

# 1. Recent (macro-)economic developments

KEPE, *Greek Economic Outlook*, issue 53, 2024, pp. 5-13

## 1.1. Evolution of the main components of demand in the first nine months of 2023

### 1.1.1. Introduction – Domestic & external demand

**Yannis Panagopoulos**

In this section, making use of the existing recorded macroeconomic data, we proceed to analyze the current developments of the Greek economy after the elections of 2023. The first thing we observe, based on the results of Table 1.1.1 and Diagram 1.1.1, is mainly the continuation of the positive “conditions” of the economy, at the third quarter of 2023. Of course, the quarterly growth of the economy from Q2 to Q3 2023 (y-o-y) continued, but at a declining rate (from 2.6% to 2.1%, respectively). Also, on a nine-month basis, we had a picture of this decline in the growth rate of the economy. Thus, from a growth of 6.21% in the nine months of 2022, we moved to a lower growth of 2.2% in the corresponding nine-months of 2023.

Regarding the factors that contributed to the GDP growth in the first nine months of 2023 (2.2%), it should be noted that among the individual macroeconomic factors, the largest positive rate of change was shown by gross fixed capital formation (7.4%), followed, in order of magnitude, by exports of goods & services (2.4%), private consumption (1.3%) and public consumption (1.1%). For the same period, imports of goods & services, which are known to have a negative contribution to GDP, increased by 1.9%.

In terms of quarterly data –3rd quarter of 2023– we have approximately the same picture but with a different order of importance of the individual factors in the recorded GDP growth path. Specifically, gross fixed capital formation (4.9%) leads, as a percentage, followed by exports of goods and services (1.0%) and private consumption (0.9%), while public consumption (-0.7%) showed a negative change (Table 1.1.1.).

Domestic demand also shows a clearly positive but declining trend – from the 4th quarter of 2021 onwards

(Diagram 1.1.2). Thus, in Q3 2023, we reach a domestic demand of 1.5% (using seasonally adjusted data), where the fixed capital investment (0.68) and the private consumption (0.66) are the positive components while the public consumption was the negative component (-0.14).

As regards now the comparative course of the external versus domestic demand sector in GDP (international vs. domestic demand, respectively), during the third quarter of 2023, the most significant positive role of domestic demand in the change in GDP (1.55) emerges. This positive role of domestic demand has been continuous since Q2 2021 and is the most significant of all (see Diagram 1.1.3). Also on the path of a positive contribution to GDP was the change in inventories while on a negative contribution path was the balance of goods and services (1.01 and -0.89, respectively, for Q3 2023).

The path of the Economic Sentiment Index (ESI), as a future “proxy” for aggregate demand, is known to provide, like some other leading indicators, important information for business and consumer behaviour. It is also an important leading indicator of the economy and can be used to forecast immediate developments concerning the future path of GDP growth. Diagram 1.1.4 shows the path of the ESI for the full year (2023).

From the recorded path of this Index, it is evident that there is a relatively stable course (trend) with a small “turning point”. Specifically, the Index moved upward from 106 points in January 2023 to 111.3 points in August 2023, followed by a slight decline in December 2023 (106 points). Perhaps this “slight” retreat is related to the war in Gaza in early October, with the international economic repercussions this may had.

### **Balance of goods and services**

The contribution of the external sector (exports minus imports) to GDP growth for the third quarter of 2023, as already mentioned above, is generally negative (-0.89 points) and rather reflects the positive but declining path of the country’s economic growth, which, as shown in Table 1.1.1, started from the second quarter of 2022 (except for the first quarter of 2023).

