

## Greek economy: And yet it moves!

7 December 2015

The Greek economy **has demonstrated remarkable resilience**. The latest estimates by ELSTAT regarding the growth rate of GDP during the third quarter of 2015, in spite of the weaker performance when compared to the initial estimates, indicate that **the recession will be milder than anticipated**. As a result one can expect that **the impact of capital controls will be milder than feared**. At the same time, leading indicators move towards normalization, recovering a large part of the ground lost during the summer. **Yet, there are also clear signs of weakening** that are mainly reflected in the growth of industrial production and exports as well as in the decline in imports, retail sales and receipts from tourism and shipping. In particular, during the past month:

- The **manufacturing PMI increased further during November** (to 48.1), but remains at a level below 50, that indicates retraction. This reflects the difficulties still faced by businesses.
- **The economic sentiment indicator remained unchanged** in November 2015 (86.5) while expectations in industry rose, as a result of increased orders, an improved export order book and stronger employment expectations. Still, the absolute confidence levels remain low.
- **Industrial production** kept increasing, albeit at a weaker rate (+2.8%), after the large decline in July. Overall, for the period from January till September 2015, and taking into account the unfavorable circumstances, industrial production still increased marginally (+0,2%), and non-oil manufacturing production demonstrated remarkable resilience (+1,2%).
- In spite of the loss of momentum, **non-oil exports kept increasing in September** (+1.9%). The strong performance of exports during the first months of 2015 has led to an increase by +11.1% year-to-date in September 2015. Exports of agricultural products (including food manufacturing) which increased by +17.1% during the first 9 months of 2015 as well as exports of industrial products (+9.1% during the first 9 months), have strong export performance in the period.
- **Deflationary pressures have receded visibly** during October 2015, as the consumer price index declined at a moderated, in comparison to the previous months, pace (-0.9%). This development is attributed to some extent to the increase in VAT rates in the summer.
- **The number of unemployed declined slightly during August 2015** (1,180 thousand unemployed instead of 1,196 thousand unemployed during the previous month), while the seasonally adjusted unemployment rate settled at 24.6% compared with 26.2% in August 2014 and 24.9% in July 2015.

The evidence above is suggestive of the resilience of the economy. At the same time, other developments point to a protracted uncertainty. In particular:

- **During September 2015 turnover in industry kept declining**, even though the decline was milder when compared to August given the much smaller decline in the turnover of non-oil manufacturing (-2,4%).
- In spite of the positive performance of tourism this year, **receipts from tourism declined** in September (-5.4%). For the whole period from January till September 2015 the receipts from tourism reached €12.5 bn. (+4.7%), while arrivals exceeded 20.6 mil. visitors (+8.6%). **More worrying is the decline in the receipts from shipping**, as the receipts from transport services declined by -53.1% in September, while the receipts from other services, which mainly include the activities of Greek construction companies abroad, fell by -25.1%. Overall, **the decline in receipts from exports and service exports suggests that the introduction of capital controls discourages the import of foreign currency by companies that have export-oriented activities**, beyond the fall that is justified by the fall of oil prices and shipping freight costs.
- **Net credit flows were negative in October 2015** (-€412 mil.) in line with the trend of previous months and posting a yearly decline of -1.6%. **The deposit flow was also negative** during the same month (-€681 mil.), following the positive flow observed during the previous two months, **as a result of the continuing outflow of deposits by households** (-€533 mil.), mainly to pay tax obligations.
- In spite of the small decline of the unemployment rate during August, **net hirings during October 2015 posted the second worst performance since 2001** (net loss of 56,473 employees), mainly as a result of increased layoffs.
- **Construction activity kept declining** during August 2015 (-27.8%), and the same is the case for car sales (-13.8%).

