Greek Industry: Post Covid-19 Challenges

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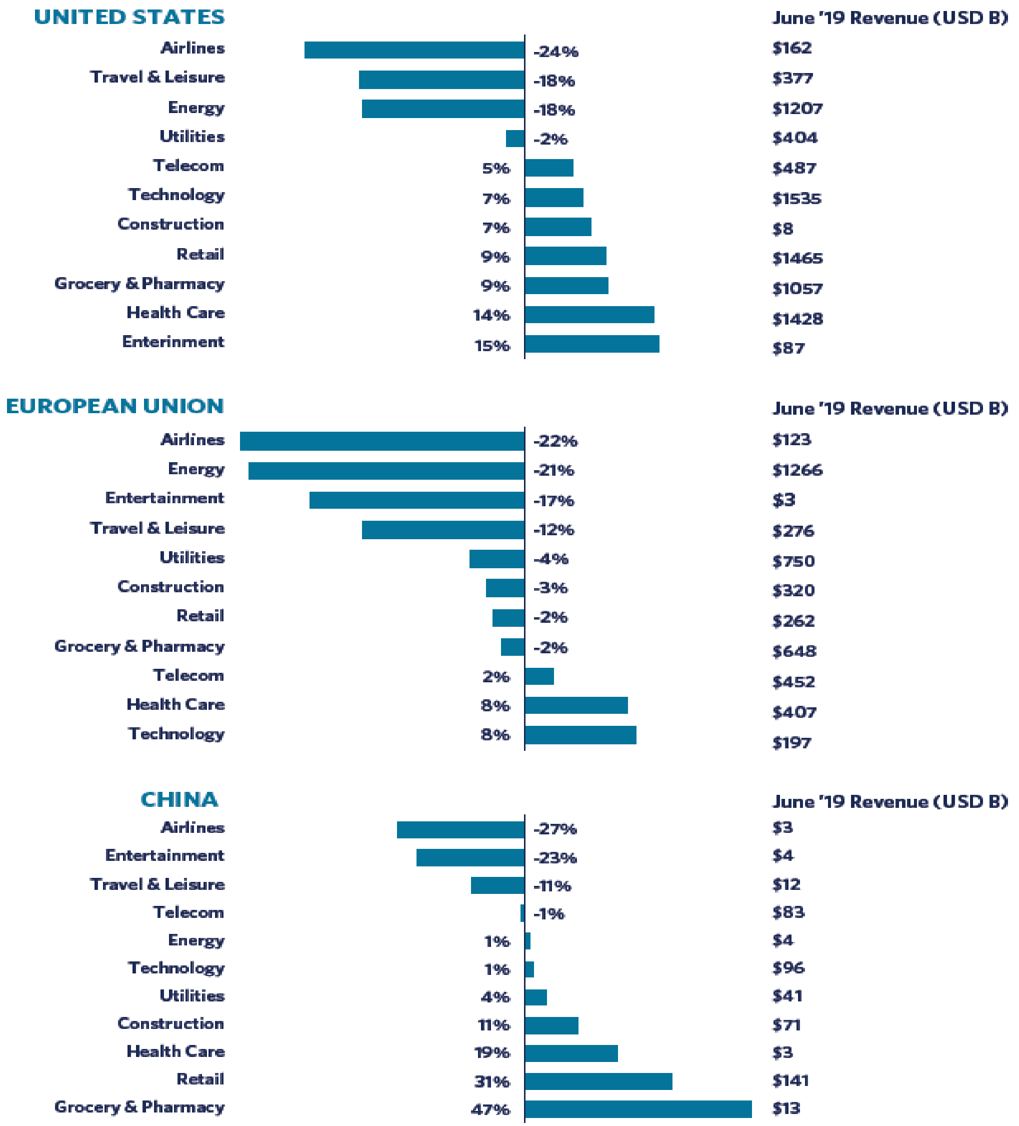
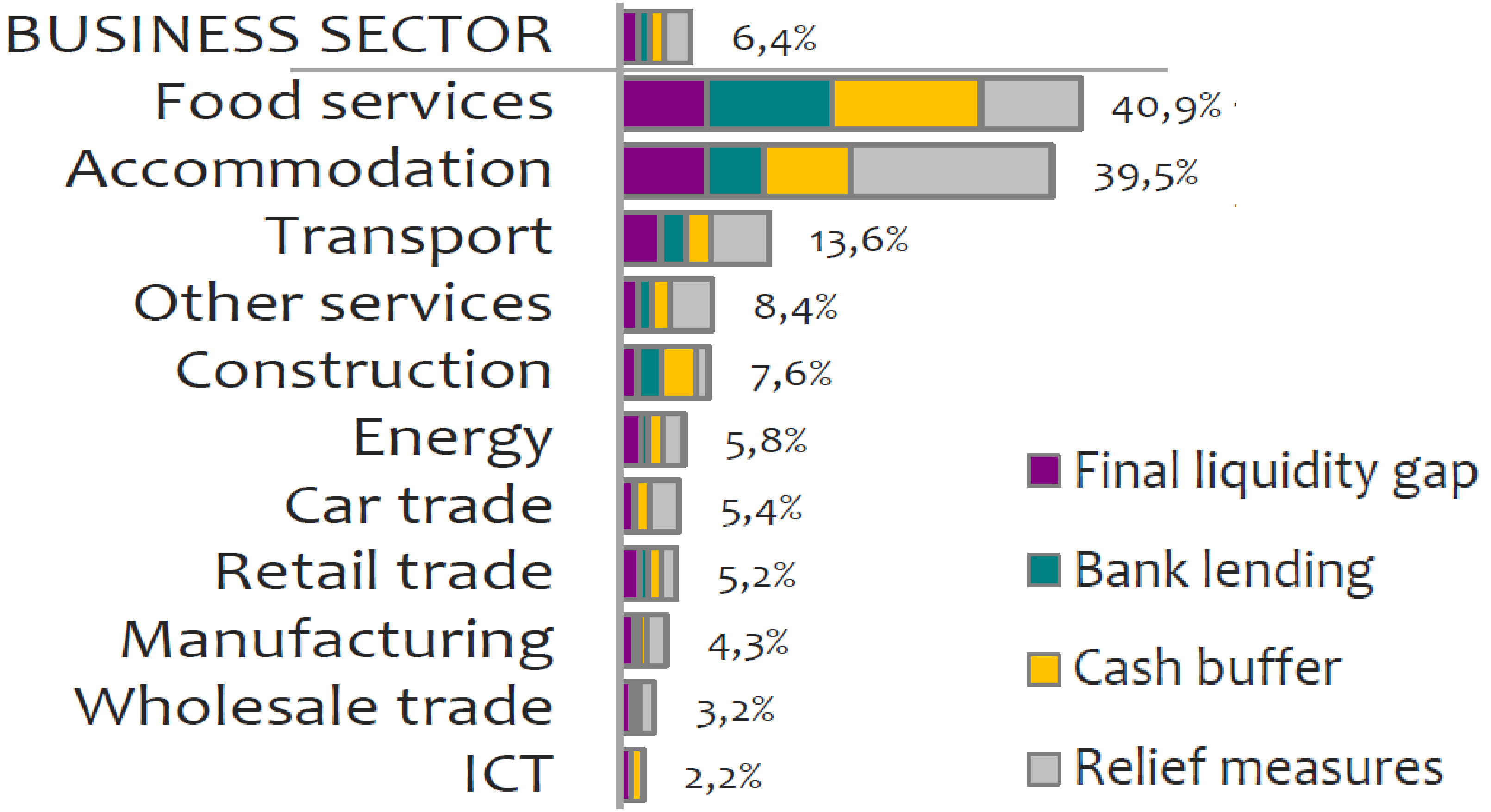
Global trends

