



Strategic Analysis

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GREECE: GROWING ON AN UNSUSTAINABLE PATH

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Our February 2024 report (Papadimitriou et al. 2024) raised serious concerns about Greece's dependency on imports. In this report, we argue that the problems we highlighted have worsened, and the relatively high growth rates the country has recently achieved have been at the expense of an increase in foreign indebtedness, as well as an increasing transfer of real estate property rights to foreigners—a pattern that cannot be sustained for long.

Determinants of 2024 Real GDP growth

In 2024, the Greek economy continued to grow at a higher rate than the average of the EU-27 (Table 1), although some of the latest indicators exhibit economic weakness that will impact the economy in the long term. The prospects for the short term appear mostly positive, based on reported indicators for 2024 in GDP growth, employment, industrial production, producer and consumer sentiments, and retail sales (despite some declines later in the year). Preliminary results recently announced by ELSTAT confirmed the average market estimates—including those of the EC and the IMF—for GDP growth in 2024 at 2.3 percent. Preliminary monthly statistics for Q4 show declines in some of the indicators mentioned above: consumption, exports of goods, employment, industrial production, producer and consumer sentiment, and retail sales.

Table 1 Growth rate in real GDP

	2022	2023	2024
European Union	3.5	0.7	1.7
Greece	5.7	2.3	2.3
Germany	1.4	-0.3	-0.2
France	2.6	-0.8	1.2
Italy	4.8	0.7	0.7
Spain	6.2	2.7	3.2

Source: Eurostat

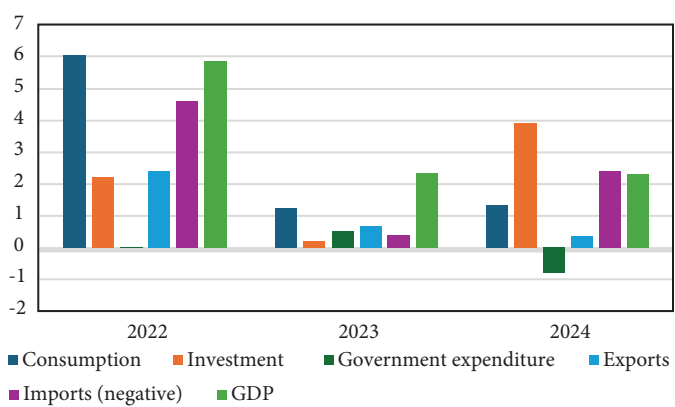
In contrast, increases are recorded in Q4 (2024) in gross fixed capital formation and exports of services, while imports of goods and services decreased in concert with lower consumption, even though, throughout 2024, imports of goods and services overall continued to surpass the export sector. As we cautioned in previous reports (Papadimitriou et al. 2024; 2022a, b) and will discuss later, continuing the imbalance in the external sector will most likely lead to another financial crisis with severe repercussions, given the country’s large public sector debt.

The major components driving growth in 2024 were investment and private consumption, with exports lagging imports significantly, the record-breaking tourist arrivals notwithstanding (Figure 1). Unlike the post-COVID years (2021–23), net government expenditures reduced GDP growth in 2024, if public investments funded from the Recovery and Resilience Facility (RRF) are excluded. Indeed, government consumption decreased in 2024, while the surge in investment was driven by long-term concerns for the Greek economy due to the discontinuation of RRF funding in early 2027.

As Figure 1 illustrates, the investment contribution to growth—which exceeded all other drivers in 2024—exceeded that of the post-COVID years. Imports also overtook exports, resulting in the stubbornly continuing trade deficit and a larger current account imbalance.

A curious and disturbing issue is the increasing number of unclassified inventories in 2024, i.e., components of consumption or investment. The most serious concern, however, is that when these inventories disappear in 2025, a recession could follow. We will return to this issue later, providing comparable levels of inventories of other eurozone member states.

Figure 1 Greece: Contributions to GDP Growth (% YoY)

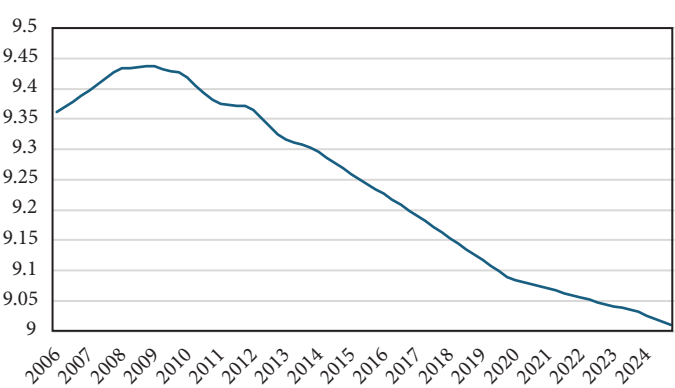


Source: ELSTAT

In the two years post-COVID and in response to higher inflation, disposable income was supported by a variety of government cash transfers that eased the pain that came with the extraordinary costs of foodstuffs and energy. In the latter quarters of 2024, government support decreased, negatively affecting disposable income. Wage income was the primary component of disposable income, followed by self-employment and income from wealth, all directed primarily to consumption, resulting in a negative growth rate in saving (–2.2 percent in Q3).

