# Greece

## Highlights

- **Growth continues in 2023, but at a slower pace.** Following two years of rapid growth in 2021 and 2022, gross domestic product (GDP) rose by 2.4 per cent year on year in the first half of 2023, driven by rising consumption and exports of goods and services, as well as a significant pick-up in investment and a strong start to the tourist season.
- **Greece has returned to investment grade.** High post-Covid economic growth rates and continued structural reforms have led to international ratings agencies successively raising the country's sovereign rating in recent years. In September 2023 DBRS Morningstar raised Greece's rating to an investment-grade BBB (low), while in October 2023, Standard & Poor's upgraded its rating to BBB-, with a stable outlook.
- **Implementation of the country's Recovery and Resilience Plan (RRP) is progressing well.** By August 2023 around €11 billion had been allocated in cash receipts, with a focus on the green transition and digitalisation of the economy.

## Key priorities for 2024

- **Continued implementation of the revised RRP is essential to boost investment.** Greece should capitalise on the substantial European Union (EU) funds available in the coming years to make fundamental improvements to the whole economy.
- **Adhering to the green agenda at an accelerated pace is crucial.** Greece is already facing the consequences of climate change, highlighting the need to move away from fossil fuels and vigorously promote investments in renewable energy, along with vital improvements to the national electricity grid.
- **Judicial reform is urgently needed.** The legal system remains plagued by lengthy delays and inefficiencies, hampering the smooth functioning of businesses. Efforts should be stepped up to reduce the length of time cases take to be resolved.

Main macroeconomic indicators (per cent)

| | 2019 | 2020 | 2021 | 2022 | 2023 proj. |
|---|---|---|---|---|---|
| GDP growth | 1.8 | -9.0 | 8.4 | 5.9 | 2.4 |
| Inflation (average) | 0.5 | -1.3 | 0.6 | 9.3 | 4.1 |
| Government balance/GDP | 0.0 | -10.5 | -7.7 | -2.3 | -1.6 |
| Current account balance/GDP | -2.2 | -7.3 | -7.1 | -10.1 | -6.9 |
| Net FDI/GDP [neg. sign = inflows] | -2.1 | -1.4 | -2.3 | -2.2 | -1.9 |
| External debt/GDP | 244.6 | 298.7 | 305.3 | 262.8 | n.a. |
| Gross reserves/GDP | n.a. | n.a. | n.a. | n.a. | n.a. |
| Credit to private sector/GDP | 81.0 | 82.3 | 57.1 | n.a. | n.a. |

## Macroeconomic developments and policy response

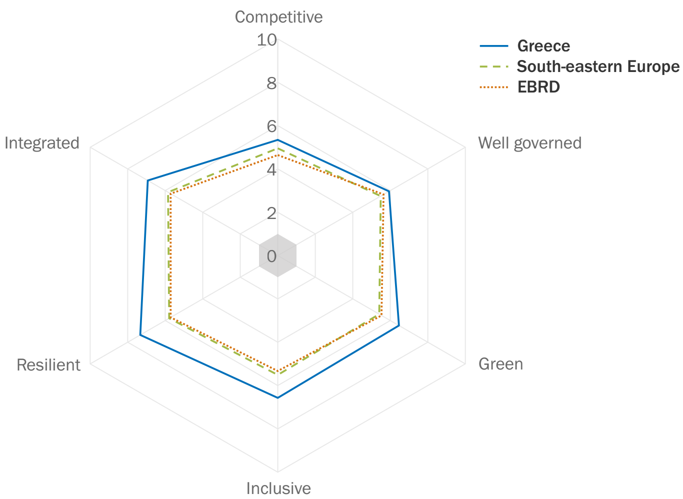
**Growth is continuing in 2023, but at a reduced pace.** After two years of very strong economic performance, the pace of growth has slowed, to 2.4 per cent year on year in the first half of 2023. Private consumption and gross fixed capital formation continue to drive growth, and most indicators are moving in the right direction. Economic confidence was steadily improving in the first eight months of 2023. The Purchasing Managers' Index had been on an upward trend since December 2022, reaching 52.9 in August 2023, and the Economic Sentiment Indicator hit a 17-month high (111.7 points) in August 2023. Both indicators have since fallen, however, to 50.8 and 106.4 respectively in October. Unemployment maintains a steady downward trend, coming in at 10 per cent (seasonally adjusted) in September 2023. Despite some concerns about the current account deficit (10.1 per cent of GDP in 2022), exports were up by 8.9 per cent year on year in the first quarter of 2023. And the ratio of gross fixed capital formation to GDP is rising steadily, albeit from a very low base – from below 11 per cent in 2019 to nearly 14 per cent in 2022.

