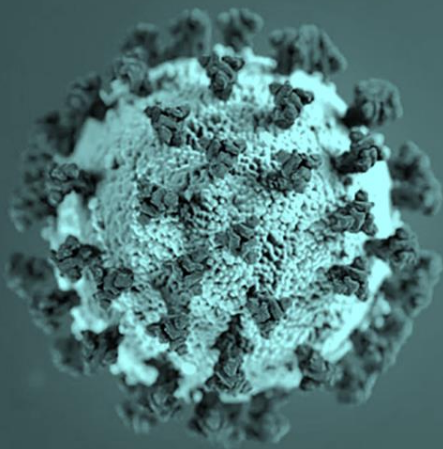
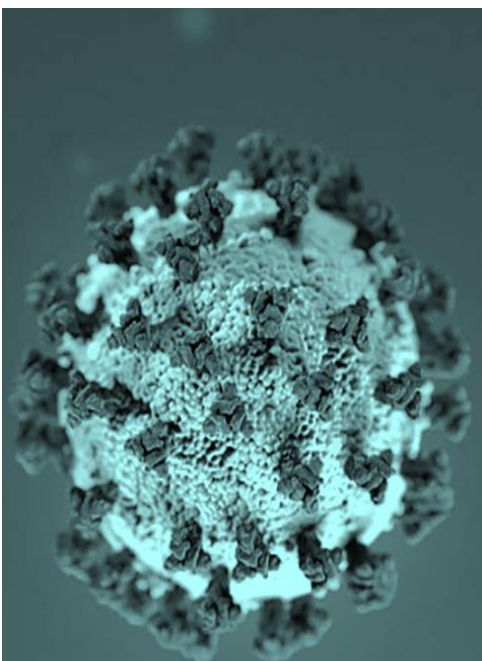




2021 will be a recovery year,  
with liquidity pressures  
dropping considerably





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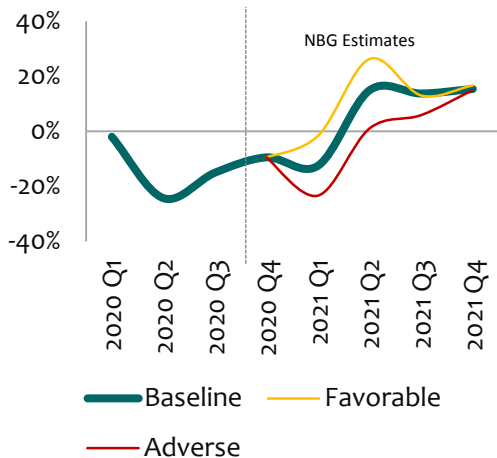
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- Amid a global collapse, the Greek business sector suffered a heavy drop in turnover (-13.2% on a YoY basis in 2020) and net losses (-1% net profit margin, vs 6% net profit margin in 2019), despite the sharp cut in variable costs (10%). Against this background, 2021 is expected to be a year of gradual recovery to a new normality – with improved performance expected in the second half, following the achievement of a satisfactory level of vaccination of the population. Specifically, Greek business sector's sales are expected to increase by 8.1% in 2021, albeit remaining 6% lower than their 2019 level.
- According to our “Business Sector Balance Sheet” model, the expected sales revival in our baseline scenario and the maintenance of a tight leash on operating costs, will reduce the funding gap (prior to access to funding resources) to less than half its 2020 level – €15.5 bn in 2021 vs €34.3 bn in 2020. Indeed, liquidity-squeezed firms will comprise 33% of total turnover compared with 88% in 2020.
- Continued government support (based on a program of c. €5 bn, mainly in the form of employment support measures, repayable advances and corporate income tax relief measures) and banks' post moratoria solutions on amortization payments will reduce the liquidity pressure by €5.8 bn. By maximizing the use of the existing cash reserves in Greek companies, another €3.3 bn of the liquidity gap should be covered, leaving a residual of about €6.4 bn.
- The use of existing credit lines with banks and new lending would cover the remaining gap of bankable enterprises (i.e. €2.2 bn). This scenario suggests that access to liquidity will not be a drag on activity and employment (i.e. no second-round effects to activity from the credit channel of monetary transmission).
- The hard-hit tourism sector is estimated to have the highest post-measures working capital needs of c. €1.3 bn (with the shortfall more severe in food services, reaching 18% of sales). Note that accommodation in the second half of 2021, although remaining significantly below its 2019 level (by 38%), is expected to be about 50% higher than 2020 – thus, allowing the majority of hotels to open for the high season, with estimated occupancy rates of about 45% (similar to 2020 for the 60% of open hotels).

