

# **Greek Economy:** An incomplete transition from the private to public space and the need for a “high pressure” economy

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29 April 2025

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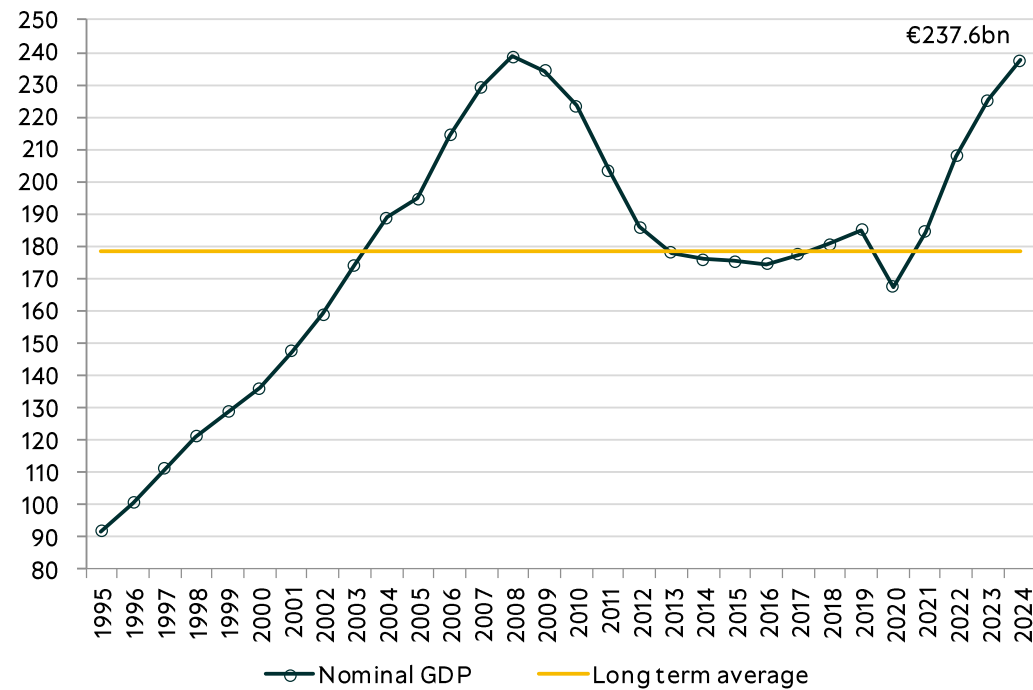
Economic Research & Investment Strategy

# Macro Outlook

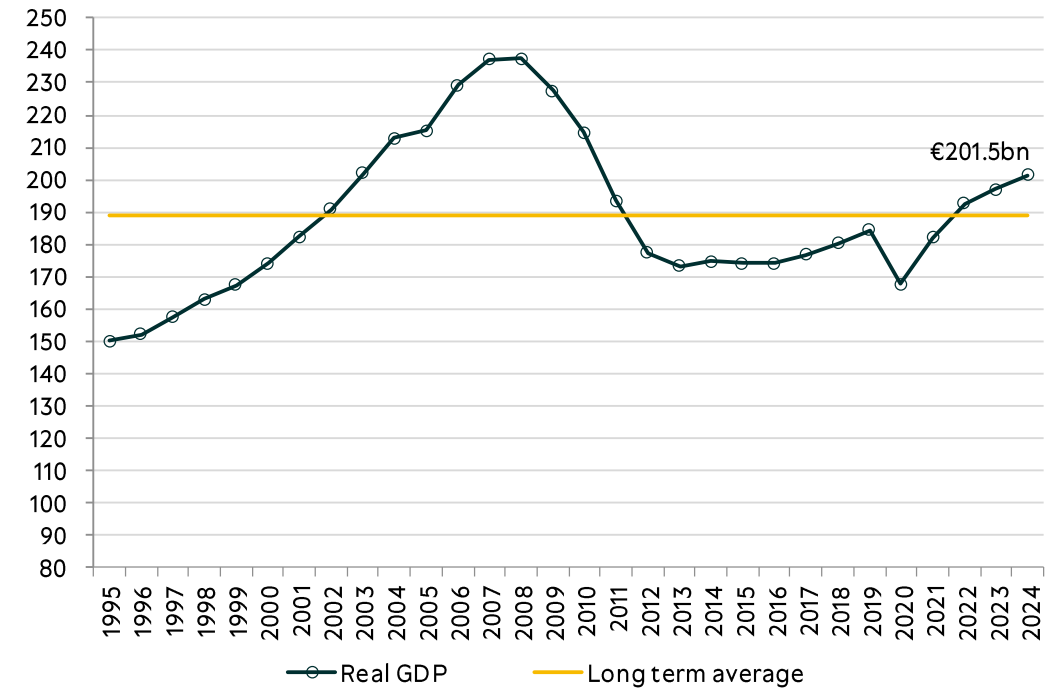
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# The Greek economy has been on a recovery path both in Nominal & Real terms

## Nominal GDP (€ bn)



## Real GDP (€ bn, 2020 prices)



## Two unresolved issues

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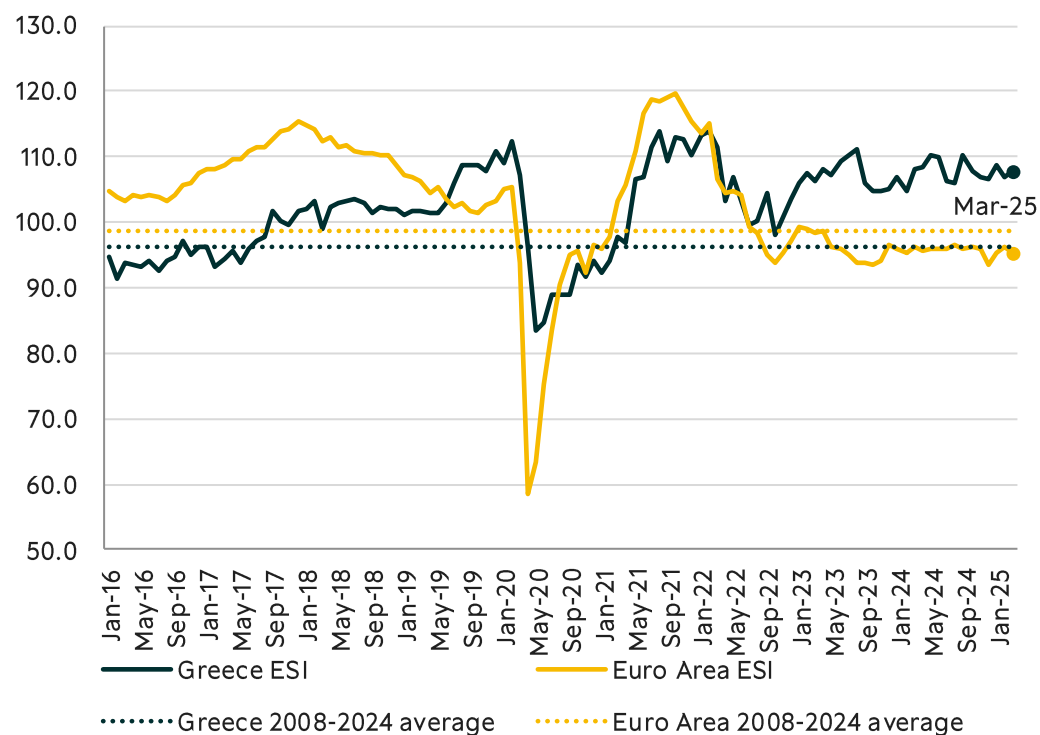
Yet, despite the recovery, two issues have emerged that despite their ubiquitousness and importance have not attracted the level of attention needed :

