Greece

Highlights

- **The strong post-Covid rebound of 2021 has continued into 2022.** Following 8.3 per cent growth in 2021, gross domestic product (GDP) in 2022 remains driven by rising consumption and exports, a significant pick-up in investment and a tourism season on a par with the record year of 2019.
- **Greece has exited the European Union (EU)'s enhanced surveillance procedure.** The four-year procedure ended in August 2022, during which Greece delivered on most of its reform commitments to the Eurogroup and benefited from further debt relief measures.
- **Implementation of the EU's Recovery and Resilience Facility (RRF) is well under way.** Greece was one of the earliest countries in the EU to prepare a coherent plan, with a strong focus on digitalisation and green projects. It is funded by both grants and loans.

Key priorities for 2023

- **Fiscal discipline should be continued alongside targeted support for vulnerable groups.** The government's commitment to returning to a primary fiscal surplus in 2023 should be maintained, but further assistance for vulnerable groups will be needed to help them cope with double-digit inflation and rising energy costs.
- **Governance reforms should be accelerated.** Governance remains a weak point for Greece compared with its EU peers, and further progress is needed in areas such as public administration and judicial reform. The digital transition plans of the government are likely to accelerate the implementation of these reforms.
- **Backtracking on the ambitious green agenda should be strictly time-bound to meet urgent energy needs.** The recent decision to step up electricity production from lignite mines as a fall-out from the energy crisis due to Russia's invasion of Ukraine is a necessary step. However, it also highlights the need to vigorously pursue reforms in the energy sector, including the acceleration of renewables licencing and the attraction of new investment in this area.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	1.9	1.8	-9.0	8.3	5.2
Inflation (average)	0.8	0.5	-1.3	-0.6	9.2
Government balance/GDP	0.9	4.2	-7.2	-5.0	-1.7
Current account balance/GDP	-3.6	-2.2	-7.3	-6.5	-6.7
Net FDI/GDP [neg. sign = inflows]	-1.6	-1.7	-1.5	-2.2	-2.9
External debt/GDP	222.4	219.3	303.9	310.1	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	91.7	80.9	82.1	n.a.	n.a.

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Macroeconomic developments and policy response

Strong post-Covid economic growth has continued into 2022. After a major post-pandemic rebound in 2021, the economy continued to surge ahead strongly in the first half of 2022. GDP grew by 8.0 per cent year on year in the first quarter and by 7.7 per cent on the year in the second quarter (seasonally adjusted). The low base effect of lockdowns in the first half of 2021 helps to explain some of this high year-on-year growth, but the expansion was also driven by buoyant private consumption and rising government spending. Exports have continued to perform strongly, including high-technology exports. The tourism sector is once again contributing in a major way to growth in 2022, with the season as a whole so far close to matching (in revenue terms) the record-breaking pre-pandemic year of 2019. Unemployment has continued to decline, reaching 11.8 per cent in September 2022. However, confidence is showing signs of fragility in the second half of the year. The purchasing managers index fell to 48.1 in October 2022 on the back of weaker demand and lower orders, as global energy markets face increasing uncertainty and turbulence and as the eurozone faces the risk of a recession in the near future.

Inflation is at double-digit levels. As elsewhere in the eurozone, prices in Greece have been rising sharply in 2022, especially for food and energy, putting pressure on household budgets and damping economic sentiment levels, which had risen to 20-year highs earlier in the year. Annual inflation (as measured by the consumer price index) in September 2022 was 12.0 per cent, driven by the rising cost of services, non-energy industrial goods and processed food. Energy prices are up sharply as well, as Greece remains quite dependent on the import of fossil fuels (nearly half of all available energy), much of it traditionally from Russia.

The government has responded to the energy crisis with mitigating measures. Temporary energy measures, with a budgetary impact estimated at 2.2 per cent of GDP, include subsidies to households and enterprises to help them cope with the increasing cost of electricity, a voucher to further address rising costs for vulnerable households, a three-month fuel subsidy for low-income families and a reduced value added tax (VAT) rate on public transport (already in place during the Covid-19 crisis but extended to December 2022). In April 2022 the government increased the minimum wage by 7.5 per cent (following a 2 per cent increase at the start of the year) as another measure of support for low-income households, taking the minimum monthly salary to €713. Although these steps have a fiscal cost, the government remains on track for a primary government deficit of just 1.7 per cent of GDP this year and a return to a primary surplus of 0.7 per cent of GDP in 2023, according to the draft budget for 2023 published in October 2022. The public debt ratio remains the highest in Europe, at 193 per cent of GDP as of end 2021, but is on track to decline sharply in 2022.

