

Quarterly Report on the Greek Economy

02 / 19

10th July 2019



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Report Overview





Global environment: Growth slowdown this year, acceleration in 2020

- **Global growth estimates of 3.6% y/y** in 2018, expectation for a 3.2% growth rate in 2019 and acceleration to 3.5% in 2020
- **Downside risks** from de-escalation of international trade and manufacturing, slowdown in Europe and China, prolonged complications in Brexit negotiations
- **A' quart. 2019: Indications of stabilization of recovery**, in contrast to the previous quarter. 1.8% y/y growth in the OECD countries, same as in Q4 2018, from 2.6% in Q1 last year
 - Due to continuous positive impact from the procyclical policy in the US, economy, as well as from boost in the Chinese economy from accommodative fiscal and monetary policies.



Global Environment: Mid-Term Challenges

Globally

- Continuation - Escalation of trade protectionism policies → Difficulty in restoring US – China trade relations
- USA – Iran relations, possibly to cause chain reactions in Gulf countries and to affect oil production
- Negative consequences of China's economic policy on private debt
- Prolonged instability in Turkey and Argentina

Europe

- Brexit: prolonged uncertainty regarding an agreement between the UK and EU
- ECB monetary policy direction (prolongation of low rates)
- Problems in the car industry



New growth slowdown in Q1 of 2019

2019 Q1: **+1.3%**, versus +1.6% in 2018 Q4 and 2.6% in 2018 Q1

Slowest growth during the two-year recovery of the Greek economy

Most important changes in GDP components:

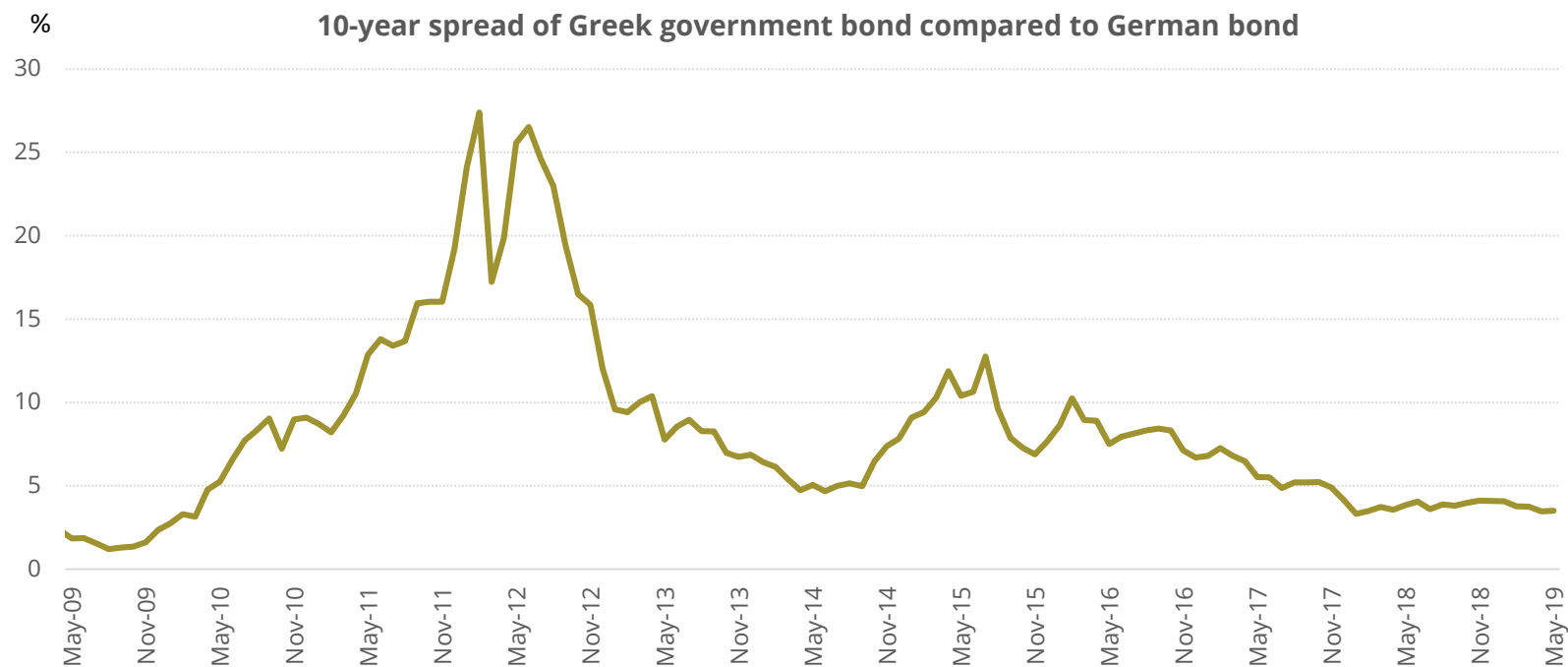
- Investment expansion by 21.2%, in contrast to a 23.2% decline a year ago
 - Mainly due to an expansion of inventories (+€1.1 billion, 75.5% rise). Fixed capital formation was 7.9% higher than 2018 Q1, when it declined by 9.0%
 - Rise in investments regarding other constructions (mainly Public Investment Program) and means of transports
- Slight increase in private consumption, cuts in public consumption spending
 - +0.8% for private consumption, in contrast to stagnation a year ago (-0.1%), cuts in public consumption by 4.1%, following a 0.5% fall in 2018 Q1
- Increase of the current account deficit at 2.4% of GDP (+75% from last year)
 - New increase in exports during Q1, for third year in a row, not as high as a year ago (+4.0% from +8.6%) → Solely from exports of services (+8.7%). Goods' products:-0.7%
 - Higher rise in imports, +9.5%, after a last year decrease of 7.5%. Bigger increase in imports of goods (+9.9%) than in imports of services (+5.5%)



Achievement of State Budget cash balance targets during January - May

- **Jan – May 2019 result: deficit of €1.76 billion**, versus deficit target of €3.05 billion.
- **Primary surplus of €916 million**, against target deficit of €1.45 billion, but also last year's surplus of €853 million
- **Higher primary surplus exclusively due to higher revenues**
 - Bigger sales of goods and services by €996 million
 - *€1.18 billion in revenues from extending the Athens International Airport concession contract*
 - More revenues from transfers by €538 million
 - *From government bonds held by the Bank of Greece (ANFA's and SMP's)*
 - Greater increase of expenditures due to:
 - Transfers to SSO's (+€1.09 billion), as a result of the new, special pension provision
 - Provisions to employees (+€461 million)

Significant decline in the cost of new borrowing for the Greek State during 2019 Q2



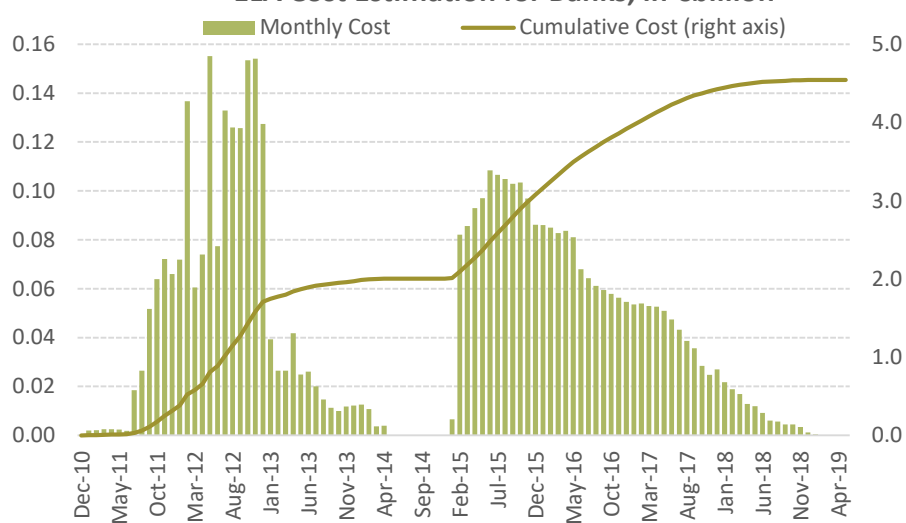
Source: ECB, Data Modification: IOBE

- Decrease in June of the 10-year bond yield, at historically low levels, below 2.5% (lowest level since 1993)
- The spread compared to the German bond fell at the lowest level since 2000 (<300 basis points)

