



GREECE

ECONOMIC & FINANCIAL OUTLOOK

ECONOMIC RESEARCH DIVISION

July 2023

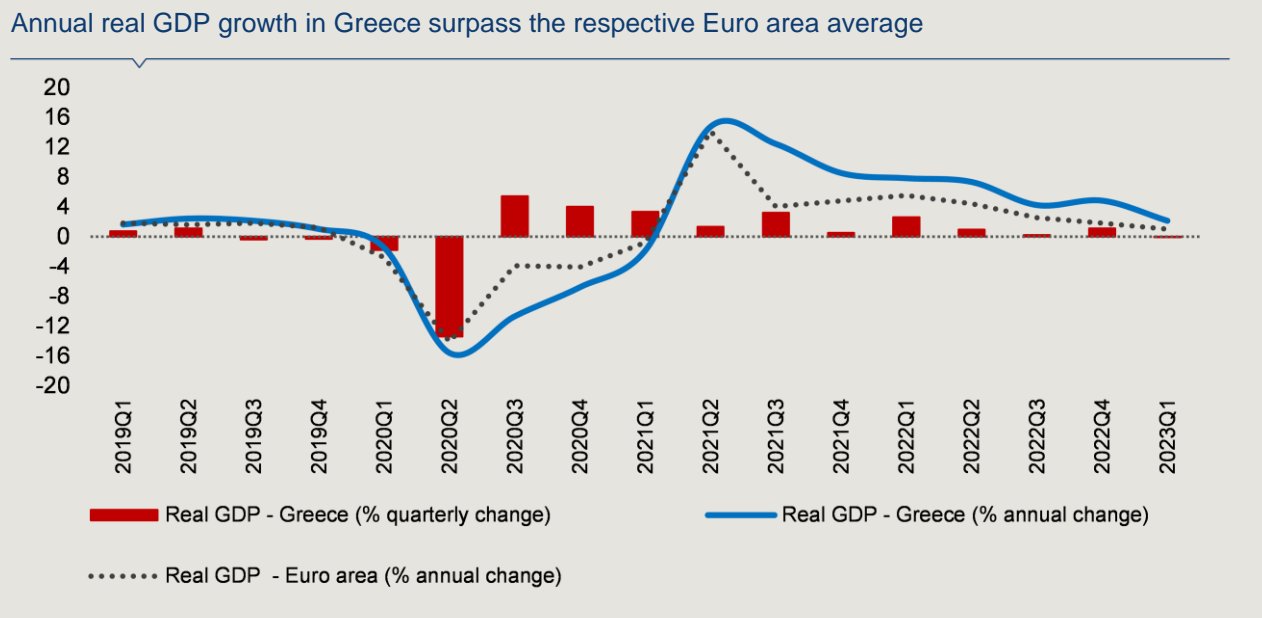
Increased extroversion, resilient private consumption and strengthening investment fuel economic growth

In Q1 2023, Greece's real GDP expanded by 2.1% on an annual basis, versus 7.8% growth in the same period the year prior, while contracted marginally on a quarterly basis by 0.1% (*Graph 1*). Solid private consumption growth, rising investment, as well as gains in the exports of goods and services are expected to continue to support growth dynamics throughout 2023. The Economic Sentiment Indicator (ESI) points to a further strengthening of economic activity, as it remained consistently higher in Greece than the Euro area average over the last 14 months, with the difference in June standing at almost 14.8 points (110.1 in Greece vs 95.3 in Euro area). The resilient economic performance in Q1 paves the way for solid growth in the remainder of the year. Going forward, our latest forecasts envisage a growth rate around 2.5% for 2023, supported by an increased contribution of investment, enhanced extroversion of Greek firms, as well as resilient private consumption.

The outcome of the national elections was well received by the markets, as reflected in the widening of the yield spread on the Greek ten-year bond from the corresponding Italian bond, and provides the government with a mandate to accelerate the adoption and implementation of pro-growth reforms (e.g., speeding up the administration of justice and conflict resolution processes, a more a stable and fair tax regime and the modernization of the regulatory framework), establishing a business-friendly environment and attracting fresh investment.

