

State of affairs for the spirits sector in Greece – challenges and opportunities for growth

Nikos Vettas

General Director of IOBE

Professor, Athens University of Economics and Business

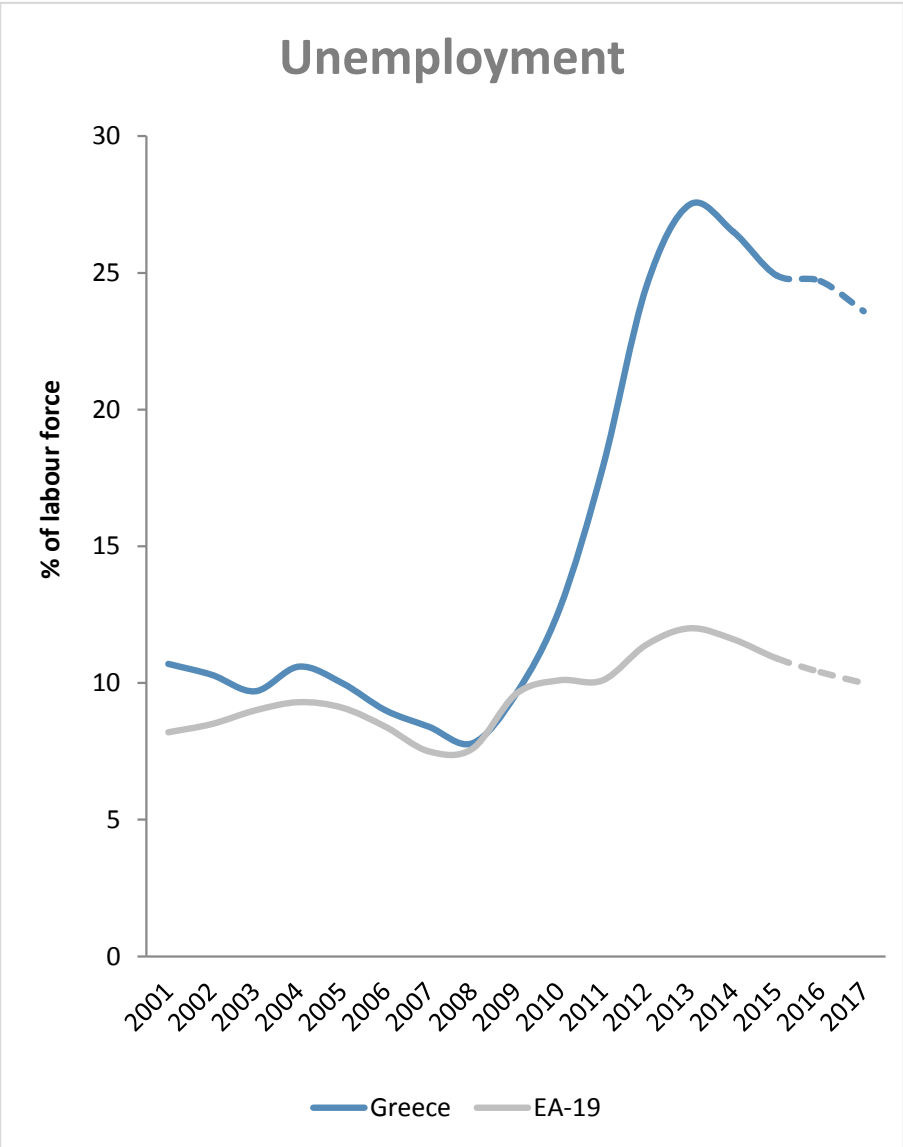
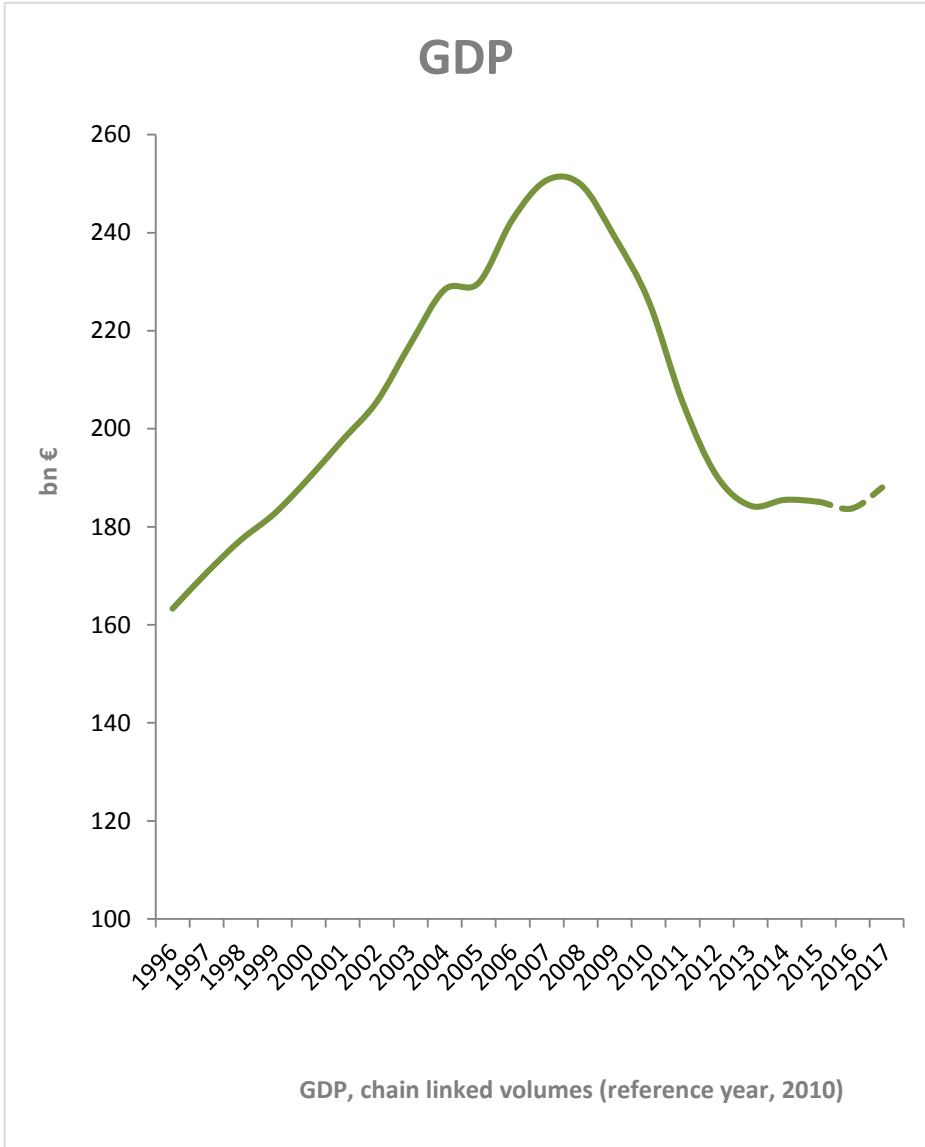
(vettas@iobe.gr, www.iobe.gr, <http://www.aueb.gr/users/vettas>)

SpiritsEUROPE Congress

Panel III: Learning from our hosts. What are the obstacles and opportunities for the sector's sustainable growth in Greece and in Southern Europe?

