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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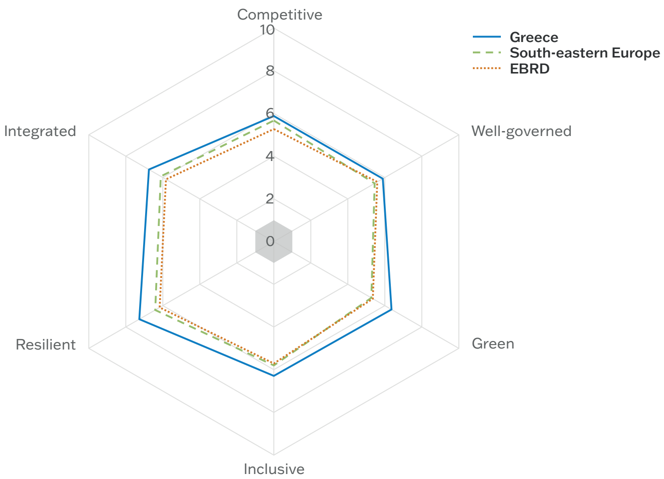
Substantial EU funds are also available to boost the post-Covid-19 recovery. Greece is expected to receive more than €70 billion in EU funding over the next seven years, with €30.5 billion of that coming from the EU's €750 billion RRF Plan (€17.8 billion in grants and €12.7 billion in loans), and the 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).

RUSSIA

Highlights

- **The economy is recovering from a moderate contraction in 2020.** Russia's economy proved resilient to the shock of the Covid-19 pandemic, thanks to strong fiscal and external buffers. Higher commodity prices and the lifting of Covid-19-related restrictions are supporting growth in 2021, despite the uneven pace of vaccination and resurgence of infections.
- **Monetary policy has turned from accommodative to tight amid a sustained rise in inflation.** The Central Bank of Russia (CBR) reversed its loose policy and undertook a series of policy rate hikes in response to inflation rising to a five-year high, driven by an improving labour market, a depreciating Russian rouble and higher global food prices.
- **The government is taking steps to reduce red tape.** The authorities are implementing a "regulatory guillotine", a universal review of business regulations aimed at cancelling or replacing superfluous ones. Meanwhile, progress on the infrastructure-oriented "national projects" scheme remains slow.

Key priorities for 2022

- **Steps are needed to increase the role and competitiveness of the private sector.** Russia's economy is being held back by a dependence on commodity exports, a dominant public sector and a challenging business environment. Reducing the role of the state in the economy through privatisations, addressing anti-competitive regulations, improving the business environment by reducing regulatory burdens and pursuing infrastructure development would help boost growth, entrepreneurship and competitiveness in the private sector.
- **Efforts to promote innovation, digitalisation and technology development need to be intensified.** Promoting the development of new technologies and digitalisation through incentives and investment would improve the productivity of the private sector and foster the growth of the manufacturing and services sectors. Hastening the digitalisation of public services would also have the benefit of cutting red tape and improving the business environment.
- **Transparency and impartiality in public governance need to be improved.** Steps need to be taken to address corruption in the public administration, while the impartiality of the judiciary needs to be ensured to provide a level playing field and predictable business environment for all businesses.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	1.8	2.8	2.0	-3.0	4.3
Inflation (average)	3.7	2.9	4.5	3.4	6.4
Government balance/GDP	-1.5	2.9	1.9	-4.0	-0.6
Current account balance/GDP	2.0	7.0	3.9	2.4	5.7
Net FDI/GDP [neg. sign = inflows]	0.5	1.4	-0.5	-0.2	0.5
External debt/GDP	32.9	27.5	29.1	31.8	n.a.
Gross reserves/GDP	27.5	28.2	32.9	40.2	n.a.
Credit to private sector/GDP	52.1	51.2	52.7	60.0	n.a.

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Covid-19: macroeconomic implications

The economy has been resilient and weathered the Covid-19 pandemic relatively well. As a result of years of prudent macroeconomic policies, the economy entered the Covid-19 pandemic with strong fiscal and external buffers. This provided enough room for an increase in government consumption, which, together with rising non-oil net exports (helped by a weaker Russian rouble), offset part of the contraction in household consumption. A rebound in oil prices since the end of 2020 and improving labour market conditions are supporting a return to growth in 2021; gross domestic product (GDP) grew by more than 10 per cent year-on-year in the second quarter of 2021.

