

Can the Greek economy recover once again?

A presentation of the EBRD Greece private sector diagnostic
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1. Assessment of Transition Qualities

What are ATQs and where does Greece stand compared with other EBRD countries of operations ?

What are assessments of transition qualities?



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- Assessment of Transition Qualities (ATQs) are the set of composite indices introduced in 2017 to track and monitor progress of the EBRD countries of operation (CoOs) along six qualities or characteristics of a sustainable market economy
- Based on 130+ indicators (wide range of data sources including national statistics, IFIs, surveys, internal EBRD assessments)
- ATQ values are additionally used in operational/investment work
- ATQs are also calculated for a selected set of advanced OECD countries, to help set benchmarks of best practice
- See <https://2020.tr-ebrd.com/reform/> for a detailed description and methodological notes

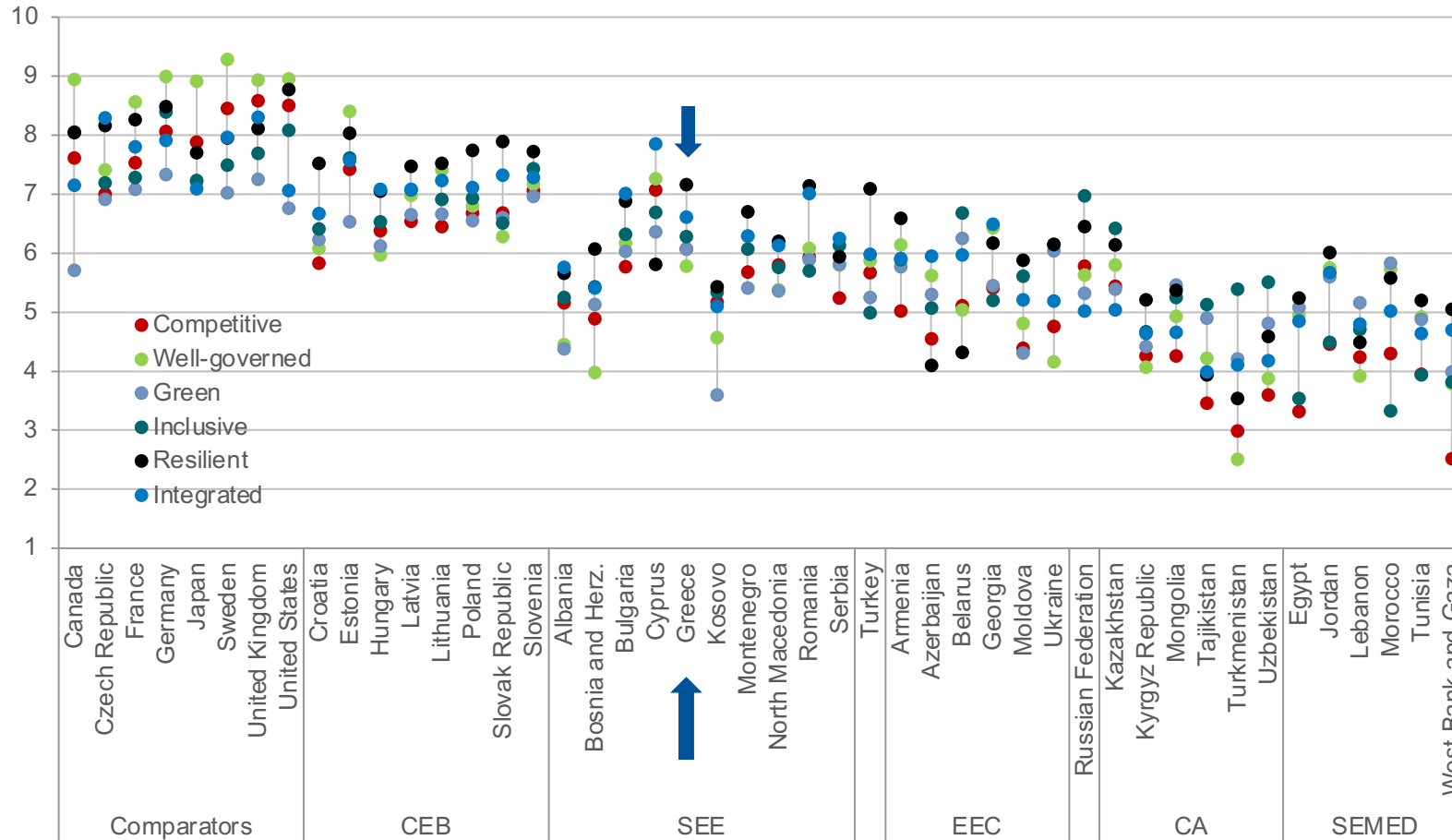
Assessment of transition qualities

Competitive	Well-governed	Green	Inclusive	Resilient	Integrated
<ul style="list-style-type: none">• Market structures for competition and business standards• Capacity to add value and innovate	<ul style="list-style-type: none">• National-level governance• Corporate-level governance	<ul style="list-style-type: none">• Mitigation of climate change• Adaptation to climate change• Other environmental areas	<ul style="list-style-type: none">• Gender equality• Regional disparities• Opportunities for young people	<ul style="list-style-type: none">• Financial stability• Resilient energy sector	<ul style="list-style-type: none">• Openness to foreign trade, investment and finance• Domestic and cross-border infrastructure

Assessment of Transition Qualities in 2020



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Source: EBRD.

