SETE

INTELLIGENCE

Greek Tourism

Developments and Prospects

Synopsis

ISSUE 3 | JULY 2017

INSETE

SETE INSTITUTE

During its three years of operation, SETE Intelligence, of SETE Institute, has focused on a politically unbiased presentation, analysis, and evaluation of data, in line with Bill Clinton's saying "Follow the trendlines, not the headlines". This third issue of Greek Tourism – Developments and Prospects follows this practice in considering:

- developments and prospects in the Greek economy, within an international environment. Structural reforms in the Greek economy that have been or are being implemented are clearly presented, as well as the economic potential created by them, provided political developments do not overturn the picture;
- the substantial contribution of tourism to Greek GDP, employment and covering the Balance of Goods deficit, as well as being the main wealth creating source in the island Regions of Crete, South Aegean and the Ionian. Furthermore, the importance of the extroversion of Greek tourism is highlighted, an extroversion that is a necessity for the whole Greek economy;
- the importance of Spatial Planning so that Tourism's contribution is further enhanced, through the introduction of a Special Spatial Plan for Sustainable Tourism Development, that will address the need for investments while ensuring environmental protection.

Irrespective of whether one shares or not the positions and assessments presented in this issue, the data presented and the analysis that follows have a clear perspective that contributes to public dialogue precisely because of their data-based factual nature.

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President, SETE
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The big picture revealed by the structural statistics of the Greek economy shows that, in a timid way in 2014 and more clearly in 2016, the period since the Greek crisis started in 2010 is two-sided. On the one hand, hundreds of thousands of businesses were destroyed and along the way one million jobs were lost. On the other hand, however, the unprecedented programme of reforms carried out in Greece between 2010 and 2016 led to a very substantial improvement of the international competitiveness of the country in relation to prices and costs. For example, as presented in chapter 3.2, between 2010 and 2016 Greek exports rose faster than in Italy or Spain and almost as much as in Portugal, even though Greek entrepreneurs operated and operate in a very adverse economic environment.

The observed stabilisation and gradual recovery of Greek GDP is primarily due to the export reorientation of the Greek economy, with inbound tourism spearheading the effort. Between 2010 and 2016 traveler receipts increased by 38% and, by now, more than 90% of total tourism activity in Greece is due to non-residents - within a fiercely internationally competitive environment.

The completion of the second Review coincides with strong indications of substantial improvement in many economic indicators, as explained in chapter 2. These indicators do not indicate that the crisis is behind us. However, they indicate that it is possible to restart the economy and gradually and steadily address unemployment.

Tourism's contribution can be increased further through the creation of a framework that will facilitate investments in accommodations for high-income tourists, in airports and other entry points, in the creation of a cultural tourism product, in creating closer linkages with other sectors, the agri-food sector in particular, as well as in soft actions like a calendar of activities in Athens and Thessaloniki – which will develop them into city-break destinations, promotion of conference infrastructure, etc. For this to be achieved it is necessary to introduce and implement an appropriate Special Spatial Plan for Sustainable Tourism Development.

Given the above, our economy can achieve an average nominal growth rate of 3.7% until 2030. As presented in the Synopsis below, this performance is not only possible but also necessary and – until 2030 – can lead to increased fiscal revenues that will allow the reduction of tax rates as well as the increase in investment and social policy expenditure while maintaining all along a primary surplus in excess of 3% on average. This is necessary for restoring the country's credibility, a prerequisite for reestablishing independence in carrying out economic, development, and social policy by the Greek national governments.

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Summary and Conclusions

Greece's growth prospects and Debt sustainability

After seven years of recession or, at times, marginal recovery, with a cumulative fall of more than 26% in GDP, a large reduction in bank deposits, with unemployment over 23%, three bank recapitalisations, capital controls in force and continuous, drawn-out Review processes that greatly intensify economic insecurity and delay recovery, it is only natural that most citizens, businesspeople and analysts are pessimistic about the mid- and long-term prospects of the Greek economy.

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Nevertheless, during this time the Greek economy has made significant achievements, engendering optimism that there are prospects for recovery and gradual reclaiming of lost territory. Provided an environment of relative financial security and confidence is created, already largely promoted with the – delayed – completion of the second Review without additional measures, that will ensure continuity of economic policy without digressions like the one experienced in the first half of 2015; this improvement, unlike the bubble of 2002-2009, will be based on healthy export-based growth and not on borrowing from abroad.

