



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ &
ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Quarterly Report for the Greek Economy 2-2017

July 6th, 2017

2017:Economic Recovery

- GDP growth around 1.5%
- Second assessment
- Third assessment and so forth...

Challenges and Opportunities

- **Trade Balance**

- Imports trend
- Exports dynamics

- **Budget Balance**

- Expenditure
- Taxation

- **Return to international markets**

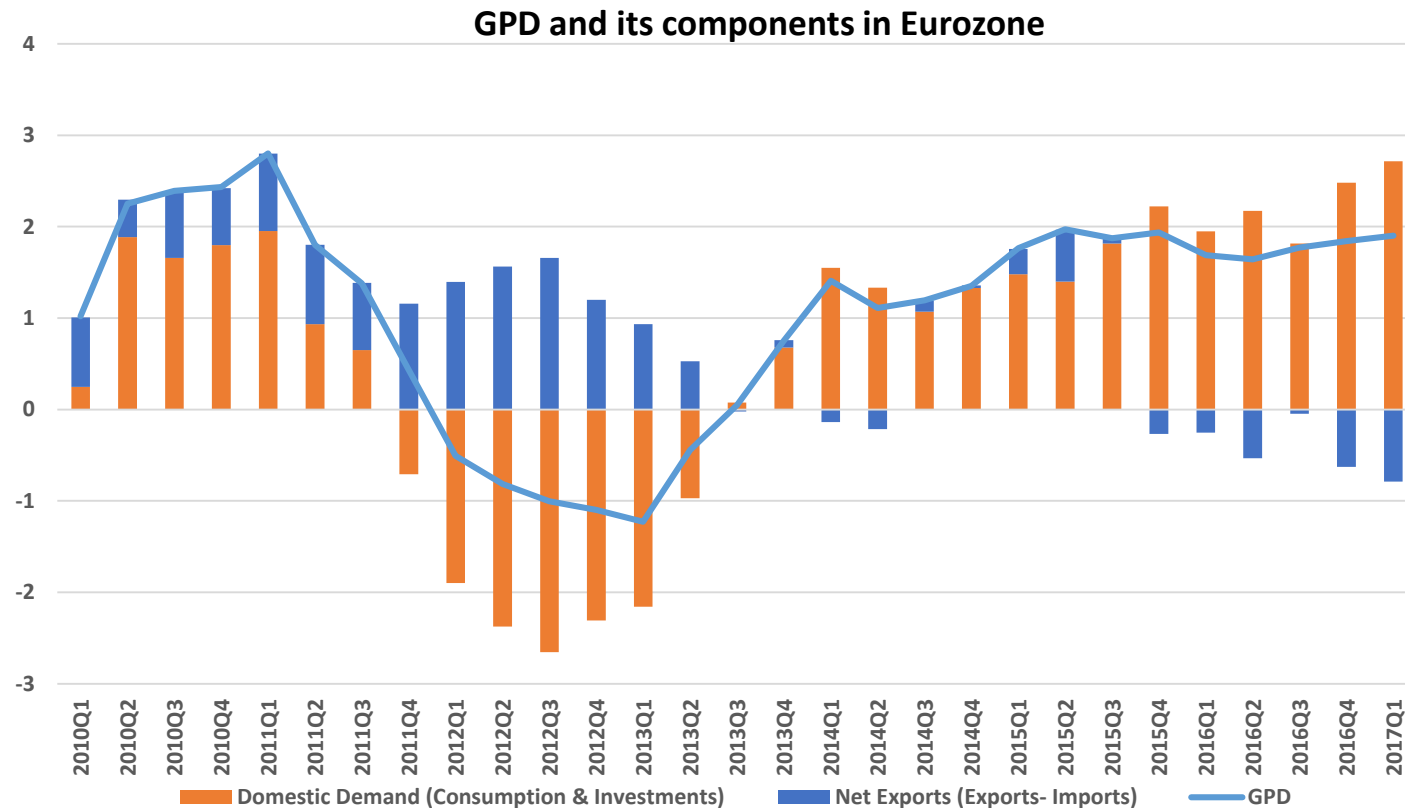
- Programme
- Conditions

Quarterly Report Overview

International environment: Positive prospects at the beginning of 2017

- Stabilization of global growth at **3.0%** in 2016.
Acceleration of growth in 2017 (3.4%) and in 2018 (3.6%)
- Expansion of **international trade** in 2016 (**+2.0%**), although it is lower compared to 2015 (+2.8%)
- Significant acceleration of growth rate of international trade, around 3.4%, is expected in 2017, mainly through boost from the developed and developing economies (3.8% in 2018)
- Acceleration of growth in EU and Eurozone in 2017 and in 2018
 - Growth rates at EU & Eurozone: 1.9% and 1.7% in 2017

International environment: Domestic factors are the driving force in Eurozone since 2014



Source: Eurostat, Processing Data: IOBE

- Acceleration of economic activity in the second half of 2016, both globally and in Eurozone.
- Further acceleration in the first quarter of 2017.

International Environment: Existence of uncertainty factors

- Still expected the announced financial expansion in US, risking positive expectations of consumers and businesses not being verified.
- **Asymmetries in the conduct of monetary policy** (quantitative easing in Europe and Japan, restrictive monetary policy in USA), will probably cause significant changes in capital movement/exchange rates.
- **Total NPLs management** in European Banks (impact on investment).
- **Protectionism trends** from new US government affects the prospects of international trade (although not yet implemented).
- Increased geopolitical risks (Middle East, East Asia due to North Korea).
- **China's transition towards a new economic development model**, correcting accumulated imbalances and creating frictions in the global economy.

But also:

- Mitigating uncertainties in Eurozone from **elections** (Holland, France).
- Growth continuation of developing economies due to **high commodity prices** (Brazil, Russia).
- Small – thus far – the impact of **BREXIT** in the Eurozone.

