# Economic forecast for Greece

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## Last update (15/05/2023)

Spring 2023 Economic Forecast: an improved outlook amid persistent challenges
Economic activity is expected to grow by 2.4% in 2023. The output expansion is supported by a resilient labour market and the implementation of the Recovery and Resilience Plan (RRP). Head-line inflation averaged 9.3% in 2022 but is set to moderate to 2.4% by 2024 due to easing ener-gy prices. While remaining negative, the general government balance deficit keeps shrinking on the back of improved revenue collection. Public debt is set to decline further.

| Indicators | 2022 | 2023 | 2024 |
|---|---|---|---|
| GDP growth (%, yoy) | 5,9 | 2,4 | 1,9 |
| Inflation (%, yoy) | 9,3 | 4,2 | 2,4 |
| Unemployment (%) | 12,5 | 12,2 | 11,8 |
| General government balance (% of GDP) | -2,3 | -1,3 | -0,6 |
| Gross public debt (% of GDP) | 171,3 | 160,2 | 154,4 |
| Current account balance (% of GDP) | -11,8 | -9,2 | -7,8 |

### Economic activity to slow down in 2023 and further moderate in 2024

Despite the energy crisis and associated inflationary pressures throughout the year, the Greek economy grew by 5.9% in 2022. Buoyant private consumption, significant investment activity, and the impetus provided by the rebound of tourism during the summer season contributed to the strong growth performance. Moreover, real GDP rose sizeably in the final quarter of 2022 despite widespread price pressures implying a significant carry-over effect for 2023.

Real GDP is forecast to expand by 2.4% this year on the back of both domestic and external demand. However, growth in private consumption is set to cool down significantly compared to the post-pandemic recovery last year, amid a loss in household real disposable income and a still negative savings rate. The ongoing implementation of the RRP is shifting from reforms towards investments and is thus set to sustain capital spending, notably in construction and to a lesser extent in equipment, partly offsetting the impact from tighter funding conditions. The full recovery of international tourism to pre-pandemic levels is set to bolster Greek exports. In line with moderating domestic demand, import growth is projected to ease. However, the trade deficit is expected to remain high despite falling energy prices and positive terms-of-trade effect.

In 2024, economic growth is projected at 1.9%, gradually converging to the longer-term growth potential. Investment is set to remain a key contributor to output growth, albeit at lower rates than in 2021-2023, while household spending is likely to be supported by a rise in real incomes.

## Resilient labour market amid increasing wage pressures

The labour market improved markedly in 2022 amid sustained job creation. Even as people continued to return to the labour market following the pandemic, implying a rising labour force, the unemployment rate fell to 12.5% and is set to decline to 11.8% by 2024. Despite the expected pick-up in nominal wage growth this year and next, real wage growth is not expected to turn positive before 2024.

## Inflation to decelerate on the back of lower energy prices

Headline inflation averaged 9.3% in 2022 but declined to 6.3% by Q1-2023. Price pressures are expected to further moderate this year thanks to easing energy prices. Consumer prices are forecast to increase by 4.2% and 2.4% in 2023 and 2024 respectively. However, the lagged pass-through of high energy and food prices to services and non-energy industrial goods, which has become more visible since the last quarter of 2022, will push up core inflation in 2023. Despite a 9.4% increase in the minimum wage in April 2023, risks of a wage-price spiral appear contained. However, upside risks to the inflation outlook result from a more rapid wage adjustment that could feed into higher core inflation.

## Return to primary surplus came earlier than expected

The general government deficit in 2022 turned out significantly lower than expected, reaching 2.3% of GDP compared to 4.1% of GDP forecast in autumn. The primary balance recorded a surplus of 0.1% of GDP. This improvement is primarily due to better-than-expected tax revenues, particularly from value-added tax and direct taxes.

Following the better-than-expected outcome in 2022, the general government deficit is forecast to shrink further to 1.3% in 2023. This can be mainly attributed to the phasing out of the remaining pandemic-related measures (which are estimated to have amounted to 1.5% of GDP in 2022) and to a significant reduction in the cost of the measures to mitigate the economic and social impact of high energy prices (from 2.5% of GDP in 2022 to 0.2% in 2023). At the same time, the growth of public wages and social benefits is expected to remain muted. The forecast also factors in two temporary measures introduced in response to inflationary pressures with an estimated fiscal cost of 0.3% of GDP: (a) a voucher of EUR 35 per month for the period February to July 2023 for households fulfilling certain income criteria and (b) a one-time pension bonus for pensioners whose pension is currently not indexed.

The general government deficit is expected to decrease further to 0.6% of GDP in 2024, implying a primary surplus of 2.5%. The improvement of the fiscal balance is driven by the phasing out of the remaining energy-related measures by 2024. Despite the planned reform of the wage bill with an estimated fiscal impact of 0.2% of GDP for 2024, public spending is expected to remain overall muted thereby improving the balance.

The public debt-to-GDP ratio declined sharply in 2022 largely driven by the increase in nominal GDP. The ratio is expected to decline further to 160.2% of GDP in 2023 and 154.4% in 2024, helped by primary surpluses and economic growth.

The fiscal outlook remains subject to upside and downside risks. In particular, downside risks stem from pending legal cases, most notably the litigation cases against the Public Properties Company (ETAD). On the upside, if the improvement in tax compliance continues, revenues could turn out higher than currently expected.