

Macro Keys

Greece: retaining our constructive macro view

Economics

Global

We raise our 2021 and 2022 GDP forecasts to 8.5% and 5.5% – above consensus

Greece had an impressive economic recovery from the pandemic, with GDP exceeding the pre-pandemic (Q4-19) level in Q3 2021. The economy grew by 2.7% q/q in Q3 (13.4% y/y) following 2.1% q/q in Q2 2021 – the fifth quarter of uninterrupted sequential acceleration (strongest course in the last 20 years). Based on available data for Q4 2021 we revise our 2021 GDP forecast to 8.5% from 7.9% previously. 2021 growth benefitted from household consumption, a fairly steady growth in fixed investments and a rebound in services exports (tourism, shipping, etc). We also raise our 2022 GDP forecast to 5.5% or 1.5pps above consensus, and 60bps above the [EC forecast in the 13th Surveillance Report](#).

2022 should benefit from EU fund inflows, tourism and continued consumption

Our revised 2022 forecast is also in line with business sentiment hitting the highest level since 2000 (driven by industry, services and construction). 2022 growth should be driven by investments (pick-up in EU fund inflows), and to a lesser extent by consumption gains and some pick-up in tourism. Our GDP revision also builds on: a) strong statistical carry-over (c2.7ppt); b) [earlier start to the tourism season](#); c) [preliminary EC endorsement of the next RRF tranche](#) of EUR 3.6bn given achievement of 15 milestones; and d) rising household savings (household deposits up by EUR 19bn or c10% of GDP in 2020-2021) – which could aid consumption even in case of elevated inflation.

Major drop in the budget deficit in 2022, public debt to start declining this year

Greece recorded a notable budget outperformance in 2021 with the primary deficit coming closer to -6% of GDP. The 2022 Budget targets a primary deficit of -1.2% of GDP, given that only around 1.7% of GDP worth of pandemic-related measures would prevail this year. The January 2022 budget also started with EUR 1.2bn outperformance versus targets. We expect public debt (as a % of GDP) to decline from 206.3% of GDP in 2020 to 184% of GDP by 2023. Greece will repay the IMF early (EUR 1.9bn left) by end March. In addition, Greece had a high level of cash reserves (EUR 32bn end-2021).

Key risks and links to Russia/Ukraine

Key risks to our macro view: another virus variant affecting tourism and mobility restrictions, and potential EU slowdown. In terms of links to Russia/Ukraine we highlight the role of energy. As shown [by UBS' European Economics team](#) Greece gets 20% of its oil import from Russia and around 32% of its gas import. Rising natural gas and wholesale electricity prices have resulted in household electricity and gas prices contributing 2.2ppt and 0.3ppt respectively to January's 5.5% y/y CPI. Russian tourist arrivals only accounted for 0.8% of foreign tourist arrivals in 2021, and Russia only accounted for 0.5% of total Greek exports.

Banks: NPE heavy lifting largely completed in 2021; corporate lending shifting to higher gear in 2022

Large non-performing exposure (NPE) securitizations and outright portfolio sales accelerated de-risking of the banks' balance sheet 2021, with BoG data showing the aggregate NPL ratio of the sector halving over the course of Q2-Q3 21 to 16% (24p.p. decline since YE'19). With all four systemic banks on a path towards single digit NPE ratios by YE'22 and now sufficient capacity to lend after having completed capital enhancing measures, we expect the sector to contribute significantly to the financing of the economic recovery. Banks' strategic plans hinge on substantial net new corporate lending in order to achieve the targeted >10% RoTEs medium term.