- a) The Greek households' discontent with their current economic situation
- b) The tepid recovery of investments in the Greek economy

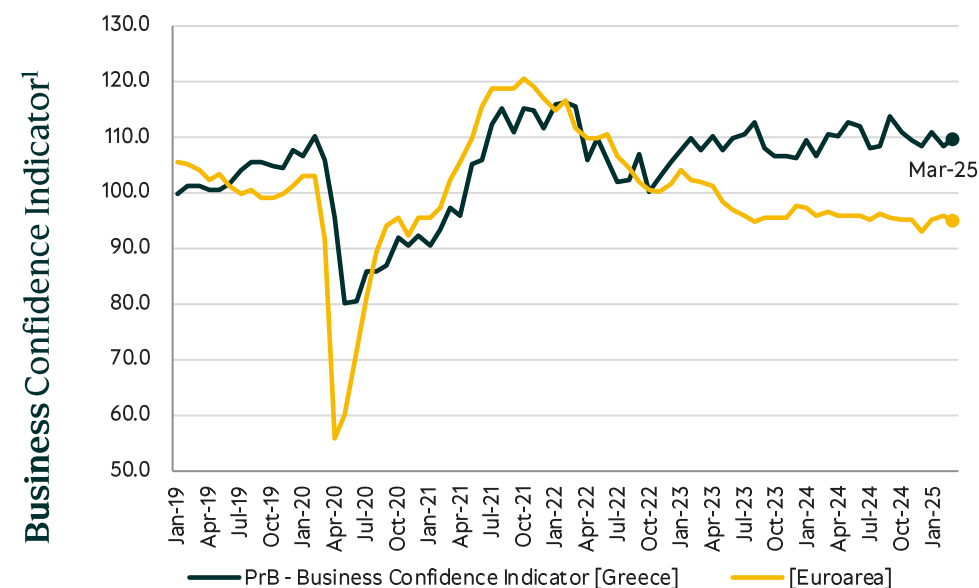
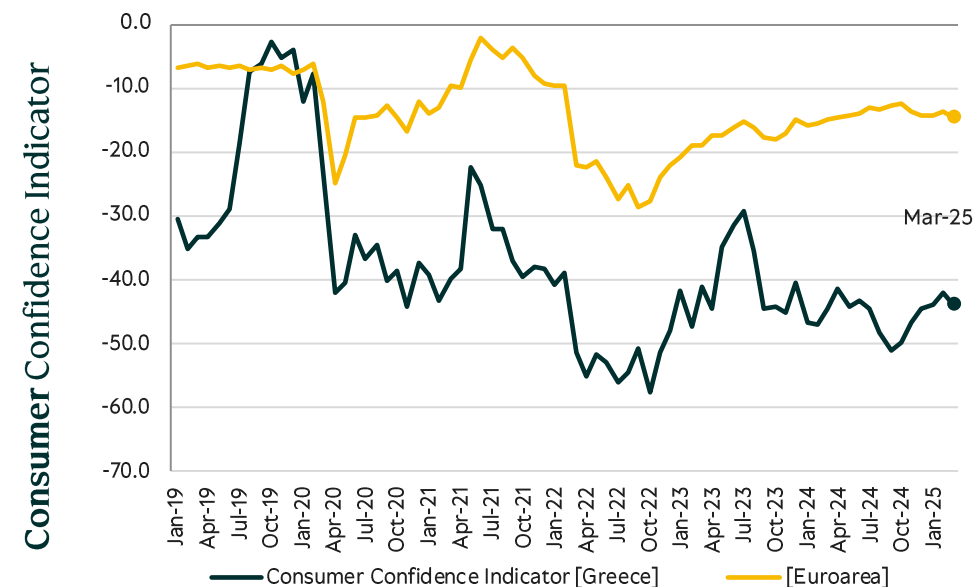
## Q1: Greek Households' discontent

# What are we talking about ? Greek households are lagging in confidence vs Business and EA households

**Economic Sentiment Indicator**  
Greece vs Euro Area (ESI, 2000- 2024 =100, sa data)

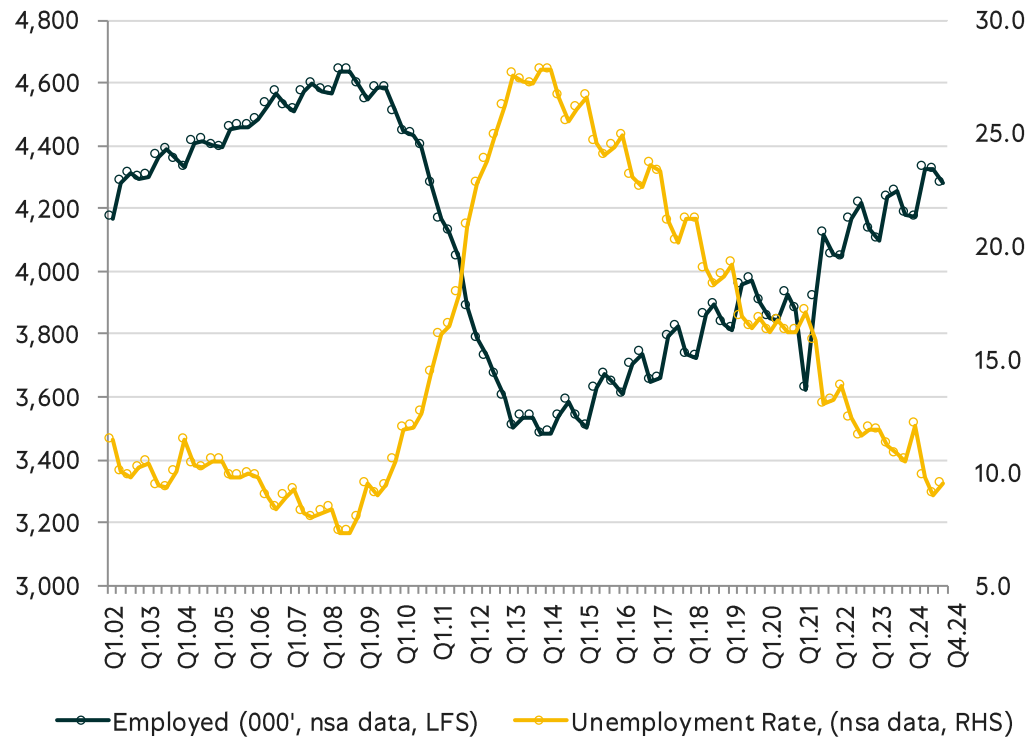


Note: 1. Economic Sentiment Indicator (ESI) excluding Consumer Confidence Indicator. Calculated by the Piraeus Bank economic research division by using DG ECFIN methodology. Base period 2000- 2024 =100