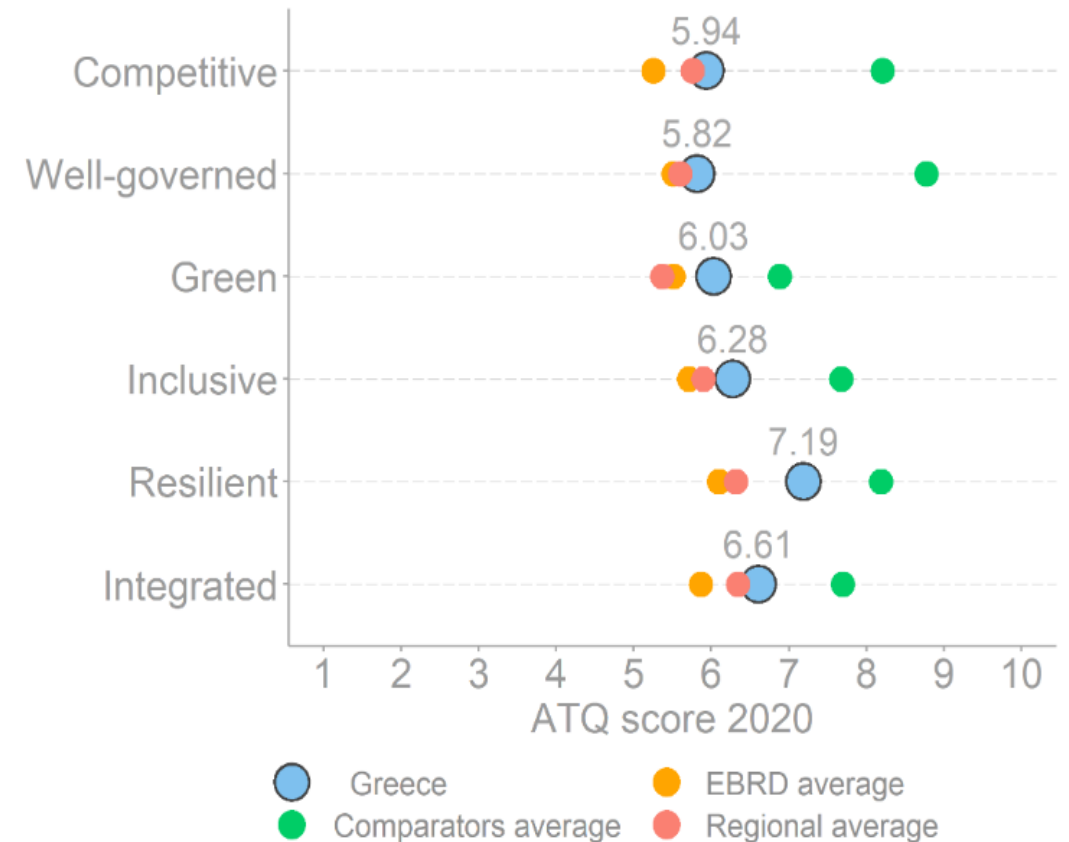
Note: Scores range from 1 to 10, where 10 denotes the synthetic frontier for each quality.

Assessment of Transition Qualities (ATQs) in Greece



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- **Competitive:** Greece has a mixed performance, as businesses are held back by a difficult business environment and a limited complexity of economic structure
- **Well governed :** The lowest score amongst the 6 qualities, the most problematic factors being tax rates, inefficient government bureaucracy and poor functioning of the courts
- **Green :** Greece has ambitious green transition targets, including phasing out fossil fuels, but scores poorly on waste management and vulnerability to extreme weather events
- **Inclusive :** High rates of unemployment for youth and women and strong regional disparities point towards important inclusion gaps
- **Resilient :** The financial system continues to operate under challenging conditions, with high NPL levels. Energy resilience has improved but power outages are still relatively common
- **Integrated.** Customs and trade regulations remain a significant obstacle to businesses and FDI has been limited



Source: EBRD.

Note: Visit <https://2020.tr-ebrd.com/reform/> for the list of indicators, data sources and methodological notes.



2. Key obstacles to private sector development

Can the Greek economy recover once again ?

Governance constraints (1/8)



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The ambiguity of the term has been one of the main reasons for its **popularity** (*Peters, 2012*).

Governance is a concept that eludes an easy definition. Most definitions rest on three dimensions: **authority, decision-making** and **accountability**.

Adam Smith referred to the market forces of supply and demand as the “invisible hand” that drives the economy. However, the effective functioning of a market is also dependent on another invisible hand – **the quality of rules, regulations** and **institutions**. (*EBRD, Transition Report 2019*)

Governance is how society or groups within it, organise to make decisions. (*Institute on Governance, IoG*)

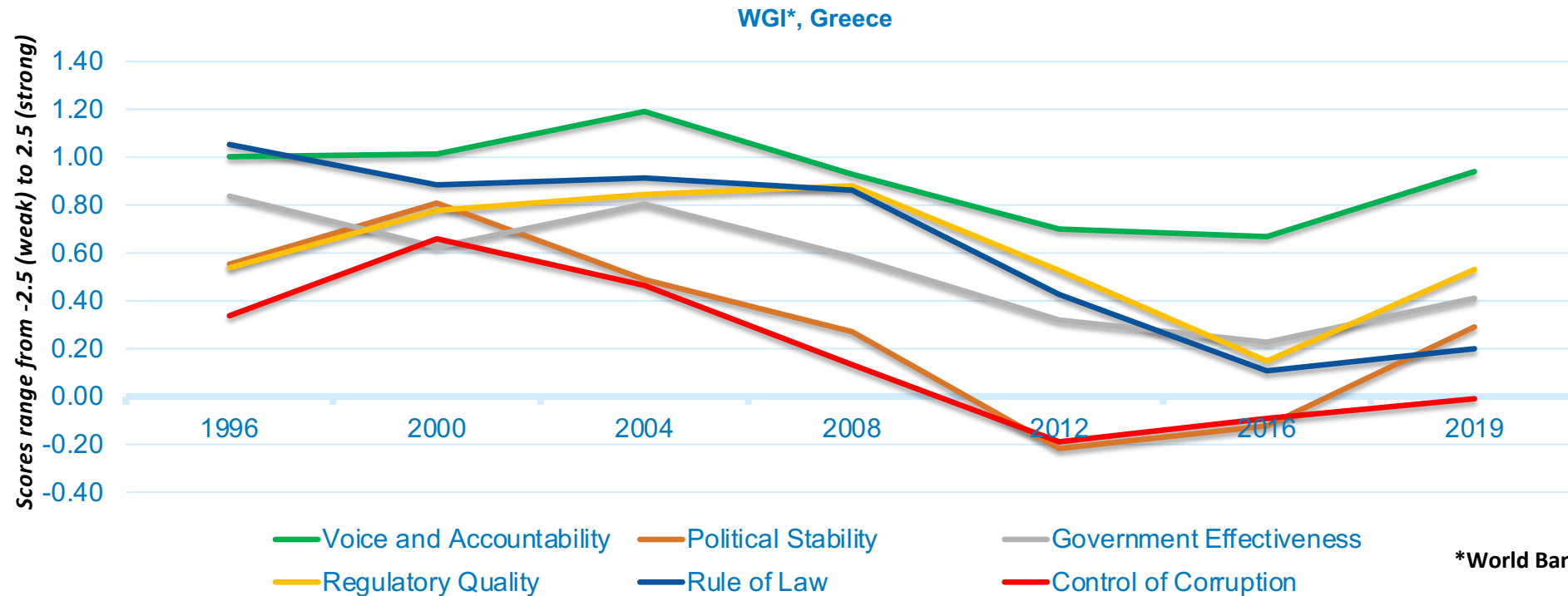


Who has a voice in making decisions?

