

COVID-19

# Potential economic scenarios for Greece and their impact by sector

June 2020

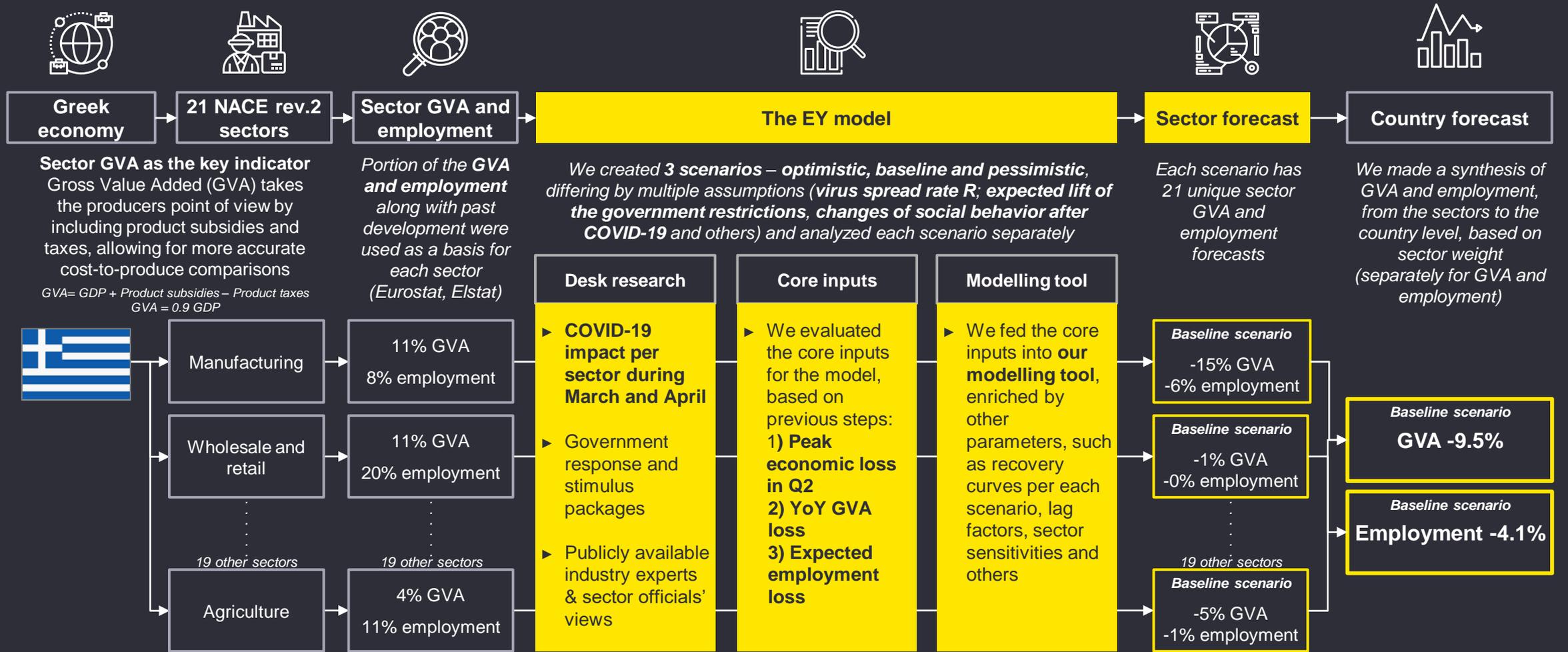
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The current report was based on figures up to 25 May



# EY's model is built bottom-up, forecasting the COVID-19 impact on each of the 21 NACE economic sectors, independently

## Methodology



\*Employment in '000 persons - Eurostat Total Domestic Employment

Note: Implied GDP and Employment level is illustrative and not a forecast

- 1 Results**

In the baseline scenario, the Greek economy is forecasted to lose 9.5% of GVA, while 4.1% of employees are expected to lose their job in 2020
- 2 Scenarios assumptions**

“R” value after initial restrictions are lifted, is the key driver of the economic impact and recovery speed:  $R=1$  for Baseline,  $R<1$  for Optimistic and  $R>1$  for the Pessimistic scenario
- 3 GVA and employment development in the Baseline and Pessimistic scenarios**

