

## Yannis Stournaras: The Greek economy and the contribution of tourism to growth

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the Conference of the Greek Tourism Association (SETE) "The Greek economy and the contribution of tourism to growth", Athens, 17 October 2016.

\* \* \*

### Taking stock of the programme implementation

We are now a third of the way through the extent of the programme agreed in July 2015 and ending in June 2018.

This agreement reoriented economic policy towards realistic goals and came up as the only solution in view of the major risks that hanged over Greece in the summer of 2015.

As an interim stocktaking of programme implementation, our assessment is that progress has been slow, but with expected positive results:

The completion of the first review and the recent enactment of the second set of prior actions have strengthened confidence and the prospect of economic recovery. This development brought multiple benefits, which have a positive impact on liquidity and should boost economic activity in the second half of 2016.

In particular, following the reinstatement of the eligibility of Greek government bonds as collateral for Eurosystem operations, Greek banks can now have access to lower-cost refinancing from the European Central Bank (ECB), which, combined with changes in the domestic banking system, can translate into lower borrowing costs for businesses. Moreover, the dissipation of uncertainty, the stabilisation of private sector deposits and the progress made with the restructuring of Greek banks have enabled since early June 2016 successive reductions of the emergency liquidity assistance (ELA) ceiling for Greek banks, by €16.3 billion in total, so that the ceiling currently stands at €51.8 billion.

The above developments, coupled with the lifting of restrictions on cash withdrawals when the funds come from new deposits in cash (new money), should encourage, in the medium term, the return of deposits to the domestic banking system, which in turn will allow a further easing and ultimately the elimination of capital controls.

The economy's gradual improvement starts being reflected in the course of several macroeconomic indicators. Specifically:

- ♦ Industrial production rose by 2.0% year-on-year in January-August 2016, mainly due to a significant rise in manufacturing (+4.8% yoy).
- ♦ In July 2016, the retail sales volume index increased by 9.7% year-on-year, while the seasonally adjusted retail sales volume index increased by 4.9% month-on-month.
- ♦ According to data from the ERGANI information system of the Ministry of Labour, Social Security and Solidarity, the balance of salaried employment flows in the private sector in January-August 2016 was positive, with the creation of 237,817 new jobs, up by 51,793 relative to one year earlier.
- ♦ Data from ELSTAT's Labour Force Survey for the second quarter of 2016 suggest a decline in the unemployment rate to 23.1%, from 24.9% in the previous quarter and 24.6% in the corresponding quarter of 2015.

The forecasts of the Bank of Greece point to economic recovery starting from the second half of

2016 and continuing in the years 2017 and 2018. Specifically, a small reduction in the order of 0.3% in GDP is expected for 2016, followed by growth of 2.5% and 3% for 2017 and 2018, respectively. These forecasts are based on the assumption that the reforms and privatisations agreed between the Greek government and the institutions will be implemented and the relevant fund disbursements will be completed in time, so as to support liquidity in the Greek economy, and that the ECB's monetary policy accommodation will remain in place.

Regarding the inflation outlook, the downward trend of prices is expected to bottom out in 2016 and be followed by gradual increases in 2017 and 2018. The unemployment rate is expected to keep falling in 2016, although at a slow pace that should pick up in 2017–2018.

However, risks to the path of the Greek economy remain. Any delays in the completion of the second review, and particularly in the implementation of reforms and privatisations, would dampen the increase in economic activity, resulting in a resurgence of uncertainty, undermining confidence and weakening the prospects for a definitive exit from the crisis.

Meanwhile, there are still a number of risks and uncertainties surrounding the outlook of the European and world economy, relating to, among other things, the planned UK exit from the European Union (EU) and a possible worsening of the refugee crisis. Also, risks are posed by a potential surge of protectionism and more simplistic approaches to complex problems, on both sides of the Atlantic, based on isolationism rather than cooperation and coordination. These risks could slow the recovery of the Greek economy, through a negative impact on tourism and trade or a slower-than-expected decline in Greek government bond yields due to risk aversion among international investors.

To address these risks and confirm the positive outlook, we need to promptly and effectively tackle a number of major issues lying ahead, which will ultimately determine the outcome of the programme as a whole and Greece's ability to regain access to markets thereafter.

### **1st Speeding up the implementation of the programme**

The first and most important issue refers to commitment to the programme's objectives, in particular the need to speed up the implementation of the agreed reforms. The next few days will see the start of the second review, which will be looking at a number of fundamental structural reforms, with expected positive effects on economic activity. The review must be completed without any delay. This will allow these positive effects to be felt soon, thereby strengthening the prospect of growth in the Greek economy at an accelerating pace from 2017 onwards.

