



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ &
ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Quarterly Report for the Greek Economy 1 - 2016

April 13th, 2016



This presentation is supported by

Once again at a pivotal point

- **Another significant delay** in the negotiations between the Greek Government and its partners and creditors
 - The recurrence of these developments and their possibly addictive effect on observers does not take away from their negative significance
 - This is the first time that the economy is in such a breaking point, with capital controls and banks not functioning smoothly for a 9-month period
- **Most troubling fact:** recently, the developments regarding the Greek economic crisis have, to a great extent, been disconnected from the rest of the European economy's problems
 - Greece is not perceived as a noteworthy systemic danger

The decision and responsibility about the country's orientation must be looked for almost exclusively within Greece

Probably slightly higher recession in 2016

GDP fall of about 1%

- The GDP trend will heavily depend on the characteristics and the time of completion of the evaluation of the programme
- In case of a breach or an irregular implementation of the programme, the developments would be dramatic, whereas the relevant immediate and long-term damage would be irreparable

It is imperative that the completion of the ongoing evaluation is only the first step of a systematic, consistent and intense effort to exit the crisis

Lack of correct orientation in politics

- Prolonged, extreme uncertainty deters focus from the structural problems of the Greek economy
- (low productivity, factors of production devoted to introvert activities)
- As long as the economy is not under reform, the end date of the Greek crisis is moving further away
 - Presently, instead of the economy being under transition towards a new direction of balance in the financial system, the inertia is reinforced
 - Given the magnitude of the challenge that the country is faced with, one would expect that a genuine search for solutions to such lingering and acute problems would be in progress
 - Indicative problems: social security system, taxation, non-serviceable private loans, management of public property, public debt

Top priority: Recovery of reliability

- The fiscal policy cannot in practice contradict the main aims it is supposed to serve, as well as about subtopics
 - The Euro is by design an expensive currency, within whose area economies with low levels of productivity and competitiveness would systematically face problems
 - Therefore, it is imperative that the institutions at the European level are reinforced and that the economic union is strengthened
 - But also that the Greek and other, similar economies **must proceed with reform policies that strengthen their productivity**

The Greek economy has significant, not yet developed advantages that, under the appropriate conditions, could lead to higher growth than the Eurozone

Quarterly Report Overview

The global economic environment continues deteriorating

- Slowdown of global economic growth and global trade in 2015: from 3.4%(for both) in 2014, to 3.1% and 2.6% respectively
 - → slowest growth after the 2009 crisis
- Initial predictions for an acceleration of global growth in 2016 to 3.4% are considered hard to be realised
- **Factors of Uncertainty:**
 - i) A slowdown of the Chinese economy from its adjustment to a more sustainable growth model
 - ii) Trends in prices of energy and basic goods, for both buyers and sellers
 - iii) The increase in US interest rates (attraction of international capital)
 - iv) Continued geopolitical tensions in the Middle East
- **Possible problems within Europe:**
 - i) Brexit's dire consequences on the financial stability of the EU and by extension on its cohesion
 - ii) Management of refugee-migration flows

The global economic environment continues deteriorating

- Economic Sentiment and Expectation Indices: a slowdown or a strong worsening trend prevailed in the most significant economic zones globally
- **Rate of growth in the Eurozone:** +1.8% (2015), 1.9% (2016)
- **Changes in growth determinants in the EU and the Eurozone**
 - Negative or zero net exports since 2014, at least for the first time in the last 15 years, a trend that continued in 2015 → In the medium-term, net exports will not constitute a developmental cog for the European economy

Return to recession for the Greek economy in 2015

Significant but mild GDP decline (Oct.-Dec. 2015): **-0.8%** against -1.7% in Q3 '15 and an increase of 0.9% in Q4 '14

Recession of 0.3% in 2015, against a moderate growth of 0.7% in 2014

Negative effects to GDP from:

- **Extensive decline in investment (-13.2%), against +9.8% in 2014**
 - A fall brought about exclusively from a decline in inventories
 - Increase of fixed capital formation for the first time since 2007 (+0.9%), from higher investments in the first half of the year in transportation & mechanical equipment
- **Decline in exports for the first time since 2011 (-3.7% against +7.4% in 2014)**
 - Exclusively from a fall in exports of services in the second half of the year (-22.2%), mainly in international transports - other services (-11.2% for total year)
 - Increase in exports of goods in 2015 (+3.2%), primarily due to their upward trend in first half of the year

Return to recession...

Positive effects to GDP from:

- **Marginal increase of domestic consumer spending**
 - Small increase in household consumption for the first time since 2009 (+0.2% against stability in the year before last)
 - *Increase from higher consumer spending in the first half of the year (+1.2%), as a result of the heightened political uncertainty due to the prolonged negotiations*
 - Public consumption was unmoved (-0.1%), against a reduction by 2.4% in 2014
 - *More public consumer spending from rehires & discontinuation of public sector reforms*
- **Decline in imports (-6.9%) after an increase of 7.8% in 2014**
 - *Greater impact of limitations to capital mobility on imports*
 - *Decrease of the external sector deficit by 43.3% in National Accounts terms, to 1.5% of GDP*

State Budget 2015 - Final data

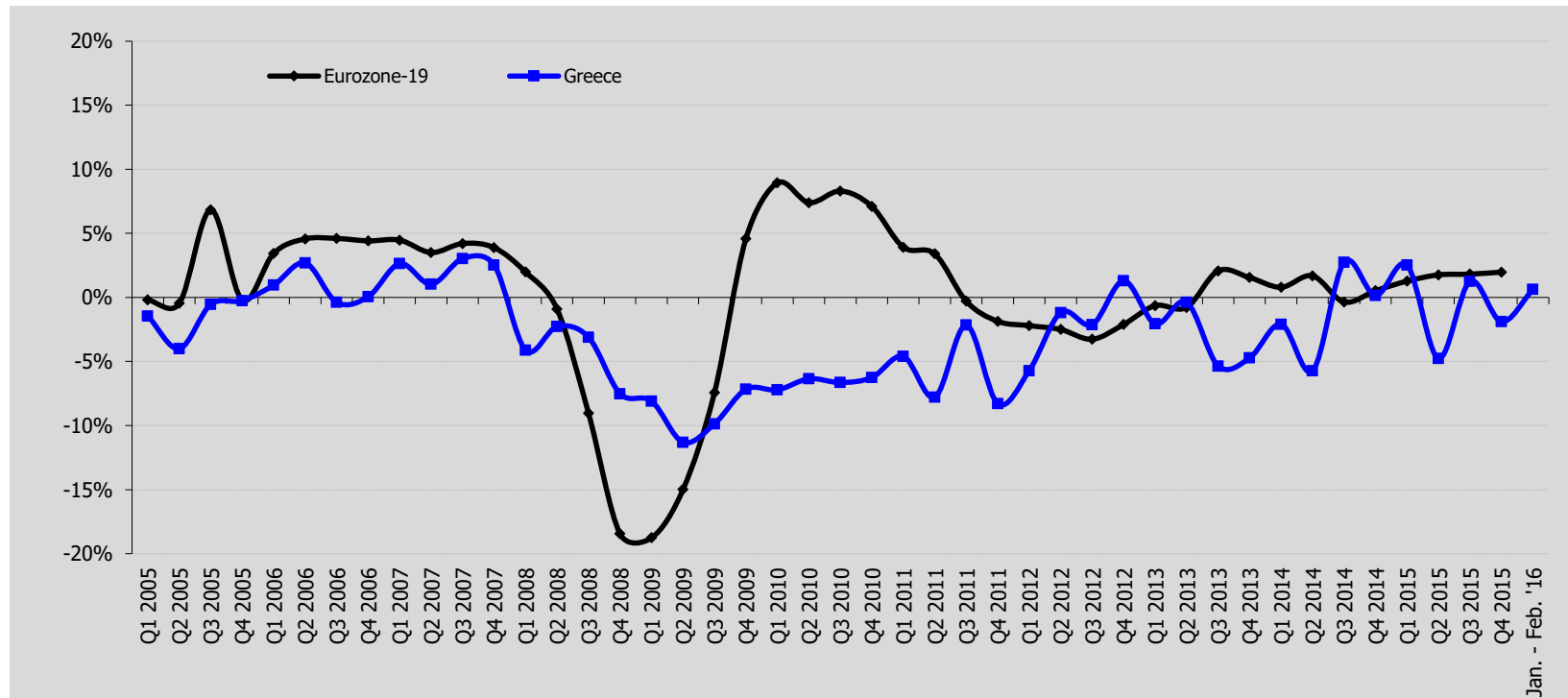
- **Primary result of State Budget: surplus of €2.3 bn.**, against initial target of €5.8 bn. (however, target of November 2014)
- **Overall balance of SB: €3.5 bn. deficit**, against a target of €0.1 bn.
- The overall result is burdened by the creation of **new arrears by the General Government, amounting to €1.6 bn.**, that will be covered by State Budget
 - *The fall behind in revenues was the main cause of the big divergence*
 - *Unofficial but significant revenue revision in the 2016 Budget (-€4.3 bn.)*
 - *Hysteresis in revenues despite the urgent, one-off non-tax revenues, as well as the measures implemented in past July*

State Budget 2016

- **Excess of the January – February target: primary surplus €3.0 bn.**, against a surplus target of €1.1 bn.
- **Overall SB balance: surplus of €1.3 bn.**, against a deficit target of €0.6 bn.
- Excess equally from a restraint of spending and higher revenues, but also due to conjunctural factors:
 - *Higher than the target acceleration of drawings for the Public Investment Program (PIP) by the EU; slowdown in the coming months*
 - *Excessive one-off non-tax revenues (BoG)*
 - *Significant increase of arrears (+€716 mil. during the first two months)*