- The severe economic shock triggered by the pandemic has generated an outpouring of public policy action around the world and the rapid crafting of trillion-dollar stimulus packages.
- Some of this action actually risks to hamper progress on mitigating climate change because it is predicated on supporting non-eco-friendly industries—the same industries that need to be drastically reformed to meet the climate goals.
- Levels of debt in the nonfinancial sector are higher than in 2007, as cheap and readily available funding encouraged borrowing.
- The crisis and the countercyclical lending role they are expected to play has put banking systems around the world under stress, having a differential impact depending on their characteristics and pre-crisis vulnerabilities.
- Borrower assistance measures exacerbated the stress for banks that operate in countries with little fiscal space. These vulnerabilities will need to be carefully monitored in the coming year as the pandemic continues to take its toll on the world economies.
- Firms with more cash, less debt, and larger profits experienced better performance than otherwise similar firms. As the pandemic depressed corporate sales and firms sought liquidity to cover costs, markets considered firms' cash reserves, leverage, and profitability when re-evaluating the value of corporations.
- Policy focus on credit provision, risks overburdening firms with debt, promoting inefficient use of resources, and engendering future leveraging problems.
- The combined effect of the pandemic and tougher environmental regulations is pulling capital expenditure in some of Europe's main industrial sectors in different directions – with implications for corporate funding and credit quality.
- About 2 to 3 percent of GDP will be needed to close the equity gap in the EU and provide firms sufficient equity so they would no longer be in difficulty.