Solid economic activity, with real GDP growth in Q1 2023 (2.1% y-o-y) outpacing both the respective EU-27 and euro area averages (1% y-o-y, each), combined with the return to primary surpluses and the projected de-escalation of the public debt to GDP ratio, are expected to contribute to Greece regaining investment grade status within 2023. This will be a significant milestone for the Greek economy as it is expected to further compress the cost of borrowing for the State, the banks and the private sector.

GRAPH 1



Finally, inflationary pressures are gradually receding, with the HICP inflation in Greece standing at 2.8% in June, remaining on a downward trajectory from September 2022 when it recorded the highest value since 1996. Although inflation is also declining in the euro area more broadly, it remains at a higher level, with the HICP growing by 5.5% y-o-y. It should be noted however that prices grew faster and steeper in Greece in 2022, with the HICP increasing last May by 10.5% against 8.1% in the euro area.

Resilient private consumption to continue reinforcing growth dynamics

Although the country's growth mix has been gradually shifting over the past two years with investment recording a higher contribution, private consumption remained the main driver of real GDP growth (*Graph 2*). Private consumption recorded strong growth rates in 2021 (5.8%) and in 2022 (7.8%), contributing, to a large extent, to the further recovery of domestic economic activity. Moreover, solid growth in private consumption (2.9% y-o-y) was the main driver of the output expansion in Q1 2023, making the largest contribution to growth (2.1 pps). As depicted in *Graph 3*, the factors underpinning private consumption expenditure are, *first*, employment growth (5.4% in 2022), which supported household gross disposable income (up 7.4% in 2022), and *second*, the partial adjustment of nominal wages to the inflationary environment, as they increased significantly in Q3 and Q4 2022 (by 7.4% and 7.1% y-o-y, respectively). Private consumption is expected to remain the key driver of domestic economic activity in 2023, driven by the following:

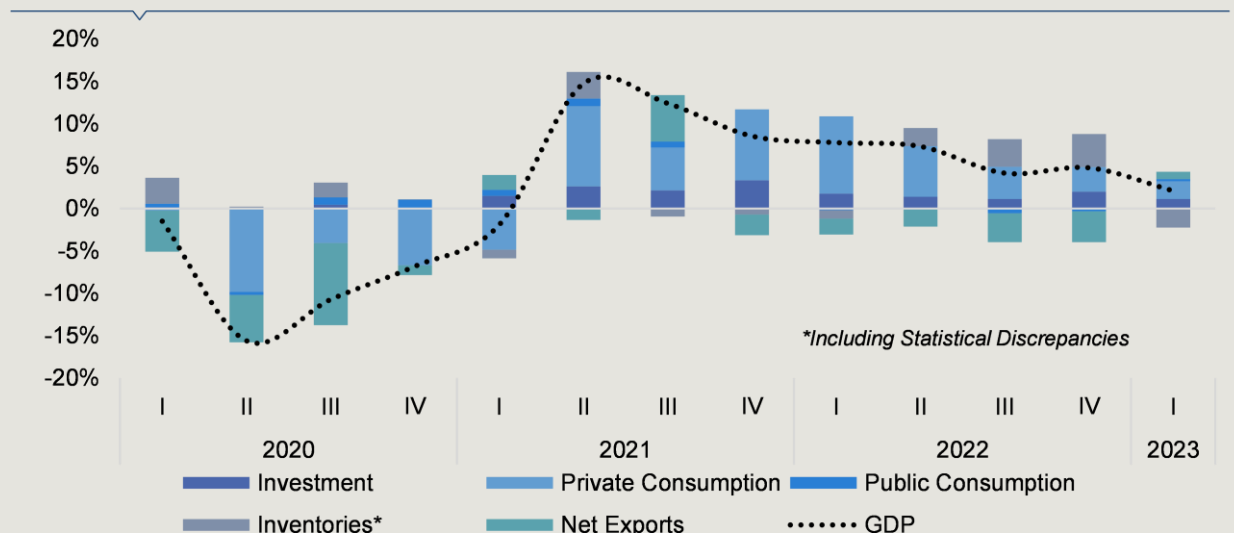
First, further employment growth, which in the first five months of the year increased by 1.4% y-o-y, albeit at a slower pace compared to the respective period in 2022 (9.6% y-o-y). The implementation of the Recovery and Resilience Facility (RRF) and the National Strategic Reference Framework (NSRF) 2021-2027 is expected to contribute to the further reduction of the unemployment rate and to the strengthening of consumer spending. According to the latest forecasts included in the Ministry of Finance Stability Programme, the annual average unemployment rate (based on the Labour Force Survey) is expected to fall to 11.8% in 2023, from 12.4% in 2022.

