Greece

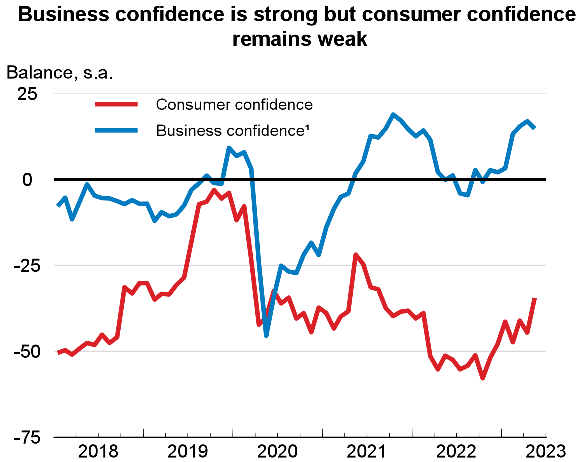
Economic growth will remain robust, with real GDP projected to increase by 2.2% in 2023 and 1.9% in 2024. Consumption growth is projected to slow in the near term following the erosion by high inflation of households' purchasing power. Real investment growth is projected to remain strong in the face of rising borrowing costs as spending related to Recovery and Resilience Funds increases. Headline inflation has been moderating since September 2022 but has become more broad-based with continuing labour shortages contributing to wage growth.

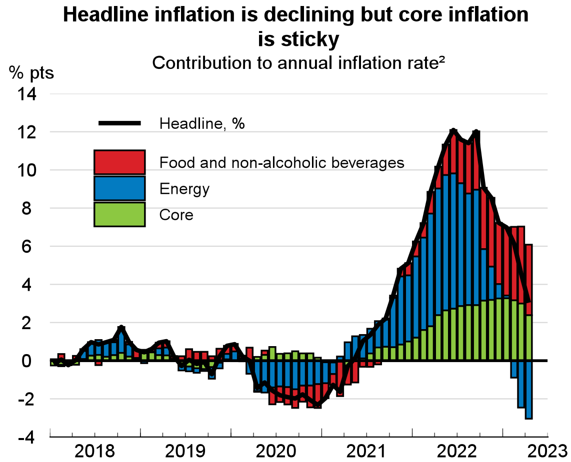
Energy price subsidies are gradually being reduced as energy prices recede. Achieving and maintaining the planned return to a primary surplus will help Greece manage inflationary pressures and reach an investment-grade sovereign debt rating. Further increases in labour market participation especially among women and youth would improve equality of outcomes and help address labour shortages.

Greece's economic growth remains robust in the face of headwinds

Greece's economy has continued to grow robustly in spite of headwinds. Investment growth remained strong in 2022Q4 despite rising investment costs and growing labour shortages. Business confidence rose from October 2022 to be near its pre-pandemic highs in April, while purchasing managers' expectations in April pointed towards expanding demand. Real consumption continued to grow in 2022Q4 and early 2023, reflecting strong employment growth, and despite households' falling purchasing power and low consumer confidence. Job creation has slowed in 2023, however, as the economy hits capacity constraints. The harmonised headline inflation rate abated to 4.5% year-on-year in April as energy prices declined, while broadening price pressures raised annual core inflation to 6.1%. Wage rates have accelerated, and in April 2023 the minimum wage has been increased by 9.4%, following increases of about 10% in the first half of 2022.

Greece





1. Business confidence is an unweighted average of confidence indicators in industry, construction, retail trade and services.
2. National CPI decomposition by energy, food and core inflation.
Source: Eurostat; and OECD Consumer Prices database.

