December 2023

GREECE

ECONOMIC & FINANCIAL OUTLOOK

ECONOMIC RESEARCH DIVISION

Solid Growth Dynamics and Resilience to External Risks: Back to IG Status

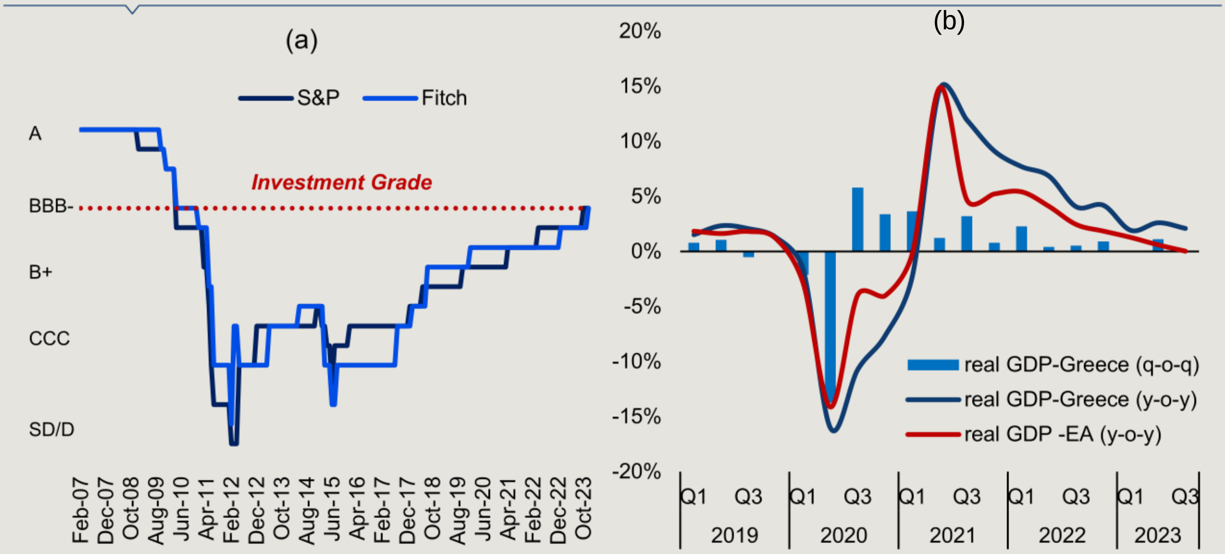
The return of Greece to investment grade (IG) status after 13 years (*Graph 1a*), following the upgrades by Fitch on December 1st and S&P on October 20th (to BBB- with stable outlook), is a key milestone corroborating the multifaceted progress of the Greek economy over the past years, as well as, its positive prospects over the medium term. The strong economic growth rates achieved (7%, on average, in 2021-2022) along with the remarkable improvement on the fiscal front (with a sizeable decline of the debt-to-GDP ratio by 34.4 pps during this period) within an environment of political stability are among the primary drivers behind the recent evaluations of the Greek sovereign. These upgrades followed earlier respective decisions by DBRS Morningstar in September and Scope Ratings in August, whereas Moody's upgraded Greece's credit rating in September by two notches, from Ba3 to Ba1 (with stable outlook), one level below the IG threshold. Recovering the investment grade seemed to be, by and large, anticipated by international capital markets, as reflected in the progressive de-escalation of the 10-year Greek Government Bond (GGB) spread against the respective Italian and German bonds (*Graph 2a*). The achievement of investment grade allows for the normalization of the inclusion of Greek government bonds as collaterals in monetary policy and refinancing operations and to international IG bond indices, further enhancing market access.

Since 2019 – with the exception of 2020, the first year of the pandemic – Greece recorded stronger economic growth than the euro area (*Graph 1b*). This divergence in growth has been maintained in the first 9 months of 2023, with real GDP (seasonally adjusted) growing by 2.2% on an annual basis (Q1: 1.9%, Q2: 2.6%, Q3: 2.1%), one of the highest rates across euro area member states, outpacing the euro average (0.6%). This growth performance was achieved amid a wide breadth of challenges for the Greek economy, such as the volatile international environment, persistent inflationary pressures, rising ECB policy rates, the slowdown in the European economy and extreme weather conditions that led to natural disasters in Greece during the third quarter of the year, especially the devastating floods in Thessaly.

During the first 9 months of the year, Greek economic activity was supported by (*Graph 2b*):

GRAPHS 1a & 1b

Confidence restored and robust growth dynamics



Sources: Eurostat, Trading Economics, Bloomberg

(i) **Investment,** posting the largest positive contribution to economic expansion (1 pps), of around half of the total GDP growth, almost double the contribution to real output growth recorded in 2021-2022. The strong momentum around investment has been maintained, rising by 7.4% y-o-y in the first 9 months of 2023, recording positive annual growth rates since Q3 2020, i.e., for the 13th consecutive quarter. Moreover, the share of investment in GDP stood above 14% in the past four quarters (Q3 2023: 14.3%), albeit remaining, well below its levels before the economic crisis (Q3 2007: 27.4%) and the current European average (Q3 2023: 22%). Investment recorded a broad-based annual rise across individual categories (with the exception of investment in machinery and ICT equipment which declined by 1.6% y-o-y), though more prominently in dwellings (40.2% y-o-y) and transport equipment (21.8% y-o-y), followed by investment in other buildings and structures (5.5%) and other investment (4.1%).