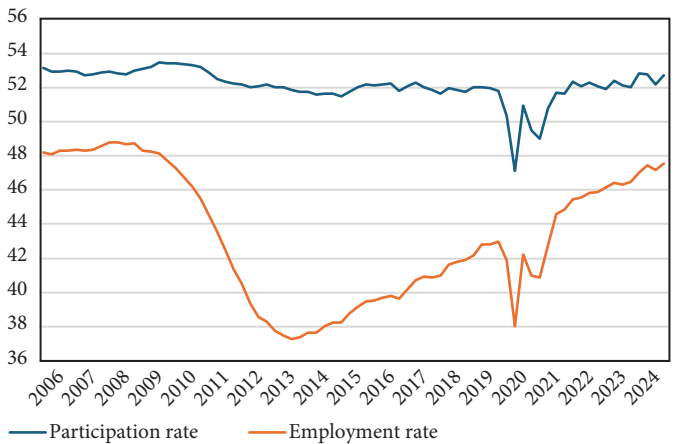
Employment growth continued to be very slow, and the population level maintained its negative trend, given by net migration (Figure 2). The employment population ratio in Q4 2024 was 52.8 percent—one of the lowest in the EU and about 23 percent lower than the average EU-27 country (Eurostat 2024). Figure 3 shows that both the participation rate and the employment rate have barely reached their pre-crisis levels. To

Figure 2 Greece: Population, Millions



Source: ELSTAT

Figure 3 Greece: Labor Market Participation and Employment, Percent



Source: ELSTAT

reach the target of 78 percent by 2030—laid out by the European Pillar of Social Rights Action Plan (EU-27)—will not only require a dramatic decrease in unemployment, but also creation of opportunities for employment for those citizens not in or marginally attached to the labor force, especially women and those seeking opportunities abroad (“brain drain”).

Moreover, official unemployment statistics in Greece are not always accurate, since their number differs from the Unemployment Registration Service (DYPA), which usually reports a higher level than the Statistical Agency (ELSTAT), which stood at 9.4 percent in December 2024. In December 2024, for example, the registered unemployed were 977,687—more than twice the number included in the ELSTAT report, out of which only 262,548 were receiving unemployment insurance. A good number were seasonal employees in the tourism services sector. This emphasizes the urgency of the government’s response to increasing the opportunities and improving the conditions of employment, including increases in the minimum and median wages, which, in turn, will increase economic activity and the prospects of further growth.

We can observe the labor market conditions by examining real wage and employee compensation indices and the wage share as percentages of GDP. The wage share in Greece for 2024 was around 34.7 percent of GDP (Figure 4) as compared with the EU average of 57 percent. As Eurostat reported, Greece is on the bottom of the EU ladder regarding hourly wage rates. In 2024Q3, Greece recorded a 2.9 percent decline in hourly wages,

while the EU average over the same period showed a 5.1 percent increase and a corresponding 4.6 percent in the eurozone. As Figure 4 shows, employee compensation has lost ground when compared to 2015, while the wage index and the wage share have gained very little, if at all.

The Foreign Constraint

Figure 5 summarizes the defeat of the (fragile) EU strategy for Greece based on austerity, which hoped to eliminate the structural current account deficit. The chart shows that, indeed, until the Great Recession of 2009, the current account balance grew, with a record 12.4 percent of GDP in 2008Q2. The crisis, and then the austerity measures that followed, entailed an initial drop in imports, which grew more slowly in the following periods, while exports of services (i.e., tourism) started to boom, given the increase in price competitiveness achieved through cuts in labor costs. However, austerity also led to the disappearance of many other businesses, or the acquisition of profitable firms by foreign competitors, so that the strong boom in exports of services started to imply a similar increase in imports of goods.

The strategy for closing the current account imbalance seemed to work in 2015–19, but the combination of the COVID shock in 2020, the following shock to international prices, and the Ukraine war’s impact on energy prices showed the fragility of this growth strategy.

The current account balance is now back to over 5 percent of GDP, a value that implies an increase in net foreign debt which may trigger a new financial crisis.

Figure 4 Greece: Real Wage Indexes and Wage Share, percent of GDP (2015=100)

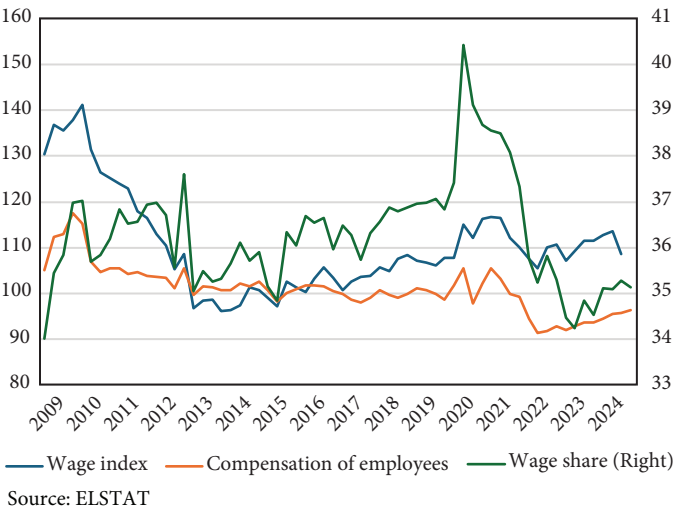
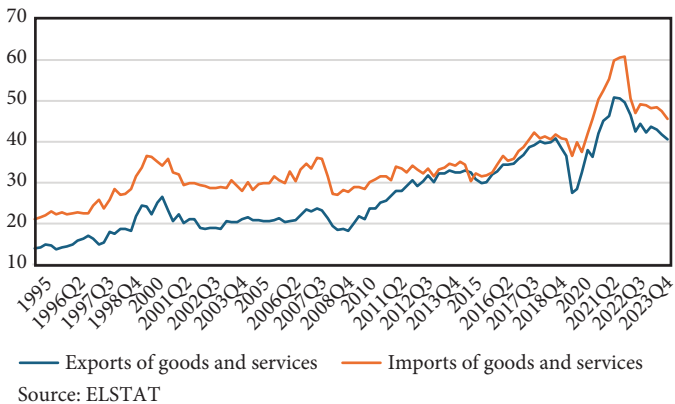


