

# Quarterly Report on the Greek Economy

01/20

15 April 2020



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Report Overview





# Global environment: Growth slowdown last year, recession in 2020, due to the pandemic

- The coronavirus **pandemic** is causing unprecedented shocks to the global economy
  - Extensive public health protection measures, with a strong negative impact on economic activity and international trade
  - Strong fiscal and monetary support in order to mitigate the effects
- Estimates for **a deep global recession in 2020**, worse than that of 2008-2009. Recovery prospects in 2021.
  - A thorough estimation of the effects is extremely difficult. It will depend on the duration of the pandemic and possible new outbreaks of the virus during the current year.
- **Q4 2019:** Growth rate of 1.6% in the OECD countries, from 1.7% in the previous quarter
  - The global economy grew at a rate of 2.9% in 2019, compared to 3.6% in 2018



# Global Environment: Mid-Term Challenges

## Globally

- Dealing with the Covid-19 pandemic crisis, finding treatment, prevention methods
- Fiscal and monetary policies to deal with the effects of the virus
- 1st phase of US-China trade agreement, tariffs in force until the 2nd phase of the agreement, with partial withdrawal from China
- Geopolitical tensions in the Middle East, Mediterranean

## Europe

- Dealing with a strong outbreak of the virus in large economies (Italy, Spain, France)
- Conciliation and coordination within the Eurozone and the EU for crisis management policies (next slides)
- Risk of a new debt crisis
- British-EU relations after Brexit



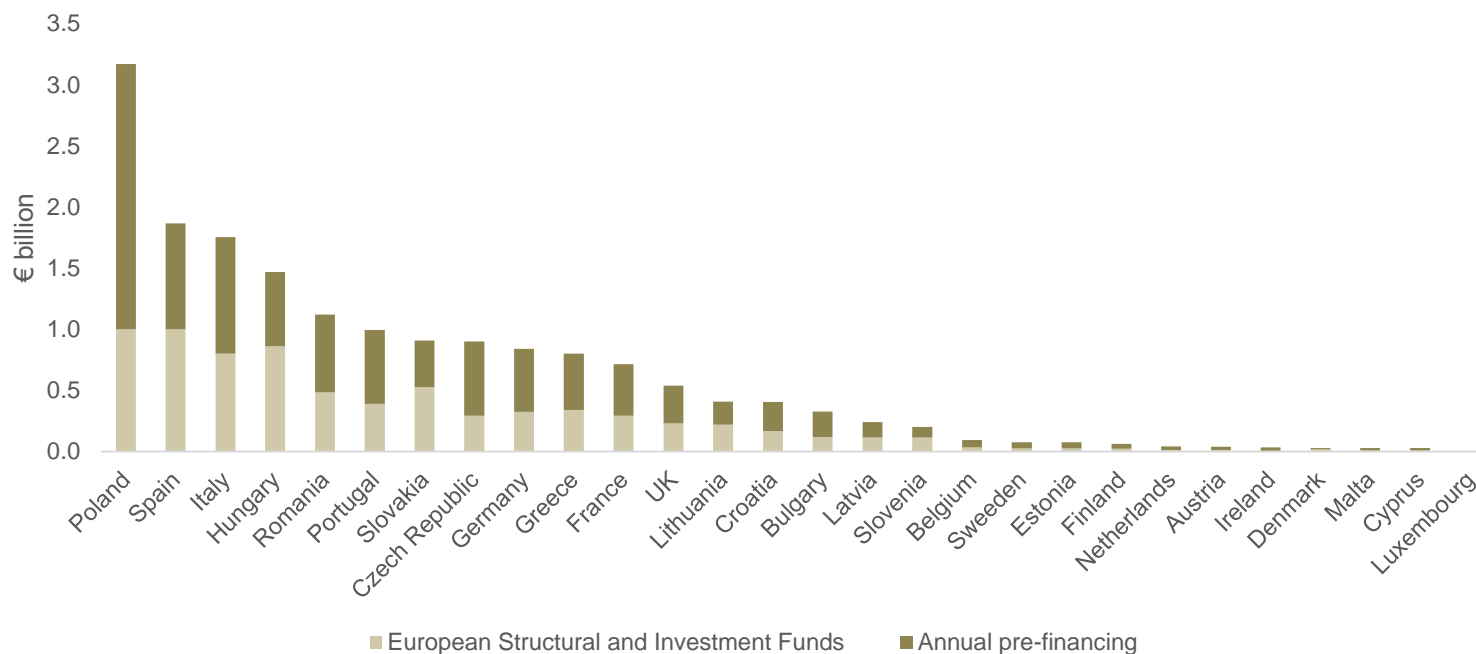
## Emergency program for the purchase of securities by the ECB, including, for the first time Greek securities. Activation of a general escape clause of the Stability and Growth Pact

- **Pandemic Emergency Purchase Program of ECB: €750 billion**
  - Extraordinary measure to deal with monetary risks arising from the current pandemic
  - It concerns the purchase of private and public securities
  - Not predetermined duration (definitely until the end of 2020)
  - Similar criteria for selecting securities with the existing APP other than:  
Exception for the securities issued by the Greek government. It is recalled that in the context of the APP, the Greek titles were not and remain ineligible.
- Activation for the first time of the **general escape clause of the Stability and Growth Pact (SGA)**, in the context of the strategy for immediate and flexible response to the needs of the pandemic of the new coronavirus
- **Possibility of support of the Member States with credit lines by the European Stability Mechanism**, if a country so requests, up to 2% of each country's GDP. In total, the credit lines could reach €240 billion.



# EU will support member states through Coronavirus Response Investment Initiative - CRII

## European Initiative to tackle Covid-19, Direct Support to Member States



Source: EC Editing: IOBE

Note: This chart only applies to the direct support of Member States which is a subset of the CRII.

- Direct liquidity in member states' budgets (total funding up to €37 billion)
- ESF: Health Expenditures, Short-Term Labor Regulations and Community Interventions in support of vulnerable social groups.
- ERDF: Financing the working capital in SMEs
- The EU Solidarity Fund will provide additional assistance of up to € 800m to the most affected countries.



# The EU is supporting the labor market and SMEs

## Support mitigating Unemployment Risks in Emergency – SURE

- Protection of workers affected by the pandemic crisis
- Financial assistance of up to €100 billion to Member States in the form of loans, granted with favorable terms
- Cost coverage of national programs for short-term employment

## Protection of SMEs

- Funds up to €8 billion
  - Provision of immediate financial assistance to SMEs
  - €1 billion from the European Strategic Investments Fund, as a guarantee to the European Investment Fund, in order to provide liquidity to at least 100,000 SMEs
- European Investment Bank
  - A package of €40 billion for SME financing, from existing guarantee schemes
  - Creation of a new Guarantee Fund of €25 billion to facilitate the provision of financing up to €200 billion, aimed at addressing the consequences of the pandemic crisis.



# Greece: New growth slowdown in Q4 of 2019

Q4 2019: **+1.0%**, versus +2.3% in Q3 2019 and 1.8% in Q3 2018

**2019: increase of GDP by 1.9%, to the same extent as 2018**

## Significant changes in GDP components:

- Exports expansion by 4.9%, milder than a year ago (+8.7%)
  - $\frac{3}{4}$  comes from more export services (+8.1%, from +9.2% two years ago), from higher revenues from tourism and international transport. 2.2% increase in exports of products (compared to 8.4% in 2018)
  - Acceleration of imports by 2.5%, slightly lower than in 2018 (+3.0%), primarily due to more imports of services (+6.9%). Products: +1.5%
- Escalation of private consumption to the end of the year. Increase of public spending from the election cycle.
  - Increase in private consumption by 1.8% in the fourth quarter, +0.8% in 2019, slightly less than a year ago (+1.0%). Expansion of public consumption by 2.2% (compared to -2.5% a year ago), exclusively from Q2 (+9.8%).
- Investment stagnation, instead of a small increase of 1.6% two years ago
  - The fixed capital formation increased by 4.6%, in contrast to its fall of 12.0% two years ago. However, inventories expanded less than in 2018, by € 963 million.





