

The euro area economic outlook is subject to extreme uncertainty, despite unprecedented monetary policy accommodation and several rounds of fiscal stimulus

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Euro Area Economic Outlook: Key Points

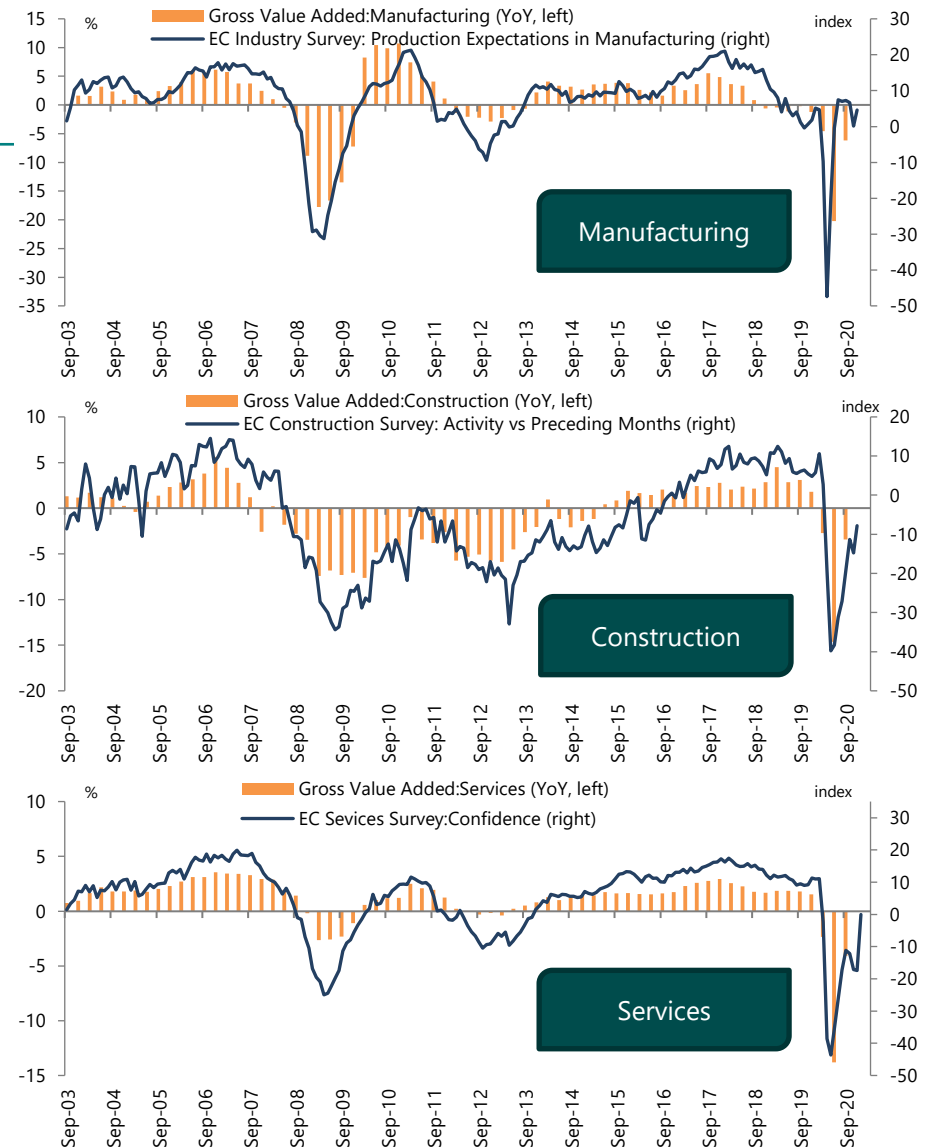
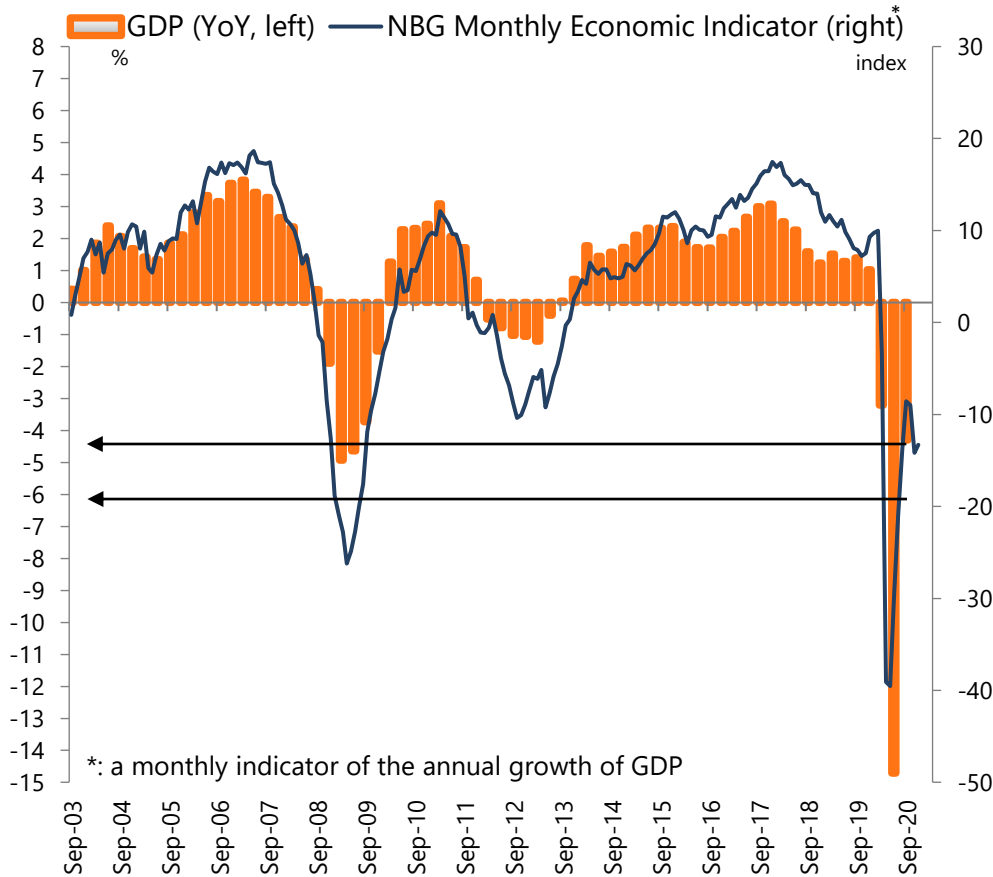
- **The pandemic is having a big impact on economic activity, mainly via the services channel.** Real GDP contracted by 9.4% in H1:2020 before advancing by 5.2% in semi-annual terms in H2 according to our estimates. The Q3 upswing stalled in Q4, as the resurgence of [Covid-19 cases](#) prompted renewed lockdowns leaving the full year 2020 GDP growth at -7.1% yoy. We expect a partial recovery in 2021 (+4.4% yoy), followed by +4.6% yoy in 2022 with output returning to its pre-pandemic level [in mid-2022](#) in view of easing pandemic-related limitations and with a significant portion of people most vulnerable to Covid-19, having been vaccinated.
- **Inflation is subdued with the headline CPI in negative territory.** Inflation expectations (both [market](#) and [survey](#) based) remain weak. We expect CPI to average +0.5% yoy in Q1:2021, before picking up further in the course of 2021, to average 1.3% yoy in the year, versus +0.3% yoy, on average, in 2020, also supported by the anticipated recovery for energy prices.
- **Monetary policy is expected to remain ultra-accommodative in 2021.** The [ECB](#) expanded the Pandemic Emergency Purchase Programme (PEPP) by €500bn to a total envelope of €1.85tn (holdings of €780bn as of January 15th), combined with an extension of its duration by nine months to at least up to March 2022. The ECB will enter 2021 with a monthly pace of purchases of circa €100bn (including APP). Overall, the ECB's balance sheet amounts to €7tn from pre-pandemic levels of €4.7tn, while it is set to reach circa €8.4tn (70% of euro area GDP) by March 2022. Policy interest rates are expected to remain close to or below zero at least until 2022.
- **Fiscal policy has provided vital support to the euro area economy.** Discretionary fiscal measures including tax cuts and increased government spending amount to circa 5% of euro area GDP. Further fiscal measures have been employed at the national level since end November and more are expected as the Covid-19 wave evolves, followed by more support via the [Next Generation EU](#) (with a total envelope of 5% of GDP), likely as of H2:2021, suggesting that fiscal policy should turn to a modest thrust in 2021. The [general government debt](#) soared to 102% of GDP in 2020 from 86% in 2019 and will stay elevated in 2021 (103%).
- **Risk sentiment has improved materially** due to expectations of continued accommodative monetary policy and further fiscal stimulus, as well as expectations that a vaccine would reinstate activity more swiftly. Government bond spreads of lower-rated sovereigns and [credit spreads](#) have narrowed to pre-pandemic levels. Euro area equity markets have regained a large portion of their pandemic-related losses, albeit remain circa 5%-10% below their pre-pandemic levels.

The economic recovery took a step back in Q4 according to our composite monthly indicator...



NATIONAL BANK OF GREECE

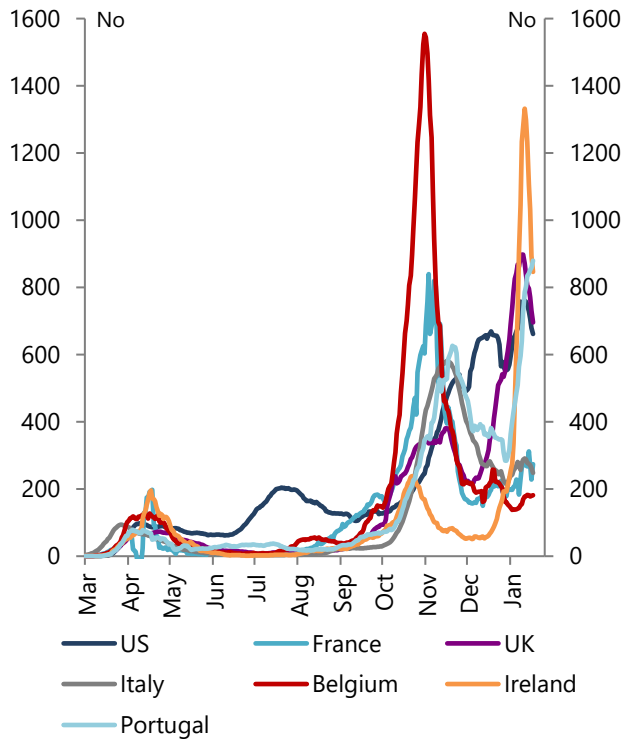
Economic Activity & Selected Monthly Indicators



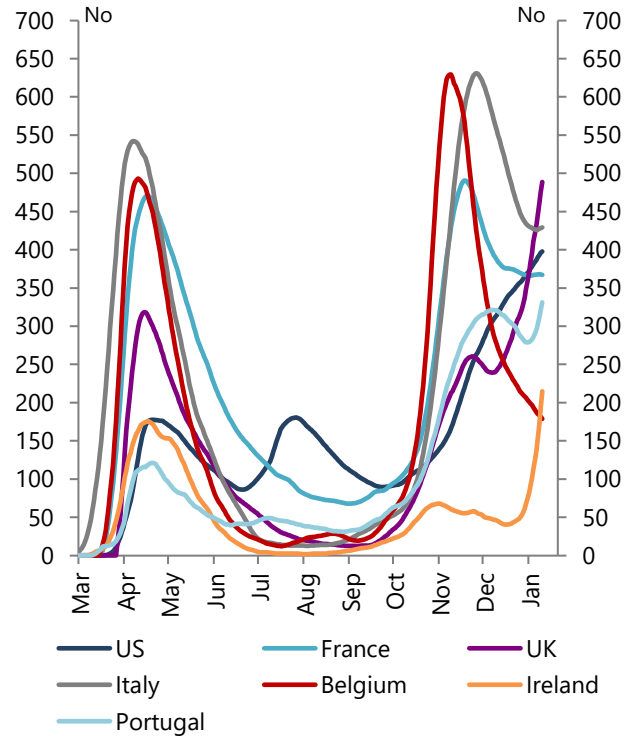
Sources: NBG Research Estimates, European Commission, Eurostat

...as epidemiological data deteriorated sharply...

