

# THE ISPD EASTMED GEOSTRATEGIC OUTLOOK SERIES

## Key Challenges and Opportunities for Greece and the 2023 Achilles' Heel

Analysis Paper, No.1  
March 2023



**INSTITUTE of STUDIES**  
*for POLITICS and DEMOCRACY*



# Key Challenges and Opportunities for Greece and the 2023 Achilles' Heel

Analysis Paper, No.1  
March 2023

Copyright © 2023 | All Rights Reserved

INSTITUTE OF STUDIES FOR POLITICS AND DEMOCRACY

Address: Andrea Zakou 2, Office 301, 2404 Engomi, Nicosia, Cyprus.

📞 Telephone: +357 22 664470

✉ Email: [info@ispd.org.cy](mailto:info@ispd.org.cy)

🌐 Website: [ispd.org.cy](http://ispd.org.cy)

The Institute promotes free and open public dialogue based on rationality and scientific documentation. The views expressed in Institute's publications are solely those of the author(s) and do not necessarily reflect the views of the Institute.

Cover picture : *The Revithoussa LNG Terminal*  
Source: DESFA

# THE ISPD EASTMED GEOSTRATEGIC OUTLOOK SERIES

Author



*Dr. Constantinos Filis  
Senior Research Fellow ,ISPD*

*Dr. Constantinos Filis is Associate Professor of the American College of Greece and among else Director of the Institute of International Affairs in Greece and Director of the International Olympic Truce Center.*



# Key Challenges and Opportunities for Greece and the 2023 Achilles' Heel

In 2022, the Russian invasion of Ukraine, Turkey's hostile and inflammatory rhetoric, the ongoing geopolitical competition in the Indo-Pacific between the USA and the People's Republic of China, and the inability to revive the JCPOA were some of the main events that disrupted geopolitical stability and security in the Eastern Mediterranean, Europe and around the globe. Despite these regional and global challenges, Greece managed to navigate the murky and tumultuous international landscape with a great measure of success, maintaining its post-pandemic economic recovery and strengthening its geopolitical role in the region.

## Economy: Significant achievements in 2022 have laid strong foundations for more progress this year

In a year of great economic uncertainty caused by the ongoing energy crisis and war, Greece continued its dynamic recovery and the long return path to pre-eurozone-crisis levels of economic activity and size. During the first half of 2022, the Greek economy presented a better-than-expected outturn. Specifically, in the first half of the year Greece's growth rate reached 7.8%, compared to the same period of the previous year. Growth was largely driven by increased domestic consumption, exports of goods, foreign direct investment, and a record-breaking tourist season. According to the most recent data, in 2022 the Greek economy grew by about 6%, reaching a GDP of 224bn euros. Moreover, the Greek public debt-to-GDP ratio decreased to 171.1% from 194.5% in 2021, and it is expected to further decrease in 2023 to 159.4%, which amounts to a 50% reduction from 2020. According to European Commission data, the decrease in Greece's debt-to-GDP ratio is the largest such decrease among EU member states in 2022. It is worth mentioning that the Greek Credit Rating has been upgraded 11 times during the past three years by all rating agencies, a development that further highlights how far the country has come since the eurozone crisis.

As mentioned above, the Greek tourism sector had a record-breaking year, exceeding all expectations, as more than 26.4 million tourists visited Greece during the first ten months of 2022. The overperforming tourism sector was a major catalyst in Greece's economic performance in 2022. Moreover, the increased state revenue that resulted from this profitable and successful tourist season enabled the Greek Government to execute a generous relief program to help its citizens weather the effects of inflation and soaring energy prices.

**"Despite significant regional and global challenges, Greece managed to navigate the murky and tumultuous international landscape with a great measure of success..."**



However, it is unlikely that the tourism sector will turn in a similar performance in 2023. The record-breaking performance of the tourist sector in Greece and elsewhere can be attributed to the relaxation of covid measures and to the desire of the global population to return to pre-COVID normalcy. Moreover, inflation, war and economic uncertainty might damage the prospects of the tourism sector on a global scale in 2023. Greek exports also increased, despite the global challenges. In the first half of the year, exports of goods totaled 26bn euros, whereas the same figure in 2021 was 18.6bn euros. In addition, total exports in 2021 reached 40bn euros. Data presented by the Hellenic Statistical Authority (ELSTAT) revealed that exports increased by 60% and reached 5.4bn euros in June alone.

