

Assessing the Economic Impact of COVID-19

#LSECOVID19

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Chair: Professor Kevin Featherstone

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Hosted by LSE's public event series - COVID-19: The Policy Response, Hellenic Observatory and the National Bank of Greece.



Greece-Economic impact of COVID-19 pandemic

Miranda Xafa

Presentation at LSE-Hellenic Observatory webinar

May 7, 2020

COVID-19 pandemic: Key issues for Europe

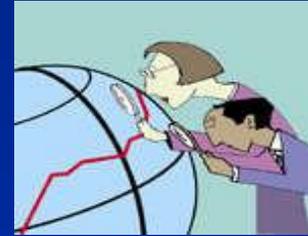
- EU member states face the same storm but are not all in the same boat.
- Southern European countries are more dependent on hard-hit tourism, have less fiscal space.
- Several countries have accumulated levels of debt not seen since WWII, enabled by near-zero interest rates.
- Within the EU, the temporary repeal of state aid rules could cause severe economic and market dislocations in the absence of risk sharing.

Disconnect between fundamentals and markets ended abruptly in Feb 2020

- Global bond rally, which drove GGB yields to all-time lows in 2019, ended in mid-Feb with abrupt widening in credit spreads.
- Greek stock market: among top performers globally in 2019, with ASE up $\approx 50\%$, lost all its gains in Jan-Apr 2020.



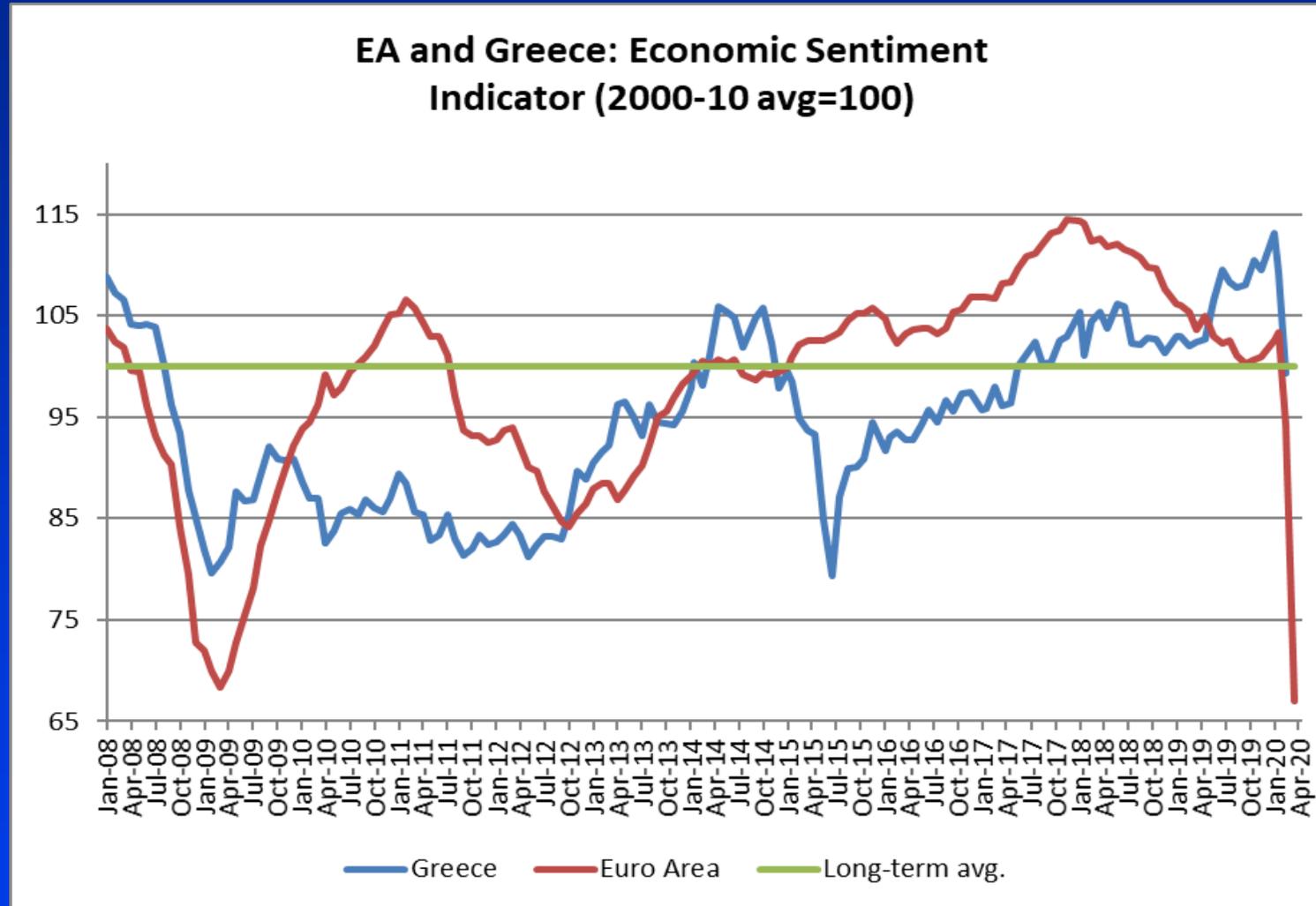
April 2020 update of IMF's World Economic Outlook was downbeat



