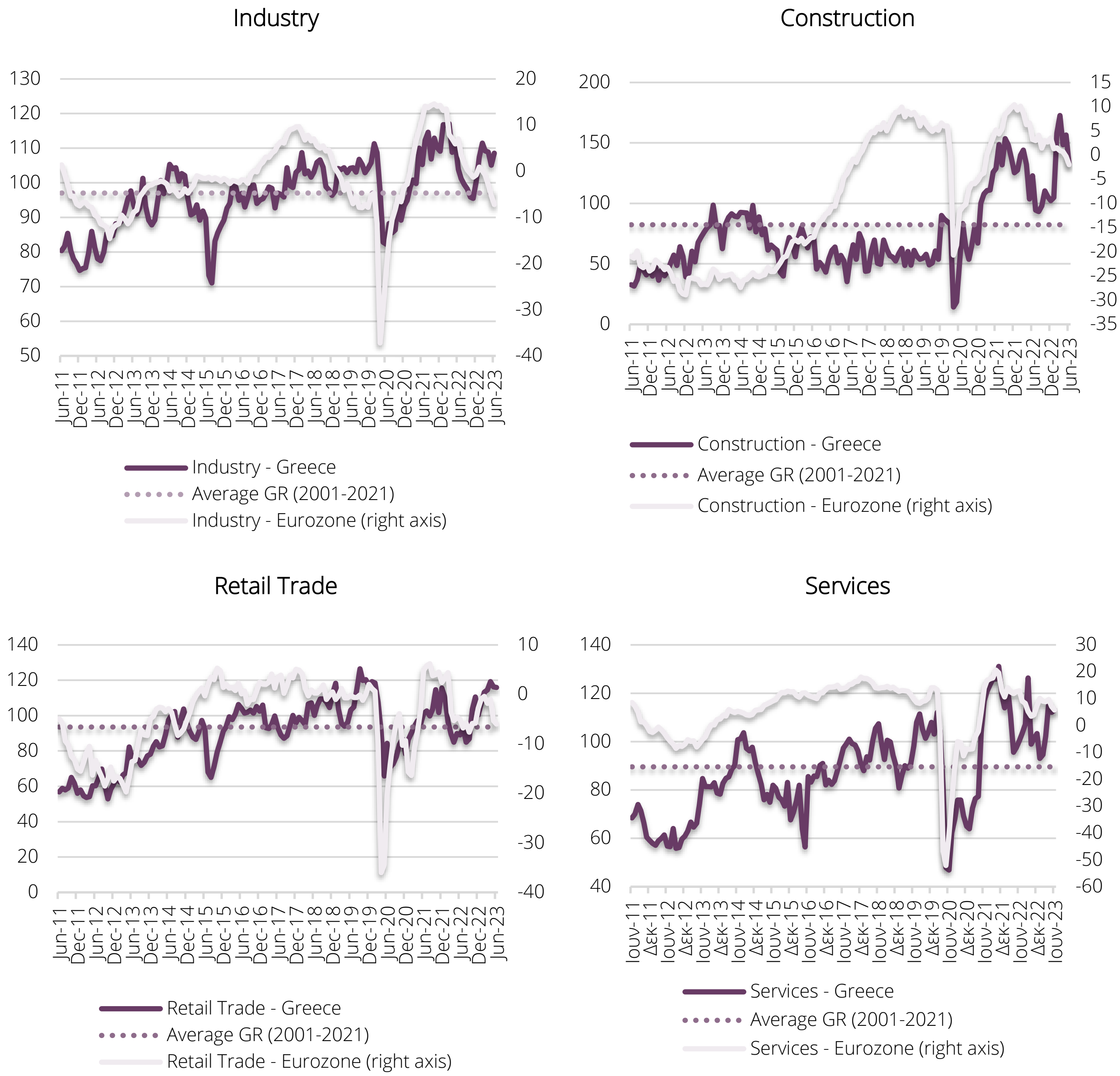
Economic Sentiment Indicators

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	101.5	97.3	106.2	104.8	101.2	-52.6
Q1 2023	97.4	99.3	106.9	109.4	145.2	111.6	96.6	-43.3
Q2 2023	95.3	96.9	109.0	107.5	145.8	117.2	113.8	-36.7

Sources: European Commission, DG ECFIN, IOBE

Figure 2.6

Business Confidence Indicators



Source: IOBE

Business confidence weakened slightly in the second quarter of 2023 compared with the previous one in industry, strengthened marginally in construction, and improved significantly in retail trade and services.

B. Fiscal developments

- General Government budget balance 2022 (1st notification): deficit of 2.3% of GDP, against a deficit target of 4.0% of GDP and a deficit of 7.1% in the previous year. A primary surplus of 0.1% of GDP, against a deficit target of 1.4% of GDP and a deficit of 4.7% in 2021.
- General government debt at 171.3% in 2022 compared to 194.6% in 2021, despite the increase in absolute terms from €353,489 million to €356,256 million.
- State Budget Balance, Jan-May 2023: cash deficit of €1,116 million, against a deficit target of €4,446 million included for the corresponding period of 2023 in the explanatory report to the 2023 Budget and a deficit of €4,066 million in the corresponding period of 2022.
- State Budget primary balance, Jan-May 2023: primary surplus in cash terms of €2,300 million, against a primary deficit target of €1,396 million and a primary deficit of €1,487 million for the same period in 2022.
- The improvement compared with last year is due to a larger increase in net revenue (+17.8% or + €3.97 billion) than in expenditure (+3.9% or + €1.016 million).

General Government Results: 2018-2022

According to the latest[4] fiscal data, compiled according to the National Accounts methodology (ESA 2010), in 2022 the General Government (GG) recorded a deficit of €4,727 million or 2.3 % of GDP. The GG primary balance for the same year was in surplus, amounting to €273 million or 0.1% of GDP (Table 2.5), against a primary deficit target for that year of €2,680 million or 1.4% of GDP. The performance is clearly better compared to 2020 and 2021, years of extensive support measures for the pandemic. In 2020, there was a deficit of €16.045 million or 9.7% of GDP and a primary deficit of €11,095 million or 6.7% of GDP. The corresponding figures for 2021 were €12,974 million or 7.1% of GDP and €8,450 or 4.7% of GDP.

Table 2.5

General government results* (National Accounts data, ESA 2010)

	2018	2019	2020	2021	2022	
					Initial targets	Actual results
General government balance (% of GDP)	1.0	0.9	-9.7	-7.1	-4.0	-2.3
Primary GG balance (% of GDP)	4.4	3.9	-6.7	-4.7	-1.4	0.1
GDP (€billion)	179.6	183.4	165.4	181.7	187.3	208.0

Sources: Budgetary data for 2019-2022 – 1st notification, ELSTAT, April 2023 and Introductory Budget Reports 2022 and 2023, Ministry of Finance, November 2021 και 2022

*Without the impact of the support of financial institutions.

The better performance of the general government balance stems mainly from an improvement in the central government balance compared with previous years. The deficit of the state budget balance decreased to €7,222 million in 2022, from €14,412 million in 2021 and €16,683 million in 2020. The balance of local authorities, by contrast, deteriorated. In 2022, it stood at a deficit of €321 million, from a deficit of €162 million in 2021 and a surplus of €57 million in 2020. Social

[4] ELSTAT press release of 21 April 2023

security funds (SSFs) improved their performance in 2022 compared to previous years. Their result was a surplus of €2,816 million, from a surplus of €1,600 million in 2021 and a surplus of €581 million in 2020.

Based on the 2023-2026 medium-term stability programme submitted by the Ministry of Finance in April, the general government primary surplus target is 1.1% of GDP for 2023, 2.1% in 2024, 2.3% in 2025, and 2.5% in 2026. Similarly, general government debt is expected to decrease further to 162.6% of GDP in 2023, 150.8% in 2024, 142.6% in 2025, and 135.2% in 2026.

General Government Debt

General government debt increased in 2022 in absolute terms to €356,256 million but decreased as a percentage of GDP to 171.3% (Table 2.6). The debt trajectory, in absolute terms, has been increasing since 2016, with the only exception recorded in 2019. Since 2020, however, the debt-to-GDP ratio has been decreasing, with the 2022 reduction being the largest in ten years, reaching the lowest debt-to-GDP ratio since 2012. The improved performance is due both to the containment of deficits following the health and energy crises and the strong economic growth recorded over time. Greece, however, still ranks first in the European Union in terms of debt-to-GDP ratios. It is followed by Italy with 144.3% and Portugal with 113.9%, while the European average is much lower at 84% (see Appendix, Figure 2).

The fiscal performance was better in 2022 than in 2021 on account of the easing of the health crisis and the associated increase in economic activity and the government's support measures in 2020-2021. In 2023, the performance is expected to improve further. A high nominal GDP growth rate (6.6%) and the achievement of a primary surplus are forecast, resulting in a significant reduction of the debt-to-GDP ratio. The new fiscal rules proposed by the European Commission for its Member States, as well as the regaining of the investment grade that will allow Greece to borrow at lower interest rates, may also contribute to this outcome.

Table 2.6

Consolidated General Government Debt (€ million)

	2016	2017	2018	2019	2020	2021	2022
Consolidated General Government Debt	315,010	317,481	334,721	331,145	341,227	353,489	356,256
% GDP	178.5	179.2	186.4	180.6	206.3	194.6	171.3
GDP	176,488	177,152	179,558	183,351	165,406	181,675	208,030

Sources: Budgetary data for 2019-2022 – 1st notification, ELSTAT, April 2023

Execution of the 2023 budget (January – May)

The activation of the general escape clause from the fiscal rules of the Stability and Growth Pact in early 2020 made it possible to take extensive measures by European Union countries over the past three years, first to address the impact of the pandemic and then the consequences of the energy crisis.

However, in 2024 the escape clause will be deactivated and new fiscal rules will apply, aiming to reduce public debt in many countries where it had exceeded 60% of GDP. The rules, proposed by the European Commission in April 2023, and described in a special textbox at the end of Section 2.2B, include flexibility for individual recommendations for each Member State, but it remains crucial that they are approved by the Member States by the end of the year. Even if Member States do not reach a unanimous decision, however, the rules of the Stability and Growth Pact, which require governments to reduce their debt if in excess of 60% of GDP, will be restored. The scope for expenditure growth will therefore be much narrower. In Greece, the country with the highest debt ratio in Europe (over 170%), fiscal adjustment has already started with a primary surplus target for 2023. The main objectives of the Commission are to improve debt sustainability while at the same time strengthening the growth rate of all Member States by focusing on investment, especially those related to the green and digital transitions. With regard to support measures for energy, the European Commission announced in early June its decision not to prolong them further. Given that supply has relatively normalised and prices on the EU electricity market have now fallen significantly from last year's high levels, the Commission considered that extending these exceptional measures is not necessary or appropriate at this point in time.

State Budget Balance and Primary Balance

According to State budget execution data, on a modified cash basis, for the period January-May 2023, a deficit of €1,116 million (0.5% of GDP) is recorded in the State budget balance, against a deficit target of €4,446 million included for the same period of 2023 in the explanatory report to the 2023 Budget and a deficit of €4,066 million (1.9% of GDP) in the corresponding period of 2022. The primary balance turned into a surplus of €2,300 million (1.0% of GDP), against a primary deficit target of €1,396 million and a primary deficit of €1,487 million (0.7% of GDP) in the same period in 2022. The improvement in the state budget balance in the first five months compared with the previous year is due to a larger increase in net revenue (+17.8% or + €3.97 billion) than expenditure (+3.9% or + €1.016 million, Table 2.7).

Ordinary budget revenue

The state budget's net revenue amounted to €26,252 million, an increase of €2,948 million or 12.6% compared to the target included for that period in the explanatory report to the 2023 Budget and by + €3.97 billion or 17.8% compared to last year. The overshooting of the target came mainly from: (I) higher tax revenue in the first five months; (ii) the collection of €603 million from ANFAs, which was not foreseen in the explanatory report to the 2023 Budget; and (c) higher revenue of the Public Investment Programme, which includes inflows from the RRF. Tax revenue amounted to €22.866 million, up by €1,917 million or 9.2% compared to the target included in the 2023 budget explanatory report. Part of the increase (around €470 million) relates to the extension of the deadline for payment of the road tax until the end of February 2023, while it was estimated that this amount would be collected in December 2022. The remaining amount of the target overshoot comes from the better performance of personal and corporate income taxes in the previous year, collected in instalments up to the end of February 2023, as well as from the better yield of VAT in the current year.

Most revenue categories have increased compared to the first five months of 2022. Ordinary Budget (OB) revenue increased by 16.0%, while OB net revenue increased by 16.8%, with tax refunds higher by 24.2%. Tax refunds increased compared to the target mainly due to a VAT refund to the renewable energy and guarantees system operator DAPEEP in March. Income tax revenue increased by 15.2% year-on-year, both by the increase in corporate tax revenue (+27.2%), and by an increase in personal tax revenue (+10.6%). Tax revenues from goods and services expanded by 11.7%, driven by a 13.2% increase in VAT revenue. A significant increase was recorded in transfers (+676.8%) due to the increase in the revenue of the PIP. Large hikes were observed in other current revenue (+99.8%), transfers (+54.5%), which increased due to the collection of €603 million from ANFAs, and other current taxes (+22.9%). By contrast, ENFIA revenue (-6.4%), revenue from duties and import taxes (-12.7%), other taxes on production (-11.2%), and sales of fixed assets (-100.0%, Table 2.8) decreased.

Table 2.7

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

	Jan. – May		% Change 23/22	2022*	2023* Budget	% Change 23E/22
	2022*	2023*				
I. SB NET REVENUE (1+2)	22,286	26,252	17.8	59,623	63,885	7.1
1. Net OB revenue	19,462	22,581	16.0	54,324	56,000	3.1
OB revenue before tax refunds	*21,642*	*25,288*	16.8	60,477	62,110	2.7
Less Tax refunds	2,180	2,707	24.2	6,153	6,110	-0.7
2. PIP revenue +RRF[5]	2,824	3,671	30.0	5,299	7,885	48.8
II. SB EXPENDITURE (3+4)	*26,352*	*27,368*	3.9	71,279	71,871	0.8
3. OB expenditure	23,167	23,491	1.4	60,254	59,909	-0.6
Primary expenditure OB	20,568	20,067	-2.4	55,215	54,058	-2.1
Interest	2,599	3,424	31.7	5,039	5,851	16.1
4. PIP expenditure + RRF[6]	3,185	3,877	21.7	11,025	11,962	8.5
III. SB Deficit (-)/Surplus (+)	*-4,066*	*-1,116*		-11,656	-7,985	
% of GDP	*-1.9*	*-0.5*		-5.5	-3.6	
IV. SB Primary Balance	-1,487	2,300		-6,652	-2,134	
% of GDP	-0.7	1.0		-3.2	-1.0	
GDP	210,170	224,134	6.6	210,170	224,134	6.6

Source: Monthly SB Execution Bulletin May 2022, Ministry of Finance, June 2023.

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

Ordinary Budget Expenditure

The expenditure of the State Budget for January-May 2023 amounted to €27,368 million, €383 million less than the target (€27,751 million) included in the explanatory report to the 2023 Budget while posting an increase of €1015 million or 3.9% year-on-year, mainly due to higher interest payments by €825 million.

Under the Ordinary Budget, payments are down by €470 million against the target. This development is mainly due to the delayed payments for military procurement expenditure of €590 million. Ordinary budget primary expenditure fell by 2.4% compared to last year, with interest rising by 31.7%. A large increase was recorded in subsidies (+510.5%), social benefits (+22.3%), and purchase of goods and services (+18.0%). By contrast, there was a decrease in purchases of fixed assets (-65.9%), other expenditure (-27.6%), and transfers to SSFs (-7.7%). Notable expenditure in the last year includes the €502 million grant to Information Society, the grant to cover the needs of the Market Pass, the transfer to the Energy Transition Fund of €367 million from the windfall charge on energy producers for the period from 1 October 2021 to 30 June 2022, as well as heating

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

oil subsidy of €100 million. All the above transactions were carried out by reallocating appropriations from the reserve to promote actions in response to the energy crisis (non-allocated expenditure).

Table 2.8

State Budget Revenue: January -May 2023* (€ million)

	Jan. – May		% Change 23/22	2022*	2023* Budget	% Change 23E/22
	2022*	2023*				
Net SB revenue	22,286	26,252	17.8	59,623	63,885	7.1
Net OB revenue	19,462	22,581	16.0	54,324	56,000	3.1
Tax refunds	21,642	25,288	16.8	60,477	62,110	2.7
OB revenue	2,180	2,707	24.2	6,153	6,110	-0.7
Income tax, of which:	5,346	6,158	15.2	17,012	18,476	8.6
--Personal	4,008	4,434	10.6	11,047	11,460	3.7
--Corporate	*852*	*1,084*	27.2	4,629	5,662	22.3
Property tax	1,395	1,306	-6.4	2,692	2,380	-11.6
Taxes on donations, inheritance etc.	96	102	6.3	226	226	0.0
Tariffs	173	151	-12.7	431	424	-1.6
Taxes on goods and services, of which:	12,044	13,453	11.7	31,584	32,517	3.0
--VAT	*8,319*	*9,417*	13.2	21,422	22,217	3.7
--Excise duties	*2,607*	*2,633*	1.0	6,984	7,115	1.9
Other production taxes	650	577	-11.2	1,165	1,029	-11.7
Other current taxes	910	1,118	22.9	2,108	2,369	12.4
Social contributions	23	24	4.3	56	55	-1.8
Transfers	2,697	4,167	54.5	6,357	7,953	25.1
Sales of goods and services, of which:	318	373	17.3	833	2,418	190.3
Other current revenue	*810*	*1,529*	99.8	3,301	2,124	-35.7
Sales of fixed assets	6	0	-100.0	12	24	100.0
PIP + RRF Revenue[7]	2,824	3,671	30.0	5,299	7,885	48.8

Source: Monthly SB Execution Bulletin May 2022, Ministry of Finance, June 2023.
*On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

Public Investment Programme (PIP)

Revenue from the Public Investment Programme (PIP) and the RRF amounted to €3,671 million, up by 30.0% from the previous year. The revenue of the RRF was exactly the same as in the previous year (disbursement of a €1718 million tranche) while the revenue of the PIP increased by €847 million or 76.6% compared to last year, exceeding the target by €243 million. Payments on the investment expenditure side amounted to €3,877 million, surpassing the target by €87 million, up by 21.7% on last year. In particular, the Public Investment Programme's expenditure increased by 16.0% compared to last year, while that of the RRF by 540%, from €35 million to €224 million. Expenditure under the Public Investment Programme includes €62 million to fund COVID-19 measures, the reinforcement of health institutions with ancillary staff to respond to the needs of the COVID-19 pandemic in the regions, the grant of existing small and medium-sized enterprises

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

in the retail sector, which have a physical shop, to develop, upgrade and manage an online shop, and the support to start-ups under the Elevate Greece programme.

Table 2.9

State Budget Expenditure: January -May 2023* (€ million)

	January - May		% Change 23/22	2022*	2023* Budget	% Change 23E/22
	2022*	2023*				
SB Expenditure (1+2+3)	26,352	27,368	3.9	71,279	71,871	0.8
OB Expenditure (1+2)	23,167	23,491	1.4	60,254	59,909	-0.6
1.Primary OB Expenditure	20,568	20,067	-2.4	55,215	54,058	-2.1
Compensation of employees	5,603	5,784	3.2	13,640	13,796	1.1
Social benefits	121	148	22.3	391	397	1.5
Transfers	12,798	12,900	0.8	35,086	32,476	-7.4
(of which SSFs)	*8,491*	*7,841*	-7.7	21,420	21,182	-1.1
Purchase of goods and services	495	584	18.0	2,145	1,541	-28.2
Subsidies	19	116	510.5	400	80	-80.0
Other current expenditure	29	21	-27.6	55	81	47.3
Non allocated expenditure	0	0	-	0	3,156	-
Purchase of fixed assets	1,504	513	-65.9	3,496	2,531	-27.6
2. Interest (gross basis)	2,599	3,424	31.7	5,039	5,851	16.1
3. PIP + RRF Expenditure[8]	3,185	3,877	21.7	11,025	11,962	8.5

Source: Monthly SB Execution Bulletin May 2022, Ministry of Finance, June 2023.
*On a modified cash basis. According to the new revenue classification valid from 01/01/2019.

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

Box of section 2.2

European Commission proposals for the revision of fiscal rules in the EU

The European Commission made legislative proposals on 26 April 2023 to revise the Stability and Growth Pact (SGP). In response to the pandemic crisis, the general escape clause from the SGP, in force during the energy crisis, was temporarily applied in 2020 and is expected to be lifted in 2024. The main objectives of the proposed new fiscal rules are to (i) strengthen public debt sustainability and (ii) promote sustainable growth in all Member States. As the fiscal statements, challenges, and economic prospects of the 27 EU Member States differ, it is proposed not to have a strictly unified adjustment framework but to negotiate separately with each member country. Each country will have the flexibility to determine its fiscal adjustment path by setting multi-annual expenditure targets. It will, however, be limited by the following fiscal rules: (a) Member States with a government deficit in excess of 3% of GDP should implement a minimum fiscal adjustment of 0.5% of GDP per year, as long as the deficit remains above 3%; (II) Member States with a debt level in excess of 60% of GDP should ensure that the debt-to-GDP ratio is declining over the medium term; (III) member countries outside these categories should ensure that the deficit remains below 3% over the medium term.

Figure B2.2.1. Proposed fiscal rules for new economic governance

Source: European Commission. Data processing: IOBE

The new economic governance rules are considered to have a 4-year medium-term horizon, while a single fiscal assessment indicator is proposed, based on the net primary expenditure path of each country, i.e. a balance that excludes expenditure on debt service, unemployment benefits, and non-discretionary revenue measures.

General and specific escape clauses will allow for deviations from spending targets in the event of a significant economic downturn in the EU or the euro area. Member States are also allowed to pursue a more gradual fiscal consolidation path if they undertake reforms or investments that increase fiscal sustainability or growth as well as reforms or investments related to the green or digital transition, strengthening economic and social resilience and strengthening security and defence.

Each Member State shall submit the four-year plans setting out its budgetary targets, measures to address macroeconomic imbalances and reforms, and priority investments over a period of at least four years. The projects will then be evaluated and approved by the European Commission. In addition, Member States will submit annual progress reports for easier and more efficient monitoring of the implementation of commitments. Although countries are given great flexibility in defining their plans, there is also a more stringent enforcement framework with possible sanctions including a shortening of the adjustment period.

Figure B2.2.2. Summary of the European Commission proposals for new economic governance in Europe

Objectives for the fiscal rules revision

- Simplification
- Strengthening the degree of compliance by Member States
- Realistic debt rule and stronger sustainability
- Link to reforms and investments
- Promoting sustainable development

Features of proposed rules

- Medium-term monitoring with a 4-year horizon
- Use of a single assessment indicator (net primary expenditure)
- EU surveillance with the possibility of lengthening or shortening the adjustment period, in line with the degree of compliance with policy recommendations

Critical points under negotiation with Member States

- Degree of flexibility
- Uniform and automatic (or not) application using quantitative limits
- Institutions involved in evaluation and implementation

Source: European Commission. Data processing: IOBE

So far, the 27 Member States have not agreed on the legislative proposals, the ratification of which requires unanimity. In particular, France and Germany disagree on whether automatic and uniform rules (numeric limits and automatic arrangements) should be put in place under the new financial rules. France argues that there should be no strictly uniform rules considering that such practices have led to recessions, economic hardship, and loss of output and growth in Europe in the past. By contrast, Germany argues that automatic rules and numerical limits will provide equal treatment and a common safeguard. Both sides have the support of many governments and the issue may not be resolved by the end of 2023 when the rules of the Stability and Growth Pact requiring governments to reduce debt in excess of 60% of GDP by 5% annually would come into effect. Transparency and adherence to the fiscal rules are a prerequisite for fiscal credibility and sustainability. It is therefore crucial to speed up the political consultation processes taking into account technocratic analyses and contributions, in order to reach a consensus in all EU Member States as soon as possible.

C. Financial developments

- The European Central Bank raised its key interest rates in the second quarter, for the eighth time in one year, with an expectation of a further increase in the third quarter.
- Investor sentiment for the domestic banking system strengthened as the risk of a failure to form a government majority was lifted.
- Strong expectation of regaining "investment grade" in the second half of 2023. The cost of new government borrowing and its spread from the other European countries are falling.
- The cost of new borrowing in the private sector increased further in mid-2023. The spread of the average interest rate on loans and deposits (interest rate margin) has increased to its highest level in at least 20 years.
- Private deposits recovered modestly in March-May.
- Credit growth to firms slowed down in the second quarter, with an unabated contraction of credit to households.
- Non-performing loans (NPLs) on banks' balance sheets stalled at 8.8% of total loans in the first quarter of 2023, after the end of the "Hercules" scheme.
- The use of Eurosystem liquidity-supply tools by Greek banks declined further towards mid-2023.
- The timely implementation of the loan leg of the National Recovery and Resilience Plan and the new REPowerEU tool boost the medium-term outlook for credit growth and investment.

The timely formation of a government removed the risk of political instability and led to a significant strengthening of the domestic investment climate. Alongside the continued pace of recovery in economic activity, the gradual decline in inflation, and the fall in international prices for energy goods, the value and volume of stock trading, including bank shares, increased significantly in the second quarter of 2023. As a result, the banking index at the end of June traded around 56% higher than at the end of 2022, at its highest level in 5 years.

At the same time, however, the slow easing of inflationary pressures worldwide has led to systematic central bank policy rate hikes, with expectations of a continuation of the trend, albeit at a declining pace during the rest of 2023. After 11 years of loose monetary policy, the ECB has raised its key interest rates eight times since mid-2022 by a cumulative 400 basis points, of which 50 basis points in the second quarter of 2023. Markets discount a small further increase in the cost of money in the course of 2023, peaking in the fourth quarter and following a slower decline, remaining at a higher level at the end of 2024 than in 2022. In addition to interest rate increases, regarding quantitative easing tools, the ECB completed net new purchases under the PEPP and the APP in 2022, while as of March 2023, it has continued the reinvestments of part of the maturing bonds of the programmes.

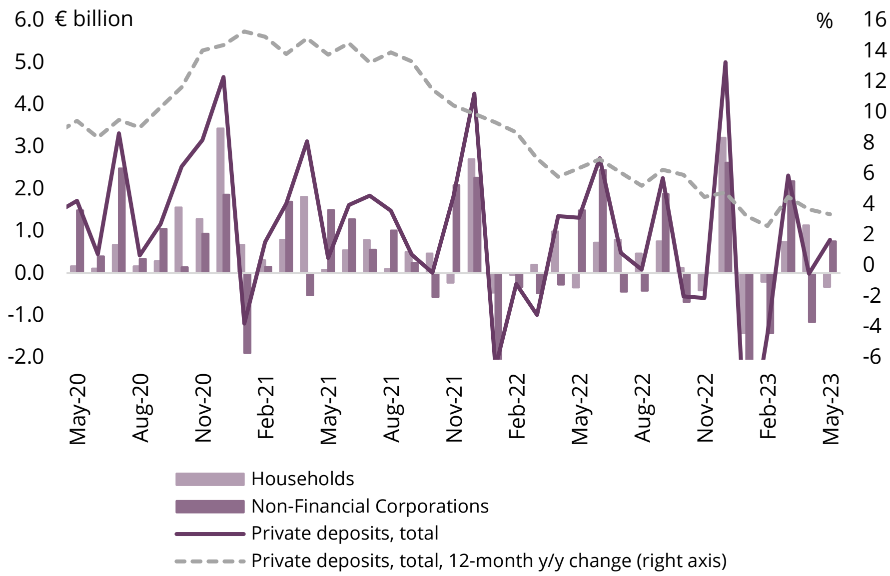
Uncertainty about the extent and duration of monetary policy tightening has already slowed down the recovery of the real economy, both internationally and domestically, affecting the financial sector outlook, inter alia in terms of asset quality and profitability prospects. Among the negative trends, the cost of new private sector borrowing kept rising, credit to firms slowed down while the contraction of credit to households continued unabated. Among the challenges from the past, the high share of non-performing loans (NPLs), which has stagnated in banks' balance sheets in the first quarter of 2023, after the expiry of the Hercules state-guaranteed securitisation scheme, is standing out. In addition, the share of deferred taxation in equity remains high.

Among the positive trends in bank fundamentals, core profitability ratios and equity valuations are improving, the trend of private deposits turned positive, while the loan component of the National Recovery and Resilience Plan continues to be implemented. In addition, an application for the loan component of the REPowerEU programme has been filed, creating opportunities to further boost credit to productive investment.

New challenges arising from the current conditions include a deterioration in the repayment ability of variable-rate borrowers and an increase in the cost of use of the Eurosystem's long-term funding instruments for the banks.

Figure 2.7

Monthly net flow of private deposits at Greek banks



Private sector deposits increased by €3.1 billion in March-May 2023, compared with an increase of €1.7 billion in the same period of 2022.

Source: Bank of Greece

On the bank liabilities side, private deposits increased by €3.1 billion in March-May, of which €1.6 billion came from businesses and €1.5 billion from households (figure 2.7). The year-on-year rate of change stood at 3.3% in May, clearly down from the average growth rate of 9.0% over the two-year period 2020-2021 and 4.8% in 2022, in the context of the pandemic and rising savings. It should be noted that the special textbox in Section 3.1A highlights the sharp drop in the household saving rate after the pandemic period of 2020-2021.

For 2023, fatigue in private deposits is expected, with an overall moderate upward trend. As inflation is declining only gradually, while financial support measures are contained, real disposable income and household and corporate savings are expected to come under pressure.

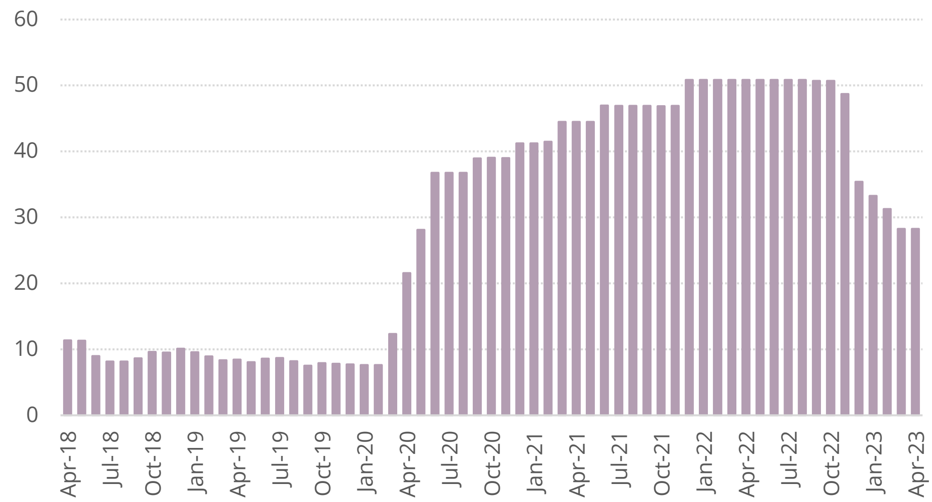
The second part of the banks' liabilities relates to Eurosystem funding. Long-term low-cost financing operations for banks (e.g. LTROs) provided significant liquidity to the banks during the pandemic, which exceeded €50.8 billion by mid-2022, at a very low cost. The gradual increase in the cost of providing liquidity by the ECB led to a significant decrease of €22.5 billion in their use over the period October 2022-April 2023 (figure 2.8). At the same time, the assets of the domestic banking system that are eligible as collateral for monetary policy operations, as reflected in the

Bank of Greece's financial statements, decreased over the same period, reaching €41.2 billion in May 2023, down from almost €69 billion in mid-2022. The third part of the banks' liabilities relates to capital market funding, which is expected to be greatly facilitated by the recoupment of investment grade for both sovereign and private securities.

Figure 2.8

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

The use of Eurosystem liquidity-supply tools to Greek banks decreased in early 2023, to €28.3 billion in April.



Source: Bank of Greece

On the bank assets side, the 12-month growth rate of credit to the domestic private sector decreased to 3.5% in April-May 2023. The corresponding rate for non-financial corporations (NFCs) decreased to 7.8% over the same period (Figure 2.9). At the same time, credit to sole proprietors and unincorporated entities, as well as to households, recorded a more pronounced negative growth rate, at rates of close to -2.4% and -2.8% respectively (Table 2.11).