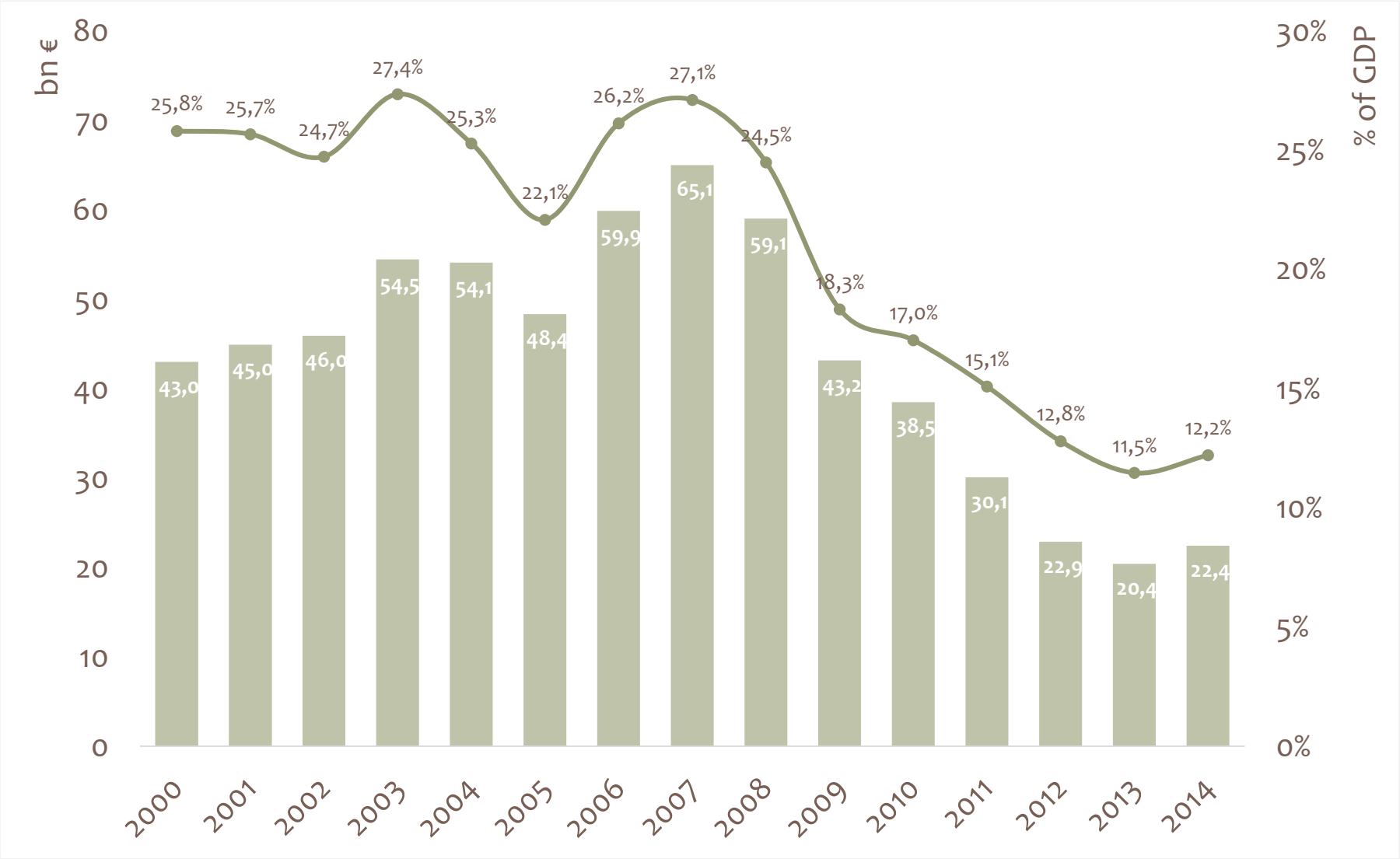
Athens, June 7th, 2016

Gross Domestic Product and Unemployment in Greece



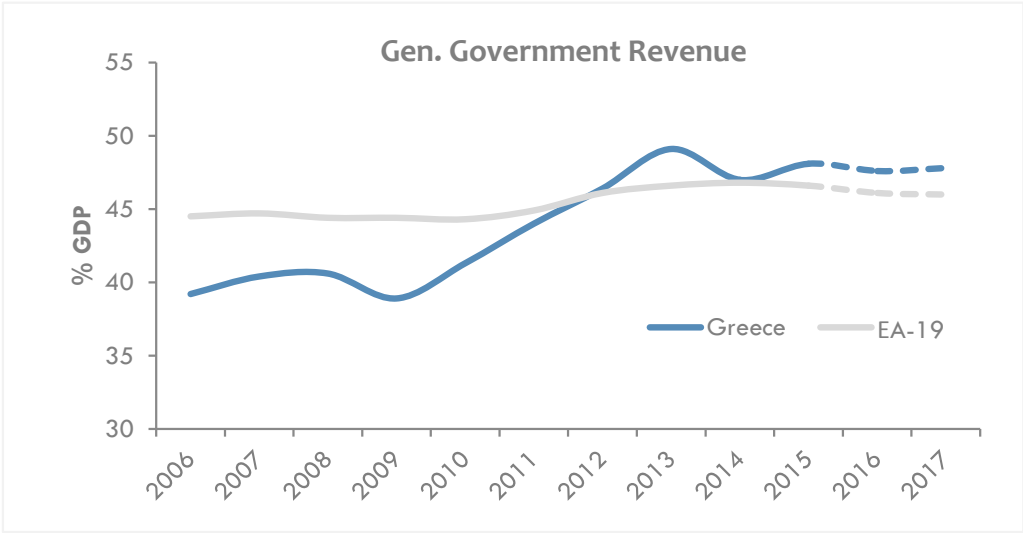
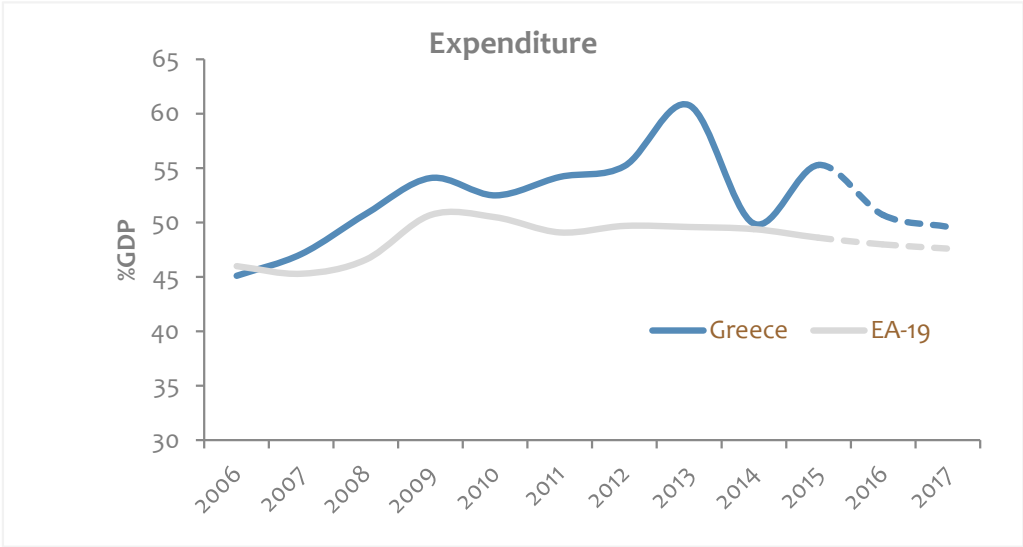
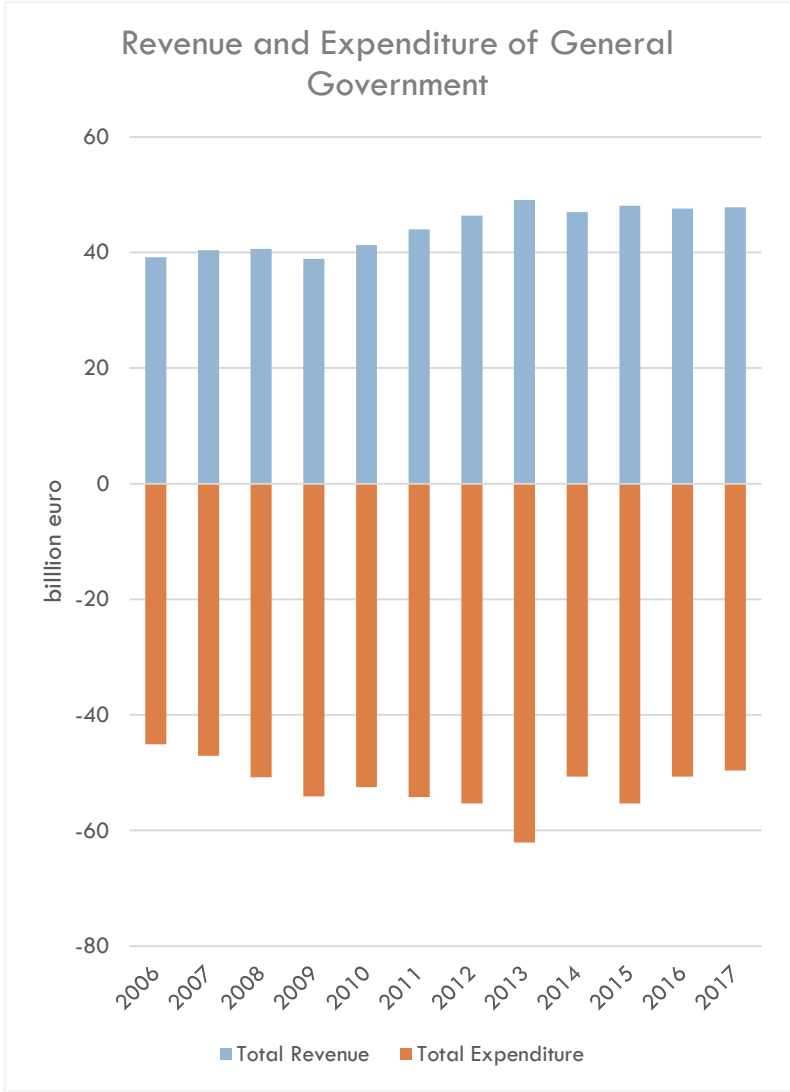
Sources: Eurostat/European Economic Forecast, winter 2016, European Commission