GREECE	2019	2020*	2021*
GDP growth	1.9%	-10.0%	5.1%
General government balance/GDP	0.4%	-9.0%	-7.9%
Primary balance/GDP	4.0%	-5.1%	-4.4%
General government debt/GDP	179.0%	200.8%	194.8%

Source: IMF *World Economic Outlook and Fiscal Monitor*, April 2020

Greece: Economic sentiment sunk in April after reaching 20-year high in January



Source: Eurostat

Ample global liquidity provides support to equity and bond markets



- The ECB launched the €750bn Pandemic Emergency Purchase Program in mid-March 2020.
- QE re-started in Nov 2019, with net asset purchases of €20bn/mo; additional purchases of €120bn in 2020 were launched in March.
- ECB QE program similar in scale to those undertaken by US, UK, JA.
- Interventions by the ECB can buy time by keeping interest rates low, but restoring growth depends on government policies (fiscal stimulus, growth-oriented reforms).

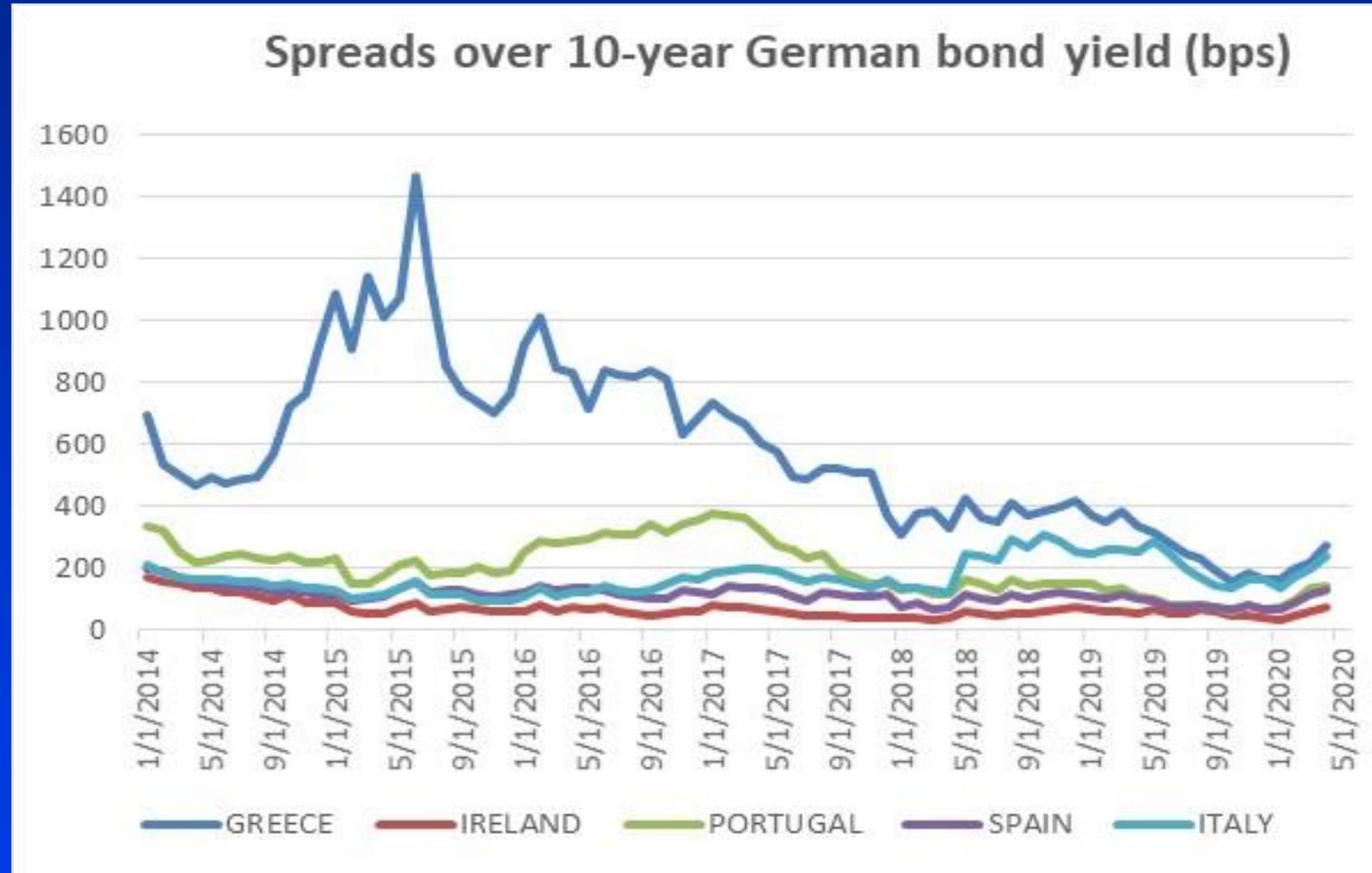
Eurogroup has approved 3 support schemes, but has yet to formulate a consistent crisis response

- ESM: pandemic emergency loans, up to 2% of recipient country's GDP
- EIB guarantees and loans to businesses
- SURE: temporary program to support employment funded by EC bond issue
- Greece can draw up to €8bn (4% of GDP) from these programs.

EU recovery fund under discussion

- Recovery fund proposal centered on EU Multiannual Financial Framework (MFF) 2021-27.
- Sizable common EU budget, originally proposed by France in 2018 as part of a plan for deeper EMU, has been downgraded to a proposed Budgetary Instrument for Competitiveness and Convergence (BICC) of €12.9bn over 7 years, clearly insufficient to tackle the COVID-19 pandemic crisis.

