HELLENIC REPUBLIC

19 March 2020

Welcome to our occasional newsletter:

1. The first case of Coronavirus in Greece registered on 26 February. From the onset, the Prime Minister believed in aggressively reacting to the unfolding situation and Greece was an early adopter of ‘social distancing’ strategies. On 3 March, the government implemented the first batch of targeted restrictions. On 10 March, schools & universities nationwide were shut. On 12 March we had the first batch of business closures and by 16 March all non-essential retail stores were closed. Greece is currently implementing a 14-day quarantine for travellers from Schengen+ countries and is participating in the EU-wide ban to entry from elsewhere.

On 14 March, 64 new cases of the Coronavirus were registered, a local peak. Two days ago, 40 new cases. The effects from social distancing efforts should unfold in the coming weeks. To date, Greece has registered 418 cases, of which 14 have recovered, 20 are in critical condition and 6 deaths. The country currently ranks no 26 with respect to total cases and no 24 with respect to total deaths. We are hopeful on the effects of warmer weather in May, but are cognizant of the complications deriving from the interdependence of all countries.

2. The government has taken the following measures to mitigate the economic fallout: A discretionary fiscal stimulus program of 2bn euro, circa 1% of GDP, roughly evenly split between employees and businesses. Employees in companies that have been shut by the government will each receive a 800-euro handout for the months of March and April. Targeted expenditure on healthcare is being increased. Measures to increase labour market flexibility, as well as preserve employment, have also been taken. Fiscal response will be adjusted as the crisis unfolds.

We are working on imminently allocating an additional 1.8bn euro, or 0.9% of GDP, of unused EU structural funds as part of the Coronavirus Response Investment Initiative.This is additive to the above. Businesses in heavily affected sectors will see a combination of grants & loans.

Targeted tax holidays have been introduced to defer obligations to the state of both businesses and individuals heavily impacted by the crisis (including VAT and social contributions). Although we do not explicitly count these in our headline fiscal stimulus numbers, as other countries do, they are significant. Banks have said they will partially defer loan payments for businesses heavily affected by the virus and are working on measures for individuals.

There is no blanket payment moratorium.

We are working with the EIB to implement large credit-supporting measures. Flexibility in annual EU structural funds -which would likely go unused otherwise due to the economic fallout- will allow reorienting significant liquidity to good use, without impacting government debt. We are working on such measures.

It is a mistake to view the economic fallout from the crisis as a pure demand shock. At heart, this is a negative supply shock, that is also affecting demand. As such, helicopter money-type approaches, in our view, would not in and of themselves be as impactful as some believe. Large headline stimulus figures often hide a smaller impact. Devil is in the details.

Our approach is to work on four main axes: first, to protect those workers heavily affected by the crisis, as well as employment overall. Second, to ensure solvent businesses, particularly SMEs but also larger companies, do not go bankrupt. Third, to be ready for the economy to fire on all cylinders, when the crisis subsides. Fourth, to work with our partners to determine the best response at the European level. Policy needs to work razorlike to address the micro and macro issues created.

We are very comfortable that the economic packages we have announced, and will continue to announce, will have a tremendous effect.

We will do whatever it takes.

3. There are no updated official growth or primary surplus targets. It would be silly and irresponsible to do so, given the unfolding situation. Even the Fed chose to postpone publication of its quarterly estimates from March to June.

As a first cut, it goes without saying that the impact on Q1 and Q2 GDP will be enormous, with the mother of all bouncebacks expected in Q3 and Q4. Whatever growth is lost in 2020, will be probably gained back in 2021, possibly even more. Further to the effects from fiscal stimulus measures outlined above, past experience with automatic stabilisers suggest a pass-through of roughly a half from growth to the budget balance.

We are working on an updated schedule for our privatisation pipeline. Introduction of the single insolvency framework is proceeding as planned, although implementation schedule could be adjusted.

We note that Eurobank received zero risk-weight treatment to its unfolding Hercules transaction.

Our resolve for our structural reform agenda stands unperturbed.

4. Last night, the ECB launched a 750bn euro Pandemic Emergency Purchase Programme (PEPP). A waiver of the eligibility requirements for securities issued by the Greek government is granted for purchases under PEPP. Benchmark allocation across jurisdictions will continue to be the capital key of the national central banks, which, for the Bank of Greece currently stands at 2.03%. In addition, collateral standards are further eased by including claims related to the financing of the corporate sector, translating into extra liquidity for banks and the real economy.

All of the above gives us greater firepower and flexibility in fighting the virus, which we will use. Greece is now firmly in the heart of the euro area.

As often repeated in this newsletter in the past, this government believes in working systematically, diligently, and consistently, to tackle problems ahead.

Our thoughts and prayers go to those directly affected by the Coronavirus and their families.

Stay safe.

Together we will beat this.

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