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In-Depth Review 2024

Greece



European
Commission

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This in-depth review presents the main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Greece for the purposes of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances. It provides technical input to the Commission for the Communication "European Semester – 2024 Spring Package" that will set out the Commission's assessment as to the existence of imbalances or excessive imbalances in Greece. That Communication will be published in June 2024. The current version has been presented and discussed with the Member States in the Economic and Political Committee of the Council.

This publication reproduces staff working document SWD(2024) 102 final, that was discussed with Member States in the Economic and Political Committee of the Council on 18 April 2024.

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1. INTRODUCTION

This in-depth review (IDR) analyses the evolution of Greece’s vulnerabilities related to high government and external debt, a high ratio of non-performing loans in the context of low potential growth and a high unemployment rate, and possibly newly emerging risks. This year’s IDR, which follows the 2024 Alert Mechanism Report (AMR) published in November 2023, assesses the persistence or unwinding of the vulnerabilities identified last year, potential emerging risks, and relevant policy progress and policy options that could be considered for the future ⁽¹⁾.

The vulnerabilities in Greece are analysed in a macroeconomic context characterised by solid economic growth and heightened uncertainties related to geopolitical risks ⁽²⁾. GDP growth moderated in 2023 amid the waning impact of the post-COVID recovery, weakening global demand and tightening financial conditions. GDP growth slowed to 2% in 2023, compared to 5.6% in 2022, but remained well above the EU average (0.4%). The Commission’s Winter 2024 Interim Forecast projects GDP growth at 2.3% in both 2024 and 2025. This growth trajectory reflects a consumption growth stabilising at its 2023 level and a pick-up in gross fixed capital formation, as the implementation of the recovery and resilience plan (RRP) shifts from enacting reforms towards delivering investments. However, investments are likely to induce higher import demand, which is projected to reduce the positive contribution of net exports in 2024-2025. Overall, growth is forecast to remain well above the EU average over the forecast period, serving as a driver for continuing fiscal consolidation. After peaking in 2022, HICP inflation started to moderate and declined from 9.3% in 2022 to 4.2% in 2023, 1.2 pps below the euro area average (5.4%). Still, inflation remained relatively high in February 2024, at 3.1% year-on-year, 0.5 pps above the euro area inflation rate. Underlying price pressures declined, as pass-through from previous energy and food price shocks have been fading and HICP inflation excluding energy and food reached 3.0% in February 2024, 0.1 pps below the euro area. In 2024, inflation is expected to continue declining but remain elevated at 2.7%, in line with the euro area inflation. Rising employment has been associated with tighter labour market conditions in the service and construction sectors. In this context, nominal compensation of employees is expected to grow by about 5% in 2024, close to the 2023 pace. The main risk factors for the economic outlook include the deepening of geopolitical tensions, protracted trade disruptions due to the Red Sea crisis, and a potential increase in energy prices.

High integration with the German, Italian and some non-EU economies make Greece prone to spillovers resulting from economic developments in these economies ⁽³⁾. Greece

⁽¹⁾ [European Commission \(2023\), Alert Mechanism Report 2024, COM \(2023\) 902 final](#); and [European Commission \(2023\), Alert Mechanism Report 2024, SWD\(2023\) 901 final](#).

⁽²⁾ Figures for GDP growth and inflation come from the Commission Winter 2024 Interim Forecast (*European Economy*, Institutional Paper 268). All other forecast data used in the IDR come from the Commission Autumn 2023 Forecast (*European Economy*, Institutional Paper 258), unless stated otherwise, and all calculations are carried out using these data to ensure the coherence of their various components. The cut-off date for the data for the preparation of this IDR was 19 March 2024. Actual outturn data that have become available after the Autumn and Winter Interim forecasts, and before the cut-off date for the IDR, are used and supersede figures from those forecasts.

⁽³⁾ In the context of the multiple disrupting shocks that affected the world economy and the EU in the past few years, Commission Services have run an exercise to estimate the spillovers and the degree of exposures of Member States’ economies to various partners and industries, in terms of nominal trade, value-added trade, inflation and financial assets. See European Commission Institutional Paper 2024 (forthcoming) – ‘Economic spillovers and exposures in the EU’.

is particularly dependent on German and Italian goods and services, while Germany and Italy are major destinations for Greece's exports (4). The largest share of Greek value added satisfies demand in the US and Germany, while Greek demand is mostly dependent on value added generated in Germany and China. Locational banking statistics show that large shares of claims of Greek financial institutions are located in Ireland. As Greece's links with non-EU partners like China and Russia are moderate to high, geopolitical fragmentation appears to pose a non-negligible risk to its economy.

2. ASSESSMENT OF MACROECONOMIC VULNERABILITIES

For many years, Greece has been marked by high government and external debt in the context of low potential growth and high unemployment rate. Nevertheless, many indicators have improved in recent years. The public debt ratio has been declining after 2020 but remains the highest in the EU, with short- and long-term risks assessed as low and medium-term risks high. The net international investment position (NIIP) also improved over the same period but remains the lowest in the EU. Although a large share of public debt is held by official creditors and its maturity structure and interest rate are shielding it from market volatility, the still-high liability stocks could expose the economy to vulnerabilities that could lead to economic shocks. In addition, the persistently large current account deficits are not conducive to sustained improvement in the NIIP. The non-performing loan (NPL) portfolio held by servicers continues to weigh on the economy, although it has largely been cleaned up from bank balance sheets. The unemployment rate has declined but remains among the highest in the EU.

Assessment of the gravity, evolution and prospects of macroeconomic vulnerabilities

Government debt

The Greek public debt-to-GDP ratio is on a declining path, with a strong reduction over the last year, but remains the highest in the EU. Public debt is expected to have declined from 172.6% of GDP in 2022 to 160.9% of GDP at the end of 2023, 45 pps below the peak of 207% of GDP in 2020 (Graph 2.1 a). The decline was driven by an increase in nominal GDP and a declining headline deficit. Looking ahead, the Commission's 2023 Autumn Forecast expects the public debt-to-GDP ratio to decline further to around 152% in 2024 and to 148% in 2025. However, given that a substantial part of Greece's public debt is held by official EU creditors at concessional rates, liquidity and rollover risks to public debt remain limited. Government gross financing needs for the period 2024 to 2025 are low, due to projected significant primary surpluses and moderate debt amortisation.

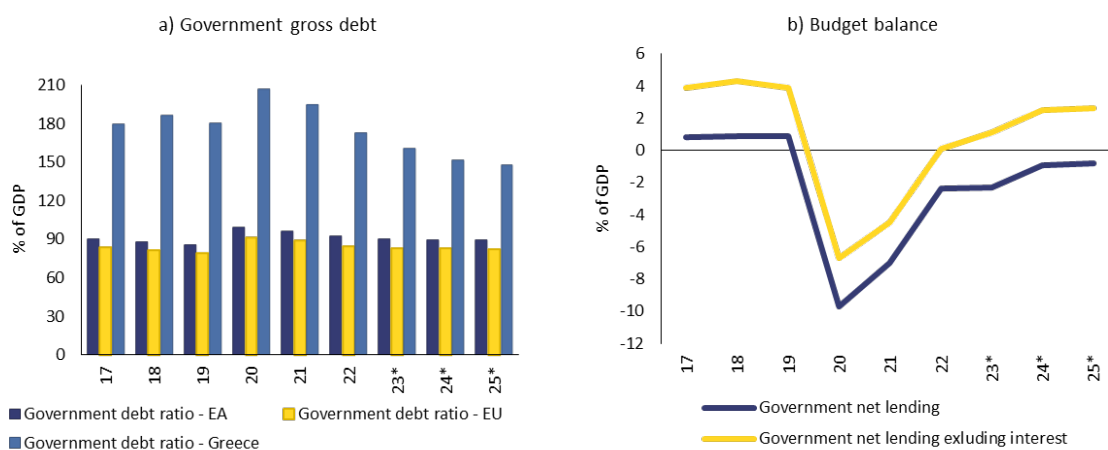
Risks to fiscal sustainability are overall low in the short term, high in the medium term, and low in the long term according to the Commission's debt sustainability

(4) German and Italian exports account for 8.1% and 7.4% of Greece's imports, while Germany and Italy are the importers of 8.3% and 6.8% of Greek exports respectively.

framework ⁽⁵⁾. The Commission’s early-detection indicator (S0) does not point to major short-term fiscal risks. Government gross financing needs in 2024 and 2025 are expected to average some 8% of GDP per year. After more than a decade, Greece’s credit rating returned to investment grade by the end of 2023 at three of the four major rating agencies. The debt sustainability analysis for Greece shows that under the baseline scenario, the government debt-to-GDP ratio is expected to decline over the medium term but remain high, around 131% in 2029 and 116% in 2034 (see Box 1 for more on the medium-term risks to fiscal sustainability). In the long term, the Commission’s fiscal gap indicators (S1 and S2) show that the low risk assessment is driven by the favourable initial budgetary position and the projected decline in ageing costs.

The general government deficit is expected to have remained broadly unchanged at 2.3% in 2023 and to decline thereafter. Underlying the unchanged headline balance is an improved primary surplus from 0.1% of GDP in 2022 to 1.1% in 2023, which is offset by an increase in interest expenditure. The significantly reduced cost of the energy measures and a marked increase in current revenues are driving improvement in the primary surplus, despite one-off spending related to recent natural disasters ⁽⁶⁾. The Commission 2023 Autumn Forecast expects the headline deficit to decrease further to 0.9% of GDP in 2024, associated with a primary surplus of 2.5% of GDP. The forecast factors in fiscal measures announced in 2023 and the estimated impact of the public sector’s wage grid reform on the wage bill. In 2025, the headline deficit is expected to reach 0.8% of GDP, with a primary surplus of 2.6% (Graph 2.1 b). This is due to muted expenditure growth, which is only partially offset by two medium-term tax cuts set to commence in 2025 (taxation of the self-employed and social contributions).

Graph 2.1: **Government gross debt and budget balance as % of GDP, Greece**



Source: Eurostat, European Commission calculations.

⁽⁵⁾ The results presented here are based on the debt sustainability analysis published in the Debt Sustainability Monitor 2023 (European Commission, Institutional Paper 271), which is based on the Commission 2023 autumn forecast. The Debt Sustainability Monitor also includes information on the methodology of the Commission’s fiscal sustainability risk framework.

⁽⁶⁾ The total amount of government spending in 2023 and 2024 in relation to the natural disasters is estimated at 1.5% of GDP.