Figure 5 Greece: Imports and Exports of Goods and Services, percent of GDP



The ability of the Greek tourism industry to keep growing is, however, uncertain. In Figure 6, we report the fluctuation in tourism numbers as estimated by the Bank of Greece, measured both in number of travelers and in number of overnight stays of non-residents. We excluded the data for 2020 when the COVID pandemic halted travel. The chart shows how rapidly the number of tourists increased after 2021, so much that, in 2024, the number exceeded pre-COVID levels.

The average expenditure per night also had an increasing trend, with the latest annual average at €83 per night, up from €74 in 2019.

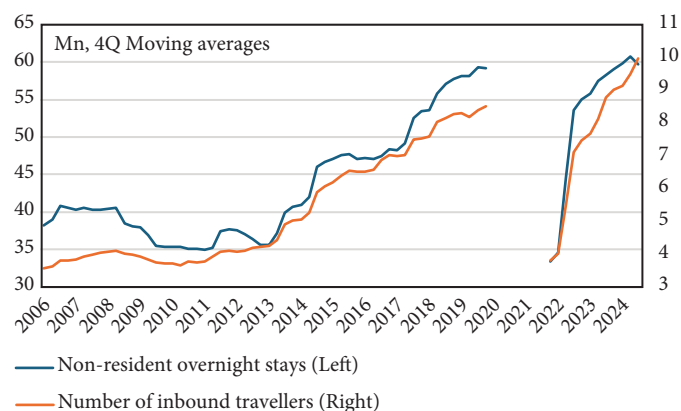
We would expect these figures to imply an increase in supply, but the statistic on the number of beds in tourist accommodations reported by Eurostat shows a decline from 1.3 million in 2019 to 1.2 million in 2023 (the latest available figure).

In Figure 7, we compare this statistic to the number of tourists reported by the Bank of Greece. The figure shows that there must be an underestimation of the supply of tourist accommodations, probably due to the increasing availability of accommodations through “non-official” channels like *AirBnb* and “Rooms To Let” facilities in rural Greece. In any case, the figures show that the demand may likely be increasing over the existing supply, casting doubts on the ability of the industry to keep growing at the rate experienced between 2021 and 2024.

Baseline Scenario

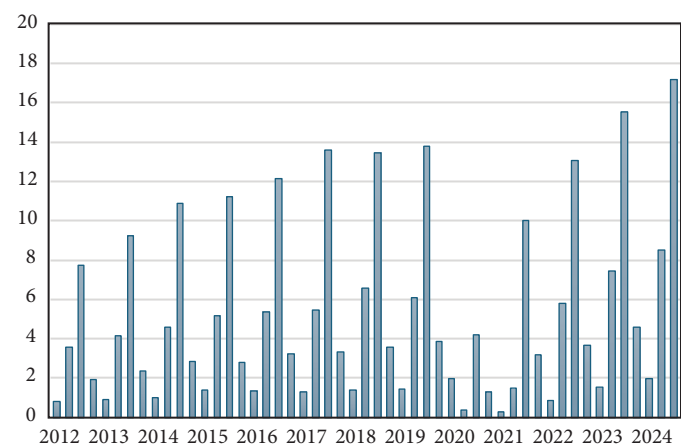
As is customary with the Levy Institute’s Strategic Analysis reports, we first develop a basic scenario of projected GDP growth and the behavior of the sectoral financial balances of the three institutional sectors: private, public, and external—from which we draw conclusions about the conditions that must be realized to deliver our projected results. Furthermore, by changing our assumptions related to the government’s stance, effective and timely utilization of the funds from the RRF, and the behavior—in relation to consumption and investment, saving and borrowing and net exports—of private sector households and non-financial corporations, we simulate alternative growth paths and financial balances scenarios. Our baseline scenario, as will be seen, differs significantly from the estimates of the government, international, and other research organizations in that we are pessimistic of the growth rate being sustained in the next two years at the same level as the recent past. Our contrarian view is based on limits of growth in consumption

Figure 6 Greece: Tourism



Source: Bank of Greece

Figure 7 Greece: Ratio of Tourists to Bedplaces



Source: Bank of Greece; EUROSTAT

and the widening current account balance, both to be discussed below.

The simulation of the baseline scenario is conditional on “neutral” assumptions we make about the external determinants of aggregate demand and prices and official projections for monetary and fiscal policy. These projections, in turn, have implications for the private sector’s financing of consumption and investment expenditures.

