GREECE

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ECONOMIC RESEARCH DIVISION

The Way Forward after Flattening the Covid-19 Curve

In March, the Greek government introduced front-loaded containment measures at what was a relatively early stage of the outbreak of COVID-19 in the country. These measures were designed to flatten the curve of confirmed COVID-19 cases and prevent the exponential spread of the virus, aiming to offer breathing space to the healthcare system to successfully handle an increased burden. The containment measures included, among others, a full lockdown, with restrictions in economic activity and movement, travel restrictions and quarantines for citizens returning from abroad (*Graph 3*).

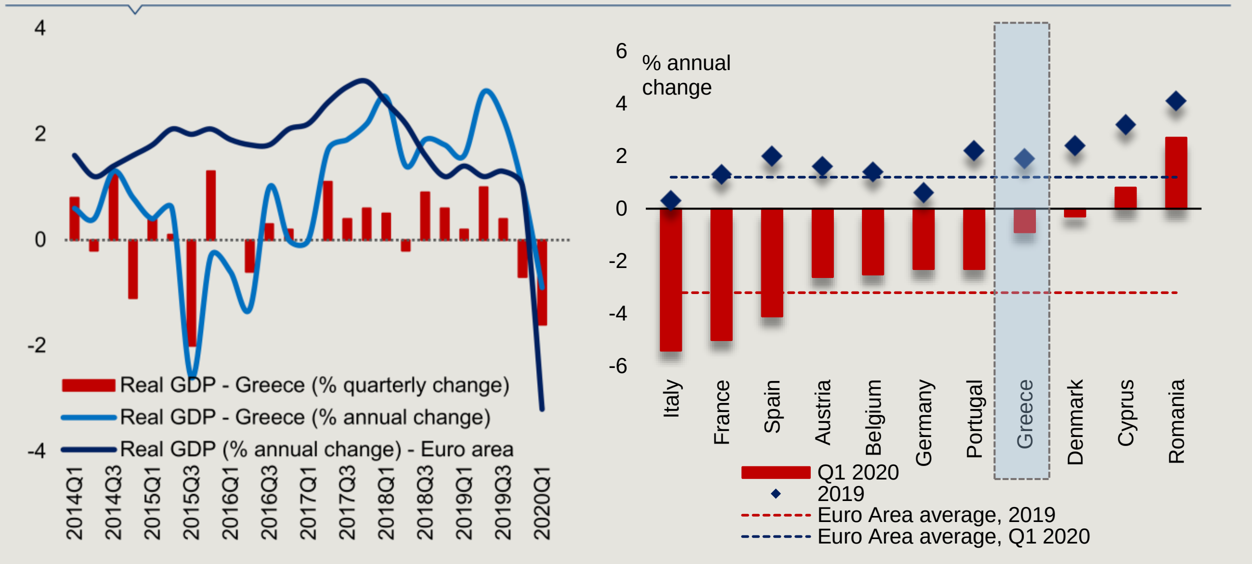
As a result, after three years of economic recovery, real GDP growth moved into negative territory in the first quarter of 2020 (*Graph 1*), standing at -0.9% on an annual basis (provisional, seasonally adjusted figures), while, on a quarterly read, it fell further for the second consecutive quarter by 1.6% (Q42019: -0.7% q-o-q). The contraction of domestic economic activity in Q12020 was fueled by a decline in private consumption and investment, while public consumption and net exports made a positive contribution to real GDP growth by 0.4 pps and 0.8 pps, respectively.

The decline in real output in the first quarter of the current year was milder compared to other European countries (*Graph 2*), depending also on the timing the containment measures were introduced, in conjunction with the first confirmed cases. The economic downturn was deeper in countries that introduced containment measures earlier in March as, for example, Italy (10/3/2020), Spain (14/3/2020) and France (17/03/2020), compared, for instance, to Germany (22/3/2020) and Greece (23/3/2020). The economic activity in the Euro area shrank by 3.1% y-o-y in Q12020, marking the deepest recession since the third quarter of 2009 (-4.5% y-o-y).

Greece succeeded in containing the spread of the virus throughout March and April and, since early May, has entered the lockdown easing phase, returning to the gradual normalization of economic activity (*Graph 3*).

