

Greek economy: from the great depression-stagnation of the 2010s, to recovery amid adverse international economic developments

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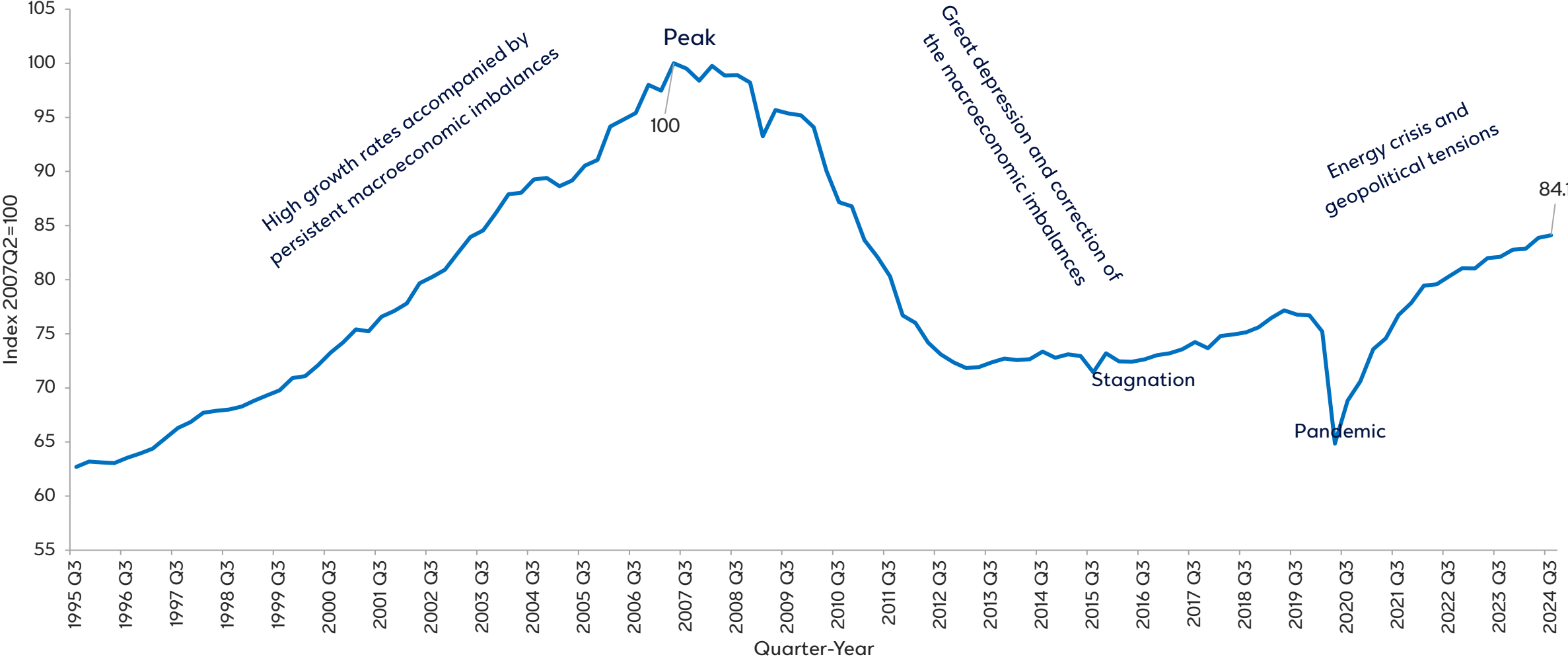
February 2025



During the last 17 years, Greece is going through a big business cycle, both in terms of depth and duration (great depression, stagnation, pandemic, energy crisis and geopolitical tensions)

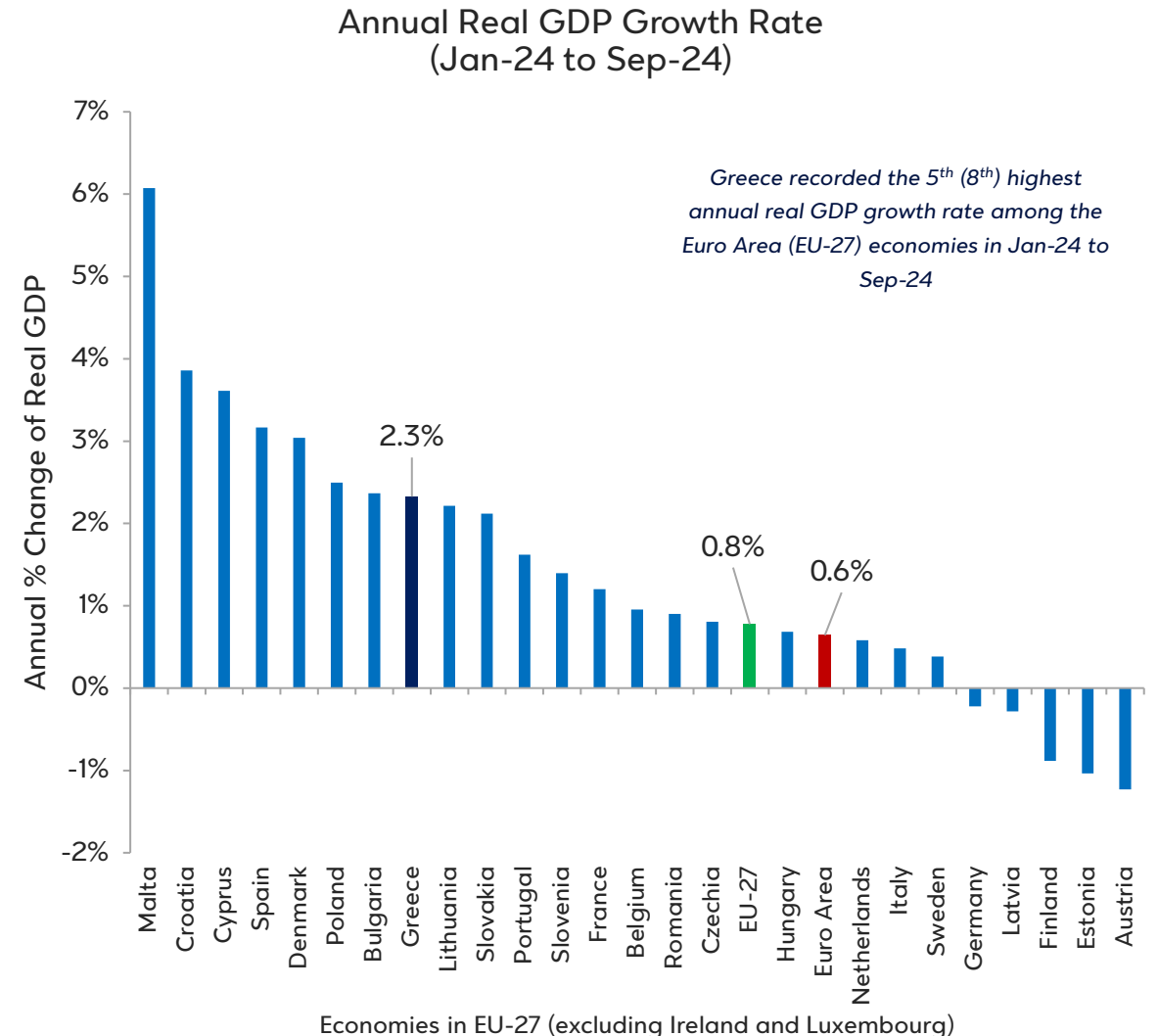
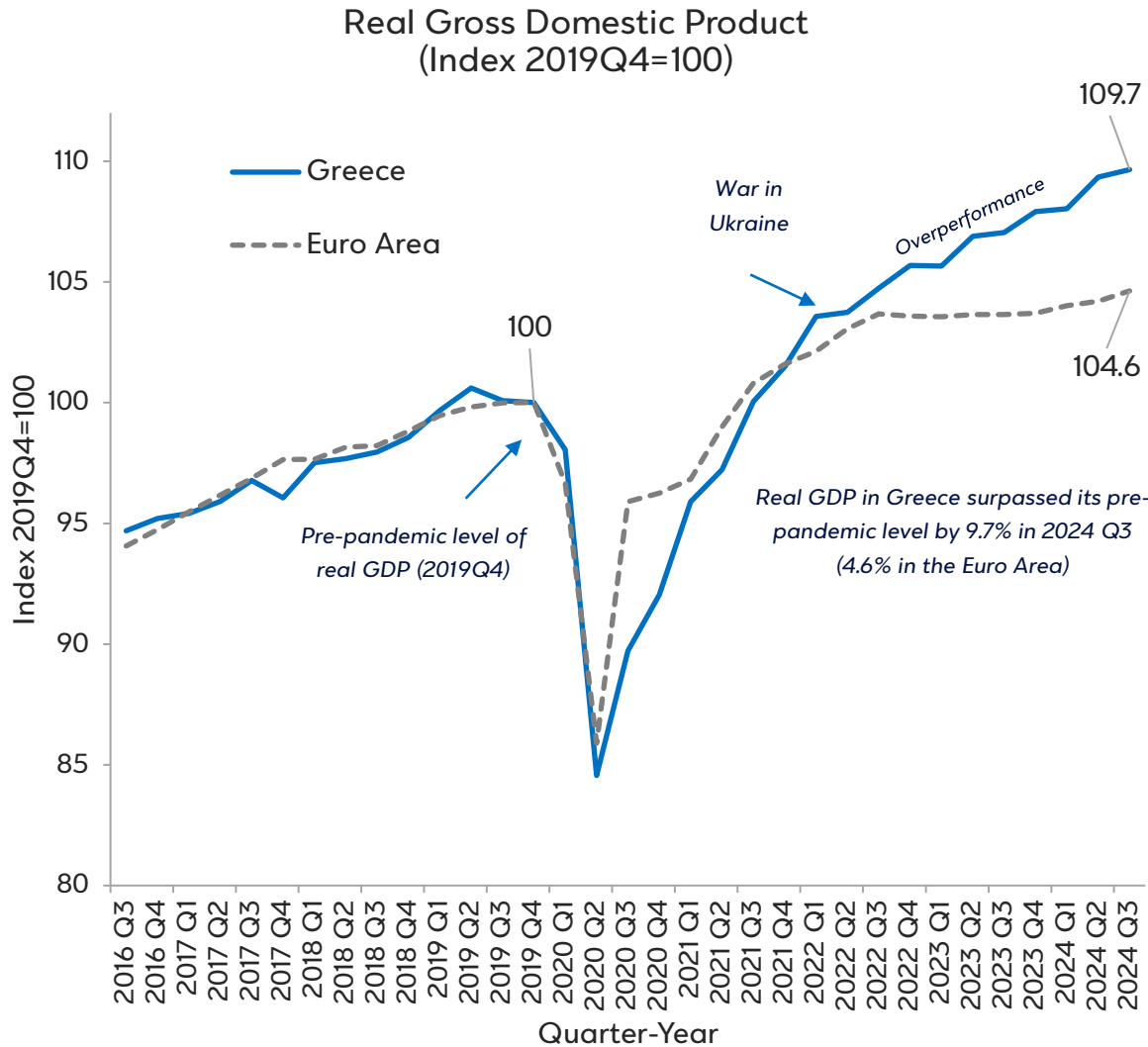


Real Gross Domestic Product (Index, 2007Q2=100)