Baseline: GVA loss peaks in Q2 (-17%), Manufacturing loses 26% and Accommodation / Food 63%; employment lowest in Q3 (-7%)  
Pessimistic: GVA loss peaks in Q2 (-19%), Accommodation loses 67% and Manufacturing 27%; employment lowest in Q4 (-9%)
- 4 The impact on Tourism in the Baseline and Pessimistic scenarios**

During the peak of the season (Q3): Tourism GVA loss of 37% under the baseline scenario and a 45% loss under the pessimistic scenario vs forecasts not taking into consideration the COVID-19 pandemic
- 5 2020 Lockdown vs 2009 Financial crisis**

The ratio of the loss of Greek GVA due to the COVID-19 lockdown, compared to the overall loss during the 2009-2016 period (economic crisis), could range from 29% up to 38%
- 6 Government support**

Greek Government measures: direct support amounts to 3.5% of GDP, partial guarantees amount to €5.3b (total 6.2% of GDP); an additional €7.2b pledge for businesses and employees for the coming months, is under consideration, with an expected €32b (of which, €22.5b in transfers over a 4-year period) from EU’s “recovery fund”

1 In the baseline scenario, the Greek economy is forecasted to lose 9.5% of GVA and 4.1% of employees are expected to lose their job in 2020

Results

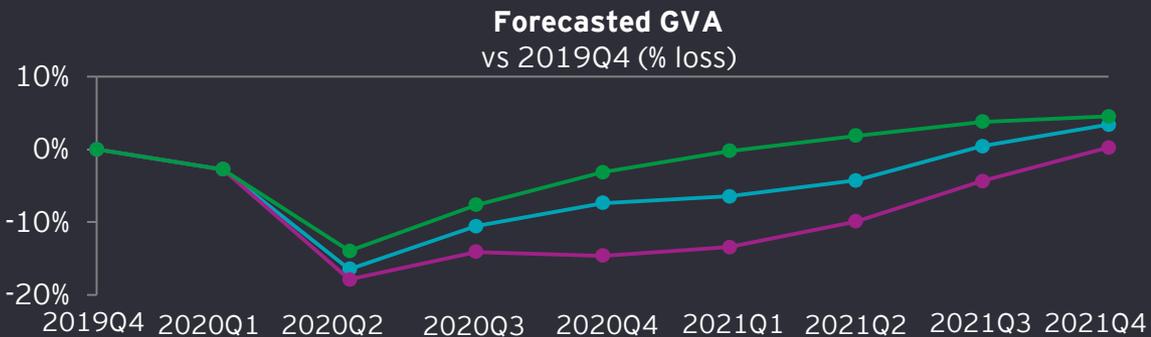
	Optimistic 'U-Shaped recovery'	Baseline 'Deep U-Shaped recovery'	Pessimistic 'Seesaw recovery'
GVA Impact vs 2019	<b>-7.1%</b> GVA, 2020 vs 2019	<b>-9.5%</b> GVA, 2020 vs 2019	<b>-12.5%</b> GVA, 2020 vs 2019
Employment Loss vs 2019	<b>-3.1%</b> Employees, 2020 vs 2019	<b>-4.1%</b> Employees, 2020 vs 2019	<b>-5.4%</b> Employees, 2020 vs 2019

Our view is based on the reported impact per sector as the COVID-19 pandemic was developing, during the course of this exercise. Once the pandemic's full impact will be realized, these forecasts will possibly have to be reconsidered.

## 2 “R” value after initial restrictions are lifted, is the key driver for impact and recovery: R=1 for Baseline, R<1 for Optimistic and R>1 for Pessimistic scenarios