Second, consumer confidence improved significantly in June 2023, reaching -31 from -34.5 in May and -44.6 in April, recording the highest performance since July 2021. In the first 6 months of 2023 increased to -40 units on average from -48.3 units in the same period in 2022. Moreover, consumer expectations for major purchases in the next 12 months recorded a significant improvement in June 2023, reaching -34.9 units from -37.9 in May and -48.7 units in April, remaining on an upward trend from the beginning of the year (except from a slightly temporary deterioration in April).

Third, new passenger car registrations, which grew by 15.3% y-o-y in the first 5 months of this year, compared to a milder annual increase of 13% in the corresponding period in 2022.

GRAPH 2

Demand-side components: private consumption and investment drive real GDP growth, while net exports turn positive



Sources:
ELSTAT, Alpha
Bank Economic
Research

Finally, private consumption is expected to continue to be supported to a significant extent by the use of savings accumulated during the pandemic as gross savings turned negative in 2022.

Increased extroversion and improved competitiveness support economic growth

The outbreak of the pandemic led to the gradual widening of the current account deficit, mainly due to the travel restrictions imposed worldwide which led to the collapse of the export of services. Furthermore, soaring energy prices and the strong economic recovery recorded in 2021-2022 led to an increase in the value of imports as the demand for imported goods increased sharply due to the rise in disposable incomes, with the price of imported goods also increasing due to an uplift in production costs.

The rise in imports is linked, on the one hand, to the increase in imports of consumer goods, which are highly sensitive to GDP per capita increases and fiscal expansion and, on the other hand, to the rise in imports of capital goods as a result of the upward trajectory of investment recorded over the last two years.

