GREECE

ENTERING 2022 ON A MORE SOLID BASIS

The Greek economy has surprised on the upside so far in 2021. Real GDP growth is expected to exceed 7% this year. The unemployment rate has fallen to 13%. This improvement has allowed the banking sector to continue its clean-up, with a non-performing loan ratio close to the 20% threshold at the beginning of the summer. Difficulties on the economic, social and banking front remain amongst the most pressing in the European Union. This said, unless there is a further complication on the health front, Greece will go into 2022 on a much better basis than in previous years.

The Greek economy has recovered much more strongly than expected in 2021, which, incidentally, has led the European Commission to make significant increases in its growth forecasts for this year, up from 4.3% (July forecast) to 7.1%. Even though Greece has one of the lowest rates of Covid-19 vaccination coverage in the EU, the current wave of the epidemic in the country has not forced the government to introduce restrictions on the same scale as previously[1], which should allow economic activity to continue to grow.

The improvement on the economic front can be seen in both GDP and employment data. Real GDP grew in Q3 2021 (+2.7% q/q) for the fifth consecutive quarter, thus pushing economic activity above the levels recorded immediately before the pandemic. Meanwhile, as in many other countries, measures designed to protect employment, particularly short-time working schemes (in the form of Greece's Synergasia programme) have been highly effective, even though they have come at a substantial cost to the public finances. At the beginning of the autumn, the number of unemployed people was at its lowest since April 2010, whilst employment had moved well above its pre-pandemic level. Nevertheless, the country still has a huge task ahead of it, with GDP and employment levels roughly 25% and 10% lower respectively than in 2008.

Many of the measures introduced during the Covid-19 crisis to support households and companies will expire at the end of 2021. This will lead to a noticeable reduction in the government deficit in 2022. The deficit is expected to be 3.9% of GDP in 2022, down from -9.9% in 2021 (European Commission data). Some measures will, however, be maintained, including the reduction on VAT in certain 'vulnerable' sectors (to June 2022), the 3-point cut in social security contributions (end-2022) and the suspension of the fiscal solidarity tax (end-2022). Thus the government debt-to-GDP ratio should come down in 2021, but it is likely to remain above the 200% of GDP threshold.

However, sovereign risk will remain subdued in 2022, thanks to the continuation of the European Central Bank's very accommodating policy despite the inflationary risk. In addition, Greece's Central Government has increased its cash reserves in 2021 (to nearly EUR 40 bn in October), using notably the money allocated by the European Recovery Fund. For its part, Greece's public debt management agency (PDMA) aims to repay part of the country's debt earlier than expected (EUR 5.3 bn due to be repayed in 2022 and 2023), which would also send a positive signal to investors regarding Greece's ability and desire to reimburse its creditors.

The strong pace of growth expected in 2022 should ease the process of cleaning up the banking sector. Despite continued strong pressure, this is seeing improvements thanks to the Hercules programme, which underwrites banks' non-performing loans. This programme was introduced in October 2019 and will run until October 2022 (it was initially planned to end in April 2021). The non-performing loans (NPLs) ratio fell sharply in Q2 2021, taking it to 21.3% (on consolidated figures), just above half of its level in 2019 (40.0%). This drop was in part artificial and linked to exceptional subsidy measures on the redemption of certain loans to households and companies during the pandemic (the Gefyra and Gefyra II programmes). Hence there could be a rebound in NPLs when these measures come to an end. However, the aim of the four major systemic Greek banks (Eurobank, National Bank of Greece, Alpha Bank, Piraeus Bank) of achieving an NPL ratio below 10% by the end of 2022 still appears to be within reach[2].

GROWTH AND INFLATION

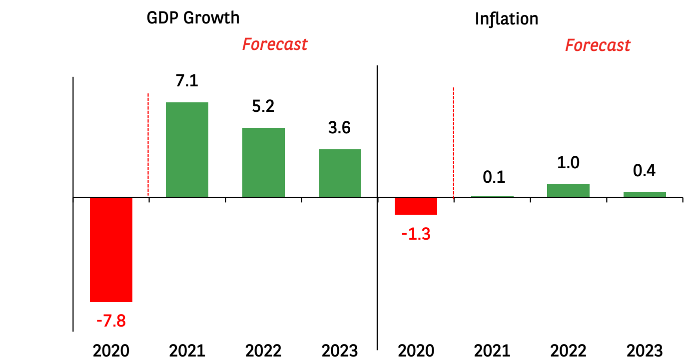

CHART 1 SOURCE: EUROPEAN COMMISSSION, BNP PARIBAS

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1 One recent measure was the introduction of mandatory vaccination for the over 60s.
2 This was reiterated by the European Commission in its most recent monitoring report on Greece, issued in November 2021.