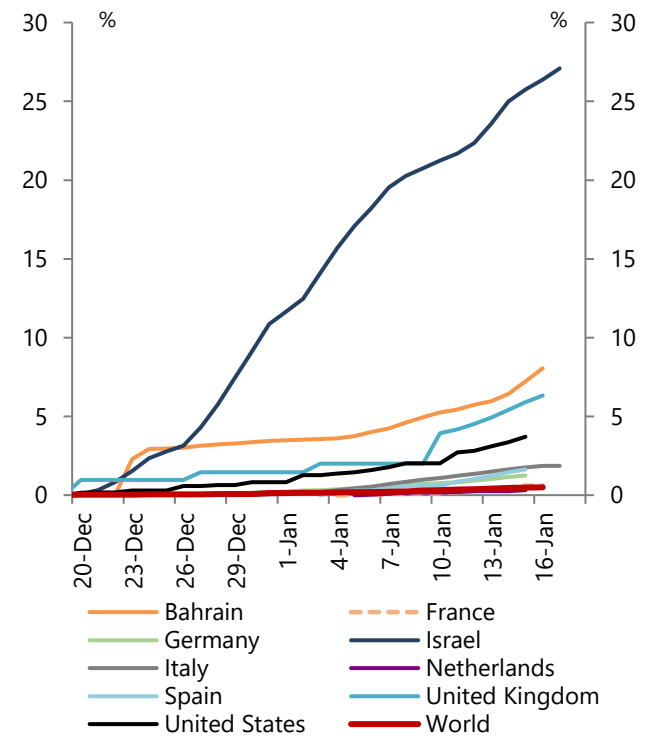
COVID-19 Daily Cases per million (7-day moving average)



COVID-19 Hospitalizations per million (7-day moving average)



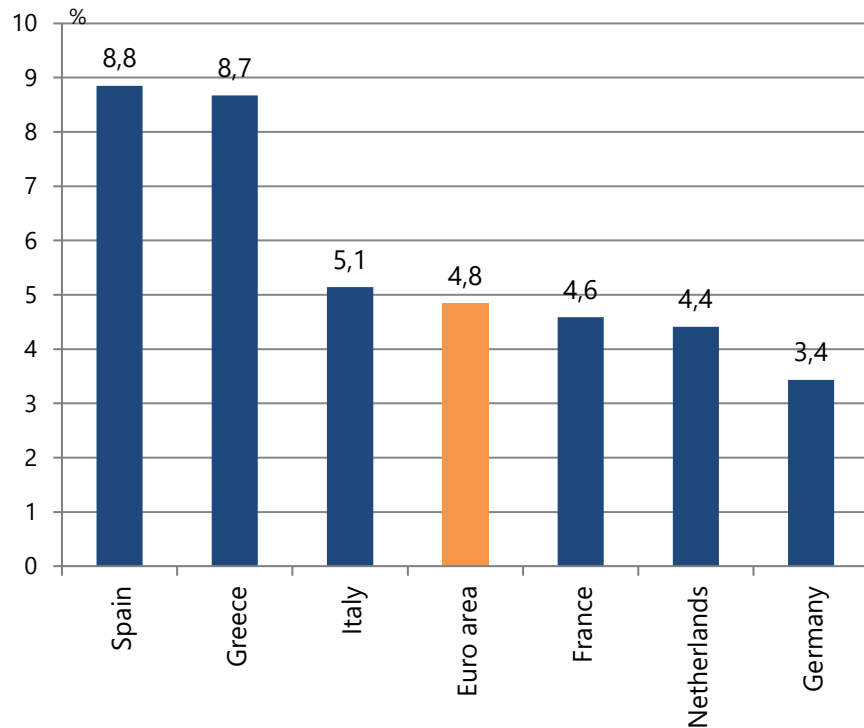
Cumulative COVID-19 vaccination doses administered per 100 people



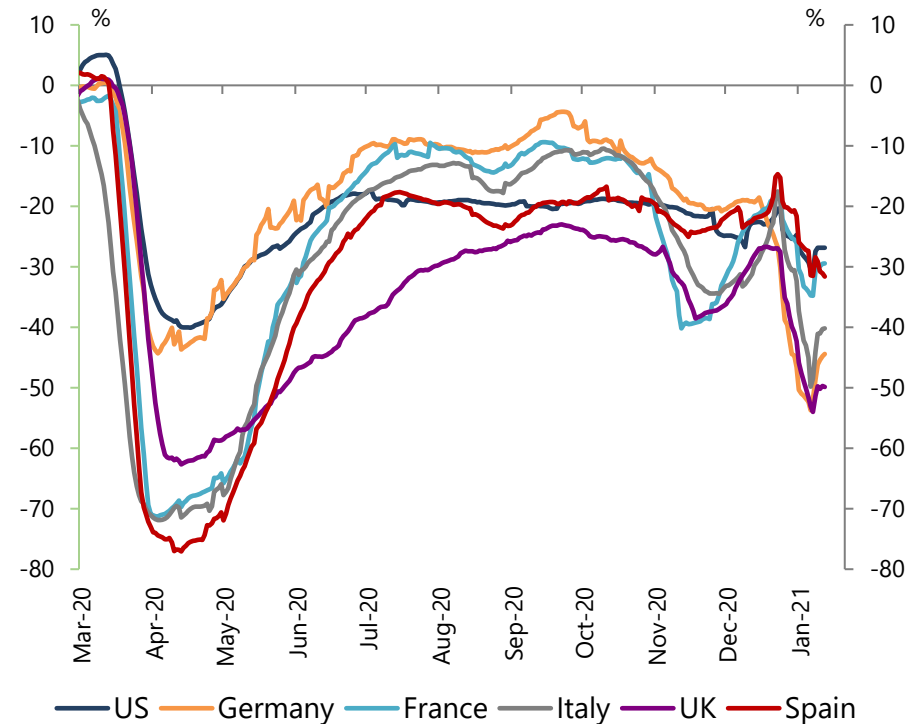
Sources: NBG Research Estimates, European Centre for Disease Prevention and Control, The COVID Tracking Project (a volunteer organization launched from The Atlantic), Our World in Data

...and the subsequent measures to stem its spread weigh, especially on the parts of the economy in which the activity entails wide interaction of people

GDP (in Gross Value Added Terms) Weight of Sectors Most Directly & Heavily Weighed by Pandemic-Related Restrictions*



Mobility Trackers based on Google's report* (relative to pre-pandemic levels)



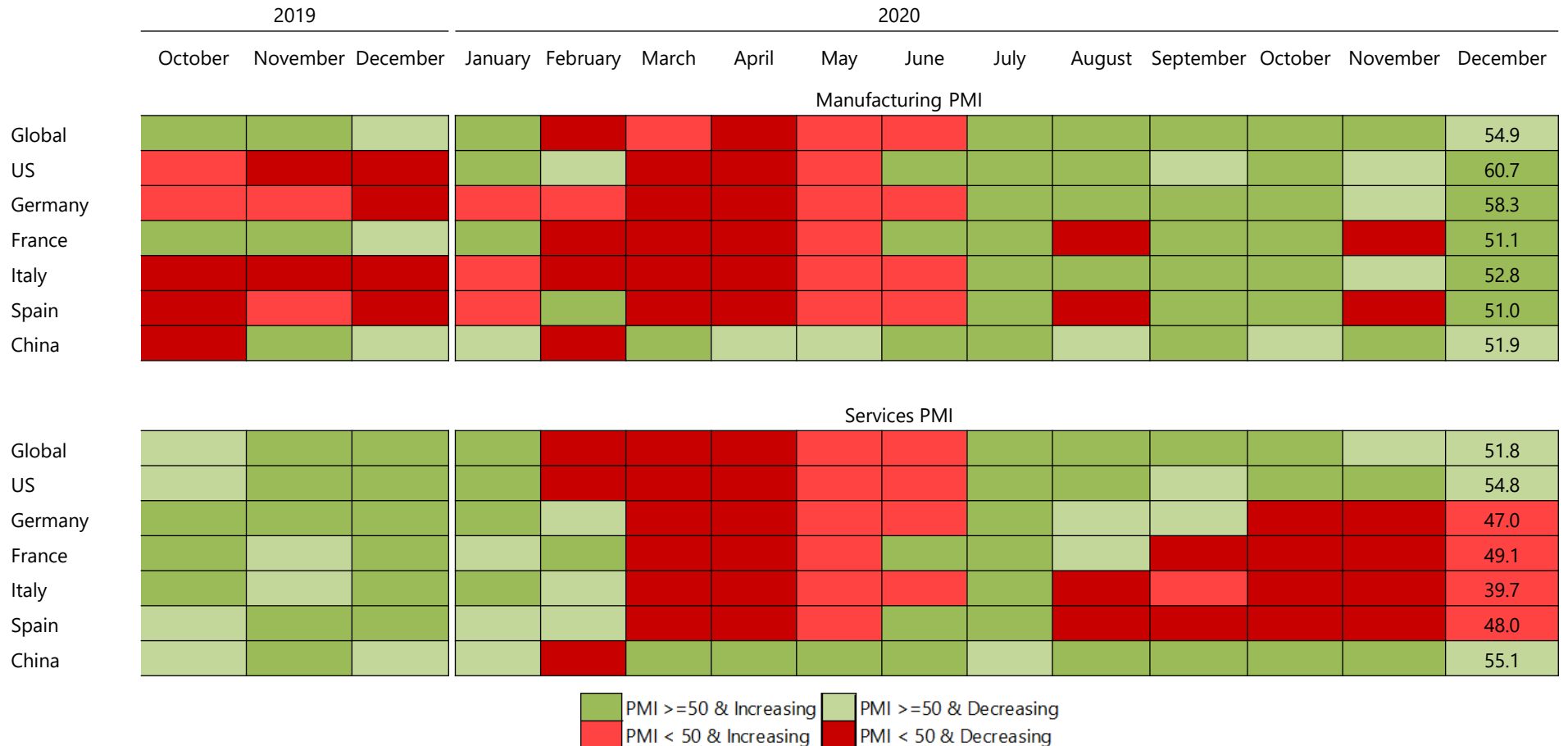
*: i) Air Transport; ii) Accommodation & Food Service Activities; iii) Travel Agency, Tour Operator and Other Reservation Service & Related Activities; iv) Arts, Entertainment & Recreation (includes Sports Activities)

