



**FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH**

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# **The Greek Economy**

## **Quarterly Bulletin**

### **03-2014**

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October 21<sup>st</sup>, 2014

# The fundamentals of the Greek economy improve

- The economy continues to show some signs of **balancing**.
- **A positive growth rate** is feasible this year, mainly because of:
  - Marginal decrease in domestic consumption
  - Increase in exports (mainly services)
- However, the dynamics of **investments**, as well as exports of **goods remain considerably weak**.

# The current framework

- Stabilizing **the economy** is extremely important. It is fundamental for any further improvement and must not be endangered.
- As long as **indecisiveness, ambivalence, absence of consensus and delays** in the implementation of the essential structural reforms occur, **attracting investments and boosting exports**, as well as **achieving high growth rates and lower unemployment**, will be rather difficult.

# Risks

- **Sluggish growth**, especially in Europe
- **Delays in the implementation of structural reforms:** The risk of a reversal in the re-balancing of the economy is increasing.
- Since European elections, **the intent of retraction from the main features of economic policy has gradually dominated political debates.**
- Some impressions have been created:
  - There is no intention or capability to implement the structural reforms.
  - Regarding fiscal adjustment, the pressure for tax rate cuts can generate risks in the future.
  - Concerning the state external financing, emphasis was laid to a direct disengagement from the Memorandum of Economic Policies, even if such a development could be accompanied by additional costs and risks.

# Despite risks, a positive outlook can be expected for the Greek economy, under certain conditions

1. **Fiscal discipline** (essential cost in order to be a part of the Euro-Area).
  - Even after the end of the current programme, Greece will be under a tight fiscal framework and in collaboration with the EA-partners, like many other countries of the Euro Area.
  - In the future and in the absence of a formal financing programme, surveillance and constant review of the Greek economy will be performed by the private investors themselves, i.e. the “markets”.
2. **Achieving high growth rates** as soon as possible in the next years, so that fiscal adjustment continues.
  - Need for a considerable boost of investments from various sources.
    - **Prerequisites:** A minimum level of political stability and consensus on the main economic policy targets - Persistence in reforms that will lift barriers to entry into markets.

# Despite risks, a positive outlook can be expected for the Greek economy, under certain conditions

## 3. **Sustainability** of public debt.

- Correlated with high growth rates.
- Even if a very significant one-off reduction of the debt is achieved, it would not be sustainable in the absence of confidence about Greece, as well as of high levels of investments.
- A relatively smoother reduction of the real present value of the debt could ensure the debt's viability if it was used as a leverage to attract investments.

## 4. **Gradual disengagement** from the agreement with our lenders.

- The agreement brought benefits to the Greek economy as well as to the EU economy, since it prevented a Greek collapse.
- It also had **significant shortcomings** :
  - Reforms should have been more prioritized and better targeted.
  - The transfer to the new production model should be granted priority as an emergency.

# Need for a new deal between Greece and the E.U.

**The basis for a new agreement must be explicitly the new growth plan for Greece, with emphasis on exports, innovation and investments.**

From the **Greek side**:

- 1.Emphasis on the **necessary structural reforms**, with a priority in those that improve the entrepreneurial framework and the efficiency of the public sector.
- 2.Continuing the **fiscal re-balancing that has been agreed upon, without further adjustment** → it would have a negative effect on growth.
- 3.The agreement on reforms must **include specific, quantifiable targets**.
  - The Greek side must be the one that will decide on how each goal will be accomplished.

# A new deal between Greece and E.U.

For our **creditors and partners**:

1.It must be ensured that the cost of servicing the Greek **debt will remain adequately low** for the foreseeable future.

2.There must be a **boost of necessary investments**, on essential infrastructures as well as on long-run private productive investments.

**3.Potential credit support**, in case that, despite achieving agreed progress in reforms, temporary, unexpected difficulties in financing the economy will appear.



# To conclude...

- The road to a mutually beneficial agreement with the E.U. runs through the **achievement of a minimum level of political stability and consensus in the country.**
- It can **act as a catalyst for exiting the crisis.**
- The alternative of a back fall, a **return to the pre-crisis rules of the game and behaviors** could create a new, deeper economic crisis.

# Overview of the Quarterly Bulletin

# Global growth is stabilizing; however, signs of recovery in the Euro Area are weakening

- Steady increase in the global GDP by **3.3%** (same as in 2013)
- A growth rate of **2.2%** is expected for **U.S.** in 2014
- Stabilization in **Japan** at a growth of **0.9%**
- Steady growth in **China**, **7.4%** for 2014 (from 7.7% in 2013)

## **BUT**

- Less “ambitious” economic forecasts about recovery in the **Euro Area**: + **0.8%** in 2014

## **Most important Risks in the Euro Area:**

- Tension between Ukraine and Russia has had already some economic consequences in the broader area
- State budgets approval, need for further fiscal consolidation in certain EU countries.
- BUT also: depreciation of the euro, more dynamic interventions of the ECB to support liquidity and economic growth

# New National Accounts data (ESA 2010) released:

- **Deeper recession** in 2008-2013: 25.9% from 23.7%, according to previous data.
  - **Smoother drop of GDP** in 2012 & 2013
- **Decrease of household consumption and sharp decrease in investments** remain the **determinant factors of recession**.
- **Different adjustment** in basic components of GDP:
  - More intense **accumulative shrinkage of investments** (-65.3%, from -60.5%)
  - **Smoother drop of exports** (-8.8%, from -13.5%), but also...
  - **Smaller drop of imports demand** (-36.7%, from -42.9%)

# Recession at its lowest level since 2008

Only a marginal drop of GDP (Q2 - 2014): **-0.3%**, from -1.1% in Q1 and -5.0% in Q2-2013 →

**Recession 0.7% in the 1<sup>st</sup> quarter of 2014, from 5.0% last year.**

Main drivers for this deceleration :

- **Smaller drop in investments (-4.1% from -11.9% the 1<sup>st</sup> quart.).**
- **Stable household consumption for the 1<sup>st</sup> half of 2014, following a 7.6% decline in the same period of 2013.**
- **Increase of exports: 5.3-5.4% for 2<sup>nd</sup> quarter.**
  - Exclusively from exports of services (+14.6% in 1<sup>st</sup> half of 2014).
- **Stable public consumption (-0.4% in 1<sup>st</sup> half of 2014)**
- **But increase of imports: +4.6% in Q2 from +2.2% Q1 → The increase of household consumption flows mainly on imports.**

## State Budget 2014: The target for primary surplus is achievable

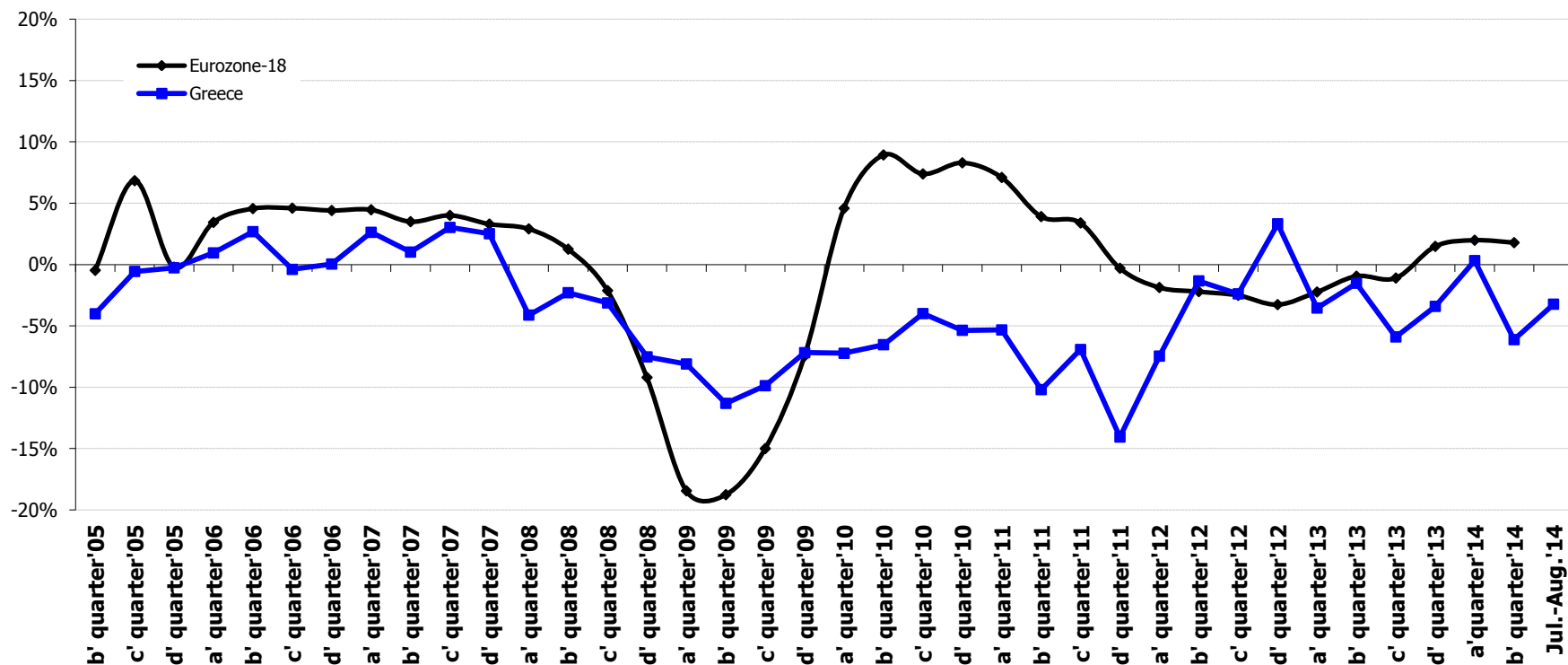
- **State Budget Jan.-August 2014: Primary Surplus of €1.95 bn → double that of the relevant target.**
- **Further reduction in public expenditures (-€1.06 bn).**
- **Revenues lower than target, by € 329 mill.:**
  - Higher payments of direct taxes (+ € 1.1 bn), but also...
  - Tax returns were doubled (+ € 1 bn)
  - Delayed collection of Real-Estate Property Tax and payment of income tax during Q4 will cover the revenue shortfall