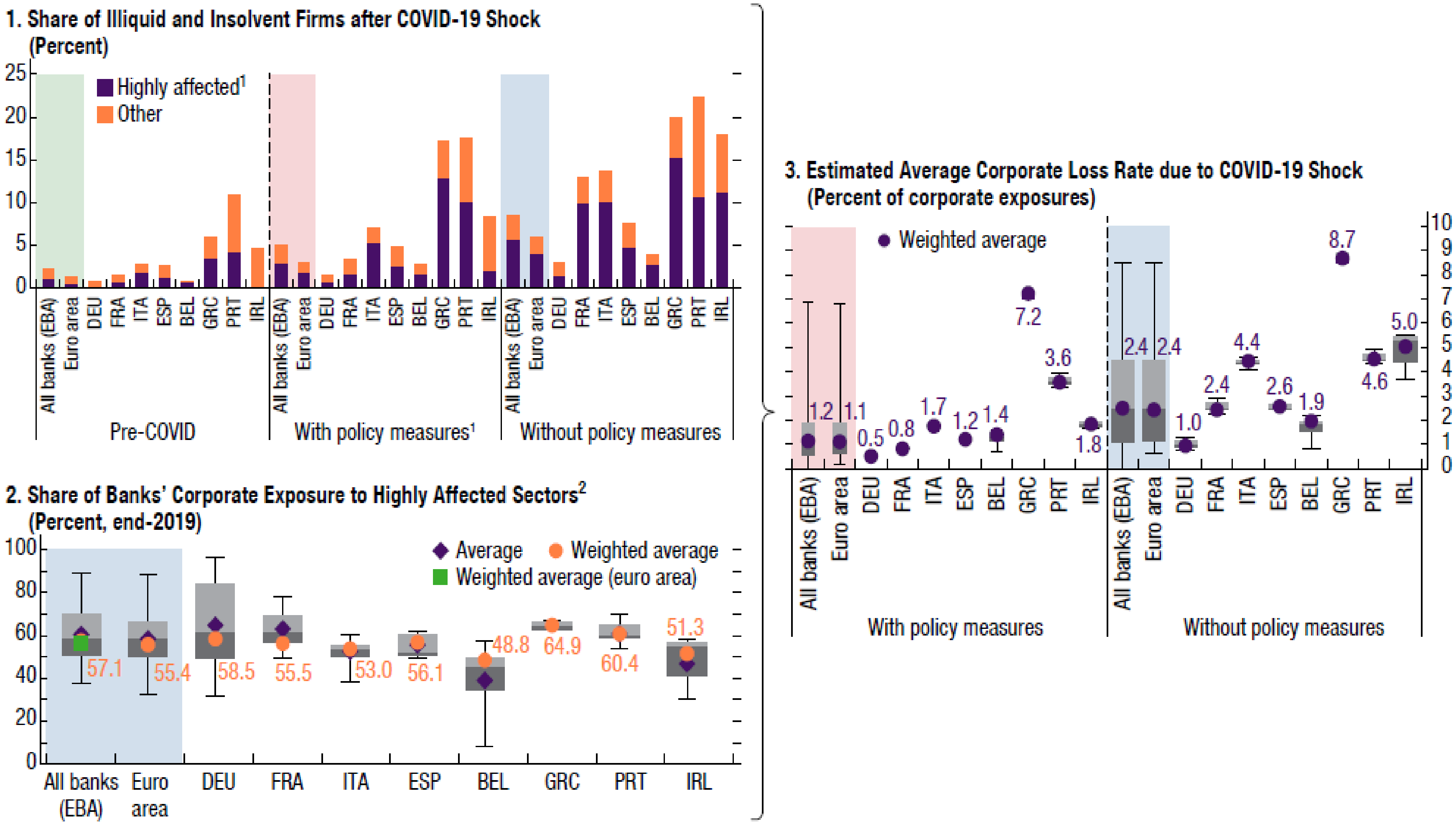
Winners and losers: Year-on-year revenue growth by industry segment