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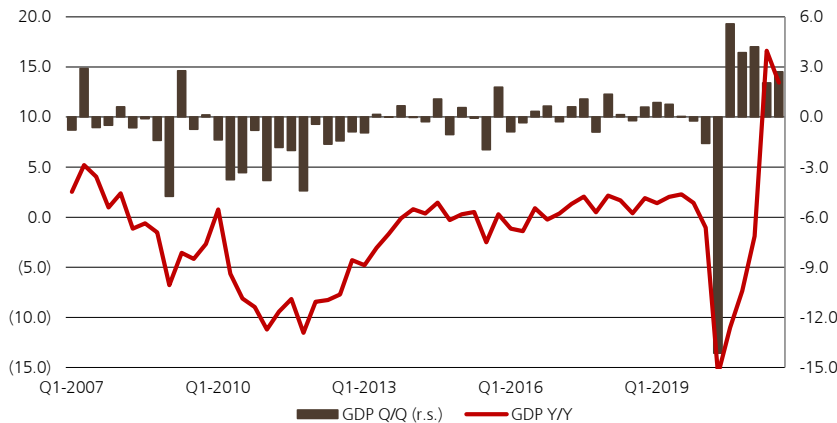
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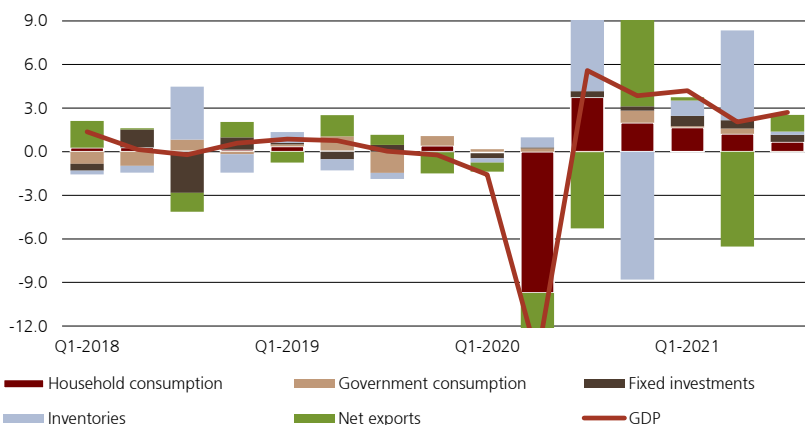
2021 GDP growth and activity

Figure 1: We raise our GDP forecast to 8.5% in 2021 from 7.9%



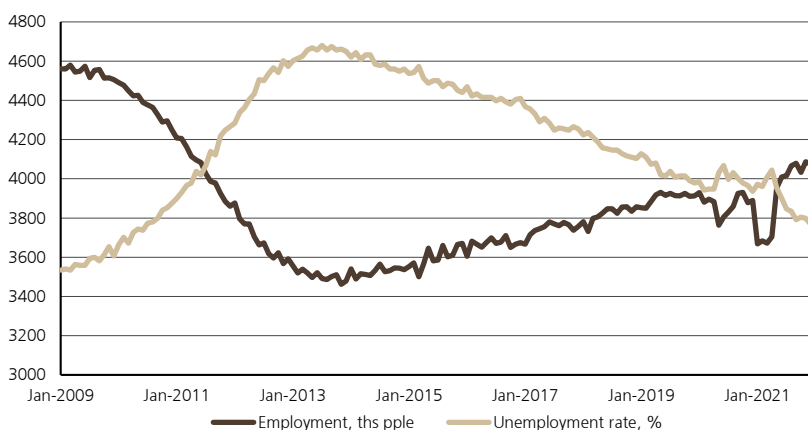
Source: ELSTAT, Haver, UBS

Figure 2: Sequential (q/q) GDP outperformance driven by consumption, investments and exports, %



Source: ELSTAT, Haver, UBS

Figure 3: Unemployment falls to new lows, labour market shielded by government programs