### Scenario assumptions

	Optimistic ‘U-Shaped recovery’	Baseline ‘Deep U-Shaped recovery’	Pessimistic ‘Seesaw recovery’
<b>Likelihood</b>	20%	60%	20%
<b>Peak drops</b>	<b>GVA: -15%, Employment: -5,8%</b>	<b>GVA: -17%, Employment -6.9%</b>	<b>GVA: -19%, Employment: -8.8%</b>
<b>Recovery</b>	R<1 allowed for fast recovery (customers and corporates realized their postponed Q2 spending)	R=1 causing mid-term consumer spending and investment decrease	R>1 and a <b>second wave of COVID-19</b> in 2020Q4 caused lengthy economic recovery
<b>Social behavior</b>	Borders fully opened in June, social behavior returned to pre-COVID-19 standards in 2020Q2	Borders partially opened in July, <b>social behavior changed</b> (less traveling, increased work from home)	Borders have not fully opened until 2021Q1 due to the second wave of COVID-19 in 2020Q4
<b>Statements</b>	<i>The Ministry of finance baseline scenario provides for a recession of 4.7%, but there is also an adverse scenario for a 7.9% contraction. Bank of Greece Governor, Yannis Stournaras, made respective forecasts of 4% and 8%.</i>	<i>According to the IMF’s World Economic Outlook, Greece is seen as falling into recession this year, with the coronavirus pandemic taking a 10% bite out of the GDP, against a pre-COVID-19 forecast of 2.2%, set to rise to 2.8% in 2021.</i>	<i>According to revised OECD estimates, Greece may have a milder recession compared to the aggregate recession in the EU. Under OECD’s scenario of a second COVID-19 wave in 2020Q4, EU’s GDP will contract by 11.5% in 2020.</i>



3

In the Baseline scenario, GVA loss peaks in Q2 (-17%) and employment loss in Q3 (-7%), Manufacturing loses 26% and Accommodation / Food loses 63%

### GVA and employment development in the Baseline scenario

	GVA (vs forecast without COVID-19)								Employment (vs forecast without COVID-19)							
	2020 breakdown*				2021 breakdown*				2020 breakdown*				2021 breakdown*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Overall effect: GVA loss peaks in Q2 due to factory shutdowns, economic uncertainty, and SMEs temporary shutdowns; Peak employee loss in Q3 due to lag</b>	-3%	-17%	-12%	-9%	-9%	-7%	-3%	-1%	-1%	-6%	-7%	-6%	-5%	-4%	-3%	-1%
<b>Real estate activities:</b> Transactions in the sector froze; a decline of Airbnb residencies, followed by a return to the baseline	-2%	-10%	-7%	-6%	-6%	-5%	-2%	-1%	0%	-2%	-1%	-1%	-1%	-1%	0%	0%
<b>Manufacturing:</b> Businesses not able to function in March and April (large manufacturers shutdown for 5-6 weeks), followed by a recovery as measures started easing up in May	-5%	-26%	-19%	-15%	-14%	-12%	-5%	-2%	-1%	-8%	-10%	-8%	-7%	-7%	-4%	-2%
<b>Wholesale &amp; Retail:</b> Critical sectors (e.g. food and medicine) saw increased revenues, others (e.g. luxury goods) decreased; companies expect the impact to last 3 months; quick return to baseline	-2%	-7%	-1%	0%	0%	0%	0%	0%	0%	-2%	-1%	0%	0%	0%	0%	0%
<b>Public administration:</b> No impact anticipated: GVA for the public sector is calculated using the salary method, and no major hiring / terminations are anticipated	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Transport &amp; storage:</b> Airport arrivals dropped by 98% in April. More than 212 reported cancelations of liner ship schedules have been reported in two weeks	-9%	-49%	-36%	-28%	-28%	-23%	-10%	-3%	-2%	-18%	-20%	-16%	-14%	-13%	-8%	-3%
<b>Accommodation / Food:</b> Massive shutdown in March with partial re-opening in May; further impact suffered by traveling bans causes ~40% YoY decrease	-12%	-63%	-45%	-36%	-35%	-29%	-13%	-4%	-5%	-35%	-43%	-38%	-33%	-29%	-19%	-9%
<b>Education:</b> Private academies and tutors lose income due to suspensions of classes; certain academies and tutors have also decreased their tuition fees	-2%	-10%	-7%	-6%	-6%	-5%	-2%	-1%	0%	-2%	-1%	-1%	-1%	-1%	0%	0%
<b>Healthcare:</b> Public hospital admissions result in sudden peaks in administrative and operational expenditure; loss of revenues and admissions for private clinics	-3%	-14%	-8%	-4%	-2%	-1%	-1%	0%	0%	-2%	-1%	-1%	0%	0%	0%	0%
<b>Agriculture &amp; fishing:</b> Slightly negative overall effect; decreased demand from HoReCa almost entirely shutting down in peak months; increased food prices and lower imports	-2%	-10%	-7%	-6%	-6%	-5%	-2%	-1%	0%	-3%	-3%	-2%	-2%	-2%	-1%	0%
<b>Finance &amp; insurance:</b> Impact forecasted to mimic the movement of the economy as a whole, with yearly impact of 10-15%	-3%	-15%	-11%	-9%	-9%	-7%	-3%	-1%	0%	-2%	-2%	-1%	-1%	-1%	0%	0%
<b>TMT &amp; ICT:</b> IT largely unaffected, due to the long-term nature of industry; telecoms affected by the drop of roaming revenues and network maintenance costs increased due to ~50% increase in demand	-2%	-10%	-7%	-6%	-6%	-5%	-2%	-1%	0%	-4%	-4%	-3%	-3%	-3%	-2%	-1%
<b>Professional services:</b> Short-term impact caused by savings on external consulting as a quick reaction to the crisis; decline of revenues from technical activities	-4%	-21%	-15%	-12%	-11%	-9%	-4%	-1%	-1%	-3%	-2%	-2%	-2%	-1%	-1%	0%
<b>Energy:</b> Relatively sharp drop in Q2 demand (-10% in March & -14% in April for Electricity) due to the limited industrial output, with gradual return to the 2019 demand levels as industry ramps back up	-1%	-5%	-4%	-3%	-3%	-2%	-1%	0%	0%	-3%	-3%	-3%	-2%	-2%	-1%	-1%
<b>Construction:</b> Peak loss is not dramatic; delays in schedules and plans; recovery is expected to be very gradual, given the long-term nature of industry planning	-1%	-8%	-6%	-4%	-4%	-4%	-2%	-1%	-1%	-5%	-6%	-5%	-4%	-4%	-2%	-1%

