Levy Economics Institute of Bard College
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Strategic Analysis

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RESTARTING THE GREEK ECONOMY?

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The COVID-19 pandemic has thus far caused unprecedented worldwide economic and social damage. The extent of the damage is estimated to be comparable to, and in some countries even greater than, that of the Great Depression: a 4.5 percent decline of world GDP, amounting to $3.94 trillion of lost economic output (based on 2019 world GDP of $87.55 trillion) (Szmigieva 2021). Other variables denoting the catastrophic effects include the loss of jobs, particularly hitting low-skill and low-wage workers, who became both unemployed and subsequently redundant given the transformational change to new labor market arrangements focusing on work carried out through digitalization. The ILO Monitor (2021) reports the job losses due to the pandemic as of the end of 2020 to be 114 million, of which 81 million became inactive while the rest increased the ranks of the unemployed. Moreover, other changes in labor markets increased the number of people working part-time or in occasional employment.

A recent International Monetary Fund (IMF) report shows the connection between pandemics and automation severely affecting low-skill workers (Sedik and Yoo 2021). The acceleration of automation was documented from empirical evidence drawn from previous pandemics: i.e., SARS in 2003, H1N1 in 2009, MERS in 2012, and Ebola in 2014. The report shows that automation tends to increase in response to pandemics, especially when the health impact is severe and when the pandemic is associated with a significant economic downturn. When a pandemic occurs, firms restructure their production techniques, adjusting them toward technologies that lower labor costs. In addition, firms may prefer automation because health risks are minimal, if any. To be sure, the IMF report gives particular significance to the use of robots, which do not affect workers equally. Low-skill workers, however, are more prone to displacement than high-skill workers—a relationship reinforcing the dynamics of inequality.

In the case of Greece, advanced production techniques are limited, but the tendency toward automation is increasing, which will affect the manufacturing, retail trade, and financial services (including banking) sectors. ElStat reported the rate of unemployment in December 2020 at 15.8 percent, slightly lower than in the previous months. We may surmise that the effects of the

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pandemic have been more transformative in the sphere of work of late, since work from home increased to 15 percent in the service sectors in 2020Q4, compared to 9.3 percent in Q3. In addition, average weekly hours worked decreased across the service sectors, from 38.4 in Q3 to 35.3 in Q4 (declining in all service sectors except ElStat's "other service activities" category).

Furthermore, the turnover of retail trade activities in February 2021 recorded a decrease of 11.3 percent year-over-year, while retail sales via mail order and the internet recorded the largest annual increase of 45.8 percent. This highlights the need to emphasize the implementation of educational reforms and training to meet the demand for new skills in the post-COVID period. To some extent this echoes the Organisation for Economic Co-operation and Development's recommendation for Greece, indicated in its "Going for Growth" report (OECD 2021a), of the necessity for the country to increase productivity not only through investments, but also by implementing reforms for more digitalization. Nonetheless, it should be noted that the majority of Greek firms do not invest sufficiently in upgrading the skills of their own employees (KANEP GSEE 2019), as they rely heavily on education and training strictly financed by the public sector. A smooth transition to digitalized forms of work can only be ensured by their proper engagement in the educational and training process.

On the positive side, building activity based on the number of building permits issued showed an increase of 6.4 percent year-over-year (January 2020–February 2021), while total building activity also increased by 6.7 percent year-over-year. Other variables include the increase in the Purchasing Manager's Index to 51.8 in March 2021, compared to 49.4 in the previous month. The credit rating agencies S&P and Fitch upgraded Greece's public debt with a positive outlook, even though the rates assigned are still below investment grade.

The pandemic had a strong impact on both public and private debt, given the relaxation of the fiscal policy stance due to increases in public expenditure in response to worsening economic conditions. The loss of income, despite the fiscal measures, in turn decreased demand for both exports and imports and raised the stock of debt of households, businesses, and financial institutions. The Global Debt Monitor of the Institute of International Finance (IIF 2021) estimates the surge of global debt—public and private—to have added $24 trillion, bringing it to a new high of $281 trillion at the end of 2020. In the case of Greece, according to ElStat the government deficit for 2020 is estimated at €16.1 billion, representing 9.7 percent of GDP—compared to the surpluses in 2019 and 2018 of €2.1 billion and €1.7 billion, representing 1.1 percent and 0.9 percent of GDP, respectively (GDP was higher in both years than it was in 2020). The stock of public debt in 2020 is estimated at €341 billion, or 205.6 percent of GDP, compared to €331 billion in 2019 (180.5 percent of GDP).

