

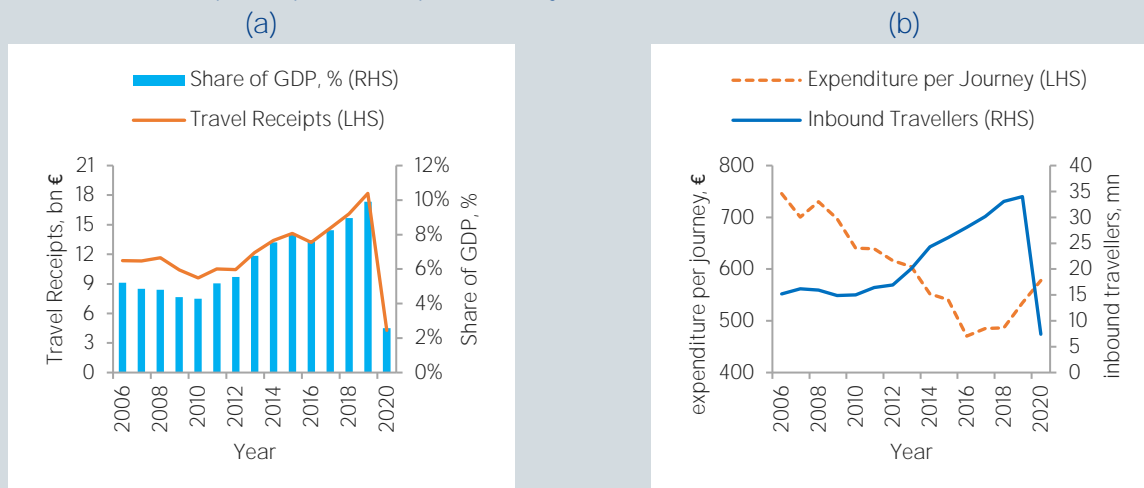
GREECE FOCUS NOTES

GREECE, THE GLOBAL ECONOMY AND THE PROSPECTS OF TOURISM

Greek economy and Tourism

Before the unprecedented shock of the Covid-19 pandemic, the tourism sector in Greece was flourishing, giving support to growth and employment (see Fig. 1a). From 2010 to 2019, travel receipts almost doubled to EUR 18.2 bn, with the number of inbound travellers increasing in total by 19.0 mn (albeit with a decreasing expenditure per journey until 2016, see Fig. 1b).

Figure 1: Travel Receipts, Expenditure per Journey and Inbound Travellers in Greece



Source: BoG, ELSTAT, Eurobank Research

According to the WTTC, the total contribution, i.e. direct plus indirect, of travel and tourism to Greece's GDP and employment stood at 20.8% and 21.7% respectively in 2019. In addition, travel and tourism accounted for ca 25% of Greece's exports of goods & services. The global tourism sector took a major hit by the Covid-19 pandemic. Given Greece's high level of dependence on travel revenues, a deep contraction of economic activity was inevitable.

In the 12-month period of January-December 2020, the number of inbound visitors (including cruise passengers) decreased by -78.2% YoY (-26.6 mn travellers) leading to a drop in travel receipts by -76.5% YoY or EUR -13.9 bn in current prices (see Fig. 2a). In the same period, real GDP shrunk by -8.2% YoY (see Fig.

Contributing Authors:

