Greece: Tourism to help weather the inflation storm

Double digit inflation will likely weigh on domestic consumption but strong tourism inflows over the summer should help keep the economy afloat

The Greek Prime Minister, Kyriakos Mitsotakis

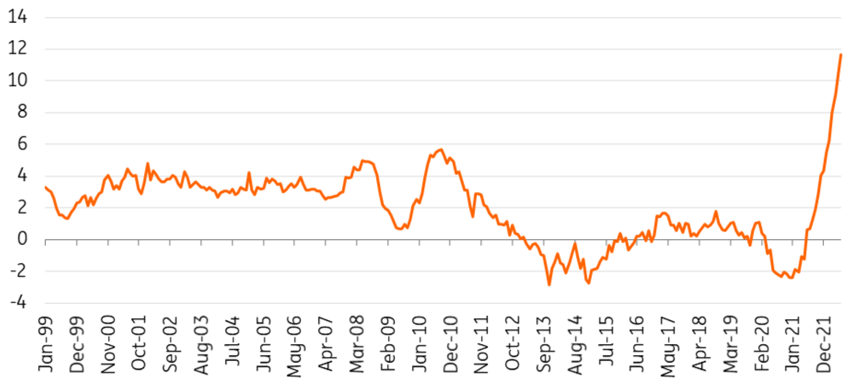
Strong start to 2022, notwithstanding inflation

The Greek economy started 2022 on a strong footing, with all demand components providing a positive contribution to the 2.4% quarterly growth. Despite the speedy rise in inflation, private consumption proved the most powerful growth driver, possibly reflecting the impact of improving labour market conditions. In the first quarter, employment was up 11% YoY and the unemployment rate fell to 12.5%, the lowest level since August 2010.

The Ukraine war's impact on commodity prices is bound to impact this positive pattern but it won't derail the Greek recovery, at least in the short term. The energy price shock, amplified by the war, is now showing up in full, with headline HICP inflation at 11.6% in June, and the much-exposed housing and transport components at 31% and 25%, respectively. The 12% yearly gain of the food component is also a reason of concern, as it will also hit lower-income households particularly hard.

Admittedly, pressure on low earners' disposable income is being partly compensated by an increase in the minimum wage, but domestic consumption is expected to suffer nonetheless in the second quarter. Consumer confidence lately started to fall again, with households lamenting increasing budget pressures. An eventual shortfall from the domestic consumption front could be at least partially compensated by a solid return of international tourist flows.

Double digit HICP inflation to weigh on domestic consumption



Source: Refinitiv Datastream

A positive tourism summer season seems likely

Early indications from the tourism sector mean there's some optimism about developments over the summer season. International travel services data for April showed that travel receipts were above the corresponding month of 2019 (in pre-Covid times), with both average expenditure per trip and inbound tourist flows on the increase. Most Covid-related health restrictions were lifted in May and it seems unlikely they will be re-instated just at the start of the summer season, notwithstanding a recent rise in cases.

Travel receipts might soon get back to pre-Covid levels

Source: Bank of Greece

The implementation of projects financed by European Recovery and resilience funds (RRF) is another potentially powerful source of support for Greek growth, which will likely act through the investment channel, more specifically in the energy and construction sectors.

Public finance ratios to improve further

The public finance picture seems yet to have benefited from the combined effect of reopening-related GDP growth and inflation on tax revenues. The recent spread widening episode fueled by the acceleration in the normalisation of the ECB's monetary stance has not altered the debt sustainability picture, at least in the short run.

With an average time to maturity of more than 18 years, substantial interest rate shocks can be accommodated quite easily and the inflation tax effect on debt works most effectively. A decline in the debt/GDP ratio to the area of 186% of GDP (from 193% in 2021) seems a distinct possibility. By aiming at a primary surplus in 2023, the Greek government is sending an important credibility message in a pre-election year. Debt sustainability requirements in a normalising inflation environment will indeed require a return to a sustainable combination of primary surpluses and decent GDP growth.

The Greek economy in a nutshell (YoY%)

	2021	2022F	2023F	2024F
GDP	8.0	4.2	1.7	2.3
Private consumption	8.1	5.7	-0.1	2.2
Investment	19.3	7.8	2.8	6.0
Government consumption	3.9	1.7	0.8	0.4
Net trade contribution	0.8	0.9	0.2	0.0
Headline CPI	0.6	9.7	3.9	1.9
Budget balance as a % of GDP	-7.4	-5.0	-3.1	-1.6
Government debt as a % of GDP	193.3	183.7	178.7	173.6

Source: Refinitiv Datastream, all forecasts ING estimates

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