External balances

After a significant deterioration following the outbreak of the COVID-19 pandemic and the energy price shock, the external position improved markedly in 2023. The current account deficit, which peaked at 10.3% of GDP in 2022, narrowed by almost 4 pps to 6.4% of GDP in 2023 (Graph 2.5 a) ⁽⁷⁾. The cyclically adjusted current account deficit is estimated to have declined faster, by about 5.3 pps, reaching 6.8% of GDP in 2023 (Graph 2.5 b). The improvement in the current account balance has been driven by declining energy prices, and an increase in the inflow of current transfers. Growing tourism revenues offset the deterioration in the transport service balance that was partly triggered by the disruptions to Red Sea trade. Despite the unfavourable external environment curbing export demand, the non-energy trade deficit also declined by 1% of GDP, predominantly due to the changes in export and import prices ⁽⁸⁾. At the same time, moderation in domestic demand and slowing consumption growth have also contributed to this improvement via lower import demand, although the real consumption-to-GDP ratio is still above its pre-pandemic level. By contrast, the balance of primary income deteriorated by 1.8% of GDP in 2023. This can be attributed to the rising cost of intercompany financing on the back of the tightening global financial conditions ⁽⁹⁾. At the same time, the level of net interest payments associated with external debt remained unchanged at a low level compared to the stock of net external debt. This was thanks to the concessional nature of a significant part of external debt (Graph 2.2 b).

Despite the improvement in 2023, the current account deficit remains at 6.4%, much larger than before the pandemic, at about 5 pps above the 2019 level. It is also well below the country-specific current account norm estimated at -0.9%. Close to 1.5 pps of this difference with the pre-pandemic level is explained by deterioration of the investment income balance due to increasing interest rates. Another 1.8 pps is driven by the lower surplus of transportation services. Finally, the widening deficit of the goods deficit, which is largely related to higher import demand stemming from the increase in investments and consumption, explains another 2.3 pp deterioration.

Greece's external borrowing needs declined thanks to a reduction in the private sector's net borrowing but remain sizeable, while the government remained in a net borrowing position. The net external borrowing needs (i.e. the sum of the current and capital account balance) narrowed by 3.6 pps to 5.2% in 2023 ⁽¹⁰⁾. Both the household and corporate sectors contributed to this improvement (Graph 3.3 a). A sizeable increase in the gross operating surplus supported the increase in corporate savings. Investment has gained speed since 2019, although from a very low level, as capacity utilisation increased and reached levels recorded preceding the global financial crisis. Households' net savings are also estimated to have increased in 2023, as real income increased at a solid pace and consumption growth moderated, while investment in dwellings continued to increase, albeit from a very low base. Household consumption grew by 1.8% in real terms in 2023 compared to a growth rate of 7.4% in 2022, signalling that pent-up demand has been waning. Still, the consumption-to-GDP ratio is the highest in the EU, above its pre-pandemic average in real terms (see the thematic chapter on reasons behind a high consumption

⁽⁷⁾ Based on the provisional data published by the Bank of Greece on 20 February 2024.

⁽⁸⁾ Export and import price dynamics had a sizeable role in net export developments over the 2020-2024 period in Greece. After a deterioration in 2020 and 2021, the terms of trade improved in both 2022 and 2023, while the parallel decline in export and import prices helped reduce the deficit in the goods balance in 2020 and 2023.

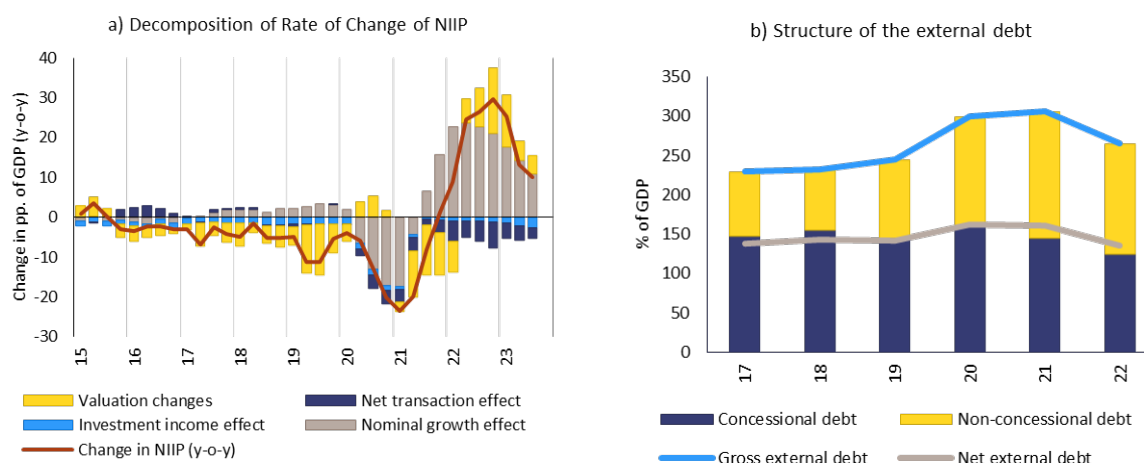
⁽⁹⁾ Multinational companies' net interest payments related to intercompany loans are recorded under the investment income.

⁽¹⁰⁾ Based on the provisional data published by the Bank of Greece on 20 February 2024.

ratio), and households' net saving ratio remained negative ⁽¹¹⁾. Between 2022 and 2023, the government's net lending position remained broadly unchanged, according to the Commission's Autumn 2023 Forecast. While the net lending position is forecast to improve markedly in 2024, the government is set to remain a net borrower.

The structure of external financing was less favourable than in preceding years, with a higher share of debt financing in 2023. After the substantial inflows in foreign direct investment inflows (FDI) recorded in 2021-2022, FDI financing declined in 2023, covering only 11% of the external financing needs (compared to 28% in 2022). The FDI inflow into the real estate sector has been picking up since 2017 and accounted for more than 40% of total FDI inflows, increasing by almost 30% in the first three quarters of 2023 compared to the same period in 2022. Thanks to improving investor sentiment, portfolio inflows increased markedly, covering about one fourth of external financing needs. Still, almost half of the financing was in the form of other investments, accounting for 2.4% of GDP ⁽¹²⁾. This amount incorporates the financing provided by the EU at very favourable terms for RRP loans, accounting for 1.7% of GDP. While the Target2 liabilities had been an important source of external financing in 2020-2022, the balances peaked in the second quarter of 2023 and started to decline afterwards, being overall neutral in 2023.

Graph 2.2: Decomposition of rate of change of NIIP, structure of the external debt as % of GDP, Greece



Source: Eurostat, European Commission calculations.

The net international investment position improved marginally further in 2023 after a strong increase in 2022, but still remains far below the prudential NIIP level. Following a

⁽¹¹⁾ Sectoral income and savings data in Greece must be considered with certain caveats. This is because the transactions of micro firms ('self-employed') and small companies can often be reported under the household sector and because micro and small companies have a significant role in the economy.

⁽¹²⁾ Uncertainties around the data on the Greek economy's external position remained substantial, as also indicated by the persistently high and increasing level of 'net errors and omissions' (NEOs) in the balance of payments statistics published by the Bank of Greece. NEOs increased to 1.2% of GDP in 2023. This indicates that the external financing need calculated from the financing side of the balance of payments has been continuously lower than the one calculated using the data on trade, income and transfer flows since 2020. Consequently, the increase in NIIP has been lower than suggested by the sum of the current and capital account balances.

significant (close to 30% of GDP) increase in 2022, largely owing to strong nominal GDP growth and favourable valuation effects, the Greek NIIP is estimated to have improved by about 4% of GDP, to -140% of GDP in 2023 ⁽¹³⁾. This improvement was driven by nominal GDP growth, while valuation effects had only a marginal positive impact in 2023 (Graph 2.2 a). The Greek NIIP remains well below the fundamental and prudential country-specific NIIP benchmarks (-42.5% and -48.9% respectively in 2023) and is the worst in the EU. Nevertheless, the risks associated with external indebtedness are mitigated by the fact that a large part of external debt is held by official EU creditors and had been provided with very long maturities and interest rates fixed at low levels (Graph 2.2 b). However, the substantial current account deficit projected means that the NIIP is likely to deteriorate in the medium term, according to a baseline scenario (see Box 1).

The current account deficit is projected to continue narrowing slowly in 2024-2025 but remain over 5% of GDP until 2025. The trade balance is forecast to improve further on the back of the gradual recovery in the euro area and helped by cost competitiveness gains Greece has accrued over the last decade. Terms-of-trade effects are also likely to have a slightly positive impact on external balances. This is thanks to a faster increase in prices for tourism and other services and the large weight of services in the trade balance ⁽¹⁴⁾. However, demand for imported goods is likely to remain elevated, supported by the projected robust growth in investment, which is expected to increase the investment-to-GDP ratio by 3 pps to above 16% by 2025, largely associated with RRP implementation. This in turn may limit the improvement in the trade balance. The balances of the primary and secondary incomes are projected to improve as global financing conditions are set to ease and the current transfers under the RRP rise. Overall, the current account deficit is expected to narrow further but still stand at 5.3% in 2025.

Net external borrowing is set to decline faster than the current account deficit, thanks to the increase in EU capital transfers, including the recovery and resilience fund grants. External borrowing stood at 5.2% of GDP in 2023 and is expected to decline to close to 3% of GDP by 2025, as capital transfers from the EU increase. Past and ongoing measures to improve the business environment and reduce legal and regulatory uncertainties, accompanied by Greece regaining its sovereign investment grade status, are expected to have a positive impact on FDI inflows.

An increase in household savings and continued improvement in government balances are set to be the drivers of limited external rebalancing in 2024-2025. From a savings-investment perspective, the ongoing moderation of private consumption growth amid steady wage growth is set to increase households' net savings. In addition, tight fiscal policies are expected to improve budget balances. Overall, in 2024-2025, the projected net external borrowing will allow for a slow improvement in the NIIP ratio. Still, continued adjustment is needed to support convergence of the Greek NIIP with prudent levels and with those of its peers (see Box 1). In this context, policies improving the business environment, increasing savings in the economy, accelerating corporate investments and increasing labour participation can play an essential role in further improving competitiveness and bringing domestic consumption in balance with the income level (see thematic chapter).

⁽¹³⁾ Estimation updated on the bases of the provisional 2023 BoP data and the NIIP data available for the third quarter of 2023.

⁽¹⁴⁾ Greece enjoyed sizeable gains in terms of trade in 2022 and 2023, thanks to the high share of goods (food, refined oil) and services (tourism) exports, which witnessed a relative price increase in these periods.

