

## Overtaxation holds back incipient improvement in the economic climate

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	Page
Recent economic developments	1
Main Indicators	2
Tables - Graphs	3

- Economic sentiment & business expectations (EC-DG ECFIN, Sep. 2016)
- Consumer confidence & households' expectations (EC-DG ECFIN, Sep. 2016)
- Non-oil manufacturing production, non-oil exports of goods & retail sales (ELSTAT, Aug 2016)
- Tourist arrivals, receipts & average expenditure per trip (Bank of Greece, July 2016)
- Number of the unemployed (ELSTAT, July 2016)
- Net hirings (ERGANI, Aug 2016)

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The resilience of the private sector is tested by the entrenched tendency of overtaxation, as reflected in the most problematic factors for doing business in the Global Competitiveness Report of the World Economic Forum. This is also reflected in the draft budget for 2017, that includes expenditure cuts of only €78.8 mil., which have to be compared with tax increases of €2,512.9 mil. As a result, the economic climate indicator is stuck for many months at substantially low mid-2013 levels. At the same time, the data released during the last month keeps reflecting mixed trends in the various aspects of economic activity, even though many of these pieces of data refer to July and August 2016, and the year – on – year comparison takes place with the respective months of 2015 when the economy suffered the shock of the introduction of capital controls. Therefore, their changes do not always reflect the true nature of the developments, underscoring the fact that any forecasts regarding the evolution of demand, production, sales, exports, unemployment and generally the economic climate must take into account the developments at the same time last year. In particular:

- **Manufacturing production kept on rising in August 2016** (+2.1% and +4.8% in the period Jan - Aug 2016), while production in non-manufacturing remained unchanged compared to Aug 2015 (+3.3% in the period Jan – Aug 2016). However, during the same time, **the PMI in manufacturing declines**, slipping anew under the level of 50 (49.2 from 50.4 during the previous month).
- **Turnover in non-oil manufacturing improves in July 2016** (+3.2%), recovering a part of the losses observed during the previous months (-1.8% for January-July 2016).
- **Non-oil exports of goods rose slightly in August 2016** (+1.7%, compared to +7.7% in August 2015). However, for the period Jan – Aug 2016 there was a decline of -0.5% instead of an increase of +12.7% in the period Jan – Aug 2015).
- **The volume of retail sales except fuels increased by +9.6% during July 2016** compared to July 2015, when the volume of sales had dropped significantly (-7.2%) as a result of the introduction of capital controls. The variation in the subindexes for particular types of stores are due to promotions and sales ahead of the summer vacations, while they suggest that a part of the increase in the volume of sales is due to more diligent tax audits and increased use of cards, rather than cash, for purchases. Overall for the period between January and July 2016 the volume of retail sales declined by -1.8%, but when fuels are excluded the decline is mitigated to -0.5%.
- **Consumer confidence improved noticeably during September 2016** (to -65.9 from -70.1 in August 2016), with pessimism among households falling marginally, especially with respect to their assessment regarding the evolution of their economic situation and the general situation of the economy. **Still, the pessimism of households remains at very high levels** (that it, Greek households are the most pessimistic in the EU).
- **The seasonally adjusted unemployment rate kept declining in July 2016** to 23.2%, (from 23.4% during the previous month and 24.8% in July 2015). This is, to a large extent, the result of the increase in tourist arrivals and to the program to hire unemployed in the public sector with fixed term contracts.

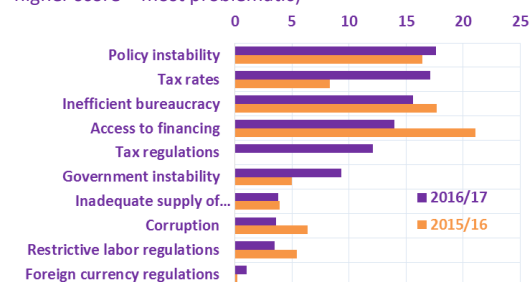
On the other hand:

- **Economic climate fell marginally during September 2016** (to 91.4 from 92.5 in August), as a result, mainly, of the fall of expectations in construction and services.
- In spite of the strong performance of employment, **registered unemployed remained broadly stable during August 2016** when compared to previous months (to 973.6 thousand), while registered unemployed searching for a job increased by +50.6 thousand. In addition, **the balance of net job creation according to the ERGANI system was negative in August 2016** (-16,128 net new jobs), a fact that reflects the seasonal weakening of the job market. **It has to be pointed out, though, that this decline is related with the reversal of net hiring during the peak of the summer season, and after net hiring had increased strongly during the previous months (+237.8 thousand net positions from January till August 2016) within the context of an, ultimately, successful tourist period.**
- **In spite of the increase of arrivals** (+5.8% in July 2016 and +1.1% for the period January – July 2016), **tourist receipts remained at lower levels, when compared to last year** (-3.5% in July 2016 and -4.8% for the period Jan – July 2016).