Monetary Policy

At the time of writing (March 2025), the ECB announced a reduction in interest rates in response to lower inflation. It is not clear whether these reductions continue. The interest rate on the “marginal lending facility” mistakenly increased (from a low of 0.25 percent in 2019 to 4.75 percent in September of 2023)

in response to the increase in inflation from the COVID-19 pandemic and the impact of the Ukraine war on supply chain disruptions in gas, oil, and foodstuffs, which dramatically affected prices. Although the inflation rate has dropped in most EU countries, the ECB interest rate, after the recent reduction of 25 basis points, is still high at 2.90 percent, higher than the average long-term rate of 2.81 percent, but lower than the US federal funds effective rate, which is still at 4.33 percent. Despite the high interest rates, consumer credit in Greece showed an increasing trend in the major part of 2024, decreasing to €8.61 billion in December 2024 and €8.58 billion in January 2025 (Trading Economics). We expect consumer borrowing to increase to cover necessary expenditures that cannot be funded from disposable income. The consumer confidence level in February 2025 at -42.00 (Trading Economics) was very low compared to the average in the EU of -12.9.

In our simulation of both the baseline and alternative scenarios, we assume that relevant interest rates for the Greek economy will remain at their current level over the 2025–26 simulation period.

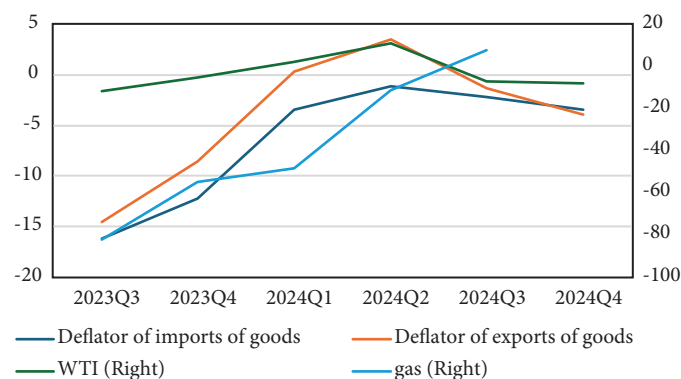
Fiscal Policy

The Greek government's fiscal policy stance was not as relaxed in 2024 as compared to the previous years. Revenues from both direct and indirect taxes increased in 2024 and the expectations are that this policy stance will be continued so as to enable the government to produce budget surpluses in accordance with EU directives. We assume tax rates and expenditures will be those shown in the official government projections. The government expects total tax revenues to increase from its efforts to reduce tax avoidance and evasion.

On the tax revenues side, we assume tax rates will remain stable, although the data show that in the first three quarters of 2024 the direct implicit ex-post tax rate increased by 3 percent. Our assumption is that it would be reduced by 1.5 percent in the first quarter of 2025, and remain stable thereafter. Other tax rates, including social contributions, are projected to remain stable in our simulation period, even though the government announced that social contributions may decrease by a small amount.

On the expenditure side, we assume government consumption will remain constant in real terms, i.e., will grow with the expected rate of inflation. Public investment, we expect, will be limited to those funded by the RRF and we further assume that these will grow from €8.5 billion in 2024 to almost €10 billion in 2025, and about €12 billion in 2026.

Figure 8 Greece: Annual Percentage Change in Price Indices



Source: ELSTAT & FRED

Government transfers and subsidies to households and small family firms, as mentioned earlier, were successfully used to counter the effects of the COVID-19 pandemic, reaching €11.5 billion in 2022, but falling to €4 billion in 2023. We assume they will decrease slightly in the simulation period and that households will continue the dissaving trend started in 2024 and increase their borrowing.

Inflation

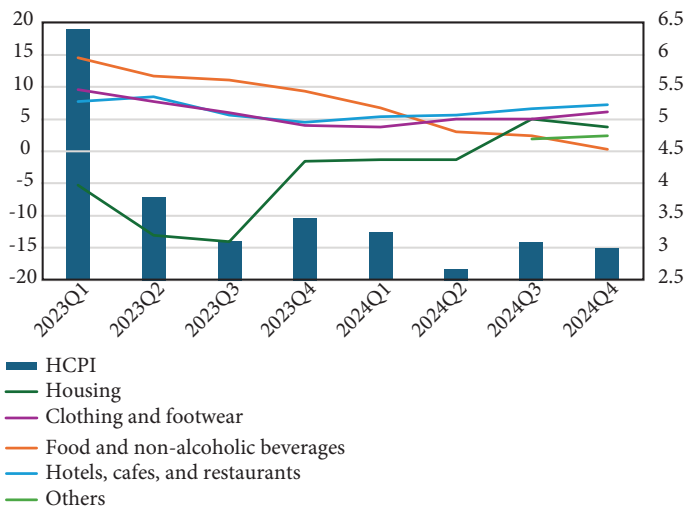
Inflationary pressures seem to have eased worldwide and in the EU particularly. We assume that international prices (imports and exports deflators) will continue to fall, slowly reverting to their pre-COVID levels (Figure 8).