Greece gained significant price competitiveness over the last decade and has also managed to expand its export market share since 2017. Price competitiveness has improved significantly due to favourable inflation differentials and substantially lower wage increases than those of trade partners. Consequently, unit labour costs (ULCs) declined by 0.5% on average between 2013 and 2023 and the ULC-based real effective exchange rate (REER) depreciated by about 17% in cumulative terms in the same period (Graph 2.5 c). This was despite the nominal effective exchange rate (NEER) having appreciated by almost 2% per year on average. Similarly, the HICP-based REER depreciated by 1.1% per year in the same period. Export market shares have also evolved favourably since 2017 (Graph 2.5 d), primarily driven by services exports. After a significant contraction in tourism and transportation amid the COVID-19 pandemic in 2020, export market shares recovered fast in 2022 and 2023, supported by solid tourism growth. Looking ahead, wages are expected to exhibit steady growth on the back of tighter labour market conditions. Hence, unit labour costs are projected to increase, albeit still at a pace comparable to that expected for the trading partners.

Despite significant improvements thanks to recently implemented structural measures, non-cost competitiveness and low productivity remain a challenge. Based on the World Competitiveness Ranking 2023, Greece's overall ranking has improved since 2019, although it remained broadly unchanged after 2020 ⁽¹⁵⁾. The improvement was driven by better performance in the government and business efficiency subindices, reflecting the economy's ongoing digital transformation and efforts to reduce the administrative burden on enterprises under the RRP. Still, further work is needed – both by implementing measures under the RRP and carrying out additional reforms, to address: (i) remaining bottlenecks in the relatively heavy and frequently changing regulatory and administrative framework; and (ii) a legal system not considered efficient enough and protective of property rights ⁽¹⁶⁾. Furthermore, consumer price control mechanisms that were imposed during COVID-19, prolonged further and broadened in scope may negatively affect competition and market entry ⁽¹⁷⁾. In 2023, Greece had the highest OECD Services Trade Restrictiveness Index in the European Union and well above the OECD average ⁽¹⁸⁾. Restrictions on foreign entry, barriers to competition and a lack of regulatory transparency are the most significant impediments to trade in services, especially in maritime transport, construction, insurance and legal services.

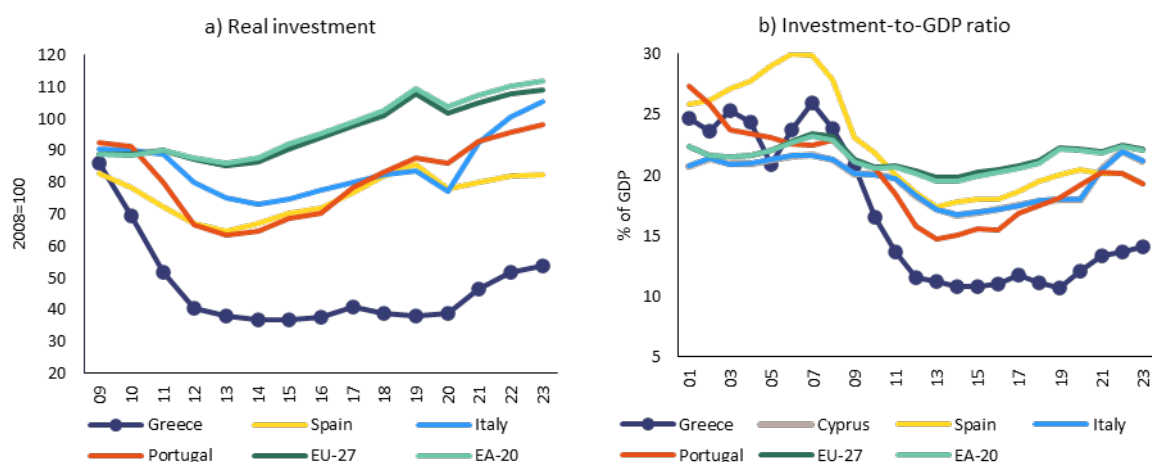
⁽¹⁵⁾ Greece had a ranking of 49 (out of 64 countries) in 2023 (see <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/>).

⁽¹⁶⁾ Greek companies are less confident than the EU average that the law and courts are protective of their investments (32%, against EU average of 53%).

⁽¹⁷⁾ Since 2020, Greece has capped gross profit margins on certain food products and ordered supermarkets to reduce prices for certain 'basic' products.

⁽¹⁸⁾ The OECD Services Trade Restrictiveness Index (STRI) is an evidence-based tool that provides information on regulations affecting trade in services in 22 sectors across all OECD member countries. See [OECD Services Trade Restrictiveness Index: Policy Trends up to 2024 | OECD iLibrary \(oecd-ilibrary.org\)](https://www.oecd-ilibrary.org/policy-trends-up-to-2024/).

Graph 2.3: Investment dynamics in international comparison



Source: Eurostat, Ameco, European Commission calculations.

The persistently low level of productive capital accumulation has been a major impediment for productivity growth, causing economic divergence vis-à-vis the EU. The sovereign debt crisis was followed by a substantial decline in real gross fixed capital accumulation in Greece. Investment in real terms was almost 50 pps lower in 2022 than in 2008. The investment-to-GDP ratio, which fluctuated around 24% prior to 2008 (i.e. a level comparable to the euro area average), collapsed during the crisis and averaged 11.9% in 2010-2020 (Graph 2.3). Despite strong investment growth in 2021 and 2022, at 19.3% and 11.7% respectively, in 2022 the investment ratio remained well below the EU and euro area averages of 22.9% and 22.7% respectively (see thematic chapter). Greek firms reported that in 2023 the most significant factors behind low investment were uncertainty about the future, high energy costs, unavailability of skilled staff and business regulations ⁽¹⁹⁾. In this context, productivity growth has been strong since 2020, but the level remains one of the lowest in EU, while GDP in purchasing power standards per hour worked stood at 57.4% of the EU average in 2023. While potential growth is estimated to have been increasing, it remains low, estimated at 0.7% in 2023. Looking ahead, the investment-to-GDP ratio is set to increase by 3 pps by 2025, supported by the implementation of the RRP.

Banking sector

After a significant improvement in banks' portfolio quality over the previous years, the non-performing loan (NPL) ratio on banks' balance sheets declined a touch more in 2023.

The securitisation of banks' NPL portfolios under the Hellenic Asset Protection Scheme ('Hercules') that ended in late 2022 helped significantly reduce banks' NPL ratio from 46.3% in 2016 to 6.2% by end-2022 ⁽²⁰⁾. The ratio declined further in the first three quarters of 2023 to 5.7% but remains the highest in the EU. The government has relaunched the Hercules scheme, which is expected to

⁽¹⁹⁾ See EIB Investment Survey Country Overview 2023: Greece.

⁽²⁰⁾ Non-performing loans as a share of total gross loans and advances on a consolidated basis (i.e., including cash balances at central banks and other demand deposits in the denominator) as reported by the European Central Bank. This figure is different from the one reported under enhanced surveillance, which follows non-performing loans as a share of total gross customer loans on a solo basis, as reported by the Bank of Greece.

further support inorganic NPL reduction, but organic measures such as loan restructuring and internal loan workouts, are likely to be a more important driver of NPL reduction in the banking sector in the future. The inflow of NPLs was modest, and Stage 2 loans-to-total-loans did not increase materially in 2023, but the ratio remained above the euro area average of around 9.3% in the first three quarters of 2023 ⁽²¹⁾. However, the freeze in the interest rate of floating rate mortgages introduced by banks in March 2023 has been cushioning the impact of interest rate increase on individual debtors and there is a risk of faster NPL build-up after this measure expires ⁽²²⁾.

The workout of non-performing loans outside the banking sector remains slow, and as a result, legacy NPLs continue to weigh on the economy. Risks related to NPLs were largely shifted from the banking to non-banking financial sector and the State. The stock of non-performing loans held by servicers amounted to EUR 69.5 bn (32% of GDP) in December 2023. The delay in the workout compared to original plans is mainly the result of low recoveries from collateral liquidations owing to the suspension of enforcement proceedings during the COVID-19 pandemic. However, the process is also being slowed down by delays in court procedures, a high ratio of unsuccessful auctions and the illiquid secondary market for NPLs.

Banks' fundamentals continued to improve on the back of a substantial widening of the interest rate margin. Banks' core profitability increased further owing to the fast repricing of loans with adjustable interest rates, accompanied by very low deposit rates, with the return on equity at 12.5%, well above the euro area average. Low deposit rates can be explained by banks' favourable liquidity position, high concentration in the banking sector and relatively passive depositor behaviour ⁽²³⁾. The slow adjustment in deposit rates helps banks' profitability but partly undermines the monetary policy effort to stem inflation through curbing demand and increasing savings. The average Common Equity Tier 1 and Total Capital ratios compared to their risk-weighted assets increased over the previous year. At end-September 2023, they stood at 14.3% and 17.6% respectively but remained below the EU averages ⁽²⁴⁾. Also, the ratio of forborne loans remained above the EU average. Therefore, further improvements are required, given that the capital position of banks remains among the lowest in the EU, and concerns persist about its quality due to the high, albeit decreasing, proportion of deferred tax credits.

Longer-term profitability remains a concern. Banks' profitability might deteriorate in the future when monetary policy switches to an easing cycle and banks' funding costs rise as they repay targeted longer-term refinancing operations (TLTRO) loans and continue issuing debt to meet the minimum requirement for own funds and eligible liabilities (MREL). Corporate credit growth has slowed since late 2022 due to tightening financial conditions and weakening economic activity. Still, credit growth remained positive (the four-quarter cumulative net credit flow was 0.9% of GDP by the third quarter of 2023) and performed well in euro area comparison, supported by strong loan take-up under the RRP Loan Facility. At the same time, household credit growth has remained negative since 2010, with the four-quarter cumulative net credit flow reaching -0.5% of GDP by the third quarter of 2023. Low private-sector credit growth represents a risk for banks' future profitability. The loan-to-deposit ratio declined to 60%, one of the lowest levels in the EU. In

⁽²¹⁾ 'Stage 2 assets' are financial instruments that have deteriorated significantly in credit quality since initial status but where there is no objective evidence of a credit loss event.

⁽²²⁾ The freeze was originally introduced for 1 year but was extended for another 12 months.

⁽²³⁾ Depositors typically do not 'chase interest rates', i.e., transfer their savings to those banks providing higher deposit rates.

⁽²⁴⁾ On a consolidated basis.

parallel, banks' domestic sovereign bond holdings increased further, to levels well above the EU average. The EIB and ECB survey results suggest that beside other factors, access to financing remains a significant impediment to corporate investment, especially for small and medium-sized enterprises (SMEs).

Private-sector debt

Private-sector debt declined markedly in 2022 owing to a decline in both household and non-financial corporate debt ratios. The household debt-to-GDP ratio is moderate and continued to decline, after a temporary uptick in 2020, to 41% in 2023. Net credit flows have been negative for several years and the cost of borrowing has remained relatively high compared to the euro area average, hovering around 3% for the last decade. The cost of new loans for house purchases started to increase by the end of 2022, peaking around 4.5% by the end of 2023: a considerably milder increase than in other Member States. Under a broad set of alternative scenarios, household debt will continue to decline over the next decade (see Box 1). The non-financial corporate debt-to-GDP ratio decreased to 56% of GDP in 2022 and declined slightly in the first half of 2023. Corporate indebtedness is flanked by high corporate liquidity buffers, which mitigate risks.

