GREECE

SEPTEMBER 2023

COUNTRY REPORT

GREECE
ISSN: 1054-5530

PUBLISHED BY THE PRS GROUP, INC.

To learn more, visit us online at prsgroup.com or contact us at:

TELEPHONE
+1 (315) 431-0511

ADDRESS
290 Elwood Davis Rd, Ste 290, Unit 3
Liverpool, NY 13088-2133 USA

EMAIL
custserv@prsgroup.com

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Lárisa
Vólos
Kérkyra
Aegean Sea
Lésvos
Turkey
Chíos
Elefsís
Athens
Pátrai
Lavrion
Ionian Sea
Rhodes
Sea of Crete
Irákleion
Mediterranean Sea
Crete

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	ND 80%
FIVE-YEAR	*Center-Right Coalition 50%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	Low	B-	A (A-)	B+ (B)
FIVE-YEAR	Low	B (B-)	A-	B

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	1.8	2.1	-11.47
2023(F)	2.2	4.0	-20.30
2024-2028(F)	1.6	2.2	-10.90

BROADLY STABLE OUTLOOK

The center-right ND secured a fresh four-year mandate at a snap election held in June, after falling just short of winning an outright majority at an election held the previous month. The use of a bonus-seat system in the second election enabled the ND to achieve a comfortable eight-seat majority in the 300-member Parliament, providing a solid foundation for government stability and policy continuity.

Prime Minister Kyriakos Mitsotakis has laid out an ambitious agenda for his second term, pledging to increase public investment by 70%, boost exports to 60% of GDP (from about 50% in recent years), reduce unemployment to 8%, and hike average wages by 30% over the next four years, while also rapidly reducing a public-sector debt burden that peaked at 206% of GDP amid the COVID-19 pandemic in 2020, but had fallen to an estimated 162% of GDP as of mid-2023. The ND government will attempt to reconcile those potentially incompatible objectives by implementing business-friendly policies designed to generate real GDP growth averaging 3%, creating a basis for achieving consistent primary surpluses amounting to 2%–2.5% of GDP.

The ND's timeline sees the debt pile shrinking to 140% of GDP by 2027 and to 120% of GDP by the end of the current decade. More immediately, Mitsotakis has set his sights on restoring Greece's credit rating to investment grade by the end of this year. In mid-September, Moody's revised its rating upward by two notches to Ba1 (one notch below investment grade) but noted the persistence of a large current account deficit, the fiscal strains stemming from an ageing population, and the potential for economic damage from climate change as reasons for caution.

Indeed, Greece endured the worst flooding in its modern history earlier this month, resulting in significant damage to infrastructure and billions of euros in economic losses. Mitsotakis has assured that the fiscal targets will not be affected by the unforeseen spending on disaster relief (the EU has pledged more the €2 billion in assistance), but the event provides yet another example of the danger that factors beyond the ND government's control could make its well-laid plans go awry.

That said, the government enjoys the advantage of starting the new term on a strong economic footing. Barring any developments that undermine his authority among ND lawmakers, the government's reform program will not encounter significant legislative hurdles, and Mitsotakis' room for maneuver will be enhanced by the fragmentation of the opposition.

Greece's relations with Turkey have become noticeably less tense with the conclusion of national elections in both countries in mid-2023. The signs of a thaw are welcome, but the positive implications should not be overstated. Turkish President Recep Tayyip Erdoğan's overtures to Athens are purely transactional and the room for cooperation will remain limited as long as Ankara continues to recognize the legitimacy of the self-proclaimed Turkish Republic of Northern Cyprus.

The carryover from unexpectedly strong growth in the fourth quarter of 2022 prevented the economy from recording a contraction in the first quarter of this year, but year-on-year real growth slowed to 2%, as monetary tightening dampened consumer spending, which contracted by 8.7% (year-on-year) in March. The continued vibrancy of tourism, despite disruptions caused by natural disasters and extreme heat, has been a bright spot for the economy that together with the positive impact of investment financed with funds from the EU's Recovery and Resilience Facility creates the potential for growth of 2%-2.5% in 2023, compared to a projected EU average of just 1%.

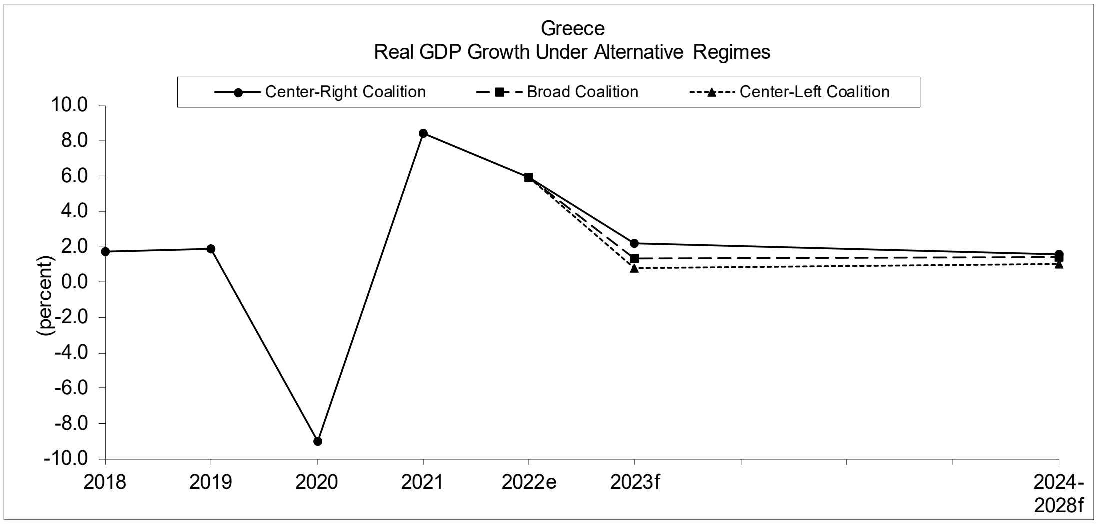
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Center-Right Coalition			Broad Coalition			Center-Left Coalition		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2023	2.2	4.0	-20.30	1.3	4.4	-22.10	0.8	4.3	-23.30
2024-2028	1.6	2.2	-10.90	1.4	2.0	-13.20	1.0	2.5	-15.60

