

# Quarterly Report on the Greek Economy

04 / 20

January 28, 2021



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

# Overview of the report





# Prospects for overcoming the crisis, but challenges remain

- The pandemic causes not only major turbulence in the global economy, but a deep crisis.
- Despite the general progress related to the vaccination, uncertainty about the further development of the health crisis remains.
- The end of the health crisis gradually becomes visible, however, this does not imply that it is near, nor that the path towards it is determined.
- Gradually during this year, economy and society will abandon their defense and prepare for the day after. Although trends affecting the global economy will be mixed, the overall effect is expected to be positive.
- The end of the health crisis is expected to be followed by a steep increase in global demand. However, its impact will not be even. Some sectors and sub-sectors will decline sharply, whereas others will rapidly grow.
- Governments, firms, and households will be challenged to manage very high levels of debt, maintain their credibility as much as possible, and at the same time increase their incomes faster than their debt service obligations.
- Our experience from previous crises, which were followed by periods of high growth, suggests that this dynamic will be determined by two factors: the developments in productivity and job creating, which seem to leave considerable room for optimism.



# Prospects for overcoming the crisis, but challenges remain

- The crisis has accelerated the developments in technology and the management of firms and public units.
- Despite the worrying debt accumulation, the interventions of governments and central banks appear to be credible, aiming at protecting the productive sectors and employees.
- The interconnection of sectors in the international markets is changing, but not in a manner that is materially damaging the global productive system.
- In this context, the current year will be particularly crucial for the Greek economy. A defining factor will be whether the health crisis in Europe will be (for the most part) under control early in the spring. In any case, the expectation for tourism revenues to exceed half of their level as recorded prior to the health crisis, is considered optimistic.
- Demand could recover gradually in sectors and industries, including many that systematically create many job positions, such as tourism, food services activities, retail trade, transportation, culture, and entertainment.
- A high proportion of firms will be under significant pressure as their financial characteristics will make financing difficult or as demand will tend to decrease due to, among other factors, technological developments.
- Gradually, the fiscal deficits that supported firms and households will have to be reversed. This development is necessary to protect the overall credibility of economic policy in the country.



# Prospects for overcoming the crisis, but challenges remain

- Regarding the NextGenerationEU fund, financial resources should be used mainly for structural reforms reflecting a new growth model of a more open economy. Difficulties in managing the relevant projects should not be underestimated.
- The crisis is mostly affecting the employment of young people and many unskilled workers. There is a risk of increased inequality.
- In the coming period, the role of the government will be even more important, as firms, sectors and employees will ask for support. An urgent systematic simplification of rules and procedures can create a new dynamic, enhancing labor and entrepreneurship.
- Education and health care will not be the same after the pandemic. The pandemic acts as an accelerator of changes in these two fields, which decisively affect the well-being of households.
- Overall, the path of the Greek economy after the pandemic is expected to be determined by various contradictory trends, positive and negative. Growth rates are expected to be high and positive during the first stages of the end of the pandemic (mid-2021), but also to decelerate fast, if economic policy does not react quickly.



# International environment: Slightly smaller recession in 2020 and faster recovery in 2021

- The **COVID-19 pandemic** continues to put pressure on global economic activity
  - **De-escalation** of the deep recession in Q2-2020 in the following quarters, with obstacles
  - **Q3-2020**: GDP change=-3.9% in OECD countries, from -11.6% in Q2-2020
  - Increased uncertainty from the **second outbreak** of the virus in Q4-2020, which is still in progress → attempts to restrain its effects by extending policy interventions (EU, US, Japan)
  - The administration of **vaccines** and the discovery of **drugs** have improved prospects
  - **Measures to support** developed economies make a significant contribution to halting the effects of the pandemic, but increase public debt
  - Inability of **developing countries** to implement similar policies
  - High growth levels in **China** (+4.9% in Q3-2020, +6.5% in Q4-2020) → leader of the global recovery
- IMF forecast for **global recession by 3.5% in 2020** (0.3% lower than the October 2020 forecast), with a 5.5% recovery in 2021



# International environment: challenges in the medium-term

## Worldwide

- Speed of production and distribution of **vaccines**
- Treatment of COVID-19 **mutations**
- Differences in **speed and quality of recovery** between countries
- Implementation of policy interventions and **sustainability of private and public debt**

## Europe

- Ensure balanced progress regarding **vaccination** in the EU
- **Implementation of actions** to strengthen economies (e.g., NextGenerationEU Fund and Multiannual Budget 2021-2027)
- Possibility of a new **debt crisis** from burdened fiscal balances
- Implementation of a **consensual Brexit** by the EU, following agreement at the end of 2020



# Greece: The deep recession continues in the third quarter of 2020, due to a large decline in Tourism

GDP in Q3-2020: -11.7%, compared to -14.2% in Q2-2020 and +1.2% in Q3-2019.  
The largest decline in the Eurozone (average: -4.3%)

**Jan.-Sept. '20: 8.5% recession, instead of a 1,8% increase in 2019**

## Major changes in the components of GDP (Q3-2020):

- Large decline in exports by 44.9% due to the lockdown in tourism (from +9.9% in 2019)
  - Mainly from a slump in services exports (-80.0%, from +16.6%). Resilience of exports of goods (+3.5%, after +5.6% in 2019)
  - Much smaller decrease in imports (-6.4%, from +3.3%), which worsened the external balance
- Small increase in household consumption expenditures, +1.0% (from +1.5% in 2019)
  - Expansion of public spending due to support measures and emergency recruitment (+4.4%, from -1.2%)
- Large increase in investments by 31.5%, exclusively from inventories expansion (+€2.2 billion), after a decline a year ago (-8.8%)
  - Fixed capital formation was unchanged (-0.3%), as in Q3-2019 (+0.3%)
  - Increase in fixed capital formation, mainly in housing (+20.2%) and other constructions (+4.1%), where the Public Investment Program is recorded → includes transfers due to COVID-19





# State Budget: Below target in the eleven-month period due to the pandemic

- **State Budget Balance: €18.3 billion deficit, against a deficit target of €2.1 billion.**
- **Primary balance: deficit of €13.7 billion, against a surplus target of €2.3 billion.**
- **Below target, mainly due to higher expenditure (+€9.9 billion):**
  - More transfers (+€8.3 billion), because of household support measures and supplementary pension benefits
  - Higher expenditure for the Public Investment Program in support of businesses and self-employed (repayable payment in advance, special purpose benefit: +€2.8 billion).
- **Less revenue (-€6.3 billion) from:**
  - Less tax revenue (-€6.3 billion) and fewer transfers (-€1.7 billion)



# 2021 State Budget

- **2021 State Budget Balance: deficit target of €14.7 billion (8.6% of GDP), from €20.2 billion last year (12.4% of GDP)**
- **Primary balance: deficit of €9.0 billion or 5.2% of GDP, from €14.4 billion in 2020 (8.8% of GDP)**
- **Balance improvement mainly from revenue boost (+€3.36 billion):**
  - VAT revenue (+€1.47 billion), corporate taxation (+€830 million), fixed assets sales (+€305 million)
- **But also, reduction of expenses (-€2.15 billion):**
  - Reduction of transfers by €5.75 billion and purchases of goods-services by €620 million, but also increased non allocated expenditure (+€6.98 billion), for possible additional measures due to COVID-19



# Trends in short-term activity indicators

## Industry

- Reduction of industrial production in the first eleven months of 2020 by 2.2%, versus a small decline of 0.5% in 2019
- Eurozone (Q3-2020): -6.4%, versus -1.1% a year earlier.

## Construction

- Decline in Construction in the third quarter by 3.0%, following a sharper decline of 8.5% the year before
- Reduction of 19.5% in Construction Projects in Q3-2020 (from -3.4% in 2019). Decline in Civil Engineering Projects: -1.3%, from -4.0% last year.

## Tourism

- Large activity decline in Tourism. Losses of 63.3% in the first nine months of 2020, compared to a small increase in 2019 (+0.7%).