Europe, in general, has not weathered the economic storm very well, marking significant losses in jobs, GDP, and incomes concomitant with increases in public and private debt. Despite the relaxation of the Maastricht Treaty rules until the end of 2022, the continuing effects of the pandemic—the third wave of which began early in 2021—have proven more challenging to reckon with as member states struggle to deal with larger numbers of infections, hospitalizations, and deaths and limited supplies of the COVID-19 vaccines to inoculate their residents, forcing most governments to continue to impose stricter guidelines curtailing economic activities—pushing their economies deeper into recession. How this will ultimately turn out is anybody's guess. What seems clear, however, is the necessity of large monetary and fiscal interventions. Once again, Minsky's "big government and big bank" coming to the rescue.

In general, the economic landscape in Greece, as of the end of 2020, was considerably worse than in most European Union (EU) member states. As shown in most economic statistics relating to losses in GDP and incomes and increases in public and private debt, Greece's economic variables turned out more negative than the EU average. In a special Bloomberg report (McCormick et al. 2021), Greece's total public and private debt as a percent of GDP is listed at 343.9 percent, behind Japan's 433.4 percent and Canada's 352.6 percent among mature economies. Despite the larger stock of debt in the latter two countries, their debt, like in many other countries (including the US and UK, with their high debt-to-GDP ratios), is issued in their own sovereign currency, while Greece's debt is in a foreign currency (euro). Unless significant reforms are implemented at the European level, this entails a resumption of austerity measures for Greece in the post-COVID-19 period, to adhere to Maastricht rules.

Our last Strategic Analysis report (Papadimitriou et al. 2020) was—in concert with the predictions of the European Commission, IMF, and OECD—more pessimistic with regard to Greece's GDP contraction than what ElStat's preliminary results (2021) suggest, which showed a contraction two percentage

points smaller than our estimates (8.2 percent versus 10.8 percent). This was mainly due to government support and ElStat's revisions of the previous quarters. Our expectations of a deeper contraction, apparently shared by the government and other organizations, were based on assumptions of lower private and public consumption and lower exports in services (tourism), in concert with Q3 trends. As Figure 1 shows, private consumption was indeed lower in Q4 than Q3, but tourism had a relatively smaller decrease. The figure documents the crucial role of tourism as well as government expenditures—the latter have not been countercyclical when compared with 2019Q4. In our last projections, we had no information about the capital transfers that materialized in 2020Q4: the government received €3.6 billion from foreign institutions, and made capital transfers for €6.8 billion. The household, nonfinancial, and financial sectors received €2.4 billion, €2.2 billion, and €1.8 billion, respectively.

The government, however, credits the soundness of its policies for the positive rate of growth in 2020Q4 (+2.7 percent versus 2020Q3) and the lower than projected contraction for the year. If one, however, contrasts this result of positive growth in 2020Q4 with other countries in the EU, the record shows that countries such as Romania, Malta, and others did better (Eurostat). In particular, the volume of retail trade in Greece was reduced in 2020 by an average of 9 percent, while in the eurozone the corresponding decrease was only 0.5 percent, despite the inflation of -1.2 percent in Greece and +0.5 percent in the EU (Kalloniatis 2021).

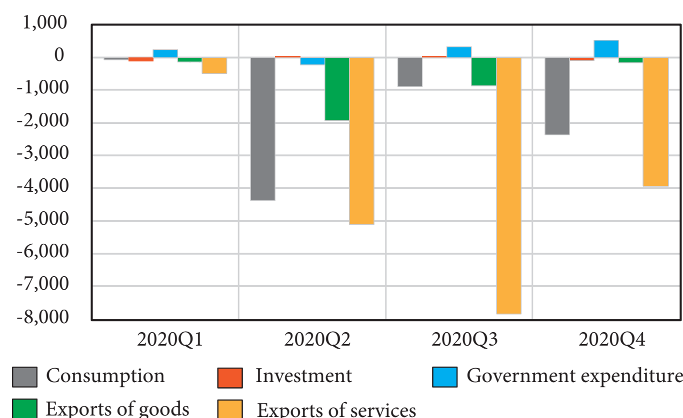
The current year began with continued business shutdowns, restrictions in travel affecting tourism, even lower investment, and consequently with further loss of income. Exports dropped significantly during the first two months of 2021, though they resurged in March. Private consumption is assumed to continue from a combination of government support programs and accumulated savings. Indeed, the increase in deposits of about €20 billion would warrant the assumption that private consumption could continue increasing, but this may be a heroic assumption in a period of high uncertainty and required servicing of the accumulated private debt.

The Impact of COVID-19 on the External Sector and Tourism

As mentioned above, after the outbreak of the pandemic the external sector had a large negative impact on real GDP, due to the fall in exports of services. This was somewhat counterbalanced by fiscal expansion (see Figure 2), which, however, was not adequate in fully offsetting the external shock.