StatLink https://stat.link/imceyj

Greece: Demand, output and prices

Greece	2019	2020	2021	2022	2023	2024
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	183.3	-9.0	8.3	6.1	2.2	1.9
Private consumption	126.6	-7.9	7.8	8.0	1.7	1.6
Government consumption	36.7	2.6	3.7	-0.9	-0.4	0.8
Gross fixed capital formation	19.4	-0.3	19.6	11.7	8.9	4.4
Final domestic demand	182.7	-5.0	8.3	6.7	2.3	1.8
Stockbuilding[1,2]	3.7	1.4	-0.9	1.9	2.2	0.0
Total domestic demand	186.4	-3.4	7.2	8.2	4.1	1.7
Exports of goods and services	73.5	-21.5	21.9	4.5	-0.2	4.2
Imports of goods and services	76.7	-7.6	16.1	10.2	6.7	3.4
Net exports[1]	- 3.2	-5.5	0.7	-3.1	-4.0	0.1
Memorandum items						
GDP deflator	_	-0.8	2.1	7.6	4.5	3.5
Harmonised index of consumer prices	_	-1.3	0.6	9.3	3.9	3.2
Harmonised index of core inflation[3]	_	-1.2	-1.1	4.6	5.5	3.3
Unemployment rate (% of labour force)	_	16.3	14.7	12.4	11.2	10.4
General government financial balance[4] (% of GDP)	_	-9.7	-7.1	-2.3	-1.5	-1.3
General government gross debt (% of GDP)	_	242.3	225.7	191.4	184.1	178.6
General government debt, Maastricht definition[5] (% of GDP)	_	206.4	193.3	170.7	163.4	157.9
Current account balance[6] (% of GDP)	_	-5.1	-6.7	-9.7	-9.5	-8.7

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
6. On settlement basis.

Source: OECD Economic Outlook 113 database.

StatLink https://stat.link/9anvq2

Energy and other global supply disruptions, amplified by Russia's war of aggression against Ukraine, are easing. Households' electricity, gas and heating prices fell by 27.9% from their peak in September 2022 to April 2023. To address potential energy disruptions next winter, Greece has continued to increase storage capacity through agreements with neighbouring countries, for example Bulgaria, and is expanding its liquified natural gas import capacity. Government-bond spreads have fallen: spreads to German 10-year government bonds were down by nearly 130 basis points in late May 2023 from their October 2022 peak.

Borrowing costs are rising

Electricity price subsidies have been protecting households and businesses from high energy prices. Subsidies introduced for the recent energy price shock are declining as energy prices recede and are planned to be phased out by the second half of 2023, limiting their fiscal cost for 2023 to 0.5% of GDP. In April 2023, pensioners received lump sum payments worth 0.4% of GDP linked to rising living costs. Other fiscal measures in 2023 amount to 1.8% of GDP, including for example a fiscal subsidy for home loan interest costs. The government targets returning the primary budget balance to a surplus near 1% of GDP in 2023 and near 2% of GDP in 2024. Tightening monetary policy in the euro area has raised borrowing costs. For the private sector, in January 2023 they reached their highest level since October 2016. Still, new lending to the private sector has continued to grow, as banks expand lending capacity by clearing non-performing loans and through their growing on-lending of Greece's Next Generation EU credits.

Growth remains robust

Slowing employment gains and the erosion of real wages are projected to dampen private consumption growth. Fiscal tightening will also dent aggregate demand. Real investment growth will remain strong, reflecting higher borrowing costs and increasing spending related to the Greece 2.0 Plan, which includes public investment projects valued at nearly 1.0% of GDP in 2023 rising to 1.7% of GDP in 2024, and contributions of 0.8% of GDP annually for private investment projects. Headline inflation is projected to moderate in 2023, as the declines in energy prices are passed through, but to remain elevated reflecting ongoing increases in input costs, rising wages and capacity constraints. Achieving fiscal consolidation as foreseen will be crucial to obtain an investment-grade rating of Greece's sovereign debt. Consolidation would be challenged by, for instance, a renewed surge in energy or other global prices, prompting additional fiscal support. The risk that higher interest rates raise defaults on mortgage loans is mitigated by Greece's banks agreeing to freeze adjustable rates until April 2024 and by the relatively high share of recent mortgages issued at fixed interest rates.

Getting more women and youth into work would ease capacity constraints

Using any unforeseen fiscal revenues or underspending to reduce public debt rather than to increase transfers would help to contain inflationary pressure and reach an investment-grade sovereign debt rating. This would counteract rising borrowing costs and support Greece's need to raise investment over the long term. Growth could additionally be made more sustainable by enhancing public sector capacity to implement investments, including the Greece 2.0 priorities to expand renewable energies and renovations improving buildings' energy efficiency. Promoting the uptake of Greece's new paid paternal leave, flexible working arrangements and expanding care facilities could improve participation rates of women and youth, expanding opportunities and helping the economy manage its ageing population.