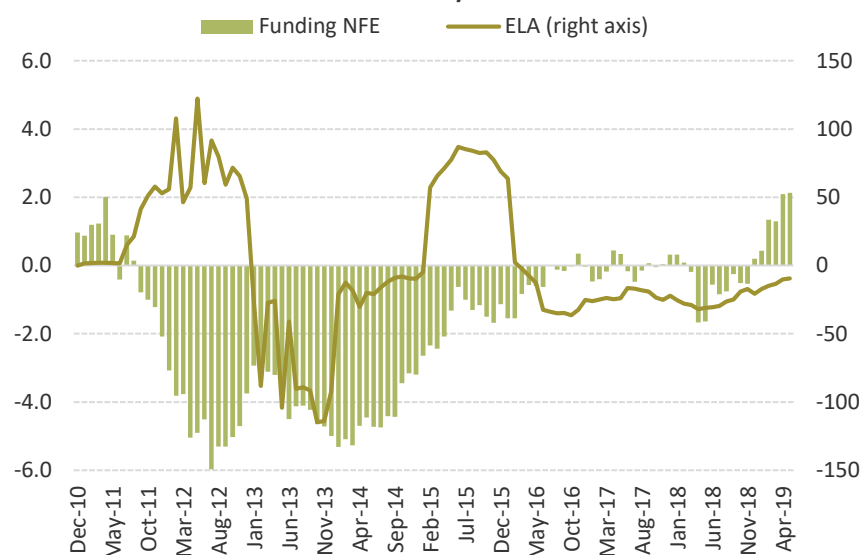


Major Cost for banks to appeal to ELA for funding

ELA Cost Estimation for Banks, in €billion



12-month flows, in €billion



*Based on consensus, the Burden Cost equals with 150 units

Source: Bank of Greece, ECB, Data Modification: IOBE

The ELA mechanism was crucial for providing liquidity to Greek banks during the crisis, but had...

- Direct cumulative cost of about €4.5 billion, of which €2 billion concerned the 2011-14 period and €2.5 billion the 2015-2019 period
- Indirect cost in the essence of de-accelerating the decrease of NPLs, and reducing the ability of the banking system to provide loans (linear correlation coefficient between ELA and funding - 0.07)



Trends of economic indicators

Industry

- Minor increase in industrial production during the first four months, +0.8%, against +0.1% last year
- Fall of IPI in the EZ at the same period: -0.3% versus +2.7% a year ago

Construction

- Slump of 18.5% in constructions during Q1 this year, versus a reduction of 0.7% in 2018
- Downfall in both building projects and civil engineering projects

Tourism

- Downward trend during 2019 Q1 (-19.2%). against a 9.7% increase a year ago
- On the contrary, revenues from abroad increase rapidly (+22.8%)

Retail Trade

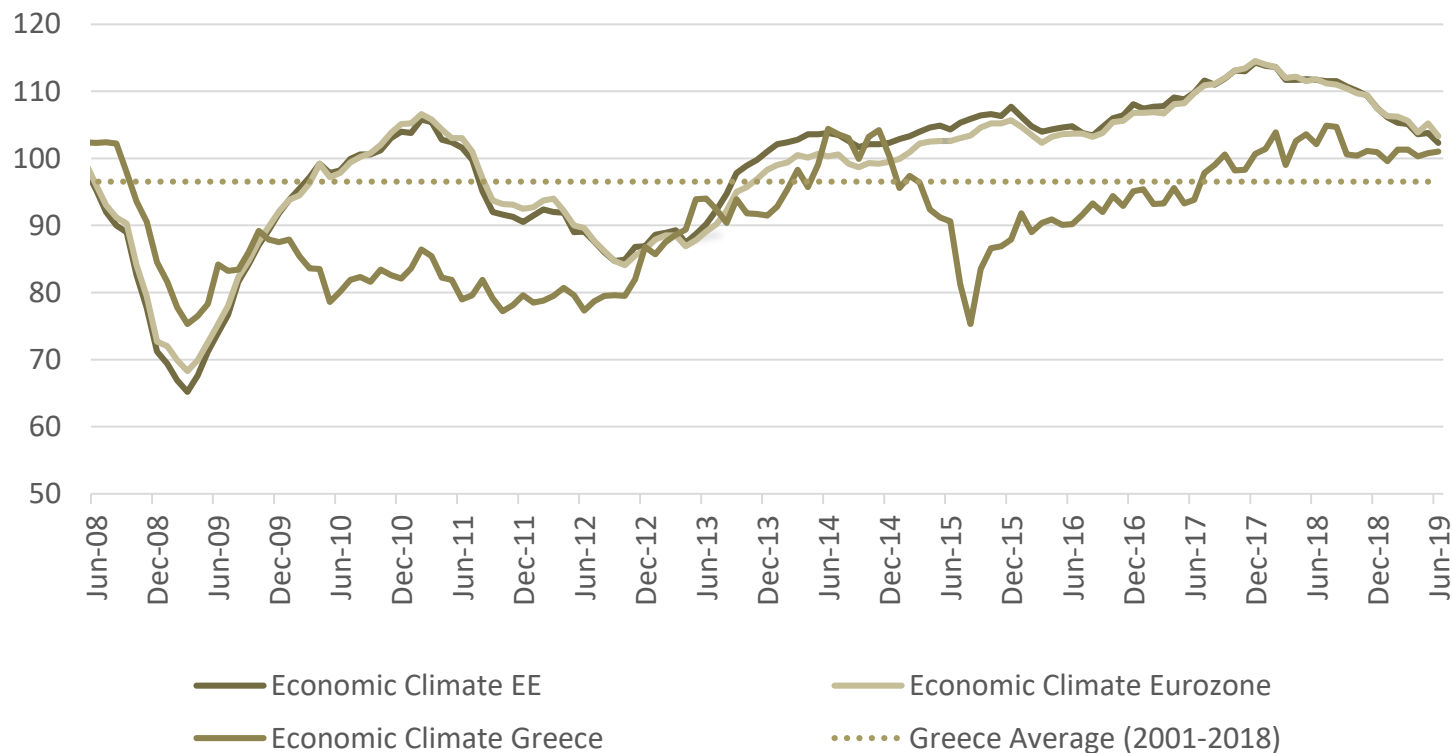
- Downturn in the volume of Retail Trade by 1.1% during Jan. - April 2019, almost the same as last year's increase (+0.8%)



Economic Climate Index in Greece unchanged in 2019 Q2, compared to the previous quarter. Slight reduction in comparison with 2018 Q2



