

5. GREECE

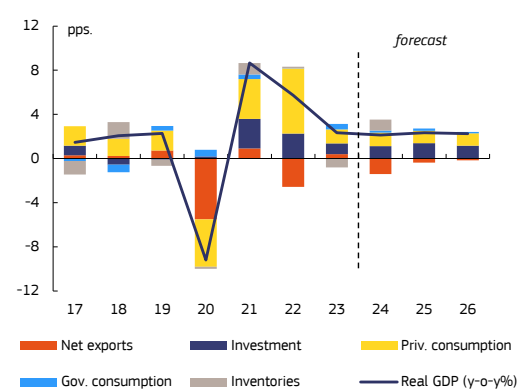
Economic activity is expected to expand by 2.1% in 2024 and to maintain a broadly similar growth in 2025 and 2026, supported by the implementation of the Recovery and Resilience Plan (RRP). Unemployment, now below 10%, is expected to keep declining but more slowly than in the past. Inflation is projected at 3.0% in 2024 and is expected to moderate only gradually to around 1.9% by 2026. The general government deficit is projected to keep decreasing driven by muted expenditure growth. Together with solid nominal GDP growth, this contributes to the steady decline in public debt-to-GDP to close to 140% of GDP by 2026.

Growth to remain robust

The Greek economy posted a solid 2.1% y-o-y growth in the first half of 2024, driven primarily by domestic demand, while net exports were a drag on growth. Following minimum wage hikes, private consumption benefited from the relatively faster wage increase for lower-income households that tend to have a higher propensity to consume. Equipment investment accelerated in parallel with a strong pick-up in corporate credit growth, while a surge in imports accompanied by sluggish export growth prompted a decline in net exports. Thanks to strong domestic demand, real GDP growth is expected to average 2.1% in 2024.

Going forward, private consumption is set to continue expanding at a robust pace supported by steady real income growth. Investment is forecast to accelerate further, peaking at close to 9% in 2025, as the implementation of the RRP increasingly shifts from reforms towards investments and financing conditions improve. The recovery in external demand is set to benefit export growth, further supported by cost competitiveness gains accumulated in the past and structural reforms aiming to ameliorate export performance. Import growth is forecast to remain strong, given the high import content of investment. Overall, GDP growth is set to remain above the long-term growth potential and is projected at 2.3% and 2.2% in 2025 and 2026, respectively.

Graph III.5.1: Greece - Real GDP growth and contributions



Structural challenges may limit further labour market improvements

The employment rate increased to 54.9% (persons aged 15-74) in seasonally adjusted terms in the second quarter of 2024 but remains one of the lowest in the EU. The unemployment rate fell to 9.5% in August, albeit still remaining one of the highest in the EU. Vacancy rates increased further in the first half of 2024, especially in construction, tourism and high-skill sectors. Employment growth is set to continue, although at a slower pace as skills mismatches and structural bottlenecks, among others, such as the lack of child- and elderly care solutions, or the tight regulatory framework for part-time employment, limit the increase in labour supply. The unemployment rate is forecast to decline to around 9.0% by 2026, its lowest level in a decade. Real wages per employee are set to rise by 1.1% on average per year over the forecast horizon also supported by a reduction in social security contribution.

Inflation to resume its decline, albeit at a slow pace

Headline inflation averaged 3.1% y-o-y in the third quarter of 2024, about 1 pp. above the euro area average. Disinflation has been constrained by accelerating services prices, the impact of the 2023 floods on food prices and the recent uptick in electricity prices. Inflation is expected to resume its decline in the last quarter of 2024, but wage pressures fuelled by increasing labour

shortages and minimum wage increases are set to exert upward pressure on prices looking forward. Headline inflation is projected at 3.0%, 2.4% and 1.9% in 2024, 2025 and 2026, respectively. Inflation excluding energy and food is forecast to remain higher over the forecast horizon, at 3.4%, 2.7% and 2.0% in 2024, 2025 and 2026, respectively.

Public debt ratio expected to shrink amid an improving fiscal balance

The headline deficit is expected to decline from 1.3% of GDP in 2023 to 0.6% of GDP in 2024, reflecting the primary surplus increase from 2.1% of GDP in 2023 to 2.9% this year. This decline is largely due to the muted growth of current expenditure and the growth of income tax revenues.