GPD growth during Q1/2017

Q1/2017: **+0.4%**, compared to -1.0% in Q4/2016 and -0.8% in Q1/2016

Crucial Changes in Q1/2017:

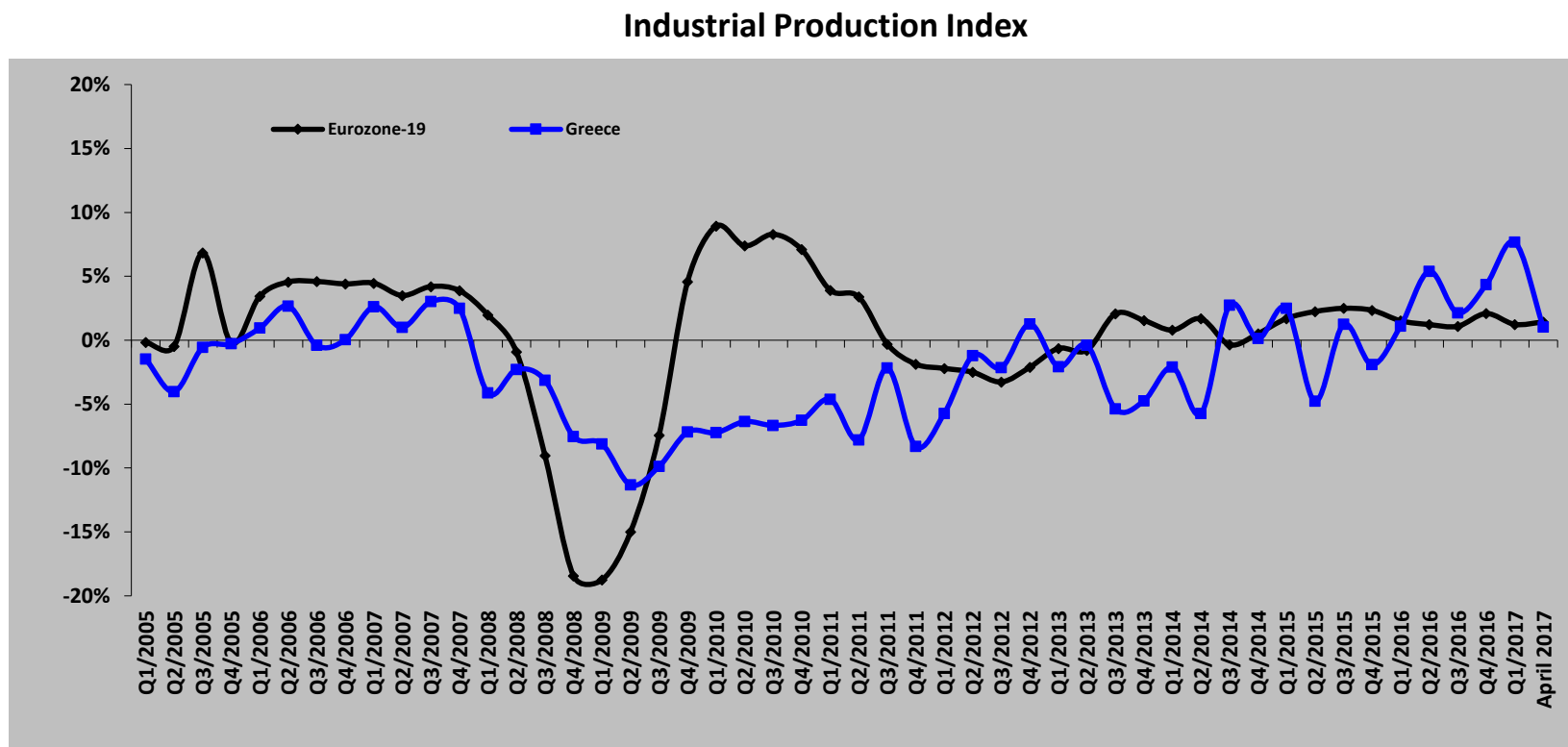
- **Growth of household consumption: (+1.7%, against -0.7% in Q1/2016)**
- **Increase of investment cost (+13.6% after +15.2% in Q1/2016)**
 - Mainly due to higher fixed capital formation (+11.2% against -10.1%)
- **High demand for imports (+10.9% after -10.1%)**
 - Relaxation of capital controls
 - Exceeded the increase of exports (+4.8%) ➔ Deterioration of the external sector balance for the first time since 2014: deficit of €2.2 billion

Government Budget 2017

January – May (cash basis)

- **Improvement compared to last year, exceeded revised targets (Medium-term Fiscal Strategy 2018-2021)**
- **Primary surplus of €1.84 billion**, from €1.45 billion last year and against target of €1.05 billion
- Improvement mainly due to expenditure containment:
 - €584 million less expenses of Regular Budget
 - €360 million less funding from Public Investment Programme
- Less revenue, solely from lower inflows from EU for the Public Investment Programme (-€1.18 billion)
 - Increase of Regular Budget's net revenue from privatizations and transaction tax collection (not from direct taxes)

Continuation of increase of industrial production



Sources: ELSTAT, Eurostat

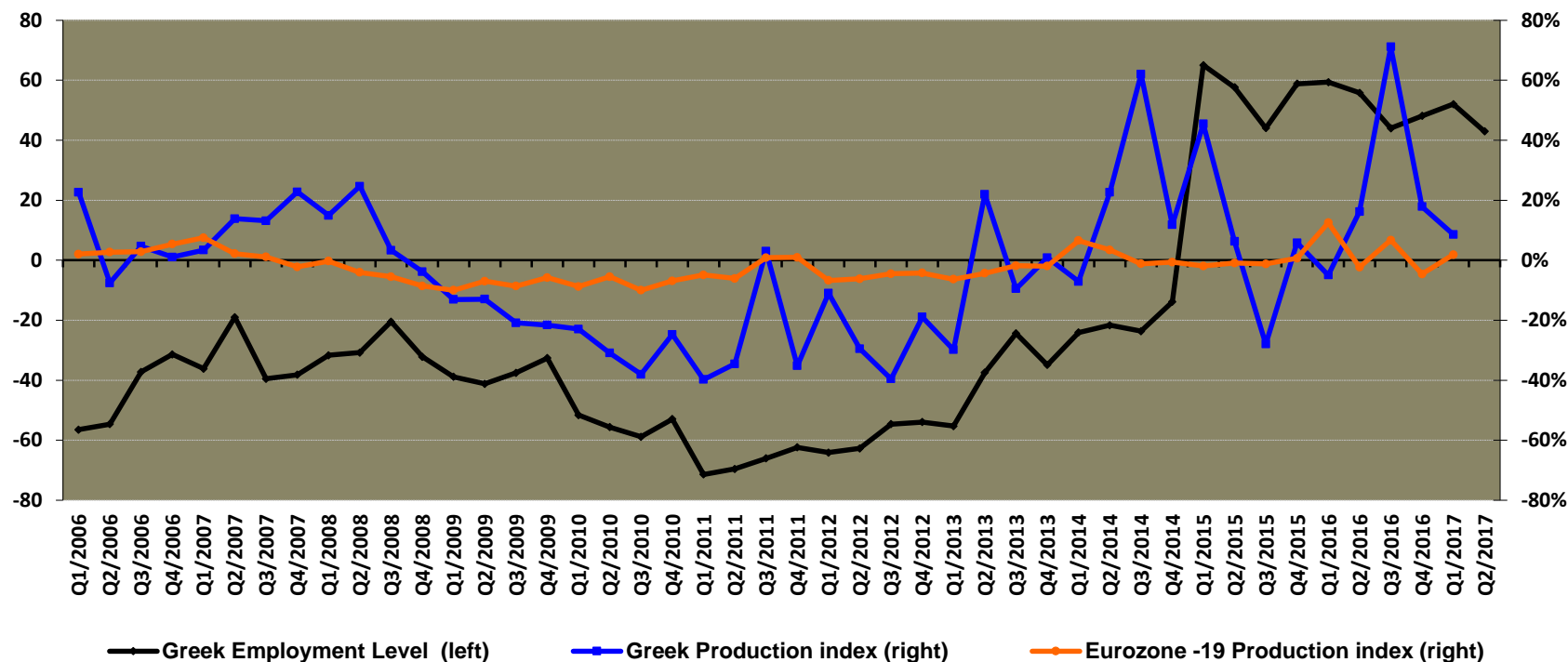
- **Q1/2017:** Increase of 7.2% against +0.2% during Q1/2016

