GREECE

CONTINUING POSITIVE MOMENTUM

Despite the significant rise in inflationary pressures, the Greek economy continued to grow quickly during the first half of 2022, at a rate of 4.1% over the period. Nonetheless, real GDP fell back 0.5% q/q in Q3 despite tourism activity holding up well and the labour market being resilient. Indeed, the unemployment rate dropped during Q3 2022 (-29k), hitting its lowest level since December 2009. Almost 80% of the rise in unemployment recorded during the economic crises in 2008 and 2011, which ran from autumn 2008 to spring 2013, was wiped out. As a result, even though it is still very high, the unemployment rate fell below 12% in October (11.6%). However, the Greek economy, which mainly depends on the rest of Europe for its trade and energy supplies, is still highly vulnerable to the economic situation on the continent deteriorating.

With inflation rising, Kyriákos Mitsotákis' government significantly increased the minimum wage by 7.5% in May, which did not fully offset the rise in inflation, however. Inflation peaked at 12.1% in September, before falling back to 9.5% in October. The jobless rate fell back to 11.6% in November. However, Greece is still a long way off the structural unemployment rate, which, according to estimates by the European Commission (EC), stands at between 8% and 9%. This is expected to limit the second-round effects on wages and further constrain consumer purchasing power. As a matter of fact, the EC's quarterly survey, which assesses company production constraints, confirms that recruitment pressures are lower in Greece than in the eurozone as a whole , which should prevent inflationary pressures on wages from building up to excessively.

A NEW CHAPTER BEGINS

As expected, on 20 August, Greece left the European Commission's enhanced surveillance programme, which it had entered in 2018. However, the European Commission will keep a particularly close eye on the country, along with Spain, Ireland, Portugal and Cyprus, due to the European Union assistance that it received during the sovereign debt crisis (via the European Stability Mechanism and the European Financial Stability Facility EFSF mechanisms), with some loan repayments for this support being spread over many years (up to 2070 for Greece). Accordingly, the European Commission is continuing to closely assess developments in public finances and the sustainability of the country's debt.

Greece's exit from this surveillance programme, however, illustrates the notable improvements in the country over the past few years, particularly around its fiscal position. The central government's primary balance, which recorded sizeable deficits in 2020 and 2021 due to the Covid-19 pandemic (deficits amounted to 6.9% f GDP and 5.0% of GDP respectively), is expected to recover significantly in 2022, before likely moving into surplus territory in 2023. As a result, the public debt ratio is expected to fall sharply this year, and more than in 2021: the government is targeting a fall to around 170% of GDP, a major decrease from the record levels seen in 2020 (206.3% of GDP).

As a matter of fact, the government can take advantage of a better-than-expected scissor effect (a rise in taxes collected and a fall in social transfers) in order to finance some of its inflation support package targeted at households and businesses, without threatening the fiscal trajectory set in the 2022 budget. In its Stability Programme submitted to the European Commission on 15 October, the Greek government acknowledged, in particular, the permanent three percentage-point cut in the social security contributions rate (end of 2022), as well as the abolition of the solidarity tax, which were two support measures adopted during the pandemic and which were expected to expire at the end of 2022.

GROWTH & INFLATION

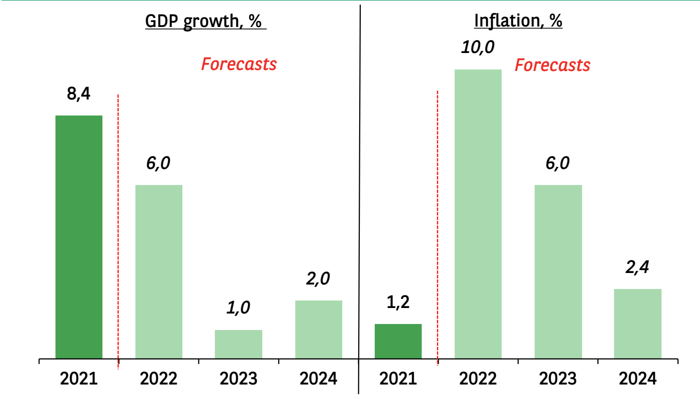

CHART 1 SOURCE: OECD (JUNE 2022), BNP PARIBAS

Thanks to the strong performance of the economy and the Hercules bad debt securitisation programme (which was put in place in October 2019 and ended in October 2022), the Greek banking sector recorded a further drop in the stock of non-performing loans (NPLs), as well as in the NPL ratio, which had fallen to 10% at the end of Q2 2022. However, 2023 is expected to be a difficult year, with the combination of risks (high inflation and rising interest rates) likely to lead to greater payment difficulties for households and businesses.

Guillaume Derrien
guillaume.a.derrien@bnpparibas.com