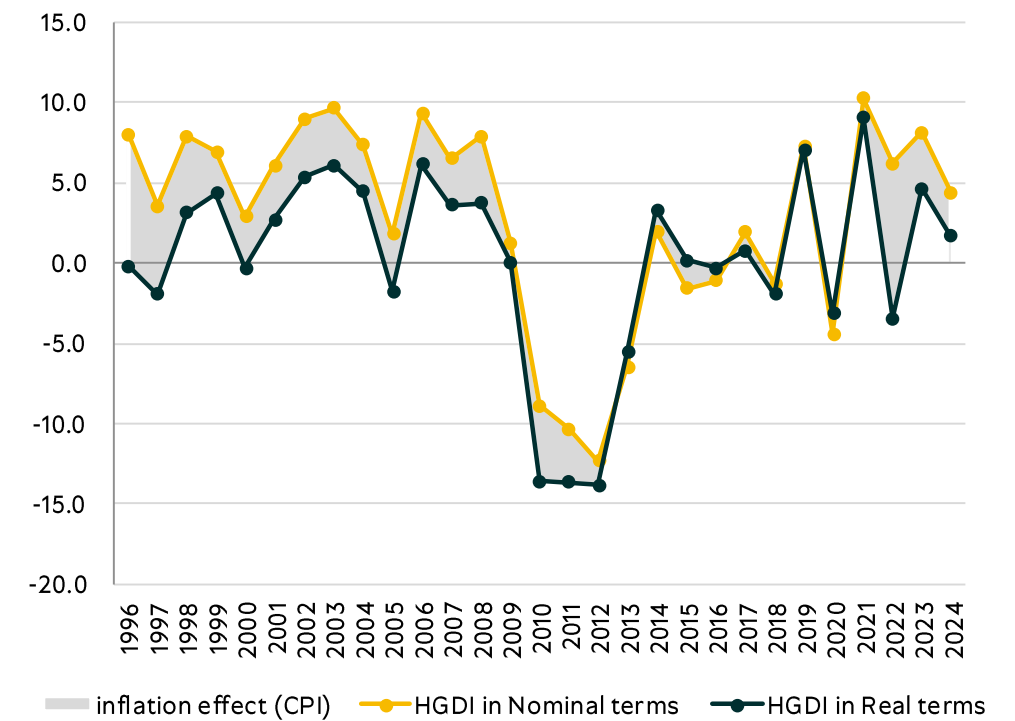


## Why is it a puzzle ? Because the labour market is strong and disposable income is increasing

### Unemployment Rate Vs Employed persons (000')



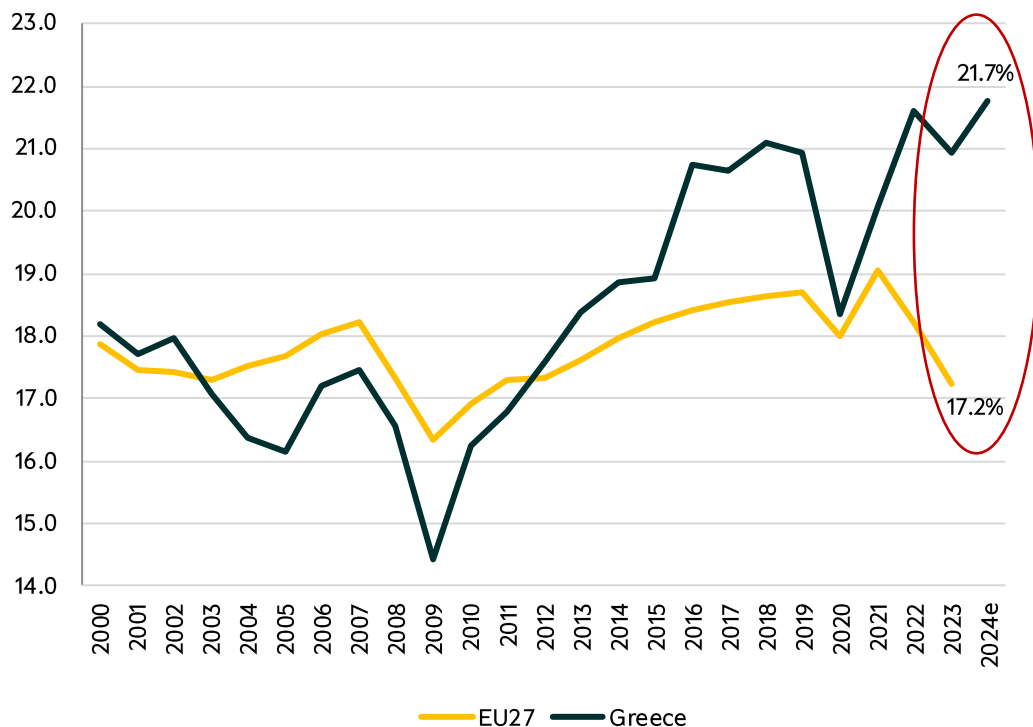
### Nominal Vs Real Households' Gross Disposable Income (annual % change)



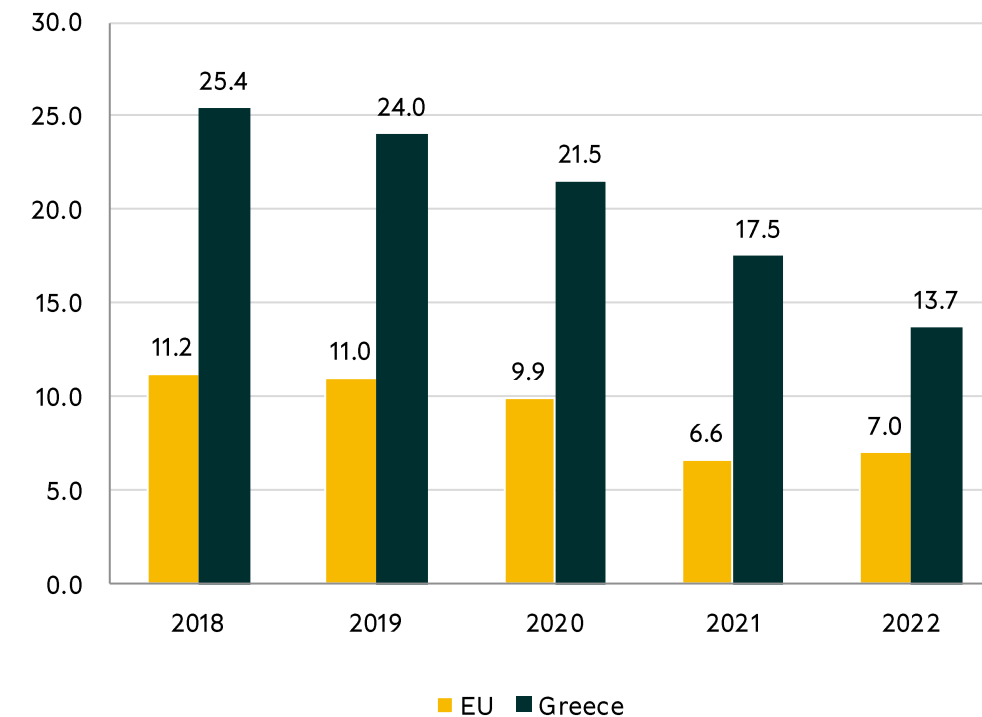
## True drivers of discontent : I. Increased tax compliance