Several fluctuations in Industry

Industrial Production Index



Sources: ELSTAT, Eurostat

2015: +0.6% against -1.9% in 2014

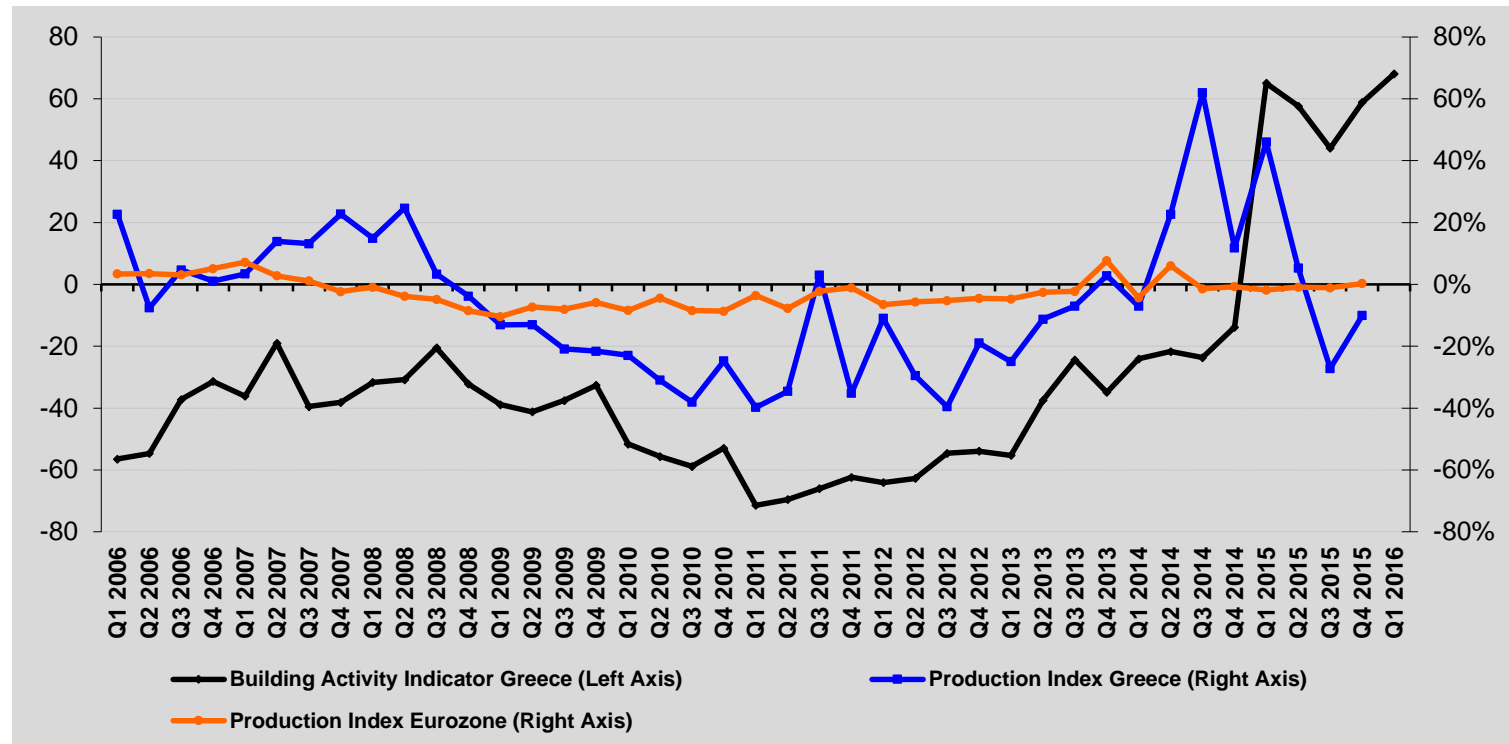
Jan. 2016: +4.6%, but **Feb. 2016:** -3.0%

+0.6% in the first two months of 2016, against +1.0% last year

Manufacturing +3.0%, Mining and Quarrying -9.6%, Electricity -3.9%, Water Supply -2.2%

Construction: Strengthening of the significant 2014 ascent

**Production Index in Construction and Building Activity Indicator
(quarterly y-o-y changes)**

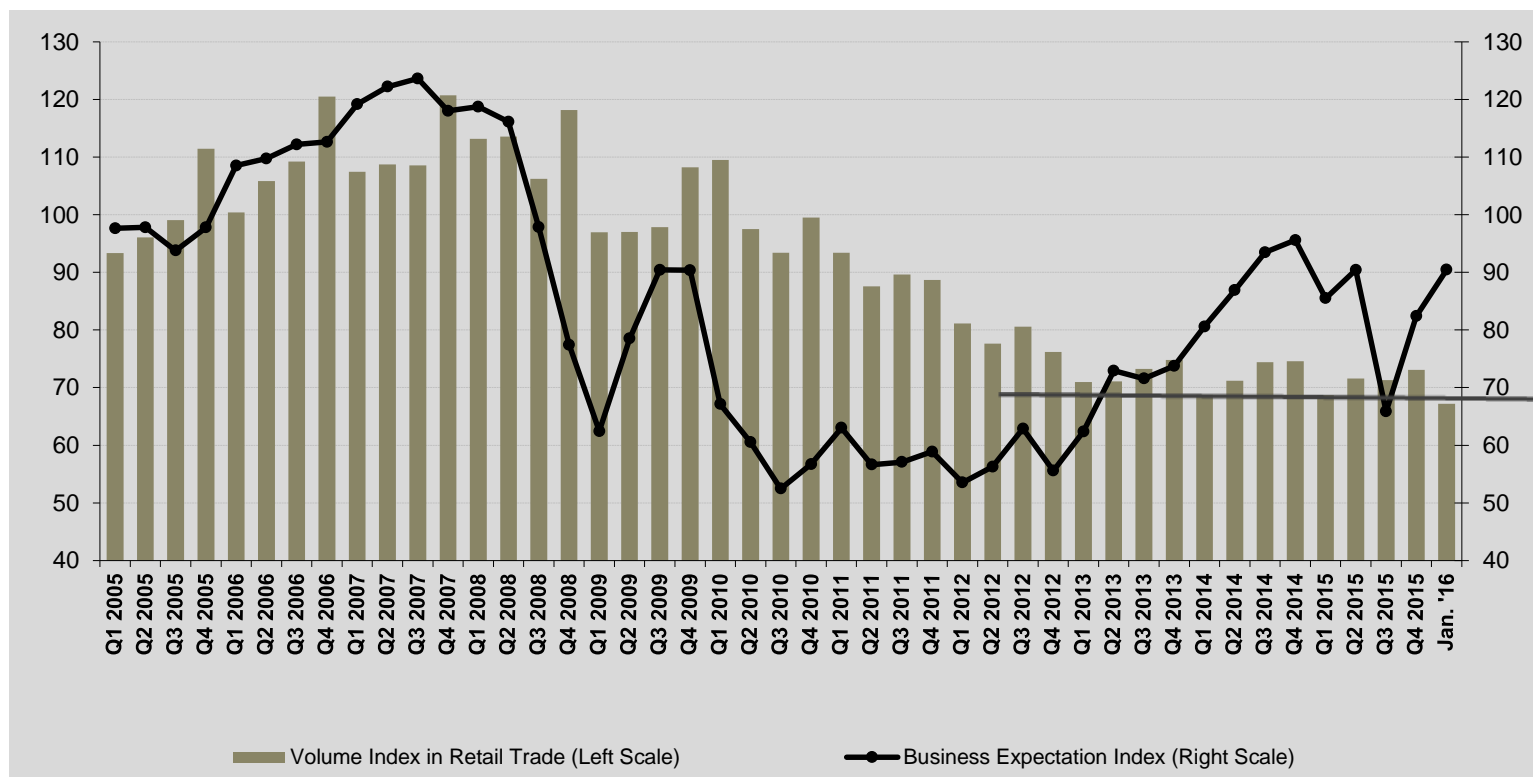


Sources: ELSTAT - Eurostat

2015: -2.4%
2014: +15.1%

Retail Trade deterioration in 2015

Volume Index in Retail Trade (2010=100) and Business Climate Index in Retail Trade (1996-2006=100)