(ii) **Private consumption**, which continued to contribute materially to real GDP growth (0.9 pps), supported, *inter alia*, by a 7.4% y-o-y rise in nominal wages in H1 2023, based on Eurostat's Labour Cost Index[1] and the rise in employment (1.6% on an annual basis, in the period January-October 2023). The seasonally adjusted unemployment rate fell to 9.6% in October 2023, compared to 11.7% in December 2022. Private consumption increased by 1.3% on an annual basis, showing, however, signs of weakening in the third quarter of the year.

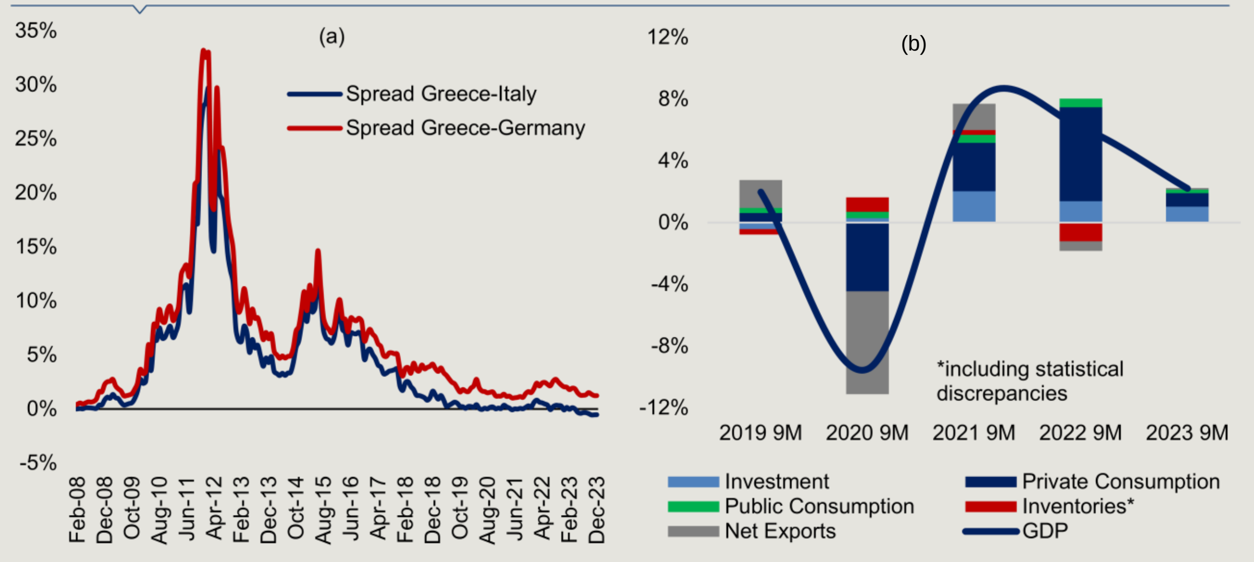
(iii) **Exports**, which increased notably, mainly on account of the outstanding performance of tourism with incoming data signaling a new record year in 2023. In spite of the uncertainty at the beginning of the year stemming from the impact of inflation on the real disposable income of European households, tourist arrivals and travel receipts (incl. cruises) amounted to 27.8 million and Euro 17.9 billion respectively, in the first 9 months of 2023, recording annual increases of 17.3% and 15.2% and exceeding the corresponding 2019 record highs by 3.1% and 11.3%, respectively. Overall, net exports had a positive, albeit marginal contribution to GDP growth (0.1 pps), as the annual increase in exports of goods and services (2.3%) exceeded the corresponding increase in imports (1.8%). In particular, exports of goods (2.9%) increased more sharply than the corresponding imports (0.5%), while the picture in services is reversed, with exports (2.6%) growing at a slower pace than imports (5.6%). It is worth noting that the rise in goods' exports was entirely due to the Q1 2023 double-digit growth performance, while in the second and third quarter of 2023 goods' exports declined on an annual basis for the first time since Q2 2020.

(iv) Finally, **public consumption** increased by 1.1% y-o-y, adding 0.2 pps to real GDP growth.

For 2023 as a whole, real GDP growth is estimated to slightly exceed 2%. The latter is reflected in the development of several short-term economic indicators, such as the sales of new passenger cars, rising by 15.8% y-o-y in the first 10 months of the year. Regarding tourism, in October - November 2023, international passenger traffic at the Athens International Airport, rose by 20.9% on an annual basis (+14.7% compared to 2019 figures).

