



# The prospects of the Greek economy in 2024

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The Greek economy continues to perform positively despite the slowdown in the global economy due to monetary tightening, the energy crisis and wars in Ukraine and the Middle East. For 2024, both the International Monetary Fund (IMF) and the European Commission and the Organisation for Economic Co-operation and Development (OECD), forecast a growth rate of 2.0%-2.3%, marginally lower than the 2.4% recorded in 2023 but higher than the eurozone average (1.2%). Contributing to the positive performance are cheap financing from the Recovery and Resilience Fund (RRF), a good performance of tourism and the continuation of the memorandum reforms for improving the business climate.

In the medium term, the growth rate will be gradually moderating, in line with the growth potential of the economy. The continuance of a policy mix focused on investment and exports, through improvements in competitiveness, remains crucial to addressing the three main challenges facing the economy:

- The investment gap created during the 2010-2018 crisis, caused by the decline in public investment and the uncertainty that affected private investment, remains unbridgeable. In the euro area, gross fixed capital

formation amounted to 22% of GDP in 2022, while in Greece it was 13.7%, marginally exceeding depreciation.

- The high public debt and the non-performing loans inherited from the crisis, are an obstacle to growth. Debt peaked at 212% of GDP in 2020 and rapidly declined to 168% of GDP in 2023 (IMF data including interest capitalisation), thanks to inflation and the rapid recovery of the economy after the pandemic. Over the same period, however, debt increased by €35 billion in absolute terms. Today, debt remains above the 2012 level both as an absolute amount and as a percentage of GDP. So, no improvements were recorded since the 53.5% debt haircut. Non-performing loans have been significantly reduced to 8.6% of total loans in mid-2023 but remain well above the euro area average (1.8%). Moreover, non-performing loans have been transferred from banks to debt management companies, but borrowers continue to be burdened with exorbitant debts because the out-of-court debt settlement mechanism has not worked satisfactorily.
- The high current account deficit, which peaked at €20 billion (or 10% of GDP) in 2022 and remained in deficit during the deep recession of the last decade, reflects a competitiveness deficit. The current account deficit equals the difference between the production and consumption of the private and public sectors. In other words, it reflects the fact that we continue to consume more than we produce and borrow from abroad to make up the difference.

Reducing the debt/GDP ratio will become more difficult in the coming years for a number of reasons:

- Its further reduction should be based on the creation of primary surpluses of at least 2% of GDP per year, while growth and inflation rates will be declining. The general escape clause of the Stability and Growth Pact, which allowed a temporary break from fiscal rules during the pandemic and energy crisis of 2020-2023, will be lifted in 2024. It remains unknown for the time being whether a final agreement will be reached among EU member states on new fiscal rules or whether the old ones will apply. In any case, the creation of a primary surplus of at least 2% of GDP will be an institutional imperative.
- Despite the rating upgrade to investment grade, the debt is now being refinanced at a higher interest rate than the average interest rate on existing debt (around 2%), due to the ECB's interest rate hikes.
- In 2022, the revenues, in the hundreds of millions of euros per year, from the profits earned by the ECB from buying Greek government bonds expired.
- In 2026, the grants from the Recovery and Resilience Fund will end.
- In 2032, the grace period from the EFSF debt restructuring, the European fund that financed the second stabilisation programme 2012-2014, will expire, and interest rates will rise accordingly.

In this context, the perpetual search for fiscal space for benefits must be balanced against the need to reduce the debt as an absolute amount, through higher primary surpluses. The first option ensures social calm and votes but blunts the market's signal for reducing consumption. The younger generation would gain more from the reduction of the debt burden we have saddled them with, and less from the government's youth passes and subsidy policies.

Despite a profligate fiscal management, government policy is credited with renewed momentum for reforms. The measures in the justice system; the promotion of meritocracy in the recruitment of public sector executives; the linking of funding to the performance of local authorities; the founding of private universities; the effort to broaden the tax base; the establishment of

the scheme 'Hercules 3' for reducing non-performing loans; the improvement in the functioning of the out-of-court debt settlement mechanism; and the Bankruptcy Code, constitute a critical mass of reforms. Their effectiveness will be judged solely by the consistency with which they will be implemented.

But other important reforms are still pending that will contribute to the inflow of investment, such as the simplification of licensing procedures; the completion of the Land and land use Register, which has been pending for decades despite the huge amounts of European funds that have been allocated; the improvement of infrastructure in the face of climate change; energy interconnections within and outside the country; and broadband networks throughout the country.

Pending is the full digitisation of the state, which must simplify rather than duplicate existing bureaucratic procedures. Pending is also the sale or closure of LARCO, a ferro-nickel production company in Greece, a timeless monument to the Greek state's ineptitude. A recent study by Bitros and Saravakos of the Centre for Liberal Studies (KEFIM), estimates the cost to taxpayers over the period 1989-2019, when the company came under state control, at €5.8 billion at constant 2015 prices. And the bleeding continues.

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