SEPTEMBER 2021

GREECE

ECONOMIC & FINANCIAL OUTLOOK

ECONOMIC RESEARCH DIVISION

ALPHA BANK

Growth expectations revised upwards due to stronger than expected recovery in Q2 and optimism around tourism in Q3

Despite an extension of measures to restrict community mobility in 2021 and the rapid spread of the Delta variant, a stronger than expected annual growth in economic activity was registered in the second quarter of the current year. According to the latest data published by ELSTAT, in Q2 2021, real GDP expanded by 16.2% y-o-y (*Graph 1*), underpinned by private and public consumption as well as investment, while on a quarterly read it continued to recover by 3.4% for the fourth consecutive quarter (Q3 20: 3.9% q-o-q; Q4 20: 3.5% q-o-q; Q1 21: 4.5% q-o-q).

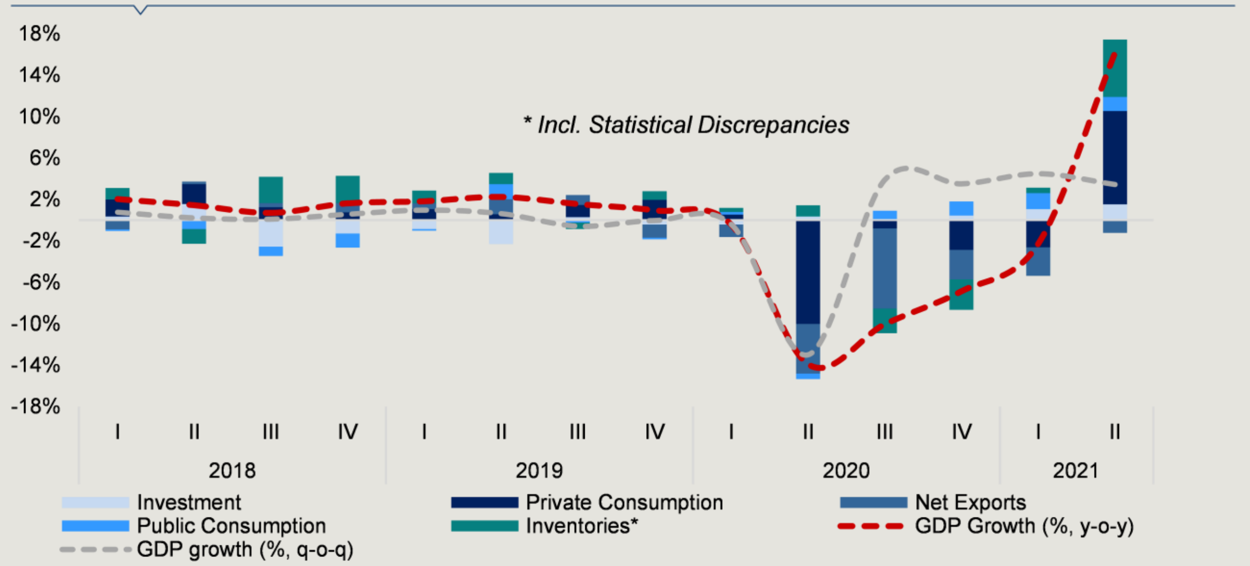
More specifically, private consumption growth skyrocketed to 13.2% y-o-y, contributing 9.0 pps to the overall increase in real GDP, fueled by the accumulated savings during the pandemic and leading to a realisation of purchases deferred from 2020. Public consumption rose by 6.1% y-o-y on the back of the fiscal handouts provided by the Greek government, contributing 1.4 pps. Gross fixed capital formation rose by 12.9% y-o-y, contributing 1.5 pps to the real GDP change, with inventories increase (including statistical discrepancies) contributing 5.5 pps. Finally, net exports contributed -1.2 pps to real GDP growth. It is worth noting that total exports increased by 22.6% y-o-y, with exports of goods rising by 17.1% and exports of services by 28.8%, while imports – that account for a larger share of GDP compared to exports – also increased by 22.5%.

Domestic economic activity is expected to bounce back, re-entering a strong recovery phase from 2021 onwards. This is marked by a strong investment injection that is expected to take place as the funds from Next Generation EU become available, narrowing the investment gap accumulated during the previous decade. Despite uncertainty concerning the Delta variant and the further extension of voluntary social distancing due to fear of contagion, growth expectations for 2021 have been revised upwards.

