How the economy may fare in the maelstrom

ANALYSIS

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Following successive shocks over the past few years, the world economy is being tested once more by the escalating conflict between the United States and Israel on one side and Iran on the other, as it threatens to disrupt international oil and natural gas supplies and potentially trigger widespread impacts. Although it is far too early to speak of an economic crisis, an energy shock is already on the horizon, bringing with it the risk of stagflationary effects.

Kathimerini reached out to several economists and analysts, who agree that the conflict in the Middle East will definitely have consequences for Greece and Europe, mainly through its impact on energy supplies and the price hikes stemming from those, given that Europe's dependence on energy imports makes it more vulnerable as a whole compared to other regions. Greece, for its part, relies entirely on imports, and the recent energy crisis provided ample proof of how exposed it is to external energy and supply disruptions.

The scale of the economic impacts will be determined by the intensity, geographical expansion and – most importantly – duration of the war. Many similar conflicts in the past have de-escalated just as fast as they escalated in their initial phase. If this one lasts for around a month, the economic impact on Greece will likely be relatively minor. If, however, it drags on longer or if it causes even more instability in the region, the effect on the Greek economy could be much more significant, pushing inflation up above 3-4%, growth down to 1-1.5% and having a negative impact on investments and tourism.

"If the crisis is resolved quickly, either through a regime change in Iran or through a ceasefire, the consequences on the Greek economy will probably be limited," the chief economist at Greece's Alpha Bank, Panayotis Kapopoulos, tells Kathimerini.

If, however, the duration and scale of war become significant, there are three channels through which the Greek economy can be adversely affected, Kapoupoulos argues. "First, increased uncertainty may lead to investment initiatives being postponed and a repricing of risk; second, a supply-side disruption due to rising energy prices will affect production costs and strengthen inflation expectations, while also bringing higher transit and insurance costs in shipping; and third, it may affect cruise activity and the number of tourist arrivals."

INTIME NEWS

Consumers in Greece noticed a hike in the price of gas at the pump within the first few days of the war in the Middle East breaking out.

> *'Greece benefits from being a eurozone member, an important shield against amplification of the shock'*

ING's baseline scenario is that the war will last two weeks and that energy prices will begin to decline within one or two months. In this case, the impact on Greece will be short-lived, according to the firm's economist Carsten Brzeski. "However, in the case of a more severe scenario and a longer-lasting conflict, oil prices could move above $100 per barrel, potentially bringing inflation in Greece to 3-4% and growth to between 1% and 1.5%," he says.

Similarly, Dennis Shen, an economist at the International School of Management in Berlin, says inflation could easily shoot past 3% or even 4% if Brent rises above $100, with growth coming well below 2% this year, even if gross domestic product (GDP) growth rises on higher prices. At the same time, Shen tells Kathimerini, "Greece's fiscal dynamics could see some limited mechanical improvements, as higher nominal GDP tends to boost public revenues, thereby narrowing the headline budget deficit, whereas a mechanical decline of the public debt ratio is similarly realized partly through higher prices."

In any case, in a scenario of extended instability, "household purchasing power would be further eroded, weighing on consumption, whereas businesses would face a sustained rise in operating costs. Energy-intensive sectors such as industry, agriculture and transport would be particularly affected. Under such conditions, private consumption and investment could be reduced by several tenths of a percentage point," warns the economist.

For ratings agencies Fitch and Goldman Sachs, however, the Greek economy has better "defenses" compared to the eurozone.

"It is important to note that Greece benefits from being a eurozone member, an important shield against amplification of the shock. The credibility of the ECB's monetary policy will help to mitigate second-round inflation effects without excessive real economy sacrifices in the eurozone," says Fitch analyst Greg Kiss.

"It is also worth noting that the Greek sovereign has very favorable financing conditions, long maturities and low yields, thus Greece would be more insulated from tightening financing conditions than many other eurozone members," adds Kiss, who sees the Middle East conflict lasting less than a month.

Goldman Sachs' Filippo Taddei agrees that Greece is "relatively better shielded than the rest of the euro area." He notes that the prices paid by Greek consumers for energy dropped fast from the 2022 peak during the 2022-2023 energy crisis and have been lower than in the rest of the eurozone since. There are two reasons for this: "One is the relatively stronger fiscal support – close to 5% of GDP – that the Greek government provided compared with most EU countries. The second is the energy mix of the country that allowed energy prices to reduce more than elsewhere," says Taddei, noting that while energy prices in the euro area are around 50% higher now than before the pandemic, the increase in Greece is only 35%.

"In conclusion," he says, "the Greek economy is likely to see a lower impact on growth and inflation than the rest of the euro area while facing energy shock."