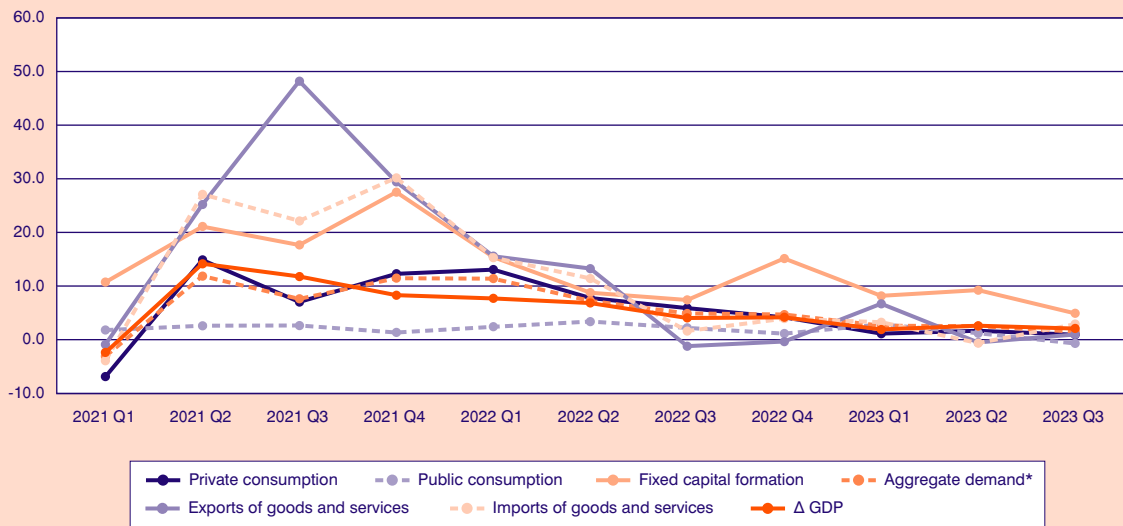
**TABLE 1.1.1 Basic macroeconomic variables**  
(seasonally adjusted data)

	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	9 months 2022	9 months 2023
Private consumption	-6,9	14,9	7,0	12,3	13,1	7,8	5,9	4,2	1,1	1,7	0,9	8,92	1,3
Public consumption	1,8	2,6	2,6	1,4	2,4	3,4	2,2	1,2	2,9	1,2	-0,7	2,68	1,1
Fixed capital formation	10,7	21,1	17,7	27,5	15,4	8,8	7,4	15,1	8,2	9,2	4,9	10,54	7,4
Aggregate demand*	-3,1	11,9	7,6	11,5	11,4	7,3	4,9	4,7	2,6	2,6	1,5	7,85	2,2
Exports of goods and services	-0,9	25,2	48,2	29,4	15,6	13,3	-1,2	-0,3	6,7	-0,5	1,0	9,21	2,4
Goods	11,2	22,0	14,9	9,2	6,2	4,7	2,9	0,8	10,9	-0,7	-1,1	4,59	3,0
Services	-19,2	58,1	93,6	62,2	23,1	25,2	-1,5	-3,6	5,2	-0,2	2,9	15,61	2,6
Imports of goods and services	-3,9	27,1	22,2	30,2	15,3	11,4	1,6	3,9	3,3	-0,6	2,9	9,45	1,9
Goods	-0,6	26,9	17,0	26,7	15,7	13,2	4,7	2,0	0,8	-2,6	3,4	11,20	0,5
Services	-13,9	26,9	37,8	41,4	12,3	4,1	-8,5	8,0	10,9	5,5	0,8	2,64	5,7
Δ GDP	-2,4	14,2	11,8	8,3	7,7	6,9	4,1	4,2	1,9	2,6	2,1	6,21	2,2

Source: National Accounts, ELSTAT.

\* Without change of Inventories.

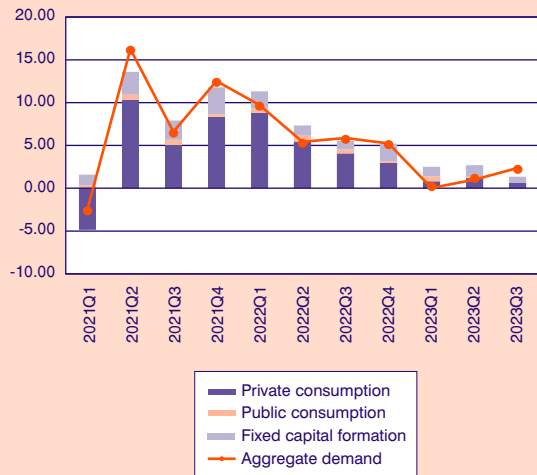
**DIAGRAM 1.1.1**  
**Basic macroeconomic variables**  
*(seasonally adjusted data)*



Source: National Accounts, ELSTAT.

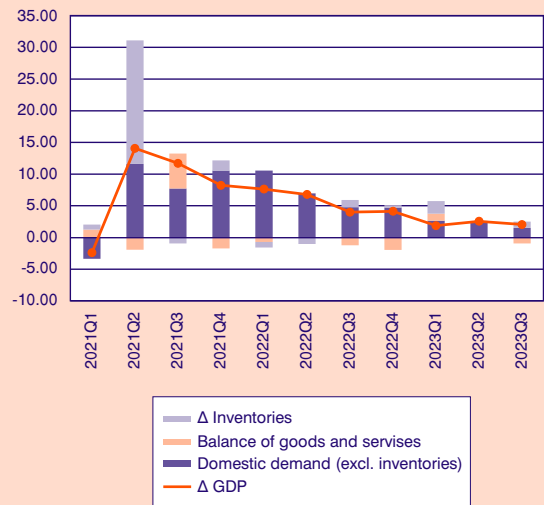
\* Without change of inventories.