Source: ELSTAT, Haver, UBS

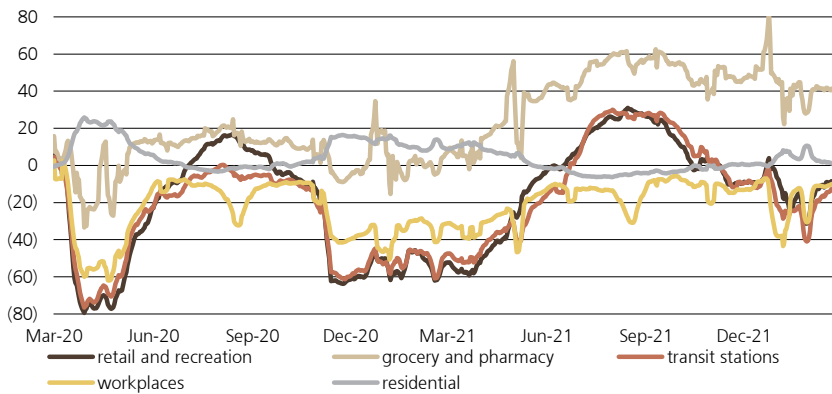
Greece is yet to publish the Q4 2021 GDP report on 4 March. The economy grew by 2.7% q/q in Q3 (13.4% y/y) following 2.1% q/q in Q2 2021 – the fifth quarter of uninterrupted sequential acceleration (strongest course in the last 20 years). Available data points to a q/q rise in IP (+3%) and retail sales (1.6%) in Q4 2021, though rising mobility restrictions in November-December 2021 and declining car sales (-2.8%) could have weighed on activity. We expect GDP growth around 1% q/q (c6% y/y) in Q4 2021, which prompts us to raise our 2021 GDP projection to 8.5% from 7.9% previously. Importantly, GDP had fully recovered from the pandemic shock by Q3 2021.

The recent phase of sequential economic acceleration since Q3 2020 has been benefitting from a revival of household consumption and a fairly steady growth in fixed investments. Consumption should have been boosted by rising disposable income (and government measures), while capital outlays by investments into transport equipments, machinery and construction-related investments (both housing and structures). Exports have also contributed positively to GDP in 3 out of the 5 quarters, mainly reflecting the rebound in services – i.e. tourism, shipping etc.

Improving labour market conditions have played a key role in boosting household income and supporting consumption. Greek unemployment rate dropped to 12.8% (seasonally adjusted) by December 2021, the lowest level since 2010. Employment reached 4.08mn by end-2021 (+4.8% y/y) and exceeded the pre-pandemic peak already in May 2021. While this is an impressive recovery, the number of people in the labour force was yet to recover to pre-pandemic levels. In combination with the c4% increase in real wages in Q1-Q3 2021, household disposable income gained 5% in real terms in 2021.

2022 economic outlook

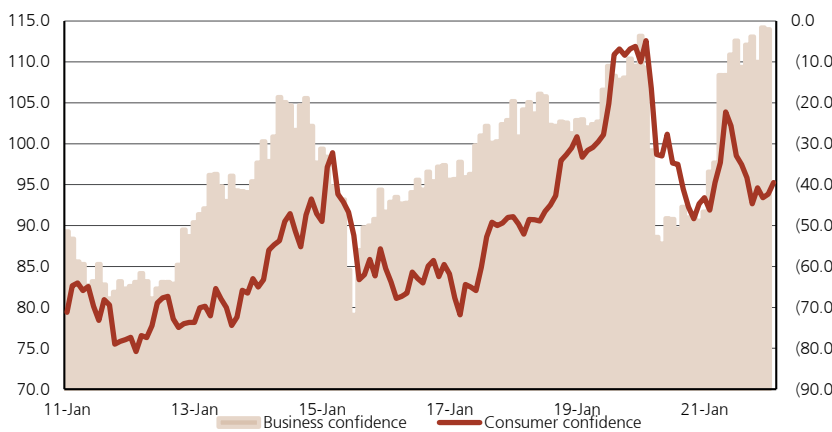
Figure 4: Mobility in February 2022 started to rebound



Source: Google, UBS. <https://www.google.com/covid19/mobility/>

Following the jump in Omicron-related cases in Greece, authorities have started to put in place containment measures starting from November 2021 (mainly focusing on limiting number of visitors, opening hours of establishments etc – see our [mobility restrictions tracker](#)). Importantly, Greece introduced mandatory vaccination for the above 60 age group and healthcare workers otherwise [facing fines or firing](#). Google's mobility data points to a recovery in activity in February. This mainly reflects improved mobility for transit places, workspaces and retail spending.