### **2nd Non-performing loans**

The second, equally serious, issue that represents a challenge for banks, the government and the Bank of Greece alike, refers to the restructuring of the banking system, so as to restore normal financing conditions in the private sector. Strengthening the banking system and freeing-up resources for financing the economy requires tackling the bulk of non-performing loans as soon as possible.

Effective management of non-performing loans is key to both the recovery of credit expansion and the restructuring of enterprises and sectors across the economy.

To this end, the Bank of Greece has stepped up its efforts by promoting, in cooperation with the government, a number of major initiatives, the implementation of which needs to be accelerated and completed in the coming months. Let me indicatively mention some of these initiatives:

- ♦ the development of a secondary market for loans (performing or non-performing);
- ♦ the reform of the framework for out-of-court debt settlements;
- ♦ the improvement of infrastructure and expertise of the judicial framework;

- ♦ the legislative reform to ensure that existing shareholders participate in the reorganisation of companies, or otherwise immediately withdraw.

In parallel, however, banks need to adopt a more active NPL management policy, focusing on long-term solutions, multi-creditor workouts and restructuring of viable companies, with the participation of shareholders.

During the protracted period of the crisis, the private sector has paid a high toll. Uncertainty, crumbling demand, funding constraints and high indebtedness as a legacy of the past have driven many companies out of business, thousands of workers to unemployment and the volume of NPLs to burgeoned levels. At the same time, though, we also see certain sectors of the economy that have suffered less or no losses from the crisis, but still do not reduce – as one would reasonably expect – their non-performing loan ratios.

Regarding the industries that are directly related to tourism (accommodation and food service activities), during the crisis their shares in terms of both value added and employment have increased. At the same time, however, the non-performing exposures as a ratio of total loans to these sectors has also risen, to 54.3% at the end of the first half of 2016, a level much higher than the corresponding NPE ratio for the total economy (45.1%). This is a phenomenon that needs to be investigated and addressed.

### **3rd Debt**

The third major challenge lying ahead pertains to the launch of in-depth discussions with our partners on debt relief measures. Debt relief is crucial, in both the long and the short run. For, if the Greek debt is seen as unsustainable, the country's predicted exit to markets in 2018 will not be feasible. Therefore talks have to begin now and conclude as soon as possible. Besides, the discussion of ways to alleviate the Greek debt is a commitment undertaken by our partners as early as in 2012, and reaffirmed last May, but not fulfilled as yet.

\*\*\*

### **The role of tourism in the new growth model**

Unquestionably, the problems I mentioned are large and hard to solve. But I believe that we can overcome them, if we act with prudence, determination and mutual understanding. I also believe that the Greek economy has the ability and the potential to return to a sustainable upward path through a new extroverted growth model, taking advantage of its strong comparative advantages and the opportunities presented. In this process, tourism has a key role to play, for the following reasons:

- ♦ It is by definition an extroverted industry.
- ♦ It has been comparatively less hit by the recession and has preserved its productive capacity. Especially from 2013 onwards, it has shown remarkable growth performance, as I already mentioned.
- ♦ Second, it represents a sizeable share of GDP. In 2015, travel receipts contributed directly about 8% of GDP, compared with 5% in 2008. In terms of macroeconomic multipliers, various studies estimate that every euro in tourist spending adds €2.2-2.6 to GDP. Research also suggests that the sectors which benefit the most from the development of the tourism product are trade, financial services, property management, construction and manufacturing.
- ♦ As regards the export performance of the economy, for 2014 tourism services represented roughly 43% of total receipts of the services balance, while net tourism receipts (receipts minus payments) accounted for 62% of the services surplus. In 2015, due to the negative impact of capital controls on shipping, the weight of tourism receipts rose to 50.6% in total

receipts from services, while net tourism receipts accounted for about 71% of the services surplus.

- ♦ Third, tourism as a business activity is being modernised, and the quality of the tourism product is being improved: search for new markets, promotion and exploitation of the cultural product of Greece, new innovative units, promotion and development of the country's cities.

## **Surveys conducted by the Bank of Greece**

The Bank of Greece recognises the importance of tourism to the Greek economy and understands that timely and objective information on the development of tourism-related aggregates is essential for fulfilling its mandate. We attach great importance to the collection of reliable and comparable statistics over time on the tourism sector. For this reason, we go beyond what is required to meet our obligations to the ECB and international organisations, and collect more thorough and detailed data regarding this sector.