## Greek business sector sales

(%annual growth)



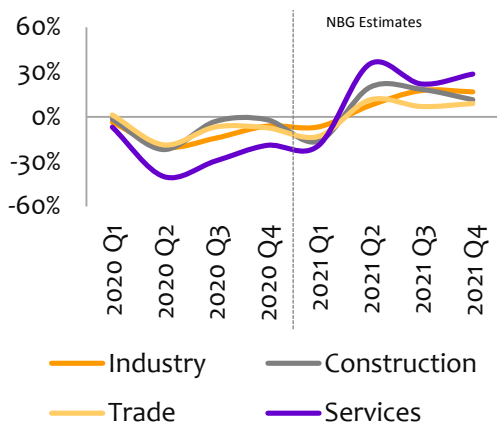
## Revival after an unprecedented demand drop

The Greek business sector suffered heavy sales losses in 2020 (-13.2% on a YoY basis), mainly during the first lockdown [see box]. Against this background, 2021 is expected to be a year of a gradual recovery to a new normality. Specifically:

- Sales in the 1<sup>st</sup> half of 2021 are expected to remain weak (c. 14% lower than their 2019 level), as further lockdowns are needed to break the transmission of the pandemic.
- However, an improved sales performance is projected for the 2<sup>nd</sup> half of the year (reaching a level almost equal to that of 2019), following the achievement of a satisfactory level of vaccination.

## Main sectors: Baseline scenario

(%annual growth)



## Services are expected to recover only half in 2020 losses

Under our baseline scenario, Greek business sector sales are expected to post an annual growth in of 8.1% in 2021, remaining 6% lower than their 2019 level. On a sectoral level:

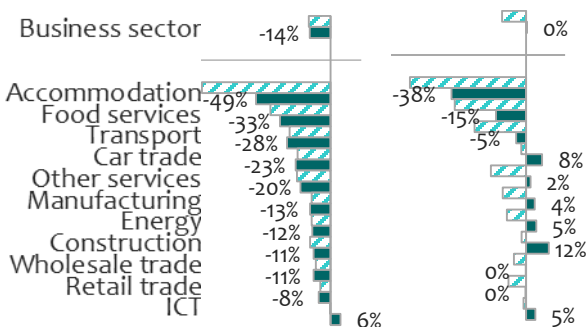
- Services' sales are expected to remain 13% lower than their 2019 level, due to a strong pick up in 2021 (+17% on a YoY basis) that will recover only half the losses of 2020 (-26% YoY).
- The rest of business sales during 2021 will gradually converge to their 2019 levels, as they suffered lower sales losses in 2020 (between -7% and -12% on a YoY basis).

## Sectoral turnover outlook: Comparing the Covid years to 2019

2020  
2021

First half of the year

Second half of the year



## Significant differences among sector recoveries

Almost all subsectors are expected to have a relatively weak H1:2021 (I.e. a double dip), but a more robust H2:2021.

However, there will be sectors standing out with their performance and thus surpassing their 2019 levels by H2:2021 (such as the car trade, construction and ICT). On the other hand, other sectors (especially the tourism-related ones, such as accommodation and food services) will remain significantly below their 2019 level in H2:2021 (up to 38%), but about 50% higher than 2020, allowing the majority of hotels to open for the high season, with estimated occupancy rates about 45% (similar to the one of 2020 for the 60% of hotels that did open for business).