Investment



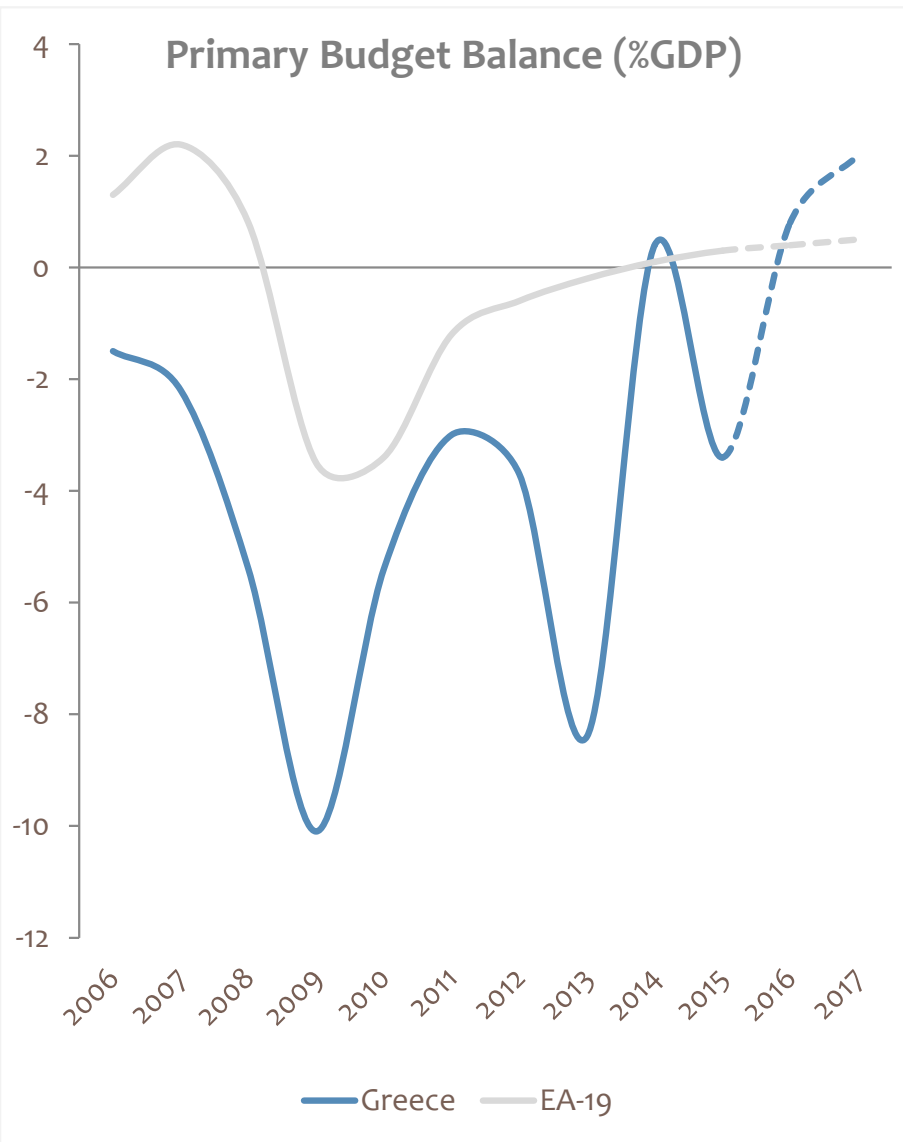
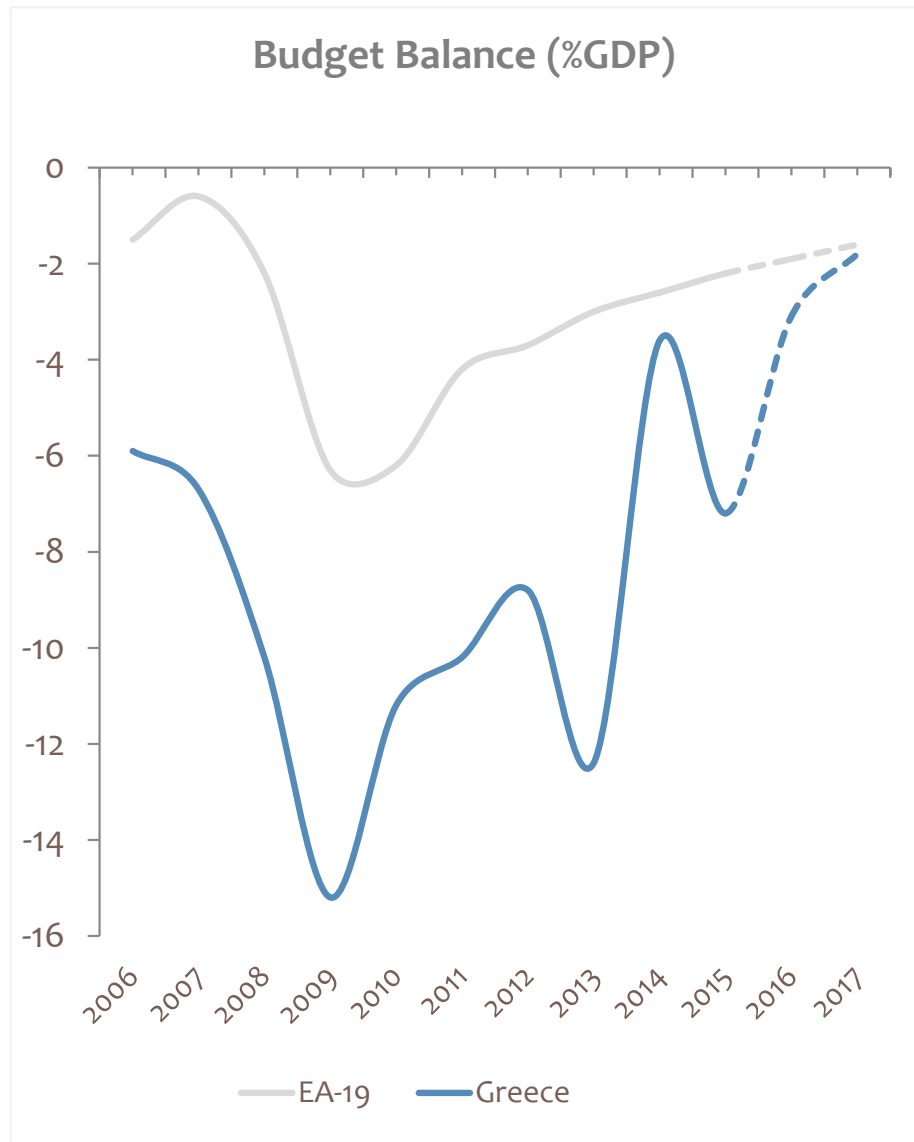
Source: Eurostat