**DIAGRAM 1.1.2**  
**Sub-components of domestic demand**



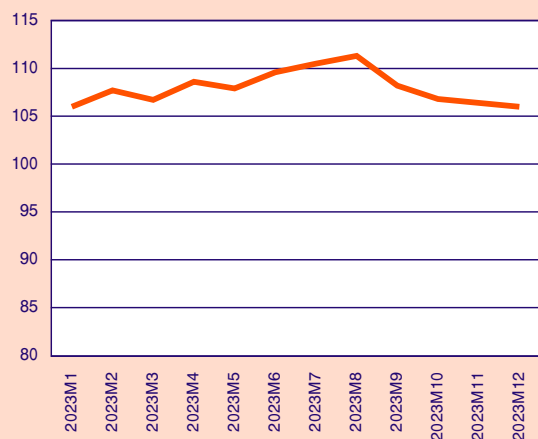
Source: National Accounts, ELSTAT, data processing by the author.

**DIAGRAM 1.1.3**  
**Domestic and net external demand**



Source: National Accounts, ELSTAT, data processing by the author.

**DIAGRAM 1.1.4**  
Economic Sentiment Index (1/2022-8/2023)



Source: Eurostat.

**DIAGRAM 1.1.5**  
Sub-components of external demand



Source: National Accounts, ELSTAT, data processing by the author.

Starting with total exports, we should underline that they increased slightly, in Q3 2023, at a rate of 1.0%. More specifically, services, which are the relatively smaller part of exports in billions of euros, showed an increase of 2.9%, while goods, which were the largest part of exports, showed a decrease of -1.1% for the same period. As far as imports of goods and services are concerned, in contrast to the structure of exports, they are more balanced in terms of distribution, and we can say that they recorded an increase of 2.9%. More specifically, imported services showed an increase of 0.8% while, on the other hand, in imported goods, we had a quarterly increase of 3.4%.

In fact, as can be seen from the histograms in Diagram 1.1.5, after the second quarter of 2022 and until the third quarter of 2023, there has been a gradual decline in the importance, as an absolute value, of both components (imports and exports) in GDP. The same is observed, in the same period, but with alternating signs, for their net contribution to GDP. Finally, for Q3 2023, the net contribution of the external sector to GDP appeared with a negative sign (-0.83), in contrast to the positive sign in the two previous quarters of the same year.

## 1.1.2. Private consumption and investment

### Konstantinos Loizos

#### 1.1.2.1. Private consumption

##### Fluctuations in private consumption expenditure during the first nine months of 2023

According to the quarterly seasonally adjusted National Accounts,<sup>1</sup> the private consumption of households and NPISH<sup>2</sup> increased from 37,019 million euros in current prices in the first quarter of 2023 to 37,482 million euros in the second quarter and 37,562 million euros in the third quarter of the same year. On the contrary, in terms of chain-linked volumes with 2015 as a reference year, private consumption rose from 33,858 million euros in the first quarter to 34,005 million euros in the second quarter of 2023, but it fell to 33,775 million euros in the third quarter of that year. In terms of percentage changes<sup>3</sup> with respect to the preceding quarter, based on seasonally adjusted chain-linked volumes, private consumption exhibited positive and rising rates in the first two quarters (1.1% in the first quarter of 2023 and 1.7% in the second quarter) but a lower positive percentage rate of change 0.9% in the third quarter. The

1. Quarterly National Accounts, Press release, ELSTAT, December 6, 2023.

2. Non-profit institutions serving households.

3. Percentage changes are calculated using the formula  $\frac{X_t - X_{t-1}}{X_{t-1}}$ .

same rates of change with respect to the corresponding quarter of the previous year were -0.3%, 0.4% and -0.7%, indicating a similar pattern of rising and falling rates, although, in this case, the first and third quarters are characterized by negative figures.