Domestic inflation in Greece, despite the recent uptick, is expected to stabilize and ultimately converge to the targeted ECB rate of 2 percent from its present rate of 2.7 percent. The observed higher prices in energy and foodstuffs, as illustrated in Figure 9, are also expected to slowly come down, especially if the government continues the imposition of penalties and fines on those profiting from artificial supply disruptions. The most recent attempts to end the Ukrainian–Russian war, if successful, will likely ease the unsustainable price hikes in energy, and the ECB's lowering of interest rates may further support construction activity, especially in residential housing.

Inventories

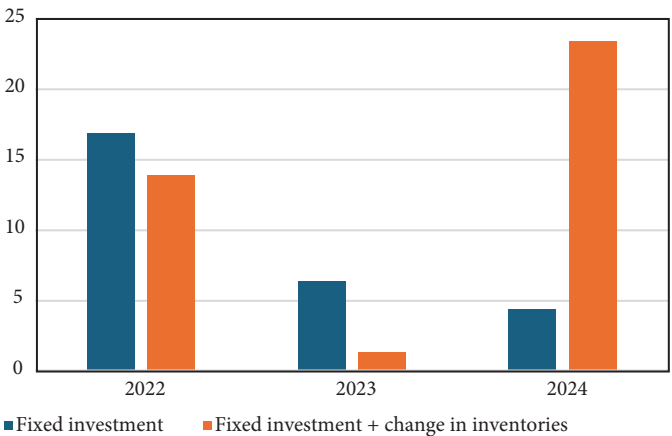
As was mentioned earlier, inventories have been large in 2024, increasing steadily every quarter in 2024. The change in inventories is sometimes obtained in national accounts as the residual item between the estimate of GDP and the estimate of the other components of demand. Moreover, the change in inventories at constant prices is not reported, but can be inferred

Figure 9 Greece: Harmonized Consumer Price Index, YoY growth



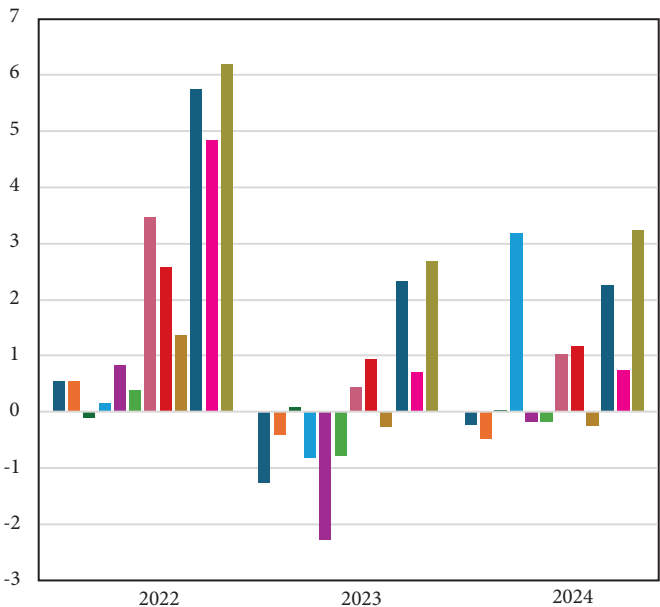
Source: ELSTAT

Figure 10 Greece: The Role of Inventories on Growth Rate



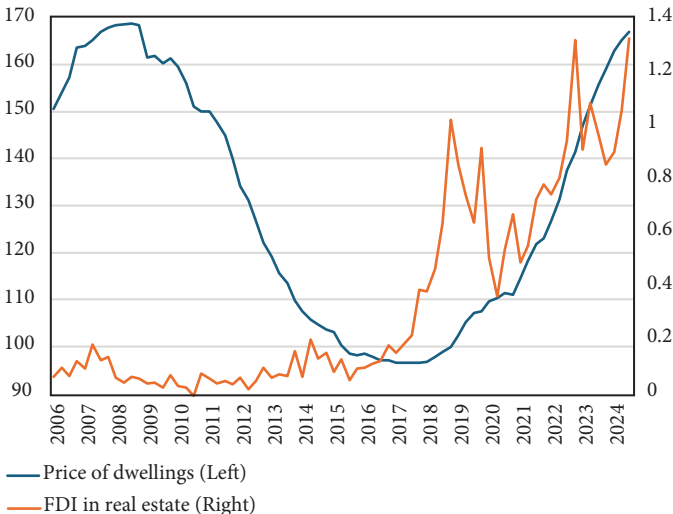
Source: ELSTAT

Figure 11 Greece: Inventory Contributions to GDP growth in the EU (% YoY)



Source: EUROSTAT

Figure 12 Greece: The Housing Market, percent of GDP



Source: ELSTAT, Bank of Greece

by the difference between gross fixed capital formation (proper investment) and gross capital formation, which includes the change in inventories. In Figure 10 we show how the latter has been a major contributor to real GDP growth in 2024, for reasons that will become clear only when national accounts data is revised and updated by ELSTAT. The corresponding inventory changes for other eurozone member states are shown in Figure 11, denoting their extraordinary size in Greece.