Economic Climate Index

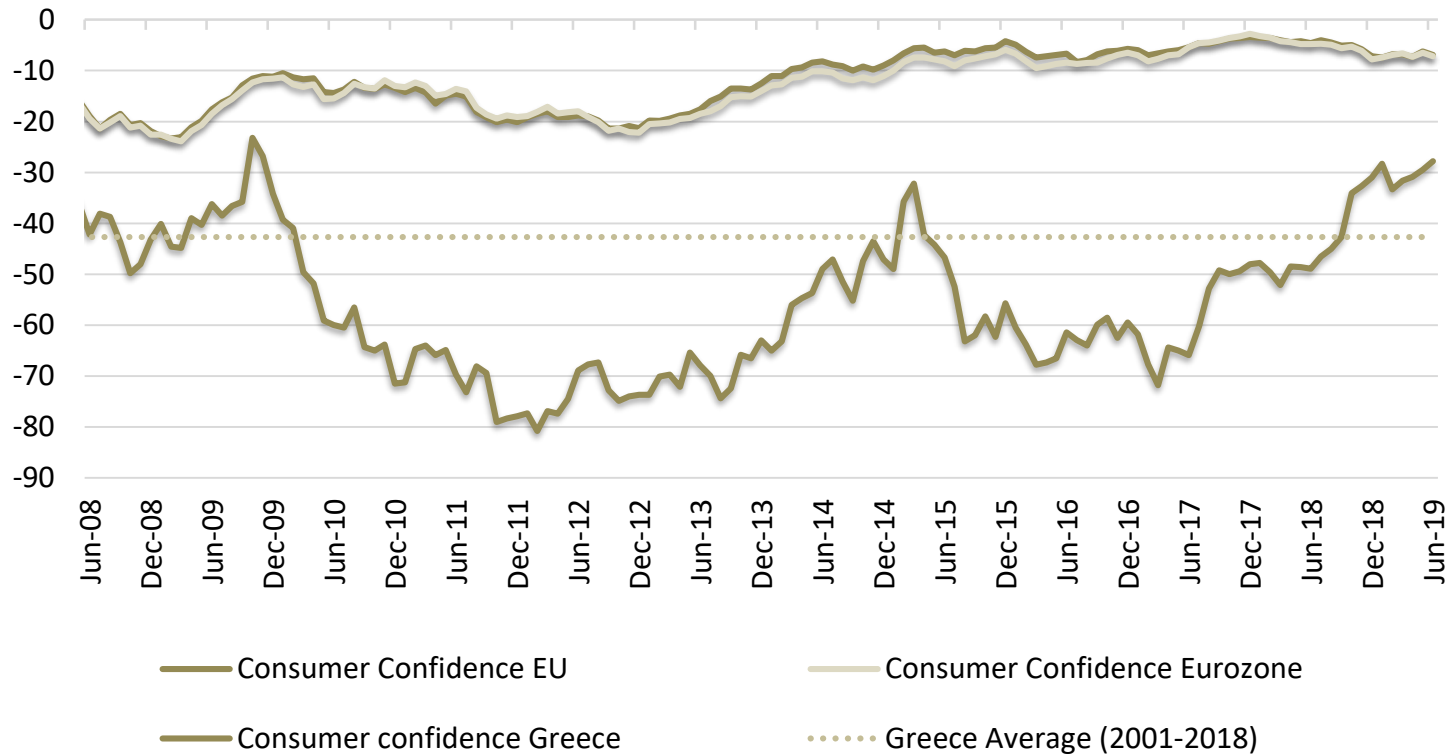


Sources: IOBE, European Committee



New, small recovery in consumer confidence during 2019 Q2. Highest level since 2008 Q1

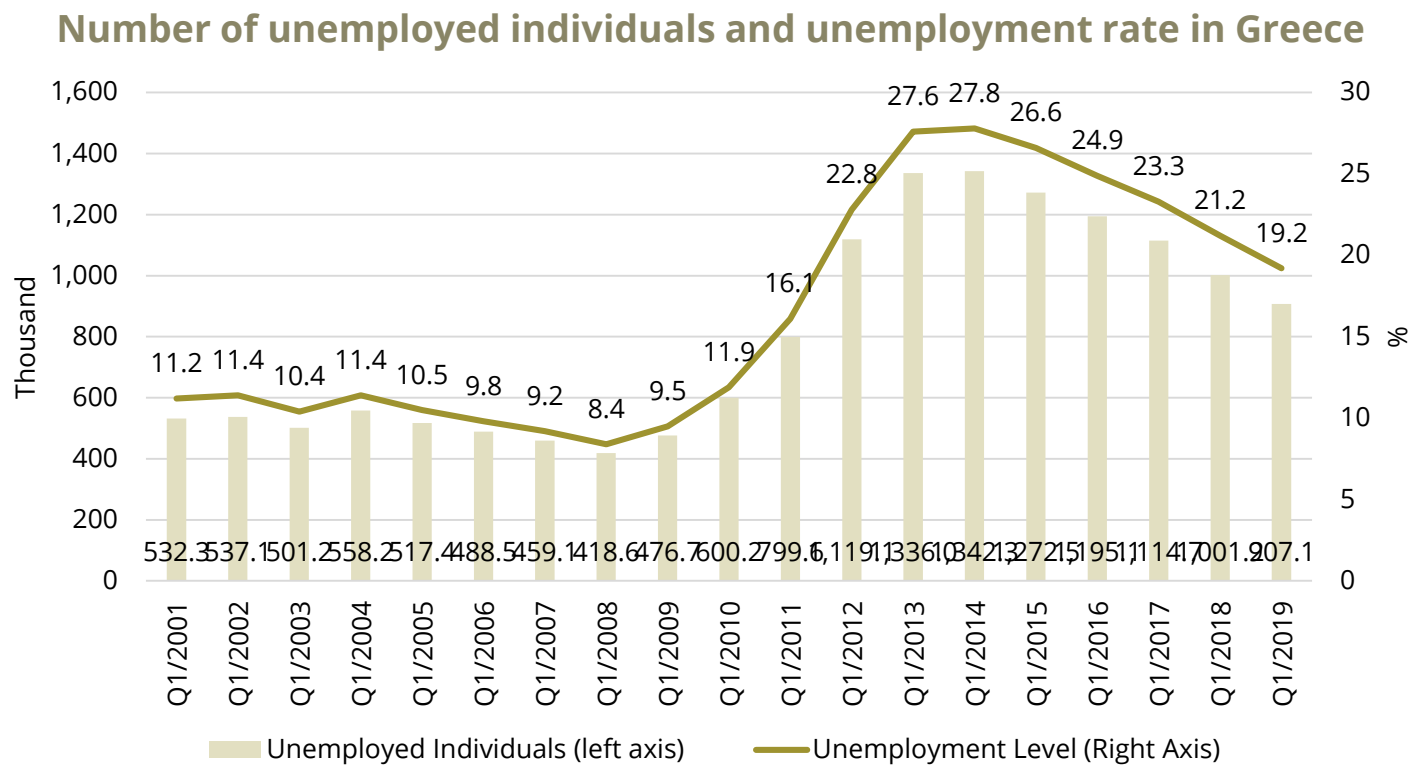
Consumer Confidence



Sources: IOBE, European Committee



Further decline of the unemployment rate, for 20th consecutive quarter



Source: ELSTAT

- Unemployment rate at **19.2%** in the first quarter of 2019, against 21.2% a year earlier
- **Employment increase in 15 sectors.** Indicatively: Tourism (+20.2 thousands), Education (+20.2 thousands), Information and Communication (+14.7 thousands), Public Administration (+12.3 thousands).
- However, employment dropped **in 6 sectors.** Indicatively: Household activities as employers (-6.7 thousands), Financial and Insurance activities (-5.3 thousands), Constructions (-4.7 thousands)

