Quarterly Report on the Greek Economy
03 / 20

October 22, 2020

ΙΔΡΥΜΑ ΟΙΚΟΝΟΜΙΚΩΝ & ΒΙΟΜΗΧΑΝΙΚΩΝ ΕΡΕΥΝΩΝ

Overview of the report

The crisis continues, preparing for the recovery

- The global health crisis will not be limited to this year but will extend to a significant part of the next.
- There are different trends in the global economy. China is recovering well while in Europe and the US, recession and uncertainty still prevail.
- Some economic sectors are growing, especially those related to new technologies. Others have been deeply affected, especially those based on direct human contact.
- In the Greek economy there are three trends. Firstly, the trend caused by the current crisis. Secondly, the dynamics that have been created over the past ten years because of the financial crisis and the accompanying economic adjustment programs. Thirdly, the expectation of support from the European Union, especially through the special fund created.

The crisis continues, preparing for the recovery

- Exports of goods, however, show remarkable resilience
- Large-scale monetary and fiscal policy interventions continue to be implemented
- The stabilizing European framework is a cornerstone for fiscal and other domestic policies
- However, this is a necessary not a sufficient condition to maintain the credibility of the country's public finances in the future
- Planning for the national growth plan should be appropriately targeted. Resources should not be used to strengthen the current growth model of the economy. Instead, they should be used to support the necessary infrastructure and structural changes to express a new model of a more open economy.

Global economy: The recession this year is slightly milder than expected; smoother recovery expected in 2021

- The **pandemic** continues to hinder economic activity worldwide,
  - Gradual **recovery** after the strong recession in Q2
  - Thus far, **the fiscal and monetary interventions** implemented in developed economies have restrained the effects of the pandemic
  - Inability of **developing countries** to implement similar policies
  - Uncertainty remains; **second wave** of the virus now spreading in many countries
- **Q2/2020:** GDP change of -11.7% in OECD countries, from -0.9% in the previous quarter
- IMF forecast for **global recession of 4.4% in 2020** (0.8% lower than the June forecast), with a milder recovery of 5.2% in 2021 (from 5.4%)

Global economy:
Medium-term challenges

Globally

- New spread of COVID-19
- There is still optimism in the financial markets
- Differences between countries in the speed and quality of recovery are expected

Europe

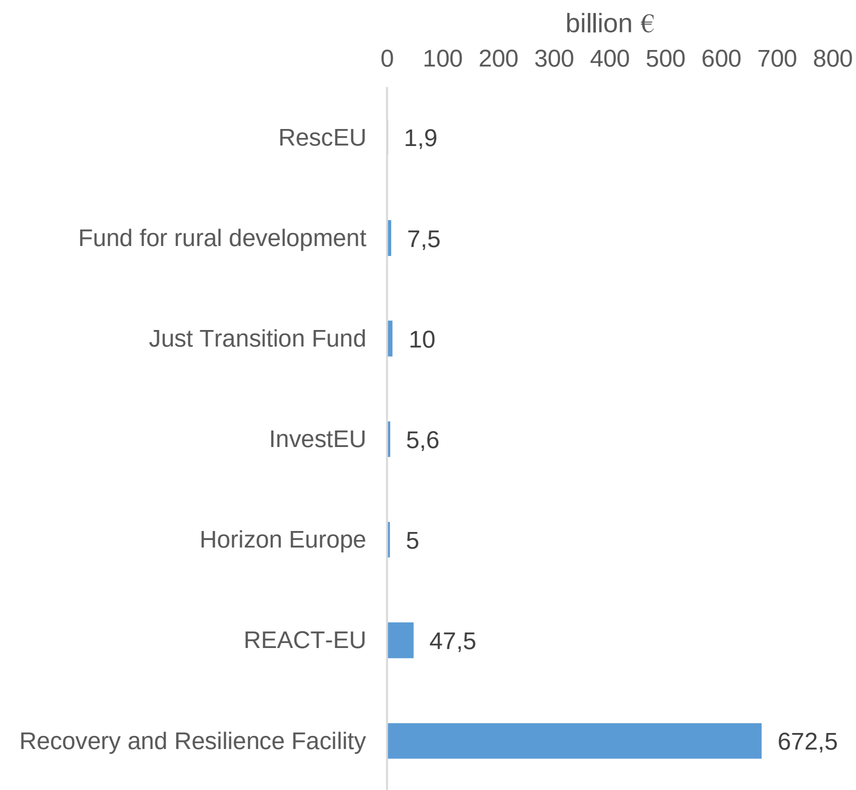
- Challenges regarding the health crisis:
    - New outbreak of COVID-19; different magnitude between countries
    - Implementation of policies to boost EU economies (e.g. European Recovery Fund and PEPP)
- Sectoral disruptions; tourism and air transport have been affected the most
- Risk of a new debt crisis because of the burdened fiscal balances
- Britain-EU relations after Brexit

The European Commission proposed a broad plan for recovery in May 2020

A broad package of interventions was proposed, of € 1,824.3 billion total. It combines the Multiannual Financial Framework (MFF) 2021-2027, of €1,074.3 billion, and an emergency financing instrument "NextGenerationEU" (NGEU), of €750 million, (a.k.a. the European Recovery Fund (ERF) in Greece).

- The package will mainly support **investments in green growth and digital transition.**
- ERF resources will come from **borrowing funds** from the capital markets; **borrowing will stop by the end of 2026.**
- The loan funds can be used **for loans totaling up to €360 billion and grants of up to €390 billion**.
- **Legal commitments** for ERF programs are due by December 31st, 2023. Relevant **payments** will be made by **December 31st, 2026**.
- **In total, Greece is expected to receive €32 billion from NextGenerationEU, of which €19.3 billion are designated for grants and €12.7 billion are designated for loans**

Distribution of NextGenerationEU budget



Source: European Council, Note 21 July 2020, EUCO 10/20

The Recovery and Resilience Facility (RRF) is the central financing tool of NextGenerationEU (89.7% of resources)

Member States should draw up National Recovery and Resilience Plans (NRRP) in order to receive financial support through the RRF and submit them by the end of April 2021

The National Recovery Plans include reform and investment programs, relevant targets, milestones, and estimated costs up to 2026

They will be based on priorities in the context of the European Semester. More than 37% of the funds should be related to green transition and at least 20% to digital transformation.

Fiscal support measures implemented as of February 1st, 2020 are eligible for aid.

The funds will be disbursed if the implementation of the projects is in line with the milestones and objectives set out in the NRRP.