Another driver for the growth levels of the Greek economy in 2022 was the increased volume of foreign direct investments. According to the OECD, in 2021, Greek FDI stood at 6.3bn euros and registered a 97% increase from the year 2020, in which FDI was at its lowest point due to the COVID-19 pandemic restrictions. FDI in the first half of 2022 was 4.8bn euros, 75% of the total value of FDI in the previous year. The sectors attracting the most foreign investments were real estate, tourism, energy (natural gas and RES), communication technologies, health services, medicines, and agrifood. FDI flows to Greece mainly originate from the USA, the Middle East, Germany, France, China, Italy, Russia, the UK, Canada, the Netherlands, Spain, Israel, and Luxembourg.

During the same year, several tech companies showed great interest in investing in Greece. Google expressed its interest in constructing a cloud hub near Athens, Microsoft is planning to construct three data centers near Athens, Cisco aims to create an international center for the development of innovation and digital skills in Thessaloniki, and Pfizer is building a network of research hubs focused on artificial intelligence. The investment environment in the country has improved despite the global challenges. In terms of improving the business environment, according to the Economist Intelligence Unit, Greece came first among 82 countries, climbing 16 places between Q4 2019 and Q4 2022.

During the first couple of months following the Russian invasion of Ukraine, inflation skyrocketed in the EU and in Greece. In June 2022, inflation reached 12.1%. Since then, however, inflation has gradually decreased but remained high at 11.6%. In October 2022 inflation in Greece slowed to 9.4%, and in November 2022 it fell further, to 9%. According to EUROSTAT, inflation in Greece remained below the eurozone average of 10.6% in October 2022 and 10% in November. According to the European Commission's data, inflation in Greece in 2022 stands at 10%. Thus, it is evident that the country has suffered from high inflation during the year. Nevertheless, inflation rates showed a downward trend during the last months of the year, but with energy and consumer-goods prices remaining high.

"Some of the key highlights in this process are the efforts towards digitalization of the public sector and the opening up of a large number of economic sectors to make the country more attractive to foreign investors."

**"...several tech companies like Google and Microsoft showed interest in investing in Greece."**



The unemployment rate continued to fall. According to a relevant survey carried out by ELSTAT, during the third quarter of the year, unemployment stood at 11.6%. According to the European Commission, the annual unemployment percentage for 2022 is 12.6%, which is a slight drop in comparison to 14.7% in 2021, but still the second-highest unemployment rate in the Eurozone. Despite significant efforts to raise the minimum wage over the past 3 years, wage levels in the private sector have not scaled adequately. Over the past decade, Greece has adopted numerous structural reforms that have had a positive impact on its recovery process over the years. Some of the key highlights in this process are the efforts towards digitalization of the public sector and the opening up of a large number of economic sectors to make the country more attractive to foreign investors. However, several remaining structural issues have the potential to negatively impact economic growth in the years to come. The most prominent of these is bureaucracy and delays in judicial rulings.

## Political Environment: Risks in view of forthcoming elections

Among fears of a new global recession, uncertainty over the future of the war in Ukraine, and the ongoing energy crisis, the outlook for the Greek economy in 2023 remains brighter in comparison to the other EU member states, as Greece is projected to have 1.3% economic growth next year, while the rest of Europe is currently expected to average a growth rate of 0.3%.

However, the future of the Greek economy is not set in stone, as 2023 holds many challenges and opportunities for Greece. One of the biggest challenges to and possibilities for disruption of Greece's growth potential is the upcoming parliamentary elections, as the incumbent Parliament's term ends this summer. The increasing polarization of political discourse in recent years, a phenomenon that is now commonplace in most western democracies, has intensified between the political parties during the past months as the timeframe for the elections draws closer. The polarization, the rising cost of living, global conflict, food and energy prices,[1] and wiretapping scandals are creating an explosive and unpredictable political environment in the run-up to the elections. Moreover, the high political tensions and differences between the political parties, alongside the current simple proportional electoral system, greatly diminish the possibility of a single-party or coalition government emerging after the elections.

A second electoral battle is all but certain to take place and will be held under a different, scaling-increased proportional electoral system.[2] However, it remains uncertain whether the incumbent New Democracy government or the Syriza party will be able to reach the approximately 38-39 % threshold (depending on the number of parties that will enter Parliament) to form a single-party government or whether either of them will be able to cooperate with any of the other smaller parties to form a majority.

---

[1] Under control most probably till next winter.