GRAPHS 2a & 2b

10-year yield spreads (*Graph a*) and demand-side contributions to real GDP growth (*Graph b*)



Sources: Bloomberg, Eurostat, Alpha Bank Economic Research calculations

Note: Spread and yield data correspond to the last working day of each month. December 2023 observation corresponds to 12/12/2023.

During the same period, international passenger traffic at the country's regional airports, according to Fraport data, posted an annual increase of 7.9%, surpassing the performance of the 2019 corresponding period by 20.7%. The Economic Sentiment Indicator (ESI), although marginally receding in October (106.6) and November (106.2) 2023, from 108 in September 2023, continues to remain consistently above its long-term average and the respective euro area average (November 2023: 93.8) since May 2022. The Manufacturing Purchasing Managers' Index (PMI) rose slightly to 50.9 in November, from 50.8 one month earlier, remaining in expansionary territory (i.e., above the growth threshold of 50) since February 2023, indicating that the operating conditions at the Greek manufacturing firms continue to improve, in contrast to the PMI performance in other European economies in recent months. The industrial production index increased by 10.5% y-o-y in October 2023. Production increased in manufacturing (9.7% y-o-y), electricity (17.7% y-o-y) and water supply (0.7% y-o-y), while it decreased in mining and quarrying (-0.5% y-o-y). In the first 10 months of 2023, industrial production rose by 1.9% y-o-y.

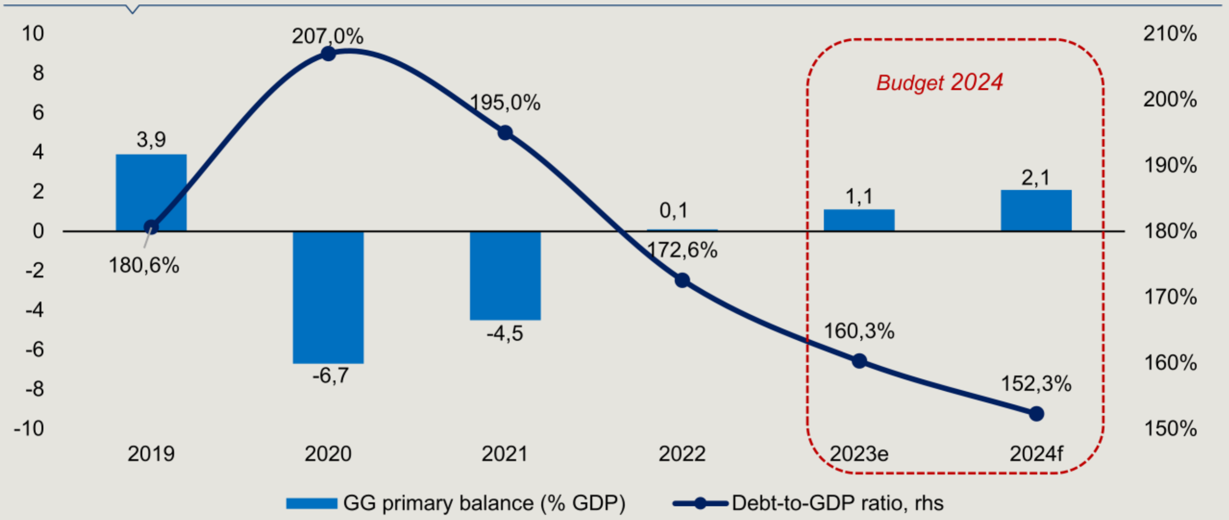
However, weaker-than-expected growth in the European economy in the near term could adversely affect domestic economic activity given that the EU is Greece's main trading partner; more than 50% of Greek exports of goods are directed to EU while 60%-70% of tourist arrivals originate from EU countries. Based on the latest EC forecasts (*European Economic Forecast, Autumn, November 2023*), real GDP in EU-27 is expected to grow by 0.6% in 2023 and 1.3% in 2024, marking a downward revision from earlier projections (*Spring 2023*) by 0.4 percentage points in each year. Furthermore, the catastrophic floods in Central Greece and, in particular, the region of Thessaly, weigh on the economic outlook. The region of Thessaly represents 5.2% of Greece's GDP (2020 data in current prices), with this percentage fluctuating over time around 5% as well as 14% of the economy's total agricultural production (in terms of GVA). In the short and medium term, the impact, at least in terms of disposable income, may be partly counterbalanced by the sizeable policy responses of the State, EC and Hellenic Bank Association (HBA), while further inflationary pressures on food prices might emerge. In addition, the decrease in exports of goods and the replenishment, through imports of goods, of the reduction in agricultural and livestock production intended for domestic consumption, could lead to the deterioration of the trade deficit. In the longer-term, the most significant challenge relates to the reduction of capital used in the production process (buildings, machinery, land) and thus the potential adverse effects on the productive capacity of the region and consequently, on the economy's potential output.

Budget 2024: Policy measures to support incomes without deviating from fiscal targets

On the fiscal front, according to the Ministry of Finance (MoF) 2024 Budget (November 2023), the primary surplus (as % of GDP) is expected to reach 1.1% and 2.1% in 2023 and 2024, respectively (*Graph 3*). It is worth noting that for 2024 the general escape clause of the Stability and Growth Pact will be de-activated, forcing EU member states to implement tighter fiscal policy.