October 2020
Draft NRRP

April 2021
Final NRRP

Gradual disbursement of resources based on milestones

Source: European Council, Note 21 July 2020, EUCO 10/20

Greece: Strong recession in Q2/2020 due to the implementation of public health measures

Q2/2020 GDP change: **-15.2%,** versus -0.5% in Q1/2020 and +2.8% in Q2/2019. However, the change is close to the euro area average (-14.7%)

Major changes in GDP components:

- Exports declined by 32.1% because of the tourism lockdown (from +5.2% in 2019)
  - Mainly from a very large drop in service exports (-49.4%, from +6.9% a year ago). Significantly smaller decline of goods exports (-15.4%, from +4.7%)
  - Smaller decrease in imports (-17.2%, from +3.9%), which worsened the external balance
- Household consumption spending shrank by 11.6% (from +0.1% last year)
  - Public consumption spending declined, despite the emergency support measures, due to its high level in the same quarter last year (-3.2%, from +9.8%)
- Investment fell by 9%, following a slight increase a year ago (+2.8%)
  - Fixed capital formation was reduced by 10.3%, following a decrease of 5.2% in the same quarter of last year. Stocks expanded slightly more than a year earlier (+€67 million)

State Budget: below targets in January – August period due to the pandemic

- **State Budget balance: deficit of €9.7 billion, against a deficit target of €2.9 billion**
- **Primary balance: deficit of €5.5 billion, against a surplus target of €1.15 billion**

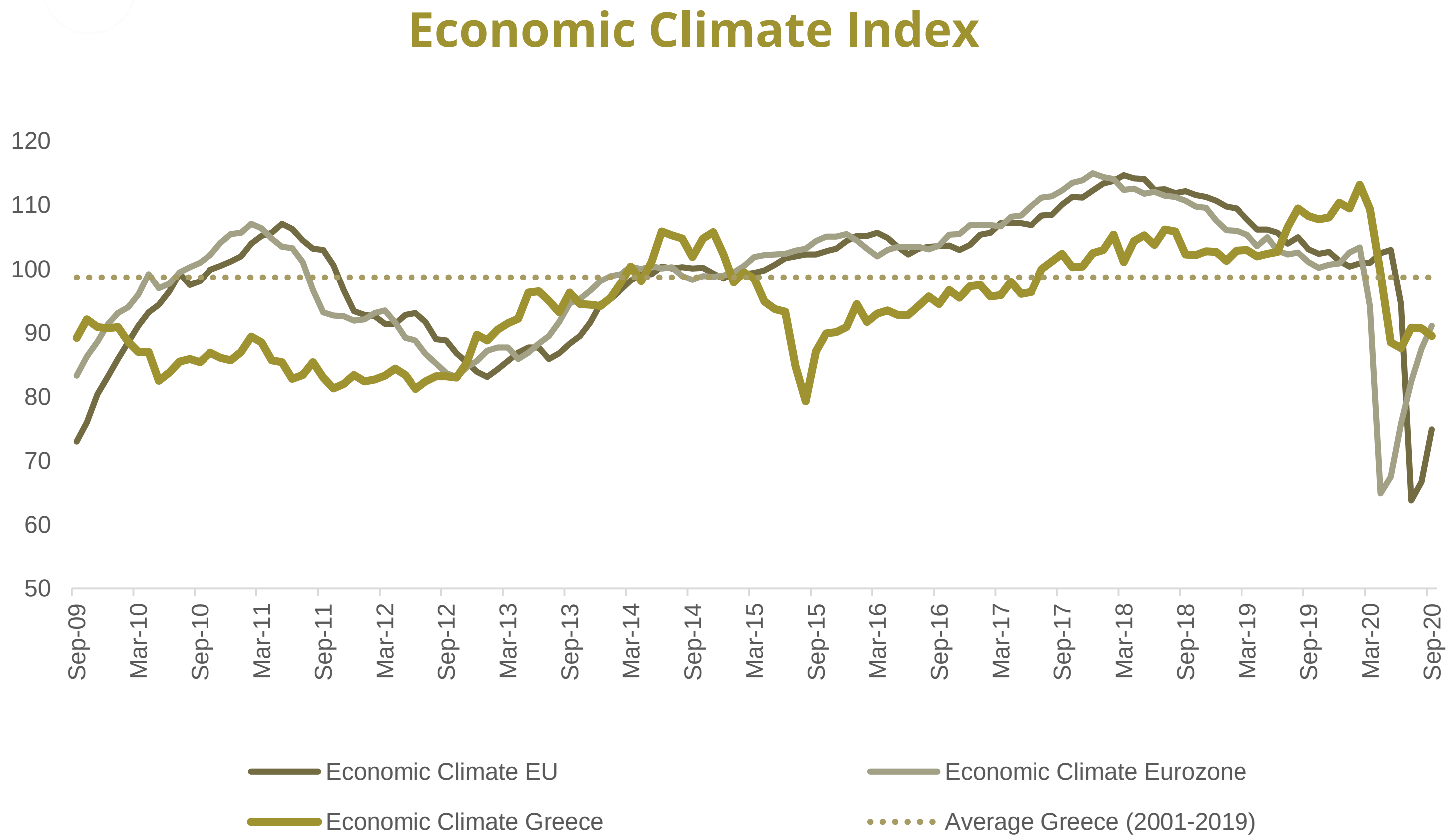
- Below target mainly because of higher expenditure (+€4.4 billion) due to:
  - More transfers (€3.1 billion) for household support measures, and higher expenditure for the Public Investments Program (+€1.88 billion)

- Less revenue (-€2.4 billion) due to:
  - Lower VAT receipts (-€1.9 billion), lower income tax payments (-€655 million), and fewer excise duties receipts (-€312 million)

Trends in short-term indicators of economic activity

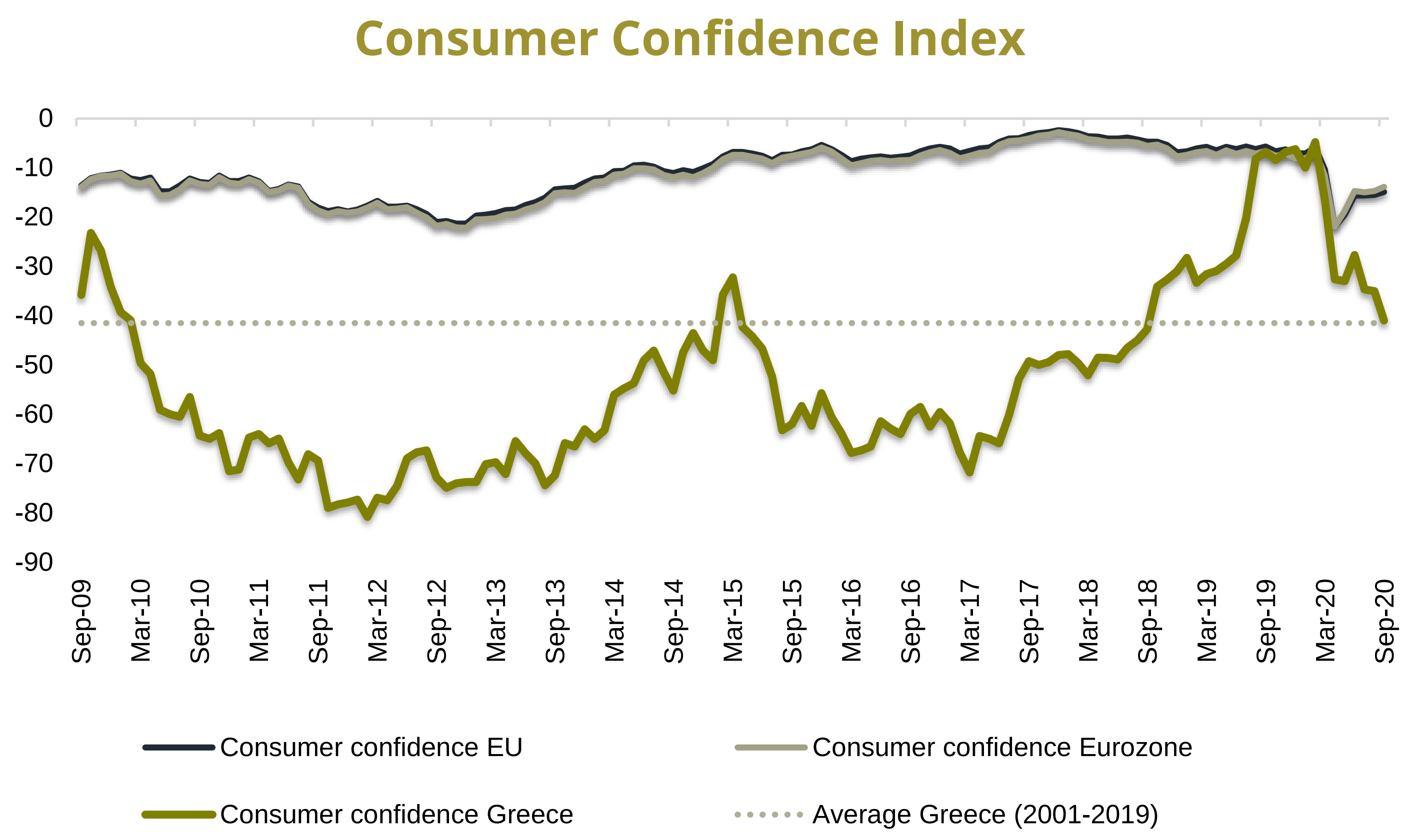
Industry	• In the first eight months of 2020, industrial production decreased by 3.9%. In 2019, it had increased by 0.5%. It dropped by 7.4% in the second quarter of 20200, while a year ago there was an increase of 2.4%. • Eurozone (Q2): -20.7%, versus -1.0% a year ago
Construction	• Large decline in Construction in the second quarter (-26.6%). There was an increase of 7.0% in the same period last year • 18.6% decline in Building activity in Q2. Large losses in Civil Engineering (-31.3%)
Tourism	• Sharp decline – turnover losses of 64.6% in Q1, following a 6.0% decrease a year ago. 84.6% decline in Q2.
Retail Trade	• Small decrease of 4.1% in the January-July 2020 period in Retail trade against a small decline of 0.9% in 2019