Source: ELSTAT, Eurobank Research

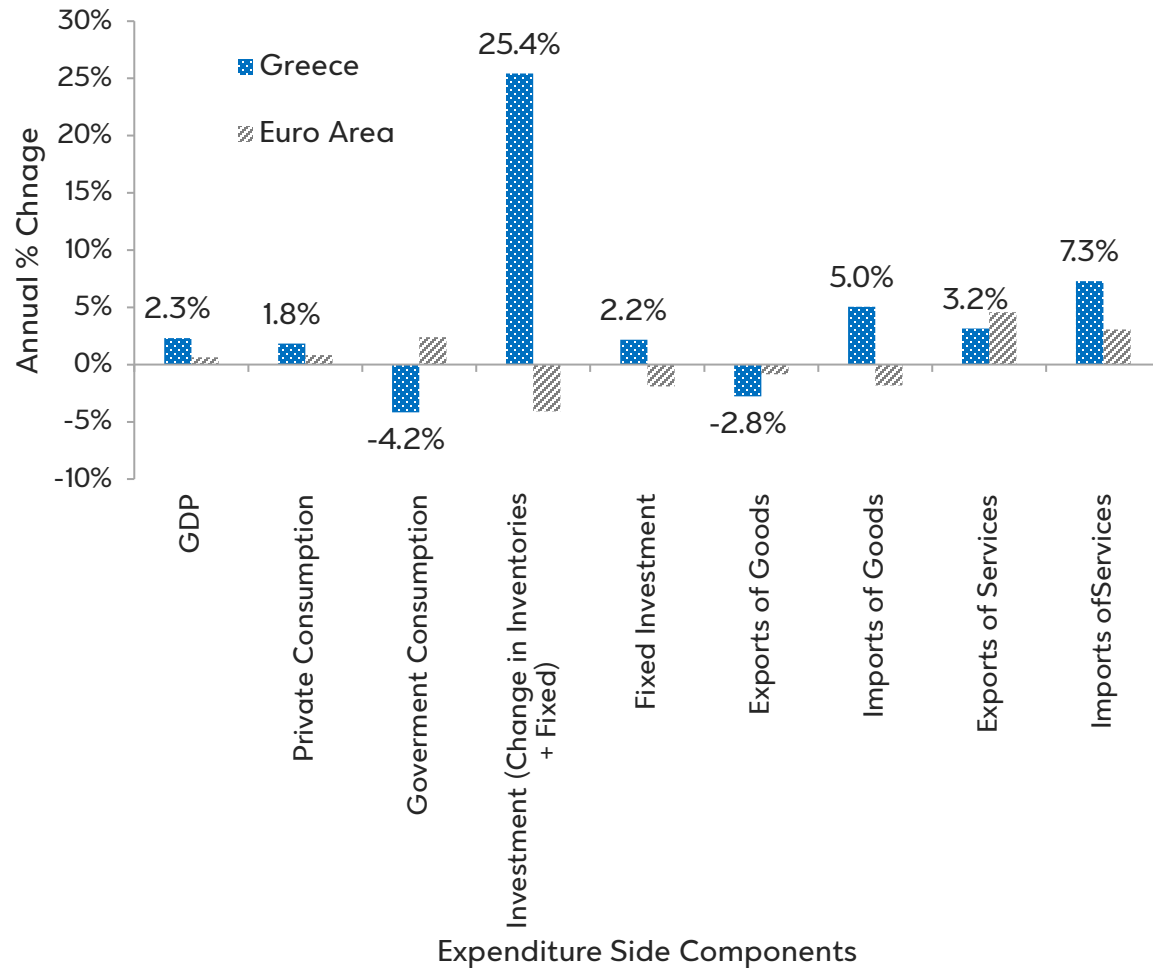
After the deep recession in 2020 and the post-pandemic recovery in 2021-2022, growth remained solid in Greece, both in 2023 and in Jan-24 to Sep-24, overperforming compared to the Euro Area



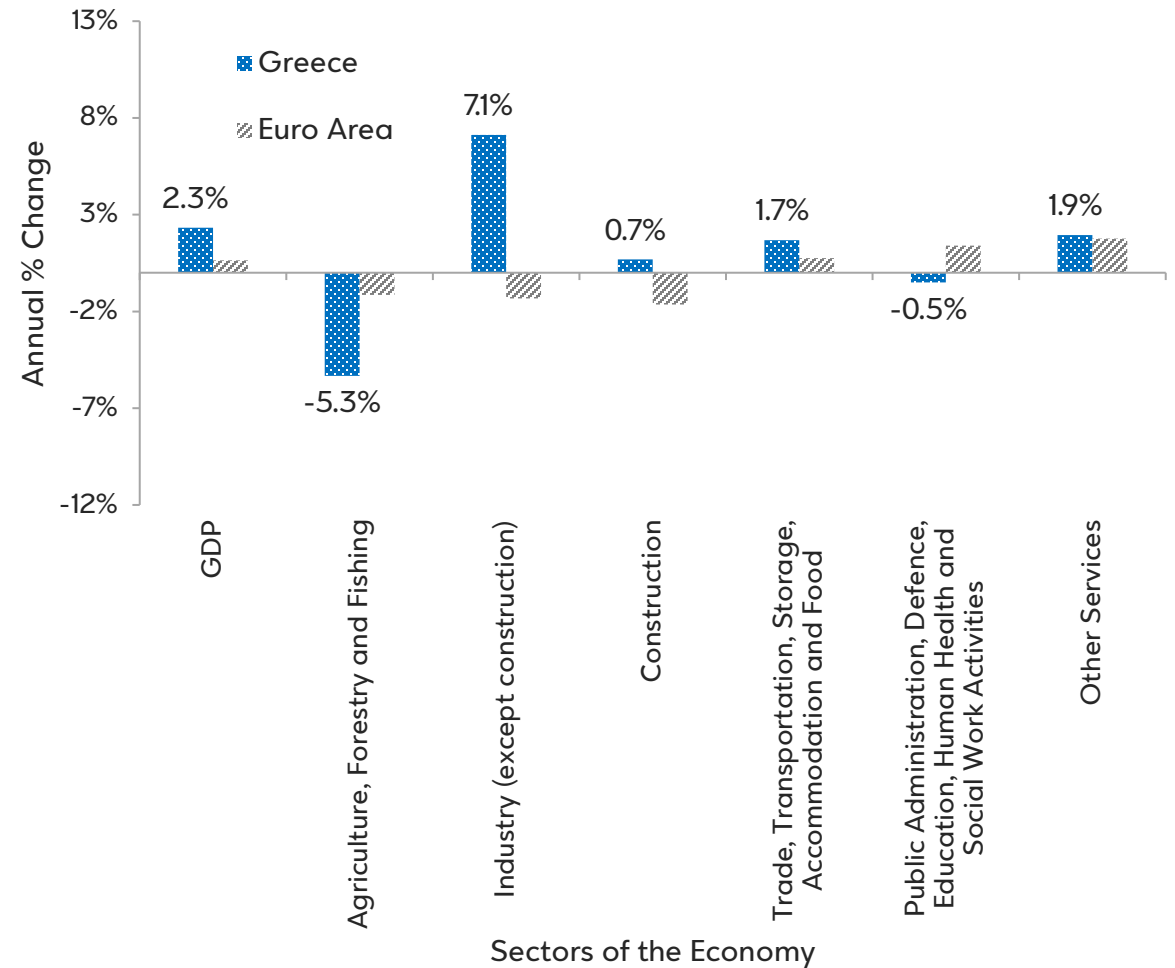
Expenditure approach: +private consumption, +investment, +exports of services

Production approach: +manufacturing, +services

Real GDP and Expenditure Approach
(Jan-24 to Sep-24)

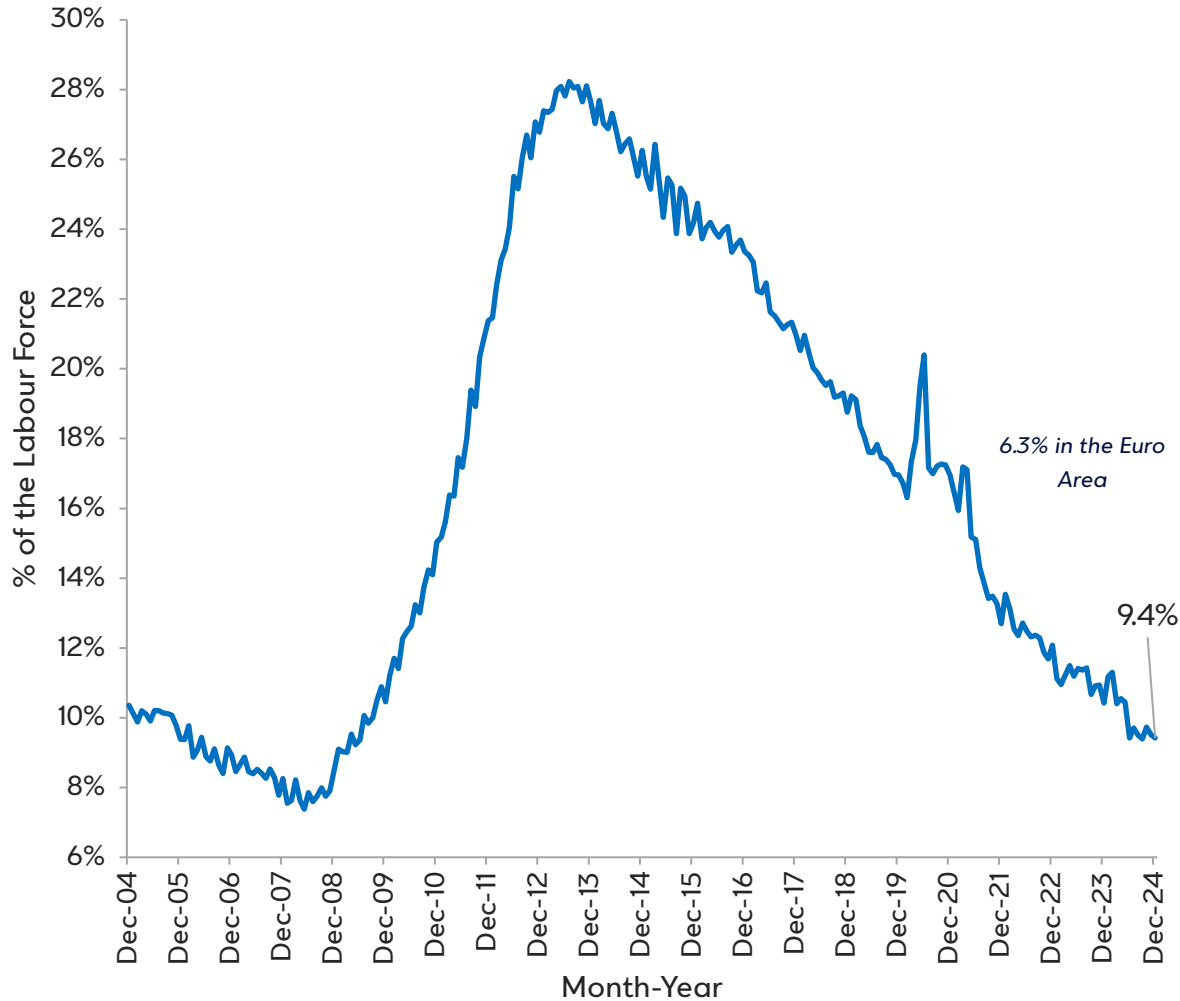


Real GDP and Production Approach
(Jan-24 to Sep-24)

