GREECE

A RISKY TOURISTIC SEASON

Despite successfully managing the Covid-19 pandemic, Greece will not avoid a severe recession in 2020. The tourism industry – which accounts for nearly 20% of the country's GDP – offers no guarantee for a solid recovery. The prospect of a resurgence in contamination in Europe will weigh on the tourism sector in the coming months. The Greek banking system will further weaken, and public debt will rise sharply. That said, the European Central Bank (ECB) has launched the Pandemic Emergency Purchase Programme (PEPP) in March, which allows the ECB to purchase Greek sovereign debt. This has kept a lid on sovereign rates. This difficult context may entice the government to draw a recovery plan that targets strategic sectors less linked to the tourism industry.

Greece is one of the European nations that has best managed the Covid-19 pandemic. In early July, the country reported fewer than 200 Covid-related deaths and the contamination rate per inhabitant was among the lowest in Europe. The 45-day reopening period initiated on 4 May is now over. Since 1 July, Greece has reopened its borders to foreign tourists from 14 countries outside of the EU, although a ban remains in place for travellers from the United States, India, Brazil and Russia.

Despite managing well the epidemics, Greece's economy will be hard hit. The contraction in Q1 GDP was limited to only 1.6% q/q because strict lockdown measures were implemented late in the quarter (23 March). Even so, the tourism industry came to a standstill in April-May and consumption plummeted in April, with retail sales reporting a record monthly decline of 27.6%. The purchasing managers index (PMI) for manufacturing climbed back to 49.4 in June, but this still signals sluggish growth. According to the European Commission, GDP will contract by 9.7% in 2020 before rebounding by 7.9% in 2021.

In response to the crisis, the government set up an emergency fiscal stimulus equivalent to 10% of GDP[1]. This programme includes aid for the healthcare sector, the suspension of social security and VAT payments, EUR 800 in assistance[2] for employees unable to work because of the epidemics, an extension of unemployment benefits and state-backed loans via the Hellenic Development Bank.

Prime Minister Kyriakos Mitsotakis subsequently announced a EUR 24 bn recovery package focused on the tourism industry. The plans introduces a VAT rate cut from 24% to 13% on transport tickets (ferries, airlines, buses) as well as on non-alcoholic beverages. The government will continue to subsidize part of the wages of employees hit hard by the crisis, using the financial support from the European SURE programme[3].

The evolution of the job market will be scrutinised. The unemployment rate had dropped below 16% in February, the lowest level in nine years. The government now forecasts the unemployment rate to rise to about 20% by the end of the year[4].

Indeed, a rebound in tourism activity remains highly uncertain. The epidemic is not under control in the United States, China, Brazil and Russia, and the European Union has banned entry to all tourists arriving from these countries. If there is a resurgence of the epidemic in Europe (as seen in Portugal, Spain and Germany), the government would have to impose new restrictions.

GROWTH AND INFLATION (%)

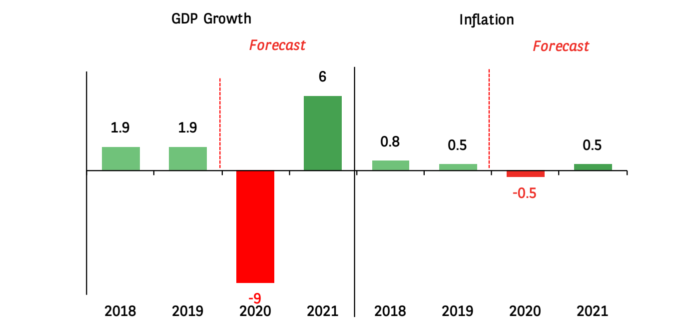

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

The Covid-19 crisis will further weaken the banking sector. Although non-performing loans have diminished in recent years, they still accounted for 36.45% of Greek bank loans outstanding at the end of 2019 (IMF data). This will disrupt the Hercules bank securitisation programme, which was implemented last fall with the objective of lowering the share of non-performing bank loans outstanding below 20% by end-2021. Greek sovereign rates have nonetheless remained under control, partly thanks to the ECB's Pandemic Emergency Purchase Programme (PEPP) launched in March. Greek sovereign debt is one of the assets eligible for purchase in the PEPP.

The European Commission is now forecasting a fiscal deficit of 6.4% of GDP in 2020, which will narrow to 2.1% in 2021. The debt to GDP ratio will climb from 176.6% in 2019 to 196.4% in 2020, before falling back to 182.6% in 2021.

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1 https://ec.europa.eu/info/sites/info/files/2020-european-semester-stability-programme-greece_en.pdf
2 Based on 45 days
3 Support to mitigate Unemployment Risks in an Emergency (SURE) is a EUR 100 bn programme implemented by the European Commission in April to provide loans to member countries (partially backed by the EU) to protect jobs and especially to finance job retention schemes.
4 In the Stability Programme sent to the European Commission, the government expects unemployment to rise to 19.9% at end-2020