Small decline of the Economic Climate Index in Greece in the third quarter of 2020 (90.3 units, down from 91.8 in the second quarter)



Sources: IOBE, European Commission

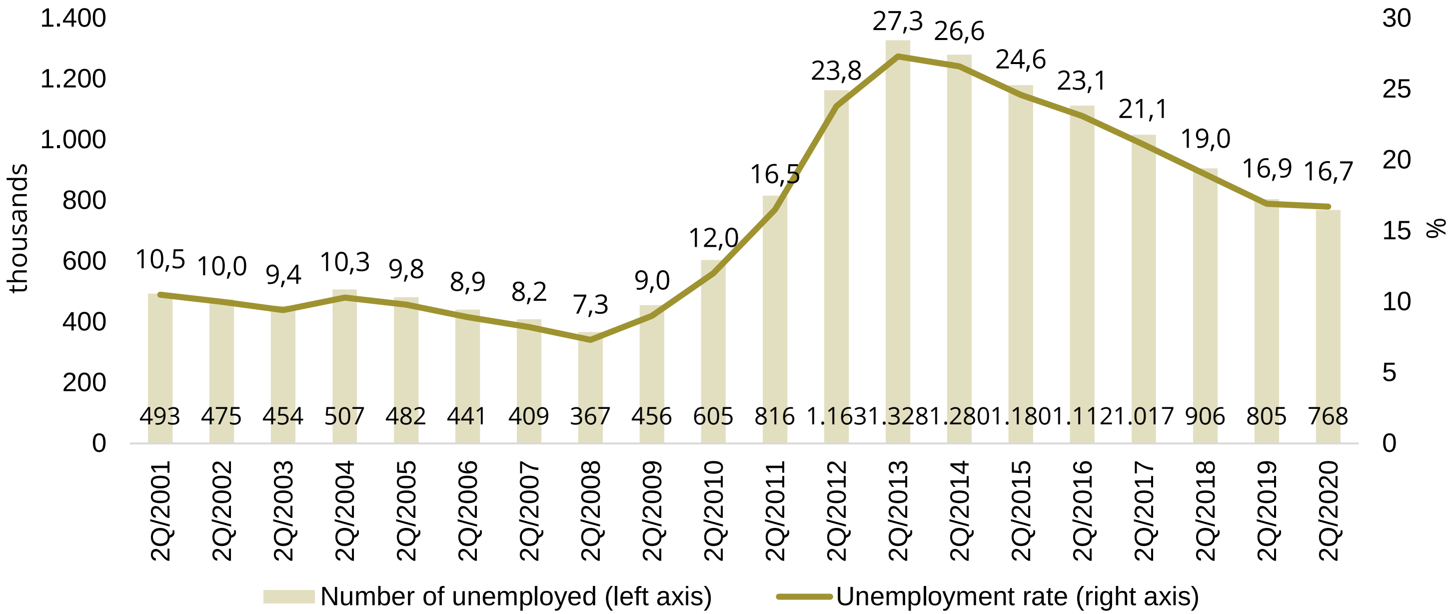
Small decline in Consumer Confidence in the third quarter compared to the second quarter (at -36.9 units). Significantly lower than last year (-11.4)



Sources: IOBE, European Commission

Decrease in unemployment in Q2/2020 compared to Q2/2019 but increase from Q1/2020