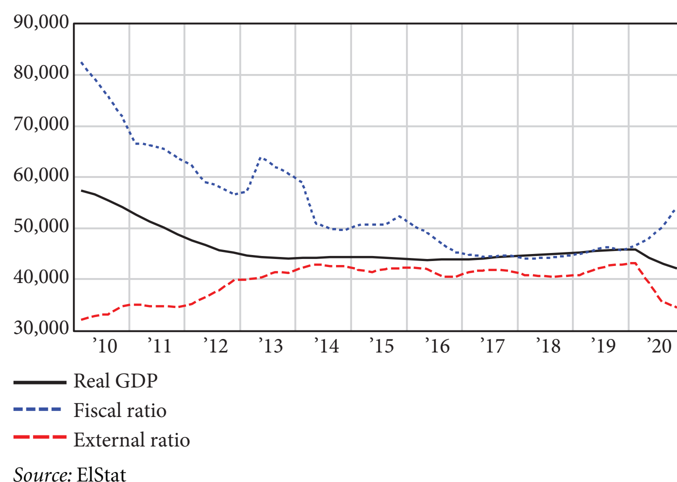
The external vulnerability of Greece is reflected in the course of exports of services during the pandemic (see Figure 3). Real exports of goods increased during 2020 and real imports of goods and services dropped, but not much. On the other hand, the reduction in real exports of services was comparatively huge, resulting in the country's GDP decline, thus proving the large dependence of Greece on tourism.

Figure 1 **Greece: Components of GDP, Changes over Previous Year (€ millions)**



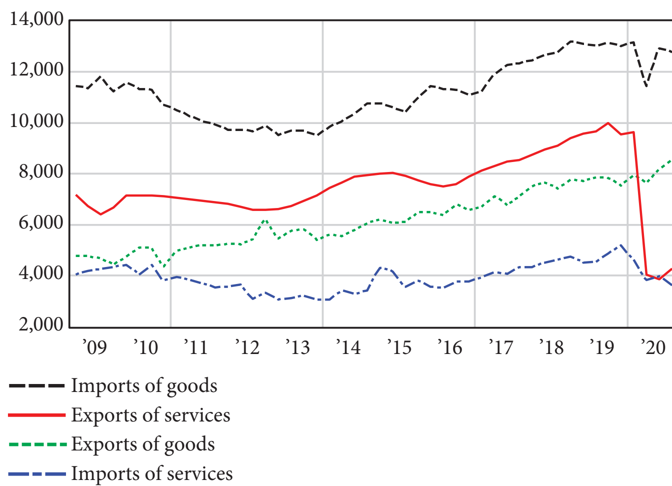
Source: ElStat

Figure 2 **Greece: Real GDP, Fiscal and External Ratios (€ millions, 2015 prices)**



Source: ElStat

Figure 3 **Greece: Components of Trade at Constant Prices (€ millions)**



Imports of goods
Exports of services
Exports of goods
Imports of services

Source: ElStat

According to data provided by the Bank of Greece, the travel balance decreased by about 77.2 percent. This development is due more to the larger decrease in travel receipts (by 76.2 percent) than it is to travel payments (which fell by 71.1 percent). The year-over-year reduction of travel receipts was the result of the fall in the incoming traffic of nonresident travelers by 78.2 percent, together with the reduction in the average cost per night by €10, or 12.4 percent. More specifically, the average cost per trip increased by 9.1 percent, as well as the average length of stay at 9 nights, representing an increase of 24.6 percent. The total number of overnight stays in 2020, however, decreased by 72.9 percent. Finally, according to provisional data, in February 2021 revenues showed a surplus of €8 million, compared to a surplus of €71 million in the corresponding month in 2020.[1]

A word of caution, however, is necessary, since it is not easy to precisely estimate the impact of COVID-19 on Greek tourism. Greece is one of the few countries in the EU that has not yet developed a Tourism Satellite Accounts (TSA) system and, therefore, there can neither be an accurate estimate of the amount of tourism gross value added nor a tourism-attributed gross domestic product in the Greek economy: the common estimates for the contribution of Greek tourism to GDP vary between 10 percent and 30 percent, or even higher.

