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Foreword

This is the first IOBE bulletin on the Greek economy for 2018. Its publication takes place ahead of important challenges for the Greek economy, namely the completion of the final review of the third economic adjustment programme, the finalisation of the medium- and long-term measures for public debt, and the negotiations on the agreement with the official sector lenders for the post-programme period, which are about to take place shortly. 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 economic policy challenges for the Greek economy in the coming period. 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 2017 and its outlook for 2018, based on the latest report of the International Monetary Fund; b) an outline of the economic climate in Greece in the first quarter of this year, based on data from the latest IOBE business and consumer surveys; c) an analysis of the execution of the State Budget in 2017 and in the first two months of 2018; d) an outline of the developments in the domestic financial system between December 2017 and February 2018.

Chapter 3 focuses on the performance of the Greek economy in 2017. It includes an analysis of: the macroeconomic environment last year and its projected trends for 2018; the developments in key production sectors in 2017; the export performance of the Greek economy during that year; the developments in the labour market in 2017; the trends in inflation in the first quarter of 2018; and, finally, the trends in the balance of payments in 2017.

Chapter 4 presents the findings of a study on funding opportunities through the stock market and the new growth model of Greece.

The report is based on data that were available up to 20/04/2018.

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

RETURN TO NORMALITY OR DANGEROUSLY LOW EXPECTATIONS?

The Greek economy prepares for the completion of the third adjustment programme. Certain indicators of the economy are strengthening, the fiscal balance remains on a positive trajectory and the growth of the economy is slightly higher than in the previous year. However, shortly before the completion of the programme, there is no clarity on the terms of the subsequent supervision mechanism and public debt management, nor on how the needed strong growth momentum is going to be generated. These conditions lead us to a critical junction and the decisions that will be taken in the summer will largely determine the course of the economy over the coming years.

The growth momentum of the economy will strengthen slightly over the coming period.

From about 1.4% growth in real terms last year, on the basis of the currently available information, the economy is projected to expand by about 2% this year. The investment growth, albeit small in absolute terms, is remarkable in percentage terms, due to the low base of comparison. The exports of goods and services, including tourism, are moving up, mainly as a result of continuing growth in the European and wider international environment and the consequent increase in demand. One difference from the previous year, however, is that inflation slowed, as the price growth rate declined from approximately 1% last year to about half that level in the current year. This reinforces the contribution of consumption to the national product in real terms, which also helps to ease unemployment. The total contribution of the external balance remains negative.

The export-oriented production grows faster than the rest of the economy, yet its pace is still rather slow. Nevertheless, this shift has a positive sign. The increase in demand from abroad, coupled with the reforms that have taken place in the labour market, reduce unemployment, albeit at a relatively slow pace.

The report analyses the positive features of the current situation. Progress is being made in the management of non-performing loans. There are signs of revival in parts of the construction sector, after ten years of stagnation. Overall, the conditions that drive the economy up are, firstly, the easing of the extreme uncertainty from previous years, secondly, the effect of certain structural reforms and thirdly, the significant increase in demand from abroad.

Despite the positive signs in many aspects of the economy, there are strong reasons for concern, both over the coming two years and in the long run. Regarding the medium-term outlook, the extent to which the economy has undergone structural changes, as it emerges from three successive adjustment programmes, is a matter of concern. The extreme dependence of production on the domestic market and the public sector was precisely the source of low productivity and competitiveness that gradually led to enormous twin deficits and ultimately to income mismatch and inability to secure financing from the markets. Even though the expectations for exit from the programmes trigger positive reflexes for "return to normality", it would be dangerous not to have mastered the teachings from the past. Such a course will mark a systematic deviation from the core of the Euro area, which harbours risks at all levels. By contrast, the Greek economy must move on a path of institutional and structural reforms, so that under these conditions the growth may be much higher in the medium term at about 2%, activating thus a virtuous circle of convergence with the other economies of the Euro area. The structural reforms can indeed guarantee the steady growth of wages in the medium term. This point is crucial to the extent that the competitiveness has, in recent years, improved primarily through a reduction in unit labour costs.

The course of the economy in the short term raises equally important concerns. The stakeholders of the Greek programme aspire, of course, that it is completed successfully (which is important) and at the same time that there are no budget gaps and difficulties in financing the country in the following year (also important), yet not as much importance seems to be given to the essential growth dimension. Given that the makers of the economic decisions discount possible future developments, there is a risk of a stagnation trap that might cause difficulties in securing funding in two or three years from now. The interest rates with which the international investors are treating the Greek economy are still significantly higher than in other European economies. Overall, the return of the Greek economy to the international markets seems to be carried out in terms that differ from those for the other economies that previously came out of their own programmes. Firstly, because the international economic cycle was previously in a more favourable phase, while Greece risks in the near future to be under pressure from rising global costs of capital. Secondly, because our banking system is more vulnerable than in other economies, as reflected in the continued capital controls and in the stock of non-performing loans. In this sense, the Greek side would have had every reason to request, and the partners would have had an obligation to provide, without any additional fiscal burden, access to an adequate credit line of support that would iron out the transition from the third programme to the autonomous financing of the country. It seems that a choice was made not to activate a standard credit line, mainly for political reasons, both domestically and in Europe. The negative signal emitted to prospective investors should and can be rebalanced, but under very specific conditions. These conditions must involve a combination of both ensuring that the burden of debt servicing for the economy would not be excessive in the perceivable future and implementing a credible growth plan.

If the Greek economy does not adhere to the path of structural reforms, with emphasis on opening markets and improving the efficiency of the public administration, the real growth rate of the economy over the next decade would hardly exceed 1% annually.

Overall, the issues that would still be open in the coming weeks, which include the completion of the last review of the current programme, the finalisation of the medium-term measures for the reduction of public debt, the role of the International Monetary Fund in the programme, and the securing of the terms of autonomous financing after the end of the programme, need to be addressed, taking into account their close dependency. It is particularly critical to avoid repetition of mistakes that both Greece and its partners and creditors made over the past decade. The combination of putting much stronger emphasis on fiscal consolidation than on production structure reforms, on the one hand, and the lack of clarity and credibility when running the programme, on the other, constitutes a policy mix that largely explains the recession recorded so far. If this continues, it forebodes a particularly weak growth momentum in the future. The social security and tax systems are two relevant examples. Instead, a policy mix combining, first, the unallocated resources of the programme, so as to create in practice a protection buffer for the economy in the coming years, second, the redesign of the tax and social security systems so as to ensure the budgetary balance over the medium term and, third, a more significant easing of the debt service needs, can be the pillar that would guarantee both the successful autonomous financing from the markets and the steady income growth in the country. All the stakeholders involved in the programme must support the positive momentum of the economy, as the lock-in in low-expectations equilibrium can once more prove to be extremely dangerous.

Regarding the international environment, apart from a possible future turmoil in the markets, the weakening of the reform momentum at the European level and in particular the lack of strong consensus and disposition for bold actions that would protect the Euro area from another crisis should raise concern. Indeed the growth rates recorded in Europe today are strong, while the absorption of the Brexit outlook has not caused significant disruptions. However, the growth rates can slow down significantly, particularly in countries on the periphery of the Euro area. This will happen if they do not enhance their reform momentum and if the countries of the core Euro area do not adopt policies for effective integration, including the Banking Union and a mechanism for jointly tackling unemployment. The crisis led to the creation of new mechanisms and tools, albeit in an urgent and not always ideal way, yet we should not wait for a new crisis to complete the relevant processes. This applies particularly now that the accumulated debt of many economies in the Euro area is exceptionally high, while the management of private debt is difficult as well. In this regard, Greece can have a positive contribution, provided that its economy has begun a positive course.

In any case, the creation and development of a credible growth plan will be of central importance both for the immediate and the medium-term developments, not so much as a formal programme requirement, but in the sense of taking responsibility for planning the economy's future. In accordance with what was written above as well, the growth plan should boost the economy's momentum to its fullest possible extent, safeguarding the fiscal stability. The steady income growth and unemployment reduction, in a sustainable way and for at least a decade, must constitute its sole aim. This can be achieved at three levels. Primarily, interventions that would reduce barriers to entry in production and the public sector burden, notably by increasing its effectiveness, must be enhanced. In this way, the Greek economy would take its place on the international map as an attractive destination for physical and human capital. Secondly, the education and health systems should be redesigned. Both of them represent a potentially heavy fiscal burden in the coming years, thus the return on every penny of public expenditure should be optimised. At the same time, the access to high-quality health and educational services is a necessary condition in general for the social cohesion and prosperity in the country, as well as directly for boosting the production base of the economy. Finally, provided that the economy is set on a path of reduction of the barriers to production and improvement of the health and education systems, particular interventions could facilitate the utilisation of the special comparative advantages derived from the geographical location and the human capital of the country. If, however, instead of the above, the growth plan of the country is considered to justify a course of reversal of the reforms of the previous decade, with a return to the pre-crisis conditions, the expected outcome can be rather painful.

1 BRIEF OVERVIEW

Accelerating global growth in 2017, slightly stronger growth in the current year

Overall in 2017, the world economy grew at an average rate of 3.8%, compared to 3.3% in 2016, its best performance since 2011. In the latest forecasts by the International Monetary Fund, the global growth rate was projected to accelerate slightly in the current year, at a rate mildly higher than in the earlier forecasts. In greater detail, the GDP of the major developed economies (G7) increased by 2.3% in 2017, by 0.6 percentage points more than in 2016, recording its best performance since 2010. In most G7 countries, growth accelerated in the previous year, with the strongest increase in Canada (3.0%, from 1.4% a year ago), the USA (2.3%, from 1.5%) and Japan (1.7%, from 0.9%). The exception was the United Kingdom, where the growth rate marginally weakened, from 1.9% to 1.8%, reflecting the negative Brexit impact. By contrast, note that in the final quarter of 2017, real GDP growth slowed down in four of the seven economies. It remained on the rise in France, Germany and the US. In the major Asian developing economies, the economy of China expanded by 6.9% last year, from 6.7% in 2016, presenting a small acceleration for the first time since 2010. The growth of India's economy slightly slowed down, to 6.7% from 7.1%. In late 2017 both economies expanded by 6.8%. In Latin America, after two years of recession at a similar rate (-3.5%), the GDP turned to a slightly positive trend (+1.0%).

The world economy is anticipated to strengthen further in the current and the following year. In the developed economies, this trend will be maintained by the continued – albeit to a lesser extent than in the past few years - loose monetary policy, the steady and fast expansion of world trade, the changes in the US tax policy and the boom in the capital markets. Apart from the conditions conducive to the growth of the world economy, there are factors that might tamper the good prospects. The protectionist measures in the US and more broadly, the potential spread of trade protectionism constitute the latest example. The high growth worldwide may lead to high energy prices. In addition, as the GDP of many countries, especially among the developed economies, has already expanded at a rate higher than that of their potential output, growth is expected to slow down in the medium term.

In greater detail, the expansionary monetary policy in the Euro area will continue to support its growth, despite its mild tempering compared to previous years. It is not expected to end in the medium term, as inflation is not converging to the desired level of 2%. The expansion of international trade will maintain the positive effect of net exports. The completion of fiscal consolidation in most countries increases their fiscal space. The strengthening of the robustness of the banking system in certain countries, the Brexit negotiations and the management of migratory flows remain major challenges in the Euro area.

In the US, as predicted in the previous IOBE report, the tax reform is anticipated to have a catalytic effect on growth in the current year. The gradual transition towards a less accommodating monetary framework has continued after the change in leadership of the Federal Reserve in February. That said, the protectionist trade policy measures constitute an economic development that is difficult to evaluate at this stage. It is likely to benefit in the short term important sectors of the American economy that are directly targeted by the measures. However, the overall effects on this will depend on whether it will cause similar political decisions in other major economies and blocs of countries, such as the EU.

Regarding the developments in the major developing economies, the new conditions after the changes in US trade policy, the gradual transition to a more open economy model and the taming of the effects of the rapidly increasing credit growth are significant challenges for the Chinese economy. The dependence on the international prices of energy commodities, low productivity, the limited fiscal space and the stability of the financial sector determine the prospects of the Russian economy.

Under these conditions and prospects in the world economy, the forecast of IOBE that the growth of world GDP will accelerate to about 4.0% in 2018 remains unchanged.

Accelerating growth in Q4 of 2017 – Higher GDP by 1.4% last year

The Greek economy completed a year of growth in the last quarter of 2017. Its GDP increased by 1.9%, compared to 0.9% recession in the same quarter of 2016 and slightly faster growth than in the preceding quarter (1.4%). Overall last year, the gross domestic product increased by 1.4%, compared with a small decline by 0.3% the year before. The GDP growth rate last year is very close to the IOBE forecast from one year ago presented in our first quarterly report of 2017 (1.5%-1.8%).

In detail as to the trends in individual components of GDP overall in 2017, domestic consumption remained essentially unchanged (-0.1%) compared to last year, when it had marginally decreased (-0.4%). Its trend was different in the two halves of last year, as it increased by 0.8% in the first half of 2017, and declined by 0.6% in the second. Regarding its two basic components, only private consumption increased marginally by 0.1%, for a second year in succession. The public sector consumption declined by 1.2%, almost as strong as their contraction a year earlier (-1.4%). Note that the fall in household consumption expenditure intensified in the final quarter of 2017, by 1.0%.

Investment expanded by 14.9% in 2017, twice as strong as in 2016 (+7.3%), recording their highest growth rate since 2007. In the final quarter, their growth accelerated, reaching 22.6%. However, last year's rise offsets a small part of their cumulative retreat by 68.7% between 2008 and 2015. In addition, it came by 1/3 from the build-up of stocks of €1.16 billion. Thus, the increase in gross fixed capital formation was lower than that of total investment, at 9.7%, yet it was notably stronger than in the preceding year (+1.5%). Note that almost all growth of fixed capital formation last year (96.5%) came from stronger investment in transport equipment, which expanded by 77.1%.

In the external sector of the economy, exports expanded by 6.9% overall in 2017, overcompensating for their fall in 2016 by 1.9%. Following this increase, they reached €59.7 billion, their highest level at least since 1960. In addition, they posted the largest percentage of GDP as well (31.9%). This increase came mainly from stronger exports of services from Greece, by 8.7%, offsetting their similar decline a year earlier by 8.0%. The exports of goods strengthened for the eight consecutive year, by 5.4%, slightly stronger than a year earlier (+3.7%). Following their new increase, they reached their all-time record, both in absolute terms (€32.9 billion) and as a percentage of GDP (17.6%).

Strong growth dominated in the other part of the external sector as well, as imports increased by 7.5%, notably stronger than a year earlier (+1.2%). The growth impetus came mainly from stronger domestic demand for goods, by 6.8%, against growth by 4.1% in 2016. The imports of services increased stronger, by 10.8%, yet as they have historically taken up a much lower share of total imports (16.5% in 2016), their contribution to the 2018 growth was much weaker than that of the imports of goods. The higher growth of imports compared with exports resulted in a deterioration of the balance of the external sector in national accounting terms for the second consecutive year, by 14.3%, or €710 million, with an overall deficit of €5.7 billion or 3.0% of GDP.

As noted in previous IOBE bulletins, the extent of the increase in imports last year exceeded that of domestic demand (total private consumption expenditure and investment), as it reached €4.6 billion, against €3.06 billion, which implies that the elasticity of import demand to domestic demand is high (4.67). This highlights the strong preference of households and businesses for imported goods and services compared to domestic products, leading to substitution of the latter from the former.

Slightly stronger growth of the Greek economy in 2018, by 2.1%

As pointed out in the previous quarterly report on the Greek economy, the much faster than usual conclusion of the third review of the current programme prevented the escalation of uncertainty that usually accompanies this process. In addition, while the review was approaching its conclusion, a seven-year bond was issued by the Hellenic Republic at the beginning of February, with an yield of 3.5%, substantially lower than the five-year bond issued last July (4.625%). This pointed out to signs of confidence in the implementation of the agreed policies and the attainment of the 2017 fiscal targets.

Although the third review was completed in a short time, since then the climate in the Greek economy has not followed a trend of steady or uninterrupted improvement. In March, the Economic Sentiment Index of the European Commission for Greece declined considerably, to 99.8

from 104.3 points, yet it remained higher year on year (93.6 points), at the lowest level in the EU. The halt, at least temporarily, of the improvement of the expectations may be due to the anticipated start of the next and final review, which is clearly more critical than the previous one. Currently, a small portion of the prior actions (12 of 88) have been implemented, including reforms in sectors and licensing, modernisation of public administration etc.. The key deliverables do not include any fiscal measures for the current year.

Although there are no plans for the next review to impose new fiscal interventions in the current year, measures set in the Medium-Term Fiscal Strategy (MTFS) 2018-2021 were implemented from the beginning of 2018. The increase of VAT in the Northeast Aegean and the Dodecanese Islands, the imposition of a booking tax in hotels, rented rooms and apartments, the abolition of the 10% tax discount from medical expenses and the 1.5% discount on withheld tax during the clearance of tax returns of employees and pensioners, are the most important of these measures. In addition, the social security contributions of self-employed persons were raised, as they are now calculated on gross earnings, while the contribution of shipping companies was extended for one more year. The new measures will exert pressures mainly on the disposable income of households and the financial results of the entities that provide professional services. Already in the first two months of this year, the receipts from individuals increased by €157 million year on year. The receipts from taxes on real estate are marginally higher (+€10 million to €427 million). By contrast, the revenue from direct taxation of legal entities slightly decreased in the current period (-€6 million, to €23 million.).

