

business & the greek economy

Monthly bulletin



12 December 2016

Political risk undermines ongoing recovery!

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- Economic sentiment & business expectations (EC-DG ECFIN, IOBE, Nov. 2016)
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- Non-oil exports and imports of goods (ELSTAT, Oct. 2016)

 PMI and industrial production (Markit, Nov.2016, ELSTAT, Oct. 2016)

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The views expressed in this report are those of the authors and not necessarily of SEV. SEV may not be held responsible for the accuracy or the completeness of the data contained in this report. The Greek economy gradually returns to growth. In Q3 2016, GDP recorded an increase of +1.8% yoy (vs. + 1.5% according to ELSTAT's first estimate), driven mainly by private consumption (+ 5.1% vs. -4.1% in Q3 2015), as supported by strong wage growth (+2.1% in real terms in Q3 2016) and gains in employment. At the same time, in most sectors economic activity is on the rise, especially in industry, retail sales and tourism, while Greek exports seem to have regained the momentum of 2014. Although GDP growth in Q3 2016 is to a certain extent due to the low base effect after the decline recorded last year (-2.2% in Q3 2015), as a result of capital controls, conjectural indicators point in all likelihood to positive growth performance overall for 2016, which can be undercut in case of new delays in the completion of the review process.





In particular, the positive developments include:

- The strengthening of non-oil manufacturing production in October 2016 (+6.7% vs. a decline of -1.2% in October 2015), for the 5th consecutive month (+3.6% in the period January-October 2016), along with the positive trend in most sectors of industry (+8.9% in oil refining, +8,9% in electricity, +2.6% in water supply).
- The rise in non-oil manufacturing turnover, also for 4th consecutive month, in September 2016 (+1.4% vs. -1.7% in September 2015), replacing a large part of the losses of the first 5 months of 2016 (-0.7% in the period Jan- Sep 2016).
 The continued growth of non-oil exports of goods in October 2016 (+2.6% in nominal terms and +4.6% in terms of variable period between the period between terms of the period between terms and +4.6% in terms of variable.
- volume) for 4th consecutive month (+1.2% in nominal terms and + 4.8% in terms of volume in the period Jan-Oct 2016), in particular of food products and miscellaneous manufactured articles (+10.5% and +7.3% respectively in nominal terms in the period Jan-Oct 2016).
- The increase in the volume of retail sales excluding fuel by +3.2% in September 2016 compared to a decline by -1.5% in September 2015, which halted the uninterrupted downward trend since the summer of 2015 (-1.9 % in H2 2015 and -2.2% in H1 2016).
- The increased turnover in most sectors of the economy in Q3 2016, particularly in wholesale trade (+ 3.2%, after 7 consecutive quarters of downward trend), tourism (+2.6% following a decline in the previous three quarters and on top of +4.8% in Q3 2015), land and air transport (+3.3% and +7.4% respectively) and in the automotive sector (+18.6%).
- The improved climate in services and retail trade in November 2016, with business expectations being positive, especially regarding activity in the coming period, new orders and employment.
- The slow, yet steady, decline in seasonally adjusted unemployment (23.1% in September 2016 from 23.3% in the previous month and 24.7% in September 2015). It is noted that the increase in the number of the registered unemployed by +12.3 thousand in October 2016, compared to +8.4 thousand added in October 2015, signals the end of the tourist season and is related to the large number of hirings, mainly by hotels and restaurants, in the months before the summer.
- The return of bank business credit expansion to positive territory in October 2016 (+0.1% vs. -1.6% a year ago), for the first time since August 2011, showing that credit deleveraging, decelerating over the last 3 years, possibly has come to an end.

On the other hand, there are developments highlighting the difficulties the economy still faces. These include:

- The fall of consumer confidence to -66.9 points in November 2016, after rising in the previous two months, as a result of deteriorating expectations of households on their economic conditions and the overall situation in the next 12 months, apparently affected by the upcoming severe increase in the tax burden in 2017 and new measures likely to be introduced, in particular regarding pensions and non-performing loans.
- The slight decline in business climate in Industry in November 2016, with marginally weakening production, new orders and exports and less optimistic forecasts for employment. Moreover, the Manufacturing Purchasing Managers Index (PMI) stood at 48.3 points from 48.6 points in the previous month, showing a similar trend of production and new orders, while job creation remained in positive territory.

- Business borrowing costs are triple the European average, with non-performing exposures standing at €107 billion.