- Improved tax compliance has raised the effective tax rate on consumption to an all time high of 21.7%
- The VAT Gap of VAT paid vs the maximum of VAT collectable has decline to 13.7%

### Effective Tax Rate on Consumption: Greece vs EU



### VAT compliance Gap<sup>1</sup>: Greece vs EU (as % of VTTL<sup>2</sup>)



Note: 1. VAT Compliance gap: The gap between actual VAT paid vs the theoretical max amount of VAT that could have been collected under zero tax evasion

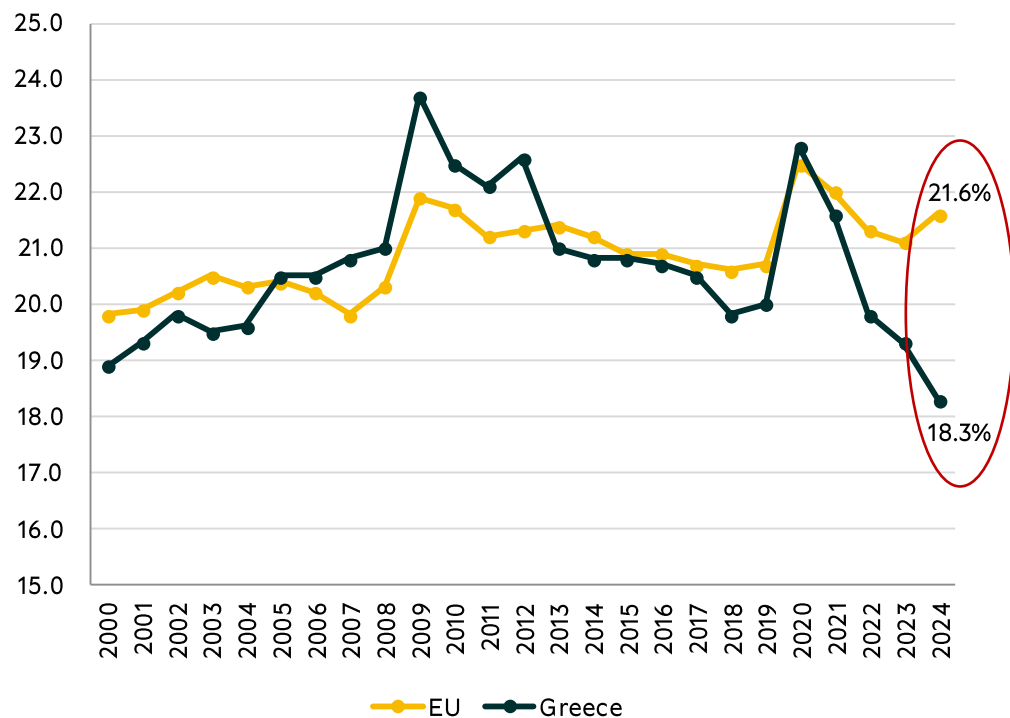
Note: 2. The VAT compliance gap is presented in % of the VAT Total Tax Liability (VTTL). The VTTL is the estimated amount of VAT that is theoretically collectable based on the VAT legislation and ancillary regulations, assuming full compliance



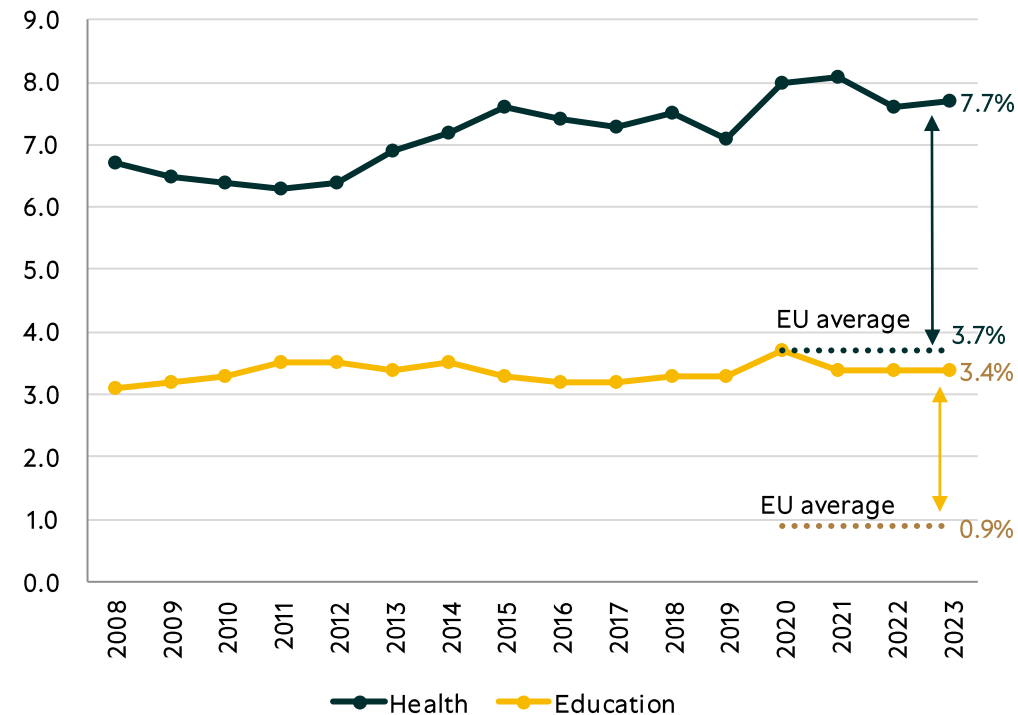
## True drivers of discontent : II. Inadequate Supply of Public Goods

- Public spending on Goods & Services has declined to 18.3% of GDP vs 21.6% in the EU
- At the same time Greek households spend 7.7% of their total consumption on Healthcare (vs 3.7% in the EU ) and 3.4% on Education (vs 0.9% in the EU)

Public Consumption: Greece vs EU (as % of GDP)



Household Budget Survey:  
Percentage (%) distribution of monthly expenditure  
(purchases) on goods and services (current prices)



# Conclusions

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- Increased tax compliance and tax collection means that the **effective tax burden** of Greek households has **increased** to 21.7% of the pre-tax consumption – much **higher than the EU average**.
- In parallel, the **VAT gap\*** has **declined** to 13.7% in 2022 from 25.4% in 2018.
- Yet, **public spending** has **declined** to 18.3% of GDP (vs 21.6% in the EU) and the **% of income that Greek households spend on healthcare and education** is **substantially above EU levels** (healthcare: 7.7% and 3.7% respectively, education: 3.4% and 0.9% respectively).
- The upshot is that we are experiencing an **incomplete transition from private to public space**:
  - i. The transition of private funds to the public sector (through less tax evasion) is well under way. This increases the effective Tax rates and reduces spending power
  - ii. Yet, the provision of public services is stuck in the past.

