

# **Greek exports and corporate adjustment**

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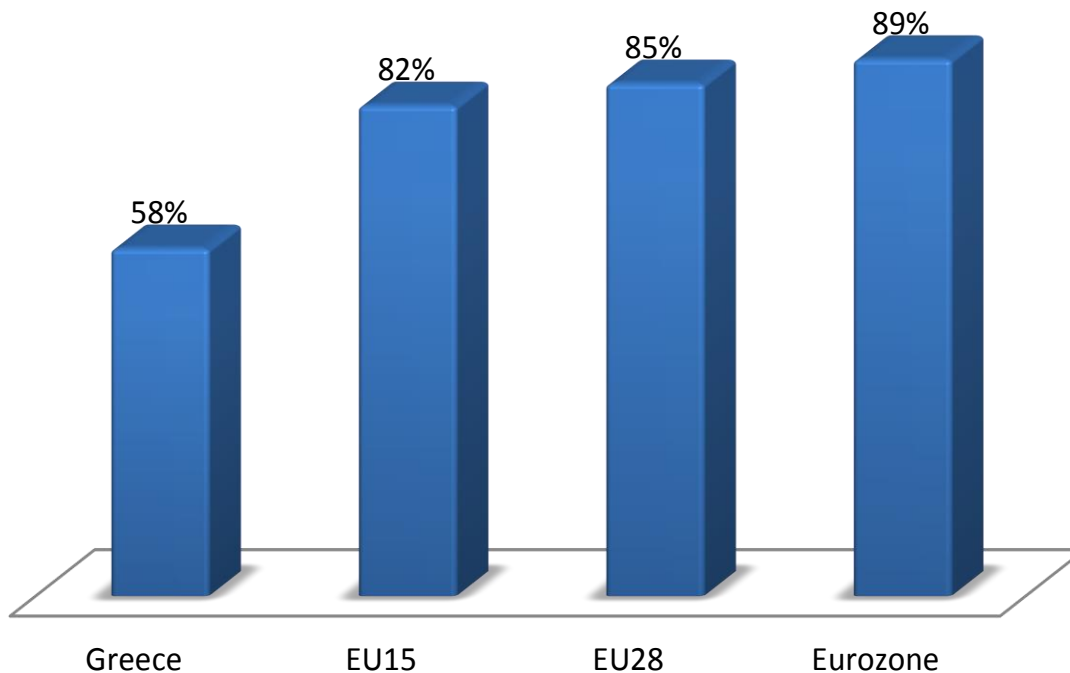
*12 March, 2018*

# Summary

- The Greek economy is relatively closed...
- ...with an export structure in areas of low value added
- Strong potential for future export growth
- Current obstacles include political instability, taxes, corruption and limited access to finance
- Capital controls have been damaging but are being relaxed
- Further benefits will come from tackling NPLs, reversing the brain drain and developing infrastructure for tradable services