*: Simple average of the Retail & Recreation, Grocery & Pharmacy, Transit Stations and Workplaces mobility components

PMIs confirm the substantial divergence between the manufacturing and the services sectors, as the latter suffers a disproportionate and more direct impact from the restrictions

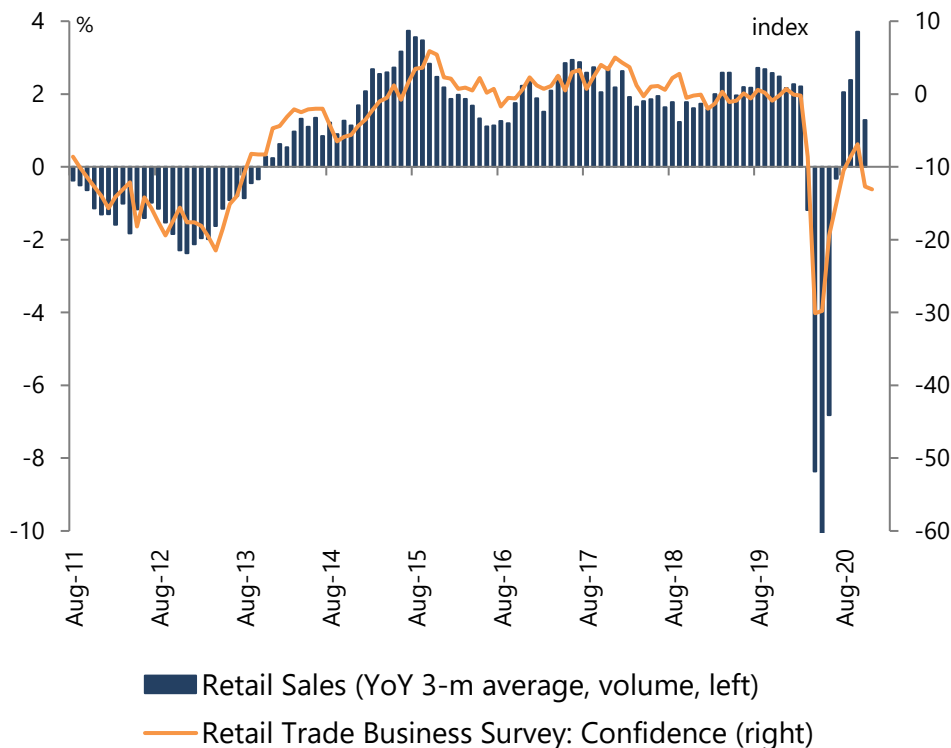


PMI Leading Indicators

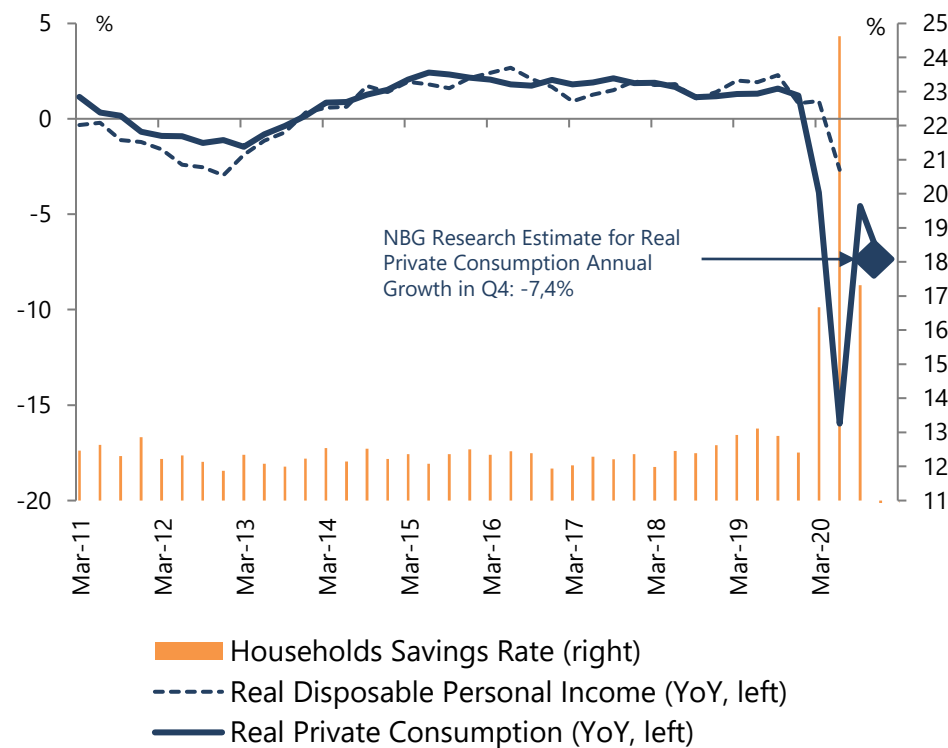


Private consumption rebounded sharply in Q3, albeit looking forward, incomes and households' behavior (e.g. the extent of precautionary savings), are closely linked to pandemic developments

Euro area Retail Sales



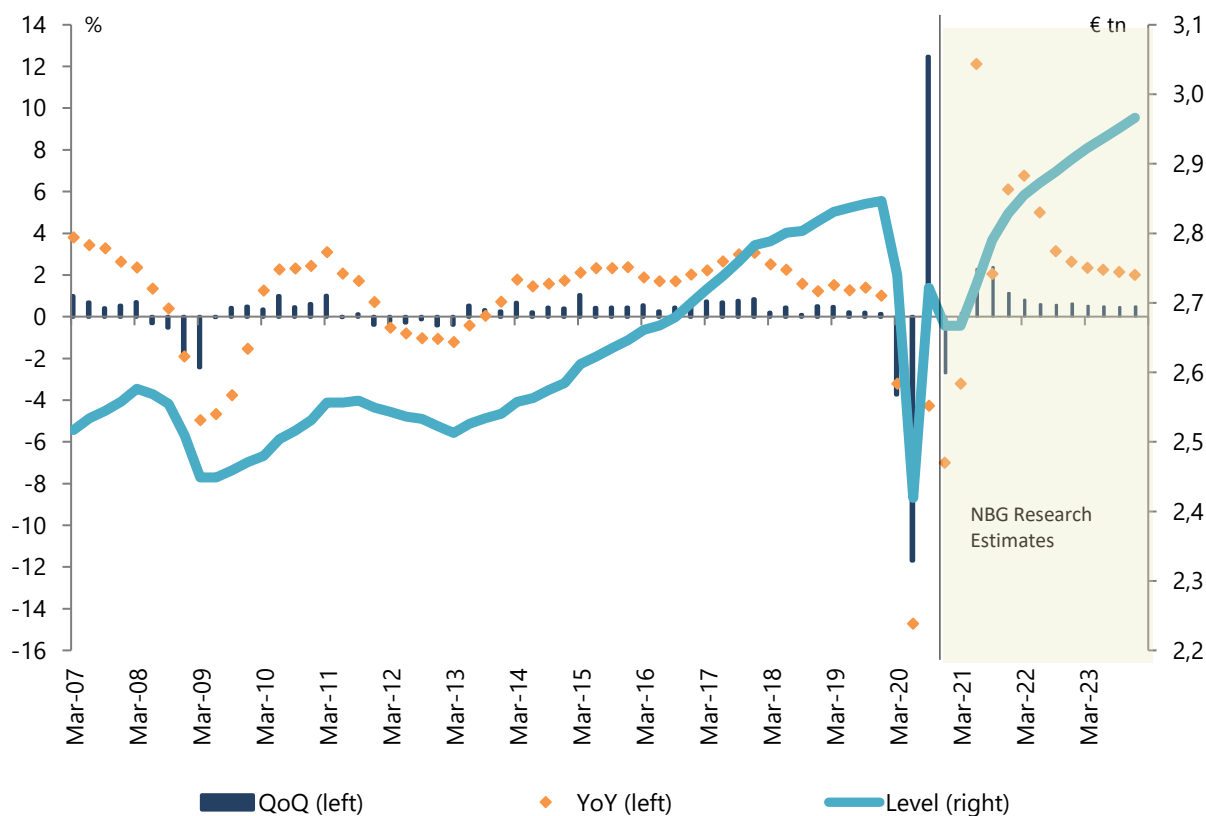
Households' Savings Rate, Income & Consumption



Sources: NBG Research Estimates, Eurostat

Overall, the economic outlook remains dominated by the coronavirus pandemic and the uncertainty over its future path

Euro area Real GDP



Real GDP Year-Over-Year: Expenditures Components

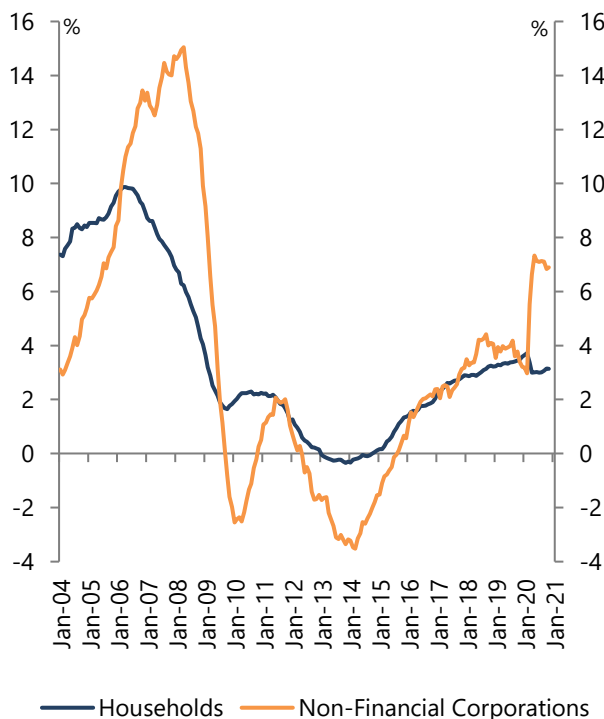
	2019	2020	2021	2022
GDP	1,3	-7,1	4,4	4,6
Private consumption	1,4	-8,0	4,6	5,1
Government consumption	1,9	0,8	2,5	1,3
Gross Fixed Capital Formation	5,7	-9,2	5,5	7,1
Inventories contribution	-0,5	-0,4	-0,2	0,5
Net Exports contribution	-0,5	-0,6	0,4	-0,3
Exports	2,5	-10,6	5,9	5,1
Imports	3,9	-10,2	5,4	6,3

