The Greek Economy

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Editorial Policy

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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.

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Foreword

IOBE is publishing its report for the third quarter of 2024, as part of the periodic reviews of the Greek economy. It contains four sections, accompanied by an annex of macroeconomic indicators, comparing the performance of Greece with that of the remaining countries in the Euro area. It is preceded by an introductory text, which highlights strengthening growth rates in the short term and concerns over the medium term. 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 second quarter of 2024 and the outlook for the rest of the year and 2025, b) presentation of the economic climate in Greece in the third quarter of 2024, according to the results of the business and consumer surveys of IOBE, c) assessment of the balance of the State Budget for January-August 2024 and d) developments in the domestic financial system up until August 2024.

The third section focuses on the macroeconomic performance and outlook of the Greek economy. It outlines recent macroeconomic developments with an emphasis on the second quarter of 2024 and presents forecasts for 2024 and 2025, based on assumptions and taking into account the latest available data. It analyses developments in key production sectors in the first half of 2024 and presents the export performance of the Greek economy for the same period, based on data from both the national accounts and the balance of payments. After that, it outlines developments in the labour market over the second quarter of 2024. It then analyses the inflation trends in the first nine months of 2024.

The fourth section presents the main findings from a recent IOBE study on the latest trends in the Construction sector in Greece. The current report contains three text boxes. The first one highlights the evolution of "bad" business loans and "zombie" companies after the Greek crisis (section 2.2.C). The second one examines the evolution and correlation between competitiveness indicators and employment share in R&D, science and technology by region (section 3.1.A). The third one presents the evolution of the employment share in technology and knowledge-intensive sectors in Greece and Europe (section 3.4).

This report refers to and is based on data available until 16/10/2024.

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

ELEVATED GROWTH RATES IN THE SHORT TERM AND HEIGHTENED CONCERNS IN THE MEDIUM TERM

The Greek economy is pursuing a dual objective: to reinforce its macroeconomic and fiscal stability and to achieve robust growth in a European and global context characterised by significant challenges and the emergence of new dynamics. The intrinsic characteristics of our economy, when considered alongside these other factors, give rise to a landscape that is characterised by a considerable degree of complexity. During the period under review, the European economy has demonstrated signs of recovery, while the Greek economy has exhibited a relatively stronger growth trajectory, converging with the European average. However, in the medium term, concerns persist regarding the sustainability of this growth momentum, both in Europe and in our country, and the resilience of our economies to potential external shocks.

Steady growth of the world economy

The global economy is demonstrating signs of stabilization, with projected overall growth rates for the coming year expected to be approximately equivalent to those observed in the current year. Additionally, the previously notable inflationary trends are exhibiting a gradual easing. However, this general picture of stability and growth masks divergent trends among the major economies. In China, a deceleration in growth is anticipated, while in Europe (including both the European Union and the United Kingdom), an acceleration is expected, albeit from a markedly lower current growth rate. Furthermore, the level of global trade has reached a state of relative stability at elevated levels.

The decline in key interest rates has been occurring at a faster pace than was previously anticipated, particularly in Europe, where there has been a notable reduction in inflation. Overall, the global economic downturn that might have been anticipated as a consequence of the pronounced and sustained interest rate increases implemented by central banks during the previous period appears to have been averted. It is not possible to rule out the possibility that the transition from a period of strongly expansionary monetary policy to one of restrictive policy will have an adverse effect on economic growth in the future and may even lead to a crisis. This is because the cost of refinancing for companies and households that previously had access to easy financing will remain relatively high. Furthermore, the accumulation of public debt in developed economies, coupled with the prevalence of high budget deficits in core European countries such as Italy and France, represents a significant challenge.

Intensification of uncertainty

The greatest threat to the global economy, however, is the persistence of armed conflict and heightened geopolitical tensions in particularly vulnerable regions of the world, with a direct impact on Europe. In the Middle East and Ukraine, there is no indication that the underlying issues will be resolved in the near future, nor that the current level of conflict will subside. Conversely, these circumstances may precipitate further volatility in the energy markets or potentially instigate a broader destabilisation of regions, thereby triggering turbulence in the international capital markets, which have exhibited a bullish trend for an extended period. While the external environment of the economy currently exhibits relative stability, with improving trends, particularly in Europe, the risks to the medium-term outlook are growing rather than diminishing.

Positive performance of the Greek economy

Consequently, the Greek economy has exhibited relatively elevated growth rates in recent months, reaching levels previously unanticipated and ranking among the highest in the European Union. The prolonged resilience of consumption is a key factor in this, amid a significant reduction in uncertainty, as evidenced by the differential cost of financing and other relevant indicators. The contribution of resources from the Recovery Facility is significant, although this is now shifting more towards next year. The recovery of the European economy is having a positive impact on ours, supporting the relatively improved estimates for this year and next. Despite a slight slowdown this year, tourism is making a positive contribution, while the generally positive trend in product exports continues. Inflation is gradually easing, although it is concerning that it remains at levels higher than in many European economies.

Nevertheless, the prevailing positive economic trends in Greece should not obscure the considerable obstacles that remain. On the one hand, the Greek economy is currently operating from a low base following the severe crisis, with a considerable discrepancy between it and the majority of European economies. This is evident not only in terms of income levels but also in the investment of capital and the availability of labour. On the other hand, despite notable advancements in several key areas, the productivity gap with other European economies remains considerable.

To narrow this gap, a sustained investment strategy and continued enhancements to the institutional framework of the economy are essential.

These shortcomings are primarily manifested in two domains of concern, despite the economy's overall favourable performance. Firstly, with regard to investment, despite the increase that has been recorded, there is a shortfall, particularly in fixed investment, from the levels that are required in order to support strong growth rates in the medium term. The trajectory of investment over the forthcoming year, which will predominantly reflect the influence of the recovery fund, will be a pivotal determinant of economic performance. Secondly, the considerable current account deficit, which persists despite the decline in energy market prices, represents a matter of concern. Despite the relatively favourable export performance, import growth has been consistently higher, resulting in a persistent imbalance. The low level of savings signifies the other side of the same coin.

Challenges for the Greek economy in the medium term: investment dynamics, external balance and fiscal balance

It is evident that broader economic trends exert an influence on the fiscal balance. The fiscal situation is, on the whole, one of growth and expansion, with an increase in government revenue contributing to this positive trend. This is due, on the one hand, to the gradual implementation and diffusion of electronic payment instruments, which are gradually reducing the share of the informal economy in relation to the formal economy. Conversely, inflation has resulted in higher revenues from indirect taxes and correspondingly from direct taxes, due to the absence of an adjustment of the progressive tax scale. Given that inflation is expected to fall further in the coming year and European rules henceforth impose tight constraints, it is important to assess how appropriate adjustments can support the growth prospects of the economy, in particular those that reduce the burden on wage labour and gradually reduce the public sector's participation in the economy.

It is of the utmost importance for the Greek economy to experience robust growth in the present period. However, it is even more pressing that the current window of opportunity be utilized to establish the foundations for a systematic and sustained growth trajectory in the future. The continuous enhancement of the business environment, the substantial advancement of the education system at all levels, and the attraction of investments incorporating cutting-edge technologies are the essential elements of a growth path that will continue to propel our economy towards convergence with European averages in the coming years.

In considering the broader context of our economy, it is useful to identify some key trends, particularly in the areas of consumption, investment and trade.

The resilience demonstrated by consumption is the primary factor that has prevented major developed economies from entering a recessionary period. This resilience has complemented the public support measures that have been implemented in response to the sharp rise in central interest rates. These measures appear to have succeeded in guiding the economies of Europe and North America, as well as those that are interdependent with them, towards a "soft landing" without any significant turbulence. The robust performance of consumption, in spite of elevated inflation and mounting uncertainty, has been noteworthy. Of equal significance, however, is the question of whether the robust consumption trajectory can be maintained.

Consumption resilience has been an international trend that is declining

One of the primary factors contributing to the sustained consumption levels observed among households over recent years is the accumulation of savings and the postponement of consumption during the pandemic, which resulted from the restrictions imposed at the time. This gave rise to an increased demand for a multitude of consumer goods and services in the subsequent period. Concurrently, in markets such as food, travel and tourism, entertainment and culture, households in many countries have recently experienced significant turbulence and constraints, leading them to prefer consumption over deferral and saving. However, the savings of many households have been gradually depleted, a trend that is particularly evident in the US, with Europe following a similar trajectory. Consequently, given the elevated prices of goods and services, the weakening of savings and the higher costs of money, a relatively weaker trend in consumption can be anticipated in the coming period.

With respect to investment, it can be observed that the comparatively low anticipated growth rates of various economies, coupled with elevated borrowing and capital costs in comparison to those of the past, are acting as a significant impediment to economic expansion. In light of the prevailing geopolitical tensions, it is reasonable to anticipate a deceleration in investment across numerous sectors of the global economy, with a subsequent restoration of growth only following a period of adjustment. The principal investment support programmes initiated by the European Union and the United States over the past two years, entailing revisions to their lending rules, have been specifically designed to address this challenge.

Pressure for investment, emphasis on cutting-edge

This is the general context of the Draghi report, which emphasises the necessity of investing in cutting-edge sectors in order to enhance overall productivity and competitiveness within the European Union. It is anticipated that private investment in the forthcoming period will be concentrated in sectors exhibiting superior performance, including pioneering technologies in energy, biotechnology and healthcare, as well as artificial intelligence and data. It is anticipated that successful investments in these areas will result in exponentially higher returns. Conversely, in other aspects of production, low innovation and limited profitability will not create sufficient incentives for new investment. Should this trend persist, it is likely that there will be an even greater concentration of profitability and investment interest in a smaller area of global production in the future.

The recent economic and geopolitical turbulence could have a markedly adverse effect on global trade, potentially reversing the aspects of globalisation that have evolved over the past 25 years. Technological developments, rising energy costs and hence transport costs, the gradual cooling of US-China relations, protectionist tendencies overall or in specific industrial sectors, and policy choices that in principle remove major economies from the global canvas, such as Brexit, could collectively result in a notable decline in trade. However, the data indicate that this has not occurred thus far. Indeed, trade flows have continued to expand. This evidence demonstrates the extent to which economies are closely and potentially irrevocably linked in the global context. Conversely, if political or economic factors trigger an initial crisis, the close interconnection of economies can have a strong multiplier effect.

International trade has increased the degree of economic interdependence

The current trends in consumption, production and global trade are creating new economic realities. In order to achieve systematic and robust growth, it is crucial for the Greek economy to understand these trends and to adapt accordingly. One potential strategy for achieving this is to specialise in high-value and innovative production, which would make the economy less vulnerable to subsequent international turbulence.

1 BRIEF OVERVIEW

International environment: steady economic growth as inflation declines

The global economy continued to expand in the second quarter of 2024, at a steady but low pace. There was considerable heterogeneity across geographic regions, largely as a consequence of relatively high inflation and increasing sources of uncertainty. The annual growth rate of OECD economies remained unchanged at 1.7% in the second quarter of 2024, compared to the previous quarter and slightly lower than in the corresponding quarter of 2023 (1.8%). The latest OECD forecasts (September 2024) indicate that the global economy is set to expand at a faster pace in 2024 than previously projected (3.2% from 3.1%) and maintain this rate in 2025.

The downward movement in inflation continues, but the rate remains higher than desirable. Despite this, the deceleration is significant. Additionally, core inflation persists in many economies. As inflation remains above target levels, central banks in most major economies are gradually reducing their key interest rates while maintaining a cautious monetary stance. For instance, in August, inflation across the 38 OECD countries reached 4.7%, while core inflation (excluding energy and food) stood at 5.2%. Concurrently, energy prices declined by 0.1%, while food prices rose by 3.7% during the same period.

Given that inflation rates are currently above target and that economic activity is showing a mild recovery, markets are anticipating a gradual decline in interest rates over the next twelve months, provided that price pressures continue to ease. Despite solid GDP growth, increasing geopolitical instability and uncertainty present risks to global economic activity. Further analysis is provided in Section 2.1A.

European economy: low growth rates, mild acceleration in 2024 and 2025

In the second quarter of 2024, the annual rate of change in real GDP in the EU-27 and the euro area accelerated to 0.8% and 0.6% respectively, up from 0.5% and 0.4% in the previous quarter. In annualised terms, seven of the 27 EU member states, including Germany, continue to record negative annual GDP growth rates. Economic sentiment in Europe strengthened in the third quarter of 2024 compared to the previous quarter.

Eurozone inflation fell in the second quarter of the year to 2.2%, down from 2.5% in the previous quarter and up from 1.7% in September. In response to this, the ECB cut key interest rates by 25 basis points for the third consecutive month in October. Markets are anticipating a gradual decline in key rates over the next twelve months, with rates remaining above those seen in early 2022.

The latest forecasts from the European Commission (May 2024) and the ECB (September 2024) indicate that the annual rate of change in real GDP for 2024 is expected to be 1.0% and 0.8% in the EU-27 and the euro area, respectively. In 2025, the forecast is for a rate of 1.6% and 1.3% in the two regions. Regarding inflation, the estimate is that it will hover around 2.7% and 2.5% this year in the EU-27 and the euro area, before falling to 2.2% in 2025.

The ongoing conflicts in Ukraine and the Middle East, potential disruptions in energy supply, high budget deficits in core euro area countries and rising public debt present risks to the recovery of the European economy and the smooth disinflationary process. The timely implementation of the Member States' Growth and Resilience Plans presents an opportunity. It is crucial to accelerate the deepening of the euro area institutions and implement reforms that will increase productivity and potential growth rates of the European economy. Further details on trends in the European economy can be found in section 2.1B.

Growth in Greece accelerated in the second quarter, mainly due to an increase in inventories

The annual economic growth rate increased to 2.3% in the second quarter of 2024, up from 2.1% in the previous quarter. The seasonally adjusted quarter-on-quarter rate of change in GDP was +1.1%, up from +0.7% in the previous quarter. The acceleration was mainly driven by an increase in total investment, which rose by 29.7% year-on-year (from 22.3% in the previous quarter), largely due to an increase in inventories. Fixed capital investment also rose by 3.9% (from 2.9%). Private consumption continued its upward trajectory, with a year-on-year growth rate of +2.0%, down from +2.2% in the previous quarter. Conversely, public consumption declined by -3.6%, leading to a +0.9% increase in total consumption.

The change in total exports, which increased by 2.1% (from -3.7% a quarter earlier), had a positive impact on the domestic growth rate. Exports of goods increased by 2% (year-on-year vs. -8.6% in the previous quarter), while exports of services strengthened by 2.8% (year-on-year), marginally higher than in the previous quarter (+2.4%).

The substantial increase in imports, up by 9.6% year-on-year compared to 3.1% in the previous quarter, had a significant negative impact on domestic growth. The rise was driven by a pick-up in the annual growth rate of both goods (+10.5%) and services (+6.9%). Consequently, the external deficit in national accounts terms widened by approximately €1.6 billion, reaching 6.8% of GDP, an increase of 0.8 p.p. compared to the previous quarter.

The second quarter of 2024 saw further positive developments, with a higher domestic growth rate in line with, or even exceeding, that of the wider euro area (see Annex). In addition, there was a notable rise in the economy's openness. The first quarter saw a rise in the inflation rate, which exceeded the euro area average. A comprehensive overview of macroeconomic trends during the second quarter of 2024 can be found in Section 3.1A. The Special Box at the end of this section provides insights into regional competitiveness in Greece, along with its correlation with employment in science and technology sectors.

The outlook for manufacturing and construction in mid-2024 is positive, while the tourism sector is facing challenges and retail trade is experiencing a continued downturn

Industrial production showed a marked improvement in the first eight months of 2024, with a 6.7% increase compared to 1.0% in the same period of 2023. The construction sector continued to register a positive, albeit more modest, upward movement in the first half of 2024, with an 8.1% increase compared to 17.1% in the same period in 2023. The momentum in new permits remained strong. There was an increase in turnover in most service sectors in the first half of 2024, albeit at a slower pace. In the tourism sector, both accommodation turnover and total tourism revenue (balance of payments) indicators are showing signs of mid-year fatigue following a particularly positive first quarter. Meanwhile, the retail trade sector experienced a 1.0% decline in volume during the first seven months of this year, compared to a more modest 0.6% contraction a year earlier. However, expectations for the retail trade sector in the third quarter of 2024 have rebounded. A summary of the short-term trends in key sectors of the Greek economy can be found in section 3.2.

Break in the positive trend of the external deficit

The value of exports of goods in national accounts declined by 1.8% in nominal terms during the first seven months of 2024. When petroleum products are excluded, the decline is in the order of 3.0%. On the import side, an increase was recorded in the same period in current prices, at an annual rate of 2.5%. This resulted in a 10.0% increase in the trade deficit, reaching €19.4 billion over the seven-month period. However, there was a positive development in mid-2024, with the degree of openness (total trade flows to GDP) for the Greek economy increasing.

The current account deficit widened to €8.6 billion in the first seven months of 2024, compared to €7.3 billion in the same period last year, according to the balance of payments. The deficit worsened in the goods and primary income accounts, while there was a slight improvement in the services account and a larger improvement in the secondary income account, which also records inflows from the Recovery Facility. It is worth noting that there was a slight annual decline in tourism receipts in mid-2024, marking the first such decline since the pandemic era. Additionally, the deficit in the goods account, excluding fuel and ships, stood at €4.8 billion in the first seven months of 2024, down from €2.7 billion in the same period of 2023. Further detailed developments in the external balance can be found in section 3.3.

Fall to single-digit unemployment rate in the second quarter

The unemployment rate fell from 11.2% in the second quarter of 2023 to 9.8% in the same quarter of 2024. The reduction in the unemployment rate was driven by a decline in the number of unemployed individuals (-65.7k) and an accompanying rise in the number of employed persons (+91.3k). Additionally, the hire-leave balance in the private sector improved in the second quarter, with an increase of 94.3k, outperforming the positive balance recorded in the same period in 2023 (+82.5k).

The sectors with the most significant annual growth in employment were Professional, Scientific and Technical Activities (+27.7k), Accommodation and Food Services (+25.7k) and Construction (+18.6k). The greatest declines in employment were observed in Other Services (-9.2k) and Manufacturing (-8.0k). On a positive note, the labour market participation rate (for those aged 15 and over) saw a further increase in Q2 2024, rising by 0.4 percentage points year-on-year to 53.2%. Concurrently, the seasonally adjusted wage cost index rose by 8.0% in the second quarter compared to the same period last year.

As the country has returned to a single-digit unemployment rate, further declines in the coming quarters will inevitably be slower. In addition to the reduction in cyclical unemployment, efforts are being made to address the remaining structural unemployment. Employment is forecast to grow at a more modest pace in 2025, driven by an upturn in consumption, investment, exports and individual sectors of industry and services. These factors are expected to offset the uncertainty in the external environment affecting business demand for labour. IOBE estimates that the unemployment rate for 2024 and 2025 will be around 10.1% and 9.3% respectively. Further details on labour market trends can be found in section 3.4.

The Special Box at the end of the section provides an analysis of the evolution over time of the share of employment in knowledge-intensive and high-tech sectors, as well as a comparison with the European average.

Gradual decline in inflation, to a higher rate than in the euro area

The rate of inflation was recorded at 2.8% (CPI) and 3.0% (HICP) for the first nine months of 2024, compared to 3.6% (CPI) and 4.4% (HICP) for the same period in 2023. Since late 2023, the domestic inflation rate has exceeded the EA's average inflation rate, a trend that has continued since then (see Appendix, Figure 4). A notable factor contributing to price pressure in 2024 is the cost of non-energy goods. For instance, the rate of change in the HICP with fixed taxes and excluding energy was 3.2% in the first eight months of 2024, a decline from 7.6% a year earlier. However, this figure still exceeded the 2.7% growth rate observed in the euro area over the same period.

The key assumptions underlying the inflation forecast are as follows: (a) the evolution of the Brent oil price in euro terms, which is expected to show a slight annual average decline in 2025, with developments in the Middle East putting further pressure on the energy market; and (b) the evolution of consumer demand, which is expected to show a more moderate increase in 2025, by about 1.7%, from an estimated 2.2% in 2024. In light of these assumptions, we project inflation to be around 3.0% in 2024 and 2.4% in 2025. Section 3.5 provides a detailed overview of recent trends in consumer and producer prices, as well as expectations for their evolution in 2024 and 2025.

Slight decline in domestic economic sentiment in the third quarter of 2024

The Economic Sentiment Indicator in Greece saw a slight decline in the third quarter of 2024 compared to the immediately preceding quarter, with a reading of 107.7 points compared to 110.4 points. The decline was relatively modest in comparison to the corresponding quarter of the previous year (109.5 points). In the third quarter, business expectations showed a slight decline compared to the immediately preceding quarter, particularly in manufacturing, while remaining unchanged in construction and showing a notable increase in retail trade. The Consumer Confidence Index declined significantly in the July-September period compared to the previous quarter, reaching -47.8 points (from -42.7). Compared to the same period last year, it is also considerably lower (-36.3 points). Further details on the trends in the economic sentiment components can be found in section 2.2A.

Public finances: year-on-year improvement, exceeding the cash targets in the first eight months

In the period January to August 2024, the execution of the state budget was more favourable than anticipated, with a surplus of €1,044 million (0.4% of GDP), compared to a target deficit of €2,774 million in the 2024 Budget Report and a deficit of €92 million (0.0% of GDP) in the corresponding period of 2023. Concurrently, a cash primary surplus of €7,567 million (3.2% of GDP) was achieved, exceeding the target for a primary surplus of €3,316 million and matching the primary surplus of €5,596 million (2.5% of GDP) for the same period in 2023. The year-on-year improvement in the cash balance is due to a larger increase in net revenue (+4.7% or +€2.02 billion) compared to expenditure (+2.0% or +€879 million). This outperformance has resulted in the submission of a supplementary budget increasing the 2024 PIP by €900 million.

In relation to the new medium-term fiscal targets, derived from the draft State Budget 2025 and the Medium-Term Fiscal-Structural Plan 2025-2028, the following points are of particular note: (a) a target for a general government primary surplus of 2.5% of GDP in 2025 and 2.4% of GDP in 2026-2028; and (b) a target for general government debt of 153.7% of GDP in 2024, falling to 149.1% in 2025 and then gradually declining to 133.4% of GDP in 2028. Details of public finance developments are set out in Section 2.2B.

Banks with improved fundamentals and credit ratings, but also facing challenges

The mid-2024 outlook for banks is positive, with improved organic profitability and liquidity ratios, an upgraded credit rating, a recovery in credit expansion to businesses, and strengthening private deposits. The timely implementation of the extended loan component of the National Recovery and Resilience Plan presents both an opportunity and a challenge for funding productive investment on favourable terms.

The financial system is facing a number of challenges, including increased exposure of banks to government bonds, high interest rate spreads, diverging private funding costs from other EU countries, a high share of deferred taxes in equity and a significant stock of "bad" loans on and off bank balance sheets. Despite the progress made in reducing this stock of bad loans on bank balance sheets, it remains a concern. Section 2.2C provides a detailed overview of the recent trends and challenges faced by the domestic financial system.

The Special Box at the end of the section provides an overview of the recent development of "zombie" companies and "bad" business loans, outlining how their faster reduction can "free up" necessary financial resources and investment flows in the Greek economy.

Macroeconomic forecasts for 2024 and 2025

The low growth rate of the euro area economy in 2024, combined with a mild acceleration in 2025, the further deceleration of inflation and interest rates, geopolitical instability, fiscal performance and the implementation of the Recovery and Resilience Plan are the most significant factors influencing GDP growth in 2024 and 2025.

The assumptions of the baseline scenario are presented in detail in section 3.1B. They include: (a) growth in the Eurozone of 0.8% in 2024 and 1.3% in 2025, with inflation at 2.5% in 2024 and 2.2% in 2025, in line with the ECB's baseline scenario (September 2024); (b) continued geopolitical instability with international energy commodity prices steadying in late 2024 and 2025, at a level below that of the previous 12 months; (c) interest rates following the trend of current forward rates, i.e. Euribor gradually declining to the range of 2.7% at end-2024 and 1.8% at end-2025; (d) timely implementation of the revised "Greece 2.0" plan in 2025; (e) tourism revenue performance in 2024 and 2025 similar to 2023 in real terms.

The detailed projections by GDP component are set out in section 3.1B. IOBE anticipates a 2.3% growth rate for 2024 at constant prices. In terms of growth components in 2024, we anticipate a notable strengthening of fixed investment (+8.8%) and a widening of private consumption (+2.2%). In the external sector, we anticipate a notable deterioration in the external balance, with exports growing by 1.8% annually and imports increasing by 5.8% annually. We project that average inflation for 2024 will be marginally higher than the euro area average, at around 3.0%. Additionally, we expect unemployment to decelerate to approximately 10.1%.

For 2025, IOBE anticipates a similar growth rate of 2.4% in constant prices, although the potential impact of risks from the international environment remains uncertain. In terms of the components of growth in 2025, we anticipate a notable strengthening of fixed investment (+11.0%) and a deceleration in private consumption (+1.7%). In the external sector, we anticipate a slight improvement in the external balance, with exports growing by 4.0% per annum and imports increasing by +2.9% per annum. Average inflation for 2025 is expected to be marginally higher than the euro area average, at around 2.4%, while unemployment is estimated to fall further, to around 9.3%.

Table 1.1

IOBE macroeconomic forecasts (October 2024)

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

	2023 (actual)	2024 (forecast)	2025 (forecast)
GDP	2.0%	2.3%	2.4%
Consumption	1.5%	1.3%	1.2%
Private consumption	1.6%	2.2%	1.7%
Public consumption	1.5%	-2.7%	-0.4%
Gross capital formation	-1.2%	19.2%	6.0%
Gross fixed capital formation	3.9%	8.8%	11.0%
Exports	2.8%	1.8%	4.0%
Imports	1.4%	5.8%	2.9%
Inflation rate	4.2%	3.0%	2.4%
Unemployment (% labour force)	11.2%	10.1%	9.3%

The forecast in IOBE's baseline macroeconomic projections scenario (Table 1.1) presents positive prospects for 2024 and 2025, although it also identifies a number of risks. These are discussed in detail in section 3.1B. In summary, the previous estimate for a recovery of the domestic economy has been marginally revised upwards to +2.3% in 2024, while a similar growth rate is estimated for 2025. However, this outlook is slightly negative due to the aforementioned risks. The main risks are the unstable external environment, the deterioration of the external balance and the persistence of inflation above the euro area average.

Special study: Trends, challenges and prospects of Construction in Greece

A study conducted by IOBE with the support of TMEDE analyses the latest data and developments in the construction sector in Greece. In addition, the study evaluates the prospects of the sector in the coming years, taking into account the challenges it faces. The study examines the potential financing requirements for the construction sector in the coming years, given the likelihood of a significant increase in investment in infrastructure and other construction projects in Greece. The study also identifies key challenges for the sector, including labour shortages, weaknesses in the public works production system, national strategic infrastructure planning, and the need for financing and rapid adaptation to the new digital environment and sustainable business development through the integration of ESG principles. A summary of the study is presented in Chapter 4 of this report.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- According to the OECD's September report, the global economy is projected to grow by 3.2% in 2024, slightly higher than previous forecasts, and to maintain the same pace in 2025.
- Inflation continues its downward trend, however, still remaining higher than the desired level.
- Central banks in most major economies are making modest cuts in their key interest rates, while maintaining a restrictive monetary stance to deal with persistent inflation.

The global economy maintained its expansion in the second quarter of 2024, albeit at a gradual and modest rate, due to the prevailing high inflationary pressures and the tightening of monetary policy. OECD economies grew at an annual rate of 1.7% in the second quarter of 2024, representing no change from the previous quarter and a slight decline from the corresponding quarter of 2023 (1.8%). The annual rate of change in GDP in the major developed economies (G7) saw a slight improvement, reaching 1.6% from 1.5% in the previous quarter and 1.9% in the corresponding quarter of 2023. The 20 largest OECD economies grew by 3.1% in the second quarter, down from 3.2% in the previous quarter. This follows growth of 3.8% in the corresponding quarter of 2023.

Despite a notable deceleration, inflation remains above the desired level, while sustained core inflation is a persistent challenge in many economies. In August of last year, inflation fell in the 38 OECD countries to 4.74%, while core inflation (i.e. excluding energy and food) fell to 5.18%. During the same period, energy prices fell by 0.13% and food prices strengthened by 3.68%.

Central banks in many major economies are only gradually reducing interest rates as they continue to maintain a restrictive monetary stance to deal with persistent inflation. Despite the easing of inflation rates, they remain higher than desired, with the impact of tighter financial conditions evident in both inflation and economic activity. As inflation continues to exceed targets, central banks are maintaining high interest rates, gradually reducing them as price pressures ease. The challenge for monetary policymakers is to successfully manage the convergence of inflation towards targets by shaping monetary policy in line with underlying inflation dynamics and the evolution of economic activity.

Table 2.1

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

Economy	2023	2024		2025	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.1	3.2	0.1	3.2	0.0
USA	2.5	2.6	0.0	1.6	-0.2
Japan	1.9	-0.1	-0.6	1.4	0.3
Canada	1.1	1.1	0.1	1.8	0.0
United Kingdom	0.1	1.1	0.7	1.2	0.2
Eurozone	0.5	0.7	0.0	1.3	-0.2
Germany	-0.1	0.1	-0.1	1.0	-0.1
France	0.9	1.1	0.4	1.2	-0.1
Italy	1.0	0.8	0.1	1.1	-0.1
Turkey	4.5	3.2	-0.2	3.1	-0.1
China	5.2	4.9	0.0	4.5	0.0
India	7.8	6.7	0.1	6.8	0.2
Brazil	2.9	2.9	1.0	2.6	0.5
World trade	1.0	2.3	-	3.3	-

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

The latest OECD report indicates that growth is forecast to reach 3.2% in 2024, up from 3.1% as previously estimated in the May report. Global trade volume growth is forecast at 2.3% for this year, with an acceleration to 3.3% in 2025. Table 2.1 presents the annual changes in GDP for 2023 and the most recent OECD projections (September 2024) for annual changes in 2024 and 2025 in the world economy and in selected developed and developing countries.

The paragraphs that follow analyse recent and expected trends in the economies of major countries and associations of countries for this and next year.

In the second quarter of 2024, the US economy demonstrated robust growth, with the gross domestic product (GDP) expanding by 3.0% year-on-year. This represents an acceleration from the 1.6% growth rate observed in the first quarter of the year. This growth is attributable to increases in consumer spending, inventory investment and non-residential fixed investment. The rate of inflation eased for the sixth consecutive month in September, reaching 2.4%. This development provides the central bank with greater flexibility to reduce its key interest rate. Specifically, at the September meeting, the FED cut its benchmark rate by 50 basis points to the 4.75-5.00% range, marking the first such reduction since March 2020. Furthermore, the majority of FED members expressed confidence that inflation is moving steadily towards the 2% target. Two additional 25 basis point cuts are now projected to be made by the end of the year. For the full year, the US economy is projected to grow at a rate of 2.6% this year, with a slowdown to 1.6% projected for 2025.

The euro area economy expanded at an annual rate of 0.6% in the second quarter of 2024, representing a slight acceleration from the previous quarter (0.5%) and a notable improvement over the same period in 2023 (0.5%). In comparison to the previous quarter, economic activity increased by 0.3% on a seasonally adjusted basis, representing a recovery from a contraction of 0.1% in each of the previous two quarters. On the expenditure side, exports, government expenditure and imports all strengthened, while consumer spending and fixed investment slowed. Exports grew by 1.7% compared to -0.8% in the previous quarter, government expenditure increased by 2.1% from +1.7% and imports fell by -1.1% from -1.9%. The largest economies in the bloc showed year-on-year GDP growth in the second quarter of 2024, with Spain (+3.1%), France (+1.0%), the Netherlands (+0.8%), and Italy (+0.6%) posting positive figures. Germany, however, saw no change in its GDP. The rate of inflation in the euro area fell to 1.8% in September, down from 2.2% the previous month. Core inflation also decreased, reaching 2.7% from 2.8%. In October, the ECB reduced its key interest rate by 0.25% for the third time, bringing it down to 3.25%. This followed a decline in inflation to levels close to its 2% target. The policymakers reiterated their commitment to a data-driven, meeting-by-meeting approach and emphasised that they would not commit to a specific path for interest rates in advance. The latest forecasts from the Eurosystem show no change for 2024 and 2025 for both headline and core inflation. Staff projections indicate that headline inflation will average 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. The projected average for core inflation is 2.8% in 2024, 2.3% in 2025 and 2.0% in 2026. The OECD forecasts that the Eurozone economy will grow by 0.7% in 2024 and by 1.3% in 2025. Further details on the outlook and challenges facing the European economy can be found in section 2.1B.

In the UK, the annual growth rate of GDP was 0.7% in the second quarter of 2024, up from 0.3% in the previous quarter and 0.5% a year ago. This represents the highest growth rate since the third quarter of 2022. The rate of inflation remained unchanged from the previous month at 2.2% in August. In August, the country's central bank reduced its key interest rate by twenty-five basis points for the first time, to 5.00%, and maintained it at this level in September. This was in line with expectations of a slight rise in inflation, which is forecast to reach 2.5% by the end of the year. Overall, growth of 1.1% is projected for 2024, while growth of 1.2% is projected for the following year.

In Japan, GDP declined by an annualised rate of 1.0% in the second quarter of 2024, compared to a contraction of 0.9% in the previous quarter and a 2.0% expansion a year earlier. This represents the steepest decline since the third quarter of 2020. On a seasonally adjusted annualised basis, Japan's economy expanded by 2.9% from the previous quarter, marking a strong recovery from the 2.3% contraction in the first quarter. This growth was driven by a rebound in private consumption following wage increases averaging 5.17%, the highest in 30 years, and increased business spending, particularly in the automotive sector. Government spending also contributed to the expansion. Overall, the Japanese economy is forecast to contract at a rate of -0.1% in 2024, with a recovery to 1.4% projected for 2025.

Next, the present section outlines the latest trends and economic policy challenges in four developing countries, which collectively account for almost one-third of global GDP.

China's economy saw a deceleration in its annual growth rate in the second quarter of 2024, with the figure dropping from 5.3% in the previous quarter to 4.7%. This represents the weakest annual performance since the first quarter of 2023, with persistent challenges in the housing market, weak domestic demand, a declining yuan and ongoing trade tensions with the West. Overall, the economy grew by 5.0% in the first half of the year, in line with the government's full-year target. The majority of economic indicators for June indicated a deceleration, with retail sales growth reaching its lowest point in approximately 18 months and industrial production expansion reaching a three-month low. Meanwhile, the urban unemployment rate remained at 5.0% for a third consecutive month. In terms of trade, exports increased by a greater amount than anticipated last month, while imports declined unexpectedly. In late September and early October 2024, China implemented a series of economic stimulus measures to bolster its sluggish economy. These included monetary policies such as cutting interest rates, increasing liquidity for banks and providing additional support for the real estate sector, which has been experiencing difficulties. The government has also announced plans to accelerate public spending through the issuance of special bonds. These measures are designed to revive consumer spending and stabilise key industries. However, concerns remain about their long-term impact, given challenges such as weak consumer demand and high debt levels. The OECD forecasts a slight slowdown in growth to 4.9% for 2024, with a further slowdown in 2025 to 4.5%.

India's economy continued to expand at a robust pace in the second quarter of 2024, with a growth rate of 6.7%. This represents a deceleration from the previous quarter's rate of 7.8% and the year-ago period's rate of 8.2%. This marks the slowest expansion in five quarters, attributed to a notable decline in government spending as the parliamentary elections resulted in the suspension of numerous routine government activities. Additionally, the slowdown in consumer spending underscores the Indian economy's reduced resilience to elevated central bank interest rates. The annual growth rate is projected to reach 6.7% in 2024, with a slight increase to 6.8% anticipated in 2025.

Turkey's economy expanded by an annualised 2.5% in the second quarter of 2024, a deceleration from the 5.3% growth rate observed in the previous quarter and below the 4.6% growth achieved a year ago. This represents the slowest growth rate seen in the last four years. Household spending declined significantly as a result of a considerable increase in borrowing costs, which negatively impacted consumer purchasing power. Furthermore, government expenditure increased only slightly in line with efforts to reduce public spending and maintain control of public finances. Furthermore, gross capital formation grew at a much slower pace, while exports remained static and imports fell by 5.7%. The annual inflation rate fell for the fourth consecutive month in September, reaching 49.4% from a high of 75.5% in May. This decline coincided with a continued decline in the Turkish lira exchange rate. Despite the shift in monetary policy to a more rational approach, the annual rise in the dollar and euro against the Turkish lira reached 24.8% and 31.4%, respectively, in September. This has led to a rapid increase in the key interest rate to 50%. The Turkish economy is forecast to grow by 3.2% in 2024 and by 3.1% in 2025.

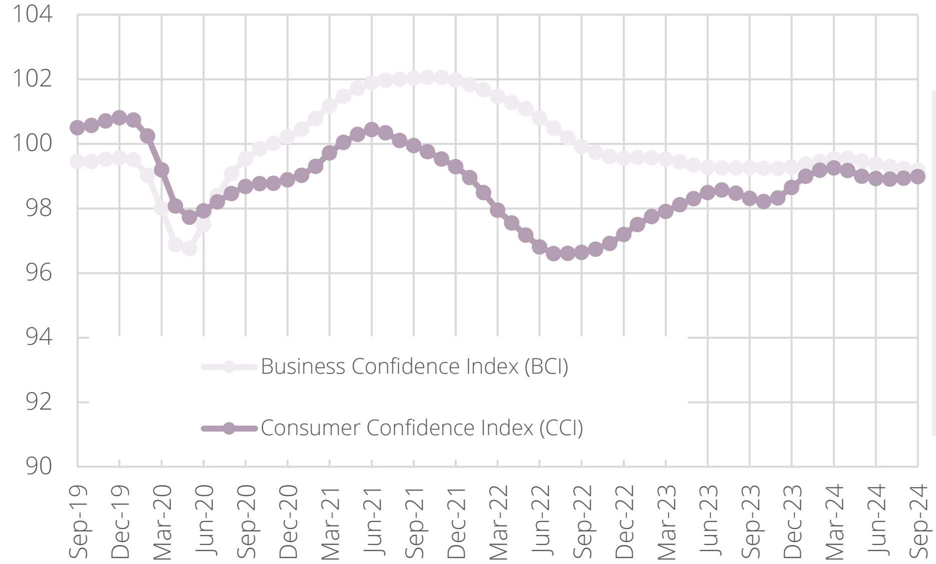
In Latin America, the Brazilian economy expanded by 3.3% in the second quarter of 2024, up from 2.5% in the previous quarter and 3.5% in the corresponding quarter of 2023. The outlook for 2024 is for growth of 2.9%, with 2.6% forecast for 2025.

The OECD business confidence index shows a slight downward trend, while consumer confidence shows a slight upturn in the third quarter. Both indicators remain close to, but below, their long-term average (Figure 2.1).

Figure 2.1

Economic sentiment indicators for the OECD countries

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



Global consumer and business confidence indicators have stabilised, remaining below their long-term average.

Source: OECD

B. EU and Euro area economies

- Positive annual real GDP growth in the EU and the euro area in the second quarter of 2024, at 0.8% and 0.6% respectively.
- Positive growth rates and lower inflation in 2024 and 2025 in the euro area according to the European Central Bank's economic forecast report.
  - Euro area: 0.8% and 1.3% growth, 2.5% and 2.2% inflation for 2024 and 2025
  - EU27: 1.0% and 1.6% growth, 2.7% and 2.2% inflation for 2024 and 2025
- Third consecutive 25 basis point cut in ECB key rates. They will remain relatively high until inflation returns to the medium-term target of 2%.
- Rising geopolitical tensions in the Middle East raise concerns. Disruptions in energy supply (especially oil) could have a significant impact on the EU's growth prospects and on inflation.

Despite the ongoing conflicts in Ukraine and the Middle East, as well as the mounting geopolitical tensions in Europe's broader region, the EU economy demonstrated resilience in the first quarter of 2024, with further growth in the second quarter. The recovery has been gradual. Growth was driven primarily by net exports and government spending, while domestic demand weakened due to a decline in consumption. Investment also declined. The labour market remains resilient, while inflation is projected to rise somewhat in the last quarter of this year before easing further towards the medium-term target of 2% by the end of 2025.

In light of a less optimistic global economic growth forecast and a decline in inflationary pressure, the European Central Bank (ECB) has progressively adopted a more accommodative stance in its monetary policy. However, the cost of financing remains high as the effects of previous interest rate hikes continue to be felt throughout the economy via the transmission chain. The government deficit remains high, but it is expected to decline following the removal of almost all energy support measures. Nonetheless, the ratio of government debt to GDP is projected to increase next year. The revised EU economic governance framework will facilitate the consolidation process under the revised fiscal rules, with a focus on enhancing the sustainability of Member States' debt, while promoting growth-enhancing reforms and investment. Fiscal and structural policies should aim to make the economy more productive and competitive, which will help to increase potential growth and reduce price pressures in the medium term.

Economic activity in the second quarter of 2024

The second quarter of 2024 saw an uptick in economic activity across both the European Union (EU) and the euro area (EA). On a year-on-year basis, GDP growth in the EU was 0.8%, up from 0.7% in the previous quarter. In the euro area, GDP growth was 0.6%, up from 0.5%. In terms of seasonally adjusted quarterly change, GDP grew by 0.2% in both the EU and the EA.[1] In the second quarter of 2024, real GDP grew in Spain, France and Italy. In Germany, GDP fell by 0.4%, while Ireland saw a 6.6% decline. The Annex (Figure 1) illustrates the second quarter growth rate on an annual basis by EA country.