Increase in all industrial sectors

- Mining: +12.7% against -17.0%
- Manufacturing: +4.4% against +2.8%
- Electricity: +18.4% against -4.2%

Construction: Important increase in Q1/2017

Construction Production Index and Building Activity Indicator
(quarter y-o-y changes)

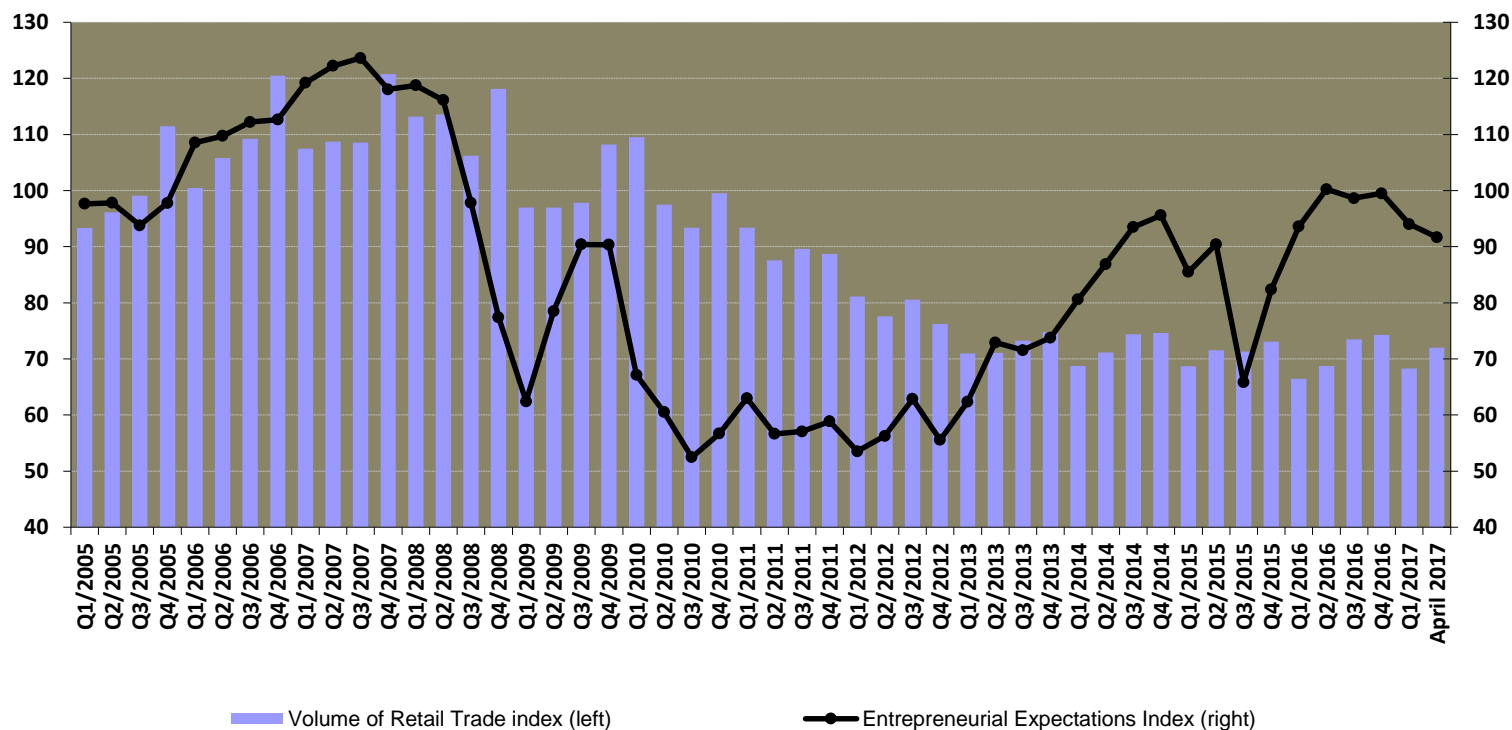


Sources: ELSTAT, Eurostat

Q1/2017: +8.6%
Q1/2017: -8.1%

Slight improvement in Retail Trade

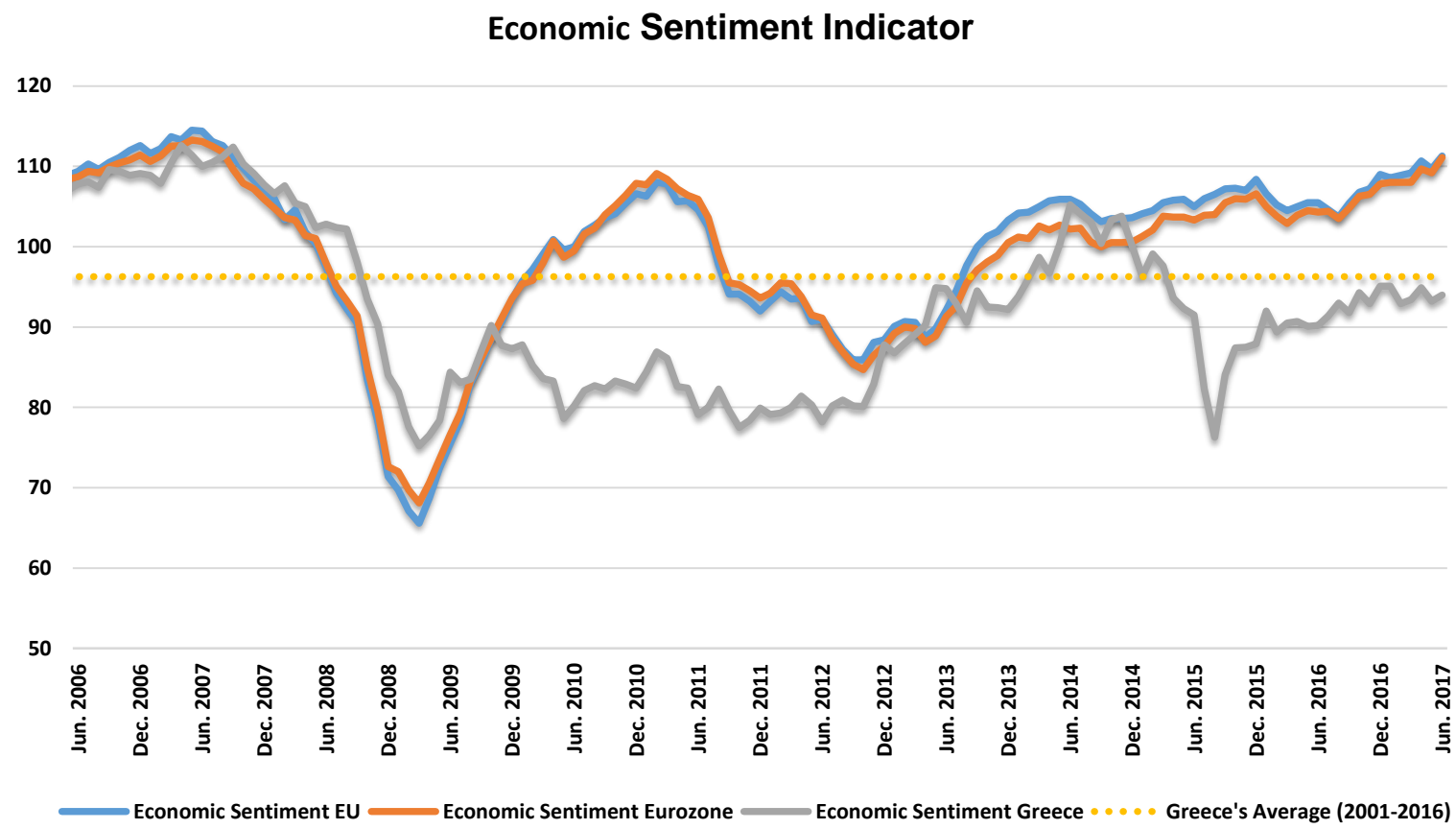
Volume Index in Retail Trade (2010=100) and Business Climate Index in Retail Trade (1996-2006=100)



