

Economy in figures



27.5% of active population was unemployed in 2013



Greece succeeded growth for the last three consecutive years



Deflation reached -1.4% in 2014



Public debt reached its highest level in 2018 (181% of GDP)



Greece is rated as "BB-" after 4 successive upgrades



Greece's first post-election bond issue fetched €2.5bn, securing a yield of 1.9%

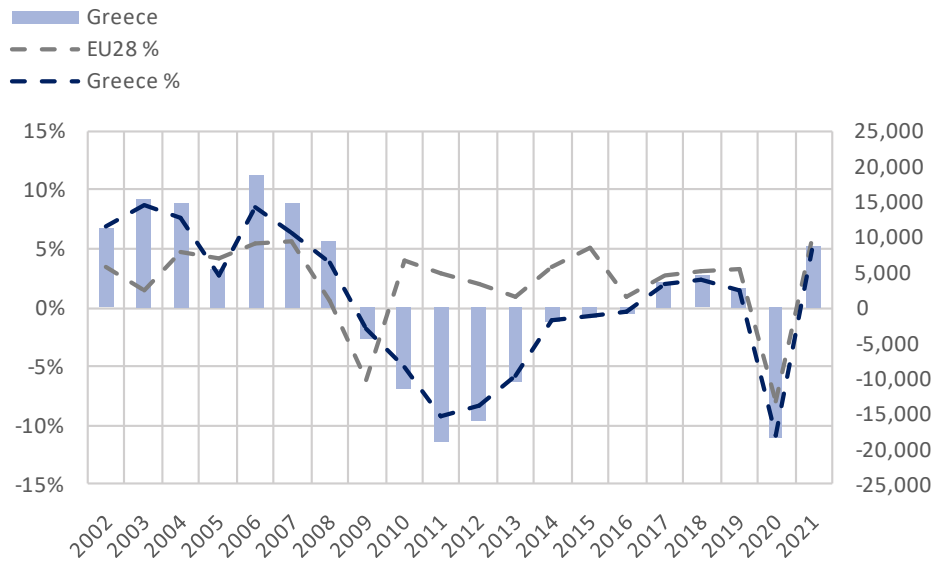
Major Highlights

- After eight years of decline, Greece succeeded a real GDP growth for three consecutive years, averaging a moderate 2% per year in 2017-2019.
- Positive primary and fiscal balance achieved for four consecutive years, averaging a 4% and 0.9% respectively per year in 2016-2019.
- Foreign direct investments hit an all-time high after 2006 exceeding € 4bn in 2019, mainly driven by investments in real estate.
- Greece's ten-year government bond interest rate in secondary markets hit an all-time low in early June, falling to about 1.5%.
- Reflecting the collapse in tourism sector, Greek economy expected to contract by 9.8% in 2020, returning the budget to deficit and pushing up government debt to 200% of GDP.
- Following the COVID-19 health crisis, Greece's creditors have temporarily waived the primary surplus targets of 3.5% of GDP up to 2022 and 2.2% of GDP from 2023 to 2060.

Please see important disclosure and disclaimer statements at the end of this report.

Chart 1
Gross Domestic Product (GDP) at market prices

(annual changes)

