

A macro economic analysis of greece



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Macro-economic which is a study about the whole country's economic includes GDP (Gross Domestic Product), supply – demand, employment, inflation, economic growth and exchange rate. The combination of all the individual market activities (the investment in the private and public sector) works together and creates the national economic.

We have chosen the country Greece to research and study about those basic problems which are involved to the tourism and hospitality industry.

Generally speaking, the study of Greece's macro-economic will help us understand more how the national economic, tourism and hospitality industry and our hotel are related and affected each other. First of all, we would like to introduce overall Greece's history (history, political, population, geography, etc). Then we take the main part to research Greece's the national economic issues (GDP, employment, inflation, and currency), the PESTLE (Political, Social, Technology, Legal and Environment). Then secondly, we study about the whole tourism and hospitality industry of Greece and SWOT. This part will say about how the government's involvement in tourism and explains how the presently macro-economic issues affect to this industry. The last but not least, we will give out the advantages and disadvantages' the Greece's macro-economic and conclude that it is appropriate for investing and operating our business hotel or not, and lastly how the macro-economic will affect to our hotel's project in the future.

In summary, we will take the conclusion to give out our finally decision of investment into Greece or not. The objective of the project is to analyze the “macroeconomics” environment and formulate a recommendation to invest or

not in the development of Accord Hotel Chain in the country Greece in the 15-year long-term investment.

Introduction

Greece is a country in southeastern Europe and with the population 11, 295, 002 people (2010 estimate) which is stood 74th in the world. Its largest city is Athens as a capital. The total area of Greece is 131, 990 km² which is stood 96th in the world. It has land borders with Albania, the Republic of Macedonia and Bulgaria to the north, and Turkey to the east. There are also seas cover almost around lands of Greece such as Aegean Sea, Ionian Sea and Mediterranean Sea. Greece has the tenth longest coastline all over the world at 14, 880 km (9, 246 ft) in length and featuring a huge number of islands. There are some Ethnic groups like Greek with a major group (93. 8%), then the Albanian group (4. 3%) and the others (1. 9%). In 1829, Greece achieved independence from the Ottoman Empire. From the second half of the 19th century and the first half of the 20th century, Greece added neighboring islands and territories step by step and most of population is speaking Greek as an official language. In the World War II, it was the first invaded by Italy (1940) and subsequently occupied by Germany (1941-1944). After that, Greece became a member of NATO in 1952 and joined the EC (now is EU) in 1981; it became the 12th member of the European Economic and Monetary Union in 2001. “ In 2010, the prospect of a Greek default on its euro-denominated debt created severe strains within the EMU and raised the question of whether a member country might voluntarily leave the common currency or be removed.” (Greece, 2010)

The Government

The Political System

Greece is known as a country of parliamentary Republic which is based on the legislative, executive and judicial power. And in the Republic of Greece, the constitution is the highest law.

The President

“ The President’s Republic of Greece who powerfully has authority and controls the functions of the power of the State is presently Karolos Papoulias” (CIA). He was elected by Parliamentary for a term of five years and his office is contrary with any other office, position or function. To become a president, the person must be elected and should receive a two-thirds majority of the total number of members of Parliament. He selects and assigns authoritatively the Prime Minister, and he can recommend and appoint the rest of the members of the Government and the Duty Ministers. (Greece, 2010)

Executive

“ The government includes the Cabinet which comprises the Prime Minister and Minister. According to the provisions of the constitution and laws, the government determines and directs the general policy of the State”. (CIA)

Foreigner Relations:

“ Greece has become a member of few international organizations such as the United Nations and the International Bank for Reconstruction and

Development (known as World Bank), the International Monetary Fund (IMF), the World Trade Organization, and the Organization for Economic Cooperation and Development. Moreover, Greece is also a member of the European Union (EU), the North Atlantic Treaty Organization (NATO)". (cia)