Dr. Tasos Anastasatos
Group Chief Economist
tanastasatos@eurobank.gr

Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr

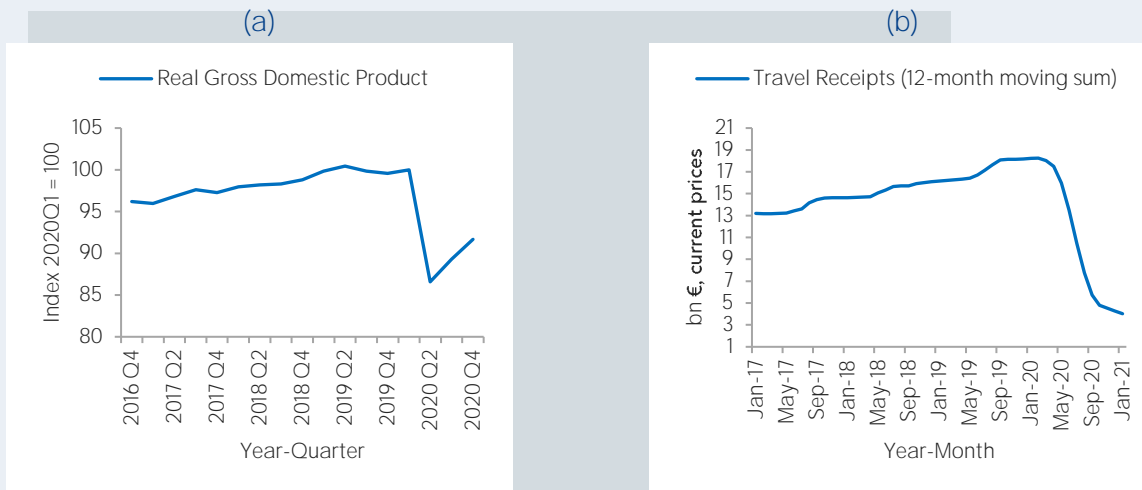
Olga Kosma
Research Economist
okosma@eurobank.gr

Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr

Dr. Stylianos Gogos
Economic Analyst
sgogos@eurobank.gr

2b). According to EC's winter economic forecasts (Feb-21), given a gradual improvement in the health crisis front, a recovery is projected with growth rates of 3.5% and 5.0% in 2021 and 2022 respectively.