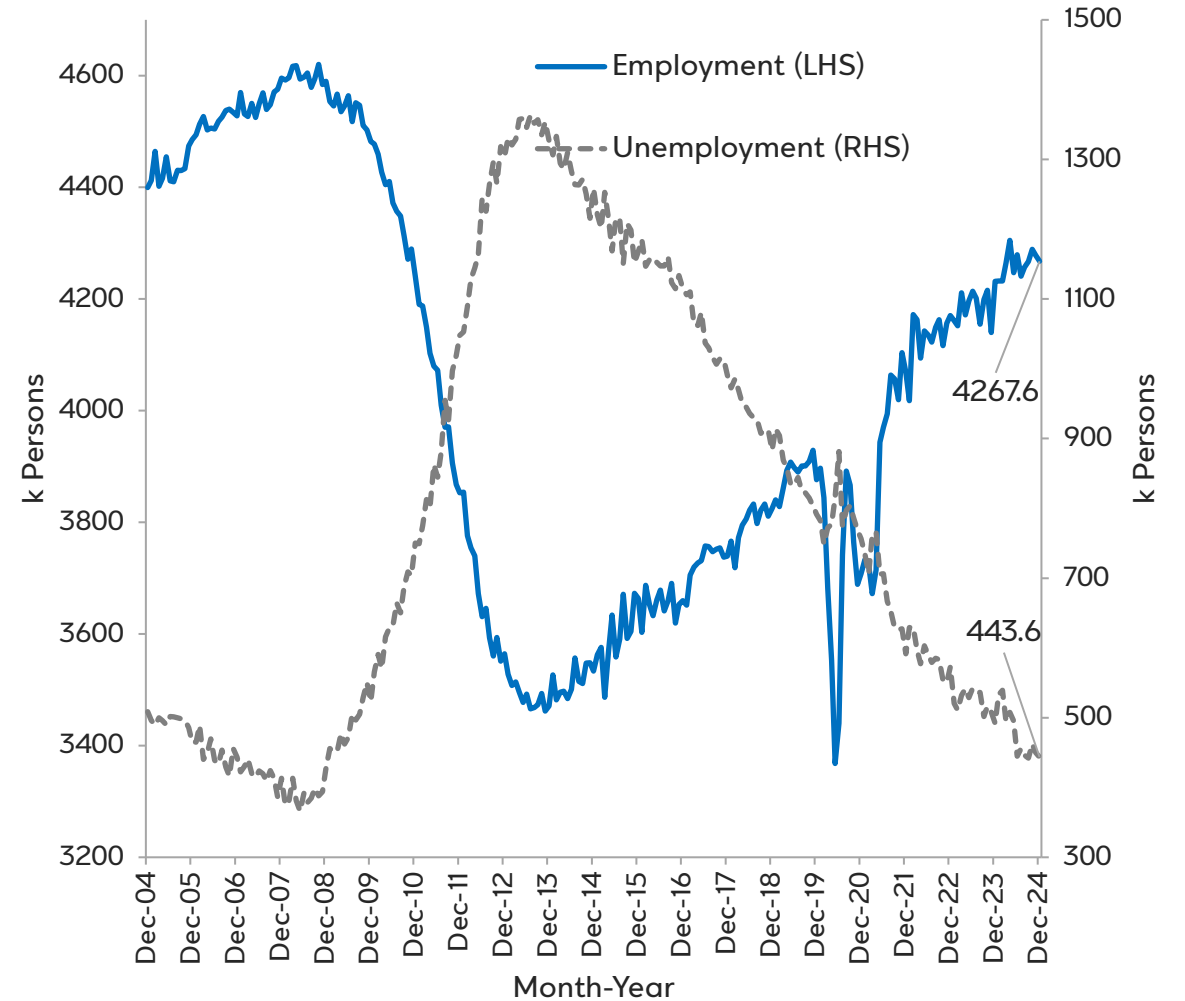


The unemployment rate remains on a declining path, supporting households' disposable income, nevertheless major challenges still exist (high structural unemployment)

Unemployment Rate

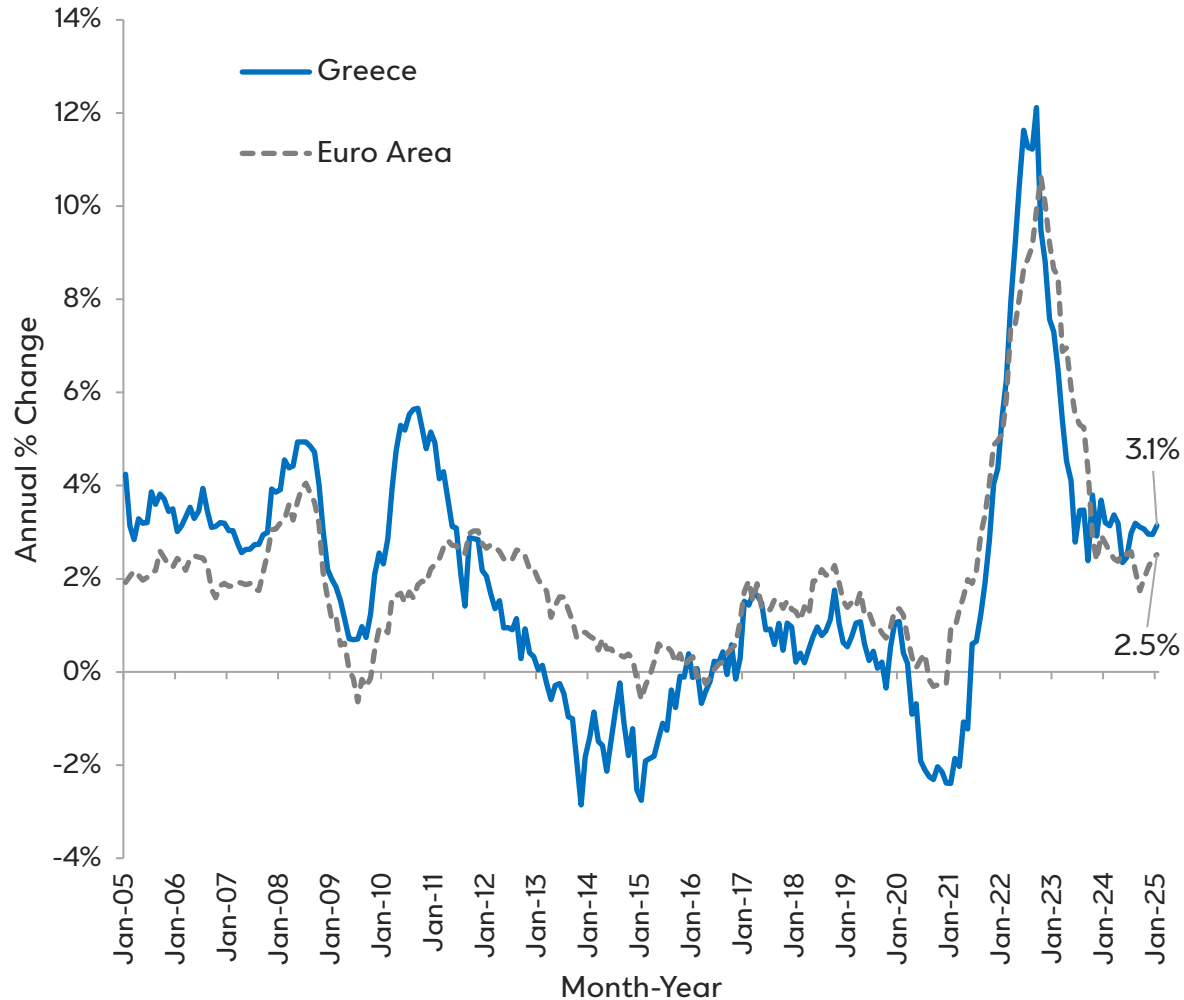


Employment and Unemployment

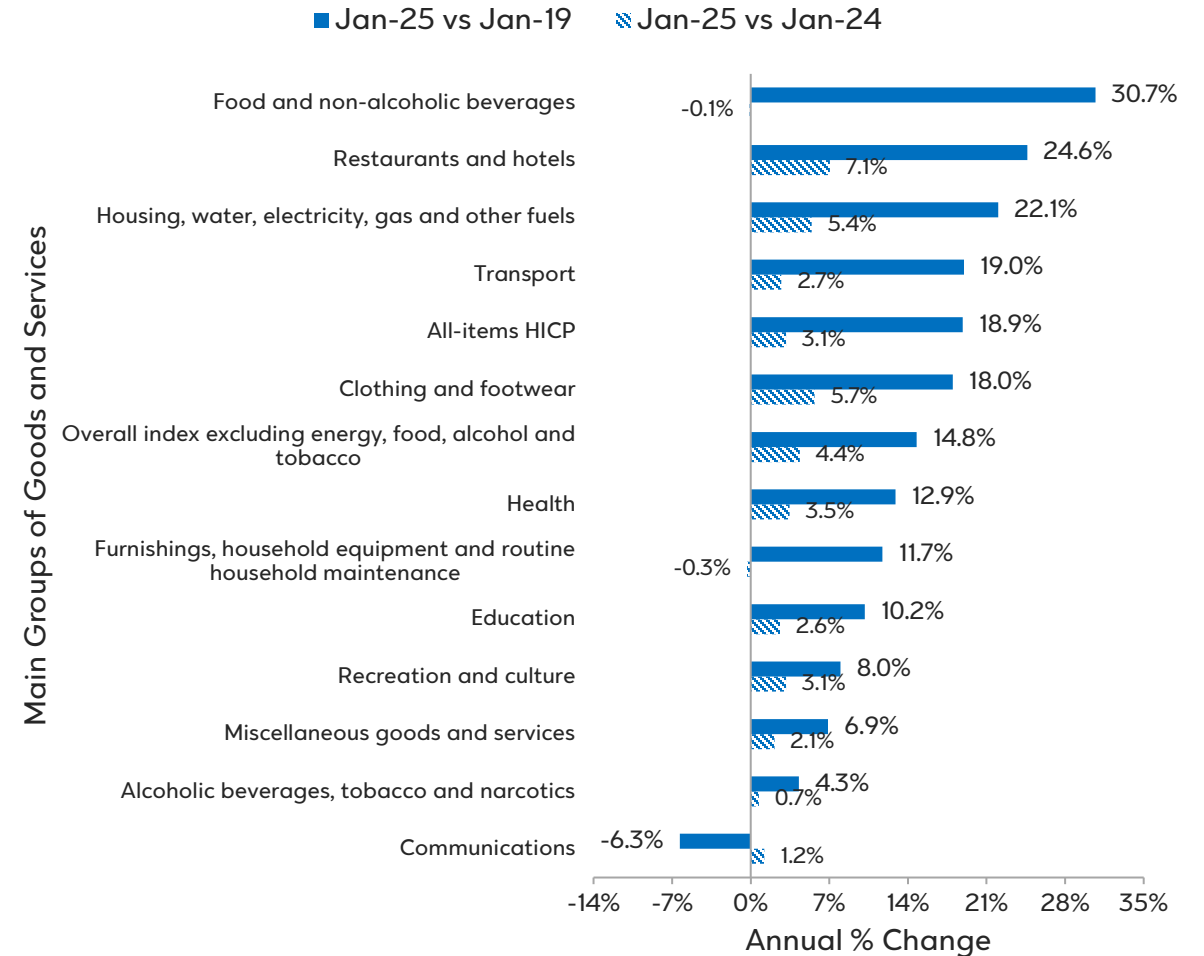


The inflation rate moderated due to the decrease in energy prices, nevertheless remains above the ECB's 2% target

