

## 5. GREECE

Following a rapid recovery from the pandemic and a promising start in the first months of the year, the Russian war of aggression against Ukraine has clouded the outlook on Greece. Growth is expected to ease but remain solid, primarily driven by the full recovery of tourism by the end of the forecast horizon. High inflation is expected to weigh on households' real disposable income, but the fall is being partly cushioned by government support measures. Emergency fiscal measures are due to expire in 2022 and a primary surplus is expected for 2023.

### Growth to ease but remain solid

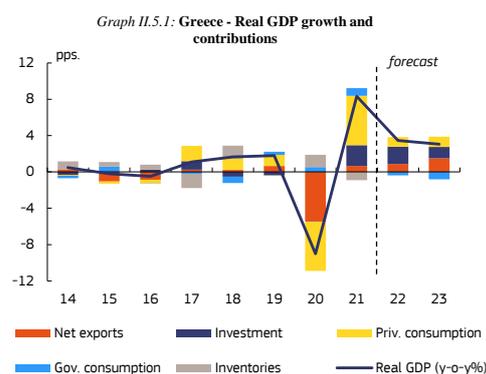
Despite prolonged uncertainty due to the successive waves of the pandemic, the Greek economy recovered quickly in 2021, offsetting almost entirely the sharp economic decline from 2020. Greece's real GDP grew by 8.3% in 2021, reflecting the better-than-expected tourism season, while private consumption almost fully recovered. Growth was also driven by a notable boost in private investment, while goods exports continued growing, as the country benefited from the recovery in the EU and in other trading partners.

The turmoil on global energy markets is expected to increase domestic inflationary pressures and weigh on the real disposable income of households. However, government support measures, increases in the minimum wage, and the savings accumulated during the pandemic are expected to partially cushion the negative effects on private consumption. Heightened risk aversion, along with increased supply bottlenecks, may delay the kick-off of new investment projects, but the economy is also set to benefit from the deployment of RRP-financed projects. Export growth is forecast to remain solid on account of the recovery in tourism, which is estimated to remain resilient given the limited share of tourists from Russia, Ukraine and Belarus in total arrivals. Growth of goods exports is, however, expected to decrease compared to previous estimates in view of the projected slowdown in the EU and the global economy as a whole. Overall, real GDP is forecast to grow by 3.5% in 2022. Growth in 2023 is expected to remain high, at 3.1%, driven by the gradual recovery of real disposable income and a projected return of tourism to its pre-pandemic level.

### Job creation to continue, amidst high inflation

Job creation showed strong growth in the second half of 2021 on the back of employment gains in agriculture and manufacturing. It is expected to continue also in 2022, despite the overall slow-down in economic activity this year. The minimum wage was increased by 7.5% as of May 2022, following a modest increase by 2% in January 2022. This is likely to support nominal wage growth in the second half of the year, given that almost a third of the total employees in the country receive a minimum wage.

Inflation is expected to peak in the second quarter of 2022 and remain high thereafter, before easing in 2023. Increasing international oil and gas prices are the main driver, while the surge in key input costs such as fertilisers and transport, is affecting food prices. Headline inflation is projected to reach 6.3% in 2022 and 1.9% in 2023.



Russian's military aggression against Ukraine has magnified the downside risks for the Greek economy, while the outlook remains contingent upon the forecast's technical assumptions. Estimates for the spending outlook of households and the investment dynamic are highly sensitive to these assumptions.

Uncertainty also concerns the tourist season, as real disposable incomes of domestic and foreign tourists may be reduced by inflation. On the upside, the strong performance in exports of goods over the previous period of heightened supply-side disruptions indicates some resilience of Greece's exporting firms, which could result into a stronger export performance than currently expected.

### Primary surpluses are set to return

Greece's general government deficit reached 7.4% in 2021, which reflects mainly the pandemic-related emergency and support measures still in place. This outcome is better than expected earlier, and owes to the fast recovery of personal and corporate incomes. Public debt decreased to 193% of GDP due to the strong increase in nominal GDP.