Sources: IOBE, ELSTAT

January-April 2017: +2.8% against -2.9% last year, even with important loss in Food-Drink sector (-4.6% against +2.4%) and in Department Stores (-2.1% against +12.0%)

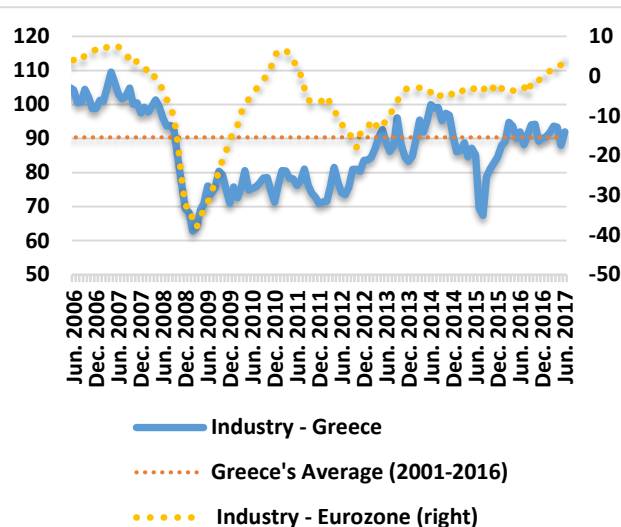
Slight fluctuation of Economic Sentiment Indicator in 2017, higher compared to last year.
In EU and Eurozone the Economic Sentiment Indicator has an upward trend



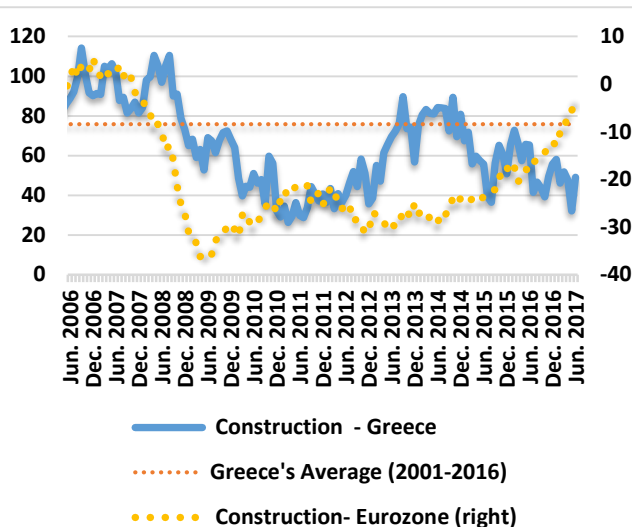
Sources: IOBE, European Commission

Significant improvement in entrepreneurial expectations, during Q2/2017, in Services, but relative deterioration in Construction, Retail Trade and Manufacturing