Economic background

This study looks into the factors that explain the macro-economy of Greece by doing a deep research. The purpose of this research is to take a look and analyze the current situation and compare how it is these days, while economic crisis and also to contrast with other countries. Going back to the past in 1829, Greece achieved independence from the Ottoman Empire. The economy of Greece is the twenty-seventh largest economy in the world by nominal gross domestic product (GDP) and the thirty-third largest by purchasing power parity, according to the document given by the International Monetary Fund for the year 2008. It is also a developed economy because of the 22nd highest standard of living in the world. Besides that, the public sector accounts about 40% of GDP with per capita GDP about two-thirds that of the leading euro-zone economies. The service sector contributes 75.8% of the total GDP, industry 20.8% and agriculture 3.4%. On the same hand, tourism provides 15% of GDP Greece is the twenty-fourth most globalized country in the world and is classified as a high income economy and is also a major beneficiary of EU aid (about 3.3% of annual GDP). After that, Greece joined the EC (now the EU) in 1981 and it became the 12th member of the European Economic and Monetary Union in 2001. This joining helped the Greece economy grew nearly 4% per year (between 2003 and 2007) due in part to infrastructure expenses in the 2004

Athens Olympic Games. However, its growth decreased to 2% in 2008 and then the economy went down in 2009 and constricted by 2%, according to the world financial crisis, reducing credit conditions, and the failure of Greece to solve the growing budget deficit, which was actuated by reducing government's revenues, and increased government expenditures (The world factbook – Greece, 2010). At the same time, the exports were \$18. 64 billion (2009) with the export goods such as food and beverages, manufactured goods, petroleum products, chemicals and textiles. According to the research in 2008, the main export partners were Italy (11. 5%), Germany (10. 5%), Bulgaria (7. 1%), Cyprus (6. 2%), US (5%), UK (4. 7%), Romania (4. 4%). While the imports were \$61. 47 billion (2009) with import goods like machinery, transport equipment, fuels and chemicals. Through the research in 2008, the first main import partner was Germany (12. 1%), then was Italy (11. 7%), Russia (7. 4%), China (5. 6%), France (5. 1%) and the last partner was Netherlands with 4. 7%. From above data it is very clear that the gross external debt was \$552. 8 billion according to statistic on 30 June 2009. In addition, the public debt, inflation and unemployment are exceeded the euro zone average while per capita income is low, the debt and unemployment in 2009 increased while inflation decreased. The expense of public finances was high and it has led the country into a financial crisis. Under powerful pressure by the EU and international market participants, the government has used a program that comprises cutting government expenses, decreasing the size of the public sector, reducing tax elusion, changing the health care and allowance systems, and improving competitiveness through changes in structure to the employment and product markets. However, Greece still faces with long-term challenges to push through unusual

reforms. “ In April 2010 a leading credit agency assigned Greece debt its lowest possible credit rating, the International Monetary Fund and Euro zone governments provided Greece emergency short and medium-term loans worth \$147 billion in May so that the country could make debt repayments to creditors. In exchange for the largest bailout ever assembled, the government announced combined spending cuts and tax increases totaling \$40 billion over three years, on top of the tough austerity measures already taken.” (Greece- economy overview, 2010)

Greece’s General Macro-economic Overview

GDP (purchasing power parity): \$332. 9 billion (2009)

GDP (official exchange rate): \$330. 8 billion (2009)

GDP- real growth rate: -2% (2009)

GDP-per capita: \$31, 000 (2009)

Labor force: 4. 98 million (2009)

Labor force -by occupation:

Agriculture: 12. 4%

Industry: 22. 4%

Services: 65. 1% (2005)

Unemployment rate: 11. 6% (June 2010)

Household income or consumption by percentage share:

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Lowest 10%: 2. 5%

Highest 10%: 26% (2000)

Inflation: 4. 2% (2008), 1. 4% (2009), 4. 9% (November, 2010)

Investment (gross fixed): 16. 8% of GDP (2009)

Industries: tourism, food and tobacco processing, textiles, chemicals, metal products; mining, petroleum.