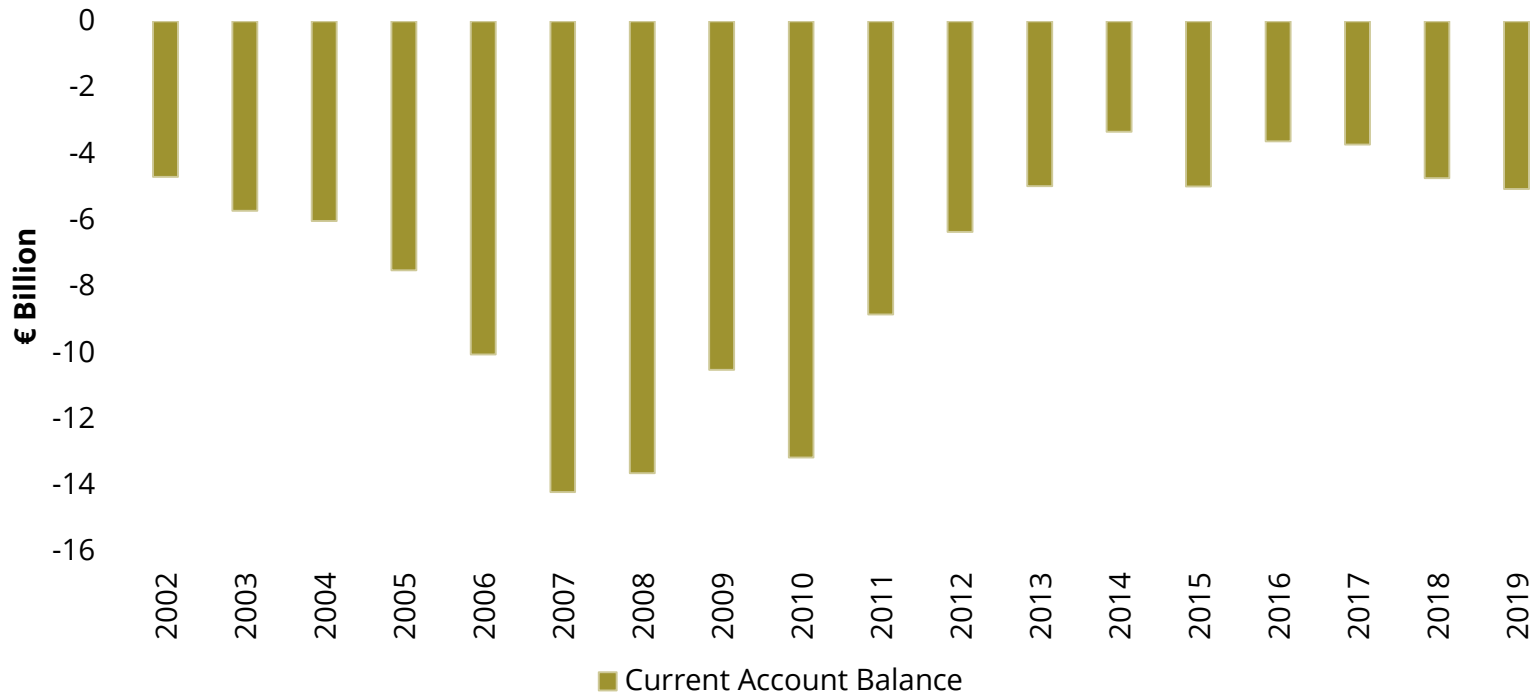
Increase of wage cost for the sixth consecutive quarter



Source: ELSTAT

- Rise of the index by 1.8% y/y in 2019 Q1, following an increase by 5% a year ago

Upward trend during 2018 in the Current Account Deficit continues in the first four months of 2019

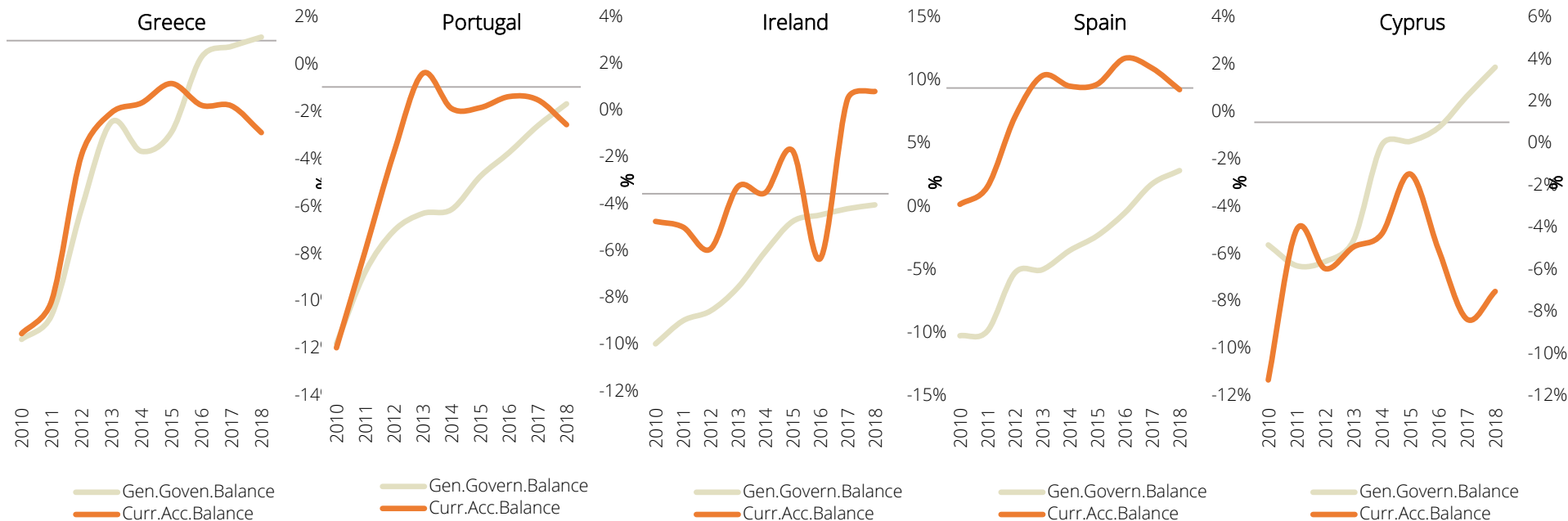


Source: Bank of Greece

- Current account deficit of €5.0 billion in the first 4 months of 2019, versus €4.7 billion in 2018
- Widening of the deficit Balance in both Goods and Secondary Incomes
- Counterbalance from higher surplus of the Balance of Services



Significant improvement of twin deficits in countries that implemented adjustment programs*



* Dots in lines indicate the beginning and completion of Economic Adjustment Programs. **Figures** are expressed as % of GDP. The General Government Balance does not include support provided to the financial sector.

Source: Eurostat

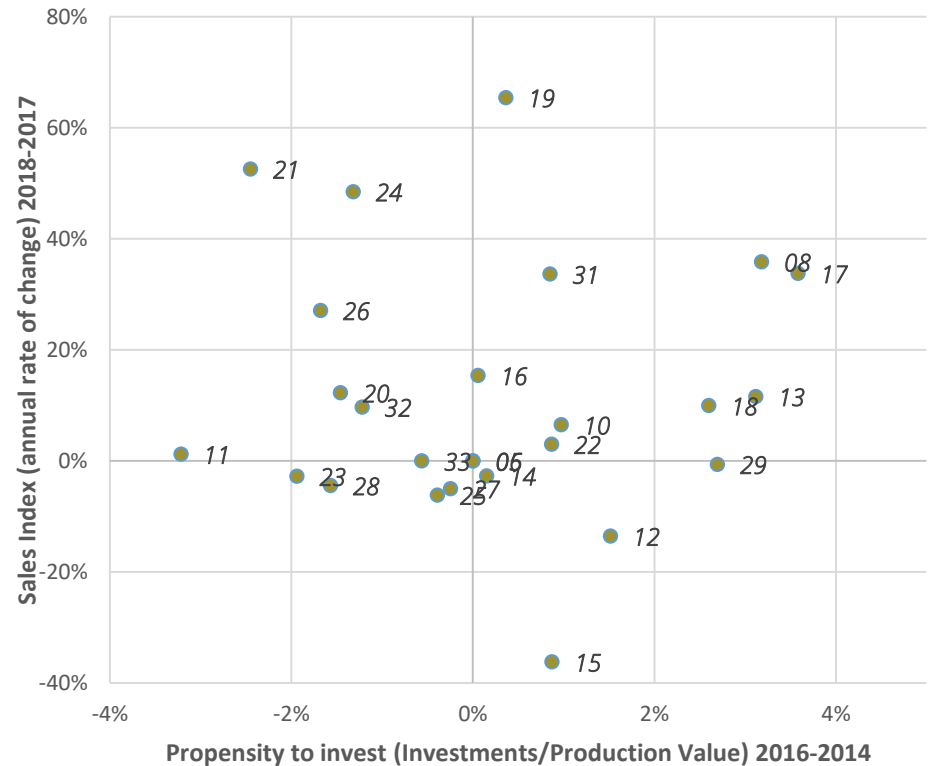
- With the exception of Cyprus, during the program implementation, fiscal adjustment was smaller compared to the external sector adjustment (Current Account Balance)
- But, apart from Ireland, after an improvement period, the current account balance deteriorated in all countries
- On the contrary, fiscal adjustment continues, even after the ending of the programs



