

Protracted negotiations and refugee crisis undermine economic climate

7 March 2016

The stabilization of economic activity and the normalization of business activity after the shock of the introduction of capital controls, **are put once again at risk by concerns related to the protracted negotiations with respect to the conclusion of the first review of the third Greek adjustment program, as well as pressures resulting from disorderly migrant flows.** These concerns have led to reduced **consumer confidence at low** levels not seen since September 2013. On the other hand, according to the latest estimates of ELSTAT, **the recession of 2015 (-0.2%) was milder than initially anticipated**, while during the 4th quarter of 2015, and especially during December, **production and exports increased and the decline of retail sales came to a halt.**

More specifically, according to data published during the past month:

- **Industrial production increased** during December 2015 (+5.2%), with the majority of **manufacturing sectors achieving improved production levels** when compared to December 2014, with non-oil manufacturing rising by +3.1%. From September 2015 onwards, industrial production has improved continuously, with the sole exception of October (-1.9%), indicating that to a large extent the difficulties caused during the summer months by the introduction of capital controls and the resulting input shortages have been smoothed out. On an annual basis, **in 2015 the general index of industrial production increased marginally** (+0.6%) when compared to 2014, mainly as a result of **increases in the production of non-oil manufacturing (+1.2%)** and the supply of water (+1.8%), while the production of electricity and gas increased only marginally (+0.3%).
- During the same period, **business expectations in manufacturing industries improved** (89,2 in February 2016 from 87.9 in January 2016 and 84.6 in December 2015), in spite of the worsening of the confidence measured by the Purchasing Managers Index in manufacturing (PMI), which reverted below the level of 50 (to 48.4), which indicates an anticipated contraction.
- **Exports without ships and fuels recovered** in December 2015 (+4.2%, after a decline of -4.5% during the previous month), while **receipts from tourism continued their strong performance** (+12.2%). On aggregate, for the whole of 2015, **the current account was almost balanced**, mainly as a result of the increase of exports without fuels and ships (+4.6%) and the decline in the respective imports (-1.5%).
- **The decline in retail sales came to a halt** in December 2015, after 6 months of continuous weakening, while the general index of retail sales volume increased marginally when compared to December 2014 (+0.2% except fuels and lubricants), while for the whole of 2015 the volume of retail sales declined marginally (-0.5% without fuels and lubricants).
- **The first signs regarding the profitability of companies in 2015 are positive**, according to data by ICAP from a sample of 753 companies. The financial statements of these companies indicate a **marginal increase in sales** (+0.5%) and **improved gross profits** (+1.3%), while debt servicing costs declined (-6.7%) as did other operational expenses (-0.8%), contributing to **improved pretax profits** (+21.3%).

These signs of stabilization are undermined by developments in a number of other indicators. Specifically:

- **Consumer confidence declined significantly** in February 2016 (to a level of -66.8 μονάδες from -63.9 in January 2016 and -61.1 in December 2015), mainly as a result of deteriorating household estimates regarding their future economic situation, forced by the pessimism regarding forthcoming pension and tax legislation and, finally, the intensity of the refugee crisis.
- **The number of registered unemployed increased** in January 2016 (876,752 unemployed from 858,802 in December 2015). This development, even if seasonal developments, such as Christmas holiday and sales are factored in, strengthens the upward trend in the number of unemployed since September 2015, and in spite of the decline in the unemployment rate.
- **Building activity has declined for the 6th consecutive month**, during November 2015, even though the decline moderated to -4.5% (from -38.2% during the preceding month), while during the 4th quarter of 2015 the decline in the prices of residential apartments also continued unabated (-5.4%).
- During January 2016 the **weakening of bank financing and deposits continued**. Outstanding loans to households and businesses declined by -2.1% when compared to January 2015. Total deposits declined during the same period by €1.2 bn. compared to the previous month, mainly as a result of the non-recurrence of one off end-year accounting factors.
- **The gross tonnage of ships with Greek flag declined for the 5th consecutive month** in December 2015 (-1.2%), demonstrating that the first annual decline observed in a decade may not be the result of just conjunctural factors.

