



INSETE

INTELLIGENCE

The Greek economy without stereotypes: productive model and tourism

Greek and
International Economy

Issue 15
February 2026

INSETE

SETE INSTITUTE

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Contents

1. General Overview.....	4
2. The Greek crisis, adjustment and recovery, productivity.....	11
3. Criticisms of the Old Production Model and the significant increase in Greek exports of goods and the manufacturing industry.....	16
4. The deficit in the foreign trade balance.....	20
4.1 General.....	20
4.2 Italy's trade balance and exports of goods.....	22
4.3 The structure of the external balance of payments and the structure of the economy.....	24

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1. General Overview

It has been pointed out from many quarters that one of the long-standing and particularly significant problems of the Greek economy is the high and persistent trade deficit, which is a key component of the country's balance of payments. This deficit is seen as an indication of the "old" production model (OPM) of the Greek economy, which, according to relevant opinions, has led to a trap of low productivity and limited competitiveness. This model is linked to the emergence of persistent deficits in the BOP, both through the widening of the current account deficit and through the maintenance of the deficit in the Current Account.

Furthermore, there are views that the Greek economy has evolved into a "café economy", which is attributed to the expansion of economic activity in sectors with low productivity. It is also argued that, despite the implementation of Fiscal Adjustment and Structural Reform Programmes (FASRP) during the period 2010-2018, it has not been possible to substantially restructure the country's productive model; on the contrary, it is estimated that these programmes contributed to the further concentration of economic activity in the hotel, restaurant and café sectors, which are closely linked to the tourism industry and are a characteristic feature of the OPM.

According to this analysis, the maintenance of this production model, which is reflected in the expansion of activity in low value-added sectors, is linked to the limited rate of productivity growth, the sluggish growth momentum of the Greek economy during the period 2013-2024 and, ultimately, its low competitiveness. According to the above analysis, these factors are reflected in the significant increase in both the trade deficit and the current account deficit.

The above arguments continue to be put forward, despite the fact that the Fiscal Adjustment and Structural Reform Programmes (FASRP) for the period 2010-2018 have contributed decisively not only to fiscal consolidation and stabilisation but also, as argued in this report, to the gradual restructuring of the Greek economy. At the same time, they have supported the significant recovery of the country's economy since 2013 to date, despite any interim periods of decline. This particular course of events over the decade has led to the average annual rate of change in GDP over the last five years, even with the significantly underestimated – as analysed in detail in the INSETE Economic Developments Bulletins – (1.9%) estimated by ELSTAT to significantly exceed the corresponding growth rate of the EU-20 (1.1%).

Furthermore, Greece is achieving this performance while at the same time recording significant primary surpluses in the general government and rapidly reducing its general government debt, both as a percentage of GDP and in absolute terms.

Even those who recognise the significant achievements made in Greece since 2014 – including the government itself – continue to focus on the country's high and growing Trade deficit (TD) and Current Account deficit. This deficit is seen as a sign that significant structural weaknesses remain in the Greek economy, despite the improvements that have been made.

Overall, the view is expressed that structural weaknesses, or the continued application of the old productive model (OPM), or even the supposed restructuring of the economy towards the hotel – Restaurants – Cafés ("café culture in Greece"), have led to the maintenance of an economy with low productivity and competitiveness, with continuous and high deficits in the trade balance.

This study systematically examines the above issues and documents the following:

1. If the main objectives of the sought-after New Productive Model (NPM) focus on increasing exports, industrial production and improving international competitiveness, then the Greek economy has been gradually shifting towards the "new productive model" for a decade now, as it shows:
 - (i) A significant increase in exports of goods at particularly high and stable rates. The average annual rate of change (CAGR) stands at 7.0% for the period 2024/2009 and 7.8% for the period 2024/2015, when the CAGR of GDP change was 0.1% and 3.4% respectively.
 - (ii) These rates exceed, among other things, the significant increase in revenues from inbound tourism, which showed an CAGR of 5.0% for the period 2024/2009 and 4.8% for the period 2024/2015.
 - (iii) Manufacturing output is recording steady growth, with a CAGR of 3.0% in the period 2024/2013 – higher than the GDP CAGR of 2.7% - while employment in the sector is also increasing, with an average annual growth rate of 2.3% in the period 2024/2013 – double the average annual growth rate of total employment of 1.1% - and 2.8% in the period 2024/2014.
 - (iv) Improvement in international competitiveness, determined both by the increase in exports of goods and services and by the significant depreciation of the Real Effective Exchange Rate of the euro for Greece, based on Labour Costs per Unit of Output (REERULC): -32.9% compared to the fourth quarter of 2009 and -13.2% compared to 2000.
 - (v) Satisfactory growth of internationally competitive agriculture and livestock farming. The sector's external balance became surplus, reaching €190 million in 2023, from a deficit of €-1.3 billion in 2009, despite the continuing significant increase in imports. Taking into account industrial production from the processing of agricultural products, the external balance of the agri-food sector as a whole recorded a surplus of €460 million in 2023, compared to a deficit of €3 billion in 2008.
2. Productivity in the Greek economy is growing at a satisfactory rate during periods of smooth operation and can be further accelerated if the country adequately controls its fiscal situation and develops by exploiting its significant comparative advantages.
3. The trade deficit – and the current account deficit – is not determined by the production model applied, 'old' or 'new', nor by the structural weaknesses of the

economy, nor by the level or rate of growth in productivity and competitiveness. The trade deficit reflects and is determined exclusively by the surplus of the sum of the other balances of the export account, and in particular by the significant surplus of the Services Balance (SB) and the Capital Account (CA). Consequently, as these surpluses widen, the deficit in the current account increases – regardless of whether exports increase by 1% or 40% – which is a long-standing feature of the Greek economy. The big difference with the pre-crisis period is that, at that time, capital inflows came mainly from extensive public borrowing to cover uncontrolled fiscal deficits.

Specifically:

Chapter 2 examines in detail the issue of productivity in the Greek economy. The above arguments – about the continuation of the old productive model (OPM), persistent structural weaknesses and the ‘café economy’ – are based on the assertion that the Greek economy is characterised by low productivity and particularly limited growth over time. It is further argued that productivity, in combination with demographic developments, largely determines the country's growth prospects in both the immediate and long-term future.

To substantiate this claim, the evolution of productivity over time is usually used, based on data from ELSTAT and Eurostat for the periods 2008-2024 and 2001-2024, with the aim of demonstrating the alleged stagnation or very limited growth of the Greek economy.

Indeed, productivity growth in Greece during the period 2008-2024 is estimated to remain negative, with an average annual rate of change (CAGR) of -1.05%. However, these estimates for productivity in both the 2008-2024 and 2001-2024 periods lead to incorrect conclusions for the following reasons:

Firstly, these periods include the phase of deep economic crisis from 2009 to 2016, during which extensive fiscal adjustment programmes were implemented, resulting – for multiple and complex reasons – in a significant decline in productivity of -20.3% between 2008 and 2016. This decline is not solely attributable to the implementation of the FASRP programmes, but is also linked to the radical change in the methodology for measuring GDP after 2010, as well as to a series of significant and macroeconomically inconsistent downward revisions of GDP. The change in the GDP calculation model led to the picture presented in Chart 2.1, where the increase in imports over the last decade is macroeconomically inconsistent with the increase in domestic and external final demand/expenditure, indicating a significant underestimation of GDP growth.

Secondly, as a consequence of the above, the measured decline in productivity by -1% CAGR during the period 2008-2024 results from the recorded decline in GDP by -16.0% (or -1% in real terms), despite the fact that imports of goods and services at constant 2020 prices increased by 40.2% in 2024 compared to 2009 (2.3% in real

terms)¹ . A particularly significant underestimation of GDP growth is recorded in the period 2014-2021, during which GDP appears to grow by 0.6% CAGR, despite the fact that imports of goods and services increased by almost 10 times, with an average annual growth rate of 5.5%.