A surge in inflation has led the CBR to adopt tighter monetary policy. Inflation has more than doubled since the start of the Covid-19 pandemic, reaching 7.4 per cent in September 2021, driven by rising global food prices, supply chain problems, a strengthening labour market and the depreciation of the rouble. In response, the CBR has undertaken six consecutive rate hikes, of a cumulative 325 basis points, since the start of 2021.

Despite uneven progress in vaccination and a resurgence of the Covid-19 pandemic, growth is expected to be relatively high in 2021. The authorities have avoided nationwide lockdowns despite a sharp rise in infections during the summer of 2021. Meanwhile, the rate of vaccination has picked up after a slow start early in 2021. As a result, private consumption and investment are expected to continue driving the recovery, despite the tightening monetary policy. At the same time, rising commodity prices and the relaxation of the Organization of the Petroleum Exporting Countries plus (OPEC+) production quotas will continue supporting net exports. As a result, the economy is forecast to grow by 4.3 per cent in 2021, followed by 3.0 per cent in 2022. The forecast is subject to upside and downside risks, depending on progress with the Covid-19 pandemic, the path of oil prices and the outcome of several geopolitical issues.

Policy response to Covid-19

Policy response has shifted towards measures to support households. In April 2021 the president announced a series of social spending measures, including one-off payments of up to RUB 10,000 (US$ 130) per child to families, which is estimated to cost around 0.3 per cent of GDP. While most regulatory measures to promote lending and the restructuring of loans to small and medium-sized enterprises (SMEs) were phased out early in 2021, hiring incentives offered to Covid-19 pandemic-affected businesses have been extended until the end of the year.

Efforts to increase the resilience of the economy are limiting the size of potential stimulus measures. Despite the fiscal room offered by a budget returning to surplus, the authorities' emphasis on reducing the sensitivity of the economy to sanctions means that future measures are unlikely to entail substantial spending.

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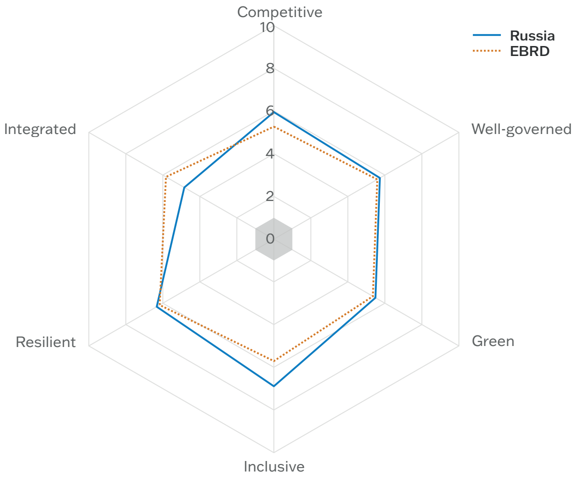
Assessment of transition qualities (1-10)



Structural reform developments

The authorities are undertaking a comprehensive review of business regulations. As part of the "regulatory guillotine" scheme, public agencies are reviewing more than 20,000 business regulations and requirements in consultation with the private sector. A large number of regulations, some of which date back to the Soviet era, are being cancelled or replaced based on cost-benefit analyses. The scheme is expected to improve the business environment by cutting red tape and aligning regulations more closely with the needs of businesses.

The government and businesses are preparing a new high-tech economy plan. Among other things, this involves the digitalisation of government services and SMEs.

Implementation of the "national projects" scheme remains behind schedule. Government expenditures were diverted from investment to consumption and social transfers during the early stages of the Covid-19 pandemic, slowing progress in implementing the national projects, a series of 13 large-scale infrastructure and social development projects set out by the president in 2019. Nevertheless, the authorities have stated that the government will tap into the US$ 186 billion National Welfare Fund to help finance planned investments in the future.

Legislation aimed at reducing greenhouse gas emissions was signed into law. While short of setting a deadline for net zero emissions, the new law, which entered into force in July 2021, aims to cut emissions to 70 per cent of 1990 levels by 2030. The law introduces reporting requirements and emission limits for large greenhouse gas emitters and creates a carbon credit system for companies to offset their emissions with climate-friendly investments and initiatives such as reforestation. Also, the issuance of green bonds continues to develop.

