Eurobank Research

The Greek economy and CESEE
Prospects and challenges

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The Greek economy – Real GDP growth at 2.0% vs 0.4% in the Euro Area in 2023, third year in a row of overperformance

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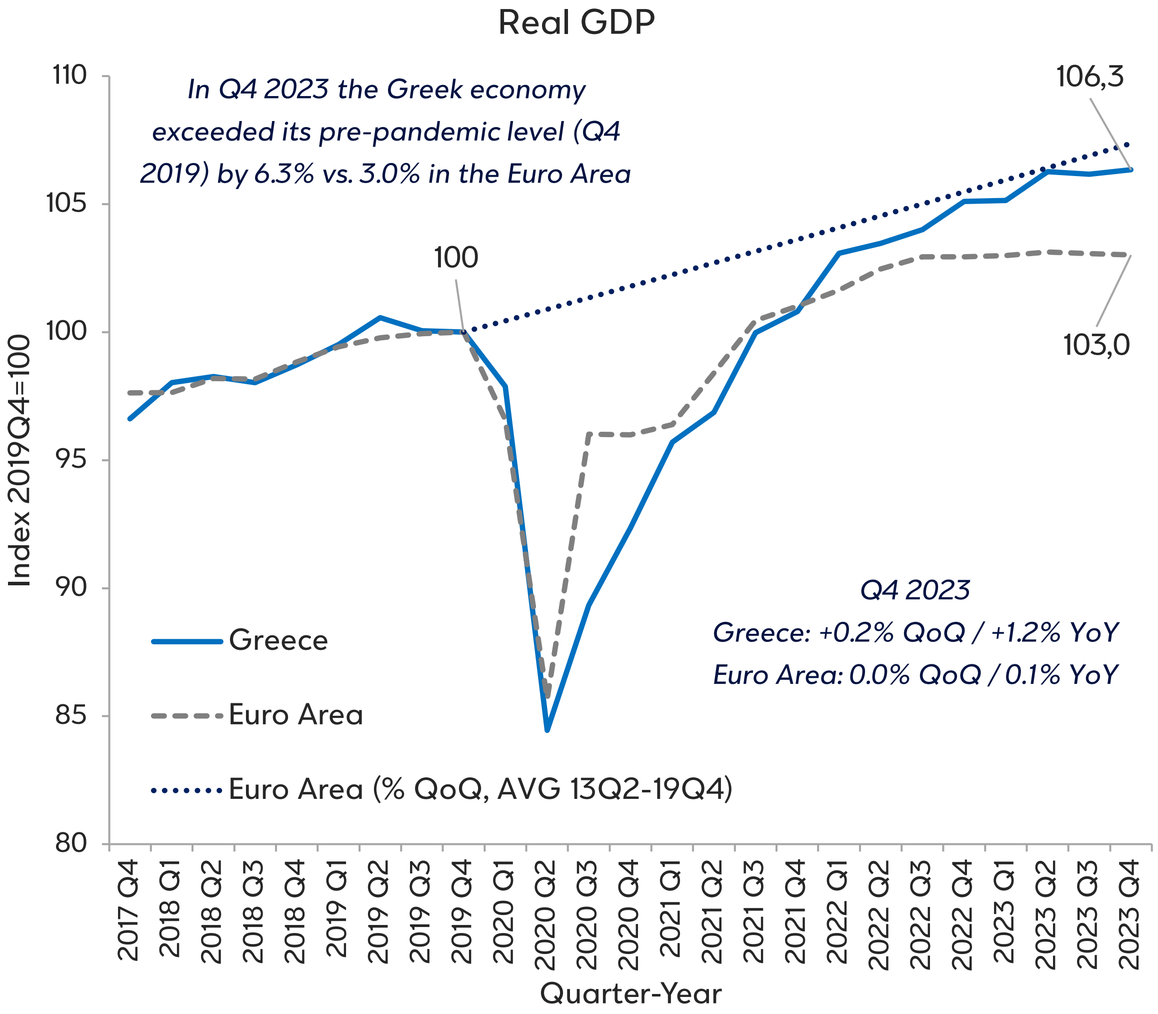

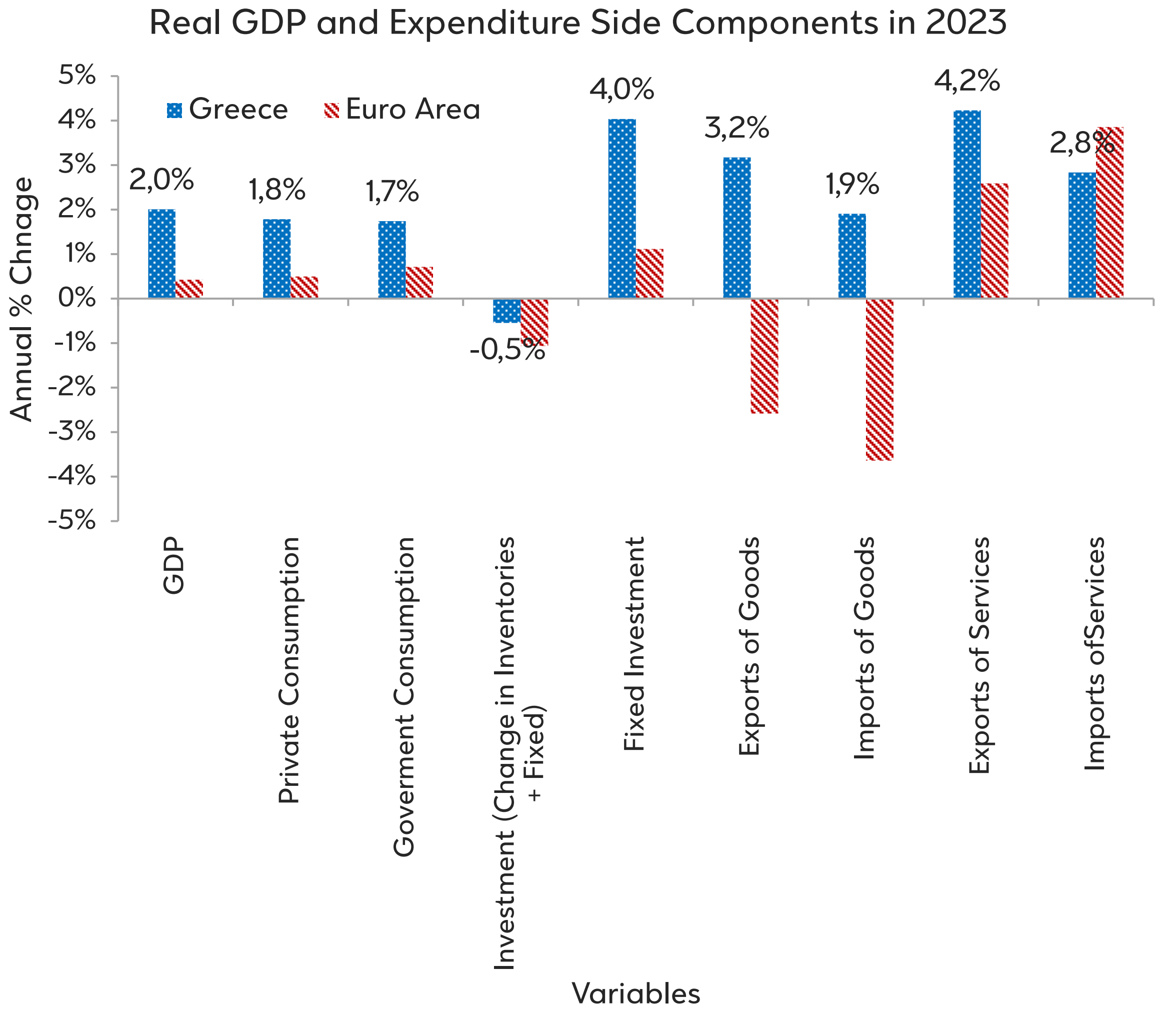

Source: ELSTAT, Eurostat, Eurobank Research

Greece – Headline HICP inflation easing due to decline in energy prices and monetary contraction; food, restaurants and hotels inflation remains high