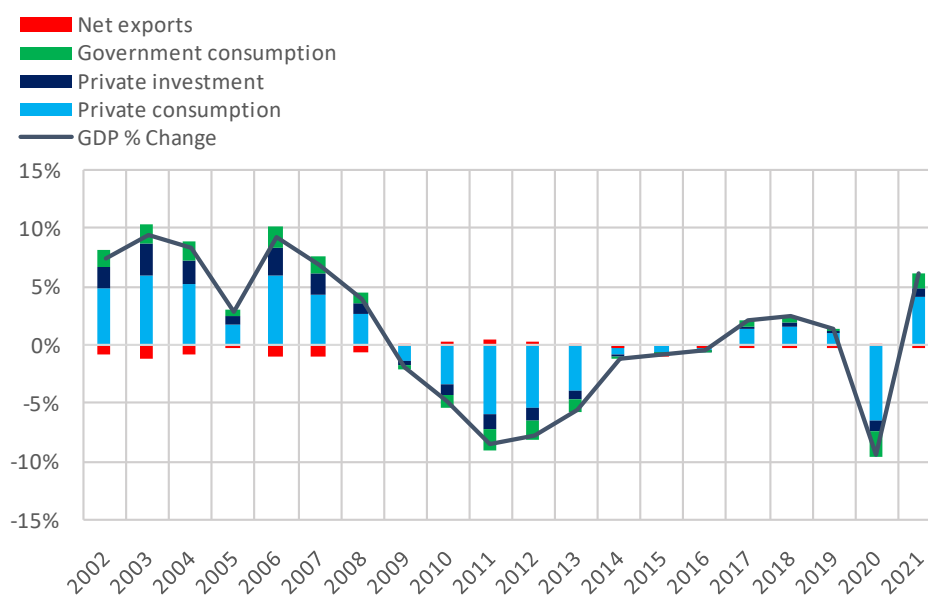


After eight years of decline, Greece succeeded a real GDP growth for three consecutive years, averaging a moderate 2% per year in 2017-2019. However, Greek real GDP remains more than 20% below the level recorded before the global financial crisis in 2008-2009, which triggered an eight-year long slump in Greece. Country's trajectory exceeded Eurozone's from 2002 to 2004, mainly driven by the former's monetary union (EMU) entrance in 2001. Adjacent Olympics in 2004 also added to GDP since infrastructure-related investments were implemented. Olympics' finale signaled the end of large projects that pulled the country's development, and thus, the development in 2005 was 2.77% compared to the average of 7.72% in the previous three years. After 2007, Greece's growth got worsen as the financial crisis hit the U.S.A. Worth considering is that from, 2007 to 2009 Greece's decline was lower in absolute percentages, than the EU, indicating the country's initial stability. Following the financial crisis, EU quickly recovered after a year, but Greece needed six years after 2011 – worst year in the examined period with the economy in the doldrums of -9.18% - to return to growth. Europe's development from 2009 to 2019 was ranging from 1% to 5%. Even though Greece's was continuously closing the gap from the positives, it managed to develop with 2.07% only in 2017. From 2009 to 2016 Greece's GDP declined more than 25%.

On top of that, coronavirus pandemic hit the world, resulting in terrible projections about countries' development worldwide. More analytically, Greece's projected drop is the worst compared to all countries in EU28 at -9.8%, while Europe's decline is estimated at -7.4%. Nevertheless, since COVID-19 is exogenous shock and is not causally related to economic issues, the rebound is projected to happen after one year. The foreseen growth for Greece in 2021 is 5.1%, while Europe's one is 6.1%.

Chart 2 Gross Domestic Product growth and components

(annual percentage changes, percentage point contributions)