## State Budget 2015: fiscal adjustment continues

- **Target for 2015 Primary Surplus: €5.4 bn** (2.9% of GDP), without additional measures, against a target of **€5.65 bn** included at the Fiscal Adjustment Programme
- Same as the 2015 SB draft estimation of primary surplus by the IMF and EU, but with additional measures or expansion of existing that were about to end ( $\approx 1.0\text{-}1.1\%$  of GDP)

# Industrial production decline in the first eight months of 2014

## Industrial Production Index



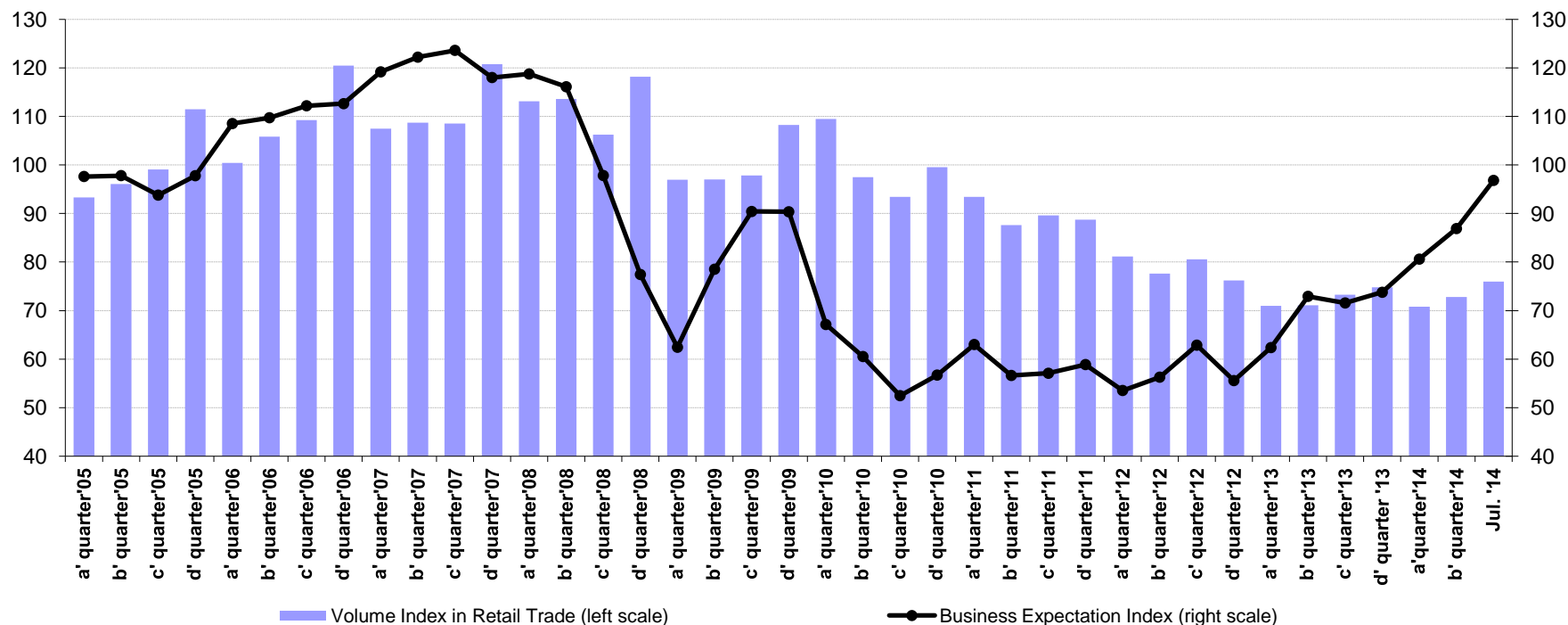
Jan.-Aug. 2014: -2.8%  
Jan.-Aug. 2013: -2.6%

- Electricity generation : -13.0%
- Manufacturing : +0.3%
- Mining-Quarrying : 1.0%



# Slightly stronger retail trade during the first seven months of 2014

Retail trade index (2005=100) and Index of Retail Trade Expectations (1996-2006=100)



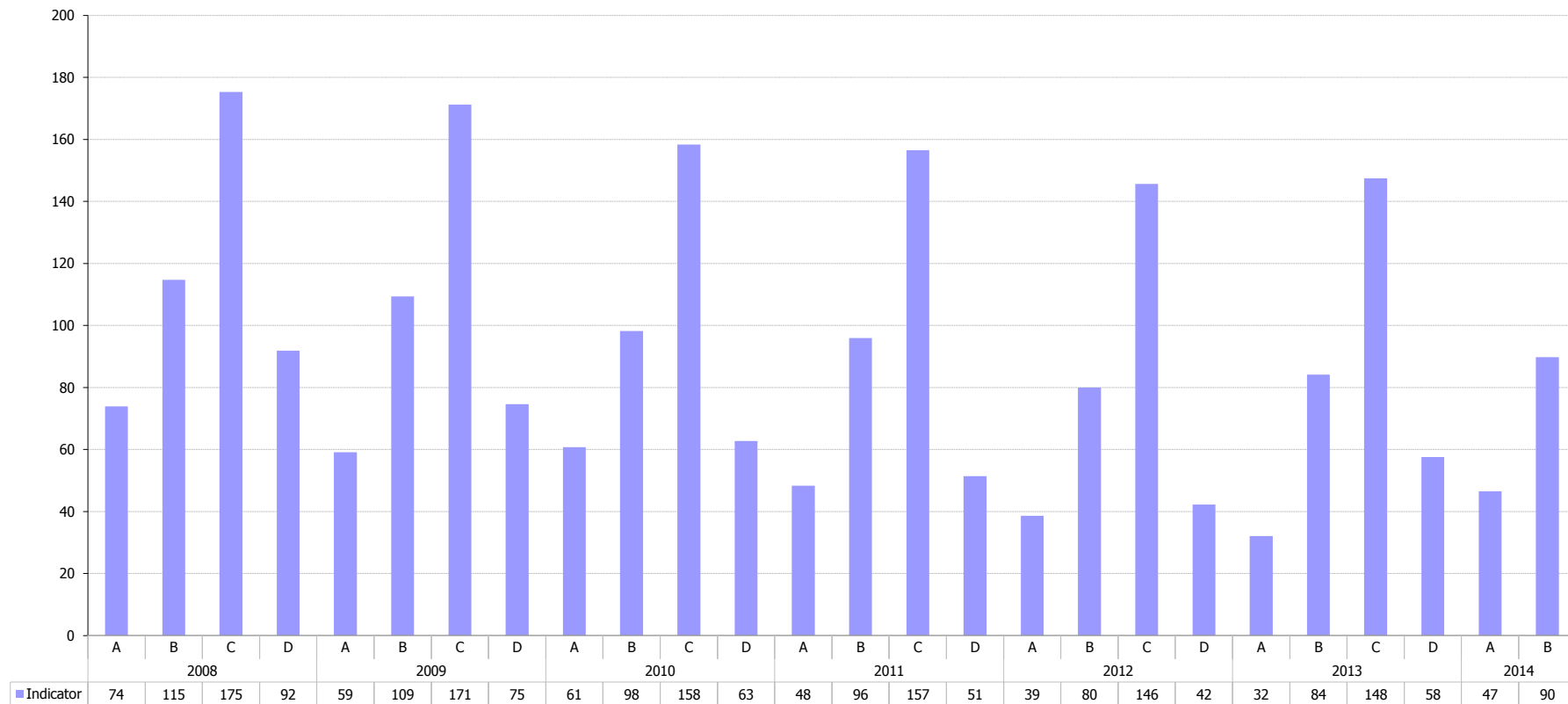
Source: IOBE-FEIR, ELSTAT

Volume index : -27.6% compared to the base year 2005  
 Jan-Jul 2014: +1.6%  
 Jan-Jul 2013: -11.1%

Half of the sectors show an increase compared to last year, while losses in the rest of them de-escalate.

