

# Quarterly Report on the Greek Economy

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ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Overview of the report





# The Greek economy: good news, reasons to worry, and uncertainties

- There is good news about the Greek economy. At the same time, there are reasons for concern as well as parts of the economy where developments have not yet taken a clear (positive or negative) direction.
- Real GDP growth for 2021 is expected to be high (9-9.5%), confirming past IOBE analyses.
- High growth is expected in 2022, albeit lower than in 2021. Factoring in the expected developments in the global environment and the inflow of resources from the European Recovery Fund and other EU sources, a 4.5-5% growth rate is expected.
- The fiscal deficits, especially the primary ones, were quite large in the last two years due to the need to mitigate the economic impacts of the pandemic and because of relaxed European fiscal rules. For Greece, a country characterized by high levels of public debt, a tendency to create deficits, and a troubled history regarding fiscal management, achieving a sustainable fiscal balance is crucial. In fact, high growth rates cannot be supported without a solid fiscal basis.
- The expected increase in interest rates, globally, should crucially be accompanied by a decrease of the differential cost of financing (spread) that separates the Greek economy from other European economies.
- The evolution of inflation will be of central economic and political importance. Price increases in products and services are expected when economies recover quickly after a deep recession. They can, however, lead to a sustained upward spiral for prices and wages which will undermine real growth and can reduce real incomes.



# The Greek economy: good news, reasons to worry, and uncertainties

- The fiscal path of the country also has a broader European dimension because of the Stability and Growth Pact.
- A key issue is the shift of the productive model of the country, in particular the enhancement of exports and investment. In this regard, there are positive signs, such as the interest that foreign companies and investors show in the Greek economy, the resilience of Tourism, and the significant increase in exports of goods from sectors in Manufacturing. On the negative side, the regulatory role of government was enhanced, and state interventions became more frequent during the pandemic.
- The pandemic has not yet ended and, while there is reasonable hope that it will end this spring, its costs remain high. Moreover, the emergence of new health, financial, geopolitical, or other crises in the future cannot be ruled out.
- Enhancing competitiveness, broadening the productive base, improving the adaptability of the economy, and increasing the efficiency of the public sector, therefore, become more urgent.
- The overall prospects of the Greek economy in 2022 are positive, because of the current strong growth trend and continuous access to funding. However, these conditions do not ensure that the systemic problems that have characterized the Greek economy for the past 10 years and following the financial crisis, have been solved.



# Global economy: Recovery continues at a slower pace, high inflation

- The effects of new waves of the **COVID-19 pandemic** differ across countries with a corresponding differential impact on economic activity.
- **Strong recovery in the third quarter** in many countries; the growth rate was, however, lower than in the previous quarter, as economic activity is slowly converging to its pre-pandemic levels
  - OECD Countries: 4,6% annual growth rate in the third quarter (down from 13,2% in the previous quarter) which offset the 3.7% recession of the third quarter of 2020.
- **The speed of recovery differs across countries**, depending on the size of the fiscal stimulus, the dependence on vulnerable sectors, and the share of vaccinated persons in society.
- **Inflation** is higher now than it has been in many years due to the inability of the global supply chain to meet the growing demand and the sharp rise in energy prices.



# Global & European challenges in the medium term

## Global challenges

- Containment of the spread of the most recent COVID-19 mutation without imposing restrictive measures
- Restraint of inflationary pressures
  - Smoother operation in certain supply chains
  - Hamper the increase in demand through, gradually, tighter monetary policy (FED, ECB)
- Further advances regarding COVID-19 vaccines and medicine; distribution to poorer countries → reduced inequality, emergence of fewer mutations

## Challenges in Europe

- Implementation of the European Recovery Fund
- Rapid price increases
- Supply is not sufficient to serve the increase in demand, especially in the production of durable and investment goods
- Achievement of a consensual Brexit by the EU



# Greece: Strong recovery continued in the third quarter of 2021 because of the increase in exports and in private consumption

GDP increase by 13.4% in the third quarter of 2021; the 2<sup>nd</sup> strongest recovery in the Eurozone (average: +3.9%). It had increased by 16,6% in the second quarter of 2021, while in the third quarter of 2020, it had decreased by 11.0%.

**Jan.-Sept. '21: 8.9% recovery; 9.3% recession during the same period in 2020**

## **Most important changes in the components of GDP (third quarter):**

- Unprecedented increase in exports, +48.6% (34.7% decline in the third quarter of 2020)
  - Mainly resulted from the increase in services exports (+84.6%). Exports of products continued to increase (+9.2%)
  - The external balance improved, despite the significant increase in imports (+21.7%), mostly of services (+58.1%)
- Household consumption increased by 8.6%, following a 13.1% increase in the second quarter and a 9.0% decrease a year ago
  - Public consumption increased by 5.7% in the third quarter of 2021, up from 5.6% in the previous quarter and 5.3% a year ago.
- Investment decreased by 5.0% (following a sharp 42.2% increase in the third quarter of 2020); The decline resulted from the smaller inventories expansion compared to last year
  - Fixed capital formation increased by 18.1%, following a 0.6% increase a year ago



# The 2021 government budget met the target, mainly due to increased revenue

- **Government budget balance Jan.-December 2021: €14.9 billion deficit, against a deficit target of €17.5 billion.**
- **Primary balance: €10,3 billion deficit, against a deficit target of €13.0 billion.**
- Target exceeded, mainly due to increased revenue (+€1.46 billion compared to the target):
  - Increased income tax revenue (+€722 million), mainly from individuals (+€520 million)
  - Increased transfer receipts (+€513 million), due to extraordinary revenue from ANFAs in December (+€644 million)
  - Increased property tax revenue (+€100 million)
- **Reduced expenditure (-€1.17 billion) compared to the target:**
  - “Other transfers” were lower than expected (-€784 billion) and so were “appropriations under allocation”, which totaled €0 against a target of €671 million.