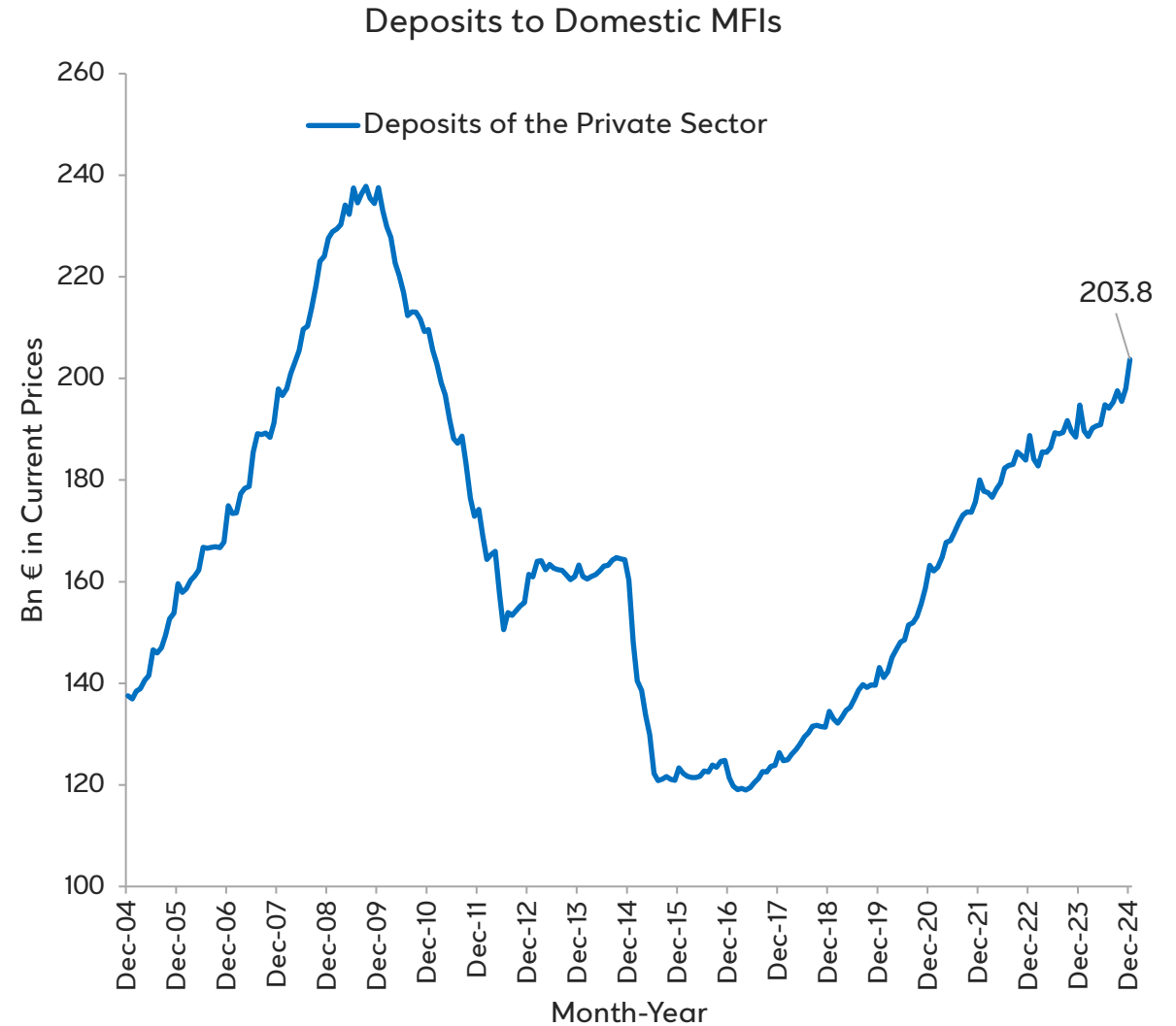
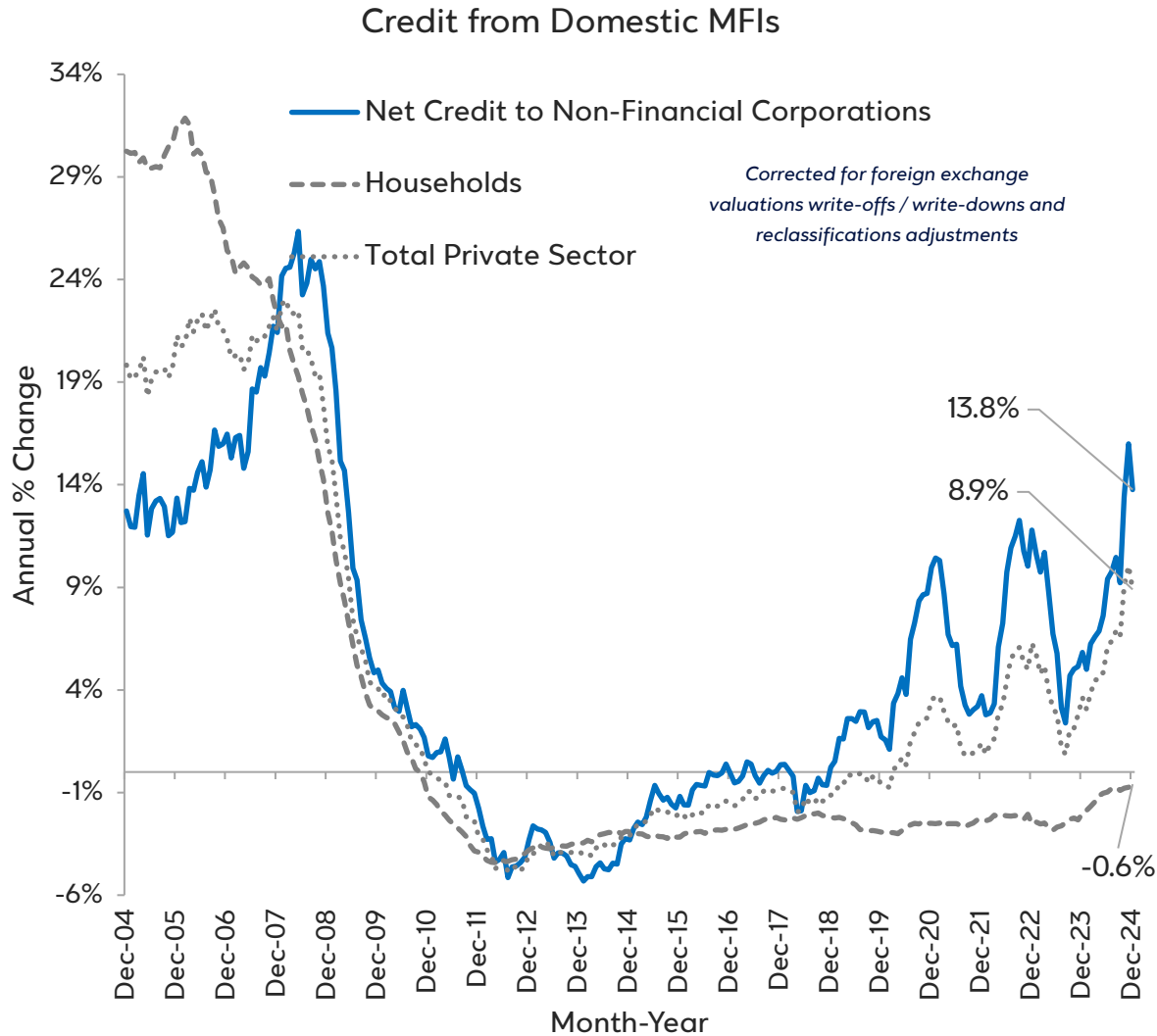
Inflation Rate (HICP)



Inflation Rate in Main Groups of Goods and Services (Greece)

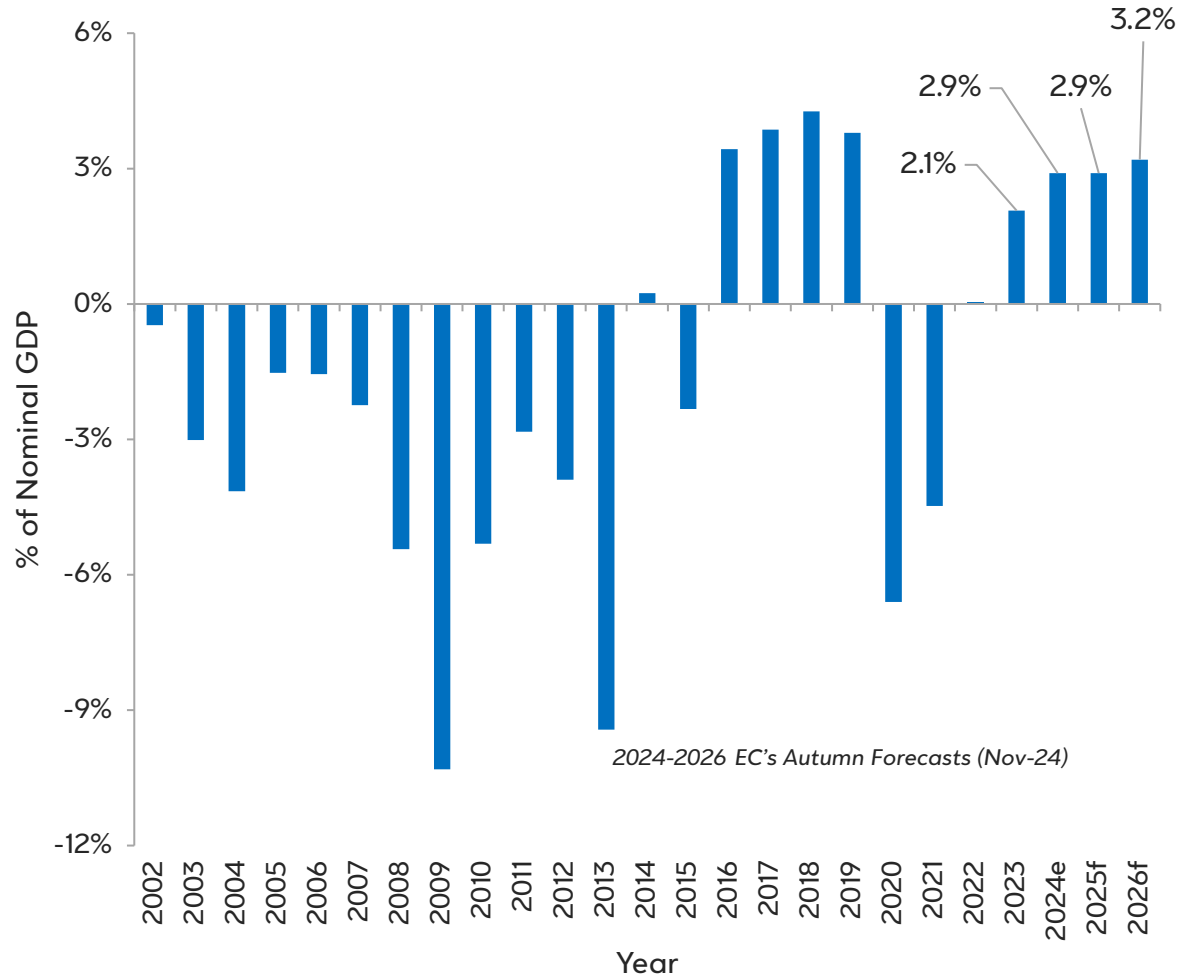


Private sector deposits to domestic MFI's continued to increase at a robust rate in 2024, whereas credit from domestic MFI's accelerated