Number of unemployed and unemployment rate in Greece

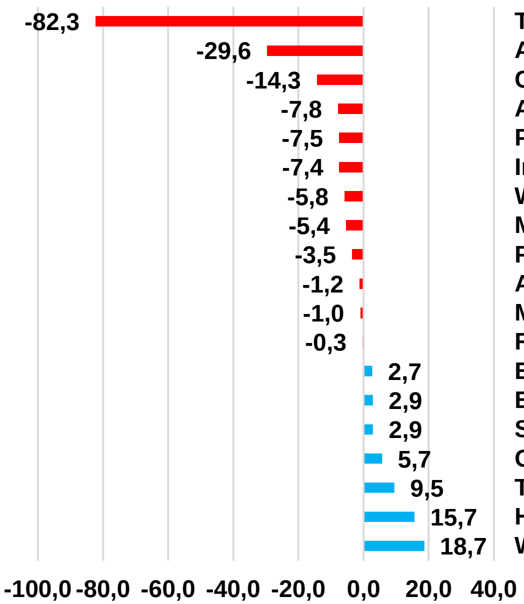


Source: ELSTAT

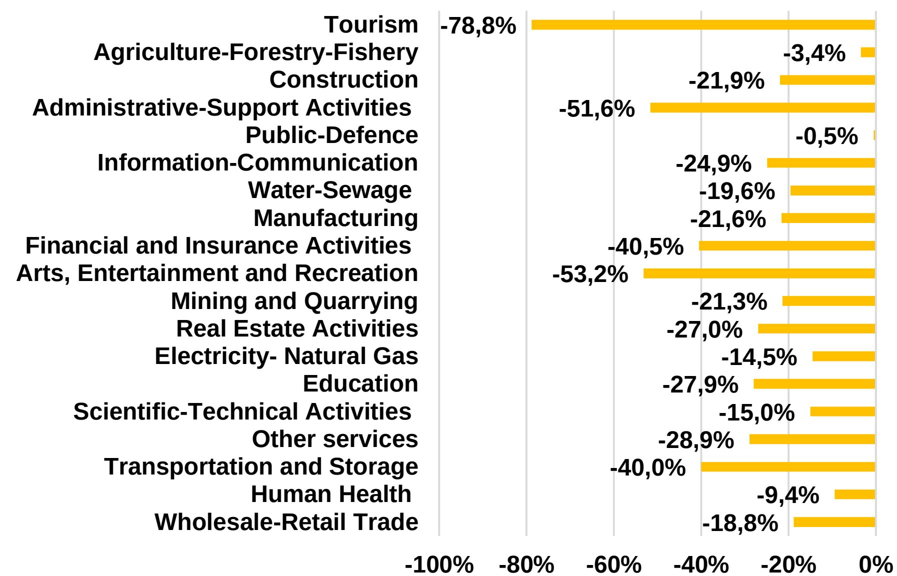
- **Decrease in the unemployment rate in Q2 compared to a year ago (16.7% from 16.9%).** However, it was 0.5 percentage points higher compared to Q1/2020 (16.2%)
- Unemployment did not increase as much from **the increase of the inactive population** (+109.2 thousands from Q2/2019)
- **Employment increased in 7 sectors.** Indicatively: Wholesale-Retail trade (+18.7 thousands), Health and social care (+15.7 thousands), Transport-Storage (+9.5 thousands)
- **Employment declined in 14 sectors.** Indicatively: Tourism (-82.3 thousands), Primary sector (-29.6 thousands), Construction (-14.3 thousands)

Effects of COVID-19 on employment in Q2/2020

Change in the number of employees (Q2 2020/2019)



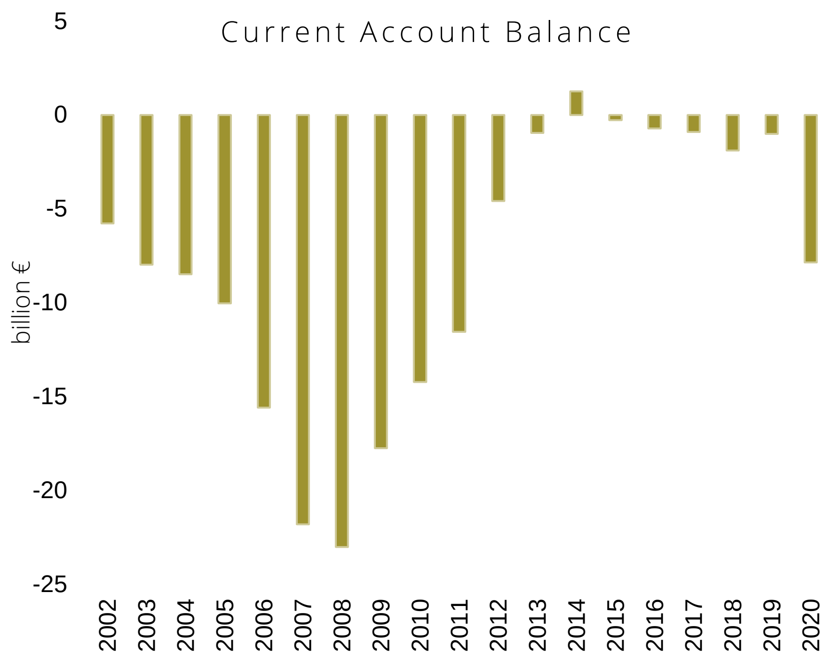
% chage in turnover (Q2 2020/2019)

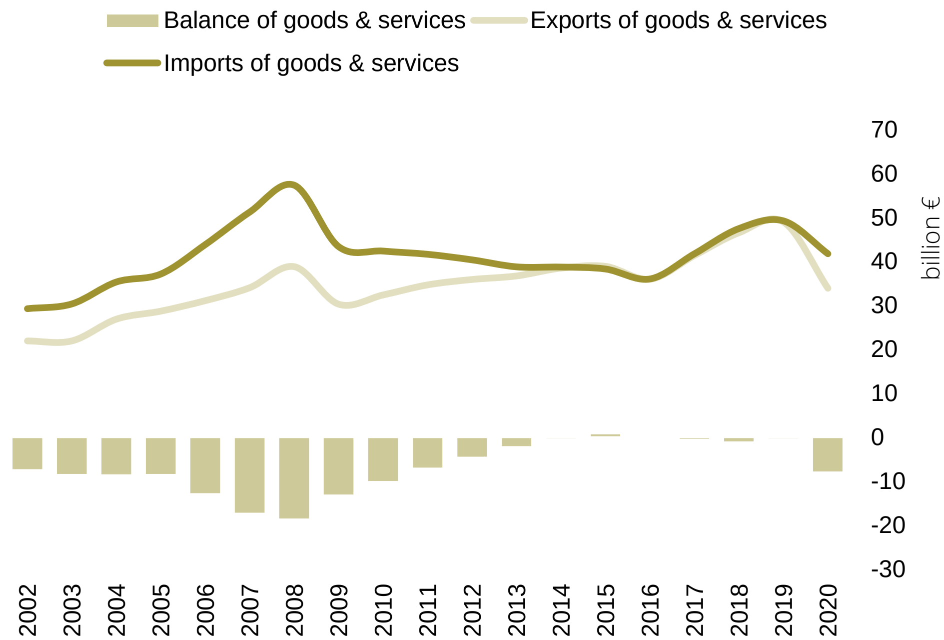


Source: ELSTAT

- There is no correlation between trends in employment and activity (e.g. Wholesale – Retail trade, Transport - Storage, Primary sector)
- Sectoral employment also appears to have been affected by policy interventions (e.g. rise in Wholesale – Retail Trade). However, this is not true in all sectors (e.g. Tourism)
- The hiring/firing balance in Q2/2020 (ERGANI) was significantly worse compared to a year ago. However, it was still positive because there was a large decrease in layoffs compared to last year (-205.2 thousands) ➔ effect of measures to support employment
- The percentage of people teleworking doubled in Q2/2020 compared to Q2/2019 (10.3% vs. 5.3% of employment)
- The share of part-time employment increased marginally in Q2/2020 compared to a year ago (9.2% from 9.1%) ➔ no obvious effect from the pandemic

The current account deficit increased to €7.9 billion in the first 8 months of 2020 from €1.0 billion in 2019
Larger decrease in exports/receipts than in imports/payments