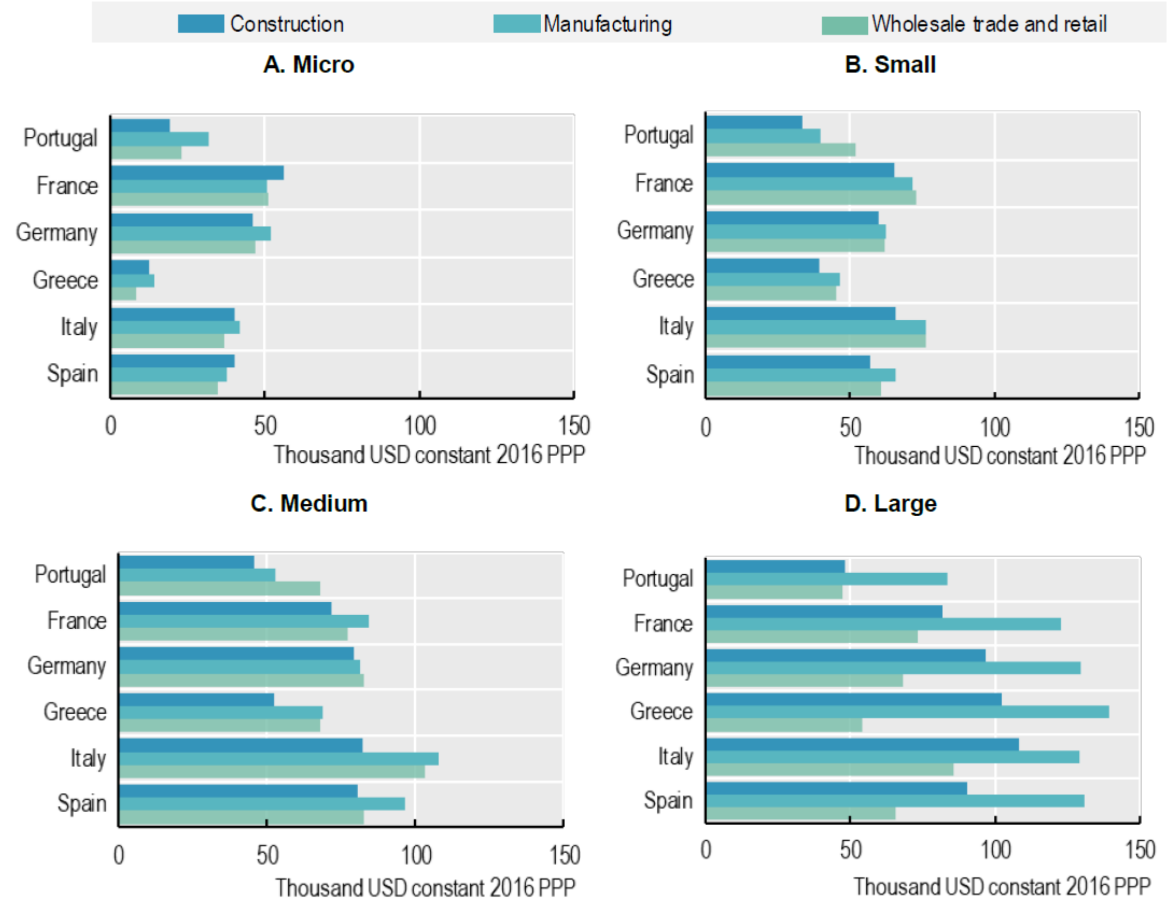
Greece: Estimated liquidity gap per sector (% of 2021 sales)



