

Quarterly Report on the Greek Economy

02/20

9 July 2020



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Report Overview





COVID-19 recession and its confrontation

- The health crisis goes on
- The recession in 2020 is expected to be deeper than initially forecasted
- Large-size fiscal and monetary policy interventions are continued
- Limited visibility about the evolution of the problem
- The preparation of conditions for growth since 2021 is as important as the confrontation of the current recession
- Economic resources expected to be available from the EU, need to be used in order to strengthen the economy, support infrastructure and change the growth paradigm
- Paramount importance of target setting and management mechanism



Global environment: Deeper recession than expected in 2020, partial recovery in 2021

- The coronavirus **pandemic** is causing unprecedented shocks to the global economy
 - Gradual restart of the economies, albeit with fluctuations
 - **Deeper** decline of economic activity than expected in the 1st semester
 - **First time in a recession**, apart from investments, private consumption and activity in services are also projected to weaken due to the health protection measures
 - The possibility of a V-shape recovery falls away
- **2020 Q1:** Growth rate -0.8% in the OECD countries, from 1.6% in the previous quarter
- IMF forecast for a **global recession** of 4.9% in 2020 (from 3.0% in April), gradual recovery of 5.4% in 2021



Global Environment: Mid-term challenges

Globally

- Danger of a new Covid-19 outburst
- Fast and qualitative recovery after the crisis
- Positive climate in the financial market, due to special measures
- Geopolitical and trade tensions resurge

Europe

- Challenges regarding the handling of the pandemic crisis, with respect to:
 - the lifting of the protection measures for public health, inside and outside the EU
 - the implementation of liquidity boost measures of the European Commission and the ECB (e.g. Recovery Fund, PEPP)
- Increasing uncertainty in markets and sectoral fluctuations, with the tourism and travel sectors being the ones most severely hit
- Risk of a new debt crisis
- UK-EU relations in the post-Brexit era



Greece: Mild recession in the 1st quarter 2020, after 3.5 years of continuous growth

2020 Q1: **-0.9%**, compared to +1.0% in 2019 Q4 and +1.6% in 2019 Q1

Most important changes in GDP components:

- Decrease of consumption spending after two continuous years of increase. Government spending expansion due to the pandemic.
 - Decline of private consumption by 0.7% in Q1 versus increase by 1.3% a year ago. Increase of public consumption by 2.0% after a marginal increase (+0.4%), in the start of 2019.
- Decrease of investment by 5.1%, versus a significant increase of 12.3% a year ago
 - Fixed Capital Formation decline by 6.4% versus +8.8% in 2019 Q1. Marginal increase in inventories than a year ago (+ €58 millions).
- Exports expansion by 2.5%, milder than a year ago (+4.8%): improvement of the external balance in 2020 Q1
 - Exclusively due to more exports of goods (+4.7% compared to -0.4% a year ago). Stable exports of services.
 - Marginal increase of imports (+0.2%) compared to a significant increase a year ago (+9.7%). Anemic increase of goods imports (+0.2%) and service imports (0.3%)

- **State Budget Balance: deficit of €7.5 billion (ESA approach), against a target of €2.5 billion, 94% of the lag between March and May**
- **Primary balance result: deficit of €4.8 billion against marginal surplus target of €43 million: 98% of the lag due to the pandemic**
- Shortfall in targets from less revenue (- €2.5 bln) due to:
 - Lower VAT revenues (-€1.1 bln), personal income tax revenues (-€441 mil.), lower sales of fixed assets (-312 mil.)
- Spending exceeded (+€2.27 bln) due to:
 - More expenditure through the Public Investment Programme (+1.76 bln), due to expenditure for the special purpose compensation to firms, subsidies for loan interest payments of SMEs (+€931 mil., special purpose compensation for employees and scientists)



Trends in economic indicators

Industry

- Decline in industrial production during Jan.-Apr. 2020 (-3.4%) versus a 1.7% increase of in 2019
- PIM in Eurozone (Q1): -5.8% versus +0.7% a year ago
- PIM fall in April by -27.9% in the EU and -9.9% in Greece

Construction

- Decline in Construction in 2020 Q1 by 10.3%, next to a fall of 11.9% a year ago
- Stagnation in Building Construction but decrease in Civil Engineering (-17.2%), following a decrease of 22.0% in 2019

Tourism

- Slowdown of losses in 2020 Q1 compared to 2019: -6.5% compared to -22.5% in 2019

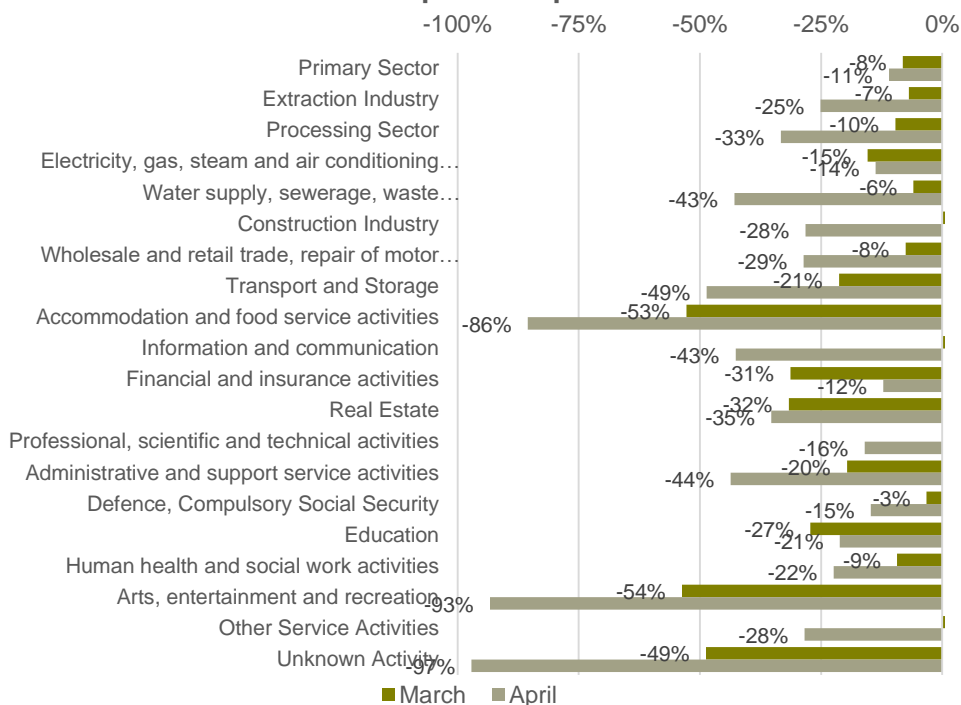
Retail Trade

- Decrease of the volume of Retail Trade by 4.9% in the first four months of 2020 compared to a milder decrease of 1.0% in 2019

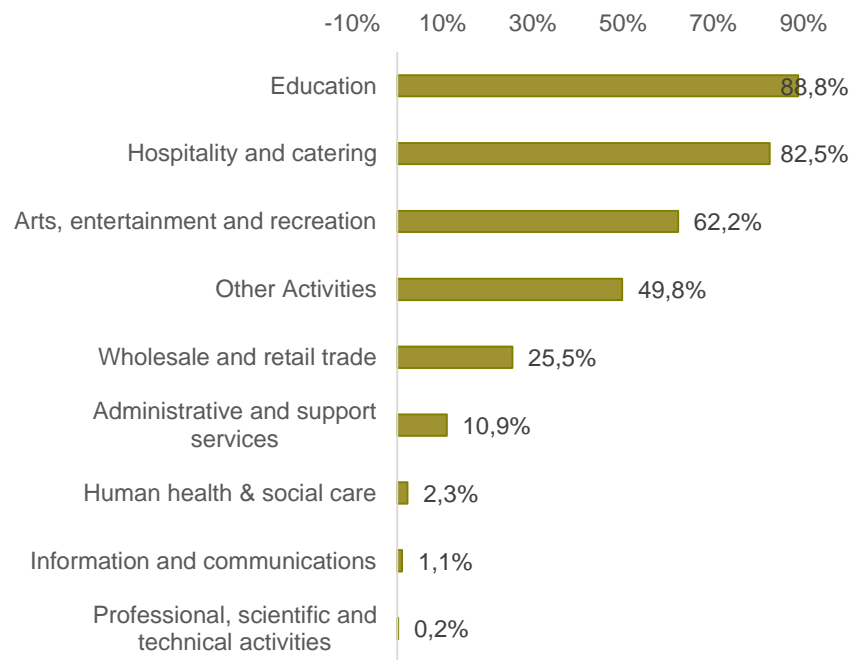


Decline of domestic turnover by 22% (-€8.85 billion) during March-April 2020 compared to the same period in 2019