GRAPHS 1,2

Real GDP growth in Q12020 in Greece and among selected European countries



Source: Eurostat, ELSTAT

The Economic Impact of the Pandemic in an Almost Covid-free Country

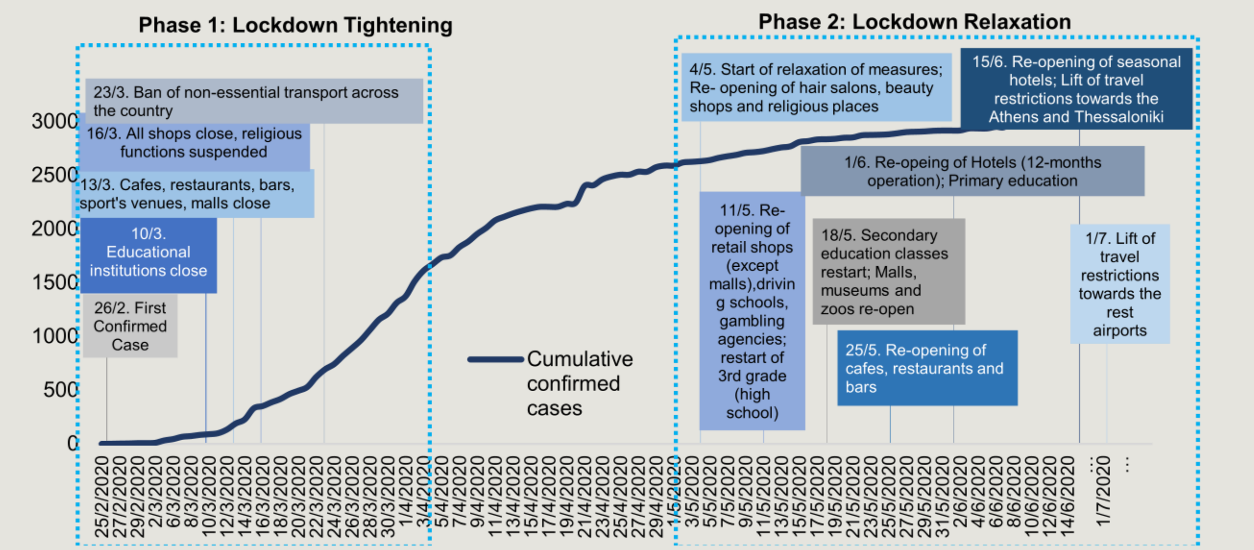
Given the uncertainty that surrounds the short-term prospects of the Greek economy, the alternative growth scenarios vary considerably with respect to the size of the economic downturn in the current year as well as the strength of the recovery in 2021 (*Graph 4*). More specifically, the European Commission (Economic Forecasts, Spring 2020) projects a V-shaped recessionary shock, with a steep drop in real GDP in 2020 (-9.7%) and a strong, albeit incomplete, rebound in 2021 (7.9%). The baseline scenario provided by the Greek Ministry of Finance, included in the 2020 Stability Programme (April 2020), projects a milder contraction of domestic economic activity in the current year (-4.7%) and a swift recovery in 2021 (5.1%) as real GDP returns to pre-pandemic levels. The IMF (WEO, April 2020) foresees more of a U-shaped shock, with a deep shock materializing in 2020 (-10%) and a partial rebound in 2021 (5.1%). In a similar vein, the OECD (June 2020) projects a steep drop of real GDP in 2020 (-8%) and a weaker recovery in 2021 (+4.5%).

The increased uncertainty is already reflected in recent European-wide soft data releases. As depicted in *Graph 5*, since the COVID-19 outbreak, the Economic Sentiment Indicator (ESI) in Greece dropped below its long-run average (100) for the first time since June 2017, reaching 88.5 in May (down by 24.7 points compared to February). However, Greece witnessed a smaller decline in sentiment compared to the Euro area, (with the latter plummeting to historically low levels of 64.9 before picking up in May to 67.5), broadly reflecting (i) the swift government response and the success of front-loaded containment measures which flattened the epidemic curve, (ii) the sizeable expansionary fiscal policy interventions, aiming to safeguard employment, support the firms affected by the outbreak of the pandemic and provide additional liquidity and (iii) the rapid adjustment of the private sector and public administration to a teleworking environment and adoption of digital technology. The deterioration in economic sentiment in April and May was evident across all sectors but was more pronounced in services and retail trade confidence. The Markit Purchasing Managers' Index in manufacturing (PMI), after standing above the threshold of 50, from July 2017 to February 2020, indicating that manufacturing in Greece was in an expansionary phase, plunged to 29.5 in April, before recovering to 41.1 in May 2020.

