Global - Macroeconomic Review 4rd Quarter of 2020

Review:

The COVID-19 recession is unique in many respects. The recession this year is likely to be the deepest one in advanced Economies since the end of World War II, and the first output contraction in EMDEs in at least the past six decades. Importantly, it is also expected to trigger per capita GDP contractions in the largest share of economies since 1870.

Basic Trends:

The transparency of all government financial commitments, debt-like instruments and investments is a key step in creating an attractive investment climate and could make substantial progress this year. Faster advances in digital connectivity are also necessary and should get a vital boost from the pandemic, which heightened the value of teleworking capabilities, digital information, and broad connectivity. Digital financial services are playing a transformative role in allowing new entrants into the economy and making it easier for governments to provide rapidly expandable, needs-based cash transfers. Economic disruptions are likely to be more severe and protracted in those countries with larger domestic outbreaks, greater exposure to international spillovers (particularly through exposure to global commodity and financial markets, global value chains, and tourism).

Global Economy

GDP

The baseline forecast envisions a *>5.2 percent contraction* in global GDP in the last months of 2020. Despite unprecedented macroeconomic policy support, the share of countries experiencing **annual contractions in per capita GDP** will reach its **highest level since 1870**.

R (Interest Rates)

Interest rates remain **close to zero** after two emergency rate cuts injected money into the system to try to spur economic activity. However, when interest rates are abnormally low, **banks don't have a high deposit base and the income from loans doesn't encourage taking risks**, so they only loan to borrowers with *the highest credit ratings* and *substantial assets to collateralize* those loans.

Inflation

Low interest rates encourage loans, and loans add new money to the money supply trying to spur economic activity. This created a large money supply and a **Liquidity trap** .The risk of recovery from a **Liquidity trap** is **inflation** if the Fed and ECB doesn't remove enough money from the system as money comes out of assets and enters circulation in the business and consumer economy.

Consumption

After the lockdown period and the lift of some consumer restrictions, private spending are increasing rapidly, particularly on durable goods, increasing both total consumption and tax revenues. However, private spending on sectors such as services, tourism and travel will remain depressed into the medium term.

Commodities & Metals

Oil demand is expected to fall by **8.6 percent (8.6%)** in the end of **2020**. Global oil production is also starting to fall, although at a slower pace than demand. Demand for metals has also fallen. Prices are anticipated to decline 16 percent in 2020 before showing a modest increase in 2021.

Greek Economy (Expecting a possible effective capital management in the economy …)

GDP

Greece GDP **falling at the sharpest rate since 2011** this year as the pandemic takes its toll. A collapse in foreign visitors will pummel the all-important tourism sector and fuel a sharp deterioration in the labor market. Risks to the outlook stem from another wave of Covid-19 infections or a deterioration in market conditions given the country's sky-high public debt load. GDP contracting 8.3% in 2020, which is down 0.2 percentage points from last month's forecast, and growing 5.7% in 2021. The general government deficit is forecast to reach **1%-3% of GDP** in 2020 and to decrease to about 2% in 2021 based on a no-policy-change assumption.

Public Debt

Public debt is expected to increase to around ***196%*** of GDP in the end of 2020 before declining to around ***183%*** in 2021, supported by the economic recovery. Moreover, Greek 10-year bond yield fell to a record low in August amid large purchases of the country's debt by the ECB, as part of its pandemic bond-buying program to help lower the country's borrowing costs.

Consumption

Private consumption **marking the steepest decline since 2011**. Household consumption dived 11.6% on an annual basis after Lockdown Period. Moreover, forecast further decline the next months after additional containment measures in line with our expectations.

Employment

The pandemic's impact on the country's tourism industry and the small and medium enterprises—the backbone of the Greek economy—is bound to further **increase the unemployment rate** the end of 2020.

Investments

Business transactions has been decreased significantly the previous quarter after the impact of Covid-19 but **there are still investors interested** mainly in the ***Agricultural*** sector, ***Energy*** sector and ***Greek Hospitality*** despite these challenging times.

Taxation

A six-month extension of the reduced VAT rate on *transport*, *coffee*, *non-alcoholic beverages*, *cinemas* and *tourist services* ***until 30 April 2021*** about businesses that can demonstrate severe economic effects of the COVID-19 pandemic. Taxpayers who pay according the original deadline may be entitled to a **25% reduction.**

Loans

Despite the positive measures taken by the government and banks, an inflow of **new NPLs (Non-Perfoming loans) is expected**, **especially from early-2021**. The volume of this **new generation of NPLs** will depend on the magnitude of the **recession** and **the rise in unemployment** this year, as well as on the subsequent recovery.

On behalf of,

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