How are decisions made?

Who is accountable?

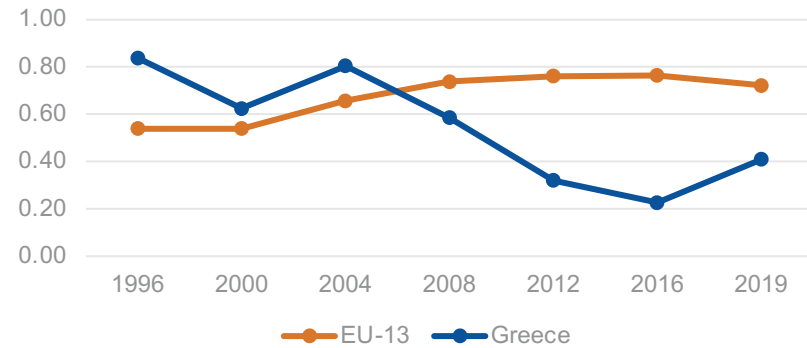
Worldwide Governance Indicators (WGI) The Greek case



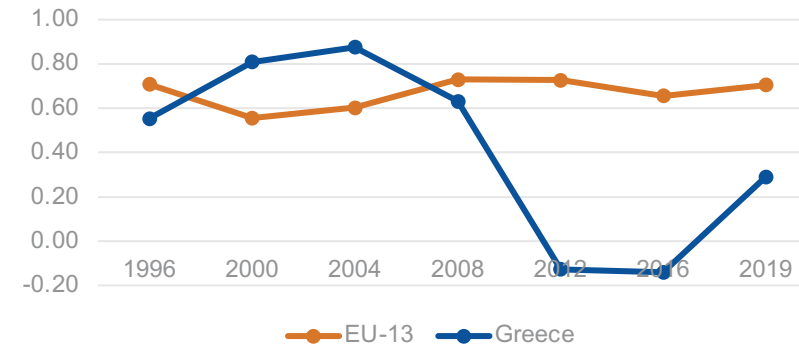
- During the bailout era **control of corruption** and **political stability** fell below zero
- **Rule of Law** had the largest drop of all variables since 1996
- However, all variables seem to have an upward trend in recent years

WGI: Greece vis-à-vis EU-13 (new Member-States)

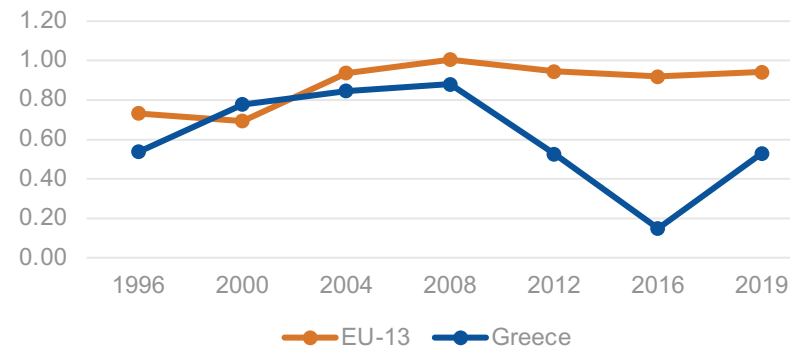
Government Effectiveness



Political Stability & Absence of Violence



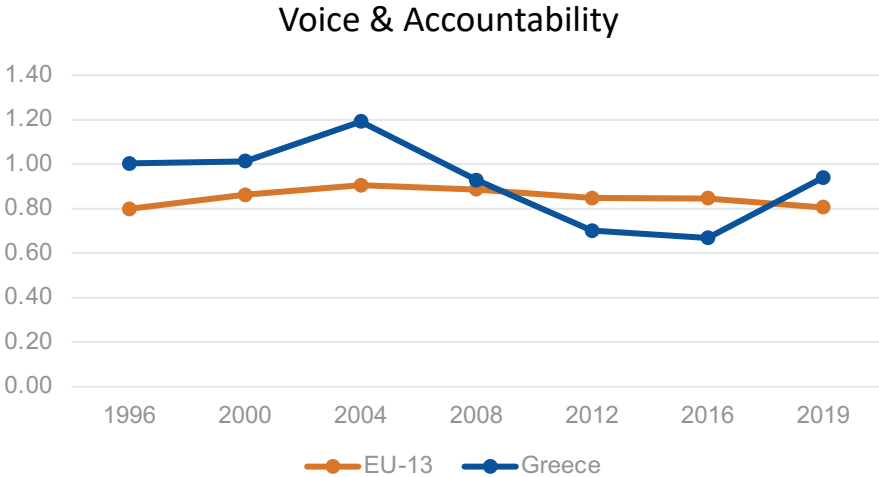
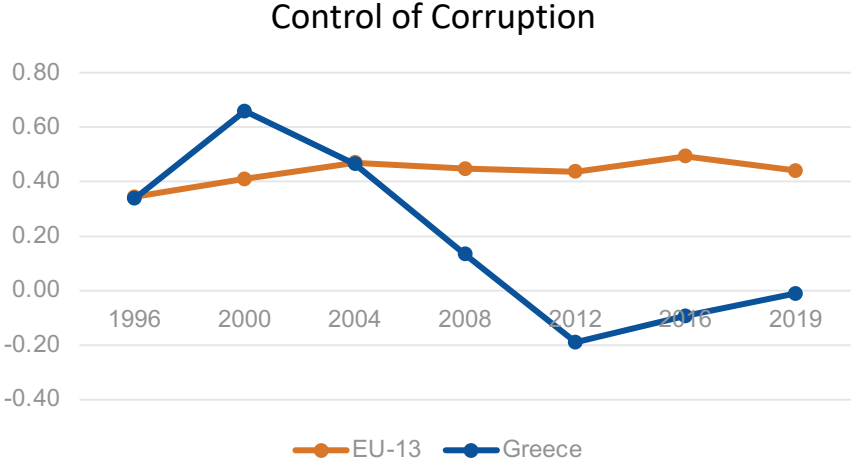
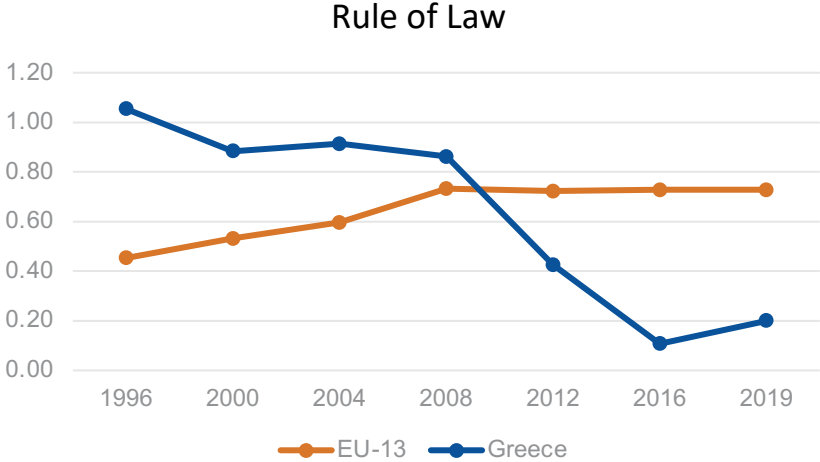
Regulatory Quality