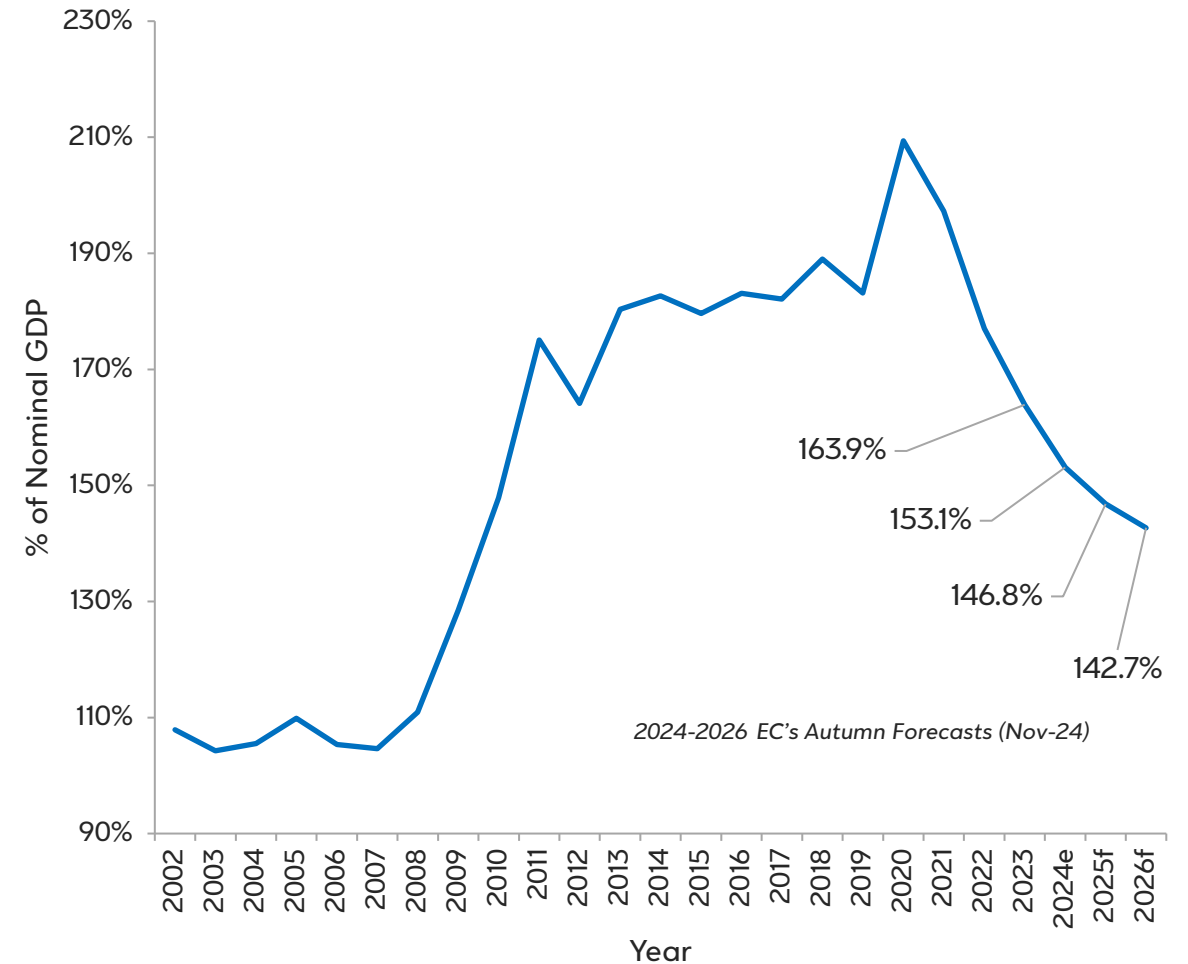


Following 2 years of high fiscal deficits due to the measures taken against the pandemic and the energy crisis, fiscal stability returned, leading along with high nominal growth to a reduction in the debt-to-GDP ratio

Primary Fiscal Balance
(General Government)



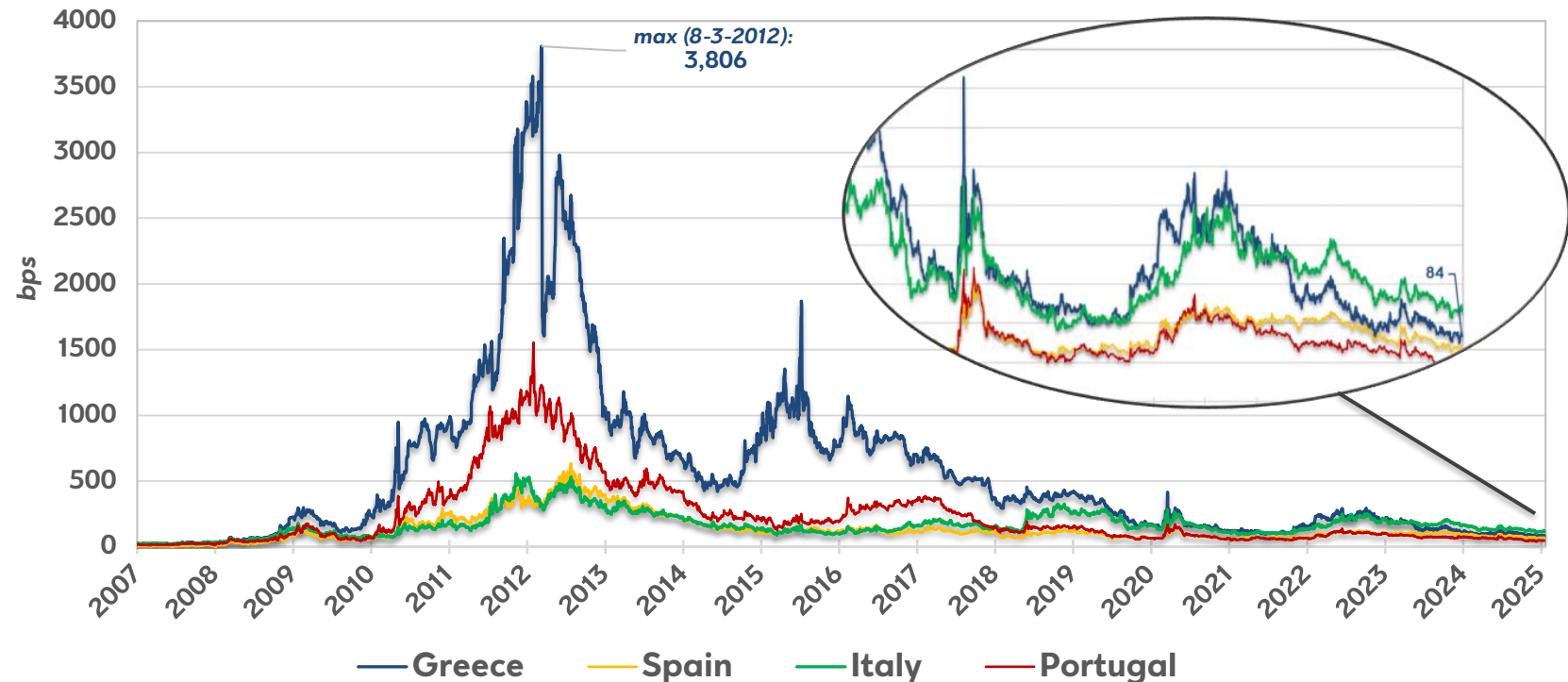
Debt to GDP Ratio
(General Government)



Greece reclaims investment grade in 2023 after 12 years

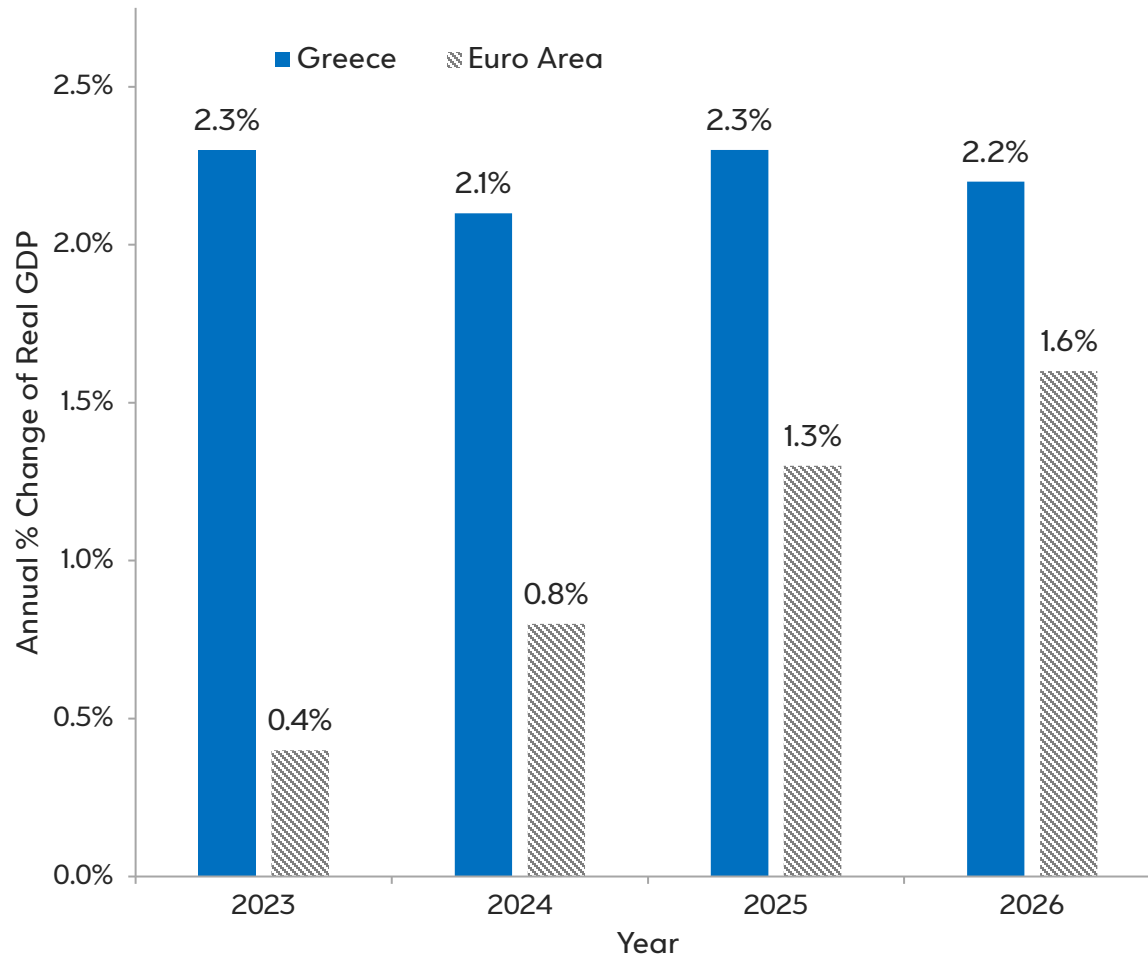
	S&P	Moody's	Fitch	DBRS
INVESTMENT GRADE	AAA	Aaa	AAA	AAA
	AA+	Aa1	AA+	AA (high)
	AA	Aa2	AA	AA
	AA-	Aa3	AA-	AA (low)
	A+	A1	A+	A (high)
	A	A2	A	A
	A-	A3	A-	A (low)
	BBB+	Baa1	BBB+	BBB(high)
	BBB	Baa2	BBB	BBB
	BBB-	Baa3	BBB-	BBB(low)
SPECULATIVE GRADE	BB+	Ba1	BB+	BB (high)
	BB	Ba2	BB	BB
	BB-	Ba3	BB-	BB (low)
	B+	B1	B+	B (high)
	B	B2	B	B
	B-	B3	B-	B (low)
	CCC+	Caa1	CCC+	CCC(high)
	CCC	Caa2	CCC	CCC
	CCC-	Caa3	CCC-	CCC (low)
	CC	Ca	CC	CC (high)
	C	C	C	CC
	RD	C	RD	CC (low)
	SD			C
	D			D

- Greek sovereign debt ranked as investment-grade by 4 out of the 5 Eurosystem-approved ECAs (Scope Ratings, DBRS Morningstar, S&P Ratings, Fitch Ratings), positive outlook by Moody's.
- Government cash reserves at €33bn as of end 2024.
- 10Y sovereign spreads vs: DE (+83bps), PT (+31bps), ES (+20bps), FR (+9bps), IT (-31bps) as of Feb 25, 2025.



