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# BUSINESS & THE GREEK ECONOMY | MONTHLY BULLETIN

SEV Hellenic Federation of Enterprises

**INDEX**



**MACROECONOMIC ANALYSIS AND EUROPEAN POLICY**


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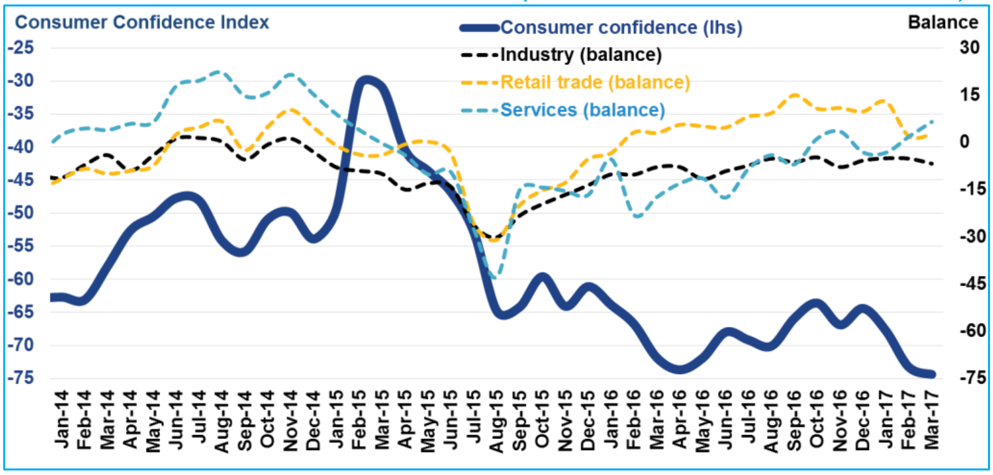
**Consumer confidence and business expectations in main sectors**
*(IOBE and EC-DG ECFIN, Mar. 2017)*




## The imminent conclusion of the 2nd review is a positive. The delay in reducing overtaxation for 2020 is not

Everything seems to fall in place, following the informal agreement in the Eurogroup at 7/4/2017 in Malta. The agreement provides for pension cuts of 1 p.p. of GDP in 2019 and tax increases, via a cut in the tax free credit, of an equal amount in 2020 (or in 2019 if the IMF in reviewing the program decides in 2018 that the 3,5 p.p. of GDP primary surplus target is not attainable). These “negative”, according to the government, measures, will be legislated before the conclusion of the 2nd review, together with “positive”, according to the government, measures of raising social spending and cutting rates on the income tax and the property tax (ENFIA), in order to be implemented in 2019 and 2020 respectively and only if the target of a 3.5 p.p. of GDP for the primary surplus is adhered to and there is an overachievement. These “positive” measures could reach 1 p.p. od GDP in 2019 (spending increases) and the same amount in 2020 (tax cuts), on the government’s assumption that by 2018 the primary surplus target will have been attained on a sustainable basis, that is with the adjustment based on permanent and not once-off measures.

This opens the way for the return of the technical teams in Athens so that a formal agreement may be swiftly concluded. This is necessary so that negotiations may begin between the IMF and the Europeans with a view to make the Greek debt sustainable and, in particular, to agree the time period after 2018 during which Greece will maintain a primary surplus of 3.5 p.p. of GDP, as well as assurances to be given on debt relief over the medium term. The successful conclusion of such negotiations will unlock the IMF’s participation in the Greek program, without which a new program needs to be negotiated.

The agreement on the 2nd review which is to be finalized, may be challenged on four fronts:

First, the post-program (August 2018) agreement which is in the wings, brings new uncertainties and once more relegates growth to the back burner. Nevertheless, the legislation from today of the pension and tax free credit threshold cuts in 2019 and 2020 support strongly the smooth access by the sovereign of the markets in 2018, since they guarantee fiscal discipline in the years to come, with the Greek economy however in the intensive care unit for more years.

Second, if we were really interested in the private sector’s growth and in attracting investment, the Greek government and the Institutions should have immediately implemented the tax free credit and the income tax rate cuts, in spite of postponing them for 2020, with whatever uncertainties this implies for growth. The business community and the domestic production suffers from the bonds of overtaxation of the legal economic activity and looked forward to a change in the policy mix so that the growth process is strengthened. With expectations frustrated by the imminent agreement, it is doubtful to what extent the economy will benefit from the higher growth rates and the contraction of unemployment in the program, as well as the recovery of the revenues of the social security funds and, in the last analysis, the restoration of the debt sustainability itself.

Third, the social security issue remains substantially unresolved, as another segregated reform is implemented, with horizontal (and arbitrary) pension cuts and unreasonable high social contributions with no contributory benefits, not allowing the development of the second and the third pillar of the system, according to all practices in the developed countries. And, while pension and tax free credit cuts are certain to happen in 2019 and 2020 respectively, the financing of the social programs and the income tax rate cuts is uncertain. The latter depend on the overachievement, and the degree of it, of the primary surplus target of 3.5. p.p. of GDP, while in case of not achieving the target, the tax free credit cut will come forward by one year, and it will be implemented, together with the pension cuts in 2019.