# Services: Turnover still is decreasing but at a slower pace in most sectors

Turnover Index in Tourism (Accommodation and Food Service activities)

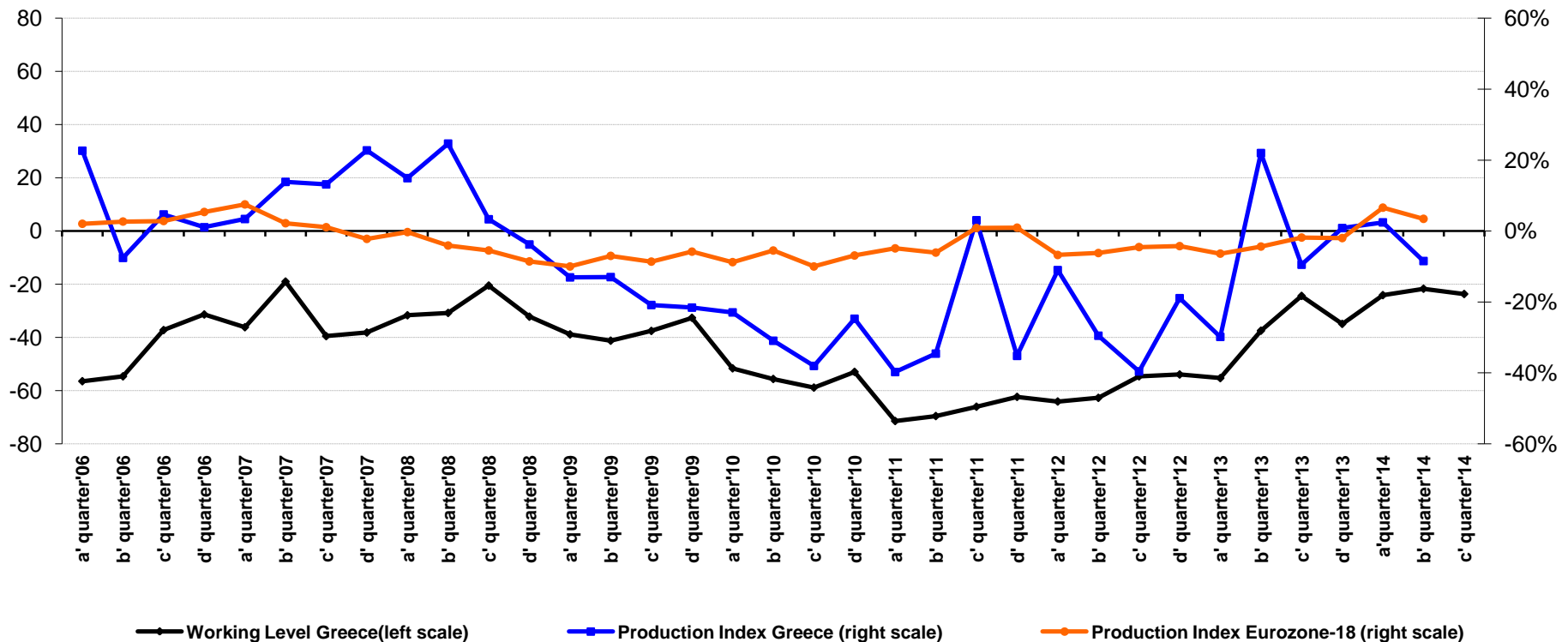


Source: IOBE-FEIR, ELSTAT

Lower turnover in 9/13 sectors –But moderate losses in 2014

# Constructions volume continuous to decrease during the 1<sup>st</sup> half of the year

Construction Production Index and Business Level Index  
(quarterly changes)



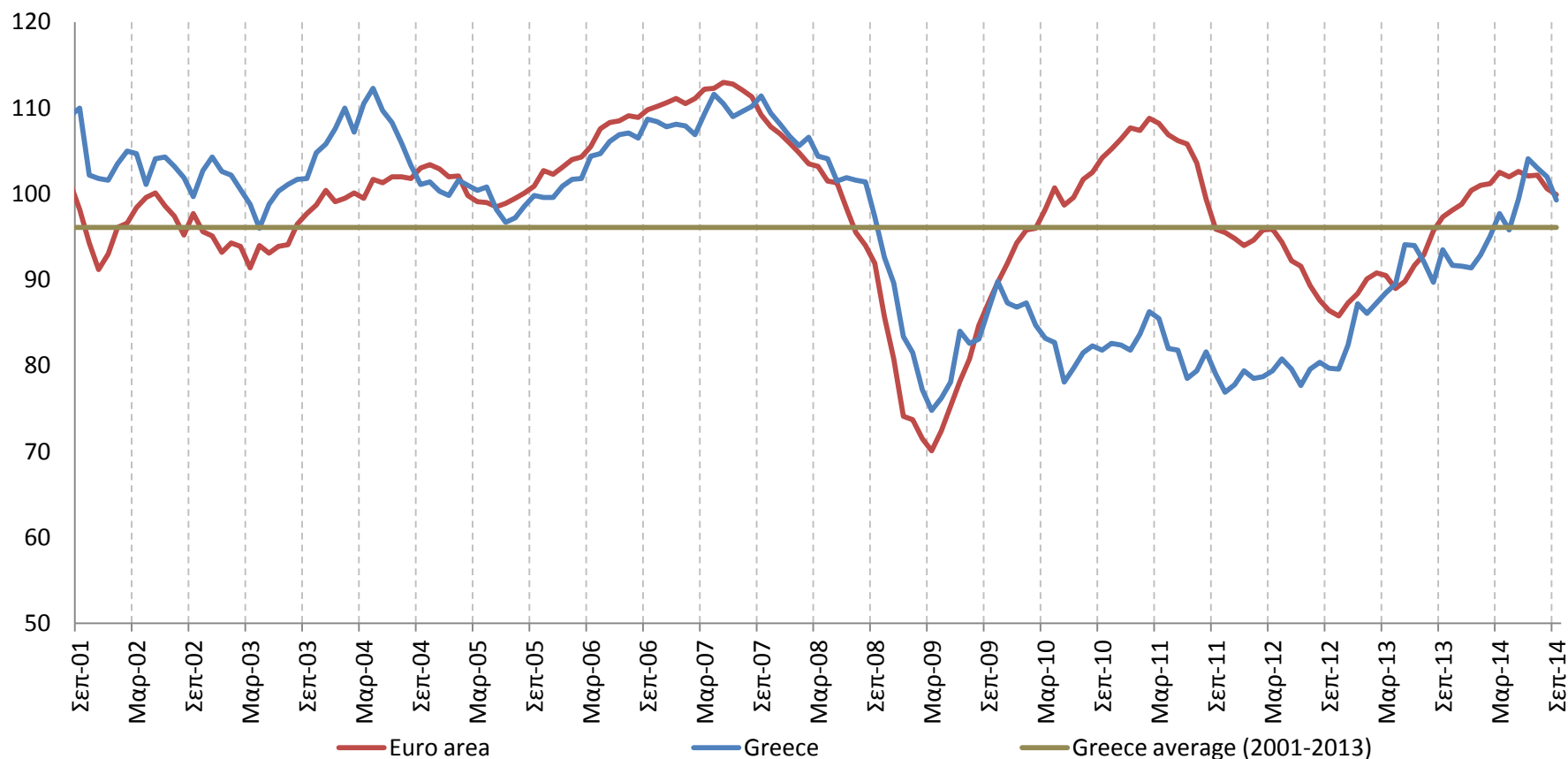
Source: ELSTAT - Eurostat

2<sup>nd</sup> quart. 2014: +23.4%  
2<sup>nd</sup> quart. 2013: -16.8%

1<sup>st</sup> half. 2014: -4.4%  
1<sup>st</sup> half. 2013: -4.3%

# The Economic Climate indicator increases since 2013... but with a significant drop in September

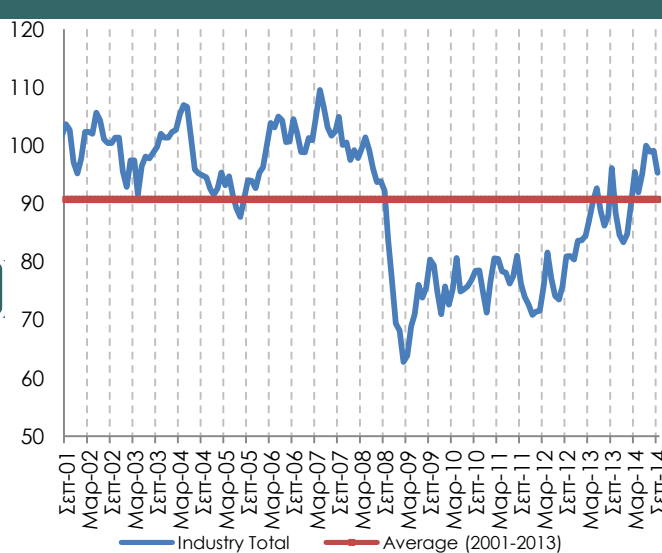
**Economic Sentiment Indicators: EU27, Euro Area and Greece**  
(1990-2012 =100, seasonally adjusted data)