## Retail trade

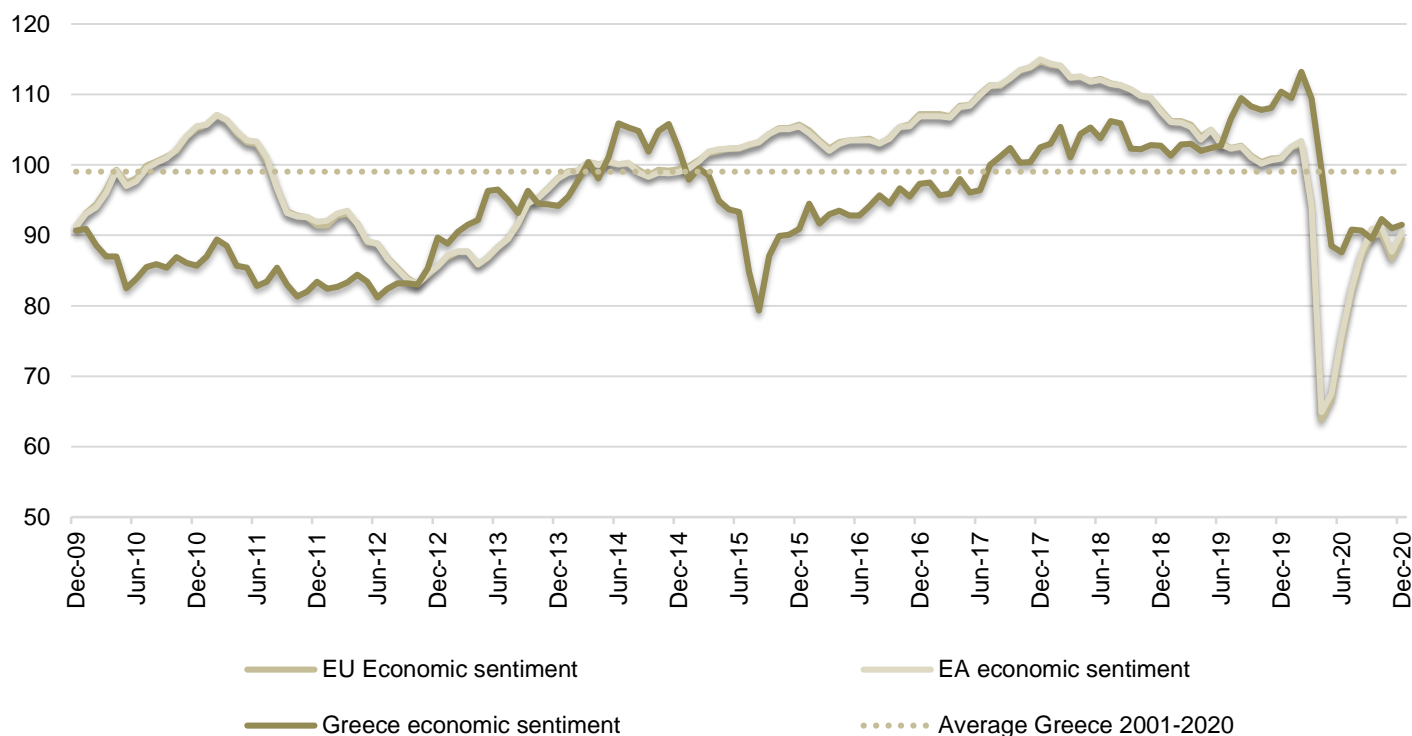
- Volume index decline by 2.8% in the first ten months of 2020, instead of a small decline of 0.8% in 2019



# Small increase of the Economic Climate Index in Greece in Q4-2020 compared to Q3-2020 (91.6 from 90.3 units)



## Economic Climate Index

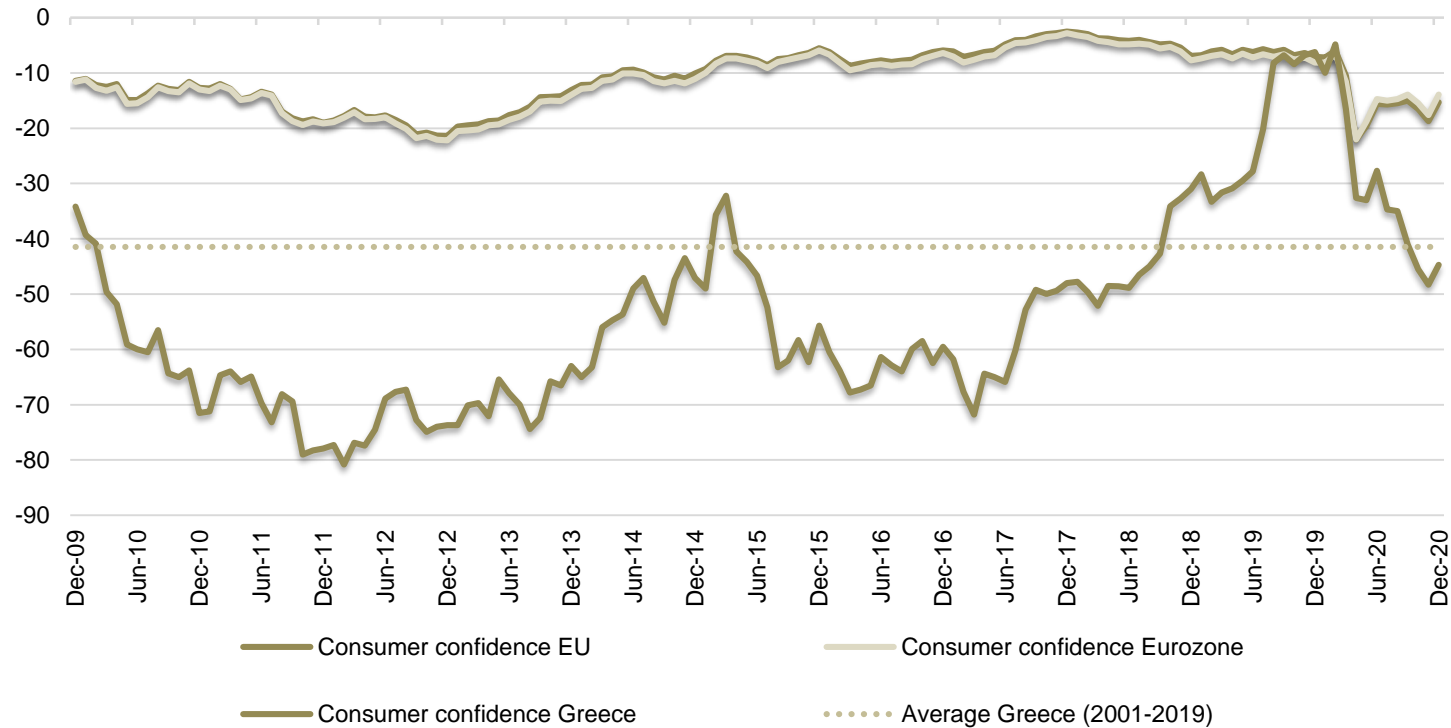


**Sources:** IOBE, European Commission



Decline in Consumer Confidence compared to Q3-2020 (-46.2 units from -36.9 units). At a level significantly lower than last year (-7.1)

