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Greece's businesses buckle after months on brink of bankruptcy

Henry Foy in Athens

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When a country teeters for months on the brink of bankruptcy — becoming a spectacle for television cameras chronicling social breakdown and prompting doomsayers to predict imminent chaos — its businesses must resort to special measures to survive.

For Nikos Vasiliou, that means flying his overseas customers to Greece so they can see with their own eyes that his respected lightbulb company still exists.

"The last five months has killed business in Greece. Everyone is afraid to make an order with a Greek company, because nobody knows what will happen," says Mr Vasiliou, owner of Bright Special Lighting.

Since the start of this year, 59 Greek companies have closed down each day, costing 613 jobs and €22m in gross domestic product every 24 hours, according to industry groups, as business confidence sank, financing dried up and anxiety mounted about the government's ability to strike a deal with Greece's creditors.

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Greek businesses are now at the mercy of a leftwing government holding last-ditch bailout talks with creditors in Brussels this week. If those talks fail, then the country could default on a debt payment on June 30, leading to a possible exit from the eurozone.

"There is insecurity. We have lost our faith in each other, Greek companies have stopped trusting each other," said Vassilis Korkidis, chairman of the National Confederation of Hellenic Commerce, a small business lobby. "Business is driven by trust. And there is no trust in the Greek state at the moment."

At the heart of the Greek business collapse is almost six years of austerity measures and six months of capital flight since the election of the Syriza government that has left Greece's banks — and their corporate customers — gasping for finance.

More than 90 per cent of Greece's roughly 750,000 businesses are small and medium enterprises. Most lack the financial muscle to survive the shock of capital controls, and certainly would be overwhelmed by a possible exit from the eurozone.

Preparing for the worst, many Greek businesses have opened accounts in other eurozone countries and moved as much of their capital they can afford outside of Greece.

But that has just exacerbated the domestic funding crunch.

"The cushion that existed in the past has been simply exhausted," said Constantine Michalos, president of the Central Union of Greek Chambers of Commerce. "The Greek business environment is in a state of complete stagnation."

He estimates that of the 1m Greek companies that existed in 2010, about 250,000 have declared bankruptcy, choked by falling demand or lack of capital.

"If you are a [Greek] small company today, and you meet all the criteria to be granted a loan, you will be asked to pay an interest ranging from 11 to 12.5 per cent," he said. "That is prohibitive unless you are trading weapons or drugs."

Exacerbating the financing issue is Greece's heavy reliance on imported goods. The country imported €20bn more goods than it exported last year — mainly oil, electrical and machinery products, and plastics on which its manufacturers rely.

At the cargo terminal at Athens' Piraeus port, hundreds of new cars sit glistening in the sun, freshly imported from across Europe. Piles of containers from abroad tower next to cranes, where a solitary cargo ship is docked.

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Greece's current predicament means foreign suppliers ask for cash in advance, which companies struggle to pay. Any possible exit from the eurozone would see the country's new currency devalue sharply against the euro, making imports vastly more expensive.

"[Grexit] will be a total disaster for us because we import lots of raw materials from Europe, which will become three, four times more expensive," said Mr Vasiliou, who imports plastics and parts to build lighting products that are sold in Greece and abroad.

"If you are an exporting business, you do not have a problem," said Dimitris Paraskevas, who runs a family-owned law firm in Athens and advises businesses. "But if you have borrowings in euros and revenues in drachma, then you prepare for insolvency."

"There is no other way this goes," he said, referring to the old Greek currency. "There are companies that no matter how sophisticated they are will go under."

But even if Greek prime minister Alexis Tsipras and the country's creditors can strike a deal to avert bankruptcy, Greece's industrialists fear the terms will imply continued austerity that will stifle any chance of recovery. The populist Mr Tsipras has loaded the latest Greek proposal with higher taxes on business, in particular.

"It is imperative we get an agreement before June 30th . . . [But] primarily what we are asking for is a stable taxation system," said Mr Michalos, noting that between June 2012 and December 2014 there were 2,000 ministerial orders or recommendations concerning changes to business taxes.

"You literally don't know what the next day will bring," he said.