The impact of the pandemic on the short-term domestic economic outlook is expected to be moderated by the sizeable fiscal stimulus, which allows the country to emerge from the lockdown with a sense of growing optimism. After the new Government measures were announced on May 20th, and with additional EU funding, the total stimulus package reached Euro 24 billion, which accounts for 13% of 2019 GDP. Moreover, Greece is expected to benefit from the EC proposed Recovery Plan of Euro 750 billion ("Next Generation EU"), with the allocated amount estimated at around Euro 32 billion, of which about Euro 22.5 billion is in the form of grants and about Euro 9.5 billion in the form of loans, substantially improving the medium-term prospects of the Greek economy.

GRAPH 3

Re-opening the Economy by Sector of Activities



Source: European Center for Disease Prevention and Control (ECDC)

Also, Greek Government securities are eligible for purchase under the European Central Bank Pandemic Emergency Purchase Programme (PEEP), which contributes to the maintenance of low borrowing costs. Since the outbreak of the COVID-19 pandemic, Greece has successfully tapped the international debt capital markets through two new bond issuances. The first, on April 15, through a new 7-year bond issuance raising Euro 2 billion at an interest rate of 2%, broadly at the same borrowing cost as the 7-year bond issuance in July 2019. The second, on June 9, through a new 10-year bond issuance raising Euro 3 billion at an interest rate of 1.6%.

Ending Lockdowns while Stimulating the Economy

The recessionary shock is expected to impact short-term employment prospects. The expected rise in unemployment is mainly associated with the increase in seasonal unemployment in the third quarter of 2020, mostly related to the tourism and food services industries. *Graph 6* presents the monthly private sector employment flows balance according to the Ergani Information System, i.e. the difference between new hires and dismissals (in terms of employment contracts), as well as the 3-month moving average of the EC Employment Expectations Indicator.

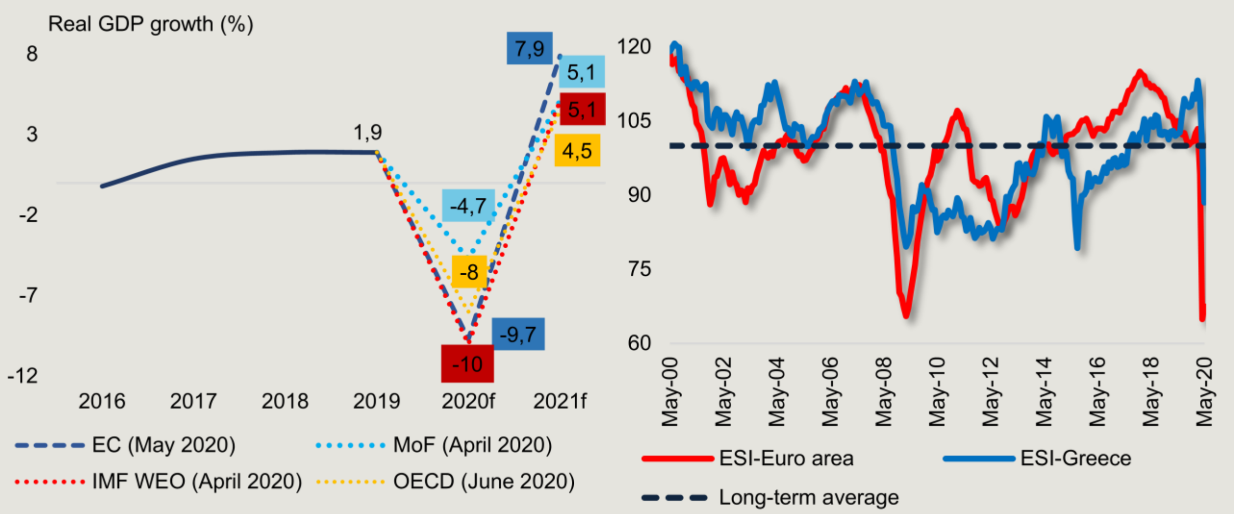
As indicated in *Graph 6*, the employment flows balance of the private sector exhibits a strong seasonal pattern, being usually positive in April and negative in October, in line with the tourist season. According to the last available data, in April 2020, the employment flows balance stood at 7.2 thousand employment contracts, at a much lower level compared to the prevailing seasonal pattern observed in previous years. This development is mainly attributed to the recorded decline in hires, as the requirement for businesses to preserve employment in order to benefit from the supporting policy measures limited dismissals. A broadly similar picture holds in May 2020, as the respective balance was equal to 33 thousand contracts, compared to 105.3 thousand in May 2019.

