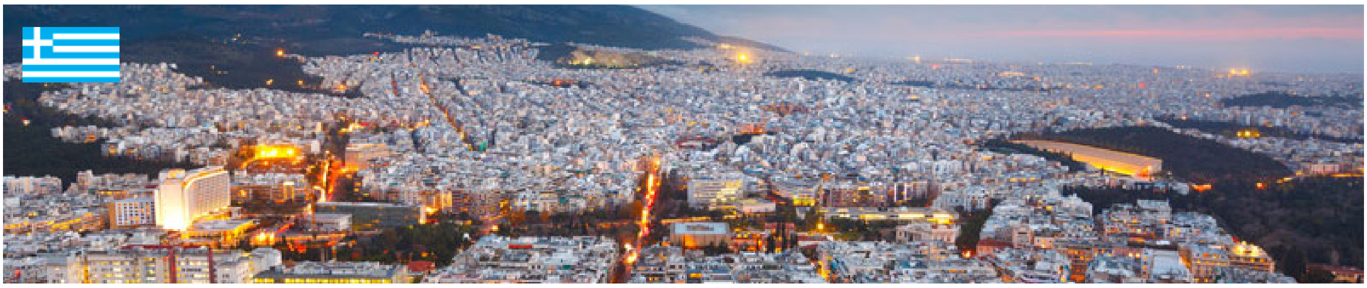

Greece

Highlights

- **Moderate growth has continued in 2024, outperforming the average for the euro area as a whole.** Following two years of rapid growth in 2021 and 2022, and a slowdown in 2023, real gross domestic product (GDP) rose by 2.1 per cent and 2.3 per cent year on year in the first and second quarters of 2024, respectively, driven by private consumption, gross fixed capital formation and a strong start to the tourist season.
- **Progress under the European Union (EU) Recovery and Resilience Facility (RRF) is continuing.** Greece is performing well relative to its peers when it comes to achieving targets and milestones under its Recovery and Resilience Plan (RRP). The country has received around 48 per cent of its total allocation of RRF funds, remaining above the EU average.
- **A new judicial map has been adopted.** The map will reduce the average time taken to clear court cases and aims at a balanced distribution of cases among first-instance judges.

Key priorities for 2025

- **The authorities should strengthen their focus on climate change and resilience.** With the frequency of climate-related natural disasters increasing in recent years, the country should prioritise the strengthening of resilience by improving civil protection capabilities and placing the green transition at the heart of its reform agenda.
- **The wide gender employment gap should be addressed.** The difference between the employment rates of men and women remains high by EU standards, highlighting the need for further action, despite recent progress on labour market conditions. In order to address long-term growth and employment challenges, emphasis should be placed on improving childcare support and facilities, parental leave provisions and lifelong learning programmes.
- **Continued efforts are needed to address shortcomings in the digitalisation of all branches of the judiciary.** Despite recent progress in certain areas, shortcomings remain, notably as regards the limited availability of digital tools in the judiciary. Ongoing implementation of projects (including projects under the RRP) is expected to increase the level of digitalisation and thus the quality of the justice system.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-9.0	8.4	5.6	2.0	2.4
Inflation (average)	-1.3	0.6	9.3	4.2	2.7
Government balance/GDP	-9.8	-7.0	-2.5	-1.6	-1.2
Current account balance/GDP	-7.3	-7.1	-10.7	-6.9	-6.5
Net FDI/GDP [neg. sign = inflows]	-1.8	-2.9	-3.7	-2.1	-2.9
External debt/GDP	299.4	305.9	265.7	251.5	na
Gross reserves/GDP	na	na	na	na	na
Credit to private sector/GDP	82.5	57.1	52.6	50.2	na

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Macroeconomic developments and policy response