Turnover Change per sector Mar.2020/Mar.2019 and Apr.2020/Apr.2019



Businesses under suspension / branch of economic activity)




* Suspended activities are included into broader sectors, including businesses that were activate during lockdown

Source: ELSTAT

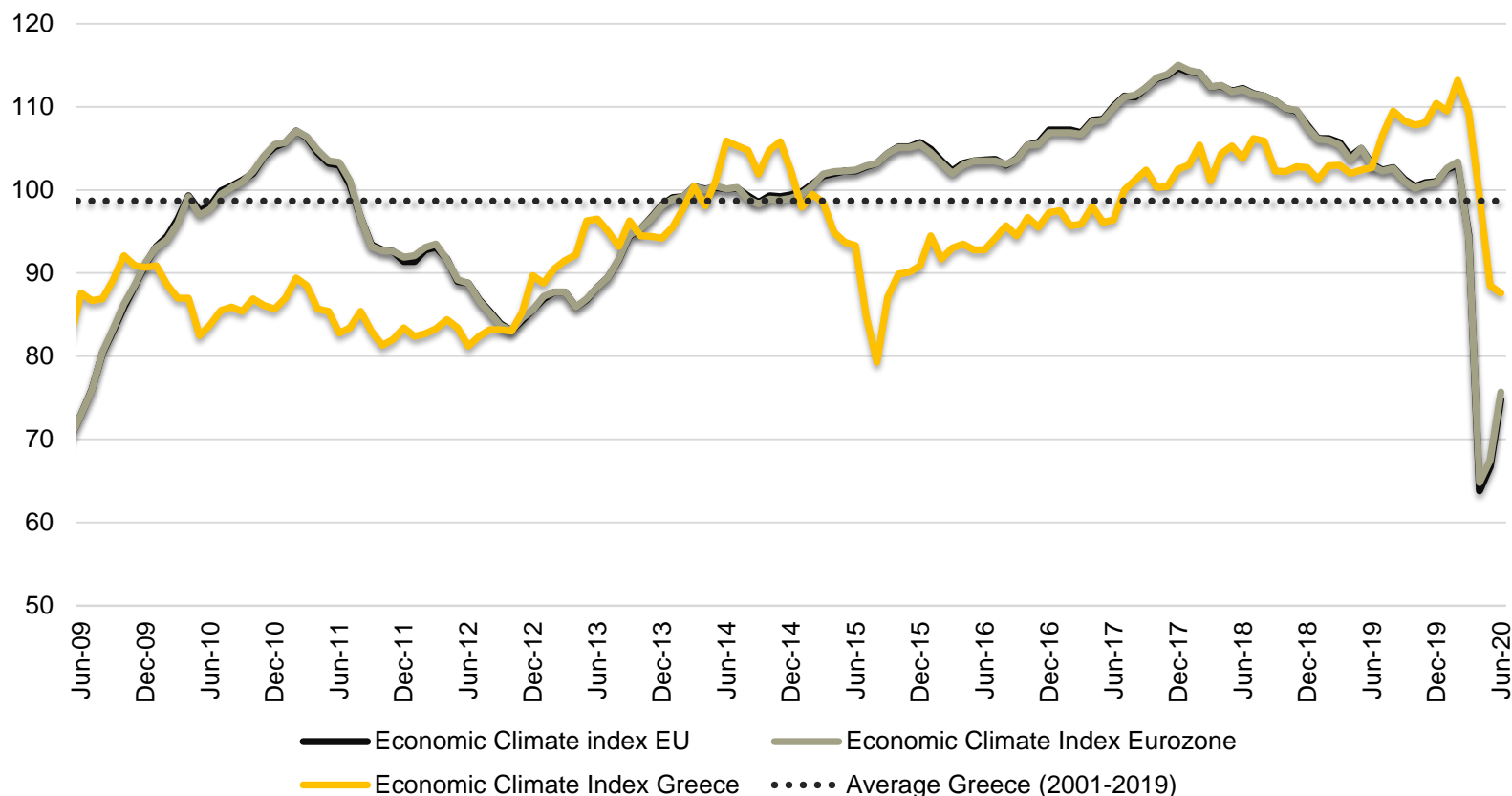
Approximately, 15% of domestic businesses under suspension. Highest rate in Education (88.8%) and in Hospitality and catering services (82.5%)

2/3 of decline of domestic turnover in sectors under suspension, mainly in Accommodation and food services, Arts entertainment and recreational activities and administrative - support services.

 Slight decrease of Economic Climate Index in Q2 compared to the previous quarter, when it reached a 19-year maximum