[1] Eurostat GDP release, 6 September 2024

Following a relatively slow recovery in 2023, private consumption is showing signs of an upward trend in 2024. In the second quarter, there was a 0.5% year-on-year growth in the EU and a 0.3% growth in the EA, following increases of 0.7% and 0.5% respectively in the previous quarter. Public consumption increased by 0.5% in both the EU and the euro area, against 0.4% in the previous quarter. Following a decline in the previous quarter, exports of goods and services in the EU (1.0%) and the euro area (0.9%) saw an increase in the second quarter of the year. This marks a recovery from the small increase seen in the second quarter of 2023 (0.4% and 0.1% respectively). Imports fell on a year-on-year basis, by 0.3% in the EU and 0.5% in the EA. The decline in the first quarter of 2024 was more pronounced, at -0.8% and -0.9% respectively. Projections indicate an increase of 1.3% and 0.9% respectively in 2024.

In September 2024, there was a further deceleration in inflation, with projections indicating a continued decline in the future. The latest figures show that in September 2024, the year-on-year inflation rate in the euro area was 1.7%, down from 2.2% in August. The EU figure was 2.1%, down from 2.4% in August. Energy prices had a negative impact on inflation, while non-energy industrial goods made a small positive contribution. There has been a reduction in the dispersion of inflation within the EU compared to the previous quarter (see Annex, Figure 4).

The EU and the euro area both saw employment growth of 0.8% year-on-year in the second quarter of 2024. In the first quarter of 2024, employment grew by 1.0% in the EA and 0.9% in the euro area. Malta, Ireland, Croatia and Ireland saw the highest employment gains. Only two EA Member States (Finland, Latvia) experienced a decrease in employment. The Annex (Figures 5 and 6) shows the employment rate and employment change by EA country.

The unemployment rate in the EA was 6.4% in August 2024, the same as in July, compared with 6.6% in August 2023. In the EU, the rate was 5.9%, down from 6.0% in July and August 2023. In the second quarter, the unemployment rate ranged from 2.8% in Malta to 10.9% in Spain. Among the large Member States, it was 3.3% in Germany, 2.9% in the Netherlands, 6.6% in France and 6.6% in Italy. The unemployment rate by EA country is shown in the Annex (Figure 7).

In the first quarter of 2024, the seasonally adjusted general government deficit-to-GDP ratio stood at 3.2% in the euro area and 3.0% in the EU, compared with 4.0% and 3.9% respectively in the fourth quarter of 2023. At the end of the first quarter of 2024, the general government gross debt-to-GDP ratio in the euro area was 88.7%, compared with 88.2% at the end of the fourth quarter of 2023. In the EU, the ratio increased from 81.5% to 82.0%. In the first quarter of 2023, the government debt to GDP ratio was higher in both the EA (90.1%) and the EU (83.0%). The Annex (Figures 2 and 3) shows the fiscal balance and the government debt to GDP ratio by EA country.

As announced on 17 October, the European Central Bank decided to lower its three key interest rates by 25 basis points. In view of the dynamics of underlying inflation, the outlook for future inflation developments and the strength of monetary policy transmission, it was deemed appropriate to ease monetary policy by the same margin after the reduction in June. The Governing Council is committed to ensuring that inflation returns to its medium-term objective of 2% in a timely manner. It will therefore keep interest rates at a sufficiently high level until this objective is achieved. As the Eurosystem no longer reinvests the principal payments from maturing securities, the ECB's exposure under the asset purchase programme (APP) portfolio is being reduced at a steady pace.

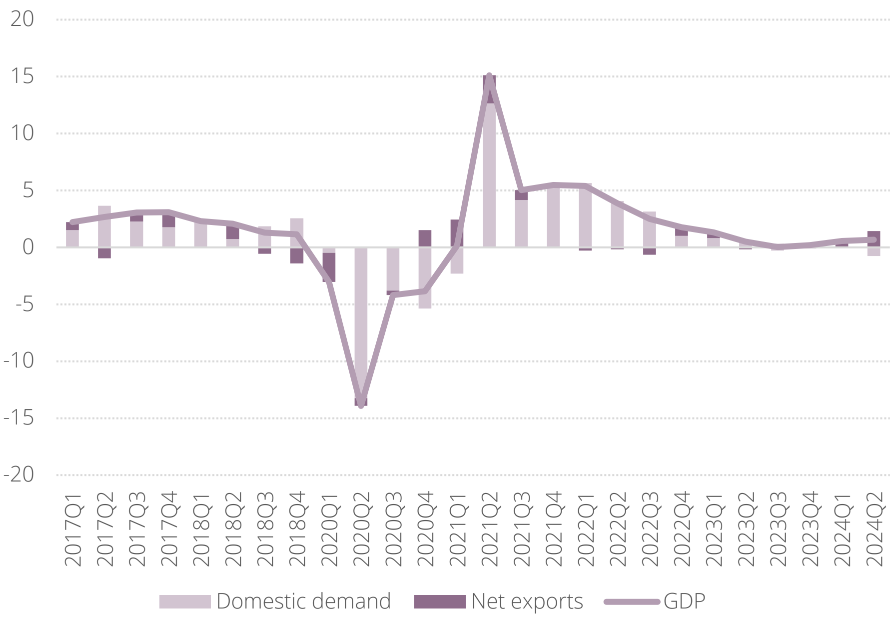
As regards the Pandemic Emergency Purchase Programme (PEPP), the Governing Council is reducing the holdings of Eurosystem securities under the PEPP by an average of €7.5 billion per month in the second half of the year. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024. Finally, the Transmission Protection Instrument (TPI) is available to hedge against undesirable, unpredictable market movements that may adversely affect the transmission of monetary policy in the euro area with a view to price stability.

Contribution of GDP components

Based on these developments in the components of euro area GDP (Figure 2.2), the contribution of net exports was positive (+1.4%), higher than in the previous quarter (0.5%). The positive contribution of net exports in the second quarter of this year was mainly due to an increase in the contribution of exports, but also to a decrease in the negative contribution of imports. The contribution of domestic demand was -0.8% of GDP, after a marginal impact of 0.1 percentage points in the previous quarter. The contribution of private consumption decreased from 0.5% in the first quarter to 0.3% in the second quarter, while the contribution of government consumption increased from 0.4% in the first quarter to 0.5%. The contribution of gross capital formation was more negative than in the previous quarter (-1.5% compared to -0.8%).

Figure 2.2

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



Positive contribution of net exports but negative contribution of domestic demand to Eurozone GDP change in Q2 2024.

Source: Eurostat

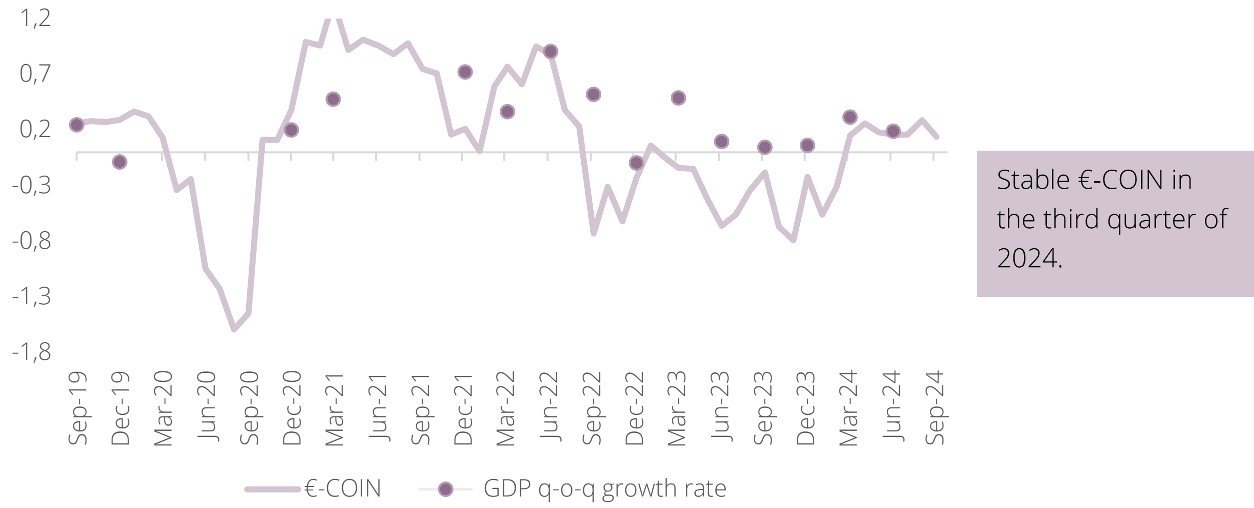
€-COIN index and the Economic Sentiment Indicator

The main leading indicator of economic activity in the euro area and the European Union remained stable in the third quarter of 2024. The €-COIN index reached its lowest level in recent years in November 2023, but the trend turned positive from then until March 2024 and has been stable since then. In September 2024, it reached 0.14 points, compared to 0.16 in July and 0.29 in August (Figure 2.3). The stability in the last quarter is indicative of the likely stability of GDP in the next quarter.

The European Commission's Economic Sentiment Indicator for the EU-27 and the euro area followed a slightly positive trend in the third quarter of 2024. From February 2023 to September 2023, the indicator trended downwards for both the EU and the euro area, but trended upwards from October 2023 to March 2024. The trend was slightly negative in the second quarter, but slightly positive in the third quarter. In September 2014, the ESI stood at 96.7 points in the EU-27 and 96.2 points in the euro area, similar to the level of the previous month but higher than a year ago, by 3.2 points in the EU and 2.3 points in the EA (Table 2.2).

Figure 2.3

Monthly €-COIN Index & Eurozone GDP*



*The Research Centre of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator is a forecast of quarterly GDP growth and is derived from the synthesis of a variety of different data, such as the evolution of industrial production, prices, labour market data, as well as financial data. Sources: CEPR, Bank of Italy, Eurostat.

Table 2.2

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

Month	Oct - 22	Nov - 22	Dec - 22	Jan - 23	Feb - 23	Mar - 23	Apr- 23	May - 23	June - 23	Jul-23	Aug- 23	Sep-23
EU-27 (2020)	93.2	94.4	95.7	97.8	97.9	97.4	97.7	95.8	94.7	94.5	93.9	93.5
Euro area	94.1	95.3	96.8	99.4	99.4	98.8	99.1	96.7	95.7	95	93.9	93.9

Month	Oct - 23	Nov - 23	Dec - 23	Jan - 24	Feb - 24	Mar - 24	Apr- 24	May - 24	June - 24	Jul-24	Aug- 24	Sep-24
EU-27 (2020)	94.	94.3	96.3	96.3	95.9	96.6	96.2	96.5	96.4	96.4	96.7	96.7
Euro area	93.8	94.2	96.4	96.1	95.5	96.3	95.6	96.2	96	96	96.5	96.2

Source: European Commission (DG ECFIN), October 2024

Challenges

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

- The wars in Ukraine and the Middle East and their economic consequences of high intensity and duration.
- New disruptions in the supply of energy (especially oil), which could have a significant impact on the EU's growth prospects and inflation.
- In the US, potential policy changes following the upcoming presidential elections or a slower-than-expected deflationary process could worsen global financial conditions and the demand for goods.
- High budget deficits in core euro area countries such as France and Italy
- The need to coordinate fiscal and monetary policies at the collective and national level in order to strike a balance between the objective of containing inflation expectations and avoiding an economic downturn.
- Increasing risks of natural disasters linked to climate change.

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

Table 2.3 shows the forecasts for the main economic indicators for the EU and the euro area on an annual basis. The European Commission forecasts are no longer updated in the summer months and are identical to the spring forecasts. This publication uses the European Central Bank's forecasts for the euro area.

Table 2.3

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

	EU			Eurozone*		
	2023	2024	2025	2023	2024	2025
GDP	0.4	1.0	1.6	0.5	0.8	1.3
Private Consumption	0.4	1.3	1.7	0.7	0.8	1.4
Public Consumption	0.9	1.6	1.2	1.0	1.2	1.1
Gross Investment	1.5	0.3	2.0	1.2	-0.5	1.2
Exports of Goods and Services	-0.2	1.4	3.1	-0.3	1.2	2.6
Imports of Goods and Services	-1.4	1.3	3.3	-1.1	0.0	2.8
Employment	1.2	0.6	0.4	1.4	0.8	0.4
Unemployment (% labour force)	6.1	6.1	6.0	6.5	6.5	6.5
Inflation	6.4	2.7	2.2	5.4	2.5	2.2
Balance of General Government (% GDP)	-3.5	-3.0	-2.9	-3.6	-3.3	-3.2
Debt of General Government (% GDP)	82.9	82.9	83.4	88.2	88.5	89.3
Current Account Balance (% GDP)	2.9	3.1	3.1	1.5	2.6	2.7

Source: European Economic Forecasts, Spring 2024, European Commission, May 2024

*Source: ECB staff macroeconomic projections, September 2024, European Central Bank, September 2024

According to the latest forecasts, growth in the euro area is estimated at 0.5% in 2023 and a higher rate of 0.8% in 2024. In 2025, an even higher growth of 1.3% is forecast for the EA. Private consumption is forecast to grow by 0.8% in 2024 and by 1.5% in 2025 in the EA (Table 2.3). Public consumption is forecast to grow by 1.2% in 2024 and 1.1% in 2025. Gross investment is estimated to grow by 1.2% in the EA in 2023. A decline of 0.5% is projected for 2024, a significant downward revision compared to the June forecast. A recovery to 1.2% is expected for 2025. Exports of goods and services in the EA are projected to increase by 1.2% in 2024 and by 2.6% in 2025. Imports are expected to remain unchanged in 2024 and to increase by 2.8% in 2025. Inflation in the EA is forecast at 2.5% in 2024 and 2.2% in 2025. Employment in the EA is projected to grow by 0.8% in 2024 and by 0.4% in 2025. The debt of the EA is projected to be 88.5% in 2024 and 89.3% in 2025. Finally, the change in the current account balance is projected to be 2.6% in 2024 and 2.5% in 2025 in the EA.

2.2 The Economic Environment in Greece

A. Economic Sentiment

- The economic sentiment indicator for Greece declined slightly in the third quarter of 2024 compared with the previous quarter (107.7 points compared with 110.4 points). Compared with the corresponding quarter of a year ago (109.5 points), the indicator weakened slightly.
- Compared with the previous quarter, business expectations weakened slightly in manufacturing and more in services, but remained unchanged in construction and strengthened markedly in retail trade.
- The consumer confidence index fell sharply in the July-September period compared with the previous quarter, to -47.8 (from -42.7). At the same time, it is significantly lower than one year earlier (-36.3 points).

The IOBE business and consumer surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the indicators used in the surveys constitute leading indicators for various economic variables and can be used to predict near-term developments and even the course of GDP.[2]

In the third quarter of 2002, the Economic Sentiment Indicator fell by 2.7 points compared with the previous quarter. The decline in the indicator was driven by deteriorating business expectations in the services and manufacturing sectors, while expectations in the retail trade sector strengthened and those in the construction sector remained broadly unchanged. At the same time, the consumer confidence index was slightly lower than in the previous quarter at -47.8 (from -42.7).

The economic climate is currently volatile, reflecting on the one hand the fact that the Greek economy is on a positive trajectory, but on the other hand it is facing significant challenges, both external and domestic, which are having a major impact on businesses and households. Among the sectors, industry is the one that is more exposed to the international environment and markets due to its greater export orientation, even in the case of medium-sized companies, and relies to a significant extent on medium-term contracts and orders that are less affected by cyclical uncertainties. For households, the summer season is ending with satisfactory results in tourism and positive multiplier effects in other sectors of the economy. At the same time, however, inflation remains higher than desirable and continues to have a negative impact on consumer confidence, which is now a structural rather than a cyclical problem. At the same time, the consumer confidence index remains below last year's level.

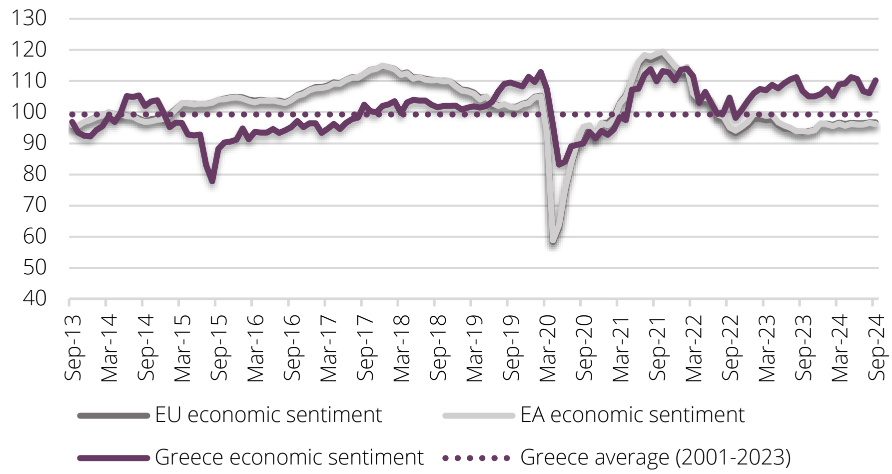
[2] Note that since March 2018, the base period of the series presented in the sectoral business sentiment indicators, i.e. the indicators in Manufacturing, Retail Trade, Services and Construction, has changed. In particular, the 2000-2010 period was designated as a new base (= 100). Until February 2018, the indicator was referenced to average values from the 1996-2006 period. The historical series of the indicators are fully revised, 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.

The Economic Sentiment Indicator in Greece in the July-September quarter of 2024 was slightly weaker compared to the previous quarter (Figure 2.4), at 107.7 from 110.4 points, while it was at a slightly lower level compared to the average of the previous year (109.5 points).

In Europe, the corresponding average indicator remained almost unchanged in the period under examination compared to the previous year, both in the EU and in the euro area. Specifically, the Economic Sentiment Indicator stood at 96.6 (from 96.4) points in the third quarter of 2024 in the EU, and at 96.2 (from 95.9) 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 declined by 2.7 points in the third quarter of 2024 compared to the immediately preceding quarter.

Source: European Commission, DG ECFIN

At the sectoral level, business expectations in Greece declined slightly in the manufacturing sector and more strongly in the services sector, while remaining unchanged in the construction sector and strengthening significantly in the retail trade sector. On the consumer side, the Consumer Confidence Index weakened slightly compared to the previous quarter. Compared to the same quarter last year, the average indicators strengthened significantly in the construction sector, more modestly in the services sector, while remaining unchanged in the manufacturing sector and weakening significantly in the retail trade sector. In more detail:

The Consumer Confidence Index in Greece in the July-September quarter of 2024 was significantly lower on average than in the second quarter of this year, at -47.8 from -42.7 points, a level sharply lower than last year (-36.3 points). In contrast, the EU and euro area saw a slight strengthening of their respective averages, with the index registering -12.0 (-13.3) and -13.1 (-14.3), respectively. These figures are notably higher than a year ago, when the respective averages stood at -15.8 and -16.3.

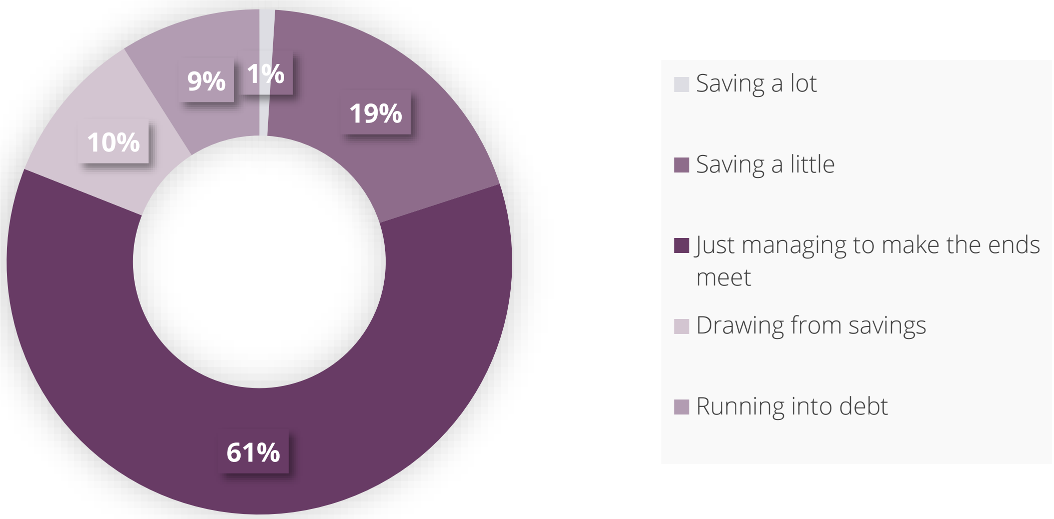
In the third quarter of 2024, the trends in the individual key response balances that make up the overall indicator were exclusively negative compared to the immediately preceding quarter. This indicates that consumers in Greece had more pessimistic forecasts for the economic situation of their households in the next 12 months, as well as for the economic situation of the country.

Concurrently, households' positive assessments of their current situation were less optimistic, and their intention to make significant purchases in the near future also experienced a slight decline.

More specifically, the proportion of respondents who were pessimistic about their household's financial situation over the next 12 months rose slightly to 59% (from 54% in the previous quarter), while the proportion who were optimistic fell to 5%. At the same time, the proportion of consumers in Greece who were pessimistic about the country's economic situation rose to 67% (from 62%), with 9% (from 11%) expecting it to improve. With regard to savings intentions, the share of households who consider it unlikely that they will save in the next 12 months fell slightly to 82% (from 83%), while the share who consider it likely remained at 16%. Regarding the outlook for unemployment, the share of respondents who think the situation will get worse rose to 42%, with 14% (up from 20%) saying the opposite. The share of consumers who said they would be "running into debt" in Q3 2024 rose to 9%, almost the same level as in Q3 2023 (8%). The share of respondents who said they were saving a little (21% in Q3 2023) also fell slightly to 18%. Finally, the proportion of respondents who said they were 'just about making ends meet' fell slightly to 61%, and the proportion of households who said they were 'dipping into their savings' recovered to 10%, with the corresponding figure for 2023 at 12% (Figure 2.5).

Figure 2.5

Consumer survey data on the financial situation of households (July-September 2024)



Source: IOBE

Weakening relative to Q2 2024 of the percentage reporting that they were just about making ends meet (61% from 63%). Strengthening of the percentage reporting that they were running into debt.

The business confidence indicator for industry stood at 103.8 in Q3 2024 (from 108.7 in Q2 2024), at the same level as in 2023 (103.8). Among the key activity indicators, the index for the short-term production outlook fell sharply to an average of +19.9 points in the third quarter of 2024 from

+32.1 points in the second quarter of 2024. At the same time, the slightly negative assessment of the level of new orders and demand intensified (from -6.7 to -9.7 points). Estimates for stocks of finished goods remained unchanged (at +10 points for the relevant indicator), while the export variables showed mixed developments: expectations for export momentum in the next quarter improved markedly (+15.3 vs. +8.4 points), while estimates for export orders and demand weakened slightly (-18.4 vs. -11.7 points). Regarding the employment outlook, the relevant quarterly average balance edged up slightly to +9.5 (from +4.0) points. Capacity utilisation in the manufacturing sector edged down to 78.8% (from 80.7%), while the average number of months of assured production decreased to 5.1 (from 6).

The retail trade sentiment indicator rose slightly to 106.6 points in the third quarter (from 101.9), but it remained well below its level of 120.7 points in the corresponding quarter of the previous year. Among the key components of the indicator, the average balance of the current turnover expectations rose sharply to +29 points, from +15 in the previous quarter. Among managers in the sector, 22% (down from 35%) reported that their turnover had fallen, while 51% reported that it had risen. The indicator of future sales eased slightly from +32 to +25, while stocks of finished products fell sharply (the index was +13). Among other activity data, the balance of expectations for supplier order books stood at +6 points, compared with +14 points in the previous quarter, while the average balance of expectations for employment in the sector was broadly unchanged at +41 (from +42) points. Finally, the balance for prices remained strongly inflationary (+25 (+32) points), with no firms expecting prices to fall and 25% (33%) expecting the opposite. A decline in business expectations was recorded in most of the individual retail trade sectors surveyed in the third quarter of 2024, with the exception of food and beverages, which showed a marked improvement.

Business expectations for the construction industry remained unchanged in the third quarter of 2024, with the corresponding balance averaging 149.2 points, compared with 150.0 points in the previous quarter. This is a much higher level than in the corresponding quarter of 2023 (125.0 points). Among the key variables, the sector's employment outlook weakened slightly, with the relevant balance moving from +31 to +25 points, as 38% (up from 35%) of firms expected an increase in employment, while 12% expected a decrease. Firms' negative expectations for planned work decreased slightly (from -19 to -15 points on the index), while their assessment of the current level of work programmes increased significantly (from +10 to +31 points on the respective balance).

The months of assured activity of businesses in the sector declined slightly to 4.4, while the balance in price expectations moved mildly upwards to +30 (from +20) points, with 7% of businesses expecting a decrease in the short term and 37% (from 27%) expecting an increase. Finally, the percentage of firms reporting that they did not face obstacles to their operation remained at 12-14%, while among the remaining firms, 46% (up from 39%) consider the lack of labour as the most important obstacle, 11% (from 15%) consider low demand, 4% consider the inadequacy of mechanical equipment as the most important obstacle, and 8% consider factors such as the general economic situation of the country, high prices of raw materials, lack of projects, and delayed payments from the state. At the sectoral level, business expectations moved mildly upwards in the Private Construction sector, while they fell sharply in the Public Construction sector.

Table 2.4

Economic Sentiment Indicators

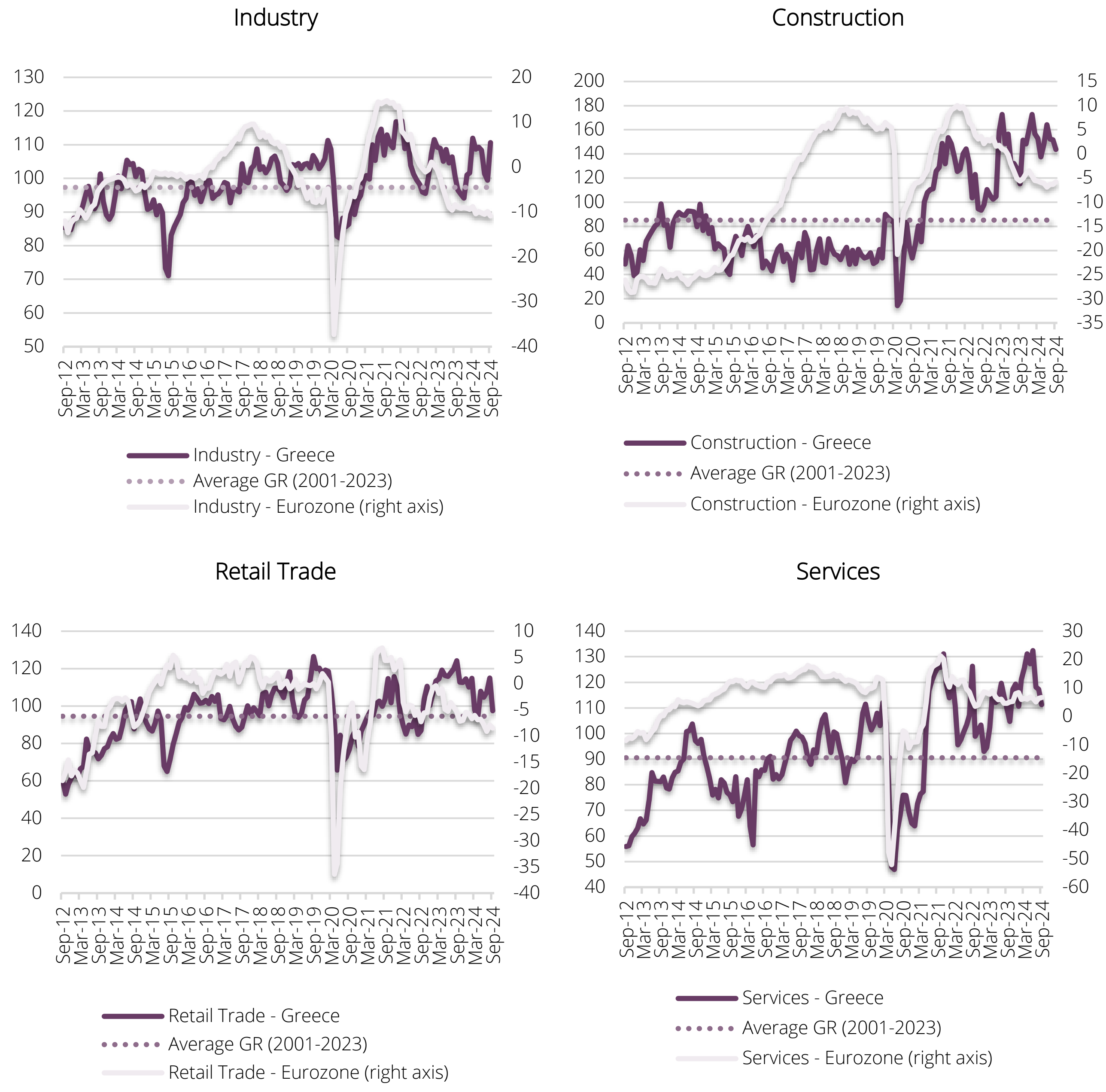
Time Period	Economic Sentiment Indicator			Business Expectations Index (Greece)				Consumer Confidence Index (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	98.6	98.3	85.5	79.9	52.2	61.3	68.1	-57.9
2011	98.3	98.4	83.9	81.1	37.7	60.9	66.1	-69.8
2012	89.0	89.0	83.6	81.4	47.5	59.1	58.8	-73.8
2013	91.9	91.8	93.6	92.6	71.5	72.6	75.3	-69.7
2014	98.6	98.3	101.7	99.7	88.4	92.3	93.3	-53.0
2015	102.9	102.8	91.6	86.3	62.0	83.9	78.2	-51.6
2016	104.4	104.1	95.0	96.1	61.3	101.4	79.3	-61.3
2017	110.7	110.5	98.5	98.1	55.4	94.6	92.7	-58.0
2018	111.1	110.9	103.3	102.8	58.1	104.5	97.0	-44.1
Q1 2019	106.9	106.5	102.1	101.8	56.7	105.8	85.7	-32.8
Q2 2019	104.3	104.3	103.8	103.8	54.8	97.8	92.6	-30.9
Q3 2019	102.0	101.9	108.7	104.8	52.7	115.5	108.2	-10.6
Q4 2019	102.3	101.7	109.1	104.1	68.1	119.1	104.4	-4.2
Q1 2020	102.0	101.5	109.9	108.6	84.9	115.1	106.5	-14.4
Q2 2020	65.9	67.5	89.1	87.6	28.1	80.3	58.6	-38.3
Q3 2020	88.5	89.8	90.0	86.7	67.0	73.5	68.8	-37.0
Q4 2020	93.9	94.5	93.1	92.6	70.7	83.0	70.0	-40.2
Q1 2021	99.2	99.1	96.5	98.2	106.2	90.2	70.9	-40.7
Q2 2021	109.5	110.6	105.5	105.0	121.9	97.9	99.3	-28.3
Q3 2021	115.8	117.4	111.6	111.3	144.7	102.0	123.4	-33.6
Q4 2021	115.1	115.9	112.8	110.7	137.2	110.7	125.4	-38.8
Q1 2022	110.7	111.2	113.4	116.9	137.2	98.8	115.7	-43.6
Q2 2022	103.1	103.9	105.2	108.0	119.6	87.9	97.9	-53.0
Q3 2022	96.3	96.9	102.3	99.6	95.2	88.3	112.3	-53.6
Q4 2022	94.2	95.3	101.6	97.3	106.2	104.8	101.2	-52.6
Q1 2023	97.7	99.2	106.9	109.4	145.2	111.6	96.6	-43.3
Q2 2023	96.1	97.2	108.6	107.5	145.8	117.2	113.8	-36.7
Q3 2023	94.0	94.3	109.5	103.8	125.0	120.7	114.5	-36.3
Q4 2023	94.9	94.8	105.3	95.3	153.2	113.3	113.8	-43.5
Q1 2024	96.3	96.0	107.2	104.8	160.8	107.6	119.1	-46.1
Q2 2024	96.4	95.9	110.4	108.7	150.0	101.9	130.3	-42.7
Q3 2024	96.6	96.2	107.7	103.8	149.2	106.6	115.6	-47.8

Sources: European Commission, DG ECFIN, IOBE

The business sentiment indicator for services in the quarter under review was significantly lower compared to the previous quarter, at 115.6 points (from 130.2), although this was a slightly higher performance compared to the corresponding quarter of 2023 (114.5 points). Among the key components, estimates of current demand declined slightly, with the relevant index coming in at +43 points, down from +50 points in the previous quarter. Estimates of the current business situation also moved in a similar way (+33 from +45 points), with the balance in the short-term demand expectations of businesses in the sector declining more sharply (+28 from +60 points).

Figure 2.6

Business Confidence Indicators



Source: IOBE

> Compared with the previous quarter, business expectations for Q3 2024 declined slightly in the manufacturing sector and more markedly in the services sector, while they remained unchanged in the construction sector and increased significantly in the retail trade sector.

Among the other elements of activity, the balance of respondents' forecasts for employment weakened considerably, falling by 25 points to +17 points, while in prices the average business expectations index fell significantly to -4 (from +33) points. Finally, the percentage of respondents reporting unhindered business operation was reduced to 60% on average, with 8% indicating insufficient demand and 15% indicating insufficient labour force as the main obstacles to their operation, and 10% indicating other factors related to the general economic situation, energy prices, the war in Ukraine, etc. Among the examined branches of services, the indicators showed a significant decline in Q3 2024 in Hotels-Restaurants-Tourism Agencies and a more modest decline in Land Transport and Miscellaneous Business Activities, while remaining largely stable in Financial Intermediaries and showing a notable improvement in Information Technology.

B. Fiscal developments

- State Budget Balance, January-August 2024: cash surplus in the state budget balance of €1,044 million (0.4% of GDP) against a target deficit of €2,774 million included for the corresponding period of 2024 in the 2024 Budget Report and a deficit of €92 million (0.0% of GDP) in the corresponding period of 2023.
- State Budget primary results, Jan-August 2024: a cash surplus of €7,567 million (3.2% of GDP), against a target primary surplus of €3,316 million and a primary surplus of €5,596 million (2.5% of GDP) for the same period in 2023.
- The improvement was driven by a larger increase in net revenues (+4.7% or +€2.02 billion) compared to expenditures (+2.0% or +€879 million). The outperformance led to the submission of a supplementary budget increasing the PIP in 2024 by €900 million.
- Targets in the Draft State Budget 2025 and the Medium Term Fiscal - Structural Plan 2025 - 2028: General government primary surplus of 2.5% of GDP in 2025 and 2.4% of GDP in 2026-2028. General government debt 153.7% of GDP in 2024, 149.1% of GDP in 2025 and 133.4% in 2028.

Execution of the 2024 budget (January – August)

The draft State Budget for 2025 was submitted to Parliament at the beginning of October. It was submitted at the same time as the first Medium-Term Fiscal - Structural Plan 2025 - 2028 (MTP), based on the new European economic governance framework, to the Council of the European Union and the European Commission, so the macroeconomic and fiscal figures reflected in the draft are in line with the estimates of the MTP.

The international economic environment is characterised by increased uncertainty due to recent geopolitical developments in the Middle East, the protracted war in Ukraine, as well as short-term factors such as contractionary monetary policies and the reduction of fiscal support internationally following the pandemic and the energy crisis, but also the significant and accelerating impact of climate change. In this adverse and uncertain international environment, the Greek economy is proving resilient and the fiscal path looks promising. In particular, a primary surplus of 2.5% is projected for 2025 and primary surpluses of 2.4% for the period 2026-2028. The deficit is projected to increase slightly over the period, from 0.6% in 2025 to 1.2% in 2028. Subsequently, the debt to GDP ratio is projected to decline from 153.7% in 2024 to 149.1% of GDP in 2025 and 133.4% in 2028. The fiscal outperformance this year led to the submission of a supplementary budget that increases the PIP by €900 million in 2024.

The good fiscal performance so far this year (especially the revenue outperformance) allowed the economic policy team, after negotiations with the European Commission, to raise the expenditure ceiling for the coming years, thereby substantially amending the new Medium-Term Fiscal - Structural Plan 2025-2028, which will guide medium-term economic policy.

The total additional expenditure for 2025 is incorporated in the draft, including those presented at the Thessaloniki International Fair. The new permanent fiscal measures imply an additional fiscal cost of €1.1 billion in 2025 compared to 2024, while a number of other measures are financed from the Public Investment Programme (PIP) and the Recovery and Resilience Facility (RRF). The new fiscal interventions, complemented by a series of institutional measures, focus on supporting disposable income, boosting investment and innovation, addressing demographic and housing challenges, and tackling the challenges of climate change. Measures to support health, improve education and reduce tax evasion are also included.

State Budget Balance and Primary Balance

According to the state budget execution data, the state budget balance on a modified cash basis for the period January-August 2024 is a surplus of €1,044 million (0.4% of GDP), against a target deficit of €2,774 million for the corresponding period in 2024 included in the 2024 budget report and a deficit of €92 million (0.0% of GDP) in the corresponding period in 2023. The primary balance on a modified cash basis was a surplus of €7,567 million (3.2% of GDP), against a primary surplus target of €3,316 million and a primary surplus of €5,596 million (2.5% of GDP) for the same period in 2023. The year-on-year improvement in the primary balance is due to a larger increase in net revenue (+4.7% or +€2.02 billion) than in expenditure (+2.0% or +€879 million, Table 2.5).

Table 2.5

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

	Jan. – August		% Change 24/23	2023*	2024* Budget	% Change 24E/23
	2023*	2024*				
I. SB NET REVENUE (1+2)	43,118	45,133	4.7	67,005	72,738	8.6
1. Net OB revenue	39,048	41,826	7.1	60,093	64,987	8.1
OB revenue before tax refunds	*43,565*	*46,325*	6.3	67,086	60,567	-9.7
Less Tax refunds	4,517	4,499	-0.4	6,993	*6,588*	-5.8
2. PIP revenue +RRF[3]	4,070	3,307	-18.7	6,912	7,751	12.1
II. SB EXPENDITURE (3+4)	*43,210*	*44,089*	2.0	70,765	75,736	7.0
3. OB expenditure	37,368	37,540	0.5	59,564	63,569	6.7
Primary expenditure OB	31,667	30,985	-2.2	51,858	55,868	7.7
Interest	5,701	6,555	15.0	7,706	7,701	-0.1
4. PIP expenditure + RRF[4]	5,842	6,549	12.1	11,201	12,167	8.6
III. SB Deficit (-)/Surplus (+)	*-92*	*1,044*		*-3,760*	-2,999	
% of GDP	*-0.0*	*0.4*		*-1.7*	*-1.3*	
IV. SB Primary Balance	5,596	7,567		3,920	4,703	
% of GDP	2.5	3.2		1.8	*2.0*	
GDP (in current prices)	222,766	233,775	4.9	222,766	233,775	4.9

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

It should be noted that part of the difference in tax revenue collection of €647 million is included in the fiscal outcome for 2023, while an amount of €1,854 million related to the postponement of transfer payments to social security funds and €634 million related to expenditure on armament programmes (i.e. a total of €2,488 million) does not affect the fiscal outcome. Excluding the above amounts, the excess of the primary surplus of the State budget over the target for the period January-August amounts to €1,116 million. As a result, the primary result in fiscal terms is different from the result in cash terms.

It should be noted that the above refers to the primary result of the central government and not to the general government as a whole, which includes the fiscal results of the legal entities and the sub-sectors of local government and social security funds. Moreover, the above refers to the

[3] The PIP revenue category now includes the receipts from the Recovery and Resilience Facility

[4] The PIP expenditure category now includes the payments from the Recovery and Resilience Facility

comparison with the targets of the 2024 Budget Report. When the stability programme was prepared in April 2024, it was already taken into account that an amount of €1,238 million on a fiscal basis, derived from an updated forecast of tax revenues in 2024, was allocated to increased expenditure of the regular budget of the general government entities, as well as to the national part of the public investment programme.

Ordinary budget revenue

In the period January-August 2024, the net revenue of the State budget amounted to €45,133 million, an increase of €228 million or 0.51% compared to the target included for the corresponding period in the Explanatory Report of the 2024 Budget, although the target in the Explanatory Report had included: a) the receipt in March of €1,797 million from the Recovery and Resilience Facility (RFF), most of which, i.e. €1,687 million, was received in December 2023 and an additional €159 million was received in January 2024 and b) the receipt in June of €1,350 million from the service concession contract for the financing, operation, maintenance and exploitation of the Egnatia motorway and its three (3) vertical axes, signed on 29.03.2024. The next steps in the process, leading to the payment of the price, are expected to be completed in the coming months. Compared to last year, this represents an increase of € 2.02 billion. ή 4,7%.