Beyond these negative developments, **the decline of investment during the third quarter of 2015 (-12,9%)**, which is the third decline in three successive quarters, is particularly disappointing, as only a strong increase in investment with a long term perspective can turn around the negative economic climate, creating employment and income on a solid basis.

pg

Recent economic developments 1

Main Indicators 2

Tables - Graphs 3

▪ GDP growth and Economic Sentiment (ELSTAT, Q2 2015)

▪ Investment growth (ELSTAT, Q3 2015)

▪ Non-oil manufacturing production and exports (ELSTAT, Oct. 2015)

▪ Tourism and Transportation receipts (BoG, Sep. 2015)

▪ Net hirings (Ministry of Labour, Oct. 2015)

▪ Deposits and Credit flows (BoG, Oct. 2015)

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## Main economic indicators

Economic sentiment	2014/2013		2015	
	Dec / Dec		Nov / Feb	
Economic climate	↑	99.1 / 91.4	↓	86.5 / 98.2
Consumer confidence	↑	-53.9 / -63.3	↓	-64.1 / -30.6
% stating that their own economic situation will get worse		63% / 69%		72% / 33%
% stating that the country's economic situation will get worse		66% / 76%		76% / 30%
% stating that it is unlikely to increase their savings		84% / 72%		89% / 72%
% stating that unemployment will rise		66% / 84%		77% / 36%

Employment – Unemployment	2014	2015	Period
Employment (change year-to-date)	+64,078 pers.	+78,017 pers.	Aug
Employment (change during month)	-10,741 pers.	+10,662 pers.	Aug
Registered unemployed (change year-to-date)	-11,565 pers.	-43,327 pers.	Oct
Registered unemployed (change during month)	+15,225 pers.	+8,369 pers.	Oct
Net hirings (year-to-date)	120,287 pers.	116,548 pers.	Oct
Net hirings (current month)	-66,636 pers.	-56,473 pers.	Oct
Unemployment rate (seasonally adjusted)	26.2%	24.6%	Aug
Year to date average rate	26.8%	25.3%	Aug

GDP	Change 2014/2013	Change 2015/2014	Period	Change 2015/2014	
				Q3	Q2
GDP (in constant prices)	0.6%	0.1%	9M	-1.1%	0.9%
Private consumption	0.6%	0.9%	9M	0.3%	1.8%
Residential construction investment	-52.3%	-25.1%	9M	-34.3%	-8.3%
Non – residential construction investment	5.1%	-13.1%	9M	-13.1%	-12.7%
Investment in machinery and equipment	5.3%	4.1%	9M	-15.5%	7.5%
Exports of goods and services	6.4%	-2.5%	9M	-11.4%	1.4%
Imports of goods and services	5.1%	-5.0%	9M	-19.9%	-3.5%

Main short term indicators	Change 2014/2013	Change 2015/2014	Period	Change 2015/2014	Period
Industrial production	-2.6%	-0.2%	Jan – Sep	2.8%	Sep
Manufacturing (excluding oil)	0.2%	1.2%	Jan – Sep	1.6%	Sep
Production in construction	5.7%	18.1%	Jan – Jun	0.9%	Q2
Building	-3.9%	14.8%	Jan – Jun	3.2%	Q2
Non – building	14.9%	20.8%	Jan – Jun	-0.7%	Q2
Private building activity – building permits (volume in m <sup>3</sup> )	-4.4%	-1.2%	Jan – Aug	-27.8%	Aug
Retail sales (volume)	-0.5%	-1.3%	Jan – Sep	-3.2%	Sep
Excluding automotive fuel	-1.1%	-0.3%	Jan – Sep	-1.4%	Sep
New vehicle licenses	29.5%	14.0%	Jan – Oct	-13.8%	Sep
Revenue from tax on mobile telephony	-11.3%	-6.8%	Jan – Sep	-38.8%	Oct
Exports of goods except oil (ELSTAT, current prices)	-2.1%	11.1%	Jan – Sep	1.9%	Sep
Tourism – receipts	10.9%	4.7%	Jan – Sep	-5.4%	Sep
Transportation – receipts	8.1%	-17.1%	Jan – Sep	-53.1%	Sep
Other services* – receipts	22.6%	-16.3%	Jan – Sep	-25.1%	Sep
Inbound travelers	22.2%	8.6%	Jan – Sep	0.2%	Sep
Index of wages (whole economy, in constant prices)	-1.1%	1.3%	6M	0.0%	Q2

