Latest economic developments in Greece and Challenges for the Trade Finance Market

Peter Sanfey
Deputy Director, Country Economics and Policy, EBRD
15 September 2016, Bank of Greece, Athens

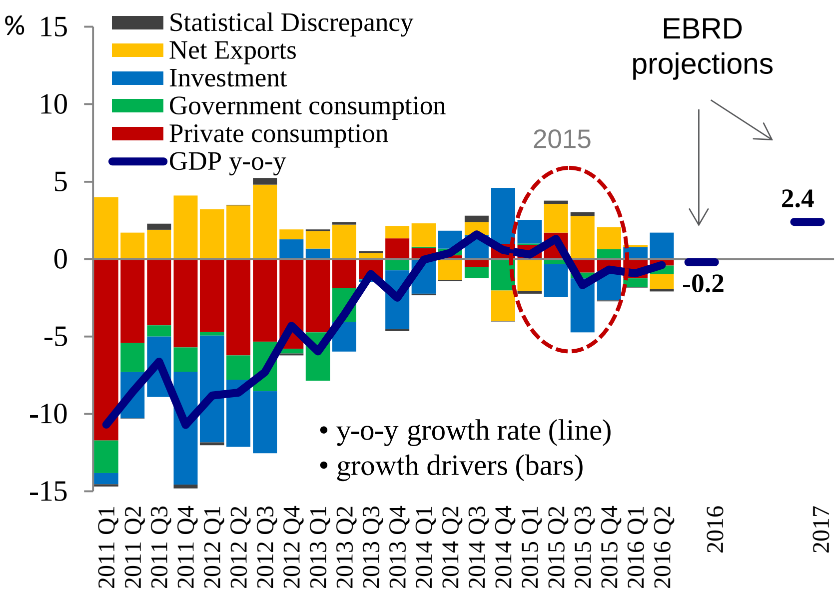
European Bank
for Reconstruction and Development

The Greek economy: showing resilience, but rapid recovery remains elusive

European Bank for Reconstruction and Development

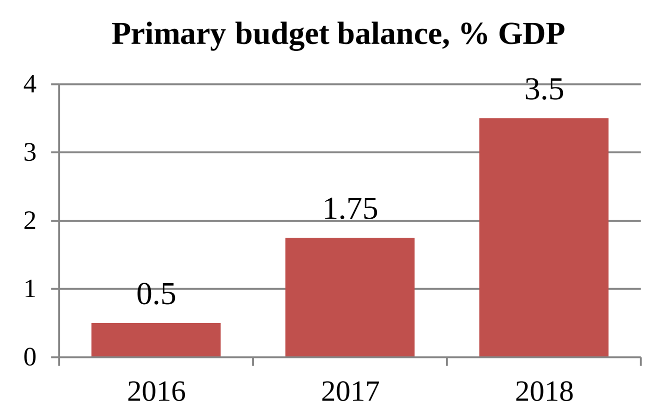
- **The recession in 2015 was not as bad as expected.** The decline in output in 2015 was just -0.2 per cent.
- **Investment levels remain at rock-bottom levels.** Investment fell further in 2015 from already depressed levels, driven by political uncertainty and introduction of capital controls. **Consumption** increased marginally, driven by consumption of durable goods in H1. Both **imports** and **exports** fell, partly due to the capital controls, but **net exports** increased.
- **GDP growth is likely to remain flat or slightly negative in 2016** (current forecast: -0.2 per cent), while a **bounce-back is expected in 2017** (2.4 per cent growth). However, **further austerity measures** are needed to reach agreed fiscal targets.