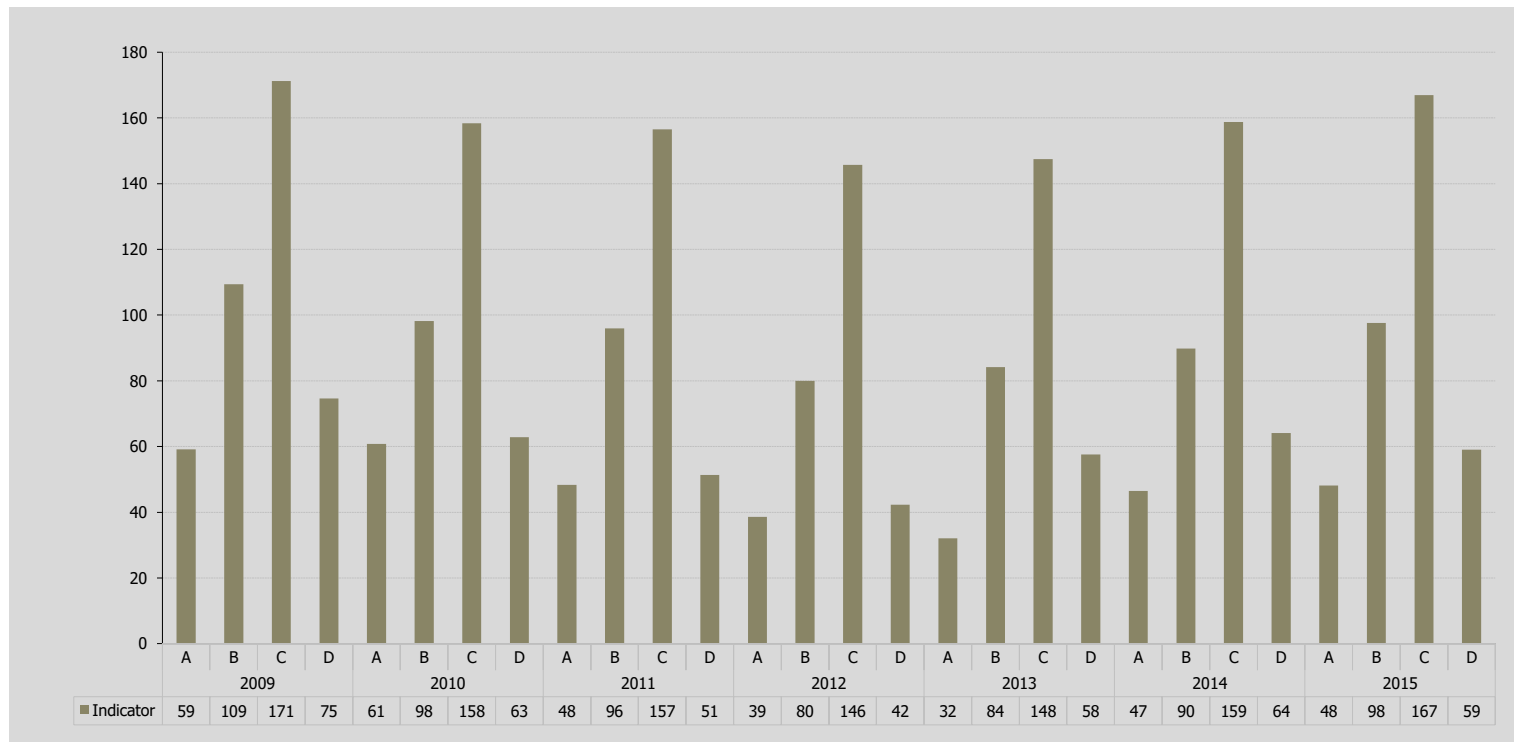


Sources: IOBE, ELSTAT

2015: -1.5% 2014: -0.4%
Downward trend continues in January: -2.2%

Increase in demand for services in comparison to 2014. Improvement in tourism but milder than in 2014

Turnover Index in Tourism (Accommodation and Food Service Industry)

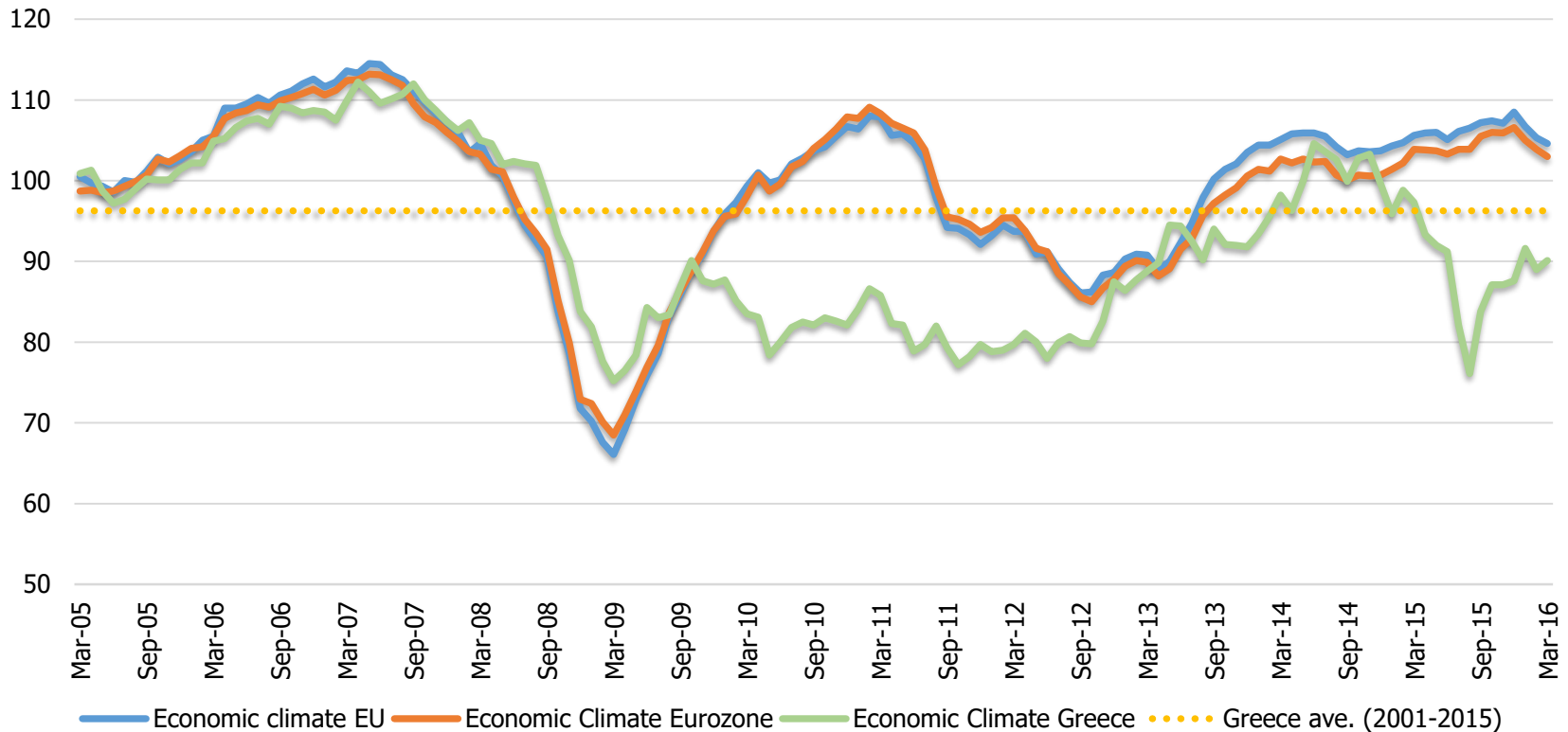


Sources: IOBE, ELSTAT

IOBE sentiment indicators: Pessimism in Q1'16 in all the sectors except from Tourism

Improvement of economic sentiment in Q1'16, but lower levels than last year. Average European indicators also at lower levels.