# The liquidity gap will be halved this year...

The framework presented in this note links the GDP growth development with a detailed analysis of business turnover, in order to endogenously determine their financing needs for 2021. As in our previous report focusing on the financing needs of 2020<sup>[1]</sup>, a comprehensive dataset of 30,000 enterprises is utilized to construct a consolidated “Business Sector Balance Sheet” that lies to the core of the analysis.

## An initial liquidity gap of €15bn...

As the pandemic continues to put pressure on business turnover (with an estimated sales drop of 12.5% in Q1:2021), a significant albeit diminished share of the Greek business sector is expected to remain liquidity-constrained during 2021. According to our “Business Sector Balance Sheet” model, the expected sales recovery in our baseline scenario (+8.1% in 2021) and the business sector adjustments to operations (that is, mainly the maintenance of cost control actions albeit with operating costs rising with increased activity and the gradual withdrawal of government actions, e.g. rent reductions) will reduce the funding gap to less than half its 2020 level – that is €15.5 bn in 2021 vs €34.3 bn in 2020<sup>[2]</sup>. Furthermore, the share of the liquidity-squeezed firms drops significantly during 2021 (from 88% of the business sector at end-2020 to 33% at end-2021), thus, gradually approaching the 2019 level (c. 13% of the business sector).

## ... will require more than €10 bn funding

Continued albeit reduced government support (based on a program of c. €5 bn, mainly in the form of employment support measures, repayable advances and corporate income tax relief measures) will reduce the liquidity pressure by €4.8 bn. Cash flow relief will also arise from the banks’ continued implementation of post-moratoria solutions<sup>[5]</sup> on amortization payments, thus providing relief of c. €1.0 bn.

## Working capital needs of liquidity squeezed firms<sup>[4]</sup>

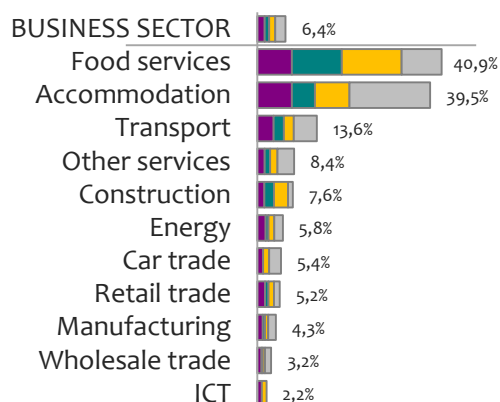
\* For the full name of acronyms see the note at the end of the table

	2021	2020	2019
<b>Total business sector</b>			
<b>SALES</b>	<b>245.6</b>	<b>227.2</b>	<b>261.8</b>
Variable cost	(135.6)	(126.6)	(149.9)
Labor cost	(36.0)	(35.8)	(36.5)
Other expenses / income	(59.9)	(57.8)	(50.5)
<b>EBITDA</b>	<b>14.1</b>	<b>7.0</b>	<b>24.9</b>
Taxes	(2.4)	(3.7)	(4.3)
Interest payments	(5.5)	(5.5)	(5.2)
<b>NET PROFIT</b>	<b>6.2</b>	<b>(2.2)</b>	<b>15.4</b>
<b>Liquidity-squeezed only</b>			
<b>NET LOSSES</b>	<b>(7.3)</b>	<b>(6.9)</b>	<b>(1.3)</b>
<i>As % of total sales of the year</i>	33.0%	88.0%	12.5%
Cash conversion cycle	3.0	(4.3)	0.0
Debt amortization	(2.1)	(5.2)	(0.4)
State measures amortization	(0.8)	0.0	0.0
Capex	(3.7)	(9.0)	(0.5)
Max month adjustment	(4.6)	(8.9)	0.0
<b>INITIAL GAP</b>	<b>(15.5)</b>	<b>(34.3)</b>	<b>(2.2)</b>
State measures	4.8	11.8	0.0
Banks’ post moratoria solutions	1.0	2.3	0.0
Cash buffer	3.3	8.9	0.0
<b>POST-MEASURES GAP</b>	<b>(6.4)</b>	<b>(11.3)</b>	<b>(2.2)</b>
Government lending	0.0	5.7	0.0
New lending	2.1	0.2	0.0
Refinancing	0.1	2.1	0.2
<b>POST-LENDING GAP</b>	<b>(4.2)</b>	<b>(3.3)</b>	<b>(2.0)</b>