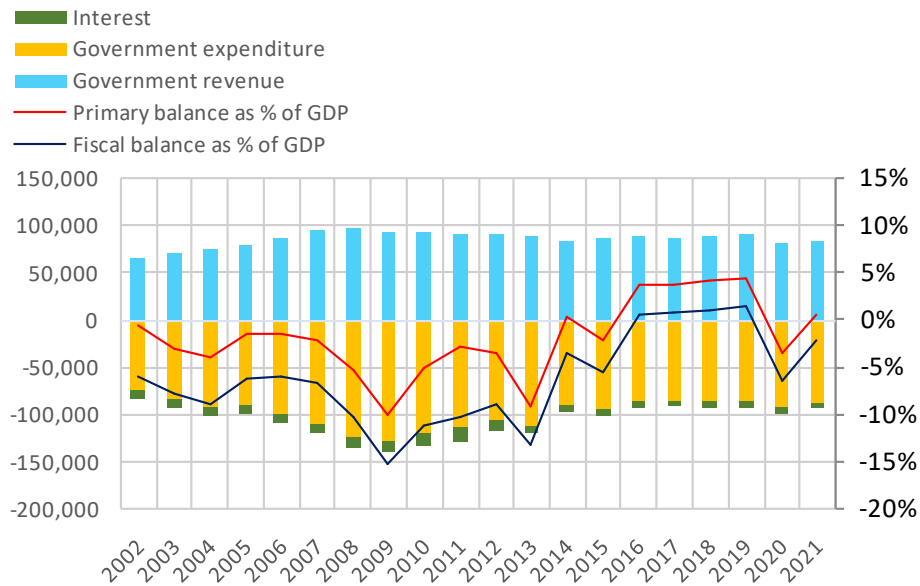


The private consumption has strongly driven Greece's GDP contributing more than 60% for the examined period, while private investments contributed to the former in a materially lower manner. Public and private consumption are still almost one-quarter lower, and gross fixed capital investments almost two thirds less comparing with the pre financial crisis. Besides, Greece did not manage to be net exporter during the examined period except from 2015 – capital controls imposed hindered import activity -indicating the country's inability to produce efficiently and systematically enough to export abroad while being self-sufficient within the country. During the financial crisis, the decline in private consumption pulled GDP growth to the negatives, followed by government expenditures – a usual result considering the “barehanded” markets. After the financial crisis, many attempts to decrease government expenditures have been done, but the former did not change until 2017, implying the country's rebound without governmental boost. Over the last years, the positive development was driven solely by private consumption and private investments, with the latter being much lower than the 2002-2004 levels.

For 2020, the projections are disappointing since -6.4% in private consumption expectation and -1% of private investments is foreseen. Nevertheless, a strong rebound is expected in 2021 with 4.2% in private consumption and 1.3% in government expenditures (similar to 2002 levels).

Chart 3 Overall Balance

(annual amounts in current prices)



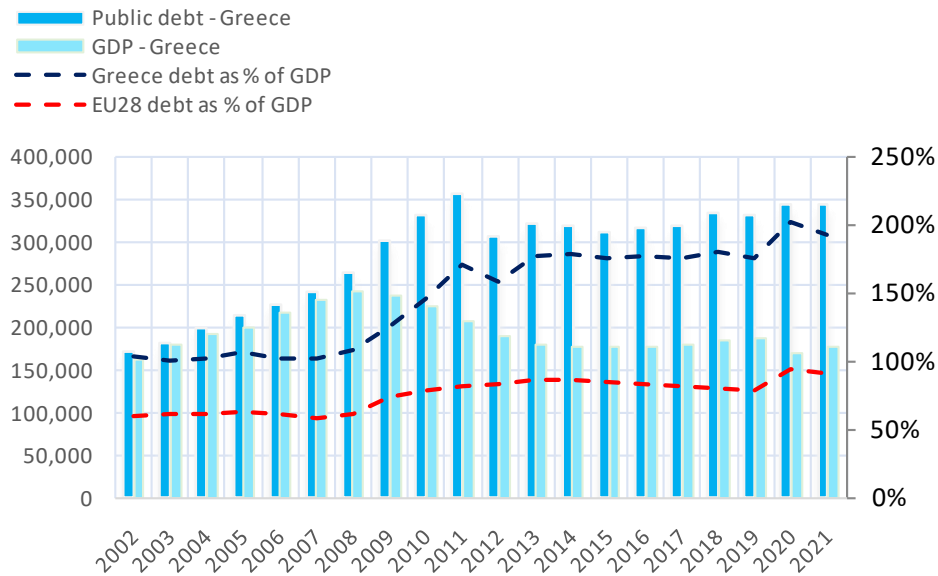
Even though Greece's growth was remarkable until 2008 and in the meantime, some analysts characterized it as the "Greek economic miracle", it did not succeed positive primary and fiscal balance before 2016. More analytically, Greece was intervening in investors' business by providing subsidies, and it had a welfare state profile supporting with allowances the Greek population. All the above increased government expenditures without having planned revenues stemming – mostly – from taxes. Besides, Greece had public debt due, which corresponded to increased government expenditures due to interest payments. During the financial crisis, the country faced multidimensional problems, stemming from the crisis itself and a mixture of political and financial issues that made the country not credit trustworthy¹ to foreign investors and potential lenders. Thus, the loans the country required had high interest rates, decreasing further the fiscal balance. The above led to -15% of the fiscal balance – lowest recorded in the examined period. After 2016, the interest payments became the least visible, helped investors' confidence to rise, and finally led to positive primary and fiscal balance for three consecutive years.

Coronavirus crisis will probably lead the country to 2015 levels in terms of fiscal balance, increasing the expenditures since Greece has already supported the markets materially by using fiscal measures for not letting the economy crash. Even though the 2021 rebound is expected, this will not strongly affect the two balances, as the two will remain at nearly zero levels.