Currency(exchange rate)

Euros (EUR) per US dollar – 0. 7338 (2009), 0. 6827 (2008), 0. 7345 (2007), 0. 7964 (2006), 0. 8041 (2005)

GREECE CURRENCY: (Money Greece)

There are no restrictions on the import or export of local or foreign currency. However, when people travel from or to a country outside the European Union and carry the amounts over € 10, 000 or equivalent, it must be declared.

Euro (EUR; symbol €) = 100 cents. Notes are in denominations of € 500, 200, 100, 50, 20, 10 and 5. Coins are in denominations of €2, 1 and 50, 20, 10, 5, 2 and 1 cents.

PESTLE Analysis

Greece's Political overview

“ Greece has a presidential parliamentary system and is governed under the constitution of 1975. There are 300 members of unicameral parliament, which will elect a president for a five-year term”. (CIA)

On February 3, 2010, Greek President Karolos Papoulias was re-elected to a second term in an internal vote in parliament. (gfmag)

Political parties: (CIA)

In Greece, there are four political parties include:

Panhellenic Socialist Movement (PASOK)

New Democracy Party

Synaspismos-Coalition of the left & Progress

Democratic Social Movement

Greece's Economic overview

Greece which has been accepted to be a member of the European Community (EU) in 1981 and jointed the MU (Monetary Union) in 2001 is seemed as one of the smallest economic of European's economic area. On January 2002, Greece adopted and started using the EURO as a new common currency. As soon as becoming a part of EU, Greece reached to the low-cost credit which pushed the domestic demand up, and made it as the strong basic for economic growth averaging around 4% in recent year. At the same time, the fiscal policies also supported the economic growth by cutting

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taxes and increasing the spending on wages and entitlements worsening the fiscal balance. In addition, the reflecting the limited supply capacity and inflexibilities in the domestic economic, inflation and labor-cost growth in Greece went over its trading partners and eroding the competitiveness. “ This was the major reason and deepest-rooted vulnerabilities has begun from Greece and entered the global economic crisis”. (wttc)

Greece Economic Structure

All the sectors in Greece, the service sector leads the way both in bringing towards the GDP as well as employment. “ Public sector also earns with almost 40% of the national GDP. Tourism is another constant and reliable contributor, with 15% share of the GDP”. (gfmag)

However, from the 2007-2009 financial recession, the Greece administration has been concentrated on implementing strictness measures that include reducing down government expenses, the size of public sector and reorganizing the pension sector to make faster recovery and trying to cut down public debt which has grown bigger than the GDP. “ According to the 2009 data, public debt is as high as 108. 1% of the country’s GDP”. (gfmag)

Greece Economic Structure: Primary Sector

The primary sector of Greece is said too much as the service sector. With tourism right at the controls the service sector has went over all other sectors in terms of contribution to the GDP. “ According to the 2009 data, Greece service sector has contributed almost 75. 8% to the national GDP and provided 65. 1% of job for workforce. Service sector includes professions,

such as street vendors, hotel and lodging industry, public administration and telecommunications”. (wttc)

Greece Economic Structure: Secondary Sector

The industry sector has been bringing almost 20.8% of the national GDP and hiring 22.4% of workforce. In Greece, Athens is the only city with the highest concentration of industries. The reasons show a difference from connectivity to ease of transportation. The different Greece industries contain mining, petroleum, food and tobacco processing, metal products, textiles and chemicals.

Greece Economic Structure: Tertiary Sector

The agriculture sector earned almost 3.4% into the GDP and pulled up 12.4% of the country’s work force (gfmag). However, because of the lack of natural resources and cultivatable land, Greece is not able to grow its quantity of production considerably. The main agricultural products are wheat, barley, sugar beets, corn, wine, tobacco, olives, tomatoes, potatoes; beef and dairy products. Beside all agricultural products and fruits, olive oil is also the top have contributed products to national export.

