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Weekly Briefing

Greece Economy briefing:

Latest economic conditions in Greece

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The Greek government and its creditors – the Institutions – have already entered the last and final period of negotiations to conclude the third Greek bailout. Prior actions possibly requiring new austerity measures are the most important challenge of the government which also needs to persuade the EU about its competence to alone draft and implement a reliable growth plan for the years to come after August 2018. In parallel with this, data from the Greek economy suggest that despite economic stabilization and some positive news of a slight reduction of unemployment problems for ordinary citizens remain difficult. The Greek government also needs to go a long way to boost the tourism industry of the country which is not largely based on luxury tourism.

Attempting to exit the bailout

After the successful conclusion of the third review of the third Greek bailout, the European Stability Mechanism (ESM) Board of Directors approved the Supplemental Memorandum of Understanding (SMoU) signed by Greece and the European Commission on 22 March 2018. This SMoU lays down the agreement on policy conditionality reached between Greece and the European institutions with technical details contained in the supporting draft Technical Memorandum of Understanding. It is based on an update of the policy conditions set out in August 2015 (when the third bailout was signed) and amendments at the end of the first review in June 2016 as well as at the end of the second review in July 2017.

A tranche of €6.7 billion was subsequently made available for Greece. The Board of Directors of ESM approved this tranche on 27 March 2018. The first disbursement under this tranche amounted to €5.7 billion and was made immediately. A further disbursement for arrears clearance of €1 billion may be carried out after 1 May 2018. It is dependent on Greece making progress in reducing its stock of arrears and improving the effectiveness of the e-auction system. This subsequent disbursement is subject to a further decision by the ESM Board of Directors. Following the recent approval of the €5.7 billion disbursement, ESM financial assistance for Greece is reaching €45.9 billion out of a total program volume of up to €86 billion.

The fourth and perhaps more complicated phase for the conclusion of Greece's third bailout has already begun. If it is completed, further disbursements will take place. The specific amount will be determined based on Greece's financing needs both within and beyond the program horizon but all ESM disbursements can be made no later than 20 August 2018 when the third bailout will expire. The main reason why this fourth review will be hard is that several difficult prior actions have been pushed towards the end of the process to postpone political costs, although they should have been theoretically settled in the first, second or third review. But it is now time to deal them as the financial assistance program is coming to an end.

As a new key prior action the Greek government has to, inter alia, adopt by May 2018 the Medium-Term Fiscal Strategy (MTFS) 2019-22 that will set spending ceilings consistent with ESM programme targets and a primary surplus of 3.5% of GDP for 2019-2022. In May it also has to bring forward the implementation of the personal income tax measures to 2019 if the IMF – in cooperation with the European institutions – consider it important to reach the agreed 3.5% primary surplus fiscal target in 2019. In addition and based on an assessment and agreement by all institutions and in consultation its creditors the Greek government will possibly need to adopt legislation for the implementation of the expansionary package starting in 2019.

A Growth Strategy?

The current mission of the Greek government is to develop a genuine growth strategy which will be Greek-owned and Greek-led and will fully use available resources including those provided by the EU. Although this growth strategy had to be prepared in December 2017 according to the SMoU, the

Greek government was struggling to set up a draft for month. This is indicative of the incompetence of the Greek political elites of all political parties to take the ownership of reforms. While they are loud in criticizing the bailout and the demands of Greece's creditors, principally targeting Germany, they are rather inactive when they are asked to practically develop their own alternatives.

Only at the beginning of April 2018 did the Greek government manage to prepare an initial draft. The report, titled 'Growth Strategy for the Future of Greece' was sent to the Institutions on 7 April for evaluation at a technical level. It is a 75-page plan that outlines the government's vision for the country in the post-bailout era after August. The plan is based on five basic pillars: fiscal sustainability, sustainable growth, structural terms and prerequisites for growth, fair growth without exclusions and the financing of growth. Nonetheless, it is at first glance considered as too vague and less ambitious when it comes to issues such as privatizations and labor reforms. Apart from demanding more specifics, the institutions are expected to push Greek authorities to submit an analytical time frame listing when specific measures will be implemented and how these will be monitored. It is also interesting that the leader of the main opposition (New Democracy) has said that – if elected prime minister – his policies will not be bound to the current government's growth plan. He also finds it unlikely for this plan to be accepted by Greece's creditors. Once more Greek politicians have failed to find consensus on an issue of national interest.