Sources: NBG Research Estimates, Eurostat

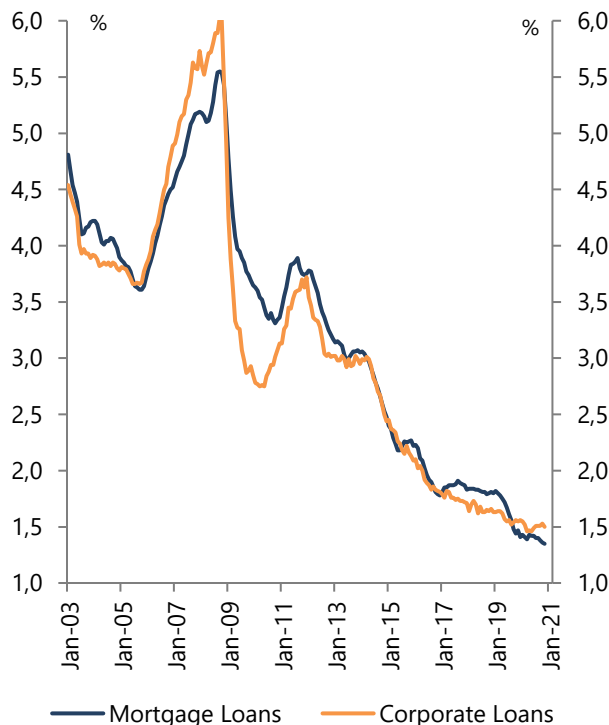
Bank lending remains robust in view of record low interest rates, especially for corporations, albeit the latter was mainly due to emergency liquidity needs and with a broadly flat net flow since September (€-4bn). Strong growth in overnight deposits (Graph 3) continues to reflect high uncertainty of households regarding, *inter alia*, their employment prospects



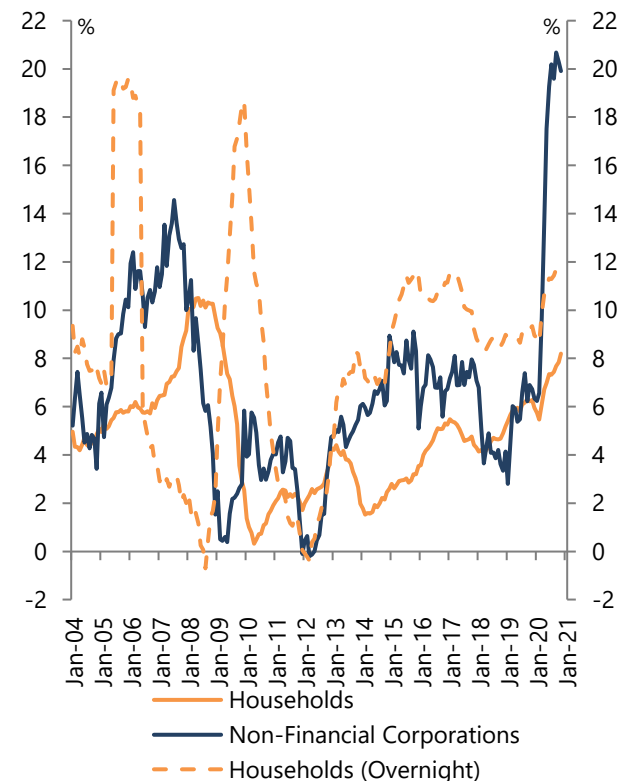
Annual Growth of Bank Lending to...



Composite Cost of Borrowing*



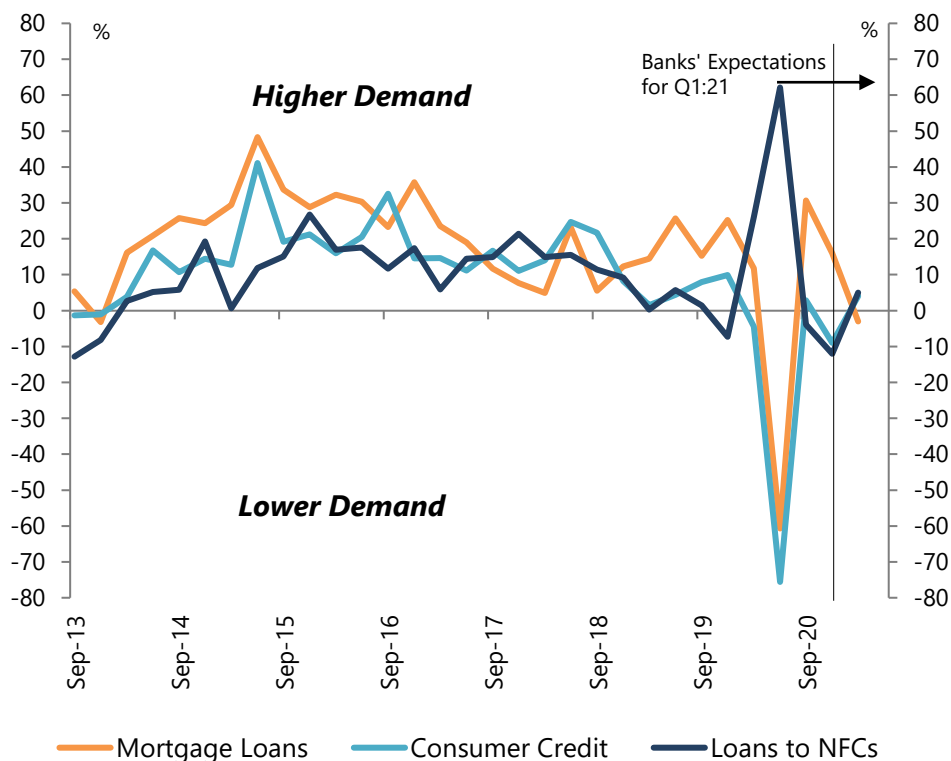
Annual Growth of Deposits of...



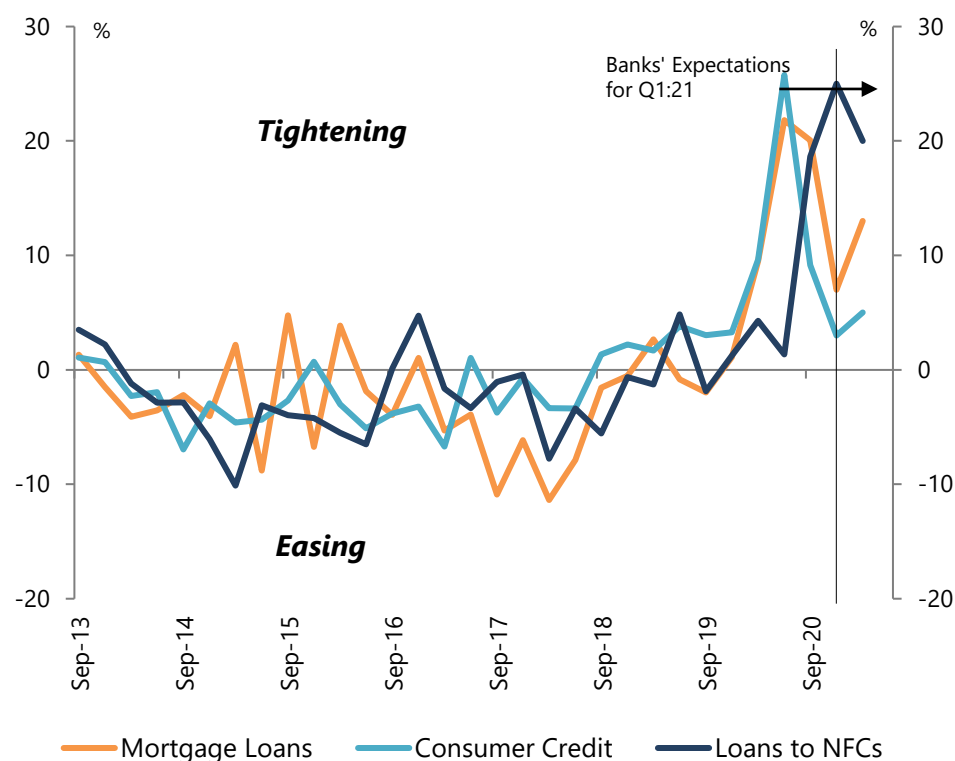
*Average of Monetary Financial Institutions' interest rates on short-term and long-term loans to households for house purchase, weighted by new business volumes (smoothed with a moving average of the previous 24 months' observations). In the case of mortgage loans, "short-term" refers to loans with an initial period of interest rate fixation of up to one year regardless of maturity and "long-term" refers to loans with an initial period of interest rate fixation over one year. In the case of corporate loans, note that revolving loans, overdrafts and extended credit card credit, are incorporated.

Moreover, according to the ECB's quarterly Bank Lending Survey, respondents appear increasingly reluctant to extend new credit for corporates (Graph 2), in view of a more unfavorable perception of risks

ECB Bank Lending Survey: Net Percent of Banks Respondents Reporting Higher/Lower Loan Demand for...



ECB Bank Lending Survey: Net Percent of Bank Reporting Tightening/Easing of Credit Standards for...

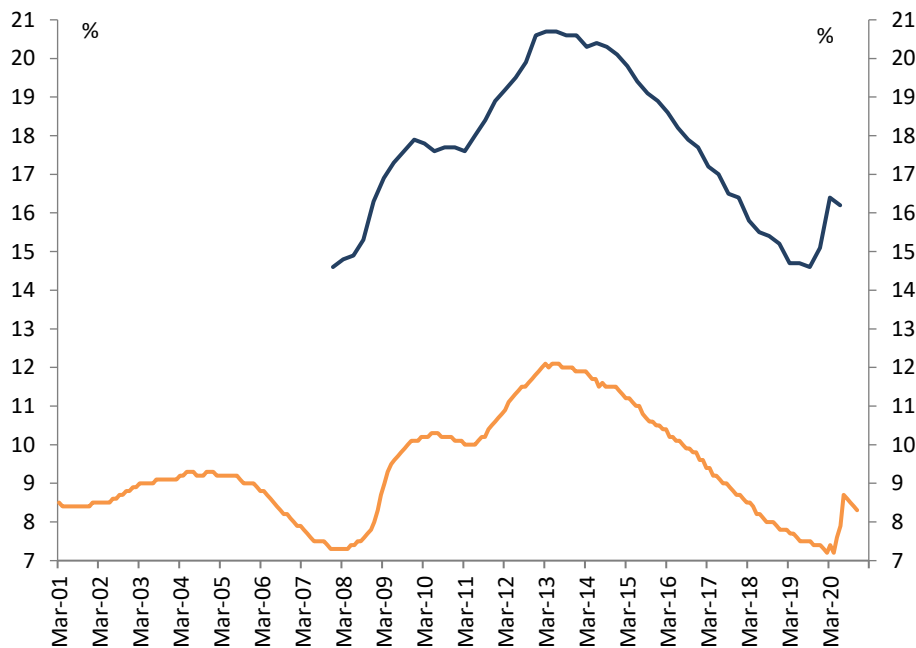


Sources: NBG Research Estimates, ECB

The unemployment rate avoided a sharp rise during the 1st pandemic wave, due to government support and other special schemes (e.g. short-time work), albeit the headline underestimates the increase in slack

