The Greek Economy

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Editorial Policy

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Foreword

This is the second IOBE bulletin on the Greek economy for 2018. Its publication takes place ahead of a major milestone for the Greek economy and society, as at the end of August Greece will no longer be in an Economic Adjustment Programme, for the first time after more than eight years. This creates significant challenges for maintaining the achieved fiscal consolidation, continuation of the reforms, financing of the Greek State and the domestic economy, and for the growth prospects. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with an analysis of the challenges for the Greek economy in the period after the end of the programmes. The rest of the report is structured as follows:

The first chapter presents a brief overview of the report. Chapter 2 examines the general economic conditions, including a) an analysis of the global economic environment in the first quarter of 2018 and its outlook for the rest of the year, based on the latest reports of the International Monetary Fund and the European Commission; b) an outline of the economic climate in Greece in the second quarter of this year, based on data from the latest IOBE business and consumer surveys; c) an assessment of the execution of the State Budget in the first four months of 2018; d) an outline of the developments in the domestic financial system between March and May 2018.

Chapter 3 focuses on the performance of the Greek economy in early 2018. It includes an analysis of: the macroeconomic environment in the first quarter of 2018; the developments in key production sectors over the same period; the export performance of the Greek economy between January and April; the developments in the labour market in the first quarter; the trends in inflation in the first five months of 2018; and, finally, the trends in the balance of payments in the first quarter of 2018.

Chapter 4 presents the findings of a study on the possibilities of overhauling the income taxation system in Greece.

The report is based on data that were available up to 04/07/2018.

IOBE's next quarterly bulletin on the Greek economy will be published in late October 2018.

AFTER THE PROGRAMMES

The Greek economy is currently exiting its third economic adjustment programme. Its completion marks the end of an eight-year period, during which financing from the markets was not feasible, while the economic policy was guided by agreements with the country's partners and creditors. The Greek programme will also be the last of the Eurozone rescue programmes, triggered by the 2008 global crisis, completed much later than the rest. For the Greek economy, this also marks the end of nearly ten years of profound and multifaceted recession. At this point in time, we need to assess the recent course of the economy and its prospects, which now contain substantial opportunities but also equally significant challenges.

With the completion of three successive programmes, the Greek economy has achieved fiscal balance, it no longer produces fiscal deficits, and it can service at least a substantial part of the obligations it has undertaken. Balance is also observed in the external sector, with a substantial decrease of imports over the past decade, accompanied by a gradual increase in exports, especially in the past few years. The international competitiveness of the economy has also improved, primarily through adjustments in the unit labour cost. The positive rate of growth recorded last year, in real terms, has carried over to 2018 and the prospect of a steady positive trend remains until the economy converges to its medium-term potential. The risk of extreme instability and dismissal from the Euro area has become very limited.

However, the consolidation of the economy was achieved mainly through recession. The crucial issue is whether the elimination of the twin deficits is sustainable and compatible with a steady, robust growth path. At the same time, as the competitiveness boost was not achieved primarily by improving the institutional framework of the economy, it remains unknown whether wage growth (which of course is the ultimate goal) will gradually lead back to loss of competitiveness. Besides, the growth rates recorded in the current period are not those that are expected for an economy coming out of a crisis in a dynamic fashion, while they rely to a large extent on the positive external environment. In light of the above, asset values in the economy, reflecting expectations about its future course, currently remain low.

The economy moves in positive growth territory

A careful mapping of the opportunities and challenges for the coming period is not only important for those working or operating in the Greek economy, and for potential investors, but also for its citizens and those who will shape the economic policy from now on. Until the economy is set on a track of robust growth, each of the economic policy decisions and the behaviour of investors will have a particularly high degree of criticality. Three issues should be taken into account: the features of the economy in the period before the start of the crisis, the developments during the three successive programmes, and the post-programme framework that is being shaped.

Economic policy decisions, in the next months, will crucially affect the growth rates

The agreement reached about the post-programme relationship with the creditors and partners does not have many aspects that should cause surprise. The postponement of part of the debt service obligations imply that they will not impose an excess burden on the Greek State for the foreseeable future, as indeed was also the case during the programmes. At the same time, the provision of a cash buffer, which is essentially an attempt to substitute a standard precautionary credit line, means that drawing funds from the markets in the short term can be done under a certain degree of protection. The combination of planned high primary surpluses and systematic supervision clearly reflects a deficit of trust between the parties. In essence, the view has prevailed, also on the basis of the experience during the programme implementation, that access to additional resources and allowing more degrees of freedom would not lead to high growth, most probably, but to regress, both in the short and the medium term. In particular, the agreed primary surplus size reflects, on the one hand, the need for the country not to return to irresponsible policies of fiscal deficits and, on the other, the lack of confidence in adoption of adequate growth policies. These surpluses would have been lower if it was clear that the country would not derail in the future, as the creditors do not want to find themselves in the position of having to deal again with the Greek issue in the next few years.

Overall, the agreement for the post-programme era cleared major obstacles that could have derailed the economy over the next few years. Meanwhile, the degrees of freedom are also projected to be very limited. The Greek economy is prescribed to move ahead with just a few policy tools available. This reduces the risk of derailment and the probability of significant damage caused to itself and to its partners. However, this also reduces its growth prospects, at least because a significant part of its productive resources are planned to be directed to the public purse through taxation. As long as the public sector is not modernised, the burden on the economy will grow over time.

To evaluate the growth prospects, we must take account of how the production forces but also society and its political expression behaved during the decade-long crisis. The deficits were eliminated and competitiveness improved, but mostly through the recession and to a very small extent though structural changes. On the positive side, there was support for the European orientation of Greece and the corresponding acquired rights. At the same time, however, there was little appetite to break with the critical pathologies of the past, and a very low degree of consensus for changes with a growth perspective. The main changes took place due to the threat of greater economic disaster and not as components of a strong growth narrative.

The most crucial question, of course, is if the structural characteristics of the Greek economy, as shaped over the recent decades, have changed sufficiently to allow us to be optimistic that higher growth and prosperity will be achieved from now on. Comparing the performance of the Greek economy with those of other countries of the European periphery, such as Spain and Ireland, we can observe, at least since the early 1980's, a lag with respect to both the real per capita growth rate and productivity. The maintenance of high consumption level over time relied on borrowing and other resources from abroad and to the extent that this flow will now be lower, other ways to converge with the European averages ought to be sought. In other words, if with the end of the programmes the Greek economy gradually reverts to the medium-term trends of previous decades, income will grow at a relatively low rate. This of course is a problem in itself, as households and businesses have suffered significant stress during the past decade, but in addition it hinders the handling of the accumulated burden of public and private debt.

Medium-term trends are relatively low

The country's external environment offers opportunities but currently it also poses significant challenges. Although a possible slowdown of growth around the world will create pressure for the Greek exports of goods and services, while higher energy costs internationally will burden significantly part of the Greek production as well, the European developments are going to be more critical. The deepening and the integration of the Euro area mechanisms is progressing very slowly. This development can probably be explained to the extent that the Euro area as a whole is now posting positive growth rates, the adjustment programmes have been completed and there has been a relative consolidation of the public finances. However, the banking union on the one hand and the coordination of fiscal policy on the other constitute the minimum conditions necessary for a boost of the competitiveness of the European economy, so that when the next crisis is triggered it will have greater coherence and more effective mechanisms of response to asymmetric shocks.

The crisis as an opportunity

In conclusion, during the past decade there has been progress in the Greek economy at macroeconomic level and in specific structural sectors, but valuable time has been lost on several other fronts. The Greek economy was not destroyed, but neither was it reformed sufficiently to achieve a strong growth potential. Overall, the crisis was not addressed as an opportunity to establish a "new economy", a new production model, as opinions supporting the old model dominated even if placed in a new context. However, as the excuse that the crisis was spurred by the adjustment programmes and foreign interventions no longer holds sway, the criticality of each decision that will be taken from now on is heightened.

Responsibility is now shifting to the domestic system

The decisions that shaped the landscape after the last programme provide some addititional “space and time” so that the Greek economy gets on a positive growth path, launching a real restructuring of the economy through the markets and ultimately building a new production model. It does not mark the end of the crisis, as significant effort has yet to be expended. Certainly, we cannot assume that the end of the programme involves looser oversight or that the opportunities for misuse of any degrees of freedom will gradually recover. To the extent that the reliance on the markets will increase, gradually and over a decade, such claims will be rising sharply. Delays, ambivalence and regress will not only cause significant gaps, as they had until now, but will lead to instantaneous and painful increase of the funding costs for companies and households, and investor flight, and thus perpetuation of the recession, or at least stagnation, and of high unemployment. In this sense, the central importance of the programme's completion is perhaps that the largest part of the responsibility is now transferred to the domestic political and economic system, which will have only minimal possible excuses if it does not move the country in a direction of growth.

1. BRIEF OVERVIEW

Accelerating global growth in 2018, despite the protectionist trade policies

Based on the data available so far for the first quarter of this year (IMF International Financial Statistics), the world economy grew at an average rate of 3.6% in the first quarter of 2018, as in the immediately preceding quarter and slightly faster than in the same quarter of last year (3.4%). However, the trend is not identical in all countries and regions. Among the most developed economies (G7), the rate of growth accelerated year on year, from 1.8% to 2.2%, yet it was slightly weaker compared to the immediately preceding quarter (2.4%). The acceleration from last year came mainly from the United States (2.8% from 2.0%) and France (2.2% from 1.4%), with Germany and Italy recording slightly higher growth as well. In contrast, the strongest slowdown took place in the United Kingdom, from 2.1% to 1.2%, reflecting the impact of Brexit. Among the major Asian developing economies, growth in China remained steady, standing for the sixth quarter at the range 6.8-6.9%. The growth of the Indian economy accelerated to 7.4%, from 6.0% a year ago. In Latin America, Brazil completed one year of growth, with 1.6%, from -0.5% in early 2017. It should be noted that several of the observed high growth rates may not be preserved over the medium term, as many countries, especially among the developed economies, are already growing at a rate higher than that of their potential output.

The growth of the world economy is expected to continue to strengthen this year. The expansionary monetary policy in the developed countries, with less intensity than in previous years, the further strong expansion of international trade and the pro-cyclical US policies contribute to this development. There are, however, negative risks as well now, such as the impact of the US protectionist trade policy measures and their countermeasures, the particularly high levels of public and private debt, and high valuations in the capital markets following their recovery in recent years, which may drop strongly if expectations change.

In the Euro area, the expansionary monetary policy will continue to be a key growth driver, despite its tampering this year compared to the past, particularly by stimulating investment. Following the recent announcement from the ECB for completion of the programme of quantitative easing (QE) at the end of this year, this effect will weaken notably in the years ahead. The expansion of international trade will maintain the positive effect of net exports, but this will probably be milder than last year, in a changing international environment, due to restrictions imposed lately in succession in international trade. The Brexit negotiations, the migratory flows, the deleveraging of businesses and the course of the European capital markets, upon their significant recovery in recent years, remain major challenges in the Euro area.

As analysed in previous IOBE reports, the recent fiscal package of cuts in taxes on income and capital in the US, which boosted the incentives for consumption and investment, has a catalytic impact on growth this year. The FED continues its policy of gradually raising interest rates, which ups the yields of the US treasury bonds as well, becoming a pole of attraction of funds from the Euro area and other economies. Protectionist trade policy measures are expected to counterbalance these economic developments from the current half of the year. The intensity of their impact will depend on whether their implementation is extended to other products, intensifying the reactions of trading partners.

Regarding the developments in the major developing economies, the new conditions after the changes in US trade policy, the rapidly increasing credit expansion and the rising fiscal deficit remain significant challenges for the Chinese economy. The strong momentum of investment and exports, strengthened by recent reforms, will power the acceleration of the Indian economy this year and probably in the next.

Under these developments and prospects of the world economy, IOBE projects the growth of global GDP in 2018 to reach a rate slightly lower than 4.0%.

Further acceleration of growth in the first quarter of 2018, at 2.3%

The output growth in the Greek economy strengthened in the first quarter of this year to 2.3%. The rise of GDP during this period was 0.3 percentage points faster than in the previous quarter and two percentage points higher than in the corresponding quarter of 2017. The GDP growth in the first quarter of 2018 reached its highest rate in more than ten years (since the second quarter of 2008).

Regarding the trends in individual components of GDP in the first quarter of this year, domestic consumption declined by 0.3% year on year, offsetting their growth at a similar rate a year ago (+0.4%). The decline came from a similar reduction in private consumption, by 0.4%, which was offset in part by a small increase in public consumption (0.3%), which was not sufficient to prevent the fall of final domestic consumption spending. In the first quarter of last year, the consumption spending of the private sector had increased by 0.7%, while public consumption had declined by 3.5%.

The investment expenditure declined by 12.1% year on year in the first quarter of 2018, compared to their strong growth by 29.6% in the corresponding quarter of last year. Most of the decline (69.2%) came from lower gross fixed capital formation (-10.4%) and the rest from weaker build-up of stocks, which remained relatively high at €1.1 billion, preventing stronger investment decline.

Almost all the decline of fixed capital formation came from fall in transport equipment and military transport (by 54.8% or €1 billion). The strong retreat came after a sharp rise of investment in this category of fixed capital in early 2017 (by 213.1%), mainly due to higher investment in ships (Box 3.1, p. 70), which had formed a very high base level of comparison for the corresponding period of the current year. Therefore, the lower fixed capital formation in the first quarter of this year was due to this temporary factor, which is also expected to have an effect on investment, with a little less intensity, in the final quarter of 2018 as well.

In the external sector of the economy, exports expanded by 7.6% in the first quarter of 2018, an increase that preserves their 2017 average growth (6.9%), slightly stronger than in the same quarter of last year (5.2%). The new increase came mainly from the stronger exports of goods, by 10.5%, following their growth in the same quarter of the previous year by 3.0%. The foreign demand for services from Greece strengthened by 3.8% in the first quarter, less than in the same period of last year, when they expanded by 8.3%.

In contrast to exports, imports declined by 2.8%, a drop that lessens somewhat the strong growth from the corresponding period of last year (11.2%). The decline came exclusively from a fall in the imports of goods, by 6.1%, against strong growth a year earlier (+11.7%). It came as a result of strong variation and decline in the procurement of ships in this period, which had a strong negative impact on fixed capital formation as well. The imports of services once more increased strongly, as in the first quarter of 2017, by 13.0%, slightly more than a year earlier (11.5%). The trends in its two components resulted in a significant decline of the external sector deficit, by 69.1%, or €1.55 billion, to less than €696 million or 1.5% of GDP.

Slight growth acceleration of the Greek economy in 2018, to 2.0%

The recent developments that will affect the domestic economic environment not only for the rest of this year, but over the medium and long term, include the completion of the fourth and final review of the third programme economic adjustment, the Eurogroup decisions of 21 June on the medium-term measures for facilitating debt servicing and the results of the recent stress test on the major Greek banks. Note that the effectiveness of the debt interventions over the long run will depend primarily on continued implementation of the reforms, which will further strengthen the confidence in the economic policy and in the possibilities of the Greek economy to reform and shift to a new growth model, a development necessary to achieve continuous growth, at a satisfactory pace. In any case, after more than eight years in adjustment programmes and continuous financial support from the official sector, the transition of the country from the coming August to an environment without these features, with a new monitoring process, creates uncertainty, at least until these new conditions become reality.

While parameters of the domestic environment are improving, the international economic climate is deteriorating. The main cause of this are the protectionist trade policy measures in the US, the announcement of countermeasures by the European Union, China and other countries, and the concern about escalation of policies with such content. The announcement that after almost four years, the ECB quantitative easing measures will expire at the end of 2018, also constitutes a major challenge to economic policy in Europe, with possible effects on economic activity worldwide.

In greater detail, the completion of the fourth review of the third Economic Adjustment Programme, which entails the completion of the programme overall, in a short time, prevented the escalation of insecurity and the deterioration of the economic environment that this process usually causes. Additional fiscal measures for this and subsequent years were not included in the prior actions for the completion of the review. At the Eurogroup of 21st June, the completion of the review was confirmed, and the associated loan tranche was approved, amounting to €15 billion, including €5.5 billion that will be used to service debt in the current period, while the remaining €9.5 billion will be used for creating a cash buffer, which will provide the ability to cover part of the capital needs for the debt refinancing. To create this cash buffer, the Central Government has borrowed funds from general government bodies by issuing repos amounting to €13.6 billion, creating a buffer totalling €24.1 billion, which is estimated to be sufficient to refinance debt for nearly 22 months. The Hellenic Republic is expected to take some advantage of this possibility, yet it is also expected to seek at least partly to refinance its debt from the international capital markets, in order to overcome the wariness about the viability of less-then-full coverage of its financial needs by the official sector.

The most important consequence of the completion of the fourth review is that it allowed the adoption of additional, medium-term measures on sovereign debt, including: interest rate margin reduction for a particular tranche of the second bailout loan, which concerned debt repurchase; return of the profits of central banks from the SMPs and ANFAs to Greece, further extension of the grace period for the payment of interest and principal for the whole second loan by 10 years to 2032, and lengthening of the average repayment period for the same period of time. The new public debt decisions limit further the gross financing needs for its refinancing until 2060, beyond the reduction already achieved through the short-term measures, adopted in June 2017. The required capital resources are projected to reach 16.2% of GDP in 2040 and 18.4% of GDP in 2050. They are projected to be marginally lower than the maximum acceptable limit in 2060 (19.8%), which potentially indicates that it would be useful to take measures for the sustainability of public debt in the long run, depending on the evolution of the other macroeconomic variables that affect it (real economic growth rate, inflation, interest rates).

The restriction of the financing needs over the medium term, until 2030, well below 15% of GDP (11.1%), is expected to defuse shortly the uncertainty about the sustainability of public finances in Greece and to boost the expectations for stability of the domestic economic environment. Subsequently, it will improve the country's attractiveness. Nevertheless, the continued implementation of reforms is required in order to preserve the fiscal consolidation, as mentioned above. The fiscal policy mix of recent years, characterised by hikes of direct taxation, mainly of individuals that provide professional services, but also of indirect taxation, dampening the entrepreneurial risk-taking appetite, needs to change as well. Besides, as repeatedly mentioned in previous IOBE reports on the Greek economy, the additional fiscal measures applied in 2018, which include higher existing taxes, levy of new indirect taxes, and increase of the direct taxation of wage earners and pensioners and the social contributions of freelancers, will exert pressure on the real disposable income of households and on the sustainability and investments of sole enterprises. The impact of the new fiscal measures has already transpired in a small decline in household consumption in the first quarter of this year, despite the decrease of unemployment by 2.1 percentage points compared with the corresponding period of 2017.

Regarding the developments in another area of the economy which, as mentioned earlier, will affect the domestic economic environment in the current and subsequent years, the heightened concern for the capital adequacy and soundness of the banking system eased after the announcement in early May of the results of the new stress test, which showed that even under the adverse scenario there was no need for further capital. These results are expected to lead to a recovery of the confidence in the banking system and to encourage the gradual acceleration of the return of deposits. In addition, together with the developments on public debt, this will facilitate the upgrade of the credit ratings of the banks, easing their access to the international capital markets. Already some international rating agencies slightly upgraded the credit score of the banks (Moody's, Fitch, S&P). Any changes in the flow of credit from the banks to the private sector of the economy will depend not only on whether deposits increase, but also on the speed of this increase and on the progress in settling non-performing loans. The new easing of the capital controls, to individuals and legal entities, could contribute to a steady strengthening of the deposit return. Indicatively, under the new provisions, the maximum value of a transaction of a business that can be approved at the bank branch level doubled to €40,000 per customer per day, while the monthly cash withdrawal limit rose from €2,300 to €5,000.

Regarding the trend in deposits, the latest data are for May, the first month when the results of the last stress test became known, while the developments regarding public debt had still not taken place, therefore it is too early to draw conclusions on the trend. Overall in the first five months of 2018, private sector deposits (non-financial corporations and households) rose slightly, by €3.05 billion, reaching their highest level in May this year since May 2015, at €124.8 billion. Nevertheless, the deposits were approximately €31.9 billion lower than in November 2014, when the latest large deposit flight began. Therefore, the current level of deposits is not sufficient in order for the banks to be able to gradually alter the flow of credit to the private sector of the economy, particularly to households, while credit to businesses is likely to start expanding gradually.

Given the successful financing through the capital markets by large listed corporations, last year and early this year, the anticipated continuation of the mild credit contraction from the banks will push more businesses to attempt the use of these financial instruments. The fourth review and the anticipation of the decisions on public debt inhibited temporarily the use of opportunities to raise capital from the financial markets. Companies which have already drawn funds through these financial instruments are expected to proceed to the implementation of investments.

As repeatedly mentioned in previous IOBE reports on the Greek economy, the export companies, beyond their activity and employment, have strengthened their liquidity as well, through the significant expansion of exports in recent years, which facilitates their operation and investments. The steady growth in the Euro area, at similar rates with last year, according to the latest forecasts of international organisations, is conducive to the continuation of this effect in the current year as well. That said, the adoption of protectionist trade policies in the US and the countermeasures that they provoked constitute a relatively recent change in the international environment. Their effects on Greek exports and more broadly on the world trade flows cannot be assessed at present. The indirect impact, through their effects on exports from EU and third countries that would in turn affect the demand for Greek export, is expected to be stronger. As the euro/dollar exchange rate is expected to remain unchanged in the current half, at levels similar to those of the same period last year, it will not hamper the price competitiveness of the Eurozone products and services. That said, its buffering effects in the previous half of the impact of the much higher than last year oil prices will weaken and then change sign during the current half.

Privatisation deals and concessions that were completed in previous years, for which the licensing of the relevant investment plans is at an advanced stage or is being finalised (such as Hellinikon, regional airports and Asteras Vouliagmenis) are anticipated to provide greater impetus to investment activity this year than in 2017. Regarding the progress of implementation of the privatisation programme in the current year, so far three tenders have been completed (acquisition of 5% of the Hellenic Telecommunications Organisation OTE, transfer of 67% of the Thessaloniki Port Authority and announcement the preferred investor for the 66% of DESFA). However, the number of tenders scheduled for completion this year exceeds notably the number of completed tenders, tenders with preselected bidders and those for which expression of interest has been submitted. Considering the track record of completed tender procedures per year, which has peaked at 9, this year's goal is particularly ambitious, which also holds for the anticipated revenues (€2.74 billion).

While the investment boost from privatisation is going to be stronger this year than in previous years, contrary to initial expectations, the contribution of the Public Investment Programme (PIP) will most probably be sluggish this year as well. In the first five months of 2018, the PIP grants reached €794 million, from €755 million, yet total expenditure last year reached its lowest level since at least 2000. The PIP is executed short of the target, despite the fact that its revenues sharply increased since last year, by 46.3%, due to improved absorption of EU funds. The strong fund raising allows for speedier PIP execution in the coming months. However, as almost half of 2018 has passed without a significant year-on-year expansion of PIP expenditure, a large part of the benefits for investment and employment from a more front-loaded implementation compared to 2017 has been lost.

Considering the above trends in economic indicators, and the anticipated developments (mainly those linked to the completion of the third economic adjustment programme, the medium-term debt measures and the positive effect of the stress testing in the domestic banking system) for the forecasting of the GDP components and other macroeconomic indicators, household consumption is anticipated to expand slightly in the current year. Its growth will come from further decline of unemployment, to a smaller extent than in the previous year, due to the expansion of employment and income in export branches of manufacturing and services, but also in construction activities and the public sector. In contrast, the new fiscal measures, especially certain direct tax changes, will continue to exert pressure on private consumption. The expected small price increase will reduce the purchasing power of wages and transfers less than last year. Under the influence of these factors, the trend in private consumption is considered most likely to shift from negative to positive in the remaining quarters of 2018. As a result, the annual rate of change of private consumption will be positive, in the region of 0.7%.

Regarding the other component of domestic consumption expenditure, as the fiscal consolidation will continue mainly through higher revenue from direct and indirect taxes, and social security contributions, rather than spending cuts, public consumption will most likely increase slightly, a trend that has transpired already since the first quarter of 2018. The latest data on budget execution at the General Government level (consolidated basis) for April indicate continued expansion in consumption expenditure categories from the first quarter of this year, e.g. for salaries by 1.3%, following their growth by 7.3% in the first quarter. Considering the above trends, public consumption is likely to expand at a rate of about 1.5% in 2018.

In investment, the most recent and favourable effect will come from the easing of uncertainty about the outcome of the fourth review and the negotiations to settle public debt and the framework for post-programme surveillance. An upgrade of the credit rating of the Greek state and banks, which will reduce the cost of borrowing from the capital markets would be a first, tangible progress, following from the Eurogroup decisions of 21 June and the outcome of the stress test. In turn, this will allow the banks to lower the borrowing costs of businesses and households. Nevertheless, given the hitherto small return of deposits by the private sector and the pursuit of the non-performing loan reduction targets, the banks are not expected to change significantly their credit policy. Possibly, a limited credit growth to non-financial corporations may gradually emerge in the second half of this year. As the supply of investment and working capital from the banking system will continue to be low, the anticipated upgrade of Greece's credit rating will encourage and facilitate the large Greek corporations to raise capital from financial markets in Greece and abroad. The export demand growth will boost investment activity in Tourism, Transport and export-oriented branches of Manufacturing. Investment recovery this year, after many years of strong fall, is expected in Construction, from the start of work on major construction projects in completed privatisation – concession deals and from revitalising of building works more broadly in the private sector. Even though the implementation of the Public Investment Programme is anticipated to be stronger than last year, it will remain low for a second year in a row. Taking into account these effects, investment is expected to grow at a double-digit rate this year, by about 13%.

In the external sector of the Greek economy, the continuous strong expansion in the EU, the US, and in developing and emerging economies will be the key growth driver. The negative impact of the US protectionist trade policy measures is expected to be mostly indirect, from the impact on EU countries, which absorb more than half of the Greek exports of goods, and other third countries as well. The high international tourist flows since early 2018 portends continued growth of the relevant receipts. The continuation of the conflicts in the Arab countries will boost international transport through Greece in the current year as well. The competitiveness of the Greek exports will strengthen slightly in the final quarter of this year from the slightly lower exchange rate of the euro against the dollar. Taking into account the world trade developments and trends in related indicators, exports are anticipated to grow further in the following quarters, with the annual growth rate of exports anticipated to average about 7.0%.

The trend in imports is expected to change in the coming quarters compared with the first, when the decline came from the transient, negative "base effect" from the imports of ships a year earlier. The rise of imports will mostly come from strengthening of fixed capital formation, rather than domestic consumption growth. The recent relaxation of the capital controls is conducive to strengthening of import demand. Given the lower than initially anticipated boost of household consumption, the forecast for import growth is revised downwards to 7.0%.

Considering the above factors that affect the trends in the components of GDP, our forecast is that the pace of growth will accelerate in 2018 to about 2.0%.

Execution of the state budget, January-May 2018: achievement of targets mainly by low utilisation of PIP, despite higher revenues

The data on the state budget implementation in the first five months of this year reveal varying year-on-year trends. The total balance was in deficit this year by €813 million, less than last year (-€1.24 billion), but also compared to the target (-€2.16 billion). However, the primary surplus fell year on year by €315 million, reaching €1.52 billion, yet it was much higher than the target (€180 million). The year-on-year decline of the primary balance was accompanied by higher interest payments in 2017, by €744 million. Higher net revenues could have offset this at the level of the Ordinary Budget, as they were down year on year by €615 million, to €17.3 billion. The weaker revenue this year came from lower receipts from privatisations, by €742 million.

In contrast to the year-on-year comparisons, both targets for the first five months were overshot, mainly due to higher state budget revenue, by €836 million. This result came mainly from higher than expected proceeds of the Public Investment Programme, by €462 million, but also from higher net revenue of the Ordinary Budget, by €372 million. The State Budget expenditure was lower than the target by €516 million, exclusively from low execution of the PIP. Both the Ordinary Budget expenditure, and the interest payments, hit the corresponding targets.

Slight slowdown in unemployment decline in the first quarter of 2018 - Further fall this year, slightly less than last year

Without the stimulating effects of Tourism on employment in early 2018, but also because of the mild downturn in household consumption demand and the much weaker than a year ago activity growth in manufacturing, the unemployment rate did not fall quarter on quarter in the first quarter of this year. Nevertheless, the unemployment rate was lower year on year by 2.1 percentage points or 113,500 people, at 21.2%. The fall of unemployment came mainly from stronger employment by 1.8% or 64,500 (56.8% of the decline) and secondarily from a decline of the labour force by 49,000 people. At the sector level, the strongest year-on-year employment growth was recorded in Health Services – Social Protection (by 24,000 people or 10.8%). Part of this increase stems from the gradual hiring since March 2017 of 4,200 people in public hospitals through two special employment programmes of 12-month duration. Agriculture – Forestry – Fishing came next, with 14,700 more jobs (3.3%), followed by Wholesale-Retail Trade (10,200).

In the rest of this year, the anticipated new boost of export demand will create jobs in Manufacturing, Tourism and Transport. The contribution of Construction to the new fall in unemployment is expected to be stronger, from the start of investment projects in privatisation deals and more broadly from the recovery of construction activity in the private sector. Expansion of employment, of permanent and temporary kind, is expected to take place in the public sector, mainly through community service programmes. As a result of the above effects on the labour market, unemployment is anticipated to decline in the current year to about 19.8%.

Lower than last year price increase in 2018

The domestic Consumer Price Index (CPI) increased marginally year on year in the first five months of 2018, by 0.1%, compared to inflation of 1.4% a year before. The fading inflationary impact of indirect taxes, the reduced impact of the energy prices and sluggish domestic demand were the main causes for the stagnation in prices in this period. Their impact is reflected in the large year-on-year fall of the rate of price changes in Housing (-1.3% in the first five months of this year, from 3.7% a year ago) and transport (2.1%, from 7.6%). In these categories of services and products, the prices were driven by new indirect taxes and rising oil prices. Alcoholic Beverages – Tobacco constituted an exception to this trend. Despite the imposition of new indirect tax at the beginning of last year, the rate of price change in this category was 0.5 percentage points higher this year, reaching the highest rate among all categories of products and services in the CPI, at 4.7%, due to stockpiling in late 2016, which restrained prices. The overall sluggish demand is reflected in falling prices in seven of the 12 categories of products and services that shape the domestic CPI. By contrast, the notably weaker than last year price boost in Transport is the second largest recorded in the first five months, coming from the inflationary pressures of higher oil prices. The price increase in Hotels – Restaurants, probably linked to the imposition of a new tax from 01/01/2018, came next.

The significant increase in the international price of oil, expected to continue in part during the current half, will be the main factor supporting prices. The stimulating effect of oil prices will ease in the third quarter from higher year on year exchange rate of the euro against the dollar, yet the difference compared to last year will wane over its duration, resulting in a lower year-on-year exchange rate in the next quarter, boosting the impact of the oil price. The mild impact of the changes in indirect taxes on CPI since the start of the year is not expected to strengthen in the second half. The extension of the lifting of the VAT discount in six islands that receive the largest refugee flows, which was to expire at the end of June, for the whole of 2018 is conducive to such a development. The weak private consumption growth is a key factor preventing strong inflation. The joint effect of factors that increase prices (oil price fluctuations, excise taxes) is expected to lead to inflation in the vicinity of 1.0% in some of the months of the second half of this year. For this reason, the average increase of the domestic CPI in 2018 is estimated to be in the range of 0.5%, or maybe slightly higher.

Study: Income taxation in Greece: Comparative analysis and reform proposals

The tax system changed extensively between 2009 and 2016, as tax rates were hiked and other tax parameters were adjusted. In direct taxation, the rates of personal and corporate income taxes were adjusted, most tax breaks were eliminated, while an additional solidarity contribution was levied. Many of the tax measures were designed and implemented under stifling pressure, with tight deadlines, without the necessary analysis of collection efficacy and economic impact.

The study presented briefly in the fourth chapter, conducted for and with the support of the non-profit research and policy institute diaNEOsis, aims to examine the income tax system in Greece and to formulate proposals for its reform. In particular, it examines the evolution of the main attributes of personal and corporate income taxation, including social security contributions, over time in Greece, and in comparison with other EU and OECD countries. In addition, it presents estimates of the impact of indicative changes in direct taxes on tax revenue, tax burden, poverty and inequality indicators, and on macroeconomic aggregates and outlines proposals for income tax reform.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

A. The Global Environment

- The world economy grew at a rate of 3.6% in the first quarter of 2018
- Positive impact from low cost of capital, booming financial markets and stronger demand in both developed and emerging economies
- Risk of losing the momentum from escalating trade protectionism, high public and growing private debt, and systemic risk in the financial system
- Forecasts for continued growth in 2018 and 2019, yet with likely deceleration over the medium term, starting from the developed economies
- The expansionary fiscal policies in countries like the US are now becoming clearly pro-cyclical
- Gradual transition of large central banks towards "tighter" monetary policies

The world economy grew at an average rate of 3.6% in the first quarter of 2018,[1] compared to 3.4% in the corresponding quarter of 2017, yet slightly lower than the average rate for 2017 overall (3.8%). In the latest forecasts by international institutions,[2] the global growth rate was kept high at 3.9% in both 2018 and 2019. Note, however, that these growth rates are considered transient, as many countries, especially among the developed economies,

[1] IMF International Financial Statistics, the world growth rate is based on preliminary figures from countries that had sent data up until 5 July 2018.
[2] European Commission, Spring Forecasts, May 2018; IMF World Economic Outlook, April 2018

are already growing at a rate higher than that of their potential output. As a result, slowdown of growth is expected in the medium term. Moreover, the emerging "trade war" between major economies threatens the international trade momentum. It has already afflicted short-term indicators of economic expectations, which are often good leading indicators of economic activity.

The acceleration of global economic activity in the first quarter of 2018 came mainly from a further boost of consumption and investment in developed and developing economies, which offset the slowdown of exports growth. In the developed economies, the ample liquidity supply by the central banks in the Euro area and Japan and the expansionary fiscal policy in the US continue to provide a strong boost. In the developing economies, the prospects of recovery are based on robust domestic demand in China, the investment momentum in India, the recovery in Brazil and the mild growth in Russia.

The announcement of a series of measures and countermeasures between countries and economic regions, in the direction of trade protectionism was a possibility that was confirmed in the first half of 2018, signifying the risk of reversing the positive international trade momentum. The spark was provided by the US, which decided to impose tariffs of 25% and 10% on imports of steel and aluminium respectively, from all major US trading partners, with different dates of entry into force in the first half of 2018. This fact caused the reaction of each of the partners (Canada, Mexico, Russia, China, EU), with the levy of tariffs on a range of products imported from the US. The total value of trade flows of the products subjected to additional duties until the date of publication of this report remains relatively small, a few dozen billion USD, though threats have been made at the highest political level for the imposition of trade tariffs on much larger trade volumes. Although the effect of the protectionist measures will begin to be felt from the second half of the year, there is concern that a possible escalation of the "trade war" can have acutely negative effects on the pace of global growth. In the latest IMF report on the world economy (April 2018), despite the concern over the impact from a possible strengthening of trade protectionism, the growth rate of the world trade volume is anticipated to remain high, at 5.1% in 2018 and 4.7% in 2019, following its growth by 4.9% in 2017.

The economies of most countries and regions in the world are growing. Some countries in the Middle East, Latin America and sub-Saharan Africa, mainly economies suffering from political instability, form an exception to this trend. Such a positive economic environment is a rare opportunity for economic policy to focus on the quality of growth and on maintaining sound fiscal management, especially in countries with high levels of debt and adverse demographic trends, taking advantage of the current international monetary policy environment and the reduced need for expansionary fiscal policies.

Meanwhile, the global economic environment presents significant challenges. In the developed economies, challenges arise from the political tendency of strengthening trade protectionism, the aging of the population, low inflation and financial system risks. In the developing economies, high-speed credit expansion in emerging economies, such as China and India, high fiscal deficits, the reaction to protectionist trade measures and the exposure to the risk of a flight of investment funds from a rise in the interest rates in the developed economies, add to the challenges.

Table 2.1

Global Environment (annual % GDP growth, in real terms, unless stated otherwise)

Economy	2017	2018		2019	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.8	3.9	0.0	3.9	0.0
Developed	2.3	2.5	0.2	2.2	0.0
Developing	4.8	4.9	0.0	5.1	0.1
USA	2.3	2.9	0.2	2.7	0.2
Japan	1.7	1.2	0.0	0.9	0.0
Canada	3.0	2.1	-0.2	2.0	0.0
United Kingdom	1.8	1.6	0.1	1.5	-0.1
Eurozone	2.3	2.4	0.2	2.0	0.0
Germany	*2.5*	*2.5*	*0.2*	*2.0*	*0.0*
France	*1.8*	*2.1*	*0.2*	*2.0*	*0.1*
Italy	*1.5*	*1.5*	*0.1*	*1.1*	*0.0*
Emerging Europe	5.8	4.3	0.3	3.7	-0.1
Turkey	*6.1*	*4.4*		*4.0*	
Developing Asia	6.5	6.5	0.0	6.6	0.0
China	*6.9*	*6.6*	*0.0*	*6.4*	*0.0*
India	*6.7*	*7.4*	*0.0*	*7.8*	*0.0*
Commonwealth of Ind. States	2.1	2.2	0.0	2.1	0.0
Russia	*1.5*	*1.7*	*0.0*	*1.5*	*0.0*
Middle East & North. Africa	2.6	3.4	-0.2	3.7	0.2
Latin America	1.3	2.0	0.1	2.8	0.2
Brazil	*1.0*	*2.3*	*0.4*	*2.5*	*0.4*
Sub-Saharan Africa	2.8	3.4	0.1	3.7	0.2
World Trade	4.9	5.1	0.5	4.7	0.3

* Difference in percentage points compared with the IMF estimates from January 2018

Source: World Economic Outlook, IMF, April 2018

In the developed economies, the GDP growth rate stood at 2.5% on average in the first quarter of 2018, compared with 2.2% in the same quarter of 2017, and 2.3% overall in the previous year. The GDP of the OECD member and the major world economies (G20) states increased by 2.7% and 3.9% respectively in the first quarter of 2018, compared to similar rates in the previous year, recording their best performance since 2011.[3] In all the above groupings of major economies, the growth rate marginally weakened quarter on quarter in the first quarter of 2018.

[3] Sources: IMF International Financial Statistics, OECD Quarterly National Accounts

Among the developed countries, the growth rate strengthened in the first quarter of 2018 in the US, for the seventh consecutive quarter, to 2.8%, up from 2.6% in the previous quarter and 2.3% on average in 2017. The acceleration largely came from the impact of the recent fiscal package of tax cuts on income and wealth, which boosted the prospects for consumption and investment, while business sentiment remained buoyant. Based on the latest forecasts of IMF (April) and the European Commission (May), the US growth rate is expected to reach 2.9% in 2018, and 2.7% in 2019. Meanwhile, the Fed continues its course of gradual interest rate increase, which drags up the yield of the 10-year US Government bond. The key challenge that the American economy is facing is associated with the escalation of trade protectionism, which increases uncertainty and hampers the growth prospects. Other challenges include the growing leverage of firms and the impact of the pro-cyclical fiscal policy.

Regarding the trends in the Euro area, which are presented in detail in the next subsection, the growth rate slowed down in the first quarter of 2018, for the first time since mid-2016, to 2.4%, from 2.8% in the previous quarter. In the United Kingdom, the GDP growth remained unchanged at 1.4%, posting a lower rate compared to all the Euro area countries. The pending negotiations on the post-Brexit period put pressures on the pound, which translates into higher inflation and pressure on private consumption. That said, the reduction of the interest rates by the Bank of England in late 2017 and the May decision to postpone their increase, which was anticipated by the markets, eased in part the negative pressure on sterling and investment. At the same time, however, the high private debt of households creates challenges for the banking system. Regarding the positive features of the British economy, the unemployment rate remained low, at levels below 5%.

In Canada, the rate of growth continued to weaken in the first quarter of 2018, in part due to the gradually tightening monetary and fiscal framework in the country. It stood at 2.3%, compared with 3.0% in the previous quarter. The estimates of international organisations converge to in annual growth close to its recent pace, which they deem sustainable over the medium term.

In Japan, the growth rate slowed down to 1.1% in the first quarter of 2018, from 2.0% in the preceding quarter, and 1.7% overall in 2017. Aided by exports, investment and fiscal expansion, the country is going through 3 years of mild recovery. In addition, the unemployment rate is at extremely low levels, below 3%. The price change weakened further to about 0.7% in the second quarter of 2018, as the monetary policy is expected to continue to be loose until prices approach the inflation target of 2%. Having said that, the main challenges of the Japanese economy include the persistently low inflation and the fragile public finances, in conjunction with the ageing of the population.

The emerging and developing economies expanded at an average rate of 4.7% in the first quarter of 2018, compared to 4.3% a year earlier, their best performance since 2013. Based on the latest IMF forecasts (April 2018), the growth rate of the developing economies is expected to slightly accelerate further in 2018 and 2019, to 4.9% and 5.1% respectively. Geographical regions with strong trade relations with Greece, such as Emerging Europe (5.8%) and the Middle East and North Africa (2.6%), had a strong growth performance in

2017. The rest of this subsection presents the key trends and economic policy challenges for five of these economies, which produce in total almost 1/3 of the world GDP.

In detail, the economy of China kept growing at a steady rate in the first quarter of this year, by 6.8%, unchanged from 2017 overall. Domestic demand and particularly consumption continue to gain ground in terms of their contribution to GDP growth. The growth rate of China is expected to slow down slightly in 2018 and 2019, to 6.6% and 6.4% respectively (IMF, April 2018), driven mainly by a gradually stricter supervision of capital flows and a tighter monetary framework. The rapidly increasing credit expansion and the rising fiscal deficit remain significant challenges for the Chinese economy. As the size of China's economy exceeded 18.2% of the world GDP, the reaction to a possible escalation of the protectionist trade measures will set the trend of the world economy.

In India, the economy strengthened significantly in the first quarter of 2018, to 7.4%, from 6.9% in the preceding quarter, mainly from the strong momentum of investment and exports. The growth rate is expected to stand at 7.4% in 2018 and at 7.8% in 2019 (IMF, April 2018), from a boost of productivity as a result of the expected impact of recent structural reforms. The non-performing loans and the high fiscal deficit, in excess of 6%, remain the major challenges for the Indian economy.

In Russia, the mild recovery continued for the sixth consecutive quarter, yet its rate slowed down to 1.3%, from 1.5% in the corresponding quarter of 2017 and 1.6% overall in the previous year, under the adverse impact of international sanctions against the country. The recovery rate in Russia is expected to reach 1.7% in the current year, aided by the rebound of international oil prices and the subsequent boost of consumption and investment. In 2019 it is anticipated to slow down marginally to 1.5% (IMF forecast, April 2018). The dependence on the international prices of energy commodities, income inequality and the stability of the financial sector are key challenges ahead for the Russian economy.

The economy of Brazil remained on a growth path for the fourth consecutive quarter, expanding by 1.6%, following its annual growth by 1.0% in 2017 and three years of recession between 2014 and 2016. The economy is expected to recover significantly, at a rate of 2.0% in 2018 and 2.8% in 2019 (OECD, May 2018), as a result of the dynamics of the economic climate and investment, which are expected to strengthen under the influence of a more relaxed monetary policy framework, which has become feasible due to much weaker inflationary pressures (3.4% in 2017, compared to 8.7% in 2016). Despite the acceleration of growth, the high unemployment rate has remained a challenge for the Brazilian economy.

Turkey recorded a steady growth rate in the first quarter of 2018, at around 7.3% year on year, from 7.4% overall in 2017, due inter alia to fiscal stimulus and stronger exports, which benefited from the depreciation of the lira. At the same time, however, the economic environment is characterized by extremely high volatility, affecting the confidence of investors, e.g. because of announced intentions of the political leadership of the country to have an active role in shaping the monetary policy. As a result, the currency of the country continued to receive strong pressure, forcing the Central Bank to make extraordinary and significant interest rate increases, while inflation rose to the high rate of 12.8% in the second quarter of 2018. The intense uncertainty for Turkey and its political stability has created tensions in its external relations. That said, the recent election result raises expectations for a stable Government in the medium term. The negative and deteriorating balances of the external and fiscal sectors and the fact that, according to estimations of international organisations, output has already considerably exceeded its potential level are additional sources of concern. Nevertheless, the latest forecasts by international organisations anticipate that the growth rate in the country will remain high, in the range of 4% in both 2018 and 2019 (IMF, April 2018).

The IFO estimates on the economic climate in the world economy in the second quarter of 2018 point to a weakening of the positive trend. In particular, the balance of estimates on the world economic climate declined to 16.5 points, from 26.0 points in the preceding quarter, when it reached its highest level in a decade. Regarding the assessment of the current situation, the balance declined only marginally, remaining positive for the fifth consecutive quarter, after six years of negative levels. Finally, the expectations over the coming six months deteriorated, as their balance fell to their lowest level in two years, at 6.1 points, from 23.9 points in the previous quarter.

Table 2.2

IFO - World economic climate (balances)

Quarter/Year	II/16	III/16	IV/16	I/17	II/17	III/17	IV/17	I/18	II/18
Economic climate	-3.5	-6.6	-0.7	3.0	13.5	13.2	17.1	26.0	16.5
Assessment of current situation	-17.4	-16.8	-14.9	-8.7	5.1	12.5	17.2	28.3	27.4
Expectations	11.6	4.1	14.6	15.5	22.2	14.0	16.9	23.9	6.1

Source: IFO Institute, Centre for Economic Studies

Table 2.3

IFO - Economic climate in the Euro area (balances)

Quarter/Year	II/16	III/16	IV/16	I/17	II/17	III/17	IV/17	I/18	II/18
Economic climate	6.6	4.6	8.3	17.3	26.4	35.2	37.0	43.2	31.1
Assessment of current situation	-2.6	6.2	2.4	8.0	21.9	33.4	42.9	51.3	49.9
Expectations	16.2	2.9	14.3	27.0	31.0	37.1	31.3	35.4	13.8

Source: IFO Institute, Center for Economic Studies

The improvement of the economic climate in the Euro area halted in the second quarter of 2018, with the economic sentiment index falling to 31.1 points, from 43.2 points in the first quarter of 2017, albeit remaining at a high level. As regards the assessment of the current situation, the balance marginally declined, to 49.9 points, from 51.3 points in the preceding quarter, a performance that remains among the best since 2000. The expectations balance fell to 31.1 points, from 43.2 points in the first quarter of 2018.

The inflation rate in the developed economies of the G7 group increased to 1.8% in the second quarter of 2018, from 1.5% in the preceding quarter, under the influence of rising international oil prices as well, yet remaining below the target of major central banks. This phenomenon remains more acute in Japan and the Euro area, where the rate of price change stood at 0.6% and 1.6% respectively in the second quarter of 2018, with “core” inflation, without the impact of oil prices, standing even lower. As a result, the price change is considered low against the inflation target of "close to 2%". The inflation rate in the major developing economies of the BRICS group (Brazil, Russia, India, China and South Africa) fell to its lowest level in eight years in the second quarter of 2018, at 3.1%, from 3.2% in the preceding quarter. This is partly due to the fact that the international prices of raw materials in foodstuffs and metals remained low in early 2018, while most central banks of these countries maintained policies of low interest rates.