Gen. Government Expenditure (% of GDP)



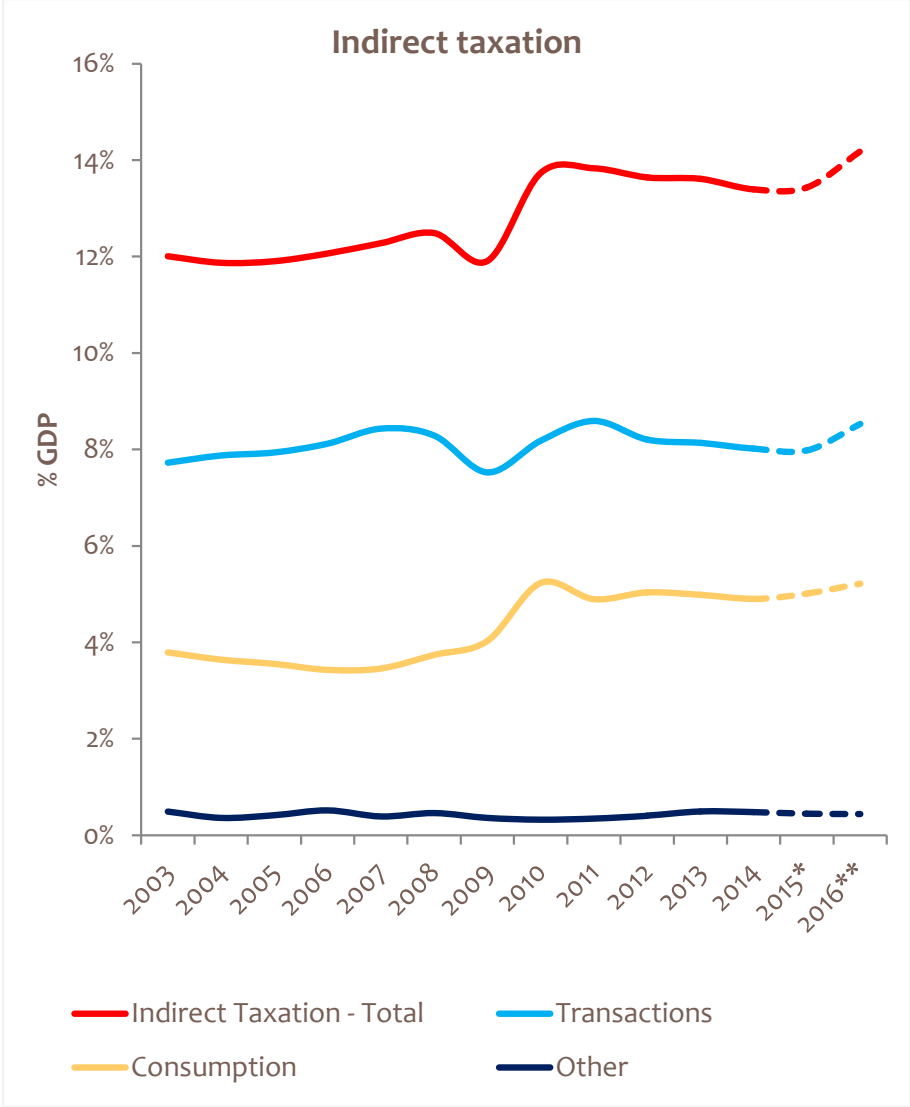
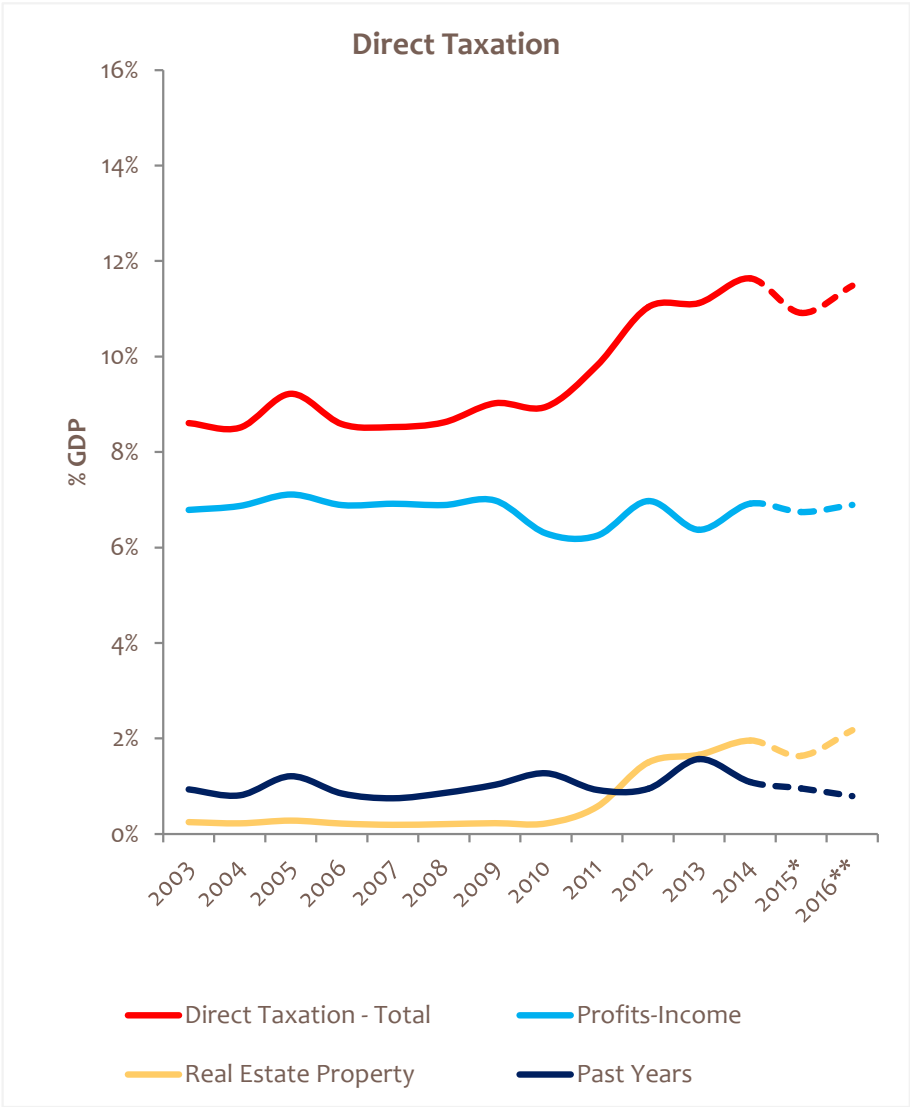
Source: European Economic Forecast, spring 2016, European Commission