According to EC's Autumn forecasts (Nov-24), real GDP growth in Greece is expected at 2.2% on average in 2024-2026, overperforming compared to the Euro Area (1.2%)

Annual Real GDP Growth Rate
(EC's Autumn Forecasts, Nov-24)



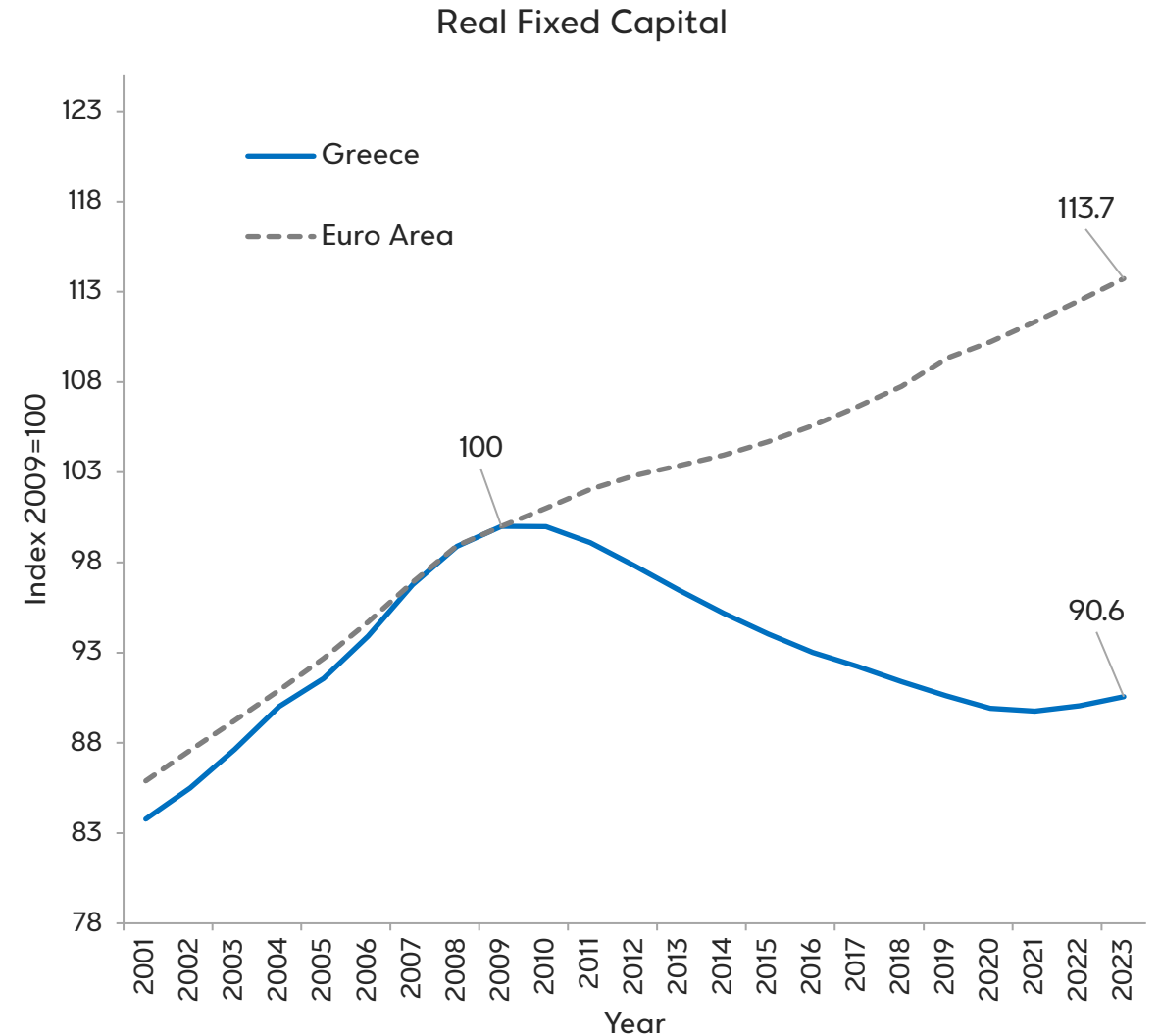
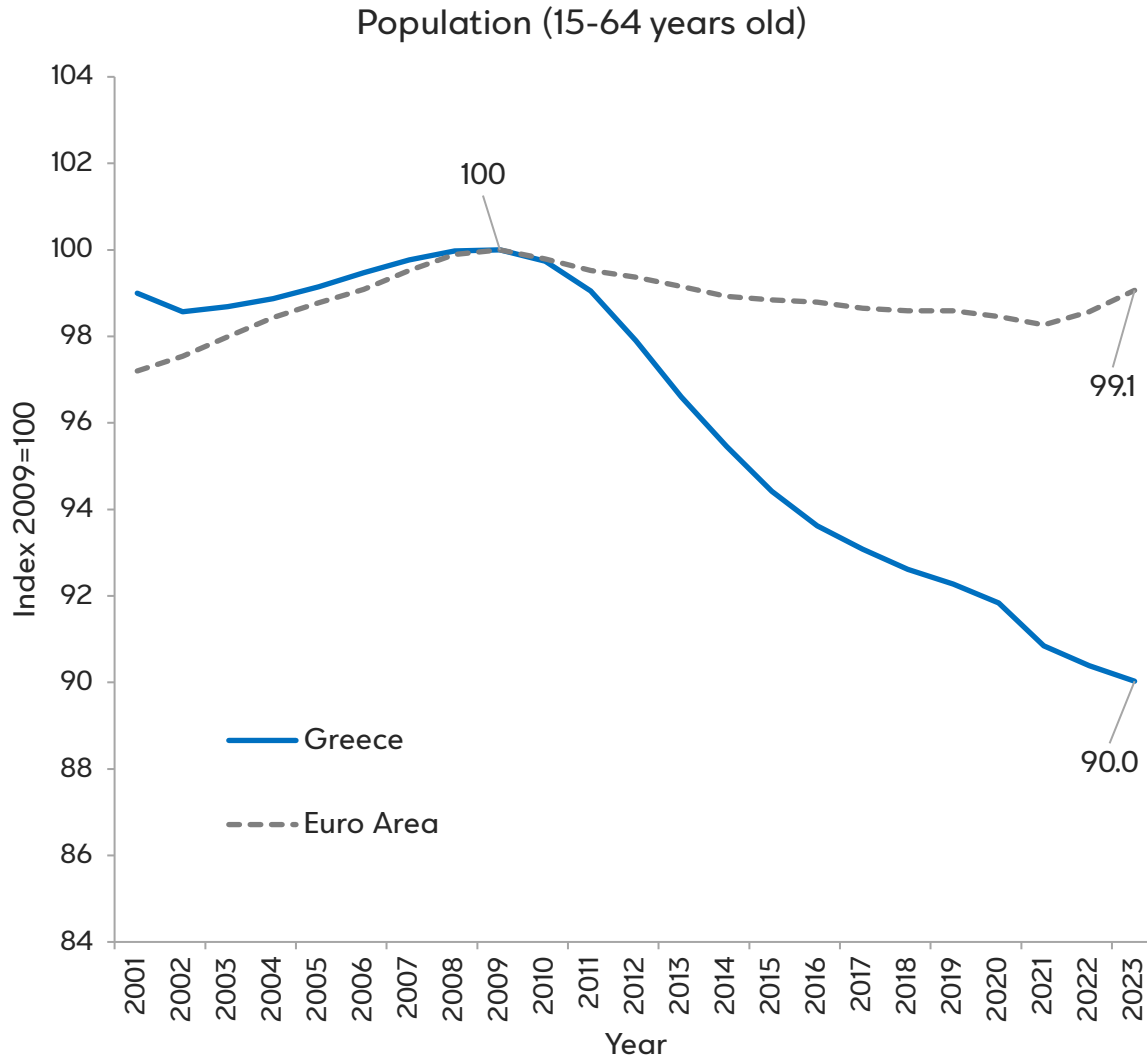
Downside Risks

- Escalation of the geopolitical tensions.
- Global policy uncertainty.
- Weak economic performance of Greece's major trading partners.
- Delays in the implementation of the Recovery and Resilient Plan.
- Climate crisis (prolonged heatwaves, large fires and floods).

Upside Risks

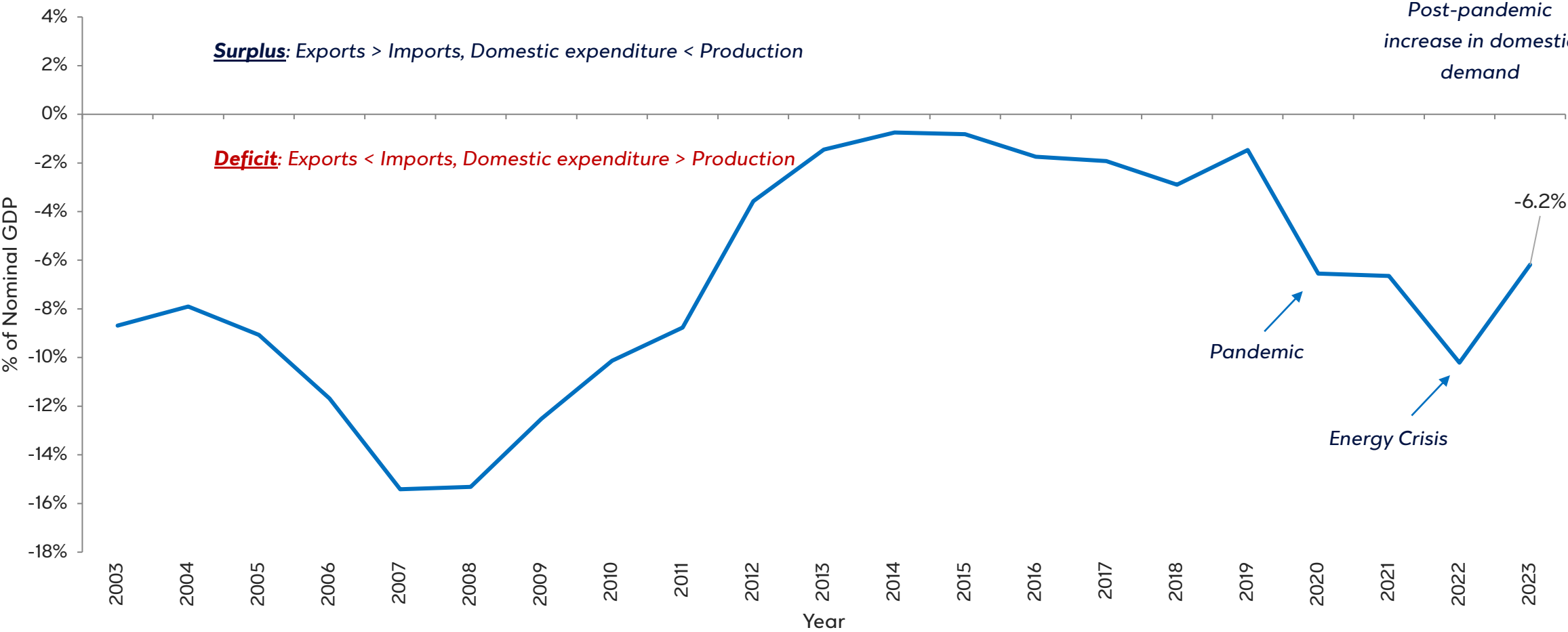
- Acceleration of ambitious structural reforms

Need to expand the production possibility frontier of the Greek economy (investment in human and physical capital, structural reforms to enhance productivity)