With these developments notwithstanding, Greece continues to implement a strict fiscal policy framework. According to the Eurogroup decision of 12/05/2016, Greece is to achieve and maintain a primary balance of 3.5% of GDP in 2018 and beyond for several years, giving rise to concerns that a possible new bout of overtaxation may hold back growth. Without doubt, the implementation of the adjustment program is necessary to restore confidence in the credibility of economic policy. In these circumstances, the Prime Minister's announcement on Dec. 8, 2016 about granting one-off awards of about €617 mn to low income pensioners, at the midst of negotiation, is an action of high political risk and doubtful economic results. Such awards are financed through a temporary overage of tax revenue owing to the application of administrative actions of tax collection through bank deposit seizures and other forced execution measures on a grand scale. These are effected on an already distressed tax base due to overtaxation, which is pushed towards tax evasion and bank disintermediation. Moreover, it takes place at a time when the non-completion of the 2nd review delays the disbursement of a €6.1 bn tranche, the arrears of the tax administration to the private sector remain at a high level (€6.3 bn at end-October) and a sum €400 mn have been forfeited due to the unsuccessful attempt to privatize DESFA (the gas transmission system operator). The government would have much greater margins of maneuver in social policy if it would implement a more pro-growth policy with targeted tax relief measures to the real economy.



Economic indicators

Employment (persons, change year-to-date, seasonally adjusted) +69,900 +91,300 +44,40 Employment (persons, change during month, seasonally adjusted) +5,400 -100 +5,327 Registered unemployed (change year-to-date) -115,55 -43,327 +25,52 Registered unemployed (change during month) +120,287 +116,548 +162,75 Net hirings (current month) -66,636 -56,473 -82,81 Unemployment rate (seasonally adjusted) 26,17% 25,22% 23,66 Index of wages (whole economy, in constant prices, seasonally adjusted) 2.4% 1.4% 2.11 Consumer Price Index -1.2% -0.7% -0.9% Change Year to date (whole economy, in constant prices, seasonally adjusted) 0.1% 1.3% 3.11 Consumer Price Index -1.2% -0.7% -0.9% -0.5% Change Year to date (whole economy, in constant prices, seasonally adjusted) 0.1% 1.3% 3.11 Consumer Price Index -1.2% -0.7% -0.9% -0.5% -0.5% -0.5% -0.5% -0.5% -0.5% -0.5% -0.5%	016	
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Chort term conjunctural indicatorsChangeChangeChange2015/20142016/20152016/20152016/2015	5% 9.5% 5% 10.5% 9% 12.0% 7% 7.5%	
Industrial production 0.3% 2.3% Jan – Oct 6.8%	9.5% 9.5% 5% 10.5% 3% 12.0% 7% 7.5% 3% 38.1%	
Manufacturing (excluding oil) 1.5% 3.6% Jan – Oct 6.7%	9.5% 9.5% 5% 10.5% 3% 12.0% 7% 7.5% 3% 38.1%	
Production in construction 22.3% 0.3% Jan – June 9.7%	5% 9.5% 5% 10.5% 9% 12.0% 7% 7.5% 38.1% Period	

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•	Production in construction	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
ల	Private building activity - building permits (volume in m ³)	-1.1%	-8.4%	Jan – Aug	65.5%	August
•	Retail sales (volume)	-1.3%	-1.3%	Jan – Sep	2.6%	September
ల	Excluding automotive fuel	-0.3%	-0.2%	Jan – Sep	3.2%	September
•	New vehicle licenses	14.1%	13.7%	Jan – Nov	18.4%	November
	Revenue from tax on mobile telephony	-3.2%	-8.7%	Jan – Sep	-52.4%	September
•	Non-oil exports of goods (ELSTAT, current prices)	9.8%	1.2%	Jan – Oct	2.6%	October
<u> </u>	Non-oil exports of goods, volume	6.8%	4.8%	Jan – Oct	4.6%	October
	Non-oil imports of goods (ELSTAT, current prices)	0.9%	7.4%	Jan – Oct	-12.7%	October
	Non-oil imports of goods, volume	-4.5%	12.8%	Jan – Sep	5.5%	September
•	Tourism – receipts	6.6%	-5.5%	Jan – Sep	2.3%	September
•	Transportation – receipts	-17.5%	-29.2%	Jan – Sep	23.9%	September
•	Other services* – receipts	-16.3%	-3.9%	Jan – Sep	36.6%	September
•	Inbound travelers	8.6%	3.5%	Jan – Sep	13.7%	September

* 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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Tables - Graphs



Private consumption, retail sales and consumer confidence (ELSTAT, Q3 2016, DG ECFIN, IOBE, Nov. 2016)



Economic sentiment & business expectations



Non-oil exports and imports of goods (ELSTAT, Oct. 2016)



Consumer confidence & households' expectations (DG ECFIN, IOBE, Nov. 2016)





3

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



SEV Hellenic Federation of Enterprises

SEV Hellenic Federation of Enterprises

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