On the other hand, there is a worrying thing for all sectors are the significantly increasing unemployment, which according to the 2009 data, stands at 8.9%. Even more troubling are the least investments. In 2009, the investments were measured to be as low as 15.6% of the GDP. (gfmag)

Why was Greece in the economic crisis?

For years ago, Greece has been spent a lot of money while it didn't have. So that, the government has taken the advantage of the economic at the good time to borrow money and spent it on pay-rise for public sector and projects such as the 2004 Olympic. Due to those reasons, it began to accumulate bigger and bigger deficit (the gap means the distance between how much a country collect from tax, and what it spends).

When the world economic went bad, Greece faced and suffered the debt and was unable to pay back. At this time, banks started to view Greece as a country which cannot to be able to manage its money. This led to result is they worried Greece can eventually fail in paying its loans, and even in worse case going to bankrupt. Besides that, banks gave out solutions to cover the risk such as they decided to charge Greece to borrow cash and this made the situation of Greece more badly and worse. Finally, the government that went to looking for the help from other European countries such as Greece borrowed 110 billion Euros from other EU countries and IMF (International Monetary Fund) on May 2010. According to the information of Financial Minister of Greece, the nation debt which is at 300 billion Euros (\$413. 6 billion) is bigger than the country's economy. With this amount of this debt, it is estimated predicting that will reach 120% of (GDP) Gross Domestic Product in 2010. That money was loaned at a much better rate; however it has come with tricky conditions. Such as in 2010, the government has started to cut down spending and implemented strictness measures which are aimed to reduce the deficit by more than 10 billion Euros (\$13. 7 billion). This action purposed to charge taxes on fuel, tobacco and alcohol; increased the retirement age by two years; forced public sector pay cuts and applied

tough new tax evasion. Otherwise, according to Greece's national statistics office, the Greece economic shrinks 1.8% as consumer cut down spending and private consumption dropped 4.2% year-on-year.

After government has taken actions of resolving the financial crisis, it is those cuts that have led to the riots in Athens. There has been warning of resistance from various sectors of society. " This was illustrated that workers inside country have stroked closing airports, government office, courts and schools. Greece's credit rating – the assessment of its ability to repay its debts – has been downgraded to the lowest in the Eurozone which means that it is likely viewed as a financial black hole by foreign investors. This leaves the country Greece to be stressful for paying its bills as interest rates on existing debts rise". (nationsencyclopedia)

European deficit and debt levels 2009

Deficit (% of GDP)

Debt (% of GDP)

SOURCE: EUROSTAT

Greece

-15.4

126.8

Ireland

-14.4

65.5

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UK

-11. 4

68. 2

Spain

-11. 1

53. 2

Portugal

-9. 3

76. 1

Germany

-3

73. 4

Greece's Social Overview

Social issues

Crime

Greece is known as a crossroads of international narcotics sell-buy activity. It takes place as a temporary destination for cannabis and heroin from the Middle East and Southwest Asia bound for destinations in the West, as well as precursor chemicals traveling east. It is also a hot point and a final

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destination for South American cocaine. Drug trafficking has taken a part to contribute to the growth of another illicit industry in Greece: money laundering. Outside of narcotics related criminal activity, theft is fairly prevalent in Greece, particularly in areas frequented by tourists.

Insurgencies

“ The Revolutionary People’s Struggle (ELA) and the Revolutionary Organization 17 November (17N), were established and appeared in the 1970s with the principle objective of defeating the ruling Greek military by using a campaign of violence. Both organizations developed a decidedly anti-Western bent, espousing opposition to Greece’s participation in the North American Treaty Alliance (NATO) and later, its membership to the European Union, as well as calling for the removal of United States military bases in Greece’ (CIA).

Terrorism

The threat of terrorist violence is seemed to be from domestic rather than foreign countries. As similar with the insurgencies above, the Revolution people’s Struggle (ELA) and the Revolution Organization 17N which are seemed as terrorism organizations. They can threat the peace of EU group in particular and the world in general.

