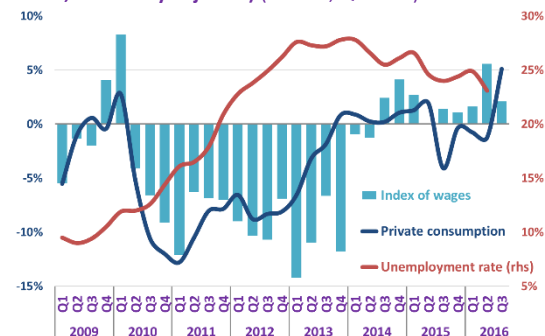


Political risk undermines ongoing recovery!

12 December 2016

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, conjunctural 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.

Wages and private consumption (yoy % change in real terms, seasonally adjusted) (ELSTAT, Q3 2016)



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 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.

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Economic indicators

Economic sentiment	2014	2015	2016		
	Dec	Dec	Sep	Oct	Nov
Economic climate	99.6	87.6	91.4	93.8	92.4
Consumer confidence	-53.9	-61.1	-65.9	-63.6	-66.9
% stating that their own economic situation will get worse	63%	60%	74%	71%	74%
% stating that the country's economic situation will get worse	66%	80%	81%	74%	81%
% stating that it is unlikely to increase their savings	91%	90%	79%	79%	79%
% stating that unemployment will rise	66%	80%	77%	78%	77%

Employment – Unemployment	2014	2015	2016	Period
Employment (persons, change year-to-date, seasonally adjusted)	+69,900	+91,300	+44,400	Jan – Sep
Employment (persons, change during month, seasonally adjusted)	+5,400	-100	+5,300	Sep
Registered unemployed (change year-to-date)	-11,565	-43,327	+25,529	Jan – Oct
Registered unemployed (change during month)	+15,225	+8,369	+12,350	Oct
Net hirings (year-to-date)	+120,287	+116,548	+162,795	Jan – Oct
Net hirings (current month)	-66,636	-56,473	-82,810	Oct
Unemployment rate (seasonally adjusted)	26.1%	24.7%	23.1%	Sep
Year to date average rate (seasonally adjusted)	26.7%	25.2%	23.6%	Jan - Sep
Index of wages (whole economy, in constant prices, seasonally adjusted)	2.4%	1.4%	2.1%	Q3
Change Year to date (whole economy, in constant prices, seasonally adjusted)	0.1%	1.3%	3.1%	Jan – Sep
Consumer Price Index	-1.2%	-0.7%	-0.9%	Nov
Change Year to date	-1.2%	-1.9%	-0.9%	Jan – Nov

GDP (in constant prices)	Change 2015/2014	Change 2016/2015	Period	Change yoy		
				2016 Q1	2016 Q1	2016 Q3
GDP	-0.6%	0.2%	Jan – Sep	-0.8%	-0.5%	1.8%
Domestic demand	-1.7%	1.5%	Jan – Sep	0.9%	1.9%	1.7%
Private consumption	-0.3%	1.0%	Jan – Sep	-0.8%	-1.2%	5.1%
Public consumption	-0.8%	-1.2%	Jan – Sep	-2.1%	-0.9%	-0.6%
Investment (including inventory change)	-13.2%	10.2%	Jan – Sep	17.9%	30.6%	-16.9%
Residential construction	-27.9%	-15.5%	Jan – Sep	-17.0%	-23.3%	-3.7%
Non – residential construction	-5.5%	17.6%	Jan – Sep	13.6%	19.1%	20.1%
Machinery and equipment (incl. weapons)	6.1%	10.7%	Jan – Sep	-1.6%	2.3%	34.9%
Net exports						
Exports of goods and services	5.0%	-1.6%	Jan – Sep	-10.5%	-3.2%	10.2%
Exports of goods	8.1%	10.7%	Jan – Sep	2.4%	20.5%	9.5%
Exports of services	1.5%	-14.1%	Jan – Sep	-22.8%	-24.6%	10.5%
Imports of goods and services	1.4%	2.0%	Jan – Sep	-8.7%	4.9%	12.0%
Imports of goods	3.4%	6.6%	Jan – Sep	-2.1%	14.7%	7.5%
Imports of services	-6.6%	-15.6%	Jan – Sep	-31.6%	-29.9%	38.1%