Greece's credit spread has widened since February

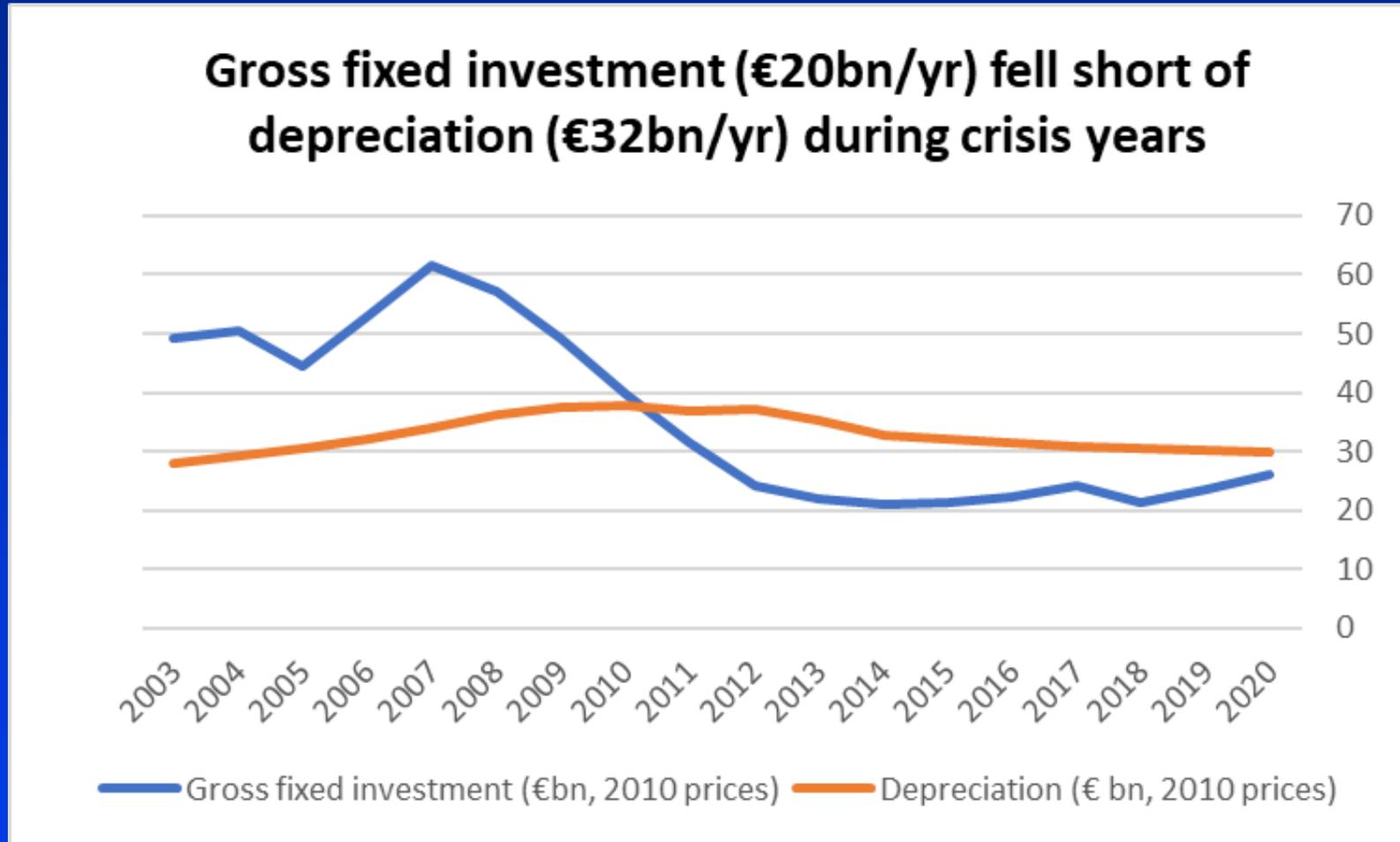


Source: Bloomberg

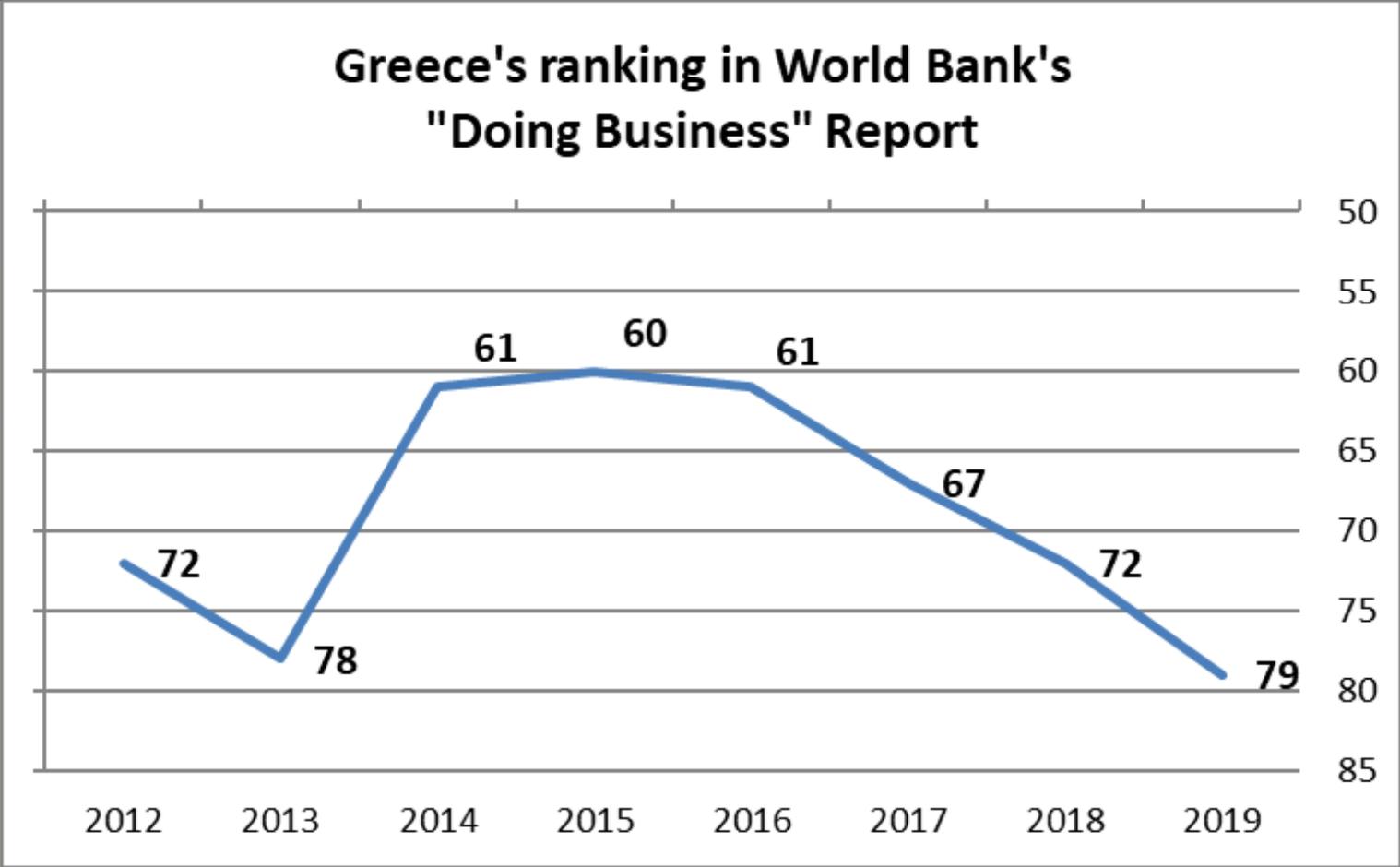
Three key challenges

- Investment gap (GFI/GDP: 20% EA, 11% GR)
- Low competitiveness ranking (World Bank, World Economic Forum)
- High levels of public debt (€334bn, 179% of GDP) and NPEs (€69bn, 41% of total loans) at end-2019

Greece needs €100bn of investment in the next eight years just to restore pre-crisis capital stock

