Executive Summary

The Greek economy continues to surprise positively

Numerous data and analyses confirm that the Greek economy continues to surprise positively:

- **In terms of the growth rate**

International and domestic institutions have revised upwards the growth rate of the Greek economy for 2022. Indicatively, the IMF and EBRD now estimate a growth rate of 5.2%, the EU 4.9%, Oxford Economics 6.11%, S&P 5.6%, Moody's Analytics 5.7%, the Bank of Greece and the IOBE 6% and the National Bank of Greece 5.5-6%. At KEPE, we estimate a growth rate of 5.5%, compared to 4.3% in our previous estimate (see Section 1.3). Thus, in the midst of the energy crisis, the Greek economy is growing rapidly, almost twice the European average. Greece ranks among the most resilient economies on the planet, with the International Monetary Fund estimating that about 1/3 of the world economy will see at least 2 consecutive quarters of contraction this year and next.[1]

- **In terms of the production model**

The Greek economy has also recently shown a gradual increase in its outward orientation, which tends to correct one of its most problematic features of the last decades, the domestic orientation of production as well as the dependence of a large share of firms on the state and on complex rules. At the same time, there is considerable innovation activity in firms and sectors, a development which also tends to mitigate a particularly problematic feature of the economy. ***Investment and exports are being significantly boosted***. They are expected to reach an all-time high in 2022. Greece is attracting global investment giants (e.g., Digital Realty, Google, Amazon Web Services, Microsoft, Pfizer, Deloitte, Cisco, etc.), expanding into new markets, becoming more and more outward-looking. As an indication, the country exports, as a percentage of GDP, more than Italy, Spain and France. Real exports of goods have recorded a consistent upward trend, reaching, in the second quarter of the year, a record high for the period of historical data, exceeding by 75% the average quarterly volume of the entire pre-pandemic period since 1995. Moreover the export base has been diversifying significantly, recording a dramatic increase in exports of high-tech goods, which now approach rates of industrialized countries such as Germany.

- **In terms of the budget implementation**

The maintenance of a primary surplus in the State Budget in the 9-month period and a 13.7% ***increase in tax revenues*** are recorded in the provisional data on the execution of the State Budget, on a modified cash basis, for the period January–September 2022.[2] Overall, the data show that there is a deficit in the state budget balance of EUR 4,236 million against a target deficit of EUR 10,081 million included for the corresponding period of 2022 in the 2022 Budget Report and a deficit of EUR 10,150 million in the corresponding period of 2021. The primary outcome was a surplus of EUR 37 million, against a target for a primary deficit of EUR 5,943 million and a primary deficit of EUR 5,960 million for the same period in 2021. The amount of net state budget revenues amounted to EUR 44,008 million, an increase of EUR 5,203 million or 13.4% over the estimate for the corresponding period included in the 2022 Budget's explanatory report, despite the reduced revenues of the Public Investment Programme.

- **In terms of the government debt**

According to the 2023 Preliminary Draft Budget, the general government debt is estimated to stand at EUR 355,000 million or 169.1% as a percentage of GDP at the end of 2022, compared to EUR 353,389 million or 193.3% as a percentage of GDP in 2021, showing ***a decrease of 24.2 percentage points compared to 2021***.[3] In 2023, the general government debt is project-

1. See IMF, *World Economic Outlook,* October 2022, at: <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022#Data%20Tools>.

2. See <https://www.minfin.gr/web/guest/deltia-ekteleses-proupologismou>.

3. See <https://www.minfin.gr/web/guest/proupologismos>.

ed to reach EUR 357,000 million or 161.6% as a share of GDP, a further decrease of 7.5 percentage points of GDP compared to 2021. This is essentially the ***fastest reduction of public debt in the EU,*** and this in a context of forced fiscal expansion.

- **In terms of unemployment reduction**

Unemployment is shrinking. It has already fallen by more than 5 points compared to 2019, ***now approaching, on an annual basis, the 2010 level*** (see section 3.1). This retreat is particularly evident among women and young people. At the same time, the number of employed people exceeds 4.1 million citizens. In Q2 2022, Greece recorded a higher number of employed persons than in the corresponding pre-pandemic quarter for 7 out of 10 sectors of economic activity, compared to 6 sectors in the euro area.