¹ CCC according to Fitch in 2011

Chart 4 Gross Debt (Maastricht) to GDP

(annual amounts in current prices)

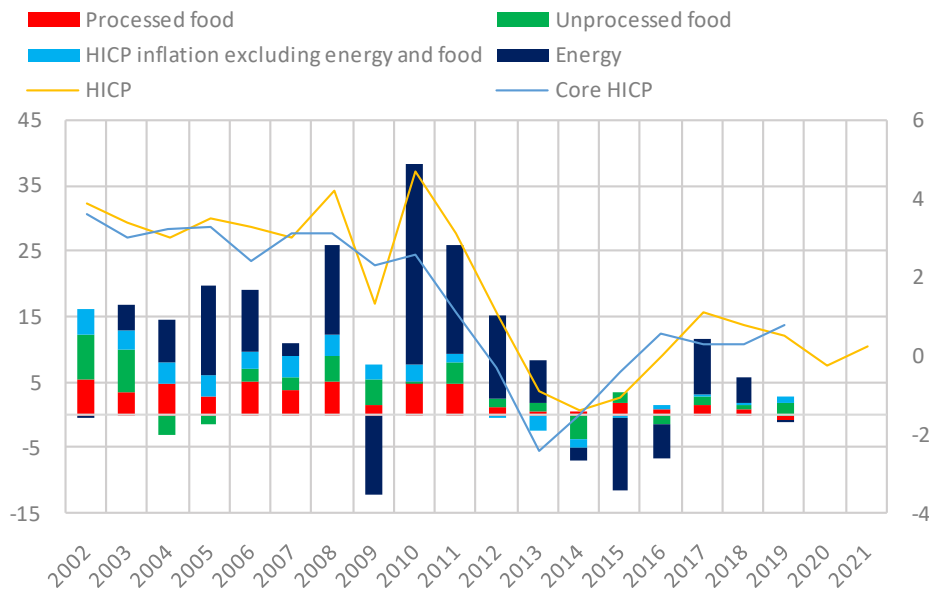


Throughout the examined period, GDP never exceeded public debt in absolute values, implying that Greece is not efficient enough to finance its production levels. More specifically, from 2002 to 2008, both trends – GDP and public debt – were upward sloping entailing that public debt financed country’s development until 2008. Simultaneously, debt as a percentage of GDP was almost stable at 105% while Europe’s average was at 61%. From 2009 to 2011, Greek public debt rose exponentially, when Europe’s increase was dwindling, presenting the need to cover liabilities. In 2011, Greece’s public debt peaked at €356.235bn, and two years later, it reached 177% of GDP, remaining almost at the same levels until 2019. In Europe’s case, public debt did not exceed 87% of GDP during the examined period, concluding 79% in 2019.

The health crisis, as mentioned earlier, will force countries to lend more in order to cover their financial obligations and help the economy not to crash. Hence, Greece’s debt is expected to reach an all-time maximum during 2020 at 203% of GDP when in the meantime, Europe’s level will rise to 95% of GDP for the same year. For 2021, the estimations foresee drops of 9% and 3%, respectively, enhancing partial or full rebound probability.

Chart 5 HICP Inflation and contribution by components

(annual percentage changes, percentage point contributions)