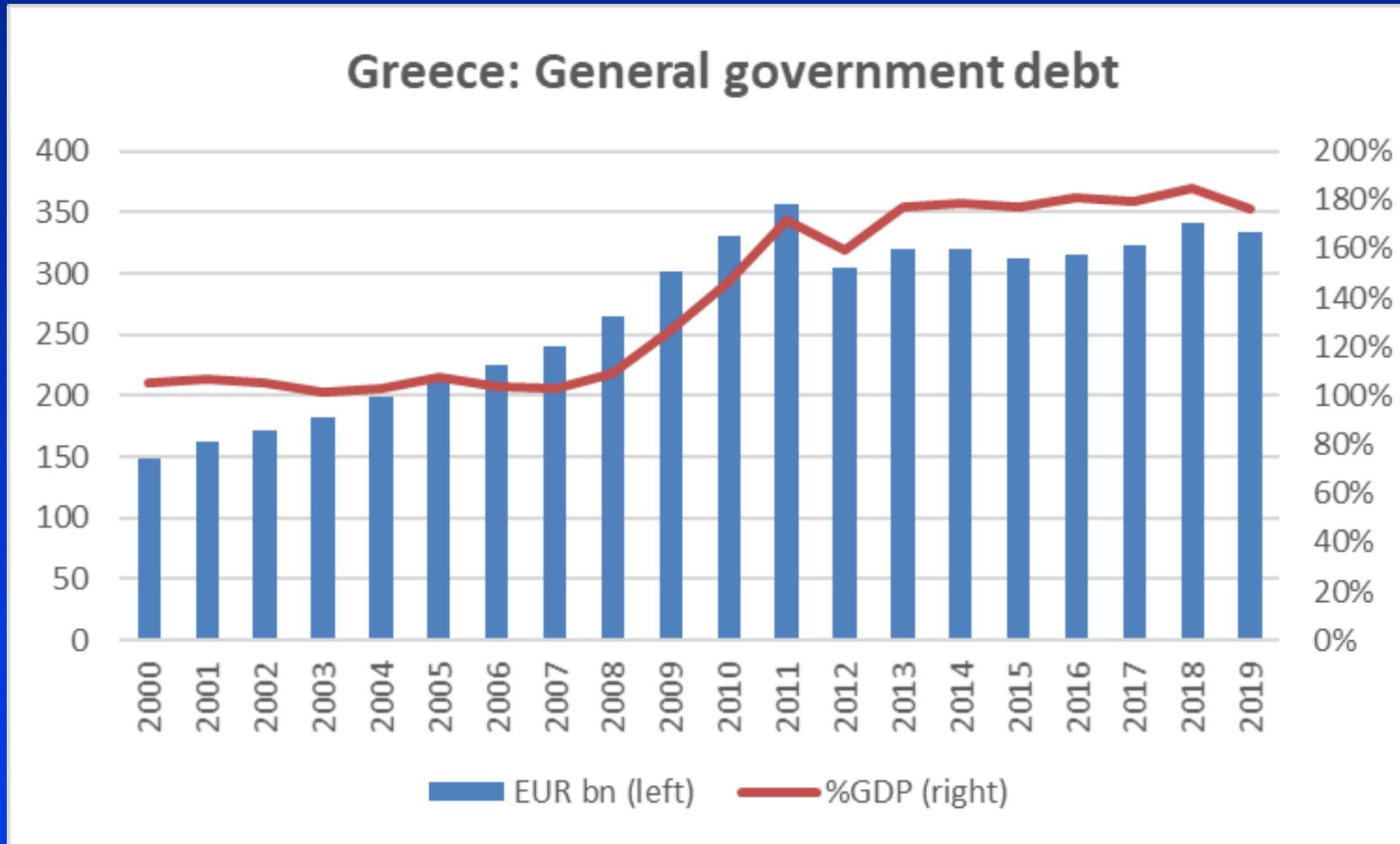


Greece downgraded in competitiveness rankings in recent years



Source: World Banks "Doing Business" reports

Public debt is higher now than after PSI



Source: IMF Fiscal Monitor

Expenditure review needed

- Greece spends 16% of GDP on pensions, by far the highest in EU.
- The 2016 reform cut pensions for new retirees, but left “old” pensions up to 40% above the new.
- The IMF estimates that Greece spent €18bn subsidizing loss-making public sector companies in 2012-18. Keeping these zombie companies alive locks scarce resources into unproductive uses.

Thank you!

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