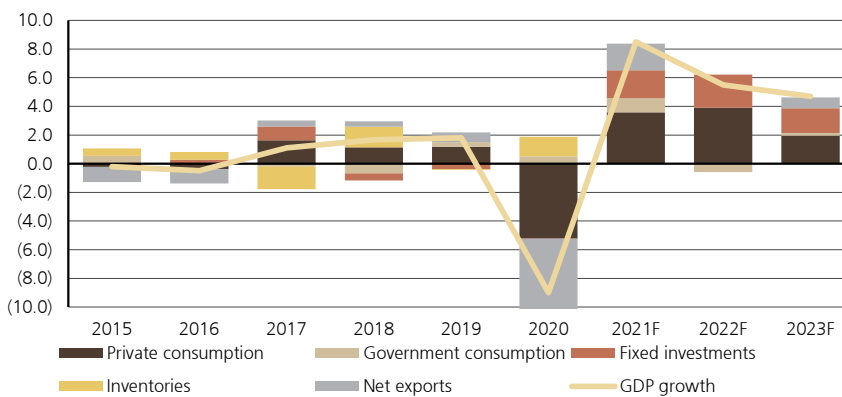
Figure 5: Business sentiment most optimistic since 2000



Source: European Commission, Haver, UBS

Business sentiment continued to improve in January-February 2022, with an average level of 114.1. This is the highest reading since December 2000. Improving sentiment was led by industry (also confirmed by the February PMI reading) and services – where the levels are not far off from all-time highs. The construction sector has also seen a very visible rise in optimism (best reading since 2006) given the inflows of EU funds (RRF +MFF). Confidence in the retail sector has also rebounded, but it is yet to reach the pre-pandemic levels (H2 2019). Consumer confidence remains more cautious though.

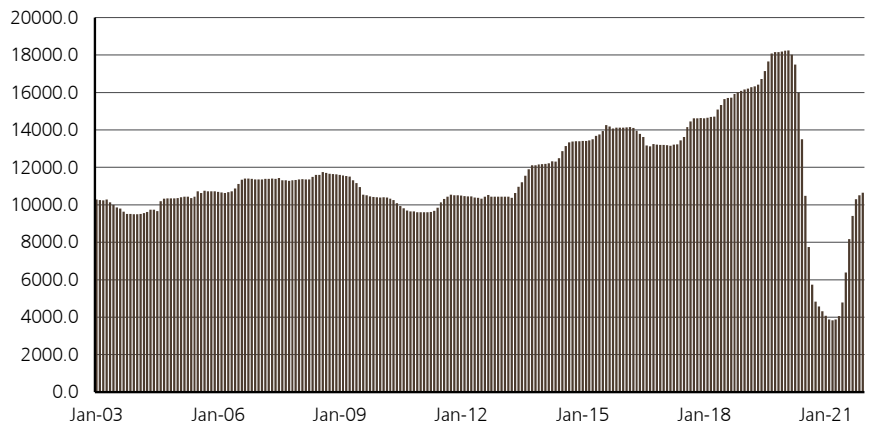
Figure 6: Revising our 2022 GDP forecast to 5.5% from 5.0% previously



Source: ELSTAT, Haver, UBS

We also revise our 2022 GDP forecast to 5.5% (5.0% previously): 1.5pps above consensus, and 60bps above the [EC forecast in the 13th Surveillance Report](#). 2022 growth should be driven by investments (pick-up in EU fund inflows), and to a lesser extent by consumption gains and some pick-up in tourism. The revision also builds on: a) strong statistical carry-over (c2.7ppt); b) [earlier start to the tourism season](#); c) [preliminary EC endorsement of the next RRF tranche](#) of EUR 3.6bn given achievement of 15 milestones; and d) rising household savings (household deposits up by EUR 19bn or c10% of GDP in 2020-2021) – which could aid consumption even in case of elevated inflation.