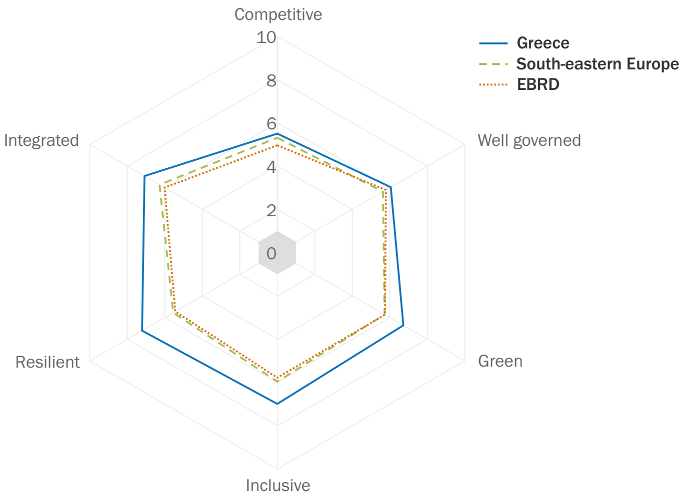
Growth has continued at a solid pace in 2024. Having regained investment-grade status in 2023, Greece has been attracting greater inflows of investment. Real GDP rose by 2.1 per cent year on year in the first quarter of 2024 and 2.3 per cent in the second quarter. Private consumption and gross fixed capital formation are continuing to drive growth, and most high-frequency macroeconomic indicators are moving in the right direction. The strong performance of confidence indicators such as the Economic Sentiment Indicator (ESI) and the Purchasing Managers Index (PMI) in the first half of 2024 highlights the positive sentiment in the economy. The PMI and the ESI stood at 52.9 and 106.8, respectively, in August 2024, slightly lower than earlier in the year. Unemployment has been on a steady downward trend in recent years, reaching a 15-year low of 9.6 per cent in June 2024 on a seasonally adjusted basis, while total employment growth has continued its upward trend. Although Greece's external position has improved since 2022, the current account deficit is still above its pre-pandemic level.

Price pressures are gradually easing. Annual inflation as measured by the Harmonised Index of Consumer Prices rose sharply in 2022, mainly because of rising food and energy costs, but has fallen rapidly since then, standing at 3.0 per cent in July 2024 (up from 2.5 per cent the previous month). Core inflation remains slightly higher, standing at 3.5 per cent in July. In response to recent energy shocks, Greece has continued efforts to strengthen the security of supply and diversify its natural gas sources.

Growth-friendly fiscal consolidation continues. Greece's fiscal outlook is considered to be in line with the provisions of the revised Stability and Growth Pact. Greece's budget, which returned to primary surpluses in 2023, recorded a general government cash primary surplus of 0.9 per cent in the first five months of 2024 – slightly higher than the 0.6 per cent seen in the same period last year – owing to higher tax revenues. Its public debt-to-GDP ratio remains the highest in Europe, but fell further in 2023 (standing at 161.9 per cent at the end of that year) thanks to strong nominal GDP growth and the achievement of a primary surplus. That ratio is now at its lowest level since 2010 and is expected to remain on a downward trajectory, primarily owing to the strength of economic growth.

Economic performance is expected to pick up modestly. We forecast real GDP growth of 2.4 per cent in 2024 and 2.6 per cent in 2025. The accelerated implementation of projects under the RRP is expected to keep growth on a positive trajectory by stimulating gross fixed capital formation. Risks to that generally positive scenario stem from possible regional and global turbulence, climate-related disasters (with wildfires and subsequent floods becoming more common and causing increasing alarm), slow absorption of EU funds and potential weaknesses in key export destinations.

Assessment of transition qualities (1-10)



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Structural reform developments

The implementation of the revised RRP is progressing well. Following the revision of its RRP in 2023, Greece is set to receive a total of €35.9 billion from the EU's RRF (€18.2 billion in grants and €17.7 billion in loans). By September 2024, Greece had received €17.2 billion of that RRF funding – almost 48 per cent of its total allocation. The RRP includes 162 reforms, with Greece having successfully achieved almost 25 per cent of its milestones and targets by July 2024 – slightly above the EU average. Greece's RRP focuses on the green transition and the digitalisation of the economy.

Progress is being made with judicial reform. The Greek justice system has long suffered from lengthy delays and inefficiencies, which hamper the smooth functioning of businesses. However, efforts have been made to improve both the efficiency and the quality of justice. In May 2024 the Greek parliament adopted a law reforming the judicial map for civil and criminal justice, seeking to address excessive workloads at first-instance level. Moreover, in July 2024 a legislative provision was adopted (fully implementing recommendations made by the European Commission in the context of the Rule of Law cycle) addressing the need for the judiciary to be involved in appointments to the highest positions in the judicial system.

New fiscal and tax measures have been introduced. The 2024 budget includes fiscal interventions aimed at tackling tax evasion. One of those reforms is a change to the taxation of self-employed people, which is expected to secure additional revenues of at least €600 million. There are also new fiscal measures addressing inclusion gaps. These include an increased tax-free allowance for families, extended nine-month maternity leave for the self-employed and farmers, increases in birth benefits, and the return of the special diesel levy for farmers. In August 2024 the government also announced a series of support measures for those affected by the recent wildfires.