Budget Balance (% of GDP)



Source: European Economic Forecast spring 2016, European Commission

Revenues breakdown (% of GDP)



* Projection ** Forecast
Source: State Budget, 2005-2016, Ministry of Finance

Key Macroeconomic and Financial Figures

| Key Macroeconomic Figures | 2009 | 2013 | 2014 | 2015 | 2016 | 2016* |
|---|--------------|--------------|-------------|-------------|-------------|-------------|
| GDP | -3.1 | -3.2 | 0.7 | -0.2 | -0.3 | -1.0 |
| Unemployment | 9.5 | 27.5 | 26.5 | 24.9 | 24.7 | 25.2 |
| General Government Balance¹ | -15.6 | -12.4 | -3.6 | -7.2 | -3.1 | -3.0 |
| Current Account Balance | -14.4 | -2.2 | -3.0 | -0.2 | 0.6 | 0.2 |
| Harmonized Inflation | 1.3 | -0.9 | -1.4 | -1.1 | -0.3 | -0.2 |
| Gross Fixed Capital Formation | -13.7 | -9.4 | -2.8 | 0.7 | -0.9 | -4.0 |

¹Including State aid to the banking sector on the deficit

* IOBE projections

Sources: Eurostat/European Economic Forecast, spring 2016, European Commission

Recent economic performance of Greece

Macro

- Significant success in the areas of government budget and balance of payments ('twin deficits')
- Weak performance for investments and exports

Structural

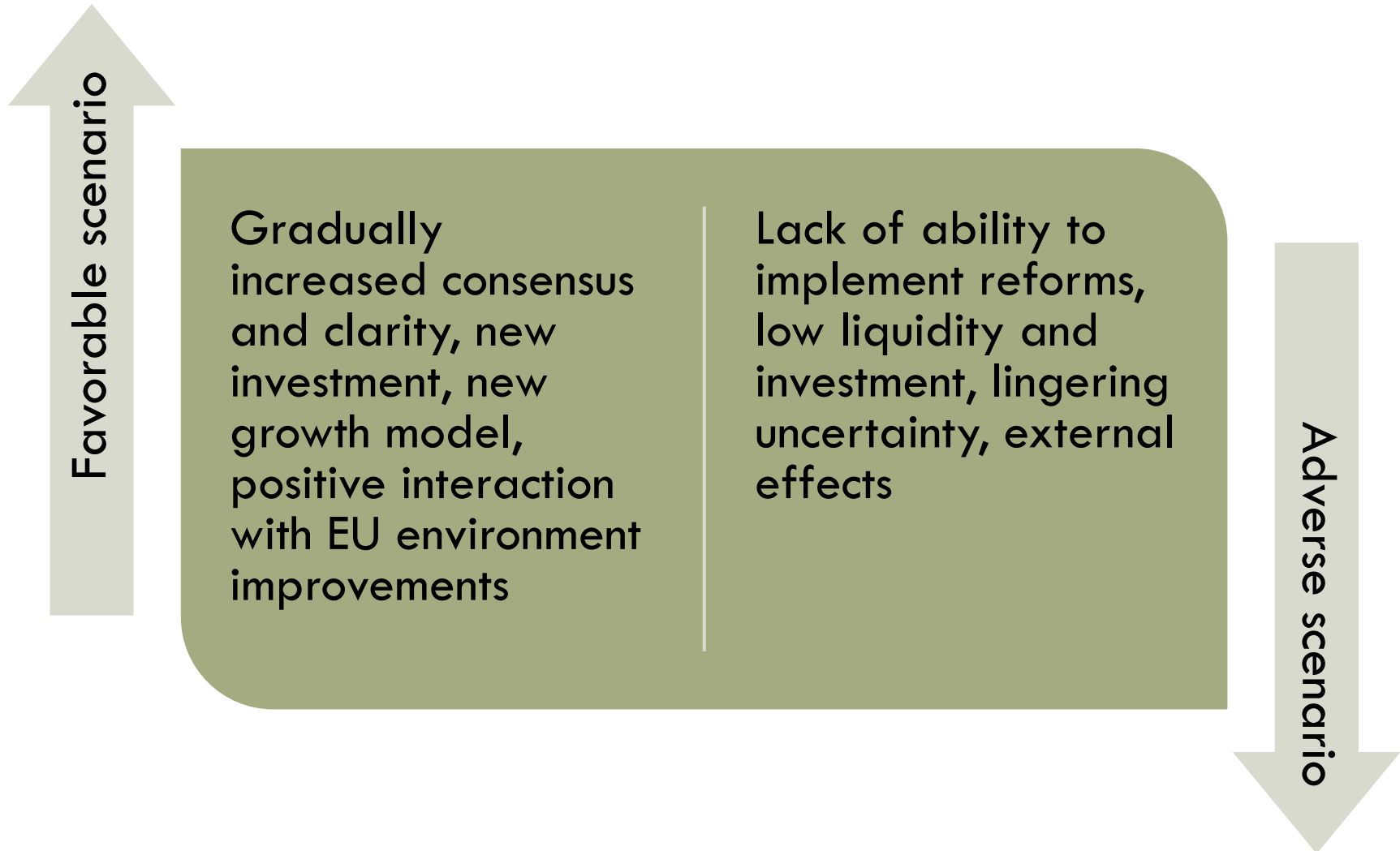
- The economy has adjusted primarily via an extremely deep recession
- Increase in competitiveness mainly through the reduction in labor unit cost
- Lack of wide enough political support and social consensus for structural reforms, despite some important efforts