Housing market

The Greek housing market has recorded a strong growth in recent years, with prices and demand on the rise. Following several years of decline, property prices have picked up since 2018. Nominal house prices grew by 11.1% in 2022, with growth increasing to 12.9% year-on-year in the third quarter of 2023. Even in real terms, the increase remains substantial, at 7.6% in the third quarter of 2023. However, latest data point to some easing in growth. Urban areas experienced larger increases compared to rural areas. The sharp drop in construction activity after the outbreak of the sovereign debt crisis turned into limited supply for a protracted period of time. At the same time, the fall in prices was also considerable. Key factors behind the recent uptick in prices have been the recovery in domestic and particularly strong foreign demand following the pandemic amid undervalued house prices, and the energy crisis. Foreign buyers from the EU, as well as third-country nationals partly incentivised by the golden visa programme, have shown renewed and strong interest in the Greek real estate market with substantial FDI inflows. Even though house prices are still below the levels observed before the sovereign debt crisis, in nominal terms and relative to household income as measured by the price-to-income ratio they are estimated to be overvalued by around 10% in 2023.

While financial stability risk in the housing market appears limited, other challenges are emerging with regard to affordability. As credit growth to households remains negative, the financial risk from a potential downward correction of property prices is being contained. The European Systemic Risk Board assesses housing vulnerabilities in Greece as low from a financial stability perspective and macroprudential policies as appropriate and sufficient ⁽²⁵⁾. Housing supply has also recorded strong growth since 2020, albeit from a very low base, with residential construction investment reaching 33.7% year-on-year growth in 2022 and 20.7% in 2023. Increased housing supply is set to help slow price growth in the coming years. While financial stability risks remain limited, social consequences of recent increases in house prices are becoming pressing. Recent increases in house prices considerably above those in incomes pose potential

⁽²⁵⁾ ESRB (2024), *Follow-up report on residential real estate sector vulnerabilities*, 1 February 2024.

challenges to affordability that contribute to low labour mobility, notably in high-demand areas with labour concentration such as Attica.

Labour market

The labour market remains resilient, with increasing employment and declining unemployment; however, significant challenges remain. The employment rate increased to 61.8% (15 to 64 years old) on average in 2023, the highest since the global financial crisis but still below the EU average of 70.5% in 2023 (Graph 2.5 e). Total employment growth picked up in 2023 on the back of higher labour demand in the agriculture, construction and service sectors. Following a steady decline in 2023, the seasonally adjusted unemployment rate reached 10.4% in December 2023 and remained stable in January 2024, down from 11.9% in December 2022 (Graph 2.5 f). At the same time, key sectors of the Greek economy, notably tourism, construction, and agriculture, have started reporting labour shortages. Skills mismatches and low participation rates are preventing the utilisation of an apparent labour reserve. Despite the recent improvements, women and young people continue to be disproportionately affected by joblessness, with unemployment rates of 13.2% and 22.9% respectively in January 2024. Both population groups also experience low participation rates, at 61.4% for women and 23.4% for young people in 2022 (aged 15 to 24), the second lowest and lowest in the EU respectively. Subdued female and youth employment rates remain a key challenge in maximising the domestic labour supply. The Commission's Autumn 2023 Forecast projects that employment growth will continue, albeit at a decelerating pace of 1.1% in 2024 and 1% in 2025. The yearly unemployment rate is expected to continue its decline over the forecast horizon.

Box 1: Greece – Medium term external, private and government debt projections

This Box summarises external and internal debt-to-GDP projections for Greece over the next decade, based on scenario analysis conducted by the Commission. It covers scenarios to take into account different underlying assumptions for external, corporate and household debt stocks, as well as the outcomes of the latest government debt sustainability analysis conducted by the Commission.

Greece's net international investment position (NIIP) is projected to increase somewhat before falling in the medium term. In the baseline projections, which take the autumn 2023 forecasts until 2025 as a starting point, the NIIP falls to around -150% of GDP by 2033 from its current level of around -140%. This is mainly owing to a deteriorating primary income balance and a large trade balance deficit. As a considerable share of Greece's external debt is largely insensitive to changes in market interest rate, Scenario 1 deviates from the baseline by applying concessionary interest rates on the appropriate share of external debt. The somewhat lower interest burden in this scenario does not materially change the path for the NIIP in the next decade. Stronger economic growth, a markedly improved trade balance and a lower spread between liabilities and assets, as in Scenario 2, deliver a gradual improvement, but the NIIP stays below -100% of GDP in 2033. Should the baseline assumptions turn overly optimistic, owing to, for example, a lower-than-expected impact of reforms, Greece's NIIP may deteriorate at a significantly faster pace compared to the baseline (see Scenario 3). Despite the significant size of Greek external debt, risks to its sustainability are partly mitigated by the fact that a substantial share is held by official creditors.

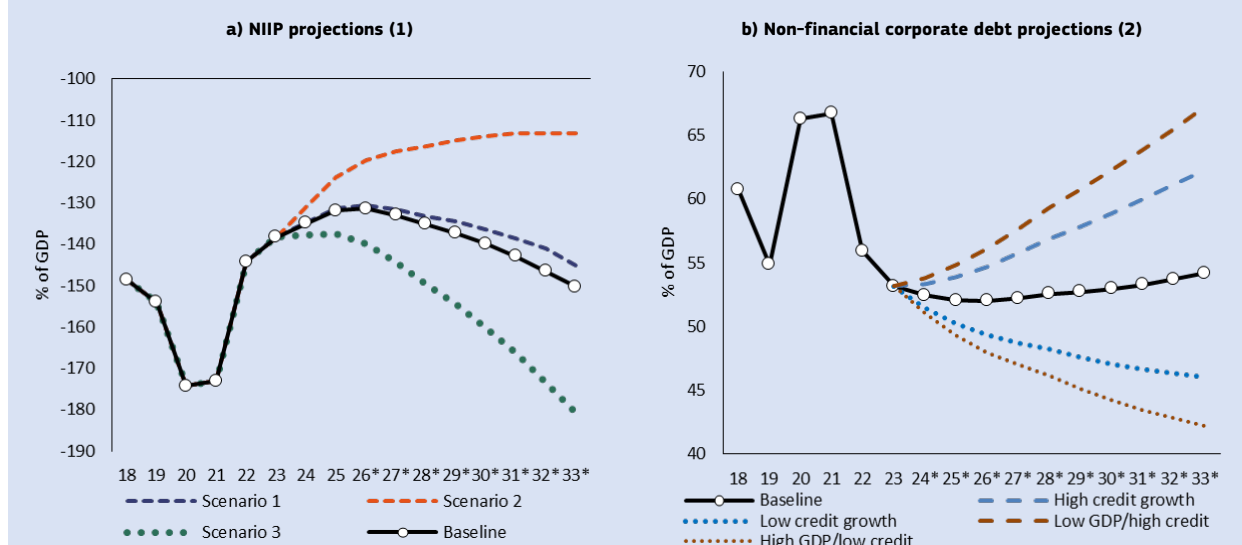
The corporate debt-to-GDP ratio is projected to increase under the baseline scenario by 3 percentage points until 2033, reaching 55%. Taking the 2023 forecasts as a starting point, the baseline scenario foresees average real GDP growth of 1% over the 10-year period, and credit flows of 2% of GDP until 2033 (Graph 2.4 b). In this scenario, credit flows would be above the credit-to-GDP ratio that would stabilise NFC debt over the projection horizon, at 1.7%. Under an adverse scenario of credit flows being 0.9% of GDP higher – corresponding to half the intertercile range of the annualised quarterly credit flow to GDP ratio over 2018-2023 – the NFC debt-to-GDP ratio would be 8 percentage points higher. A permanent negative 1% GDP growth shock would increase the NFC debt-to-GDP ratio by another 5 percentage points.

The household debt-to-GDP ratio is projected to decrease slightly over the next decade under the baseline scenario. The baseline scenario takes the 2023 forecast of 42% as a starting point and assumes as determining parameters an average real GDP growth rate of 0.9% and credit flows of -1.0% of GDP (solidly below the debt-stabilising

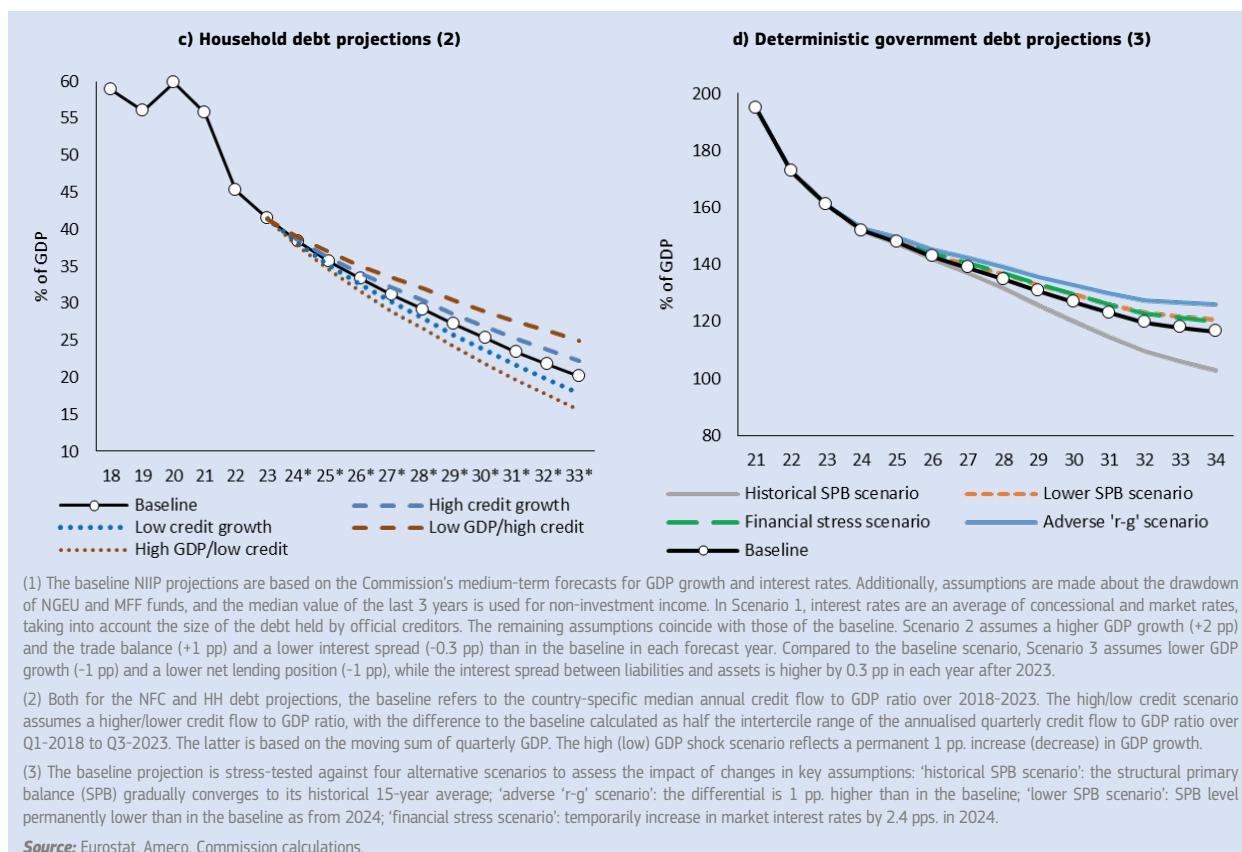
credit-to-GDP ratio of 1.4%) for the period 2024-2033. It projects that the household debt ratio will continue to decline to reach 21% by 2033 (Graph 2.4 c). Depending on how interest rates and other economic conditions evolve, credit flows could also behave differently. Graph 2.4 c considers alternative scenarios on credit flows. These account for observed country-specific variability in credit flows since 2018, and permanent GDP shocks of 1 pp above or below the baseline scenario. Under the most adverse scenario (high credit flows and low GDP growth), the debt ratio would still decrease to 26% by 2033.

