GREECE

A STILL FAVOURABLE GROWTH CYCLE

The Greek economy is proving resilient to rising funding costs and geopolitical tensions in Europe. The country is expected to post economic growth once again above the eurozone average in 2024. Real GDP grew by 2.0% in 2023 as an annual average and by 0.7% q/q in Q1 2024, driven by private consumption and investment. Except in real estate, inflationary pressures have eased and fuelled purchasing power gains which, with rising employment, are supporting private consumption, the weight of which in GDP reached a new record in Q1 2024 (76.9%). Because of its size and dependence on the external market, the country nevertheless remains very exposed to economic developments in Europe as well as to the energy market, and oil in particular.

2024 will mark a symbolic milestone in the recovery of the Greek economy in several respects. The ECB approval on 5 June of the request of the country's four largest banks to resume payment of dividends, after sixteen years of interruption, is the first significant development.[1] This year is also expected to mark the point at which real estate prices exceed their 2008 high. This is already the case in the Greek capital, where prices have surpassed this level in Q1 2024. The national index is still 3.5% lower, but with price growth in the country still very strong (+10.8% y/y in Q1[2]), it is also expected to reach record levels by the end of the year. While this is not without risk, exacerbating the problems of accessibility to housing, this illustrates the reflationary phase the country is currently experiencing. Also, because the Greek economy came out of the European debt crisis very late (2016), it is in a less advanced economic cycle than most other countries in the eurozone, and therefore benefits from a higher margin for growth.

Employment rose to 4,300,000 in April for the first time since September 2009, and the unemployment rate fell back to 10.8%. Levers to support the economy also remain significant: European funding allocated to the country by the Recovery and Resilience Facility (RRF) is still plentiful and should, in the long run, support investment. On 14 June, the European Commission gave its agreement in principle for the payment of a fourth tranche of loans of EUR 2.3 billion, while the Greek authorities had formalised, a few days earlier, the application to the Commission for the release of a fourth tranche of subsidies amounting to EUR 998.6 million. Including these payments, which are expected to happen by the end of 2024, this would bring the current RRF payments to Greece to EUR 18.2 billion (EUR 8.6 billion in subsidies and EUR 9.6 billion in loans, including pre-financing), which is about half of the total budget allocated to the country (EUR 36 billion).

BUDGETARY SERIOUSNESS

At the same time, the continued recovery of public accounts in 2023 offers budgetary margins to the centre-right government, whose principal objective remains, at this stage, to reduce the country's indebtedness. The government has announced its intention to repay early, EUR 8 billion of debt contracted through the European aid programme (Greek Loan Facility) at the start of the economic crisis. It has also set itself the objective of generating a primary surplus of 2.1% of GDP in 2024 and 2025, which seems achievable given the good results recorded in 2023, even if the deceleration in inflation will slow tax revenues: the primary surplus reached 1.9% of GDP (compared to 0% in 2022), while the budget deficit fell to -1.6% (after -2.5% in 2022). The public debt ratio declined by 9 points of GDP to 161.9% in 2023 and is expected to drop significantly again in 2024. The contained spread between Greek bond rates and the German Bund, despite market volatility following the European elections and the dissolution of the National Assembly in France, is a fairly clear indication that the risk premium attached to Greek public debt has fallen.

GROWTH AND INFLATION

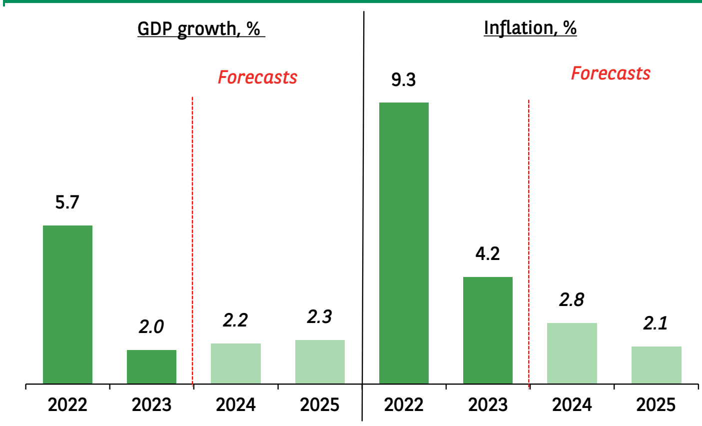

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

The New Democracy party of the current Prime Minister, Kyriakos Mitsotakis, whose popularity has waned since the snap general election in June 2023, nevertheless managed to win the European elections, with 28.3% of votes, compared to 14.9% for the left-wing Syriza party and 12.8% for the centre-left Pasok party. These results, which were worse than expected for the ruling party, led Mitsotakis to proceed on 14 June with a cabinet reshuffle (in particular the Minister of the Interior, Employment, Immigration and the Minister for Development and Investment), although some ministers in key posts remained in office (Finance, Foreign Affairs, Defence).

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1 See BNP Paribas Charts of the Week, *Greek banking system: positive trends, structural weaknesses*, 12 June 2024.
2 Bank of Greece data.