World Bank, WGI (1996 – 2019 dataset)
Scores range from -2.5 (weak) to 2.5 (strong)



WGI: Greece vis-à-vis EU-13 (new Member-States)



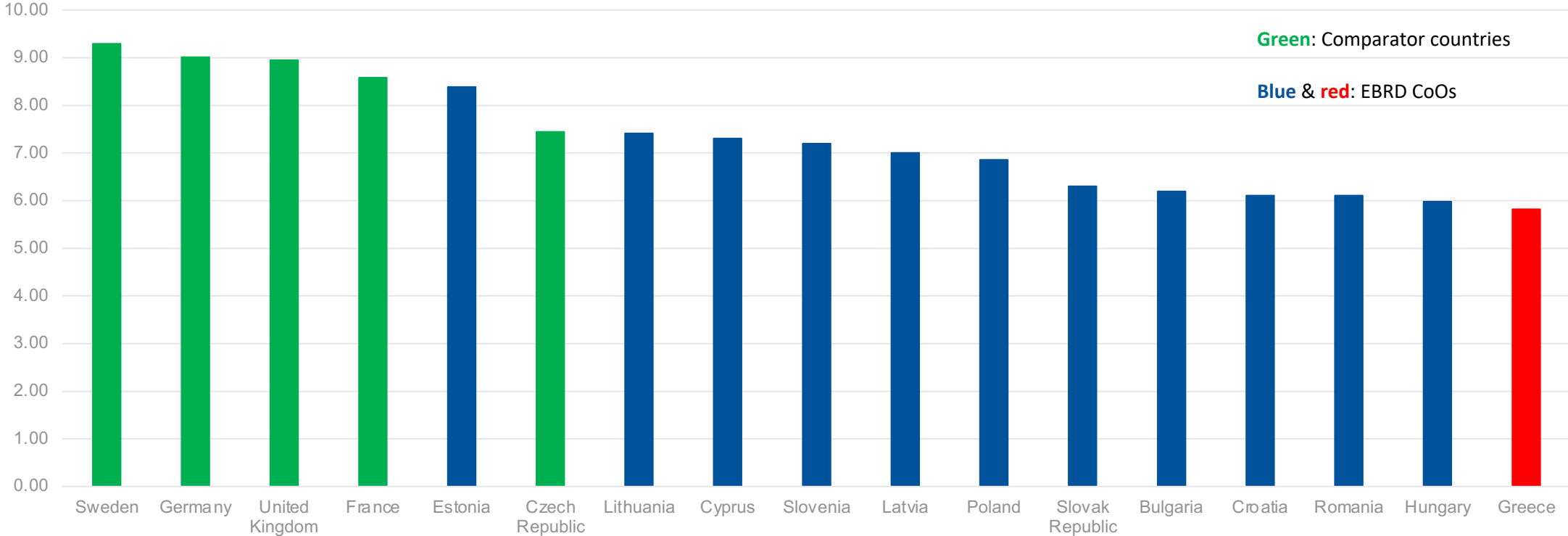
World Bank, WGI (1996 – 2019 dataset)
Scores range from -2.5 (weak) to 2.5 (strong)

Governance constraints (5/8)



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EBRD, Well-governed scores (ATQs) 2020
EBRD EU region + comparators

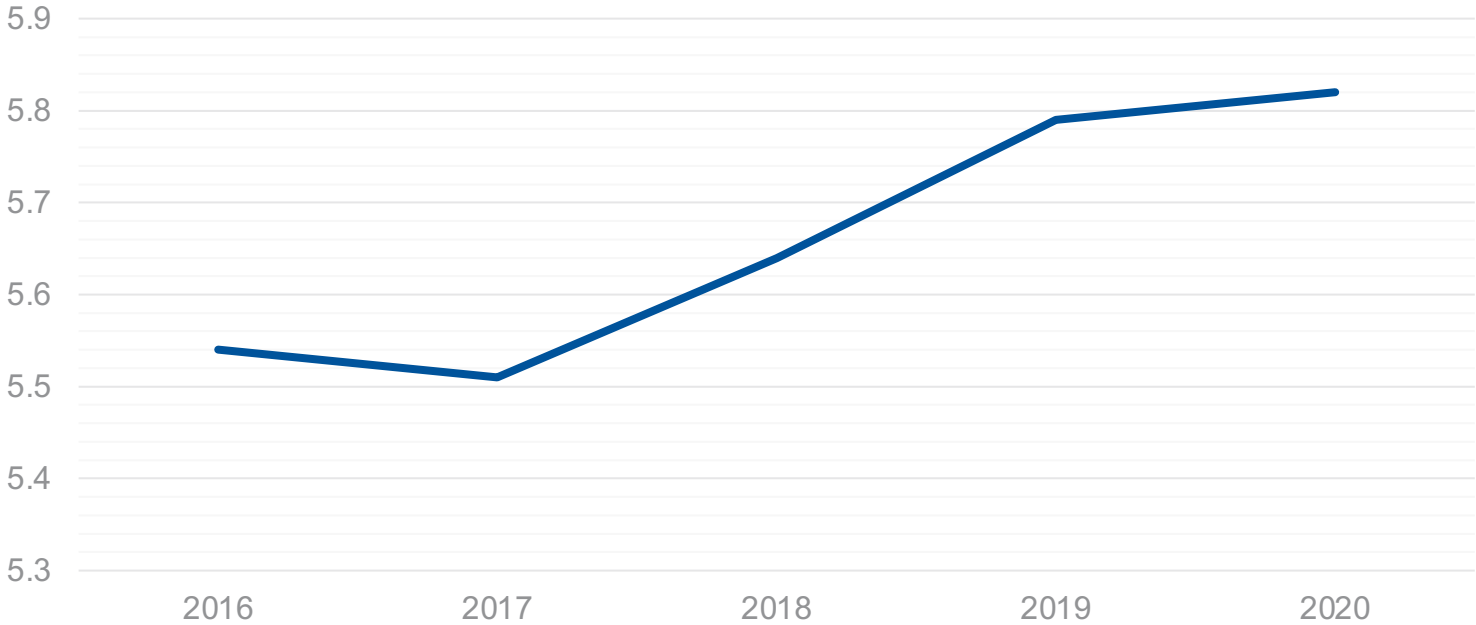


Governance constraints (6/8)



...but always look on the bright side of life

Greece, EBRD well-governed score
2016 - 2020



Which factors may explain the uneven governance standards?