The upward revision of the 2021 growth projections is attributed to:

GRAPH 1

Demand-side component analysis of real GDP (annual % change)



Sources: ELSTAT, Alpha Bank ERD calculations

i. the weaker than expected recession in Q1 2021, with real GDP falling by 2.3% on an annual basis but increasing by 4.5% at a quarterly pace (for the third consecutive quarter), underpinned by the strong fiscal support engineered by the Greek government and remaining in place in 2021 - reaching EUR 24 billion in 2020 and EUR 16.6 billion in 2021 - and the gradual weakening of restrictions on community mobility (*Graph 3*).

ii. the higher than expected rebound in Q2 2021, with real GDP growing by 16.2% on an annual basis and by 3.4% on a quarterly read, supported by strong growth in private consumption, as accumulated savings during the pandemic are expected to lead to a realisation of purchases deferred from 2020.

iii. the optimism for a faster-than-expected recovery of tourism during the summer of 2021, with international tourist arrivals at Athens International Airport (AIA) in August reaching around 70% of the 2019 levels (2.1 million in 2021 vs 3 million in 2019).

Real GDP is projected to recover sharply in 2021 and could reach around 7%, supported by an excess of private and public consumption, stemming from the sharp increase in savings in 2020 and fiscal stimulus to cushion the pandemic shock. In 2022, real GDP is expected to continue growing at a relatively high pace, supported by the funding from the NGEU, which, combined with the adoption of key horizontal structural reforms (e.g., speeding up the administration of justice and conflict resolution processes and a stable tax regime), may prove a solid ground for a strong upside, causing a virtuous circle of fresh investment and sustainable growth rates.

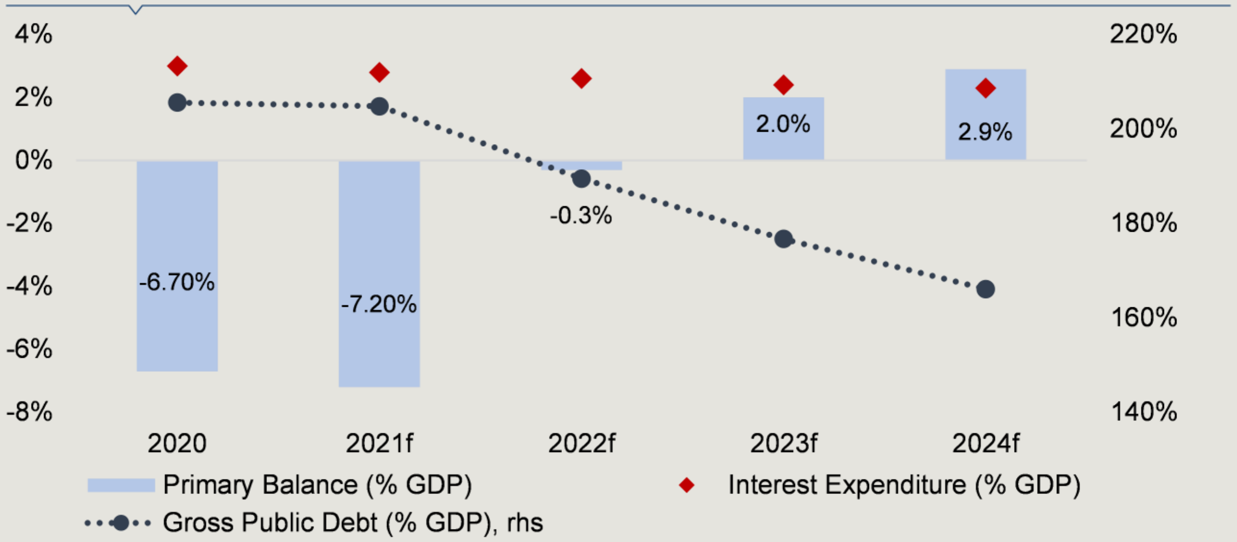
Risks are skewed to the upside in the long run, mainly due to the Recovery and Resilience Facility (RRF) funding. The National Recovery Plan, combined with a structural reform agenda aiming to improve fundamentals, strengthen infrastructure and address institutional weaknesses, is expected to provide a unique opportunity for revitalizing the Greek economy and transforming its productive model towards an investment-driven growth pattern with sustainable growth rates.