Table 2.6

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

	Jan. – August		% Change 24/23	2023*	2024* Budget	% Change 24E/23
	2023*	2024*				
Net SB revenue	43,118	45,133	4.7	67,005	72,738	8.6
Net OB revenue	39,048	41,826	7.1	60,093	64,987	8.1
Tax refunds	*43,565*	*46,325*	6.3	67,086	60,567	-9.7
OB revenue	4,517	4,499	-0.4	6,993	*6,588*	-5.8
Income tax, of which:	12,853	14,938	16.2	20,884	21,669	3.8
--Personal	8,487	9,530	12.3	12,439	13,263	6.6
--Corporate	*3,269*	*4,083*	24.9	6,782	*6,797*	0.2
Property tax	1,938	1,941	0.2	2,491	2,487	-0.2
Taxes on donations, inheritance etc.	160	153	-4.4	240	239	-0.4
Tariffs	243	237	-2.5	345	392	13.6
Taxes on goods and services, of which:	22,401	24,043	7.3	33,970	35,173	3.5
--VAT	*15,488*	*16,796*	8.4	*23,385*	*24,391*	4.3
--Excise duties	*4,594*	*4,744*	3.3	*7,018*	7,065	0.7
Other production taxes	807	353	-56.3	1,164	536	-54.0
Other current taxes	1,436	1,337	-6.9	2,532	2,403	-5.1
Social contributions	39	41	5.1	58	56	-3.4
Transfers	4,615	3,189	-30.9	7,530	*7,960*	5.7
Sales of goods and services, of which:	590	672	13.9	848	5,559	555.5
Other current revenue	*2,553*	*2,696*	5.6	*3,930*	2,828	-28.0
Sales of fixed assets	1	33	3200.0	6	23	283.3
PIP Revenue[5]	4,070	3,307	-18.7	6,912	7,751	12.1

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

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

Most categories increased from last year. Ordinary budget revenues increased by 6.3%, while net OB revenues increased by 7.1%, with tax refunds decreasing by 0.4%. Revenue from taxes on income increased by 16.2% compared to the previous year, due to both an increase in corporate income tax revenue (+24.9%) and an increase in personal income tax revenue (+12.3%). Revenue from taxes on goods and services increased by 7.3% year-on-year, mainly due to an 8.4% rise in VAT receipts. Tax revenues in general amounted to €43,002 million, which is €1,899 million or 4.6% higher than the target set in the Explanatory Report of the 2024 Budget. The over-execution is due to a better performance in the collection of the previous year's personal and corporate income taxes, which were collected in instalments until the end of February 2023, as well as a better performance in the collection of the current year's taxes.

Transfers amounted to €3189 million, a decrease of €1233 million against the target included in the Explanatory Memorandum of the 2024 Budget and a decrease of €1426 million or 30.9% compared to last year, mainly due to the receipt of €1687 million from the Recovery and Resilience Facility (RRF) in December 2023, while €159 million was received in January 2024, against a target of €1797 million originally foreseen to be received in March 2024. The decrease was partly offset by an increase of €257 million in PIP revenues compared to the target.

Sales of goods and services amounted to €672 million, an increase of 13.9% compared to the previous year, but €1,323 million below the target. The shortfall is due to the fact that the target in the explanatory report included the receipt in June of the €1,350 million payment under the concession contract for the Egnatia Odos motorway and its three (3) vertical axes, which, as mentioned above, is expected to be received in the coming months. Other current revenues amounted to €2,696 million, €1,251 million above the target and 5.6% higher than in the previous year, mainly due to an increase of €412 million in reimbursements. Other taxes on production (-56.3%) and other current taxes (-6.9%, Table 2.6) decreased.

Ordinary budget expenditure

State budget expenditure for the period January-August 2024 amounted to €44,089 million, down by €3,590 million from the target (€47,679 million) included in the 2024 Budget Report, but up by €879 million or 2.0% year-on-year. The year-on-year increase is mainly due to an increase in interest payments (+15.0%). On the ordinary budget side, payments are €3,291 million lower than the target but 0.5% higher than the previous year. The decrease compared to the target is mainly due to the delay in transfer payments to SSFs (€1,854 million) and expenditure related to armament programmes (€634 million), which have no budgetary impact. In the opposite direction, i.e. higher than planned, interest paid to service the public debt was up by €465 million.

Primary expenditure fell by 2.2% compared to the previous year, with decreases recorded in several sub-categories. Social benefits fell by 31.5% and transfers by 5.9%, with social transfers falling by 9.3% (due to the timing issues mentioned above). There was a sharp fall in subsidies (-88.9%). In contrast, there were increases in employee benefits (+5.6%), purchases of goods and services (+7.3%), other expenditure (+123.8%) and purchases of fixed assets (+2.6%, Table 2.7).

Notable transfer payments include the payment of €130 million by the Ministry of Rural Development and Food to ELGA for the compensation of farms affected by the flooding caused by the DANIEL-ELIAS storms in September 2023, as well as for related land reclamation works; the grant of €225 million by the Ministry of Infrastructure and Transport to transport companies (OASA, OASTH and OSE), the grant of €276 million by the Ministry of Health to the National Centralized Health Procurement Authority (EKAPY) to cover the cost of supplying medicines for the needs of NHS hospitals and the Papageorgiou General Hospital, and the grant of €98 million to higher education institutions to cover their operating costs.

Table 2.7

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

	January- August		% Change 24/23	2023*	2024* Budget	% Change 24E/23
	2023*	2024*				
SB Expenditure (1+2+3)	*43,210*	*44,089*	2.0	70,765	75,736	7.0
OB Expenditure (1+2)	37,368	37,540	0.5	59,564	63,569	6.7
1.Primary OB Expenditure	31,667	30,985	-2.2	51,858	55,868	7.7
Compensation of employees	9,309	9,826	5.6	14,039	14,850	5.8
Social benefits	181	124	-31.5	417	411	-1.4
Transfers	20,029	18,838	-5.9	33,399	33,229	-0.5
(of which SSFs)	*12,530*	*11,370*	-9.3	*20,603*	*20,947*	1.7
Purchase of goods and services	1,029	1,104	7.3	2,145	1,792	-16.5
Subsidies	117	13	-88.9	118	81	-31.4
Other current expenditure	42	94	123.8	49	111	126.5
Non allocated expenditure	0	0	-	0	2,668	-
Purchase of fixed assets	961	986	2.6	1,691	2,727	61.3
2. Interest (gross basis)	5,701	6,555	15.0	7,706	7,701	-0.1
3. PIP Expenditure[6]	5,842	6,549	12.1	11,201	12,167	8.6

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

Public Investment Programme (PIP)

Public Investment Programme (PIP) and RRF revenues amounted to €3,307 million, down 18.7% from €4,070 million last year. RRF revenues are significantly lower than last year due to the early collection of the December 2023 tranche, with the remaining amount (€159 million) being collected in January. In contrast, PIP revenues amounted to €3,148 million, €570 million above the target (€2,578 million) and €796 million or 33.8% higher than last year.

Capital expenditure payments amounted to €6,549 million, €299 million below target but €707 million or 12.1% higher than last year. In particular, RRF expenditure more than doubled from €450 million last year to €1,001 million this year (+122.4%). PIP expenditure increased by €156 million or 2.9%. The fiscal outperformance in 2024 led to the submission of a supplementary budget in September, which increased the planned PIP expenditure for 2024 by €900 million, of which €600 million is for the national part.

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

C. Financial developments

- The European Central Bank is continuing the gradual easing of monetary policy that began in June 2024, with further systematic reductions in key interest rates expected in the coming quarters.
- Non-performing loans on banks' balance sheets fell to 6.9% of total loans in the second quarter of 2024.
- The expansion of loans to enterprises strengthened in mid-2024, while loans to households continued to contract.
- Private bank deposits recorded a cumulative increase in Jun-Aug 2024, higher than in the same period a year earlier.
- New borrowing costs for the private sector remained stable, but their divergence from the European average widened in Q3 2024. The difference between the average interest rate on loans and deposits (interest rate margin) declined, but remained high.
- The cost of new public sector borrowing declined in Q3 2024, slightly narrowing the spread with the corresponding cost of the German public sector.
- Greek banks' exposure to government bonds remains high in mid-2024 and deviates significantly from the euro area average.

Stock prices on the domestic capital market rose in the third quarter. As a result, the general stock price index recorded a cumulative increase of 12.3% in the first nine months, while the banking index rose by 17.9%. At the same time, international agencies upgraded the credit ratings of most Greek banks. Meanwhile, the Hellenic Financial Stability Fund continued its divestment strategy from the four systemic banks, gradually transferring part of its stake in them to private investors, with the aim of completing the divestment strategy by the end of 2024.

After two years of restrictive monetary policy, the European Central Bank (ECB) cut its key rates three times in a row in June-October, by a cumulative 75 basis points. In 2022-2023, there were ten consecutive rate hikes with a cumulative impact of 450 basis points. Markets are discounting a systematic decline in policy rates next year, while they remain at a higher level than at the beginning of 2022. As an indication, the 3-month Euribor in the futures markets is estimated to be around 2.7% and 1.8% in late 2024 and 2025, respectively, compared with almost 4% in late 2023 and -0.5% in early 2022. In terms of quantitative easing instruments, the ECB has stopped reinvesting bonds maturing under the APP programme from mid-2023, while it will continue to reinvest part of the bonds maturing under the PEPP programmes until end-2024, with no net new purchases. Inflation expectations are easing, but risks remain from ongoing geopolitical tensions in Eastern Europe and uncertainty over international energy prices.

Among the positive trends in banks' fundamentals, credit expansion to enterprises has strengthened, organic profitability, liquidity and capital adequacy ratios have improved, non-performing loans (NPLs) have continued to decline, and private deposits have increased. Borrowing costs for the public sector are gradually declining, as is their divergence from those of other countries.

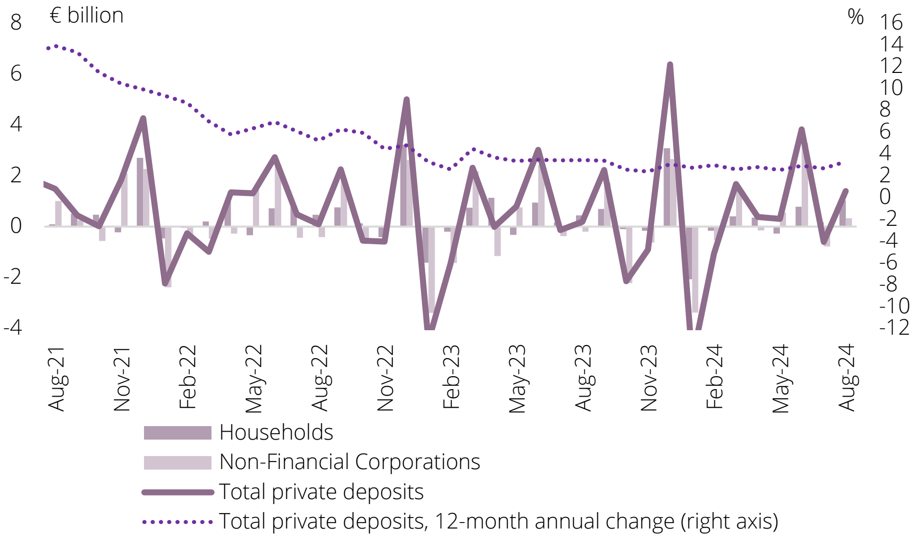
Among the negative trends in the financial system at mid-year, credit to households continues to contract, while the interest rate spread remains high. Among the challenges from the past, the high share of non-performing loans, mainly off-balance sheet, stands out. In addition, the share of deferred taxes in banks' equity remains high.

Among the new challenges for banks, their increasing exposure to government bonds stands out, to a greater extent than in other European countries. The timely implementation of the credit component of the National Recovery and Resilience Plan is both an opportunity and a challenge to finance productive investment on favourable terms.

On the liability side, private deposits increased in the June-August period, with net new inflows of €2.6 billion from enterprises and €2.0 billion from households (Figure 2.7). On an annual basis, the stock of private deposits increased by €6.0 billion in August. The twelve-month rate of change was 3.3% in August, higher than the 3.0% recorded in 2023.

Figure 2.7

Monthly net flow of private deposits at Greek banks



Private sector deposits increased cumulatively in the June-Aug 2024 period by €4.6 billion, compared with an increase of €3.1 billion in the same period last year.

Source: Bank of Greece

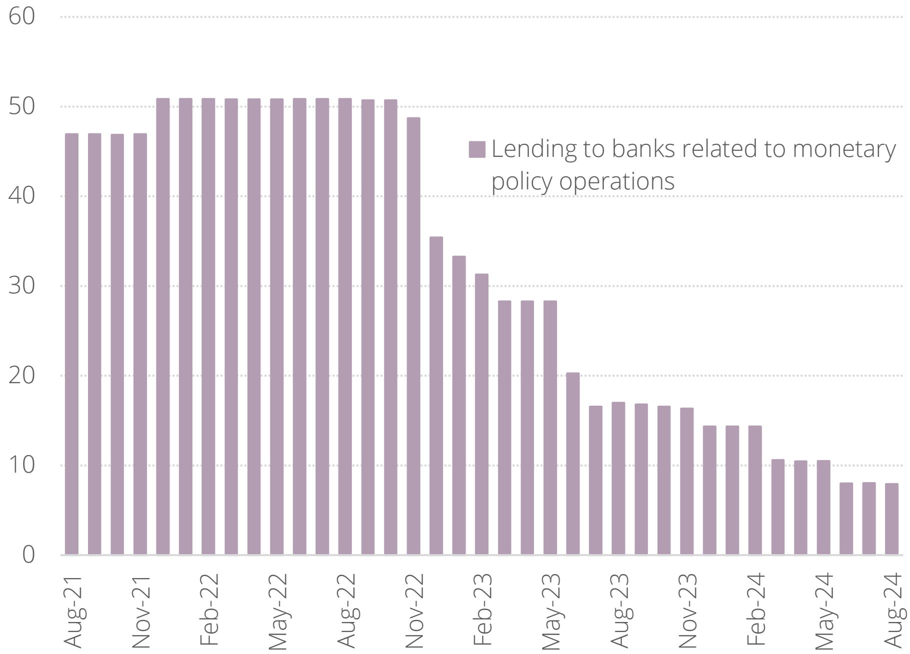
For the remainder of 2024 and 2025, private deposits are expected to remain relatively stable, with a slight upward trend. As private consumption growth slows and inflation remains above target, pressure on real disposable income and household and corporate savings is expected to continue.

The second part of banks' liabilities relates to funding from the Eurosystem. The higher cost of the ECB's liquidity provision compared with the past has significantly reduced the use of the Eurosystem's long-term refinancing instruments, such as LTROs, by €9.1 billion on an annual basis (Figure 2.8). At the same time, the assets of the domestic banking system eligible as collateral for Eurosystem monetary policy operations, as reflected in the financial statements of the Bank of Greece, have declined over the same period, from almost €69 billion in mid-2022 to €23.8 billion in August 2024.

With regard to the third component of banks' liabilities, which relates to funding from the capital markets, the gradual improvement in the creditworthiness of both sovereign and private securities creates a positive outlook for the coming year.

Figure 2.8

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



The use of Eurosystem liquidity tools by Greek banks decreased further in mid-2024 to €7.9 billion in August.

Source: Bank of Greece

On the asset side of banks' balance sheets, the 12-month growth rate of loans to the domestic private sector strengthened, reaching 6.9% in August 2024 (Table 2.10). The corresponding rate to non-financial corporations (NFCs) was recorded at 10.5% in the same month (Figure 2.9), while total net new flows to corporates in the first five months of 2024 were positive at €1.9 billion, but down from €4.8 billion in 2022. At the same time, the contraction in loans to the housing sector continued unabated, loans to the self-employed and to sole proprietorships stabilised, while consumer loans strengthened.

Table 2.8

Domestic bank financing and average interest rates per portfolio

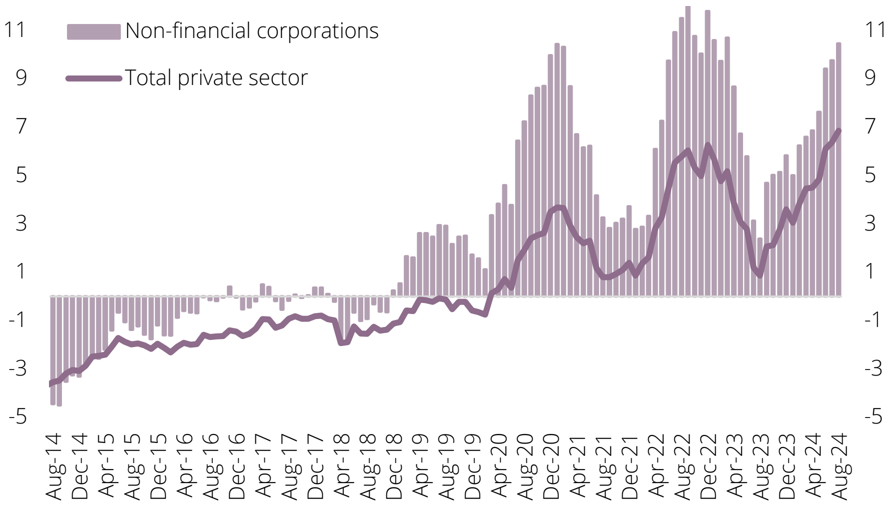
Quarter/year	3/23	4/23	1/24	2/24	Jul.24	Aug.24
Annual % change of 12-month flows*						
Total private sector	1.4	2.8	3.8	5.2	6.4	6.9
Households & NPIs	-2.4	-2.2	-1.7	-1.0	-0.8	-0.7
Consumer credit	2.1	2.8	4.3	5.4	5.8	5.8
Mortgage credit	-3.7	-3.6	-3.3	-2.9	-2.7	-2.7
Sole proprietors and unincorporated	-3.3	-2.4	-0.8	-0.1	0.2	0.4
Non-financial corporations	3.4	5.3	5.9	7.9	9.7	10.5
Interest rates on new loans (period average, %)						
Consumer credit	11.6	11.3	10.7	10.8	11.0	11.0
Mortgage credit	4.24	4.43	4.45	4.20	3.87	3.87
Loans to non-financial corporations	6.2	6.07	5.94	5.54	5.75	5.73

Source: Bank of Greece.

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

Figure 2.9

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



New net flows to non-financial corporations were positive in the June-Aug. 2024 period by 0.8 billion, with the 12-month credit expansion rate to the private sector as a whole reaching 6.4%.

Source: Bank of Greece

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

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

From the perspective of loan demand, the Bank of Greece's Bank Lending Survey for the third quarter of 2024 records a slight strengthening of demand for new loans in business and consumer credit. Further strengthening of demand is expected in both large and small and medium-sized enterprises, mainly for long-term loans, while demand for housing loans is expected to increase slightly. Credit criteria were stable in the third quarter of 2024, and no significant changes are expected in the short term.

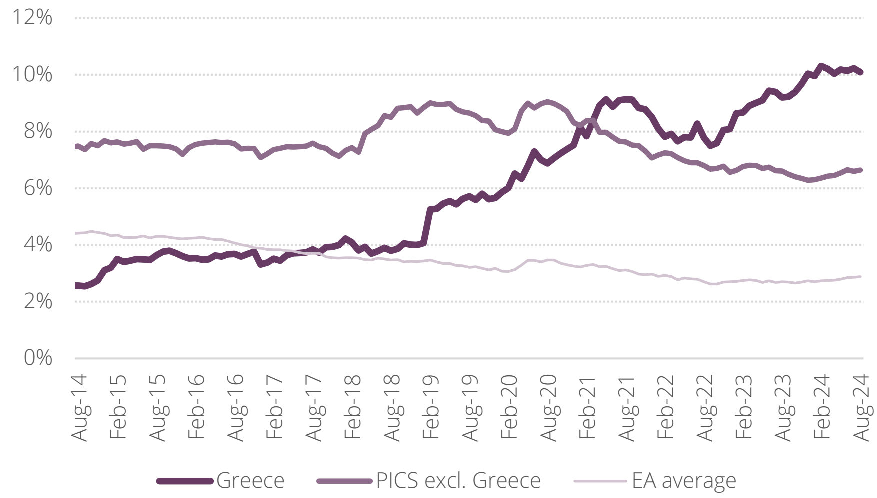
On the asset side, banks' exposure to government securities remained high in the third quarter of 2024, reaching €32.0 billion in August, or 10.1% of their total assets. Thus, the share of Greek banks' total assets invested in government securities continued to diverge from the corresponding share in the other "southern" euro area countries, which stands at 6.6%, much higher than the corresponding share for the euro area average, which is only 2.9% (Figure 2.10).

Non-performing loans (NPLs) on banks' balance sheets fell to 6.9% of total loans in the second quarter of 2024, at €10.4 bn, from 7.5% and €11.1 bn in the previous quarter. The overall level of NPLs remains higher than in the rest of the euro area. For mortgage loans, the NPL ratio fell from 10.4% to 9.8%, for loans to enterprises from 6.4% to 5.9% of total loans, while for consumer loans it fell slightly from 11.6% to 11.5%.

In addition to NPLs on banks' balance sheets, a very significant volume of loans, formerly bank NPLs, is managed by Credit Servicing Firms (CSFs). In the second quarter of 2024, for example, the total nominal value of loans under CSFs reached €69.8 billion. Thus, the stock of non-performing private debt, both on and off the balance sheets of the banking system, remains very high, with negative implications for the efficient allocation of financial resources and the prospects for economic recovery (see the special box at the end of this section). For this reason, the proper functioning of the secondary market for loans and credit claims, as well as of instruments such as the out-of-court debt settlement mechanism, is of great importance.

Figure 2.1010

Banks' government bond holdings over total assets (%)



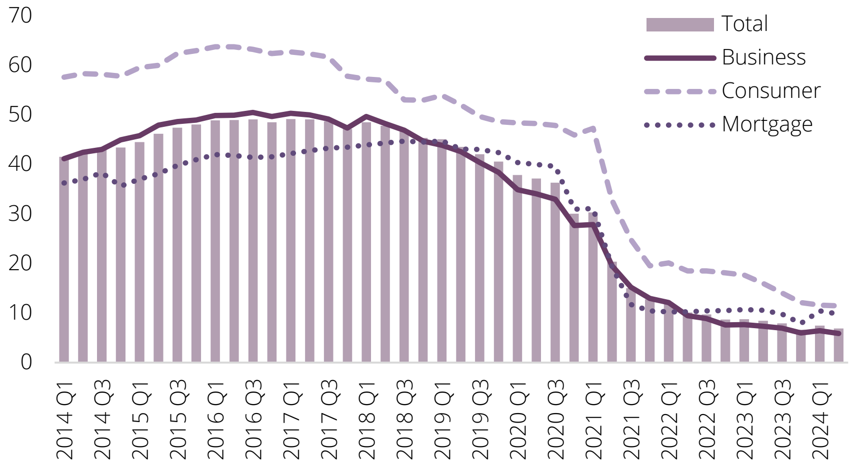
Greek banks' government bond exposure remains high in mid-2024, well above the euro area average

Source: ECB

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

Figure 2.11

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



In the second quarter of 2024, NPLs recorded a decline, to 6.9% of the banks' total loan portfolio

Source: Bank of Greece

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

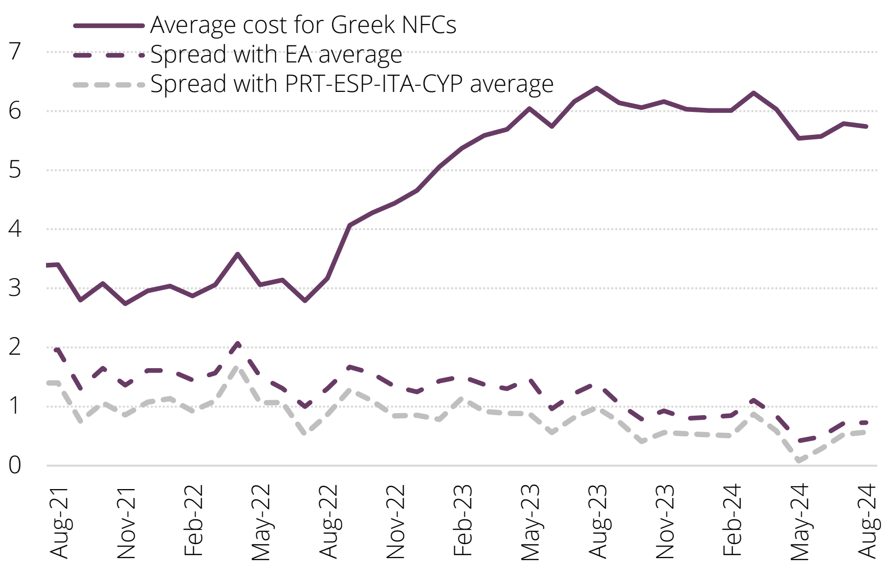
As regards new loans in 2024 as a whole, on the one hand, a recovery in the expansion of loans to enterprises is expected, with the acceleration of the implementation of the credit component of the National Recovery and Resilience Plan, for which the revised total perimeter now reaches €17.7 billion by 2026. On the other hand, credit to households is expected to contract at a slower pace, mainly due to the resilience of consumer demand.

New deposit rates remained stagnant in July-August 2024, at 0.82% and 0.48% for non-financial corporations (NFCs) and households respectively. Over the same period, the average new loan rate declined to 5.85%, standing at around 6.0% for households and 5.7% for NFCs. The spread between the average interest rate on loans and deposits (interest rate margin) remained high over the same period, although it declined from an average margin of 5.6% in 2023 to 5.3%.

The average cost of new bank loans to private sector NFCs fell to 5.7% in August (Figure 2.12). However, the cost of financing for Greek firms is higher than in the rest of the euro area. According to the ECB's weighted bank lending cost index, the cost for non-financial corporations in August was 5.0% in the euro area and 5.3% in the "southern" euro area countries (Portugal, Italy, Cyprus, Spain). Subsequently, the spread of Greek firms' borrowing costs relative to the euro area and "southern" averages is recorded at 73 bp and 57 bp, respectively. Compared with pre-crisis levels in 2010, the spread of Greek firms' borrowing costs relative to the average of other 'southern' euro area countries remains significantly higher.

Figure 2.12

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



New private sector borrowing rates stood at 5.7% in August, with the spread to the average cost of borrowing in the "southern" euro area widening to 57 bps.

Source: ECB

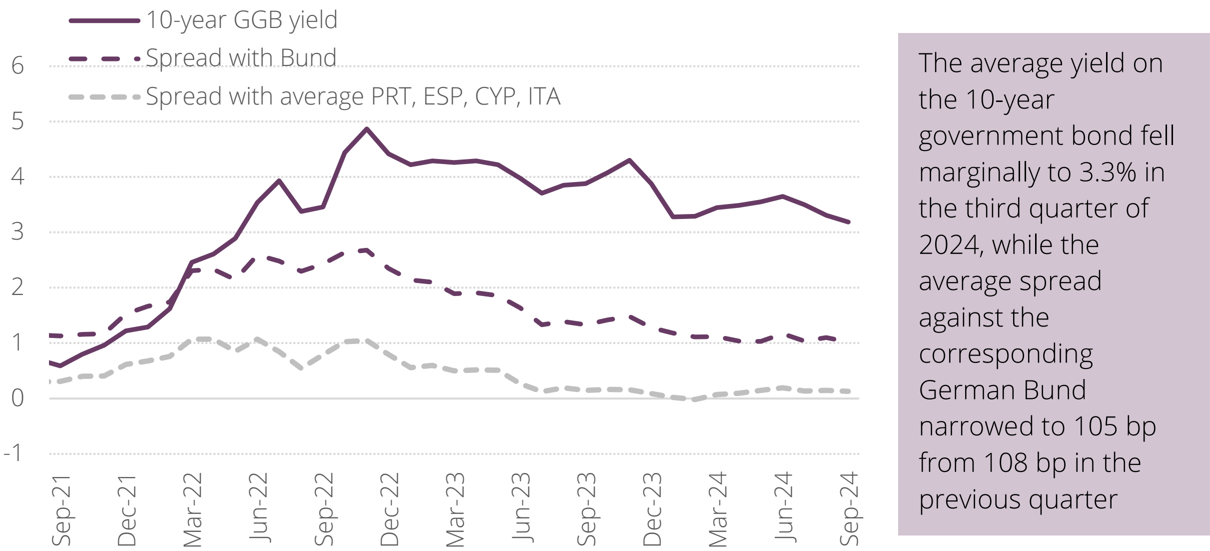
Greek government bond yields continued to decline after the middle of the year. Indicatively, in the third quarter of 2024 the yield on the 10-year bond hovered around 3.3%, narrowing the spread vis-à-vis other European countries. In the third quarter of 2024, the additional cost of new Greek 10-year government borrowing relative to other euro area countries was 105 bp and 14 bp relative to the German bond and the average of the "southern" euro area countries, respectively, compared with 157 bp and 27 bp in 2023 as a whole (Figure 2.13). Despite this progress, the spread vis-à-vis the German Bund remains well above the average of the first decade of euro area membership (54 bp). Further convergence in borrowing costs will require a combination of prudent fiscal policies and reform measures aimed at raising potential growth rates.

As part of the Greek government's funding strategy, the Hellenic Republic raised more than €9.0bn on the long-term bond markets in the first nine months of 2024, with the annual funding strategy (December 2023) indicating a target of around €10bn from bond issuance for the whole of this year. At the beginning of February 2024, a new 10-year bond was issued, in which the Greek government raised €4.0 billion at an interest rate of 3.38%, with a coverage ratio of more than 10. In June 2024, a new 30-year bond was issued, in which the Greek government raised €3.0bn at a coupon of 4.15%. At the same time, in the first nine months of 2024, the Hellenic Republic reissued 5-year, 10-year and 15-year bonds, which were also very well received by the market. At the same time, by the end of the year, the PDMA aims to repay €8bn of loan obligations from the first economic adjustment programme earlier than scheduled, using up to €5bn of the €15.7bn cash cushion held at the Bank of Greece.

It has been a year since Greek bonds were upgraded to investment grade by five international rating agencies: R&I, DBRS, Scope, S&P and Fitch. Another agency (Moody's) rates the Greek government just one notch below investment grade. The level of Greek public debt as a percentage of GDP remains among the highest in the world (159.8% in Q1 2024, as shown in the annex). This quantitative feature is offset by qualitative features, such as the long average repayment period and the high proportion of fixed and low interest rates.

Figure 2.13

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



Source: ECB

Box of section 2.2.C

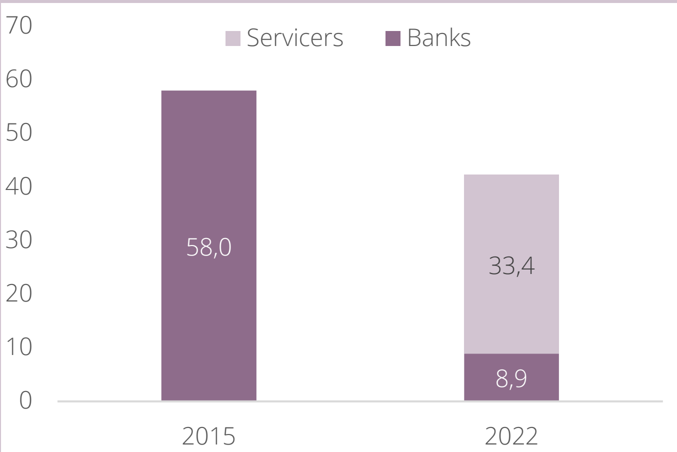
Post-Greek crisis evolution of bad corporate loans and zombie firms

Non-performing exposures (NPEs) and the number of "zombie" companies in Greece have declined significantly after peaking in 2015 and 2013 respectively, but remain at high levels, especially in certain sectors of activity. On the basis of internationally proposed criteria, which are presented in detail in the study, an enterprise is defined as a "zombie" in a given year if a) its age is at least 10 years and b) its interest coverage ratio is less than 1 for the last 3 consecutive years. Similarly, NPEs are defined by regulators as exposures (loans) that are more than 90 days past due, as well as exposures with "uncertain recovery" regardless of their past due status.

Banks' non-performing exposures (NPEs) to corporates declined by 85% over the 2016-2022 period, from €58 billion (47.0% of total loans to NFCs) in 2015 to €8.9 billion (8.1%) in 2022. The recorded decline in NPEs on banks' books by more than 40 ppts cumulatively over the period 2016-2023 is estimated to have led to an increase in net corporate credit flows of around €8 billion out of the €22.5 billion (36% of credit growth) recorded over the same period.

Despite the undoubted improvement, the large decline in NPEs is largely due to write-offs, sales and securitisations over the period 2016-2022, and to a lesser extent to 'organic' improvement. In particular, the largest stock of NPEs removed from banks' balance sheets is managed by servicers, amounting to €33.4bn at the end of 2022. As a result, corporate NPEs in the economy as a whole declined by only 28% over the period 2016-2022, to around €42bn in 2022 (Figure B2.2.C.1).

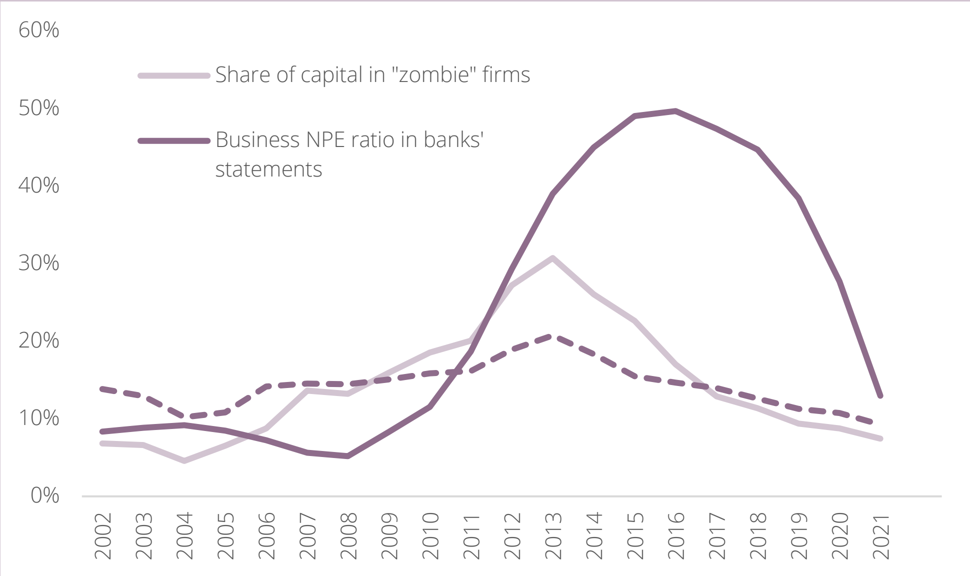
Figure B2.2.C.1. Non-performing exposures to NFCs by banks and servicers in 2015 and 2022, in € billion



Source: BoG. Data processing: IOBE

At the same time, the estimated share of 'zombie' enterprises increased from 10 percent to 18.6 percent over the period 2005-2013, and then declined to 8.9 percent in 2022. The estimated share of zombie enterprises shows a positive correlation with the share of corporate NPEs on bank balance sheets over the period 2002-2021 (Figure B2.2.C.2). However, the increase in the share of zombie firms preceded the increase in the share of NPEs on bank balance sheets, while the decrease in the share of zombie firms preceded the decrease in the share of NPEs. The different paths of the two indicators probably indicate that the zombie ratio is to some extent a leading indicator of NPEs.

Figure B2.2.C.2. Evolution of estimated percentage of zombie companies in Greece, percentage of corporate NPEs and capital concentration in zombie companies, 2002-2021



Source: ΤτΕ, ICAP data.prisma. Data processing: IOBE

The density in number and concentration of capital ("congestion") in "zombie" enterprises affects healthy enterprises, both overall and in individual sectors of the business economy, as highlighted in a recent study by IOBE, the preparation of which was supported by the Bank of Greece. In particular, non-zombie firms perform better on indicators such as the growth rate of net fixed capital, the rate of change in employment and total factor productivity.

Policy priorities aimed at a rapid and effective reduction of NPEs and the number of zombie firms are expected to improve the speed and scope of closing the investment gap in the Greek economy, as well as reducing the unemployment rate. In addition, they may enhance the prospects of increasing the overall productivity of the economy and of reallocating capital to productive investment, which are necessary conditions for achieving strong and sustainable growth rates of the Greek economy in the medium to long term.

3 MACROECONOMIC PERFORMANCE AND OUTLOOK

3.1 GDP components

A. Recent developments

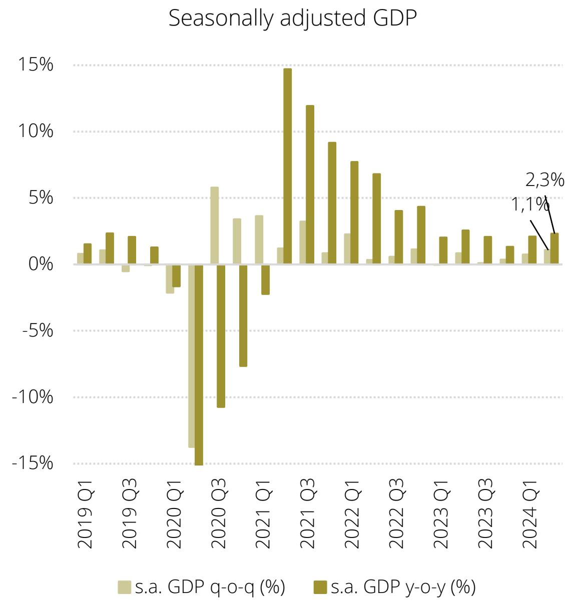
- Domestic growth accelerated to +2.3% (y-o-y) in Q2 2024 (vs. +2.1% in the previous quarter), and GDP growth was +1.1% q-o-q.
- The largest contribution to growth was made by total investment, which increased by +29.7% (y-o-y), mainly due to an increase in inventories (+22.7% in the previous quarter), while fixed capital formation also rose by +3.9%.
- Private consumption continued its upward trend and increased by +2.0% year on year (after +2.1% in the previous quarter). Public consumption, on the other hand, decreased by -3.6%, resulting in an increase of total consumption by +0.9%.
- The change in total exports, which increased by +2.1% (after -3.7% in the previous quarter), had a positive impact on the domestic growth rate. Exports of goods rose by +2% (y-o-y), compared with -8.6% in the previous quarter, while exports of services increased by +2.8% (y-o-y), slightly higher than in the previous quarter (+2.4%).
- However, the positive impact of the increase in exports was more than offset by a significant rise in total imports, which increased by +9.6% (y-o-y), compared with +3.1% in the previous quarter, due to the strengthening of the annual growth rate of both goods (+10.5%) and services (+6.9%).

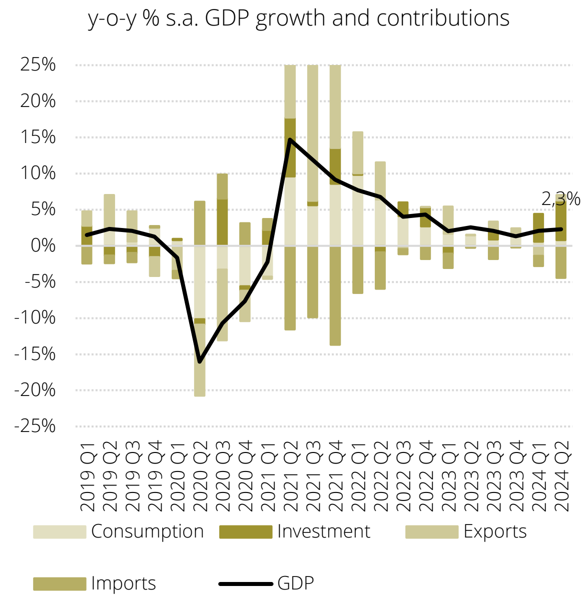
Recent macroeconomic developments in Greece

In the second quarter of 2024, the annual growth rate of the Greek economy is estimated at +2.3%, continuing the upward trend of the previous quarter (+2.1% y-o-y) and significantly exceeding the corresponding rate of the euro area (+0.2% y-o-y) for the same period. It is noteworthy that the strong annual GDP growth has continued for the 13th consecutive quarter after the recovery of the economy from the pandemic. The main drivers of this growth are an increase in private consumption, which traditionally underpins the GDP trend, and a strong increase in total investment, mainly driven by inventories. In contrast, government consumption expenditure fell sharply, while the external balance deteriorated as a notable increase in exports was offset by a larger increase in imports (Figure 3.1).

Figure 3.1

Evolution of GDP and the contribution of its components





Source: ELSTAT, Data processing IOBE

Total investment is a key driver of recovery in Q2 2024.

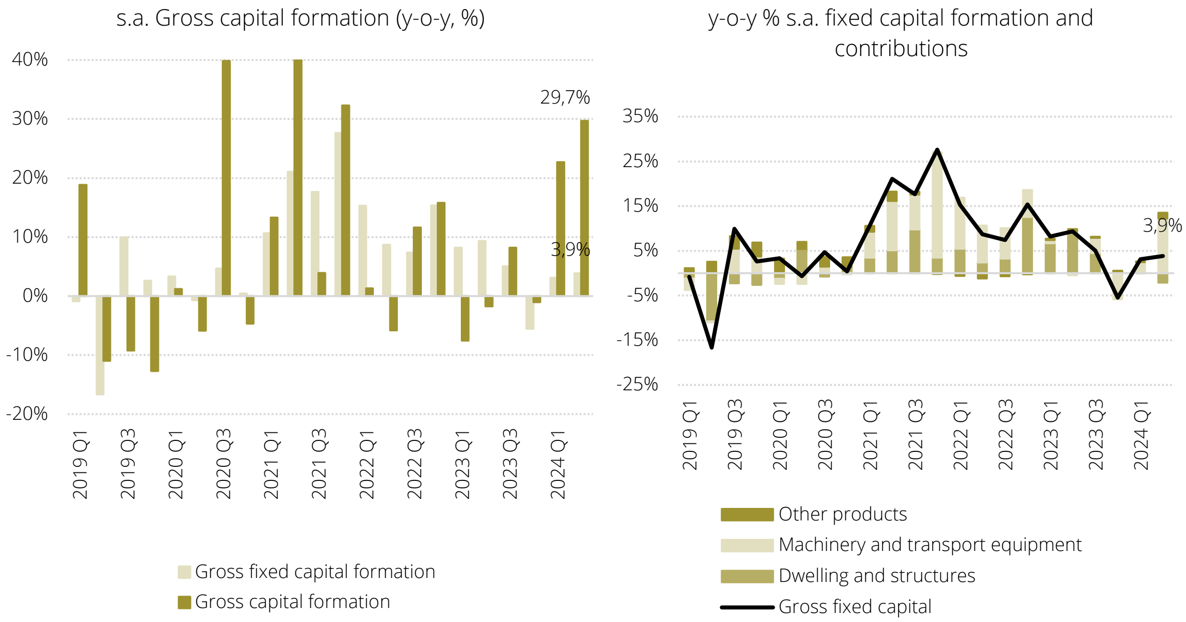
Regarding the development of the components of GDP in the second quarter of this year, the annual growth rate of total domestic consumption increased by +0.9% (compared to +0.6% in the previous quarter). Private consumption, like GDP, continued its upward trend for the 13th consecutive quarter, recording an annual increase of +2.0% (after +2.1% in the previous quarter), thanks to an increase in employment and some nominal wages, as well as a decrease in savings. By contrast, government consumption continued its downward trend, with an annual growth rate of -3.6%, compared to -5.1% in the previous quarter.