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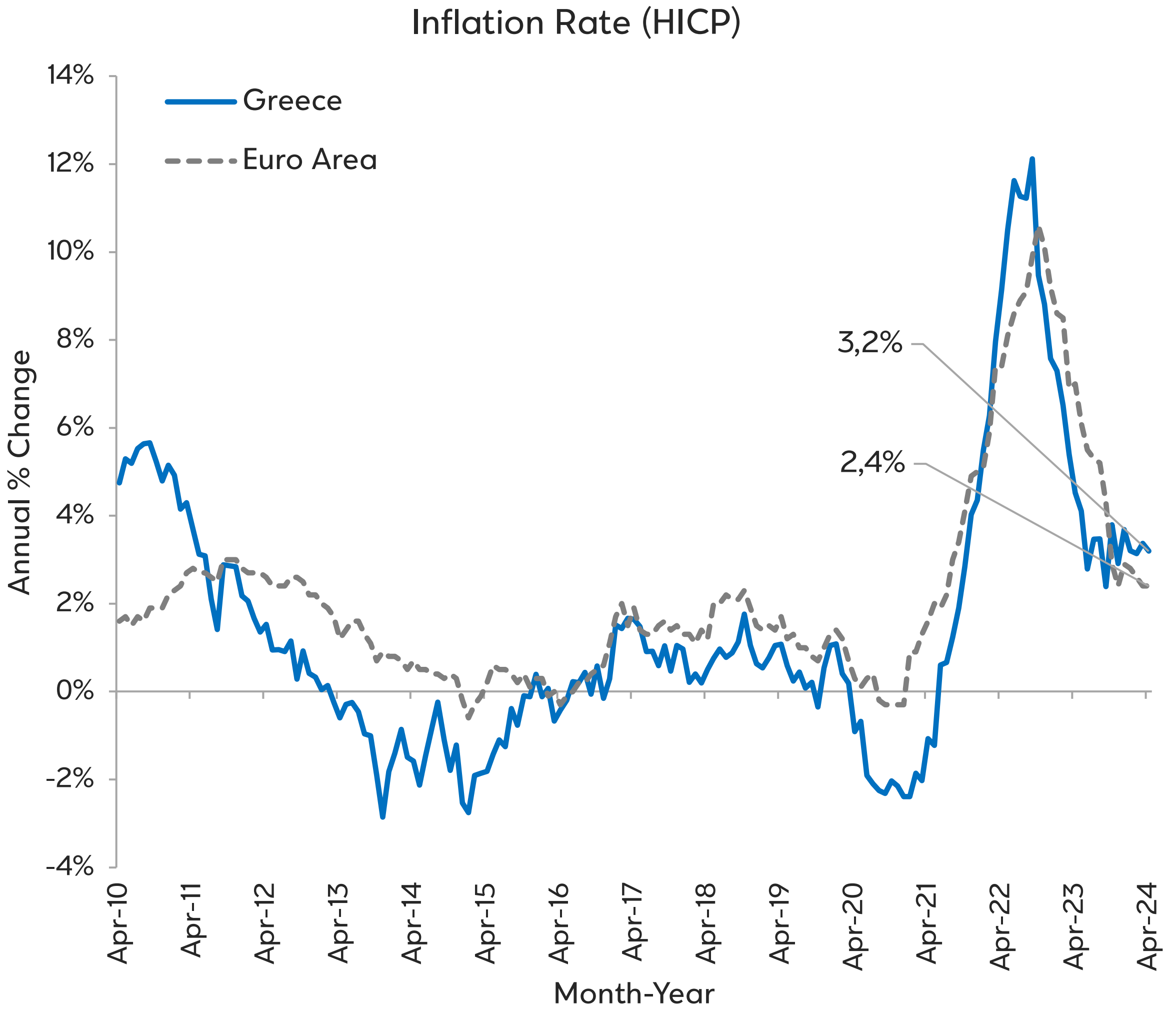

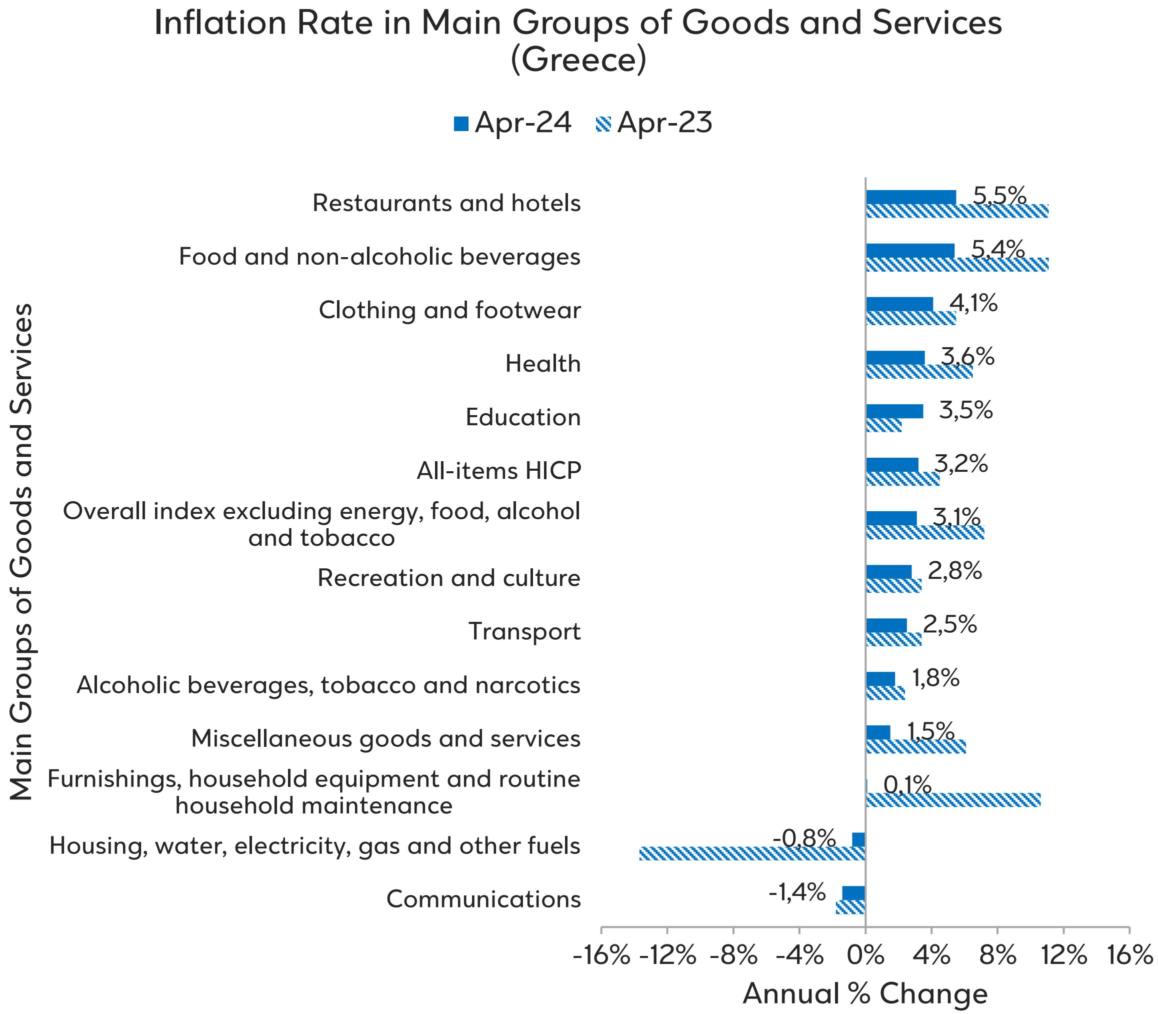

Source: ELSTAT, Eurostat, Eurobank Research

Greece– The unemployment rate continues to decline; still the 2nd highest in EU-20 despite reported shortages in various sectors

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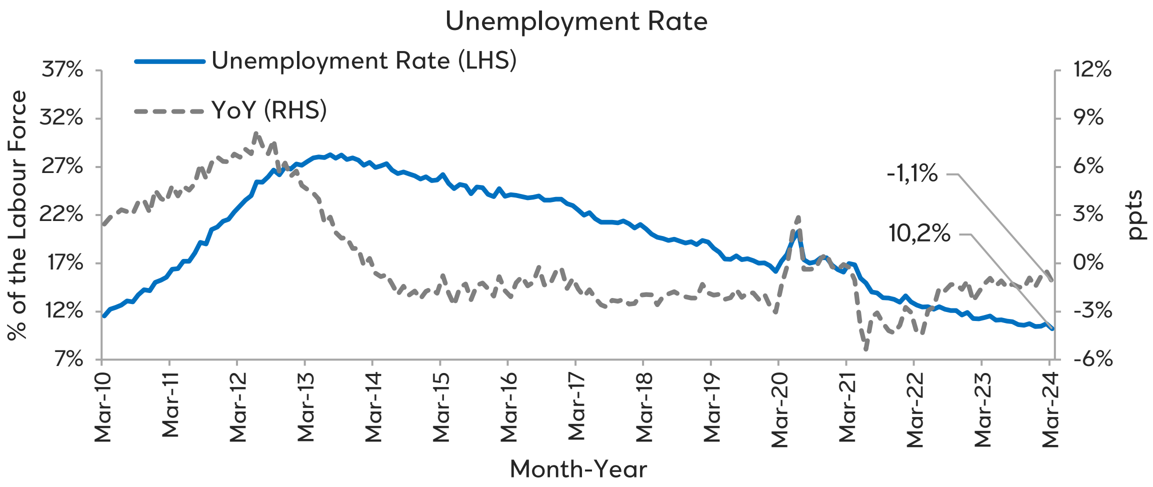