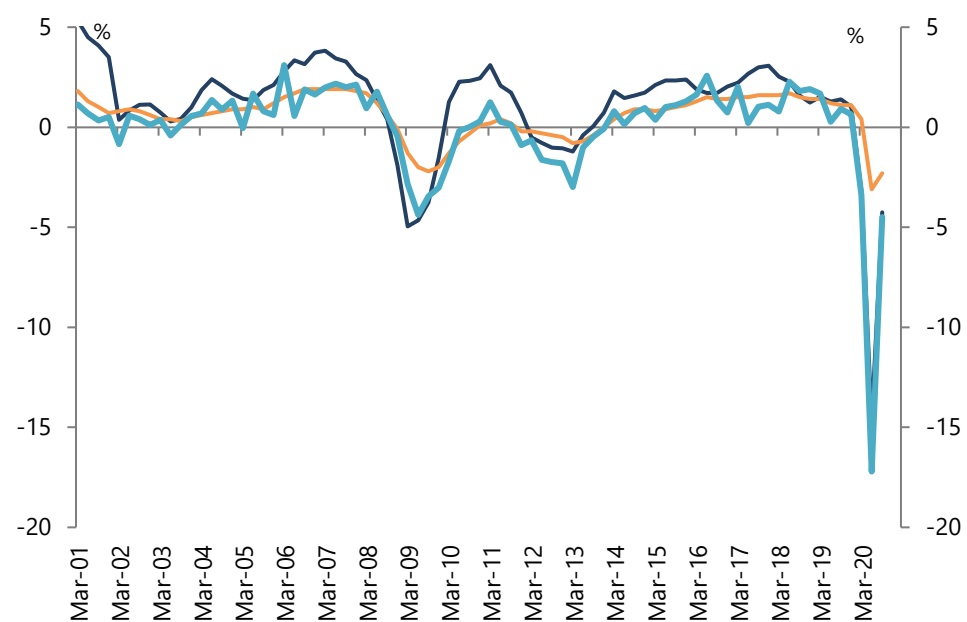


Unemployment Rate and Eurostat's Metric for Labor Market Slack*



— Labour Market Slack* (left) — Unemployment Rate (right)

Annual Growth of GDP, Employment & Total Hours Worked



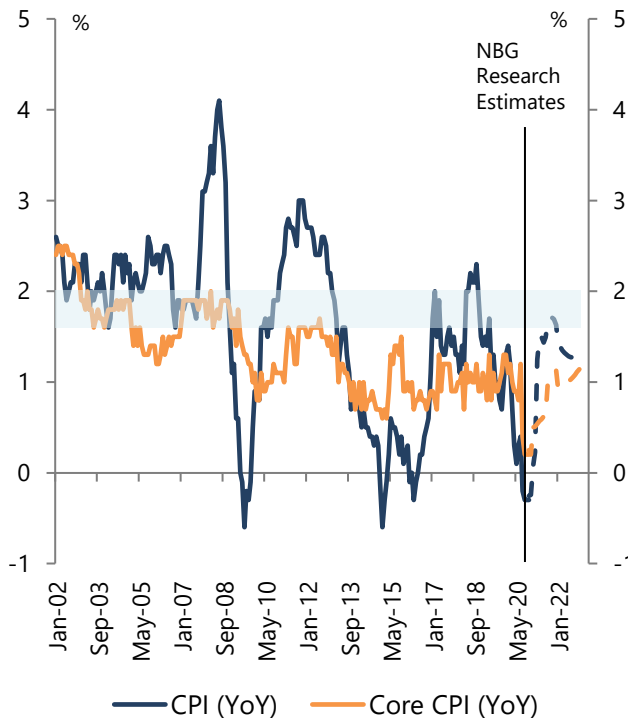
— Real GDP YoY — Employment YoY — Total Hours Worked YoY

*The groups constituting the labor market slack are the unemployed, the underemployed part-time workers (those part-time workers who wish to work more) and, people who might be associated to the labor force but who are not recorded as such because they do not fulfill one of the three ILO requirements of: i) availability to work; ii) work search and; iii) being not employed. The denominator, i.e. the labor force, is adjusted accordingly

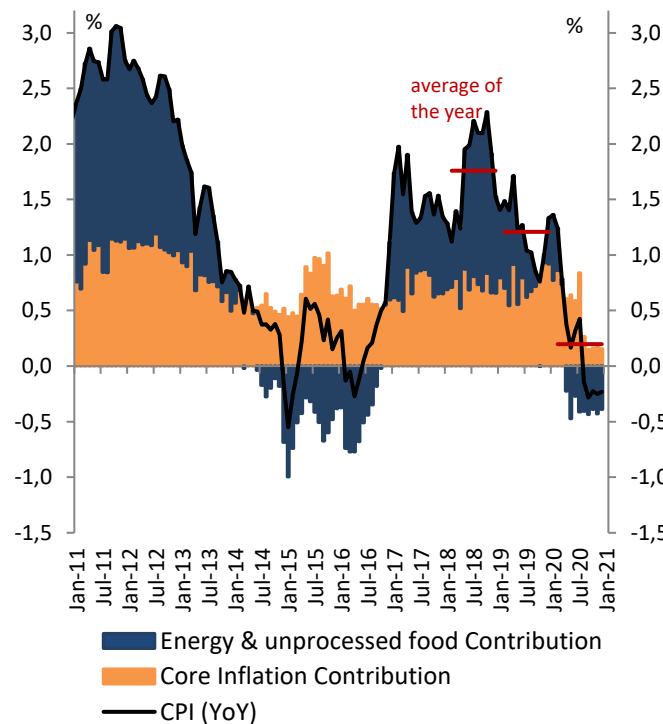
Headline inflation entered negative territory and medium term inflation expectations remain muted, with ECB's target ("close, but below 2%") out of sight in the next years



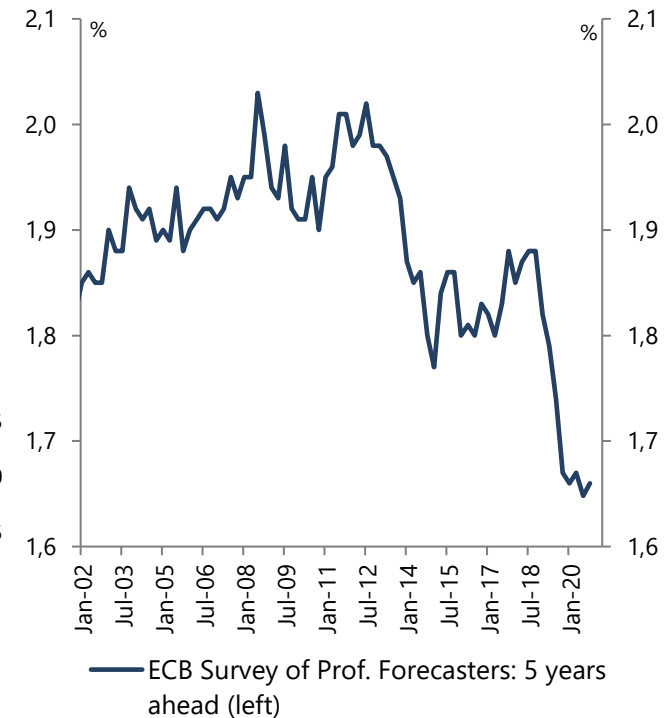
Inflation



Inflation breakdown

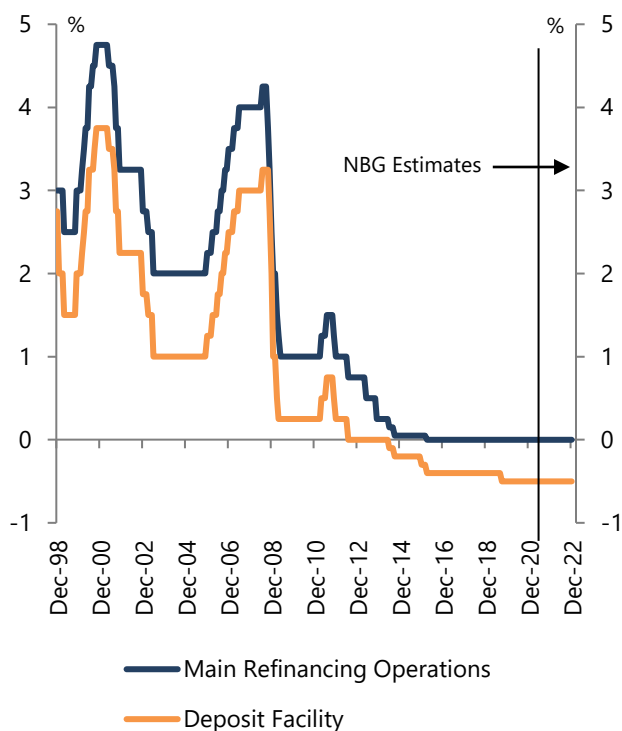


Inflation Expectations

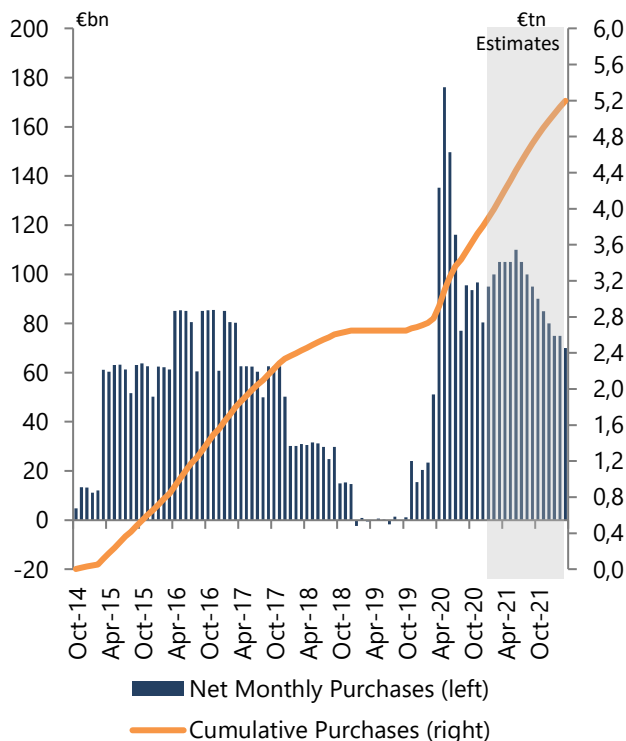


As a result, the ultra-accommodative monetary policy by the ECB, will remain in place in the foreseeable future

ECB Policy Rates



ECB QE Purchases (APP plus PEPP)