Supported by funds from the Recovery and Resilience Facility, fixed capital formation maintained its momentum, growing at an annual rate of +3.9%, compared with +3.1% in the previous quarter. The strong momentum of total investment (+29.7%) was mainly due to the significant increase in inventories, which were almost unchanged in the same quarter of the previous year (Figure 3.2). More specifically, the increase in fixed capital formation was mainly driven by investments in machinery and equipment, which grew at an annual rate of +12.2% (after +5.2% in the previous quarter), followed by investments in other products, which grew at an annual rate of +1.3% (after +0.6% in the previous quarter), while investments in dwellings and building structures fell at an annual rate of -2.1% (after +0.6% in the previous quarter).

In greater detail, among the individual categories of fixed capital formation, the annual rate of change was positive in five out of seven sectors, with annual increases in machinery and equipment (+16.3% compared to 7.4% in the previous quarter), transport equipment (+13.4% compared to 8.0% in the previous quarter), information and communication equipment (2.1% compared to -1.6% in the previous quarter), other products (+1.4% compared to +0.7% in the previous quarter) and other construction (+0.7% compared to +9.4% in the previous quarter). At the other end of the scale, agricultural products (-5.5%) and housing (-7.1%) declined year-on-year.

Figure 3.2

Evolution of investment and the contribution of its components



Source: ELSTAT, Data processing IOBE

An increase in the growth rate of fixed capital investment in the second quarter of 2024. Significant increase in Inventories as well.

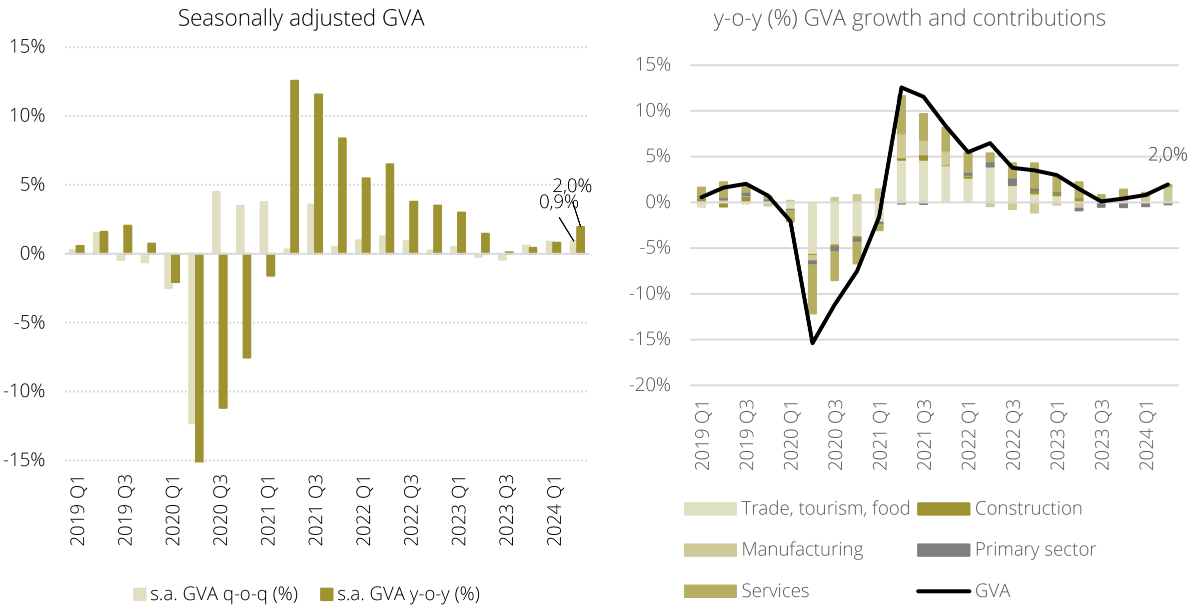
Regarding the evolution of the external balance of the economy, despite the remarkable recovery of exports (+2.1% at an annual rate after -3.7% in the previous quarter), the much higher growth of imports (+9.6% at an annual rate after +3.1% in the previous quarter) worsened the deficit in national accounts terms by about 1.6 billion euro compared to the previous year. Among the export components, exports of goods increased significantly (+2% compared to -3.7% in the previous quarter), while exports of services continued their upward trend for the sixth consecutive quarter (+2.8% compared to +2.4% in the previous quarter). Meanwhile, imports of goods increased significantly for the fourth consecutive quarter (+10.5% p.a. compared to +2.6% in the previous quarter), supported by imports of services, which also strengthened (+6.9% compared to +4.4% in the previous quarter). Finally, the openness of the Greek economy, defined as the sum of exports and imports in relation to GDP, rose to 85% in the second quarter of 2024 (from 82% in the previous quarter).

On the output side (Figure 3.3), domestic gross value added (GVA) grew for the 13th consecutive quarter, at an annual rate of +2.0% (from +0.8% in the previous quarter), albeit more moderately than GDP growth, despite the impressive increase in subsidies, which are included in GVA but do not correspond to domestic output. Specifically, subsidies grew at an annual rate of +108.5% in the second quarter of 2024 (after +16.3% in the previous quarter), while taxes increased at an annual rate of +17.9% (after +13.8% in the previous quarter).

At the sectoral level, manufacturing made the largest contribution to the growth rate of GVA in the second quarter of 2010, with an annual increase of +10.4 % (compared with +4.6 % in the previous quarter), followed by tourism, transport and trade (wholesale and retail trade) with +1.3 % (compared with +0.1 % in the previous quarter), while other services recorded weak growth (+0.4 % compared with +0.8 % in the previous quarter).

Figure 3.3

Evolution of GVA and the contribution of its components



Source: ELSTAT, Data processing IOBE

Growth in GVA due to the strengthening of all sectors of production except primary production. Industry and Other Services contributed equally to GVA growth, followed by Tourism-Transport-Trade.

In contrast, the primary sector continued to contract for the fifth consecutive quarter (-4.8% compared with -12.5% in the previous quarter), while the construction sector declined after six consecutive quarters of growth (-3% compared with +1.2% in the previous quarter). Among the branches of production, four out of the six branches of Other services recorded annual growth in their activity, with the exception of Public administration, defence and social security (-0.7% compared with 0% in the previous quarter) and Recreational activities (-1.3% compared with 0.8% in the previous quarter). More specifically, as in the previous quarter, the highest annual growth was recorded in the Information-Communication branch (+5%, compared to +5.5% in the previous quarter), followed by the branch of Professional-Scientific-Technical-Administrative activities (+1.3%, compared to +0.8% in the previous quarter), Financial services (+1.2%, compared to +2.3% in the previous quarter) and Real estate (+0.4%, compared to +0.4% in the previous quarter).

To sum up, the Greek economy grew at a significantly higher rate than the euro area in the second quarter of 2024. It is worth noting that GDP growth continued for the 13th consecutive quarter after the pandemic, thanks to growth in private consumption and investment. However, general government consumption expenditure contracted and the external balance deteriorated due to an increase in imports, which more than offset the increase in exports.

Table 3.1

Trends in key macroeconomic figures – National Accounts (seasonally adjusted data, 2015 constant prices), provisional data

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change
2012	180480	-7.2%	163342	-7.0%	20220	-21.0%	48968	2.0%	52770	-5.7%
2013	175920	-2.5%	156839	-4.0%	19580	-3.2%	49843	1.8%	50678	-4.0%
2014	176884	0.5%	156662	-0.1%	20431	4.3%	53954	8.2%	54104	6.8%
2015	176459	-0.2%	156616	0.0%	21370	4.6%	56661	5.0%	58356	7.9%
2016	175609	-0.5%	156028	-0.4%	22768	6.5%	56426	-0.4%	59873	2.6%
2017	177458	1.1%	158869	1.8%	21628	-5.0%	61229	8.5%	64379	7.5%
2018 Q1	44943	1.9%	40273	2.3%	5323	-10.4%	16246	9.4%	16699	4.7%
2018 Q2	45056	1.7%	39725	0.1%	6217	16.3%	16500	7.8%	17191	8.4%
2018 Q3	44946	0.5%	39867	0.2%	5309	-1.4%	16614	7.1%	17628	8.9%
2018 Q4	45268	2.2%	39834	-0.5%	6442	30.0%	17451	12.2%	17688	7.9%
2018	180213	1.6%	159699	0.5%	23291	7.7%	66812	9.1%	69206	7.5%
2019 Q1	45626	1.5%	40352	0.2%	6325	18.8%	17110	5.3%	17751	6.3%
2019 Q2	46110	2.3%	40744	2.6%	5535	-11.0%	18457	11.9%	17681	2.9%
2019 Q3	45876	2.1%	40143	0.7%	4821	-9.2%	18347	10.4%	18207	3.3%
2019 Q4	45850	1.3%	40950	2.8%	5623	-12.7%	16163	-7.4%	17579	-0.6%
2019	183462	1.8%	162189	1.6%	22304	-4.2%	70076	4.9%	71218	2.9%
2020 Q1	44877	-1.6%	40702	0.9%	6402	1.2%	15381	-10.1%	18189	2.5%
2020 Q2	38715	-16.0%	36346	-10.8%	5212	-5.8%	13100	-29.0%	14866	-15.9%
2020 Q3	40956	-10.7%	38748	-3.5%	6741	39.8%	12408	-32.4%	16723	-8.2%
2020 Q4	42343	-7.6%	38419	-6.2%	5361	-4.7%	14107	-12.7%	16132	-8.2%
2020	166892	-9.0%	154214	-4.9%	23716	6.3%	54996	-21.5%	65910	-7.5%
2021 Q1	43879	-2.2%	38738	-4.8%	7253	13.3%	15252	-0.8%	17489	-3.8%
2021 Q2	44405	14.7%	40201	10.6%	7668	47.1%	16405	25.2%	18901	27.1%
2021 Q3	45840	11.9%	41181	6.3%	7005	3.9%	18387	48.2%	20429	22.2%
2021 Q4	46223	9.2%	42039	9.4%	7093	32.3%	18249	29.4%	21000	30.2%
2021	180346	8.1%	162158	5.2%	29018	22.4%	68293	24.2%	77818	18.1%
2022 Q1	47264	7.7%	42931	10.8%	7349	1.3%	17582	15.3%	20167	15.3%
2022 Q2	47419	6.8%	43037	7.1%	7224	-5.8%	18565	13.2%	21058	11.4%
2022 Q3	47687	4.0%	43059	4.6%	7819	11.6%	18160	-1.2%	20758	1.6%
2022 Q4	48224	4.3%	43292	3.0%	8212	15.8%	18253	0.0%	21842	4.0%
2022	190595	5.7%	172320	6.3%	30604	5.5%	72560	6.2%	83825	7.7%
2023 Q1	48222	2.0%	43719	1.8%	6796	-7.5%	19246	9.5%	21092	4.6%
2023 Q2	48632	2.6%	43740	1.6%	7101	-1.7%	18609	0.2%	21061	0.0%
2023 Q3	48680	2.1%	43487	1.0%	8462	8.2%	18651	2.7%	21609	4.1%
2023 Q4	48860	1.3%	43990	1.6%	8126	-1.0%	18721	2.6%	21851	0.0%
2023	194393	2.0%	174936	1.5%	30486	-0.4%	75226	3.7%	85613	2.1%
2024 Q1	49227	2.1%	43997	0.6%	8340	22.7%	18530	-3.7%	21752	3.1%
2024 Q2	49759	2.3%	44121	0.9%	9209	29.7%	18993	2.1%	23078	9.6%

* provisional data

Source: Quarterly National Accounts, ELSTAT, September 2024

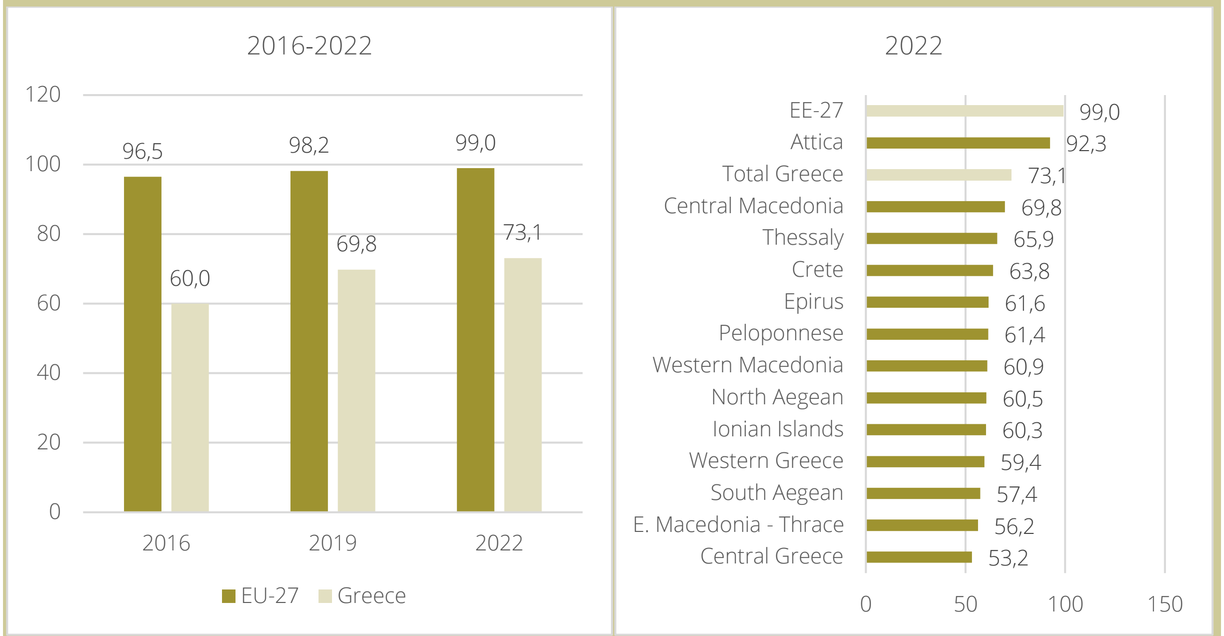
Box of section 3.1A

Competitiveness and Share of employees in Technology and R&D, by region

The Regional Competitiveness Index (RCI), published every two years by the European Commission, measures different aspects of competitiveness for all EU regions. It consists of three main sub-indices: (a) a core sub-index (institutions, macro-economy, infrastructure, health, education), (b) an efficiency index (higher education, labour market efficiency, market size) and (c) an innovation index (technology, innovation, entrepreneurship). According to the latest data, the competitiveness of the Greek economy has improved significantly in 2022 compared to 2016, but remains significantly lower than the EU average (Figure 3.1.A.1).

Figure 3.1.A.1.

Regional Competitiveness Index (RCI), 2016-2022



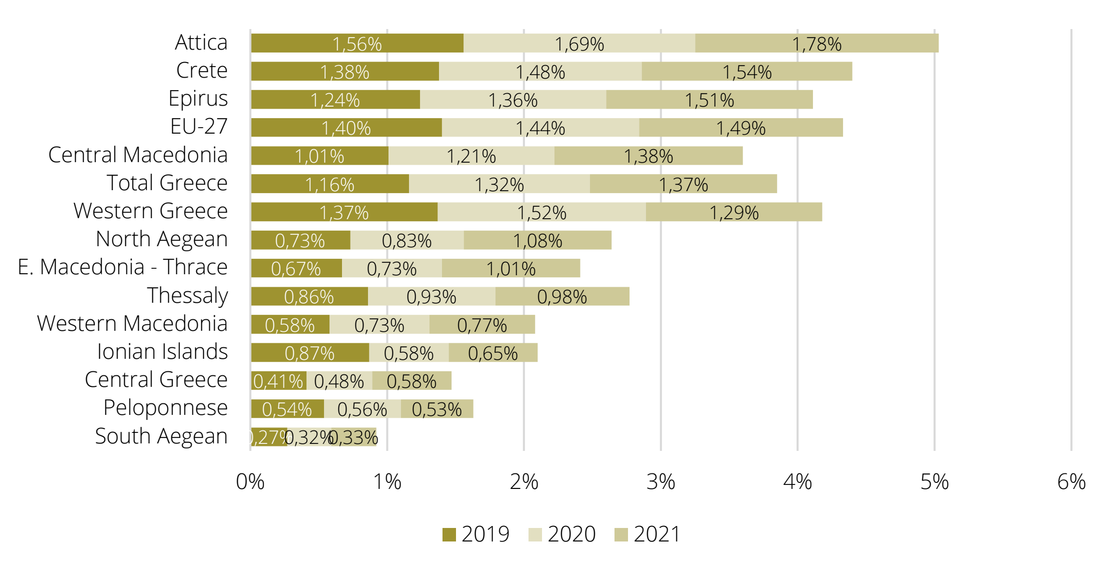
Source: Eurostat, Data processing: IOBE

The same figure reflects the strong heterogeneity at regional level, with Attica's Regional Competitiveness Index (RCI) being the only one above the national average. Although regions with capitals tend to be the most competitive, the gap is smaller in the most competitive Member States. In Greece, the RCI for Attica in 2022 was 92.3, while for Central Macedonia it was only 69.8. The regions of Thessaly and Crete also have a relatively high RCI, where industrial zones are incubators for new and existing businesses and offer favourable conditions for industrial installations.

Investment in research and development (R&D) is crucial for EU countries such as Greece, as it enhances competitiveness and promotes economic growth with a focus on sustainability. The EU-27's sustainable development strategy aims at a green transition, tackling climate change and promoting the circular economy, which requires innovative solutions and technologies. By investing in research in areas such as renewable energy and digital innovation, Greece can achieve economic prosperity while contributing to Europe's sustainable development goals.

Figure 3.1.A.2.

R&D personnel (% of labour force) by region, 2019-2021

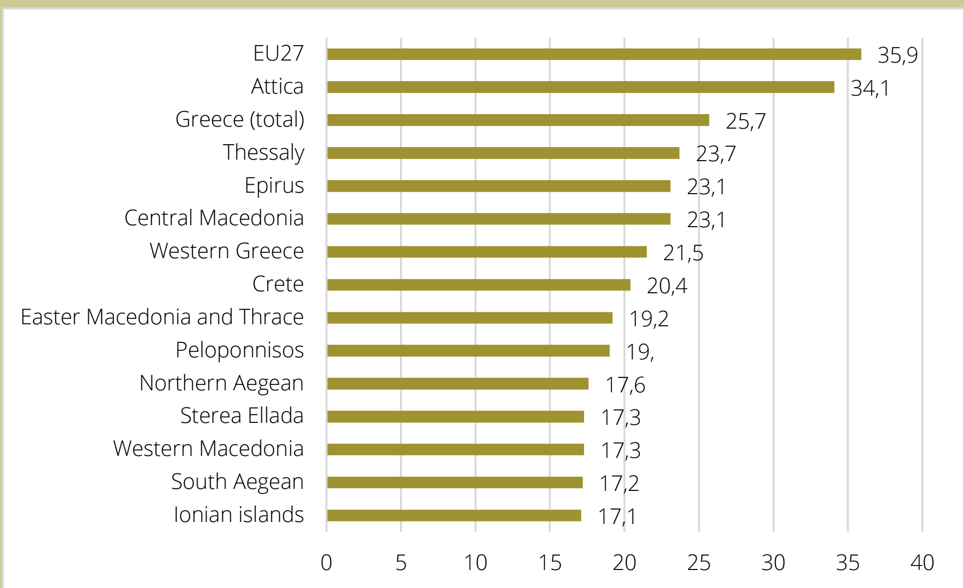


Source: Eurostat, Data processing: IOBE

Figure 3.1.A.2 shows the percentage of employees in research and development (R&D) positions by region for the period 2019-2021. A positive element is the increase in the number of employees in R&D positions in almost all Greek regions, following the European trend. The region of Attica records the highest rate (1.78%), while the regions of Crete (1.54%) and Epirus (1.51%) exceed the EU-27 European average (1.49%) and Central Macedonia (1.38%). Western Greece follows with 1.29%, while the other regions have significantly lower rates, highlighting the strong heterogeneity.

Figure 3.1.A.3.

Personnel in science and technology (% of labour force) by region, 2023



Source: Eurostat, Data processing: IOBE

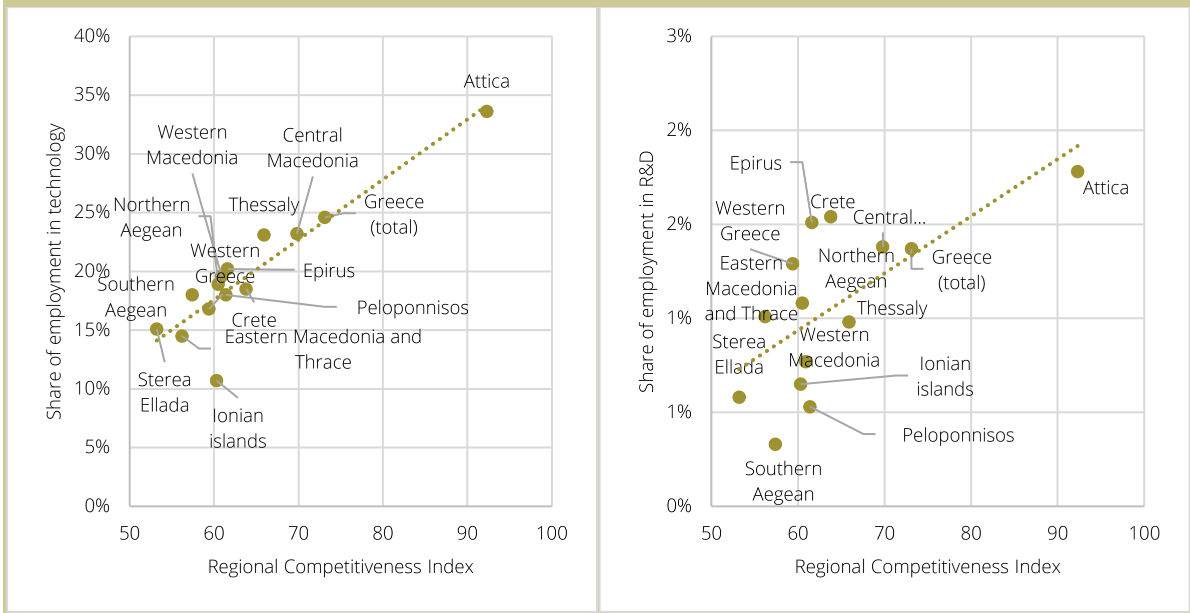
In contrast, the concept of 'Human Resources in Science and Technology' (HRST), as shown in Figure 3.1.A.3, encompasses both occupational profile and educational background and refers to individuals who have successfully completed tertiary education or are working in S&T occupations where this level of education is usually required, according to the official Eurostat definition.

Interregional heterogeneity is also reflected in the share of the labour force employed in S&T. The regions with large urban centres rank high, with Attica above the Greek average and close to the EU average. In contrast, the regions of the Ionian Islands, the Aegean, Western Macedonia and Central Greece rank much lower.

An economy's competitiveness is directly linked to the proportion of its workforce employed in technology and research and development (R&D). Countries with high participation in these sectors are able to innovate more often, increase productivity and improve the quality of their products and services. A strong positive correlation is also observed in Greece, as shown in Figure 3.1.A.4 below.

Figure 3.1.A.4.

RCI and Share of employment in technology and R&D



Source: Eurostat, Data processing: IOBE

In particular, the strongest link between the RCI and the share of employees (in terms of labour force) in the broader technology sector is recorded in the region of Attica, followed by Central Macedonia, with the other regions lagging well behind both in terms of competitiveness and participation of employees in technology sectors. A similar picture, albeit with a wider dispersion, can be seen in the corresponding graph correlating the RCI with the share of persons employed in skilled R&D jobs. As the two largest regions of the country (Attica and Central Macedonia) have the largest share of skilled jobs, it is not surprising that the highest rates are found in these regions. Accurately identifying and documenting the relationship between competitiveness and skilled labour in high value-added sectors requires more thorough and in-depth research, which is beyond the scope of this box. However, the evidence from the data points to a positive correlation between competitiveness and skilled labour, providing an impetus for policies that encourage a shift in the production model towards sectors that support jobs with a high share of technology and R&D.

B. Assumptions and forecasts

Medium-term outlook

- The main drivers of GDP growth in 2024 are the low growth rate of the euro area economy, the gradual decline in inflation and interest rates, geopolitical instability, the fiscal path and the implementation of the revised Recovery and Resilience Plan.
- Growth estimated at 2.3% at constant prices in 2024.
- Significant strengthening of fixed investment (+8.8%) and private consumption (+2.2%).
- Deterioration in the current account balance, with import growth (+5.8%) more than offsetting export growth (+1.8%) in 2024.
- Inflation is estimated at 3.0% in 2024 and 2.4% in 2025, and the unemployment rate at 10.1% in 2024 and 9.3% in 2025.
- The main drivers of GDP growth in 2025 are a slight acceleration of the euro area economy, further declines in inflation and interest rates and the implementation of the Recovery and Resilience Plan.
- Estimated growth of a similar magnitude of 2.4% in 2025, with a slight slowdown in private consumption (+1.7%) and a strengthening of fixed investment dynamics (+11%).
- A slight improvement in the current account balance, with exports and imports growing by 4.0% and 2.9% respectively in 2024.

Amid risks stemming from regional and international geopolitical and economic instability, persistent inflation, high public debt and external deficit, but also opportunities such as the accelerated implementation of the revised Recovery and Resilience Plan, the decline in interest rates and increased openness, the Greek economy is expected to maintain its growth momentum in 2024 and 2025.

Persistent inflation

In the period January to September 2024, the Harmonised Index of Consumer Prices (HICP) increased by 3.0% (significantly lower than +4.4% in the previous year), the fifth highest inflation rate among the euro area countries and well above their weighted average (+2.4%, after +6.4% in the previous year). According to the data available for the period January to August 2002, the 3.0% increase in the HICP was mainly due to the positive impact of domestic demand, as the percentage change in the index with constant taxes and excluding energy goods was 3.2%, compared with 7.6% in the previous year. Indirect taxes made a positive contribution to prices of 0.2 percentage points, while they had no effect in the same period last year. Core inflation in Greece was 3.3% in the first eight months of 2024, compared with 7.4% in the corresponding period of 2023. It is also worth noting that the rate of change of the HICP in June 2024 increased further to 3.0% (from 2.4% in the same month of the previous year; a more detailed analysis of inflation and its main determinants can be found in section 3.5).

Global energy commodity prices have been on the rise, with the price of oil increasing by 3.7% in January-August 2024, albeit at a lower rate than in the corresponding period of 2023. Rising global demand and war tensions in the Middle East could trigger further increases in energy prices.

In Greece, domestic demand is slowing down the decline in inflation, supported by factors such as the reduction in unemployment, wage increases from 1 April 2024, support measures for vulnerable social groups and the return to three-year wage indexation. In addition, geopolitical tensions in the Israeli region could contribute to a rise in inflation.

According to the European Commission (May 2024), inflation in the euro area is forecast to reach 2.5% in 2024 and 2.1% in 2025, while for Greece it is slightly higher at 2.8% in 2024 and 2.1% in 2025. The ECB's forecast for inflation in the EA in 2024 is similar, while its estimate for 2025 is slightly higher at 2.2%, in line with its revised forecast in September this year. In Greece, inflation is expected to be slightly above the euro area average, mainly due to a slower decline in food prices and steady wage growth.

Low but resilient growth rate of the euro area economy

Most global economies continued their expansion in the first half of 2024, leading the OECD in its latest September report to revise slightly upwards its forecast for global economic growth in 2024 to 3.2%. Specifically, OECD economies grew at an annual rate of +1.8% in the second quarter of 2024, slightly higher than in the previous quarter (+1.7%), while the US economy grew at an annual rate of +3.1% in the same period (up from +2.9% in the previous quarter), mainly due to an increase in consumer spending.

Over the same period, the annual growth rate of the euro area economy was also slightly higher than in the previous quarter, although it remained low (+0.6% compared with +0.5% in the previous quarter). Exports made the largest positive contribution to growth for the second consecutive quarter, followed by consumption expenditure, supported by wage growth and the consequent strengthening of disposable income. At the same time, labour markets remained resilient, with unemployment close to historic lows. Finally, the easing of inflationary pressures and a more stable credit environment have started to take effect, gradually reviving investment, especially in the housing sector (for more information on changes in key macroeconomic variables in the EU and globally, see Sections 2.1A and 2.1B). For 2024 as a whole, the OECD (September 2024) forecasts a growth rate of +0.7% for the euro area, unchanged from the previous quarter, while the ECB (September 2024) projects a slightly lower rate of 0.8%.

Faster decline in interest rates

Following the gradual decline in EA inflation since last quarter, the ECB has cut interest rates three times in a row since June, after ten consecutive increases in the previous two years. In particular, following a 25 basis point cut in June, in September the ECB cut the deposit facility rate by 25 basis points and the main refinancing and marginal lending facility rates by 60 basis points each. This decision was based, on the one hand, on the reduction of inflation in the euro area by 2.5 percentage points from September 2023 and, on the other hand, on the projection of a further easing of inflationary pressures over the medium term. Strong domestic pressures on services prices and the possibility of further increases in global energy prices due to escalating geopolitical turmoil are acting as a drag on interest rate cuts, raising expectations of a slightly slower pace of interest rate cuts in Europe in 2024. It should be noted that in September the ECB raised its growth forecast (0.8% vs. 0.7% three months ago), while leaving its 2024 EA inflation forecast (2.5%) unchanged. In the same vein, the Fed lowered its key rate to 5% (September 2024), the first cut in four years, sending a positive signal to markets that had been expecting a strong move in the face of a weakening employment picture.

Finally, we assume that interest rates will follow the trend of today's futures contracts, i.e. that the Euribor will gradually decline from almost 3.9% at the beginning of the year to around 2.7% at the end of 2024 (from an expectation of 3.3% last quarter) and 1.8% at the end of 2025.

Successful execution of the State Budget in 2024 (January - August) with revenue overperformance

The fiscal performance of the Greek economy is favourable, as the implementation of the State Budget (SB) for the period January-August was successful, with the primary surplus reaching +3.2% of GDP and the fiscal balance showing a surplus of +0.4% of GDP. This significant improvement over the previous year is mainly due to revenue outperformance, which allowed the economic policy team, after negotiations with the European Commission, to raise the expenditure ceiling for the coming years (more information on the implementation of the SB is presented in section 2.2B).

For 2024 as a whole, the SB is estimated to remain in surplus (+2.4%), lower than in the previous year (-1.0%). This is implied by a milder strengthening of government revenue relative to expenditure. It is noted that the timely and effective use of existing financial instruments, such as the Public Investment Programme and the Recovery and Resilience Facility, as well as new ones, such as REPowerEU, together with the continuation of structural reforms, is crucial for the achievement of the budgetary targets.

Public debt-to-GDP ratio remains on a downward trend, non-performing loan ratio declines

The level of government debt fell slightly in the first quarter of 2024. However, the strong nominal performance of the Greek economy, combined with high inflation, led to a significant reduction in the debt-to-GDP ratio. Specifically, general government debt fell to 159.8% of GDP in the first quarter of 2024, from 161.9% in the same period of 2023.

In the second quarter of this year, Greek government debt fell slightly compared with the previous quarter (€355.912 billion compared with €355.947 billion). According to the Public Debt Management Agency (PDMA), 53.5% of gross new borrowing for the year was in the form of treasury bills, while the remaining 46.5% was in the form of bonds. Similarly, the weighted average maturity of gross new borrowing was about 16.77 years, while the weighted average cost was 3.7%. It should be noted that the debt structure reduces refinancing uncertainty, as more than 74% of public debt is held by institutional partners, has an average maturity of 19 years, and carries fixed and low interest rates. Nevertheless, the financing needs of the economy in the coming years will also be affected by the repayment of loan tranches received by the country from EU institutions (such as loans from the European Bank for Reconstruction and Development, the European Financial Stability Facility - EFSF, SURE, etc.).

Maintaining the growth momentum of the Greek economy requires external debt sustainability, especially in view of the high current account deficit. A key factor for the smooth financing of public debt in the medium term is fiscal discipline, which will ensure compliance with the rules of the revised Stability and Growth Pact.

With regard to private debt, the share of non-performing loans (NPLs) fell to 6.9% of total bank loans in the second quarter of 2024, from 7.5% in the previous quarter. It is important to note that a significant share of former bank NPLs is held by Credit Servicing Firms (CSFs), which keeps the total stock of private NPLs at a very high level, with negative implications for the efficient allocation of financial resources and economic recovery (see the special box in Section 2.2.C).

Growth of fixed investment

In the second quarter of 2024, fixed investment strengthened further compared to the first quarter, mainly due to a significant increase in inventories. Until the end of this year, fixed investment is expected to maintain its upward trend, based on the easing of monetary policy, the improvement in economic sentiment (investment grade) and the accelerated implementation of the Greek Recovery and Resilience Plan. We should also highlight the extension of the loan component of the Recovery and Resilience Facility (the REPowerEU plan) to implement reforms and investments in specific areas, including energy efficiency, the labour market, taxation, healthcare and public transport.

The machinery and transport equipment sector was the main driver of investment growth in the second half of this year, with the other products sector taking second place, while investment in housing and construction fell sharply. In order for the domestic economy to maximise the benefits of stronger investment activity, investment should be directed towards high value-added and export-oriented sectors. At the same time, a change in the economic mix with an emphasis on reducing consumption and increasing national savings is necessary to finance a larger share of investment and improve the current account deficit.

Deterioration of the external deficit

Based on the national accounts, the external balance was in deficit at -8.2% of GDP in the second quarter of 2024, widening by -1.7 p.p. compared with the previous quarter and -3.2 p.p. compared with the corresponding quarter of the previous year. The deterioration of the balance was driven by an increased deficit in the goods account, offset by an improvement in the services account. More specifically, the deterioration in the goods deficit in the second quarter of 2024 was driven by a multiple increase in imports (+10.5% y-o-y in real terms, compared with +2.6% in the previous quarter) compared with exports (+2.0% y-o-y, compared with -8.6% in the previous quarter). The services account showed a similar pattern, with imports (+6.9% compared with +4.4% in the previous quarter) outpacing exports (+2.8% compared with +2.4% in the previous quarter) on a y-o-y basis.

Similarly, the analysis of the current account (CA) for the period January-July 2024 shows a deficit of €8.6 billion, an increase of €1.3 billion compared to 2023. The widening trade deficit during economic growth reflects the strong positive correlation of domestic consumption, exports and investment with imports, as well as the slight improvement in export performance. (The evolution of the external balance is discussed in detail in section 3.3).

In the second half of this year, developments are expected that could have both positive and negative effects on the current account (CA). On the positive side, there is the continued good performance of inbound tourism in real terms, the gradual improvement in the international economic environment, the moderation of inflation and a faster decline in interest rates.

Conversely, the expected increase in investment, together with strengthening domestic demand, may put pressure on the CA.

Improved labour market performance

According to ELSTAT's Labour Force Survey, the unemployment rate fell by 1.4 percentage points year-on-year to 9.8% in the second quarter of 2024, from 11.2% in the same quarter of 2023 (see Annex, Figure 7). The decline in the unemployment rate was the result of a decrease in the number of unemployed persons by 65,700 persons or 12.3% (year-on-year) and a strengthening of employment (an analysis of the development of the domestic labour market is presented in section 3.4).

In the current year, job creation will be supported by the expected increase in investment, based on the decline in interest rates and the accelerated implementation of the revised National Recovery and Resilience Plan, as well as the systematic strengthening of international investor confidence in the country following the upgrading of the country's credit rating in 2023.

Resilient consumption and accelerating growth in the euro area in 2024 are also expected to boost employment, mainly through an increase in the export of services. From a sectoral perspective, there is a recovery in manufacturing, sustained momentum in services and a slowdown in construction and retail trade. The gradual ripening of major infrastructure projects and the growth of tourism will also have a positive impact on employment. Finally, the public sector is expected to continue to support employment through subsidised DYPA programmes and planned hiring in the current year.

However, ongoing geopolitical tensions, economic uncertainty and high international energy prices will weigh on competitiveness and employment. In addition, high core inflation and persistent inflation in basic goods remain important obstacles to competitiveness and overall employment.

A further reduction in unemployment requires the continuation of the growth of the Greek economy, accompanied by a reduction in structural unemployment. To this end, the skills of the unemployed need to be adapted to the needs of the market and the participation of women and young people in the labour force needs to be increased. In addition, given that long-term employment is affected by demographic trends, economic growth and improved living standards will depend on increasing productivity and integrating innovative technologies into production.

Challenges in the banking sector

The increasing exposure of Greek banks to government bonds, the risk of a new wave of non-performing loans, as well as geopolitical instability and economic uncertainty at regional and international level, add to the challenges facing the financial system.

Regarding the balance sheet of Greek banks, on the liabilities side, the increase in private deposits in the period June-August 2024 improves their liquidity and creditworthiness, reducing their exposure to the high interest rate environment. For the rest of 2024 and 2025, private deposits are expected to remain stable with a slight upward trend. At the same time, as private consumption growth slows and inflation remains above target, real disposable income and household and corporate savings come under sustained pressure.

On the asset side, according to the August 2024 data, consumer loans and credit to the domestic private sector increased, while mortgage loans continued to contract. Positive developments include stronger credit expansion to enterprises, improved organic profitability, liquidity and capital adequacy ratios, and a decline in non-performing loans (NPLs). In addition, private deposits continue to grow, while the cost of public sector borrowing and its divergence from other countries are gradually declining. Among the new challenges for banks, their increasing exposure to government bonds stands out, to a greater extent than in other European countries. The timely implementation of the loan component of the National Recovery and Resilience Plan is both an opportunity and a challenge to finance productive investment on favourable terms (see section 2.2C for an analysis of financial system developments).

Positive trends in the sectors of domestic production except trade

On the supply side, in the first eight months of 2024, industrial production, construction and services increased, while wholesale and retail trade decreased, with the retail trade volume index showing a larger year-on-year decline.

More specifically, the production indices for manufacturing (+6.7% in the eight months of 2024 compared with +1.0% in 2023) and construction (+8.1% in the eight months of 2024 compared with +17.1% in 2023) recorded an increase and outperformed the corresponding indices for the euro area. In contrast, the decline in the volume index for retail trade accelerated (-1.0% compared with -0.6% in the previous year), with expectations falling compared with 2023. A significant decrease of -15.6% (instead of an increase of 9.5% in 2023) was also recorded in the volume index for wholesale trade (more information on the main production branches is provided in section 3.2).

Mild deterioration in the domestic economic sentiment

Despite the stronger growth of the Greek economy in the current year, the domestic economic sentiment indicator deteriorated slightly compared to the second quarter of 2024, falling from 110.0 to 107.7 points. The rise in business expectations in the retail trade sector was not enough to offset the weakening of expectations in the manufacturing, construction and services sectors. In July, the factory capacity utilisation rate - which measures the use of production capital such as plant and machinery - fell to 78.8% from 80.7% in April.

In Europe, the corresponding average index remained unchanged compared with the previous period, both in the European Union and in the euro area. Specifically, the ESI stood at 96.6 (96.4) points in the EU and at 96.2 (95.9) points in the euro area in the third quarter of 2024.

With regard to households, the Consumer Confidence Index deteriorated slightly in the third quarter compared with the previous quarter (-47.8 points compared with -42.7 points), as households' assessment of the country's economic situation and their own economic situation deteriorated and their intention to save remained unchanged. In particular, the index remains significantly lower than it was one year ago (-36.3 points). (For more information on the evolution of economic sentiment, see Section 2.2A).

Medium-term forecast

Based on the analysis of the international and domestic economic environment, the evolution of key macroeconomic variables and the adoption of some key assumptions, we formulate short-term forecasts of the components of domestic GDP for 2024 and 2025.

Text Box 3.1

Macroeconomic forecast drivers

Risks

- Further geopolitical instability and economic uncertainty at regional and international level (war in Ukraine, Middle East, US elections).
- Alternative scenario of a large increase in international energy prices with negative effects on production costs and interest rate de-escalation.
- High external deficit with structural features.
- Loss of competitiveness due to inflation above the euro area average.
- Labour market: slower decline in the unemployment rate, inter alia due to high structural unemployment.
- High loan-to-deposit interest rate spreads and a consistently negative household savings rate.
- Delays in the clean-up of non-performing loans off bank balance sheets, which act as a constraint on the reallocation of resources.

Positive outlook

- The acceleration in the implementation of the revised Recovery and Resilience Plan, together with the expansion of its loan component and REPowerEU, may unlock international capital for productive and longer-term investments.
- Lower interest rates represent an opportunity to accelerate investment.
- The enhanced openness of the economy with a gradual improvement in the value added of exports is a positive development.