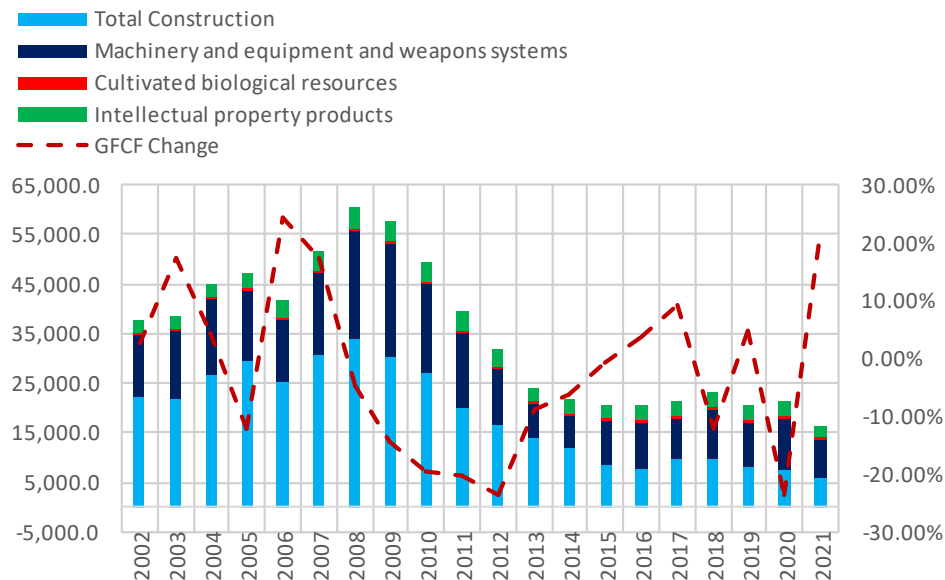


Developments and fluctuations in energy were responsible for inflation movements during the examined period, while processed food also played a significant role. Energy and processed food contributed actively from 2008 to 2010. Nevertheless, the decline observed in 2009 was down to energy decrease. After 2013, both recorded inflations decreased sharply since the demand for energy declined significantly because of a lack of private investments. The above led to deflation for three consecutive years, which stemmed from decreased demand and not increased productivity, prohibiting profitable investments. From 2017 to 2019 – three years of growth – inflation responded and went positive, again driven by energy and food.

The projections for the next two years present small variations, mostly because the exogenous shock that hit humanity is not causally related to economic or human issues. More analytically, the estimates for 2020 foresee deflation of -0.25% and an increase of 0.5% in 2021, concluding 2019 levels.

Chart 6 Gross Fixed Capital Formation by components

(annual percentage changes, percentage point contributions)

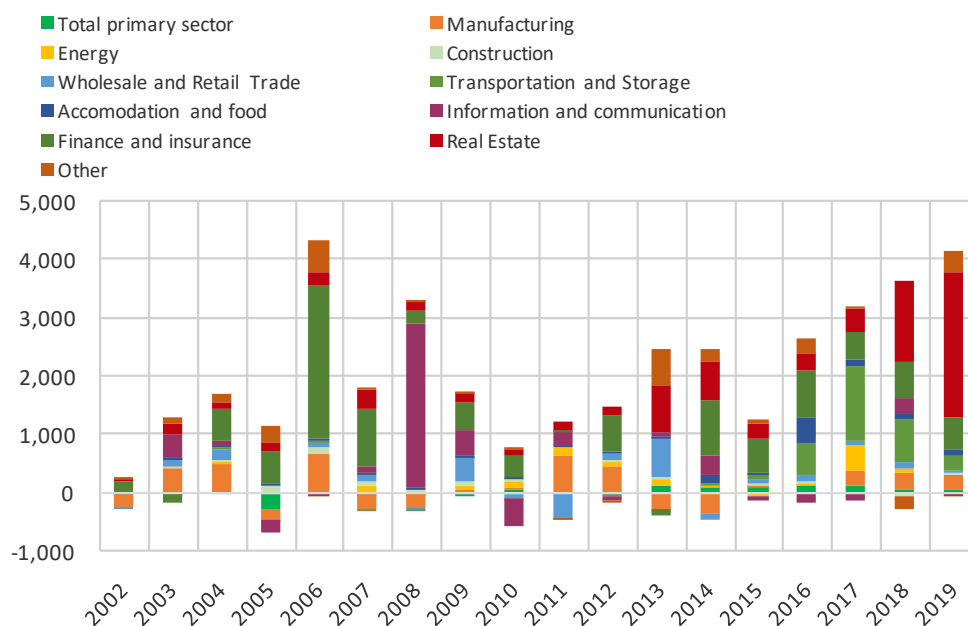


GFCF decline was mainly driven by the obsolete machinery and equipment which, over the years, was not replaced. Intellectual property products such as patents and inventions played a permanently immaterial role during the examined period similarly to cultivated biological resources - even though the latter are extensively used for land exploitation. Gross fixed capital formation (GFCF) is ruled by construction and machinery equipment while its change during the years, followed a pattern identical to what GDP did. More analytically, until 2004 multiple infrastructure projects took place in Greece linked to Olympics. After a year, GFCF dropped by more than 10% since Olympics were over. Growth continued until 2008 with average change of 12.28% but then financial crisis hit. In 2012, the decline reached its biggest level - -23.62% - and took Greece four years until the next positive evolution. Worth considering is that, even though the main reason for decrease of total construction was the lack of demand added to not-appealing financial prospects, the decline of machinery stems from obsolete equipment which was not replaced by new, leading to materially lower machinery and equipment value.