The post- program (August 2018) agreement which is in the wings, brings new uncertainties and once more relegates growth to the back burner. Nevertheless, the legislation from today of the pension and tax free credit threshold cuts in 2019 and 2020 support strongly the smooth access by the sovereign of the markets in 2018, since they guarantee fiscal discipline in the years to come.

Fourth, it would have been more effective, if the “positive” measures that offset fiscally the “negative” measures, that is, pension and tax free credit cuts, had been directed to the reduction of social contributions and generally to measures that support the hard working Greek families. The intergenerational transfer of resources to the younger generations is in fact a big challenge for the growth of Greek economy. However, in order to be successful, this demands a proper prioritization of measures to stop brain drain, offer incentives to the business community to create new jobs and support working parents in raising their children.

Given what has transpired out of the latest 2nd review agreement, the only logical conclusion that may be drawn is that the creditors (in contrast to the Greek government) do not trust that the adjustment process may lead to sustainable primary surpluses of 3.5 p.p. of GDP. It is for this reason that further austerity measures of 2 p.p. of GDP are requested to be implemented in 2019 and 2020, so as to strengthen in addition the prospects for a successful market access exercise by the Greek government in 2018, by reassuring the markets that fiscal discipline in the years to come will not be compromised. The Greek part, in order to offset this additional fiscal cost, relies on the early legislation of “positive” measures, that is spending for the reduction of child poverty for subsidizing housing, dealing with youth unemployment, reducing the deductible on drugs to pensioners, and providing a package of investment incentives, as well as cuts on income and property taxes (ENFIA), which do not have to be legislated beforehand. Such measures could be easily legislated in 2019 and 2020, since according to the government, there will be no slippages vs the required primary surplus target. Therefore, their early legislation is done today clearly for communication purposes.

Nevertheless, the registered delays in completing the 3rd program’s 2nd review has impacted negatively economic developments and estimates for growth in 2017, with consumer confidence to have receded to a 3.5 year low. The lifting of uncertainty is expected to support economic climate, though the conjuncture will continue to bear the burden of the program’s impact on domestic demand.

More specifically:

- **The economic climate indicator rose marginally in March 2017** (to 93.4 points compared to 92.9 in the previous month), driven by more optimistic expectations in all sectors except retail trade.
- **Industrial production, after January, increased further in February 2017**, with non-oil manufacturing production growing by +5.6% (on top of +1.2% in February 2016) and + 3.5% in the period Jan - Feb 2017 (on top of + 2.7% in the same period in 2016), strengthening its upward trend over Q4 2016 (+2.6%). This development is attributed mainly to the sectors of basic metals, metallic

products and electrical equipment (+34%, +17.9% and +14% respectively in the period Jan-Feb 2017).

- **Production in construction increased by +18.6% in Q4 2016** (+17.3% in buildings and +19.7% in infrastructure) and by +22.9% in 2016 throughout the year (+18.1 % in buildings and +26.8% in infrastructure), on top of an increase of +3.1% in 2015 and +15.5% in 2014 when downward trend was reversed.
- **Net hirings were positive by +33.6 mil. in Q1 2017, at the same level of Q1 2016 (+33.8 mil.)**, mainly due to the high positive balance in hotels (+11.9 mil.) and in retail trade (+3.5 mil), in view of the Easter holidays and the preparation for the tourist season.
- **Inflation was strengthened in March 2017** (+1.7% vs +1.3% in the previous month and -1.5% in March 2016). Although this is attributed mainly to indirect taxes hike (the consumer price index with constant taxes was up by +0.5%), the end of deflation since December 2016 evinces increased demand in the economy, with businesses' pricing power on the rise.

In any case, the tax free credit and the income tax rate cuts should have been implemented immediately and not to have been postponed for 2020, with whatever uncertainties this implies for growth. The business community suffers from the bonds of overtaxation of the legal economic activity and looked forward to a change in the policy mix so that the growth process is strengthened.

On the other hand:

- **Consumer confidence fell to -74.4 points in March 2017**, from -73.3 in the previous month, reaching the lowest level of the last 3.5 years, as a result of households' rising pessimism regarding their financial situation and the general economic situation.
- **The volume of retail sales recorded a marginal decline in January 2017** (-0.1%), showing a weakening compared with the last quarter of 2016 (+1.7%), following last December's drop of -0.9%.
- A similar trend is also observed in **the volume of non-oil exports of goods, which decreased by -6.6% in February 2017** (-1.7% in the period Jan – Feb 2017), after an increase of +3.9% in January 2017 and +4.4% in Q4 2016.
- **Deposit net flows of the private sector remained negative in February 2017 (-€750 million.)**, although since July 2015, when capital controls were imposed, the cumulative net flows were positive (+€3 bn. approx.), as a result of the upward trend in businesses' deposits, despite the cumulative reduction of households' deposits (-€1.1 bn.).

In any case, developments to date in the first quarter of 2017, as described above, are basically in the right direction, though any continuation of the weakness in retail sales and export volumes over the next months will confirm weaker than anticipated growth for 2017. The restoration of the business climate and the consumer confidence on a rising trajectory has become imperative for normalization. Within this context, the immediate completion of the 2nd review is a sine qua non precondition for strengthening growth recovery prospects in 2017.