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More specifically, the stabilisation and gradual recovery of GDP is due mainly to the export reorientation of the Greek economy:

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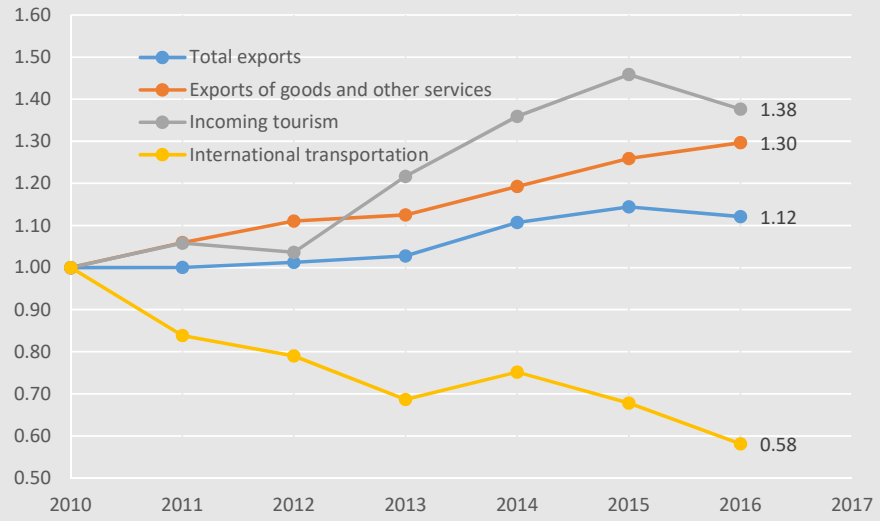
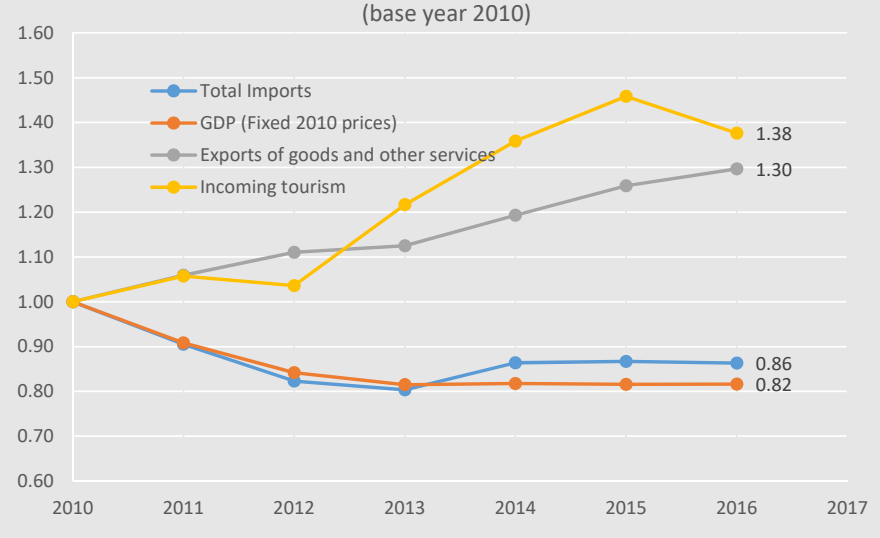
- this effort is spearheaded by incoming tourism, which, between 2010 and 2016, showed a 38% increase in revenues, with over 90% of total tourism activity now coming from abroad, in a very competitive international environment;
- evenues from exports of goods and other services in 2016 were up 30% compared to 2010, despite the very unfavourable financial environment for Greek enterprises;
- while revenues from shipping – which was hit hard globally, with remittances to Greece from Greek shipowners hit even further by the imposition of capital controls in 2015 – were down by 42%, creating the impression among the public that Greek exports are stagnant.

Export Reorientation is spearheaded by tourism and goods exports.

Graph 1. Comparative development of export components (base year 2010)



Graph 2. Comparative development of exports, imports and GDP (base year 2010)



The reform of the system for managing banks' Non-Performing Exposures, and their high capital adequacy support the effective handling of this complex issue.

