



ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ &
ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Quarterly Report for the Greek Economy 3 - 2016

October 11th, 2016

This presentation is supported by



Various developments in the current period

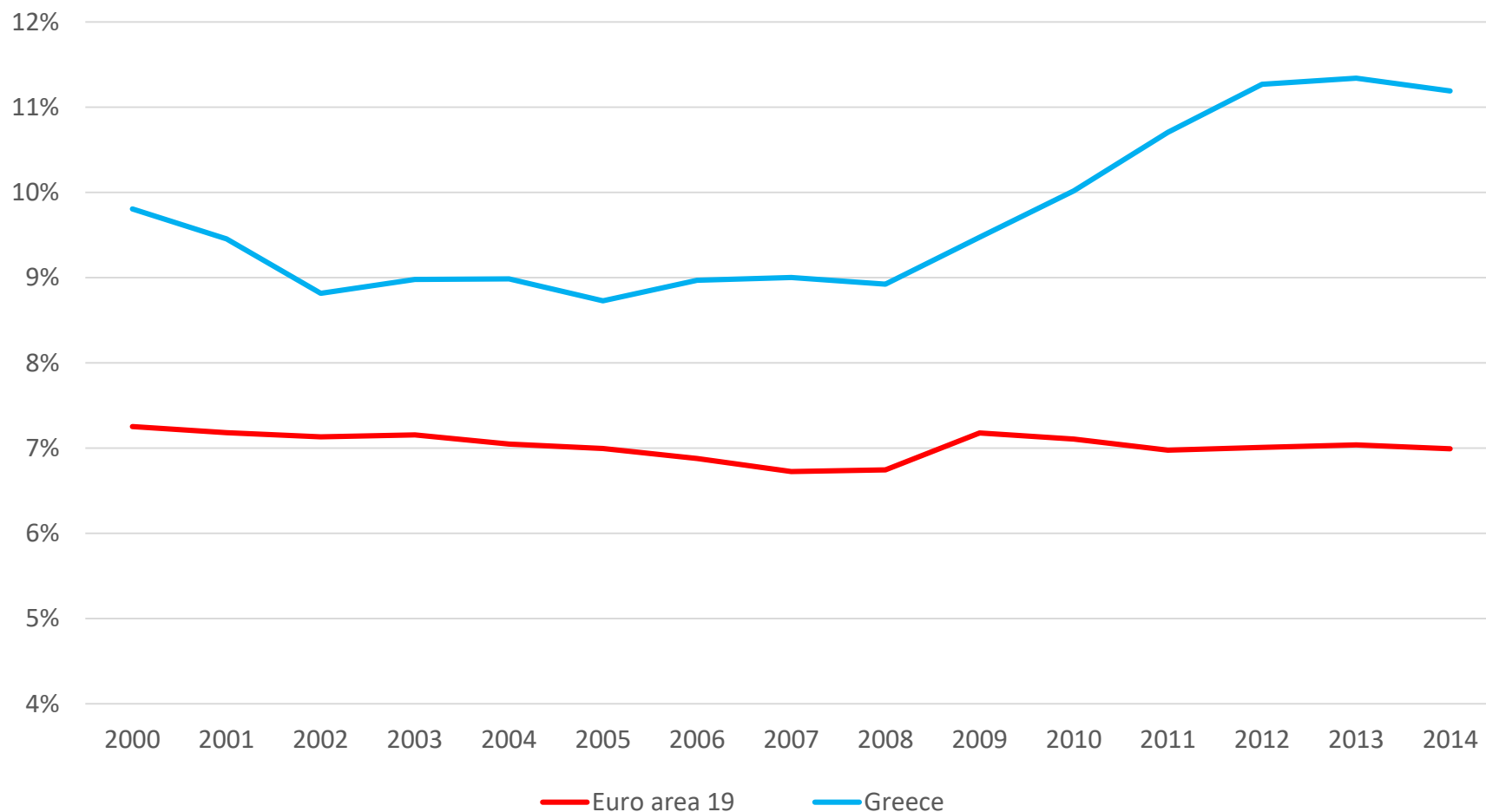
- **Positive developments:** international tourism, low energy prices, increasing transactions
- **On the negative side:** increase of tax rates, difficulties in liquidity, deterioration of investment climate due to the referendum in the United Kingdom
- On the basis of the available data, the growth rate for 2016 will probably be **slightly worse** than what forecasts from official bodies suggested

The most important issue is whether the necessary conditions will be created, that will lead to sustainable growth in the medium and long term

It is necessary to create the conditions for sustainable growth in the medium-term

- **Are Greek producers becoming more competitive?**
- Some sectors and individual companies respond to the changes of relative prices
- The Greek economy remains one of the most closed economies in Europe, and it tends to become even more closed
- Greece continues to rank low the international competitiveness indicators
- **Has the Greek economy become less dependent on the public sector?**
- Some public sector operations have been limited due to fiscal contraction
- Despite decreasing public sector output, the overall share of the public sector in Greek economic activity has not decreased, as output in the rest of the economy has contracted even more

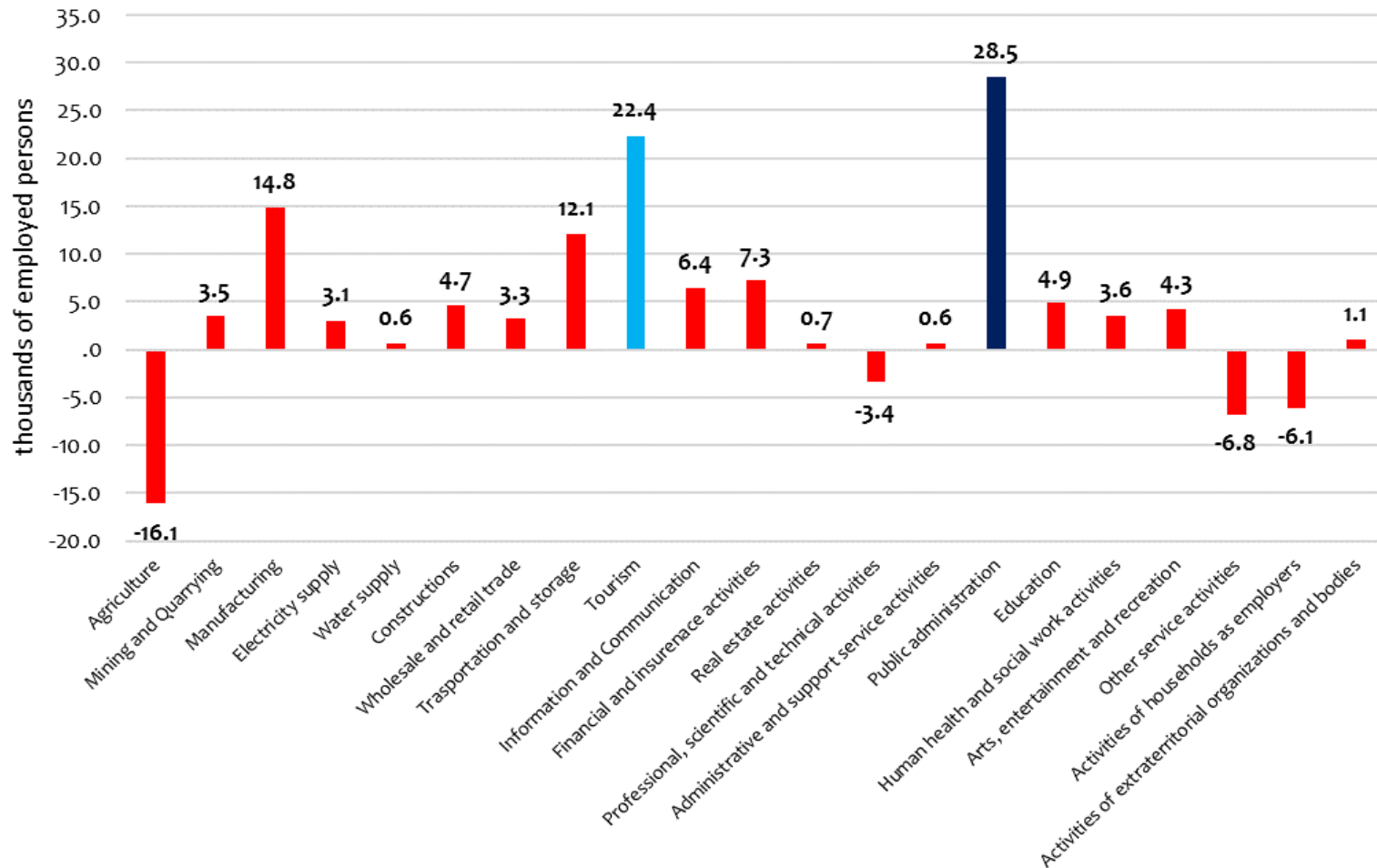
Public Sector Gross Value Added as % of total GVA



Source: Eurostat

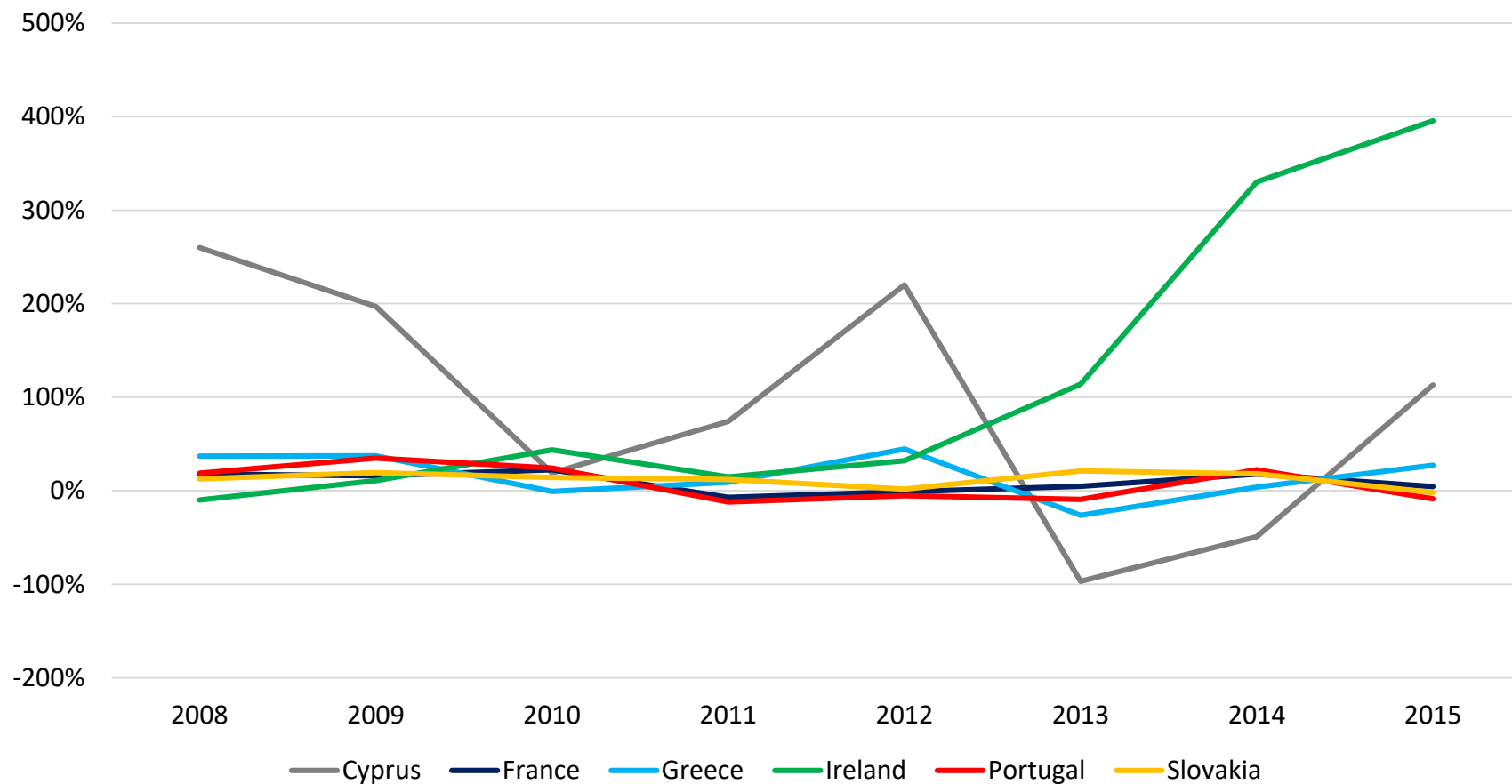
The public sector contributes significantly to increasing employment