Economic Climate index

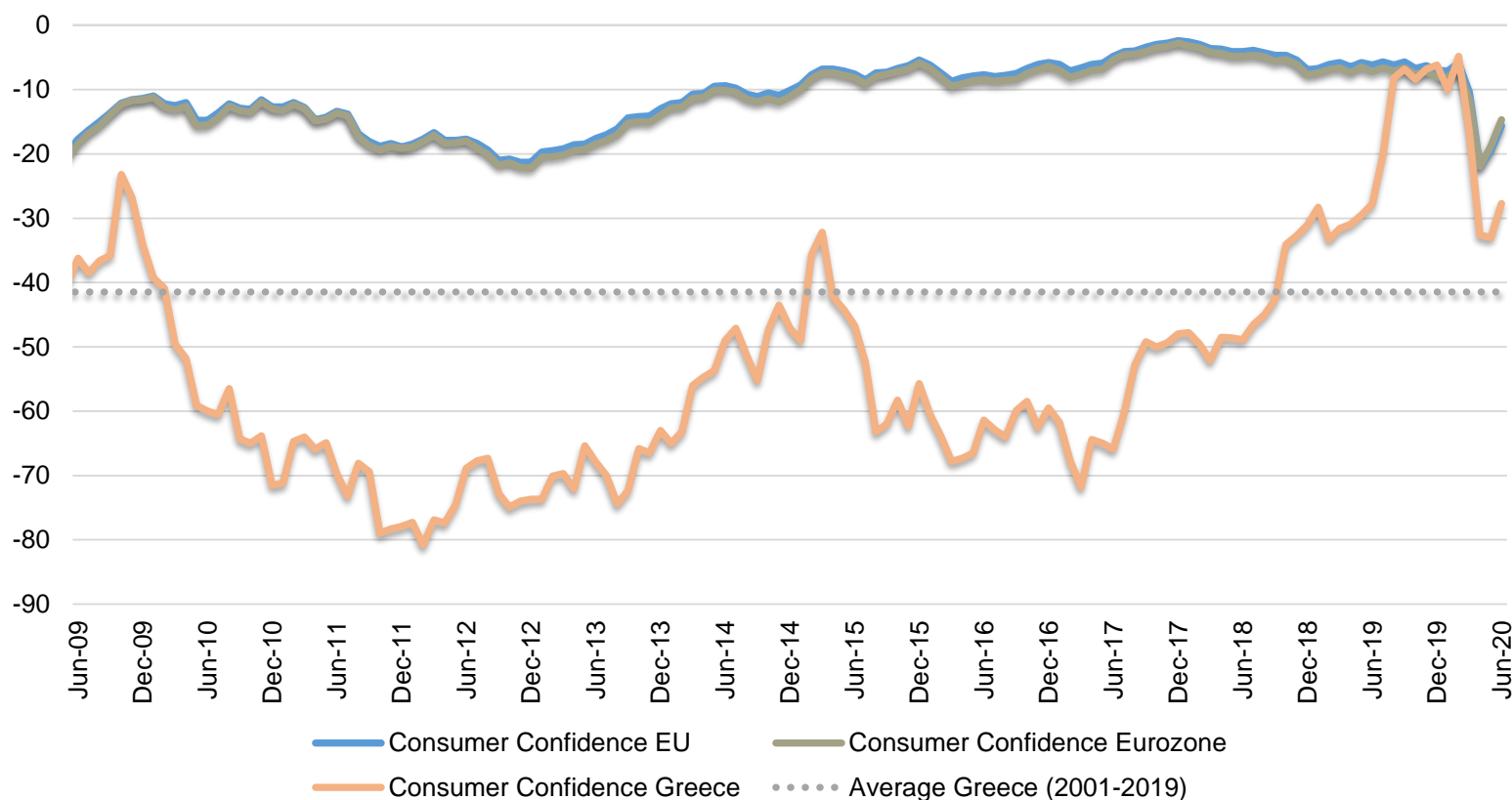


Sources: IOBE, EC



Significant decrease of Consumer Confidence (-20,6 units) Return to 2019 Q1

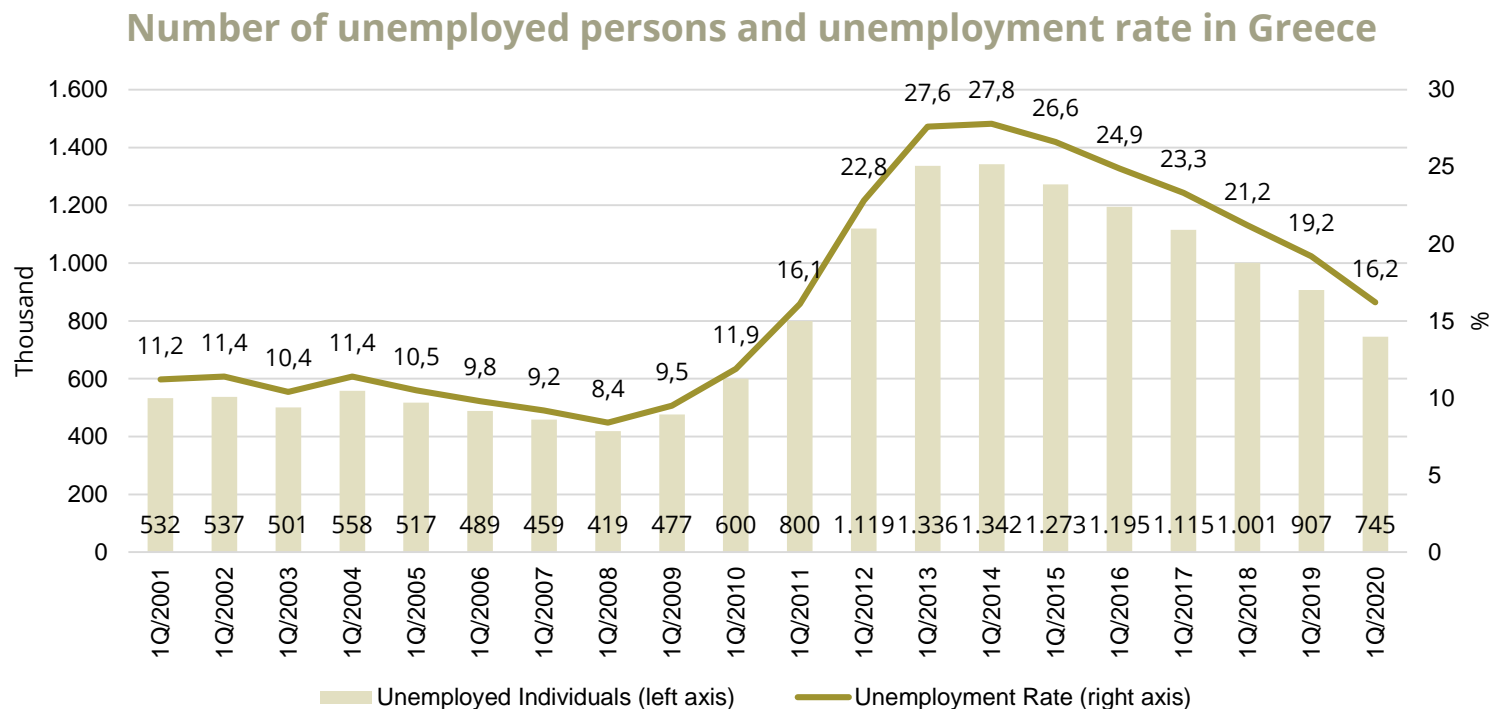
Consumer Confidence



Sources: IOBE, EC



Further unemployment fall in 2020 Q1



Source: ELSTAT

- Unemployment rate of 16.2% in 2020 Q1, from 19.2% in 2019 Q1
- A part of unemployed persons became in March economically inactive (70 thousand) due to the adverse economic situation of the pandemic
- Increase of employment in 10 sectors. Mainly in: Wholesale-Retail (+29.9 thousand), Transportation-Storage (+21.4 thousand), Manufacturing (+19.3 thousand), Human Health-Social Care (+16.2 thousand), Processing Sector (+12.2 thousand),
- Reduction of employment in 10 sectors. Mainly in: Primary sector (-41.9 thousand), Public Administration (-16.2 thousand)



Policy interventions for the support of jobs against COVID-19 consequences

For Businesses

- Suspension of employment contracts without dismissal of the employee
- Teleworking
- Transfer of staff between companies of the same group
- Possibility to increase overtime working hours in addition to the legally defined maximum level
- Extension of the deadline for payment of insurance contributions, installments of arranged debts and suspension of collection of overdue debts
- Programme “ΣΥΝ-ΕΡΓΑΣΙΑ” (EU SURE)
- Payment of the Easter allowance at a later time

For freelancers and self-employed

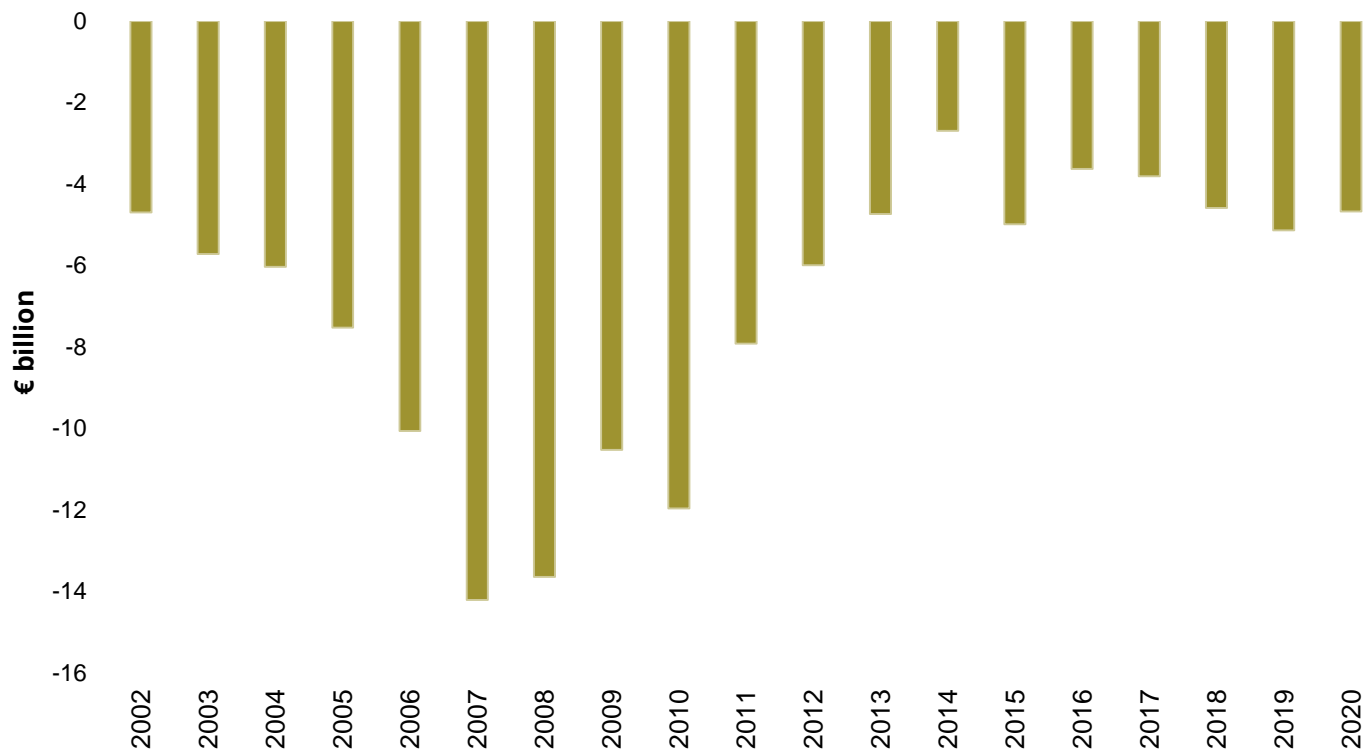
- Special purpose compensation €300- €354
- One-off financial aid of €600 for scientists
- Possibility to pay insurance contributions for the period February-May in four installments and suspension of collecting overdue debts
- 25% discount in insurance contributions paid on time for the period February-May