Since 2002 the Bank of Greece conducts the Border Survey, aiming not only to record inbound and outbound traveller flows, but also, and most importantly, to calculate travel expenditure in Greece. The survey on incoming travellers is based on a very large sample, of at least 25,000 inbound visitors. The Border Survey is fully harmonised with the guidelines of international organisations (IMF, ECB, Eurostat). In particular, the relevant mirror statistics, compiled on an annual basis by Eurostat (in the context of the Travel Working Group), show Greece's travel expenditure and traffic data to be fully consistent with the corresponding figures of the other EU28 countries, with differences of below 2%. The Border Survey, among the most comprehensive ones in the EU, is conducted at the 12 largest airports of the country, which cover around 95% of visitors, at all seaports of entry and at the six main road entry points. The resulting data are combined with administrative information and regularly cross-checked against respective data from the visitors' countries of origin, so as to ensure compliance with the standards set for the quality checks carried out by the ECB.

The Border Survey is conducted at the time of departure from Greece, when visitors know exactly how much they have spent here. To calculate expenditure, respondents provide an estimate of: (a) their total expenditure; (b) any relevant amounts they have paid in their home countries (e.g. through a travel agency, directly to an airline, etc.) for transport, accommodation, other services or a cruise package; (c) if possible and more specifically within the previous category, any amount corresponding to travel costs; and (d) the breakdown of the amount spent in Greece for accommodation, cafes and restaurants, transportation, entertainment, and shopping.

The Border Survey is conducted according to a consistent methodology over time to ensure intertemporal comparability, but its content and scope are expanded and adjusted in response to changes in international rules and to the changing information requirements. Since the beginning of 2016, the Border Survey has included a specific question about the visitors' geographical destination within Greece, and the first data should be published towards the end of this year. This information will be particularly useful in the development of the tourism satellite accounts, which is a long-standing demand. Further to the Border Survey, in 2012 the Bank of Greece launched a more focused Cruise Survey. This survey, unique in Europe, relies mainly on administrative data from 16 major ports that account for 85% of total cruise traffic, which – starting from this year – will be enriched with data from targeted sample surveys.

## **Recent developments**

In 2016, Greek tourism faced a number of challenges after a record year in terms of arrivals and receipts in 2015. Let me recall that in 2015 Greece welcomed over 26 million tourists, 7.6% more than in 2014, while tourism receipts exceeded €14 billion, rising by 5.5%. In addition to economic weakness in Europe, where most visitors come from, the refugee crisis combined with

geopolitical developments in our region and increased fears of terrorism have discouraged visitors from coming to Greece. It is estimated that during the first half of this year, when the impact of the refugee crisis was stronger, road arrivals decreased by 15%, while to date flight arrivals to the islands of the eastern Aegean are particularly reduced. The UK's decision to leave the EU has been a further negative factor. In this respect, let me mention that in July, the first month after the British referendum, the decline in tourism spending by UK citizens in our country exceeded 35%, whereas previously the British had been one of the most robust categories of visitors. Without this reduction, total receipts in July would have increased instead of decreasing.

Tourism stakeholders in our country have tried to respond to external challenges by redoubling efforts to attract visitors. The number of arrivals has thus remained on an upward trend in 2016 as well. To some extent, however, this was achieved by highly competitive pricing, something that ultimately had a negative effect on total travel receipts. For the year as a whole, prices are likely to show a decline, slightly faster than the average rate of decline observed in the last ten years. On a positive note, however, the downward trend in average stay in our country has bottomed out, and the first half of 2016 saw a slight increase.

### **The differentiation of tourism demand**

The decline in tourism receipts despite the growing numbers of visitors is partly attributed to lower prices, as noted above. However, it also relates in part to a longer-term trend, namely the decline in spending per visitor and per night of stay, observed in the past few years. Since 2005 such spending has fallen on average by 2.5% annually, coming down to €598 per visitor in July this year, from €746 in 2005. To some extent this reflects the downward trend in the average days of stay in the country, from 10.7 days in 2005 to 7.2 in 2015. This is a result of changes in both the income situation of visitors, as Greece attracts fewer high-income visitors, and the mix of visitors' countries of origin, as well as of long-term trends in the global economy, such as the entry of new competitor countries and the use of the Internet that allows price comparisons and intensifies competition. Moreover, arrivals, mainly from traditional markets (UK, Germany, etc.) are close to a saturation point. This means that the tourism growth model has to be adapted, aimed towards a further improvement in product quality and higher specialisation.