## Consumer Confidence Index

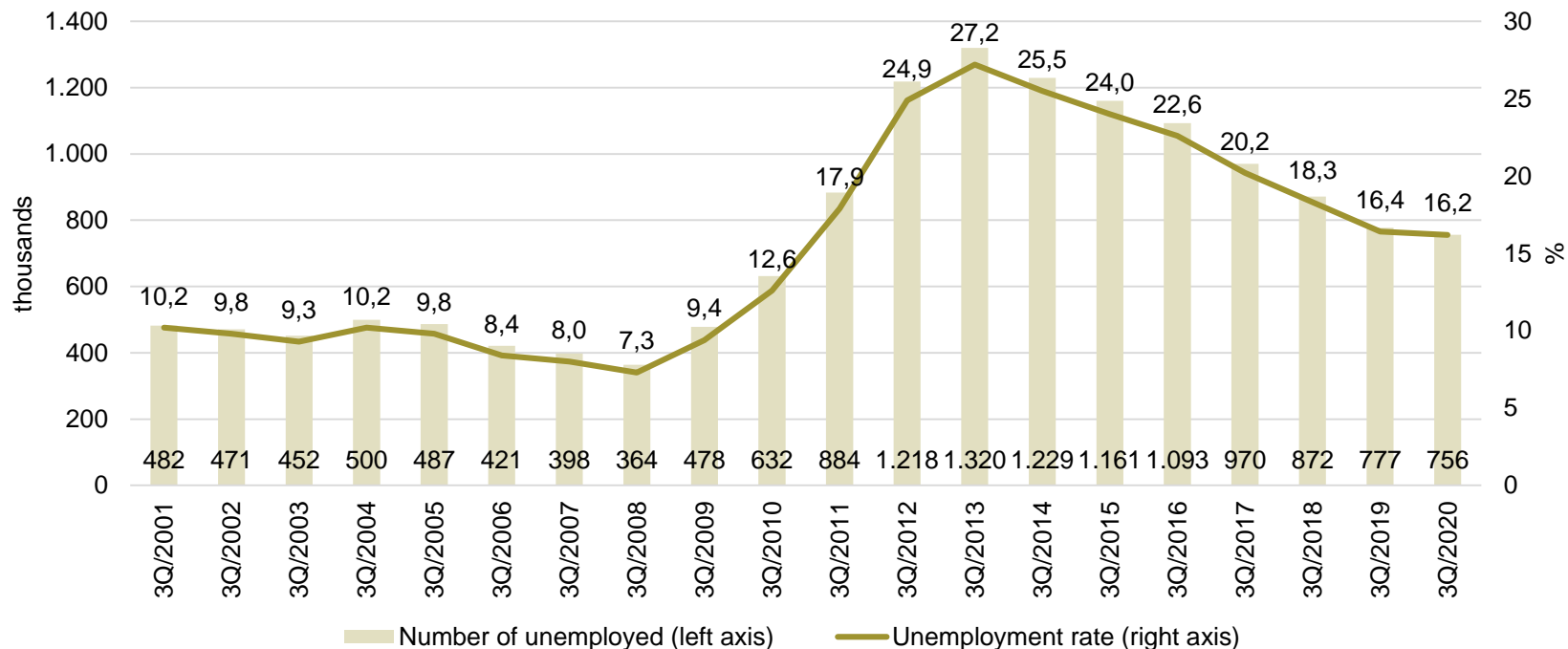


Sources: IOBE, European Commission



# New, marginal reduction in unemployment in Q3-2020, compared to Q3-2019 as well as Q2-2020

## Number of unemployed and unemployment rate in Greece



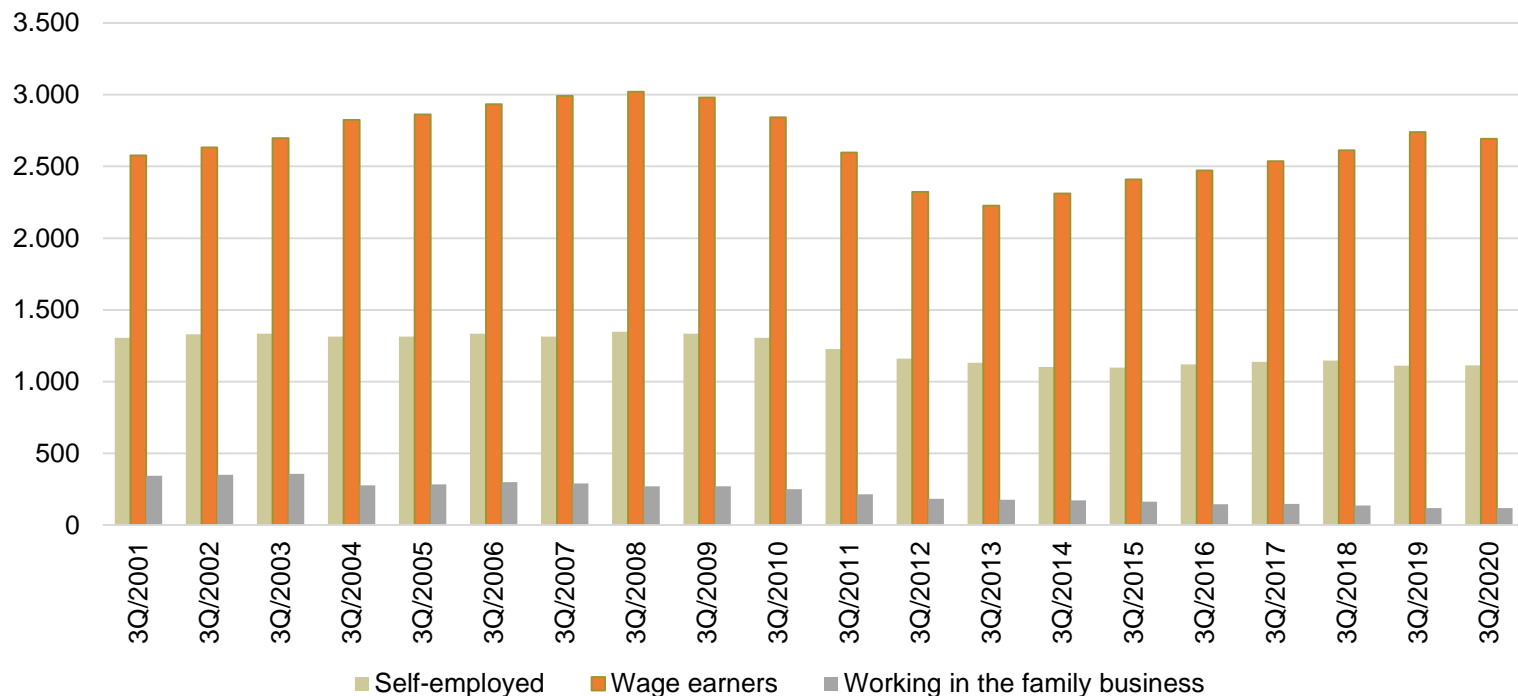
Source: ELSTAT

- Reduction of the unemployment rate in Q3-2020 to 16.2%, from 16.4% in Q3-2019 and 16.7% in Q2-2020
- Employment increase in Q3-2020 only in 8 industries, as a result of the pandemic, but also the accompanying support measures. Indicatively: Health-social care (+29.6 thousands), Wholesale-Retail trade (+21.3 thousands), Public administration (+17.4 thousands).
- Reduction of employment in 12 sectors. Indicatively: Primary sector (-44.9 thousands), Tourism (-33.2 thousands), Manufacturing (-12.0 thousands).