Thirdly, as predicted in the Economic Developments Bulletins of the National Bank of Greece, the productivity of the Greek economy increased at a satisfactory rate (CAGR 1.9%) during the period 2020-2025, despite the parallel significant increase in employment (CAGR 2.2%). This positive development was also helped by the partial improvement in the macroeconomic consistency of ELSTAT data on the main components of GDP after 2021.

Fourth, it is estimated that the macroeconomic consistency of national accounting data will improve further in the coming years and that these statistics will continue to be adjusted and corrected, , the recorded growth of Greek GDP will gradually converge towards actual economic developments.

Chapter 3 presents data that contradict the claims that Greece continues to follow the old productive model (OPM) and that its economy, based exclusively on tourism, is leading to an ever-increasing concentration in the sectors of Hotels – Restaurants – Cafés, presenting the image of a 'café economy'.

These claims are not confirmed by the actual developments in the Greek economy during the period 2009-2024. During this period, there was a very significant increase in exports of goods, with a CAGR of 7% at current prices, which exceeded: (i) the increase in revenue from inbound tourism (CAGR 5.0%), (ii) the increase in Italian exports of goods (CAGR 4.8%), and (iii) the corresponding increase in EU-20 exports of goods (CAGR 5.0%).

At the same time, there was also a significant increase in manufacturing output, with a CAGR of 3.1% over the period 2015-2024. Equally significant is the increase in manufacturing employment, with a CAGR of 2.8% over the period 2024/2014. In addition, investments in mechanical, transport and technological equipment are growing rapidly during the period 2024/2013, with an CAGR of 8.8%, strengthening the technological level and productivity of the economy.

At the same time, during the period 2013-2024, Greece achieved particularly significant growth in the tourism sector, with an increase in revenue from inbound tourism of 5.4% and an increase in employment in the accommodation and catering sectors of 4.1% CAGR. However, this growth did not come at the expense of manufacturing or agricultural production. On the contrary, it was accompanied by a parallel and substantial strengthening of manufacturing activity and exports of goods, as mentioned above, as well as by satisfactory growth in internationally competitive agriculture and livestock farming. In fact, the external balance of agriculture and livestock farming became surplus, reaching €190 million in 2023, from a deficit of €1.3 billion in 2009, despite the continuing significant increase in imports. Taking into

¹ Even taking into account the significant cut of -1.35 billion in the recent October 2025 review.

account the industrial production of processed agricultural products and food, the external balance of the agri-food sector, according to KEPE, recorded a surplus of €460 million in 2023, compared to a deficit of €3 billion in 2008.²

It should be noted that the large increase in employment in the accommodation and catering sectors during the period 2024/2013 is the main factor on which the claims about the "café economy" are based. A recent article³ argues that: (i) 'the "café economy" is nothing more than the most visible aspect of a deeper transformation of the Greek economy after 2009 towards the 'catering and accommodation' sector, and (ii) that, according to Eurostat data, after 2009 the share of this sector in GDP and especially in employment has increased dramatically, as employment in this sector rose by 87%, compared to just 4% in the economy as a whole. They conclude that (iii) 'almost half of the new jobs created after the end of the crisis came from this sector'.

The reality is that in 2024, according to ELSTAT data (Labour Force Survey, 2nd quarter 2025), the increase in employment in the accommodation and catering sectors – which also include café activities – was indeed impressive, reaching 55% (or 142,000 people) in the period 2024/2013. During the same period, employment in the manufacturing industry increased by 29% (or 93,000 people), while in the economy as a whole the increase was 22% (or 763,000 people). Consequently, the accommodation and catering sector is an important sector of the Greek economy, which contributes significantly to boosting employment in the country. However, as the above data show, this sector – and the tourism sector in general – does not represent the Greek economy as a whole, not even approximately. For example, the accommodation and catering sector did not create half of the new jobs after the crisis, but 19% of the new jobs – 142,000 out of a total of 763,000 – that were created in the economy during this period.

In any case, the contribution of the accommodation and catering sector – and tourism in general – to economic growth and, in particular, to employment growth has been significant and particularly catalytic over the last decade. The sector is of great value to the Greek economy, mainly due to its strong contribution to job creation. Greece has a particularly important comparative advantage in tourism, the value of which is increasing over time. For this reason, tourism and the accommodation and catering sectors are expected to continue to grow dynamically – significant investments are already underway to substantially upgrade the product offered – and contribute to growth and employment in Greece. Contrary to what is claimed by various analysts, productivity growth tends to be higher – or to manifest itself mainly – in economies that develop by exploiting their comparative advantages⁴.

² KEPE, "Current Affairs Analyses", 3/2024.

³ "From austerity to the 'café economy' in Greece," KATHIMERINI, 9/11/2025 M. Nikiforos, See M. Missos, X. Pierros and N. Rodousakis, based on their Discussion Paper entitled "The café economy: Structural transformation in Greece in the wake of austerity and 'reforms'" GreeSE Paper, no. 212.

⁴ The theoretical references of Nicholas Kaldor (1966) cited by the authors of the above Discussion Paper concerned an earlier era, when Greece and certain Latin American countries were implementing the "Two-gaps model of Economic Development".

Today, Greece is a full member of the Eurozone (EU-20) and has significant comparative advantages not only in tourism, but also in agriculture and livestock farming, in many sectors of manufacturing industry, as well as in services that until recently operated under severe restrictions. The process of restructuring the Greek economy is ongoing, but this does not mean that there are no longer significant problems in terms of resource allocation, functioning and institutional structure that limit growth potential and potential productivity gains.

Chapter 4 refutes the widely held view that the high trade deficit (TD) is due to the continued application of the "old productive model" (OPM), the structural weaknesses of the Greek economy or its alleged transformation into a "café economy", as well as the low productivity and competitiveness that are presented as consequences of the above.

Even if it were accepted that this view fully reflects reality – regarding the OPM or "café economy" – it could not be substantially linked to the trade deficit. The country's trade deficit is determined exclusively by the surplus of the sum of the other balances of the External Balance of Payments, and mainly by the significant surplus of the Balance of Services and the equally high surplus of the Capital Account. These surpluses are increasing over time: on the one hand, because the value of the country's comparative advantage in tourism is strengthening over time and with investments in tourism services, and on the other hand because Greece has become an attractive destination for net capital inflows from abroad, which strengthens the Capital Account surplus. Consequently, as these surpluses widen, the deficit in the current account, which is a long-standing feature of the Greek economy, increases – logistically, mechanically and regardless of whether exports increase by 1% or 40%. The big difference with the pre-crisis period is that at that time capital inflows came mainly from public borrowing.

At the same time, the claims that low productivity is holding back the competitiveness of the Greek economy and preventing the strengthening of goods exports are in stark contrast to the fact that goods exports recorded a very significant increase, with a CAGR of 7.8% in the period 2014/2015, a period in which the current account deficit also widened significantly. Furthermore, the arguments about low competitiveness are refuted both by the increase in exports of goods and services and by the significant depreciation of the real effective exchange rate of the euro for Greece, based on unit labour costs (REERULC): -32.9% compared to the fourth quarter of 2009 and -13.2% compared to 2000.

This substantial improvement in international competitiveness was recorded despite the fact that GDP and productivity growth in the period 2014-2024 is significantly underestimated. Various widely circulated analyses overlook the clear improvement in competitiveness based on the REERULC index, which is determined by GDP and productivity growth. However, any structural problems and their deterioration or improvement determine the development of productivity, which in turn determines the development of labour costs per unit of output and therefore competitiveness, as reflected in the REERULC.

The actual data and consistent analysis do not support narratives about a "Greece of cafés". To fully capitalise on the achievements of the Greek economy over the last decade, the real problems that limit its growth potential must be addressed and mitigated.