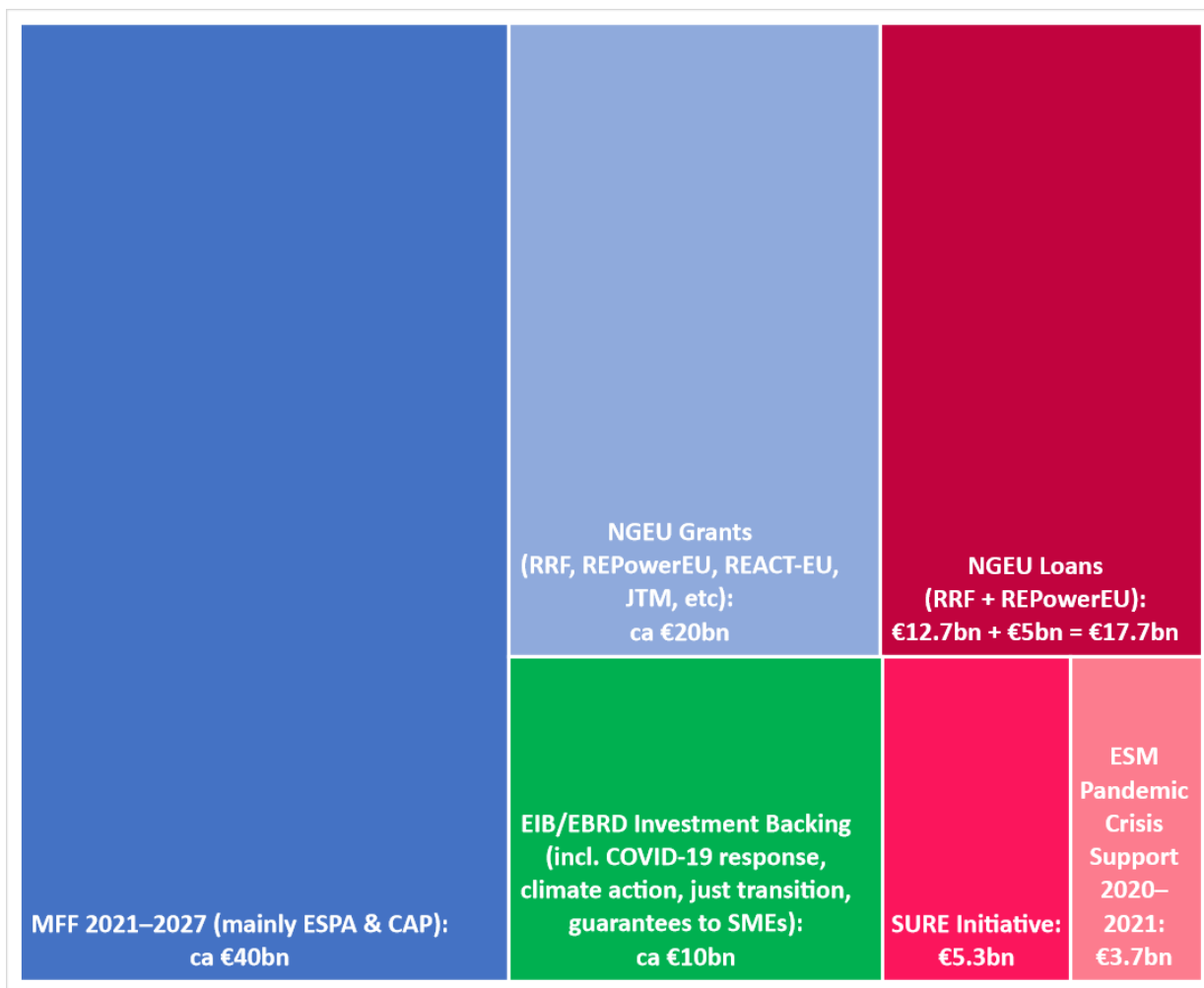


The current account deficit has widened in recent years due to the shocks of the pandemic and the energy crisis, but also due to structural weaknesses of the economy

Current Account Balance



Source: ELSTAT, BoG, Eurobank Research



Grants



Loans



Misc.

Total funds available (2020–27):

$$60 + 26.7 + 10 \approx 97 \text{ bn}$$

RRF funds

- €36bn (€17.8bn in grants, €17.7bn in loans) up to 2026
- Targeted, disbursed under strict conditions and according to an inflexible timeline, may act as a self-disciplinary mechanism
- 38% to be spent in “green transition” and 20% in the digital transformation of the economy
- Accounting for private sector leveraging RRF projects are expected to mobilize more than €60bn of investment.

European Central Bank Instruments

- Re-investments in government bonds under the Pandemic Emergency Purchase Programme ceased at end-2024, with net GGB purchases standing at €38.3bn
- Yet as Greece has reclaimed the investment grade, **GGBs are now accepted as collateral by the ECB**
- Instrument aimed at preventing fragmentation in Euro Area sovereign bonds market (TPI) in place

Greece is **the largest RRF beneficiary** relative to the size of its economy (G&Ls at 19.8% of its 2021 GDP)

- Comprehensive Recovery & Resilience Plan showcases determination to make the best out of RRF.
- Implementation: **28% of all milestones & targets satisfactorily fulfilled** as of Oct-24, versus 24% in EU27.
- **Funds disbursed: €18.2bn** (G: €8.6bn / L: €9.6bn) as of Feb-25, that is, 51% of all funds (8th highest in EU27)
- Yet **inefficiencies, red tape and poor coordination** have led to suboptimal fund absorption and delayed implementation of certain projects.

Estimated RRF impact on GDP by 2026

(older estimates, before the additional €5bn allocation):

- **BoG:** +6.9% = 4.3% (G&L)* + 2.6% (SR)*
- **MinFin:** +7.7% (aggregate)
- **EC:** +2.1% to +3.3% (G&L) + substantial SR effect

RRF Loans Arm

Exclusively channelled to private projects

Eligible projects

-  Green transition
-  Digital transformation
-  Exports
-  Innovation
-  M&A

Financing

- max 50% out of RRF loans
- min 30% bank lending
- min 20% equity

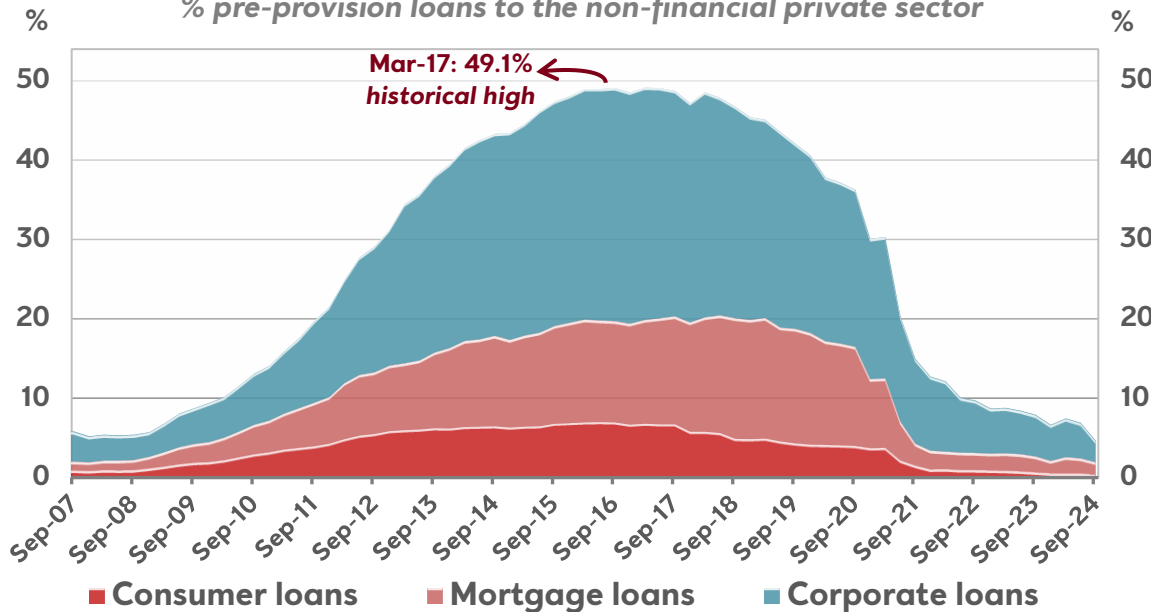
- 405 projects worth €15.4bn already contracted
- €6.7bn out of RRF loans, €5.1bn out of bank loans, and €3.6bn own funds

*G&L: effect of RRF grants and loans / SR: structural reforms associated with RRF

Sources: European Commission, Ministry of Finance, Greek NRRP (Greece 2.0), Bank of Greece, Eurobank Research

Evolution of NPLs held by Greek banks

% pre-provision loans to the non-financial private sector



Sources: Bank of Greece, Eurobank Research

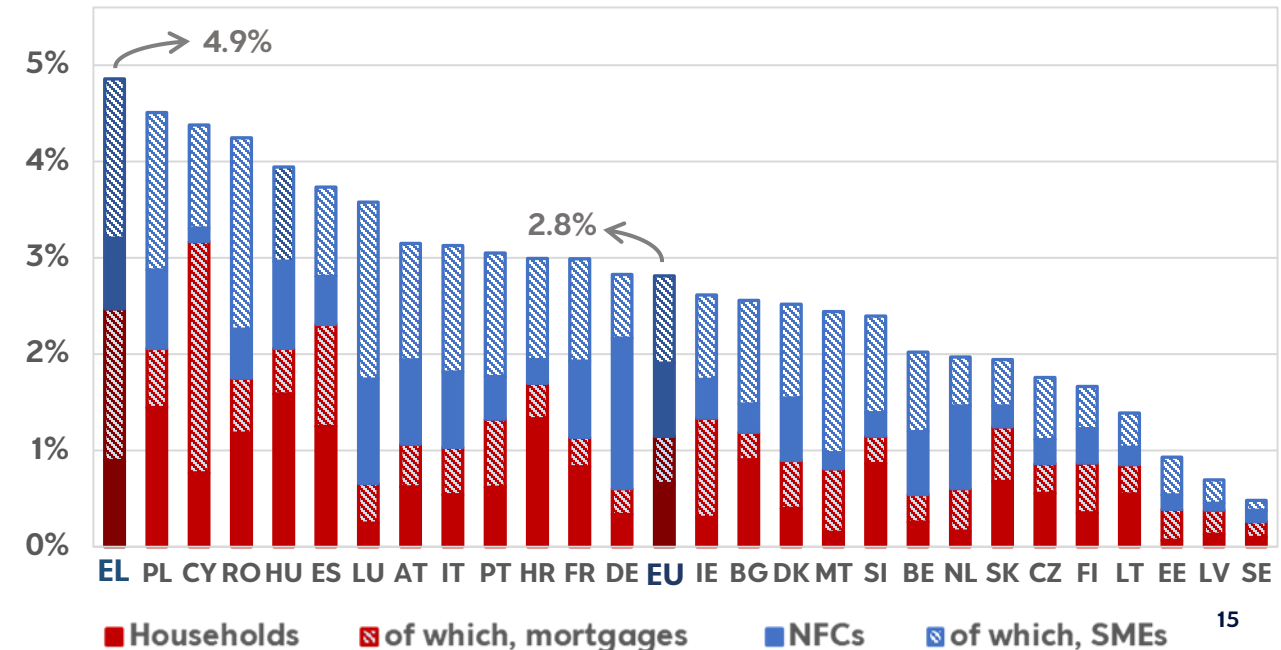
• Significant challenges ahead:

- widespread uncertainty, sticky inflation, elevated cost of risk
- Increased living costs (energy, food)
- Bank NPL ratio still the highest in EU27; nearly €71bn of legacy NPLs off-bank balance sheets (Sep-24) as resolution proceeds at a slow pace

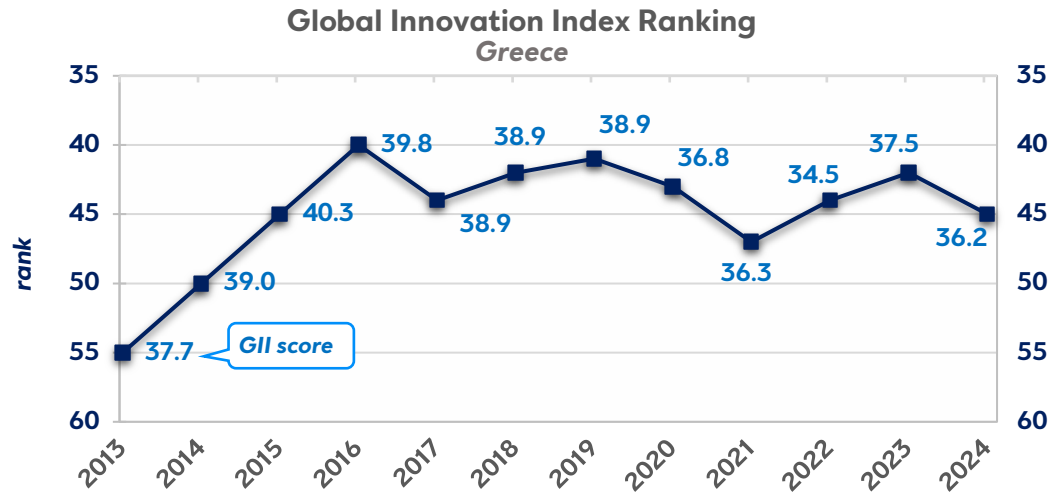
- Bank NPL ratio at a 20-year low of 4.6% at end Sep-24 (BoG)
- New NPLs due to the pandemic and the energy crisis contained
- Bank liquidity and capital adequacy remain at high levels (LCR: 218%, CAR: 20.1%); healthy profitability in 2023 carrying into M9 2024.