## Liquidity gap per sector

(as% of 2021 sales)



- Final liquidity gap
- Bank lending
- Cash buffer
- Relief measures

By maximizing the use of their existing cash reserves, another €3.3 bn of the liquidity gap would be covered, leaving a residual of about €6.4 bn.

The use of existing credit lines with banks and new lending would cover the remaining gap to bankable enterprises (i.e. €2.2 bn). Since most funds should be channelled towards liquidity-squeezed enterprises, the extension of the state guarantee schemes would ensure such an outcome. This scenario – with the funding gap fully covered – suggests that access to liquidity will not be a drag on activity and employment (i.e. no second-round effects to activity from the credit channel of monetary transmission).

Certain firms will not be considered “bankable”, and thus will not be able to close their residual liquidity gap<sup>[3]</sup>. Such firms account for about €4.2 bn of the post-measures liquidity gap of €6.4 bn. Their only source of extraordinary financing is government programmes (especially the repayable advances), amounting to an estimated €1.5bn in 2021.

[1] Find the report in the following link <https://www.nbg.gr/en/the-group/press-office/e-spot/reports/working-capital>

[2] Depending on the pandemic course, the liquidity gap could range between €10 bn (favorable sales scenario) and €20 bn (adverse sales scenario).

[3] Note that these enterprises have uncovered working capital needs since the beginning of this crisis, therefore a part of them could be already out of the market.

[4] “Liquidity squeezed companies” are marked those with a projected cash reserves drop in the end of the year. So, the population of this category is not constant between the years 2020 and 2021.

[5] The “step up program” is planned as the successor of the banks’ moratorium policy that will offer a smoother recovery of their debt repayments during 2021, also with special provisions for tourism related activities (especially accommodation and food services).

### Definition of segments

“Building cash buffer companies” are the ones with an increase in their cash reserves for 2021 (above a benchmark equilibrium level, based on historical data) after taking into account the estimated earnings of the year, the Capex and the effect of changes in cash conversion cycle, but not any debt amortization. “Liquidity squeezed companies” are the ones with an estimated drop in cash reserves below the benchmark (under similar assumptions).

Note that these estimates assume that the Greek business sector will continue to operate on a «survival mode» through 2021 (due to successive lockdowns). In the medium term, after overcoming the current urgent situation in which the survival of the healthy firm is priority, the main objective should be (utilizing the EU recovery fund) to restore 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).

## Liquidity needs among the sectors

From the firm-level analysis, a sectoral breakdown of the post-measures working capital needs (€6.4 bn) has been estimated. After utilizing the available government and bank support and their own cash buffer, trade and industry stand out as the sectors with the highest level of working capital needs (reflecting the relatively large size of these sectors) – i.e. €1.9 bn and €1.1 bn respectively (with just 5-7% in terms of sales being non-bankable).

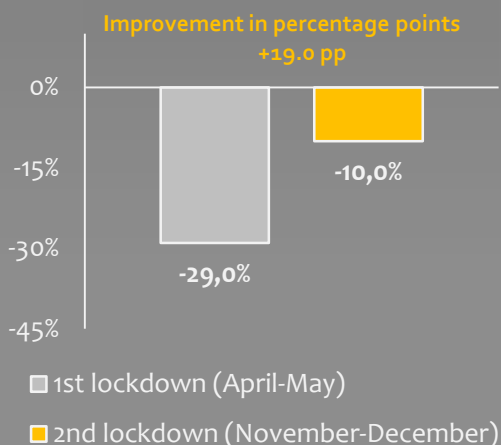
The hard-hit tourism sector, proxied by accommodation and food services sectors, is estimated to have post-measures working capital needs of about €1.3 bn. Note that food services, although having particularly urgent working capital needs (18% of their turnover), the largest share of their needs (more than 3/5) is considered bankable.