2. The Greek crisis, adjustment and recovery, productivity

The evolution of labour productivity in Greece from 2008 to the present day has been largely determined by the fiscal derailment of 2008-2009 and the public debt crisis in 2010, which led the country to implement particularly demanding Fiscal Adjustment and Structural Reform Programmes (FASRP) in the period 2010-2018. In 2009, the Greek economy was in a state of extreme imbalance – an overinflated 'bubble' – with general government (GG) fiscal deficits exceeding 15% of GDP and a corresponding Current Account deficit. These deficits were financed through extensive external borrowing, mainly by the state, amounting to over €30 billion per year (2008: €30.86 billion), which led to a continuous increase in the GG's debt and its annual borrowing requirements. This situation made it inevitable that the country would lose access to the markets and be placed under an adjustment programme during the period 2010-2013, which was subsequently extended until 2018.

The correction of the fiscal and external imbalances of 2008-2009 was achieved through a very large reduction in Greek GDP, which, according to ELSTAT, amounted to -64.1 billion euros in 2013 compared to 2008 (at constant 2020 prices), with a corresponding GDP growth rate of -6.1%. During the same period, employment (based on National Accounts data) fell by -2.4% in real terms, resulting in a significant decline in labour productivity, which fell by -3.8% in real terms (Table 2.1).

It should be noted that a large part of the estimated decline in GDP by -64.0 billion euros in the period 2013/2008 is due to repeated downward revisions, as well as to the radical change in the methodology used by ELSTAT (i.e. Eurostat and the IMF) to estimate GDP. This is largely a statistical adjustment that overestimates the actual decline in GDP caused as a direct consequence of the implementation of the FASRP.

Table 2.1 Development of productivity of work in Greece (GDP in steady prices per employed person)						
	Employment		GDP (2020 prices)		Productivity (GDP/person employed)	
	000 persons	% Δ	€ M	% Δ	€ K	% Δ
2001	4.202	0,4%	182.313		43,39	
2002	4.303	2,4%	190.851	4,7%	44,35	2,2%
2003	4.363	1,4%	201.914	5,8%	46,28	4,3%
2004	4.468	2,4%	212.773	5,4%	47,62	2,9%
2005	4.508	0,9%	215.291	1,2%	47,76	0,3%
2006	4.589	1,8%	229.163	6,4%	49,93	4,6%
2007	4.649	1,3%	237.199	3,5%	51,02	2,2%
2008	4.709	1,3%	237.336	0,1%	50,40	-1,2%
2009	4.681	-0,6%	227.559	-4,1%	48,61	-3,5%
2010	4.564	-2,5%	214.603	-5,7%	47,02	-3,3%
2011	4.368	-4,3%	193.407	-9,9%	44,28	-5,8%
2012	4.193	-4,0%	177.294	-8,3%	42,28	-4,5%
2013	4.168	-0,6%	173.265	-2,3%	41,57	-1,7%
2014	4.318	3,6%	174.638	0,8%	40,44	-2,7%
2015	4.193	-2,9%	174.239	-0,2%	41,56	2,8%
2016	4.335	3,4%	174.184	0,0%	40,18	-3,3%
2017	4.314	-0,5%	176.750	1,5%	40,97	2,0%
2018	4.374	1,4%	180.399	2,1%	41,24	0,7%
2019	4.427	1,2%	184.507	2,3%	41,68	1,1%
2020	4.267	-3,6%	167.540	-9,2%	39,26	-5,8%
2021	4.485	5,1%	182.039	8,7%	40,59	3,4%
2022	4.592	2,4%	192.091	5,5%	41,83	3,0%
2023	4.648	1,2%	196.194	2,1%	42,21	0,9%
2024	4.703	1,2%	200.288	2,1%	42,58	0,9%
2025	4.755	1,1%	205.095	2,4%	43,13	1,3%
2026	4.798	0,9%	210.222	2,5%	43,82	1,6%
2027	4.827	0,6%	215.057	2,3%	44,56	1,7%
2028	4.851	0,5%	219.574	2,1%	45,27	1,6%
2029	4.875	0,5%	223.746	1,9%	45,90	1,4%
2030	4.899	0,5%	227.997	1,9%	46,54	1,4%
2008/2001	1,6%		3,8%		2,2%	
2013/2008	-2,4%		-6,1%		-3,8%	
2016/2008	-1,0%		-3,8%		-2,8%	
2018/2008	-0,7%		-2,7%		-2,0%	
2024/2001	0,5%		0,4%		-0,1%	
2024/2008	0,0%		-1,1%		-1,0%	
2024/2013	1,1%		1,3%		0,2%	
2024/2018	1,2%		1,8%		0,5%	
2025/2001	0,5%		0,5%		0,0%	
2025/2008	0,1%		-1,0%		-1,0%	
2025/2020	2,2%		4,1%		1,9%	
2025/2018	1,2%		1,8%		0,6%	
2030/2025	0,6%		2,1%		1,5%	
2030/2001	0,5%		0,8%		0,2%	

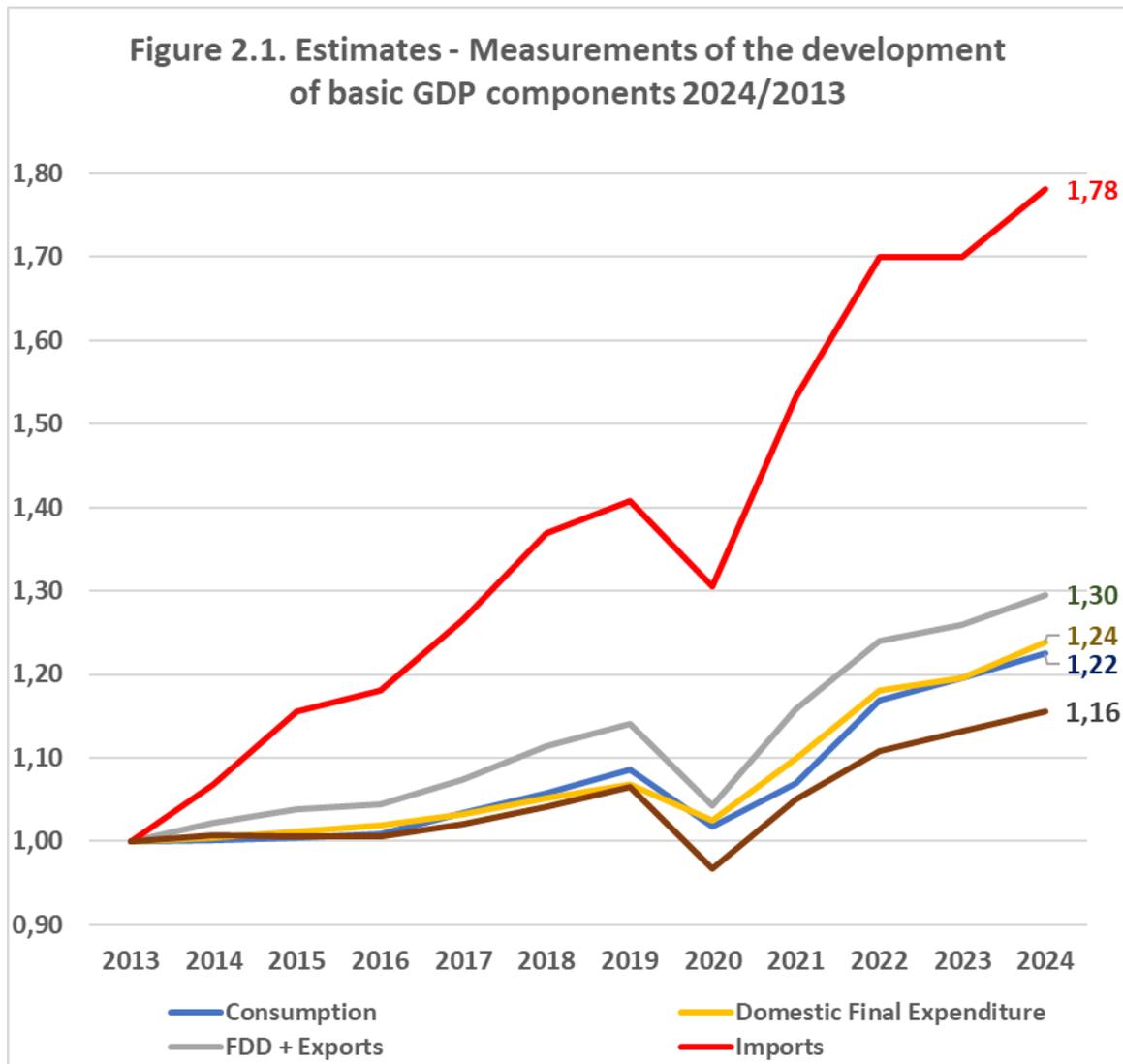
The change in the model used to measure GDP growth after 2010 ultimately led to the formation of a picture (Figure 2.1) that indicates a significant underestimation of GDP growth from 2014 to the present. Despite the fact that the data for the period 1995-2009 were also revised downwards retrospectively, Greek GDP figures after 2008 are not really comparable with those before 2008. The GDP for 2013 is not comparable to the corresponding figure for 2008; therefore, the recorded decline in GDP in 2013 by €64.0 billion compared to 2008 is, to a large extent, a statistical result. Greece's real GDP and labour productivity did indeed decline in 2013 compared to 2008, but to a

