Euler Hermes Economic Research

Country Report

Greece

Fragile recovery from crisis, looking for positive surprises

General Information

GDP	USD237.592bn (World ranking 45, World Bank 2014)
Population	10.96mn (World ranking 79, World Bank 2014)
Form of state	Parliamentary Republic
Head of government	Alexis Tsipras (Prime Minister)
Next elections	2019, Legislative

Strengths

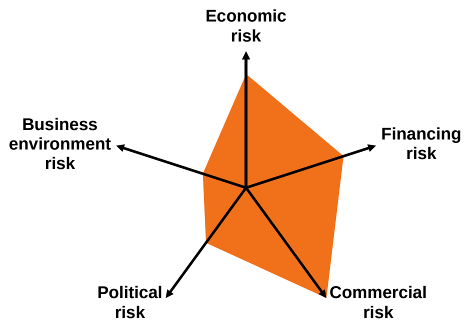
- Geographical hub
- Strong tourism revenues
- Labour market reforms support private sector competitiveness
- Current account surplus

Weaknesses

- Capital controls in place since July 2015
- Weak business environment
- Weak industrial base
- High fiscal pressure on companies
- Prevailing deflationary pressures
- Decreasing long term per capita income
- Low R&D expenditures

Country Rating

C3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Turkey	13%	1	11%	Germany
Italy	9%	2	10%	Russia
Germany	6%	3	8%	Other Gulf
Bulgaria	5%	4	8%	Italy
Cyprus	5%	5	5%	Netherlands

By product (% of total)

Exports		Rank		Imports
Refined Petroleum Products	38%	1	24%	Crude Oil
Non Ferrous Metals	6%	2	7%	Refined Petroleum Products
Other Edible Agricultural Prod	4%	3	6%	Pharmaceuticals
Preserved Fruits	4%	4	4%	Ships
Pharmaceuticals	4%	5	3%	Plastic Articles

Source: Chelem (2014)

Economic Overview

Political blockage and capital controls have pushed the economy back in to recession in 2015

The Greek economy returned to recession in 2015 (-0.3%, see Figure 1) after one year of positive growth (+0.7%) and 6 consecutive years of contracting GDP. The main negative impact came from diminished inventories in Q3 2015, when capital controls were introduced.

Capital controls have also been a significant drag on trade. Imports contracted by EUR7bn (-6.9% in volume terms) and are back to 2005 levels (see Figure 2). Further, limitations imposed on cash withdrawals by households offset the positive effect of lower oil price and pushed down retail sales (-1.4% in 2015 vs. -0.4% in 2014).

All in all, companies continue to suffer from weak demand and low pricing power. Deflationary pressures are finally fading away (see Figure 3) while profitability remains impacted by tax increases (corporate tax has been raised from 26% to 29% in 2015), low accessibility to financing and high cost of credit (5-yr bank loans' interest rates to SMEs stand at a high 5.1%).

The completion of the four major Greek banks' recapitalization in autumn 2015 and stabilizing deposits (see Figure 5) might help ease financing constraints for banks and stimulate credit to the private sector. Yet the high stock of NPLs (34% of total loans, 2015) will remain a major drag on banks' capital needs, despite the recent reforms.

We expect improving growth prospects in H2 2016 thanks to further relief in capital controls and debt sustainability measures from the Troika

The confidence shock has significantly eased and capital inflows picked up in late 2015 (see Figure 4). FDI inflows remain weak but should recover further thanks to the ongoing privatization plan. To name a few examples: completion of the Piraeus Port sale, upcoming sales of Athens International Airport, Athens Water Supply, Hellenic Post.

We expect GDP growth to progressively return to positive territory in H2 2016 as capital controls are expected to be further eased, particularly for companies. In January 2016 the limit on company payments abroad was raised to 250K EUR per day per company per bank (from 150K).

This step increased the weekly limit on payment approvals for each of the four big Greek banks to 80 million euros (from 70 million euros) for requests handled directly by the banks through Special Subcommittees). The total weekly limit for all the Greek banks stands now at 352.38 million euros (from 308 million euros previously).