NPLs of the non-financial private sector, end Sep-24

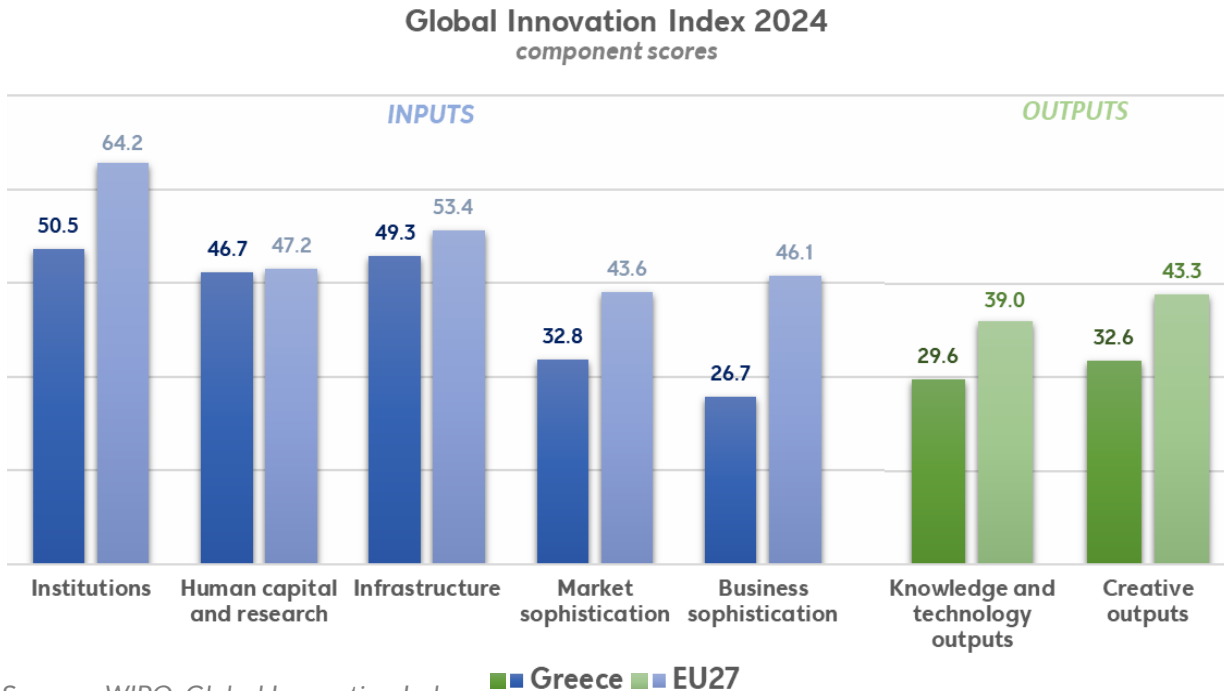
group level, incl. restructured loans; EBA definition



Innovation improved but still weak; lack of innovation clusters

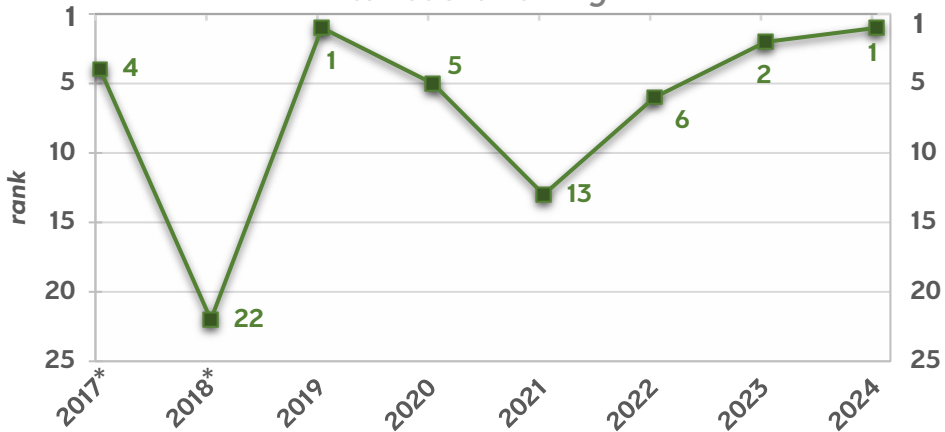


- Innovation is important for driving economic growth: it boosts competitiveness, creates significant synergies and externalities
- Greece ranks 45th globally (25th out the 27 EU countries and 38th out of 51 high-income countries, lacking particularly in institutions, market and business sophistication.
- Significant improvement in the first years of the adjustment programs, stagnation ever since.



The WIPO Global Innovation Index captures the innovation ecosystem performance of 133 countries based on 5 “inputs” (institutions, human capital & research, infrastructure, market sophistication, business sophistication) and 2 “outputs” (knowledge & technology output, creative output)

GBCI evolution – Greece
international ranking



*older methodology ("Financial Complexity Index", accounting and tax compliance only)

GBCI 2024 – Greece

complexity score (mid-term complexity outlook)



Source: TMF Group

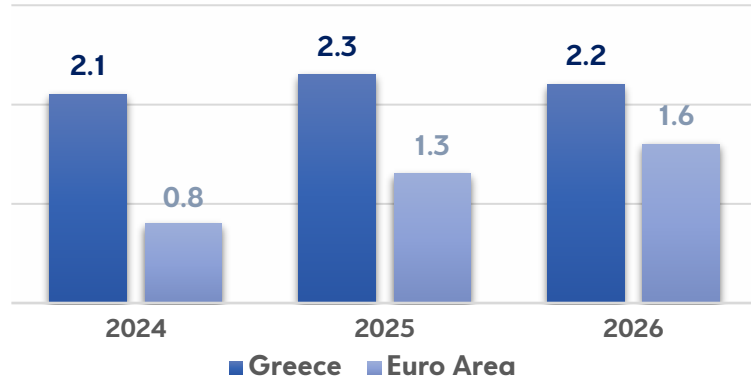
- Frequent changes in regulations, conflicting laws, multiple accounting and tax layers key challenges, increasing costs and overall burden for investors in Greece.
- Rather than simplifying processes, digitalization has instead added an additional layer of complexity: multiple deadlines and the use of different, often overlapping platforms, drain firms' resources and time, and delay authorities' response.
- Nevertheless, digitalization is expected to facilitate businesses over the longer term as both government and business adapt to the new environment.

The TMF Global Business Complexity Index (GBCI) measures the complexity of establishing and operating businesses across 79 jurisdictions based on 292 indicators.

Overperformance expected to continue, yet challenges remain

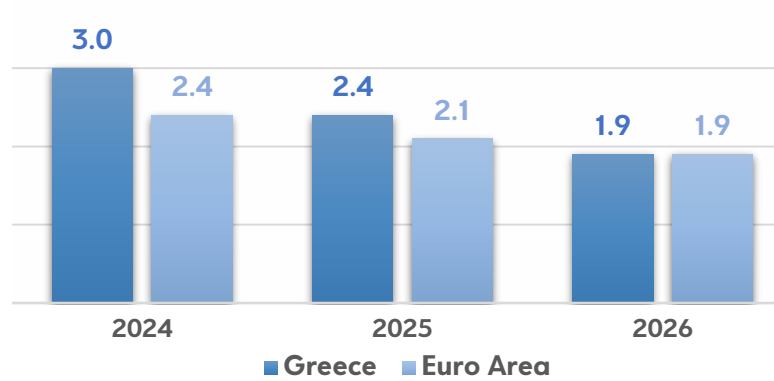
GDP

real % growth



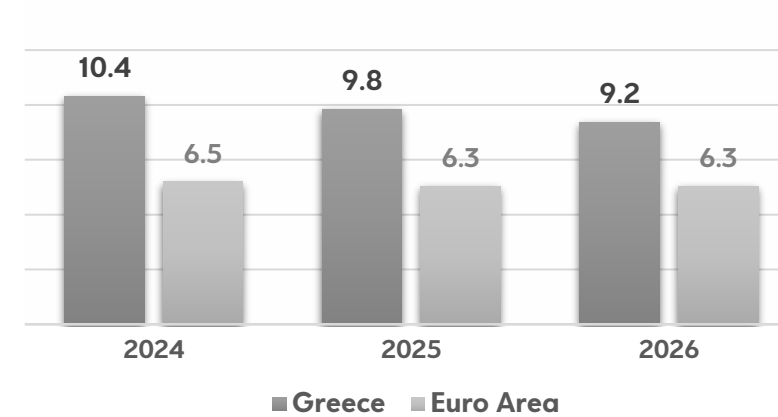
Inflation

average annual % change in HICP



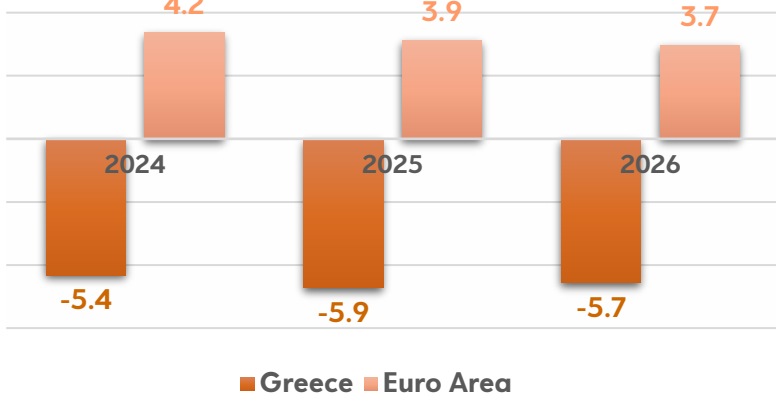
Unemployment

% labour force



Current account balance

%GDP



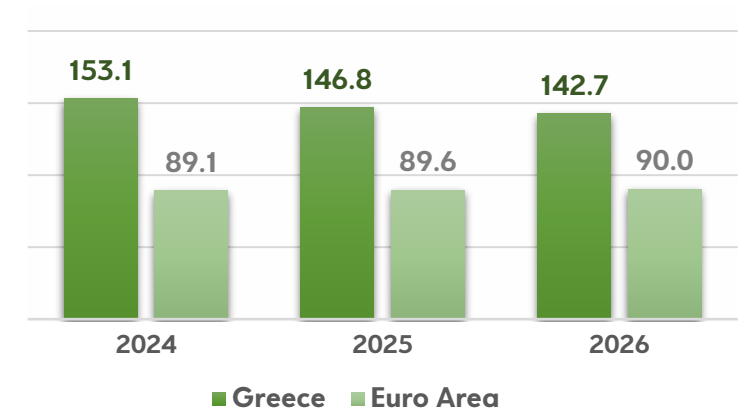
Primary government balance

% GDP



Government debt

%GDP



- **Short-run challenges**

- the geopolitical tensions caused by the war in Ukraine, the fragile situation in the Middle East, and the Sino-American antagonism
- navigating through an environment of elevated and prolonged(?) uncertainty due to the trade and foreign policy decisions of the new administration in the United States,
- achieving a balance between substantial monetary policy easing to boost growth in the EU and preventing a resurgence in inflation
- avoiding delays in implementing RFF investments and reforms

- **Medium-run challenges**

- tackling low quality competitiveness and widening external imbalances
- maintaining fiscal discipline, implementing reforms
- transitioning from a consumption-dependent growth model to an investment-based, export-oriented one
- attracting FDI and specialized, high-skilled workforce in high GVA sectors to boost productivity and real disposable incomes

- **Long-run challenges:**

- climate change and its repercussions
- the demographic challenge

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