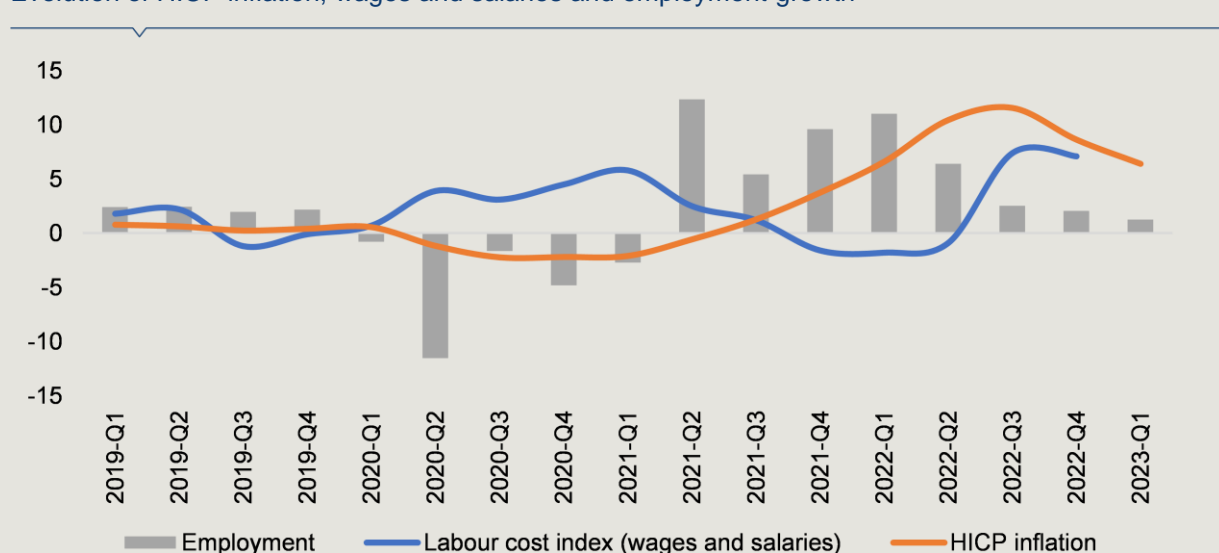
The widening of the current account deficit during the 2000s was mainly attributed to falling exports due to the diminishing productivity. On the contrary, over the last three years Greek competitiveness has reached historically high levels. Over the past decade, the extroversion of the Greek economy has strengthened significantly, gaining particularly strong momentum over the last two years. This dynamic is reflected in the upward trend in export activity of Greek businesses and the improvement in the country's competitiveness. Specifically, exports of goods at current prices – including petroleum products – increased by almost 30% in 2021 and 37% in 2022, reaching an all-time high as a percentage of GDP at over 20%.

The enhanced extroversion of the Greek economy is accompanied by a structural change in the mix of exports, with the exports of goods gaining pace against the exports of services despite the overperformance of tourism in 2022. More specifically, for the first time since 1998, exports of goods accounted for more than half of total exports in 2021-2022. The upward trend of exports of goods continued in Q1 2023, rising by 10.6% on an annual basis, exceeding the respective growth in imports of goods (3.2%). Exports of services rose by 6.2% y-o-y, at slower pace than the annual growth rate of imports of services (12.7%). As a result, net trade made a positive contribution to real GDP growth (+0.9 pps) in Q1 2023 for the first time since Q3 2021. The gradual improvement in extroversion is linked, to a large extent, to the fact that the economic crisis in Greece and the sharp drop in domestic demand have prompted many Greek businesses to acquire an extroverted orientation during the past decade. These developments, combined with the structural reforms implemented, led to the strengthening of Greece's export activity.

The increased extroversion of the Greek economy is also reflected in the gradual strengthening of sectors producing internationally tradable goods and services, compared to those producing non-tradable

GRAPH 3

Evolution of HICP inflation, wages and salaries and employment growth



Sources:
ELSTAT, Eurostat

internationally goods and services, in terms of GVA. As depicted in *Graph 4*, the share of sectors producing internationally tradable goods and services (i.e., agriculture, industry, wholesale and retail trade, tourism and transport) to total GVA exceeded 48% for the 5th consecutive quarter in Q1 2023, the highest share recorded for over two decades. Despite the slightly lower contribution of the tradable sector to GVA in Q1 2023, mainly due to strong base effects as it recorded a significant annual increase of 28% in Q1 2022, the share of tradable sectors to total GVA remained on an upward course for an 8th consecutive quarter.

The strengthening extroversion of the Greek economy over the last two years was combined with significant competitiveness gains. As illustrated in *Graph 4*, the rate of change of the country's Real Effective Exchange Rate (REER), based on Unit Labour Cost, turned negative from Q2 2021 onwards. This implies an improvement in competitiveness, as the REER is inversely related to international competitiveness.

Exports of services are expected to continue supporting economic growth in 2023. Tourism receipts (including cruises), in the January-April period recorded an increase of 38% compared to the same period last year. International tourist arrivals to Athens International Airport (AIA) recorded a 38.5% y-o-y increase during the first semester of 2023 compared to the same period in 2022, and a 6% y-o-y uplift compared to the respective period in 2019. Monthly data for June 2023 meanwhile shows an increase of 21.2% on an annual basis.