# Reduction of wage earners and increase of self-employed in Q3-2020, compared to a year ago

## Employment trends by occupational status

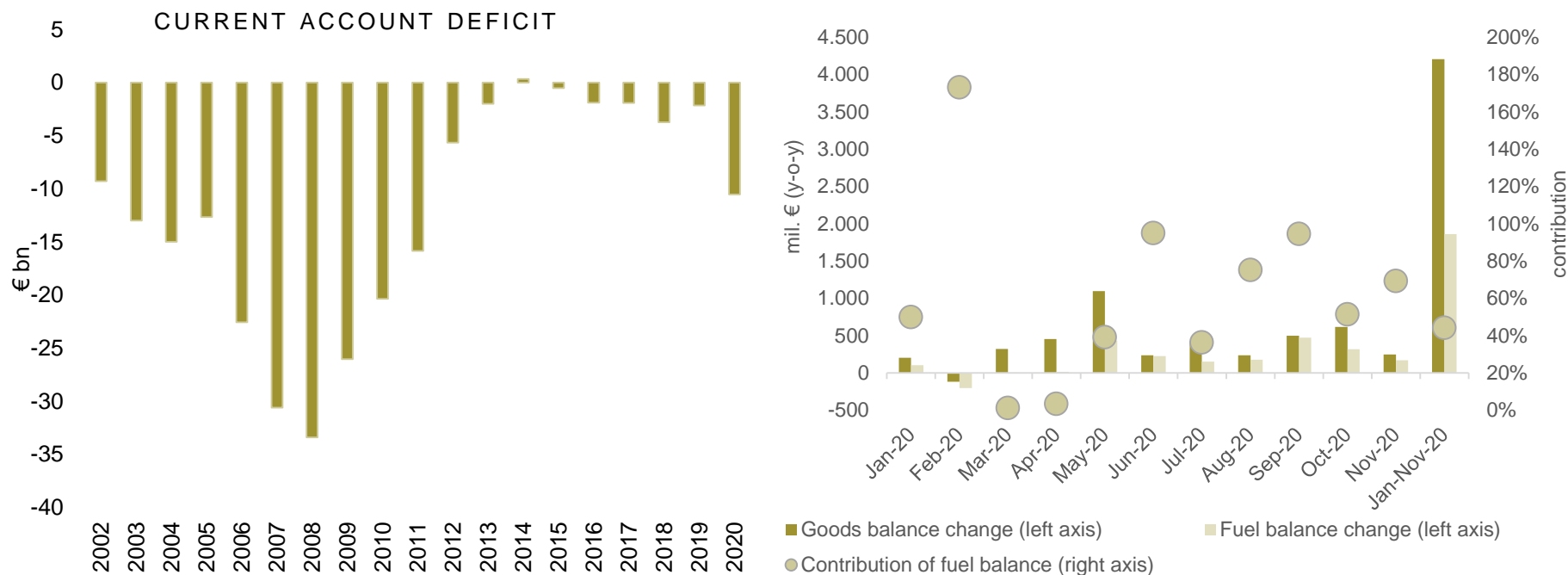


Source: ELSTAT

- In Q3-2020 the number of employees decreased by 46.9 thousands or 1.7% compared to Q3-2019 (to 2,693.6 thousands), while the number of self-employed increased marginally, by 2.1 thousands or 0.2% (to 1,114.3 thousands).



The current account deficit quintupled in the 11-month period of 2020, to €10.5 billion from €2.1 billion. 45% contribution of fuel balance to the correction of the deficit in the goods balance



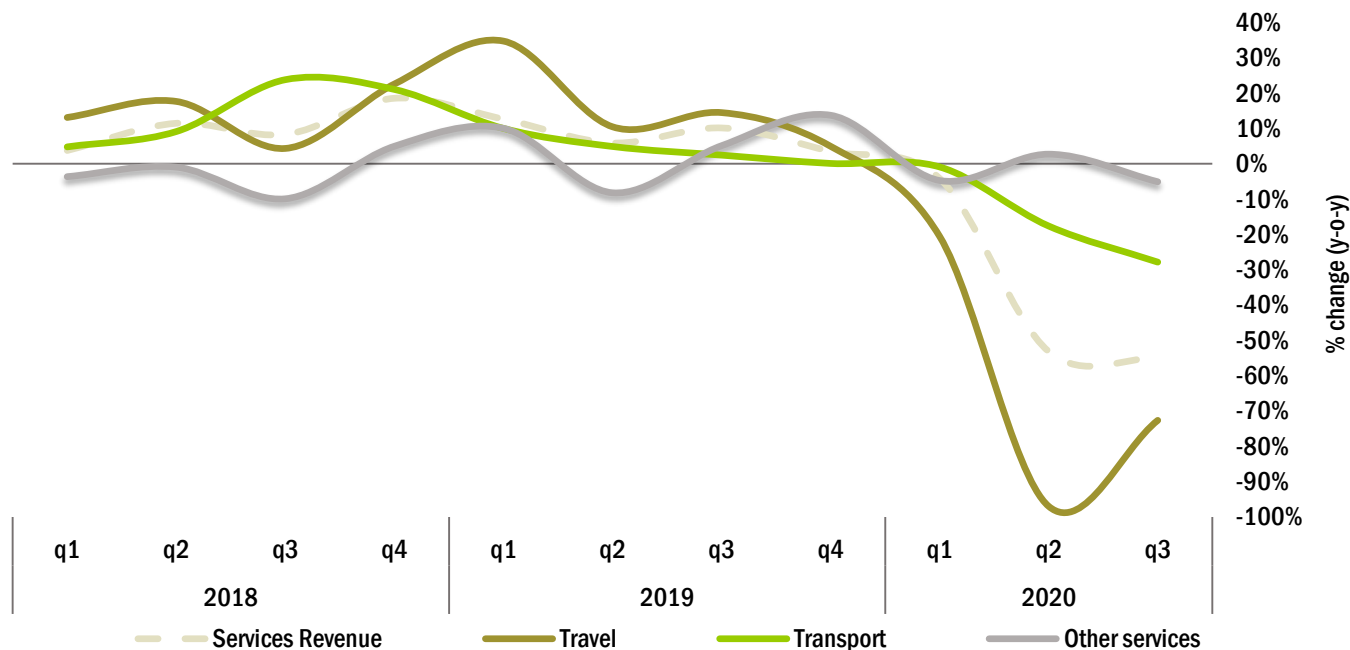
Source: Bank of Greece

- The surplus of Services dropped to 1/3 of its 2019 level: €7.0 billion, compared to €20.2 billion, with a 76.3% decline of Tourism revenue
- It was partially offset by the decline of the deficit in the Goods Balance, by €4.2 billion
- The decline of fuel prices and reduced demand for fuel, improved the Goods balance: International oil prices fell by 33% in the period January-November 2020





1 in 5 travelers in 2019 came to Greece in 2020 (Jan.-Sept.). Reduction of Tourism revenue in by 77.3%, to €3.6 billion.

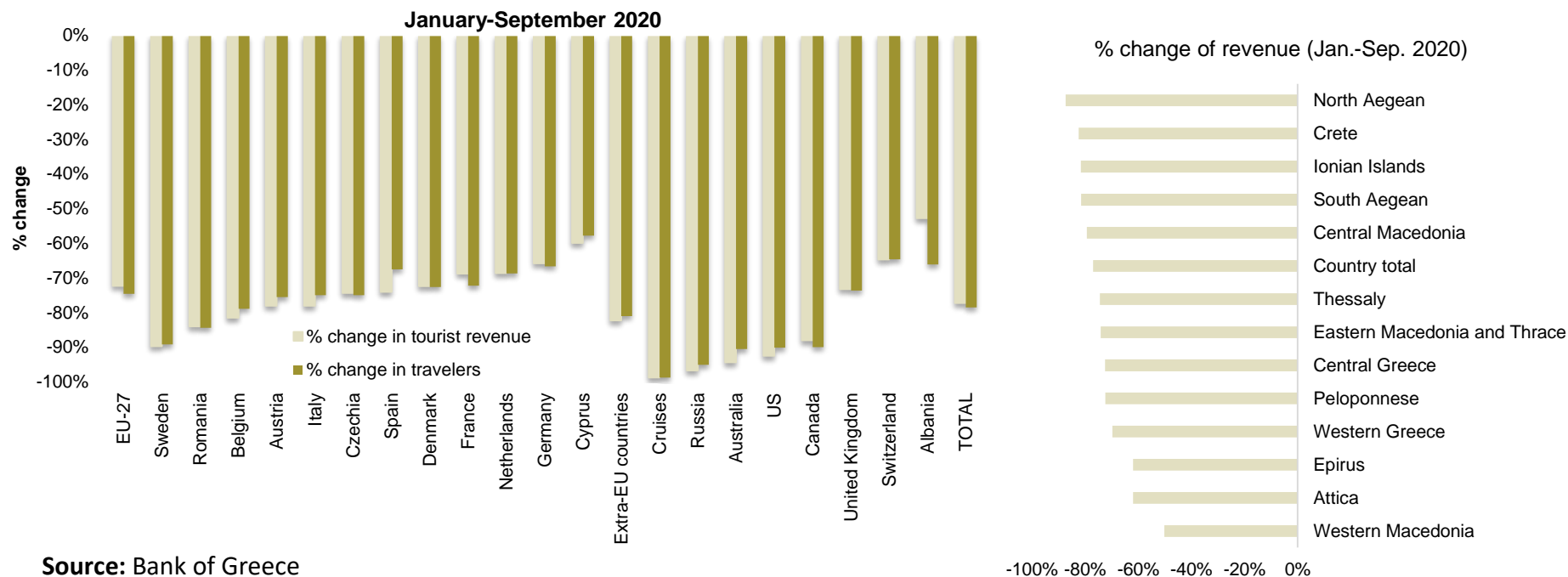


Sources: Bank of Greece, ELSTAT

- Almost no revenue from tourism services in Q2-2020, due to COVID-19 restrictive measures. Small 'correction' of the sharp decline in the next quarter (-72.6%)
- Average cost per night: -13.6%, at €63 from €73
- It was partially offset by an increase in the average length of stay by 17.5%, to 8.1 days compared to 6.9 days in 2019
- Revenue from transport and other services decreased less: -27.8% and -5.1% respectively