Apart from the implementation of the prior actions, a significant part of the framework of Greece's relationship with the official creditors following the completion of the third programme will take shape during the final review. In addition, negotiations will start for the finalisation of the medium-term measures to relieve debt servicing and for relevant interventions that can be implemented over the long term. Understandably, the decisions around these issues are particularly critical, as they will determine the ability of the Greek State to refinance the debt through the capital markets in a sustainable manner, but also more broadly, the access of the private sector to these markets. Thus, this puts households and businesses in a stand-by mode until the conclusion of the relevant negotiations. The importance and the complexity of the issues to settle from these negotiations are expected to result in their relatively long duration, weighing, at least over that period, on the economic climate.

The outcome of the new capital adequacy assessment of the banking system will affect the economic developments over the course of this year and in the medium term. The assessment will provide indications on the progress on major issues for the banks, such as the management of non-performing loans and the execution of electronic auctions. These issues affect the decisions of a significant part of the enterprises and the households. As the announcement of the results of the stress test is approaching, the expectations for their outcome are positive. However, in case that new capital needs will arise, unused funds of the financial assistance programme, intended for the banking system, can be approved for this purpose, or this can take place with the participation of the private sector. Thus, the outcome of the stress test would probably not lead to any sudden changes in the bank financing of the Greek economy. In any case, the banks are not expected to alter their credit policy, at least until the announcement of the test's outcome.

After that, the necessary conditions for a mild credit expansion, at least to the enterprises, to restart and strengthen steadily the return of deposits that was interrupted in the first two months of this year, and to continue to reduce the non-performing loans in accordance with the relevant targets. In turn, the choices for the settlement of non-performing loans by the banks will also affect the intention of saving in the private sector, for both individuals and businesses. The fortification of their capital adequacy will enable the upgrade of the credit rating of the banks, facilitating their access to the international capital markets and strengthening their fund availability.

The anticipated continuation of the mild credit contraction to businesses, at least in the first six months of the current year, will push businesses to search for alternative ways of funding. As in 2017, large companies, especially those listed on the stock markets, will seek access to financing through the capital markets, in Greece and abroad, at lower yields than the bank interest rates. Such moves last year, with the issuance of debt securities, were considered successful, given the achieved yields. After the successful conclusion of the third review and the bond issue by the Hellenic Republic, some companies once more utilised these financial instruments. However, the forthcoming launch of the next review and the consultations for public debt are expected to escalate the uncertainty around the economy, dampening the issuing of corporate bonds over this period.

In contrast to the effects of increased direct and indirect taxation on economic activity, the Public Investment Programme (PIP) is anticipated to provide greater stimulus this year. This expectation is based on the significant underperformance of PIP in the previous year, when the grants reached €5.95 billion, their lowest level since at least 2000. The expenditure budget for the current year is the same as last year, at €6.75 billion, so the final amount is anticipated to be higher than last year. In addition, following the large delay in the implementation of PIP in 2017, its execution is expected to be more front-loaded this year, thus its impetus on investment and jobs is anticipated to be stronger than in the previous year.

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 still 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, the transfer of 67% of the Thessaloniki Port Authority was formally concluded. In addition, the tenders scheduled for completion this year are many more than those for which either expression of interest has been submitted or invitation for submission has been published. It is therefore necessary to accelerate the implementation of the programme of privatisation and public asset development, in order to achieve its goals.

The export businesses experienced a boost of activity and employment last year, because of strengthening growth in the Euro area and from the acceleration of world trade. These trends will carry over to 2018, according to the latest reports of international organisations, and even with greater intensity than anticipated in early 2018, despite the effects of protectionist trade policy measures in the US. Besides, for the moment, the EU countries have been exempted from the measures, while the Greek exports to the US of products that are subjected to the new restrictions (steel, aluminium) are not high, compared with the total exports, (€130 million or 0.4% of the exports of goods in 2017). The impact of these specific measures on Greek exports will mainly be indirect, through their effects on exports from third countries, which in turn will affect their demand for Greek exports. The expected mild decline in the euro/dollar exchange rate in the short term, after the significant rise in 2017, will not worsen the price competitiveness of products and services in the Euro area, while it will continue to cushion significantly the effects of the continuing rise in the price of petroleum.

The demand for imports is also anticipated to grow strongly, as a result of the accumulation of needs of businesses and households from the capital controls, but also from the growth of domestic output. In fact, the growth of imports is anticipated to continue to hamper the improvement of the external balance of goods and services, due to the high elasticity of imports to domestic demand.

Taking into account the above trends in economic indicators, and the anticipated developments for the forecasting of the GDP components and other macroeconomic indicators, household consumption is anticipated to expand in the current year. The further expansion of exports in the current year and the upturn in construction activity will keep unemployment on a downward path, raising the total household disposable income and consumption spending. Furthermore, the slight price increase will reduce the purchasing power of wages and transfers less than in 2017. In contrast, the new fiscal measures in direct taxes will act as an impediment to a greater increase of private consumption this year. Also, regardless of the outcome of the stress test, the credit to households is anticipated to continue to decline, albeit to a lesser extent compared to the second half of last year. Under the influence of these factors, private sector consumption is considered most likely to continue to grow this year, at a rate slightly higher than last year, in the region of 1.0%.

Regarding the public sector, as the fiscal consolidation will continue mainly through higher revenue from direct and indirect taxes, and social security contributions, according to the fiscal measures for 2018, public consumption would most likely increase slightly. The first data on budget execution at the General Government level for January and February provide some early indications for expansion of consumption expenditure of the State, such the increase of expenditure for salaries by 6.7%. Thus, the assessment that the fiscal policy implemented in 2018 is conducive to an expansion of public consumption in 2018, at a rate of about 1.5%, still holds.

The factors that affect investment activity will exert pressure in varying directions. The factors that will have a restraining effect include mainly a) sharpening of the uncertainty from the upcoming review and the negotiations for the debt relief measures and the post-programme period agreement b) the stress test of the banks and c) the pursued reduction of non-performing bank loans in accordance with the relevant targets until the end of 2019.

That said, the investment outlook at sector level is positive for export-oriented branches of Manufacturing, Tourism and Transport. The start of work on major construction projects in privatisation – concessions and other building works by the private sector, after many years of idleness, is expected to boost the construction activity. Following the PIP underperformance in the previous year, with considerable delay, there are prospects for its greater contribution to investment activity this year. The large Greek corporations will address the difficulties in finding investment and working capital from the banking system by raising capital from the financial markets. The businesses that took advantage of these financial opportunities in 2017 are expected to begin the implementation of their investment plans in the current year.

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. Taking into account these effects, investment is expected to grow at a double-digit rate this year, by about 16%.

In the external sector of the Greek economy, the continuous strong growth in the EU, the US, and in developing and emerging economic regions will contribute to their further increase in the current year. As the value of Greek exports of products where import restrictions were imposed by the US constitute a small part of the value of all domestic exports, the negative effects of the US protectionist trade policy measures are expected to be mostly indirect, from the negative impact on the exports and GDP of third countries to the US and thus on their demand. In addition, this will be offset partly by stronger than initially anticipated growth of import demand for the remaining products, where no recent restrictions were imposed. The tendency of capital return to the US because of the new tax incentives and the increase of the US interest rates will probably reverse the rise of the euro/dollar exchange rate, which is conducive to strengthening the Euro area exports. Regarding the exports of services, the continuation of the conflicts in the Arab countries and the lingering tension in the Turkey-EU relations will continue to favour international tourism and transport through Greece. Taking into account the above developments and prospects, exports are anticipated to grow further in 2018, at the rate of about 8.0%.

The rise of imports will continue in 2018, from the larger increase in domestic consumption and the strengthening of fixed capital formation. However, as noted in the previous IOBE quarterly bulletin, the projected substantial increase in investment would not have a similar effect on imports, as a large part of it concerns construction projects. The high elasticity of imports with respect to domestic demand, which is considered to come in part from the impact of capital controls (curbing imports, preventing the stockpiling of imported products etc.), is expected to lead to a marginally two-digit percentage increase of imports, close to 10%.

Taking into account 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 2.1%.

State Budget execution in 2018: the objectives are met primarily by increasing ordinary revenue

The data on the State Budget (SB) execution available for the first two months of this year point to an improvement over the corresponding period of 2017. The SB had a surplus of €1,542 million, against €434 million surplus in the same period of 2017. In addition, the primary surplus increased by almost €616 million, to €2.75 billion. These results are much better than the corresponding targets for a deficit of €1,307 million and primary surplus of €98 million. The targets are met mainly with higher net revenue of the Ordinary Budget by €675 million, while the revenue of the Public Investment Programme exceeded the target by €458 million. On the expenditure side of the State Budget, the target was surpassed by €310 million, mainly from lower than budgeted PIP expenditure by €198 million. About 55.2% of the target overrun comes from receipts from non-tax revenue and taxes of previous years. The fact that this year there are no transfers to assume debt of GG bodies, while in the first two months of last year these transfers totalled €192 million, and that the interest payments is lower by €491 million compared to last year, had a positive impact on expenditure.

Slightly stronger fall in unemployment last year, further decline with a similar pace this year

With the gradual weakening of the stimulating effects of Tourism on employment during the summer months, the unemployment rate increased in the final quarter of last year by one percentage points, to 21.2%. However, it was notably lower year on year, by 2.4 percentage points. Overall in 2017, the average unemployment rate stood at 21.5%, as projected in the previous quarterly report of IOBE, two percentage points lower compared with the same period of the preceding year, when it had declined by 1.4 percentage points. The fall of unemployment in the past year by 103,900 people came mainly, by ¾, from stronger employment by 2.2% (+79,700) and secondarily from a decline of the labour force by 0.5% or 29,400 people.

Regarding the labour market trends in the current year, unemployment is expected to ease further in 2018, mainly from the envisaged new boost of export demand, which will create jobs in the current year 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 in privatisations and the recovery of construction activity. Expansion of mainly temporary employment is expected to take place in the public sector, e.g. through community service programmes. As a result of the above effects, unemployment is anticipated to decline in the current year to about 19.8%, or perhaps a little lower.

Weaker than last year price increase in 2018

In the first quarter of this year, the domestic Consumer Price Index (CPI) was virtually unchanged compared to the corresponding period of 2017 (-0.1%), when it had increased by 1.4%. The price stagnation in this period came mainly from weakening of the inflationary effect of indirect taxes, reduced impact of the prices of energy commodities and low domestic demand. Hotels-Cafés-Restaurants is the only category of products and services out of the four categories with an increase in prices in the first quarter (+1.2%), which can be associated with recent changes in indirect taxes. The largest price rise among the categories was recorded in this period in Alcoholic Beverages – Tobacco, by 2.6%, probably due to delayed pass-through on prices from last year's increase in indirect taxes on tobacco. The next largest increase, in Transport, came from the significant rise in the price of oil, which, however, is much milder than a year ago, when the excise duties on fuel had also increased (+2.0%, compared to +6.7% a year earlier). In Housing, the other category of services with prices affected by trends in the petroleum prices, the prices receded at the beginning of this year by 1.6%, probably because of changes in particular electricity charges (reduction of the regulatory charges to fund renewable energy and discounts in the competitive element of the tariffs). However, a year ago the Housing prices were growing at a rate of 3.8%. Finally, the increase in Education prices were only marginal, by 0.2%. The price drop in the remaining five categories of goods and services that compose the domestic consumer price index is considered to reflect sluggish household consumption demand.

The influence of changes in indirect taxes from 1 January 2018 are anticipated to continue to be mild throughout the current year. Given the acceleration of global growth this year, likely more than initially anticipated in early 2018 according to the latest forecasts by international organisations, the petroleum prices will probably increase further, at least in the current half of the year. As a result, their hitherto small impact on prices will strengthen, as the appreciation of the euro against the dollar, which had a countervailing effect on this, is not expected to continue. Nevertheless, it will remain significantly lower than in 2017, when the energy commodities alone generated CPI increase by 0.5%. The projected slight increase in private consumption will also generate only marginal inflationary pressures. Therefore, there is no factor at present that would lead to higher price growth compared with last year, thus inflation is estimated to weaken to about 0.5% in the current year.

Study: The new growth model for Greece and financing through the Greek stock market

Between 2008 and 2015, the Greek economy lost 26.1% of its output. To put the Greek economy back on a high growth trajectory, the growth model has to change. The new model should be jointly address the need for limitation of the importance of consumer spending, reinforcement of the role of business investment, and stronger net contribution of the external sector, mainly by increased exports. In pursuit of these objectives, investment and export activity should be facilitated as a priority. The banking system's ability to provide resources for these objectives is quite limited compared with the past. Thus, alternatives to bank lending must be developed in order to secure the necessary funds for the transition to the new growth model. Therefore, the financing through the domestic stock market could and should be used to a greater extent.

IOBE conducted a study which presents the financial tools for entrepreneurship of various sizes and life cycle phases that are available from the domestic stock market and could contribute to a balanced recovery of the Greek economy and to the gradual change of its growth pattern. In addition, it highlights the role that the domestic capital market can play in a reform of the social security system, adding a funded dimension and enhancing its viability.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

A. The Global Environment

- The global economy grew at a rate of 3.8% in 2017, its highest since 2011
- Positive impact last year from low cost of capital, booming financial markets, and stronger international trade and economic climate
- Forecasts for continued growth in 2018 and 2019, yet with likely deceleration over the medium term, starting from the developed economies
- Risk of losing the momentum from escalating trade protectionism, high public and growing private debt, and systemic risk in the financial system
- 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 3.8% in 2017, compared to 3.2% in 2016, its best performance since 2011. In the latest forecasts by the International Monetary Fund,[1] 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, 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.

[1] IMF World Economic Outlook, April 2018

The acceleration of global economic activity in 2017 came mainly from a further boost of international trade and investment in developed and developing economies, coupled with stronger consumer and business sentiment, which provided a boost to exports, consumption and investment. In the developed economies, the steady positive momentum is powered by the continued strong liquidity supply by large central banks, e.g. in the Euro area and Japan, expansionary fiscal policy in the US and prolonged boom in the capital markets. In the developing economies, the prospects of recovery are based on robust domestic demand in China, the return to growth of Brazil and Russia, and revitalised demand from the developed economies.

In the latest IMF report on the world economy, the growth rate of the volume of international trade was revised substantially upwards, both for 2018 and 2019. Thus, despite the recent protectionist measures in the US, the world trade volume increased by 4.9% in 2017, with expectations for similarly high growth rate in 2018 (5.1%) and 2019 (4.7%).

A special feature of the current economic climate is that the overwhelming majority of countries in the world are in a growth phase, a phenomenon referred to as "synchronized global growth". Given these global economic conditions, the IMF (April 2018) is anticipating growth in all economic regions of the world both in 2018 and in 2019. Some countries in the Middle East, Latin America and sub-Saharan Africa, mainly economies relying on oil exports or suffering from political instability, form an exception to this. Such a positive economic environment is a great opportunity, but also a challenge for the policy makers. On one hand, this is an opportunity for economic policy to focus on achieving inclusive growth, on implementing structural reforms that increase potential output, and on maintaining sound fiscal management, especially in countries with high levels of debt, given the reduced need for expansionary fiscal policies and the great volume of liquidity provided at historically low cost by the current international monetary policy environment.

On the other, as noted in the previous report of IOBE on the Greek economy, the current situation presents significant challenges. In the developed economies, according also to reports of international organisations, challenges arise from the slowdown of productivity growth, the aging of the population, high public debt, tendency of strengthening protectionism, income inequality, prolonged boom in the capital markets, a need for gradual reduction of the central bank assets, political populism, and geopolitical tensions. In the developing economies, high-speed credit expansion in some countries like China, high levels of debt in foreign currency, limited “fiscal space”, the existing or likely retaliation to the US protectionist measures and the exposure to the risk of a sharp rise in the US interest rates that would cause a flight of investment funds from these countries and exert pressure on their currency, add to the challenges.

In the developed economies, the GDP growth rate stood at 2.3% on average in 2017, compared with 1.7% in 2016, recording its best performance since 2010. The GDP of the OECD member states grew by 2.6% in 2017, compared to 1.8% in 2016, while in the major world economies (G20), the rate of growth stood at 3.8% last year, from 3.1% in 2016, recording their best performance since 2010 and 2011 respectively.[2]

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

That said, in all the above regions of major economies, the growth rate marginally weakened quarter on quarter in the final quarter of 2017.

The developed economies produce 41.3% of the world GDP in 2017. In the latest IMF forecasts, the growth rate of the developed economies was revised up to 2.5% for the

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

current year, while the forecast for 2019 remained unchanged 2.2%. The strongest positive revisions took place in the economies of the US and the Euro area.

Among the developed countries, the growth rate strengthened in the fourth quarter of 2017 in the US, for the fifth consecutive quarter, to 2.6%, up from 2.3% in the third quarter. As a result, the US economy recorded an annual GDP growth rate of 2.3% last year. The acceleration came from higher consumption and investment, with business sentiment remaining buoyant. Based on the latest IMF forecasts, the US growth rate is expected to reach 2.9% in 2018, and 2.7% in 2019, higher than the previous projection by 0.2 percentage points in both years. As regards fiscal policy and its impact, the latest fiscal package of cuts in income and capital taxes boosted the outlook primarily for investment and secondarily for consumption in 2018 and 2019. That said, the recent decisions of the US government to impose tariffs on a range of imported products, starting from aluminium and steel, with temporary exception for countries such as Canada and the EU, and the response of China with corresponding tariffs on American products, have raised concerns about the potential escalation of a broader "trade war", which will weigh heavily on the prospects for US growth. Meanwhile, the Fed continues its course progressively towards a less loose monetary framework, which was not affected by the changes in its governance in February 2018. The gradual increase in interest rates drove the yield of the 10-year US Government bond to reach 3% in April 2018. The challenges that the American economy is facing are associated with the risk of escalation of the protectionism in trade, the growing leverage of firms, the impact of the initiated pro-cyclical fiscal policies, the prolonged boom in the financial markets, which according to some analysts is in excess of the fundamentals, and the uncertainty arising from an unpredictable administration in issues of foreign and trade policies.

