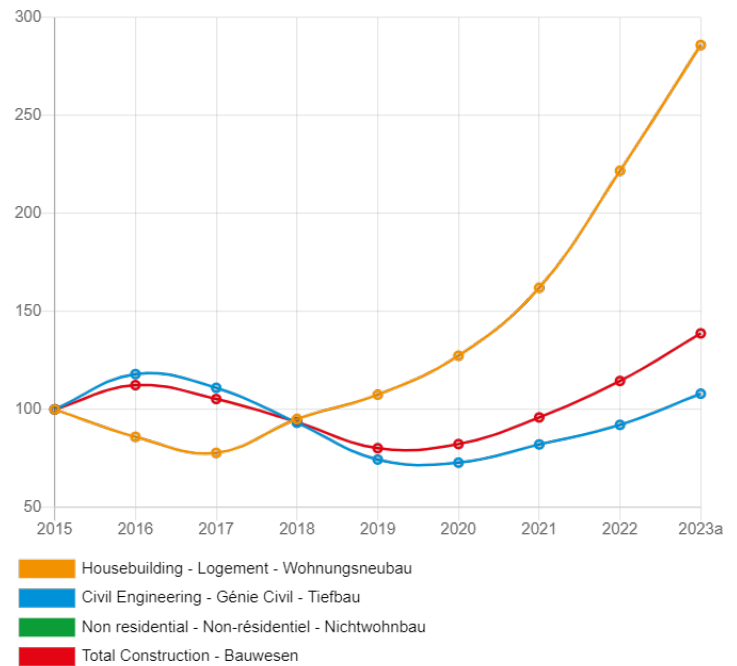


GDP 2023
€ 220
BILLION

POPULATION 2023
9,036,996

Total investment in construction in 2023
€ 12
BILLION

Investment in construction



Overall construction activity

The Greek economy continued to grow satisfactorily, but slowly, in 2023. Headline inflation has slowed significantly, mainly due to the continued decline in energy commodity prices. According to the Bank of Greece's current forecasts, the Greek economy is expected to grow by 2.4% in 2023, rising slightly to 2.5% in 2024 and 2025, and declining slightly to 2.3% in 2026. Thus, the Greek economy is expected to continue to grow faster than the European Union. The main drivers of the economy in the coming years will remain private consumption, investment and exports. Monetary policy is expected to continue to have a contractionary effect on economic activity, while investment will make a positive contribution to growth thanks to the resources of the Recovery and Resilience Facility.

The construction industry has come out of the maintenance phase and is on the upswing, with the expectation that the sector will be stronger, more productive, more profitable and able to support its financing needs once the package of "ongoing" projects and the resources of the Recovery Fund are completed. From now on, a "new" construction sector is taking shape, a new "player" in the Greek economy, healthier, able to find cheap bank financing in the future, on this transitional path. However, challenges remain and it is up to companies to take advantage of the prevailing conditions.

After a decade of low activity and disinvestment, the production value of the construction sector has strengthened significantly, with a parallel improvement in operating profitability and the sector's contribution to the Greek economy. The total production value of the construction sector is estimated to reach €12.8 billion in 2023, a level 84% higher than in 2017. The gross value added (GVA) of the sector was estimated at 3.4 billion euros in 2022, and its contribution to the total gross value added of the Greek economy at 1.9%.

The operating surplus and gross income of the construction sector followed a steady recovery path after 2017, reaching 1.5 billion euros in 2022 (14.1% of the total production value), a percentage that is still well below the values of the 2000s (an average of 25% of the total production value). The public works construction market has also been particularly strengthened in the last two years, with an increase in both the number of auctions and the total budget of public works, as well as a de-escalation of the average discount rate, partly due to the significant increase in construction costs. An average of 699 projects with a budget of more than €1 million will be auctioned per year in the three-year period 2018-2020. In the following years, the number of tenders increased significantly, reaching 1,218 projects in 2023. The total budget of projects tendered increased in the two years 2021/2022, reaching €6.9 billion in 2023, a level more than double the average for the period 2018-2020 (€2.9 billion).