# Main indicators

| Economic sentiment | 2015 Average | 2016 Average | 2017 Feb | 2017 Mar |
|---|---|---|---|---|
| **Economic climate** | 89.7 | 91.8 | 92.9 | 93.4 |
| **Consumer confidence** | -50.7 | -68.0 | -73.3 | -74.4 |
| % stating that their own economic situation will get worse | 55% | 72% | 76% | 76% |
| % stating that the country's economic situation will get worse | 58% | 79% | 82% | 85% |
| % stating that unemployment will rise | 63% | 77% | 77% | 78% |

| Employment, Unemployment, prices, wages | 2015 | 2016 | 2017 | Period |
|---|---|---|---|---|
| **Employment (persons, change year-to-date, seasonally adjusted)** | +108,500 | -4,600 | - | Jan – Dec |
| Employment (persons, change during month, seasonally adjusted) | -5,000 | -17,500 | -5,600 | Jan |
| **Registered unemployed (change year-to-date)** | +6,387 | +35,764 | +25,642 | Jan – Feb |
| Registered unemployed (change during month) | +135 | +17,814 | +7,148 | Feb |
| **Net hirings (year-to-date)** | 28,164 | 33,834 | 33,638 | Jan – Mar |
| Net hirings (current month) | 22,313 | 29,351 | 38,517 | Mar |
| **Unemployment rate (seasonally adjusted)** | 25.8% | 24.3% | 23.5% | Jan |
| Year to date average rate (seasonally adjusted) | 25.0% | 23.6% | - | Jan – Dec |
| **Index of wages (whole economy, in constant prices, seasonally adjusted)** | 1.1% | 0.7% | - | Q4 |
| Change Year to date (whole economy, in constant prices, seasonally adjusted) | 1.3% | 2.5% | - | Jan – Dec |
| **Consumer Price Index** | -2.1% | -1.5% | 1.7% | Mar |
| Change Year to date | -2.4% | -0.9% | 1.4% | Jan – Mar |

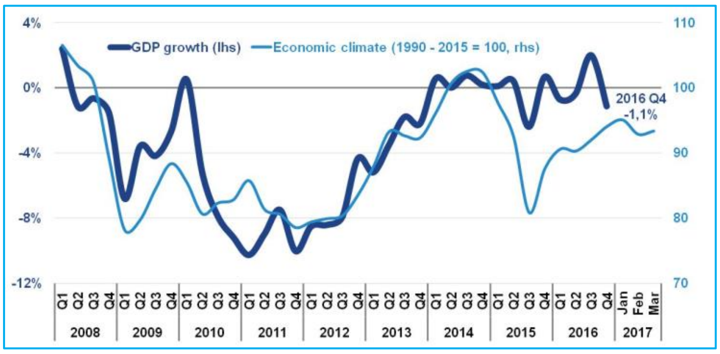
| GDP (in constant prices) | Change 2015/2014 | Change 2016/2015 | Period | 2016/2015 Q3 | 2016/2015 Q4 |
|---|---|---|---|---|---|
| **GDP** | -0.2% | 0.0% | Jan – Dec | 2.0% | -1.1% |
| **Domestic demand** | -1.2% | 0.4% | Jan – Dec | 2.1% | -3.4% |
| Private consumption | -0.2% | 1.4% | Jan – Dec | 6.1% | 1.1% |
| Public consumption | 0.0% | -2.1% | Jan – Dec | -1.3% | -2.0% |
| Investment (including inventory change) | -8.9% | -0.8% | Jan – Dec | -16.3% | -30.7% |
| Residential construction | -25.8% | -12.8% | Jan – Dec | -3.3% | -3.1% |
| Non – residential construction | 6.2% | 2.9% | Jan – Dec | 13.4% | -16.3% |
| Machinery and equipment (incl. weapons) | 5.0% | 5.6% | Jan – Dec | 31.8% | -5.6% |
| **Net exports** | | | | | |
| Exports of goods and services | 3.4% | -2.0% | Jan – Dec | 11.0% | 5.7% |
| Exports of goods | 8.6% | 2.9% | Jan – Dec | 8.3% | -2.2% |
| Exports of services | -2.4% | -7.3% | Jan – Dec | 14.4% | 12.1% |
| Imports of goods and services | 0.3% | -0.4% | Jan – Dec | 13.8% | 3.0% |
| Imports of goods | 3.4% | 2.2% | Jan – Dec | 10.5% | 1.6% |
| Imports of services | -11.7% | -11.5% | Jan – Dec | 33.7% | 8.6% |