**Inflation has fallen markedly from its peak in 2022.** The inflation rate rose sharply in 2022, mainly because of rising food and energy costs, peaking at 12 per cent in September 2022. Since then, it has been falling rapidly, to 1.6 per cent in September 2023 (CPI measure). A mild pick-up in the rate is possible later in the year and into 2024 due to the end of government support measures, but the prospect of a sharp rise in prices seems remote.

**Fiscal performance has further improved.** The government faced significant challenges in 2022 as a result of the energy crisis prompted by Russia's invasion of Ukraine. It responded with a series of mitigating measures, which came at a significant fiscal cost. Despite this, the government managed to achieve a small primary surplus (0.1 per cent of GDP) in 2022 and is on track for larger primary surpluses in 2023 and 2024, targeted at 1.1 per cent and 2.1 per cent of GDP, respectively. The country's public debt-to-GDP ratio remains the highest in Europe, but has fallen sharply in the past two years, from nearly 200 per cent at the end of 2020 to less than 170 per cent at the end of 2022, thanks to high nominal GDP growth and further debt-relief measures.

**Moderate growth is likely to continue in the short run.** We forecast GDP growth to continue at its current rate of 2.4 per cent in 2023, with a similar rate (2.3 per cent) in 2024. Significant risks to our forecast come from possible regional and global turbulence, while the wildfires and floods of summer 2023 are a reminder of how global warming could jeopardise the long-term health of the Greek economy. However, the good progress made in implementing projects funded by the Recovery and Resilience Facility (RRF), allied to improvements in the sovereign rating that will likely boost investor sentiment further, mitigate these downside risks.

Assessment of transition qualities (1-10)



## Structural reform developments

**Implementation of the RRP is advancing.** Under the original plan approved by the European Commission, Greece was set to receive €17.8 billion in grants and €12.7 billion in loans overall from the RRF. In 2023, the authorities submitted a revised plan to the Commission, requesting a further €5 billion in loans and nearly €800 million in grants related to energy investments and reforms under the EU's REPowerEU scheme. By August 2023, cash receipts from the EU in grants and loans combined amounted to €11 billion, but the pace of disbursement to firms has been somewhat slow so far.

**The development of renewable energy is proceeding rapidly.** The law on licensing renewable energy projects was simplified in June 2022, and there have been a number of prominent investments since then. Renewable energy's share of the electricity production mix reached a record 54 per cent in May 2023, according to data from the independent power transmission operator. In May 2023, the government set out the timetable for a set of renewable energy auctions over the remainder of 2023 and 2024, along with maximum prices. Investment in renewable infrastructure is also progressing. Under the RRF's "electromobility" framework, the government is forging ahead with its plan for sustainable transport by replacing old buses and taxis with new electric ones and providing charging infrastructure.

**Digitalisation is helping to tackle the shadow economy.** Tax evasion and informal activities have long been features of the Greek economy. The size of the shadow economy could amount to around €40 billion (about one-fifth of GDP), according to 2023 research by Eurobank. The European Commission also estimates the size of the "VAT gap" (the difference between actual VAT receipts and what they should be according to consumption data) to be more than twice the EU-27 average. There have been efforts in recent years to tackle the problem through digitalisation. For instance, a budget of €258 million was allocated to the digital transformation of the tax and customs administration. By the end of March 2023, more than 447,500 businesses had connected their cash registers with myDATA to automatically track their retail transactions online.

**Banking-system profitability remains strong and non-performing loans continue to decline.** After a year of rising profits for the country's four systemic banks in 2022, helped by higher interest rates and a rapidly growing economy, banking-system profitability fell in the first half of 2023 on the back of rising operating expenses and lower income from trading and other activities. The ratio of non-performing to total loans has maintained a steady downward trend, from a peak of 49.2 per cent in mid-2017 to 8 per cent as of June 2023. The asset-backed Hercules resolution scheme, introduced in early 2020, may be extended with a focus this time on small banks. A key concern with regard to the banking system, however, remains the high share of deferred tax credits in banks' overall capital.

