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Greece Economy briefing:

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Economic conditions in Greece

Being under international supervision, economic developments in Greece are exclusively interwoven into the Greek government's cooperation with the so-called Institutions, the representatives of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF). In particular, the main priority of the Greek government is to implement all necessary actions to receive agreed payments by its creditors. In January and February 2018 the third review of the third bailout was generally completed. Of all 110 prior actions, only 2 were still outstanding. However, they were considered to be outside the control of the government according to Eurogroup president Mario Centeno. The Eurogroup of 19 February 2018 focused on the 'tremendous effort by the Greek government, which is showing strong ownership of the [bailout] programme.

In the last days of February 2018, the two 'obstacles' were cleared. To definitely conclude the third review the Greek government had to show progress with electronic foreclosures while Greece's top administrative court needed to give its approval for a presidential decree on the development of the old Greek 'Hellinikon' airport (FOSUN participates in the consortium for the development of Hellinikon). The Euro Working Group of Eurozone finance ministry officials, which took place on 2 March, approved Greece's fulfillment of the pending prior actions. According to the compliance report, 'Greek authorities have completed all milestones in the supplementary memorandum that were necessary for the disbursement of the fourth installment from the program of the European Stability Mechanism'. This means that national procedures to approve the disbursement of €5.7 to Greece could start. The payment requires voting processes in several national parliaments, including Germany's Bundestag.

It is interesting that the updated compliance report (March 2018) makes particular reference to reforms in the Greek energy market where China has been actively involved recently. The report positively sees the engagement of China's State Grid and notes: The completion of the full ownership unbundling of ADMIE, the transmission system operator, including the acquisition of a 24 % stake by a strategic investor (State Grid of China), is a key step to unlock essential investment in the network, which will help amongst other to bring down the cost of the public service obligations. The closing of the transaction with the strategic investor has occurred on 20 June 2017, following the completion of the ongoing regulatory and merger procedures by the European Commission.

The conclusion of the third review paves the way for the beginning of the fourth and final one. Prior actions include the introduction of new tax codes, for example for the ship industry, the elimination of VAT discounts for some islands, the potential broadening of the property tax base, the recalculation and process of pension applications, the rationalization of health-care expenditure and the increase of the proportion of centralized procurement. They also include the assessment of sectoral collective agreements representativeness, the creation of a new legal framework for the financing of the political parties and the further implementation of privatizations (of DESFA [Hellenic Gas Transmission System Operator], Egnatia Odos Motorway etc).

In parallel with the discussions between the Greek government and the Institutions on the fourth and final review of the third bailout, the attention should be turned towards economic developments after August 2018. That is because the third bailout will expire on 20 August 2018 and the degree to which Greece could be economically and financially independent is questionable. This said, a cash buffer is being created facilitating Greece's market access after the end of the bailout. According to estimations by Greece's creditors, a total of €18.4 billion of official financing until the end of the programme in line with the European institutions' assessment at the end of the second review, would result in cash buffer of circa €16.4 billion. The latter amount could cover financing needs of less than 12 months following the end of the bailout. Generally speaking, €20.3 billion are needed to fully cover financing needs through to end 2019 and some €30 billion until end 2020. The EU is currently looking for ways to strengthen the cash buffer for Greece.

Looking towards the future, there are two principal issues which remain critical for Greece's economic developments. The first is the adoption of new measures to reduce the Greek debt (*see Report no 1 on economic developments in Greece*). And the second is the potential creation of a post-bailout precautionary mechanism for Greece. While the Greek government is seeking a 'clean' exit from the bailout and regard the afore-mentioned cash buffer sufficient, others prefer a credit safety provision. One of them is Governor of the Bank of Greece, Ioannis Stournaras. On several occasions, Stournaras calls for a precautionary credit line causing reactions by the Greek government. The relationship between the Greek government and the Governor of the Bank of Greece has been particularly difficult since 2015.

Beyond the Greek bailout itself, the Greek economy has grown for four successive quarters. The Greek Statistics Agency (ELSTAT) recently noted that all four quarters of 2017 were positive, with the October-December figure up 1.9%. The main driver was investment spending as support from strong tourism faded, as usually happens, in the last quarter of the year. Nevertheless, the data showed a negative GDP contribution from net exports in the final quarter along with a 0.4% fall in private consumption. Imports grew 1.7% compared with a 2.3% decrease in exports quarter-on-quarter. On the whole, based on a first estimate of seasonally unadjusted data, full-year GDP growth last year came to 1.4%.

Furthermore, official data illustrate a small reduction of unemployment in February 2018. There was an increase of 16,628 jobs, as hirings came to 150,345 while departures amounted to 133,717. This was the third best performance for the month of February since 2001. Nonetheless, the majority of new hirings are in part-time or shift work. According to the employment declarations (APD) that employers submit every month to the Single Social

Security Entity (EFKA), flexible labor grew to account for one in four workers, while six in every 10 hirings now concern part-time or shift work.

From another perspective, while the issue of Non-Performing Loans (NPL) remains a significant problem for the Greek banking sector, Governor of the Bank of Greece, Ioannis Stournaras, formally launched the debate on the creation of a so-called ‘bad bank’ in March 2018. A ‘bad bank’ will be a corporation to which all banks’ nonperforming loans would be transferred. The proposal is bolstered by the EU discussion on measures for banking integration and the definition by the European Commission of the guidelines for the creation of asset management companies (AMCs). It is interesting that according to the Greek opinion-making newspaper *Hi Kathimerini* published a report estimating that strategic defaulters accounted for approximately 40% of NPLs.

Regarding future privatizations, Greece received only one bid for its railway maintenance company ROSCO. Railway service operator TRAINOSE, which was taken over by Italy’s Ferrovie dello Stato Italiane last year, submitted the only binding offer. Greece is selling ROSCO under its bailout-mandated privatization scheme, aiming at total privatization receipts of €2 billion. It is earmarking €5 million this sale according to the budget plan. The evaluation process will begin immediately. In addition, as far as the privatization of DESFA is concerned, the country has received two binding offers for the acquisition of a 66% share. These came a consortium composed of Snam., Enagás Internacional and Fluxys and a consortium composed of Regasificadora del Noroeste, Reganosa Asset Investments, S.N.T.G.N. Transgaz S.A. and European Bank for Reconstruction and Development. Also, concerning the right to use and exploit the Egnatia Odos motorway a consortium composed of Sichuan Communications Investment Group and Damco Energy expressed an initial interest but was not selected (according to information provided by Greek media).

Last but not least, one of the privatizations yielding positive results for Greece is that of the Piraeus port where COSCO is continuously investing since 2009. COSCO's investments is boosting the reputation of the Piraeus port. According to data compiled by Port Economics, Piraeus now ranks among the most dynamic ports in Europe in terms of container handling for 2017. Specifically, Greece's biggest port showed major growth in the handling of containers, rising to seventh spot among Europe's ports and third in the Mediterranean. Piraeus rose one place in the European chart since 2016. In 2007 – before COSCO's engagement – it had not even been in the top 15. On the whole, in the last 10 years Piraeus is enjoying an increase of 196%. This took place against a backdrop of major growth at European ports, with the top 15 recording an annual increase of 4.2% from 2016 and 19.8% from 10 years earlier. Following the privatization of the Piraeus Port Authority by COSCO, Piraeus also appears in the top-5 of cruise ports in the Mediterranean