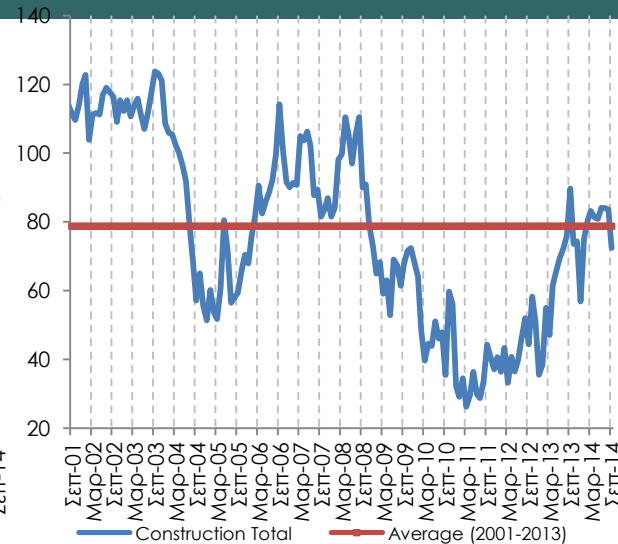
Source: European Commission & IOBE

# Improved business expectations in Services & Retail Trade, smooth increase in Industry, worsening in Constructions

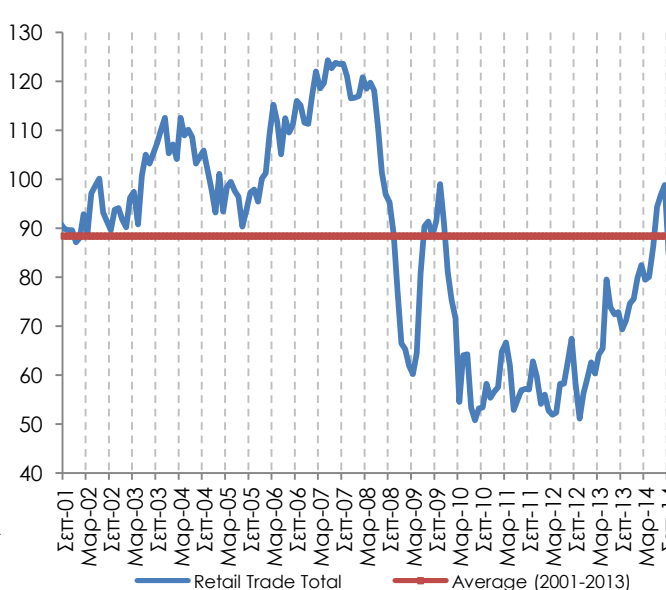
Industry



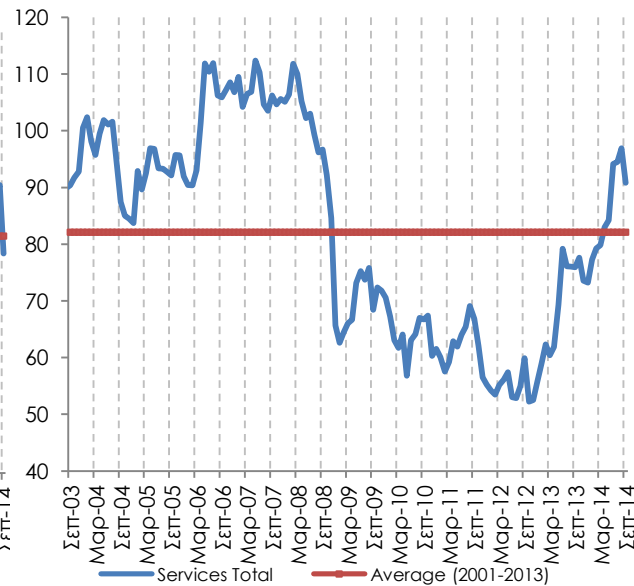
Constructions



Retail Trade

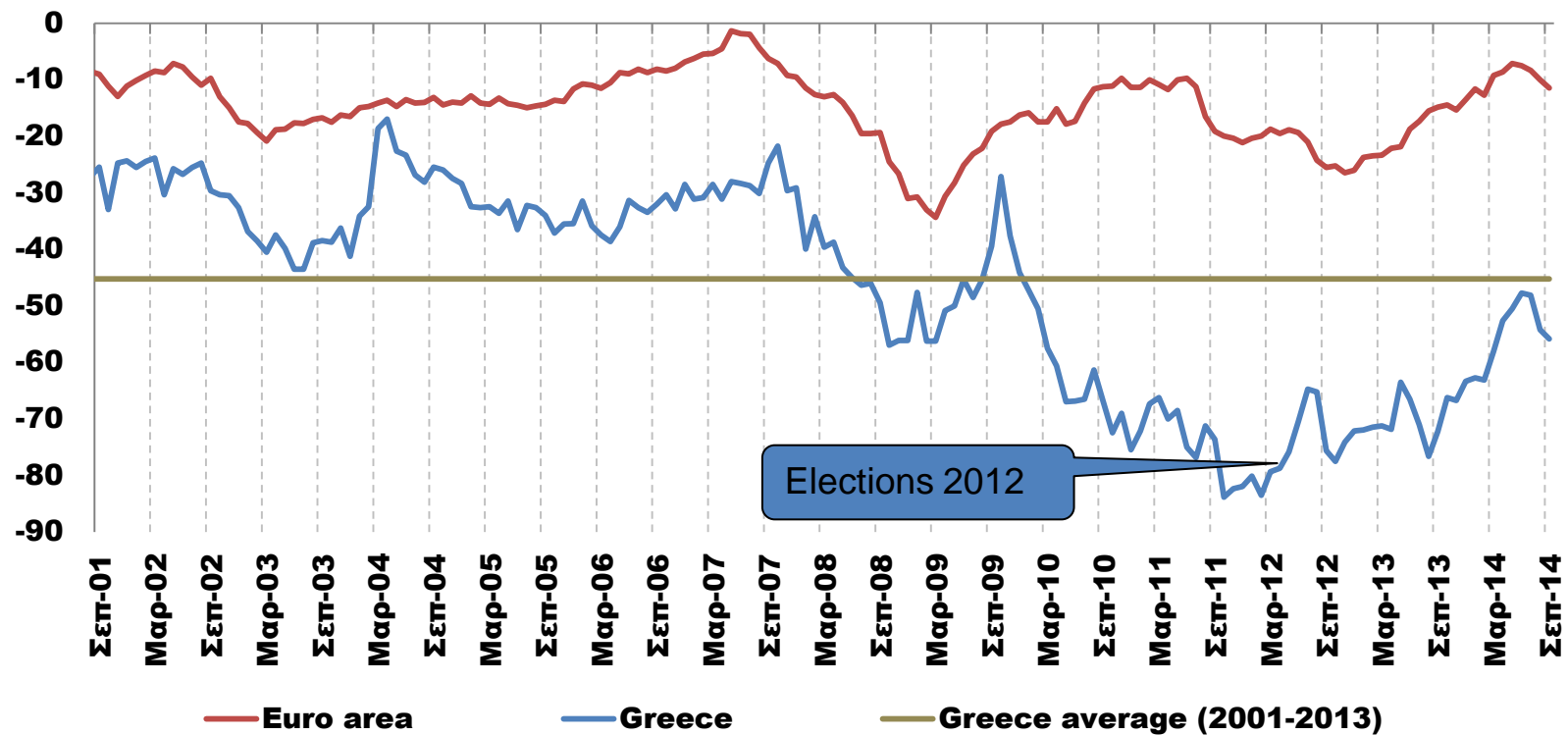


Services



# ..while consumer confidence improves as well: less pessimism after the 2012 Elections

**Consumer Confidence Indicators: EU27, Euro Area and Greece**  
(1990-2012 =100, seasonally adjusted data)

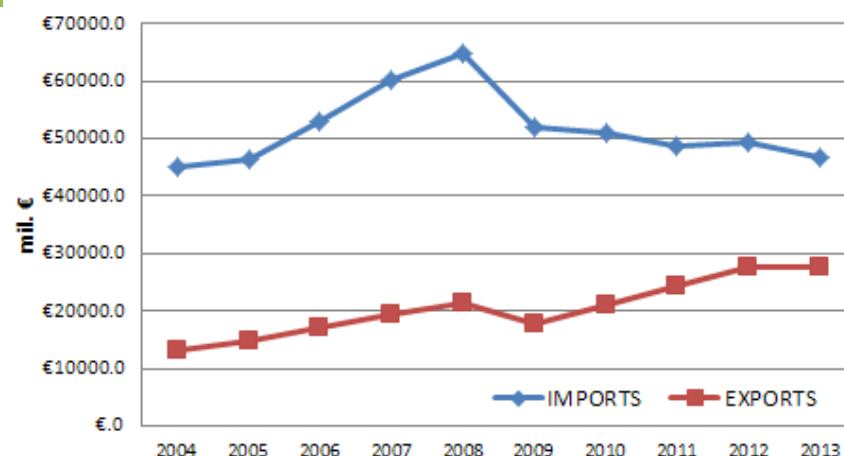


# Trade deficit in goods increased during Jan.-July 2014 by 10.2% y-o-y

## January – July 2014:

- Exports: -3.9% (€17.7 bn., including petroleum products)
  - -2.5% (€10.4 bn) without petroleum products
- Imports: -0.2% (€31.3 bn.)
- Trade deficit: +5.1%