Payments above 250K EUR are authorized by a Commission Committee from the Ministry of Finance. The approval can take up to 7 days. However, firms can split the above-250K EUR transactions into several smaller sub-transactions that are approved directly by banks and most of the payments are today processed this way.

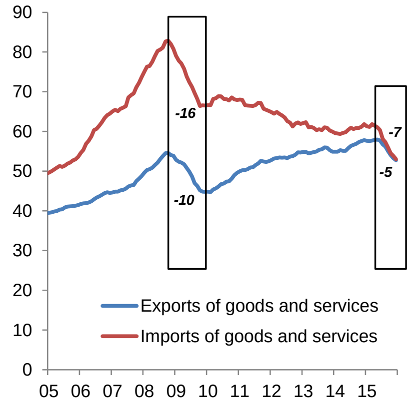
Figure 1 – Key economic forecasts

Greece		weight	2014	2015	2016	2017
GDP		100%	**0.7**	**-0.3**	**-0.6**	**2.0**
Consumer Spending		69%	**0.7**	**0.3**	**0.4**	**1.8**
Public Spending		21%	**-2.4**	**-0.1**	**-1.7**	**-0.3**
Investment		12%	**-2.6**	**0.9**	**2.9**	**3.8**
Stocks	*	0%	**1.4**	**-1.7**	**-0.5**	**0.7**
Exports		30%	**7.4**	**-3.7**	**0.9**	**5.5**
Imports		33%	**7.8**	**-6.9**	**1.8**	**6.5**
Net exports	*	-3%	**-0.3**	**1.1**	**-0.3**	**-0.4**
Current account	**		**2**	**2**	**2**	**2**
Current account (% of GDP)			*1.1*	*1.2*	*1.0*	*0.9*
Employment			**0.7**	**2.1**	**1.9**	**1.6**
Unemployment rate			**26.5**	**24.9**	**23.8**	**23.0**
Inflation			**-1.3**	**-1.7**	**-0.4**	**0.8**
General government balance	**		**-8**	**-8**	**-6**	**-5**
General government balance (% of GDP)			*-4.3*	*-4.5*	*-3.5*	*-3.0*
Public debt (% of GDP)			*178.6*	*199.5*	*200.2*	*199.3*
Nominal GDP	**		177	176	175	179

Change over the period, unless otherwise indicated:
*contribution to GDP growth
**EUR bn

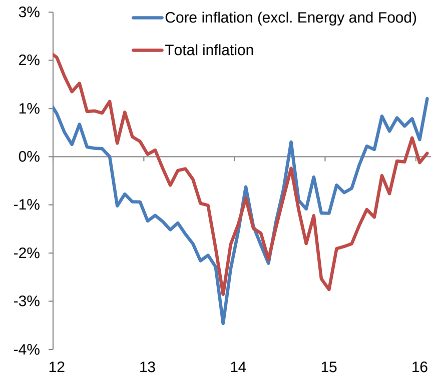
Sources: National sources, IHS, Euler Hermes

Figure 2 – Trade of goods and services



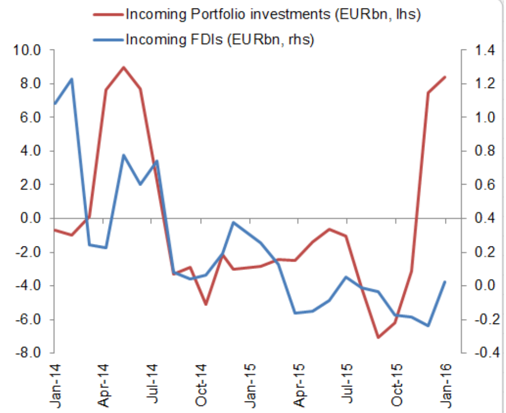
Sources: Sources nationales, IHS, Euler Hermes

Figure 3 – Inflation (total vs. core)



Sources: Eurostat, Euler Hermes

Figure 4 – Portfolio vs. FDI inflows (3M sum, EURbn)



Sources: Bank of Greece, Euler Hermes

The capital relief measures have been a significant move towards easier import financing for companies. Most corporates should find it less burdensome to manage payments abroad directly through banks. However, further measures are needed to support recovery to pre capital controls level of imports.