# Larger decline in tourism revenue from non-EU country travelers due to travel restrictions



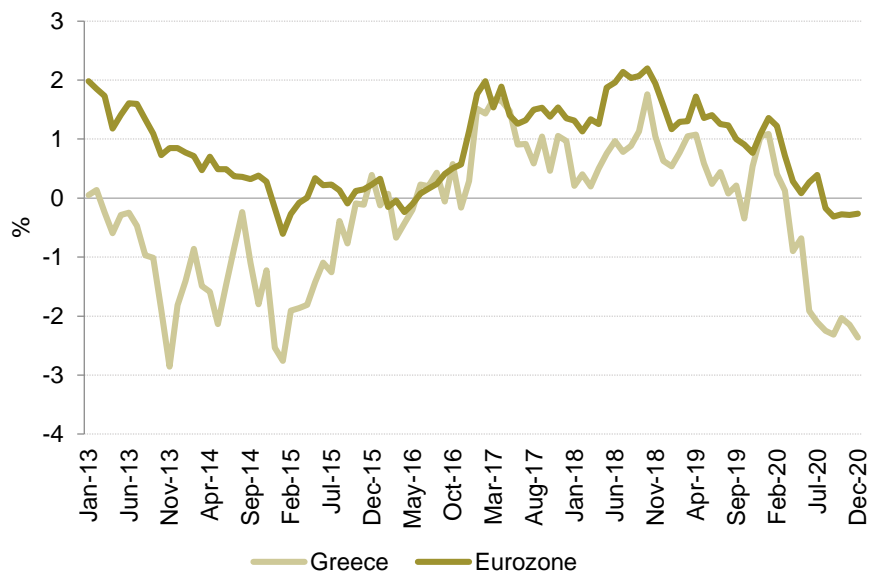
Source: Bank of Greece

- Travelers and revenue from non-EU countries decreased in the nine months by 81% and 82% respectively. Largest drop from Russia and Australia.
- In EU countries the decline was somewhat milder: 75% reduction in travelers and 72% in revenue
- Largest drop in revenue for the islands, increase in share in Attica (to 26% from 16% in 2019)



# Deflation in 2020, mainly due to the negative impact of indirect taxation

Harmonized Inflation



HICP excl. energy goods, at constant taxes



Sources: ELSTAT, Eurostat

**Eurozone:** Milder inflation compared to 2019, at 0.3% from 1.2%

**Greece:** Negative domestic CPI rate of change: -1.3%, compared to 0.5% in 2019

- Negative effect from the reduction of indirect taxes (-1.1%). Milder effect from energy goods (-0.8%). Boost from domestic demand - other factors (+0.6%)

**Producer Price Index** (January - November 2020): Weakening by 7.2%, compared to stability in 2019, mainly due to Petroleum-Coke Products prices



# The banking system is showing resilience also during the second wave of the health crisis

## Challenges

- Poor asset quality (NPLs, deferred taxation)
- Expected increase in NPLs due to the pandemic
- Weak demand for credit for investment purposes

## Positive developments

- Continuation of ECB liquidity stimulus measures for banks, at a low cost
- All-time low public sector borrowing cost
- Significant increase in private deposits
- Increase in business credit

## Priorities

- Acceleration of the implementation of systemic solutions to reduce NPLs, in order to strengthen the lending capacity of banks
- Bank business plan review

Continuation of **liquidity support measures** during the second wave of the crisis

- ECB: widening of access to cheap bank financing and temporarily eased supervisory rules

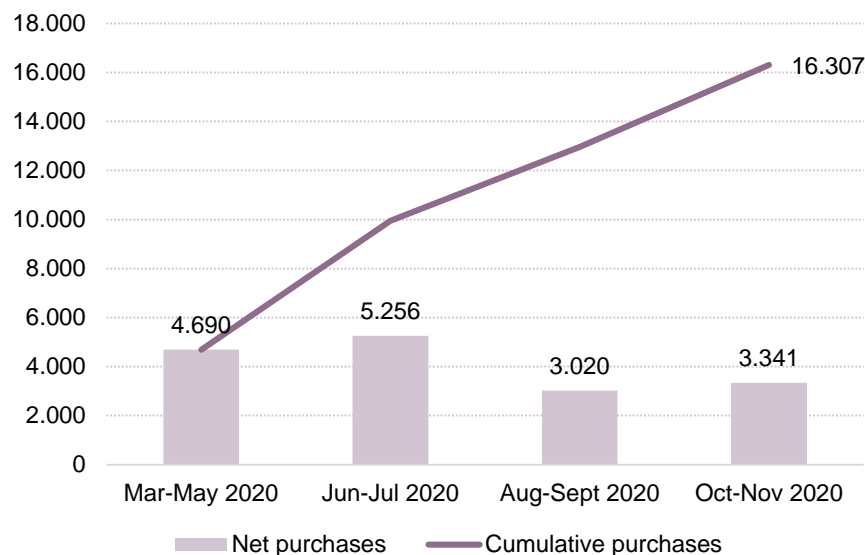
Extension of **systemic solutions to reduce NPLs**:

- Extension and enlargement of guarantees through the "Hercules" program

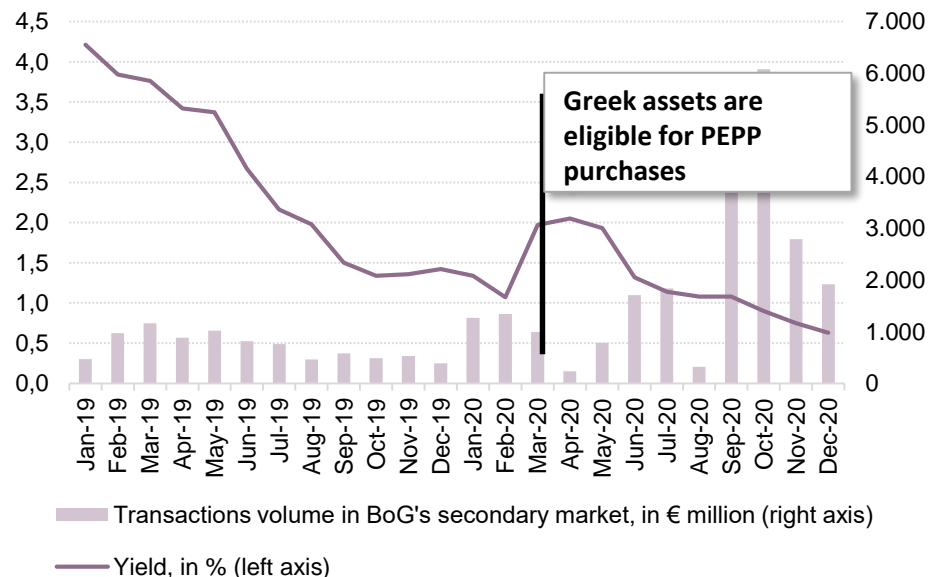


# Greece's temporary inclusion in the ECB's "unconventional" liquidity enhancement policies for the first time has positive effects

Purchases of Greek government bonds from the PEPP program (€ million)



Yield and trading volume of 10-year Greek government bonds



Sources: Bank of Greece, ECB

- Stimulates **demand for government bonds**, reducing yields to all-time low levels, increasing the bonds' liquidity and facilitating the refinancing of public debt
- Reduces the **bank financing cost**, which increases their profitability and gives the opportunity to reduce the private sector lending cost
- More liquidity in both the public sector and the banks, improves their **capability to finance the real economy** and thus accelerate recovery



# At a very critical point of the health crisis

Prolonged second pandemic outbreak, also domestically → Strong pressure on economic activity and public finances

More businesses operating and higher mobility of citizens compared to the 1st outbreak → higher adaptation to the pandemic conditions