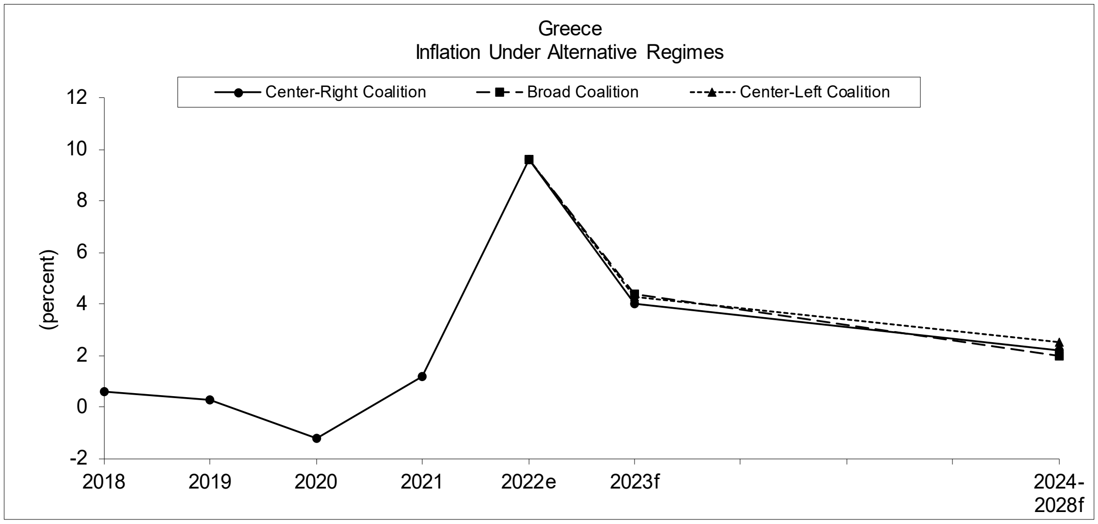
REGIME, BUSINESS & INVESTMENT FORECASTS

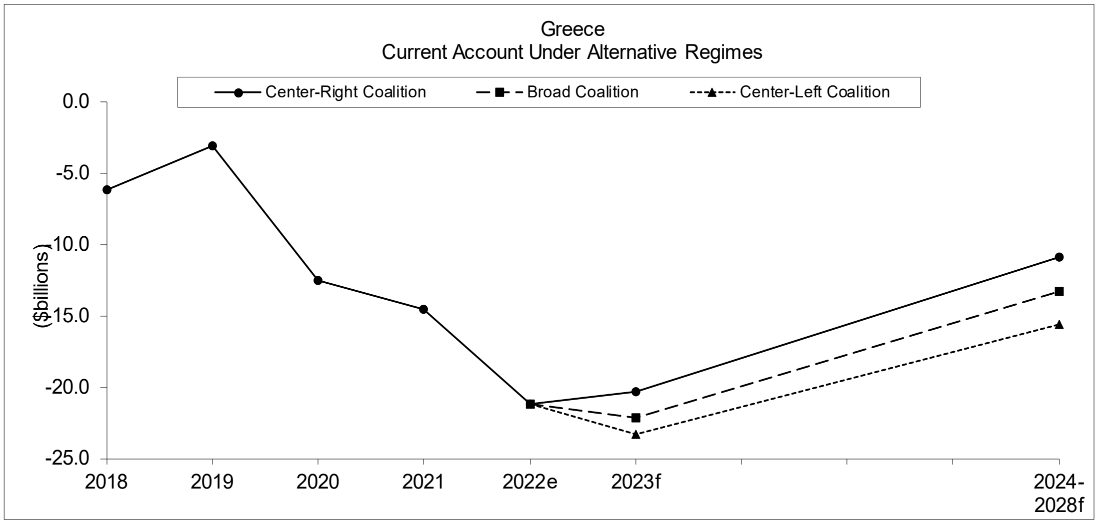
SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		ND 80%	Broad Coalition 15%	Center-Left Coalition 5%
RISK FACTORS	**CURRENT**			
Turmoil	Low	Same	SLIGHTLY MORE	MORE
Investment				
Equity	Moderate	Same	Same	Same
Operations	Moderate	Same	Same	SLIGHTLY MORE
Taxation	Low	Same	Same	Same
Repatriation	Low	Same	SLIGHTLY MORE	SLIGHTLY MORE
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Moderate	Same	Same	SLIGHTLY MORE
Payment Delays	Moderate	Same	SLIGHTLY MORE	SLIGHTLY MORE
Economic Policy				
Expansion	Very High	LESS	SLIGHTLY LESS	Same
Labor Costs	Moderate	Same	SLIGHTLY MORE	SLIGHTLY MORE
Foreign Debt	Very High	SLIGHTLY LESS	Same	SLIGHTLY MORE

SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		*Center-Right Coalition 50%	Broad Coalition 30%	Center-Left Coalition 20%
RISK FACTORS	**BASE**			
Turmoil	Low	Same	Same	SLIGHTLY MORE
Restrictions				
Investment	Low	SLIGHTLY LESS	Same	SLIGHTLY MORE
Trade	Moderate	SLIGHTLY LESS	Same	Same
Economic Problems				
Domestic	High	Same	Same	SLIGHTLY MORE
International	High	SLIGHTLY LESS	Same	SLIGHTLY MORE

* When present, indicates forecast of a new regime


Greece
Real GDP Growth Under Alternative Regimes
Center-Right Coalition
Broad Coalition
Center-Left Coalition
(percent)
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Greece
Inflation Under Alternative Regimes
Center-Right Coalition
Broad Coalition
Center-Left Coalition
(percent)
12
10
8
6
4
2
0
-2
2018
2019
2020
2021
2022e
2023f
2024-2028f


Greece
Current Account Under Alternative Regimes
Center-Right Coalition
Broad Coalition
Center-Left Coalition
($billions)
0.0
-5.0
-10.0
-15.0
-20.0
-25.0
2018
2019
2020
2021
2022e
2023f
2024-2028f