Investment gathers momentum supported by increased contribution of construction activity

A structural shift in the growth mix of the Greek economy is expected to take place in the coming years, with the contribution of gross fixed capital formation to economic growth increasing sharply. Strengthening investment dynamics are expected to be supported by the further RRF deployment and sizeable FDI inflows.

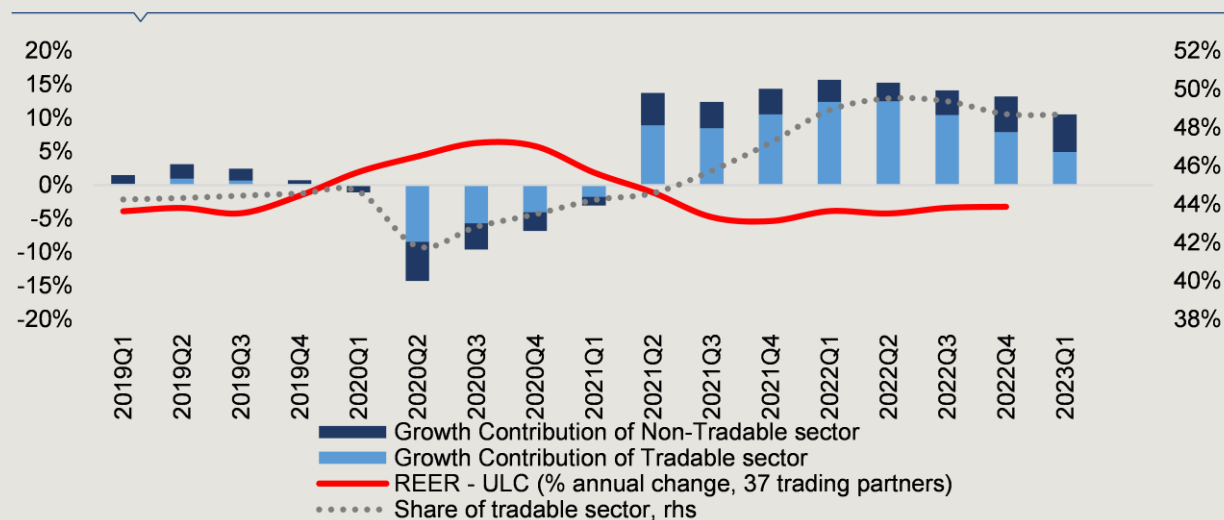
Regarding the RRF implementation, Greece has already received a total amount of €11 bn (pre-financing of €4 bn in August 2021, 2 instalments of €3.6 bn each in April 2022 and January 2023), while the 3rd payment request of €1.7 bn was submitted in mid-May.

As of May 2023:

- 425 investment projects have been submitted for the loans part of RRF, with a total budget of €15.71 bn (of which €6.4 bn correspond to RRF loans, €3.78 bn are own investor funds and €5.53 bn bank funds), including investment projects in various economic sectors (industry, retail trade, telecommunications, renewable energy sources, tourism and services).
- 178 loan agreements, with a total budget of €6.82 bn have already been signed (RRF loans: €2.72 bn; own investor funds: €1.7 bn; bank funds: €2.4 bn).

GRAPH 4

The increasing contribution of the internationally tradable sectors to GVA expansion, over the last two years, amid competitiveness gains