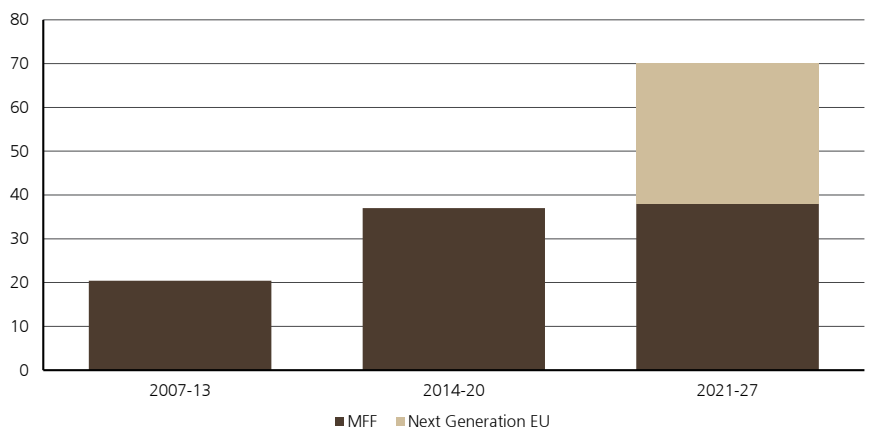
Figure 7: Revival of tourism (12m MA revenue in EUR mn) – Greece expects further normalization in 2022



Source: Bank of Greece, Haver, UBS

The rebound in tourism has been one of the key contributor to GDP growth in 2021. Tourism revenues reached EUR 10.7bn in 2021: more than doubling against the 2020 levels of EUR 4.3bn. Nevertheless, tourism receipts in 2021 were still c60% of 2019 record revenues of EUR 18.2bn. First indications for January pointed to a more than [threefold increase in airport passenger traffic in y/y terms in January 2022](#) and the Greek Minister for Tourism indicated that the tourist season would start with March – unlike in 2021 when it started in mid-April. The [government is aiming to reach pre-pandemic revenue levels this year](#) – though we think such a jump could prove challenging.

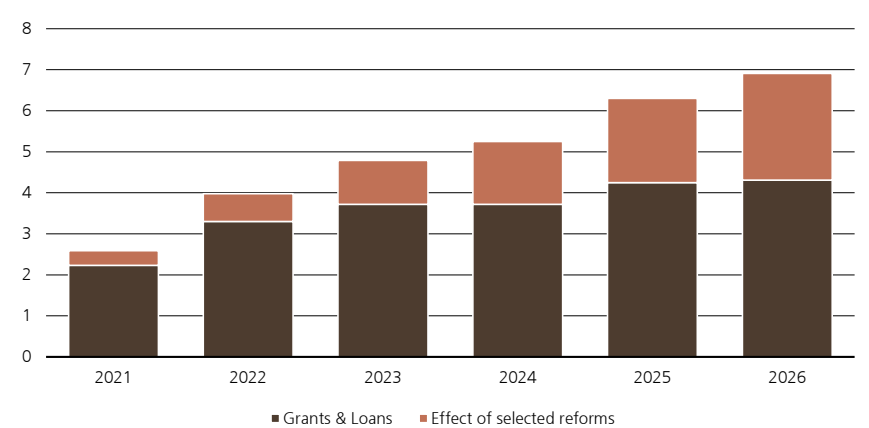
Figure 8: Available EU fund sources (EUR bn) – this year the focus is on the leftover from 2014-20 MFF



Source: European Commission, UBS. MFF stands for the Multi-annual Financial Framework. The largest part of the Next Generation of EU funds is the RRF.

Despite the focus on the Resilience and Recovery Facility funds, it is important to point out that the most important source of EU fund inflows this year are the leftover funds from the 2014-2020 cohesion funds (MFF). [EC data shows](#) that Greece has more than EUR 11bn available for absorption in 2022, while for 2022 the government targets to receive EUR 5.3bn from the RRF. (Greece has approved projects to cover 129% of the MFF envelope.) As we highlighted, the EC preliminarily endorsed the request to pay out EUR 3.6bn (EUR 1.7bn in grants and EUR 1.9bn in loans). Nevertheless, going forward the RRF is going to become more important in terms of total EU fund mix.