In the short run, downside risks are related to the “Delta” variant and the rapid spread of the 4th wave of the pandemic within the autumn. However, as *Graph 3* shows, it seems that the degree of the co-movement between the stringency index of the lockdowns and community immobility (reversed Google mobility index) is weakening from the second lockdown in November 2020 onwards, signifying that the imposition of a new lockdown during autumn 2021 would probably have a smaller adverse effect on mobility and, thus, a milder impact on economic activity. This development could be attributed to the better adaptation of businesses and consumers to digital technologies and electronic sales tools as well as to the social distancing measures and the progress of the vaccination programme that is reducing the fear of infection.

Inflationary pressures reflected in the increase in transportation costs and prices of imported intermediate goods, if not transitory, may push upwards the production costs, hampering growth dynamics.

GRAPH 2

Strong fiscal impetus engineered by the Greek government in 2020-2021; public debt is expected to return to a downward traqjectory



Source: Ministry of Finance, Stability Programme 2021

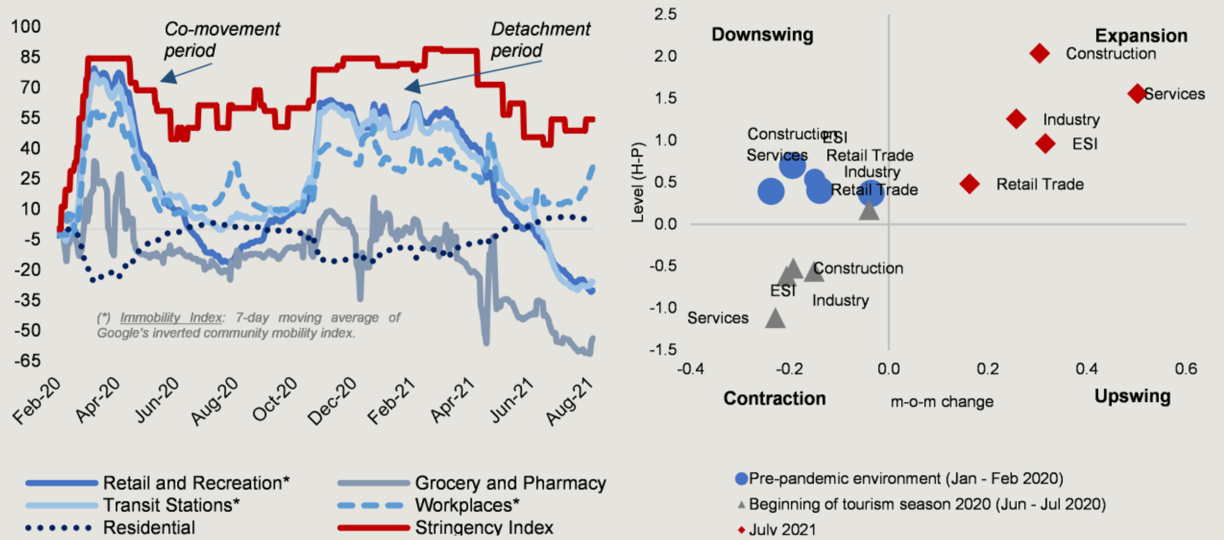
Moreover, fiscal risks remain in the short run, driven by the uncertainty surrounding the evolution of the Delta variant and further support to mitigate the social and economic costs of the health crisis, as well as the recent wildfires, putting at risk the government promises for further tax reliefs in 2022 and the stability of public finances. However, according to estimates by the Ministry of Finance (Stability Programme 2021), the strong fiscal impulse is expected to remain in place in 2021, with the primary balance standing at -7.2% of GDP (*Graph 2*), underpinning households' disposable income and employment. Although public debt to GDP is expected to reach 204.8% in 2021 raising concerns about medium-term fiscal sustainability, the projected strong economic recovery, accompanied with (a) the achievement of fiscal discipline (with the primary balances to return to surpluses from 2023 onwards) and (b) the low interest expenditure as % of GDP (hovering around 2.5% on average until 2024), is expected to bring public debt back to a downward trajectory, approaching 166% of GDP in 2024.