Table 2.10

Domestic bank financing and average interest rates per portfolio

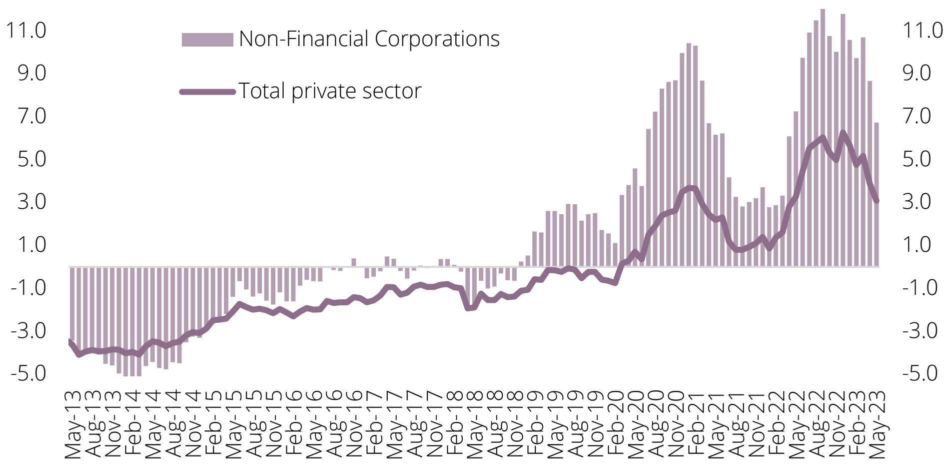
Quarter/Year	2/22	3/22	4/22	1/23	Apr.23	May23
Annual % change of 12-month flows*						
Total private sector	3.5	5.8	5.5	5.2	3.9	3.1
Households & NPIs	-2.1	-2.2	-2.3	-2.5	-2.7	-2.8
Consumer credit	0.7	1.1	1.0	1.8	1.7	1.1
Mortgage credit	-3.0	-3.1	-3.2	-3.6	-3.9	-3.9
Sole proprietors and unincorporated	0.6	0.6	0.0	-1.6	-1.9	-2.8
Non-financial corporations	7.7	11.6	10.9	10.3	8.7	6.7
Interest rates on new loans (period average, %)						
Consumer credit	10.3	10.6	10.7	10.9	11.1	11.5
Mortgage credit	2.95	3.17	3.60	3.76	3.78	3.88
Loans to non-financial corporations	3.22	3.29	4.43	5.32	5.58	5.67

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*)



Credit growth to firms slowed in March-May 2023, with the contraction of credit to households unabated

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.

These trends in private sector financing are supported by changes in the supply of, and demand for, loans, driven by the impact of rising interest rates. On the supply side, the implementation of the loan leg of the National Recovery and Resilience Plan "Greece 2.0" has a positive impact on NFCs. On the demand side, rising money costs and international outbreaks of economic uncertainty act as a deterrent to new investment projects, but this is partly offset by the disappearance of the risk of domestic political instability in the short term, as well as by projects already foreseen to be included in the Recovery Plan. The Bank of Greece's bank lending survey for the first quarter of 2023 showed expectations of a significant decline in demand for new loans in business credit, especially for small and medium-sized enterprises and short-term loans, but steady demand for housing and consumer credit. Credit standards have stagnated and were not expected to change in the short term.

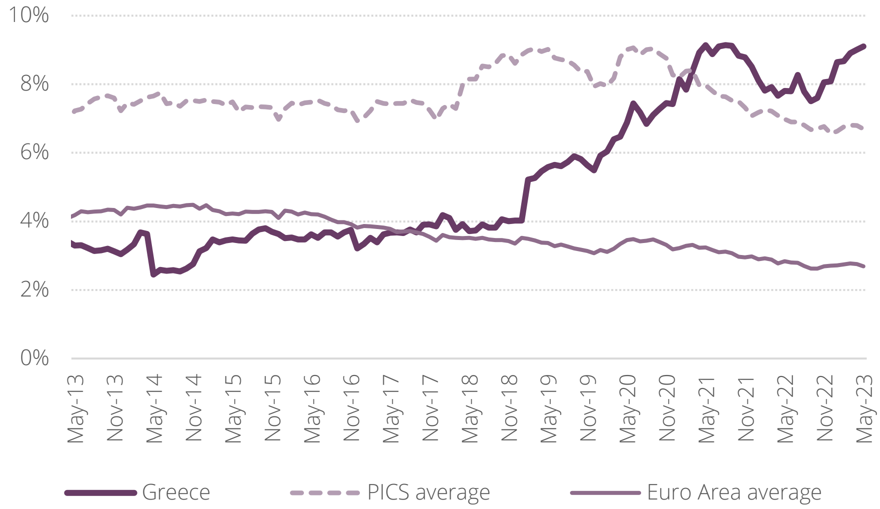
On the bank assets side, the banks strengthened their sovereign debt exposures in early 2023, reaching €29.2 billion in May 2023, or 9.1% of their total assets. Thus, the share of total assets of Greek banks placed in government bonds is slightly higher than that of the other "south" euro area countries, but significantly higher than the corresponding share for the euro area average (Figure 2.10).

The non-performing loans (NPLs) stagnated in the first quarter of 2023, remaining at 8.8% of banks' total loans, at €13.0 billion, down from €13.2 billion in the previous quarter. The overall level of NPLs remains higher than in the other European countries, where it stands at low single digits. In business credit, the NPL ratio remained stable at 7.7% of relevant loans, while consumer loans decreased from 18.1% to 17.7%. By contrast, housing loans recorded a marginal increase in the NPL ratio, from 10.5% to 10.7%.

Figure 2.10

Banks' government bond holdings over total assets (%)

The relative exposure of Greek banks to sovereign bonds increased in the first half of 2023, above the euro area average

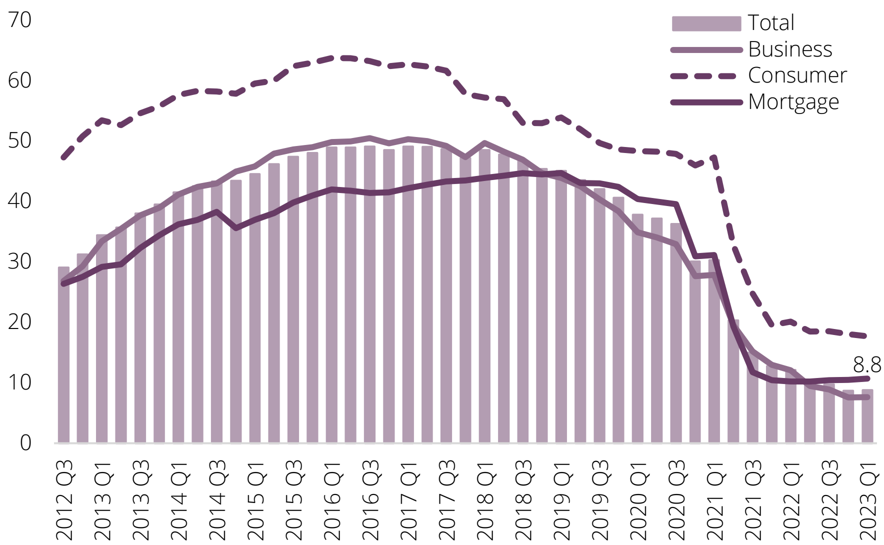


Source: ECB

Figure 2.11

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

In the first quarter of 2023, NPLs stagnated at 8.8% of the banks' total loan portfolio, following the expiry of the Hercules scheme after successive quarters of reduction



Source: Bank of Greece

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

The Hercules scheme of securitisation with government guarantees, whose implementation expired in late 2022, significantly contributed to reducing the stock of NPLs by €55.3 billion or 32.0 percentage points in 2020-2022. However, the stock of non-performing private debt, both within and outside the banking system's balance sheets, remains high, with negative effects on the efficient allocation of economic resources and the prospects for economic recovery. For this reason, a well-functioning secondary market for loans and credit claims, as well as the implementation of the revised bankruptcy code and the out-of-court debt settlement mechanism (Law 4738/2020), is of high importance.

In the medium term, the reduction of NPLs is expected to weaken, due to the lower base and the end of the Hercules securitisation scheme. There is also a visible risk of new NPLs occurring in individual portfolios such as housing, following the increase in interest rates on floating-rate loans. In this context, policy initiatives have been taken in coordination with banks, according to which increases in variable interest rates of selected housing loans are temporarily frozen under certain conditions.

On new credit, credit to households is expected to continue to contract, while the implementation of the loan leg of the National Recovery and Resilience Plan (totalling €12.7 billion for Greece until 2026) and REPowerEU (totalling €5.0 billion for Greece by 2026) are expected to maintain the credit expansion to businesses in 2023. Greece was the third European country to meet the milestones of the first tranche and received a total of €3.6 billion in April 2022. It was also the fifth European country that applied for the second, equal tranche, which was disbursed in January 2023, while it was 3rd among the European countries applying for the third tranche of €1.72 billion in May 2023. The evaluation of this request, together with the country's application of March 2023 in relation to a new €5.0 billion REPowerEU financial envelope, by the European Commission is expected over the next quarter.

Interest rates on new deposits remained relatively low in March-April 2023, at 0.28% and 0.24% for non-financial corporations (NFCs) and households respectively. In the same two months, the average rate on new loans rose significantly to 5.8%, standing at around 5.9% for individuals, 7.2% for sole proprietors, and 5.6% for NFCs. The spread of the average interest rate on loans and deposits (interest margin) increased further to 5.6% in April, reaching its highest level of at least 20 years (for which data are available), compared to 3.8% and 4.2% in 2021 and 2022 respectively.

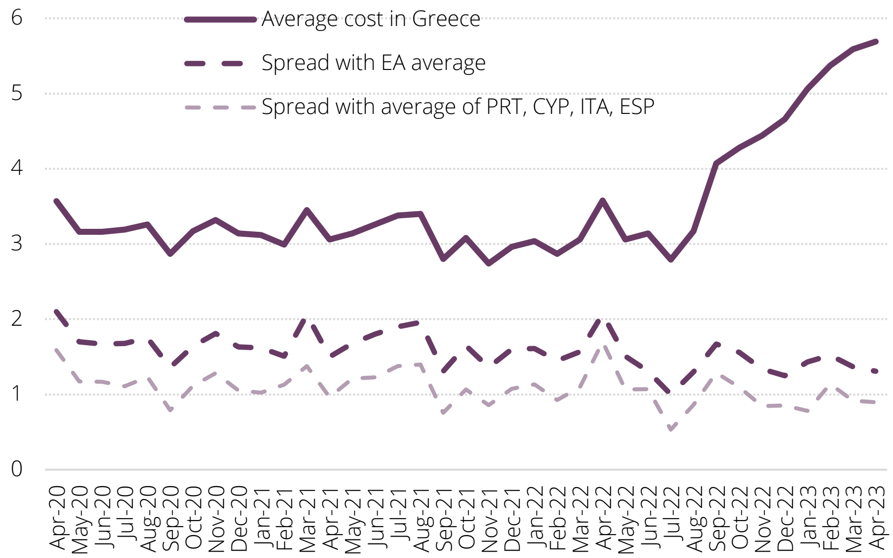
The average cost of new bank financing for private sector NFCs increased to 5.7% in April (Figure 2.12). At the same time, the cost of financing Greek businesses is higher than in the rest of the euro area. For example, according to the ECB's weighted cost of bank lending, the cost to non-financial corporations in April 2023 stood at 4.4% in the euro area, 4.6% in Germany, and 4.8% in the "south" countries of the euro area (Portugal, Italy, Cyprus, Spain). As a result, the spread of borrowing costs for Greek businesses relative to the average of the EA and the other "south" euro area countries reached 131 bps and 90 bps respectively. Compared with the pre-debt crisis levels in 2010, the spread of borrowing costs for Greek businesses relative to the average of the other "south" euro area countries remains significantly elevated.

Greek government bond yields remained stable in early 2023 and declined mildly in May, following the outcome of the parliamentary elections, to levels around 4%, amid the lifting of the risk of domestic political instability in the short term, the easing of the energy crisis, partly offset by high inflation, and the uncertainty due to geopolitical instability in the wider eastern European region. Thus, for the 10-year security, the average yield reached 4.0% in May (Figure 2.13). The additional burden on the new 10-year Greek government borrowing relative to the rest of the euro area declined markedly in the first five months of 2023. It stood in May at 164 bps and 27 bps relative to the German bond and the average for the "south" countries of the euro area, respectively, from 235 bps and 87 bps in 2022 on average. Despite progress, spreads remain significantly above their average values recorded in the first decade of the country's accession to the euro (54 bps and 2 bps respectively).

Figure 2.12

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

Interest rates on new private sector borrowing increased to 5.7% in April, with the spread in relation to the average cost of borrowing in the "south" euro area countries at 90 bps.



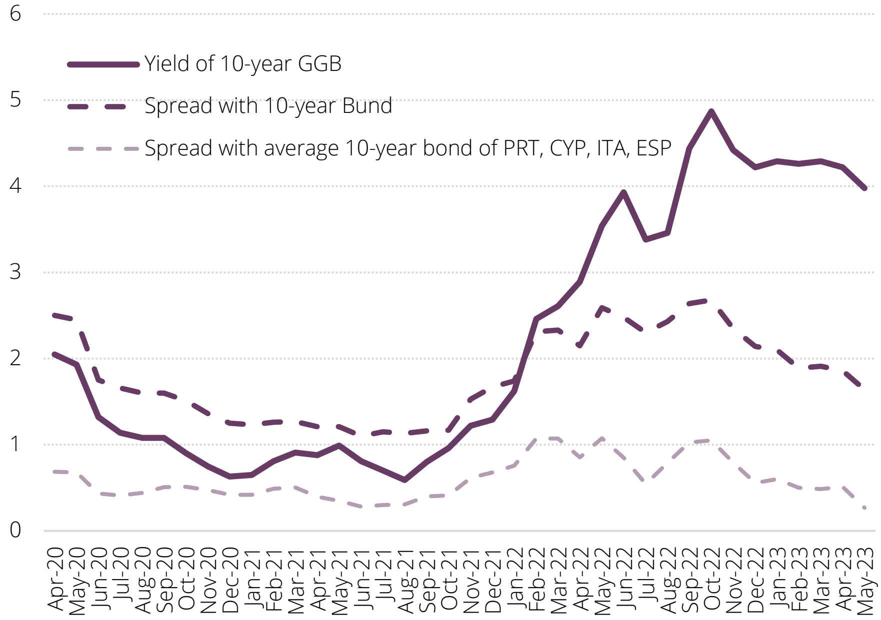
Source: ECB

Under the Greek public financing strategy, a total of €14 billion and €8.3 billion were raised from long-term bond markets in 2021 and 2022 respectively, while in 2023 the objective of PDMA was to raise approximately €7.0 billion. In mid-January 2023, a new 10-year bond was issued, raising €3.5 billion for the Greek State at an interest rate of 4.27%, of which 78% was absorbed by international investors. In late March 2023, a new 5-year bond was issued, with which the Greek State raised €2.5 billion at an interest rate of 3.92%. In May and June 2023, three Greek bonds were re-issued (10-year, 15-year, and 25-year) from which the Greek State raised €0.25 billion, €0.15 billion, and €0.20 billion, at 3.97%, 4.14%, and 3.99%, respectively.

The timely formation of a government majority resulting from the second round of parliamentary elections in June 2023 and the associated lifting of the risk of political instability have created expectations that the Greek securities will regain the desired investment grade from at least one of the international rating agencies in 2023. Four of them (S&P, Scope DBRS, R&I) are already assessing the Hellenic Republic at just one notch below the investment grade. It should be noted that 13 years have elapsed since Greece lost its investment grade and almost 5 years since the end of the economic support programmes, while Cyprus and Portugal regained the investment grade from at least one international firm around 3 years after the end of their respective programmes. The stock of Greek public debt remains among the world's largest as a percentage of GDP (171.3% in the fourth quarter of 2022, as presented in the Annex). Its qualitative characteristics, such as the long average repayment period, and a large share of fixed and low-interest rate obligations, compensate for this quantitative feature.

Figure 2.13

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



The average yield on the sovereign 10-year bonds declined to 4.0% in May 2023, while the average spread also declined to 164 bps against its German bond.

Source: ECB

3 PERFORMANCE AND OUTLOOK

3.1 GDP components

A. Recent developments

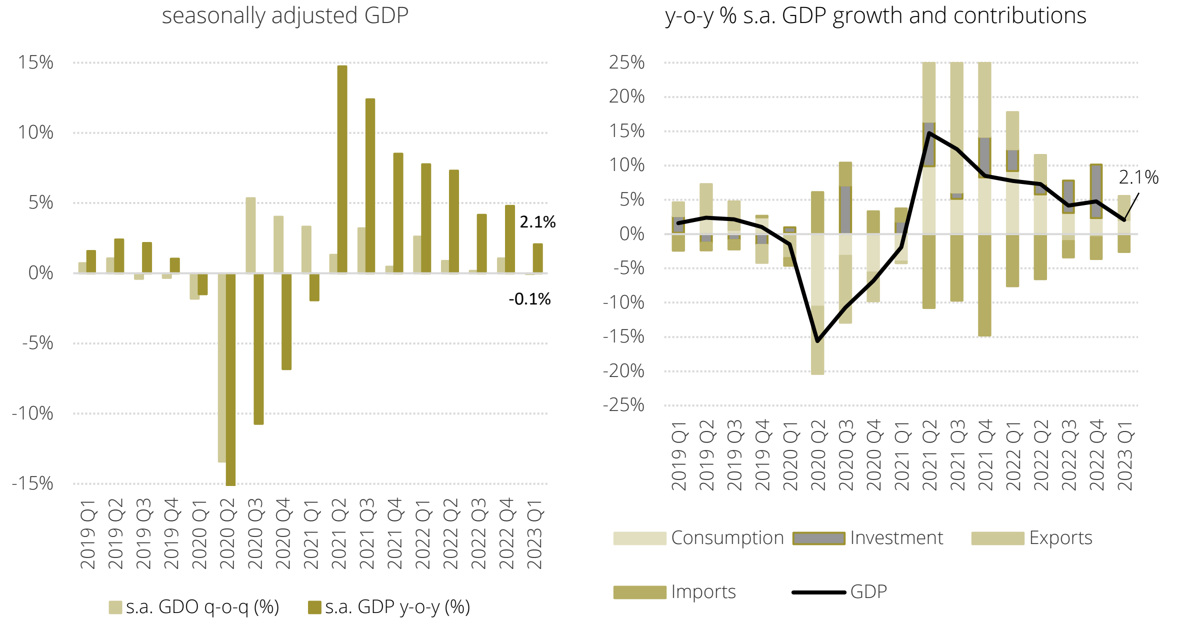
- The recovery slowed to +2.1% (y-o-y, annualised) in the first quarter of 2023, from +4.8% in the previous quarter, and a marginal decline of GDP by -0.1% compared with the previous quarter.
- The decline in domestic GDP growth was mainly driven by an annual contraction of -0.7% in investment, coming from an annual decline in inventories (-29.7% from +132.9% in the previous quarter), while fixed capital formation continued to expand (+8.2%, y-o-y).
- The contribution of exports to domestic growth was strong, as they grew by +8.9% annually, from -1.2% in the previous quarter, following the rebound of exports of both goods and services.
- A small decline was recorded in the annual growth rate of imports (+5.6% from +6.8% in the previous quarter). As a result, the external deficit in national accounting terms declined by around €419 million, compared with a year earlier.
- Positive, but declining compared with the previous quarter, for another quarter, was the growth in household consumption, which expanded by +2.9% year-on-year, while government consumption also strengthened annually by +1.4%.

Recent macroeconomic developments in Greece

The annual growth rate of the Greek economy decreased in the first quarter of 2023 compared to the previous quarter, but remained significantly higher than the average in the EA. In particular, domestic GDP grew at an annual rate of 2.1% (+1.0% in the EA), remaining positive for the eighth quarter in a row, while it declined, albeit marginally, by -0.1 % quarter on quarter, after ten consecutive quarters of positive growth. The slowdown in domestic economic activity is mainly driven by a contraction in inventories, which is not expected to affect GDP growth to the same extent in the coming quarters of the year, as well as by a base effect, which boosted activity in 2022 following the full lifting of Covid-19 restrictions. By contrast, the main drivers of GDP growth in the first quarter of 2023 were strong exports, combined with resilient private consumption and fixed capital formation (figure 3.1).

Figure 3.1

Evolution of GDP and the contribution of its components



Source: ELSTAT, Data processing IOBE

Exports were the main driver of recovery in the first quarter of 2023.

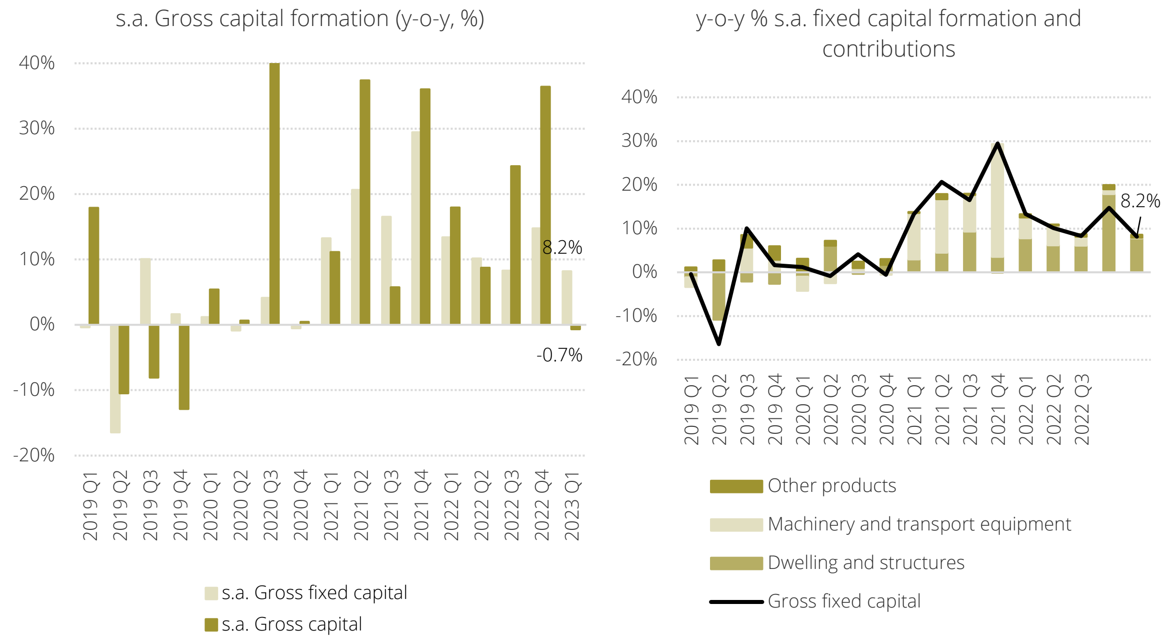
Looking at the precise developments in the components of GDP in the first quarter of this year, the annual growth rate of domestic consumption remained positive (+2.3%), but gradually declined since the first quarter of last year. Private consumption continued its positive trend for the 8th consecutive quarter, growing by +2.9% per year (from +4.1% a quarter earlier), supported by rising employment and in part nominal wages and declining savings (Box 3.1 provides a more extensive analysis of the evolution of the saving rate in the Greek economy). Public consumption also increased, by +1.4%, compared with a decline by -1.8% a quarter earlier.

Investment, which contracted annually by -0.7%, from +36.4% in the last quarter of the previous year had a negative contribution to domestic growth for the first time since the last quarter of

2019. The negative growth in investment was driven by a significant annual decline in inventories (-29.7% from +132.9% in the previous quarter), which had accumulated amid high uncertainty last year. By contrast, fixed capital formation grew annually by +8.2%, from +14.8% a quarter earlier, benefiting from the resources of the Recovery and Resilience Facility, and the stronger domestic economic sentiment (Figure 3.2).

Figure 3.2

Evolution of investment and the contribution of its components



Source: ELSTAT, Data processing IOBE

Investment contracted as a result of a significant annual decline in stocks, while fixed capital formation expanded, with the strongest growth recorded in Housing.

In particular, growth in fixed capital formation was supported by all the main investment sectors, which grew less strongly than in the previous quarter, with the largest annual growth for another quarter recorded in the housing and construction sectors (+19.6%), followed by machinery and transport equipment (+0.5%), and other products (+3.7% - Figure 3.2). In more detail, in the fixed capital formation categories, the annual rate of change of investment was positive in all sectors except machinery and military equipment (-10.2% from -4.3% in Q4 2022) and agricultural products (-2.8% from + 6.3% in Q4 2022). The strongest annual growth was recorded for another quarter in housing (+48.4%), less than in the previous quarter (+116.4%), followed by investment in transport equipment, which increased annually by +42.0%, from +84.4% one quarter earlier. Investment in other construction also followed a positive trend, albeit at a declining pace (+8.1% y-o-y compared with +20.0% in the previous quarter), similar to investment in other products (+3.8% y-o-y compared with +5.8% in the previous quarter). Finally, there was a small annual increase in investment in ITC equipment, which, however, was falling annually throughout the previous year (-26.5% in the last quarter of 2022).

Turning to developments in the external balance of the economy, the recovery in exports following the decline in energy prices was significant. In particular, exports were the main driver of growth of the domestic economy in the first quarter of this year despite the contraction in economic activity worldwide, posting an annual growth rate of +6.2%, from -1.2% in the previous quarter. Exports of goods were the largest contributor to the upward path of exports (+5.6% y-o-y compared with -2.9% in the previous quarter), followed by exports of services (+6.2% y-o-y compared with -3.4% in the fourth quarter).

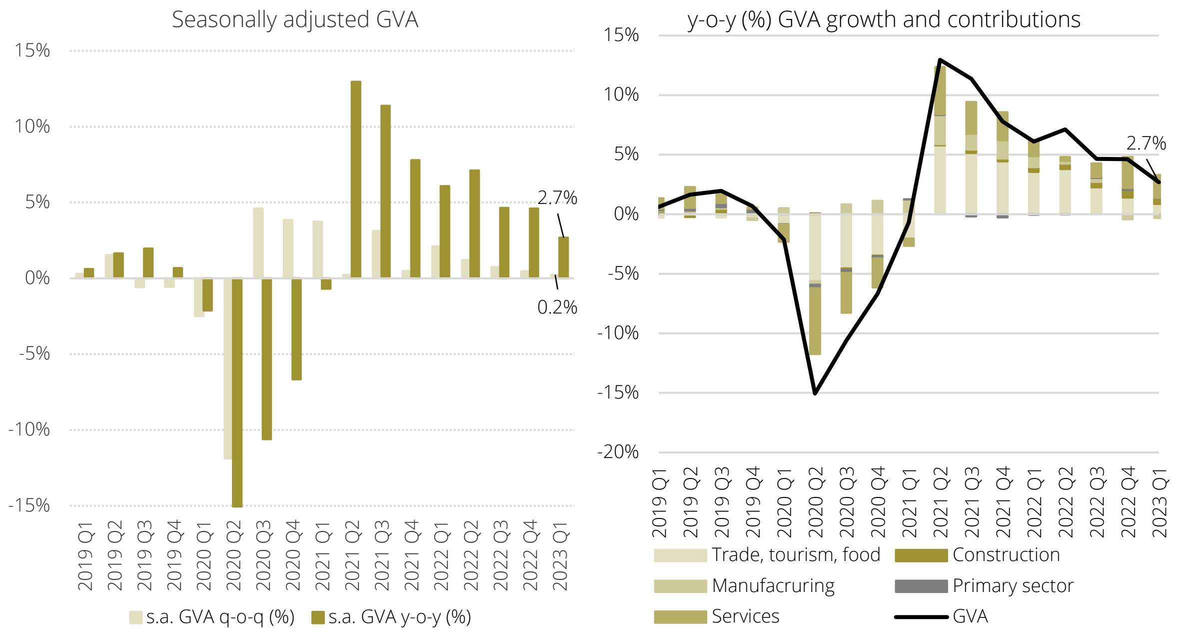
The strengthening of exports combined with a slight decline in the annual growth rate of imports (+5.6% from +6.8% in the previous quarter) improved the external deficit in national accounting terms by about €419 million or +1.0 pp. of quarterly GDP. Looking at the import components, imports of services registered an annualised increase of +12.7% compared to the previous quarter, while imports of goods increased by +3.2% annually, from +4.3% in the previous quarter. Finally, it is worth noting that the domestic economy maintains its high degree of openness, with the annual average of the ratio of the sum of imports and exports to GDP remaining at its historical high of 83%.

On the production side of GDP, domestic gross value added (GVA) expanded in the first quarter of this year marginally stronger than GDP (+2.7% y-o-y), with taxes and subsidies on products, following the partial lifting of energy support measures, falling by -8.6% (from +5.1% in the previous quarter) and -11.8% (from +12.0% in the previous quarter) respectively.

At the sectoral level, other services had the largest contribution to GVA growth for yet another quarter, followed by tourism-transport-trade (wholesale and retail) and construction. By contrast, economic activity in the primary sector stagnated, while industry continued to contract (Figure 3.3). At the sectoral level, nine of the ten key sectors of the Greek economy saw an annual expansion of their activity, with the exception of mining-quarrying-manufacturing-energy, which experienced an annual recession of 2.3% (compared with -3.0% in the previous quarter). In particular, in the services sector, which contributed most to the expansion of GVA, the highest annual increase, similar in size to a quarter earlier, was recorded in professional-scientific-technical-administrative activities (+17.2%), followed by arts-entertainment-recreation (+12.0% from +11.5% in the previous quarter). Information-communication continued its positive trend, albeit at a slower pace than a quarter earlier, (+8.1% from +12.6% in Q4 2022), similar to financial-insurance activities (+5.9% from +29.6% in Q4 2022). Before the start of the tourist season, the momentum of trade-tourism-transport-food services slowed, with its annual growth rate in the first quarter of the year standing at +4.0%, down from +6.5% a quarter earlier. Lastly for the services sector, public administration – defence – mandatory social security and real estate management posted a small annual increase, by +1.1% (compared with -0.9% in the previous quarter) and +0.4% (compared with +0.2% in the previous quarter) respectively. In the remaining sectors, strong momentum was maintained in the construction sector, with activities expanding annually by +19.9%, from +27.7% in the previous quarter. Finally, the primary sector increased marginally year-on-year by +1.0%, compared with +4.8% in the previous quarter.

Figure 3.3

Evolution of GVA and the contribution of its components



Source: ELSTAT, Data processing IOBE

Following the slowdown in tourism-transport-trade, other services made the largest contribution to GVA growth for the second consecutive quarter.

To sum up, the composition of the recovery of the Greek economy changed in the first quarter of this year compared with the previous year, with exports making the largest contribution, after the significant slowdown in investment. The rise in imports offset in size the positive contribution from the resilient to inflationary pressures private consumption.

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	180448	-7.2%	163392	-7.0%	20238	-21.0%	48968	2.0%	52766	-5.7%
2013	175910	-2.5%	156838	-4.0%	19583	-3.2%	49843	1.8%	50681	-4.0%
2014	176893	0.6%	156594	-0.2%	20434	4.3%	53954	8.2%	54106	6.8%
2015	176442	-0.3%	156668	0.0%	21392	4.7%	56661	5.0%	58358	7.9%
2016	175600	-0.5%	156041	-0.4%	22785	6.5%	56426	-0.4%	59868	2.6%
2017	177458	1.1%	158841	1.8%	21638	-5.0%	61229	8.5%	64372	7.5%
2018 Q1	44915	1.8%	40331	2.5%	5206	-11.1%	16242	9.4%	16681	4.7%
2018 Q2	45031	1.7%	39687	0.1%	6254	16.8%	16496	7.8%	17230	8.4%
2018 Q3	44963	0.5%	39836	0.1%	5467	-0.7%	16612	7.0%	17635	8.9%
2018 Q4	45300	2.2%	39829	-0.5%	6371	29.5%	17461	12.2%	17662	8.0%
2018	180208	1.5%	159683	0.5%	23298	7.7%	66812	9.1%	69208	7.5%
2019 Q1	45626	1.6%	40423	0.2%	6139	17.9%	17123	5.4%	17719	6.2%
2019 Q2	46113	2.4%	40815	2.8%	5598	-10.5%	18459	11.9%	17727	2.9%
2019 Q3	45929	2.1%	40113	0.7%	5026	-8.1%	18340	10.4%	18227	3.4%
2019 Q4	45775	1.0%	40907	2.7%	5552	-12.9%	16154	-7.5%	17547	-0.6%
2019	183442	1.8%	162259	1.6%	22315	-4.2%	70076	4.9%	71219	2.9%
2020 Q1	44941	-1.5%	40511	0.2%	6471	5.4%	15372	-10.2%	18200	2.7%
2020 Q2	38917	-15.6%	36158	-11.4%	5634	0.6%	13107	-29.0%	14948	-15.7%
2020 Q3	41001	-10.7%	38776	-3.3%	7090	41.1%	12419	-32.3%	16743	-8.1%
2020 Q4	42655	-6.8%	38368	-6.2%	5578	0.5%	14099	-12.7%	16032	-8.6%
2020	167513	-8.7%	153812	-5.2%	24774	11.0%	54996	-21.5%	65924	-7.4%
2021 Q1	44075	-1.9%	38662	-4.6%	7192	11.1%	15272	-0.7%	17298	-5.0%
2021 Q2	44651	14.7%	40143	11.0%	7740	37.4%	16399	25.1%	18774	25.6%
2021 Q3	46080	12.4%	41010	5.8%	7497	5.7%	18332	47.6%	20415	21.9%
2021 Q4	46293	8.5%	41881	9.2%	7587	36.0%	18248	29.4%	21210	32.3%
2021	181099	8.1%	161696	5.1%	30016	21.2%	68252	24.1%	77698	17.9%
2022 Q1	47497	7.8%	42620	10.2%	8484	18.0%	17511	14.7%	20366	17.7%
2022 Q2	47916	7.3%	42752	6.5%	8418	8.8%	18220	11.1%	21516	14.6%
2022 Q3	47998	4.2%	42440	3.5%	9314	24.2%	17820	-2.8%	21481	5.2%
2022 Q4	48512	4.8%	42998	2.7%	10350	36.4%	18034	-1.2%	22659	6.8%
2022	191923	6.0%	170810	5.6%	36566	21.8%	71584	4.9%	86022	10.7%
2023 Q1	48481	2.1%	43589	2.3%	8428	-0.7%	19069	8.9%	21506	5.6%

* provisional data

Source: Quarterly National Accounts, ELSTAT, June 2023

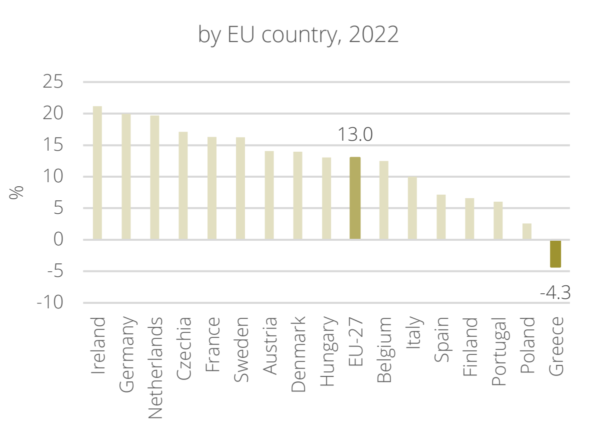
Box of Section 3.1

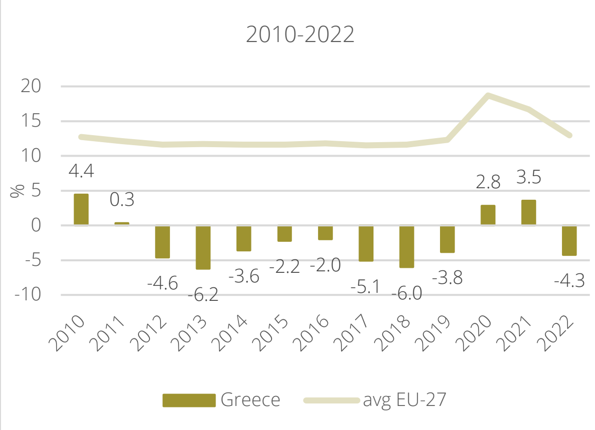
Evolution of the Greek private saving rate in 2022

A high saving rate is a prerequisite for a country's long-term economic growth and for maintaining the standard of living of its citizens, as it creates the necessary space for investment together with a sustainable external balance. Especially for the Greek economy, the financing of which has traditionally been "bank-centric" and, at the same time, deposits account for more than half of all household financial assets, a high savings rate is crucial to ease constraints on the banking sector, mainly coming from the high share of non-performing loans.