Greece
Econometric Data

	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	212.45	207.60	238.89	235.37	195.53	193.02	199.44
Per Capita GDP ($)	19613	19421	21937	21613	18071	17889	18553
Real GDP Growth Rate (%)	-0.3	1.8	-2.5	0.5	-0.2	-0.5	1.1
Inflation Rate (%)	-0.7	2.1	-0.9	-1.3	-1.7	-0.8	1.1
Capital Investment ($bn)	23.60	25.30	26.75	25.50	21.05	21.30	23.38
Capital Investment/GDP (%)	11.1	12.2	11.2	10.8	10.8	11.0	11.7
Budget Revenues ($bn)	65.85	61.31	70.77	70.46	70.27	59.78	57.97
Budget Revenues/GDP (%)	31.1	29.5	29.6	29.9	35.9	31.0	29.1
Budget Expenditures ($bn)	73.78	73.07	95.83	75.38	73.89	61.04	62.78
Budget Expenditures/GDP (%)	34.6	35.3	40.1	32.0	37.8	31.6	31.5
Budget Balance ($bn)	-7.93	-11.75	-25.06	-4.92	-3.62	-1.26	-4.81
Budget Balance/GDP (%)	-3.5	-5.8	-10.5	-2.1	-1.9	-0.7	-2.4
Money Supply (M1, $bn)	125.10	179.80	124.09	128.92	121.00	123.89	127.60
Change in Real Wages (%)	-2.0	1.1	-10.1	0.4	-0.5	-0.9	0.9
Unemployment Rate (%)	24.8	16.0	27.5	26.5	24.9	23.6	21.5
International Economic Indicators							
Foreign Direct Investment ($bn)	2.62	4.95	2.82	2.69	1.27	2.71	3.61
Forex Reserves ($bn)	1.32	3.05	0.19	0.72	1.50	1.92	2.27
Gross Reserves (ex gold, $bn)	2.26	4.74	1.42	1.88	2.19	2.70	3.10
Gold Reserves ($bn)	4.28	6.06	4.33	4.34	3.84	4.20	4.71
Gross reserves (inc gold, $bn)	6.54	10.79	5.75	6.22	6.03	6.90	7.81
Total Foreign Debt ($bn)	510.02	557.47	563.57	563.58	489.45	476.53	456.99
Total Foreign Debt/GDP (%)	240.3	269.0	235.9	239.4	250.3	246.9	229.1
Debt Service ($bn)	34.33	34.84	41.83	36.33	30.71	31.99	30.77
Debt Service/XGS (%)	42.9	36.6	48.2	40.1	42.0	46.3	38.0
Current Account ($bn)	-2.80	-11.47	-3.44	-1.75	-1.60	-3.37	-3.84
Current Account/GDP (%)	-1.3	-5.5	-1.4	-0.7	-0.8	-1.8	-1.9
Current Account/XGS (%)	-3.5	-12.0	-4.0	-1.9	-2.2	-4.9	-4.7
Exports ($bn)	31.17	42.04	34.78	34.73	27.51	27.22	31.61
Imports ($bn)	54.23	71.20	60.90	62.12	47.08	47.09	53.97
Trade Balance ($bn)	-23.06	-29.16	-26.12	-27.39	-19.57	-19.87	-22.36
Exports of Services ($bn)	36.90	41.23	37.25	41.24	35.09	32.96	37.95
Income, credit ($bn)	8.85	7.35	8.58	11.23	8.36	6.88	9.22
Transfers, credit ($bn)	3.19	4.41	6.18	3.39	2.16	2.03	2.20
Exports G&S ($bn)	80.11	95.03	86.79	90.59	73.12	69.09	80.98
Liabilities ($bn)	1.47	1.48	1.81	1.80	1.25	1.21	1.30
Net Reserves ($bn)	5.07	9.31	3.94	4.42	4.78	5.69	6.51
Liquidity (months import cover)	1.1	1.6	0.8	0.9	1.2	1.4	1.4
Currency Exchange Rate	0.840	0.883	0.753	0.753	0.902	0.904	0.887
Currency Change (%)	-2.3	-1.2	3.3	0.0	-16.5	-0.2	1.9
Social Indicators							
Population (million)	10.83	10.69	10.89	10.89	10.82	10.79	10.75
Population Growth (%)	-0.6	-0.2	-1.5	0.0	-0.6	-0.3	-0.4
Infant Deaths/1000	4	4	4	4	4	4	4
Persons under Age 15 (%)	14	14	14	14	14	14	14
Urban Population (%)	82	84	81	81	82	82	82
Urban Growth (%)	-0.3	0.5	-0.7	-0.7	0.6	-0.3	-0.4
Literacy % pop.	98	98	97	98	98	98	98
Agricultural Work Force (%)	13	12	13	13	13	12	12
Industry-Commerce Work Force (%)	15	15	15	15	15	15	15
Services Work Force (%)	72	73	72	72	72	73	73
Unionized Work Force (%)	22	22	22	22	22	22	22
Energy - total consumption (10^{15} Btu)	1.14	1.10	1.17	1.12	1.13	1.12	1.17
Energy - consumption/head (10^{9} Btu)	0.10	0.10	0.11	0.10	0.10	0.10	0.11

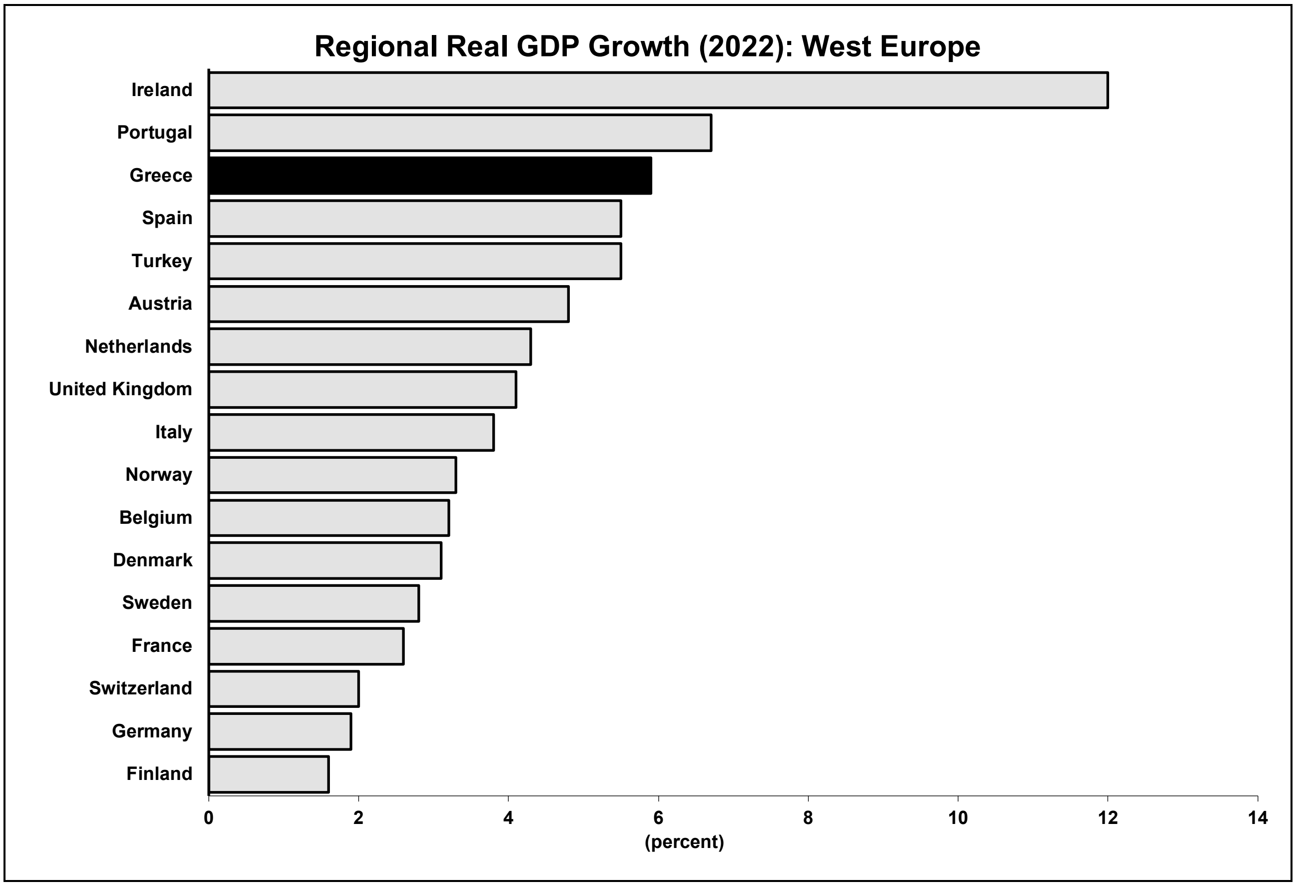
Note: *denominated in euros as of 1/1/2001