# State Budget: Small fall behind targets during the first two months of 2020

- **State Budget Balance: deficit of €1.11 billion, from €1.14 billion last year, against a target of around €820 million.**
- **Primary result: surplus of €831 million, almost as much as two years ago (€822 million), but €98 million less than the target**
- Shortfall in targets from less revenue due to:
  - Smaller transfers by €298 million, less tax receipts by €180 million, but also more tax refunds by €78 million.
- Marginal restraint of spending (-€175 million) from:
  - Less non allocated expenditure (- €202 million) and transfers (- €143 million)



# Trends in short-term activity indicators

## Industry

- Reduction of industrial production in 2019 by 0.8% instead of +1.6% two years ago
- Eurozone: -1.7%, instead of an increase of 0.9% a year earlier.
- Production declined in 10 of the 27 Member States. The largest decline was recorded in Germany (-4.6%, from +1.0% last year)

## Construction


- Decline in Construction in 2019 by 5.5%, followed by a decrease of 12.5% in 2018
- Fall of Building Projects (-6.5%), but mainly of Civil Engineering Projects (-16.2%)

## Tourism

- Significant slowdown in the expansion of activity in Tourism: +1.3%, instead of +7.6% two years ago

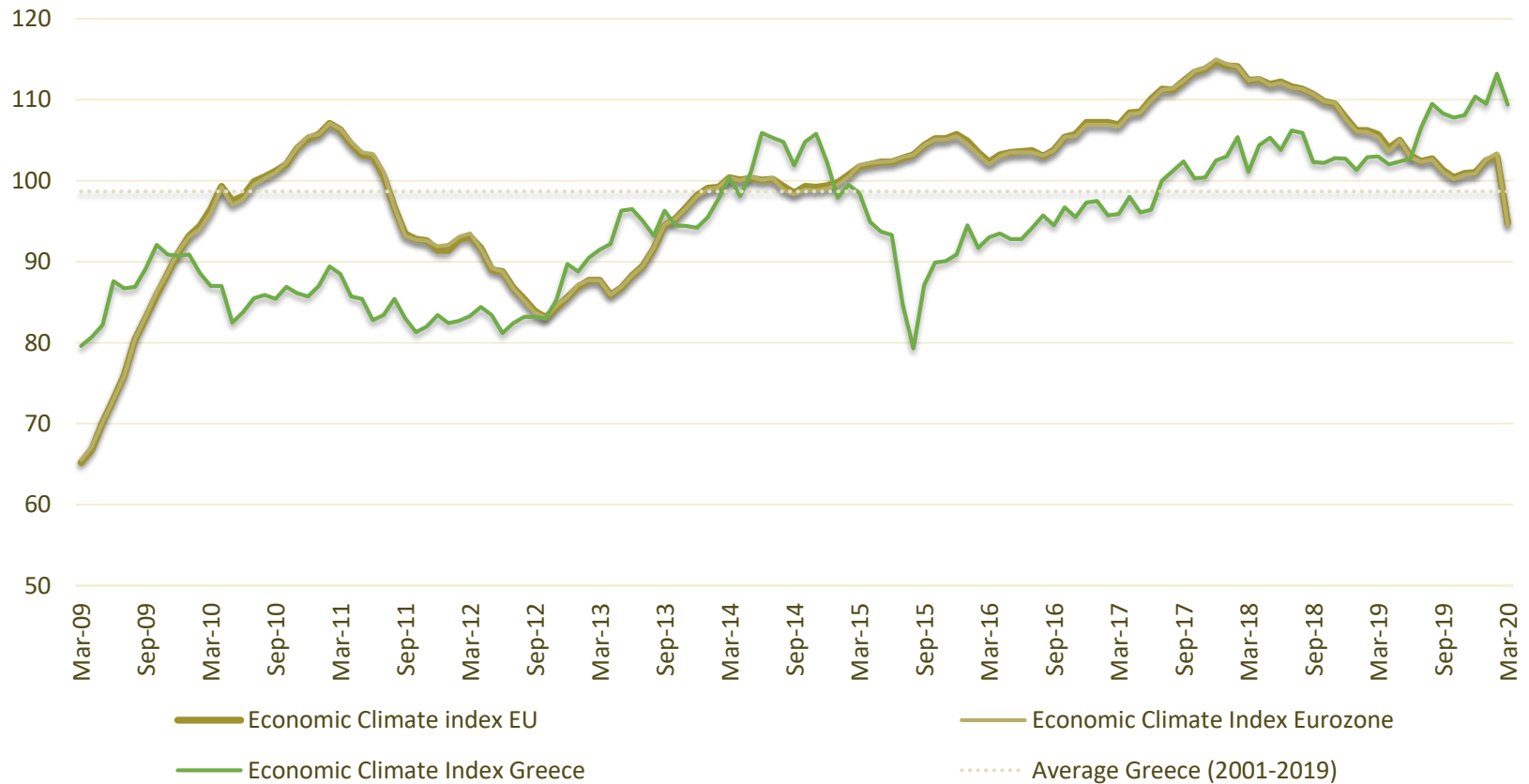
## Retail Trade

- Small increase of retail activity in 2019, at a slower pace compared to 2018, 0.8% instead of 1.4%

 Slight increase of the Economic Climate Index in Q1, compared to the previous quarter. However, at the maximum level since Q4 2007.