The average discount rate on initial budgets in public works tenders gradually decreased from 57% in 2018 to around 45% in 2021. However, a sharp decline was observed in 2022 and 2023, when the average discount rate fell further to 30.1% and 22.6% respectively, due to the significant increase in construction costs, but also to the increase in the number of projects put out to tender. The backlog of public and private projects of the country's main construction groups is at historically high levels, reflecting the improvement in the performance and conditions of the Greek economy, the size of European funding, but also the large investment backlog of the previous decade. In particular, the outstanding balance of the largest companies in the sector amounted to €15.35 billion in 2023 (data up to the ninth month of the year), a significant increase of 63% compared to the previous year and almost three times higher than the average for the period 2018-2020.

However, Greece has the lowest share of construction investments in GDP among the EU countries. Construction investments accounted for 4.8% of GDP in 2022, compared with 14.7% in 2007, while the gap with the EU27 average for 2022 is more than 6 percentage points. Permits for new buildings and extensions reached 27.2 thousand in 2023, with a total surface area of 6.2 million square metres, with an upward trend after 2017. The total budget for

tendered projects increases significantly after 2021 (€4.39 billion), reaching €6.91 billion in 2023. The average discount rate in auctioned projects has decreased significantly to 22.6%, compared to 57.2% in 2018. The production value of the construction sector is estimated to reach 12.8 billion euros in 2023, a level 84% higher than in 2017. The outstanding balance of the largest companies in the sector will amount to 15.35 billion euros in 2023 (data up to the ninth month of the year), a significant increase of 63% compared to the previous year and almost three times higher than the average for the period 2018-2020. Based on the analysis of the actions of the National Recovery and Resilience Plan (NRRP), it is estimated that grants of 9.9 billion euros will be directed to projects directly related to construction, mobilising total resources of 12.8 billion euros. The construction projects supported by grants from the Recovery and Resilience Fund (RRF) mainly concern the Green Transition Pillars (€6.3 billion) and Private Investment (€2.7 billion).

Overall, the turnover of the sector is estimated to increase significantly over the forecast period, reaching EUR 21.4 billion in 2026. The expected increase in turnover of machinery and equipment companies will also boost their bank lending. It is estimated that total net bank lending to companies in the sector could increase by 972 million to 1.77 billion euros between 2023 and 2026.

For projects directly related to construction, a total of 23.9 billion euros will be mobilised in the period 2022-2026 (12.8 billion euros from grants and 11.1 billion euros from loans). As a result, investment in construction is estimated to increase significantly as a share of GDP over the period 2023-2026. In the medium term, additional investment in infrastructure and housing is estimated to average up to 3.0% of GDP per year (compared to 2022) - with the share of investment in construction projects reaching up to 8.6% of GDP in 2025, from 4.8% in 2022. It is also estimated that the output value of infrastructure and residential construction projects will follow a strong upward trend over the period 2024-2026, exceeding EUR 18 billion in 2025 from EUR 10.3 billion in 2022.

Due to the strong impact of ESEA investments, the overall increase will largely come from non-residential infrastructure and construction investments. The financing of the construction sector by domestic monetary financial institutions does not show a significant change in 2020 and 2021, with new loans amounting to €273 million and €289 million respectively. In 2022 there was a strong increase, when new loans reached 602 million euro. However, in 2023, despite a further increase in construction activity, the financing of construction falls to 280 million euro. The significant increase in the cost of borrowing in 2023 was one of the factors potentially affecting the flow of funds. Over the period 2020-2023, small and medium-sized enterprises in the sector received an average of 72% of new loans, with large firms receiving the remaining 28%.

The prospect of a further increase in construction projects in the coming years creates additional financing needs, including guarantees for the participation and good execution of projects. The need for additional financing and liquidity is exacerbated by late payments by construction companies, including the public works sector. The financing difficulties and the financing gap can be limited by the use of various financing instruments (e.g. guarantee funds, interest subsidies, etc.), so that public and private investment in construction projects can be implemented smoothly in the coming years.