In the developed economies, the monetary policy stance remains broadly accommodative, supplying abundant liquidity in order to boost the price levels closer to target inflation. However, as it seems that some economies, including the US, are close to the inflation target, and as the economic indicators improve, a shift toward tighter monetary policy framework is observed. This gradual shift towards tighter monetary framework that began in 2017 has continued in 2018 in countries such as the US, Canada and the UK. Recently, the Fed, as expected, made a slight increase in its interest rates in June 2018, while it has created expectations for further interest rate rises in the next two years, two of which within the second half of 2018. Respectively, the Bank of Canada has carried out three small interest rate rises since July 2017, while the Bank of England raised slightly the interest rates in November 2017, with one more hike anticipated to take place in the second half of 2018. At the same time, the ECB announced that its asset purchasing programme will expire by the end of 2018. However, the central bank of the Euro area will maintain its policy of re-investing the funds from the repayment of bonds that mature. In addition, the markets anticipate that the intervention interest rates are going to remain at the same low levels for at least 2018 and for most of 2019. As noted repeatedly in previous reports, the growing asymmetries among developed economies as to the conduct of monetary policy may cause changes in the capital flows and the exchange rates, with possible outcomes such as strengthening of the dollar in the medium term, which would have an impact especially on the emerging markets.

B. The economies of the EU and the Euro area

- The Euro area continued to grow at a high rate, by 2.5% in the first quarter of 2018
- First signs of growth "fatigue" from the economic sentiment indicators, deceleration of exports
- Positive impact from stronger investment and record high liquidity
- Expectations for continued growth in 2018 and 2019, but with a possibility of slowdown over the medium term due to gradual overheating
- Main sources of uncertainty: high stock of non-performing loans, trade protectionism, high public debt, macroeconomic imbalances, refugee flows, delay in deepening of the Euro area institutions, political euro-scepticism

In the first quarter of 2018, the economies of the European Union and the Euro area maintained their strong growth, as they expanded by 2.4% and 2.5% respectively, from 2.7% and 2.8% in the fourth quarter (annual changes with seasonally adjusted data), their best Q1 performance since 2011. According to the latest forecasts of the European Commission,[4] the Euro area is expected to continue to grow, by 2.3% and 2.0%, in 2018 and 2019 respectively. However, note the danger of gradual overheating of the European economies, as in 25 of the 28 EU economies the 2018 GDP is expected to exceed potential output. The exceptions to this include Greece, Denmark and Italy (the "output gap" of the three countries is estimated by the European Commission at -5.2%, -0.7% and -0.1% respectively).

Investment gave a significant boost to growth in both regions in the first quarter of 2018, in contrast with net exports, the contribution of which declined due to weaker growth of total exports. This positive contribution of consumption remained unchanged in both regions.

The composition of the GDP expenditure components remained similar in the EU and the Euro area, with consumption representing 76% and 74%, investments 21%, exports 47% and 49%, and imports 44% and 45% of GDP in the two regions respectively.

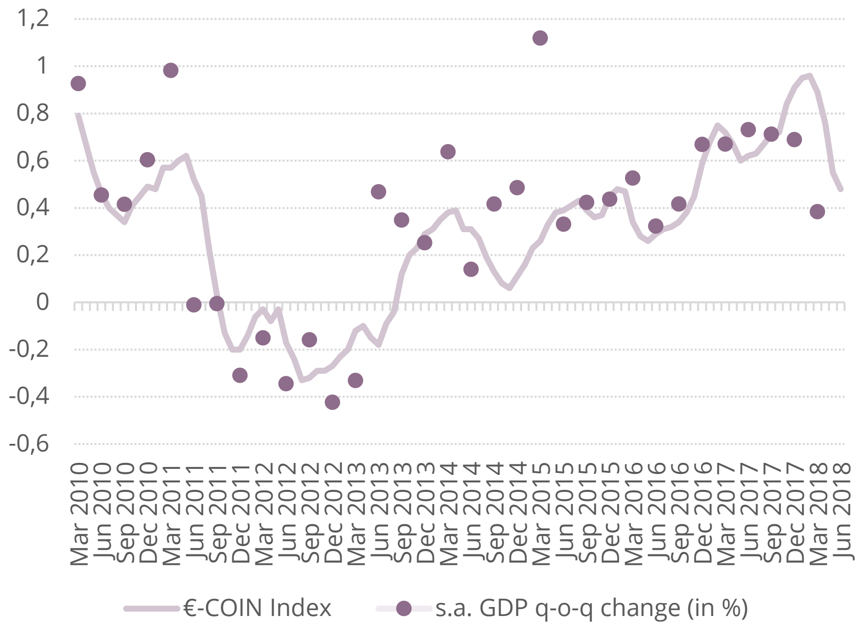
The highest growth rates in the EU in the first quarter of 2018 (year-on-year changes in seasonally adjusted data) occurred in Luxembourg (5.1%), Poland (5.0%) and Slovenia (5.0%). Greece (2.3%), although it converged on the average growth of the Euro area, recorded the 9th lowest growth rate in the EU in the first quarter of 2018. The lowest growth rates were recorded in Denmark (-0.6%), the United Kingdom (1.2%) and Italy (1.4%). In terms of a 12-month moving average, Greece no longer holds the last place in the ranking, posting the fifth lowest rate of growth in the EU, at 1.8%. Lower growth rates were recorded in Denmark (1.1%), the United Kingdom (1.5%), Italy (1.6%) and Belgium (1.7%). In contrast, the highest growth in the EU on a 12-month moving average basis was recorded in Romania (6.4%), Malta (5.9%) and Slovenia (5.4%).

[4] European Economic Forecasts, spring 2018, European Commission, May 2018

Regarding the economic climate and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN[5] indicator weakened significantly during the second quarter, as it approached 0.48 points in June, its worst monthly performance since November 2016, capturing a shift of the climate in the Eurozone economy. The index dropped for the first time after four quarters of uninterrupted growth, influenced by a fall in business sentiment and the trade protectionist measures.

Figure 2.1

Monthly Index €-COIN and Euro area GDP



The indicator €-COIN for the Euro area declined significantly in Q2 of 2018 to its lowest level since November 2016

Source: CEPR and Bank of Italy

The economic sentiment indicator of the European Commission deteriorated in the second quarter of 2018 in the EU and the Euro area for the second consecutive quarter, after recording its best performance since the year 2000 in the final quarter of 2017. In June 2018, the economic sentiment indicator stood at 112.2 points for the EU and 112.3 points for the Euro area, decreasing by 0.6 and 0.2 points respectively compared with the previous month, yet remaining 1.6 and 1.8 points higher than in June 2017.

Overall in the second quarter of 2018, the indicator in the EU stood lower by 1.5 points quarter on quarter, yet it was higher by 2.5 points year on year. In the Euro area, respectively, the indicator was lower by 1.5 points quarter on quarter and higher by 2.5 points year on year. At the EU level, the sentiment weakened quarter-on-quarter in the

[5] The Centre of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator provides a quarterly forecast of GDP growth and is constructed from a range of different data, such as the course of industrial production and of prices, as well as labour market and financial data.

second quarter of the year in 21 countries, with the largest fall recorded in Malta (-5.0 points), Cyprus (-4.1 points), Austria (-2.7 points), the Netherlands (-2.3 points), Germany (-2.1 points) and the United Kingdom (-2.0 points). By contrast, the sentiment strengthened in only 6 countries, with the second largest gain recorded in Greece (+1.4 points), behind Latvia (+3.4 points). Despite the improvement in the second quarter, the economic sentiment index in Greece left the last place in the ranking, yet it remained among the three lowest in the EU, after Slovakia and Romania, lower by 9.0 points than the EU average.

Table 2.4

Economic Sentiment Indicator EU & Euro Area (1990-2017 average = 100)

Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	June-17	July-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
EU	107.9	108.3	108.5	109.9	109.3	110.6	111.7	111.5	112.6	113.5	113.8	115.0
Euro area	107.3	107.5	107.4	109.1	109.0	110.5	111.0	111.6	112.8	113.4	114.2	115.2

Month	Jan-18	Feb-18	Mar-18	Apr-18	May-18	June-18	July-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
EU	114.8	114.4	112.7	112.4	112.8	111.2						
Euro area	114.9	114.3	112.8	112.7	112.5	112.3						

Source: European Commission (DG ECFIN), July 2018

More comprehensive information on the GDP components in the Euro area and the EU, in the first quarter of 2018, as well as on potential trends in the coming period, is provided next in this subsection. Predictions for 2018 and 2019, as reflected in the European Commission forecasts (May 2018) for the EU, and the latest ECB report (June 2018) on the Euro area are also presented.

In greater detail, according to Eurostat data for the first quarter of 2018 (year-on-year changes in seasonally adjusted data), private consumption in the European Union strengthened by 1.9%, compared to 2.0% growth in the final quarter of 2017 and 2.2% in the corresponding quarter of the previous year. Consumption in the Euro area increased by 1.7%, against growth by 1.7% in the previous quarter and 1.8% in the corresponding quarter of 2017. The European Commission envisages weakening of the growth in household consumption in the EU to 1.8% in 2018 and 2019. Correspondingly for the Euro area, the ECB projects marginal changes in the growth of private consumption to 1.6% and 1.7% in these two years (Table 2.5). Among the EU countries, the strongest growth in private consumption in the first quarter of 2018 was recorded in Romania (+5.8%), Hungary (+5.8%) and Poland (+4.3%). In contrast, Greece was the only country that posted a reduction in private consumption (-0.4%), followed by countries recording small growth - Italy (+0.8%), the United Kingdom (+1.1%) and France (+1.1%).

The growth of public consumption marginally strengthened quarter on quarter both in the EU and the Euro area in the first quarter of 2018. Year on year, it was lower both in the European Union and the Euro area. In particular, public consumption increased by 1.2% and 1.3% in the EU and the Euro area respectively, compared to 1.1% and 1.2% in the preceding quarter. For 2018 and 2019, the European Commission anticipates growth by 1.4% and 1.3% respectively in the EU, while the ECB forecasts a similar growth rate for both years in the Euro area (1.3%). The countries with the strongest growth in the first quarter of this year were Malta (6.5%), Cyprus (4.5%), Latvia (4.2%) and Poland (4.0%), while public spending declined only in Romania (-3.4%), followed by countries with marginal growth such as Italy (0.1%), Greece (0.3%) and Portugal (0.3%).

Table 2.5

Key economic figures, EU, Euro area (annual % change in real terms, unless otherwise noted)

	EU			Euro area		
	2017	2018	2019	2017	2018	2019
GDP	2.4	2.3	2.0	2.5	2.1	1.9
Private Consumption	1.9	1.8	1.8	1.7	1.6	1.7
Public Consumption	1.1	1.4	1.3	1.2	1.3	1.3
Gross Investment	3.4	4.2	3.2	3.3	4.2	3.3
Exports of goods and services	5.3	5.2	4.3	5.4	4.2	4.4
Imports of goods and services	4.5	5.1	4.4	4.6	4.1	4.7
Employment	1.5	1.1	0.9	1.6	1.4	1.1
Unemployment (% labour force)	7.6	7.1	6.7	9.1	8.4	7.8
Inflation	1.7	1.7	1.8	1.5	1.7	1.7
Balance of General Government (% GDP)	-1.0	-0.8	-0.8	-0.9	-0.7	-0.8
Debt of General Government (% GDP)	83.1	81.2	79.1	86.7	84.8	82.7
Current Account (% GDP)	2.2	2.2	2.2	3.5	2.9	4.3

Sources: For the EU, European Economic Forecast, European Commission, Spring 2018. For the Euro area, Eurosystem staff macroeconomic projections for the euro area, ECB, June 2018.

Investment expanded stronger in the first quarter of 2018 in the EU and the Euro area, by 3.7% and 3.6% respectively, compared to 3.4% and 3.5% in the previous quarter. For 2018 and 2019, the European Commission anticipates acceleration of the investment growth to 4.2% and 3.2% respectively in the EU, with a similar forecast of the ECB for the Euro area at 4.2% and 3.3% respectively. In the first quarter of the current year, a significant rise in investment was recorded in Poland (+21%), Romania (+16.8%) and Latvia (+16.2%), while the largest investment decline was observed in Cyprus (-53.2%), Malta (-14.4%) and Greece (-12.1%). The decrease in Greece was affected by temporary factors, discussed in detail in section 3.1 of this report.

The growth of the exports of goods and services slowed down in the first quarter of 2018, at a rate of 5.3% and 5.4% in the EU and the Euro area respectively, compared with 5.7% and 5.5% growth in the previous quarter and weaker expansion by 4.0% and 3.7% in the same quarter of 2017. For 2018 and 2019, the European Commission anticipates growth of exports in the EU by 5.2% and 4.3% respectively, while the ECB projects further increase by 4.2% and 4.4% respectively. The strongest rise in exports in the first quarter of 2018 was recorded in Cyprus (24.3%), Lithuania (9.5%), Romania (8.6%) and Slovenia (8.3%), with Greece ranking fifth (7.6%). In contrast, exports declined in Denmark (-2.1%) and Croatia (-0.7%).

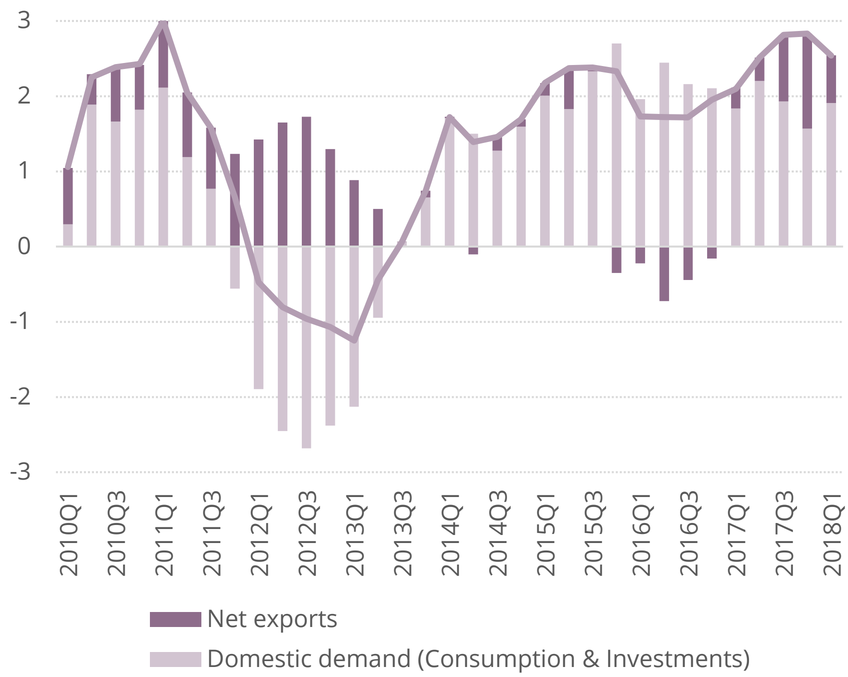
Imports expanded at a lower rate in the first quarter of 2018 in both the EU and the Euro area, by 4.4% and 4.2% respectively, compared with growth in both regions by 4.7% and 4.5% in the preceding quarter. For 2018 and 2019, the European Commission anticipates growth by 5.1% and 4.4% respectively, while the ECB projects further increase by 4.1% and 4.7% respectively in the Euro area. High rates of import growth in the first quarter of 2018 were recorded in Romania (9.8%) and Slovenia (9.5%), while imports declined in Malta (-4.5%) and Greece (-2.8%).

As a result of the developments in the GDP components in the Euro area, the contribution of net exports remained positive in the first quarter (0.6%), yet its momentum weakened from 2017 (+1.2% in the preceding quarter), despite the continued rise in international trade. The contribution of domestic demand remained significant (1.9%), showing signs of strengthening (1.6% in the preceding quarter), mainly due to the positive contribution of investment.

Figure 2.2

Euro area – Contribution to real GDP growth (in percentage terms)

The positive contribution of net exports to the GDP of the Euro area weakened in early 2018.



Source: Eurostat

The harmonised inflation rate slightly strengthened in the second quarter of 2018, standing at 1.7% in both the EU and the Euro area, from 1.5% and 1.3% in the preceding quarter. The price rise came primarily from the international oil prices. Subsequently, the 12-month moving average of the harmonised inflation stood in June 2018 at 1.6% and 1.4% in the EU and the Euro area respectively. The harmonised index excluding energy goods increased by 1.4% and 1.3% in the EU and the Euro area respectively in the second quarter of 2018, compared to a corresponding annual change by 1.4% and 1.2% respectively in the preceding quarter. In 2018 and 2019, the ECB projects that the inflation in the Euro area will remain close to 1.7%, below yet closer to the ECB target of 2% (compared to 1.5% in 2017 and 0.2% in 2016). In June 2018, the highest inflation was observed in Romania at 4.0% and Estonia at 2.9%, while the lowest inflation in the EU was recorded in Cyprus at -0.4% and Greece at 0.2%.

Employment, based on labour force data from Eurostat, strengthened in the first quarter of 2018 by 1.4% in both the EU and the Euro area, against 1.5% and 1.4% rise respectively in the third quarter of 2017. The European Commission projects a weakening of the employment growth in the EU in 2018 and 2019, at 1.1% and 0.9% respectively. The ECB also anticipates slower employment growth in the Euro area, at 1.4% in 2018 and 1.1% in 2019. The strongest employment growth in the first quarter of 2018 occurred in Malta (5.2%), Bulgaria (5.1%) and Slovenia (4.7%), while contraction of employment was observed only in Lithuania (-0.7%). Greece ranked 11th with 2.2% growth.

Unemployment fell to 7.1% in the EU and 8.6% in the Euro area in the first quarter of 2017, compared to 7.3% and 8.7% respectively in the preceding quarter, its lowest level in both regions since 2008. For 2018 and 2019, the European Commission projects further decline of unemployment in the EU to 7.1% and 6.7% respectively, while the ECB anticipates falling unemployment rates at 8.4% and 7.8% in the Euro area. In the first quarter of 2018, the highest unemployment rate was recorded in Greece (20.9%), followed by Spain (16.2%), Italy (11.0%), Croatia (9.5%), Cyprus (9.4%) and France (9.2%). In contrast, the lowest unemployment over the same period was recorded in the Czech Republic (2.3%) and Germany (3.5%).

The fiscal performance improved slightly in both regions in 2017, with the European Commission projecting a further decline in the general government deficit in the EU in 2018 to 0.8% of GDP (from 1.0% in 2017). The ECB anticipates that the fiscal deficit in the Euro area will fall to 0.7% and 0.8% of GDP respectively in 2018 and 2019, implying that on average the fiscal policy will remain slightly expansionary. The countries with the highest expected deficit in 2018 are Romania (-3.4%), Spain (-2.6%) and France (-2.3%), while the highest surpluses are projected in Cyprus (+2.0%), the Czech Republic (+1.4%) and Germany (+1.2%). Within the Euro area, Spain is the only country that has remained under monitoring based on the excessive deficit procedure (EDP), as it must comply with a deficit target of below 3% in 2018. Public debt is anticipated to continue to decline gradually in the EU and the Euro area in 2018 and 2019, as it is projected to reach 81.2% and 79.1% of GDP respectively in the EU and 84.8% and 82.7% respectively in the Euro area. Despite the progress, public debt is anticipated to remain very high across many member states in

2018 (in percentage of GDP: Greece 177.8%, Italy 130.7%, Portugal 122.5%, Cyprus 105.7%, Belgium 101.5%), while the positive economic conditions constitute an opportunity for improvement of the fiscal balance, especially in countries whose GDP is estimated to have exceeded its potential level (in 25 of the 28 EU countries), thus increasing the risk of "overheating".

As to the monetary policy framework, the European Central Bank continues to pursue accommodative monetary policy through very low interest rates and unconventional quantitative easing (QE) tools. The current bond purchase programme was tampered in late 2017, from a monthly volume of €60 billion to €30 billion, until September 2018, when it will decline further to €15 billion until December 2018. While the markets anticipate that the interest rates are going to remain at the same low levels for at least 2018 and most of 2019, the ECB decided to discontinue the asset purchase programme at the end of the current year (14th June 2018, Governing Council meeting). The ECB will maintain its policy of reinvesting the principal payments from maturing securities “for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary”. Recall that since the beginning of 2015, when the QE programme began, the ECB has bought bonds of €2.5 trillion total value.

The economy in Europe, and particularly in the Euro area, is facing a series of challenges that keep the policy makers on alert:

- Risks for the banking system: very high rate of non-performing loans in some countries, with implications for the liquidity in the European economy and for investment
- Managing the impact of possible escalation of protectionist trade measures by trading partners such as the US
- The GDP growth rate is higher than that of potential output in most countries (in 17 of its 19 member states, with Greece and Italy standing out), hence slowdown is anticipated in the medium term
- Need of sound fiscal management for members with a high level of public debt that have the opportunity to exercise counter-cyclical policy
- Need of deepening of the monetary union and strengthening of its institutions
- Need to mitigate macroeconomic imbalances within the Euro area, as they complicate the joint response to adverse shocks
- Demographic trend of an ageing population with an impact on the sustainability of the social security system in many member states
- Refugee flows and possibilities of integration in the economic activity
- Political developments and elections. The delay in forming a government in Italy and Germany reflects the difficulty of consensus inter alia on matters of European orientation, and generates uncertainty in relation to the stance that the countries will keep between the opportunity of deepening the Monetary Union, and the rising euro-scepticism

- The Brexit negotiations seem to weigh more on the British economy and less on the Euro area for the time being, yet it remains a source of uncertainty for both economies
- Geopolitical tensions in the wider region that are affecting, inter alia, investment and consumer confidence.

2.2 The economic environment in Greece

A. Economic climate

- The Economic Sentiment Indicator increased in Greece in the second quarter of 2018, both quarter on quarter and year on year (to 103.4 from 102.0 and 94.3 points respectively).
- Business sentiment improved in the second quarter of this year compared to last year in Retail Trade and Services, remained at about the same level in Construction and deteriorated in Industry.
- The Consumer Confidence Index strengthened quarter on quarter in the second quarter of 2018 (-50.7 from-52.3 points), while it was notably higher year on year (from -70.2 points).

The IOBE economic sentiment surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the results of the surveys constitute leading indicators for various economic magnitudes and can be used to predict near-term developments and even the course of GDP.[6]

The economic climate indicator increased slightly quarter on quarter and strengthened year on year in the second quarter of 2018. The relatively steady uptrend in the economic sentiment over a number of months is consistent with the gradual recovery of the economy, following the strong growth in the international environment. The anticipation of the final review of the third adjustment programme, the new measures for the public debt and the post-programme framework of relations with creditors also affected the expectations during this quarter. Despite the number of open issues before and during the review, the expectation that the current programme will be completed and more broadly, that another programme will not follow, after eight years of programmes, gradually emerged. To a certain extent, the improvement of the indicator is explained with

[6] Note that since March, the base period of the series presented in the sectoral business sentiment indicators, i.e. the indicators in Manufacturing, Retail Trade, Services and Construction, has changed. In particular, the 2000-2010 period was designated as a new base (= 100). Until February 2018, the indicator were referenced to their values from the 1996-2006 period. The historical series of the indicators are fully revised, in order to ensure that the statistics are comparable. As a result, the indicators with the new base period are overall higher compared with those with the older base period. The change in the base period by IOBE has not affected the overall economic sentiment indicator for Greece or any other country.

seasonal factors as well, such as the start of the tourist season, where further rise of demand from abroad is emerging, with positive effects on employment and the wider economic activity.

However, the evolution of the expectations in the coming months will depend in a crucial way on the conditions shaping the course of the Greek economy after the programme. If, that is, a strong growth momentum will emerge, or the economy will totter weak surrounded by risks. Overall, the coming period is of high significance, as on the one hand it turns out to be decisive for the course of the yearly GDP each year due to the significant impact of tourism, and on the other this year in particular it coincides with the transition to the post-programme era. In greater detail:

The Economic Climate Index in Greece increased quarter on quarter in the second quarter of 2018, to 103.4 points on average (from 102 in the previous quarter), at a higher level than the average from the same quarter of 2017 (94.3 points).

In Europe, the index declined quarter on quarter in the quarter under examination, both in the EU and in the Euro area. In particular, the economic climate index averaged 112.5 points in the second quarter of 2018 both in the Euro area and in the EU (from 114 points). However, it stood higher than last year, when it averaged 109.9 points in the Euro area and 109.5 points in the EU.

At the sector level, the business expectations in Greece deteriorated quarter on quarter in the first quarter of the year in Industry, remaining unchanged in Construction and strengthened in Retail Trade and Services. On the demand side, the quarterly average of the very weak consumer confidence improved. Compared to the same quarter of the preceding year, the index increased on average in all sectors of the economy, while consumer confidence strengthened substantially as well. In greater detail:

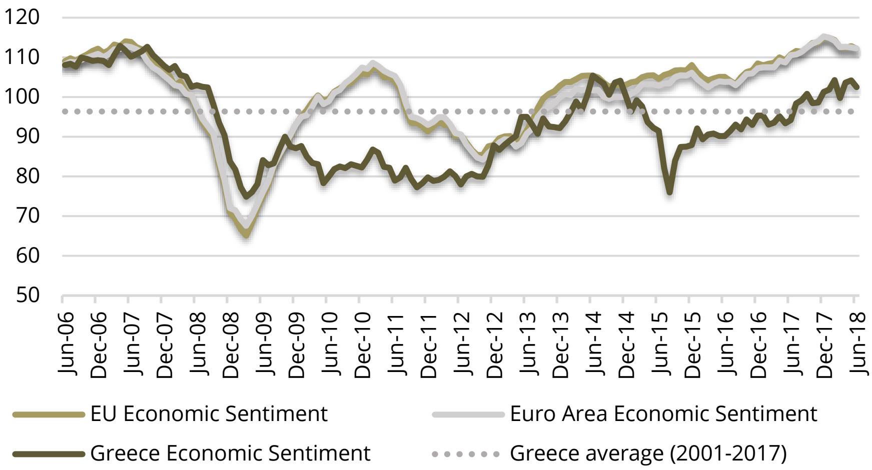
The Consumer Confidence Index in Greece averaged -50.7 points in the second quarter of 2018 (from -52.3 points in the first quarter), significantly higher year on year (from -70.2 points). At the country level, the Greeks maintained their top rank on the European pessimism scale. The corresponding average European index weakened marginally quarter on quarter in the quarter under review in the Euro area (to 0.0 from 0.5 points) and in the EU (-0.6 from -0.1 point). The index improved year on year in both regions (from -2.7 and -3 points respectively in the Euro area and the EU).

The quarter-on-quarter trends in the individual components that make up the overall indicator were positive in the second quarter of 2018. The expectations of the Greek consumers for the financial situation of their households in the following 12 months, the corresponding expectations for the country's economic situation, the unemployment expectations and the very weak intention to save, they all strengthened.

In particular, in the second quarter of the year, the percentage of those who were pessimistic about their household's economic situation over the next 12 months remained on average at 59%, while the share of respondent holding the opposite view increased to 6% (from 5%). Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation marginally declined to 62% (from 63%), with 9% (from 8%) anticipating slight improvement. Concerning the intention to save, the percentage of households considering unlikely that they would do any savings over the next 12 months remained at 89%, while the percentage of respondent considering likely that they would save increased to 10% (from 9%). Meanwhile, 53% (from 55%) believed that unemployment would deteriorate, with 16% (from 15%) on average holding the opposite view. The percentage of consumers responding that they were "running into debt" averaged 11% (from 16%) in the second quarter of 2018, lower compared to the same quarter of last year (15%), while the percentage of respondents saying that they were saving little or a lot increased to 10% (from 8% in the preceding quarter and 7% in the previous year). Finally, the percentage of those who declared that they were "just about managing to make ends meet on their income" increased to 67% (from 65%), while the percentage of households reporting that they were "drawing on their savings" remained unchanged at 11% (from 14% in the second quarter of 2017).

Figure 2.3

Economic Sentiment Indicators: EU, Euro area and Greece, (1990-2016=100, seasonally adjusted data)



The Economic Sentiment Indicator slightly increased quarter on quarter in the second quarter of 2018, posting stronger improvement year on year.

Source: European Commission, DG ECFIN

The Business Climate Indicator in Industry stood at 102.7 points in the second quarter of 2018 (from 105.1 points in the preceding quarter), higher than its corresponding level of 2017 (96.1 points). In the key activity indicators, the forecast for short-term output change declined marginally in the examined quarter (+22, from +23 points on average), while the estimates for the level of orders and demand weakened as well (to -20 from -12 points). The assessment of the stock of finished products point to a slight depletion (at +4 from +7 the relevant index), while the trends in the export indicators were mixed. The export expectations over the following quarter improved, as was the case with the current assessment of the exports in the sector, yet the assessment of foreign orders and demand deteriorated. The quarterly balance of employment expectations increased to +8 (from +3) points on average. The production capacity utilisation rate stood at 70.9% (from 71.5%), while the months of guaranteed production of the enterprises once more averaged 4.5.

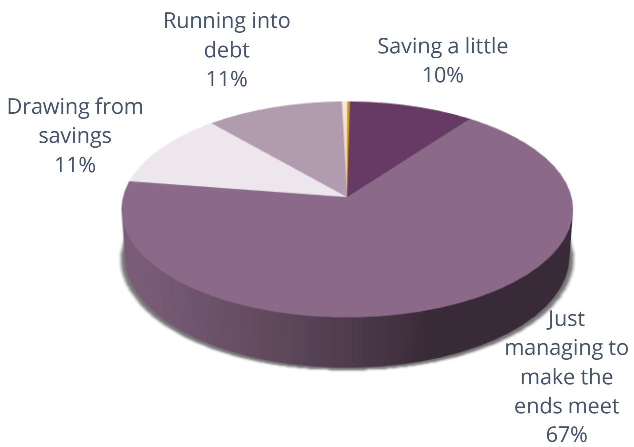
The Business Climate Indicator in Retail Trade increased quarter on quarter in the examined quarter to 104.7 (from 97.1) points, higher year on year as well (from 96 points). Among the key components of the indicator, the average balance of the current sales assessment increased to 15 (from -1) points. About 30% (from 39%) of the enterprises reported their sales to have declined, with 44% (from 38%) declaring the opposite result. The projected sales indicator increased by 5 from 18 points, while the assessment of inventories slightly declined (to 4 from 7 points). Regarding the remaining activity data, the change in the balance of expectations for orders to suppliers is marginally positive (10 from 8 points on average per quarter), while the short-term employment forecast declined to 5 (from 12) points. Finally, the balance of price expectations increased marginally from 3 to 1 point, with 7-8% of the companies expressing once more expectations of a decline in prices and 90% (from 85%) predicting price stability. The sentiment strengthened in the second quarter in all examined subsectors, except for Textiles-Clothing-Footwear and Department Stores, where expectations weakened.

Figure 2.4

Consumer survey data on the financial situation of households

(average April – June 2018)

The percentage of respondents who say they save a little or a lot increased to 10% (from 8%)



Source: IOBE

The business expectations in Construction did not change much in the second quarter of 2018, with the balance standing at 60.3 (from 60.5) points on average. The indicator stood slightly higher year on year (from 47.2). Among the key components of the indicator, the employment expectations in the sector lost ground, as the index reached -36 (from -32) points, while 47% (from 44%) of the companies were expecting fewer jobs in the sector. The expectations of the businesses about their activity level became less pessimistic (at -59 from -64 points), while the assessment of their current level of activity deteriorated (to -47 from -30). The months of activity accounted for by work in hand in the sector declined to 6.7 (from 7.7). The negative balance of price expectations eased by 7 points, to -19, with 30% (from 33%) of the companies expecting a decrease in the short-term and 11% (from 7%) a new increase. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business reached 17% (from 12%), while among the remaining businesses, 26% selected as the major obstacle low demand, 41% insufficient funding and 15% factors such as the country's general economic situation, the capital controls, high taxes, lack of projects, and late payment by the state. At the subsector level, the deterioration in overall business confidence in the examined quarter in Public Works was offset by the growth of the indicator in Private Construction.

In Services, the average Business Climate Indicator increased quarter on quarter in the second quarter of 2018 to 104.4 (from 91.4) points, at a higher level than in the same period of last year (92.6 points). Among the key components, the assessment of current demand gained ground, with the relative index estimated at 15 (from 2 points) on average. The assessment of the current level of business activity improved (21 from 3 points on average), while the short-term demand expectations of the businesses in the sector also strengthened (+29 from +14 on balance). Regarding the remaining activity indicators, the balance of employment expectations of the respondents increased (to 21 from 7 points on average), while the balance of price expectations increased on average to 3 (from -3) points.

Finally, the percentage of respondents reporting a seamless business operation marginally increased to 32% (from 26%), with 26% declaring as the major barrier to their operation the lack of demand, 19% working capital shortage and 18% other factors related to the general economic situation and the crisis, the capital controls, lack of access to finance, high taxation, arrears etc. Among the examined subsectors of Services, the indicators improved quarter on quarter in the second quarter in Hotels-Restaurants-Travel agencies and Land Transport, remained unchanged in Various Business Activities and deteriorated in Financial Intermediaries and IT Services.

Table 2.6

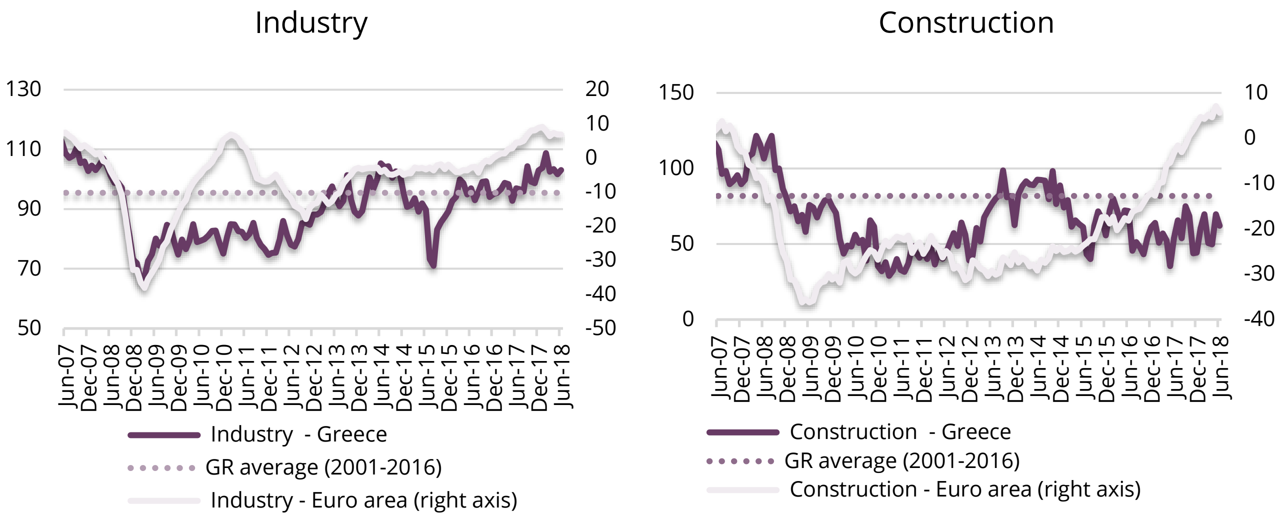
Economic Sentiment Indicators

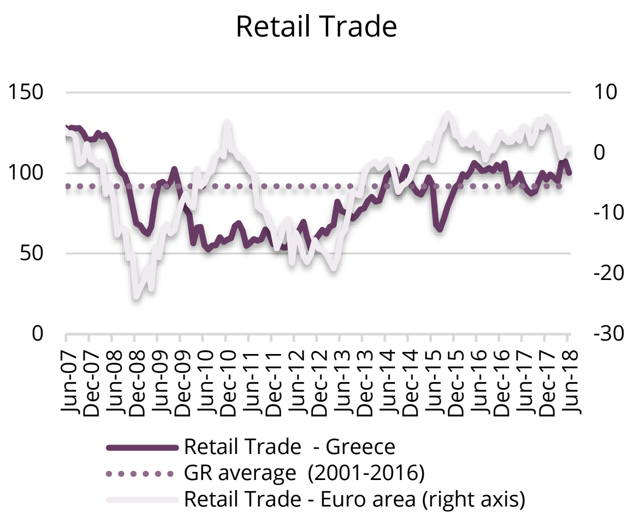
Time period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2006	109	108	107	107	100	115	111	-33
2007	111	110	110	108	102	125	114	-28
2008	93.1	93.5	100.2	96.9	104.8	105.9	104.6	-46.0
2009	77.8	78.9	82.5	76.0	72.0	83.3	75.0	-45.7
2010	100.9	100.8	82.7	79.9	52.2	61.3	68.1	-63.4
2011	100.4	101.6	81.5	81.1	37.7	60.9	66.1	-74.1
2012	89.6	89.6	80.7	81.4	47.5	59.1	58.8	-74.8
2013	94.6	92.8	91.6	92.6	71.5	72.6	75.3	-69.4
2014	104.0	100.9	100.7	99.7	88.4	92.3	93.3	-54.0
2015	105.7	103.6	89.6	86.3	62.0	83.9	78.2	-50.7
2016	105.3	104.3	91.9	96.1	61.3	101.4	79.3	-68.0
2017	111.1	110.7	96.8	98.1	55.4	94.6	92.7	-63.0
Q1 2017	108.3	107.5	94.0	97.0	57.2	97.3	83.4	-71.8
Q2 2017	110.0	109.5	94.3	96.1	47.2	96.0	92.6	-70.2
Q3 2017	111.8	111.5	99.5	99.0	64.9	88.3	99.7	-57.4
Q4 2017	114.1	114.3	99.5	100.3	52.3	96.9	95.1	-52.7
Q1 2018	113.9	113.9	102.0	105.1	60.3	97.1	91.4	-52.3
Q2 2018	112.5	112.5	103.4	102.7	60.5	104.7	104.4	-50.7

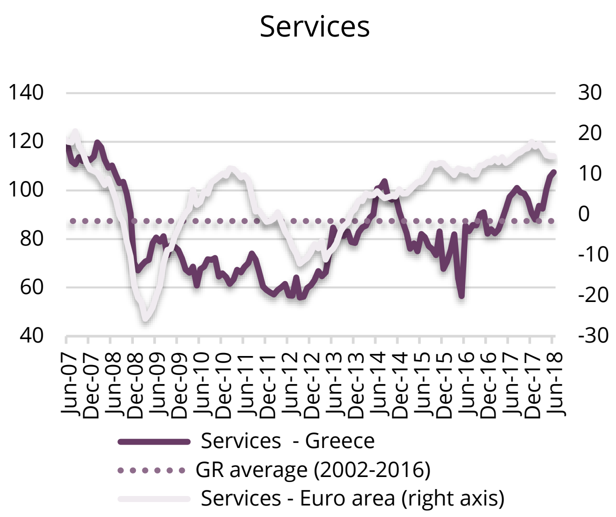
Sources: European Commission, DG ECFIN, IOBE

Figure 2.5

Business Climate Index







Source: IOBE

The business sentiment in Greece deteriorated quarter on quarter in the second quarter of this year in Industry, remained at the same level in Construction, and strengthened in Retail Trade and Services.

B. Fiscal developments and outlook

- Primary General Government Balance at 4.0% of GDP in 2017, according to ESA 2010, 1.5 percentage points of GDP higher than the target (2017 Budget).
- This came almost exclusively from better results of the social security funds (€2.9 billion surplus, against a deficit target of €252 million), which offset the shortfall against the target in Central Government (-€645 million).
- The primary balance target was exceeded in the State Budget in the first four months of this year, from an increase of the net revenue of the Ordinary Budget, containment of expenditure and under-execution of the Public Investment Programme
- The targets were exceeded by the same components in the same period of last year, yet overall in 2017 they were short of the target. The data from the first four months of this year are not sufficient to predict the implementation of the State Budget overall in

General Government Results

According to the latest national accounting data,[7] the General Government (GG) reported a surplus, for the second consecutive year, of 0.8% of GDP, against forecasts for a deficit of 0.8% of GDP in the 2017 budget and 0.6% of GDP in the draft 2018 budget (November 2017). In addition, the primary surplus of GG reached 4.0% of GDP, against an initial forecast for a surplus of 2.5 percent of GDP and estimate for 2.6% surplus in draft 2018

[7] Fiscal data for the years 2014-2017, ELSTAT, April 2018.

budget (see Table 2.7). In accordance with the methodology of the Financial Assistance Facility Agreement (FAFA), the primary surplus reached 4.2% of GDP, against a contractual obligation of the country for a primary surplus of 1.75% of GDP.

Table 2.7

General Government balance*

(% of GDP, national accounting data, ESA 2010)

	2013	2014	2015	2016	2017		
					Initial targets	2018 Budget	Actual
General Government Balance	-2.4	-3.6	-2.9	0.6	-0.8	-0.6	0.8
Primary GG balance	1.6	0.4	0.6	3.7	2.5	2.6	4.0

Source: Fiscal data for the years 2014-2017, ELSTAT, April 2018 and Explanatory Report Budget 2018, Ministry of Finance, November 2017, p. 62

*Excluding the funding to financial institutions

Undoubtedly, these fiscal results are very good. However, as pointed out in previous IOBE reports on the Greek economy, they were achieved at great cost in terms of public investment, growth and employment, because of the implementation of a particularly strong contractionary fiscal policy. Indicatively, this was one of the reasons why the growth rate in 2017 was half than initially predicted (1.4%, instead of 2.7%). The cut in public investment by €800 million, resulting in their decline to their lowest level since at least 2000 (€5.97 billion), in a period when the Greek economy needs investment for its recovery, was unjustified. These fiscal results, achieved with this mix of fiscal policy, met the respective targets of the third loan agreement, but they do not promote growth and may be hampering the economy's future.

The improvement in the General Government account came almost exclusively from social security funds (SSFs), which were anticipated to run a deficit (2017 Budget: -€252 million), but achieved a surplus of €2,937 million. In effect, their performance improved by €3,189 million, or 1.8% of GDP.[8] The local authorities account also improved slightly, by €371 million. In contrast, the balance of the Central Government in 2017 was short by €645 million or 0.4% of GDP against the target in last year's Budget, despite the cut in public investment by €800 million (0.45% of GDP).

Noted that the central macroeconomic scenario for 2017 foresaw economic growth by 2.7% and a primary surplus of 2.5% of GDP. In the end, economic growth did not exceed 1.4%, while the primary surplus reached 4.0% of GDP. If only those measures that were necessary to achieve primary surplus of 2.5% of GDP were taken (or 1.75% in accordance with the methodology of the loan contract) and investment was not cut, then the growth

[8] H The improvement of the SSF results reached €4.0 billion, if instead of the 2017 budget we take as a basis for comparison the Medium-Term Fiscal Strategy 2017-2021, which was submitted in May 2017 and contained more recent estimates. In the MTFS, the SSF were projected to run a deficit of €941 million in 2017.

performance of the economy last year would have been much better. Meanwhile, there was no significant progress in 2017 on lingering issues such as non-performing loans, privatisation etc., which would have accelerated the pace of growth. Recall that the financial markets take very seriously into account the growth performance and prospects of each economy, in addition to the fiscal developments.

The continuous increase of taxation, direct and indirect, in conjunction with the rise of the arrears of taxpayer obligations to the State, despite the recovery measures applied by the Independent Authority for Public Revenue AADE, reflect the heavy taxation and the inability of taxpayers to meet their obligations. These developments should raise concerns about the effectiveness of the adopted policy mix. In addition, essentially through the increase of direct and indirect taxation, the correction of public sector imbalances (deficits) has been largely transferred to the private sector of the economy. As a result, the arrears to the tax revenue services, the insurance funds and the Public Power Company have reached 75% to 80% of GDP.

As there has been great progress in fiscal consolidation, achieving primary surpluses in 2016 and 2017 that considerably exceeded the respective targets, the overriding aim of the economic policy should be to support investment, exports and growth, and to reduce unemployment. In this regard, any budgetary margins (fiscal room) should be used for reducing taxes. In such a way, the fiscal policy will contribute both to achieving a higher growth rate and to reducing the imbalances that still exist in the economy. Otherwise, it is possible that the fiscal policy will create imbalances in the private sector, which will affect public finances as well.

General Government Debt

In 2017 the consolidated general government debt increased by approximately €2.4 billion, reaching €317.4 billion, from €315.0 billion in 2016. However, due to the rise in GDP, the public debt-to-GDP ratio fell to 178.6%, from 180.8% of GDP in 2016. In other words, the debt-to-GDP ratio returned exactly to its 2014 level (see Table 2.8).

The rise in debt in 2017, despite the surplus, came from an increase of the public sector deposits by €1.4 billion, certain adjustments (€2.1) and statistical differences (€0.3 billion). When the 2017 surplus (€1.4 billion) is subtracted from the sum of these amounts, public debt increases by €2.4 billion.

In the last six years, the evolution of the debt-to-GDP ratio is essentially determined by the path of GDP, rather than debt, as was the case in 2017 as well, when the absolute level of debt rose while the ratio decreased. In order to achieve a reduction of public debt as a percentage of GDP, but also for many other reasons, it is very important to seek to accelerate the growth rate of the economy by all available means.

Table 2.8

General Government consolidated gross debt (million €)

	2012	2013	2014	2015	2016	2017
General Government consolidated debt	305,096	320,509	319,629	311,724	315,009	317,407
% GDP	159.6	177.4	178.9	176.8	180.8	178.6
GDP	191,204	180,654	178,656	176,312	174,199	177,735

Source: Fiscal data for the years 2014-2017, ELSTAT, April 2018

Execution of the State Budget, January-April 2018

The execution of the State Budget (SB) in the first four months of this year shows great similarities with the implementation of the budget in the respective periods of 2016 and 2017. It seems that this year, in view of the fourth review, the same practice was followed as in previous years, whereby a large part of the budget, especially on the side of expenditure and investment, is implemented in the second half of each year.

In particular, the Ordinary Budget (OB) expenditure fell short of the target once again, although less than in the past (2018: -€0.2 billion, 2017: -€1.2 billion, 2016: -€ €2.1 billion). The OB revenues, before tax refunds and proceeds from the granting of licences, has overshot the corresponding target in the past three years (2018: +€0.9 billion, 2017: + €0.5 billion and 2016: + €0.4 billion). In addition, the PIP investment expenditures in the first four months have also been significantly lower than the corresponding target (2018: -€0.6 billion, 2017: -€0.6 billion, 2016: -€0.2 billion). Meanwhile, in all three cases there was an increase in the arrears of the public sector in the first four months of each year (2018: +€77 million, 2017: +€0.55 billion and 2016: + €0.8 billion).

As a result of the above developments, the SB deficit for the first four months of each year was much less than the corresponding target in the last three years (2018: -€1.9 billion, 2017: -€0.9 billion and 2016: -€1.6 billion). Correspondingly, the SB primary surplus was much higher than the target.

Consequently, the figures on the SB implementation in the first four months of the year paint a very positive picture at first sight, just like om the previous two years. However, as explained in the first quarterly report of IOBE for 2018, the SB cash deficit in 2017 was more than twice as high as the annual target, despite the large cut of public investment. That is, the outperformance in the SB execution in the first quarter of 2017 capsized after the summer and the final result was much worse than the initial annual target. Generally, the fiscal developments in the first four months of each year, due to the short period that they cover, but also from the way the budget is executed, do not allow for making reliable predictions and conclusions on the SB implementation for the year as a whole.