Industrial Production and Retail Sales

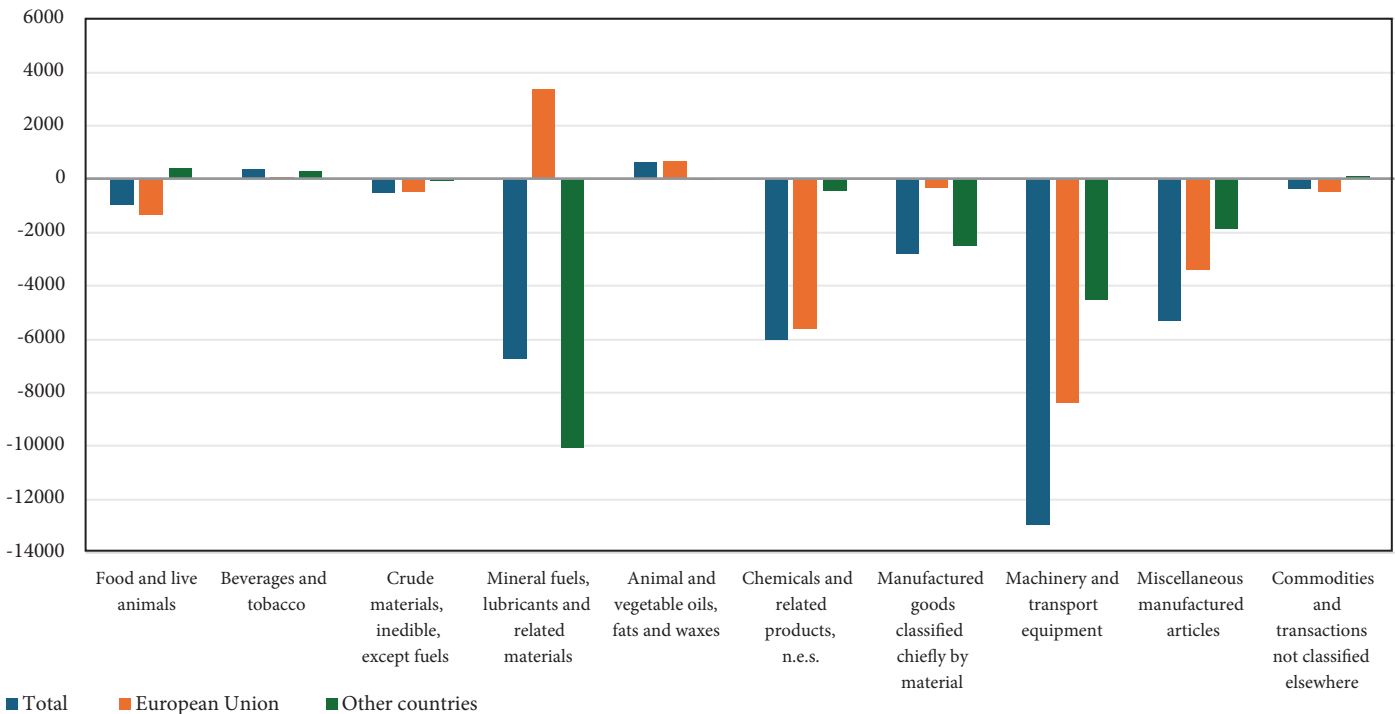
Retail sales declined significantly by 5.4 percent from December 2023 to December 2024: foodstuffs by -6.7 percent, non-food sector excluding gasoline by -3.3 percent, and gasoline by -7.4 percent. The drop in retail sales, on a seasonally adjusted basis, was 3 percent in December 2024 (Elstat). Current estimates indicate further declines in 2025.

The industrial sector increased in December 2024 by 5.8 percent YoY while the manufacturing sector specifically grew by 3.6 percent. Similarly, the average general index of industrial production rose by 5.2 percent as compared to the same period in 2023, and on a seasonally adjusted basis the index rose by 2.4 percent compared to the previous month (ELSTAT).

Manufacturing goods such as computers, electronics, and optical products grew significantly YoY, but very few of these products were destined for the foreign sector as Figure 13 shows. The individual sectors within manufacturing show great disparity among them when one compares, for example, the production of computers and electronics rising 61.7 percent, tobacco products at 32.7 percent, and motor vehicle production at 25.7 percent, among others, with the declines in mining, quarrying, and leather products. The industrial sector as a whole was also affected by a significant rise in electricity and water supply, in addition to the 3.6 percent rise in manufacturing.

The positive growth is in concert with the S&P Global Manufacturing PMI index for Greece, which recorded a rise in December 2024 to 53.2 from 50.9 the previous month. This indicates improvement in the goods-producing sector, while the Harmonized Composite PMI index for the eurozone was below 50, signaling a contraction in manufacturing driven primarily from Germany, France, and Italy.

Figure 13 Greece. 2024 Net Trade Value with Greece per Good Category, in € millions



Source: ELSTAT

Construction Activity

The fourth quarter 2024 statistics released from ELSTAT record construction output to have accelerated by 23.6 percent YoY considering the upward revision of 18.6 percent in the previous quarter. Output between Q4 and Q3 climbed by 52 percent, with production of civil engineering and building construction rising sharply. Excluding the major construction and redevelopment projects of Ellinikon and airport expansion, most construction is centered on residential housing funded by capital from abroad. This is in concert with the rise of private building permits, which increased by 12.8 percent for the 12-month period November 2023–October 2024, representing a 16.1 percent increase in surface and a 12.5 percent increase in volume for the same period in 2022–23 (ELSTAT).