\* Breakdown does not include the visualization of the seven smallest sectors (8% of GVA, 11% of employment) - these sectors are included in the total effect

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In the Pessimistic scenario, GVA loss peaks in Q2 (-19%) and employment loss in Q4 (-9%), Accommodation loses 66% and Manufacturing loses 27%

### GVA and employment development in the Baseline case

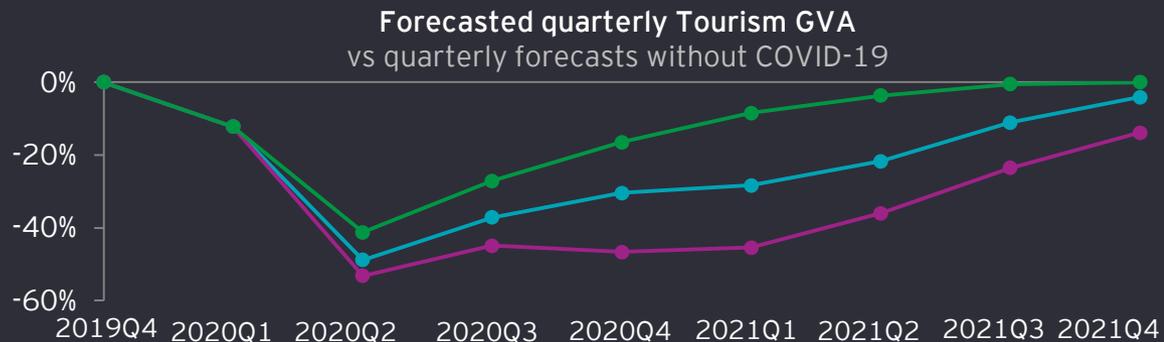
	GVA (vs forecast without COVID-19)								Employment (vs forecast without COVID-19)							
	2020 breakdown*				2021 breakdown*				2020 breakdown*				2021 breakdown*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Overall effect: GVA loss peaks in Q2 due to factory shutdowns, economic uncertainty, and SMEs temporary shutdowns; Peak employee loss in Q4 due to lag</b>	-3%	-19%	-16%	-16%	-16%	-13%	-8%	-4%	-1%	-7%	-8%	-9%	-9%	-8%	-6%	-3%
<b>Real estate activities:</b> Sharp decline of Airbnb residencies due to a harsh decline in foreign tourism (less travelling); prices in the residential sector drop due to lower demand	-2%	-11%	-9%	-10%	-9%	-7%	-5%	-2%	0%	-2%	-1%	-1%	-1%	-1%	-1%	0%
<b>Manufacturing:</b> Firms not able to function in March and April (manufacturers closed for 6 weeks); Second wave of the outbreak in 2020Q4 causes further loss	-5%	-27%	-22%	-24%	-23%	-19%	-12%	-6%	-1%	-9%	-11%	-12%	-12%	-10%	-8%	-5%
<b>Wholesale &amp; Retail:</b> Up to 65% of smaller retail players currently expect a revenue bounceback at least after one year, with long-lasting supply chain disruptions	-2%	-11%	-9%	-10%	-9%	-7%	-5%	-2%	0%	-3%	-4%	-4%	-4%	-4%	-3%	-1%
<b>Public administration:</b> No impact anticipated: GVA for the public sector is calculated using the salary method, and no major hiring / terminations are anticipated	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Transport &amp; storage:</b> Airport arrivals remain persistently low; liner ship to and from China decrease by 49%; the volume of global merchandise trade declines by 32%	-9%	-52%	-43%	-46%	-44%	-36%	-22%	-11%	-2%	-18%	-23%	-22%	-23%	-20%	-14%	-8%
<b>Accommodation / Food:</b> Massive shut-down persists until late-June; sharp drop in foreign arrivals; food services lose 70% of annual revenue	-12%	-66%	-55%	-58%	-56%	-45%	-28%	-15%	-5%	-37%	-49%	-52%	-51%	-46%	-34%	-21%