Table 2.9

State Budget Execution 2018

	January - April			% change		2015	2016	2017	2018 Budget	% change		
	2016	2017	2018	2017/16	2018/17					2016/15	2017/16	2018/17
I. SB REVENUES (1+2)	16.017	15.300	15.468	-4,5	1,1	51.421	54.161	51.422	54.244	5,3	-5,1	5,5
1. OB net revenues	14.107	14.558	14.376	3,2	-1,3	46.589	49.982	48.973	50.509	7,3	-2,0	3,1
Revenues before tax refunds[1]	15.085	15.821	15.679	4,9	-0,9	49.510	53.246	54.333	54.157	7,5	2,0	-0,3
Minus tax refunds	*978*	*1.262*	*1.303*	*29,0*	*3,2*	*2.922*	*3.263*	*5.360*	*3.648*	*11,7*	*64,3*	-31,9
2. PIP Revenues	1.910	742	1.092	-61,2	47,2	4.832	4.178	2.449	3.735	-13,5	-41,4	52,5
of which: EU funds	*1.853*	*600*	*996*	*-67,6*	*66,0*	*3.900*	*3.861*	*1.964*	*3.555*	*-1,0*	*-49,1*	81,0
II. SB Expenditure (3+4)	16.713	16.442	15.322	-1,6	-6,8	54.951	55.723	55.483	55.188	1,4	-0,4	-0,5
3. OB expenses	15.794	15.907	14.819	0,7	-6,8	48.545	49.435	49.533	48.438	1,8	0,2	-2,2
Primary expenses	12.916	13.039	12.678	1,0	-2,8	42.744	43.847	43.325	43.238	2,6	-1,2	-0,2
Interest	2.878	2.868	2.141	-0,3	-25,3	5.800	5.588	6.208	5.200	-3,7	11,1	-16,2
4. PIP Expenses	919	535	504	-41,8	-5,8	6.406	6.288	5.950	6.750	-1,8	-5,4	13,4
III. SB Balance (I-II)	-696	-1.142	145			-3.530	-1.562	-4.061	-944			
% of GDP	*-0,4*	*-0,6*	*0,1*			*-2,0*	*-0,9*	*-2,3*	*-0,5*			
OB Balance	-1.687	-1.339	-443			-1.956	547	-560	2.071			
PIP Balance	991	207	588			-1.574	-2.110	-3.501	-3.015			
IV. SB Primary Balance	2.182	1.726	2.286			2.270	4.026	2.147	4.256			
% of GDP	*1,3*	*1,0*	*1.2*			*1,3*	*2.3*	*1,2*	*2,3*			
GDP (current prices)	174.199	177.735	184.691	2,0	3,9	176.312	174.199	177.735	184.691	-1,2	2,0	3,9

Source: Explanatory Report Budget 2018, Ministry of Finance, November 2017, and State Budget Execution Bulletins, December 2017 and April 2018, Ministry of Finance.

[1] Includes proceeds from the granting of licences and public rights.

[2] Includes called guarantees, military procurement, EFSF disbursement fees and transfers to assume debt of General Government bodies.

SB balance and primary surplus

The State Budget (SB) had a surplus of €145 million in the first four months of 2018, against €1,142 million deficit in the same period of 2017 (Table 2.9). This result is much better than the four-month target for a deficit of €1,763 million. [9] Correspondingly, the SB primary surplus reached €2,286 million, against a primary surplus target for €374 million. In addition, the primary surplus improved compared with 2017 as well.

In summary, the achievement of a small surplus against the target for a significant deficit is due to the following four reasons: (a) outperformance against the target of the net revenue of the ordinary budget (OB) by €642 million; (b) containment of the primary OB expenditure by €194 million;[10]. (c) excess of PIP revenue in relation to the target by €516 million; and (d) PIP expenditure restraint by €556 million. These figures show that 56.2% of the outperformance of the SB against the target comes from the public investment programme. Essentially, as in previous years, investment is cut, hampering growth prospects, in order to achieve good fiscal performance.

The SB results are better year on year by €1,287 million, which comes from slightly different reasons than the excess against the target, as follows: (a) lower interest expenditure by €727 million; (b) lower spending by €361 million; (c) higher PIP revenue by €350 million; and (d) lower investment expenditure by €31 million. By contrast, the net OB revenue is lower by €134 million. That is, the improvement over 2017 comes by 56.5% from interest expenditure and by 29.6% from the PIP execution.

It should be clarified that the above summary does not adequately highlight the positive revenue trend in the first four months of this year. In particular, the significant proceeds from the concessions of regional airports (€956 million), which had strengthened the receipts in the first four months of 2017, were replaced this year by extensive rise in tax revenues. The new tax measures that came into effect on 1 January 2018 contributed to this development.

Ordinary Budget Revenue

In the first four months of this year, the OB revenues before tax refunds decreased by 0.9% compared with 2017, to reach €15,679 million. Nevertheless, they exceeded significantly the corresponding target, by €851 million. About 55.2% of the target overrun comes from receipts from non-tax revenue and taxes of previous years. Besides, the slight year-on-year decline came from the fact that last year €956 million were collected from the granting of permissions and licenses, while this year only €35 million were received from this source. If relevant adjustments are made, the rate of change against 2017 rises to 5.2% (Table 2.10).

In particular, the revenues from direct taxation increased by 4.0% and reached €4,523 million. Among the constituent categories, the proceeds from the personal income tax increased

[9] The 2018 targets are presented in the explanatory note of the 2018 Budget, p. 91, Table 3.5.

[10] To be precise, the primary expenditure restraint reached €194 million, while there was an overrun in the interest expenditure by €4 million.

substantially, by 11.7%. This rise lies solely in the proceeds from employees and retirees, which increased by 13.3% or €228 million compared to 2017[11]. This development came from the lifting of the 1.5% discount on withholding tax since 1-1-2018, which was introduced in 1955[12]. Higher revenue was also recorded in property taxes (+2.0%), direct taxes of previous years (+1.4%) and the special solidarity levy (+6.8%). By contrast, the receipts from corporate income tax and special income tax categories decreased.

Table 2.10

State Budget Revenue (million €)

Revenue categories	January - April			% change	
	2016	2017	2018	2017/16	2018/17
1. SB Net Revenues (2+4)	16,017	15,300	15,468	-4.5	1.1
2. OB net revenues	14,107	14,558	14,376	3.2	-1.3
Tax refunds	978	1,262	1,303	29.0	3.2
3. OB revenue	15,085	15,821	15,679	4.9	-0.9
Direct taxes	4,776	4,350	4,523	-8.9	4.0
--Income tax	2,409	2,440	2,598	1.3	6.5
--Property tax	909	544	555	-40.2	2.0
--Direct taxes of previous years	784	899	912	14.7	1.4
--Other direct taxes	674	468	458	-30.6	-2.1
Indirect taxes	7,735	8,010	8,565	3.6	6.9
--Transaction taxes	4,812	4,996	5,165	3.8	3.4
(of which VAT)	(4,699)	(4,858)	(5,006)	(3.4)	(3.0)
--Consumption taxes	2,432	2,414	2,636	-0.7	9.2
--Indirect taxes of previous years	380	483	610	27.1	26.3
--Other indirect taxes	112	117	154	4.5	31.6
Non-tax revenues	2,574	3,459	2,591	34.4	-25.1
--Receipts from the EU	216	216	194	0.0	-10.1
--Non-ordinary revenue	516	474	442	-8.1	-6.8
(of which: ANFA. SMP)	(375)	(345)	(314)	(-8.0)	-8.0
--Permits and rights	52	956	35	1738.5	-96.3
--Other	1,790	1,813	1,920	1.3	5.9
4. PIP revenues	1,910	742	1,092	-61.2	47.2

Source: State Budget Execution Bulletins, January - April 2018, GAO - Ministry of Finance, May 2018

In indirect taxation, receipts increased by 6.9% over the corresponding period of 2017 and reached €8,565 million, exceeding their target by 1.5%. This development came from rising revenues from three main categories: (a) VAT; (b) excise duties; (c) indirect taxes of previous years.

In greater detail, the VAT revenues increased by 3.0% year on year (Table 2.10). However, the trend varies significantly among the constituent categories. The proceeds from VAT on domestic goods increased by 2.7%, while from the VAT on imported goods it rose by 5.5%. Moreover, almost half of the increase in revenues from domestic goods came from the VAT levied on tobacco products. As noted in previous IOBE reports on the Greek economy, the revenues from

[11] By contrast, the withholding tax from persons other than employees and pensioners increased only by 1.3%.
[12] The discount, initially at 10%, was established as the taxpayers subjected to withholding tax pay the tax immediately, while the other taxpayers pay after about a year..

tobacco taxation and the corresponding VAT was particularly low in 2017, because of extensive stockpiling in 2016. So, there is a significant positive base effect in the current year.

For the same reason, the significant increase in excise duty revenues (+9.2%) came solely from tobacco products, which increased year on year by 41.4% or €203 million. By contrast, the revenues from the excise duties on fuel decreased by 2.9% over the same period. It is estimated that the continuing rise of fuel prices, to the extent that it will negatively affect the quantity demanded, would have a negative impact on the revenues from the excise duty on fuel. That said, the impact on fuel VAT revenues will depend on the demand elasticity in relation to their price.

The revenue from indirect taxes of previous years increased significantly, by 26.3%, with the proceeds in the first four months (€610 million) reaching 71.7% of the annual forecast. Finally, the non-tax revenues decreased by 26.3%, due to increased revenue from the concession of regional airports in 2017, which was not present in the current year (Table 2.10).

Ordinary Budget Expenditure

In the first four months of the year, OB spending decreased by 6.8% over the corresponding period of 2017, and totalled €14,819 million, falling slightly short of the four-month target, by €194 million (Table 2.11).

OB primary expenditure decreased by 2.8% year on year to reach €12,678 million. Interest payments fell by 25.3%, or €727 million as well. The reduction in primary expenditure came from categories of expenditure which are not directly linked to the fiscal management in the current period.[13] By contrast, the payments for salaries increased year on year in the first four months by 4.9%. Note that the wage costs are rising for the second year in a row, at a growing pace (2018: 4.9%, 2017: 2.1%).

Social expenditure declined by 1.9% compared to 2017, as the grants to social security funds fell by 5.7%. By contrast, the social protection spending increased by 78%, because of rising payments for the social solidarity income and the allowance for large families. Expenditure in the remaining subcategories remained unchanged year on year.

The operating expenditure declined significantly, by 29.9%, and reached €1,731 million, from €2,468 million in the same period of last year. The restraint is essentially found in the sub-category "Other expenditure", which decreased by 78.5% or €857 million year on year. This subcategory includes called guarantees (2018: €21 million, 2017: €527 million), assumption of debt (2018: €0, 2017: €192 million), payments for armament programmes (2018: €69 million, 2017: €104 million) and hospital grants (2018: €14 million, 2017: €188 million). With the exception of hospitals, the other expenses come from the past and are not directly connected with the current period administration.

[13] It concerns called guarantees, debt assumptions, etc.

Table 2.11

State Budget expenditure (€ million)

Expenditure category	January - April			% change	
	2016	2017	2018	2017/16	2018/17
1. State Budget Expenditure	16,713	16,442	15,322	-1.6	-6.8
2. Ordinary Budget Expenditure	15,794	15,907	14,819	0.7	-6.8
Interest	2,878	2,868	2,141	-0.3	-25.3
Primary expenditure	12,916	13,039	12,678	1.0	-2.8
--Salaries & pensions	5,970	3,974	4,167	-33.4	4.9
Wages	3,797	3,876	4,064	2.1	4.9
Other allowances	68	56	66	-17.6	17.9
Pensions	2,105	41	37	-98.1	-9.7
--Social expenditure	3,822	5,826	5,713	52.4	-1.9
Grants to Social Security Funds	3,415	5,398	5,088	58.1	-5.7
Social protection	235	254	452	8.1	78.0
Grants to OAED	160	160	160	0.0	0.0
Other	12	13	13	8.3	0.0
--Operational and other	2,253	2,468	1,731	9.5	-29.9
Transfers	295	274	490	-7.1	78.8
Consumption	235	248	248	5.5	0.0
Conditional	807	853	758	5.7	-11.1
Other*	916	1,092	235	19.2	-78.5
Debt assumption	544	192	0	-64.7	-100.0
--Earmarked expenditure	871	770	1,067	-11.6	38.6
3. PIP expenditures	919	535	504	-41.8	-5.8

Source: State Budget Execution Bulletins, January - April 2018, GAO - Ministry of Finance, May 2018.
* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee, called guarantees and assumption of debt of General Government bodies

Note, lastly, that the outstanding liabilities of the Hellenic Republic increased by €68 million in the first four months of the year.

Public Investment Programme

As mentioned earlier, 56.2% of the significantly better SB balance compared with the target for the first four months came largely from the PIP execution. In particular, the PIP revenues increased by 47.2% year on year, exceeding the target by €516 million. The inflows from the EU, in particular, increased by 66.0% (Table 2.9).

Despite the significant revenue growth, the PIP expenditure decreased by 5.8% compared with last year, while they fell short of the respective target by €556 million, reaching their lower level for the first four months in many years.

As a result of the above developments, the PIP had a significant surplus of €588 million, or 0.3% of GDP, in the first four months of 2018, which is almost three times higher than the corresponding surplus of 2017.

C. Financial developments

- Slow yet steady return of deposits by households and businesses
- Continued gradual loosening of the capital controls
- Reduction of non-performing exposures by the banks, mostly through write-offs
- “Resilient” credit contraction to the private sector
- Decreasing yet still high cost of lending to businesses compared with the Euro area

The confidence in the banking system continues to gradually recover, after the positive outcome of the ECB stress test outcome. Between March and May 2018, the deposits of households and businesses continued to return to the banking system at a slow pace. The positive recorded developments include the continued reduction of the degree of dependency of the banks on emergency lending from the Eurosystem, while the capital controls were relaxed further. That said, the credit from the banks to the private sector contracted further, aided by the pressure to settle large volumes of non-performing loans.

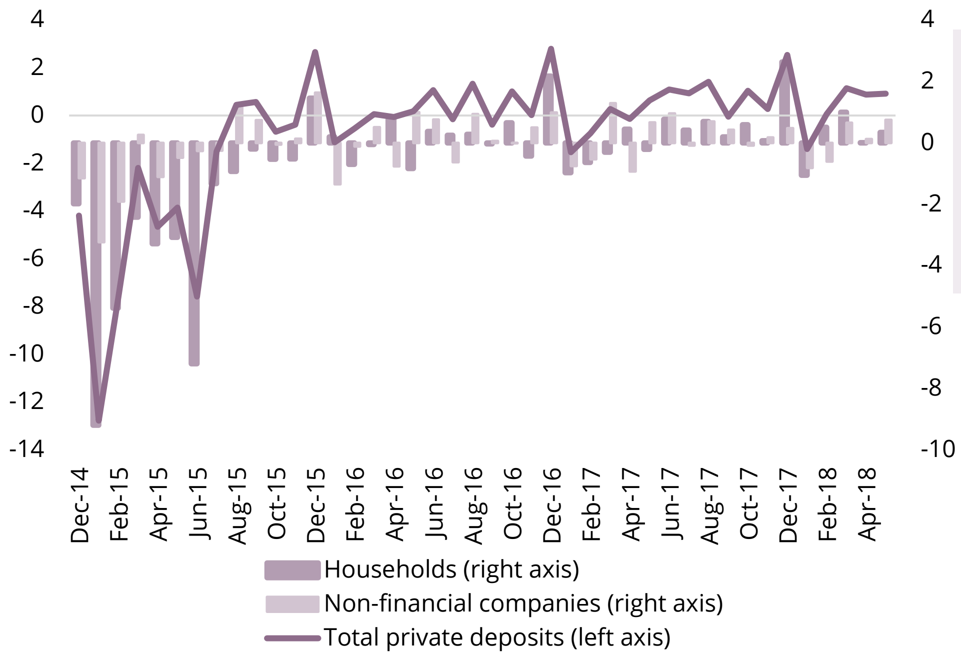
The outcome of the stress test conducted by the Single Supervisory Mechanism of the ECB, based on the accounts of the four systemic banks as of the end of 2017, was published in early May. Although the exercise did not set specific quantitative success criteria for the Core Equity Index (CET1), the estimate that in the unfavourable (most conservative) scenario the equity capital of all banks will not decrease by more than €15.5 billion, led to the conclusion that there is no capital shortfall in any of the banks. Since then, the international rating agencies have upgraded slightly the credit rating of the banks (Moody's in late May, Fitch in mid-June, S&P in late June), which improves their prospects for raising capital from the markets, even though their rating remains at a low level.

On the liabilities side of the banks' balance sheet, the deposits of households and businesses continued to grow slightly between March and May 2018, reaching cumulatively €780 million and €810 million respectively since the beginning of the year, which points to a continued, albeit slow, recovery of confidence (Figure 2.6). The positive results of the stress test, the progress towards completion of the third economic adjustment programme, the continued growth in employment and more broadly, the modest recovery of the Greek economy and the prospect of further normalisation of the capital flows were conducive to this development. Between August 2015 and May 2018, the total deposits of the private sector increased by €14.11 billion, of which €6.3 billion came from households and €7.8 billion from non-financial corporations. Nevertheless, the stock of total private deposits remains significantly lower than in November 2014, by €30.3 billion, of which €27.6 billion from households and €2.4 billion from businesses (€0.4 billion from non-financial corporations).

The average monthly net inflow of deposits in the first five months of 2018 stood at €156 million for the households and €20 million for the non-financial corporations, against -€338 million and -€56 million respectively over the same period of 2017. The average monthly inflow of deposits from August 2015 until May 2018 was positive for both households and non-financial corporations, at €185 million and €229 million respectively.

Figure 2.6

Monthly net flow of private deposits at the Greek banks (billion €)

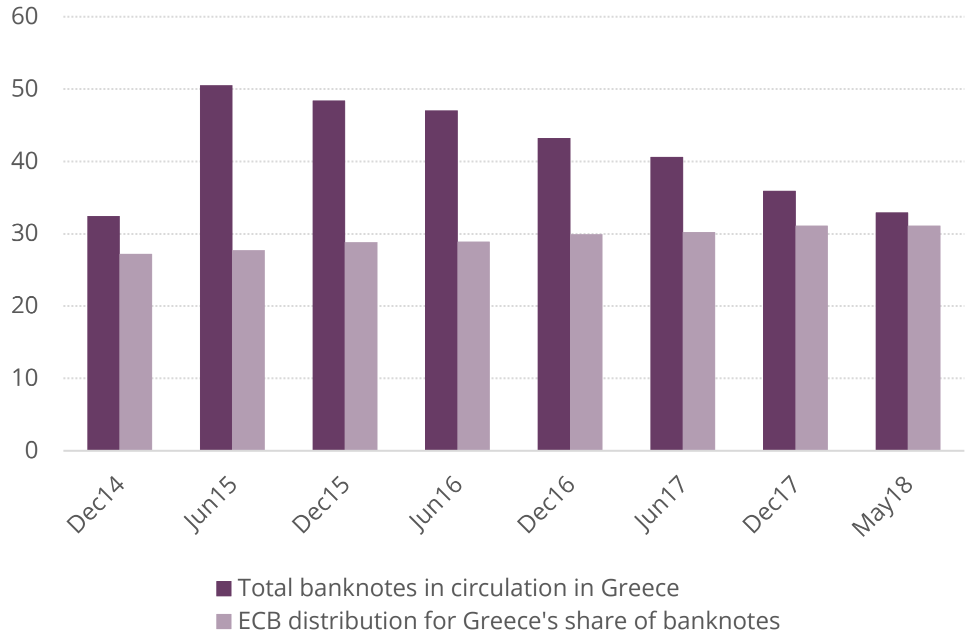


Positive net inflows of deposits from households and businesses between March 17 and May 18

Source: Bank of Greece

Figure 2.7

Banknotes in circulation (billion €)



The "under-the-mattress" hoarding has decreased approximately by €21 billion cumulatively since June 2015

Source: Bank of Greece

The inflow of banknotes in the system, which entails a weakening of the "under the mattress" hoarding, continued to be conducive to the return of private sector deposits. This observation is verified by the fact that the banknotes in circulation decreased from their peak of €50.5 billion in June 2015 to €32.9 billion in May 2018, as the supply of banknotes from the ECB to Greece corresponded to €27.7 billion and €31.1 billion respectively (Figure 2.7). Therefore, the hoarding of cash has gradually subsided, as the banknotes in circulation beyond the ECB supply declined from €22.8 billion in 2015 to about €1.8 billion in May 2018. The climate of confidence recovery in the banking system is encouraged by the ongoing gradual relaxation of the capital controls, with the latest regulatory change of May 2018 facilitating the transactions of legal entities abroad by doubling the amount of transfer that can be approved by bank branches, from €20,000 to €40,000, and expanding the monthly cash withdrawal limit, from €2,300 to €5,000.

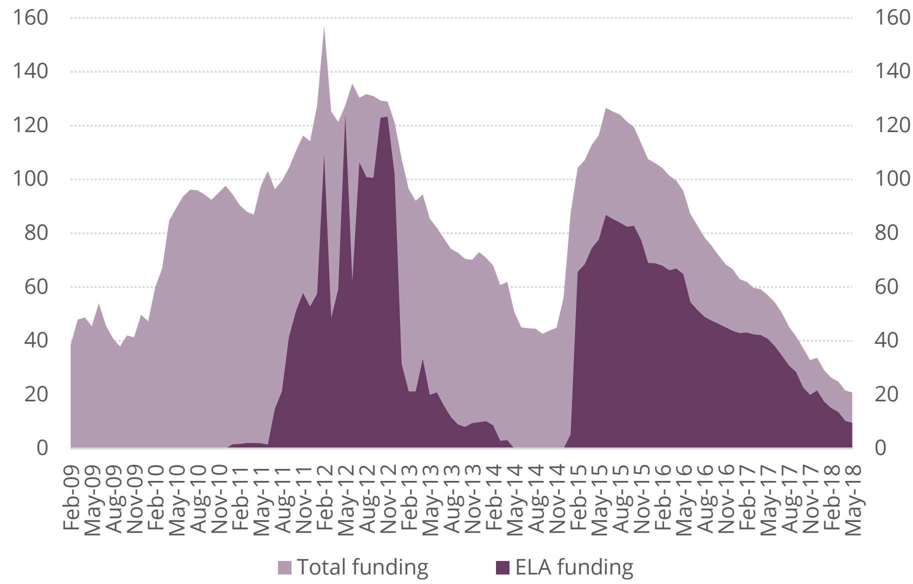
That said, the caution of households and businesses in anticipation of the agreement on the post-programme period, which was eventually achieved on 21 June and includes medium-term public debt measures, prevented a greater deposit growth. During 2018, private deposits are anticipated to grow at a mild pace, to the extent that confidence is gradually restored, and as long as political and economic factors of uncertainty do not strengthen.

The second largest element of the liabilities of the banks concerns the financing from the Eurosystem. The dependence of the banks on the Emergency Liquidity Assistance (ELA) of the ECB continued to decline rapidly in the past few months, as the ELA funding fell to €9.6 billion in May 2018, from €40.7 billion a year earlier and €86.8 billion in June 2015 (Figure 2.8). Correspondingly, the total funding from the Eurosystem has kept falling, with the outstanding balance standing in May 2018 at its lowest level in a decade, at €20.9 billion, from €56.9 billion in the same month of 2017 and €126.6 billion in June 2015.

Figure 2.8

Financing of the Greek banks from the Eurosystem (billion €)

The liquidity from the ELA is decreasing with an average speed of €2.4 billion/month. If it continues to decline at this rate, it will approach zero by the end of the Programme.



Source: Bank of Greece

On the asset side, credit activity remains particularly subdued. The financing of the private sector, excluding loan write-offs, shrank in April and May 2018 by 1.9%, with stronger intensity compared with the preceding four quarters, when it had declined on average by 1.0% (Table 2.12). In April and May 2018, the annual change of credit to the private sector came from its contraction by 2.3% to households and 1.2% for the self-employed, while for the non-financial corporations, credit declined by 1.9%, after two quarters of marginal expansion. The respective annual rates of change in the first quarter of 2018 were -2.3% for households, -0.4% for sole proprietors and unincorporated partnerships and 0.1% for non-financial corporations. Among the branches of economic activity, there is a strong diversification of funding from the banks, with credit growth in Tourism, stagnation in Trade and contraction in other sectors such as Industry, Energy and Construction.

Table 2.12

Bank credit to the domestic sector (annual % change of flows*)

Quarter/Year	2/17	3/17	4/17	1/18	Apr.18	May 18
Total private sector	-1.1	-1.0	-0.9	-0.9	-1.9	-1.9
Households & NPIs	-2.5	-2.3	-2.3	-2.3	-2.3	-2.2
Sole proprietors and unincorporated partnerships	-0.7	-0.1	-0.1	-0.4	-0.9	-1.5
Non-financial corporations	0.2	-0.2	0.1	0.1	-1.9	-1.9
Agriculture	-3.9	-6.4	-5.2	-3.3	-5.3	-3.1
Industry	-3.4	-4.2	-3.2	-1.7	-2.4	-3.2
Trade	2.4	1.8	2.3	1.8	0.0	0.1
Tourism	2.2	1.5	0.4	1.1	1.0	1.4
Shipping	-0.7	0.6	-1.2	-3.4	-3.4	-2.4
Construction	-2.9	-2.0	-1.6	-1.5	-1.7	-1.7
Electricity-gas-water supply	8.0	2.7	0.1	-1.7	-12.6	-12.4
Transport and logistics	45.0	39.0	29.3	20.2	-7.5	-7.8
Interest rates on new loans (period average, %)						
Consumer credit	8.85	9.10	8.79	8.26	7.82	9.22
Mortgage credit	2.73	2.74	2.93	2.88	2.87	2.94
Loans to non-financial corporations	4.41	4.43	4.53	4.32	4.19	3.70

Source: Bank of Greece

* The flows result from changes of outstanding balances corrected for loan write-offs, re-evaluation of securities, foreign exchange differences and reclassification/transfer of loans.

After a period of tightening of bank lending criteria in 2015 and 2016, and stabilisation in 2017, a research by the Bank of Greece on the bank lending in the first quarter of 2018 showed that the credit criteria of granting loans to businesses had remained the same year on year. No major changes are anticipated to take place in the second quarter of 2018. The demand for credit showed signs of slight strengthening among small and medium enterprises, in contrast to unchanged demand among large corporations, a trend that is anticipated to remain the same in mid-2018.

In the medium term, the projected economic recovery, the further strengthening of the confidence in the banking system, aided by the positive results of the recent stress test, and the easing of the uncertainty about the sustainability of public finances, from the completion of the current programme and the finalisation of the post-programme surveillance framework and the medium-term public debt measures, are conducive to maintain the growth of deposits for the rest of the year, with a gradual positive impact on the banks' credit supply potential. The rate of return of deposits, the effective management of non-performing loans, the access to the cross-border banking market and the programmes co-financed by the EIB will serve as key drivers of the credit policy. Large enterprises, in particular those listed on stock markets, in Greece and abroad, will rely more on alternative forms of financing, such as the issuance of bonds.

The Non-Performing Exposures (NPEs) receded in the first quarter of 2018, by 2.1% or €2.0 billion quarter on quarter, marking a slowdown from the 4.8% improvement recorded the immediately preceding quarter.[14] The NPEs totalled €92.4 billion in December 2017 or 48.5% of the total exposure, about €14.8 billion or 14% lower than their peak in March 2016. Note that the target agreed between the banks and the SSM envisages a cumulative decrease by about €43.0 billion or 40% from March 2016 until the end of 2019, i.e. to about €65.0 billion. In accordance with the intermediate targets of the operational plans, the banks have successfully implemented the 35% of the total correction up to and including March 2018. Nevertheless, the NPE contraction rate should accelerate within 2018, in order to achieve the targets for the current year and 2019.

In addition to the quantitative targets, it is necessary to improve the qualitative characteristics of the NPE reduction. Until now, the reduction of NPEs is based primarily on loan write-offs (€1.7 billion in the first quarter of 2018, against €6.5 billion overall in 2017), as the sale of non-performing portfolios remained at a very low level (€0.3 billion, compared with €3.6 billion overall in 2017), even though sales deals are scheduled for the rest of 2018. The cure rate has remained steady at 1.8% since the start of 2018, yet the default rate increased to 1.9% from 1.7%, reversing the net positive trend that emerged for the first time in the fourth quarter of 2017. The NPE reduction came mainly from the consumer and business portfolios, in contrast with the housing portfolio where the improvement was only marginal. In business credit, the NPE rates in March 2018 were higher among sole proprietors and micro-enterprises (69.5%) and small and medium-sized enterprises (62.9%), followed by large enterprises (30.4%).

The implementation and gradual familiarisation of the users with the electronic platform of out-of-court debt settlement, the smooth running of the electronic auctions, and recent regulatory changes in the licencing framework for management companies of credit claims are expected to contribute to faster reduction of the NPE stock, one of the major inhibitors of new bank financing.

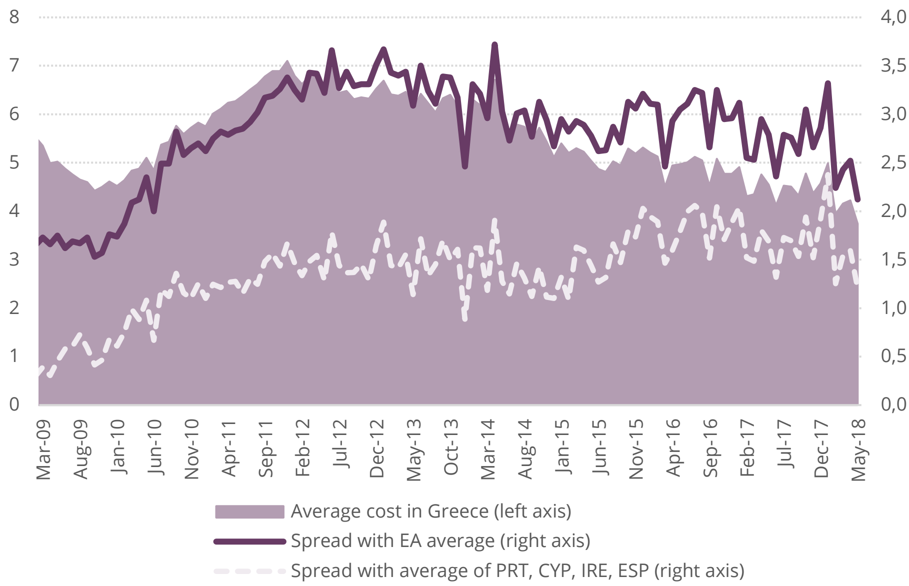
The interest rates on new deposits remained unchanged at 0.29% between January and May 2018, at the same level as in the second half of 2017. The interest rates on new loans declined to 4.4% in April and May 2018, from 4.6% in the first quarter of 2018 and 4.8% in the fourth quarter of 2017. The decline came mainly from the interest rates to non-financial corporations, as in contrast the rates on consumer and mortgage lending increased (Table 2.12).

[14] The presented NPE data include only balance sheet items. The NPE rate calculated by including off-balance sheet items is lower, at 43.1% of total exposures in March 2018.

The cost of bank financing to the private sector declined in early 2018, yet it has remained significantly higher than in the other Eurozone countries. Indicatively, according to the composite indicator of ECB borrowing costs (Figure 2.9), the cost for non-financial corporations was around 3.7% in May 2018, its lowest level since 2002 when the ECB began compiling this indicator, compared to an average of 4.5% in 2017 in Greece. The cost of borrowing for the Greek businesses fell to 212 basis points higher than the Eurozone average (1.6% in May 2016), its lowest level since June 2010, yet twice as high compared to the levels recorded before the crisis (100 b.p. in 2008). The average cost of borrowing for the Greek businesses remains higher than the average of the countries on the periphery of the Eurozone that completed assistance programmes (Portugal, Ireland, Cyprus, Spain) by 120 basis points, against an average spread against these countries of 168 b.p. in 2017 and an average spread of only 40 b.p. in 2008.

Figure 2.9

Weighted average cost of bank lending to non-financial corporations (%)



The corporate borrowing costs fell in February to their lowest level since 2002, yet it remained significantly higher than in other countries.

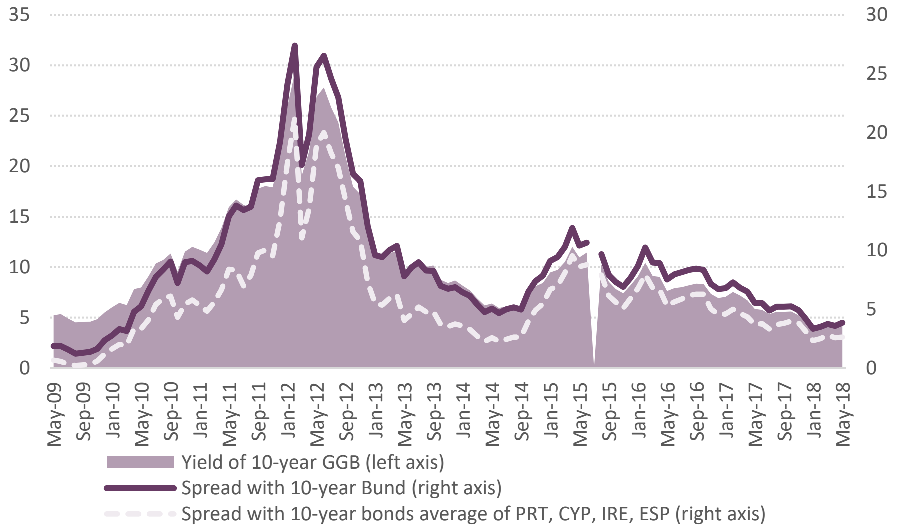
Source: ECB

As regards the cost of new borrowing from the markets by the Hellenic Republic, the yield of the 10-year bond steadied at 4.2% between March and May 2018, following their sharp decline in the last quarter of 2017, which carried over to January, then steadied and marginally increased in February and March. After the trial issue of a five-year bond in July 2017 and the successful exchange of the PSI bonds for new securities with higher liquidity in November, in early February, the Greek Government raised successfully €3.0 billion from the markets by issuing a seven-year bond, with a yield at 3.5%. The return of uncertainty in the international investment climate since February 2018, mainly because of the announcement of the first set of protectionist US trade policy measures, prevented further easing of the ten-year bond yields. The agreement for the implementation of medium-term measures for Greek government debt, for the provision of funds for building a cash buffer, and for the post-programme relationship with the European partners and creditors, which was reached at the Eurogroup of 21 June, are estimated to result soon in an upgrade of Greece's credit rating, positively affecting the possibility of further yield decline.

Figure 2.10

Yield and spread of the 10-year Greek sovereign bond (%)

The spread of 10-year Greek Government bond has returned to its March 2010 levels



Source: ECB

This development is expected to be reflected in the figures of the next quarterly report. Compared to the other Eurozone countries, the cost of borrowing from the markets by the Hellenic Republic remained higher in May 2018, by 380 basis points compared with the German 10-year bond (370 b.p. in March 2018, 410 b.p. in December 2017), and by 260 basis points compared to the average of the countries on the Euro area periphery that recently participated in support programmes.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Growth of the Greek economy in the first quarter of 2018 by 2.3%, 2 percentage points more than in the same period of the previous year
- Rise of GDP mainly from the external balance, due to expansion of exports (7.6%) and contraction of imports (-2.8%)
- Slight decline in private consumption, the main component of GDP (-0.4%)
- Decline in investment as well, by 12.1%
- The reduction of investment and imports came to a considerable degree from the "base effect" of high imports of ships in Q1 2017

Recent macroeconomic developments in Greece

The Greek economy continued to grow for a fifth quarter in the first quarter of this year, at a rate of 2.3%, 0.3 percentage points faster than in the previous quarter and two percentage points higher than in the corresponding quarter of 2017. The GDP growth in the first quarter of 2018 reached its highest rate in more than ten years (since the second quarter of 2008).[15] The new rise of domestic output came from improvement in the external balance of Greece, from continuous significant expansion of exports and decline of imports for the first time since the third quarter of 2016. Household consumption, which is usually among the major drivers of GDP change, marginally contracted, moving contrary to public consumption. Investment declined sharply,

[15] GDP figures at constant 2010 prices

however, as shown below in a text box, this manifested itself in a particular category of fixed capital, which was also the primary driver of the fall in imports.

In detail as to the trends in individual components of GDP in the first quarter of this year, domestic consumption declined by 0.3%, offsetting their growth at a similar rate a year ago (+0.4%). The small decline came from a similar reduction in private consumption, by 0.4%, which was offset in part by a small increase in public consumption (0.3%), which was not sufficient to prevent the fall of final domestic consumption spending, as the absolute size of the consumption expenditure of the public sector was much smaller than that of the households (30.8% of private consumption in Q1 2018). In the first quarter of last year, the consumption spending of the private sector had increased by 0.7%, while public consumption had declined by 3.5%.

The investment expenditure declined by 12.1% year on year in the first quarter of 2018, compared to their strong growth by 29.6% in the corresponding quarter of last year. Most of the decline (69.2%) came from lower gross fixed capital formation (-10.4%) and the rest from weaker build-up of stocks, which remained relatively high at €1.1 billion, preventing stronger investment decline.

Almost all the decline of fixed capital formation came from extensive fall in transport equipment and military transport, by 54.8% or €1 billion. The only other category of fixed capital to fall was Other Goods, by only 0.6% or €4 million. That said, the strong retreat came after a sharp rise of investment in vehicles and military equipment for transport in early 2017, by 213.1%, which had formed a very high base level of comparison for the corresponding period of the current year (more information in Box 3.1). Therefore, the lower fixed capital formation in the first quarter of this year was due to this temporary factor, which is also expected to have an effect on investment, with a little less intensity than in the first quarter of 2018, in its final quarter as well.

Among the five categories of fixed capital with positive change, the strongest growth in relative terms was recorded in Information technology - communication equipment (23.1% or €81 million), while in absolute terms fixed capital increased most in machinery and defence systems (18.6% or €200 million), from a contraction by 15.6% and 2.5% respectively in the same quarter of the previous year. Housing investment came next with 10.7%, counterbalancing their retreat a year ago by 11.3%. The lowest percentage growth was recorded in investment in agricultural products and in other construction, by 5.2% and 3.9%, following growth by 1.7% a year earlier in the former category and contraction by the same extent in the latter.

In the external sector of the economy, exports expanded by 7.6% in the first quarter of 2018, an increase that preserves their 2017 average growth (6.9%), slightly stronger than in the same quarter of last year (5.2%). The new increase came mainly from the stronger exports of goods, by 10.5%, following their growth in the same quarter of the previous year by 3.0%. The foreign demand for services from Greece strengthened by 3.8% in the first quarter, less than in the same period of last year, when they expanded by 8.3%.

On the other side of the external sector, imports declined by 2.8% in the first quarter of this year, a drop that lessens somewhat the strong growth from the corresponding period of last year, by 11.2%. The decline came exclusively from a fall in the imports of goods, by 6.1%, against strong growth a year earlier (+11.7%). It came as a result of strong variation and decline in the procurement of ships in this period, as explained in Box 3.1. In addition, as mentioned above, this fall is the main cause for the reduction of fixed capital formation as well. The imports of services once more increased strongly, as in the first quarter of 2017, by 13.0%, slightly more than a year earlier (11.5%). The trends in its two components resulted in a significant decline of the external sector deficit, by 69.1%, or €1.55 billion, to less than €696 million or 1.5% of GDP.

Box 3.1

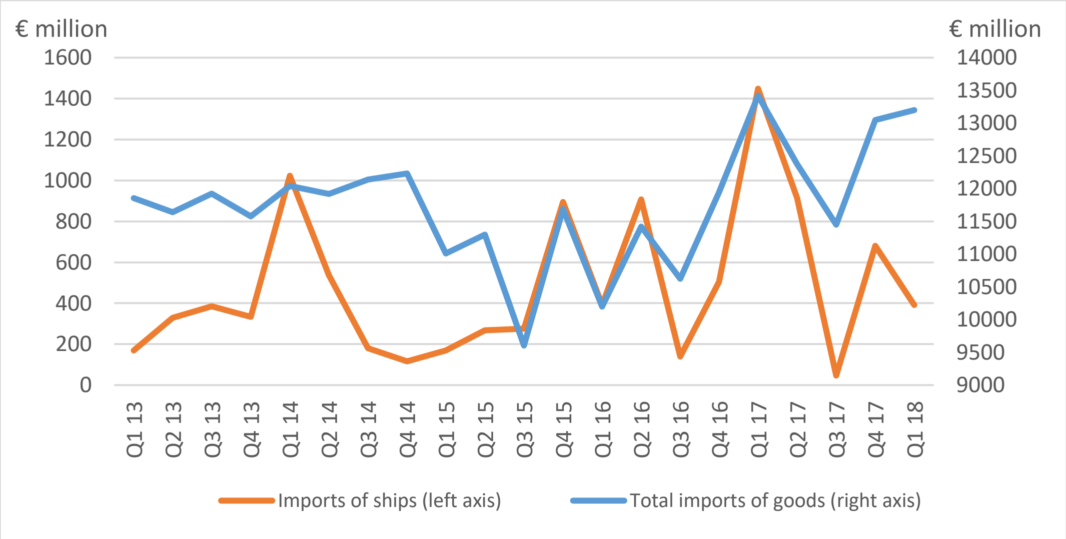
Impact of the imports of ships on the imports of goods and investment in transport equipment

In the first quarter of 2018, imports in the Greek economy declined, according to estimates based on the national accounting methodology (ESA 2010), for the first time since the third quarter of 2016. The decline came solely from the reduction of imports of goods, by 6.1% in volume terms (seasonally adjusted data) and by 2.2% at current prices (non-seasonally adjusted data). As shown below, this reduction came from a specific product category and is quite likely to be temporary. In addition, it is associated closely with the decline of total fixed capital formation.

In particular, according to trade data from ELSTAT for the first quarter of this year, the imports of goods declined, at current prices, by 1.8%, at about a similar rate as the non-seasonally adjusted exports at current prices, in accordance with the national accounting data. However, the imports of goods excluding ships increased by 6.8%, while if the imports of ships and fuel are not taken into account, the rise reached 8.3%. Therefore, the decline in imports is solely due to lower imports of ships. Their decline was sharp, by 72.9%, yet it came from strong growth in the first quarter of last year, when they had increased by 269.9% to reach €1.45 billion. In general, the imports of ships show strong variation over time, with a corresponding impact on total imports.

Figure 3.1

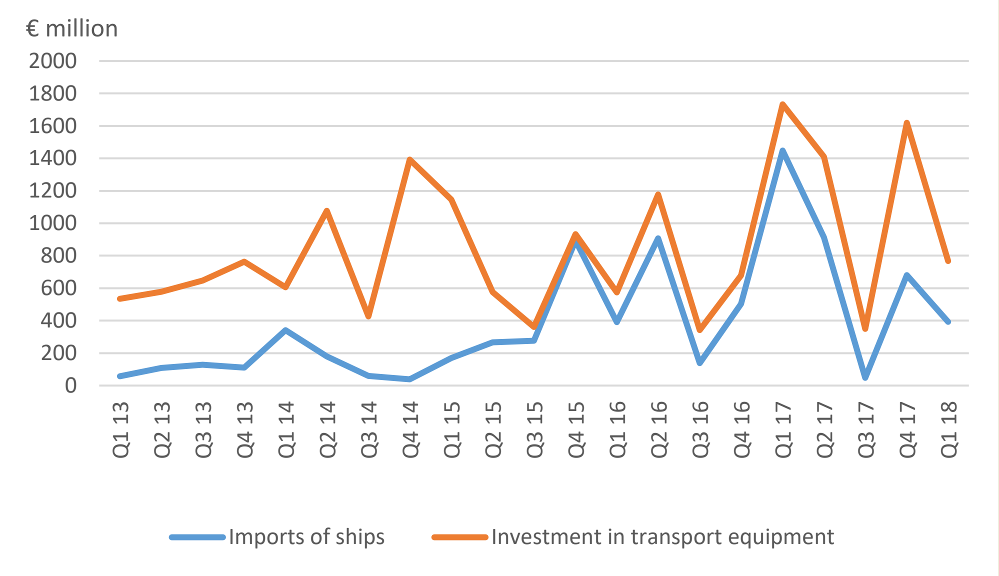
Imports of goods at current prices



Source: ELSTAT

Figure 3.2

Imports of ships, investment in transport equipment, current prices



Source: ELSTAT

The sharp decrease of the imports of ships in the first quarter of this year seem to explain to a large degree the decline in fixed capital investment in transport equipment and military transport systems during the same period, which shaped the downtrend in total investment. The correlation between the fluctuation of investment in this category of fixed capital formation and imports is likely, as the vast majority of these capital goods are produced outside Greece (ships, planes, cars). This correlation is depicted in Figure 3.2, in particular in the period from the third quarter of 2015.

In detail, the year-on-year decrease of imports of ships in absolute terms was slightly larger than the fall in investment in the specific category (current prices), by €1.06 billion against €966 million. Furthermore, with regard to the trend in the imports of vehicles, the registrations of new cars and motorcycles increased in the first quarter of this year by 26.8% or 8,400 compared with last year. According to car market participants, the trend in the sales of corporate vehicles was similar, with a rise of nearly 30%.[1] Therefore, the value of the imports of vehicles most likely increased. This rise has softened the impact from the strong fall of the imports of ships on investments in transport equipment. As a result, their decline is weaker than that of the investment in ships, as evident also from the changes in the above two indicators.

[1] The ELSTAT data on new vehicles registration do not provide information on the breakdown between private and

On the supply side, the domestic gross value added increased by 1.8% in the first quarter of this year, stronger than in the corresponding period of 2017 (0.7%). Output increased in most of the major sectors of the Greek economy (7 out of 10). The strongest increase took place in Construction, by 10.0%, offsetting its decline of last year (-10.4%). Output increased in this sector for the second time since 2007. The output growth in Professional – Scientific – Technical – Administrative Activities was slightly weaker than in Construction (9,1%), yet it was notable stronger than in the same period of 2017 (0.5%). Arts-Entertainment-Recreation and Agriculture-Forestry-Fishing followed, with 7.3% and 3.9% growth respectively, against contraction by 1.3% and 1.9% a year earlier. In Wholesale – Retail Trade, Transport – Storage, Hotels – Restaurants, a sector with significant contribution to employment growth last year, production expanded year on year by 2.7%, compared with a slight decline a year earlier (0.7%). Industry, which led the pack with the strongest growth in early 2017, posted production increase by 2.2% a year later. The lowest activity growth rate was recorded in Public Administration – Defence – Compulsory Social Security, by 0.9%, compared with a contraction by 1.6% the year before.

By contrast, activity in Financial-Insurance Activities contracted by 9.1%, continuing and strengthening their decline from the first quarter of 2017 (-5.1%). The decline in Information-Communication, the other sector in recession in early 2018, was much lower, by 1.6%, similar to that recorded a year ago (-2.0%). Finally, stabilisation trends prevailed for a third year in Real Estate Activities (+0.2% for the second year).

Without the stimulating effects of Tourism on employment in early 2018, but also because of the mild downturn in household consumption demand mentioned above, and the much weaker than a year ago activity growth in manufacturing, the unemployment rate did not fall quarter on quarter in the first quarter of this year. Nevertheless, the unemployment rate was lower year on year by 2.1 percentage points or 113,500 people, at 21.2%. The fall of unemployment came mainly from stronger employment by 1.8% or 64,500 (56.8% of the decline) and secondarily from a decline of the labour force by 49,000 people.