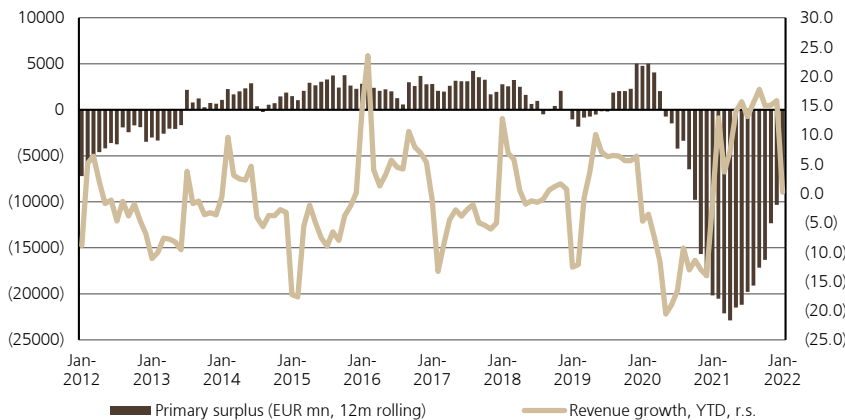
Figure 9: Additional growth boost from RRF: GDP level per year*



Source: Bank of Greece, UBS. *Increase in GDP level in a given year as a result of RRF compared to the steady-state level.

Greece is eligible for EUR 18bn in grants and EUR 12bn in loans (10% of GDP and 7% of GDP respectively) from the RRF. Based on the Bank of Greece's calculation, the RRF funds in combination with selected structural reforms (affecting product market, increasing labour force participation and enhancing productivity) could boost GDP levels by 30ppt cumulatively in 2021-2026 versus the baseline and create 180k jobs. The [EC's study on RRF spillover](#) also pointed Greece out as the country with the highest potential growth benefits.

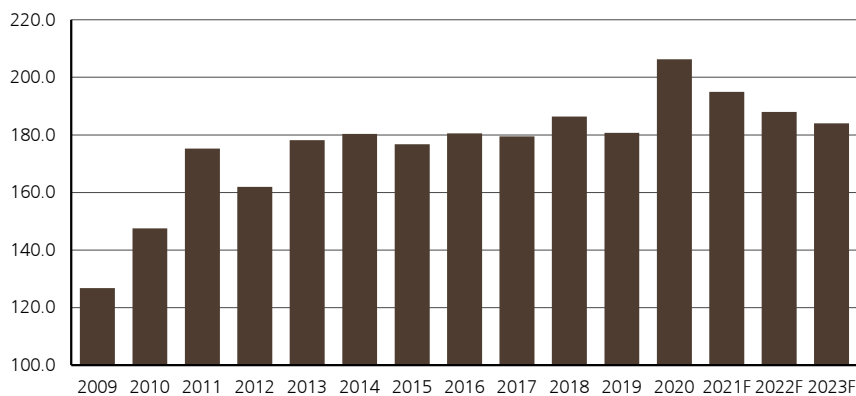
Figure 10: 2021 budget outperformed versus targets; deficit to be cut visibly in 2022



Source: Ministry of Finance, Haver, UBS

Greece cash budget outperformed in 2021 and reached a primary deficit of EUR -11bn (c-6% of GDP) or EUR 2bn better than expected (explained by both revenue outperformance and spending restraint). The EC in its February Surveillance Report suggested a 1.4pps outperformance in 2021 versus the -7.6% of GDP primary deficit projection in its Autumn forecast. The 2022 Budget targets a primary deficit of -1.2% of GDP, given that only around 1.7% of GDP worth of pandemic-related measures would prevail. The January 2022 budget data revealed a small primary surplus of EUR 0.02bn – which is an EUR 1.2bn outperformance versus targets.