The new set of measures announced on May 20th, places an emphasis on employment protection, mainly financed by the SURE program of the European Union. A new scheme, called "*Syn-Ergasia*", aiming to support employment, is introduced, in effect from June 15 to October 15. All businesses with an over 20% reduction in gross profits and all current full-time employees, including seasonal employees are eligible for the new scheme. The working time of full-time employees can be reduced up to 50%. However, their social security contributions will be fully covered by the employer, while the State will subsidise the 60% of the salary losses, i.e. for the period where the employee will be out of work. In any case, the employee's earnings cannot be lower than the minimum wage, while the termination of the labour contract is not allowed. The set of measures also includes a special seasonal unemployment benefit to around 120.000 seasonal unemployed individuals until September, while also extending the current unemployment benefits ending in May by two months.

GRAPHS 4,5

Uncertainty surrounds the size of the downturn in 2020 and the strength of the recovery in 2021…

…which is already reflected in the recent European-wide soft data releases



Source: EC Economic Forecasts (May 2020), Ministry of Finance (Stability Programme 2020), OECD Economic Outlook (June 2020), IMF WEO (April 2020), EC Business and Consumer surveys

The labour-supporting interventions are expected to mitigate the initial negative shock in the labour market, creating a safety net for employees in sectors that are strongly affected by the pandemic, with the expected impact on non-seasonal unemployment to be limited. According to the latest EC Economic Forecasts (Spring 2020) the unemployment rate is expected to decline cumulatively by 0.5 pps over the two year period 2020-2021, in contrast to the projected cumulative increases in other European countries (*Graph 7*), despite the fact that the forecasted impact of the pandemic in Greece in terms of GDP losses is expected to be among the heaviest in the Euro area.

Developments in Oil Prices Support the Trade Balance while Tourism Restarts

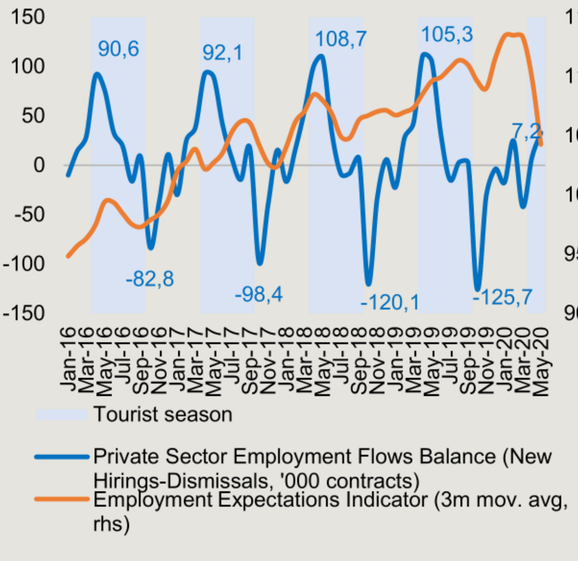
The economic recovery in 2018-2019 was primarily underpinned by the positive contribution of net exports, which supported economic activity in the first quarter of 2020, adding 0.8 pps to GDP growth. In particular, exports of goods and services grew by 2.5% y-o-y in Q12020, outpacing the rise in imports (0.2% y-o-y). Contrary to 2019, export performance in Q12020 was driven by an increase in the exports of goods (4.7% y-o-y) while exports of services stagnated. Travel receipts (including cruises) dropped by 17.1% on an annual basis in Q12020 along with a 5.6% y-o-y decline in tourist arrivals. Although, tourist arrivals and travel receipts rose by 21.8% y-o-y and 22.9% y-o-y, respectively in the first two months of 2020, the imposition of travel restrictions and the suspension of hotels' operations during March 2020, weighed substantially on the tourism performance in Q12020.

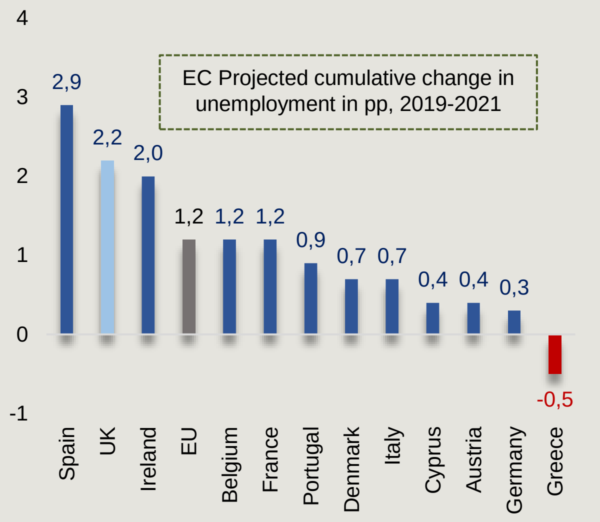
The external sector is expected to be heavily impacted in 2020, mainly driven by tourism – Greece's core exports of services – which entered globally in a contractionary phase. Greek tourism, including accommodation and food services, had a direct impact on the economy amounting to around 10 percent of GDP, established as one of the main pillars that supported the recovery of domestic economic activity in recent years. The adverse effect of the pandemic on the tourism sector is expected to be driven by (i) demand-side effects, related to travel restrictions and fears of contagion, as well as (ii) supply-side effects on the back of reduced hotel capacity and increased cost structure deriving from the lockdown in the second quarter and newly-introduced health protocols.