As the 2<sup>nd</sup> wave of the pandemic hit the country in autumn, the government decided a **second nationwide lockdown**. Exerting less pressure than the previous one, it **has exerted less pressure on the sales**, (-10.1% YoY in November & December, vs a 29.0% drop in April & May).

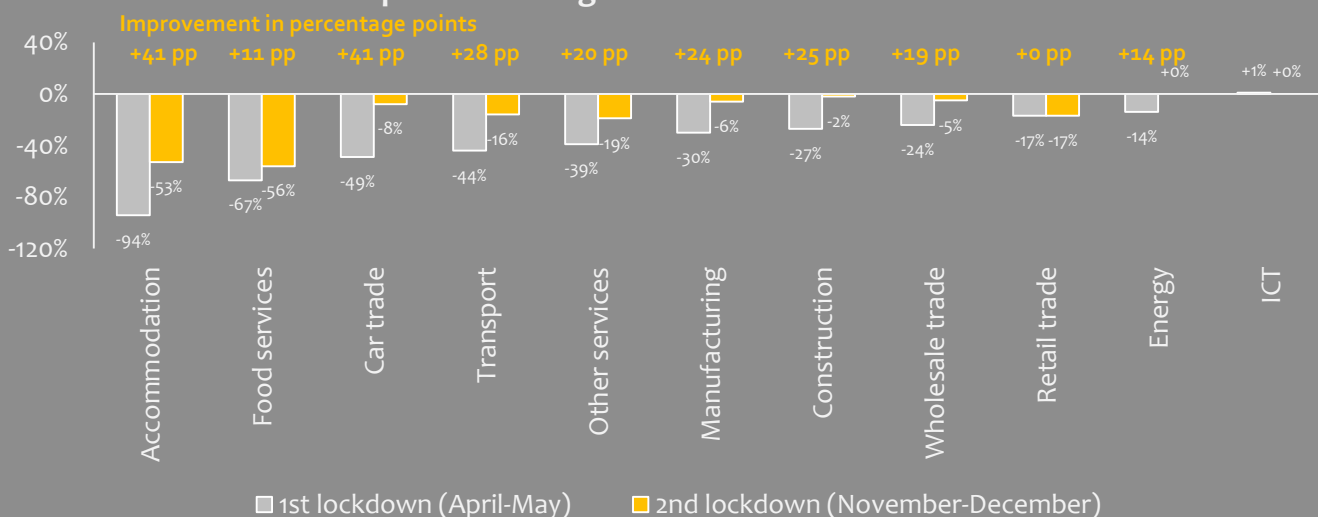
Examining the sectors' behavior during the two lockdowns, two groups of sectors stand out:

1. **Less-affected sectors** with considerably better performance in the 2<sup>nd</sup> lockdown, such as **car trade, manufacturing and wholesale trade**, as they have been either benefited by the special needs that the pandemic creates (e.g. car trade) or by improved external trade flows (e.g. manufacturing and wholesale trade).
2. **Heavily-affected sectors** such as **accommodation and food services**, as both sectors continue to face direct and indirect restrictions in their operations.

**Sales growth Comparison between 1<sup>st</sup> & 2<sup>nd</sup> nationwide lockdown**



**Sales growth per sector Comparison among 1<sup>st</sup> & 2<sup>nd</sup> nationwide lockdown**



Note: As far as is concerned the lockdown period for the purpose of comparison between the 1<sup>st</sup> and 2<sup>nd</sup> lockdown, as 1<sup>st</sup> lockdown period is mentioned the April 2020, and as 2<sup>nd</sup> lockdown period is mentioned the November 2020.



# National Bank of Greece

## Economic Analysis Department

**March 2021**

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