<b>Education:</b> Private academies and tutors lose income due to suspensions of classes; certain academies and tutors have also decreased their tuition fees	-2%	-11%	-9%	-10%	-9%	-7%	-5%	-2%	0%	-2%	-1%	-1%	-1%	-1%	-1%	0%
<b>Healthcare:</b> Second COVID-19 wave in 2020Q4 further increases administrative and operational expenditure of public sector; significant losses for private clinics	-3%	-16%	-13%	-14%	-14%	-11%	-7%	-4%	0%	-2%	-2%	-2%	-2%	-2%	-1%	-1%
<b>Agriculture &amp; fishing:</b> Decreased demand from tourism-related activities in peak season; persistently high global prices cause distortion of imports and exports	-2%	-11%	-9%	-10%	-9%	-7%	-5%	-2%	0%	-4%	-4%	-4%	-4%	-3%	-2%	-1%
<b>Finance &amp; insurance:</b> Impact forecasted to mimic the movement of the economy as a whole, with yearly impact of 15-20%	-3%	-16%	-13%	-14%	-14%	-11%	-7%	-4%	0%	-2%	-2%	-2%	-2%	-2%	-1%	-1%
<b>TMT &amp; ICT:</b> Telecoms affected by a drop in revenue (less roaming, fewer ads, shutdown of businesses); network maintenance costs increased due to ~50% increase in demand	-2%	-11%	-9%	-10%	-9%	-7%	-5%	-2%	0%	-4%	-5%	-5%	-5%	-4%	-3%	-2%
<b>Professional services:</b> Savings / cuts on external consulting and second COVID-19 wave impact the turnover for almost half the sector's professionals and technicians	-4%	-22%	-18%	-19%	-18%	-15%	-9%	-5%	-1%	-3%	-3%	-3%	-3%	-2%	-1%	-1%
<b>Energy:</b> Relatively sharp drop in Q2 demand (-10% in March and 14% in April for Electricity) due to the limited industrial output; liquidity problems as a result of billing moratoriums	-1%	-5%	-4%	-5%	-5%	-4%	-2%	-1%	0%	-3%	-3%	-4%	-3%	-3%	-2%	-1%
<b>Construction:</b> Companies have to pay in advance for all suppliers' materials; shortages of materials; increase in the prices of materials due to insecurity of suppliers	-1%	-8%	-7%	-7%	-7%	-6%	-3%	-2%	-1%	-5%	-7%	-7%	-7%	-6%	-4%	-2%

\* Breakdown does not include the visualization of the seven smallest sectors (8% of GVA, 11% of employment) - these sectors are included in the total effect

# 4 During the peak of the season (Q3): Tourism GVA loss of 37% under the baseline scenario, and a 45% loss under the pessimistic scenario vs forecasts not taking into consideration COVID-19

