Greece

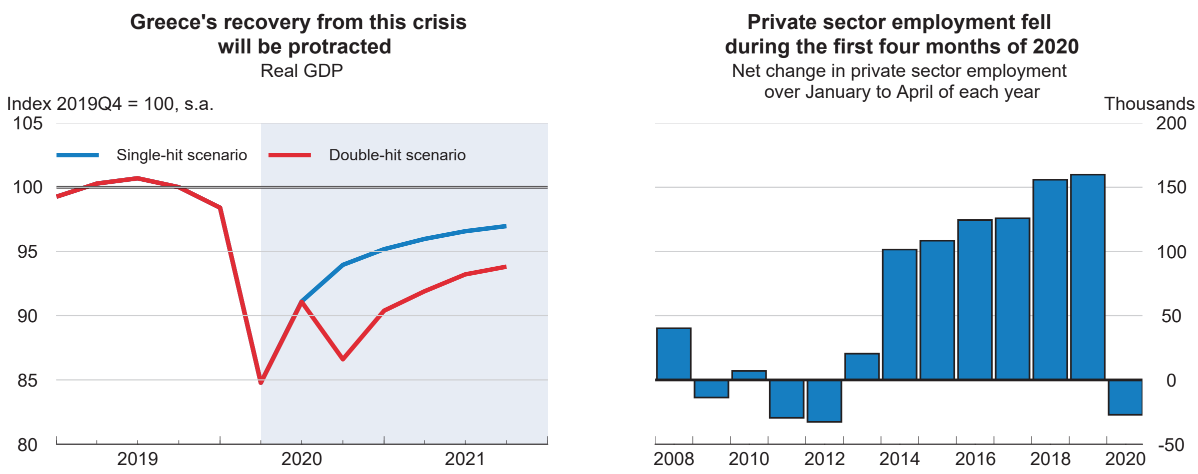
The COVID-19 pandemic and containment measures are projected to reduce GDP by 8% in 2020 if there are no further virus outbreaks (the single-hit scenario), before it recovers by 4.5% in 2021. In there is a second virus outbreak later in the year (the double-hit scenario), the fall in GDP in 2020 will amount to 9.8%. The losses in output, employment and the budgetary costs from this crisis are projected to be less severe than the crises over 2009-16. While Greece has contained the pandemic effectively, the negative impact on tourism, investment and public finances is a setback to Greece's longer-term recovery.

Policy is supporting employment, incomes and firms' liquidity through 2020 and should continue to do so as needed. The ECB's policies and decision to include Greek government securities in its asset purchase programmes have helped to manage financing costs for the government and banks. Likely weakness in tourism demand underscores the need to revive investment and enable new sectors to grow. Restoring banks' health so they can finance investment is essential. Improving the effectiveness of public administration and the justice system, simplifying regulations, upgrading adult skills, and investing in infrastructure, in particular green infrastructure, would help to spur a sustainable recovery.

Greece has been very effective in limiting infections

Greece has successfully limited the number of infections and avoided overwhelming its health system. The authorities identified the first infections on 26 February and the number of patients in intensive care peaked on 5 April. Greece managed to contain the outbreak largely to the Athens area, which has the strongest health system capacity, and contained outbreaks in refugee camps. Greece's health spending was cut during the economic crisis, but had stabilised in recent years and has been boosted as part of the crisis response.

Greece



Source: OECD Economic Outlook 107 database and ERGANI database of private sector employees.

StatLink https://doi.org/10.1787/888934139423

Greece: Demand, output and prices (double-hit scenario)