Other

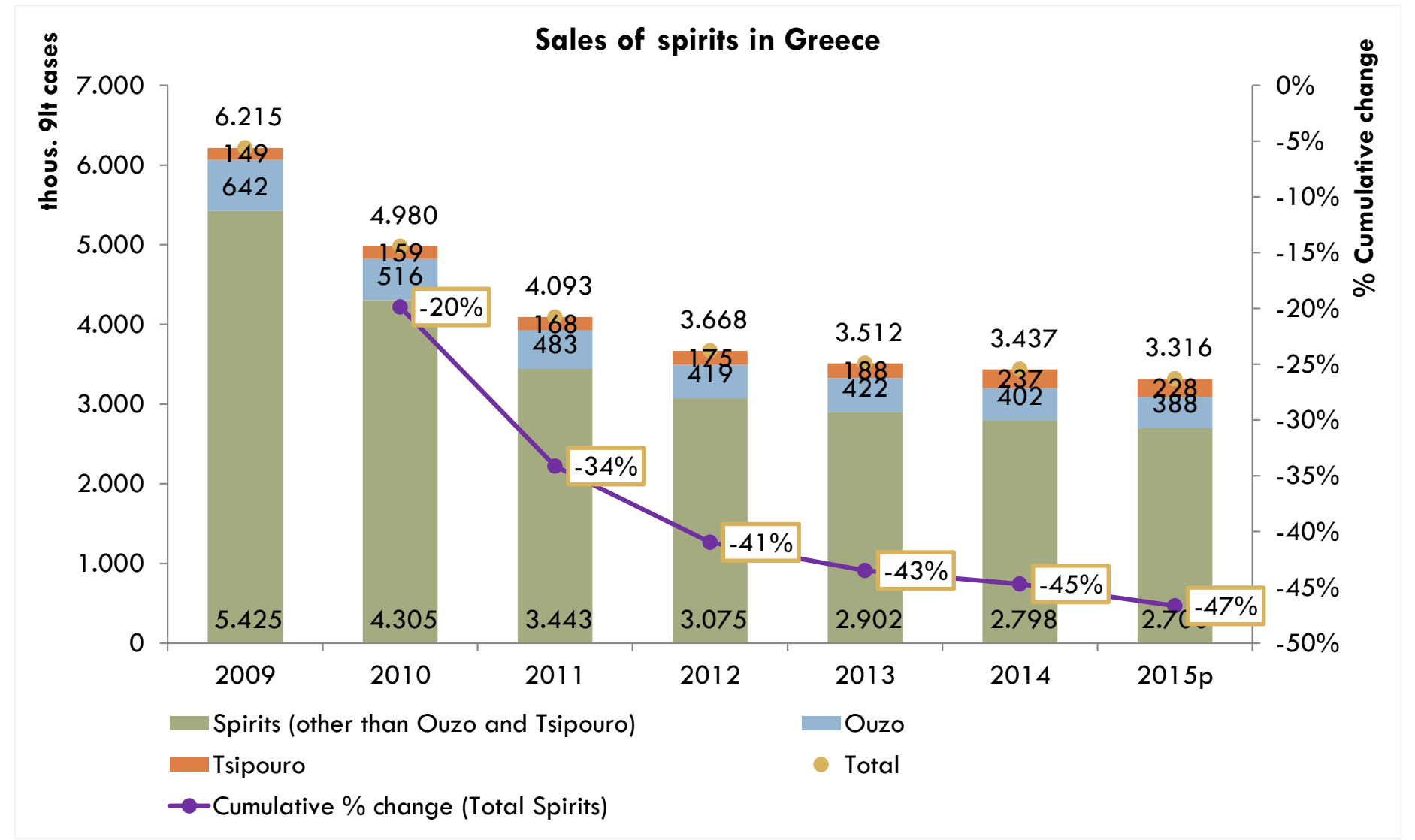
- Public sector has been shrinking but administrative burden and inefficiency remains a key issue
- Accumulated debt remains a significant problem

Overall evaluation: significant successes and failures – **high uncertainty deters investment and postpones the start of a virtuous growth cycle**