The prospects for 2020 project an all-time negative record for GFCF since there is no motivation for investments. The above will be flipped a year afterwards, in which GFCF will rebound to 2003 levels.

Chart 7

Net Foreign Direct Investment in Greece by industry classification



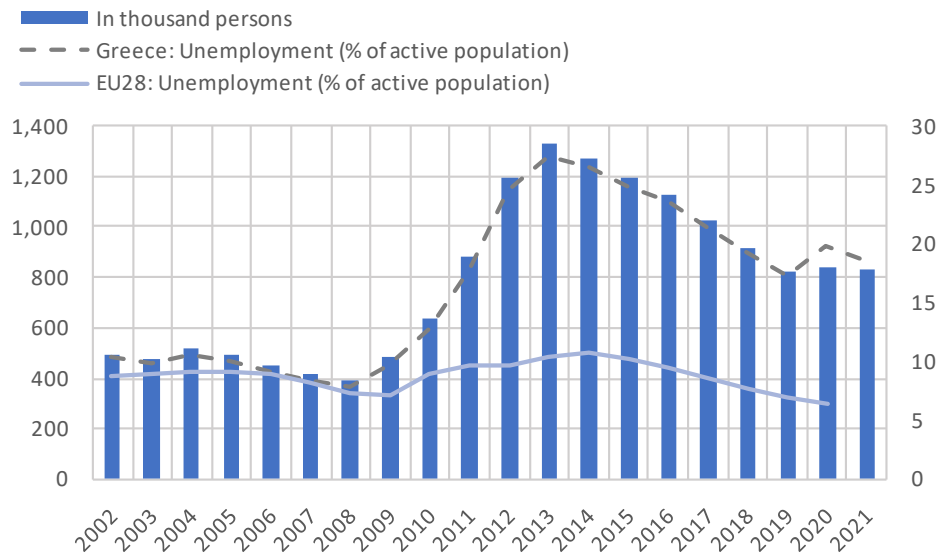
Net foreign direct investment (NFDI) in Greece was volatile during the examined period, while industries of interest changed over time. Until 2004 the level of NFDI was low and mostly related to financial and insurance services. In 2006, NFDI peaked at €4.27bn, driven by financial services, manufacturing, and other investments. In 2008, the picture changed dramatically, and foreign investors preferred Greece for the information and communication industry, especially in telecommunication-related investments, succeeding at €3.1bn. From 2009 to 2012, the financial crisis hit the country, and investors preferred to invest their capital in safer choices since Greece was not trustworthy neither for other countries, not for credit rating agencies (Moody’s, Standard & Poor’s and Fitch). Two years later, a relative homogeneity in investments is observed; financial services, real estate, and transportation are the three most popular industries for investment but for different reasons. The second was preferred (especially in 2018 and 2019) because of “Golden Visa”² – an essential asset for further investments at the rest of Europe. Investors used their capital for the latter since they invested in Greek railroads (especially Italian investors).

All the above investments were linked to European capital flows (more than 80%) mostly because of the ease of investing in a European country compared to investments abroad. In the last two years, Asia and America made significant investments in Greek real estate, raising NFDI.

² A Golden visa is a permanent residence permit offered to non-European residents investing €250,000 and above in Greece.

Chart 8 Unemployment

(annual percentage changes, percentage point contributions)