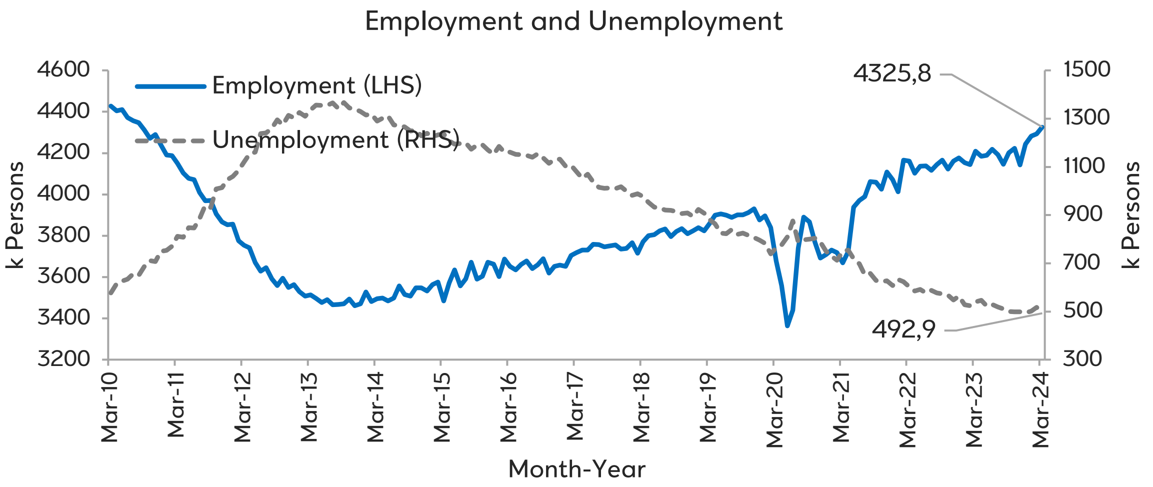

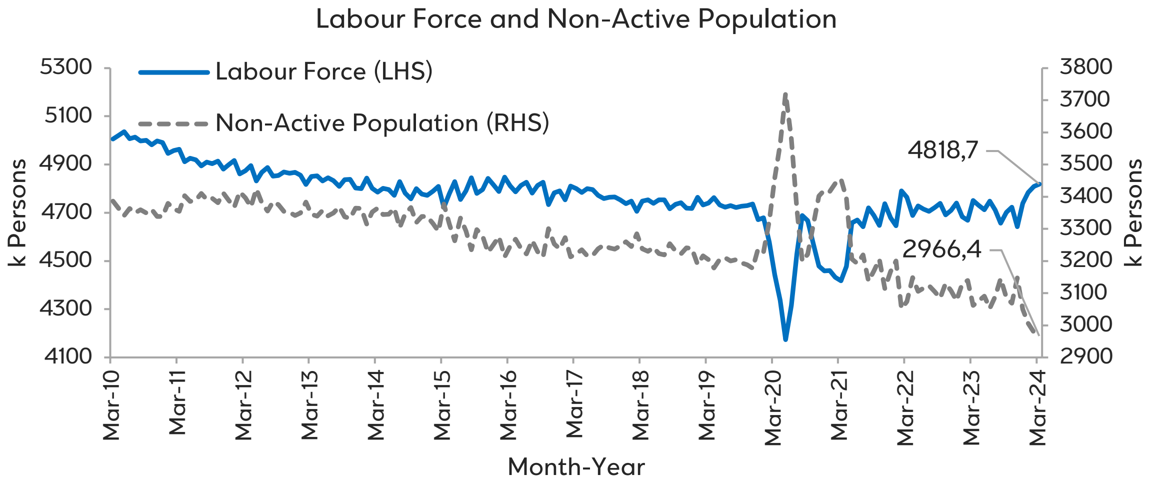

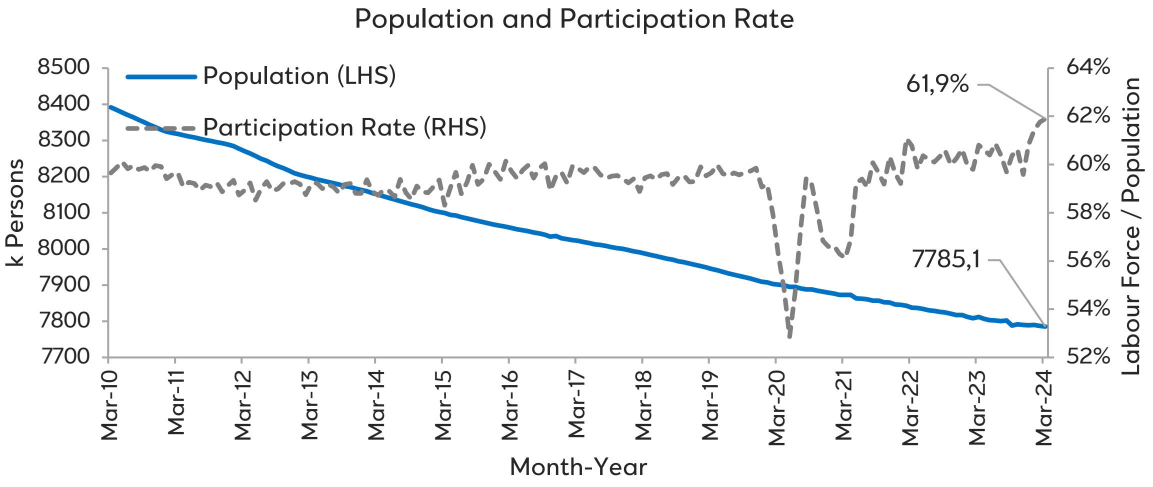

Source: ELSTAT, Eurobank Research

Greece – expected to continue overperforming the Euroarea in 2024-2025
… …yet large uncertainties remain

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- Market consensus as of May-24: real GDP growth in 2024 and 2025 at 1.9% and 2.2%; inflation at 2.6% and 2.0%; unemployment at 10.2% and 9.8% respectively
- Growth will continue to outperform the Euro Area in the medium term; downside risks from weak global growth, monetary contraction, geostrategic frictions and softness of investment, growth model relying on tourism and consumption, so sensitivity to uncertainty, climate risks and natural disasters
- Adherence to fiscal prudence, RRF reforms and swift implementation of RRF projects essential for future growth

Official sector projections

Institution	Date	2022	2023F	2024F	2025F	2026F
		Real GDP Growth (%, YoY)				
Bank of Greece	Mar-24	5.6	2.0	2.3	2.5	2.3
IMF	Apr-24	5.6	2.0	2.0	1.9	1.7
OECD	May-24	5.6	2.4	2.0	2.5	-
Greek Government	May-24	5.6	2.0	2.5	2.6	-
European Commission	May-24	5.6	2.0	2.2	2.3	-
		Unemployment (%, Workforce)				
Bank of Greece	Mar-24	12.4	11.1	10.4	9.3	8.4
IMF	Apr-24	12.4	10.9	9.4	8.7	8.4
OECD	May-24	12.4	11.1	9.8	9.7	-
Greek Government	May-24	12.4	11.1	10.6	9.9	-
European Commission	May-24	12.4	11.1	10.3	9.7	-
		HICP (%, YoY)				
Bank of Greece	Mar-24	9.3	4.2	2.8	2.2	2.1
IMF	Apr-24	9.3	4.2	2.7	2.1	2.0
OECD	May-24	9.3	4.2	3.0	2.3	-
Greek Government	May-24	9.3	4.2	2.6	2.0	-
European Commission	May-24	9.3	4.2	2.8	2.1	-

Source: 2024 Budget, Eurobank Research, European Commission, Focus Economics, IMF

Greece– Close to €100bn available to Greece from EU initiatives

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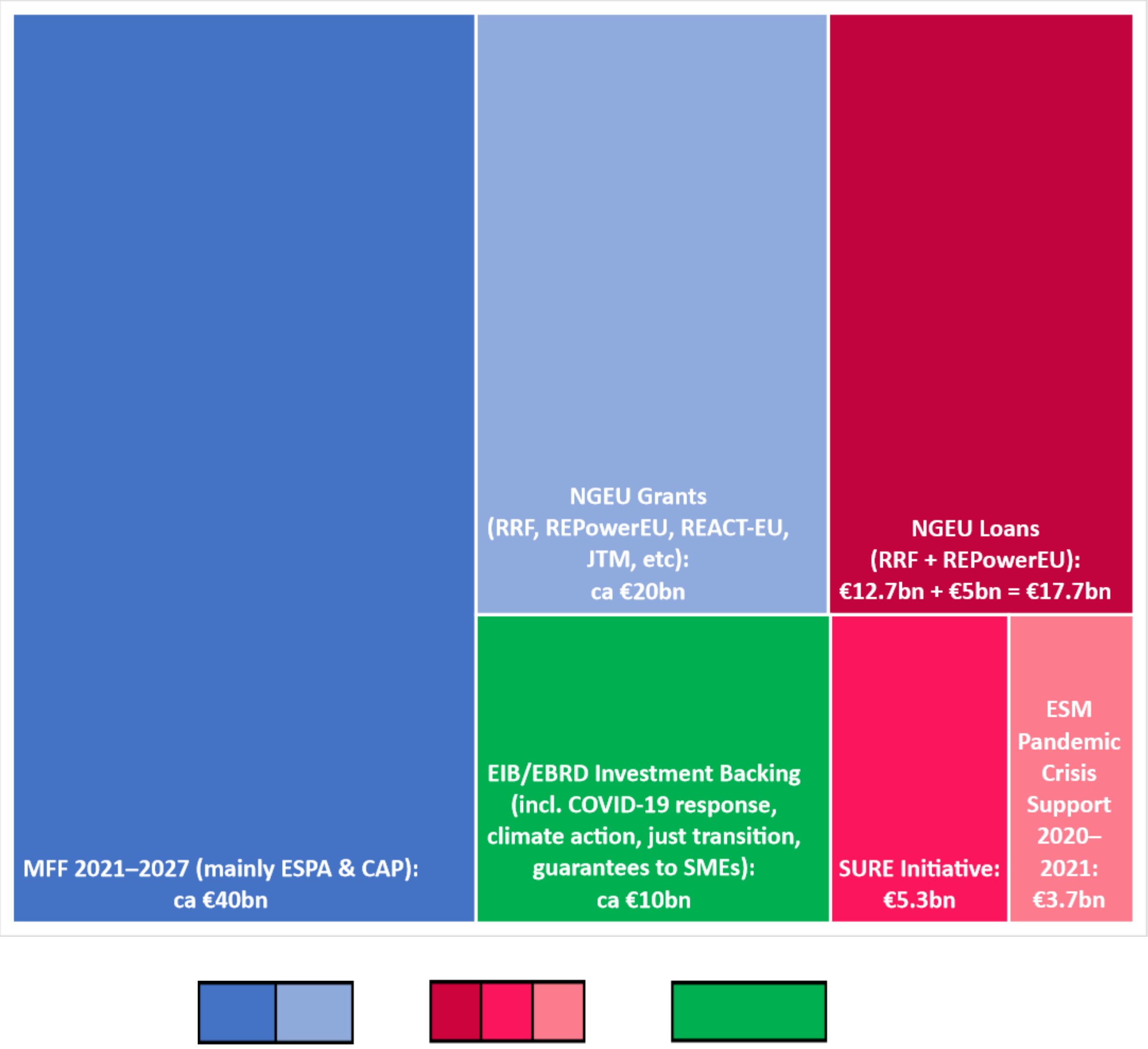