Contribution to employment increase per sector 1st half of 2015 - 1st half of 2016



Source: ELSTAT

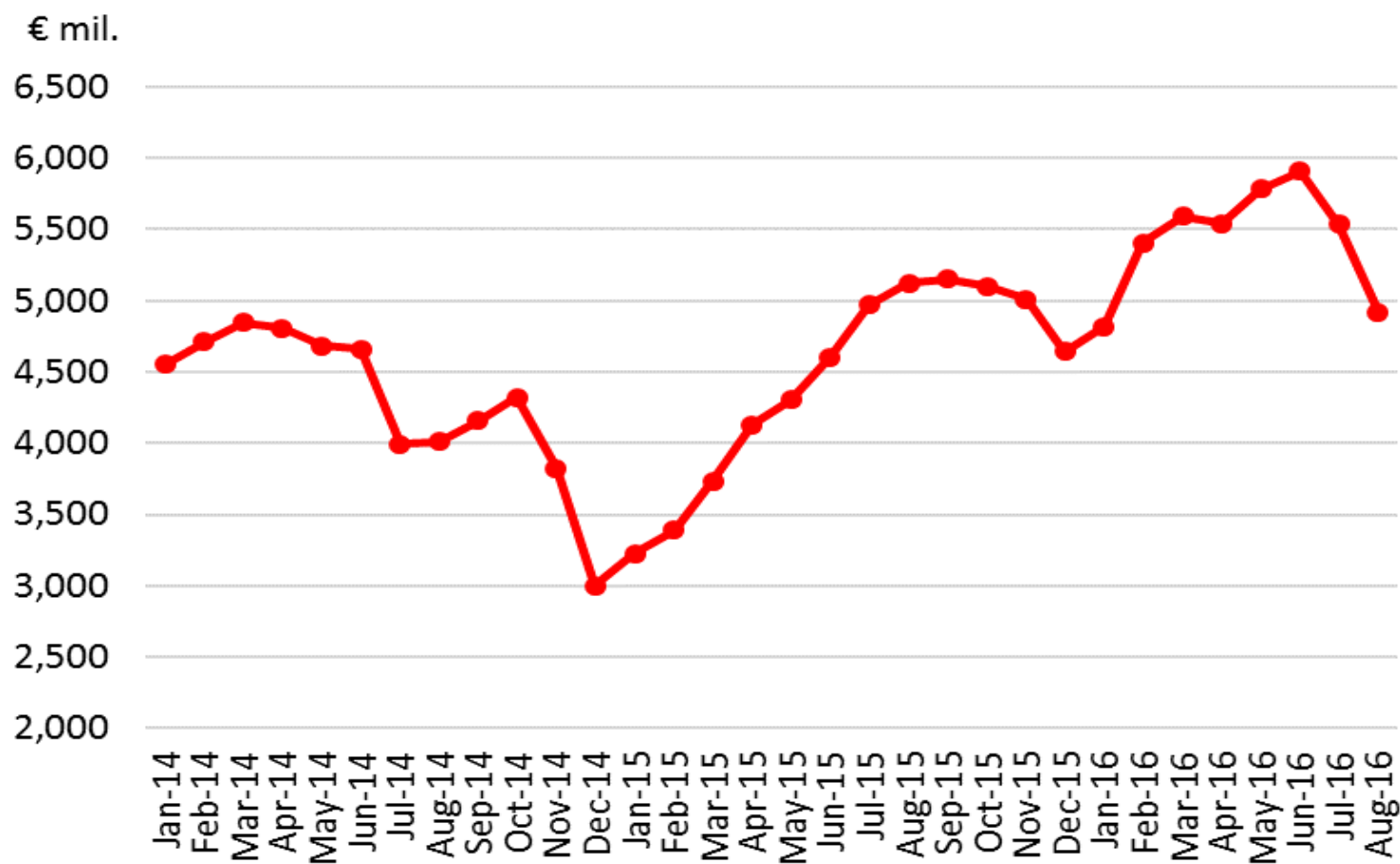
Economy openness to foreign investment* (% GDP)



* (Receivables + Liabilities) / GDP. Receivables and Liabilities regarding i) Foreign Direct Investment, ii) Portfolio Investments και iii) Other investments

Source: European Central Bank

General Government Liabilities



Source: General Government Monthly Bulletin, General Accounting Office, Greek Ministry of Finance 2014-2016

Remarks regarding public debt

- **Greek debt has special characteristics** relative to its composition, maturity and interest rate profiles → assessing its impact on the economy requires careful detailed analysis
- The direct pressure of the public debt on the budget for the next few years is relatively small
- The uncertainty that the public debt burden creates, inhibits economic activity

Tenacious insistence on achieving budget surpluses and consequently putting less emphasis on improving the efficient functioning of markets and public administration, will not help the Greek economy in the medium term

The efficient functioning of institutions is a major issue

- The international experience and modern economic analysis suggest that **sustainably high growth rates, especially in high income economies, crucially depend in the medium term on efficiently functioning institutions**
- The less transparent, independent and efficient the functioning of institutions, the more difficult it is to convince potential investors to take up projects in Greece, including human capital intensive projects

Quarterly Report Overview

International growth stability

- Slight deceleration of global growth in 2016, at **3.1%**, **against 3.2% in 2015** as growth in the major economic zones of the world is weakening
- Slowdown of international trade growth in 2016 (2.3%), acceleration in 2017 (3.8%)
 - Demand in developed economies contracted at 2.4% in 2016
 - In developing countries, imports are expected to recover in 2016
- **Euro area:** +1.6% (2016), against +2.3% in 2015

Uncertainty factors in 2017:

- i. Brexit: terms, characteristics, implementation speed
- ii. Slow growth in many regions of the world (USA, Euro Area, China, Brazil)
- iii. Weak role of monetary policy in Europe and in the USA. In search of a role for fiscal policy
- iv. Monetary authorities are currently standing by, but they may take further measures to balance markets (e.g. increase in interest rates in the USA, expansion of quantitative easing in the Euro Area, depended on the prevailing trend in prices)

In recession now for a year...

Decreasing GDP (Apr. - June 2016): **-0.9%**, close to Q1 '16 (-1.0%),
against growth by 0.8% in Q2 '15

Recession by 1.0% in the 1st semester of 2016,
against +0.6% in the same period of 2015

The recession continues in Q2 because of:

- **Further decrease of household consumption (-1.9% over -1.3% in Q1)**
- **Deterioration of external trade balance**
 - Exports contraction similar to that of Q1 (\approx -11.5%), but
 - Easing contraction of imports, at -7.1% from -11.9% → the relaxation of capital controls in March seemingly helped imports

The 2016 State Budget is on course to meet targets

- In the first 8 months of 2016 the primary surplus exceeded the target : **primary surplus €3.77 billion**, against a target of €980 million
 - Primary expenditure is under control:
 - *Currently €3.36 billion below the target, yet there are still expenditures that cannot be avoided, summing up to approximately that amount*
 - *Expenditures for wages and pensions, grants for social security funds, grants for the Public Investment Program where lower than forecasted*
 - *But also deceleration of expansion of liabilities in 2016 at €216 million (payments €1.35 billion in July - August)*
 - The revenues of the Regular Budget expanded:
 - *Income tax revenue from legal entities were higher by 14.1% – low income tax revenue from individuals*
 - *Almost all targets for revenue from indirect taxes are met*
- However, considering the breadth and the intensity of the tax regulations introduced recently (since July 2015), the increase of public revenue was rather small*

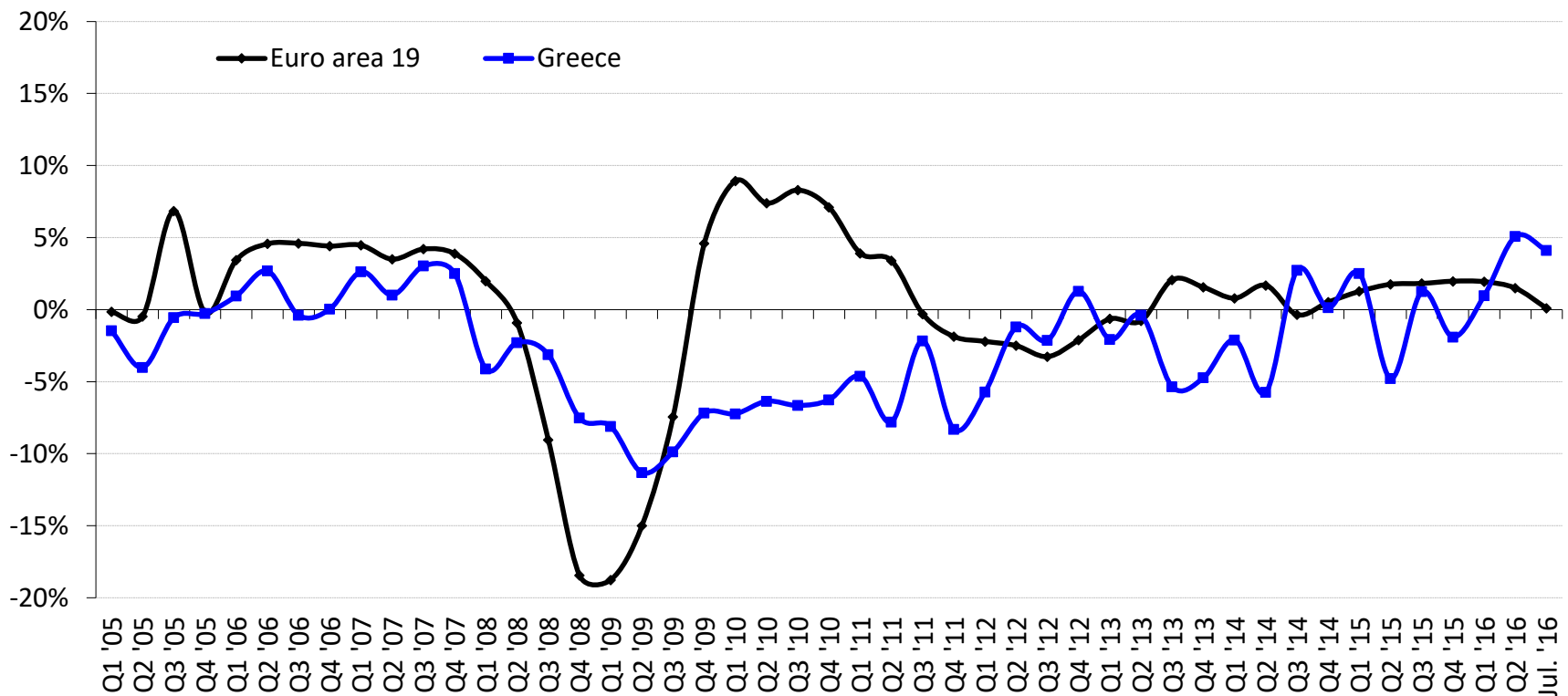
2017 Draft State Budget

- **Deficit reduction by €1.25 billion, to 1.9% of GDP**
- **Expansion of the primary surplus by €1.15 billion, to 1.2% of GDP**
 - To achieve the target, State Budget expenditures are planned to be cut (by €1.33 billion) and net revenues are planned to increase (by €129 million).
 - However, the tax revenues (direct + indirect taxes) are planned to rise by €1.84 billion, from the recent and forthcoming taxation measures that will apply from 1/1/2017
 - The revenues from granting licenses and rights will decline further, by €1.04 billion, reaching €437 million