Value of Greek exports and imports of goods  
(Jan. July 2009-2014)



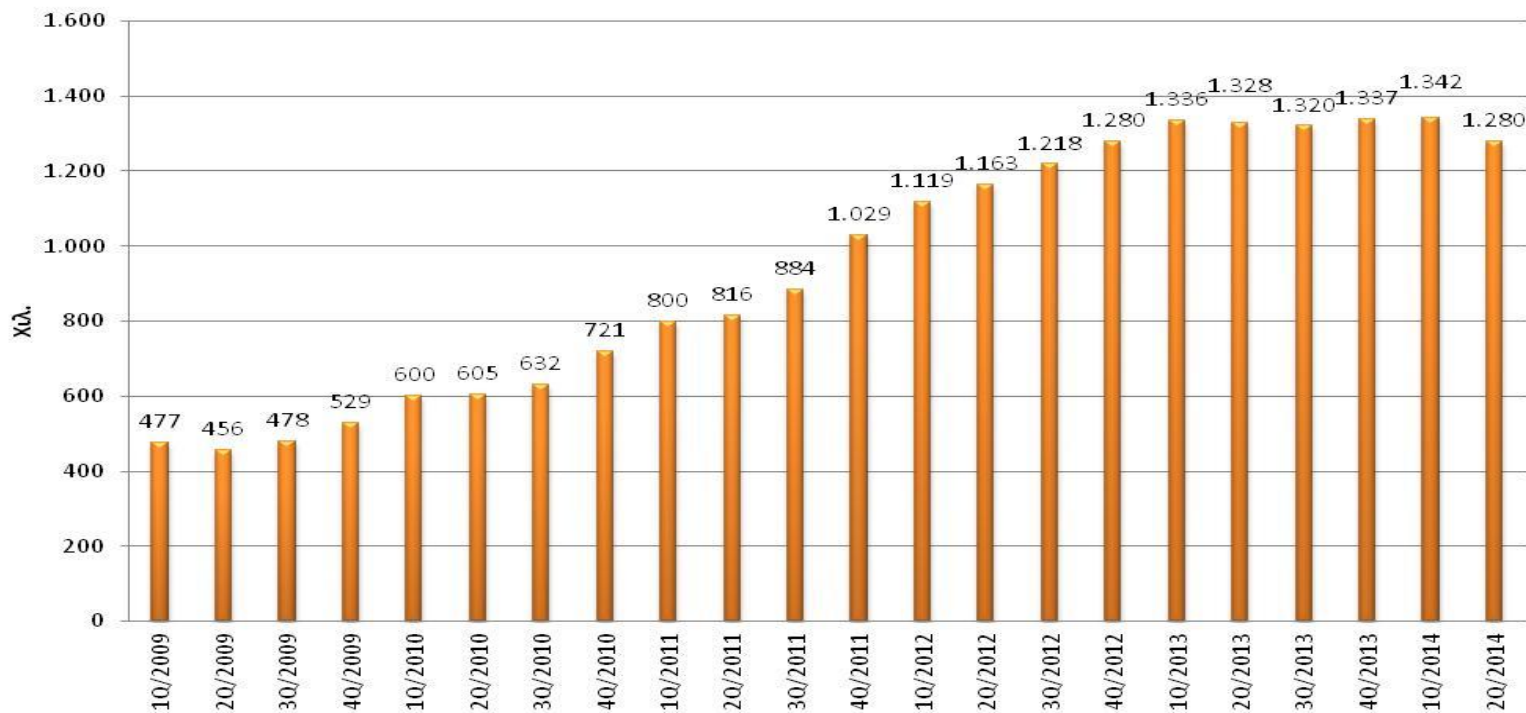
## Main markets:

Decrease: E.Z.-15 (3.6%), M. East-Africa (11.2%), Italy (7.1%), Germany (1.3%), Bulgaria (6.5%), Turkey (3%), U.S.A. (19.6%), China (26.7%), Russia (13.3%)

Increase: S.E. Asia (25.2%), Cyprus (15.2%), Egypt (39.2%), Albania (25.4%), Un. Kingdom (3.4%), Spain (2.7%)

# Marginal reduction in unemployment (Q2 2014)

Number of unemployed in Greece (1<sup>st</sup> quarter of 2009 – 2<sup>nd</sup> quarter of 2014)



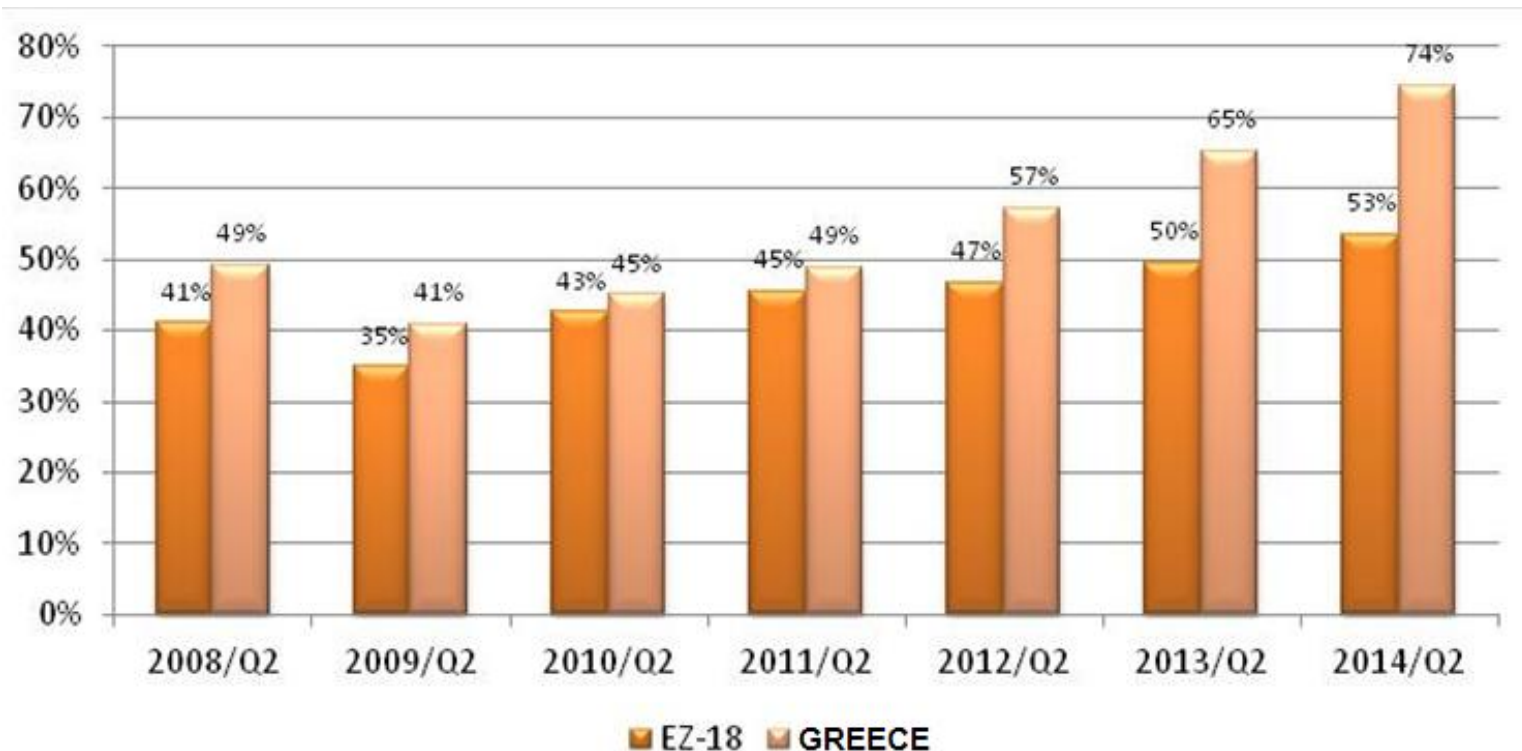
Source: ELSTAT

- **Unemployment at 26.6% in Q2 2014**, from 27.3% in Q2 2013. At 25% in past July.
- **Increase of employment in 9 sectors**, e.g.: Education (+5.7%), Electricity – Natural Gas (+6%), Water Supply (+11.8%), Tourism (+14.6%), Managerial – Supportive Activities (+44.3%).
- On the contrary, decrease of employment in 11 sectors e.g.: Wholesale-Retail Trade (-2.3%), Manufacturing (-2.5%), Public Management (-2.7%), Constructions (-10.4%)



