# GREECE

## Highlights

- **The pandemic has abruptly interrupted economic recovery.** Modest but steady GDP growth in recent years was brought to a halt by the outbreak of Covid-19 in March 2020 and the introduction of strict containment measures, pushing the economy into a deep recession.
- **A comprehensive fiscal response to the crisis is being implemented.** One-off fiscal measures to mitigate the impact of the crisis amount to more than 9 per cent of GDP and include deferral of tax obligations, enhanced liquidity for businesses, increased spending on public healthcare and extra support for the unemployed.
- **Important reforms are advancing.** Despite the pandemic the government is pushing ahead with important reforms in a range of areas, such as insolvency, public administration, pension reform, land reform, public procurement and digitisation – all anchored within the post-programme enhanced surveillance procedure.

## Key priorities for 2021

- **Strong support for the economy is needed for a fast recovery.** Although the stock of public debt remains one of the highest (relative to GDP) in the world, long maturities and a strong fiscal position will allow for further targeted support to local businesses and individuals affected by the pandemic.
- **Ensuring the soundness of the financial system is crucial.** The pandemic has put additional strains on the banking system, which still suffers from high levels of non-performing loans (NPLs), and new NPLs are likely to arise in the short term. Schemes to reduce NPLs are now in place and implementation will need to be stepped up once the economic recovery is well under way.
- **Energy sector reform should be pursued vigorously.** Greece has strong potential in renewables, and has an ambitious programme to close coal mines by 2023. This programme should be accompanied by a comprehensive package, in cooperation with international partners, to support the development of new energy sources and the retraining and upskilling of workers displaced by the closure of existing energy sources.

Main macroeconomic indicators %

| | 2016 | 2017 | 2018 | 2019 | 2020 proj. |
|---|---|---|---|---|---|
| GDP growth | -0.2 | 1.5 | 1.9 | 1.9 | -9.5 |
| Inflation (average) | 0.0 | 1.1 | 0.8 | 0.5 | -0.5 |
| Government balance/GDP | 0.6 | 1.0 | 0.9 | 0.4 | -9.0 |
| Current account balance/GDP | -2.3 | -2.5 | -3.5 | -2.1 | -7.7 |
| Net FDI/GDP [neg. sign = inflows] | -2.4 | -1.5 | -1.6 | -1.7 | -1.8 |
| External debt/GDP | 236.1 | 227.2 | 222.4 | 219.3 | n.a. |
| Gross reserves/GDP | n.a. | n.a. | n.a. | n.a. | n.a. |
| Credit to private sector/GDP | 107.3 | 99.0 | 89.1 | 79.2 | n.a. |

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## Covid-19: macroeconomic implications

**The Covid-19 pandemic has abruptly interrupted a steady economic recovery.** Before the pandemic, all economic indicators were moving in the right direction: positive growth (1.9 per cent in 2019), steadily falling unemployment, strong fiscal surpluses and economic sentiment at a 12-year high in early 2020. The lockdown (schools and all non-essential businesses closed) imposed from 23 March to 4 May 2020 severely affected local business and economic activity, as well as consumption levels. Nominal (real) disposable income of households declined by 0.4 per cent year-on-year in the first quarter of 2020, reflecting the impact of the Covid-19 pandemic mainly from mid-March 2020 onwards, when restrictions were put in place. The full effect of the crisis was seen in the second quarter, when GDP contracted by 15.2 per cent year-on-year. The halt of virtually all travel to Greece from March until 1 July heavily affected the tourism sector, which normally represents more than a fifth of GDP. Revenues from foreign tourism in August 2020 amounted to between 30 and 35 per cent of those in August 2019, and the industry expects heavy losses in 2020.

**Fiscal targets have been temporarily relaxed.** For several years, Greece has been running primary fiscal surpluses, meeting the target of 3.5 per cent of GDP in 2018 and 2019 in line with commitments made to international creditors. By agreement with the European Commission the same target for 2020 was suspended because of the Covid-19 crisis, and the government has responded to the pandemic with a major support programme amounting to more than 9 per cent of GDP (see below for more details). However, the stock of general government arrears remains large at €2.6 billion as of the end of August 2020, significantly above the target adopted in October 2019.

**Sovereign access to capital remains on favourable terms.** Greece's inclusion in the European Central Bank's emergency Pandemic Emergency Purchase Programme (PEPP) asset purchase scheme has reduced the previous risk premium on Greek government bonds and made access to capital markets easier. On 2 September 2020 the sale of €2.5 billion of 10-year Greek bonds was heavily oversubscribed, with a yield of 1.187 per cent, the lowest of any Greek bond transaction. However, as of October 2020 Greece's sovereign rating is still at least two notches below investment grade status.

**A deep recession in 2020 should be followed by a partial recovery in 2021.** We project GDP to fall in 2020 by 9.5 per cent, with a bounce-back of 4.0 per cent growth in 2021 as confidence returns, businesses reopen and tourism numbers start to recover to something closer to pre-pandemic levels. Risks are tilted to the downside amid extreme uncertainty about the future path of the pandemic and associated economic and social restrictions.