Greece, however, has not only the lowest but also the only negative household saving rate (consumer expenditure is higher than disposable income) among the European Union (EU) countries in 2022 (Figure B3.1.1). The protracted Greek recession of the previous decade wiped out household savings, which turned positive only temporarily during the pandemic, standing at -4.3% of disposable income in 2022, despite the strong recovery of the Greek economy over the previous year.

Figure B3.1.1. Household savings (% of disposable income)



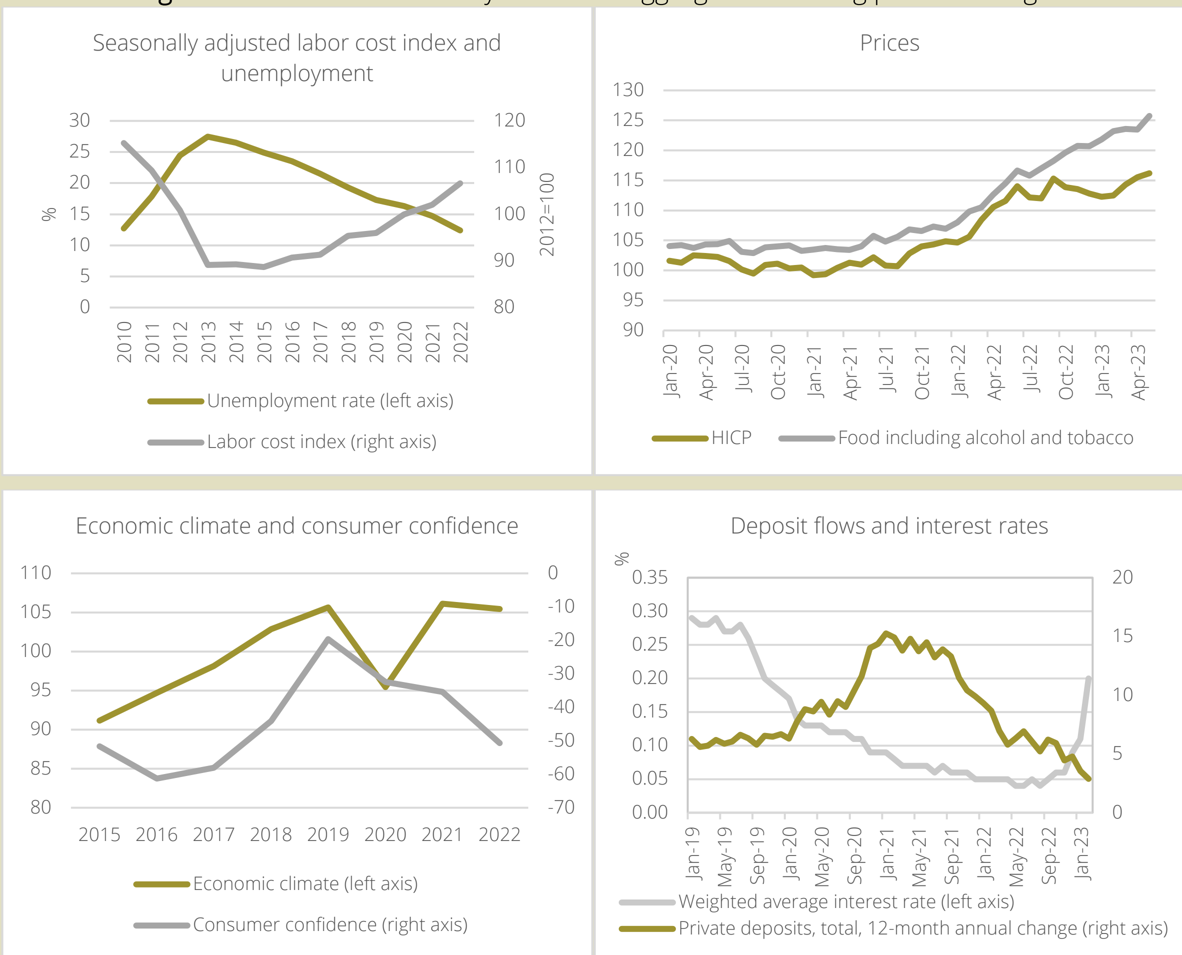


Source: ELSTAT/Eurostat (provisional data)

In most cases, the household saving rate is "cyclical", as an economy's recovery, accompanied by declining unemployment and rising wages, expands households' disposable incomes, thereby allowing for an increase in savings. However, in the case of Greece, last year's growth, which was accompanied by a significant fall in unemployment and a gradual increase in wage costs, not only did not strengthen the household saving rate, but in 2022 it recorded a stronger negative rate than its pre-pandemic level. High inflation last year seems to have held back this momentum, eroding consumer incomes, which have been partly supported by successive fiscal measures and appear to have fuelled only the explosive post-pandemic consumption, but not savings. It is worth noting that, despite the gradual decline in inflation since the last quarter of last year, the food price index remains significantly elevated.

Having said that, it has been observed that at some times the saving rate may be "countercyclical", as the economic recovery creates optimism and confidence among consumers about their future, thus encouraging a relatively higher consumption rate and reducing accordingly "precautionary" savings. This seems not to be the case in Greece, where despite a gradual improvement in economic sentiment after the end of the pandemic, consumer confidence is yet to pick up.

Figure B3.1.2. Evolution of key economic aggregates affecting private savings



Source: ELSTAT, Eurostat, BoG, IOBE, Data processing: IOBE

Another negative impact of inflation on savings accumulation is channelled through the real interest rates. High and persistent inflation, which is larger than the corresponding increase in nominal interest rates, discourages households' savings, which may consume their money before they lose their value. As regards bank interest rates, while the rise in key ECB interest rates over the past year seems to have already been incorporated, albeit in part, in the nominal lending rates of Greek banks, weighing on borrowers, the corresponding deposit rates remain relatively low, resulting in deposit outflows from the banking system. Figure B3.1.2 provides an overview of developments in the main drivers of savings as presented above.

For 2023, the European Commission (April 2023) expects the household savings rate to continue to be negative, albeit lower in absolute terms (-1.2%) than in the previous year, as inflation takes hold, while fiscal constraints gradually reduce the amount of financial support measures, so real disposable income and thus household and corporate savings are expected to shrink further. However, the large savings gap of Greek households relative to the European Union shows that there is enough room for policies to support domestic private savings, such as appropriate fiscal incentives for long-term private capital market investments that can boost the flow of national savings, allowing the Greek economy to enter a pathway to sustainable economic growth with a balanced current account and by increasing the share of investment in growth.

B. Assumptions and forecasts

Medium-term outlook

- The slowdown of growth in the euro area, the slow decline in core inflation, the tightening of the fiscal and monetary environment, the implementation of the "Greece 2.0" plan, and the granting of investment grade are the major drivers of GDP growth in 2023.
- An estimate of a slower growth of 2.4% in 2023 (unchanged from the previous quarter), due to a decline in global economic activity and sustained inflation and uncertainty.
- Lower growth rates for all components of GDP than in 2022.
- Economic growth is supported by a resilient labour market and the implementation of the Recovery and Resilience Plan.
- A marginal improvement in the external balance in 2023, with an increase in openness, in the share of services in exports, and in the share of goods in imports.
- Inflation is estimated at 4.3% and unemployment at 11% for 2023.

Following the stabilisation of energy prices and the slowdown in inflation at the beginning of this year, as well as the resilience shown by most economies worldwide, the adverse growth forecasts for 2023 have started to be revised positively. However, the continuation of the Russia-Ukraine war, together with the slow decline in core inflation, and the tight fiscal and monetary environment, raise uncertainty and are expected to be the most prominent economic determinants in 2023.

Consistently lower energy price levels – persistent core inflation

In the first five months of 2023, inflation continued the downward trend that it has followed since late last year, with the average rate of change in the Harmonised Index of Consumer Prices (HICP) standing at 5.6% (from +7.9% a year earlier), on account of an upward impact on the prices of non-energy goods, remaining significantly below the average rate of change in the EA (+7.4%). Despite the stability in energy prices this year, firms seem to have passed through the high energy, raw material, and food prices of last year to the prices of services and non-energy goods, which combined with resilient domestic demand led to a rise in core inflation in Greece to 8.2% (from 4.8% last year) in the first five months of 2023. It is worth noting that domestic core inflation is higher than the average in the EA (+7.3%), reducing the competitiveness of the domestic economy, while inflation in essential goods such as food, although high (13.2%) remains below the EA average (15.9%).

Regarding expected developments in international energy prices, the average international oil price in January-May this year weakened by around 22% compared with a year earlier, with mild positive trends expected in mid-2023 due to the OPEC+ (including Russia) decision, in early June, to extend the cuts in daily production until 2024. In addition, in the context of the OPEC+ cuts, Saudi Arabia is expected to further reduce production to 1 million barrels per day in July, which may extend into the coming months if the oil price does not rise. On the demand side, global consumption in 2023 is expected to grow, following the improved outlook for global growth in 2023. Finally, as regards the gas price, in December 2022 the European Commission imposed a cap on gas import prices of all origins in response to the energy crisis.

This year, the decline in the CPI inflation is expected to be further bolstered by the stabilisation of energy prices, the expected weakening of the post-pandemic explosive demand, the European Commission's interventions, as well as a base effect. It is worth noting, however, that despite the decline in inflation, the disinflation seems to be slower than initially expected, with central banks in most economies indicating that they will continue their aggressive monetary policy tightening until inflation is brought back to the 2% medium-term objective in a timely manner. Domestic disinflation is expected to be held back by the new energy cost package for households and firms expected to be announced in September, as well as wage pressures amid higher employment and minimum wage.

According to the forecasts announced by the European Commission in May this year, inflation in the EA in 2023 will be 5.8% (ECB forecasts a similar measure of inflation of 5.4%), forecasting a lower inflation rate of 4.2% for Greece. A more comprehensive analysis of inflation and its main determinants can be found in Section 3.5.

Global economic slowdown in 2023

The European and global economies are slowing down amid high inflation and monetary tightening. However, compared with the final quarter of last year, in the first quarter of 2023, most world economies recorded a small annual increase in activity, with the OECD economies growing at an annual rate of 1.5% (from 1.4% in the previous quarter) and the most developed economies (G7) growing at an annual rate of 1.3% (against a rate of 0.9% in the previous quarter). It is also worth noting that the US economy, despite the disruptions in the banking system and high debt management, recorded an annual growth rate of 1.6% in the first quarter of 2023, up from 0.9% in the previous quarter (more information on changes in macroeconomic fundamentals in EU countries and globally can be found in Sections 2.1.A and 2.1.B).

By contrast, economic activity slowed down in the euro area, which grew at a rate of 1.0% in the first quarter of 2023 (down from 1.8% in the previous quarter), with heterogeneity between the GDP growth rates of the major economies in the bloc (GDP contraction in Germany, -0.3%, and the Netherlands, -0.7%, GDP growth in France, 0.2%, Italy 0.6%, and Spain, 0.5%).

For 2023 as a whole, in June this year, the OECD revised its growth forecast for the world economy marginally upwards to 2.7% (from 2.6%). The growth rate of the euro area economy is projected to be much smaller at 0.9% in 2023, which is expected to hit our own economy on critical aspects such as exports and investment. By contrast, the Chinese economy is expected to record a significant boost in its growth rate (5.4% from 3.0% in 2022), following the slowdown in India and the US.

Tight monetary policy due to persistent inflation

With inflation proving particularly persistent, remaining well above the medium-term objective of 2%, and with fears of a pick-up in prices from an upward shift in inflation expectations, most central banks are continuing the tightening of their monetary policy, which started in the middle of last year. In particular, the Fed raised its key interest rate by 25 basis points in May this year, the 10th hike over 14 months, ranging from 5.00-5.25%, while it decided to keep its interest rates unchanged at the last meeting one month later, taking into account, in accordance with its mandate, the adverse impact of increases in interest rates on the labour market and with investors expecting two more hikes this year.

By contrast, the ECB has increased its key interest rates again since its last meeting in June, adding 150 basis points to its key interest rates in 2023, with an expectation for a further hike in the third quarter of the year. This is based on the upward revision of the forecast for core inflation (excluding energy and food) to 5.1% in 2023, 3.0% in 2024, and 2.3% in 2025, taking into account the impact of the robust labour market on the pace of disinflation. In its latest communication, the Governing Council of the ECB announced that it would do whatever it takes for as long as necessary to achieve the main objective of returning inflation to the medium-term objective of 2% in a timely manner, by setting as intermediate policy targets the anchoring of long-term expectations and the containing of demand so that the firms absorb the rising labour costs.

With regard to quantitative easing policies, in particular the Asset Purchase Programme, the ECB decided to continue to reduce its portfolio by partially reinvesting the maturing securities up to and including July 2023. Regarding the Pandemic Emergency Purchase Programme, the Governing Council announced its intention to reinvest the main receipts from maturing securities until at least the end of 2024. Finally, as private banks repay a large part of their borrowing following the completion of the third series of targeted long-term refinancing operations (TLTRO III) in June 2022, the ECB will continue to monitor bank funding conditions to ensure the smooth transmission of central monetary policy.

Successful implementation of the State budget

Fiscal policy in most EU and EA countries, following the activation in early 2020 of the general escape clause from the fiscal rules of the Stability and Growth Pact, was for most of 2022 expansionary to cushion the impact of the pandemic and then the impact of the energy crisis. In line with European practices, the Greek government has taken successive packages of measures, such as household and business support measures to tackle the energy crisis, an increase in the minimum wage, the abolition or reduction of taxes and social security contributions, as well as an increase in benefits.

Following the successful execution of the state budget in 2022, the balance, as well as the state budget primary balance, continued to exceed the respective cash targets in the first five months of this year, as reflected in the 2023 budget explanatory report (more information on the SB execution is presented in section 2.2B). The overperformance of the fiscal balance is due to higher-than-expected revenues coming from four positive factors: economic growth (albeit declining), penetration of electronic payments, higher revenue from indirect taxes due to inflation and resilient domestic demand, and finally higher income tax revenues due to its progressive scale.

On the expenditure side, the target was missed as a result of the gradual slowdown in fiscal interventions, with heterogeneity across expenditure categories presenting particular interest. In particular, unlike the overall total, overspending was recorded under categories of expenditure related to public consumption, subsidies, and social benefits, possibly reinforced by the two rounds of parliamentary elections. It is worth noting in this respect that government support policies through subsidies, beyond their negative impact on the budget balance, may have spill-over effects on consumption and tax compliance. In the current and possibly coming years, government spending is expected to shrink further, as the Greek government's fiscal space is now limited, debt remains high, the escape clause will be lifted next year, while expenditure is at the heart of the European Commission's proposals for the new fiscal rules framework in the EA.

In its forecast published in May this year, the European Commission expects the general government deficit to stand at 1.3% in 2023 and 0.6% in 2024, while highlighting as a risk for the fiscal figures pending court cases, most prominently against the Hellenic Public Properties Company (HPPC).

Declining public debt and rising private debt as percentage of GDP

Despite the widening of the absolute level of public debt in 2022, due to government borrowing via bonds and the disbursement of the loan leg of the recovery fund, the strong nominal performance of the Greek economy combined with positive fiscal developments significantly reduced the debt-to-GDP ratio (to 171.3% in 2022). The favourable projections for budget surpluses in the current and coming years should allow for further debt reduction. In its May 2023 forecast, the European Commission estimates that the Greek debt-to-GDP ratio will contract to 160.2% in 2023 and to 154.4% in 2024.

This year, already from the first quarter of the year, the Greek State has covered around 90% of its issuance needs for 2023, as estimated by the Public Debt Management Agency (PDMA), in an effort to avoid a possible further increase in interest rates by the ECB. According to data from PDMA, the largest share of new gross annual borrowing in January-March took place via interest-bearing bills (69%), followed by bonds (20.4%) and recovery fund loans (10.8%). Similarly, the average maturity of new lending stood at 4.5 years, while the weighted average cost stood at 2.9%.

To maintain the growth momentum of the domestic economy, it is crucial to ensure the smooth financing of the country in the period ahead, at a cost that does not significantly exceed that of the other euro area economies. Although the Greek public debt has been restructured with long-term characteristics, fiscal discipline is crucial, especially in the context of an international environment of high interest rates, which are expected to remain high for a long period of time. In this respect, we should add that, as of this year, instalments of loans received by Greece from the European Financial Stability Facility (EFSF) start to be repaid and other loans made by the EU institutions (loans from the European Stability Mechanism (ESM), the European Investment Bank, etc.), amounting to approximately €205 billion by 2070 (€60 billion in the next decade), start to be repaid in the coming years. The additional burden for the repayment of debt to the EU may call for higher budget surpluses so that Greece's non-sustainability scenarios do not reoccur. Finally, another source of concern with regard to public debt is government guarantees to banks (Hercules scheme), companies, individuals, and public entities, which are close to €30 billion. That said, the granting of the investment grade in the current year may facilitate the financing of the Greek State, although regarding the cost of borrowing, it has already been discounted, yet it will also allow Greek bonds to be used as collateral.

As regards private debt, the stagnation of non-performing loans (NPLs) in the banking system in the first quarter of 2023, after the expiry of the Hercules state guarantee securitisation scheme, weighs on its evolution. The volume of non-performing loans outside banks' balance sheets is also significant, which continue to weigh on the economy and the allocation of resources. The impact of higher interest rates on this debt is also expected to be particularly significant and negative.

Strong total and foreign direct investment

In early 2023, and for the ninth consecutive quarter, fixed capital formation maintained its positive trend, drawing on resources from the European Recovery and Resilience Facility (RRF), and supported by the stabilisation of the political and broader economic context, following reform progress in specific areas. Medium-term growth, after a 10-year recession, and as long as the country is still far from its potential output, can reach higher levels if unemployment continues to decline and the investment gap gradually closes, while the acquisition of investment grade can unlock international capital for productive and longer-term investment.

The Greek government, like the other European governments, acquired in 2021 a powerful six-year financial tool, the European Recovery and Resilience Facility (RRF). The second tranche from the RRF of €3.56 billion has already been disbursed this year, while the Greek government has applied for the third tranche and for a new €5 billion loan under REPowerEU. The high take-up of European funds is expected to support the pick-up in investment also in 2023, with the risk of a small delay in the implementation of the "Greece 2.0" scheme.

Among the components of fixed capital investment, housing and construction were the main growth drivers in all quarters of last year and in early 2023, pushing prices in this sector substantially. In particular, according to Bank of Greece data, the house price index in urban areas increased annually by 14.7% in the first quarter of 2023, up from 10.6% a year earlier. House price growth was also driven by the sharp rise in foreign direct investment in real estate recorded in recent years, which in 2022 reached a historical high of +68% compared to 2021. According to Bank of Greece estimates, the momentum of foreign direct investment (FDI) is expected to be sustained in 2023, perhaps at a declining pace, with positive, albeit small, growth rates of the domestic and international economy, higher tourism, and the golden visa programme.

Maintaining the growth momentum of investment is crucial for expanding the productive potential of the domestic economy and strengthening competitiveness and real wages, especially if investment is directed towards export-oriented activities of the private sector of the Greek economy, as well as public sector activities with a high degree of positive externalities. However, the source of financing for new investment is equally important for sustaining growth and avoiding medium-term shocks, especially in the case of Greece, which has high external debt. The traditionally negative saving rate of Greek households, which halted only temporarily during the pandemic period, indicates that the investment growth of the past 3 years has been financed mainly by external borrowing, which is reflected in the rising current account deficit, particularly in the previous year. It is therefore necessary to strengthen the flow of national savings in order to put the Greek economy on a pathway to sustainable economic growth with a balanced current account and by increasing the share of investment in development.

Challenges in the banking sector

Uncertainty about the extent and duration of the slowdown in the real economy, the rise in borrowing costs as well as the fatigue of private deposit growth pose new challenges to the financial system with regard to the banks' funding conditions, asset quality, and profitability prospects.

On the liabilities side, deposits and lending via the Eurosystem and capital markets are the main sources of funding for Greek banks. The slowdown in private deposits, which in May this year recorded a year-on-year rate of change of 3.3%, clearly down from an average rate of 9.0% over the two-year period from 2020 to 2021, amid a surge in savings, and 4.8% in 2022, leaves the domestic banking system more exposed to the high interest rate environment. For the whole of 2023, the strain on private deposits is expected to continue, with an overall moderate positive trend. Meanwhile, core inflation slows down and financial support measures are contained, so real disposable income and household and business savings are expected to come under pressure. It is worth noting, however, that Greek banks' funding is expected to be greatly facilitated by the country regaining investment grade status, allowing capital to be raised from the markets on more favourable terms, as well as an increase in the value of the assets eligible as collateral for monetary policy operations.

On the assets side, credit growth to corporations slowed in the second quarter of 2023, with an unabated credit contraction to households. Credit developments in the private sector are supported by both changes in the supply of, and demand for, loans. On the demand side, uncertainty and rising borrowing costs act as a deterrent to new investments, which however appear to be offset by the projects under the National Recovery and Resilience Plan and the REPowerEU programme. On the supply side, the high share of Non-Performing Loans (NPLs), significantly higher than the euro area average, stands out. It stagnated on banks' balance sheets in the first quarter of 2023, after the expiry of the Hercules securitisation scheme. New challenges arising from the current situation include a deterioration in the ability of variable-rate borrowers to repay their obligations.

Finally, while the interest rate hikes by the ECB seem to have already passed through to the financing conditions, pushing up the interest rate on new loans and lowering the lending growth rate, deposit rates remain low, discouraging savings and strengthening bank constraints. On the domestic side, the average interest rate differential on loans and deposits has increased to its highest level in at least 20 years (analysis of developments in the financial system is presented in Section 2.2C).

Low sectoral diversification of the production base

As regards supply developments, strong disruptions primarily on the supply side over the past year have dampened the upward trend in domestic production. However, the signals on the course of the Greek economy are encouraging early this year, particularly when compared with the respective euro area performance. Among the main branches of domestic production, the production index increased in industry and construction, and so did turnover in most branches of services and in Wholesale trade in the first quarter of 2023. However, this has not contributed significantly to the sectoral diversification of the production base (an overview of trends in key sectors of production is included in Section 3.2).

In particular, in industry, the production index increased annually in the first quarter of 2023, by 2.4% (2.3% in 2022), a significantly higher rate than in the euro area (0.3% from 1.3% in 2022), with stronger growth from manufacturing (6.7% from 3.8% in 2022) and mining (14.0% against -16.1% in the same period of 2022). In the construction sector, the production index increased by 26.7%, having significantly accelerated compared to the corresponding period of the previous years (+14.1% in 2021 and -8.9% in 2022). In the euro area (20 Member States), the production index in construction is increasing but at a notably slower pace than in the Greek economy (0.7% from 5.3% in the same quarter of 2022).

Stronger domestic economic sentiment

Early this year, cautious expectations in the euro area due to the slowdown in economic activity, persistent inflation, and aggressive monetary policy tightening by the ECB have reflected in the gradual decline in the economic sentiment indicator. Nevertheless, consumer confidence improved marginally, while business confidence appears to be stabilising.

Domestically, the dynamics of the Greek economy over the past year have strengthened the Economic Sentiment Indicator since the beginning of this year, particularly in the second quarter, following the formation of a single-party government. In this quarter, domestic business confidence appears to show mixed trends and movements by branch of economic activity. In particular, business confidence improved significantly compared with the previous quarter in services, on account of optimistic expectations for international tourism, to a weaker extent in retail trade and construction, while declining mildly in industry, on account of a surge in inventories and lower demand. Industrial capacity utilisation also declined slightly yet it remained above its long-term average.

On the household side, consumer confidence improved markedly in April - June compared with the previous quarter, supported by higher government consumption and extraordinary spending amid an election campaign, as well as by a climate of stabilisation in the political and broader economic context, which offset the effects of rising costs of living (more information on economic sentiment is presented in Section 2.2A).

The labour market remains resilient

The unemployment rate maintained its downward trend in the first quarter of 2023, with employment in the Greek economy showing high resilience over the past 3 years, boosting household disposable income. Specifically, according to the Labour Force Survey of ELSTAT, in the first quarter of this year, the unemployment rate in Greece averaged 11.8%, down from 13.8% in the same quarter of 2022, keeping Greece in the second place in the unemployment rate ranking among the euro area countries (see Appendix, Figure 7). The decline in the unemployment rate was the result of both a decline in the number of unemployed and an increase in the number of persons employed (an analysis of the trends in the domestic labour market is presented in Section 3.4).

The decline in unemployment over time in recent years has been driven by the recovery of the Greek economy since mid-2021, rising nominal wages, as well as extensive fiscal support measures for businesses, which prevented labour demand from falling and then alleviated their energy costs. This year, the drivers of new job creation in 2023 include strong tourism demand, a mild upward trend in domestic consumption, higher investment in export-oriented sectors of industry and construction, as well as the new employment support programmes of the Ministry of Labour, through subsidies for hiring and training unemployed people and workers.

Having said that, the rise in production costs due to higher nominal wages, with the seasonally adjusted wage cost index in the Greek economy as a whole on an upward path for the fourth consecutive quarter, is holding back job creation. This increase, combined with still relatively high energy costs, and the possibility of a new surge in international energy commodity prices in late 2023, is likely to put strong pressure on firms, which may lead them to favour flexible forms of employment, and to create a spiral of wage and price increases.

In order to keep employment on an upward path, in addition to creating new jobs, especially in the context of negative demographic trends, an increase in the participation of the population in the labour force is also crucial. To this end, it is key to institute appropriate incentives such as boosting nominal wages, credibility in the conduct of economic policy and reforms, and generally having positive prospects for the domestic economy.

Current account improvement

In the first quarter of this year, there was a narrowing of the current account deficit, which was mainly driven by the goods account, with the decline in energy prices and exports of goods at current prices rising year-on-year by more than the corresponding imports. The slowdown in the imports of goods, larger than the marginal slowdown in the imports of services, is related to weaker growth in domestic demand, in particular in consumption, fixed investment, and stock accumulation. As regards the services sector, monthly air bookings up to May of this year are higher than in 2022, while market participants estimate tourism revenues in 2023 to pick up and slightly exceed 2019 levels (the external balance trends are detailed in Section 3.3).

The improvement in the external balance was also significantly supported by the secondary income account, which was reinforced by the last ESM tranche in the context of the reimbursement of profits from Greek bonds, as well as with resources from the grant component of the Recovery and Resilience Facility (RRF), which was not in the books during the same quarter of 2022. The apparent persistence of the openness of the Greek economy is also worth noting, with the sum of exports and imports relative to GDP peaking at 83% of GDP in the first quarter of 2023.

Overall, a possible slowdown in domestic demand, as well as an improvement in the external environment from mid-2023 combined with lower energy prices and a possible decline in the high deflator mainly of exports, are expected to improve the Greek economy's high trade deficit in 2023, with an increase in openness, an increase in the share of services in exports and in the share of goods in imports.

However, the trend towards widening the trade deficit whenever there is growth indicates that the strengthening of the productive base falls short of the revival of the economy, and combined with the inflation caused by this imbalance, undermines the possibility of increasing real incomes. Moreover, together with the increase in investment over the same period, it reflects the negative savings rate of domestic households, which curbs the long-term growth potential of the Greek economy and the improvement in the living standards of its citizens.

Medium-term forecasts

On the basis of the above analysis of international and domestic economic sentiment and fundamentals, and on some key assumptions, we form short-term forecasts for the domestic GDP components.

Box 3.1

Macroeconomic forecast drivers

Risks

- Further geopolitical and economic instability at regional (e.g. Turkish economy) and international levels (war in Ukraine). Scenario for a new round of global energy commodity price hikes towards the end of 2023.
- Expectations of a longer duration of the period of high interest rates.
- Gradually tighter fiscal framework in Europe. The tax base in Greece remains narrow.
- Persistent inflation in essential goods, such as food. Loss of competitiveness due to higher than the euro area average core inflation (excluding energy and food) after mid-2022.
- An increase in the loans-deposit interest rate spread and systematically negative household saving rate.
- Risk of a further surge in arrears and NPLs, owing to higher interest rates and cost of living.
- A slowdown in the sectoral diversification of the production base, e.g. fatigue and fluctuations in industrial production.

Positive outlook

- The acquisition of an investment grade may unlock international capital for productive and longer-term investments.
- Government revenues increase significantly in nominal terms, while government debt falls as a percentage of GDP.
- Maintaining a stronger openness of the economy, with a gradual improvement in the external balance.
- Reforms with a medium-term horizon (2023-2027), after the formation of a single-party government.
- Consultation on a new framework of fiscal rules in the EU and making early use of new financial instruments such as REPowerEU.
- Reducing NPLs at the economy-wide level will free up productive resources to allocate them more efficiently.

On the consumption side, private consumption is expected to slow significantly from its explosive post-pandemic rates, mainly on account of the contraction in households' real disposable income, as well as the negative saving ratio of the previous year. High and persistent inflation in essential goods, such as food, and the lifting of fiscal support measures since the second half of this year, after the end of the national elections, weigh on household disposable income. By contrast, employment growth and higher minimum wage are holding back the slowdown in consumption. In 2023 as a whole, government consumption is estimated to grow marginally in relation to the previous year, partly as a result of the elections (two rounds of parliament elections in the second quarter and upcoming elections for local and regional authorities in the fourth quarter), and with the aim of achieving a small budget surplus this year.

For 2023, and taking into account a base effect, a slowdown in consumption growth is expected due to the above factors, with the annual change in private and public consumption estimated at 1.8% and 0.6%, respectively, with total consumption growing by 1.5%.

Box 3.2

Baseline scenario assumptions

- The euro area economy follows the ECB's baseline scenario on growth (0.9% from 1.0% three months ago), inflation (5.4% in 2023 instead of 5.3% three months ago), energy prices and interest rates.
- Geopolitical instability in eastern Europe and the Mediterranean continues at a similar intensity to that in 2022.
- Interest rates follow the trend of current forward contracts, i.e. Euribor is expected to peak in the fourth quarter of 2023 at 4%, before gradually declining towards the 3.25% region at the end of 2024.
- A short delay (1-2 quarters) in implementing the "Greece 2.0" scheme.
- Slightly higher public expenditure compared to the 2023 budget.
- Acquisition of investment grade in the second half of 2023 by at least one rating agency.
- Inflation in Greece is set to stand slightly below the average in the EA in 2023.
- Annual increase of inbound tourism. Compared to 2019, marginally higher nominal annual revenues are expected, but lower in constant prices.

Investment is expected to remain on the rise in 2023, with the resources of the recovery fund and the new REPowerEU tool, as well as the additional resources that they can unlock with the acquisition of investment grade by the Greek economy, contributing to a broader strengthening of the openness and competitiveness of Greek businesses. Moreover, the timely formation of a government removed the risk of political instability and led to a significant strengthening of the domestic investment climate.