Uncertainty due to the volatility of the epidemiological situation and the protection measures → difficulty of businesses and households to make decisions

Prospects for overcoming the crisis from the relative stabilization of the epidemiological conditions and the vaccination process



# Challenges and opportunities ahead

- **Acceleration of the vaccination process and utilization of healthcare resources** to control-improve the epidemiological situation → faster relaxation-repeal of the restrictive measures, improvement of expectations, facilitation of decision making
- **Re-operation of the economy, but also of institutions** (education, justice, public administration): acceleration of a **reform plan** (Enhanced Supervision, Growth Plan for Greek Economy etc.), so that the crisis does not also have a structural imprint
- **Use of unprecedented access to liquidity** for the recovery of productive investments and reforms (e.g., supplementary insurance)
  - ❖ The **NextGenerationEU Fund** offers an unprecedented opportunity to promote necessary investments for the modernization of the Greek economy (digital transition, green growth, modernization of public administration)
  - ❖ thanks to the **ECB's tools**, there are possibilities for greater financing of the real economy by banks, at much better terms
- **Sustainable fiscal management**: focus on spending that helps the private and public sectors **adapt to the new conditions**, so that they exit the crisis. Avoidance of expenditures that increase the deficit and the debt, without enhancing the ability of the Greek economy to generate income and contribute to public finances.



# Macroeconomic forecasts assumptions

## **Baseline Scenario: 4<sup>th</sup> quarter, 2020 (common assumptions in all scenarios)**

- Escalation of pressure on the economy from the reenactment of protective measures
- More businesses in operation, higher mobility of citizens. Small stimulus of Retail Trade in December, through emergency measures.
- Eurozone GDP (European Commission): 7.8% recession

## **2021**

- Gradual lifting of measures (until mid-Q2). No new outbreak of the pandemic. Possible temporary escalations.
- Suspension of Tourism operation in Q1, partly in Q2.
- Revenue from international tourism services: 45-50% of 2019, from 24% of 2019 last year
- NextGenerationEU Fund inflows in H2-2021 and absorption target achievement (€5.5 billion)
- Eurozone recovery (European Commission): 4.2%

## **Favorable Scenario (2021):**

- Lifting of most measures in early-Q2. No new outbreak of the pandemic. Possible temporary escalations.
- Tourism operation as of early-Q2
- Revenue from international tourism services: 50-55% of 2019 (2020: 24%)
- NextGenerationEU Fund inflows in H2-2021 and absorption target achievement (€5.5 billion)
- Eurozone recovery:  $\geq 4.2\%$

## **Adverse Scenario (2021):**

- Epidemiological data at the current levels
- New pandemic outbreak (e.g., spring, autumn)
- Implementation of additional measures to support businesses-households
- Revenue from international tourism services: 35-40% of the 2019 level (2020: 24%), due to vaccinations
- NextGenerationEU Fund inflows below target (€3.5-4.0 billion)
- Eurozone recovery: 3.0-3.5%





# Macroeconomic forecasts 2020 - 2021

## Forecasts 2020

- Public consumption: +2.5 to + 3.5%
- Private consumption: -4.5 to -5.5%
- Investments: +10 to +11%
- Exports: -25.5 to -26.5%
- Imports: -6.5 to -7.5%
- **Recession: 9.0-9.5%**
- Unemployment: 16.5%
- Deflation: 1.2%

## Favorable Scenario 2021

- Public consumption: -5.0 to - 7.0%
- Private consumption: +4.0 to +4.5%
- Investments: +20 to +22%
- Exports: +19 to +22%
- Imports: +15%
- **Growth: 5.0 to 5.3%**
- Unemployment: 15.0%
- Inflation: 0.6 to 1.0%

## Basic Scenario 2021

- Public consumption: -3.0 to - 5.0%
- Private consumption: +2.5 to +3.5%
- Investments: +15 to +18%
- Exports: +15 to +18%
- Imports: +11%
- **Growth: 4.0 to 4.3%**
- Unemployment: 15.5-16.0%
- Inflation: 0.2 to 0.5%

## Adverse Scenario 2021

- Public consumption: -1.5 to - 2.5%
- Private consumption: -1.0 to - 1.5%
- Investments: -3 to -6%
- Exports: +5 to +7%
- Imports: -2 to -4%
- **Growth: 0.5 to 1.0%**
- Unemployment: 18.0-18.5%
- Deflation: -0.5 to -0.7%

Special study

**The contribution of inputs to agricultural production  
and the future of the agricultural sector in Greece**

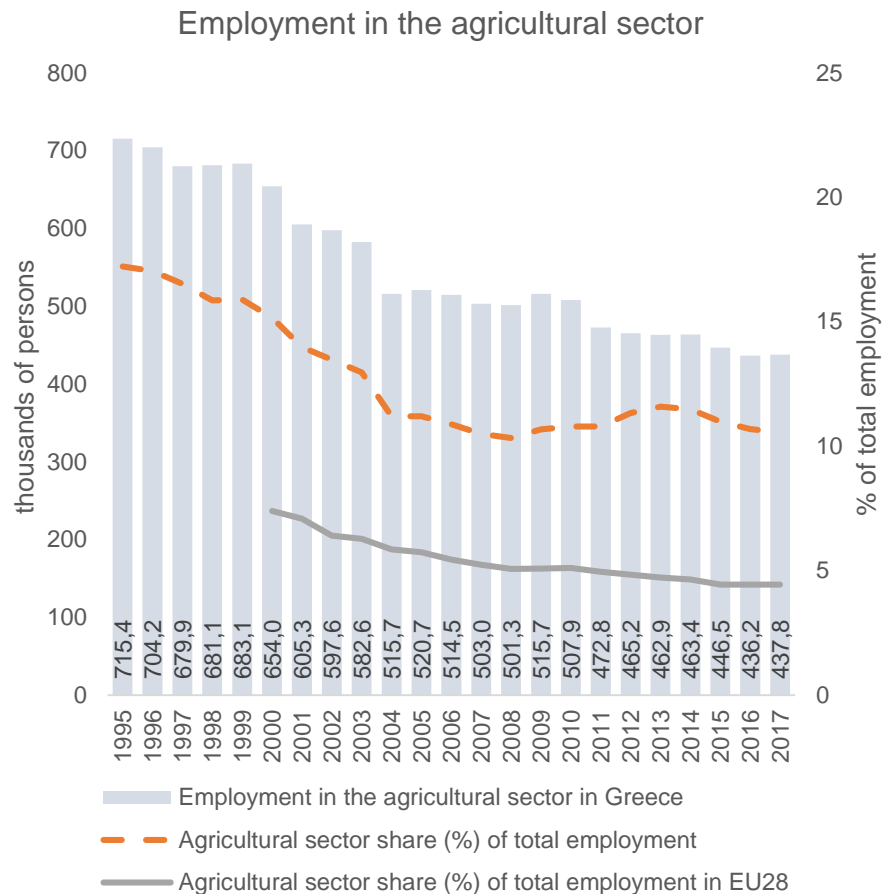
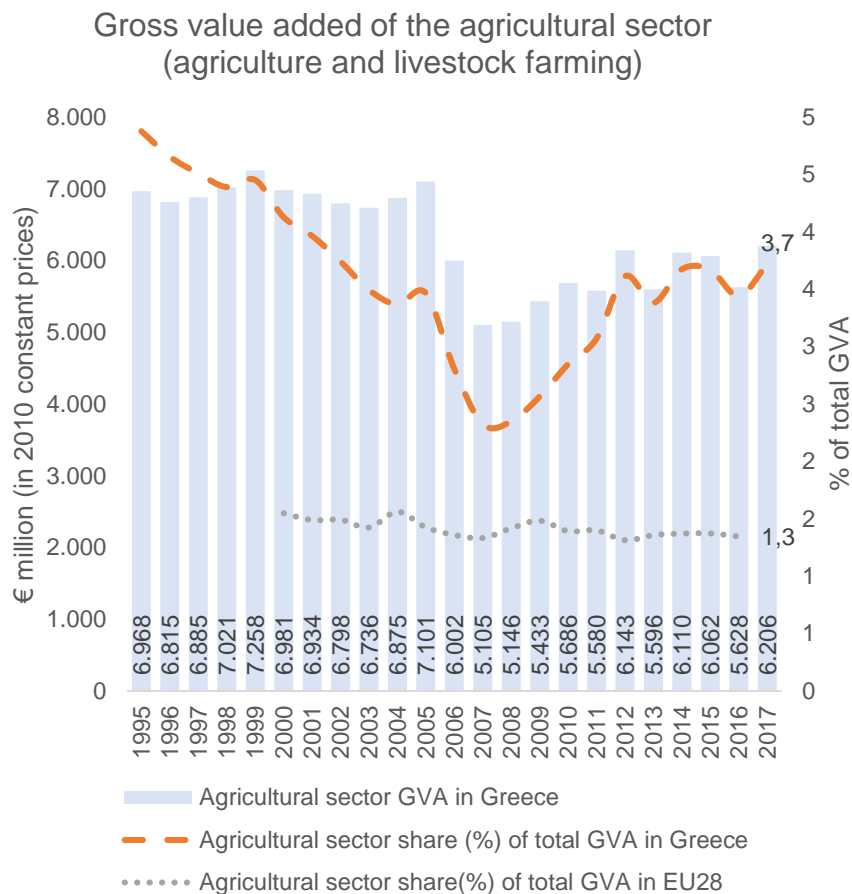