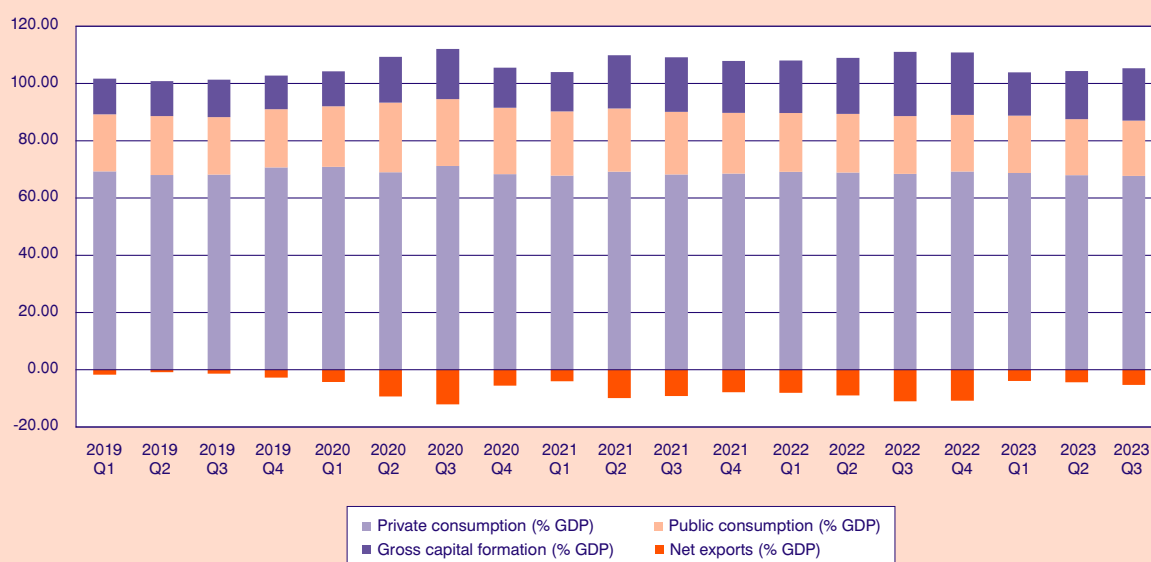
Private consumption as a percentage of GDP was 68.16% on average during the first nine months of 2023, lower than its average value in 2022 (68.94%), while public consumption was 19.64% of the total expenditure (20.24% of GDP in 2022). On the other hand, gross capital formation (fixed capital and changes in inventories) during the first nine months of 2023 accounted, on average, for 16.73% of GDP, lower than its average value in 2022 (20.54% of GDP). Moreover, the deficit in the balance of trade declined on average as a percentage of GDP from -9.72% in 2022 to -4.53% in the first nine months of 2023. Therefore, during the first nine months of 2023, private consumption expenditure rose in current prices but fell in the third quarter in terms of chain-linked volumes. In addition, its share in GDP seems to be somewhat lower on average during the first nine months of 2023 with respect to its average value in 2022, while the same holds true as far as public consumption and gross investment are concerned. Only the deficit in the balance of trade as a percentage of GDP improved significantly on average during the first nine months of

2023, as depicted in Figure 1.1.6. The falling share in GDP of investment expenditure and public consumption is reflected in the lower level of the balance of the trade deficit, while it is noteworthy that the share of consumption expenditure in GDP has generally maintained its high level.