Greek authorities are counting on some political support by Berlin after the recent formation of the German government. The departure of Wolfgang Schäuble from the Ministry of Finance has generated some optimism in circles of the Greek government. His successor Olaf Scholz does not seem to step away from Schäuble's policy line though. Greek Finance Minister Euclid Tsakalotos travelled to German capital to meet Scholz on 13 April. Berlin is expecting to see a reliable growth strategy from Greece. Also, it is prepared to discuss about some debt relief only after the bailout will end. This stances marks a continuity with the years of from Schäuble. The illusion of the Greek government for the finding of a political solutions is practically fading

Recent Data

Looking at the status of the Greek economy, some recent data are useful. According to the Hellenic Statistics Authority inflation rate in Greece was reduced from 0.4 percent in February to 0.2 percent in March. They also exhibit that the Consumer Price Index increased by 1.5% in March in comparison to February. Moreover, unemployment shows a small decline from 20.8 percent in December 2017 to 20.6 percent in January 2018 (against and 23.2 percent in January 2017). Specifically, unemployed people in Greece numbered 977,222 in the first month of the year, down by 126,430 or 11.5 percent from January 2017, and by 10,167 or 1 percent from December 2017. On a European level, Greece remains the unemployment champion. According to Eurostat data the jobless rate averaged 7.3 percent across the EU in January, the lowest since October 2008.

Despite the relatively positive data on the reduction of unemployment, the heavy tax burden and high social security contributions are causing serious economic problems to Greek freelance professionals. As a result many are forced to close shop or team up with others in order to reduce their operating expenses and obligations. Data presented by the Independent Authority for Public Revenues demonstrate that in January 2018 revenues from the 20 percent income deductions of freelance professionals went down 12.13 percent year-on-year to €59.26 million euros, from €67.43 million in January 2017. On the same wavelength, data from the General Commercial Register show an annual rise of 58.5 percent in new general partnership companies.

As far as tourism is concerned it is certainly a driving force for the national economy accounting at approximately 20 percent of its GDP. Generally, speaking Greece is one of the four top Mediterranean destinations for travelers – coming after Spain and Italy – and attracts circa 15 percent of tourists in the region (along with Turkey). Luxury tourism in Greece is not particularly developed though. A study of the Greek Tourism Confederation exhibits that a shortage of infrastructure and the right product as well as weaknesses in promotion are the main problems identified. High-income travelers – visitors who spend more than €750 euros per person per night for three nights or more than €500 euros per person per night for more than four nights – account for just 8 percent of total arrivals in Greece. However, the high added value generated by these visitors could help the country bridge the revenue gap from an increasing number of visitors spending less during their holidays.

A delicate balance

The current juncture is challenging for the Greek government. While the bailout is coming to an end and signs of stabilization are apparent, economic conditions for ordinary citizens have not been necessarily improved and in some cases they have worsened. According to the 2017 European Central Bank annual report on the eurozone economy, the only sector where Greece fared well was the fiscal one, thanks to the excessive primary surpluses brought on by the bailout agreement and the policy choice of excessive taxation. The patience of several Greeks is expiring and this clear sentiment is politically damaging the government.

To boost its image and preserve chances to win the next election, the Greek government is attempting to prepare a 'clean exit' from the bailout (as discussed in the previous brief) being rather interested to politically benefit than competent to fully access international markets. This choice is risky because the cultivation of relevant hopes might not be followed by practice taking into account that the new German government is showing no signs of flexibility. Even the debt issue (as also discussed in the previous brief) will be examined when the bailout is concluded notwithstanding Greek calls for measures to be taken earlier. For the time being the Greek government needs to principally concentrate on prior actions and the required growth plan it need to alone deliver. Distraction from this tangible goals will only push the national economy backwards.