Greece: Hoping for vaccine availability

The higher dependence on tourism makes faster vaccination crucial for Greece in view of the summer season. In the meantime, effective labour protection schemes should continue supporting income and backing consumption

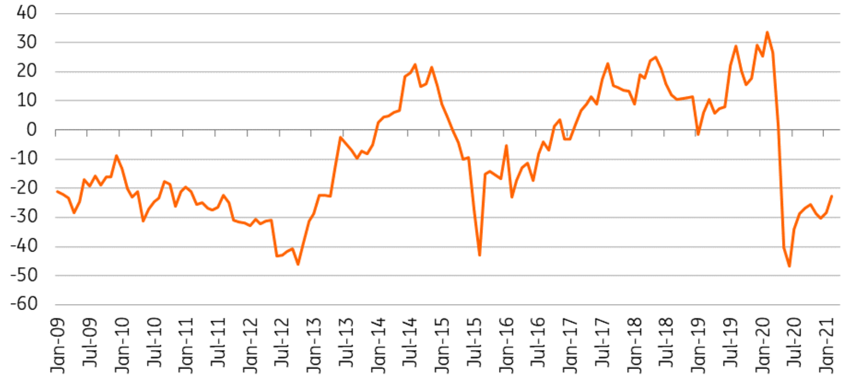
Greek Prime Minister Kyriakos Mitsotakis

Source: Shutterstock

GDP growth beat expectations in 2020

The impact of the Covid-19 pandemic on the Greek economy is turning out to be smaller than anticipated, with an average GDP contraction of 8.2% in 2020. Notwithstanding a higher dependence on tourism activities and a smaller role of resilient manufacturing in value added generation, Greece would have outperformed countries such as Italy and Spain. To be sure, Greece was hit by the pandemic with a slight delay, but the reported preliminary profile remains somewhat puzzling. In fact, the provisional 4Q20 GDP estimate, recently released by ELSTAT, shows an upward revision to the 3Q20 rebound (now 3.1% quarter-on-quarter) and, more importantly, a 2.7% QoQ expansion in 4Q20. The latter comes as a surprise, as such a strong rebound would have happened at a time when Greece entered lockdowns to suppress the virus. Looking into available details, it appears that this has to do with a 32% QoQ increase in exports of goods and services in the quarter, while private consumption contracted. We suspect that data revisions might materialise at a later stage.

Service confidence still battered by lockdowns

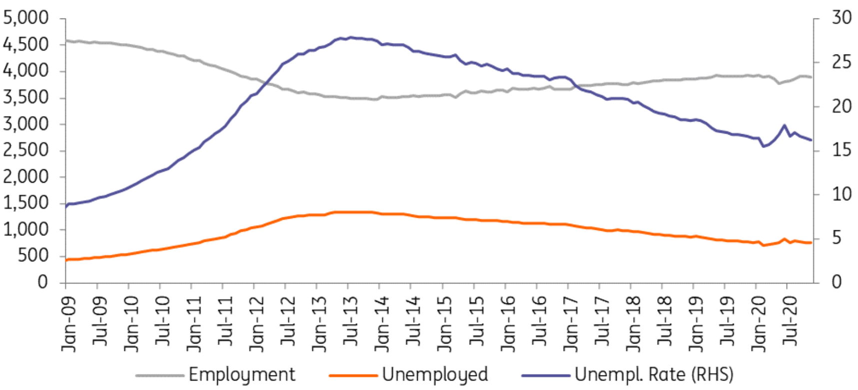


Source: Refinitiv Datastream

Labour support schemes to continue helping income

To be sure, the combined effect of labour support schemes and temporary ban on redundancies, managed to limit the impact on employment. Comparing November with January seasonally adjusted data, we note that the contraction in employment was contained at -0.9%. Also, over the same period there was no meaningful increase in the pool of inactives and the unemployment rate barely moved (at 16.2% in November). Lifting supporting measures will be a delicate exercise, which will likely start only when the pandemic emergency phase is over. With the new more infective variants becoming dominant, this does not look imminent, unfortunately. In the short-run, income-enhancing support measures should continue benefiting from a relatively benign inflation backdrop. The ongoing commodity-driven push will likely be tempered by remaining downward pressure on the tourism-related component, whose weight in the index is higher in Greece than in the eurozone aggregate.

Labour support schemes very effective so far



Source: Refinitiv Datastream

Speed of vaccination a key determinant of 2021 GDP growth

As elsewhere, in Greece the pace of the economic rebound of 2021 will heavily hinge on the speed of vaccination, which will set the boundaries for reopenings during the next tourist summer season. As we write, Greece has fully vaccinated (two jabs) 3.6% of the population and partially vaccinated (one jab) another 7.2%, which can be considered a good performance by European standards. Still, herd immunity lies far away as the country cannot escape the vaccine supply shortages that are hitting all European countries. Even assuming a marked acceleration of vaccination over 2Q21, we suspect that Greece will be forced to gradually lift social distancing measures over the next few months, and that some will remain in pace over the summer to protect the vital tourism season.

First tranche of RRF a positive for 2H21

The second half of 2021 has another potentially relevant growth enhancer: the inflow of funds from the EU Recovery and Resilience Facility (RRF). Greece is expected to take advantage of both the grant component (some €17.8bn, with possible downwards adjustments due to a stronger than expected 2020 GDP outcome) and the loan component (c. €12.6bn). The Greek government has stated that it wants to maximise the use of grants, using loans to finance high added-value private investment. Should the 13% pre-funding option be requested both for grants and loans, some €3.7bn would be available over 2H21.

The Greek economy in a nutshell (%YoY)

	2020	2021F	2022F	2023F
GDP	-8.2	3.0	4.2	1.5
Private consumption	-4.7	2.5	2.2	1.0
Investment	0.3	5.0	4.8	4.0
Government consumption	2.6	3.4	2.5	1.0
Headline CPI	-1.3	-0.2	0.9	1.0

Source: Refinitiv Datastream, all forecasts ING estimates

Author

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com