In 2025, the headline deficit is set to further decline to 0.1% of GDP mostly driven by the decrease in interest expenditure on the back of declining short-term interest rates in 2025. This forecast factors in the better execution of 2024, as well as a set of new fiscal measures announced this year with a net impact of 0.2% of GDP. On the expenditure side, public sector salaries are due to increase in April 2025, to align the base salary in the public sector with the minimum wage in the private sector. On the revenue side, the social security contribution rate is set to be reduced by 1 pp. and an increase of the overnight tax in hotels has been announced. The fiscal stance is projected to be expansionary in 2025, following a contractionary fiscal stance in 2024.

In 2026, the general government balance is expected to turn into a surplus of 0.2% of GDP, amidst favourable macroeconomic developments. This improvement is set to be driven by an increase in tax revenues and social security contributions that offset the increased expenditure on pension benefits and public wages. The fiscal stance is projected to remain expansionary in 2026.

The public debt-to-GDP ratio has been declining over recent years and is projected to reach 153.1% in 2024, before falling further to 146.8% of GDP in 2025 and 142.7% in 2026. The decline is driven by primary surpluses, nominal growth and the lowering of cash buffers in 2024.

The fiscal outlook remains subject to country-specific risks. Downside risks stem from pending legal cases, most notably the litigation cases against the Public Properties Company (ETAD). On the upside, the government's efforts to increase tax compliance through digitalisation may yield higher revenues in 2025.

Table III.5.1: **Main features of country forecast – GREECE**

	2023		Annual percentage change							
	bn EUR	Curr. prices	% GDP	05-20	2021	2022	2023	2024	2025	2026
GDP	225.2		100.0	-1.5	8.7	5.7	2.3	2.1	2.3	2.2
Private Consumption	154.7		68.7	-0.9	5.1	8.6	1.8	1.8	1.7	1.7
Public Consumption	43.5		19.3	-0.4	1.8	0.1	2.6	0.9	1.1	0.7
Gross fixed capital formation	34.2		15.2	-5.3	21.7	16.4	6.6	7.4	8.9	7.1
Exports (goods and services)	98.4		43.7	1.3	24.4	6.6	1.9	2.3	3.7	3.5
Imports (goods and services)	109.1		48.4	0.3	17.4	11.0	0.9	5.0	4.1	3.5
GNI (GDP deflator)	218.2		96.9	-1.5	9.0	5.1	0.4	1.9	2.7	2.5
Contribution to GDP growth:										
Domestic demand				-1.5	6.7	8.2	2.7	2.5	2.7	2.4
Inventories				0.0	1.0	0.2	-0.8	1.0	0.0	0.0
Net exports				0.2	0.9	-2.6	0.4	-1.4	-0.4	-0.2
Employment				0.0	5.1	2.4	1.2	1.1	0.9	0.8
Unemployment rate (a)				17.6	14.7	12.5	11.1	10.4	9.8	9.2
Compensation of employees / head				-0.4	1.6	1.8	3.7	4.1	3.2	3.0
Unit labour costs whole economy				1.1	-1.7	-1.4	2.5	3.1	1.7	1.5
Saving rate of households (b)				1.8	4.4	-3.5	-1.9	-0.2	0.5	0.2
GDP deflator				0.7	1.4	6.5	5.9	3.5	2.4	2.2
Harmonised index of consumer prices				1.4	0.6	9.3	4.2	3.0	2.4	1.9
Terms of trade goods				-0.4	-0.4	5.3	3.8	1.5	0.0	0.2
Trade balance (goods) (c)				-13.1	-14.4	-19.0	-14.5	-14.7	-14.8	-14.9
Current-account balance (c)				-7.1	-8.3	-10.8	-8.0	-7.1	-7.5	-7.2
General government balance (c)				-6.6	-6.9	-2.5	-1.3	-0.6	-0.1	0.2
Fiscal stance (c)				-	-3.1	-2.2	0.1	0.5	-0.6	-0.5
Structural budget balance (d)				4.0	-4.6	-2.5	-1.6	-1.3	-1.2	-1.1
General government gross debt (c)				157.4	197.3	177.0	163.9	153.1	146.8	142.7

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.