GREECE

MIXED SIGNALS

The Greek economy is proving resilient, with the recovery through to Q1 2021 being faster than in most other Eurozone members. This has been driven primarily by the very significant increase in goods exports. The spread of the Delta variant in Europe represents a threat to the recovery in the tourism sector, which is essential to bolster growth and employment over the coming months. Pending this, the labour market shows continued fragility. The unemployment rate climbed to 16.3% in Q1, whilst the number of inactive workers jumped, partly due to the effect of rising numbers of workers on temporary unemployment. Creating employment and reducing the unemployment rate remains the country's major challenge, but Greece should continue to benefit in the short and medium term from favourable financing conditions, notably thanks to the support of the ECB.

With a real GDP loss of 2.3% in Q1 2021 compared to Q4 2019, the Greek economy has bounced back faster than most other countries in the Eurozone. The GDP gap for the single-currency area as a whole is twice as wide, at 4.7% (Eurostat). Although certain components of demand (private consumption and investment) are still fragile, exports of goods have bounced back strongly and have, in fine, been moderately impacted by the Covid-19 crisis. After a drop of 3.3% q/q in Q2 2020, which was fairly modest given the global economic context at the time, real exports of goods have since climbed by nearly 12%. They have now risen significantly above their pre-pandemic level. Real imports fell much more sharply during the pandemic, and are still a long way below pre-pandemic levels. As a result, net exports made a highly positive contribution to Greek GDP growth.

The scale of the recovery in tourism – which represents nearly 20% of national GDP – will now be the key factor in stimulating growth and employment over the next few months. The labour market weakened in Q1. The unemployment rate reached 16.3% and the number of inactive workers saw a spectacular jump. A substantial part of this increase resulted from the rise in the number of employees placed on short-term working scheme at the beginning of this year, in response to the latest wave of Covid-19. Even though many of these workers are likely to return to employment, the scale of such a recovery remains uncertain and will need to be closely monitored over the coming months.

GROWTH AND INFLATION (%)

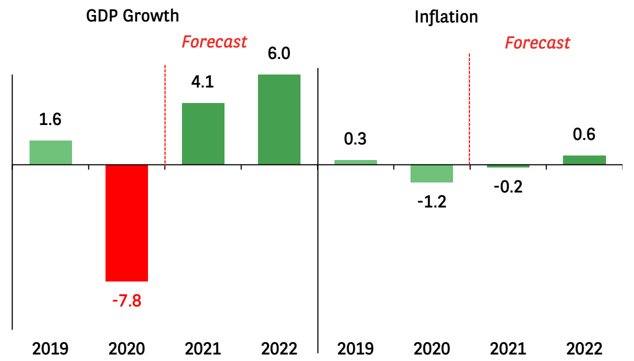

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

LOW INFLATION HAS LIMITED INCREASES IN SOVEREIGN INTEREST RATES

Against the background of rising sovereign yields over recent months, Greece stands out as the exception. Interest rates on Greek sovereign bonds, and the spread against the German Bund, continued to fall in the first half of 2021. Unlike most other European countries, inflation in Greece has remained very subdued, at 0.13% in May 2021. This has helped limit upward pressure on sovereign yields, most notably the 10-year yield which hit a new low in June (0.97% on 11 June 2021).

Over the medium term, the support of the European Central Bank (ECB) should help keep sovereign interest rates and debt repayment costs low. A derogation clause in the Pandemic Emergency Purchase Program (PEPP) allows the ECB to buy Greek public sector debt securities, a transaction not authorised under the Public Sector Purchasing Program that has been in place since 2015. Non-performing loans, meanwhile, have continued to fall despite the pandemic, dropping to 27.0% of outstanding loans at Greek banks by the end of 2020 (source: IMF).

Greece, whose national recovery plan was approved in mid-June by the European Commission, has also seen a significant uplift in its grants from the EU's Recovery and Resilience Facility for 2021, from EUR 4 billion to EUR 7.5 billion. In total, the national recovery plan will have a budget of EUR 31.2 billion (18.1% of 2019 GDP) and will be split between grants (EUR 18.4 billion) and loans (EUR 12.7 billion).

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