# The economy is relatively closed

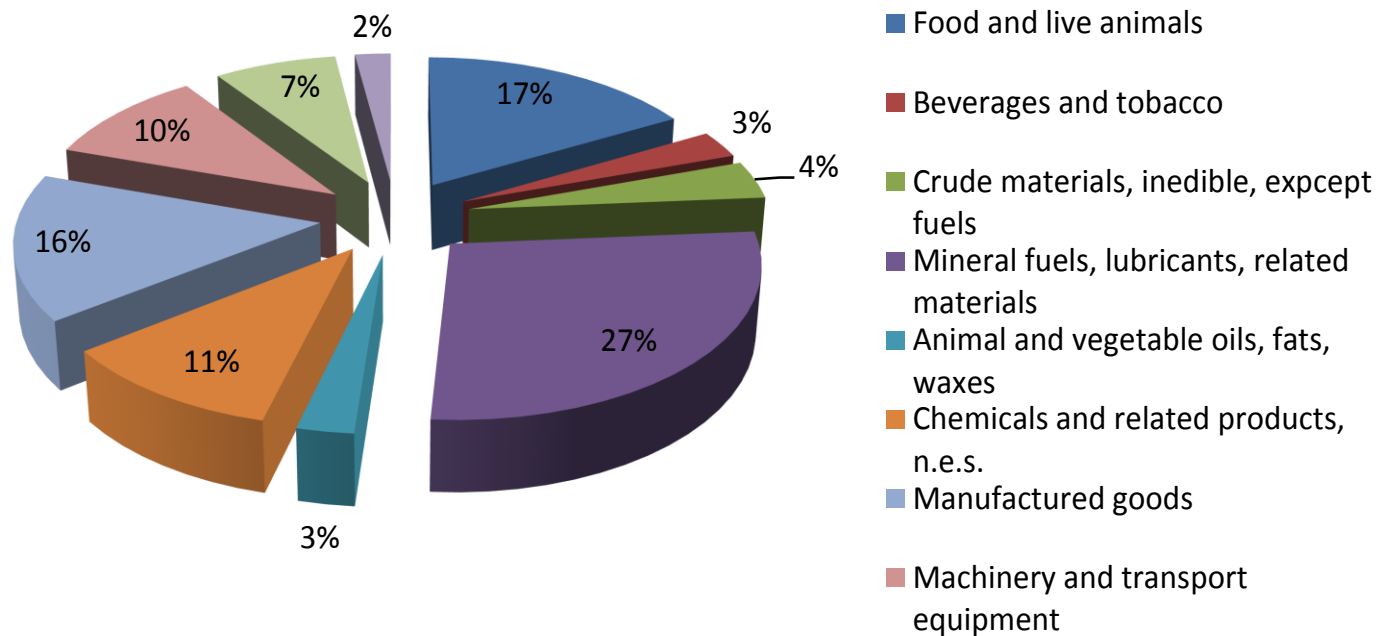
**Figure 1: Trade openness, 2016**



Source: UNCTAD.

# Current structure of exports – weak value added

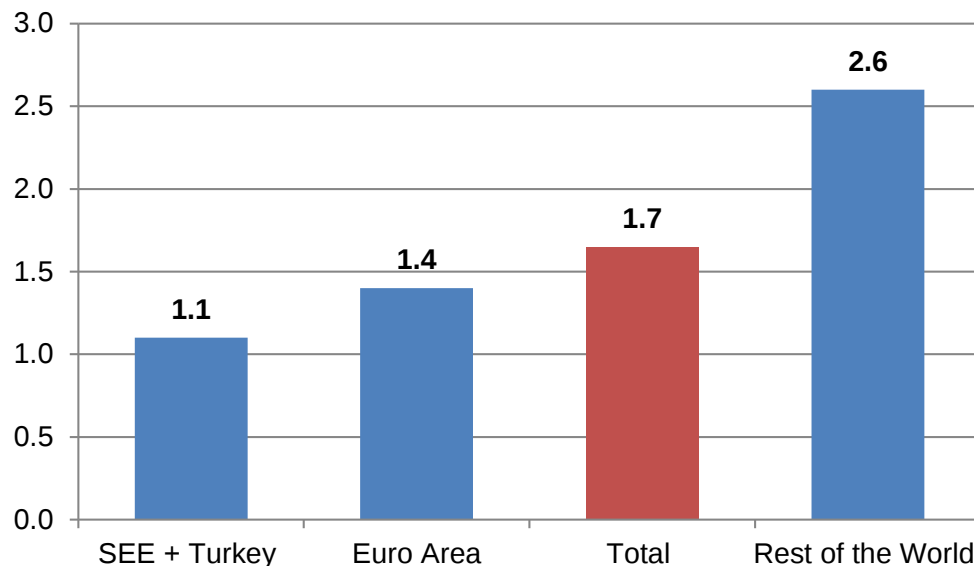
**Figure 2: Structure of exports, per cent of total**



Source: UNCTAD.

# Strong potential for future export growth

**Figure 3: Potential over actual exports of goods**



Note: estimates based on a gravity model – see Papazoglou (2009)

Source: Unctad database, National accounts.

\*Euro Area excludes Malta and the three Baltic states;

\*\* SEE includes Albania, FYR Macedonia, Bulgaria, Romania and Serbia

# Obstacles for exporters: evidence from BEEPS

- Firm-level survey conducted jointly by EBRD and World Bank in more than 30 countries in Emerging Europe and Central Asia, starting in 1999
- Detailed face-to-face interviews of owners or senior managers of enterprises
- Questions about perceptions of, and objective indicators on, the business environment
- Representative sample of a country's private sector
- BEEPS V carried out in 2016 in Cyprus and Greece

# BEEPS in Greece

- Greece participated in 2004 as an EU comparator country and in 2016 (with Cyprus, as part of BEEPS V) as a temporary EBRD country of operations
- Coverage and number of interviews in Greece:
  - 2016: 323 interviews
- Fieldwork: March 2016 – August 2016

# Obstacles to doing business

- Example of question: *To what degree is **corruption** an obstacle to the current operations of this establishment?*
- Answers are on a five-point scale, from “No obstacle” (scored as 0) to “Very severe obstacle” (scored as 4)
- Interviewees are also asked to choose, from a list of 15 options, the biggest obstacle facing their establishment

