GREECE

Highlights

- **The economy is recovering strongly in 2021 after a deep contraction.** Gross domestic product (GDP) fell by 9 per cent in 2020, largely driven by a collapse in tourism and related services. A strong bounce back is evident in 2021, fuelled by rising investment, supportive fiscal policies and a partial recovery in tourist numbers.
- **Greece has entered the final year of the enhanced surveillance framework.** The latest European Commission report in September 2021 pointed to the good pace of reform implementation across a range of areas, although it also noted that progress was slower than expected in some areas.
- **A comprehensive reform plan, anchored within the European Union (EU)'s Recovery and Resilience Facility (RRF), has been developed.** A mixture of grants and loans, including close cooperation with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), will finance the new plan, "Greece 2.0". It will target in particular EU-wide green and digital targets as well as Greece-specific criteria to improve the export and supply chain performance, boost innovation and increase the size of Greek companies.

Key priorities for 2022

- **Short-term support for the recovery remains crucial.** Although GDP is likely to reach its pre-Covid-19 pandemic level soon, many companies and households are still suffering financial distress from the crisis and will need further assistance, especially if there is a resurgence of infections.
- **Recovery and resilience funds should be exploited to capitalise on Greece's comparative advantage in renewables.** Reforms in the energy sector, including the closure of coal mines, should be pursued vigorously, taking into account the social implications of the resulting changes and ensuring a just transition for those most affected.
- **Enhancing public-sector governance remains a priority.** Governance remains a weak point for Greece compared with EU peers and further progress is needed in areas such as judicial reform, the fight against corruption and implementing the new law on public procurement.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	1.1	1.7	1.8	-9.0	7.0
Inflation (average)	1.1	0.8	0.5	-1.3	-0.3
Government balance/GDP	0.6	0.9	1.1	-9.7	-7.5
Current account balance/GDP	-2.5	-3.5	-2.2	-7.4	-6.6
Net FDI/GDP [neg. sign = inflows]	1.5	-1.6	-1.7	-1.5	-2.0
External debt/GDP	228.8	231.8	244.5	298.2	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	100.7	91.7	80.9	82.1	n.a.

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Covid-19: macroeconomic implications

The economy is recovering strongly after a deep contraction in 2020. GDP fell by 9.0 per cent in 2020, due mainly to a collapse of the all-important tourism sector, contributing to a decline in the export of services of 38.7 per cent. Private consumption also fell by 4.9 per cent. Signs of a strong recovery are apparent in 2021, with GDP in the first quarter rising by 4.5 per cent on a quarter-on-quarter basis and a further 3.4 per cent quarter-on-quarter in the second quarter. Investment has bounced back strongly in the first part of the year, especially inventory accumulation, and consumption is rising, boosted by improved consumer sentiment – the economic sentiment indicator reached an 18-month high in August 2021.

Manufacturing is rising and tourism numbers are steadily moving back towards pre-Covid-19 pandemic levels. The purchasing managers index (PMI), an important indicator of business confidence, reached 59.3 in August 2021, versus 57.4 in July, the highest level for more than 20 years and a clear signal of expansion in the sector. Unemployment has continued to decline, reaching 14.2 per cent in July 2021, the lowest rate since November 2010. Preliminary figures from the tourism sector indicate a better-than-expected performance so far this year, albeit still well below the record levels of 2019. Tourist arrivals in August 2021 were 35 per cent below the numbers achieved in the same month two years previously.

Fiscal policy remains strongly oriented towards crisis-response measures. In Greece and other eurozone countries, EU fiscal targets were suspended in 2020 and 2021 because of the Covid-19 pandemic and associated need for governments to step in and mitigate its impact on businesses and households. Accordingly, the general government deficit in Greece was nearly 10 per cent of GDP in 2020 and is expected to be more than 7 per cent of GDP in 2021, driven by extensive pandemic-related support packages. While Greece's sovereign debt remains among the highest in the EU relative to GDP, the exceptionally low cost of market funding has enabled the state to support the economy. As of early September 2021, Greece had issued €14 billion in total from five syndicated transactions during 2021. The government's cash reserves stood at €34 billion as of early July 2021.

Robust growth is expected in the short term. The EBRD currently projects GDP growth of 7.0 per cent in 2021, moderating to 3.9 per cent in 2022 as the recovery continues, important infrastructure projects advance and the roll-out of the RRF and European Structural and Investment (ESI) Funds picks up pace. However, the level of uncertainty around forecasts is particularly high at present and significant downside risks remain for the Greek economy, mostly associated with the future path of the Covid-19 pandemic and the possible impact of a new strain of the virus on tourism and other services.

Policy response to Covid-19

The government is continuing to implement a wide range of measures in response to Covid-19. Covid-19-related fiscal measures reached €17.4 billion (10.5 per cent of GDP) in 2020 and are projected at €15.6 billion (9.1 per cent of GDP) in 2021. Beyond support to the heath sector (including cash bonuses for health sector workers), social transfers to vulnerable individuals have been implemented, including cash stipends, full coverage of health and pension benefit payments for employees of the most affected sectors, and extended support for the unemployed. For hard-hit businesses, support has focused on liquidity support, including loan guarantees, subsidies and deferred payments of taxes and social contributions. The value added tax (VAT) rate has been reduced for critical products.