Regarding structural issues, the report of the World Economic Forum for global competitiveness in 2016-2017 ranks Greece 86th, from 81st last year. This decline is the result, predominantly, of the lack of progress of the country, while other countries improved their competitiveness and overtook Greece. Pillars like the macroeconomic situation, the access of businesses to finance and overtaxation remain the weakest points of Greece, while the country still retains, in spite of the losses incurred as a result of the crisis that has forced many skilled professionals to migrate, a competent workforce, businesses that adjust with realism and high quality research centers.

Overall, these results highlight the need for the government to focus its efforts on the quality of the implemented policies, the reduction of uncertainty, the restoration of access to finance for businesses and rationalization of the tax burden, as prerequisites to make the most out of the advantages the country has, and to ensure in such way the recovery of the economy during 2017.

**The most problematic factors for doing business** (World Economic Forum, Global Competitiveness Index 2016 - 2017, higher score = most problematic)



### Economic indicators

<b>Economic sentiment</b>	<b>2015/2014</b> Dec / Dec	<b>2016/2015</b> Sep / Sep
<b>Economic climate</b>	↓ 87,6 / 99,6	↑ 91,4 / 83,8
<b>Consumer confidence</b>	↓ -61,1 / -53,9	↓ -65,9 / -64,2
% stating that their own economic situation will get worse	60% / 63%	74% / 70%
% stating that the country's economic situation will get worse	80% / 66%	81% / 74%
% stating that it is unlikely to increase their savings	90% / 91%	79% / 78%
% stating that unemployment will rise	80% / 66%	77% / 78%

<b>Employment – Unemployment</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Period</b>
<b>Employment (change year-to-date, seasonally adjusted)</b>	+75,400 pers.	+85,000 pers.	+58,100 pers.	Jan – July
Employment (change during month, seasonally adjusted)	+11,900 pers.	+11,100 pers.	+14,600 pers.	July
<b>Registered unemployed (change year-to-date)</b>	-23,564 pers.	-42,691 pers.	+37,760 pers.	Jan – Aug
Registered unemployed (change during month)	+562 pers.	-2,353 pers.	+50,562 pers.	August
<b>Net hirings (year-to-date)</b>	+190,883 pers.	+186,024 pers.	+237,817 pers.	Jan – Aug
Net hirings (current month)	+1,311 pers.	-441 pers.	-16,128 pers.	August
<b>Unemployment rate (seasonally adjusted)</b>	26.4%	24.8%	23.2%	July
Year to date average rate (seasonally adjusted)	26.9%	25.3%	23.7%	Jan – July
<b>Index of wages (whole economy, in constant prices, seasonally adjusted)</b>	-1.2%	0.0%	5.6%	Q2
Change Year to date (whole economy, in constant prices, seasonally adjusted)	-1.1%	1.3%	3.6%	Jan – Iouv
<b>Consumer Price Index</b>	-0.8%	-1.7%	-1.0%	Sep
Change Year to date	-1.1%	-2.1%	-1.0%	Jan – Sep