In the Euro area, the trends of which are presented in detail in the next subsection, the growth rate strengthened for the fifth consecutive quarter to 2.7% in the final quarter of 2017, compared with 2.6% in the third quarter and 2.3% overall in 2017. In the United Kingdom, the GDP growth slowed to 1.4%, compared with 1.7% in the third quarter and 1.8% overall in 2017. The pending negotiations on the post-Brexit period put pressures on the pound, which translates into higher inflation (close to 3.0%) and pressure on private consumption, generating uncertainty that burdens the short-term economic prospects, especially in the area of investment. In contrast, the reduction of interest rates by the Bank of England at the end of 2017 eased the negative pressure on sterling and investment. At the same time, however, the high private debt of households creates challenges for the banking system. In Canada, the rate of growth weakened slightly in the fourth quarter of 2017, in part due to worse external balance after the appreciation of the Canadian dollar, yet it remained high at 2.9%, compared with 3.0% in the third quarter and 3.0% overall in 2017.

In Japan, the economy kept growing at 2.1% in the fourth quarter of 2017, as in the preceding quarter, while overall for 2017 the growth rate reached 1.7%. Aided by exports and fiscal expansion, the country is going through 2 years of mild but steady recovery, its longest period of growth in a decade. The price change marginally exceeded 1% in early 2018, yet it remained below target, as the monetary policy is expected to continue to be loose until prices approach the inflation target of 2%. The high public debt (221% of GDP in 2017) and budget deficit, due to the expansionary fiscal policy, remain a challenge for the consolidation of the economic recovery.

The emerging and developing economies expanded at an average rate of 4.8% in 2017, compared to 4.4% a year earlier, their best performance since 2013. These countries accounted for 58.7% of the world GDP. Based on the latest IMF forecasts, 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 the Emerging Europe and the Middle East and North Africa, increased particularly strongly last year, by 5.8% and 2.6% respectively, despite the recent slowdown in the second region and specifically in the oil-producing countries. For 2018 and 2019, the IMF predicts a gradual slowdown of growth in emerging Europe, to 4.3% and 3.7% respectively, while in the Middle East – North Africa it projects further acceleration, to 3.4% and 3.7% respectively. The rest of this subsection refers to five of these economies, which produce in total almost 1/3 (32.4% in 2017 overall) of the world GDP.

In detail, the economy of China expanded by 6.9% in 2017, slightly stronger than in the previous year, for the first time since 2010 (6.7% in 2016). Apart from growth of exports, domestic demand and particularly consumption also strengthened. The high growth rate of China is expected to slow down marginally in 2018 and 2019, to 6.6% and 6.4% respectively, driven mainly by infrastructure investment. The rapidly increasing credit expansion, the strong growth of property prices in certain areas, the rising fiscal deficit and the need for income redistribution policies are significant challenges for the Chinese economy. As the size of China's economy exceeded 18.2% of the world GDP, addressing these challenges and the gradual transition to a more open economy, affect the trends in the world economy and especially trade.

In India, the economy strengthened in the second half of 2017, after a relatively weak first half, mainly due to a recovery of consumption. As a result, the growth rate reached 6.7% in 2017, from 7.1% in the preceding year. The growth rate is expected to strengthen to 7.4% in 2018 and 7.8% in 2019, from a boost of investment and productivity as a result of the expected impact of recent structural reforms. The non-performing loans that exceed 10% of the total loans and the significant fiscal deficit constitute major challenges for the Indian economy, which produced 7.4% of the world GDP in 2017.

In Russia, after the recession of 2015-2016, the recovery continued in the fourth quarter, yet its rate slowed down significantly, aided mainly by domestic demand. In particular, in the final quarter of 2017, the Russian economy expanded by 1.5%, from 2.7% in the preceding quarter, achieving an overall rate of 2.0% in 2017. The recovery in Russia is expected to slow down further in 2018 and 2019, to 1.7% and 1.5% respectively. The dependence on the international prices of energy commodities, low productivity, income inequality, the deterioration of the political relations with most developed economies, the limited fiscal space and the stability of the financial sector are key challenges ahead for the Russian economy.

In Brazil, the economy strengthened for the third consecutive quarter in late 2017 to 2.2%, resulting in an annual growth of 1.0% in 2017, for the first time after three years of recession. The economy is expected to recover further, at a rate of 2.3% in 2018 and 2.5% in 2019. In the aftermath of the recession of the past few years, the high unemployment rate and the high fiscal deficit remain major challenges.

Turkey recorded a significant acceleration of its growth rate in 2017, to 7.0%, from 3.2% in 2016, due inter alia to stronger consumption and exports, which benefited from the depreciation of the lira, by more than 25% since the start of 2017, and base effects, as the second half of 2016 was marred by the military coup attempt in the country. At the same time, inflation reached double-digit rates within 2017, approaching 12% towards its end. The Turkish economy faces a series of significant challenges: uncertainty generated by political instability and tension in external relations with impact on private investment, the high level of leverage in the private sector, particularly in foreign currency, whose repayment becomes more expensive due to the continuing devaluation of the pound, the negative and deteriorating balances of the external and fiscal sectors, the limited foreign exchange reserves and the fact that, according to estimations of international organisations, output has already considerably exceeded its potential level and the economy is facing the threat of overheating. It is indicative that the yield of the 10-year bond of the Turkish State has risen by almost 300 basis points since mid-2017, reaching 13% in early April, its highest level on record. A possible sharp decline of economic activity in Turkey will affect Greece as well, as it is a major market for Greek exports of goods and services.

The IFO estimates about the economic climate in the world economy in the first quarter of 2018 point to a continuously positive trend. In detail, the balance of estimates on the world economic climate increased further, to 26.0 points, reaching its highest level since 2007. Regarding the assessment of the current situation, the balance improved further, to 28.3 points, remaining positive for the fourth consecutive quarter, after six years of negative levels. Finally, the expectations recovered, as their balance reached 23.9 points, from 16.9 points in the previous quarter.

Table 2.2

IFO - World economic climate (balances)

Quarter/Year	I/16	II/16	III/16	IV/16	I/17	II/17	III/17	IV/17	I/18
Economic climate	-7.0	-3.5	-6.6	-0.7	3.0	13.5	13.2	17.1	26.0
Assessment of current situation	-14.2	-17.4	-16.8	-14.9	-8.7	5.1	12.5	17.2	28.3
Expectations	0.5	11.6	4.1	14.6	15.5	22.2	14.0	16.9	23.9

Source: IFO Institute, Centre for Economic Studies

Table 2.3

IFO - Economic climate in the Euro area (balances)

Quarter/Year	I/16	II/16	III/16	IV/16	I/17	II/17	III/17	IV/17	I/18
Economic climate	13.3	6.6	4.6	8.3	17.3	26.4	35.2	37.0	43.2
Assessment of current situation	1.8	-2.6	6.2	2.4	8.0	21.9	33.4	42.9	51.3
Expectations	25.5	16.2	2.9	14.3	27.0	31.0	37.1	31.3	35.4

Source: IFO Institute, Centre for Economic Studies

The economic climate in the Euro area continued to improve in the first quarter of 2018, with the economic sentiment index rising to 43.2 points, from 37.0 points in the final quarter of 2017, its best performance since the year 2000. As regards the assessment of the current situation, the balance increased to 51.3 points, from 42.9 points in the preceding quarter, a performance that also is the best since 2000. The expectations balance rebounded to 35.4 points, from 31.3 points in the final quarter of 2017. In the balance of expectations, the positive change came from stronger expectations in France, Italy and Germany.

The inflation rate in the developed economies of the G7 group stood at 1.9% in the first quarter of 2018, from 1.8% in late 2017, remaining slightly lower than 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 0.5% and 1.3% respectively in the first 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 first quarter of 2018, at 3.2%, from 3.9% a year earlier. 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 low interest rate policies.

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, with the first moves to reverse this trend in 2017 coming from the US, Canada and the UK. The fact that three of the largest central banks (of the US, the Euro area and Japan) have quadrupled the size of their balance sheet, surpassing in total $12 billion, through quantitative easing programmes, is a characteristic outcome of the policy carried on in this context between 2008 and 2017. 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. The international organisations are urging the transition not to be rushed, but to take place gradually and in a way that is predictable for the markets and the investors. The Fed, as expected, made a slight increase in its interest rates in March 2018, the sixth such increase since December 2015, while it has created expectations for further interest rate rises in the next two years, a policy that seems to be unaffected by the change in its governance in February 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, for the first time since 2007. At the same time, the ECB is gradually tampering the quantitative easing programme, yet maintaining low interest rates, as the inflation expectations remain low. Note that growing asymmetries among developed economies as to the conduct of monetary policy, with accommodative policy in Europe and Japan, and a growing trend for tighter monetary policy in the US and the UK, 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 emerging markets.

B. The economies of the EU and the Euro area

- The Euro area grew at a rate of 2.3% in 2017, its higher rate in a decade
- Positive impact last year from significantly stronger international trade, historically high liquidity, capital market boom
- 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, low productivity, high public debt, macroeconomic imbalances, refugee flows, delay in deepening of the Euro area institutions, political euro-scepticism, Brexit negotiations

In the fourth quarter of 2017, the economies of the European Union and the Euro area maintained their strong growth from the previous quarters, as they expanded by 2.7% and 2.8% respectively, from 2.7% in the preceding quarter (annual changes with seasonally adjusted data). The EU grew at an average rate of 2.5% in 2017, compared with 1.9% in 2016, its best performance since 2007. Respectively, the Euro area grew at an average rate of 2.3% in 2017, compared to 1.8% in 2016, also its best performance since 2007.

According to the latest forecasts of the International Monetary Fund,[3] the Euro area is expected to continue to grow by 2.4% and 2.0%, in 2018 and 2019 respectively. The 2018 forecast is higher than previous estimates by 0.2 percentage points, with Germany still being the "growth engine", expanding by 2.5%. Net exports, which had a positive effect on GDP for the first time since mid-2015, gave a significant boost to growth in both regions in 2017. The positive effect came from stronger growth in exports compared with imports. This result offset the weakening positive impact of consumption in both regions, while the contribution of investment remained unchanged in the EU and marginally declined in the Euro area. The composition of the GDP expenditure components has remained similar in the EU and the Euro area, with consumption representing 76% and 75%, 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 fourth quarter of 2017 occurred in Ireland (7.8%), Romania (6.8%), Slovenia (6.2%), the Czech Republic (5.5%) and Estonia (5.3%). In contrast, the 6th lowest growth rate in the EU was recorded in Greece (1.9%), ahead of Denmark (1.3%), the United Kingdom (1.4%), Luxembourg (1.6%), Italy (1.6%) and Belgium (1.9%). Overall in 2017, Greece recorded the lowest seasonally adjusted rate of growth in the EU, at 1.3%. Low growth rates were also recorded in Italy (1.6%), Belgium (1.7%), and the United

[3] World Economic Outlook, IMF, April 2018

Kingdom (1.8%). In contrast, highest growth in the EU was recorded in Ireland (7.8%), Romania (6.8%), Malta (6.6%), Slovenia (5.4%) and Latvia (5.0%).

Regarding the economic climate and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN[4] indicator continued to strengthen until February 2018, when it approached 0.96 points, its best monthly performance since 2003, capturing the positive climate in the Eurozone economy. In March 2018, the index dropped, for the first time after ten months of growth, influenced by a fall in business sentiment and higher volatility in the financial markets.

The economic sentiment indicator of the European Commission deteriorated in the first quarter of 2018, in the EU and the Euro area, after six consecutive quarters of growth in both regions and after recording its best performance since the year 2000 in the final quarter of 2017. In March 2018, the economic sentiment indicator stood at 112.5 points for the EU and 112.6 points for the Euro area, decreasing by 1.6 and 1.9 points respectively compared with the previous month, yet remaining 3.9 and 5.1 points higher than in March 2017.

Overall in the first quarter of 2018, the indicator in the EU stood lower by 2.4 points quarter on quarter, yet it was higher by 5.6 points year on year, while in the Euro area, the indicator was lower by 0.4 points quarter on quarter and higher by 6.4 points year on year. At the EU level, the sentiment strengthened quarter-on-quarter in 13 countries, with the largest gains recorded in Poland (+5.6 points), Croatia (+2.7 points), and Greece (+2.5 points). By contrast, the sentiment deteriorated in 15 countries, with the largest drop recorded in Luxembourg (-2.1 points), Slovenia (-1.9 points) and Sweden (-1.9 points). In Greece, the economic climate, despite the improvement in the first quarter, remained the lowest among all EU member countries, lower by 11.9 points than the EU average.

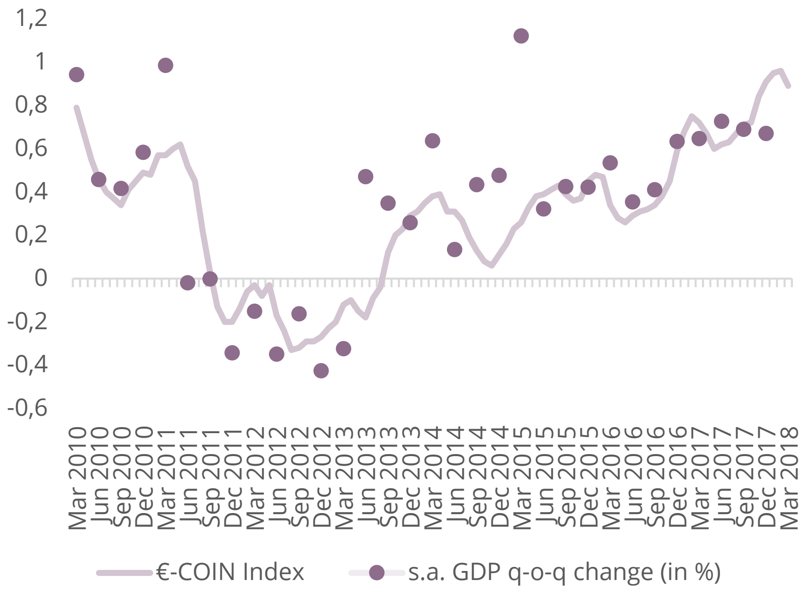
More comprehensive information on the GDP components in the Euro area and the EU, up to the fourth quarter of 2017, as well as on potential trends in the coming period, is provided next in this subsection. We present data on the final quarter of 2017, as well as predictions for 2018 and 2019, as reflected in the European Commission forecasts (November 2017) for the EU, and the latest ECB report (March 2018) on the Euro area.

[4] 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.

The indicator €-COIN for the Euro area stood in the first quarter of 2018 at its highest level in ten years.

Figure 2.1

Monthly Index €-COIN and Euro area GDP



Source: CEPR and Bank of Italy

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	108.0	108.4	108.6	110.0	109.2	110.7	111.6	111.4	112.4	113.6	113.7	115.1
Euro area	107.5	107.5	107.5	109.2	108.7	110.6	110.7	111.4	112.5	113.5	114.0	115.3

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	114.9	114.4	112.5									
Euro area	114.9	114.2	112.6									

Source: European Commission (DG ECFIN), April 2018

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	2.3	2.1	1.9	2.4	2.4	1.9
Private Consumption	2.0	1.8	1.6	1.9	1.7	1.7
Public Consumption	1.2	1.5	1.3	1.2	1.2	1.2
Gross Investment	3.8	3.7	3.1	3.7	4.4	3.4
Exports of goods and services	4.7	4.4	4.2	5.2	5.3	4.1
Imports of goods and services	4.7	4.6	4.3	4.6	5.1	4.5
Employment	1.4	1.0	0.8	1.7	1.4	1.1
Unemployment (% labour force)	7.8	7.3	7.0	9.1	8.3	7.7
Inflation	1.7	1.7	1.8	1.5	1.4	1.4
Balance of General Government (% GDP)	-1.2	-1.1	-0.9	-1.0	-1.0	-0.9
Debt of General Government (% GDP)	83.5	81.6	79.8	86.7	84.4	82.1
Current Account (% GDP)	1.7	1.8	1.8	3.7	4.2	4.3

Sources: For the EU, European Economic Forecast, European Commission, Autumn 2017. Euro area: Eurosystem staff macroeconomic projections for the euro area, March 2018.

In greater detail, according to Eurostat data for the final quarter of 2017, private consumption in the European Union strengthened by 2.0%, compared to 2.1% growth in the third quarter and 2.3% in the corresponding quarter of 2016, while consumption in the Euro area increased by 1.8%, against growth by 1.9% in both the previous quarter and in the corresponding quarter of 2016. The European Commission envisages gradual weakening of the growth in household consumption in the EU to 1.8% in 2018 and 1.6% in 2019. Correspondingly for the Euro area, the ECB projects a lower yet steady growth in private consumption in both years, at 1.7% (Table 2.5). Among the EU countries, strong growth in private consumption in the fourth quarter of the year was recorded in Romania (+9.9%), Latvia (+4.9%) and Poland (+4.8%), while in contrast the lowest growth was observed in Greece (+0.1%), Belgium (+1.1%), France (+1.3%) and Italy (+1.4%).

Public consumption continued to grow at the same rate in the final quarter of last year in the EU and marginally slowed down quarter on quarter in the Euro area. Year on year, it was lower both in the European Union and the Euro area. In particular, public consumption increased by 1.1% and 1.2% in the EU and the Euro area respectively, compared to 1.6% and 1.8% in the corresponding quarter of 2016. For 2018 and 2019, the European Commission anticipates growth by 1.5% and 1.3% respectively in the EU, while the ECB forecasts the same growth rate for both years in the Euro area (1.2%). The countries with the strongest growth in the final quarter of this year were Latvia (+4.2%), Cyprus (+2.7%) and Bulgaria (+2.7%), while public spending declined in Greece (-1.1%), Malta (-0.8%) and Portugal (-0.2%).

