

## 5. GREECE

*Greece's economy is expected to be hit severely by the COVID-19 pandemic and the counter measures taken to limit its spread in 2020. The impact of the crisis is expected to be large due to the importance of the hospitality sector in Greece and the high share of micro enterprises, which are particularly vulnerable. Despite the swift policy response, the strong contraction in output is forecast to take a toll on employment. Nevertheless, the crisis is expected to be followed by a rebound in 2021. The recession and the cost of fiscal measures to tackle the crisis will lead to a sizeable deficit in 2020.*

### The economy was growing before the pandemic ...

Greece's economy entered 2020 on a relatively strong footing. GDP growth in 2019 reached 1.9%, only slightly below expectations. Growth was mainly driven by domestic demand and to a lesser extent net exports. The labour market was improving and employment grew by 2%, leading to a further decrease in the unemployment rate to 17.3% for the year overall.

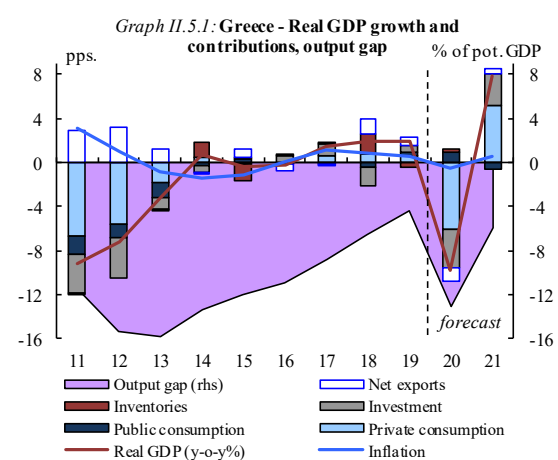
### ...but came to a sudden stop with the spread of the virus

While the main effects of the lockdown are expected to be concentrated in the second quarter of this year, Greece's large tourism sector is likely to be affected in the third quarter as well, as restrictions on travel are expected to remain in place and foreign demand for overseas travel may remain subdued. Since more than 70% of tourism receipts are concentrated in the main summer months, impediments during this period would have a large impact on overall exports of services in 2020.

Amid limited consumption opportunities during the lockdown and falling disposable income, private consumption is forecast to experience a strong decline in 2020. The fiscal measures enacted during the lockdown period to protect the economy are expected to cushion consumer spending to some extent and pave the way for a faster recovery, in 2021. Investment is expected to be strongly affected by the increased uncertainty and lower turnover in 2020 but the liquidity support provided by the Greek government and the EU institutions should help companies to bridge the lock down period and speed up the recovery.

Due to the global nature of the crisis, exports are expected to suffer strong declines in 2020. Greece's main export markets are expected to be amongst the worst affected countries, leading to a

drop in demand for Greek goods and services, also amplified by the large share of tourism and shipping in exports.



While the measures introduced by the government to protect the labour market are expected to avoid large-scale lay-offs and insolvencies, some 160 000 jobs could still be lost due to the crisis and the unemployment rate could rise to 20% in 2020. The partial recovery in 2021 is expected to have positive effects on the labour market, bringing the unemployment rate down again, to about 16½%. The downward pressure from wages, energy prices and industrial production is expected to lead to a fall in consumer prices by 0.6% in 2020 and a limited increase in 2021.

Greece's heavy exposure to travel restrictions is a source of downside risks. Due to the strong concentration of tourism in the summer months, even a short prolongation of restrictions beyond what is assumed in the baseline could have a strong downward effect. Moreover, the impact of the crisis on the large service sector and on micro-enterprises, which are more vulnerable, could be larger than expected and hold back the recovery.

### The cost of tackling the crisis will take toll on the primary balance

Greece's general government balance recorded a surplus of 1.5% of GDP in 2019, on the back a strong revenue outturn and transfers of the SMP-ANFA profit equivalents. The primary surplus monitored under enhanced surveillance reached 3.5% of GDP in 2019.

The budget balance will deteriorate significantly in 2020 due to the operation of automatic stabilisers and the cost of measures to address the crisis. The size of the fiscal measures amounts to 6.9% of GDP. The package consists of special unemployment benefits, a waiver of social security contributions for certain employees affected by the crisis, increased health care expenditure, a refundable advance scheme for enterprises and other measures. Some of the measures will be supported by the EU or the domestic investment budget.

The government also adopted 1.9% of GDP of measures that aim to improve the liquidity of the

private corporate sector. Payment of certain tax obligations have been deferred to autumn, and the authorities created a credit guarantees scheme implemented through the Hellenic Development Bank, which may unlock loans up around 5% of GDP. The measures adopted to fight the pandemic only have a temporary effect in 2020.

The fiscal outlook is subject to substantial risks, including the pending ruling of the Council of State on retroactive payments to pensioners, ongoing litigation cases against the Public Real Estate Company and possible costs of the restructuring of the Hellenic Post. Last but not least, there is considerable uncertainty as to the final cost of the emergency fiscal measures adopted by the authorities.