The effort to achieve for a larger primary surplus in 2017 will imply additional burdens mainly on taxpayers, households and businesses

Improved Industrial Production (mainly manufacturing)

Industrial Production Index



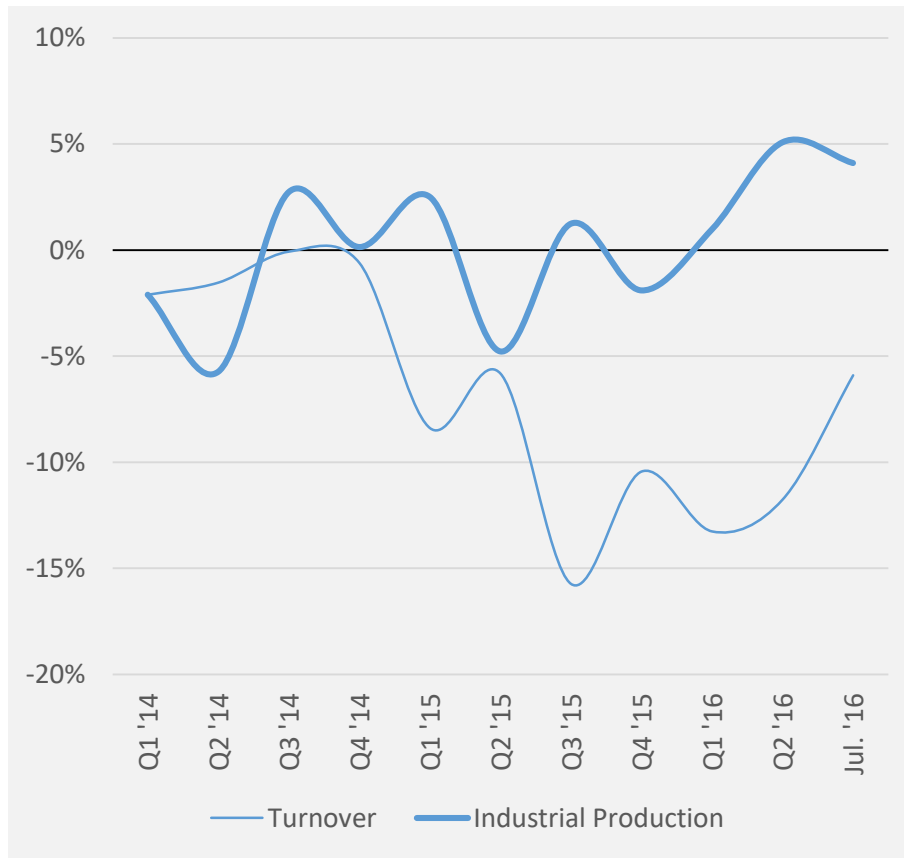
Sources: ELSTAT, Eurostat

Jan. – July 2016: +3.2%, against Jan. – July 2015: -0.3%

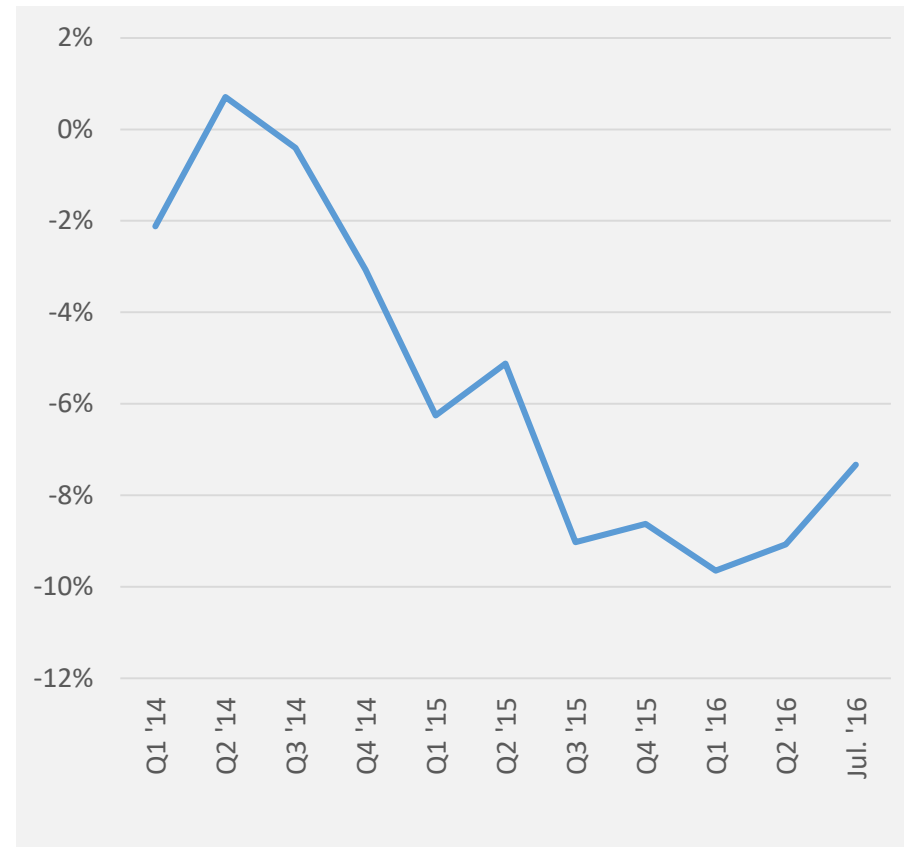
Manufacturing +5.0%, Mining - Quarrying -19.5%, Electricity -1.2%, Water supply +0.2%

The industrial production index rises, yet turnover and prices fall significantly