As growth continues, and some of the pandemic-related measures have already been phased out, the deficit is expected to decrease to 4.3% of GDP in 2022, although it is also set to be impacted by the temporary measures taken in response to the high energy prices.

The general government deficit is expected to decrease to 1% of GDP in 2023, bringing the primary balance to a surplus of 1.3% of GDP. This projected decrease assumes that most of the pandemic-related measures, as well as

those implemented to cushion the impact of high energy prices, are phased out. The forecast factors in the prolongation of two growth-friendly tax-cuts planned by the authorities, which build on measures originally introduced in 2021 and 2022 to alleviate the impact of the pandemic, which were set to expire at the end of this year. These measures aim to bring the tax wedge on labour closer to the euro area average, support labour demand and boost households' disposable income, which is expected to have a positive effect on consumption and the economic recovery in general.

Public debt is expected to decrease further to 186% of GDP in 2022 and to around 180% in 2023, supported by the increase in nominal GDP in both years and primary surplus in 2023.

Notwithstanding the better-than-expected outturn of 2021, fiscal risks remain substantial. They are mainly related to a possible activation of state guarantees issued as part of the support measures, the litigation cases against the public real estate company (ETAD) and the pending ruling of the Council of State on the retroactive compensation for cuts in the supplementary pensions and seasonal bonuses. On the upside, corporate income profitability may continue to outperform expectations as it did for the 2021 fiscal outcome.

Table II.5.1:

### Main features of country forecast - GREECE

	2021		Annual percentage change							
	bn EUR	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	182.8	100.0		-0.4	1.7	1.8	-9.0	8.3	3.5	3.1
Private Consumption	125.7	68.8		-0.1	1.7	1.8	-7.9	7.8	1.5	1.7
Public Consumption	38.9	21.3		0.1	-3.5	1.7	2.6	3.7	-1.7	-4.1
Gross fixed capital formation	23.6	12.9		-3.7	-4.3	-3.3	-0.3	19.6	14.7	8.5
Exports (goods and services)	74.3	40.6		2.5	9.1	4.9	-21.5	21.9	11.6	9.5
Imports (goods and services)	88.8	48.6		0.9	8.1	3.1	-7.6	16.1	7.9	5.3
GNI (GDP deflator)	181.9	99.5		-0.5	1.1	2.0	-8.6	8.2	3.5	2.9
Contribution to GDP growth:										
Domestic demand				-0.5	0.0	1.2	-4.9	8.6	2.6	1.6
Inventories				-0.1	1.4	0.0	1.4	-0.9	0.0	0.0
Net exports				0.3	0.2	0.6	-5.5	0.7	0.9	1.5
Employment				0.2	4.6	0.9	-1.2	0.5	1.2	1.2
Unemployment rate (a)				16.1	19.7	17.9	17.6	14.7	13.7	13.1
Compensation of employees / head				1.1	-3.8	0.6	-0.7	1.4	3.5	2.2
Unit labour costs whole economy				1.6	-1.0	-0.3	7.8	-5.9	1.2	0.3
Saving rate of households (b)				:	:	:	:	:	:	:
GDP deflator				1.3	-0.2	0.2	-0.8	2.1	4.8	2.1
Harmonised index of consumer prices				2.0	0.8	0.5	-1.3	0.6	6.3	1.9
Terms of trade goods				-0.3	-1.2	-1.4	-4.1	0.6	-1.6	1.2
Trade balance (goods) (c)				-13.8	-12.6	-13.0	-11.8	-14.9	-17.4	-17.0
Current-account balance (c)				-7.9	-3.5	-2.4	-7.9	-8.3	-8.4	-6.4
General government balance (c)				-7.5	0.9	1.1	-10.2	-7.4	-4.3	-1.0
Structural budget balance (d)				4.7	5.3	2.7	-4.1	-5.5	-3.0	-0.9
General government gross debt (c)				140.0	186.4	180.7	206.3	193.3	185.7	180.4

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