Investment continued to grow strongly in the fourth quarter of 2017 in the EU and the Euro area, by 3.4% and 3.3% respectively, compared to 3.2% and 3.8% in the previous quarter. For 2018 and 2019, the European Commission anticipates investment growth of 3.7% and 3.1% in the EU, while the ECB forecasts acceleration of the growth rate in the Euro area to 4.4% in 2018 and slowdown to 3.4% in 2019. In the final quarter of 2017, a significant rise in investment was recorded in Latvia (+18.8%), Greece (+15.4%), Hungary (15.1%) and Bulgaria (+11.8%), while investment declined in Ireland (-17.8%), Malta (-4.1%) and Luxembourg (-1.0%).

The exports of goods and services continued to rise significantly in the fourth quarter of 2017, at a rate of 5.5% and 5.4% in the EU and the Euro area respectively, compared with 5.0% and 4.7% growth in the previous quarter of 2017 and weaker expansion by 3.5% and 3.4% in the fourth quarter of 2016. In 2018 and 2019, the European Commission anticipates growth of exports in the EU by 4.4% and 4.2% respectively, while the ECB projects further increase by 5.3% and 4.1% respectively. The strongest rise in exports in the fourth quarter of 2017 was recorded in Slovenia (+10.9%), Lithuania (+13.3%), Romania (+9.0%) and Portugal (+7.9%), with Greece ranking seventh with 6.9% growth, while the weakest increase was recorded in Malta (+1.7%), Estonia (+2.9%) and France (+3.3%).

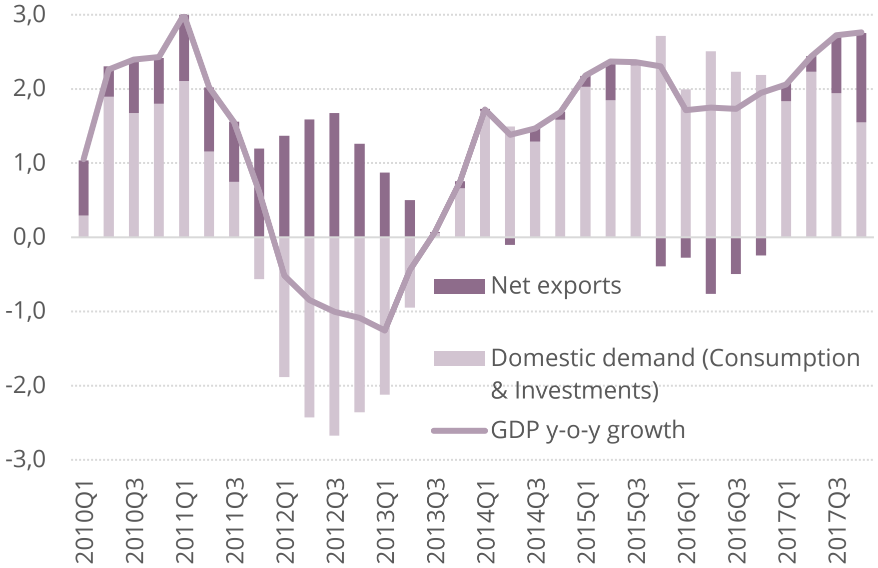
Imports strengthened less than exports in both the EU and the Euro area in the fourth quarter of 2017, at a rate of 4.7% and 4.5% respectively, compared with growth in both regions by 4.6% in the preceding quarter and by 4.8% in the final quarter of 2016. For 2018 and 2019, the European Commission anticipates growth by 4.6% and 4.3% respectively, while the ECB projects further increase by 5.1% and 4.5% respectively in the Euro area. High rates of import growth in the final quarter of 2017 were recorded in Lithuania (+13.6%), Romania (+11.3%) and Cyprus (+10.5%), while imports declined in Ireland (-6.0%) and Malta (-2.9%).

As a result of the developments in the GDP components in the Euro area, the contribution of net exports was positive and growing in all four quarters of 2017 (+1.2% in the fourth quarter), reflecting the rise in international trade, after a period of negative contribution since the end of 2015. The contribution of domestic demand remained significant (+1.6%), albeit weakening slightly, due to the lower contribution of consumption and investment.

The harmonised inflation rate weakened slightly in the first quarter of 2018, standing at 1.5% and 1.3% in the EU and the Euro area respectively in March 2018, from 1.7% and 1.4% in December 2017. Subsequently, the 12-month moving average of the harmonised inflation stood in March 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 March 2018, compared a corresponding annual change in December by 1.5% and 1.2% respectively.

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 strengthened for the fourth consecutive quarter in the last quarter of 2017, reaching its five-year peak.

Source: Eurostat

In 2018 and 2019, the ECB projects that the inflation in the Euro area will remain close to 1.4%, below the central bank target of 2%. In March 2018, the highest inflation was observed in Romania at 4.0% and Estonia with 3.7%, while the lowest inflation in the EU was recorded in Cyprus with -0.4% and Greece with 0.2%.

Employment, based on labour force data from Eurostat, increased in the fourth quarter of 2017 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 and 1.3% in both regions in the final quarter of 2016. The European Commission projects a gradual weakening of the employment growth in 2018 and 2019, at 1.0% and 0.8% respectively. The ECB anticipates a steady growth of employment in the Euro area in 2018, by 1.4%, slowing down to 1.1% in 2019. The strongest employment growth in the final quarter of 2017 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 7.3% in the EU and 7.8% in the Euro area in the final quarter of 2017, compared to 7.5% and 8.1% respectively in the third quarter, its lowest level in both regions since 2008. For 2018 and 2019, the European Commission projects unemployment to remain low, at 7.3% and 7.0% respectively, while the ECB anticipates unemployment rates at 8.3% and 7.7% in the Euro area. In the fourth quarter of the year, the highest unemployment rate was recorded in Greece, at 20.9%, followed by Spain with 16.6%, Italy with 11.0%, Croatia with 10.3%, and France with 9.0%. In contrast, the lowest unemployment was recorded in the Czech Republic with 2.4% and Germany with 3.6%.

The fiscal performance improved marginally in both regions, with the European Commission (November 2017) projecting a decline in the general government deficit in the EU in 2017 and 2018, to 1.1% and 0.9% of GDP respectively. The ECB anticipates that the fiscal deficit in the Euro area will remain at 1.0% and 0.9% of GDP respectively in 2018 and 2019, implying that on average the fiscal policy will remain largely expansionary. The countries with the highest deficit in 2017 were Spain (-3.1%), Romania (-3.0%) and France (-2.9%), while the highest surpluses were projected in the Czech Republic (+1.2%), Cyprus (+1.1%), Germany (+0.9%), Sweden (+0.9%) and Malta (+0.9%). Within the Eurozone, France and Spain are the two countries that have remained under monitoring based on the excessive deficit procedure (EDP), as they must comply with a deficit below 3% in 2018. Public debt is anticipated to continue to decline in the EU and the Euro area in 2018 and 2019, projected to reach 81.6% and 79.8% of GDP respectively in the EU and 84.4% and 82.1% respectively in the Euro area. Despite the progress, public debt remains very high across many member states, 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, 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 the ECB is expected to take decisions as to its extension into the following year. While the markets anticipate that interest rates are going to remain at the same low levels for at least 2018, the ECB has two prevailing choices as to the course of the QE programme in late 2018: the first is to decide to discontinue the programme at the end of September, the second is to extend its duration, but with reduced monthly purchase volume. In light of the current conditions, even under the first option, it is likely that the ECB will continue to replace maturing bonds, thus keeping unabated its exposure for some time into the future. Recall that since the beginning of 2015, when the QE programme began, the ECB has bought bonds of €2.4 trillion total value. The decision that will be taken will have to reconcile diverging opinions of the ECB members in relation to: a) the proper management of the growth acceleration of Eurozone economies; b) the resistance of the general price level to grow with an annual rate close to the target of 2%; and c) the appreciation trend of the euro exchange rate against the dollar. International organisations, such as the IMF, point out that the current attitude of the ECB is constructive and that it is not appropriate to shift towards a tighter policy now, given the resistance of current prices, the sustained low inflation expectations and the varying trends in economic activity in the Member States.

As to the reforms in the Eurozone architecture, the European Commission has initiated dialogue on technocratic and political level for a stronger institutional framework and a more effective mechanism for monitoring the economic policies of the member states. The current positive international environment provides a good opportunity to take political decisions that could accelerate reforms at three levels: financial, fiscal and institutional. In the financial sector, the Banking Union is not yet completed, through the establishment of a single deposit guarantee fund and a credit line mechanism that will ensure that the single bank resolution fund has sufficient resources to cope with a new crisis. In the fiscal and macroeconomic surveillance of the member states, the rules of the European semester and the macroeconomic imbalances monitoring mechanism (box 3.1) shall continue to apply, while the introduction of incentives for political reforms and the establishment of a central mechanism for fiscal consolidation which will implement temporary transfers in cases of strongly adverse economic fluctuations in a member state are also being discussed. As for the stronger institutional framework, the upgrade of the European Stability Mechanism to become a safeguard of the adequacy of the single bank resolution fund and to provide emergency short-term institutional financing of a member state that is not in an adjustment programme is also under discussion.

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
- The growth rate is higher than the potential output in several countries, 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 (see analysis in Box 3.1)
- 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 protracted consultations to form a government in Italy and the new coalition government in Germany create 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, but 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 first quarter of 2018, both quarter on quarter and year on year (to 102 from 99.5 and 94 points respectively).
- Business sentiment improved in the first quarter of this year compared to last year in Industry and Construction, remained almost at the same levels in Retail Trade and deteriorated in Services.
- The Consumer Confidence Index did not change quarter on quarter in the first quarter of 2018 (-52.3 from-52.7 points), yet it was clearly higher than last year (from -71.8 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.[5]

In greater detail:

The economic climate indicator strengthened both quarter on quarter and year on year in the first quarter of 2018. The improved economic sentiment in key economic sectors is consistent with the continued, slightly strengthening recovery of the economy. The conclusion of the third review of the adjustment programme during this quarter, in a short period of time, without taking new fiscal measures, and the new bond issue by the Hellenic republic was conducive to the change in the climate. The improvement in business expectations also stems from the favourable, for some time now, international environment, which is particularly conducive to export businesses, diffusing to connected sectors. As there was no major unfavourable development in the economy in the previous quarter, the remaining to some extent uncertainty, is related to issues beyond the economic sphere, in the internal and external policy. The upcoming review and process of exiting the current programme, which has not yet taken a clear form are also causing concern. In greater detail:

[5] 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.

The Economic Climate Index in Greece increased quarter on quarter in the first quarter of 2018, to 102 points on average (from 99.5 in the previous quarter), at a higher level than the average from the same quarter of 2017 (94 points on average).

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 113.9 points in the first quarter of 2018 both in the Euro area (from 114.3) and in the EU (from 114.1) points.

At the sector level, the business expectations in Greece improved quarter on quarter in the first quarter of the year in Industry and Construction, remaining unchanged in Retail Trade and deteriorating in Services. On the demand side, the quarterly average of the very weak consumer confidence remained relatively stable. Compared to the same quarter of last year, the index increased in Industry, Services and Construction and remained essentially unchanged in Retail Trade, while consumer confidence strengthened substantially. In detail:

The Consumer Confidence Index in Greece averaged -52.3 points in the first quarter of 2018 (from -52.7 points in the third quarter), higher year on year as well (from -71.8 points). At the country level, the Greeks maintained their top rank on the European pessimism scale. The corresponding average European index improved marginally quarter on quarter in the quarter under review in the Euro area (to +0.5 from -0.2 points) and in the EU (-0.1 from -1 point). The index improved significantly year on year in both regions (-5.5 and -4.6 points respectively in the Eurozone and the EU).

The quarter-on-quarter trends in the individual components that make up the overall indicator were mixed in the first quarter of 2018. The expectations of the Greek consumers for the financial situation of their households in the following 12 months deteriorated, while the corresponding expectations for the country's economic situation remained unchanged. The unemployment expectations and the intention to save strengthened.

In particular, in the first quarter of the year, the percentage of those who were pessimistic about their household's economic situation over the next 12 months increased to an average of 60% (from 58%), with 20% considering once more that it would remain unchanged. Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation remained at 63%, with 22% believing that it would not change. Concerning the intention to save, the percentage of households considering unlikely that they would do any savings over the next 12 months declined to 89% (from 91%). Meanwhile, 53% (from 58%) believed that unemployment would deteriorate, with 15% on average holding the opposite opinion. The percentage of consumers responding that they were "running into debt" averaged 16% (from 14%), at the same level as in the same quarter of last year, while the percentage of respondents saying that they were saving little or a lot declined to 8% (from 10% in the preceding quarter and 6% 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 65% (from 63%), while the percentage of households reporting that they were " drawing on their savings" stood at 11% (from 13% in the previous quarter and 15% in the first quarter of 2017).

The Business Climate Indicator in Industry stood at 105.1 points in the first quarter of 2018 (from 100.3 points in the preceding quarter), higher than its corresponding level of 2017 (97.0 points). In the key activity indicators, the forecast for short-term output change improved in the examined quarter (+23, from +15 points on average), while the estimates for the level of orders and demand strengthened as well (to -12 from -15 points). The assessment of the stock of finished products point to a slight depletion (at +7 from +9 the relevant index), while the export indicators remained relatively stable. In particular, the export expectations over the following quarter remained about the same, as was the case with the current assessment of the exports in the sector and the assessment of foreign orders and demand. The quarterly balance of employment expectations increased to +3 (from -3) points on average. The production capacity utilisation rate increased to 71.5% (from 70.1%), while the months of guaranteed production of the enterprises once more averaged 4.4.

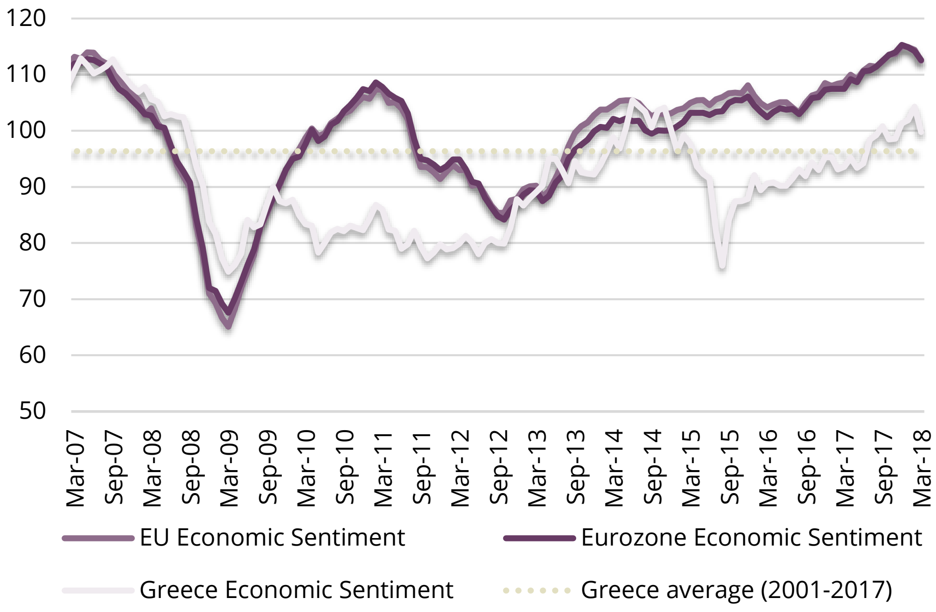
The Business Climate Indicator in Retail Trade increased quarter on quarter in the examined quarter to 97.1 (from 93.6) points, at a similar level year on year (from 97.3). Among the key components of the indicator, the average balance of the current sales assessment remained at -1 point. About 38% of the enterprises reported their sales to have risen, with 39% declaring the opposite result. The projected sales indicator increased by 6 to reach 18 points, while the assessment of inventories increased to 7 (from 2) points. Regarding the remaining activity data, the change in the balance of expectations for orders to suppliers is positive (+8 from -1 points on average per quarter), while the short-term employment forecast increased slightly to +12 (from +10) points. Finally, the balance of price expectations increased marginally from -1 to +1, with 8% (from 6%) of the companies expressing expectations of a decline in prices and 85% (from 89%) predicting price stability. Among the examined subsectors, the sentiment strengthened in the first quarter in Textiles-Clothing-Footwear and Motor Vehicles – Spare Parts, weakened in Household Appliances and remained unchanged in the remaining subsectors.

The business expectations in Construction improved in the first quarter of 2018, with the balance standing at 60.3 (out of 52.3) points on average, slightly higher year on year as well (against 57.2). Among the key components of the indicator, the employment expectations in the sector gained significant ground, as the index reached -15 (from -45) points, while 29% (from 53%) of the companies were expecting fewer jobs in the sector. The expectations of the businesses about their activity level became less pessimistic (at -47 from -64 points), while the assessment of their current level of activity improved strongly (to +10 from -44). The months of activity accounted for by work in hand in the sector declined to 5.7 (from 8.2). The negative balance of price expectations eased by 3 points, to -20, with 24% (from 30%) of the companies expecting a decrease in the short-term and 4% (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 doubled to 18%, while among the remaining businesses, 22% selected as the major obstacle low demand, 56% insufficient funding and 3% 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 Private Construction was overcompensated by the growth of the indicator in Public Works.