**Privatisations are advancing, albeit slowly.** Revenue from sales of state assets continued to underperform in 2022, at just €595.3 million versus a budgeted €2.2 billion. The Asset Development Plan of the Hellenic Republic Asset Development Fund (HRADF) was revised in November 2022 and includes 30 ongoing projects. Forecast revenues in 2023 are just under €2 billion, according to the state budget. In September 2023, GEK Terna, which had won the tender in 2021 for a 35-year concession for the Egnatia Odos highway, was declared the preferred bidder for a 25-year concession on the Attiki Odos highway, with a bid of €3.27 billion.

**Labour-market reforms continue.** Following the adoption of the framework-setting National Strategy for Active Labour Market Policies 2022-30, the Active Labour Market Policies (ALMP) reform aims to ensure the strategy is as effective as possible by redesigning, strengthening and reforming the ALMP toolbox. Recent reforms include a new framework for teleworking and various measures to make the labour market more flexible, including incentives for private-sector companies to convert part-time contracts to full-time ones.

# Russia[1]

## Highlights

- **Cracks are beginning to show in the economy's resilience.** Falling energy prices have eroded the large current account surplus that helped the economy weather the storm of sanctions in 2022, and recent months have seen a significant weakening of the rouble, which has caused inflation to rise.
- **Growing economic imbalances are posing difficult policy choices.** The ongoing war on Ukraine implies significant expenditure, and cutting non-military spending is politically difficult. Government revenues are declining as oil prices fall. The central bank has, therefore, increased policy rates significantly to reduce domestic demand and discourage imports.
- **Structural reforms remain largely stalled.** Russia's increased isolation is already having a negative impact on productivity and growth. The authorities' focus on the ongoing war means that much-needed reforms continue to be postponed.

## Key priorities for 2024

- **No meaningful reform progress is possible until Russia ends its invasion of Ukraine and seeks to re-establish itself as part of the global economy.** Such a step remains unlikely in the short term, as there is no sign of any move by the Russian authorities in this direction.
- **Beyond the conflict, a concerted effort to promote private-sector development is needed to boost growth, entrepreneurship and competitiveness.** From a structural perspective, the Russian economy continues to suffer from a lack of diversification. It is heavily dependent on commodity exports, with a dominant public sector and a challenging business environment – all trends that have been exacerbated by the war.
- **Efforts are needed to promote innovation, digitalisation and technological development.** The loss of vital technology imports as a result of sanctions has seriously damaged the manufacturing sector, and ongoing efforts to develop domestic alternatives are unlikely to compensate sufficiently.

Main macroeconomic indicators (per cent)

| | 2019 | 2020 | 2021 | 2022 | 2023 proj. |
|---|---|---|---|---|---|
| GDP growth | 2.2 | -2.7 | 5.6 | -2.1 | 1.6 |
| Inflation (average) | 4.5 | 3.4 | 6.7 | 13.8 | 5.3 |
| Government balance/GDP | 1.9 | -4.0 | 0.8 | -1.4 | -3.7 |
| Current account balance/GDP | 3.9 | 2.4 | 6.7 | 10.5 | 3.4 |
| Net FDI/GDP [neg. sign = inflows] | -0.6 | -0.2 | 1.4 | 1.2 | 1.4 |
| External debt/GDP | 29.0 | 31.3 | 26.3 | 17.0 | n.a. |
| Gross reserves/GDP | 32.7 | 40.0 | 34.3 | 25.9 | n.a. |
| Credit to private sector/GDP | 53.2 | 60.3 | 55.3 | 56.4 | n.a. |

1. 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.