## Economic Climate index

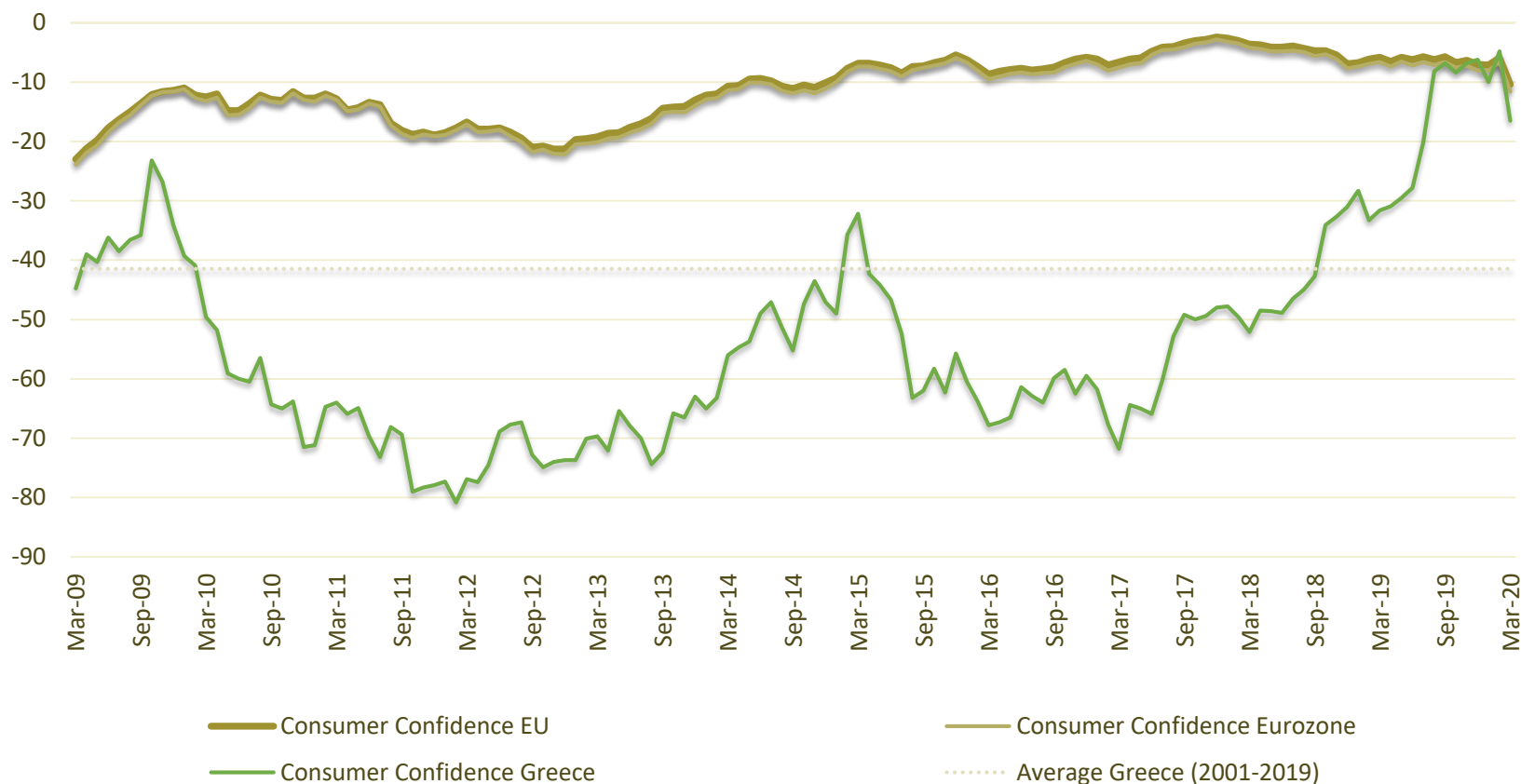


Sources: IOBE, EC



# Slight decrease of Consumer Confidence in Q1 2020 At the highest level since Q1 2002

## Consumer Confidence

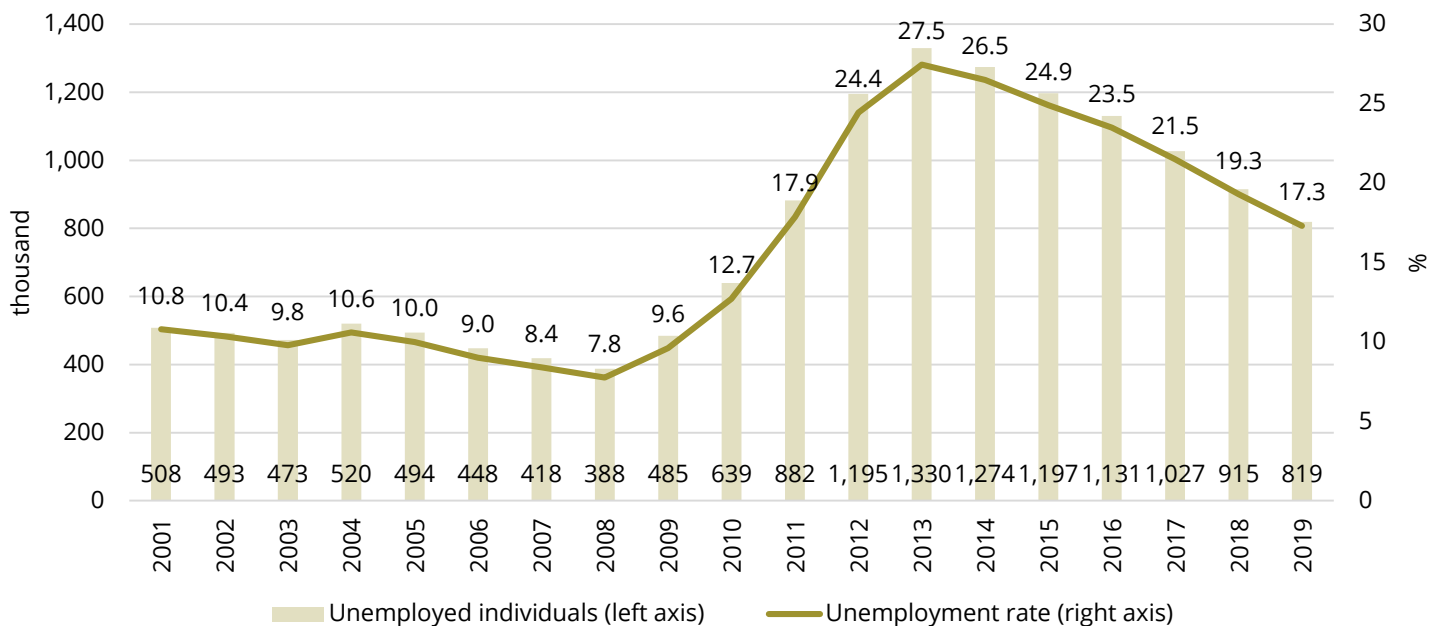


Sources: IOBE, EC



# Fall of unemployment in 2019, for sixth consecutive year

## Number of unemployed persons and unemployment rate in Greece



Source: ELSTAT

- Unemployment rate of 17.3% in 2019 from 19.3% a year earlier
- Increase of employment in 16 sectors. Mainly in: Transportation-Storage (+22.2 thousand), Tourism (+20.2 thousand), Manufacturing (+19.3 thousand), Education (+17.7 thousand)
- Reduction of employment in 5 sectors. Mainly in: Primary sector (-16.0 thousand), Household activities as employers (-4.9 thousand), Construction (-4.0 thousand), Financial-Insurance activities (-3.4 thousand)



For fourth consecutive year, increase of seasonally adjusted wage cost, milder than in 2018