Furthermore, the reform of the system for managing banks' Non-Performing Exposures (NPEs)[1], which took place after August 2015 and to which the Institutions contributed substantially, will have a very significant impact. This reform allows banks today to have substantially increased capabilities to actively manage NPEs and are already contributing to the financial, managerial and business restructuring of overindebted but viable enterprises in order to restore them to fully productive and viable businesses with debts they can service. Furthermore, the capital adequacy of Greek banks is maintained at the high level that was achieved with the recapitalization of November 2015, with CET1 capital adequacy ratio exceeding 16%, well above the ECB target and considerably higher than the estimations that were used to determine recapitalisation requirements. This, together with the growth potential the Greek economy now possesses, creates considerable safety margins for the capital adequacy of Greek banks, provided there are no bankruptcies of very large enterprises that can have a systemic effect on the economy. Moreover, although NPEs remain high at € 105.1 billion (45.2% of total exposure) at the end of March 2017,

[1] NPEs include Non-Performing Loans (NPLs), i.e. bank loans with payment schedules in excess of 90 days in arrears as well as loans whose repayment is in doubt without liquidating collateral, irrespective or days in arrears.

these loans are covered at approximately 100% with provisions and collateral at rather low valuations.

In addition (Table 1), with a satisfactory average annual nominal GDP growth rate of 3.7% (composed of an average real GDP growth of 1.8% and average inflation of 1.9%), primary surpluses of over 3.2% of GDP can be achieved even with a significant fall in General Government (GG) revenues as a percentage of GDP (from 49.7% to 40.8%) and, simultaneously, have a marked increase in the general government's primary spending in € terms (from € 80.5 billion to € 109.8 billion). This hinges, of course, on the implementation of the new parameters of the pension system, which deter early retirement and lead to reduced State Budget funding of the pension deficit, and on continuation and intensification of the process of rationalisation of the functioning of the public sector in the period 2021-2030, which will further reduce the state's operating costs and increase its efficiency.

Table 1:
Possible evolution of Greece's public finances in the period 2017-2030

	GG Revenues		GG primary expenditure		GG Primary Surplus (GGPS)		Nominal GDP	
	Billion €	% of GDP	Billion €	% of GDP	Billion €	% of GDP	Billion €	% Δ
2016	87.9	49.8%	84.4	47.8%	3.5	2.0%	176.6	
2017	89.5	49.3%	84.4	46.5%	5.1	2.8%	181.5	2.8%
2018	92.5	49.1%	84.2	44.7%	8.3	4.4%	188.3	3.7%
2019	94.8	48.2%	86.5	44.0%	8.3	4.2%	196.7	4.5%
2020	97.2	47.0%	89.4	43.3%	7.8	3.8%	206.6	5.0%
2021	99.6	46.4%	92.0	42.8%	7.6	3.5%	214.8	4.0%
2022	102.1	45.8%	94.1	42.2%	8.0	3.6%	223.0	3.8%
2023	104.7	45.2%	96.5	41.7%	8.2	3.5%	231.5	3.8%
2024	107.3	44.6%	98.9	41.2%	8.4	3.5%	240.3	3.8%
2025	110.0	44.1%	101.4	40.7%	8.6	3.4%	249.4	3.8%
2026	112.7	43.5%	103.9	40.1%	8.8	3.4%	258.9	3.8%
2027	115.5	43.0%	106.5	39.6%	9.0	3.4%	268.7	3.8%
2028	118.4	42.5%	109.2	39.1%	9.2	3.3%	278.9	3.8%
2029	121.4	41.9%	111.9	38.7%	9.5	3.3%	289.5	3.8%
2030	124.4	41.4%	114.7	38.2%	9.7	3.2%	300.5	3.8%
Average % Δ	2.5%		2.2%				3.9%	

Source: ELSTAT and SETE Intelligence

It is possible to achieve high primary surpluses even with a significant fall in General Government revenues as % of GDP and, simultaneously, have a marked increase in public spending in € terms.

With the public sector significantly downsized and operationally upgraded at the end of the 2020s, and, consequently, with the tax burden for businesses and private citizens significantly reduced, the Greek economy's growth prospects for the 2030s will be substantially increased by the greater increase in productivity of international competitiveness and productivity factors in all sectors of the Greek economy, creating the conditions for overcoming the negative impact of population ageing that will 'kick-in' after 2030.

