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• Overview
Private consumption still constitutes a significant share of GDP, higher than the eurozone average.

Fixed corporate investment has systematically been below the eurozone average as a percentage of GDP.

The value of goods exports has more than tripled in two decades, but the trade balance remains in deficit.

Revenues from tourism have more than doubled in the last decade, significantly easing the effects of the crisis.

Sources: ELSTAT, Eurostat, Bank of Greece
2019 was a year of stabilization for banks and recovery for construction activity

*Private deposits* have been steadily increasing over the past two years, after two periods of strong disruption, while corporate financing expanded in 2019 after 8 years of credit contraction.

*The construction sector* showed signs of recovery after a decade of cumulative drop, that reached 85%
Food products exports (manufacturing and primary sector) are expected to be less affected than other goods. However, the relevant Greek balance remains in deficit, despite the strengthening of exports since 2010.
Strong improvement in expectations in 2019 and early 2020. Deterioration in all sectors in March, excluding food products.
Fiscal adjustment was effective, but with disproportionate weight between revenue and expenditure

Since 2017, Greece has been at the average of Eurozone’s “core”, in terms of the General Government Balance

Higher pension spending over time compared to Eurozone and lower health spending, as % of GDP

Public health spending determines the trend of total health spending

* Forecast
Sources: AMECO database / European Economic Forecast, Autumn 2019 / Eurostat / ELSTAT
Intense decline of activity, primarily in Services, but also in Industry, due to restrictive measures domestically-internationally

- Mainly affected sectors: Wholesale - Retail Trade, Accommodation Services, Logistics - Transportation, Catering services, Manufacturing, Arts - Entertainment
- Strong decline in private consumption, exports and imports
- Reduction in employment ➔ Additional pressures on private consumption
- Fewer tax revenues, as well as social security revenues
- But also an increase of demand for specific services (health care, social care, creation of internet services, courier services) ➔ boost of employment in specific sectors
Significant developments and challenges in the banking system

- If the crisis is prolonged or there is a new outbreak of the virus, it is quite possible that new non-performing loans will re-emerge → banks would be more cautious with issuing new loans.
- Extensive decrease of demand for new loans is expected due to increased uncertainty → sharp decline in investment
- But also inclusion for the first time in ECB’s securities purchase program (PEPP), through a waiver for Greek securities from the eligibility criteria → security valve for the banking system, very important tool for recovery
- Acceleration of the implementation of the "HERACLES" Program for NPLs
Determinants of macroeconomic trends in 2020:
- Duration of current coronavirus pandemic, domestically and internationally, and the risk of a new outbreak of the virus within the year
- Intensity and time profiling of the recession in Eurozone (main trading partner)
- Size and duration of domestic policy interventions to address the crisis
- EU size and duration of policy interventions to address the crisis
- Oil prices change

Alternative hypotheses for the evolution of these factors shape different macroeconomic scenarios

Baseline Scenario:
- Maintain most domestic protective measures until mid-May, then gradually lift them
- Gradual lift of measures for the international passenger transport, in Greece and internationally, from end-May
- Expansion of state support measures until end-May
- Eurozone economic activity: recession intensity in 2020 ~ 1.5 * recession of 2009 (-6.7% y/y)

Businesses in the Tourism sector will be able to receive international tourism for a significant part of the tourist season

Adverse Scenario:
- Maintain most domestic protective measures until end-June, then gradually lift them
- Gradual lift of measures for the international passenger transport, in Greece and internationally, from end-June
- Expansion of state support measures until end-June
- Alternatively, the same duration of measures with the base scenario but a new virus outbreak in November
- Eurozone economic activity: recession intensity in 2020 ~ 2 * recession of 2009 (-9% y/y)

Businesses in the Tourism sector will be able to receive international tourism in a small part of the tourist season, while many will not be motivated to operate
Macroeconomic forecasts 2020

Macroeconomic forecasting tools
Combination of:
- A) Evaluation of the effect of an external disturbance (recession in the Eurozone), through a Vector Error Correction Model (VECM)
- B1) Estimation of domestic disturbance on the production side (assumption of production shocks in 12 key sectors)
- B2) Estimation of domestic disturbance on the demand side, through i) public consumption (from extraordinary expenditures), ii) private consumption (from rapidly rising unemployment), iii) fixed capital formation

Forecasts (Baseline Scenario)
- Public Consumption: ≈ +4.5% y/y
- Private Consumption: ≈ -4.0% y/y
- Investment: < -17% y/y
- Recession: ≈ 5.0% y/y
- Unemployment: 19.3%
- Deflation: 2.0%

Forecasts (Adverse Scenario)
- Public Consumption: ≈ +7.5% y/y
- Private Consumption: ≈ -8.0% y/y
- Investment: < -30% y/y
- Recession: ≈ 9.0% y/y
- Unemployment: 21.2%
- Deflation: 3.0-3.5%
Emergency economic support measures announced to mitigate the effects of the crisis

**Fiscal stimulus** of 3.6% of GDP

- Suspension of tax liabilities over €2.1 billion.
- Suspension of insurance obligations and coverage of insurance contributions of €1.6 billion.
- Emergency financial assistance to employees and the unemployed €1.4 billion
- Emergency public health expenditures
- Strengthening the primary sector
- Partial coverage of the Easter allowance for employees who have temporary suspension of employment contract and transfers to public health employees
- Support through the financing scheme of "advance payment return" for the SMEs