# 2022 Budget: The goal is to reduce the deficit by reducing transfers

- **General government balance: €7.42 billion deficit (4,0% of GDP)**
- **General government primary balance: €2,68 billion deficit (1,4% of GDP)**
- State budget balance: 5.4% of GDP (€10.17 billion), down from 11.2% last year; mostly due to expenditure cuts:
  - Reduced primary expenditure, by €5.24 billion, due to reduced transfers (-€8.12 billion).
- Increased net revenue (+€4,5 billion) due to:
  - Higher goods & services tax revenue (+€2.3 billion) and higher income tax revenue (+€1.3 billion).
- Smaller general government deficit due to:
  - Public legal entities surplus (€1.95 billion) and Social security administration surplus (€960 million).



# Trends in short-run activity indices

## Industry

- From January-November 2021, industrial production increased by 10.0%; it had decreased by 2.6% in the same period last year.
- Industrial production also increased in the Eurozone (+8.4%); an increase which almost offsets the losses of the same period in 2020 (-8.3%).

## Construction

- Production increased by 4.7% in the first nine months of 2021; it had decreased by 13.3% in the same period last year.
- Activity increased by 27.0%, as measured by the number of permits, and 53.1%, as measured by surface area.

## Tourism

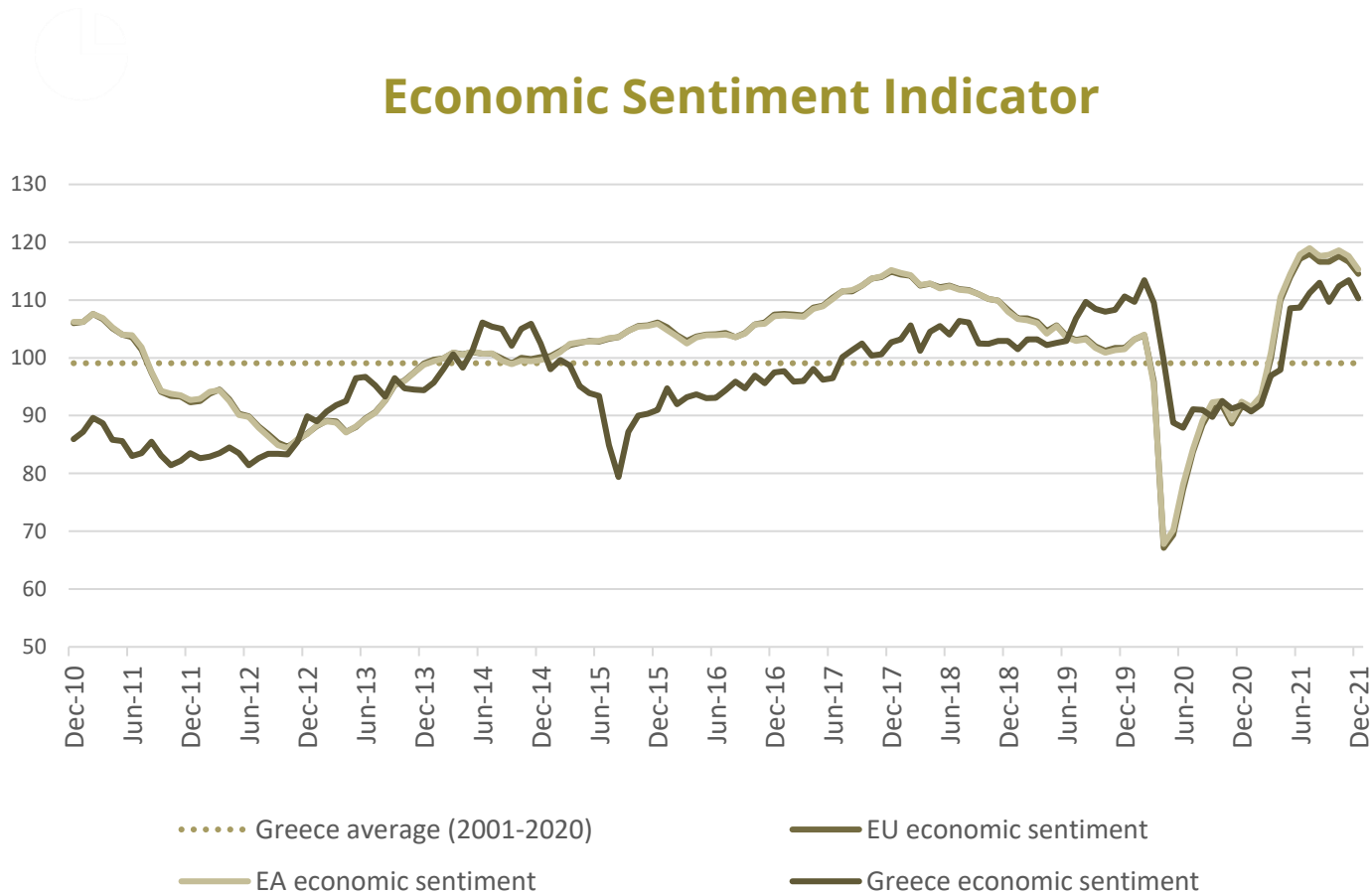
- Turnover increased sharply, by 76.6%, in the first nine months of 2021. It is, however, 35.7% lower than it was 2019.

## Retail

- The volume index increased by 8.9% from January-October of 2021. It had declined by 2.8% a year ago.



Small increase in the Economic Sentiment Indicator in the fourth quarter. At pre-pandemic levels.