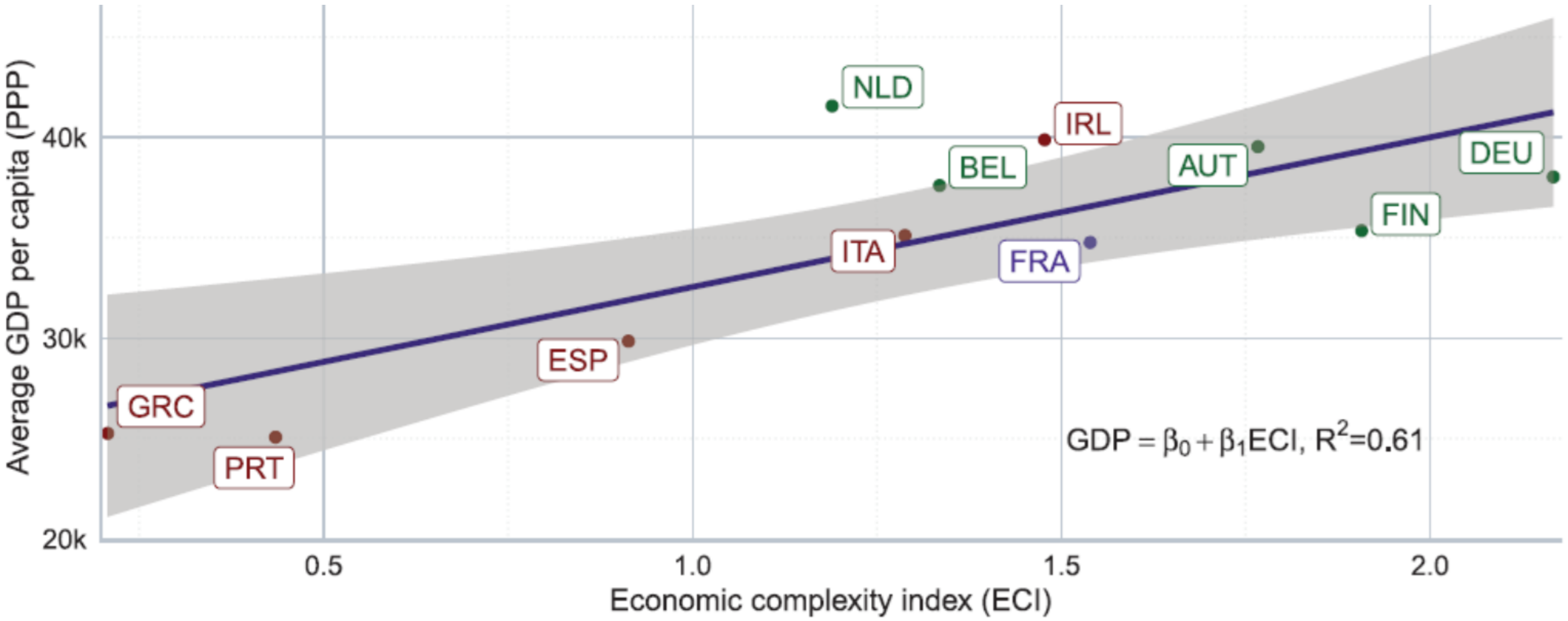
Greek Corporates: Vulnerabilities and Loan Default Risk