In Services, the average Business Climate Indicator declined quarter on quarter in the first quarter of 2018 to 91.4 (from 95.1) points, at a higher level than in the same period of last year (83.4 points). Among the key components, the assessment of current demand lost ground, with the relative index estimated at +2 (from +11 points) on average. The assessment of the current level of business activity also deteriorated (+3 from +12 on average), while the short-term demand expectations of the businesses in the sector improved (+14 from +10 on balance). Regarding the remaining activity indicators, the balance of employment expectations of the respondents increased (to +7 from -2 points on average), while the balance of price expectations increased on average to -3 points (from -5). Finally, the percentage of respondents reporting a seamless business operation marginally increased to 26% (from 24%), with 34% declaring as the major barrier to their operation the lack of demand, 17% 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 first quarter only in Financial Intermediaries and marginally in Land Transport.

Figure 2.3

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



The Economic Sentiment Indicator increased in Greece in the first quarter of 2018, both quarter on quarter and year on year (102 against 99.5 and 94 points).

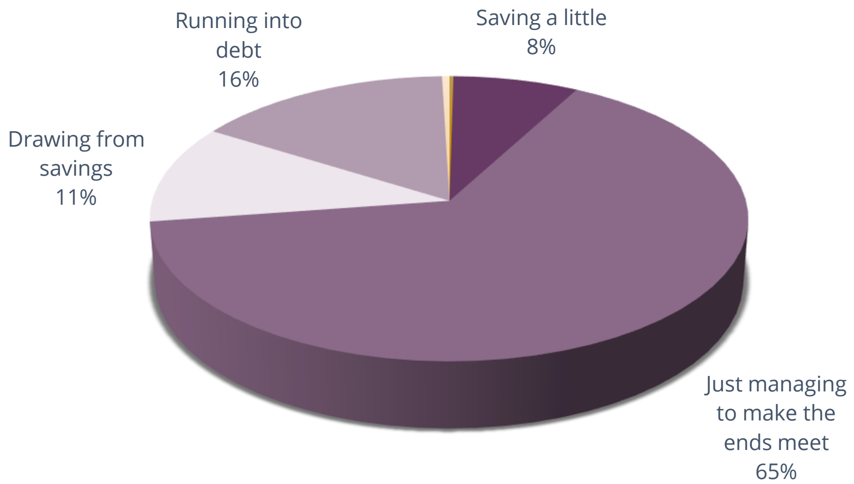
Source: European Commission, DG ECFIN

Figure 2.4

Consumer survey data on the financial situation of households

(average January – March 2018)

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



Source: IOBE

Table 2.6

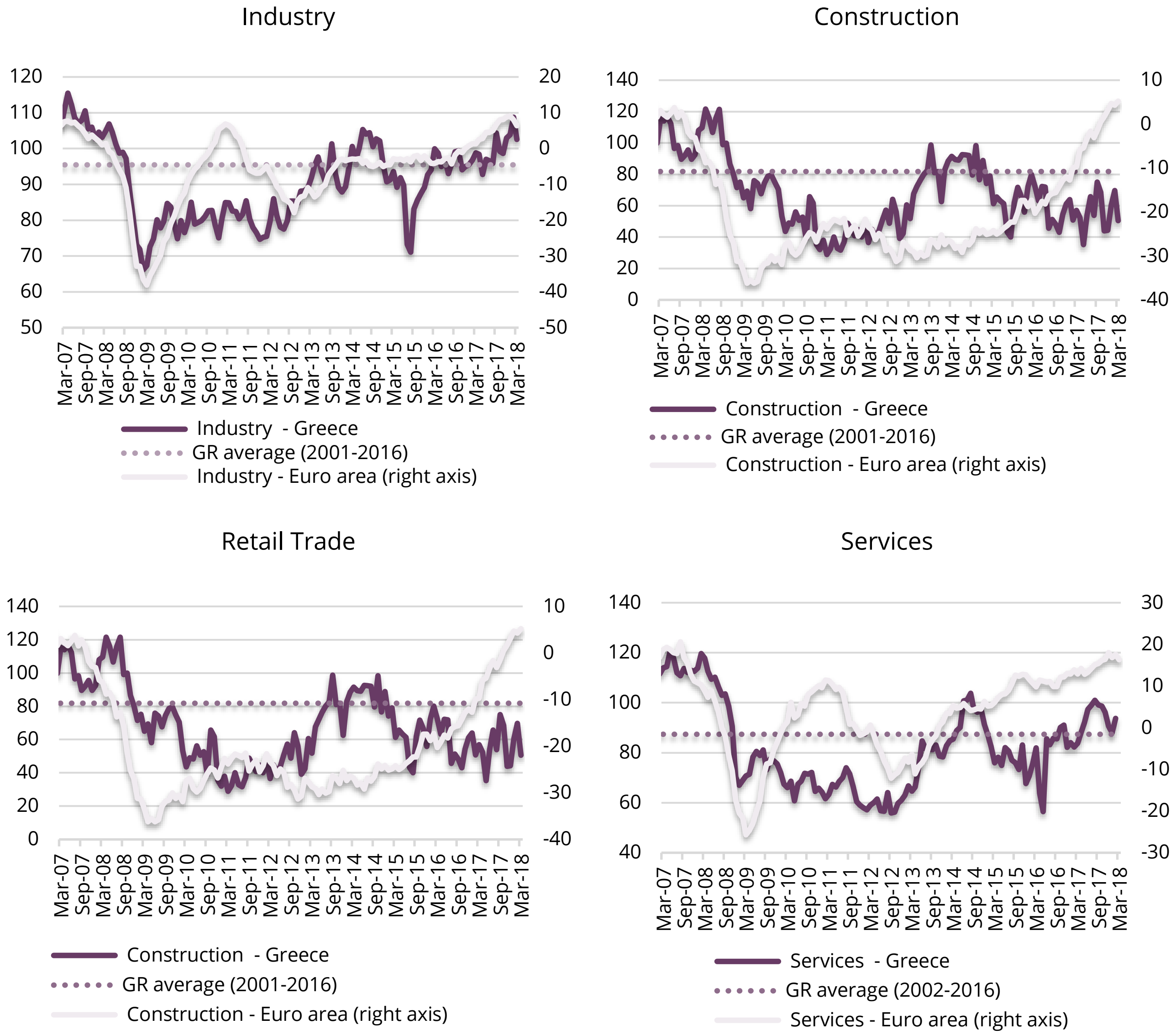
Economic Sentiment Indicators

Time period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
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	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
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
2017	111.1	110.7	96.8	98.1	55.4	94.6	92.7	-63.0
Q1 2018	113.9	113.9	102.0	105.1	60.3	97.1	91.4	-52.3

Sources: European Commission, DG ECFIN, IOBE

Figure 2.5

Business Climate Index



Source: IOBE

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

B. Final figures of the State Budget execution in 2017

- The primary cash surplus of the State Budget was 46.6% lower in 2017 than the year before, due to delays in withdrawing PIP funds from the EU and higher interest expenses
- At the General Government level, in national accounting terms, the deterioration of the balance of the Central Government was mainly offset by the surplus of the social security funds
- The primary balance target was exceeded in the State Budget in the first two months of this year, from an increase of the net revenue of the Ordinary Budget and partly by cyclical factors (e.g. PIP surplus, no assumptions of general government debt)

During the execution of the State budget (SB) in 2017, two major negative developments took place: (a) the withdrawals from the European Union funds were short by €2,011 million or 50.6%, compared with the budgeted amount and (b) the interest expenditure exceeded the projections by €658 million or by 11.9%. At the same time, the payments for tax refunds reached €2,071 million, exceeding the projections of the Explanatory Report of the 2017 budget.

These developments created a gap of €4.7 billion in the SB, which was covered with a significant cut in spending on investments, restraint on primary spending to levels lower than the budget forecasts and outperformance of the Ordinary Budget (OB) revenue before tax refunds. However, despite the cuts and the increased revenues, the SB deficit more than doubled, as the primary surplus fell almost by half compared with the 2017 budget projections (see Table 2.7).

Note that the investment spending cut is a very negative development. Public investment has been cut for the third consecutive year at a time when the Greek economy has faced pressing needs for large investments.

At the General Government level, on national accounting basis, the deterioration of the Central Government results was offset by surpluses in all other entities[6], and particularly in the social security funds (SSF). As mentioned in the previous IOBE report on the Greek economy, until May 2017, the Medium Term Fiscal Strategy 2018-2021 envisaged that the SSF (apart from hospitals) would have an annual deficit of €0.9 billion, but in four months these estimates were revised in-depth, to a surplus amounting to €1.1 billion. Similarly, the projections for the surplus of the SSF in 2018 were revised from €175 million to €1,785 million. However, despite the huge increase in the surplus of the SSF, the GG posted a deficit of 0.6% of GDP (Explanatory Note of the Budget), while in 2016 it had a surplus of 0.5% of GDP.

[6] See Explanatory Note 2018 Budget 2018, pp. 55-57, Table 3.2.

Balance and primary account

According to the final figures for 2017, the SB had a deficit of €4,061 million or 2.3% of GDP, against €1,562 million deficit (0.9% of GDP) in 2016 and target for €1,668 million.[7] Correspondingly, the primary surplus of the SB narrowed to €2,147 million (1.2% of GDP), compared with €3,882 million target. In relation to 2016, the primary surplus dropped almost by half. About 86.2% of the 2017 deficit came from the investment budget (PIP) and the rest from the OB (Table 2.7).

These results are worse than both the set targets for 2017 and the 2016 results. This development is a sign that the adjustment achieved in 2016 with over-taxing the economy, emergency tax measures,[8] fall of interest expenditure that was not due to public debt reduction, and public investment cuts, was temporary and reversible. In addition, it implies that the quality of fiscal consolidation in 2016 fell significantly short of what is considered internationally as a sustainable adjustment. According to all the relevant studies, a consolidation is irreversible when it is based on measures of a permanent nature aiming at rationalisation of public expenditure and tax rate reduction in order to strengthen the growth prospects of the economy. In addition, no fiscal position is sustainable if it is not accompanied by growth.

Ordinary Budget Revenues

In 2017 the OB revenues before tax refunds increased by 2.0% compared to the previous year and reached €54.3 billion, surpassing the budgeted amount by €788 million. At first sight, this development could be considered satisfactory. However, taking into account a number of factors that had a positive impact on the receipts in 2017, then the developments on the revenue side are rather alarming.

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[7] Note that the size of the deficit varies depending on the way of called guarantees of general government bodies are recorded. For many decades the forfeitures were recorded on a net basis. Since 2017, they are reported by the GAO on a gross basis, with the change applied to the 2016 figures as well. In Table 2.7, for reasons of comparability, the data on all years, except for 2018, are presented on a net basis. If they are reported on a gross basis, then the deficit increases by €1,248 million in 2016 and by €207 million in 2017. Thus, the 2017 deterioration would not be evident.

[8] For example, the increase in the advance payment of income tax on businesses, freelancers and farmers was a measure with transient return, limited only to the first year of its implementation (one-off measure).

Table 2.7 Revenue, Expenditure and Deficit of the State Budget

(In million €)

	2014	2015	2016	2017 Budget	2017 Final	2018 Budget	% change 15/14	16/15	17/16	18Π/17
I. SB REVENUES (1+2)	51,367	51,421	54,161	54,411	51,422	54,244	0.1	5.3	-5.1	5.5
1. OB net revenues	46,650	46,589	49,982	50,256	48,973	50,509	-0.1	7.3	-2.0	3.1
Revenues before tax refunds[9]	50,020	49,510	53,246	53,545	54,333	54,157	-1.0	7.5	2.0	-0.3
Minus tax refunds	*3,370*	*2,922*	*3,263*	*3,289*	*5,360*	*3,648*	*-13.3*	*11.7*	*64.3*	*-31.9*
2. PIP Revenues	4,717	4,832	4,178	4,155	2,449	3,735	2.4	-13.5	-41.4	52.5
of which: EU funds	*4,649*	*3,900*	*3,861*	*3,975*	*1,964*	*3,555*	*-16.1*	*-1.0*	*-49.1*	*81.0*
II. SB Expenditure (3+4)	55,063	54,951	55,723	56,079	55,483	55,188	-0.2	1.4	-0.4	-0.5
3. OB expenses	48,472	48,545	49,435	49,329	49,533	48,438	0.2	1.8	0.2	-2.2
Primary expenses [10,11]	42,902	42,744	43,847	43,779	43,325	43,238	-0.4	2.6	-1.2	-0.2
Interest	5,569	5,800	5,588	5,550	6,208	5,200	4.1	-3.7	11.1	-16.2
4. PIP Expenses	6,592	6,406	6,288	6,750	5,950	6,750	-2.8	-1.8	-5.4	13.4
III. SB Balance (I-II)	-3,696	-3,530	-1,562	-1,668	-4,061	-944				
% of GDP	*-2.1*	*-2.0*	*-0.9*	*-0.9*	*-2.3*	*-0.5*				
OB Balance	-1,822	-1,956	547	927	-560	2,071				
PIP Balance	-1,875	-1,574	-2,110	-2,595	-3,501	-3,015				
IV. SB Primary Balance	1,873	2,270	4,026	3,882	2,147	4,256				
% of GDP	*1.1*	*1.3*	*2.3*	2.2	*1.2*	2.3				
GDP (current prices)	178,656	176,312	174,199	180,817	178,579	184,691	-1.3	-1.2	2.5	3.4

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

[9] The proceeds from the granting of licences and public rights are also included (

Table 2.8).

[10] Includes called guarantees, military procurement, EFSF disbursement fees and transfers to assume debt of General Government bodies. Expenditure to repay outstanding arrears of the public sector of €3.5 billion in 2016 are not included.

[11] For comparability reasons, the called guarantees are recorded in net terms in all years except 2018, while the GAO records them in gross terms. For this reason, the 2017 expenditure is lower by €207 million compared with the GAO figures.

First of all, the 2017 revenues include one-off receipts amounting to €1,296 million, coming mostly from the regional airports concession, while the corresponding receipts were only €106 million in 2016 (

Table 2.8). In addition, €296 million were included in the VAT revenues, which in turn were also recorded in the tax refunds and eventually appeared in the proceeds from the airport concession.[12] If the extraordinary revenues are removed, then the revenue are lower by 0.2% in 2017 compared to 2016.

Secondly, in 2017 the nominal GDP grew by 2.5%, while in 2016 it had decreased by 1.2% compared with 2015. The rise of GDP alone, both in actual and in nominal terms, would justify an increase in revenue, without requiring any additional measures.

Finally, in addition to the extraordinary revenues and rising economic activity, the 2017 receipts were affected positively by many other factors: (a) fiscal measures[13] that were adopted in June 2016 and mainly the increase of the standard VAT rate from 23% to 24%, which had a full annual impact for the first time in 2017, (b) the rise of digital payments by 48.4% from 2016 (from €15.5 billion to €23.0 billion), (c) increase of existing and levy of new excise duties from 1 January 2017[14], (d) intensification of tax audits and (e) elimination of reduced VAT rates in some of the Aegean Islands. Considering all the above, the developments on the revenue side are rather alarming.

In greater detail, the proceeds from direct taxes decreased in 2017 by 5.6% over the previous year and were limited to €20,622 million (

[12] See Explanatory Report 2018 Budget, p. 61. This treatment does not affect the deficit or the primary balance, yet it alters the rates of change between from 2016 to 2017 and from 2017 to 2018.
[13] The only 2016 measure with a negative impact on the 2017 revenues was the increase of the advance tax on certain categories of taxpayers, which is deducted when calculating the next year tax.
[14] In addition to the increased revenues from these taxes, VAT receipts were also affected positively, as the excise duties are included in the VAT base.

Table 2.8). The greatest decline (-9.7%) was observed in the revenue from property taxes and to a lesser extent in income tax (-3.0%). The decrease in revenue from property taxes came from: (a) the fact that two instalments of the unified property tax ENFIA were paid in the first two months of 2016, compared with only one in 2017[15] and (b) the January 2017 instalment was smaller, as 38% of the annual ENFIA tax was already paid in September 2016 with the first instalment, reducing the remaining amount for subsequent instalments.

In income tax, the decline came solely from the revenue from legal entities (-12.5%), which fell to €3,471 million, against €3,969 million in 2016. In contrast, the receipts from personal income tax slightly increased from 2016 (+1.7%). However, compared with the initial target, these revenues also fell short, by €859 million, as the income declared in 2017 by freelancers, farmers etc. was significantly lower.[16] In contrast with the developments in the receipts from income and property taxes, the revenue from direct taxes for previous years rose by 9.3%, due to the coercive measures for the recovery of overdue tax obligations.

[15] In February 2016, the receipts totalled €373 million, compared to only €81 million in February 2017.
[16] Explanatory Report 2018 Budget, pp. 57.

Table 2.8

State Budget Revenue (million €)

Revenue categories	2015	2016	2017	2018 Budget	% change		
					16/15	17/16	18/17
1. SB Net Revenues	51,421	54,161	51,422	54,244	5.3	-5.1	5.5
2. OB net revenues	46,589	49,982	48,973	50,509	7.3	-2.0	3.1
Tax refunds	2,922	3,263	5,360	3,648	11.7	64.3	-31.9
3. OB revenue	49,510	53,246	54,333	54,157	7.5	2.0	-0.3
Direct taxes	19,758	21,839	20,622	20,766	10.5	-5.6	0.7
--Income tax	12,093	13,379	12,973	13,307	10.6	-3.0	2.6
--Property tax	3,180	3,604	3,254	3,379	13.3	-9.7	3.8
--Direct taxes of previous years	1,700	1,765	1,930	1,718	3.8	9.3	-11.0
--Other direct taxes	2,785	3,091	2,465	2,362	11.0	-20.3	-4.2
Indirect taxes	23,773	25,680	26,942	27,390	8.0	4.9	1.7
--Transaction taxes	14,254	15,540	16,398	16,441	9.0	5.5	0.3
(of which VAT)	(13,629)	(15,010)	(15,790)	(15,845)	(10.1)	(5.2)	(0.3)
--Consumption taxes	8,760	9,033	9,207	9,706	3.1	1.9	5.4
--Indirect taxes of previous years	450	753	965	851	67.3	28.2	-11.8
--Other indirect taxes	310	354	371	392	14.2	4.8	5.7
Non-tax revenues	5,979	5,727	6,770	6,001	-4.2	18.2	-11.4
--Receipts from the EU	428	415	388	331	-3.0	-6.5	-14.7
--Non-ordinary revenue	1,825	804	708	618	-55.9	-11.9	-12.7
(of which: ANFA. SMP)	(291)	(375)	(345)	(314)	(28.9)	(-8.0)	(-9.0)
--Permits and rights	254	106	1,296	1,110	-58.3	1,122.6	-14.4
--Other	3,472	4,402	4,378	3,942	26.8	-0.5	-10.0
4. PIP revenues	4,832	4,178	2,449	3,735	-13.5	-41.4	52.5

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

Finally, the great reduction in receipts from other direct taxes, by 20.3%, came from the social security contributions of public servants, which until 2016 were included in this category, while from 2017 they are recorded as revenue of the social security fund EFKA (Table 2).