The general government deficit is forecast to reach 6¼% of GDP in 2020 and to decrease to about 2% in 2021 based on a no-policy-change assumption. Public debt is expected to increase to around 196% of GDP in 2020 before declining to around 183% in 2021, supported by the economic recovery.

Table II.5.1:

#### Main features of country forecast - GREECE

|                                                    | 2018   |              |       | Annual percentage change |       |       |       |       |       |       |
|----------------------------------------------------|--------|--------------|-------|--------------------------|-------|-------|-------|-------|-------|-------|
|                                                    | bn EUR | Curr. prices | % GDP | 00-15                    | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
| GDP                                                | 184.7  | 100.0        |       | 0.1                      | -0.2  | 1.5   | 1.9   | 1.9   | -9.7  | 7.9   |
| Private Consumption                                | 125.6  | 68.0         |       | 0.2                      | 0.0   | 0.9   | 1.1   | 0.8   | -9.0  | 7.5   |
| Public Consumption                                 | 35.4   | 19.1         |       | 0.6                      | -0.7  | -0.4  | -2.5  | 2.1   | 4.9   | -2.4  |
| Gross fixed capital formation                      | 20.5   | 11.1         |       | -3.8                     | 4.7   | 9.1   | -12.2 | 4.7   | -30.0 | 33.0  |
| of which: equipment                                | 9.4    | 5.1          |       | -1.3                     | -11.4 | 22.2  | -10.2 | 12.0  | -32.0 | 35.2  |
| Exports (goods and services)                       | 66.7   | 36.1         |       | 3.1                      | -1.8  | 6.8   | 8.7   | 4.8   | -21.4 | 17.9  |
| Imports (goods and services)                       | 67.2   | 36.4         |       | 1.0                      | 0.3   | 7.1   | 4.2   | 2.5   | -18.0 | 15.8  |
| GNI (GDP deflator)                                 | 183.7  | 99.5         |       | 0.0                      | -0.3  | 1.7   | 1.2   | 1.8   | -8.4  | 6.2   |
| Contribution to GDP growth:                        |        |              |       |                          |       |       |       |       |       |       |
| Domestic demand                                    |        |              |       | -0.2                     | 0.4   | 1.6   | -1.3  | 1.5   | -8.7  | 7.6   |
| Inventories                                        |        |              |       | 0.0                      | 0.1   | 0.0   | 1.8   | -0.4  | 0.2   | -0.2  |
| Net exports                                        |        |              |       | 0.4                      | -0.7  | -0.1  | 1.5   | 0.8   | -1.3  | 0.5   |
| Employment                                         |        |              |       | -0.4                     | 0.5   | 1.5   | 1.7   | 2.0   | -3.7  | 3.8   |
| Unemployment rate (a)                              |        |              |       | 14.5                     | 23.6  | 21.5  | 19.3  | 17.3  | 19.9  | 16.8  |
| Compensation of employees / head                   |        |              |       | 2.1                      | -0.9  | 0.5   | 1.3   | 1.1   | -3.6  | 3.2   |
| Unit labour costs whole economy                    |        |              |       | 1.7                      | -0.3  | 0.6   | 1.1   | 1.3   | 2.9   | -0.8  |
| Real unit labour cost                              |        |              |       | 0.0                      | 0.0   | 0.0   | 0.5   | 1.7   | 3.0   | -1.3  |
| Saving rate of households (b)                      |        |              |       | -                        | -     | -     | -     | -     | -     | -     |
| GDP deflator                                       |        |              |       | 1.7                      | -0.2  | 0.6   | 0.5   | -0.4  | -0.1  | 0.6   |
| Harmonised index of consumer prices                |        |              |       | 2.3                      | 0.0   | 1.1   | 0.8   | 0.5   | -0.6  | 0.5   |
| Terms of trade goods                               |        |              |       | 0.0                      | -2.3  | 1.2   | -1.0  | -1.9  | 1.1   | -0.9  |
| Trade balance (goods) (c)                          |        |              |       | -14.2                    | -9.3  | -10.3 | -9.9  | -10.3 | -6.8  | -9.4  |
| Current-account balance (c)                        |        |              |       | -8.9                     | -1.1  | -1.0  | -1.1  | -0.3  | 0.1   | -1.2  |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) |        |              |       | -7.2                     | 0.4   | 0.1   | -0.1  | 0.8   | 1.6   | 0.3   |
| General government balance (c)                     |        |              |       | -8.1                     | 0.5   | 0.7   | 1.0   | 1.5   | -6.4  | -2.1  |
| Cyclically-adjusted budget balance (d)             |        |              |       | -6.5                     | 6.2   | 5.4   | 4.4   | 3.8   | 0.4   | 1.0   |
| Structural budget balance (d)                      |        |              |       | -                        | 5.5   | 5.0   | 5.0   | 2.8   | -0.1  | 0.8   |
| General government gross debt (c)                  |        |              |       | 130.1                    | 178.5 | 176.2 | 181.2 | 176.6 | 196.4 | 182.6 |

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.