2.5. GREECE

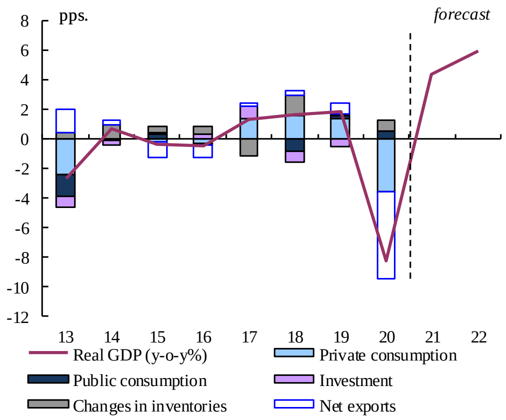
Greece recorded real GDP growth of 4.4% q-o-q (seasonally adjusted) in the first quarter of 2021 despite the intensification of social distancing measures introduced in January. Growth was driven mainly by net exports, thanks to a strong recovery in services exports, and a significant contribution from inventories. On the other hand, private consumption shrank by 1.3% quarter-on-quarter. A planned increase in real-estate taxes in 2022 provided impetus to the construction sector.

Social distancing measures began to relax in early May and an increase in most leading confidence indicators followed. Industry surveys during the same period pointed to a resurgence in foreign demand for goods. The recovery in services exports depends heavily on the outlook for tourism, which is forecast to remain below 2019 levels over the forecast horizon. The optimistic employment plans in most business sectors are expected to lead to a marginal decrease in the unemployment rate in 2021.

Against the backdrop of the gradual lifting of restrictions across the country, the emergency policy measures are expected to cushion cliff-effects in business liquidity, incomes and jobs, and play a crucial role in restarting and supporting economic activity. The fiscal measures taken earlier in the year, coupled with the boost from the country's Recovery and Resilience Plan, are expected to strengthen domestic demand, which is set to be the main driver of growth in both 2021 and 2022. Overall, real GDP is forecast to grow by 4.3% in 2021 and increase by 6.0% in 2022.

Global inflationary pressures have led to higher input prices, but the limited pass-through to consumer prices, coupled with the disinflationary pressures in the service sector, are expected to contain any upward pressure on consumer prices. Headline inflation is forecast at -0.4% in 2021 and 0.5% in 2022.

Graph 2.5: **Greece - Real GDP growth and contributions**



This forecast remains subject to a high level of uncertainty, particularly in relation to the tourism sector following the easing of restrictions due to COVID-19. Additional risks stem from the speed of recovery of the private sector after the phasing out of the support measures, which will need to be carefully timed to avoid a surge of new bankruptcies and limit any ramifications on the labour market. On the upside, the savings accumulated during the pandemic could boost spending going forward.