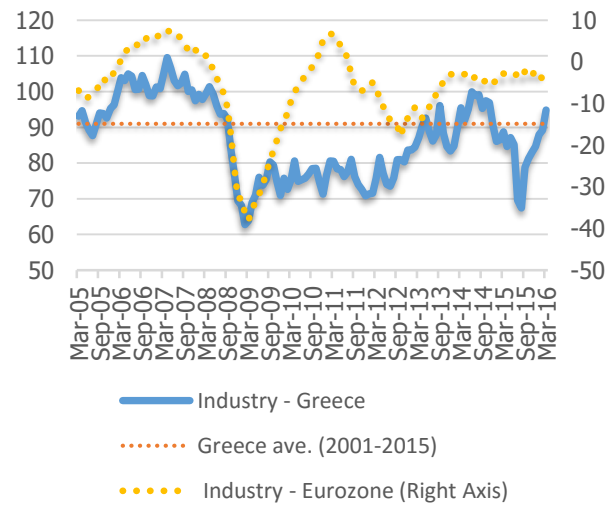
Economic Sentiment Indicator



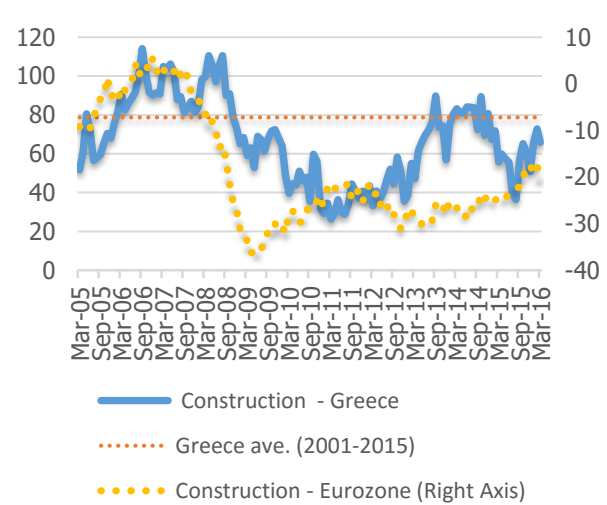
Sources: IOBE, European Commission

Improvement of expectations in Q1'16 in most sectors

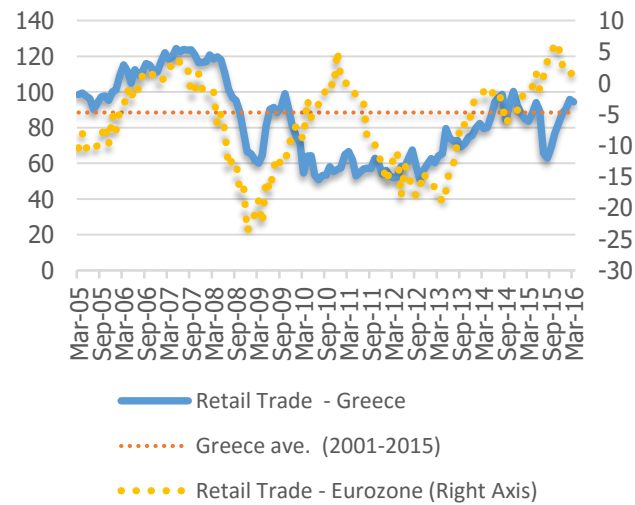
Industry



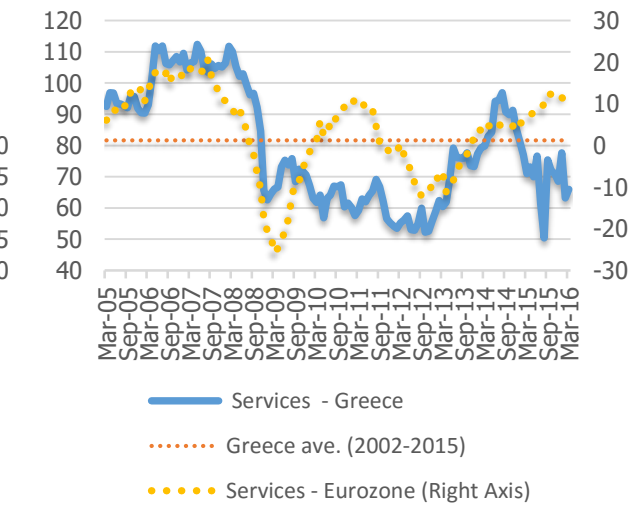
Construction



Retail Trade



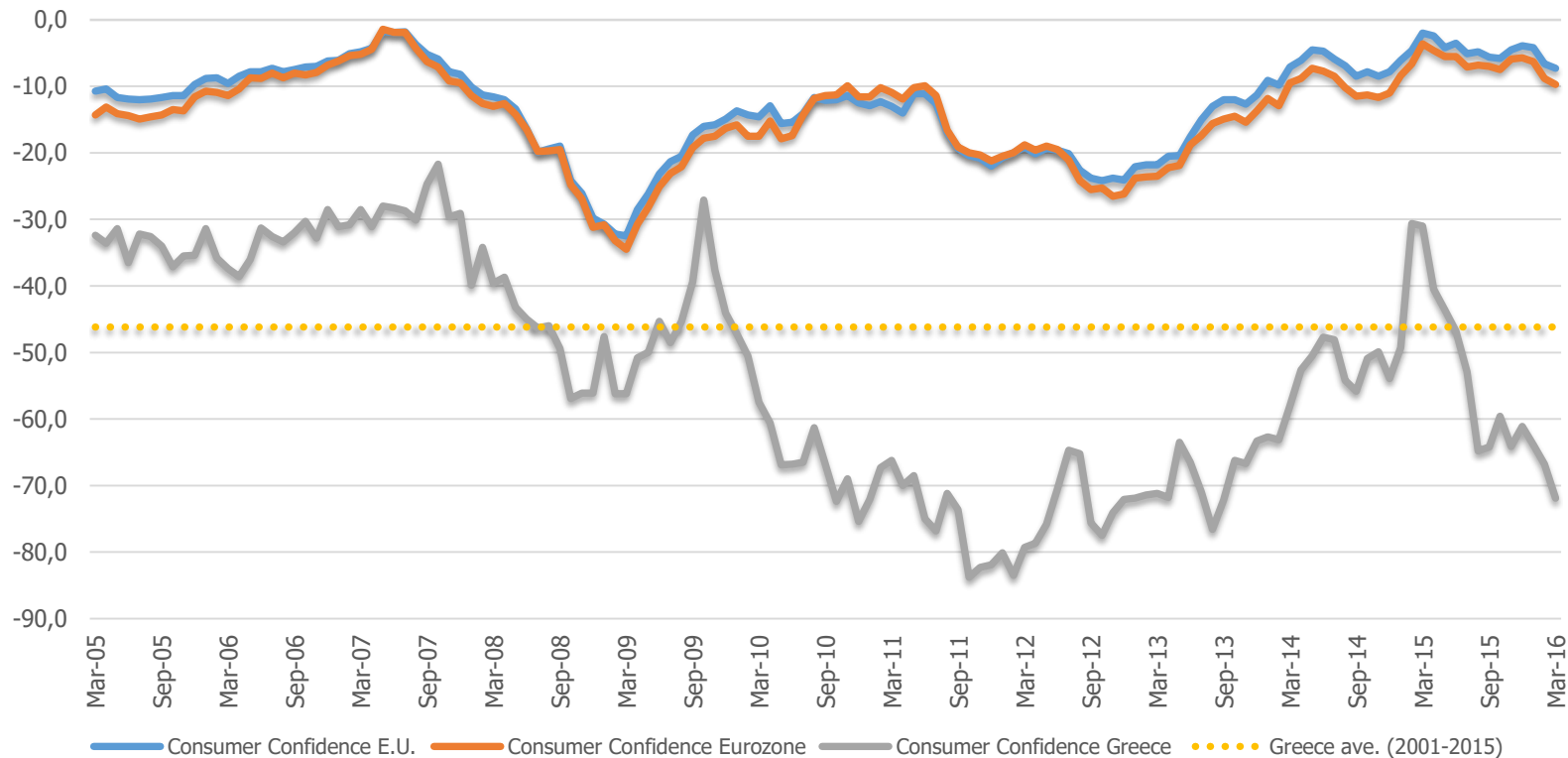
Services



A significant loss of consumer confidence in Q1'16; big drop also in comparison to the corresponding period last year.

A slight deterioration noted in the corresponding European indicators.