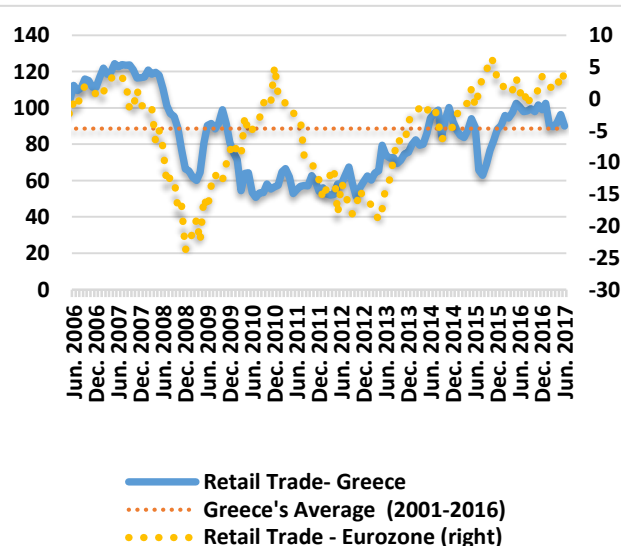
Manufacturing



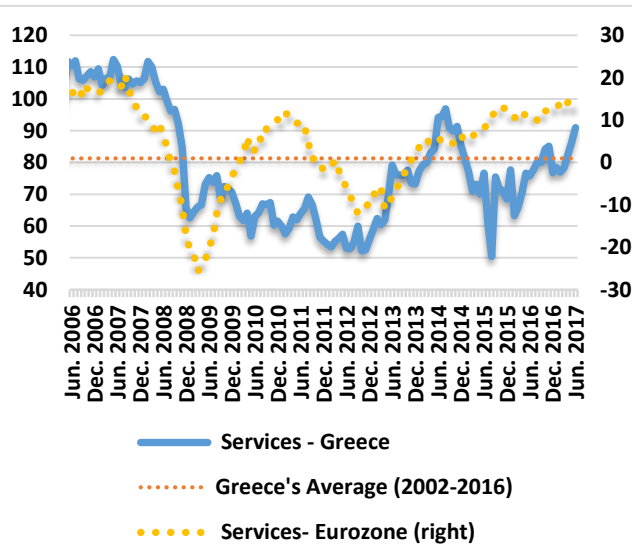
Construction



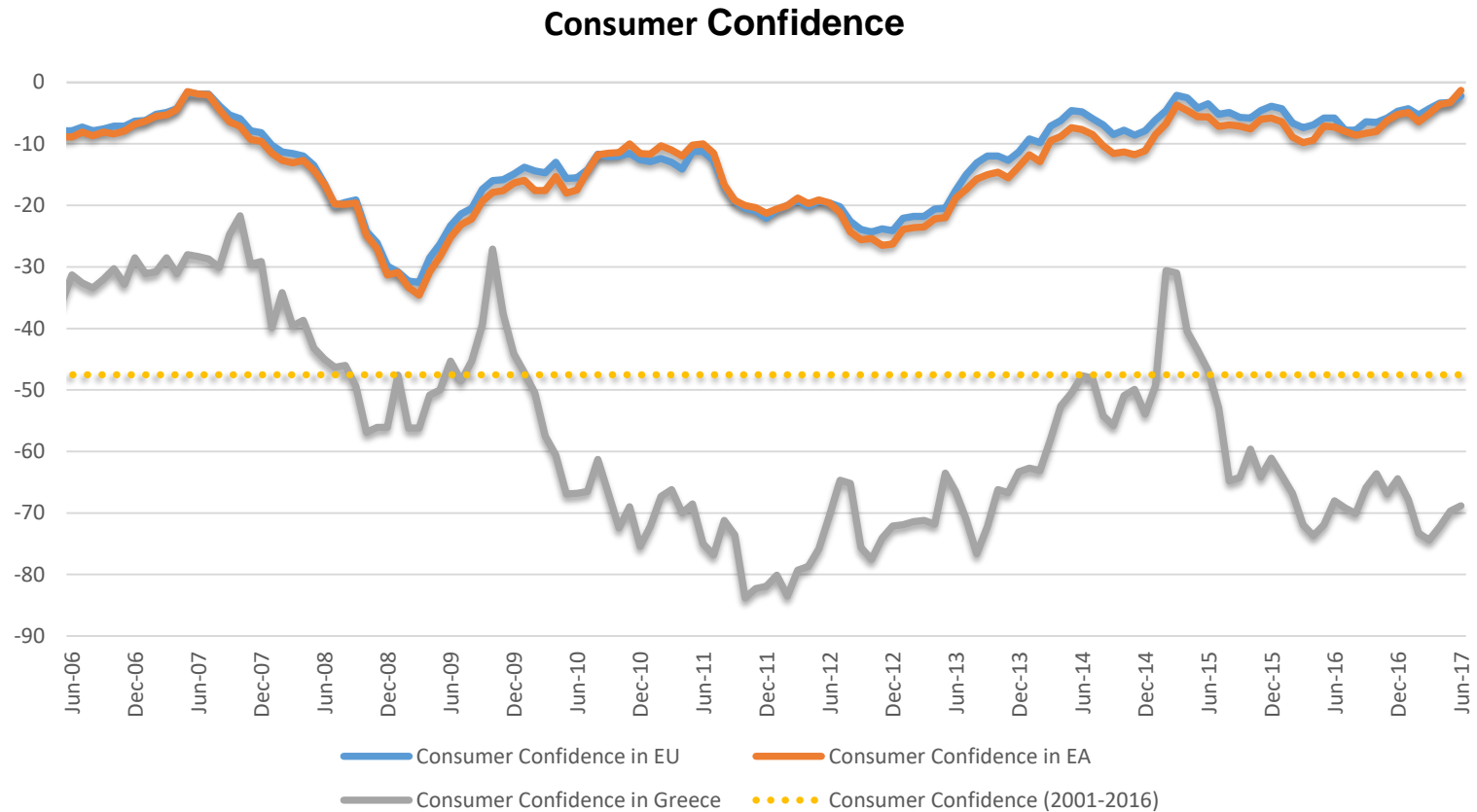
Retail Trade



Services



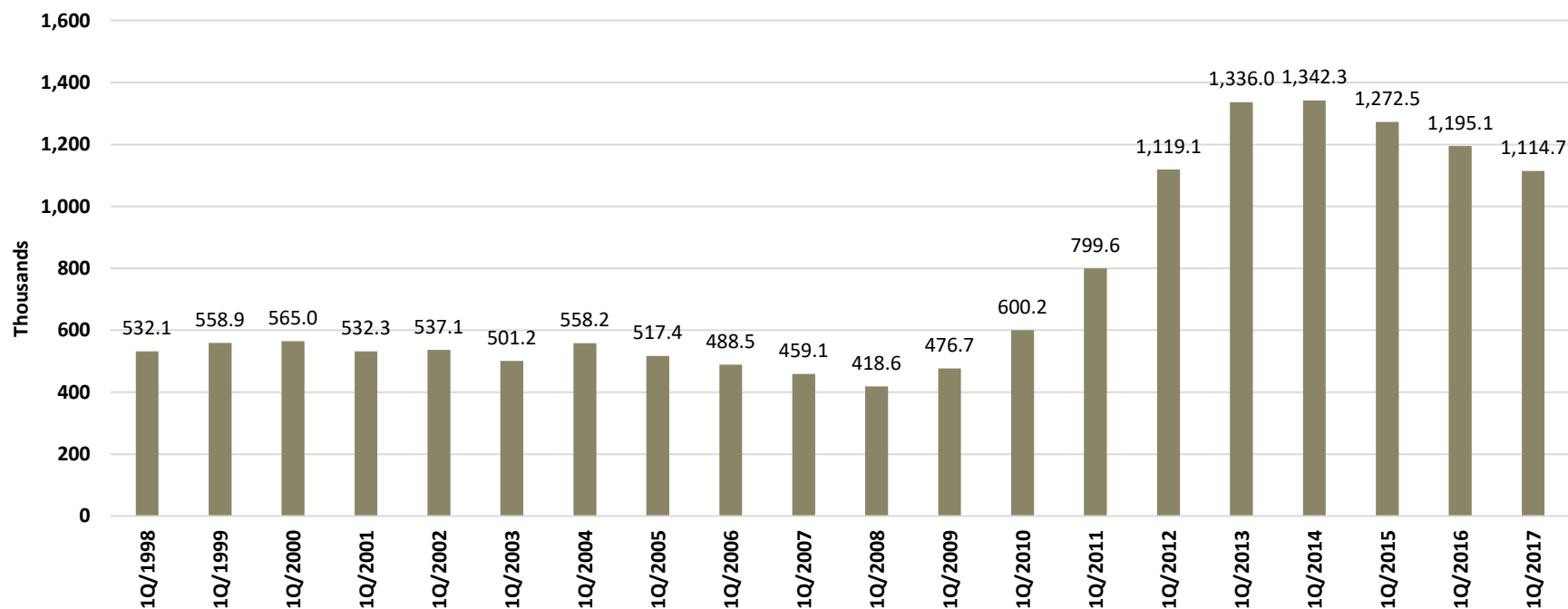
Recovery of consumer confidence in Q2/2017, from very low levels one year ago



