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The economic impact of the development of the Hellinikon area

Executive Summary

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The judgements on policy issues and the proposals contained in this study express the opinions of the researchers and do not necessarily reflect the opinion of the members or the management of IOBE.

The research for this study was conducted by S. Danchev, E. Demian, E. Korra, N. Paratsiokas and N. Zonzilos, under the supervision of the Director General of IOBE, Professor N. Vettas.

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Foundation for Economic and Industrial Research (IOBE)
11, Tsami Karatassou St, 117 42 Athens,
Tel. (+30210 9211200-10), Fax:(+30210 9233977)
E-mail: info@iobe.gr, URL: http://www.iobe.gr

SUMMARY

The scope of the study is to assess the impact of developing the area of Hellinikon on the Greek economy, based on the contract terms for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A.

Introduction

The execution of a significant volume of investment as soon as possible is a basic prerequisite for setting the Greek economy on a path of steady growth. The share of investment in GDP should approach 18%, from approximately 11% in 2015, in order to achieve GDP growth rates in excess of 2.5% from 2017 onwards. The implementation of such an investment programme presupposes that there are sufficient savings to support it. Given the currently low level of domestic savings, it follows in turn that Greece needs resources from abroad in order to achieve its economic objectives.

The implementation of the programme to develop the area of the old Hellinikon airport will contribute significantly in this direction. The programme has clear economic development objectives, while it is also expected to have a significant positive contribution to the fiscal consolidation of the Greek economy. Furthermore, its contribution in attracting direct foreign investment could be decisive for the overall growth prospects of the country.

The Hellinikon development programme is a multifaceted project, designed to host a variety of uses (residences, tourism, recreation, commerce, offices, healthcare, social welfare, education, sports, culture, state-of-the-art urban infrastructure and utilities). According to the terms of the agreement for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A.[1], the preferred investor will deposit €915 million in instalments according to an explicit time plan that spans from 2016 to 2026. In addition, the execution of the development plan involves an investment of €7.2 billion over a 25-year reference period.[2]

This study examines the economic impact from the renovation of the old Hellinikon airport and the seaside front of Agios Kosmas for the whole duration of the investment programme, based on the contract terms for the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A.[3] The analysis is performed at two levels – impact in the wider renovation area (microeconomic impact) and impact on the Greek economy overall (macroeconomic impact). In the wider renovation area, the construction and operation of the planned installations will boost the demand for products and services, generating fiscal revenues and jobs. The income and know-how created by the project will also have an impact on the economy overall, given the exceptionally high budget foreseen for the project. In addition, the funds that the Hellenic republic receives for the shares of Hellinikon S.A. will have a notable fiscal impact.

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[1] Hellinikon Global I S.A., incorporated in Luxembourg, a subsidiary of Lamda Development S.A. signed a contract with the Hellenic Republic Asset Development Fund (HRADF) S.A. on 14 November 2014 for the acquisition of 100% of the equity capital of the company Hellinikon S.A.

[2] Initial investment of €6.8 billion, with further €449 million expected for the finalisation of the installations by their future owners or tenants, depending on their specific requirements.

[3] The sales contract was amended after the completion of the analysis for this study. Some major changes include amendments (in favour of the Hellenic Republic) of the investment and payment time plans.

Microeconomic impact

The investment in renovating the Hellinikon area will generate significant economic activity. According to the estimates in the study, the operating revenue (turnover) that the use of the Hellinikon facilities is expected to generate, reaches €2.4 billion towards the end of the 25-year period (i.e. in 2041) or €1.4 billion per year on average for that period. Most of the revenue over the 25-year period under examination in the study is expected to come from the operation of shopping centres and offices (76%), while the recreation activities and the operation of hotels are also expected to represent a significant revenue share (12% and 7% respectively).

The fiscal revenues of the project are not limited to the proceeds from the acquisition of the shares of Hellinikon S.A. but extend to inflows from the direct and indirect taxation of the economic activity and the wealth that is expected to be generated by the project. The tax revenues from the construction activity and the operation of the various facilities are expected to total €14.1 billion overall in the 25-year period (€563 million per year on average). The largest source of fiscal revenue is the Value Added Tax (VAT), with 57% of the total expected fiscal inflows, followed by social security contributions (16%), property transfer tax (14%) and corporate income taxes (11%). The proceeds from personal income taxation and property ownership taxes are estimated to contribute about 1% of the total fiscal revenues.

The extent to which the microeconomic benefits from the operation of the facilities will contribute fully to the overall economy, or substitute in part existing activity elsewhere, will ultimately depend on whether the facilities will attract visitors who would have otherwise preferred to go to other destinations abroad. It is not feasible to determine in advance the ability of the planned facilities to generate new demand, but installations such as a modern conference centre, healthcare and education services, casino and marina, have the capacity to activate part of the unutilised potential of the country and of Athens in particular in the development of alternative forms of tourism, such as MICE (Meetings, Incentives, Conferences and Events), health and city break tourism. This can generate the new demand that is required in order to consider the above microeconomic impact as a net benefit for the national economy in its entirety.