Total funds available (2020–27): 60+26.7+10 ≈ 97 bn

RRF funds (incl. REPowerEU)

- €36.0bn (€18.2bn in grants, €17.7bn in loans) up to 2026; €14.9bn disbursed so far (grants: €7.6bn / loans: €7.3bn)
- Targeted, disbursed under strict conditions (milestones & targets) 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 (equity and loans), RRF projects are expected to mobilize in total more than €60bn of investment.

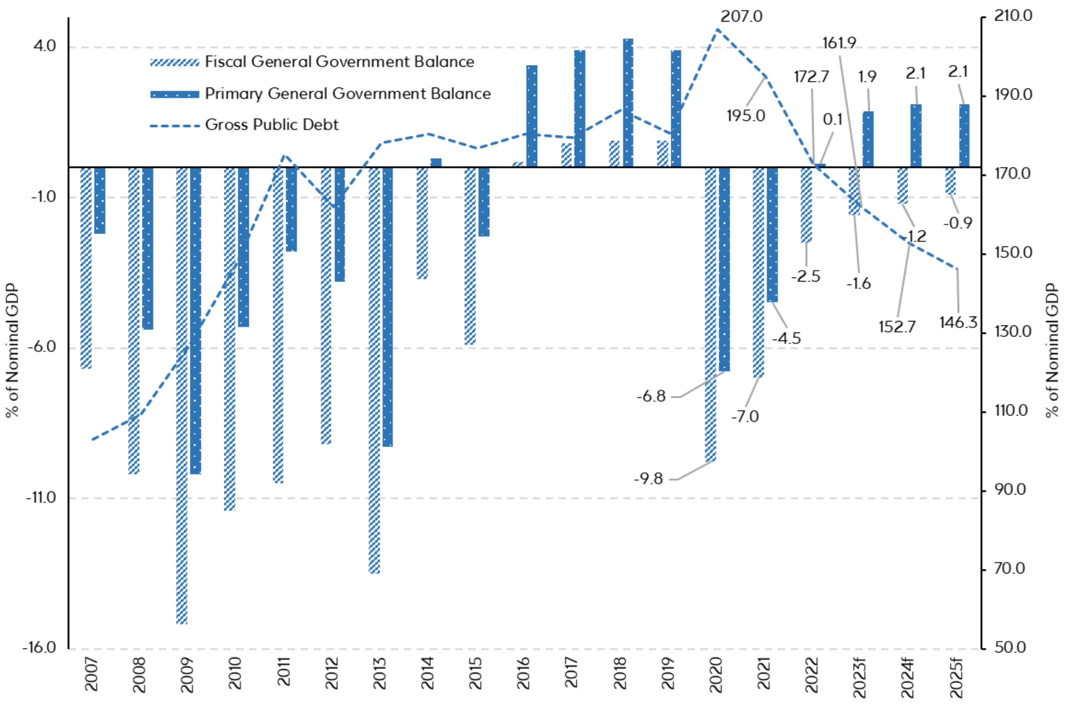
European Central Bank Instruments

- Pandemic Emergency Purchase Programme of €1850bn; **net GGB purchases at €39.3bn as of end-Mar 2024;** flexible re-investment exceeding rollover of expiring GGBs up to end-2024
- Instrument aimed at preventing fragmentation in Euro Area sovereign bonds market (TPI) in place

Sources: European Commission, ECB, National Recovery & Resilience Plan, EIB, EBRD, Eurobank Research

Greece - Public Economics: primary surplus despite fiscal support measures

- <u>Support Measures</u>:
  - €44.2bn for COVID-19 support and €9.9bn for the energy crisis led to primary deficits in 2020-21 after half a decade of primary surpluses; return to primary surpluses from 2022
- <u>Fiscal Balances:</u>
  - Primary balance for 2023 estimated at 1.9% of GDP and forecasted at 2.1% of GDP for both 2024 and 2025 (<u>2024 SGP)</u>
  - Public debt at 161.9% of GDP in 2023 from 207% of GDP in 2020 due to high nominal growth; expected at 152.7% and 146.3% in 2024 and 2025 respectively.
  - Sovereign Rating regained Investment Grade
  - GGB10YR spreads over Bunds at ca 100bps, 30bps lower than Italy
- <u>Risks and considerations:</u>
  - Low short-term risks (shielded from geopolitical risks due to low and fixed interest rates)
  - Medium-term risks emanating from the interest deferrals of the EFSF loan (at ca €27.0bn or 12.3% of 2023 GDP)
  - Low long-term risks related to potential growth and demographics



Source: AMECO, Eurobank Research, ELSTAT, SGP 2024

Greece– Financial conditions: private sector’s deposits continue on an upward trajectory; net credit growth accelerates