Sources: IOBE, European Commission

Unemployment continues to decline in Q1/2017

Number of unemployed in Greece Q1/1998-Q1/2017

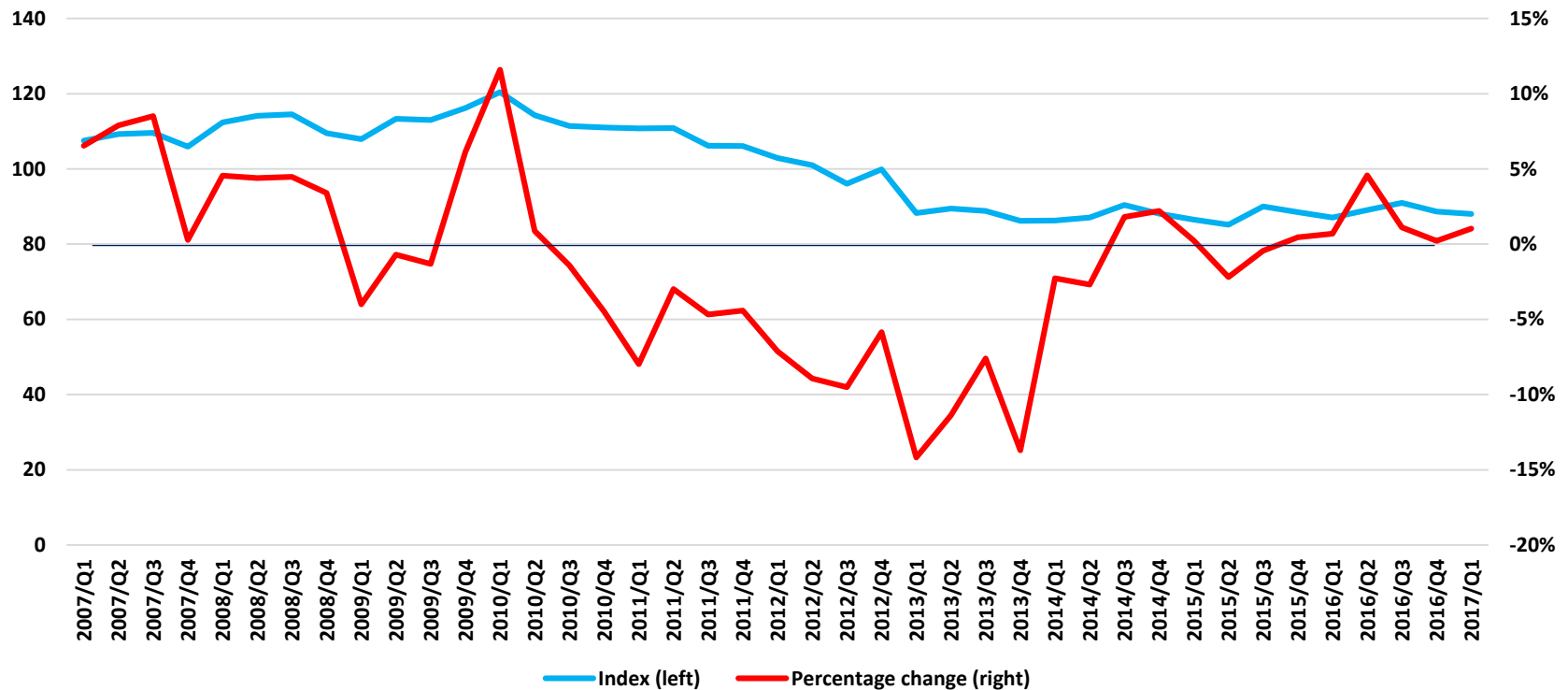


Source: ELSTAT

- Unemployment rate at 23.3% in Q1/2017 against 24.9% in Q1/2016 and 23.6% in Q4/2016
- Increase of employment in 15 sectors: E.g. Information-Communication (+8.4%), Managerial-Supportive activities (+8.4%), Human Health activities-Social care (+3.8%), **Manufacturing (+3.2%)**, **Public administration-National defense (+3.0%)**, Construction (+1.4%), Wholesale-Retail trade (+0.9%), Tourism (+0.2%).
- Decrease in employment in 6 sectors: E.g. Real Estate (-32.8%), **Professional-Scientific-Technical activities (-5.4%)**.

Wage cost increase in Q1/2017

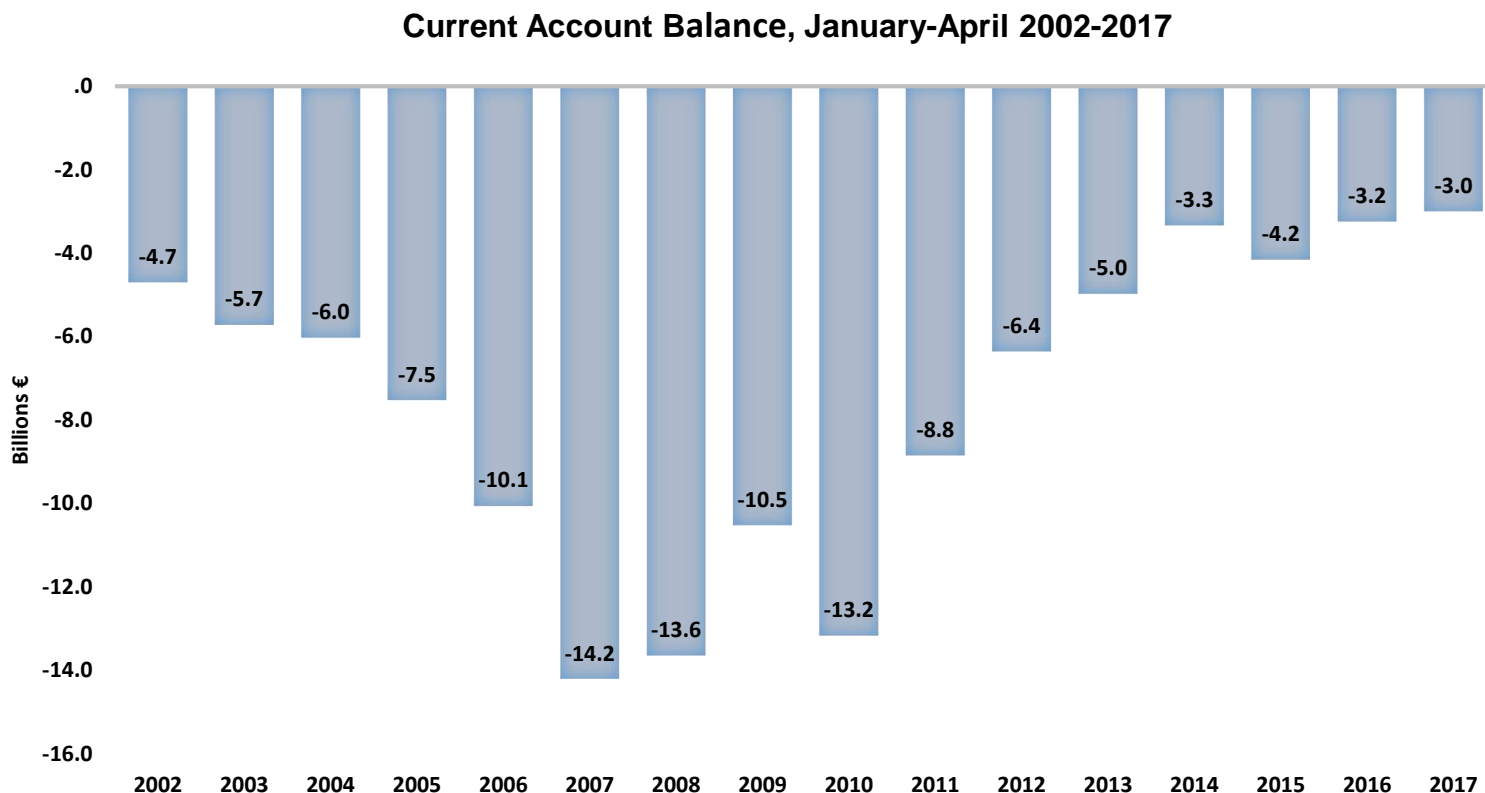
Wage cost indicator of total economy (seasonally adjusted)