Greece reopened the tourism season in June, aiming to capture a significant part of tourism flows which are usually observed in the 3rd quarter of the year. *Graph 8* presents the distribution of tourism revenues in 2019. It is apparent that the third quarter of the year represents almost 60% of total revenues from tourism. To support tourism, the Greek Government announced a comprehensive package to uphold businesses with a wide range of measures including the reduction of VAT, reduced lease payments, support for seasonal employees and income tax relief.

GRAPHS 6,7

The recessionary shock is not expected to cause unemployment to deviate from downward trend





Source: EC Business and Consumer surveys, Ergani Information System, EC Economic Forecasts (Spring 2020)

However, the performance of tourism sector is highly dependent on the further evolution of the pandemic in the third quarter of 2020, especially in the countries of origin of inbound tourist arrivals. The effects of a slowdown in intra-EU travel, may be particularly significant, notably due to the growing reluctance of EU citizens to travel and national preventive measures.

According to the latest available data by the Bank of Greece, the current account deficit decreased by 5.4% in the first quarter of 2020. This was mainly driven by the improvement in the balance of goods (excluding fuels), with exports of goods (excl. fuels) rising by 4.5%, while imports of goods (excl. fuels) declined by 2.5% on annual basis.

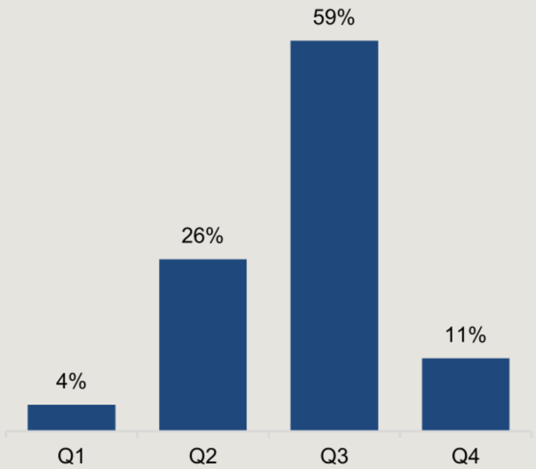
The compressed domestic demand and the disruption of global supply chains due to lockdown on a global scale are expected to lead to a further decline in imports. More specifically, although oil prices are determined by global markets, the effects of oil price changes vary, due to each country's energy dependency ratio. This indicator shows the extent to which an economy relies upon imports, in order to meet its energy needs. The energy dependency ratio in Greece, i.e. the net imports divided by gross available energy, was 70.7% in 2018, significantly higher than the EU average (58.2%). As a net oil importer with a relatively high energy dependency ratio, Greece is expected to benefit from lower oil prices.

As depicted in *Graph 9*, the current account deficit is projected to reach -0.9% in 2020 (European Commission Economic Forecasts, Spring 2020). The negative impact from exports of services on the current account balance is expected to be partially mitigated by subdued domestic demand and lower oil prices, culminating in weaker import levels. In 2021, the current account balance is expected to reach -2.3%, supported by the projected economic recovery in Greece and Euro area.

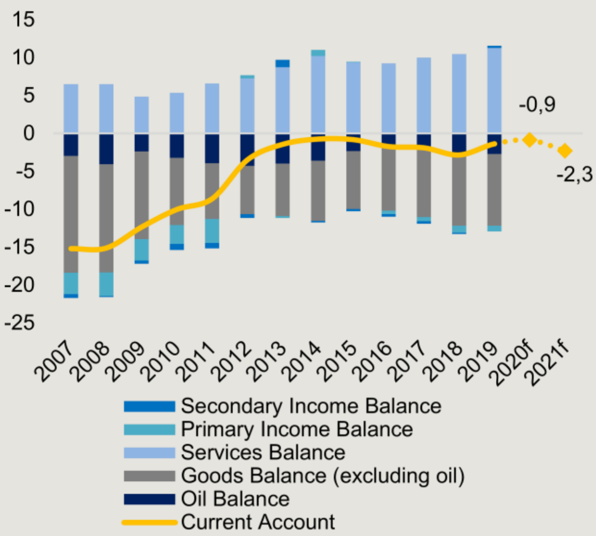
Headline HICP inflation stagnated, on average, in the first five months of 2020. The economy is expected to remain in mild deflation throughout the current year, reflecting the lower energy prices and subdued aggregate demand. Inflation is forecast to return to positive territory in 2021 in line with the projected rebound of economic recovery.

