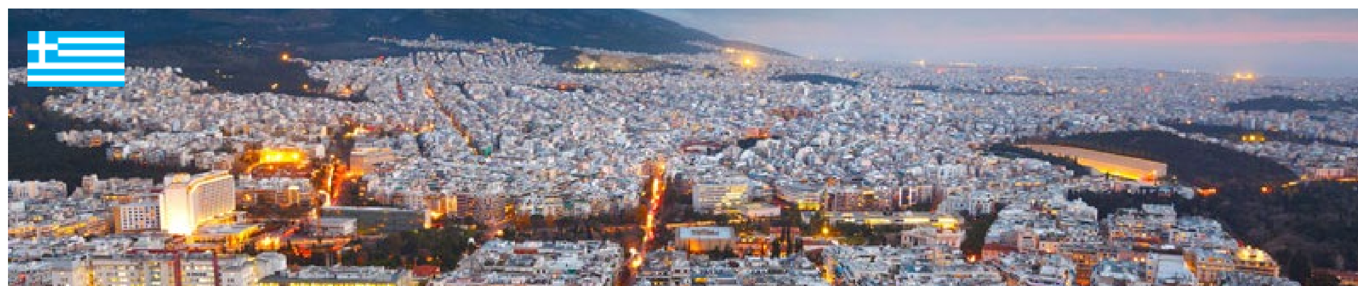


Greece

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.

Macroeconomic developments and policy response

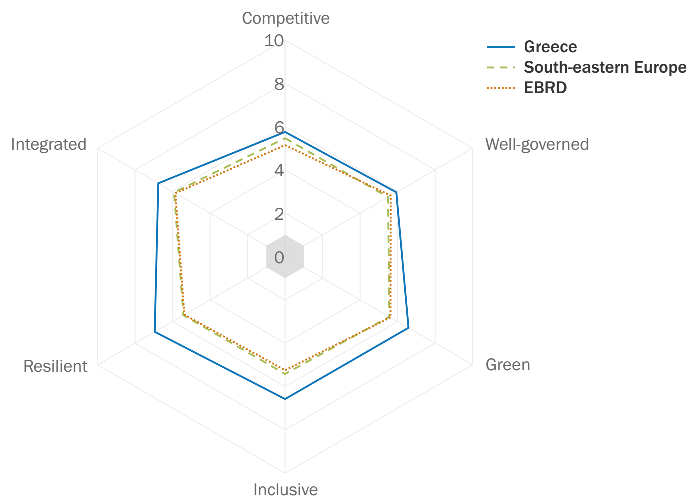
Strong post-Covid economic growth has continued into 2022. After a major post-pandemic rebound in 2021, the economy continued to surge ahead strongly in the first half of 2022. GDP grew by 8.0 per cent year on year in the first quarter and by 7.7 per cent on the year in the second quarter (seasonally 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.

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.

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.

Russia*

Highlights

- **The economy has been hit hard by sanctions but has also shown resilience.** The impact of the sanctions imposed by many countries after Russia's invasion of Ukraine has been mitigated by the significant buffers built up since 2014 and by the high global prices of oil and gas.
- **Policy response has helped to keep inflation in check.** The sanctions initially caused the rouble to depreciate heavily but the authorities' response – notably capital controls and sharp rate hikes by the central bank – resulted in a strong recovery of the rouble to above pre-invasion levels.
- **Structural reforms have largely stalled.** The increased isolation of Russia is already having a negative impact on productivity and growth, and the authorities' focus on the ongoing war has meant that much-needed reforms have been delayed or halted.

