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Fitch Ratings Raises Greece 2021 GDP Forecast on Strong First Half Growth

Fitch Ratings-Frankfurt/London/Paris-01 October 2021: Greece's stronger-than-expected economic performance in 1H21 has caused Fitch Ratings to increase its full-year GDP growth forecast to 6.0%. The GDP forecast change does not lower our 2021 fiscal deficit forecast, but does imply that debt/GDP has peaked at a lower level and that growth will support deficit reduction from next year.

Real GDP increased by 4.5% qoq in 1Q21 and 3.4% in 2Q21, completing four consecutive quarters of growth following the sharp GDP decline in 2Q20 caused by pandemic-related restrictions. Annual growth was about 7% in 1H21 and real GDP returned to its pre-pandemic level in the second quarter.

Domestic demand appears to have driven 1H21 growth, with both investment and private consumption expanding compared to 2020. The sharp rise in exports has been offset by increasing imports.

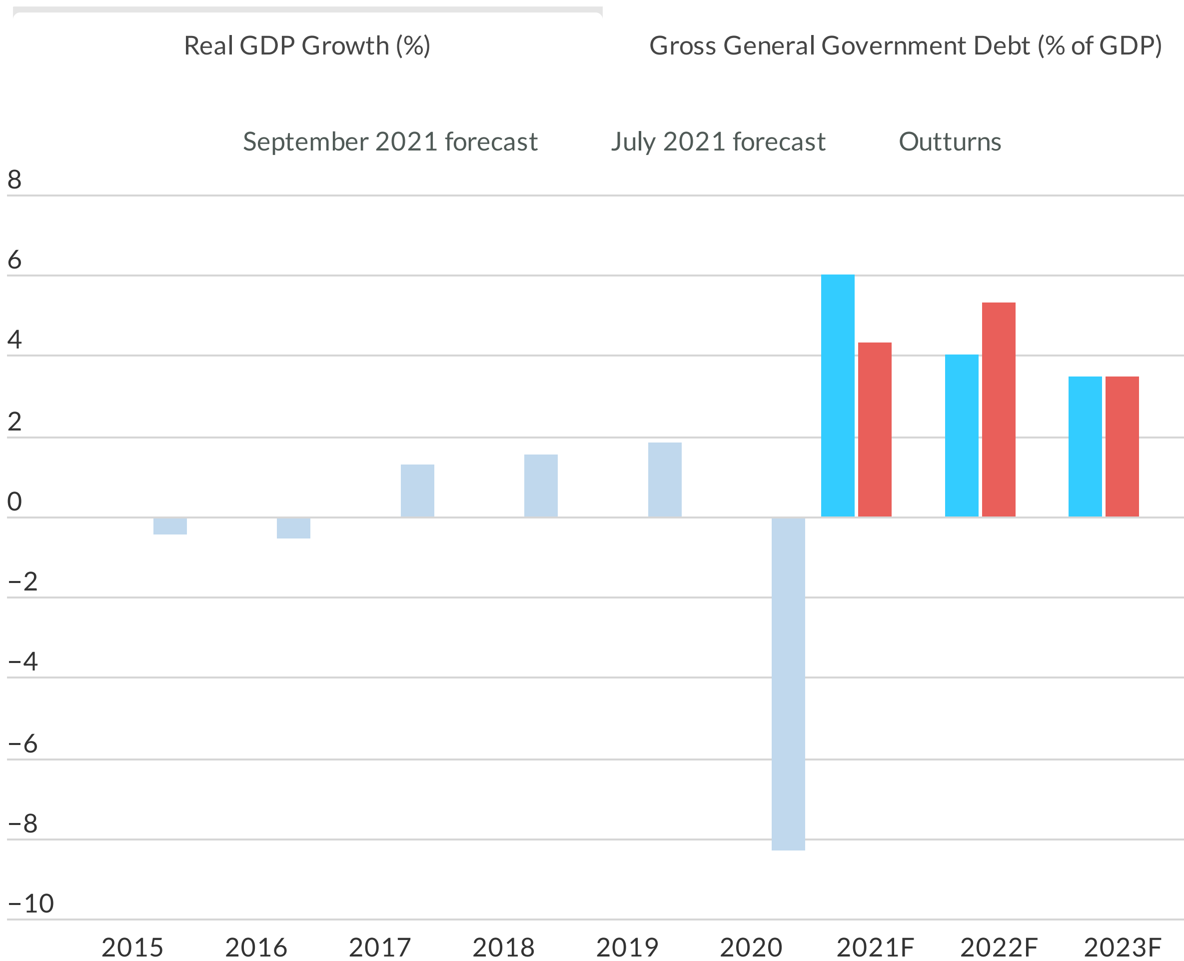
Outturns in 1H21 are reflected in our updated estimate for GDP growth this year, which compares with 4.3% when we affirmed Greece's 'BB'/Stable sovereign rating in July. We assume some volatility in quarterly growth rates in 2H21, limiting the upward revision. Supply chain constraints in Greece's main trading partners, and in domestic sectors more exposed to rising input costs, could constrain growth, as could an increase in coronavirus infections.

