

## 2.5. GREECE

Greece's GDP declined by 1.6% q-o-q in the first quarter of 2020 compared to the previous quarter, reflecting the beginning of the containment measures at the end of March.

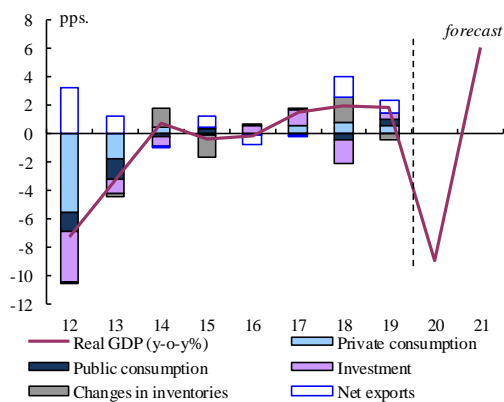
The decline in GDP was driven by a drop in investment and lower exports, while government expenditure and private consumption contributed positively. Economic activity was first to decrease in services, and to a lesser extent industry and the agricultural sector, while construction cushioned the downturn, likely due to a cut in the sector's VAT rate in January.

The full economic effect of the containment measures is expected to have materialised in the second quarter with a strong decline in domestic demand and exports. As social distancing measures are gradually relaxed, economic activity is expected to start recovering, leading to a partial recovery of domestic demand. The swift implementation of fiscal measures amounting to about 9½% of GDP to counteract the economic impact of the pandemic should cushion domestic demand to some extent. It is also expected to help prevent hysteresis effects in the labour market as well as widespread bankruptcies. Real GDP is expected to decline by 9% in 2020 and to increase by 6% in 2021.

The recovery of exports depends heavily on the outlook in Greece's main trading partners. In particular, tourism and transport are expected to be hit hard by the crisis. The concentration of tourism in the summer months makes Greece particularly vulnerable to travel restrictions and COVID-19 induced changes in travel behaviour.

Following the introduction of the containment measures, movements in and out of the labour market effectively stalled in March and April, also due to measures protecting employment and disposable incomes. The economic downturn, is still expected to lead to a relatively short-lived increase in unemployment.

Graph 2.5: Greece - Real GDP growth and contributions



Consumer prices increased by 0.6% (y-o-y) in the first quarter, but decreased by 0.8% and 0.6% (y-o-y) in April and May. The price level is expected to decrease further during the rest of the year and only start increasing in 2021 along with the economic recovery.

The forecast remains subject to an exceptional level of uncertainty, in particular due to the large exposure to risk surrounding travel and the impact on the Greek tourism sector. Upside risks are related to a more benign outlook for domestic demand, in case of a faster improvement in sentiment.