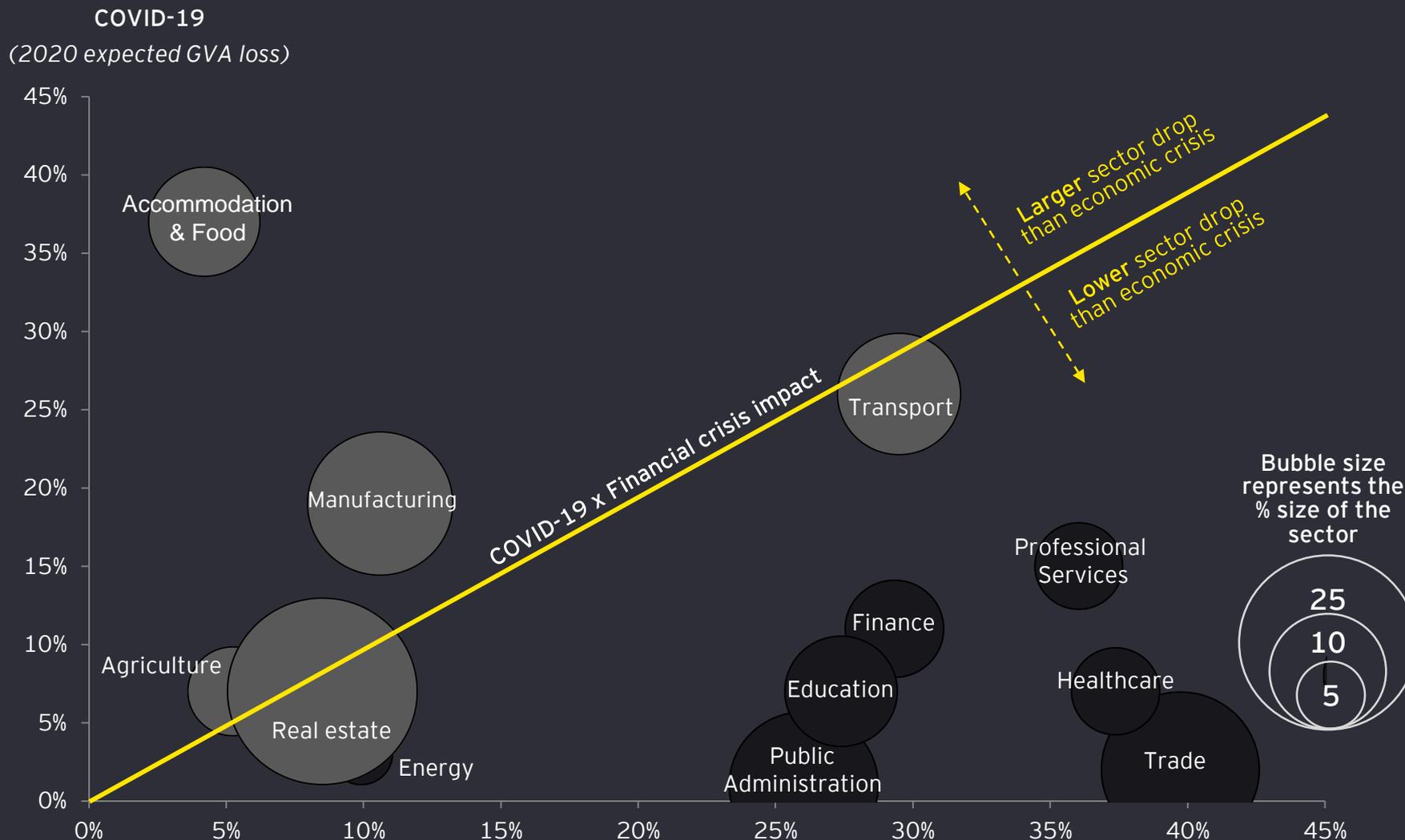
## Scenario assumptions

	Optimistic 'U-Shaped recovery'	Baseline 'Deep U-Shaped recovery'	Pessimistic 'Seesaw recovery'
<b>Likelihood</b>	20%	60%	20%
<b>Peak drops</b>	GVA: -41%	GVA: -49%	GVA: -53%
<b>Recovery</b>	R<1 allowed for fast recovery (customers and corporates realized their postponed Q2 spending)	R=1 causing mid-term consumer spending and investment decrease	R>1 and second wave of COVID-19 in 2020Q4 caused lengthy economic recovery
<b>Social behavior</b>	Borders fully opened in June, social behavior returned to pre-COVID standards, peak season not lost	Borders partially opened in July, social behavior changed (less traveling, medium foreign tourism)	Borders not fully opened until 2021Q1, low foreign arrivals, dependence on domestic tourism
<b>Statements</b>	<i>"Greece has strengthened its brand and is considered a serious and responsible country in the way it faced the pandemic, compared to other countries, which have a better and stronger health system. We will capitalize on this in terms of tourism." - Yiannis Retsos, President of SETE</i>	<i>On April 12, the Greek Minister of Tourism announced an up to 50% fall in tourism this year, due to COVID-19. In addition, the Minister of Finance stated an approximately 5% or even 10% reduction in Greece's GDP, due to the significant role of tourism in the Greek economy.</i>	<i>According to a report by INSETE: if spending reduction reaches 60% during the second half of 2020, the impact on tourism could be substantial, resulting in losses larger than 2/3 of the sector's 2019 values.</i>