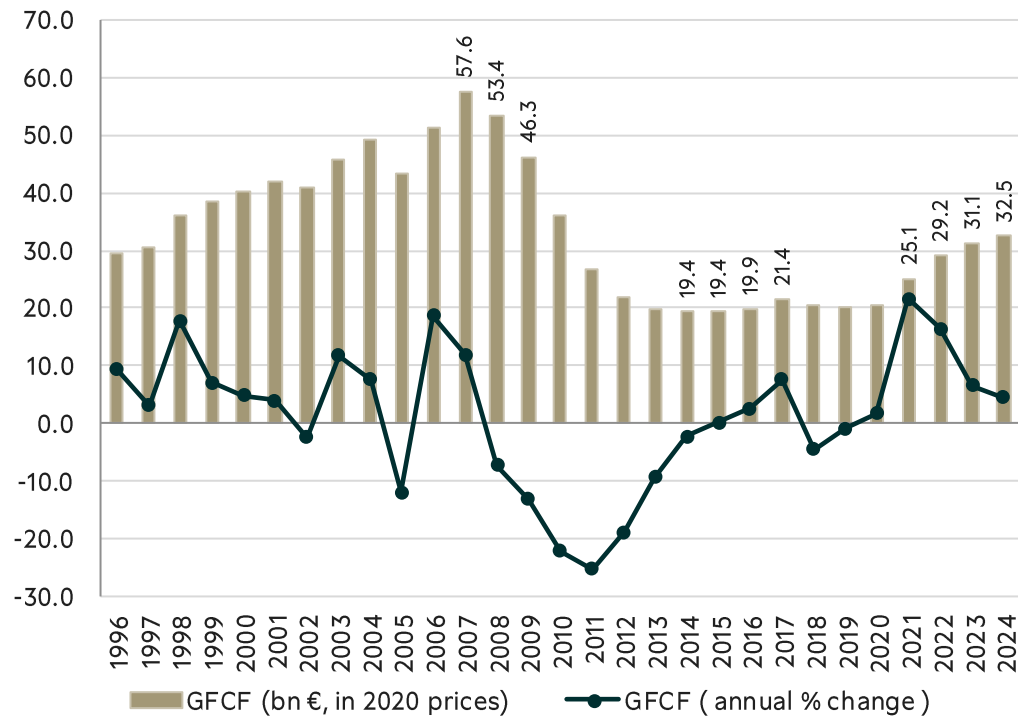
**So, Greek households do not see an adequate reward on their (much higher) taxes.**

\* VAT Compliance gap: The gap between actual VAT paid vs the theoretical max amount of VAT that could have been collected under zero tax evasion

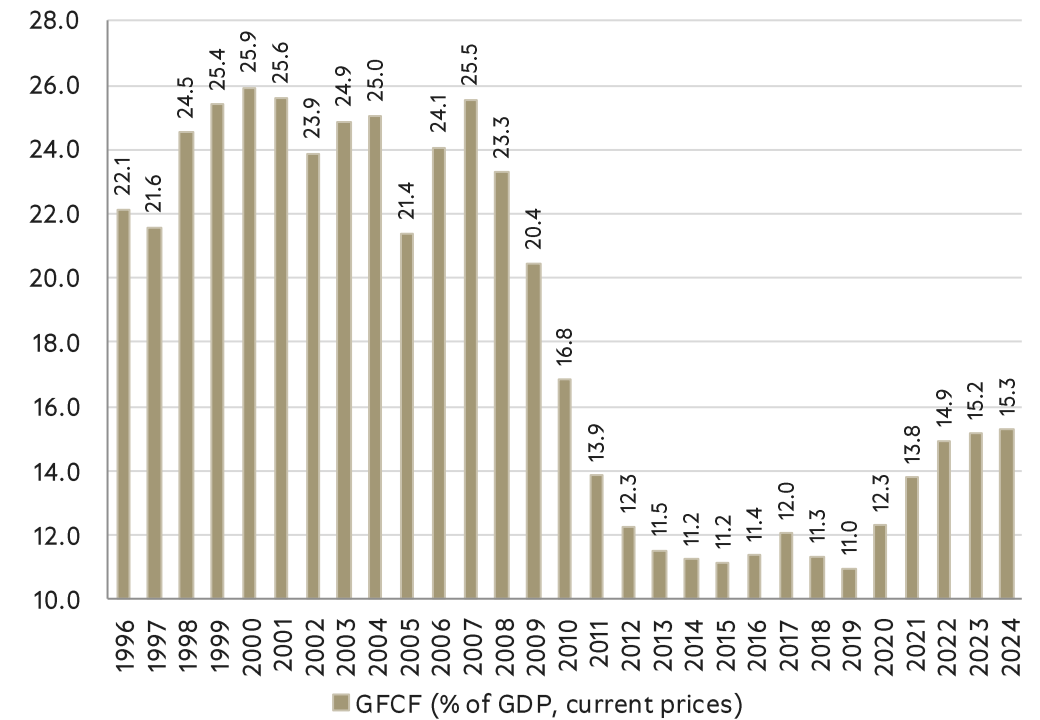
## Q2: Investment Hysteresis

## What are we taking about? GFCF counted for just 15.3% of GDP in 2024 (and 15.2% in 2023)

Gross Fixed Capital Formation  
(€ bn, in 2020 prices)

