Greece

The Greek economy showed remarkable progress and resilience in 2021 despite the looming uncertainty. Thus, at the rise of 2022, everyone believed that the problems caused by the pandemic during the years 2020-2021 would have come to an end and that 2022 would be a year of recovery and strong growth. However, 2022 turned out to be an unexpectedly difficult year: Russia's invasion of Ukraine overturned all forecasts and caused serious complications to the financial and economic stability globally. Inflation that had started to rise since 2021 skyrocketed in 2022, as the war in Ukraine exacerbated pressures in the prices of energy and natural resources, thereby creating an explosive mix of negative effects in the real sector of the economy and mainly in the household budget.

During 2021, the Greek GDP grew by 8.4% year-on-year, having regained its pre-pandemic level already in the third quarter of 2021, driven mainly by domestic demand and exports of services due to the better-than-expected tourist season. Inflation started to rise in the course of the year due to imbalances between supply and demand; main factors include severe disruptions in the supply chains created during the pandemic, the highly accommodative fiscal and monetary policies aimed to support employment and output during the lockdown periods, accumulated savings, repressed demand and post-pandemic euphoria that resulted in a sharp increase in demand for goods and services. The surge in consumer prices is an additional source of uncertainty for the economy at large. Pandemic emergency support measures of €16bn were implemented in 2021; although these were largely phased out by 2022, they were supplemented by further measures (mainly subsidies to energy users) the government introduced to help households and firms cope with increases in energy bills due to the energy crisis. The general government deficit was 7.5% of GDP in 2021, but is expected to decrease to 4.1% in 2022. Labour market developments seem to remain favourable and the unemployment rate continued its decline to 14.7% in 2021, from 17.2% in 2020 and further lower in 2022, reaching its lowest level in more than a decade.

Regarding the characteristics of the Greek banking system, the number of the domestic credit institutions was drastically reduced from 35 in 2009 to fifteen 15 in 2021, of which nine are commercial and six cooperative banks. Of the nine commercial banks, four are deemed “systemically significant credit institutions”, and, post consolidation, control ca. 97% of the banking assets (€328 billion). Nineteen foreign bank branches, although present in Greece, have insignificant market share. The total number of bank branches was 1,560 in 2021 (2019: 1,834), while the number of employees was 30,998 (2019: 36,727). Adapting to the new digital era, Greek banks have invested in expanding their e-banking channels and their range of services provided online. The subsequent downsizing of their traditional channels was achieved exclusively through Voluntary Exit Schemes (VES) and natural attrition. The progress in the digital transformation of the Greek economy and the Greek banking system is reflected in the electronic payments data: The number of payments involving debit, credit or prepaid cards increased by almost 50% in two years, reaching 1,569 millio in 2021 from 1,064 millio in 2019, with the transaction volume increasing to €47.8 billion in 2021 from €38.2 billion in 2019. Meanwhile, the size of the POS network has increased by 4% since 2019, reaching 775,482 terminals in 2021 and 254% since 2015. The size of the ATM network has also expanded, increasing to 5,787 in 2021 from 5,702 in 2019.

In the banking sector, 2021 can certainly be characterized by the significant reduction of non-performing loans. NPL reduction was achieved mainly through securitisations and transfers to international investors. The stock of non-performing loans declined further in 2021, mostly through loan sales of €27.5 billion under the Hellenic Asset Protection Scheme. This has led to an improvement in bank asset quality, reducing risk costs and widening profit margins. Greek banks reduced their stock of NPLs to €18.4 billion at end December 2021, down from a peak of €107.2 billion in March 2016, aiming to reduce further the stock of

NPEs to Euro Area average by end-2023. However, banks' low operating profitability and the need for higher provisioning for credit risk affected their capital adequacy, with the consolidated Common Equity Tier 1 (CET1) ratio falling to 12.6% in December 2021, from 15% in December 2020, and Total Capital Ratio (TCR) to 15.2% from 16.6%, respectively. Finally, private sector deposits rose to €180 billion in 2021 from €135 billion in 2018, while private sector gross loans amounted to €110 billion in 2021 from €170 billion in 2018.

As far as the MREL capacity is concerned, Greek banks have met the 1/1/2022 MREL binding target set by the SRB through issuing MREL eligible instruments and by achieving organic profitability. However, taking under consideration the current macroeconomic environment and financial market conditions, a short-term challenge on Greek banks' MREL issuance plans might be posed as the yields of MREL eligible instruments have moved up significantly.

The continued recovery of the Greek economy presupposes strong financing of the real economy and an active involvement of the banking sector. Greece has been allocated about €30.5 billion from the Recovery and Resilience Facility (RRF) in grants and loans, making it the largest RRF beneficiary (16.8% of its 2021 GDP). These funds are expected to play a significant role in supporting and financing of the Greek economy in the next five years, with the banks co-financing and also assessing investment plans in the loans' pillar of RRF. The timely implementation of the projects and reforms of the National Recovery and Resilience Plan (Greece 2.0) is a prerequisite for achieving strong, sustainable growth in the following years. Having improved their asset quality and increased their liquidity, the Greek banks are in an even better position to finance the upcoming investment projects and keep supporting the transition of the Greek economy towards an investment-based, export-oriented economic model.

Contributor: Hellenic Bank Association - Anna Vasila avasila@hba.gr