## Policy response to Covid-19

**A strong Covid-19 response is being implemented.** The government has introduced a set of one-off fiscal measures estimated at around €15.6 billion (9.1 per cent of GDP), financed from national and EU resources. The measures focus on supporting vulnerable individuals and businesses affected by the pandemic. For vulnerable individuals, there is income support (extension of regular unemployment benefits, 40 per cent reduction in rent for primary residence or €800 allowance for the self-employed and freelancers affected by the crisis). For businesses facing a drop in demand, the government is injecting liquidity into the economy via tax deferrals and guarantees to commercial banks by way of new loans (including a sovereign guarantee scheme of €2 billion in total for working capital loans from the Hellenic Development Bank). Enterprises can defer principal payments up to the end of 2020, while individuals affected by the crisis can receive a state subsidy of up to nine months of instalments (backed by primary residence as collateral). The package also includes strong budgetary support for the health sector and value-added tax reductions for goods needed for protection against Covid-19.

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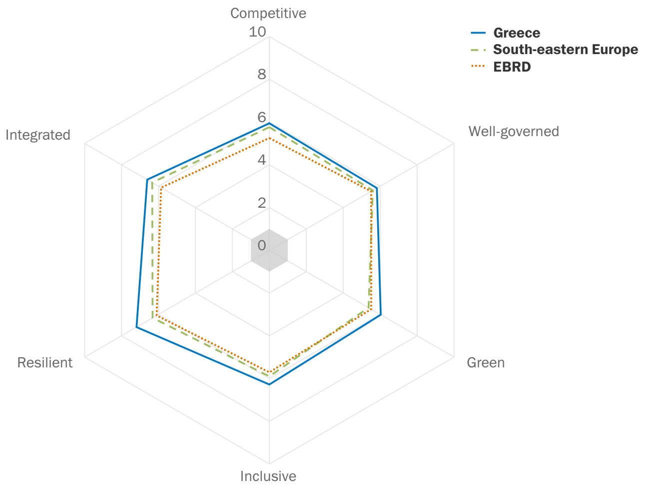
Assessment of transition qualities (1-10)




## Structural reform developments

**Reforms under the post-programme enhanced surveillance procedure remain largely on track.** Following the conclusion of the third economic adjustment programme in August 2018, Greece entered a post-programme enhanced surveillance framework, with regular reports by the European Commission (EC) including contributions from the European Central Bank, International Monetary Fund and European Stability Mechanism. In the seventh enhanced surveillance report, published by the EC in September 2020, Greece was deemed to have made significant progress on a number of major reforms, notably in insolvency, investment licensing, energy policy and public administration, despite the difficult circumstances caused by Covid-19. However, the crisis has led to delays in some areas, including clearance of public sector arrears, public revenue administration, healthcare, land reform and privatisation.

**A new insolvency framework is being prepared.** In late October, parliament passed the relevant legislation. The new code is based on best international practice in terms of simplifying requirements for effective restructuring, thus helping to preserve viable businesses. Scheduled to enter into force in January 2021, it introduces a unified code for bankruptcy and the restructuring of individual and corporate debt. The new code will be combined with other mechanisms, including the new "Hercules" asset protection scheme introduced in early 2020, to tackle the persistent problem of non-performing loans which, as of June 2020, amounted to 36.7 per cent of total loans in the banking system. E-auctions were temporarily suspended during the pandemic but they resumed in September 2020.

**The pace of privatisation has slowed but the commitment to make progress remains intact.** The Hellenic Corporation of Assets and Participations, which is in charge of maximising the value of major public corporations through privatisation and other means, has prepared a new business plan for the period 2020-22. The Covid-19 pandemic has adversely affected previous plans, but work is ongoing to bring major assets to sale in the coming months and years. Among other developments, closure of the financial transaction for Hellinikon (the former Athens airport) depends on the resolution of certain legal cases. A concession agreement was signed in May 2020 for Alimos Marina (one of the largest marinas in the south-eastern Mediterranean) and the tenders for the infrastructure and commercial parts of the Public Gas Corporation, DEPA, were launched in late 2019 and early 2020, respectively.

**The energy sector is undergoing a number of reforms.** The government remains committed to reforming the governance of the loss-making public energy provider, PPC, which continues to dominate the retail market, and introduce further competition by allowing other providers access.

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A number of energy market reforms have already been implemented, including the launch of a forward market for electricity. There are also ambitious targets to phase out lignite and promote renewables. Greater energy efficiency is also being targeted; in August 2020 the government launched a new €1 billion programme to improve the energy efficiency of buildings and develop additional infrastructure via state subsidies of up to 85 per cent of the cost of small-scale works to improve energy inefficiencies in residential properties and introduce electric car charging stations.

**The digital agenda is advancing.** A new national digital strategy is being prepared, which will set out a lengthy pipeline of projects designed to move Greece towards being an advanced digital economy. A public portal for government services (gov.gr) offers more than 600 services (as of September 2020), with further services in the pipeline. The digital agenda is part of a broader public administration reform, which is progressing despite the challenges of the pandemic. Important steps have been taken in the past year in the recruitment of public officials and codification of the rules relating to the recruitment of public officials. Judicial reform continues, with the completion of a mandatary mediation framework in March 2020 and progress in the e-justice system. Cutting red tape remains a priority for the authorities, with a focus on improving the investment licensing regime.