Greece: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	176.5	1.5	1.9	1.9	-9.8	2.3
Private consumption	122.1	0.9	1.1	0.8	-8.4	3.1
Government consumption	35.4	-0.4	-2.5	2.2	1.9	-0.4
Gross fixed capital formation	21.3	9.1	-12.2	4.5	-17.3	11.0
Final domestic demand	178.8	1.6	-1.1	1.4	-7.3	3.2
Stockbuilding[1,2]	- 1.0	0.0	1.8	-0.4	-1.7	-0.3
Total domestic demand	177.7	2.2	0.7	1.0	-8.1	3.0
Exports of goods and services	53.1	6.8	8.7	4.9	-13.6	-1.3
Imports of goods and services	54.3	7.1	4.2	2.8	-10.8	0.5
Net exports[1]	- 1.3	-0.1	1.5	0.8	-1.0	-0.6
Memorandum items						
GDP deflator	_	0.6	0.5	-0.4	-1.0	0.0
Harmonised index of consumer prices	_	1.1	0.8	0.5	0.1	0.0
Harmonised index of core inflation[3]	_	0.3	0.3	0.8	0.4	0.2
Unemployment rate (% of labour force)	_	21.5	19.3	17.3	19.6	20.4
General government financial balance[4] (% of GDP)	_	0.7	1.0	1.5	-8.8	-6.6
General government gross debt (% of GDP)	_	191.7	195.8	200.6	233.3	228.8
General government debt, Maastricht definition (% of GDP)	_	176.2	181.2	176.5	209.3	204.7
Current account balance[5] (% of GDP)	_	-1.9	-2.8	-1.4	-0.6	-0.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. On settlement basis.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137865

The authorities set up a dedicated body in early February 2020 to manage the response to the outbreak, including doubling the number of intensive care beds and recruiting over 4300 additional health workers. They cancelled large public events from late February, placed restrictions on international arrivals, and introduced confinement measures from 10 March, starting by closing schools. From 23 March, they tightened confinement measures, making movement restrictions stricter and closed all but essential shops. As the number of active cases declined, restrictions were lifted progressively from 4 May, first by allowing some shops to reopen and permitting freer movement around residences, and subsequently reopening other shops, schools, and cafes and restaurants through May. Hotels started to reopen from late May, and the reopening of seasonal tourist facilities and the easing of some restrictions on international arrivals is planned from 15 June, while health developments will continue to be monitored.

Greece: Demand, output and prices (single-hit scenario)

Greece: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	176.5	1.5	1.9	1.9	-8.0	4.5
Private consumption	122.1	0.9	1.1	0.8	-6.4	5.5
Government consumption	35.4	-0.4	-2.5	2.2	1.7	0.6
Gross fixed capital formation	21.3	9.1	-12.2	4.5	-14.3	7.8
Final domestic demand	178.8	1.6	-1.1	1.4	-5.7	4.7
Stockbuilding[1,2]	- 1.0	0.0	1.8	-0.4	-1.3	-0.1
Total domestic demand	177.7	2.2	0.7	1.0	-6.3	4.8
Exports of goods and services	53.1	6.8	8.7	4.9	-11.1	8.7
Imports of goods and services	54.3	7.1	4.2	2.8	-8.2	9.7
Net exports[1]	- 1.3	-0.1	1.5	0.8	-1.1	-0.3
Memorandum items						
GDP deflator	_	0.6	0.5	-0.4	-1.3	0.1
Harmonised index of consumer prices	_	1.1	0.8	0.5	0.2	0.4
Harmonised index of core inflation[3]	_	0.3	0.3	0.8	0.4	0.4
Unemployment rate (% of labour force)	_	21.5	19.3	17.3	19.4	19.8
General government financial balance[4] (% of GDP)	_	0.7	1.0	1.5	-7.7	-4.9
General government gross debt (% of GDP)	_	191.7	195.8	200.6	220.9	214.8
General government debt, Maastricht definition (% of GDP)	_	176.2	181.2	176.5	196.9	190.7
Current account balance[5] (% of GDP)	_	-1.9	-2.8	-1.4	-0.6	-0.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Including statistical discrepancy.
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.
5. On settlement basis.

Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934137884

Tourist and consumer services have been affected strongly

GDP fell by 1.6% in the first quarter of 2020. Containment measures were strictest from mid-March to early May, affecting firms generating 20% of Greece's value-added. The shutdown orders applied to over 80% of accommodation, catering, education and consumer service businesses. Flight arrivals and traffic in the main urban areas fell sharply in March and April, before gradually recovering from early May. Electricity demand was about 10% below normal levels in April. Private sector employment fell by 35 thousand in March and April 2020 (a drop of 1.8%). Once the extent of the crisis became clear, the Athens stock index traded one-third below its February peak. After falling to historical lows in February, government bond yields spiked in March until the ECB announced its main policy responses and that it would include Greek government securities in its security purchases, and yields have since traded below levels of mid–2019. The government sold EUR 2 billion of 7-year bonds at a 2.0% yield in mid-April.