Private consumption is expected to maintain its momentum in the second half of this year, thanks to employment and wage growth and a gradual easing of inflation. Moreover, taking into account the expected reduction in interest rates and the implementation of the Greek Recovery and Resilience Plan, this positive trend is projected to continue through 2025. However, the slower decline in the unemployment rate, the continued contraction of credit to households, combined with high borrowing costs and their negative savings rate, as well as a possible sharp increase in international energy prices, with consequent negative effects on production costs, and the deceleration of interest rates will act as a drag on further consumption growth. With regard to public consumption, the targets for achieving budget surpluses will lead to a contraction both this year and next. In 2024, the annual change in private and public consumption is estimated at +2.2% and -2.7%, respectively, while in 2025 it is projected at +1.7% and -0.4%. Total consumption is expected to grow by +1.3% (2024) and +1.2% (2025).

Fixed investment is projected to continue its upward trend in both the second half of 2024 and in 2025. Drivers of this growth include the expected further easing of monetary policy, the accelerated implementation of the Greek Recovery and Resilience Plan and the improvement in economic sentiment following the country's credit rating upgrade. In addition, the faster decline in interest rates is expected to reinforce the low rate of corporate credit expansion. Specifically, fixed investment is projected to increase by +8.8% yoy in 2024, while its growth rate is expected to reach +11.0% in 2025.

Text Box 3.2

Baseline scenario assumptions

- The euro area economy follows the ECB's baseline scenario (September 2024) for growth of 0.8% in 2024 and 1.3% in 2025 and inflation of 2.5% in 2024 and 2.2% in 2025.
- Interest rates follow the trend in current futures, i.e. Euribor gradually declines from almost 3.9% at the beginning of the year to 2.7% at the end of 2024 (from an expectation of 3.3% last quarter) and 1.8% at the end of 2025.
- International energy commodity prices follow the EIA's baseline scenario, with stabilising trends in the last quarter of 2024 and 2025, at lower levels than in the preceding twelve months.
- Geopolitical tensions escalate in Ukraine and the Middle East.
- The Greek Recovery and Resilience Plan is implemented without delay in 2025.
- Inbound tourism in 2024 and 2025 is expected to maintain its positive performance of 2023 in real terms.

Table 3.2

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

	MinFin		EC		IOBE		IMF		OECD	
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
GDP	2.2%	2.3%	2.2%	2.3%	2.3%	2.4%	2.0%	1.9%	2.0%	2.5%
Consumption	:	:	:	:	1.3%	1.2%	:	:	:	
Private Consumption	1.7%	1.6%	:	:	2.2%	1.7%	:	:	1.7%	0.9%
Public Consumption	0.4%	0.0%	:	:	-2.7%	-0.4%	:	:	1.4%	0.7%
Gross Fixed Capital Formation	6.7%	8.4%	6.7%	:	8.8%	11.0%	:	:	2.8%	9.1%
Exports	4.2%	4.0%	:	:	1.8%	4.0%	:	:	1.3%	2.9%
Imports	3.8%	3.6%	:	:	5.8%	2.9%	:	:	3.4%	1.6%
Harmonised Index of Consumer Prices (%)	2.8%	2.1%	2.8%	2.1%	3.0%	2.4%	2.7%	2.1%	3.0%	2.3%
Unemployment (% of labour force)	10.3%	9.7%	10.3%	9.7%	10.1%	9.3%	9.4%	8.7%	9.8%	9.7%
General Government Balance (% of GDP)	2.4%	2.5%	:	-0.8%	:	:	2.1%	2.1%	1.8%	:
Current Account Balance	:	:	-5.2%	-4.8%	:	:	-6.5%	-5.3%	-6.0%	-4.0%

Sources: Μεσοπρόθεσμο Δημοσιονομικό-Διαρθρωτικό Σχέδιο 2025-2028 – October 2024 – Υπουργείο Εθνικής Οικονομίας και Οικονομικών, European Economic Forecast Spring 2024 – May 2024 – European Commission (EC), The Greek Economy 03/24 – October 2024 – IOBE, IMF World Economic Outlook, Fiscal Monitor April 2024 – April 2024 – IMF, Economic Outlook 115 – May 2024 – OECD.

The external balance is expected to deteriorate relative to 2023, as the increase in total imports more than offset the positive effect of the increase in exports in the second quarter of 2024, with the Greek economy maintaining its high degree of openness. In 2025, the projected increase in domestic demand, driven by accelerating investment, is estimated to lead to a strengthening of both total imports and total exports, with exports rising at a faster pace thanks to growing export capacity and improving competitiveness, coupled with a gradual recovery in external demand. In addition, the upward trend in export market shares and the steady increase in tourism receipts will contribute to a gradual further narrowing of the current account deficit. We expect the annual rate of change in exports and imports to be +1.8% and +5.8%, respectively, in 2024 and +4.0% and +2.9% in 2025.

Taking all this into account, we revise upwards our forecast for the recovery of the domestic economy, projecting a growth rate of +2.3% in 2024 (from +2.1% in the previous forecast of July 2024) and +2.4% in 2025, with a somewhat negative outlook due to the low growth rate of the EA economy, the deterioration of the external balance and the persistence of inflation and uncertainty at the regional and international level.

3.2 Trends in key sectors

- Industrial production strengthened by 6.7% in the first eight months of 2024 - faster improvement compared to 2023 (1.0%).
- Continued improvement in Construction, with output strengthening by 8.1% in the first half of 2024, but at a slower pace compared to 2023 (17.1%). Nevertheless, new permits continue to increase.
- Marginal decline in Retail Trade volume in the first seven months of 2024 (-1.0% instead of a milder decline of -0.6% in 2023).
- Growth in turnover in most Services sectors in the first half of 2024, but at a slower pace.

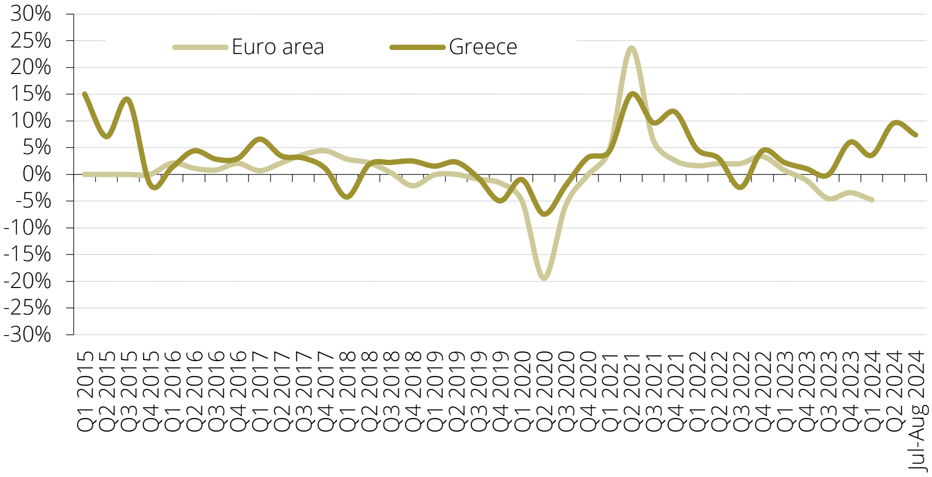
Industry

In the first eight months of 2024, the industrial production index in Greece increased by 6.7%, a higher rate than in 2023 (1.0%). In the euro area, according to the latest available data, industrial production contracted by 3.9% in the first seven months of 2024, after a decline of 0.5% in 2023.

The overall producer price index for manufacturing fell by 2.2% in the first eight months of 2024, compared with a sharper fall of 6.4% in the same period of 2023. The price decline in the overall index was driven by both the international market (-10.3% instead of +45.8% in 2023) and the domestic market (-3.4% instead of -5.1%). In addition, the average turnover index increased by 5.6% during the period to July 2024, compared with a decrease of 3.8% during the same period last year.

Figure 3.4

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



The overall index increased by 6.7% in the first eight months of 2024

Sources: ELSTAT, Eurostat

Growth was recorded in almost all the main sectors of Greek industry, albeit with mixed trends compared to the corresponding period in 2023. In particular, production increased in electricity (14.8% instead of -11.5%), water supply (4.6% instead of -0.6%) and manufacturing (5.0% instead of 4.3%) compared to the corresponding eight months of 2023. There was a slight decrease in mining, with the relevant index falling by 0.04% instead of rising by 10.3% in the previous year.

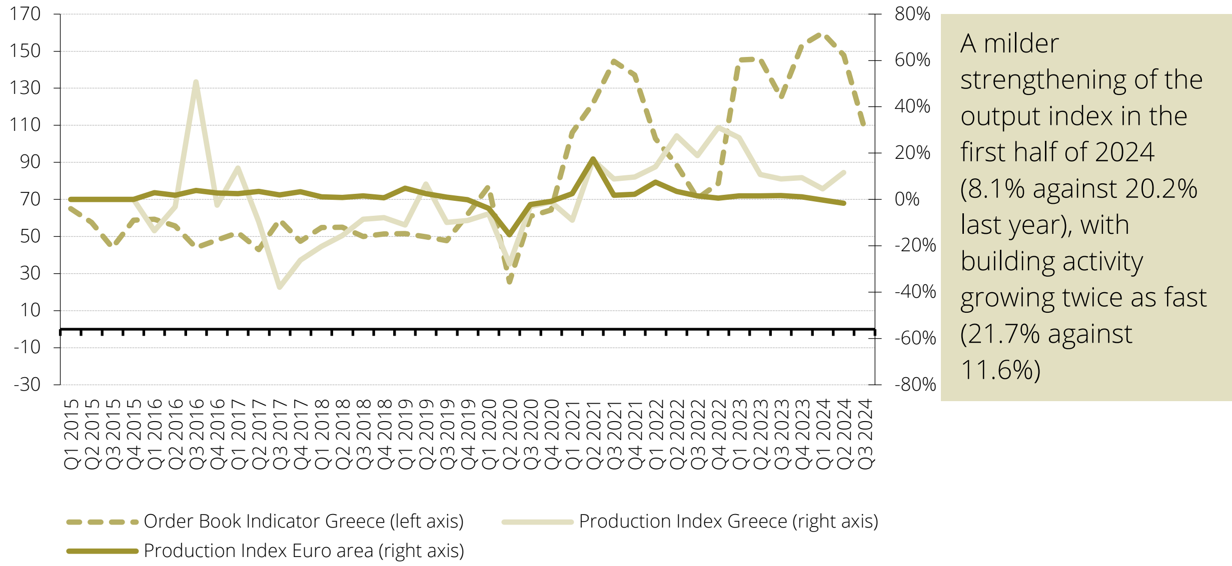
Construction

In the first half of 2024, the production index for construction increased by 8.1%, following a stronger increase of 17.1% in the corresponding period of 2023. The above trend in Greece is largely due to stronger growth in the construction sector in the second quarter of 2024, of 11.7%, instead of a milder increase of 10.7% in the second quarter of 2023. Over the same period in the euro area, construction output contracted by 0.9% instead of growing by 1.5% in the previous year.

In Greece, building works (first half) strengthened by 8.1% after a 20.2% increase in the first half of 2023. The civil engineering index strengthened by 9.0% instead of a stronger growth of 15.0% in 2023. These indicators point to a slowdown in the growth of construction activity. However, there is an acceleration in the issue of new building permits (21.7% instead of 11.6% in the first half of 2023). This, combined with the fact that expectations for the construction sector in the first nine months of 2024, as reflected in the IOBE's leading economic sentiment indicators, are practically unchanged compared to the corresponding period in 2023, points to a possible consolidation of construction output in the coming months.

Figure 3.5

Production Index in Construction and Building Activity Index



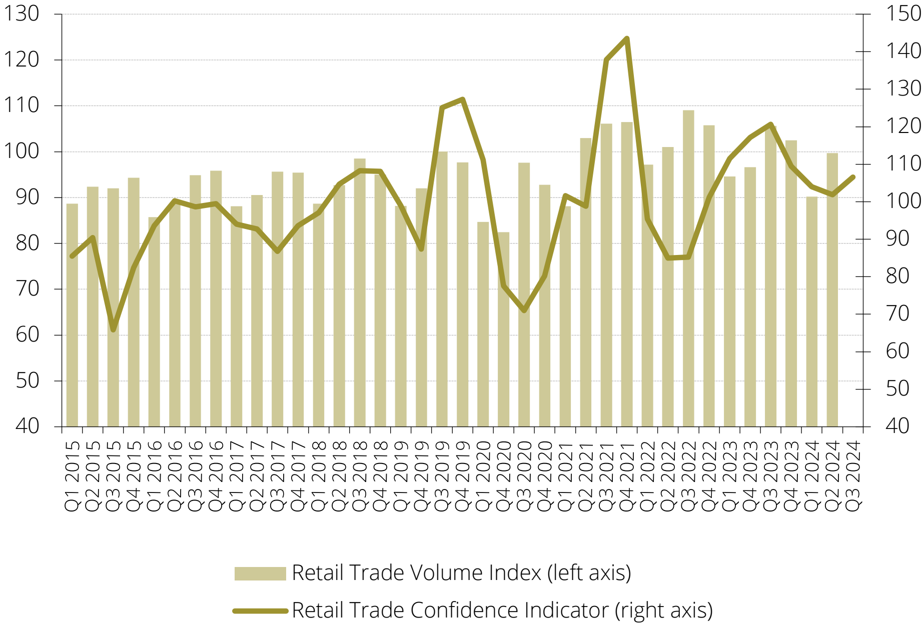
Source: ELSTAT, IOBE

Retail Trade

The volume index for retail trade fell by 1.0 % in the first seven months of 2024 (period for which the latest data are available), compared with a milder decline of 0.6 % a year before. Volumes rose in 4 out of the 8 sub-sectors. The largest increase was recorded for pharmaceuticals (5.4%, compared with a fall of 4.8% in the corresponding seven months of 2023). This was followed by supermarkets (+2.3% compared to -5.3%) and fuels & lubricants (2.2% compared to -0.1%). In contrast, volume fell in Furniture - Electrical Goods (-13.3% compared to 8.2% growth in the previous year), Food - Beverages (-5.5% compared to 0.9% growth) and Books - Stationery (-3.5% compared to 2.2% growth in the previous period).

Figure 3.6

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



In the first seven months of the year, retail trade volume decreased by 1.0%. Mixed trends in expectations with recovery in the overall index in the third quarter.

Sources: ELSTAT, IOBE

Table 3.3

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan.-Jul. 2022	Jan.-Jul. 2023	Jan.-Jul. 2024	Change 2023/2022	Change 2024/2023
Overall Index	97.1	100.6	96.1	3.5%	-4.4%
Overall Index (excluding automotive fuels and lubricants)	97.1	99.3	96.5	2.3%	-2.9%
Store Categories					
Supermarkets	92.0	97.1	94.0	5.6%	-3.1%
Department Stores	105.6	99.9	103.2	-5.4%	3.4%
Automotive Fuels	98.5	98.7	100.7	0.1%	2.1%
Food – Drink – Tobacco	95.7	94.9	90.5	-0.9%	-4.6%
Pharmaceuticals – Cosmetics	102.8	108.0	108.4	5.0%	0.4%
Clothing – Footwear	100.4	98.1	102.6	-2.3%	4.6%
Furniture – Electric Equipment – H. Appliances	113.6	105.0	98.5	-7.6%	-6.2%
Books – Stationary	105.5	103.2	101.8	-2.2%	-1.3%

Source: ELSTAT

Expectations for the retail trade sector in the first nine months of 2024 were lower than in the same period of 2023. The corresponding cumulative index decreased by 11.0 points, compared to an increase of 24.8 points in 2023, as it was exclusively affected by the decline in expectations in three sub-sectors of retail trade. Specifically, expectations fell by 12.3 points in motor vehicles and parts (compared with an increase of 18.8 points in 2023), by 18.6 points in food and beverages (compared with +45.5 points in 2023) and by 5.3 points in department stores (compared with an increase of 38.0 points in 2023).

In particular, the decline in the index for transport equipment was mainly due to a fall in the current sales balance and an increase in inventories. Specifically, the current sales balance fell to 3 points in Q3 2024, compared with 36 points in Q3 2023, with a significant increase in the proportion of firms reporting lower sales and a decrease in the proportion reporting higher sales. 80% of firms report that stocks are at normal levels, with a decrease in the proportion of firms estimating that stocks are falling. The balance for new orders turned negative at -26 points, compared with 3 points in 2023, with a significant increase in the share of firms expecting a decrease in new orders in the coming period. In contrast to orders, the balance for sales expectations improved to 27 points in 2024, compared with 18 points last year, as expectations of no change fell sharply while those expecting sales to increase and those expecting sales to fall increased. On the employment side, strong signs of stabilisation persist, while on the price side expectations of no change predominate, with inflation expectations weakening.

Table 3.4

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

	H1 2022	H1 2023	H1 2024	Change 2023/2022	Change 2024/2023
Food-Drinks-Tobacco	58.8	101.5	83.4	42.7	-18.1
Textiles - Clothing – Footwear	82.8	108.9	117.5	26.1	8.6
Household Appliances	98.0	109.6	117.6	11.6	8.0
Vehicles-Spare Parts	106.8	126.2	116.2	19.4	-10.0
Department Stores	90.6	106.7	113.4	16.1	6.7
Total Retail Trade	93.3	114.3	104.8	21.0	-9.5

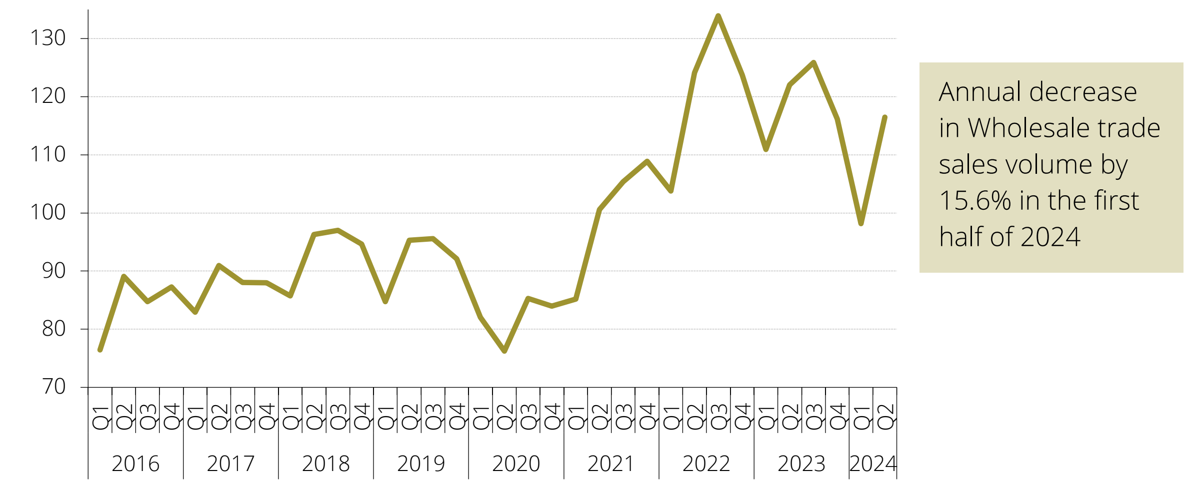
Source: IOBE

Wholesale Trade

In the first half of 2024, the volume index for wholesale trade fell by 15.6%, compared with an increase of 9.5% in 2023. In particular, this decrease was driven by roughly similar declines in the first two quarters of 2024 (-17.4% and -14.0% respectively). Over the same period, the turnover indicator, which includes the impact of prices, fell by 7.9%, compared with a rise of 2.2% in 2023.

Figure 3.7

Turnover Index in Wholesale Trade (2021=100)



Source: ELSTAT

Services

In the first half of 2024, the turnover index increased in 5 of the 6 main services activities, but at a slower pace. In particular, administrative and support services recorded an increase of 17.8% (against 22.6% in the same period of 2023), followed by transport (8.8% against 10.4% a year earlier). Turnover in the real estate management sector increased by 5.9% (compared to 10.4% in 2023), while professional, scientific and technical services also recorded a slight increase (1.2% compared to 12.8% a year earlier). On the flip side, turnover in the information and communication sector fell by 2.1% instead of a 14.5% increase in 2023.

Table 3.5

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

	Jan.-Sep. 2022	Jan.-Sep. 2023	Jan.-Sep. 2024	Change 2023/2022	Change 2024/2023
Hotels – Restaurants – Travel Agencies	125.4	132.4	140.8	7	8.4
Financial Intermediation	111.6	117.6	140	6	22.4
Other Business Services	114	109.3	112.5	-4.7	3.2
Information Services	98.5	103.9	106.1	5.4	2.2
Total Services	**108.6**	**108.3**	**121.6**	-0.3	13.3

In the tourism sector, the turnover index for accommodation services fell by 10.9% over the same period, compared with growth of 25.9% in the previous year. The negative performance was entirely due to the fall in the index in May 2024, when it fell by 29.8%, while growth was recorded in all the other months of the half-year period. In addition, turnover in food services rose by 23.4%, compared to falling by 12.0% in 2023.

According to the latest trends in the leading indicators of the IOBE business and consumer surveys for the first nine months of 2024, expectations strengthened in all the examined sectors of services, while the overall sector index improved by 13.3 points compared to a 0.3 point decline in the corresponding period of 2023.

Figure 3.8

Annual Change in the Turnover Index in Transport

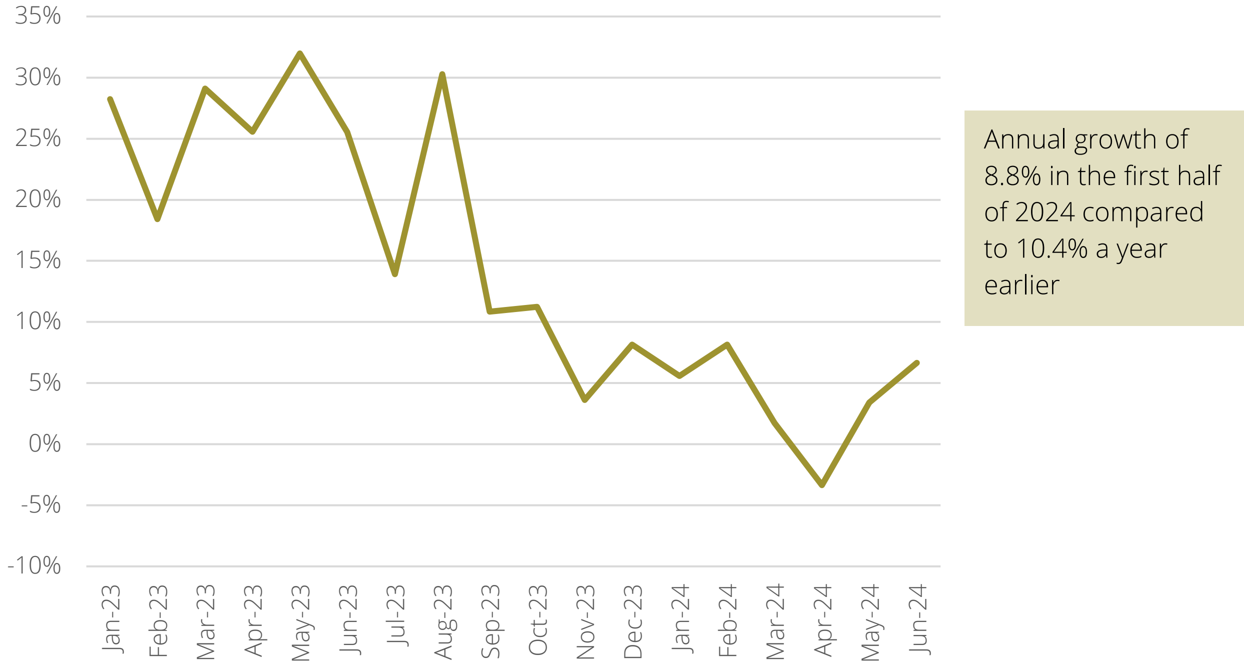
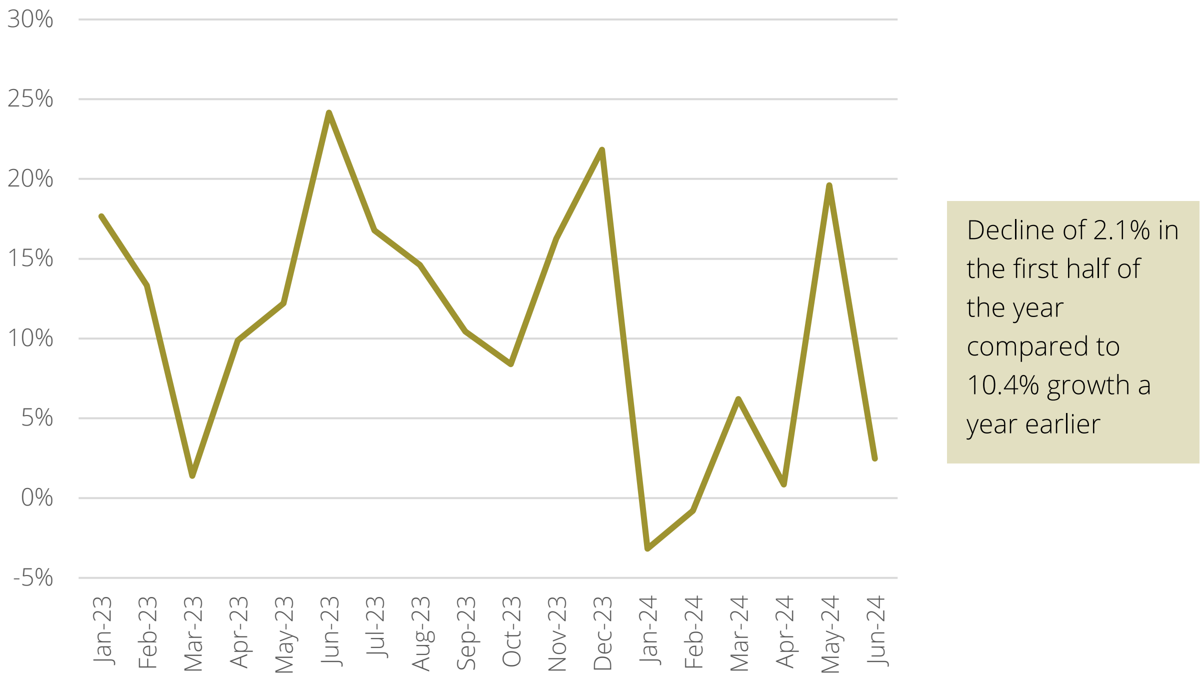


Figure 3.9

Annual Change of the Turnover Index in Information and Communications



Specifically, the biggest strengthening of expectations was recorded in financial institutions (+22.4 points instead of a milder increase of 6.0 points in 2023), followed by hotels, restaurants and tourist agencies (+8.4 points instead of 7.0 points last year), business services (3.2 points instead of -4.7 points) and information services (+2.2 points instead of a stronger increase of 5.4 points).

Figure 3.10

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

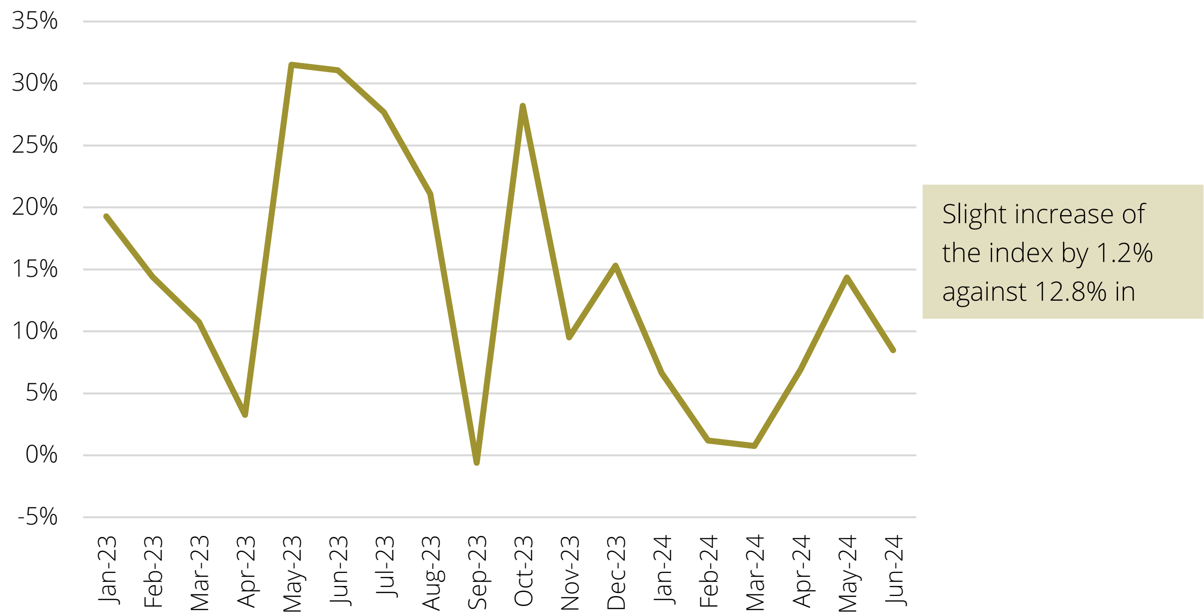


Figure 3.11

Annual Change in the Turnover indicator for Administrative Services

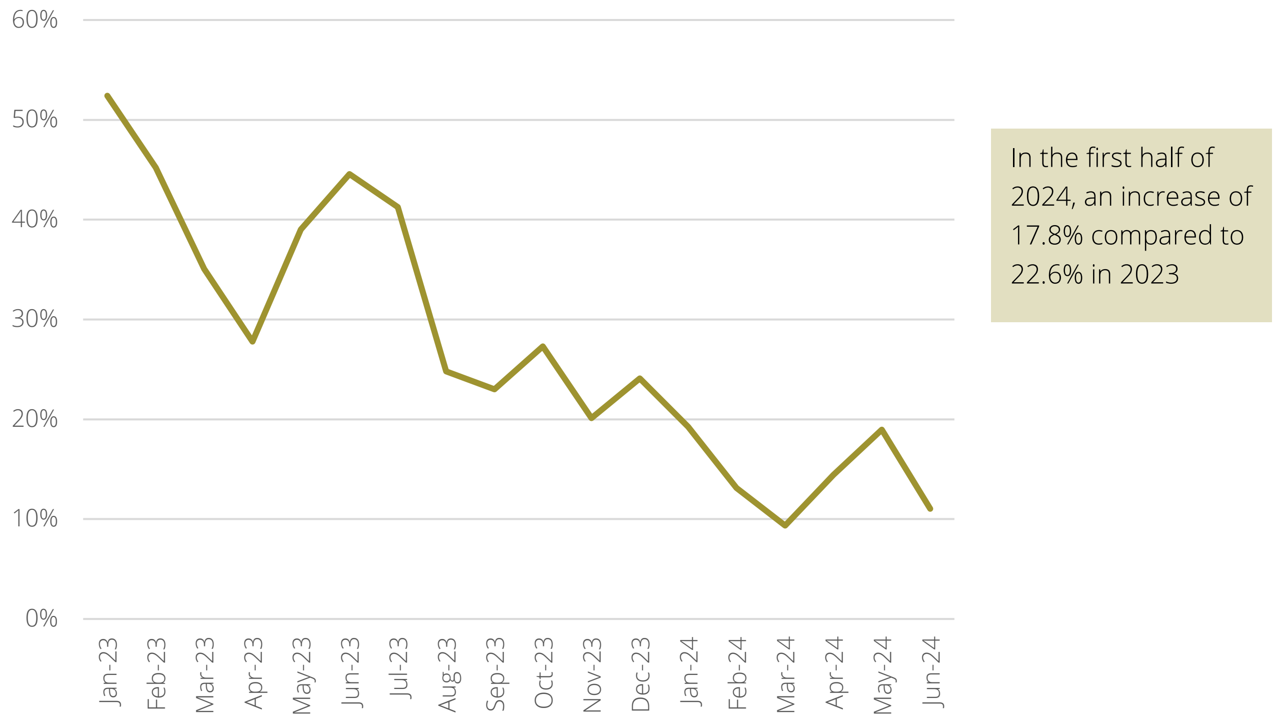
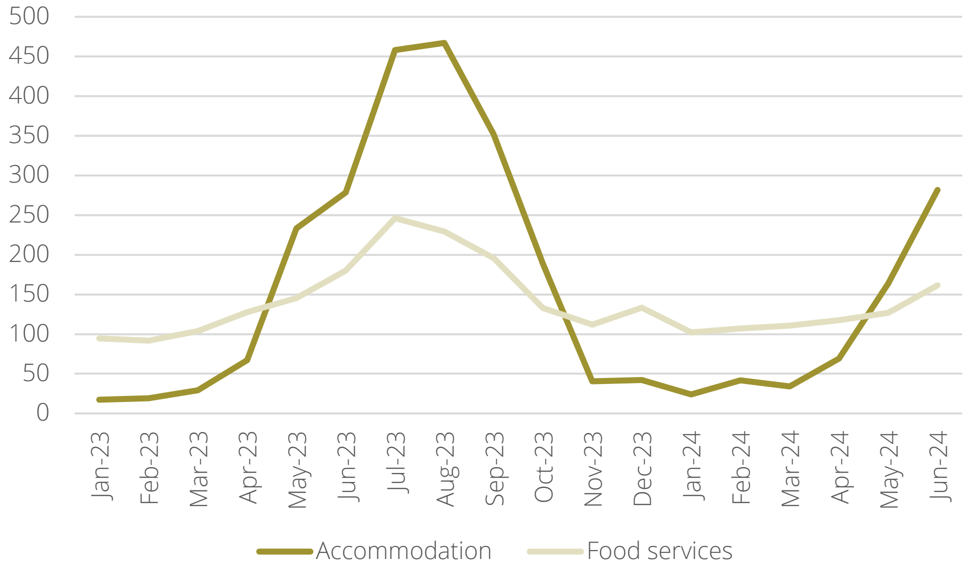


Figure 3.12

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



Decrease of the index in Accommodation by 10.9% in 2024 compared to an increase of 25.9% in 2023. Increase in Food Services by 23.0% compared to a decrease of 12.0% in 2023.

Source: ELSTAT

3.3 External balance

A. Analysis of exports and imports based on national accounts

- Exports of goods fell in nominal terms in the first seven months of 2024, at an annual rate of 1.8%, and exports excluding petroleum products fell (-3.0%).
- Imports increased by 2.5% in current prices in January-July 2024, reaching €49.4 billion, up from €48.1 billion a year earlier.
- The trade deficit increased by 10.0% year-on-year in 2023 to €19.4 billion.
- Exports decreased in most product categories, with the largest decrease recorded in goods & transactions not classified by category (-36.2%).
- Decrease in demand from euro area countries (-4.9% or -€621.5 million) and Middle East & North Africa countries (-3.8% or €134.9 million).

Exports of goods in January-July 2024 were €29.9 billion, compared with €30.5 billion a year ago, down 1.8% at current prices. Excluding petroleum products - ships, other exports fell by 3.0% to €20.8 billion from €21.4 billion in 2023. Imports of goods in 2024 increased by 2.5% at current prices to €49.4 billion, from €48.1 billion a year earlier. Excluding imports of petroleum products - ships, other imports increased by 2.8%, to €36.6 billion, from €35.6 billion in 2023. As a result of the above trends in the main components of the external balance of goods, the trade deficit was €1.8 billion higher (+10.0%) than in 2023, at €19.4 billion, compared with €17.7 billion in 2023. As a result, the value of the Greek economy's exports of goods in the first seven months of 2024 accounted for 60.6% of its imports, compared with 63.3% a year earlier.

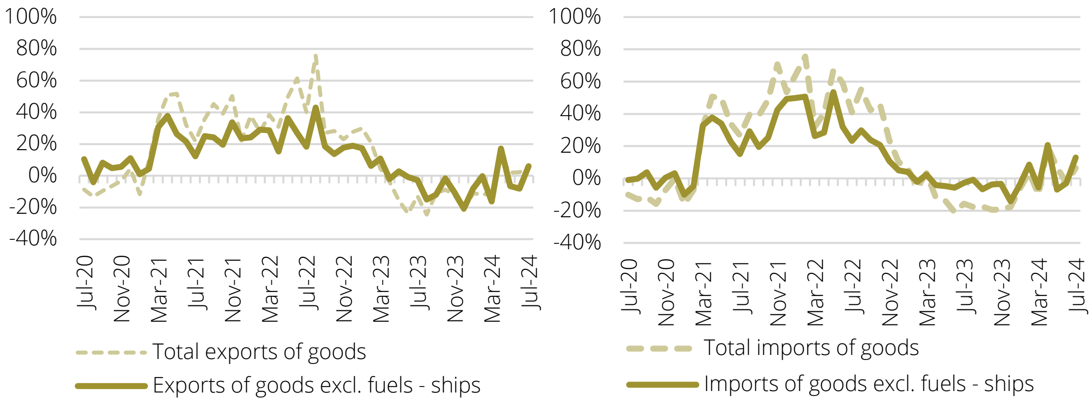
Specifically, agricultural exports decreased by 1.4% at current prices to €6.3 billion in January-July 2024, from €6.4 billion in 2023. Exports of fuels increased nominally by 1.9% to €9.4 billion, compared to €9.3 billion in 2023. The exports of these two specific categories account for 52.6% of the value of domestic exports of goods in 2024, up from 51.4% a year earlier. Exports of manufactured goods declined in the first seven months of 2024 (-4.6%), to €13.1 billion, down from €13.7 billion in 2023.

This was mainly due to a 6.7% decrease in exports of manufactured goods, classified chiefly by raw material, from €4.7 billion to €4.4 billion. There was also a decline in exports of chemicals and related products (-1.4%, to €3.8 billion). Similarly, international demand for machinery and transport equipment fell by 5.3% to €2.9 billion, while exports of miscellaneous manufactured articles fell by 4.8% to €2.1 billion from €2.2 billion in the same period in 2023.

By geographical region, the exports of goods to the euro area countries fell by 4.9% in the first seven months of 2024, reaching €12.0 billion, down from €12.6 billion in 2023. To the EU as a whole, there was an annual decline of 6.3%, or €1.1 billion, with exports to this region reaching €16.4 billion, down from €17.6 billion a year earlier. Among the euro zone countries that absorb the largest share of Greek exports, there was a 26.6% decline to France, from €1.2 billion to €895.8 million, and a 1.7% decline to Germany, from €2.2 billion to €2.1 billion. Exports of goods to the main destination, Italy, also decreased, by 17.7%, from €3.7 billion in 2023 to €3.1 billion in 2024.

Figure 3.13

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



Source: ELSTAT, Data processing: IOBE

Exports excluding petroleum products - ships stood at €20.8 billion in January-July 2024, 3.0% lower than in 2023. Imports excluding petroleum products - ships amounted to €36.6 billion in the same period, 2.8% higher than in 2023.

Table 3.6

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

Product	Value		% Change	% Share	
	2024	2023	24/23	2024	2023
AGRICULTURAL PRODUCTS	6,303.9	6,395.9	-1.4%	21.1%	21.0%
Food and Live Animals	4,832.1	4,536.1	6.5%	16.2%	14.9%
Beverages and Tobacco	852.4	789.3	8.0%	2.8%	2.6%
Animal and vegetable oils and fats	619.5	1,070.5	-42.1%	2.1%	3.5%
RAW MATERIALS	1,032.9	1,011.9	2.1%	3.5%	3.3%
Non-edible Raw Materials excluding Fuels	1,032.9	1,011.9	2.1%	3.5%	3.3%
FUELS	9,439.4	9,263.1	1.9%	31.6%	30.4%
Mineral fuels, lubricants, etc	9,439.4	9,263.1	1.9%	31.6%	30.4%
INDUSTRIAL PRODUCTS	13,086.4	13,720.5	-4.6%	43.7%	45.0%
Chemicals and Related Products	3,750.7	3,802.6	-1.4%	12.5%	12.5%
Manufactured goods classified chiefly by raw material	4,402.7	4,719.8	-6.7%	14.7%	15.5%
Machinery and transport equipment	2,875.3	3,036.5	-5.3%	9.6%	10.0%
Miscellaneous manufactured articles	2,057.7	2,161.5	-4.8%	6.9%	7.1%
OTHER	55.9	84.7	-34.0%	0.2%	0.3%
Transactions not classified by category	55.9	84.7	-34.0%	0.2%	0.3%
TOTAL EXPORTS	29,918.6	30,476.0	-1.8%	100.0%	100.0%

* Provisional data

Source: Eurostat, Processing IOBE

Among the other countries of the European Union, to which total exports decreased by 9.8% or €480.6 million to reach €4.4 billion, Bulgaria remained the main export destination, with outflows to this country decreasing by 25.2% or €576.2 million compared to 2023. Mixed trends were observed towards two other countries absorbing a significant share of Greek exports, Romania (-1.2% or €12.0 million to €1.0 million) and Poland (+12.4% or €72.4 million to €657.7 million).

Demand for Greek exports to the rest of Europe increased by 15.3%, from €5.3 bn in 2023 to €6.1 bn a year later. This is primarily due to Ukraine, to which exports increased by 105.7%, from €377.5 million to €776.5 million, and secondarily to the UK, with an increase of 5.1%, from €1.1 billion in 2023 to €1.2 billion in 2024.

Exports to North American countries increased by 12.3%, from €1.5 billion in the first seven months of 2023 to €1.6 billion in 2024, driven by a 12.7% increase in exports to the United States, from €1.2 billion in 2023 to €1.4 billion in 2024. Similarly, exports to Canada increased by 22.6% or €33.4 million to €181.5 million and decreased to Mexico (-7.5%) to €94.7 million.

Exports to the markets of Central-Latin American countries decreased by 2.4% in the period January-July 2024, with their value standing at €223.0 million from €228.4 million in 2023. The decrease in exports to the countries of this region is mainly due to the decline in demand for Greek products from Argentina, by 57.5%, which brought their value to €16.3 million from €38.4 million a year earlier. Exports to Panama also decreased (-5.4% or €5.3 million) to €92.5 million.