## Macroeconomic developments and policy response

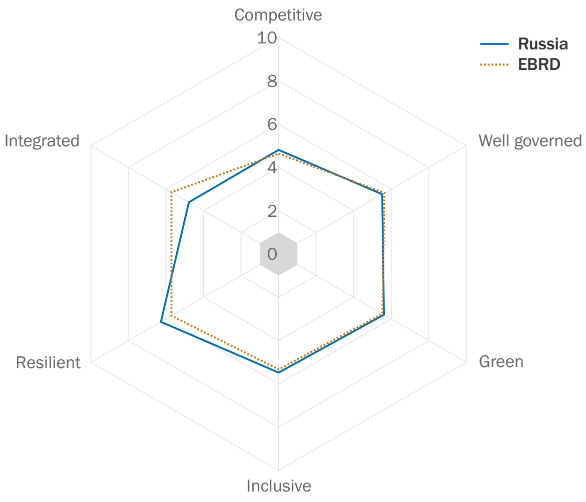
**The Russian economy proved resilient to sanctions in 2022, but cracks are developing.** The economy contracted by 2.1 per cent in 2022, much less than had been expected given the wide-ranging sanctions imposed. Stimulus in the first half of 2023 is likely to result in the economy returning to growth for the year as a whole. Its resilience in 2022 was largely due to significant growth in the current account surplus, which reached US$ 227 billion (€211.4 billion), or 10 per cent of gross domestic product (GDP). The surplus was driven by high energy prices, which boosted Russia's terms of trade and helped export revenues boom, particularly as Russia managed to diversify its export markets away from the West in response to the sanctions. These trends strengthened the rouble and helped lower inflation, from almost 18 per cent in March 2022 to around 2 per cent in April 2023.

**Loose fiscal policy has resulted in overheating in 2023.** The economy has seen a growing output gap in the context of a tight labour market due to military mobilisation and high rates of capacity utilisation. Faced with expenditure demands arising from the ongoing invasion of Ukraine, the authorities are finding it challenging to tighten fiscal policy, especially as cutting non-military spending would be politically unpalatable. For the time being, the National Welfare Fund and local bond issuance have enabled them to maintain expenditure levels.

**A significant decline in the current account surplus in 2023 is a major cause for concern.** Loose fiscal policy has drawn in imports, while falling energy prices and European Union-imposed price caps on Russian oil and oil-derived products have hit export revenues, shrinking the current-account surplus significantly. The surplus was US$ 25 billion (around €23.5 billion) in the first seven months of 2023, an 85 per cent decrease from the same period in 2022. As much of the central bank's foreign-exchange reserves are frozen and private capital inflows are minimal, a worsening balance-of-payments situation is a major concern. These challenges have weighed on the rouble, which weakened by more than 30 per cent against the US dollar between December 2022 and October 2023, further adding to inflationary pressures. In response, the central bank has been tightening monetary policy to try to stem domestic demand and thereby cut import demand. A 100 basis-point hike in the policy rate in July 2023 was followed by a 350 basis-point jump in August, another 100 basis-point increase in September and a 200-basis point increase in October, bringing the policy rate to 15 per cent.

**The short-term outlook for growth is weak.** Although policy tightening is causing the economy to slow significantly in the second half of 2023, the stimulus-driven growth of the first half of the year should result in a GDP growth rate of around 2 per cent for the year as a whole. The outlook for 2024 will depend very much on how the war on Ukraine and the related economic sanctions evolve; at this stage, economic growth is forecast at around 1 per cent. The outlook is likely to remain bleak in the absence of a peace agreement that results in a loosening of sanctions. Meanwhile, the economy's shift towards autarky and the loss of qualified workers to emigration mean that long-term growth potential will remain significantly eroded.

Assessment of transition qualities (1-10)



## Structural reform developments

**Structural reform has been extremely limited in 2023.** 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 expenditure, hampering progress on implementing the National Projects, a series of 13 large-scale infrastructure and social development projects set out by the president in 2019. There has been no progress of note over the past year.

**The authorities are continuing 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 abolished or replaced based on cost-benefit analysis. The scheme is supposed to improve the business environment by cutting red tape and aligning regulations more closely with the needs of businesses.