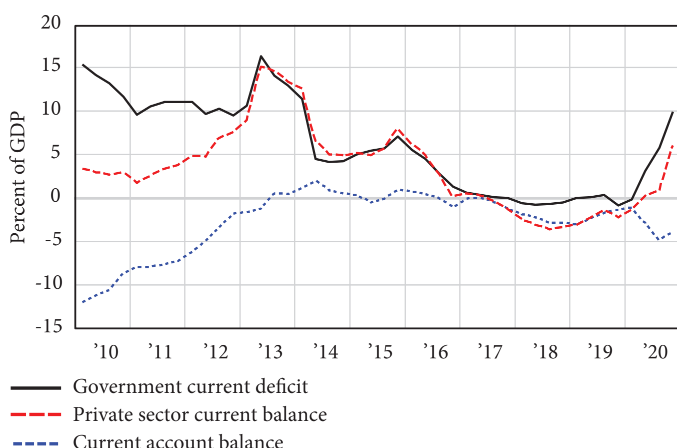
The usual practice for the assessment of the contribution of tourism to the Greek economy is to divide the domestic-tourism-related expenditure by GDP. Such an estimate would give, for example, for the year 2019 a tourism contribution of 10 percent to the Greek economy. This practice, used before the development of the TSA tool, is now considered misleading, as it overestimates the contribution of tourism to the economy. Indeed, domestic tourism expenditure includes, for example, the consumption of imported products that are obviously not included in the economy's GDP. Furthermore, this kind of measurement does not consider the intermediate consumption used to produce the tourism product and the service required to meet tourism demand, which obviously include imported goods inflows. Therefore, tourism expenditure as a percentage of GDP is not an appropriate indicator for assessing the contribution of tourism to the economy.[2]

Lastly, according to a Eurobank forecast (Anastasatos et al. 2021), tourism revenues will remain lower than those of 2019 each year until 2024. In 2021, revenues will correspond to €7.3 billion, representing 40.3 percent of 2019's value, and reach €15.8 billion in 2024, representing 87.1 percent of the €18.2 billion in 2019. There is, however, a more optimistic scenario in which tourism receipts reach €10.1 billion in 2021, or 55.7 percent of the 2019 value, and will exceed the levels of 2019 by 2024, reaching €19.3 billion. The World Tourism Organization (UNWTO) has also developed two scenarios for 2021 with the possibility of recovery of international travel in the second half of the year (under basic conditions such as the lifting of travel restrictions, the successful course of vaccination programs, and the introduction of harmonized protocols). The first scenario refers to a recovery beginning this July, resulting in a 66 percent increase in international arrivals for 2021, compared to the historic low of 2020. The second alternative scenario refers to a possible recovery starting this September, resulting in a 22 percent increase in arrivals compared to the previous year. In the latter case, the arrivals would be 67 percent lower compared to the levels of 2019.

The Impact of the COVID-19 Crisis on the Macrofinancial Stability of the Greek Economy

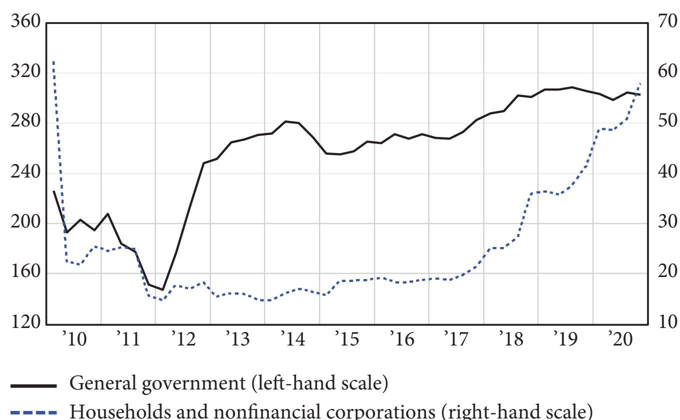
The macroeconomic and financial stability of the Greek economy, prior to the COVID-19 pandemic crisis, was already fragile. The balance of payments in 2017–19 was in deficit, despite the internal devaluation effort and the large adjustment of the trade balance, while the fiscal budget was marginally in surplus. This—necessarily, by the macroeconomic identity—implied the

Figure 4 **Greece: Sectoral Balances (four-quarter moving average)**



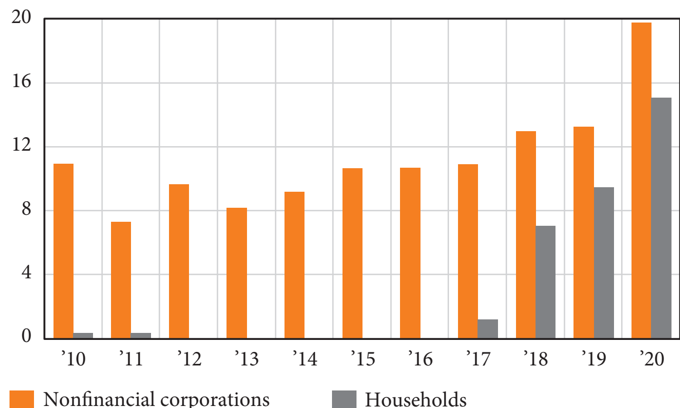
Source: ElStat

Figure 5a **Greece: Foreign Debt (€ billions)**



Source: Bank of Greece

Figure 5b **Greece: Foreign Debt (percent of GDP)**



Source: ElStat and Bank of Greece

financial balance of the private sector was in deficit (see Figure 4). This condition could not be considered financially stable, since it showed the private sector relying on using its assets or increasing its liabilities in order to finance its expenditure. The latter confirmed the rise of the external debt of the private sector.