Table 3.7

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

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2024	2023	24/23
EU (27)	16,448.3	17,550.5	-6.3%
Euro Area	12,010.7	12,632.2	-4.9%
G7	8,940.3	9,806.6	-8.8%
North America	1,631.7	1,452.9	12.3%
BRICS	428.7	451.0	-4.9%
Middle East & North Africa	3,459.0	3,593.9	-3.8%
Oceania	142.1	121.5	17.0%
Central-Latin America	223.0	228.4	-2.4%
Asia	1,338.7	1,298.9	3.1%

* Provisional data

Source: Eurostat

Exports to the Middle East and North Africa also fell, by 3.8% from €3.6 billion to €3.5 billion, mainly due to the sharp decline in exports to Libya (-41.0%), where exports in the period January - July 2024 amounted to €592.0 million compared to €1.0 billion a year earlier, but also to Lebanon (-12.1%), where they fell by €107.0 million to €777.2 million. Exports to the United Arab Emirates fell by 5.6% to €215.4 million, while exports to Saudi Arabia increased by 12.0% to €271.7 million.

Demand for Greek goods increased in Asian countries, where exports rose by 3.1% to €1.34 billion in the first seven months of 2024, from €1.29 billion in 2023. This development was mainly due to a 146.4% increase in exports to Taiwan, from €18.6 million in 2023 to €45.8 million in 2024. Demand from Hong Kong also increased (+49.6%, from €45.4 million in 2023 to €67.9 million in 2024).

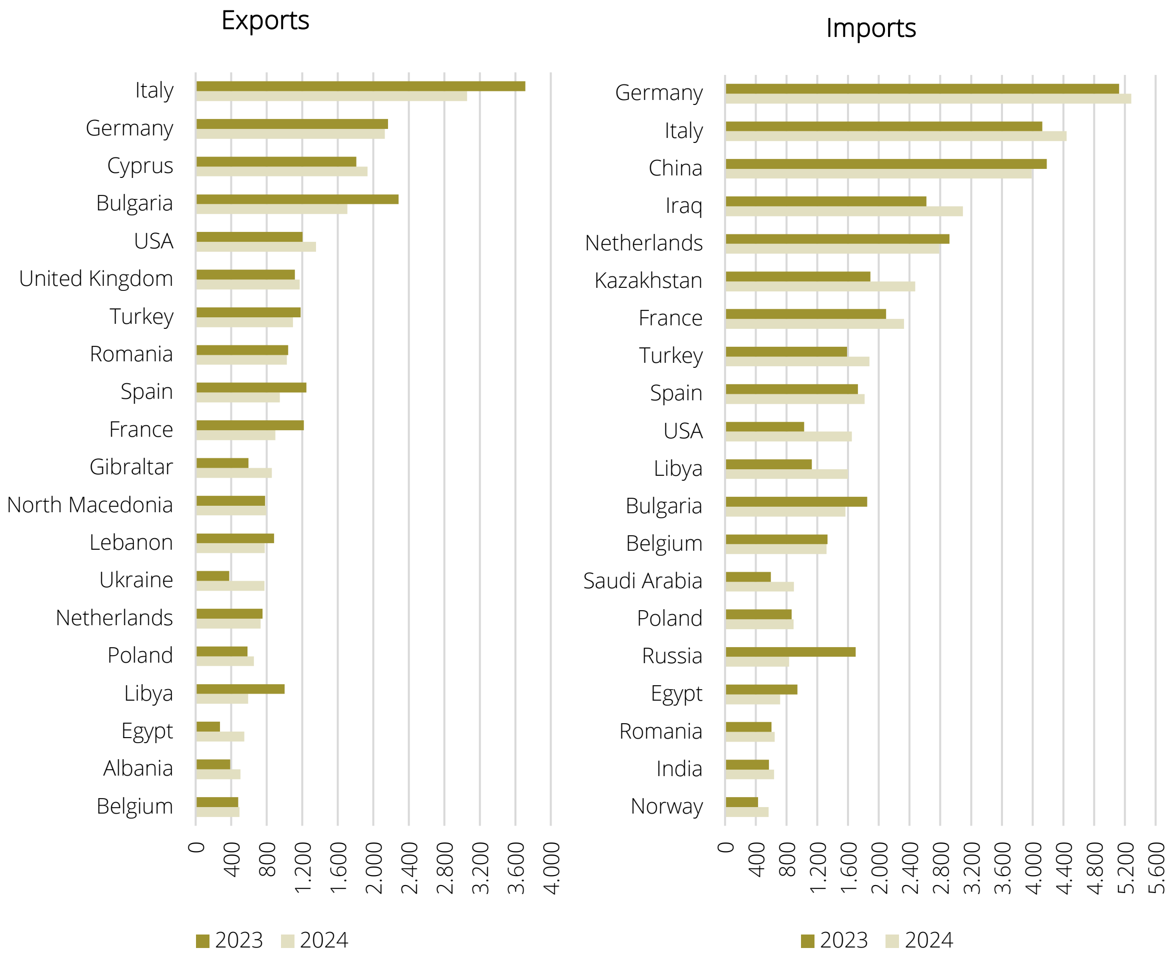
Greek exports to Oceania grew by 17.0%, reaching a value of €142.1 million in the first seven months of 2024, compared with €121.5 million a year earlier. The increase was driven by a similar trend in exports to Australia, which rose by 14.1% to €127.2 million from €111.5 million a year earlier. There was also an increase to New Zealand (+49.2%) to €14.9 million.

To recapitulate, the 6.1% decline in Greece's exports of goods in the period January-July 2024 at current prices was caused by a fall in most product categories: agricultural products (-1.4%), industrial products (-4.6%) and goods and transactions not classified by category (-34.0%). The five countries with the highest demand for Greek products were Italy, Germany, Cyprus, Bulgaria and the USA. Meanwhile, imports increased by 2.5%, widening the trade deficit to €19.4 bn (+10.0%). The five countries with the largest share of imports of goods in the first seven months to 2024 were Germany, Italy, China, Iraq and the Netherlands. Greek exports fell in the first seven months of 2024, due to the ongoing military conflicts, but despite strong concerns about the trade deficit, there is optimism for a recovery in exports in the coming months of 2024.

Figure 3.14

Countries with the largest share in the exports and imports of Greek goods, January – July 2024

(€ million, current prices)



Source: Eurostat. Processing: IOBE

Largest increase in exports of products in absolute terms to Ukraine in the first seven months of 2024 (+€399.0 million). Largest decrease to Italy (-€656.6 million). Italy's share of exports remains the highest. Largest import increase in the same period of 2024 in absolute terms from the US (+€618.1bn), largest decrease from Russia (-€864.0m).

B. Balance of payments

- In the first seven months of 2024, the current account (CA) recorded a higher deficit compared to 2023, at €8.6 billion, compared to €7.3 billion in 2023.
- A higher deficit in the goods and primary income account, with a small improvement in the services surplus and a higher boost in the secondary income account.

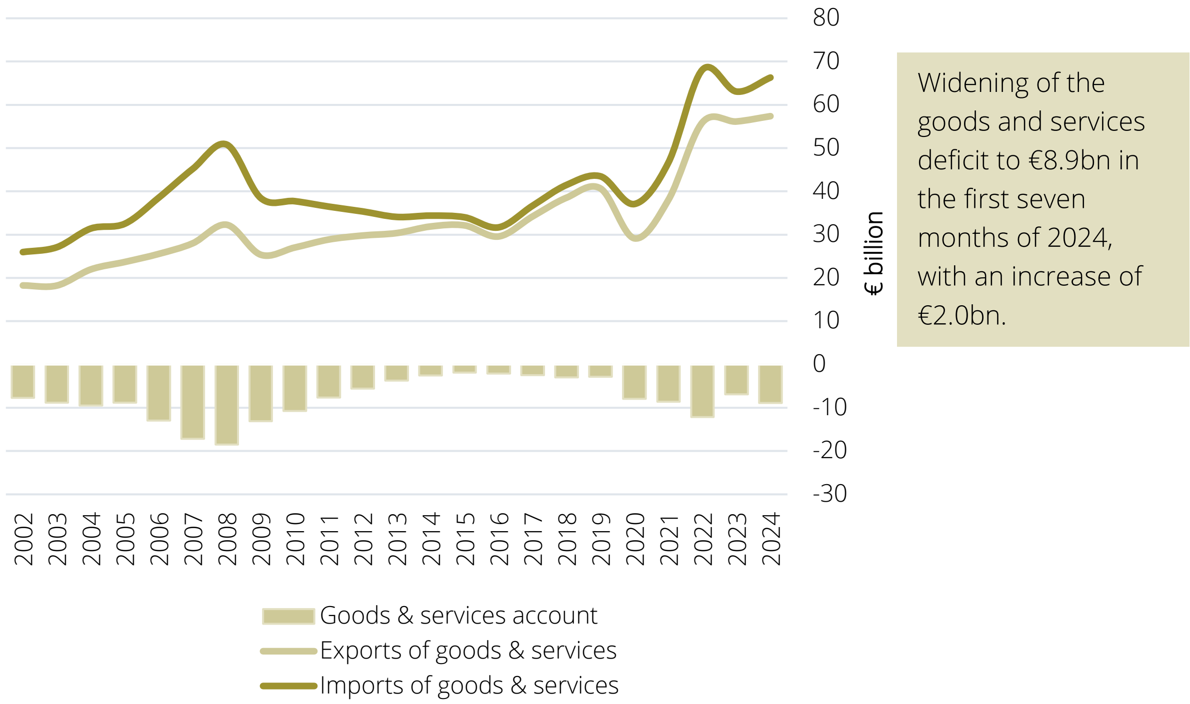
Current Account

January – July 2024

In the first seven months of 2024 (January - July), the current account (CA) deficit was €8.6 billion, an increase of €1.3 billion compared to 2023. The deterioration in the balance was driven by an increased deficit in the goods and primary income accounts, partly offset by an improvement in the services and secondary income accounts.

Figure 3.15

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



Source: Bank of Greece, Data processing: IOBE

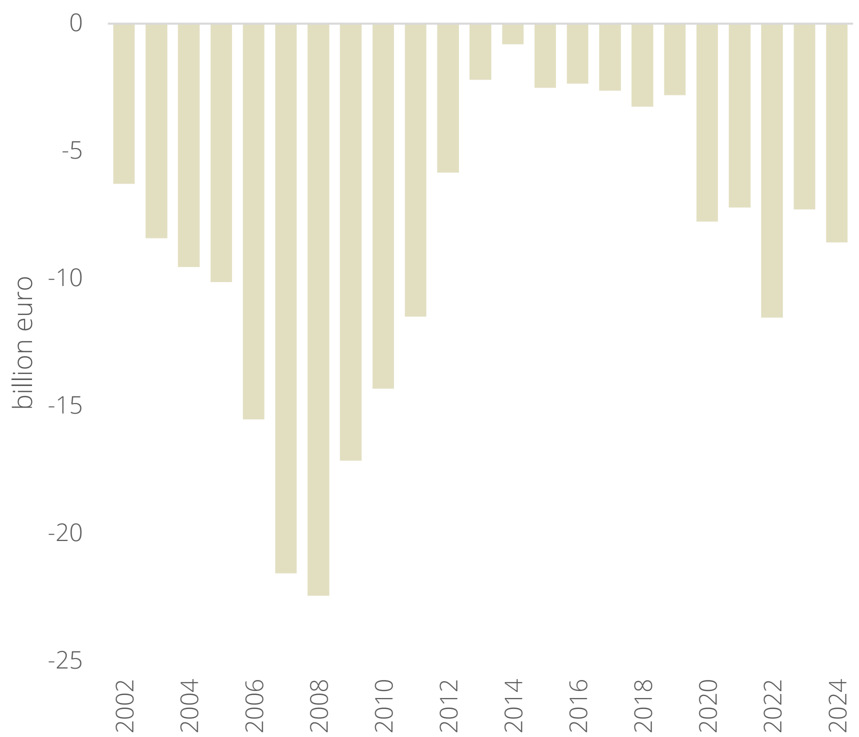
More specifically, the goods deficit in 2024 was €20.3 billion, €2.3 billion higher than in 2023. Exports fell to €29.2 billion (-€398 million),[7] with the category of other goods registering a decrease of €571 million, while an increase of €193 million was recorded for fuels. Imports of goods rose to €49.5 billion (€2.0 billion), mainly due to a strong increase of €1.9 billion in imports of other goods.

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

The surplus in the services account increased by €343 million to €11.4 billion in the first seven months of 2024, compared with an increase of €1.2 billion in 2023. Total receipts of services amounted to €28.2 billion, an increase of €1.6 billion compared to 2023, while payments amounted to €16.8 billion, an increase of €1.3 billion. Receipts from travel services totalled €11.0 billion, an improvement of €578 million, but tourism receipts fell by €177 million in July, marking their first decline since March 2021. Transportation services amounted to €12.3 billion, an increase of €468 million, while receipts of other services reached €4.7 billion, an improvement of €579 million. Payments for travel services increased to €1.6 billion (+€275 million), payments for transportation services increased to €10.6 billion (+€437 million), and payments for other services reached €4.6 billion (+€571 million).

Figure 3.16

Current Account (January – July), 2002-2024



Current account deficit at €8.6 billion in the first 7 months of 2024, compared to €7.3 billion in 2023.

Source: Bank of Greece, Data processing: IOBE

The primary income account deteriorated to a deficit of €2.3 billion in 2024, compared with €1.7 billion in the first seven months of 2023. Receipts strengthened to €7.1 billion, an increase of €943 million, and payments increased to €9.3 billion, an increase of €1.5 billion. The category of investment income (profits, dividends, interest) remains the main driver of the increase in payments.

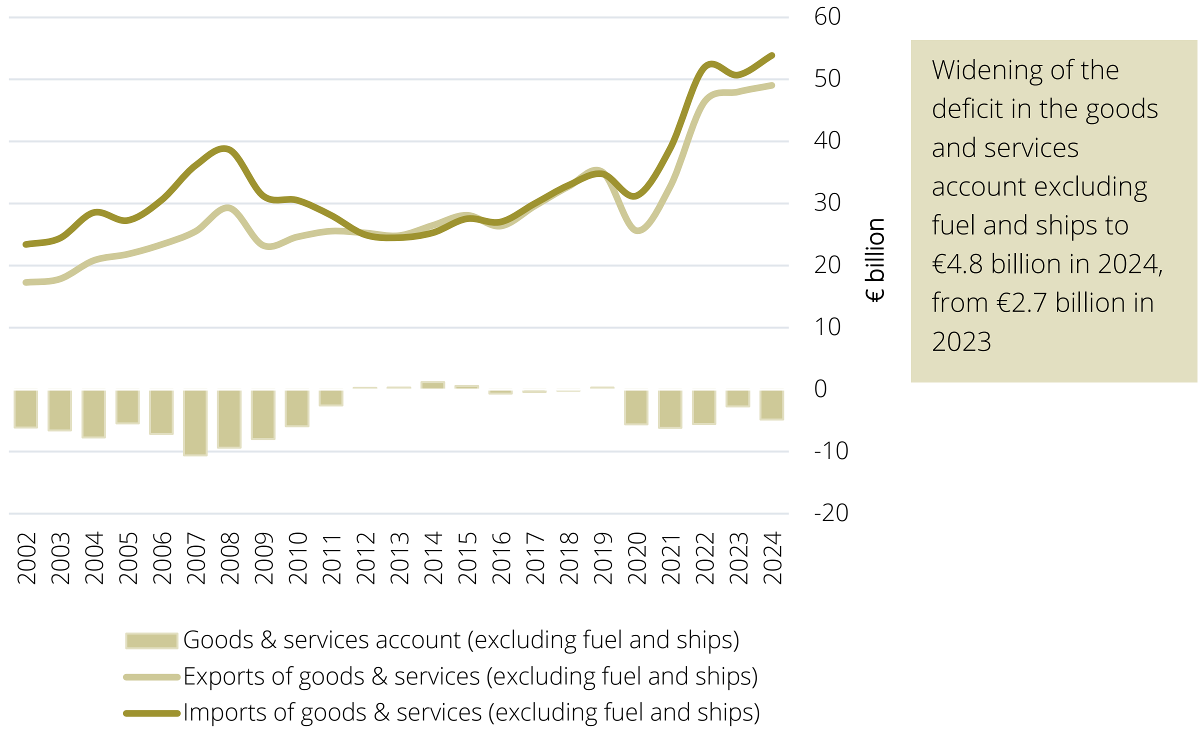
The secondary income account improved significantly to €2.6 billion in the first seven months of 2024, compared with €1.4 billion in 2023, with receipts rising to €5.3 billion (+€1.5 billion) as a result of the inflow from the redistribution of the Eurosystem's monetary income to the Bank of Greece, while payments strengthened to €2.6 billion (+€233 million).

Capital Account

The capital account[8] remained in deficit in the first seven months of 2024, standing at €565 million, compared with a surplus of €1.9 billion in 2023, mainly due to the decrease in receipts to €239 million (-€1.9 billion), while payments increased to €804 million (+€507 million). Finally, the current and capital account, which represents the economy's relationship with the rest of the world as a lender or borrower, recorded a deficit of €9.1 billion, compared to €5.4 billion in 2023.

Figure 3.17

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



Source: Bank of Greece, Data processing: IOBE

Financial Account

The financial account recorded a deficit of €7.5 billion in the first seven months of 2024, compared with a deficit of €4.1 billion in 2023.

In the individual accounts, residents' net claims on direct investment abroad increased by €978 million, while net liabilities to non-residents (non-residents' investment in the country) increased by €2.6 billion. Note that in the first quarter of 2024, net direct investment in real estate amounted to €520 million, roughly the same as in 2023.

[8] The capital account shows capital transfers, i.e., unilateral receipts and payments between residents and non-residents linked to fixed capital formation. Capital transfers mainly comprise part of the transfers (receipts) from the Community budget of the European Union to the General Government (withdrawals from the Structural Funds – except for the European Social Fund – and from the Cohesion Fund under the NSRFs).

In the portfolio investment category, residents' external assets increased by €4.0 billion and liabilities to non-residents by €7.9 billion, mainly due to a €6.1 billion increase in placements of Greek bonds and bills, with the remainder related to the purchase of shares.

In the other investment category, claims of residents on assets abroad decreased by €3.9 billion, mainly due to a decrease of €6.0 billion in placements of deposits and repurchase agreements. Liabilities decreased by €2.1 billion, as a decrease of €1.8 billion was recorded in deposits and repos of non-residents in Greece.

Finally, the country's foreign exchange reserves stood at €13.5 billion at the end of July 2024, compared with €12.2 billion in 2023.

Table 3.8. Balance of payments (€ million)

		January – July			July		
		2022	2023	2024	2022	2023	2024
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-11,525.5	-7,279.2	-8,573.0	819.7	846.7	246.2
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-12,173.2	-6,916.1	-8,921.5	625.7	1,746.2	1,311.7
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-21,994.4	-17,961.1	-20,309.3	-3,190.2	-2,621.1	-2,844.8
	Oil balance	-6,517.7	-4,145.0	-4,000.6	-1,165.4	-567.3	-325.2
	Trade balance excluding oil	-15,476.7	-13,816.1	-16,308.7	-2,024.8	-2,053.9	-2,519.6
	Ships balance	-84.5	-45.7	-92.7	-21.8	-26.9	5.0
	Trade balance excluding ships	-21,909.9	-17,915.4	-20,216.6	-3,168.4	-2,594.3	-2,849.8
	Trade balance excluding oil and ships	-15,392.1	-13,770.4	-16,216.0	-2,003.0	-2,027.0	-2,524.7
I.A.1	Exports of Goods	30,461.5	29,613.0	29,214.9	4,897.2	4,175.3	4,520.7
	Oil	9,571.1	8,006.4	8,199.4	1,619.7	1,104.0	1,218.9
	Ships (sales)	72.6	152.4	132.2	11.5	10.3	25.6
	Goods excluding oil and ships	20,817.8	21,454.2	20,883.2	3,266.0	3,061.1	3,276.2
I.A.2	Imports of Goods	52,455.9	47,574.1	49,524.2	8,087.3	6,796.5	7,365.5
	Oil	16,088.8	12,151.4	12,200.0	2,785.1	1,671.2	1,544.0
	Ships (buying)	157.1	198.1	224.9	33.3	37.2	20.6
	Goods excluding oil and ships	36,209.9	35,224.6	37,099.2	5,269.0	5,088.1	5,800.9
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	9,821.2	11,045.0	11,387.9	3,815.9	4,367.4	4,156.5
I.B.1	Receipts	25,494.9	26,537.9	28,163.0	6,258.2	6,611.8	6,784.2
	Travel	8,584.6	10,375.2	10,952.7	3,601.7	4,208.8	4,031.4
	Transportation	13,340.4	11,878.5	12,346.6	2,011.7	1,718.1	1,952.2
	Other services	3,569.9	4,284.2	4,863.6	644.9	685.0	800.5
I.B.2	Payments	15,673.7	15,492.9	16,775.1	2,442.3	2,244.4	2,627.7
	Travel	1,062.8	1,369.7	1,644.3	192.1	256.8	276.1
	Transportation	10,851.7	10,143.9	10,580.9	1,623.9	1,393.4	1,670.0
	Other services	3,759.2	3,979.2	4,550.0	626.4	594.2	681.7
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	244.1	-1,740.4	-2,299.8	-370.4	-705.5	-887.9
I.C.1	Receipts	4,357.5	6,068.4	7,011.0	537.7	728.9	1,015.4
	From work (wages, compensation)	132.0	123.2	136.3	19.5	15.9	22.4
	From investments (interest, dividends, profit)	1,903.7	3,355.7	4,721.0	389.7	621.2	847.9
	Other primary income	2,321.7	2,589.4	2,153.7	128.5	91.8	145.1
I.C.2	Payments	4,113.4	7,808.8	9,310.8	908.1	1,434.4	1,903.2
	From work (wages, compensation)	872.1	769.6	794.2	129.9	108.0	117.5
	From investments (interest, dividends, profit)	2,769.6	6,707.3	8,247.1	744.5	1,290.3	1,747.6
	Other primary income	471.7	331.9	269.6	33.7	36.1	38.1
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	403.6	1,377.3	2,648.3	564.4	-194.1	-177.6
I.D.1	Receipts	3,297.9	3,761.6	5,265.2	914.8	169.5	211.6
	General government	2,258.9	2,239.1	789.3	790.5	30.6	48.4
	Other sectors	1,039.0	1,522.5	4,475.9	124.3	138.9	163.2
I.D.2	Payments	2,894.3	2,384.3	2,616.9	350.4	363.6	389.2
	General government	1,988.3	1,339.1	1,527.6	190.9	204.5	215.7
	Other sectors	906.0	1,045.2	1,089.3	159.5	159.1	173.4
II	CAPITAL ACCOUNT (II.1-II.2)	1,962.6	1,851.7	-564.8	475.7	-39.8	1.2
II.1	Receipts	2,422.1	2,149.4	239.5	490.8	13.9	22.9
	General government	1,897.0	1,640.3	88.8	382.0	8.4	0.1
	Other sectors	525.1	509.1	150.7	108.8	5.5	22.8
II.2	Payments	459.5	297.6	804.3	15.1	53.7	21.7
	General government	4.2	4.1	4.2	0.6	0.6	0.6
	Other sectors	455.3	293.5	800.0	14.5	53.2	21.1
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	-9,562.9	-5,427.4	-9,137.8	*1,295.4*	*806.8*	*247.4*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-7,692.2	-4,075.1	-7,466.6	1,152.1	1,018.0	662.3
III.A	DIRECT INVESTMENT*	-3,687.1	-2,600.0	-1,605.6	780.6	-1,019.1	-393.7
	Assets	1,639.6	523.2	978.1	981.5	-330.0	92.6
	Liabilities	5,326.6	3,123.2	2,583.7	200.9	689.0	486.3
III.B	PORTFOLIO INVESTMENT*	8,305.8	47.6	-3,890.3	1,640.9	-2,764.8	-847.6
	Assets	10,472.9	5,131.5	3,995.1	397.9	-655.8	-487.6
	Liabilities	2,167.1	5,083.9	7,885.4	-1,243.0	2,109.0	360.1
III.C	OTHER INVESTMENT*	-9,838.9	-2,266.7	-1,783.2	-1,220.2	4,666.1	1,818.4
	Assets	-2,043.8	-2,371.4	-3,879.0	-98.3	-755.9	-211.5
	Liabilities	7,795.1	-104.8	-2,095.8	1,121.9	-5,422.0	-2,029.9
	(Loans of general government)	-1,615.6	135.5	493.9	-153.8	-111.3	2,156.6
III.D	CHANGE IN RESERVE ASSETS**	-2,472.1	743.9	-187.5	-49.3	135.8	85.2
IV	BALANCE ITEMS (I +II +IV +V = 0)	1,870.7	1,352.3	1,671.2	-143.4	211.1	414.9
	RESERVE ASSETS (STOCK)***				10,962	12,203	13,539

Source: Bank of Greece

* (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, increases in demand are presented with a positive sign while the decrease in receivables is displayed with a negative sign. Similarly, the increase in liabilities is captured with a positive sign, while the reduction of liabilities with a negative sign. ** (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchange reserves with a negative sign. * * * Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" in the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outside the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB.

3.4 Labour market

- Reduction of the unemployment rate in Q2 2024 to 9.8% from 11.2% in Q2 2023.
- The annual decrease in the unemployment rate was the result of a decrease in the number of unemployed (-65,700), and a simultaneous increase in the number of employed (+91,300).
- The largest annual rise in employment in Q2 2024 was recorded in Professional, Scientific and Technical Activities (+27,700 employed), Accommodation and Food Services (+25,700 employed) and Construction (+18,600 employed).
- The strongest annual fall in employment was observed in Other service activities (-9,200 persons employed).
- An increase in the labour market participation rate in Q2 2024 (53.2% for those aged 15 and over), showing an increase of 0.4 percentage points year-on-year.
- Increase in the seasonally adjusted wage cost index in Q2 2024 by 8.0% compared to the same quarter in 2023.

According to the latest available data from the ELSTAT Labour Force Survey, the unemployment rate fell by 1.4 percentage points year-on-year to 9.8% in the second quarter of 2024, from 11.2% in the same quarter of 2023. In the same period, the number of unemployed fell to 467,600, a decrease of 65,700 persons or 12.3%, while the number of employed increased by 2.2% or 91,300 persons to 4,327,800 persons. The fall in the unemployment rate is therefore due to the fall in the number of unemployed (-65,700 persons) and the increase in employment (+91,300 persons). It should be noted that, on the basis of monthly data, labour market indicators improved in the second quarter, as the seasonally unadjusted unemployment rate fell from 11.9% in August 2023 to 9.5% in August this year (-2.3 percentage points). Finally, according to the latest data from the ERGANI information system on employment flows in the private sector (June data), the entry/exit balance was positive by 23,900 jobs (340,700 entries and 316,800 exits), compared with a positive balance of 28,800 jobs (357,900 entries and 329,100 exits) for June 2023.

The evolution of the unemployment rate in the euro area in Q2 2024 is mixed, as the unemployment rate fell in 10 countries, rose in 9 and remained unchanged in 1. The highest unemployment rate was recorded in Spain, where it fell from 11.7% a year ago to 11.3% in Q1 2024 (-0.4 percentage points), followed by Greece (see Annex). In contrast, the lowest unemployment rates in Q2 2024 were recorded in Malta (3.2%), Germany, Slovenia and the Netherlands (3.4%). The largest annual increase in the unemployment rate was recorded in Luxembourg (+1.4 percentage points, from 4.9% to 6.3%), while the largest decreases were observed in Cyprus (-1 percentage point, from 5.7% to 4.7%) and Croatia (-1 percentage point, from 5.6% to 4.6%). In the euro area the unemployment rate was 6.3% over the same period.

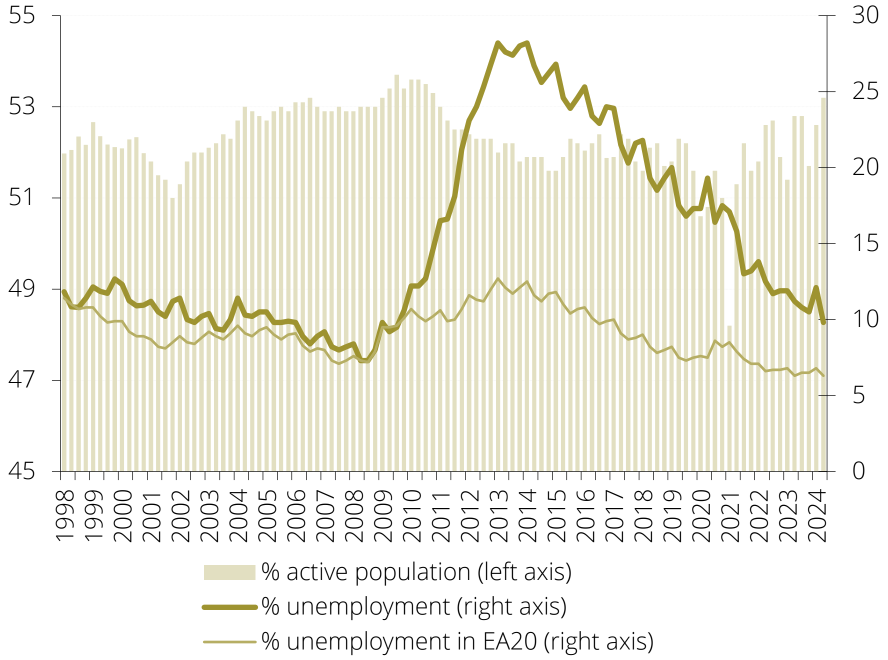
Regarding the evolution of the unemployment rate by gender in Greece, it remains higher for women. However, the fall in the unemployment rate for women has been stronger. Specifically, the female unemployment rate fell from 14.6% in the second quarter of 2023 to 12.3% in the same quarter of 2024, a decrease of 2.3 percentage points, while the male unemployment rate fell from 8.4% to 7.7% (-0.7 percentage points). It should be noted that over the same period in the euro area, the female unemployment rate decreased from 6.7% to 6.6% (-0.1 percentage points) and the male unemployment rate fell from 6.1% to 6.0% (-0.1 percentage points).

Regarding the distribution and evolution of the unemployment rate by age, it is lower as the age increases. In the second quarter of 2024, the unemployment rate decreased in all age groups except in the 15-19 age group, where it increased. The largest decrease of 4.7 percentage points was observed in the 20-24 age group, where it fell from 26.2% to 21.5%. This was followed by the 25-29 age group, where the unemployment rate fell by 3.4 percentage points, from 18.9% to 15.5%, while the smallest decrease in the unemployment rate was recorded for the 45-64 age group (-0.4 percentage points, from 7.6% to 7.2%). Finally, the lowest unemployment rates were recorded in the 45-64 and over 65 age groups. In the 15-19 age group, the unemployment rate increased by 11.2 percentage points, from 30.5% to 41.7%.

In terms of duration of unemployment, both the share and the number of long-term unemployed have decreased. The long-term unemployment rate fell from 59.9% in the same quarter of 2023 to 53.2% (as a percentage of the unemployed) in the second quarter of 2024 (-6.7 percentage points), while the number of long-term unemployed fell from 319,400 to 248,600 (-70,800 or -22.2%).

Figure 3.18

Labour force participation and unemployment rates



Greece's unemployment rate in Q2 2024 decreased to 9.8%, from 11.2% in Q2 2023. The share of the active population over 15 years old exceeds 53%.

Sources: ELSTAT – Labour Force Survey, Eurostat

Regarding the distribution and evolution of the unemployment rate by educational level, it decreases as the level of education improves. In the second quarter of 2024, the unemployment rate fell for all levels of education except for those with a doctorate or master's degree. The largest decrease in unemployment of 6.6% was among those with only a few years of primary school or no schooling at all, where the unemployment rate fell from 31.9% in the same quarter of 2023 to 25.3%. The second largest decrease, by 2.7 percentage points, was recorded for those with a 3-year secondary education, where the unemployment rate fell from 12.2% in the first quarter of 2023 to 9.5%, while the lowest unemployment rate was found for those with a doctorate or postgraduate degree. In this category the unemployment rate increased from 4.1% to 5.6% (+1.5 percentage points).

Regarding trends in the regional dimension of unemployment, the unemployment rate decreased in all regions except the South Aegean region, where it increased. The highest non-seasonally adjusted unemployment rate was recorded in the region of Western Macedonia, where it fell from 14.5% to 14% (-0.5 percentage points). The second highest unemployment rate was observed in the Ionian Islands region, where it decreased from 17.0% in Q2 2023 to 13.3% in Q2 2024 (-3.7 percentage points). The largest decrease was recorded in the Peloponnese region, where the unemployment rate fell by 5.2 percentage points from 11.3% to 6.1%. The lowest unemployment rate over the same period was recorded in the South Aegean region, where the unemployment rate rose from 4.2% to 5.4% (+1.2 percentage points). This was followed by the regions of Peloponnese and Crete and the North Aegean. In the former, the unemployment rate fell from 11.3% to 6.1% (-5.2 percentage points), while in the other two regions it fell from 9.8% to 7.3% (-2.5 percentage points).

With regard to the evolution of employment by occupational status, it is noteworthy that there was an increase in employment in all occupations. The largest annual increase in employment of 14.9 % or 20 500 persons was recorded in the category of family workers (157 800 persons employed in Q2 2024), while an increase of 6.6 % or 20 200 persons was also recorded in the category of self-employed with employees (325 000 persons employed in Q2 2024). This was followed by employees, with an annual increase of 1.6% to 2 999 100 persons, and self-employed persons without employees, with an annual increase of 0.4% to 845 900 persons.

The number of full-time employees in the second quarter of 2024 increased by 117 200 persons or 3.0% compared to the same quarter of 2023, reaching 4 038 700 persons, while the number of part-time employees decreased by 29 500 persons or 3.0% to 279 600 persons.

In terms of the evolution of employment by occupation, six occupations recorded an increase in employment and four a decrease. The largest increase in absolute terms (by 64 000 persons employed) occurred in the category of persons employed in the provision of services and sales persons in shops and open-air markets, which reached 1 007 800 persons in the second quarter of 2024, compared with 943 800 persons in the same period of 2023. This is followed, also in absolute terms, by an increase of 46,900 persons in the employment of scientific, artistic and related professionals (from 928,000 persons in the second quarter of 2024 to 974,900 persons in the same period of 2023). The largest decline in the second quarter of 2024 was in the number of unskilled workers, manual workers and associate occupations, which fell from 301,000 in the same quarter of 2023 to 274,100 (-26,900). This was followed by a decline in technicians, technical assistants and associate occupations, where the number fell to 280,300 from 299,000 in the corresponding quarter of 2023 (-18,700). As regards the evolution of employment at the level of the main economic activities, there was an increase in employment in all sectors. In absolute terms, the largest increase was registered in the tertiary sector, where employment rose by 58 400 persons, or 1.9 %, to 3 166 800 persons. In the secondary sector, employment rose by 22 300 persons, or 3.4%, to 682 000 persons in the second quarter of 2024. Finally, employment in the primary sector increased slightly by 9 300 persons to 476 700 persons.

At the level of economic activity, employment rose in twelve branches and fell in ten others. In absolute terms, the highest employment growth in the second quarter of 2024 occurred in professional, scientific and technical activities and hotels and restaurants. In the former, the number of persons employed rose by 27 700 (or 10.6%) from 266 700 to 289 700, and in the latter by 25 700 (or 6.2%) from 414 700 to 439 700. Also notable in absolute terms was the increase in employment in construction (by 18 600 or 11.9%) from 156 900 to 175 500. Conversely, the largest decline in employment occurred in other services, where employment fell from 100 600 persons to 91 400 persons (-9 200 persons or -9.1%). The smallest decline in employment was recorded in manufacturing, where the number of persons employed fell by 8 000 (or 1.9%), from 415 500 to 407 500.

In conclusion, the employment data at sectoral level show that the increase in employment in the second quarter of 2024 compared with the same quarter of 2023 was mainly due to the increase in the following sectors:

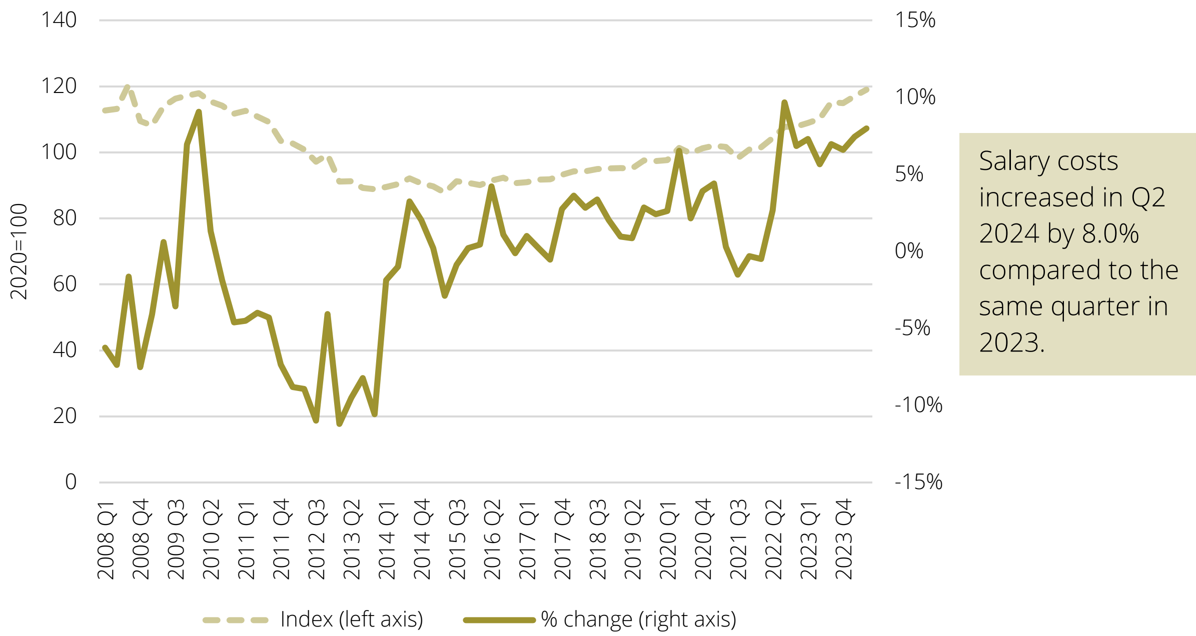
- Professional, scientific and technical activities (+27 700 persons employed),
- Hotels and restaurants (+25 700 persons employed),
- Construction (+18 600 persons employed).

In addition, the employment rate of persons aged 15 years and over was 48.0% in the second quarter of 2024, compared with 46.9% in the second quarter of 2023, an increase of 1.1 percentage points. In the euro area, the employment rate increased to 54.3% in Q2 2024, from 54.1% in the same quarter of 2023, an increase of 0.2 percentage points. In comparison, the employment rate in Greece is significantly lower than the euro area average, with a deviation of 6.3 percentage points for Q2 2024, down from 7.2 percentage points for the same period in 2023.

As for the evolution of the seasonally adjusted wage cost index in the Greek economy as a whole, it shows an increase of 8.0% in Q2 2024 compared to the corresponding index in Q2 2023.

Figure 3.19

Seasonally adjusted wage cost index



Source: ELSTAT & Eurostat

Table 3.9

Population aged 15 years and over by employment status (in thousands)

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2015	9,246.6	52.0	3,610.7	39.0	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	39.9	1,130.9	23.5
2017	9,176.9	52.1	3,752.7	40.9	1,027.1	21.5
2018	9,140.2	51.9	3,828.0	41.9	915.0	19.3
2019	9,103.5	52.0	3,911.0	43	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	42.4	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	42.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	43.3	756.4	16.2
Q4 2020	9,074.2	51.0	3,878.5	42.7	750.1	16.2
2020	9,079.0	51.0	3,878.5	42.7	755.0	16.3
Q1 2021	9,070.8	48.2	3,625.1	40.0	745.4	17.1
Q2 2021	9,067.1	51.3	3,915.3	43.2	732.5	15.8
Q3 2021	9,063.5	52.2	4,118.3	45.4	615.4	13.0
Q4 2021	9,060.0	51.6	4,053.3	44.7	617.4	13.2
2021	9,065.4	50.8	3,928.0	43.3	677.7	14.7
Q1 2022	9,055.8	51.8	4,044.0	44.7	647.2	13.8
Q2 2022	9,051.9	52.6	4,167.2	46.0	591.6	12.4
Q3 2022	9,048.2	52.7	4,216.0	46.6	555.6	11.6
Q4 2022	9,044.7	51.9	4,135.2	45.7	558.4	11.9
2022	9,050.2	52.3	4,140.6	45.8	588.2	12.4
Q1 2023	9,041.4	51.4	4,098.0	45.3	550.5	11.8
Q2 2023	9,038.4	52.8	4,236.5	46.9	533.3	11.2
Q3 2023	9,035.5	52.8	4,256.2	47.1	514.6	10.8
Q4 2023	9,032.7	51.7	4,183.1	46.3	488.7	10.5
2023	9,037.0	52.2	4,193.5	46.4	521.8	11.1
Q1 2024	9,025.7	52.6	4,173.4	46.2	574.1	12.1
Q2 2024	9,020.5	53.2	4,327.8	48.0	467.6	9.8

Source: ELSTAT, Labour Force Survey

Medium-term outlook

In the baseline macroeconomic scenario, a slight further improvement in the labour market is expected in 2024 and 2025, with signs of a slowdown in the positive trend. The scope for a further reduction in cyclical unemployment is narrowing, while the challenge is to reduce structural unemployment and increase labour force participation.