The revenue from indirect taxation, which strengthened from both the June 2016 and January 2017 measures, and other factors, rose by 4.9% from 2016 and reached €26,942 million. Within two years, these revenues have expanded by €3,169 million due to the increase of existing and the levy of new taxes (

Table 2.8).

In particular, the VAT revenues increased by 5.2% and totalled €15,790 million. Its receipts were affected favourably by the five factors mentioned above and by higher imports of higher-value items such as cars, which resulted in an increase in the VAT on imports by 9.8%. However, the VAT revenue included proceeds of €296 million, which were also recorded as tax refunds and eventually appeared as proceeds from the airport concessions.[17]. Without this revenue, the growth was limited to 3.2%. Considering the rise of GDP and all the other favourable factors mentioned above, the VAT revenue growth of 3.2% is not considered satisfactory.

In January 2017, the excise taxes on fuel and tobacco increased, while simultaneously new excise duties were imposed on coffee, electronic cigarettes and fixed telephony. Because of these measures, the revenue from excise duties increased by 1.9% compared to 2016 (

[17] Explanatory Report Budget 2018, pp. 61-62.

Table 2.8). From the individual categories, the receipts from the excise duties on fuel and LPG increased by 7.3% compared with 2016. By contrast, the revenue from the tobacco tax is significantly reduced (-17.5%) due to the extensive stockpiling that took place in late 2016, as the tax increase was legislated in the summer of 2016. In addition, the proceeds from the car registration tax recorded a big rise, by 39.2%. The proceeds from indirect taxes of past years also increased strongly (by 28.2%), due to more intense efforts and coercive measures for the recovery of overdue tax obligations.

Finally, the proceeds from non-tax sources increased by 18.2% from 2016, exclusively from the revenue from the concession of airports, amounting to €1,296 million. If the proceeds from rights and licenses are removed from both years, then the non-tax revenues decreased by 2.6%, as the receipts from all other subcategories declined.

Tax refunds

The protracted negotiations for the second review of the third programme, when the flow of funds to Greece was interrupted, caused inter alia the accumulation of arrears. In this regard, with the completion of the second review (June 2017), the disbursal by the ESM of €800 million in July and other €800 million until October was approved for the reduction of arrears, including tax refunds. At the same time, for the same purpose, €400 million had to be made available from national funds in the summer and other €400 in the fall. As a result, the arrears to suppliers decreased from €4,096 million in March to €3,458 million in October and the tax refunds from €2,114 million in August to €832 million in October. Note that the in July and August of last year, when the tax returns were cleared, the unpaid tax refunds rose by €862 million. Due to these developments, the payments for tax returns had unusually high growth, reaching at the end of the year €5,360 million, higher by 64.3% compared to 2016. However, this figure includes the €296 million mentioned above. Without them, the growth rate is limited to 55.2%.

Ordinary Budget Expenditure

In 2017, despite the primary spending restraint, the total OB expenditure increased by 0.2% compared to 2016 and reached €49.5 billion, surpassing the target by €204 million.[18] By contrast, primary expenditure is lower compared to both 2016 (-1.2%) and the target, by €454 million. Finally, the interest payments increased by 11.1% from 2016, reaching €6,208 million, surpassing the budget target as well by €658 million. The slippage was offset by about 2/3 from the cut in primary spending (Table 2.7).

In particular, primary expenditure fell in 2017 to €43,325 million (Table 2.7 and Table 2.9). Among the individual categories, the spending on salaries and pensions fell by 32.8% from 2016 as from 1 January 2017 the pensions of civil servants are paid by the social security fund EFKA. For this reason, the payments for pensions appear lower by 98.1%. By contrast, the wage expenditure rose by 2.5% compared with the previous year and reached €11,739 million, while for 2018 it is predicted to increase further by 3.9% (see Table 2.9). The increase in payments for wages seems

[18] The expenditure on called guarantees is recorded on a net basis.

to become permanent, which is a cause for concern. Note that since 2016 the payments for on-call duties of doctors and other NHS facilities in private hospitals are not recorded by the GAO as wages but in other categories of expenditure, thus reducing the figures for salaries.

Social expenditure increased by 40.5% compared to 2016, and reached €19.7 billion. This development came from a big rise of grants to the insurance funds, and from the expenditure for social protection. In particular, the grants to social security funds increased by 35.7%, due to the transfer of funds for the payment of pensions of civil servants by EFKA. In addition, they also include the return, following a court order, of overpaid contributions amounting to €315 million. The payments for social protection also increased strongly, by 92.8% in 2016, as they include: (a) the social dividend of €775 million, and (b) grant to the PPC to provide public service obligations (PSO), amounting to €476 million.[19] They also include, for the first time, expenses for the social solidarity income, amounting to €550 million (see table 2.9). By contrast, the grants to the Manpower Employment Organisation OAED were reduced by 15.8%, while the payments for the social solidarity pension benefit EKAS by 56.8%.

[19] Note that the refunds of contributions and PSO spending are not "social expenditure", and for this reason they were originally recorded by the GAO in other expense categories. See Table 4 of the State Budget Execution Monthly Bulletin December 2017.

Table 2.9

State Budget expenditure (€ million)

Expenditure category	2015	2016	2017	2018 Budget	% change		
					16/15	17/16	18/17
1. State Budget Expenditure	54,951	55,723	55,483	55,188	1.4	-0.4	-0.5
2. Ordinary Budget Expenditure	48,545	49,435	49,533	48,438	1.8	0.2	-2.2
Interest	5,800	5,588	6,208	5,200	-3.7	11.1	-16.2
Primary expenditure	42,744	43,847	43,325	43,238	2.6	-1.2	-0.2
--Salaries & pensions	18,740	18,065	12,143	12,660	-3.6	-32.8	4.3
Wages[1]	12,104	11,454	11,739	12,194	-5.4	2.5	3.9
Other allowances	288	297	284	353	3.1	-4.4	24.3
Pensions	6,348	6,315	120	112	-0.5	-98.1	-6.7
--Social expenditure	13,099	14,017	19,700	18,165	7.0	40.5	-7.8
Grants to Social Security Funds[2]	11,058	11,784	15,993	15,477	6.7	35.7	-3.2
Social protection	1,486	1,670	3,220	2,127	12.4	92.8	-33.9
Grants to OAED	499	505	425	505	1.2	-15.8	18.8
Other	56	58	63	56	3.6	8.6	-11.1
--Operational and other	8,118	8,517	8,432	8,151	4.9	-1.0	-3.3
Transfers	1,508	1,442	1,533	1,313	-4.4	6.3	-14.4
Consumption	1,510	1,572	1,525	1,871	4.1	-3.0	22.7
Conditional	2,365	2,295	2,330	2,149	-3.0	1.5	-7.8
Other[3]	2,735	3,208	3,044	2,818	17.3	-5.1	-7.4
--Earmarked revenue	2,787	3,248	3,049	3,262	16.5	-6.1	7.0
--Reserves	--	-	--	1,000	-	-	-
3. PIP expenditures	6,406	6,288	5,950	6,750	-1.8	-5.4	13.4

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

[1]Since 2016, the GAO has transferred the expenditure for on-call duties of NHS doctors and other benefits to the staff of hospitals from wages to other operating expenditure. Also, the expenditure for ambulance staff are transferred to grants to other bodies.
[2]About €630 million are included to provide one-off benefit to retirees with low main pension.
[3] Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee, called guarantees and debt assumption of general government bodies
[4] For comparability reasons, the called guarantees are recorded in net terms in all years except 2018, while in 2018 they are presented in gross terms due to lack of data.

The operating and other expenditures fell by 1.0% over the previous year and amounted to €8,432 million. The restraint cane essentially from the sub-category "other operating expenditure" and specifically from the assumption of debt of GG agencies, which decreased from €553 million in 2016, to €192 million last year. However, the grants to agencies increased by 6.3% in 2017, as the grants to transport operators increased by 28.9% and reached €343 million, because of long delays in the introduction and implementation of the e-ticket and the total absence of ticket inspections. Finally, the earmarked funds decreased by 6.1% in 2017, yet they are projected to grow again in 2018 to levels higher than in 2016 (see Table 2.9).

Public Investment Programme

The investment expenditure was cuts by €800 million or 11.9% in 2017, falling to €5,950 million. The shortage in the execution of PIP in 2017 was bigger than ever and it was obvious that it would lead to big expenditure cut.[20] Recall that in the last quarterly report of IOBE for 2017 we expressed the opinion that it would be almost certain that investment would eventually decline, as in 2016. The decline of revenues was even greater and as a result the PIP had a significant deficit of €3,501 million (Table 2.7).

In particular, the PIP revenues fell by 41.4% from 2016 and declined to €2,449 million, against €4,178 million the year before and a receipts target of €4,155 million. This development came exclusively from the sharp decline in revenue from the European Union funds, which fell by 49.1% against 2016, to €1,964 million, their lowest level in many years. In relation to the target, the revenues were short by €2,011 million. As noted in the previous report of IOBE for the third quarter of 2017, apart from the pressing need for investment, the inflow from EU funds help to improve the liquidity in the economy, thus any reduction (temporary or not) is not warranted for any reason.

Note that for 2017 the PIP revenues from national sources were budgeted at €180 million, yet by the end of the year they reached €485 million. The same had occurred in 2015 as well, when at the end of the year the own revenues reached €932 million, against €200 million in the budget.

The delay in the disbursements for investment, more than in 2015 and 2016, is difficult to interpret as the 2015 cash difficulties were not present. Besides the great need for investment is recognised in the Explanatory Not of the 2018 budget (pp. 79-80).

Note also the fact that the revenue from the EU funds have steadily fallen in recent years (see Table 2.7). As mentioned above, at this juncture, the inflow from EU funds, in addition to financing almost all public investments, enhance the liquidity in the economy as a whole, when the bank lending capabilities are not expected to change significantly.

Execution of the State Budget, January-February 2018

The 2018 State Budget is anticipated in the Explanatory Note to post significant improvement compared with the previous year. In particular, the SB deficit is expected to decline by about 75% and the primary surplus to double (Table 2.7). This improvement is based on: (a) a number of new tax measures, which came into force from 1 January 2018, and mainly the repeal of the 1.5% discount on income tax for employees and retirees[21] and (b) an optimistic macroeconomic

[20] See for example the IOBE quarterly report for Q2 2017, p. 48 and the quarterly report for Q3 2017, p. 56.
[21] This discount was provided without an interruption since 1955 and concerned only the incomes of employees and pensioners whose tax was retained at the source. Other measures include the imposition of a levy of €0.5 booking fee on rented furnished rooms – apartments and the extension for one year of the voluntary contribution of the shipping community.

scenario which envisages acceleration of growth to 2.5%, despite the restrictive fiscal policy in 2018 as well.

The acceleration of the growth rate is based on the anticipated increase in private consumption by 1.2% at constant prices[22], the rise in gross fixed capital formation by 11.4% and the faster growth in exports versus imports. In addition, according to the explanatory report,[23] this optimistic scenario requires: (a) the smooth progress of the current support programme until its completion in August, (b) smooth and safe return to the financial markets, (c) implementation of medium-term measures to ensure the sustainability of public debt and (d) prevalence of normal conditions in the international geopolitical and economic environment.

With the partial exception of the second condition, following the seven-year bond issuance in February, and the third, for which consultations will start later this year, the remaining conditions are not met in the first quarter of this year. The international geopolitical and economic environment is deteriorating in recent months, while there is considerable delay in the implementation of the key deliverables of the fourth review.

In addition, the stagnation of private consumption in 2017 and especially the decline by 1.0% in the last quarter, combined with stagnating quarter on quarter consumer confidence index in the first quarter of 2018, suggest that the annual forecast for growth in private consumption by 1.2% will be difficult to support based on its change in the first quarter of this year. In addition, the stock of non-performing loans remains extremely high, despite a reduction by about €10 billion in 2017, while the possibility of participation in the quantitative easing scheme of the ECB is considered lost for the Greek economy. Hence, the liquidity in the economy probably will not change significantly.

It should be emphasised however that, even if the State Budget is successfully executed in 2018, without deviations, the 2016 performance will be repeated, despite the additional measures taken since then. The currently available data cover a very short time period, the first two months of this year, which is not sufficient to formulate reliable estimates on the annual progress of the fiscal aggregates.

SB balance and primary surplus

The final data on the SB execution, available for the first two months of this year, point to an improvement over the corresponding period of 2017. This is based on the rise of the Ordinary Budget net revenue, mainly from non-tax proceeds, receipts of taxes of previous years and three factors, which are unlikely to continue to act in the rest of 2018.

[22] In 2017 private consumption grew marginally by 0.1% y-o-y. In the last quarter, in particular, it fell by 1.0% y-o-y.
[23] Explanatory Note 2018 Budget, pp. 28-29.

Table 2.10

Execution of the State Budget, January-February 2017 (€ million)

	January-February				% change		
	2015	2016	2017	2018	16/15	17/16	18/17
SB net revenues	7,790	9,623	8,343	8,975	23.5	-13.3	7.6
1. OB net revenues	7,293	8,101	7,985	8,299	11.1	-1.4	3.9
a. Revenues before tax refunds	7,901	8,646	8,630	9,018	9.4	-0.2	4.5
b. Tax refunds	608	544	645	719	-10.5	18.6	11.5
2. PIP Revenues	496	1,522	358	675	206.9	-76.5	88.5
SB Expenditure	7,984	8,488	7,909	7,433	6.3	-6.8	-6.0
3. OB expenditure	7,746	8,128	7,735	7,246	4.9	-4.8	-6.3
a. Primary expenses*	6,314	6,411	6,034	6,037	1.5	-5.9	0.0
- Debt assumption	-	186	192	-	-	3.2	-
b. Interest	1,432	1,717	1,700	1,209	19.9	-0.0	-28.9
4. PIP Expenses	238	360	174	187	51.3	-51.7	7.5
SB balance	-194	1,135	434	1,542			
% of GDP	*-0.1*	*0.7*	*0.2*	*0.8*			
SB Primary Balance	1,238	2,853	2,135	2,751			
% of GDP	*0.7*	*1.6*	*1.2*	*1.5*			
GDP (current prices)	176,312	174,199	178,579	184,691			

Source: State Budget Execution Bulletin, February 2018, Ministry of Finance, March 2018

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

In greater detail, the SB had a surplus of €1,542 million in the first two months of 2018, against €434 million surplus in the same period of 2017. In addition, the primary surplus increased to €2,751 million, against €2,135 million in the previous year (see. Table 2.10). This improvement is due to: (a) the fact that this year there are no transfers to assume debt of GG bodies, while in the first two months of last year these transfers totalled €192 million (see Table 2.12), (b) the PIP has €317 million more revenue, but about the same spending as in 2017 and (c) the interest payments is lower by €491 million compared to last year.

However, some of these developments may be cyclical, while a clear, more permanent trend of expenditure reduction has not currently transpired. The reduction of interest expenditure, for example, in the first two months equals the total projected for the whole year. The same applies for the transfers for debt assumption. Therefore, the favourable effect of these two factors may have been exhausted at the beginning of this year.

For these reasons, together with the very limited time period covered by the data, it is not possible to draw reliable conclusions about the course of execution of the State budget in 2018 overall.

Ordinary Budget Revenue

In the first two months of this year, the OB revenues before tax refunds increased by 4.5% compared with 2017 and reached €9,018 million, topping the corresponding target[24] by €1,107 million (see Table 2.11). About 55.2% of the target overrun comes from receipts from non-tax revenue and taxes of previous years.

The revenue from direct taxation increased by 7.9% from 2017, while on an annual basis the budget predicts rise of 0.7%. The stronger performance comes from personal income tax (PIT), direct taxes of previous years and proceeds from the special solidarity levy on personal income.

In particular, the proceeds from employees and retirees rose[25] by 19.6% over the previous year, while the receipts in all other categories of income tax declined. The revenue from direct taxes of previous years also recorded significant rise, by 8.4%, while on an annual basis they are expected to decline by 11.0% compared to 2017. Similarly, the proceeds from the special solidarity levy increased by 8.4%, which are also expected to decrease overall in 2018 (-8.9%, see Table 2.11).

In indirect taxation, receipts increased by 6.3% over the corresponding period of 2017 and reached €4,505 million, exceeding their target by 2.7%. This development came from rising revenues from three main categories: (a) excise duties; (b) VAT; (c) indirect taxes of previous years.