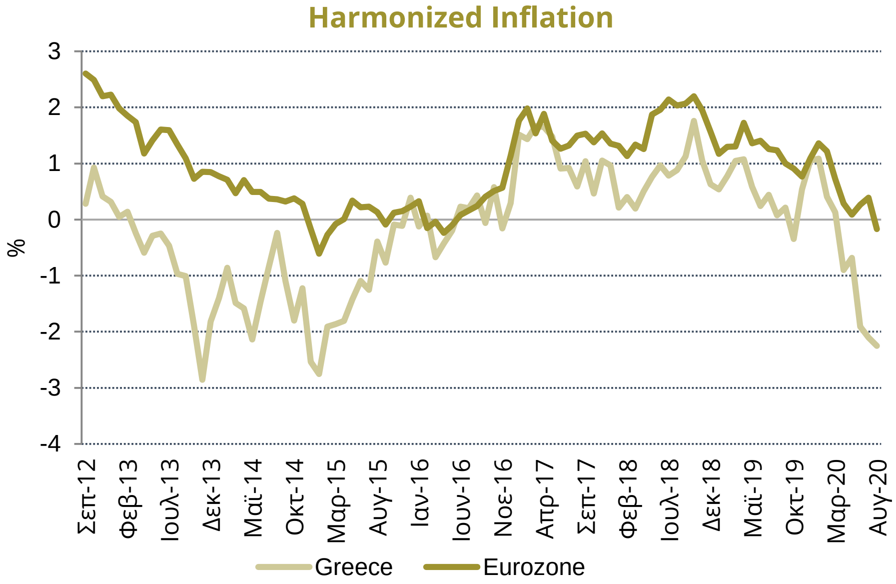


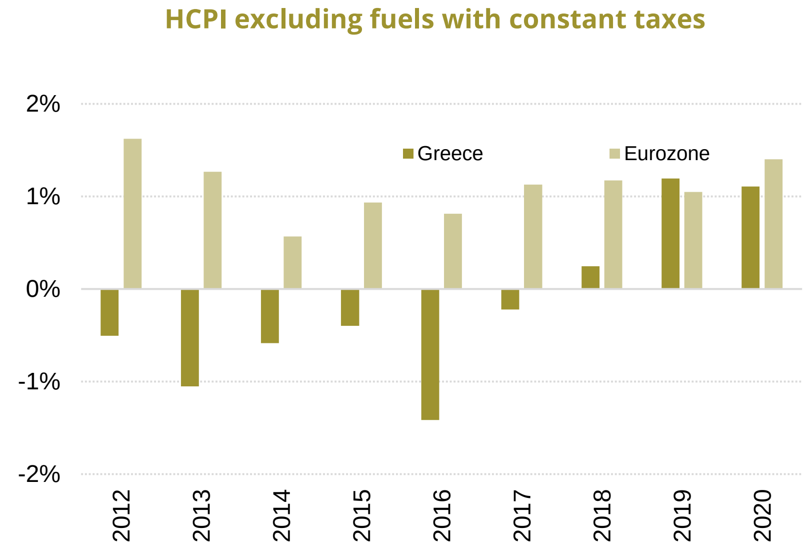


Source: BoG

- The surplus in services collapsed. It declined by €10.7 billion, with an 80% drop in tourism receipts during January-August
- Improvement in the goods balance deficit, by €3.1 billion, due to a larger drop in imports (mainly from the decrease in oil prices)

Deflation in the first eight months of 2020, mainly due to indirect taxation





Sources: ELSTAT, Eurostat

Eurozone: Lower Inflation, at 0.5% compared to the first eight months of 2019 (+1.3%)

Greece: Negative change in prices, -0.8%, compared to +0.6% in the first eight months of 2019

- Negative effect from indirect taxes (-1.2%) – milder than that of energy goods (-0.7%). Boost from domestic demand – other factors

Producer Price Index (January - August 2020): Decline by 6.9%, compared to a small increase of 0.7% in the first eight months of 2019, mainly from Oil Products

We are at a critical point of the health crisis

Pandemic resurgence in many countries since September, mainly in Europe

Large outbreak in Greece, however smaller than in countries with a similar population (e.g. Belgium, Portugal)

The end of the crisis is not in sight

- Given these considerations, if the health crisis escalates further, restrictive public health measures are likely to be imposed; at the regional or at a broader level
- A second total lockdown will be used only as a measure of last resort by governments because most economies (and their state budgets) cannot sustain it
- Responsible actions from all sides (households, state, businesses) are needed to prevent unfavorable developments (like those in the spring or worse)

Developments in the production process

Activity in the services sector (Tourism, Air Transport, Food, Arts – Entertainment) has been affected from the spring lockdown, the low demand during the summer, and the ongoing measures

Resilience of the Manufacturing sector, in terms of production and exports

The crisis has increased demand for services (e.g. health, creation of internet services-applications, land courier services)

- These trends can be combined with broader policies, e.g. on digital transition, green development, improvement of the health system, ensuring access to high-quality raw materials
- These objectives are included in the Multiannual Financial Framework and NextGenerationEU
- A coherent, medium-term growth plan is now needed for the Greek economy to utilize financial assistance opportunities. The country is no longer subject to economic adjustment programs and it needs medium-term, strategic orientation

The banking system showed resilience in the first wave of the health crisis

Challenges	Positive developments	Priorities
• Decrease in demand for credit for investment purposes, increase in demand for credit to meet liquidity needs • Weak asset quality (NPLs, deferred taxation)	• Historically low private and public sector borrowing costs • Increase in credit for business • Increase in private deposits	• Acceleration of the implementation of systemic solutions to improve the quality of banks' assets • Review of banks’ business plans; the main priority is to reduce NPLs

Drastic **liquidity support measures** in the face of a second wave of the crisis

- ECB: more access to cheap bank lending
- Domestic authorities (Entrepreneurship Fund II, guarantee programs): strengthening of liquidity channels for affected businesses

Macroeconomic forecasting procedure

Determinants of macroeconomic variables 2020-2021:

- Duration and intensity of the second phase of the coronavirus pandemic, domestically and internationally (mainly in the euro area);
- Evolution of the pandemic, related to progress regarding the treatment of the virus (vaccine, medication)
- Policy interventions, domestically and at the EU level, to tackle the crisis
- Oil price fluctuation

Baseline Scenario:

- Epidemiological conditions close to current levels at the end of 2020 and in 2021, in Greece and the EU
- There is no country-wide lockdown
- No further budgetary measures are implemented other than the ones already taken (or already planned to be implemented)
- Eurozone economic activity: recession of 8.5% this year, recovery of 5.2% in 2021

➔ Without significant obstacles to the operation of businesses. Businesses in the Tourism sector will be open to international tourism at all times.

Alternative Scenario:

- The health crisis worsens during winter, domestically and internationally ➔ more measures to protect public health
- New policy interventions in Greece and the EU
- Eurozone economic activity: recession of 9.0% this year, recovery of 3.0%-4.0% in 2021

➔ Suspension of activity in certain sectors, mainly in services, including Tourism, Food services, Retail trade

Macroeconomic forecasts 2020 - 2021

Predictions for 2020

- Public consumption: +2.0 to +3.0%
- Private consumption: -6.1 to -6.5%
- Investment: -6 to -7%
- Exports: -23 to -25%
- Imports: -15 to -17%
- **Recession: ≈ 8,0%**
- Unemployment: 18.0%
- Deflation: 1.2-1.4%

Predictions for 2021 (Baseline Scenario)

- Public consumption: -5.5 to -7.0%
- Private consumption: +3.5 to +4.5%
- Investments: +15 to +20%
- Exports: +16 to +20%
- Imports: +15%
- **Growth: ≈ 4.0 to 4.5%**
- Unemployment: 17.0%
- Inflation: 1.7%

Predictions for 2021 (Alternative Scenario)

- Public consumption: -2.0 to -4.0%
- Private consumption: -2.5% to -4.5%
- Investments: -5.0 to -10.0%
- Exports: -7.0 to -11.0%
- Imports: -10 to -12%
- **Recession: ≈ -2.5 to -4.0%**
- Unemployment: 19.5 - 20.5%
- Deflation: -0.4%

Special study

Macroeconomic and socioeconomic impact of the privatization program of the Hellenic Republic Asset Development Fund