Chart 1: Drivers of GDP growth



Source: Hellenic Statistical Authority

Chart 2: Fiscal targets as in the MoU



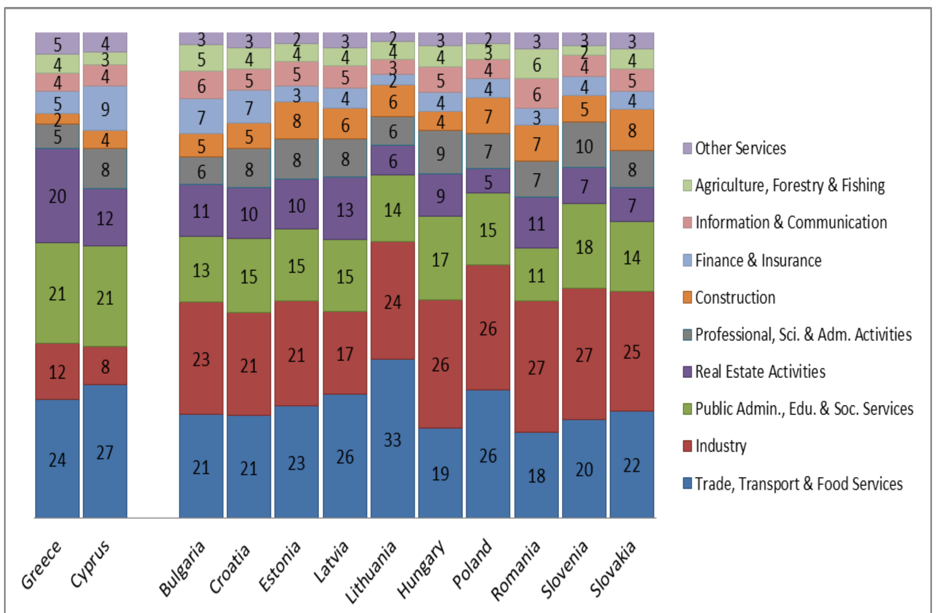
Source: MoU

Greece's economy would benefit from further diversification

European Bank
for Reconstruction and Development

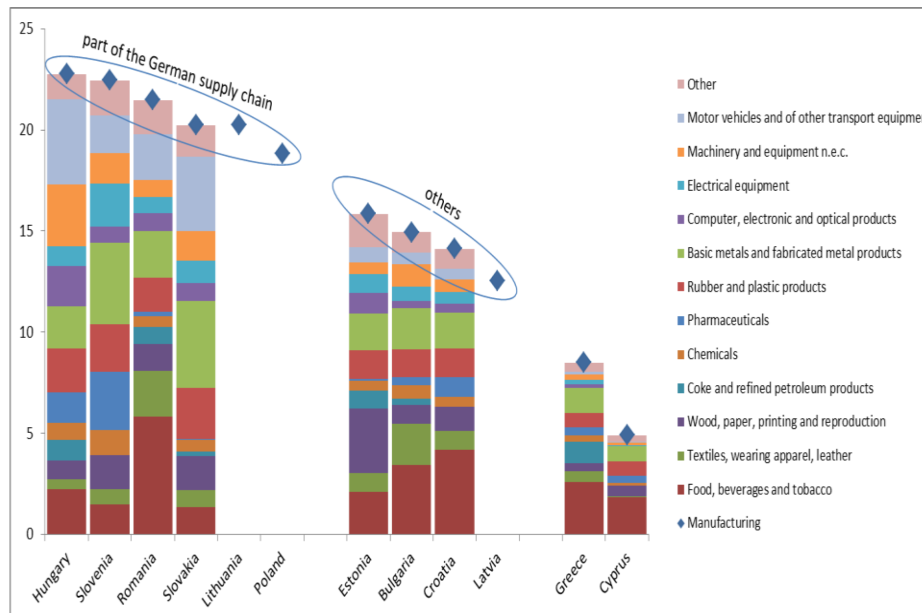
- **Four major sectors (out of ten) account for almost 80 per cent of the economy:** domestic trade, transport and food services; public administration, education and social services; real estate activities; and industry.
- **Industry accounts for a low share of GDP.** At 11.6 per cent, the share of GDP accorded to industry is the third lowest in the EU, above Cyprus and Luxembourg only.
- **Manufacturing is mainly related to labour-intensive food processing.** Almost two-thirds of the manufacturing sector consists of three subsectors: food, petroleum and basic metals processing.

Chart 3: Structure of economy, % of GVA



Source: Eurostat

Chart 4: Structure of manufacturing, % of GVA



Source: Eurostat

Requirements for Greece to Realise Its Economic Potential

Requirements

- Implementation of the MoU, enabling smooth disbursement of Financial Assistance
- Further reforms in social security, public administration and taxation yielding their expected competitiveness benefits
- Progress in the privatisation process, in particular in the transport sector
- Continuation of public arrears clearance to the private sector
- Capital controls fully lifted in near future
- Banking sector remains adequately capitalised and progress on NPL resolution
- Significant rise in private investment (domestic and foreign), which is currently at rock-bottom levels
- Further measures to ensure long-term debt sustainability