The outbreak of the pandemic, however, ushered in substantial changes in the spending patterns of the private sector, particularly of households. The reduction of consumption exceeded the fall in their disposable income. For the first time since 2012, the savings of households were once again positive. For instance, in the second semester the gross savings of households increased by €1.3 billion, while, by contrast, the expenditures of nonfinancial corporations remained practically the same. Their financial balance has been consistently positive, signifying a reluctance on the part of firms to initiate new investment. As a result, the financial balance of the aggregate private sector moved into positive territory. In parallel, the large drop in exports of services resulted in a higher deficit in the balance of payments, and the fiscal expansion, aiming at offsetting the negative impact of net exports on GDP, yielded a large fiscal deficit equal to 9.7 percent of GDP.

Despite the change in the sectoral financial balances, including the net accumulation of financial assets, private sector external debt nevertheless increased. In particular, the external debt of nonfinancial corporations and households was higher in 2020, primarily due to the transfer of nonperforming loans (NPLs) to external funds, which will now manage them with stricter rules—including accumulated interest and without any government support—than those that existed when these loans were on the asset side of the commercial banks' balance sheets. This helps to explain the evolution of private external debt, presented in Figure 5. The increase between 2017 and 2019 was partly reflecting the negative financial balance of the sector and partly the transfer of NPLs. The large increase in 2020 can be strictly attributed to the change in the ownership of NPLs.

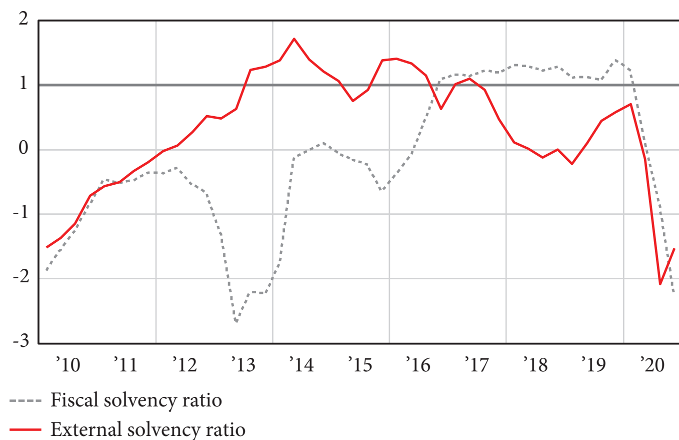
The already net negative international investment position of Greece deteriorated. In 2020Q4, the net international investment position stood at -152 percent of GDP. It worsened by 2.3 percent as compared to the same quarter in 2019 and by 15.3 percent compared to 2017Q4. The higher financial exposure of the Greek economy to the rest of the world worsens Greece's

external fragility. This is particularly evident when its weak productive structure is also taken into account. Specifically, the weak structural competitiveness of the economy produces trade deficits, translating to an outflow of funds abroad. In parallel, the increase of external debt inescapably leads to higher future interest and principal payments to the rest of the world. The decreased net investment position will require a surge of outflows that can undermine the economy's prospects.

The ability of the public sector to mobilize funds is therefore critical, in order to strengthen the structural competitiveness in the medium-term, via public investment, and to reduce the negative impact of the trade deficit on GDP in the short-term, by ensuring the positive financial balance of the private sector. This requires boosting household disposable income, thus increasing their consumption, in addition to ensuring their ability to meet their debt payment obligations. However, with an already high public-debt-to-GDP ratio and the likely end of the suspension of the Maastricht rules at the end of 2022, fiscal constraints including austerity measures might once again be binding. In this respect, the Greek economy seems engulfed by fiscal and external fragility.

Figure 6 presents a proxy of fiscal and external solvency.[3] In particular, it shows whether the balance of payments and the fiscal budget are adequate to finance interest payments. Considering external solvency, the large trade adjustment between 2010 and 2016 resulted in a balance of payments surplus, which was sufficient to finance foreign interest payments. As the growth of the economy peaked after 2016, so did imports (due to the large dependence of production on imported intermediate goods), resulting in the balance of payments once again being in deficit. In 2020, the solvency ratio dropped substantially, with the fall exceeding the level of 2010. This outcome will likely change, once tourism receipts resurge, though the expected future increase of interest payments would tend to keep external fragility high.