Key priorities for 2023

- **The priority for Russia is to end hostilities and seek to re-establish itself as part of the global economy.** Such a step seems unlikely in the short term, as the country has become increasingly isolated since the annexation of Crimea in 2014, and all the more so since the invasion of Ukraine in February 2022.
- **Beyond the conflict, reducing the role of the state would help boost growth, entrepreneurship and the competitiveness of the private sector.** From a structural perspective, the Russian economy suffers from a lack of diversification, being heavily dependent on commodity exports, with a dominant public sector and a challenging business environment.
- **Efforts are needed to promote innovation, digitalisation and technology development.** Such a programme would improve the productivity of the private sector and foster the growth of the manufacturing and services sectors. However, the loss of vital technology imports as a result of sanctions has seriously impacted the manufacturing sector, and the domestic development of alternatives will take time and are likely to be inferior.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	2.8	2.2	-2.7	4.7	-5.0
Inflation (average)	2.9	4.5	3.4	6.7	14.0
Government balance/GDP	2.9	1.9	-4.0	0.7	-2.3
Current account balance/GDP	7.0	3.9	2.4	6.9	12.2
Net FDI/GDP [neg. sign = inflows]	-0.5	-1.9	-0.6	-2.3	n.a.
External debt/GDP	28.5	28.7	32.2	27.1	n.a.
Gross reserves/GDP	28.4	32.8	40.4	38.4	n.a.
Credit to private sector/GDP	51.2	52.6	59.8	55.0	n.a.

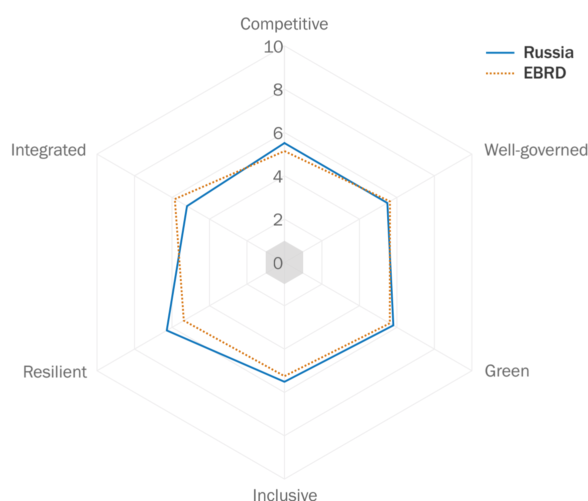
Macroeconomic developments and policy response

Russia's decision to invade Ukraine on 24 February 2022 resulted in the gradual imposition of widespread sanctions. The sanctions went much further than many had anticipated. Russia soon found itself cut off from much of the international financial system, with more than half of the central bank's international reserves being frozen. Other measures included: an embargo on exports to Russia of critical technological components, including semiconductors, and the direct sanctioning of more than 1,200 individuals. Beyond this, Russia has seen the withdrawal of more than 1,000 multinational companies in a form of self-sanctioning. Sanctions have also been imposed on the energy sector but these have been more limited initially, because some sanctions will not take effect before 2023 and Russia has been able to redirect exports to non-sanctioning countries. The economic impact has been significant, with gross domestic product (GDP) contracting 4 per cent year on year in the second quarter of 2022, the rouble depreciating by almost 50 per cent to more than 130 roubles per US dollar and inflation doubling to almost 18 per cent. However, after the initial shock of sanctions, the rouble rallied, and its October 2022 level of around RUB60/US$ is stronger than in the months before the invasion. This rally reflects the dissipation of the initial shock, the introduction of capital controls and the rise in the current account surplus as imports have collapsed and energy exports have continued to flow at high global prices.

Inflation has been brought under control. The central bank (CBR) was quick to respond to the inflationary impact of sanctions, hiking the policy rate from 8.5 per cent to 20.0 per cent over the course of a month. The subsequent strengthening of the rouble has had a disinflationary impact, helping to bring inflation back down to 13.7 per cent in September 2022, and weak consumer demand is likely to damp inflation further in the coming months.

The growth outlook is bleak. The impact of sanctions on activity has been severe, albeit not as bad as expected because of the CBR's policy response, the country's strong fiscal buffers and the resilience of the energy sector. But as far as the non-oil economy is concerned, in particular those sectors dependent on foreign imports, things look less positive. The economy is expected to contract by 5.0 per cent in 2022 and by 3.0 per cent in 2023. The growth outlook is likely to remain bleak in the absence of a peace agreement that results in a loosening of sanctions, and the economy's shift towards autarky and the loss of qualified workers to emigration mean that long-term growth potential will remain significantly eroded.

CHART Assessment of transition qualities (1-10)



Structural reform developments

Structural reform has been extremely limited in 2022. Russia's war on Ukraine has left the country isolated and barred from accessing much western technology. This is hindering the country's ability to diversify away from oil.

Implementation of the National Projects scheme has slowed significantly. The ongoing conflict has resulted in a diversion of government expenditures, hampering progress in implementing the National Projects, a series of 13 large-scale infrastructure and social development projects set out by the president in 2019.