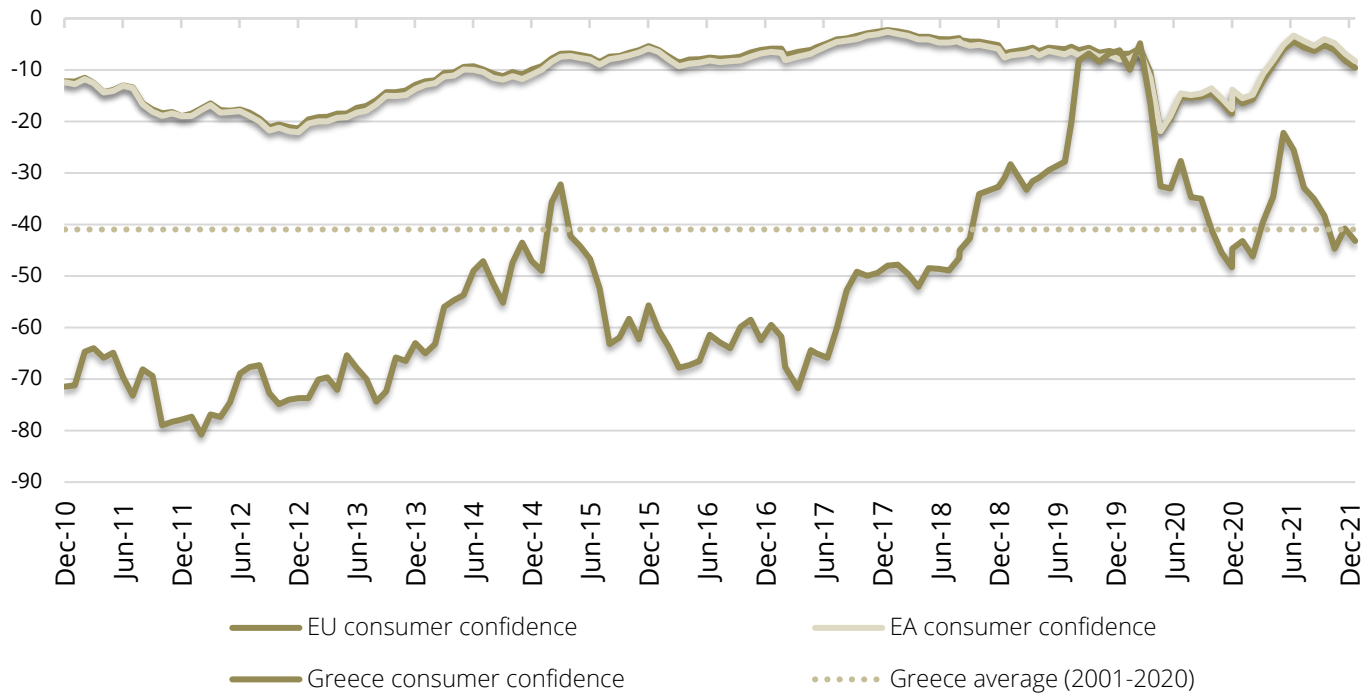


Sources: IOBE, European Commission



# The Consumer Confidence Index declined in the fourth quarter of 2021

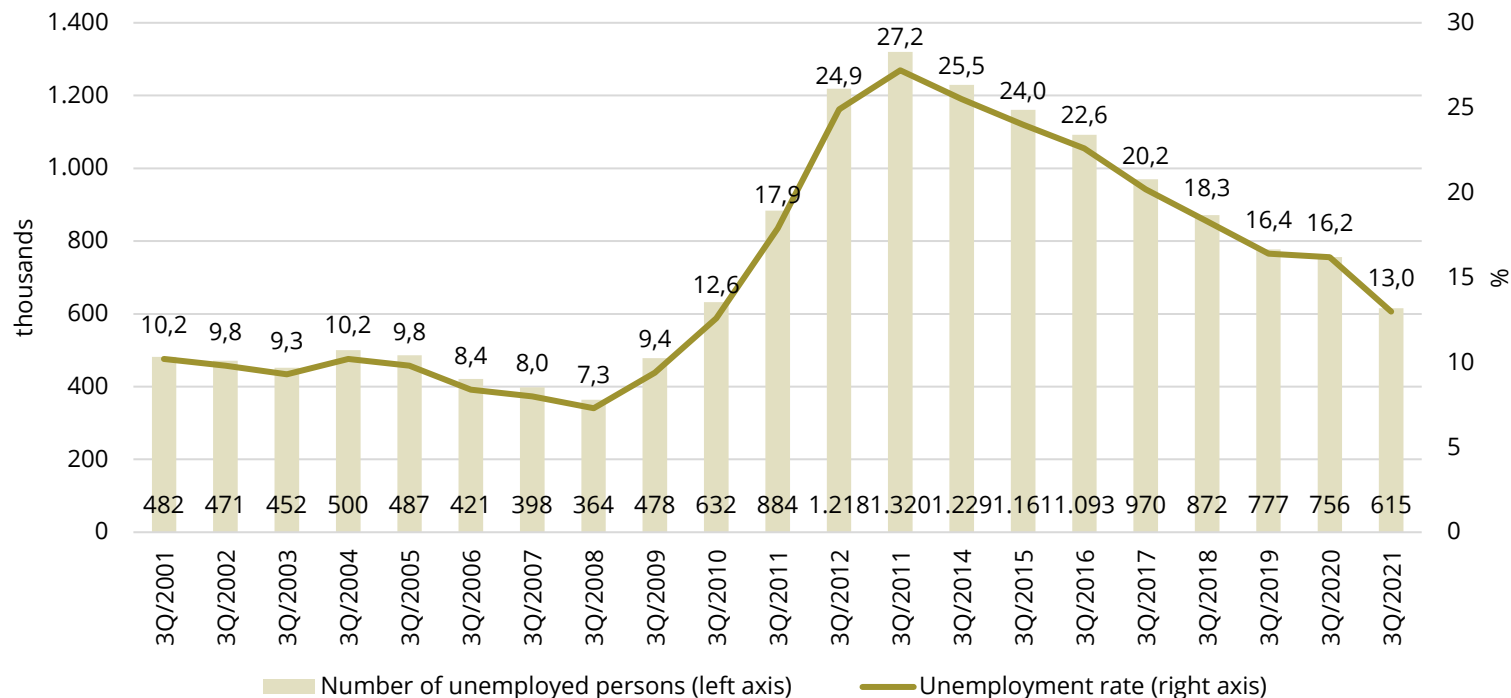
## Consumer Confidence Index



Sources: IOBE, European Commission

# Significant reduction of unemployment in the third quarter of 2021

## Number of unemployed persons and unemployment rate in Greece



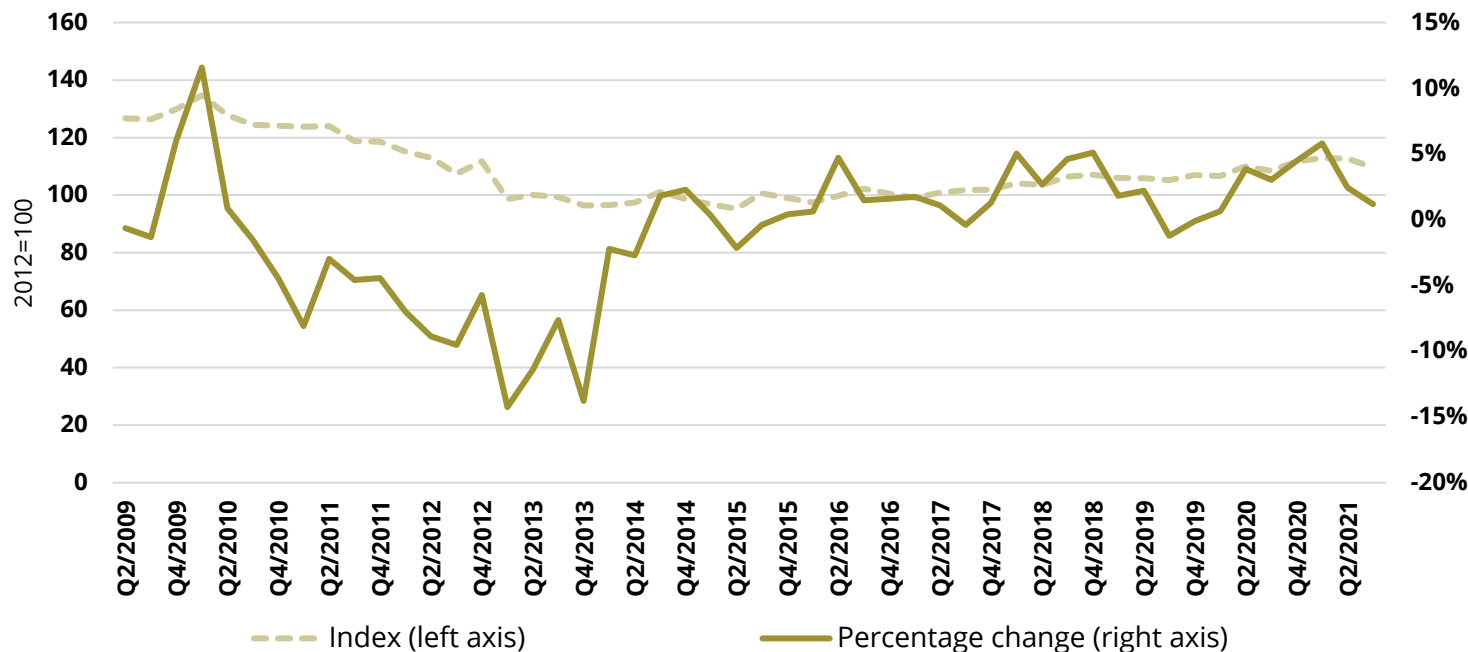
Source: ELSTAT

- The unemployment rate reached 13.0% in the third quarter of 2021, down from 16.2% in the third quarter of 2020. Close to the third quarter of 2010 levels.
- Employment increased in 13 industries/sectors. Indicatively: Tourism (+49.1 thousands), Primary sector (+39.1 thousands), Public Administration (+37.5 thousands), Manufacturing (+31.3 thousands), Professional, scientific, technical activities (+25.1 thousands).
- Employment declined in 8 industries/sectors. Indicatively: Education (-12.2 thousands), Financial & insurance activities (-7.5 thousands), Wholesale-Retail trade (-6.0 thousands)