But inflation is not receding

Despite the above positive surprises, there are legitimate concerns stemming initially from inflation, which is tending to take on a "permanent" character (see section 1.2). At the national level, structural inflation (i.e., inflation excluding fuel and seasonal fruit and vegetables) reached 4.98% in September, now indicating that price increases has spread to all goods and services in the consumer's "basket". The same is true for the corresponding index of the Harmonised Index of Consumer Prices. The Harmonised Index of Consumer Prices excluding fuel and taxes stood at 5.2% for Greece in September, compared to 4% for the euro area average. ***These figures are worrying both for their social impact and for their effect on the competitiveness*** of the Greek economy and, consequently, on exports.

And interest rates are holding back growth

The rise in euro interest rates, which is directly related to the path of inflation, will be the number one risk in 2023 for the potential gnawing away of growth from 2.1% which is the official forecast of the draft Budget for 2023. The concern stems from the fact that the scope for interest rate hikes is large, as even after the two rate hikes (0.50% in July and 0.75% in September), real euro interest rates are still negative, so the ECB's monetary policy remains expansionary. More specifically, the nominal increase in euro interest rates of 1.25% corresponds to real interest rates of -8.75% if inflation, which reached 10.1% in September in the euro area, is deducted. ***Significant increases in interest rates are therefore expected.*** However, this will primarily affect countries such as Germany, France and Italy, who will see their economies slow down or go into recession, as they have been operating with low borrowing rates and marginally positive growth rates until now. Europe's slowdown will not leave Greece unaffected, as the EU is its main trading partner, absorbing around 75% of total exports. The draft Budget reflects the impact by significantly slowing export growth from 9%, where it is expected this year, to 1.8% in 2023. It is clear that the 1.8% increase could become zero or turn into a decline depending on the recession in the rest of Europe, which would be driven by rising interest rates. ***Tourism*** will also be negatively affected by the recession in Europe, as large numbers of visitors come from Germany, England, France and Italy.

What will ultimately happen to the Greek economy in 2023 depends on 3 factors

- **1st factor: The size of the slowdown in Europe**

It is evident that the slowdown in European economies will also worsen the prospects for the Greek economy. Demand from abroad will fall and, obviously, this will negatively affect our exports. But investment will also slow down because of the rise in interest rates. ***The greater the size of the recession in Europe, the stronger the negative impact on our economy and the more likely an eventual recession in Greece in 2023 will be***. Of course, the opposition to such a development comes from the Recovery and Resilience Fund and the NSRF. These two important tools, if used effectively, can act as a buffer against a possible reduction in demand, and therefore against a recession. The Recovery Fund, for example, can add around €3 billion in real terms to the level of GDP next year, thus limiting the impact of the expected slowdown.

- **2nd factor: The continued transformation of the economy**

The observed change in the country's economic model with a focus on exports, investment and innovation has taken place under expansionary fiscal and monetary policies and at a time when Europe and international economies were characterized by growth. In 2023, however, such conditions will not exist. On the contrary, the deepening recession in Europe, the increased uncertainty due to rising interest rates and the upcoming (repeated?) elections in Greece are creating a negative climate. However, even in such a climate, the transformation of the economy should continue. Otherwise, the economy will once again enter a vicious circle. The country's political forces should commit themselves to ensuring that there is no return to “old habits”, where consumption, inward-looking, state-driven lending, non-transparent economic activity and electoral behaviour played a dominant role.

- **3rd factor: The strengthening of reforms**

Related to the above is the strengthening of reforms. Although considerable progress has been made in recent years, particularly in the digitization of public administration, Greece lags significantly behind in promoting reforms in the areas of product and service markets, especially in network markets, the tax system (reducing the tax burden, simplifying tax procedures and redefining the VAT system), labour and production (reducing employer and social security contributions) and justice. In particular, the justice sector lags significantly behind almost all other euro area countries. In Greece, the final resolution of a legal dispute for businesses takes more than 4.5 years (2020 data). This is the longest in the EU-27, more than double even compared to Portugal and Slovakia, which have modernized their systems. These two countries are now approaching the European average (455 days). The long waiting time for judgments makes it difficult for Greek businesses and for the investment competitiveness of the economy. The fact that the judiciary is still in the “paper age” limits the capacity to handle the necessary number of cases, resulting in a 24th place in the EU for the resolution of civil and commercial cases. The delays generated in the courts of the first instance translate into three pending cases for every 100 citizens at the end of each year (21st place in the EU), given that it often takes 18 months for a civil or commercial case.

This means that the continuation and completion of structural reforms is a unique path for the recovery of the productive base, to fill the investment gap and thus boost productivity and sustainably increase incomes but, at the same time, to reduce the prices of goods.

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