The authorities continue with their comprehensive review of business regulations, known as the "regulatory guillotine". This involves a review of more than 20,000 business regulations and requirements. Many regulations, some of which date back to the Soviet era, are being cancelled or replaced based on cost-benefit analysis. The scheme is expected to improve the business environment by cutting red tape and aligning regulations more closely with the needs of businesses.

* The EBRD announced on 4 April 2022 that, following the invasion of Ukraine, its Board of Governors had formally suspended Russia's access to EBRD funding for projects or technical cooperation.

Türkiye

Highlights

- **The economy bounced back strongly following the pandemic, but the currency has come under severe pressure.** Growth momentum in the past year has been supported by the introduction of the New Economic Model in September 2021, but the unorthodox approach of significant policy rate cuts amid high inflation has led to real interest rates turning deeply negative and further pressure on the lira, necessitating heavy intervention by the central bank.
- **External imbalances have widened.** Significant increases in energy and food prices, particularly following Russia's invasion of Ukraine, saw the current account deficit rise, increasing the fragility of external balances and bringing Türkiye's risk premium to its highest level in 18 years.
- **Reforms have advanced hesitantly.** The severity of dealing with macroeconomic challenges has meant that progress in implementing the Economic Reform Package, a high-level plan introduced in the middle of 2021 that focuses on improvements in public finances, the financial sector, governance and employment, has been slow.

Key priorities for 2023

- **A return to a more orthodox policy approach is needed to prevent current high inflation rates becoming entrenched.** Overly-loose monetary policy and a lack of policy credibility have contributed to inflation reaching a two-decade high in excess of 80 per cent. Higher policy rates are needed, rather than relying on regulatory measures to limit credit growth and running down reserves at the central bank.
- **Priority should be given to helping the employment and entrepreneurship opportunities of vulnerable groups.** Inclusion challenges were exacerbated by the pandemic, and deep-seated structural challenges remain. Women, the youth and refugees are in particular need of assistance in the post-pandemic period.
- **Türkiye needs to strengthen its institutional and regulatory environment.** Elements of this agenda are included in the Economic Reform Package, including improving the efficiency of public spending via public procurement transparency and investment management, and these reforms should proceed without delay.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.0	0.8	1.9	11.4	4.5
Inflation (average)	16.3	15.2	12.3	19.6	72.0
Government balance/GDP	-1.9	-2.9	-3.5	-2.8	-3.4
Current account balance/GDP	-2.8	0.7	-4.9	-1.7	-6.0
Net FDI/GDP [neg. sign = inflows]	-1.6	-1.3	-1.1	-1.6	-1.0
External debt/GDP	53.5	54.8	60.4	54.8	n.a.
Gross reserves/GDP	11.7	13.9	13.0	13.4	n.a.
Credit to private sector/GDP	67.5	65.5	75.2	60.1	n.a.

Macroeconomic developments and policy response

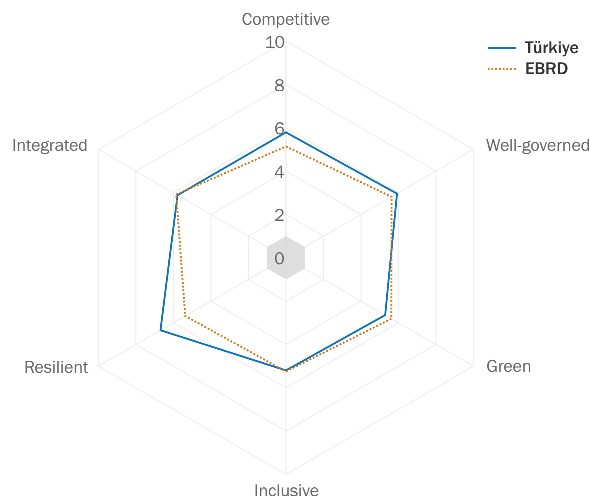
Strong growth in the past year has been accompanied by unstable price and currency developments. In September 2021 the government introduced the New Economic Model, which aimed to increase export competitiveness and private investment, and which foresaw price stability being achieved via a rebalancing of the current account. The economy grew by 11.4 per cent in 2021 and this momentum carried over into 2022, with gross domestic product (GDP) growing by 7.5 per cent year on year in the first half of the year. However, leading indicators point to a slowdown in the second half of the year, not least given the weakening global outlook. Policy rates were cut by 500 basis points (bps) to 14 per cent, and held at this level for seven months until further cuts of 100 bps were introduced in both August and September 2022. This was despite inflation increasing rapidly over this period to reach a two-decade high of 83 per cent in September 2022. Deeply negative real interest rates resulted in a steep depreciation of the lira, by around 30 per cent in 2022 to date, which in turn spurred significant dollarisation.