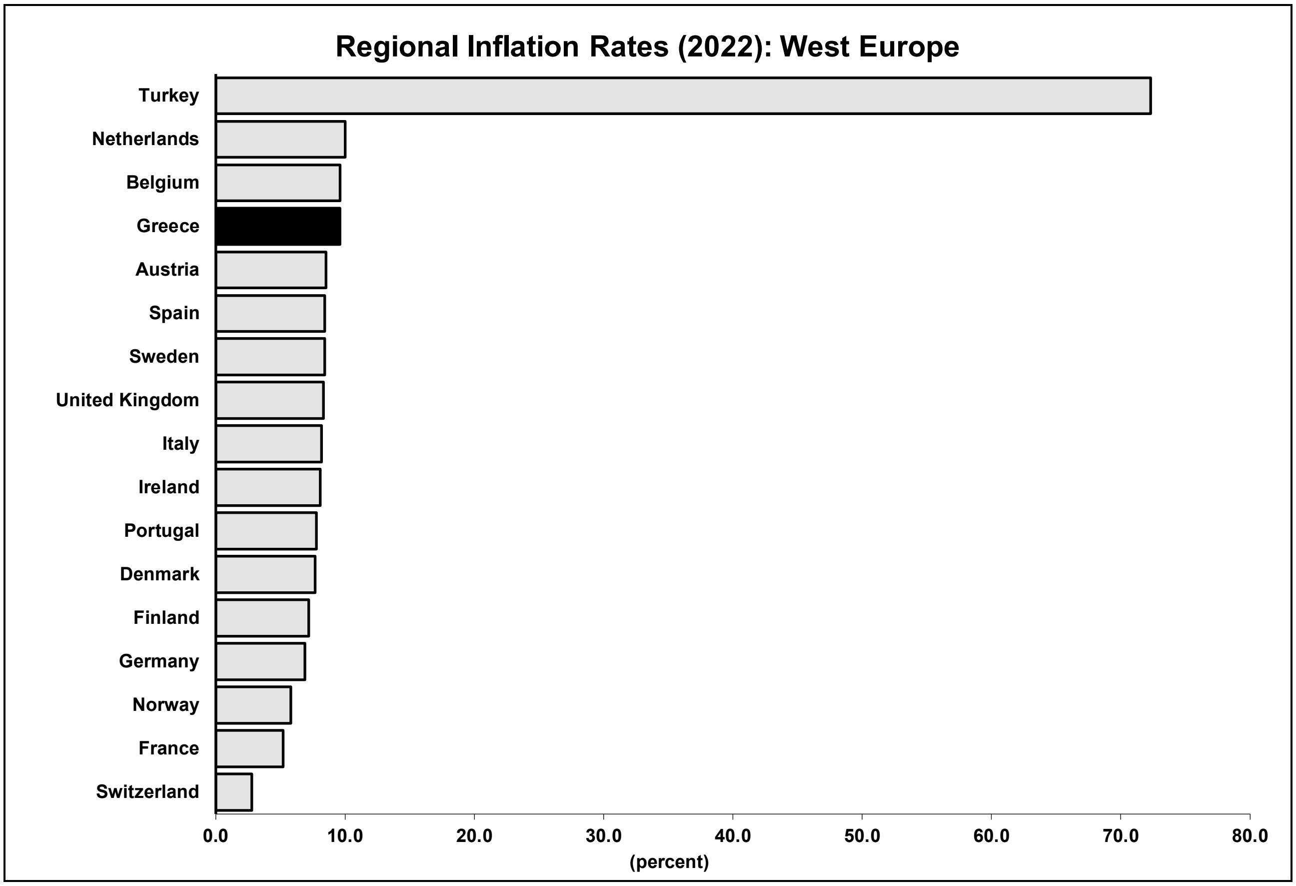
Greece
Econometric Data

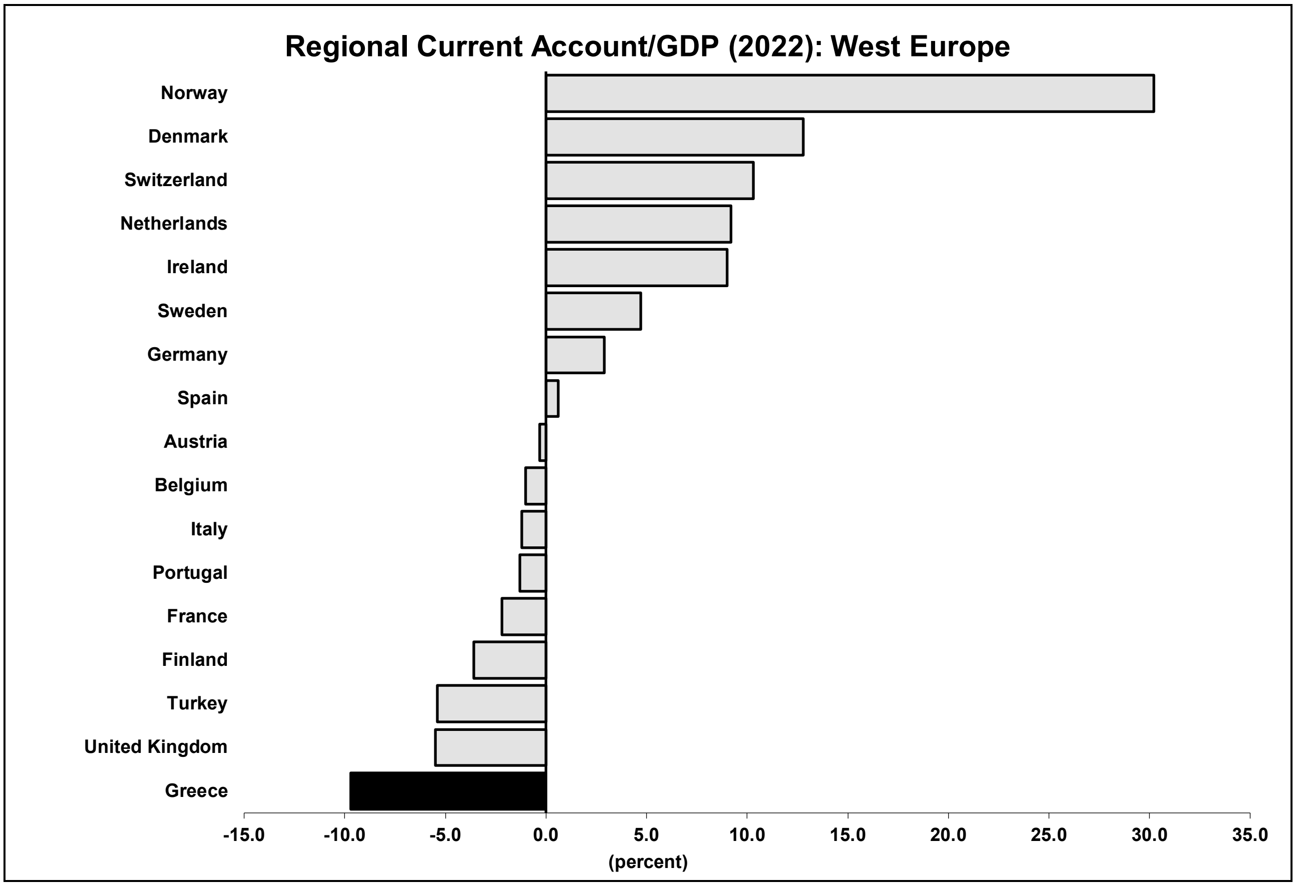
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	212.45	207.60	211.74	205.32	187.46	214.75	218.75
Per Capita GDP ($)	19613	19421	19733	19189	17536	20108	20540
Real GDP Growth Rate (%)	-0.3	1.8	1.7	1.9	-9.0	8.4	5.9
Inflation Rate (%)	-0.7	2.1	0.6	0.3	-1.2	1.2	9.6
Capital Investment ($bn)	23.60	25.30	23.63	21.96	22.60	28.35	29.95
Capital Investment/GDP (%)	11.1	12.2	11.2	10.7	12.1	13.2	13.7
Budget Revenues ($bn)	65.85	61.31	63.30	61.70	54.01	64.87	62.69
Budget Revenues/GDP (%)	31.1	29.5	29.9	30.1	28.8	30.2	28.7
Budget Expenditures ($bn)	73.78	73.07	66.04	61.89	80.01	82.45	74.95
Budget Expenditures/GDP (%)	34.6	35.3	31.2	30.1	42.7	38.4	34.3
Budget Balance ($bn)	-7.93	-11.75	-2.74	-0.19	-26.00	-17.58	-12.26
Budget Balance/GDP (%)	-3.5	-5.8	-1.3	-0.1	-13.9	-8.2	-5.6
Money Supply (M1, $bn)	125.10	179.80	141.19	146.19	179.70	224.24	207.68
Change in Real Wages (%)	-2.0	1.1	2.9	1.7	3.6	1.2	-4.1
Unemployment Rate (%)	24.8	16.0	19.3	17.3	16.3	14.7	12.4
International Economic Indicators							
Foreign Direct Investment ($bn)	2.62	4.95	4.29	3.86	3.31	6.57	6.70
Forex Reserves ($bn)	1.32	3.05	2.16	1.84	3.87	3.86	3.52
Gross Reserves (ex gold, $bn)	2.26	4.74	2.96	2.63	4.65	8.12	5.33
Gold Reserves ($bn)	4.28	6.06	4.41	5.85	6.45	6.98	6.59
Gross reserves (inc gold, $bn)	6.54	10.79	7.37	8.48	11.10	15.10	11.92
Total Foreign Debt ($bn)	510.02	557.47	491.23	502.24	563.29	655.68	574.89
Total Foreign Debt/GDP (%)	240.3	269.0	232.0	244.6	300.5	305.3	262.8
Debt Service ($bn)	34.33	34.84	33.11	33.58	26.02	37.72	43.75