# Scope of the study

- Examination of the **role and contribution of inputs to agricultural production**
- Investigation of the **importance of inputs in the cost of agricultural production** in Greece and other European Union countries
- Investigation of **factors that will contribute to the improvement of productivity and added value of the agricultural sector**, enhancing the income of farmers and the growth of the Greek economy



The direct contribution of the agricultural sector to the Greek economy is of particular importance, especially during the economic crisis

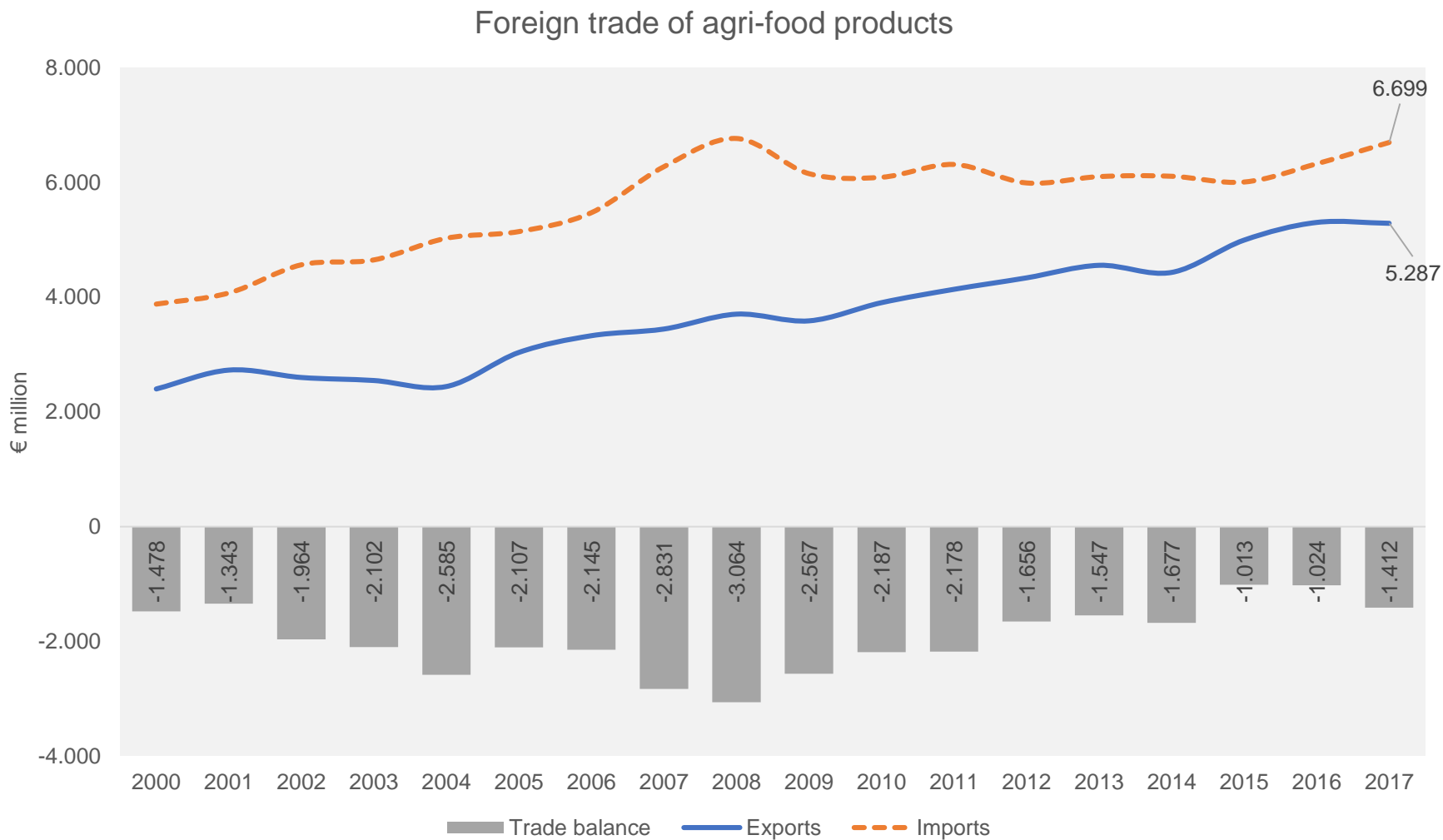


Source: Eurostat. Date processing: IOBE

The contribution of the agricultural sector to employment is even more important, despite the long-term declining trend