Hard Choices: Labour productivity by firm size for selected industries

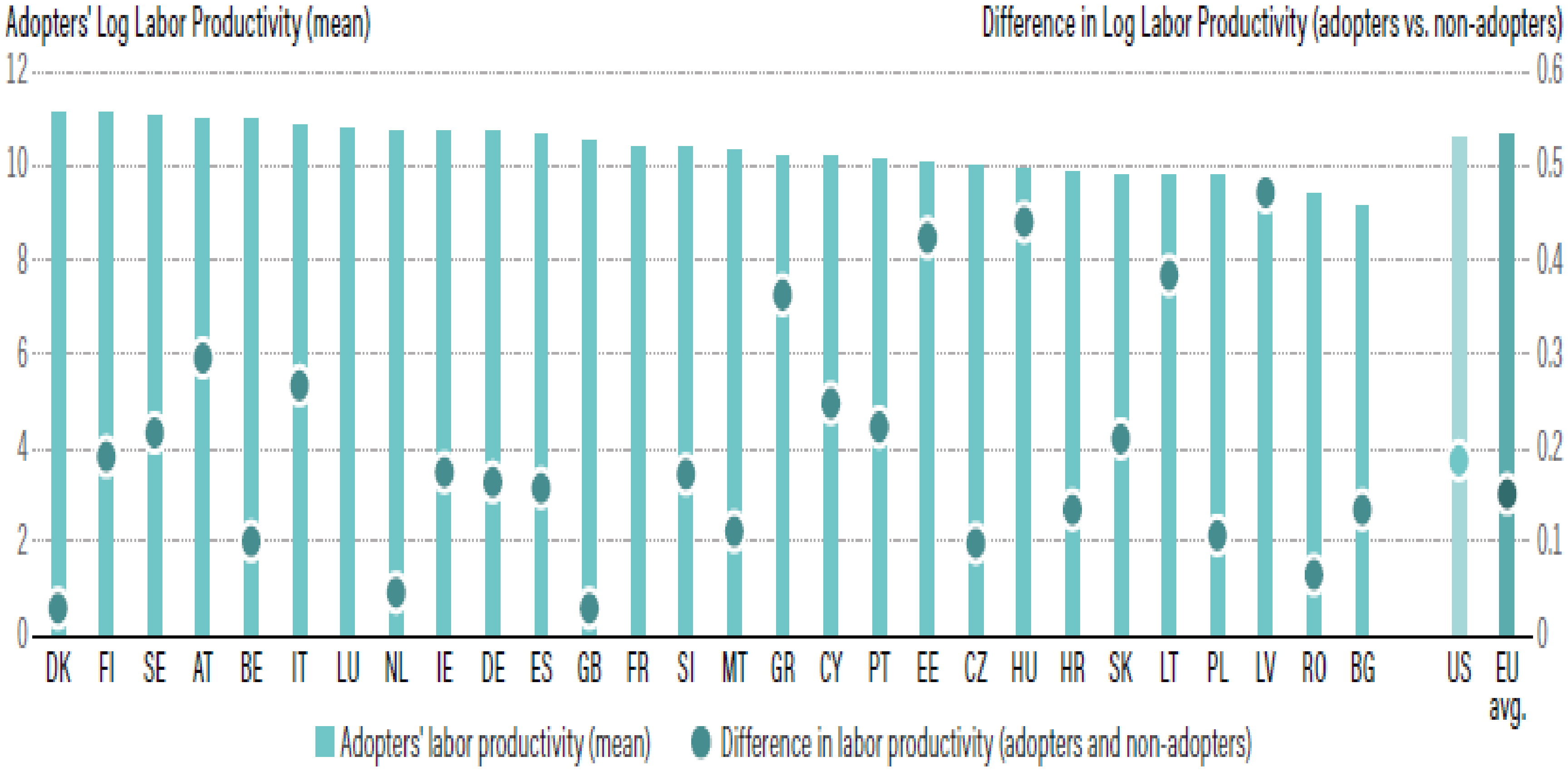


Economic Complexity: Greece and EU peers