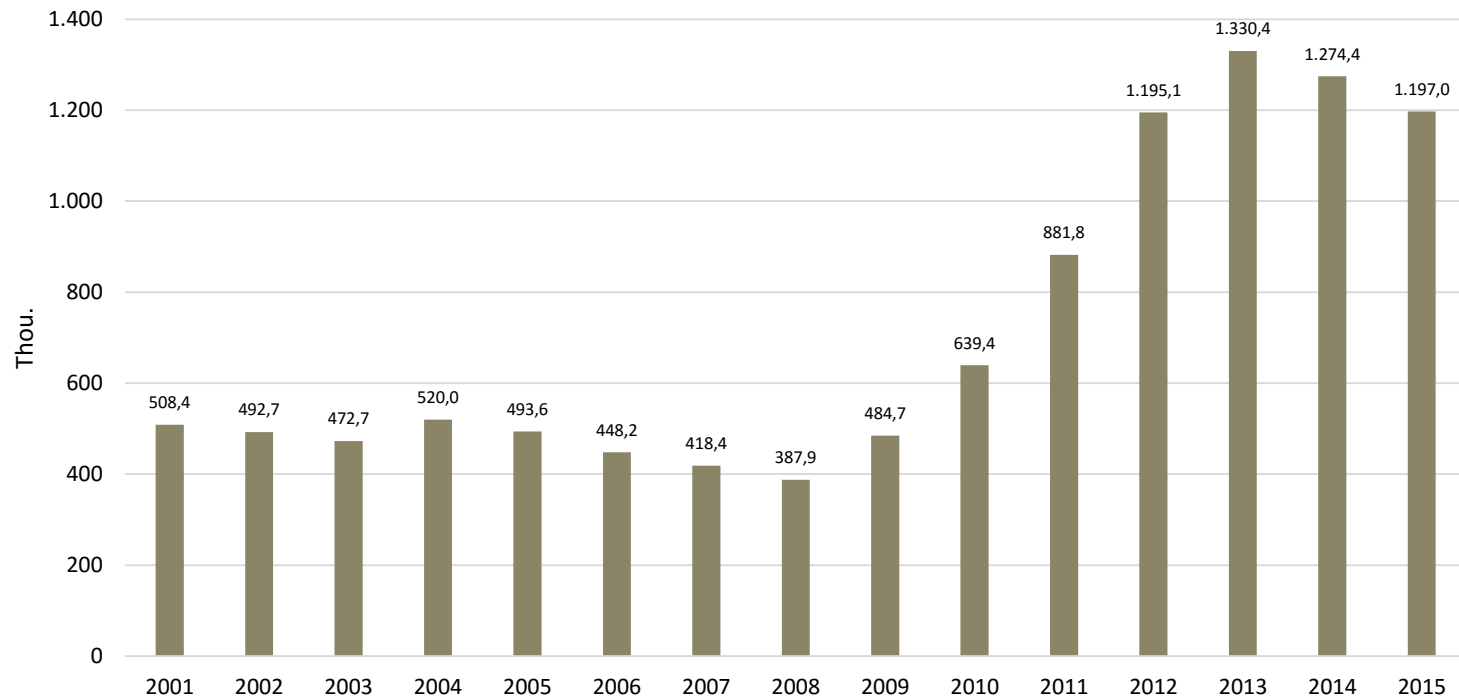
Consumer Confidence



Sources: IOBE, European Commission

Reduced unemployment in 2015: Unemployment at 24.9% from 26.5% in 2014

Number of unemployed in Greece 2001-2015

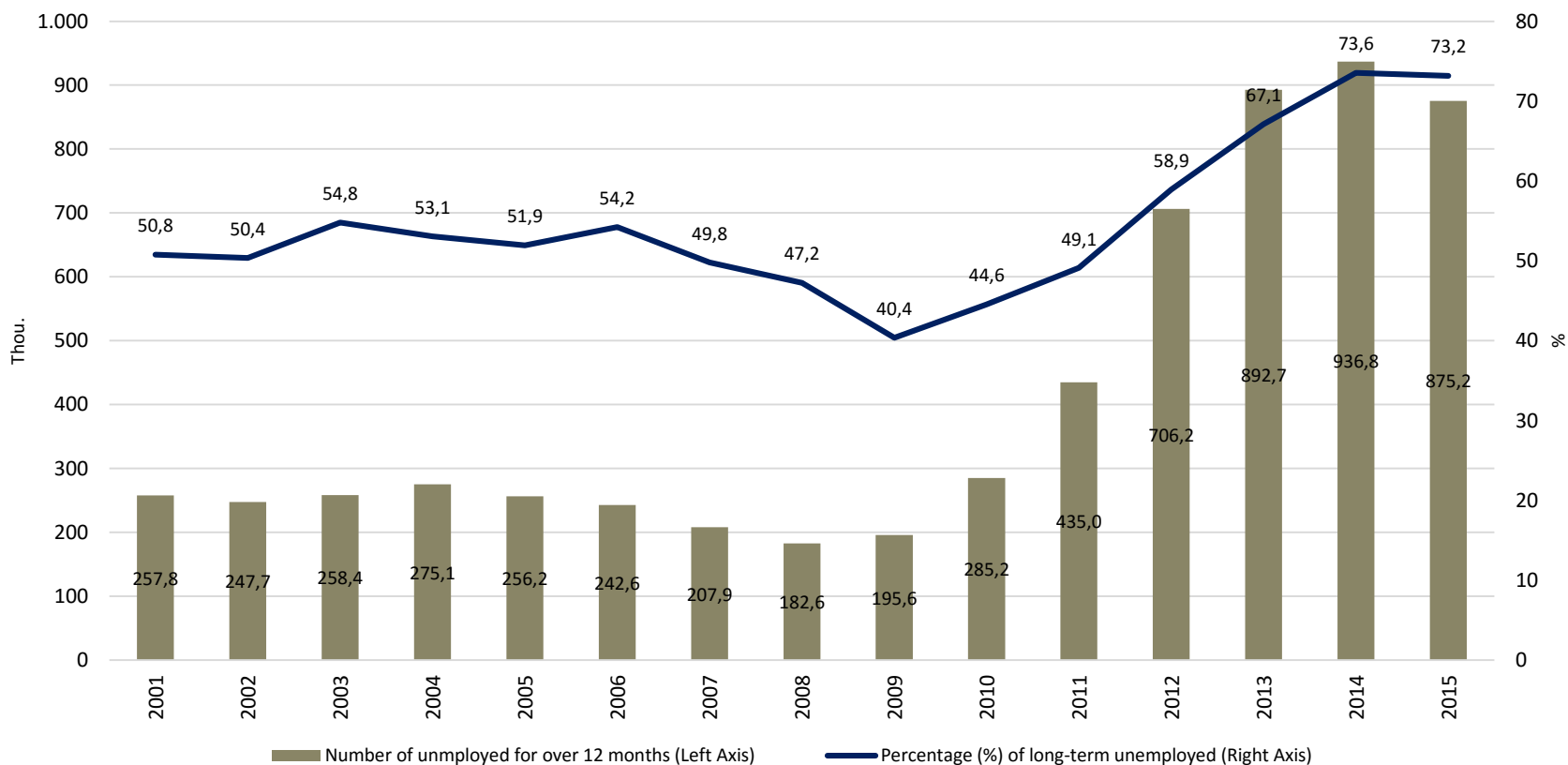


Source: ELSTAT

- January 2016: 25.7%, from 26% in Jan. 2015 and 24.5% in 12/2015.
- Increased employment in 12 sectors in 2015. Indicatively: Real Estate Activities (+52.9%), Tourism (+9.6%), Professional, Scientific and Technical Activities (+6.4%), Manufacturing (+5.7%), Retail and Wholesale Trade (+5.6%),
- Reduced employment in 9 sectors in 2015. Indicatively: Mines and quarries (-7.8%), Financial and Insurance activities (-5,1%), Electricity, Gas, Steam and Air Conditioning Supply (-4,5%), Construction (-4.2%).

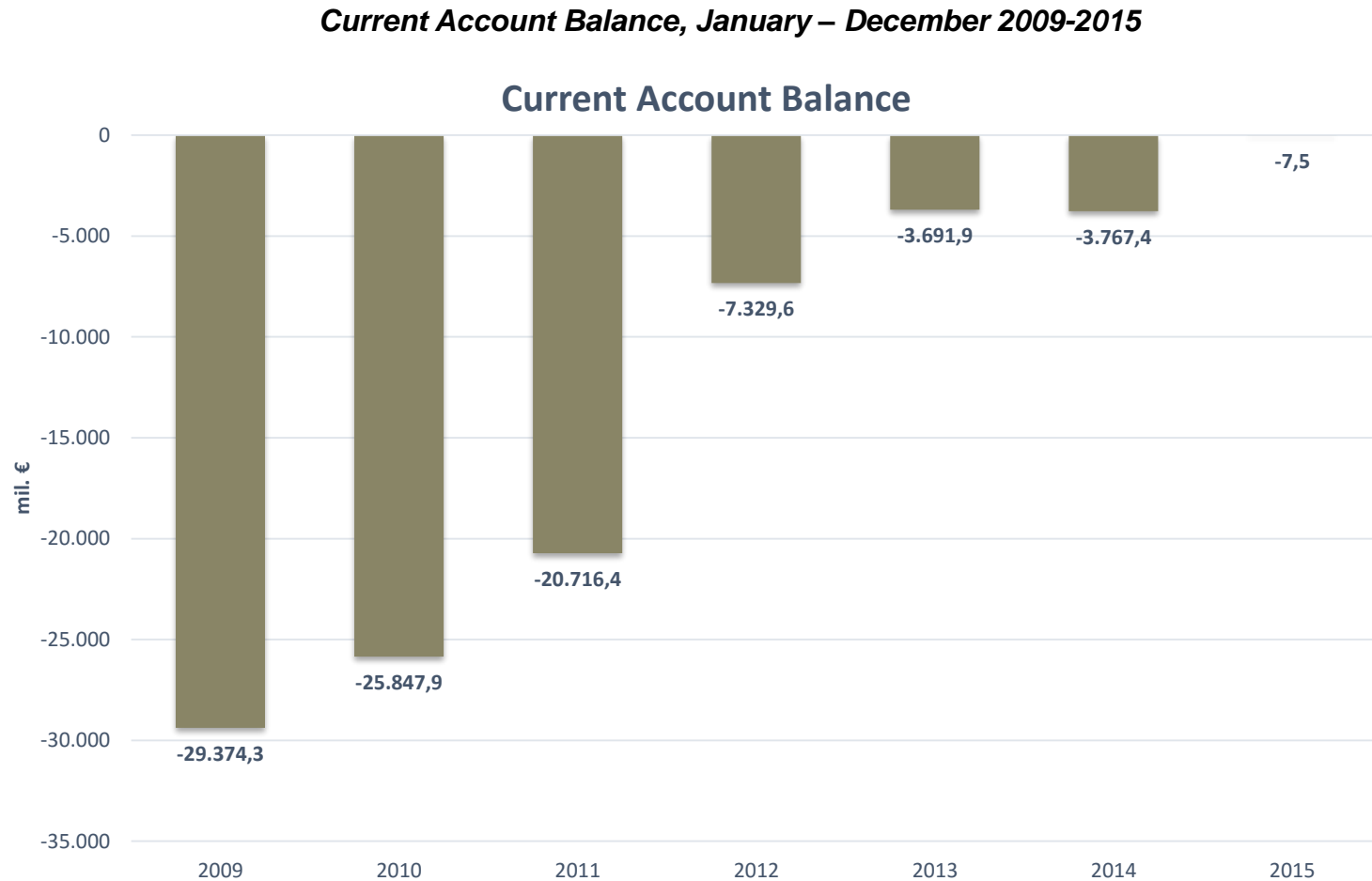
Marginal decrease in the rate of long-term unemployment last year for the first time since 2009

Long-term unemployed (number and percentage as per the total)



Source: ELSTAT

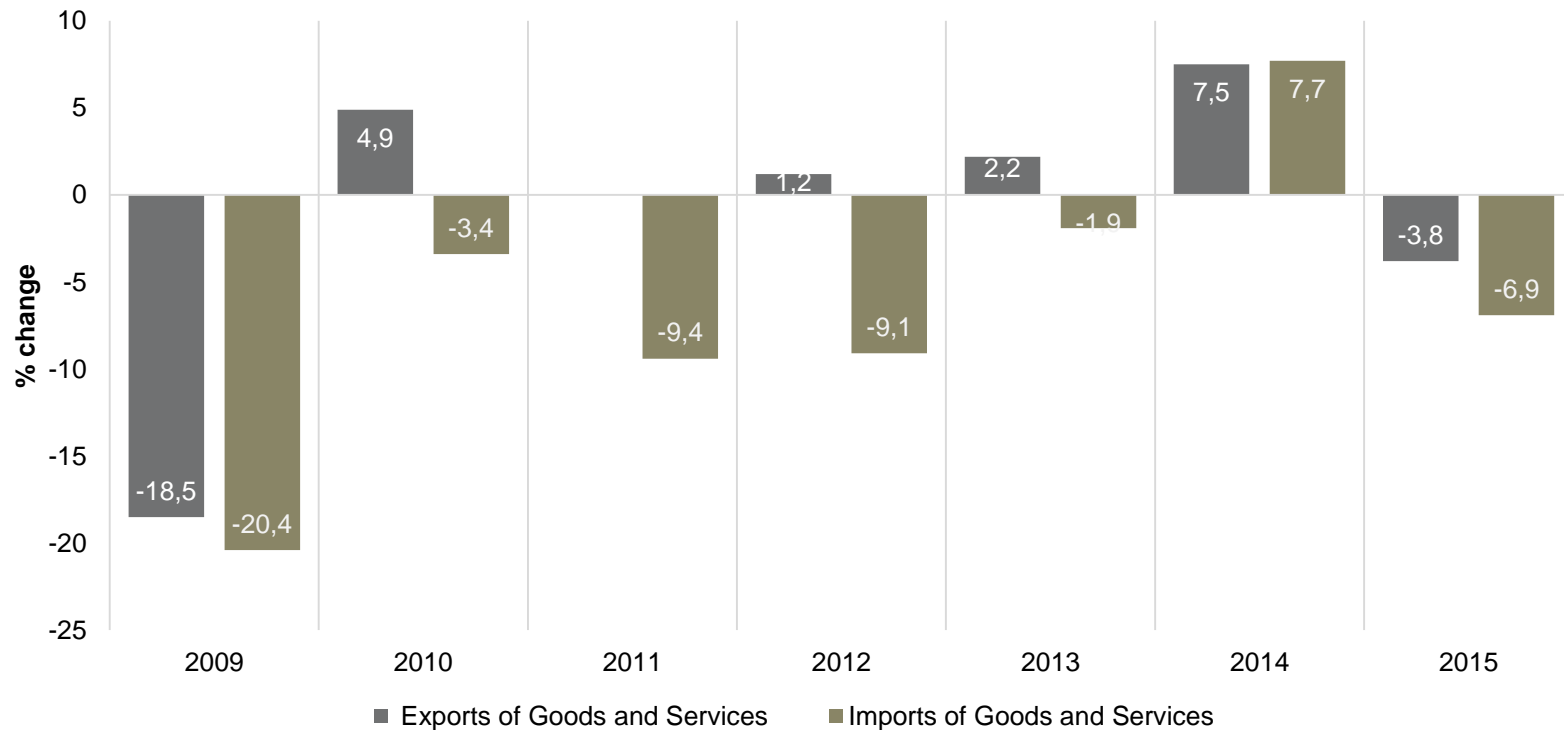
The current account balance was neutral in 2015, primarily due to a drop in imported goods