The upward revision of estimates for real GDP growth in 2021 is expected to create additional fiscal space, leaving room for the Greek government to provide further handouts to alleviate the negative consequences of the 4th wave of the pandemic and to support the rejuvenation of the areas affected by the extensive wildfires. The Greek Minister of Finance recently announced that fiscal support measures for 2021 are expected to reach EUR 16.6 bn, while, in 2022 fiscal policy interventions are expected to reach EUR 2.4 bn. The total pandemic-related package of policy interventions is expected to reach EUR 42.7 bn, taking into account the EUR 24 bn measures implemented in 2020. More specifically, during the Thessaloniki Trade Fair, the Prime Minister announced a series of additional policy interventions, including, among others:

- the reduction of the percentage of the amount needing to be returned by businesses that received a refundable advance payment, depending on their turnover losses, provided also that they retain their personnel.
- the VAT reduction from 24% to 13% for specific goods and services (touristic package, coffee, non-alcoholic beverages, gyms and dance schools and transport services) until June 2022.
- the extension of the suspension of the solidarity tax for the private sector in 2022
- the extension of the 3% reduction in social contributions to 2022
- the permanent corporate tax rate cut from 24% to 22% from the financial year 2021 (payable from 2022).
- the extension of GEFYRA scheme for 3 months
- a higher energy subsidy per kilowatt hour on households for the Q4 2021
- a reduction in the mobile subscriber fee by 12%-20% and abolishment of the fee for young people up to 29 years old, from 1 January 2022.
- the Ministry of Finance has proceeded with the reduction of the calculation coefficients of ENFIA, which will be valid for 2022, taking into account the adjustment of the objective values of property.

GRAPHS 3&4

The evolution of Google community mobility, Stringency Index and Confidence indicators



Sources: IOBE, Google Community Mobility Reports, Our World In Data, Alpha Bank ERD calculations

Several leading economic indicators on an upward trend pave the way for a robust economic recovery in 2021

In the first two months before the outbreak of the pandemic (January-February 2020), the trend of both the ESI and the sub-indices of business expectations were above their long-term average, albeit in a downswing course. In the following months however, the ESI fell sharply due to the onset of the pandemic and the associated containment measures that curbed economic activity, reaching 89.5 points on average in June-July 2020 (i.e., the “belated” beginning of the 2020 tourism season). The sub-indices of business expectations also recorded a significant decline in the same period, with the largest recorded in the expectations of services.

Recent data shows that the ESI continued its upward trajectory, reaching 113 points in August, from 111.2 points in July, which is its highest performance since February 2020. Business confidence across all sectors of the economy improved in July 2021, having significantly recovered from the losses recorded last year, with business expectations in construction recording their highest performance (148.6 units) since April 2000. It is noteworthy that the trend of business expectations in construction, although below the long-term average a year ago (i.e., during June-July 2020), followed a sharp upward trajectory, indicative of the industry’s resilience during the pandemic. Overall, the trend of all indicators is in an expansionary phase, signifying that the expectations for future GDP growth are optimistic (*Graph 4*).

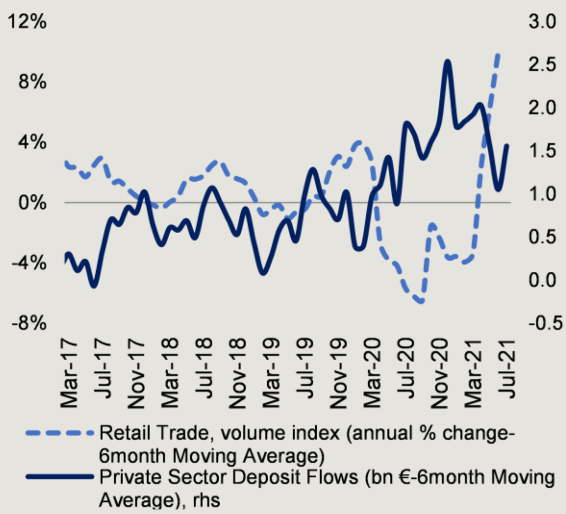
Furthermore, as evident in *Graph 5*, the retail trade volume index (nsa, calendar adjusted data) continued its upward trend for the third consecutive month (after five months of negative annual changes), reaching a 10.8% y-o-y increase in June (following a 15% y-o-y increase in May), reflecting strong private consumption growth in Q2 onwards, supported also by a significant inflow of private-sector deposits by EUR 6.3 bn in the first half of 2021.

