Greek economy

Greece's 'greatest turnround': from junk to investment grade

After more than a decade of bailouts and painful austerity measures, the country has rebounded

Eleni Varvitsioti in Athens, **Martin Arnold** in Frankfurt and **Mary McDougall** in London MAY 14 2023

More than a decade after bailouts and austerity measures pulled Greece from the brink of bankruptcy and a eurozone exit, the country has rebounded and is on the cusp of regaining its investment-grade rating.

S&P recently changed its outlook for the country from stable to positive. A full upgrade would put Greece at triple B minus, the rating agency's lowest investment grade rating.

Many, including the country's central bank governor, expect the upgrade to come after the May 21 elections should the new government continue with the reforms and maintain political stability.

The ruling conservative New Democracy party has a lead of five to six points in the polls ahead of Syriza, the radical left opposition party. However, it is expected to struggle to form a government after the first round of voting, with Greeks set to return for a runoff in July.

Fokion Karavias, chief executive of Greek lender Eurobank, said the return to investment grade — to which not only the government's borrowing costs but also those of local lenders and corporates are inextricably linked — would signal "the greatest turnround in the European financial system".

"There [had been] many voices asking for Greece to exit the eurozone. They were arguing that the country's debt would never be sustainable, that it will be impossible to achieve primary surpluses, and that its banking system will not be able to reduce its stockpile of bad loans," he said. "In the end, nothing is impossible."

After years as Europe's problem child, growth in Greece is now rocketing. The economy made one of the strongest recoveries from the Covid-19 pandemic, with gross domestic product expanding 8.4 per cent in 2021 and 5.9 per cent last year.

A masked pedestrian in Athens in January 2022. The Greek economy posted one of the strongest recoveries from the pandemic © Nick Paleologos/Bloomberg

Figures from Eurostat, the EU's statistics office, show that Greece recorded a 0.1 per cent primary budget surplus in 2022. The amount of loans that are now non-performing on banks' balance sheets has fallen from more than 50 per cent in 2016 to close to 7 per cent.

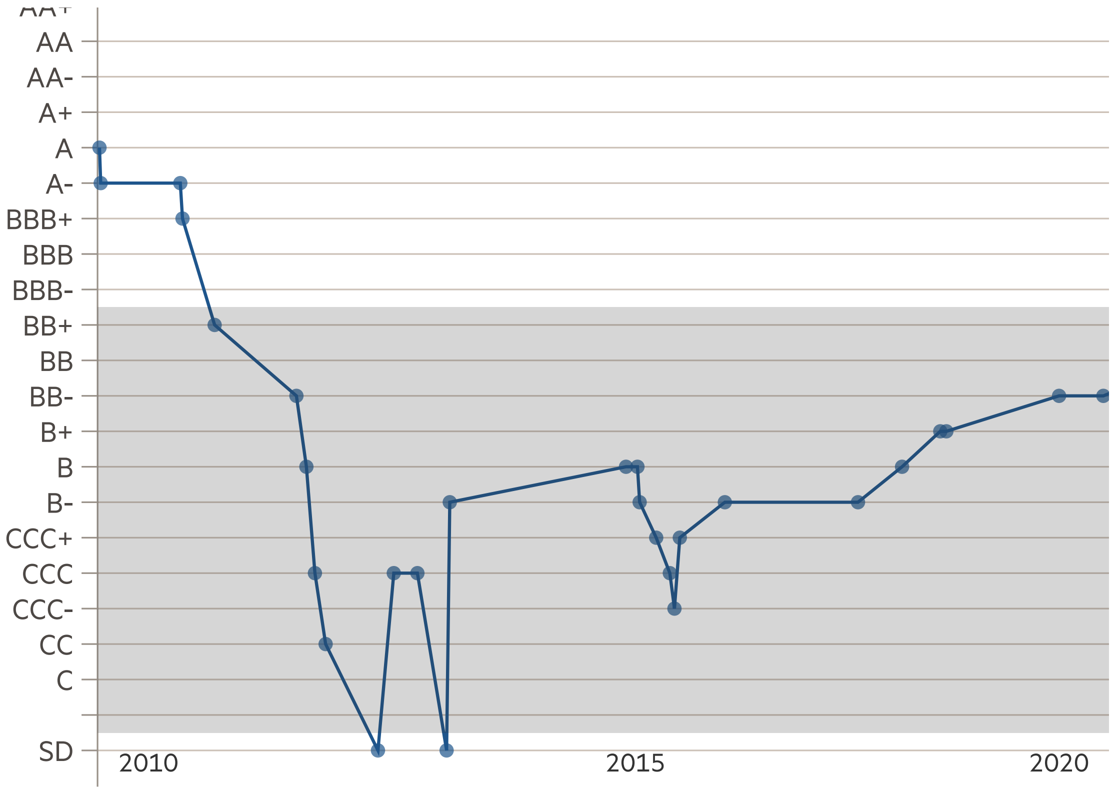
Economists at rating agencies and investment banks such as Goldman Sachs expect Greece to continue to outperform the bloc this year and next.