Having said that, the unwavering uncertainty, the slow disinflation, and the apparent persistence of high financing costs for a longer period of time are the main factors that dampen the momentum of investment this year. Higher production costs, driven by high prices for energy and other intermediate goods, as well as nominal wage growth coupled with higher borrowing costs from the banking system, are projected to depress corporate profits significantly, reducing available investment resources, which combined with negative household savings, do not create the necessary space for investment and a sustainable external balance.

Overall, for 2023, fixed investment is expected to increase, especially in the second half of the year, when an investment grade is expected to be granted by the first rating agency. The increase is likely to be larger than in 2022 in absolute terms, which however translates into a slightly lower annual rate of change in percentage terms. The annual change in fixed capital formation is estimated at 10.0%, with total investment growing annually by 4.0%, due to the reduction in inventories.

In the external balance, we expect a small improvement in 2023, with a rise in the share of services in exports and the share of goods in imports. In particular, the slowdown in domestic demand is expected to dampen import growth, while an improvement in the external environment since mid-

2023, combined with favourable tourism revenue forecasts and lower energy prices, which is likely to lower the high deflator, especially for exports, is expected to support export growth.

For 2023, taking into account the assumptions on euro area growth, prices of energy and intermediate goods, the general climate of uncertainty, and taking into account the dynamics of net exports in the first quarter of the year, we project annual export growth of exports and imports in 2023 at 4.5% and 3.3% respectively, improving the current account balance.

Finally, we project an output growth of 2.4% in 2023, slower than in the previous year, with a small positive outlook, due to a sustained momentum in the main components of GDP in the first quarter of 2023.

Table 3.2

Comparison of forecasts for selected economic indicators for 2023 (at constant market prices, annual % changes)

	MinFin	EC	IOBE	IMF	OECD
	2023	2023	2023	2023	2023
GDP	2.3%*	2.4%	2.4%	2.6%*	2.2%
Consumption	:	:	1.5%	:	:
Private Consumption	1.0%	1.6%	1.8%	1.1%	1.7%
Public Consumption	-1.5%	-0.2%	0.6%	-3.1%	-0.4%
Gross Fixed Capital Formation	15.5%	7.2%	10.0%	10.5%	8.9%
Exports	1.0%	6.5%	4.5%	5.7%	-0.2%
Imports	2.6%	4.7%	3.3%	2.5%	6.7%
Harmonised Index of Consumer Prices (%)	5%	4.2%	4.3%	4.0%*	3.9%
Unemployment (% of labour force)	12.6%	12.2%	11.0%	11.2%*	11.2%
General Government Balance (% of GDP)	0.7%	1.9%	:	-1.9%	0.7%
Current Account Balance (% GDP)	:	-9.2%	:	-8.0%*	-9.5%

Sources: Draft State Budget, Ministry of Finance, November 2022, * March 2023 estimate - European Economic Forecast, Spring 2023, European Commission, May 2023 - The Greek Economy 02/23. IOBE, June 2023 - IMF Country Report No. 22/173, IMF, June 2022, *Revision, April 2023 - Economic Outlook 113, OECD, June 2023

3.2 Trends in key sectors

- Industrial production strengthened by 2.4% in the first four months of 2023 – with no significant changes compared with the same period of 2022 (+2.3%).
- Construction continued to gain momentum, with production growing by 26.7% in the first quarter, from 14.1% in 2022. Building permits also increased but at a slower pace than a year ago.
- A 2.1% decrease in the volume of retail trade in the first quarter of 2023 against a 10.2% increase in 2022. Stronger expectations across all sub-sectors in the first half of 2023 compared to 2022.
- An increase in turnover in most sub-sectors of services in the first quarter.

Industry

In the first four months of 2023, the industrial production index increased by 2.4%, a similar rate of growth as in 2022 (2.3%). In April 2023, the month with the latest available data, production increased by 4.2%, while in the same month of 2022, the relevant indicator was falling by 4.7%.

The industrial producer price index weakened by 2.1% in the first four months of 2023, after an increase of 40.1% in the first four months of 2022, under pressure from international energy prices. This is the first period of decline in producer prices since the onset of the war in Ukraine. However, it should be noted that the decrease in prices in the overall index came exclusively from the domestic market (-2.1% against +40.3% in 2022). Export prices continued to increase, also affected by trends in transport costs (+40.3% against a milder increase of 6.9% in 2022). This led to a 5.4% increase in the turnover index of industry over the same period (Jan-Apr 2023), compared to 35.7% growth in 2022, mainly due to inflationary pressures.

By contrast, industrial production in the euro area increased by 0.3% in the first four months of 2023, against an increase of 1.3% in the corresponding period of 2022. In addition, in April 2023, industrial production strengthened by 0.6%, after a decline of 1.3% one year earlier.

In the key sectors of Greek industry, production fell in the first four months of 2023 in electricity supply (-13.9% against -1.1% in the same four months of 2022) and in water supply (-1.0% against -1.0% in 2022). By contrast, there was an increase in mining (14.0% against -16.1% in the same period of 2022) and manufacturing (+6.7% compared to 3.8% in 2022).

In Manufacturing, output increased in 17 out of 26 branches. Among the branches with the greatest significance for the Greek economy, pharmaceutical production increased by 25.5% in the period under review, from an increase of 9.9% a year earlier. Production of basic metals expanded by 0.8% (against 4.0% in the same period of 2022), while food production strengthened at a slightly slower pace than a year earlier (3.8% against 4.0%).

Among the other sectors of manufacturing, strong growth was recorded in the production of leather goods (36.1% from 11.2% in the first quarter of 2022), electronic equipment (26.1% from 10.2% last year), and motor vehicles (+19.8%, compared with a more pronounced expansion of 43.4%, one year earlier). By contrast, the industries with the largest decline in production include the manufacture of other transport equipment (-9.9% against -8.9% last year), electrical equipment

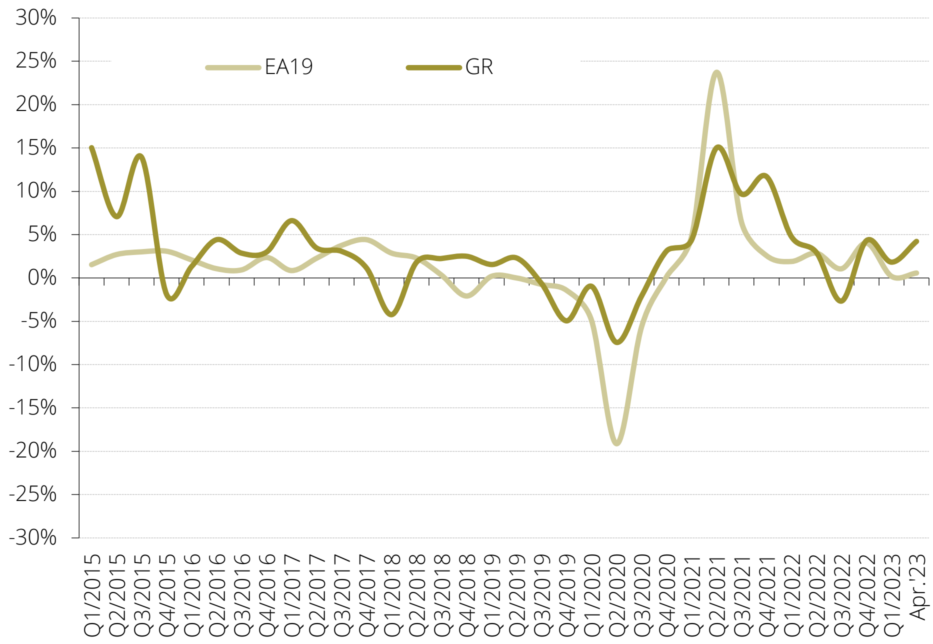
(-5.4% against an increase of 19.7% in the first quarter of 2022) and plastics (-3.6% compared with an increase of 6.2% one year earlier).

In the main industrial groupings, production fell in energy (-3.9% against -1.9% in 2022) and intermediate goods (-0.1% against 3.2%). By contrast, growth was recorded in consumer durables (9.9% from 30.4% in the first four months of 2022), capital goods (9.3% against -0.3% in the first quarter of 2022) and non-durable goods (8.8% against 5.6% last year).

Figure 3.4

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

The overall index rose by 2.4% in the first four months. Softer growth in the euro area (+0.3%).



Sources: ELSTAT, Eurostat

Construction

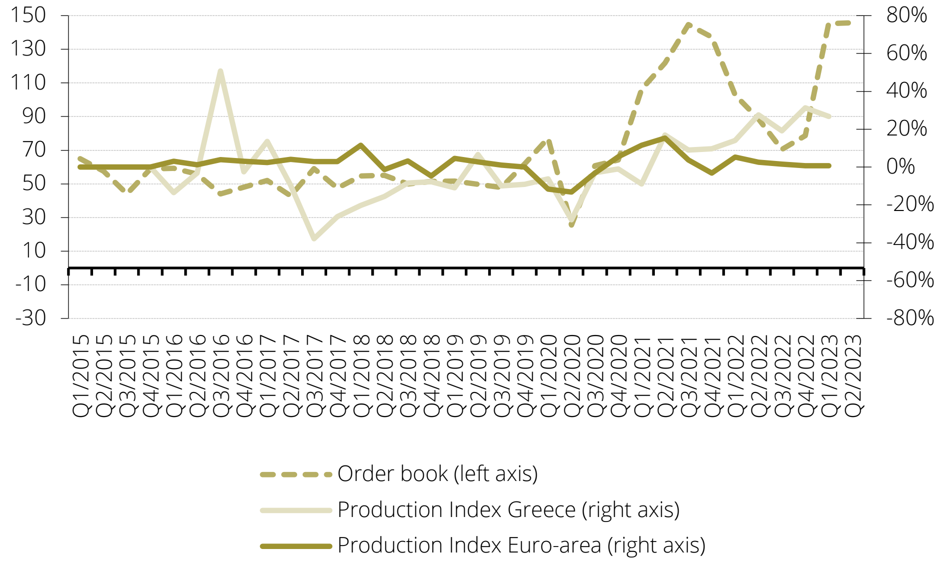
The production index in the construction industry in the first quarter of 2023 increased by 26.7%, having significantly accelerated compared to the corresponding first quarters of past years (+14.1% in 2021 and -8.9% in 2022). Over the same period in the euro area (of 20 Member States), the production index in construction is rising but at a much slower pace than in the Greek economy. In more detail, the relevant indicator increased by 0.7% against 5.3% in the same quarter of 2022.

In Greece, in individual construction activities, in the first quarter of 2023, building construction increased by 24.1%, after an increase of 19.8% in the same period of 2022. In addition, the index for civil engineering projects increased by 28.0% (against a decline of 20.5% in 2022).

All building activity data point to growth in the first two months of 2023. In particular, permits increased by 1.1%, albeit at a much more limited pace than in 2022 (+9.6%). The new buildings are mildly larger than in the corresponding period of 2022, both in terms of surface area (+0.3%) and volume (+3.0%).

Figure 3.5

Production Index in Construction and Building Activity Index



The production index strengthened in the first quarter (26.7%), with a corresponding increase in building activity data (24.1%) with slightly larger buildings.

Source: ELSTAT

Retail Trade

The volume index in retail trade in the first quarter of 2023 decreased by 2.1%, against a 10.2% increase in 2022. Business volume increased in 5 out of 8 branches. The decrease came solely from the poor performance of the indicator in March 2023 (a decrease of 8.7% year-on-year).

The largest growth was recorded in furniture and electrical appliances (21.6%, after an increase of 14.0% a year earlier), department stores (12.4% from 13.4% in the same quarter of 2022), and clothing/footwear (11.2% from 21.4% last year). Sales increased in books – stationary (6.0% against 25.2%) and food (1.3% against a 3.8% decrease). By contrast, sales volume declined in supermarkets (-6.9% following a decline of -1.7% one year before) and fuel stations (-3.5% against +14.8% last year).

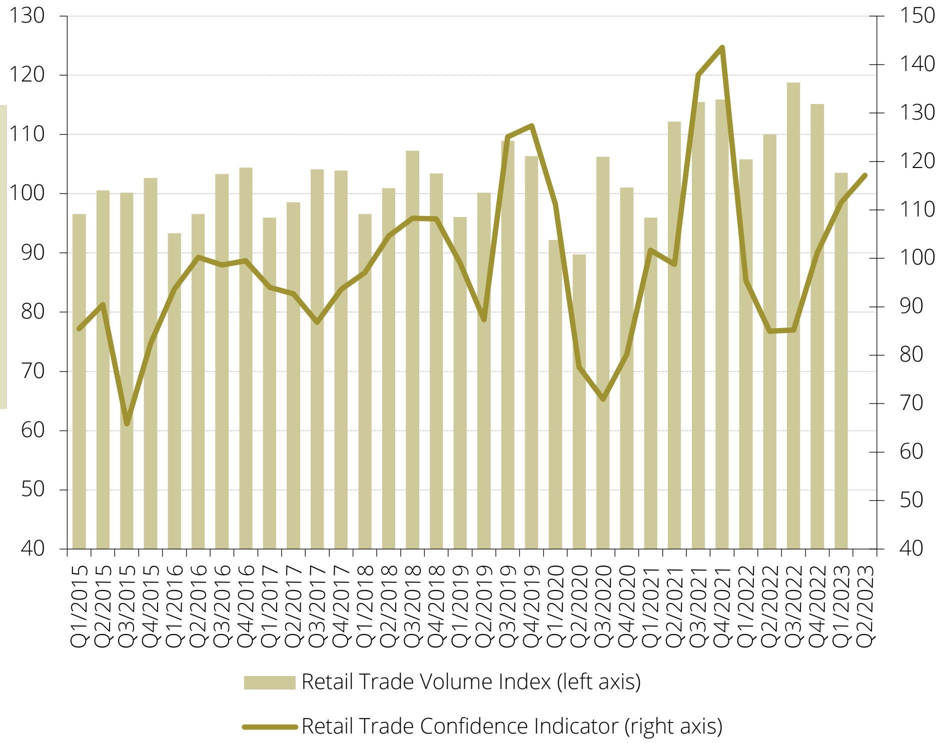
Retail trade expectations in the first half of 2023 are recovering from the same period of 2022 when they were affected by the uncertainty of the Russian war in Ukraine. The relevant composite indicator increased by 23.0 points against a decrease of 0.7 points in the first half of 2022.

In terms of activity, expectations have improved in all branches of retail trade. In more detail, the largest increase was recorded in food-drinks (42.7 points against a 23.7-point decrease in the same period of 2022), textiles-clothing (up by 26.1 points after an increase of 18.0 points last year), and vehicles (19.4 from -4.9 points a year earlier). Department stores came next (16.1 against 24.5 points in the first half of 2022) and household appliances (growth of 11.6 points, similar to that for the same period of 2022).

Figure 3.6

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

Decrease in volume of retail trade in Q1 2023 (-2.1% against +10.1% in the same quarter of the previous year).



Sources: ELSTAT, IOBE

Table 3.3

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Q1 2021	Q1 2022	Q1 2023	Change 2022/2021	Change 2023/2022
Overall Index	96.0	105.8	103.5	10.2%	-2.1%
Overall Index (excluding automotive fuels and lubricants)	99.8	107.0	105.8	10.5%	-1.1%
Store Categories					
Supermarkets	109.4	107.5	100.1	-1.7%	-6.9%
Department Stores	77.7	88.2	99.1	13.4%	12.4%
Automotive Fuels	76.5	87.9	84.8	14.8%	-3.5%
Food – Drink – Tobacco	76.7	73.8	74.8	-3.8%	1.3%
Pharmaceuticals – Cosmetics	123.4	149.3	141.2	21.0%	-5.4%
Clothing – Footwear	79.5	96.5	107.4	21.4%	11.2%
Furniture – Electric Equipment – H. Appliances	104.9	119.6	145.4	14.0%	21.6%
Books – Stationary	112.6	141.0	149.4	25.2%	6.0%

In more detail, the business confidence index for motor vehicles increased significantly in the second quarter of 2023, rising by 29.2% year-on-year to 127.7 points, while all components of the index strengthened. The current sales balance returned to a strong positive sign, reaching 37 points, from -45 points in the second quarter of 2022, with a higher assessment of sales growth. Inventories show signs of stabilisation, which is considered a positive outcome following the supply chain disruptions of the previous period. Sales expectations strengthened, as the balance stood at 32 points, compared with -5 points in the second quarter of 2022, with a doubling of those expecting increased sales in the period ahead. Employment appears to be stabilising, while on the price side, the share of those expecting hikes or stability increased.

Table 3.4

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

	Jan. - Jun.2021	Jan. - Jun.2022	Jan. - Jun.2023	Change 2022/2021	Change 2023/2022
Food-Drinks-Tobacco	82.5	58.8	101.5	-23.7	42.7
Textiles - Clothing – Footwear	64.8	82.8	108.9	18.0	26.1
Household Appliances	86.3	98.0	109.6	11.7	11.6
Vehicles-Spare Parts	111.7	106.8	126.2	-4.9	19.4
Department Stores	66.1	90.6	106.7	24.5	16.1
Total Retail Trade	94.0	93.3	116.3	-0.7	23.0

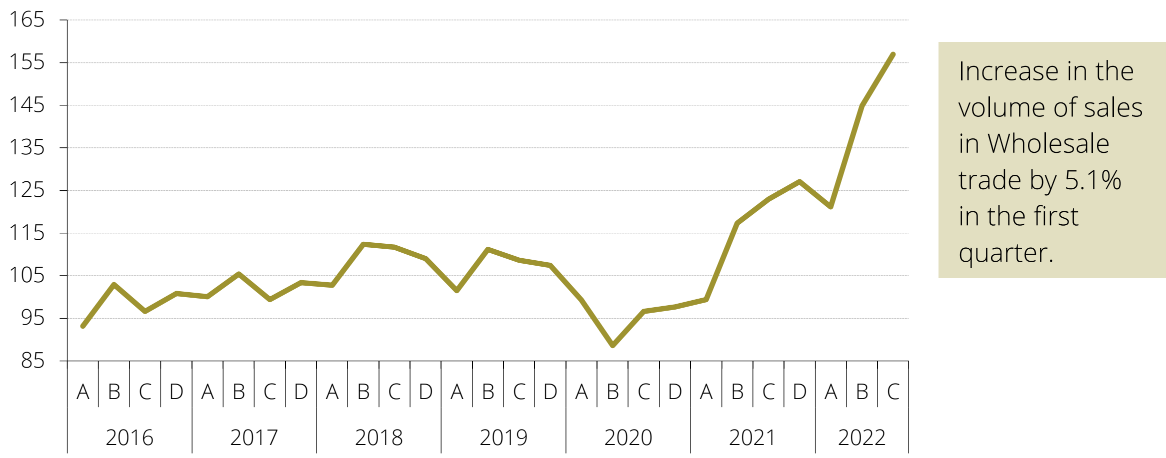
Source: IOBE

Wholesale trade

In the first quarter of this year, the turnover index in Wholesale trade rose 5.1%, when a year earlier it was falling by 2.9%. Moreover, the turnover index, which also incorporates the price effect, increased by 6.8% in the same period, having increased by 21.9% in the same period of 2022. Taken together, these indicators point to a mild decline in prices.

Figure 3.7

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

In the first quarter of 2023, turnover in services declined in two of the thirteen sectors year-on-year. The largest increase was recorded in data processing and information services (+38.5% against a milder increase of 1.5% a year earlier), followed by other scientific activities (+35.2% against 3.5 % last year), computer programming (28.1% against -2.0% in Q1 2022), and architectural and engineering services (25.4% against -7.9% a year earlier). Security services (16.9% against +4.6% last year) and building services (13.9% against 20.7% in the same period of 2022) follow at a distance. A smaller increase in turnover was recorded in publishing activities, offsetting last year's decline (7.4% against -6.2% a year earlier), and telecommunications services (3.2% instead of -1.1% last year). By contrast, a decline in turnover compared with the first quarter of 2023 was recorded in support services to enterprises (-4.0% after a decline of 10.9% in the first quarter of 2022) and courier services (-0.1% against -9.5% one year earlier).

According to recent trends in the leading indicators from IOBE's business surveys, whose values refer to the first half of 2023, expectations weakened in three out of four examined branches of services. The composite indicator of the sector fell by 1.6 points against a significant increase of 21.7 points in the same period of 2022.

In more detail, expectations fell by 7.6 points in various business services (against an increase of 24.1 points a year earlier), IT (-2.6 points against + 9.9 points a year earlier), and financial intermediaries (-0.2 points, after a decline of 7.9 points in the same period of 2022). By contrast, stronger optimism was recorded in hotels – restaurants – travel agencies, with the expectations index rising by 6.8 points (against a sharper improvement of +42.5 points a year earlier).

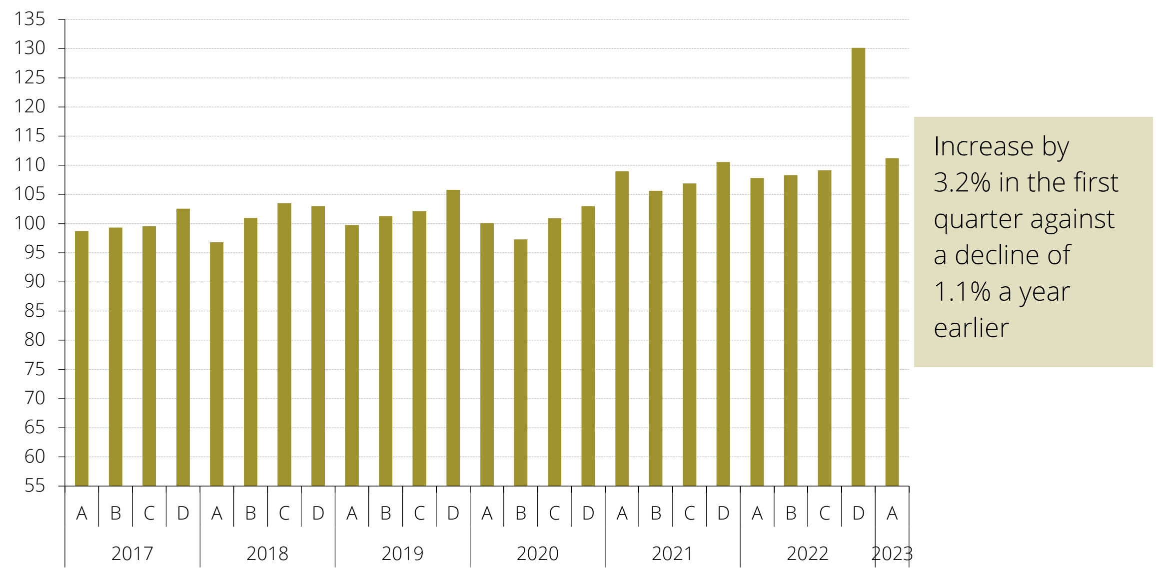
Table 3.5

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

	Jan. - Jun. 2021	Jan. - Jun. 2022	Jan. - Jun. 2023	Change 2021/2020	Change 2022/2021
Hotels – Restaurants – Travel Agencies	78.8	121.3	128.1	42.5	6.8
Financial Intermediation	119.5	111.6	111.4	-7.9	-0.2
Other Business Services	89.9	114	106.4	24.1	-7.6
Information Services	93.8	103.7	101.1	9.9	-2.6
Total Services	**85.1**	**106.8**	**105.2**	**21.7**	**-1.6**

Figure 3.8

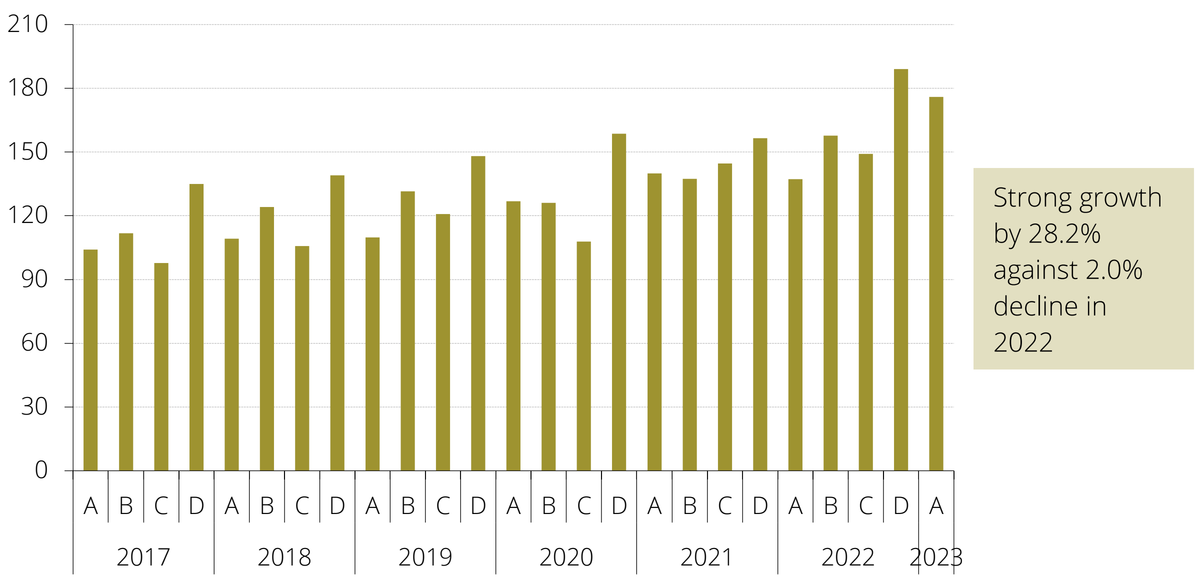
Turnover Index in Telecommunications (sector 61)



Source: ELSTAT

Figure 3.9

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

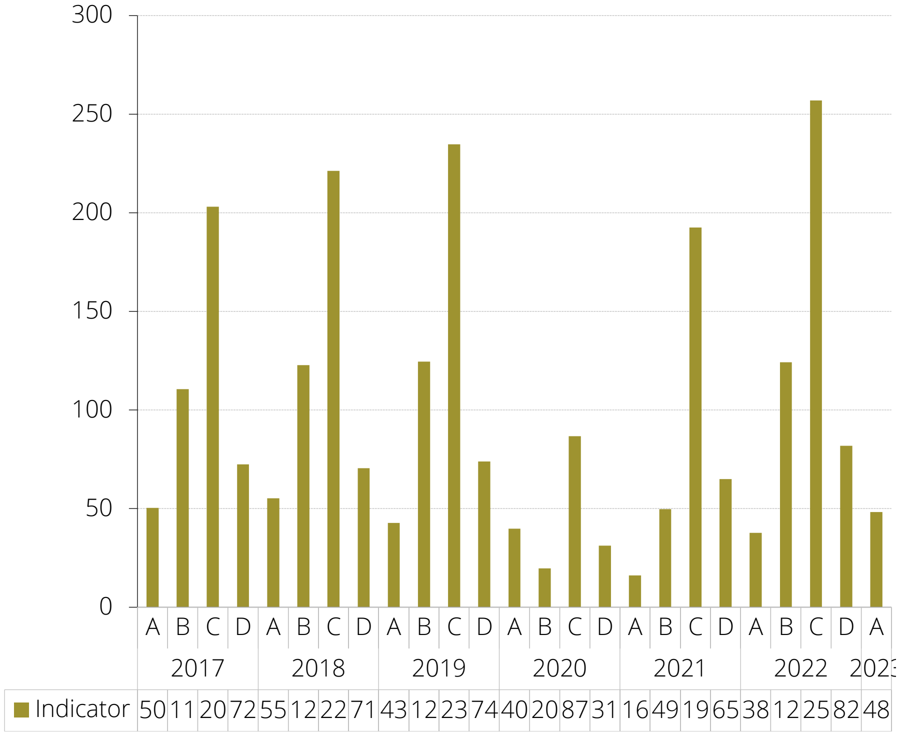


Source: ELSTAT

Figure 3.10

Turnover Index in Tourism (Accommodation and Food Services Activities, sectors 55 & 56)

Stronger year-on-year tourism in the first quarter of 2023 by around 27.8%, continuing the positive trend that started after the pandemic.



Source: ELSTAT

3.3 External balance

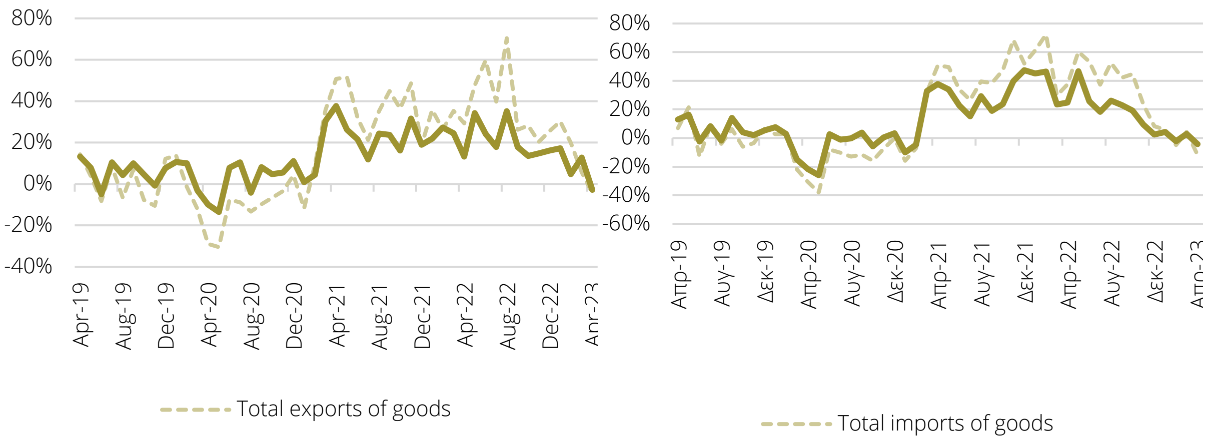
A. Analysis of exports and imports from national accounts

- An increase in exports of goods in nominal terms in the first four months of 2023, at a rate of 12.1% and a 1.8% decline in imports. Slower growth in exports excluding petroleum products (+8.0%).
- Growth in fuel, industrial products, and agricultural products and a decline in raw materials and goods and transactions not classified in categories.
- A decline in imports in January-April 2023, by 1.8% at current prices, from €27.5 billion a year earlier, to €27.0 billion.
- A decrease in the trade deficit with respect to 2022 by 20.6% to €9.3 billion
- Rising demand from euro area countries (+17.4% or €1.5 billion), Middle East and North Africa (+3.0% or €68.4 million), and Asian countries (+46.3% or €249.9 million).

The exports of goods totalled €17.7 billion in January-April 2023, compared with €15.8 billion a year earlier, increasing by 12.1% at current prices. Excluding the exports of petroleum products, the remaining exports increased by 8.0%, to €11.9 billion, from €11.0 billion in 2022. The imports of goods declined in the first four months of 2023, by 1.8% at current prices, to €27.0 billion, down from €27.5 billion a year earlier. Excluding petroleum product imports, the remaining imports increased by 0.2%, to €19.3 billion, from €19.2 billion in 2022. As a result of the above trends in the main components of the external balance of goods, the trade deficit stood €2.4 billion lower than in 2022 (-20.6%), at €9.3 billion, from €11.7 billion. As a result, the value of exports of goods of the Greek economy in the first four months of 2023 represented 65.5% of its imports, while one year earlier it was standing at 57.4%.

Figure 3.11

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



Source: ELSTAT, Processing: IOBE

> Exports excluding petroleum products and ships stood at €11.9 billion in January-April 2023, 8.0% higher than in 2022. Imports excluding petroleum and ships stood at €19.3 billion in the same period, 0.2% higher than in 2022.

In detail, exports of agricultural products increased by 28.4% at current prices in January-April 2023, to €3.6 billion, from €2.8 billion in 2022. Exports of raw materials registered a nominal increase of 17.2% to €5.7 billion, from €4.9 billion in 2022. Exports in these two categories represent 52.6% of the value of domestic exports of goods this year, up from 48.6% a year earlier. Exports of industrial products strengthened in the first four months of 2023 (+6.7%), totalling €7.7 billion, up from €7.2 billion in 2022. This development was driven mainly by an increase of 9.7% in exports for chemicals and related products, from €2.0 billion to €2.2 billion. In addition, exports of machinery and transport equipment rose by 10.9%, to €1.7 billion, from €1.5 billion, while exports of miscellaneous industrial goods rose by +15.7% (to €1.2 billion). By contrast, there was a fall in international demand for industrial goods classified by raw material, by 1.5%, totalling €2.6 billion.

Finally, exports of raw materials also decreased, by 2.9%, to €648.6 million, from €667.8 million a year earlier, while exports of goods and transactions not classified by categories also decreased significantly, by 84.7%, from €227.3 million in 2022 to €34.9 million in 2023.

As regards trends in exports by geographical area, exports expanded in the first four months of 2023 to euro-area countries by 13.5%, approaching €7.3 billion, up from €6.5 billion in the same period of 2022. The EU as a whole saw an increase of 17.4% or €1.5 billion, with exports to this region reaching €10.2 billion, up from €8.7 billion a year earlier. Among the euro area countries that absorb the largest share of Greek exports, there was a significant expansion in France by 30.1%, from €577.0 million to €750,8 million, and in Germany by 8.5 %, from €1.1 billion to €1.2 billion. The exports of goods increased significantly also in their major destination, Italy, by 24.0%, reaching €2.1 billion in 2023 from €1.7 billion in 2022.