GRAPH 3

Primary Balance (% of GDP) and Debt-to-GDP ratio



Sources: Ministry of Finance Budget 2024

Public debt (as % of GDP) is expected to remain on a downward trajectory (to 160.3% in 2023 and further to 152.3% in 2024), underpinned by the expected solid growth momentum, despite looming uncertainty in the external environment and receding inflation. The 2024 Budget also incorporates a series of policy measures to support incomes without deviating from fiscal targets, such as raises in civil servants' wages, pensions and the minimum guaranteed income. (See *Box 1*).

***Box 1*. Fiscal Interventions in 2024 to support income and reduce inequalities (in Euro million)**

Revenue side	**-1,122**
Abolition of the solidarity tax for public sector employees and pensioners	-476
Abolition of the 1% special levy in favor of Public Employees' Welfare Fund (TP Y)	-80
Increase in the tax-free allowance by 1000 euros for families with children	-135
10% reduction of property tax (ENFIA) for residencies insured against natural disasters	-26
Reform of the capital market operating framework	-50
New regulation for the short-term lease market (imposition of 13% VAT on legal entities and on persons with three or more leased dwellings)	27
Extension of reduced VAT to a range of goods and services	-382
Expenditure side	**-1,423**
Reform of doctors' special wage regime	-65
Increased compensation to the Armed Forces personnel	-59
Extension of the duration of the maternity allowance	-104
Increase by 8% of disability pensions and disability benefits	-95
Wage reform in the public sector	-931
Increase in pensions for special categories by the General Accounting Office	-56
Increase in the minimum guaranteed income by 8% (for c. 225 th. vulnerable households)	-43
Permanent exemption of 200 th. low pensioners from their contribution to pharmaceutical expenditure	-38
Youth pass (permanent annual benefit of Euro 150 for 200 th. persons (age 18-19) for tourism, transport and cultural activities)	-31
Increase in the allowance for aircraft and firefighting crew	-0.7

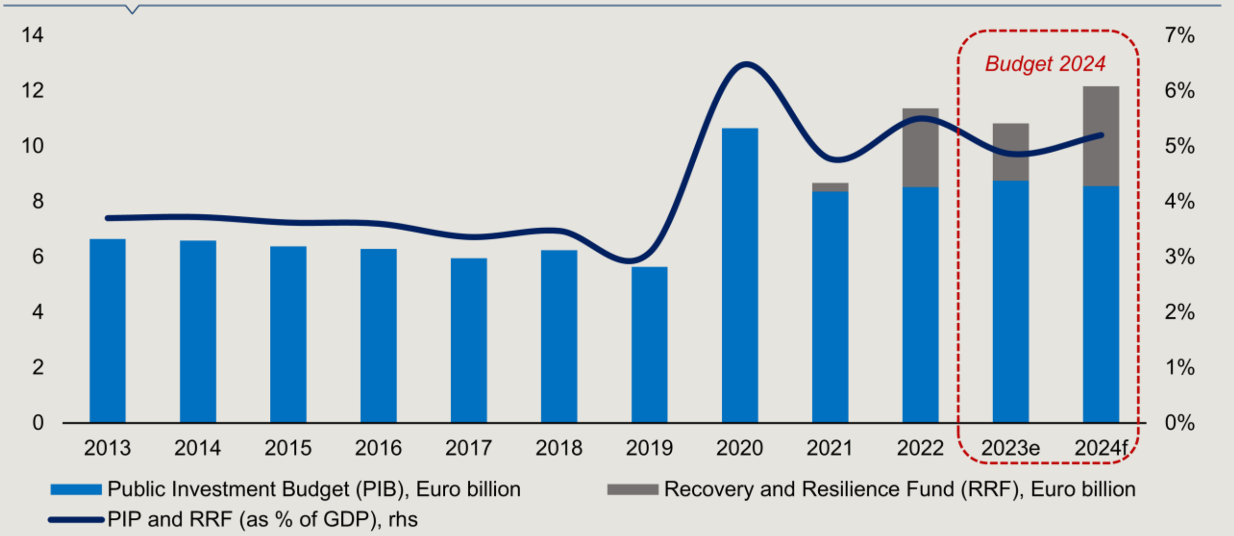
* Positive sign indicates a rise in revenues or decrease in expenditure and conversely.