Indications from the Industry, of a transition to a new growth model

- Rise in industrial sales by 24.2% during the 2017-2018 period
- **Exports**
 - Almost all sectors with the larger increase in sales achieved a significant rise in international sales
 - Some sectors with small international presence recently exhibited a very positive performance in the domestic market
- **Investments / Production value ratio** - various trends in the industrial sectors:
 - ↑ investments ↑ Sales
 - ↑ investments ↓ Sales
 - ↓ investments ↑ Sales

Industrial sectors (NACE Rev.2): Propensity to invest and sales trend



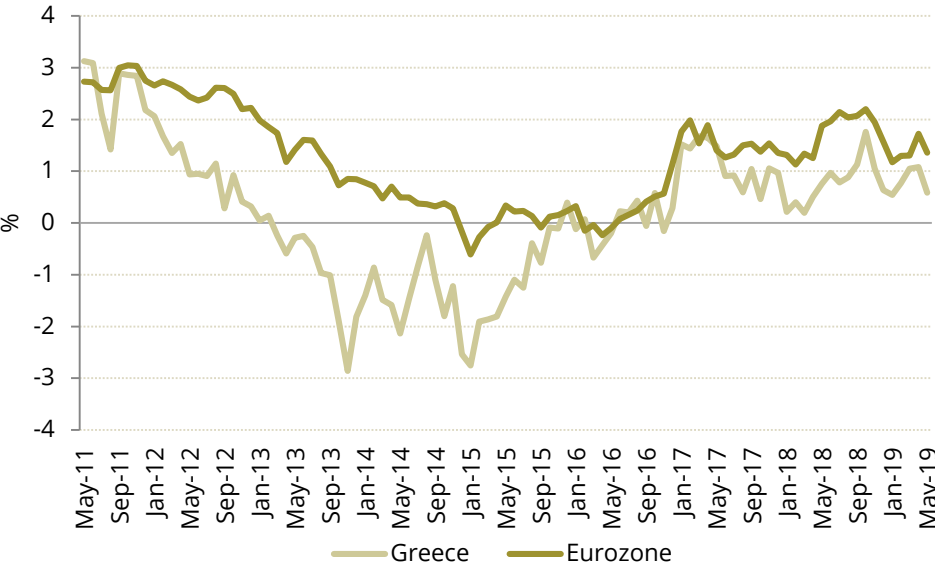
Source: Eurostat, Modification: IOBE

Increasing extroversion is a common feature of almost all industrial sectors that achieved a significant increase in sales during 2017 - 2018. Such a correlation did not emerge between the propensity to invest and sales. Peculiarities of the effect of investments among sectors (e.g. different starting point)

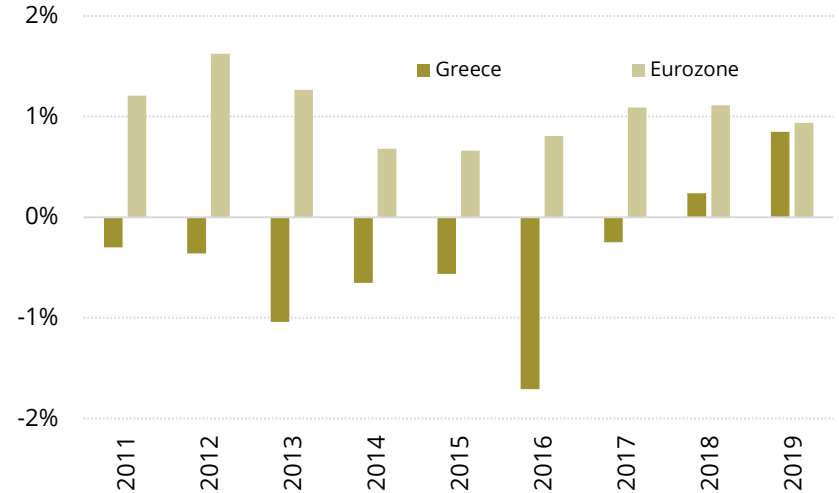


Higher prices increase compared to the first 5 months of 2018

Harmonised Inflation



HCPI excl. fuels and with constant taxation



Sources: ELSTAT, Eurostat

Eurozone: Steady inflation compared to the first 5 months of 2018 (1.4%)

Greece (January- May 2019): For third consecutive year, inflation remains at a positive price territory: 0.6% versus 0.1% during the respective period of the previous year.

- Negative impact from indirect taxation, zero effect from energy goods. Rise in prices exclusively from domestic demand –other factors

Producer Price Index (Jan.-Apr 2019): +2.8%, versus +1.0% in the first 4 months of 2018, due to energy prices



Early national elections, government change

Previously, fiscal interventions in May and abolishment of those planned for 2020. (minimum tax-free income, property tax, solidarity contribution)

Pre-election euphoria: Improvement of expectations: mainly of consumers, businesses remain cautious. Escalation of interest from abroad.

Further deescalation of interest rates: easier access to funds, cheaper service of public debt

Looking ahead:
Evaluation of reforms by Enhanced Supervision.
Adjustment of the policy mixture policy?
Matters of credibility regarding the agreed policy

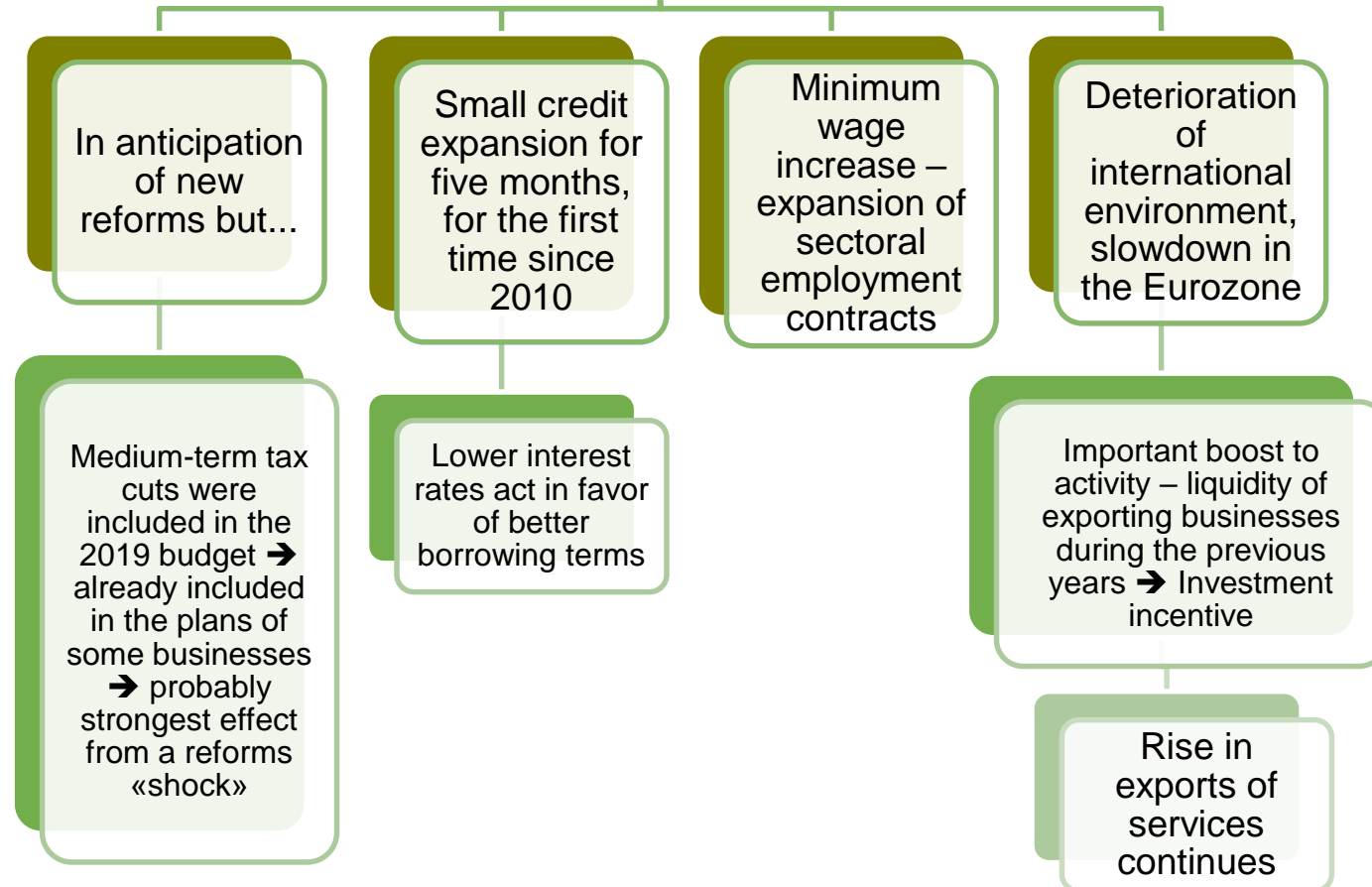
Delays concerning the implementation of reforms