Source: ELSTAT

➤ In Q1/2017, wage cost index of total economy increased by 1% compared to Q1/2016

Small Current Account Balance deficit of €3 billion in the first four months of 2017



Source: Bank of Greece

Surplus increase in Service Balances, Primary and Secondary incomes, but trade deficit swelling

Increase by 27.3% of trade balance deficit in first four months of 2017

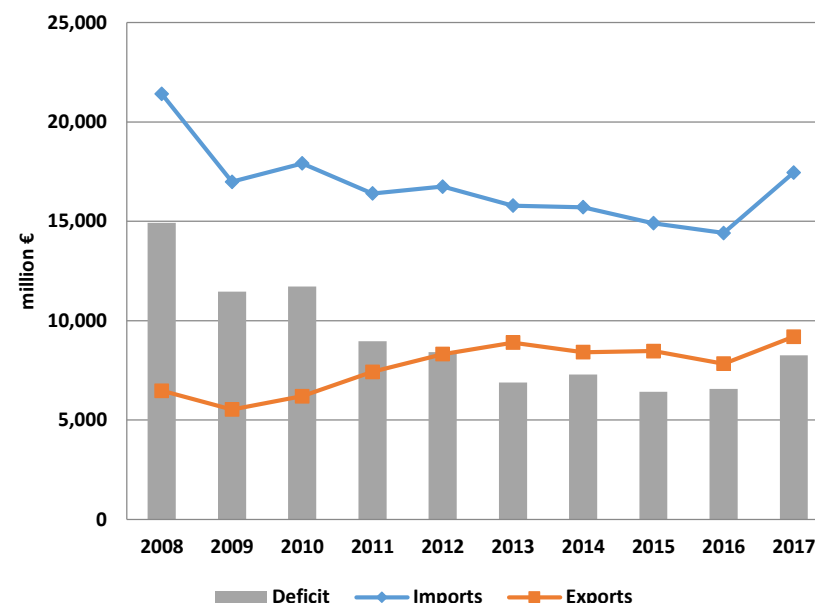
January-April 2017:

- **Exports:** +17.5% (€9 billion, including fuel)
+3.1% (€6.2 billion excluding fuel and shipping)
- **Imports:** +21.9% (€17.1 billion)
- **Trade deficit:** +27.3%
- **Decline:** Agricultural products (-4.6%), Other non categorized (-5.6%)
- **Increase:** Fuels (67.1%), Raw materials (34.6%), Industrial products (4.1%)

Markets:

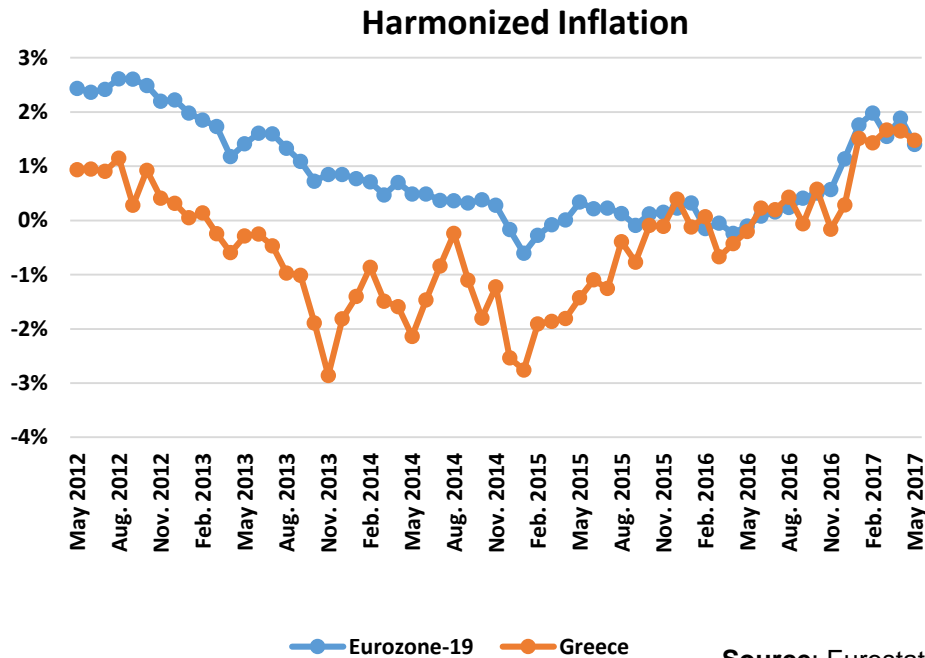
- **Losses:** Netherlands (4.4%), Spain (3.1%), Portugal (6.4%), Finland (31.3%), Sweden (4.2%), Canada (2.9%), Brazil (51.4%)
- **Increase:** Eurozone (7.6%), EE-28 (7.3%), France (13.6%), Germany (5%), United Kingdom (5.4%), Cyprus (9.4%), Turkey (21%), Denmark (74.2%), Bulgaria (9.4%), Russia (9.2%), USA. (3.3%), Israel (89.1%), China (44%)

Value of Greek imports and exports in the first four months of period 2008-2017



Source: ELSTAT

Inflation after 4 years of deflation



Source: Eurostat

- **Consumer Price Index January-May 2017: +1.4%**, against deflation 1% in 2016.
 - Increase of prices in all countries of Eurozone, due to fuel price.
 - Domestically, additional inflationary pressure due to increase in excise duty on fuel, natural gas and tobacco products, new fee for telephony and tax in coffee imports.
-
- **Producer Price Index January-May 2017: Intense increase of 9.1%**, against -9.8% last year → Fluctuations, again due to fuel.
 - Energy commodities (except electricity), natural gas (+43%) and Mines-Quarries-Manufacturing (+11%) show important change compared to the same period last year.