It is a far cry from February 2012, when the country's credit rating came close to the lowest rating — selective default — following a debt crisis that threatened to tear the eurozone apart.

The lack of investment-grade status resulted in higher financing costs and meant that, for a time, the European Central Bank was prohibited from buying Greek debt as part of its multitrillion-euro bond-buying programmes to stabilise the bloc's economy.

Greece is on the cusp of regaining its investment-grade rating

S&P credit rating for Greece



FINANCIAL TIMES

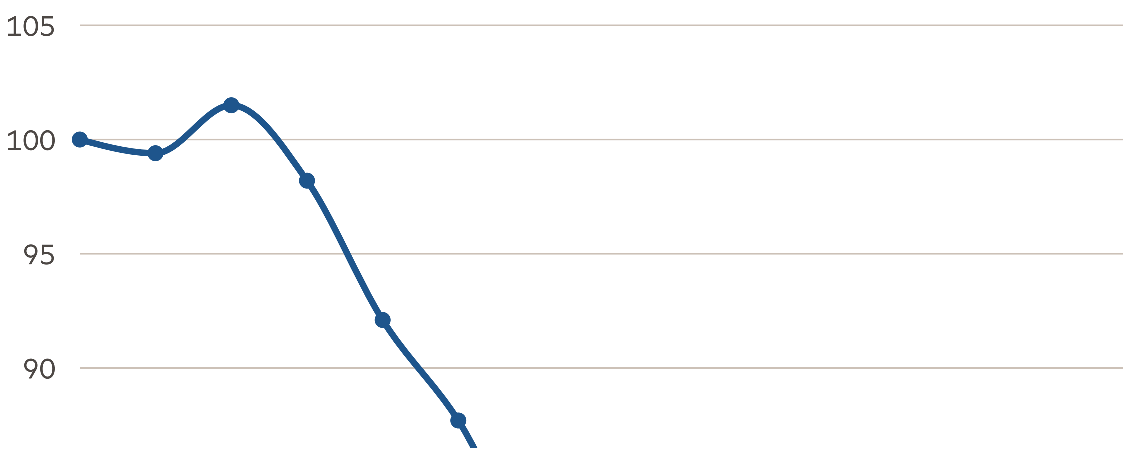
Source: S&P

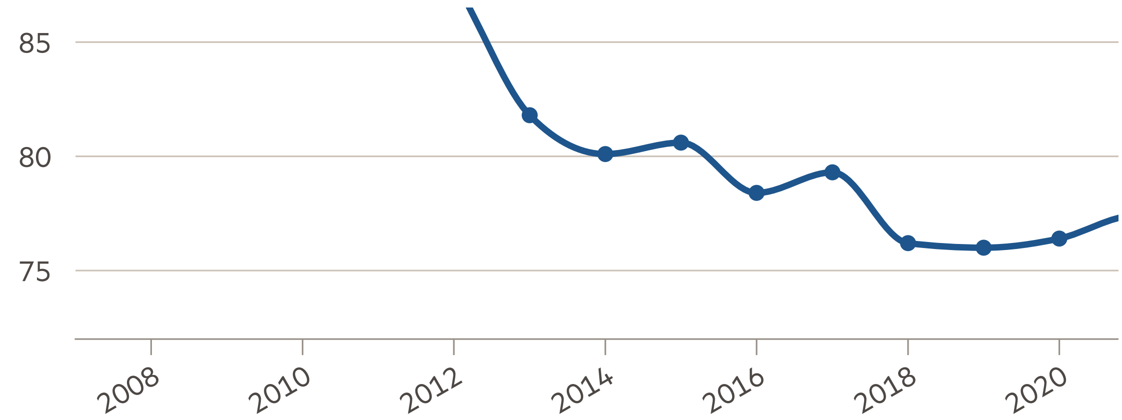
Reaching a point where rejoining the investment-grade club — a status bestowed by S&P on just 70 countries — would become a real possibility has been tough.

Painful austerity measures have left their mark on a country that now has one of the highest rates of relative poverty in the EU. Up until a few weeks ago, when it was raised from €832 to €910 per month, the minimum wage was lower than it was 12 years ago.

More than a decade on from Greece's default, workers remain far worse off