The authorities are revising tax treaties with major foreign direct investment (FDI) source countries. The government has adopted a more restrictive stance on double taxation, seeking to limit exemptions to withholding taxes on interest and dividends earned by foreign entities in Russia. Tax treaties with Cyprus, Luxembourg and Malta were updated over the past year following renegotiation, while the authorities have terminated the double taxation treaty with the Netherlands, which accounts for 9 per cent of the FDI stock in Russia.

TURKEY

Highlights

- **The economy made a robust recovery from the impact of the pandemic.** An unprecedented credit stimulus and monetary loosening helped Turkey avoid a GDP contraction in 2020, although at some cost to macroeconomic stability. Thanks to progress in vaccination and the lifting of lockdown measures since June 2021, economic activity has picked up despite a tight monetary policy and the phasing out of most stimulus measures.
- **Concerns about monetary policy effectiveness have continued as the president twice replaced the governor of the central bank.** Despite significant policy tightening and the simplification of the monetary policy framework, the removal of two governors has further undermined confidence in the central bank's ability to fight inflation, which has remained persistently in the high teens throughout 2021.
- **The authorities have renewed their commitment to certain reforms.** While managing the impact of the pandemic took precedence over reform implementation in the past year, in March 2021 the government published the Economic Reform Package, a high-level plan focusing on improvements in public finances, the financial sector, governance and employment.

Key priorities for 2022

- **Containing inflation needs to remain a priority as economic activity revives.** Inflation is facing pressures from commodity prices, rising domestic demand following the lifting of lockdowns and pass-through from currency depreciation. The authorities need to maintain tight monetary policy and avoid premature loosening.
- **Implementation of the announced Economic Reform Package needs to be prioritised.** Some of the measures in the plan, including increasing public procurement transparency, securitisation of banks' problem assets and improving the legal framework for public-private partnerships, would address long-standing problems if implemented.
- **Efforts to build back better need to focus on addressing inclusion challenges exacerbated by the pandemic.** The authorities need to prioritise efforts to improve the employment and entrepreneurship prospects of women, youth and refugees, who have experienced significant economic challenges due to the pandemic.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	7.5	3.0	0.9	1.8	9.0
Inflation (average)	11.1	16.3	15.2	12.3	17.4
Government balance/GDP	-1.6	-1.9	-3.0	-3.5	-4.9
Current account balance/GDP	-4.8	-2.8	0.9	-5.2	-2.4
Net FDI/GDP [neg. sign = inflows]	-1.0	-1.2	-0.8	-0.6	-0.8
External debt/GDP	52.6	53.6	54.8	60.4	n.a.
Gross reserves/GDP	12.5	12.0	13.9	13.0	n.a.
Credit to private sector/GDP	70.3	67.4	65.4	75.1	n.a.

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Covid-19: macroeconomic implications

The Turkish economy was one of the few worldwide to grow in 2020, although this came at the expense of macroeconomic instability. While the size of the on-budget fiscal stimulus was small, at 3.3 per cent of GDP, the authorities undertook significant off-budgetary measures, including monetary expansion and a major credit stimulus. Supporting a rebound in consumption and investment, the stimulus also led to an exacerbation of external imbalances and currency depreciation, giving rise to inflation, which reached 19.6 per cent in September 2021. Robust activity continued into 2021, with growth of over 14 per cent year-on-year recorded in the first half of the year.

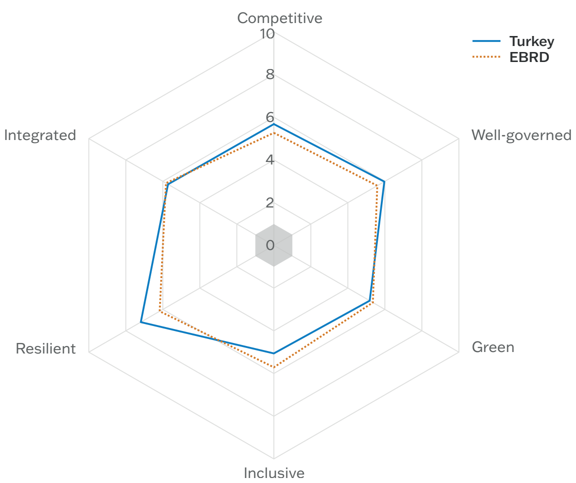
The lifting of restrictions has supported economic activity in 2021, despite tight monetary policy. Following the end of the credit stimulus in late 2020 and a cumulative policy rate hike of 10.75 basis points, pandemic support shifted to fiscal policy, including income support measures, such as the short-time work allowance. While some of these measures were phased out following the gradual reopening of the economy in June 2021, this has coincided with a rebound in tourism and services.