Obstacles to faster recovery



The economic environment at a transition

Various effects in entrepreneurship





Indications of improvement but also challenges ahead for the banking sector

Main goals for the effective reduction of NPLs and credit expansion to the real economy

Positive Developments

- Recovery of banks' stock exchange value, steady increase of private sector deposits, elimination of high-cost funding from ELA, revival of credit towards NFEs (first time since 2011 Q2)

Challenges

- Acceleration in reducing NPLs, with a more qualitative mixture of strategy: more sales, securitization and receipts from active management, less write-offs
- Need for a systematic solution regarding the containment of NPLs (pending evaluation of proposals from the HFSF and the Bank of Greece)
- Need for full implementation of recent changes in the regulatory framework, concerning the effectiveness of auctions, new framework for protecting the main residence, platform for out-of-court resolution

Expectations: Marginal credit shrinkage on average during 2019, credit expansion only to non-financial businesses.



Forecasts for 2019

Acceleration of private consumption ($\approx +1.2\%$):

- Fiscal interventions (more social spending and tax cuts, new pension provision)
- Increase of the minimum wage. Uncertain medium-term effect, depending on individual sectoral developments in productivity.
- Employment increase in exporting sectors (smaller than last year's), in the public sector, in Constructions

Stagnation or small rise in public consumption

- Small increase in wage spending, stagnation of spending regarding purchases of goods and services during the January - May period
- Impact during the second quarter from consecutive elections

Escalation of investments (+8-11%):

- Earlier decline of elections' uncertainty
- Mild credit expansion, improvement of terms of borrowing
- Higher activity in privatisations - concessions
- Growth due to rise in exports in previous years (Manufacturing, Tourism, Transports) → to a large extent, these will be implemented by the Constructions sector.



Forecasts for 2019

Milder increase of exports (5.0% - 5.5%)...

- Significant impact from measures of trade protectionism, loss of Q-E expansion boost to the Eurozone economy, rise in competitive tourist destinations

...with simultaneous escalation of imports (6.0-6.5%)

- Due to higher investments (machinery, transport means), and increase in households' demand for services (e.g. tourism)

Slower decline of unemployment, $\approx 18.0\%$

- More job positions in exporting sectors, public sector, Constructions

Slightly smaller than last year inflation ($\approx 0.3 - 0.5\%$)

- Mostly driven from stronger consumer demand, as the negative effect of taxation on prices will be intensified by the fall in the VAT.

Expected growth rate of 1.8% for 2019

Special Study

The improvement of buildings' energy efficiency as an instrument of growth for the Greek economy



Contents and aim of the study



Energy Efficiency – Benefits



The EU institutional framework - course towards goals



Current status of the energy efficiency of buildings in Greece



Effects on the economy from interventions regarding energy saving in buildings

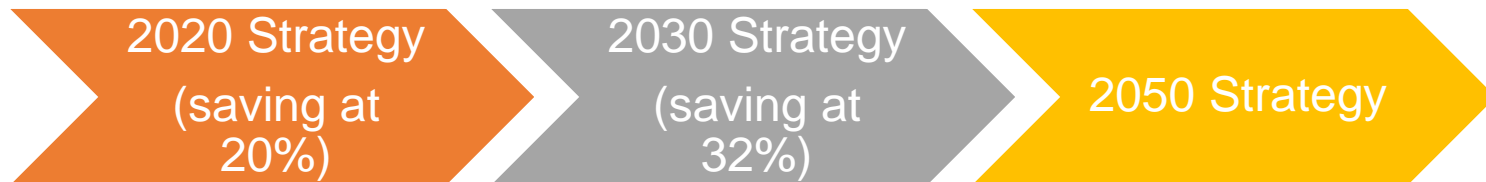


Policy proposals

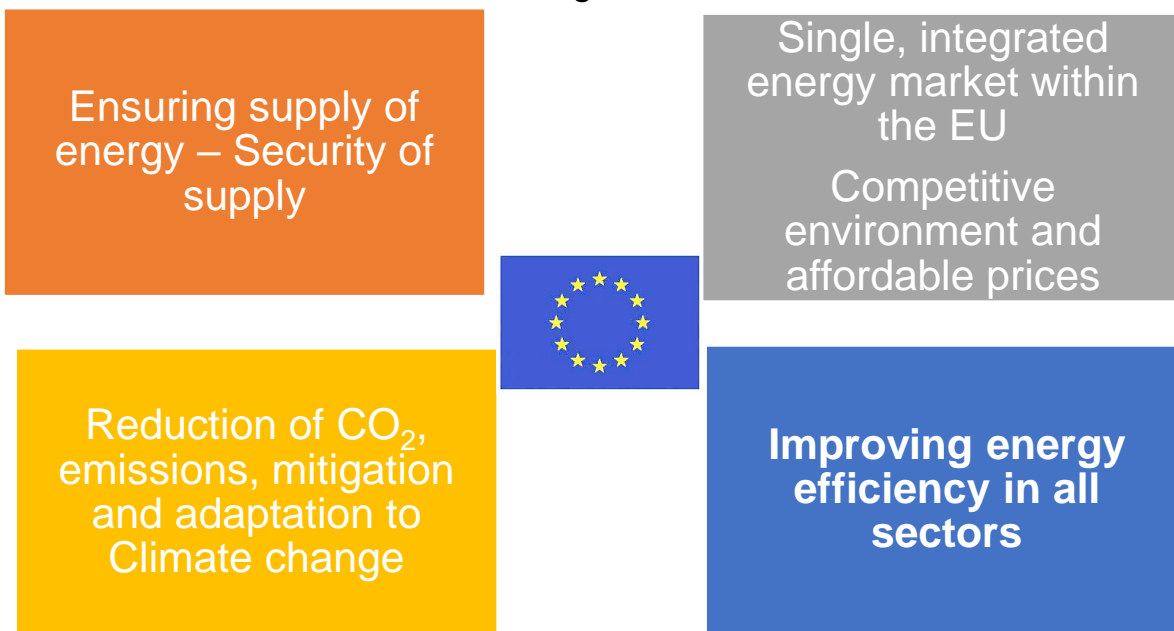
The study's main goal is to pinpoint the benefits for the Greek economy, from the acceleration of actions regarding buildings' energy efficiency and energy saving



The European energy strategy has specific goals backed up by medium-term policies