** Additional to the above, the increase in pensions following the GDP and inflation increase is estimated at Euro 430 million for 2024

Source: Ministry of Finance, Budget 2024 (November 2023)

GRAPH 4

Public Investment Budget and Recovery and Resilience Fund



Sources: Ministry of Finance Budget 2024

Following the economic developments in the first 9 months of 2023, public investment, which has risen markedly from 2020 onwards, has proven vital in boosting investment activity. In particular, the Public Investment Budget (PIB) increased from Euro 6.2 billion, on average, in 2013-2019 to Euro 10.6 billion in 2020. This sizeable increase is mainly attributed to the financing of interventions to address the pandemic, while in 2021-2022 it amounted to approximately Euro 8.4 billion. Since 2021, investment spending has also been supported by the resources of the Recovery and Resilience Fund (RRF). Specifically, for 2023, investment spending is estimated at Euro 8.8 billion through the PIB (of which Euro 6.8 billion by the EU Budget and Euro 2 billion nationally financed) and Euro 2.1 billion through RRF grants (*Graph 4*). In 2024, according to the 2024 Budget, investment spending is expected to amount to Euro 12.2 billion (5.2% of GDP), of which Euro 8.6 billion from PIB (Euro 6.5 billion co-financed by the EU Budget and Euro 2.1 billion nationally-financed expenditure) and Euro 3.6 billion from the RRF.

It is worth noting that, following the positive assessment by the EC and the final approval by the Economic and Fiscal Affairs Council (ECOFIN), the amended RRF envelope, after the inclusion of REPowerEU and additional loans, amounts to Euro 36 billion (of which Euro 18.22 billion grants and Euro 17.73 billion loans). Up to date, Euro 11.1 billion has been disbursed (of which Euro 5.75 billion grants and Euro 5.35 billion loans) and a payment request for the disbursement of additional Euro 3.6 billion is pending. Up until October 10th, the RRF grants programme includes 718 projects, with a total budget of Euro 20.7 billion. In the RRF loan facility, 536 investment projects (total budget: Euro 19.98 billion) have been submitted (of which Euro 6.92 billion bank loans, Euro 8.17 billion RRF loans and Euro 4.89 billion investors' own contribution).

Real Estate market

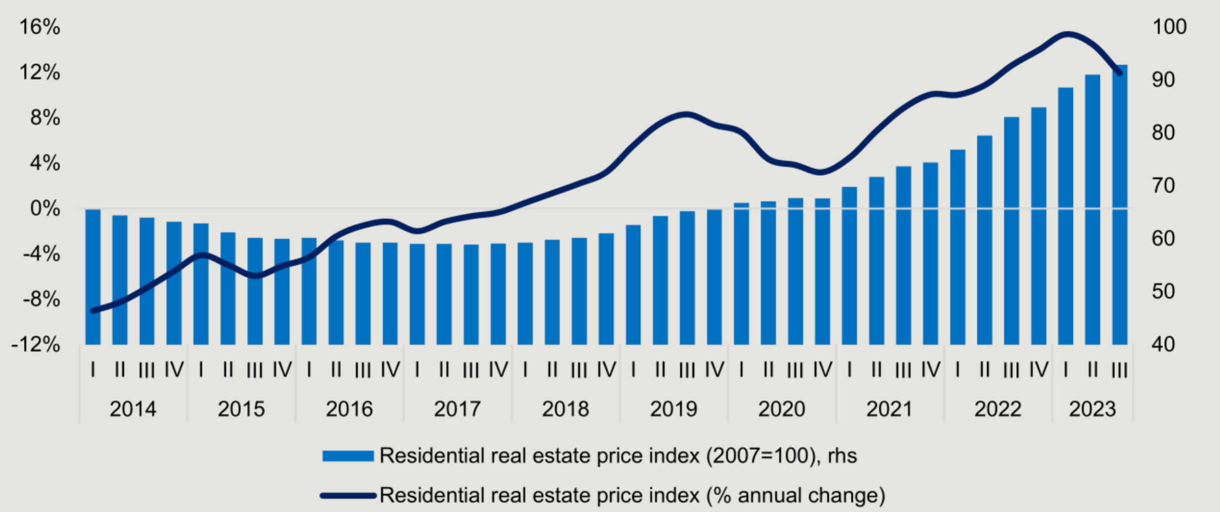
The domestic real estate market continues to recover at a strong pace in 2023 (13.9% y-o-y, on average, in 9 months 2023). Residential real estate prices have recorded steady growth since 2018, by 11.9% y-o-y in Q3 2023, following a 14.9% annual rise in the first half of the year (*Graph 5*). It is worth noting that up until Q3 2023 residential real estate prices have cumulatively recovered by approximately 57.8% from their trough in Q3 2017, remaining, however, 9.1% below their peak (Q3 2008). Commercial real estate prices - offices and shops - remained on an upward trajectory in H1 2023, rising on an annual basis by 6.6% and 6.9%, respectively. Rents also increased, though, at a slower pace.

At the current juncture, domestic real estate market developments are affected by strong base effects and shaped by several factors related to both supply and demand, including, inter alia:

- **The solid economic recovery since 2017** and, in particular, the strong GDP growth dynamics in the last three years along with **ongoing improvement in labor market conditions**.
- The **strengthening of private construction activity and the rise in residential investment**. In the first 8 months of the year, the number of building permits issued (private building activity) increased by 9.4% y-o-y, corresponding to an annual rise of 12.3% and 16.5% in terms of surface (in m^2) and volume (in m^3),

GRAPH 5

House prices developments



Source: Bank of Greece

respectively. Residential investment rose by 40.2% y-o-y in 9 months 2023, compared to a milder annual rise of 12.1% in the corresponding period of 2022.