| Short term conjunctural indicators | Change 2016/2015 | Change 2017/2016 | Period | Change 2017/2016 | Period |
|---|---|---|---|---|---|
| **Industrial production** | 2.9% | 3.7% | Jan – Feb | 6.1% | Feb |
| Manufacturing (excluding oil) | 2.7% | 3.5% | Jan – Feb | 5.6% | Feb |
| **Production in construction** | 22.9% | - | Jan – Dec | - | - |
| Building | 18.1% | - | Jan – Dec | - | - |
| Non – building | 26.8% | - | Jan – Dec | - | - |
| **Private building activity – building permits (volume in $m^3$)** | -6.9% | - | Jan – Dec | - | - |
| **Retail sales (volume)** | -0.6% | - | Jan – Dec | -0.1% | Jan |
| Excluding automotive fuel | 0.5% | - | Jan – Dec | -0.3% | Jan |
| **New vehicle licenses** | -2.4% | 35.6% | Jan – Mar | 43.5% | Mar |
| **Revenue from tax on mobile telephony** | -2.6% | - | Jan – Nov | - | - |
| **Non-oil exports of goods (ELSTAT, current prices)** | -0.3% | 2.2% | Jan – Feb | -1.8% | Feb |
| Non-oil exports of goods, volume | 2.6% | -1.7% | Jan – Feb | -6.6% | Feb |
| **Non-oil imports of goods (ELSTAT, current prices)** | 7.0% | 22.4% | Jan – Feb | 2.9% | Feb |
| Non-oil imports of goods, volume | 5.9% | 24.9% | Jan – Feb | 4.5% | Feb |
| **Tourism – receipts** | -6.4% | - | Jan – Dec | -2.4% | Jan |
| **Transportation – receipts** | -21.6% | - | Jan – Dec | 36.4% | Jan |
| **Other services* – receipts** | 4.4% | - | Jan – Dec | 48.1% | Jan |
| **Inbound travelers** | 5.1% | - | Jan – Dec | -6.9% | Jan |

* 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

## Economic climate




**GDP AND ECONOMIC CLIMATE**

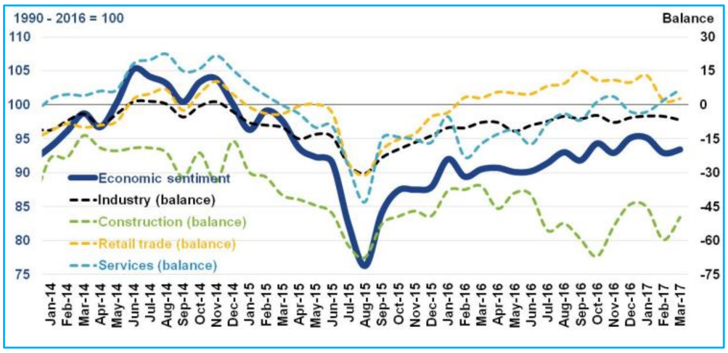
*(ELSTAT, Q4 2016, IOBE-DG ECFIN, Mar. 2017)*

The decline of GDP by -1.1% yoy in Q4 2016 was mainly due to the rise in imports (+3%) and the drop in investment including inventories (-30.7%).


**PRIVATE CONSUMTION, RETAIL SALES, CONSUMER CONFIDENCE**

*(ELSTAT,Q4 2016, IOBE-DG ECFIN, Mar. 2017)*

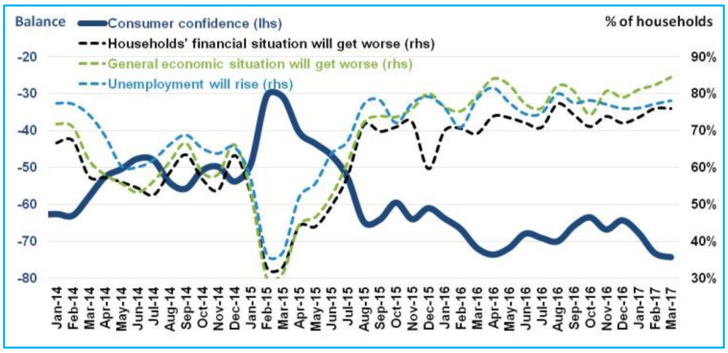
Private consumption continued to grow in Q4 2016 but at a slower pace (+1.1% vs +6.1% in Q3 2016). The volume of retail sales shows a similar trend, while consumer confidence dropped significantly in February 2017.




**ECONOMIC CLIMATE AND BUSINESS EXPECTATIONS**

*(IOBE-DG ECFIN, Mar. 2017)*

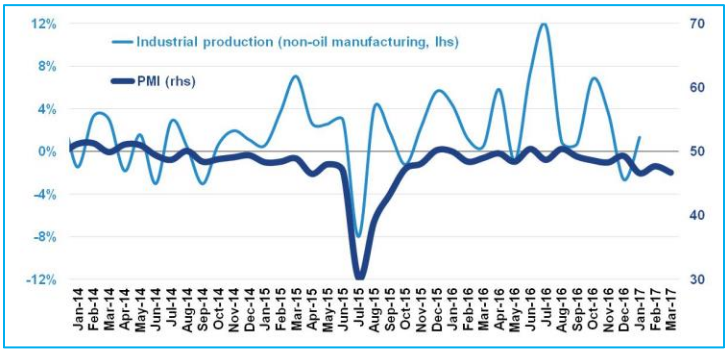
The economic sentiment indicator rose marginally to 93.4 points in March 2017 from 92.9 points in the previous month, driven mainly by external demand, particularly by more optimistic business expectations for exports of goods and services.




**CONSUMER CONFIDENCE**

*(IOBE-DG ECFIN, Mar. 2017)*

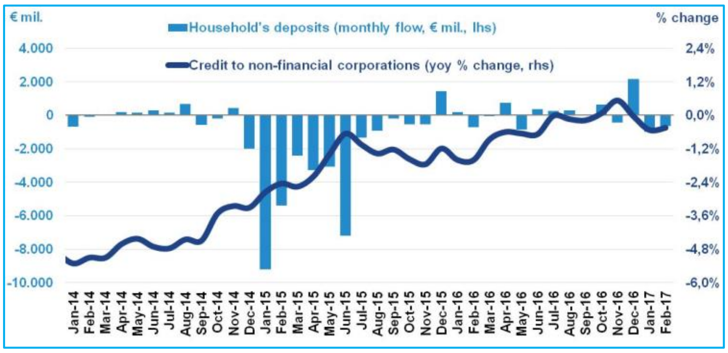
Consumer confidence fell to -74.4 points in March 2017, from -73.3 in the previous month, reaching the lowest level of the last 3.5 years, as a result of consumers' rising pessimism regarding their financial situation and the general economic situation.