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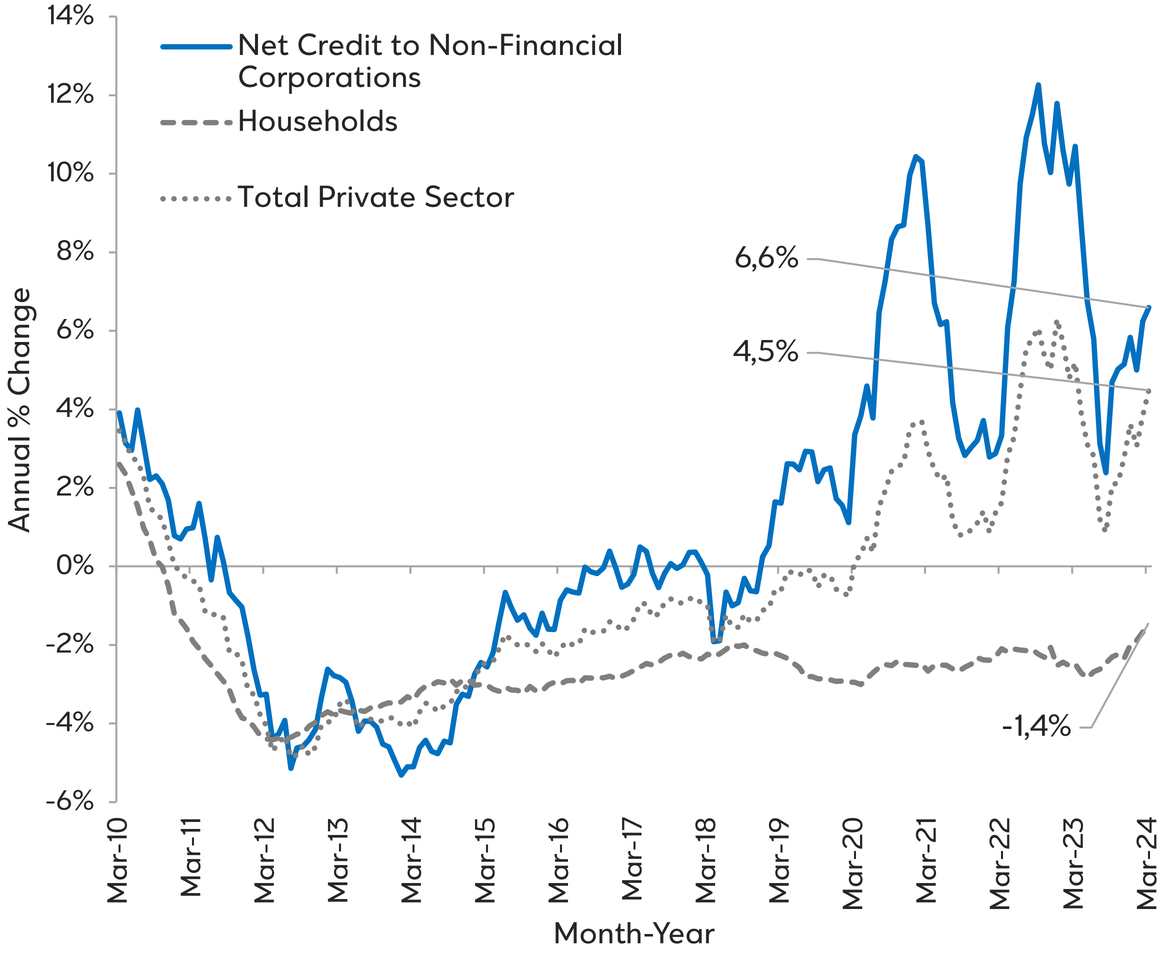
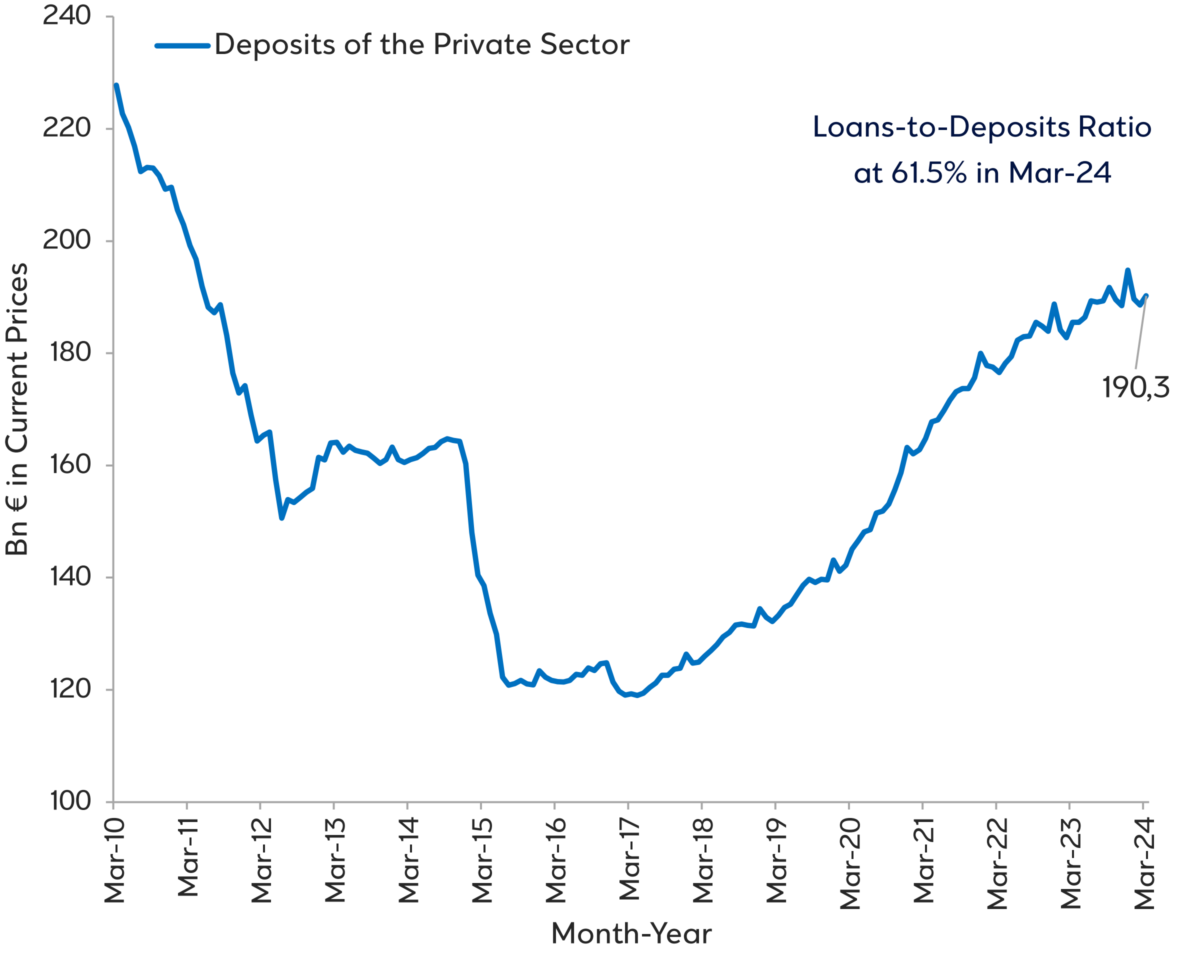
Credit from Domestic MFIs



Deposits to Domestic MFIs



Source: BoG, Eurobank Research

Greece– Real estate prices: growth remained strong in Q3 2024; still 7.1% below pre-debt crisis peak of Q3 2008

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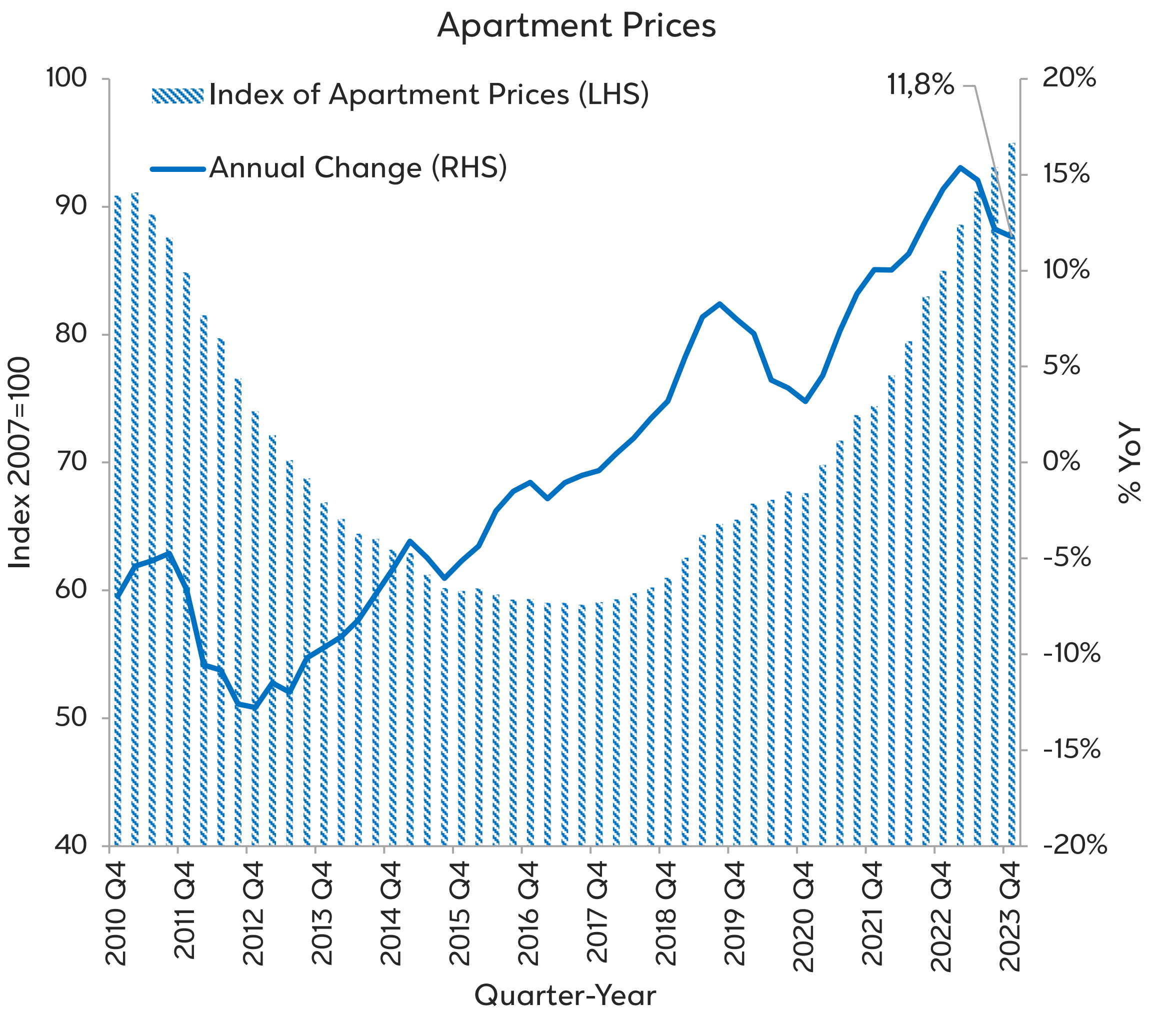
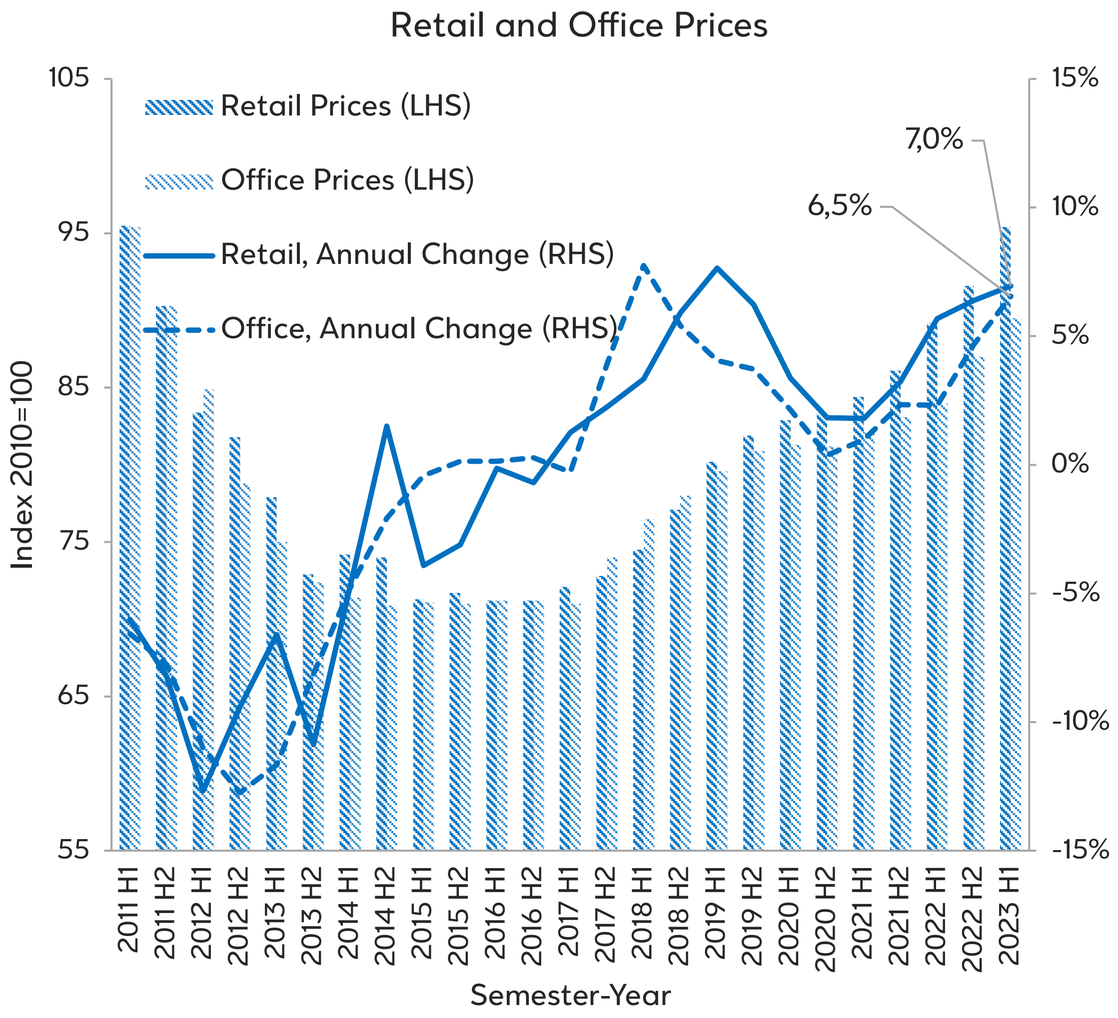


