5. GREECE

The recovery of the Greek economy is gaining traction, primarily driven by domestic demand and the better-than-expected tourist season. The impact of the pandemic is expected to gradually soften, while the accommodative fiscal and monetary policy, coupled with the strong boost from the Recovery and Resilience Plan, are set to sustain the momentum going forward. Emergency support measures are being adapted to the evolving needs of the economy, and expected to be largely phased out by the end of 2021, supporting the reduction of the general government deficit.

Recovery gains momentum in 2021

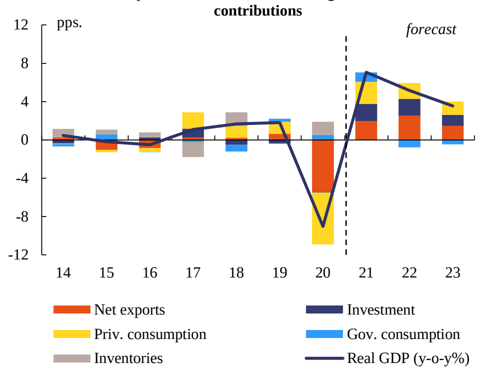
Greece's economy rebounded strongly in the second quarter of 2021, by 3.4% compared with the previous quarter. Real GDP reached its pre-pandemic level in the second quarter of 2021. The recovery was driven by domestic demand, in particular investment, and by the accumulation of inventories, while the ongoing fiscal stimulus provided a crucial role in supporting the economy. The authorities continue to provide targeted and temporary support to the economy, notably towards sustaining employment. The unemployment rate decreased over the summer, also supported by more hirings in tourism sector.

Recovery and Resilience Plan and external sector to bolster recovery

While part of the high growth that is forecast for 2021 reflects the depth of the recession in 2020, the improving sanitary situation, in terms of both vaccination rates, and total number of severe cases, has allowed for an easing of containment measures. This is expected to continue enabling the realisation of deferred purchases, further contributing to private consumption growth, especially in 2022. The economic activity in the second half of 2021 is also expected to be supported by the launch of the implementation of projects presented in Greece's RRF. Overall, GDP is forecast to rebound by 7.1% in 2021, and to grow by 5.2% and 3.6% in 2022 and 2023, respectively. Growth in 2022 and 2023 is expected to be driven by public and private investment, as the roll-out of projects under the Recovery and Resilience Plan is expected to sustain momentum. The forecast assumes a cumulative amount of 3.6% of 2019 GDP for expenditures financed by RRF grants over the forecast horizon.

In terms of the external sector, the reopening of tourism earlier in May, later supported by the lifting of mobility restrictions across the EU during the summer, has managed to buttress exports in services. Along with the market share gains for Greek goods' exports, the external sector is expected to continue providing support to growth going forward.

Graph II.5.1: **Greece - Real GDP growth and contributions**



Job support measures are expected to continue assisting employment in vulnerable sectors, while the recovery of the economy is set to accelerate job creation. The unemployment rate is forecast to go down to 15.3% in 2021 and continue its decline to 15.0% and 14.5% in 2022 and 2023 respectively.

Despite the current hike in energy prices, overall inflation is likely to remain only mildly positive in 2021, largely on account of the weak demand during the first half of the year. Inflation is expected to peak in 2022, reaching 1.0%, also driven by the projected strengthening of the demand for services. As the transitory effects of the energy prices peter out, inflation is forecast to ease to 0.4% in 2023.

The forecast remains subject to risks, particularly in relation to the uncertain development of the pandemic, and its potential repercussions in the tourism sector, or the possible cliff effects from the large amount of emergency support measures extended to the private sector. This also concerns the pace at which the employment support schemes are phased out. External geopolitical factors remain a source of uncertainty.

General government deficit to narrow by 2023

Greece's general government deficit is expected at 9.9% of GDP in 2021 due to the budgetary implications of the economic downturn and the cost of the measures adopted to address the coronavirus outbreak. The budgetary impact of the measures is expected to reach 6.5% of GDP in 2021 and most of them are expected to phase out by the end of the year. The cost of the relief and support measures taken in response to the extensive forest fires in August contributes further to the deficit. The government also announced measures to counteract the impact of the soaring energy prices, which will be fully matched with increased revenues of the emissions trading system account earmarked to energy-related spending.