Figure 6 **Greece: Fiscal and External Financial Solvency Ratios (four-period moving averages)**



Note: Fiscal solvency ratio: Primary fiscal budget over interest payments. External solvency ratio: Balance of payments excluding interest paid abroad over interest paid abroad.

Source: ElStat

The fiscal expansion in 2020, in response to the pandemic crisis, turned the fiscal solvency ratio negative. However, the temporary suspension of the Stability and Growth Pact and continuous support by the European Central Bank allowed the Greek government to increase fiscal expenditure beyond the 3 percent threshold, avoiding pressures from the financial markets. There is a chance, however, the financing conditions of the Greek public sector will deteriorate, if and when the support from EU institutions becomes less supportive, rendering the financing conditions of the public sector highly dependent on the growth prospects of the economy.

Critical to the latter will be the timely receipt and direction of the funds from the European Recovery and Resilience Facility.[4] Their use toward the restructuring of the productive sector would boost the production of gross value added in the economy and also reduce its dependence on imported intermediate goods, i.e., enhance its structural competitiveness. However, the use of funds will also have to ensure positive employment prospects. The risk of high unemployment is particularly evident in Greece, given that it has the second highest unemployment rate in the euro area. The transition to a digitalized mode of production is also expected to be costly in terms of job loss, since the jobs currently created are of low-skill and poor quality. According to Eurostat data, Greece has the highest rate of incidence of part-time employment in the euro area and the longest typical working week in the EU.

Given the above, the growth prospects of the Greek economy can be improved through the implementation of a large investment program, accompanied by a guaranteed employment program that would normalize conditions in the labor market. Consequently, we provide our estimates regarding a business-as-usual scenario alongside alternative scenarios assuming the timely use of the Recovery and Resilience Funds and the implementation of an employment-of-last-resort (ELR) program.

Projections for 2021-22

Baseline projection

Our last projections of real GDP growth in Greece for 2020 turned out to be pessimistic, as mentioned above, mainly because we expected that "private expenditure will suffer a hit in Q4 similar to that registered in Q2" (Papadimitriou et al. 2020, 4). The impact was less severe, as documented in Figure 1, despite the large increase in the number of COVID-19 cases in the second wave of the pandemic.

In our new baseline projection we were able to better capture the dynamics of GDP components in 2020 by estimating the impact of the pandemic and of the policies put in place for its containment, adopting the stringency and policy indices produced by the Blavatnik School of Government at the University of Oxford (see Hale et al. 2021). In particular, we estimate that the impact of work closures on private sector demand generated losses of about €14 billion in 2020, compared to an estimated impact of about €3.5 billion from government measures for income support. While the adoption of these indices has improved our ability to track the components of GDP in 2020, they imply that the negative impact of the pandemic will still be very high in the first quarter of 2021, but this estimate is at odds with other indicators available for the first two months of 2021, such as the Industrial Production Index, which shows an increase of 4 percent year-over-year in February. We therefore assume a less severe impact from the lockdown on private sector demand in the first quarter of 2021, but scarce information keep our projections less robust than those we usually produced before the pandemic.

We do not include in the baseline projection the funds that should become available under the NGEU (Recovery and Resilience Facility) program. We do assume, however, that the government will continue sustaining the economy in the first two quarters of 2021 through additional expenditure and will defer the payment of most taxes in the first two quarters of 2021, while tax rates are expected to return to pre-COVID levels in the third quarter of 2021. We have not included in the baseline the implicit temporary increase in tax rates that would be generated when all taxes postponed during the pandemic become due.

We expect prices to remain stable, i.e., with no inflation, until the second half of 2022, when the economic recovery should be underway.

We assume, perhaps optimistically, that the major effects of the pandemic will have died out by June, so that tourism will resume in the third quarter of 2021 and keep rising in subsequent quarters—following its seasonal pattern.

Table 1 Greece: Key Indicators under Alternative Scenarios

	2019	2020	2021	2022
Baseline				
Real GDP (growth rate)	1.6	-8.0	3.4	4.9
Gov. total surplus (% of GDP)	0.9	-9.9	-2.1	0.5
Gov. primary surplus (% of GDP)	3.9	-6.9	0.0	2.5
Current account (% of GDP)	-4.8	-9.5	-5.0	-5.6
External balance (% of GDP)	-1.4	-3.9	-1.6	-2.3
Scenario 1: Recovery Fund				
Real GDP (growth rate)	1.6	-8.0	4.1	8.2
Gov. total surplus (% of GDP)	0.9	-9.9	-1.8	1.9
Gov. primary surplus (% of GDP)	3.9	-6.9	0.3	3.8
Current account (% of GDP)	-4.8	-9.5	-4.6	-3.1
External balance (% of GDP)	-1.4	-3.9	-1.2	0.1
Scenario 2: ELR Program				
Real GDP (growth rate)	1.6	-8.0	4.6	9.8
Gov. total surplus (% of GDP)	0.9	-9.9	-2.0	1.2
Gov. primary surplus (% of GDP)	3.9	-6.9	0.0	3.1
Current account (% of GDP)	-4.8	-9.5	-4.6	-3.3
External balance (% of GDP)	-1.4	-3.9	-1.2	0.2