The information above demonstrates that the economy, in spite of a remarkable perseverance thus far, still faces major challenges if a fallback to a recession is to be avoided. In order to return to growth during the 2nd half of 2016, it is necessary to, above all, restore confidence in the prospects of the economy. This can be achieved with the immediate conclusion of the review of the adjustment program, the accelerated implementation of the agreed reforms and the effective management at the European level, of the challenges posed by the massive migration flows.

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Michael Massourakis Chief Economist

E: mmassourakis@sev.org.gr
T: +302115006104

Michael Mitsopoulos Senior Advisor

E: mmitsopoulos@sev.org.gr
T: +302115006157

Thanasis Printsipis Associate Advisor

E: printsipis@sev.org.gr
T: +302115006176

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Main economic indicators

Economic sentiment	2015/2014		2016/2015	
	Dec / Dec		Feb / Feb	
Economic climate	↓	87.6 / 99.6	↓	89.0 / 98.8
Consumer confidence	↓	-61.1 / -53.9	↓	-66.8 / -30.6
% stating that their own economic situation will get worse		60% / 63%		71% / 33%
% stating that the country's economic situation will get worse		80% / 66%		75% / 30%
% stating that it is unlikely to increase their savings		90% / 91%		90% / 72%
% stating that unemployment will rise		80% / 66%		71% / 36%

Employment – Unemployment	2014	2015	2016	Period
Employment (change year-to-date, seasonally adjusted)	+56,018 pers.	+84,083 pers.	-	Jan – Nov
Employment (change during month, seasonally adjusted)	-4,378 pers.	+1,003 pers.	-	Nov
Registered unemployed (change year-to-date)	-1,283 pers.	+677 pers.	-	Jan – Dec
Registered unemployed (change during month)	+4,749 pers.	+6,252 pers.	+17,950 pers.	Jan
Net hirings (year-to-date)	+99,122 pers.	+99,700 pers.	-	Jan – Dec
Net hirings (current month)	+6,397 pers.	-9,273 pers.	-9,954 pers.	Jan
Unemployment rate (seasonally adjusted)	25.9%	24.6%	-	Nov
Year to date average rate (seasonally adjusted)	26.6%	25.1%	-	Jan – Nov
Index of wages (whole economy, in constant prices, seasonally adjusted)	2.4%	4.7%	-	Q3
Change Year to date (whole economy, in constant prices, seasonally adjusted)	0.1%	2.5%	-	Jan – Sep
Consumer Price Index	-2.6%	-0.2%	-0.7%	Jan
Change Year to date	-1.3%	-1.7%	-	Jan – Dec

GDP	Change 2014/2013	Change 2015/2014	Period	Change 2015/2014	
				Q4	Q3
GDP (in constant prices)	0.7%	-0.2%	12M	-0.8%	-1.7%
Private consumption	0.5%	0.3%	12M	-0.9%	-0.3%
Residential construction investment	-52.5%	-23.1%	12M	-21.5%	-34.2%
Non – residential construction investment	3.1%	-7.5%	12M	-29.8%	-19.3%
Investment in machinery and equipment	8.5%	5.9%	12M	3.6%	-12.4%
Exports of goods and services	7.5%	-3.8%	12M	-8.8%	-10.3%
Imports of goods and services	7.7%	-6.9%	12M	-12.5%	-19.8%