Greece’s Science and Technology Overview

Although Greece has a lot of problems about security, financial crisis situation but it has a good advantage which is the strategic location, qualified workforce, and many multinational companies for example

Ericsson, Siemens, SAP, Motorola, and Coca-Cola which have their own regional R&D Headquarter in Greece..

Greece's Legal Overview

Constitution

“ Greece adopted a new constitution on June 11, 1975, as part of a return to independent principles following the end of the military regime of 1967-1974. The new constitution was established in Greece as a Parliamentary republic with a weak president serving as head of state. While the constitution distinguishes and recognizes religious freedom, Orthodox Christianity is recognized as the “ prevailing religion in Greece,” and the Greek Orthodox Church enjoys special constitutional protection” (CIA).

Legislative Authority

“ Legislative authority is granted power in a unicameral parliament, the “ Vouli ton Ellinon,” currently is included of about 300 members elected for maximum four-year terms” (CIA). The parliament will elect the president by a two-thirds greater part of all members. “ If after two attempts, no candidate for president obtains the required majority then the parliament may elect a president by a three-fifths majority of the members voting” (CIA).

Greece's Environment Overview

Environment issues

Acid rain is not only a well-known issue in the world, but it is also the important issue which has been taking place in Greece. Acid rain is seemed

as a serious issue in Greece because it affects both agriculture aspects of the environment, and Greece's lakes and Greece people.

Besides acid rain, there are various environment issues which consist of:

Air pollution: the cause is from CO2 emission (wikipedia. org)

Greece CO2 Emission

2005

2006

2007

2008

2009

Petroleum based (mm mt)

17. 566

18. 329

18. 568

17. 911

18. 287

Natural Gas based (mm mt)

1. 506

1. 755

2. 135

2. 228

2. 368

Coal based (mm mt)

9. 753

8. 841

9. 228

8. 956

8. 636

Total CO production (mm mt)

28. 826

28. 925

29. 933

29. 105

29. 393

Water pollution

Total Greenhouse Gas Emissions

Country Rank (GHG output)

Natural Hazards

Earthquakes.

SWOT analysis

STRENGTHS

Greece belongs to EU which brings a lot of advantages such as free movement of goods, free movement of capital, free movement of services and “ the countries of the EU all instill the same external tariff on all the goods entering their market. Once the goods are in the target market, they cannot be taxed any further than they already have.” (European Union Member)

“ A member of North Atlantic Treaty Organization” (NATO)

Their exports

Well educated 97. 1% Literacy rate (List of countries by literacy rate, 2009)

Greece is a popular destination for tourist – Greece has been an attraction for international travelers since antiquity for its rich and long history like Greece mythology and for its glorious Mediterranean coastline and beaches.

“ A common currency – Greece uses EUR or € which is the second largest reserve currency and the second most traded currency in the world after the U. S dollar”. (A common currency)

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WEAKNESSES

Greece has a huge debt burden that affected to the Euro currency and could reduce Greece's ability to provide services to their people. Therefore, additional taxes and weakened state-sponsored services are the solution to this debt problem. However, this solution affects businesses and consumers ability to purchase goods and services.

Society is not safety and stable. There are major reasons lead to unsecure of Greece and people's benefits were cut by government one of them. Thus, it led to " Strikes And Bombs In October, in a move that provided for a negative impact on the tourism sector, Greek riot police used tear gas to clear striking staff blockading the Acropolis, the country's most famous ancient site. Two suspect packages were also detonated by police at the cargo terminal of Athens Airport." (Greece Tourism Report Q1 2011, 2011). And small bombs exploded at the Swiss and Russian embassies in Athens, it was found and destroy by police on November, 2010.

OPPORTUNITIES

They can achieve more foreign markets

They can attract more tourists

Information technology (IT) development – IT advancement can motivate Greece's economy and make jobs and revenue for the government.