[2] The party with the highest percentage of votes will receive a scaling bonus dependent on its votes percentage. For example, if the first party gains 20% of the popular vote, it will be given a bonus of 20 parliament seats. This bonus will be increased by 1 additional seat per 0.5% of the vote, reaching a maximum of 50 seats if the first party garners 40% of the popular vote. The rest of the parliamentary seats (minus the bonus ones) are divided between the parties on a proportional basis.

[3] There is always the chance that a minority government could be formed with the tolerance of one or more smaller parties that could support government legislative proposals ad hoc. Also, it can't be ruled out that a majority government will be formed in the first round, but it is the less probable scenario.



In such a scenario, Greece could hold a third or potentially more parliamentary elections, until a party or a coalition can obtain a vote of confidence in Parliament. [3] While it is expected that whichever party or coalition wins the elections will not significantly alter the economic policies and strategies of the country, a prolonged period of governmental instability and political uncertainty amid the ongoing global crises will have a negative effect on the country's economic outlook and the recovery process.

## Turkey: Earthquakes change political climate

Greece's relations with Turkey are another major challenge in 2023. In recent years, Turkey has adopted increasingly hostile rhetoric and actions against Greece and other neighboring countries, gradually transforming itself into a regional spoiler and potentially rogue state in the Eastern Mediterranean and beyond. Its unsubstantiated territorial claims in the Aegean, its violations of Greek National Airspace, and its threats of war have led to increased tensions with Greece and a new arms race in the region. In 2022, Turkish fighter jets and drones violated Greek Airspace 11,256 times, conducted overflights above Greek sovereign land on 234 occasions, deployed armed fighters on 282 occasions, and engaged in 333 aerial dogfights with Greek fighter jets. Throughout 2022, President Erdogan, Foreign Minister Melvut Cavusoglu, Minister of Defence Hulusi Akar, and several other prominent members of the Turkish Government have levelled threats of military action and war against Greece on several occasions.

Even though these threats were to a degree intended for domestic audiences – to shore up support and nationalistic sentiment to boost Erdogan's failing popularity in the build-up to the Turkish general national elections on May 14[1] – Turkey's aggressive and revisionist agenda for the region cannot be underestimated.

*Aid material, provided by the Greek Ministry of Civil Protection, is loaded on a plane, following the deadly earthquake in Turkey, at the Eleftherios Venizelos International Airport of Athens, Greece, February 9, 2023. REUTERS/Stelios Misinas*



---

[4] The elections were scheduled for June 18, but President Erdogan announced in January 2023, that the elections will be held on May 14. However, following the catastrophic Kahramanmaraş earthquake that hit Turkey and Syria on February 6, 2023, President Erdogan might choose to reschedule the elections once more so that he can handle the political aftermath of the natural disaster.



Ankara's implicit alignment with Moscow, its stance on the war in Ukraine, its spoiling actions in Nagorno-Karabakh, Libya, and Syria, its illegal occupation of Northern Cyprus, and its attitude within NATO highlight Turkey's newfound strategic orientation that slowly detaches it from the West in favor of a more independent foreign policy and alignment with Russia and other revisionist states.

At the beginning of 2023, given Turkey's overall stance and its increasingly hostile attitude towards Greece, for the first time in over a decade, a hot incident between the two states seemed likely, although less likely than a non-conflict. The probability however increased further, considering that 2023 will likely be a difficult and unpredictable election year for both countries. Still, the catastrophic 7.8- and 7.5-Richter earthquakes that struck Southern Turkey and Northern Syria seem to have significantly minimize the likelihood of an incident between the two states, at least for the time being. The so-called "earthquake diplomacy" seems to have borne fruit, as the Greek Government's decision to send search and rescue teams to the disaster-stricken areas and the provision of humanitarian aid has sparked a wave of amicable feelings and gratitude between the Turkish and Greek people. Such a development has drastically lessened the ability of the Turkish Government to raise support for and justify potential hostile actions against Greece in the near future.

**"An initiative might take place after elections to stabilize relations between Greece and Turkey"**

Following the newfound positive momentum in the relations between the Greek and Turkish peoples, there is a possibility that, after the general elections in both Greece and Turkey are held and once new governments have been formed, there will be an opportunity for one of the major stakeholders in the region of the Eastern Mediterranean, either the US or the EU, to take an initiative (i.e. by hosting a regional summit) aimed not necessarily at resolving the longstanding issues in the region but to stabilize it. Once tensions de-escalate and common ground is found, the pathway for viable and sustainable exploitation of the natural resources of the Southeastern Mediterranean could be established. Worth-mentioning here that trust must re-emerge not only between Greece and Turkey but between the latter, Israel and Egypt and at the same time not let developments in Cyprus damage this endeavor.