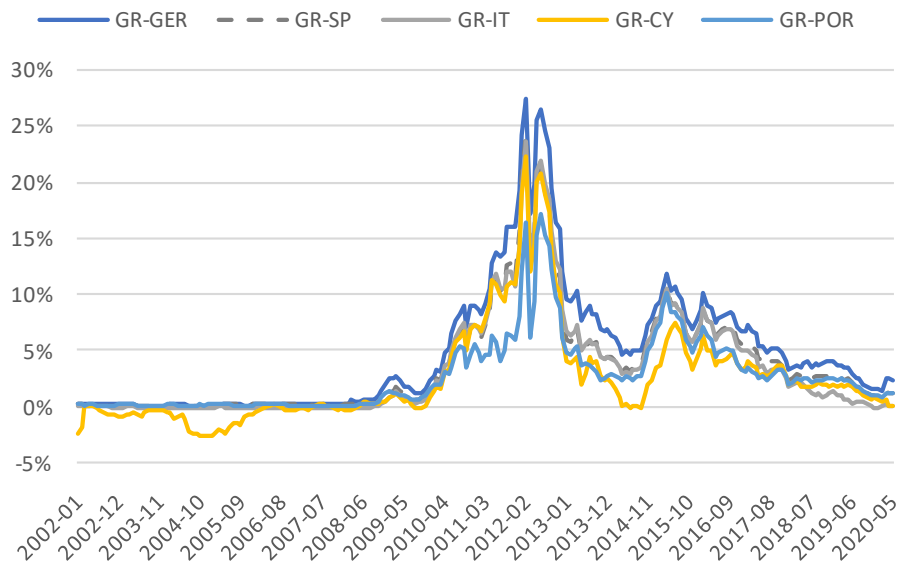


The unemployment level was always high in Greece compared with the EU and U.S.A, but the rate became surprisingly high during the financial crisis. From 2002 to 2008, Europe and Greece's unemployment level were almost similar, enhancing the sentiment of stability that Greece had. Even though the financial crisis of 2007 hit hardly Europe, the unemployment level remained relatively low, since it surpassed the level of 10% only for three years (2012-2014) before dropping to 6.3% in 2019. On the contrary, Greece's unemployment rose exponentially from 2009 to 2013 due to decreased demand and despondent interest for investments. The all-time high was reached in 2013 at 27.5% - more than 1.2 million productive human capital had a lack of employment. For six consecutive years, unemployment declined systematically up to 17.3% in 2019.

As expected, since demand is projected to be lower in 2020, unemployment will probably be higher for 2020. Many employers decided to fire human capital during COVID-19 quarantine to keep their cost of business low. Nevertheless, the rebound is expected in 2021, leading unemployment rates to lower levels – 18.9%.

Chart 9 Credit Spread among Greece and other European countries

(monthly percentage changes)



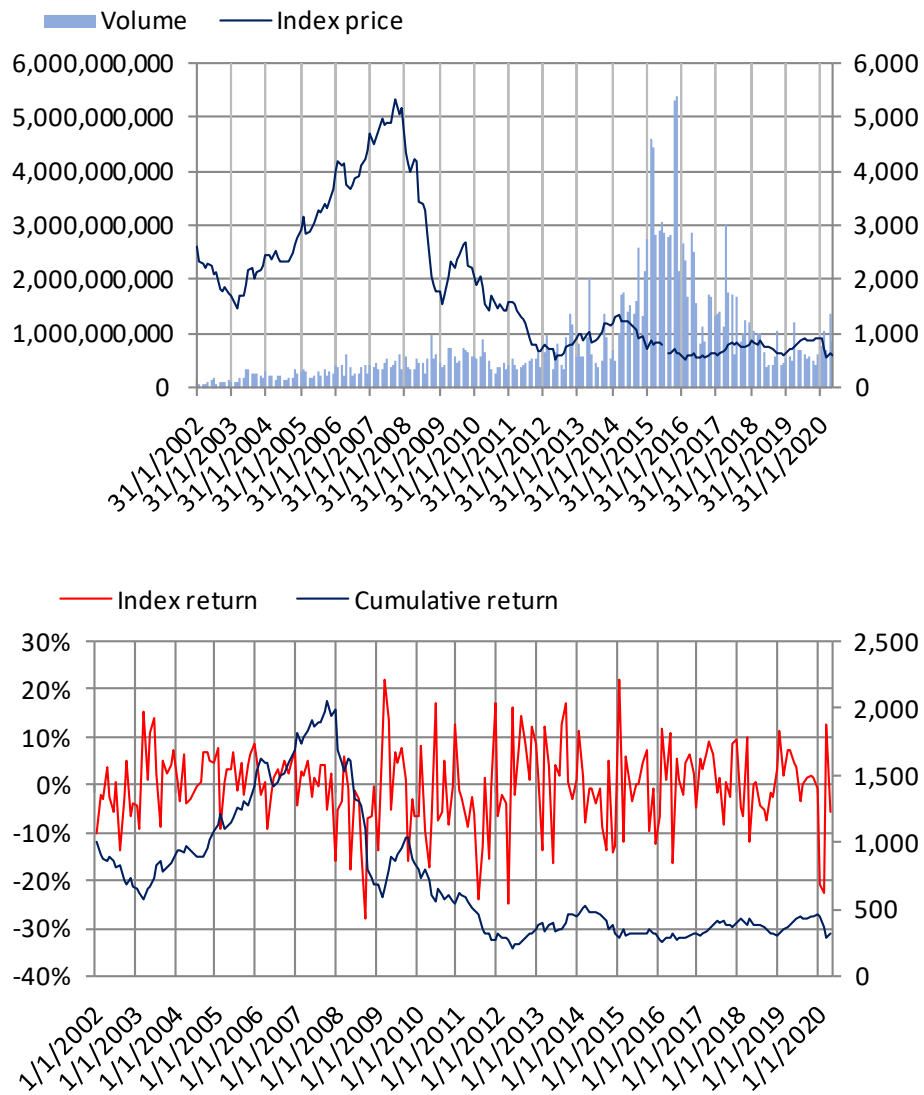
Even though Greece is now borrowing with historical low interest rates, it is still far from pre-crisis levels, comparing the spread with other European countries. Credit spread is an indicator of a country's bargaining power compared to other – well-established – countries. Following the above definition, it is noticeable that from 2002 to 2008, Greece had the same borrowing capability as Germany, Italy, Spain, Portugal, and Cyprus did since the respective differences between the spreads were almost zero. The above changed dramatically year by year since Greece's financial and political problems came on the surface. The Greek inability to construct a robust industrial sector was vital for the country's GDP decrease, which led to credit deterioration. On top of that, the political risk due to the rapid political environment changes was also a significant parameter that led spreads with German 10-year bonds to 27.39%.