much lesser extent than the €64.0 billion decline in GDP and the 6.1% decline in GDP growth, and the 3.8% decline in productivity, respectively.

Following the recovery of GDP in 2014, there were two more years of negative growth and declining productivity, specifically in 2015 and 2016, as a result of the reversal of the FASRP in the first seven months of 2015. During the period 2016/2008, GDP fell by -3.8% in real terms, while the decline in employment was limited to -1.0% in real terms. As a result, labour productivity fell by -2.8% in real terms. This decline is largely linked to both the change in the GDP measurement model and the underestimation of GDP growth in the period 2024/2013. Specifically, GDP growth appears to be -1.3%, despite the fact that imports of goods and services increased by -5.7%, while the ratio of imports to total demand/expenditure, domestic and foreign, i.e. the sum of DFE+X (Domestic Final Expenditure + Exports) was estimated at an extremely high $x = 104.73\%$. However, the actual x -ratio for Greece during this period could not have exceeded 50%⁵.

Following the above, the recovery of the Greek economy began in earnest in 2017 and lasted until 2019. In this first period of relative stability, the CAGR of productivity for the three-year period 2019/2016 reached 1.2%, while the underestimation of GDP growth – although real – was less intense, with GDP recording an increase with a CAGR of 1.94%. At the same time, imports of goods and services rose sharply again, with a CAGR of 6.05%, and the import content ratio of the sum of DFE+X stood at $x = 52.3\%$. The partial correction of the underestimation of GDP growth in the period 2019/2016 allowed for a substantial increase in productivity, with a CAGR of 1.2%.

⁵ According to estimates by the Bank of Greece, the x -ratio over time fluctuates at levels of 40% for investments and below 30% for exports and consumption. See: Box IV.2: The import content of aggregate demand in Greece, *Monetary Policy Report*, July 2018. For a detailed presentation of the evolution of this indicator over the last decade and the consistent macroeconomic inconsistency between the evolution of imports and the basic components of GDP expenditure, see the annual Economic Developments Bulletins of INSEETE.



However, the economy's growth trajectory was interrupted again due to the Covid-19 pandemic in 2020 and in the first half of 2021. According to ELSTAT, employment fell by 3.6% in 2020, while GDP contracted by 9.2%, resulting in a significant decline in productivity (GDP per person employed) of 5.8%.

The next period of growth for the Greek economy essentially began in 2021 and continues to this day. During this period, the CAGR of productivity rose to 1.9%. It is noteworthy that GDP growth in the period 2025/2020 (CAGR 4.1%) was recorded with an import content ratio of $\chi = 39.7\%$, a value that approaches the normal χ -ratio for the Greek economy. Although GDP underestimation still exists, it is now very limited compared to the underestimation in the period 2020/2013. Once again, with a more rational estimate of GDP growth, productivity growth in the period 2020-2025 proves to be significant, with an MRR of 1.9%.

Based on the above and according to the data in Table 2.1, productivity growth in the period 2025/2008 is still negative, with an average annual growth rate of -1.0% (employment: average annual growth rate of 0.1%, GDP: CAGR -1.0%). The CAGR of productivity also remains negative in the period 2025/2001, at -0.02% (2024/2001:

-0.08%). However, this is primarily due to the decline in productivity by -20.28% in 2016/2008, as well as to the fact that GDP data after 2008 are not comparable with those before 2008, and to the significant underestimation of GDP growth in the period 2025/2013.

Finally, the data in Table 2.1 reveal an additional factor underestimating productivity growth. In the table, employment (yoy) is based on European Commission data (National Accounts). Based on this, employment in 2024 is estimated at 4,703,300, while according to the Labour Force Survey (LFS) of ELSTAT it was 4,276,000. The CAGR for employment in the period 2024/2001 with the LFS was 0.08%, while with the National Accounts estimate it rose to 0.5%.

Overall, the above shows that the indiscriminate use of official GDP data for the period 2001-2025 makes any conclusions about the level and rate of change in productivity over this 25-year period particularly unreliable. Firstly, the increase in employment by 1.1% in the period 2024/2013, 1.2% in the period 2024/2018 and 2.2% in the period 2025/2020, is a significant development, especially considering the multiple obstacles and international crises of these periods. Secondly, the real CAGR of GDP in the period 2024/2013 (with an import content ratio of 45%) is likely to exceed 2.0% (compared to 1.3% in ELSTAT estimates, with $\chi = 55\%$), which implies a real productivity increase of more than 0.95% (compared to the estimated 0.2%). Finally, even in the period 2025/2020, real productivity growth is likely to exceed the CAGR of 2.2% (compared to 1.9%).

Therefore, the evolution of productivity in Greece, combined with the significant increase in employment during the period 2014-2025, suggests that the productive structure of the Greek economy after 2013 is gradually changing. The fact that Greece remains at a lower level of economic growth than many countries in the Eurozone has been known since 2000 and was not addressed during the 2000s, which led to bankruptcy and the loss of the entire period 2010-2018 due to the adjustment and gradual adaptation of important sectors of the economy. At the same time, the country lost additional ground due to the 2009 bubble, but gained significant growth momentum through extensive fiscal adjustment and reforms in the period 2010-2018.

Finally, allegations of an 'old productive model', structural weaknesses and a 'café economy', which cannot be supported by the argument of low and slowly growing productivity, are countered by the impressive increase in Greek exports of goods during the period 2010-2024, as well as by the significant increase in investment in mechanical, transport and technological equipment during the period 2014-2024, which are the main factors behind the increase in fixed capital investment. These issues are analysed in detail in Chapter 3 below.

3. Criticisms of the Old Production Model and the significant increase in Greek exports of goods and the manufacturing industry

Articles referring to the particularly adverse economic results of the Old Production Model (OPM), which is supposed to continue to dominate in Greece, are extensive and constantly present in public debate. At the same time, suggestions about the need to adopt a New Production Model (NPM) have long dominated public discourse. In the most well-documented interventions, the OPM is attributed to structural and institutional - rather than sectoral - weaknesses in the Greek economy. In contrast, in more extensive analyses, the PPY is identified with the country's perceived sectoral weaknesses, in the sense that high-productivity sectors with significant growth potential are not developing sufficiently in Greece⁶, while low-productivity and slow-growth sectors are expanding at excessively high rates.

A typical example of analyses attributing a "problematic" sectoral structure of the Greek economy to the OPM is the debate that was reignited after the publication by the Hellenic Observatory of the London School of Economics of a Discussion Paper entitled "*The café economy (of Greece)*" (see also the General Overview, footnote 3)⁷.