# Türkiye

## Highlights

- **Economic policies have taken a more orthodox turn.** A new economic management team appointed in the wake of the presidential and parliamentary elections of May 2023 has started to unwind the highly unorthodox monetary and financial policies adopted over the past two years.
- **Fiscal and external pressures are declining from peak levels.** Expansionary policies and major earthquakes in the first half of 2023 have resulted in twin deficits, which the authorities are seeking to address through a combination of fiscal and monetary tightening.
- **There has been limited progress on reforms in the past year, but long-term plans are being developed.** While the national elections took priority over structural reforms, the authorities have advanced efforts to lay out long-term strategies and action plans for climate change, energy transition and electric mobility.

## Key priorities for 2024

- **The shift towards orthodox economic policy needs to be sustained.** Strengthening the monetary transmission mechanism and improving the regulatory environment of the banking sector remain key priorities for achieving macroeconomic stability and sustainable growth.
- **The authorities need to reinvigorate the structural reform agenda, which has been overshadowed by election campaigning.** This means addressing systemic issues affecting Türkiye's long-term growth potential, including low levels of innovation, the weak corporate governance of small and medium-sized enterprises (SMEs), and low levels of global value-chain participation.
- **Social protection policies need to be enhanced to address the negative impacts of recent developments on vulnerable groups.** Although the national minimum wage has increased substantially over the past year, high and sticky inflation means hunger and poverty thresholds exceed the monthly minimum wage. Among other things, this highlights the need to address high rates of informality, skills mismatches in the labour market and low rates of employment among women.

Main macroeconomic indicators (per cent)

| | 2019 | 2020 | 2021 | 2022 | 2023 proj. |
|---|---|---|---|---|---|
| GDP growth | 0.8 | 1.9 | 11.4 | 5.5 | 3.5 |
| Inflation (average) | 15.2 | 12.3 | 19.6 | 72.3 | 53.0 |
| Government balance/GDP | -4.8 | -5.1 | -4.0 | -1.7 | -5.4 |
| Current account balance/GDP | 1.4 | -4.4 | -0.9 | -5.3 | -4.1 |
| Net FDI/GDP [neg. sign = inflows] | -0.9 | -0.6 | -0.8 | -0.9 | -0.7 |
| External debt/GDP | 54.7 | 60.1 | 54.4 | 52.0 | n.a. |
| Gross reserves/GDP | 13.9 | 13.0 | 13.6 | 14.2 | n.a. |
| Credit to private sector/GDP | 61.9 | 70.9 | 66.1 | 48.4 | n.a. |

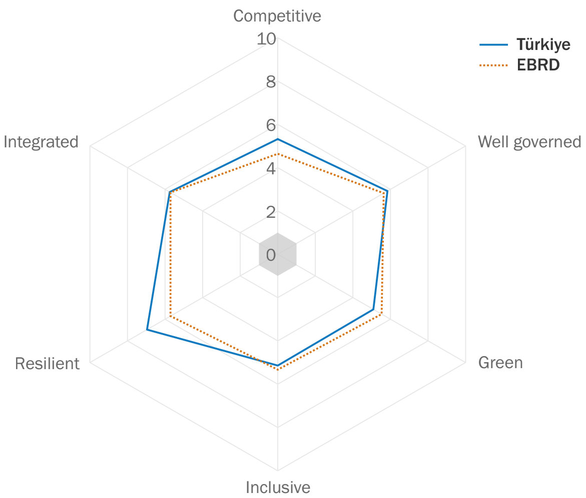
## Macroeconomic developments and policy response

**The economy grew rapidly in the first half of 2023, but so did the fiscal and current account deficits.** Following a gross domestic product (GDP) growth rate of 5.5 per cent in 2022, the authorities enacted a series of stimulus measures in the first half of 2023, including hikes in wages and pensions, the introduction of an early retirement scheme, and government-backed guarantees and lending targets for banks, which spurred a credit boom. These policies contributed to a growth rate of 3.9 per cent year on year in the first half of 2023, although this came at a significant cost. Short-term external debt liabilities now exceed US$ 200 billion (€186.3 billion), while the cumulative 12-month current account deficit peaked at US$ 60 billion (€55.9 billion or 6.5 per cent of GDP) in May 2023, implying external financing needs in excess of 25 per cent of GDP. The authorities sought to prevent the strong depreciation of the currency by tapping into foreign-exchange reserves, with net reserves at one point down more than US$ 35 billion (€32.6 billion) since the start of 2023. Meanwhile, the government posted record fiscal deficits due to increases in personnel and social spending, as well as temporary expenditures related to the earthquakes of February 2023.