The general government deficit is expected to decrease to 3.9% of GDP in 2022. The improvement is driven mainly by the economic rebound and is reinforced by the phasing out of most of the emergency measures. The fiscal impact of the support measures adopted in 2021 that have been prolonged to 2022 is 1.5% of GDP, namely: lower social security contributions, suspension of the social solidarity tax in the private sector, extension of the recruitment subsidy programme and reduced VAT rates for transport, beverages and cinema tickets until mid-2022. The forecast takes into account the additional package of tax relief measures announced by the government with an expected annual cost of around 0.1% of GDP. The decision of the government to frontload part of the deliveries of the defence-spending programme from the period 2023-2025 to 2022 has also a balance deteriorating impact of 0.1% of GDP in 2022. The economic recovery and the expiry of the emergency measures are expected to further reduce the headline deficit to 1.1% of GDP in 2023. Public debt is expected to decrease to 203% of GDP in 2021 and decline further to around 197% in 2023, supported by the economic recovery.

Fiscal risks remain substantial. The possible activation of state guarantees issued as part of the support measures could lead to increased fiscal costs. The litigation cases against the Public Real Estate Company and the pending ruling of the Council of State on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses pose additional risks. Further risks relate to the statistical classification of recent or planned financial policy arrangements, including the sale and lease-back scheme for properties owned by vulnerable debtors.

Table II.5.1:
Main features of country forecast - GREECE

	2020			Annual percentage change					
	bn EUR Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	165.3	100.0	-0.4	1.7	1.8	-9.0	**7.1**	**5.2**	**3.6**
Private Consumption	115.5	69.8	-0.1	1.7	1.8	-7.9	**3.3**	**2.5**	**2.1**
Public Consumption	37.6	22.8	0.1	-3.5	1.7	2.6	**4.4**	**-3.5**	**-2.2**
Gross fixed capital formation	19.3	11.7	-3.7	-4.3	-3.3	-0.3	**15.3**	**13.4**	**8.2**
of which: equipment	8.5	5.2	-1.4	-0.4	3.0	-4.8	**22.4**	**16.3**	**8.9**
Exports (goods and services)	52.9	32.0	2.5	9.1	4.9	-21.5	**16.2**	**15.0**	**9.2**
Imports (goods and services)	65.5	39.6	0.9	8.1	3.1	-7.6	**8.1**	**6.9**	**5.2**
GNI (GDP deflator)	164.6	99.6	-0.5	1.1	2.0	-8.6	**7.1**	**5.0**	**3.4**
Contribution to GDP growth: Domestic demand			-0.5	0.0	1.2	-4.9	**5.1**	**2.6**	**2.1**
Inventories			-0.1	1.4	0.0	1.4	**0.0**	**0.0**	**0.0**
Net exports			0.3	0.2	0.6	-5.5	**2.0**	**2.6**	**1.5**
Employment			0.2	4.6	0.9	-1.2	**1.1**	**1.1**	**1.0**
Unemployment rate (a)			15.9	19.3	17.3	16.3	**15.3**	**15.0**	**14.5**
Compensation of employees / head			1.1	-3.8	0.6	-0.7	**0.0**	**0.6**	**1.5**
Unit labour costs whole economy			1.6	-1.0	-0.3	7.8	**-5.6**	**-3.3**	**-1.0**
Real unit labour cost			0.3	-0.8	-0.5	8.7	**-5.6**	**-4.2**	**-1.4**
Saving rate of households (b)			:	:	:	:	**:**	**:**	**:**
GDP deflator			1.3	-0.2	0.2	-0.8	**-0.1**	**0.9**	**0.4**
Harmonised index of consumer prices			2.0	0.8	0.5	-1.3	**0.1**	**1.0**	**0.4**
Terms of trade goods			-0.3	-1.2	-1.4	-4.1	**-1.8**	**-1.0**	**-1.0**
Trade balance (goods) (c)			-13.8	-12.6	-13.0	-11.8	**-12.7**	**-13.4**	**-14.2**
Current-account balance (c)			-7.9	-3.5	-2.4	-7.9	**-6.3**	**-4.0**	**-2.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-6.2	-2.3	-1.1	-5.8	**-4.1**	**-1.7**	**-0.4**
General government balance (c)			-7.5	0.9	1.1	-10.1	**-9.9**	**-3.9**	**-1.1**
Cyclically-adjusted budget balance (d)			-4.9	4.0	2.8	-4.5	**-7.4**	**-3.6**	**-1.9**
Structural budget balance (d)			4.3	4.6	1.7	-5.1	**-7.9**	**-3.5**	**-1.9**
General government gross debt (c)			140.0	186.4	180.7	206.3	**202.9**	**196.9**	**192.1**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.