### **Negative percentage changes on average in retail trade, with food items being the driving factor**

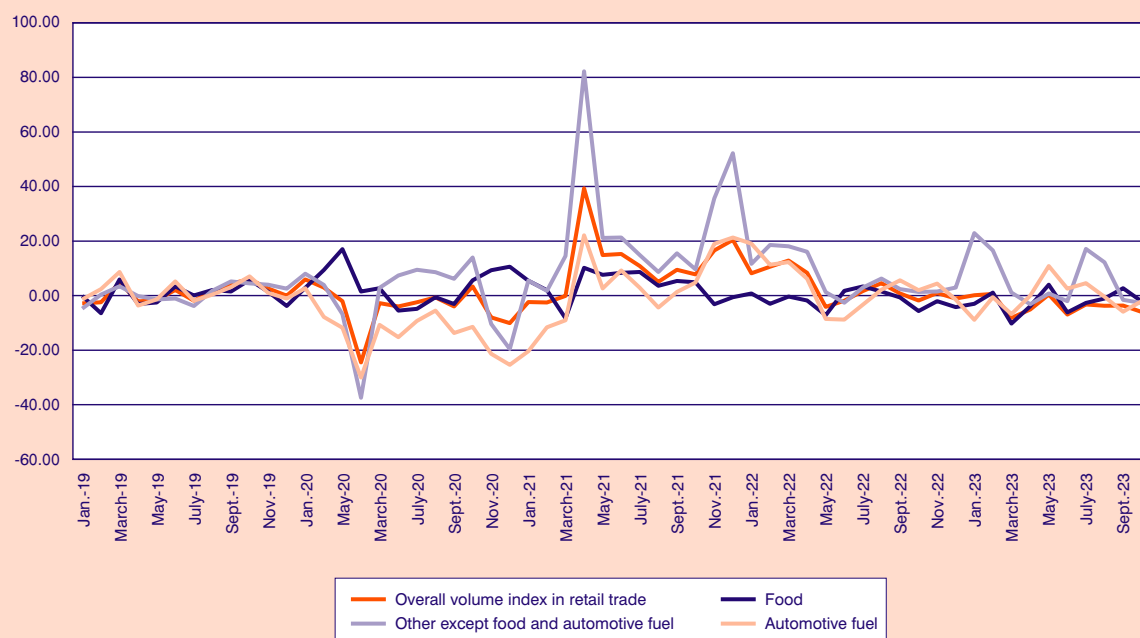
The evolution of retail trade in terms of percentage changes of the overall volume index was negative on average during the first nine months of 2023 with respect to the corresponding months of the previous year, with a value of -3.6% based on ELSTAT monthly data, as depicted in Figure 1.1.7. The corresponding quarterly average percentage changes were all negative, equalling -2.49% in the first quarter, -3.92% in the second quarter and -3.54% in the third quarter. We observe the same trend in food items with a negative average percentage change of -2.13% in the first nine months of 2023 and the corresponding quarters (-4.04%, -2.03% and -0.34% for the first, second and third quarter). Things are different for automotive fuel, with a small negative average percentage change of -0.69% in the first nine months. Concerning the first three of quarters of 2023, a negative average percent-

**FIGURE 1.1.6**  
**Evolution of private consumption and other components of demand as a percentage of GDP**  
*(expenditure approach) (seasonally adjusted data in current prices)*



Source: ELSTAT, data processing by the author.

**FIGURE 1.1.7**  
**Percentage changes in the seasonally adjusted overall volume index and the main sector indices in retail trade**



Source: ELSTAT, data processing by the author.

age change of -5.43% in the first quarter turns into a positive one of 4.42% in the second quarter, but it reverts to a negative value of -0.59% in the third quarter. In other items except food and automotive fuel, the evolution of percentage changes presents the opposite pattern than the one observed for automotive fuel since the average percentage change in the nine-month interval was positive and equal to 6.11% with positive percentage changes during the first and third quarter (13.51% and 9.24%) but a negative one in the second quarter (-1.50%). Therefore, retail trade, in terms of the overall volume index, exhibited negative trends in the first nine months of 2023 excluding other items except food and automotive fuel.

### **Fluctuation of expectations in retail trade**

Confidence indicators published by Eurostat, as depicted in Figure 1.1.8, corroborate the fluctuation of both indices of expectations that reflect the mood in retail trade during the first nine months of 2023. Therefore, the data indicates that the optimism which started during the third and fourth quarters of 2022 does not seem to persist, at least as far as the consumer confidence indicator is concerned. On the other hand, the

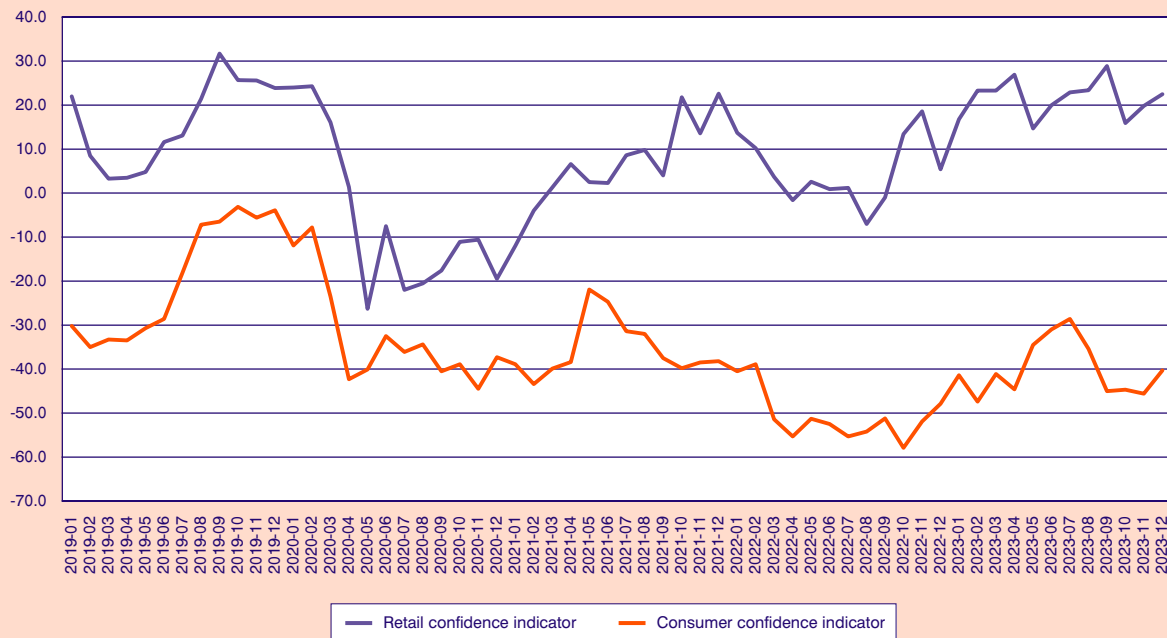
fluctuation which we observe in the retail confidence indicator is particularly intense.