Prospects of the Greek economy

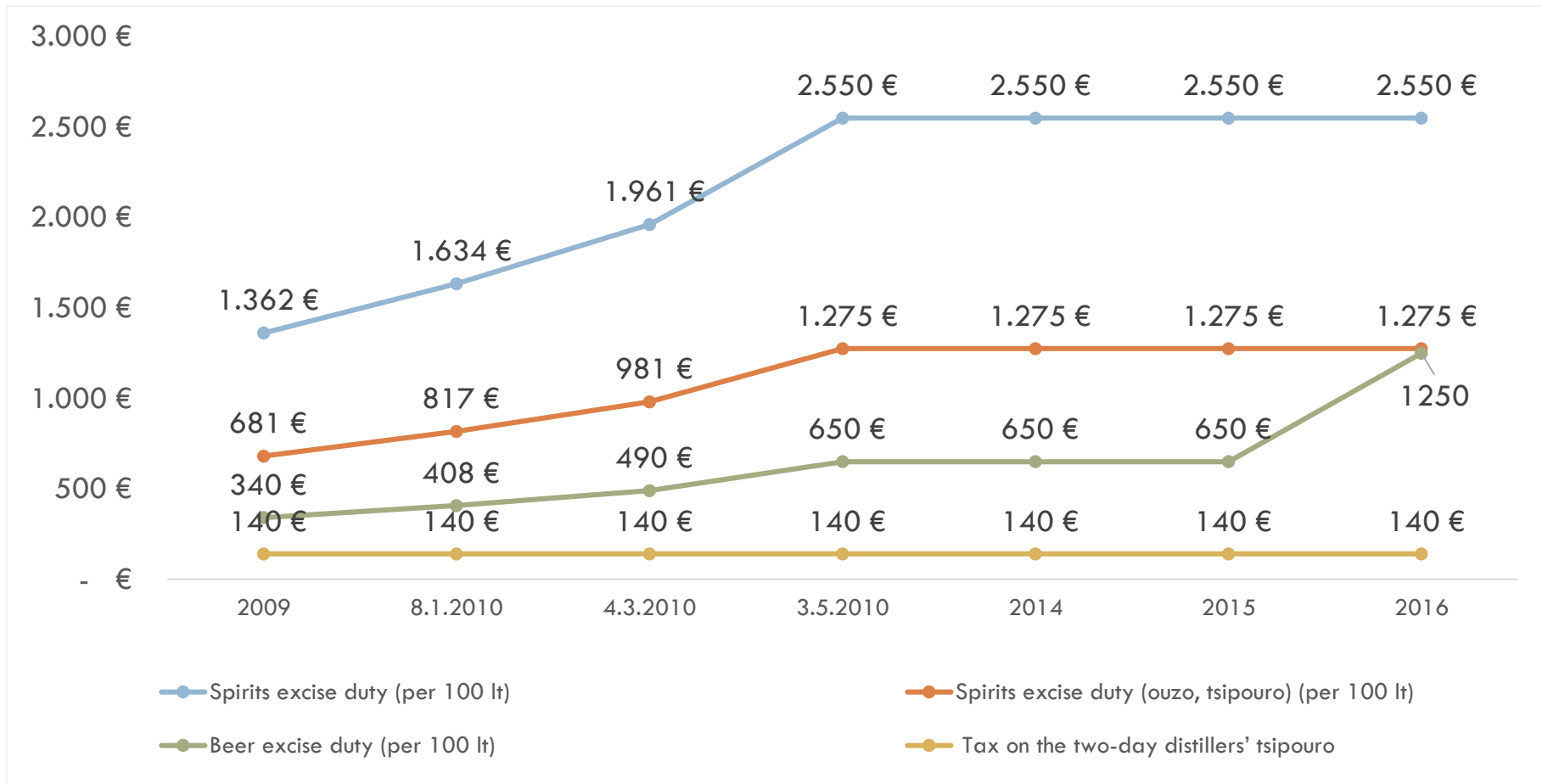


The spirits market in Greece has contracted sharply since 2010



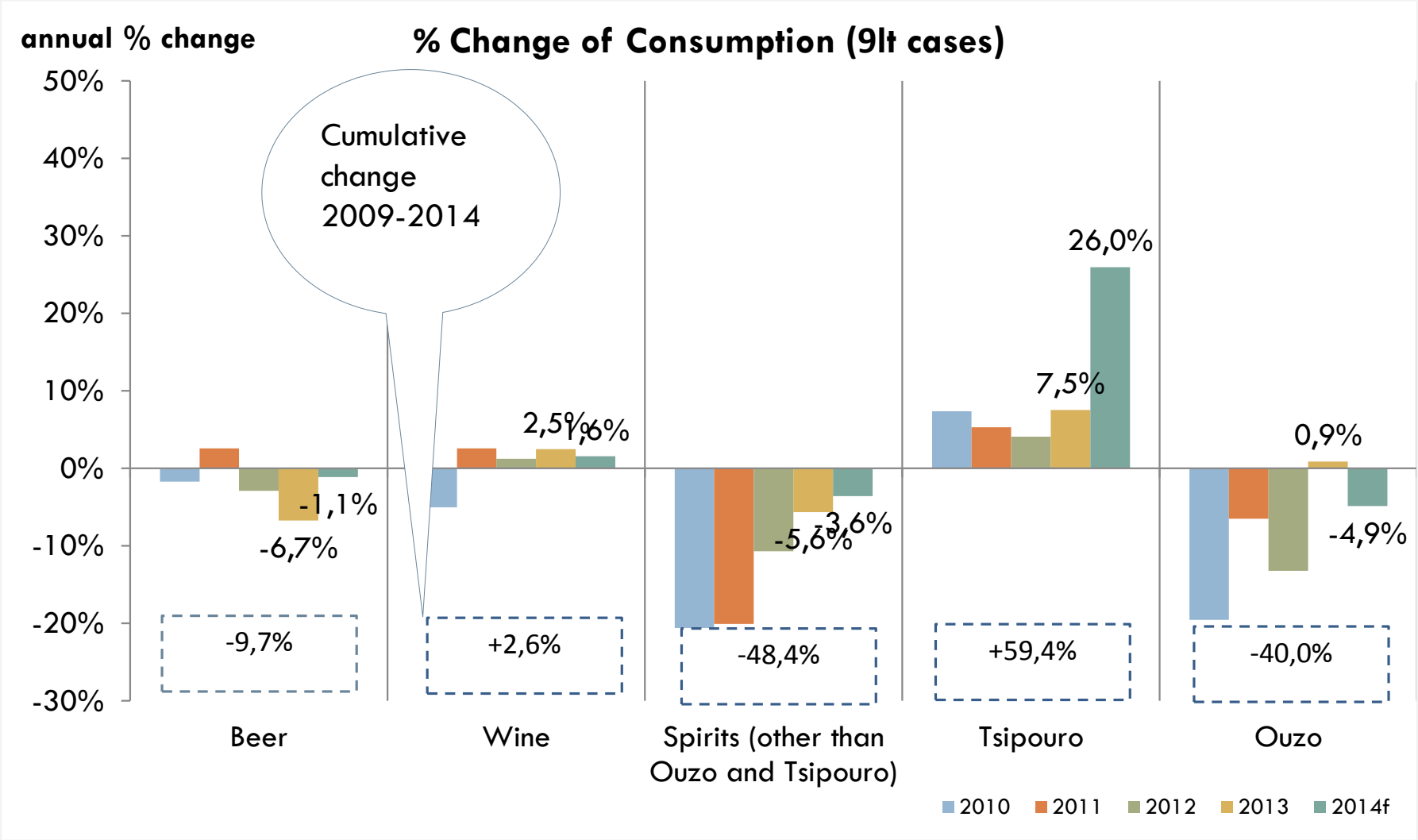
Source: IWSR and IOBE estimate (2015)
*Ouzo and tsipouro include only the official bottled product

The need for fiscal consolidation led to a sharp hike in the excise duty on spirits and beer



- The excise duty on spirits increased rapidly in 2010 (87% increase from 2009)
- The excise duty on beer increased at a similar rate, remaining however at ½ of the spirits excise duty (taking into account the new tax hike on beer which was effected in June 2016)
- Additionally, VAT has increased by 4 percentage points (23% from 19%) since 2010

A part of the consumption is directed to other categories of alcoholic beverages which are burdened with lower or no excise duty



Source: IWSR. Data processing: IOBE
*Ouzo and tsipouro include only the official bottled product.

In 2014 the spirits sector generated to the Greek economy value added in excess of €900m and 21.3 thousand jobs

| In €M | Direct Impact | Indirect Impact | Induced Impact | Total impact |
|------------------------|---------------|-----------------|----------------|--------------|
| Domestic Value - Added | 17 | 13 | 33 | 62 |
| GDP | 18 | 13 | 40 | 71 |
| Income from Labor | 7 | 4 | 8 | 19 |
| Employment (No.) | 665 | 346 | 663 | 1,674 |

| In €M | Direct Impact | Indirect Impact | Induced Impact | Total impact |
|------------------------|---------------|-----------------|----------------|--------------|
| Domestic Value - Added | 392 | 146 | 336 | 874 |
| GDP | 415 | 154 | 413 | 982 |
| Income from Labor | 60 | 46 | 86 | 192 |
| Employment (No.) | 8,838 | 4,024 | 6,790 | 19,653 |