THREATS

Collapse about Economic – The recession, even has not ruined the whole economic system, but already had a huge impact on the economy of Greece. The collapse of different economies as well as global crisis made Greece's trading partners fall into bad situations so that the exports will be reduced.

Because of its huge debt these years, Greece faced the rising inflation.

Therefore, investors may feel that the economic is not ensuring for them to invest in here.

Fiscal Austerity programs: Many governments all over the world will reduce expenses and raise taxes to avoid fiscal deficits that rose during the financial crisis. These programs will decrease government expenses in the economy, which will reduce growth rates. The fear is that reducing might be so much that they can affect the economy.

Hospitality industry

“ Greece which is a beautiful country attracts approximately more than 16 million tourists per year, hence it earns and contributes almost 75. 8% to the national GDP and provides 65. 1% of job for workforce”. (wttc) As known that the tourism infrastructure in Greece has been improved and invested since the 2004 Athens Olympic Games and will continuously focus on expanding the number of important projects. Hereby, there are the statistic table of number of hotel in Greece was classified:

Star Rating

Number

Beds

5 Star

176

64932

4 Star

944

176361

3 Star

1804

163077

2 Star

4460

231333

1 Star

1677

57298

Total

9111

693252

“ Hospitality hotel revenue in the Athens regions went down by just over 6% year-on-year in the period January to August 2010. While the traditional high season was from July to August, both three – and four-star hotels also have reported strongly decreased in revenue per available room. The average room occupancy rate was at 57. 7% with revenue per available room at EURO 63. 14 over eight-month period. More recent data for September show that Athens hotel’s occupancy dropped substantially, falling 10. 3% compared with the same month 2009, with rates down nearly 7% year-on-year for the first nine month of 2010”. (reportlinker)

According to the information of National statistic agent and GBR Consulting and FianacialTimes in Greece, “ the international arrival in 2010 at Athens airport has decreased by 3% which compared to 2009. The performance of hospitality industry in 2010 has showed that the RevPAR of all hotels in Athens City has decreased by 7%, in Thessaloniki by 12. 9%”.

(FinancialTimes) (wttc)

However, presently, due to the political system has been unstable and the financial crisis has been occurred in Greece, this led the society has been affected and in an unsafe situation. According to news on websites of CNN. com and BBC. com, “ on October 2010, the month with strikes and bombs which happened usually impacted on the tourism sector so much. Greece police had to use tear gas to quell the riot of the striking staff blockading the Acropolis which is the country’s most famous ancient site. On the next month of same year, at the Swiss and Russian embassies in Athens City

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there were small bombs exploded, and other suspicious packages were also discovered and destroyed by the authorities. Besides that, at the cargo terminal of Athens Airport, the Greece police exploded two suspect packages” (bbc). This is seemed as the terrorist actions which have been taken place. And as predications, the riots and strikes will continually be taking place and unknown when it will end.

This is a result of a country which used to spend a lot of money while it didn't have. And it had to borrow money from other countries and organizations for resolving its own debt.

Conclusion

Based on information we found and analyzed as above, although Greece which is very beautiful and attracts a lot of tourists from over the world is living from tourism but we find that there are totally three points which perform the country Greece is not a good country to invest the hotel business.

Firstly, the government system and polity are not stable and there are conflicts between political parties

Secondly, due to the unstable of the political system and financial crisis are still happening, this lead to the unsafe in society. This is illustrated that presently there are many riots and strikes are taking place in Athens City.

The last but not least, in society, the crime, the terrorist and the insurgency is the most headache problems which Greece government has to face.

For those problems, they affect to our investment project in Greece. Because at the moment, Greece still owes a huge debts from European countries and IMF (international Monetary Fund) with touch conditions of borrowing and can fail in paying back. Therefore the government has increased and tightened the taxes on fuel, alcohol and etc; increased the retirement age by two years; forced public sector pay cuts and applied hard new tax.

References