### **1.1.2.2. Investment**

#### **Unclear developments in gross investment**

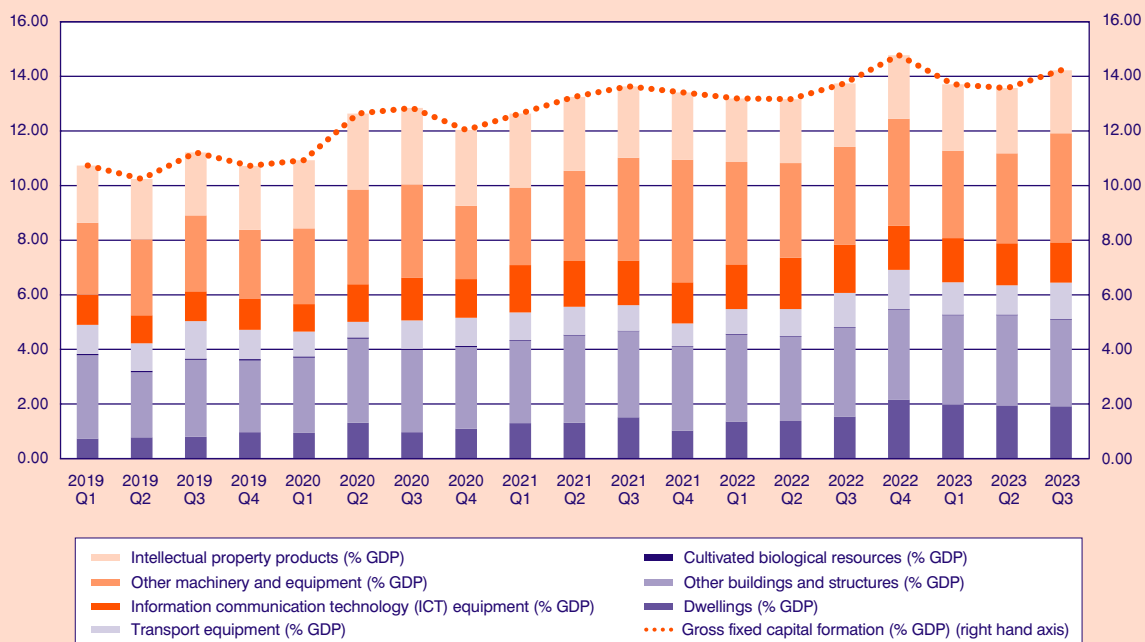
Gross fixed capital formation increased from 7,379 million euros in current prices in the first quarter of 2023 to 7,478 million euros in the second quarter and 7,888 million euros in the third quarter of the year. Nevertheless, in terms of chain-linked volumes, we observe a fall in the respective figures since gross fixed capital formation declined from 7,104 million euros in the first quarter of 2023 to 7,084 million euros in the second quarter and 6,954 million euros in the third quarter of 2023. On the other hand, in terms of percentage changes with respect to the corresponding quarter of the preceding year, we observe positive but fluctuating rates of the magnitude of 8.2% in the first quarter, 9.2% in the second quarter and 4.9% in the third quarter. Regarding the percentage changes with respect to the preceding quarter, there are negative values in all quarters, namely, -0.3% in the first and second quarter but -1.8% in the third quarter of 2023, according to the seasonally adjusted chain-linked volumes.