In Greece, medium-term risks to fiscal sustainability are high overall ⁽²⁶⁾. The debt sustainability analysis for Greece shows that under the baseline scenario the government debt-to-GDP ratio is expected to decline over the medium term to reach around 131% in 2029 and 116% in 2034 (Graph 2.4 d). That projection assumes that with unchanged policies the structural primary balance (excluding changes in the cost of ageing) remains at a surplus of 2% of GDP between 2024 and 2034. The debt reduction benefits until 2030 from a still favourable (although declining) snowball effect. Real GDP is expected to grow by 0.9% on average over 2025-2034. Government gross financing needs are expected to be around 11% of GDP per year over the projection period. The baseline projections are stress-tested against four alternative deterministic scenarios to assess the impact of changes in key assumptions. All but one of those scenarios would lead to a slower decrease in debt relative to the baseline, with the adverse interest rate-growth differential scenario having the largest impact on debt dynamics. Stochastic projections point to some degree of uncertainty.

Graph 2.4: External, private and government debt projections, based on scenario analysis for Greece



⁽²⁶⁾ The results presented here are based on the debt sustainability analysis published in the *Debt Sustainability Monitor 2023* (European Commission, Institutional Paper 271), based on the Commission 2023 Autumn Forecast. See notes to Graph 2.4 for more details on the four scenarios used.



Assessment of MIP-relevant policies

Prudent fiscal policy is expected to continue supporting the rebalancing of the Greek economy. The budget balance is set to improve further in 2024-2025 on the back of increasing primary surpluses thanks to the consolidation measures and favourable economic developments. The Greek authorities have been implementing measures to enhance transparency and fight tax evasion. The reform of the interconnection of cash registers and points of sale (POS) terminals with the tax authorities is progressing, although with some delays due to capacity constraints on the part of the suppliers of the online cash registers and POS terminals. Nevertheless, the system is planned to be operational in 2024. Furthermore, in December 2023 the Greek government limited the use of cash in real estate transactions and raised fines for purchases more than EUR 500 in cash. In the same vein, Greece has taken measures to fight tax avoidance by the self-employed by introducing a temporary system that provides for indirect calculation of a deemed minimum tax base. This system is expected to be phased out once the obligatory reporting requirements for the self-employed to the tax administration have become fully operational and effective. The government plans further ambitious measures in this area in 2024, primarily by incentivising the use of electronic payments. The aim is to reduce the VAT compliance gap below 2-digit levels for the first time and to narrow the scope of underreporting revenues. Overall, once fully implemented, these measures can reduce the informal economy and can have a sizeable positive impact on tax revenues. Limited progress has been made to introduce an advance tax ruling system, which would facilitate more foreign investments.

Measures to improve the business environment and support productivity growth, as planned under the RRP, are crucial to ensure the structural rebalancing of the economy.

As a part of the reform agenda under the RRP, the authorities have been introducing measures to: (i) lift excessive administrative burdens to businesses; (ii) create a simpler and more predictable regulatory and licensing framework (accompanied by measures under the inspections reform); (iii) address the inefficiencies in the public administration; and (iv) improve the level of judicial effectiveness and efficiency. Investments to digitalise the public administration and the judicial sector are also being rolled out. In addition, the authorities adopted a multi-level governance reform that is expected to improve the coordination, responsibilities and accountability of various levels of government services. In the judicial sector, progress was achieved by redistributing the territorial competences of the administrative courts ⁽²⁷⁾. The completion of cadastral mapping and the establishment of the Hellenic Cadastre Agency have now been incorporated into the RRP and are expected to be completed by mid-2025. Once completed, this reform is expected to accelerate the registration of property rights, provide legal certainty and promote private investments. Looking forward, to improve the business environment, Greece will need to keep government interventions targeted by introducing subsidies to those in need, remove obstacles to competition and market entry, and refrain from introducing distorting price signals.

Improving access to financing and strengthening capital markets are essential to narrow the investment gap. The Loan Facility under the RRP, designed to provide financing for the corporate sector at reasonable costs, has had a substantial role in increasing the supply of financing since 2022. Thanks to their favourable terms compared to market alternatives, the take-up of loans has been strong, bringing the total amount of investments financed via the Loan Facility by the end of 2023 to EUR 10.2 billion (4.6% of GDP) ⁽²⁸⁾. However, further measures could be envisaged to improve access to financing, especially for SMEs. The government's plan to re-establish the developed status of the Athens Stock Exchange and to build competitive and deep capital markets in Greece together with the ongoing reduction of the corporate and SME NPL ratios can have an important role in improving the availability of financing for the corporate sector. In addition, measures to reduce the shadow economy and incentivise micro and small enterprises to scale up their operations can improve the bankability of SMEs, thereby improving their access to bank lending.

Widening and diversifying the export base and addressing high energy dependency, as planned under the RRP, are crucial to increase growth and improve resilience to energy price shocks. The envisaged measures aim to facilitate trade, including by improving services offered to exporters and implementing new technologies to facilitate trade in agricultural products ⁽²⁹⁾⁽³⁰⁾. Greece depends heavily on energy imports to satisfy energy needs. To reduce energy dependency, the implementation of measures under the RRP, including those in the recently added REPowerEU chapter, should also help reduce energy demand, increase the production and the use of renewable energy and facilitate decarbonisation.

⁽²⁷⁾2023 saw the adoption of legislation to revise the administrative judicial map. This will be followed by similar legislation revising the civil and criminal judicial map.

⁽²⁸⁾ Loans issued in the context of the Loan Facility (i.e. RRP loans and co-financing loans) have accounted for more than one fifth (21.7%) of new corporate lending since mid-2022. Nearly half of the loan contracts (44%) have been signed with SMEs. In terms of volume, the ratio of RRP lending to SMEs versus the total was 18%, i.e. close to the ratio observed for bank lending in the year before the Loan Facility's launch.

⁽²⁹⁾ E.g. through guidance from Greece's trade and investment promotion agency and the establishment of an Ombudsman service to help exporters to overcome obstacles.

⁽³⁰⁾ Via the issuing of export certificates, the setting-up of a trade data system and a portal for the promotion of agricultural products.

Ongoing and planned reforms and investments are set to enhance the functioning of the labour market. The authorities have taken several measures since 2021 to address deficiencies in the labour market. These include modernising labour legislation and labour market institutions, expanding employment and training programmes offered to jobseekers, and incentivising labour market participation ⁽³¹⁾. In 2023, the authorities reduced the administrative burden on employers and broadened employment protection rules by allowing for flexible employment contracts, a six-day working week with an increased daily wage, increased fines for undeclared work and streamlined administrative procedures for businesses implementing the digital work card. They also launched a digital job-finding platform. From January 2024, the 30% pension cut for pensioners who continue to work has been abolished to increase incentives for pensioners to work.

Recent financial sector reforms support the resolution and restructuring of NPLs. The government relaunched the Hercules scheme, which will help continue cleaning up banks' balance sheets. In future, facilitating debt restructuring and resolution processes will be essential both for servicers and banks' future in-house (organic) workouts. The organic elimination of NPLs requires: (i) effective functioning of the various workout platforms under the Insolvency Code; (ii) the establishment of a permanent scheme to protect vulnerable households, one that allows them to restructure their loans; (iii) effective e-auctions enabling the sale of collateral; and (iv) smooth enforcement proceedings. Restructuring under the out-of-court workout (OCW) platform gained pace in 2023, while interest in the other tools of the new Insolvency Code (rehabilitation, second chance, early warning mechanism) remained limited. There was slow progress on establishing the permanent scheme to protect vulnerable households ⁽³²⁾. The number of e-auctions rose, but the share of barren auctions remains high, due to low third-party interest that may be associated with a lack of sufficient information on the properties and slow transfer of possession. The Supreme Court decision of 16 February 2023 dispelled the legal uncertainty that overshadowed enforcement proceedings, but progress in these proceedings remained slow due to judicial inefficiencies and a lack of digitalisation. On the positive side, the backlog of household insolvency cases (Katseli law) has almost been cleared. Still, further measures are necessary to increase third-party demand for collateral and to speed up the post-auction process and thus also the debt workout.

The implementation of existing commitments in the RRP, and where necessary additional steps, would support the reduction of long-standing vulnerabilities. Fiscal and external sustainability could be improved by further advancements in tax collection and payment discipline, and by introducing a wider advance tax ruling system. These measures would contribute to creating a more favourable environment for foreign investment. Ensuring the effective absorption of RRF and other EU funds remains essential to support productivity growth and to foster the green and digital transitions. A reduction in energy demand could bolster the economy's resilience and aid external sustainability. Further reinforcement could stem from initiatives to strengthen the business environment by removing obstacles to competition and market entry, and from improved access to finance, particularly for SMEs. With the emerging signs of labour market tightness, the economy's competitiveness and productivity could benefit from fully implementing individual skilling accounts

⁽³¹⁾ These include: (i) modernising individual labour legislation and the collective labour and the trade union laws; (ii) strengthening labour inspection mechanisms; (iii) improving work-life balance by expanding flexibility in working arrangements for parents; (iv) reorganising the public employment service (PES) and revising the mutual obligations framework to incentivise unemployed people to get a job; and (v) reforming the national lifelong framework to address mismatches in the labour market and increase employment.