In 2021-2027 NSRF funding resources planned to be directed to the Environment - Climate Change (greener Europe) and Transport (more interconnected Europe) sectors, in which the construction sector is heavily involved in the implementation of the relevant projects, are estimated to 9.14 billion euros. Compared to the previous programming period of the NSRF 2014-2020, the total financing resources in the specific sectors do not lag behind in budget terms, as the payments (public support) of the previous period approached 9 billion euros (in projects with a total contractual scope of 13.8 billion euros). Therefore, the impact on the activity of the Construction sector, which is linked to the NSRF projects, is not expected to differ significantly compared to the previous programming period. Total bank lending to businesses in the sector in the period 2023-2026 could increase by 972 million to 1.77 billion euros.

The prospect of further development of construction projects in the coming years requires a reduction in payment delays of construction companies.

The labour market continued to grow in 2023, but at a slower pace. Total employment increased by 1.3% and the unemployment rate fell to 11.3%, 1.3% lower than in the same period of 2022. According to the Labour Force Survey, the seasonally adjusted unemployment rate fell to 9.6% in October 2023 from 11.8% in the corresponding month of 2022. According to the balance of flows of salaried employment of the ERGANI information system, salaried employment has returned to pre-pandemic levels, but the employment outlook, while still positive, has weakened in the third quarter of the year compared to the high levels of the second quarter. However, the labour market remains tighter than in the recent past, with firms finding it difficult to recruit staff in line with their needs, despite a significant increase in wages in 2023.

The prospect of strong growth in domestic construction activity will create additional demand for workers of various specialisations. The total number of employees in the construction sector is expected to increase to around 250 thousand in 2024-2026, a level that is 51 to 55 thousand employees higher than the total employment in the construction sector in 2022 (197 thousand employees).

Housebuilding

The Greek real estate market will continue to attract investor interest in 2023, resulting in a further increase in real estate prices, especially for high-end properties, for which the increased demand, both from abroad and domestically, is not met by the current limited supply. However, some leading indicators of the domestic real estate market, as well as price developments at the European and international level, may point to milder growth rates of real estate prices in the coming trimesters, especially for properties with lower demand. Private construction activity is estimated to increase by 56% compared to the level recorded in 2022.

Prices of construction materials

It is necessary to ensure the systematic operation of the mechanism for determining price revision factors covering the whole range of individual cost elements in order to limit the uncertainty for participants in public construction tenders and the related problems that may arise during the implementation of projects. The development, operation and management of the Unified System of Technical Specifications and Pricing for Technical Projects and Studies and the Electronic System for Determining Production Cost Factors for Technical Projects will contribute to this.

Greece - According to EUROSTAT, the construction cost index was 117.20 points in December 2023. Trading Economics provides the current value, a historical data chart and related indicators for Greece - Construction Cost Index - last updated by EUROSTAT on April 2024. Historically, the Greece - Construction Cost Index reached a record high of 117.20 points in December 2023 and a record low of 76.20 points in March 2000.

According to the HELLENIC STATISTICAL AUTHORITY, the twelve-month average index, from January 2023 to December 2023, compared with the

corresponding index from

January 2022 to December 2022, increased by 6.2%. In the corresponding previous twelve-month periods, the average index had risen by 8.8%

	2020	2021	2022	2023^(a)
Single dwelling	11,559	15,573	14,880	15,789
Total	11,559	15,573	14,880	15,789

(a) estimation

*Investment
Mln. €
fixed prices*

Variation of investment on previous year (%)

	2023^(a)	2019	2020	2021	2023^(a)
1.1. Housebuilding	4,012	18.5	27.2	36.8	28.9
2. Civil Engineering	7,246	-2.2	12.7	12.2	17.3
(1 + 2) Total Construction	11,258	2.6	16.6	19.4	21.2

(a) estimation