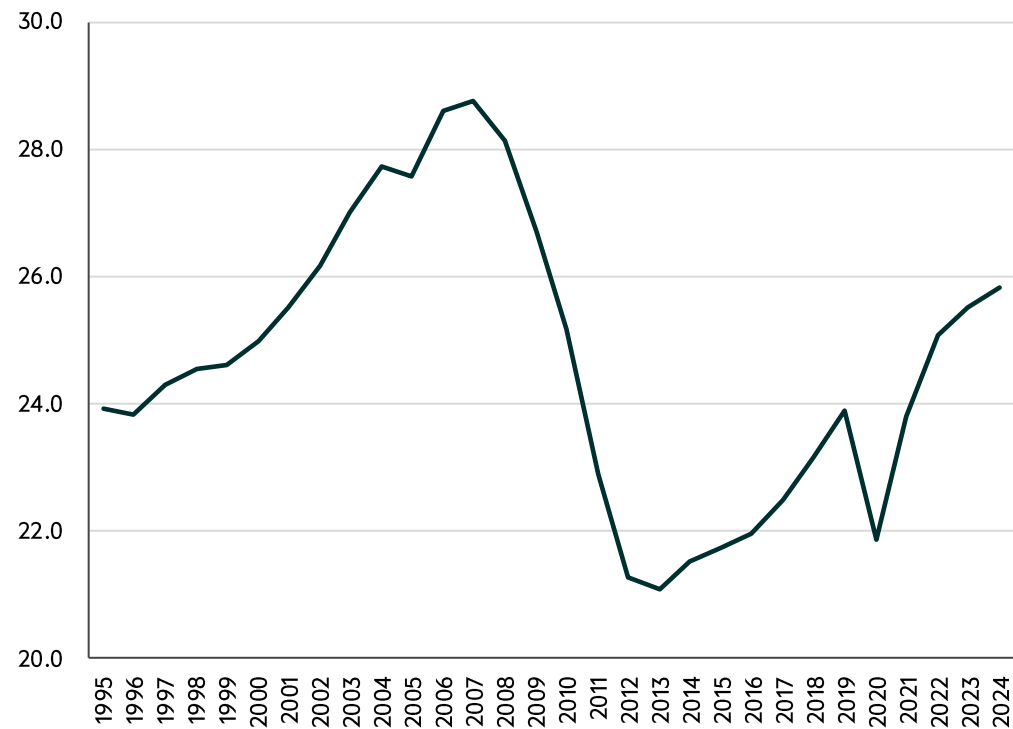


Gross Fixed Capital Formation:  
(as % of GDP, in current prices)

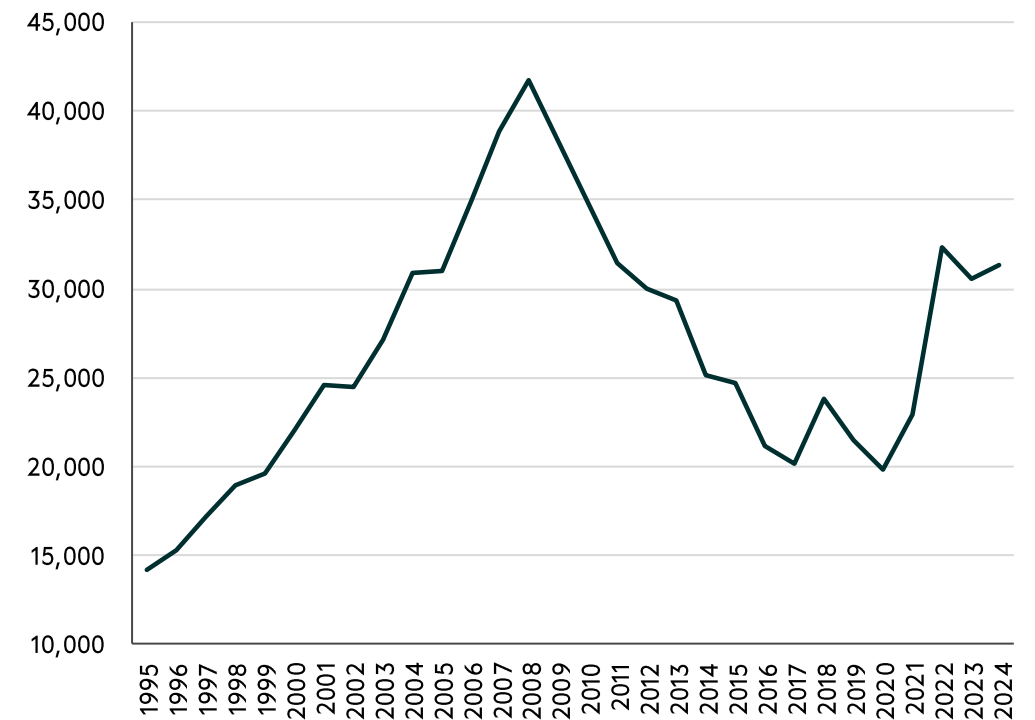


## Why is a puzzle ? I. Both capital productivity and profitability are positive for investments

Capital Productivity  
(GDP as % of net capital stock, in 2020 prices)

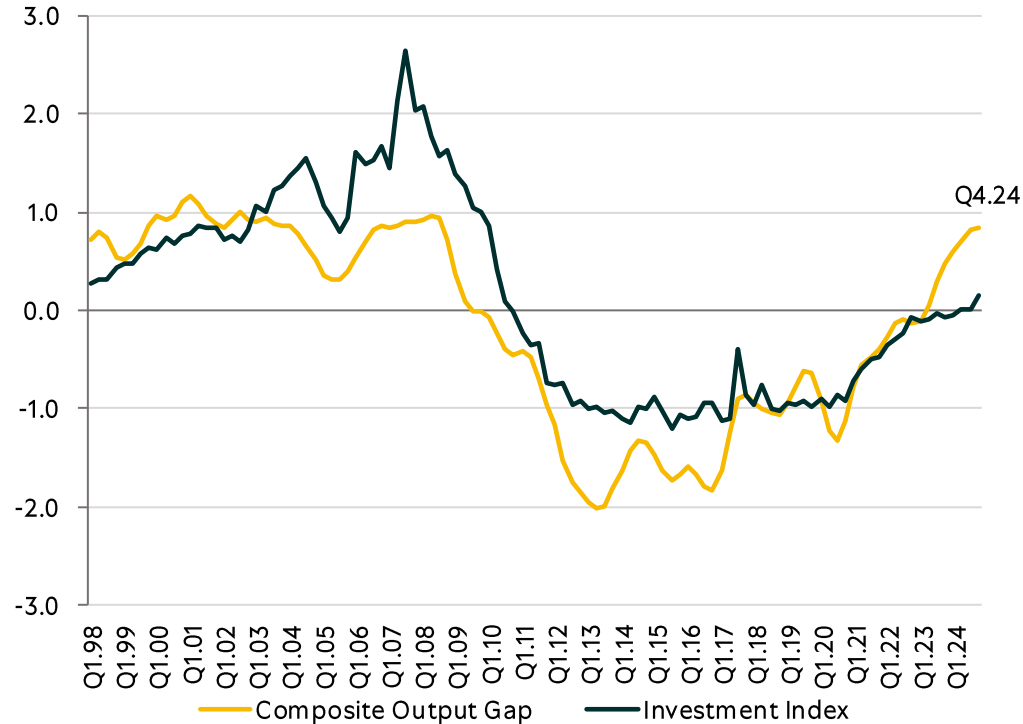


Gross Operating Surplus of Non-Financial Corporations (€mn, in current prices)