At the sector level, most jobs were created in sectors that had not shown so far strong uptrend in their employment. Also, their output did not strengthen significantly. In particular, the strongest year-on-year employment growth was recorded in Health Services – Social Protection, by 24,000 people or 10.8%. Part of this increase stems from the gradual hiring since March 2017 of 4,200 people in public hospitals through two special employment programmes of 12-month duration. The first programme, with 3,100 beneficiaries, was extended in January 2018 for a year. Agriculture – Forestry – Fishing came next, with 14,700 more jobs (3.3%), followed by Wholesale-Retail Trade (10,200 or 1.5%) and Professional – Scientific – Technical – Administrative Activities (8,500 or 4.3%). In contrast, the strongest employment contraction was recorded in Education, by 11,100 people (-3.6%), Financial – Insurance Activities (-4,900 or -5.2%) and Activities of Households as Employers (-3,800 or 10.4%).

The sluggish household consumption demand was reflected in the price trend, which turned to deflation in the first quarter of 2018. After the rise of the general consumer price index in the past year, on average at a rate of 1.1%, it declined marginally in Q1 of this year (-0.1%), while a year ago the inflation rate stood at 1.4%. The halt of price growth took place despite the continuing rise in global petroleum prices, which was reflected in the rise in the cost of Transport in the first quarter by 2.0%, and the levy of tax on bookings in hotels, holiday rentals rooms and apartments from 01/01/2018, resulting in a strengthening of prices in Hotels – Cafés – Restaurants by 1.2%. The fall of CPI would have been greater if the prices of Alcoholic Beverages – Tobacco had not risen sharply, by 6.4%, probably due to the hoarding of tobacco products in late 2016, before the excise duty hike from 01/01/2017, which had a restraining effect on the rise in prices at the beginning of last year.

The only other category of goods and services where prices were higher, albeit marginally, in the first quarter of this year, was Education (+0.2%).

Among the other categories of goods and services where prices declined, the largest decrease occurred in Other Goods – Services and Durables – Household Appliances, by 2.2% and 2.1% respectively. Housing came next (-1.6%), despite the inflationary effect of oil prices, perhaps due to the reductions in the administrative charges to support renewable energy and the discounts in the competitive part of the electricity tariffs, followed by Arts – Entertainment - Recreation (-1.5%).

In conclusion, the trends of the GDP components in the first quarter of this year point to a weakening of domestic demand (total final consumption expenditure and gross capital formation), for the first time since the first quarter of 2015, by 2.0%. The part of the fall that comes from investment is considered to be due to a temporary effect, namely the strong variation of investment in means of transport, and particularly in ships and defence equipment of this type, in early 2017. Therefore, given the rise in almost all other categories of fixed capital, the reduction is expected to subside and gradually the trend to shift to positive change.

That said, household consumption, which is by far the major component of GDP (67.1% in Q1 of 2018) fell for a third consecutive quarter early this year, a trend which no longer can be considered cyclical. This development is considered to reflect the pressures on household disposable income from the hikes of indirect taxation since the second half of 2016 and in early 2017, but also from the increase in direct taxation, with a reduction of the income tax deduction and the more progressive income tax rate from since May 2016 (Law No. 4387/2016), applied for the first time for a full year in 2017. Note that the not insignificant increase in employment, which reached 1.8% in the first quarter of this year, did not prevent the mild contraction in domestic consumption spending.

The negative contribution of domestic demand to GDP growth was more than offset by the positive effect of increased international demand for goods and services (by €1088 million, against -€974 million). Coupled with the decline in imports, also due to the decline of investment in means of transport, the resulting improvement in the external balance was the sole cause of the growth of domestic output, by 2.3%, in the first quarter of this year. However, if the strong downward trend in this particular category of fixed capital retreats and possibly shifts to growth in the coming quarters, the positive effect of the external sector on GDP growth will respectively be mitigated, while its reversal to negative contribution cannot be ruled out. Of course, in the event of an increase in all categories of fixed capital, this will act positively on domestic demand, while enhancing the production capacity of the Greek economy. However, after many years of strong contraction of investment activity, which resulted in investment not surpassing 13.3% of GDP in 2017, its strong growth is needed to compensate for any losses in domestic demand from the decline in household consumption.

Therefore, the significant positive impact of the external sector on gross domestic product in the first quarter of this year, which reached 3.4 points of GDP, signalling a gradual change of the growth model of the Greek economy, is most likely to carry over to the coming quarters, albeit with less intensity. Domestic demand will compensate, at least partially, its retreat through investment. However, the dynamic of household consumption, once more under growing pressures from taxation, will determine whether investment activity will be sufficient to carry over the growth from early 2018 to the rest of the year. Subsequently, the macroeconomic projections are presented in detail.

Table 3.1

Trends in key macroeconomic figures – National Accounts (seasonally adjusted data, constant 2010 prices)

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change
2006	**242,770**	**5.6%**	**207,996**	**3.6%**	**59,903**	**23.6%**	**50,972**	**5.1%**	**77,739**	**13,2%**
2007	**250,459**	**3.2%**	**216,977**	**4.3%**	**64,948**	**8.4%**	**56,384**	**10.6%**	**88,891**	**14.3%**
2008	**249,881**	**-0.2%**	**221,541**	**2.1%**	**58,983**	**-9.2%**	**58,484**	**3.7%**	**89,838**	**1.1%**
2009	**239,103**	**-4.3%**	**219,961**	**-0.7%**	**43,175**	**-26.8%**	**47,775**	**-18.3%**	**71,691**	**-20.2%**
2010	**226,036**	**-5.5%**	**207,093**	**-5.9%**	**38,648**	**-10.5%**	**49,963**	**4.6%**	**69,224**	**-3.4%**
2011	**205,314**	**-9.2%**	**188,126**	**-9.2%**	**30,223**	**-21.8%**	**49,998**	**0.1%**	**63,468**	**-8.3%**
2012	**190,284**	**-7.3%**	**173,951**	**-7.5%**	**22,977**	**-24.0%**	**50,579**	**1.2%**	**57,515**	**-9.4%**
α' 2013	46,006	-5.2%	41,628	-8.0%	5,883	6.3%	12,582	-1.5%	14,152	-3.0%
β' 2013	46,042	-3.4%	41,732	-4.4%	5,023	-13.3%	12,884	4.5%	13,777	-3.3%
γ' 2013	46,245	-1.7%	42,193	-1.4%	5,383	1.7%	13,178	6.8%	14,386	0.3%
δ' 2013	45,969	-2.3%	42,243	0.0%	4,424	-30.5%	12,741	-3.0%	13,257	-7.5%
2013	**184,261**	-3.2%	**167,795**	-3.5%	**20,713**	-9.9%	**51,384**	1.6%	**55,571**	-3.4%
α' 2014	46,349	0.7%	42,078	1.1%	4,857	-17.4%	13,288	5.6%	14,163	0.1%
β' 2014	46,268	0.5%	42,050	0.8%	5,494	9.4%	13,471	4.6%	15,008	8.9%
γ' 2014	46,840	1.3%	42,160	-0.1%	6,014	11.7%	14,364	9.0%	15,178	5.5%
δ' 2014	46,231	0.6%	42,013	-0.5%	5,709	29.1%	14,228	11.7%	15,505	17.0%
2014	**185,688**	0.8%	**168,302**	0.3%	**22,074**	6.6%	**55,351**	7.7%	**59,855**	7.7%
α' 2015	46,368	0.0%	42,271	0.5%	4,780	-1.6%	14,991	12.8%	16,397	15.8%
β' 2015	46,461	0.4%	42,414	0.9%	4,343	-21.0%	15,041	11.7%	15,695	4.6%
γ' 2015	45,725	-2.4%	41,276	-2.1%	5,096	-15.3%	13,196	-8.1%	13,026	-14.2%
δ' 2015	46,487	0.6%	42,065	0.1%	5,998	5.1%	13,708	-3.7%	14,979	-3.4%
2015*	**185,042**	-0.3%	**168,026**	-0.2%	**20,217**	-8.4%	**56,936**	2.9%	**60,097**	0.4%
α' 2016	46,174	-0.4%	41,724	-1.3%	5,498	15.0%	13,564	-9.5%	14,854	-9.4%
β' 2016	46,019	-1.0%	41,660	-1.8%	6,116	40.8%	13,499	-10.3%	15,395	-1.9%
γ' 2016	46,269	1.2%	42,198	2.2%	5,054	-0.8%	14,414	9.2%	14,849	14.0%
δ' 2016	46,114	-0.8%	41,843	-0.5%	5,026	-16.2%	14,380	4.9%	15,728	5.0%
2016*	**184,576**	-0.3%	**167,425**	-0.4%	**21,693**	7.3%	**55,857**	-1.9%	**60,825**	1.2%
α' 2017	46,316	0.3%	41,870	0.3%	7,106	29.3%	14,273	5.2%	16,521	11.2%
β' 2017	46,707	1.5%	41,835	0.4%	6,049	-1.1%	14,802	9.7%	16,133	4.8%
γ' 2017	46,942	1.5%	41,819	-0.9%	5,607	10.9%	15,504	7.6%	16,234	9.3%
δ' 2017	47,037	2.0%	41,719	-0.3%	6,166	22.7%	15,144	5.3%	16,507	5.0%
2017*	**187,001**	1.3%	**167,243**	-0.1%	**24,928**	14.9%	**59,723**	6.9%	**65,395**	7.5%
α' 2018	47,397	2.3%	41,756	-0.3%	6,247	-12.1%	15,361	7.6%	16,057	-2.8%

* Provisional data

Source: Quarterly National Accounts, June 2018, ELSTAT

Medium-term Outlook

- Stronger growth of the Greek economy is anticipated in 2018, at around 2.0%
- Key drivers of GDP growth - smooth transition to the post-programme period and avoidance of intense turmoil in international trade by protectionist measures that could affect the Greek exports as well
- GDP growth anticipated to come mainly from growth in exports (+7.0%) and investment (+13.0%)
- Slight deterioration of the external balance (in national accounting base), due to strengthening of the domestic demand for imports from stronger investment activity in machinery - equipment

Undoubtedly, the recent developments that will affect the domestic economic environment not only for the rest of this year, but over the medium and long term, include the completion of the fourth and final review of the third programme economic adjustment, the Eurogroup decisions of 21 June on the medium-term measures for facilitating debt servicing and the results of the recent stress test on the major Greek banks. In general, the outcome and the decisions stemming from these processes are deemed to contribute notably to the easing of the uncertainty about the sustainability of the public finances in Greece and the soundness of the banking system. A substantial upgrade of the credit rating of the Greek economy, which will improve the terms of its financing, will be a first, tangible development in this direction. However, the effectiveness of further debt interventions over the medium and long run will depend primarily on continued implementation of the reforms, which will preserve and further strengthen the confidence in the economic policy and in the possibilities of the Greek economy to reform and shift to a new growth model, a development necessary to achieve continuous growth, at a satisfactory pace. In addition, after more than eight years in adjustment programmes and continuous financial support from the official sector, the transition of the country from the coming August to an environment without these features, with a new monitoring process of its public finances and structural changes, creates uncertainty, at least until these new conditions become reality.

While parameters of the domestic environment are improving, the international economic climate is deteriorating. The main cause of this are the protectionist trade policy measures in the US, the announcement of countermeasures by the European Union, China and other countries, and the concern about escalation of policies with such content. The announcement that after almost four years, the ECB quantitative easing measures will expire at the end of 2018, also constitutes a major challenge to economic policy in Europe, but also worldwide, involving gradual weakening of their benefits, but also the avoidance of possible undesirable developments, such as overheating of the EU economy.

The developments just mentioned form the framework of assumptions underlying the macroeconomic projections of IOBE for the Greek economy, as summarised in Box 3.2.

In greater detail, the completion of the fourth review of the current programme, which entails the completion of the programme overall, in a short time, prevented the escalation of insecurity and the deterioration of the economic environment that this process usually causes. Additional fiscal measures for this and subsequent years, such as moving a year earlier the application of the personal income tax measures contained in Law No. 4472/2017 (reduction of the income tax credit), were not included in the prior actions for the completion of the review. The prior actions concerned reforms, with some of the most important among these relating to the calculation of the supplementary pensions from 1/7/2018 based on a pay-as-you-go system of defined contribution with virtual capitalisation, for new and existing policyholders, simplification of the creation and operation of businesses in manufacturing and related activities, arbitration of collective labour disputes, debt settlement for individuals with excess bank loans, out-of-court settlement of corporate debt to the public sector, and changes in the bankruptcy code.

Box 3.2

Assumptions of the central macroeconomic scenario of IOBE

- Smooth transition to the post-programme period and the new monitoring process
- Continued fiscal consolidation and reform implementation
- Improved credit rating and access to the capital markets of the Hellenic Republic and the private sector
- Steadily strong growth in the EU, despite the end of QE and escalating trade protectionism
- Relatively mild effects on trade flows from the confrontation in the field of international trade policy
- Slowdown and end of the oil price rise in the current half of the year

The completion of the review allowed for the approval the associated third loan tranche, which is not yet disbursed, as certain procedures in particular countries of the Euro area should be completed first. The tranche amount is €15 billion, including €5.5 billion that will be used to service debt in the current period, while the remaining €9.5 billion will be used for creating a cash buffer, which will provide the ability to cover part of the refinancing capital and for the possibility of an emergency situation in the public debt service, e.g. in the capital markets. Note that in the report of the European Commission on the previous, third review of the adjustment programme, the planned provision of funds for the recently completed review was €11.7 billion. To create this cash buffer, the Central Government has borrowed funds from general government bodies by issuing repos amounting to €13.6 billion. The total size of the buffer, amounting to €24.1 billion, is estimated to be sufficient to refinance debt for nearly 22 months, without having to raise capital from the international markets.

The Hellenic Republic is expected to take some advantage of this possibility, while the main reason why the buffer was created is considered to be to assuage any concerns about the possibility of refinancing all debt from the capital markets, after a long period in which this was done through borrowing from the official sector. Despite the buffer, the Greek Government is expected to seek at least partly to refinance its debt from the international capital markets, primarily in order to overcome the wariness about the viability of less-then-full coverage of its financial needs by the official sector. The next issue of bonds is likely to take place a few months after the current assessment of the creditworthiness of the Greek State by the credit rating agencies, considering the Eurogroup decision for medium-term debt relief measures, discussed below. Already, within the first few days after the Eurogroup decision, Standard & Poor's upgraded the credit rating of Greece by one level. The most important consequence of the completion of the fourth review is that it allowed the adoption of additional, medium-term measures on sovereign debt, including: a) interest rate margin reduction for a particular tranche of the second bailout loan, which concerned debt repurchase; b) restart of the return of the profits of central banks from the SMPs and ANFAs to Greece, starting from those generated in 2017, in order to limit the financing needs of the Greek state and to support targeted investments; and c) further extension of the grace period for the payment of interest and principal for the whole second loan from EFSF, by 10 years to 2032, and lengthening of the average repayment period for the same period of time. Note that the implementation of the first two measures will depend on the implementation of reform commitments in the post-programme period, which will be assessed through the enhanced surveillance procedure of the European Commission. This will involve quarterly reviews of the fiscal and financial situation of Greece and the progress with agreed reforms.

As regards the long-term government debt measures, on the basis of the Eurogroup decision from May 2016, it was decided that in the event of unexpected, adverse developments the measures will include further deferral of interest payment, readjustment of loan maturities and interest rate capping. In such a case, the adjustments that will take place will ensure that the gross financing needs of the Greek State remain below a certain level (20% of GDP). The next scheduled review of the Greek sovereign debt sustainability was set for the end of the "grace period" for the EFSF loan, i.e. in 2032. It will consider whether further measures need to be taken these measures, provided that such a need will not have arisen earlier.

The new public debt decisions limit further the gross financing needs for its refinancing until 2060, beyond the reduction already achieved through the short-term measures, adopted in June 2017, based on the debt sustainability analyses in the respective reports of the European Commission.[16] On the basis of last year's analysis, the necessary funds for debt service approached the upper acceptable limit for sustainability, i.e. 20% of GDP, as early as 2040 (19.2%), exceeding it in 2050 and 2060 (21.4% and 20.8% respectively). Incorporating the medium-term interventions, the required capital resources are projected to reach 16.2% of GDP in 2040 and 18.4% of GDP in 2050. They are projected to be marginally lower than the maximum acceptable limit in 2060 (19.8%), which potentially indicates that it would be useful to take measures for the sustainability of public debt in the long run, depending on the evolution of the other macroeconomic variables that affect it (real economic growth rate, inflation, interest rates).

Note that despite the additional measures to facilitate and support its sustainability, public debt is expected to be higher in 2060 as a percentage of GDP compared to the last-year forecast that was drawn after the adoption of the short-term interventions, at 96.8% against 91.7% of GDP. The difference of five percentage points of GDP come from different, slightly more adverse assumptions about the evolution of macroeconomic variables that affect the ratio of public debt to GDP. In particular, the latest debt sustainability analysis assumes: a) lower average long-term rate of economic growth between 2023 and 2060, at 1%, compared with 1.5% between 2021 and 2030 and 1.25% after that in last year's debt sustainability analysis b) slightly higher average market interest rate after the end of the programme, at 5.1% against 4.9% and c) lower revenue from privatisations and concessions by €3 billion, to €14 billion. Furthermore, although the lengthening of the EFSF loan maturity restricts the financing needs, it shifts further back its time of repayment, prolonging thus its impact on government debt. That said, apart from the medium-term debt interventions, the debt sustainability analysis now includes a gradual use of half of the

[16] Scenario A, Compliance report in the context of the third economic adjustment programme for Greece - second review, European Commission, June 2017 και After measures scenario, Compliance report in the context of the third economic adjustment programme for Greece - fourth review, European Commission, June 2018

accumulated cash buffer until 2022, which has much lower cost of borrowing compared with the market interest rate.

Regardless of the effects of the new public debt measures on the evolution of its stock until 2060, the restriction of the financing needs for its servicing over the medium term, until 2030, well below 15% of GDP (11.1%), is expected to defuse shortly the uncertainty about the sustainability of public finances in Greece and to boost the expectations for stability of the domestic economic environment. Subsequently, it will improve the country's attractiveness as an investment destination and logistics hub. In addition, on the basis of the positive effects of the medium-term measures, the ECB could consider maintaining the waiver for accepting Greek government bonds as collateral, so that the Greek banks can continue to have access to the Eurosystem's main financing mechanism, further contributing to the decline in the average cost of borrowing for the banks. As mentioned above, the efficacy of the new debt interventions in the medium and long term will depend primarily on the continued implementation of reforms, which will maintain and further strengthen the confidence in the economic policy, contributing significantly to the Greek economy's transition to a new growth model.

The fiscal policy mix of recent years, characterised by hikes of direct taxation, mainly of individuals that provide professional services, but also of indirect taxation, dampening the entrepreneurial risk-taking appetite, needs to change to ensure that the fiscal consolidation is preserved, and no barriers are created for the recovery of the Greek economy. Besides, as repeatedly mentioned in previous IOBE reports on the Greek economy, the additional fiscal measures applied from the beginning of 2018, which include higher existing taxes, levy of new indirect taxes, and increase of the direct taxation of wage earners and pensioners and the social contributions of freelancers, will exert pressure on the real disposable income of households and on the sustainability and investments of sole enterprises[17]. The values for the calculation of the taxable value of real estate were recently revised, affecting the unified property tax ENFIA and other taxes and fees on real estate. ENFIA was amended by raising the tax allowance for the supplementary tax from €200,000 to €250,000. After these changes, according to an ENFIA simulation exercise for 2018 by the Ministry of Finance, 97% of the individuals will receive reduced, unchanged or marginally higher tax bill, while the corresponding percentage for legal entities is about 91%.

The impact of the new fiscal measures has already transpired in a small decline in household consumption in the first quarter of this year by 0.4% in constant prices. Furthermore, it is evident on the trend of revenue from direct taxation. Total receipts of direct taxes increased by €133 million, coming mainly from taxes on individuals, where the increase reached €199 million. The receipts from taxes on real estate were marginally higher, by €9 million to €615 million. By contrast, the revenue from direct taxation of legal entities decreased strongly in the first five months of the year, by 35.7%, to €45 million. Note that the State budget envisaged decline of the receipts from direct taxation of legal entities overall in 2018, due to higher advance tax that was collected in 2017 and probably because of the reduction of the corresponding tax base, as many freelancers terminated their activity, at least under this particular work status, due to heavier tax burden.

[17] The exception from the abolition of the VAT discount in Lesbos, Chios, Samos, Kos and leros, which expired at the end of June, was extended for six months with legislative act on 30/06/2018, due to the refugee flows..

The revenues from indirect taxation increased by 2.8% in the first five months of this year, to reach €10.6 billion. This increase came primarily from stronger revenue from the excise duty on tobacco products, by €228 million, or 26.4%, following their intense retreat last year due to stockpiling in 2016. Other consumption taxes (VAT, excise duties) came next, with 14.8%, or €20 million, probably because of the new booking tax in hotels, rented rooms and apartments, as a result also of the stronger international tourist flows. The receipts and consumption taxes associated with motor vehicles have also slightly increased. However, the revenues from VAT declined by €142 million, to €6.25 billion, despite the lifting of the VAT discount since the beginning of 2018 in Northeast Aegean Islands and the Dodecanese, a trend considered to highlight the impact of high indirect taxation, but perhaps partly comes from stronger tax evasion, as highlighted by the results of the audits of the Independent Authority for Public Revenue AADE in the first quarter of this year. In particular, the number of businesses with tax offences rose by 66.0% compared with a year ago, to 2,409 from 1,451, a much higher increase than in the number of checks (29.9%). The lost tax revenue increased by 217%, to €21.8 million.

Passing to developments in another area of the economy which, as mentioned earlier, will affect the domestic economic environment in the current and subsequent years, the heightened concern for the capital adequacy and soundness of the banking system eased after the announcement of the results of the new stress test in early May. According to the findings of the stress test, the level of the Core Equity Tier 1 (CET1) index under the adverse scenario was higher than the minimum level, unofficially set as a limit (5.5%), for all banks, with the values lying in the range between 5.9% (Piraeus Bank) and 9.7% (Alpha Bank). These results are expected to lead to a recovery of the confidence in the banking system and to encourage the gradual acceleration of the return of deposits. In addition, together with the developments on public debt, this will facilitate the upgrade of the credit ratings of the banks, easing their access to the international capital markets. Any changes in the flow of credit from the banks to the private sector of the economy, particularly to businesses, will depend not only on whether deposits increase, but also on the speed of this increase and on the progress in settling non-performing loans.

Regarding the trend in deposits, the latest data are for May, the first month when the results of the last stress test became known. The deposits of the private sector (non-financial corporations and households) increased mildly in May, compared to April, by €1,25 billion, to reach €124.8 billion. Their growth came mostly from the deposits of non-financial corporations, which increased by +€768 million or +4%. The growth of deposits of households, by €476 million (+0.05%), was much weaker given their total outstanding balance. Overall in the first five months of 2018, private sector deposits also rose slightly, by €3.05 billion (difference May – January), reaching their highest level in May this year since May 2015, €7.8 billion higher than in the end of June 2015, when the capital controls were imposed. That said, the rise in the last three years has come almost exclusively, by 91.3%, from higher deposits of non-financial corporations (+€7.1 billion or +55.3%), while the deposits of households have expanded by only €676 million or 0.6%. In fact, the business deposits were approximately €700 million lower than in November 2014, when the latest large deposit flight began. The corresponding gap in the households reaches €31.2 billion.

Therefore, the current level of deposits is not sufficient in order for the banks to be able to gradually alter the flow of credit to the private sector of the economy. In order for that to happen, the deposits should continue to grow, at an accelerating pace. However, in light of the results of the stress test and the adequate capitalisation of the major banking institutions which it revealed, there is room for the expected recovery of confidence to lead to an increase in deposits, mainly by households. The new easing of the capital controls, to individuals and legal entities, which entered into force since the beginning of June, and for some of the measures from the beginning of July could contribute to a steady strengthening of the deposit return. Under the new provisions, the monthly cash withdrawal limit per depositor and credit institution, from bank branch or ATM, rose to €5,000, from €2,300, which was adopted with the previous round of relaxation measures in March. In addition, the limit on the transfer of funds abroad within a two-month period doubled from July 1 to €4,000 per customer. Furthermore, the maximum value of a transaction of a legal entity or sole proprietor that can be processed freely by the bank branch networks also doubled, to €40,000 per customer, per day.

As regards the developments in the other factor that will determine the decisions of the domestic banking system for the flow of credit to the private sector - the sale, collection and settlement of non-performing loans - according to the latest figures of the Bank of Greece for to the first quarter of this year, the reduction of non-performing exposures (NPEs) slowed in comparison with the previous quarter, to 2.1% from 4.8%. As a result, they amounted to €92.4 billion, or 47.5% of the total exposures. This level is approximately €14.8 billion or 14% lower than their peak level recorded in March 2016. With this level of NPEs, there was a slight overachievement of the relevant target for the end of March, set at €93.6 billion. Nevertheless, they remain at a distance from the target for a cumulative decline by 40% by the end of 2019 from their peak, to €65.2 billion. Therefore, the contraction rate in the coming quarters must be kept as high or even higher than that achieved in the second quarter in order to hit the target. Recent developments include the sale of non-performing business credit exposure by Piraeus Bank, with real estate as collateral, amounting to €1.95 billion, and the sale of a portfolio of non-performing loans without collateral by the National Bank of Greece, amounting to €2 billion. In any case, the effort for considerable reduction of NPEs by the end of 2019 will restrain the growth of bank credit.

The latest figures on bank loans are also for May of this year, therefore they do not provide sufficient information on the trend following the stress test. Nevertheless, credit to non-financial corporations returned to contraction in April and May, at a rate of 2% on average, in contrast to the limited credit growth or stability between November 2017 and February 2018. The contraction of credit to sole proprietors intensified between March and May, as its pace reached 1.5% in May, when in the beginning of 2018 it was only marginal (-0.2%). The lending to households has continued to contract at the same rate since last July, between 2.2 and 2.4%.

Given the successful financing through the capital markets by large listed corporations, last year and early this year, the anticipated continuation of the mild credit contraction from the banks at least until the end of the current year will push more businesses to attempt the use of these financial instruments. The review of the third economic adjustment programme, a process which reinforces the uncertainty about the Greek economy, and the anticipation of decisions on public debt, which as mentioned above will have an impact on the credit rating of the country and therefore on the cost of borrowing, are considered to have inhibited the use of recent opportunities to raise capital from the financial markets. Therefore, the completion of the review and the finalisation of the debt measures allow those enterprises wishing to resort to the capital markets domestically and internationally to raise the needed capital. Companies which have already drawn funds this way are expected to proceed to planning and realisation of investments, following the completion of the review. Note that the domestic stock market provides financial tools for small and medium-sized enterprises as well, such as the Alternative Market.

As repeatedly mentioned in previous IOBE reports on the Greek economy, the export companies, beyond their activity and employment, have strengthened their liquidity as well, through the significant expansion of exports in recent years, which facilitates their operation and investments. The steady growth in the Euro area, the major destination of Greek exports, at similar rates with last year, according to the latest forecasts of international organisations, is conducive to the continuation of this effect in the current year as well.[18] That said, the adoption of protectionist trade policies in the US and the countermeasures that they provoked in the European Union and in China constitute a relatively recent change in the international environment. Their effects on Greek exports and more broadly on the world trade flows cannot be assessed at present. Given the limited exposure of Greek exports of steel and aluminium products to the US market, where restrictions were imposed (€130 million in 2017 or 0.4% of domestic exports), the direct effects of the measures are expected to be weak. The indirect impact, through effects on exports from EU and third countries that would in turn affect the demand for Greek export, is expected to be stronger.

The demand for imports is growing, as a result of the growth of income, both on the demand (e.g. for fixed capital other than construction, for consumer goods) and the production side (e.g. for raw materials and services provided abroad). This effect will hamper the positive impact of stronger exports on the external balance.

The latest data from ELSTAT and the Bank of Greece on the exports of goods and services respectively concern the first four months of 2018. The figures on the goods account are especially favourable, yet this is also due to some transient factors. The services account has deteriorated, yet, as every year, the months when the bulk of international tourist traffic takes place are more pertinent for the setting of its overall trend. In particular, the exports of goods rose by 13.2% in the first four months of this year, slightly less than in the same period a year earlier (17.7%). Their expansion came mainly from growth of exports except fuel and ships, by €824 million or 13.2% as well. The growth of fuel exports came next, which increased by €375 million or 12.8%, while the exports of ships, which have a very small share in total export flows, declined by €2.9 million.

The substantial increase of the exports of goods improved respectively the trade balance, as the imports declined marginally, by 0.2% over a year earlier, when they had strengthened by 21.8%. The imports drop came solely from the sharp decline in the imports of ships, by 77.7% or €1.59 billion, because of their high level in January and April of last year, an effect which is expected to occur again, with less intensity, in the last quarter of this year. In contrast, the imports of goods other than fuels and ships increased by 8.0% or €908 million, while the fuel imports expanded by 14.9% or €614 million. As imports remained essentially unchanged, the deficit in the Goods Account declined by a similar margin as the increase of exports, by €1.26 billion. or 15.1%, to €7.08 billion.

Regarding the trade flows in services, the export growth in the first quarter of this year is milder than in goods, by 6.1% or €312 million, much lower than in the same period of 2017 (+19.3%). It came primarily from the rise of exports of transport services by 10.1%, or €273 million, and less

[18] By 2.3% this year, from 2.4% last year (European Economic Forecast, spring 2018, European Commission)

from stronger travel receipts (by 7.4% or €72.5 million). The remaining receipts, from other services, fell by 2.4% (€33.6 million). The expansion of the imports of services was much stronger than of their exports, by 17.6%, or €607.1 million, resulting in a deterioration in the corresponding trade balance. In the imports of services as well, the strongest rise in absolute terms was recorded in the transport category, by €298 million or 18.9%. It was followed by stronger domestic demand for other services, by 12.7%, or €150.2 million, and for travel services (by 18.9% or €150.2 million).

Moving on to features of the domestic economic environment that are affected to a small or large degree by the public sector, privatisation deals and concessions that were completed in previous years, for which the licensing of the relevant investment plans is at an advanced stage or is being finalised are anticipated to provide greater impetus to investment activity this year than in 2017. Indicative examples include the investment in Hellinikon, where the licensing is expected to be completed by September, the 14 regional airports conceded to Fraport Greece, and the Asteras Vouliagmenis complex investment, which was approved with a joint ministerial decision in early 2018. Regarding the progress of implementation of the privatisation programme in the current year, the acquisition of 5% of the common shares of the Hellenic Telecommunications Organisation (OTE) by Deutsche Telekom was completed in late May, while in mid-June TRAINOSE submitted a new offer for the acquisition of ROSCO S.A. The investment schemes for the second phase of the Egnatia Road and Marina Alimos tenders were pre-selected in May, which had taken place earlier this year for the Chios Marina tender. In addition, expression of interest was submitted for the Hellenic Petroleum tender. In the first quarter of the year, the transfer of 67% of the Thessaloniki Port Authority to South Europe Gateway Thessaloniki Limited was completed and the preferred investor for the 66% of DESFA was announced. Therefore, so far in the first half of the year three tender have been completed. However, the number of tenders scheduled for completion this year (14) exceeds the number of completed tenders, tenders with preselected bidders and those for which expression of interest has been submitted. Considering the track record of completed tender procedures per year, which has peaked at 9, this year's goal is particularly ambitious, which also holds for the anticipated revenues (€2.74 billion).

While the investment boost from privatisation is going to be stronger this year than in previous years, contrary to initial expectations, the contribution of the Public Investment Programme (PIP) will be sluggish this year as well. In the first five months of 2018, the PIP grants reached €794 million, slightly more than in the previous year (€755 million), when expenditure reached its lowest level since at least 2000. Nevertheless, they remained at only 60.6% of the target for this specific period of time. The PIP is executed short of the target, despite the fact that its revenues sharply increased since last year, by 46.3%, to €1.12 billion, due to improved absorption of EU funds, exceeding the associated target by 70%. That said, the strong fund raising allows for its speedier execution in the coming months. However, as almost half of 2018 has passed without a significant year-on-year expansion of PIP expenditure, a large part of the benefits for investment and employment from a more front-loaded implementation compared to 2017 has been lost.

The payment of arrears by the public sector may boost business liquidity in the coming months. The payment in mid-June of the second subtranche of the loan from the ESM, amounting to €1 billion, which was connected with the third review and was provided exclusively for this purpose will contribute to this development. Besides, further €500 million were earmarked for the payment of arrears in March, with the previous sub-tranche of €5.7 billion. No funds for the payment of arrears are envisaged in the loan tranche linked to the fourth review of the third programme. Nevertheless, together with the commitment to pay national contribution of 50% to the funds made available from the third loan for settling arrears, the available resources this year for this purpose total €2.25 billion. The arrears, including outstanding tax refunds, did not change in the first four months of this year since the end of 2017, remaining in the vicinity of €3.3 billion, even though funds of about €200 million were disbursed for their reduction, most by March. Consequently, almost all of the funding raised as part of the loan contract is available to cover outstanding arrears.

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of Brent oil has kept rising since last June, with short interruptions. At the end of May this year, it came in the vicinity of $80 ($79.84), reaching its highest level since December 2014. Subsequently, and until mid-June it fell to $72.8, but since then it has returned to an uptrend, approaching its maximum level since the end of 2014. In addition to the strong growth both in the most developed economies and in regions with emerging economies (e.g. Latin America, the Middle East – North Africa), the prolonged rise of oil prices in 2018 also came to some extent from specific events. These events include the widespread decline of production in Venezuela, Iran's responses to the US decision to withdraw from the nuclear agreement and to impose sanctions and the new escalation of the armed conflict in Libya. In order to ease the impact of these developments on the oil market, the members of OPEC, along with Russia, agreed in late June to expand daily production, without announcing specific targets. This development has not reflected so far on the oil price trend. However, an assessment of its effects is considered premature at this stage. This will be feasible to do in the next IOBE report on the Greek economy. Still, the latest macroeconomic forecasts from international organisations for 2018 point to slightly stronger GDP growth rate of the world economy in 2018[19], at 3.9% from 3.7%. Therefore, there are conditions in the world economy that will continue to fuel the energy demand growth. Noting the uncertainty about the effects of the recent decision to increase daily oil production, the average price of Brent oil in 2018 is expected to be higher than last year by about 36% at €74.

The appreciation of the euro against the dollar has partly offset the impact of the rise of petroleum prices on the cost competitiveness of industries in Greece and the Eurozone, particularly those of energy-intensive production. However, by the end of January this year, the appreciation ended. Until mid-April, the exchange rate fluctuated in the region of 1.23 – 1.24 and then it fell to 1.17 until the end of May. Since then, it has remained largely unchanged. Overall in the first half of 2018, the average euro/dollar exchange rate was approximately 11.6% higher than a year earlier. The arrest of the exchange rate appreciation is estimated to be due to the implementation of fiscal measures in the US, which significantly boosted expectations in the business and investor communities. This was strengthened by the gradual tightening of the monetary policy by the FED, which has pushed the yields of the US Treasury bonds clearly higher than the yields of bonds of the stronger economies of the Eurozone.[20] Both developments are leading to a transfer of capital to the US.

That said, the concerns over the impact of the US protectionist trade policy measures on the international competitiveness of the US products are growing, especially following the

[19] European Economic Forecast, spring 2018, European Commission, May 2018

[20] In early July 2018, the average yield of the 10-year US treasury bonds stood at 2.84%, while the 10-year sovereign bonds of Eurozone countries with AAA credit rating yielded 0.4% and the 10-year bonds of all Eurozone countries had an average yield of 1.0%.

announcement of countermeasures by the European Union, Canada, China and Mexico, with a deterring impact on capital outflows from the Euro area. Besides, as noted in previous reports, the higher than expected growth in 2017, which continues this year, has improved the profitability of its businesses, enhancing the attractiveness of placements in their capital. That said, the Eurozone must address major challenges in the short term, related to the refugee flows, the high rate of non-performing loans, etc. Taking this into account, it is quite probable that the euro-dollar exchange rate will fluctuate around its current level in the second half of 2018. Therefore, the year-on-year change will gradually decline. In addition, its buffering effect on the impact of higher oil prices on the cost of production of goods and services in the Euro area will weaken comparted with the first half of 2018 and the second half of last year.

As to the latest developments in domestic economic activity and in short-term economic indicators, the trends continues to vary as in early 2018. In some indicators, the growth from late 2017 or the first quarter of this year has weakened (building activity, receipts from foreign visitors in tourism), in other indicators it has strengthened (volume of retail trade), while elsewhere the trend shifted from negative to positive (industrial production). In greater detail, based on the latest data, the slight decline in industrial production in the first quarter of 2018, by 0.6%, turned to growth in April, when it rose by 1.9%, stronger than in the same month a year earlier (0.4%). The trend shift came from stronger growth in Manufacturing (2.4% from 0.6% in the first quarter), and the change of the trend in Electricity (2.2% from -0.4%) and Water Supply (0.2% from -4.2%). By contrast, the output decline in Mining-Quarrying strengthened to 6.4%, from 2.3%. The latest available data on construction for the first quarter of this year show that the number of building permits increased by 5.1%, while the expansion was stronger in surface area than in volume terms (10.6% and 3.1% respectively). These growth rates are lower than in the fourth quarter of 2017 (+6.6%, +25.8% and +34.1%), yet they indicate a continued building activity uptrend. In Tourism, the intense growth of revenues in the first quarter of this year, by 13.9%, slowed sharply in April, to only 1.0%, despite the rise in foreign visitors by 17.9%, stronger than in the first quarter (+12.8%).

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted index of volume in retail trade increased by 1.1% in April, stronger than in the previous quarter (0.6%) and in contrast to its small decline in the final quarter of last year (0.5%). The domestic Consumer Price Index increased slightly in April and May, by 0.3% on average, in contrast to the marginal decline, by 0.1%, in the first quarter. The small trend change came mainly from higher prices in Communications in the recent two months, against marginal disinflation earlier this year (+3.3%, from-0.1%), as well as from easing of the fall in prices of Other Goods – Services (-0.9%, from-2.2%), Durable goods (-1.3%, compared with -2.1%) and Housing (-1.0%, from-1.6%). Note that the fall in the last category continued despite the prolonged rise in oil prices. In Transport, which was primarily affected by this development, prices were rising, yet at a mild pace given the oil price inflation, with only a slight acceleration in the last two months (2.3% on average, from 2.0% in Q1). The overall trend of the domestic Consumer Price Index and the trends in specific categories of products and services that were analysed above are considered signs of weak household consumption demand.

Considering the above trends in economic indicators, and the anticipated developments (mainly those linked to the completion of the third economic adjustment programme, the medium-term debt measures and the positive effect of the stress testing in the domestic banking system) for the forecasting of the GDP components and other macroeconomic indicators, household consumption is anticipated to expand slightly in the current year. Its growth will come from further decline of unemployment, to a smaller extent than in the previous year, due to the expansion of employment and income in export branches of manufacturing and services, but also in construction activities and the public sector. In contrast, the new fiscal measures, especially certain direct tax changes, such as the lifting of the 1.5% discount on advance tax payment for wages and pensions and the hike in social security contributions of sole proprietors, will continue to exert pressure on private consumption. The expected small price increase will reduce the purchasing power of wages and transfers less than last year. Also, despite the positive outcome of the stress test, the credit to households is anticipated to continue to decline. Under the influence of these factors, the trend in private consumption is considered most likely to shift from negative to positive in the remaining quarters of 2018. As a result, the annual rate of change of private consumption will be positive, in the region of 0.7%.

Regarding the other component of domestic consumption expenditure, as the fiscal consolidation will continue mainly through higher revenue from direct and indirect taxes, and social security contributions, rather than spending cuts, public consumption will most likely increase slightly, a trend that has transpired already since the first quarter of 2018. The data on budget execution at the General Government level (consolidated basis) for April indicate continued expansion in consumption expenditure categories from the first quarter of this year. In particular, the expenditure for salaries (current prices), which constitute a major component of the consumption expenditure of the State, rose marginally, by 1.3%, following their growth by 7.3% in the first quarter. The expenditure for the procurement of products and services decreased in April, by 10.6%, yet in the first quarter they increased by 1.5%. Considering the above trends, public consumption is likely to expand at a rate of about 1.5% in 2018.

In investment, the most recent and favourable effect will understandably come from the easing of uncertainty about the outcome of the fourth review and the negotiations to settle public debt and the framework for post-programme surveillance. Subsequently, the implementation of investment projects that were put on hold in anticipation of these developments will advance. An upgrade of the credit rating of the Greek state and banks, which will reduce the cost of borrowing from the capital markets would be a first, tangible progress, following from the Eurogroup decisions of 21 June and the outcome of the stress test. In turn, this will allow the banks to lower the borrowing costs of businesses and households.

However, for the reasons mentioned above, given the hitherto small return of deposits by the private sector, and by the households in particular, and the pursuit of the non-performing loan reduction targets, their credit policy is not expected to change significantly in 2018. Possibly, a limited credit growth to non-financial corporations may gradually emerge in the second half of this year. A steady, quickly growing return of deposits from the current half of the year, with fast reduction of non-performing loans in parallel, primarily through loan sales, is needed for a steady, mild credit growth from next year.

As the supply of investment and working capital from the banking system will continue to be low, the anticipated upgrade of Greece's credit rating will encourage and facilitate the large Greek corporations to raise capital from financial markets in Greece and abroad. The businesses that took advantage of these financial opportunities in 2017 raised total funds of €1.9 billion, of which about 40% on the domestic market of corporate bonds. They are expected to begin the implementation of their investment plans in the current year, contributing to the recovery of investment activity.

As repeatedly mentioned in previous quarterly reports of IOBE, the further export demand growth, mainly from EU, will boost investment activity in Tourism, Transport and export-oriented branches of Manufacturing. The sharp drop in investment in the last sector in the first quarter came from a transient, negative 'base effect', as argued in Box 3.1. Furthermore, this trend is quite likely to be reversed in the coming quarters, as the issue of new licences for professional use vehicles increased strongly in the first quarter.

Investment recovery this year, after many years of strong fall, is expected in Construction as well. It will come from the start of work on major construction projects in completed privatisation – concession deals, and from revitalising of building works more broadly in the private sector, in both new homes and repairs. The recent announcement of changes in property assessed values, after the initial inertia in certain market segments, in order to assess the changes that they would bring about, will defuse the uncertainty that existed pending their communication.

The support of investment projects through the public investments programme is expected to be slightly higher than in 2017, as expenditure last year reached its lowest level since at least 2000. Even though the PIP implementation rate in the first five months of this year is similar to last year, the revenue from the EU structural funds is significantly higher, enabling its acceleration shortly. In addition, the PIP expenditure budget for this year is higher than the grants paid through it last year by €800 million, reaching €6.75 billion. However, this was the original prediction for its expenditure for 2017 as well in the explanatory statement of the budget for that year, so it is possible that PIP fall short of the target this year too.

To conclude the presentation of expected developments in factors affecting investment, the change in stocks, a technical factor that last year brought significant positive impact on investment, will probably have milder, or even opposite effect this year. Considering these effects, investment is expected to grow at a double-digit rate this year, by about 13%.

In the external sector of the Greek economy, the continuous strong growth in the EU and the US in 2018, similar or higher than last year, according to the latest reports of international organisations,[21] and in developing and emerging economies with a growing share in the Greek exports of goods (North Africa), has already contributed to their further increase in the current year, an effect which is anticipated to carry over to the rest of 2018. That said, the impact of the US protectionist trade policy measures and countermeasures on the exports of Greece cannot be assessed yet. The impact is expected to be negative and mostly indirect, from the impact on EU countries, which absorb more than half of the Greek exports of goods, as the value of Greek exports of products where import restrictions were imposed constitute a small part of the total value of Greek exports of goods. In addition, the tendency of capital return to the US because of the new tax incentives and the gradual adoption of a tighter monetary policy by the FED, with interest rate hikes, has reversed already since April (until end of May) the rise of the euro-dollar exchange rate, which is expected to vary around the same levels in the coming months. As a result,

[21] European Economic Forecast, spring 2018, European Commission, May 2018

the competitiveness of the exports of the Euro area will strengthen slightly, favouring the Greek exports as well. However, the imposition of other restrictions by the US and retaliatory measures by the affected countries and economic unions, with unpredictable consequences for international trade, cannot be ruled out.

Regarding the exports of services, the high international tourist flows since early 2018 portends continued growth of the relevant receipts. Besides, according to a study of SETE, the scheduled airline seats by 31/03/2018 for this year's summer season increased by 18% compared with a year ago. However, revenues are expected to be increase less than in 2017 (by 10.5%, to €14.6 billion). In addition, the continuation of the conflicts in the Arab countries has boosted international transport through Greece in the current year as well, which is reflected in the significant strengthening of the respective revenues and is expected to carry over to the second half of this year. Considering the above world trade developments and trends in related indicators, in Greece and abroad, exports are anticipated to grow further in the following quarter, at a marginally lower rate. As a result, the annual growth rate of exports is anticipated to average around 7.0%.

The trend in imports is expected to change in the coming quarters compared with the first. Besides, as explained in Box 3.1, the decline in first quarter came from the transient, negative "base effect" from the imports of ships a year earlier. The rise of imports will mostly come from strengthening of fixed capital formation, rather than domestic consumption growth. The recent relaxation of the capital controls is conducive to strengthening of import demand. Given the lower than initially anticipated boost of household consumption, the forecast for import growth is revised downwards to 7.0%. In conjunction with a similar export growth, the external balance will deteriorate slightly.

Summing up the forecasts for trends in key components of GDP for 2018, household consumption is anticipated to increase slightly, mostly from further growth of employment and household disposable income, due to further growth of exports of goods and services, as well as from recovery of construction activity. The new fiscal measures will prevent a stronger rise of private consumption. As the fiscal consolidation will continue mainly through higher revenue from taxes and social security contributions, public consumption is most likely to increase slightly in 2018, which is already evident in the trends of its key components. Regarding the investment prospects, the latest and most favourable effects will come from the unwinding of uncertainty in the business environment after the completion of the fourth review, the finalisation of the medium-term public debt measures and the positive outcome of the stress test. That said due to low growth of deposits of the private sector and in order to accelerate the settlement of non-performing loans, the credit policy of the banking system will remain essentially unchanged. As the supply of bank credit will continue to be low, the expected upgrade of Greece's credit rating after the above developments will facilitate the large Greek companies to draw funds from the capital markets. The stronger export demand this year will boost investment activity in export-oriented branches of Manufacturing, Tourism and Transport. Investment recovery after a prolonged decline, is expected in Construction, in building projects in completed privatisation – concessions, and from recovery of the private building activity in general. The execution of the Public Investment Programme is anticipated to be slightly stronger than last year.

In the external sector of the Greek economy, the continued strong growth in the EU, the US and in developing and emerging economies will contribute to the further increase of Greek exports in the coming year. The protectionist trade policy measures in the US will mostly have indirect negative effects, from the negative impact on the exports of EU countries, which absorb more than half of the exports of Greek products, and third countries. The high international tourist flows since the start of 2018 portends further, weaker growth of the respective receipts. The continuation of conflicts in the Arab countries will continue to favour international transport through Greece. The competitiveness of the Greek exports will receive a mild boost from the slight depreciation of the euro exchange rate against the dollar since April, which is not expected to revert back. The rise will continue on the import side as well, mainly from the expansion of fixed capital formation. The recent relaxation of the capital controls will boost import demand. Considering the above factors that affect the trends in the components of GDP, our forecast is that the pace of growth will accelerate in 2018 to about 2.0%.