The digital transformation is proceeding rapidly. When the RRP was revised, the digital transition's share of total spending fell from 23.3 per cent to 22.1 per cent; however, spending on the digital transition was increased in absolute terms relative to the original plan. Greece's digitalisation reforms are on track, with projects including a data governance strategy for the public sector, reforms to the primary healthcare system and telemedicine, the creation of a digital platform for finding work in private-sector companies operating in Greece, the digitalisation of the justice system, and the digitalisation and simplification of public services. Digitalisation is continuing to help the authorities tackle the shadow economy, with ongoing initiatives including the establishment of online links between cash registers and point-of-sale machines, and measures extending the mandatory acceptance of direct electronic payments to new sectors.

A new structure for the country's privatisation agency has been announced. Under this new structure, announced in June 2024, the privatisation agency (HRADF) and its bank bailout fund (the Hellenic Financial Stability Fund) will be absorbed into the Hellenic Corporation of Assets and Participations (HCAP), also known as Growthfund, which manages a portfolio of state utilities and participations. This merger aims to streamline the management of state assets and privatisation efforts. In the first quarter of 2024, HCAP completed a public listing of its 30 per cent stake in Athens International Airport, with total gross revenue of €785 million.

The green transition remains a priority. Greece's RRP includes seven reforms and four investments aimed at reducing the country's reliance on fossil fuels, in line with the main objectives of the REPower EU plan. Greece has implemented a series of energy efficiency measures with the support of EU funds, with ongoing initiatives including efforts to increase the energy efficiency of residential buildings and develop accessible electric vehicle charging points. Greece plans to establish a sovereign wealth fund this year, with initial funding of €300 million, which it will co-invest with private entities in green transition and circular economy projects.

Türkiye

Highlights

- **Economic activity has moderated amid a rebalancing of the drivers of growth.** Monetary, fiscal and income policies were all tightened in the first half of 2024 and inflation, which remained high in the first 10 months of the year, has begun to fall.
- **The return to economic orthodoxy since June 2023 and Türkiye's removal from the Financial Action Task Force (FATF) grey list helped boost investor confidence and improve the country's external position.** Positive developments in 2024 include a decline in Türkiye's credit default swap (CDS) premium, favourable sovereign Eurobond issuances, rating agency upgrades (the first in over a decade), a pick-up in portfolio inflows and enhanced international reserve buffers.
- **The authorities announced a series of programmes, plans and strategies.** The 12th Development Plan 2024-28, the Foreign Direct Investment (FDI) Strategy 2024-28 and the second National Energy Efficiency Action Plan (NEEAP) for 2024-30 all aim to drive economic growth, enhance innovation and promote green and digital transformation.

Key priorities for 2025

- **Price stability should remain the cornerstone of economic policy and growth.** Achieving price stability is crucial in order to enhance the business environment and improve societal welfare. Strengthening the effectiveness of the monetary policy transmission mechanism is vital for controlling inflation, while close alignment of fiscal and monetary policy will be essential in this endeavour.
- **A sustainable external balance can be achieved through structural reform.** Reforms are needed to drive the twin green and digital transitions, which will boost Türkiye's participation in global value chains. Aligning with EU green regulations, boosting the productivity of export-oriented sectors and increasing regulatory transparency and predictability are necessary to promote private-sector development.
- **Leveraging the untapped potential of Türkiye's human capital is essential for economic growth.** Policies that enable greater participation of under-represented segments of the labour force should be prioritised, alongside efforts to address regional disparities, which are essential to fostering inclusive economic development.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	1.9	11.4	5.5	5.1	2.7
Inflation (average)	12.3	19.6	72.3	53.9	59.0
Government balance/GDP	-5.1	-4.0	-1.7	-5.2	-4.9
Current account balance/GDP	-4.4	-0.9	-5.3	-4.0	-1.7
Net FDI/GDP [neg. sign = inflows]	-0.6	-0.8	-1.0	-0.4	-0.3
External debt/GDP	56.3	56.0	52.5	46.6	na
Gross reserves/GDP	13.0	13.4	13.6	11.0	na
Credit to private sector/GDP	64.8	60.8	52.4	44.2	na

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Macroeconomic developments and policy response

Economic growth and inflation started to slow in 2024 amid significant monetary and fiscal policy tightening. In the first half of 2024, real gross domestic product (GDP) grew 3.8 per cent year on year, primarily driven by private consumption, although its contribution to overall growth declined slightly. The economy grew by 5.3 per cent year on year in the first quarter of 2024, but growth slowed to 2.5 per cent year on year in the second quarter, as the industrial sector, services and construction contracted due to tighter policy and credit conditions. Meanwhile, the Central Bank of the Republic of Türkiye (CBRT) continued to hike the policy rate, which now stands at 50.0 per cent, compared with 8.5 per cent in May 2023. Moreover, to enhance monetary policy transmission, the CBRT employed macroprudential measures, including sterilisation tools and credit growth caps. Still, inflation remains high, averaging 61.8 per cent in the first 10 months of 2024. Annual inflation has been declining since its peak of 75.4 per cent in May 2024. To support disinflation, fiscal policy was tightened (except for earthquake-related spending), with the central government deficit narrowing to 4.0 per cent of GDP in the first half of 2024 from 4.7 per cent a year previously.