Industrial production index and industrial turnover



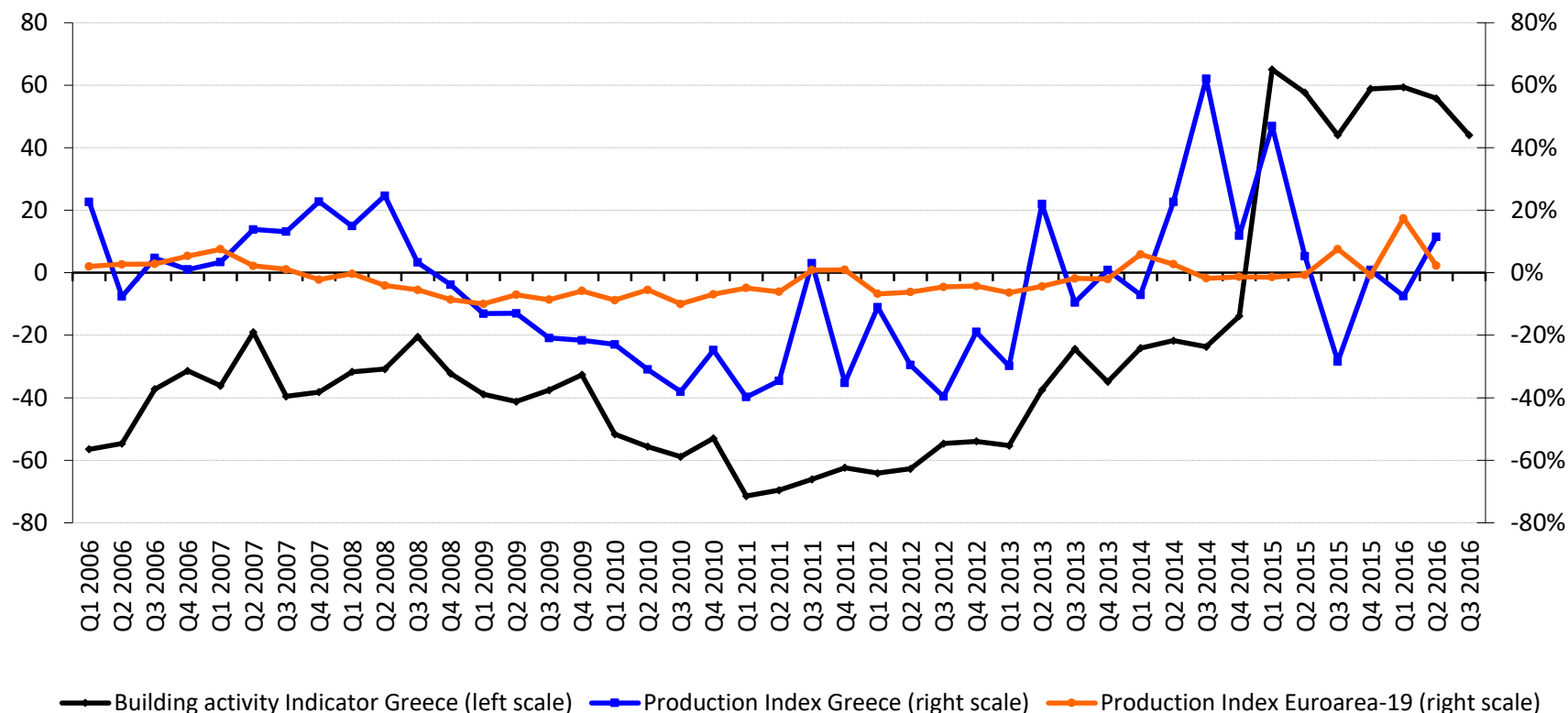
Producer prices



Source: ELSTAT

Construction: slight increase in the 1st half of 2016

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

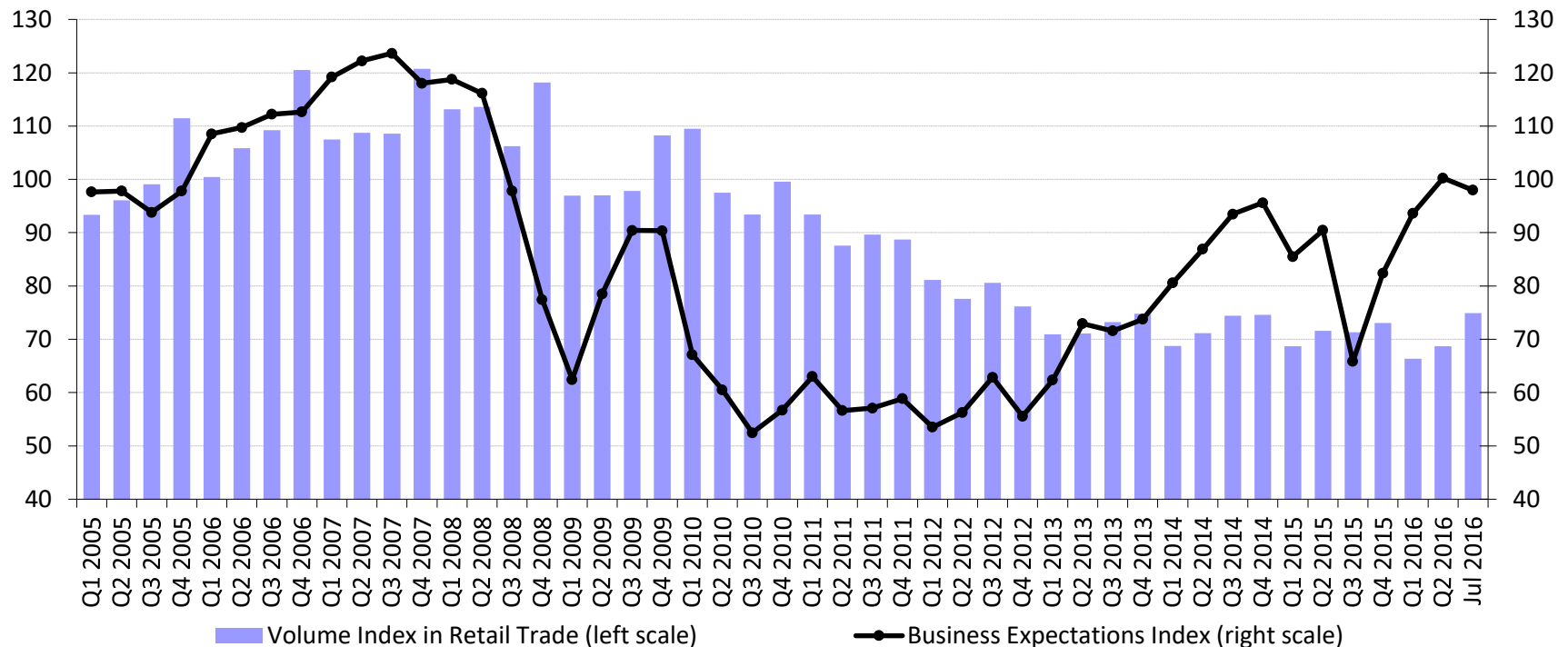


Sources: ELSTAT, Eurostat

1st half of 2016: +2.3%
1st half of 2015: +22.0%

Deterioration of Retail Trade, yet not uniformly across subsectors

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



Sources: IOBE, ELSTAT

Jan. – July 2016: -1.8%, against -0.9% in Jan. – July 2015.
Excluding fuel: -0.6%

...fuel, food, pharmaceuticals

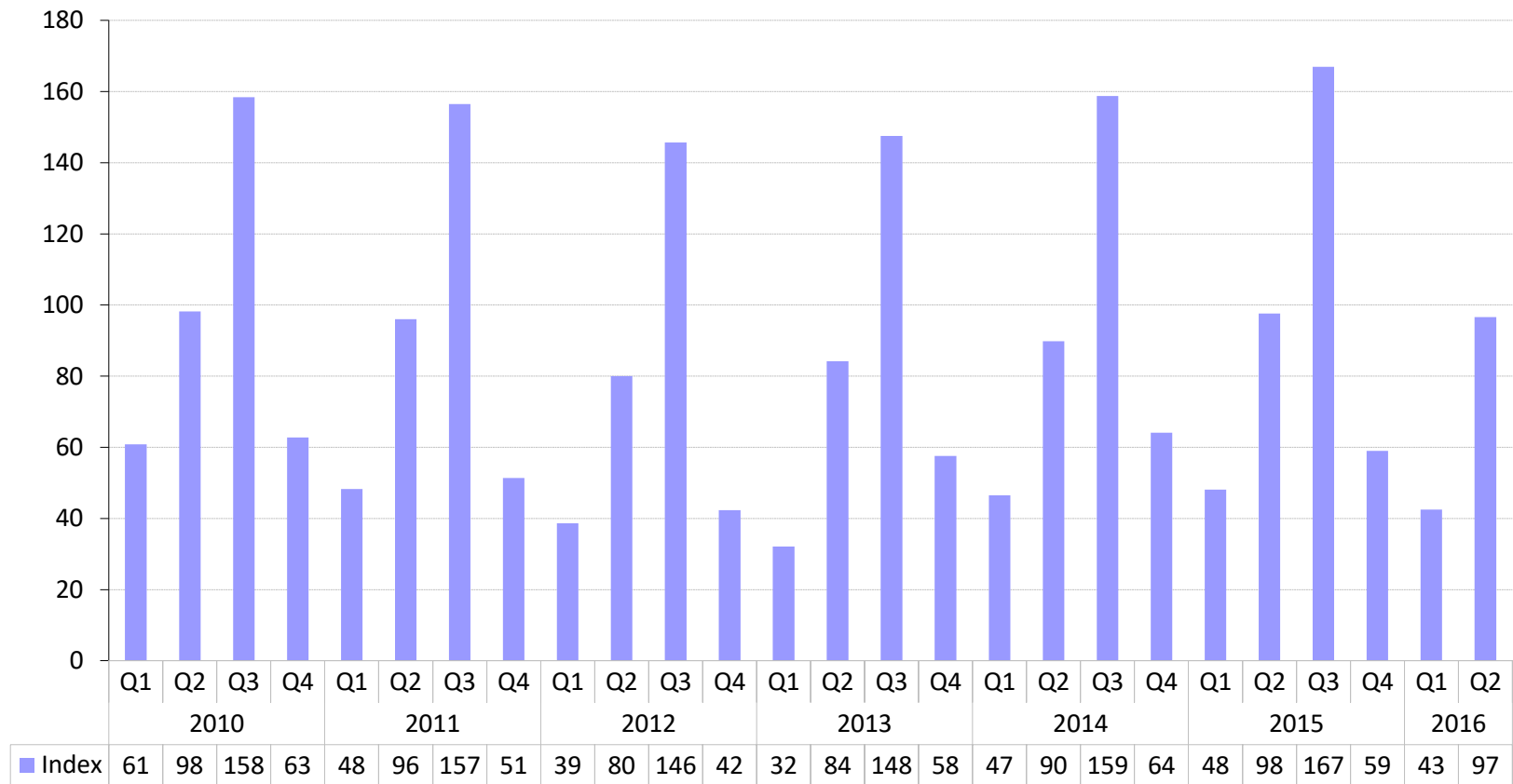
Volume index of Retail Trade (2010=100)

	Jan. – July 2014	Jan. – July 2015	Jan. – July 2016
Overall Index	-1.1%	-0.9%	-1.8%
Overall Index (except automotive fuel, 2000=100)	-1.7%	0.0%	-0.6%
Super markets	-0.9%	0.1%	-1.5%
Department stores	-5.6%	-5.2%	11.2%
Automotive fuel	1.7%	-0.4%	-4.8%
Food, Beverages and Tobacco	-4.9%	-5.8%	0.6%
Pharmaceutical products, Cosmetics	-3.6%	-0.9%	-4.2%
Clothing and footwear	6.8%	5.3%	8.7%
Furniture, electrical & household equipment	-2.2%	-3.7%	1.1%
Books, stationery, other goods	8.6%	4.9%	-3.6%

Sources: IOBE, ELSTAT

Various trends in Services

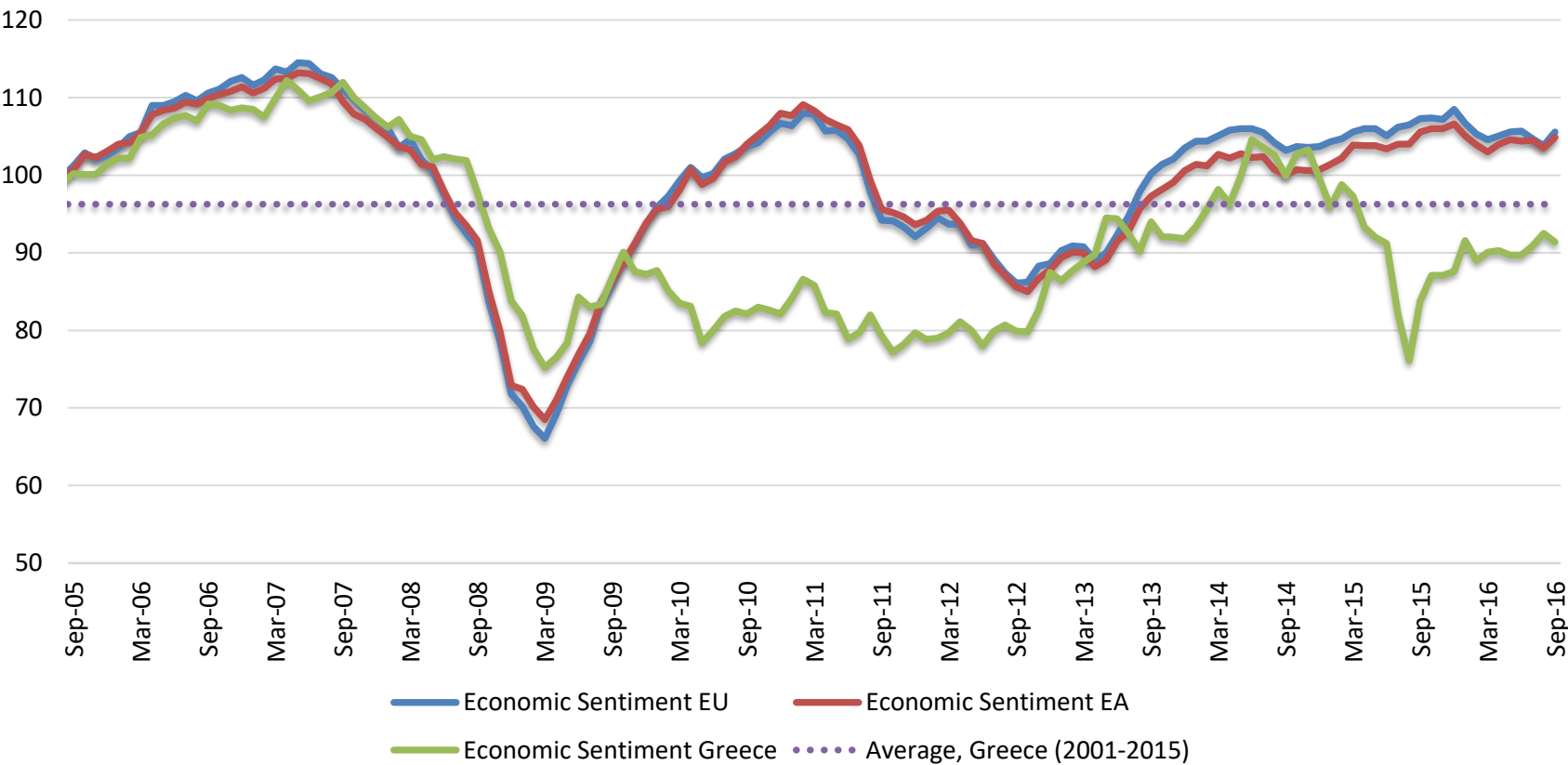
Turnover Index in Tourism (Accommodation and Food Services)



Sources: IOBE, ELSTAT

The economic sentiment in Greece improved slightly in Q3 2016, reaching a significantly higher level compared to a year earlier. In the Euro Area, the economic sentiment remained stable, while in the EU it deteriorated slightly