Debt Service/XGS (%)	42.9	36.6	36.1	36.3	36.8	37.1	36.9
Current Account ($bn)	-2.80	-11.47	-6.17	-3.06	-12.50	-14.50	-21.13
Current Account/GDP (%)	-1.3	-5.5	-2.9	-1.5	-6.7	-6.8	-9.7
Current Account/XGS (%)	-3.5	-12.0	-6.7	-3.3	-17.7	-14.3	-17.8
Exports ($bn)	31.17	42.04	38.17	36.32	32.96	46.49	56.26
Imports ($bn)	54.23	71.20	64.69	61.89	54.08	78.07	97.29
Trade Balance ($bn)	-23.06	-29.16	-26.52	-25.57	-21.12	-31.58	-41.03
Exports of Services ($bn)	36.90	41.23	43.82	44.97	25.90	41.44	50.04
Income, credit ($bn)	8.85	7.35	7.15	6.94	7.21	7.81	7.65
Transfers, credit ($bn)	3.19	4.41	2.57	4.29	4.63	5.92	4.62
Exports G&S ($bn)	80.11	95.03	91.71	92.52	70.70	101.66	118.57
Liabilities ($bn)	1.47	1.48	1.37	1.35	1.41	1.70	1.58
Net Reserves ($bn)	5.07	9.31	6.00	7.13	9.69	13.40	10.34
Liquidity (months import cover)	1.1	1.6	1.1	1.4	2.2	2.1	1.3
Currency Exchange Rate	0.840	0.883	0.848	0.893	0.877	0.846	0.951
Currency Change (%)	-2.3	-1.2	4.6	-5.0	1.8	3.7	-11.0
Social Indicators							
Population (million)	10.83	10.69	10.73	10.70	10.69	10.68	10.65
Population Growth (%)	-0.6	-0.2	-0.2	-0.3	-0.1	-0.1	-0.3
Infant Deaths/1000	4	4	4	4	4	3	3
Persons under Age 15 (%)	14	14	14	14	14	14	13
Urban Population (%)	82	84	83	83	84	85	85
Urban Growth (%)	-0.3	0.5	1.0	-0.3	1.1	1.1	-0.3
Literacy % pop.	98	98	98	98	98	98	98
Agricultural Work Force (%)	13	12	12	12	12	12	12
Industry-Commerce Work Force (%)	15	15	15	15	15	15	15
Services Work Force (%)	72	73	73	73	73	73	73
Unionized Work Force (%)	22	22	22	22	22	22	22
Energy - total consumption (10^{15} Btu)	1.14	1.10	1.16	1.16	1.00	1.06	1.10
Energy - consumption/head (10^{9} Btu)	0.10	0.10	0.11	0.11	0.09	0.10	0.10