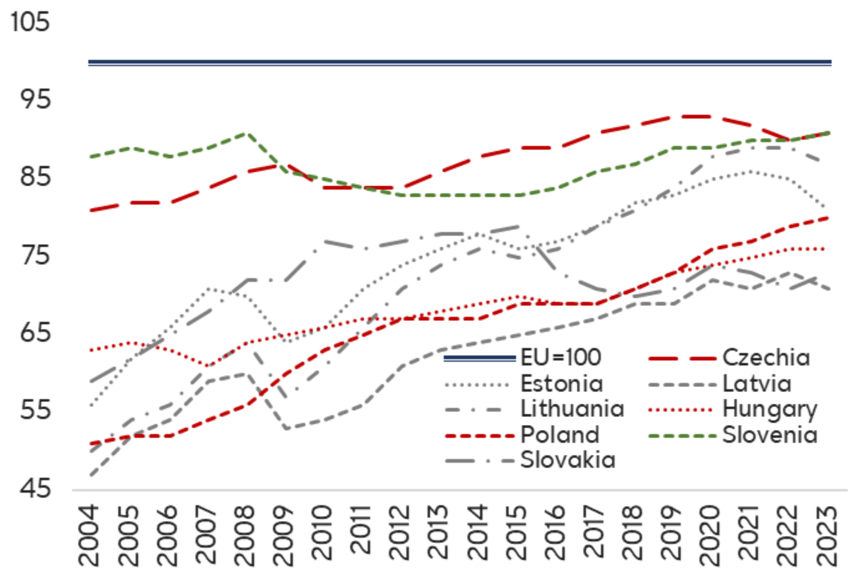


Source: BoG, Eurobank Research

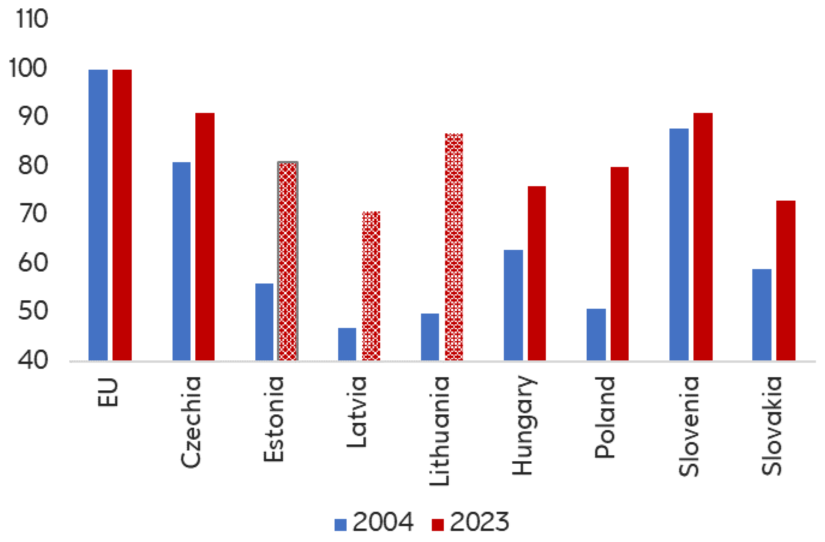
CESEE

- The first Eastern enlargement marked its 20-year anniversary in April; overall positive imprint of the whole endeavor
- All members that accessed the EU in 2004 converged with the EU average in PPP terms, proving that the EU's cohesion policy has paid off
- Baltic states and Poland have galloped faster in PPP terms; Lithuania the frontrunner (from half the EU average in 2004 to 87% in 2023)
- A catalyst for the Baltics' progress was their decision to join the Euro (Estonia in 2011, Latvia in 2014 and Lithuania in 2015); process of EU widening and deepening currently at a crossroads
- Long-term prospects: dynamic growth potential but also challenges: demographics, regional disparities, institutional backsliding