This would involve:

- ♦ Increasing the number of target markets through appropriate marketing policies and market-specific advertising campaigns. Particular emphasis should be placed on countries with the highest expenditure per night.
- ♦ Extending the tourist season throughout the year, by developing the tourism product beyond the traditional "sun and sea" model, creating diversified products, focusing on alternative forms of tourism such as cultural, conference, religious and medical tourism and theme parks. Particular emphasis should be placed on attracting visitors for short stays (city breaks), which are typically associated with higher expenditure per day and are less concentrated in peak summer months.
- ♦ Establishing Greece as a homeporting and last port country rather than just a port of call for cruises.

### **Reforms**

A crucial contribution in this direction, i.e. towards stimulating and diversifying tourism demand, will come in the future from the reforms undertaken in recent years. These reforms will strengthen long-term potential growth by removing existing barriers and increasing competition. Actually, by improving the long-term prospects of tourism, such reforms have already helped boost investment in high-quality hotels (for instance, between 2009 and 2014 the number of five-star hotels increased by 34% and the number of beds by 32%). Therefore, the improved future prospects as a result of reforms should further encourage investment and speed up recovery.

The positive experience of tourism should make all other sectors of the economy equally receptive to reforms that enhance competition and extroversion, and ultimately benefit the sectors themselves by increasing demand for their products.

Here are some examples of the reforms already enacted:

- ♦ The privatisation of the 14 regional airports, which will strengthen their competitive position and enable the development of new tourist facilities with direct flight connections to the cities of departure.
- ♦ The simplification and acceleration of the tourist visa procedure for visitors from emerging market economies (Russia, Turkey, China).
- ♦ Regulatory reforms such as the removal of cabotage restrictions, which have already encouraged the development of cruise tourism.
- ♦ Setting up a “one-stop shop” service by the Greek National Tourism Organisation for the promotion and licencing of large tourism investments.
- ♦ Simplification of the licensing procedures of all tourism businesses in order to reduce administrative costs and licensing lead times, speeding up the procedures for starting a tourism business (which refers to any type of license, such as installation, operation, taking up of business and environmental permits), and processing of licensing applications electronically and, in some cases, on the same day.
- ♦ Development of a new form of integrated tourism companies, i.e. tourist complexes. These refer to five-star hotels constructed on land plots of no less than 150,000 square meters, together with (a) furnished tourist residences with a minimum surface area of 100 sq.m. available for sale or long-term lease as separate properties; and (b) special tourism infrastructure facilities, such as golf courses, conference centres, marinas, thalassotherapy and spa resorts, rejuvenation centres, etc.
- ♦ Liberalisation of the tourist guide profession, allowing archaeologists and historians to become tourist guides, which was not permitted in the past.
- ♦ Streamlining of procedures and elimination of restrictions on the operation of travel agencies and car rental companies.
- ♦ Introduction of extended visiting hours for museums and archaeological sites during the spring period.

In addition to these reforms, there are a number of other actions that would further strengthen tourism, including:

- ♦ Modernisation and upgrading of the other regional airports in the country.
- ♦ Strengthening competition between airlines, as the reduction in air fares will stimulate tourism demand.
- ♦ Upgrading and development of infrastructures such as marinas, which can help to increase sea and nautical tourism, further boosting tourism traffic in Greece.
- ♦ Upgrading of port infrastructures and establishment of a national plan for the development of cruise tourism – especially home porting cruises.

Overall, the enhancement of infrastructures is a prerequisite for the improvement of the tourism product. A lot needs to be done in this respect. In particular, I would like to refer to the utilisation of public property and the settlement of outstanding issues regarding land use planning. This will enable us to attract new investment, which will upgrade the tourism product.

During the crisis period, the tourism industry – like all other sectors of the Greek economy – was forced to operate in an environment of increasing tax burdens, which affects competitiveness. The Bank of Greece has repeatedly pointed out this issue and has stressed that fiscal

adjustment should focus on reducing public spending rather than increasing tax rates. Equally important, though, are the adjustment gains to be achieved through a more effective use of public property and through privatisation.

If this happens, it will be easier to alleviate the tax burden by lowering the tax rates. This is essential for creating a business-friendly institutional environment and attracting new investment.

\*\*\*

In closing, I would like to point out that the structural reforms implemented in the past few years, coupled with lower prices, have supported the growth of tourism and mitigated the impact of the economic crisis, through a sectoral restructuring of the economy. Increased investment in high-quality hotels and the upgrading of hotel capacity, combined with the tourism industry's proven adaptability to the new economic conditions, must not be merely continued but intensified, so that tourism can be a driver and an example of the new growth model the country is in need of.