Table 3.6

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

Product	Value		% Change	% Share	
	2023	2022	23/22	2023	2022
AGRICULTURAL PRODUCTS	3,599.3	2,802.5	28.4%	20.4%	17.8%
Food and Live Animals	2,466.9	2,205.2	11.9%	14.0%	14.0%
Beverages and Tobacco	399.4	313.6	27.4%	2.3%	2.0%
Animal and vegetable oils and fats	733.0	283.7	158.3%	4.1%	1.8%
RAW MATERIALS	648.6	667.8	-2.9%	3.7%	4.2%
Non-edible Raw Materials excluding Fuels	648.6	667.8	-2.9%	3.7%	4.2%
FUELS	5,699.6	4,863.8	17.2%	32.2%	30.8%
Mineral fuels, lubricants, etc	5,699.6	4,863.8	17.2%	32.2%	30.8%
INDUSTRIAL PRODUCTS	7,694.5	7,212.8	6.7%	43.5%	45.7%
Chemicals and Related Products	2,204.7	2,009.3	9.7%	12.5%	12.7%
Manufactured goods classified chiefly by raw material	2,611.0	2,652.0	-1.5%	14.8%	16.8%
Machinery and transport equipment	1,702.9	1,534.9	10.9%	9.6%	9.7%
Miscellaneous manufactured articles	1,175.9	1,016.6	15.7%	6.7%	6.4%
OTHER	34.9	227.3	-84.7%	0.2%	1.4%
Transactions not classified by category	34.9	227.3	-84.7%	0.2%	1.4%
TOTAL EXPORTS	17,676.9	15,774.2	12.1%	100.0%	100.0%

* Provisional data

Source: Eurostat

Among the remaining European Union countries, where total exports increased by 28.3% or €643.2 million, reaching €2.9 billion, Bulgaria continues to be the main export destination, with product outflows to this country rising by 73.1% or €617.7 million compared to 2022. In two other countries which absorb a significant share of Greek exports, exports increased in Romania (+8.5% or €48.1 million to €616.1 million) and declined in Poland -10.6% or €36.6 million, to €307.2 million, respectively.

Table 3.7

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

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2023	2022	23/22
EU (27)	10.246,8	8.731,1	17,4%
Euro Area	7.328,5	6.456,0	13,5%
G7	3.297,2	3.091,0	6,7%
North America	738,5	745,9	-1,0%
BRICS	264,1	263,6	0,2%
Middle East & North Africa	2.327,5	2.259,1	3,0%
Oceania	71,1	86,1	-17,4%
Central-Latin America	86,0	119,9	-28,3%
Asia	790,1	540,1	46,3%

* Provisional data

Source: Eurostat

Demand for Greek exports also increased in the rest of Europe, by 4.1%, from €2.9 billion in 2022 to €3.0 billion a year later. This manifested primarily in Türkiye, to which exports expanded by 21.8%, from €661.3 million to €805.7 million, and secondarily in Ukraine, with an increase of 482.2% from €29.8 million in 2022 to €173.6 million a year later.

Exports to North American countries declined by 1.0% from €745.9 million in the first four months of 2022 to €738.5 million in 2023, mainly due to a fall in exports to the US by 3.8%, from €634.8 million in 2022 to €610,8 million in 2023. By contrast, exports to Canada increased by 4.8% or 65.5 million to Mexico (+32.5%).

In January-April 2023, exports to the markets of Latin America fell by 28.3% to €86.0 million, from €119.9 million in 2022. The decrease in exports to the countries of this region is mainly due to a fall in Panama's demand for Greek products by 34.5%, which brought their value to €44.5 million from €68.0 million a year earlier. Greek exports also decreased in Brazil (-14.2% or -€2.2 million).

Exports to the Middle East and North African countries increased, by 3.0% to €2.33 billion from €2.26 billion, mainly due to a sharp increase in exports to Libya (+73.9%), where exports rose in the four months to January-April 2023 to €776.6 million, against €440.8 million a year earlier, and to Lebanon (+10.5%), which increased by €53.4 million in 2023 compared to 2022 and reached €562.3 million. In two other major export destinations in the Middle East, exports to the United Arab Emirates increased by 25.5%, to €142.2 million, while by contrast exports to Saudi Arabia decreased by 32.6% to €162.5 million.

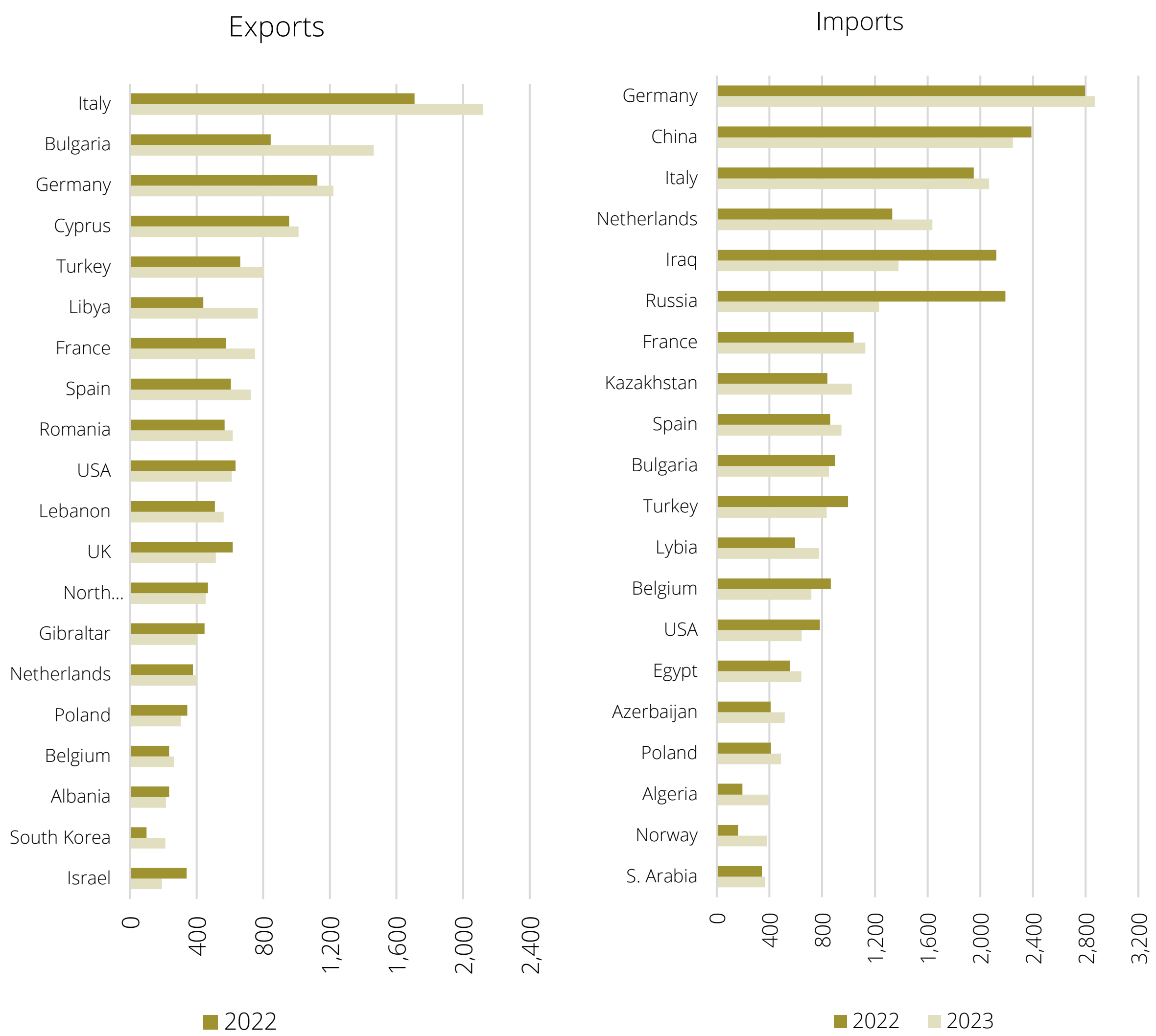
Similarly, a sharp rise in demand for Greek goods took place in the Asian countries, to which exports increased in the first four months of 2023 by 46.3%, to €770.1 million from €550.1 million in 2022. This development is mainly due to an increase of 115.1% in exports to South Korea, from €98.6 million in 2022 to €212.2 million in 2023. Similarly, demand from China increased (+16.4%, to €129.9 million from €111.5 million in 2022).

The flow of exports of Greek products to Oceania decreased by 17.4%, with their value in the first four months of 2023 standing at €71.1 million from €86.1 million a year earlier. The decrease was driven by a decline in Australia, where exports decreased by 12.5% to €65.2 million, from €74.6 million a year earlier. Similarly, a decrease was recorded for New Zealand (-49.1%).

To sum up, Greece's exports of goods increased by 12.1% at current prices in January-April 2023, driven by an increase in petroleum products (+17.2%), industrial products (+6.7%), and agricultural products (+28.4%). The large increase in the value of Greek exports is due to higher prices of goods, driven by global price increases, with the top five countries with the highest demand for Greek products being Italy, Bulgaria, Germany, Cyprus, and Türkiye. By contrast, imports declined, reducing the trade deficit to €9.3 billion (-20.6 %). The five countries with the largest share of imports of goods in 2022 are Germany, China, Italy, the Netherlands, and Iraq. Despite the difficult and unfavourable economic environment at an international level, Greek exports performed positively, with encouraging signals that the momentum will be maintained.

Figure 3.12

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



Source: Eurostat. Processing: IOBE

The highest annual nominal growth in Greek exports of goods in the first four months of 2023 in absolute terms was recorded in Bulgaria (+€617.7 million). Largest decrease in Tunisia (-€163,9 million). Italy's share in exports remains the largest. The largest increase in imports over the same period of 2023 in absolute terms was recorded from the Netherlands (+€306.0 billion), with the largest decline from Russia (-€958.5 million).

B. Balance of payments

- In the first 4 months of 2023, the current account had a smaller deficit compared with 2022, at €5.6 billion, from €8.6 billion.
- A significant correction of the deficit in the goods account and an increase in the surplus of the secondary income account.

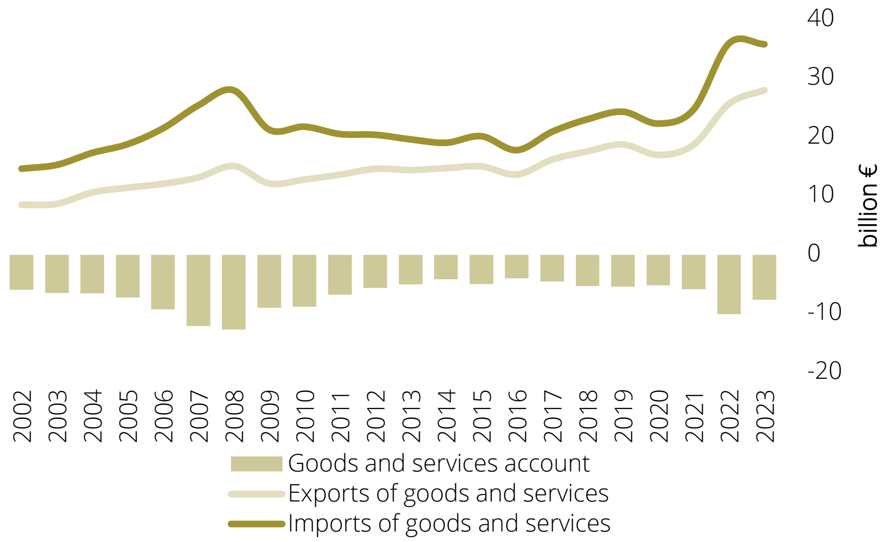
Current Account

January – April 2023

In the first four months of 2023, the current account had a deficit of €5.6 billion, down from €8.6 billion in 2022. The correction resulted from a significant decrease in the deficit of the goods account and an increase in the surplus of the secondary income account, while the lower surplus in the primary income account acted in the opposite direction, with the services account remaining virtually unchanged.

Figure 3.13

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



The deficit of the goods and services account narrowed to €7.8 billion in January-April 2023, compared with €10.3 billion in 2022.

Source: Bank of Greece - Data processing IOBE

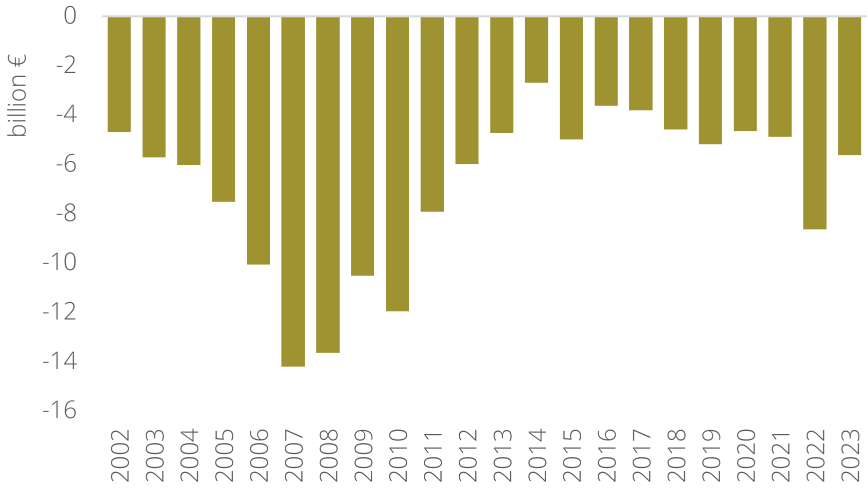
In more detail, the deficit of the goods account stood at €9.6 billion in January-April 2023, down by €2.4 billion year-on-year, while remaining above the 2021 deficit level (€7.0 billion). Exports rose to €17.3 billion (€1.9 billion),[9] as exports of other goods grew by €876 million and fuel by €932 million. Imports of goods fell to €27.0 billion (-€578 million), mainly on account of a €513 million decrease in fuel imports, while for other goods the decline was limited (€91 million). Fuels account for more than 50% of export growth, and 90% of the fall in imports. The deficit of the balance of goods excluding fuel and ships stood at €7.5 billion in 2023, down by €967 million.

[9] The figures in brackets express the absolute change compared to the corresponding period of the previous year, in current prices, unless otherwise stated.

Figure 3.14

Current Account (January – April), 2002-2023

At €5.6 billion the current account deficit in the first four months of 2023, compared with €8.6 billion in 2022

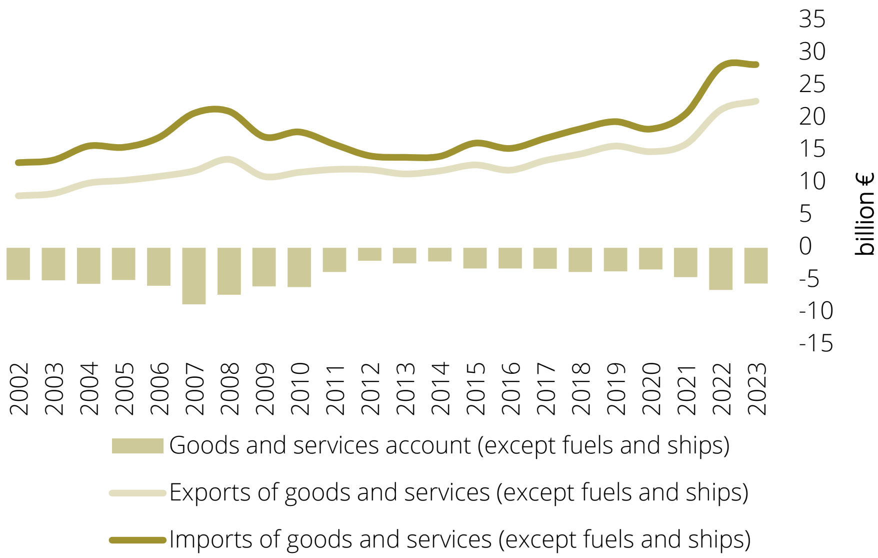


Source: Bank of Greece - Data processing IOBE

Figure 3.15

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

Contraction of the deficit in the balance of goods and services excluding fuels and ships to €5.6 billion, from €6.6 billion in 2022



Source: Bank of Greece, Data processing IOBE

The surplus in the services account remained almost unchanged in the first four months of 2023, rising marginally to €1.8 billion. Total receipts from services stood at €10.5 billion, up by €453 million year-on-year, while payments amounted to €8.7 billion, up by €437 million. Travel receipts increased significantly in the first four months of the year by 38% to €1.5 billion, the highest level on record for the first four months of a year, up by €412 million compared with 2022. Transport services stood at €6.7 billion, down by €335 million, compared with 2022, while receipts from other services reached €2.3 billion, up by €377 million. Payments for travel services increased to €763 million (+€260 million), payments for transport services increased by 2%, to €5.8 billion, while payments for other services reached €2.1 billion, up by 5%.

The surplus in the primary income account decreased to €346 million in the first 4 months of 2023, compared with €1.1 billion in 2022. Receipts increased to €3.5 billion, growing by 33%, and payments doubled to €3.2 billion.

The surplus in the secondary income account widened significantly in 2023, to €1.8 billion, against €564 million in 2022, due to the disbursement of the second tranche from the Recovery and Resilience Facility (RRF) in January. As a result, receipts increased to €3.1 billion (€1.2 billion), while payments decreased to €1.3 billion (-€90 million).

Capital Account

The capital account surplus[10] shrank to €1.9 billion in early 2023, compared with €913 million in 2022, with an increase in receipts to €2.0 billion, and a decrease in payments to €62 million. Finally, the current and capital account, reflecting the position of an economy as a lender or borrower to or from the rest of the world, was in deficit of €3.7 billion, against €7.7 billion in 2022.

Financial Account

The financial account had a deficit of €3.0 billion in the first four months of 2023, compared with a deficit of €6.7 billion in the same period of 2022.

Under the individual accounts, residents' net assets from direct investment abroad increased by €365 million, while net liabilities to non-residents (non-residents' investment in the country) increased by €1.1 billion.

Under portfolio investment, residents' external assets rose by €2.3 billion, mainly on account of a rise in residents' holdings of foreign bonds and Treasury bills, while liabilities to non-residents increased by €3.1 billion.

Under other investment, residents' external assets fell by €537 million, mainly on account of a €1.2 billion decrease in investment in deposits and repos, which were partly offset by the statistical adjustment from the issuance of banknotes, while liabilities increased by €1.3 billion. Finally, Greece's reserve assets stood at €12.0 billion at the end of April 2023, compared with €11.5 billion in 2022.

[10] 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).

Table 3.8

Balance of payments (€ million)

		January – April			April		
		2021	2022	2023	2021	2022	2023
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	**-4.888,9**	**-8.640,6**	**-5.630,6**	**-2.097,9**	**-1.657,0**	**-1.777,7**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-5.997,4**	**-10.273,1**	**-7.816,8**	**-1.658,4**	**-2.144,4**	**-1.449,5**
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	**-7.019,3**	**-12.082,2**	**-9.641,7**	**-1.960,6**	**-2.951,9**	**-2.278,7**
	Oil balance	-1.280,0	-3.606,0	-2.160,9	-437,1	-896,4	-303,9
	Trade balance excluding oil	-5.739,3	-8.476,2	-7.480,8	-1.523,5	-2.055,5	-1.974,8
	Ships balance	-30,3	-43,5	-15,1	-12,3	-16,5	-18,3
	Trade balance excluding ships	-6.988,9	-12.038,7	-9.626,6	-1.948,3	-2.935,3	-2.260,4
	Trade balance excluding oil and ships	-5.708,9	-8.432,6	-7.465,7	-1.511,2	-2.039,0	-1.956,5
I.A.1	Exports of Goods	**11.762,5**	**15.473,5**	**17.336,4**	**3.125,3**	**4.052,2**	**3.894,5**
	Oil	2.739,5	4.386,0	5.318,1	731,2	1.221,7	1.179,6
	Ships (sales)	24,6	33,9	88,7	8,4	9,2	10,2
	Goods excluding oil and ships	8.998,4	11.053,6	11.929,6	2.385,7	2.821,3	2.704,7
I.A.2	Imports of Goods	**18.781,8**	**27.555,7**	**26.978,2**	**5.085,9**	**7.004,0**	**6.173,1**
	Oil	4.019,5	7.992,0	7.479,0	1.168,3	2.118,0	1.483,5
	Ships (buying)	54,9	77,4	103,9	20,7	25,7	28,4
	Goods excluding oil and ships	14.707,4	19.486,2	19.395,3	3.896,9	4.860,3	4.661,2
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	**1.021,9**	**1.809,1**	**1.824,9**	**302,1**	**807,5**	**829,2**
I.B.1	Receipts	**6.814,2**	**10.063,8**	**10.516,9**	**1.899,1**	**3.044,5**	**3.002,1**
	Travel	165,0	1.082,3	1.494,0	58,8	634,9	761,1
	Transportation	4.924,1	7.073,7	6.738,5	1.372,7	1.935,1	1.710,7
	Other services	1.725,1	1.907,7	2.284,4	467,7	474,6	530,3
I.B.2	Payments	**5.792,4**	**8.254,7**	**8.692,0**	**1.597,0**	**2.237,1**	**2.172,9**
	Travel	146,6	503,0	762,6	55,6	205,7	262,9
	Transportation	3.790,4	5.762,0	5.850,0	1.098,8	1.518,2	1.428,2
	Other services	1.855,4	1.989,7	2.079,5	442,5	513,2	481,8
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	**1.411,8**	**1.068,4**	**345,9**	**-104,3**	**-56,8**	**-212,1**
I.C.1	Receipts	**3.008,6**	**2.643,4**	**3.516,8**	**325,3**	**337,4**	**566,3**
	From work (wages, compensation)	67,1	79,0	71,5	16,5	20,5	18,7
	From investments (interest, dividends, profit)	1.002,4	857,9	1.588,9	225,2	210,4	465,2
	Other primary income	1.939,0	1.706,5	1.856,5	83,7	106,5	82,3
I.C.2	Payments	**1.596,8**	**1.575,0**	**3.171,0**	**429,7**	**394,2**	**778,4**
	From work (wages, compensation)	413,7	501,6	441,4	105,8	135,4	106,6
	From investments (interest, dividends, profit)	999,4	914,6	2.599,3	264,3	222,6	655,1
	Other primary income	183,7	158,8	130,3	59,6	36,2	16,7
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	**-303,3**	**564,0**	**1.840,4**	**-335,2**	**544,2**	**-116,1**
I.D.1	Receipts	**1.179,0**	**1.945,7**	**3.132,2**	**121,2**	**882,0**	**131,4**
	General government	646,3	1.306,2	1.994,8	27,9	772,8	27,4
	Other sectors	532,7	639,5	1.137,4	93,3	109,1	104,0
I.D.2	Payments	**1.482,3**	**1.381,6**	**1.291,8**	**456,4**	**337,8**	**247,6**
	General government	1.041,0	899,8	738,1	337,5	204,9	94,9
	Other sectors	441,3	481,8	553,7	118,8	132,9	152,7
II	CAPITAL ACCOUNT (II.1-II.2)	**221,1**	**913,4**	**1.953,4**	**29,6**	**1.031,3**	**28,1**
II.1	Receipts	**704,3**	**1.283,4**	**2.015,6**	**55,8**	**1.078,3**	**41,0**
	General government	542,6	1.109,6	1.523,6	11,3	1.014,7	16,3
	Other sectors	161,7	173,8	492,0	44,4	63,6	24,7
II.2	Payments	**483,3**	**370,0**	**62,2**	**26,2**	**46,9**	**12,9**
	General government	1,4	2,5	2,3	0,4	0,5	0,5
	Other sectors	481,8	367,5	59,9	25,8	46,5	12,4
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-4.667,8***	***-7.727,2***	***-3.677,1***	***-2.068,3***	***-625,7***	***-1.749,6***
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-4.110,3**	**-6.748,8**	**-3.000,0**	**-1.683,2**	**-220,9**	**-1.275,3**
III.A	DIRECT INVESTMENT*	**-628,5**	**-2.966,2**	**-769,8**	**-170,6**	**-518,9**	**-84,3**
	Assets	524,2	291,1	364,9	26,0	117,3	193,2
	Liabilities	1.152,7	3.257,3	1.134,7	196,7	636,1	277,5
III.B	PORTFOLIO INVESTMENT*	**-1.225,4**	**3.198,2**	**-804,8**	**-1.669,2**	**-1.308,6**	**-2.193,5**
	Assets	-264,4	5.845,4	2.265,3	-2.536,2	298,5	-36,1
	Liabilities	961,0	2.647,2	3.070,1	-867,0	1.607,1	2.157,4
III.C	OTHER INVESTMENT*	**-1.790,9**	**-4.830,8**	**-1.836,3**	**227,0**	**3.506,3**	**1.010,1**
	Assets	218,6	-1.150,6	-536,6	-370,4	-182,1	-253,5
	Liabilities	2.009,5	3.680,3	1.299,8	-597,4	-3.688,3	-1.263,7
	(Loans of general government)	-3.262,1	-617,5	414,1	-12,8	-39,0	-3,6
III.D	CHANGE IN RESERVE ASSETS**	**-465,5**	**-2.150,0**	**410,9**	**-70,4**	**-1.899,7**	**-7,7**
IV	BALANCE ITEMS (I +II +IV +V = 0)	**557,5**	**978,4**	**677,1**	**385,2**	**404,8**	**474,3**
	RESERVE ASSETS (STOCK)***				**9.018**	**11.541**	**12.006**

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.

Box of section 3.3

Productivity and exports by sector, before and after the Greek crisis

The export performance of the economy is determined by a multitude of quantitative and qualitative factors, both in absolute terms and in comparison with other countries. A sectoral breakdown of the economy can highlight the dynamics of each sector in terms of productivity and exports. The theory of international trade based largely on a comparative advantage states that a country will produce and export the products in which it has a comparative advantage, or in other words can produce relatively more efficiently than other countries, sacrificing less resources. Even without comparison with other countries but within the economy, a more efficient use of resources in one sector is likely to lead to more exports of this sector than other sectors of the economy, assuming that the sectors improve vis-à-vis other countries. The objective of the analysis is to investigate (a) the assumption of a positive correlation between relative domestic productivity and share of exports by industry, and (b) whether the sectoral composition of exports relates to changes in EU-related productivity.

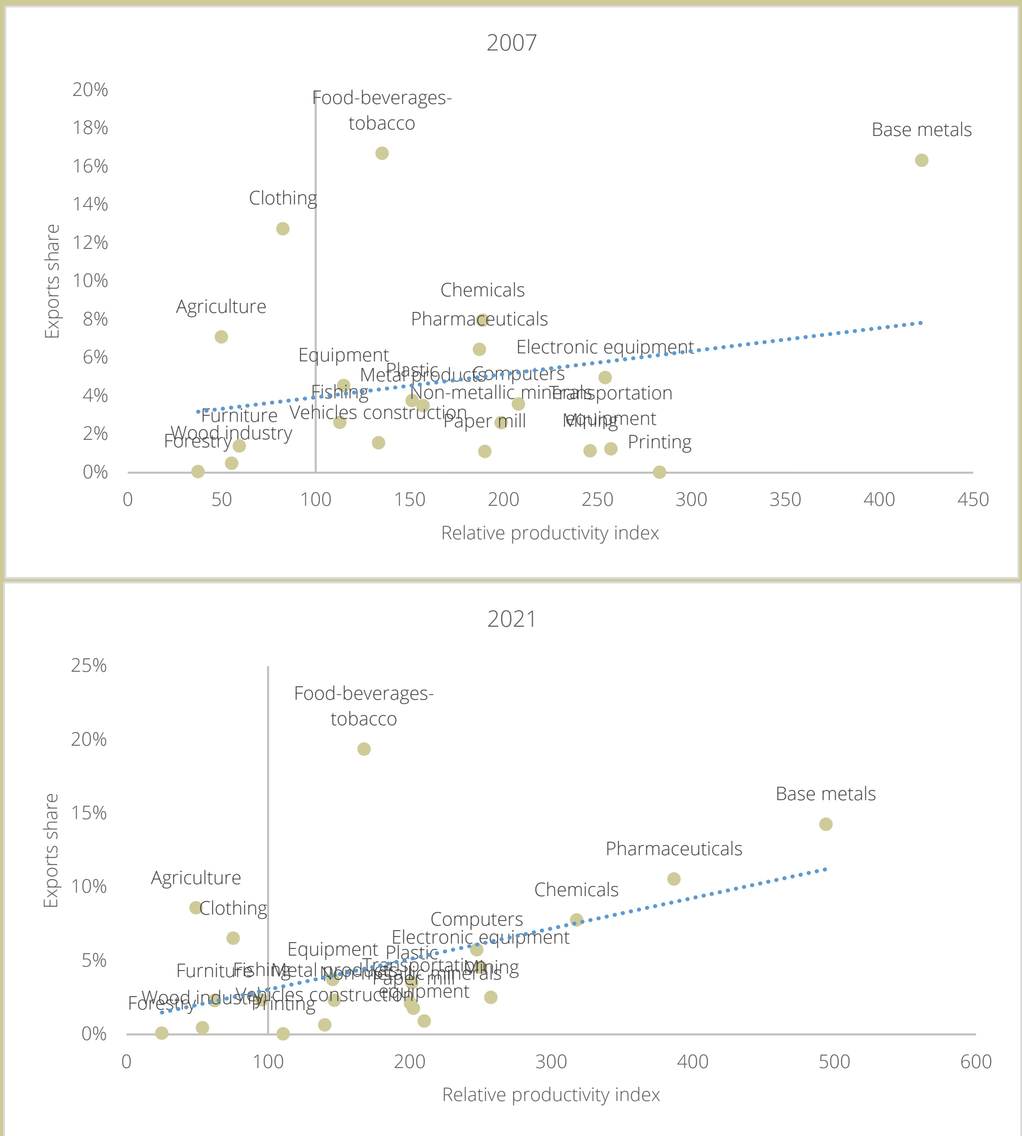
Efficiency could be approximated by the productivity of each sector and defined as the nominal Gross Value Added per hour of employment. We focus on the manufacturing, mining, and primary sectors (agriculture, forestry, fishing). The relative domestic productivity indicator is then calculated as the productivity of each sector divided by the average of all the sectors examined. Accordingly, the exports of goods by industry in value terms are analysed as the share of each industry in total exports of the examined sectors. The refining industry has been excluded, as its export value is strongly affected by international fuel prices. The above indicators are analysed at two different points in time - the first one refers to 2007, one year before the outbreak of the global financial crisis and before the debt crisis of the Greek economy, and 2021 as the most recent year with available data.

A positive correlation between relative domestic productivity and sectoral export shares is recorded in 2007 and 2021, consistent with the theory of international trade, where industries that produce more efficiently will export more. This conclusion reflects more the absolute advantage between the different sectors. In 2007 the basic metals sector exhibited a productivity index per hour of employment above the average of the Greek economy (productivity index > 100), far from the other sectors and also had a significant share of exports, accounting for 16.2% of the total. The electrical equipment and pharmaceuticals industries performed well, with relatively high productivity and a high share of exports. At the same time, however, there were sectors with high export shares in 2007 that did not perform so well in productivity. This category includes the food-beverage-tobacco sector with export shares of more than 10%, while productivity was not significantly higher than average, and clothing, where productivity was below average. This is in line with the theory of comparative advantage, which states that even if a sector is not very productive, it may be in a better position than competitor countries, thus exporting more, evidence of the importance of international trade for a better allocation of resources globally, especially in a small economy with little scope for self-sufficiency, such as the Greek economy.

A key objective of the policies during the crisis was to foster openness and exports of tradable goods, such as manufacturing, in particular. As can be seen from the data, the pharmaceutical sector recorded a remarkable increase in relative domestic productivity, with a corresponding increase in the share of exports between 2007 and 2021. Other sectors with gains in productivity and exports include food-beverages-tobacco and electronics. The mining industries also had productivity growth and a corresponding strengthening of exports. Some sectors increased their productivity, such as basic metals and chemicals, but recorded a decline in the relative share of exports. It should be noted that total exports of goods of the sectors concerned increased by 82.4% between 2007 and 2021, thus maintaining or even increasing the share translates into even higher growth, while the decrease in share may imply an increase in value that is lower than average growth.