All members accessing the EU in 2004 converged in PPP terms…



..those, that integrated further by adopting the Euro, caught up faster…

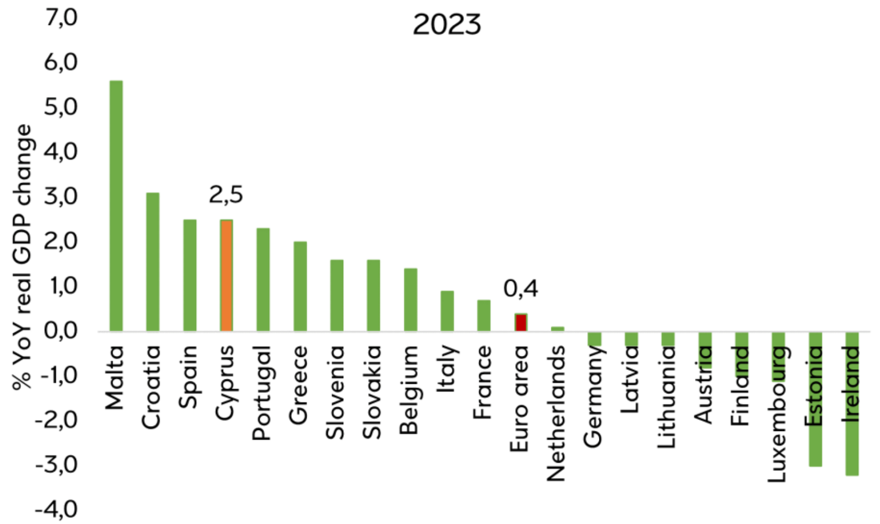


Source: European Commission, Eurobank Economic Research

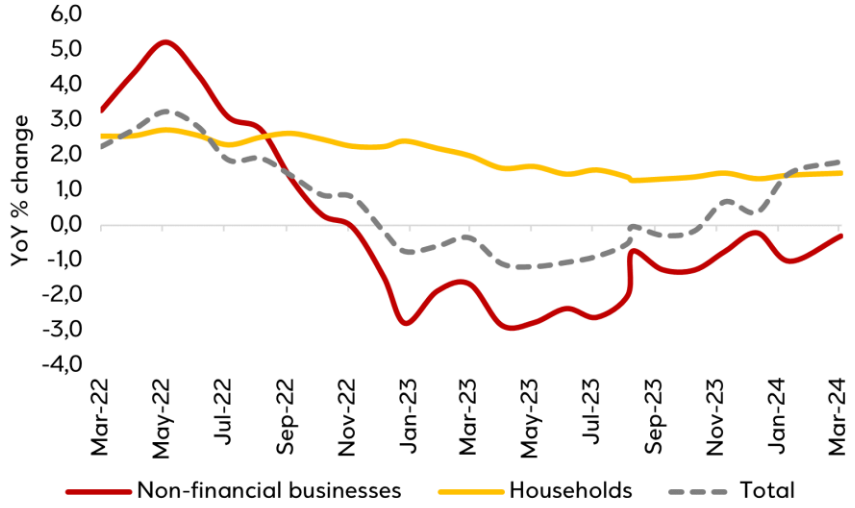
Cyprus

- Strong GDP growth in 2023, continues in Q1 2024Q: 3.4%YoY, a six-quarter high or 1.2% QoQ; driven by household consumption, on the back of low unemployment (at a 14-year low in 2023), strong disinflation, and external balance improvement
- Resilience in key sectors : tourist arrivals up by 5.4%YoY in Q1 2024, 16-year high in volume of real estate in 2023
- Robust public finances; GG surplus of 3.1% of GDP, highest in the EA for a second year, public debt below EA average (77.3% vs 88.6% of GDP)
- Moody's recently upgraded the outlook for the Cypriot economy from stable to positive, while affirming the country's credit rating at Baa2
- European Commission (May 2024) foresees a real GDP growth rate of 2.8% for 2024, accelerating to 2.9% in 2025
- Longer-term: very favorable prospects for the energy sector
- Challenges: high current account deficit, geopolitical tensions, dependency of tourism on certain markets

Cyprus among best GDP growth performers in the Euro Area in 2023



Credit expansion since Dec-23, mainly from improved financing of non-financial businesses

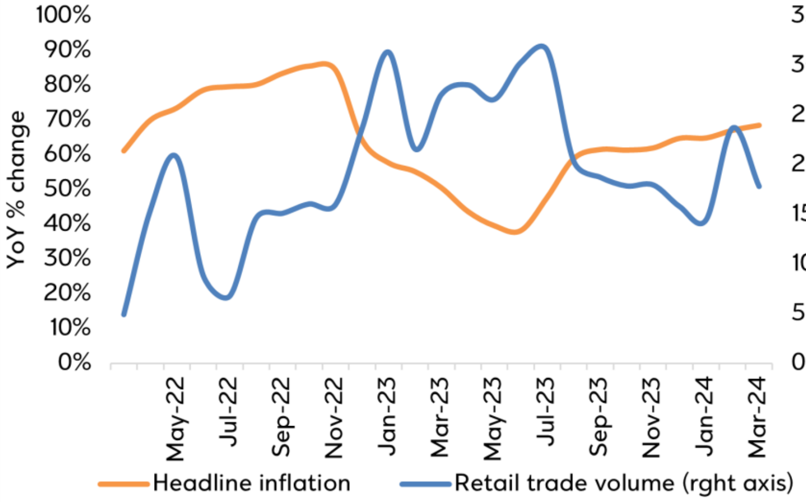


Source: Eurostat, Cystat, Eurobank Economic Research

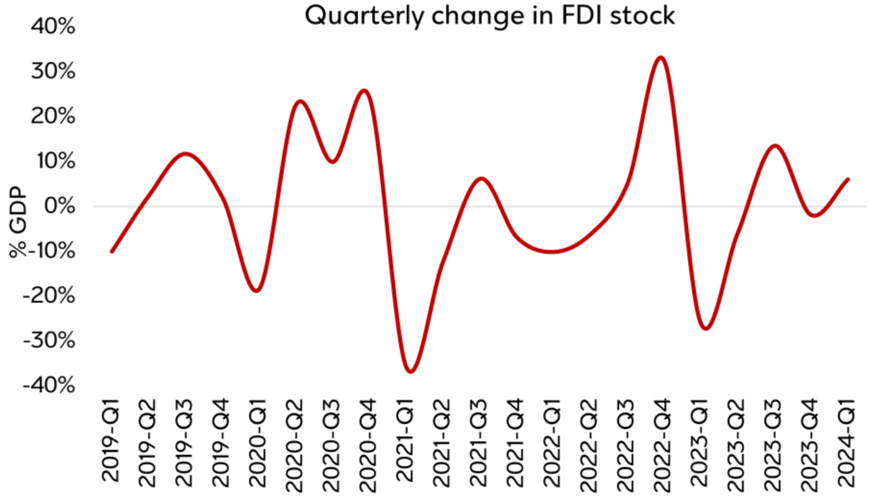
Turkey

- Q1 2024 GDP growth surged at 7.4%YoY, a nine-quarter high; or 2.4% QoQ, driven by external balance improvement & robust consumption
- New inflation spike (75.5%YoY in May-24, 18-month high) amid successive wage and pensions hikes; central bank asked to align fiscal policy
- Monetary tightening (policy rate 50% since Mar-24), lira depreciation
- Strong gross fixed capital formation (+10.0%YoY in Q1, +10.6%YoY in Q4) boosted by FDI expansion and the reconstruction after the quakes
- Recent credit rating upgrades, by Fitch and S&P Global, both to B+ from B, with positive outlooks, are expected to sustain FDI inflows
- Longer-term prospects: manufacturing sector's share to GVA in 2023 to 25.6% vs. 20.6% in the EU
- Challenges: close economic and diplomatic ties with Russia, high migration, deteriorating demographics

Resilient household consumption amid rampant inflation, backed by wage indexation & low unemployment



Rapidly recovering FDI since Q3 2023 could mitigate the implications of monetary tightening on investment

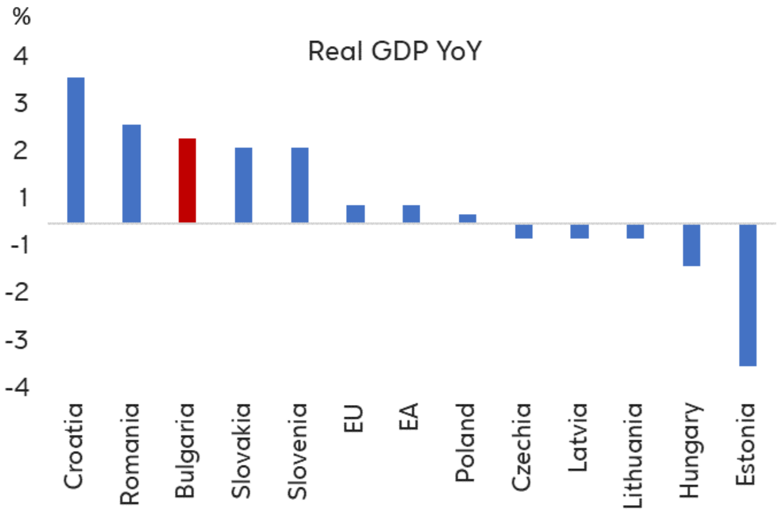


Source: Central Bank of Turkey, Turkstat, Eurobank Economic Research

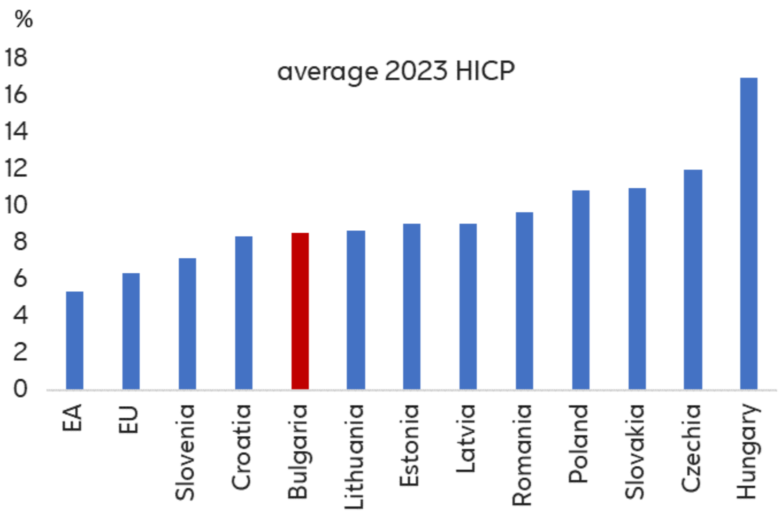
Bulgaria

- Real GDP Growth cooled down to 1.8% in 2023, from 3.9% in 2022, yet it still ranks third in the CESEE region and outperforms the EU average of 0.4%
- OECD (May 2024) forecasts 2024 growth at 2.5% with private consumption the key growth driver and the RRF expected to boost investment
- The annual HICP averaged 8.6% in 2023, vs 13.0% in 2022, with prospects for further disinflation in 2024 (OECD projection of close to 3.0%); average HICP for Q12024 at 3.5% vs 2.8% EU average
- Fiscal prudence (low fiscal deficits & public debt) support market perceptions of sustainability and pave the way for Euro adoption, despite any delays
- Resurgence of political instability poses growth risks with delays on reforms, attached with the EA access, at sight

Growth held firm in 2023, ranking third in the CESEE region ...