⁽³²⁾ There is growing interest in the acquisition of vulnerable debtor status. However, the process of setting up the sale-and-lease back organisation (SLBO), which would buy the residences of vulnerable debtors and then lease them back, is behind schedule, which delays debt restructuring. SLBO is expected to start operating in the second half of 2024.

and linking them to real upskilling needs of the unemployed. A contribution could also come from further measures to increase the participation rate and eliminate the gender employment gap by promoting flexible working arrangements and childcare. The burden of legacy NPLs can be alleviated by: (i) lifting the territorial exclusivity of notaries where needed to tackle bottlenecks in the debt enforcement process; and (ii) improving the e-auction processes by further expanding the information available on auctioned properties.

Table 2.1: MIP-relevant policy progress in Greece

Vulnerability	Policies enacted since January 2023	Policies in progress since January 2023
Fiscal sustainability, fight against shadow economy	<p>Improved framework for the fight against smuggling for products subject to excise duties</p> <p>Entry into force of the legal framework for the interconnection of cash registers and POS systems</p> <p>Limiting the use of cash on real estate transactions and raising fines for purchases more than EUR 500 in cash</p>	<p>Incentivising the use of electronic payments</p> <p>Digitalisation of the national tax and customs authorities</p>
External sustainability, competitiveness and productivity	<p>Revision of the administrative judicial map</p>	<p>Revision of the civil and criminal judicial map and digitalisation of the justice system</p> <p>Preparation of urban plans to address weaknesses and gaps in zoning and land use</p> <p>Reform of the Hellenic Cadastre</p> <p>Digitalisation of public administration and economic diplomacy agencies and training for exporters</p>
Labour market	<p>Training programmes for unemployed and employed people, including on green, digital and financial literacy skills (2023-2025)</p> <p>Legislation to provide more flexible employment contracts, simpler administrative procedures for employers and strengthened employment protection</p>	<p>Digitalisation of the public employment and social security services</p> <p>Provision of vocational training to refugees in Greece to promote their integration into the labour market</p> <p>Comprehensive skills forecasting system</p> <p>Redesign and strengthening of active labour market policies</p>
Non-performing loans	<p>Improvements in debt enforcement</p> <p>Relaunch of the Hercules Asset Protection Scheme</p>	

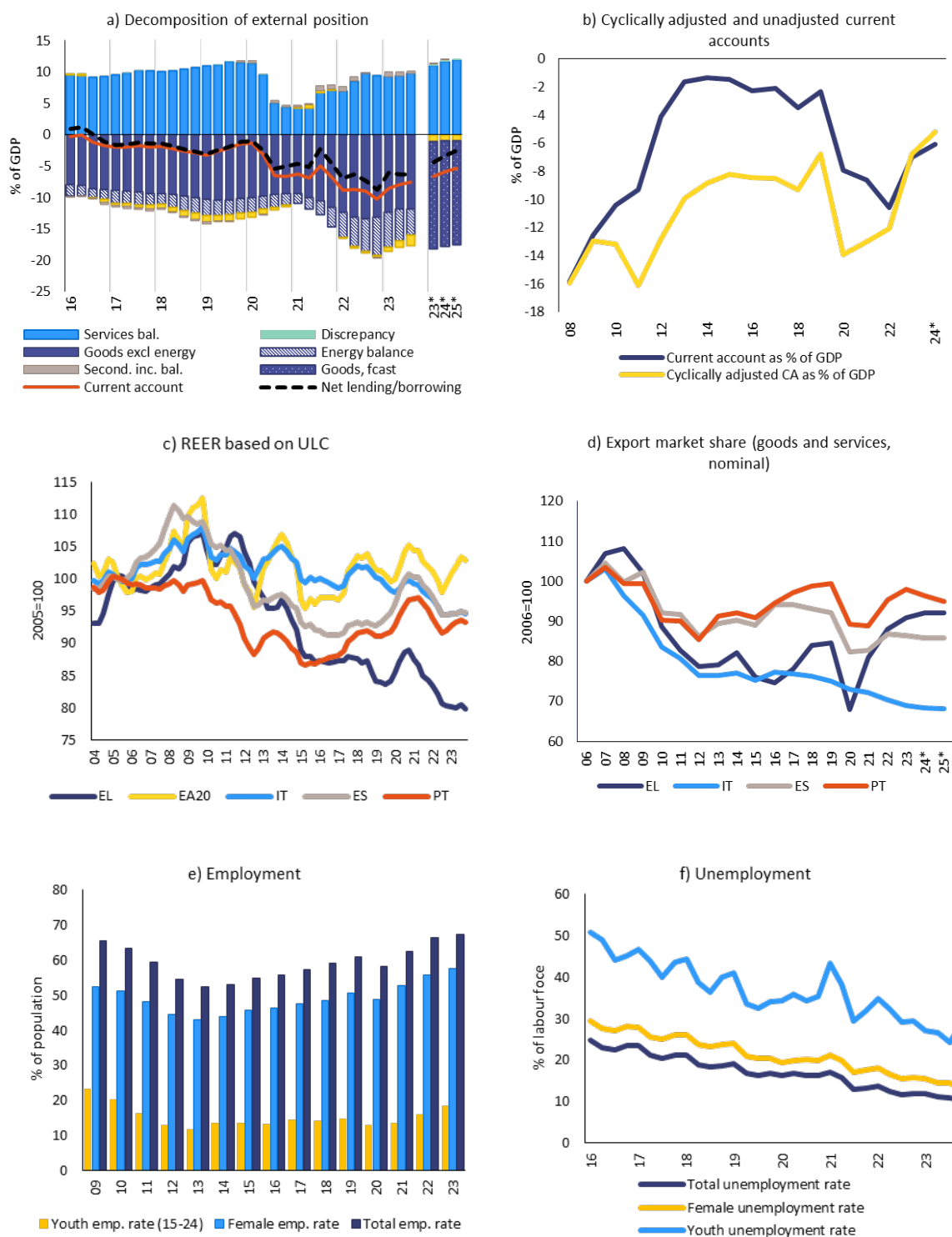
Conclusion

Greece’s long-standing vulnerabilities relating to high public debt and a high stock of non-performing loans, a weak external position and high unemployment receded on all fronts in 2023 but warrant further adjustment and close monitoring. The public debt ratio has continued to decline; while it remains the highest within the EU, risks to debt sustainability in the short term appear low. The expected further improvement in fiscal balances is set to ensure that the public debt continues to decline. The current account deficit, which had widened significantly over 2020-2022, narrowed by one third in 2023, supported mainly by favourable price

developments in exports and imports, but remained well above its pre-crisis level. Thanks to solid nominal GDP growth, the NIIP ratio also improved in 2023, although it remains the lowest in the EU. Real consumption growth decelerated in 2023, but the consumption-to-GDP ratio returned only slowly to pre-pandemic levels and remains the highest in the EU. The projected robust growth in investments is likely to keep demand for imports elevated during the RRP implementation period. Employment increased further and the unemployment rate declined, but remains among the highest in the EU. The stock of NPLs continued to decline in the first three quarters of 2023. However, no significant progress was achieved on the workout of the NPL portfolio held by servicers, which continues to weigh on private-sector balance sheets and detract from private creditworthiness.

Maintaining the prudent fiscal stance and continued timely implementation of the reforms under the RRP remain crucial to ensure the structural rebalancing of the economy. Greece continued to implement under the RRP the ambitious structural reform agenda it initiated over the last decade to address the major structural weaknesses of the economy. Progress was achieved in 2023 across a vast array of areas, including in improving tax compliance, training programmes to reskill and upskill employees and the unemployed and labour market activation policies. Measures were also taken in the public administration and judicial sector to increase judicial effectiveness and efficiency. Ongoing and planned financial sector reforms enhancing the resolution and restructuring of NPLs are crucial to improve the workout of NPLs. Eliminating legal uncertainty that overshadowed enforcement proceedings was an important achievement in 2023, and further measures are planned under the RRP to help debt restructuring and improve the efficiency of debt enforcement. Maintaining reform momentum across the areas specified above, sustaining implementation of the RRP and achieving the targeted primary budget surplus of above 2% of GDP are instrumental to ensure the structural rebalancing of the economy. In addition, narrowing the investment gap depends on improving the business environment and access to financing, and on strengthening the financial sector and the capital markets.

Graph 2.5: Selected graphs, Greece



Source: Eurostat, Ameco, ECB and European Commission calculations.

