Summary of HFISC 2024 Spring Bi-Annual Report

The Spring 2024 HFISC's bi-annual report is completed during the period in which the new economic governance framework, as defined in Regulations 1263 and 1264/2024 and Directive 2024/1265, starts to be implemented. The primary objectives remain the maintenance of the budget deficit at a level up to 3% of GDP and the national debt at 60% of GDP. A country-specific reference path, including a fiscal expenditure operational indicator, has been developed as part of the debt sustainability analysis. This indicator, controlled by each government, is designed to prevent policy cyclicality, thus enhancing transparency and efficiency.

In 2023, the Greek economy outperformed expectations with a real GDP growth rate of 2%, significantly higher than the euro area average of 0.5%. This growth was largely driven by a 1.8% increase in private consumption, a 4% rise in gross fixed capital formation, and a 1.7% increase in public consumption. Projections for 2024 remain optimistic, with the Ministry of Economy and Finance forecasting GDP growth of 2.5%. Consensus estimates range from 2.0% to 2.5%. The euro area is anticipated to avoid recession, showing real GDP growth of 0.4% year-on-year (yoy) in Q1 2024 and 0.3% yoy in Q4 2023.

The unemployment rate decreased to 10.6% in the latter half of 2023, continuing a decade-long downward trend. Employment increased by 1.2% in Q2 2023 compared to Q2 2022. Despite this improvement, the unemployment rate remains among the highest in the European Union.

Inflation rates have shown a gradual decline in 2023 and early 2024, primarily due to falling energy prices. In April 2024, the Harmonized Index of Consumer Prices (HICP) indicated an inflation rate of 3.2% in Greece and 2.4% in the euro area. Recent data suggest inflationary pressures are easing, corroborated by the European Central Bank's recent 25 basis point interest rate cut, signaling a shift towards a more accommodative monetary policy stance.

The current account balance improved significantly in 2023, with the deficit narrowing by approximately EUR 7.3 billion compared to 2022 (-34%). This change reduced the current account deficit from 10.3% of GDP in 2022 to 6.3% of GDP in 2023. The improvement was driven by a reduced goods balance deficit, owing to lower international fuel prices, and an increased services balance surplus due to higher travel receipts.

Household and non-financial corporation deposits increased by 2.8% and 1.3% respectively on an annual basis. Credit expansion persisted throughout 2023 and into Q1 2024. Notably, non-performing loans (NPLs) continued to decline, accounting for 6.2% of total loans at the end of 2023.

The macroeconomic projections for 2024 are subject to uncertainties, particularly ongoing geopolitical tensions that pose risks to both growth and inflation in the euro area. Despite a deceleration, food and services inflation remains a concern, necessitating robust policy measures. The effective utilization of the Recovery and Resilience Fund resources and ongoing reforms to enhance competitiveness are crucial for achieving the projected 2.5% GDP growth for Greece.

In 2023, the budget recorded a primary surplus of 1.9% of GDP, surpassing both the previous year's performance (0.0% of GDP) and the target set in the State Budget (0.7% of GDP). For 2024, fiscal performance in Q1 is on track, with a general government primary surplus exceeding 0.8% of GDP on a cash basis. For 2024, the general government balance is expected to show a further deficit reduction to 1.1% of GDP, with the primary surplus projected to improve to 2.1% of GDP.

Government debt is projected to decline by 10.8 percentage points to 161.9% of GDP in 2023. Between 2021 and 2023, the government debt-to-GDP ratio decreased by approximately 44 percentage points, mainly driven by positive growth and high inflation reducing thus the real value of debt. Continued primary surpluses and rapid debt reduction remain essential as the debt is gradually refinanced at market conditions. Government guarantees remain high, exceeding EUR 28 billion, primarily related to the "Heracles programme" for the banking sector.

Although the Greek economy performed significantly better than the euro area and EU averages in 2023 and is expected to continue growing in 2024, fiscal discipline remains crucial. Fiscal consistency leading to the outlined fiscal surpluses is important, given the international geopolitical and economic uncertainties, and Greece's obligations to the European institutions for loan repayments, particularly from 2026 onwards.