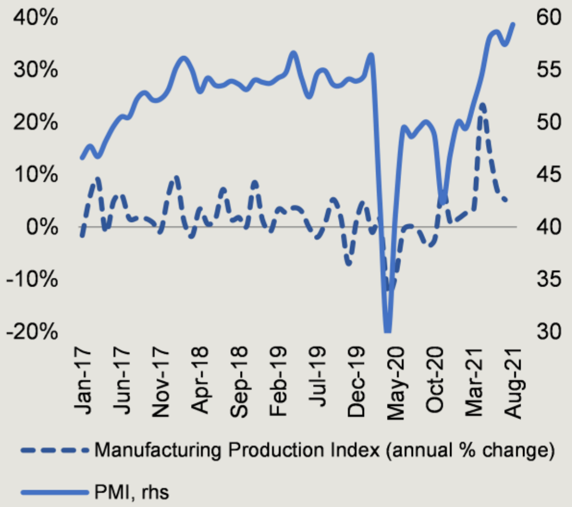
Overall, for the first half of 2021, the overall non-seasonally adjusted volume index in retail trade increased by 8.6% on an annual basis, recording increases in all categories - most prominently in furniture, electrical and household equipment (25.1% y-o-y), pharmaceutical products (24.1% y-o-y), clothing and footwear (19.6% y-o-y) and food, beverages and tobacco (14.6% y-o-y) - except for automotive fuel (-3.8% y-o-y).

According to recent data published by ELSTAT, a total of 6,093 new passenger cars were put into circulation in August 2021 down from 6,851 in August 2020, recording a -11.1% decrease. Despite this recent adverse effect, in the eight month period (January - August 2021) new passenger cars increased significantly by 43.1%.

GRAPHS 5&6

Retail trade and manufacturing production on an upward trajectory with additional private sector deposits inflowing into the economy





Sources: ELSTAT, Bank of Greece, IHS Markit, Alpha Bank ERD calculations

The manufacturing production index remains on an upward trajectory from November 2020 onwards, reaching an annual growth rate of 5.2% in July from 6.9% in June, signalling strength in customer demand and production growth. August data for the Purchasing Managers' Index (PMI) signalled another uptick in the health of the Greek manufacturing sector as the wider economy continues to reopen. Especially, the headline PMI posted 59.3 in August, up from 57.4 in July, signaling a marked upturn in operating conditions across the Greek manufacturing sector (*Graph 6*). According to the IHS Markit August report, the PMI growth rate in August was the highest for over 21 years.

Housing market and construction activity remained resilient during the pandemic

A slowdown of house price growth dynamics was witnessed in 2020, compared to 2019, which was in line with the temporary stall of the main drivers of the Greek real estate market recovery over the past two years. However, despite the heavy toll of the pandemic on economic activity, both the construction sector and house prices remained resilient. More specifically, house prices rose by 4.4% in 2020 (from 7.2% in 2019), while in Q2 2021, house prices continue to increase by 4.6% y-o-y, more rapidly against Q1 2021 (3.5% y-o-y). House prices in Athens led the way, increasing by 6.4% y-o-y, followed by Thessaloniki (4.1% y-o-y), other cities (3.2% y-o-y) and other areas (2.6% y-o-y). Moreover, the increase in house prices for new apartments (4.7% y-o-y), i.e. those up to 5 years old, marginally outpaced the rise in house prices of old apartments (4.6% y-o-y), i.e. over 5 years old.

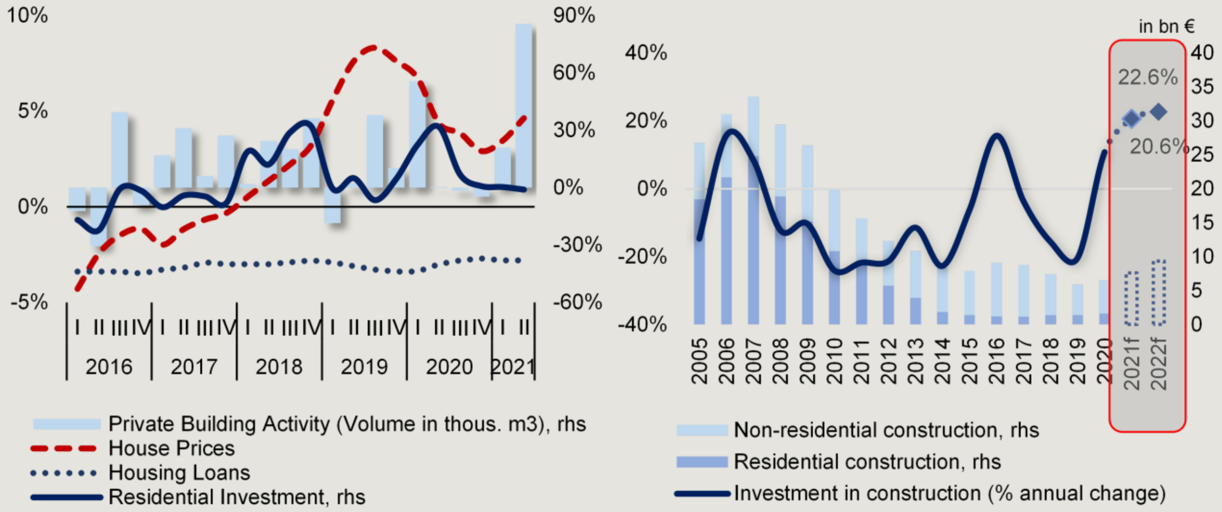
The resilience of house prices during the pandemic is attributed to several factors, including the low interest rate environment and the supportive measures in the form of payment moratoria and job protection schemes that took place during the first waves of the pandemic. Residential investment growth turned to negative territory in Q2 2021 (-1.1%) after six consecutive quarters of positive annual growth rates (*Graph 7*), mainly due to strong base effects in Q2 2020 (31.7% y-o-y).