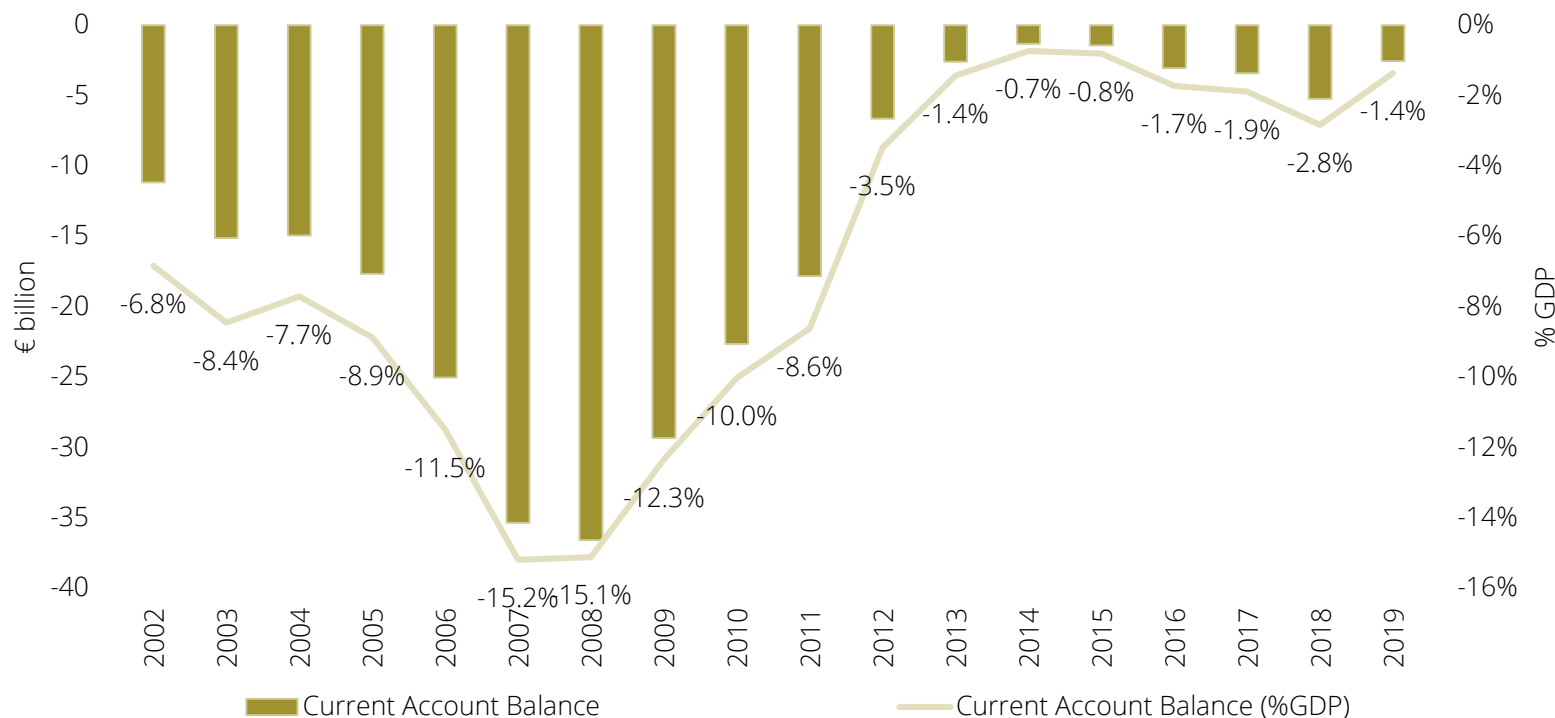


Source: ELSTAT

➤ Increase of seasonally adjusted wage cost (0.7%) in 2019 compared to 2018



# Decrease of the Current Account Deficit a year ago, due to a greater increase of exports compared to imports



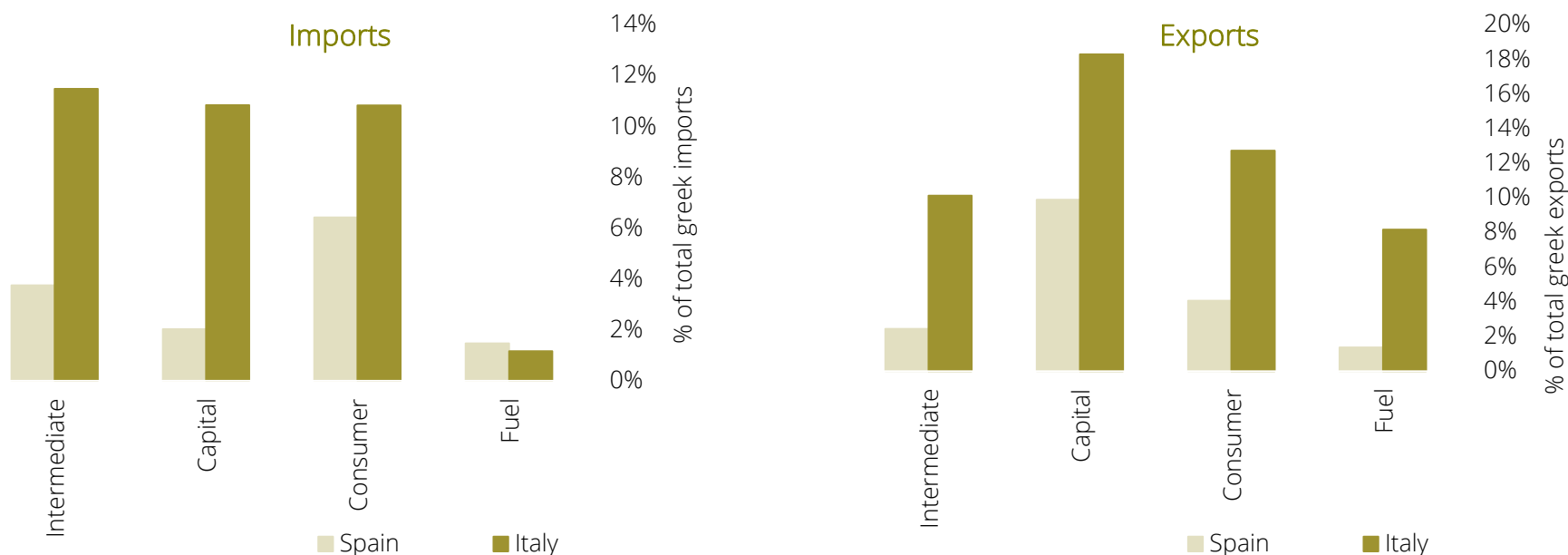
Source: Bank of Greece

- Significant surplus expansion in Services and Income Balance (primary and secondary), by €1.8 billion and €1.2 billion respectively
- Partial offset by the increase in trade deficit by €344 million



# Trade in goods with Italy and Spain

## Significant trade flows with the two countries



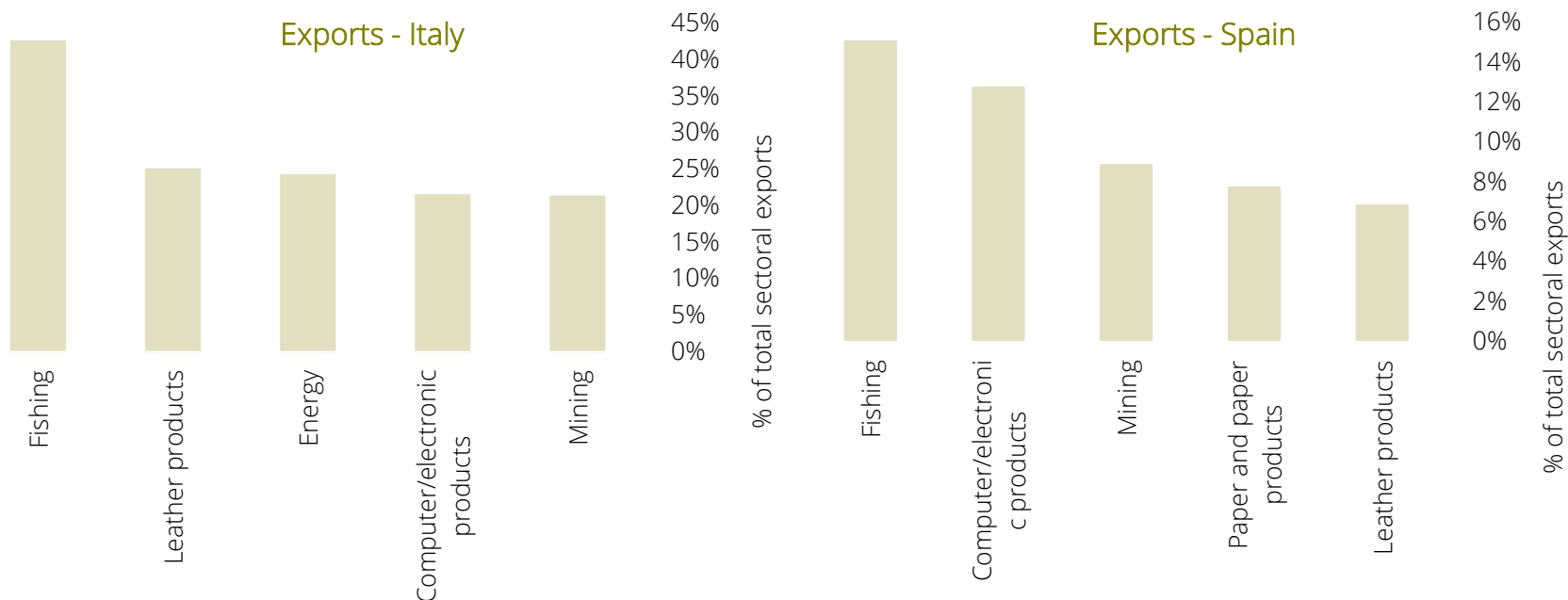
**Source:** Eurostat (EU trade by BEC)

- Italy is the first destination for Greek exports of goods (period 2017-2019), with about €3.4 inflows, namely 10.6% of Greek exports
- Spain is Greece's 10th largest export partner (7th in Europe), accounting for 3.0% of Greek exports
- About 11% of the goods imported in Greece (intermediate, capital and consumer) come from Italy
- A big part of capital products' exports towards Italy and Spain