On the other hand (Table 2), **keeping the general government primary surpluses at average levels greater than 3.0% of GDP during the decade 2021-2030 is not only possible but also vital** to ensure a) the sustainability of the Greek state debt, as reflected in the European Commission analysis of July 2016 and b) the restoration of the country's credibility which in turn entails c) relatively low funding needs (as those stand at the expiration of the 3rd Memorandum) that can be serviced from the markets at low interest rates. Once these targets are achieved and secured, it will be feasible to bring the surpluses down. On the contrary, as is apparent from the example of Table 2, **with a policy of reducing the primary surpluses to 2% from 2019 onwards, in 2030:**

The maintenance of high primary surpluses is necessary for debt sustainability and the restoration of the country's credibility, so as to eventually re-establish independence in determining national economic policy.

- debt will be €44 billion higher, further burdening future generations;
- and, at the same time, annual spending for interest payments will be increased by some €4 billion.

Additionally, in the period from 2018 to 2030:

- total needs for Debt refinancing (Treasury Bills and Borrowing) will be increased by some €55 billion;
- and, at the same time, total spending on interest will be higher by some €25 billion, cancelling almost entirely the benefits expected from the 'fiscal space' that will be created as a result of the reduction of primary surpluses.

Table 2:
Scenarial regarding public borrowing and debt of General Government (GG)

Scenario A: Average primary surplus -incl. privatisation proceeds- during 2019-2030 equal to 3.3% of GDP						Scenario B: Average primary surplus -incl. privatisation proceeds- during 2019-2030 equal to 2.0% of GDP					
	Public Debt	Public Debt as % of GDP	Interest payments by GG	Average interest rate	Treasury Bills and Borrowing		Public Debt	Public Debt as % of GDP	Interest payments by GG	Average interest rate	Treasury Bills and Borrowing
2018	312.0	165%	6.15	2.0%		2018	312.0	165%	6.15	2.0%	
2019	306.5	156%	6.37	2.1%	22.0	2019	306.5	156%	6.70	2.2%	22.0
2020	306.0	150%	6.56	2.1%	21.0	2020	306.0	150%	7.20	2.4%	21.0
2021	307.0	145%	6.77	2.2%	19.0	2021	307.0	145%	7.65	2.5%	19.0
2022	306.2	139%	6.94	2.3%	19.0	2022	306.2	139%	8.03	2.6%	19.0
2023	304.2	133%	7.16	2.4%	22.0	2023	308.0	135%	8.59	2.8%	26.0
2024	302.3	128%	7.39	2.4%	22.0	2024	312.0	132%	9.21	3.0%	28.0
2025	301.1	123%	7.57	2.5%	20.0	2025	316.5	129%	9.77	3.1%	26.0
2026	300.1	118%	7.74	2.6%	19.0	2026	320.5	126%	10.27	3.2%	25.0
2027	298.1	113%	7.84	2.6%	17.0	2027	325.5	123%	10.77	3.3%	24.0
2028	297.3	109%	8.02	2.7%	20.0	2028	330.7	121%	11.29	3.4%	27.0
2029	296.3	104%	8.17	2.8%	20.0	2029	336.2	119%	11.82	3.5%	29.0
2030	295.6	100%	8.32	2.8%	20.0	2030	340.4	116%	12.29	3.6%	30.0
Total			95.0		241.0				119.7		296.0
Note: Average Interest Rate on Treasury Bills and Bonds is estimated at 3.4% in Scenario A and 4.6% in Scenario B											

Source: ELSTAT and SETE Intelligence

In conclusion, the economic conditions for the country's healthy growth and its exiting the crisis exist and can be realised, provided the political processes and procedures allow this to happen – let alone if they support it.

Greek tourism in 2016 and its prospects

Tourism contributes approximately 10% of the GDP directly, and some 25% when indirect and induced contributions are also considered. In 3 island Regions it creates 50% or more of their GDP.