**PURCHASING MANAGRES' INDEX (PMI)**

*(Markit, Mar. 2017)*

PMI fell to 46.7 points in March 2017 (from 47.7 in the previous month), due to the decline in new orders, production and employment. However, businesses remained optimistic about the trend of production in the coming months.

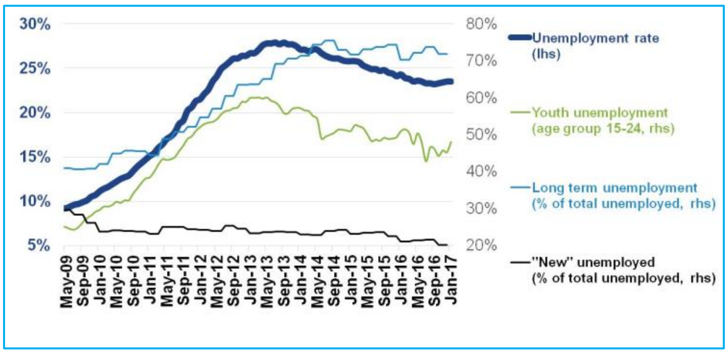



**CREDIT TO BUSINESSES AND HOUSEHOLDS DEPOSITS**

*(Bank of Greece,Feb. 2017)*

Deposit net flows of the private sector remained negative in February 2017 (-€750 million), while credit to businesses yoy change remained negative (-0.4%).

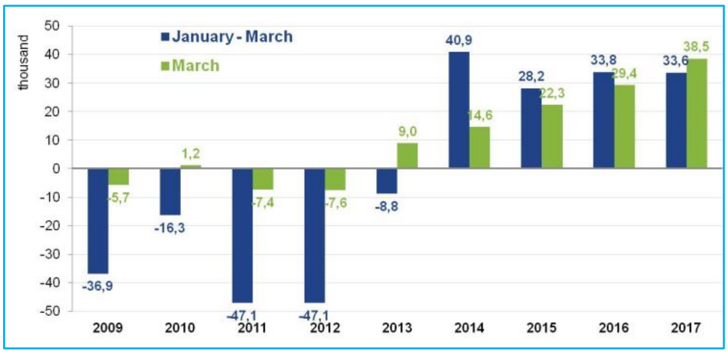
## Employment, prices, wages




### UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)

*(ELSTAT, Jan. 2017)*

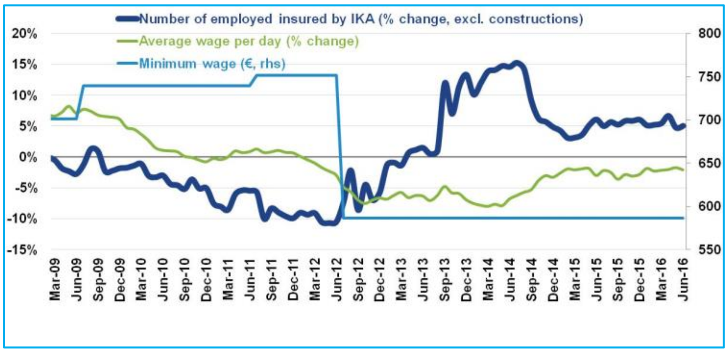
The unemployment rate remained unchanged at 23.5% in Jan 2017 compared to the previous month, while the downward trend has stopped since September 2016. At the same time, the percentages of long-term unemployment and youth unemployment remain high.




### NET HIRINGS

*(ERGANI, Mar. 2017)*

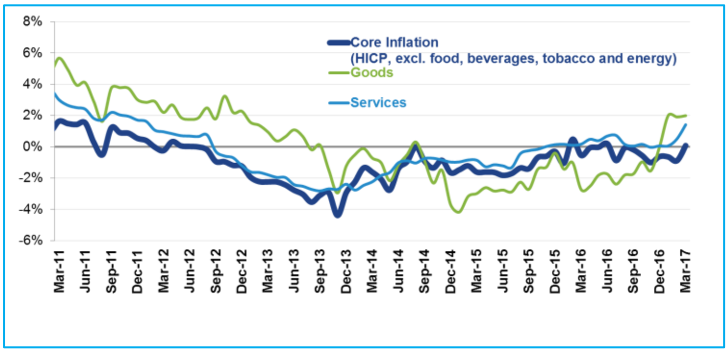
Net hirings were positive by +33.6 mil. in Q1 2017, at the same level of Q1 2016 (+33.8 mil.), mainly due to the high positive balance in hotels (+11.9 mil.) and in retail trade (+3.5 mil), in view of the Easter holidays and the preparation for the tourist season.