GRAPHS 8,9

Distribution of Tourism Revenues in Greece (2019)



Current Account Balance and its Components



Source: Bank of Greece, EC Economic Forecasts (Spring 2020)

Housing Prices and Residential Investment: Co-movement continued its upward trend in Q12020

Over the past two years, the Greek residential property market has clearly entered a recovery phase. This has been driven by house and business cycles synchronization, short-term rental market expansion and the Golden Visa programme, as well as supportive fiscal policy interventions (e.g. the reduction of ENFIA property taxation). However, the outbreak of the COVID-19 pandemic has increased uncertainty regarding future developments in the Greek real estate market.

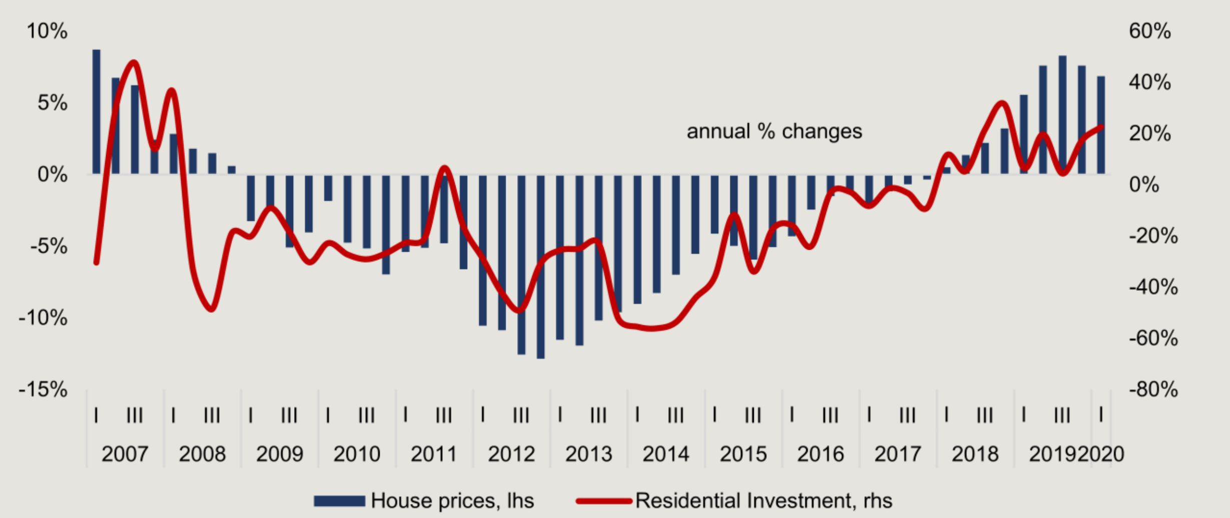
Despite the GDP contraction attributable to strict containment measures and the generalized lockdown in several sectors of the economy, residential property price growth dynamics in Q12020 remained resilient. According to the latest available provisional data by the Bank of Greece, nominal house prices (new index of apartment prices) remained on an upward trajectory in Q12020, rising by 6.9% y-o-y. House prices in Athens led the way, increasing by 10.6% y-o-y, followed by Thessaloniki (5.5% y-o-y), other areas (4.3% y-o-y) and other cities (2.9% y-o-y). Moreover, the increase in house prices of new apartments (7.9% y-o-y), i.e. up to 5 years old, outpaced the rise in house prices for old apartments (6.3% y-o-y), i.e. those over 5 years old.

The maintenance of house price growth dynamics corresponds with the upward trend in residential investment, which continued in Q12020 for the ninth consecutive quarter (*Graph 10*). In accordance with the national accounts provisional data by the Hellenic Statistical Authority (ELSTAT), residential investment increased by 22.6% y-o-y in Q12020, although declined by 3% from the previous quarter. The upward course of residential investment in Q12020 is also supported by the rise in private building activity in January-March 2020, increasing by 55.6% (volume in thous m^3) compared to the corresponding period of the previous year.