For the record, and taking into account the large number of references and comments prompted by the LSE Hellenic Observatory's Discussion Paper, the main arguments and conclusions of its researchers are summarised below:

- (i) First, it is noted that Greece has a large number of cafés, restaurants and hotels. These activities are reasonably linked to the particularly dynamic growth of tourism in the post-war period.
- (ii) The authors then draw on a series of studies that document that productivity is growing faster in industry and cutting-edge technology sectors, while recording much slower or almost non-existent growth in the hotel, (accommodation and food service activities – AFSA), i.e. the sectors in which, in their view, the Greek economy is expanding.
- (iii) To support this claim, they use Eurostat data, according to which labour productivity in 2024 is 16% lower than in 2009 – a 'bubble' year that led the country into fiscal crisis. The authors attribute this finding to the Fiscal Adjustment and Structural Reform Programmes (FASRP), which, according to their

⁶ As if for some unclear reason, Greek entrepreneurs, unlike entrepreneurs in other countries, prefer to operate in sectors where productivity and profits are very low and grow only slightly.

⁷ This publication caused a significant public reaction, with the Greek media reproducing a series of headlines such as: (i) 'The "café economy" is no joke', (ii) 'Shocking study by the LSE: Greece is turning into a "café economy" – No investment in innovation and development', (iii) "Greece, the 'café economy' and the café – Scientific study by the LSE", or even "From austerity to the 'café' Greece".

interpretation, contributed to the overconcentration of the Greek economy and its alleged "transformation" into a café economy or a country specialising in ASFA sectors. (iv) Furthermore, a key finding is that productivity declined significantly more in the ASFA sectors in the period 2024/2009 than in industry and the economy as a whole.

In this report, the issue of productivity in Greece was examined in detail in Chapter 2, while the trend in productivity, based on available data on GDP and employment, is shown in Table 2.1. The analysis in Chapter 2 shows that drawing conclusions about productivity in the country by comparing 2024 with 2009 — a year of GDP overgrowth and before the collapse that followed — cannot provide a solid basis for a consistent and thorough assessment of structural developments in the economy.

Instead, the following issues are up for real debate: according to official data, real GDP in 2024 was €27.3 billion lower than in 2009 - despite repeated revisions - while imports of goods and services increased by €26.8 billion over the same period. Furthermore, the question arises as to how it is possible for employment to increase in the period 2024/2009 with an average annual growth rate of 0.03% and, at the same time, for GDP to decrease with an average annual growth rate of -1.1%. The answer to these two questions is not related to Greece's supposed 'specialisation' in the ASFA sectors.

With regard to the restructuring of the Greek economy in the period 2010–2024, this Chapter 3 presents data showing that, while Greece is indeed benefiting from the rapid growth of tourism, the rise in production and employment in the manufacturing industry is even more pronounced, as is the significant increase in investment in transport, mechanical and technological equipment in the period 2014–2024. At the same time, there has been an impressive increase in Greek exports of goods – especially manufactured goods – with an FDI higher than that of receipts from inbound tourism.

Furthermore, the Greek economy is still in the early stages of a major restructuring in favour of sectors producing internationally tradable goods, despite the fact that the share of exports of goods and services in GDP has already increased to 35.8% in 2024, compared to 19.2% in 2019. More importantly, the Greek economy appears to be in a position to further increase this share to 40% by 2030 and to even higher levels in the 2030s, to the extent that the policies pursued allow it.

With regard to the most documented analyses, in which the Old Production Model (OPM) is identified with structural and institutional weaknesses in Greek political economy, the following points are highlighted: It was recently suggested that "the new development law promotes a new productive model in the country for the productive transformation of the Greek economy." According to the same analysis, "our country continues to have a high trade deficit," which "must be corrected urgently" and requires "a more competitive economy with more exports." To this end, "productive transformation through the strengthening of industry" is recommended. The new institutional framework of the Development Law provides for "strengthening investment, mainly in industry, manufacturing, innovation and extroversion," with the

aim of restructuring the economy. The central rationale is based on the need to stimulate investment and international competitiveness, particularly in the manufacturing industry, in order to boost exports of goods and, consequently, reduce the high trade deficit.

In this context, the main objective of the New Productive Model (NPM), as presented by the supporters of this particular category of analysis, is to substantially reduce the Greek trade deficit by strengthening industrial production, increasing investment, improving productivity and strengthening international competitiveness, with the ultimate goal of accelerating the growth of goods exports.

However, developments in the Greek economy over the last decade show that if the critical elements of the NPM focus on (a) gradually strengthening competitiveness, (b) the rapid rise in exports of goods and (c) a significant increase in investment in mechanical, transport and technological equipment, then the NDP is already being implemented and, indeed, with a high degree of success.

First, as shown in Table 3.1, exports of goods are already growing at a particularly high and steady rate. CAGR is 7.0% for the period 2024/2009 and 7.8% for the period 2024/2015. These rates exceed, among other things, the significant increase in revenues from inbound tourism, which showed a CAGR of 5.0% for the period 2024/2009 and 4.8% for the period 2024/2015.

Secondly, manufacturing output is recording steady growth, with a CAGR of 3.0% for the period 2024/2013 – higher than the GDP CAGR of 2.7% - while employment in the sector is also increasing, with a CAGR of 2.3% in the period 2024/ 2013 – double the CAGR of Total Employment of 1.1% - and 2.8% in the period 2024/2014.

Thirdly, investments in mechanical, transport and technological equipment amounted to €16.55 billion in 2024, recording an CAGR of 8.8% in the period 2024/2013. In particular, investments in information and communication technology equipment increased by 8.5% CAGR.

Despite the above, and despite the impressive rise in exports of goods - which in 2024 were €23.8 billion higher than in 2015 - the trade deficit remained high, standing at €35.67 billion in 2024, compared to €17.67 billion in 2015 -€19.67 billion in 2013, even higher than the €-33.14 billion in 2009.

In summary, the available data show that the NPF proposed by many parties has already been implemented in Greece since at least 2016. The international competitiveness of the Greek economy has improved significantly over the last decade, which is reflected in the increase in production and employment in the manufacturing industry, as well as in the continuous strengthening of exports of goods - especially industrial products - at rates higher than those of tourism and the corresponding rates of Italy and the EU-20, as will be presented below. Nevertheless, the Greek trade deficit has not only failed to narrow, but has actually widened significantly.

Therefore, the "problem" – if the increase in the trade balance (TB) deficit is accepted as a problem – cannot be attributed to the non-implementation or unsuccessful implementation of the NPM. This model has already been "implemented", and with considerable success, during the period 2004/2005, when there was a significant improvement in the country's international competitiveness, rapid and explosive growth in exports of goods and services, and a noticeable increase in investment in fixed equipment. Nevertheless, instead of the implementation of the NPM leading to a reduction in the trade deficit, the deficit widened significantly during the same period.