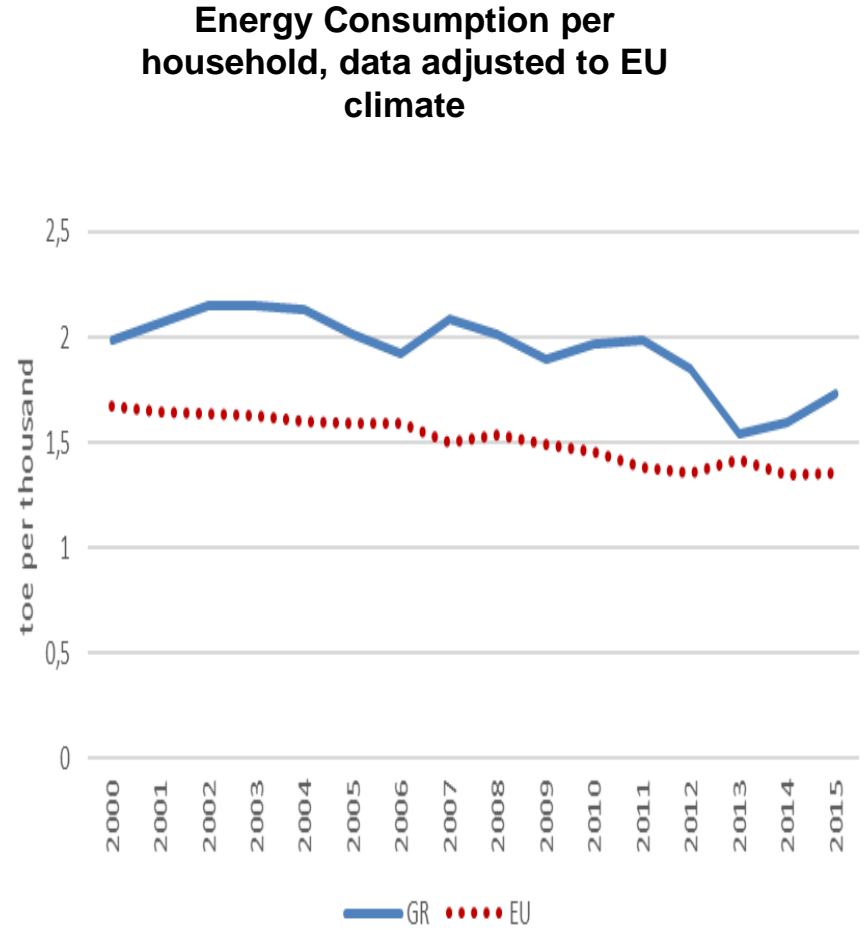
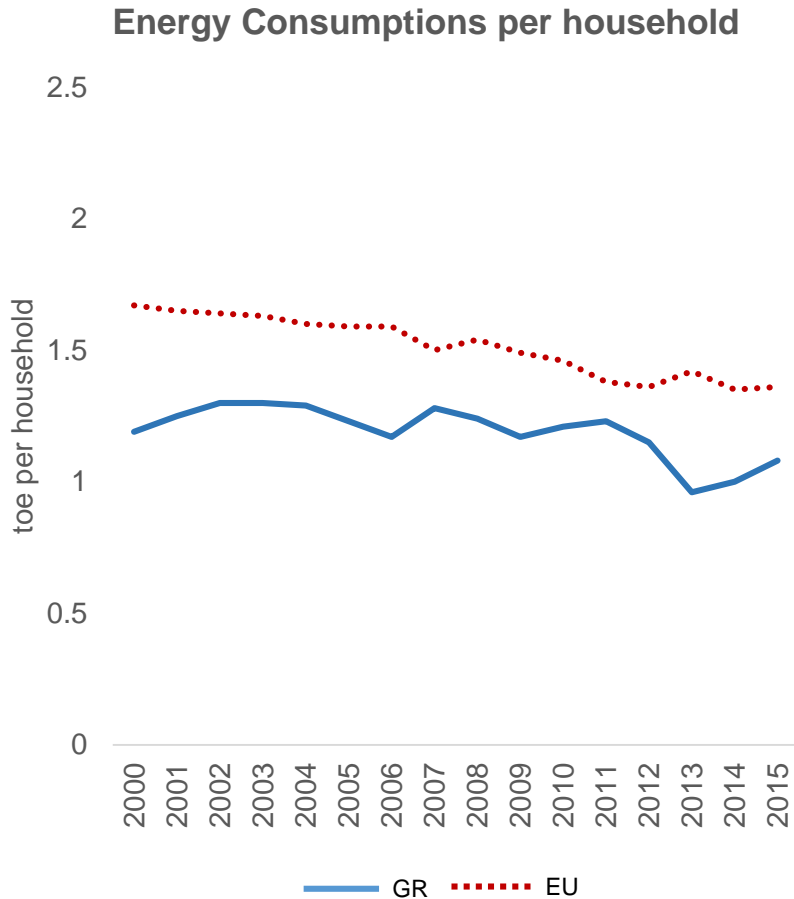


Targets:



All medium-term European strategies take into account climate protection and therefore the improvement of energy efficiency

Through adjustment to the average climate conditions prevailing in the EU, energy consumption per house is particularly high in Greece

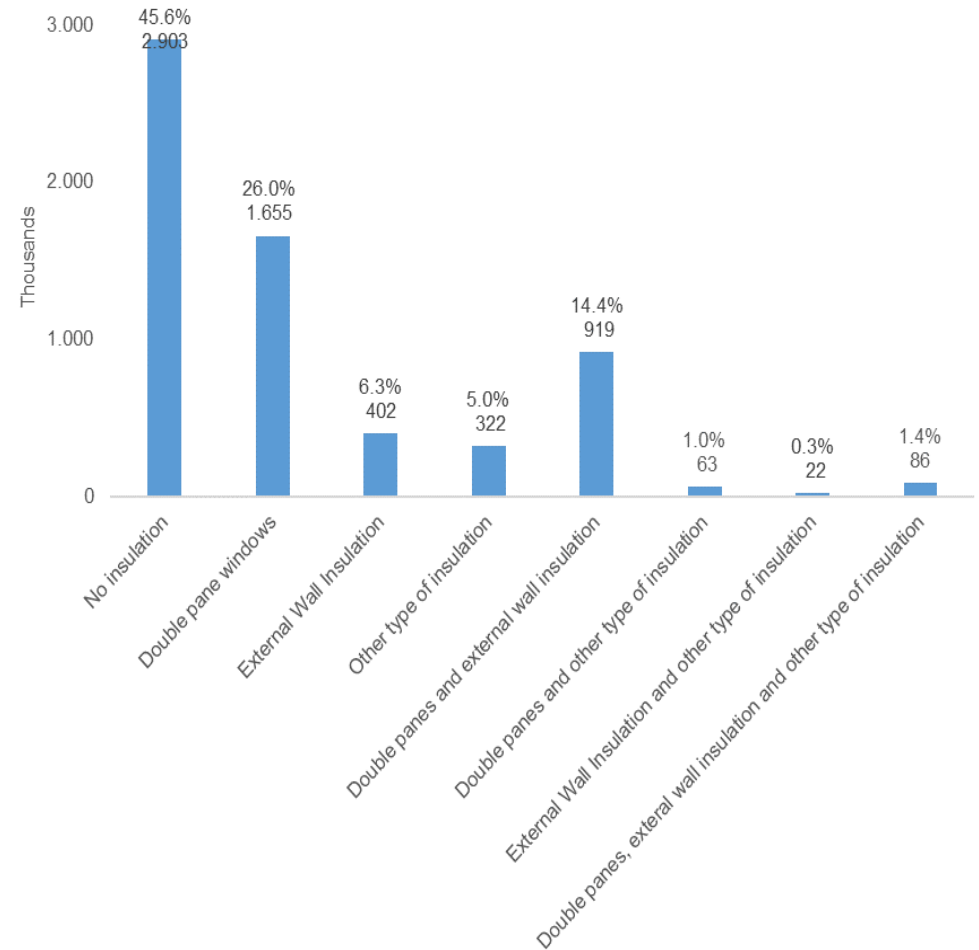
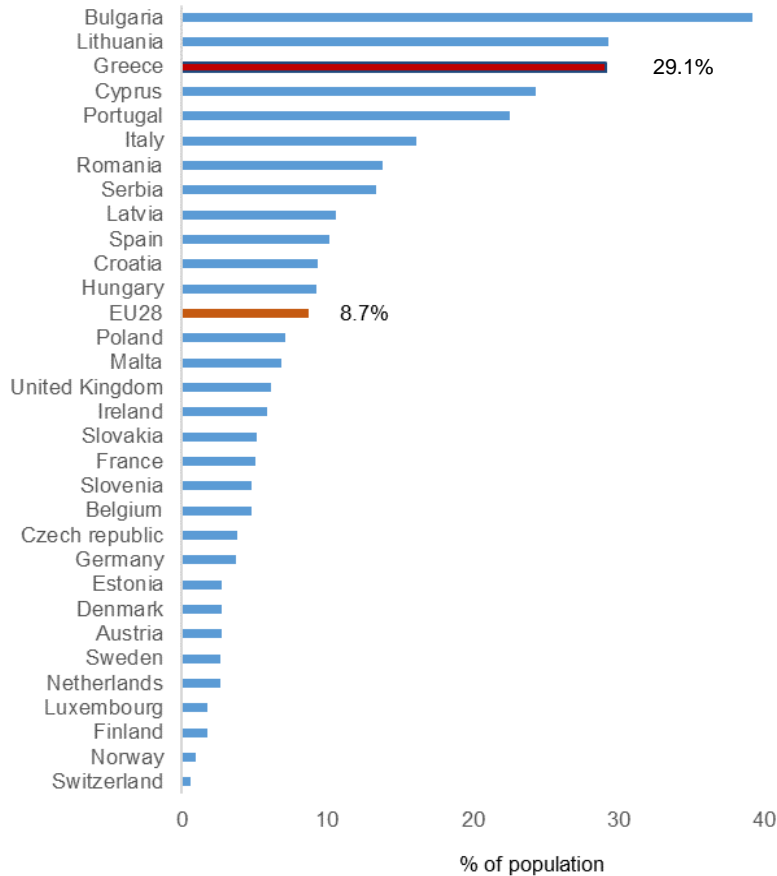