Based on estimates by the Bank of Greece, housing prices in urban areas continued to rise: 7.9 percent in 2024Q3 from the previous year, 9.24 percent in 2024Q2 and 10.84 percent in 2024Q1 from the corresponding quarters in 2023, which also saw high increases from the quarters in 2022. Given this house inflation and the accelerated demand from abroad caused by the Golden Visa programs, many homeowners have opted to sell their houses—realizing the capital gains, and in some cases enhancing their disposable income.

The accelerated price increases in the real estate market caused by increased demand from foreigners is documented in Figure 12 and is in concert with our observation that the sale of real estate assets helps support expenditures that are unlikely to be funded by the declining wage income.

Foreign Demand

The demand for exports of goods depends on a weighted average of real GDP of Greece's trading partners drawn from their GDP projections in the IMF World Economic Outlook (2024). Exports of services, in turn, depend on a weighted real GDP average of the countries generating the largest number of tourists. Tourism is the largest economic activity in Greece even though its net effect towards GDP—considering the negative effects of necessary imports and the lower expenditure per tourist of the recent past—is surprisingly much lower (Rodousakis et al.). As illustrated in Figure 13, Greece's net trade value per good is mostly negative, with some exceptions, notably mineral fuels, lubricants—mainly the result of refineries that import crude oil and sell refined oil to EU partners—animal and vegetable oils with its EU trading partners, and beverages and tobacco with its non-EU trade.

Our Projections: 2025–26

On the basis of the analysis above, our model projections are summarized in Table 2. Our projections are less optimistic than those of other institutions mainly because of the major role that financial balances play in our model.

Greece is experiencing a fiscal tightening policy aimed at turning a government deficit into a budget surplus, and the country has indeed reached an overall surplus position. The serious implication of this is that resources subtracted from the private sector through taxes, contributions, etc., exceed the funds received by the private sector from the public sector in the form of necessary expenditure support, transfers, etc., so that the available funds for households and firms will decrease.

Moreover, the increase in imports, projected to significantly surpass exports, will result in a current account deficit that, in turn, subtracts funds from the private sector. In the last years, the current account deficit has been, to some extent, compensated by an increase in net debt of the private sector against the rest of the world, and by incoming foreign direct investment mainly directed at transferring ownership of firms—and real estate—away from domestic holders and to foreigners (mainly speculators in financial centers).

These transfers of ownership generated additional funds that have been used to sustain private sector expenditures, including consumption, but in the forthcoming years they also imply a growing share of the revenues from tourism—as well as from profits earned by foreign-owned firms—will be transferred abroad, pushing down consumption and aggregate demand. All in all, the omens for the long term suggest turbulent and dangerous times ahead.

Table 2 Greece: Baseline Projections

<i>Annual growth rates</i>	2024	2025	2026
Spain	6.2	2.7	3.2
GDP	2.5	0.9	-1.3
Consumption	2.2	1.8	-0.7
Investment	5.7	13.3	9.7
Government expenditure	-4.2	1.4	1.5
Exports of goods and services	1.2	2.4	1.4
- Exports of goods	-1.7	-1.4	1.8
- Exports of services	4.0	6.0	1.0
Imports of goods and services	5.4	7.2	3.1
- Imports of goods	5.0	8.7	4.1
- Imports of services	6.7	2.4	-0.1
<i>Percent of GDP</i>			
Total Government surplus/deficit	3.4	0.9	-0.7
Primary Government surplus/deficit	6.8	4.1	2.5
<i>Percent of GDP</i>			
External balance	-5.3	-8.8	-10.6

Source: Authors' calculations

Alternative Scenarios

As mentioned earlier in these Strategic Analyses reports, we provide alternative, more optimistic scenarios by changing our assumptions of the behavior of the drivers of GDP growth. In this report, we will instead evaluate the assumptions used by the projections provided by the three major international organizations: the IMF, the OECD, and the European Commission. The assumed growth drivers in the projections of the three organizations are detailed in Table 3.

To begin at the beginning, the first entry in Table 3 shows the optimistic GDP growth rates ranging from 2.1 to 2.3 percent for 2025, as compared to our own pessimistic figures depicted in Table 2. The primary growth driver listed in all three is the increased use of the NGEU (RRF) funds provided for investment, employment gains that will, in turn, fuel private consumption. Another growth driver assumed by the EC is export growth benefiting from the recovery of external demand. We, of course, agree that NGEU investments are a major driver of growth but we are skeptical of a much larger increase given the experience of the last two years. The effective and timely utilization of investment funds is not what characterizes the Greek economy. Thus, in our projections, we use more “reasonable” assumptions based on the experience of previous years. In terms of increased consumption, our assumption is that it will not continue as robustly as in previous years. Rather, consumption will slow, given that precarious labor market conditions, low wages, and

the decline in government support, together will fail to increase disposable income. Furthermore, there is the troubling matter of the continuing sizeable imports, which, together with lower consumption, will contract growth.

The assumptions regarding inflation are similar to our own but we question the positive effects of the continuing budget surplus on growth, for the reasons discussed earlier. Increases in tax revenues along with decreases of expenditure—features of a restrictive fiscal policy—are drivers of contracting growth. Last but not least are the assumptions in all three projections of employment gains. This is a troubling matter given the number and the conditions of the unemployed, those who are not in the labor force, and those who choose to move abroad, as we detailed earlier.

