GREECE

THE RECOVERY CONTINUES

Greece is expected to enjoy economic growth once again in 2024, but activity showed signs of slowing down in the second half of 2023. Real GDP stagnated in Q3 2023 and employment fell by 0.5% q/q. While strong tourism activity, against a backdrop of high inflation, is boosting tax revenue, its impact on real GDP is more muted. The sharp drop in the unemployment rate (which is now below 10%), the drastic improvement in public finances and the decline in public and private debt testify to Greece's solid recovery, which has been welcomed by the rise in equity and bond markets, and by the sharp tightening of spreads between Greek sovereign debt and the German Bund. However, the country is still grappling with long-term challenges and others are getting tougher to overcome: unfavourable demographic and investment dynamics are holding back potential growth, while the surge in property prices is fuelling new social risks.

The rebound in post-COVID activity has enabled the Greek government to combine economic growth and fiscal consolidation. Indeed, the country has weathered the successive shocks in Europe in recent years very well. In the third quarter of 2023, real GDP was more than 6% above the level recorded in the final quarter of 2019, which is double the figure for the Eurozone (3.0%). However, real GDP stalled last summer (0% q/q in Q3), held back by of a drop in household consumption (-0.4% q/q) and investment (-1.8% q/q). However, in 2024, economic activity is expected to benefit from the recent labour market recovery and the fall in inflation, which, after peaking at more than 12% y/y in summer 2022, fell back to 3.5% in December. The unemployment rate also dropped below 10% last autumn, dipping to 9.4% in November 2023, the lowest level since June 2009. Short- and medium-term trends thus remain encouraging and growth is expected to stay above 2% in 2024, according to the European Commission's November 2023 forecasts.

However, this recovery is fraught with risks: after a long correction phase, which lasted for almost eight years (2009-2017), property prices in the country have turned higher very sharply again, and rising interest rates did not reverse this trend in 2023. In fact, quite the opposite happened, as the increase in housing prices is now the fastest in the Eurozone, standing at 12% year-on-year in the third quarter of 2023[1]. Athens has become the European capital with the highest property inflation[2], and average prices sit just 3% below the 2008 all-time high. In response to this housing prices inflation, last year the government decided to tighten the eligibility requirements for residence permits for investment activity (also known as «golden visas»). Since the start of August 2023, the property investment threshold required to qualify for these permits has been doubled and now stands at EUR 500,000.

However, the longer-term outlook of the Greek economy continues to be clouded by unfavourable demographics, a stagnating working-age population and relatively low investment rates compared to other Eurozone countries. GDP per capita is still far lower than it was just before the 2008 financial crisis (nearly 17% below the 2007 level, according to Eurostat) and the gap with the euro area average, which had widened during the European sovereign debt crisis, only narrowed slightly in 2021 and 2022.

FISCAL CONSOLIDATION REMAINS A PRIORITY

The improvement in public accounts has undoubtedly been one of the most noteworthy underlying dynamics in Greece. After posting a primary deficit of 10% of GDP at the height of the Eurozone crisis, Greece recorded a primary budget surplus of 0.1% in 2022. This surplus is expected to have widened further in 2023: over the first eleven months of 2023, the General government primary surplus stood at EUR 6.3 billion, compared to EUR 3.7 billion during the same period in 2022.

GROWTH & INFLATION

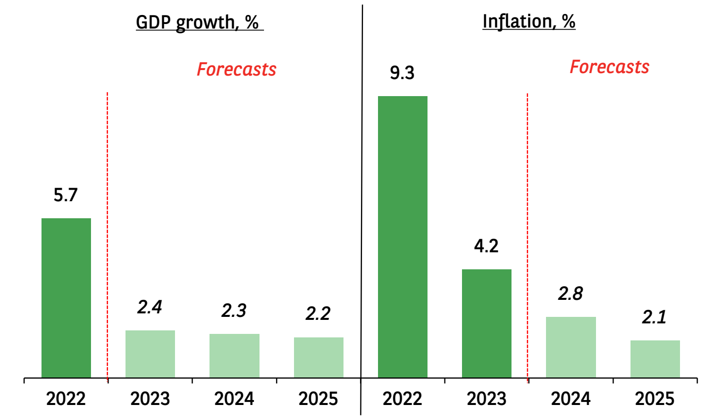

CHART 1

SOURCE: EUROPEAN COMMISSION (NOVEMBER 2023), BNP PARIBAS

Despite rising interest rates, the turnaround in the government accounts will reduce public debt significantly in 2023. The debt ratio stood at 167% of GDP in Q2 2023 and is expected to fall further in 2024, underpinned by the positive growth prospects. The Greek government also intends to use some of its cash reserves to repay in advance nearly EUR 16 billion of its debt to the European Stability Mechanism (ESM), which will help to accelerate the country's debt reduction.

After retaining his absolute majority in the Greek Parliament, Kyriákos Mitsotákis and his New Democracy party emerged strengthened from the Parliamentary elections on 25 June. He intends to continue the privatisation programme aiming to reduce government debt. Despite falling sharply over the past two years, the debt ratio is still currently the highest in Europe. In order to reach its objective, the Hellenic Financial Stability Fund (HFSF) is gradually withdrawing from the capital of the national banks that it had integrated during the sovereign debt crisis in order to keep the sector afloat. All of these measures, aiming at rebalancing the public accounts and liberalising the economy, have reassured the markets and have reduced the risk premium on Greek sovereign bonds. 10-year rates have fallen below the Italian rates since last spring and the spread between Greek and German rates has narrowed to just 100 basis points in January 2024.

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1 See BNP Paribas EcoConjuncture The residential property market in the euro zone put to the test of monetary normalisation, 17 January 2024.
2 See Athens Home Prices Are Surging Faster Than Other European Cities, Bloomberg, 17 November 2023.