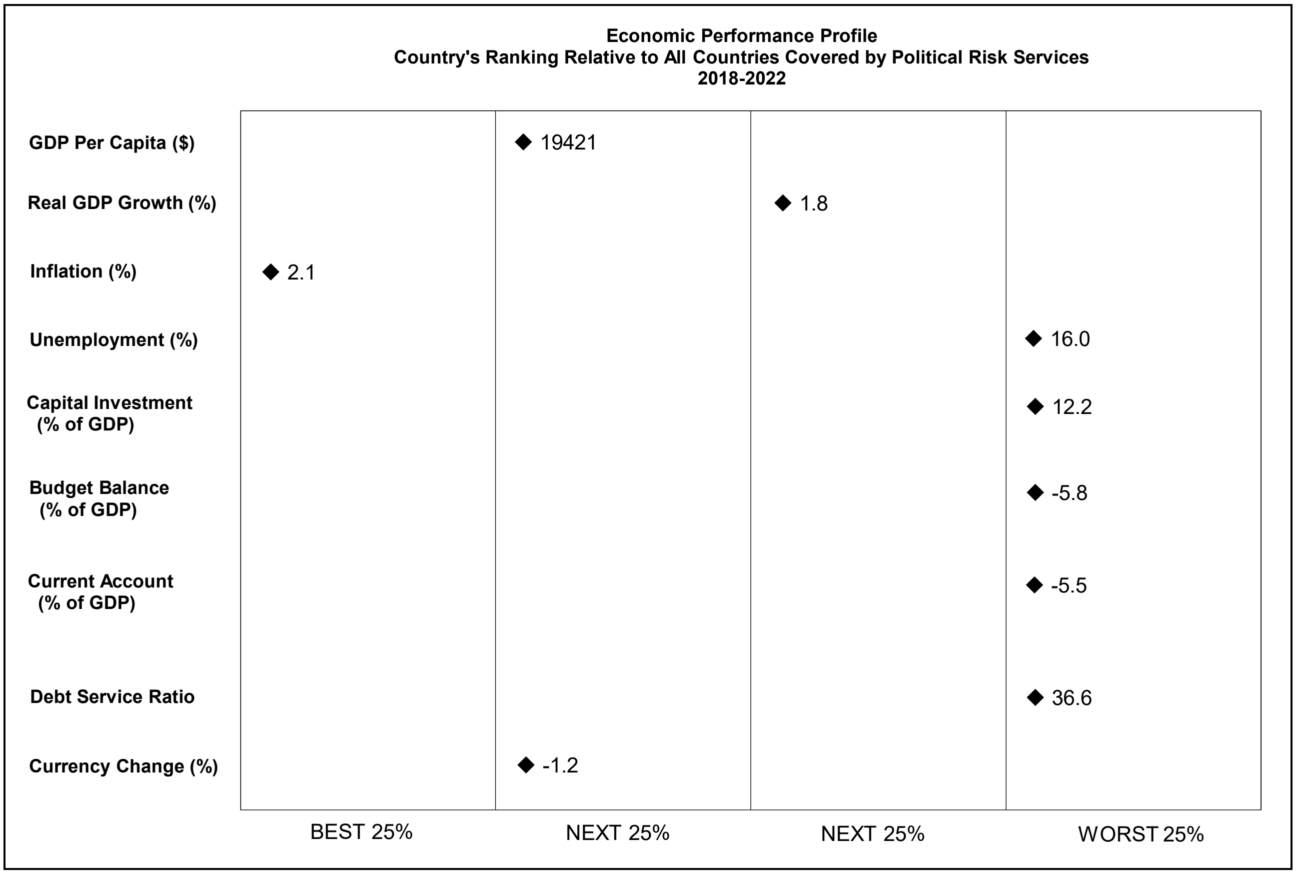
Note: *denominated in euros as of 1/1/2001

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): West Europe
Norway
Denmark
Switzerland
Netherlands
Ireland
Sweden
Germany
Spain
Austria
Belgium
Italy
Portugal
France
Finland
Turkey
United Kingdom
Greece
-15.0
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
25.0
30.0
35.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
19421
Real GDP Growth (%)
1.8
Inflation (%)
2.1
Unemployment (%)
16.0
Capital Investment (% of GDP)
12.2
Budget Balance (% of GDP)
-5.8
Current Account (% of GDP)
-5.5
Debt Service Ratio
36.6
Currency Change (%)
-1.2
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

ND VICTORY BODES WELL FOR STABILITY

The center-right New Democracy (ND) secured a fresh four-year mandate at a snap election held in June, after falling just short of winning an outright majority at an election held the previous month. The use of a bonus-seat system in the second election enabled the ND to achieve a comfortable eight-seat majority in the 300-member Parliament, providing a solid foundation for government stability and policy continuity.

Prime Minister Kyriakos Mitsotakis has laid out an ambitious agenda for his second term, pledging to increase public investment by 70%, boost exports to 60% of GDP (from about 50% in recent years), reduce unemployment to 8%, and hike average wages by 30% over the next four years, while also rapidly reducing a public-sector debt burden that peaked at 206% of GDP amid the COVID-19 pandemic in 2020, but had fallen to an estimated 162% of GDP as of mid-2023. The ND government will attempt to reconcile those potentially incompatible objectives by implementing business-friendly policies designed to generate real GDP growth averaging 3%, creating a basis for achieving consistent primary surpluses amounting to 2%–2.5% of GDP.

The ND's timeline sees the debt pile shrinking to 140% of GDP by 2027 and to 120% of GDP by the end of the current decade. More immediately, Mitsotakis has set his sights on restoring Greece's credit rating to investment grade by the end of this year. Toward that end, the government will make early repayment on bailout loans obtained from EU partners under the so-called Greek Loan Facility (GLF).

In mid-September, Moody's revised its rating upward by two notches to Ba1 (one notch below investment grade), equivalent to the BB+ ratings assigned by Fitch and Standard & Poor's earlier this year. Investors are running ahead of the ratings agencies, and have piled into Greek bonds, pushing the yield below that for Italy's benchmark bonds, despite the latter's investment-grade rating.

Both Fitch and Standard & Poor's have assigned a positive outlook to their ratings for Greece, but Moody's has noted the persistence of a large current account deficit, the fiscal strains stemming from an ageing population, and the potential for economic damage from climate change as reasons for caution. Indeed, Greece endured the worst flooding in its modern history earlier this month, resulting in significant damage to infrastructure and billions of euros in economic losses. Mitsotakis has assured that the fiscal targets will not be affected by the unforeseen spending on disaster relief (the EU has pledged more the €2 billion in assistance), but the event provides yet another example of the danger that factors beyond the ND government's control could make its well-laid plans go awry.

That said, the government enjoys the advantage of starting the new term on a strong economic footing. The debt-to-GDP ratio has decreased faster than expected, reflecting the beneficial effect of rapid growth of nominal GDP and above-target revenues. Although economic growth is forecast to slow markedly from last year's 5.9% pace, Greece figures to be among the top EU performers again in 2023, and the government is forecasting the achievement of a primary surplus equivalent to 1% of GDP this year, despite the maintenance of spending programs to protect families and businesses against sharply higher energy costs.

Barring any developments that undermine his authority among ND lawmakers, the government's reform program will not encounter significant legislative hurdles, and Mitsotakis' room for maneuver will be enhanced by the fragmentation of the opposition. The Coalition of the Radical Left–Progressive Alliance (SYRIZA) suffered a combined net loss of 39 seats over the course of the two recent elections, reducing its total to 47. The center-left PASOK-Movement for Change (PASOK-KINAL) and the Communist Party of Greece (KKE) made moderate gains that boosted their respective seat totals to 32 and 21, while three previously unrepresented parties on the right and left extremes of the political spectrum won a combined total of 30 seats. The ideological diversity of the opposition will limit the potential for the parties to work cooperatively to thwart the ND's agenda.