Source: Bank of Greece

Fall in exports in 2015, after the increase in 2014

Exports and Imports of Goods and Services, values 2010 (% change)



Source: Eurostat, data processing by IOBE

Average change 2010-2014

Exported goods and services: +3.1%

Imported goods and services: -3.2%

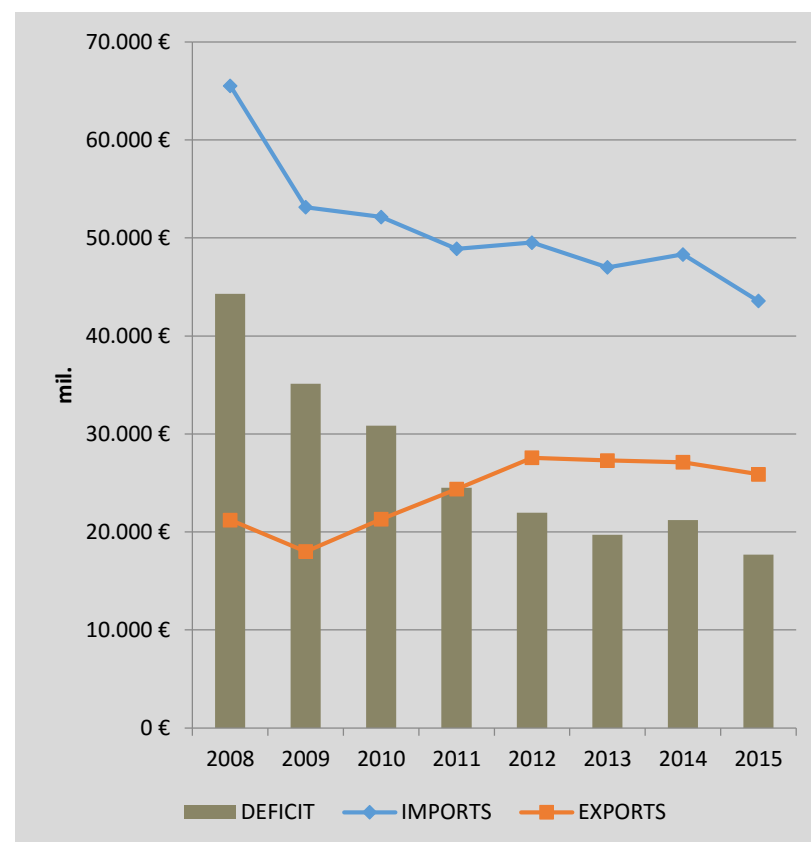
15.8% decline in the deficit in the trade account in 2015

2015:

- **Exports** : -5.3% (€25.6 bn., incl. fuels)
 - **+7.6% (€17.9 bn. excl. fuels - ships)**
- **Imports**: -9.8% (€42.6 bn.)
- **Trade Deficit**: -17.1%
- **Intense Decline**: Fuels (-26.4%)
- **Losses**: Agricultural Goods (12.4%), Industrial Goods (6.8%)

Markets:

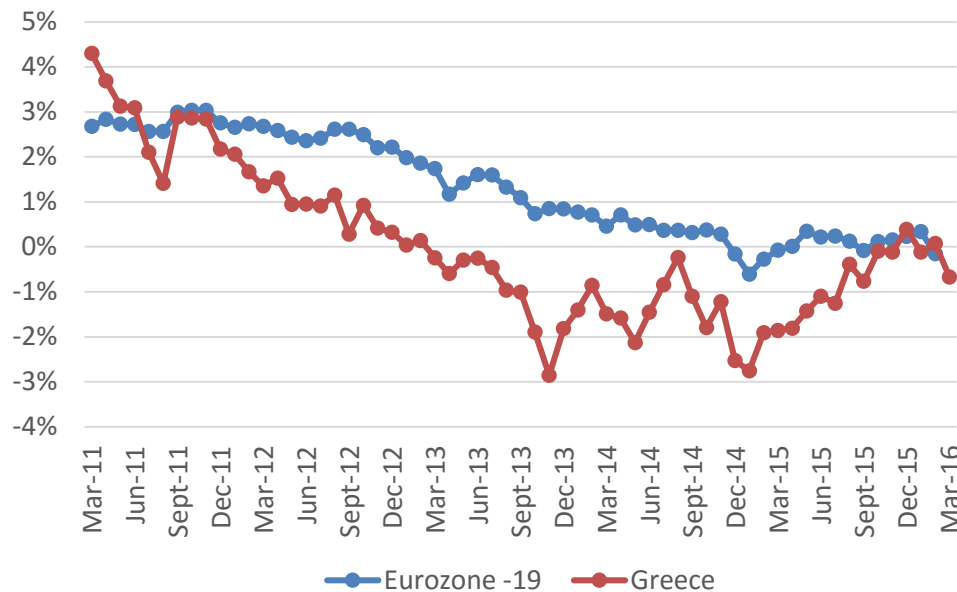
- **Losses**: Turkey (47.6%), Estonia (6.1%), Ukraine (24.1%), Bulgaria (5.9%), Russia (40.2%), Tunisia (42.2%), Morocco (39%), China (16.6%)
- **Increases**: E.Z. (13.5%), EU-28 (10.6%), N. America (46.6%), Cyprus (14.4%), Italy (15.9%), United Kingdom (10%), Germany (4.2%), Egypt (38%),



**Jan. – Feb. 2016 (provisional data): -7.6% (€3.6 bn., incl. fuels).
+0.4% (€2.83 bn. excl. fuels – ships)**

Deceleration of deflation continues, although at a slower pace than last year

HICP trend



- **Q1'16:** Evidently smaller fall in prices against the corresponding period of 2015: -0.9% against -2.4%
- Slight acceleration of deflation against Q4'15 (-0.6%)
- **Increase in V.A.T.** led to an increase in prices (+2.7% in hotels-cafes-restaurants, +1.3% in alcoholic beverages-tobacco)
- Deflation is sustained by **a further decline in fuel prices** (Housing - 4.5%, Transport -3.3%)

- **Producer Price Index (Jan. - Feb. 2016):** -9.4%, greatest decrease of the decade
- **Import Price Index (Jan. 2016):** -8.3% against -12% a year earlier

Medium-term developments

- **Implications of prolonged evaluation to the economy**

- The negative impact of the upcoming changes is already discounted in the decisions of the financial units, households and firms, regardless of the actual measures
- High cost for banks for drawing liquidity from ECB via the ELA
- Even though uncertainty is not beneficial for economic activity, the delay in the agreement about the measures limits their recessionary effect this year (transfer to 2017 → carry over effect)

- **Immediate effects from the completion of the evaluation (measures of almost €2 bn. for 2016)**

- Pressures on households' disposable income from tax measures, increases in contributions, changes to the social security system
- Increase in the business cost from higher indirect taxes in energy, as well as from a possible increase of employer's contributions

Medium-term developments

The 'other' side of a deal:

- Upcoming negotiations for facilitating public debt servicing
- Almost certain acceptance of the Greek bonds as collaterals by the ECB (return to the waiver) → reduction of the cost of capital
- Strengthening of depositors' confidence in the outlook of the Greek economy and the robustness of the banking system:
 - Gradual return of deposits;
 - Greater ease of providing credit and
 - Acceleration of lifting capital controls
- International credibility recovery: completion of a programme evaluation after 1.5 year

Nonetheless, in order to restore the credibility of the country internationally, particularly to investors, a regular implementation of the agreed measures and policies is required, not their partial or selective implementation

Medium-term developments

The banking system still under transition – limited liquidity in the economy

- Level of private sector deposits almost on par with that of July '15 (+€854 mil. up to past February, -€18.8 bn. since last year) → reliability is not recovering
- Ongoing implementation of the new law for loan borrowers and NPLs
- New, sizeable drop in the funding for businesses (-7.7% in Jan. - Feb.)
- A sequence of developments is necessary for an increase in private sector deposits → a heating of investments is possible afterwards (from Q4/2016)

Boost to investment activity from the PIP:

- A significant acceleration has been noted since the beginning of 2016; financing of €2.7 bn. in Dec. '15
- Bigger PIP budget in 2016 (+ €350 mil.), also from the start of the new NSRF, for the programming period 2014 - 2020

However, the activity of the HRADF remains low:

- Completion of 'mature' tendering procedures, low activity regarding non-completed calls for tenders and those programmed for the current year

Medium-term developments

Further factors which may impact investment

- Tension from wars in the wider region
- Possible decline in international demand
- Low energy cost

The refugee-immigrant inflows are an additional parameter influencing the socio-economic conditions

- Presently, a financial evaluation of their effects would be difficult
- Intensified concerns by the uncertainty regarding the future trend of the flows, as well as the ability of an effective coordination within the state services, with other countries and international organisations

Medium-term developments

External Sector

Exports

- Stability in exported products excluding fuels – ships in early 2016, against a significant increase in the previous year → notable loss of growth dynamics if this trend continues or results in a decrease
- The euro / dollar exchange rate is steadily low → improved cost competitiveness
- Increase of receipts from tourism for one more year, albeit smaller than in 2015
- Decline of the negative impact of fuels
- New drop in international transport services

Mixed effects → exports around last year's level or slightly lower

Medium-term developments

External Sector

Imports

- A stronger reaction than exports to each easing of the capital controls
 - Large transfer of import needs in the future due to limitations in capital mobility, which currently prevents their widespread decline
- New **decline in imports**, due to the drop in consumer demand and investment, as well as from exceptional purchases in the first half of 2015 ($\approx -5\%$)
 - Last year's strong implications of the capital controls is an inhibiting factor to their fall

