

Greece: signs of hope for some industries?

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Summary

- The economic situation remains fragile, but a GDP rebound is forecast in 2017.
- Some industries are expected to benefit from the rebound, while others remain subdued.
- Insolvencies are expected to decrease in 2017, but the insolvency level will remain high.

Some industries are expected to pick up

On June 15th the eurozone finance ministers agreed to provide Greece with another tranche of 8.5 billion euros out of the international bailout fund. This tranche will enable Athens to repay EUR 7 billion of debt to the European Central Bank, due in July. However, the payment is still subject to parliamentary approvals in some countries. At the same time, the future of the EUR 86 billion financial aid programme remains contingent on implementing agreed, but highly contested economic reforms. The austerity measures in conjunction with the current bailout scheme (e.g. higher taxes, increased social security payments and debt repayments) and capital controls restrain economic growth.

That said, Greek GDP showed a modest rebound of 0.3% in 2016 and is expected to grow up to 2.7% in

2017, given full implementation of the European Stability Mechanism (ESM) funding programme. 2017 economic growth will be driven by investment demand, higher private consumption (due to a decrease in unemployment, which nevertheless remains very high at more than 21%) and increasing exports.

It is expected that sectors like tourism, packaging, food, and (international) transportation will rebound and grow this year. Exports of agricultural goods (olive oil, vegetables, fruit, etc.) as well as petroleum, pharmaceuticals and aluminium products are forecast to increase, benefitting from higher external demand and the country's improved international competitiveness compared with some European peers like Portugal and Spain. However, the situation

for industries like construction, construction materials, textiles, and financing (banks) remains tense.

Insolvencies expected to decrease in 2017

The Greek banking sector continues to be negatively affected by a high percentage of non-performing loans (NPL) about 37% of gross total loans. The difficult situation of Greek banks constrains the lending needed to revitalise the dynamism of the private sector. Progress to clean up NPLs has been slow so far, and the recently adopted insolvency and debt-enforcement legislation (which allows e.g. for NPL sales) needs to be fully implemented. The desperately needed credit growth to support economic expansion will remain muted in 2017 (up 0.7%) and 2018 (up 2.1%), and this forecast is even based on fast elimination of capital controls and the pay out of scheduled tranches to Greece by its creditors.

Payment delays have decreased in 2016 compared to 2015, however, in 2017 no major improvement is expected. Due to the modest economic rebound, business insolvencies are expected to decrease 2% in 2017 after yearly increases since 2008. However, the insolvency level remains more than five times higher than pre-crisis years (i.e. before 2008). Sectors like food and IT/electronics are expected to record declining business failures, while insolvencies in the construction, textiles and machines sectors are forecast to remain high with no decrease in insolvencies expected.

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