...and disinflation proceeded fast, accelerating further in Q12024

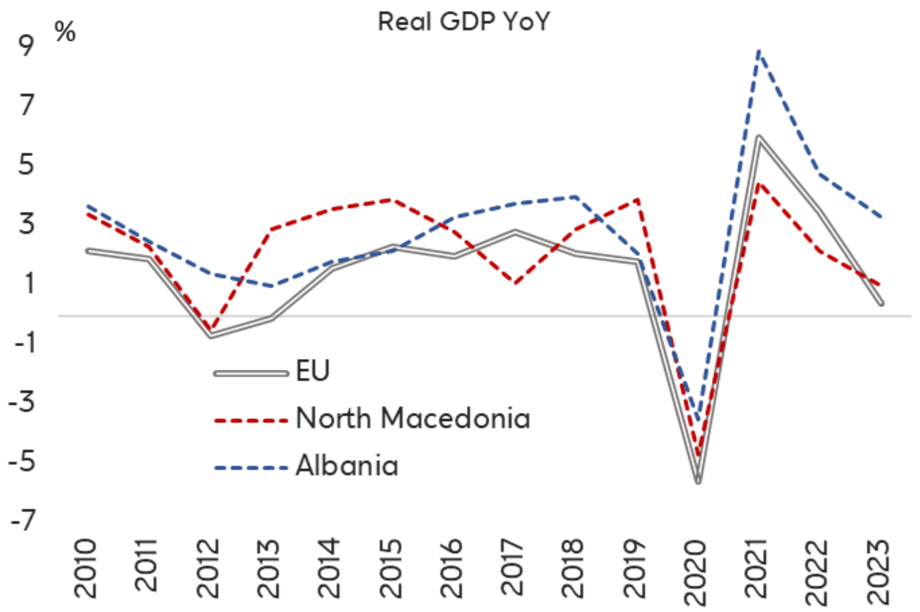


Source: European Commission, National Bank of Bulgaria, Eurobank Economic Research

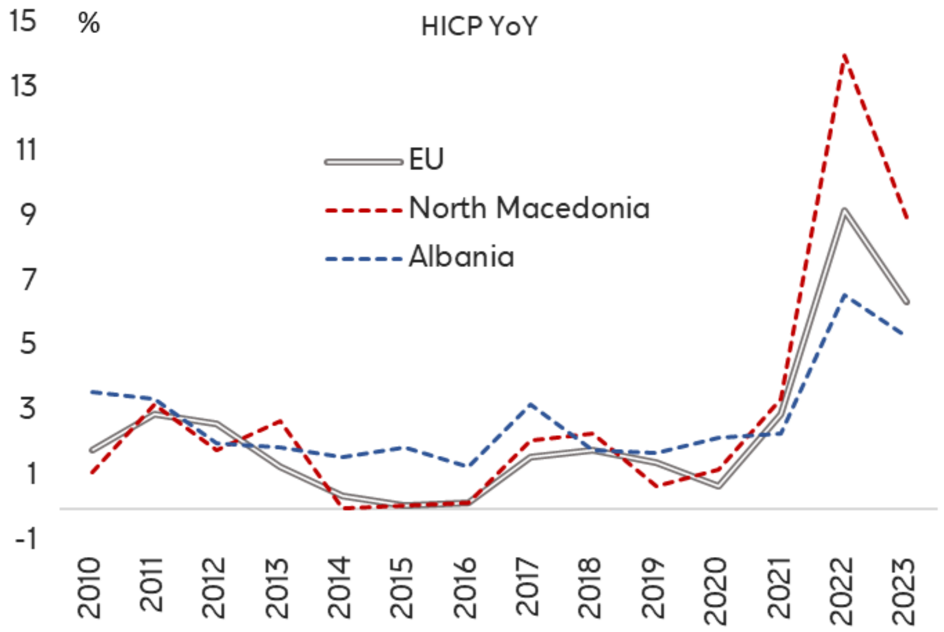
Albania & North Macedonia

- **Albania:** 4.9% growth in 2022, cooling down to a still mighty 3.4% in 2023 driven by strong domestic demand and an exceptional performance of the tourism sector; GDP growth in 2024 is forecast at 3.3% with consumption supported from higher wages and moderating inflation. Positive medium-term outlook as EU accession aspirations provide an anchor to speed up convergence, yet with downside risks, mainly related to shortages of skilled labor impaired by outward emigration and the moderate pace of structural reforms
- **North Macedonia:** GDP growth dropped to 1% in 2023, due to decline in domestic investment and weak external demand. In 2024, growth is projected to accelerate to 2.9% on the back of strengthening domestic demand and public investment. Risks linked to delays in specific public investments, such as Road Corridor 8 and 10d and the fiscal deficit remaining above 5%

Growth pattern similar to the EU average with a lead for Albania...



....while North Macedonia is confronted with higher inflationary pressures

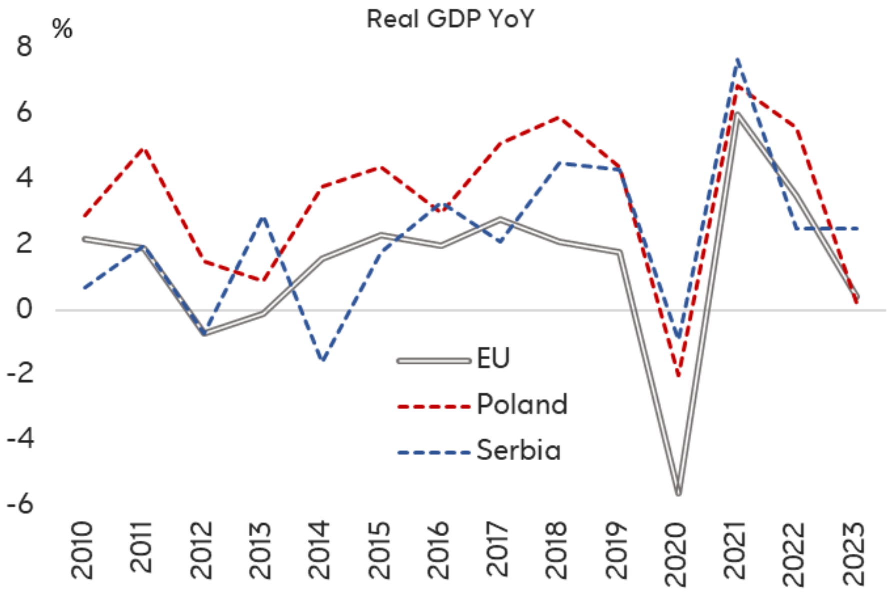


Source: European Commission, IMF, Eurobank Economic Research

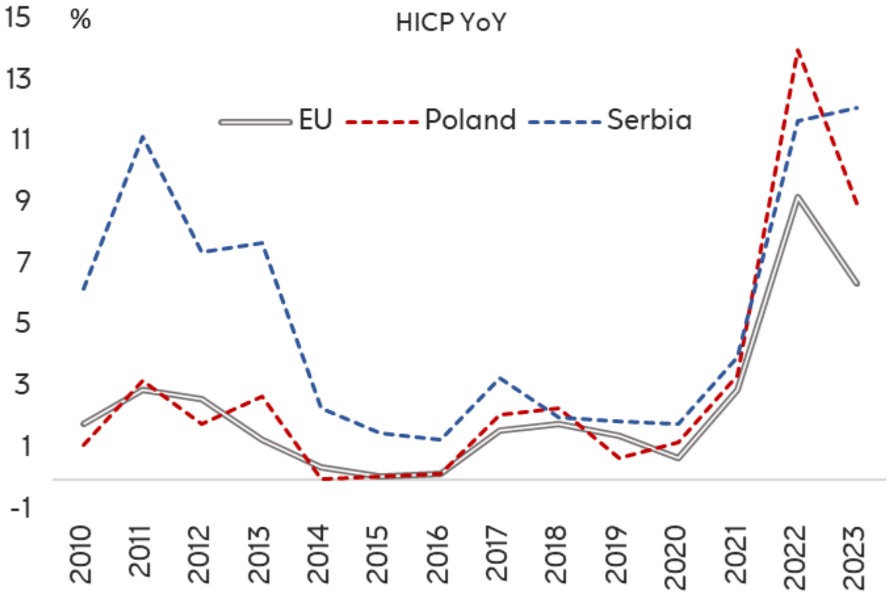
Poland & Serbia

- **Poland:** average annual growth of 3.4% between 2010-2023, vs 1.4% EU average. Softness in 2023 (0.2%) after a brisk growth rate of 5.6% in 2022, despite a robust labor market; brighter prospects for 2024 (EC forecast at 2.8%). A well-diversified economic structure and commitment to macroeconomic stability, yet with fiscal consolidation deferred to 2025 due to defense spending. Challenges: boosting productivity through innovation, decarbonizing, upskilling labor force in a context of rapid aging, greater efficiency in public spending
- **Serbia:** average annual growth of 2.2% since 2010, mild recession in the pandemic, growth of 2.5% in both 2022 and 2023; heading for a 3.5% in 2024 (EC forecast) driven primarily by consumption. FDI crucial to growth, hence need to remove bottlenecks related to governance, competition and the business environment; structural reforms in education & SOEs

Both economies outperform the EU average in terms of GDP growth ...



...but they are also under more intense inflationary stress



Source: European Commission, IMF, Eurobank Economic Research