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates

(at constant 2010 market prices)

	2016	2017	2018	2019
Annual percentage changes				
Gross Domestic Product*	-0.2	1.4	1.9	2.3
Private Consumption	0.0	0.1	0.5	0.9
Public Consumption	-1.5	1.1	1.2	0.4
Gross Fixed Capital Formation	1.6	9.6	10.3	12.1
Exports of Goods and Services	-1.8	6.8	5.7	4.6
Imports of Goods and Services	0.3	7.2	5.5	4.4
Employment	0.5	2.1	1.7	1.8
Compensation of Employees per capita	-0.9	0.1	0.8	1.3
Real Unit Labour Cost	0.8	0.2	-0.3	-0.5
Harmonised Index of Consumer Prices*	0.0	1.1	0.5	1.2
Contribution to real GDP growth				
Final Domestic Demand	-0.2	0.9	1.9	2.3
Net Exports	-0.7	-0.2	0.0	0.0
Inventories	0.6	0.6	0.0	0.0
As a percentage of GDP				
General Government Balance	0.6	0.8	0.4	0.2
Current Account Balance	-0.7	-0.9	-0.4	-0.5
General Government Gross Debt	180.8	178.6	177.8	170.3
In percentage terms				
Unemployment (% of labour force)	23.6	21.5	20.1	18.4

* Based on the Labour Force Survey methodology

Source: European Economic Forecast, spring 2018, European Commission, May 2018

The anticipated new boost of export demand will create jobs in the current year in Manufacturing, Tourism and Transport, which will be the main driver of the further decline of unemployment. The contribution of Construction to the new fall in unemployment is expected to be stronger, from the start of investment projects in privatisation deals and the recovery of construction activity. Expansion of employment, of permanent and temporary kind, is expected to take place in the public sector, mainly through community service programmes. As a result of the above effects on the labour market, unemployment is anticipated to decline in the current year to about 19.8%.

Concluding with the inflation forecasts, the significant increase in the international price of oil in the first half of this year, which is expected to continue in part during the current half, will be the main factor supporting prices. The stimulating effects of oil prices will ease in the third quarter from higher year on year exchange rate of the euro against the dollar, yet the difference compared to last year will wane over its duration, resulting in a lower year-on-year exchange rate in the next quarter, boosting the impact of the oil price. However, upon the hitherto mild effects of oil prices on the domestic CPI, strong inflationary pressure is not anticipated to emerge in the rest of 2018. The changes in indirect taxes from 1 January 2018 had a mild impact on CPI in the first half of the current year, which is not expected to strengthen in the second half. The extension of the lifting of the VAT discount in six islands that receive the largest refugee flows, which was to expire at the end of June, for the whole of 2018 is conducive to such a development. The weak private consumption growth is a key factor preventing strong inflation. The joint effect of factors that increase prices (oil price fluctuations, excise taxes) is expected to lead to inflation in the vicinity of 1.0% in some of the months of the second half of this year. For this reason, the average increase of the domestic CPI in 2018 is estimated to be in the range of 0.5%, or maybe slightly higher.

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2017 – 2018

(at constant 2010 market prices, annual % changes)

	Actual.	MinFin		EC		IOBE		IMF		OECD	
	2017	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
GDP	1.4	1.6	2.5	1.6	2.5	1.3	2.1	1.4	2	1.4	2.3
Private Consumption	0.1	0.9	1.2	0.9	1.2	0.8	1.1	:	:	0.9	1.3
Public Consumption	-1.1	0.9	0.2	0.9	0.2	-1.8	1.5	:	:	1.3	0.4
Gross Fixed Capital Formation	15.7	5.4	11.1	5.1	11.5	1.5	19	:	:	3.3	7.2
Exports	6.8	6.9	4.6	6.8	4.6	8	8	:	:	5.7	5.8
Imports	7.2	6	3.8	6	3.8	8.3	10	:	:	5	4.3
Unemployment (%)	1.1	1.2	0.8	1.1	0.8	1	0.5	1.1	0.7	1.2	1
Harmonised Index of Consumer Prices (%)	0.8	-0.6	0.6	-1.2	0.9	:	:	0	-0.1	-0.9	-0.1
General Government Balance (% GDP)	-0.8	:	:	-0.2	0.4	:	:	-0.8	-0.8	0.4	0.4

Sources: (2017) Explanatory note of the 2018 Budget, Ministry of Finance, November 2017 - European Economic Forecast, autumn 2017, European Commission, November 2017 – The Greek Economy 04/17, IOBE, January 2018 - World Economic Outlook, IMF, October 2017 - Fiscal Monitor, IMF, October 2017 - OECD Economic Outlook No. 102, November 2017 (2018) Medium Term Fiscal Strategy 2019 – 2022, Ministry of Finance, June 2018 (N.4549/2018) – European Economic Forecast, spring 2018, European Commission, May 2018 - The Greek Economy 02/18, IOBE, July 2018– World Economic Outlook, IMF, April 2018 - Fiscal Monitor, IMF, April 2018 - OECD Economic Outlook No. 102, November 2017

3.2 Developments and prospects in key areas of the economy

- Steady industrial production in the first four months of 2018, compared to the same period of last year, from +7.1%
- Unchanged activity in Construction as well (+0.1%), after a substantial boost a year ago (+14.6%)
- Weaker growth of Retail Trade volume, compared with the first quarter of 2017 (0.8% against 2.6%)
- Year-on-year turnover reduction in eight of the thirteen sub-sectors of Services

Industry

Industrial production remained unchanged year on year in the first four months of the current year, compared with 7.1% growth in the same period of 2017. Despite its continuous strengthening between 2015 and 2017, the annual average index stood about seven points lower than the 2010 average.

The prices of industrial products increased by 2.2% in the first five months of 2018, against stronger rise in the same period of 2017 (8.1%). The price growth was reflected in the turnover trend, which increased at a much weaker rate in the first four months of 2018, compared to the same period of 2017 (6.6% against 20.6%).

In the Euro area, industrial production strengthened by 2.9% in the first four months of this year, compared to 1.3% growth in the year before.

Production declined in almost all major branches of industry in Greece in the first four months of 2018. The strongest contraction was recorded in Electricity generation, by 5.7%, against 18.4% growth a year earlier. Mining-Quarrying came next, with 3.1% contraction, against 13.8% growth a year earlier, followed by Water Supply (-2.5%, against -0.5% last year). Output increased only in Manufacturing, by 2.0%, weaker than in the corresponding period of last year (4.3%).

In greater detail, in Mining, production decreased in Coal-Lignite (-8.8%, against 34.8% a year earlier) and Other Mining (-6.4% against -4.7%). By contrast, production increased strongly in Extraction of Crude Petroleum, by 44.0%, against a decline by 6.9% in 2017 and in Mining of Metal Ores (19.3%, against -12.1% in 2016).

In Manufacturing, output increased in 16 of its 24 branches. Among the branches with special significance for the Greek economy, production increased in Basic Pharmaceuticals by 16.8%, faster in a year earlier (11.6%), Food Products, by 0.9%, about the same as in the previous year (0.6%) and Basic Metals (0.8%, against strong contraction by 27.5%).

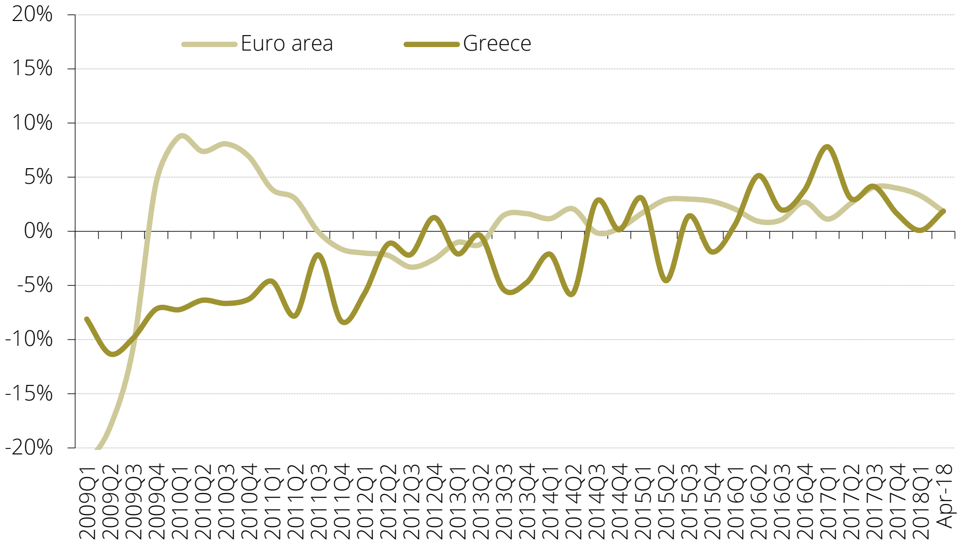
Among the remaining branches of Manufacturing, the largest contraction in the first four months of 2018 was recorded in Tobacco Products, by 36.5%, against similarly strong contraction a year earlier by 31.2%, followed at a distance by Transport Equipment, 7.5%, after a contraction by 19.0%

a year earlier. Leather-Footwear came next with significantly lower contraction, -2.8% against -4.7%, followed by Textiles (-2.7%, against -0.4%), Clothing (-1.1%, against -1.0%) and Wood Products (-1.0%, offsetting a similar growth in 2017).

Figure 3.3

Industrial Production Index in Greece and in the Euro Area (year-on-year % change)

The industrial production index steadied in the first four months of 2018



Sources: ELSTAT, Eurostat

Other branches with growing output in the first four months of 2018 include Furniture (18.3%, against -7.8%), Machinery and Equipment (14.6%, against 2.3%) and Motor Vehicles (11.7%, against 153.0%). Lower output growth was recorded in Beverages (7.1%, against -12.7%), Paper Products (5.3%, against 0.1%) and Other Manufacturing (4.4%, against -1.6%).

Production increased in most main groups of industrial products over the same period. In particular, the production of Durable Consumer Goods strengthened by 5.1%, against a growth by 3.8% a year earlier. The Capital Goods came next (3.7%, against 13.4%), followed by Non-durable Consumer Goods (3.1% against -2.9%) and Intermediate Goods (1.0%, against 7.0%). In contrast, the production of Energy Goods declined by 3.0%, against growth by 14.0% in the first four months of 2017.

Construction

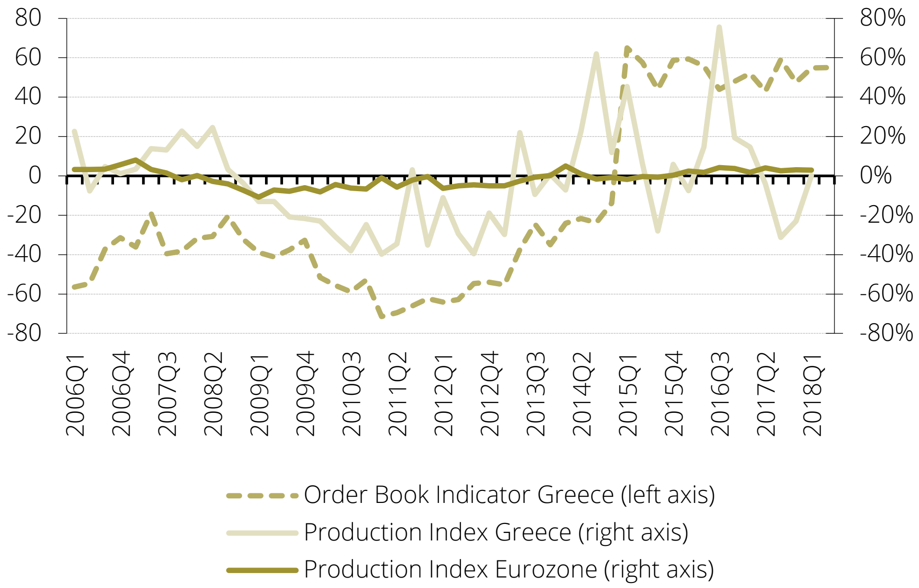
The production index in Construction remained essentially unchanged year on year in the first quarter of 2018 (0.1%), against strong growth, by 14.6%, in the corresponding period of last year. The index averaged 39 points in the first quarter, lower by 61 points than the base year (2010).

Despite the overall stability in the industry, completely different trends prevail among the constituent activities: the production index in Construction of Buildings strengthened by 35.6%, against a contraction by 5.1% in the first quarter of 2017. By contrast, the production index in Civil

Engineering declined by 24.5%, against 31.3% growth a year earlier. The monthly data on building activity over the same period point to growth, albeit at a weaker rate than in the same period of last year, in terms of number of permits (5.2% against 13.6%), volume (10.6%, against 25.1%) and volume (3.1%, against 17.8%) of new buildings.

Figure 3.4

Production Index in Construction and Building Activity Index



Stability in the construction sector in the first quarter of 2018, following a significant boost a year ago (+14.6%)

Source: ELSTAT

Production in construction in the Euro area strengthened in the first quarter of 2018, growing by 2.9% against 1.9% the year before.

Retail Trade

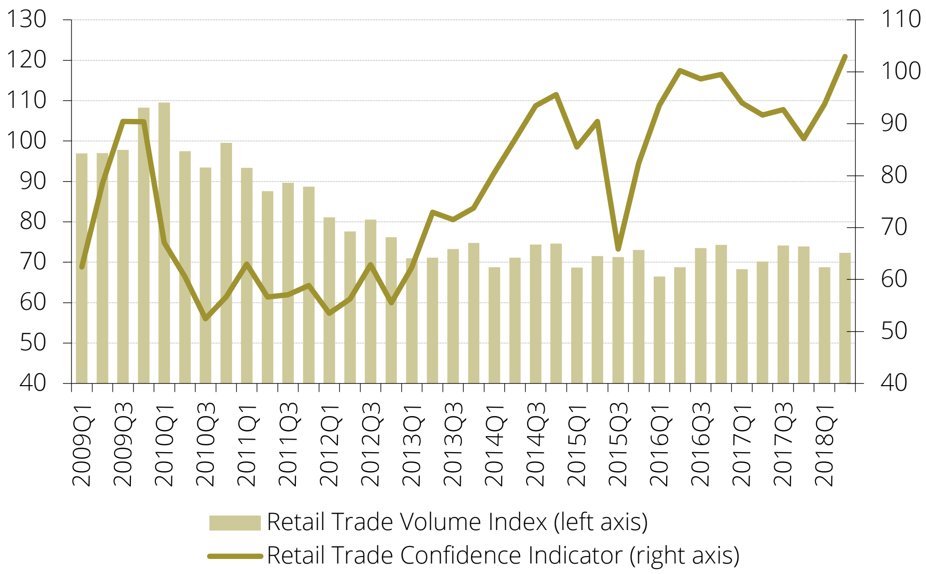
The volume index in retail trade strengthened in the first four months of 2018, at a lower rate than in the same period of 2017, by 0.8% against 2.6%. Nevertheless, the activity volume kept growing in five of the eight branches of Retail Trade. The strongest growth was recorded in Furniture – Electrical Equipment – Household Appliances, by 8.4%, against mild expansion by 2.1% a year earlier. Supermarkets came next, with 3.1% (against a similar rate in 2017, 3.0%), followed by Pharmaceuticals-Cosmetics, where turnover strengthened by 3.1%, against notably weaker growth in the same period of 2017 (0.9%). Turnover also increased in Clothing-Footwear, by 2.8% against 3.3% in the previous year and in Department Stores, by 1.4% against -2.1%. In contrast, stronger contraction than in the previous year was recorded in Food – Beverages – Tobacco (-8.0%, against -4.7%), Books-Stationery (-0.7%, against 10.6%) and Fuel - Car Lubricants (-0.4%, against -1.1%).

The expectations in Retail Trade increased significantly in the first half of 2018 compared with a year earlier, according to the leading indicators of the Business Surveys conducted by IOBE. The index for Retail Trade overall increased by 4.0 points year on year, compared with 3.5 points in the corresponding period of 2017.

Figure 3.5

Volume Index in Retail Trade (2010=100) and Business Sentiment Indicator in Retail Trade (1996-2006=100)

Milder increase in the volume of Retail Trade in the first quarter of 2018, compared to last year (0.8%, against 2.6%).



Source: IOBE

At the branch level, the expectations deteriorated year on year only in Food-Beverages-Tobacco, by 18.3 points, after 19.1 points contraction a year earlier. By contrast, the representatives of Household Appliances (15.7, against -4.5 points a year earlier), Motor Vehicles (13.9, against 8.4 points), Clothing–Footwear (12.2, against 8.1 points) and Department Stores (2.6, against -3.6 points) appeared more optimistic. At the individual components of the business expectations index for Motor Vehicles, the current sales balance improved significantly, and so did the forecasts for orders in the coming period and the sales prospects.

Table 3.4

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan. – Apr. 2016	Jan. – Apr. 2017	Jan. – Apr. 2018	Change 2017/2016	Change 2018/2017
Overall Index	67.3	69.1	69.6	2.6%	0.8%
Overall Index (excluding automotive fuels and lubricants)	69.5	71.1	72.0	2.3%	1.2%
Store Categories					
Supermarkets	76.1	78.4	80.9	3.0%	3.1%
Department Stores	81.2	79.5	80.7	-2.0%	1.4%
Automotive Fuels	62.7	62.0	61.7	-1.1%	-0.4%
Food – Drink – Tobacco	62.9	59.9	55.1	-4.7%	-8.0%
Pharmaceuticals – Cosmetics	64.3	64.8	66.9	0.9%	3.1%
Clothing – Footwear	74.2	76.7	78.8	3.3%	2.8%
Furniture – Electric Equipment – H. Appliances	55.4	56.6	61.3	2.1%	8.4%
Books – Stationary	88.9	98.3	97.7	10.6%	-0.7%

Source: ELSTAT

Table 3.5

Business Expectations Indices in Retail Trade per sub-sector (1996-2006=100)

	H1 2016	H1 2017	H1 2018	% change 2017/2016	% change 2018/2017	Change 2017/2016	Change 2018/2017
Food-Drinks-Tobacco	113.3	94.2	75.9	-16.9%	-19.4%	-19.1	-18.3
Textiles - Clothing – Footwear	88.7	96.8	109.0	9.1%	12.6%	8.1	12.2
Household Appliances	83.8	79.3	95.0	-5.4%	19.8%	-4.5	15.7
Vehicles-Spare Parts	99.7	108.1	122.0	8.4%	12.9%	8.4	13.9
Department Stores	94.9	91.3	93.9	-3.8%	2.8%	-3.6	2.6
Total Retail Trade	96.9	93.4	97.4	-3.6%	4.3%	-3.5	4.0

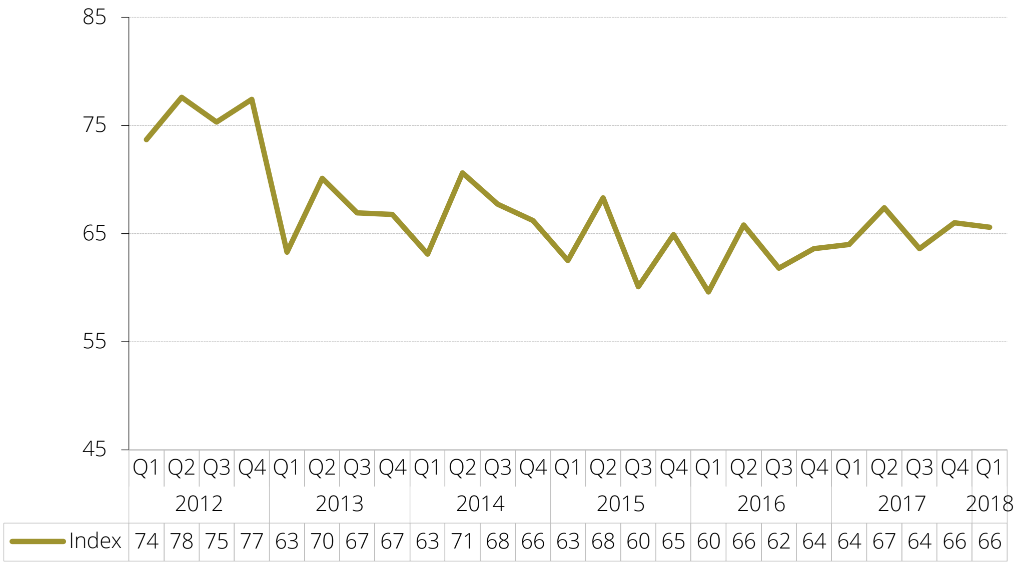
Source: IOBE

Wholesale Trade

Turnover in wholesale trade increased by 2.5% in the first quarter of 2018, against a stronger growth, by 7.4% in 2017. As a result, the index averaged 66 points, which implies that the index remained below its 2010 reference level by about 34 points.

Figure 3.6

Turnover Index in Wholesale Trade



Higher turnover in Wholesale Trade in the first quarter of for the second consecutive year, by 2.5%, from 7.4% last year

Source: ELSTAT

Services

Turnover declined year on year in eight of the thirteen branches of Services in the first quarter of 2018.

The strongest activity contraction was recorded in Architectural – Engineering Activities, by 28.1%, against 15.7% contraction in the previous year, Cleaning Activities, by 12.5% (against -6.8%) and Publishing Activities, by 10.3%, about as much as in 2017 (-11.0%). Weaker contraction was recorded in Information Service Activities (-2.7%, against 3.2%) and Telecommunications (-1.9%, against 0.1%). Note that in most of these sectors, the decline accelerated compared to the first quarter of 2017.

Table 3.6

Turnover Indices (2010=100)

Services branch	% Change 2017 /2016	% Change 2018 /2017
Other professional, scientific and technical activities	29.4%	14.7%
Employment activities	5.6%	24.7%
Legal and accounting activities	5.4%	6.6%
Advertising and market research	-0.8%	1.1%
Computer programming, consultancy and related activities	10.4%	4.9%
Office administrative, office support and other business support activities	-9.7%	4.6%
Postal and courier activities	0.6%	4.9%
Security and investigation activities	3.5%	-4.0%
Telecommunications	0.1%	-1.9%
Information service activities	3.2%	-2.7%
Services to buildings and landscape activities	-6.8%	-12.5%
Architectural and engineering activities; technical testing and analysis	-15.7%	-28.1%
Publishing activities	-11.0%	-10.3%

Source: ELSTAT

Among the branches where turnover increased year on year in the first quarter of 2018, the largest growth was recorded in Employment Activities (24.7%, against 5.6%), Other Professional – Scientific – Technical Activities (14.7%, against 29.4%), Legal – Accounting – Management Consultancy Activities (6.6%, against 5.4%) and Computer Programming (4.9%, against 10.4%).

Table 3.7

Sector Indices of Business Sentiment in Services (1996-2006=100)

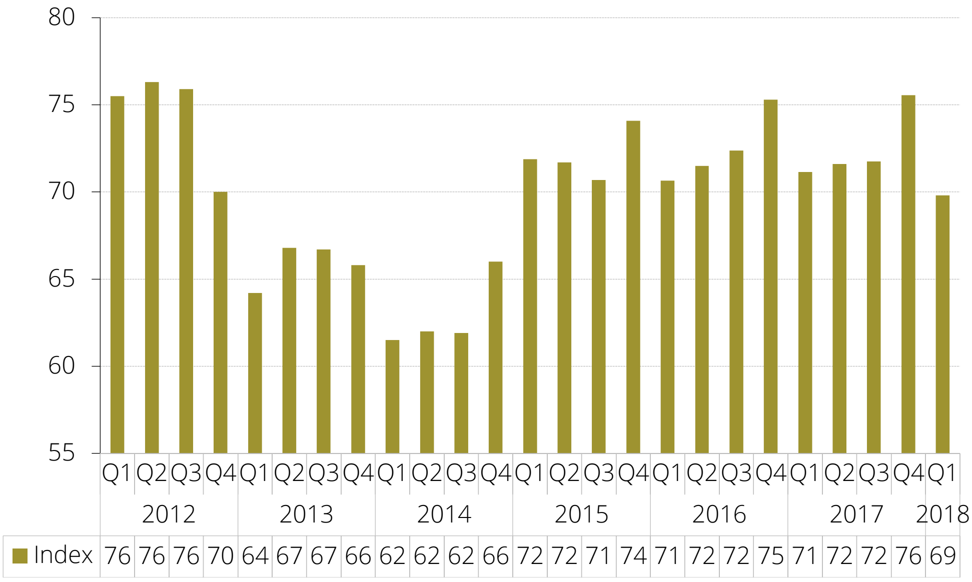
	H1 2016	H1 2017	H1 2018	%Δ '17-'16	%Δ '18-'17	Change 2017/2016	Change 2018/2017
Hotels – Restaurants – Travel Agencies	80.2	103.3	107.3	28.8%	3.9%	23.1	4
Other Business Services	51.6	59.5	66.4	15.3%	11.6%	7.9	6.9
Financial Intermediation	56.0	79.9	92.6	42.7%	15.9%	23.9	12.7
Information Services	71.7	70.4	75.3	-1.8%	7.0%	-1.3	4.9
Total Services	71.6	82.0	91.5	14.5%	2.0%	10.4	9.5

Source: IOBE

According to the leading indicators of the Business Surveys conducted by IOBE for the first half of 2018, the sentiment improved year on year in all branches of Services. The overall indicator for Services rose by 9.5 points, following an increase by 10.4 points in the previous year. At the branch level, the indicator increased by 12.7 points in Financial Intermediaries, compared with 23.9 points increase in the first half of 2017, by 6.9 points in Other Business Activities, following 7.9 points growth last year, by 4.9 points in Computer Programming (against -1.3 points last year) and by 4.0 points in Tourism (23.1 points a year earlier).

Figure 3.7

Turnover Index in Telecommunications (branch 61)

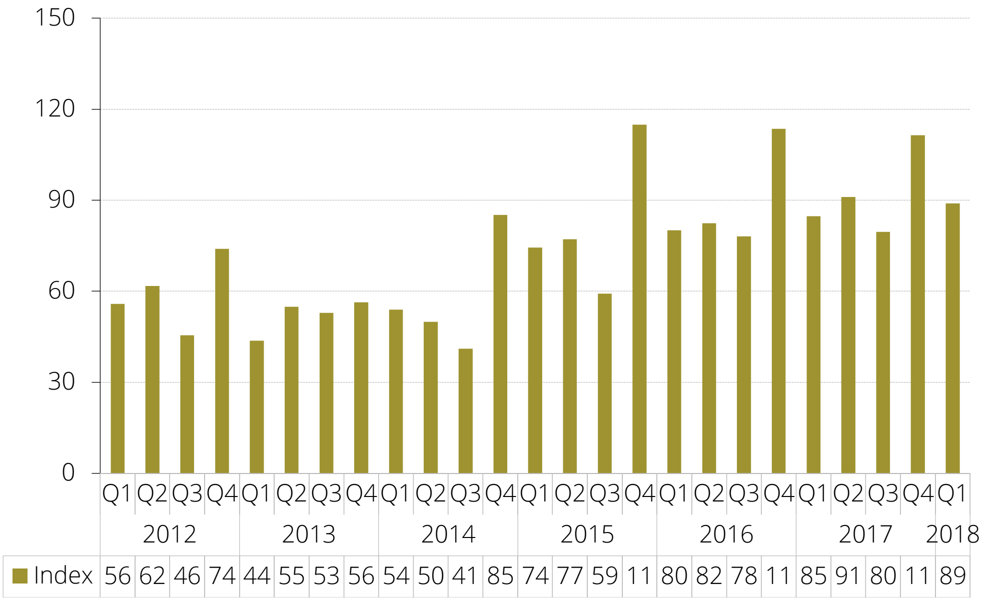


Decline by 1.9% compared with the first quarter of 2017, against small growth at that time (+0.7%)

Source: ELSTAT

Figure 3.8

Turnover Index in Information Services (branch 62)



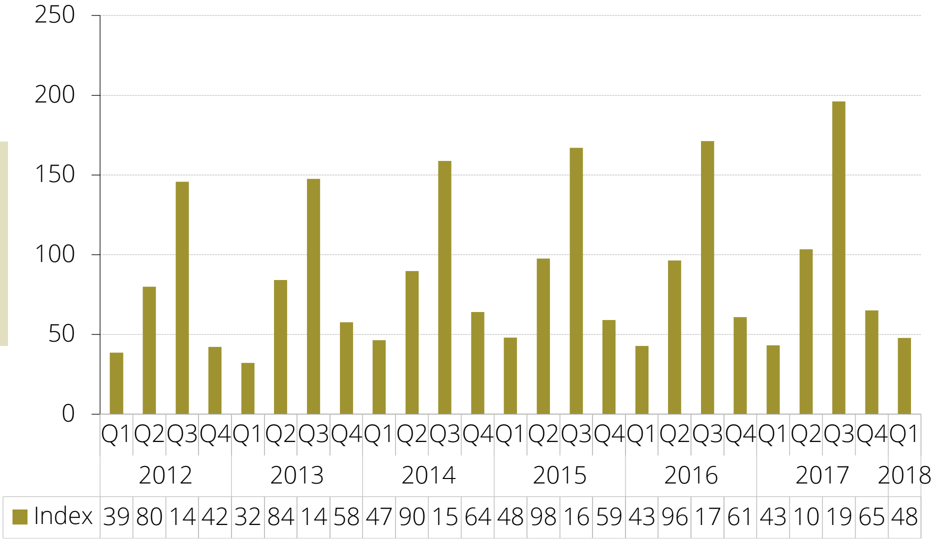
New expansion of activity in the sector (4.9%), similar to last year (5.8%)

Source: ELSTAT

Figure 3.9

Turnover Index in Tourism (Accommodation and Food Services Activities, branches 55 & 56)

Significant boost by 10.9% in the first quarter of 2018, from weaker growth by 0.9% last year.



Source: ELSTAT

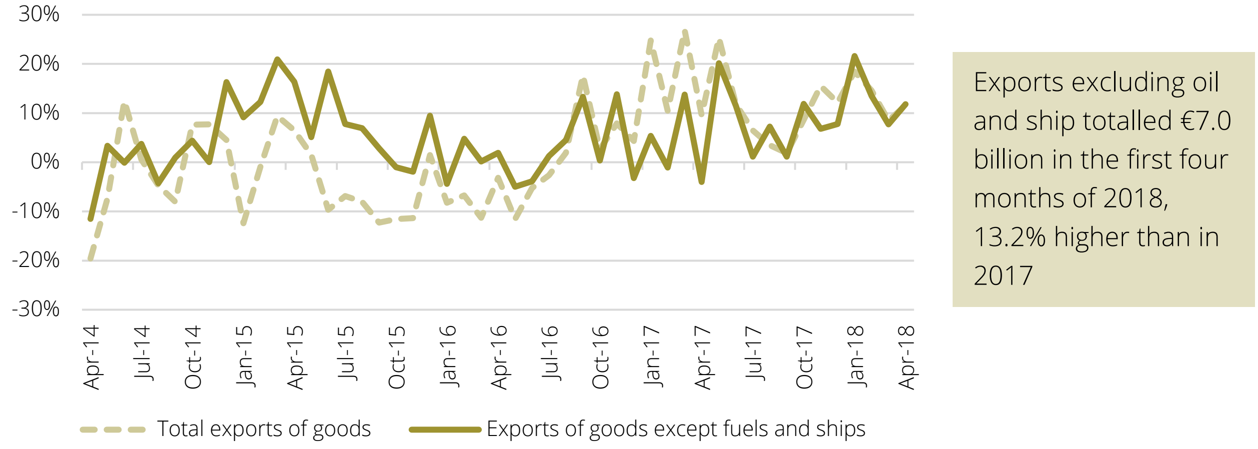
3.3 Export performance of the Greek economy

- Exports continued to grow in the first four months of this year, at a high rate, the same as in 2017 overall (13.2%)
- Demand strengthened primarily from EU countries (11.5% or €561.2 million), due to ongoing, accelerating growth
- The trade deficit fell by 16.3% compared to the first quarter of 2017
- Double-digit percentage rise in exports is expected this year, despite the protectionist trade policies, due to stronger demand from the EU, high oil prices and slight depreciation of the EUR/USD exchange rate

The exports of goods stood at €10.4 billion in the first four months of 2018, from €9.2 billion in 2017, recording an increase of 13%, according to data from ELSTAT. If petroleum and ship exports are not taken into account, the remaining exports increased by 13.2%, to reach €7.0 billion, from €6.3 billion in the preceding year (Figure 3.11). Note that both export categories reached their highest level on record. Imports marginally decreased in the first four months of 2018, by 0.7%, to reach €17.0 billion, from €17.2 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit decreased by €1.3 billion (-16.3%), to €6.8 billion, from €8.0 billion in the same period of last year. Subsequently, the value of the exports of goods of the Greek economy accounted for 60.4% of its imports, from less than 53% in the first four months of 2017.

Figure 3.10

Total export activity and exports of goods except for fuels and ships (% change)



Source: ELSTAT Processing: IOBE

In greater detail, the exports of Agricultural Products increased by 14.0% in the first four months of this year, to reach €1.9 billion, from €1.7 billion a year earlier, while the exports of Fuel increased by 13.3%, to €3.4 billion, from €2.9 billion in the previous year (Table 3.7). The exports of these two product categories accounted for 51.6% of the Greek exports in the current year, from 51.4% a year earlier. The growth in Agricultural Products came mainly from a 60.4% increase in the exports of Oils and Fats of Animal or Plant Origin, to €319.7 million, from €199.2 million a year earlier. As a result, their share in total exports strengthened from 2.2% in 2017 to 3.1% in the current year. The exports of Food – Live Animals, which accounts for approximately 74.0% of the exports of Agricultural Products, increased by 10.1%, from €1.3 billion to €1.4 billion. The foreign demand for Beverages – Tobacco, which represented 9.7% of the exports of Agricultural Products, totalled €190.3 million in the first four months of 2018, lower by 6.2% year on year (from €203.0 million).

The exports of Industrial Products increased by 13.4% in the first four months of 2018, with their value reaching €4.4 billion, from €3.9 billion a year earlier. This rise is explained mainly by the strengthening of foreign demand for Manufactured Goods Classified Chiefly by Raw Material, by 15.6%, with their value reaching €1.6 billion. The exports of Chemical and Related Products also rose, by 11.2%, to €1.0 billion in 2018, from €968.5 million a year earlier, while the exports of Miscellaneous Manufactured Articles increased by 6.8%, to €667.2 million in the current year, from €624.7 million a year earlier. The export performance strengthened in Machinery and Transport Equipment as well, by 16.9%, to €976.8 million, from €835.5 million.

Finally, the exports of Raw Materials increased by 4.5%, from €409.6 million, to €427.9 million, while the exports of Commodities and Transactions Not Classified by Category expanded by 13.5%, from €187.2 million in the first four months of 2017, to €164.9 million in the same period of this year.

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 12.2%, to reach €3.9 billion in 2018, from €3.5 billion in the first four months of 2017, absorbing as a result almost 38.1% of the Greek exports of goods in the current year. There was a similar increase in the EU, by 11.5%, or €561.2 million, with the export to the region totalling €5.5 billion, from €4.9 billion a year earlier. Among the Eurozone countries with the largest share of Greek exports, growth was recorded in Italy, by 2.6%, from €1.10 billion in 2017 to €1.12 billion in the current year, and in Cyprus, by 5.5%, from €541 million to €570 million. The exports to Spain increased significantly, by 54.3%, from €244.7 million in the previous year to €377.4 million in the current year. The largest percentage contraction in exports in the first four months of 2018 in the Eurozone was recorded in Slovakia, where it did not exceed 1.5% or 0.5 million, to reach €31.0 million. In contrast, the highest percentage increase was recorded in Slovenia (+82.7% or €58.4 million).

Among the remaining countries of the European Union, where total exports grew by 9.7% or €135.4 million, to €1.5 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 10.0% or €40.2 million year on year. The exports to two other countries, which also absorb a significant share of Greek exports from this group of countries, Poland and Romania, also increased, by 25.7% or €33.7 million, and by 8.5% or €22.8 million, to reach €164.8 million and €291.7 million, respectively. The largest percentage growth, by 31.4%, was recorded in Hungary, where Greek exports increased by €13.9 million, from €44.3 million last year, to €58.2 million in the current year.

The Greek exports to the remaining European countries increased by 26.2% in the first four months of 2018, to €1.8 billion, from €1.4 billion in the same period of last year. In Turkey, one of the major export destinations, exports expanded significantly, by 31.4%, from €591.3 billion to €777.3 billion. The increase of exports to the key neighbouring country was the greatest in absolute terms recorded for any country in the first four months of this year (€186 million).

The exports to the North American countries increased by 8.1%, from €412.4 million in 2017 to €445.7 million in the current year, mainly due to the increase in exports to the US by 11%, from €319.4 million last year to €354.6 million in the current year, and to a lesser extent from the growth of the export to Canada, by 6.7% or €2.6 million.

The exports to the Middle East and North Africa declined by 5.7%, to €1.4 billion from €1.5 billion, mainly due to a decline in the exports to Egypt (-9%), where they reached €288.2 million in the first four months of the year, from €316.6 million a year earlier. The lower export activity to the specific geographical region was moderated by an increase in some North African countries, mostly to Libya (71.0%, from €87.4 million to €149.5 million) and to a lesser extent to Tunisia (2.7%, from €84.2 million to €86.5 million). That said, the exports to Saudi Arabia, another major export destination in the Middle East, decreased by 34.8%, to €150.9 million. The exports to the United Arab Emirates remained essentially unchanged (0.1%, to €66.3 million).

The flow of exports of Greek products to Oceania increased in the first four months of 2018, with their value reaching €54.8 million, against €48.1 million a year earlier. The exports to Australia expanded by 15.3%, to €50.0 million, from €43 million in 2017. In New Zealand, exports increased slightly, by 0.7%.

Table 3.8

Exports per one-digit category at current prices, January – April (million €)

PRODUCT	VALUE		% CHANGE	% SHARE	
	2018*	2017*	18*/17*	2018*	2017*
AGRICULTURAL PRODUCTS	1,961.6	1,720.7	14.0%	19.0%	18.9%
Food and Live Animals	1,451.6	1,318.5	10.1%	14.1%	14.5%
Drinks and Tobacco	190.3	203.0	-6.2%	1.8%	2.2%
Oils and Fats of animal or plant origin	319.7	199.2	60.4%	3.1%	2.2%
RAW MATERIALS	427.9	409.6	4.5%	4.1%	4.5%
Non-edible Raw Materials excluding Fuels	427.9	409.6	4.5%	4.1%	4.5%
FUELS	3,364.4	2,969.1	13.3%	32.6%	32.6%
Minerals, Fuels, Lubricants etc.	3,364.4	2,969.1	13.3%	32.6%	32.6%
INDUSTRIAL PRODUCTS	4,371.0	3,855.9	13.4%	42.4%	42.3%
Chemicals and Related Products	1,077.3	968.5	11.2%	10.4%	10.6%
Industrial Products Sorted by Raw Material	1,649.7	1,427.1	15.6%	16.0%	15.6%
Transport Equipment	976.8	835.5	16.9%	9.5%	9.2%
Various Manufactured Goods	667.2	624.7	6.8%	6.5%	6.9%
OTHER	187.2	164.9	13.5%	1.8%	1.8%
Goods and Transactions not sorted by Category	187.2	164.9	13.5%	1.8%	1.8%
TOTAL EXPORTS	10,312.2	9,120.2	13.1%	100.0%	100.0%

* Provisional data

Sources: ELSTAT, PSE-KEEM

The exports to the markets of Central and Latin America increased significantly in the first four months of this year, by 55.8%, with their value reaching €98.7 million, from €63.3 million a year earlier. The better export performance to these countries came mainly from the strong growth in the demand for Greek products from Brazil, by 326.9%, with their value expanding to €36.9 million, from €8.6 million in 2017.

The demand for Greek goods increased significantly in the Asian countries, where exports increased by 41.6%, to €754 million from €532.3 million in the first four months of 2017. This development came mainly from the strengthening of exports to Singapore (74.7%, to €207.5 million from €118.8 million in 2017), and China (39.0%, to €186.9 million, from €134.5 million in 2017). By contrast, a significant decline of Greek exports was recorded in South Korea, by 64%, (from €94.4 million in 2017, to €33.9 million a year later) and Japan (from €21.3 million in 2017 to €18.1 million in the current year).

In conclusion, exports continued to grow strongly in the first quarter of this year, essentially at the same rate as in 2017, by 13.1% against 13.2%. However, unlike the previous year, the rise in exports this year mainly came from goods other than ships and fuel, by 13.8%, or €824.9 million, rather than from the much higher fuel exports (by 66.9% or €1.17 billion), an increase that largely parallels the rise of oil prices rather than stronger demand.

In conjunction with the marginal decline in imports, the trade deficit narrowed significantly, about as much as the expansion of exports, by 16.3%, or €1.3 billion, compared with increase by €1.7 billion a year ago. Therefore, all the trends in the international trade flows of goods, both in exports and in the balance, are positive in early 2018.

Table 3.9

Exports by destination, January - April*

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% SHARE	
	2018	2017	18/17	2018	2017
World	10,312.2	9,120.2	13.1%	100.0%	100.0%
OECD	5,562.5	4,969.3	11.9%	53.9%	54.5%
EU	5,460.7	4,899.4	11.5%	53.0%	53.7%
Euro Area	3,930.3	3,504.4	12.2%	38.1%	38.4%
G7	2,835.7	2,730.0	3.9%	27.5%	29.9%
North America	445.7	412.4	8.1%	4.3%	4.5%
BRICS	396.1	230.5	71.9%	3.8%	2.5%
Middle East & North Africa	1,457.9	1,545.9	-5.7%	14.1%	17.0%
Rest of Africa	613.9	582.6	5.4%	6.0%	6.4%
Oceania	54.8	48.1	13.8%	0.5%	0.5%
Latin America	98.7	63.3	55.8%	1.0%	0.7%
Rest of Asia	754.0	532.3	41.6%	7.3%	5.8%
OPEC	464.4	483.7	-4.0%	4.5%	5.3%

* Provisional data

Source: ELSTAT, Processing KEEM

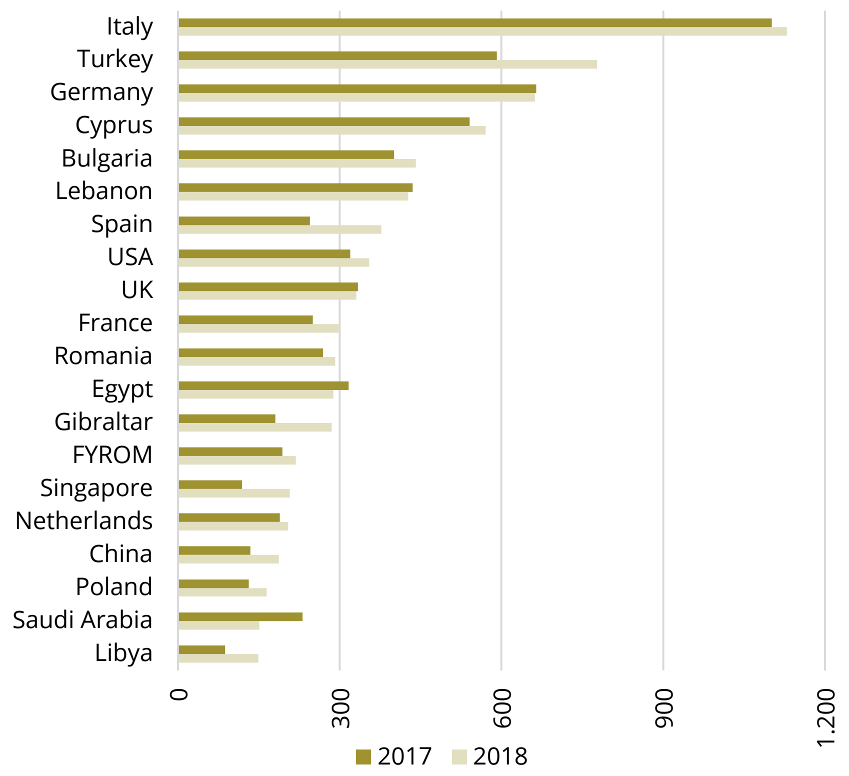
As the growth of the export activity originates mainly from the Euro area in the current year as well, which is the main trading partner-region of Greece, the continued growth this year, at a rate similar to that of last year, in accordance with the recent forecasts by the European Commission, by 2.3% from 2.4%[22], is expected to fuel the rise of exports in the rest of 2018. That said, the uncertainty about the effects of protectionist trade policy measures in the US, and the counter-measures taken at present by the European Union, China, Canada and Mexico, is growing. Taking into account the limited exposure of Greek exports of steel and aluminium products to the US, for which restrictions were imposed (€130 million value n 2017 or 0.4% of domestic exports), the direct effect of the measures is expected to be small. However, the indirect impact, through effects on exports from EU and third countries that would affect the demand for Greek export is expected to be stronger.

Apart from developments in the area of international trade, the almost continuous rise in the price of oil since July 2017, which so far has not been reversed by OPEC's decision of late June to increase daily production, an indication of the current strong demand, will probably boost the value of domestic exports of petroleum products. However, they are not expected to expand as much as last year (+31.5%). The depreciation of the euro against the dollar since mid-April until the end of May, after the continuous appreciation in last year's second half and up to January, and the subsequent stabilisation of the exchange rate in the area of 1.23 – 1.24, promotes the competitiveness of Greek products, even though it increases the energy costs. Taking this into account, the total exports of goods are projected to grow at a double-digit rate in the current year.

[22] European Economic Forecast, spring 2018, European Commission, May 2018

Figure 3.11

Countries with the largest share in the exports of Greek products, January – April (million €)



The largest increase in exports in absolute terms in the first four months was recorded in Turkey (+€186 million). Italy remains the country with the largest share.

Source: PSE-KEEM Processing: IOBE

3.4 Employment – Unemployment

- Reduction of unemployment to 21.2% in the first quarter of 2018, from 23.3% in the same period of 2017
- The number of long-term unemployed in the first quarter of 2018 stood at the same levels as in the first quarter of 2012 (684,600 people). The corresponding rate fell to 68.4% of the unemployed, from 69.9% last year.
- New rise in the seasonally adjusted wage cost index, by 4.9%, after 0.7% growth in the corresponding quarter of 2017.
- Further decline in unemployment this year, to about 19.8%, from employment boost in Manufacturing, Tourism, Transport and Construction.

According to data from the Labour Force Survey of ELSTAT, the unemployment rate has kept falling year on year since the second quarter of 2014. In the first quarter of the current year, it declined further to 21.2%, 2.1 percentage points lower than in the same period of 2017 (from 23.3%), remaining unchanged quarter on quarter. The number of people employed in the first quarter of 2018 rose by 64,500 people (to 3,723,800, from 3,659,300 in Q1 of 2017), while the number of unemployed declined by 113,500 people (from 1,114,700 to 1,001,200 people), therefore 43.2% of the drop came from a reduction in the workforce.

Regarding the trend in unemployment in the Eurozone countries, note first that the in the Euro area overall unemployment has been falling year on year since Q1 of 2014. In the first quarter of this year, it stood at 9%, from 9.9% in the same quarter of last year and 8.7% in Q4 of 2017. In Spain, which had the highest unemployment rate after Greece, unemployment averaged 16.8% in the first quarter of this year, 2.0 percentage points lower year on year (from 18.8%). France came next, where unemployment declined in the first quarter of 2018 to 9.6%, from 10.0% in the same quarter of 2017, followed by Finland, where it reached 8.8% from 9.3% a year earlier. The lowest unemployment rate was recorded once more in Malta (from 4.2% to 3.4%) and in Germany (from 4.1% to 3.6%).