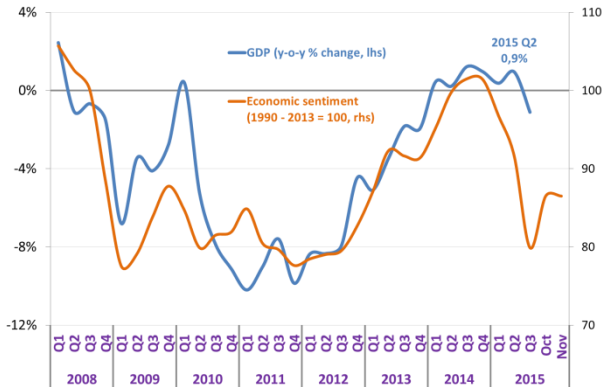
EU Economic Forecasts (Autumn 2015)	Greece				Euro area			
	2014	2015	2016	2017	2014	2015	2016	2017
Real GDP (% change)	0.7	-1.4	-1.3	2.7	0.9	1.6	1.8	1.9
Total Investment (% change)	-2.8	-10.2	-2.0	14.7	1.3	2.3	3.0	4.4
Employment growth (%)	0.1	0.4	-0.6	2.0	0.6	0.9	0.9	1.0
Unemployment rate (%)	26.5	25.7	25.8	24.4	11.6	11.0	10.6	10.3
Consumer price inflation (%)	-1.4	-1.0	1.0	0.9	0.4	0.1	1.0	1.6
Current account balance (% of GDP)	-2.9	-1.0	-0.3	0.1	3.0	3.7	3.6	3.4
General Government balance (% of GDP)	-3.6	-4.6	-3.6	-2.2	-2.6	-2.0	-1.8	-1.5
General Government gross debt (% of GDP)	178.6	194.8	199.7	195.6	94.5	94.0	92.9	91.3

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

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

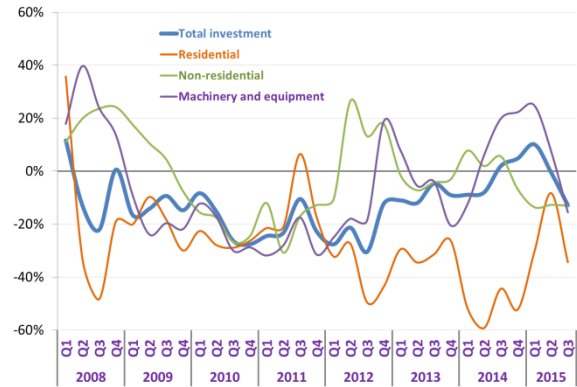
**GDP growth and Economic sentiment**

(ELSTAT, Q3 2015, IOBE, Nov. 2015)



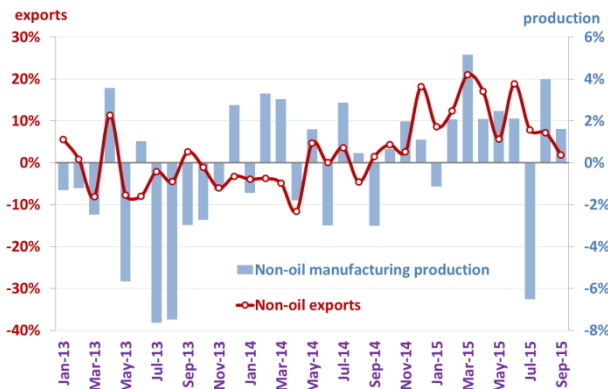
**Investment growth**

(ELSTAT, Q3. 2015)