# The seasonally adjusted labor cost index increased for the seventh consecutive quarter

## Evolution of seasonally adjusted labor cost index



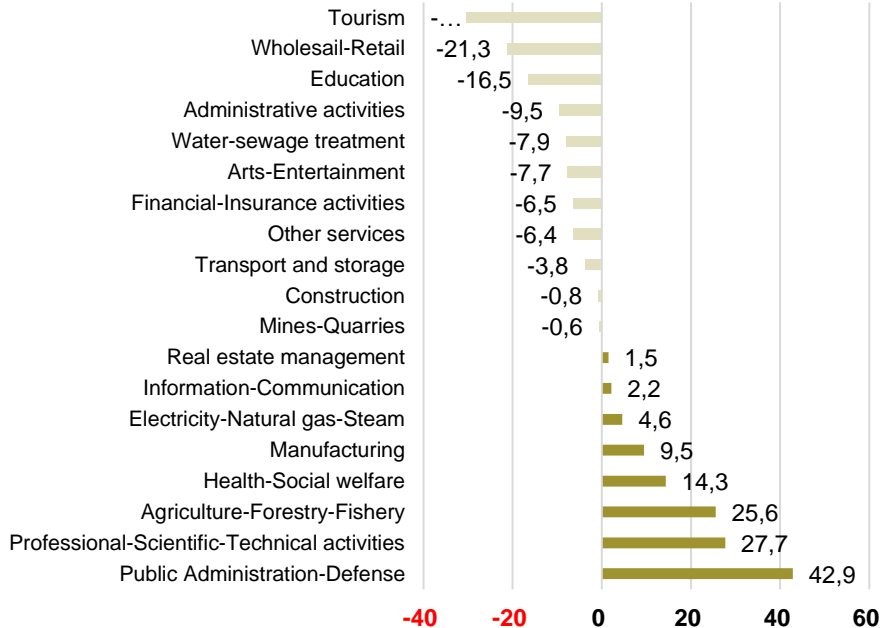
Source: ELSTAT

➤ 1.2% higher in the third quarter of 2021 compared to the third quarter of 2020

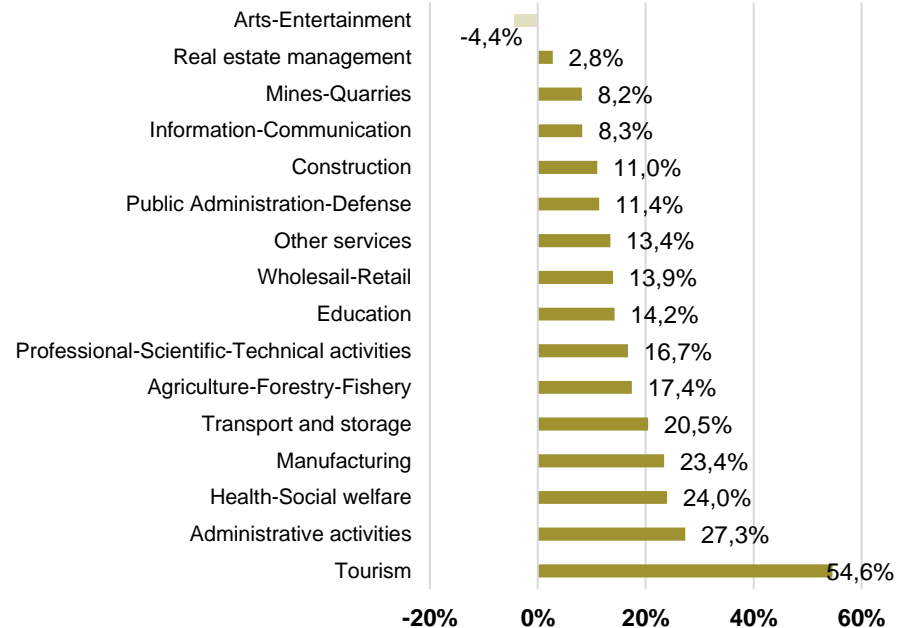


# Employment during the pandemic (Jan.-Sept. 2021): No correlation between turnover and employment, due to the employment support measures

Change in employment (in thousands of persons) (Jan.-Sept. 2021/2020)



Percentage change in employment (Jan.-Sept. 2021/2020)



Source: ELSTAT

- Small increase in employment in the first nine months of 2021 compared to the same period in 2020 (+0,3% or +11.8 thousands), despite the large increase in turnover (+16.8%). Slightly lower employment in 2021 than in 2019 (-0.7% or -27.9 thousands).
- There is no correlation between turnover and employment during Jan.-Sept. 2021, at industry level of activity. This is mainly a result of job retention, due to the employment support measures (suspension of work with special purpose compensation, SYN-ERGASIA (COOPERATION) program, etc.)
- Largest declines in employment from Jan.-Sept. 2021: Tourism (-30.3 thousands), Wholesale-Retail trade (-21.3 thousands), and Education (-16.5 thousands). Largest increases in employment during the same period: Public Administration (+42.9 thousands), Professional-Scientific-Technical activities (+27.7 thousands), and Primary sector (+25.6 thousands).



# Employment during the pandemic (Jan.-Sept. 2021): Salary earners increased from 2020. The employment flows balance is the same as in 2019. Small increase of part-time employment.

**Employment flows balance in the private sector**

	9M/2019	9M/2020	9M/2021	Absolute change (2021/2019)	% change (2021/2019)	Absolute change (2021/2020)	% change (2021/2020)
<b>Inflows</b>	2.173.467	1.577.213	1.769.457	-404.410	-19,6%	192.244	12,2%
<b>Outflows</b>	1.885.930	1.423.037	1.484.600	-401.330	-21,3%	61.563	4,3%
Layoffs	1.097.600	821.461	775.863	-321.737	-29,3%	-45.598	-5,6%
Resignations	788.330	601.576	708.737	-79.593	-10,1%	107.161	17,8%
<b>Balance</b>	<b>287.537</b>	<b>154.176</b>	<b>284.857</b>	<b>-2.680</b>	<b>-0,9%</b>	<b>130.681</b>	<b>84,8%</b>

Source: Ergani database

**Evolution of full-time and part-time employment**

	9M/2019	9M/2020	9M/2021	Absolute change (2021/2019)	% change (2021/2019)	Absolute change (2021/2020)	% change (2021/2020)
Part-time employment	357,9	347,1	312,4	-45,5	-12,7%	-34,7	-10,0%
Full-time employment	3.556,2	3.527,4	3.573,7	17,5	0,5%	46,4	1,3%
<b>TOTAL EMPLOYMENT</b>	<b>3.914,2</b>	<b>3.874,5</b>	<b>3.886,2</b>	<b>-28,0</b>	<b>-0,7%</b>	<b>11,7</b>	<b>0,3%</b>