For employees

- Furlough
- Special purpose compensation of €800 for the period 15/03/2020-30/04/2020 and €534 for May
- Extension of the unemployment benefit for two months after expiration date
- One-off financial assistance of €400 to non-subsidised long-term unemployed persons
- Unemployment benefit for previous years seasonal workers in tourism companies who will not be hired this year
- Extension of the validity of the terms of the Collective Labour Agreements and of the decisions until 30/06/2020



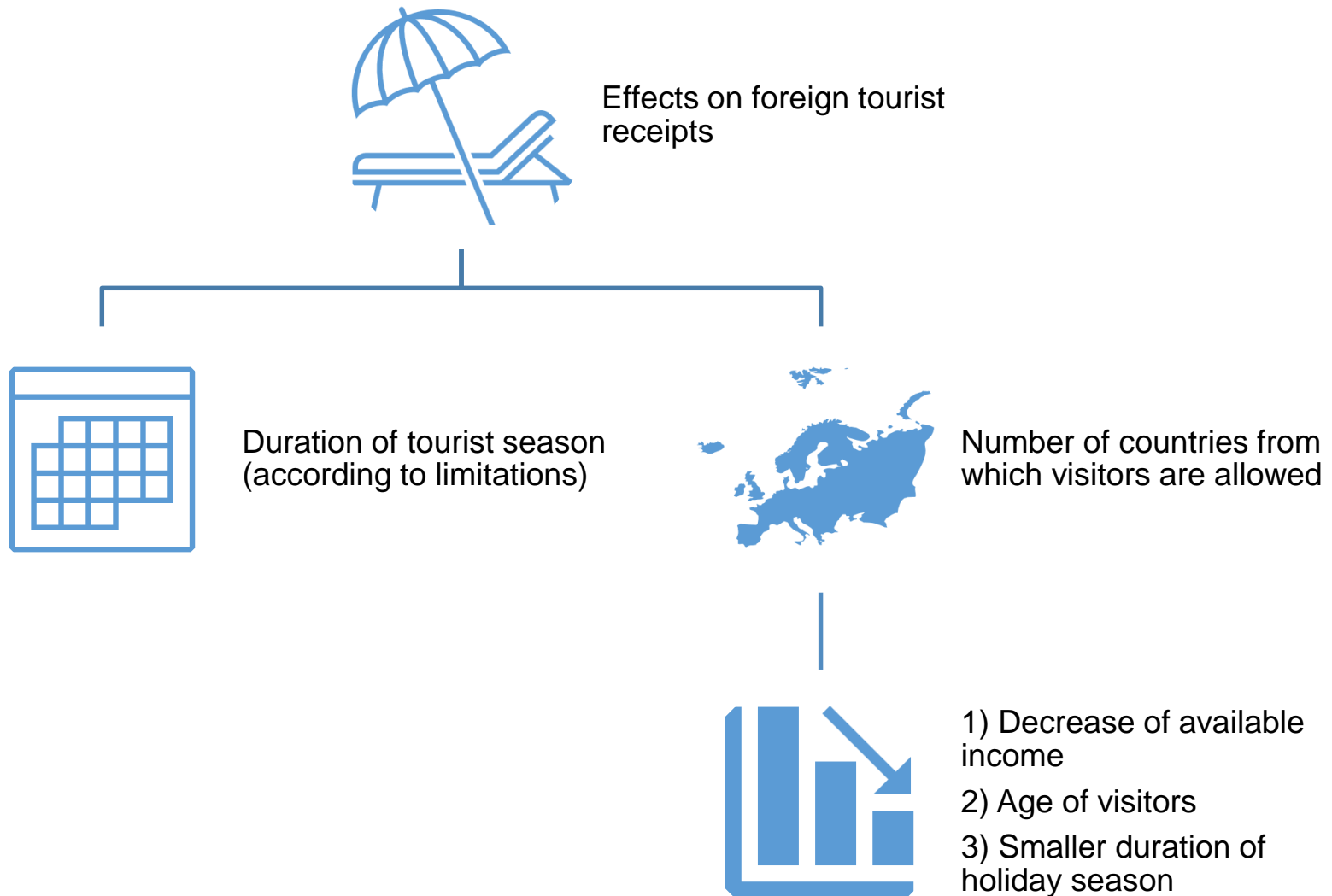
Current account deficit narrows in the first four months of 2020, imports decrease bigger than exports decrease



Source: Bank of Greece

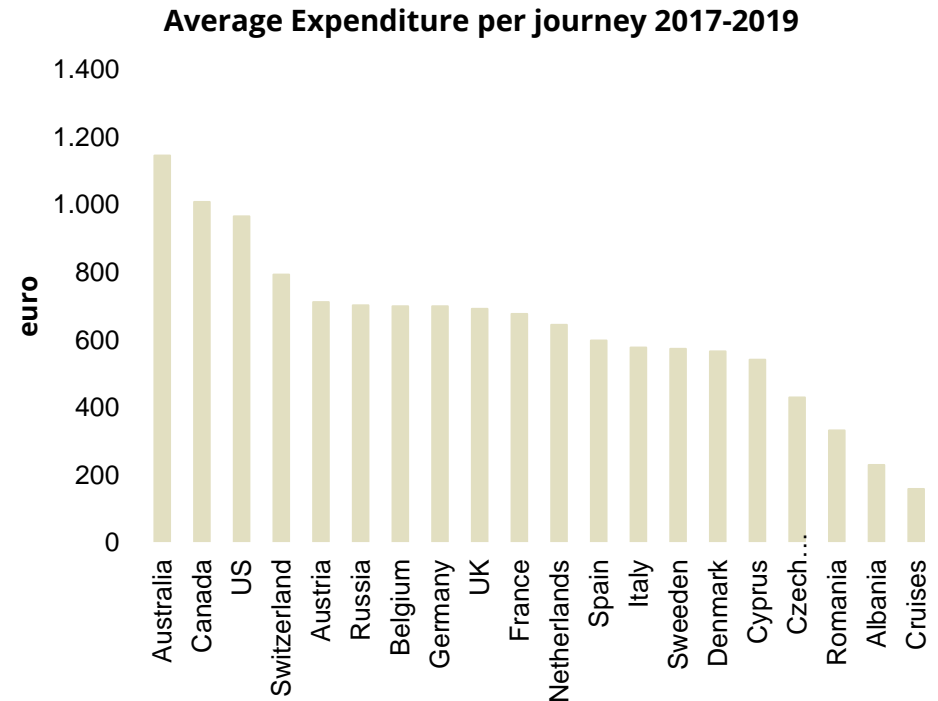
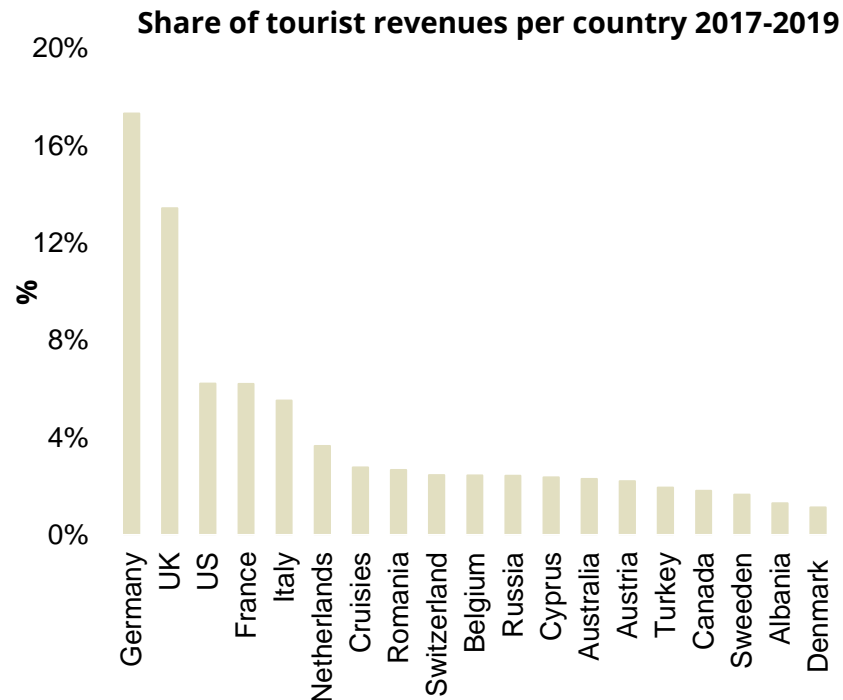
- Surplus in the Goods' Balance (by €860 million) and Income Balance (by €240 million)
- Deficit increase in the Services Balance (-€635 million), mainly in April, due to the pandemic