The government is supporting businesses and workers affected by the shutdown

The government has announced measures to support household incomes and firms' liquidity, totalling EUR 11.4 billion for 2020 (6.1% of 2019 GDP). Measures include a EUR 800 allowance to workers in firms with operations suspended and to the self-employed suffering large income losses during the shutdown, and expanded unemployment benefits. For affected firms, tax and contribution payments were suspended, and credit and guarantees provided for up to EUR 7.9 billion of loans. Policy support also included cuts to selected VAT rates. The government is allowing firms to reduce workers' hours, and is facilitating remote and flexible work arrangements. It is implementing a programme to support the tourism sector over the 2020 season and into 2021.

Lifting containment restrictions has allowed activity to resume, but services demand will remain weak

The government started relaxing activity and movement restrictions in early May, but ongoing restrictions, a decrease in the number of international visitors and heightened uncertainty are expected to depress consumer demand and tourism into the summer season. Greece has announced a clear timetable to restart tourism, which may prompt an upswing in bookings for later in the season. Still, in the double-hit scenario, weakened incomes and confidence globally are projected to depress Greece's tourism arrivals through the 2021 season. The crisis is hampering loan securitisation activity globally and has delayed steps to resolve banks' non-performing loan burdens and balance sheet pressures, which will continue to constrain growth in bank lending, even as ECB measures keep borrowing costs low. The sale of state-owned enterprises and steps to attract foreign direct investment are likely to be delayed. In the double-hit scenario, these delays will lengthen. Lower activity and income will reduce tax and social contribution payments, shifting the budget from a substantial primary surplus to deficit. Along with the drop in nominal GDP, this will raise public debt ratios. These effects will be amplified and extend into 2021 in the double-hit scenario.

Beyond the short-term risks of the pandemic crisis, the main challenge Greece faces is returning to a path of sustained recovery. The tourism sector, which led Greece's gains in employment and exports in recent years, is vulnerable to the COVID-19 crisis. While the gradual resumption of travel may support late-season tourism activity in the single-hit scenario, the losses are likely to be protracted in the double-hit scenario. This may translate into renewed insolvencies and add to banks' non-performing loans, delaying progress in restoring finance for investment and undermining the emergence of new activities. Reduced fiscal revenues and measures to launch the recovery will lead to higher public debt, as in many other countries. Continuing the government's strategy of issuing debt with longer maturities and benefiting from low interest rates following the ECB's interventions can limit the risks of rising annual gross financing needs.

Reviving investment and expanding access to opportunities would help Greece resume its recovery

The COVID-19 crisis is an external shock that sets back Greece's recovery from its earlier crises, and delays some of the government's reform efforts while accelerating others. It raises the importance of continuing to pursue a multi-year programme of transformation. The government's COVID-19 responses announced to date will support incomes and firms into 2021. It will need further measures in the double-hit scenario to relaunch the recovery as the crisis passes. Strengthening the guaranteed minimum income would improve the social safety net, especially in event of another virus outbreak with associated containment measures. Support for the tourism sector can help it bridge the 2020 season; however, this crisis has weakened the sector's medium-term prospects and measures should help businesses and their workers to upgrade their activities and skills, and to shift to sectors that promise better opportunities. The government remains committed to the "Hercules" scheme to accelerate the disposal of banks' non-performing loans and to address banks' large deferred tax credits. The risk of rising non-performing loans underlines the need to implement the scheme swiftly to restore banks' health and unlock financing for investment. Scaling up adult education and strengthening active labour market policies would better equip workers for new opportunities. Unifying the insolvency regime, and accelerating the enforcement of collateral and the speed of the justice system would help Greece's economy adapt to this crisis. Cutting the burdens of the public administration and regulation, as the government is pursuing by its digital agenda, would help new firms emerge. With the support of the new European recovery fund, investing in infrastructure and shifting to a low-carbon economy would support growth.