

## Trying to ride the election wave in Greece

Transitioning the economy into the new normal and maintaining a good growth pace won't be easy, but we expect Greece to remain a growth outperformer in the eurozone for at least a couple of years



Greek PM Mitsotakis was elected to a second term and is looking to benefit from the economic recovery and tourism-related services

### Mitsotakis has managed to get a second consecutive mandate

It took two election rounds for Prime Minister Kyriakos Mitsotakis, the leader of New Democracy, to obtain a second mandate. In the first round, held on 25 May, he came first but could not obtain an absolute majority due to the proportional system, deprived of the majority bonus. As it was already known that the next election would be held with a different system, reintroducing a majority bonus, outgoing PM Mitsotakis abstained from seeking any form of coalition and focused on the new election which was held on 25 June.

The different system did the trick. ND broadly replicated the result of May's vote, but this time round – thanks to the bonus – this was enough to obtain 158 seats out of a required majority of 151. Mitsotakis was again given the mandate to form a government which has assured him another four years in power.

Confronted by a very poor result which saw the number of votes almost halve from the 2016 election result, Alexis Tsipras, the leader of the main opposition party Syriza, resigned.

## Two oppositions

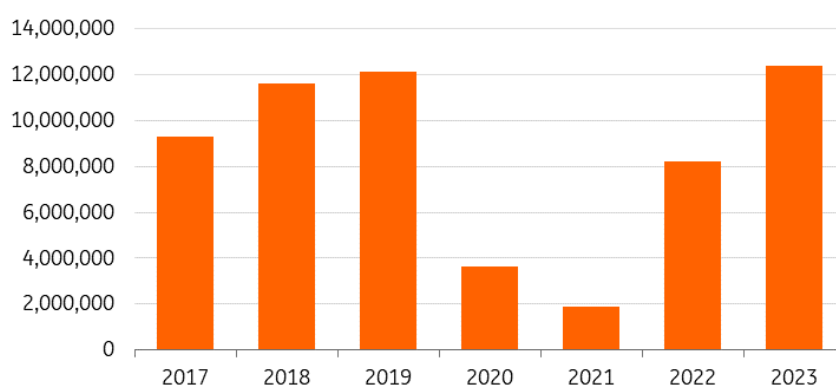
The June election added a new feature to the Greek political scene: three small parties on the right of New Democracy managed to pass the 3% hurdle, obtaining parliamentary representation. This means Mitsotakis will now have to confront two oppositions: one on the left, which will likely need some time to reorganise after the heavy defeat of Syriza, and one on the right, which might prove to be more insidious in its desire for visibility. It will be interesting to see whether pressure from the right will impact the policy line of the government any time soon.

## Economy is still enjoying post-pandemic re-opening inertia

The Greek economy has benefited from the post-pandemic period of prolonged re-opening effects and the related demand for tourism services. The tourism catch-up still seems to be in place. Year-to-date, the number of arrivals has already reached above the levels of 2019 over the same period.

The economic rebound in 2022 brought about improvements in the labour market which still continue to this day. In May, the unemployment rate fell below 11% for the first time since late 2009. Employment gains – helped by cooling inflation – have continued to propel disposable income, ultimately supporting consumption.

## Tourist arrivals back above pre-Covid levels (January-May)



Source: Eurostat, ING computations

## Keeping up the recovery pace won't be easy

Mitsotakis' second legislature will be a challenging one. The election result very likely reflected a call for continuity from the electorate, particularly in the economic domain. Securing continuity in growth against a backdrop of normalising monetary and fiscal policies will not be an easy task.

A stable return to amply positive interest rates might complicate things on the private investment front, where Greece has yet to fill an investment gap since the times of the sovereign debt crisis. Here, keeping a strong focus on the implementation of the recovery and resilience plan might prove decisive.

On the fiscal front, as elsewhere, the restoration of fiscal rules in 2024 will reintroduce constraints that had disappeared over the recent crisis years. The good news is that Mitsotakis is having his second term in office at the height of the summer tourism season, which is a good start.

## Returning Greece to investment grade an obvious target

Looking ahead, an obvious priority for Mitsotakis will likely be to bring Greece back into the investment-grade domain. With a possible new normal characterised by higher rates and restored fiscal discipline, rating agencies might wait for more reassuring evidence about future debt sustainability before pulling the trigger. Developments in state sector accounts until May point to a primary surplus already this year; this is a good starting point, but the resumption of the reform path, temporarily set aside over the pandemic/energy crisis years, will likely be as important to the eyes of the agencies.

In the parliamentary debate, which culminated in a positive vote of confidence for his government, Mitsotakis talked about the plan for the next four years as a multi-dimensional reform. Time will tell.

We expect Greece to remain a growth outperformer in the eurozone for at least a couple of years. For 2023, we project GDP growth of 1.7% year-on-year, with upside risks if the disinflation path proves faster than we are currently projecting.

### Greek economy in a nutshell (%YoY)

	2022	2023F	2024F	2025F
GDP	6.0	1.7	1.6	1.7
Private consumption	7.9	3.3	1.4	1.4
Investment	11.6	7.1	4.8	4.1
Government consumption	-1.5	1.7	0.4	0.4
Net trade contribution	-2.8	2.3	-0.5	-0.2
Headline CPI	9.3	3.7	2.0	2.0
Unemployment rate (%)	12.4	10.8	11	10.9
Budget balance as % of GDP	-2.3	-1.8	-1.0	-0.8
Government debt as % of GDP	171.3	165.4	160.6	156.5

Source: Refinitiv Datastream, all forecasts ING estimates

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