**FIGURE 1.1.8**  
Confidence indicators in retail trade



Source: Eurostat, data processing by the author.

**FIGURE 1.1.9**  
Gross fixed capital formation as a percentage of GDP  
(overall and by asset) (seasonally adjusted data in current prices)



Source: ELSTAT, data processing by the author.

The evolution of investment (gross fixed capital formation) as a percentage of GDP (Figure 1.1.9) exhibited a rebound, with a percentage change of 4.81% in the third quarter of 2023, despite its falling trend during the first two quarters of 2023, with rates of percentage changes with respect to the previous quarter of -7.21% in the first quarter and -1.02% in the second. In terms of the main components of gross investment, the same pattern repeats itself in the case of machinery and transport equipment as a percentage of GDP with negative percentage changes of -14.02% in the first quarter of 2023 and -1.59% in the second quarter of the same year but a positive percentage change 15.01% in the third quarter of that year. To the contrary, buildings (both dwellings and other buildings and structures) as a percentage of GDP maintained negative percentage changes in all quarters, namely, -3.52% in the first quarter, -0.03% in the second quarter and -2.96% in the third quarter of 2023. The explanation behind the decline in the share of investment in GDP can be found in the data presented in Figure 1.1.6 above, since it is followed by a fall in the external deficit and, therefore, a decline in domestic expenditure. Nevertheless, we cannot help but observe the recovery of gross investment expenditure as a percentage of GDP in the third quarter of 2023, although the corresponding percentage rates of change in sheer amounts indicate a fall. The conclusion is that during the first nine months of 2023, the

evolution of gross investment is rather unclear since the latter rises in nominal terms and, at the same time, falls in terms of chain-linked volumes while the relevant percentage changes in both absolute terms and as percentage of GDP manifest fluctuations.

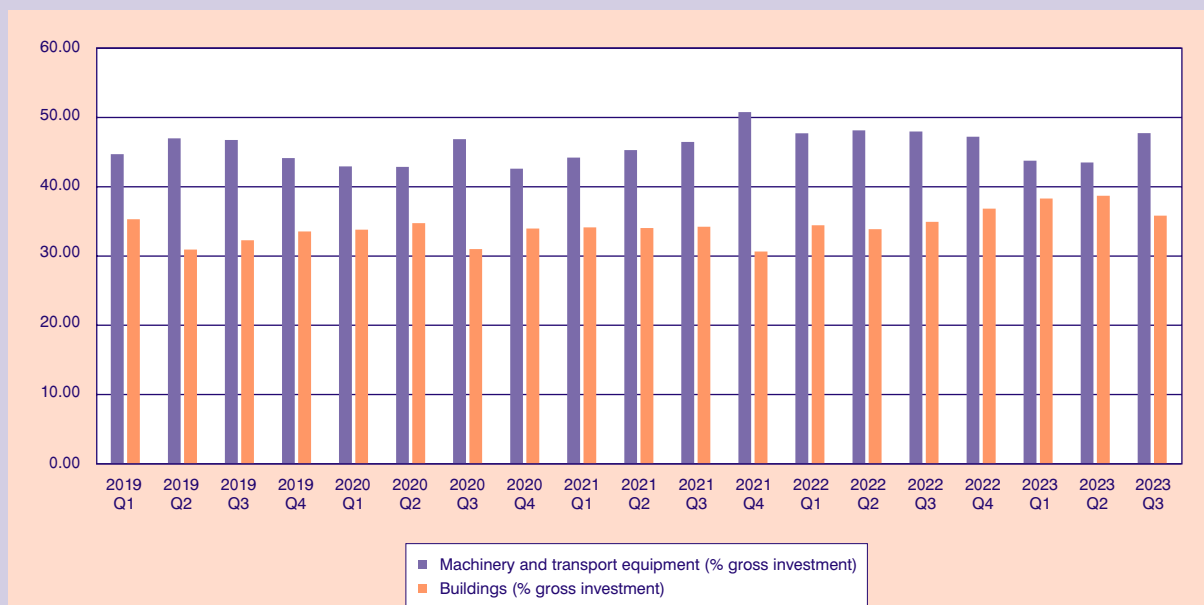
***Fall in the share of buildings in gross investment in favour of machinery and transport equipment***

According to Figure 1.1.10, the share of buildings in gross investment fell for the first time after four quarters of continuous rise against the share of machinery and transport equipment in total gross fixed capital formation. Consequently, the share of buildings in gross investment declined from 38.70% in the second quarter of 2023 to 35.83% in the third quarter of the same year while the corresponding percentages for machinery and transport equipment were 43.51% and 47.74%, respectively. It remains to be seen in the future whether this fall in the share of buildings against machinery and transport equipment as percentages of gross investment is a temporary and short-lived development.