Main short term indicators	Change 2014/2013	Change 2015/2014	Period	Change 2015/2014	Period
Industrial production	-1.9%	0.6%	Jan – Dec	5.2%	Dec
Manufacturing (excluding oil)	0.4%	1.2%	Jan – Dec	3.1%	Dec
Production in construction	14.1%	1.2%	Jan – Sep	-29.5%	Q3
Building	-5.5%	9.8%	Jan – Sep	-15.1%	Q3
Non – building	33.4%	-4.9%	Jan – Sep	-37.7%	Q3
Private building activity – building permits (volume in m³)	-7.2%	-6.3%	Jan – Nov	-4.5%	Nov
Retail sales (volume)	-0.4%	-1.4%	Jan – Dec	0.4%	Dec
Excluding automotive fuel	-0.7%	-0.5%	Jan – Dec	0.2%	Dec
New vehicle licenses	30.2%	13.5%	Jan – Dec	7.0%	Dec
Revenue from tax on mobile telephony	-6.4%	-2.1%	Jan – Nov	111.4%	Nov
Exports of goods except oil (ELSTAT, current prices)	0.2%	8.2%	Jan – Dec	+2.7%	Dec
Tourism – receipts	10.2%	6.0%	Jan – Dec	12.2%	Dec
Transportation – receipts	8.9%	-24.1%	Jan – Dec	-44.5%	Dec
Other services* – receipts	18.1%	-15.5%	Jan – Dec	8.8%	Dec
Inbound travelers	23.0%	7.1%	Jan – Dec	-9.3%	Dec

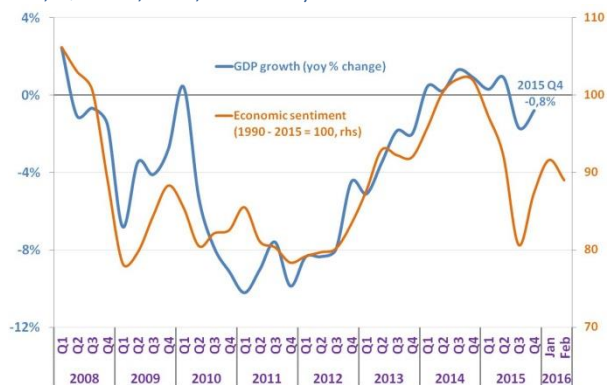
EU Economic Forecasts (Winter 2016)	Greece				Euro area			
	2014	2015	2016	2017	2014	2015	2016	2017
Real GDP (% change)	0.7	0.0	-0.7	2.7	0.9	1.6	1.7	1.9
Total Investment (% change)	-2.8	-8.4	-3.7	12.8	1.3	2.3	2.8	4.2
Employment growth (%)	0.1	1.4	0.9	2.0	0.6	1.1	1.0	1.0
Unemployment rate (%)	26.5	25.1	24.0	22.8	11.6	11.0	10.5	10.2
Consumer price inflation (%)	-1.4	-1.1	0.5	0.8	0.4	0.0	0.5	1.5
Current account balance (% of GDP)	-3.0	-1.8	-1.4	-0.9	3.0	3.7	3.6	3.4
General Government balance (% of GDP)	-3.6	-7.6	-3.4	-2.1	-2.6	-2.0	-1.9	-1.6
General Government gross debt (% of GDP)	178.6	179.0	185.0	181.8	94.5	93.5	92.7	91.3

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

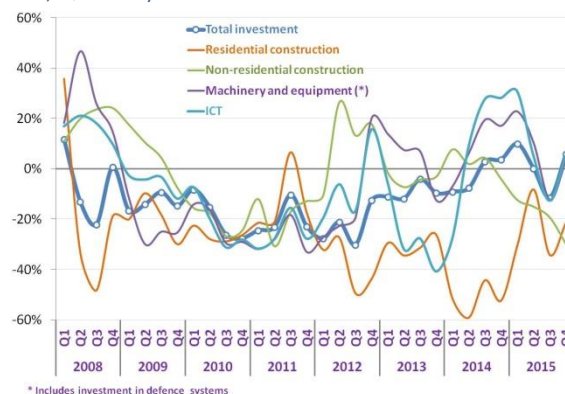
* includes construction business activity abroad, software and technology exports, etc