ECB QE Purchases (APP plus PEPP) in 2020 per country (in € bn)

	PSPP	PEPP	Total
Germany	€ 52	€ 161	€ 213
France	€ 63	€ 112	€ 175
Italy	€ 47	€ 118	€ 166
Spain	€ 34	€ 77	€ 111
Netherlands	€ 4	€ 36	€ 40
Belgium	€ 12	€ 22	€ 34
Austria	€ 9	€ 18	€ 26
Portugal	€ 5	€ 15	€ 20
Greece	€ 0	€ 16	€ 16
Ireland	€ 5	€ 10	€ 15
Finland	€ 2	€ 11	€ 13
EA Total	€ 265	€ 700	€ 965
EA Total (end-December)	€ 265	€ 757	€ 1,022

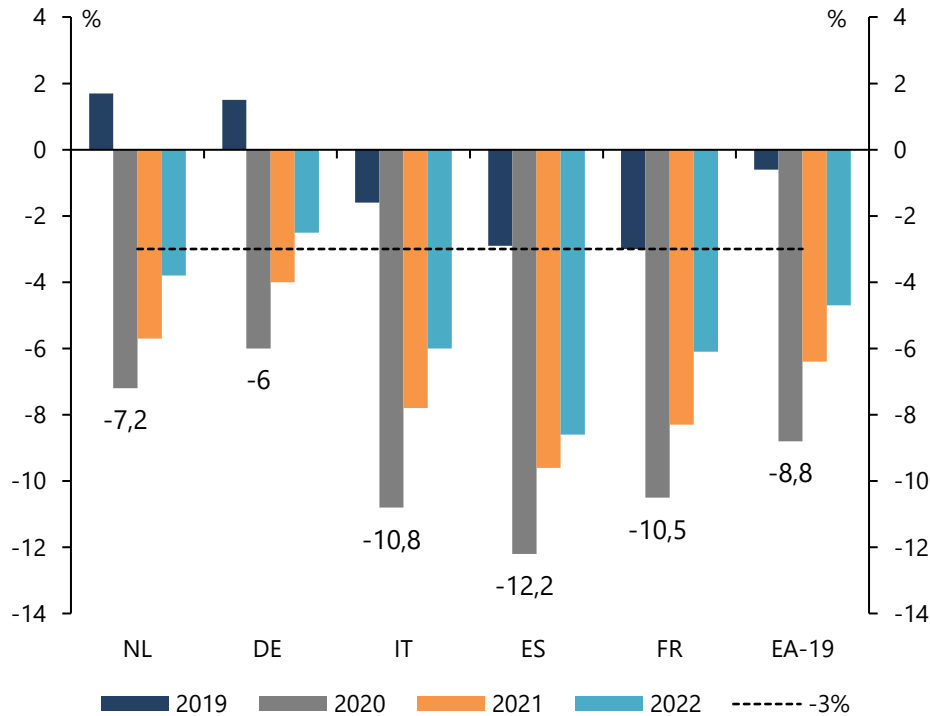
PSPP: Public Sector Purchase Programme, data per country as of end-December

PEPP: Pandemic Emergency Purchase Programme, data per country as of end-November

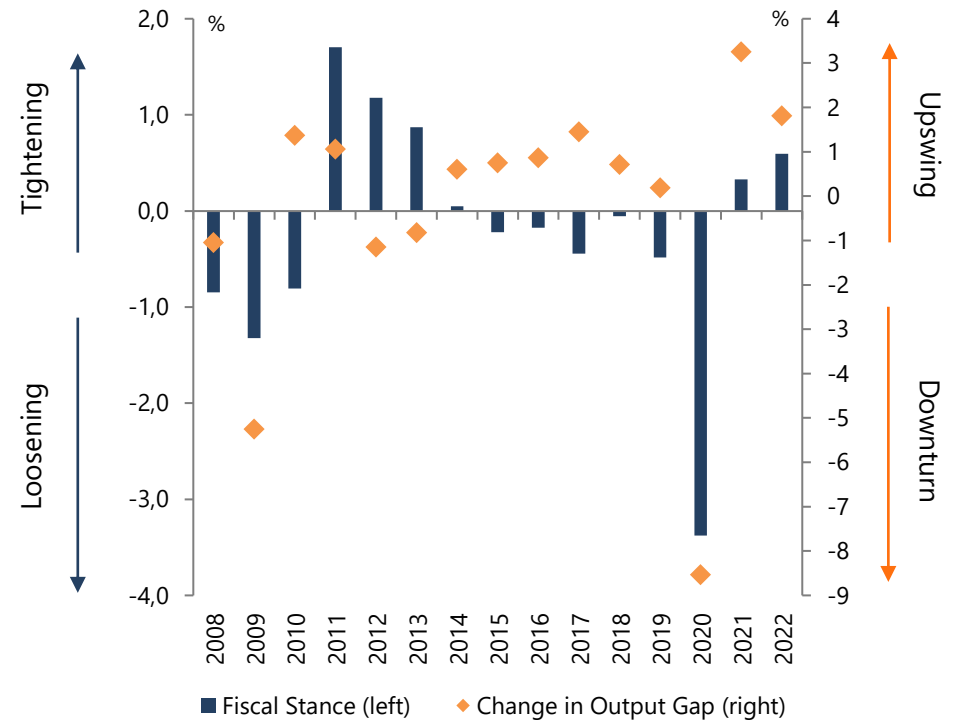
The fiscal stance in 2020 eased sharply in response to the pandemic, providing a major cushion for economic activity...



Budget Balance as % of GDP in Euro area Countries



Euro area fiscal stance and change in output gap

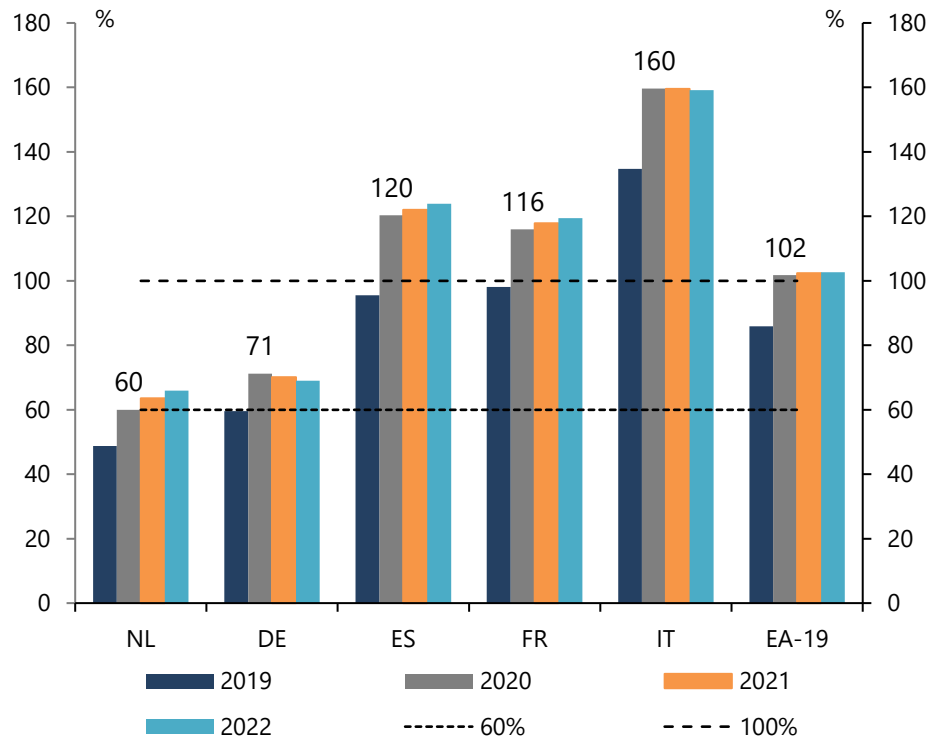


The fiscal stance is approximated by a change in the ratio to (potential) GDP of the Primary Balance

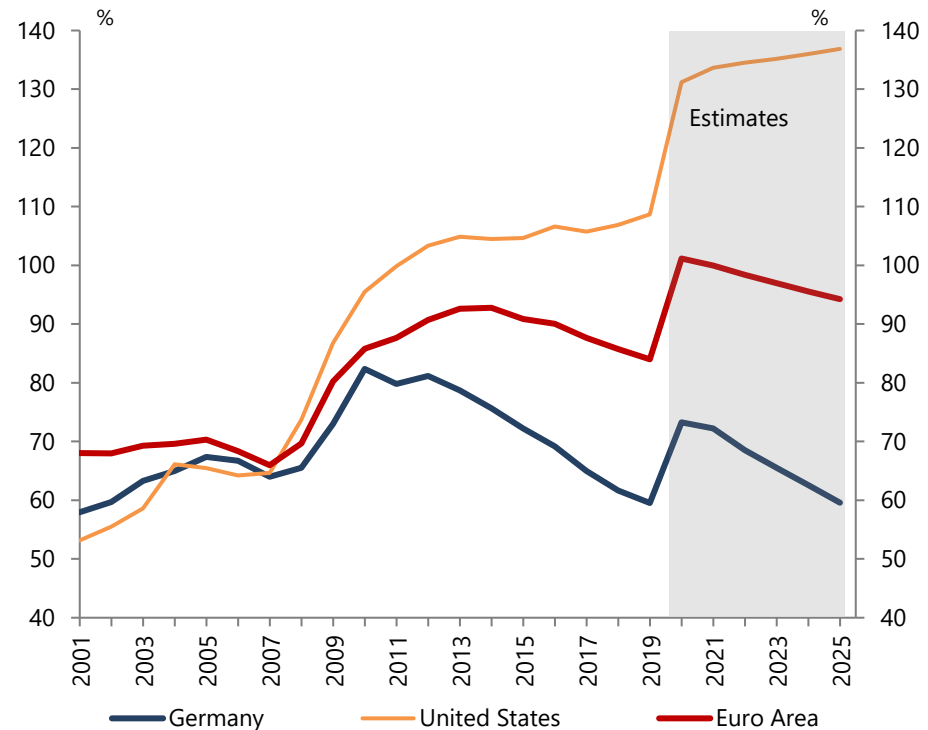
Sources: NBG Research Estimates, European Commission Ameco database (Autumn 2020 Economic Forecast)

...albeit with the side effect of a significant increase in debt burdens, with the aggregate euro area public debt to GDP ratio at circa 100% in 2020. Nevertheless, public debt servicing costs remain contained

Developments of General Government Debt as % of GDP



General Government Debt as % of GDP (IMF Estimates)



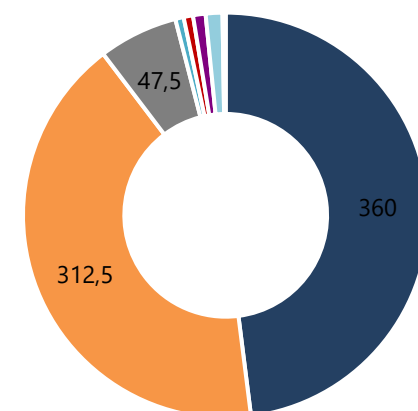
Sources: NBG Research Estimates, European Commission Ameco database (Autumn 2020 Economic Forecast), IMF (October 2020 World Economic Outlook)