# Political instability and tax rates are the key obstacles for exporters

Separately rated business obstacles by exporters and non-exporters (in percentages)

| Obstacle to current operations    | No or minor obstacle |           | Moderate obstacle |          | Major + very severe obstacle |          |
|-----------------------------------|----------------------|-----------|-------------------|----------|------------------------------|----------|
|                                   | Domestic             | Exporters | Domestic          | Exporter | Domestic                     | Exporter |
| Political instability             | 6                    | 5         | 7                 | 6        | 86                           | 89       |
| Tax rates                         | 4                    | 5         | 8                 | 11       | 87                           | 84       |
| Tax Administration                | 2                    | 9         | 11                | 18       | 64                           | 72       |
| Corruption                        | 21                   | 23        | 13                | 15       | 62                           | 58       |
| Labour regulations                | 44                   | 38        | 21                | 14       | 34                           | 47       |
| Access to finance                 | 46                   | 36        | 17                | 17       | 37                           | 46       |
| Telecommunications                | 52                   | 48        | 5                 | 10       | 42                           | 42       |
| Transport                         | 56                   | 53        | 11                | 10       | 32                           | 37       |
| Electricity                       | 52                   | 58        | 10                | 5        | 38                           | 37       |
| Practices of informal competitors | 38                   | 28        | 10                | 14       | 43                           | 36       |
| Crime                             | 64                   | 58        | 10                | 5        | 25                           | 35       |
| Customs and trade regulation      | 65                   | 47        | 9                 | 21       | 23                           | 32       |
| Inadequately educated workforce   | 59                   | 46        | 10                | 17       | 29                           | 31       |
| Courts                            | 47                   | 57        | 17                | 13       | 31                           | 28       |
| Business licensing and permits    | 64                   | 58        | 11                | 29       | 21                           | 27       |
| Access to land                    | 75                   | 64        | 11                | 11       | 13                           | 21       |

Source: Business Environment and Enterprise Performance Survey.

# Big differences among types of exporters...

| Exporting type | Exported directly<br>(% of sales) | Age                        |            | Employees   |               | Foreign<br>ownership |
|----------------|-----------------------------------|----------------------------|------------|-------------|---------------|----------------------|
|                |                                   | When<br>began<br>exporting | as of 2016 | At start up | As<br>2016 of |                      |
| Superstar      | 68%                               | 1                          | 35         | 11          | 330           | 70%                  |
| Big player     | 50%                               | 9                          | 25         | 10          | 60            | 12%                  |
| Small player   | 10%                               | 11                         | 22         | 6           | 15            | 8%                   |

# ...as superstar exporters are more productive, but small exporters are not

| VARIABLES                                                            | LFTE<br>(1)                | LLP<br>(2)                 | LFTE<br>(3)                | LLP<br>(4)                 |
|----------------------------------------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Superstar exporters (top 5th percentile by export value) (Y/N)       |                            |                            | <b>1.519*</b><br>(0.081)   | <b>2.527***</b><br>(0.000) |
| Big player exporters (50th to 94th percentile by export value) (Y/N) |                            |                            | <b>0.658***</b><br>(0.000) | <b>0.503***</b><br>(0.005) |
| Small player exporters (below 50th percentile by export value) (Y/N) |                            |                            | -0.053<br>(0.469)          | 0.055<br>(0.989)           |
| At least 10 per cent foreign ownership (Y/N)                         | 0.300<br>(0.151)           | <b>0.865***</b><br>(0.001) | 0.182<br>(0.341)           | 0.607***<br>(0.007)        |
| Direct exporter only (at least 10 per cent of sales) (Y/N)           | <b>0.272*</b><br>(0.058)   | 0.249<br>(0.176)           |                            |                            |
| Log labour productivity (LLP)                                        | -0.046<br>(0.496)          |                            | <b>-0.122*</b><br>(0.090)  |                            |
| Log permanent full-time employees (LPFE)                             |                            | -0.055<br>(0.494)          |                            | <b>-0.147**</b><br>(0.043) |
| Constant                                                             | <b>3.137***</b><br>(0.000) | <b>11.61***</b><br>(0.000) | <b>3.92***</b><br>(0.000)  | <b>11.75***</b><br>(0.000) |
| Observations                                                         | 274                        | 274                        | 274                        | 274                        |
| R-squared                                                            | 0.025                      | 0.087                      | 0.115                      | 0.186                      |

Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Note: Simple OLS using survey-weighted observations (using Stata's svy prefix). Sector fixed effects are included in all regressions, but omitted from the table. Linearised Taylor standard errors clustered on strata are indicated in parentheses.

Source: BEEPS.