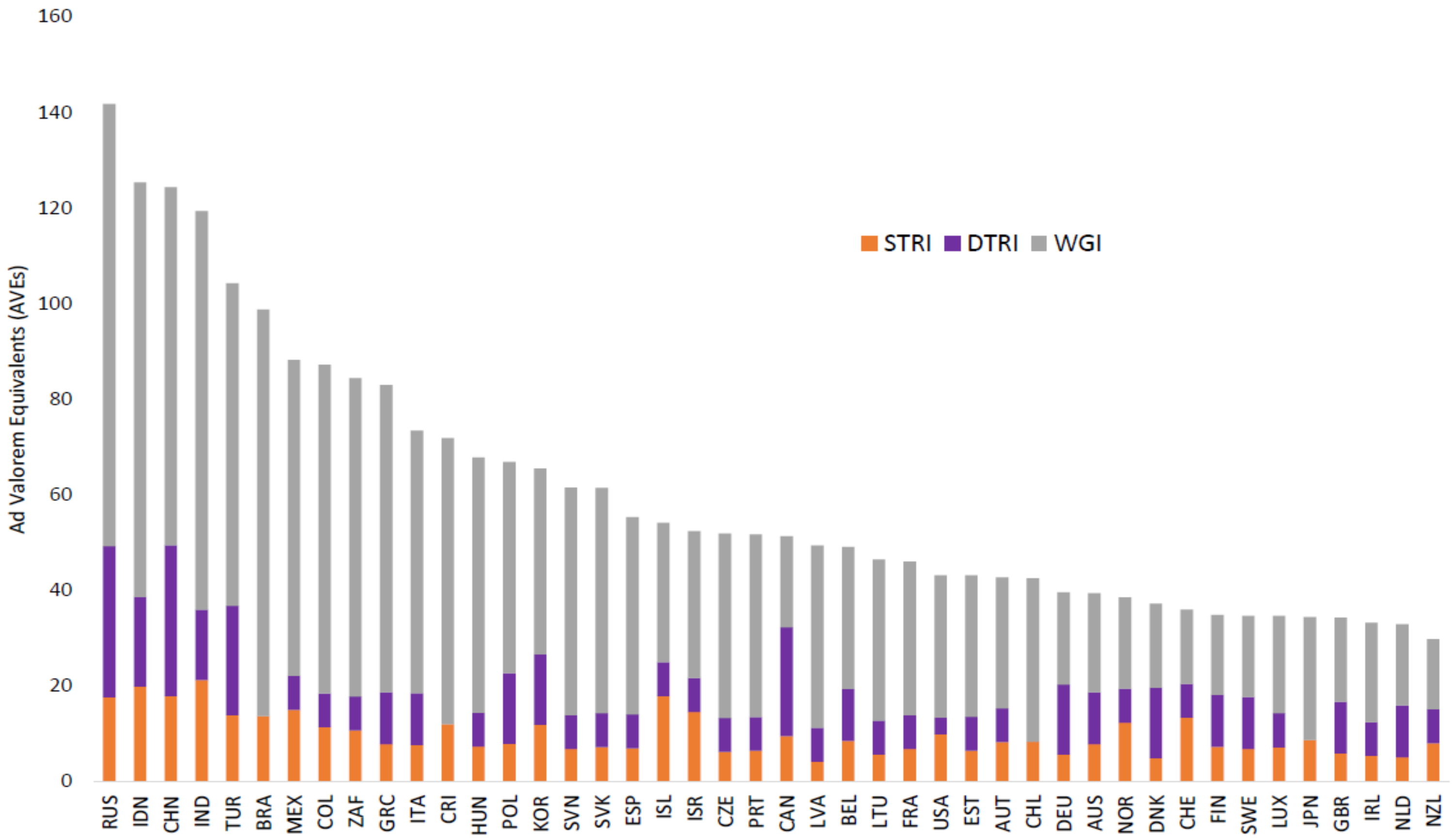


The silver lining of digitalization

Average labour productivity among digital adopters and the difference between non-adopters, 2019