- Inherited statism → hybrid economy (VoC theory)
 - Institutional complementarities → reforms in one sphere may have limited results if unaccompanied by reforms in parallel spheres
- Insider – outsider differentiation (small companies lack political voice)
- Clientelism → also means misallocation of human resources
- Weak civil society
- Napoleonic state administration
- Dualistic political culture (*Diamandouros, 1994*)
- Inadequate inter-ministerial coordination
- PM: “Primus Solus” but also “Emperor without clothes” (*Featherstone & Papadimitriou, 2015*)
- Changes in government meant reversal of policies → *political instability caused policy instability too*



Notable progress in recent years

- A key element of all three bailout agreements and the Enhanced Surveillance Framework has been the **reform of public administration**.
- Good progress has been made in developing a **Human Resources Management System**, including completion of a significant number of digital organigrams and job descriptions.
- Greece has carried out significant reforms in the area of **public procurement**.
- The pandemic has worked as a catalyst for the **digital agenda**.
- **Justice reform** activities have included changes in the organisation of courts, measures to improve the management of courts, the broadening of the use of information technology tools in courts and the promotion of alternative dispute resolution mechanisms.

Banking and Financial constraints (1/2)



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The 2009 crisis has strongly modified the structure and activities of the financial sector:

- The banking sector is now **highly concentrated**
- **Profitability remains low**
- The sector is almost entirely **domestically owned**

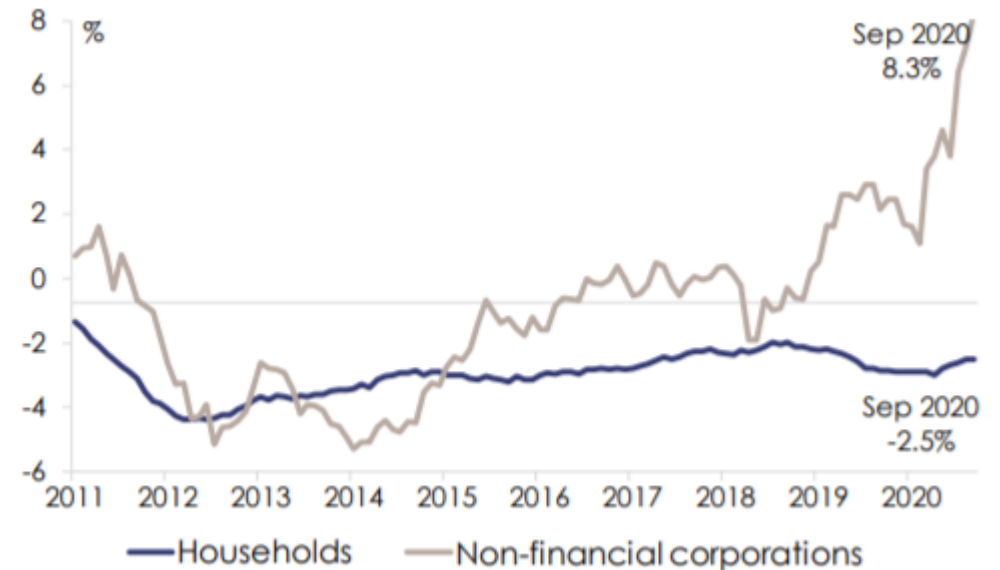
Lending collapsed during the crisis and is proving slow to recover:

- **Bank lending** remains **subdued**.
- **Private sector is heavily affected by the lack of credit**, especially SMEs
- **Greek capital markets are recovering**, with recent successful capital emissions

The Covid-19 crisis is also likely to increase the level of NPLs

Bank credit to non financial corporations and households, annual % change

Source: EC, Bank of Greece



Banking and Financial constraints (2/2)

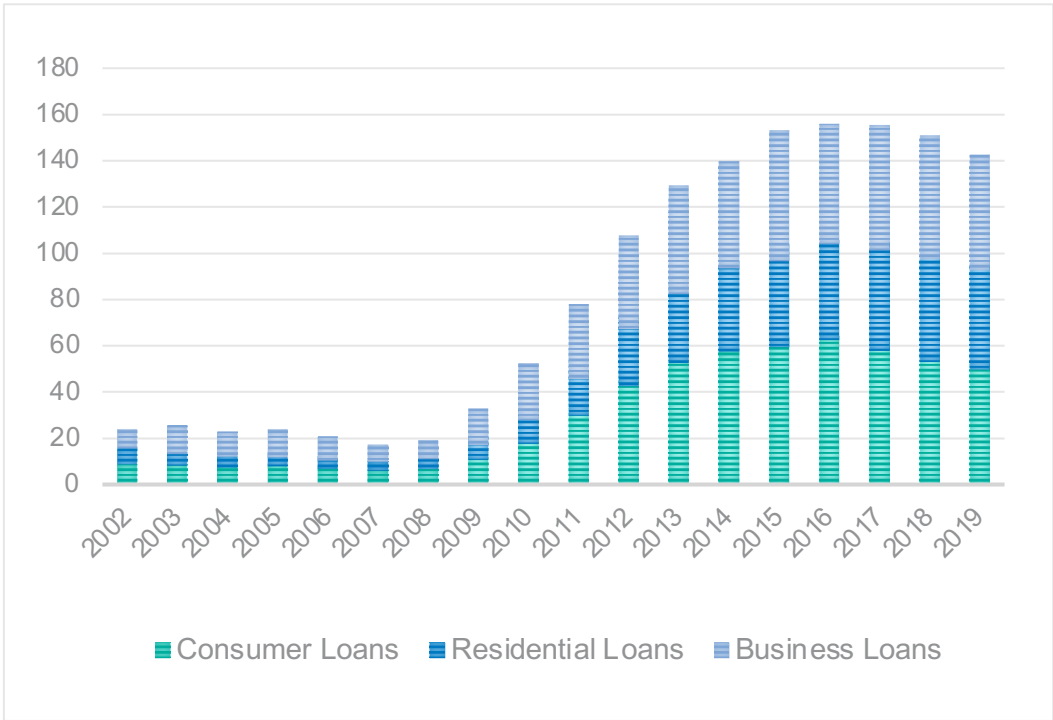


Resolving non-performing loans remains a key challenge

- **NPL levels remain amongst the highest in the EU** so additional measures for NPL reduction might be required.
- **Write offs on non performing exposures weigh on net interest margins**, which are only partially compensated by non-interest income as the economy recovers
- **Hercules Scheme** in operation since January 2020. The scheme is voluntary and managed exclusively by private investors