➢ **Pick up in growth to 2-3% from 2017**

Risks

- Significant political instability damaging confidence of domestic and international investors
- MoU implementation delayed or derailed, cutting Greece out of Financial Assistance, and/or triggering macroeconomic instability
- Lack of progress in privatisations
- Rise in NPLs, new crisis of confidence in the banking sector with impact on capital needs and deposit levels
- Significant slowdown in Greece key export markets (Turkey, Italy, Germany, SE Europe)
- Heightened global market volatility reducing investors risk appetite

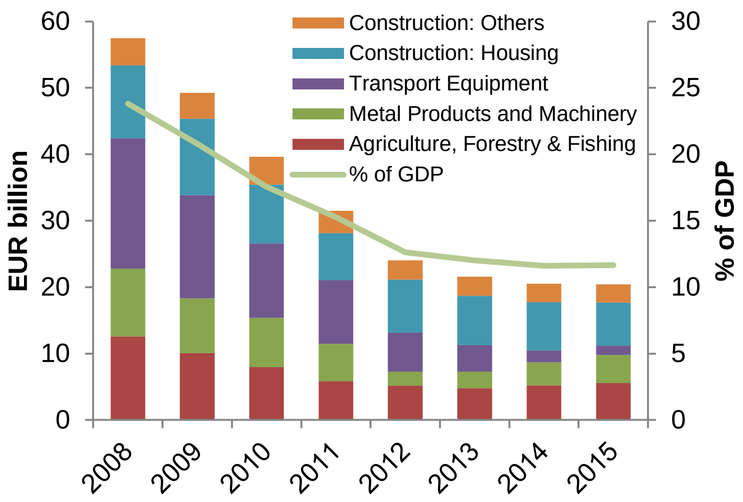
➢ **Economy stagnating or declining further**

Investment: currently at rock-bottom level but potential for attracting FDI

European Bank
for Reconstruction and Development

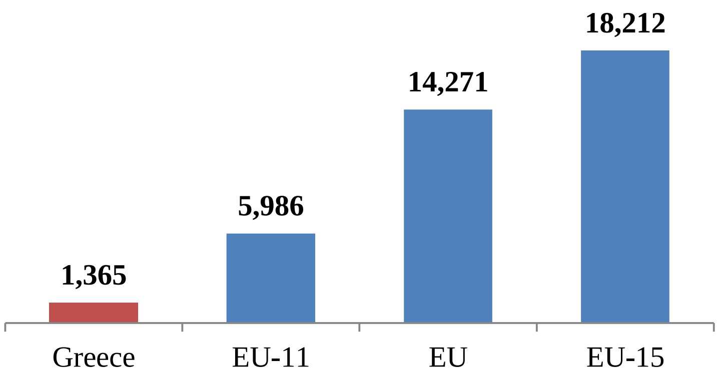
- **Investment has dropped by two-thirds during the recession.** In 2008 gross fixed capital formation was nearly €60 billion; in 2015, it had fallen to just €20 billion, or just 10 per cent of GDP, less than half the average for other EU EBRD COOs.
- **Current levels of FDI are modest relative to other EU countries.** However, the attractiveness of Greece as an FDI destination has improved recently. This is due to lower Unit Labour Costs and an improved business environment, along with potential privatisation opportunities.

Chart 5: Fixed Capital Formation



Source: Hellenic Statistical Authority

Chart 6: FDI stock per capita (EUR)