Effects of completion of second assessment

Retreat of uncertainty for achieving an agreement:

- Stimulation of investment climate, due to new reforms (investment license facilitation, new spatial planning, changes in labor relations) → Enhancement of employment
- Decrease in the decline of household deposits and gradual reversal of trend, facilitating firms seeking to get access to liquidity from capital markets


Measures for public debt:

- Not further specification of medium term actions of May 2016
- Possibility to redefine loan repayment terms without Debt Sustainability Analysis → Probably in the coming period
- Commitment for primary surplus for the period 2023-2060 → facilitation of debt sustainability analysis
- Examination by IMF Board of Greece's application for a 14-month funding

Greece will probably enter in the Q-E programme, if the EFSF loan is restructured and if the IMF will provide funding to Greece

Effects of completion of second assessment

Waiting for developments in the banking system

- Results from the new management of non-performing loans
 - Possible inclusion in the Q-E programme → Likely to be exploited in the view of the ECB stress tests in January 2018
 - Slight increase in deposits in the second semester of 2017 (from 2001 levels)
- 
- Most likely a smaller credit shrink, even with Q-E
 - Slight increase in business loans in the second semester of 2017

Unchanged fiscal measures for 2017

- Most of new measures taken during the second assessment, are for period 2019-2020

Measures for investment-growth, with medium-term impact

- Additional EU resources, and from redistribution of ESPA programme 2014-2020, funding opportunities from international investment banks, efforts to create a National Development Bank

Mid-term developments

Pressure from first assessment measures-attenuation in the second semester.

- Negative effects for households, mainly from tax-free income reduction, pension cuts
- Pressures on freelancers-farmers-wage earners from change in tax scale and in insurance contributions
- Weakening of impacts of last year's measures in the second half (base results)

Subdued public sector contribution to liquidity-investments

- Under-implementation of Public Investment Program, due to the low absorption of EU resources
- Escalation of concession-privatization activities in the Q2/2017 (extension of Athens International Airport contract, proclamation of Piraeus Port Authority bidder)
 - But also time consuming procedures for completion of contracts/licensing of investments
- Following a significant repayment of arrears last year, new increase this year, with additional arrears of around €700 million

However, continuation of public contribution to employment, mainly through OAED's public work programmes

Mid-term developments

Effects from external environment

- Continuous oil price decline since April → Prices have reached last year's levels (\$45-47)
- Slight increase in €/€ exchange rate after election results in Eurozone and declining expectations for fiscal expansion in the US
- Tension in Turkey and in the Middle East favoring the tourism sector

International uncertainty factors

- Outcome of conflicts in the Middle East
- New government policy in the US (fiscal-commercial)
- BREXIT
- Strengthening of national protectionism

Forecasts 2017

- **Increase of private consumption ($\approx 1.4\%$)** mainly due to increase in employment
 - Halting of increase from fiscal measures of first assessment, milder in the second half
 - Technical enhancement from expansion of electronic transactions
- **Increase in public consumption ($\approx 1.0\%$)**
 - Slight increase in government expenditure in the first quarter
 - ❖ Facilitating consumers spending from disbursing loan installment
- **Investment expansion ($\approx 13-15\%$) from:**
 - New activity growth in tradeable sectors (manufacturing, tourism) and continuous enhancement of construction activity (public and construction projects)
 - Liquidity for large firms through capital markets
 - Positive technical effects from inventories
- **But also:**
 - Liquidity from banks (low level of deposits-upcoming stress tests)
 - The high volatility of the tax-insurance system is dissuasive

GPD growth around 1.5%

External sector

- **Exports increase (5.5%), mainly of services, due to:**
 - significant increase in international demand for transportation services
 - not high energy cost
 - mild increase in export of goods, other than oil products and tourist receipts
- **Higher increase of imports (8.5%) due to:**
 - increase in domestic demand, capital controls easing in June 2016
 - weakening of relaxation effect (on an annual basis) after one year

Forecast for growth rate of 1.5% in 2017 or slightly less

Forecasts 2017:

Decrease of unemployment, increase of prices

New decrease of unemployment in 2017, at a smaller rate

- Enhancement of employment in tradeable sectors (**manufacturing, tourism**)
- Completion of assessment and reforms in labor market enhance investment and employment
- Re-contribution of the public sector, mainly through temporary employment with OAED's public work programs, but also through recruitment (e.g. Health Services)
- Pressure of new measures from 01/01/2017 (direct-indirect taxation) in employment in **professional services** and in **retail trade**

Drop of unemployment about 1%: to 22.2%

Inflation 1.5%

- Due to increase of indirect taxes and imposition of new taxes, but also due to higher oil price

IOBE study:

Effects of reforms in tradeable sectors

Purpose of study

The purpose of this study is to examine the effects in **technical efficiency of tradeable sectors** from:

Reforms in specific sectors

«Horizontal» reforms that concern total economy (e.g. labor market, establishment of new firms)

Firm characteristics
(e.g. age, location)

Macroeconomic conditions (e.g. GDP growth, credit expansion/shrinking)

Sectors studied:

Production and distribution of electric energy, Road freight transport, Passengers transport, Cruises-Yachts, Gaming-Casino

Study Results

Effects of sectoral reforms

- Positive effects in two sectors (Road freight transport, Passengers transport), slightly negative effect in Production and distribution of electric energy, no effect in other sectors.

Effects of “horizontal” reforms

- Enhancement of efficiency from reforms in labor market in three sectors (Production and distribution of electric energy, Road freight transport, Passengers transport).
- Facilitation of business establishment favored only Road freight transport sector and reduced efficiency in Passengers transport sector.

Effects of firm characteristics

- Positive effect of age in the efficiency levels of all sectors, except Cruises-Yachts sector.
- Significant effect of location (in Athens or Thessaloniki regions) in all sectors, but positive effect only in Passenger transport sector and in Cruises-Yachts sector.

Effects of microeconomic environment

- Significant effect of recession in all sectors, except Production and distribution of electric energy sector
- Credit expansion increases efficiency in Production and distribution of electric energy, Road freight transport and Cruises-Yachts sectors.

Thank you for your attention!

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