A positive impact on employment in 2024 and 2025 is expected from the projected strengthening of investment. Two factors contribute to this increase. First, the systematic strengthening of international investment confidence in the country, as a result of the positive fiscal performance, has positive effects in terms of reducing additional financing costs for the public and private sectors. Second, the accelerated implementation of the revised National Recovery and Resilience Plan is expected to boost investment, particularly in the infrastructure and energy sectors, as well as the take-up of the augmented credit component with favourable financing conditions.

The expectation of robust consumption, a component that is expected to grow, albeit at a slower pace in 2025, will also have a positive impact on employment. The forecast acceleration of growth in the euro area is expected to have a positive impact on employment in 2025, mainly due to an increase in exports of services. The monetary policy stance undoubtedly influences these trends, with the prospect of a faster decline in interest rates having a positive impact on the short-term outlook for investment, consumption and exports.

From a sectoral point of view, the results of the business surveys point to a rebound in industrial activity, continued momentum in services, and stabilisation of activity in construction and retail trade. The gradual completion of major infrastructure projects will also have a positive effect on employment. In the tourism sector, the positive performance is expected to continue in 2025, following an expected new record in arrivals in 2024, but the impact of the tourism sector on employment is expected to be lower in 2025 than in 2024. Finally, the public sector is expected to continue to support employment through subsidised DYPA programmes and planned recruitment in the coming year.

On the risk side, geopolitical instability and economic uncertainty persist and are expected to continue in 2025, both regionally and internationally. In addition, international energy commodity prices are at lower levels, but uncertainty about their evolution has increased, while inflation is expected to be slightly above the euro area average in 2025.

An important obstacle to competitiveness, and thus to overall employment, is the relatively high structural inflation in the Greek economy. IOBE estimates that consumption will slow down in 2025, implying that the positive dynamics in the employment sector will slow down accordingly.

As the country approaches single-digit unemployment, any reduction in the coming quarters or years will inevitably be slower. In parallel with the reduction of cyclical unemployment, priority is being given to tackling the remaining structural and frictional unemployment. In this respect, the issues of skills mismatches in the Greek labour market and the need to provide adequate and high quality training, both initial and continuous, are considered important.

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

According to the latest data from IOBE's Business and Consumer Surveys, in the July-September quarter of 2024, compared to the second quarter of this year, the short-term employment outlook improved slightly in industry, weakened slightly in construction and retail trade, and worsened more in services. Compared with the same period in 2023, there is a slight improvement in manufacturing and retail trade, a milder strengthening in services and a slight weakening in construction. More details:

In the manufacturing sector, the average balance for the third quarter of 2002 improved slightly to +10 points compared with the previous quarter. Compared with the same period a year earlier, the average quarterly balance is around 12 points higher. In the quarter under review, the share of industrial managers expecting a decline in employment over the coming period fell to 9%, while the share expecting an increase in the number of jobs rose to 19% (from 16%). However, the vast majority of industrial managers (72%) expected employment levels to remain stable.

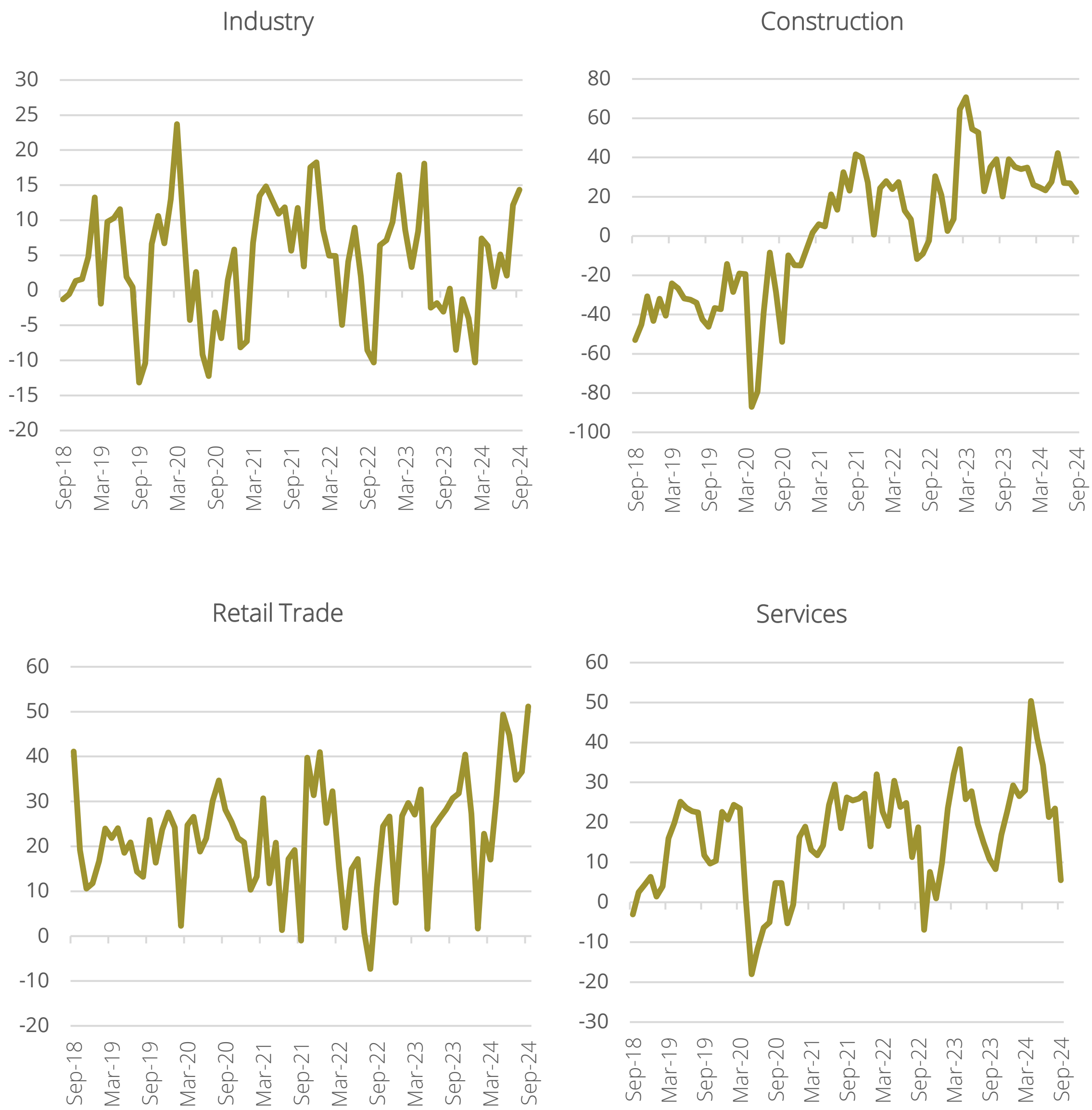
In the construction sector, the expectations point to a slight decline in the sector's employment balance, which weakened from +31 points to +25 points, at a slightly lower level compared to the same period in 2023 (+31 points). In the quarter under review, 12% (up from 4%) of the sector's companies expected fewer jobs, while the share of respondents expecting employment to increase rose to 38% (up from 35%). At the level of individual branches, the relative indicator for private construction increased significantly (+46 compared to +32 points), while the relative indicator for public works fell sharply (-1 compared to +29 points).

The employment expectations indicator for the retail trade sector remained broadly unchanged in the third quarter of this year compared with the previous quarter, at +41 points (from +42). Only 2% of the sector's companies expected a decline in employment, compared to 1% in the previous quarter, while 42% (down from 43%) expected employment to increase, with 56% of companies expecting employment to remain stable. There was a slight deterioration in the relative balance across the individual surveyed branches of trade, with the exception of domestic appliances, where the relative balance strengthened slightly.

In the services sector, the relevant expectations for the current quarter show a sharp decline compared to the previous quarter and a slight improvement compared to the same period of the previous year. The relevant balance for the third quarter of 2024 fell by 25 points to +17 points in the quarter under review, while it improved by 2 points compared with the corresponding period in 2023. Among the enterprises in the sector, 6% expected a decrease in employment, while the share of those expecting an increase was 23% (down from 43%). At branch level, the trend was strongly negative for hotels and restaurants and other business activities, slightly positive for financial intermediation and information technology, and unchanged for land transport.

Figure 3.20

Employment expectations (difference between positive and negative responses)



Source: IOBE

In the third quarter of 2024, compared with the previous quarter, the short-term employment outlook improved in industry and trade, but weakened slightly in construction and more markedly in the service sector.

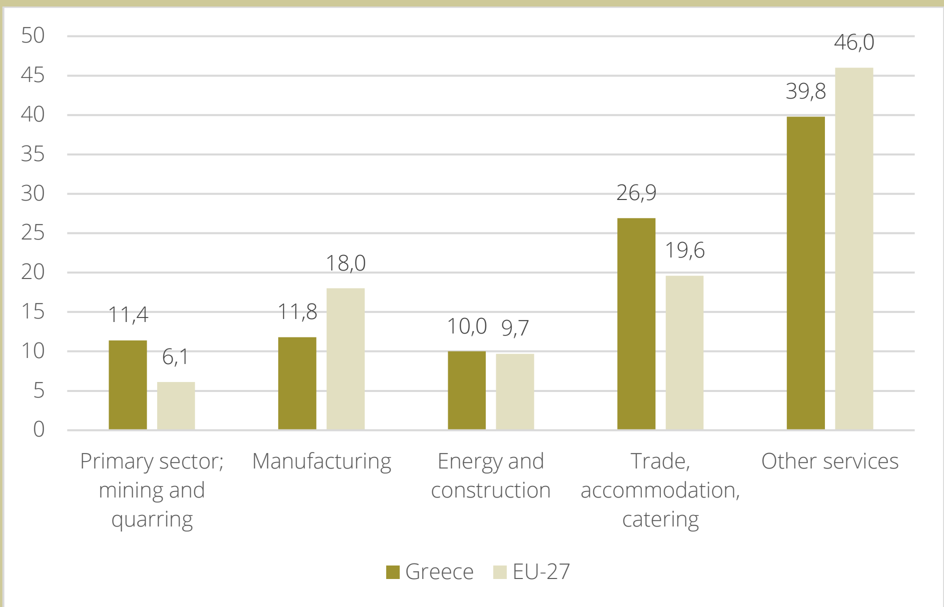
Special box of section 3.4.

Evolution of the share of employment in knowledge- and technology-intensive sectors in Greece and Europe

The European Commission collects detailed employment data by sector of economic activity, including high-tech and knowledge-intensive sectors. High-tech is defined as high technology, i.e. the most advanced form of technology, and can be defined as either the most complex or the newest technology on the market. Examples of high-tech industries include the manufacture of basic pharmaceuticals and pharmaceutical preparations, computer manufacturing and the manufacture of aircraft, spacecraft and related machinery. Knowledge-intensive services are services that involve activities aimed at the creation, accumulation or dissemination of knowledge. Examples of knowledge-intensive industries are telecommunications, computer programming and scientific research. There is some overlap between the two broader categories, but it is not complete.

Figure B.2.2.1 provides an analysis of the employment share for the main employment sectors for 2008, the year before the Greek economic crisis began, for Greece and for the European average (EU-27). Greece outperformed the EU in terms of employment shares in primary production and mining, as well as in trade, hotels and restaurants. In contrast, a higher proportion of workers in the EU-27 than in Greece were employed in manufacturing and other services.

Figure B.2.2.1. Distribution of employment in main sectors, 2008



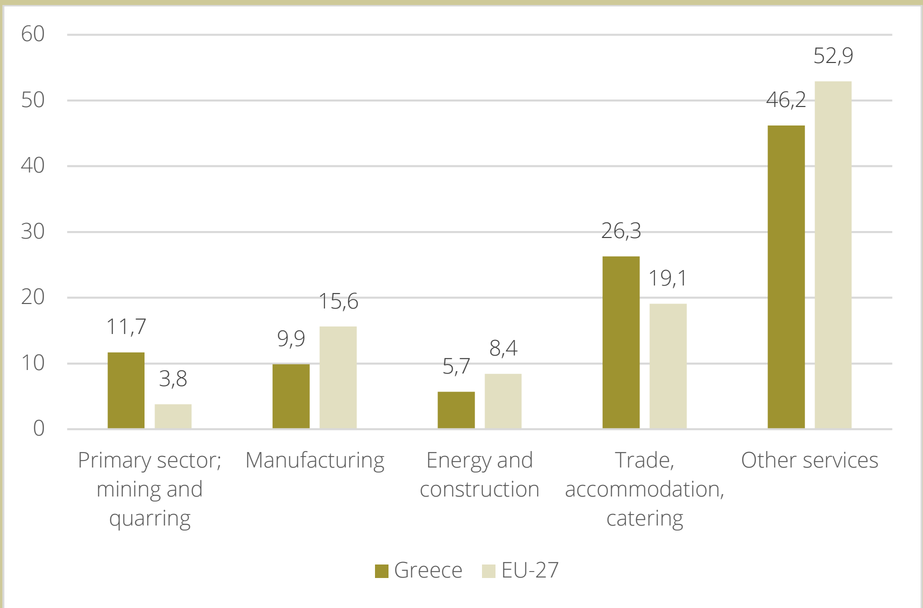
Source: Eurostat, Data processing: IOBE

Figure B.2.2.2 presents a similar analysis to Figure B.2.2.1, but for the year 2023 (the year with the latest available data). A shift in employment from primary and secondary production to services is observed for the EU-27. For Greece, a similar but less pronounced trend is observed, with a slight increase in the share of employment in the primary sector and in mining and quarrying.

Figure B.2.2.3 presents an analysis of the employment share for selected knowledge-intensive and high-tech sectors for the year 2008 for Greece and the European average. Greece lagged behind the

EU in terms of employment rates in all presented subcategories, especially in high- and medium-tech manufacturing.

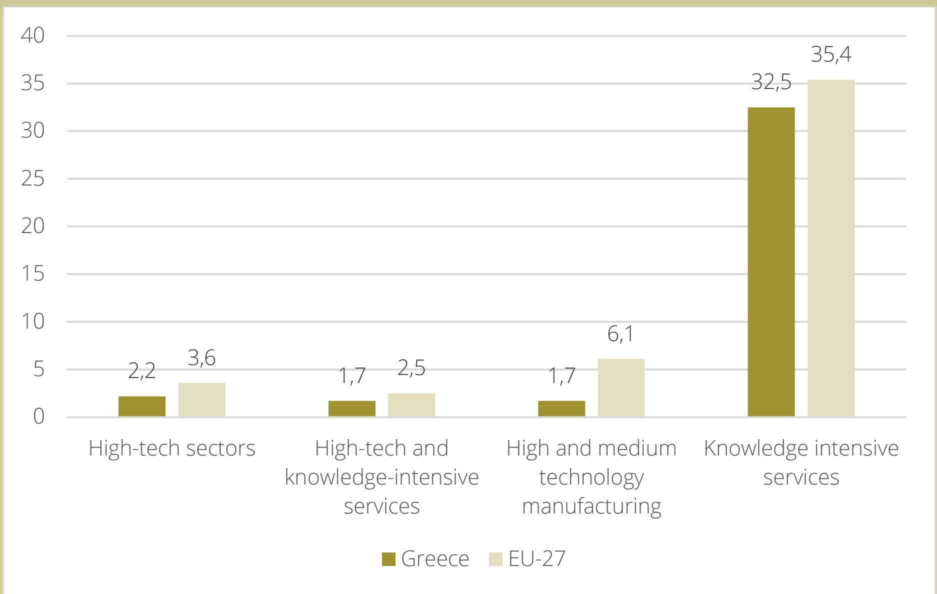
Figure B.2.2.2. Distribution of employment in main sectors, 2023



Source: Eurostat, Data processing: IOBE

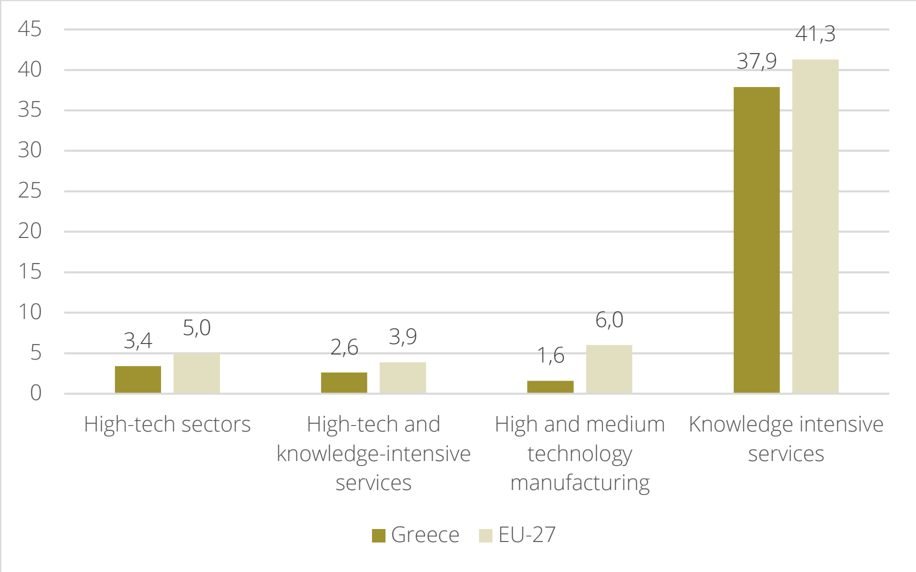
Figure B.2.2.4 presents a similar analysis to Figure B.2.2.3, but for the year 2023. An increase in employment is observed for both the EU-27 and Greece in all knowledge-intensive and high-tech subcategories, with the exception of high-tech manufacturing. Despite the growth in these sectors, Greece's divergence from the European average increased in three of the four subcategories, while the divergence remained stable in high- and medium-tech manufacturing.

Figure B.2.2.3. Distribution of employment in knowledge- and technology-intensive sectors, 2008



Source: Eurostat, Data processing: IOBE

Figure B.2.2.4. Distribution of employment in knowledge- and technology-intensive sectors, 2023



Source: Eurostat, Data processing: IOBE

In conclusion, there is a shift in economic activity towards the tertiary sector. In the EU, the shift is from the primary and secondary sectors to the tertiary sector, while in Greece it is from the secondary sector and the energy and construction sector to the tertiary sector, with marginal growth in the primary sector and mining. In fact, there is a significant increase in employment rates in high tech and knowledge intensive sectors. However, Greece's gap with the European average has either widened or remained stable in these sectors. This gap highlights the challenges as Greece lags behind the European average in the process of transition to a more modern production model based on knowledge accumulation and the creation and adoption of new technologies.

3.5 Consumer and Producer Prices

- Softer increase in the HICP (CPI) in the first nine months of 2024, at 3.0% (2.8%) against inflation of 4.4% (3.6%) a year earlier. Price rise mainly from the rising prices of non-energy goods.
- Rate of change in HICP with fixed taxes and excluding energy at 3.2% in the first eight months of this year, compared with a rise of 7.6% a year ago.
- For 2024, the Consumer Price Index is forecast to strengthen at a rate of around 3%. Key assumptions:
  - consumer demand will strengthen by around 2.2%
  - the Brent oil price will remain almost unchanged on an annual basis
- For 2025, the Consumer Price Index is projected to strengthen by around 2.4%. Key assumptions:
  - consumer demand will strengthen by about 1.7%.
  - the Brent oil price will decline slightly on an annual basis, with developments in the Middle East, however, putting further pressure on the energy market.

Recent developments

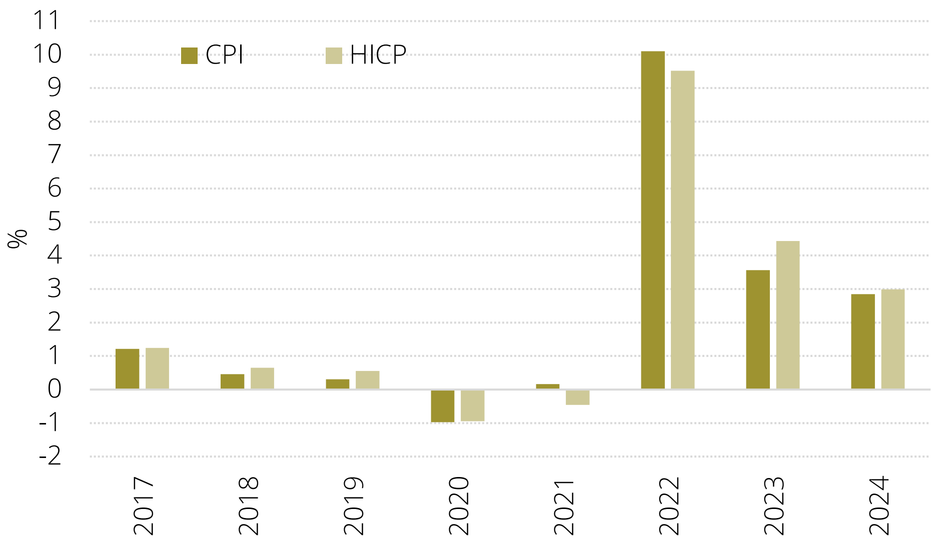
Prices rose in the first nine months of 2024 compared with the same period a year earlier, with the average rate of change in the national Consumer Price Index (CPI) standing at 2.8%, compared with 3.6% a year earlier. The Harmonised Index of Consumer Prices (HICP) rose by 3.0% over the period, compared with 4.4% a year earlier. In September this year, the annual rate of change in the national CPI was 2.9%, compared with 1.6% in the same month of the previous year. There was also an upward trend in the HICP, with the rate of change standing at 3.1% in September this year, compared with 2.4% in the same month last year. It should be noted that in the first eight months of 2024, for which data are available, core inflation in Greece stood at 3.3%, compared with 7.4% in the corresponding period of 2023.

Regarding the impact of the components of the HICP on its trend, the 3.0% rise in the harmonised index over the period January to August for which data are available is due to the positive impact of domestic demand, as the percentage change in the index with fixed taxes and excluding energy goods was 3.2%, compared with 7.6% a year earlier. Indirect taxes had a positive contribution to inflation of 0.2 percentage points over the period considered, compared with no impact a year earlier.

As regards recent trends in energy commodity prices and their impact on the HICP, the average international oil price in the period January to August was higher than a year ago. In particular, the average Brent oil price was $83.6/barrel compared to $80.6/barrel a year ago, an increase of 3.7%. The slight decline in the average euro/dollar exchange rate in the first eight months of 2024 compared with a year ago increased the change in the euro oil price, with the average oil price in euros at €77.1/barrel, 3.8% higher than in the same period in 2023. The fall in the oil price, which is a key component of energy costs, is the main driver of the negative contribution of energy commodity prices to the rate of change of the HICP of 0.4 percentage points in Greece in the period January-August 2024, compared with an also negative contribution of 2.7 percentage points in the corresponding period of 2023.

Figure 3.21

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



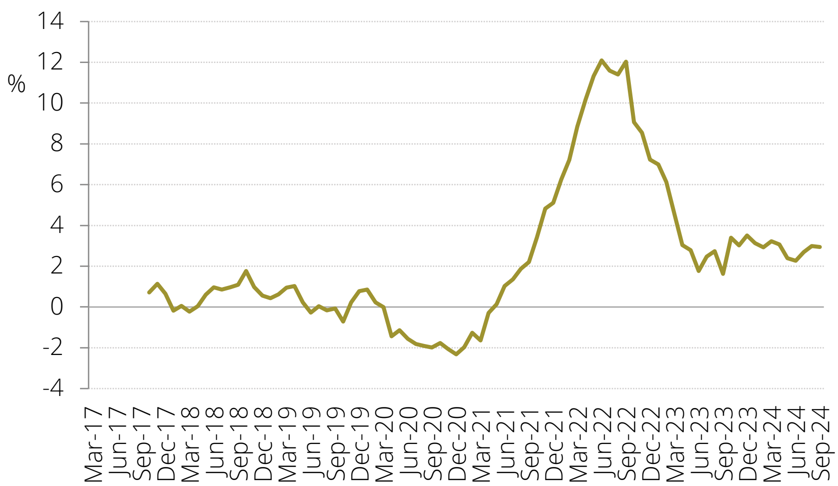
A 2.8% rise in the domestic CPI in the first eight months of 2024 year-on-year, from 3.6% in the corresponding period of 2023.

Source: ELSTAT, data processing IOBE

The strengthening of the HICP in Greece in the first nine months of this year places the country in the middle of the ranking of euro area countries in terms of the rate of change, above the weighted average. The average rate of change of the HICP in the euro area in the period January to September was 2.4%, compared with 6.4% a year earlier. In the first eight months of this year the rate of change in the euro area HICP was 2.5%, down from 6.7% a year earlier. Domestic demand appears to have been the main driver of price increases in the euro area, as the price index excluding energy goods at constant taxes rose by 2.7% in the first eight months of this year, compared with a stronger increase of 7.2% a year earlier.

Figure 3.22

CPI in Greece (annual percentage change per month)

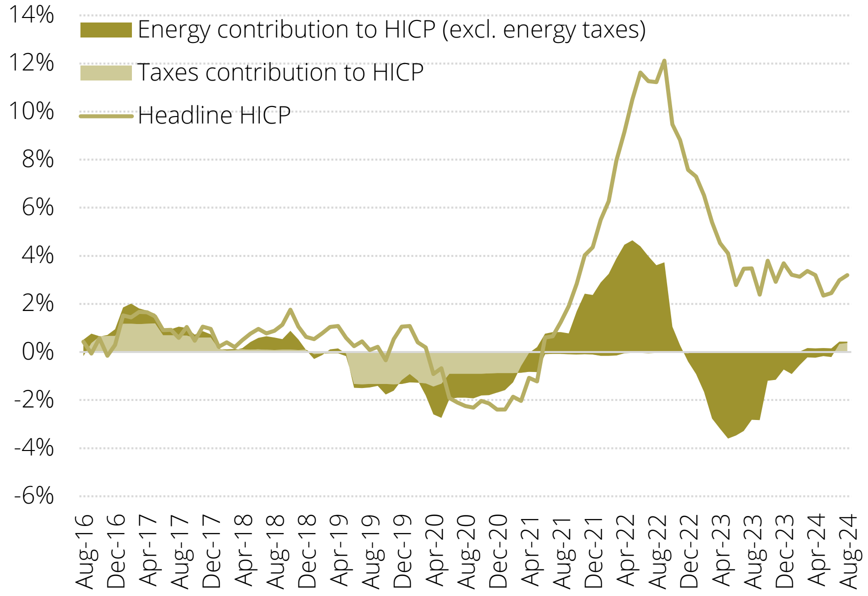


Domestic CPI rose fast in September 2024 (2.9% against 3.0% a month earlier). Higher rate of change than in the same month in 2023 (1.6%).

Source: ELSTAT, data processing IOBE

Figure 3.23

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



The increase in HICP in the first eight months of 2024 is due to the prices of non-energy goods, with the effect of taxes now being marginally positive.

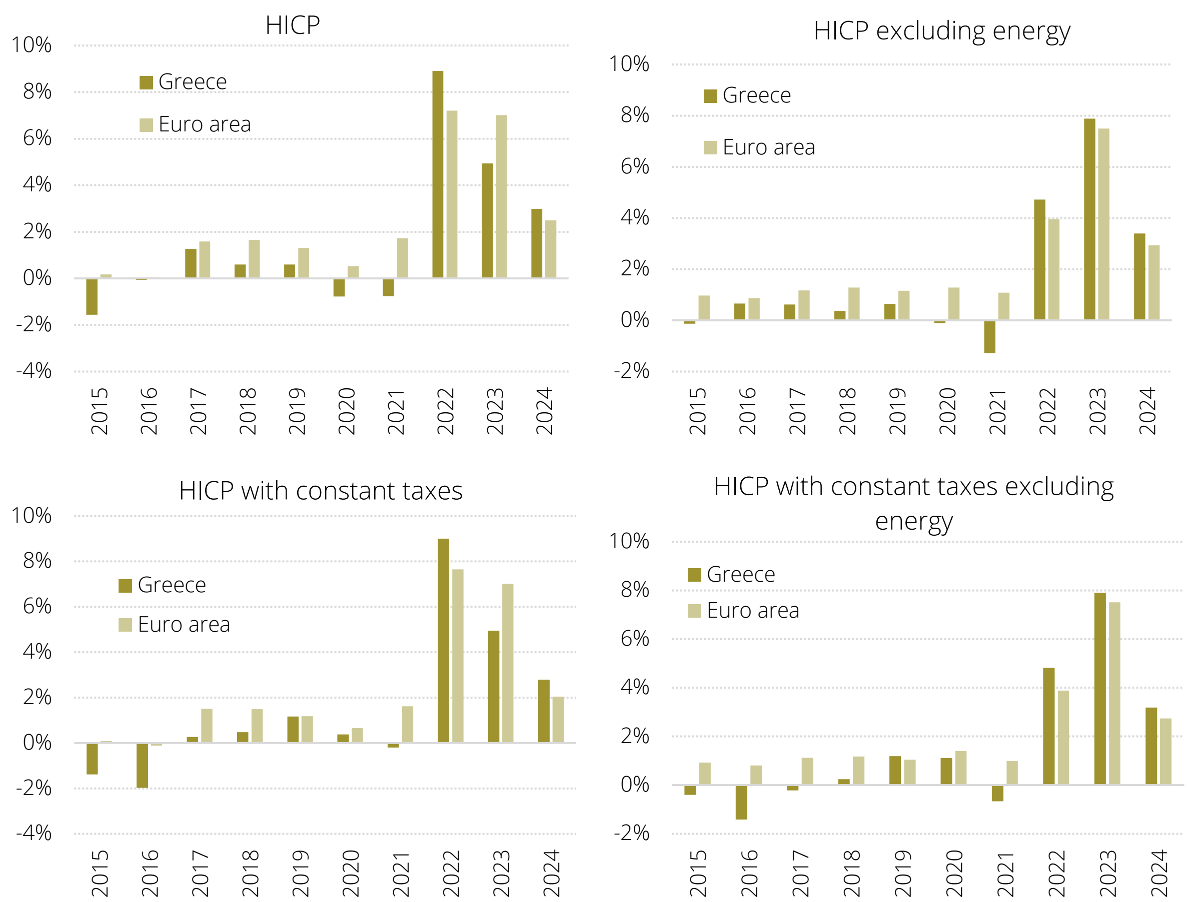
Source: Eurostat, data processing IOBE

Looking at trends in the individual categories of products and services included in the domestic CPI, the strongest increase over the examined period of 2024 was recorded for hotels. The price increase in the hotels category was 6.0%, compared to a stronger increase of 7.0% in the previous year. The change was lower in the clothing and food categories, where prices rose by 4.5% and 4.4% respectively, compared with increases of 7.7% and 12.5% a year earlier. Education and health recorded increases of 3.5% and 3.4%, respectively, after increases of 2.3% and 6.1% a year earlier, followed by recreation at 2.1%, after an increase of 3.4% in the same period in 2023. Price increases were recorded for other goods (2.0%) and transport (1.9%), after increases of 5.0% and 0.9% respectively in the previous year. Prices for alcoholic beverages and housing (which includes the cost of energy bills) rose by 1.8% and 1.0% respectively, after falling by 10.3% and 8.5% respectively in the first eight months of 2023. Prices for durable consumer goods rose marginally by 0.1% over the reporting period, after a stronger increase of 8.5% a year earlier. In contrast, prices for communications fell by 0.9%, following a sharper fall of 2.3% in the corresponding period of 2023.

As regards price developments on the output side in the period January to August 2024, the overall Producer Price Index (PPI), for both the domestic and the external market as a whole, recorded a fall compared with the same period in 2023 (-2.2%), mainly under the influence of the fall in energy prices. More specifically, the non-energy PPI increased by 1.8% over the period under review, compared with a stronger increase of 5.8% a year earlier. With regard to the development of industrial producer prices, crude oil and other transport equipment recorded the strongest increases, rising by 22.2% and 10.3% respectively, compared with milder rises of 3.6% and 8.3% a year earlier. Producer prices for coal and lignite rose by 5.7% and for transport equipment by 5.3%, after a sharp fall of 38.6% and stability respectively in the same period of the previous year. The rise was milder for computer products and leather products, both up 4.8%, following a fall of 0.5% and a rise of 5.1% respectively in the first eight months of 2002. An upward trend in output prices was recorded for beverages, which rose by 4.6% over the period under review, compared with a stronger increase of 6.3% a year ago, and for furniture, which rose by 4.1%, compared with 4.0% a year ago. In contrast, producer prices for electricity and metal products fell by 9.8% and 1.5% respectively, compared with falls of 5.8% and 0.1% a year ago.

Figure 3.24

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



Source: Eurostat, data processing IOBE

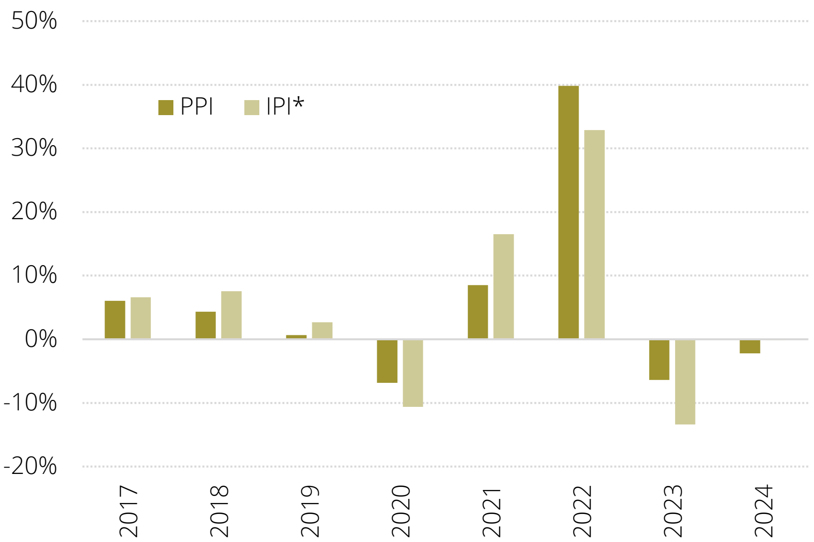
Domestic price growth in the first eight months of 2024 higher than the euro area average, with the inflationary impact of non-energy goods (3.2 percentage points) stronger than the euro area average (2.7 p.p.).

The overall import price index (IPI) for the period January to August this year showed an annual fall of 0.4%, compared with a sharper fall of 13.4% a year earlier. The 0.2% fall in domestic import prices over the first seven months of this year for which data are available places Greece at the bottom of the table in terms of the rate of decline among the fourteen euro area countries for which data are available over this period. The largest falls in import prices were registered in Slovakia and the Netherlands, where prices fell by 5.3% and 3.9% respectively, compared with a fall of 1% and 3.2% a year earlier, and in Lithuania, where prices fell by 2.7% compared with a fall of 4.6% a year earlier. In the euro area, the same index fell by 3.0%, compared with a fall of 3.9% in the corresponding period of the previous year. It should be noted that none of the euro area countries for which data are available recorded an increase in import prices.

Among individual categories of imported goods, the largest increase in prices over the period January to August 2024 was recorded for minerals, at 6.9%, compared with a stronger 12.6% increase a year ago, while the increase for tobacco products was lower, at 5.9% compared with a milder 2.6% rise. This was followed by beverages and computers, which rose by 2.0% and 1.3% respectively in the first eight months of this year, compared to 5.6% and 4.3% respectively a year ago. Prices for plastic products rose by 1.1% in the first eight months of the year, after rising by 4.5% a year earlier. This was followed by petroleum products and furniture, both of which rose by 1.0%, after a fall of 27.0% and a rise of 6.2% respectively a year earlier. In contrast, import prices for electricity fell by 10.7%, following an increase of 8.9% a year earlier.

Figure 3.25

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



A decline in import prices (-0.4%) in the first eight months of 2024, mainly due to the negative impact of energy goods prices. A decline in producer prices in the period Jan-Aug of this year (-2.2%).

Source: ELSTAT, data processing IOBE.

Medium-term outlook

The analysis of the main components of the domestic consumer price index in the first eight months of this year shows that its rise was due to the positive impact of prices for non-energy goods. The slowdown in energy prices in the first eight months of this year appears to have had a mildly dampening effect on prices. However, for the main product categories, the upward trend in prices seems to have continued, albeit at a more moderate pace than in the first few months of this year. It should be noted that in June this year, in response to Russia's military attack on Ukraine, EU member states imposed a new set of sanctions, the 14th, on international trade and the implementation of new investments for the completion of ongoing liquefied natural gas (LNG) projects. The EU introduced further controls and restrictions on imports and exports of goods related to industrial activities that strengthen Russia's international position. Indeed, due to Russia's continued actions destabilising the situation in Ukraine, the EU Member States decided in July this year to extend the restrictive measures for a further six months, until 31 January 2025, and also to extend the restrictive measures concerning travel restrictions on natural persons, the freezing of assets and the prohibition on making funds or other financial resources available to individuals and entities.

With regard to energy commodity prices, the average international oil price in the period January to September was slightly higher than a year ago. Specifically, the average Brent oil price was \$82.5/barrel, compared to \$82/barrel a year ago, an increase of 0.5%.[9] The 0.3% increase in the average euro/dollar exchange rate in the first nine months of 2024, compared to the same period last year, mitigated the increase in oil prices in euro terms, with the average price at €75.9/barrel.

Ongoing unrest in the Israeli region is expected to destabilise the economic climate and potentially cause disruptions in supply chains, particularly for energy commodities, leading to instability in the energy market and uncertainty about the expected price trends for these commodities.

Demand effects

In terms of expected developments in consumer demand, the new increase in the minimum wage and the increase in unemployment benefits from 1 April 2024 are expected to boost disposable income and thus domestic demand. Also expected to boost disposable income are pension increases averaging 3.1% from 1 January 2024, the return to three-year indexation from 1 January this year, and the new public sector pay scale, which is expected to boost incomes, especially of low-wage earners, from 1 January 2024. Positive effects on disposable income are expected from the payment of benefits in the private sector, the increase in the personal income tax threshold and the reduction in the ENFIA tax. Finally, the measures to support young couples and families with children, with a new staggered increase in the allowance that will be applied retroactively, are expected to boost disposable income and, consequently, domestic consumer demand.

In 2025, and for the first quarter of the year, the new increase in the minimum wage and the increase in unemployment benefits from 1 April 2024 are expected to have a positive impact on disposable income and subsequently on domestic demand, as less than a year will have passed since their implementation. In addition, and for the year as a whole, the 1% reduction in social security contributions, the abolition of business tax for professionals and the 20% reduction in ENFIA for homes insured against natural disasters (from 10% previously) are expected to have a stimulating effect on disposable income. Finally, other measures, such as the exemption of health insurance premiums for children up to the age of 18, the abolition of the fixed telephony fee (5%) for fibre-optic connections, and the three-year income tax exemption for vacant rental properties, are expected to boost disposable income and thus further stimulate domestic demand.

In contrast, the month-on-month increase in the wholesale price of electricity since June this year is expected to push up electricity tariffs and limit households' disposable income.

As a result, and taking into account the above factors, aggregate consumer demand is estimated to strengthen by around 2.2% in 2024, with prices remaining high to some extent. In 2025, based on the above, consumer demand is estimated to strengthen by around 1.7%.

Tax effects

As for the expected impact of indirect tax measures on price index changes, they are expected to be slightly positive in the current year. The reintroduction of the 24% VAT rate on served non-alcoholic beverages (soft drinks, non-alcoholic beer, sparkling water) as of 1 July 2024 is expected

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

to have a positive impact on prices until 1 July 2025, but only a mild one, as this development concerns a specific product category.

Conversely, the reduced VAT rates on certain goods and services (transport, gyms, dance schools, recreational entertainment) will remain in place for the whole of 2024, as will the property support measures until December 2025. In addition, the reduced VAT rate of 13% on non-served non-alcoholic beverages and taxi fares will be made permanent, which is not expected to have an impact on prices.

Energy effects

Looking at recent developments in energy commodities, the international Brent oil price averaged $74 per barrel in September 2024, 21% lower than a year ago. The euro/dollar exchange rate in the same month was 1.11, 4% higher than in the same month of 2023. Subsequently, the average oil price in euro terms was €66.6 per barrel, down 24% year-on-year.

On the oil supply side, OPEC+, including Russia, decided at its last meeting in June to extend voluntary oil production cuts by 2.2 million barrels per day until the end of 2025. The extension of the daily oil production limits is aimed at supporting oil prices in the face of relatively sluggish global demand, high interest rates and increasingly competitive US production. Indeed, some countries, such as Algeria, Iraq, Kazakhstan, Kuwait, Oman, Russia, Saudi Arabia and the United Arab Emirates, have made voluntary cuts. In addition, Russia has announced that it will also reduce its oil exports to 1.5 million barrels per day, down by nearly 500,000 barrels per day, for as long as necessary due to limited refining capacity at the country's refineries. As a result, voluntary cuts have reduced OPEC+ production by 1.3 million barrels per day this year.

The US, however, is expected to follow a strategy of increasing production this year, adding 9% in 2023 and next year. Analysts estimate that US crude oil production will increase by 400,000 barrels per day this year and by a further 400,000 barrels per day in 2025.[10] Total non-OPEC supply growth is estimated at 1.4 million barrels per day this year and in 2025, with higher production coming from outside the United States, Guyana, Canada and Brazil. Production growth is expected to slightly outpace global demand growth, leading to higher inventories and hence downward pressure on oil prices.

As a result, global oil production is expected to increase by a total of 2.0 million barrels per day in 2025, compared with an increase of just 0.5 million barrels per day this year. OPEC estimates that global oil demand will increase by 2.25 million barrels per day (bpd) in 2024, mainly due to global growth and dampened inflation, while global demand is estimated to increase by 1.74 million bpd in 2025.

World demand

The outlook for global growth in 2024 appears to be slightly stronger, according to macroeconomic forecasts by international organisations. In particular, global GDP growth is expected to be around 3.2% in 2024 and slightly higher in 2025 than forecast in February (3.1%), mainly due to improving incomes and looser monetary policy. Growth in the United States and many emerging markets appears to be offset by a slowdown in most European countries.

