GREECE

A SLOWER RECOVERY THAN OTHER COUNTRIES IN 2021?

Greece's economic recovery will be fraught with uncertainty in 2021. The Covid-19 hit to activity could last longer in the tourism industry – a key sector for the country – than in other sectors. The decline in tourist inflows in summer 2020 has limited significantly the rebound in Q3 GDP, which was much weaker than in other European countries. Some confidence indicators, particularly regarding the unemployment outlook, have worsened during the autumn. The conservative government plans to use the large amounts of money allocated by the European recovery fund to finance its stimulus plan, details of which will be finalised early next year. Despite that, public debt is likely to remain above 200% of GDP by the end of 2021, which is very worrying from a long-run perspective.

With GDP only recovering by 2.3% in Q3, Greece posted Europe's weakest rebound in output during the summer. Going into Q4, Greece's real GDP was still 12.1% below its level at the end of 2019[1]. The slump in service exports – related to the fall in tourism activity – continued in Q3, causing net exports to be a major drag on GDP. Imports rebounded more significantly in line with stronger consumer spending[2]. The European Commission now forecasts Greek GDP to contract by 9.0% in 2020, almost twice the decline initially anticipated in the stability programme. Output should then pick up by 5.0% in 2021.

Since Greece's economy is heavily dependent on tourism, its recovery could be weaker than those in other European countries in 2021. The Covid-19 crisis could cause a more long-term hit to the tourism sector, even if the pandemic fades gradually as one or more vaccines are rolled out in the near future. This will have evident ramifications for the labour market. In November, household expectations about future trend in unemployment has reached its lowest level since August 2013[3], a period when tensions regarding Greek sovereign debt were still intense. That said, government projections show a "contained" rise in unemployment in 2020, with the jobless rate climbing by 1.6 points to 18.9% before falling back to 17.9% in 2021. These forecasts are fairly close to the European Commission's estimates.

Against the backdrop of this fragile recovery, fiscal policy will play a crucial role in supporting activity again in 2021. The 2021 budget – which was still being discussed in parliament at the time of writing – includes a reduction in employee social-security contributions and new subsidies for companies hiring the long-term unemployed. At the same time, the National Recovery Plan, which will be finalised in the first quarter of 2021, will mainly be funded by the grants received from the European Recovery Fund. As a share of GDP, Greece will be the third-largest recipient of direct subsidies (10.0%), behind Croatia (12.1%) and Bulgaria (11.5%). If we incorporate loans, Greece could receive EUR 32 billion from the European Recovery Fund between 2021 and 2026, which is equal to 17% of its 2019 GDP.

Despite this support from the EU, Greece's public finances remain a concern in the long run. The European Commission has revised upward its forecasts regarding Greece's deficits for 2020 (6.9% of GDP) and 2021 (6.3%). As a result, public-sector debt is expected to hit 207.1% of GDP in 2020 before falling to 200.7% in 2021 thanks to the upturn in economic growth.

GROWTH AND INFLATION (%)

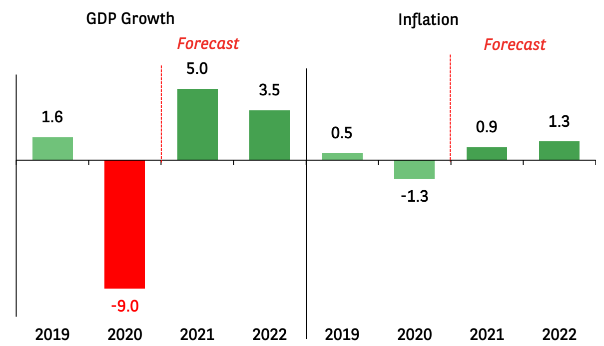

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Nevertheless, Greek bond yields – which have continued to fall over the autumn[4] – should remain low in 2021 thanks to the support from the European Central Bank, the European Recovery Fund and the low trend in inflation. This will reduce debt servicing costs further. According to the OECD, net interest payments on General Government Debt will continue to fall in 2020 (2.51% of GDP) and 2021 (2.43%). For the sake of comparison, net interest payments peaked at 7.2% of GDP at the height of the European crisis in 2011.

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1 As opposed to a European average of 4.4% (Eurostat).
2 After adjusting for seasonal variations.
3 European Commission data.

4 On 18 November, the yield spread to German Bunds fell below 1.6 percentage points for the first time in over ten years.