**Liquidity stimulus** & private sector financing

- Mechanism for providing guarantees to small and medium-sized enterprises with the participation of the European Commission to provide working capital loans up to €6 billion.
- Providing liquidity by the European Investment Bank (EIB) to banks for granting of new business loans up to €2 billion
- Guarantee mechanism in cooperation with the EIB, for investment loans up to €500 million
- Increase in resources of the Hellenic Development Bank by €250 million, for the granting of loans to companies affected by Covid-19, with a 100% subsidy on interest rate for two years
- Temporary interest rate subsidy for performing business loans
- Temporary suspension of loan installments under conditions
Fiscal & public sector financing measures

- Fiscal rules: European Commission activates for the first time the general escape clause from the Stability and Growth Pact.
- Eligibility of expenditures related to COVID-19 in the context of structural funds, direct liquidity (amounting to €37 billion) from money that has not yet been allocated under the 2014-2020 Programming Period. Greece will draw additional funds of €800 million.
- Initiative for Support mitigating Unemployment Risks in Emergency (SURE). The initiative will provide financial assistance up to €100 billion in the form of loans granted on favorable terms.
- Ability to support Member States with credit lines, from the European Stability Mechanism, if a country so requests, which corresponds to up to 2% of each country's GDP and could overall reach €240 billion.
- Announcement of Eurogroup to create a temporary and targeted Crisis Recovery Fund (Covid Recovery Fund).

Monetary & private sector financing measures

- ECB Q-E: New Pandemic Emergency Purchase Program (PEPP) of €750 billion, where Greek government and corporate bonds are for the first time eligible.
- ECB: Relaxation of the criteria based on which bank collateral is assessed as eligible. Greek banks have access to cheap liquidity sources of up to €13 billion.
- European Investment Bank: A €25 billion Guarantee Fund is being set up to facilitate SME funding, estimated at up to €200 billion, aimed at addressing the effects of the pandemic.
- European Investment Bank: Suggestion of a €40 billion package to finance the SMEs, through existing Community-funded guarantees co-funded by the Community Budget (€20 billion), emergency credit lines for working capital (€10 billion) and purchases of securitized loans with collateral (€10 billion).
Significant increase in telecommunications use in March compared to February (source: EEKT (GMOA))
- **Mobile telephones**: + 21.3% in data and 14.5% in speaking time
- **Landline telephones**: 36% in data and 46% in speaking time

Greece lags in the field of digital transformation compared to other EU countries

**Source:** Digital Economy and Society Index
Significant investments are needed to develop broadband, by adjusting regulatory framework to attract and implement them.

Low performance of Greece in internet access via mobile devices

Even lower ranking in terms of general internet access

Mobile broadband penetration in EU (per 100 inhabitants), 2018

Percentages of population with internet access in EU-28, 2018

(*) Percentage of population with internet access in Q1 of each year

Source: Eurostat
Challenges for the next day

• The global economy is in crisis after a long period where monetary policy was trying to enhance investment and growth rates by unconventional means.

• The Greek economy enters the new crisis with “underlying diseases”
  • Structural weaknesses, leading to low competitiveness, only partial structural adjustment during the programs
  • Very high public debt and a large percentage of non-performing private debt

• Fiscal stimulus but also policy credibility
  • In Greece, Europe and globally, determination of economic policy to support the solution to the health problem
  • Large increase in public deficits and debt as a reasonable response to an immediate disturbance treated as unique
  • There is no room for fiscal derailment for the Greek economy during the crisis. The credibility of economic policy is crucial.
The key role of tourism

• Contribution of inbound tourism
  • In 2019, €18 billion receipts (1/4 of all exports) and almost 34 million arrivals (of which 2.5 million by cruise). Domestic tourism at €2 billion.
  • Significant positive contribution to the economy in recent years, upwards from 2010, when €10 billion receipts and 15 million arrivals

• Prerequisites to survive in the short-term and strengthen in the medium-term
  • At country level: strengthening infrastructure (transportation, communications, health), interconnection with other sectors of the economy, improving quality
  • At EU level: Effective coordination, common rules and regulations to boost credibility and cost sharing
Need to enhance manufacturing

- **Creation of a second pillar focused on manufacturing**
  - It should be based on innovation in order to boost exports
  - The Greek economy currently has the lowest manufacturing rate and one of the lowest R&D in the EU

- **Challenges and Policy measures**
  - **Risk** of large economies to strengthen their *autarky policies* that will reduce the possibility of exports for Greek companies
  - **Risk** that strong economies’ large companies are supported through *state aid* (beyond a necessary first level), which would reduce the international competitiveness of the Greek exporters, resulting in further shrinking of the sector Greece and broadly in the EU periphery
  - Policies for *credit support* of companies in the periphery. The role of *banking union* is important.
Effective public sector and financing

• Challenges and Policy Measures
  
  • Accelerated **digital upgrade process**. Reorganization is necessary so that bureaucracy is not "upgraded" to the new digital environment
  
  • **Planning of public investments** and necessary projects with fast track procedures. **Partnership Agreement 2014-2020 and public investment program redesign**
  
  • Ensuring the "**culture**" of payments for both taxpayers and borrowers, through facilitations for the most affected and incentives for the consistent ones
The recession will be deep and a significant cost to companies and households for the current year cannot be avoided.

Even more important than dealing with the current recession is the magnitude and characteristics of the reaction from next year.

Dealing effectively with the health problem does not contradict doing the same for the economic one. It is a prerequisite for rebooting, including credibility issues. There will be a critical impact from developments in other countries as well.

There is a risk that the Greek and European economies will not only start next year from a significantly lower base but also have lower growth rates in the medium term.

The new crisis brings the Greek economy and European institutions in front of a moment of truth and decision that will determine the growth rates in the medium and long term.