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

Annual GDP growth in the US is projected to be almost unchanged from 2.5% last year to 2.6% in 2024 and 1.6% in 2025, as a result of looser monetary policy.[11] In the euro area, growth is expected to be lower at 0.7% in 2024 and 1.3% in 2025, driven by private consumption as real incomes strengthen, but also by the boost to investment from credit easing and capital injections. Growth in China is projected to slow to 4.9% in 2024 and 4.5% in 2025, mainly due to sluggish consumer demand.

Finally, the turmoil in the Red Sea has caused delays in the movement of goods to Europe as merchant ships, container ships and tankers pass through the Cape of Good Hope, inflating transport costs and ultimately increasing prices.

Against this background, the average oil price in 2024 is forecast to be $81/bbl, 1.8% lower than in 2023, mainly due to global demand. The euro/dollar exchange rate is expected to average 1.09 this year, up 0.8% year-on-year.[12] Accordingly, the average euro oil price is expected to average €74.3/barrel in 2024, down 2.5% year-on-year.

In 2025, the average oil price is projected to be $78 per barrel, 3.7% lower than this year, mainly due to the decline in global demand. The euro/dollar exchange rate is expected to be 1.10 in 2025, 0.9% higher than this year.[13] The average euro-denominated oil price is thus expected to reach €70.9/barrel, 4.6% lower than in 2024.

The escalation of war-related disruptions could potentially put pressure on energy commodity prices, which could push up inflation. It should be noted that oil prices have risen in recent days as a result of the escalating conflict in the Middle East, increasing the likelihood of oil supply disruptions and further increases in oil prices.

Taking into account the above trends and developments in the main factors affecting consumer prices, **the CPI is forecast to increase slightly this year, at a rate of around 3.0%, mainly due to a pick-up in domestic demand. Similarly, in 2025, the CPI is projected to increase by around 2.4%, mainly due to a stronger domestic demand.**

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

Trends in price change forecasts are mainly bearish in the third quarter of 2024 compared with the second quarter of this year. Specifically, price expectations moved slightly downwards in manufacturing and retail trade, more strongly in services, while there was a marked strengthening in construction. Compared with the corresponding quarterly period last year, expectations for price developments show a slight upward change in industry, a more pronounced change in private construction and a decrease in retail trade and services. In greater detail:

In industry, expectations regarding the price trend in the third quarter of the year weakened slightly compared to the previous quarter. Specifically, the index stood at +4 points, compared with +7 points in the previous quarter, while it increased by 8 points compared with the corresponding quarter of the previous year. Of the managers in the sector, 8% expected prices to fall in the short term, while the share expecting prices to rise fell to 13% (from 15%), with the remaining 79% expecting prices to remain stable.

[11] OECD, Economic Outlook, Turning the corner, September 2024
[12] Energy Information Agency, Short-Term Energy Outlook, October 2024
[13] Macroeconomic projections, ECB, September 2024

In the retail trade sector, the balance of the sector's price expectations, which stood at +32 in the previous quarter, fell by 7 points. None of the sector's companies expected prices to fall in the short term, while the proportion expecting prices to rise fell to 25%, with the remaining 75% (up from 66%) expecting prices to remain stable. Within the individual retail sectors, changes in price expectations in the third quarter of 2024 compared with the immediately preceding quarter were mixed across the various surveyed sectors. The price balance moved slightly downwards in the food and beverages and automotive and parts sectors, while it moved slightly upwards in the textile/clothing/footwear and household appliances sectors, with a significant increase in the balance for department stores.

The average price change expectations index for the services sector fell sharply in the quarter under review compared with the previous quarter, to -4 points (from +33), while at the same time it was significantly lower than the corresponding average in the third quarter of 2023 (+16 points). In the current quarter, 26% of the sector's managers expected prices to decrease, while 21% expected prices to increase, compared to 34% in the previous quarter. The indicator fell sharply in all the surveyed branches of services.

Finally, the positive balance in the private construction sector increased significantly from +27 points in the previous quarter to +53 points, while at the same time it rose sharply compared to the corresponding level in 2023 (+41 points). In addition, only 1% of the sector's firms expected prices in the sector to fall, while 54% (up from 28%) expected them to rise and the remaining 45% (down from 71%) expected prices to remain stable.

Figure 3.26

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

Source: IOBE

Trends in price change expectations in the third quarter of 2024 were mainly downward compared with the second quarter of this year. Expectations for price changes decreased slightly in the manufacturing and retail trade sectors and more significantly in the services sector, while there was a marked upswing in the construction sector.

4 TRENDS, CHALLENGES AND PROSPECTS OF CONSTRUCTION IN GREECE[14]

- The restoration of stability and the progress made in the Greek economy in recent years, the securing of a significant amount of national and European resources for development projects and the recovery of private construction activity, make the expectations of further development of Construction in the next period particularly positive.
- It is estimated that the production value of infrastructure and housing construction projects will follow a strong upward trend in 2024-2026, exceeding 18 billion euros in 2025, up from 10.3 billion euros in 2022.
- The expected increase in the turnover of construction companies will also fuel an increase in their bank lending. It is estimated that the total net bank lending of enterprises in the sector could increase by €972 million to €1.77 billion over the period 2023-2026.
- Despite the positive outlook, there are still significant challenges for the sector. These include issues related to human resources and business financing, the institutional framework of the public works production system and national infrastructure planning, the integration of technology and the digitalization of construction to enhance the productivity of the sector and, finally, the adoption of ESG standards by construction companies.

Key figures and trends of the construction sector in Greece

The Construction sector designs and implements several projects that contribute decisively to enhancing the productivity of the economy, sustainable development and the quality of life of citizens. Thousands of small and medium-sized enterprises and professionals are active in the construction sector, the number of which has increased in recent years, reversing the downward trend that occurred during the economic crisis.

[14] The chapter is based on a recent IOBE study. The full text of the study is available here: https://iobe.gr/research_dtl.asp?RID=315

Over the past decade, the construction sector in Greece has faced an unprecedentedly adverse domestic economic environment, which has been a serious impediment to its activity. The restoration of stability and the progress made in the Greek economy in recent years, the securing of a significant amount of national and European resources for development projects and the recovery of private construction activity, make the expectations of further development of Construction in the next period particularly positive.

The production value of Construction, after a decade of low-level activity and divestment, has been significantly enhanced while operating profitability and the contribution of the sector to the Greek economy have also been improved. The total production value of the Construction industry is estimated to have reached €12.8 billion in 2023, 84% higher than in 2017. The sector's gross value added (GVA) stood at €3.4 billion in 2022 and its contribution to the total GVA of the Greek economy at 1.9%.

The construction sector employed a total of 197 thousand persons in 2022. Employment in the sector has stagnated somewhat, with a trend of moderate growth in recent years. In the activities of Architects and Engineers, 74 thousand people were employed in 2022, a number that has not changed significantly since 2017.

Greece records the lowest share of construction investment as a share of GDP among EU countries, mainly due to the lag in housing investment. Construction investment accounted for 4.8% of GDP in 2022, compared to 14.7% in 2007, while the deviation for 2022 compared to the EU-27 average is more than 6 percentage points.

Construction costs are increasing from 2020 at an accelerated rate, a change mainly due to increases in material costs, initially due to problems in supply chains internationally and then as a result of the energy crisis, which led to a sharp increase in the prices of several raw materials and construction products.

The market for public works is particularly strengthened in the last two years, with an increase in both the number of auctions and the total budget of public works as well as with a decline in the average discount rate, also due to the significant increase in construction costs.

The backlog of public and private projects of the country's major construction groups is at a historically high level because of the improved performance and conditions in the Greek economy, the level of EU funding and the large investment gap over the past decade. In particular, the backlog of the largest companies in the sector in 2023 (data up to the nineth month of the year) amounted to €15.35 billion, a significant increase of 63% compared to the previous year and about three times compared to the average for the period 2018-2020. The successful implementation of these projects is, however, a challenge for construction companies, as they require, among other things, adequate human resources, strong liquidity, access to funding resources and fast-track procedures on the part of public bodies.

State of play of national infrastructure planning and financing programmes for construction projects

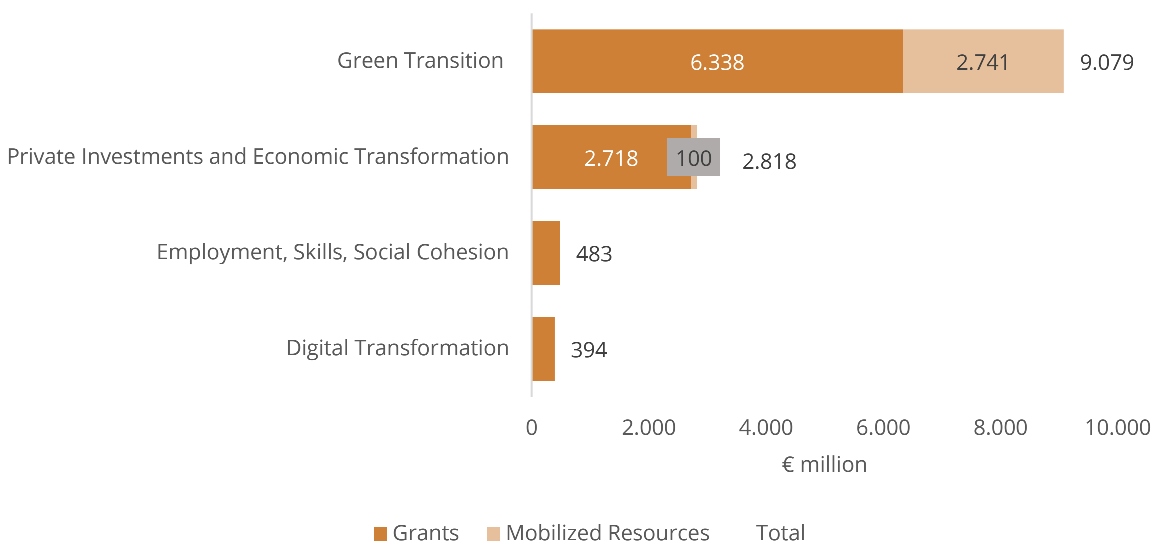
The significant amount of national and European resources, which have been committed for the coming years, coupled with the recovery of private construction activity, create expectations of strong growth for the Construction sector.

The NSRF 2021-2027 funding resources planned to be directed to Environment-Climate Change (greener Europe) and Transport (more interconnected Europe) projects, in which the construction sector is heavily involved in the implementation of the relevant projects, are estimated at €9.14 billion. Compared to the previous programming period of the NSRF 2014-2020, the total funding resources in these areas do not lag behind in terms of budget, as the payments (public support) of the previous period reached €9 billion (in projects with a total contractual object of €13.8 billion). Therefore, the impact on the activity of the construction sector, which is related to the NSRF projects, is not expected to differ significantly compared to the previous programming period.

The Recovery and Resilience Fund (RRF) will finance infrastructure projects that will fuel construction development in the coming years. Based on the analysis of the actions of the National Recovery and Resilience Plan (NRRP), it is estimated that grants amounted to €9.9 billion will be directed to projects directly related to Construction, mobilizing a total of €12.8 billion. The construction projects to be supported by grants from the RRF mainly concern the pillars of the Green Transition (6.3 billion euros) and Private Investment (€2.7 billion) (Figure 4.1).

Figure 4.1

Total investment resources mobilized from grants to Recovery Fund projects directly related to Construction activity, by sector (estimate)

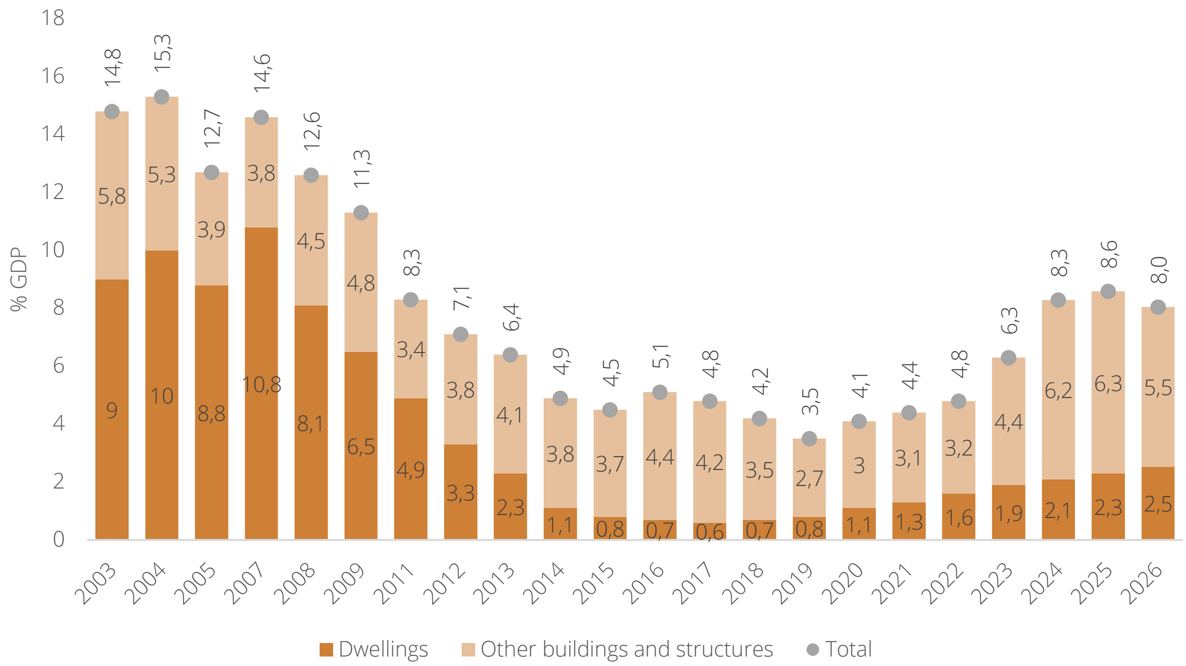


Source: Greece 2.0 National Recovery and Resilience Plan. IOBE estimates.

Along with the resources from the RRF loans (and the funding resources mobilized from the loans) it is estimated that for projects directly related to Construction, a total of 23.9 billion euros (12.8 billion euros from grants and 11.1 billion euros from loans) will be mobilized over the period 2022-2026. Therefore, construction investments are estimated to significantly boost their share in GDP in 2023-2026. In the medium term, additional investment in infrastructure and housing is estimated annually at up to 3.0% of GDP on average (compared to 2022) – with the share of investment in construction projects reaching up to 8.6% of GDP in 2025 from 4.8% in 2022. It is also estimated that the production value of infrastructure and housing construction projects will follow a strong upward trend in 2024-2026, exceeding 18 billion euros in 2025, up from 10.3 billion euros in 2022 (Figure 4.2). Due to the strong impact of NRRP investments, the overall impetus will be driven to a greater extent by investments in infrastructure and non-residential construction projects, but private construction activity is estimated to strengthen by 56% compared to the level recorded in 2022.

Figure 4.2

Projection of investments in Construction (% of GDP), 2023-2026



Source: Eurostat, IOBE Estimation 2023-2026.

Analysis of financing needs in the construction sector

The development of public and private construction projects, the participation in public projects and the modernization of the productive capacity of the sector will require significantly increased funding resources from the financial system, both in operational capital and in medium- and long-term borrowed capital.

The study investigates the financing needs of the construction sector, considering possible different characteristics of enterprises, using data from accounting statements of technical and design enterprises covering the period 2010-2022.

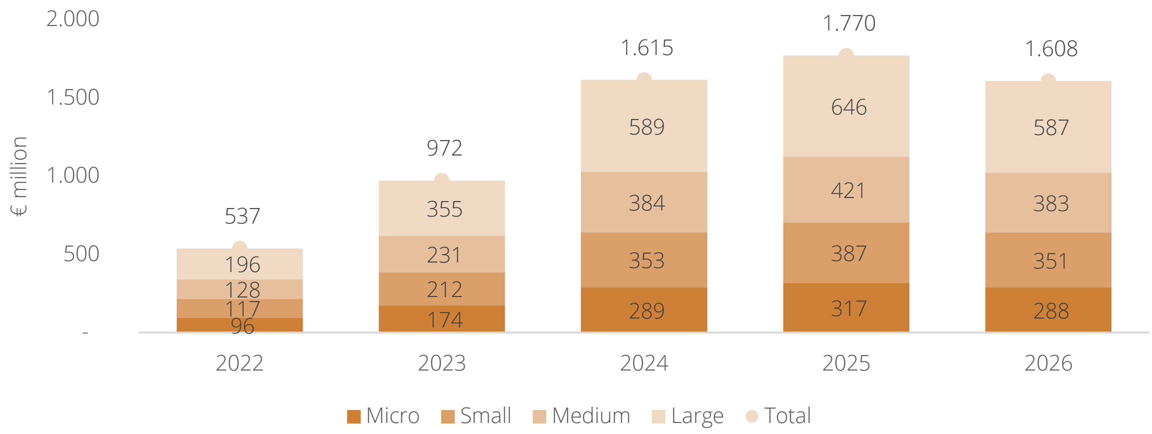
The prospect of growth for the Construction sector will significantly strengthen the size of enterprises in the sector in the coming years. Based on the distribution of the production value of the Construction sector (Construction sector and Architectural and Engineering Activities) by enterprise size category and the forecast of the production value of the sector in 2023-2026, the amount and the distribution of the turnover of enterprises by size (micro, small, medium and large enterprises) was estimated for the period 2022-2026. Overall, the turnover of the sector is estimated to increase significantly in the projected period, reaching €21.4 billion in 2026.

The expected increase in the turnover of technical and design enterprises will also fuel an increase in their bank lending. It is estimated that the total net bank lending of enterprises in the sector over the period 2023-2026 could increase by €972 million to €1.77 billion (Figure 4.3). For micro-enterprises, the increase in total net bank lending ranges from €174 to €317 million, representing

18% of the total increase. Small businesses account for 22%, medium-sized businesses for 24% and large businesses for 36% of the overall increase in net bank lending.

Figure 4.3

Estimate of change in total bank loans by corporate category



Source: IOBE.

Challenges for the construction sector

Although the prospects for the development of Constructions and the maximization of their contribution to the Greek economy in the coming years are very positive, there are still significant challenges for the sector. These include issues related to human resources and business financing in the sector, the institutional framework of the public works production system and national infrastructure planning, the integration of technology and the digitalization of construction to enhance the productivity of the sector and, finally, the adoption of ESG standards by construction companies.

Workforce shortages are projected as the main bottleneck to growth in 2023, while financing difficulties are also assessed negatively in terms of their impact on construction activity. A shortage of workforce entails delays that may lead to an increase in the budget and non-compliance with project scheduled timeframes.

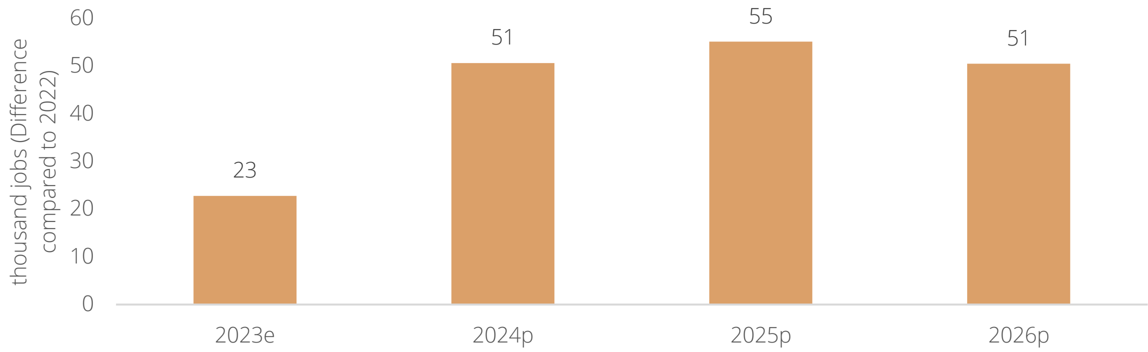
The prospect of strong growth in domestic construction activity will create additional needs in a workforce of various specialties. According to the estimates of the study, total construction workers should increase in the period 2024-2026 to around 250,000 workers, a level that is 51,000 to 55,000 higher compared to total construction employment in 2022 (197,000 workers) (Figure 4.4).

The prospect of a further increase in construction projects in the coming years creates additional financing needs, including guarantees for project participation and fine execution. The need for additional funding and liquidity is compounded by late payments by construction companies, including in the public works sector. Difficulties in financing and the financing gap can be reduced by using various financial tools (e.g. guarantee funds, interest rate subsidy, etc.) so that public and private investments in construction projects can be implemented smoothly in the coming years.

In relation to the institutional framework, and given the large increases in construction costs, the need for a systematic operation of the mechanism for setting the revision coefficients of prices covering the whole range of individual costs was highlighted, to reduce uncertainty for participants in public works tenders and the related problems that may arise during the implementation of projects. The development, operation and management of the Unified System of Technical Specifications and Pricing of Technical Works and Studies and the Electronic System for Determining the Costs of Production Factors of Technical Works, which has not yet been implemented, will contribute to this.

Figure 4.4

Estimated Job Needs in Construction



Source: IOBE.

Other interventions to further improve the public works production system include the expansion of the digitalization of public procurement procedures and the enhancement of interoperability between information systems, the introduction of multiple criteria for the selection of the contractor, the widespread use of out-of-court dispute resolution methods, such as mediation and expert panels and arbitration, regulatory interventions to speed up procedures and ensure continuity between contracts and the execution and maintenance of works, ensure reliable and enforceable studies, reform the budgeting mechanism, enhance transparency and ensure conditions of free competition, the implementation of Presidential Decree 71/1019 on the Registers of production factors of public and private works, studies, technical and other related scientific services, and strict control and supervision during the construction of each project.

Low digitalization rates, but also a lack of investment by construction companies, are two major challenges for the resilience and competitiveness of the sector. As the sector is mainly composed of small and medium-sized enterprises, the scope for investment in innovative technologies is generally low and the need for financial support and other financial incentives is high. The recent announcement of the National Strategy and the Roadmap for the implementation of Building Information Modelling (BIM) in Greece is a positive development. The implementation of BIM is expected to be critical in the production of sustainable and resilient projects, improving the process of designing, constructing and maintaining public works. Integrating the changes required by the National BIM Strategy requires time for the broad development of the necessary skills for companies in the sector to meet the new requirements and procure the necessary equipment.

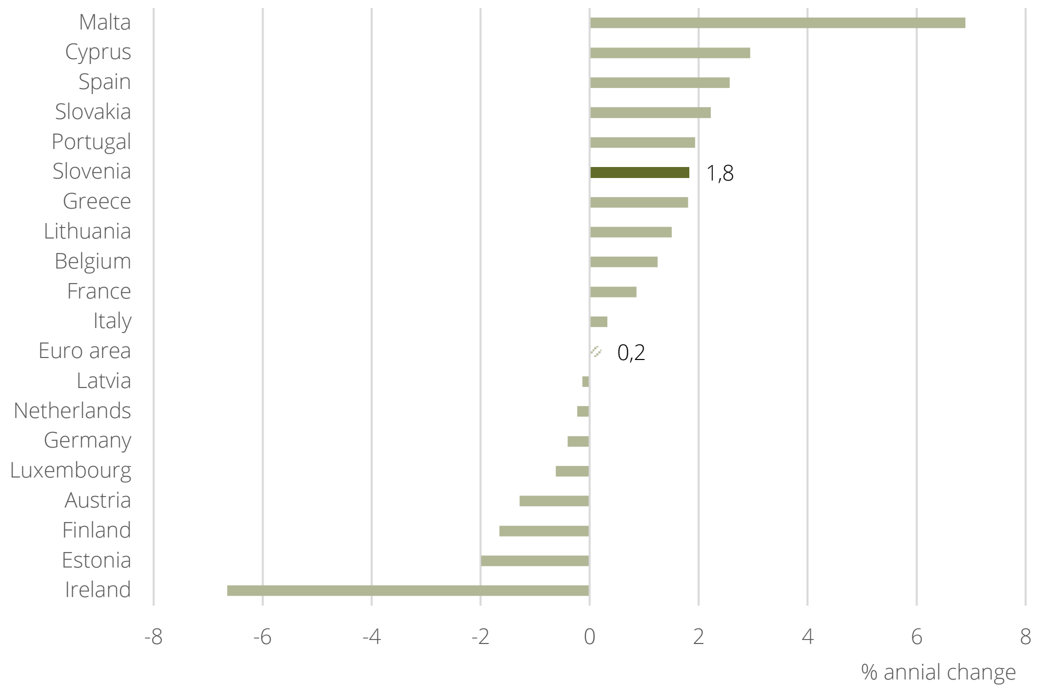
Environmental, social and corporate governance management (ESG) is particularly important to facilitate access to investment and funding for construction companies. Potential benefits of adopting sustainable practices with ESG criteria also include improving their environmental performance and avoiding any adverse economic impacts, enhancing their reputation, making it easier to adapt to the legislative framework, integrating circular economy principles and strengthening cooperation with all stakeholders (local communities, customers, investors, staff, etc.).

Finally, there is a need to draw up a National Strategic Planning for Infrastructure and Construction, which will set priorities, define planned and foreseen investments in large economic and social infrastructure, specify funding resources for critical infrastructure projects, including their maintenance, and identify workforce and skills needs for their implementation. The national infrastructure plan will provide significant support to the Construction sector by helping it with evidence-based business planning and making the necessary investments in skills and productivity enhancement.

APPENDIX

Figure 1

Real GDP growth rate, Q2 2024 (*)

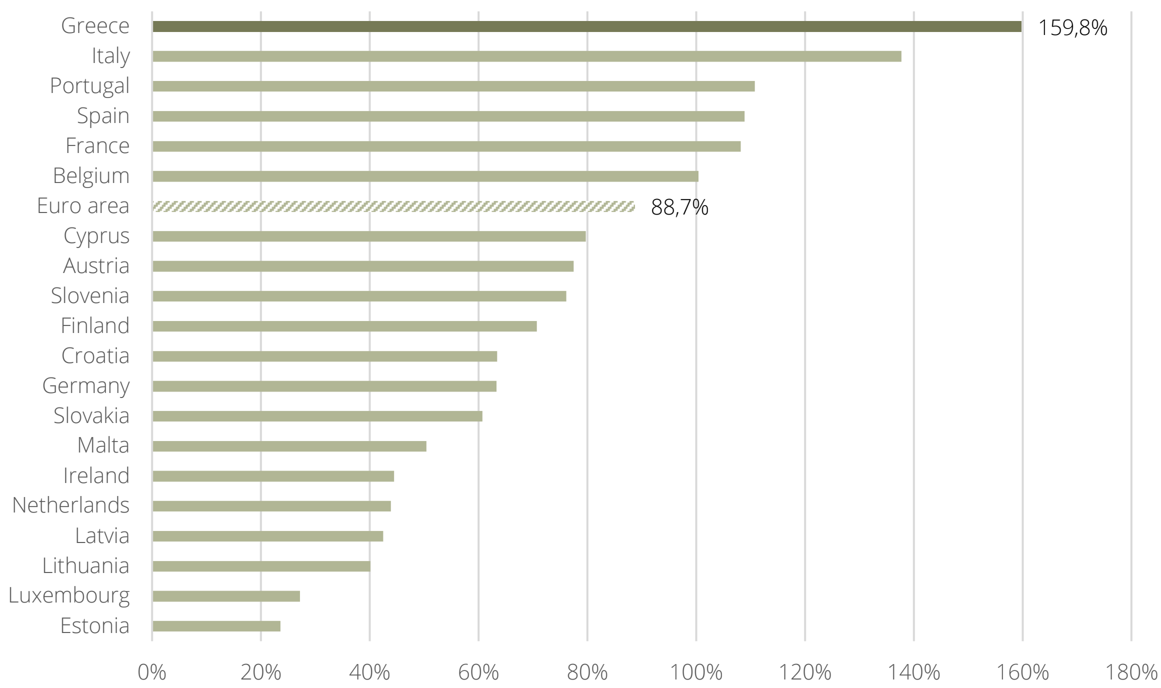


(*) Annualised GDP data (4 quarter moving average, up to Q2 2024)

Source: Eurostat

Figure 2

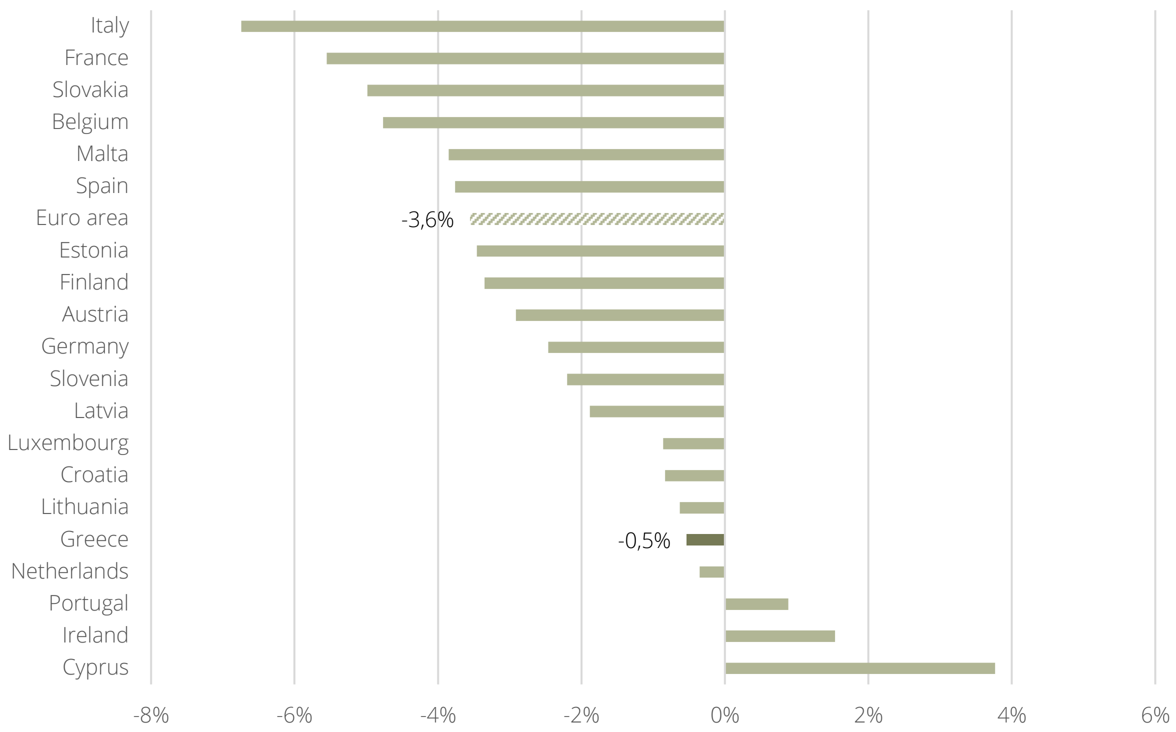
General Government Debt as % of GDP, Q1 2024



Source: Eurostat

Figure 3

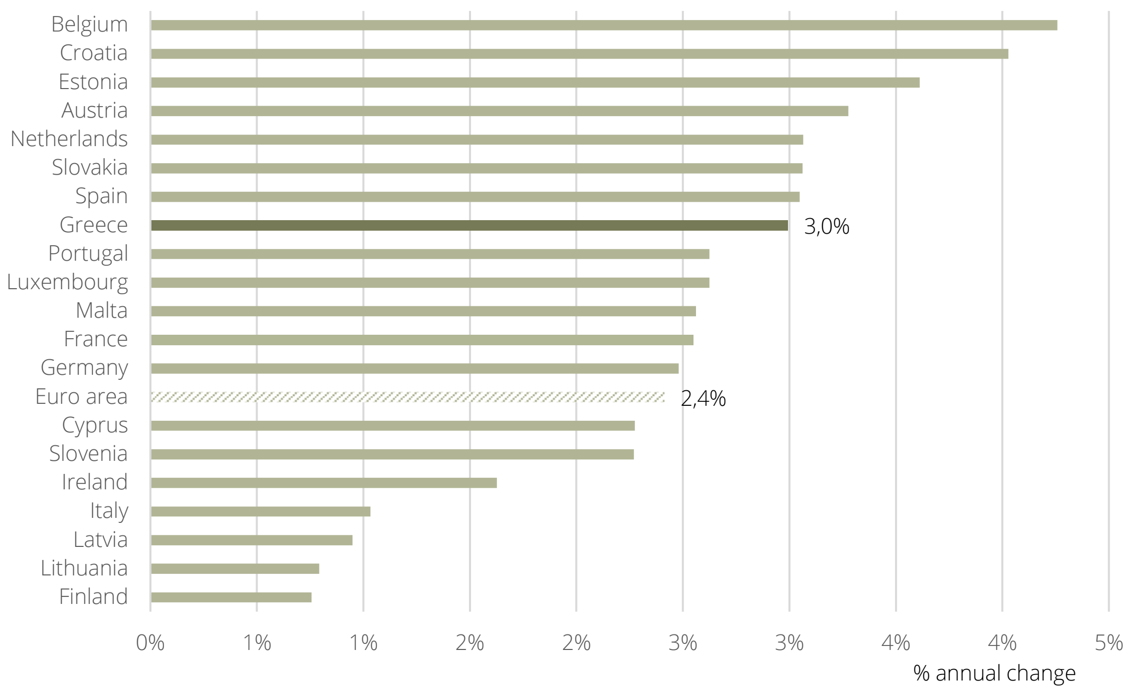
General government balance as % of GDP, Q1 2024



Source: Eurostat

Figure 4

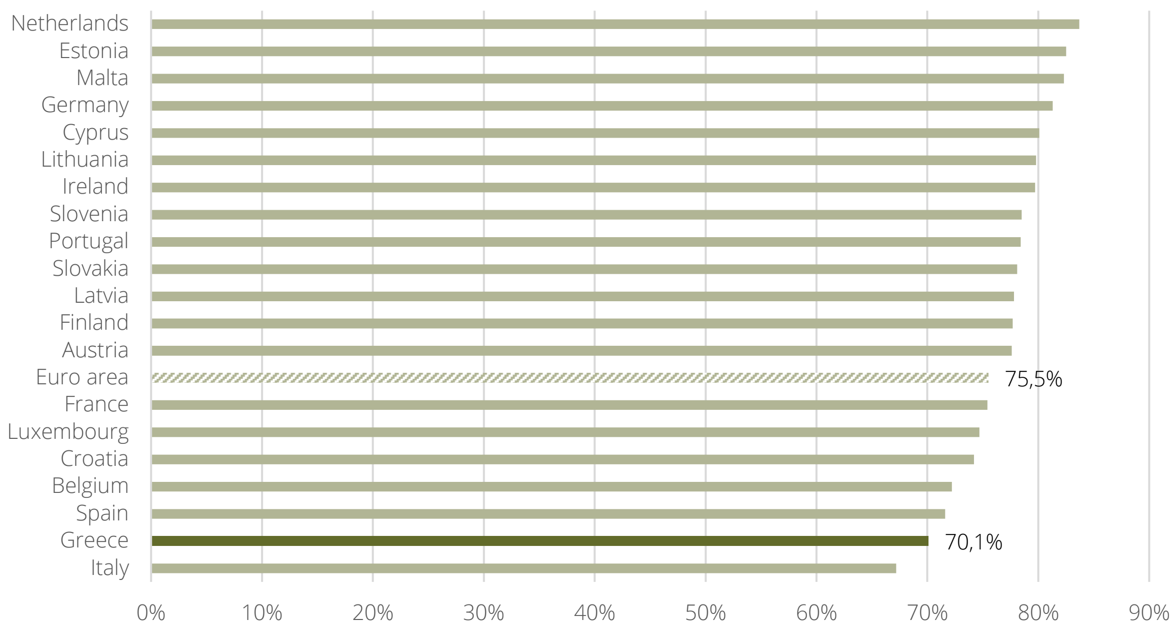
Harmonised Index of Consumer Prices, January - September 2024



Source: Eurostat

Figure 5

Employment, Q2 2024 (*)

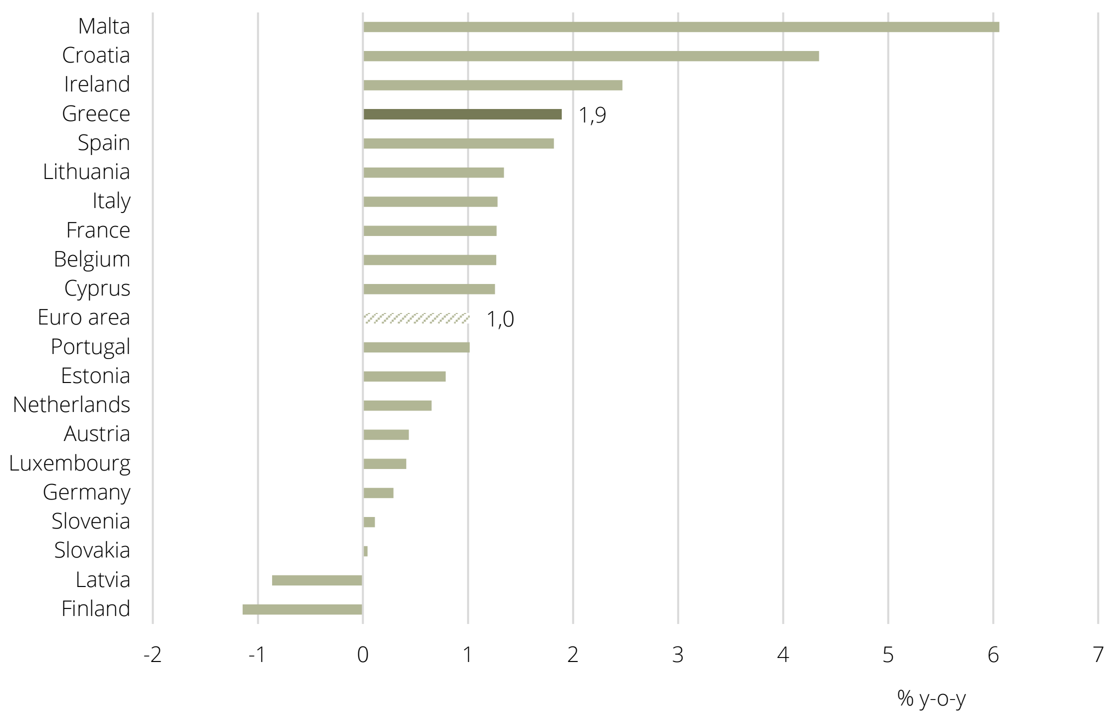


(*) % of employed people aged between 20 and 64 in the total population of the same age group

Source: Eurostat

Figure 6

Change in employment, Q2 2024 (*)

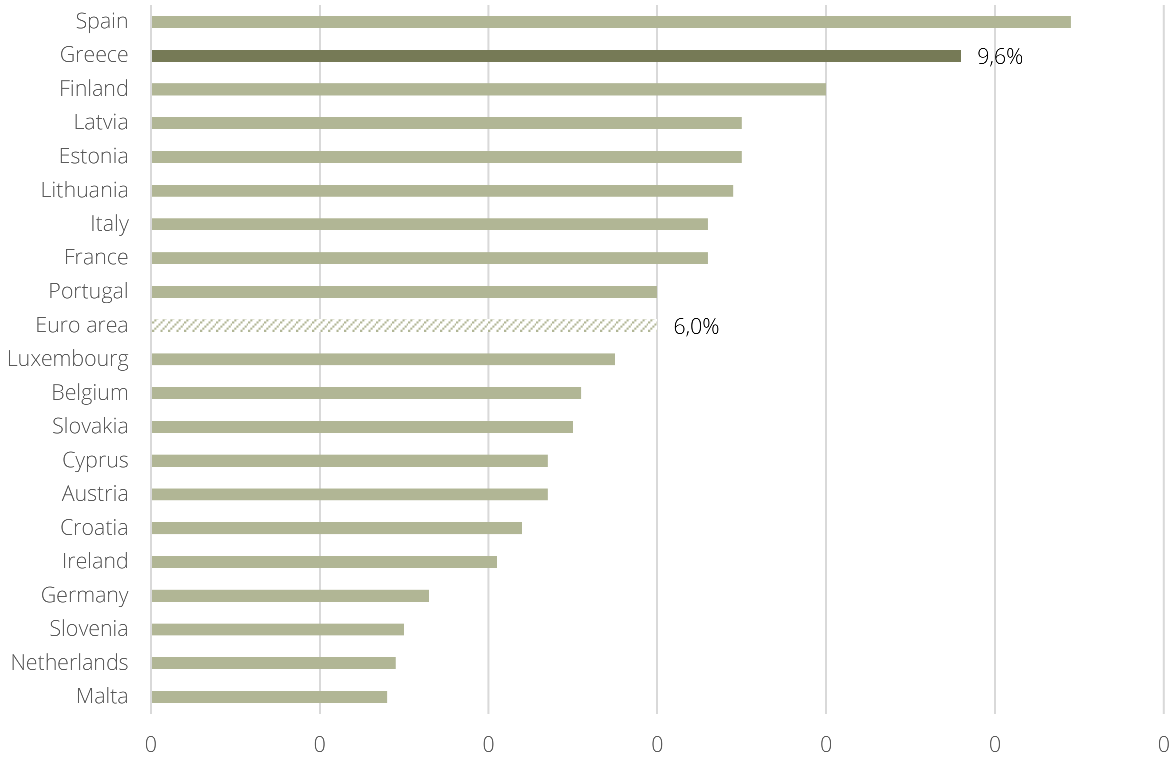


(*) employed people aged between 20 and 64

Source: Eurostat

Figure 7

Unemployment, Q2 2024 (*)



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

Source: Labour Force Survey, Eurostat