

## Greece: Getting ready for a rebound

In a decelerating environment, the Greek economy is expected to outperform over 2024, helped by Europe's Recovery and Resilience Facility-funded investments and its rating upgrade



Hands up if your economy's expected to outperform this year! The Greek PM, Kyriakos Mitsotakis, appears confident

### Surprisingly soft recent growth numbers

After a solid second quarter, Greek seasonally adjusted GDP came in surprisingly soft in the third quarter of 2023, flat on the quarter (from 1.1% in 2Q23) but still amply positive on the year at +2.1% (from 2.6% in 2Q23). Lower government expenditure and soft exports were part of the explanation, together with slower consumption as pent-up demand weakened. However, consumption data looked somewhat puzzling given the country's strong inward foreign tourism flows over the summer.

Growth-wise, the impact of floods which hit central Greece in September should have been contained in the third quarter, but more might show up in fourth quarter data, even though public funds might partly compensate. Having hit a relevant food-producing area, the floods have likely already had a role in keeping upward pressure on food prices, which, in November, were still growing at a strong 9% yearly rate.

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*The jury's still out*

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The growth picture might improve slightly in the fourth quarter, but the jury is still out. Business surveys are sending mixed signals, with manufacturers turning more pessimistic and service providers more upbeat into the year-end. Consumer confidence has been more volatile but supported by a resilient labour market. In November, the unemployment rate was confirmed at 9.4%, the lowest level since early 2009, well before the government debt crisis. Consumption-wise, a weak reading of October retail sales (in volumes) seems to be leaving the onus of growth on services, where a prolonged tourism season might have a say.

## Greece set to outperform in the eurozone thanks to RRF funds

The Greek economy looks set to remain an outperformer in the eurozone in 2024. While exposed to the same geopolitical risks as its peers, it will be able to leverage the EU RRF funds when the plan foresees a bigger role for investment than for reforms. The investment channel will thus be key, possibly helped over the second half of the year by the expected loosening of the European Central Bank's rate policy.

Consumption developments will be tied to what happens to the labour market. We suspect that employment growth could possibly slow, but the combination of demographic factors and worker scarcity in specific sectors, such as construction, will still support labour hoarding, limiting the scope for any substantial increase in the unemployment rate.

## Return to investment grade adds upside risks to growth forecasts

The public finance backdrop looks set to remain positive. Budgetary developments have consistently been positive over the last few quarters, and 2023 could end with a deficit of around 2.2% of GDP and a primary surplus of 1%. Solid growth and deficit developments have brought about much-awaited rating upgrades. After Fitch's upgrade in December, Greece now has two (the other being S&P, which affirmed its ratings in October) out of three major rating agencies assigning an investment grade status (with a stable outlook) to its debt. Markets have taken note, pushing the GGB spread on 10-year German Bunds to the 110bp area. Beyond the sheer reduced debt servicing cost effect, the regained status could also help Greece by making it more attractive to inward FDIs. This adds upside risks to our Greek GDP forecasts, which are currently set at 1.3% in 2024.

## Greek economy in a nutshell

	2022	2023F	2024F	2025F
GDP	5.7	2.0	1.3	2.0
Private consumption	7.6	0.9	0.8	1.5
Investment	11.6	5.2	3.3	5.6
Government consumption	2.3	1.7	0.4	0.4
Net trade contribution	-2.8	0.9	-0.3	0.4
Headline CPI	9.3	4.2	2.7	2.0
Unemployment rate (%)	12.4	10.7	9.9	9.7
Budget balance as % of GDP	-2.3	-2.2	-1.6	-1.3
Government debt as % of GDP	171.3	160.1	154.2	149.5

Source: LSEG Datastream, all forecasts ING estimates

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