In 2016, incoming tourism in Greece showed an increase in arrivals (by +5.1% without cruise visitors and by +7.5% including cruise visitors) but at the same time there was a fall in revenues (by -6.8% and -6.0%, respectively). The drop in revenues can be attributed to the Europe-wide trend of reduced average spend by tourists, shorter duration of stays in our country, and extensive use by businesses of last-minute offers to offset the delayed entry into the market resulting from problems with refugee/migration flows in the first half of 2016 and delayed completion of the first review during the same period. Thus, in 2016 there were 24.8 million arrivals excluding cruise passengers and 28.1 million arrivals including cruise passengers, generating revenues of €12.75 billion and €13.2 billion, respectively. Despite the drop in revenue from abroad, tourism's total contribution to the economy remains high: approximately 10% of the GDP is created directly from tourism, and the total impact (direct, indirect and induced) is some 25%. Furthermore, tourism covers 80% of the Balance of Goods deficit and contributes in excess of 50% of the GDP of three island Regions (Crete, Ionian, South Aegean).

Greek tourism data so far, as well as the economic data of our markets abroad, point to a mild increase for 2017 that allows us to estimate incoming arrivals at 26.0 million (vs. 24.8 in 2016). Including cruise arrivals, which are projected at -20% compared to last year due to geopolitical uncertainty in the SE Mediterranean, total arrivals are expected to exceed 28.5 million. If average tourism spend recovers to 2015 levels, total revenue is estimated at between € 14.2 and 14.5 billion, creating a new record.

If these targets are met, tourism can contribute even more dynamically to the Greek economy and add an additional percentage point – at least this year – to the country's GDP, bolstering the country's effort to achieve the programme's goals.

The above framework creates a great – perhaps even unique – opportunity that must be supported and facilitated by the necessary investments a) in accommodations for high-income tourists, b) in airports and other entry points, c) in the creation of a cultural tourism product, d) in creating closer linkages with other sectors, the agri-food sector in particular, as well as e) in soft actions like a calendar of activities in Athens and Thessaloniki – which will develop them into city-break destinations, promotion of conference infrastructure, etc.

Tourism can contribute even more dynamically to the Greek economy and add an additional percentage point to the country's GDP.

The importance of spatial planning for tourism

But without the immediate restoration of trust between the state and businesses, the right conditions will not be created for the necessary investments to be carried out in our country. The key conditions for the creation of an investment-friendly environment include the existence of a stable investment-friendly tax framework – to which we referred in detail in Greek Tourism - Developments & Prospects, issue 2 – and appropriate spatial planning via an effective Special Spatial Plan for Sustainable Tourism Development.