# But long-term unemployment continues to grow

Long-term unemployed (>12 months) as a percentage of total unemployed

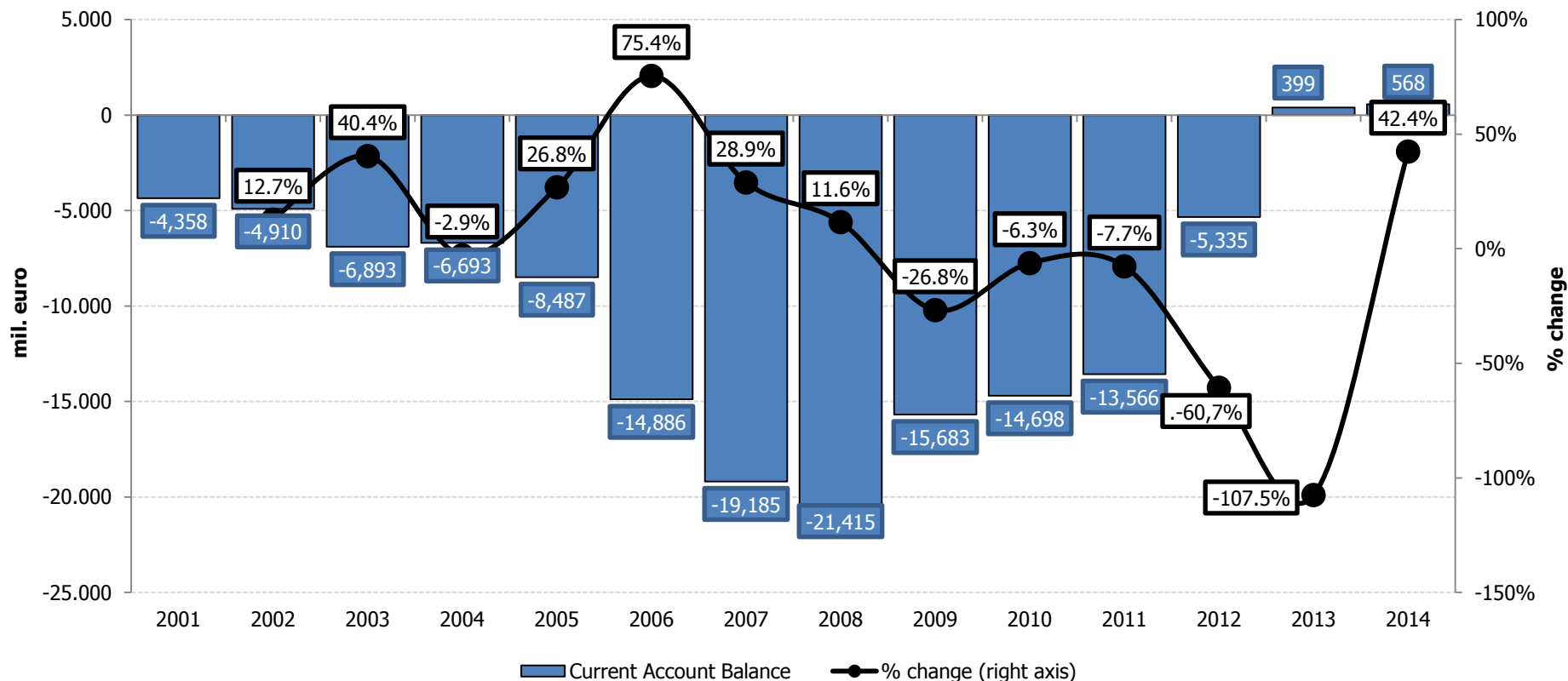


Source: Eurostat

➤ Since Q2 2008, the percentage of long-term unemployed people (unemployed for > 12 months) rose by 25.2 percentage points, reaching 74.4% (952.2 thousand people) in the 2<sup>nd</sup> quarter of 2014.

# Improved surplus on Current Account Balance, even though trade deficit increased for the 1<sup>st</sup> time since 2008

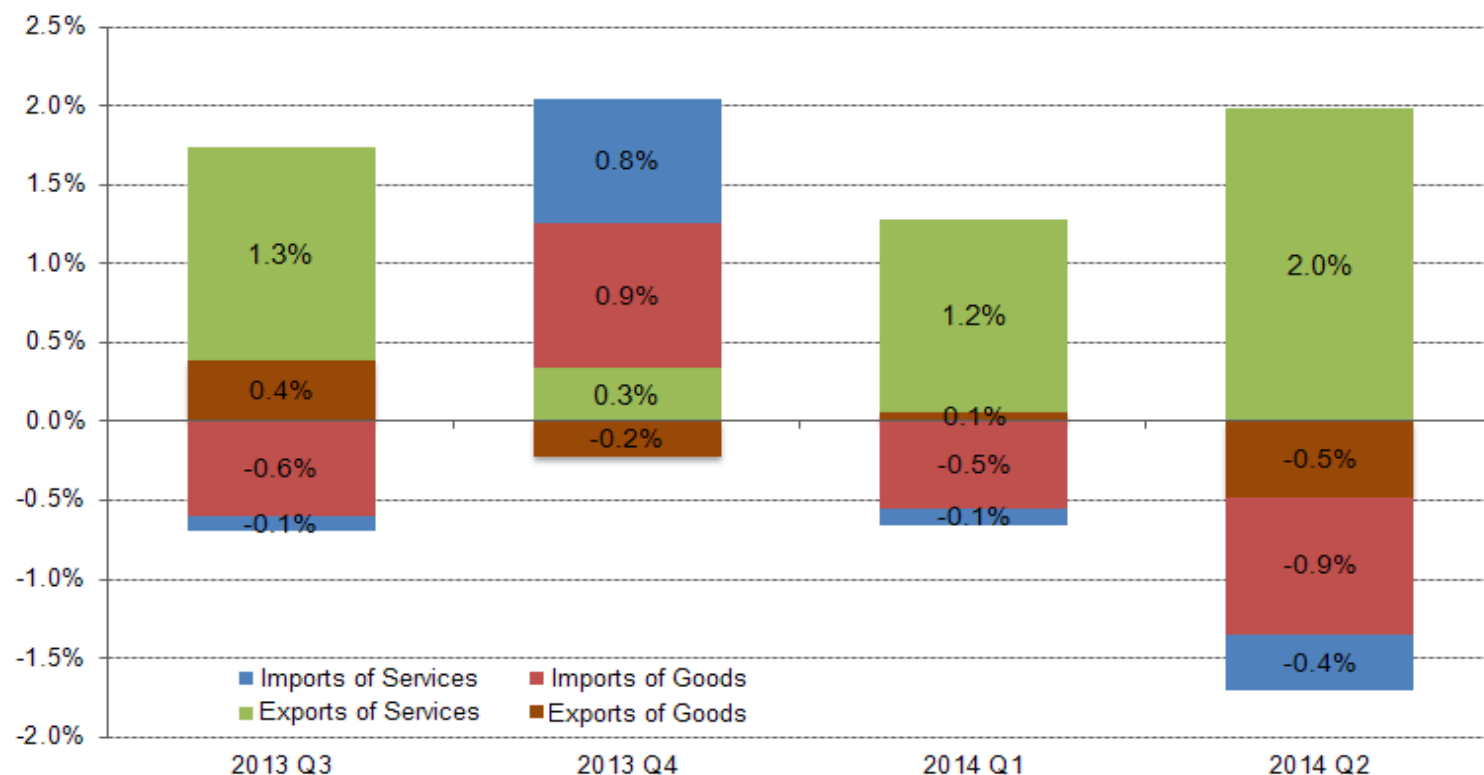
**Current Account Balance, January – July 2001-2014**



Source: BoG

Receipts from Services exceed trade deficit, leading to greater CAB surplus

## Significant increase of GDP due to the boost of export receipts from Services since Q32013



Source: ELSTAT, Data Editing: IOBE

- In Q2 2014 the increase of receipts from Services exceeds the double negative effect from the drop of goods' exports and the increase of goods' imports.

# Medium-term outlook

## **Current (and final) assessment of the Program**

- Fiscal measures for 2015-2017 period.
- There is no need for measures in 2015 according to the 2015 draft Budget. Various approaches for a mix of fiscal policy:
  - ❖ Expansion of existing measures ?
  - ❖ Improvement of efficiency of tax collecting mechanisms?
  - ❖ New, reforms in the Social Security System?
  - ❖ Other savings from operational expenditures?
  - ❖ A mix of some of the above (or some additional)?