### NUMBER OF EMPLOYED INSURED BY IKA AND AVERAGE WAGE

*(Yoy % change, IKA, Jun. 2016)*

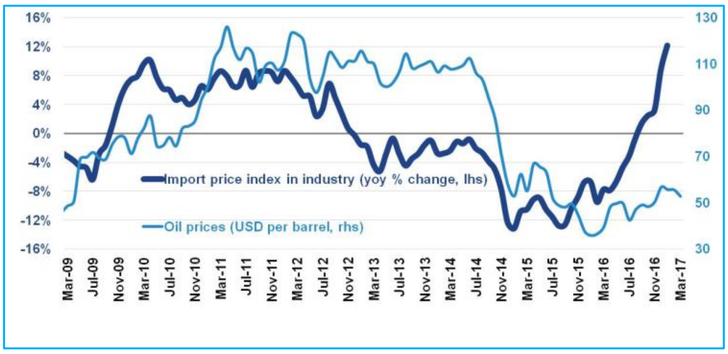
The number of employed insured by IKA has been rising since April 2013 (+5% in June 2016), yet average wages continued to decline (-2,1%)




### GOODS AND SERVICES INFLATION, CORE INFLATION

*(ELSTAT, Mar. 2017)*

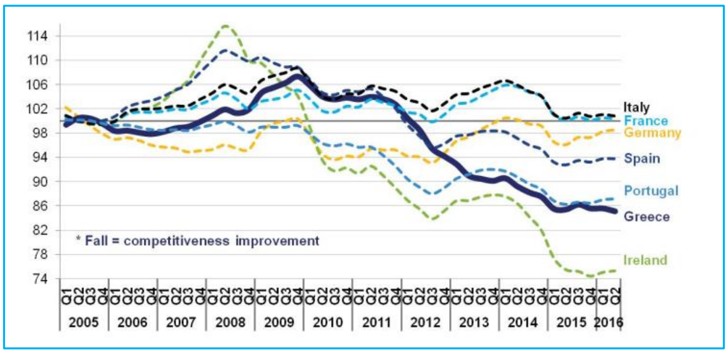
The Consumer Price Index rose by +1.7% in March 2017. Although this is attributed mainly to the indirect taxes hike (the consumer price index with constant taxes was up by +0.5%), the end of deflation since December 2016 evinces increased demand in the economy.




### IMPORT PRICE INDEX IN INDUSTRY AND OIL PRICES

*(ELSTAT,Jan. 2017, FT, Mar. 2017)*

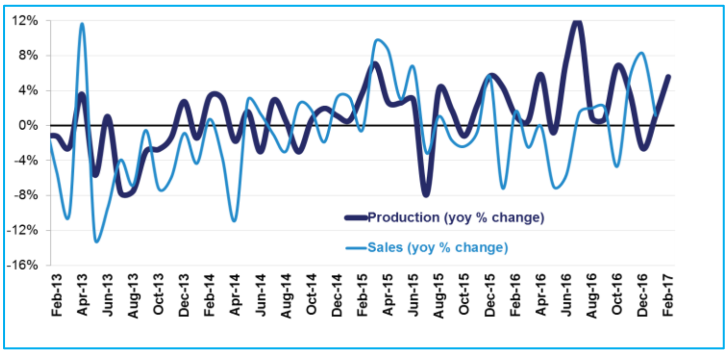
After almost 4 years of decline, import price index in industry is on the rise since Sep 2016 (+12.2% in Jan 2017), following the increase of oil prices.

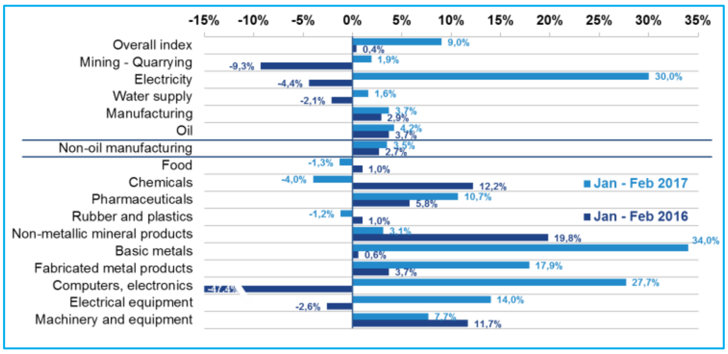



### PRICE AND COST COMPETITIVENESS: REAL EFFECTIVE EXCHANGE RATE *(Eurostat,Q2 2016)*

Reforms in recent years have contributed to the recovery of a significant part of Greece's competitiveness compared with other European countries according to the index of the real effective exchange rate.