Average annual wages in Greece at constant prices, index (2007 = 100)





After shrinking by almost a quarter from peak to nadir, Greece's output remains substantially below pre-crisis levels. Giorgos Chouliarakis, economic adviser to the Greek central bank governor, believes a return to peak "still needs another decade", while only "a serious multiyear investment plan in human capital, key infrastructure and health services" will boost wages.

"Many households feel the pressure from higher prices in food, energy and other basic goods," said Nikos Vettas, general director of IOBE, an Athens-based economics think-tank.

Reforms have not only stabilised an economy in freefall but also led to some real improvements. Chief among them is trade: between 2010 and 2021, the country's goods exports soared 90 per cent, compared with 42 per cent in the euro area as a whole.

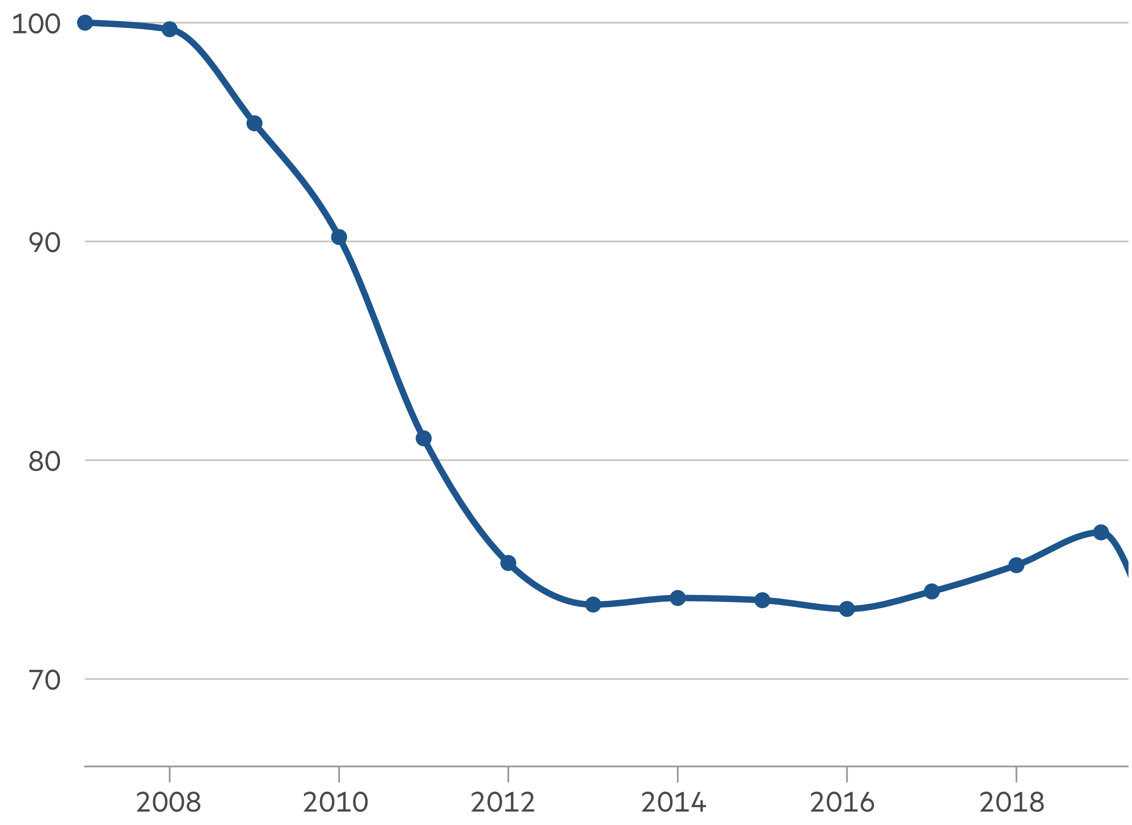
"Greece's biggest success story over the past decade is exports," said Dimitris Malliaropulos, chief economist of the Greek central bank. However, a big factor was "outright" cuts in wages, he added. "The price of this improvement was high."