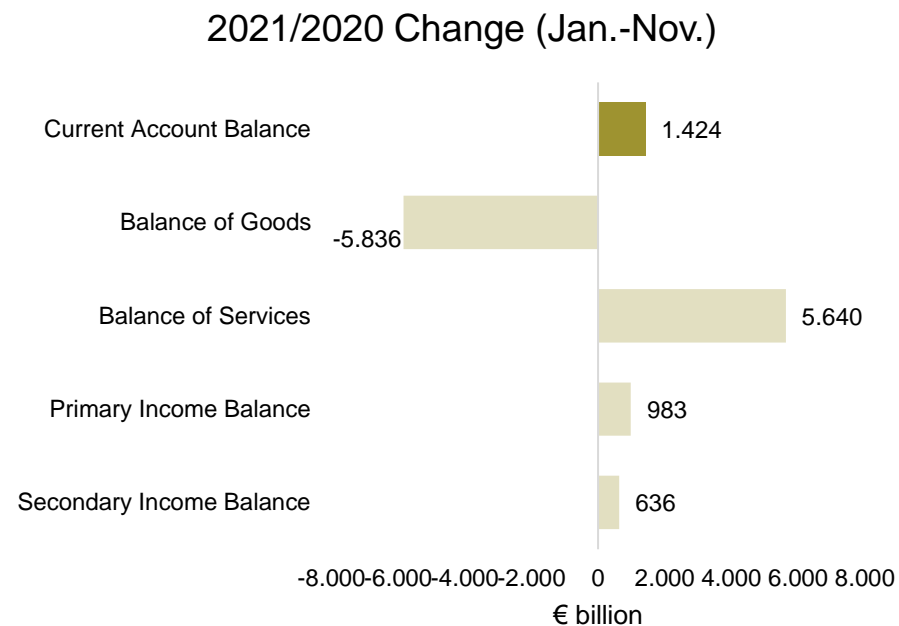
Source: ELSTAT

- Salary earner recruitments recovered in the first nine months of 2021 (+192.2 thousands) compared to the same period in 2020 but remain lower than their 2019 levels (-404.4 thousands).
- The employment flows balance in 2021 is the same as in 2019 (+284.9 thousands compared to +287.6 thousands in 2019).
- The, significantly, smaller absolute figures for employment inflows (-404.4 thousands) and outflows (-401.3 thousands), in combination with the much smaller decline in total employment (based on ELSTAT data, -159.8 thousands), are an indication of an increase in undeclared work.
- The occupational status distribution has not changed substantially compared to the first nine months of 2019: self-employed (+0.2%, reaching 1,128.2 thousands), salary earners (-0.9%, reaching 2,639.2 thousands), unpaid family workers (-4.2%, reaching 118.7 thousands).
- The share of part-time employment in total employment decreased, from 9.1% in 2019 to 8.0% in 2021, with a corresponding increase in the share of full-time employment from 90.9% to 92.0%.





# The Current Account Deficit declined in the first 11 months of 2021: €8.9 billion, down from €10.3 billion in 2020



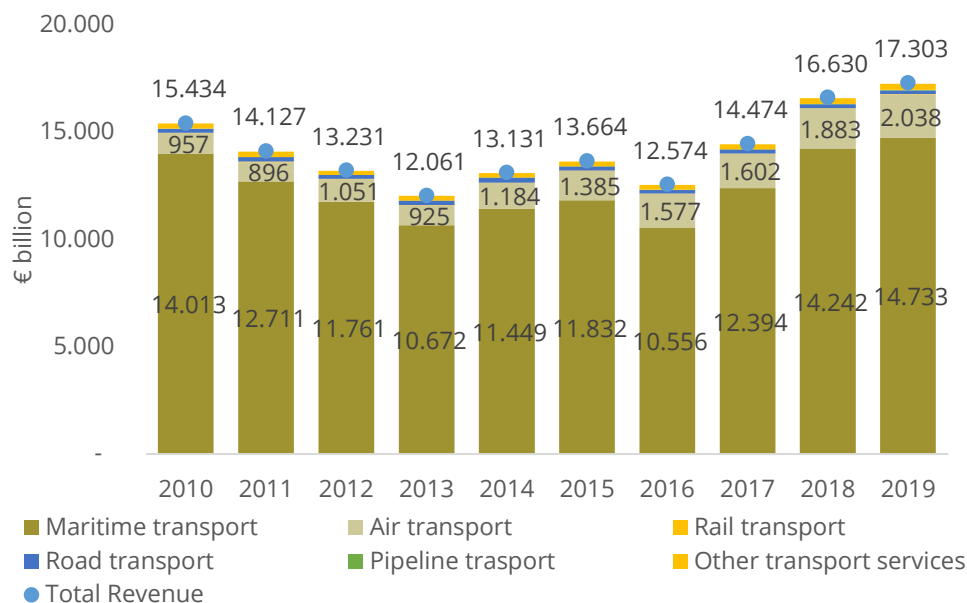
Source: Bank of Greece

- Improvement in the following balances: Services, Primary Income, and Secondary Income. The Balance of Goods deteriorated
- Fuel imports increased more than fuel exports due to the global increase in prices, worsening the relevant balance
- Tourism revenue increased sharply (144%) in the first 11 months of 2021; however, it is still only 60% of its 2019 level