Construction recorded a sharp decline during the previous decade in Greece; however, it has exhibited signs of recovery from 2018 onwards, particularly in residential construction. Despite the pandemic, this upward trend continued last year with only a marginal impact on the growth dynamics of the sector. In line with the upward course of residential investment, the robust business expectations in construction and the growth dynamics of house prices, private building activity also increased sharply in 2021 Q2 by 85% (volume m3, y-o-y), reflecting the resilience of the construction sector during the healthcare crisis.

As *Graph 8* shows, investment in construction was positive 2020 (10.7% y-o-y) after three consecutive years of negative growth rates. Investment in residential and non-residential construction also recorded positive annual growth rates in 2020, with marginally higher growth dynamics compared to 2019. According to 2021 European Commission Spring Economic Forecasts, investment in construction is expected to climb sharply during 2021-2022, reaching the unprecedented annual growth rate of 22.6% in 2022.

GRAPHS 7&8

House prices growth dynamics remained resilient, despite the heavy toll of the pandemic, with investment in construction expected to climb sharply during 2021-2022



Source: Bank of Greece, ELSTAT, European Commission 2021 Spring Economic Forecasts

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Optimism for a faster-than-expected recovery of tourism during in 2021

Tourism in Greece re-entered a recovery phase during the summer of 2021. According to the latest Bank of Greece data, international tourist arrivals increased by 317% y-o-y in June, while the corresponding receipts increased tenfold and average expenditure per trip increased by 125%, on an annual basis. This development is mainly attributed to strong base effects, as in June 2020 travel restrictions were partially in place and the operation of companies in the sector was not adequately restored.

The course of tourism performance in the remaining months of the summer is projected to be better than initially expected. According to provisional estimates, international tourist arrivals in July and August were above 65% and 80% of those in the respective months of 2019. Moreover, according to statements by the former Minister of Tourism, it is estimated that, in total, in the first eight months of 2021, more than 6 million tourists have visited Greece.

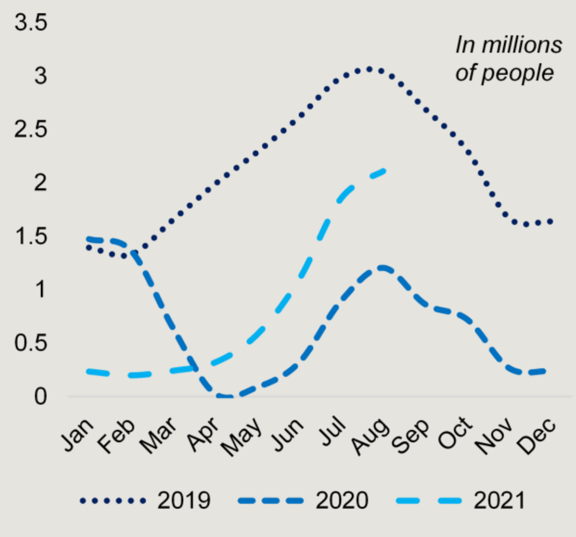
Furthermore, international passenger traffic at Athens International Airport in June, July and August of this year increased annually by 247.2%, 107.6% and 75.3%, respectively (*Graph 9*). However, it continues to lag the absolute amount of passenger traffic (in mn people) in the corresponding months of 2019. It is worth noting 2019 was a historic year for tourism in Greece, with passenger traffic at Athens airport exceeding 25 million passengers.