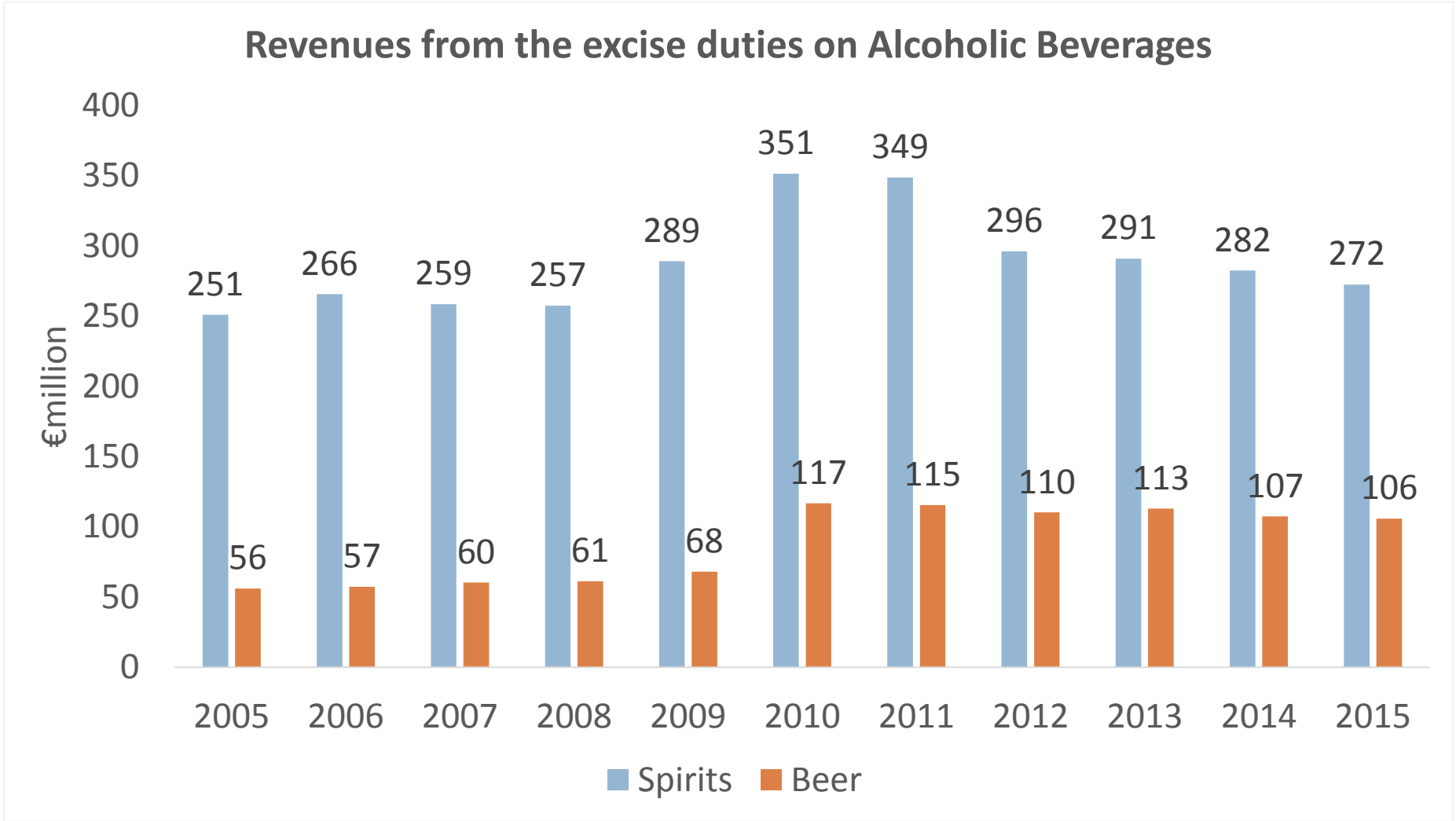
Off trade market



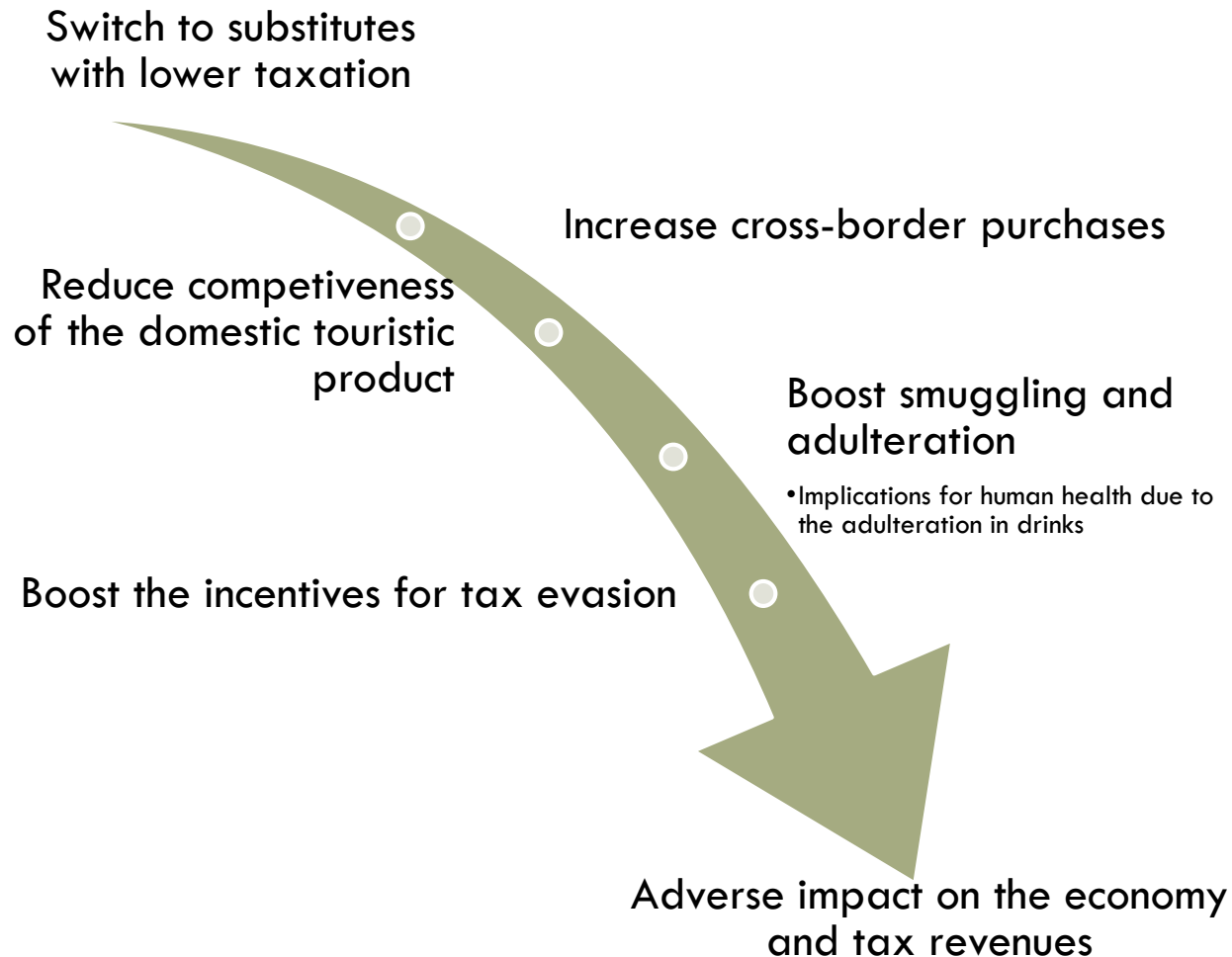
On trade market



The contribution of spirits in public revenues is not negligible



Impacts from the tax hikes on spirits



- Policy measures towards combating the illicit trade of spirits could have a substantial impact both on the sector performance and the state's coffers
- A level playing field on the taxation of alcoholic beverages will further help the sector to unlock its potential