Table 2.2: **Selected economic and financial indicators (Part 1), Greece**

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	2023	forecast	
								2024	2025
Real GDP	4.1	-5.5	0.3	-9.3	8.4	5.6	2.0	2.3	2.2
<i>p.m.: Real GDP (Winter 2024 interim Forecast)</i>							2.2	2.3	2.3
Contribution to GDP growth:									
Domestic demand	5.1	-7.0	-0.2	-4.3	6.8	7.1	2.1	1.9	2.1
Inventories	0.0	-0.7	0.3	0.6	0.9	-0.6	-0.7	0.0	0.0
Net exports	-1.1	2.1	0.2	-5.6	0.6	-1.0	0.6	0.3	0.1
Output gap (1)	1.3	-8.5	-12.7	-14.1	-6.5	-1.3	0.3	1.0	1.7
Unemployment rate	9.8	14.7	23.2	17.6	14.7	12.5	11.4	10.7	9.9
Harmonised index of consumer prices (HICP)	3.3	2.9	-0.1	-1.3	0.6	9.3	4.2	2.8	2.1
<i>p.m.: HICP (Winter 2024 interim Forecast)</i>								2.7	2.0
HICP excluding energy and unprocessed food (y-o-y)	3.2	2.0	-0.1	-1.0	-0.7	5.7	6.2	3.0	2.3
GDP deflator	3.1	1.5	-1.5	-0.8	1.5	7.8	4.5	2.7	2.1
External position									
Current account balance (% of GDP), balance of payments	-10.3	-10.0	-1.6	-6.6	-6.8	-10.3	-6.4	-5.8	-5.3
Trade balance (% of GDP), balance of payments	-9.0	-7.2	-1.3	-6.8	-7.6	-9.8	-4.8	.	.
Primary income balance (% of GDP)	-1.5	-2.3	-0.3	-0.2	0.2	-0.4	-2.2	.	.
Secondary income balance (% of GDP)	0.2	-0.5	0.0	0.3	0.7	-0.1	0.6	.	.
Current account explained by fundamentals (CA norm, % of GDP) (2)	-2.2	-1.7	-1.3	-1.0	-1.1	-0.9	-0.6	-0.6	-0.5
Required current account to stabilise NIIP above -35% of GDP over 20Y (% of GDP) (3)	0.7	2.9	-0.8	-2.8	-1.9	-1.0	-0.6	-0.3	0.0
Capital account balance (% of GDP)	1.2	1.2	0.8	1.7	2.2	1.5	.	.	.
Net international investment position (% of GDP)	-75.7	-94.2	-140.8	-174.3	-173.0	-143.5	.	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (4)	.	-96.2	-130.6	-155.4	-151.1	-119.8	.	.	.
Net FDI flows (% of GDP)	0.0	-0.1	-1.3	-1.4	-2.4	-2.4	.	.	.
Competitiveness									
Unit labour costs (ULC, whole economy)	3.1	2.8	-3.6	7.0	-3.1	-0.2	4.5	2.8	1.1
Nominal compensation per employee	5.6	-0.9	-2.8	-0.4	3.8	2.8	5.5	4.1	2.4
Labour productivity (real, hours worked)	2.3	-3.5	-0.5	2.8	0.0	1.6	0.0	0.9	1.2
Real effective exchange rate (ULC)	1.3	0.6	-5.9	2.8	-3.2	-3.9	-2.3	-1.5	-1.6
Real effective exchange rate (HICP)	1.7	0.2	-1.5	-0.3	-1.3	-0.3	-0.5	.	.
Export performance vs. advanced countries (% change over 5 years)	.	-10.4	-8.2	-10.6	13.2	16.9	.	.	.
Private sector debt									
Private sector debt, consolidated (% of GDP)	84.7	125.6	124.5	125.6	122.0	100.8	94.9	.	.
Household debt, consolidated (% of GDP)	35.3	59.2	60.9	59.6	55.6	45.2	41.7	.	.
Household debt, fundamental benchmark (% of GDP) (5)	9.8	14.2	20.3	24.8	27.2	30.2	33.4	.	.
Household debt, prudential threshold (% of GDP) (5)	31.7	33.3	34.3	33.0	32.1	27.3	26.3	.	.
Non-financial corporate debt, consolidated (% of GDP)	49.4	66.5	63.6	66.0	66.4	55.6	53.2	.	.
Corporate debt, fundamental benchmark (% of GDP) (5)	23.1	29.1	35.7	42.1	46.9	53.4	60.4	.	.
Corporate debt, prudential threshold (% of GDP) (5)	52.4	56.4	58.5	57.5	56.9	48.4	45.9	.	.
Private credit flow, consolidated (% of GDP)	13.6	1.8	-2.2	5.5	0.8	1.1	1.6 ^(e)	.	.
Household credit flow, consolidated (% of credit stock)	21.1	0.9	-2.8	-3.2	-1.8	-2.2	.	.	.
Non-financial corporate credit flow, consolidated (% of credit stock)	63.8	13.1	-2.9	29.7	6.7	7.1	.	.	.
Net savings rate of households (% of net disposable income)	-0.4	-6.8	-13.2	-5.1	-3.2

(e) Estimate based on ECB quarterly data

(1) Deviation of actual output from potential output as % of potential GDP.

(2) Current accounts in line with fundamentals ('current account norms') are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), 'Methodologies for the assessment of current account benchmarks', European Economy, Discussion Paper 86/2018, for details.

(3) This benchmark is defined as the average current account required to reach and stabilise the NIIP at -35% of GDP over the next 20 years. Calculations make use of the Commission's T+10 projections.

(4) NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default.

(5) Fundamental benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds identify a threshold above which banking crises become more likely. The fundamentals-based and the prudential benchmarks are calculated following Bricongne, J. C., Coutinho, L., Turrini, A., Zeugner, S. (2019), "Is Private Debt Excessive?", Open Economies Review, 1- 42.

Source: Eurostat and ECB as of 19.3.2024, where available; European Commission for forecast figures (2023 Autumn Forecast).

Table 2.2: **Selected economic and financial indicators (Part 2), Greece**

all variables y-o-y % change, unless otherwise stated	2003-07	2008-12	2013-19	2020	2021	2022	forecast		
							2023	2024	2025
Housing market									
House price index, nominal	7.5	-4.9	-1.1	4.5	7.6	11.1	.	.	.
House price index, deflated	4.2	-6.5	-0.5	5.7	6.5	4.4	.	.	.
Overvaluation gap (%) (6)	9.0	11.9	-7.1	-0.3	3.2	9.6	18.7	.	.
Price-to-income overvaluation gap (%) (7)	9.0	10.5	-4.8	2.0	1.5	4.8	9.2	.	.
Residential investment (% of GDP)	9.7	5.6	1.0	1.1	1.3	1.6	1.9	.	.
Government debt									
General government balance (% of GDP)	-7.1	-11.3	-2.9	-9.7	-7.0	-2.4	-2.3	-0.9	-0.8
General government gross debt (% of GDP)	103.7	144.2	180.3	207.0	195.0	172.6	160.9	151.9	147.9
Banking sector									
Return on equity (%)	.	6.0	-7.2	-7.9	-20.1	12.7	.	.	.
Common Equity Tier 1 ratio	.	9.6	15.5	15.0	14.0	14.9	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (8)	.	9.1	35.0	22.2	7.1	5.0	.	.	.
Gross non-performing loans (% of gross loans) (8)	.	.	42.5	26.5	8.6	6.2	5.7	.	.
Cost of borrowing for corporations (%)	5.8	6.1	4.7	3.1	3.0	4.7	6.0	.	.
Cost of borrowing for households for house purchase (%)	4.4	4.0	3.0	2.7	2.5	3.7	4.4	.	.

(6) Unweighted average of price-to-income, price-to-rent and model valuation gaps. The model valuation gap is estimated in a cointegration framework using a system of five fundamental variables; total population, real housing stock, real disposable income per capita, real long-term interest rate, and price deflator of final consumption expenditure, based on Philipponnet, N., Turrini, A. (2017), 'Assessing House Price Developments in the EU,' European Economy - Discussion Papers 2015 - 048, Directorate-General Economic and Financial Affairs (DG ECFIN), European Commission. Price-to-income and price-to-rent gaps are measured as the deviation from the long-term average (from 1995 to the latest available year).

(7) Price-to-income overvaluation gap measured as the deviation from the long-term average (from 1995 to the latest available year).

(8) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.

Source: Eurostat and ECB as of 19.3.2024, where available; European Commission for forecast figures (2023 Autumn Forecast).

3. THEMATIC CHAPTER: EXTERNAL SUSTAINABILITY AND INVESTMENT

Greece's external position deteriorated after 2019 and remains substantially weaker than in the pre-pandemic period. After a long adjustment period, accompanied by almost a decade of economic recession and substantial decline in external financing needs (Graph 3.2 a), the Greek economy started to recover and post positive growth from 2017. The recovery phase had been characterised by modest real growth in domestic demand and a current account deficit of 2.2% of GDP on average, around the level necessary to ensure steady improvement in the NIIP ratio. This period was interrupted by the COVID-19 pandemic, and the situation was further exacerbated by Russia's war of aggression against Ukraine. In 2020, the current account deficit widened as a result of the drop in exports, especially tourism and transportation, while domestic demand remained relatively robust. From a saving-investment perspective, the worsening situation was accompanied by a sharp deterioration in government budget balances, triggered by the drop in tax revenues and policy measures introduced to mitigate the impact of the crises. In the meantime, households' net savings increased and turned positive in 2020, as real consumption dropped significantly, while household revenues (disposable income and net capital transfers) declined only modestly, supported by government subsidies (Graph 3.2 b). Precautionary motives on the back of heightened uncertainties also played a role. By contrast, the net saving position of corporations did not change materially. A strong rebound in consumption and investments led to an increase in import demand in 2021-2022. A surge in domestic demand-driven imports together with the worsening in the energy balance more than offset the positive terms-of-trade dynamics and the recovery in tourism, leading to a deterioration in the trade balance in 2022. From the savings perspective, the government budget deficit started to decline as of 2021, but the pent-up demand fuelled consumption and a pick-up in investments triggered a decline in private savings. As a result the net external borrowing increased further, reaching 8.8% of GDP in 2022. In 2023, favourable price dynamics and a moderation of domestic demand growth supported a decline in the current account deficit, which narrowed from 10.3% in 2022 to 6.4% but remained well above its pre-pandemic level.

Changes in export and import prices were the main drivers of the partial narrowing of the current account deficit in 2023. Besides the positive terms-of-trade effect, a parallel decline in export and import prices supported the narrowing of the trade deficit, while in real terms the improvement was modest in 2023. The terms of trade have been improving since 2022, thanks to the high share of goods (food, refined oil) and services, in particular tourism exports, which experienced a relative price increase in these periods. In 2022, the parallel increases in export and import prices deteriorated the trade balance to a significant extent and the improvement in terms of trade had a negligible positive effect on the balance. By contrast, in 2023 both the parallel decline in prices and the terms of trade had a material positive impact on the net export. Furthermore, as pent-up demand gradually subsided, private real consumption growth slowed significantly from 7.4% in 2022 to 1.8% in 2023. With investment growth also having decelerated in 2023, real growth in domestic demand returned to pre-crisis levels and muted demand for imports. Overall, price dynamics and the adjustment in domestic demand triggered a sizeable correction of the external balances, bringing the current account deficit down by almost 4 pps compared to 2022.

Looking ahead, changes in household and government net saving positions are expected to be the main drivers of external rebalancing in 2024-2025. Households' real consumption growth is expected to remain at around its 2023 level, below the expected real growth in household

income. Households' investment is expected to continue its recovery, albeit at a slower pace than in 2021-2023. Overall, the net savings of households are expected to improve, while remaining in negative territory in 2024-2025. Corporate investments are expected to surge on the back of increasing capacity utilisation, supported by the improving business environment, a better economic outlook and the expected fall in financing costs. Capital transfers in the context of the RRP will increase the funds available for firms, and corporate net savings are expected to remain broadly unchanged in 2024-2025. The government budget balance is set to improve further, to -0.8% of GDP by 2025, on the back of fiscal consolidation and tax revenue increases amid the cyclical upheaval of the economy.

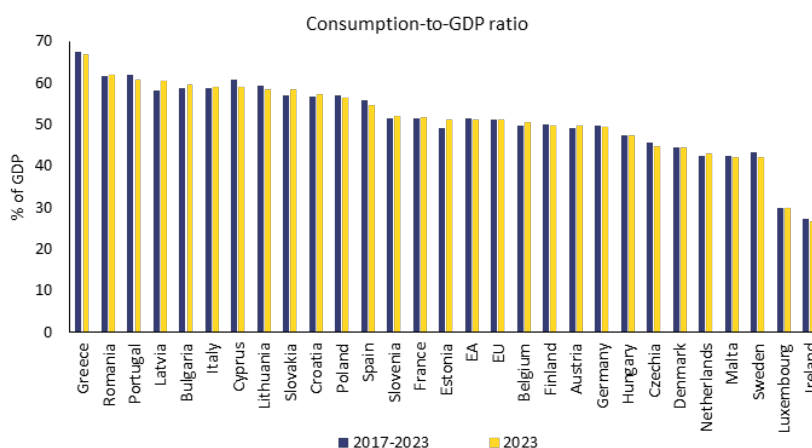
In the short run, the implementation of the recovery and resilience plan is set to slow the narrowing of the current account deficit, but in the longer run it is expected to increase productivity. Given the high import content of investment, RRP investments are expected to have a negative impact on the trade balance. However, the accompanying sizeable RRF grant financing provided by the EU reduces the net effect on the external financing needs. Furthermore, successful implementation of the structural reforms under the RRP together with the investments under the plan are expected to improve productivity and broaden Greek export capacity in the medium run.