Table 3.1. Trade Balance, Exports of Goods, revenues from Incoming Tourism and Balance of Services (current prices)

	Exports of Goods (X)	Imports of Goods (M)	Trade Balance (TB)	GDP current prices	X/GDP	M/GDP	TB/GDP	Revenue from incoming tourism (T)	T/GDP	Balance of Services (BS)	BS/GDP
2002	11.185	33.710	-22.526	158.902	7,0%	21,2%	-14,2%	10.285	6,5%	9.609	6,0%
2003	11.720	36.905	-25.185	174.096	6,7%	21,2%	-14,5%	9.495	5,5%	10.195	5,9%
2004	13.566	41.748	-28.182	188.905	7,2%	22,1%	-14,9%	10.348	5,5%	13.994	7,4%
2005	15.161	44.525	-29.365	194.773	7,8%	22,9%	-15,1%	10.730	5,5%	14.267	7,3%
2006	17.706	52.911	-35.205	214.299	8,3%	24,7%	-16,4%	11.357	5,3%	13.990	6,5%
2007	20.624	63.412	-42.788	229.283	9,0%	27,7%	-18,7%	11.319	4,9%	15.140	6,6%
2008	21.921	66.285	-44.363	238.735	9,2%	27,8%	-18,6%	11.636	4,9%	15.682	6,6%
2009	17.721	50.857	-33.136	234.323	7,6%	21,7%	-14,1%	10.400	4,4%	11.505	4,9%
2010	20.221	47.492	-27.271	223.590	9,0%	21,2%	-12,2%	9.611	4,3%	12.096	5,4%
2011	23.027	46.418	-23.391	203.475	11,3%	22,8%	-11,5%	10.505	5,2%	13.595	6,7%
2012	26.427	46.778	-20.352	185.899	14,2%	25,2%	-10,9%	10.442	5,6%	13.839	7,4%
2013	26.187	45.860	-19.673	178.114	14,7%	25,7%	-11,0%	12.152	6,8%	15.745	8,8%
2014	26.150	46.780	-20.630	176.072	14,9%	26,6%	-11,7%	13.393	7,6%	18.245	10,4%
2015	24.805	42.471	-17.666	175.363	14,1%	24,2%	-10,1%	14.126	8,1%	16.581	9,5%
2016	24.613	42.573	-17.960	174.448	14,1%	24,4%	-10,3%	13.207	7,6%	16.298	9,3%
2017	28.040	47.874	-19.834	177.378	15,8%	27,0%	-11,2%	14.630	8,2%	18.044	10,2%
2018	32.373	54.862	-22.489	180.616	17,9%	30,4%	-12,5%	16.086	8,9%	19.304	10,7%
2019	32.434	55.267	-22.833	185.181	17,5%	29,8%	-12,3%	18.179	9,8%	21.116	11,4%
2020	28.904	47.433	-18.528	167.540	17,3%	28,3%	-11,1%	4.319	2,6%	7.278	4,3%
2021	39.328	66.047	-26.719	184.575	21,3%	35,8%	-14,5%	10.503	5,7%	12.845	7,0%
2022	53.755	93.313	-39.558	207.854	25,9%	44,9%	-19,0%	17.676	8,5%	19.320	9,3%
2023	50.032	83.059	-33.027	225.197	22,2%	36,9%	-14,7%	20.594	9,1%	21.808	9,7%
2024	48.613	84.278	-35.666	237.573	20,5%	35,5%	-15,0%	21.592	9,1%	22.672	9,5%
CAGR 2024/2009	7,0%	3,4%	0,5%	0,1%				5,0%		4,6%	
CAGR 2024/2013	5,8%	5,7%	5,6%	2,7%				5,4%		3,4%	
CAGR 2024/2015	7,8%	7,9%	8,1%	3,4%				4,8%		3,5%	

Source: Bank of Greece

Consequently, there are other, stronger and more fundamental factors that determine not only the size and trajectory of Greece's trade deficit, but also the overall structure of the Greek economy. These factors go beyond the effects of increased competitiveness or export growth and are linked to deeper characteristics of how the economy operates and is organised.

4. The deficit in the foreign trade balance

4.1 General

The Greek trade deficit is determined by the surpluses of the Other Balances of the External Balance of Payments. The Trade deficit increases when these surpluses widen and decreases only when these surpluses narrow. The significant increase in the deficit in 2024 compared to 2015 is therefore not due to the lag in goods exports, the country's international competitiveness and the inefficiency of the "Old Production Model", but to the rapid increase in the income and liquid assets of domestic economic agents, households and businesses, which in turn is directly linked – especially since 2018 – to the significant increase in the surplus of the EIP's Other Balances, particularly the Services Balance and the Capital Account.

Specifically, the increase in the trade deficit:

- (i) Is linked to the significant expansion of the Services Balance (SB) surplus, which reached €22.68 billion in 2024, compared to €16.58 billion in 2015 (Table 3.1.). This change was almost entirely due to the strengthening of the tourism balance surplus, which increased to €18.79 billion in 2024, from €12.1 billion in 2015. At the same time, the modest surplus in the balance of other services increased to €0.85 billion in 2024, from €0.2 billion in 2015. In contrast, the Transport Balance surplus declined to €3.04 billion in 2024, compared to €4.29 billion in 2015.
- (ii) This is linked to net inflows of income and capital from the EU-27 but also from Greeks living and working abroad - through the Primary and Secondary Income Balances (PIB&SIB) and Capital Transfers (CTB). Specifically:
 - The Primary Income Balance (PIB) deficit widened to -€6.03 billion in 2024 from -€1.03 billion in 2015, due to the large increase in interest payments, dividends and profits abroad, which amounted to -€15.44 billion in 2024 from -€7.08 billion in 2015.
 - The Secondary Income Balance (SIB) showed a surplus of €2.08 billion in 2024, compared to a deficit of -€0.51 billion in 2015, despite the reduction in receipts from the EU-27.
 - The Capital Transfer Balance (CTB) showed a small deficit of €0.02 billion in 2024, compared to a surplus of €1.99 billion in 2015.
- (iii) Finally, it is linked to significant net capital inflows through the Capital Account (CA). The CA surplus increased significantly, reaching €14.37 billion in 2024, compared to a deficit of €0.04 billion in 2015 and a surplus of €4.99 billion in 2018.

These developments show that the cumulative increase in the surplus in the other balances of the external Balance of Payments (BoP) significantly boosted disposable income and liquidity in the economy, leading to a corresponding increase in domestic

expenditure and, consequently, in imports of goods. Consequently, even under conditions of high growth in exports of goods and services and a significant strengthening of competitiveness, the BoP deficit widened further.

Overall, the surplus of the BoP's Other Balances (OB) (excluding the trade balance) amounted to €35.4 billion in 2024, up from €18.02 billion in 2015 and €22.41 billion in 2018. These significantly increased net inflows of purchasing power into the domestic economy from abroad – mainly through surpluses in the Services Balance and the Capital Account – imply a dynamic strengthening of domestic demand for goods and services, i.e. an increase in Domestic Final Expenditure (DFE) significantly higher than that estimated by ELSTAT – and an explosive increase in imports of goods, with a CAGR of 5.7% at current prices in the period 2024/2013 and 7.9% in the period 2024/2015 (see also Table 3.1.). As a result, there is a significant widening of the current account deficit to €35.67 billion in 2024, from €17.67 billion in 2015 and €19.67 billion in 2013, despite the impressive increase in goods exports, as already noted.

It follows from the above that the Greek trade deficit is not linked to the estimated – as described above – adverse development of productivity in the domestic economy during the period 2024/2008, which, according to widespread analyses, limits the growth of goods exports. On the contrary, this deficit simply reflects the surplus of all other BoP balances, namely: {Services Balance + Primary Income Balance + Secondary Income Balance + Capital Transfers Balance + Capital Account Balance + Adjustable Items}. The small difference between the Trade deficit (-€35.67 billion) and the surplus of the sum of the Other Balances (€35.4 billion) is covered by the small change in the country's Foreign Exchange Reserves⁸.

In particular, the significant increase in the External Goods Balance deficit to €35.67 billion (or -15.0% of GDP) in 2024, from €17.67 billion (-10.1% of GDP) in 2015, reflects the corresponding large increase in the surplus of the other balances to €35.4 billion in 2024, from €18.02 billion in 2015. The widening of the Other Balance surplus – and in particular the Services' Balance and Capital Account – contributed to the explosive growth in imports of goods in the period 2024/2015, with a CAGR of 7.9%, which led to a significant increase in the trade deficit, despite the subsequent impressive increase in exports of goods with a CAGR of 7.8%.⁹

⁸ It should be noted that if the productivity of the Greek economy had increased more in the period 2024/2008 and in the period 2024/2018, then it is very likely that the surplus of the current account would have been greater because the competitiveness of the Greek tourism product would have been even more improved, and the surplus of the balance of payments would have been (probably) even greater, because the Greek economy would have been even more attractive to foreign business and other capital. Therefore, the EI deficit could have been even greater, with higher, of course, growth of the Greek economy.