# Medium-term outlook

Financial gap- Potential sources of coverage (in the absence of IMF?):

**€18.4 bn in 2015-16**, if funding from IMF continues. Otherwise, **€27.3 bn**

- **Remaining funds from the Financial Stability Fund** (after the positive stress tests)
- **Issuance of Bonds** (+€9 bn in the draft budget). Interest rate level?
  - Significant reduction of the “haircut” in the Greek bonds held by ECB
- Implementation of Eurogroup’s decisions (26/11/2012)
- Credit Line from ESM? (based maybe on the Stability Fund’s buffer)
- Utilization of cash flows of central government (≈ € 10 bn.)

# Forecasts 2014

- Small increase in private consumption for the first time since 2008: 0.7%
  - Seasonal employment in the tourism sector – Employment Service Programs
  - Deflation again this year, slightly milder than last year
- Limited reduction in public consumption : ~ -1.5%
  - Delays in reforming the public sector due to the election cycle - Reforms
- Investments decrease at a slower rate during the first half of 2014, but still negative though at an annual base (-2-3%)
- External Sector : significant expansion of exports this year (+4.0-4.5%), but exclusively from demand for services (tourism)
  - ➔ Slight decrease in exports of goods
    - ❖ Steady decline in demand from the Eurozone, our main export destination.
    - ❖ Adverse effects from the situation in Ukraine, since the largest increase in the first half were towards countries in the specific area
- Imports will increase (+2.5%)
- External sector's deficit will continue to decrease, although at a slower than last year rate

# Medium-term outlook

- **Tourism activity** is a key factor for easing recession
  - Highest than any sector boost of value added (+6.0%)
  - Higher job growth in the 2<sup>nd</sup> quarter (+25.6 thousands)
- However, despite the increase during Jan-July in arrivals (+20.8%), the expenses per trip decrease (-11.8%)
- Extended arrivals during this fall will further support growth

IOBE forecast for  
Growth: +0.7% in 2014  
Unemployment: 26.7%  
Inflation 2014: -0.8%

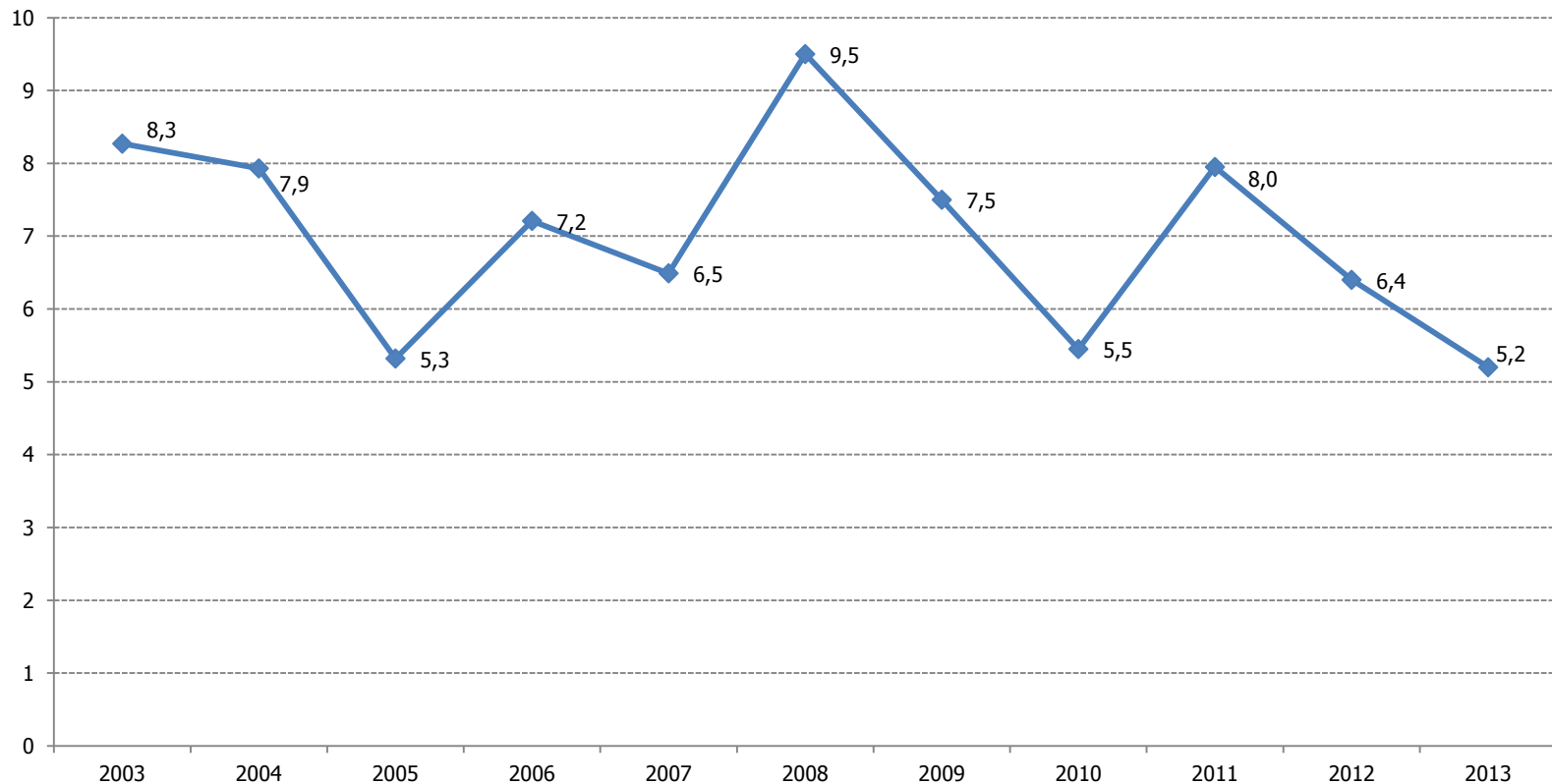
IOBE/FEIR special report

**Entrepreneurship in Greece  
2013-2014  
(prepublication)**



# Early-stage entrepreneurship drops again in Greece in 2013

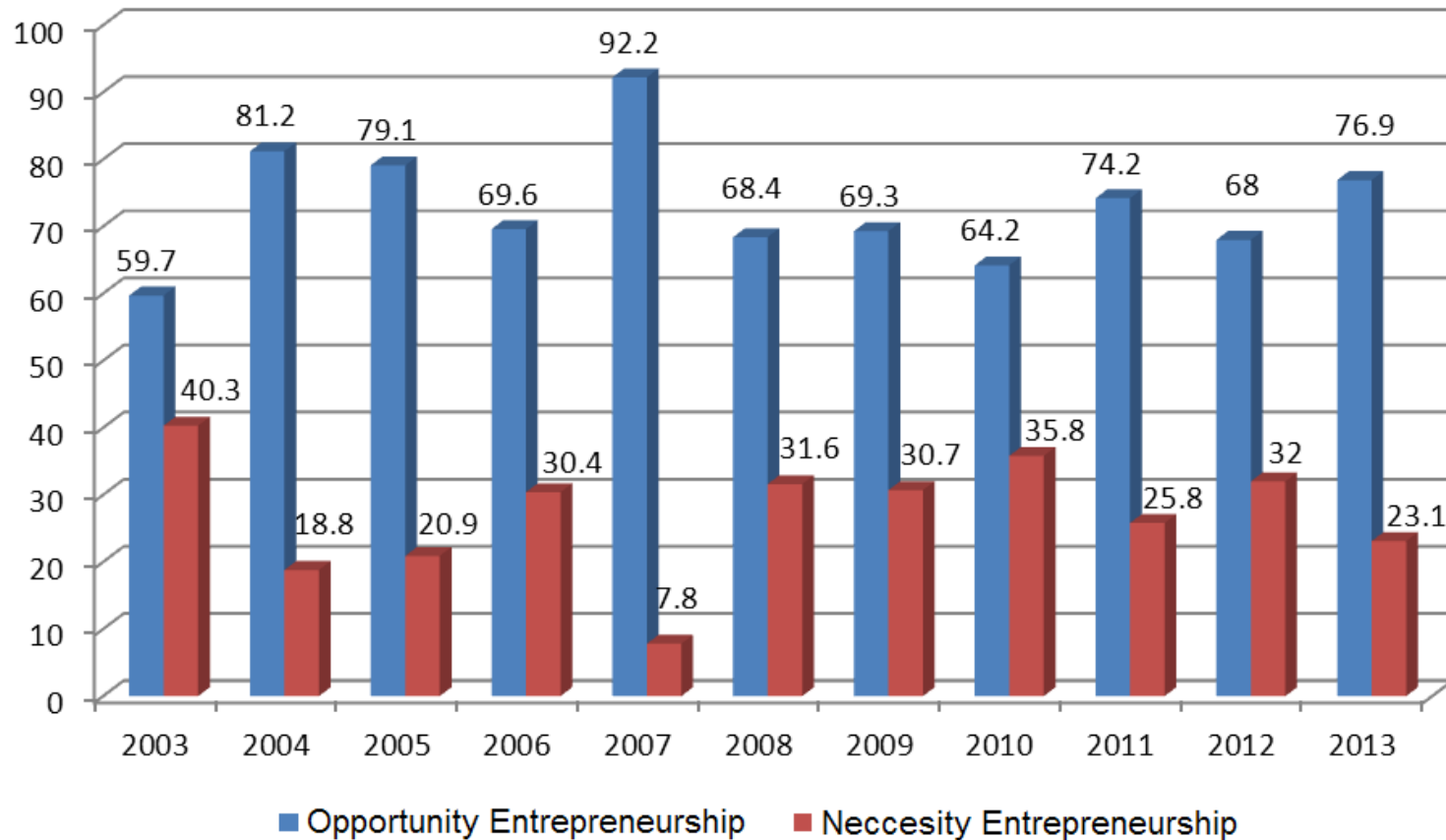
Evolution of early-stage entrepreneurship in Greece  
(% Of population 18-64)