Pressures on the tourist sector activity due to pandemic factors, both domestic and foreign





Pressures to revenues due to the ban on entry to countries with high share on tourist arrivals, severe recession to countries with high share on tourist revenues

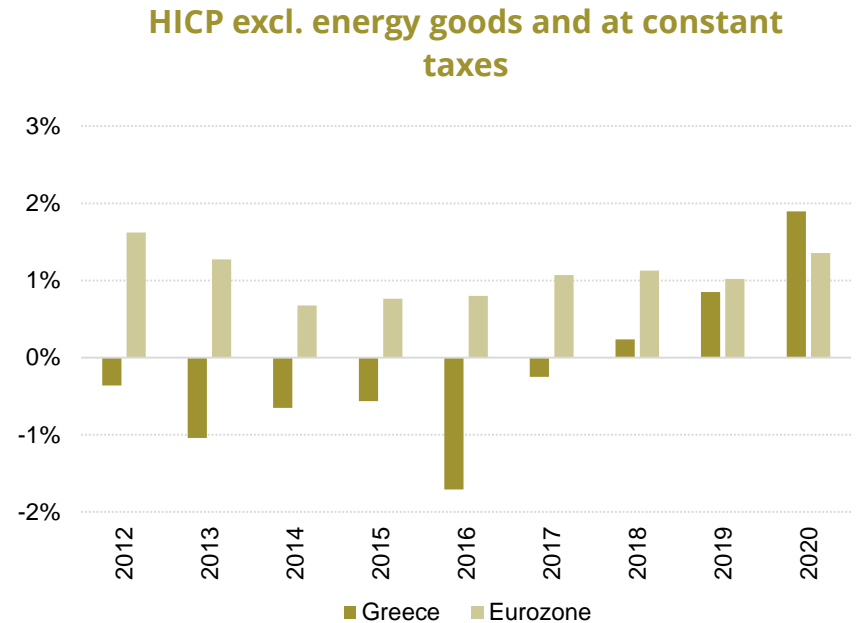
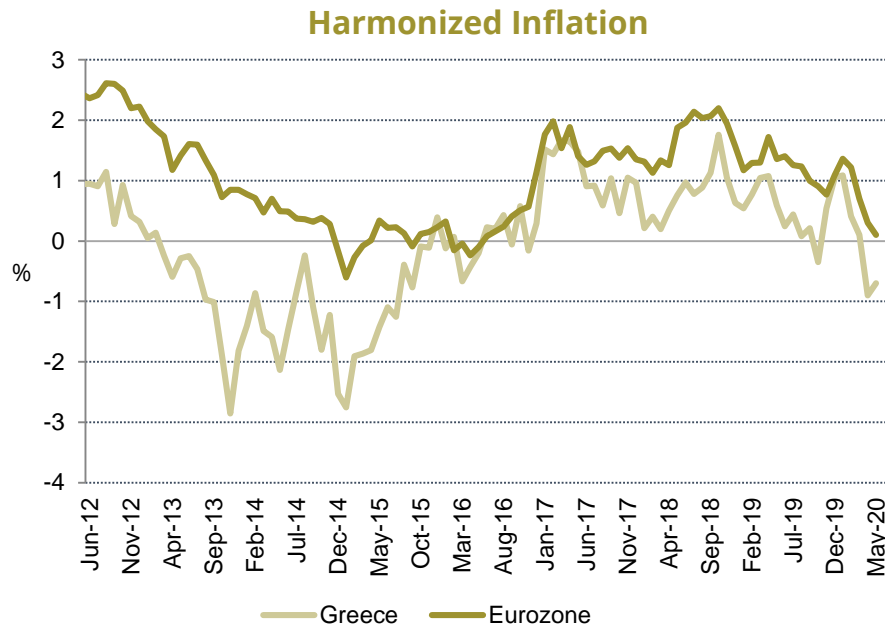


Source: Eurostat

- Germany is the country with the greatest contribution to the foreign tourist revenues in Greece, holding 17% of the receipts
- Pressures to revenues due to the refusal of entry (at least until 15/7) from the US, Russia and Turkey (10.7%)
- Decrease in the GDP per capita by 6.7% in Germany, 8.8% in UK and 8.5% in France



Deflation in the first five months of 2020, mainly due to indirect taxation



Sources: ELSTAT, Eurostat

Eurozone, Jan.-May 2020: Milder inflation (0.7%) compared to the same period of 2019 (1.4%)

Greece, Jan.-May 2020: at negative values territory, -0.3%, versus an increase of 0.6% in the first five months of 2019

- Negative impact from indirect taxation (-1.3%) - milder impact from energy goods prices (-0.5%). Boost from domestic demand – other factors

Producer Price Index (Jan-Apr. 2020): Decrease by 5.3%, against an increase of 2.7% during the first four months of 2019. Fall mainly due to the reduction in prices of petroleum products.



Severe consequences of the pandemic crisis but also indications of containment due to emergency policy interventions

Indications of severe consequences

- More than 205 thousand businesses under suspension of operation (March-April)
- Unprecedented decrease in industrial and retail trade activity in April (ELSTAT)
- Foreign tourism under suspension for 3 months, limited tourist season, in terms of duration and countries of visitors
- Relative resilience of exports except oil products (-8.9% in March-April)

...but also of their containment

- 870 thousand employees under suspension of employment contracts → 121.5 thousand less dismissals compared to March-May 2019 (ERGANI system)
- Approval of interest rate subsidisation from the Hellenic Development Bank for 10.15 thousand loans of €1.29 bln
- 1st phase of refundable deposit: €600 mil. in 55 thousand businesses (against a target of €1 bln)



Opportunities under conditions, from the weakening of the pandemic

- Increasing, positive international publicity (in contrast with fiscal adjustment programmes period)
- Smooth tourist period → prerequisite for next year's growth in the tourist sector
- Promotion of privatisations and investment facilitation for completed TAIPED actions → narrowing of the “investment gap”
- Unprecedented liquidity opportunities in the medium-term (PEPP by ECB, Recovery Fund by the EU, bank securities eligible as guarantees) → need for a development plan and creation of institutions for the management of EU resources

Necessary prerequisite: the social responsibility of all partners, businesses and employees, state and households.



