Greece: another year of growth overperformance in sight

Greece should continue to outperform the eurozone average this year as it did in 2024. The economy is being driven by domestic demand. Beware of the composition, however, as a likely decline in the contribution of inventory adjustments might not be fully compensated by other demand components

Greece's Prime Minister Kyriakos Mitsotakis

Greece has been an undisputed growth outperformer in post-Covid times

The Greek economy has been an undisputed outperformer since the Covid pandemic. Revised national account data from last November shows that gross fixed investments and private consumption had a bigger role than originally reported. In particular, the upward revision of machinery and other investments, in principle conducive to higher productivity, suggests that the Greek economy might remain on a solid growth path for some time.

Domestic demand is a key driver

In the third quarter of 2024, Greek GDP expanded by 0.3% on the quarter (+2.4% on the year), driven by strong private consumption, inventory accumulation and exports. The key engine of consumption growth has been the continued improvement in labour market conditions, with solid employment growth and the unemployment rate falling to 9%, the lowest level since 2009. Coupled with solid wage growth and, indeed, an increase in the minimum wage, this translated into a further catch-up in real disposable income, notwithstanding stubborn inflation.

Developments in the fourth quarter should follow a similar, positive pattern. Employment improved further, possibly creating better conditions for a decline in the saving ratio, which was still high at 15.3% in the third quarter. A possible negative surprise might come from inventories, which had provided an uncommonly high contribution to GDP growth at the same time. We thus see a slight slowdown in quarterly GDP growth in the fourth quarter, with average GDP growth ending the year at 2.2%.

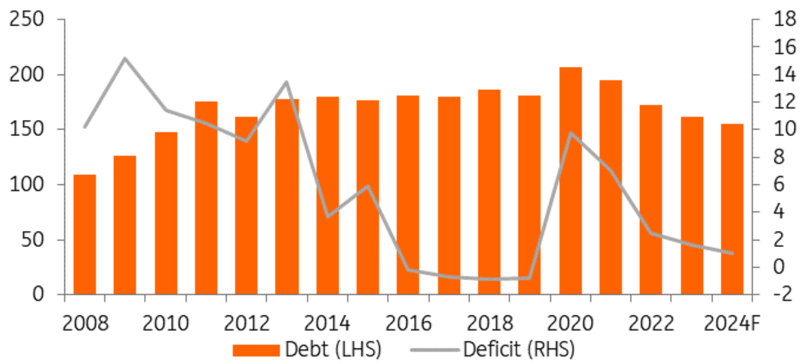
Consumption and fixed investments playing an important role

Private consumption should, in principle, be confirmed as a major growth driver in 2025. Labour market strength looks set to continue, but the pace of employment gains could cool due to increasing difficulties in overcoming skills mismatches and remaining structural bottlenecks. However, decelerating inflation over the course of the year should help to compensate, supporting real disposable income and, ultimately, private consumption.

Investments are expected to increase their contribution with respect to 2024. On the one hand, the unfavourable base effect due to the substantial upward revision of pre2024 fixed capital formation data will ease away. On the other, it is sensible to expect an acceleration in the investment part of the Greek Recovery and Resilience Plan as the 2026 deadline approaches. Greece has so far received €18 bn in grants and loans from the EU Recovery Fund, out of a total of €36bn for which it is eligible.

Should this materialise, given the strong import content of investments, the drag of imports on growth might increase.

Greece's improving fiscal position is creating more fiscal room



Source: LSEG Datastream

An almost neutral fiscal stance might also help

A substantial comparative advantage for the Greek economy vs many eurozone countries in the current phase lies in the positive situation of public accounts. While still burdened by a high debt-to-GDP ratio (likely around 155% in 2024), Greece can already boast a very low level of deficit (around 0.8% of GDP in 2024). Last year, Greece fiscally overperformed on the back of government underspending and rising tax revenues and posted a primary surplus at around 2.5% of GDP. This reflected a restrictive fiscal stance, entailing a fiscal drag of around 0.5% of GDP on the year.

Based on the budget, the Greek fiscal stance is expected to turn almost neutral in 2025, which is good news for growth resilience. This should not jeopardise a further decline in the debt to GDP ratio to about 148% in 2025, in our view.

The main reason for concern for 2025 is the abnormally high contribution to GDP growth from inventory accumulation seen in 2024. Its normalisation could subtract substantially from yearly growth, possibly unmatched by other components.

All in all, we continue to believe that Greece will remain a growth overperformer in the euro area context. However, we suspect that in 2025, the growth pace might slightly decelerate, with average growth at around 1.7%.

The Greek economy in a nutshell

	2023	2024F	2025F	2026F
GDP	2.3	2.2	1.7	2.0
Private consumption	1.7	1.9	1.8	1.9
Investment	7.0	2.3	5.5	7.6
Government consumption	2.5	-4.0	2.0	0.6
Net trade contribution	0.2	-1.9	0.4	-0.3
Headline CPI	0.6	9.3	4.3	2.4
Unemployment rate (%)	11.1	10.3	9.8	9.7
Budget balance as % of GDP	-1.6	-1.0	-0.8	-0.8
Government debt as % of GDP	161.9	155.0	148.6	144.4

Source: LSEG Datastream, all forecasts ING estimates

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