⁹ It should be noted that imports of goods were much higher in 2015, at €42.5 billion, compared to €24.8 billion for exports of goods. Subsequently, imports of goods increased at a higher rate than exports of goods, resulting in the aforementioned increase in the current account deficit.

4.2 Italy's trade balance and exports of goods

In the public debate on the trade balance and the economy of our country, comparisons are made with other Mediterranean countries, such as the evolution of Italy's trade balance, which – unlike Greece – has recorded significant surpluses since 2012, as well as the policies that may have contributed to this turnaround. The following points are usually emphasised:

- (i) Before the crisis, Italy had a trade deficit and a strongly negative net investment position for many years. From 2012 onwards, the trade deficit began to turn into a significant surplus and the negative investment position into a highly positive one.
- (ii) This major change was mainly due to the search for export opportunities, not by large capital- or technology-intensive companies, which in any case occupy a dominant position in the Italian and - some of them - in the global economy, but small and medium-sized manufacturing enterprises that developed mainly after the crisis.

In relation to these findings, the following conclusions can be drawn:

First, according to Table 4.1, Italy recorded significant surpluses in the trade balance not only after 2012, but also in the 2000s and before that. A trade deficit mainly occurred during the global economic crisis, particularly in 2010 and 2011, with the deficit not exceeding -1.2% of GDP. Overall, Italy has historically had a trade surplus, which has temporarily turned into a deficit for cyclical reasons. After 2012, the CB surplus strengthened significantly, fluctuating between 2.0% and 4.0% of GDP.

However, as shown in Table 4.2, contrary to popular belief, Italy has a current account surplus despite the fact that its exports of goods grew at a significantly lower rate than those of Greece in all the periods under review. As already mentioned, Greece's trade deficit is recorded despite the significant increase in exports of goods, which, as shown in Table 4.2, was much higher than Italy's in real terms. The widened current account deficit in Greece is due exclusively to the stronger increase in imports of goods (Tables 3.1. and 4.1.), which was financed by the significant expansion of the surpluses in the Services Balance (SB) and the Capital Account (CA), while the corresponding increase in Italy was much milder.

Secondly, the reason why Italy records a surplus in the Trade Balance is that, unlike Greece, the sum of the Other Balances of its External Balance of Payments is correspondingly in deficit. Specifically:

- (i). As shown in Table 4.1, Italy's Services Balance (SB) is in deficit, unlike Greece, where the SB is significantly in surplus. This deficit is recorded despite Italy's significant and increasing receipts from exports of services - especially in the tourism sector - as payments for imports of services from abroad are even higher and are growing at a faster rate, ultimately leading to an overall deficit in the SB.

Table 4.1. Italy: Trade Balance, Exports of Goods and the Balance of Services (current

	Exports of Goods (X)	Imports of Goods (M)	Trade Balance (TB)	GDP current prices	X/GDP	M/GDP	TB/GDP	Revenue from export of services (XS)	Payment for import of services (MS)	Balance of Services (BS)
2002	263.117	249.494	13.623	1.355.522	19,4%	18,4%	1,0%	66.447	69.848	-3.402
2003	259.337	250.066	9.271	1.399.386	18,5%	17,9%	0,7%	65.657	68.575	-2.918
2004	278.155	270.305	7.849	1.457.356	19,1%	18,5%	0,5%	70.545	69.835	710
2005	293.323	293.687	-364	1.499.073	19,6%	19,6%	0,0%	74.128	75.240	-1.112
2006	324.986	335.857	-10.872	1.559.864	20,8%	21,5%	-0,7%	81.407	83.286	-1.879
2007	356.952	354.844	2.108	1.621.715	22,0%	21,9%	0,1%	84.885	92.473	-7.588
2008	360.723	362.454	-1.731	1.643.719	21,9%	22,1%	-0,1%	78.853	89.101	-10.248
2009	284.022	283.234	788	1.584.107	17,9%	17,9%	0,0%	68.872	78.961	-10.089
2010	327.154	346.765	-19.611	1.617.945	20,2%	21,4%	-1,2%	76.016	85.930	-9.914
2011	361.023	376.503	-15.480	1.657.362	21,8%	22,7%	-0,9%	79.222	86.054	-6.832
2012	372.340	354.065	18.275	1.632.899	22,8%	21,7%	1,1%	84.630	85.174	-544
2013	372.686	335.293	37.392	1.621.261	23,0%	20,7%	2,3%	84.144	83.912	232
2014	382.353	334.135	48.218	1.635.871	23,4%	20,4%	2,9%	85.873	88.445	-2.572
2015	396.413	344.742	51.671	1.663.278	23,8%	20,7%	3,1%	88.334	92.560	-4.226
2016	399.727	341.947	57.780	1.704.857	23,4%	20,1%	3,4%	91.251	95.066	-3.815
2017	427.058	375.723	51.335	1.744.493	24,5%	21,5%	2,9%	98.731	103.020	-4.290
2018	443.772	398.598	45.175	1.777.744	25,0%	22,4%	2,5%	104.013	107.375	-3.362
2019	449.551	391.172	58.379	1.804.067	24,9%	21,7%	3,2%	108.806	109.355	-549
2020	404.869	338.345	66.524	1.670.012	24,2%	20,3%	4,0%	74.856	82.726	-7.870
2021	485.246	438.838	46.409	1.842.507	26,3%	23,8%	2,5%	89.093	97.892	-8.799
2022	578.325	604.551	-26.227	1.998.073	28,9%	30,3%	-1,3%	122.982	133.084	-10.103
2023	578.880	542.250	36.630	2.142.602	27,0%	25,3%	1,7%	135.283	138.574	-3.291
2024	574.005	518.888	55.117	2.199.619	26,1%	23,6%	2,5%	140.982	148.009	-7.026
CAGR 2024/2009	4,8%	4,1%	32,7%	2,2%				4,9%	4,3%	-2,4%
CAGR 2024/2013	4,0%	4,0%	3,6%	2,8%				4,8%	5,3%	-236,3%
CAGR 2024/2015	4,2%	4,6%	0,7%	3,2%				5,3%	5,4%	5,8%

Source: Eurostat

Table 4.2. Comparative growth of Exports and Imports of Goods in Greece and Italy

	Exports of Goods			Imports of Goods			
	CAGR 2024/2009	CAGR 2024/2013	CAGR 2024/2015	CAGR 2024/2009	CAGR 2024/2013	CAGR 2024/2015	
Greece	7,0%	5,8%	7,8%	Greece	3,4%	5,7%	7,9%
Italy	4,8%	4,0%	4,2%	Italy	4,1%	4,1%	4,7%

Source: ELSTAT, Eurostat

Table 4.3. Balance of Payments, Italy

	Trade Balance	Balance of Services	Goods and Services	Primary Income	Secondary Income	Capital Transfers	Current Account	Capital Account	Balancing Items	Other Balances 1	Other Balances 2	Δ in Reserves
2022	-26,2	-10,2	-36,4	18,6	-16,7	10,6	-23,9	21,4	16,0	39,7	49,9	13,6
2023	36,5	-4,6	31,9	-12,6	-16,4	16,9	19,8	-33,4	11,5	-38,6	-34,0	-2,0
2024	64,0	-7,0	57,0	-15,8	-16,4	-0,6	24,2	-45,4	26,8	-58,4	-51,4	5,6
2025	50,8	-4,8	46,0	-6,0	-20,6	1,3	20,7	-18,7	0,0	-48,8	-44,0	2,0

Source: IMF July 2025

- (ii). Furthermore, as shown in Table 4.3, with the exception of 2022, Italy also recorded deficits in the Primary Income Balance the Secondary Income Balance and the Capital Account (CA). In particular, with regard to the CA,

in contrast to Greece, capital outflows for investments and placements by Italian residents abroad far exceeded capital inflows from foreign residents for investments and placements in Italy, resulting in a consistently negative CA.