External deficits have narrowed and the return to orthodox economic policy has boosted investor confidence. The 12-month cumulative current account deficit declined to US$ 11.3 billion (€10.2 billion) in August 2024 from a peak of US$ 55.6 billion (€51.1 billion) in May 2023. As a percentage of GDP, the deficit decreased to 1.7 per cent in the first half of 2024, driven by lower energy and gold imports, from 5.0 per cent in the first half of 2023. At the same time, capital flows accelerated following the March 2024 elections, with the 12-month cumulative net portfolio flow reaching US$ 22.2 billion (€20.2 billion) in August 2024. However, FDI remains low, with the 12-month cumulative inflow standing at US$ 10.5 billion (€9.6 billion) in August 2024, equivalent to less than 1 per cent of GDP. Meanwhile, the return to policy orthodoxy led to a decline in Türkiye's CDS premium from over 700 basis points in May 2023 to close to 270 basis points. And, after more than a decade of downgrades, credit rating agencies have upgraded Türkiye's rating in 2024, with Fitch Ratings raising it twice, to B+ (in March) and then BB- (in September), S&P Global to B+ (in May) and then to BB- (in November) and Moody's to B1 (in July).

International reserves improved significantly following the March 2024 elections and the currency strengthened in real terms. By September 2024, reserves had increased sharply to US$ 152 billion (€136 billion) (from a low of US$ 97 billion [€89 billion] in May 2023), covering five months of imports. Notably, net reserves (excluding swaps) turned positive for the first time since March 2020, reflecting a real improvement in the composition and quality of reserves. The currency has depreciated by 42 per cent since May 2023 and by 15 per cent since the beginning of 2024. In real terms, however, the Turkish lira (TRY) has appreciated 29 per cent since July 2023, adversely impacting the competitiveness of Turkish exports and tourism but helping disinflation efforts.

The authorities face the challenge of balancing disinflation with macroeconomic stability. While monetary and income policies are currently contractionary, the fiscal stance, including earthquake spending, is still expansionary, so fiscal discipline is essential to support disinflation while effectively managing the earthquake recovery. In 2024, real GDP growth is forecast to slow to 2.7 per cent from an upwardly revised rate of 5.1 per cent for 2023, then pick up to 3.0 per cent in 2025. Key risks to the outlook include persistently high inflation, the impact of the real TRY appreciation on exports and tourism, ill-timed easing of the policy stance, high regional geopolitical tensions and tight global financing conditions, especially given Türkiye's high short-term external financing needs. On the positive side, the absence of any scheduled elections until 2028 offers the authorities an opportunity to implement structural reforms.

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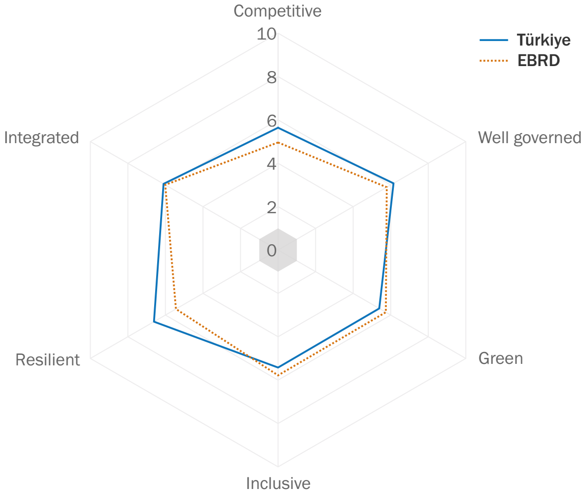
Assessment of transition qualities (1-10)