Figure 11: Public debt-to-GDP expected to start to decline in 2021 and to drop below 190% of GDP in 2022

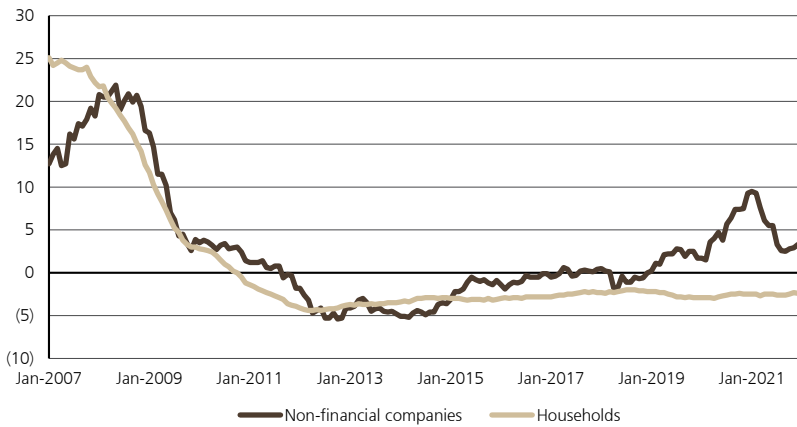


Source: Ministry of Finance, Haver, UBS

We expect public debt (as a % of GDP) to decline from 206.3% of GDP in 2020 to 184% of GDP by 2023. Greece issued a 10Y bond in January and raised EUR 3bn out of the planned EUR 12bn borrowing. Greece will repay the IMF early (EUR 1.9bn left) by end March. In addition, Greece had a high level of cash reserves (EUR 32bn end-2021). The ECB is yet to decide on the extension of Greek bonds to be accepted as collateral for Eurosystem financing (current waiver expires in June 2022). The ECB indicated that the PEPP reinvestments can be adjusted flexibly and could include purchasing bonds issued by Greece over and above rollovers of redemptions.

Banking system

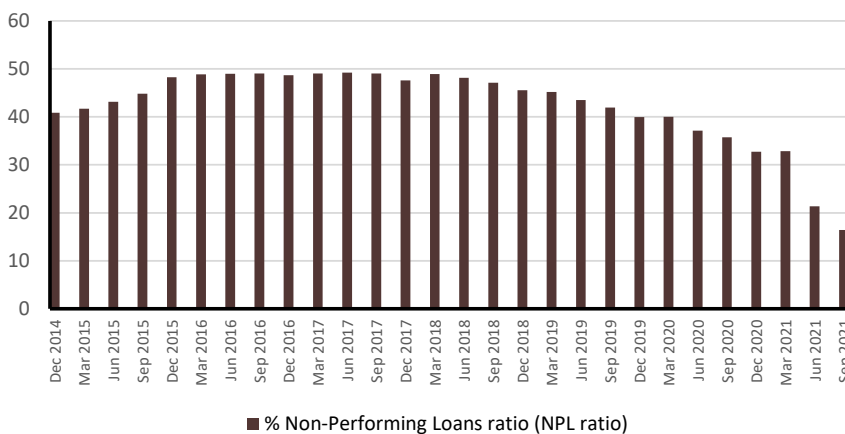
Figure 12: Lending growth eased in 2021, but corporate loan growth should pick up this year (% y/y)



Source: Bank of Greece, Haver, UBS

The rebound in economic activity largely happened without a lot of help from bank lending. Unusually high corporate lending growth rates in 2020 were driven by Covid-relief programs – some of which were repaid in 2021, partly contributing to lower growth last year. The Bank of Greece's data shows that momentum in corporate lending has slowed to 2.4% y/y by January 2022, while household loan growth continued to decline by around -2.5% y/y. We believe that corporate credit growth is likely to be supported in 2022 by projects financed by Greece's recovery and resilience plan. A re-acceleration of credit growth would represent another source of growth for the medium-term.

Figure 13: The bank sector's NPL ratio halved in Q2-Q3 21 to just above 15%



Source: Bank of Greece, UBS

Multi-billion € NPE securitizations (benefitting from the government guaranteed Hercules Asset Protection Scheme, HAPS) helped banks reduce NPE and NPL ratios since YE2019, with substantial benefits from de-recognition crystallizing in Q2-Q3 21. Systemic banks are targeting single digit NPE ratios by YE2022 through HAPS-guaranteed securitizations, outright portfolio sales, internal workout, and liquidations.

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