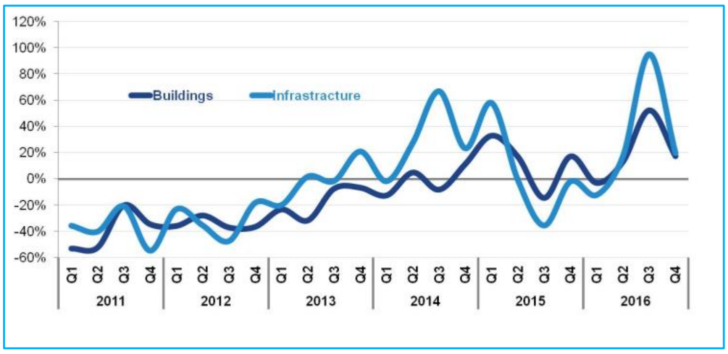
## Industry, trade, services

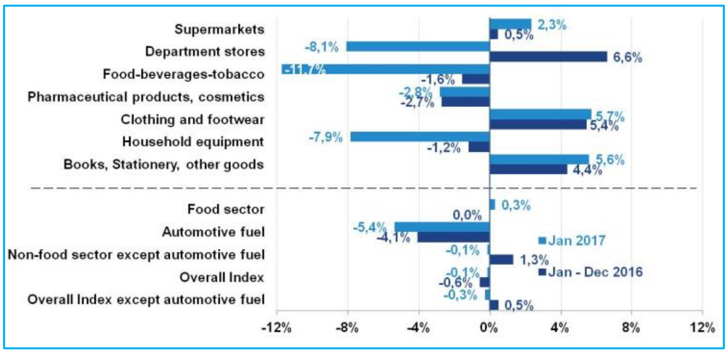



**PRODUCTION AND TUROVER IN NON-OIL MANUFACTURING**
*(ELSTAT, Feb. 2017)*
Industrial production increased further in February 2017, with non-oil manufacturing production growing by +5.6% (on top of +1.2% in February 2016) and + 3.5% in the period Jan - Feb 2017 (on top of + 2.7% in the same period in 2016), strengthening its upward trend over Q4 2016 (+2.6%).

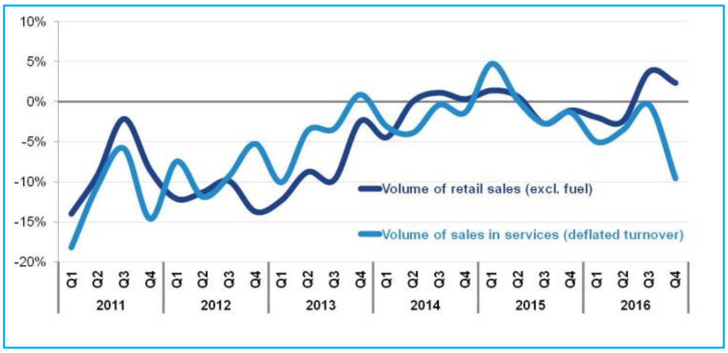
**INDUSTRAL PRODUCTION BY SECTOR**
*(ELSTAT, Feb. 2017)*
The growth of industrial production in the period Jan – Feb 2017 is attributed mainly to the sectors of basic metals, metallic products and electrical equipment (+34%, +17.9% and +14% respectively).

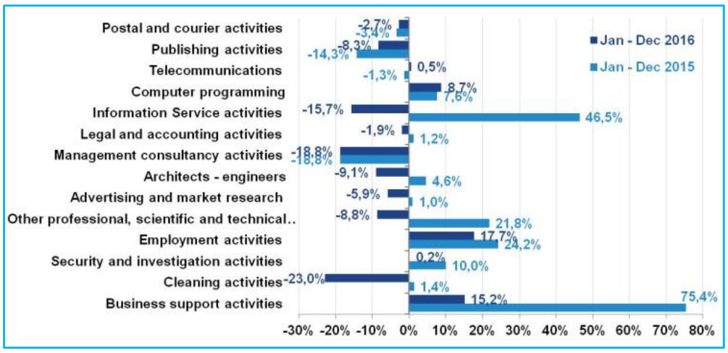



**VOLUME OF PRODUCTION IN CONSTRUCTION**
*(Yoy % change, ELSTAT, Q4 2016)*
Production in construction increased by +18.6% in Q4 2016 (+17.3% in buildings and +19.7% in infrastructure) and by +22.9% in 2016 throughout the year (+18.1 % in buildings and +26.8% in infrastructure), on top of an increase of +3.1% in 2015 and +15.5% in 2014.

**VOLUME OF RETAIL SALES**
*(% change by store category, ELSTAT, Jan. 2017)*
The decline in retail sales volume in January 2017 (-0.1%) was mainly due to the downturn in food / beverages and department stores, while sales in clothing and books / technology continued to rise.

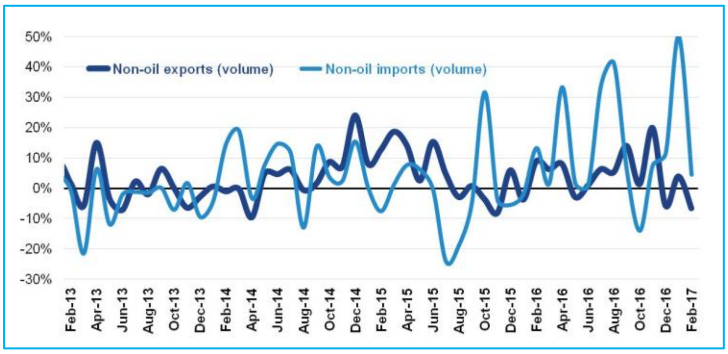



**VOLUME OF RETAIL AND SERVICES SALES**
*(ELSTAT, Eurostat,Q4 2016)*
The volume of retail sales excluding fuels kept on rising in Q4 2016 (+2.3%) but at a slower pace compared with Q3 2016 (+3,8%), while in Jan 2017 recorded a marginal decline (-0.3%). On the contrary, the sales volume in services dropped significantly in Q4 2016 (-9.6%).