RELATIONS WITH TURKEY WILL REMAIN CHALLENGING

Greece's relations with Turkey have become noticeably less tense with the conclusion of national elections in both countries in mid-2023. Over the previous year, the rhetoric coming out of Ankara carried an unmistakably bellicose tone, with President Recep Tayyip Erdoğan more than once threatening to launch an attack on Greek military bases located on disputed Aegean islands, which Turkey claims have been established in violation of international agreements. Erdoğan's provocative statements coincided with moves by Turkey to strengthen ties with Russia, a strategy consistent with a broader eastward pivot by Ankara that held negative implications for EU's ability to use either carrots or sticks to influence Turkey's foreign policy strategy.

The hope was that Erdoğan was merely posturing for a domestic audience that showed signs of losing faith in his Justice and Development Party (AKP), which has held power continuously since November 2002, and it seems that may have been the case. Having secured his own re-election and a decisive victory for the AKP at concurrent legislative elections held on May 14, Erdoğan has sought to repair frayed relations with the west, notably by showing flexibility on the question of Sweden's accession to NATO.

Erdoğan has also sought a rapprochement with the government in Athens, with which he halted contacts last year after accusing Mitsotakis of undermining Turkey's efforts to purchase F-16 fighters from the US. The two leaders met on the sidelines of a NATO Summit in Vilnius, Lithuania in July, their first encounter since March 2022, and announced plans to resume meetings of the High-Level Cooperation Council (HLCC), which was established in 2010 as a mechanism for managing bilateral disputes but has not convened since 2016.

Ahead of a planned meeting with Erdoğan this month while in New York for the UN General Assembly, Mitsotakis expressed hope of finding a basis for constructive cooperation in areas of mutual interest, while acknowledging that there is little chance of rapid progress toward resolving long-standing bilateral disputes. In that vein, the two leaders agreed to follow a road map proposed by Greek Foreign Minister Giorgos Gerapetritis, under which the deputy foreign ministers for both countries are to hold political talks in mid-October, in preparation for a meeting of the HLCC in Thessaloniki in December.

The signs of a thaw are welcome, but the positive implications should not be overstated. Erdoğan's overtures to Athens reflect his desire to overcome an obstacle to enhancing Turkey's military capacity, and there is no reason to assume that he will make any concessions beyond what is minimally necessary to achieve that objective. A similarly transactional approach is evident in Erdoğan's softening position on NATO membership for Sweden, which the Turkish leader has tied to the revival of Turkey's bid to join the EU. That will remain a non-starter for Greece as long as Ankara continues to recognize the legitimacy of the self-proclaimed Turkish Republic of Northern Cyprus (TPNC).

Ankara has backed the Turkish Cypriots' demand for a two-state solution under which the TPNC would be granted international recognition as an independent entity from the Republic of Cyprus. Athens and the ethnic Greek majority in Cyprus favor the creation of a federal system under which northern Cyprus would enjoy limited independent powers. Given the inflexibility of both sides on that central point, the Cyprus issue is likely to be a chronic diplomatic irritant that impedes the progress of efforts to establish a broader basis for constructive engagement.

ECONOMIC OUTLOOK FAVORABLE, DESPITE SLOWDOWN IN 2023

The parliamentary majority won by the ND in 2019 enabled the government to implement a pro-growth policy strategy that facilitated a strong recovery from a pandemic-induced downturn in 2020. The ND administration also benefited from considerable cross-party support as it grappled with the crises created by COVID-19 and Russia's invasion of Ukraine in early 2022.

Real GDP growth surged to 7.8% (year-on-year) in the first quarter of 2022, as the easing of pandemic-related health restrictions reinforced the stimulus from targeted fiscal assistance and very low borrowing rates, and a strong tourism season kept the economy bubbling along at a 7.3% pace in the April-June quarter. The energy crisis triggered by the outbreak of war in Ukraine and the accompanying inflationary pressures had a dampening effect in the second half of the year, but favorable labor-market conditions helped to sustain private consumption and the absorption of EU funding bolstered investment, providing sufficient impetus to maintain full-year growth of 5.9%.

The carryover from unexpectedly strong growth in the fourth quarter of 2022 prevented the economy from recording a contraction in the first quarter of this year, but year-on-year real growth slowed to 2%, as monetary tightening dampened consumer spending, which contracted by 8.7% (year-on-year) in March and contributed to a pronounced drop off in consumer credit.

Retail sales continued to decline in the second quarter and industrial production slowed to just 0.6% (year-on-year), reflecting the weakness of demand in key export markets. The continued vibrancy of tourism, despite disruptions caused by natural disasters and extreme heat, has been a bright spot for the economy that together with the positive impact of investment financed with funds from the EU's Recovery and Resilience Facility (RRF) creates the potential for growth of 2%-2.5% in 2023, compared to a projected EU average of just 1%.

Harmonized inflation slowed to 2.8% (year-on-year) in July, down from a peak of more than 12% in late 2022, thanks in part to generous government spending on energy subsidies. However, core inflation has continued to run closer to 5%, reflecting the lagged pass-through of elevated energy and food prices to services and non-energy industrial goods. Going forward, the disinflationary effect of monetary tightening and slower economic growth will be reinforced by a base effect, which should help to contain average inflation for the year to near 4%. Inflation is forecast to ease to around 2.5% in 2024 with a reduction of pressure on the energy supply.

The current account deficit widened to a 12-year high of 9.7% of GDP in 2022, amid strong domestic demand and surging prices for staple imports. The positive impact of moderating food and energy prices on the external balances will be partially offset by slower growth of exports, but the full recovery of the tourism industry, which is now drawing higher numbers than prior to the pandemic, will produce a modest narrowing of the current account shortfall, albeit to a still worrisome 8.5% of GDP. Robust inflows of FDI and substantial EU transfers will limit financing risks.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
SEPTEMBER 2023 VERSUS OCTOBER 2022

RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
	Very Low Risk				
1	Norway	86.8	86.3	0.5	2
2	Switzerland	86.0	87.0	-1.0	1
3	Luxembourg	85.8	85.5	0.3	4
4	Denmark	84.8	83.8	1.0	6
5	Taiwan	84.5	83.8	0.8	6
6	Singapore	84.3	85.8	-1.5	3
7	Ireland	83.8	81.8	2.0	9
8	Saudi Arabia	82.5	85.5	-3.0	4
9	Brunei	81.5	79.5	2.0	15
10	Canada	80.8	81.3	-0.5	10
10	Iceland	80.8	80.0	0.8	14
10	Qatar	80.8	78.8	2.0	17