Predictions 2016

- **Private consumption decline** as a result of the implementation of new measures and from the basis effect of the first half of 2015 (**≈ -1.0 to -2.0%**)
 - Fall moderated by higher employment in the first half of 2016 compared to past year
- **Reduction in public consumption** as a result of the restart of fiscal adjustment (**≈ -2.0 to -3.0%**)
 - Single payroll in the public sector
- **Postponement of investments (≈ -4.0 to -5.0%) because of:**
 - Limited investment resources (excluding the PIP)
 - Decline in domestic as well as in international demand for Greek products
 - Low activity in concessions - privatisations
 - Outstanding loan settlements
 - Pending new measures

2016: Slight deepening of recession, to 1.0%

Predictions 2016

Slight increase in unemployment

- Due to the implications of the new measures on private consumption and subsequently on employment in the sectors producing goods - services for final consumers (Retail Trade – Restaurants)
- Slight increase of employment in **Tourism**, fall in **Manufacturing**
- **Construction**: Increase in public works due to PIP – decline in Building activity
- Contribution to employment by the public sector through **public works programs**

Slightly greater unemployment in 2016 (25.2%)

Relatively stable prices, after three years of intense fall

- Continuing deflationary effect from a decline in oil prices (smaller than last year)
- New deflationary factor: Lower disposable income, due to the new fiscal measures
- The increase in V.A.T. has significantly contained the deflation since Q4 '15
 - It will continue and be reinforced by the upcoming, new increase in indirect taxation

Inflation at 0% or small price fall in the current year

IOBE study presentation:

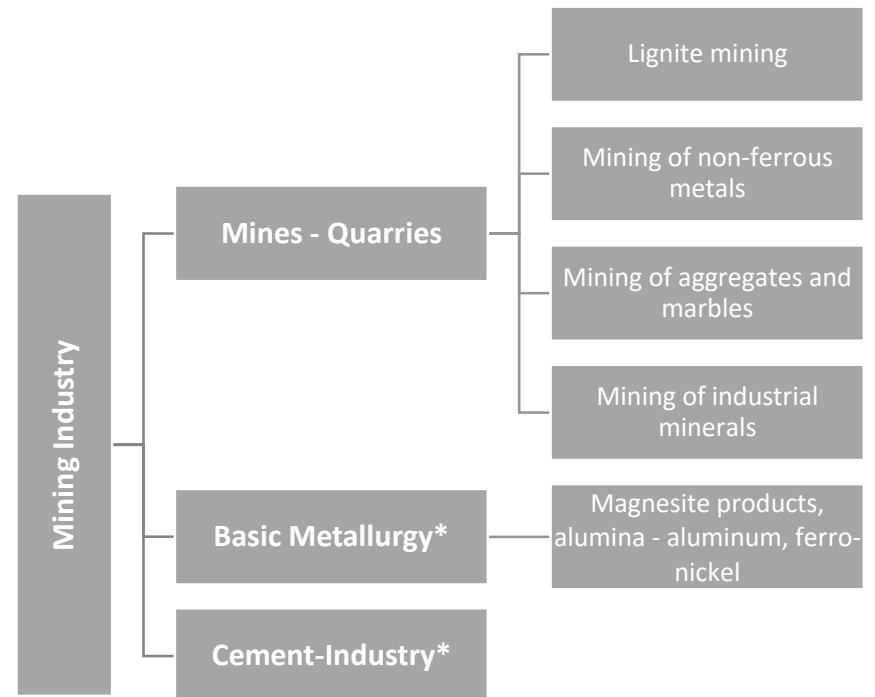
THE CONTRIBUTION OF THE MINING INDUSTRY TO THE GREEK ECONOMY

The complete study is available here: http://iobe.gr/research_dtl.asp?RID=123

Study Scope

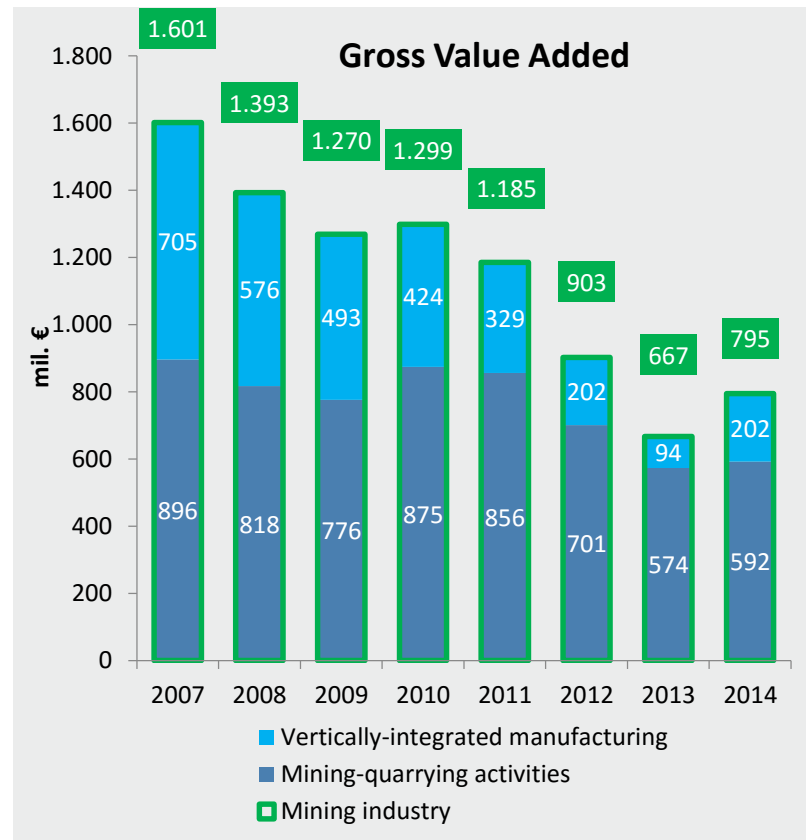
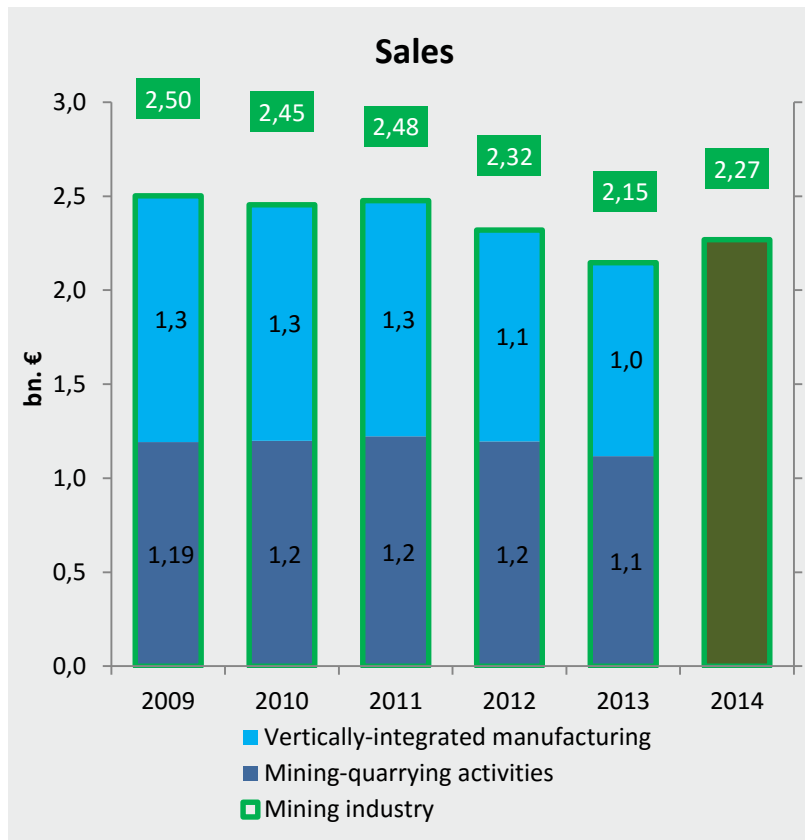
Evaluation and assessment of the broader economic importance of the mining industry in Greece

Examination of the conditions that will ensure its sustainability and further development



** Vertical integration of Greek raw mining materials*

The sales value of the mining industry is estimated at €2.3 bn. in 2014 from €2.5 bn. in 2009

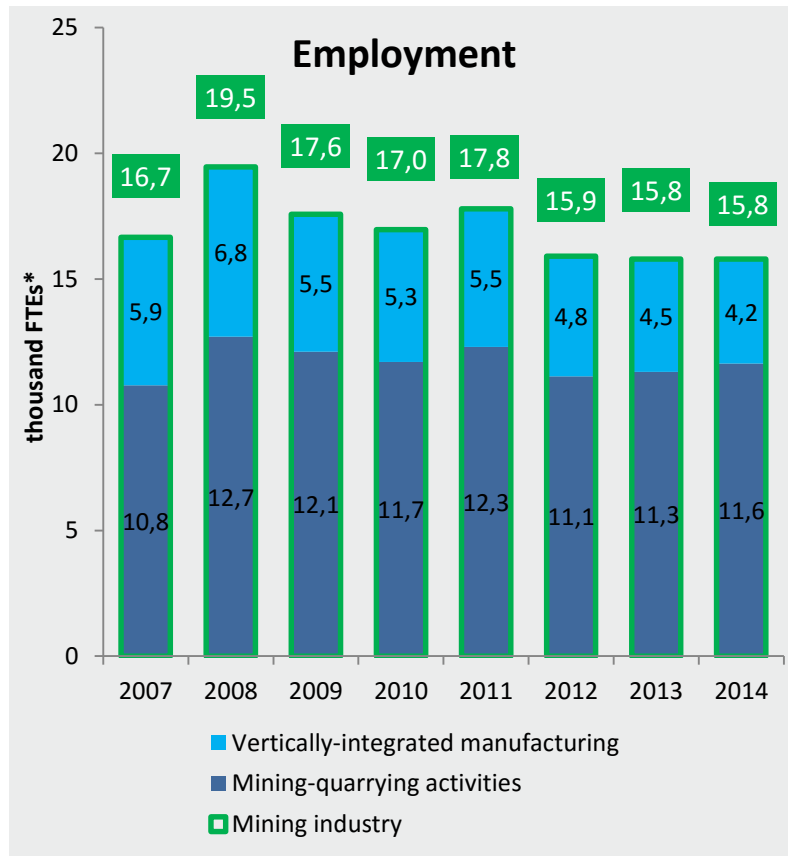


Sources: GMEA, PCC Annual Reports, Eurostat, Data Processing: IOBE
N.B.: Figures for 2014 from estimates. All the values are expressed in current prices.