The policy response to high inflation has been unorthodox. Instead of tightening monetary policy the authorities have spent the past months attempting to introduce new policy instruments and regulatory measures to support the lira. The central bank (CBRT) has intervened heavily using its extremely limited reserves, and has introduced several schemes to encourage "liraisation" by compensating lira deposit holders for foreign exchange losses. At the same time, the authorities have sought to dampen the overly rapid commercial credit expansion associated with low policy rates, which had contributed to the widening current account deficit, through various regulatory measures.

Fiscal and external pressures have increased. Public finances remain one of the anchors of the economy, with the debt-to-GDP ratio standing at a relatively modest 38 per cent. However, some of the policy measures introduced (notably the new FX-linked deposit schemes) have shifted the burden of adjustment to fiscal policy, creating a potentially sizeable contingent liability. Meanwhile, the hoped-for rebalancing of the current account has failed to materialise, as higher commodity prices linked to the war on Ukraine have increased Türkiye's commodity import bill. Türkiye's large short-term external debt stock also remains a concern, particularly as the cost of servicing it has increased dramatically following the lira depreciation.

The short-term outlook is highly uncertain. We expect GDP to grow by 4.5 per cent in 2022 and 3.5 per cent in 2023, but there are significant risks to the outlook as current policy settings have rendered the macroeconomic situation extremely fragile. Furthermore, there are risks of spillovers to the Turkish economy from aggressive policy tightening in developed economies.

CHART Assessment of transition qualities (1-10)



Structural reform developments

Türkiye ratified the Paris Agreement in October 2021. The authorities also announced a net zero target year of 2053, although they have not yet submitted an updated nationally determined contribution (NDC) reflecting the more ambitious emissions reduction target that is in line with this commitment. Over the past year the authorities have taken steps to strengthen institutional arrangements for climate change issues by updating important policy documents, such as the National Climate Change Action Plan. And, to reflect the importance of climate change, the Ministry of Environment and Urbanisation has been rebranded the Ministry of Environment, Urbanisation and Climate Change (MoEUCC).

New instruments for green projects are being facilitated. In February 2022 the Capital Markets Board of Türkiye produced guidelines on Green and Sustainable Debt Instruments and Lease Certificates. These guidelines aim to ensure that such instruments and certificates are issued in compliance with best international practice and to increase transparency, integrity and comparability in the context of financing green projects.

Legislation to strengthen asset management companies (AMCs) has been adopted. To boost the capacity of AMCs, in October 2021 new regulations were brought in to allow all banks and non-bank financial institutions to sell problem (stage 1 and 2) loans in addition to non-performing loans (NPLs) to AMCs. Furthermore, the Capital Markets Board enabled the establishment of AMC funds to issue asset-backed securities, allowing for the securitisation of loan portfolios, including NPL portfolios.

To shield low-income families from rising energy prices the authorities introduced graduated tariffs based on consumption. From the start of 2022 the Energy Market Regulatory Authority moved away from a fixed electricity tariff system and began implementing a new system based on the level of consumption. The Authority also set up a tariff for vulnerable consumers in advance of some subsidies being lifted, which will adversely affect lower-income households.

Vocational training is being promoted. In the last year, the government has continued to implement its "Vision 2023" for the education system, improving the provision of technical and vocational education and training (TVET) by setting up formal cooperation agreements with local chambers of commerce. This cooperation is expected to strengthen the link between employers and training institutions, with positive effects on young people's school-to-work transition. The attractiveness of TVET in the country has been strengthened thanks to recently established diploma equivalency between vocational training centres (VTCs) and high schools and a new law introducing financial incentives for VTC students (Law No. 7346 from December 2021), resulting in a 57 per cent increase in VTC enrolment.