Non performing exposures as a per cent of total loans

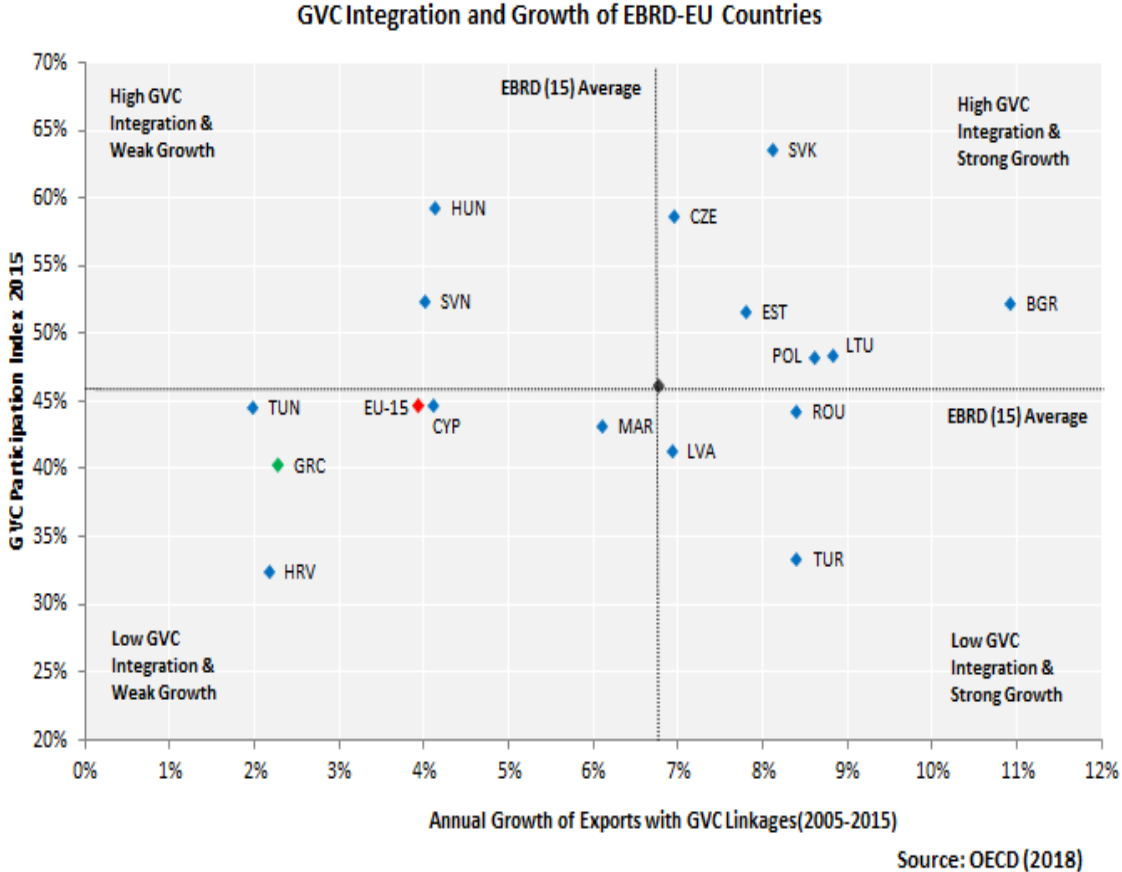
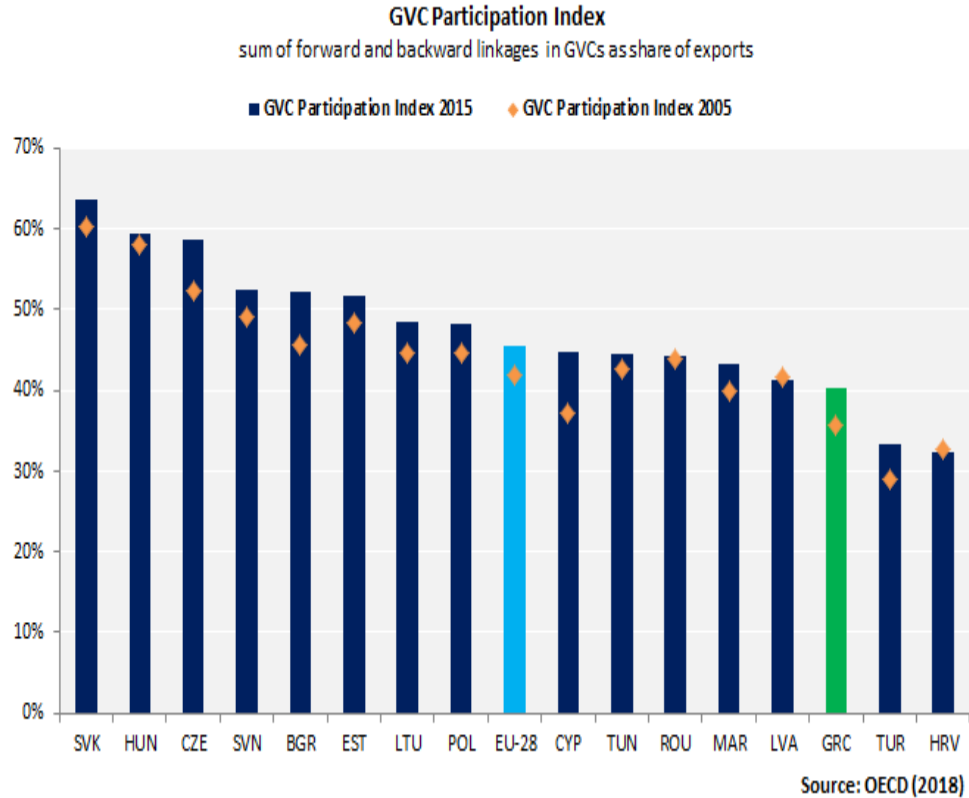
Source: Bank of Greece



Integration into Value Chains and the regional market (1/2)



- Greece’s degree of openness is quite limited by EU standards
- Despite increased competitiveness, export volumes remain significantly below potential.