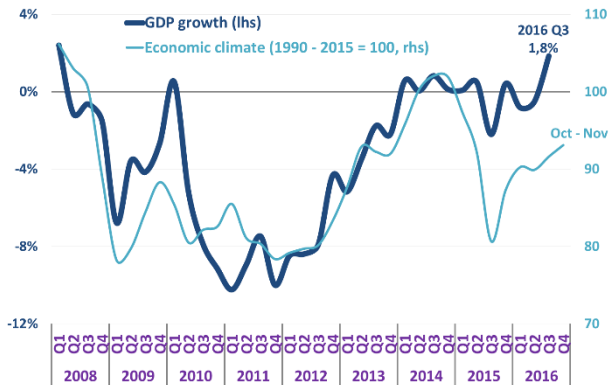
Short term conjunctural indicators	Change 2015/2014	Change 2016/2015	Period	Change 2016/2015	Period
Industrial production	0.3%	2.3%	Jan – Oct	6.8%	October
Manufacturing (excluding oil)	1.5%	3.6%	Jan – Oct	6.7%	October
Production in construction	22.3%	0.3%	Jan – June	9.7%	Q2
Building	24.2%	2.7%	Jan – June	7.7%	Q2
Non – building	20.8%	-1.5%	Jan – June	11.4%	Q2
Private building activity – building permits (volume in m³)	-1.1%	-8.4%	Jan – Aug	65.5%	August
Retail sales (volume)	-1.3%	-1.3%	Jan – Sep	2.6%	September
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
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

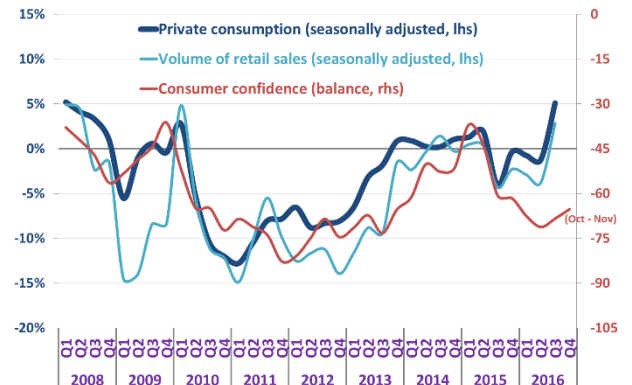
Source: IOBE, ELSTAT, Bank of Greece, Ministry of Labour and Social Solidarity, DG ECFIN, European Commission

Tables - Graphs

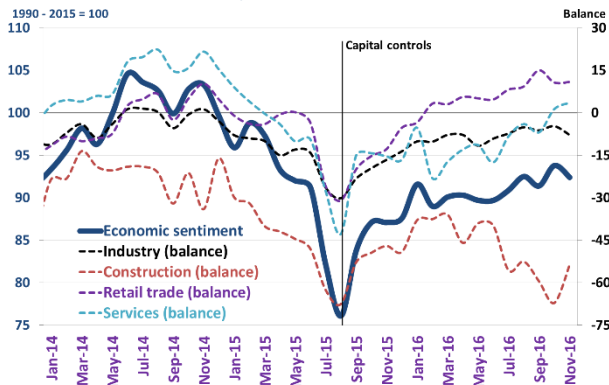
GDP growth & economic sentiment
(ELSTAT, Q3 2016, DG ECFIN, IOBE, Nov. 2016)