# Several sectors have increasing flows with Italy and Spain



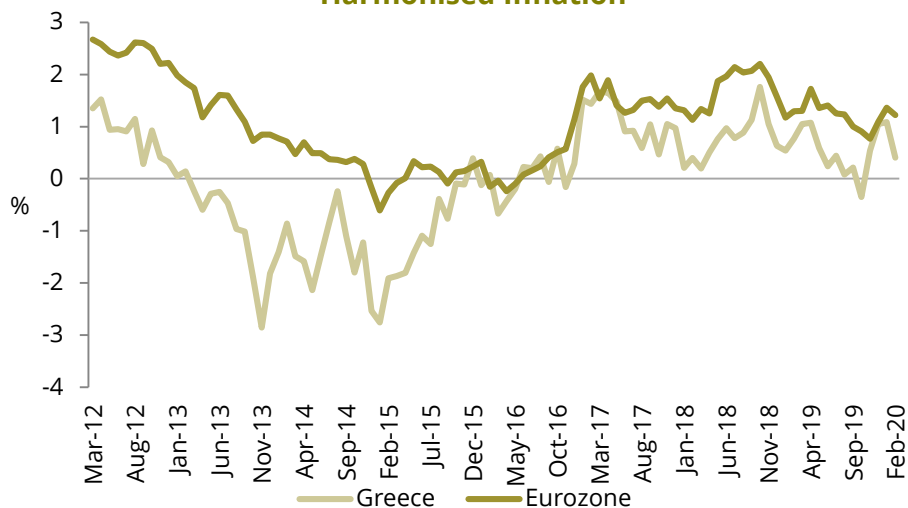
**Source:** Eurostat (EU trade by CPA)

- The fishing industry in Greece has 60% of its exports to the two countries, mostly to Italy. The industry of leather products has 1/3 of its exports in each of these countries.
- Computers and mining also export much to Italy and Spain, more than 30% in total.

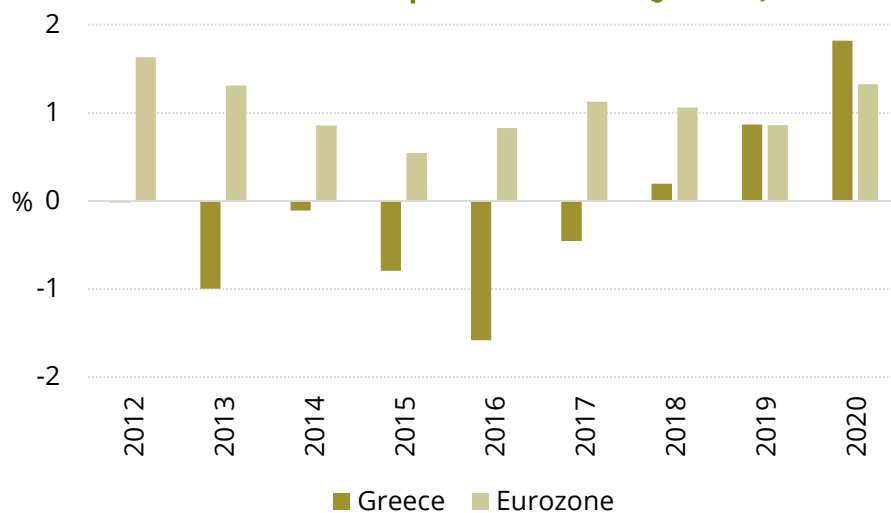


# Milder price increase in the first two months of 2020, mainly due to domestic demand

Harmonised Inflation



HICP at constant prices excl. fuels (Jan-Feb)



Sources: ELSTAT, Eurostat

**Eurozone:** Unchanged inflation compared to the first two months of 2019 (1.3% from 1.2%)

**Greece:** the rate of change of prices remains positive for fourth consecutive year, at 0.5%, as in the first two months of the previous year

- Negative effect from indirect taxes (-1.3 percentage units), marginally positive on energy goods (0.2%). Acceleration of prices mainly by domestic demand - other factors (+1.8 p.u.)

**Producer Price Index (January 2020):** + 3.3%, against stability a year ago, due to Electricity, Gas and Electrical Equipment



## **Intense decline of activity, primarily in Services, but also in Industry, due to restrictive measures domestically-internationally**

- Mainly affected sectors: Wholesale - Retail Trade, Accommodation Services, Logistics - Transportation, Food services, Manufacturing, Arts - Entertainment
- Strong decline in private consumption, exports and imports
- Reduction in employment → Additional pressures on private consumption
- Fewer tax revenues, as well as social security receipts
- But also an increase of demand for specific services (health care, social care, creation of internet services, courier services) → boost of employment in specific sectors



- In case the crisis is prolonged or there is a new outbreak of the virus, a new increase of non-performing loans is quite possible → banks would be more cautious with issuing new loans.
- Strong decline of demand for new loans is expected, due to increased uncertainty → sharp decline in investment
- But also inclusion for the first time in ECB's securities purchase program (PEPP), through a waiver for Greek securities from the eligibility criteria → security valve for the banking system, very important tool for recovery
- Acceleration of the implementation of the "HERACLES" Program for NPLs, which remains pending



# The key role of the State at many levels

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- Measures to protect public health, but with a budgetary impact, from revenue decline
- Financial interventions of €6.8 billion to support companies, employees and the unemployed due to health crisis (next slide)
  - *The effects on expenditures will be completed by the end of the measures, but those on revenues will continue, depending on changes in economic activity*
- Programs to support liquidity and investment (next slide)
- Key role of public investments and investments in privatizations-concessions
  - *Acceleration of licensing procedures is required*



# Emergency economic support measures announced to mitigate the effects of the crisis

## Fiscal stimulus of 3.6% of GDP

- Suspension of tax liabilities over €2.1 billion
- Suspension of insurance obligations and coverage of insurance contributions of €1.6 billion
- Emergency financial assistance to employees and the unemployed €1.4 billion
- Emergency public health expenditures
- Strengthening the primary sector
- Partial coverage of the Easter allowance for employees who have temporary suspension of employment contract and transfers to public health employees
- Support through the financing scheme of "advance payment return" for the SMEs

## Liquidity stimulus & private sector financing

- Mechanism for providing guarantees to small and medium-sized enterprises with the participation of the European Commission to provide working capital loans up to €6 billion.
- Providing liquidity by the European Investment Bank (EIB) to banks for granting of new business loans up to €2 billion
- Guarantee mechanism in cooperation with the EIB, for investment loans up to €500 million
- Increase in resources of the Hellenic Development Bank by €250 million, for the granting of loans to companies affected by Covid-19, with a 100% subsidy on interest rate for two years
- Temporary interest rate subsidy for performing business loans
- Temporary suspension of loan installments under conditions



# Process of macroeconomic forecasts

## Determinants of macroeconomic trends in 2020:

- Duration of current coronavirus pandemic, domestically and internationally, and risk of a new outbreak of the virus within the year
- Intensity and time profiling of the recession in Eurozone (main trading partner)
- Size and duration of domestic policy interventions to address the crisis
- EU size and duration of policy interventions to address the crisis
- Oil prices change

## Alternative hypotheses for the evolution of these factors shape different macroeconomic scenarios

### Baseline Scenario:

- Maintain most domestic protective measures until mid-May, then gradually lift them
  - Gradual lift of measures for the international passenger transport, in Greece and internationally, from end-May
  - Expansion of state support measures until end-May
  - Eurozone economic activity: recession intensity in 2020 ~ 1.5 \* recession of 2009 (-6.7% y/y)
- ➔ Businesses in the Tourism sector will be able to receive international tourism for a significant part of the tourist season

### Adverse Scenario:

- Maintain most domestic protective measures until end-June, then gradually lift them
  - Gradual lift of measures for the international passenger transport, in Greece and internationally, from end-June
  - Expansion of state support measures until end-June
  - **Alternatively, the same duration of measures with the base scenario but a new virus outbreak in November**
  - Eurozone economic activity: recession intensity in 2020 ~ 2 \* recession of 2009 (-9% y/y)
- ➔ Businesses in the Tourism sector will be able to receive international tourism in a small part of the tourist season, while many will not be motivated to operate