Addressing the structural vulnerabilities associated with low private savings is essential to support external rebalancing and investment growth, and hence to ensure a balanced economic growth path in the longer run. Household net savings averaged -2.7% of GDP in 2017-2022, well below the average ratios recorded in the euro area (3.6%) and in the EU (2.9%) in the same period. Household and corporate statistics might be distorted by measurement issues over the dominance of micro companies and self-employment (these economic entities might report their corporate activity as household activity) and by the relatively large size of the shadow economy, estimated at 20.9% of GDP by the Bank of Greece⁽³³⁾. Nevertheless, the total private-sector net savings (corporate and household) have been low, averaging -0.5% of GDP compared to 5.8% and 3.6% in the euro area and the EU respectively.

The low household savings rate has been associated with a persistently high consumption-to-GDP ratio. The consumption-to-GDP ratio has been the highest in the EU continuously since 2007. In 2017-2023, it stood on average at 16.1 pps and 16.3 pps of GDP above the euro area and EU averages respectively (Graph 3.1) and 8.6 pps above the level in Greece's peer countries, namely Italy, Portugal and Spain. In the face of the massive shocks of the last 4 years, consumption has remained considerably robust, causing the real consumption-to-GDP ratio to increase above pre-pandemic levels. In 2023, the ratio declined slightly, owing to a slowdown in consumption growth and continued strong investment growth.

⁽³³⁾ Financial account data published by the Bank of Greece indicate that household net financial savings have been positive since 2019.

Graph 3.1: **Consumption-to-GDP ratio in EU comparison as % of GDP**



Source: Eurostat and European Commission calculations.

The Greek sovereign debt crisis triggered a protracted recession and a substantial deterioration of investment dynamics. Household investment endured the largest collapse in the aftermath of the sovereign debt crisis, but the corporate investment ratio also declined, hindering productivity growth (Graph 3.2 d). The housing market collapsed in 2009. Residential construction dropped from a peak of 10.8% of GDP in 2007 to 1.6% of GDP in 2022, while property prices fell by 38.6% from 2009 to 2018, when they started rising again. The public investment ratio also dropped markedly, albeit to a smaller extent, before recovering in 2012. The corporate investment ratio declined to 4.5% of GDP in 2013, down from around 7.3% of GDP prior to the crisis, and reached its pre-crisis level by 2022 (Graph 3.2 c). Nevertheless, this ratio is well below the euro area and EU average and the level recorded in peer countries (Italy, Portugal and Spain). Further, the breakdown of total investment by type of investment over 2013–2019 shows Greek investment underperforming relative to its euro area peers in all categories except ICT equipment (Graph 3.2 d). Since early 2022, the tightening of monetary conditions along with heightened uncertainty due to geopolitical tensions have triggered a slowdown in corporate lending across the euro area. However, the four-quarter cumulated net credit flow averaged -0.8% of GDP in peer countries (Italy, Spain and Portugal) but was positive and averaged 1.3% in Greece in the first three quarters of 2023. With RRP loans having accounted for almost one fifth of the total corporate credit flow since the launch of the Loan Facility, they made a sizeable contribution to the relative recent improvement of credit dynamics in Greece.

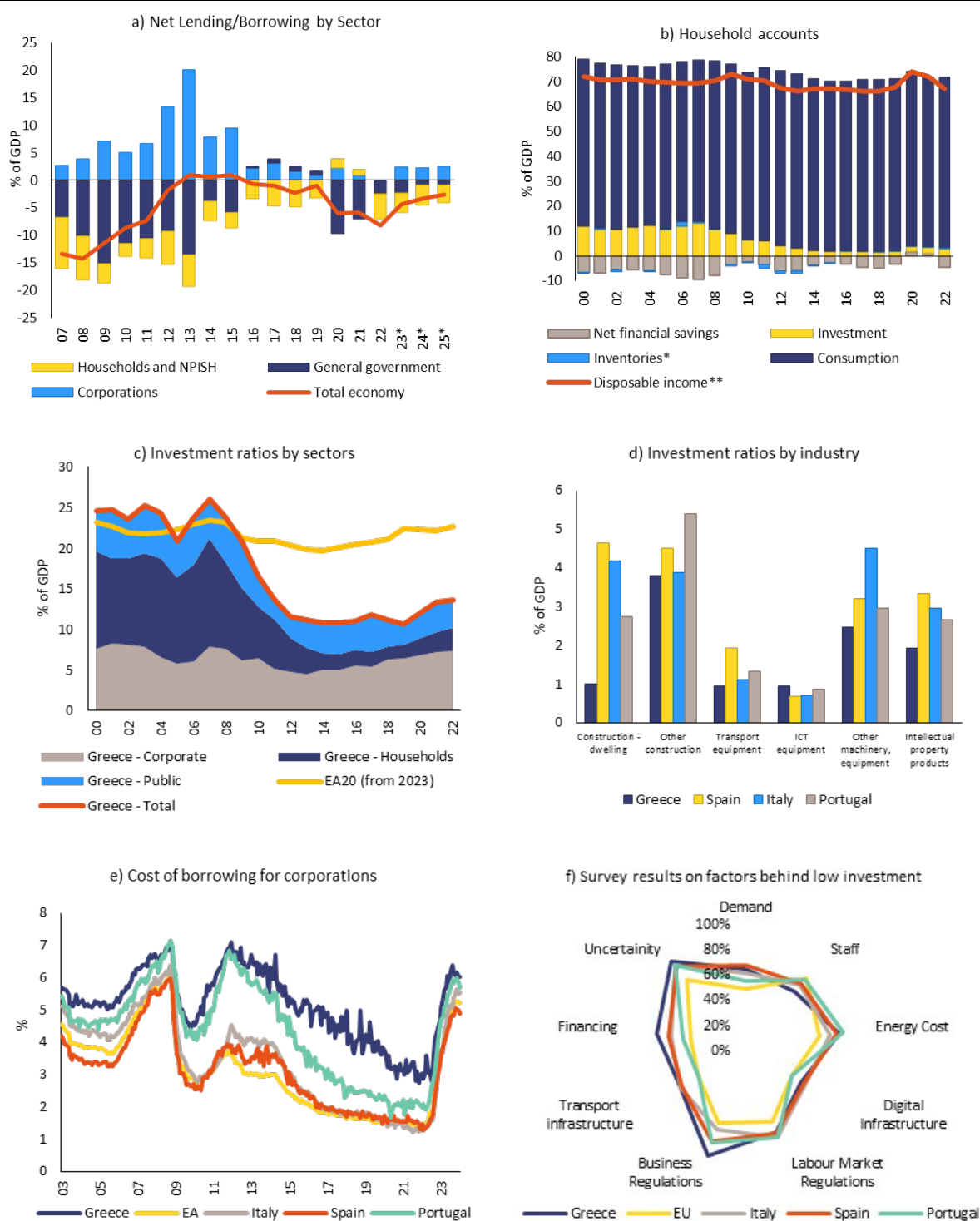
Several factors of varying nature explain the low corporate investment ratio. On the demand side, Greece’s economy is characterised by the prevalence of the low-tech service sector, which is typically less capital-intensive, implying lower investment needs. In addition, the Greek corporate sector is dominated by micro and small enterprises, which tend to be risk averse and more reluctant to scale up their operations. Moreover, low profitability since the onset of the sovereign debt crisis has constrained companies from investing, with the gross return on capital of non-financial corporations collapsing from 34% in 2008 to a historic low of 13.7% in 2019, 10 pps below the euro area average. Greek corporates also continue to face one of the highest debt-to-income ratios in the euro area, as the workout of legacy non-performing loans remains slow (for the reasons discussed Section 2). Along with these limitations, the supply side appears to be constrained by another set of factors. From the banks’ perspective, the absence of external ratings often increases the difficulty faced when assessing the risk associated with financing small and

micro businesses. Despite the significant reduction of non-performing exposures on banks' balance sheets since 2019, the still relatively high NPL ratio in comparison to the euro area average continues to dampen the expansion of credit supply. Further, a large share of Greek companies are still deleveraging from legacy NPLs and are thus less attractive as borrowers. Meanwhile, the decade following the sovereign financial crisis was characterised by insufficient domestic savings that limited the financial resources available to be channelled into corporate investment. In the context of high sovereign financing costs since 2009 and constrained supply, the cost of available credit offered by banks to Greek companies has been consistently higher than in the rest of the euro area (Graph 3.2 a).

The European Investment Bank's investment surveys confirm the aforementioned limitations. The ratio of Greek companies reporting that their investment had been below the optimal level in the year preceding the survey was relatively stable and averaged 19.5% over 2016 to 2022. When asked to give reasons for underinvesting, Greek companies reported business regulations and uncertainty in a substantially larger share than their EU counterparts. However, the largest difference is observed in access-to-financing issues, with over 25% more corporates in Greece than in the EU reporting these as an impediment (Graph 3.2 f). Survey-based information also confirms that SMEs, which make up the majority of the Greek economy's value added and employment, are financially constrained to a larger extent than large firms.

The Loan Facility of the Greek RRP aims to improve access to financing for the corporate sector and help close the investment gap. The Loan Facility constitutes an attractive financing source, with favourable terms compared to market-based alternatives (long-term fixed rate loans with an interest rate well below the market level), including for SMEs. Moreover, as loans under the Loan Facility that are provided by the State do not enter banks' balance sheets, the facility is expected to contribute to increasing credit supply. The facility provides a temporary solution while the underlying structural problems (high NPL in the economy, high risk aversion) are being addressed or are phased out.

Graph 3.2: Selected graphs, Greece



Notes:

- (b) * Changes in inventories together with acquisition less disposal of valuables. **Disposable income including net capital transfers of households
- (c) Nominal gross fixed asset accumulation in per cent of GDP
- (d) Nominal gross fixed asset accumulation in per cent of GDP by type, average of 2013-2019
- (e) Interest rate of new corporate loans.
- (f) Ratio of companies reporting the given factor constrained their investment activity in the preceding year, average of 2016-2022.

Source: Eurostat, Ameco, EIB investment surveys and European Commission calculations.

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