## **Energy: Great potential for Greece as an energy hub**

In a similar fashion to 2022, energy security may have the role of challenge and opportunity for Greece in 2023. In 2022, the COVID lockdown in China and the mild winter proved to be great allies for all European countries, since energy demands for heating remained extremely low, thus limiting to a great extent the impact of sanctions against Russia's energy sector and the energy crisis for European households.

**"In 2022, Greece managed to utilize its diversification capabilities not only to limit the impact of energy de-coupling from Russia, but also to act as a guarantor of the energy security of its neighbors."**



European states still have a long way to go before they can safely and viably declare that they have transitioned away from dependence on Russian hydrocarbons.

The loosening of COVID restrictions in China is bound to increase the demand for energy resources in a market where the European nations have decided to boycott one of the biggest suppliers. Moreover, the winter of 2023 might not be as mild as the winter of 2022, so Europe will need to rely on something more than luck for its energy security. At the outbreak of the war in Ukraine, Greece was highly dependent on Russian energy, as it imported 26% of its oil needs and 39% of its natural gas needs from Moscow. This posed a minor -compared with the past- risk to the energy efficiency of the country and to the sustainability of the Greek economy. The Greek government swiftly prioritized the diversification of energy sources and the immediate reduction of energy dependency on Russia. Greece is one of the select few countries to have immense potential in the production of energy from RES; however, reaching energy autonomy requires a long-term plan that will take years to implement, including through construction of the necessary infrastructure. In 2022, Greece managed to utilize its diversification capabilities not only to limit the impact of energy de-coupling from Russia, but also to act as a guarantor of the energy security of its neighbors.

The Revithoussa LNG terminal and its floating storage facilities ensured that Greece was able to secure a stable supply of natural gas and finally take the first step in the process of achieving its long-term goal of becoming an energy transition hub. 2023 has the potential to be another year in which Greece has the opportunity to achieve further progress toward that goal.



*The Revithoussa  
LNG Terminal  
Source: DESFA*

Source DESFA

Revithoussa LNG terminal



In October 2022, the Bulgaria-Greece gas interconnector pipeline became operational, while plans for the Vertical Corridor between Greece, Bulgaria, Romania, and Hungary, and several electricity interconnectors are moving forward in 2023. Work on the EuroAsia Interconnector, by far the region's largest project, is continuing, while the Greece-Egypt interconnector project is progressing. Furthermore, Greece's Independent Transmission Operator announced plans to build and/or upgrade several new interconnectors between Greece and its neighbors. IPTO's new preliminary ten-year development plan, which aims to double Greece's transmission system by 2030, features the construction of additional interconnectors with Italy, Bulgaria, Turkey, and Albania, as well as the upgrade of its current connection with North Macedonia.

Greece's role as an energy transit hub and the Revithousa LNG terminal could see their importance increase as the natural gas of the Eastern Mediterranean becomes more likely to be exported in LNG form. Revithousa could become the terminal that is used to supply Eastern Mediterranean natural gas to Europe. It is worth mentioning that in 2022, Greece exported 2,5bcm of natural gas, in comparison to 0.7bcm in 2021, with the potential to export up to 20bcm in the next two years.

Moreover, 2023 could be an important year for Greece's role as an energy producer. Greece has already increased its efforts to accelerate its transition to green energy, with several solar panel and wind farm projects being in development, along with projects to increase the electricity network's storage capacity. However, renewable energy sources are not the only developments leading Greece's bid to become a formidable energy producer. In 2023, Greece is planning to launch exploration surveys of several potential natural gas deposits that could contain more than 600bcm of viably exploitable natural gas in regions such as Ioannina, the Ionian Sea, west and southwest of Crete, and the Gulf of Kyparissia.

## Conclusion

Global geopolitical instability and economic uncertainty, coupled with inflationary pressures and the energy crisis, are expected to continue being the key factors shaping the international environment in 2023. Greece appears to be well prepared to handle the looming global economic and geopolitical troubles, as the probability of an incident with Turkey has practically extinguished. However, the potential for several rounds of elections, paired with polarization, and uncertainty, could prove to be the Achilles' heel of the country's so-far successful recovery process.

**"However, the potential for several rounds of elections, paired with polarization, and uncertainty, could prove to be the Achilles' heel of the country's so-far successful recovery process."**