# Macroeconomic forecasts 2020

## Macroeconomic forecasting tools

Combination of:

- A) Evaluation of the effect of an external disturbance (recession in the Eurozone), through a Vector Error Correction Model (VECM)
- B1) Estimation of domestic disturbance on the production side (assumption of production shocks in 12 key sectors)
- B2) Estimation of domestic disturbance on the demand side, through i) public consumption (from extraordinary expenditures), ii) private consumption (from rapidly rising unemployment), iii) fixed capital formation

### Forecasts (Baseline Scenario)

- Public Consumption:  $\approx +4.5\%$  y/y
- Private Consumption:  $\approx -4.0\%$  y/y
- Investment:  $< -17\%$  y/y
- **Recession:  $\approx 5.0\%$  y/y**
- Unemployment: 19.3%
- Deflation: 2.0%

### Forecasts (Adverse Scenario)

- Public Consumption:  $\approx +7.5\%$  y/y
- Private Consumption:  $\approx -8.0\%$  y/y
- Investment:  $< -30\%$  y/y
- **Recession:  $\approx 9.0\%$  y/y**
- Unemployment: 21.2%
- Deflation: 3.0-3.5%



Special study

*The importance of mobile communications and  
broadband in the new growth model of the Greek  
economy*



# A "violent" digital transformation in progress ...

- Due to the global health crisis, traditional functions and processes of the economy are being reformed, in order to adapt to a digital environment.
  - distance learning, teleworking, e-government, e-commerce, e-banking
- Significant increase in traffic in March compared to February (source: Greek Mobile Operators Association (EECT))
  - **Mobile telephones: + 21.3% in data and +14.5% in speaking time**
  - **Landline telephones: +36% in data and +46% in speaking time**
- Relatively efficient adjustment of the public and private sector. However, efficiency is based on user skills and investment in broadband infrastructure/
- Numerous IOBE studies on digital transformation. More recent study on behalf of Greek Mobile Operators Association (EECT), on the importance of mobile communications and broadband\*

\*The full study text is available here: [http://iobe.gr/research\\_dtl.asp?RID=192](http://iobe.gr/research_dtl.asp?RID=192)



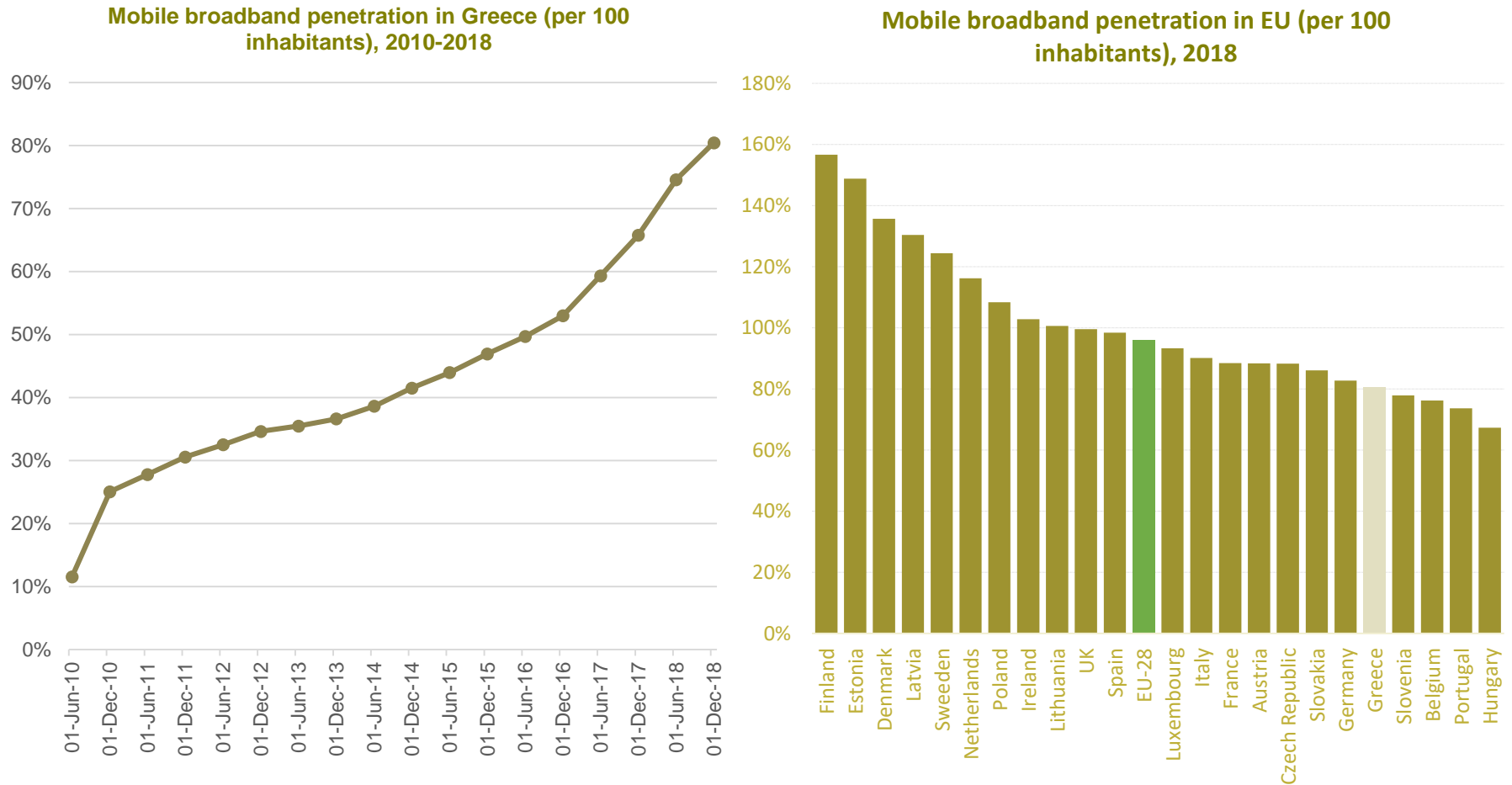
# Purpose of study

**Highlight the importance of mobile communications and broadband to the new growth model of the Greek economy**

**Quantification of total contribution of the telecommunications industry to the domestic economy**

Quantification of potential impact from a qualitative increase of the use of mobile communications in a series of digital functions where Greece lags, according to DESI indicators

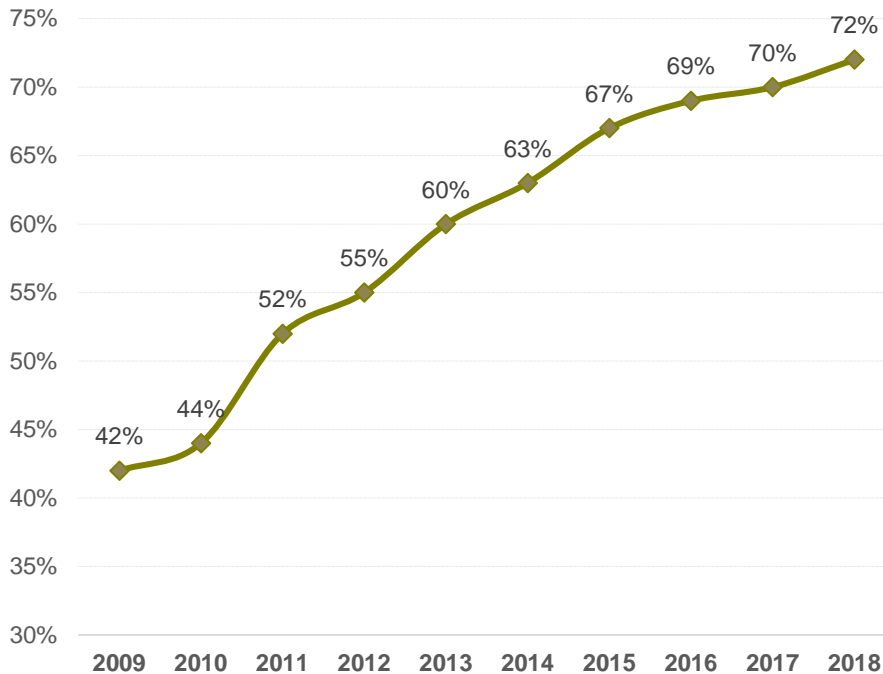
# The penetration of mobile broadband communications in Greece follows a relatively stable trend