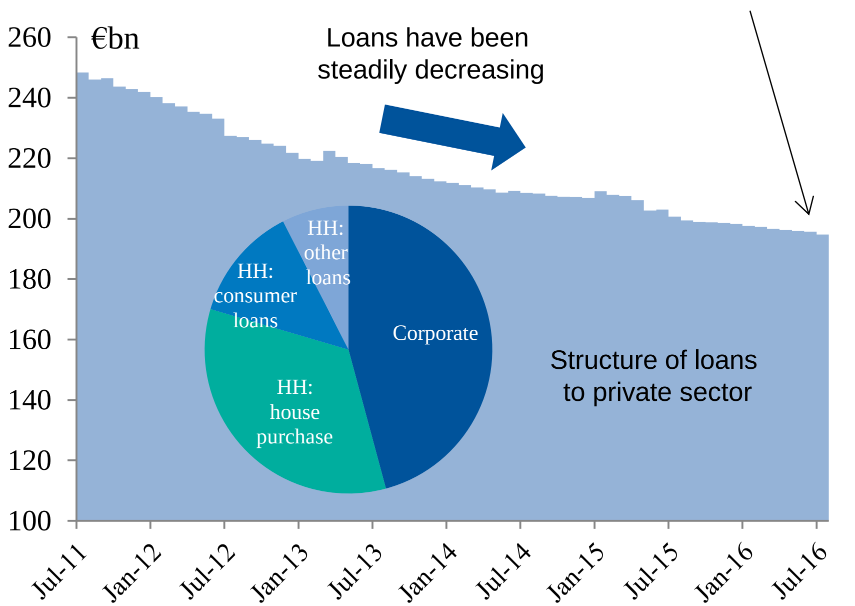
Source: UNCTAD

Banking system: successful recapitalisation but lending and deposits remain low

European Bank for Reconstruction and Development

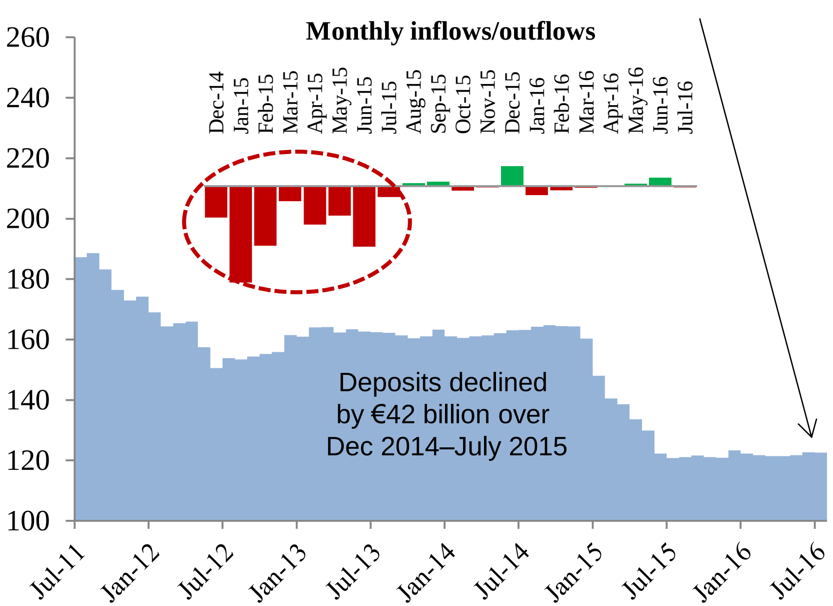
- **Capital:** All four systemic banks were successfully recapitalised in November 2015 after the ECB's AQR and Stress Test identified a capital shortfall of €4.4 billion (baseline scenario), and €14.4 billion (adverse scenario).
- **Loans:** Credit to the economy remains limited as banks still rely on funding from ECB and are burdened by NPLs, which officially stand at 36 per cent of total loans.
- **Deposits:** After major outflows in H1 2015, stability has returned, but capital controls, while partially relaxed, remain in place.

Chart 7: Total loans to private sector, ca. €195 billion



Source: Bank of Greece

Chart 8: Total private deposits, ca €123 billion



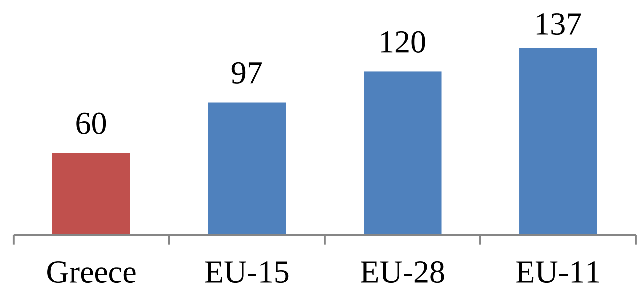
Source: Bank of Greece

Trade: below potential, reflecting problems in accessing trade finance

European Bank
for Reconstruction and Development

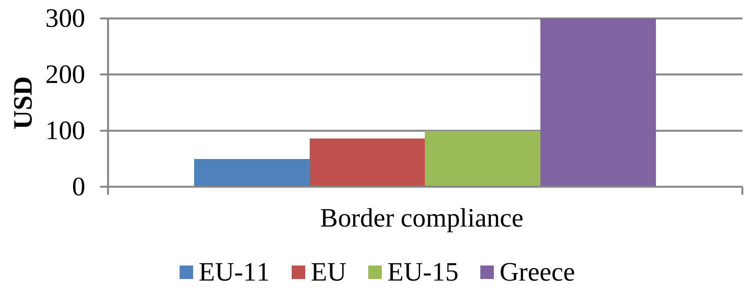
- Greece's **trade openness (exports and imports over GDP)** is just 60%, half of the EU-28 (see Chart 9). **Cost** and **time to export** are still higher than comparators (see Charts 10a and 10b).
- **Revealed Comparative Advantage** (RCA) analysis shows that Greece has developed a relative export specialisation in agribusiness and mineral fuels (RCA is higher than 1 – see Chart 11).