Figure 2: Travel Receipts and Real GDP in Greece



Source: BoG, ELSTAT, Eurobank Research

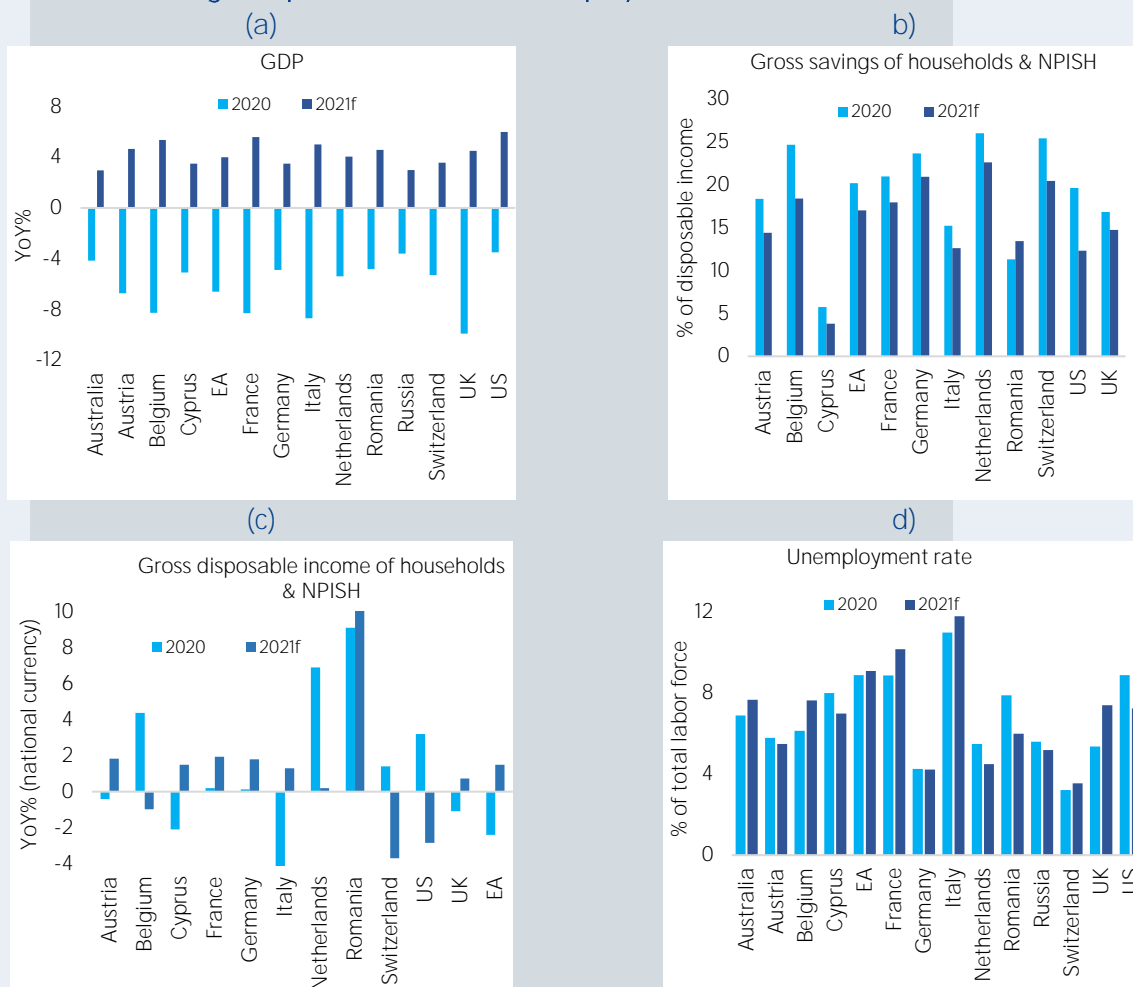
Global economy

The prospect of effective Covid-19 vaccines being widely distributed from Q2 2021 onwards is expected to reduce the need for restrictive measures, thereby favoring service sector activity. This should boost consumer and business confidence, setting the stage for a strong recovery this year, as the associated release of pent up demand could contribute to improved manufacturing activity. In turn, this could lead to the de-escalation of precautionary savings that rose sharply in 2020, thanks to government support to households' disposable income and the partial lack of consumption opportunities. Against a background of still accommodative monetary policy, we expect annual global growth to rebound to about 5.5% in 2021, after contracting by around 3.4% in 2020, while the more lasting impact of the pandemic on certain economic sectors is expected to keep unemployment above pre-crisis levels. In the US, economic activity could decelerate further in Q1 2021 owing to the recent surge of virus infections, but a general distribution of Covid-19 vaccines in the spring should underpin economic momentum, with 2021 GDP rebounding by close to 6.0% supported by the Biden Administration's new Covid-19 fiscal packages from -3.5% in 2020. In the euro area, we expect a robust economic rebound in H2 2021 when activity restrictions are lifted to a large extent and recovery plans backed by EU financing begin to take effect, developing into a strong and synchronized expansion of around 4.0% in 2021, following a contraction of 6.6% in 2020.

The depth of the recession in 2020 varied among euro area member states, reflecting the severity of the health crisis, the stringency and timing of the containment measures imposed to contain the spread of the pandemic, policy response by domestic authorities to mitigate the economic impact of the crisis, and each country's sectorial composition. These factors are also expected to play a key role in the speed of the anticipated recovery this year, along with the pace of vaccinations and the timing of a widespread easing of Covid-19 restrictions. That said, Germany diverged from the rest of the euro area and outperformed its

peers in 2020 mainly thanks to the government’s sizable fiscal support, while, as a result of the comparatively milder recession last year, the expected rebound in 2021 is anticipated to be less pronounced than in the rest of the euro area countries. On the flip side, Southern European countries, most notably Greece, Spain, Portugal and, to a lesser extent, Italy, which experienced relatively longer/stricter containment measures in the first wave of infections last spring and where tourism — a sector that has been among the most severely affected by the pandemic with long-last effects — accounts for a relatively higher share of their GDP and employment, are expected to lag behind the euro area this year and narrow their output gap more gradually in the period ahead (see Fig. 3).