External demand and base effects will drive growth in 2021. Driven by the recovery in tourism, the declining real exchange rate and a favourable shift in global value chains, net exports will make a strong contribution to growth over the next year, enhanced further in growth terms by base effects. The persistent inflation needs to be contained in order for the central bank to rebuild its credibility, but there is a risk of the authorities relaxing policy prematurely due to the approaching electoral cycle in 2023. Subject to pandemic-related and policy risks, the economy is expected to grow 9.0 per cent in 2021, followed by 3.5 per cent in 2022. Downside risks include further waves of the pandemic and associated containment measures, and macroeconomic instabilities linked to external imbalances.

Policy response to Covid-19

The authorities' stimulus response to the pandemic has shifted from monetary policy and credit towards fiscal measures in 2021 and is being gradually withdrawn. Tight monetary and macro-prudential policies adopted to contain inflation since late-2020 have left fiscal policy as the main tool to support the economy. However, most of these measures, which included income support to workers on unpaid leave due to a temporary layoff ban, short-time work allowances and grants to artisans and small businesses, are being phased out as the pandemic-related restrictions started being lifted in June 2021.

Assessment of transition qualities (1-10)



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Structural reform developments

The government unveiled a high-level reform plan focusing on the public, employment and financial sectors. The Economic Reform Package announced in March 2021 includes steps to improve fiscal and public sector governance, such as the reform of state-owned enterprises, a framework law for public-private partnerships and the simplification of public procurement processes. Regarding the financial sector, the package contains actions to improve the capacity of asset management companies, facilitate the securitisation and sale of problem loans and promote the issuance of green bonds. With the aim of promoting the development of domestic capital markets, the package also contains plans to lower the barriers for initial public offerings and to establish a bond guarantee fund for private sector debt securities.

The government has released the National EU Green Deal Action Plan. Published in July 2021, the plan contains 32 actions in nine areas, including carbon border adjustment and pricing, circular economy, green finance (including green bonds) and Islamic finance, clean energy, sustainable agriculture and transportation. The plan also contains a clause on reassessing Turkey's stance on the Paris Agreement; this was subsequently ratified in October 2021. The action plan is in line with the government's existing green strategy documents in areas such as energy efficiency, the circular economy and decarbonisation of industry, with its implementation monitored by an official working group. The authorities expect the implementation of the action plan to support Turkey's efforts to deepen the EU-Turkey Customs Union agreement, currently under discussion by both parties.

The authorities took steps to promote energy efficiency and the circular economy. A mandatory deposit scheme for drinks bottles is slated to be rolled out in 2022, while the Environment Agency was established in December 2020 to manage the scheme and promote the circular economy. A directive for energy performance contracting in public buildings was adopted, which will facilitate the financing of energy saving investments by funding them through the cost savings they generate.

The Capital Markets Board has introduced new regulations enabling the financing of public sector projects through capital markets. The regulations, which entered into force in July 2021, allow for the establishment of funds linked to one or more public projects in areas such as infrastructure, health and energy. These funds will be able to issue securities linked to the income and debt of these projects, which is expected to improve their financing prospects.

The government is increasing financial support for apprenticeships for youth in vocational education. The wages of students studying at vocational training centres will be covered by the government, meaning that the cost of labour will also be eliminated for employers.

The scope of e-government has increased. According to the Online Service Index computed by the United Nations Department of Economic and Social Affairs (UNDESA), a composite indicator on the use of information and communications technology (ICT) by governments and the quality of the online services provided, with values between 0 and 1, Turkey scores 0.86, significantly above the EBRD regional average of 0.68. In the past year, 600 new services have been added and use of these services has increased substantially.