The banking system shows resilience, liquidity boost measures under implementation

Targets: recovery of the credit rating and reduction of NPLs

Challenges during COVID-19 crisis

- Ominous profitability prospects
- Poor quality of assets (NPLs, deferred taxation)

Positive Developments

- Extraordinary liquidity from the ECB → low cost of funding
- First NPLs sale with securitisation (Hercules programme)
- High growth rate of private deposits
- Liquidity measures from the Hellenic Development Bank, new credit to businesses

Priorities

- Review of business plans and agreement on new NPLs reduction targets
- Speed-up of systemic solutions in order to tackle NPLs



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:

- No reintroduction in Greece during 2020 of measures for public health protection
 - Completion soon of state support measures (except from those with defined longer duration)
 - Eurozone economic activity: recession intensity in 2020 slightly higher than 2.0*recession of 2009 (9.0% y/y)
- ➔ Businesses in the Tourism sector will be able to service international tourism since July (later to what was expected in April), with changes to the countries of origin

Adverse Scenario:

- Resurgence of the health crisis in autumn, domestically and internationally → Reintroduction of State measures protecting public health
- New policy support interventions both in Greece and the EU
- **Alternatively, recovery of the pandemic in many countries during summer → early termination of the tourist season**
- Eurozone economic activity: recession intensity in 2020 ~ 3.0*recession of 2009 (-13,0% y/y)



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: $\approx +7.0\%$
- Private Consumption: $\approx -7.5\%$
- Investment: $\approx -25\%$
- Exports: -20 to -25%
- Imports: -20 to -25%
- **Recession: $\approx 7.5\%$**
- Unemployment: 19.3%
- Deflation: 1.6-1.8%

Forecasts (Adverse Scenario)

- Public Consumption: $\approx +9.5\%$
- Private Consumption: $\approx -11.0\%$
- Investment: $\approx -40\%$
- Exports: $\approx -35\%$
- Imports: -30 to -35%
- **Recession: $\approx 10.5\%$**
- Unemployment: 20.5%
- Deflation: 3.0%

Special study

The Pharmaceutical Market and its sector in Greece



COVID-19 crisis: an opportunity for the modernisation of the health care system

- The COVID-19 pandemic is a new important challenge for the Greek economy as it highlighted issues with severe consequences at the economic, social and health level, which will become evident in the next years.
- Need to protect public health, ensure the adequacy of medicines, promote R&D of new vaccines, as well as diagnostic tests and treatments.
- Measures taken by the EU (€546.5 million) for new vaccines, new treatments, diagnostic tests (combating COVID-19). These measures can be used domestically.

*The study related documents are available here: http://iobe.gr/research_dtl.asp?RID=200



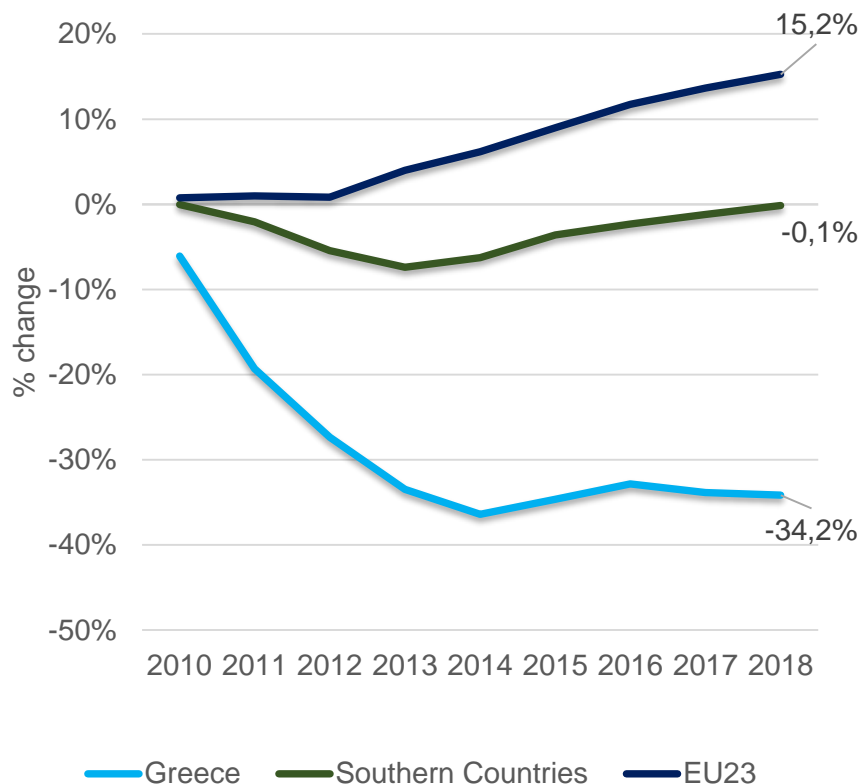
Challenges for the pharmaceutical sector in Greece

- Continuous reduction in public health spending and medical expenses. Increasing patient participation to these costs.
- Increase of life expectancy along with a rapidly ageing population → higher demand for health services and medicines
- Increase in the proportion of patients with severe and chronic diseases → pressure on healthcare systems and change of the pharmaceutical policy
- Discovery of new treatments, which are more expensive and, as a result, imply a higher burden for healthcare systems

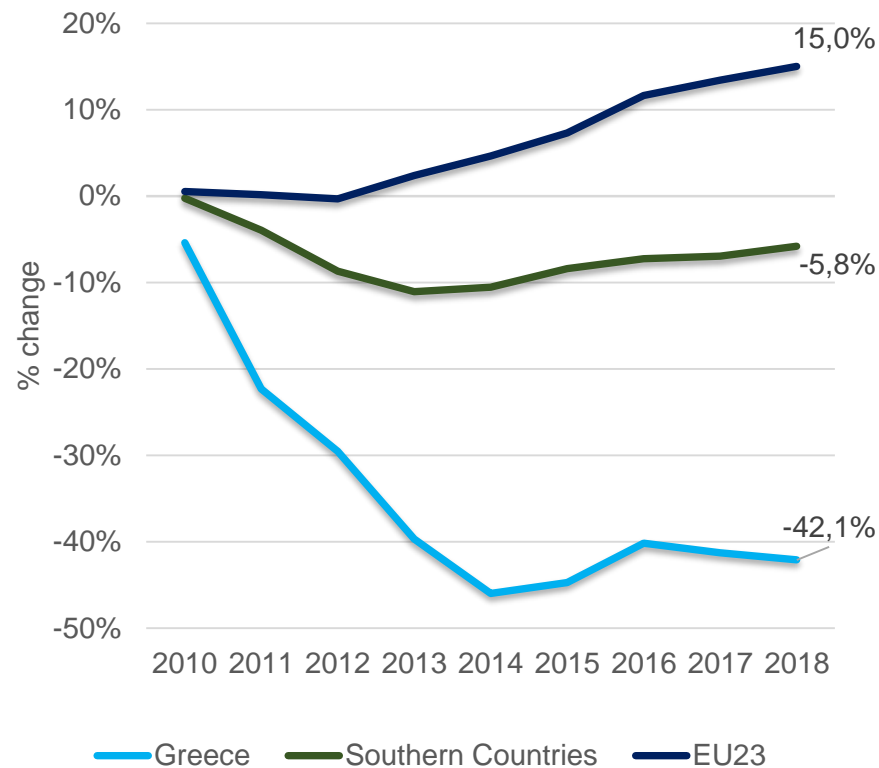


Significant decline in funding for health expenditure in Greece, increase in the EU

Total expenditure for pharmaceuticals
(2018: €14.3 bn)