Source: IOBE/FEIR, Data Editing: GEM

# But with an increase of opportunity entrepreneurship

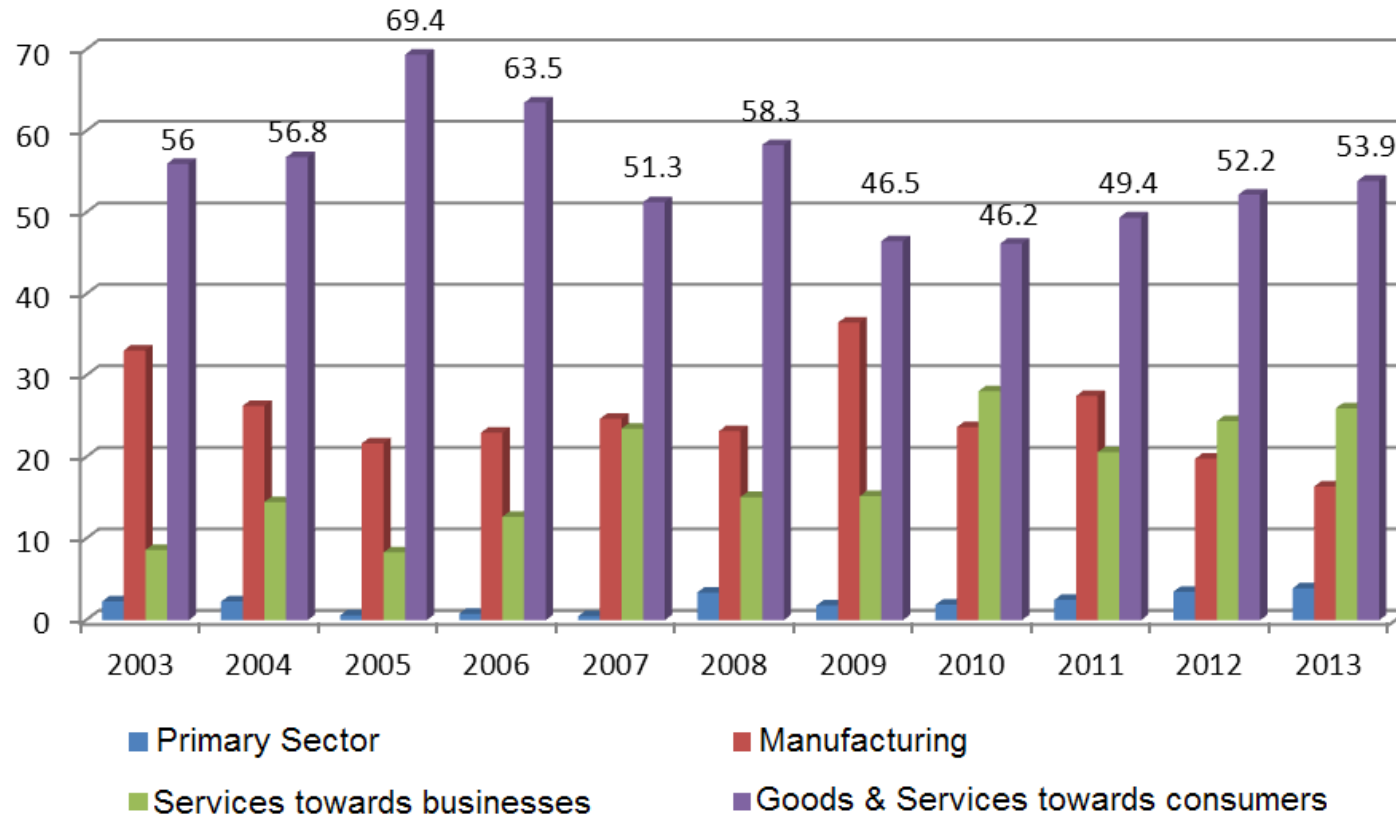
Evolution of opportunity and necessity entrepreneurship



Source: IOBE/FEIR, Data Editing: GEM

# But consumer-oriented activities proliferate

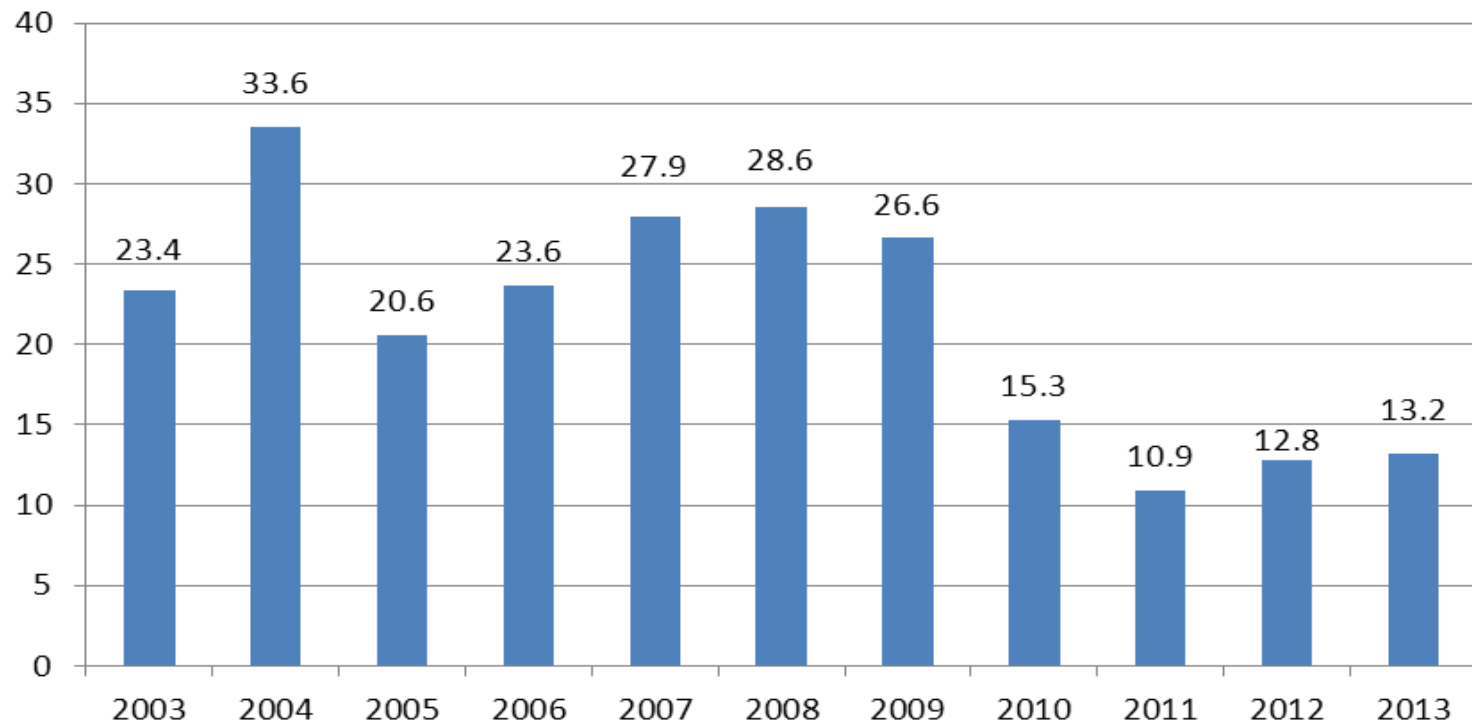
Evolution of the sectoral distribution of new ventures in Greece  
(% early-stage entrepreneurship)



Source: IOBE/FEIR, Data Editing: GEM

# The % of people who see potential opportunities in the business environment increases, although at a small pace

**Percentage of people who see business opportunities for the next semester  
(% of population 18-64)**



**Source:** IOBE/FEIR, **Data Editing:** GEM