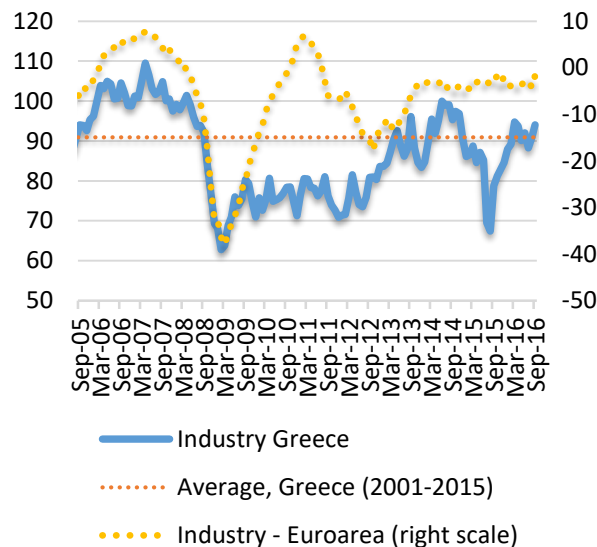
Economic Sentiment Indicator



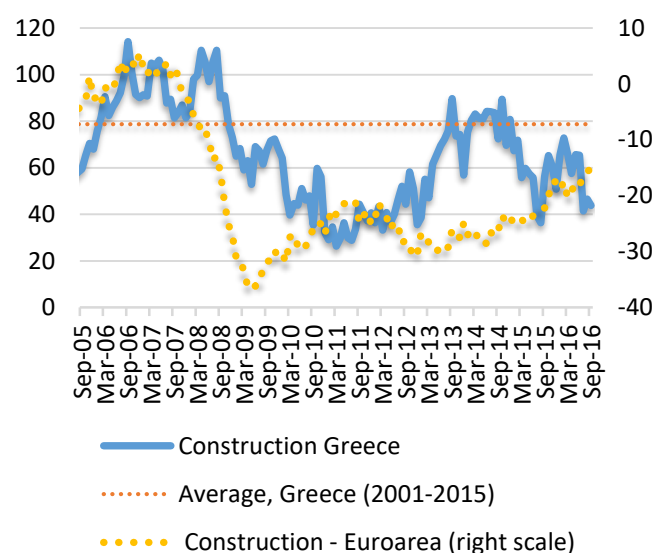
Sources: IOBE, European Commission

Business expectations in Services improved in Q3, but they deteriorated in the other sectors
Business expectations recovered compared with a year earlier in all sectors, except Construction

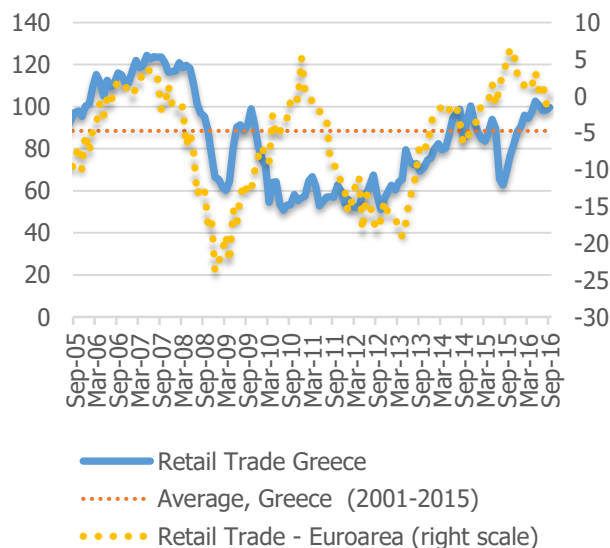
Industry



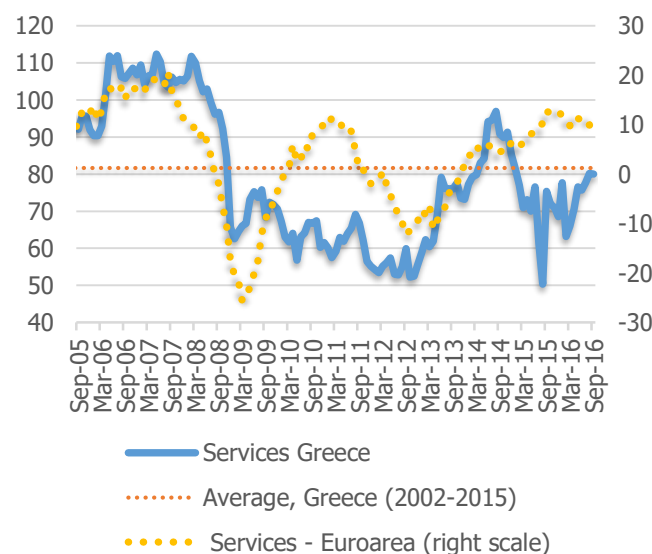
Construction



Retail Trade



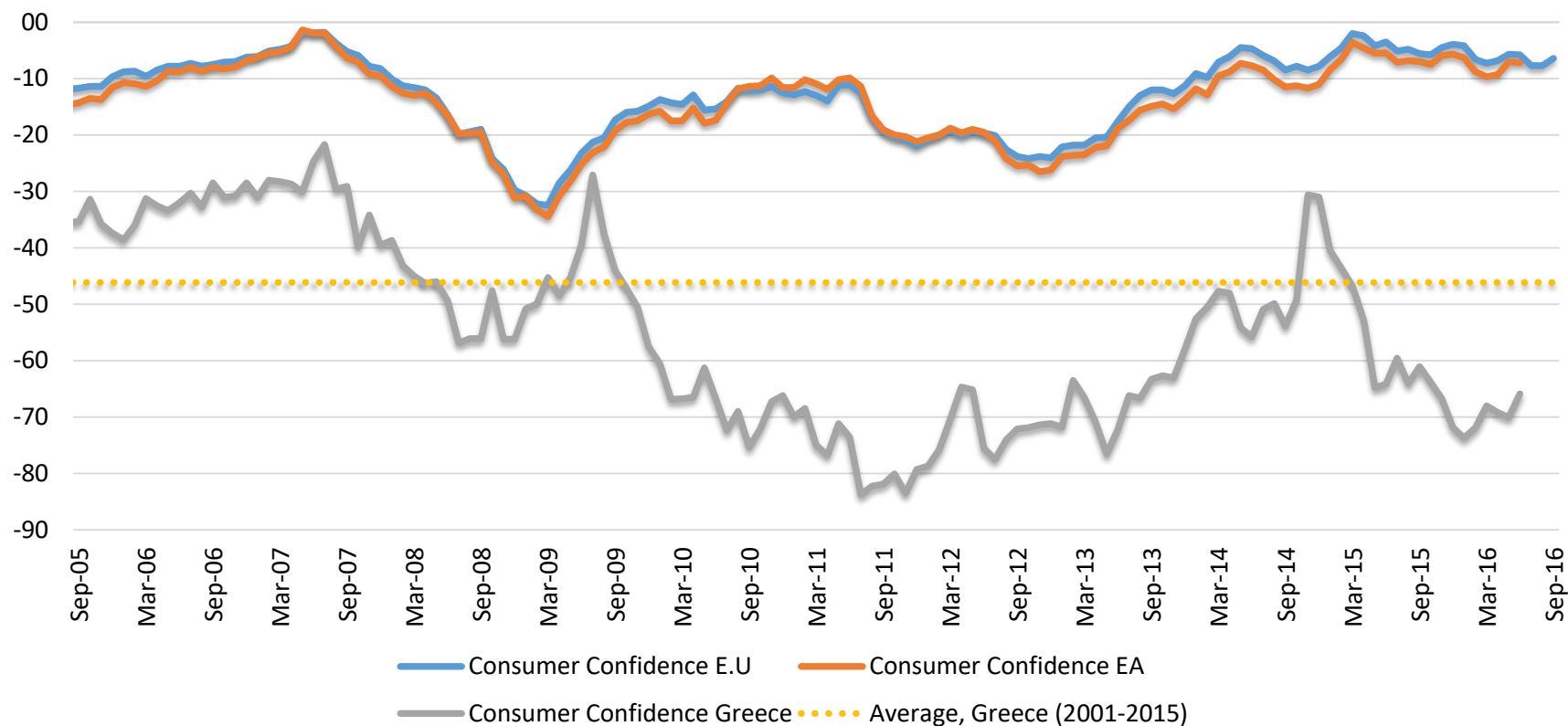
Services



Consumer Confidence in Greece improved in the third quarter, yet it was lower than a year earlier