Growth will slow in the short term, but the overall outlook remains positive. In light of the worsening global picture, a downturn in Greece's economic growth rate in the latter part of 2022 and into 2023 seems inevitable. We, therefore, forecast GDP growth of 5.2 per cent for 2022 as a whole, dropping to 2.2 per cent in 2023 as inflation weighs increasingly on disposable income and consumption. The implementation of projects, funded by both loans and grants under the EU's RRF, will help to keep growth in positive territory and will contribute to the long-term sustainability of the economy, but significant downside risks remain, mostly associated with any potential intensification of the war on Ukraine and correspondingly high international energy prices.

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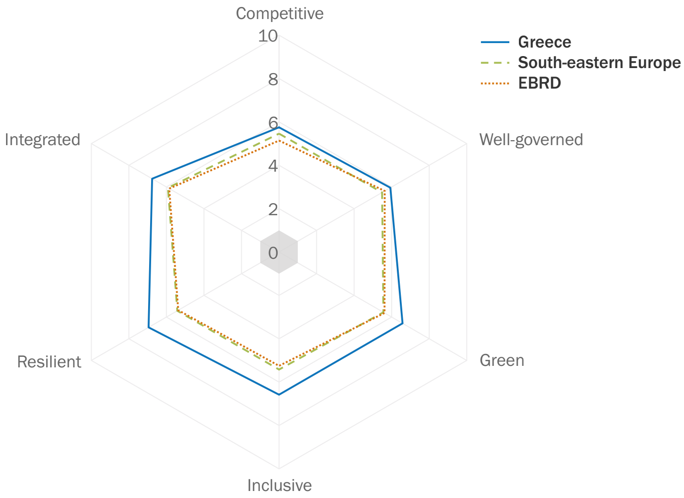
CHART Assessment of transition qualities (1-10)



Structural reform developments

Greece has exited the EU's enhanced surveillance procedure. The procedure was put in place in August 2018 following Greece's completion of the third economic adjustment programme and involved regular monitoring of reform progress and quarterly reports by the European Commission. In the Commission's view, Greece delivered on most of the policy commitments it made in 2018 and effectively implemented key reforms to strengthen the economy. From now on, Greece's economic, fiscal and financial situation will continue to be monitored in the context of post-programme surveillance and the European Semester. Greece also completed the early repayment of its outstanding International Monetary Fund (IMF) loans on 4 April 2022.

Good progress has been made so far on Greece's Recovery and Resilience Plan. The plan, known as Greece 2.0, is funded by the EU's RRF, and comprises €17.8 billion in grants and €12.7 billion in loans. The programme has a strong emphasis on the green transition, with more than one-third of funds allocated to projects in this area, and on digitalisation, to which nearly one-quarter of RRF funds will be targeted. The government is cooperating closely with the four systemic banks (and two smaller local banks) and with the European Investment Bank and European Bank for Reconstruction and Development, under agreements signed in early 2022, for the co-financing and the mobilisation of other private investment sources.

Ambitious climate-mitigation plans are progressing, but the global energy crisis is causing some delay. Greece's National Energy and Climate Plan (NEPC), adopted in 2019, is being implemented and the country unveiled a new Climate Law in November 2021. Among other measures, the new Law includes a commitment to phase out lignite plants by 2028, zero emissions for all new vehicles by 2030 and an increase in the share of renewables in gross final energy consumption to 50 per cent, also by 2030. However, in July 2022 the government agreed to temporarily increase the amount of electricity produced by coal mines in response to the growing energy crisis resulting from Russia's invasion of Ukraine. More encouragingly, the crisis has also led to a big increase in applications for renewable licences, and the government is making efforts to speed up the licensing process and to think strategically about which areas of the country should get the bulk of new projects.

Greece's non-performing loan (NPL) reduction remains on track. Data from the Bank of Greece show a steep fall over the past year in the ratio of non-performing exposures (NPEs) to total exposures, from 32.9 per cent in March 2021 to 10.0 per cent in June 2022, although it is significantly higher (18.4 per cent) in the consumer loans segment. The asset-backed Hercules resolution scheme, introduced in early 2020, will expire in October 2022 and has been largely successful in helping to reduce NPEs through securitisations. Direct sales of NPLs have also increased significantly in the past year.

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Privatisation continues to advance. The state budget for 2022 envisaged privatisation revenues in excess of €2.2 billion, far outstripping the amount recorded in 2021 (€638 million), but significant uncertainty remains around a number of key transactions. In particular, there have been delays in finalising some of the construction of the Egnatia motorway, putting in doubt the agreed end-2022 date for handover to the selected concessionaire. However, the Public Gas Corporation (DEPA) Infrastructure has been privatised for €733 million to an Italian company, Italgas, with the deal concluded in September 2022. Several privatisations in the ports sector are also progressing well, with the closure of several deals expected by the end of 2022.

New labour regulations are helping to reduce the informal economy. The new labour law approved in 2021 included a number of reforms on working time, family-friendly measures and the use of digital technology to facilitate work arrangements. The use of a digital work card to record overtime is helping to reduce undeclared hours and the informal economy.