Macroeconomic effects from the construction and operation of the project

At the macroeconomic level, the investment activity and the synergies from the utilisation of the area of the old Hellinikon airport strengthen the infrastructure, construction activity and production capacity of the economy, boost output with both an autonomous and an endogenous permanent increase of private consumption and, lastly, improve the balance of payments with the corresponding inflow of private capital.

In order to assess the macroeconomic impact of the project, we have applied the approach of a comparative evaluation of alternative scenarios, which were built using the econometric model of the Greek economy maintained at IOBE. The IOBE model is a standard medium-sized macroeconomic model of aggregate supply and demand, which describes the basic interconnections of the Greek economy. It is used for making projections and for the empirical analysis of economic policy issues.

The demand factors, related to the construction and operation of the project (execution of the investment programme, generation of income from the project operation, additional foreign tourism revenues) are expected to stimulate the Gross Domestic Product (GDP) of Greece throughout the project's construction period. At the end of the period under investigation (2016-2041), the demand factors are estimated to drive GDP to a level higher by €5.4 billion or 1.7%, compared with the GDP level under the counterfactual scenario of no concession deal. The project has a particularly notable contribution to the fiscal consolidation effort, boosting the primary surpluses and reducing the public debt-to-GDP ratio, due to both surpluses from stronger activity and nominal GDP growth. In addition, the supply factors, reflected in higher productivity growth and enhanced productive potential of the economy, are expected to boost GDP by €2.0 billion (+0.6%) in 2041. Overall, the Hellinikon investment project, apart from the significant positive intangible effects (credibility, culture, etc.), is expected to drive GDP to significantly higher levels throughout the examined period. In 2041, the GDP of the Greek economy is expected to be higher by €7.42 billion (2.4%), compared with the GDP level under the no-investment scenario.

In employment terms, the number of employees expected to be hired for the construction and operation of the facilities of the Hellinikon – Agios Kosmas Urban Hub is growing over time, as the planned facilities open for business, while the construction activity carries on. The employment in the area is expected to exceed 25,000 people in mid-2030s. In the following years, with the gradual conclusion of the construction activity, but also with more business activities in full operation, the number of jobs maintained in the area on an annual basis is estimated at about 21,000. These are permanent jobs that would largely be covered by residents of the neighbouring municipalities and, to a lesser extent, of other areas of the broader Athens metropolitan area. Taking into account the wider macroeconomic interactions, the impact of the renovation project on total employment in the Greek economy is expected to exceed 90,000 jobs in 2041, of which 75,000 jobs are generated from the impact of the demand factors and 15,000 come from supply factor effects.

Assessment of the impact of outright public debt reduction

The sale of the share of Hellinikon S.A. to Hellinikon Global I S.A. provides the Hellenic Republic with funds that can be used for an outright reduction (repurchase) of public debt. This transaction prevents the adoption of an equivalent contractionary fiscal policy of debt reduction which necessarily would have had a recessionary impact on the economy (i.e. loss of income and jobs).

The assessment of the impact of an outright public debt reduction is also performed with a comparative analysis of alternative scenarios. However, the scenarios were built in this case, using the multi-country, multi-sector general equilibrium model GIMF (Global Integrated Monetary and Fiscal Model) of the International Monetary Fund, calibrated for Greece at IOBE. This model is more suitable for the analysis of fiscal policy issues, compared with the macroeconomic model used in the previous assessment.

According to our estimations, the sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A. prevents the loss of 10,000 jobs and a reduction of GDP by about 0.2% (€0.3 billion) during the first year of implementation of the agreement (when the shares are transferred to their new holder), from the equivalent contractionary fiscal policy that should be adopted in order to cover the gap in public debt. Subsequently, smaller yet notable negative effects are observed over a period of 15 years.

Therefore, the Hellinikon project is expected to contribute to the development of the Greek economy, the fiscal consolidation effort and the sustainability of public debt. Meanwhile, the investment project boosts not only the primary surplus, but also the nominal GDP – both of these factors drive down the debt-to-GDP ratio. In particular, the debt –to-GDP ratio declines by 15 percentage points of GDP at the end of the period under examination in the investment implementation scenario.

Conclusions

One of the key problems that the Greek economy is facing today is the lack of domestic savings to support an investment programme that could secure satisfactory growth rates while meeting the ambitious fiscal consolidation targets. The inflow of funds from abroad is a necessary condition to set the country's economy on a sustainable growth path and to achieve its definitive exit from the crisis. Therefore, the key next step under the current economic conditions is to strengthen the credibility of the country as a safe destination for investment.

The sale of the shares of Hellinikon S.A. to Hellinikon Global I S.A. and subsequently the development of the area could have a catalytic contribution in this direction, sending a strong signal that Greece is a safe and attractive investment destination. The area of the old Hellinikon airport, due to its size, the length of its coastal front and its proximity to the Athens city centre, is a particularly advantageous and rare asset, both at the national level and globally. Its development is expected to have multiple positive effects on the domestic economy and society.

The Hellinikon project is expected to strengthen the growth rate of the Greek economy, to contribute to its fiscal consolidation and to reduce its public debt. In addition, it is expected to have a significant contribution to the overall advancement of the cultural life, touristic infrastructure and environmental protection in the Attica region.

The full text of the study is available in Greek at:
http://iobe.gr/docs/research/RES_05_F_15092016_REP_GR.pdf.