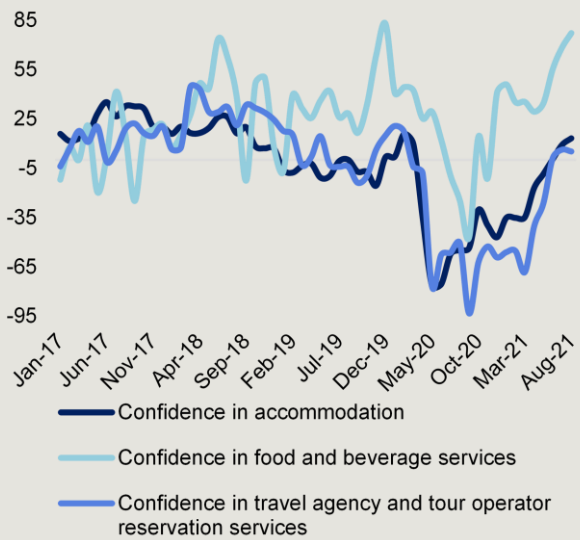
At the same time, business expectations in tourism-related industries (accommodation, food and beverages and travel agencies) have returned to positive ground or even to pre-pandemic levels. As shown in *Graph 10*, business expectations in hotels turned positive in July (9 points), for the first time since March 2020 (10 points), and continued to recover in August, reaching 13 points. Business expectations in food and beverages services, respectively, amounted to 77 points in August, which is the best performance recorded since December 2019 (83 points). Finally, business expectations in travel agencies, tour operator reservation services and related activities amounted to 5 points in August, from 6 points in July, with the previous highest price recorded in February 2020 (17 points). This upward trend in tourism-related business expectations during the summer 2021 creates optimism for a strong, albeit incomplete, recovery of tourism, which is expected to support a strong GDP expansion in Q3.

Despite the latest favourable developments and the strong expectations for Greek tourism, downside risks remain. The factors that could jeopardise the recovery of Greek tourism in the short term are the worsening of epidemiological data, as well as the negative effects of the catastrophic wildfires that broke out across the country from the end of July onwards. Regarding the second factor, based on the latest available data and market estimates, their impact on Greek tourism does not seem to be significant as the affected areas attract only a small percentage of international arrivals, while occupancy for August was already at high levels compared to last year. Additionally, large wildfires broke out in other European countries which in

GRAPHS 9&10

Total passenger traffic from AIA and business expectations on tourism-related services' sectors





Source:Athens International Airport, European Commission several cases were twice as severe as the average of the previous decade, with burned areas also increasing significantly.

In the long run however, the effects of the environmental disaster stemming from the large-scale wildfires that broke out this year (as well as in previous years) and climate change in general, may weaken the performance of Greek tourism. Specifically, the worsening climatic conditions (e.g., rising temperatures, extreme weather events), the distortion of critical natural resources etc. can have adverse effects on the quality of our country's tourism product, and consequently on the quantity demanded (Dianeosis, "The Impact of the Climate Crisis on Tourism in Greece", July 2021).

Banking system: credit and liquidity conditions

Liquidity conditions in the domestic banking system continued to improve in the first seven months of 2021. According to the latest data published by the Bank of Greece, in July additional private-sector deposits inflowed to the Greek banking system (EUR 1.8 billion), with the corresponding flows for the first seven months of 2021 reaching EUR 8.1 billion, broadly at the same levels as in the same period of 2020 (EUR 8.7 billion). More precisely, household deposits (incl. private non-profit institutions), which account for more than 76% of total private-sector deposits, rose by around EUR 0.8 billion. Furthermore, deposits by corporations rose by more than EUR 1 billion, underpinned by a preference for a build-up of liquidity buffers due to precautionary reasons and direct liquidity support from the government.

The outstanding total credit to the private sector amounted to EUR 122.5 billion at the end of July 2021, with an annual rate of change, adjusted for reclassifications, write-offs and exchange rate variations, growing by 1.2% from 2.3% in June 2021. Annual credit growth to non-financial corporations (adjusted for reclassifications, write-offs and exchange rate variations) continued to improve, growing by 4.1% in July 2021, supporting business liquidity.