- The **strong Foreign Direct Investment (FDI)** dynamics related to real estate, which surged by around 40% y-o-y in H12023, following the two decades-high recorded in 2022 (Euro 2.0 billion, corresponding to 0.9% of GDP).
- The **strong tourism performance** signaling a new record year in 2023 along with **the expansion of sharing economy**. With respect to the latter, the number of total nights spent in Greece at short-stay accommodation booked *via* online platforms rose by 62.3% in 2022 while, according to the latest data available in H1 2023, guest nights spent at the country level rose by 15.8% on an annual basis.
- The **Golden Visa program** launched in 2013, which gave incentives to third-country nationals to acquire real estate in the European Union (EU-27).
- The **accumulation of savings during the pandemic**.

On top of the above, the ongoing rise in materials costs (the overall material costs index in the construction of new residential buildings increased in the 10 months of 2023 on average by 8%), the recent increase in the threshold for obtaining a Golden Visa (from Euro 250,000 to Euro 500,000), in certain areas of the country with effect from August 2023 and the new tax measures recently announced by the Government regarding short-term rental accommodation - including the obligation to start a business for persons who post three or more properties on a digital platform (with corresponding insurance contributions, business tax and VAT from first property), the imposition of VAT and various fees (e.g., climate change mitigation fee) are also expected to affect, to some extent, the domestic real estate market.

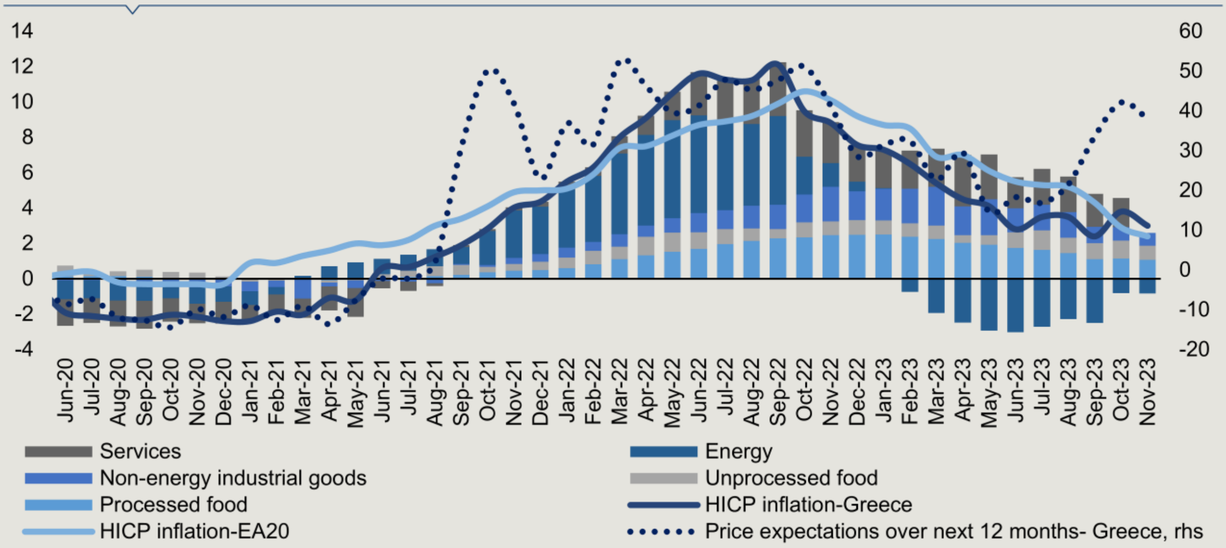
Inflation Developments

Headline HICP inflation in Greece receded to 2.9% in November 2023, down from 3.8% the previous month. Although Greek HICP inflation stood below the euro area average during the period October 2022-September 2023, this trend was reversed in October 2023 (2.9%) and maintained in November 2023 (2.4%, estimate). Core HICP inflation (i.e., excl. energy and unprocessed food) decelerated to 3.5% in November 2023, continuing on its downward trajectory throughout the current year. In the 11-month period of 2023, headline inflation averaged at 4.2% against 9.4% in the respective period of 2022.

Current inflation developments can be viewed as the outcome of two opposing forces, namely falling energy prices and upward pressures primarily in food prices, followed by services (*Graph 6*). In particular, energy HICP inflation remained in negative territory in November 2023 (-7.2%) with a deeper annual decline compared to the previous month (October 2023: -6.8%). Food inflation decelerated to 7.6% from 8.8% in the previous month, on the back of decelerating dynamics in both processed (November 2023: 6.1%; October 2023: 6.5%) and unprocessed (November 2023: 11.1%; October 2023: 14.2%) food prices. Services inflation also continued to slow down to 2.4% in November 2023 from 3.4% one month earlier.