Therefore, Italy, in stark contrast to Greece, has a deficit in its balance of services and generally acts as a net exporter of capital, with a deficit in its capital account. These deficits are reflected in Italy's trade surplus, in exactly the same way that Greece's corresponding significant surpluses (in the Balance of Services and Capital Account) are reflected in our country's high trade deficit.

4.3 The structure of the external balance of payments and the structure of the economy

In general, the structure of the external balance of payments of a (small) euro area member country largely determines the structure of its economy. This phenomenon is particularly pronounced in countries with strong comparative advantages in specific sectors of production and in economies that attract significant net inflows of income and capital from abroad.

For example, approximately 70% of Saudi Arabia's exports are oil exports, while other exports, especially industrial exports, are extremely limited. This does not mean that Saudi Arabia is not seeking to further develop its industry, where technological progress and productivity are growing faster. However, it does mean that changing its productive structure cannot be achieved without abandoning its main comparative advantage, namely oil.

Similarly, Greece has a very important comparative advantage in tourism – to a much lesser extent than Saudi Arabia's oil – with the result that this sector is growing rapidly and contributing significantly to the particularly high surplus in the balance of services (BS) and, consequently, to the high deficit in the trade balance (TB).

The structure of the Greek BoP differs significantly from that of Italy for the following reasons:

- (1) The impact of tourism on the Greek economy is proportionally much greater than the corresponding impact on the Italian economy.
- (2) Greece has consistently recorded a significant surplus in its Capital Account (CA), making it a net recipient of capital from abroad, while Italy has been a net exporter of capital in most periods.
- (3) Throughout the post-war period, Greece also had significant net income receipts from international transport, due to the internationally dominant Greek-owned shipping industry and, in earlier decades, from the activity of millions of Greeks living and working abroad, as well as from the EU-27. The primary and secondary

income balances, which in recent years have been marginally in deficit due to the significant increase in interest payments, dividends and profits abroad, were previously in significant surplus.

Overall, Greece's Domestic Final Expenditure (DFE) is boosted both by the surplus in the current account – mainly due to revenues from inbound tourism – and by significant net inflows of income and capital from abroad, which exceed 10% per annum on average. In contrast, Italy's DFE is negatively affected by the current account deficit and is declining by at least -3.0% per annum due to net income and capital outflows.

This traditional structure of Italy's BoP favours and has contributed significantly to the development of sectors producing internationally tradable goods, particularly in the manufacturing industry.

In contrast, the corresponding traditional structure of the Greek BoP – which until 2009 was burdened by high surpluses in the current account due to extensive government borrowing from abroad to finance the general government's unrealistic deficits – favoured sectors producing non-tradable goods, i.e. those not exposed to international competition. This structure was burdensome for sectors producing internationally tradable goods, with the exception of tourism, where the country's significant comparative advantage offset the negative effects of macroeconomic policy.

Consequently, the difference in the productive structure of the Greek economy compared to the Italian economy is mainly due to the profound and long-standing difference in the structure of their respective external balances.

However, in the 2020s, following the fiscal adjustment of the 2010s, the structure of the Greek external balance of payments continues to differ from that of Italy, but now for reasons mainly related to Greece's stronger comparative advantages in tourism and the clearly better fiscal and economic prospects of the Greek economy, which contribute to the net inflow of business capital from abroad.

Greece's Capital Account surplus is no longer due - as was the case until 2009 to government borrowing to cover fiscal deficits, given that Greece has high General Government Primary Surpluses (GGPS), a surplus in the overall General Government Balance (GGB) and limited annual borrowing requirements. The surplus now mainly results from inflows of business capital.

Consequently, Greece's trade deficit (TD) is widening because surpluses in the services balance (SB) and capital account (CA) are increasing. In contrast, Italy has a surplus in its trade balance precisely because it has deficits in both its SB and CA. In any case, Greece's GDP growth rate after 2018 is higher than Italy's, despite the fact that Italy has a trade surplus.

With regard to the manufacturing industry in Greece, the following should be noted: this sector was significantly burdened until 2009, on the one hand due to the traditional structure of the Greek external balance of payments (BoP) and, on the other hand, due to the direction of macroeconomic policy, which reinforced, rather than mitigated, the adverse effects of the structure of the BoP on manufacturing activity and, more

generally, on the production of internationally tradable goods. In this particularly unfavourable macroeconomic environment, the efforts of successive governments to maintain the functioning of the manufacturing industry through uncontrolled subsidies, preferential policies, and even tariff interventions or import bans, led to a further deterioration in its international competitiveness.

Until 1990, both small and large manufacturing companies operated almost exclusively under a regime of strong protection. This protection was gradually reduced during the 1990s and eliminated with the introduction of the euro in 2000. However, instead of adjusting macroeconomic policy to strengthen the competitiveness of internationally tradable goods, the real effective exchange rate of the euro for Greece – based on unit labour costs (REERULC) – appreciated by 29.3% in the fourth quarter of 2009 compared to 2000.

Greece's macroeconomic policy became favourable to the manufacturing industry for the first time after 2013. The country's international competitiveness began to improve as early as 2012, and since then manufacturing output has been growing rapidly. However, the starting point in 2013 was extremely low, as many large, state-owned industrial companies had already exited the market.

As a result, even in 2024, after 11 consecutive years of growth, the size of the Greek manufacturing industry remains relatively small compared to that of Italy. Nevertheless, these figures are growing at a satisfactory rate, while the international competitiveness of Greek industry is strengthening and Greek exports of goods are rising significantly.

In Greece, the Goods and Services deficit in 2024 and 2025 is due exclusively to the large deficit in the Private Sector Balance (PSB), since the General Government Balance (GGB) was in surplus at 1.23% of GDP in 2024 and is estimated to also be in surplus at 1.4% of GDP in 2025.

This large deficit in the Private Sector Balance in Greece, estimated at -7.63% of GDP in 2024¹⁰, is mainly financed by the increased surplus in the Capital Account (CA). This surplus contributes to a large increase in purchasing power in the domestic economy, which is used both to finance growing investment and to finance increases in income. In particular, the increase in profits also results from an increase in product prices and profit margins by companies, given that consumption and imports are increasing even at significantly higher prices for many consumer (non-internationally tradable) products. To the extent that increased purchasing power is directed towards internationally tradable goods, it increases imports and limits export growth, creating a deficit in the Goods and Services and the Current Accounts.

As analysed above, the surplus in the Capital Account arose because Greece is currently very attractive to net capital inflows from foreign residents for direct investment, portfolio investment () (in Greek stocks and bonds) and for bank capital, which in recent years have been at much higher levels than the investments (capital

¹⁰ Current account deficit -6.4% of GDP, general government surplus (GGS) +1.23% of GDP.

outflows) of domestic residents abroad. Thus, in 2024, net inflows of €4.33 billion were recorded for direct investments, €7.53 billion for portfolio investments and €0.91 billion for bank funds.

Therefore, to the extent that net capital inflows from abroad in the current period contribute to the growth of investment and the development of the Greek economy, the resulting deficit in the ITC and the EIA&Y should not be considered a problem for the Greek economy.

What is undesirable, is the contribution of increased purchasing power due to net capital inflows from abroad to excessive increases in domestic incomes and the continuation of explosive growth in consumption and imports of goods and services.

In fact, Greece should seek to harmonise with the EU-20 countries by aiming for surpluses in FDI&Y, effectively limiting the explosive growth (until 2024) of FDI&Y imports (which were slightly reduced for the first time in 2025). To achieve this goal, primary surpluses in the general government should be maintained at adequate levels and incentives for inflows of non-developmental capital from abroad should be avoided, especially when they are directed towards financing non-investment activities.



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