In greater detail, the VAT revenues increased by 3.4% (see Table 2.11). Note the significant distinction between imported and domestically produced goods, as the proceeds from VAT on imported goods increased by 10.8%, while in the domestic goods it rose by only 2.5%. The revenues from excise duties increased by 5.8% compared with the first two months of 2017 and reached €1,286 million. The largest increase (+29.9%) was recorded in the proceeds from tobacco taxes, as the corresponding revenue in 2017 was low due to extended stockpiling in 2016. By contrast, the revenues from the excise duties on fuel decreased by 7.1%. The revenue from indirect taxes of previous years increased significantly, by 26.6%, with the proceeds in the first two months of €424 million reaching half the annual forecast (€851 million, Tables 2.7 and 2.11). Finally, the non-tax revenues decreased by 4.2% to €1,804 million. This development is due to lower proceeds, by 10.3%, from public sector commercial activities.

[24] The 2018 targets are presented in the explanatory note of the 2018 Budget, p. 91, Table 3.15.
[25] By contrast, the personal income tax collected at source except for employees and pensioners decreased by 11.8%.

Table 2.11

State Budget Revenue (million €)

Revenue categories	January - February 2015	2016	2017	2018	% change 16/15	17/16	18/17
1. SB Net Revenues (2+4)	7,790	9,623	8,343	8,975	23.5	-13.3	7.6
2. OB net revenues	7,293	8,101	7,985	8,299	11.1	-1.4	3.9
Tax refunds	608	544	645	719	-10.5	18.6	11.5
3. OB revenue	7,901	8,646	8,630	9,018	9.4	-0.2	4.5
Direct taxes	2,751	2,888	2,510	2,709	5.0	-13.1	7.9
--Income tax	1,354	1,290	1,322	1,451	-4.7	2.5	9.8
--Property tax	683	766	417	427	12.2	-45.6	2.4
--Direct taxes of previous years	397	479	535	580	20.7	11.7	8.4
--Other direct taxes	318	353	236	250	11.0	-33.1	5.9
Indirect taxes	3,784	3,988	4,237	4,505	5.4	6.2	6.3
--Transaction taxes	2,411	2,557	2,631	2,729	6.1	2.9	3.7
(of which VAT)	(2,353)	(2,500)	(2,568)	(2,656)	(6.2)	(2.7)	(3.4)
--Consumption taxes	1,146	1,122	1,216	1,286	-2.1	8.4	5.8
--Indirect taxes of previous years	178	258	335	424	44.9	29.8	26.6
--Other indirect taxes	49	51	56	67	4.1	9.8	19.6
Non-tax revenues	1,366	1,768	1,883	1,804	29,4	6.5	-4.2
--Receipts from the EU	7	8	123	125	14.3	1437.5	1.6
--Non-ordinary revenue	420	450	424	395	7.1	-5.8	-6.8
(of which: ANFA. SMP)	(291)	(375)	(345)	(314)	(28.9)	(-8.0)	(-9.0)
--Permits and rights	0	12	34	4	--	183.3	-88.2
--Other	939	1,299	1,302	1,279	38.3	0.2	-1.8
4. PIP revenues	496	1,522	358	675	206.9	-76.5	88.5

Source: State Budget Execution Bulletin, February 2018, Ministry of Finance, March 2018.

Ordinary Budget Expenditure

In the first two months of the year, OB spending decreased by 6.3% over the corresponding period of 2017, and totalled €7,246 million, falling short of the two-month target by €112 million. The restraint came exclusively from primary expenditure, which remained at its 2017 levels (Table 2.12). By contrast, interest payments fell by 28.9%, in accordance with the two-month target.

Among the primary expenditure categories, the payments for salaries and pensions rose by 3.8%, mainly because of rising spending on salaries by 3.6%. Note that the wage costs are rising for the second year in a row, at a stronger pace, from +2.0% in the same period of last year. By contrast, the payments for pensions have almost vanished due to their payment from the fund EFKA.

Social expenditure declined in the first two months by 2.6% compared to 2017, as the grants to social security funds fell by 5.4% compared with a year ago. By contrast, the social spending in all other subcategories increased, albeit by small amounts (see. Table 2.12).

Table 2.12

State Budget expenditure (€ million)

Expenditure category	January - February				% change		
	2015	2016	2017	2018	16/15	17/16	18/17
1. State Budget Expenditure	7,984	8,488	7,909	7,433	6.3	-6.8	-6.0
2. Ordinary Budget Expenditure	7,746	8,128	7,735	7,246	4.9	-4.8	-6.3
Interest	1,432	1,717	1,700	1,209	19.9	-1.0	-28.9
Primary expenditure	6,313	6,411	6,034	6,037	1.6	-5.9	0.0
--Salaries & pensions	3,103	2,986	1,980	2,055	-3.8	-33.7	3.8
Wages	1,984	1,902	1,940	2,010	-4.1	2.0	3.6
Other allowances	34	33	20	25	-2.9	-39.4	25.0
Pensions	1,085	1,051	21	19	-3.1	-98.0	-9.5
--Social expenditure	1,946	1,913	2,859	2,786	-1.7	49.5	-2.6
Grants to Social Security Funds	1,824	1,737	2,697	2,551	-4.7	55.3	-5.4
Social protection	46	99	86	157	115.2	-13.1	82.6
Grants to OAED	75	75	75	75	0.0	0.0	0.0
Other	1	2	1	3	100.0	-50.0	200.0
--Operational and other	890	980	743	663	10.1	-24.2	-10.8
Transfers	127	113	90	101	-11.0	-20.4	12.2
Consumption	79	51	27	60	-35.4	-47.1	122.2
Conditional	634	464	427	454	-26.8	-8.0	6.3
Other*	50	352	199	48	604.0	-43.5	-75.9
Debt assumption	-	186	192	-	-	3.2	-
--Earmarked expenditure	374	531	451	533	42.0	-15.1	18.2
3. PIP expenditures	238	360	174	187	51.3	-51.7	7.5

Source: State Budget Execution Bulletin, February 2018, Ministry of Finance, March 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

The operating expenditure declined significantly as well, by 10.8%, and reached €663 million. This development is due solely from the fact that there were no transfers to assume debt of GG agencies,[26] while in the same period of last year these transfers amounted to €192 million. By contrast, the spending in all other subcategories increased compared to 2017. Finally, the earmarked expenditure increased by 18.2% over the first two months of 2017.

Note that due to the containment of expenditure, the outstanding liabilities of the Hellenic Republic (including tax refunds) increased by €236 million in the first two months of the year. These liabilities were created in the last few months of 2017 and should be paid within 90 days, otherwise they will become overdue. If these liabilities had been paid, then the OB spending would have exceeded the target for the first two months.

[26] The debt assumption is recorded in other operating expenditure.

Public Investment Programme

The improvement of the SB balance in the first two months came largely from[27] the PIP, as its revenue from EU funds nearly doubled, while spending remained at the corresponding level of 2017. In particular, payments for investment remained at €187 million, almost as high as in the same period of 2017 (€174 million). Nevertheless, they remain substantially lower than in 2015 and 2016, but also from the target for the first two months of this year, set at €385 million (Table 2.10 and Table 2.12).

The PIP revenues, which essentially come from EU funds, reached €675 million in the first two months, almost twice as high as in 2017. The inflows from the EU, in particular, increased by 94.3%.

As a result of the above developments, the PIP had a surplus of €488 million in the first two months of 2018, from €184 million surplus a year ago. Note that on an annual basis, the PIP is expected to have a deficit of €3,105 million, if fully executed.

C. Financial developments

- Return of deposits by households, which compensates for outflows from companies
- Gradual loosening of the capital controls
- Acceleration of the pace of non-performing loan reduction by the banks
- Gradually easing 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 is recovering gradually, with the positive performance of the banks against the targets for reducing non-performing loans partly offsetting the uncertainty of recent months about the ECB stress test outcome. Between December 2017 and February 2018, the deposits of households continued to return to the banking system, while the uptrend among businesses turned to a slight decline. The credit from the banks to the private sector continued to contract, because of cautiousness ahead of the stress test by the ECB and the pressure to settle or sell large amounts of non-performing loans. 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.

On the liabilities side of the banks' balance sheet, the return of private deposits from households strengthened between December 2017 and February 2018, which points to a continued, albeit measured, recovery of confidence. The relatively timely completion of the third review, 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. Among businesses, the deposit return halted between December 2017 and February 2018, both year on year and quarter on quarter. Over time, the deposits of enterprises declined at the beginning of each year for seasonality reasons possibly related to the needs of

[27] In particular, 28.6% of the improvement comes from the PIP.

their annual financial statements and accounts. The larger decline this year compared to last year, was possibly due to the fact that businesses proved to be more cautious because of the stress test. Between December 2017 and February 2018, the total deposits of the private sector increased by €1.2 billion. The rise of deposits mainly came from households (+€2.1 billion), offsetting the fall from non-financial corporations (-€0.9 billion). Since August 2015, the private sector deposits have expanded by €11.2 billion, of which €5.0 billion came from households and €6.3 billion from non-financial corporations. Nevertheless, the stock of total private deposits remains significantly lower than in November 2014, by €33.2 billion, of which €29.0 billion from households and €1.9 billion by non-financial corporations.

The average monthly net inflow of deposits between December 2017 and February 2018 stood at €692 million for the households and -€315 million for the non-financial corporations, against €189 million and -€103 million respectively between December 2016 and February 2017. The average monthly inflow of deposits from August 2015 until February 2018 was positive for both households and non-financial corporations (+€160 million and +€202 million respectively). The increase in private sector deposits was partly due to inflow of banknotes in the system, which entails a weakening of the "under the mattress" hoarding. This observation is verified by the fact that the banknotes in circulation decreased from their peak of €50.5 billion in June 2015 to €34.0 billion in February 2018, as the supply of banknotes from the ECB to Greece corresponded to €27.7 billion and €30.5 billion respectively (Figure 2.7).

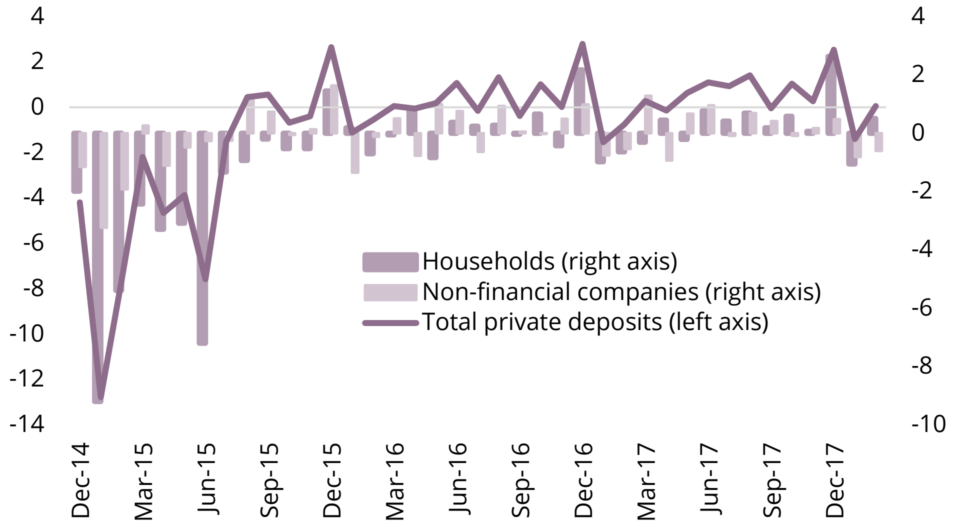
Therefore, the hoarding of cash gradually declined, as the banknotes in circulation beyond the ECB supply declined from €22.8 billion in 2015 to about €3.5 billion in February 2018. The climate of confidence recovery in the banking system is encouraged by the ongoing gradual relaxation of the capital controls, with the latest regulatory change of February 2018 facilitating the opening of new bank accounts and raising the limits on monthly cash withdrawal, the transfer of funds abroad per trip and per two-month period via wire transfer without a justification. That said, the caution of households and businesses as to the stress test, a factor whose influence will wane as the announcement of the results approaches, provided that the fourth review is completed in time, coupled with an agreement on the post-programme period that would include medium-term public debt measures, prevented a greater deposit growth. During 2018, private deposits are anticipated to grow, to the extent that the banks continue to successfully implement the plan for reduction of non-performing loans, 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 €15.1 billion in February 2018, from €43.1 billion in February 2017 and €86.8 billion in June 2015 (Figure 2.8).

Figure 2.6

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

The seasonally adjusted net inflows from households were offset by net outflows from companies between Dec. 17 and Feb. 18

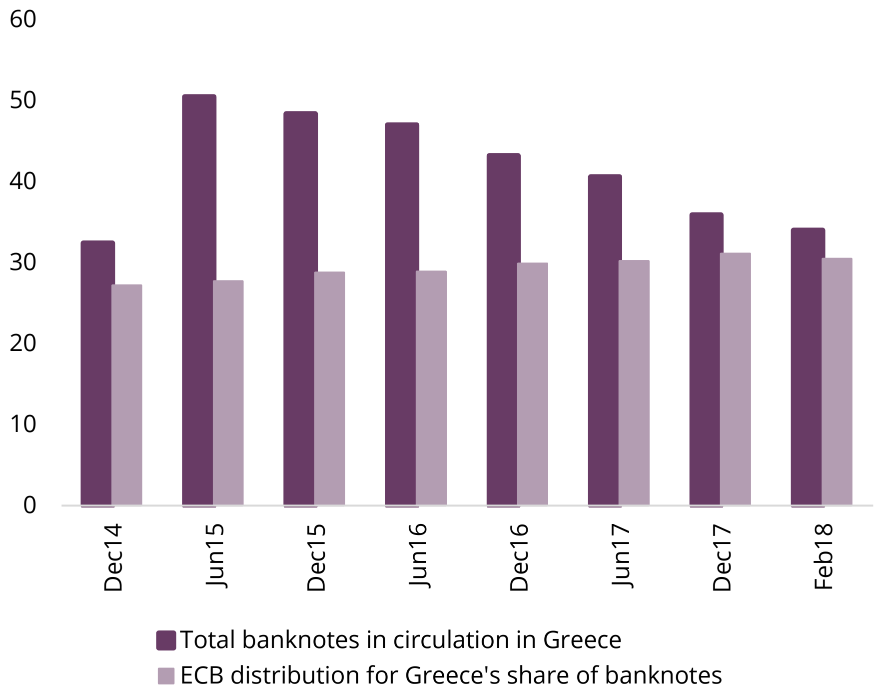


Source: Bank of Greece

Figure 2.7

Banknotes in circulation (billion €)

The "under-the-mattress" hoarding has decreased approximately by €19.3 billion cumulatively since June 2015



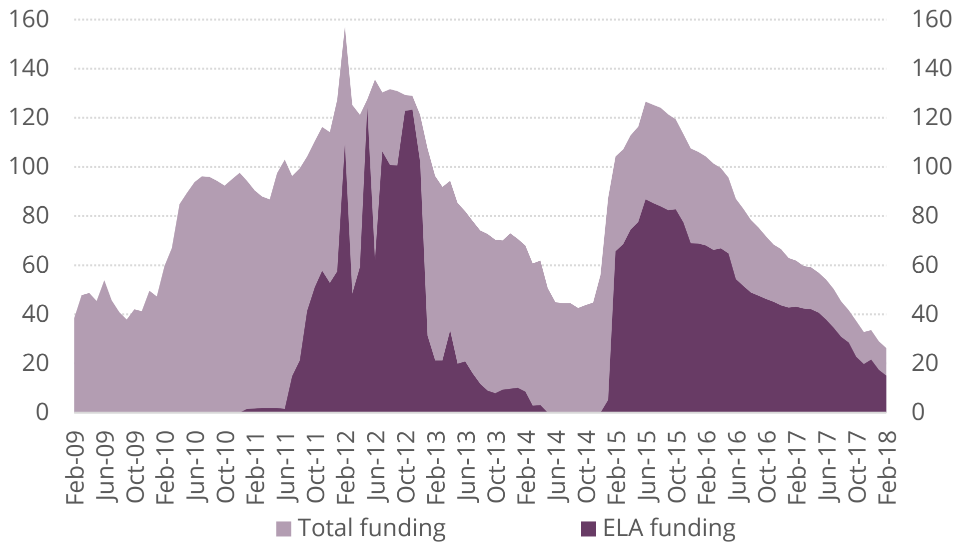
Source: Bank of Greece

In addition, the total funding from the Eurosystem kept falling at a rapid pace, with the outstanding balance standing in February 2018 at its lowest level in a decade, at €26.3 billion, from €61.9 billion in February 2017 and €126.6 billion in June 2015.

On the asset side, credit activity remains subdued. The financing of the private sector, excluding loan write-offs, continued to shrink in the first two months of 2018, by 0.9%, but with a weakening intensity compared with the corresponding period of the preceding year, when it had declined by 1.6%. In January and February 2018, the annual change of credit to the private sector came from its contraction by 2.3% to households and 0.3% for the self-employed, while for the non-financial corporations, credit marginally expanded by 0.2%. The respective annual rates of change in the last quarter of 2017 were -2.3% for the households,-0.1% 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 sectors such as transport and logistics, trade and tourism and contraction in industry and construction (Table 2.11).

Figure 2.8

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



The liquidity from the ELA is steadily decreasing, with an average speed of €2.4 billion/month. If it continues to decline at this rate, it will hit zero in August 2018.