We expect these measures to be implemented in H2 2016, once the Troika - a tripartite committee formed by the European Commission, the European Central Bank and the International Monetary Fund – finalizes its review, possibly by June.

Negotiations on debt relief measures are likely to be carried out in the near future. The March Eurogroup meeting confirmed the status of an advanced Troika review and agreed to bring back to the table the negotiations on debt relief measures if Greece meets its 2015 fiscal primary target (i.e. -0.3% of GDP vs. +0.4% in 2014) . We believe they will.

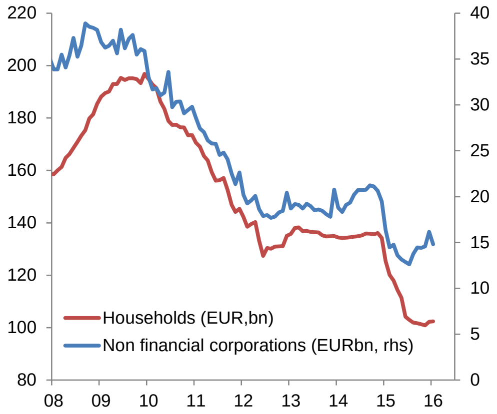
Although a miss by a small margin is possible it should not block the negotiations. Yet the Eurogroup continues to oppose a 30% nominal cut on the Greek debt (requested by the IMF) and instead suggests measures to ease the burden of interest payments. Looking at the Greek redemptions profile, the next peak of debt repayment will arrive in 2019 (EUR12bn of which EUR10bn in bonds and EUR2bn to the IMF). European loans will be reimbursed as of 2023.

Business insolvencies should grow at a slower pace in 2016, but will remain 3.5x above the 2007 level

In 2015, business insolvencies were expected to accelerate for the 8th consecutive year (by +8%, see Figure 6). The domestic economy has contracted significantly over the past years while external demand has not been sufficient to offset the shock. Industrial companies' turnovers have contracted by -10% in 2015 while the services sector continues to expand at a pre-crisis pace (see Figure 7).

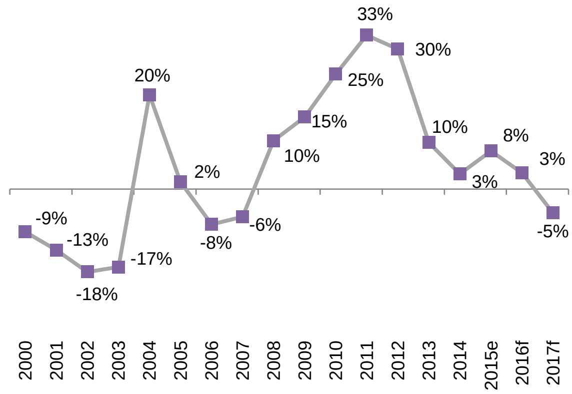
Going forward we expect business insolvencies growth to slow down (+3% in 2016) as the economy will progressively return to positive territory. In 2017 the +2% GDP growth (see Figure 1) will allow a -5% fall in business insolvencies, the first since 2007.

Figure 5 – Banks' deposits (EURbn)



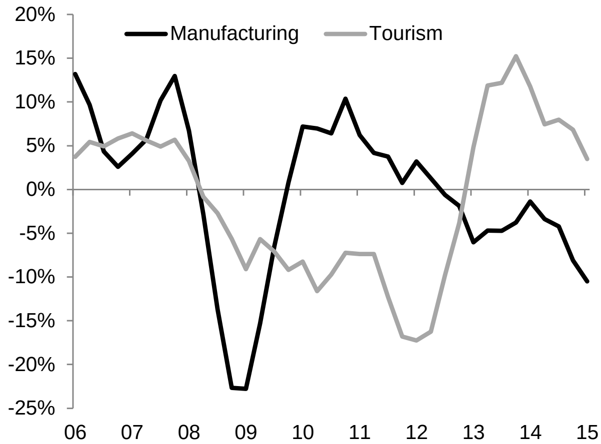
Sources: National sources, IHS, Euler Hermes

Figure 6 – Business insolvencies, annual variation



Sources: National sources, Euler Hermes

Figure 7 – Turnover by sector, 4Q/4Q



Sources: National sources, IHS, Euler Hermes

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