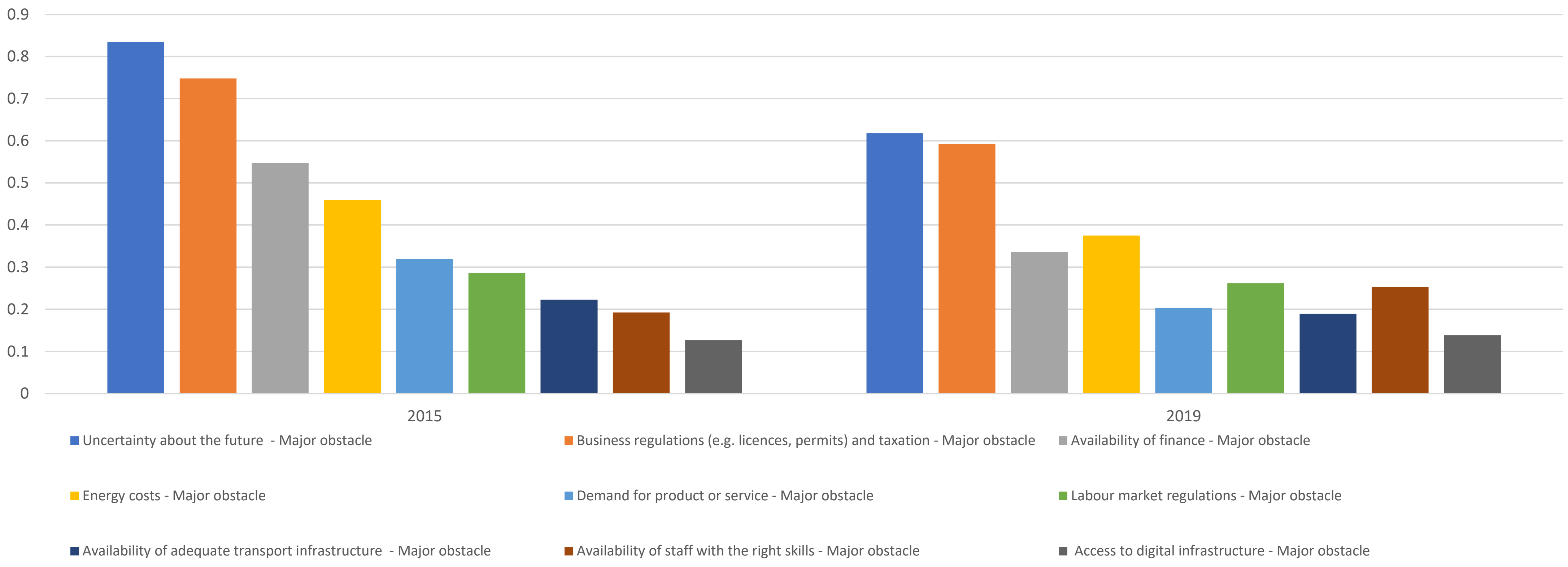


Easy Wins: Tariff equivalent burden of poor trade facilitation



Services Trade Restrictiveness Index; Digital Trade Restrictiveness Index; Worldwide Governance Indicator

Investment obstacles as perceived by industry



EU Recovery fund and estimated scarring five years after the crisis

	Constrained sectors % 2018 GDP	Initial GDP hit % YoY 2019-20	Recovery Fund grants % 2019 GDP	Longterm GDP scarring % 2024 GDP
Greece	45.9	-9.5	8.8	-1.5
Spain	40.6	-12.8	5.0	-4.7
Italy	38.7	-10.6	3.8	-4.2
Portugal	38.4	-10.0	6.6	-2.2
France	36.3	-9.8	1.6	-4.1
Austria	35.4	-6.7	0.8	-4.4
Finland	33.7	-4.0	1.0	-2.5
Germany	32.2	-6.0	0.7	-2.3
Netherlands	29.3	-5.4	0.7	-3.9
Belgium	29.2	-8.3	1.2	-3.5

Greece: Economic Recovery Challenges

CONTEXT

- High potential for funding the real economy: **Available funding sources of €80bn in 2021-2027**
- **Legacy issues**: leveraged firms, investment gap, reduced profitability and insolvencies

OBJECTIVES

- Short term: The first post Covid-19 objective for the Greek industry would be to incentivise **business investment back to the pre-economic crisis level (to 10% of GDP from 6% currently) and inventories to the pre-covid level (to 14% of sales from 12% currently)**
- Medium term: How to reconcile investment coordination priorities [**Productivity – Demand – Institutions**] is a challenge for involved stakeholders
- Long run: A green economy agenda, as a policy objective, will undoubtedly involve **a transformation of production structures and economic activities** and will enrich the economic complexity of the Greek economy

ALLOCATION

- Feeble development of capital markets, both public (listing) and private (private equity and venture capital)
- Limited role of institutional investors, risk capital and patient capital (e.g. pension funds)
- Financing of the real economy through debt (credit) rather than equity implies preference to **tangible assets**

CONSTRAINTS

- Previous experiences of **low efficiency** in the management of financial resources from EU financial programs in conjunction with the time constraints build in the EU Recovery Fund
- **Limited** long term investment capacity for infrastructure (including social infrastructure), SMEs, illiquid investment. The EU recovery plan is not a programme of national public expenditure