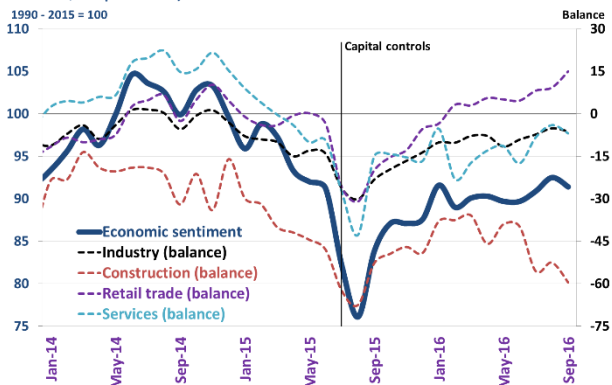
<b>GDP</b> (in constant prices)	<b>Change</b> 2015/2014	<b>Change</b> 2016/2015	<b>Period</b>	<b>Change yoy</b>	
				<b>2016 Q1</b>	<b>2016 Q1</b>
<b>GDP</b>	<b>0,6%</b>	<b>-1,0%</b>	<b>Jan – June</b>	<b>-1,0%</b>	<b>-0,9%</b>
<b>Domestic demand</b>	<b>0,3%</b>	<b>-0,1%</b>	<b>Jan – June</b>	<b>-0,8%</b>	<b>0,6%</b>
Private consumption	1,2%	-1,4%	Jan – June	-1,0%	-1,7%
Public consumption	1,2%	-1,4%	Jan – June	-1,0%	-1,7%
Investment (including inventory change)	5,2%	2,0%	Jan – June	-2,5%	7,0%
Residential	-20,9%	-20,3%	Jan – June	-17,1%	-23,5%
Non – residential construction	-11,3%	5,6%	Jan – June	4,0%	7,1%
Machinery and equipment (incl. weapon systems)	16,2%	-1,6%	Jan – June	-2,8%	-0,5%
<b>Net exports</b>					
Exports of goods and services	2,6%	-11,4%	Jan – June	-11,5%	-11,4%
Exports of goods	3,9%	2,3%	Jan – June	1,7%	2,9%
Exports of services	1,2%	-25,1%	Jan – June	-23,7%	-26,5%
Imports of goods and services	2,8%	-9,6%	Jan – June	-11,9%	-7,1%
Imports of goods	2,1%	-5,8%	Jan – June	-8,2%	-3,3%
Imports of services	5,9%	-24,1%	Jan – June	-25,5%	-22,6%

<b>Short term conjunctural indicators</b>	<b>Change</b> 2015/2014	<b>Change</b> 2016/2015	<b>Period</b>	<b>Change</b> 2016/2015	<b>Period</b>
<b>Industrial production</b>	0.3%	2.0%	Jan – Aug	-0.3%	Aug
Manufacturing (excluding oil)	2.0%	3.3%	Jan – Aug	-0.4%	Aug
<b>Production in construction</b>	22.3%	0.3%	Jan - June	9.7%	Q2
Building	24.2%	2.7%	Jan - June	7.7%	Q2
Non – building	20.8%	-1.5%	Jan - June	11.4%	Q2
<b>Private building activity – building permits (volume in m<sup>3</sup>)</b>	7.2%	-22.2%	Jan - June	-26.1%	June
<b>Retail sales (volume)</b>	-0.9%	-1.8%	Jan – July	9.7%	July
Excluding automotive fuel	0.0%	-0.5%	Jan – July	9.6%	July
<b>New vehicle licenses</b>	17.3%	12.7%	Jan – Sep	9.6%	Sep
<b>Revenue from tax on mobile telephony</b>	-6.4%	-5.7%	Jan – July	-9.2%	July
<b>Non-oil exports of goods (ELSTAT, current prices)</b>	12.7%	-0.5%	Jan – Aug	1.7%	Aug
<b>Tourism – receipts</b>	8.2%	-4.8%	Jan – July	-3.5%	July
<b>Transportation – receipts</b>	-7.1%	-38.0%	Jan – July	45.1%	July
<b>Other services* – receipts</b>	-12.2%	-14.3%	Jan – July	81.1%	July
<b>Inbound travelers</b>	14.2%	1.1%	Jan – July	5.8%	July

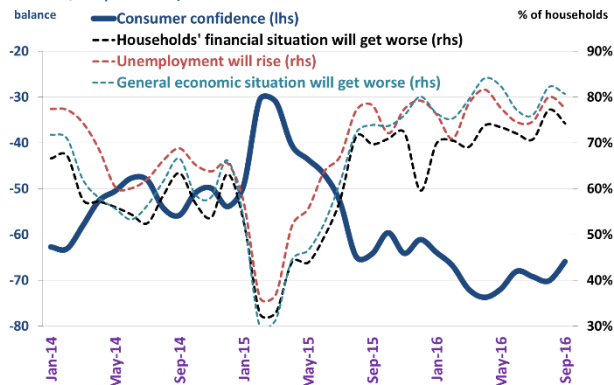
\* includes construction business activity abroad, software and technology exports, etc

Source: IOBE, ELSTAT, Bank of Greece, Ministry of Labour and Social Solidarity, DG ECFIN, European Commission