Scope of the study

Goal of the Study

- Estimate the direct, indirect, and total impact of the program on the country's economy
- Examined:
  - Macroeconomic impact of the program
  - Socio-economic impact of the development of selected major assets

Assets included in the study

Piraeus Port Authority (PPA)
- Sale of shares in 2016

14 regional airports
- Long-term concession contract in 2017

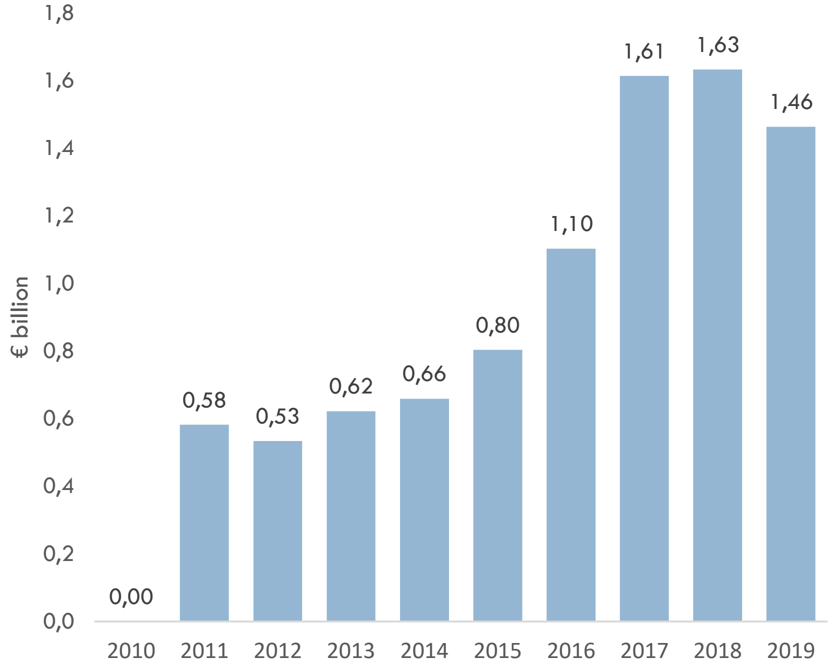
Astir Palace Vouliagmeni S.A.
- Sale of shares jointly with the National Bank of Greece in 2016

TRAINOSE S.A.
- Sale of shares in 2017

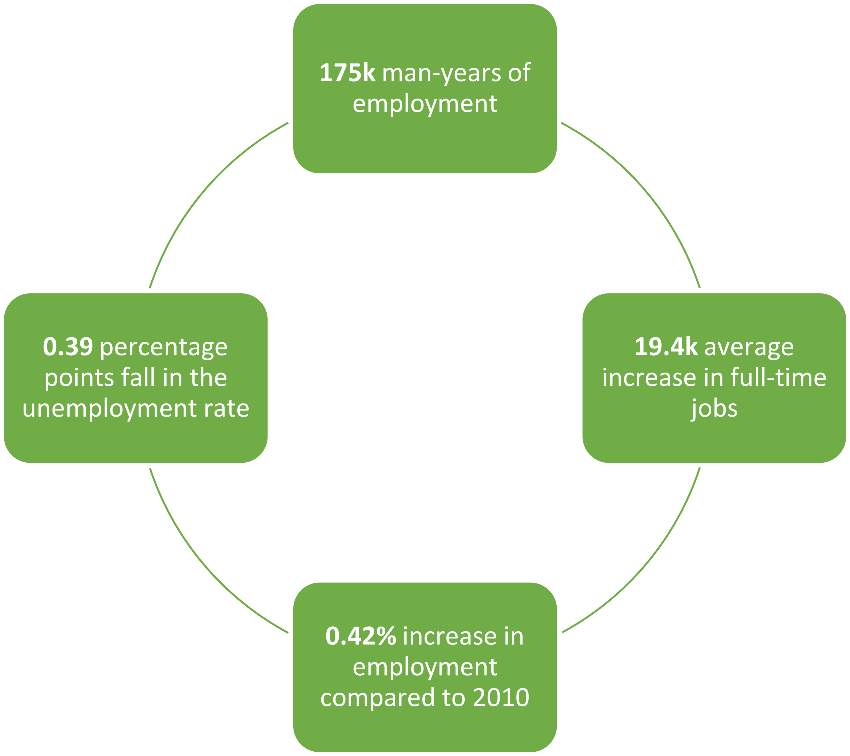
Regional ports
- Planned development of the 10 regional ports that have the legal form of limited liability companies

The privatization program boosted Greece's GDP by €1bn per year on average in the period from 2011-2019

Estimate of the increase of Greece's real annual GDP due to the implementation of the privatization program, compared to the level of GDP if the program had not been implemented (counterfactual analysis. Base scenario - reference year 2010)



Effect on employment 2011-2019

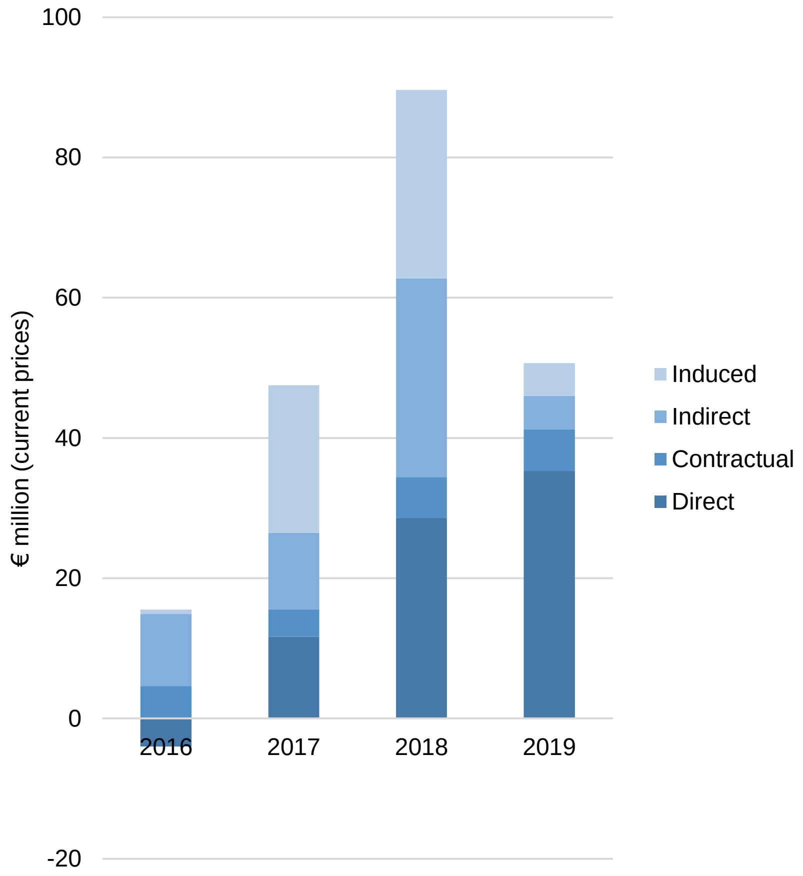


Source: IOBE Estimates

Full-time employment in the country increased by 19.4k jobs per year on average in 2011-2019

PPA: The impact on the country's GDP is expected to reach €380 million in a decade, up from €90 million in 2018