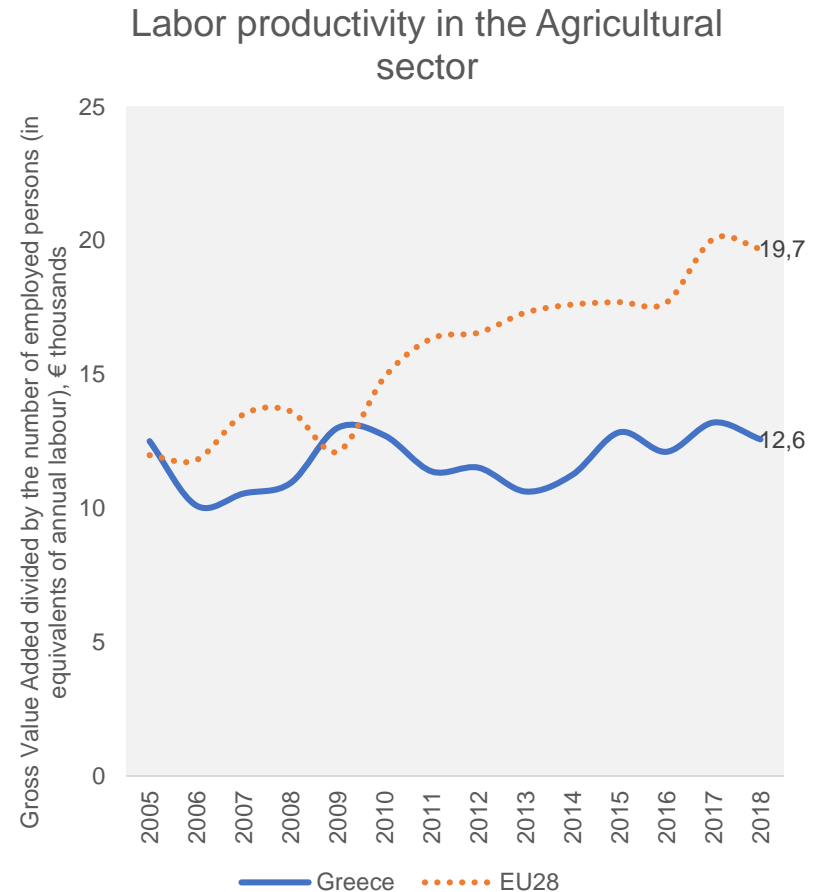
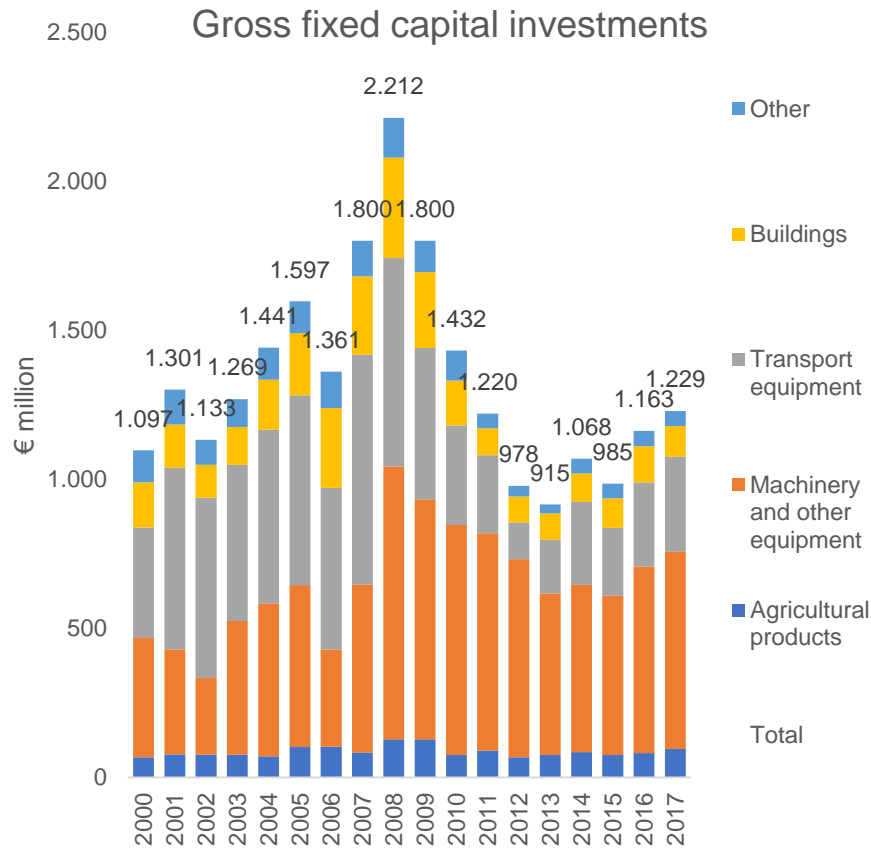
Total exports of agri-food products have increased over the last decade, narrowing the relative trade deficit



Source: Eurostat. Data processing: IOBE



# Investments in the agricultural sector followed the general downward trend of total investments



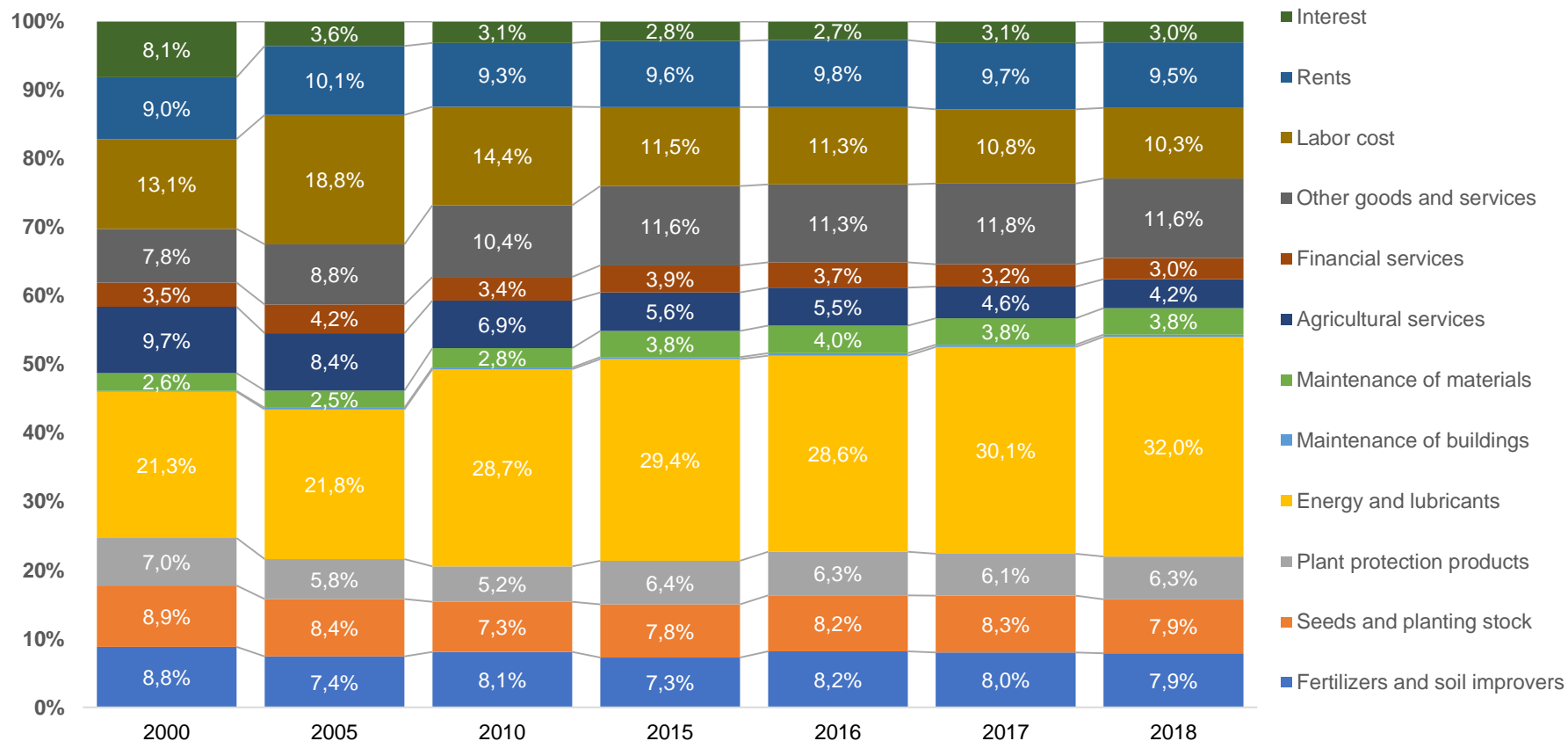
Source: Eurostat. Data processing: IOBE

The productivity of the agricultural sector in Greece falls short of the EU28 average



# The main input categories are Energy-Lubricants and Other Goods and Services

## Expenditure distribution for intermediate consumption



Source: Eurostat. Data processing: IOBE

The ratio of agricultural supply expenditure to the value of crop production in Greece is the second lowest in the European Union



The agricultural sector in Greece has structural weaknesses that need to be addressed in order to further increase its contribution to the economy



**Small and fragmented farms**

**Inefficient organization**

**Rudimentary technology and know-how**

**High dependence on State subsidies**

**Lack of strategic planning for effective promotion and branding of the Greek agri-food products**





# A new growth model for the Agri-food sector is needed

## **Increase in the size and modernization of farms**

- Provision of incentives and implementation of actions for the integration of independent farmers (producer groups, cooperatives)
- Cooperatives which are more business oriented
- Enhancement of cooperation in the supply chain between Industry and farmers
- Incentives for investment in modern equipment

## **Collaboration of universities, research centers, companies/cooperatives and producers**

- Acquisition of knowledge, dissemination of research results, introduction of innovations in the production process (e.g., Precision Agriculture)

## **Human resource development**

- Training programs and consulting support
- Incentives to attract more young farmers, who respond better to the promotion of modern production methods and business strategies

## **Strategic planning**

- Development of product branding and standardization
- Strengthening of relationships along the supply chain and orientation towards market needs
- Infrastructure for the effective promotion of products, such as logistics and transportation services, for timely delivery
- Policy measures to attract investments in the food sector

Thank you for your attention

[www.iobe.gr](http://www.iobe.gr)



[twitter.com/IOBE\\_FEIR](https://twitter.com/IOBE_FEIR)