Finally, we adopt the latest (April 2021) estimates for the real GDP growth of Greece's trading partners produced in the IMF World Economic Outlook to estimate the evolution of Greek exports of goods and services, and we assume that monetary policy will not change its course.

Our baseline projections for the major macroeconomic indicators are reported in Table 1. We project the number of tourists to increase about 60 percent in 2021 relative to 2020, which implies an increase in exports of services of about €5 billion. The increase in the number of tourists may seem large and optimistic, but it will bring tourism back to only 58 percent of the level it reached in 2019. We expect tourism to keep recovering in 2022 and the following years.

As mentioned above, in the baseline simulation we expect the government to revert to the pre-pandemic tax rates starting in the third quarter of 2021. This implies a substantial increase in government revenues, and obviously slows down domestic demand, but allows the government to close the primary surplus already in 2021.

We hope our baseline projection does not materialize, since it implies the worst possible turn of events in Brussels and Athens, where no agreement is achieved on the disbursement of

NGEU funds, and fear of the reintroduction of Maastricht rules pushes the government to change the tune of fiscal policy well before the economy has recovered. We noted earlier that the Maastricht criteria have been suspended until the end of 2022, so governments are not required to take action to reduce their public deficits before that deadline; nevertheless, the unmotivated fear of high and rising public debt-to-GDP ratios may push politicians in the wrong direction.

NGEU scenario

Our first alternative scenario assumes instead that EU governments finally approve the Recovery and Resilience Facility, and the disbursement of grants and loans under the NGEU program starts in a timely manner before the end of 2021.

We assume that the Greek government will receive about €943 million in 2021, €5.3 billion in 2022, and €5.2 billion in 2023, which will be entirely spent by the government. As reported in Table 1, we expect the impact on real GDP growth to be modest in 2021, but more substantial in 2022 and possibly later. According to our simulation, under Scenario 1 the Greek economy will return to its pre-pandemic trend, but at the end of 2023 will still remain about 20 percent below the level that real GDP reached in 2008, before the Great Recession and the subsequent series of crises.

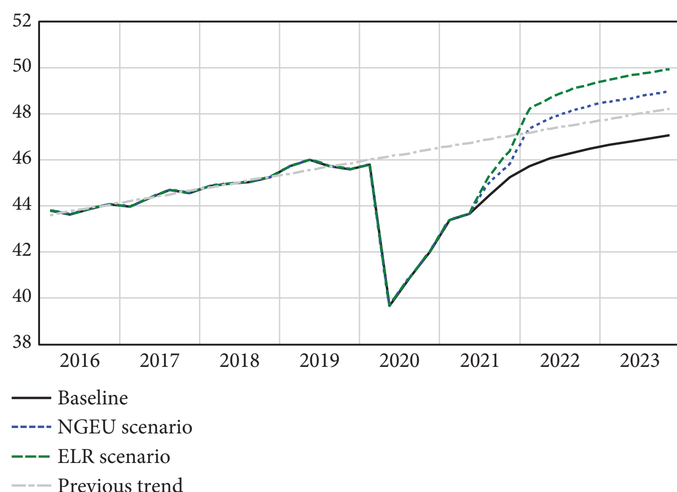
An Employment of Last Resort program

In our last report, we endorsed a proposal for an ELR program that could help quickly reduce part of the large number of unemployed workers. We consider the adoption of such an employment strategy imperative to reducing the insecurity and uncertainty that prevails in the labor market. As reported in Figure 8, Greek citizens are the most concerned among all citizens in OECD countries with regard to their finances and their economic and social well-being. The implementation of an ELR program would prove beneficial for those struggling to make ends meet, but also for the aggregate economy, by boosting disposable income and demand.

In our previous projection, the government, through its local authorities and in collaboration with not-for-profit institutions, would provide a job at the minimum wage to anyone currently unemployed, able and willing to work (Antonopoulos et al. 2014). We have now repeated this exercise, but assume an increase in the minimum wage to €780/month, to the tune of 100,000 ELR jobs created each quarter starting in 2021Q3. Results are reported in Table 1 and Figure 7.