Figure B.3.3.1

Correlation between productivity and exports, 2007 and 2021



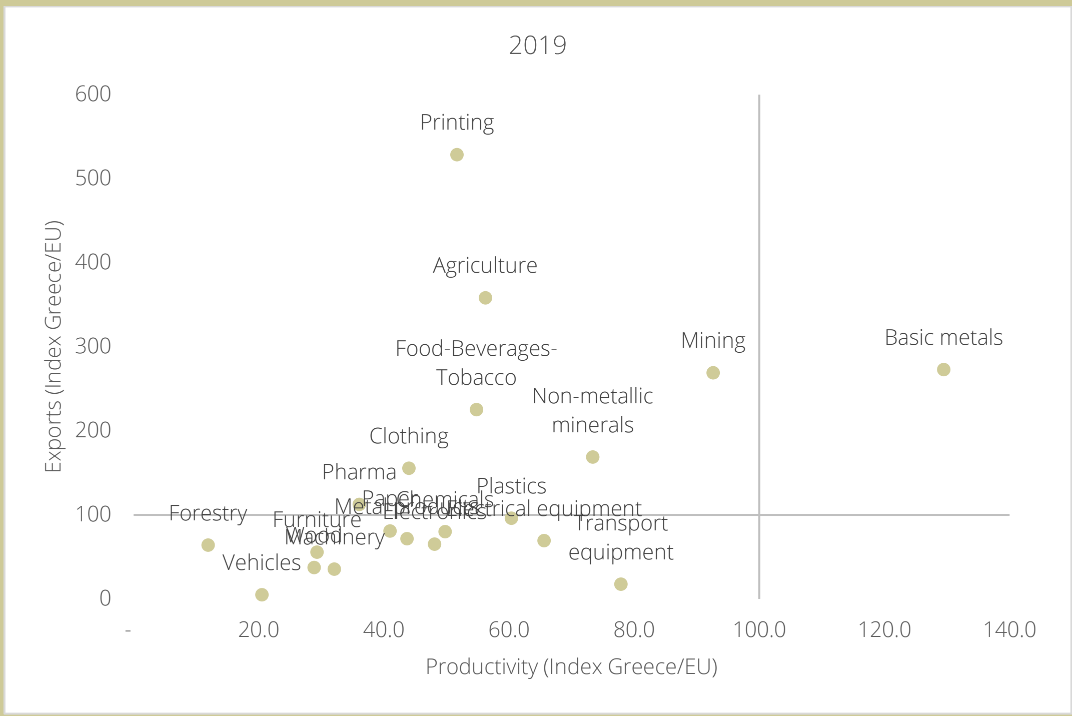
Source: Eurostat

Comparing the performance of each sector with that of the EU27 average, we can approximate the country's comparative advantage against the EU. The EU-related productivity index captures the ratio of the relative domestic productivity of each sector in Greece to that of the EU27 average. Accordingly, we construct an indicator of relative export shares in each sector between Greece and the EU27. Due to the aggregation of many countries for the EU27 instrument, it may not be an effective reflection of

Greece's comparative advantage with specific countries.[11] Base metals prove to be an important industry, with higher productivity in Greece compared to the EU27 and correspondingly higher export performance in 2019 (year with data available for all EU27 countries). Although Greece has lower productivity than the EU27 in mining, agriculture, food-drinks-tobacco, and non-metallic minerals, it has much better export performance. These figures are in line with international trade theory, as even a small country with lower productivity performance participates in international flows, as it exploits its comparative advantage.

Figure B.3.3.2

Correlation of relative productivity and exports, Greece and EU27, 2019



Source: Eurostat

In conclusion, the champions of the Greek economy in terms of relative domestic productivity, such as basic metals, pharmaceuticals, chemicals, electronics, and electrical equipment also perform strongly in exports, making use of both absolute and comparative advantages. Many sectors with an improvement in relative domestic productivity over the last 15 years (e.g. chemicals, pharmaceuticals, electronics, food- beverages-tobacco) also show an increase in export market shares. Despite this improvement, the productivity ratio is still below the European average in most sectors. Reforms that will increase productivity in tradable sectors will create an opportunity for further exports, building on the importance of participation in international trade.

[11] In the charts, due to outliers the fisheries sector is not shown. Greece exports significant quantities of fish, higher than the EU27 average, so it is certainly a sector with a comparative advantage and correspondingly high productivity compared to the EU27.

3.4 Labour market

- A decrease in the unemployment rate in the first quarter of 2023 to 11.8% from 13.8% in the first quarter of 2022.
- The fall in the unemployment rate was the result of both a decrease of 96,700 in the number of unemployed and a rise in the number of persons employed.
- The hiring-exit balance in the private sector was positive at 180,600 in the first quarter of 2023, higher than the positive balance in the corresponding period of 2022 (+148,100).
- The highest annual employment growth in the first quarter of 2023 was recorded in the primary sector (+30,100 persons) and in human health - social care activities (+29,400).
- The strongest annual decline in employment was registered in wholesale - retail trade (-52,900 employed) and in public administration (-7,000).
- An increase in the seasonally adjusted wage cost index in the first quarter of 2023 by 5.5% compared to the same quarter of 2022.

According to the latest available data from ELSTAT's Labour Force Survey, the unemployment rate in the first quarter of 2023 fell to 11.8%, two percentage points lower than in the corresponding quarter of 2022 (13.8%). The fall in the unemployment rate resulted both from a fall in the number of unemployed by 96,700 (to 550,500, -14.9%) and a rise in the number of persons employed by 54,000 (to 4,098,000, +1.3%). It should be noted that during the same period, the size of the labour force decreased by 42,700 people (to 4,648,500, -0.9%) while the inactive population increased by 28,200 (to 4,392,800, +0.6%). At the same time, the non-seasonally adjusted unemployment rate decreased to 11.3% in April 2023, from 12.5% a year earlier (-1.2 percentage points), while the balance of hirings and redundancies of private sector employees in the first four months of this year was positive at 180,600 (929,100 hirings and 748,600 departures), higher by 21.9% compared to the corresponding quarter of 2022 (148,100).

As regards the evolution of unemployment in the euro area, ten countries saw a decline in their unemployment rate, in nine it increased and in one it remained unchanged. The highest unemployment rate in the first quarter of this year was registered in Spain, at 13.3% from 13.7% a year earlier (see Figure 7 in the appendix). Greece came next after Spain, posting the strongest annual decline in the unemployment rate in the euro area (-2.0 percentage points), followed by Italy where the unemployment rate fell to 8.3% from 8.8 % in Q1 2022, while the decline in the unemployment rate in Latvia was also relatively strong, to 6.4% from 7.3% a year earlier. The lowest unemployment rate in the first quarter of this year was recorded in Malta, where it remained unchanged at 2.9%, followed by broadly the same unemployment rate in Germany, where it fell to 3.0%, from 3.3% a year earlier. The increase in the unemployment rate was strongest in Lithuania and Portugal, by 1.4 percentage points (to 7.8%) and 1.2 percentage points (to 7.2%) respectively. In another major euro area economy, France, the unemployment rate fell to 7.2% in Q1 2023 from 7.5% in Q1 2022, while in the euro area as a whole the unemployment rate fell from 7.1% to 6.8%.

Regarding the evolution of the unemployment rate in Greece by gender, the decline was stronger for women than for men, but in the latter, the unemployment rate remained lower. The male unemployment rate was 6.4 percentage points lower than for women, down 1.5 percentage points to 9.0% in Q1 2023, while for women it decreased by 2.6 percentage points to 15.4%. In the euro area as a whole, the unemployment rate fell by 0.2 percentage points to 6.5% for men and to 7.2 % from 7.5 % for women.

The unemployment rate tends to be lower among higher age groups. In the first quarter of this year, the unemployment rate declined in all age categories, with the strongest decline posted among the 15- to 19-year-olds, where it fell to 33.2% from 60.8% a year earlier (-27.6 percentage points). The decline in the unemployment rate was much lower among those aged 20-24, falling to 26.1% (-5.7 percentage points). The mildest decline in the unemployment rate was recorded in the age category with the lowest unemployment rate, i.e. those over 65, by 0.6 percentage points, to 8.8% in Q1 2023. Next came the 30- to 44-year-olds, where the unemployment rate in the same period fell to 12.5% (-0.9 percentage points).

In relation to the duration of unemployment, both the rate and the number of long-term unemployed declined. The long-term unemployment rate fell to 52.7% (-6.0 percentage points), while the number of long-term unemployed fell to 290,200 in Q1 2023, down by 23.6% compared with a year before, showing the strongest percentage decline since Q4 2014.

Figure 3.16

Labour force participation and unemployment rates

The unemployment rate decreased in Greece in Q1 2023 to 11.8%, from 13.8% in Q1 2022

Sources: ELSTAT – Labour Force Survey, Eurostat

The unemployment rate tends to be lower at higher levels of education. In Q1 2023, it decreased at all levels of education except for one where it remained stable. The strongest decline in the unemployment rate was seen in the category with the highest unemployment rate, i.e. people who have completed some primary education classes or who have not attended school at all, falling to 26.1% from 37.3%. A significant, but less pronounced, was the unemployment rate decrease for those with lower secondary education, where it fell to 13.8% from 18.3% in the same period of 2022. By contrast, the mildest decline in the unemployment rate was registered among persons with higher technical vocational education, where it fell to 13.5% (-0.4 percentage points compared with a year earlier), while for persons with a master's or doctorate degree, the unemployment rate remained unchanged year on year at 4.8%. Finally, for people with a university degree, the unemployment rate fell to 8.0% (-2.6 percentage points compared with a year earlier).

Turning to the trends in the regional dimension of unemployment, in one region the unemployment rate remained unchanged, in three it increased and in the remaining nine it declined. The highest unemployment rate was recorded in the Ionian Islands, where it stood at 20.4% in Q1 2023, up from 19.8% a year earlier, while the strongest increase was registered in Epirus, where it rose by 2.8 percentage points to 15.1%. By contrast, the lowest unemployment rate was recorded in Attica, where it fell to 8.1%, from 10.5% a year earlier (-2.4 percentage points), while its strongest decline was observed in the Southern Aegean, where the rate fell to 18.1%, from 24.4% in the same period of 2022. In the Peloponnese region, the unemployment rate remained unchanged at 10.4%, while it was marginally down in the region of Central Macedonia (from 15.4% to 15.3%) and marginally up in Thessaly (from 14.4% to 14.6%).

In relation to the evolution of employment based on employment status, one category saw a decline in employment and in two it increased. In particular, in the self-employed, employment contracted year on year by 14,900, or 1.3%, to 1,131,700 in the first quarter of this year, while employees grew annually by 37,500 persons, or 1.3%, to 2,818,700. Finally, helpers in family businesses increased annually by 26.9%, or 31,300, to 147,600.

Full-time workers in the first quarter of 2023 increased by 74,900, or 2.0% compared with the first quarter of 2022, to 3,749,900, while part-time workers fell by 20,600 or 5.7% to 341,800 from 362,400.

In relation to employment developments per occupation, seven categories saw an increase in employment and in three employment declined. The strongest increase in absolute terms was recorded among persons in scientific, artistic, and related occupations, where their number rose by 44,500, or 5.1%, compared with a year earlier, to 923,500, while the lowest increase was 4.8% or 3,200 among persons who are not classified in an occupation, where the number of persons employed stood at 69,300. By contrast, the strongest decline in employment was recorded in the same period among office workers and related professions, where the number of employees fell by 54,500, or 11.3% year-on-year, to 426,100. A milder decline was observed among those employed in the provision of services and sales assistants in shops and outdoor markets, where the number fell 0.8% year-on-year to 879,200.

With regard to the trend in employment at the sectoral level, two sectors saw employment growth and one a decline. In particular, employment increased in the primary and secondary sectors. In the former, it rose by 6.6% or 30,100 (from 453,000 in the first quarter of 2022 to 443,100 in the first quarter of 2023), while in the latter it increased by 31,300, or by 5.0% (to 658,300 from 627,000). By contrast, in the tertiary sector, employment fell to 2,952,600, from 2,959,200 a year earlier (-6,600 or -0.2%).

At the level of branches of economic activity, employment increased in 13 branches and fell in eight. In absolute terms, the strongest employment growth in the first quarter of this year was seen in agriculture-forestry-fishing and human health - social activities. In the former, the number of persons employed rose by 30,100, or 6.6%, from 453,000 in the first quarter of 2022, while in the latter it increased by 29,400, or 10.4%, from 281,300 to 310,700. Over the same period, the weakest increase was recorded in financial - insurance services, where the number of persons employed rose from 73,600 to 74,400 (+800 or +1.0%). By contrast, the sharpest decline in employment is found in the wholesale-retail trade and public administration. In the former, the decline in employment was sharp, by 52,900 fewer persons, to 685,000 in the first quarter of 2023 from 727,900 in the first quarter of 2022 (-7.2%), while in the latter, the decline in employment was much more moderate (-7,000, to 365,800, from 372,800). Employment in professional, scientific and technical activities declined marginally (-500 employees, from 263,600 to 263,100). Finally, in the period under review, employment in manufacturing rose by 10,400 persons or 2.6% (to 419,400 from 409,000), while in accommodation - food services, employment fell by 2.0% or 6,500 persons employed (to 316,500, from 323,000).

In conclusion, employment data at the sectoral level show that its rise in the first quarter of 2023 compared with the first quarter of 2022 was mainly driven by an increase in the following sectors:

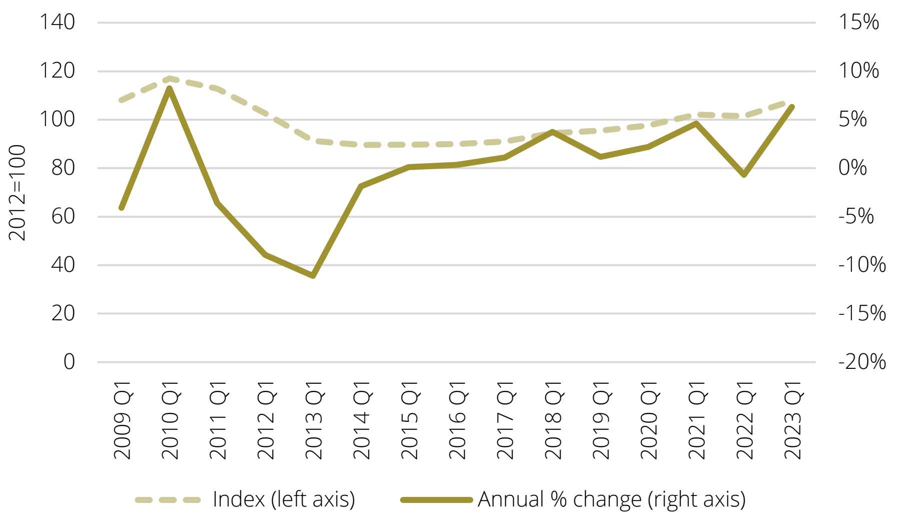
- Primary sector (+30,100 employees)
- Human health and social work activities (+29,400)
- Education (+11,200)
- Manufacturing (+10,400)
- Administrative and support services (+10,100)

despite the drop in employment in wholesale-retail trade by -52,900 people and in public administration by 7,000 people.

With regard to the trend of the seasonally adjusted wage cost index in the Greek economy as a whole, it increased for the fourth consecutive quarter, and in Q1 2023 it stood at 107.8 points from 102.2 points in Q1 2022 (+5.5%).

Figure 3.17

Seasonally adjusted wage cost index and its percentage change



Increase in the seasonally adjusted wage cost index in Q1 2023 by 5.5% compared to the same quarter of 2022.

Sources: ELSTAT

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	75.1	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
2019	9,103.5	52.0	3,911.0	82.7	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	83.8	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	83.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	83.8	756.4	16.2
Q4 2020	9,074.2	51.0	3,878.5	83.8	750.1	16.2
2020	9,079.0	51.0	3,878.5	83.7	755.0	16.3
Q1 2021	9,070.8	48.2	3,625.1	82.9	745.4	17.1
Q2 2021	9,067.1	51.3	3,915.3	84.2	732.5	15.8
Q3 2021	9,063.5	52.2	4,118.3	87.0	615.4	13.0
Q4 2021	9,060.0	51.6	4,053.3	86.8	617.4	13.2
2021	9,065.4	50.8	3,928.0	85.2	677.7	14.7
Q1 2022	9,055.8	51.8	4,044.0	86.2	647.2	13.8
Q2 2022	9,051.9	52.6	4,167.2	87.6	591.6	12.4
Q3 2022	9,048.2	52.7	4,216.0	88.4	555.6	11.6
Q4 2022	9,044.7	51.9	4,135.2	88.1	558.4	11.9
2022	9,050.2	52.3	4,140.6	87.6	588.2	12.4
Q1 2023	9,041.4	51.4	4,098.0	88.2	550.5	11.8

Source: ELSTAT, Labour Force Survey

Medium-term outlook

The recent outcome of the parliamentary elections with the formation of a government with a comfortable majority has removed the political uncertainty which in turn affects the functioning of the economy in the short term. At the same time, the four-year (under normal conditions) horizon of the new government is expected to lead to a reinstatement of Greece's investment grade in the coming months, with positive effects also on investment. Existing risks in the geopolitical environment (war in Ukraine, disruption to the domestic political environment in Russia), if sustained at the same intensity, are not expected to significantly affect the course of the economy, while a possible re-emergence of energy uncertainty in the autumn is expected to have a less pronounced negative impact than in 2022. For the rest of the year, positive effects on employment are expected to come from tourism, exports, investment, and consumption.

With regard to Tourism, the latest data show that in the first five months of this year, international arrivals at the country's major airports were 31.3% higher than in the same period of 2022 (+1.26 million, from 4.02 million to 5.28 million arrivals), while tourism receipts in the first four months of 2023 increased by 38.0% or €411.7 million (from €1.08 billion to €1.49 billion). It should also be noted that the monthly air flight bookings – according to SETE – for the months of March-September 2023 point to growth on a year-on-year basis. These developments are expected to have positive effects on employment in the sector, which will transpire after the first quarter of the year. In this respect, it should be noted that, in April 2023, the balance of hirings and departures in accommodation, food services, and travel agency activities was positive (at 61,700, 29,100, and 3,200, respectively).

Exports of goods are expected to rise for another year (+3.5% according to IOBE's forecast), with similar positive effects on employment. This will be helped by the forecast of a marginally stronger recovery in 2023 than anticipated previously (but weaker than in 2022) in both the European Union and the euro area, as according to the latest report of the European Commission, it will reach 1.0% in the former (compared with a forecast of 0.8% in the previous report) and 1.1% in the latter (compared with 0.9% forecast in the previous report). At the same time, inflation according to the European Commission's forecast is expected to be lower than in 2022, at 6.7% in the European Union (down from 9.2% in 2022) and 5.8% in the euro area (down from 8.4% in 2022). Using data for the first four months of 2023, exports of fuels and ships (in current prices) increased by 12.0% (or + €1.86 billion, to €17.34 billion from €15.47 billion) compared with the same period of 2022, while excluding fuels and ships the corresponding increase was 7.9% (or + €876.0 million, from €11.1 billion to €11.93 billion).

While investment growth is expected to have a positive impact on employment, this effect is expected to be milder. Positive effects will come from the use of the resources of the recovery fund. It should be noted that by the end of May, the 425 submitted investment projects had a total budget of €15.71 billion, while 178 loan agreements with a total budget of €6.82 billion had been signed. Furthermore, positive employment effects will come from the gradual maturing of large infrastructure projects (Hellinikon, metro, motorways) and from the construction sector as a whole. However, inflation and the continuous increase in interest rates by the ECB will dampen the undertaking of investment risks, but less strongly than in 2022.

Private consumption is expected to grow mildly in 2023 as well (+1.8% according to IOBE's projections), with similar positive effects on employment in the respective sectors. However, it will continue to be negatively affected by high – but lower than in 2022 – inflation in Greece (inflation forecast of 4.3% in 2023 according to IOBE), as well as by a decline in disposable income of households and firms, also driven by rising borrowing costs owing to continued increases in interest rates by the ECB. However, these negative effects are outweighed by the recent new minimum wage increase as well as by existing measures to support households and firms (market pass, electricity bill subsidies). As regards the latter, it is noted that the government intends to extend the application of the market pass until the end of 2023, while the exceptional measures to control the electricity market will be in place until the end of September, expected to be phased out by the end of this year. However, it should be noted that the new minimum wage increase will mainly affect firms in sectors where a large proportion of workers are remunerated at the minimum wage. This may potentially boost flexible forms of employment, curb labour demand, or strengthen informal employment relations.

Taking into account the above effects on the labour market, the IOBE forecast remains unchanged compared to the previous report. As a result, **the unemployment rate is expected to average about 11.0% in 2023**.

According to the latest data from IOBE's business and consumer surveys, in April-June 2023 short-term employment expectations improved quarter-on-quarter in services, with the expectations for industry, retail trade, and construction declining slightly. Compared to the same period of 2022, there has been a marked improvement in construction, and a milder boost in industry, retail trade, and services. In more detail:

In Industry, the average balance of employment expectations weakened quarter on quarter in the second quarter of this year to +10 points. Compared with last year's performance, the average quarterly indicator is around 9 points higher. In the three-month period under review, the percentage of industrial firms expecting employment to fall in the near term decreased slightly to 7%, from 10% in the previous quarter, while at the same time, the proportion of those expecting an increase in the number of jobs fell to 17% (from 21%). However, the vast majority of enterprises in the sector (76%) were anticipating stability of employment.

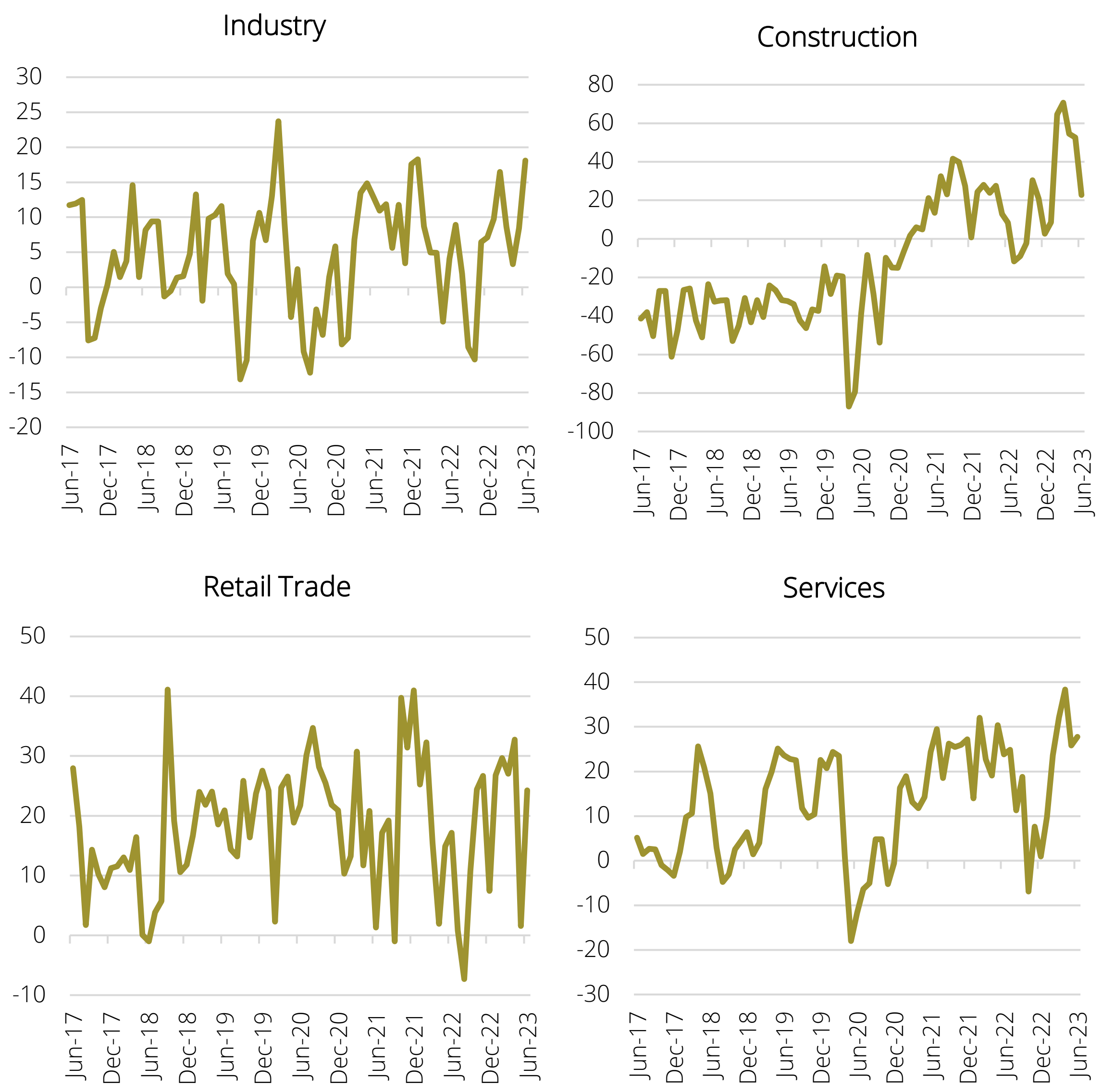
In Construction, the expectations point to a slight deterioration in the sector's employment balance, declining slightly from +48 points to +43 points, but significantly higher than in the same period of 2022 (+27 points). In the quarter under review, 3% (from 13%) of firms in the sector were anticipating fewer jobs, while the proportion of respondents expecting an increase in employment declined markedly to 46% (from 61%). At the sectoral level, there is a mild improvement in the relevant index in private construction (+37 from +34 points) with the relevant index on public works decreasing significantly (+49 from +63 points).

The indicator for employment expectations in retail trade weakened quarter on quarter in the second quarter of this year to +20 points (from +28), a mildly higher level than in 2022 (+8). Only 1% of the firms in the sector were expecting a decrease in jobs as in the previous quarter, while 21% (from 29%) were predicting an increase in employment, with those expecting stability reaching 78% (from 70%) of the total. The individual sectors examined show a significant decline in the employment expectations balance in department stores, food-beverages, and textiles-clothing-footwear, while there is a slight improvement in household equipment and vehicle - spare parts.

In the case of services, the expectations in the quarter under review point to a slight improvement compared with the previous quarter, with a modest boost compared with the corresponding period of last year. In particular, the employment expectations balance increased by 9 points to + 31 points in the second quarter of 2023, while it improved by 6 points year-on-year. Of the enterprises in the sector, 2% (down from 6% in the previous quarter) were expecting employment to decline, with growth reaching 32% (down from 27%). From a sectoral perspective, the trend was strongly positive in land transport, while it is mildly upward in the remaining sectors.

Figure 3.18

Employment expectations (difference between positive and negative responses)



Source: IOBE

In the second quarter of 2023, the short-term employment expectations improved slightly quarter-on-quarter in services and declined slightly in industry, retail trade, and construction.

3.5 Consumer and Producer Prices

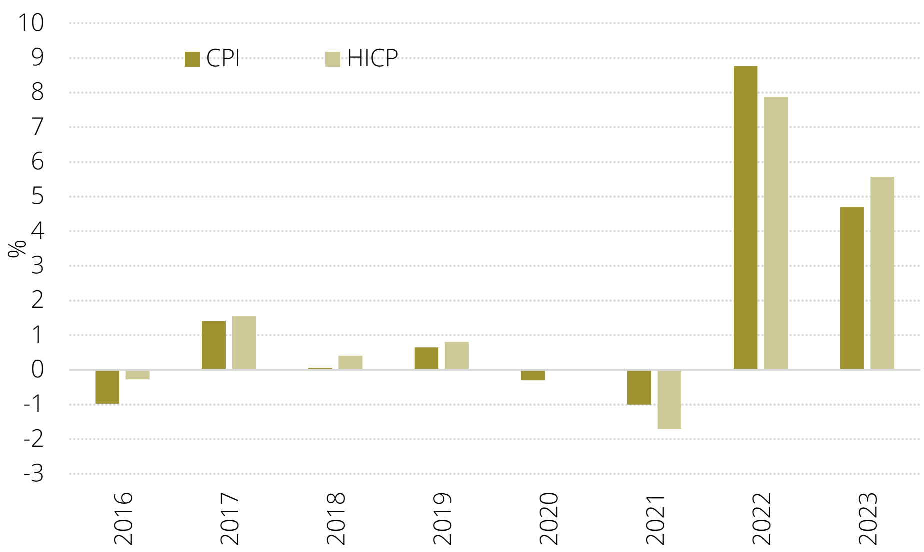
- An increase in the HICP in the first five months of 2023 by 5.6% from an inflation rate of 7.9% one year earlier. Rising prices mainly due to the upward impact from prices of non-energy goods.
- Rate of change in the HICP with constant taxes and excluding energy at 8.2% in the first five months of 2023, up from 3.9% one year earlier.
- For 2023, the Consumer Price Index is projected to increase at a rate of about 4.3%. Key assumptions:
    - The price of Brent crude oil will decline in weighted average terms by around 23% per annum
    - Private consumption will strengthen by about 1.8 %

Recent developments

In January-May 2023, prices increased year-on-year, with the average rate of change in the domestic Consumer Price Index (CPI) standing at 4.7%, from 8.8% a year earlier. An uptick of 5.6% was recorded in the Harmonised Index of Consumer Prices (HICP) in the same period of 2023, from 7.9% last year. In May this year, the rate of change in the CPI stood at 2.8%, from 11.3% in the same month of 2022. HICP also increased, with its rate of change standing at 4.1% in May, from 10.5% in the same month last year. It should be noted that in the first half of this year, core inflation[12] in Greece rose to 8.2%, from 3.2% a year earlier, while in May it stood at 8.1%, from 4.8% last year.

Figure 3.19

Annual change in the domestic CPI and the HICP in Greece (%)



Domestic CPI increased by 4.7% year-on-year in the first five months of 2023, from 8.8% in the same period of 2022.

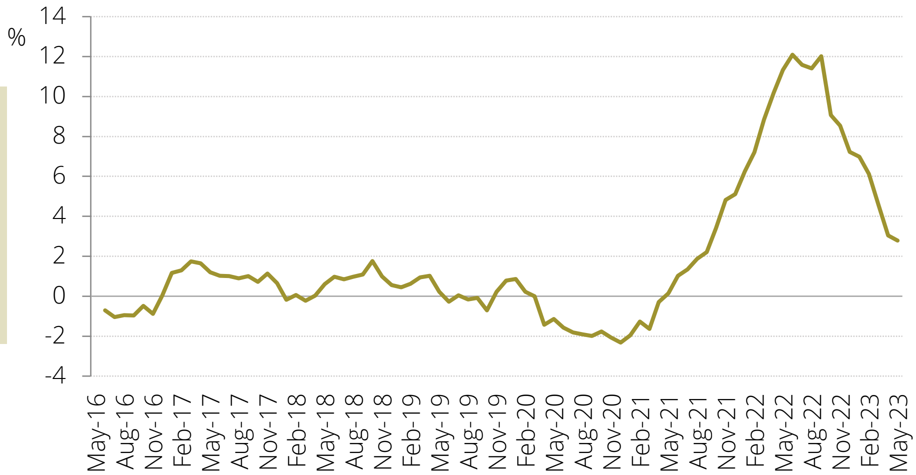
Source: ELSTAT, data processing IOBE

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

Figure 3.20

CPI in Greece (annual percentage change per month)

Domestic CPI growth slowed to 2.8% in May. At a lower rate than in the same month of 2022 (11.3%).



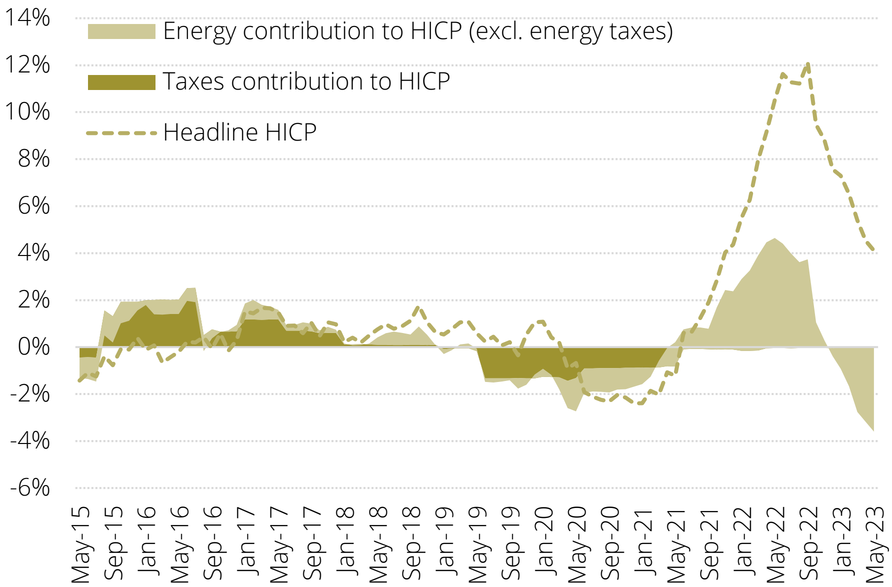
Source: ELSTAT, data processing IOBE

As regards the contribution of HICP components on its overall trend, the increase in the harmonised index in the first five months of this year was due to the positive impact of domestic demand, as the percentage change in the index with constant taxes and excluding energy products was 8.2%. Indirect taxes essentially had no impact on prices in the first five months of this year, from a marginally negative impact of 0.1 percentage points a year earlier.

Figure 3.21

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

The increase in the HICP in the first five months of 2023 was driven by prices of non-energy goods, while taxes had no impact on prices.



Source: Eurostat, data processing IOBE

As regards developments in energy prices and their impact on the HICP, the average international oil price in January - May this year weakened compared with the same period last year. In particular, the average price of Brent crude oil stood at $80.6/barrel in the first five months of this year, down from $104.1/barrel a year earlier, falling by 22.6%.[13] A mild weakening of the average euro exchange rate against the dollar over the same period, by 1.9%, to 1.08 compared with 1.10 a year earlier, mitigated the decline in the euro price of oil, with its average price standing at €74.6/barrel, 21% lower than in the same period of 2022. The decline in the price of oil, a key component in energy costs, reflects the negative impact of energy prices, of 2.4 percentage points, on the rate of change in the HICP domestically in January - May 2023, compared with a positive impact of 3.9% in the corresponding period of 2022.

The strengthening of the HICP in Greece in January - May 2023, by 5.6%, brings the country near the bottom of the ranking among the euro area countries in terms of rate of change, well below the weighted average. The average change in the HICP in the euro area was 7.4% in the first five months this year, from 6.8% a year earlier. Domestic demand appears to have been the main driver of price growth in the euro area, with the price index with constant taxes and excluding energy goods increasing by 7.5% over the period under review, compared with the first five months of 2022 (+3.5%).