Figure 3: GDP, Savings, Disposable income & Unemployment rate of Greece’s main tourist markets



Source: IMF, Ameco, Eurobank Research

Outlook for Travel and Tourism

The evolution of the pandemic worldwide will determine to what extent tourism and travel will recover in 2021. In general, countries that are perceived as safe stand to benefit the most as travel and tourism gradually re-open. Large-scale vaccinations are underway in the EU, US, Canada and the UK. In Turkey and Egypt, Greece’s main tourism competitors mass vaccinations have also begun.

The start of the vaccinations marks the beginning of the end of the pandemic; however, it will take some time for that critical mass of the population to be vaccinated in order to ensure the existence of "herd immunity". At the same time, a number of uncertainties surrounding the vaccines remain, such as the duration of the immunity, whether there will be a need for periodic booster doses and to what extent the vaccines composition must be updated regularly in order to remain effective against new virus strains. Taking into consideration the above uncertainties, along with the fact that global tourism has suffered a major blow from the Covid-19 pandemic, – according to recent research by WTTC , 174 million global travel and tourism jobs are now threatened – a number of international industry bodies (WTTC, ACI, WEF, ICC) call for international travel to be restored with the appropriate testing regimes and hygiene protocols. **Common standards should be put in place to ensure the safety of the tourism and travel industry's workforce and that of travelers.** For sure, in the period ahead the pandemic will continue to affect travel and tourism, which will have to adjust to social distancing, increased sanitary measures in tourism establishments and increased use of technology to meet **guests' expectations and changing health guidelines.** Travel and tourism businesses will have to constantly be in touch with health authorities, while their personnel need to be trained on changing standards and procedures.

At the same time it is likely that tourism behavior will be affected also in the longer term. Domestic travel and travel to neighbouring countries are expected to increase, while long-distance travel may decline, which will affect primarily economies that are highly dependent on international tourism. Additionally, it is expected that travelers will prefer fewer longer trips to many short ones, which could negatively affect city break tourism in favour of resort destinations. The average age of travelers may change as well, although the direction of this change is difficult to predict. On the one hand, older, more sensitive to the pandemic travelers may keep away from destinations or transportation means, which are considered riskier. On the other hand, it is exactly these travelers that will be the first to be vaccinated, which may increase their willingness to travel. Finally, technology will be increasingly used by both consumers and service providers, as a means to reduce physical contact, reduce uncertainty, increase flexibility and curtail costs.

With regard to the outlook of global tourism in the period ahead, the UNWTO developed scenarios for the **sector's recovery in the period 2021-2024**, which are based on the latest information on tourism trends and travel conditions, economic forecasts and historical data on previous crises (the SARS epidemic of 2003, the September 11th attacks of 2001 and the global economic crisis of 2009). The factors that will determine the speed of recovery are: 1) the rate of improvement of traveler confidence, mostly dependent on perceived safety and the evolution of the pandemic, 2) the gradual elimination of travel restrictions and 3) the prevailing economic conditions. The extended scenarios for 2021-2024 point to a strong rebound in the 2021 based on the assumption of a reversal in the evolution of the pandemic, significant improvement in traveller confidence and major lifting of travel restrictions by the middle of the year. Nonetheless, the return to 2019 levels in terms of international arrivals would take 2½ to 4 years. More specifically, the recovery times under the three scenarios are summarised as follows:

- Scenario 1: recovery in 2½ years (mid-2023)
- Scenario 2: recovery in 3 years (end of 2023)
- Scenario 3: recovery in 4 years (end of 2024)

The large pent-up demand following the unprecedented global lockdown and extended closed borders and travel bans will be the driver of the expected rebound. In 2022, growth could remain in double digits

as international tourism and travel continue to normalize, albeit at a slower pace compared to 2021. Despite the improvement, international arrivals are likely to remain below 2019 levels in 2021 and 2022 in all three scenarios, unless there is a major breakthrough in the treatment and prevention of Covid-19.

In Greece in particular, the government estimates that tourism revenues in 2021 may reach c. 50% to 60% of those in 2019, (i.e. around €10bn) depending largely on the extent to which the situation will normalize by mid-May, both in Greece and in its source markets. This entails the termination of the successive lockdowns, mass vaccinations and tests and the lifting of the quarantine for international travelers.