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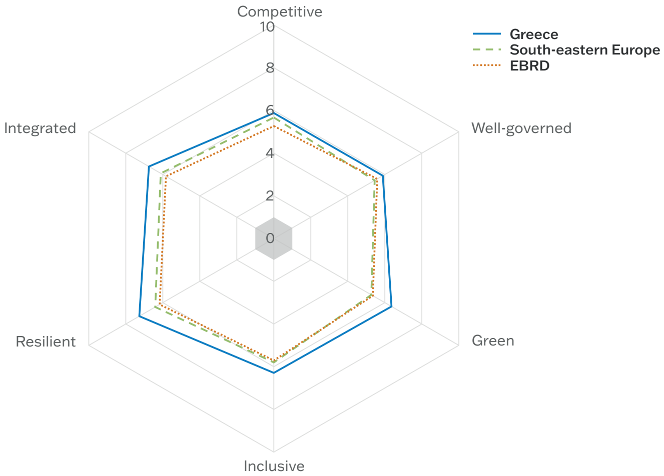
Substantial EU funds are also available to boost the post-Covid-19 recovery. Greece is expected to receive more than €70 billion in EU funding over the next seven years, with €30.5 billion of that coming from the EU's €750 billion RRF Plan (€17.8 billion in grants and €12.7 billion in loans), and the rest from the EU budget, including €21 billion from ESI funds. Major focus areas will include the green and digitalisation agendas. In July 2021 the EU Council formally approved the Greek Recovery and Resilience Plan, and the Partnership Agreement for the ESI Funds was signed. In August 2021 Greece received the first tranche of €3.96 billion in pre-financing from the RRF funding envelope. The Greek government is finalising operational agreements to channel €5 billion of RRF loans via the EIB, €500 million via the EBRD and the remaining funds via the four systemic local commercial banks, asking them to provide equal amounts of their own resources to be deployed in the Greek economy over the next few years.

Assessment of transition qualities (1-10)



Structural reform developments

Green transition remains a top priority. The government has reaffirmed its commitment to close all lignite plants by the end of 2025, with the vast majority shut down by the end of 2023. Approximately €11.7 billion (including one-third of the RRF grant allocation) of RRF funds is destined for projects that advance the green transition, with a further €10.4 billion to be mobilised from other investment resources. Of these, at least €1 billion RRF grants will be allocated to finance the deployment of first-generation renewable energy technologies as well as the piloting of second-generation technology, and €2.4 billion to finance energy efficiency in buildings, water and waste management products and other green priorities. The government is also proceeding with changes to the governance of loss-making public energy provider PPC, which continues to dominate the retail market, with plans to introduce further competition by allowing access to other providers. In September 2021 PPC launched a capital raising exercise of at least €750 million, which is expected to lead to the state's share in PPC (via two privatisation funds) falling from a majority 51 per cent to 34 per cent.

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Significant advances are being made on the digital agenda. A single digital portal has been available for more than 1,250 public services as of July 2021, following a new Digital Code. A new national digital strategy 2020-25, presented by the ministry in January 2021, set seven major objectives for digital transformation: safe, fast and reliable access to the internet for all; digitalising state services; developing digital skills; transforming digital enterprises; digital innovation support; using public administration data; and incorporating digital technologies into all economic sectors. This digital agenda is also one of the priorities for use of the RRF, with €6.8 billion out of the total RRF grants and loans envelope targeted at digital transformation projects.

Several important privatisations have advanced. The Covid-19 pandemic caused a number of projects to be delayed, and revenues from privatisation in 2020 were just €41 million. However, the pace has picked up again in 2021. In June 2021 the flagship Hellinikon (former Athens airport) project progressed, with the agreement signed for the transfer of shares from Hellenic Republic Asset Development Fund to Hellinikon Global. In August 2021 a preferred bidder was selected for the Egnatia motorway concession. In September 2021 Italgas from Italy was declared the preferred bidder for a 65 per cent stake in the Public Gas Corporation (DEPA) Infrastructure. Progress has also been made on tenders for stakes in several regional ports. However, other major privatisations, such as Athens International Airport and Hellenic Petroleum, are still on hold, pending a revival of potential investor interest.

Non-performing loans have dropped sharply. Data from the Bank of Greece released in September 2021 show a steep fall in the ratio of non-performing exposures (NPEs) to total exposures, from 32.9 per cent in March 2021 to 21.3 per cent in June. The asset-backed resolution scheme (known as Hercules) introduced in early 2020 is increasingly being used by the four systemic banks to reduce NPEs. Further efforts are under way to strengthen the insolvency framework following the new Insolvency Code's coming into force in June 2021.

Public administration reforms are advancing. Recent developments include finalising an action plan to improve the hiring process for civil servants and new measures to put a cap on the recruitment of temporary staff for public-sector jobs.

Vocational education and training and lifelong learning are being boosted. New legislation adopted in December 2020 aims to establish a national system of vocational education and training that should lead better training programmes and an upgrade of the necessary skills and infrastructure. The programme is timely, as the unemployment rate remains high, especially among young people (35.2 per cent as of July 2021).