However, we see greater upside than downside risks to our 6% forecast. About two-thirds of the population is fully vaccinated, reducing the need for new restrictions. Higher-frequency indicators for 3Q21 point to continued growth in economic activity and available information on the tourist season suggests some recovery. Arrivals from abroad in June and July were about 40% of 2019 levels, but over 3.5x last year's figures.

For 2022, we have lowered our GDP growth forecast to 4.0% from 5.3%, due to a less positive carryover effect from 2021. But the recovery will continue as the deployment of Next Generation EU recovery funds gathers pace and lifts real spending. NGEU grants allocated to Greece amount to EUR18.4 billion (10.1% of 2019 nominal GDP, making it one of the major beneficiaries). We assume that just under 45% is spent in 2021-2023.

Although we still expect growth to slow to 3.5% in 2023, this would remain well above the potential growth rate due to substantial spare capacity in the economy.

Greece GDP Growth and Government Debt Forecasts



Source: Fitch Ratings

Improved growth prospects for 2021 do not translate into a lower public deficit forecast. We have actually raised our 2021 deficit forecast to 10.0% of GDP from 9.5% at our July review due to higher estimates of the cost of the government's support to the economy, which will outweigh the positive revenue impact from strong growth. We expect the deficit to decline from next year, reaching 3.3% of GDP in 2023 as pandemic-support measures are unwound.

We now assess government debt to have peaked in 2020 at 205.6% of GDP, rather than peaking at 207% in 2021 under our July projections. We forecast debt to start declining this year, reaching 196.2% by 2023. High gross debt is inflated by the Greek state's very large cash position (about 18% of forecast GDP for 2021).

Economic resilience in 1H21 was accompanied by a sharp decline in both the overall level of non-performing loans (NPLs) in the Greek banking sector (to EUR29.4 billion at end-June from EUR47.2 billion at end-2020) and the sector NPL ratio (20.3% from 30.1%). This is mainly from banks' continued sales of securitised NPL portfolios to third-party investors, facilitated by the state-guarantee system under the Hercules Asset Protection Scheme.

Our next scheduled review of Greece's rating is due in January 2022. Greater confidence in government debt/GDP returning to a firm downward path and continued improvement in banking sector asset quality could lead to positive rating action. Failure to reduce government debt/GDP over the short term could lead to negative action.

Contact:

Alex Muscatelli
Director, Sovereigns
+49 69 768076 272
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse
46-50 Frankfurt am Main D-60311

Michele Napolitano
Senior Director, Sovereigns
+44 20 3530 1882

Lukas Rollman
Associate Director, Financial Institutions – Banks
+33 1 44 29 91 22

Mark Brown
Senior Director, Fitch Wire
+44 20 3530 1588

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com

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