Greece

The recovery continues

Supported by catching-up effects, the Greek economy managed to accelerate slightly despite a slowing European environment. Confidence indices have improved strongly and the Greek state has successfully returned to the capital markets. The new centre-right government is seeking to cut taxes on labour and capital without sacrificing fiscal discipline. The recovery will be a long process, but it is on track.

Growth accelerates slightly

In 2020, the Greek economy entered its fourth consecutive year of recovery. The turnaround now seems to be well underway, although the acceleration phase is proving to be more laborious. Activity was a bit subdued in early 2019, but strengthened over the summer and seems to have struck a more solid pace throughout the second half. We estimate last year's economic growth at about 2.3%, up from 1.9% in 2018. The economy was mainly driven by a rebound in exports of goods and services (+9.5% y/y in volume in Q3 2019) and investment (+2% y/y in Q3), while household consumption seems to have slumped.

The most recent economic data and survey results justify a certain optimism. Although the manufacturing sector is still lagging, in keeping with the European economic cycle, tourism revenues are solid, house prices are picking up and the construction sector has begun to recover. The rebound in retail sales and new car registrations suggests that household consumption strengthened in late 2019.

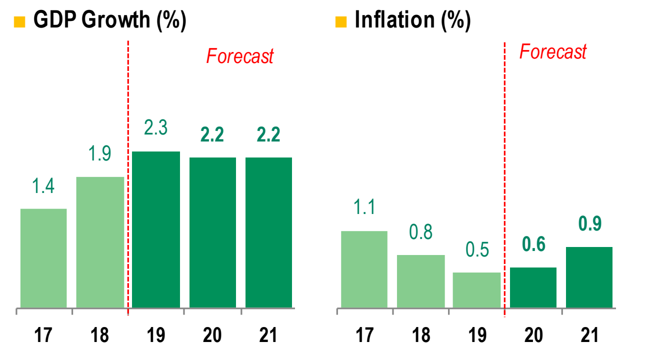
Most importantly, the European Commission surveys reveal a strong improvement in household confidence and in the business sentiment index at the end of last year, suggesting that domestic demand will make a bigger contribution in 2020. The recovery can also be seen in job market trends: ongoing job creations are obviously a key factor behind the improvement in the household situation, as the unemployment rate dropped back to 16.8% of the active population in September 2019. All in all, we expect 2020 growth to hold at roughly the same pace as in 2019, in line with the broad scenarios established after Greece exited the third adjustment plan.

Political alternation

As survey results suggested, the centre-right New Democracy party won the snap legislative elections in July 2019, with an absolute majority in parliament. Prime Minister Kyriakos Mitsotakis did not unravel the fiscal package adopted by the previous government in spring 2019, right before the elections (0.6pp of GDP in favour of households).

The 2020 budget calls for a series of measures, essentially tax cuts, designed to stimulate growth. The plan specifically calls for a cut in the corporate tax rate (to 24% from 28%), household income tax cuts, measures in favour of families, a decrease in social contributions and a cut in the dividend tax. The government claims that all of these measures, estimated at 0.6 pp of GDP, will be entirely financed by stronger measures to develop electronic payments systems and combat VAT fraud, higher municipal and property taxes.

1- Growth and inflation



Source: National accounts, BNP Paribas

The European Commission welcomed this budget proposal and is forecasting a fiscal surplus of 1% of GDP in 2020, in line with the Greek government, after an expected 1.3% in 2019. Last fall the Commission also gave the green light to the launch of a securitisation scheme that would enable banks to unload nearly half of the non-performing loans that are still encumbering their balance sheets[1]. Special purpose vehicles (SPVs) set up under the Hercules Asset Protection Scheme will buy up the banks' non-performing loans and resell the securitised products to investors. The Greek government will guarantee the senior tranches of the securitised NPL.

Bolstered by these conditions and a favourable monetary environment, the return of Greek central state on the debt capital markets was successful in 2019 with four issues of 5, 7 and 10-year bonds totalling EUR 9 bn. Benefiting from a sharp reduction in spreads, Greek 10-year rates declined to nearly 1.5% at the end of December.

Frédérique Cerisier
frederique.cerisier@bnpparibas.com

[1] Although non-performing loans have declined sharply in recent years, they still account for 42% of Greek bank loans outstanding and amounted to EUR 71 billion in September 2019.