The NGEU, and specifically its central pillar (Recovery and Resilience Facility) is expected to start being implemented in 2021, providing significant support to individual economies

Recovery and Resilience Facility – Distribution of Grants

	70% allocation	30% allocation	Total	as % of the Total	as % of 2019 GDP
Croatia	4.3	1.6	6.0	1.9	11.0
Bulgaria	4.3	1.7	6.0	1.9	9.8
Greece	12.6	3.6	16.2	5.2	8.9
Slovakia	4.3	1.5	5.8	1.9	6.2
Romania	9.5	4.3	13.8	4.4	6.2
Portugal	9.1	4.1	13.2	4.2	6.2
Latvia	1.5	0.3	1.9	0.6	6.1
Lithuania	2.0	0.5	2.4	0.8	5.0
Spain	43.5	15.7	59.2	18.9	4.8
Cyprus	0.8	0.2	1.0	0.3	4.3
Poland	18.9	4.1	23.1	7.4	4.3
Hungary	4.3	1.9	6.3	2.0	4.3
Italy	44.7	20.7	65.5	20.9	3.7
Estonia	0.7	0.3	1.0	0.3	3.6
Slovenia	1.2	0.4	1.6	0.5	3.2
Czechia	3.3	3.4	6.7	2.2	3.0
France	22.7	14.7	37.4	12.0	1.5
Malta	0.2	0.0	0.2	0.1	1.5
Belgium	3.4	1.7	5.1	1.6	1.1
Finland	1.6	0.8	2.3	0.7	1.0
Sweden	2.7	1.0	3.7	1.2	0.8
Austria	2.1	0.9	3.0	1.0	0.8
Netherlands	3.7	1.9	5.6	1.8	0.7
Germany	15.2	7.5	22.7	7.3	0.7
Denmark	1.2	0.3	1.6	0.5	0.5
Ireland	0.9	0.4	1.3	0.4	0.4
Luxembourg	0.1	0.0	0.1	0.0	0.1
EU 27	218.8	93.7	312.5	100.0	2.2
EA	170.1	75.4	245.5	78.5	2.1
non EA	48.7	18.4	67.0	21.5	3.3

Next Generation EU: €750 bn breakdown

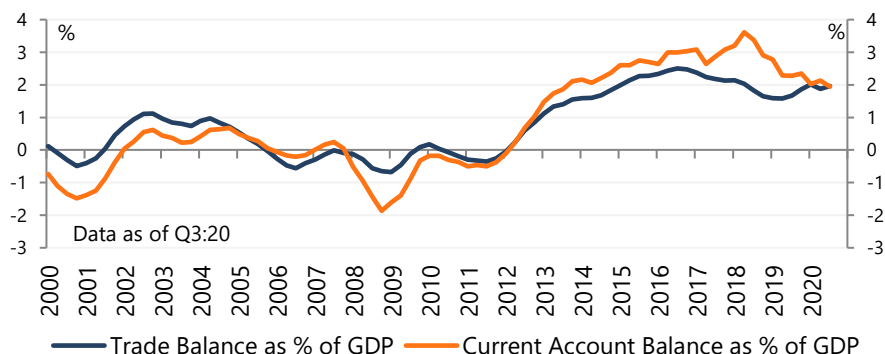


- RRF loans, €360 bn
- RRF grants, €312.5 bn
- ReactEU, €47.5 bn
- Horizon Europe, €5 bn
- InvestEU, €5.6 bn
- Rural Development, €7.5 bn
- Just Transition Funds (JTF), €10 bn
- RescEU, €1.9 bn

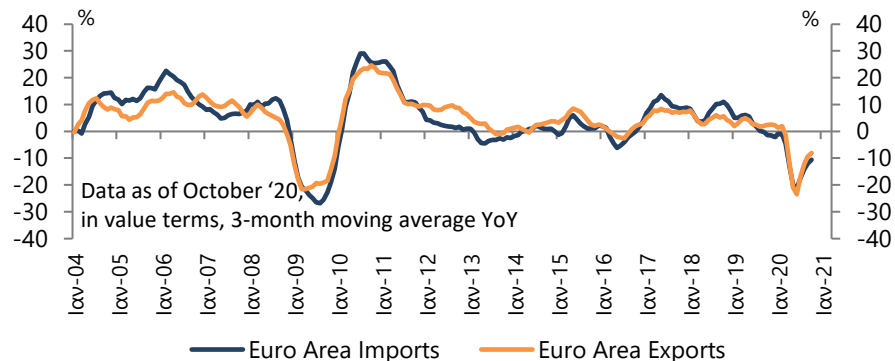
Sources: NBG Research Estimates, European Commission, Note: 70% of grants of RFF are expected to be committed in 2021-22, while 30% of grants in 2023, Figures are expressed in 2018 prices

The euro area current account has moderated lately, due to lower services and investment income, whereas the trade balance continues to be strong at 2% of GDP

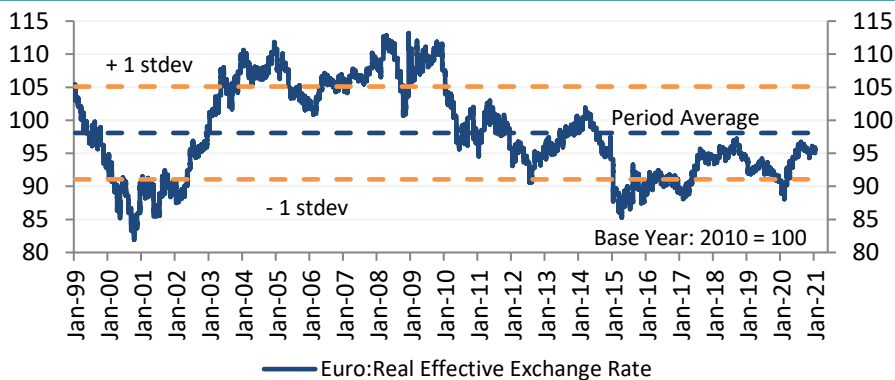
Trade Balance and Current Account Balance as % GDP



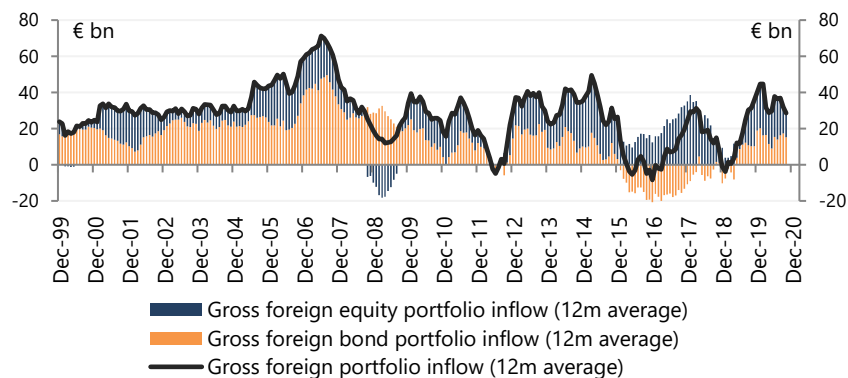
Euro Area Imports & Exports



Euro REER



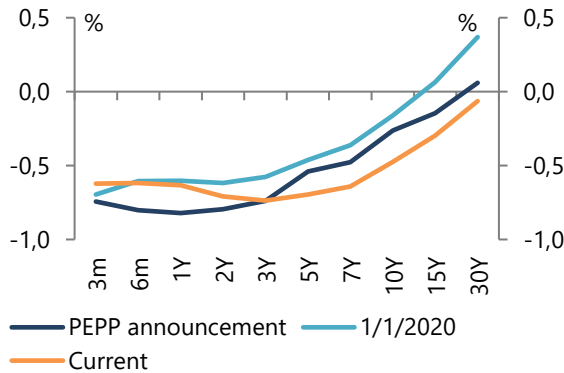
Gross foreign portfolio inflows (12-month average)



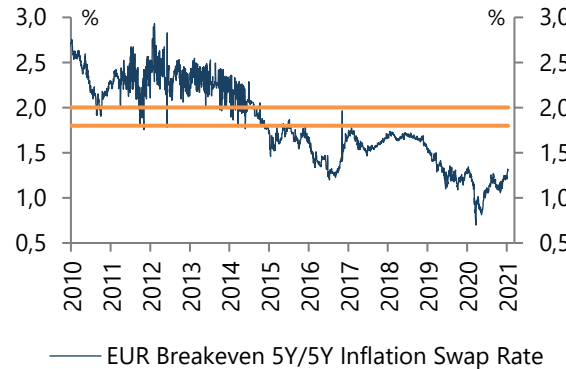
Monetary and fiscal policy measures eased financial conditions and stabilized financial markets: Long-term sovereign bond yields declined significantly