# 5 The ratio of the loss of Greek GVA due to the COVID-19 lockdown, compared to the overall loss during the 2009-2016 period (economic crisis), could range from 29% up to 38%

## 2020 Lock-down vs. 2009 Financial crisis



The IMF has warned that Greece could be hit the hardest in the Eurozone, with a drop of 10% in its GDP. The OECD was even more pessimistic, with the impact reaching up to 35%. Unemployment, which stood at just over 16% in January, is expected to jump to 26%.

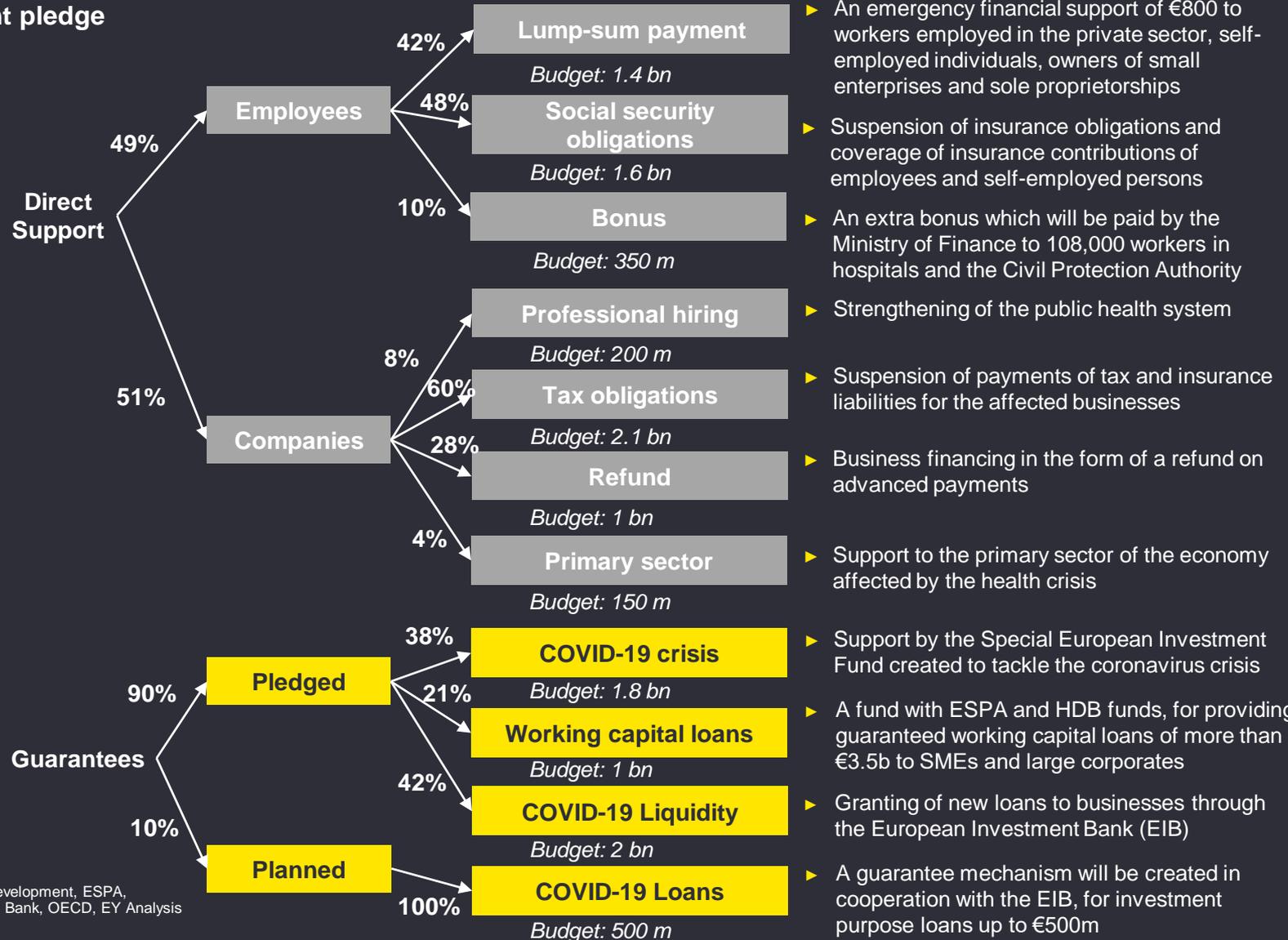
During the economic crisis: "the accommodation sector increased its contribution to the Greek GDP to 3.5% in 2016, versus 2.5% in 2008, and 1.6% on average in the main competitor Mediterranean countries" – National Bank of Greece