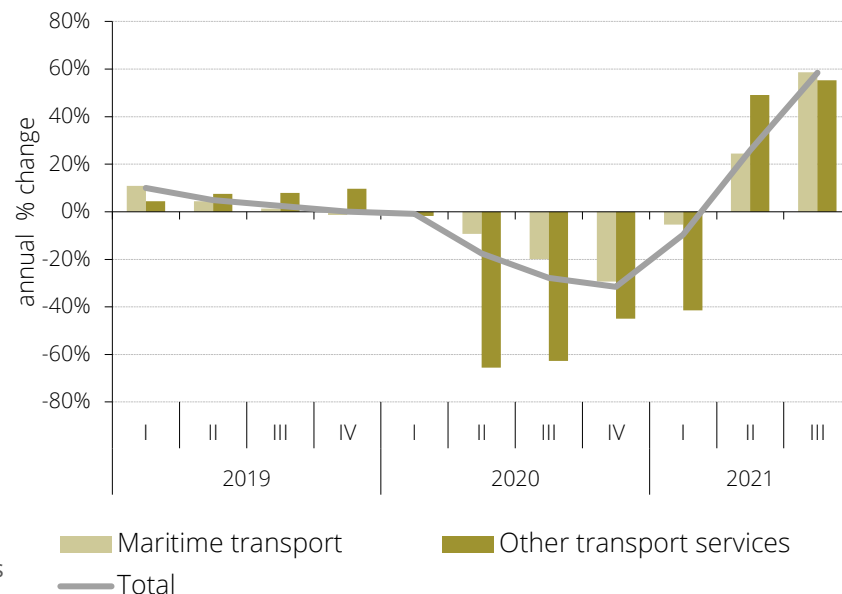


# Transport services significantly contribute to the Current Account Balance and the Greek economy in general

**Transport Revenue (by service category)**



**Annual % change in Transport revenue**

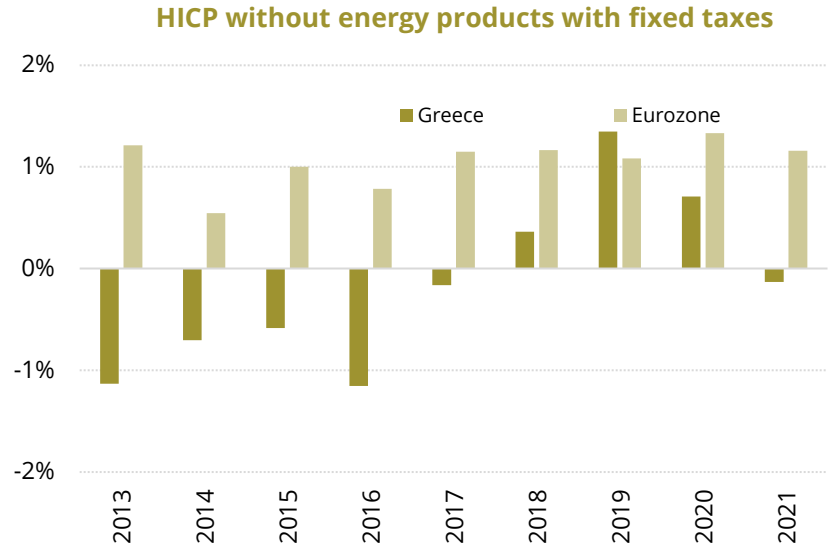
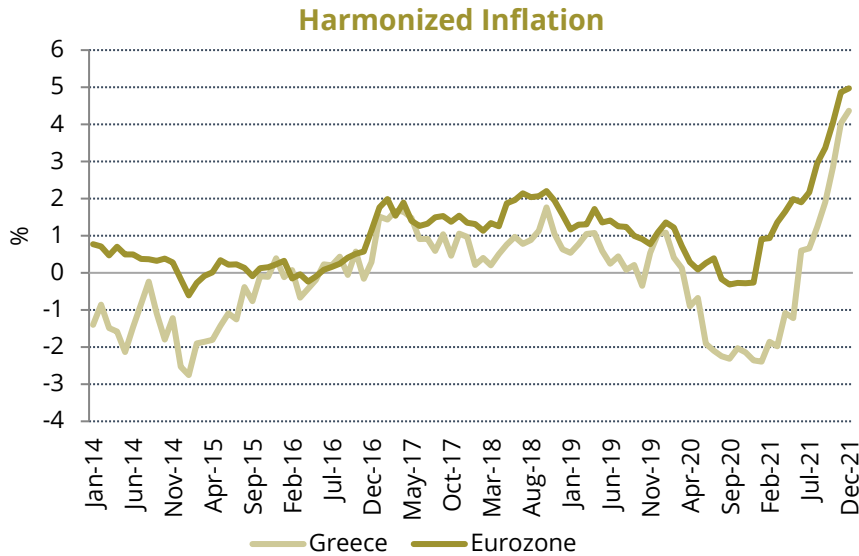


**Sources:** Eurostat, Bank of Greece

- About 50% of international revenue from Services comes from Transport. Transport revenue was €17.3 billion in 2019 (9.4% of GDP).
- Maritime transport dominates (€14.7 billion), seafaring, specifically, which accounts for 80% of total transport revenue, as the Greek-owned fleet is the largest in the world in terms of tonnage. Air transport revenue is €2.0 billion (11.8% of total revenue).
- The pandemic had a big impact on transport in 2020, mainly on air transport (-48%) but also on maritime transport (-15%).
- The 2021 recovery restored international transport revenue (3.3% higher than in 2019). Air transport revenue remains low.



# High inflation in 2021 because of the rise in energy goods prices



Sources: ELSTAT, Eurostat

- **Eurozone:** Inflation rose to 2.6% in 2021, up from 0.3% in 2020.
- **Greece:** Sharp increase of the CPI, 5.1% in December and 4,8% in November of 2021, mostly due to the rise in prices of energy goods. However, there is also a base effect (1.1 pp.), due to deflation towards the end of 2020.
- The average rate of change of the HICP was positive, 0.6%, in 2021, up from -1.3% in 2020.
- During Jan.-Nov. of 2021 there was a negative effect of indirect taxes (-0.4 pp.), a positive effect of energy goods (0.8 pp.) and a small negative effect of domestic demand (-0.1 pp.).
- **Producer Price Index** (January – November 2021): 12.3% increase, mostly due to energy good prices, following a 7.2% reduction in the same period of 2020.



# The new COVID-19 mutation and high inflation have created challenges; fiscal rebalancing is necessary

## Rapid spread of the new mutation; vaccination rates also increased though

- Broad restrictive measures will probably not be imposed; targeted (for specific sectors, vulnerable social groups) measures are more likely to be enacted.
- There is little-to-no room for support measures; the goal is to transition to a new equilibrium for businesses & households

## High international tourism in the fourth quarter of 2021 – the first signs for 2022 are positive

- More arrivals from October-November; closer to the 2019 levels compared to the summer
- 2022 early bookings: more in October 2021 than in October 2018

## High inflation continues

- Lower diffusion of inflationary pressures in Greece compared to the EU (except for Transport and Housing)
- Supply of energy goods increased globally, which improved the energy balance and hindered the rise in prices
- The Green Transition will sustain some of the rising energy prices in the medium term

## The implementation of the Recovery Fund has delayed - increased funding opportunities this year

- Delays in receiving the Fund's resources (first installment request) and in starting 2021's projects
- More resources in 2022. Along with resources from the NSRF 2021-2027 and the NGP 2021-2025; high liquidity.
- Possible crowding-out of non-co-financed investments.



# Banks could develop their assets...

## Positive developments

- Large reduction of NPLs through securitizations
- Favorable conditions for bank financing
- Low cost of new lending
- Systematic increase of private deposits

## Challenges

- Boost of profitability, increase of asset and equity quality
- Acceleration of credit expansion to the private sector
- Convergence to the private sector lending costs of the rest of Europe

## Priorities

- Acceleration of the utilization of resources of the European Recovery Fund to co-finance investment
- Continuation of the reduction of NPLs

...even though there were delays in the utilization of the loan arm of the Recovery Fund for Greece (amounting to €12.7 billion from 2021-2026)



# Macroeconomic forecasting process

## 2021 Scenario (largely realized):

- Broad restrictive measures would not be reinstated
- Larger increase in international tourism than initially expected, from the extension of the tourist season in the fourth quarter. Revenue: 57-60% of its 2019 level
- High inflation
- More government transfers due to the pandemic and inflationary pressures
- Recovery Fund: EU inflows below the target in the 2021 Budget (€3.2 billion instead of €5.5 billion) and delays in beginning the implementation
- Eurozone recovery: ≈5,0%