# Legacy of crisis and structural obstacles still need to be addressed

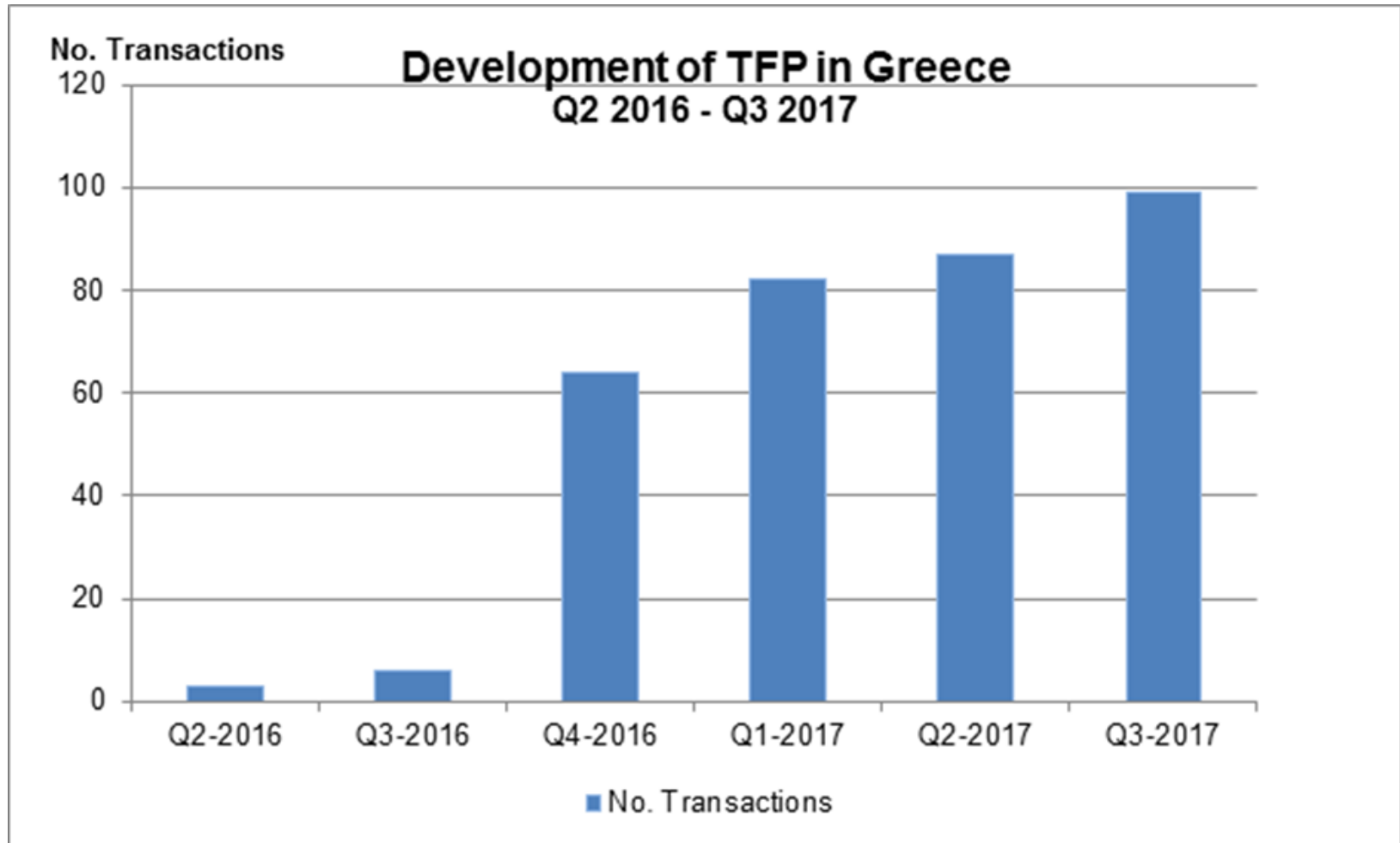
- NPLs and the funding gap for corporate investment
- Obstacles for new firms: access/cost of funding and brain drain
- Extensive need for restructuring and soft infrastructure for tradable services
- Limited intensive margin in new export markets
- The implicit burden of capital controls

# The EBRD's role

Nearly €1.6 billion invested so far, with a focus on:

- TFP lines
- Infrastructure for tourism
- Export orientation of business groups
- Performance gap between star exporters and the rest
- The need for tailor-made technical assistance

# The EBRD's TFP facility has taken off



# Policy recommendations

- Tackle the key obstacles facing exporters, especially those holding back SMEs
- Pursue NPL reduction vigorously – will help release new credit for viable businesses
- Once right conditions are in place, bring capital controls to an end – boosting confidence
- As economy returns to growth, work with diaspora to bring physical and human capital back to Greece