The assumptions on which the growth projections are drawn do not appear “neutral” to us and we expect the optimism of this year’s GDP growth rate to be very unlikely fulfilled.

As discussed above, Greece needs additional sources of funds to achieve growth rates higher than those we have projected. These may come from:

- a further decrease in private sector net assets, achieved either by a larger transfer of property rights on real estate to non-residents, or from additional borrowing abroad; or
- a reversal of current fiscal policy: an increase in public expenditure or larger transfers from the public sector to the private sector.

For instance, we evaluated the former hypothesis using our model. In our baseline projection, we assumed that foreign direct investment in real estate would increase from €682 million in 2024 to €854 million in 2025—an increase similar to what was registered between 2023 and 2024. Assuming an acceleration of this process, with FDI in 2025 increasing to €1.5 billion, the real GDP growth rate would increase to 1.3 percent, still far from the projections in Table 3.

To achieve a growth rate of 2.3 percent in 2025 through a fiscal expansion, our model estimates that an increase in net government expenditure of more than €6 billion would be required. Such a policy would bring the overall public balance back to deficit, although the government would still be running a primary surplus of about 1.3 percent of GDP.

Table 3 Greece: GDP Growth Projections for 2025 from IMF, OECD, EC

Assumption	IMF	OECD	European Commission
GDP Growth Rate	2.1%	2.2%	2.3%
Primary Growth Drivers	- Investment, especially NGEU-funded projects- Solid private consumption supported by employment and income growth	- Growing disbursements from EU Recovery and Resilience Funds- Gradual disinflation- Continuous employment gains	- Robust private consumption due to steady real income growth- Accelerated investment, peaking at nearly 9% in 2025, driven by RRF implementation and improved financing conditions- Export growth benefiting from recovering external demand and structural reforms
Inflation Outlook	- Headline inflation expected to resume downward trend- Core inflation to be more persistent due to services inflation and wage growth	- Gradual disinflation expected	- Headline inflation projected at 2.4% in 2025- Inflation excluding energy and food forecasted at 2.7%
Fiscal Outlook	- Primary surplus expected to remain around 2.5% of GDP in 2025- Reduced social security contributions offset by revenue gains from tax reforms	- Emphasis on maintaining significant primary fiscal surpluses while preserving investment	- Headline deficit expected to decline to 0.1% of GDP in 2025- Public debt-to-GDP ratio projected to fall to 146.8%
Employment and Labor Market	- Favorable employment growth supporting private consumption	- Continuous employment gains expected	- Employment growth set to continue, though at a slower pace due to structural challenges- Unemployment rate forecasted to decline to around 9.0% by 2026
External Sector	- Current account deficit expected to narrow below 4% of GDP as imports slow with the winding down of NGEU-funded investment	- Export growth supported by recovering external demand and structural reforms	- Export growth anticipated to benefit from recovering external demand, cost competitiveness gains, and structural reforms

Conclusions

Greece has been among the fastest growing economies in the EU in the post-COVID-19 period. In this report, however, we discuss some developing issues of serious concern regarding the continuation of this GDP growth rate. We review and analyze very carefully the recently released statistical elements on growth within the existing conditions in labor markets, employment gains, consumption, and investment, along with both monetary and fiscal policy stances. While the ECB's monetary policy is beginning to be more accommodative, national fiscal policy is tightening.

The analysis of the drivers of growth in the last two quarters of 2024 shows the decline of government expenditure, save for the significant investments primarily funded by the NGEU (RRF) program due to expire in 2027. Serious weakness is observed in disposable income, consumption, and net exports, which, in terms of the financial balances of the three sectors—private, public, and external—suggests that many difficulties and even a crisis may occur in the near future. Both the private

and the external sector financial balances are in deficit while the public sector is in surplus. Experience has shown that these conditions cannot last for long, with the ultimate result being a recession, an increase in public debt, and a financial crisis.

The Greek economy, after exhausting the seven-year escape clause imposed on highly indebted eurozone member states in 2032, must begin to produce even higher budget surpluses to start repaying its outstanding public debt. A stubbornly increasing current account deficit together with a private sector deficit undoubtedly represents the worst position to be in, unless some dramatic changes take place in the country's production model, reversing both external and private sector negative balances. As we cautioned in our previous report (Papadimitriou et al. 2024) and re-emphasize strongly in this report, Greece must reverse its dependence on imports. Moreover, replacing government expenditures on programs supporting disposable income with sales of real assets is a recipe for disaster, as we have seen in the past in many places around the world. Neither the highly

inflated housing prices nor consumer credit can be continued in the long term.

As we discussed, disposable income can be increased with rising median wages and labor market policies employed in other EU member states, such as increasing the minimum wage and re-instituting the 13th and 14th monthly salaries to public sector employees. Budget surpluses cannot be linked to internal devaluation. What is needed instead is the transformation of the production model—and not through wage suppression and reduced demand.

Our own model's simulations show that growth rates of over 2 percent are not in the cards. Our pessimistic growth projections are based on neutral assumptions drawn from our analysis of the existing conditions. We believe the assumptions used by the Greek government, IMF, OECD, and EC are based on rather unreasonable assumptions and wishful thinking.

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