***Recovery of optimism in the construction sector***

The evolution of business expectations in the construction sector seems to be characterized by a new

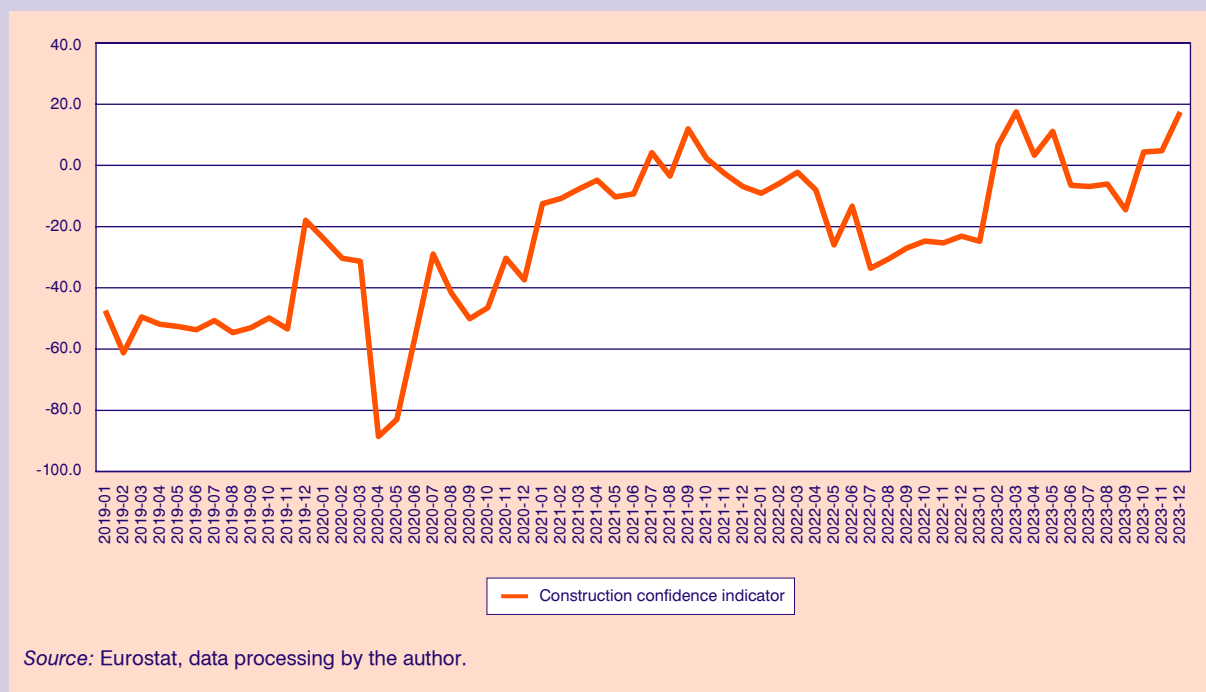
**FIGURE 1.1.10**  
**Machinery, transport equipment and buildings as a percentage of gross fixed capital formation**



Source: ELSTAT, data processing by the author.



**FIGURE 1.1.11**  
**Construction confidence indicator**



Source: Eurostat, data processing by the author.

recovery after September 2023, despite its falling trend until that date, which was related to the uncertainty of the parliamentary elections period. From this point of view, our observation, expressed in the previous issue of *Greek Economic Outlook*, that the fall in the relevant confidence indicator during the interval April – August 2023 may not be an indication of structural change in the general business mood, seems to be confirmed by the data.

### 1.1.2.3. Conclusions

The above analysis seems to indicate that the Greek economy during the first nine months of 2023, which included the successive elections of May and June

2023, was characterized by fluctuations in private consumption and unclear developments in gross investment. Moreover, percentage changes in the overall volume index in retail trade were negative, driven by the evolution in food items, while confidence indicators seem to recover in construction, but their trend is unclear in retail trade. The uncertainty provoked by the electoral period and the ongoing inflation, especially in food items, seem to be responsible for these developments in the first nine months of 2023. However, a positive tone to the above is given by the decline in the balance of the trade deficit, which is also responsible for the fall in the share of private consumption but mostly of public consumption and gross investment in GDP.