The high uncertainty that still surrounds the time of the final control of the pandemic and the consequent return to normalcy in travel and tourism, does not yet allow for accurate predictions about the course of tourism in the short- and medium-term. Therefore, only scenarios can be attempted contingent on particular assumptions. We attempted two such scenarios – a conservative and a bullish one – for the evolution of tourism revenues in the period 2021-2024, taking into account the **European Commission's forecasts**¹ for the annual nominal GDP growth rate and tourism revenues as a percentage of GDP.

The conservative scenario assumes that tourism revenues as a percentage of GDP return to their 2014-2019 average (8.4%) in 2024, while GDP growth is somewhat slower than in the EC forecasts. In this case, tourism revenues remain below the 2019 level for the whole period under examination, indicating a more lasting impact on **tourism's course. In particular, in 2021 tourism revenues amount to €7.3bn, equal to 40.3% of the 2019 level, only to reach €15.8bn in 2024, i.e. 87.1% of the 2019 figure** (see Table 1).

Table 1. Conservative scenario

	Nominal GDP bn €	Tourist Revenues bn €	Tourist Revenues % GDP	Tourist Revenues % GDP	Tourist Revenues % of 2019 Revenues
2019	183.4	18.2	9.9%	2024 = AVG 2014-2019	
2020	165.8	4.3	2.6%	<u>8.4%</u>	23.5%
2021	170.5	7.3	4.3%		40.3%
2022	178.4	10.1	5.7%		55.5%
2023	183.7	12.9	7.0%		71.0%
2024	188.9	15.8	8.4%		87.1%

The bullish scenario assumes GDP growth as forecast by the EC and that tourism revenues as a percentage of GDP return to the 2019 level (9.9%) in 2024. In this case, tourism revenues reach €10.1bn in 2021, which corresponds to 55.7% of the 2019 figure, while they surpass this level for the first time in 2024 amounting to €19.3bn, which corresponds to 106.1% of the 2019 figure (see Table 2).

Table 2. Bullish scenario

	Nominal GDP bn €	Tourist Revenues bn €	Tourist Revenues % GDP	Tourist Revenues % GDP	Tourist Revenues % of 2019 Revenues
2019	183.4	18.2	9.9%	2024=2019	
2020	165.8	4.3	2.6%	<u>9.9%</u>	23.5%
2021	172.4	10.1	5.9%		55.7%
2022	182.8	13.2	7.2%		72.5%
2023	189.0	16.2	8.6%		89.0%
2024	194.6	19.3	9.9%		106.1%

¹ The European Commission Economic Forecast Winter 2021 was used as reference for 2021 and 2022 and the Enhanced Surveillance Report, Greece, November 2020 was used as reference for 2023 and 2024.

Research Team



Dr. Tasos Anastasatos | Group Chief Economist
tanastasatos@eurobank.gr | + 30 214 40 59 706



Anna Dimitriadou
Economic Analyst
andimitriadou@eurobank.gr
+ 30 210 37 18 793



Ioannis Gkionis
Senior Economist
igkionis@eurobank.gr
+ 30 214 40 59 707



Dr. Stylianos Gogos
Economic Analyst
sgogos@eurobank.gr
+ 30 210 37 18 733



Maria Kasola
Economic Analyst
mkasola@eurobank.gr
+ 30 210 33 18 708



Olga Kosma
Research Economist
okosma@eurobank.gr
+ 30 210 37 18 728



Paraskevi Petropoulou
Senior Economist
ppetropoulou@eurobank.gr
+ 30 210 37 18 991



Dr. Theodoros Rapanos
Economic Analyst
v-trapanos@eurobank.gr
+ 30 214 40 59 711



Dr. Theodoros Stamatou
Senior Economist
tstamatou@eurobank.gr
+ 30 214 40 59 708



Elia Tsiampaou
Economic Analyst
etsiampaou@eurobank.gr
+ 30 214 40 59 712

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