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
13	Japan	80.5	75.8	4.8	25
13	Netherlands	80.5	79.3	1.3	16
13	United Arab Emirates	80.5	82.3	-1.8	8
16	Korea, Republic	80.3	77.0	3.3	23
17	Kuwait	80.0	80.8	-0.8	11
17	Sweden	80.0	80.3	-0.3	13
		Low Risk			
19	Australia	79.5	80.8	-1.3	11
19	Botswana	79.5	76.3	3.3	24
21	Germany	79.3	78.3	1.0	18
22	Finland	78.8	78.0	0.8	20
23	Hong Kong	78.0	73.8	4.3	36
24	New Zealand	77.8	74.8	3.0	32
25	Portugal	77.0	75.0	2.0	31
25	Trinidad & Tobago	77.0	77.5	-0.5	22
27	Austria	76.5	78.0	-1.5	20
27	Oman	76.5	78.3	-1.8	18
29	Czech Republic	76.0	75.5	0.5	28
30	Kazakhstan	75.5	75.5	0.0	28
31	Guyana	75.3	75.8	-0.5	25
32	Malaysia	75.0	73.0	2.0	40
33	Uzbekistan	74.8	72	2.5	43
34	Bahamas	74.5	70.8	3.8	55
34	Belgium	74.5	74.0	0.5	35
34	Italy	74.5	72.8	1.8	41
37	Israel	74.3	74.8	-0.5	32
38	Slovenia	74.0	72.3	1.8	43
38	United Kingdom	74.0	75.8	-1.8	25

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
40	Azerbaijan	73.8	73.3	0.5	38
40	Croatia	73.8	73.3	0.5	38
40	Libya	73.8	70.5	3.3	59
40	Malta	73.8	74.3	-0.5	34
40	Panama	73.8	73.5	0.3	37
40	Uruguay	73.8	75.5	-1.8	28
46	Costa Rica	73.0	72.0	1.0	45
47	Latvia	72.8	71.0	1.8	52
48	France	72.5	71.8	0.8	48
48	Jamaica	72.5	72.0	0.5	45
50	Chile	72.0	70.5	1.5	59
50	Dominican Republic	72.0	72.5	-0.5	42
50	Spain	72.0	72.0	0.0	45
53	Philippines	71.8	70.0	1.8	61
54	Bulgaria	71.5	70.0	1.5	61
54	Vietnam	71.5	70.8	0.8	55
56	Poland	71.3	70.8	0.5	55
57	Brazil	71.0	69.0	2.0	70
58	Hungary	70.8	71.3	-0.5	50
59	Thailand	70.5	64.3	6.3	91
60	Guatemala	70.3	71.0	-0.8	52
60	India	70.3	69.5	0.8	64
60	United States	70.3	71.5	-1.3	49
63	Cyprus	70.0	69.5	0.5	64
63	Gabon	70.0	66.0	4.0	85
Moderate Risk					
65	China, Peoples' Rep.	69.8	69.5	0.3	64
65	Lithuania	69.8	69.8	0.0	63

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
67	Greece	69.5	67.3	2.3	78
68	Bahrain	69.3	68.8	0.5	71
68	Estonia	69.3	70.8	-1.5	55
68	Indonesia	69.3	68.3	1.0	73
68	Papua New Guinea	69.3	69.3	0.0	67
72	Namibia	69.0	71.0	-2.0	52
73	Iraq	68.8	71.3	-2.5	50
74	Congo, Republic	68.5	63.8	4.8	96
74	Mexico	68.5	68.8	-0.3	71
74	Peru	68.5	68.0	0.5	75
77	Algeria	67.8	69.3	-1.5	67
78	Slovakia	67.5	68.3	-0.8	73
79	Romania	67.3	66.3	1.0	84
79	South Africa	67.3	66.8	0.5	81
81	Honduras	67.0	66.8	0.3	81
82	Gambia	66.8	65.8	1.0	88
82	Russia	66.8	66.0	0.8	85
84	El Salvador	66.5	63.5	3.0	98
84	Mongolia	66.5	65.5	1.0	89
84	Serbia	66.5	66.8	-0.3	81
87	Morocco	66.3	64.3	2.0	91
88	Ecuador	66.0	67.5	-1.5	76
88	Tanzania	66.0	64.8	1.3	90
90	Guinea-Bissau	65.3	62.5	2.8	103
90	Jordan	65.3	64.0	1.3	95
92	Paraguay	65.3	64.3	1.0	91
93	Albania	64.8	67.5	-2.8	76
94	Bolivia	64.5	66.0	-1.5	85

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
95	Nicaragua	63.8	62.8	1.0	100
96	Bangladesh	63.5	62.5	1.0	103
96	Cote d'Ivoire	63.5	61.0	2.5	107
96	Togo	63.5	62.8	0.8	100
99	Colombia	63.3	63.8	-0.5	96
100	Iran	63.0	67.0	-4.0	79
101	Madagascar	62.8	62.8	0.0	100
102	Angola	62.3	67.0	-4.8	79
103	Zambia	62.0	63.0	-1.0	99
104	Belarus	61.8	56.5	5.3	126
104	Cuba	61.8	69.3	-7.5	67
104	Ghana	61.8	59.0	2.8	114
107	Cameroon	61.5	59.8	1.8	110
108	Moldova	61.3	58.8	2.5	116
108	Ukraine	61.3	56.3	5.0	127
110	Armenia	61.0	60.5	0.5	108
111	Guinea	60.0	57.3	2.8	124
111	Mozambique	60.0	53.5	6.5	132
111	Uganda	60.0	59.3	0.8	112
High Risk					
114	Tunisia	59.8	61.3	-1.5	106
115	Burkina Faso	59.0	58.3	0.8	118
116	Suriname	58.8	59.0	-0.3	114
117	Senegal	58.5	58.0	0.5	122
118	Ethiopia	58.0	58.0	0.0	122
119	Mali	57.8	58.3	-0.5	118
120	Zimbabwe	57.5	61.5	-4.0	105
121	Congo, Dem. Republic	57.0	60.3	-3.3	109

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING SEPTEMBER 2023 VERSUS OCTOBER 2022					
RANK IN 09/23	COUNTRY	COMPOSITE RISK RATING 09/23	COMPOSITE RISK RATING 10/22	09/23 VERSUS 10/22	RANK IN 10/22
121	Kenya	57.0	58.3	-1.3	118
121	Myanmar	57.0	55.8	1.3	128
124	Haiti	56.5	54.8	1.8	130
125	Argentina	56.3	64.3	-8.0	91
125	Sierra Leone	56.3	53.8	2.5	131
127	Egypt	56.0	59.3	-3.3	112
128	Yemen, Republic	55.8	48.3	7.5	138
129	Nigeria	55.5	59.8	-4.3	110
130	Turkey	55.3	55.8	-0.5	128
131	Liberia	55.0	58.3	-3.3	118
131	Venezuela	55.0	58.5	-3.5	117
133	Sri Lanka	54.5	48.5	6.0	137
134	Malawi	52.8	51.0	1.8	135
135	Somalia	51.8	52.0	-0.3	133
Very High Risk					
136	Korea, D.P.R.	49.3	51.0	-1.8	135
136	Pakistan	49.3	52.0	-2.8	133
138	Niger	46.8	56.8	-10.0	125
139	Syria	45.0	43.8	1.3	139
140	Sudan	44.8	43.0	1.8	140
141	Lebanon	35.0	41.5	-6.5	141