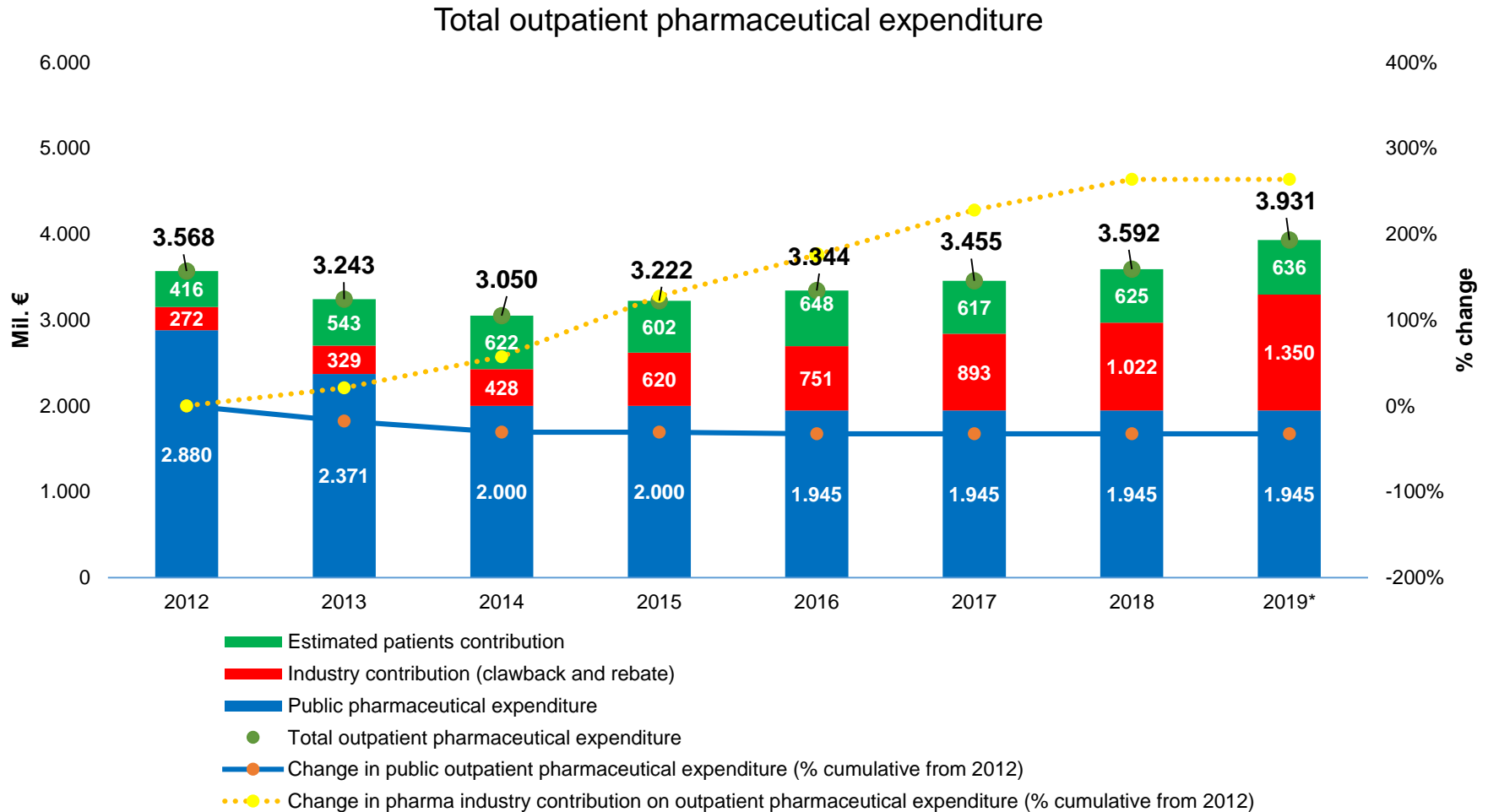


Public expenditure for pharmaceuticals
(2018: € 8.4 bn)



Sources: Health Accounts System 2017, OECD Health Statistics, 2019, data processing: IOBE. Southern countries (Italy, Spain, Portugal). The percentage changes between 2009 and 2018 have been calculated with funding data at constant prices (\$ 2010 PPS, OECD).

 Total outpatient pharmaceutical expenditure amounted to ~€ 3.9 bln in 2019, with a 264% increase on industry's contribution since 2009

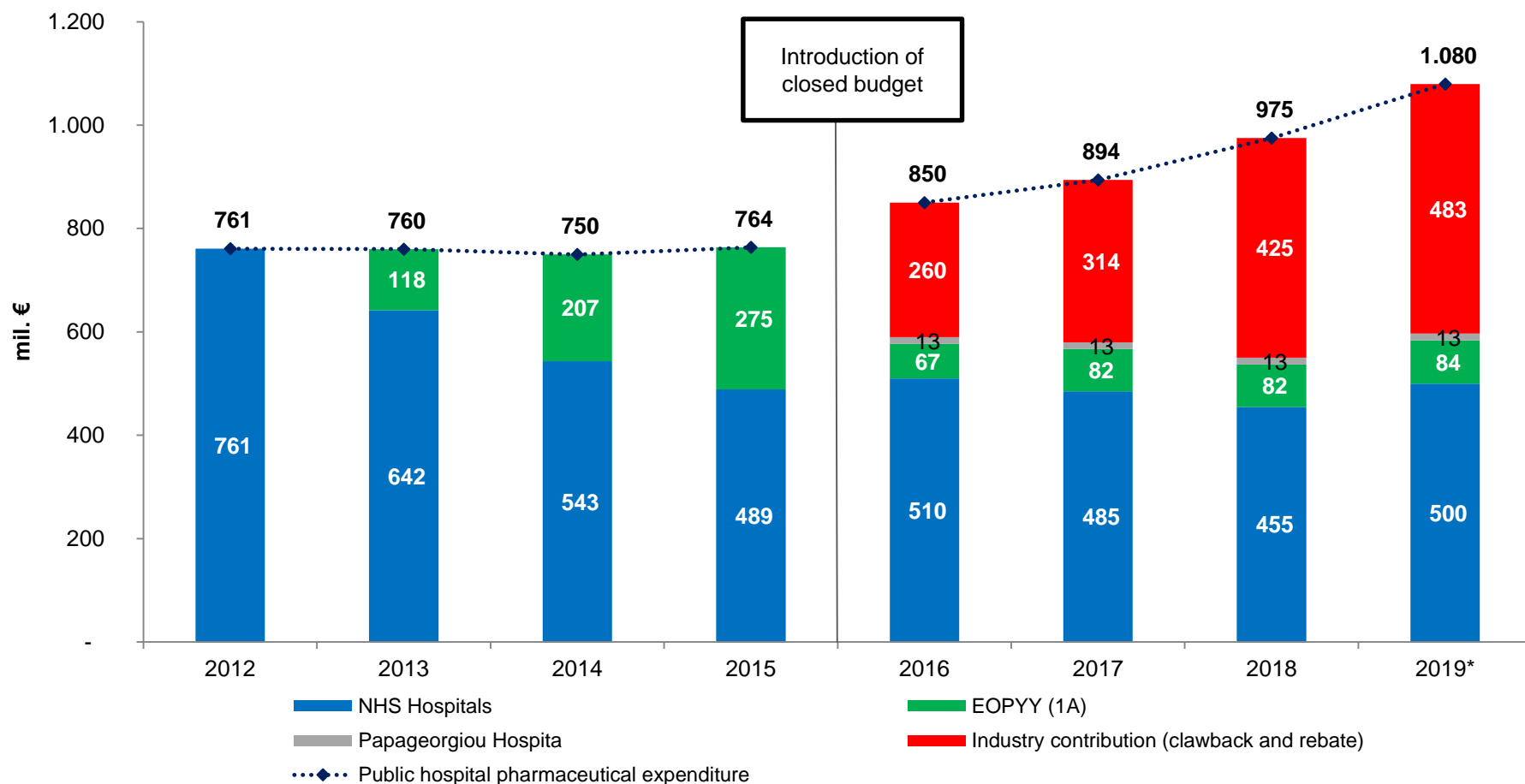


Sources: EOPYY 2012-2019, State Budget 2014-2019, IOBE-SFEE data processing.

Patient participation: what the patient pays in the reimbursement market (i.e. the statutory rate 0%, 10%, 25%) and the charge resulting from the difference between Retail Price and Reimbursed Price



Public hospital pharmaceutical expenditure reduced by 44% in 2019 compared to 2015. Increasing industry's contribution increased over the same period.