Effects of the privatization of the Piraeus Port Authority (PPA) on Greece's GDP in 2016-2019

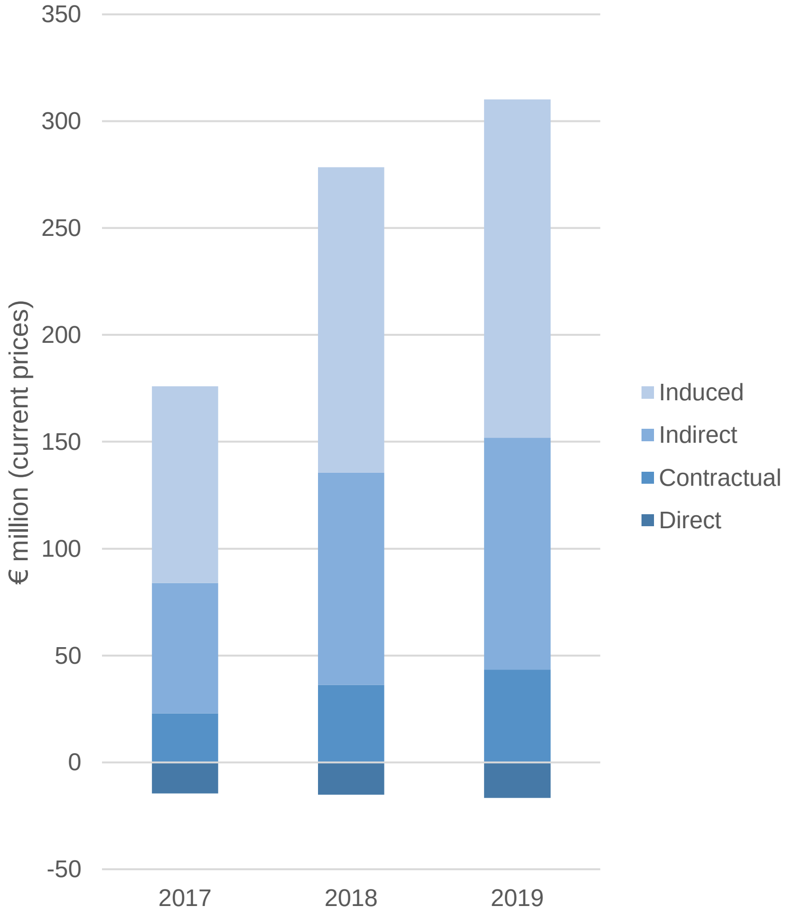


Medium-term effects of the privatization of the PPA on the Greek economy

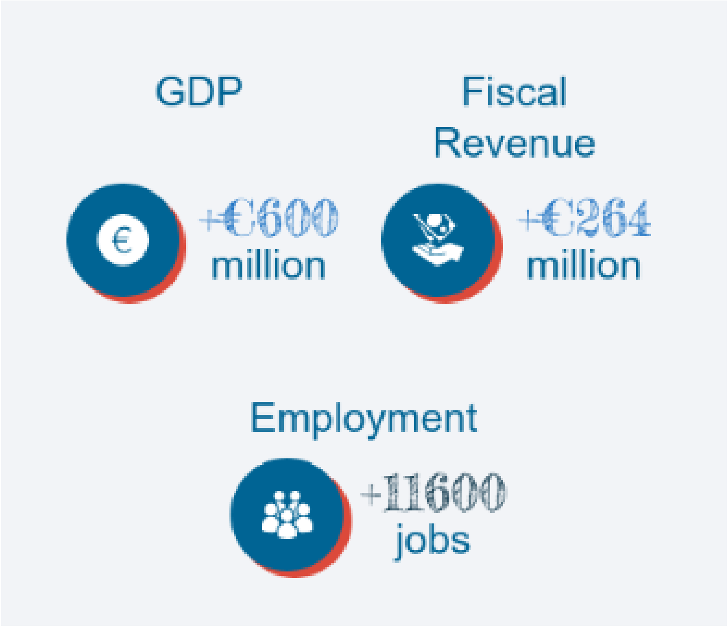
Source: IOBE Estimates

Regional Airports: The overall impact of the concession on the country's annual GDP exceeded €300m in 2019

Effects of the privatization of regional airports on Greece's GDP in 2017-2019



Medium-term effects of the privatisation of the regional airports on the Greek economy

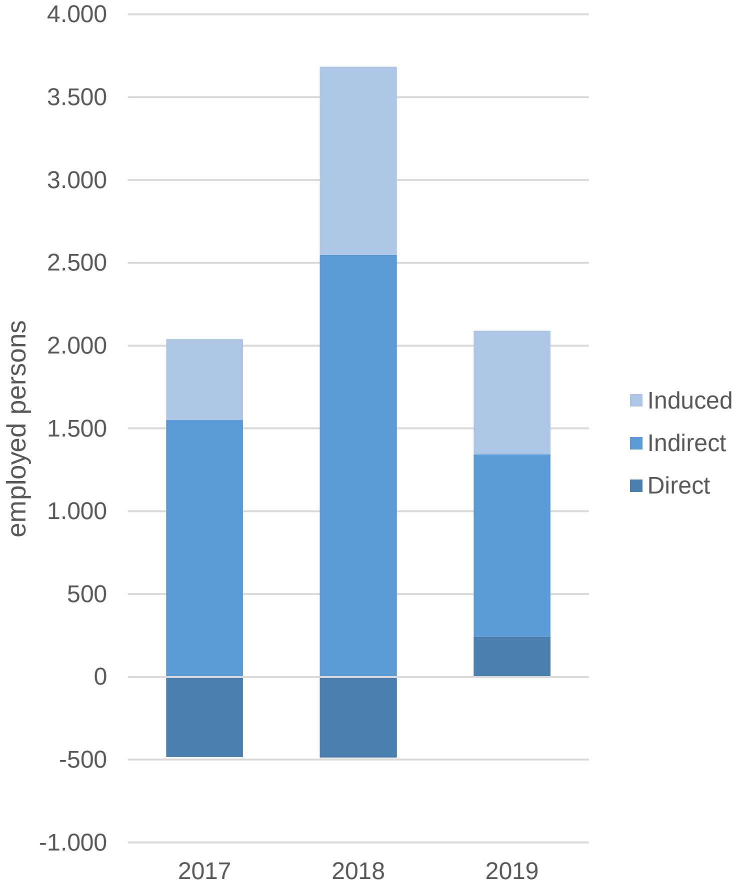


In terms of employment, the total impact reached 7.2k jobs in 2019 and is expected to exceed 11.6k jobs over a ten-year horizon

Source: IOBE Estimates

Astir Palace: The overall annual impact on GDP is expected to reach €50 million in ten years

Effects of the privatization of Astir Palace Vouliagmeni on employment in Greece in the period 2017-2019