Greece's manufacturing sector is relatively small and concentrated in industries such as food and beverages, which had largely been spared during the economic crisis. However, the impact of COVID-19 is largely affecting the tourism industry and the accommodation & food sector, which are naturally correlated to Greece's manufacturing structure.

The impact of COVID-19 will be felt on the sectors that were less affected by the Greek economic crisis, such as Accommodation & Food, Manufacturing, Entertainment and Travel. Similarly to the Greek economic crisis, both private sector and consumers income, as well as employment, will take a big hit. However, in contrast to the Greek financial crisis which exploded due to the public sector's insolvency, the economic crisis caused by COVID-19 is directly hitting the markets, both on the supply and the demand side.

Greek Government measures: direct support amounts to 3.5% of GDP, partial guarantees amount to €5.3b (total 6.2% of GDP); an additional €7.2b pledge for businesses and employees for the coming months, is under consideration, with an expected €32b (of which, €22.5b in transfers over a 4-year period) from EU's "recovery fund"

Government pledge



- ▶ An emergency financial support of €800 to workers employed in the private sector, self-employed individuals, owners of small enterprises and sole proprietorships
- ▶ Suspension of insurance obligations and coverage of insurance contributions of employees and self-employed persons
- ▶ An extra bonus which will be paid by the Ministry of Finance to 108,000 workers in hospitals and the Civil Protection Authority
- ▶ Strengthening of the public health system
- ▶ Suspension of payments of tax and insurance liabilities for the affected businesses
- ▶ Business financing in the form of a refund on advanced payments
- ▶ Support to the primary sector of the economy affected by the health crisis
- ▶ Support by the Special European Investment Fund created to tackle the coronavirus crisis
- ▶ A fund with ESPA and HDB funds, for providing guaranteed working capital loans of more than €3.5b to SMEs and large corporates
- ▶ Granting of new loans to businesses through the European Investment Bank (EIB)
- ▶ A guarantee mechanism will be created in cooperation with the EIB, for investment purpose loans up to €500m

Direct support's key implications

- Firms are able to **keep employees** instead of terminating their contracts
- Extension of tax payment deadlines
- ✗ **Corporate support for employees' salaries only**  
Risk of self-employed support **funds not being used effectively** to boost the economy
- ✗ Uninsured employees (a significant percentage in Greece) with no official contracts, will receive no benefits

Guarantees' key implications

- Help **overcome current cashflow issues**, especially for struggling companies
- Investment loans can mitigate the impact on postponed investments
- ✗ Many SMEs might not be able to sustain a loan, even under lower interest rates

Source: Ministry of Development, ESPA, Hellenic Development Bank, OECD, EY Analysis



# Glossary & general notes

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- ▶ **GVA** = Gross Value Added
- ▶ **GDP** = Gross Domestic Product
- ▶ **GDP** = GVA + Taxes (on products) - Subsidies (on products)
- ▶ Employment was measured in persons (total domestic employment in Greece)
- ▶ Total domestic employment includes employees and self-employed
- ▶ **NACE** (*Nomenclature statistique des Activités économiques dans la Communauté Européenne*) is a statistical classification, by which, economic activities are categorized
- ▶ **R** refers to the “effective reproduction number” of COVID-19. It signifies the average number of people that one infected person will pass the virus to. A value higher than 1 signifies a rapid spread of the virus.

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