**TURNOVER INDICES IN SERVICES**
*(ELSTAT,Q4 2016)*
In most sectors of services turnover fell in 2016. Cleaning activities, management consultancy and information services recorded the biggest losses, while turnover in business support activities, employment activities and computer programming was on the rise.

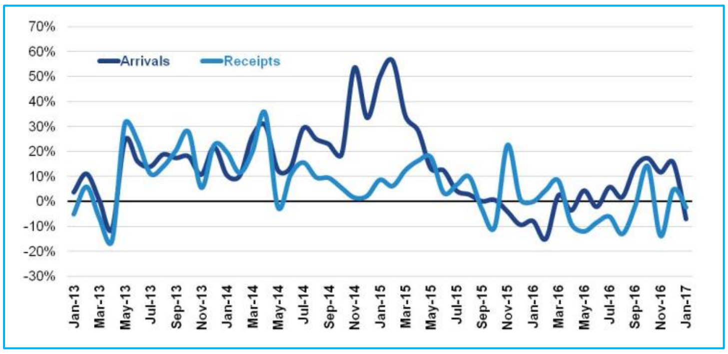
# Exports, tourism




**VOLUME OF NON-OIL EXPORTS AND NON-OIL IMPORTS OF GOODS**

*(ELSTAT, Feb. 2017)*

Non-oil exports of goods decreased by -6.6% in terms of volume in February 2017 (-1.7% in the period Jan – Feb 2017), after an increase of +3.9% in January 2017 and +4.4% in Q4 2016. Volume of non-oil imports kept on rising but at a slower pace.




**TOURIST ARRIVALS AND RECEIPTS**

*(Bank of Greece, Jan. 2017)*

Tourist receipts fell to €165 mil. In January 2017 (-2.4% yoy) and arrivals dropped to 520.4 thousand (-6.9% yoy). The decrease in arrivals is mainly due to a -10.5% decline in arrivals from countries outside the EU-28, while arrivals from Eurozone increased by +31.2%.

| Group of products | Jan - Nov | | %Δ |
|---|---|---|---|
| *(€ mil.)* | 2016 | 2017 | |
| **Agricultural products** | **880.6** | **815.8** | **-7.4%** |
| Food | 606.5 | 618.4 | 2.0% |
| Beverages / Tobacco | 104.9 | 89.5 | -14.7% |
| Animal and vegetable oil | 169.2 | 107.9 | -36.2% |
| **Crude Materials** | **148.6** | **209.5** | **41.0%** |
| **Mineral Fuels** | **804.9** | **1,361.1** | **69.1%** |
| **Industrial products** | **1,709.8** | **1,774.0** | **3.8%** |
| Chemicals | 419.0 | 456.4 | 8.9% |
| Goods classified by material | 598.8 | 634.0 | 5.9% |
| Machinery & transport equipment | 377.9 | 382.1 | 1.1% |
| Misc. manufactured articles | 314.2 | 301.5 | -4.0% |
| **Not classified commodities** | **82.9** | **82.1** | **-0.9%** |
| **Total** | **3,626.8** | **4,242.5** | **17.0%** |
| **Total exl. Oil** | **2,821.8** | **2,881.4** | **2.1%** |
| **Memo item*:** | | | |
| **Manufactured products** | **1,112.9** | **1,169.2** | **5.1%** |
| of which: Food / Beverages | 248.4 | 229.8 | -7.5% |
| **Crude materials & primary products** | **224.7** | **238.6** | **6.2%** |
| of which: Agricultural products | 147.2 | 146.0 | -0.8% |

* Jan Data

**EXPORTS BY PRODUCT**

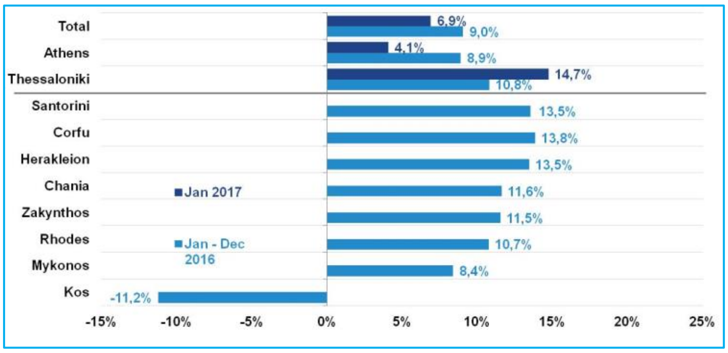
*(ELSTAT, Eurostat, Feb. 2017)*

During the period Jan-Feb 2017, exports of most groups of products increased. From industrial products exports of chemicals and goods classified by material showed a strong performance, while the reduction of agricultural exports is mainly due to fats and oils.


**TRANSPORTATION RECEIPTS**

*(BoG, Jan. 2017,Piraeus container handling: COSCO, Jan. 2017)*

Transportation receipts have been improving since July 2016, yet this is due to the base effect after a significant drop during the period Jul 2015 – Jun 2016 , while in 2016 as a whole, net transportation inflows decreased by -€1.2 bn.




**INTERNATIONAL ARRIVALS AT MAIN AIRPORTS**

*(SETE, Jan. 2017)*

International arrivals were up at most airports during the period Jan – Dec 2016, while the refugee issue seems to affect certain areas, such as Kos (-11.2%). International arrivals at Greek airports continued to increase in January 2017 (+6.9%).