GREECE

PROSPECTS ARE STILL ENCOURAGING

After surging above 10% this spring, inflation will be the main headwind hampering Greek GDP growth in 2022. Yet the economy has proven to be resilient so far. Unemployment has been at the lowest rate since 2010, and GDP has rebounded robustly since the end of lockdown measures in 2020. A recession is unlikely this year, especially since tourism is primed for a solid summer season. On 20 August 2022, Greece will officially exit the European Commission's enhanced economic surveillance programme, which it entered in June 2018. In May, the country also repaid the last of the IMF loans (EUR 1.9 bn) contracted during the 2011 crisis. Eleven years later, Greece is taking another step towards the normalisation of its economic system.

Greece is one of the Eurozone economies that has recovered fastest after the lockdown restrictions of 2020. After rebounding 8% in 2021, real GDP rose strongly again in Q1 2022 (+2.3% q/q), bolstered by private consumption (+2.5% q/q) and investment (+3.7% q/q). At the end of Q1 2022, GDP growth was about 2.5% higher than pre-pandemic levels, a figure three times higher than the Eurozone average. The unemployment rate fell back to 12.5% in April, the lowest level in 12 years. This figure must be kept in perspective, however, since the active population has contracted sharply since the outbreak of the global financial crisis of 2008/2009, notably among youth[1]. Even so, the Greek economy has proven to be resilient so far, and the risks of recession seem to be more limited than in the rest of Europe. The country will probably benefit from an excellent summer tourist season, even though these prospects could be tarnished somewhat by the social unrest and labour shortages currently plaguing the airline industry.

The main risk factors in H2 2022 are concentrated around the consequences of monetary tightening in the Eurozone (and the resulting upturn in bond yields) and inflation. The latter is spreading rapidly, and rose above 10% in May (harmonised CPI of 10.5% y/y). Although energy prices (+60.9% y/y) are still by far the main driving force behind the increase in inflation, prices are also rising faster and more for food (+12% y/y), hotel and restaurant services (+5.1% y/y) and household equipment (5.1% y/y). Since a big share of consumer products are imported, the country has been hit harder by global price increases arising from shortages and the disruption of international trade. We cannot rule out another acceleration in inflation, since consumer price increases sharply in H1 2022.

To strengthen support measures for households and companies, the government plans to extend the reduction in the VAT rate for restaurant and transport services, and to expand the elimination of the solidarity tax to the entire population in 2023 (for the moment, the tax cut only applies to private sector employees). Yet the government's fiscal manoeuvring room is very tight: the OECD is forecasting a primary deficit of 4.1% of GDP in 2022.

NO LONGER THE EPICENTRE OF EUROZONE FEARS?

Despite intensifying concerns about the possible fragmentation of the Eurozone and the sharp rise in Greek sovereign bond yields, the yield spread with the German Bund is still smaller than for Italy. This could reflect in part that some fundamentals are now more favourable for Greece. Even though its public debt is higher than Italy's, the Greek government has cut back its refinancing needs more sharply (22.4% of GDP in 2021, compared to 30.6% in Italy), and this differential should continue to widen according to the European Commission's projections[2].

GROWTH & INFLATION

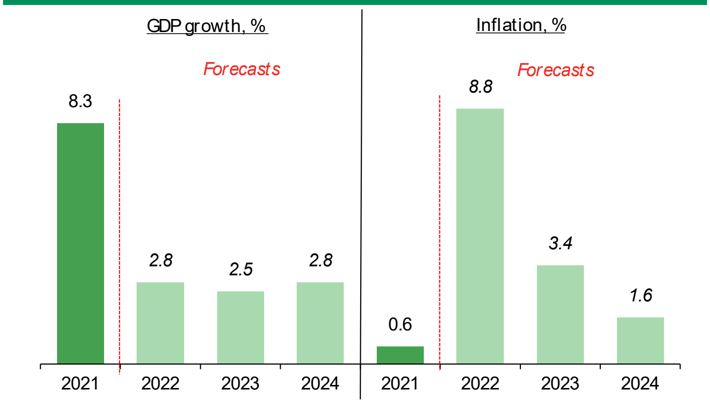

CHART 1 SOURCE: COMMISSION EUROPÉENNE, BNP PARIBAS

Greece's political situation also seems to be more stable than in Italy, where the coalition led by Mario Draghi remains fragile. The Greek Prime Minister, Kyriakos Mitsotakis, enjoys a comfortable parliamentary majority (The New Democracy party holds 158 seats out of a total of 300) and his popularity is high. Greece will hold its next general election in August 2023, which gives the government some time to make headway with certain key reforms such as the creation of a new land tax, an overhaul of the land registry system, and the privatisation of the Public Gas Corporation).

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1 Down 372,000, or 7.3%, between Q3 2009 and Q1 2022.
2 See: Fiscal Sustainability Report, European Commission, April 2022