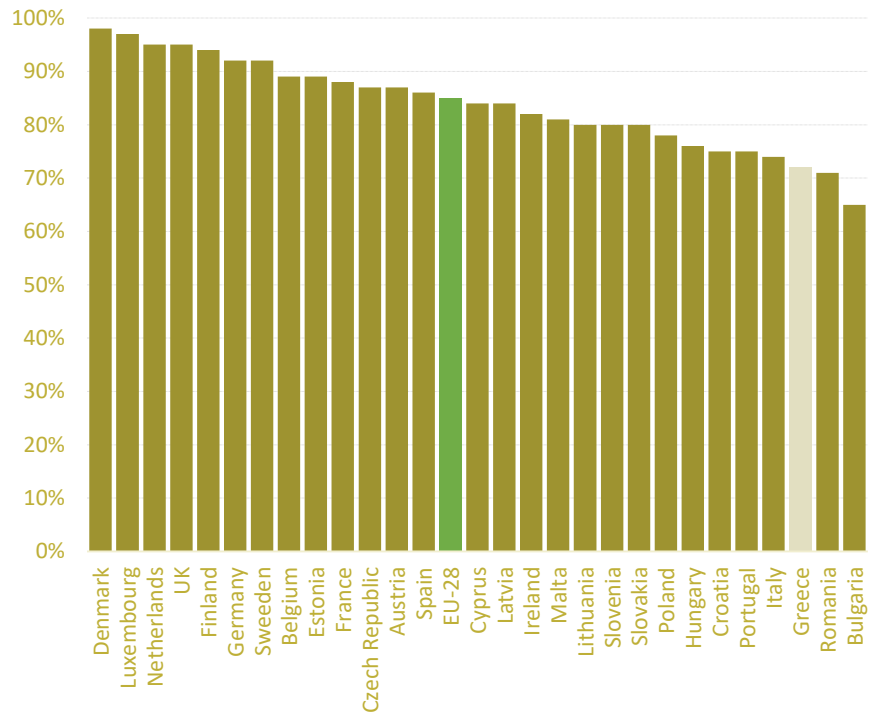
Source: OECD

# Despite the increase of internet access ... Greece lags compared to other member states

Percentage of population with internet access in  
Greece, 2009-2018



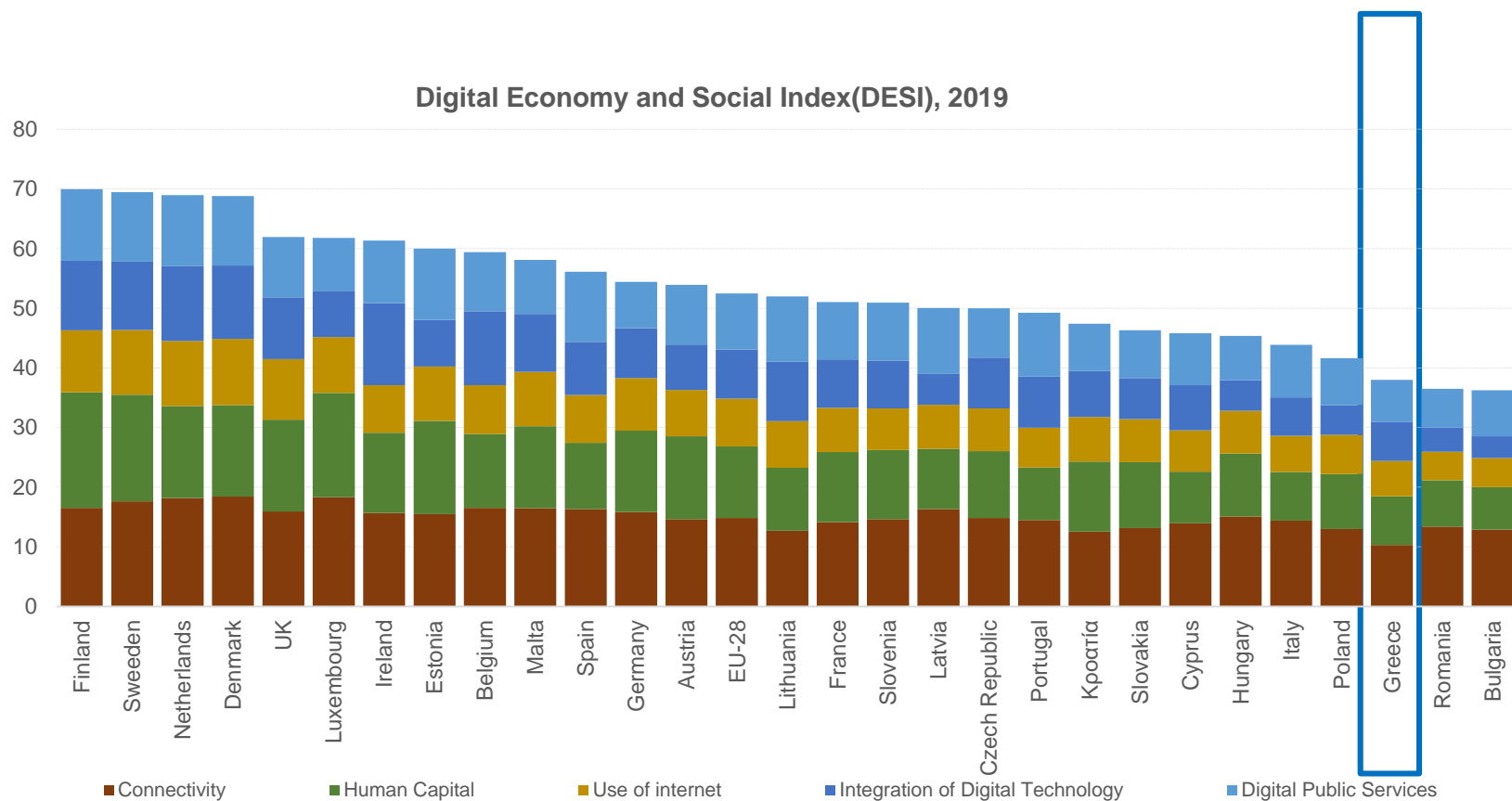
Percentages of population with internet access in  
EU-28, 2018