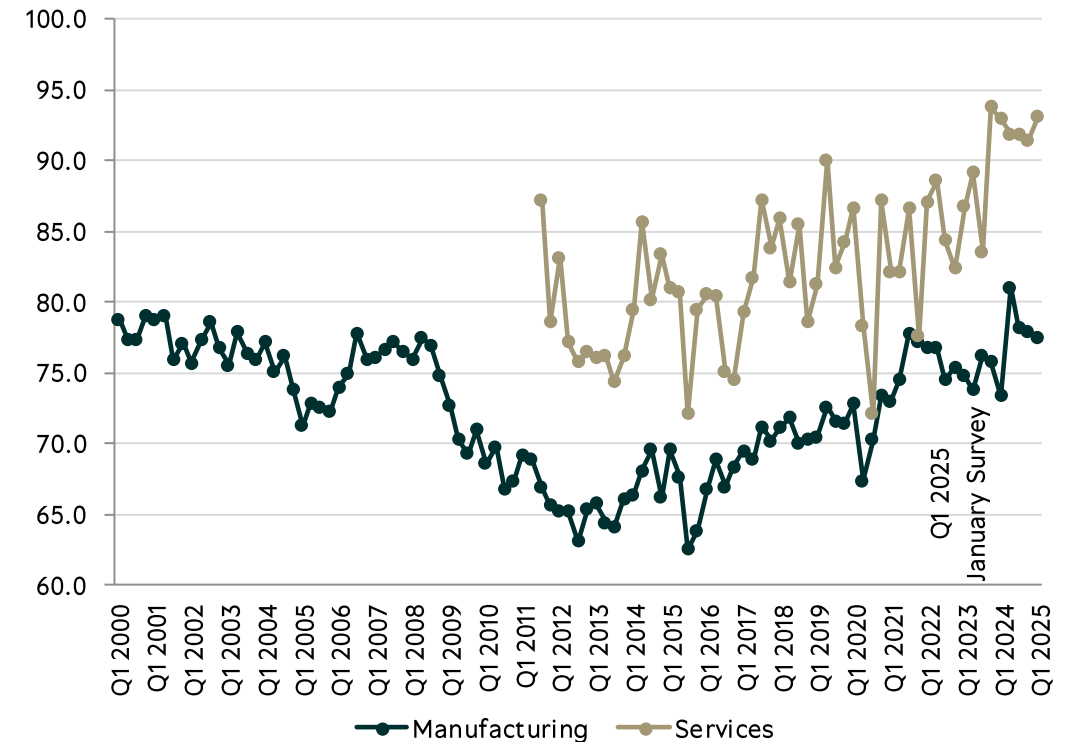


# Why is a puzzle ? II. Investment growth has failed to keep pace with a “tight” economy and a positive output gap

## Composite Output Gap Index Vs Investment Activity



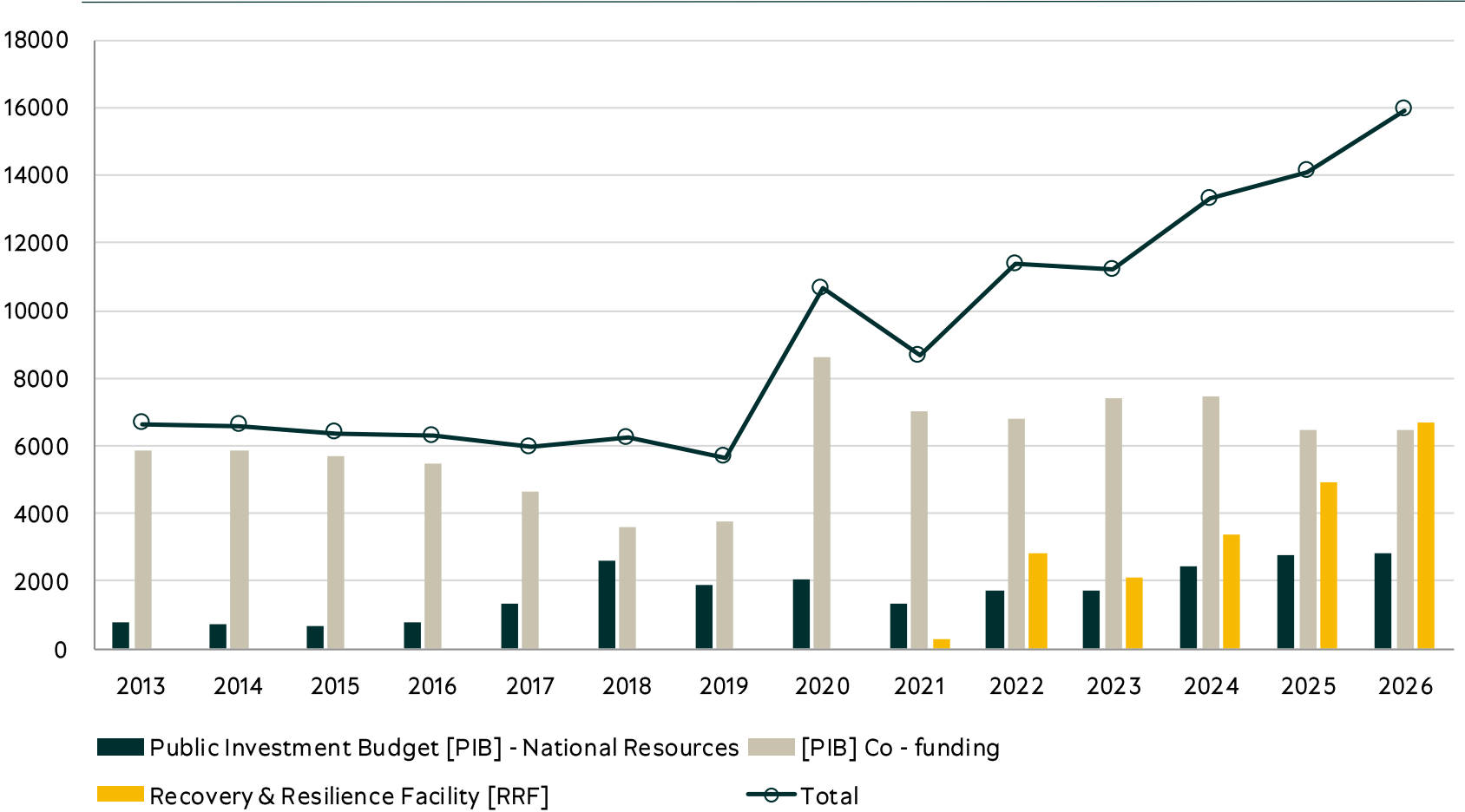
## Level of Capacity Utilisation in Manufacturing & Services Industries (% , sa data)<sup>1</sup>



Notes: 1. European Commission – Business & Consumer Surveys: Data collected in January, April, July and October each year

