# Executive Summary

## Global economy slows down due to increased risks

The year 2023 recorded a global GDP growth rate that was slightly lower than that of 2022 (see section 1.5). Despite initial estimates of a further slowdown, the global economy showed an impressive resilience in the face of negative monetary and financial conditions, increased geopolitical uncertainty, and severe weather events. This was due to the particularly positive performance of the economies of the US, Japan and many developing countries in the first half of last year. However, the projections for 2024 are not as positive, as the majority of international organisations agree that global GDP growth will slow for the third consecutive year. Instead, a gradual acceleration of global economic growth is expected in 2025. The forecast for 2024 reflects several negative effects, such as contractionary monetary policy, adverse financial conditions, slow growth in international trade and low investment in production. Further, it reflects heightened concern and uncertainty among businesses and households due to risks threatening normal economic functioning globally. Reports by international organizations point out a negative outlook due to various risks such as expanding conflict, high inflation, increased pressures in money and capital markets, lower GDP forecasts for China, protectionist measures affecting international trade, and the recurrence of extreme weather events. Despite the challenges, the future remains uncertain and the global economy showed strong resilience in 2023. It is possible that positive turnarounds, such as a rapid decline in inflation or a strengthening of the Chinese economy, will improve the economic picture beyond expectations. However, the current economic situation does not allow for a safe prediction of future developments.

## However, the Greek economy remains on a steady growth path

Based on our recent forecasts (see 1.3), average annual real GDP growth in Greece will reach 2.2% in 2023. This growth rate is expected to be maintained for 2024, indicating a continued upward trend and a stable growth rate for the Greek economy. However, the considerable uncertainty that characterizes the current economic horizon makes these forecasts prone to fluctuations. In both 2023 and 2024, the European Union (EU) economies face significant challenges, such as rising inflation and interest rates, geopolitical tensions and climate change. Despite these challenges, Greece appears to have significant potential for a more favourable economic path, taking advantage of opportunities from improving economic conditions in the EU, the positive outlook for important sectors of the economy, the upgrading of its credit rating and the implementation of important reforms and investments through the use of the Recovery and Resilience Fund and the new NSRF.

## The stock market performs impressively

In addition to the encouraging growth of the national economy, Greece's success in regaining investment grade status played a key role in the excellent performance of the Greek stock market in the year 2023, resulting in a significant increase in positive returns, market capitalisation and transaction value compared to the previous year (see section 1.4). On the contrary, the bond market was disrupted by the repeated interest rate hikes by the European Central Bank (ECB), burdening the cost of borrowing and lending. However, in the last months of 2023, bond yields declined, thanks to the pause in the ongoing interest rate hikes by the ECB and the recovery of the investment grade rating for Greece. In addition, 2023 was marked by an impressive performance in the Greek institutional management market, with increased returns, assets and capital inflows. Finally, Greece's return to investment grade in 2023 by international rating agencies such as Rating and Investment Information (R&I), Scope Ratings, DBRS Morningstar, Standard & Poor's and, most recently, Fitch, paves the way for Greece to receive an investment grade from the (demanding) US rating agency Moody's next March. Achieving investment grade brings multiple benefits, such as lower borrowing costs for the government and corporations, attracting a wider investor base for Greek stocks and bonds, and the possibility of reintegrating the Greek stock market into developed markets.

## The labour market is constantly improving

The good performance of the Greek economy is also reflected in the labour market, which continues to perform positively, with unemployment continuing to fall and employment increasing, while hours worked appear to be growing faster than employment (see section 3.1). This has contributed to nominal wage growth, although high inflation has eroded any increases. Although the number of people in employment has not yet reached pre-crisis levels, the employment rate for the 15-64 age group has reached historic highs. This increase is partly a result of population decline, which is a cause for concern, particularly as increased labour market participation does not seem to be a solution, leading to a shrinking labour force. This shrinkage is a major challenge in view of the increasing staff shortages that are frequently highlighted. In 2023, the number of people employed as employees increased by 116,000, with the majority of recruitment being for full-time positions. Despite a decline in the number of the unemployed over the last year, the number of the unemployed remains higher than the minimum of the last decade, while the unemployment rate, despite its general decline, remains the second highest in the European Union (EU27), after Spain. This suggests that there is no room for complacency, as the labour market faces multiple challenges that require constant attention and efforts to improve.

## The (necessary) increase of the minimum wage

Although inflation has already been contained, increases in basic goods remain quite high. This, combined with the government's stated intention to complete the minimum wage setting process before the start of the tourist season, has led the government to accelerate and shorten the minimum wage setting process. Given that all forecasts for 2024 converge to a growth rate of the Greek economy at about the same level as in 2023, but with significantly lower inflation, around 3%, the stakes for economic policy are to increase wages in order to restore, as much as possible, the purchasing power of wage earners, but without further increasing inflation (costs) or deteriorating the country's international competitiveness due to an increase in unit labour costs. Therefore, it is advisable for the political leadership to know in advance the expected effects of a change in the minimum wage, considering the current conditions of the Greek economy. The implications of any change in the minimum wage are useful to be explored in advance and taken into account by economic policy makers, especially in the current context, which follows a period of deep recession due to the pandemic but is not far from the decade of economic crisis with all the austerity policies that accompanied it and the economic burdens it left behind.

## And the (equally necessary) acceleration of the digitization of the Greek economy

The multiple challenges of the global economy led to the assessment that the Greek economy needs to be shielded by accelerating digital transformation and, therefore, by enhancing the efficiency of the public and private sectors (Greek National Productivity Board, KEPE, 2023).[1] Although significant progress has been made in various areas of digital transformation, the country remains significantly behind its European partners as well as the European average in most of the relevant indicators (see section 4.1). Mention should be made of the private sector, which seems to be widening the gap with its European counterparts, ranking at the bottom of the European digital growth rankings. In contrast, the digitization of the public sector is moving at a faster pace than its European counterparts, coming close to the European averages in most indicators. However, digital infrastructure urgently needs to be strengthened and upgrading work accelerated, as the country not only lags its partners in terms of network speed, but its progress is relatively slower, consistently ending up at the bottom of the relevant rankings. There is a significant need for improvement in two critical digital skills indicators: the number of information and communication technology (ICT) specialists and the number of ICT graduates. Strengthening these indicators is crucial as they are directly linked to the education and capacity of the domestic workforce to meet the growing labour market needs for skilled digital technology personnel. Greece lags its European partners in these areas, which is a source of concern for future labour market developments. The inability of domestic and foreign firms operating in Greece to find skilled labour is likely to force firms to move to other European countries where finding ICT specialists is easier. This would have serious negative consequences for the Greek economy, especially at a time when significant efforts are being made to attract foreign direct investment.

*Professor PANAGIOTIS LIARGOVAS*
*Chairman of the Board and Scientific Director,*
*Centre of Planning and Economic Research (KEPE)*

1. See Greek National Productivity Board (2023), *Greek National Productivity Board Annual Report 2023,* KEPE Publishing, Athens, Greece.