Chart 9: Trade openness



Source: UNCTAD

Chart 10a: Cost to export



Source: World Bank Doing Business report

Chart 11: Revealed Comparative Advantage

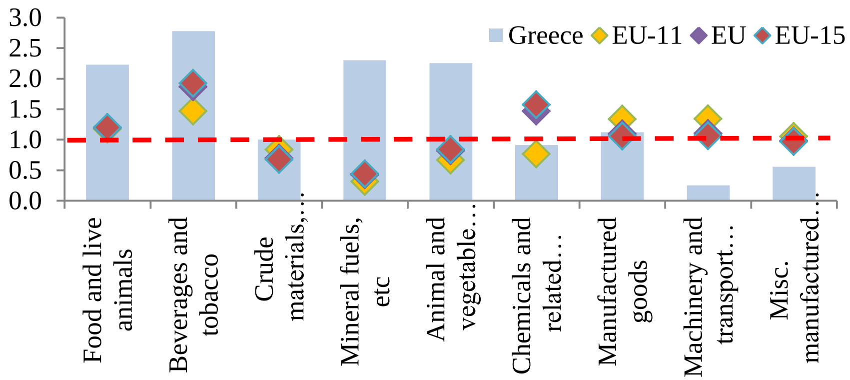
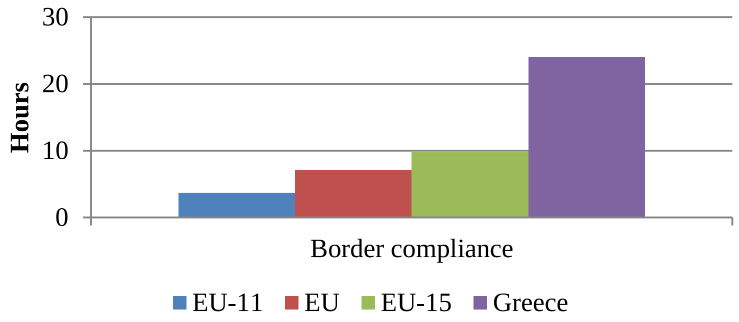


Chart 10b: Time to export



Source: UNCTAD

Source: World Bank Doing Business report

Exports and imports are highly concentrated on oil products

European Bank
for Reconstruction and Development

- Oil accounts for nearly 40 per cent of both imports and exports, with crude oil typically being imported and refined oil exported. Almost half of the petroleum is imported from Russia, while a quarter is exported to Turkey.
- Food (especially vegetables and fruit), chemicals, steel and aluminium, are among the major exports of goods. Machinery and transport equipment, including electrical machinery and road vehicles, are the second most important import category (after oil).