The trends in unemployment by sex in Greece have not changed. Unemployment has remained higher among women than men, as the unemployment rates in the first quarter of 2018 stood at 26.1% (from 27.8% a year earlier) and 17.3% (from 19.8%) respectively. Note that the difference in unemployment rates between women and men widened during the crisis, reaching 8.8 percentage points in Q1 of 2018, its highest level since Q4 of 2005. In the Eurozone, this difference remained marginal in the first quarter of 2018, as it did not exceed 0.7 percentage points: at 9.3% the unemployment rate among women, from 10.2% a year earlier, and 8.6% among men, from 9.6%.

Regarding the age structure, unemployment decreased in all age groups in the first quarter of this year. The highest fall in unemployment occurred among young people aged 15-19, a category with the highest unemployment rate over time, by 5.0 percentage points, from 60.2% to 55.2%. In the age category 25-29 y.o., unemployment fell by 2.5 percentage points (from 33.6% to 31.1%). Similar decline was recorded among the 20-24 and 30-44 years old, by 2.0 percentage points (from 45.0% to 43.0%) and 2.1 p.p. (from 22.5% to 20.4%) respectively.

The percentage of long-term unemployed, after three consecutive quarters of growth, declined to 68.4% in the first quarter of the current year, from 69.9% in the same quarter of last year, reaching its lowest level since the third quarter of 2013. The situation with the number of long-term unemployed is better, as it has decreased steadily since the fourth quarter of 2014, to reach 684,600 in the first quarter of this year from 779,200 a year earlier (decline by 94,600 people or 12.1%).

As mentioned in previous IOBE reports on the Greek economy, the unemployment rate is inversely related to the education level, as it decreases as the educational attainment increases. The holders of doctorate or master's degrees had the lowest unemployment rate, unchanged year on year in the first quarter of 2018 at 11%. The tertiary education graduates came next, where the unemployment rate stood at 15.1%, from 16.9% a year earlier, followed by people with higher technical vocational education diploma (from 24.7% to 22.3%) and persons with upper secondary classes or equivalent education (from 25.3% to 23.1%). The highest unemployment was recorded among people with elementary or no education, which increased for the fourth consecutive quarter year on year, to reach 49.1% in the first quarter of this year, up by 13.7 percentage points compared with the first quarter of 2017 (35.4%).

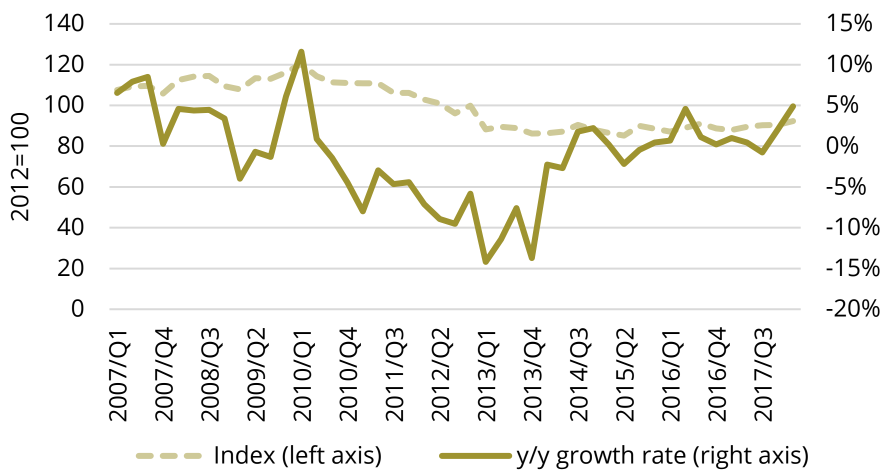
Regarding the regional structure of unemployment, it decreased in all regions of the country, except for the North Aegean region. In this region, the rate increased by one percentage point, to 24.5%. The highest unemployment rate was recorded in Western Macedonia, at 28.1%, from 30.8% a year earlier. The unemployment rate was higher than the national average in the Ionian Islands, where it stood at 25.9% from 27.2% in Q1 of 2017, while Western Greece followed with a similar rate, where unemployment stood at 25.5% from 27.3% a year ago. The lowest unemployment rate in Q1 of this year was recorded in the Peloponnese, at 15.9% from 19.2% a year earlier. East Macedonia-Thrace and Thessaly came next, posting the largest unemployment decline. In the former region, the fall reached 5.7 percentage points, from 22.1% to 16.4%, while in the latter, the unemployment rate declined by 5.0 percentage points, from 23.1% to 18.1%. Finally, in Attica, the unemployment rate is on par with the national rate, lower by 0.8 percentage points year on year.

At the level of basic economic sectors, the strongest growth in employment was recorded in the tertiary sector, the largest sector of the Greek economy. Employment in this sector has been growing since Q1 of 2014, as in Q1 of 2018 it strengthened by 39,600 people year on year, from 2,642,700 to 2,682,300. In the primary sector, employment strengthened for the second consecutive quarter and as a result the number of employees reached 465,600, from 450,900 last year. Meanwhile, in the secondary sector, the increase in employment reached 10,100 people, totalling 575,800 in Q1 of 2018.

Employment increased in 13 of the 21 sectors of economic activity, including important for the Greek economy branches. The biggest rise in the number of employees in the first quarter of 2018 was recorded in Human Health and Social Work Activities, where employment increased by 24,000, reaching 246,000 people, from 222,000 people a year earlier. Wholesale-Retail Trade came next, with an expansion of employment by 10,200 people, to reach 671,400, from 661,200 people in the first quarter of 2017. In Manufacturing, a major sector for the Greek economy, employment expanded by only 2,600 employees (from 349,600 to 352,200 people), while in Professional-Scientific-Technical Activities employment increased by 8,500 to reach 207,200 people. By contrast, the number of employees declined notably in Education, from 310,500 to 299,400 people and Financial-Insurance Activities, from 94,300 to 89,400 people. Fall, due to seasonal factors, took place in Accommodation and Food Services, by 1,600 employees, from 303,500 to 301,900. Finally, in Public Administration – Defence, employment increased marginally in the first quarter of this year, by about 900 employees, from 335,400 to 336,300 people.

Figure 3.12

Seasonally adjusted wage cost index (Q1/2007-Q1/2018)



Further increase in the seasonally adjusted wage cost in Q1 2018, by 4.9%, its highest growth since Q2 2010.

Source: ELSTAT

Figure 3.13

Labour force participation and unemployment rates

Reduction of unemployment in Q1 2018 to 21.2%, from 23.4% in Q1 2017. Unchanged quarter on quarter.

Sources: ELSTAT – Labour Force Survey, Eurostat

To sum up, the increase of employment in the first quarter of 2018 originated mainly from employment growth in:

- Human Health and Social Work Activities (by 24,000 people or 10.8%). Part of this came from two special employment programmes for long-term unemployed of the Manpower Employment Organisation (OAED) in the Health sector, launched in 2017, with 4,200 beneficiaries. The first of these programmes was extended by 12 months in the beginning of 2018.
- Agriculture-Forestry-Fishing (by 14,700 people or 3.3%)
- Wholesale-Retail Trade (by 10,200 people or 1.5%)

and despite the fall in employment in the education sector by 11,100 people.

The seasonally adjusted labour cost index for the economy as a whole increased significantly year on year in the first quarter of 2018, by 4.9%, following its growth by 2.0% in the fourth quarter of 2017. This is the strongest increase since Q2 of 2010.

Table 3.10

Population aged 15 years and over by employment status (in thousands)

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	9,372.9	52.7	4,054.4	82.2	881.8	17.9
2012	9,344.8	52.3	3,695.0	75.6	1,195.1	24.4
2013	9,309.5	52.1	3,513.2	72.5	1,330.4	27.5
2014	9,282.1	51.8	3,536.3	73.5	1,274.4	26.5
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0
Q4 2015	9,234.1	52.2	3,641.7	75.6	1,174.7	24.4
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
Q1 2016	9,226.3	52.0	3,606.3	75.1	1,195.1	24.9
Q2 2016	9,217.2	52.2	3,702.6	76.9	1,112.1	23.1
Q3 2016	9,208.3	52.4	3,736.7	77.4	1,092.6	22.6
Q4 2016	9,199.4	51.9	3,648.6	76.4	1,124.0	23.6
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2
Q4 2017	9,163.3	51.8	3,736.3	78.8	1,006.8	21.2
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2

Source: ELSTAT. Labour Force Survey

Medium-term outlook

The recent completion of the fourth review of the implementation of the third adjustment programme in Greece implies that the programme will end in August. In addition, for the first time since May 2010, Greece will not be in an arrangement of funding from the official sector. The subsequent decision of the Eurogroup on 21 July on the last tranche of the third loan and the borrowing of the central administration through repos from General Government bodies, have created a cash buffer that facilitates debt refinancing for almost two years, at least. In addition, the new measures adopted for the Greek public debt limit the gross financing needs for servicing it in the medium and long term. These developments, coupled with the outcome of the latest stress test of the banks, which did not reveal any additional capital needs, are anticipated to ease quite a bit the wariness about the sustainability of public finances in Greece and the adequacy of the domestic banking system. Subsequently, the confidence in the growth prospects will strengthen, rekindling the investment interest, a development with a positive impact on employment, not so much this year but in the years to come.

In contrast to these positive domestic political developments, the tax measures of previous years, combined with those that came into force since the beginning of this year, exert strong pressures on the household disposable income. These pressures are reflected in the marginal increase in the seasonally adjusted volume of retail trade in the first quarter of 2018, by only 0.6%, against 2.8% rise a year ago. The effect of low private consumption demand on employment in Wholesale-Retail Trade, a sector that led the unemployment reduction in some of the recent recession years, is expected to restrain further unemployment fall in the coming quarters. In the current period and then in 2018, apart from the domestic political and economic developments, the steadily high growth rates in the EU and the US, and further rise in international tourism and transport are exogenous to the Greek economy factors, expected to affect favourably the labour market. That said, it is not possible to identify at present the effects of the US protectionist trade policy measures and the EU and China countermeasures on the exports of Greece. They are anticipated to be negative yet mostly indirect, from the negative impact on EU exports, which absorb almost half of the exports of Greek products, as the value of Greek exports in products where import restrictions were imposed has a small share in the value of all domestic exports. According to the latest data from the Bank of Greece, exports without fuel and ships widened by 12.6% in the first four months of this year, to €7.0 billion from €6.2 billion a year earlier.

In tourism, the proceeds of which are the principal component of the exports of services, according to the latest data from the Bank of Greece, travel receipts increased by 13.2% in the first quarter of 2018, to €553.8 million. In addition, according to a recent study of SETE[23], the prospects for the tourist flows in regional airports of Greece are particularly favourable as the scheduled airline seats by 31/03/2018 for this year's summer season were higher by 18% compared with a year earlier.

Investment in completed privatisation-concession deals, major infrastructure projects (e.g. the E65 motorway from Lamia to Xiniada, the new airport of Kastelli, and the Patras-Pyrgos motorway) and investment plans of large corporations (e.g. Mytilineos Group, TERNA Energy) which recently raised significant funds from the capital markets by issuing bonds, will boost activity in Construction. However, the residential construction activity has picked up this year as in the first quarter housing investment expanded by 10.7%.

In parallel, the programmes of the Manpower Employment Organisation OAED will continue to have positive effects on employment in 2018. Note that new community service programme of eight-month duration, implemented in 276 municipalities and addressed to 30,421 unemployed is expected to be announced in the summer.

Considering the above effects, IOBE's forecast regarding the unemployment rate in 2018 is kept unchanged from the previous bulletin at around 19.8% on average.

According to the latest IOBE business surveys, the short-term employment expectations improved quarter on quarter in the second quarter of 2018 in Services and Industry, while deterioration of these expectation was recorded in Construction and Retail Trade. Year on year, the expectations strengthened in Construction and Services and weakened in Retail Trade and Industry. In greater detail:

In Industry, the average balance of the previous quarter increased by 5 points in the second quarter of this year, from 3 to 8 points. Compared to last year, the average quarterly index was higher by 2 points. In the quarter under examination, the percentage of industrial firms that

[23] Outlook 2018 - The prospects of inbound tourism in Greece in 2018, 2nd edition, April 2018.

expected a drop in employment in the next period increased to 5% (from 7), while the percentage of those expecting employment growth expanded to 15% (from 9%). The vast majority of businesses in the sector (78% from 86%) were expecting employment to remain unchanged.

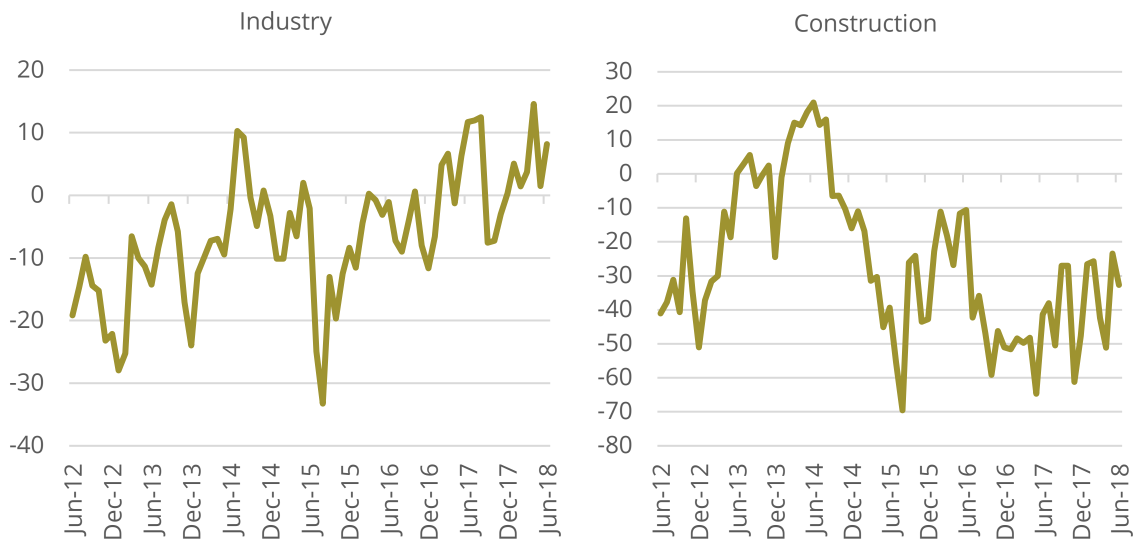
In Construction, the balance of employment expectations deteriorated from an already very low level, to -36 (from -32) points, 15 points higher year on year. In the second quarter of 2018, 47% (from 44%) of the businesses in the sector were anticipating further job losses, while once more 12% of the respondents were expecting employment growth. At the sub-sector level, the fall of the index in Private Construction (to -56 from -43 points) was partly offset by an increase in Public Works (to -3 from -15).

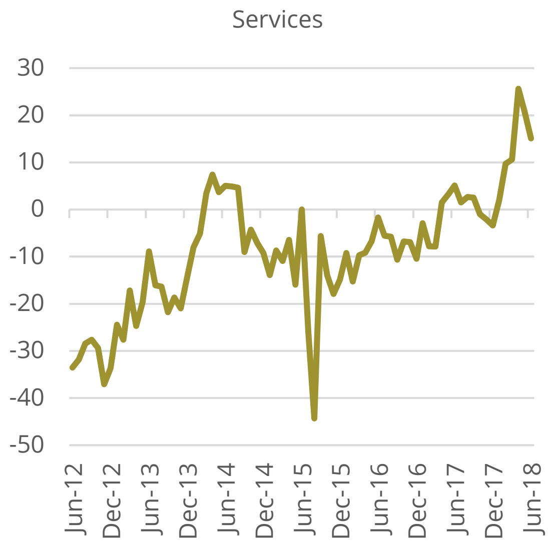
The employment outlook indicator in Retail Trade declined quarter on quarter in the second quarter of the year, to +5 (from +12) points. This level is down by 17 points compared to last year. About 3% (from 5%) of the firms in the sector were expecting job cuts, while 9% (from 16%) were anticipating employment growth, with those expecting stability taking up 88% (from 79%) of the sample. The employment expectations indicator improved in Motor Vehicles – Spare Parts, remained unchanged in Textiles – Clothing – Footwear and declined in the remaining branches.

In Services, the employment expectations gained ground compared to the previous quarter, while they also improved over the same period of last year. Thus, the relative balance of 7 points from the previous quarter tripled in the quarter under examination (from 3 points on average in the corresponding quarter of 2017). About 7% (from 10%) of the companies in the sector were expecting a drop in employment, with the percentage predicting an increase growing to 28% (from 17%). The trend is positive in all branches of services, except for IT Services.

Figure 3.14

Employment expectations (difference between positive and negative responses)





Source: IOBE

Stronger forecasts for the short-term employment outlook Services and Industry and weaker forecasts in Construction and Retail Trade

3.5 Consumer and Producer Prices

- Milder inflationary trends in the first five months of 2018 compared to a year earlier
- Significantly weaker inflationary impact of indirect taxes, small yet growing pressure from energy products
- Marginally positive core inflation without taxes and energy, after 7 years
- Expected inflation rate at about 0.5% in 2018

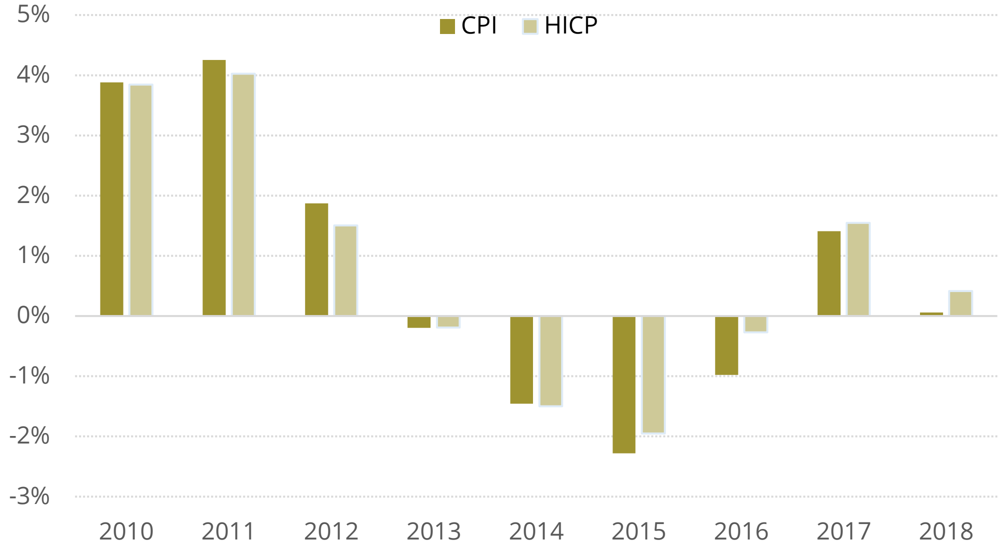
Recent Developments

After the first quarter of this year, when prices remained stable, the rate of change in the general Consumer Price Index returned to positive values in April and May. In particular, the domestic Consumer Price Index (CPI) marginally increased in the first five months of 2018, by 0.1% year on year, compared with a rise by 1.4% in the same period of 2017. The Harmonised Index of Consumer Prices (HICP) increased by 0.4% over the same period, compared to 1.5% inflation in the first five months of 2017 (Figure 3.15). In May 2018, the annualised price increase based on the 12-month moving average of the CPI stood at 0.6%.

The main cause for the price rebound after the first quarter of 2018 was the impact of growing energy prices, an effect which, as explained below, will probably continue in the rest of this year (Figure 3.14). The indirect taxes had a smaller and decreasing inflationary effect, while the sluggish domestic demand continued to contribute only marginally to the rising prices (Figure 3.16).

Figure 3.15

Annual change in the domestic CPI and the HICP in Greece (January – May)

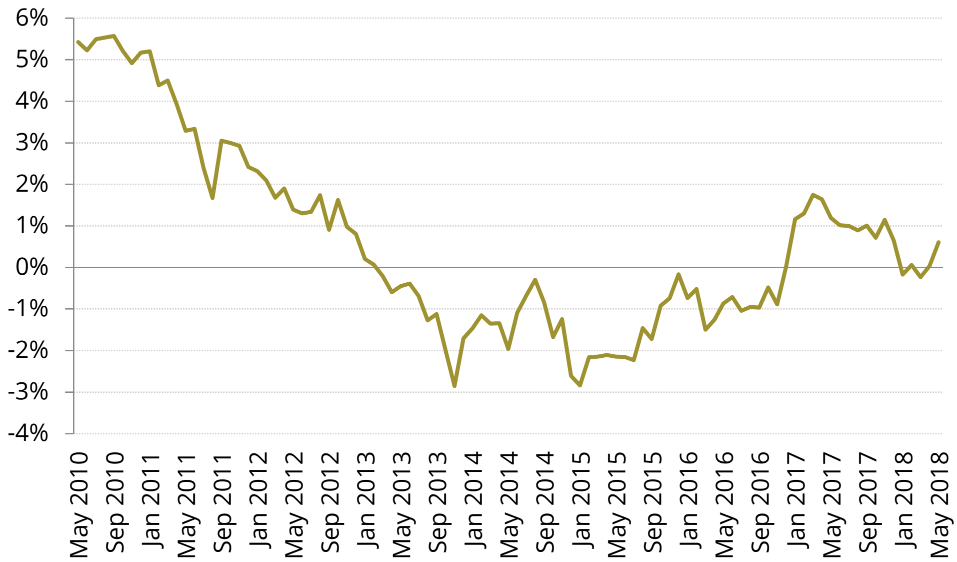


Milder inflationary trends in the first five months of 2018 than a year

Source: ELSTAT, Processing IOBE

Figure 3.16

CPI in Greece (annual percentage change per month)



Recovery of CPI in April and May, after stability in Q1 of 2018

Source: ELSTAT, Processing IOBE

Regarding taxation, the new indirect taxes from 01/01/2018 (VAT increase in 27 of the 32 Northeast Aegean-Dodecanese islands[24] and the tax on bookings in hotels, rooms to let and apartments) had only marginally boosting effects on inflation in early 2018. The fact that in the first five months of

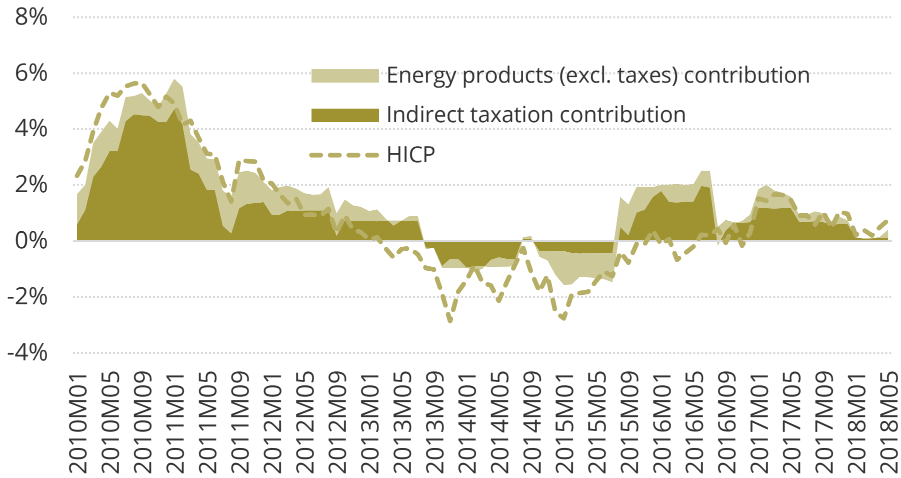
24 Lesbos, Chios, Samos, Kos and Leros are excluded from the abolition of the VAT discount due to the refugee flows. The original exception was planned to expire on 30/06/2018, but it was announced recently that the exception would be extended at least until the end of 2018.

2018, the annual HICP change was only 0.1 percentage points, compared to 1.2 percentage points in the same period of 2017 (because of new indirect taxes imposed at the beginning of 2017 on petroleum products, tobacco products, coffee, etc.) and 0.9 percentage points overall in 2017 is indicative of the diminishing impact of indirect taxes.

Figure 3.17

Annual rate of HICP change in Greece and impact of energy product prices and tax changes

The inflationary effect of taxes and energy goods weakened year on year in the first five months of 2018.



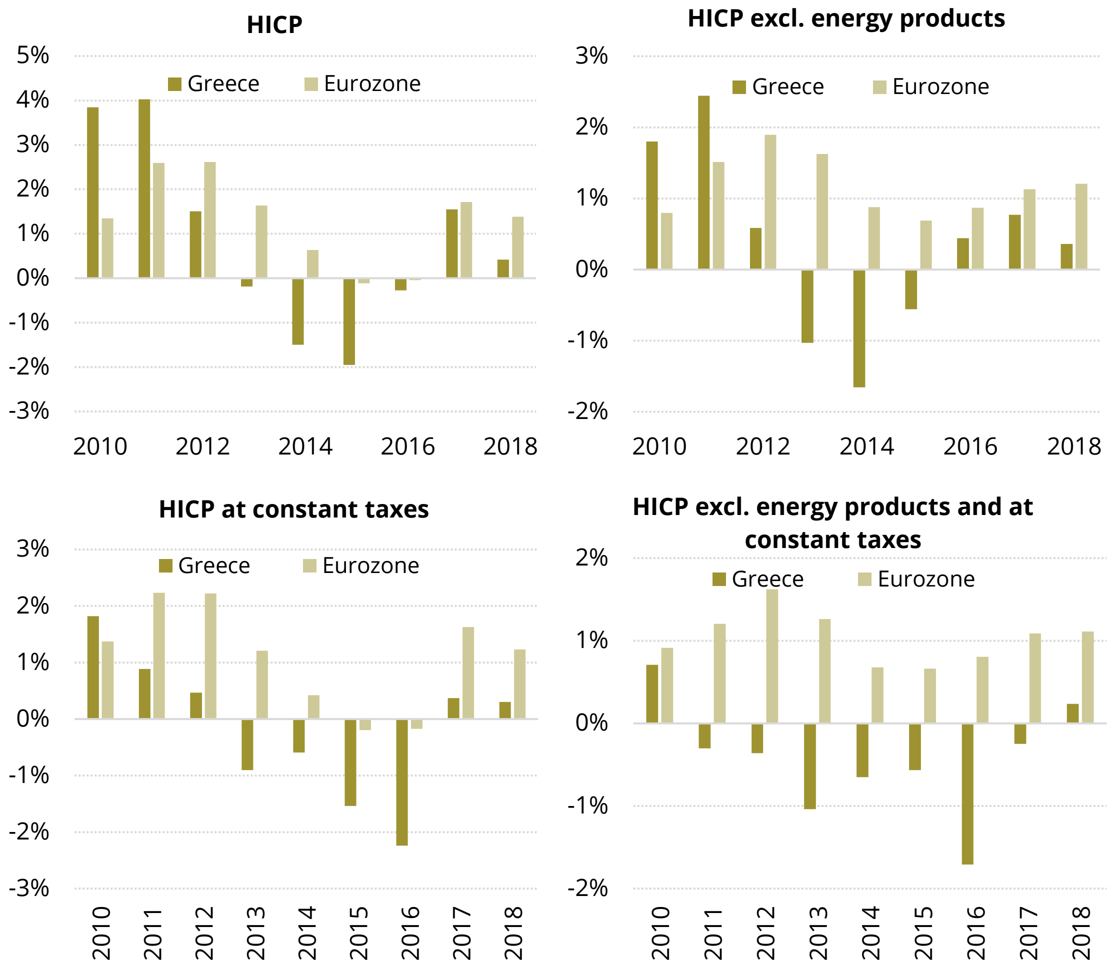
Source: Eurostat, Processing IOBE

As to the impact from energy goods, the higher year on year international oil price in the first half of 2018 was offset in part by the stronger exchange rate of the euro. The average global oil price strengthened year on year by 37% in the first half of 2018 (in $/barrel) , which was offset in part by the higher average exchange rate of the euro against the dollar, by 11.8% (1.21 USD/EUR on average in the first half of 2018, against 1.08 in the first half of 2017). As a result of the above changes, the average crude oil price in the first half of 2018 reached about €58.4/barrel, 24% higher year on year. Note that the upward trend intensified in the second quarter of this year, when the international oil price showed to stabilise at around €62.5/barrel, i.e. 39% higher than in the second quarter of 2017. The inflationary pressures from the global petroleum prices was offset in part by the reduction of the regulatory charges in electricity tariffs from 01/01/2018, through the reduction of the renewable energy tariff ETMEAR, which overcompensated for the increase in public service obligation charges. The stronger impact of energy prices on the annual change of the HICP this year was reflected in the shift from 0% in the first quarter of this year to +0.3% in May 2018. This effect is expected to strengthen in the rest of 2018, as argued in the outlook subsection, but at present it is weaker than in 2017 overall (+0.4%).

The steadily sluggish domestic demand in early 2018, compared to the rest of the Euro area, is evident in the much lower inflation rate without the effect of taxes and energy products (Figure 3.18). In the first five months of 2018, the percentage change in the HICP in Greece was lower than the Eurozone average by 90 basis points (0.3% against 1.1%), recording the third lowest rate in the Euro area, after Cyprus (-0.3%) and Ireland (0.2%). Correspondingly, removing the effect of energy prices and taxes, prices rose slower in Greece than in the Euro area (0.2% against 1.1%). This indicator increased for the first time after seven years of continuous decline (2011-2017), recording the third lowest rate of change in the Euro area after Cyprus (-0.4%) and Ireland (0.0%).

Figure 3.18

Annual HICP change in Greece and the Euro area



Inflation with fixed taxes and without energy goods was marginally positive in the first five months of 2018, for the first time after seven years of price decline

Source: Eurostat, Processing IOBE

Box 3.3 presents and compares the cumulative change in consumer prices during the three economic adjustment programmes (2010-2017), with the corresponding change in unit labour costs and indirect taxes over the same period. The identified deviations point to the conclusion that it is necessary to continue and accelerate the product market reforms.

The inflationary effects of higher oil prices and indirect taxes were reflected in the different price changes in individual categories of goods and services in the first five months of 2018. The largest increase in prices was recorded in Alcoholic Beverages – Tobacco (4.7% against 4.2% in the first five months of 2017), reflecting the delayed pass-through on prices of the hike (from 01/01/2017) in indirect taxes on tobacco, due to the prior large stockpiling of tobacco products that took place at the end of 2016. Transport, a category affected by energy cost variations, recorded the second highest rise in the first five months of 2018 (2.1%, compared to 6.8% a year earlier). Hotels-Cafe-Restaurants came next (1.3%, against 1.7% in the first five months of 2017), due to the new indirect tax on hotels, rented rooms and apartments, and probably, in part, stronger external demand for tourist services. Education and Communication services experienced marginal price rise. The prices in the remaining seven categories of goods and services that shape the domestic CPI declined year on year in the first five months of 2018, with the greatest reduction occurring in Durable Goods, Household Appliances and Services (-1.8%, following a fall by 2.9% in the same period of 2017), Other Goods and mainly in subcategories, such as Car Insurance (-1.7%, after 1.9% decline in the first five months of 2017), Recreation (-1.3%, against decline by 1.4% in the previous year) and Housing (-1.3%, against inflation by 3.6%). The price decline in housing came, inter alia, from lower regulatory charges on electricity, despite the impact from the higher petroleum prices.

The Producer Price Index (PPI) of the domestic and foreign markets as a whole kept growing year on year in the first five months of 2018, albeit at a lower rate, by 2.2%, compared with 8.1% increase in the same period of 2017 (Figure 3.20). The large fluctuation of the PPI largely reflects corresponding changes in the prices of energy products due to fluctuations in the price of crude oil. PPI without energy increased only marginally in the first five months of 2018, by 0.3%, against a 1.0% rise in the same period of 2017.

Box 3.3

Relationship between unit labour cost (ULC), indirect taxation and consumer prices in Greece

During the first decade of the European Economic and Monetary Union, the competitiveness of the Greek economy deteriorated, as , inter alia, the unit labour cost (ULC) was growing at a faster rate than labour productivity. During the adjustment programmes of the Greek economy, labour market reforms were implemented that resulted in significant competitiveness recovery through the reduction of nominal ULC. The cumulative reduction of ULC after 2010 exceeded 12 p.p. within three years, posting one of the biggest adjustments in the monetary union.

Despite the significant reduction of labour costs, the final prices of goods and services did not adjust correspondingly during the same period. The emergence of factors that compensated for the ULC reduction, such as tax increases, rising costs of other inputs (e.g. energy), higher financing costs for businesses and imperfect competition in many markets of products and services, where barriers to entry remained and the implementation of structural reforms was delayed, was one of the causes for this differentiation. The descriptive analysis presented here quantifies the difference between the greater reduction in labour costs than in prices during the Greek crisis, highlighting the impact of the increase in indirect taxes and the observation that the difference is larger in product sectors, such as in the primary sector and manufacturing, and lower in branches of services.

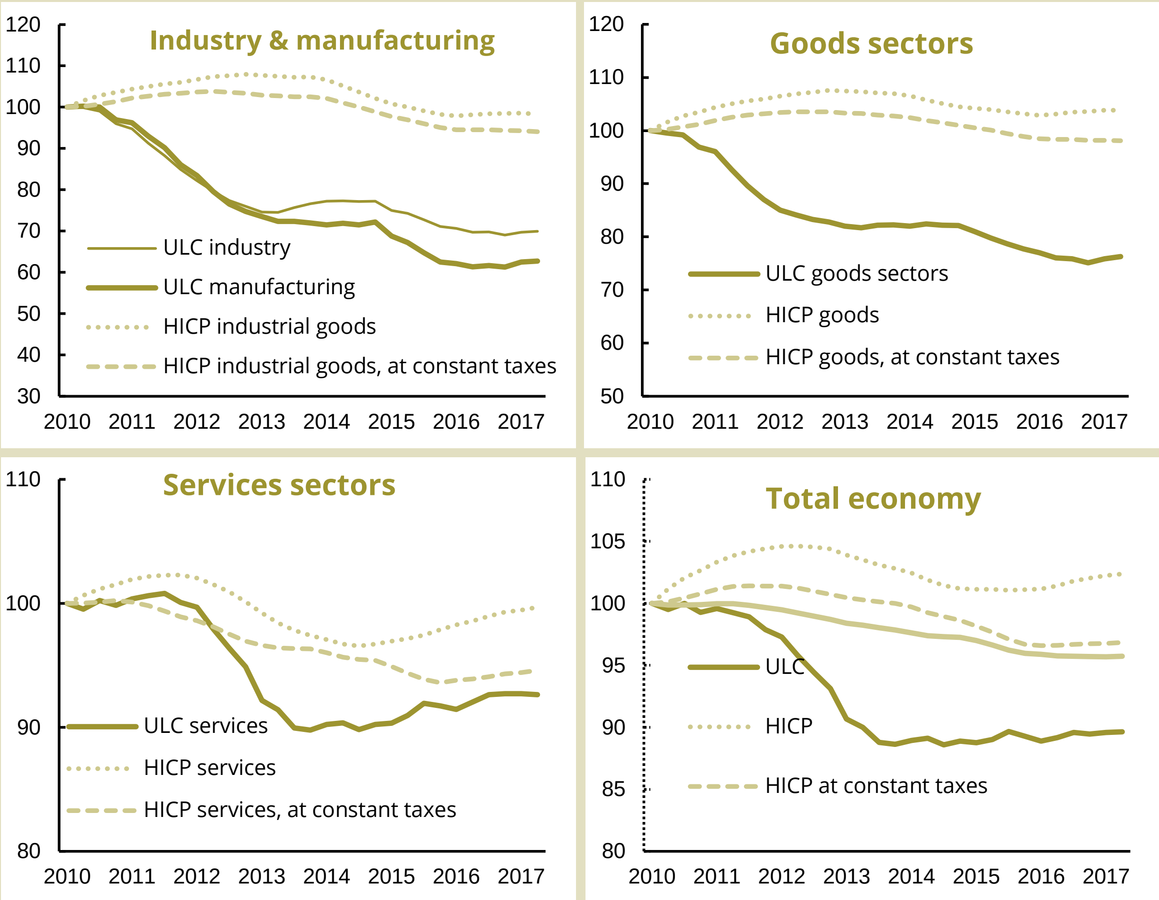
The analysis is based on Eurostat data for the Harmonised Index of Consumer Prices (HICP) by industry, as well as for the corresponding HICP index with fixed indirect taxes. In addition, the ULC is calculated for the whole economy and separately for goods (NACE R2: A, B, C, D, E) and services (NACE R2: F-U), in accordance with the following definition.

$$ULC = \frac{Nominal\ hourly\ wage}{Labour\ productivity} = \frac{Nominal\ gross\ remuneration\ of\ wage\ earners\ /\ Hours\ of\ work}{Real\ Gross\ Value\ Added\ /\ Total\ employment}$$

The results are presented in Figure 3.19. The all-items level of the HICP recorded at the end of 2017 was about two percentage points higher than the all-items level of prices in 2010, at the beginning of the domestic fiscal crisis. Removing the impact of energy products and taxes, the level of consumer prices at the end of 2017 declined cumulatively by almost 5 percentage points compared with the all-items level of prices in 2010, a drop that, apart from the recession, is also attributed to reforms in the markets for products and services. Nevertheless, this decrease was substantially weaker than the cumulative reduction of nominal ULC during the same period, by about 12 percentage points.

Figure 3.19

Comparison of unit labour cost (ULC), consumer prices and indirect taxes during the Economic Adjustment Programmes (Indices, 2010 = 100)



Note: The goods sectors include single-digit branches A-E, while services include branches F-U, in accordance with the classification NACE Rev. 2. The calculation of ULC per sector was done by IOBE, using the methodology mentioned above, as it was found that the estimates for the total economy through this methodology was very close to the estimates published by the statistics agencies.

Source: Eurostat. Data processing: IOBE.

As for the difference in adjustment between ULC and final consumer prices, the following was observed: (a) for the whole economy, with 2010 as the common starting base for ULC and prices, the price change corrected for taxes at the end of 2017 remained 6 p.p. smaller than the corresponding change of ULC; b) the difference between the reduction of ULC and final prices is more pronounced in the markets for goods. Indicatively, in the branches of manufacturing and more broadly of industry, ULC decreased cumulatively between 2010 and 2017 by more than 30 p.p., while prices corrected for taxes fell cumulatively by only 6 p.p.; (c) the difference of the change in ULC and prices adjusted for taxes was smaller for services, where it converged to a range of less than 2 p.p. at the end of 2017; (d) in both the overall economy and in individual sectors, prices seem to decline with some lag, mainly after 2012, which is possibly explained with the delay in the fruition of structural reforms and changes in the international energy cost.

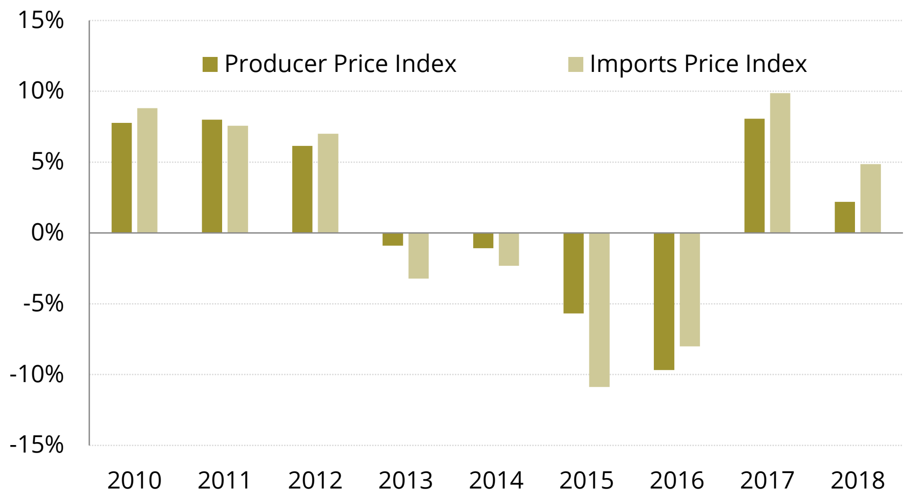
In conclusion, first the reforms which boost competition in the product markets need to continue and speed up, so that the reductions of ULC is reflected in changes in final consumer prices. Second, it emerges that manufacturing and, more broadly, industry possibly faced asymmetrically large increases in other production cost factors (cost of financing, energy), compared with branches of services, during the adjustment programmes period. The conclusions assume that the average profit margins remained stable or at least did not increase during the examined period.

In greater detail, the strongest inflation in the first five months of 2018 was recorded in Energy goods excluding electricity, by 9.7% (compared to explosive growth by 36.7% a year earlier), Mining-Quarrying-Manufacturing, by 3.1% (against much stronger growth by 9.5% a year earlier) and Intermediate Goods, by 1.4%, as in the first five months of 2017. Weaker positive changes were recorded, inter alia, in Capital Goods and Durables. Producer prices declined in the first five months of 2018 in Other Consumer Goods.

The overall import price index (IPI) also shows a slower rise this year than in the first quarter of last year, in the order of 4.9%, after an increase of 9.9% in the corresponding quarter of 2017. Nevertheless, its increase in early 2018 remains the largest among ten Eurozone countries with available data. The index moved up in all these countries, at an average of +0.6%, except for the Netherlands (-0.6%). The strengthening of import prices in most countries is largely due to higher average oil price in comparison with the corresponding period of the previous year. The differences in IPI inflation between countries reflect the varying degrees of use of energy products, as well as the size of trade with countries outside the Euro area.

Figure 3.20

Annual change of PPI (January – April) and IPI (January – May) in Greece



Year-on-year growth of import and producer prices due to the impact of energy goods

Source: ELSTAT, Processing IOBE

Medium-term outlook

As evident from the analysis of the trends in changes in consumer prices in the first five months of 2018, the year-on-year disinflation came primarily from significantly weaker impact from indirect taxes, which was moderated by the growing positive impact of energy commodities. Other factors that slowed down price growth include sluggish household demand, gradual strengthening of competition in sectors that implemented structural reforms and the stronger year on year euro against the dollar. The effects of all these factors are expected to carry over to the rest of 2018, with the exception of the buffering effect of the dollar/euro exchange rate. The effect of oil prices is likely to strengthen gradually. The rate of core inflation excluding energy and taxes is expected to continue to be small, at marginally positive levels.

In particular, the impact from increases in indirect taxes that were put in effect from 01/01/2018 (VAT in islands and the booking tax in hotels and rented rooms and apartments) are expected to have only a marginal inflationary impact on the general price level. Besides, the impact of indirect taxes in the first five months of the year was at 0.1%, significantly weaker than the impact of indirect taxes overall in 2017 (0,9%).

During 2018, the average global oil price is expected to remain in the vicinity of the levels recorded in the second quarter (at about 74 $/barrel), slightly higher than in earlier forecasts by analysts (US Energy Information Administration), which implies that it will fluctuate on average 29% higher than the 2017 average in euros (in dollars, the average annual rise is expected to reach about 36%). Such an uptrend in oil prices is supported by accelerating economic growth in both developed and developing economies, the geopolitical tension in the Middle East, Iran's responses to the US decision to withdraw from the nuclear agreement and to impose sanctions, etc. The decision at the end of June by members of OPEC and Russia to expand daily production may counterbalance the trends and events that boost the price of oil in the coming months.

The appreciated exchange rate of the euro against the dollar compared to 2017 ameliorates the propping effect of petroleum on consumer prices. The exchange rate of the euro is expected to stay at around 1.19 dollars/euro on average rate, about 5% higher than last year. With the growth in the Euro area continuing with at least comparable pace in 2018, a preservation of the exchange rate at slightly higher level year on year will alleviate to some extent the inflationary pressures of the petroleum prices. As for the tariffs in the Greek electricity market, the reduction in charges for the renewable energy account (ETMEAR) from 01/01/2018 and discounts in the competitive tariff elements will continue to offset in part the changes in the public service obligation charges. As the rise of the global petroleum prices drags along the gas prices with a delay of a few months, a slight increase of the energy costs in industry is anticipated in 2018, with a corresponding effect on producer prices. Overall, the effect of energy goods on prices is likely to be positive in 2018 and to strengthen in the second half, while for the whole of this year it may be similar to last year.

In summary, the weakening of the inflationary impact of indirect taxes and the subdued domestic demand, which will be offset in part by the strengthening effect of the increase of international petroleum prices on CPI, will slow inflation down in 2018, to about 0.5% or perhaps slightly higher.

Valuable information on the price trends in the coming period is also provided by IOBE's monthly business surveys, the results of which serve as leading indicators of price developments on the supply side.

The price expectations mostly strengthened quarter on quarter in the second quarter of 2018, while the relative balance was negative in Industry and Private Construction. In particular, the price expectations indicator slightly decreased quarter on quarter in Industry, while by contrast it increased in Retail Trade, Services and Private Construction. Year on year, the expectations for price changes strengthened in all sectors except Retail Trade, where they remained unchanged. In greater detail:

In Industry, the price expectations indicator marginally decreased quarter on quarter in the second quarter. In particular, the indicator decreased by 2 points, from 1 point in the preceding quarter (and -2 points in the same quarter of the previous year). About 7% (from 8% on average) of the companies in the sector predicted a fall in prices in the upcoming period, while the percentage of those anticipating price growth declining to 6% (from 9%), and the remaining 86% (from 83%) expecting price stability.