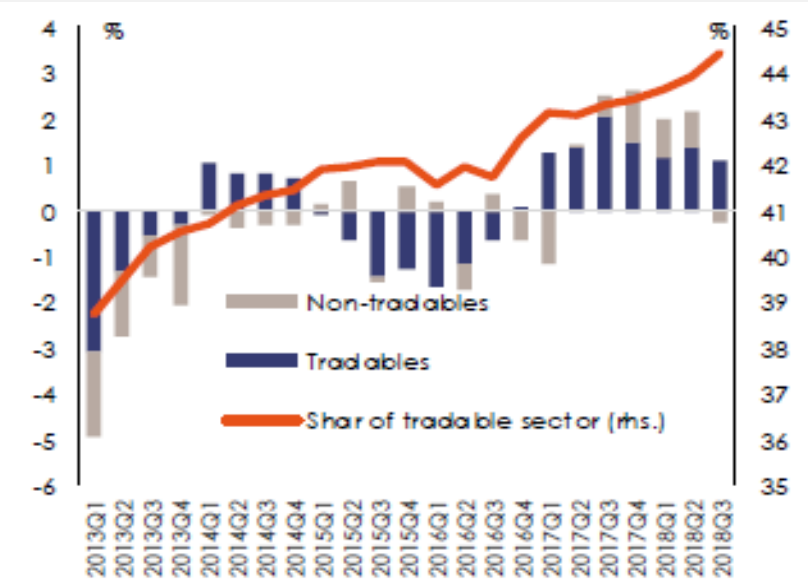


Integration into Global Value Chains and the regional market (2/2)



- Greece has a strong potential to go up the value chains
- The country can also be a leader in regional integration, provided that trade and infrastructure obstacles can be overcome

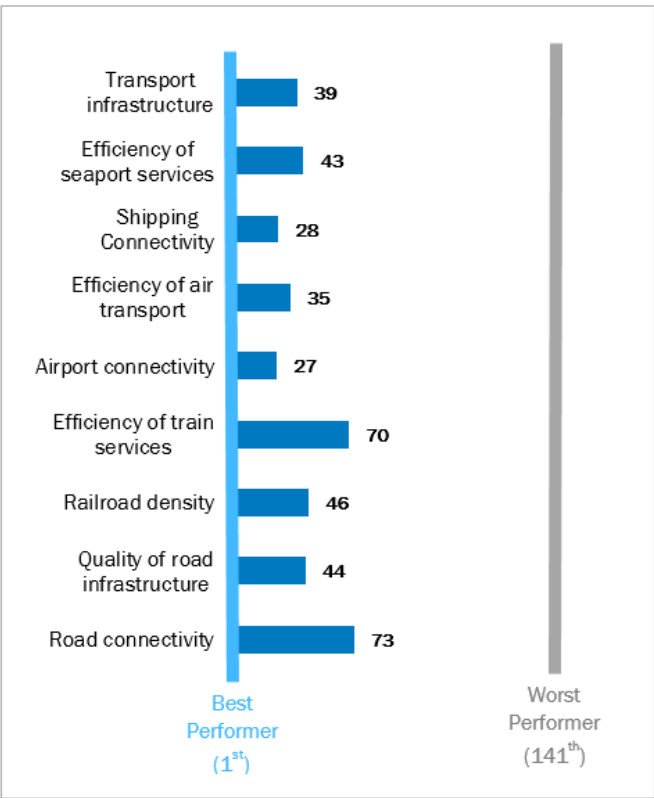
Growth contribution and share of tradable sectors



Tradable sectors: agriculture, industry, trade, tourism, transportation.
Growth contributions refer to the annual growth of gross value added.

Source: Commission departments

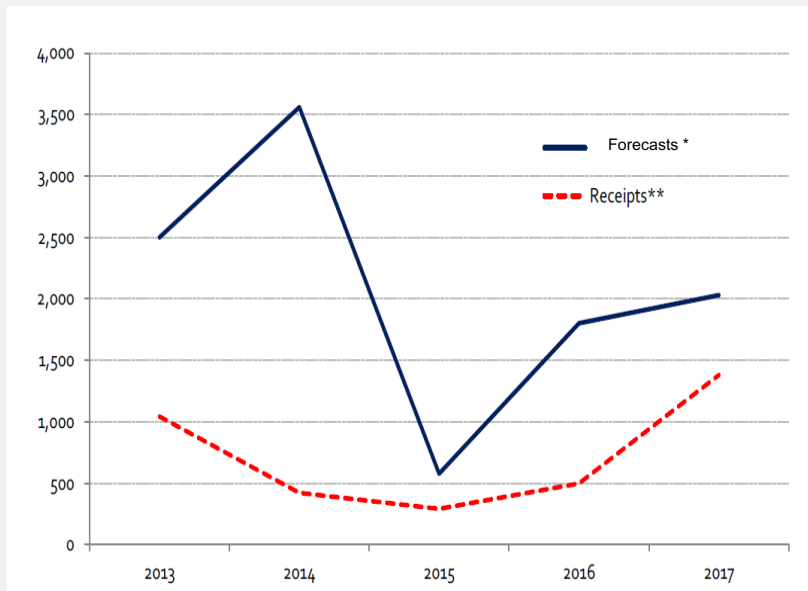
Infrastructure index for Greece



Source: Global competitiveness report, 2019

- Progress on privatisation and PPPs has been **uneven** during the crisis.
- A **new momentum** was gather pace before the pandemic
- The current government remains committed to proceed according to plan regarding privatisations

Estimated vs realised privatisations revenues (in million euros).



* based on that year's state budget. e.g. the 2013 figure is the estimate that appeared in the 2013 budget.