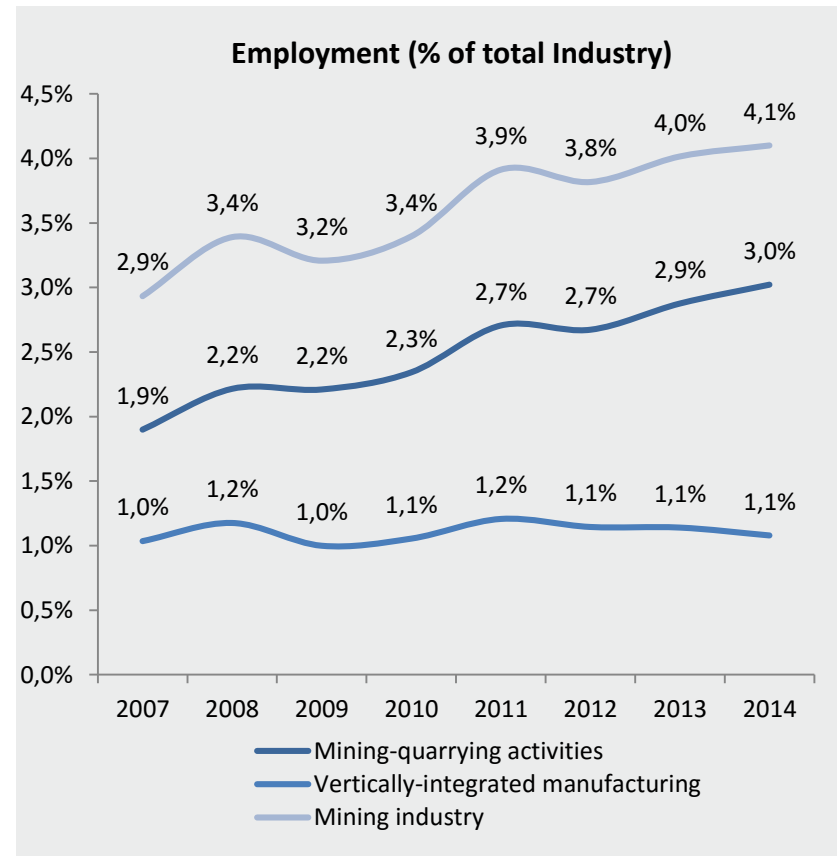
Source: Eurostat

Decline in value added by 50% over the same period, with an increase in 2014

Employment was relatively stable from 2007 to 2014

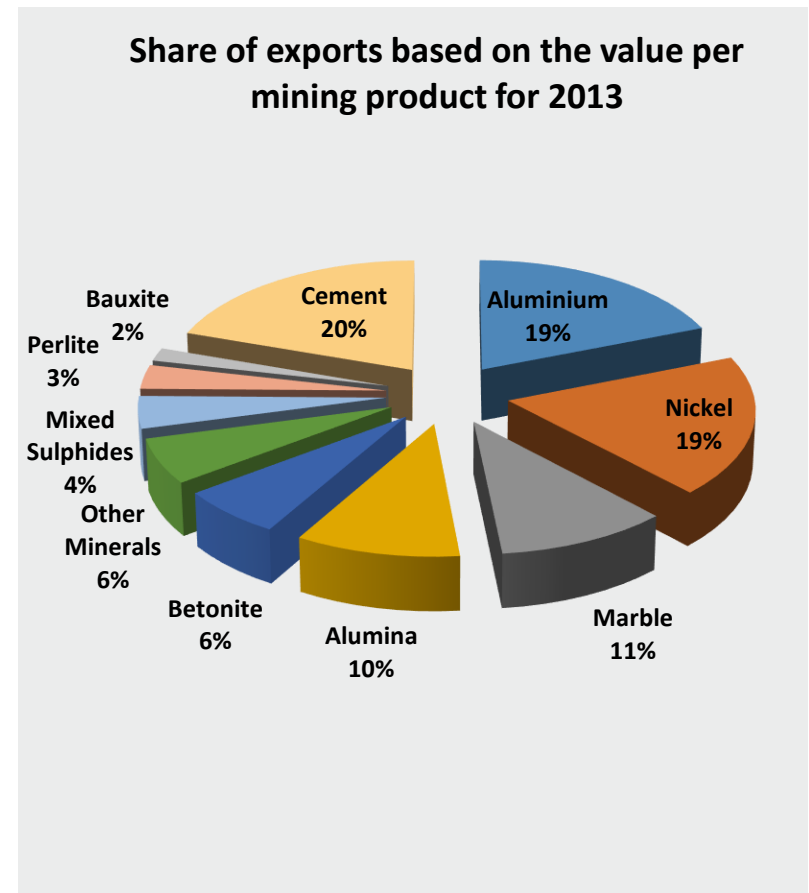
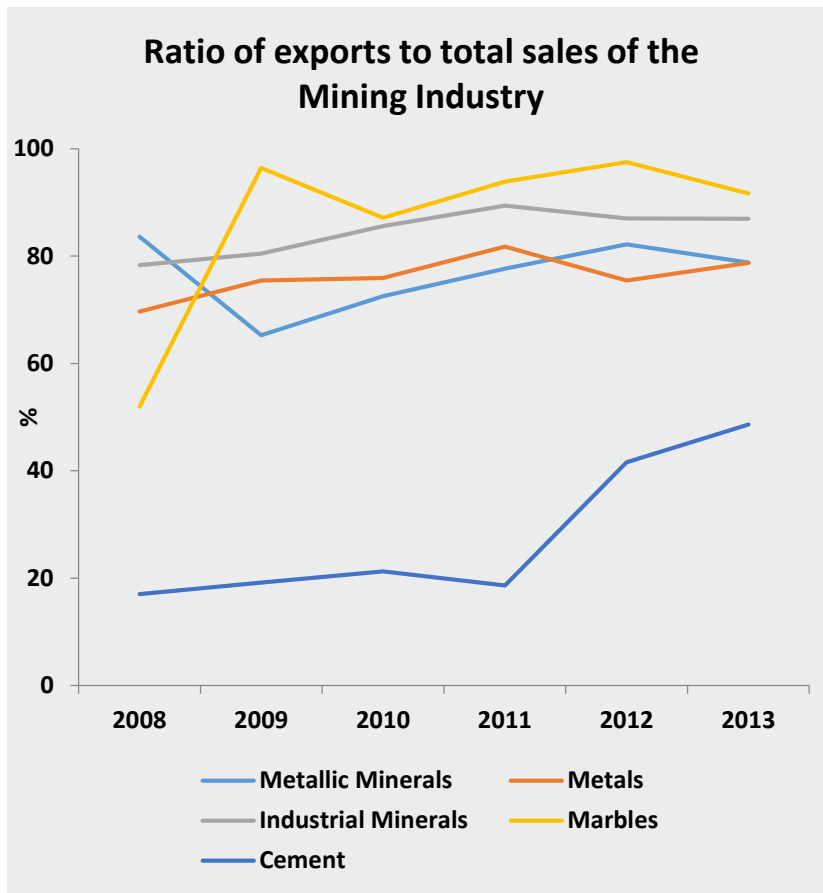


* FTEs: Full – Time Equivalents
Source: Eurostat



Increase of the share to the Industrial sector's production from 2.9% in 2007 to 4.2%

The value of exports amounts to 50% of the total sales of the mining industry



Source: GMEA, Activity Report 2014

The dispersion of products, applications and export destinations contributes to the sustainability of activity and the reduction of risks

Overall impact on the GDP and on employment is approximately 3.4% (€6.2 bn. and 118 thousand, respectively)

Activity	Direct	Indirect	Induced	Total
Impact on GDP (mil €.)				
Extracting activities	741	407	1,547	2,696
Manufacturing	324	247	743	1,314
Electricity	772	553	875	2,200
Total	1,837	1,207	3,164	6,209
Impact on employment (FTE*)				
Extracting activities	11,196	11,191	32,490	54,877
Manufacturing	5,866	6,557	15,593	28,017
Electricity	6,833	9,424	18,565	34,822
Total	23,895	27,173	66,648	117,716

* Full-time Equivalent

Sources: Multi-regional input-output model IOBE, Eurostat

Particularly strong effects on a local level (Parnassos-Gkiona-Oiti-Elikonas areas in Central Greece, prefectures of Kozani and Florina in Western Macedonia, etc.)

Better growth prospects entail the elimination of obstacles

Priorities of policies for Raw Materials - Minerals

Spatial

- Mapping of areas with deposits
- Provision for areas with deposits of high economic significance
- Provision for land uses for the years after exploitation
- Review of regional spatial plans
- Update of studies for protected areas

Issuance or permits

- Simplification of procedures according to the spatial planning
- Issuance of guides and manuals
- Implementation of the commitment for operating and maintaining the Electronic Environmental Registry of works, according to law No. 4014/2011
- Avoidance of duplications and of parallel

Other legal issues

- Law codification and fast information of all the concerned parties
- New law on quarrying

Research - Education - Knowledge

- Support of research institutions concerned with RMM
- Creation of a GIS database
- Education and training of geoscience students and geoscientists about the sustainable development of RMM
- Teaching of classes about geosciences in lower and secondary education

Publication of information about the implementation of best practices

Ensuring of the social license

- More effective functioning of supervising authorities
- Prevention of quarries functioning illegally
- Establishment of financial guarantees
- Intensification of the Regional Administration Organisations' offsetting benefits
- Restoration of abandoned mines
- Establishment of a forum for the National Policy for the Development of Mineral Resources **Resources**

First and most important step: specialisation and implementation of the National Policy for the Development of Mineral Resources

Thank you!

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