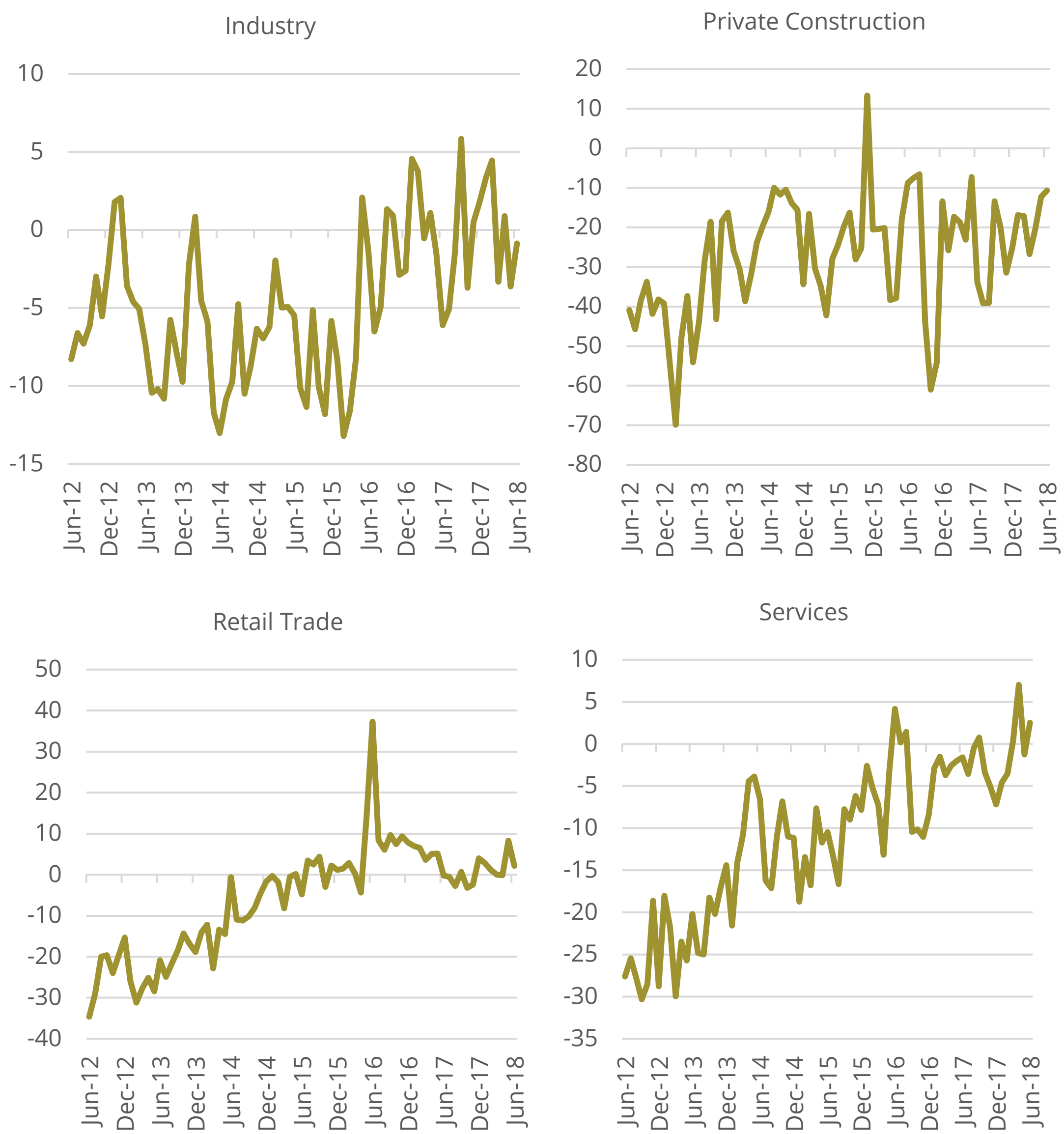
In Retail Trade, the marginally positive balance of price expectations in the sector in the preceding quarter increased by 2 points in the second quarter, returning to the level recorded in the corresponding period of last year. About 4% (from 7%) of the companies in the sector were expecting a fall in prices in the short term, while the percentage of those forecasting price growth increased to 7% (from 8%), with the remaining 90% (from 85%) of the businesses expecting price stability. The price expectations weakened slightly quarter on quarter in the second quarter of the year in all sub-sectors of Retail Trade, except for Food-Beverages-Tobacco and Motor Vehicles – Spare Parts, where the indicator increased.

The average index for the anticipated price changes in Services in the examined quarter strengthened quarter on quarter to 3 (from -3) points, posting a higher level than in the same quarter of last year (-2 points). In the current quarter, 10% (from 11%) of the companies in the sector were expecting a fall in prices, while 13% (from 8%) were expecting an increase. At the branch level, the index declined in Various Business Activities, remained unchanged in Financial Intermediaries and increased in the remaining branches.

Finally, in Private Construction, the negative balance of -20 points from the previous quarter increased to -14 points, strengthening compared to the same period of the preceding year as well (from -21 points). About 25% (from 24%) of the businesses in the sector were anticipating their prices to decline, while the percentage of those expecting inflation during the examined quarter totalled 10% (from 4%).

Figure 3.21

Price expectations over the coming quarter (difference between positive and negative answers)



Source: IOBE

The balance of price expectations declined slightly quarter on quarter in Industry and increased in Retail Trade, Services and Private Construction.

3.6 Balance of Payments

- The deficit in the Goods Account increased by 5.1% in the first four months of 2018, due to higher growth of imports than exports
- Decline of the surplus in the balance of services, also from a larger increase in imports than exports

In the first four months of 2018, the Current Account had a deficit totalling €4.2 billion, against a deficit of €4.2 billion in 2017. The deficit strengthened by about €891 million, against a contraction by €207 million in the same period of 2017, as the increase of the deficit in the Goods Account was accompanied by a fall in the surplus of the Services Account. Note that the increase in the current account deficit in the first four months of the year came together with an increase in the share of exports in GDP to 29.2%, its highest Q1 level since 2002. This development is a sign that the economy may come out of the crisis with a strong momentum, supported by the export sector.

Regarding the trends in the components, the deficit of the Goods Account reached €6.6 billion in the first four months of this year, expanding by €335.0 million year on year, compared with a reduction by €742.0 million in 2017. Exports amounted to €10.2 billion, strengthened by 14.0% (€1.2 billion),[25] with a significant rise in ships (142.6%), fuels (14.2%), and other goods (12.6%). Imports reached €16.8 billion, higher by 10.5% (€1.6 billion), as fuels increased by 14.8% and other goods by 9.2%. The deficit of the Goods Account excluding fuel and ships stood at €5.1 billion in the first four months of 2018, higher by 4.8%, as alongside the boost of exports in this category by €784.0 million, imports increased by €1.0 billion. The deficit of the fuel account increased to €1.5 billion, from €1.3 billion in the same period of last year.

The surplus in the Services Account stood at €1.4 billion in the first four months of this year, falling compared to 2017 when it had reached €1.6 billion. Total receipts from services amounted to €5.4 billion, up on 2017 by 6.1% (€312.0 million), while the total payments for services reached €4.1 billion in 2018, against €3.4 billion in the preceding year. At the component categories, the receipts from travel services reached €1.0 billion, up by 7.4%, the receipts from transport services increased by 10.1%, to €3.0 billion, while lastly the receipts from other services decreased by 2.4%, to €1.4 billion. The payments for travel services increased sharply, by 24.2% to €771.0 million, the payments for transport services increased by 19.0% to €1.9 billion, while the payments for other services reached €1.4 billion, higher by 12.7% compared with 2017.

The Primary Income Account was in surplus of €871 million in the first four months of this year, compared with €1.1 billion surplus a year earlier. Revenues amounted to €2.8 billion, slightly down year on year, while payments increased by 12.0% to €2.0 billion. In greater detail, income from labour slightly declined, to €38.0 million, from investments it declined by 21.4% to €847.0 million, while other primary income (subsidies and taxes on production) increased by 12.7%, to €2.0 billion. Payments for labour income remained at €90.0 million, payments for investment income increased by 13.0%, to €1.8 billion, and those for other primary income increased by 8.8%, to €99.0 million.

[25] The figures in brackets represent an absolute change compared with the corresponding period of the previous year, unless stated otherwise.

The Secondary Income Account recorded a surplus of €171.0 million, as receipts remained at €941 million, while payments increased to €769.0 million.

Capital Account

The Capital Account[26] was in surplus of €185.0 million, against €233 million surplus a year earlier. Receipts declined by €23 million, while payments increased by €25.0 million.

Finally, the Current and Capital Account, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, recorded a deficit of €4.0 billion in the first four months of this year, compared with a deficit of €3.0 billion in the previous year.

Financial Account

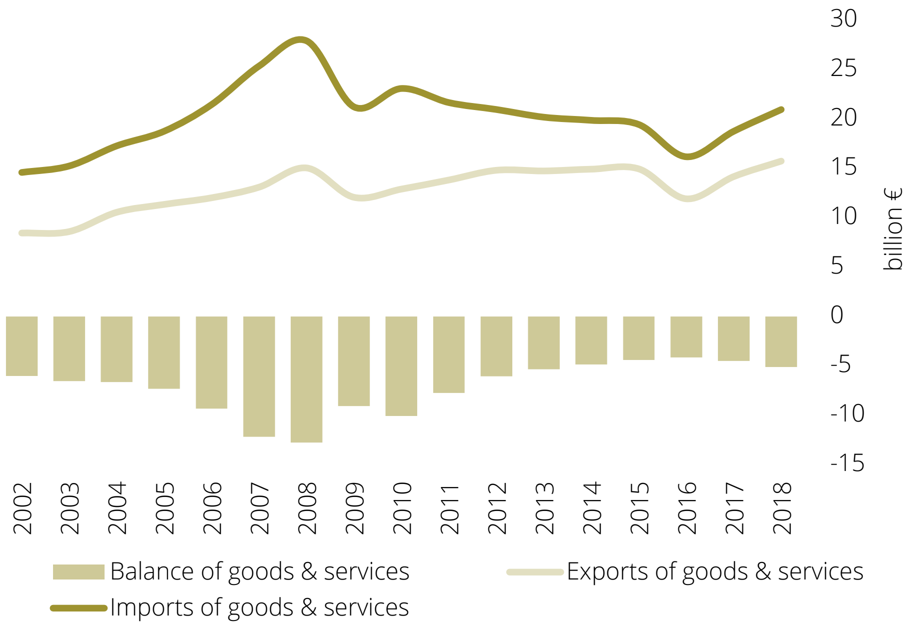
The Financial Account was in a deficit of €3.3 billion in the first four months of this year, compared to a deficit of €3.6 billion in 2017.

In greater detail, the net receivables of the residents from direct investment abroad increased by €253.0 million, while the net liabilities to non-residents (investments of non-residents in the country) strengthened by €1.2 billion.

Figure 3.22

Imports-Exports of Goods and Services (January – April) 2002-2018

The deficit in the balance of goods and services expanded in the first four months of 2018, by €631 million or 13.8%.



Source: Bank of Greece - Processing IOBE

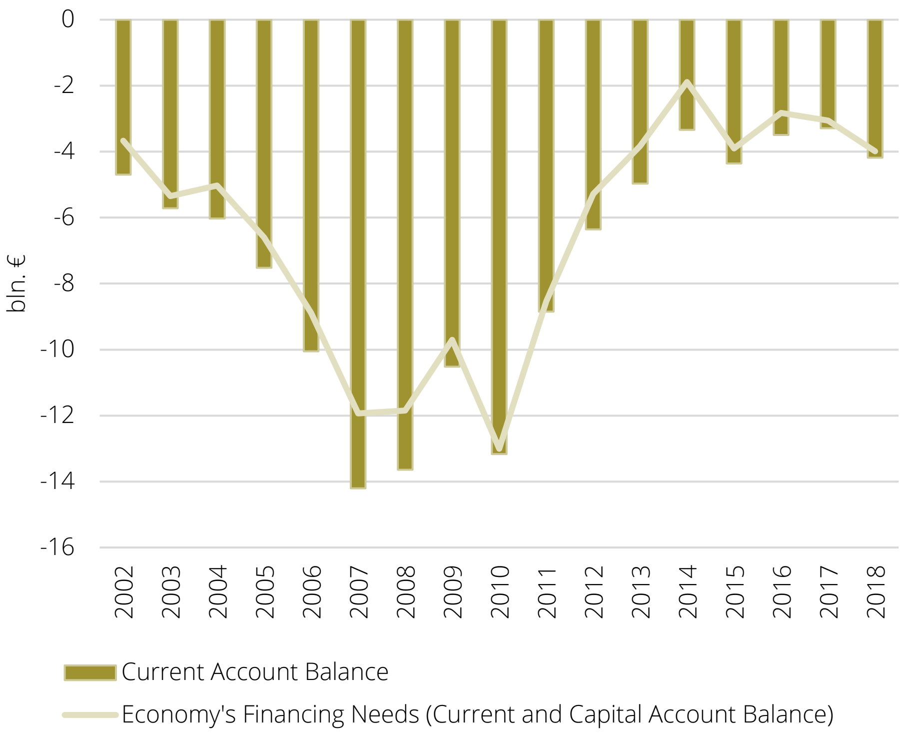
[26] The capital account reflects capital transfers, i.e. ad-hoc receipts and payments between residents and non-residents related to fixed capital formation. Capital transfers include mainly some of the transfers (receipts) from the budget of the EU to the General Government (receipts from the Structural Funds – excluding the European Social Fund - and the Cohesion Fund under the Community Support Framework).

In the category of portfolio investments, the claims of the residents to non-residents decreased by €1.9 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad decreased by €1.8 billion, while the liabilities to non-residents increased by €4.2 billion, due to increase in the purchase of bonds and treasury bills.

In the category of other investments, the claims of residents to non-residents declined by €4.0 billion, with a net decrease of €1.6 billion in the deposits and repos of residents (credit institutions and institutional investors) abroad. The liabilities declined by €7.7 billion, reflecting the reduction of the deposits and repos of non-residents in Greece by €10.3 billion, while public and private sector debt to non-residents increased by €4.8 billion. Finally, the Reserve Assets of the country totalled €6.7 billion at the end of April 2018, marginally higher than in 2017 (€6.5 billion).

Figure 3.23

Current Account (January – April) 2002-2018



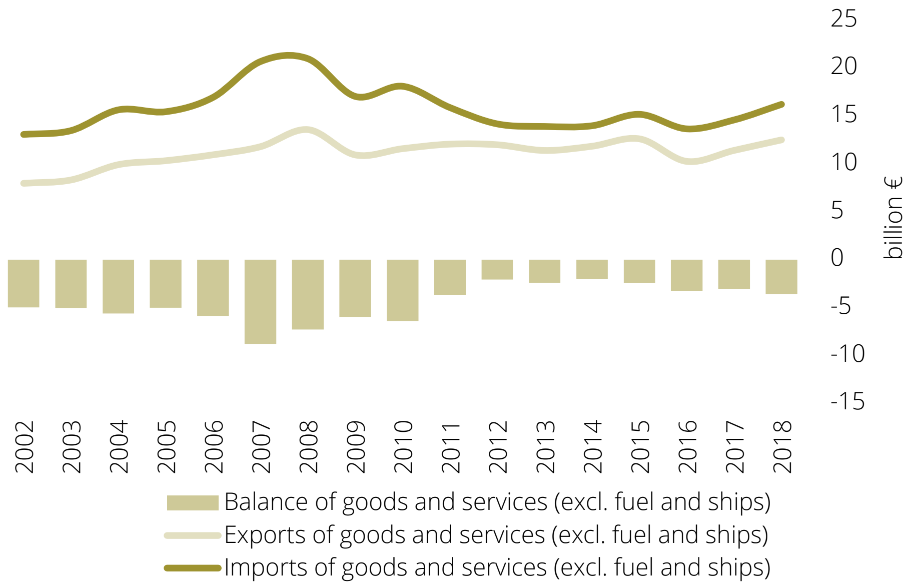
The current account deficit increased in the current year, as the borrowing needs of the economy expanded

Source: Bank of Greece - Processing IOBE

Figure 3.24

Imports-Exports of Goods excluding fuel and ships (January – April), 2002-2018

The account of Goods and Services without fuel was in deficit in the first four months of 2018, at €5.1 billion, from €4.9 billion a year earlier.



Source: Bank of Greece, Processing IOBE

Box 3.4

Impact of unconventional monetary policy measures on the trade balance

The global financial crisis of 2007-2008 caused considerable economic turmoil, inducing governments and central banks to take major measures to counter the crisis effects on income, production and employment. Today, 10 years after the outbreak of the crisis, the central banks are considered to have shouldered a disproportionate weight of the policy measures, compared with the fiscal sector, as for various reasons the latter measures were either not implemented quickly enough, or their extensive application was not possible. The weaker ability to adopt such measures was particularly pertinent in the Euro area, where a debt crisis broke out as well at a later stage (2009-2010), and as a result many countries were constrained by the Stability and Growth Pact.

Central banks, including the European Central Bank (ECB), the US Federal Reserve (FED) and the Bank of Japan (BoJ) implemented a series of monetary policy measures, conventional and not, to stabilise the key macroeconomic indicators. The first monetary measures that were implemented were based on conventional instruments, such as lowering interest rates and facilitating the financing of the real economy. However, the prolonged slippage of the economies to low growth rates and inflation, with the interest rates remaining near the zero bound, prompted central banks to adopt unconventional measures, such as increase of their assets by purchasing bonds from the markets. In particular, the Fed began buying bonds in 2008 and expanded the programme in 2010 and 2012, while the BoJ began its quantitative easing programme in 2013, with an extension of the monthly bond purchases in 2014.

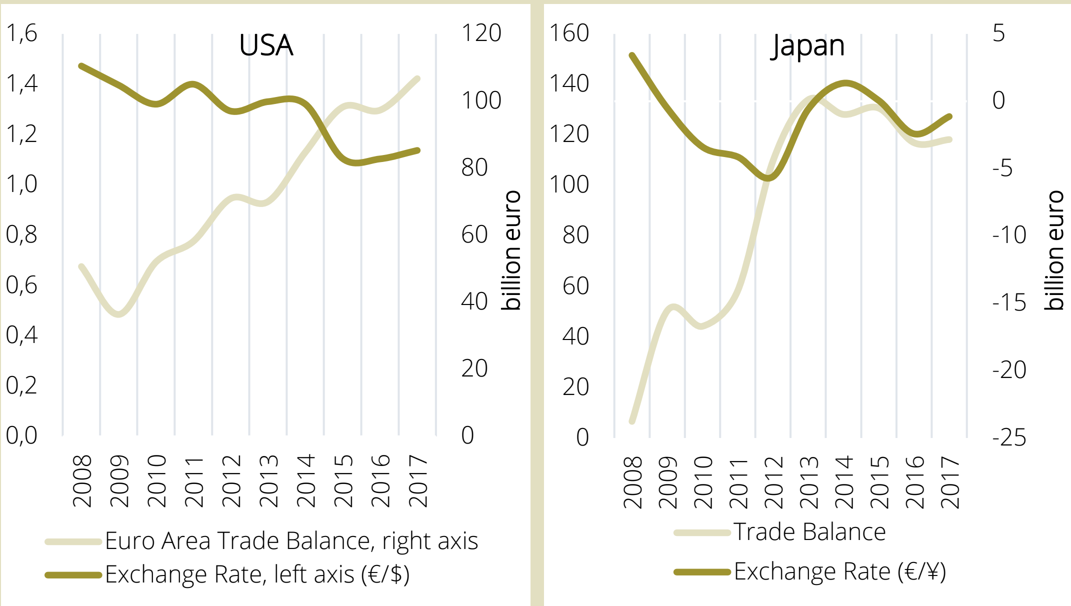
The Eurosystem implemented measures to eliminate the risk of inflation remaining below the level of 2%, which is its main target. The first measures in 2008 concerned the reduction of the interest rates, while during the same period non-conventional measures such as longer-term funding, the abolition of quantitative restrictions on liquidity, etc., were also designed. From 2010, the Eurosystem began buying bonds of the weakest countries in the Euro area, via the Securities Markets Programme (SMP). However the quantitative easing programme (QE) was the measure with the greatest impact on money supply. It involved the purchase of sovereign bonds. It has been applied since mid-2014, with a significant boost since the beginning of 2015. All the above measures by the central banks aimed at stabilising the economies, while undoubtedly they affected money supply, interest rates and the exchange rates.

According to the latest monetary policy report of the Bank of Greece (July 2018), the unconventional monetary policy measures of the Eurosystem have influenced positively economic growth and inflation, while the third package of measures, after 2014, had the greatest impact. The examination of whether the positive effect on GDP extended to the external sector, i.e. exports, e.g. through changes in the exchange rates, is also of interest. The exchange rates across countries are affected by monetary policy, as increased money supply drives down interest rates and thus results in outflow of capital, further boosting the money supply and eventually leading to a monetary devaluation. In this regard, it is useful to examine whether the Eurosystem measures eventually led to depreciation of the euro against major currencies of competing economies, such as the US and Japan (dollar and yen), as both countries implemented corresponding monetary policy programmes. It is also instructive to examine whether the trade balance of goods between the Euro area and these economies was affected as well. Of course, it should be noted that the balance of trade in goods is affected by many other factors, such as trade agreements, energy costs and more broadly, commodity prices, quality, preferences, and income. The analysis that follows focuses on the effect of changes in the exchange rates, as a result of the adopted monetary policies.

As to the relative impact of the programmes in the Euro area and the US, the exchange rate of the euro devalued against the dollar from 2014, while there was little variation between 2008 and 2013. This development may at least partly be attributed to the acceleration of the quantitative easing programme in the Euro area and in parallel the gradual winding down of the corresponding programme in the US. The decrease of the securities purchase programme in the US benefited from positive labour market outcomes. As a result, the FED resorted to gradual increase of the interest rates. The euro depreciated against the dollar from 2014, as interest rates in the US gradually increased, enhancing the capital inflows. The euro-dollar exchange rate experienced slight correction in 2016 and 2017, with a small appreciation. The Euro area balance of goods with the US was positive, with ever-increasing surpluses from 2008, yet the ECB intervention in 2014 had a radical impact on the exchange rate and the trade flows, further boosting the surplus to €106 billion in 2017, from €84 billion in 2014.

Figure 3.25

Balance of trade and exchange rates of the Euro area with US and Japan



Source: Eurostat

As to the developments compared with Japan, the euro depreciated against the yen after 2008, correcting the trade deficit with this country. That said, the euro appreciated against the yen from 2012 until 2014 because of the BoJ's quantitative easing programme. Between 2012 and 2014, despite the appreciation of the euro, the trade deficit in goods continued to decline, while surprisingly, the devaluation of the euro after the 2014 did not lead to a further correction of the trade deficit with Japan. Initially, until mid-2015, the deficit steadied, then expanded until mid-2016, and since then it has remained unchanged at a level lower than in 2008. Before the implementation of the quantitative easing programmes by both sides, the depreciation of the euro had led to a decline in the trade deficit in goods with Japan. However, after 2012 the euro/yen rate and the trade balance do not seem to be related in any particular direction.

In conclusion, the programme of quantitative easing in the Euro area, apart from its positive contribution to GDP and inflation, seems to have strengthened the trade surplus in goods with the US, due to both the devaluation of the euro and the gradually suspension of the quantitative easing programme in the US during the same period. In contrast, the ECB QE programme does not seem to have any effect on the balance of goods with Japan.

Table 3.11 Balance of Payments in million €

		January – April			April		
		2016	2017	2018	2016	2017	2018
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-3,495.2	-3,288.2	-4,179.2	-935.0	-505.7	-1,343.9
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-4,256.4	-4,590.5	-5,221.6	-854.9	-541.6	-1,177.4
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-5,493.7	-6,235.6	-6,571.3	-1,376.5	-1,180.3	-1,683.0
	Oil balance	-727.2	-1,322.8	-1,533.6	-168.7	-24.6	-454.8
	Trade balance excluding oil	-4,766.5	-4,912.8	-5,037.7	-1,207.8	-1,155.7	-1,228.3
	Ships balance	-133.7	-88.0	19.7	-46.9	-34.0	-12.0
	Trade balance excluding ships	-5,360.0	-6,147.6	-6,591.0	-1,329.6	-1,146.3	-1,671.0
	Trade balance excluding oil and ships	-4,632.8	-4,824.8	-5,057.4	-1,160.9	-1,121.7	-1,216.3
I.A.1	Exports	7,553.0	8,980.7	10,236.3	2,011.6	2,269.6	2,525.2
	Oil	1,643.8	2,709.6	3,094.5	466.4	735.3	802.9
	Ships (sales)	26.7	60.8	148.1	5.5	3.9	11.3
	Goods excluding oil and ships	5,882.5	6,210.4	6,993.7	1,539.7	1,530.4	1,711.0
I.A.2	Imports	13,046.7	15,216.3	16,807.6	3,388.1	3,449.9	4,208.2
	Oil	2,371.0	4,032.3	4,628.1	635.1	759.9	1,257.6
	Ships (buying)	160.4	148.8	128.4	52.4	37.9	23.3
	Goods excluding oil and ships	10,515.3	11,035.2	12,051.1	2,700.7	2,652.1	2,927.3
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	1,237.2	1,645.1	1,349.8	521.7	638.6	505.6
I.B.1	Receipts	4,270.8	5,093.4	5,405.2	1,261.2	1,508.0	1,617.0
	Travel	973.6	974.5	1,047.1	434.5	485.1	489.9
	Transportation	2,273.1	2,702.9	2,975.7	564.6	688.2	787.3
	Other services	1,024.1	1,416.0	1,382.4	262.1	334.7	339.7
I.B.2	Payments	3,033.6	3,448.3	4,055.4	739.6	869.3	1,111.3
	Travel	634.0	620.8	771.1	171.3	217.7	299.9
	Transportation	1,404.7	1,577.4	1,875.6	360.9	362.4	481.3
	Other services	994.9	1,250.1	1,408.8	207.3	289.2	330.2
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	728.9	1,096.5	870.9	-30.5	145.9	-86.7
I.C.1	Receipts	2,613.0	2,860.5	2,845.8	288.8	487.7	304.7
	From work (wages, compensation)	39.5	42.5	37.9	12.7	12.6	10.3
	From investments (interest, dividends, profit)	914.8	1,078.0	847.0	222.8	410.9	211.4
	Other primary income	1,658.7	1,739.9	1,960.9	53.3	64.2	83.0
I.C.2	Payments	1,884.1	1,764.0	1,974.9	319.3	341.7	391.4
	From work (wages, compensation)	72.9	91.4	90.0	18.8	23.1	22.9
	From investments (interest, dividends, profit)	1,708.6	1,581.2	1,785.7	285.0	292.9	343.8
	Other primary income	102.6	91.4	99.2	15.5	25.7	24.6
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	32.3	205.8	171.5	-49.6	-110.0	-79.7
I.D.1	Receipts	782.8	947.8	940.8	79.3	94.8	109.4
	General government	552.9	580.0	653.6	17.8	21.4	27.7
	Other sectors	229.9	367.8	287.2	61.5	73.4	81.7
I.D.2	Payments	750.5	742.0	769.3	129.0	204.8	189.1
	General government	581.2	517.9	562.2	87.6	145.8	139.6
	Other sectors	169.3	224.1	207.1	41.4	59.0	49.5
II	CAPITAL ACCOUNT (II.1-II.2)	675.5	233.0	185.3	-13.4	-2.7	-2.6
II.1	Receipts	765.7	286.1	263.2	4.4	4.8	8.8
	General government	751.8	268.2	185.8	0.4	0.4	0.5
	Other sectors	13.9	17.9	77.4	4.0	4.3	8.3
II.2	Payments	90.2	53.1	77.9	17.8	7.4	11.4
	General government	0.6	1.1	0.9	0.1	0.4	0.2
	Other sectors	89.6	52.0	77.0	17.7	7.0	11.2
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	*-2,819.8*	*-3,055.2*	*-3,993.8*	*-948.4*	*-508.4*	*-1,346.5*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-2,054.3	-3,571.0	-3,254.1	-673.0	-932.3	-975.3
III.A	DIRECT INVESTMENT*	121.0	-685.2	-966.8	-68.7	-231.7	-566.8
	Assets	517.6	654.5	252.9	36.8	31.8	-191.6
	Liabilities	396.5	1,339.7	1,219.7	105.5	263.5	375.2
III.B	PORTFOLIO INVESTMENT**	2,924.4	1,573.5	-6,118.6	541.0	300.2	-722.2
	Assets	3,011.6	297.2	-1,864.2	537.1	-750.7	118.2
	Liabilities	87.1	-1,276.3	4,254.3	-3.9	-1,050.9	840.4
III.C	OTHER INVESTMENT*	-5,904.3	-4,180.3	3,657.3	-1,176.3	-1,026.7	289.7
	Assets	-2,412.9	-3,588.4	-4,032.1	-451.6	-1,080.9	-1,414.1
	Liabilities	3,491.3	591.9	-7,689.3	724.8	-54.2	-1,703.9
	(Loans of general government)	-2,195.0	-2,462.6	5,062.2	-462.6	-227.9	-27.8
III.D	CHANGE IN RESERVE ASSETS***	804.5	-279.0	174.0	31.0	26.0	24.0
IV	BALANCE ITEMS (I +II +IV +V = 0)	765.4	-515.8	739.7	275.4	-423.9	371.2
	RESERVE ASSETS (STOCK)***				6,783	6,447	6,707

Source: Bank of Greece

* (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, increases in demand are presented with a positive sign while the decrease in receivables is displayed with a negative sign. Similarly, the increase in liabilities is captured with a positive sign, while the reduction of liabilities with a negative sign. ** (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchange reserves with a negative sign. *** Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" with the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outside the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB.

4. INCOME TAXATION IN GREECE: COMPARATIVE ANALYSIS AND REFORM PROPOSALS[27]

- The income tax system in Greece has high tax rates, which distorts the incentives for work, investment and entrepreneurial activity and encourages tax evasion and tax avoidance.
- Greece has the second highest rate of tax schedule progressivity, yet its performance in inequality and poverty indicators is significantly worse compared to the EU average.
- Despite the efforts of recent years, the income tax system in Greece remains complex and unstable.
- The income tax system should be simplified, while the social welfare system should become more effective.

4.1 Introduction

The tax system changed extensively between 2009 and 2016, as tax rates were hiked and other tax parameters were adjusted. In direct taxation, the rates of personal and corporate income taxes were adjusted, most tax breaks were eliminated, while an additional solidarity contribution was levied. Many of the tax measures were designed and implemented under stifling pressure, with tight deadlines, without the necessary analysis of collection efficacy and economic impact.

There are legitimate concerns that the excessive taxation hinders economic growth and delays the recovery of the Greek economy, with undoubtedly serious social repercussions. The reform of the

[27] Based on a study conducted for and with the support of the non-profit research and policy institute diaNEOsis. The full text of the study is available (in Greek) on the IOBE website: http://iobe.gr/research_dtl.asp?RID=159

tax system overall and income tax in particular, is a crucial issue in order to ease its restrictive effect on economic growth, without jeopardising the objectives of fiscal consolidation and social cohesion. There is now a pressing need for a more simple, efficient and fair system of income taxation.

The study presented briefly in this chapter aims to examine the income tax system in Greece and to formulate proposals for its reform. In particular, it analyses the main attributes of personal and corporate income taxation, including social security contributions. In addition, it examines the evolution of these attributes over time in Greece, and in comparison with other EU and OECD countries. Lastly, it presents estimates of the impact of indicative changes in direct taxes on tax revenue, tax burden, poverty and inequality indicators, and on macroeconomic aggregates and outlines proposals for income tax reform.

4.2 The income tax system in Greece

In recent years, key parameters of the income tax system changed frequently, as a result of the urgent need to raise tax revenues to cover budget deficits. The tax schedule and rates on income from wages, pensions and business activity changed four times since 2009. In 2010, the number of tax brackets and the top rate increased, in an attempt to redistribute the tax burdens, by enhancing the progressivity of the system. At the same time, small differences in the schedules of employees – pensioners and professionals were eliminated. In 2011, the tax deduction was lowered and two intermediate brackets were removed.

The basic philosophy of the system changed in 2013, when the number of brackets was reduced, the tax deduction was replaced with income tax credit, the top rate was lowered, and the tax breaks and exemptions were drastically reduced. In design terms, the tax treatment of income of professionals and sole proprietorships changed, with the alignment of taxation of individuals engaged in entrepreneurial activity with the rates applied for legal entities. In 2016, the number of tax brackets increased once more, a single tax schedule was applied to all labour income (incl. farmers and freelancers), and the special solidarity contribution, which had been levied ad-hoc as an extraordinary measure since 2011, took a permanent status.

In corporate income tax, the tax rates were frequently changed in the last few years, a new uniform rate was introduced, while the withholding tax for dividends and governance participation fees was abolished. Over the same period, there were also many legislative changes to facilitate taxpayers and the tax administration, while changes were also legislated with respect to dividend taxation, fiscal neutrality between forms of incorporation, withholding tax on wages, gradual abolition of tax-free capital reserves, and elimination of the detailed classification of deductible expenses. The process of fixed asset depreciation was also simplified, by reducing the depreciation rates in 6 categories and lifting of the upper and lower depreciation rates and the declining balance method of amortisation.

4.3 The performance of income taxation in Greece

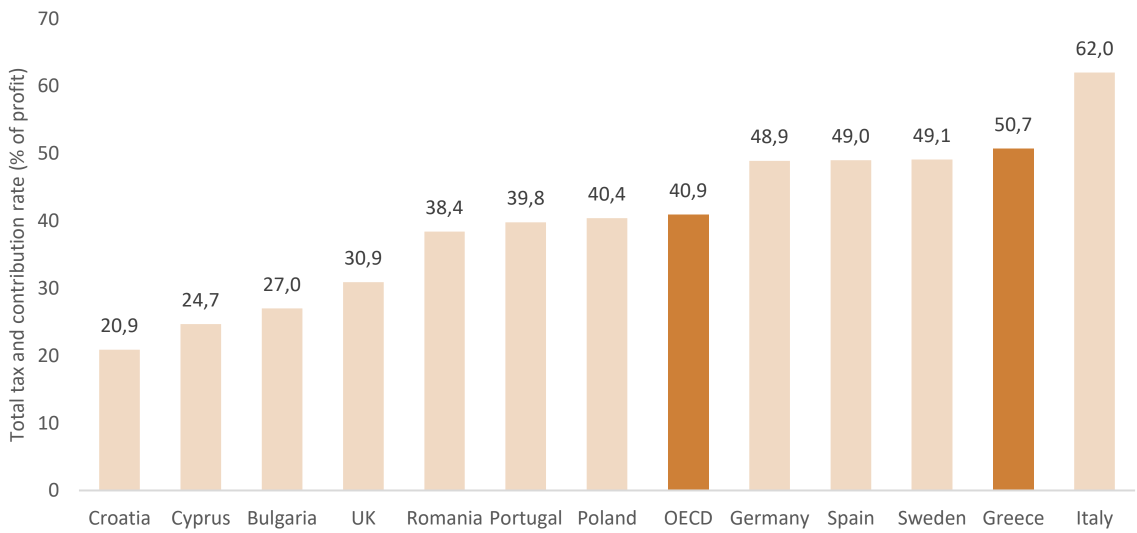
The income tax system in Greece has high tax rates for individuals and businesses. This distorts the incentives for work, investment and entrepreneurial activity, dampens economic efficiency and encourages tax evasion and tax avoidance.

In 2016, the average net burden from income taxes and social security contributions in Greece ranged from 19.4% to 32.4% of total income, which was significantly higher than the OECD average (from 15.2% to 30.8%) in most household categories. At the same time, the top rate in Greece (48%) was significantly higher compared to the average of the Euro area (42%) and the European Union (39%). In corporate income taxation, Greece, with 50.7% overall tax rate (including employer social security contributions) significantly exceeds the average of the OECD member countries (40.9%), including countries with higher per capita income and higher taxation of corporate profits, such as Germany (48.9% - Figure 4.1).

With regard to the distributive function of taxation, Greece has the second highest rate of schedule progressivity (73.5%) among 22 countries that are also members of both the OECD and the EU. However, the performance of the country in inequality and poverty indicators is significantly worse compared to the EU average. In particular, the GINI inequality coefficient based on disposable income in Greece amounted to 34.3% in 2015 (compared with 27.0% in the EU), while the at-risk of poverty rate for the same year stood at 22.5% (compared to 14.4% in the EU). The contribution of direct taxation to inequality reduction in Greece stood at 3.5 percentage points (p.p.) of the GINI index, versus 3.9 p.p. in the EU. At the same time, the social security contributions raised inequality in Greece in 2015 by 0.2 p.p., in contrast to the EU average, where the social security contributions contributed to inequality reduction by 0.8 p.p.

Figure 4.1

Total tax burden on legal entities in various countries (% of profits), 2017



Source: World Bank Group, Doing Business database.

Despite recent reform efforts, the income tax system in Greece remains complex and unstable, as evidenced by the frequent rate changes, the presence of different schedules and rates for income from different sources, and the multitude of remaining tax breaks and exemptions for various taxpayer categories. Regarding the administrative cost of the tax system, the very high rate of employee involvement in tax administration in administrative services (56.3% of full-time equivalent jobs or FTEs in Greece in 2013, compared to 27.2% and 31% in 2013 and 2015 respectively on average in the OECD) is a cause of concern. This administrative burden deprives the tax administration of resources for more productive processes, such as tax audits (25.0% of FTEs in Greece in 2013, compared to 36.2% and 32% in OECD in 2013 and 2015 respectively).

Table 4.1

Assessment of the income tax system in Greece

Criteria	Evaluation	Grade*
	Efficiency	
• Incentives and opportunities for work and business activity • Incentives for savings and investment • Risk-taking and innovation from individuals and businesses	• Relatively high (net) tax burden on individuals • Relatively high top personal income tax rate • High corporate income tax rate • Low degree of predictability of the tax system	2
	Equity and equality	
• Horizontal equity • Vertical equity • Redistribution of income to reduce inequalities	• Narrow tax base • A disproportionate burden on individuals undertaking business activity and wage earners • A high degree of tariff progressivity, with little effect in reducing inequality and poverty	2
	Simplicity and transparency	
• Clear definition of the tax base • Certainty for the amount of tax for each taxable item • Transparency • Accountability and informing the public	• In 2013 many tax breaks and exemptions were lifted • Changes to taxation are imposed with urgency procedures and sometimes with retroactive effect • There are delays in the adoption of secondary legislation	3
	Flexibility and stability	
• Flexibility in the context of macroeconomic management • Flexibility under various policy orientations • Predictability to facilitate the decision making by the taxpayers	• Very frequent changes in legislation • A large number of legislative acts per law • A large number of provisions in various laws	1
	Administrative and compliance costs	
• Minimisation of the administrative costs (monitoring, enforcement) of the tax system • Minimisation of the private compliance costs of the taxpayers	• Disproportionately high employment of workers of tax administration to administrative services in Greece • The time to fulfil tax obligations has declined • The number of tax payments for businesses has fallen • Electronic submission of tax returns • The compliance costs for businesses remains high compared with other European countries	3

Note: * The score uses a scale of 1 to 5, where 1 – Extremely unsatisfactory performance and 5 – Excellent performance.
Source: IOBE

Finally, progress has been made in recent years as regards the compliance cost for taxpayers. The time for fulfilling tax obligations has dropped from 264 hours per year in 2008 to 193 hours per year from 2014 onwards. Correspondingly, the annual number of tax payments for businesses has also declined. The development of digital solutions, such as filing tax returns electronically through the Internet, as well as the automatic filling of tax return fields based on information from the database of the General Secretariat of Information Systems has contributed to this progress. However, the compliance costs for businesses remains high compared with other European countries. Specifically, it is estimated that the indirect costs of compliance borne by businesses for the submission of income tax statements correspond to 12.6% of the revenue from corporate income tax (data for 2013), when in countries such as the United Kingdom and Germany the corresponding cost has been estimated at 2.2% and 5% respectively.

As a result, the performance of the domestic income tax system cannot be described as good in any of the major categories of evaluation criteria (Table 4.1). The tax system in Greece receives the worst score (highly unsatisfactory performance) in terms of flexibility and stability, due to frequent changes in basic attributes. The performance of the domestic tax system in terms of economic efficiency and equity is marginally better, yet still not satisfactory. Finally, there is progress, but also considerable scope for further improvement as to the simplicity of the tax system and the compliance costs for the taxpayers.

4.4 Reform scenarios of the income tax system in Greece

The study examined three groups of scenarios for the reform of the personal and corporate income tax system in Greece, with the use of the EUROMOD and GIMF models. The first group includes five alternative scenarios for the reform of personal income tax (Figure 4.2). The impact on government revenue, the income inequality and job incentives was quantified per reform scenario. The second and third scenario groups examined a total of six scenarios of personal and corporate income tax reduction, three for households and three for businesses, and calculated the effects on government revenues, investment and economic growth.

The simulations of the first group of scenarios showed that under a scenario with stronger progressivity (Scenario A), the average tax rate is higher (12.2%), compared with the reference scenario (11.7%) for the total of taxpayers, and especially for freelancers (18.9%), whose activities are associated most closely with entrepreneurship and risk-taking. The top tax rate is also exceptionally high (80%), without achieving noticeable relief of the tax burden on low incomes. Consequently, Scenario A is graded negatively in the economic efficiency criterion (Table 4.2).

In addition, Scenario A leads to a reduction in inequality, as reflected in the lower price of the Gini index (0.320) compared with the base scenario (0.326), without aggravating the horizontal equity directly. Therefore, Scenario A is rated positively in terms of the equity criterion. Finally, note that Scenario A has exactly the same effect with the reference scenario in terms of simplicity, transparency, flexibility, administrative and compliance costs, as Scenario A does not differ structurally from the reference scenario.

Under a flat tax (Scenario B), the economic efficiency is greatly improved compared with the reference scenario, as reflected in the sharply lower marginal tax rates for each category of taxpayers (average marginal rate of 17.5% for the total taxpayers, compared to 19.2% in the reference scenario). The incentives for work, investment, business activity and innovation are boosted under Scenario B, thus this scenario is assessed positively as to its effects on economic efficiency. The impact of Scenario B on horizontal equity is also assessed as positive in relation to the reference scenario, as the tax uniformity of the flat tax rate ensures that by default like taxpayers are treated similarly. However, the implementation of Scenario B leads to significant increase of inequality, as reflected in the increase in the value of the Gini coefficient (0.338) when compared with the reference scenario (deterioration of the vertical equity), thus Scenario b is evaluated negatively in the equity criterion. Nevertheless, Scenario B represents a drastic simplification of the income tax system, which undoubtedly will have beneficial effects in terms of lowering the administrative and compliance costs. Subsequently, Scenario B is evaluated positively in terms the corresponding two criteria.

Figure 4.2

Tax system reform scenarios

Reference scenario

- Tax regime to be applied from 1.1.2020, taking into account the provision of Law No. 4472/2017
  - New tax schedule
  - New composition of the solidarity contribution
  - New composition of the tax credit

A. Stronger progressivity

- Change of the tax rates at the two ends of the tax schedule, putting less burden on the lower incomes and more burden on the higher incomes
- Tax schedule changes:
  - €0-€20,000: 19%
  - >€40,000: 80%

B. Flat tax 24.3%

- Taxation of all personal income at the same rate
- The tax credit remains in force
- Flat tax rate: 24.3%

C. Flat tax with lifting of the tax credit

- Flat tax rate (as in Scenario B): 14.3%
- No tax credit

D. Flat tax 20%

- Flat tax rate (as in Scenario B): 20%
- Tax credit set at a rate that ensures fiscal neutrality
  - €680 per annum
  - Higher by €50 per annum for every child

E. Two tax brackets

- Different rates apply to two income brackets
  - €0-€40,000: 20%
  - >€40,000: 25%
- Tax credit (with fiscal neutrality)
  - €690 per annum
  - Higher by €50 per annum for every child

Source: IOBE

Table 4.2

Evaluation of the impact of the tax system reforms in comparison with the reference scenario

Evaluation criteria	A. Stronger progressivity	B: Flat tax 24.3%	Γ: Flat tax 14.3% with no tax credit	Δ: Flat tax 20% with tax credit at €680	E: Two brackets - 20% for <€40,000 and 25% for >€40,000, with tax credit at €690
Economic efficiency	---	++	+++	++	+
Equity	+	-	---	--	-
Simplicity, transparency and flexibility	0	++	+++	++	+
Administrative and compliance costs	0	++	+++	++	+

Note: + positive effect, 0 without noticeable effect, - negative effect

Source: IOBE

Scenario C has stronger positive effects on economic efficiency than Scenario B, as it generates lower marginal tax rates (10.86% for the total population), but also a lower average tax rate (at 11.26%) compared with the reference scenario. Therefore, in terms of economic efficiency, Scenario C is evaluated very positively. However, due to the abolition of the tax credit and lowering of the tax burden on high incomes, the implementation of Scenario C would lead to a great increase of inequality, compared to the reference scenario (Gini coefficient 0.359). Therefore, Scenario C is evaluated very negatively with respect to the equity criterion. Finally, the abolition of the tax credit in Scenario C constitutes even greater simplification of the tax system, thus further reducing the administrative costs, compared with Scenario B. Consequently, Scenario C is evaluated very positively as to the criteria of simplicity-transparency and administrative-compliance costs.

The Scenarios D and E achieve a better compromise between economic efficiency, simplicity and administrative costs on the one hand and equity on the other. Both Scenario D and Scenario E secure significant gains in simplicity and administrative cost reduction in relation to the reference scenario, thus these scenarios are assessed positively as to the corresponding criteria. In addition, they boost economic efficiency, as the marginal tax rate for the total taxpayers (D: 14.75%, E: 15.15%), and especially for the freelancers' group (D: 14.25%, E: 14.86%), is greatly reduced compared with the reference scenario. In both scenarios, inequality, as measured by the Gini coefficient, increases (D: 0,346, E: 0,345) and as a result, both scenarios are evaluated negatively in relation to the equity criterion, yet this increase is limited compared to Scenario C. Comparing the two scenarios, Scenario E reconciles better the conflicting objectives of the tax system, while its difference compared with the base scenario in equity terms is slightly smaller.

The decision as to the tax policy choices depends critically on the weight given to each evaluation criterion. Thus, if the focus is exclusively on income equality, Scenario A (stronger progressivity) would emerge as best, while, by contrast, if the main criterion is economic efficiency and simplification of the system, Scenario C (flat tax 14.3%) would top the evaluation. Finally, if the final judgement was based on a compromise between the criteria, the scenarios B, D and E would rank better compared with A and C.

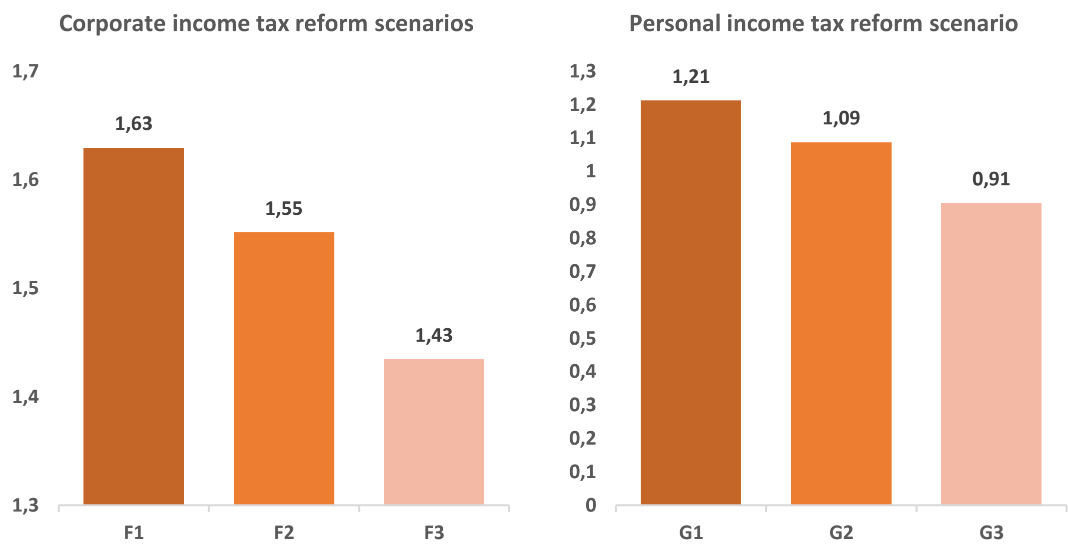
As the weight of the criteria in selecting the policy options cannot be determined by scientific methods, as it corresponds to subjective values and dispositions, no scenario emerges from our analysis as objectively preferable. However, it is worth noting that the effect of the simplification of the tax system scenarios on income inequality diminish significantly if the social protection system is appropriately reformed. Therefore, a combination of policy measures for simplification of the income tax system, aimed at enhancing economic efficiency and fighting tax evasion, with a parallel reform of the welfare system, aimed at strengthening its efficacy in reducing inequalities could prove to be the optimal solution.