Looking at trends in the individual categories of goods and services included in the domestic Consumer Price Index, the largest increase in the first five months of 2023 was observed in food and durable goods. The increase in food prices stood at 13.5%, compared with a milder increase of 8.7% a year earlier, while for durable goods prices rose by 10.6%, compared with a milder increase of 4.0% a year earlier. The price change in clothing was lower, recording an increase of 9.1% from 5.3% a year earlier, followed by hotels with 7.8%, up from 3.0% in the same period of 2022. Price hikes were recorded in other goods and health, by 6.1% and 5.6%, respectively, compared with increases of 0.3% and 0.1%, respectively, one year earlier. The prices of alcoholic beverages rose by 3.4% from a marginal increase of 0.2% in the first five months of 2022, while the rise of prices in recreation activities was marginally lower (3.3%), compared with a milder increase of 0.4% in the same period of 2022. In transport, prices were higher in January-May 2023 than a year earlier (3.0%), compared with a stronger increase of 14.6% in the first five months of 2022. Education came next, with a 2.2% increase, after a marginal increase of 0.9% one year earlier. By contrast, prices fell by 1.8% in communications, following a decline of 2.9% a year earlier. Prices also fell in housing, by 8.3% in the first five months of this year, after an increase of 29.6% in the same period of 2022.

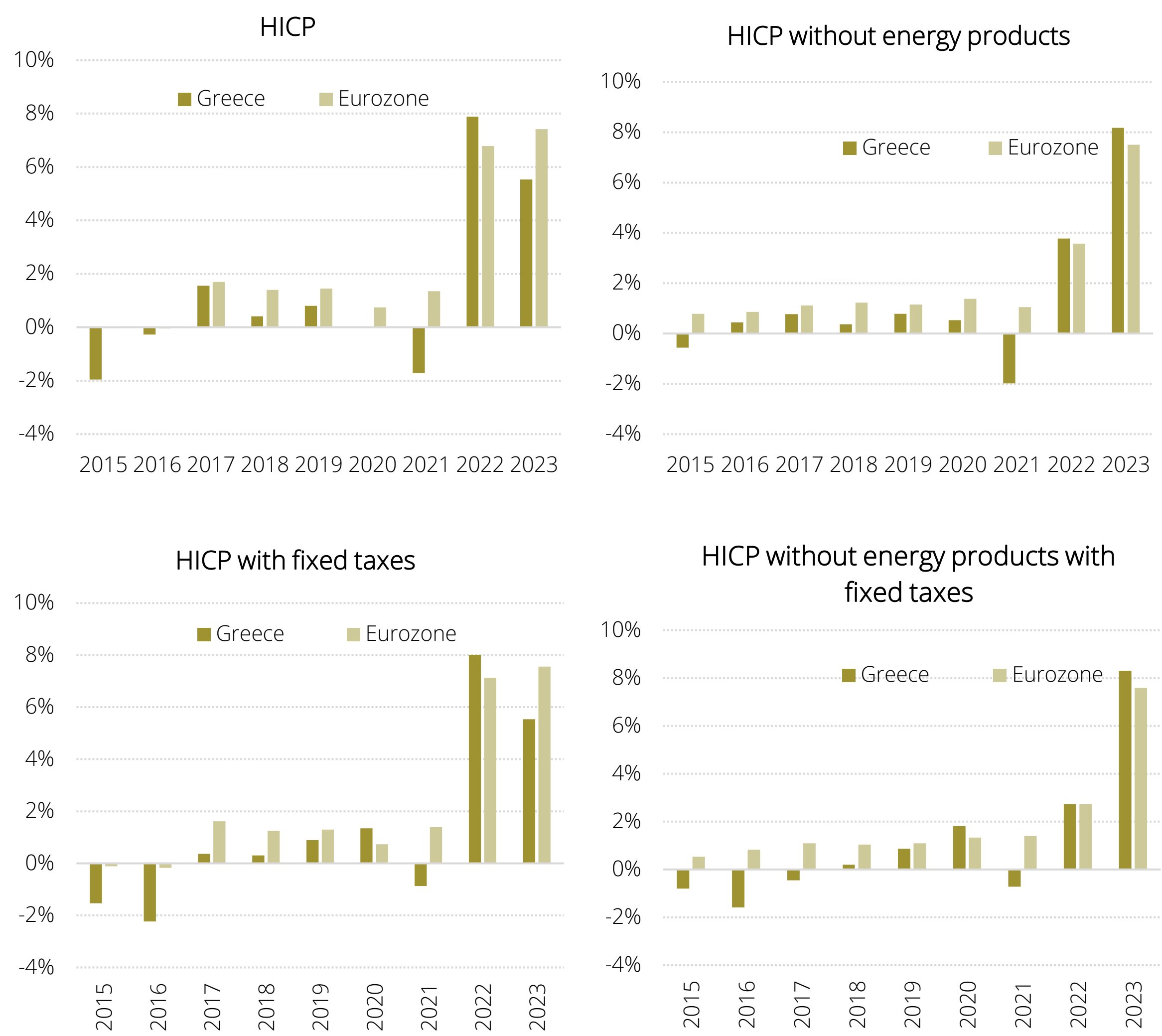
With regard to price trends on the production side in the first four months of this year, the Producer Price Index (PPI), in the domestic and external markets as a whole, declined compared to the same period of 2022 (-2.3%). In detail, PPI excluding energy increased by 7.6% in January - April this year, compared with a year ago. Turning to trends in industrial prices, paper products rose the most, by 13.2% against 8.3% last year, followed by wood and food products, rising by 11.9%, both following hikes of 18.8% and 6.0%, respectively, a year earlier. Producer prices rose by 9.0% for basic metals and by 8.5% for non-metallic minerals, after growth of 3.3% and 5.2%, respectively, in the corresponding period of 2022. Producer prices rose in the first four months of

[13] Period averages based on Europe Brent Spot Price. Source: EIA, US Energy Information Administration https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

this year also for transport equipment, by 7.4% compared with 5.2% a year earlier, followed by tobacco products, with an increase of 6.8%, after a more moderate increase of 5.3% a year earlier. By contrast, producer prices of coal-lignite and refined petroleum products declined by 56.1% and 11.9%, respectively, following an increase of 24.4% and 84.7%, respectively, a year earlier.

Figure 3.22

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



Source: Eurostat, data processing IOBE

A rise in domestic prices in the first five months of 2023, lower than the euro area average, with the inflation effect of non-energy goods (8.2 percentage points) still higher than the euro area average.

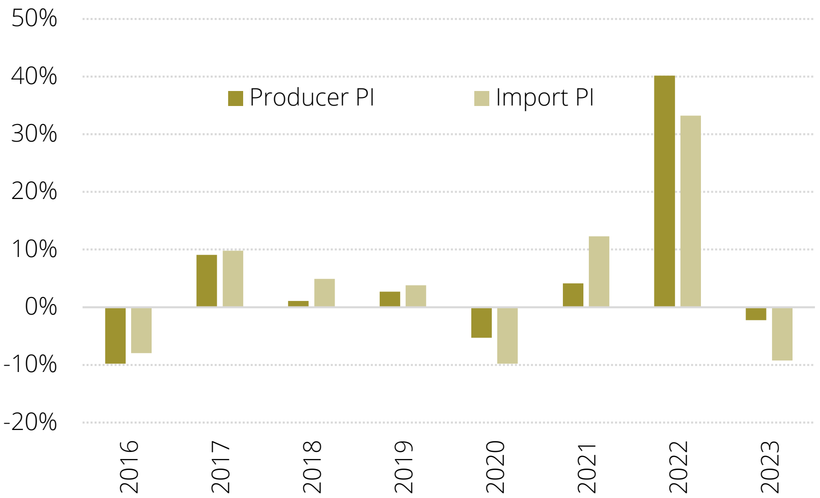
As regards the evolution of the Import Price Index (IPI) in the period from January to April this year, for which data are available, there was an annual decline of 9.2%, compared with a strong increase of 33.2% a year earlier. The weakening of import prices puts Greece in the last place in terms of their change among ten euro area countries for which data were available for that period. Import prices fell in France and Latvia, by 3.5% and 1.9%, respectively, compared with hikes of 30.4% and

22.2% respectively one year earlier. By contrast, a marginal increase in the same indicator, by 0.2%, was recorded in the euro area, compared to a stronger increase of 27.9% in the same period of 2022. The highest increase in import prices was recorded in Denmark (5.5%) and Slovenia (4.9%).

Among the individual categories of imported products, the highest increase in the first four months of this year was recorded in coal and lignite prices, by 134.1%, from price stability a year earlier, while electricity prices increased by 53.9% compared with a rise of 56.3% a year earlier. In mining and food, import prices increased by 15.7% and 12.5% respectively in the current year, from 14.3% and 7.4%, respectively, a year earlier, followed by paper products, with 8.8% from a stronger increase of 11.3% a year earlier. Tobacco products and non-metallic minerals came next, with prices for these items rising by 7.9% and 7.0%, respectively, in the first four months of this year, compared with a milder increase of 4.5% and 0.3% respectively one year earlier.

Figure 3.23

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



A weakening of import prices (-9.2%) in the first four months of 2023, mainly due to a negative impact from energy prices. Producer prices also declined in the same period of 2023 (-2.3%).

Source: ELSTAT, data processing IOBE

Medium-term outlook

The analysis of the trends in the main components of the domestic Consumer Price Index in January - May of this year showed that the rise was mainly due to the positive effect of non-energy prices. The increase in energy prices, as a result of the Russian war in Ukraine, has largely come to a halt, with indirect, though upward effects maintaining the momentum of price growth in key product categories. The mild winter, and high inventories in gas storage at the end of the winter, dampened the upward movement in global energy prices. Note that the EU Member States imposed in June a new (eleventh) set of sanctions on Russia, including more stringent export restrictions and bans in transit of goods and technology through Russia.

In light of the above developments, in the first half of 2023,[14] the international price of Brent crude oil stood at USD 79.8 per barrel, down by 25.6% compared with a year earlier. The euro/USD exchange rate over the period under review averaged 1.08, 1.2% lower than a year earlier.

[14] Data for the first half of the year refer to international oil prices up to 26 June 2023.

Subsequently, the average oil price in euro reached €73.8/barrel in the first half of this year, down by 24.7% year-on-year.

Demand effects

Regarding the expected trends in consumer demand, the new increase in the minimum wage as of 1 April 2023, the increase in unemployment benefits, and support measures for the income of "vulnerable" social groups (low-pension beneficiaries, disabled, minimum-income beneficiaries, etc.) are expected to boost disposable income and thus domestic demand.

In addition, the new domestic package to counter energy costs, expected to be announced in September, as well as the extension of the support measures to mitigate energy costs announced in December last year, are expected to boost disposable income indirectly, thereby contributing to higher consumption.

Following the previous measures to address the high cost of living, the expansion of the Market Pass, subject to extended criteria, up to December this year, the strengthened Household Basket, as well as the new Youth Pass, are expected to have a positive impact on disposable income, thereby also stimulating domestic demand.

Consumer demand is therefore estimated to strengthen in 2023 by about 1.8%, sustaining to some extent prices at a high level.

Tax effects

With regard to the expected effects of indirect tax interventions, in the current year, the application of reduced VAT rates on all Aegean islands without preconditions is not expected to have an impact on prices, as one year has passed since their entry into force. Similarly, reduced VAT rates on some goods and services that remain for the whole of 2023, as well as housing support measures until December 2024, are not expected to have any impact on prices as a year has passed since their implementation. Therefore, indirect tax measures are not expected to have an impact on the price index.

Energy effects

Looking at recent developments in energy goods, the international price of Brent crude oil stood at $75.5 per barrel on average in May this year, down 33.4% compared with a year earlier. The euro/dollar exchange rate in the same month of this year stood at 1.08, 2.6% higher than in the corresponding month of 2022. Subsequently, the average euro price of oil stood at €69.5 per barrel, 35% lower than a year earlier.

With regard to oil supply, at its last meeting in early June, OPEC+, including Russia, decided to extend the cuts to its daily production until 2024. Recall that in May, OPEC+, headed by Saudi Arabia, again reduced daily production by about 1.6 million barrels in order to maintain a balance on the international markets. In addition, in the context of OPEC+ cuts, Saudi Arabia is expected to further reduce production to 1 million barrels per day in July, which may extend into the coming months if the oil price does not rise.

Although global consumption in 2023 is expected to increase by 2.2 million barrels per day, up from 99.4 million barrels per day on average last year, OPEC projects a surplus in daily oil production. According to OPEC estimates, the daily production surplus in the second quarter of this year is estimated at 300.000 barrels, which is expected to be even higher for the year as a whole if Russian production remains strong against international sanctions. It should be noted that in the first half of this year, oil flows from Russia remained higher than expected, increasing global oil supply and exerting downward pressure on crude oil prices, while an increase in supply is also expected from the United States, Canada, Colombia, and Nigeria.

Recall that in February, the Council of Europe decided to set two price ceilings ($45/barrel and $100/barrel) for petroleum products originating or exported from Russia.[15] Finally, as regards the gas price, in December 2022, the European Commission, in response to the energy crisis, imposed a cap on the prices of gas imports of all origins. The mechanism provides for a price cap of €180 per MWh in the Dutch TTF as of February this year, which is however automatically abolished, should demand increase by 10%-15%.

Domestically, the measures to address high energy costs announced in December have a dampening effect on energy price changes, as energy prices taken into account in the CPI include subsidies.

World demand

The outlook for global growth in 2023 appears to be improving according to the macroeconomic forecasts of international organisations. In particular, global GDP growth is expected to reach around 2.7% in 2023, marginally above the rate projected in March (2.6%).[16] The upward trend in energy prices appears to be coming to a halt, with inflation slowing down significantly, leading to further growth prospects. The recovery in 2023 is expected to be stronger in China (5.4%) than in the euro area (0.9%) and the United States (1.6%), as its economy fully resumes, following the lifting of containment measures in response to the pandemic, while demand for oil is expected to increase significantly this year as a whole.[17]

Against this background, it is estimated that the average oil price in 2023 will stand at USD 79.5/barrel from USD 100.9/barrel in 2022 (-21%), mainly due to the slowdown in global growth.[18] The EUR/USD exchange rate this year is expected to average 1.08, 2.8% higher than in 2022.[19] As a result, the average oil price in euro is expected to stand at €73.7/barrel in 2023, down by 23% compared to this year.

In view of the above trends and developments in the main factors affecting consumer prices, **the overall Consumer Price Index is projected to edge up moderately this year, at a rate of about 4.3%, mainly driven by consumer demand.**

The results of the IOBE monthly business surveys provide important information on future price developments, serving as leading indicators of price evolution from the supply side.

The trends in price change expectations are mainly negative quarter on quarter in the second quarter of this year. With the exception of private construction, where they slightly strengthened, price expectations moved mildly downwards in retail trade, while in industry and services the decline is more pronounced. Year on year, price expectations registered a sharp decline in industry

[15] https://www.consilium.europa.eu/el/policies/sanctions/restrictive-measures-against-russia-over-ukraine/history-restrictive-measures-against-russia-over-ukraine/
[16] OECD Economic Outlook, June 2023: A Long Unwinding Road
[17] International Energy Agency, World Energy Outlook 2022
[18] Energy International Agency, Short-Term Energy Outlook, June 2023
[19] Macroeconomic projections, ECB, June 2023

and a small decline in retail trade and services, while price expectations in private construction rose markedly. In more detail:

In industry, the price expectations weakened significantly quarter on quarter in the second quarter of the year. In particular, the index stood at +2 points from +17 points in the previous quarter, while it fell by 48 points year-on-year. Of the firms in the sector, 15% were expecting prices to fall in the short term, while 17% (down from 26%) were expecting a fall in prices, with the remaining 68% expecting price stability.

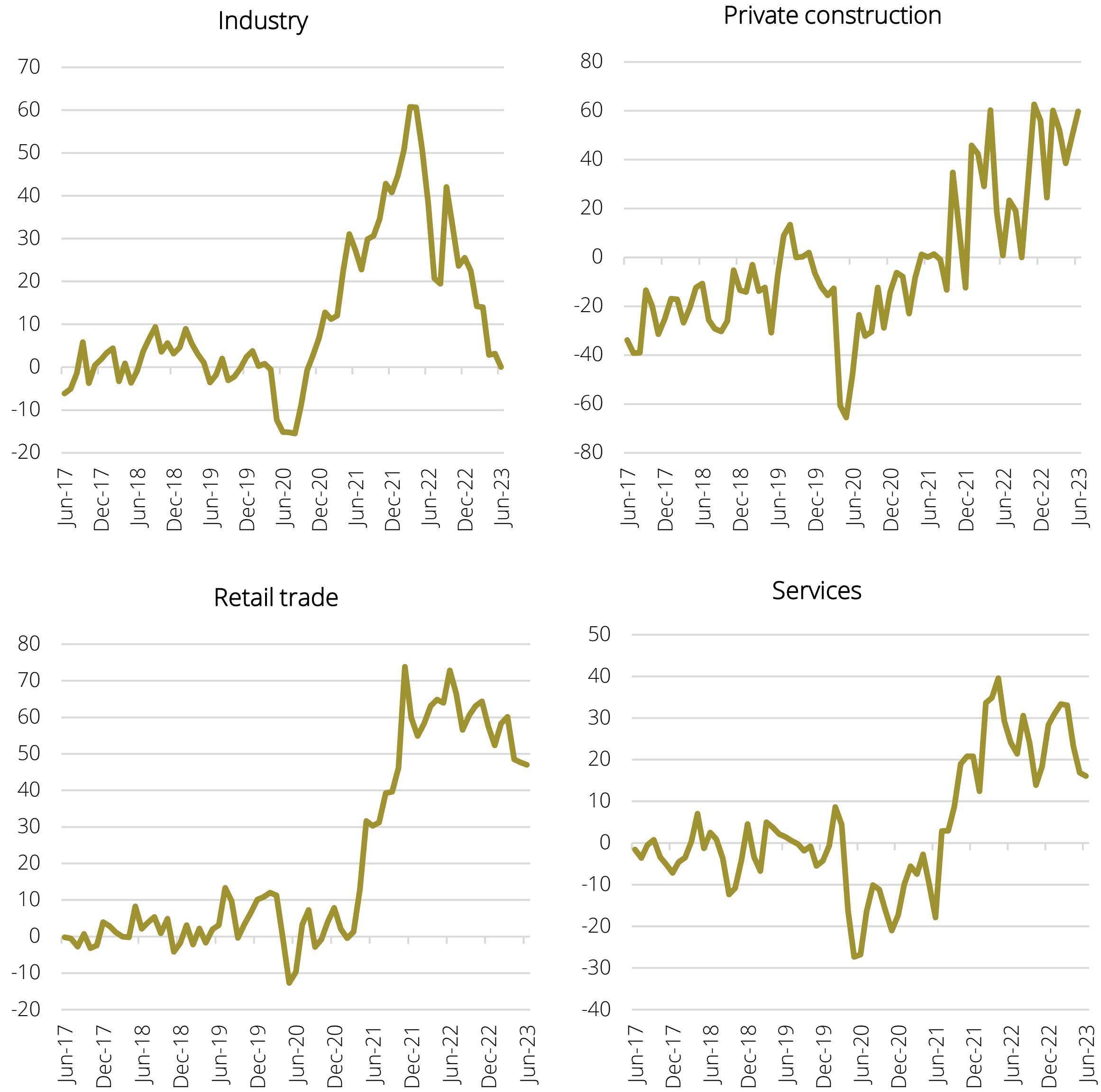
In retail trade, the price expectations balance of +57 points in the firms in the sector in the previous quarter declined by 9 points, while at the same time, it was 19 points lower than in the corresponding period of 2022. Of the firms in the sector, only 1% were expecting prices to fall in the short term, while the percentage of those anticipating an increase fell to 49%, with the remaining 51% (from 41%) expecting price stability. Price expectations declined quarter on quarter in the second quarter of 2023 in most examined branches of retail trade, with the exception of food and beverages, where price expectations moved strongly upwards.

The average index of price expectations in services declined markedly quarter on quarter in the examined quarter, to +19 (from +32) points, while at the same time, it was markedly lower than the corresponding average performance in the second quarter of 2022 (-12 points). In the current quarter, 3% (from 2%) of the firms in the sector were expecting prices to fall and 21% were expecting them to increase. In the examined individual branches of services, the relative index weakened modestly in most sectors, with the exception of miscellaneous business activities and hotels-restaurants, where it declined markedly.

Finally, in the private construction sector, the strongly positive balance of +46 points in the previous quarter increased slightly, to +49 points, rising sharply compared to the level in 2022 (+23 percentage points). Moreover, none of the firms in the sector was expecting a decline in sectoral prices, while the share of those expecting prices to rise stood at 49% (from 52%), with the remaining 51% (from 42%) anticipating price stability.

Figure 3.24

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



Source: IOBE

The trends in price change expectations are mainly downward in the second quarter compared with the first quarter of this year. With the exception of mildly stronger private construction, price expectations weakened mildly in retail trade, while in industry and services, the decline was more pronounced.

4 INTERGENERATIONAL MOBILITY IN EDUCATION IN GREECE[20]

- Education plays a central role in social mobility.
- Since the 1980s, secondary and tertiary education in Greece has significantly expanded and the Greek education system seems to promote social mobility to some extent.
- However, various types of inequalities or obstacles to upward social mobility through education persist.
- Empirical analysis of OECD's Programme for International Student Assessment (PISA) micro-data highlights the following inequalities among the 15-year students in Greece:
    - Persistent inequalities based on socio-economic background in all PISA domains (Reading, Mathematics, Sciences, and Global Competence)
    - Inequalities based on the socio-economic background in students' ambitions to pursue higher education or high-level careers
    - Significant inequalities based on migration background and gender, while bullying at school is associated with lower educational outcomes
    - The socio-economic situation of parents is transferred to children through cultural and educational goods, emotional support, and study in private schools.
- A series of targeted policy interventions could alleviate educational inequalities and enhance intergenerational mobility in education, such as, for example, incentivising households to acquire educational and cultural resources or providing adequate psychological advisory services in all schools.

Introduction

Education plays a central role in social mobility. An individual's educational attainment is closely linked to his or her employment, profession, income, standard of living, and general well-being. Greece's education system has been an important driver, mainly positive, of intergenerational social mobility. In Greece, a significant share of people achieve a higher level of education than their parents. Despite this good performance, the intergenerational transmission of socio-

[20] This chapter is based on a recent study by IOBE researchers conducted with the support of the Hellenic Observatory at the London School of Economics. The full English version is available on the LSE's website: https://www.lse.ac.uk/Hellenic-Observatory/Research/Projects-2021/Intergenerational-Mobility-in-Education-in-Greece. A presentation of the study in Greek is available on the IOBE website: http://iobe.gr/docs/research/RES_05_F_12042023_PRE_GR.pdf

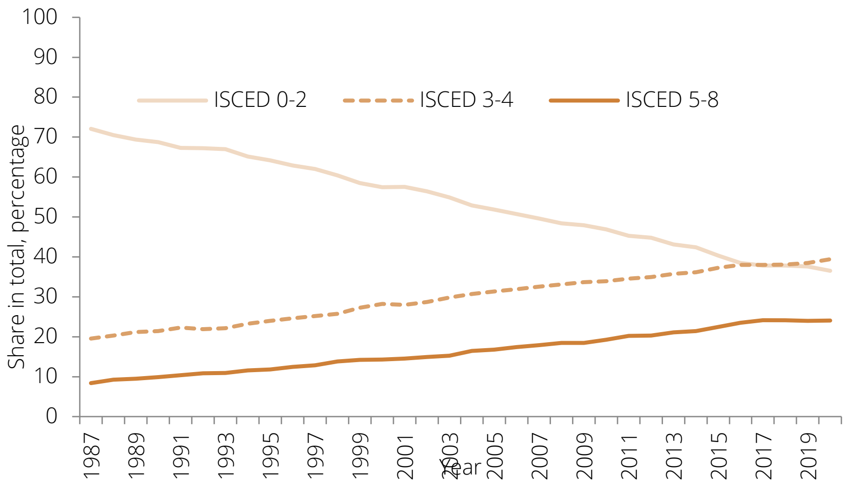
economic disadvantages and inequality persists in Greece, as in many other countries around the world. The reasons vary and include uneven prospects between the multitude of tertiary education programmes offered in Greece, stronger competition for places, and lengthening of the average duration of academic studies. Moreover, although tertiary education is free of charge, the fact that enrolment depends on performance in exams means that students with unequal performance will also have unequal opportunities for their future prospects. A study carried out by IOBE explored the role of socio-economic background and other factors in the cognitive performance and future plans of 15-year-old students in Greece and examined trends and differences with other EU and OECD countries regarding intergenerational mobility and inequality in education.

Intergenerational mobility in education in Greece

Since the 1980s, secondary and tertiary education in Greece has expanded significantly. The share of the population aged 25-74 with lower secondary education (ISCED 0-2) decreased from 72% in 1987 to 37% in 2020, while the share of the population with tertiary education (ISCED 5-8) increased from 9% to 24% (Figure 4.1).

Figure 4.1

Trends in educational attainment (ages 25-74), 1987-2020



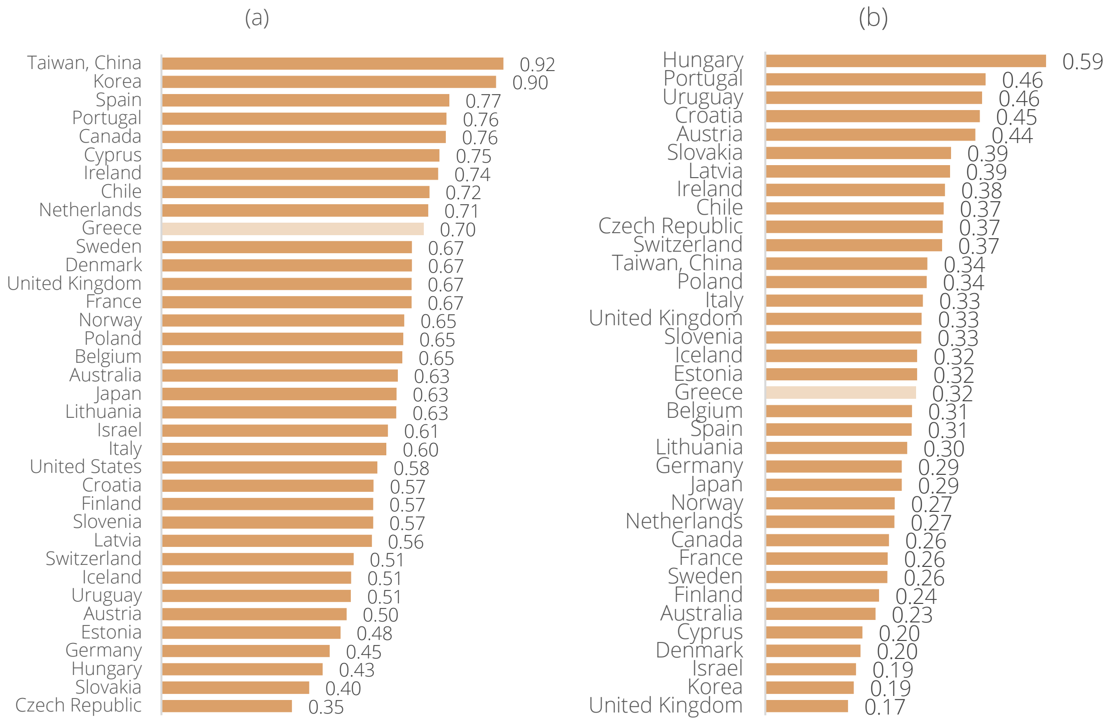
Source: ELSTAT, 'Labour Force Survey.

This expansion in education in recent decades is believed to have played a key role in enhancing intergenerational mobility. Indeed, compared to other developed countries, Greece performs exceptionally on intergenerational mobility in education when it is defined as the percentage of people completing higher levels of education compared to their parents (Figure 4.2a). Children born in the 1980s in Greece have a 70% chance of having a higher level of education than the highest level among their parents. Based on this indicator, Greece ranks 10th among 36 high-income economies included in the World Bank's Global Database on Intergenerational Mobility (GDIM).

However, it remains difficult for the less privileged groups of the population to improve their relative socio-economic status within their own generation, despite the absolute improvement over their parents' educational attainment. The result is that Greece does not perform so well on more sophisticated indicators, such as the intergenerational "persistence" indicator that measures the estimated impact of an additional year of parental education on their children's years of education (Figure 4.2b). Greece's performance in terms of overall mobility and inequality in education is even lower. More specifically, the probability that a child with parents from the lower half of the educational distribution will move to the highest quartile is limited to 14% for the 1980s generation, and the likelihood of a child with parents moving from the highest quartile to the lower half of the educational distribution is estimated at 19% (World Bank, data from GDIM).

Figure 4.2

Absolute upward mobility (a) and intergenerational persistence (b) indicators



Source: Global Database on Intergenerational Mobility (2020), World Bank.

Furthermore, participation in tertiary education is not distributed equally among socio-economic groups of the population: an examination of the background of students at Greek Universities reveals that the majority of students come from families with a higher socioeconomic background at universities and from more modest backgrounds in TEIs and other vocational schools. Also indicative of inequality in higher education is the fact that the proportion of students with "very high" socio-educational level of parents is elevated in university schools of medicine, engineering, and law (IOBE, 2019).

Weaknesses of the domestic education system

The education system in Greece demonstrates some key weaknesses in terms of inputs and outputs, which are often identified in statistical databases and international reports. Regarding the system's inflows, Greece has recorded low levels of public expenditure on education over time, close to 4% of GDP (4.1% of GDP in 2021 compared to 4.8 % for the EU-27). In addition, Greece has the highest share of 15-year-olds without access to career guidance services among the OECD countries (OECD, 2020). An important indication of insufficient input into the system is the high level of private household payments in Greece for educational services such as tutorials or private lessons that prepare students for the nationwide exams at the end of high school, taken to secure entry into universities. Also, private lessons are becoming more and more widespread, even among younger students (who attend middle and primary school) as there is a pervasive perception that students need additional help to meet their school obligations (IOBE, 2019).

Weaknesses in output terms are mainly reflected in the longitudinal lag of Greek students' performance in the OECD's PISA program, where cognitive and educational performance is measured in three main areas, namely Reading, Mathematics, and Sciences. Students in Greece have consistently recorded lower scores on PISA tests since the start of the programme in 2000 (Figure 4.3).

Figure 4.3

Sum of average PISA scores (Mathematics, Reading, and Sciences), Greece vs. OECD countries, 2000-2018

Source: OECD

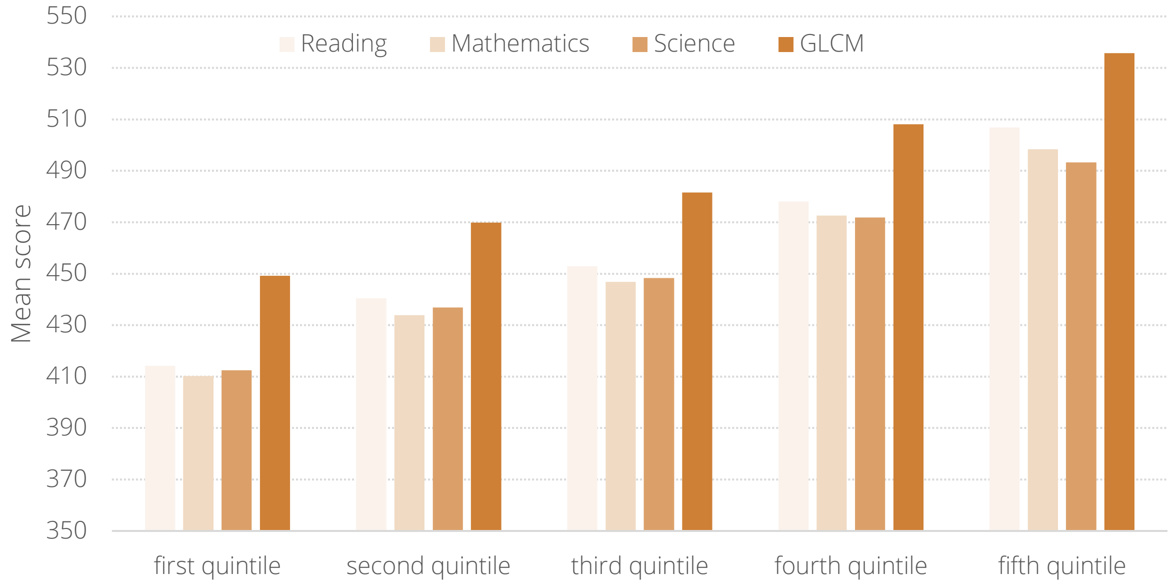
Inequalities in PISA performance and future plans of students

The study carried out an econometric analysis of the microdata of the PISA programme. Its results show that students from more privileged backgrounds perform better in all the disciplines of the PISA programme (Reading, Mathematics, Sciences, and a new cognitive domain on Global Competencies or GLCM-Figure 4.4).