The pain is now beginning to pay off.

After surging to 206 per cent during the pandemic, Greek government debt as a proportion of GDP was down to 171 per cent last year, its lowest level since 2012 and one of the most rapid rates of debt reduction in the world. It is expected to keep falling in 2023, aided by high inflation.

The economy remains much smaller than before the country's financial crisis

Greek GDP at current prices, index (2007 = 100)



FINANCIAL TIMES

Source: Refinitiv

“In principle, the winners from high inflation are those with lots of inflation-linked revenues and not many inflation-linked liabilities,” said Chris Jeffery, head of inflation and rates strategy at Legal & General Investment Management. The country is also relatively less exposed to higher regional borrowing costs, as the average maturity of its debt is 20 years, compared with seven years for the average advanced economy.

“Greek nominal GDP is now up over 25 per cent in the last two years. Their nominal debt is up just 4 per cent,” said Jeffrey. “A further big improvement [in the debt-to-GDP ratio] is likely this year, bringing an upgrade back to investment grade before long.”

Covid helped raise revenues by forcing people to use easier-to-trace electronic payments as shops shuttered. “Economic activity that was in the dark has now been revealed and taxed,” said Malliaropulos.

Greece has also benefited from a surge in foreign direct investment, which rose 50 per cent last year to its highest level since records began in 2002. The EU’s post-pandemic recovery fund is set to provide €30.5bn of grants and loans to Greece by 2026, equal to 18 per cent of current GDP.

Tourism — the Greek economy’s largest sector, accounting for about one-fifth of GDP — last year rebounded to reach 97 per cent of pre-pandemic levels.

Foreigners not only have their holidays in the country but are also heavily investing in real estate. Property sales to overseas buyers were almost four times higher last year than in 2007, reaching almost €2bn.

Construction, the hardest-hit sector during the financial crisis, is also booming. Haris Kokosalakis, whose construction business collapsed in 2012, said demand from overseas buyers had given him a slight "hope" of a sustainable recovery.

"If it weren't for our foreign clients I would be very pessimistic," he said. "I still fear we are back in 2007, about to face another crash."

Letter in response to this report:

Virgil's oft-quoted quip about Greeks and gifts / From Professor Costas Milas, Management School, University of Liverpool, Liverpool, UK