All the scenarios of lower corporate taxes F1, F2 and F3 achieve a significant rise in investment and a strong boost of economic activity relative to the reference scenario (Figure 4.3). Therefore, these scenarios are evaluated very positively in economic efficiency terms. Respectively, all scenarios of personal income tax cuts (G1, G2 and G3) are evaluated very positively, as they lead to an increase in private consumption, which stimulates economic activity over considerable time.

None of these two groups of scenarios F and G consider changes in the structure of the tax system, or in individual parameters of the personal tax regime and therefore they cannot be evaluated with regard to the other criteria. Nevertheless, a simplification of the tax system, as described in scenarios B to E, could lead to a reduction in the tax evasion and higher tax revenues, thus creating fiscal space that would allow for scenarios F1 or Z1 to play out. The possibility of connecting these scenarios highlights even stronger the expected positive impact of the simplification of the tax system in economic efficiency term.

Figure 4.3

Evolution of real GDP (% difference from initial state of equilibrium)



Source: IOBE

4.5 Policy implications

Table 4.3 summarises some indicative policy interventions, with their expected result, considering the outcome of the analysis presented earlier and broader tax reform issues.

Table 4.3

Indicative policy interventions and expected results from tax system reforms in Greece

Criterion	Intervention description	Expected result
Economic efficiency	▪ Reduction of personal income marginal tax rates ▪ No more than two personal income tax brackets ▪ Drastic reduction in the corporate income tax rate (maximum 20%) ▪ Widening of tax base by re-examining deductible business spending categories ▪ Reduction of social security contributions ▪ Possibility of offsetting business losses with future profits of more than 5 years ahead ▪ Deduction of capital costs from business revenues	▪ Boost of incentives for work, business and investments ▪ Less tax evasion, tax avoidance and accumulation of arrears; higher public revenues. ▪ Boost of employment and growth in the economy ▪ Less unfavourable position of Greece in lieu of the international tax competition ▪ Elimination of distortions in business financing from equity or loans, as they will be equally treated ▪ Limited impact on the general government deficit, preventing interventions in other tax areas or public spending cuts
Equity	▪ Reduction of tax rates and number of tax brackets ▪ Adoption of redistribution mechanisms through public spending, rather than through tax discounts ▪ Gradual abolition of imputed income criteria for the determination of tax base - Use of these criteria to improve the effectiveness of tax audits ▪ No imposition of extraordinary or additional taxes on declared earnings ▪ Further use of digital payments and e-invoicing ▪ Intensification of tax audits and sanctions, and speeding up of tax disputes' resolution	▪ More reasonable tax burden allocation ▪ Stronger public confidence in the tax system ▪ Stronger taxpayer compliance ▪ Transparency and accountability
Simplicity, transparency and stability	▪ Assessment and simplification of the tax legislation ▪ Mandatory impact assessment in any tax bill or amendment ▪ Annual programming of legislative work for taxation and activity reports on a biannual basis ▪ Assessment of tax legislation implementation after its entry into force ▪ Adoption of redistribution mechanisms through public spending	▪ Simplification of the tax legislation ▪ Stability of the tax framework ▪ Transparency and accountability
Administrative and compliance	▪ Administrative reorganisation of the tax authorities by increasing the number of employees for tax audits ▪ Further modernization of the tax administration and establishment of e-tax administration	▪ Reduction of compliance costs and faster services to taxpayers ▪ Improvement of the effectiveness of the tax authorities ▪ Stronger public trust in the tax system

APPENDIX

Table 1: GDP growth

	Annual data (%)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	1.5	-3.8	1.8	2.9	0.7	0.0	0.8	1.1	1.5	3.0
Belgium	0.8	-2.3	2.7	1.8	0.2	0.2	1.3	1.4	1.4	1.7
Bulgaria	6.0	-3.6	1.3	1.9	0.0	0.9	1.3	3.6	3.9	3.6
France	0.3	-2.9	1.9	2.2	0.3	0.6	1.0	1.1	1.2	2.2
Germany	1.1	-5.6	4.1	3.7	0.5	0.5	1.9	1.7	1.9	2.2
Denmark	-0.5	-4.9	1.9	1.3	0.2	0.9	1.6	1.6	2.0	2.3
Czech Republic	2.7	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.6	4.4
EU	0.5	-4.3	2.1	1.7	-0.4	0.3	1.8	2.3	2.0	2.5
Greece	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.3	-0.2	1.4
Estonia	-5.4	-14.7	2.3	7.6	4.3	1.9	2.9	1.7	2.1	4.9
Euro area	0.4	-4.5	2.1	1.6	-0.9	-0.2	1.3	2.1	1.8	2.4
United Kingdom	-0.3	-4.2	1.7	1.6	1.4	2.0	2.9	2.3	1.8	1.7
Ireland	-3.9	-4.6	1.8	3.0	0.0	1.6	8.3	25.6	5.1	7.8
Spain	1.1	-3.6	0.0	-1.0	-2.9	-1.7	1.4	3.4	3.3	3.1
Italy	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	1.0	0.9	1.5
Croatia	2.0	-7.3	-1.5	-0.3	-2.3	-0.5	-0.1	2.4	3.5	2.9
Cyprus	3.9	-1.8	1.3	0.3	-3.1	-5.9	-1.4	2.0	3.4	3.9
Latvia	-3.5	-14.4	-3.9	6.4	4.0	2.4	1.9	3.0	2.2	4.5
Lithuania	2.6	-14.8	1.6	6.0	3.8	3.5	3.5	2.0	2.3	3.8
Luxemburg	-1.3	-4.4	4.9	2.5	-0.4	3.7	5.8	2.9	3.1	2.3
Malta	3.3	-2.5	3.5	1.3	2.7	4.6	8.1	9.6	5.2	6.4
Netherlands	2.2	-3.7	1.3	1.6	-1.0	-0.1	1.4	2.0	2.2	2.9
Hungary	0.9	-6.6	0.7	1.7	-1.6	2.1	4.2	3.4	2.2	4.0
Poland	4.2	2.8	3.6	5.0	1.6	1.4	3.3	3.8	3.0	4.6
Portugal	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.8	1.6	2.7
Romania	8.3	-5.9	-2.8	2.0	1.2	3.5	3.1	4.0	4.8	6.9
Slovakia	5.6	-5.4	5.0	2.8	1.7	1.5	2.8	3.9	3.3	3.4
Slovenia	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.3	3.1	5.0
Sweden	-0.6	-5.2	6.0	2.7	-0.3	1.2	2.6	4.5	3.2	2.3
Finland	0.7	-8.3	3.0	2.6	-1.4	-0.8	-0.6	0.1	2.1	2.6

Table 2: General Government Debt as % of GDP

	Annual data (%)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	68.7	79.9	82.7	82.4	81.9	81.3	84	84.6	83.6	78.4
Belgium	92.5	99.5	99.7	102.6	104.3	105.5	107	106.1	105.9	103.1
Bulgaria	13	13.7	15.3	15.2	16.7	17	27	26	29	25.4
France	68.8	83	85.3	87.8	90.6	93.4	94.9	95.6	96.6	97
Germany	65.2	72.6	80.9	78.6	79.8	77.5	74.7	71	68.2	64.1
Denmark	33.3	40.2	42.6	46.1	44.9	44	44.3	39.9	37.9	36.4
Czech Republic	28.3	33.6	37.4	39.8	44.5	44.9	42.2	40	36.8	34.6
EU	60.8	73.4	78.9	81.5	83.9	85.8	86.5	84.5	83.3	81.6
Greece	109.4	126.7	146.2	172.1	159.6	177.4	178.9	176.8	180.8	178.6
Estonia	4.5	7	6.6	6.1	9.7	10.2	10.7	10	9.4	9
Euro area	68.7	79.2	84.6	86.6	89.7	91.6	91.9	89.9	89	86.7
United Kingdom	49.9	64.1	75.6	81.3	84.5	85.6	87.4	88.2	88.2	87.7
Ireland	42.4	61.5	86.1	110.3	119.6	119.4	104.5	76.9	72.8	68
Spain	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.4	99	98.3
Italy	102.4	112.5	115.4	116.5	123.4	129	131.8	131.5	132	131.8
Croatia	39	48.3	57.3	63.8	69.4	80.5	84	83.8	80.6	78
Cyprus	45.1	53.8	56.3	65.7	79.7	102.6	107.5	107.5	106.6	97.5
Latvia	18.2	35.8	46.8	42.7	41.2	39	40.9	36.8	40.5	40.1
Lithuania	14.6	28	36.2	37.2	39.8	38.8	40.5	42.6	40.1	39.7
Luxemburg	14.9	15.7	19.8	18.7	22	23.7	22.7	22	20.8	23
Malta	62.6	67.6	67.5	70.1	67.8	68.4	63.8	58.7	56.2	50.8
Netherlands	54.7	56.8	59.3	61.6	66.3	67.8	68	64.6	61.8	56.7
Hungary	71.6	77.8	80.2	80.5	78.4	77.1	76.6	76.7	76	73.6
Poland	46.3	49.4	53.1	54.1	53.7	55.7	50.3	51.1	54.2	50.6
Portugal	71.7	83.6	96.2	111.4	126.2	129	130.6	128.8	129.9	125.7
Romania	12.4	22.1	29.7	34	36.9	37.5	39.1	37.7	37.4	35
Slovakia	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.3	51.8	50.9
Slovenia	21.8	34.6	38.4	46.6	53.8	70.4	80.3	82.6	78.6	73.6
Sweden	37.8	41.4	38.6	37.9	38.1	40.7	45.5	44.2	42.1	40.6
Finland	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.5	63	61.4

Table 3: General Government Balance as % of GDP

	Annual data (%)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	-1.5	-5.3	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.6	-0.7
Belgium	-1.1	-5.4	-4.0	-4.1	-4.2	-3.1	-3.1	-2.5	-2.5	-1.0
Bulgaria	1.6	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.6	0.2	0.9
France	-3.3	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.4	-2.6
Germany	-0.2	-3.2	-4.2	-1.0	0.0	-0.1	0.5	0.8	1.0	1.3
Denmark	3.2	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.5	-0.4	1.0
Czech Republic	-2.0	-5.5	-4.2	-2.7	-3.9	-1.2	-2.1	-0.6	0.7	1.6
EU	-2.5	-6.6	-6.4	-4.6	-4.3	-3.3	-2.9	-2.3	-1.6	-1.0
Greece	-10.2	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.7	0.6	0.8
Estonia	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3	-0.3
Euro area	-2.2	-6.3	-6.2	-4.2	-3.7	-3.0	-2.5	-2.0	-1.5	-0.9
United Kingdom	-5.2	-10.1	-9.4	-7.5	-8.2	-5.4	-5.4	-4.3	-3.0	-1.9
Ireland	-7.0	-13.8	-32.1	-12.7	-8.0	-6.1	-3.6	-1.9	-0.5	-0.3
Spain	-4.4	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.3	-4.5	-3.1
Italy	-2.6	-5.2	-4.2	-3.7	-2.9	-2.9	-3.0	-2.6	-2.5	-2.3
Croatia	-2.8	-6.0	-6.5	-7.8	-5.2	-5.3	-5.1	-3.4	-0.9	0.8
Cyprus	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-9.0	-1.3	0.3	1.8
Latvia	-4.2	-9.1	-8.7	-4.3	-1.2	-1.2	-1.5	-1.4	0.1	-0.5
Lithuania	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.2	0.3	0.5
Luxemburg	3.3	-0.7	-0.7	0.5	0.3	1.0	1.3	1.4	1.6	1.5
Malta	-4.2	-3.2	-2.4	-2.4	-3.5	-2.4	-1.8	-1.1	1.0	3.9
Netherlands	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.3	-2.1	0.4	1.1
Hungary	-3.7	-4.5	-4.5	-5.4	-2.4	-2.6	-2.6	-1.9	-1.7	-2.0
Poland	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.6	-2.6	-2.3	-1.7
Portugal	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0	-3.0
Romania	-5.4	-9.2	-6.9	-5.4	-3.7	-2.1	-1.3	-0.8	-3.0	-2.9
Slovakia	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-2.2	-1.0
Slovenia	-1.4	-5.8	-5.6	-6.7	-4.0	-14.7	-5.5	-2.9	-1.9	0.0
Sweden	1.9	-0.7	0.0	-0.2	-1.0	-1.4	-1.6	0.2	1.2	1.3
Finland	4.2	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.8	-1.8	-0.6

Table 4: Share of population at risk of poverty or social exclusion* (see p.151)

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2	18.3	18.0
Belgium	21.6	20.8	20.2	20.8	21.0	21.6	20.8	21.2	21.1	20.7
Bulgaria	60.7	44.8	46.2	49.2	49.1	49.3	48.0	40.1	41.3	40.4
France	19.0	18.5	18.5	19.2	19.3	19.1	18.1	18.5	17.7	18.2
Germany	20.6	20.1	20.0	19.7	19.9	19.6	20.3	20.6	20.0	19.7
Denmark	16.8	16.3	17.6	18.3	17.6	17.5	18.3	17.9	17.7	16.7
Czech Republic	15.8	15.3	14.0	14.4	15.3	15.4	14.6	14.8	14.0	13.3
EU	:	:	:	23.7	24.3	24.7	24.6	24.4	23.7	23.5
Greece	28.3	28.1	27.6	27.7	31.0	34.6	35.7	36.0	35.7	35.6
Estonia	22.0	21.8	23.4	21.7	23.1	23.4	23.5	26.0	24.2	24.4
Euro area	21.9	21.7	21.6	22.0	22.9	23.3	23.1	23.5	23.0	23.1
United Kingdom	22.6	23.2	22.0	23.2	22.7	24.1	24.8	24.1	23.5	22.2
Ireland	23.1	23.7	25.7	27.3	29.4	30.0	29.5	27.6	26.0	24.2
Spain	23.3	23.8	24.7	26.1	26.7	27.2	27.3	29.2	28.6	27.9
Italy	26.0	25.5	24.9	25.0	28.1	29.9	28.5	28.3	28.7	30.0
Croatia	:	:	:	31.1	32.6	32.6	29.9	29.3	29.1	28.5
Cyprus	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4	28.9	27.7
Latvia	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7	30.9	28.5
Lithuania	28.7	28.3	29.6	34.0	33.1	32.5	30.8	27.3	29.3	30.1
Luxemburg	15.9	15.5	17.8	17.1	16.8	18.4	19.0	19.0	18.5	19.8
Malta	19.7	20.1	20.3	21.2	22.1	23.1	24.0	23.8	22.4	20.1
Netherlands	15.7	14.9	15.1	15.1	15.7	15.0	15.9	16.5	16.4	16.8
Hungary	29.4	28.2	29.6	29.9	31.5	33.5	34.8	31.8	28.2	26.3
Poland	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7	23.4	21.9
Portugal	25.0	26.0	24.9	25.3	24.4	25.3	27.5	27.5	26.6	25.1
Romania	47.0	44.2	43.0	41.5	40.9	43.2	41.9	40.3	37.4	38.8
Slovakia	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1
Slovenia	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4	19.2	18.4
Sweden	13.9	14.9	15.9	15.0	16.1	15.6	16.4	16.9	16.0	18.3
Finland	17.4	17.4	16.9	16.9	17.9	17.2	16.0	17.3	16.8	16.6

Table 5: Inflation

	Annual data (%)				January - May			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	1.5	0.8	1.0	2.2	0.9	2.2	2.0	-0.2	1.3
Belgium	0.5	0.6	1.8	2.2	1.5	2.7	1.7	-1.0	1.1
Bulgaria	-1.6	-1.1	-1.3	1.2	-1.7	1.1	1.7	0.7	2.7
France	0.6	0.1	0.3	1.2	0.0	1.3	1.7	0.4	1.3
Germany	0.8	0.1	0.4	1.7	0.0	1.8	1.5	-0.3	1.8
Denmark	0.4	0.2	0.0	1.1	0.0	0.8	0.6	-0.2	0.9
Czech Republic	0.4	0.3	0.6	2.4	0.4	2.4	1.8	-0.6	2.1
EU	0.5	0.0	0.3	1.7	0.0	1.8	1.6	-0.2	1.8
Greece	-1.4	-1.1	0.0	1.1	-0.3	1.5	0.4	-1.1	1.8
Estonia	0.5	0.1	0.8	3.7	0.2	3.3	3.1	-0.1	3.1
Euro area	0.4	0.0	0.2	1.5	0.0	1.7	1.4	-0.3	1.8
United Kingdom	1.5	0.0	0.7	2.7	0.3	2.4	2.6	0.2	2.1
Ireland	0.3	0.0	-0.2	0.3	-0.2	0.4	0.4	0.1	0.6
Spain	-0.2	-0.6	-0.3	2.0	-0.9	2.5	1.3	-1.2	3.5
Italy	0.2	0.1	-0.1	1.3	-0.1	1.5	0.8	-0.7	1.7
Croatia	0.2	-0.3	-0.6	1.3	-0.7	1.2	1.3	0.2	1.9
Cyprus	-0.3	-1.5	-1.2	0.7	-1.9	1.3	-0.3	-1.6	3.2
Latvia	0.7	0.2	0.1	2.9	-0.6	3.1	2.1	-1.0	3.7
Lithuania	0.2	-0.7	0.7	3.7	0.6	3.1	2.9	-0.2	2.5
Luxemburg	0.7	0.1	0.0	2.1	-0.3	2.4	1.4	-1.1	2.8
Malta	0.8	1.2	0.9	1.3	0.9	1.2	1.4	0.2	0.3
Netherlands	0.3	0.2	0.1	1.3	0.1	1.2	1.3	0.1	1.1
Hungary	0.0	0.1	0.4	2.4	0.2	2.5	2.3	-0.2	2.2
Poland	0.1	-0.7	-0.2	1.6	-0.4	1.7	1.0	-0.7	2.0
Portugal	-0.2	0.5	0.6	1.6	0.5	1.7	0.9	-0.8	1.2
Romania	1.4	-0.4	-1.1	1.1	-2.3	0.5	4.0	3.5	2.8
Slovakia	-0.1	-0.3	-0.5	1.4	-0.5	1.0	2.6	1.6	1.5
Slovenia	0.4	-0.8	-0.2	1.6	-0.8	1.8	1.7	-0.1	2.6
Sweden	0.2	0.7	1.1	1.9	1.0	1.7	1.8	0.1	0.7
Finland	1.2	-0.2	0.4	0.8	0.1	1.0	0.8	-0.2	0.9

Table 6: GDP per capita (in PPS, EU=100)

	Annual data (%)								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	127	126	128	132	131	130	130	127	128
Belgium	118	120	120	121	120	119	118	118	117
Bulgaria	43	44	45	46	46	47	47	49	49
France	108	108	108	107	108	107	105	104	104
Germany	117	120	123	124	124	126	124	124	123
Denmark	125	129	128	127	128	128	127	124	125
Czech Republic	85	83	83	82	84	86	87	88	89
EU	100	100	100	100	100	100	100	100	100
Greece	94	85	75	72	72	72	69	68	67
Estonia	64	65	71	74	75	76	75	75	77
Euro area	109	108	108	107	107	107	106	106	106
United Kingdom	107	108	106	107	108	109	108	108	105
Ireland	129	130	130	132	132	137	181	183	184
Spain	101	96	93	91	89	90	91	92	92
Italy	106	104	104	102	98	96	95	97	96
Croatia	62	59	60	60	60	59	59	60	61
Cyprus	105	100	96	91	84	81	82	83	84
Latvia	52	53	57	60	62	63	64	65	67
Lithuania	56	60	66	70	73	75	75	75	78
Luxemburg	255	257	265	260	261	270	267	257	253
Malta	81	84	83	84	85	88	93	94	96
Netherlands	137	134	133	133	134	130	129	128	128
Hungary	64	65	66	66	67	68	68	67	68
Poland	59	62	65	67	67	67	68	68	70
Portugal	82	82	77	75	77	77	77	77	77
Romania	51	51	52	54	54	55	56	58	63
Slovakia	71	74	75	76	77	77	77	77	77
Slovenia	85	83	83	82	82	82	82	83	85
Sweden	123	125	126	127	125	124	125	123	122
Finland	117	116	117	115	113	111	109	109	109

Table 7: Average labour productivity (euro per hour worked, EU=100)

	Annual data								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	117.6	117.9	115.4	115.7	117.7	117.0	116.5	117.7	116.6
Belgium	128.3	129.6	131.3	129.7	130.7	130.2	130.6	130.3	129.5
Bulgaria	39.3	39.4	41.3	42.2	43.5	42.9	43.8	44.2	45.4
France	116.5	117.5	117.0	116.6	114.9	116.2	115.6	115.0	114.8
Germany	106.9	104.1	105.2	106.4	105.2	104.7	106.4	106.1	105.8
Denmark	107.6	109.6	115.2	114.6	114.4	115.2	115.2	114.4	111.9
Czech Republic	77.7	79.2	77.1	77.4	76.2	76.6	79.1	79.7	80.2
EU	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Greece	98.4	98.1	89.5	85.5	85.9	86.9	86.2	83.2	81.0
Estonia	66.0	66.6	70.6	72.0	73.3	73.3	73.8	70.9	71.8
Euro area	108.5	108.6	107.8	107.7	107.1	107.2	107.3	107.2	107.1
United Kingdom	105.8	103.8	103.6	101.8	102.2	101.9	101.8	101.3	101.1
Ireland	130.5	135.0	141.0	142.6	144.8	141.5	145.7	189.7	190.2
Spain	100.8	105.5	101.9	101.3	103.1	103.4	103.4	102.2	101.9
Italy	114.9	114.9	112.8	112.2	110.1	108.7	107.2	106.3	107.5
Croatia	70.5	68.5	67.2	70.2	72.4	73.4	70.7	70.1	70.9
Cyprus	94.9	95.2	91.5	89.9	88.7	86.8	85.0	84.4	83.7
Latvia	56.1	56.1	58.8	61.4	62.9	62.5	64.6	63.9	64.8
Lithuania	65.1	61.2	67.2	71.3	73.0	74.1	74.6	73.3	72.1
Luxemburg	169.5	162.8	162.5	166.3	162.1	163.4	170.0	168.3	163.2
Malta	93.2	94.0	94.7	91.2	90.3	89.6	91.0	92.5	93.4
Netherlands	118.3	115.7	113.4	112.1	111.9	113.8	111.9	111.5	110.8
Hungary	70.5	72.4	73.0	74.1	72.8	73.1	71.1	69.8	67.8
Poland	62.0	65.3	70.1	72.7	74.1	73.9	73.6	74.0	74.2
Portugal	77.4	79.5	79.8	76.4	76.7	79.6	78.9	78.2	77.9
Romania	51.3	51.4	50.6	51.6	55.6	56.3	56.6	58.7	61.6
Slovakia	79.3	79.2	83.5	81.5	82.4	83.7	83.9	82.7	81.7
Slovenia	83.7	80.1	79.5	80.7	80.1	80.5	81.4	80.7	80.7
Sweden	118.2	116.2	116.7	116.2	116.2	114.0	113.3	114.2	113.8
Finland	115.9	113.4	112.6	112.5	109.5	108.3	107.2	107.1	107.9

Table 8: Employment rate of workers aged 20-64 (*)

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	74.2	74.3	74.8	75.4	73.7	74.2	75.2	1.0	0.5
Belgium	67.3	67.2	67.7	68.5	66.9	67.7	69.3	1.6	0.8
Bulgaria	65.1	67.1	67.7	71.3	66.5	68.6	71.1	2.5	2.1
France	69.2	69.5	70.0	70.6	69.5	69.7	70.7	1.0	0.2
Germany	77.7	78.0	78.6	79.2	78.0	78.5	79.5	1.0	0.5
Denmark	75.9	76.5	77.4	76.9	77.1	75.9	77.3	1.4	-1.2
Czech Republic	73.5	74.8	76.7	78.5	75.7	77.6	79.2	1.6	1.9
EU	69.2	70.0	71.0	72.1	70.2	71.2	72.3	1.1	1.0
Greece	53.3	54.9	56.2	57.8	55.1	56.2	57.7	1.5	1.1
Estonia	74.3	76.5	76.6	78.7	75.1	77.9	78.2	0.3	2.8
Euro area	68.1	68.9	69.9	70.9	69.1	69.9	71.0	1.1	0.8
United Kingdom	76.2	76.8	77.5	78.2	77.1	77.8	78.6	0.8	0.7
Ireland	68.1	69.9	71.4	73.0	70.4	72.2	73.5	1.3	1.8
Spain	59.9	62.0	63.9	65.5	62.8	64.3	65.7	1.4	1.5
Italy	59.9	60.5	61.6	62.3	60.6	61.6	62.0	0.4	1.0
Croatia	59.2	60.6	61.4	63.6	59.4	60.5	63.6	3.1	1.1
Cyprus	67.6	67.9	68.7	70.8	66.7	68.6	71.5	2.9	1.9
Latvia	70.7	72.5	73.2	74.8	72.8	73.3	75.9	2.6	0.5
Lithuania	71.8	73.3	75.2	76.0	74.2	74.7	76.1	1.4	0.5
Luxemburg	72.1	70.9	70.7	71.5	70.5	71.4	72.4	1.0	0.9
Malta	66.4	67.8	69.6	71.4	68.5	69.8	71.8	2.0	1.3
Netherlands	75.4	76.4	77.1	78.0	76.4	77.5	78.5	1.0	1.1
Hungary	66.7	68.9	71.5	73.3	70.0	72.1	73.8	1.7	2.1
Poland	66.5	67.8	69.3	70.9	68.4	70.1	71.3	1.2	1.7
Portugal	67.6	69.1	70.6	73.4	69.3	71.7	74.5	2.8	2.4
Romania	65.7	66.0	66.3	68.8	64.5	66.2	68.0	1.8	1.7
Slovakia	65.9	67.7	69.8	71.1	69.0	70.7	71.9	1.2	1.7
Slovenia	67.7	69.1	70.1	73.4	68.3	71.5	73.9	2.4	3.2
Sweden	80.0	80.5	81.2	81.8	80.0	80.8	81.4	0.6	0.8
Finland	73.1	72.9	73.4	74.2	72.2	72.6	74.6	2.0	0.4

(*) employed persons aged 20-64 as a share of the total population of the same age group

Table 9: Employment rate of workers aged 55-64 (*)

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	45.1	46.3	49.2	51.3	47.9	49.7	53.4	3.7	1.8
Belgium	42.7	44.0	45.4	48.3	44.0	46.2	49.6	3.4	2.2
Bulgaria	50.0	53.0	54.5	58.2	52.8	55.2	58.8	3.6	2.4
France	46.9	48.7	49.8	51.3	49.3	50.4	51.8	1.4	1.1
Germany	65.6	66.2	68.6	70.1	67.8	68.8	70.5	1.7	1.0
Denmark	63.2	64.7	67.8	68.9	65.4	66.9	68.7	1.8	1.5
Czech Republic	54.0	55.5	58.5	62.1	56.5	60.9	64.4	3.5	4.4
EU	51.8	53.3	55.2	57.1	54.3	55.8	57.8	2.0	1.5
Greece	34.0	34.3	36.3	38.3	35.5	37.3	39.5	2.2	1.8
Estonia	64.0	64.5	65.2	68.1	61.7	66.7	67.7	1.0	5.0
Euro area	51.7	53.3	55.3	57.1	54.4	55.9	57.9	2.0	1.5
United Kingdom	61.0	62.2	63.4	64.1	62.9	63.9	65.0	1.1	1.0
Ireland	53.0	55.6	57.2	58.6	57.2	58.0	59.4	1.4	0.8
Spain	44.3	46.9	49.1	50.5	48.6	49.7	50.9	1.2	1.1
Italy	46.2	48.2	50.3	52.2	49.2	51.1	53.0	1.9	1.9
Croatia	36.2	39.2	38.1	40.3	35.5	36.1	40.1	4.0	0.6
Cyprus	46.9	48.5	52.2	55.3	49.6	52.1	58.7	6.6	2.5
Latvia	56.4	59.4	61.4	62.3	60.2	60.1	63.0	2.9	-0.1
Lithuania	56.2	60.4	64.6	66.1	63.2	65.3	68.2	2.9	2.1
Luxemburg	42.5	38.4	39.6	39.8	40.1	40.5	39.0	-1.5	0.4
Malta	37.8	40.3	44.1	45.3	42.0	41.2	49.1	7.9	-0.8
Netherlands	59.9	61.7	63.5	65.7	62.7	64.6	66.5	1.9	1.9
Hungary	41.7	45.3	49.8	51.7	47.9	50.1	53.6	3.5	2.2
Poland	42.5	44.3	46.2	48.3	45.0	47.0	47.6	0.6	2.0
Portugal	47.8	49.9	52.1	56.2	50.0	53.9	58.3	4.4	3.9
Romania	43.1	41.1	42.8	44.5	41.3	41.6	43.9	2.3	0.3
Slovakia	44.8	47.0	49.0	53.0	47.5	51.7	54.0	2.3	4.2
Slovenia	35.4	36.6	38.5	42.7	38.2	40.5	44.4	3.9	2.3
Sweden	74.0	74.5	75.5	76.4	74.5	75.8	77.2	1.4	1.3
Finland	59.1	60.0	61.4	62.5	60.5	61.7	65.2	3.5	1.2

(*) % employed persons aged 55-64 as a share of the total population of the same age group

Table 10: Employment growth (persons aged at least 15)

	Annual data (%)				Q1	
	2014	2015	2016	2017	2018/17	2017/16
Austria	0.1	0.8	1.8	1.0	1.6	1.1
Belgium	0.3	0.0	0.9	1.0	3.1	0.7
Bulgaria	1.3	1.6	-0.6	4.0	1.9	1.8
France	2.2	0.0	0.5	1.0	1.4	0.4
Germany	0.7	0.7	2.5	0.8	0.8	0.6
Denmark	0.7	1.4	2.6	-0.5	2.0	-1.1
Czech Republic	0.8	1.0	1.7	1.6	1.3	1.7
EU	1.3	1.1	1.5	1.4	1.4	1.2
Greece	0.6	2.0	1.8	2.0	1.6	1.4
Estonia	0.5	2.3	-0.1	2.2	0.4	3.1
Euro area	0.9	1.0	1.7	1.3	1.4	1.1
United Kingdom	2.2	1.5	1.4	1.2	1.4	1.2
Ireland	2.5	3.2	3.7	2.8	2.3	3.8
Spain	1.2	2.9	2.6	2.6	2.3	2.2
Italy	0.2	0.7	1.2	0.9	0.4	1.2
Croatia	3.2	1.1	0.5	2.3	4.2	0.6
Cyprus	-0.4	-1.4	1.1	4.5	5.5	4.5
Latvia	-0.9	1.1	-0.6	0.0	1.6	-1.2
Lithuania	1.9	1.0	1.3	-0.9	0.1	-1.0
Luxemburg	2.8	5.1	1.6	4.0	3.6	3.9
Malta	2.8	2.4	3.6	3.4	12.4	3.5
Netherlands	-0.9	1.1	1.3	1.9	1.8	2.1
Hungary	5.4	2.6	3.2	1.5	1.4	2.3
Poland	1.8	1.4	0.6	1.1	0.4	1.4
Portugal	2.3	1.3	1.4	3.3	3.3	3.0
Romania	0.9	-0.2	-0.8	2.4	1.7	1.2
Slovakia	1.4	2.4	2.8	1.2	1.1	1.8
Slovenia	0.5	1.0	0.1	4.5	2.7	4.1
Sweden	0.9	1.4	1.6	2.1	1.7	2.3
Finland	-0.7	-0.8	0.5	1.0	2.6	0.5

Table 11: Unemployment rate – Total population

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	5.6	5.7	6.0	5.5	6.3	6.0	5.3	-0.7	-0.3
Belgium	8.5	8.5	7.8	7.1	8.3	7.7	6.2	-1.5	-0.6
Bulgaria	11.4	9.2	7.6	6.2	8.6	6.9	5.7	-1.2	-1.7
France	10.3	10.4	10.1	9.4	10.7	10.0	9.6	-0.4	-0.7
Germany	5.0	4.6	4.1	3.8	4.5	4.1	3.6	-0.5	-0.4
Denmark	6.6	6.2	6.2	5.7	6.3	6.4	:		0.1
Czech Republic	6.1	5.1	4.0	2.9	4.4	3.5	2.4	-1.1	-0.9
EU	10.2	9.4	8.6	7.6	9.2	8.3	7.4	-0.9	-0.9
Greece	26.5	24.9	23.6	21.5	24.9	23.4	21.2	-2.2	-1.5
Estonia	7.4	6.2	6.8	5.8	6.5	5.6	:		-0.9
Euro area	11.6	10.9	10.0	9.1	10.7	9.9	8.9	-1.0	-0.8
United Kingdom	6.1	5.3	4.8	4.4	5.0	4.5	4.2	-0.3	-0.5
Ireland	11.9	10.0	8.4	6.7	8.8	7.1	5.7	-1.4	-1.7
Spain	24.5	22.1	19.6	17.2	21.0	18.8	16.8	-2.0	-2.2
Italy	12.7	11.9	11.7	11.2	12.1	12.1	11.6	-0.5	0.0
Croatia	17.2	16.1	13.4	11.1	16.0	13.8	10.9	-2.9	-2.2
Cyprus	16.1	15.0	13.0	11.1	14.1	13.6	10.8	-2.8	-0.5
Latvia	10.8	9.9	9.6	8.7	10.3	9.4	8.2	-1.2	-0.9
Lithuania	10.7	9.1	7.9	7.1	8.4	8.1	7.2	-0.9	-0.3
Luxemburg	6.0	6.5	6.3	5.6	6.6	6.1	5.4	-0.7	-0.5
Malta	5.8	5.4	4.7	4.6	4.9	4.6	4.4	-0.2	-0.3
Netherlands	7.4	6.9	6.0	4.9	6.8	5.6	4.4	-1.2	-1.2
Hungary	7.7	6.8	5.1	4.2	6.0	4.5	3.9	-0.6	-1.5
Poland	9.0	7.5	6.2	4.9	7.0	5.4	4.2	-1.2	-1.6
Portugal	14.1	12.6	11.2	9.0	12.6	10.2	8.0	-2.2	-2.4
Romania	6.8	6.8	5.9	4.9	6.6	5.5	4.7	-0.8	-1.1
Slovakia	13.2	11.5	9.7	8.1	10.4	8.7	7.1	-1.6	-1.7
Slovenia	9.7	9.0	8.0	6.6	8.9	7.8	6.0	-1.8	-1.1
Sweden	7.9	7.4	6.9	6.7	7.6	7.1	6.6	-0.5	-0.5
Finland	8.7	9.4	8.8	8.6	9.6	9.3	8.8	-0.5	-0.3

Table 12: Unemployment rate among men

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	5.9	6.1	6.5	5.9	6.8	6.6	5.7	-0.9	-0.2
Belgium	9.0	9.1	8.1	7.1	8.8	7.5	6.5	-1.0	-1.3
Bulgaria	12.3	9.8	8.1	6.4	9.3	6.8	6.3	-0.5	-2.5
France	10.5	10.8	10.3	9.5	11.2	10.0	9.6	-0.4	-1.2
Germany	5.3	5.0	4.5	4.1	4.8	4.6	4.2	-0.4	-0.2
Denmark	6.4	5.9	5.8	5.6	6.0	6.5	:		0.5
Czech Republic	5.1	4.2	3.4	2.3	3.8	2.8	2.0	-0.8	-1.0
EU	10.1	9.3	8.4	7.4	9.1	8.2	7.2	-1.0	-0.9
Greece	23.7	21.8	19.9	17.8	21.2	19.8	17.3	-2.5	-1.4
Estonia	7.9	6.2	7.4	6.2	7.4	5.9	:		-1.5
Euro area	11.5	10.7	9.7	8.7	10.5	9.6	8.6	-1.0	-0.9
United Kingdom	6.4	5.5	5.0	4.5	5.1	4.8	4.2	-0.6	-0.3
Ireland	12.7	10.8	9.1	7.1	9.9	7.3	5.8	-1.5	-2.6
Spain	23.6	20.8	18.1	15.7	19.5	17.2	15.2	-2.0	-2.3
Italy	11.9	11.3	10.9	10.3	11.5	11.2	10.6	-0.6	-0.3
Croatia	16.6	15.6	12.7	10.4	15.6	12.9	10.4	-2.5	-2.7
Cyprus	17.1	15.1	12.7	10.9	14.0	13.5	10.4	-3.1	-0.5
Latvia	11.8	11.1	10.9	9.8	11.0	10.6	9.0	-1.6	-0.4
Lithuania	12.2	10.1	9.1	8.6	9.7	10.1	8.7	-1.4	0.4
Luxemburg	5.8	5.9	6.1	5.6	6.3	6.3	5.3	-1.0	0.0
Malta	6.1	5.5	4.4	4.5	4.8	4.1	4.5	0.4	-0.7
Netherlands	7.2	6.5	5.6	4.5	6.4	5.1	4.2	-0.9	-1.3
Hungary	7.6	6.6	5.1	3.8	6.0	4.4	3.5	-0.9	-1.6
Poland	8.5	7.3	6.1	4.9	7.0	5.4	4.1	-1.3	-1.6
Portugal	13.8	12.4	11.1	8.6	12.6	9.9	7.8	-2.1	-2.7
Romania	7.3	7.5	6.6	5.6	7.6	6.3	5.3	-1.0	-1.3
Slovakia	12.8	10.3	8.8	7.9	9.4	8.7	6.9	-1.8	-0.7
Slovenia	9.0	8.1	7.5	5.8	8.4	7.5	5.4	-2.1	-0.9
Sweden	8.2	7.5	7.3	6.9	8.2	7.6	6.8	-0.8	-0.6
Finland	9.3	9.9	9.0	8.9	10.2	9.9	8.8	-1.1	-0.3

Table 13: Unemployment rate among women

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	5.4	5.3	5.6	5.0	5.6	5.2	4.8	-0.4	-0.4
Belgium	7.9	7.8	7.6	7.1	7.8	8.0	5.8	-2.2	0.2
Bulgaria	10.4	8.4	7.0	6.0	7.8	7.0	5.1	-1.9	-0.8
France	10.0	9.9	9.9	9.3	10.1	10.0	9.7	-0.3	-0.1
Germany	4.6	4.2	3.8	3.3	4.2	3.6	3.0	-0.6	-0.6
Denmark	6.8	6.4	6.6	5.9	6.6	6.4	:		-0.2
Czech Republic	7.4	6.1	4.7	3.6	5.1	4.3	3.0	-1.3	-0.8
EU	10.3	9.5	8.8	7.9	9.3	8.5	7.7	-0.8	-0.8
Greece	30.2	28.9	28.1	26.1	29.5	27.8	26.1	-1.7	-1.7
Estonia	6.8	6.1	6.1	5.3	5.5	5.3	:		-0.2
Euro area	11.8	11.0	10.4	9.5	10.9	10.2	9.3	-0.9	-0.7
United Kingdom	5.8	5.1	4.7	4.2	4.9	4.3	4.1	-0.2	-0.6
Ireland	10.9	8.9	7.6	6.3	7.5	6.8	5.5	-1.3	-0.7
Spain	25.4	23.6	21.4	19.0	22.8	20.5	18.6	-1.9	-2.3
Italy	13.8	12.7	12.8	12.4	12.9	13.3	12.9	-0.4	0.4
Croatia	18.0	16.7	14.2	12.0	16.5	14.8	11.5	-3.3	-1.7
Cyprus	15.1	14.8	13.4	11.3	14.2	13.6	11.2	-2.4	-0.6
Latvia	9.8	8.6	8.4	7.7	9.5	8.2	7.4	-0.8	-1.3
Lithuania	9.2	8.2	6.7	5.7	7.1	6.1	5.7	-0.4	-1.0
Luxemburg	6.4	7.1	6.5	5.6	7.1	5.8	5.5	-0.3	-1.3
Malta	5.3	5.2	5.2	4.7	5.1	5.3	4.3	-1.0	0.2
Netherlands	7.8	7.3	6.5	5.3	7.3	6.1	4.6	-1.5	-1.2
Hungary	7.9	7.0	5.1	4.6	6.1	4.7	4.3	-0.4	-1.4
Poland	9.6	7.7	6.2	4.9	7.0	5.4	4.3	-1.1	-1.6
Portugal	14.5	12.9	11.3	9.5	12.5	10.5	8.1	-2.4	-2.0
Romania	6.1	5.8	5.0	4.0	5.3	4.4	3.8	-0.6	-0.9
Slovakia	13.6	12.9	10.8	8.4	11.6	8.7	7.4	-1.3	-2.9
Slovenia	10.6	10.1	8.6	7.5	9.4	8.2	6.6	-1.6	-1.2
Sweden	7.7	7.3	6.5	6.4	7.1	6.6	6.4	-0.2	-0.5
Finland	8.0	8.8	8.6	8.4	9.0	8.7	8.8	0.1	-0.3

Table 14: Long-term unemployment rate (*)

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	33.7	30.5	33.7	35.2	29.1	32.0	32.0	0.0	2.9
Belgium	52.8	52.9	52.8	51.3	50.3	50.4	50.5	0.1	0.1
Bulgaria	59.6	61.9	59.6	55.9	56.1	54.4	52.4	-2.0	-1.7
France	47.2	45.4	47.2	46.7	44.3	44.7	41.5	-3.2	0.4
Germany	42.7	45.3	42.6	43.6	38.7	41.0	40.9	-0.1	2.3
Denmark	25.5	29.8	25.5	25.7	24.7	24.2	22.2	-2.0	-0.5
Czech Republic	42.8	48.2	42.8	35.7	45.8	37.1	31.8	-5.3	-8.7
EU	48.6	50.2	48.6	47.0	46.4	44.9	43.3	-1.6	-1.5
Greece	72.4	73.6	72.4	73.2	70.3	69.9	68.4	-1.5	-0.4
Estonia	32.6	40.0	32.6	35.3	24.6	34.0	24.3	-9.7	9.4
Euro area	51.5	52.8	51.5	50.4	49.3	48.6	46.8	-1.8	-0.7
United Kingdom	30.3	34.0	30.3	28.9	28.3	25.4	25.6	0.2	-2.9
Ireland	57.3	58.1	56.0	49.9	57.1	54.3	38.6	-15.7	-2.8
Spain	49.2	52.5	49.2	45.5	48.4	45.6	41.9	-3.7	-2.8
Italy	59.1	59.7	59.1	59.7	58.0	56.9	58.8	1.9	-1.1
Croatia	53.2	66.2	53.2	42.5	50.7	41.7	38.1	-3.6	-9.0
Cyprus	45.3	46.7	45.6	41.6	41.2	39.2	29.8	-9.4	-2.0
Latvia	41.8	46.2	41.8	38.0	45.5	38.4	39.4	1.0	-7.1
Lithuania	38.8	43.3	38.8	38.3	39.5	36.0	34.4	-1.6	-3.5
Luxemburg	37.0	30.3	37.0	40.0	35.3	37.2	26.4	-10.8	1.9
Malta	45.3	48.2	45.2	47.4	46.8	48.7			1.9
Netherlands	47.4	48.0	47.4	45.7	41.6	40.3	37.9	-2.4	-1.3
Hungary	47.7	46.8	47.7	41.3	46.5	42.9	40.7	-2.2	-3.6
Poland	35.9	40.1	35.9	31.9	36.4	29.6	26.6	-3.0	-6.8
Portugal	56.9	59.1	56.9	51.4	53.3	51.6	45.9	-5.7	-1.7
Romania	51.7	45.1	51.7	42.7	52.1	43.8	41.5	-2.3	-8.3
Slovakia	61.4	66.9	61.4	63.4	61.5	62.0	62.2	0.2	0.5
Slovenia	53.9	53.0	53.9	48.4	51.1	45.5	44.4	-1.1	-5.6
Sweden	22.4	24.1	22.4	22.8	18.9	19.9	19.1	-0.8	1.0
Finland	29.4	27.5	29.4	27.4	25.0	23.7	23.0	-0.7	-1.3

(*) long term unemployed (12 months or more) as a % of total unemployed

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)				Q1			Change (%)	
	2014	2015	2016	2017	2016	2017	2018	2018/17	2017/16
Austria	10.3	10.6	11.2	9.8	11.7	10.4	10.2	-0.2	-1.3
Belgium	23.2	22.1	20.1	19.3	19.8	21.4	16.9	-4.5	1.6
Bulgaria	23.8	21.6	17.3	12.9	18.4	12.8	11.8	-1.0	-5.6
France	24.2	24.7	24.6	22.3	25.3	22.8	21.7	-1.1	-2.5
Germany	7.7	7.2	7.1	6.8	7.3	7.0	6.4	-0.6	-0.3
Denmark	12.6	10.8	12.0	11.1	11.4	12.1	10.0	-2.1	0.7
Czech Republic	15.9	12.6	10.5	8.0	9.7	8.5	6.4	-2.1	-1.2
EU	22.2	20.4	18.7	16.9	19.5	17.7	15.8	-1.9	-1.8
Greece	52.4	49.	47.4	43.6	50.9	46.8	44.4	-2.4	-4.1
Estonia	15.0	13.1	13.5	14.1	15.1	15.5	11.9	-3.6	0.4
Euro area	23.7	22.4	20.9	18.8	21.9	19.9	17.8	-2.1	-2.0
United Kingdom	16.9	14.6	13.0	12.1	13.0	11.9	11.5	-0.4	-1.1
Ireland	23.9	20.9	16.8	14.4	16.6	13.0	12.5	-0.5	-3.6
Spain	53.2	48.3	44.5	38.7	46.5	41.7	36.3	-5.4	-4.8
Italy	42.7	40.3	37.8	34.8	40.3	37.3	33.8	-3.5	-3.0
Croatia	45.5	43.0	31.3	27.5	32.5	34.4	28.2	-6.2	1.9
Cyprus	36.0	32.8	29.1	24.7	29.6	26.7	25.3	-1.4	-2.9
Latvia	19.6	16.3	17.3	17.0	15.0	17.3	14.7	-2.6	2.3
Lithuania	19.3	16.3	14.5	13.3	14.5	14.8	13.9	-0.9	0.3
Luxemburg	22.3	17.3	18.7	15.4	17.0	15.8	13.4	-2.4	-1.2
Malta	11.7	11.8	11.0	10.5	9.2	10.5	8.1	-2.4	1.3
Netherlands	12.7	11.3	10.8	8.9	12.0	10.3	7.8	-2.5	-1.7
Hungary	20.4	17.3	13.0	10.7	14.2	10.3	10.4	0.1	-3.9
Poland	23.9	20.8	17.6	14.8	19.6	15.2	11.8	-3.4	-4.4
Portugal	34.7	32.0	27.9	23.9	31.0	25.1	21.9	-3.2	-5.9
Romania	24.0	21.7	20.6	18.5	21.8	20.4	16.8	-3.6	-1.4
Slovakia	29.7	26.5	22.2	18.9	24.3	18.7	17.1	-1.6	-5.6
Slovenia	20.2	16.3	15.3	11.3	17.8	11.6	10.7	-0.9	-6.2
Sweden	22.9	20.4	18.8	17.9	21.9	20.3	18.0	-2.3	-1.6
Finland	20.5	22.4	19.9	19.8	23.1	23.4	21.1	-2.3	0.3

(*) For the exact definition of the share of population at risk of poverty or social exclusion, refer to:

http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16664385&RdoSearch=BEGIN&TxtSearch=&CboTheme=36940331&IsTer=TERM&IntCurrentPage=4&ter_valid=0

http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=27697382&RdoSearch=BEGIN&TxtSearch=&CboTheme=36940331&IsTer=TERM&IntCurrentPage=44&ter_valid=0