(\*) Percentage of population with internet access in Q1 of each year

Source: Eurostat

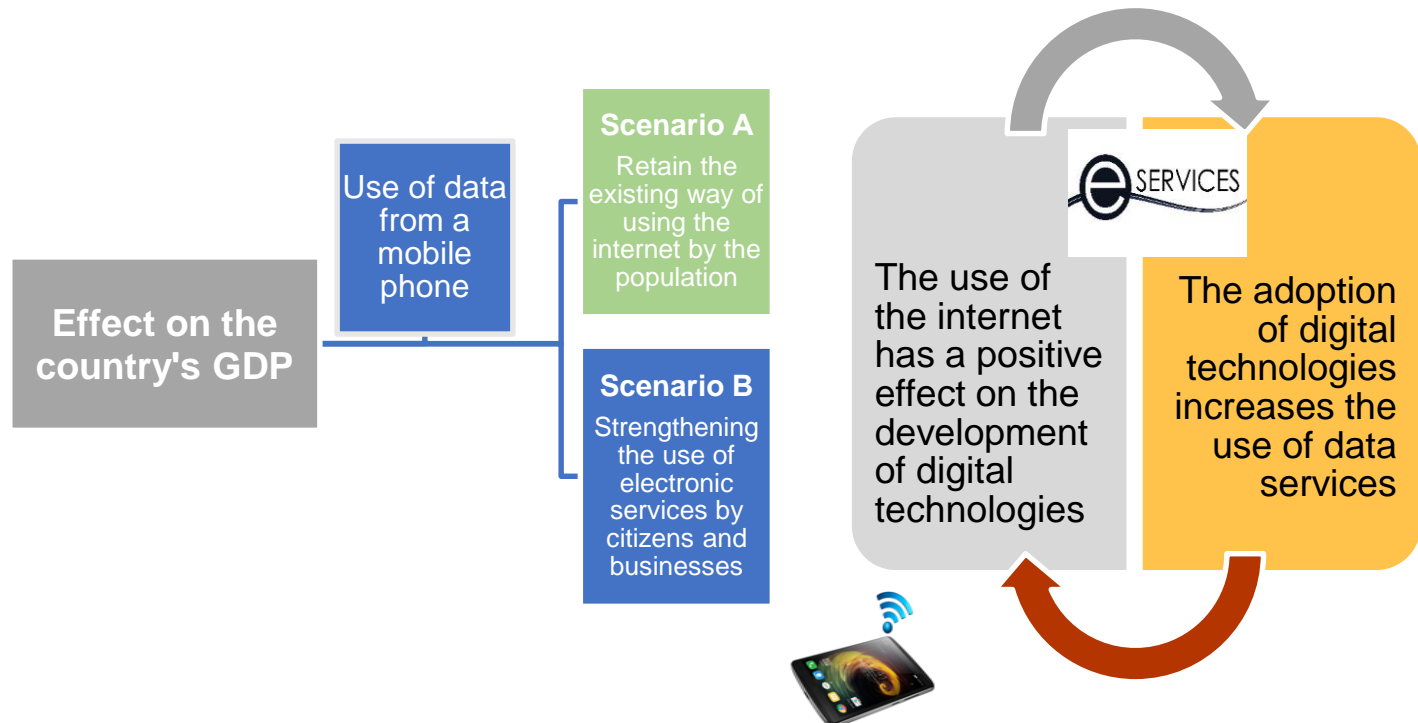
# Greece lags in the field of digital transformation compared to other EU countries



Source: Digital Economy and Society Index

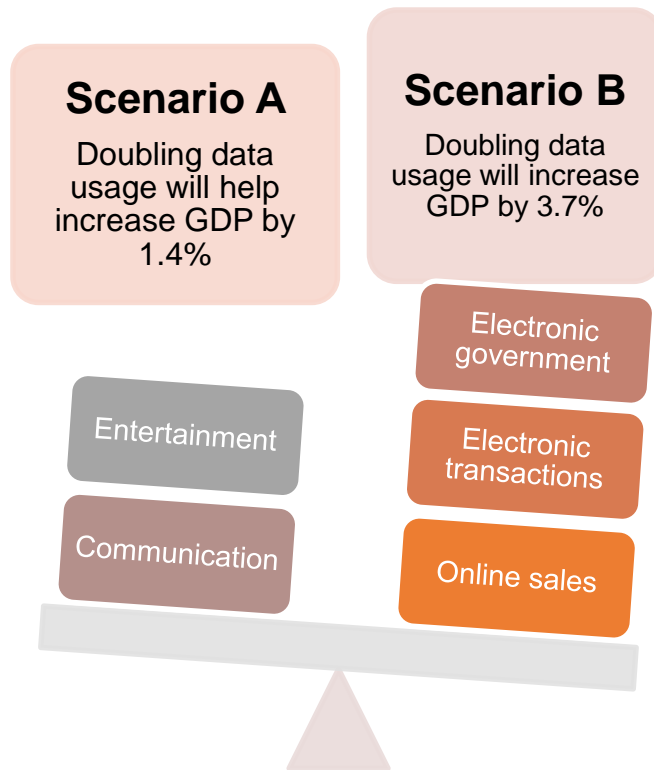


# Growth scenarios based on the increasing use of data through mobile communications in the case of Greece



Mobile internet is now an important source of revenue for mobile companies internationally, while providing the opportunity to its users to take advantage of applications that make their daily lives easier.

# The use of data has a positive effect on economic activity



- **Scenario A:** The benefit to the Greek economy, in terms of GDP, from doubling the consumption of mobile data with the existing way of usage of the internet can reach up to **€2.6 billion**
- **Scenario B:** The benefit is much higher (**+ €6.8 billion**) in case the doubling of the use of mobile data in Greece is fueled by increased use of e-government services (e-gov, e-banking, e-commerce)

**Sources:** IOBE estimations





# The mobile communications industry is a significant lever for economic growth

The digital gap still exists, despite the softening that has been recorded in recent years

- Good growth rates but lagging compared to other EU member states
- Differences and in qualitative characteristics (e.g. reasons for using the internet) between Greece and the EU

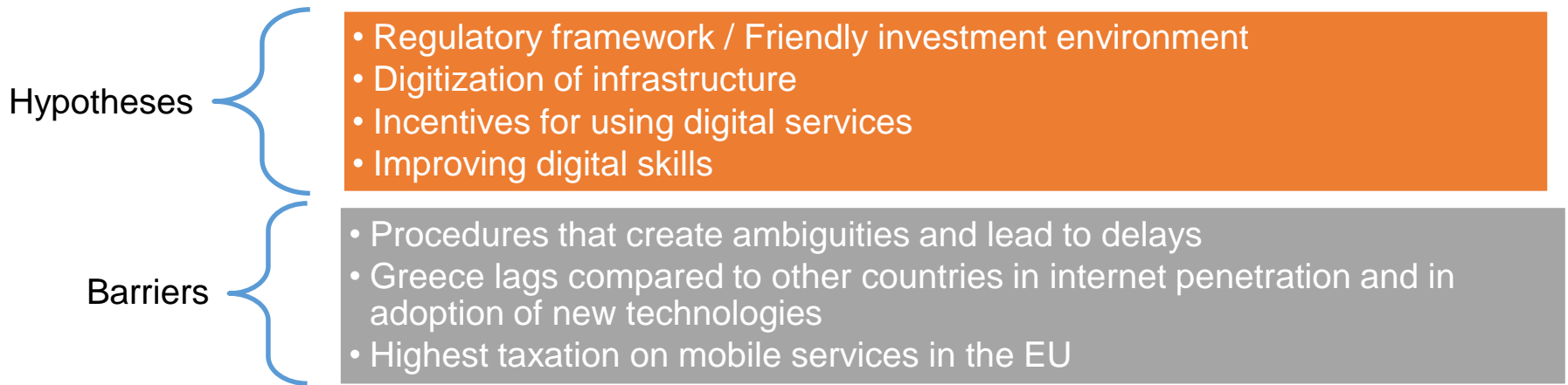
The development of 5G network offers development opportunities for the country

- It can contribute to the country's digital transformation
- Increasing data traffic combined with enhanced electronic transactions by citizens and businesses is expected to contribute to GDP and public revenue, but also to facilitate daily lives, as the current crisis has already shown.

Direct effects on the economy are significant. Even more important are the multiplying effects

- In terms of GDP, the contribution is estimated at €3.9 billion in 2018 (or 2.1% of the Greek economy's GDP)
- In terms of employment, it is estimated at 59 thousand jobs in 2018

# Need for a more favorable regulatory framework and tax redesign



**Opportunity:** The "violent" adjustment during the current crisis may be used as an opportunity to maintain this momentum after the restoration of the country's socio-economic functions.

- Mandatory digital use of a small, but crucial number of services: it was proved that it functions
- **But also** the need to bridge the digital gap: building digital skills for everybody
  - It is not an option to treat the "technologically illiterate" as a category having a personal problem, which they should solve themselves
  - On the contrary, this should be a strategic priority for the country

Thank you for your attention!

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