** 2019 Budget data

Source: Eurobank Research

In the short term, the government will focus on a number of privatisations including:

- **Hellinikon**: Largest regeneration project in Greece
- **Regional Ports**
- **Natural gas company DEPA**
- **Athens international airport**
- **Hellenic Petroleum**

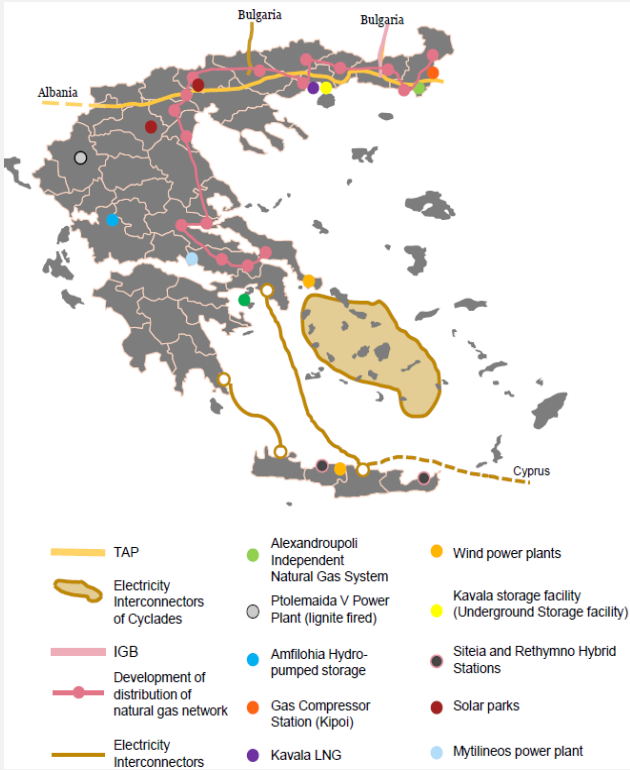
Long term ambitions include :

- Privatisation of the **Public Power Company**
- **Wastewater management** companies.

Challenges and Opportunities in the Energy Sector

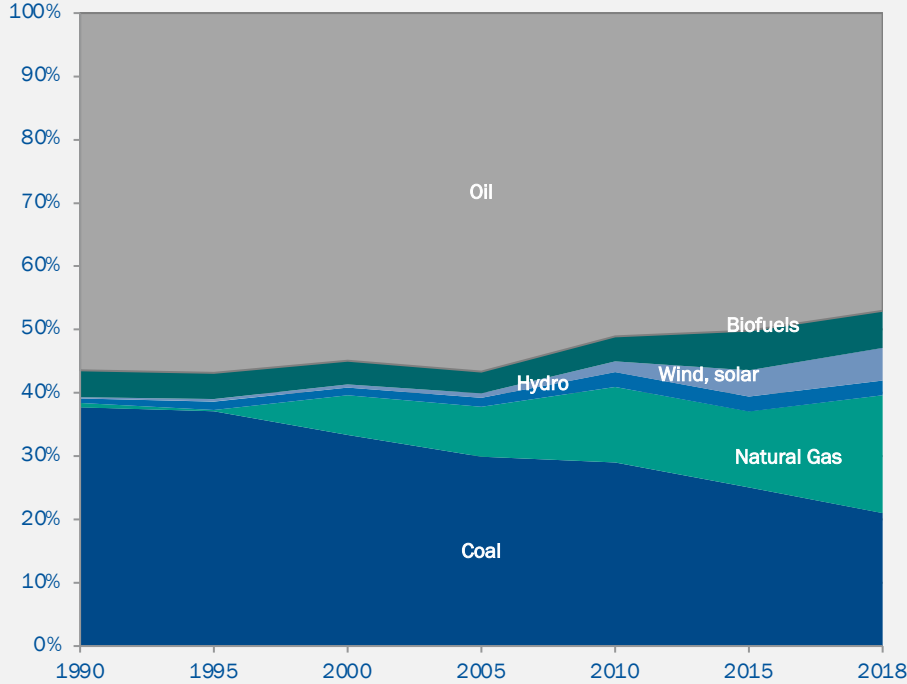
- Government commitment to **phase out lignite by 2023**
- **Regional opportunities in the energy sector** that would benefit the whole SEE region

Energy projects geographical distribution



Source: PwC, 2019

Energy supply



Source: IEA, 2019



3. Annex

The Covid-19 policy response in Greece
[EBRD Covid-19 country pages]

Responding to the Coronavirus Crisis

Update on Greece (18/01/21)



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EBRD Policy Comparator

Financial Sector			Direct support to firms					Payment holidays			Temporary controls		Support to individuals					Increased social benefits			Health	External Assistance
Policy rate reduced	Liquidity increased	Prudential req. loosened	Wage subsidies	Tax/ social sec. contr. deferred	Loan subsidies	Guarantees	Inspections/ audits suspended	Loans	Rent	Utilities	Prices	Exports	Universal transfers	Self-employed	Pensioners	Low income households	Enhanced sick leave	Enhanced unemp. benefits	Public works	Additional spending	(available or negotiated)	
*		*		*	*	*		*	*				*	*		*		*		*	*	

Economic channels of disruption

Tourism, private consumption, shipping

- Severe lockdown from March 23rd to May 4th has caused sharp halt to the steady economic recovery. Full normalisation from July 1st to Nov. 7th with international arrivals following EU advice. A new 3-week national lockdown has been in place since Nov.. Schools remain open, non-essential business are closed.
- Tourism (more than a fifth of GDP) heavily hit : Revenues from foreign tourism in Aug. 2020 amounted 30 to 35 per cent of those in Aug. 2019, and the industry expects losses to exceed €3 billion in 2020.

Selected crisis impact indicators

EBRD GDP growth outlook	2020: - 9.5 % (Nov. 2020)	2021: 4.0 %
Economic sentiment	December ESI 91.5 (November 2020):	(up 0.5 points m/m)
Purchasing Managers Index	December PMI 46.9 (November 2020)	(up 4.6 points m/m)
Industrial Production	8.6 % (November 2020)	(y-o-y)
Athens stock market	784.37 (Jan 18 th 2021)	(up 2.96 points m/m)

Crisis response measures to date

Support for healthcare, workers and businesses

- EUR 24 billion package financed from EU and national resources for healthcare system, vulnerable workers and businesses finance Hiring medical staff, increasing intensive care units, purchasing supplies
- Some workers helped by cash stipends, extended UE benefits, paid leave, tax reductions, rent reductions for primary residences
- Businesses receiving subsidised loans, guarantees and interest payments and deferred payments of taxes and social security contributions
- Primary surplus target relaxed – further fiscal measures under consideration
- Eligible for ECB's Pandemic Emergency Purchase Programme of EUR 1,350 bn

Key crisis response indicators

Support to employee salaries	EUR 3 bn emergency support
Payment holidays for loans	3 months, for specifically affected firms and (months) individuals
VAT reduction	From 24% to 6% for goods addressing the pandemic
External assistance	Greece eligible for wider EU support, including EUR 37 billion from the Cohesion Fund and EUR 8 billion mobilized by EIB and the EU for working capital

Key short-term priorities

Provide liquidity to the economy, particularly SMEs, and revenue support to vulnerable workers and other individuals