Source: Odyssee



The percentage of population in Greece with inadequate heating is three times higher than the European average. Significant proportion of residences without insulation.

Percentage of population with inadequate heating (2016)



Source: Eurostat, ELSTAT – Population - Residences Census 2011



MinEE (2014) scenarios were applied for estimating the impact of energy saving interventions on buildings

- **Energy upgrade scenarios**
 - 2018-2030 Period
 - % renovated residences
 - Renovation intensity
 - Building categories (households, services sector)
 - Renovation cost (average investment cost per 1kwh)
 - Estimation of the decline in demand for energy goods

Impact estimation scenarios

Baseline Scenario

Conservative Scenario (Scenario 2 MinEE Report)

Ambitious Scenario (Scenario 3 MinEE Report)

Aim Scenario (Scenario 5 MinEE Report)

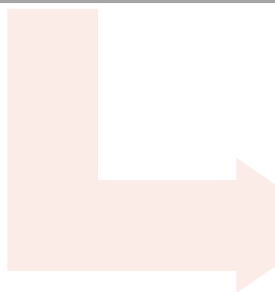


Method of calculating economic effects by using scenarios regarding buildings' energy upgrade

For every scenario and year during the 2018-2030 period, there was a calculation of the difference between the intervention cost for each scenario and the equivalent cost of the baseline scenario



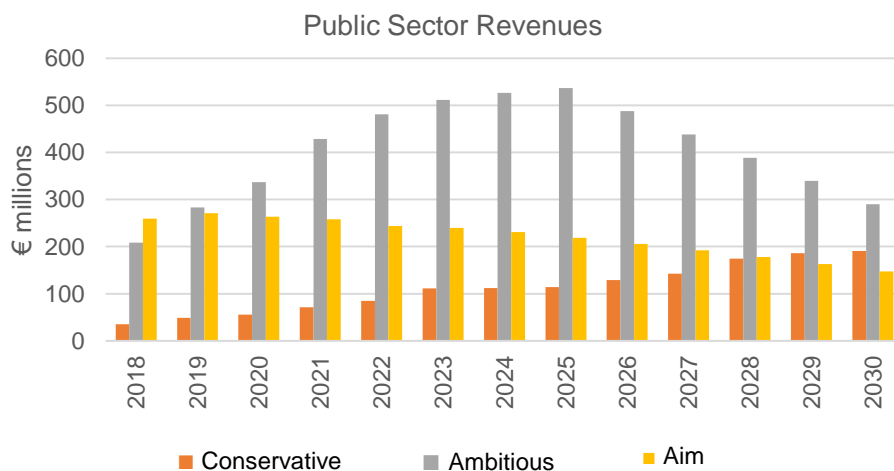
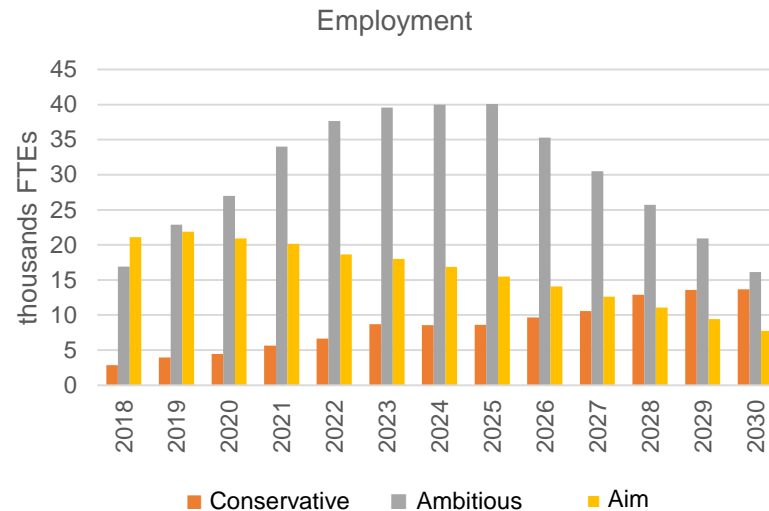
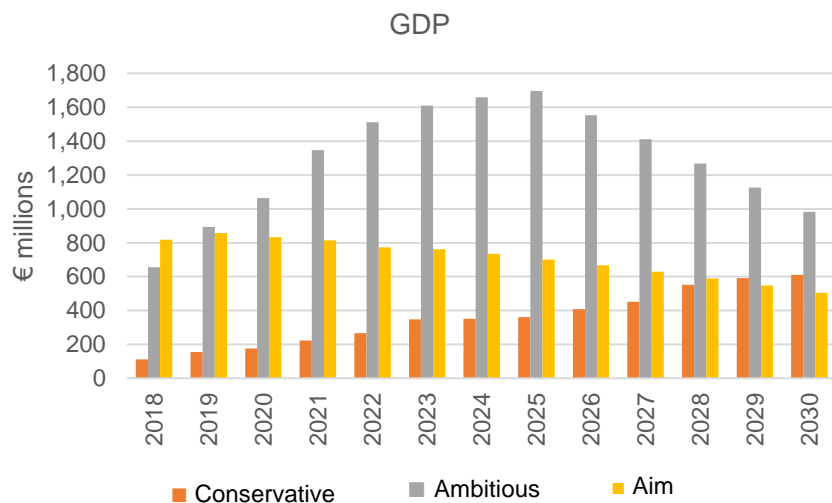
The additional cost per scenario and year, was considered an external shock in demand, which mobilizes the country's economic activity



For every similar external shock, there was a calculation of the ancillary (multiplicative) effects in the economy, using the Inputs-Outputs method



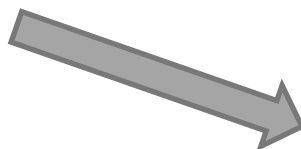
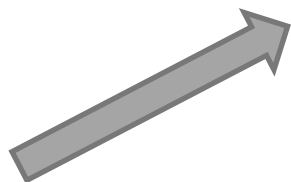
Taking into account the multiplier effects in the economy, an estimation of scenarios for Greece up to 2030 was carried out





In the goal achieving scenario, the benefits for the economy are significant

For every **€1 invested** in energy upgrade of buildings



...**€1,43** is added to Greek GDP



... and almost **€0.50** is added to public revenues

Finally, for every **€1 million invested...**



...**34 job positions** are created in the Greek economy

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