**Policies have tightened markedly following the appointment of a new economic management team in the wake of May's elections.** Starting in June 2023, the central bank has undertaken a series of policy rate hikes, which, although insufficient to achieve positive real interest rates, have helped improve investor confidence, as witnessed by the significant decline in Türkiye's credit default swap (CDS) premium since its peak in May 2023. Fiscal policies have also been tightened, with the government increasing the value-added tax (VAT) rate from 18 per cent to 20 per cent, hiking taxes on fuels and enacting cost-cutting measures in the public sector. The central bank has also cut back on interventions to defend the lira, which has lost over 30 per cent of its value since the start of 2023, driving another surge in inflation to 61.5 per cent year on year in September. While these measures have led to a lower current account deficit and improvements in reserves and the fiscal balance, leading indicators suggest that consumers and businesses are becoming more pessimistic and spending less, meaning that enhanced stability is coming at the expense of growth.

**Short-term growth prospects are relatively subdued.** In light of recent macroeconomic developments and policy changes, a growth rate of 3.5 per cent is expected in 2023, followed by 3 per cent growth in 2024. In the short term, the authorities will continue to face the difficult task of balancing growth and macroeconomic stability in the run-up to local elections in March 2024. Consequently, a key risk is the possibility of a sudden reversal of the current turn towards orthodox economic policy, which would damage investor confidence.

Assessment of transition qualities (1-10)



## Structural reform developments

**Restrictive regulations affecting the financial sector are being relaxed.** The new economic management team has loosened a series of restrictive financial regulations adopted prior to the 2023 elections, including punitive security maintenance requirements for banks not meeting certain lending and de-dollarisation targets. While the process has been gradual and many rules adopted prior to the elections remain in place, the authorities have committed to pursuing normalisation steps in a holistic and data-driven manner in order to maintain financial stability.

**The government is working to develop strategies and action plans to achieve long-term climate targets.** In November 2022 the government updated Türkiye's Nationally Determined Contribution (NDC), increasing its emission reduction target from 21 per cent to 41 per cent by 2030. The authorities have also published the National Energy Plan (2020-35), which is aligned with the country's 2053 net-zero emission target, setting out actions for increasing the share of renewables, upgrading the electricity grid and reducing fossil-fuel consumption. Meanwhile, legislators are working on a new climate law, which is expected to incorporate the announced climate targets and policies and establish a national emissions trading scheme, with a pilot phase scheduled to start in 2024.

**Efforts to promote electric mobility have been stepped up.** In November 2022 the government reduced taxes on the purchase of electric cars, while at the same time raising import duties on electric cars built in China. Meanwhile, in July 2022 the Energy Market Regulatory Authority issued licences for 124 companies with plans to build over 1,000 new fast charging stations, in a move that is expected to help double the number of public charging stations by the end of 2023.

**Social protection policies seek to contain the negative inclusion impacts of recent developments, but fall short of addressing fundamental shortcomings.** The national minimum wage increased by a further 34 per cent in June 2023, after doubling over the course of last year. The hunger and poverty thresholds, however, continue to exceed the monthly minimum wage in light of persistent inflation. Economic hardship also risks increasing violence against women, with the government adopting new Provincial Action Plans to address the issue and facilitate access to justice across its 81 provinces. Whether such efforts can effectively mitigate the fallout from Türkiye's 2021 withdrawal from the Istanbul Convention on human rights remains to be seen.

**The new Law on Retirement Age Victims (EYT, Law No: 7438) has the potential to reduce available human capital significantly.** The 2023 law removed the age requirement for individuals who started working prior to September 1999 and have contributed a minimum 20 or 25 years to social security, enabling them to retire with immediate effect. Data suggest that in the areas affected by February's earthquakes, current and future beneficiaries of EYT make up around 7 per cent of the workforce, putting additional pressure on the already-stretched labour market. Meanwhile, efforts to improve the school-to-work transition for young people are ongoing, but have suffered from shifting priorities and frequent changes at national and regional level. So far, no announcements on a new stage of Türkiye's Education Vision 2023 or its National Youth Employment Strategy and Action Plan (2021-23) have been made.