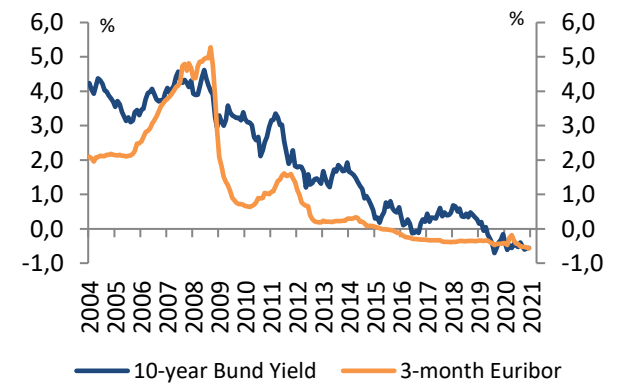
German Bund Yield Curve



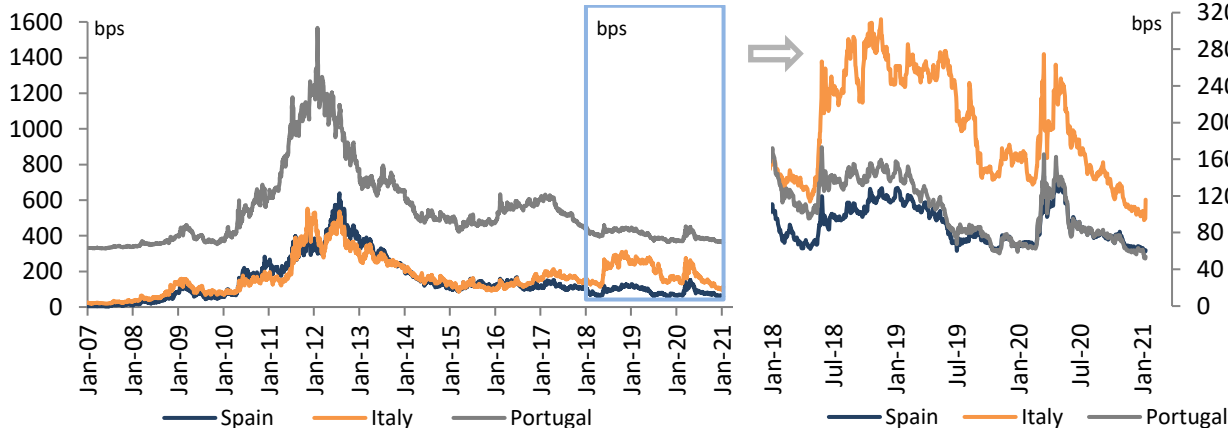
EUR Breakeven 5Y/5Y Inflation Swap Rate



10-year Bund Yield vs 3-month Euribor



10-year Government Bond Yield Spreads over Bund



Sovereign Debt Ratings

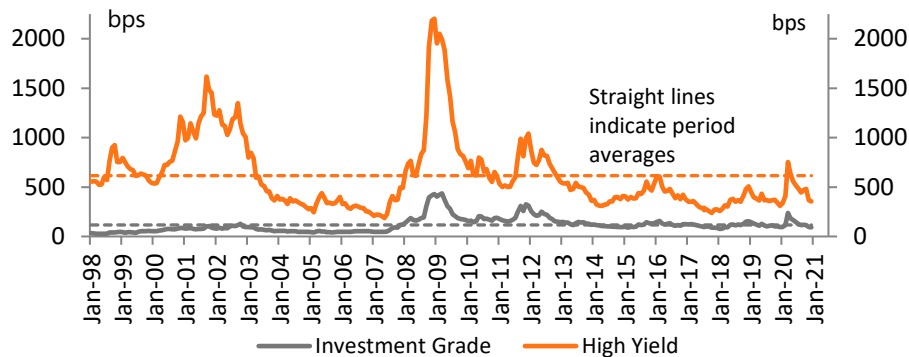
	Moody's	S&P	Fitch
Germany	Aaa s	AAA s	AAA s
France	Aa2 s	AA s	AA n
Italy	Baa3 s	BBB s	BBB- s
Spain	Baa1 s	A n	A- s
Portugal	Baa3 p	BBB s	BBB s

Source: Ratings Agencies, Bloomberg (as of 13.01.2021)
Outlook: p = positive, n = negative, s = stable

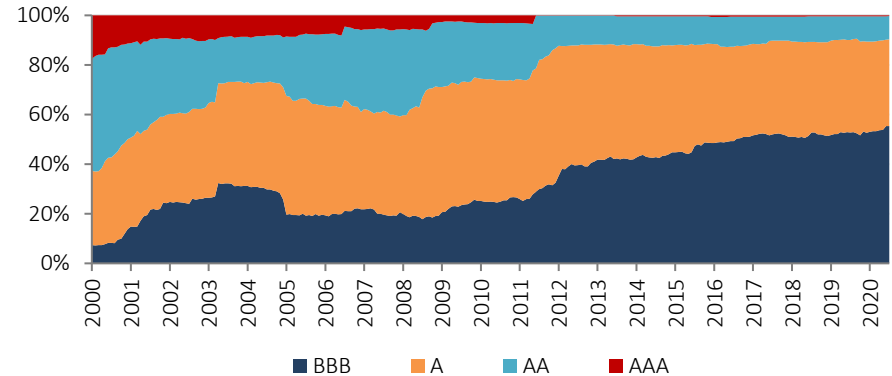
Monetary and fiscal policy measures eased financial conditions and stabilized financial markets: Corporate bond spreads have narrowed to almost pre-pandemic levels



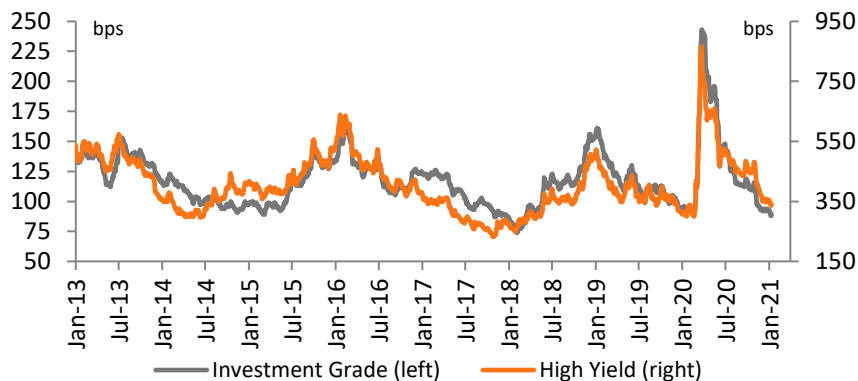
Corporate Bond Spreads



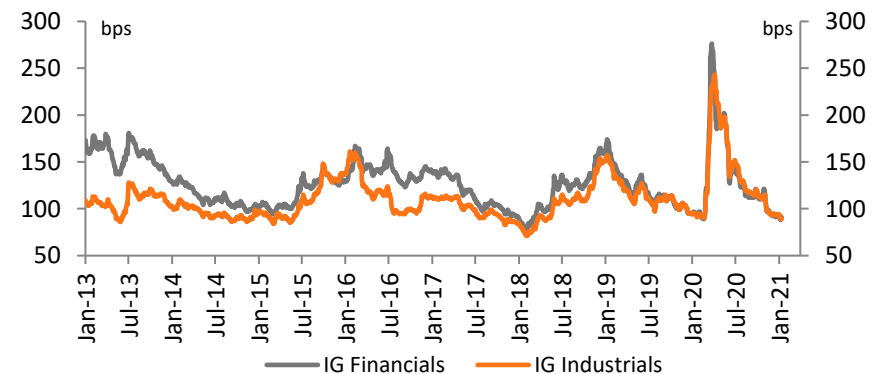
Share of Market Value in BBG/Barclays EUR IG Corporate Bond Index



EUR IG vs EUR HY Corporate Bond Spreads



Financials vs Industrials Corporate Bond Spreads

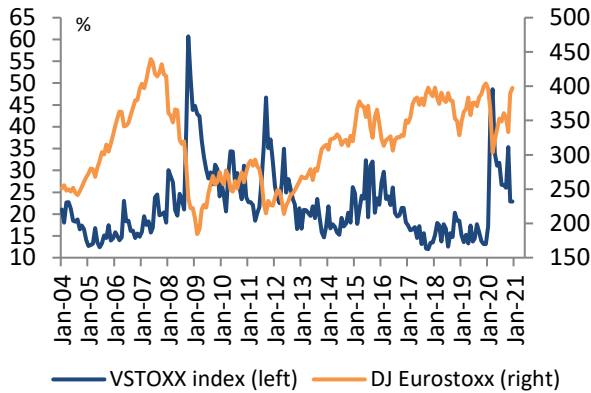


Sources: NBG Research Estimates, Bank of America / Merrill Lynch Euro Corporate Bond Index (IG), Euro High Yield Index (HY)

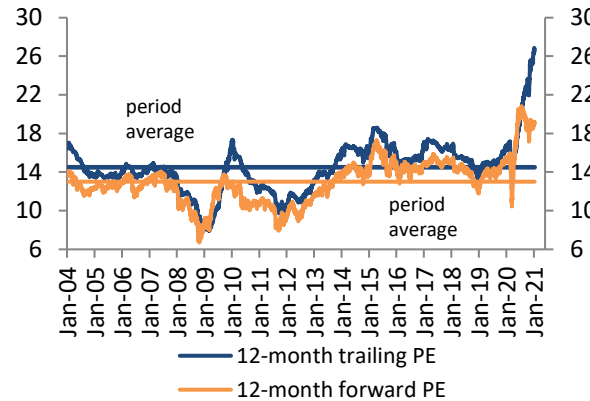
Monetary and fiscal policy measures eased financial conditions and stabilized financial markets: Equity market valuations have increased rapidly while volatility remains elevated



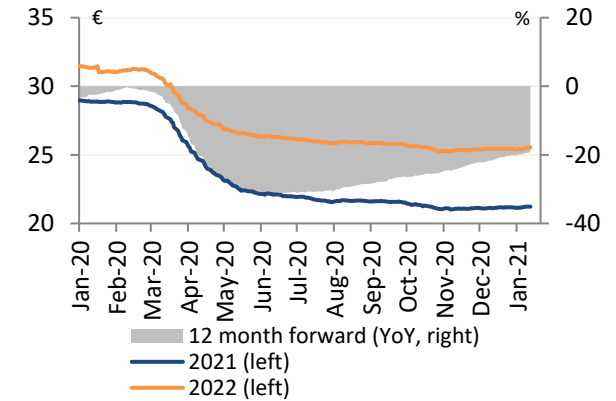
VSTOXX vs EuroStoxx



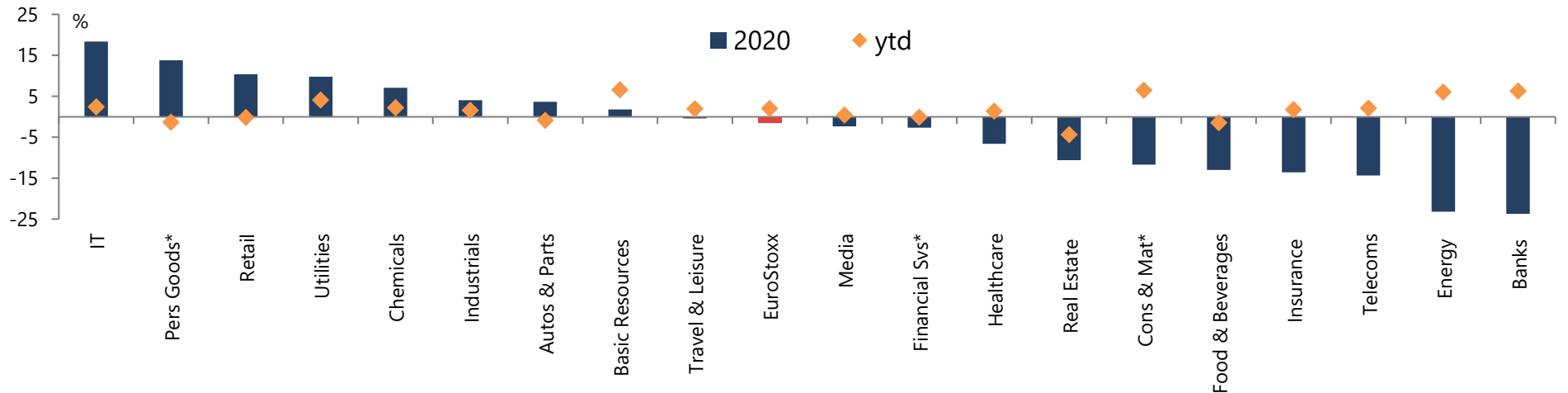
Eurostoxx: Price-to-earnings Ratios



Eurostoxx: EPS Estimates



EuroStoxx Sectors' Performance



Sources: NBG Research Estimates, *Note: Personal & Household Goods, Financial Services, Constructions & Materials



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