Source: European Commission

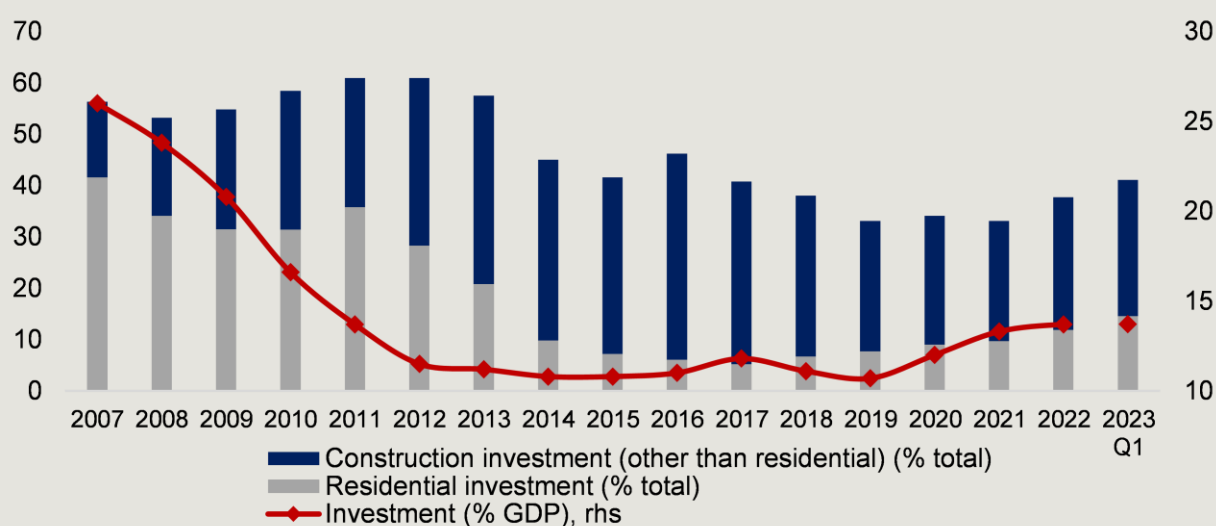
- 260 (61%) out of 425 investment projects have been submitted by micro, small and medium-sized enterprises (SMEs).

In terms of the grants element of the RRF, by end-March 2023 617 projects and subprojects have been included, with a total budget of €17.86 bn (incl. VAT), while the disbursement of funds via the Public Investment Budget already exceeds €3.2 bn.

FDI in 2022 recorded its strongest performance over the last two decades, reaching €7.2 bn (or 3.5% of GDP), up from €5.4 bn in 2021 (or 2.9% of GDP), off the back of a more favourable business and economic environment, renewed political stability, the improvement of public finances and the reduction of tax and social security contributions (SSC). Moreover, the commitment of the Greek government to the completion of flagship reforms (such as the acceleration of justice and the further rationalization of the tax system, combined with reductions in tax evasion) is expected to help encourage fresh investment into the country over the coming years through the establishment of a business friendly environment that promotes entrepreneurship.

The enhanced contribution of investment to economic growth is also evident in the figures for the first quarter of 2023. More specifically, investment continued to grow on an annual basis for the 9th consecutive quarter (8.2%), contributing 1.1 pps to overall GDP growth. As depicted in *Graph 5*, although as a percentage of GDP investment remained well below compared to the period before the economic crisis (2007: 26%), it approached 14% in the first quarter of the year – as in 2022 – returning to 2011 levels. In terms of specific categories, investment in housing and transport equipment increased on an annual basis at a strong pace, by 48.4% and 42% respectively, while investment in construction other than residential rose by 8.1% and other investment by 4.4%. It should be noted that investment in residential and other construction constituted until 2013 more than half of total investment in Greece and since then this percentage has decreased, reaching 31% in Q4 2021. However, from Q1 2022, the share of investment in construction to total investment returned to an upward trend, reaching 41% in Q1 2023. The upward trend of total construction activity is evident in terms of both GVA and investment. Investment in housing and other construction together contributed 7 pps of 8.2 pps of total investment growth, while the contribution of construction to the rise of GVA remains positive since the first quarter of 2021, standing at 0.5 pp in the Q1 2023, as the sector's output grew by almost 20% y-o-y.

The increase in residential investment in Q1 2023 is in line with the sharp increase in house prices in the same period. More specifically, house prices rose by 14.5% y-o-y in Q1 2023, more rapidly against the previous year (Q1 2022: 10%, Q2 2022: 10.7%, Q3 2022: 12.4%, Q4 2022:13.5%). The increase in prices for old apartments (15.6% y-o-y), i.e. those over 5 years old, outpaced the rise in prices of new apartments (12.8% y-o-y), i.e. up to 5 years old.