Structural reform developments

Important reforms are under way. The authorities announced two medium-term plans: the 12th Development Plan 2024-28 in November 2023 and the updated three-year rolling Medium-Term Programme (MTP) for 2025-27 in September 2024. The 12th Development Plan aims to drive long-term economic and social progress, focusing on innovation, green and digital transformation, and social inclusion. It aims to increase GDP to US$ 1.6 trillion (€1.4 trillion) and GDP per capita to US$ 17,554 (€15,908) by 2028 from US$ 1.1 trillion (€1 trillion) and US$ 12,415 (€11,251), respectively, in 2023, with an emphasis on advancing exports in target sectors. It also prioritises urban transformation, environmental sustainability and governance reforms. The updated MTP forecasts lower economic growth and higher inflation than the previous MTP (2024-26), while projecting improvements in the budget deficit and current account. It cut growth projections by 0.5 percentage points and revised up end-year annual inflation to 41.5 per cent in 2024, 17.5 per cent in 2025 and 9.7 per cent in 2026. To meet these objectives, the MTP sets out seven key reform areas: enhancing macroeconomic and financial stability, reforming public finance, boosting research and innovation, transitioning to a green and digital economy, developing human capital, improving the business and investment climate, and reducing the informal economy.

The 2024-28 FDI Strategy was launched in August 2024. It aims to increase Türkiye's share of global FDI to 1.5 per cent and its regional share (across the Middle East, North Africa and eastern Europe) to 12 per cent from 0.9 per cent (2003-23) and 9.8 per cent (2004-23), respectively. The strategy builds on Türkiye's position as the second-largest FDI recipient in the region, having attracted US$ 261 billion (€214 billion) over the past two decades. Key policy areas include promoting renewable energy, simplifying processes, enhancing digital infrastructure, improving logistics and developing a skilled workforce. The strategy emphasises green and digital transformation to attract sustainable, technology-driven investments, focusing on eight priority areas, including climate-friendly, digital and knowledge-intensive sectors.

The government has introduced a strategic initiative to establish Türkiye as a hub for high-tech investments by 2030. The HIT-30 programme, launched in August 2024, offers US$ 30 billion (€27 billion) in project-based incentives and financing options, focusing on new technologies, economic scale, technical competence and technological acquisition. Six major investment initiatives were announced, including US$ 5 billion (€4.5 billion) for electric vehicle production, US$ 4.5 billion (€4.1 billion) for battery production and US$ 5 billion (€4.5 billion) for chip production. Significant incentives for green energy investments – US$ 2.5 billion (€2.3 billion) for solar and US$ 1.7 billion (€1.5 billion) for wind energy – also feature. These efforts aim to attract at least US$ 20 billion (€18 billion) in private-sector investment.

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Türkiye has announced its second NEEAP for 2024-30. The plan, announced in January 2024, targets a 16 per cent reduction in national energy consumption and aims to cut emissions by 100 million tonnes by 2030, supported by a US$ 20 billion (€18 billion) investment from the public and private sectors. The NEEAP also aims to expand energy and charging infrastructure to support more than 1 million electric vehicles by 2030. In addition, in March 2024, the Ministry of Environment, Urbanisation and Climate Change published the Climate Change Mitigation and Adaptation Strategy and Action Plan for 2022-30. They address various sectors, including agriculture, ecosystems, water management, disaster risk reduction, urban development, industry, energy, tourism, cultural heritage and public health, based on detailed impact, vulnerability and risk assessments.

The CBRT has introduced restrictive measures to tighten credit and reduce dollarisation. In May 2024 the CBRT increased the reserve requirement by 8 percentage points to 33 per cent for foreign exchange protected accounts (KKMs) with up to six-month maturities, and by 12 percentage points to 22 per cent for accounts with longer maturities, to encourage TRY deposits. In addition, the growth limit for TRY-based commercial loans was reduced from 2.5 per cent to 2.0 per cent, while the monthly growth limit for foreign-currency loans was lowered from 2.0 per cent to 1.5 per cent.

The government has taken steps to strengthen fiscal discipline and broaden the tax base through a series of measures. In May 2024, it launched a public savings and efficiency programme aimed at reducing the budget deficit by cutting expenditure and improving resource allocation. Estimated savings range from TRY 100 billion to TRY 250 billion (€2.7 billion to €6.7 billion), or 0.2-0.6 per cent of GDP. In July 2024, the government introduced a tax package to broaden the tax base and strengthen fiscal discipline. Key measures include a 10 per cent domestic minimum corporate tax rate and a 15 per cent global minimum corporate tax rate on multinationals with turnover exceeding €750 million, in line with Organisation for Economic Co-operation and Development (OECD) policies.

The FATF has removed Türkiye from its grey list of jurisdictions under special scrutiny. Türkiye was placed on the grey list in October 2021 due to deficiencies in combating money laundering and terrorist financing. In response, the authorities implemented necessary reforms and enhanced cooperation with the FATF, improving transparency of corporate ownership, strengthening financial intelligence units and tightening regulations in sectors such as banking and real estate. Its removal is expected to boost investor confidence and lower borrowing costs, which were negatively impacted by Türkiye's inclusion in the grey list.