Greece: Tourism is the major casualty

A mildly negative 1Q20 reflects smaller contagion but 2Q20 will look much worse and the strength of the 3Q rebound will crucially hinge on international tourists coming back to Greece

Greek Prime Minister Mitsotakis visits a hospital in Athens, Greece

Source: Shutterstock

Quick preventive reaction...

Despite fewer Covid-19 cases in comparison to its neighbours, the Greek government reacted quickly by implementing strict containment measures, including a nationwide lockdown, school closures, local mobility restrictions and selective travel bans on international travellers.

...and standard mix of "keep afloat" fiscal measures

According to the IMF, a series of fiscal measures were introduced by Greece amounting to a cumulative €24 bn which include a mix of direct expenditures, moratoria and state guarantees aimed at mitigating the social impact of forced suspension of economic activities.

On the business front, compensating measures have been ranging from the allowance of refundable advance payments to a moratorium of tax and social security obligations and cash provisions, the latter being accorded to those who will keep workers in employment through contract suspension. Among the last measures introduced was a temporary reduction of VAT rates for the June-October period on transport services, coffee and non-alcoholic beverages, and on other selected goods.

As far as households are concerned, the measures introduced were clearly aimed at keeping people in employment and at compensating both employees and freelancers for missed revenues through temporary handouts.

Obvious focus on tourism

Unsurprisingly, over the last few weeks, the government's initiatives have increasingly focused on the tourism sector, by nature more vulnerable than others to the mobility and distancing consequences of the pandemic and dimensionally critical for the Greek economy (according to WTTC, in 2019 the enlarged travel and tourism sector contributed 20.8% of total GDP).

The latest easing decisions have been mostly devoted to tourism-related activities. Yachting and restaurants has re-opened and recently holiday and seasonal accommodation, museums, historic sites, thermal springs have re-opened too.

The reopening schedule will be completed on 1 July, when fairs, concerts and artistic events will also be allowed. Only large scale public events have been reportedly left out, for the time being. According to the Greek government, after 1 July, 97% of the employees and 95% of companies who had been mandatorily suspended will be allowed to re-open.

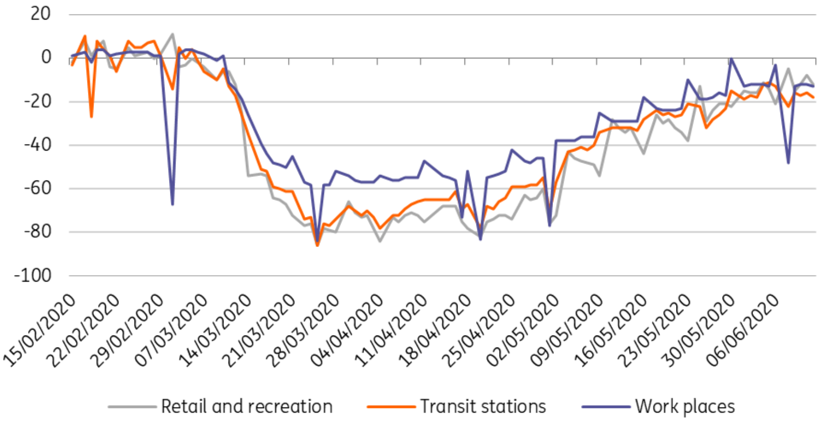
Mild 1Q20 contraction will not be confirmed in 2Q20

The Covid-19 shock caught Greece as it was engaged in a long-awaited recovery, which had for once set the country as a growth overperformer in the eurozone.

To be sure, it was not immune to the deterioration which had set in major eurozone countries over 2H19 but could still take advantage of ongoing improvements in employment which in turn were supporting domestic demand. GDP data for 1Q20 confirmed Greece as a comparatively good performer: the 1.6% QoQ (0.9% YoY) contraction was surprisingly soft and clearly less than what straightforward lockdown arithmetic would have suggested. Business confidence had held up well until March and fell markedly only in May, showing a one-month delay in reaction with respect to other eurozone countries.

We believe that the domestic demand drag will play catch-up over 2Q20 when the full impact of the lockdown is expected to emerge.

The impact of the strict lockdown will show up in 2Q GDP data



Source: Google Covid-19 Mobility Report, ING
ex Sundays

3Q rebound to be likely capped by heavy reliance on tourism

Developments over 3Q will heavily depend on how the tourism season plays out.

The Greek government tried hard to prepare for an orderly opening of the Summer season, leveraging on the low local diffusion of the epidemics and stressing that health related facilities will be in place in tourist sites.

The response of international tourists, whose spending is estimated at two thirds of total tourism and leisure spending in Greece, might not be as prompt as hoped for. The ranking of arrivals by country of origin in 2019 sees the Brits and Italians (both heavily hit by the pandemic) in the second and fourth place, respectively.

For many potential tourists, budget constraints, battered spirits and epidemic concerns might turn out to be powerful reasons to choose to stay at home.

The Greek economy in a nutshell (%YoY)

	2019	2020F	2021F	2022F
GDP	1.9	-9.5	3.8	2.1
Private consumption	0.7	-5.7	2.1	1.7
Investment	4.5	-24.7	3.7	11.6
Government consumption	2.2	2.6	2.7	1.2
Headline CPI	0.5	-0.5	0.5	1.0

Source: Refinitiv Datastream, all forecasts ING estimates

Author

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

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