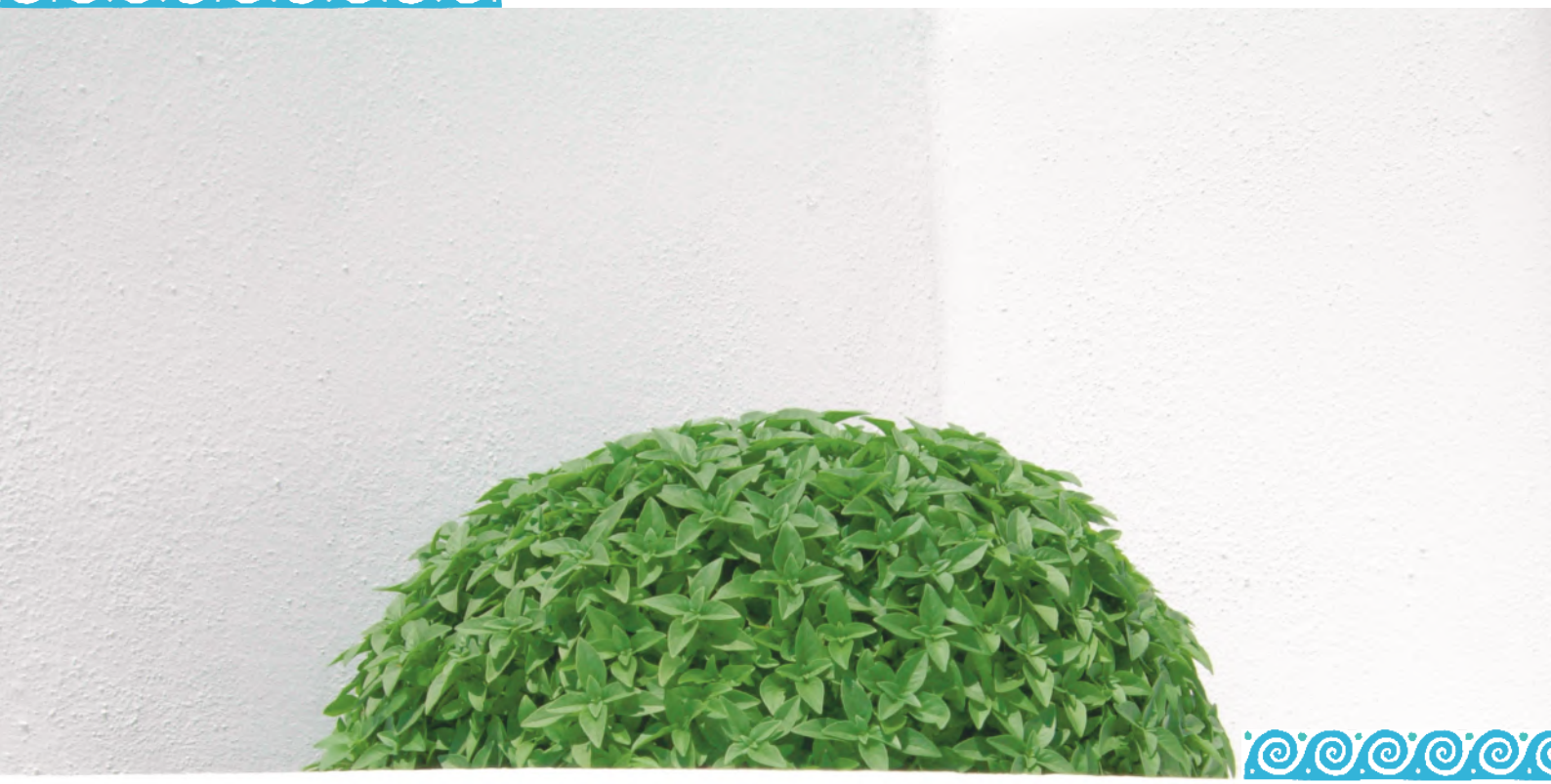
Such a Plan should aim at **"creating and maintaining prosperous community, economic and ecological systems,"** while simultaneously bearing in mind the notion of **system resilience**; that is, "a system's ability to absorb disruptions while at the same time maintaining its basic roles and functions." The above provision concerns natural ecosystems and the cultural environment, as well as the economy, social capital and innovation. At the same time, a Special Spatial Plan for Sustainable Tourism Development needs to function as a **catalyst for compromise** between different growth forces and social groups whose purposes, goals and priorities often conflict – a phenomenon by no means unique to Greece (e.g., reactions of local communities to tourism activities in cities such as Barcelona, Venice and Berlin). In this direction, **international trends as well as Greece's peculiarities** should be borne in mind regarding not only natural environment issues, but also social structures, state functionality, land ownership and entrepreneurship. In any case, such a plan will have to be feasible for all involved parties (designers, public administration, tourism destination management organizations, private sector and civil society).

Consequently, strategic spatial planning for sustainable tourism development is part of the art of the feasible. There is thus an imperative need for drawing up immediately such Plan that responds in a timely manner to specific challenges by:

A Special Spatial Plan for Sustainable Tourism Development is needed to facilitate the necessary investments.

- setting strategic directions and general terms for the type of tourism development – desirable as well as feasible – based on establishing Greece as an internationally competitive tourism destination;

- connecting the goals and directions with development planning and with the available funding tools;
- resolving – on a spatial level and in a harmonious manner – the apparent conflicts among development poles and forces, uses and activities, overcoming petty-political obstacles;
- capitalizing on innovation and recent trends in various sectors such as digital penetration, new information and environmental protection technologies, while bearing in mind contemporary consumption models and rapidly emerging demographic groups like the Millennials;
- promoting the creation of a competitive and sustainable tourism product on an international level and not bound exclusively within national boundaries that have long since lost their significance in the tourism market.

A new Special Spatial Plan for Sustainable Tourism Development that deals successfully with the above challenges will contribute decisively to the further development of tourism in Greece and, through this, to the recovery of the

Strategic Spatial Planning for Sustainable Tourism Development is part of the art of the feasible and must address the need for investments while ensuring environmental protection.