Tables - Graphs

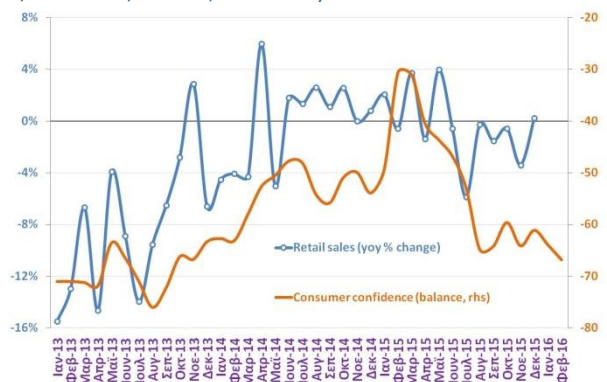
GDP growth and Economic sentiment
(ELSTAT, Q4 2015, IOBE, Feb. 2016)



Investment growth
(ELSTAT, Q3. 2015)



Consumer confidence and retail sales (deflated turnover)
(IOBE, Feb. 2016, ELSTAT, Dec. 2015)



PMI and non-oil manufacturing production
(Markit, Feb. 2016, ELSTAT, Dec. 2015)



Export performance
(Bank of Greece, Dec. 2015)

	2014			2015			December		
	(€ bn.)	Total	%Δ	2014	2015	%Δ	2014	2015	%Δ
Exports of goods and services	57,8	52,8	-8,8%	3,9	3,3	-13,3%			
Exports of goods	26,8	24,8	-7,5%	2,1	2,1	-3,1%			
Oil	9,0	6,7	-25,8%	0,6	0,5	-13,3%			
Non – oil	17,7	18,1	1,9%	1,5	1,6	0,8%			
Exports of services	31,1	28,0	-9,9%	1,7	1,3	-27,1%			
Tourism	13,4	14,2	6,0%	0,2	0,2	12,2%			
Shipping	13,1	10,0	-24,1%	1,2	0,7	-44,5%			
Other services	4,5	3,8	-15,5%	0,4	0,4	8,8%			

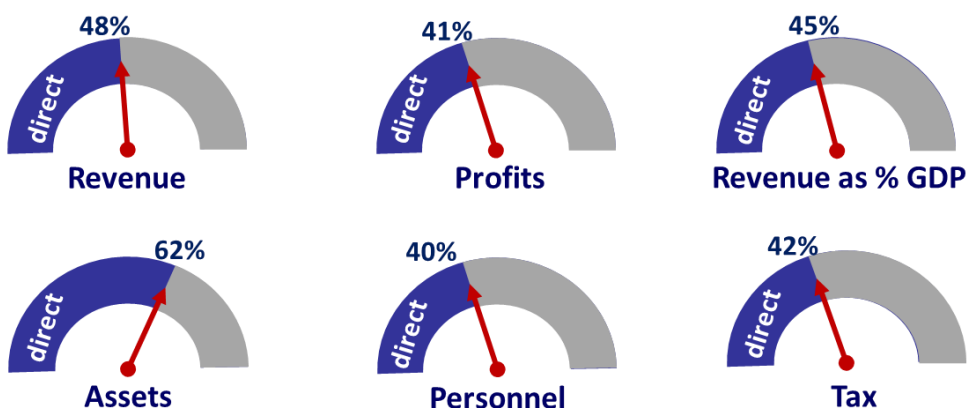
Deposits and Credit flows
(Bank of Greece, Jan. 2016)



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



SEV Hellenic Federation of Enterprises

SEV Hellenic Federation of Enterprises
5, Xenophontos Str ,105 57 Athens
T: 211 5006 000
F: 210 3222 929
E: info@sev.org.gr
www.sev.org.gr

SEV Hellenic Federation of Enterprises
168, Avenue de Cortenberg
B-1000 Bruxelles
T: +32 (02) 231 00 53
F: +32 (02) 732 35 70
E: main@sevbxl.be

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