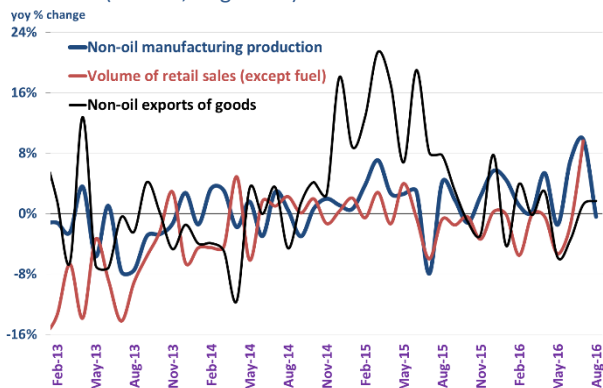
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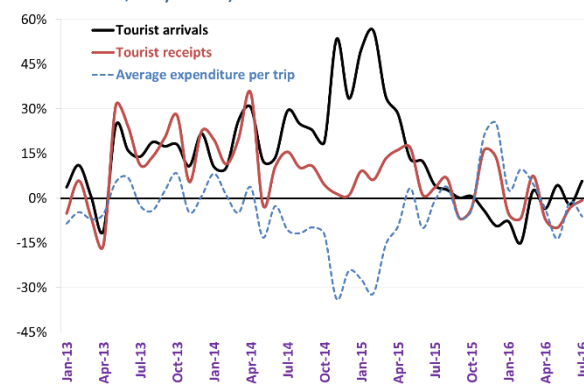
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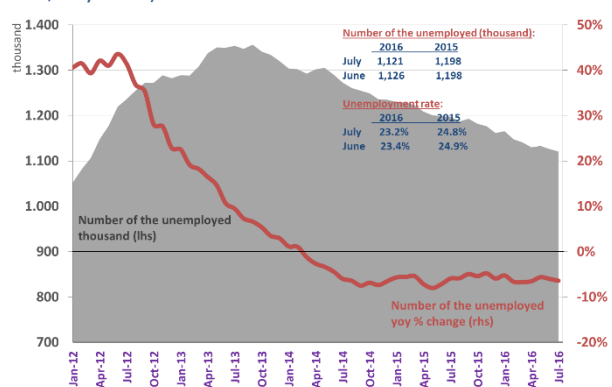
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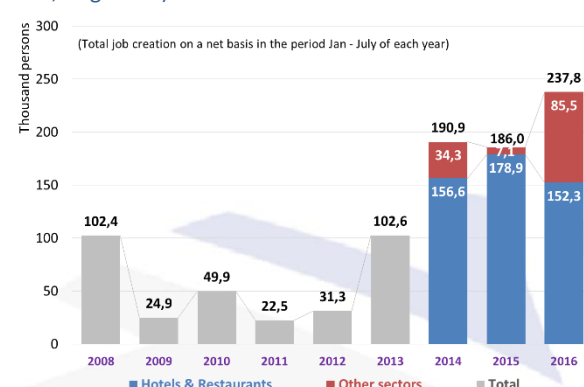
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## Number of the unemployed (ELSTAT, July 2016)



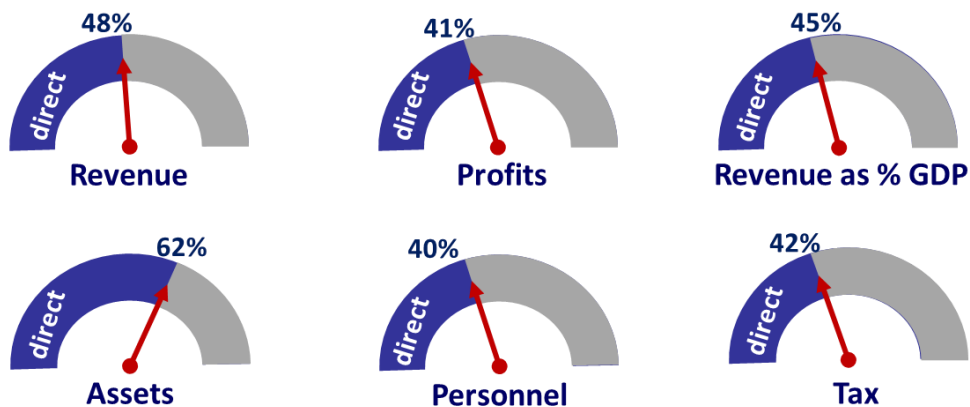
## Net hirings (ERGANI, Aug. 2016)



## SEV members are the key corporate leaders in Greece

- **Sectors:** Energy, transport, manufacturing, pharma, metals, food, financial, constructions, technology, chemicals, wholesale, services etc
- **Registry:** 3,500 corporates, including members of 43 sectoral & regional associations.

## SEV direct members account for 50% of the business activity



Source: 28.000 SA & Ltd balance sheets, ICAP, 2013 – IKA, 2013



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