GRAPH 6

Headline (HICP) inflation and main components' contribution



Sources: Eurostat and Alpha Bank Economic Research calculations

Special Focus: Private consumption dynamics, durable goods and short-term expectations

The share of durable goods in total household consumption expenditure follows an upward trend in the last seven years, reaching, in Q2 2023, levels last seen in 2008 (*Graph 7a*). This is reflected, among others, in the increase in VAT revenues given that durable goods tend to be taxed at a higher rate (see, Bank of Greece, Monetary Policy Report 2022-2023, Box V.1, June 2023). Specifically, in 2007-2008, consumption of durable goods represented, on average, 7.6% of household consumption expenditure. This share declined markedly during the economic crisis, standing at 3% in Q3 2015. Since then, it has recovered progressively to 6.7% in Q2 2023 (last available data). Demand for durable goods is more sensitive to business cycle fluctuations compared to other categories, i.e., non-durable goods and services (see, ECB, Economic Bulletin 1, 2018, Box 2).

Rising demand for durable goods is expected to continue in the coming quarters, supported by:

- The ongoing rise in employment, by 1.6% on an annual basis in the first 10 months of 2023, which is expected to continue in 2024,
- The increase in wages; the Labor Cost Index[1] increased by 7.4% y-o-y in H1 2023, i.e., at a faster pace than HICP inflation (5.1%).
- Consumer credit growth remains in positive territory since March 2022, standing at 2.9% (adjusted annual rate) in October 2023, given that durable goods are more often associated with higher purchase costs.

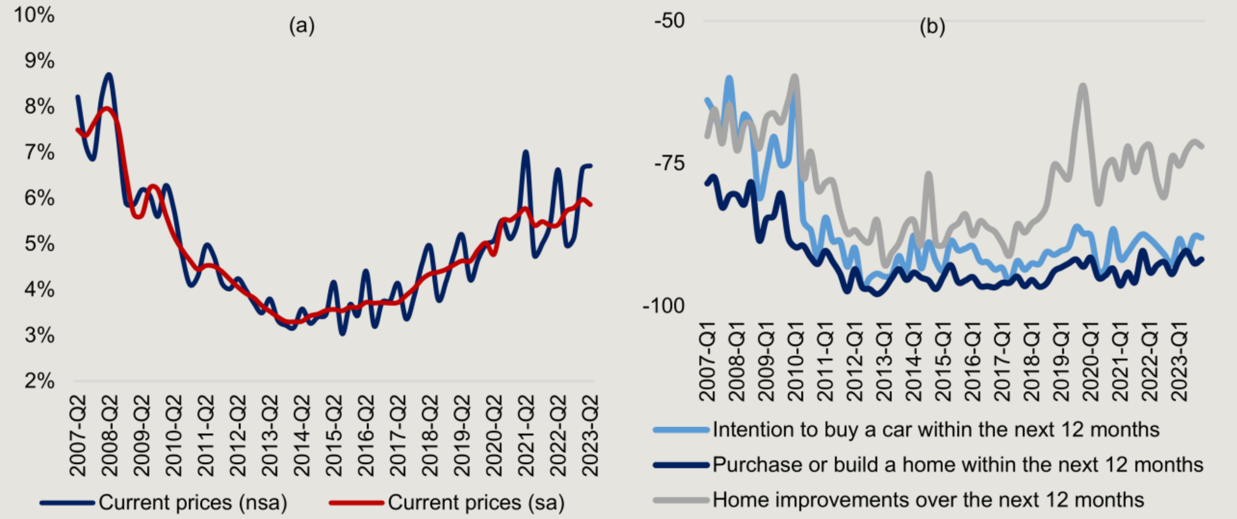
In addition, new private passenger cars registrations recorded a marked increase, by 15.8% on an annual basis in the first 10 months of 2023 (October 2023: 35.8% y-o-y). During the period January-September 2023, the volume of retail sales of furniture, electrical appliances and household equipment, rose, on average, by 3.3% on an annual basis.

Regarding short-term prospects, according to the EC consumer survey, consumers' intentions for major purchases within the next 12 months, though still depressed, improved in the past months (November 2023: -43.8; October 2023:-39) compared to the beginning of the year (Q1 2023:-48). In a similar vein, consumers' intentions for purchasing durables goods are also reflected in the following 3 questions regarding their intention in the next 12 months to: (i) buy a car, (ii) purchase or build a home and (iii) carry out home improvements. As depicted in *Graph 7b*, the last indicator is on an upward trajectory this year, despite its marginal deterioration in Q4 2023. The intention to build or buy a house improved slightly in Q4 2023 while the intention buy a car, remained stable in the last quarter of the year.