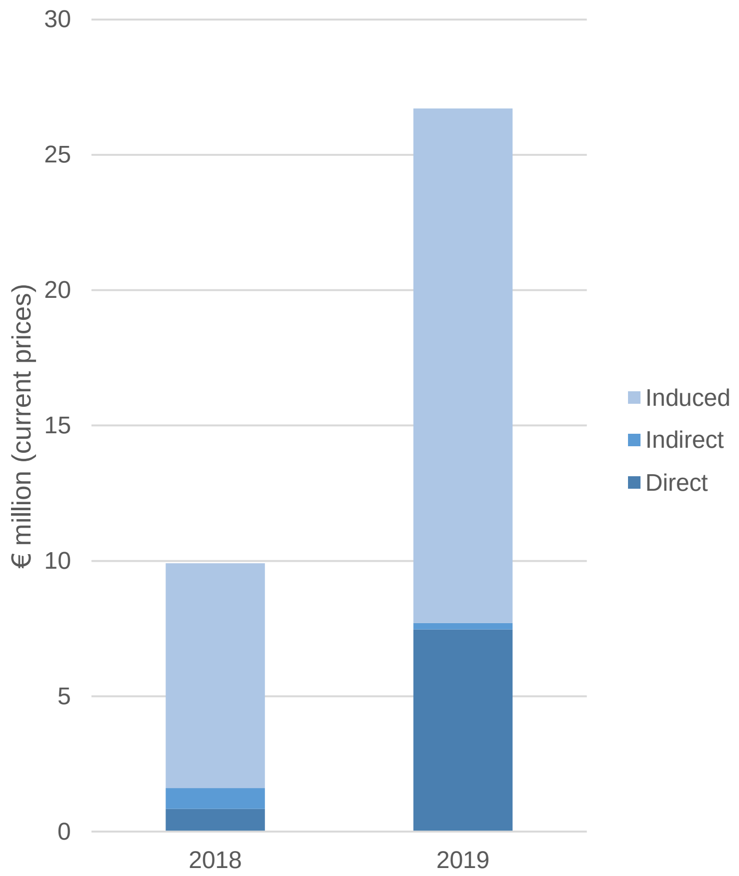
Medium-term effects of the privatization of Astir Palace on the Greek economy

Effect on employment: 3.2k jobs in 2018 and around 1000 jobs in the medium term

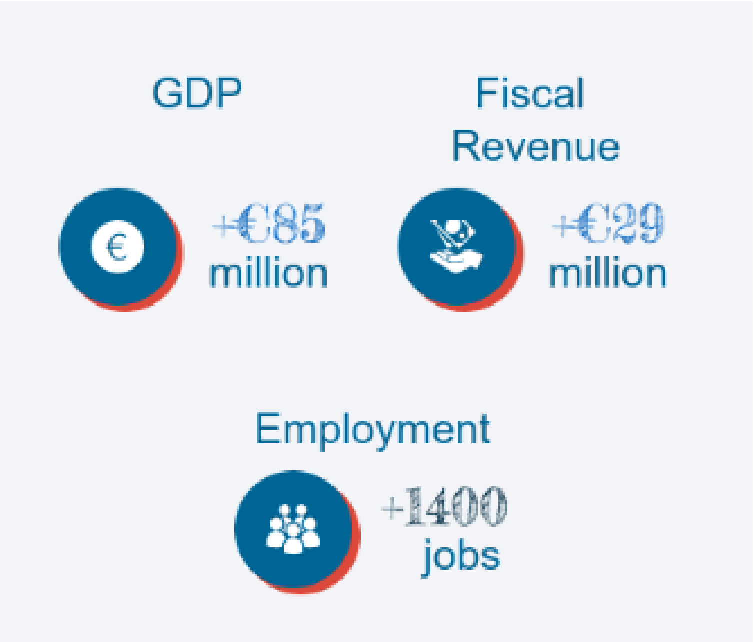
Source: IOBE Estimates

TRAINOSE: Boosting the country's GDP by €27 million in 2019 and by €85 million in the medium-term (estimate)

Effects of the privatization of TRAINOSE on Greece's GDP in 2018-2019



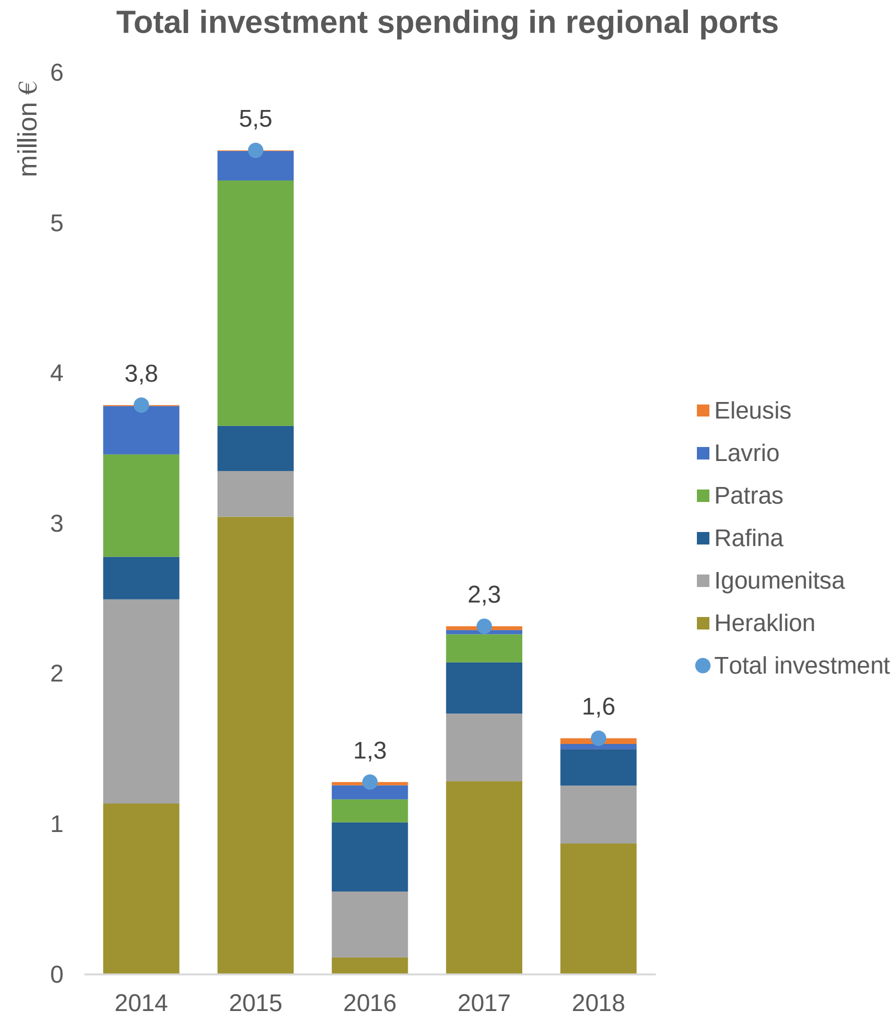
Medium-term effects of the privatization of TRAINOSE S.A. on the Greek economy



Effect on employment: 1.4k additional jobs in the economy in the medium-term

Source: IOBE Estimates

Regional ports: The current capacity of the ports is not fully utilized, and the current investments are insufficient for the ports' upgrade



- The capacity utilization in passenger transport via scheduled lines is 61% in the port of Rafina, 55% in Heraklion, 19.0% in Patras and 13.7% in Lavrio.
- In the transport of general cargo, the capacity utilization is limited to 54.0% in the port of Volos, 15.4% in Eleusis, 11.0% in Patras, 2.2% in Lavrio and 2.0% in Heraklion

Making fuller use of port capacity requires:

- A more proactive search for commercial opportunities by the port authorities
- Upgrade of the infrastructure with the inflow of new capital from strategic investors

Source: HRADF

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