## Baseline 2022 Scenario:

- Broad restrictive measures will not be imposed (not another lockdown), but more targeted measures may be enacted.
- International tourism will increase; extension of the tourist season. Revenue: 80-90% of 2019, €3.9-€5.7 billion higher than in 2021
- Slightly higher inflation than last year, partly due to increased wages
- Recovery Fund resources: within target (2022 State Budget). Grants: €3.2 billion, Loans: €1.8 billion.
- Eurozone recovery: ≈4,3%, possibly even higher

## Alternative 2022 Scenario:

- Certain severely restrictive measures will be imposed (e.g., in Retail-Catering, for vulnerable social groups, etc.), although not a lockdown
- Tourism: suspension is not expected. Smaller increase in revenue than in the baseline scenario: 70-75% of 2019, €2.1-€3.0 billion higher than in 2021
- Milder inflationary pressures than in 2021; deflation in the fourth quarter.
- Recovery Fund: No impact on ERF inflows or on the utilization is expected.
- Eurozone recovery: weaker than in the baseline scenario



# 2021-2022 macroeconomic forecasts

## 2021 Scenario

- Public consumption: from +5.5% to +6.0%
- Private consumption: from +5.5% to +6.0%
- Investment: +10% to +12%
- Exports: +19% to +21%
- Imports: +14% to +16%
- **Growth:  $\approx$  9.0-9.5%**
- Unemployment:  $\approx$  14.9%
- Inflation: 1.2%

## Baseline 2022 Scenario

- Public consumption: from -2.5% to -3.5%
- Private consumption: from +3% to +4%
- Investment: from +20% to +23%
- Exports: from +12% to +14%
- Imports: from +11% to +13%
- **Growth:  $\approx$  4.5-5.0%**
- Unemployment:  $\approx$  13.5%
- Inflation:  $\approx$  from 1.5 to 1.8%

## Alternative 2022 Scenario

- Public consumption: from -1.0% to -2.0%
- Private consumption: from +1.5% to +2.5%
- Investment: from +15% to +18%
- Exports: from +8% to +10%
- Imports: from +7.5% to +9.0%
- **Growth:  $\approx$  2.5% to 3.0%**
- Unemployment: 14.0%
- Inflation: from 0.7% to 1.0%

Special study

**The macroeconomic effects of the auxiliary pension  
system reform**





## Scope of the study

- Estimation of the impact of the auxiliary pension system reform, introduced by Law 4826/2021, on key macroeconomic variables, such as GDP and employment, and fiscal variables
- Different combinations of assumptions related to critical parameters, such as the degree of voluntary participation in the new auxiliary system, the percentage of resources of the new auxiliary Fund invested domestically, and the average actual return on investment, are examined
- Adequacy of auxiliary pensions granted after the reform is examined

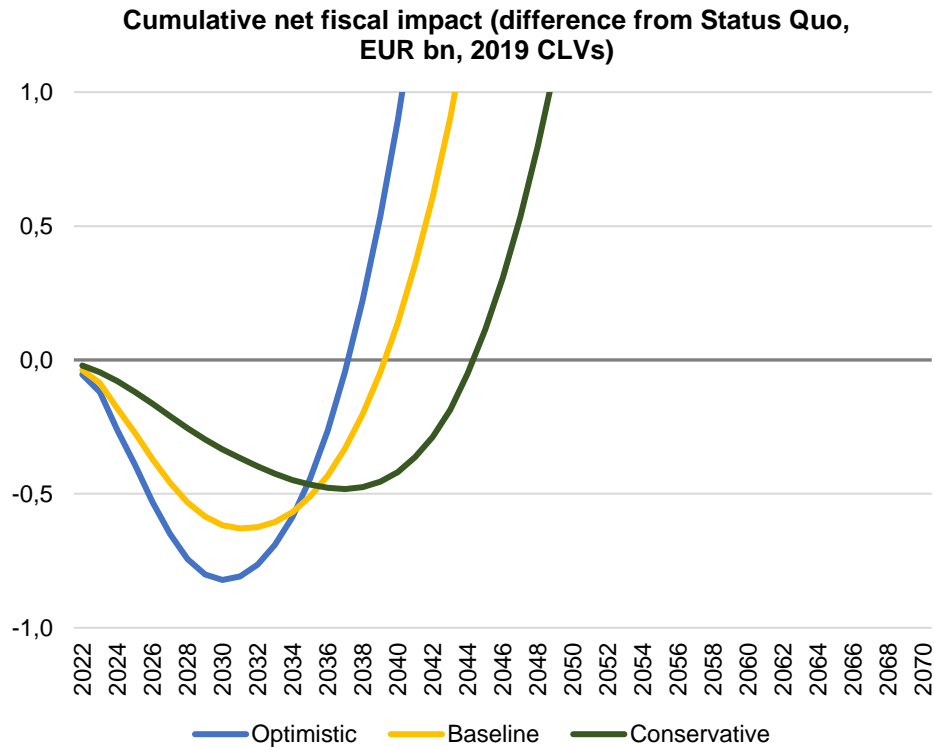


## Main results: The reform will lead to resource accumulation, investment, and GDP growth

- The reform will lead to a significant accumulation of resources in the new Auxiliary Pension Fund: annual revenue of up to 1.25% of GDP and a stock of up to 39% of GDP in 2070
- Part of the new savings will be invested domestically, which will stimulate demand and increase productivity (fixed capital formation)
- This, in turn, will result in up to 9.5% higher GDP and up to 0.53% higher employment in 2070, compared to the status quo
- The increase in economic activity will lead to an increase in public revenue from income taxes, consumption taxes, and other contributions, up to €6.4 billion in 2070 in real terms (cumulative increase of €116 billion)



# Net fiscal impact: reduced contributions, reduced auxiliary pension outflows, increased revenue due to auxiliary Fund investments in government bonds, increased tax revenue due to growth



- The "growth dividend" of the reform will more than offset the initial fiscal cost.
- Increased public revenue will fully offset the cumulative fiscal losses in real terms; this will happen as early as 2038 in the optimistic scenario

Source: IOBE

Average income of pensioners will increase in all scenarios examined. The reform will not affect the adequacy of pensions.

# Contact details

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