GRAPHS

7a & 7b

Share of durable goods in household consumption expenditure (*Graph a*) and consumer intentions in the next 12 months (*Graph b*)



Sources: Eurostat, European Commission

Annual data	2018	2019	2020	2021	2022	Annual % Changes
GDP at constant prices 2015 (annual % change)	1.7	1.9	-9.3	8.4	5.6	
Private Consumption	1.7	1.8	-7.4	5.8	7.4	
Public Consumption	-3.5	2.4	3.0	1.8	2.1	
Gross Fixed Capital Formation	-4.3	-2.2	2.0	19.3	11.7	
Exports of Goods and Services	9.1	4.9	-21.5	24.2	6.2	
Imports of Goods and Services	8.1	2.9	-7.3	17.9	7.2	
National CPI, (annual % change, period average)	0.6	0.3	-1.2	1.2	9.6	
Unemployment Rate (%, period average)	19.3	17.3	16.3	14.7	12.4	
G.G. Primary Balance (% of GDP)	4.3	3.9	-6.7	-4.5	0.1	
G.G. Gross Debt (% of GDP)	186.4	180.6	207.0	195.0	172.6	
Current Account Balance (% of GDP)	-2.9	-1.5	-6.6	-6.8	-9.7	

Business Environment	2022	2023			*Last available data*	Quarterly data (annual % changes)
		Q1	Q2	Q3		
Economic Activity (annual % change)						
Volume Index in Retail Trade (excl. automotive fuel)	1.9	-1.1	-3.5	-2.2	-2.3 (Jan.-Sep. 23)	
New Passenger Car Registrations	6.7	23.6	6.1	13.4	15.8 (Jan.-Oct. 23)	
Private Building Activity (volume in '000 m3)	-2.2	25.2	8.3		16.5 (Jan.-Aug.23)	
Manufacturing Production Index	4.4	8.3	2.3	0.8	3.7 (Jan.-Sep. 23)	
Confidence indicators						
Purchasing Managers' Index (PMI)	51.8	51.2	51.9	52.2	50.9 (Nov. 23)	
Economic Sentiment Indicator (ESI)	105.4	106.8	108.6	109.6	106.2 (Nov. 23)	
Index of Bus. Expect. in Industry	105.5	109.4	107.5	103.8	95.3 (Nov. 23)	
Index of Consumer Confidence	-50.7	-43.3	-36.7	-36.3	-45.6 (Nov. 23)	
Credit Growth (% annual change, period end)						
Private Sector	6.3	5.2	2.8	2.1	2.1 (Oct. 23)	
Non-financial corporations	11.8	10.7	5.8	4.7	5.0 (Oct. 23)	
Individuals	-2.5	-2.5	-2.7	-2.3	-2.2 (Oct. 23)	
- Consumer Loans	1.3	2.1	1.6	2.6	2.9 (Oct. 23)	
- Housing Loans	-3.7	-3.7	-3.9	-3.7	-3.7 (Oct. 23)	
Prices and Labour Market						
National CPI, (annual % change, period average)	9.6	5.9	2.5	2.3	3.4 (Oct. 23)	
Index of Apartment Prices (annual % change)	11.8	15.3	14.5	11.9	11.9 (Q3 23)	
Unemployment Rate (%, period average, sa)	12.4	11.3	11.4	10.8	9.6 (Oct. 23)	
GDP at constant prices 2015 (annual % change)	5.6	1.9	2.6	2.1	2.1 (Q3 23)	
Private Consumption	7.4	1.1	1.7	0.9	0.9 (Q3 23)	
Public Consumption	2.1	2.9	1.2	-0.7	-0.7 (Q3 23)	
Gross Fixed Capital Formation	11.7	8.2	9.2	4.9	4.9 (Q3 23)	
Exports of Goods and Services	6.2	6.7	-0.5	1.0	1.0 (Q3 23)	
Imports of Goods and Services	7.2	3.3	-0.6	2.9	2.9 (Q3 23)	

Sources: Bank of Greece, ELSTAT, IOBE, IHS Markit

1/ Primary balance defined here as General Government balance (according to ESA 2010) minus interest expenditure of General Government entities to other sectors. The effect of support to financial institutions is excluded in this measure of the primary balance. The measure of the primary balance presented here differs from the definition of primary balance used under the Enhanced Surveillance Framework for Greece.

2/ Credit growth rates are derived from the differences in outstanding amounts corrected for loan write-offs, exchange rate valuations and reclassifications.

3/ Provisional historical figures for residential real estate prices since Q1 2022.

4/ Provisional historical figures for real GDP since 2019.

Notes:

[1] Based on seasonally adjusted data of Eurostat Labour cost Index→Wages and salaries→Business economy. The business economy includes industry, construction and services, while the primary and public sectors are excluded.

ALPHA BANK

Alpha Bank Economic Research

Panayotis Kapopoulos
Chief Economist
panayotis.kapopoulos@alpha.gr

Eirini Adamopoulou
Expert Economist
eirini.adamopoulou@alpha.gr

Gerasimos Mouzakis
Research Economist
gerasimos.mouzakis@alpha.gr

Kalliopi-Maria Zekente
Manager
kalliopi-maria.zekente@alpha.gr

ALPHA BANK ECONOMIC RESEARCH AND ANALYSIS

1, Korai Street

GR 105 64 Athens

T +30 210 517 8963, F +30 210 348 7873

Email: AlphaBankEconomicResearch@alpha.gr

Website: http://www.alpha.gr