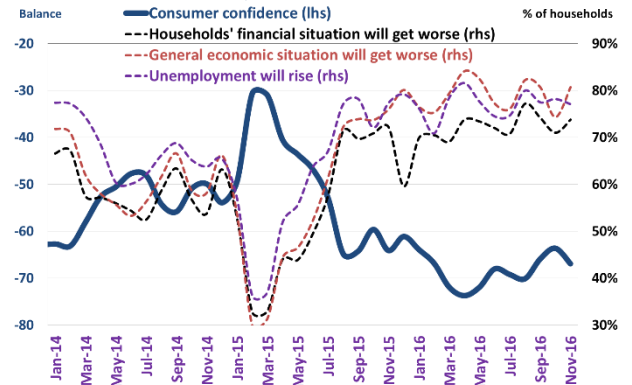
Private consumption, retail sales and consumer confidence
(ELSTAT, Q3 2016, DG ECFIN, IOBE, Nov. 2016)



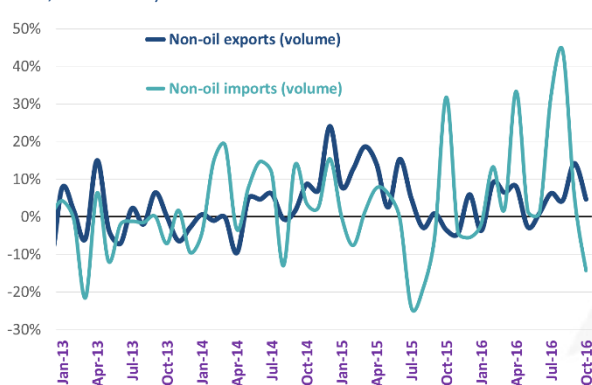
Economic sentiment & business expectations
(DG ECFIN, IOBE, Nov. 2016)



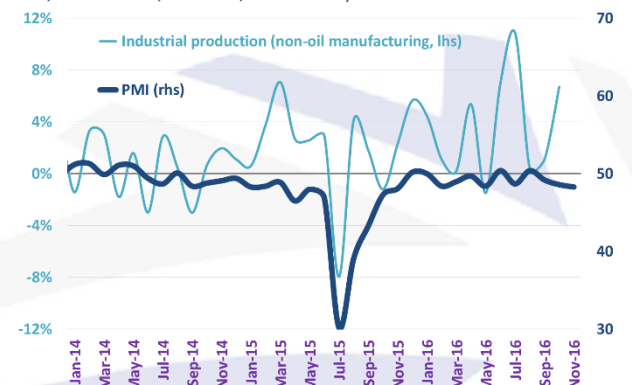
Consumer confidence & households' expectations
(DG ECFIN, IOBE, Nov. 2016)



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



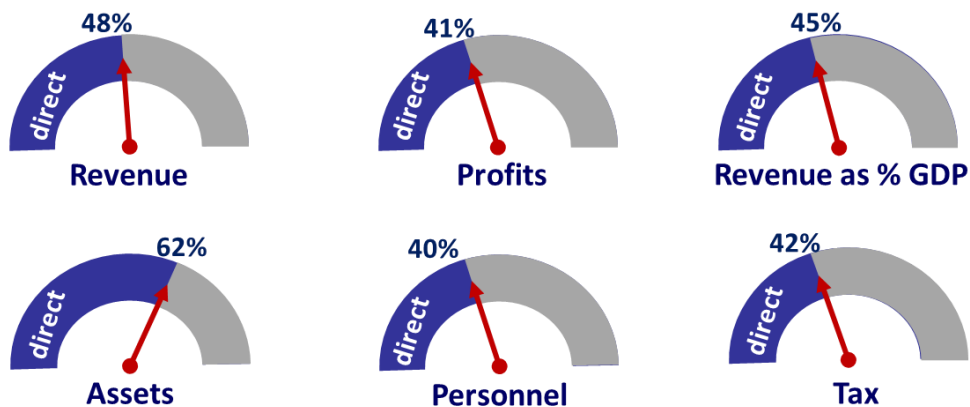
PMI and industrial production
(Markit, Nov. 2016, ELSTAT, Oct. 2016)



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



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