It was stable in the Euro Area and it declined in the EU

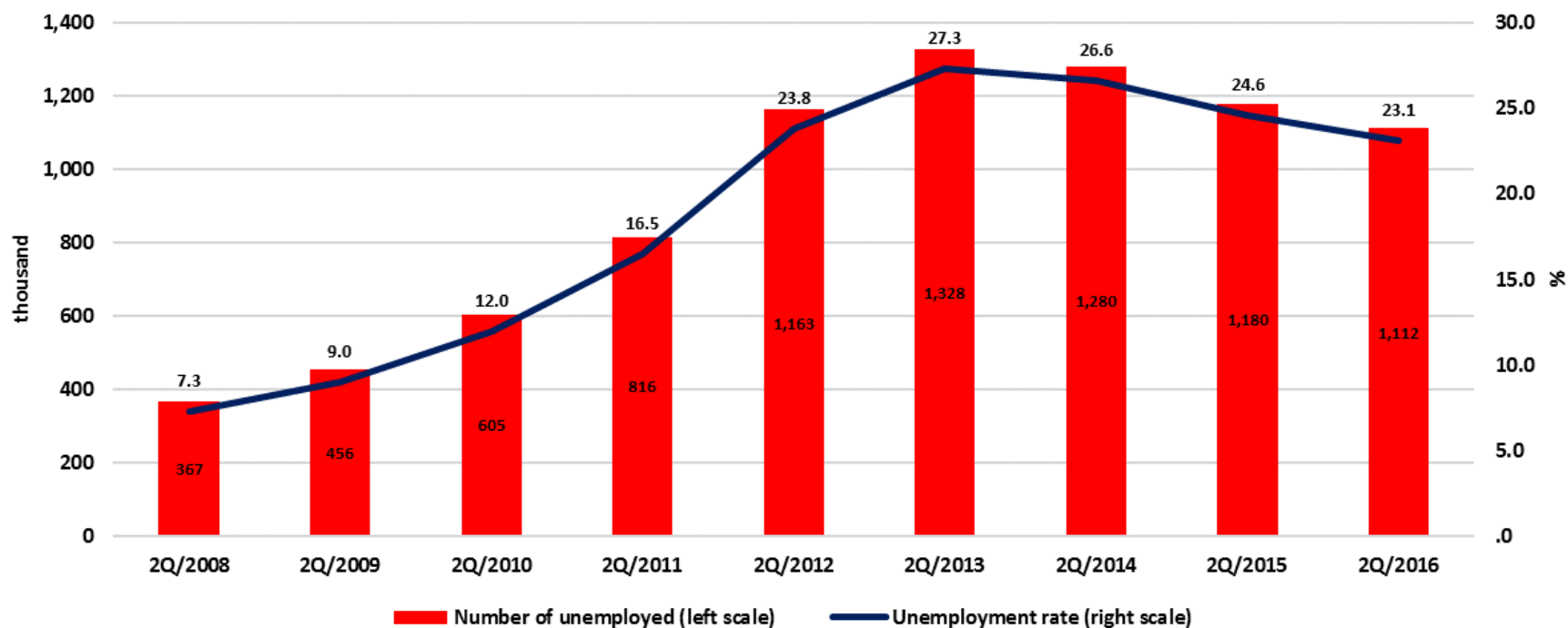
Consumer Confidence



Sources: IOBE, European Commission

Unemployment declined for the ninth consecutive quarter

Number of unemployed people and unemployment rate, 2008-2016

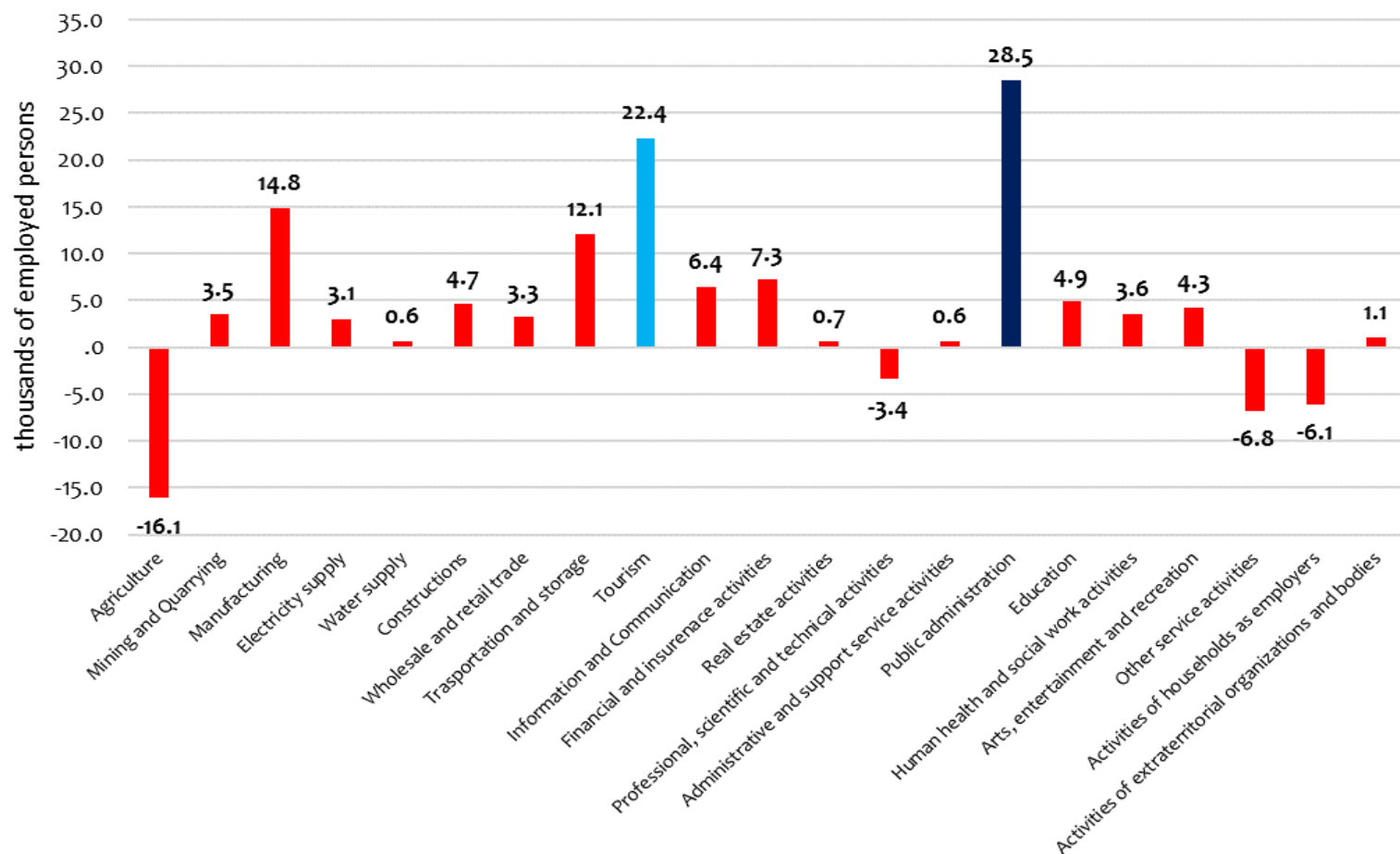


Source: ELSTAT

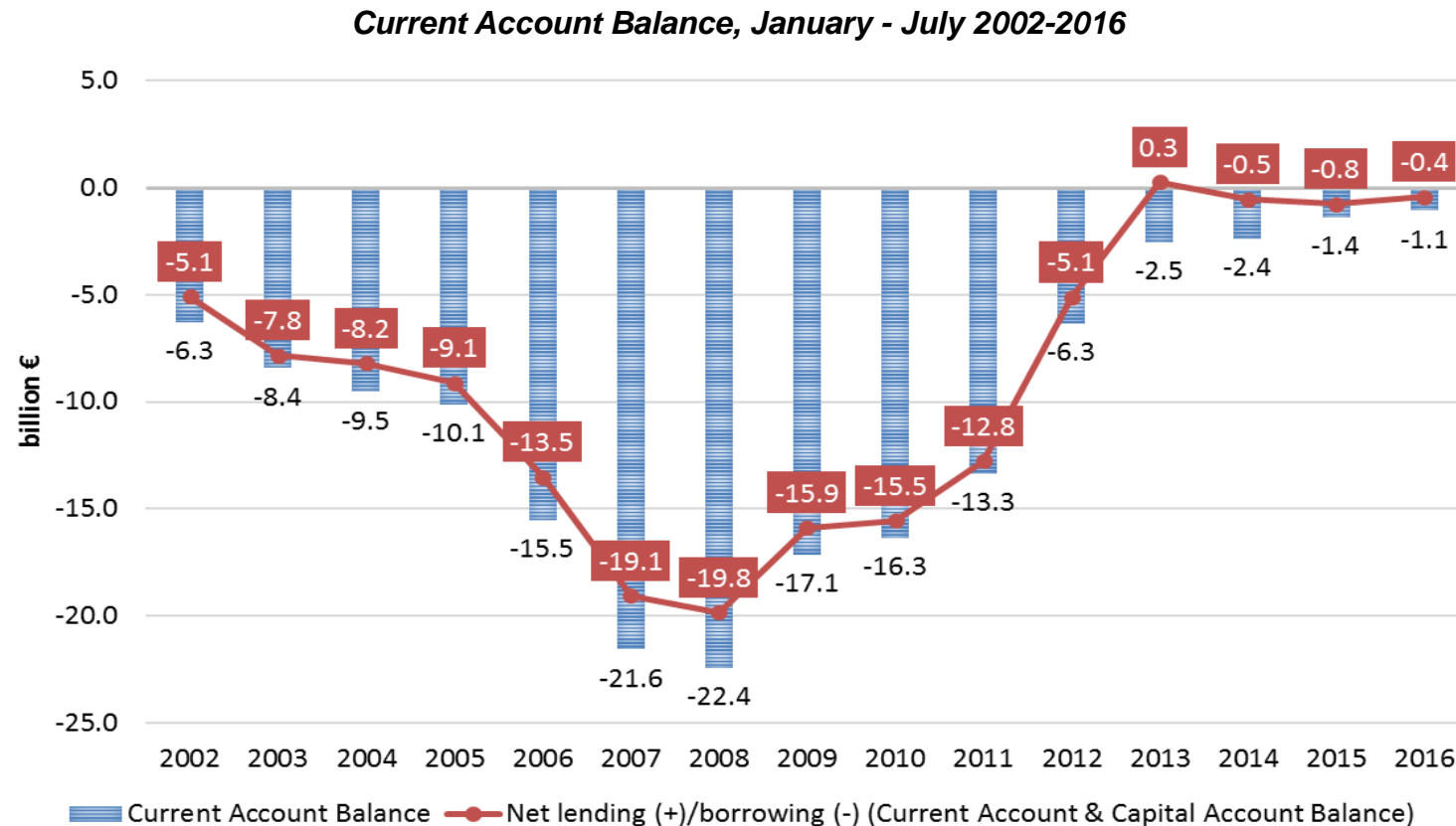
- The unemployment rate reached 23.1% (Q2/2016), from 24.6% in Q2/2015 and 24.9% in Q1/2016.
- Higher employment in 16 sectors / lower in 5 sectors. Indicatively: Electricity and natural gas supply (+18.7%), Public administration and defense (+9.1%), Accommodation services (+5.5%), Manufacturing (+5.5%), Construction (+3.5%), Professional and technical activities (-9.1%), Other services (-15.5%).

The public sector contributes significantly to increasing employment

Contribution to employment increase per sector 1st half of 2015 - 1st half of 2016



The Current Account Balance improved in the period January – July 2016...



Source: Bank of Greece

...with a reduced deficit in the balance of goods, and a reduced surplus increase in the balance of services
The borrowing needs of the Greek economy have been low over the past 4 years

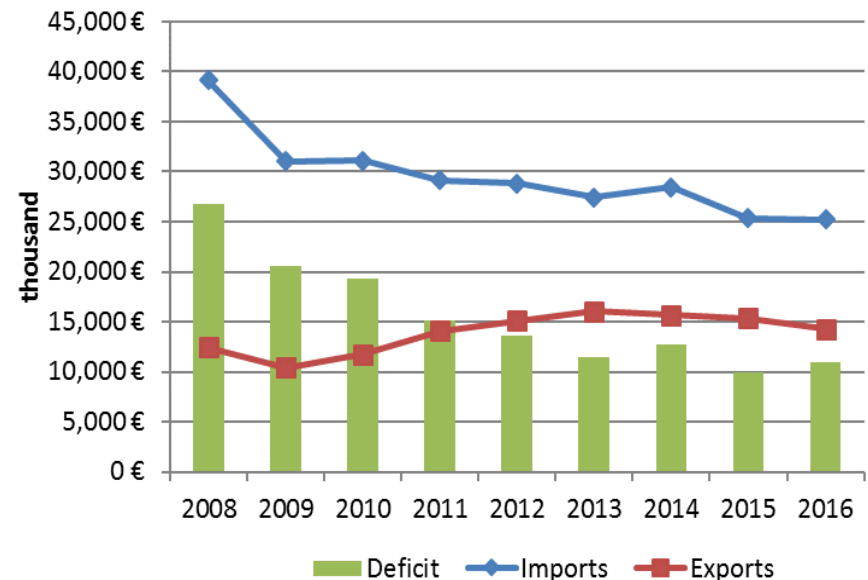
The deficit in the trade of goods increased by 8.7% in the period January - July 2016

January – July 2016:

- **Exports** : -7.2% (€14 billion) including fuel
 - **-1.3% (€10.7 billion) excluding fuel and shipping**
- **Imports**: -1% (€24.5 billion)
- **Trade deficit**: +8.7%
- **Strong decline**: Fuel (-22.5%), Raw materials (12.9%)
- **Increase**: Agricultural Goods (6.3%)

Markets:

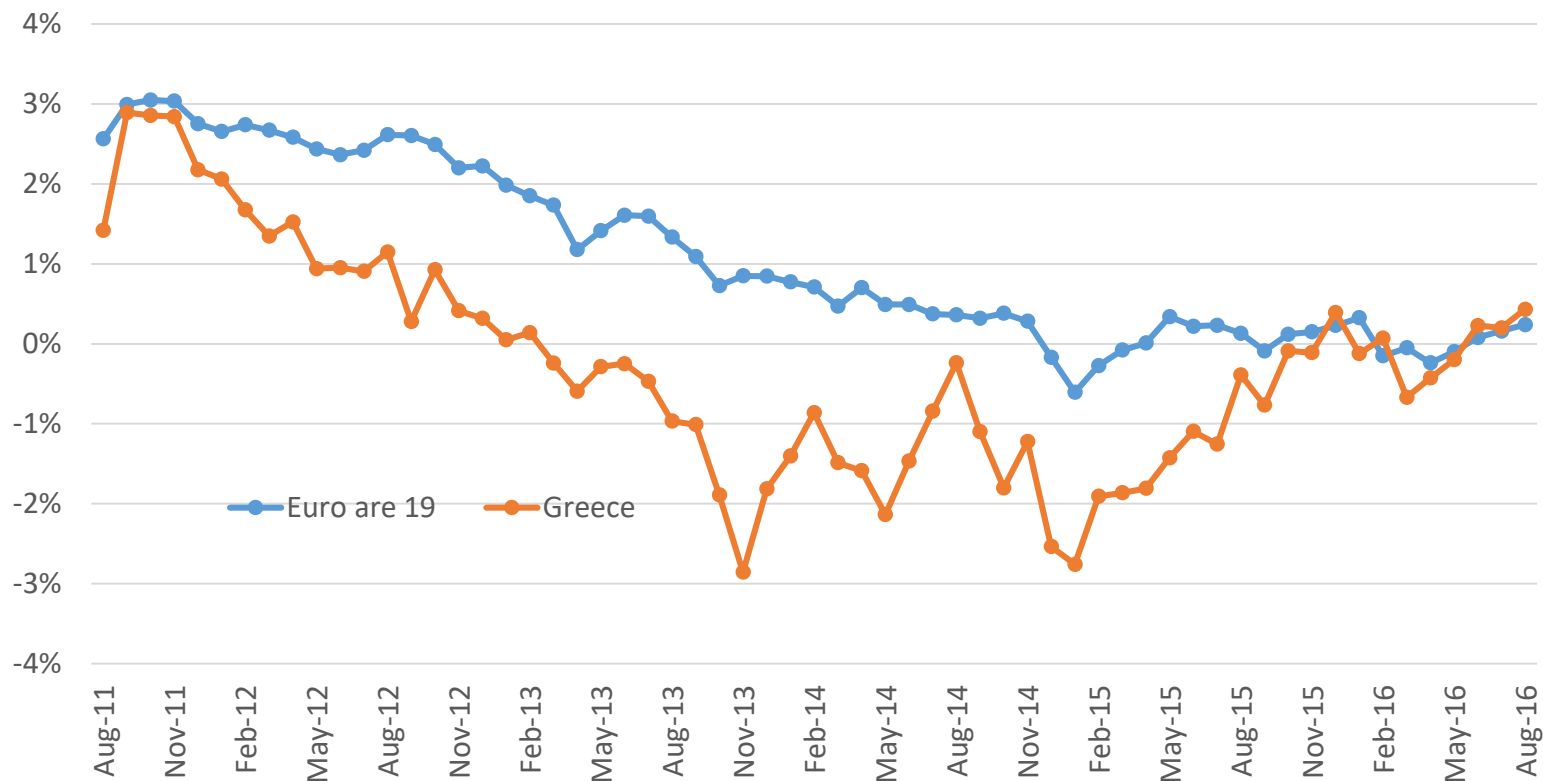
- **Losses**: E.A.(0.1%), EU-28 (0.3%), Turkey (34.4%), Finland (15.9%), Italy (7.7%), United Kingdom (5.5%), Bulgaria (6.8%), Croatia (15.5%), Russia (12.4%), USA (18.3%),
- **Increase**: Netherlands (22.8%), Spain (3.6%), Austria (4.3%), Portugal (5.2%), Germany (3.7%), Poland (11.4%), Czech Republic (3.7%), Romania (5.4%), China (39.1%)



Source: ELSTAT

Deflation recedes, but it is still high

Harmonized Consumer Price Index



Source: Eurostat

Weak decline of price levels in Jan. – Aug. 2016, approx. -1%

Upward trend of sub-indices for Health (+2.5%), Hotels (+2.6%) and Alcoholic beverages (+1.4%)

Medium-term developments

Mild improvement of the economic environment in Greece after the 1st evaluation of the Economic Adjustment Programme

- Decline of uncertainty due to the implementation of the 3rd Programme
- Increase in the deposits of businesses and households, deceleration of credit tightening to businesses, mild increase of the Economic Sentiment index
- It is positive for the Greek economy that there have not been significant repercussions from Brexit until now. However, the condition of the immigration problem is deteriorating.

The current easing of uncertainty does not imply that confidence in the Greek economy has been restored

Medium-term developments...

Serious concerns are still present:

- Managing Non Performing Loans, under the new regulatory framework: obstacle to decision making at least for 2017
- Rising burdens for households from increases in direct and indirect taxation, social security contributions, further cuts in pensions → The consumer confidence index is consistently lower than in the previous year
- Changes in corporate taxation for small businesses (businesses with 2nd class accounting registers), in dividend taxation, in corporate social security contributions
- Especially for professionals/freelancers, VAT increase, changes in the way social security contributions will be calculated and vagueness regarding the implementation of the new regulations → many businesses may switch to another legal form or may move headquarters abroad
- **Uncertainty concerns:**
 - Capital controls are still in place and it is still not clear when they will be lifted
 - Institutional confusion from political interventions, overlapping responsibilities

Medium-term developments...

If liquidity and growth prospects keep improving, the sectors that currently demonstrate strong growth potential can benefit

- Manufacturing: continuous, strong upward trend since April
- Construction: slight increase of output in the 1st half of the year due to public works. Investments will start in 2017, as a result of privatizations - concessions
- Tourism: mild decline of international receipts, consolidation of the significant gains in the period 2013 – 2015

Medium-term developments

Crucial developments in the near future

- Negotiations for the public debt – implementation of short-term relief measures (Eurogroup 05/25/2016) – IMF involved in the Programme
- 2nd evaluation of the Programme – new regulatory framework in the labor market
- Relations between Turkey and the EU and refugee flows

International economic factors

- Small increase of oil prices this year after the recent decision for production reduction. Mild increase of oil production next year.
- Relatively stable €/ \$ exchange rate in the remaining months of 2016 and in 2017

2016 Forecasts

- **Private consumption will rise in the 2nd half of 2016.** There will be significant private consumption growth, as a result of the fact that private consumption was particularly low in the same period a year earlier, but also as a result of a mild decline in unemployment. For calendar-year 2016, private consumption will decline by **0.3 to 0.5%**
- **Mild increase of public consumption** in the second half of 2016, contraction by 0.8% to 1.2% for calendar-year 2016
- **Increase in investment (≈ 10.0 -11.0%):**
 - Temporary sharp rise in investment in transportation equipment in Q2, due to new vehicle registration taxes
 - Technical effects of changed in inventories (increase this year – contraction last year)
 - Frontloaded implementation of the Public Investment Programme and a small increase in the related expenditure – Continuing higher activity in public works
 - The contraction of credit to businesses eased in the 2nd half of 2016 (deposits returned to Greek banks, the ECB reinstated the waiver regarding Greek bonds used as collateral in the Eurosystem)

2016 Forecasts

External Sector: technical neutralization of the effects of the capital controls

Increased exports in the period July - December, mainly exports of services (transportation – other services)

- Exports in calendar-year 2016 will decline ($\approx -5.5\%$)

Stronger increase of imports in 2nd half of 2016

- The decline of imports in calendar-year 2016 is expected to be at **-1.5% to - 2.0%**

Deterioration of external balance due to increasing imports

After the significant revision of the estimated GDP in the first quarter of the year, a milder recession (by 0.5%) is forecasted for calendar-year 2016

2016 Forecasts

Further unemployment reduction, yet slower

- Continuing expansion of employment in **Tourism – Manufacturing – Construction**, as in the 1st half of the year.
- The boosting effect of the **Public Sector** on employment will weaken
- The new measures taken by the government (taxation etc.) will affect private consumption, as well as employment, in sectors providing goods and services for consumers (**Retail Trade**)
- Professionals and other freelancers will go through a transitional period in the fourth quarter, as a result of the changes in taxation and in the calculation of social security contributions that will affect them from January 2017

Unemployment rate slightly lower than 24% in calendar-year 2016

Deflation will continue in calendar-year 2016

- Prices will keep falling in Q3 at the same rate as in the previous quarters, despite the VAT increase
- In Sept – Dec 2015 the price reduction slowed down → this favors a slight strengthening of deflation in the last months of 2016

Deflation by 1.1% in calendar-year 2016

Initial forecasts for 2017

- **Private consumption increase (by approx. 1.0 to 1.5%)** mainly due to continuous unemployment reduction
 - Private consumption increase will be held back by the effects of the fiscal measures taken in 2016, and the ones that will be applied from 1/1/2017
- **Mild expansion of public consumption**
 - The fiscal adjustment will continue, mainly with higher taxation revenues and, to a smaller extent, with expenditures reduction (Draft State Budget 2017)
- **Investment boost (approx. 8-10%) from:**
 - Works for projects related to completed privatization-concessions
 - Lower energy cost (abolition of excise tax on natural gas for industrial use)
 - Consistently high demand for exports in several manufacturing sectors

But also:

- Negative effects from corporate tax increase, changes in direct taxation – social security contributions for professionals/freelancers, higher property taxes
- A restructuring of Non-Performing-Loans to businesses may be brought forward

Initial forecasts for 2017

External Sector

Exports expansion as a result of further easing of restrictions regarding capital transfers and acceleration of European and global trade (+5%)

Any increase in domestic demand (consumption and investment) will be directed to a great extent to demand **for imports (+6-7%)**

- Note: In 2014 domestic demand increased by 1.2%, resulting to an increase of imports by 7.8%

Recovery prospects in 2017, by 1.5-2.0%

Continuation of unemployment decline: ~22.5%

Rising prices (oil price increase, indirect taxation, strengthening demand)
→ **CPI increase by 1.3%**

Presentation of IOBE study:

The economic impact of the development of
the Hellinikon area

Purpose of the Study

Purpose of the study

Assessment of the impact on the Greek economy from developing the area of Hellinikon and the coastal area of Agios Kosmas, on the basis of the terms of the contract for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A.