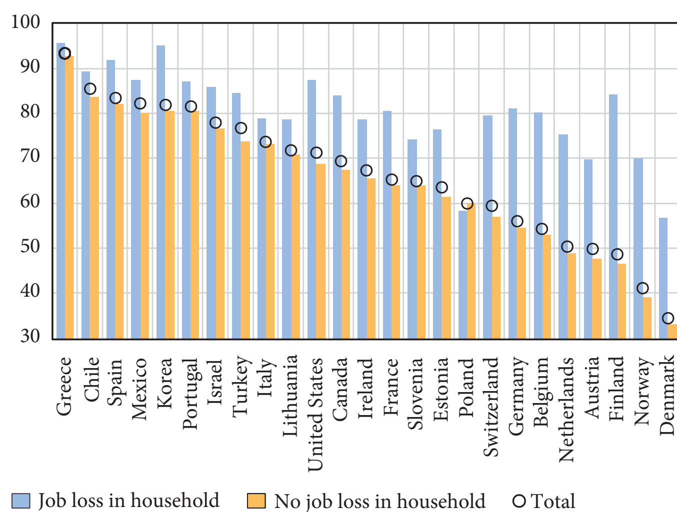
While the impact on the government deficit is modest, the program's beneficial impact may exceed our projections if the increase in the minimum wage stimulates an increase in wages in the private sector, and the effect on domestic demand more than outweighs the possible drawbacks on price competitiveness and inflation.

Figure 7 **Greece: Real GDP under Alternative Scenarios (€ billions, 2015 prices)**



Source: ElStat and authors' calculations

Figure 8 **Individual Concern about Finances and Social and Economic Well-being (percent)**



Source: OECD (2021b)

Conclusions

The economic and social damage caused by the COVID-19 pandemic cannot be underestimated, and every economic statistic shows the extent of the devastation affecting individuals, families, firms, and economies around the world. In the case of Greece, with an already fragile economy after the financial and economic crisis of 2009–10, the pandemic's consequences were particularly harsh. The decline in GDP for 2020 was one of the worst among the group of EU and eurozone member states, with the highest unemployment and underemployment, and with tourism—the most important source of exports and economic activity, including employment—dropping to 25 percent of its 2019 level.

This new Strategic Analysis updates our previous report issued last December (Papadimitriou et al. 2020) using ElStat's recently released provisional statistics for the institutional accounts, including other recent performance indicators available as of the writing of this report.

As mentioned above, in our last report we were as pessimistic in our projection of the Greek economy for 2020 as many others—including those of the Greek government, IMF, and other European institutions—on the assumption government support programs would be implemented at a slower pace. Even though the released statistics are provisional and subject to change, we use them, nevertheless, to update our basic and alternative simulations of the growth paths the Greek economy would very likely follow.

Our projections of the alternative scenarios, conditional upon what we believe are reasonable assumptions, suggest the exciting, if still rather remote, possibility that once the forthcoming pandemic turmoil has been worked through, Greece's economy could be set on a path of high growth with high employment.

In our view, the failure of GDP to recover properly would be directly related to the absence of fiscal policy expansion.

Notes

1. It should be noted that from 2010 to 2019, tourism revenues almost doubled, to €18.2 billion in 2019, with the number of incoming tourists increasing by 19 million over the same period—although with a reduction in spending per trip in 2016.
2. Recently it has been shown that the tourism ratio, while significantly higher (on average by about 50 percent) than the EU average, corresponds with the ratios of other southern European countries (Rodousakis and Soklis 2020).
3. Fiscal solvency ratio: Primary fiscal budget over interest payments. External solvency ratio: Balance of payments excluding interest paid abroad over interest paid abroad. Values below unity imply that the balance/budget cannot self-finance interest payments.
4. The plan will enable Greece to benefit from more than €30 billion (approximately €18.1 billion in grants and €12.7 billion in loans). The Greek RRP (Recovery and Resilience Plan) is built on four pillars: (1) green transition; (2) digital transformation; (3) employment, skills, and social cohesion; and (4) private investment and economic and institutional transformation. At the current stage of discussion, the Greek RRP envisages the use of all the funds expected from the Recovery and Resilience Facility (RRF), out of which 38 percent (€6.0 billion) are earmarked for green transition and 12 percent (€2.1 billion) for digital transformation, with additional digital projects incorporated under pillars (1), (3), and (4)—so as to achieve the overall digital objective of 22 percent. Finally, Studies by the Bank of Greece and the Centre of Planning and Economic Research (KEPE) conclude that the Greek RRP would lead to an increase in real GDP of about 7 percent by 2026, or 30 percentage points cumulatively over the period 2021–26.

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