In the short run, a slowdown of the growth dynamics of house property prices is expected, accounting for a projected temporary stall in 2020 of the main drivers of Greek real estate market recovery over the past two years. Real estate prices are not expected to deviate for a long period of time from their upward trend, however. A V-shaped recessionary shock is most likely to be perceived by rational agents with long-term investment horizons as temporary. As a result, the medium-term prospects of the residential property market remain optimistic, in tandem with the expected rebound in economic activity in 2021. Residential property may become even more attractive in the medium term, underpinned by the low interest rate environment.

GRAPH 10

House Prices and Residential Investment remain on an upward trend in Q12020



Source: Bank of Greece, ELSTAT

Macroeconomic Environment	ANNUAL			QUARTERLY				
				2019				2020
	2017	2018	2019	I	II	III	IV	I
AGGREGATE DEMAND								
GDP at current prices (€ billion), SA	179,8	184,2	187,1	46,5	47,0	46,9	46,6	45,3
(annual % change)	2,0	2,4	1,6	2,0	3,0	1,2	0,1	-2,6
GDP at constant prices 2010 (€ billion), SA	187,2	190,8	194,4	48,2	48,7	48,9	48,5	47,7
(annual % change)	1,5	1,9	1,9	1,6	2,8	2,3	1,0	-0,9
Components (annual % change, at constant prices)								
Private Consumption	0,9	1,1	0,8	1,3	0	0,3	1,3	-0,7
Public Consumption	-0,4	-2,5	2,1	0,4	9,8	0,1	-1,4	2,0
Gross Fixed Capital Formation	9,1	-12,2	4,7	8,8	-5,2	2,5	14,0	-6,4
Exports of Goods and Services	6,8	8,7	4,8	4,8	5,2	9,1	0,7	2,5
Imports of Goods and Services	7,1	4,2	2,5	9,7	3,9	-2,7	-0,3	0,2
LABOUR MARKET (annual % change)								
Nominal Unit Labour Costs (1)	1,1	1,1	1,7	2,2	2,0	0,5	2,1	
REER Unit Labour Costs (2)	1,0	1,1	-2,7	-2,0	-2,0	-3,6	-3,0	
Unemployment Rate (%), SA	21,5	19,3	17,3	18,3	17,3	17,0	16,6	15,5
Youth Unemployment (less than 25, as a percentage of active population)	43,6	39,9	35,5	39,0	33,4	34,2	35,3	
Long-term Unemployment (>12 months, as a percentage of total unemployment)	72,8	70,3	70,3	64,9	70,8	73,6	72,0	
Employment Growth (%), SA	2,0	2,1	2,1	2,4	2,5	2,0	1,4	0,4
PRICES (average annual % change)								
National CPI	1,1	0,6	0,3	0,7	0,3	-0,1	0,1	0,4
National core CPI (3)	0,0	0,0	0,5	0,3	0,3	0,8	0,7	0,7
HICP (Harmonised Index)	1,1	0,8	0,5	0,8	0,6	0,2	0,4	0,6
GDP Deflator, SA	0,6	0,5	-0,4	0,6	0,2	-1,0	-1,0	-2,0
PUBLIC FINANCES								
General Government Primary Balance (€ billion, cumulative) (4)	6,9	7,9	8,3	1,4	1,4	5,3	8,3	
G.G. Primary Balance (% of GDP)	3,8	4,3	4,4					
General Government consolidated Gross Debt (€ billion)	317,5	334,7	331,1	337,4	335,5	334,3	331,1	
G.G. Gross Debt (% of GDP)	176,2	181,2	176,6					
EXTERNAL BALANCE & COMPETITIVENESS INDICATORS								
Current Account Balance (€ billion)	-3,4	-5,2	-2,6	-3,7	-0,3	4,1	-2,6	-3,5
Current Account Balance (% of GDP)	-1,9	-2,8	-1,4	-8,0	-0,7	8,7	-5,6	-7,7
Greece: Real Effective Exchange Rate Index,2010=100 (annual % change) (5)	1,1	1,4	-1,8	-1,1	-1,2	-2,8	-2,0	-1,3
Greece: Nominal Effective Exhange Rate Index,2010=100 (annual % change) (5)	2,3	3,5	-0,1	0,9	0,9	-1,0	-0,6	0,3
Banking Sector								
Credit to Private Sector : Total	-0,8	-1,1	-0,6	-0,6	-0,2	-0,5	-0,6	0,1
Non-financial corporations	0,4	0,2	1,7	1,6	2,5	2,2	1,7	3,4
Insurance corp. and other financial intermediaries	1,5	-3,0	2,1	-5,7	-1,2	-1,9	2,1	6,1
Individuals	-2,3	-2,2	-2,9	-2,3	-2,6	-2,9	-2,9	-2,9
Deposits/Private sector: Flows	5,7	7,9	9,0	-1,0	3,9	2,0	4,1	1,7

Sources: Hellenic Statistical Authority, Eurostat, BoG

(1) Nominal Unit Labour Cost based on hours worked.