Economic Effects

Effects in the area around Hellinikon

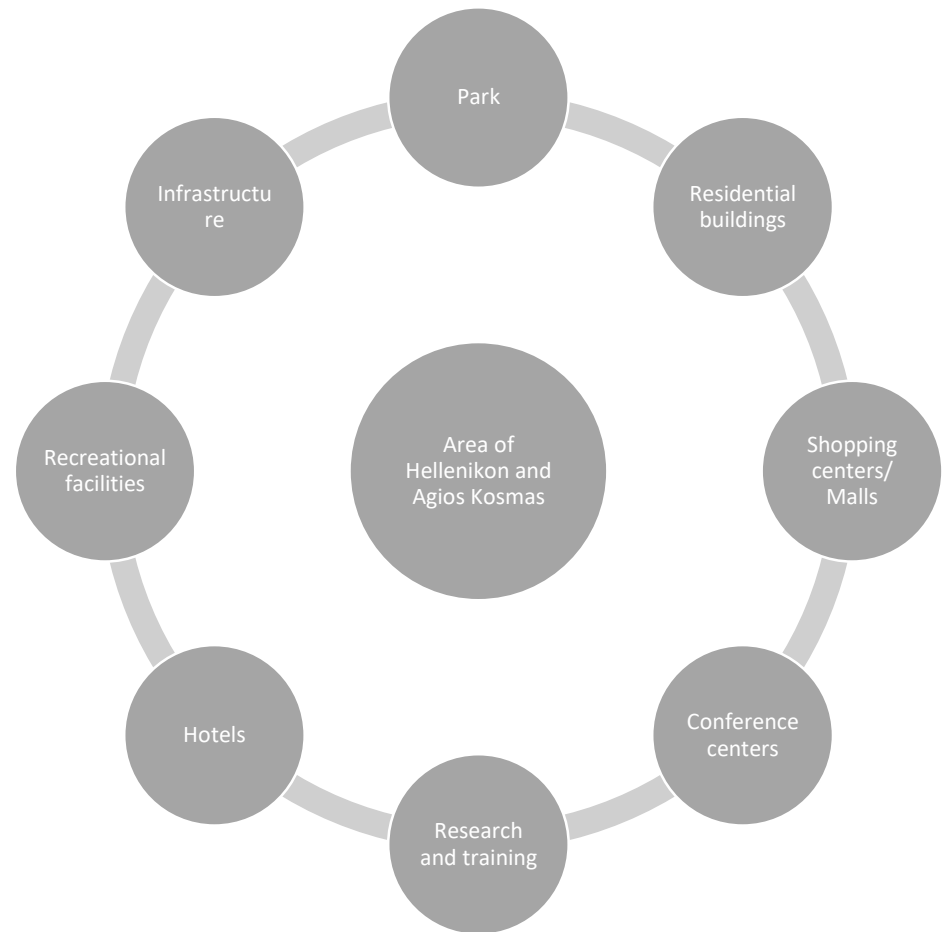
- Boosted demand for products and services in the area of project
- Increased public revenues from the construction and functioning of the planned facilities
- Increased employment in the planned facilities

Impact on the Greek economy overall

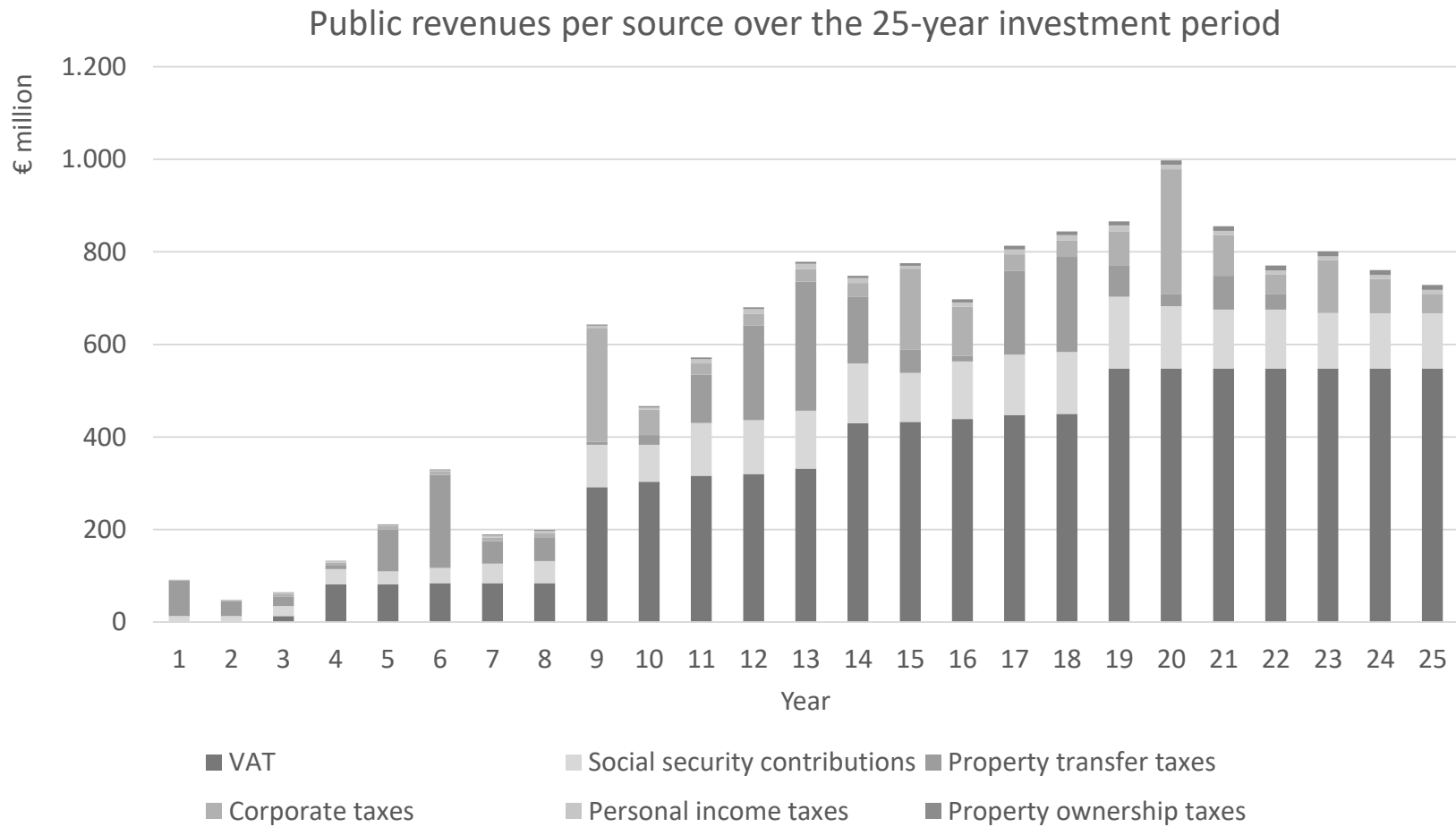
- Public revenues from selling/leasing public property
- Positive impact on the Greek GDP due to increased demand
- Higher employment, higher household incomes, gains in terms of know-how, and improved productivity

Development of the area of the old airport at Hellenikon from “Hellinikon Global I S.A.”

- Old airport and the area of Agios Kosmas
 - Total area 6.2 million m²
 - Metropolitan park to be created 2 million m²
- Price of shares: €915 million
- Expected further investments: €7.2 billion
 - €1.5 billion for developing park facilities and infrastructure



Gradual increase of public revenues (on average 563 million euros annually for 25 years).

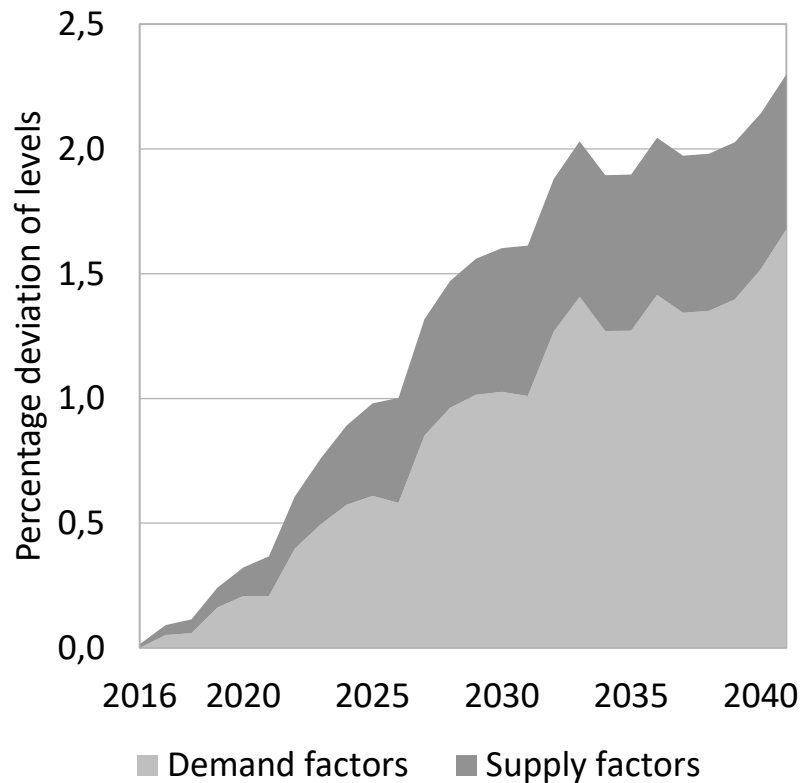


Source: IOBE estimations

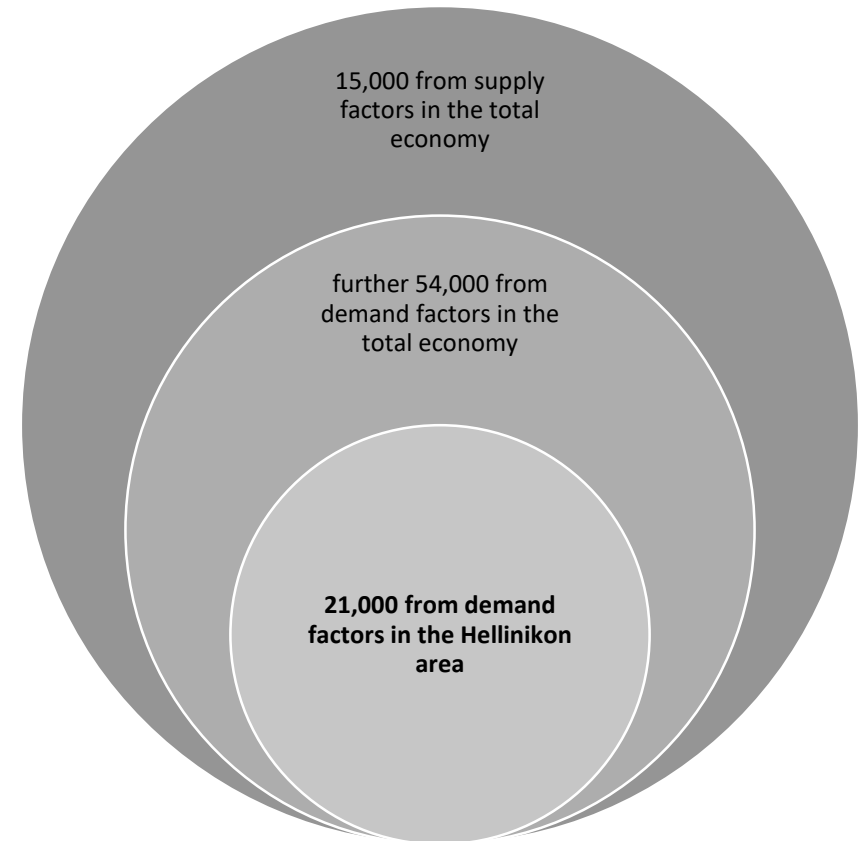
Total Revenues: €14.1 billion

Macroeconomic effects: higher GDP by €7.4 billion (2.4%) and 90,000 jobs in 2041

Total impact on GDP from the demand and supply factors



Impact on employment 2041



Source: IOBE estimations

Note: To assess the impact on employment, we run estimations of employment trends in Greece under two scenarios: a scenario under which the investment in Hellenikon takes place and a scenario under which there is no such investment. The difference of employment estimations between these two scenarios is the impact of the project on employment.

With the revenue from selling the shares of Hellinikon S.A., the Government will be able avoid taking fiscal measures that would yield equivalent budgetary results

- Selling the shares of Hellinikon S.A.:
 - The loss of 10,000 jobs will be avoided
 - A decline in GDP by 0.2 percentage points (€0.3 billion) in the first year of contract will be avoided
- Important medium-term contribution of the project to public debt reduction
 - The debt to GDP ratio will be reduced by 15 percentage points in the end of the project

Conclusions

- The area of the old airport at Hellinikon is a particularly advantageous asset both at the national level and globally
- The development of the area is expected to have many positive effects on the Greek economy and society
- Selling the shares of Hellinikon S.A. to Hellinikon Global I S.A. and subsequently carrying out the project of developing the area can greatly contribute to boosting confidence that Greece is a safe destination for investment

Thank you!

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