The econometric analysis shows that the correlation between the socioeconomic background of the students and their PISA performance and ambitions for the future (university education and high-level career) is very strong statistically. From the examined features, it was found that there is a large and significant association between students' performance and plans and those elements of the parents' background that seem to be the most important for the adolescents: the educational and cultural resources available to the household and the emotional support provided by parents. According to the results of the study, the socio-economic position of the parents is transferred to their children through these channels, while the attendance of private schools and the level of parental education were also found to play an important role.

Figure 4.4

Scores in the PISA domains, by socio-economic status quintile (ESCS indicator), Greece, 2018



Source: PISA microdata, IOBE calculations

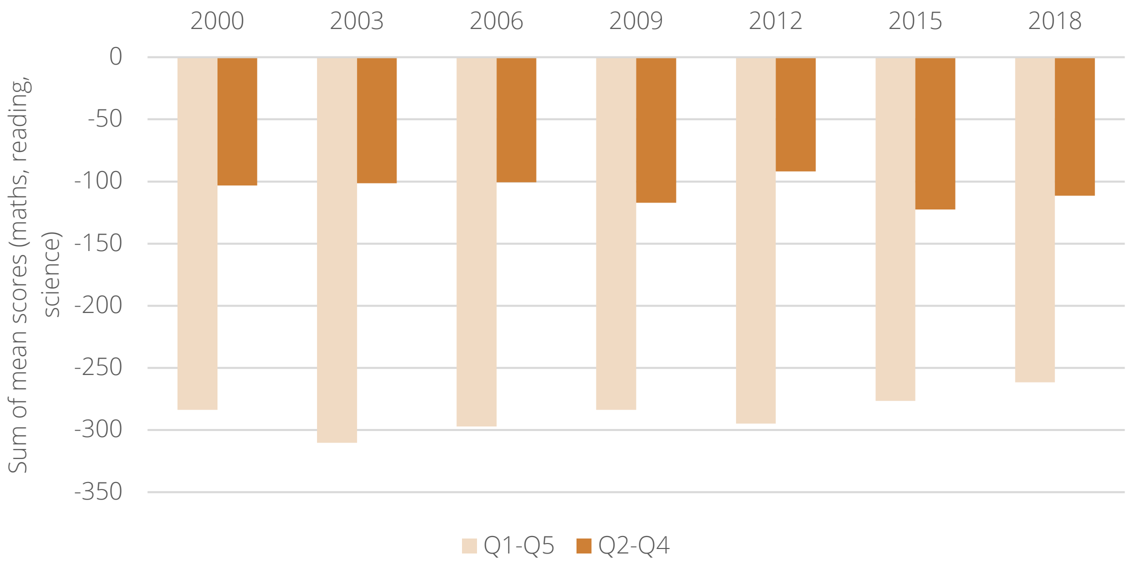
The important results of the study also include the correlation of educational performance with demographic factors (such as gender and exact age in months), emotional factors (school bullying), and migration background. The negative relationship between migration background and performance is more pronounced for first-generation migrant children but remains important for second-generation migrant children as well. Gender-specific differences in performance and future plans suggest that educational and sectoral segregation between men and women is already starting at school and any efforts to close the gender gap in employment and pay should also target early schooling.

Longitudinal analysis and comparison with other countries

The inequalities in PISA performance based on socio-economic background persist over time (Figure 4.5). This is also not exclusively a Greek phenomenon, but is observed in almost all countries participating in PISA (Figure 4.6). The same applies to inequalities in performance based on migrant background and gender, which are not exclusively a Greek phenomenon (Figures 4.7 and 4.8).

Figure 4.5

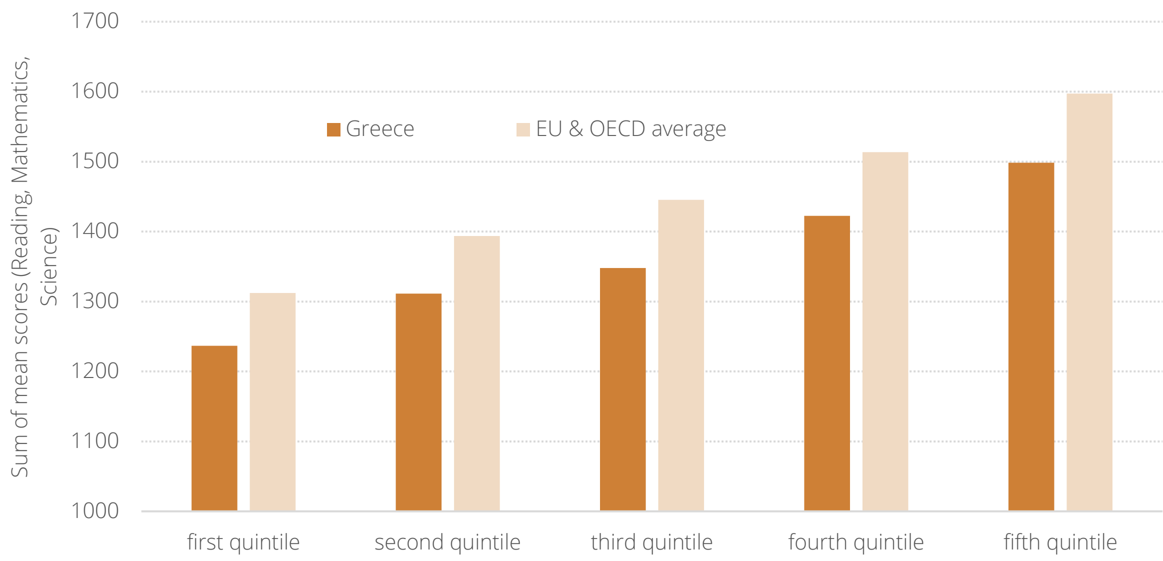
Performance gap based on the economic, social, and cultural status (ESCS), Greece 2000-2018



Source: PISA microdata, IOBE calculations

Figure 4.6

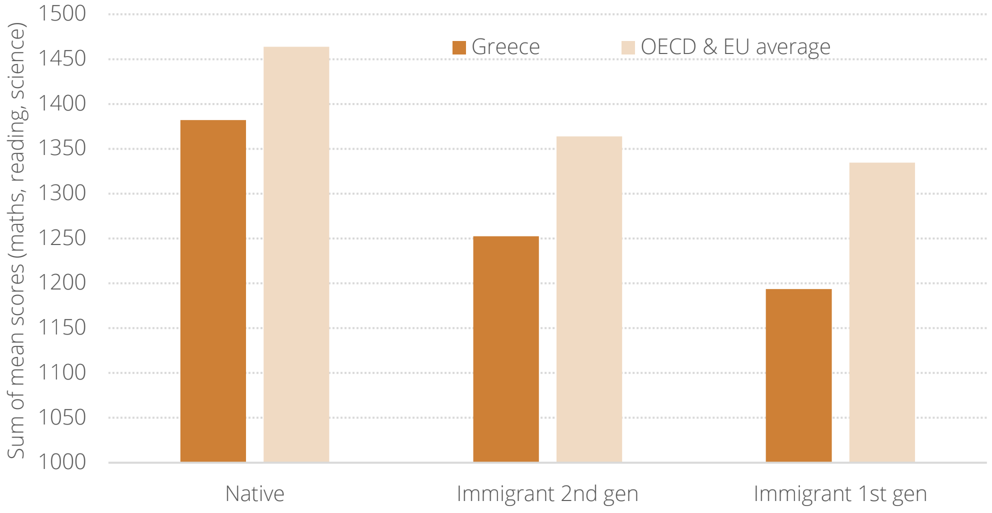
PISA score per quintile of the economic, social, and cultural status (ESCS), Greece vs. EU and OECD, 2018



Source: PISA microdata, IOBE calculations

Figure 4.7

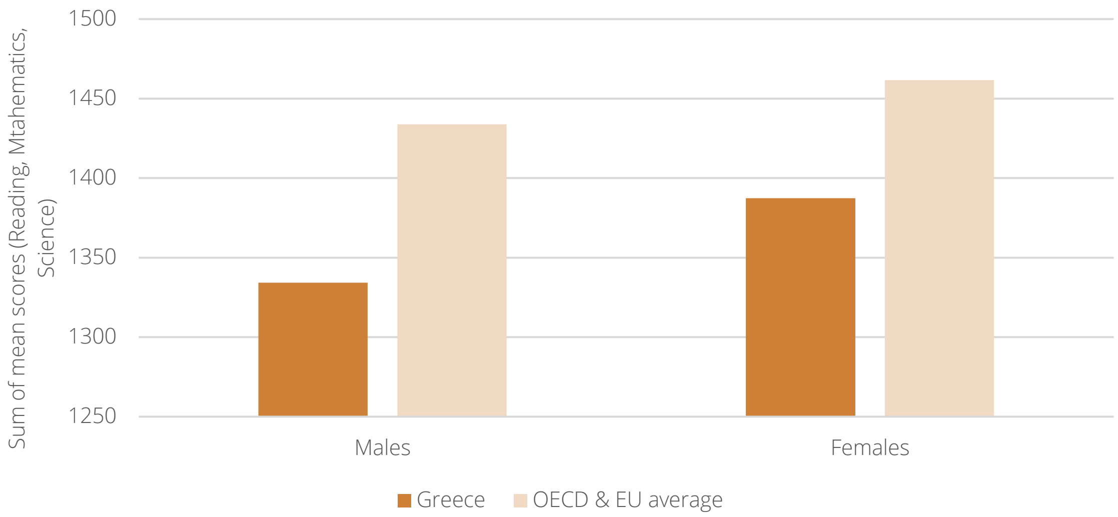
PISA performance by migrant background, Greece vs. EU and OECD, 2018



Source: PISA microdata, IOBE calculations

Figure 4.8

PISA performance by gender, Greece vs. OECD and EU, 2018

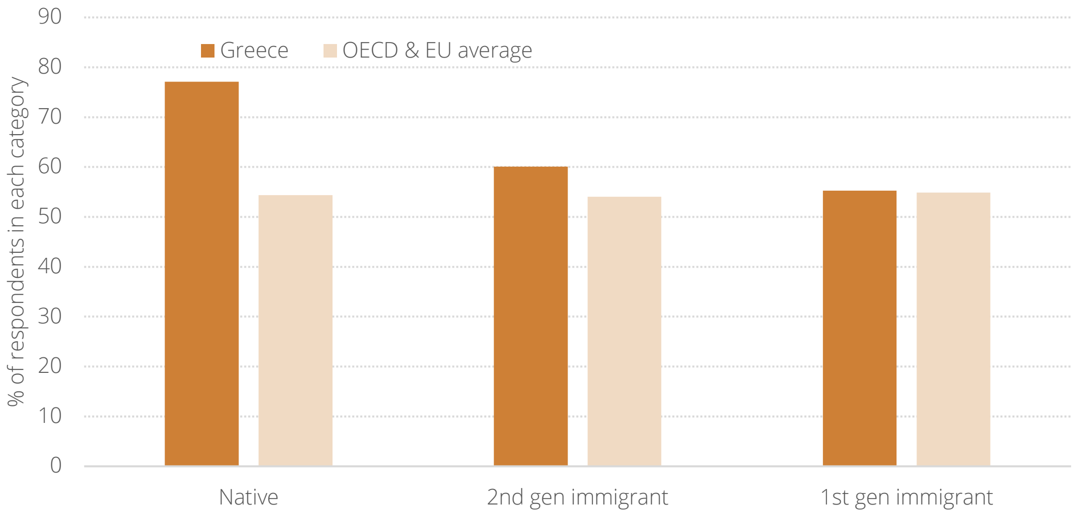


Source: PISA microdata, IOBE calculations

In addition, the students' ambitions regarding their future professional plans fluctuate across countries: the study shows that students in Greece show relatively high ambitions in terms of higher education studies, but low ambitions for managerial or high-paid professional careers. Also, a significant difference is observed between Greece and other EU & OECD countries in terms of the aspirations of students with a migrant background. More specifically, the difference in expectations between immigrants and natives in Greece is more pronounced than in the EU and OECD in terms of both higher education and career plans (Figures 4.9 and 4.10). This demonstrates problems of adequate integration of students with a migrant background through the education system.

Figure 4.9

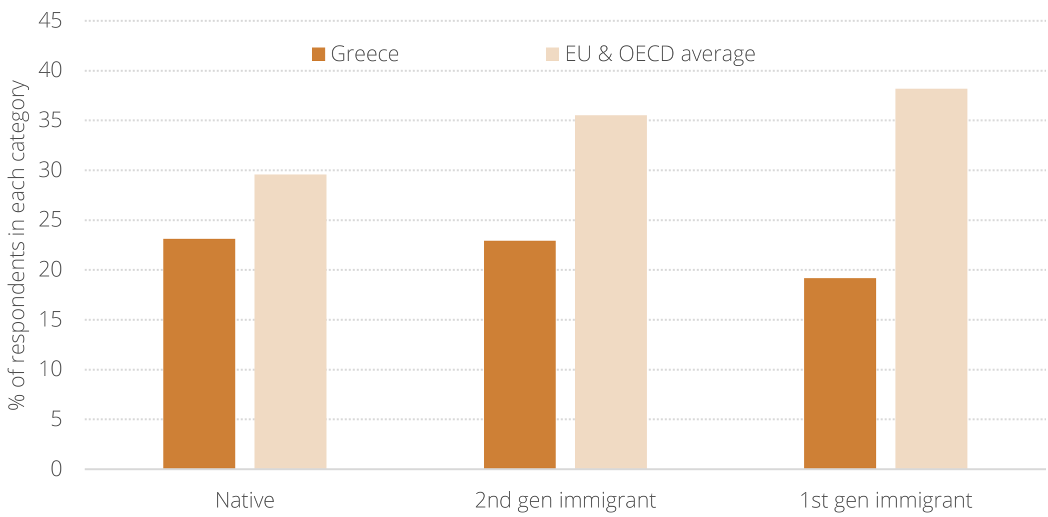
Higher education aspirations by migrant background, Greece vs. EU and OECD average, 2018



Source: PISA microdata, IOBE calculations

Figure 4.10

Aspirations for highly paid professional career by migrant background, Greece vs. EU and OECD, 2018



Source: PISA microdata, IOBE calculations

Finally, a special reference should be made to the international ranking of Greece regarding the issues addressed in the study and its results. The econometric analysis shows that the correlation between the socio-economic position index and PISA performance is not as high in Greece as in many other OECD and EU countries. However, regarding the performance of second-generation immigrants and the association of private school attendance and PISA scores, Greece is roughly in the middle and at the end of the ranking, respectively.

Conclusions

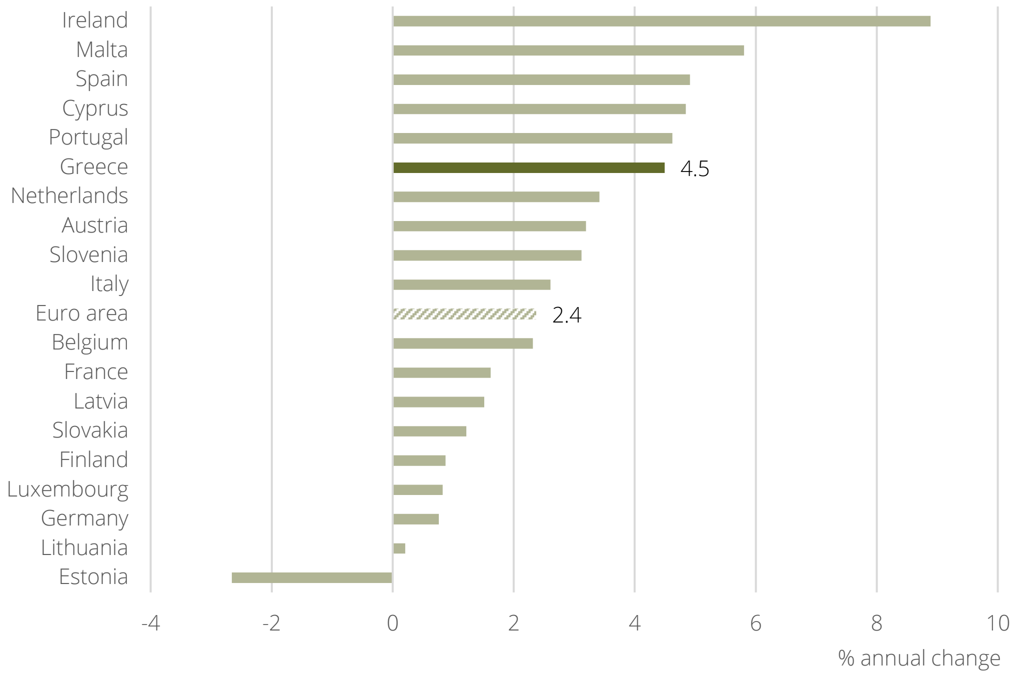
The study explores intergenerational mobility in education by focusing on performance in the PISA programme and the aspirations of 15-year-olds in Greece (together with a longitudinal and comparative analysis across countries). The most important result of the study is that there are large and significant correlations between student scores and certain socio-economic and parental background characteristics that seem to be of greater importance to children: educational and cultural resources at home and emotional support from parents. The socio-economic position of parents seems to be channelled to children through these cultural and emotional pathways, but also through attending private schools in all the examined models. Also, migrant background and school bullying have a significant negative correlation with pupils' cognitive outcomes and plans for the future. Most of these results persist over time and show that Greece is not an outlier in terms of the relation between socio-economic background and PISA performance.

These findings can help design appropriate policies for a more equitable distribution of cognitive outcomes in the Greek student population. Indicatively, some of these policies could include tax and other incentives for the acquisition of educational and cultural goods by households with children, effective implementation of legislation to balance family and professional life, adequate provision of psychological support services in schools, targeted actions to upgrade public education, and adequate career guidance services for all students – with a focus on combating inequalities based on socio-economic, migrant and gender backgrounds.

APPENDIX

Figure 1

Real GDP growth rate, Q1 2023 (*)

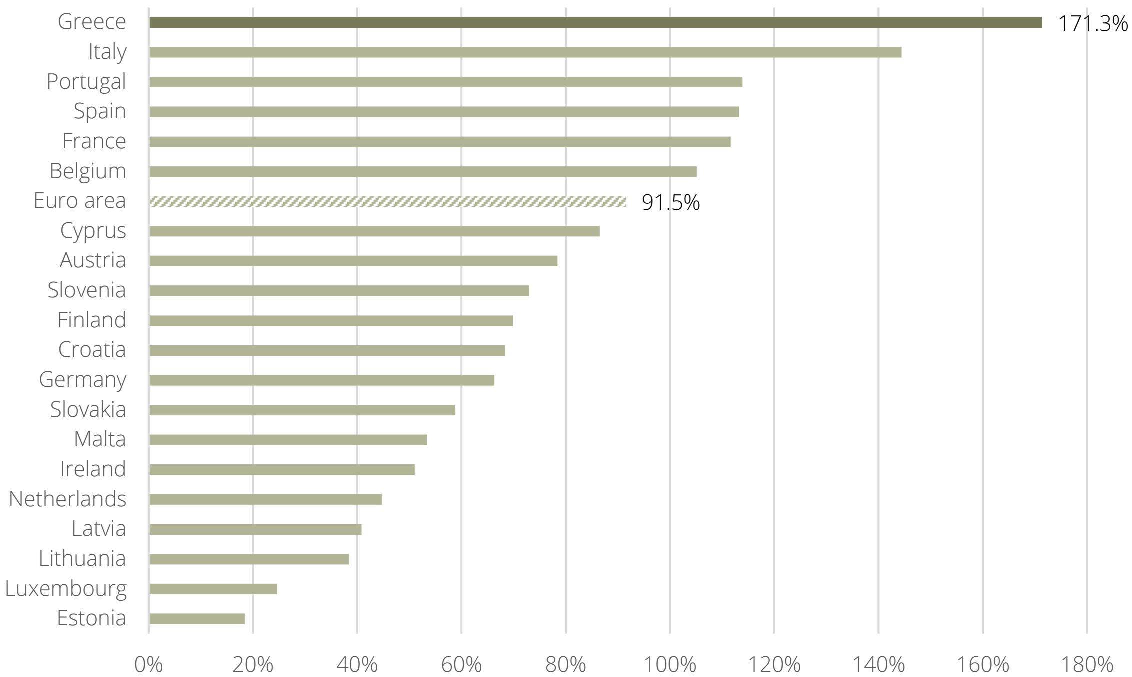


(*) Annualised GDP data (moving average of 4 quarters, up to and including the first quarter of 2023)

Source: Eurostat

Figure 2

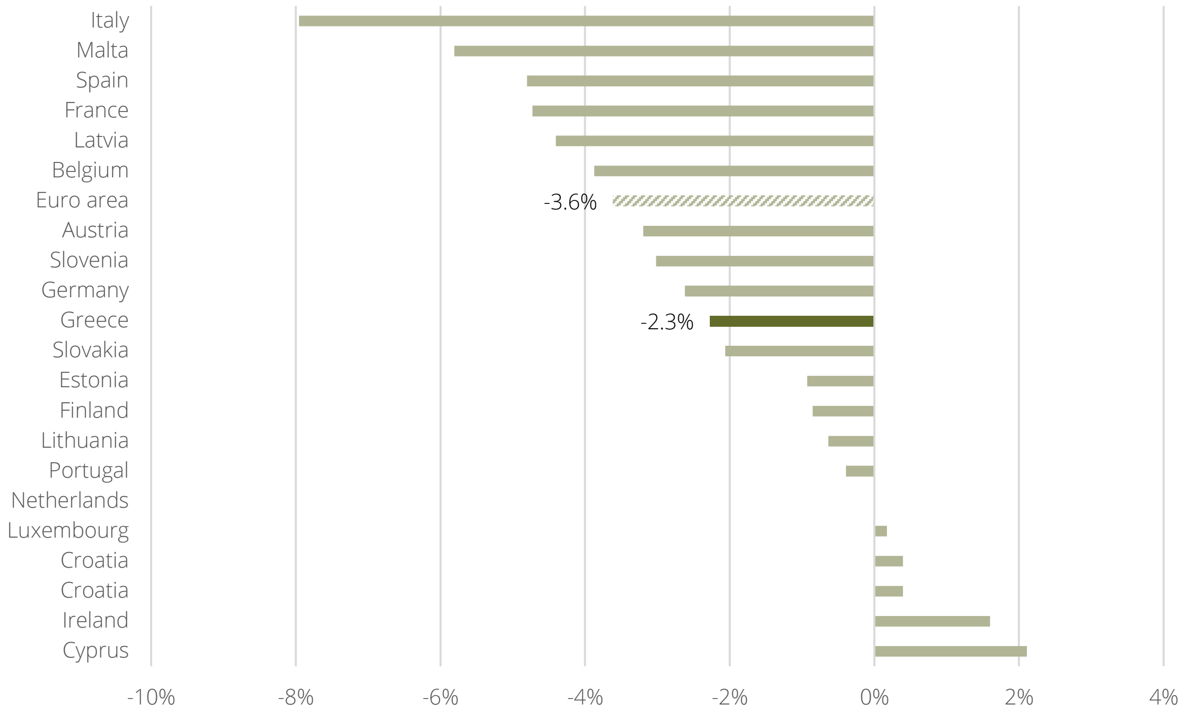
General Government Debt as % of GDP, Q4 2022



Source: Eurostat

Figure 3

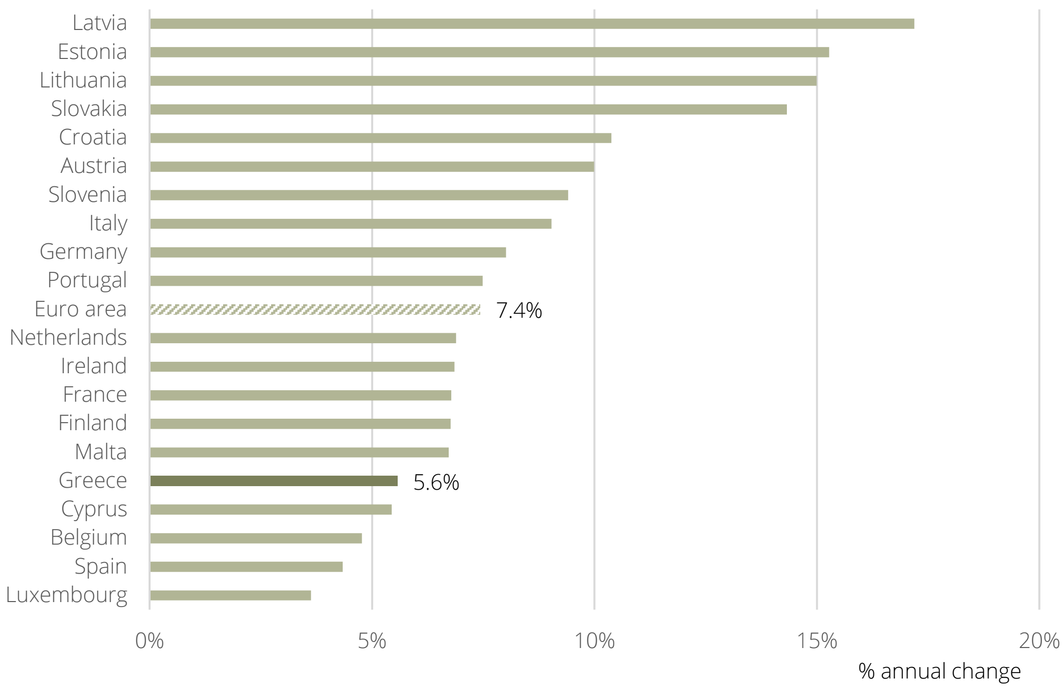
General government balance as % of GDP, 2022



Source: Eurostat

Figure 4

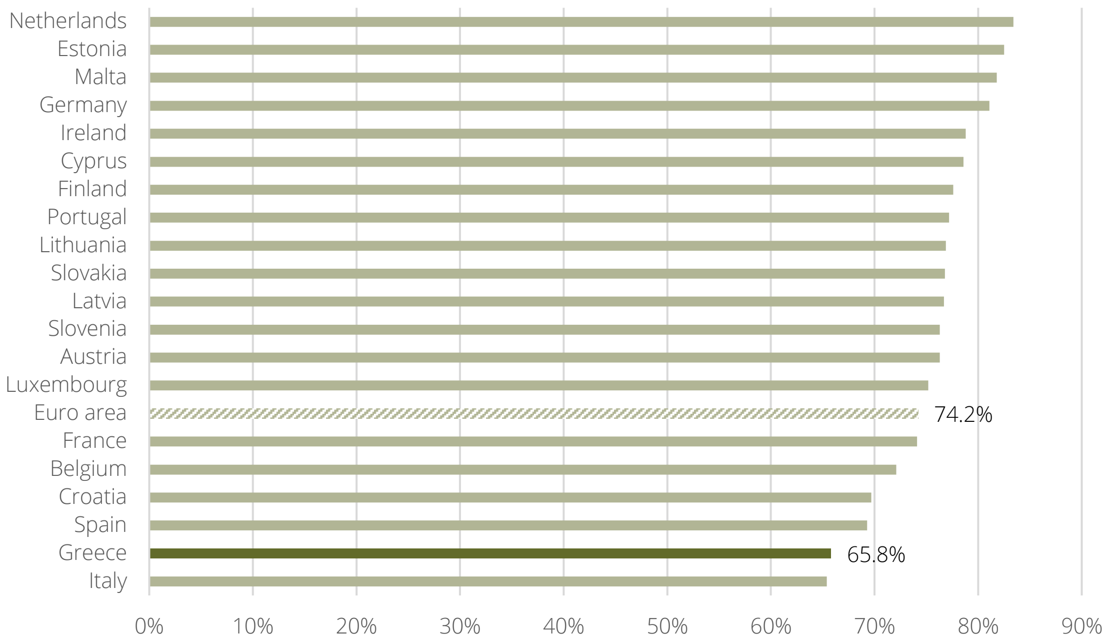
Harmonised Index of Consumer Prices, January – May 2023



Source: Eurostat

Figure 5

Employment, Q1 2023 (*)

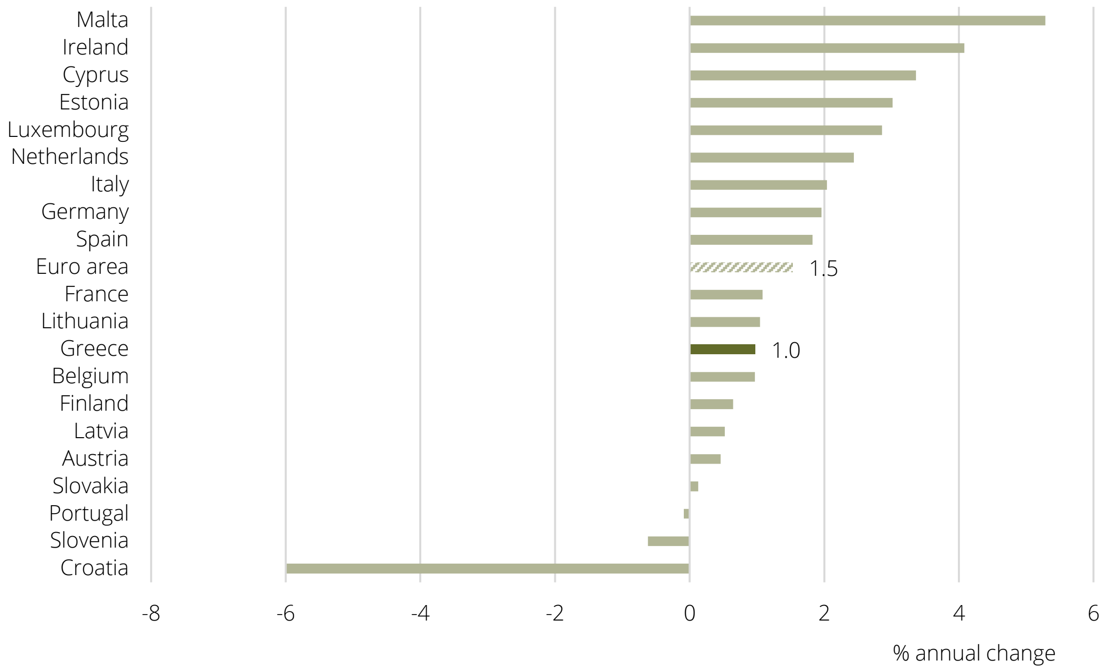


(*) % of employed people aged between 20 and 64 in relation to their total population

Source: Eurostat

Figure 6

Change in employment, Q1 2023 (*)

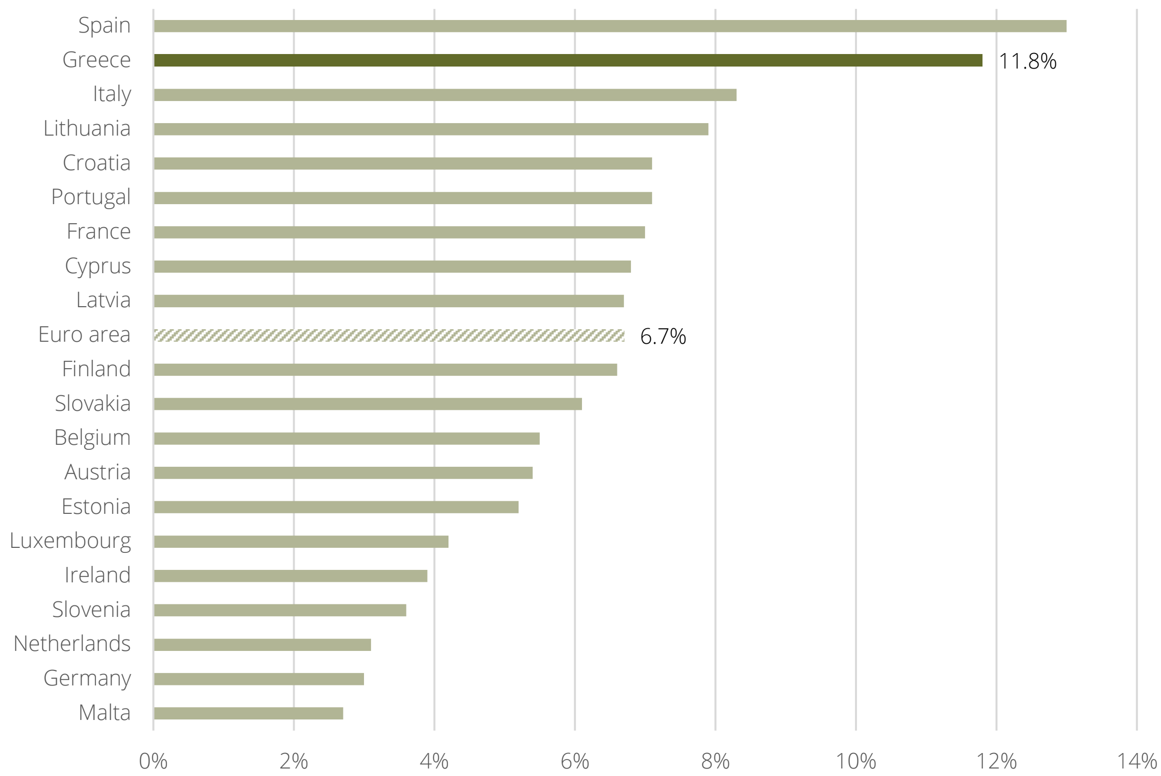


(*) employed people aged between 20 and 64

Source: Eurostat

Figure 7

Unemployment, Q1 2023 (*)



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

Source: Labour Force Survey, Eurostat