(2) Compared to 37 countries.

(3) Excluding food and non-alcoholic beverages,alcoholic beverages and tobacco and energy prices.

(4) Annual data 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 included 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.

(5) The REER index is CPI-based. Both REER and NEER include the 37 main trading partners of Greece. A positive sign denotes loss of competitiveness of Greece's trade partners.

Business Economy	ANNUAL			QUARTERLY				
	2017	2018	2019	2019 I	2019 II	2019 III	2019 IV	2020 I
(annual % change unless otherwise indicated)								
INDUSTRY								
Industrial Production Index (2015 = 100) (1)	3,9	1,6	-0,8	1,6	0,4	-0,2	-5,0	-1,2
Manufacturing Production Index (2015 = 100) (1)	2,9	2,8	0,9	1,5	2,0	1,3	-1,5	1,5
Turnover Index in Industry (2015 = 100)	8,7	9,8	-0,3	-0,6	1,9	-1,1	-1,6	-2,5
CONSTRUCTION ACTIVITY								
Production Index in Construction (2015=100) (1)	-19,4	-12,7	-4,7	-11,0	6,7	-9,1	-5,7	
Index of Apartment Prices (2007 = 100) (2)	-1,0	1,8	7,2	5,5	7,6	8,3	7,6	6,9
Office Price Index (2010 = 100) (3)	1,8	7,2		5,4				
Retail Price Index (2010 = 100) (3)	1,7	4,3		7,3				
Private Building Activity (volume in '000 m^3)	19,5	21,4	9,8	-18,6	2,2	37,9	10,2	55.6
TRADE								
Volume Index in Retail Trade (exlc. automotive fuel)	1,3	1,6	0,8	-1,4	-1,1	1,6	2,9	3,4
Turnover Index in Wholesale Trade (1)	3,7	6,9	-1,7	-1,3	-1,1	-2,8	-1,5	-4,2
CAR TRADE								
New Passenger Car Registrations	22,2	25,8	13,2	4,9	13,1	23,7	12,2	-12,4
SERVICES				cumulative				
Tourism Receipt, BoG (incl. cruises)	10,8	10,0	13,0	34,8	13,3	14,1	13,0	-17,1
Tourism Receipt (€ million)	14.630	16.086	18.179	747	5.414	16.107	18.179	619
Tourist Arrivals, BoG (excl. cruises)	9,7	10,8	4,1	7,8	-0,5	3,8	4,1	-5,6
Tourist Arrivals (in thous. people)	27.194	30.123	31.348	1.936	9.407	26.953	31.348	1.828
EXPECTATION INDICES (units)								
Economic Sentiment Indicator	98,9	103,8	105,4	102,4	102,4	108,1	108,8	110,7
Index of Consumer Confidence	-58,9	-44,0	-19,8	-31,1	-29,4	-11,7	-7,1	-10,4
Index of Bus. Expect. in Industry	-4,6	-0,2	-0,1	-2,7	-0,6	1,1	1,8	3,4
Index of Bus. Expect. in Construction	-51,6	-48,8	-50,2	-53,5	-52,9	-52,2	-42,1	-31,3
Index of Bus. Expect. in Retail Trade	1,5	10,6	16,3	14,6	3,3	23,1	24,4	23,4
Index of Bus. Expect. in Services	11,0	15,6	14,1	5,0	6,9	23,7	20,8	28,5

Sources: Hellenic Statistical Authority, Bank of Greece, European Commission

[1] Calendar adjusted data

[2] Provisional historical figures for residential real estate prices since Q2 2019.

[3] Provisional historical figures for office and retail shops prices since H2 2018. Indices are published on a biannual basis. They concern office and retail uses and refer to price levels of prime investment property and rent levels of the prime and upper secondary market. It should be noted that price indices are valuation-based and are therefore expected to show some lag, especially in cases of negative changes. Furthermore, values tend to reflect sentiment and market expectations at the moment of the valuation, especially in periods of limited transactions.

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