During the last year, Greece's image has been altered sharply. From 2015 to 2019, the country won Moody's and other credit agencies' upgrades as reforms made in the past came to fruition. Greece managed to borrow with negative interest rates during 2019, a promising scenario for future financial prospects. Nevertheless, spreads levels are still far from reaching 2002-2004 levels, indicating that there is still room for improvement.

Chart 10

Stock Market Index and volume change | Index and cumulative return of €1000 invested in 2002

(daily changes)



There is an opposite relationship between volume and index price during the examined period since the former peaks in 2007 and the latter in 2015, when the index price was at its lowest. Greek stock exchange was growing steadily from 2003 to 2007, the returns were mildly volatile and positive, and the volume was at low levels. All the above broke down immediately after financial crisis hit, returns volatility spiked and the market became thinner concluding at 593 according to the latest data. Worth considering that €1,000 invested in the index in January of 2002, would worth € 292 at the end of May, 2020.

Table 1
Credit Ratings by Moody's, Standard & Poor's and Fitch

Credit Ratings			
Year	Moody's	Standard & Poor's	Fitch
1990	Baa1	BBB-	-
1991	Baa1	BBB-	-
1992	Baa1	BBB-	-
1993	Baa1	BBB-	-
1994	Baa3	BBB-	-
1995	Baa3	BBB-	BBB-
1996	Baa1	BBB-	BBB-
1997	Baa1	BBB-	BBB
1998	Baa1	BBB	BBB
1999	A2	A-	BBB+
2000	A2	A-	A-
2001	A2	A	A
2002	A1	A	A
2003	A1	A+	A+
2004	A1	A	A
2005	A1	A	A
2006	A1	A	A
2007	A1	A	A
2008	A1	A	A
2009	A2	BBB+	BBB+
2010	Ba1	BB+	BBB-
2011	Ca	CC	CCC
2012	C	B-	CCC
2013	Caa3	B-	B-
2014	Caa1	B	B
2015	Caa3	CCC+	CCC
2016	Caa3	B-	CCC
2017	Caa2	B	B-
2018	B3	B+	BB-
2019	B1	BB-	BB-
2020	B1	BB-	BB

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
C	C	C	
/	D	D	In default
/			



The credit rating was almost stable at BBB- until 1997 with the first upgrade to have happened in 1998 at BBB. The aforementioned information about country's growth, stable inflation and general image boosted rating agencies to support Greece and reached A+ in 2003 according to Moody's. After 2009, all three agencies ceased to downgrade the country as financial and political problems rose up during the financial crisis, reaching a minimum at CCC-. From 2016 up to now, Greece gained back some of the lost ground with four consecutive upgrades in four years, implying positive future prospects.

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Economy, Greece	GKGNLDPY:IND	July 12, 2020	-

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