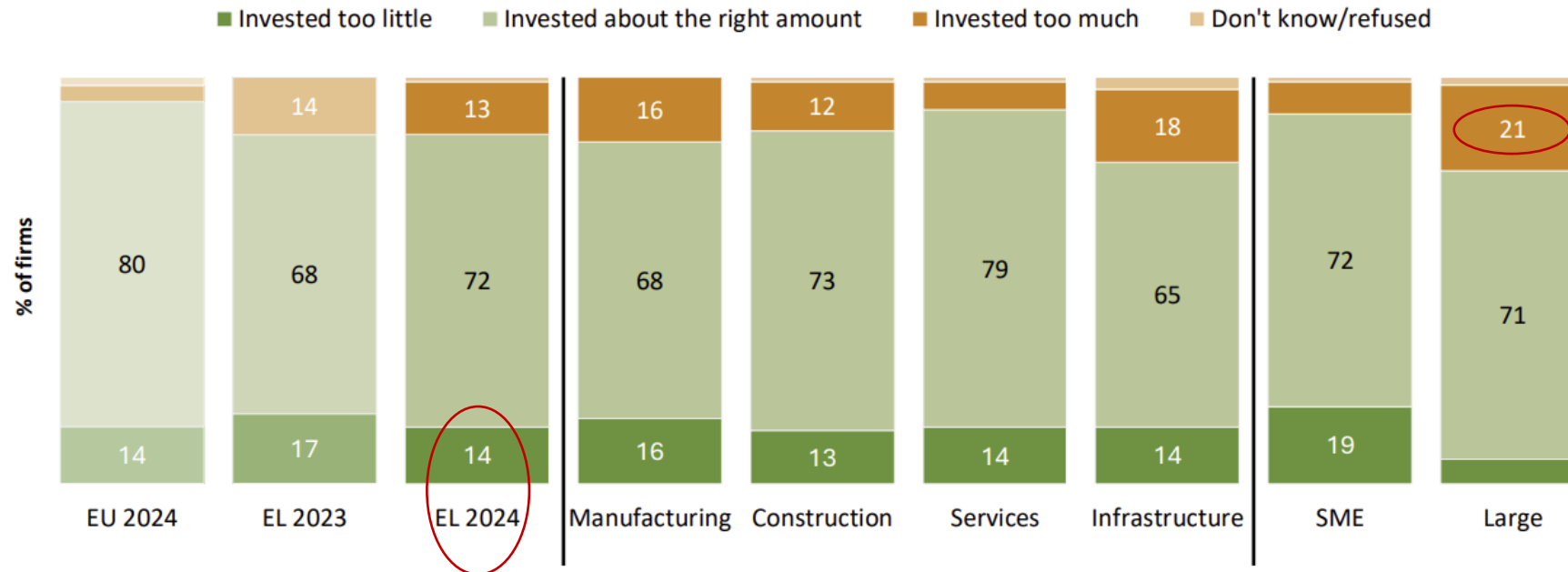
# Why is a puzzle ? III. A substantial acceleration of the Public Investment Programme is under way

Public Investment Budget [PIB] & Recovery Resilience Facility [RRF]  
Expenditures (€mn)



# Why is a puzzle ? Yet only 14% of Greek Corporates perceive the existence of an investment gap

## Perceived investment gap (% of firms)



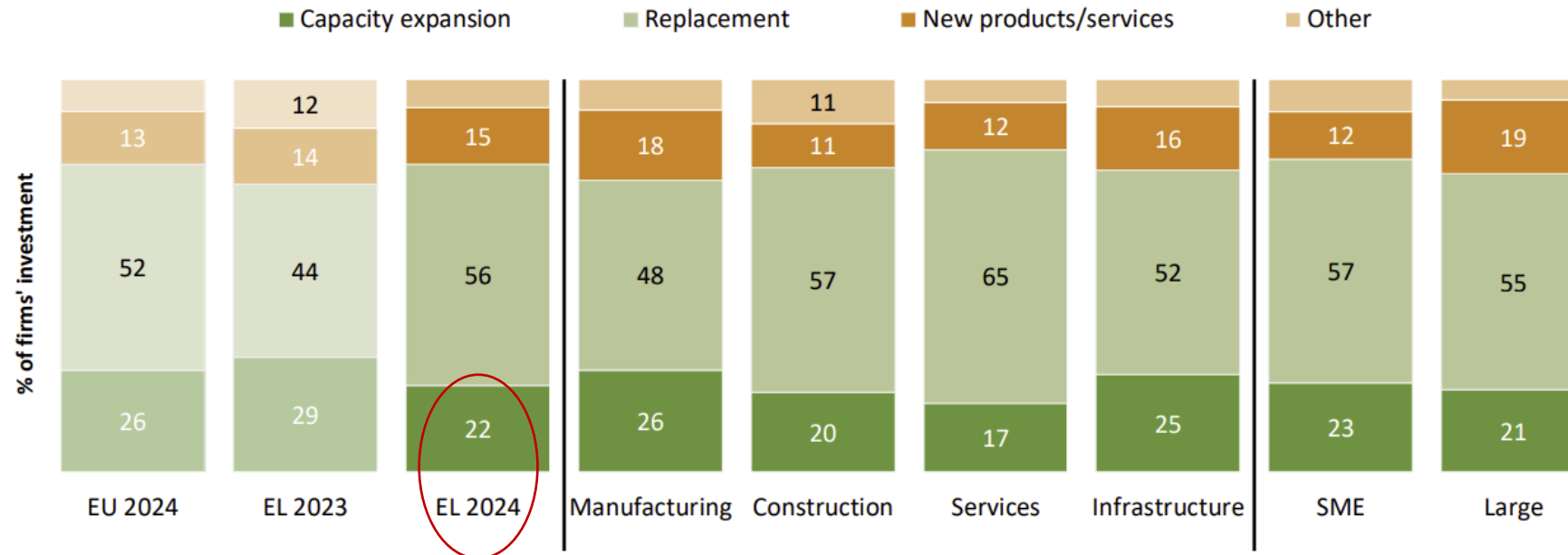
Q. Looking back at your investment over the last three years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

Base: All firms (excluding response "Company didn't exist three years ago").



## Why is a puzzle ? And 56% of the planned capex is directed to replace existing equipment

Purpose of investment in last financial year (% of firms' investment)



Q. What proportion of total investment was for (a) developing or introducing new products, processes or services; (b) replacing capacity (including existing buildings, machinery, equipment and IT); (c) expanding capacity for existing products/services?

Base: All firms that invested in the last financial year (excluding don't know/ refused responses).

- While 56% of Greek firms continue focus their investment on replacement, in line with the EU average, 22% of firms invested in capacity expansion.

# Conclusions

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- According to our analysis
  - i. **Investment recovery** efforts begin from a very **low starting point** (2019: 11% of GDP).
  - ii. **Capital is highly productive and profitable**: Real GDP per unit of capital approaches 2010 levels; NFCs report strong profits.
  - iii. **Capacity utilization** stands at record levels in Services; Manufacturing nears pre-crisis levels.
  - iv. **Ample (and subsidised) funding is available** through the Public Investment Budget and the RRF.

But the Greek private sector is extremely defensive in its capex planning.

- This is an indication of a classic textbook case of an **Investment Hysteresis**, where the investment muscles of the Greek economy have atrophied due to prolonged inactivity and paralysis.

**A possible solution :** Run a " High Pressure" economy with demand exceeding supply in order to force a restart of an investment led recovery and to revive Greek economy's "Animal Spirits"

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