Chart 12: Merchandised exports

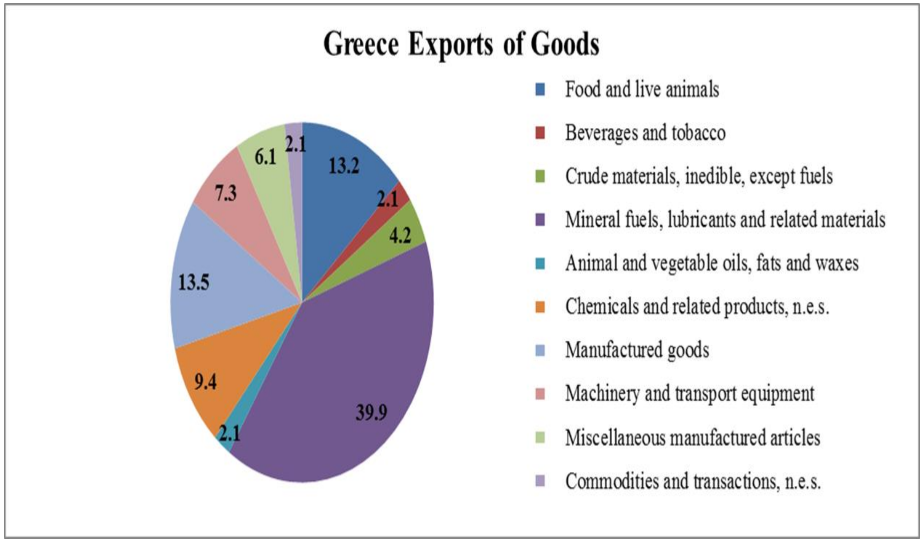
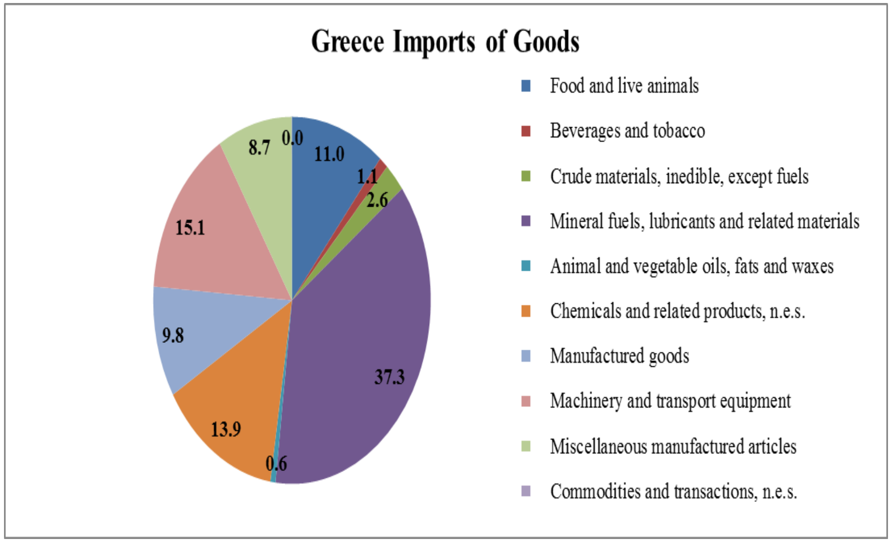


Chart 13: Merchandised imports

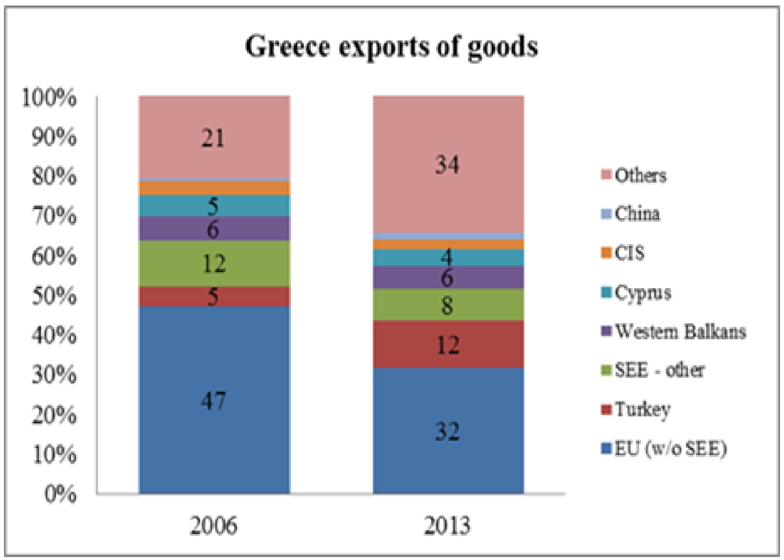


Source: UNCTAD

Export destinations have become more diversified in recent years

European Bank
for Reconstruction and Development

Chart 14: Exports by destination, per cent of total



- Greece is less dependent on Eurozone markets than before the crisis.
- Roughly speaking, Greece now exports about 1/3 to neighbouring SEE (including Turkey) countries, 1/3 to the rest of the EU (excluding neighbouring SEE) and 1/3 to the rest of the world – see Chart 14.
- Exports to Turkey have grown significantly in importance in the past decade. In 2006 about 5 per cent of Greek exports went to Turkey; by 2013 the percentage had risen to 12 per cent.
- Petroleum makes up for more than 70 per cent of exports in goods from Greece to Turkey. This is followed by textiles fibres, plastics and aluminium.

Source: UNCTAD