GRAPH 5
Investment as a share of GDP and the evolution of construction investment


Source: Eurostat

Annual data	2018	2019	2020	2021	2022	Annual % Changes
GDP at constant prices 2015 (annual % change)	1.7	1.9	-9.0	8.4	5.9	
Private Consumption	1.7	1.9	-7.7	5.8	7.8	
Public Consumption	-3.5	2.1	2.6	2.2	-1.6	
Gross Fixed Capital Formation	-4.3	-2.2	1.1	20.0	11.7	
Exports of Goods and Services	9.1	4.9	-21.5	24.1	4.9	
Imports of Goods and Services	8.1	2.9	-7.3	17.7	10.2	
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	-4.7	0.1	
G.G. Gross Debt (% of GDP)	186.4	180.6	206.3	194.6	171.3	
Current Account Balance (% of GDP)	-2.9	-1.5	-6.6	-6.8	-9.7	

Business Environment	2022	2022			Last available data	Quarterly data (annual % changes)
		Q2	Q3	Q4		
Economic Activity (annual % change)						
Volume Index in Retail Trade (excl. automotive fuel)	1.9	0.9	2.0	-1.8	-1.1 (Jan-May 23)	
New Passenger Car Registrations	6.7	4.5	9.4	-0.5	15,3 (Jan-May 23)	
Private Building Activity (volume in '000 m3)	-2.2	-11.2	-12.7	7.0	25.2 (Jan.-Mar.23)	
Manufacturing Production Index	4.4	4.7	4.2	3.3	6,7 (Jan.-Apr. 23)	
Confidence indicators						
Purchasing Managers' Index (PMI)	51.8	53.2	49.2	47.9	51,8 (Jun. 23)	
Economic Sentiment Indicator (ESI)	105.4	105.2	102.3	101.4	110.1 (Jun. 23)	
Index of Bus. Expect. in Industry	105.5	108.0	99.6	97.3	108.6 (Jun. 23)	
Index of Consumer Confidence	-50.7	-53.0	-53.6	-52.6	-31 (Jun. 23)	
Credit Growth (% annual change, period end)						
Private Sector	6.3	4.5	6.1	6.3	3.1 (May 23)	
Non-financial corporations	11.8	9.7	12.3	11.8	6.7 (May 23)	
Individuals	-2.5	-2.1	-2.2	-2.5	-2.8 (May 23)	
- Consumer Loans	1.3	0.7	0.9	1.3	1.1 (May 23)	
- Housing Loans	-3.7	-3.0	-3.2	-3.7	-3.9 (May 23)	
Prices and Labour Market						
National CPI, (annual % change, period average)	9.6	11.2	11.7	8.3	1.8 (June 23)	
Index of Apartment Prices (annual % change)	11.7	10.7	12.4	13.5	14.5 (Q1 23)	
Unemployment Rate (% , period average, sa)	12.4	12.6	12.3	11.8	10.8 (May 23)	
GDP at constant prices 2015 (annual % change)						
Private Consumption	7.8	8.7	5.6	4.1	2,9 (Q1 23)	
Public Consumption	-1.6	-0.4	-2.8	-1.8	1,4 (Q1 23)	
Gross Fixed Capital Formation	11.7	10.2	8.3	14.8	8,2 (Q1 23)	
Exports of Goods and Services	4.9	11.1	-2.8	-1.2	8,9 (Q1 23)	
Imports of Goods and Services	10.2	14.6	5.2	6.8	5,6 (Q1 23)	

Sources: Bank of Greece, ELSTAT, IOBE, S&P Global

1/ Primary balance defined here as General Government balance (according to ESA 2010) minus interest expenditure of General Government entities to other sectors. 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 Q2 2022.

4/ Provisional historical figures for real GDP since 2020.

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