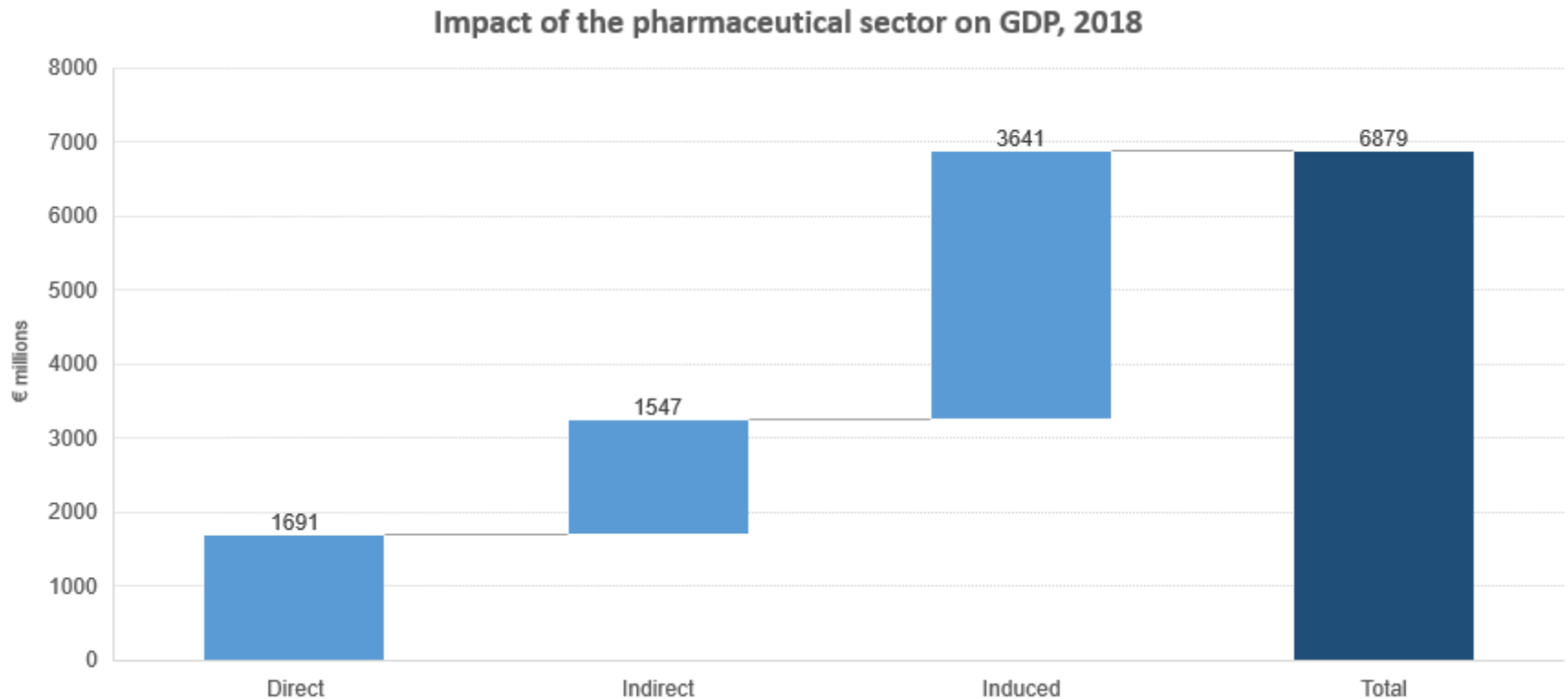


Sources: EOPYY 2012-2019, ESY.net 2012-2015, data processing: IOBE-SFEE

*Estimation for industry contribution



Total impact of the pharmaceutical sector in terms of GDP:
≈€6.9 billion in 2018 (3.7% of GDP)



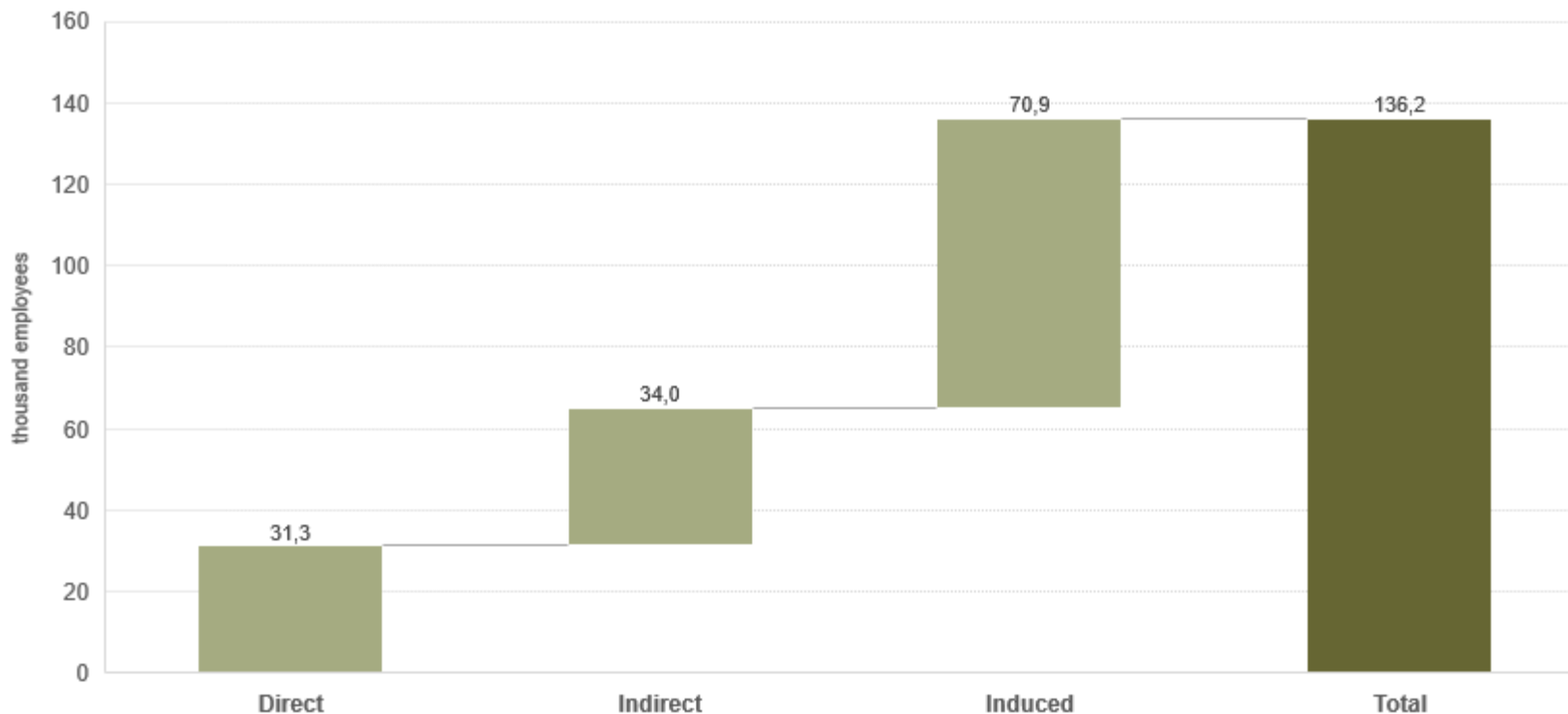
For every euro of value added from businesses active in the pharmaceutical sector, another 3.1 euros are created for the overall economy

Source: IOBE Estimations



Contribution in employment terms of 136 thousand job positions (3.6% of total employment)

Impact of the pharmaceutical sector on employment, 2018



Every job position in the pharmaceutical sector, supports 3 job positions in the total economy

Source: IOBE Estimations



Crucial issues in the COVID-19 era

- Need to review the health system-pharmaceutical budget: review of refunds mechanism
- Effort for offsetting part of the clawback mechanism with investments, either in production or in R&D
- A high clawback is a deterring factor to investments on clinical studies
- Removal of bureaucratic barricades which delay their conduct
- Highlighting of the comparative advantages of Greece
- Stable legal framework for the integration of pharmaceutical innovation in the post COVID-19 era and in order to strengthen the accessibility to new innovative treatments
- Smart health: Centers of Excellence in Real World Evidence Data, use of Artificial Intelligence and personalised diagnostics

Thank you for your attention!

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