Annual data	2016	2017	2018	2019	2020	Annual % Changes
GDP at constant prices 2015 (annual % change)	-0.5	1.3	1.6	1.9	-8.2	
Private Consumption	-0.5	1.9	2.3	1.9	-5.2	
Public Consumption	-0.2	-0.1	-4.2	1.2	2.7	
Gross Fixed Capital Formation	2.3	8.1	-6.6	-4.6	-0.6	
Exports of Goods and Services	-0.4	8.5	9.1	4.8	-21.7	
Imports of Goods and Services	2.2	7.4	8.0	3.0	-6.8	
National CPI, (annual % change, period average)	-0.8	1.1	0.6	0.3	-1.2	
Unemployment Rate (%, period average)	23.5	21.5	19.3	17.3	16.4	
G.G. Primary Balance (% of GDP) *	3.3	3.8	4.4	4.0	-6.7	
G.G. Gross Debt (% of GDP)	180.8	179.2	186.2	180.5	205.6	
Current Account Balance (% of GDP)	-1.8	-1.9	-2.9	-1.5	-6.7	

Business Environment	2020	2020	2021		Latest available data	Quarterly data (annual % changes)
		Q4	Q1	Q2		
Economic Activity (annual % change)						
Volume Index in Retail Trade (excl. automotive fuel)	-1.3	-1.3	0.3	20.7	10,2 (Jan.-June. 21)	
New Passenger Car Registrations	-26.6	-16.5	-5.3	93.7	25,9 (Jan.-Aug. 21)	
Private Building Activity (volume in '000 m3)	5.9	-4.8	20.9	84.9	53,6 (Jan.- June. 21)	
Manufacturing Production Index	-1.5	1.8	2.6	14.5	8,0 (Jan.-July. 21)	
Confidence indicators						
Purchasing Managers' Index (PMI)	46.6	46.0	50.4	57.0	59,3 (Aug. 21)	
Economic Sentiment Indicator (ESI)	96.4	91.8	93.2	105.1	113,0 (Aug. 21)	
Index of Bus. Expect. in Industry	93.9	92.6	98.2	105.0	112,3 (July. 21)	
Index of Consumer Confidence	-31.2	-46.2	-43.0	-27.5	-35,1 (Aug. 21)	
Credit Growth (% annual change, period end)						
Private Sector	3.5	3.5	2.9	2.3	1,2 (July. 21)	
Non-financial corporations	10.0	10.0	8.7	6.2	4,1 (July. 21)	
- Industry	8.1	8.1	5.4	2.1	1,4 (July. 21)	
- Construction	-0.1	-0.1	-0.7	1.5	1,2 (July. 21)	
- Tourism	14.8	14.8	16.7	16.5	12,4 (July. 21)	
Individuals	-2.5	-2.5	-2.7	-2.5	-2,5 (July. 21)	
- Consumer Loans	-2.2	-2.2	-2.8	-1.7	-2,1 (July. 21)	
- Housing Loans	-2.7	-2.7	-2.8	-2.8	-2,8 (July. 21)	
Prices and Labour Market						
National CPI, (annual % change, period average)	-1.2	-2.1	-1.6	0.3	1,9 (Aug. 21)	
Index of Apartment Prices (annual % change) **	4.4	2.8	3.5	4.6	4,6 (Q2 21)	
Unemployment Rate (%, period average, sa)	16.4	16.1	16.5	16.0	14,2 (July. 21)	
GDP at constant prices 2015 (annual % change) ***	-8.2	-6.8	-2.3	16.2	16,2 (Q2 21)	
Private Consumption	-5.2	-4.1	-3.7	13.2	13,2 (Q2 21)	
Public Consumption	2.7	7.3	8.1	6.1	6,1 (Q2 21)	
Gross Fixed Capital Formation	-0.6	4.4	10.6	12.9	12,9 (Q2 21)	
Exports of Goods and Services	-21.7	-16.2	-10.9	22.6	22,6 (Q2 21)	
Imports of Goods and Services	-6.8	-8.0	-3.3	22.5	22,5 (Q2 21)	

Sources: Bank of Greece, ELSTAT, IOBE, IHS Markit

* Primary balance defined here as General Government balance (according to ESA 2010) minus interest expenditure of General Government entities to other sectors. The effect of support to financial institutions is excluded in this measure of the primary balance. The measure of the primary balance presented here differs from the definition of primary balance used under the Enhanced Surveillance Framework for Greece.

** Provisional historical figures for residential real estate prices since Q3 2020.

*** Provisional historical figures for real GDP since Q1 2018.

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