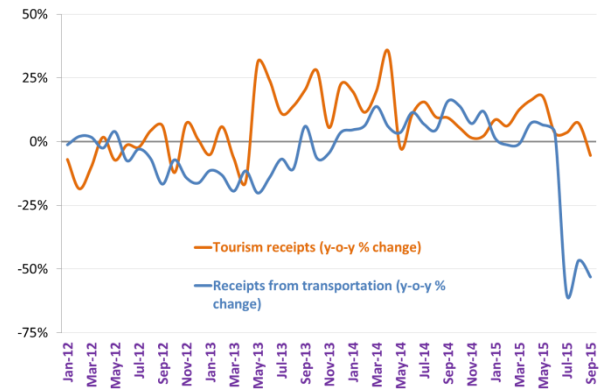
**Non-oil manufacturing production and exports**

(ELSTAT, Sep. 2015)



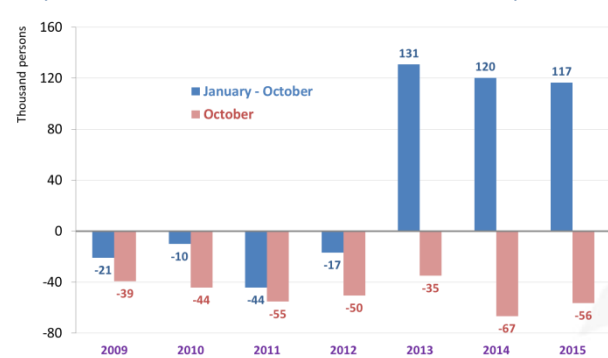
**Tourism and Transportation receipts**

(Bank of Greece, Sep. 2015)



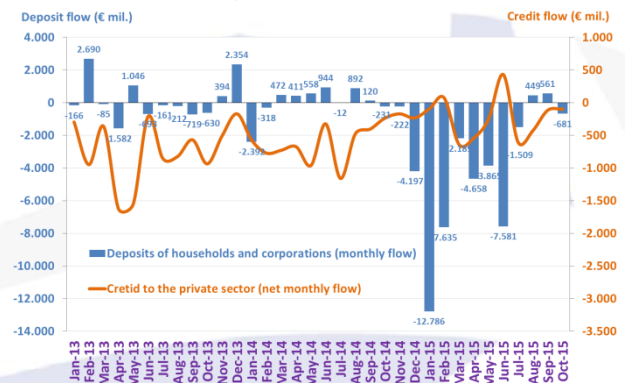
**Net hirings**

(Ministry of Labour, Social Insurance and Social Solidarity, Oct. 2015)



**Deposits and Credit flows**

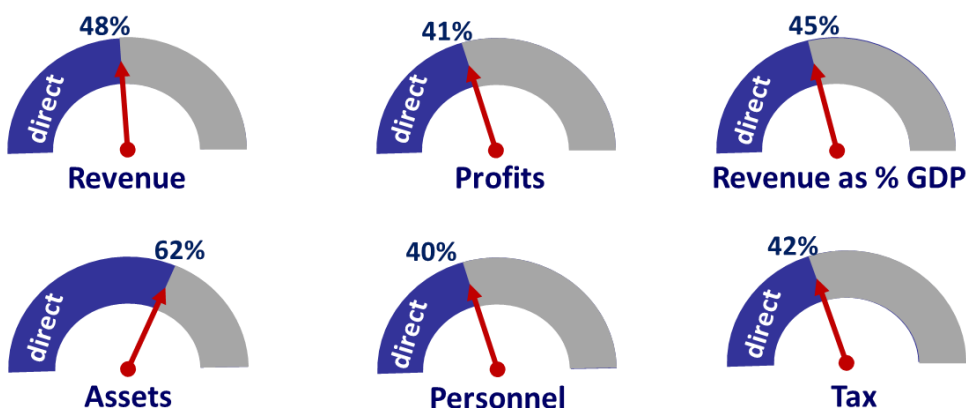
(Bank of Greece, Oct. 2015)



### 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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