Source: Bank of Greece

Table 2.13

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

Quarter/Year	1/17	2/17	3/17	4/17	Jan. 18	Feb. 18
Total private sector	-1.5	-1.1	-1.0	-0.9	-0.8	-1.0
Households & NPIs	-2.7	-2.5	-2.3	-2.3	-2.3	-2.4
Sole proprietors and unincorporated partnerships	-1.9	-0.7	-0.1	-0.1	-0.2	-0.3
Non-financial corporations	-0.4	0.2	-0.2	0.1	0.4	0.0
Agriculture	-2.1	-3.9	-6.4	-5.2	-4.5	-3.5
Industry	-2.5	-3.4	-4.2	-3.2	-1.2	-1.5
Trade	1.4	2.4	1.8	2.3	2.0	2.4
Tourism	2.4	2.2	1.5	0.4	1.0	0.6
Shipping	-1.0	-0.7	0.6	-1.2	-3.3	-3.9
Construction	-1.8	-2.9	-2.0	-1.6	-1.2	-1.6
Electricity-gas-water supply	1.7	8.0	2.7	0.1	-1.0	-1.2
Transport and logistics	9.3	45.0	39.0	29.3	23.5	18.9
Interest rates on new loans (period average, %)						
Consumer credit	8.17	8.85	9.10	8.79	9.10	7.79
Mortgage credit	2.74	2.73	2.74	2.93	2.88	3.02
Loans to non-financial corporations	4.48	4.41	4.43	4.53	4.98	3.88

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, a research by the Bank of Greece on the bank lending in the fourth quarter of 2017 showed that the credit criteria of granting loans to businesses had remained the same since the beginning of 2017. The estimate for the first quarter of 2018 is that they have marginally tightened, except for the large corporations. The demand for credit showed signs of slight strengthening in the last quarter of 2017, after two years of stagnation in 2015 and 2016, which is anticipated to carry over to 2018.

In the medium term, the projected economic recovery, the further strengthening of the confidence in the banking system, aided by the likely positive results of the ongoing stress test, and the easing of the uncertainty about the prospects of the Greek economy, 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 turn the fall of deposits in early 2018 to growth, reinforcing the banks' credit supply potential. However, the credit supply trend will change only marginally, as the credit contraction is most likely to end by the end of 2018 or in early 2019, provided that the anticipated positive outcome of the stress test is confirmed. The effective management of non-performing loans, the access to the cross-border banking market and programmes co-financed by the EIB will serve as key drivers of the credit policy, while large enterprises will rely more on alternative forms of financing, such as the issuance of bonds.

The Non-Performing Exposures (NPEs) continued to recede in the fourth quarter of 2017, by 4.8% quarter on quarter, at their strongest rate since the start of the crisis. The improvement came mainly from the consumer and business portfolios, in contrast with the housing portfolio where the improvement was only marginal. The NPEs totalled €95.7 billion in December 2017 or 43.1% of the total exposure, about €13.0 billion or 12% lower than their peak in March 2016. Note that the target of a cumulative decrease by 40% from March 2016 until the end of 2019, i.e. by about €65.0 billion is still in place. As a result, their contraction rate should be maintained in order to achieve the backloaded objectives of the business plans for 2018 and 2019. In business credit, the NPE rates are higher among sole proprietors and micro-enterprises (65.4% in December compared with 66.5% in September) and small and medium-sized enterprises (57.0% in December compared with 59.0% in September), followed by large enterprises (22.9% in December compared to 24.5% in September). Until now, the reduction of NPEs is based primarily on loan write-offs (€2.1 billion in the fourth quarter of last year, against €6.5 billion overall in 2017) and the sale of non-performing portfolios (€1.8 billion in the third quarter, compared to €3.6 billion overall in 2017). Concluding the NPE analysis, it should be noted that a significant proportion of these exposures relate to delays of more than two years, while many already restructured loans present again repayment delays. The cure rate of 1.8% surpassed, albeit marginally, the default rate at 1.7% in the fourth quarter of 2017, for the first time since the beginning of implementation of the operational plan for the reduction of the NPEs.

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 fell marginally, to 0.29% in January and February 2018, from 0.31% and 0.30% in the first and second half of 2017 respectively. The interest rates on new loans also declined marginally, to 4.7% in January and February 2018, from 4.7% and 4.8% in the first and second half of 2017 respectively. The decline came mainly from the interest rates to non-financial corporations and consumer credit interest rates, as in contrast the rates on mortgages lending increased (Figure 2.9).

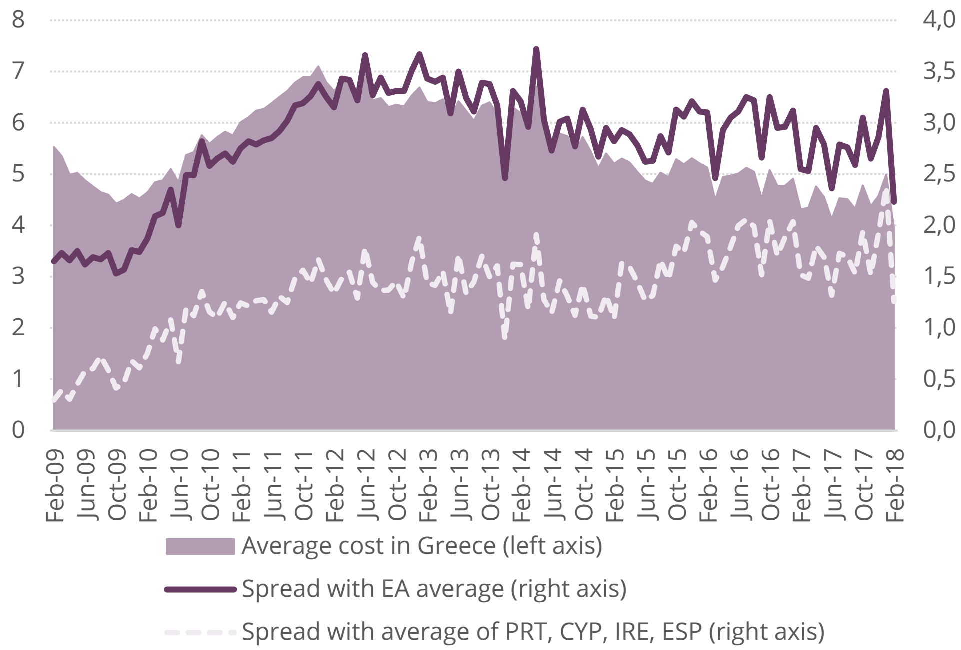
The cost of bank financing to the private sector declined in early 2018, but it still remained significantly higher than in the other Eurozone countries. Indicatively, according to the composite indicator of ECB borrowing costs (Figure 2.9), the cost for non-financial corporations was around 3.9% in February 2018, its lowest level since 2002 when the ECB began compiling this indicator, compared to an average of 4.5% in 2017 in Greece and 1.7% in the Euro area. The cost of borrowing for the Greek businesses remains 223 basis points higher than the Eurozone average, its lowest level since June 2010, yet significantly higher compared to the levels recorded before the crisis (e.g. 100 b.p. in 2008). The 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 126 basis points, against an average spread against these countries of 168 b.p. in 2017.

As regards the cost of new borrowing from the markets by the Hellenic Republic, the yield of the 10-year bond significantly dropped in the last quarter of 2017, which carried over to January 2018, yet it steadied and then 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, the prospect of timely completion of the third review had a positive effect. Together with the positive international investment climate, the yield of the 10-year bond significantly dropped, below 3.8% in January 2018, while its spread reached its lowest level in eight years. 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 reversal of the boom in the international investment climate in February, mainly because of the announcement of the first set of protectionist US trade policy measures, and the uncertainty in connection with forthcoming consultations about the Greek debt and the post-programme relationship of Greece with its partners, have prevented further easing of the ten-year bond yields, which increased to 4.1% and 4.3% in February and March 2018, respectively. However, the cost of borrowing from the markets by the Hellenic Republic remained higher compared with other Eurozone countries in March 2018, by 370 basis points compared with the German 10-year bond, and by 280 basis points compared to the average of the countries of the region that recently participated in support programmes (Figure 2.10).

Figure 2.9

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

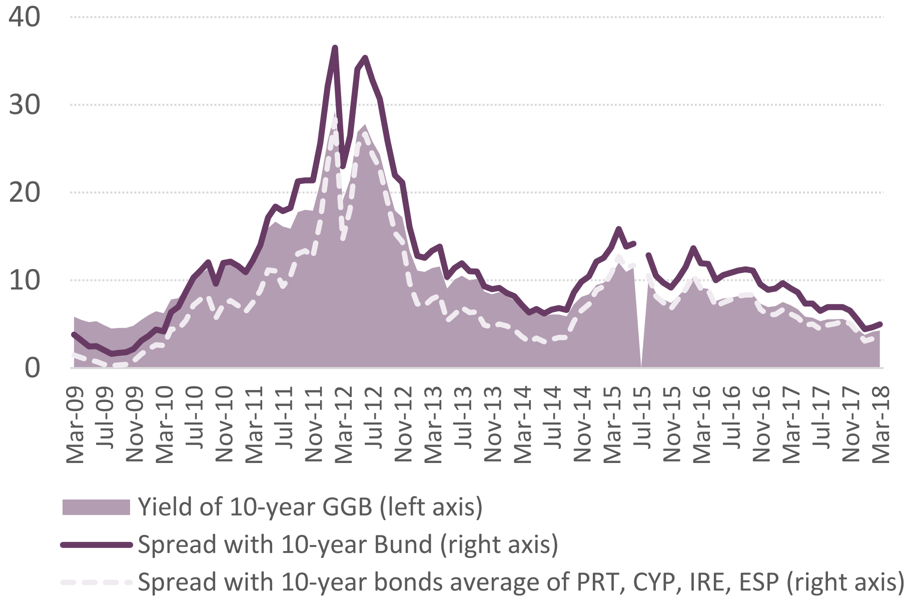
The corporate borrowing costs fell in February to their lowest level since 2002, yet it remained significantly higher than in other countries.



Source: ECB

Figure 2.10

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



Source: ECB

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

3 PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Growth of the Greek economy in 2017 by 1.4%, from 0.3% contraction in 2016
- Rise of GDP mainly from stronger investment (+14.9%) and exports (+6.9%)
- Exports at their highest level on record, both in absolute terms (€59.7 billion) and as a percentage of GDP (31.9%)
- Significant expansion of imports as well (+7.5%), which exacerbated the external balance in national accounting terms (a deficit of 3.0% of GDP)
- High import demand elasticity with respect to domestic demand (4.7), which implies a substitution of domestically produced products with imports

Recent macroeconomic developments in Greece

The Greek economy completed a year of growth in the last quarter of 2017, accelerating slightly compared with the previous quarter, to 1.9% from 1.4%, posting the fastest rate in the four quarters. In the final quarter of 2016 GDP had declined by 0.9%. Overall last year, the gross domestic product increased by 1.4%, compared with a small decline by 0.3% the year before.[28] The strengthening of the GDP growth in the last quarter of the previous year came primarily from stronger investment growth, which came almost exclusively from high fixed capital formation in transport. In addition, public consumption expanded, albeit slightly, in the final quarter, for the first time in 2017. By contrast, the greater than in the third quarter of last year decline in private consumption prevented a quicker recovery of the Greek economy, while the external balance

[28] GDP figures at constant 2010 prices

deteriorated as well, as usually happens after the summer months, when the external sector posts its best performance between the quarters of the year.

In detail as to the trends in individual components of GDP overall in 2017, domestic consumption remained essentially unchanged (-0.1%) compared to last year, when it had marginally decreased (-0.4%). This result came from its growth in the first half of 2017 by 0.8%, as in the second half it declined by 0.6%. Regarding its two basic components, only private consumption increased marginally by 0.1%, for a second year in succession. The public sector consumption declined by 1.2%, almost as strong as their contraction a year earlier (-1.4%). Note that the fall in household consumption expenditure intensified in the final quarter of 2017, by 1.0%.

Investment expanded by 14.9% in 2017, twice as strong as in 2016 (+7.3%), recording their highest growth rate since 2007. In the final quarter, their growth accelerated, reaching 22.6%. However, last year's rise offsets a small part of their cumulative retreat by 68.7% between 2008 and 2015. In addition, it came by 1/3 from the build-up of stocks of €1.16 billion. Thus, the increase in gross fixed capital formation was lower than that of total investment, at 9.7%, yet it was notably stronger than in the preceding year (+1.5%).

Almost all growth of fixed capital formation last year (96.5%) came from stronger investment in transport equipment, which expanded by 77.1%, after a fall of 12.1% a year earlier. Among the remaining categories of fixed capital, growth was recorded in machinery and agricultural products, by 4.7% and 0.8% respectively, from a contraction by 10.1% and growth by 24.8% in 2016. However, as their absolute size in 2016 was much smaller than that of transport equipment, the investment expansion in both categories contributed just 3.5% of the fixed capital growth. In contrast, the strongest contraction occurred in housing investment, which reached 8.7%, slightly weaker than in 2016 (-12.4%). Information technology - communication equipment and other construction followed with 10.6% and 9.3% respectively, compared to a contraction by 21.3% in the former and growth by 24.9% in the latter category in 2016.

In the external sector of the economy, exports expanded by 6.9% overall in 2017, overcompensating for their fall in 2016 by 1.9%. Following this increase, they reached €59.7 billion, their highest level on record.[29] In addition, they posted the largest percentage of GDP as well (31.9%). This increase came mainly from the stronger international demand for services from Greece, compared with the exports of goods, both in relative and absolute terms. In particular, the foreign demand for services from Greece strengthened by 8.7%, offsetting their similar decline a year earlier by 8.0%. The foreign demand for goods produced in Greece strengthened for the eight consecutive year, by 5.4%, slightly stronger than a year earlier (+3.7%). Following their new increase, they reached their all-time record, both in absolute terms (€32.9 billion) and as a percentage of GDP (17.6%).

Strong growth dominated in the other part of the external sector as well, as imports increased by 7.5%, notably stronger than a year earlier. The growth impetus came mainly from stronger domestic demand for goods, by 6.8%, against growth by 4.1% in 2016. The imports of services increased stronger, by 10.8%, yet as they have historically taken up a much lower share of total imports (16.5% in 2016), their contribution to the 2018 growth was much weaker than that of the

[29] According to data from 1960, from the AMECO database of DG ECFIN .

imports of goods. In addition, it offset the same extent decline from the year before. The higher growth of imports compared with exports resulted in a deterioration of the balance of the external sector in national accounting terms for the second consecutive year, by 14.3%, or €710 million, with an overall deficit of €5.7 billion or 3.0% of GDP.

As noted in previous IOBE bulletins, the extent of the increase in imports last year exceeded that of domestic demand (total private consumption expenditure and investment), as it reached €4.6 billion, against €3.06 billion, which implies that the elasticity of import demand to domestic demand is high (4.67). This highlights the strong preference of households and businesses for imported goods and services compared to domestic products, leading to substitution of the latter from the former. This trend is partly due to the relaxation of the capital controls in relation to imports, which allowed for covering accumulated private sector needs in imported products and services. However, recall that a similar trend was recorded in the previous year when the Greek economy recorded a mild GDP growth, in 2014, when this phenomenon was stronger (elasticity of demand 7.04).

On the supply side, the domestic gross value added increased by 1.3% in 2017, offsetting its fall by 1.2% in 2016. At the sector level, the number of sectors with year-on-year output growth was slightly higher than the number of sectors with year-on-year decline (five against four), while in one sector output essentially did not change. In particular, the strongest year-on-year increase in production in 2017 took place in Arts-Entertainment-Recreation, reaching 9.1%, compared to a contraction by 1.5 a year earlier. Industry followed with a growth of 6.2%, after growth of 5.5% in 2016, when it had recorded the strongest increase among the key sectors. Output increased by 4.0% in Professional – Scientific – Technical – Administrative Activities and by 1.9% in Wholesale – Retail Trade, Transport – Storage, Hotels – Restaurants, compared with a 2.2% and 6.0% contraction in the preceding year. The lowest activity growth rate was recorded in Agriculture-Forestry-Fishing, not exceeding 0.5%, against a fall by 8.4% in 2016, while practically no change in the production value added, for the second consecutive year, was recorded in Real Estate Activities (+0.1% in 2017, after -0.1% the year before).

Among the contracting sectors, Financial-Insurance Activities and Construction experienced the sharpest downturn in activity of around 7.2% and 7.0% respectively, after a notably weaker contraction in the former (-1.6%) and a sharp drop in the latter (-25,0%) in 2016. The value added of Information-Communication was 2.1% lower than in the preceding year, when it had also declined, by 3.0%. In Public Administration – Defence – Compulsory Social Security, output declined by 0.7%, slightly less than a year earlier (-1.3%).

The sharp weakening of the stimulating effects of Tourism on employment during the summer months in the final quarter of last year, coupled with the fact that the GDP growth in the period was mainly due to the particularly strong upward trend in a specific component of investment and is not derived from a broad, relatively balanced, positive trend in all GDP components, prevented a further decline of unemployment between October and December. Nevertheless, the unemployment rate was quite lower year on year, by 2.4 percentage points or 117,200 people, at 21.2%. The fall of unemployment came mainly, by ¾, from stronger employment by 2.4% (+87,700) year on year and secondarily from a decline of the labour force by 29,400 people. Overall in 2017, the average unemployment rate stood at 21.5%, two percentage points lower compared with the same period of the preceding year.

At the sector level, most jobs were created in certain sectors with strong output growth, as evident already from the previous quarter results. Employment increased last year in Wholesale – Retail Trade by 21,300 (+3.2%), Health Services – Social Protection (+13,200 people or +6.0%), Manufacturing (+10,600 or +3.0%) and Accommodation - Food Services (+9,500 or +2.8%). In contrast, the strongest employment contraction was recorded in Activities of Households as Employers (-5,100 or 12.7%), Real Estate (-1,700 or -30.2%) in Financial – Insurance Activities (-1,600 or -3.9%).

With regard to the price developments, the growth of the general consumer price index slowed further in the final quarter of 2017 to 0.8%, from 1.0% in the immediately preceding quarter. The further disinflation reflected the contraction of household consumption during that period, despite the opposing effects of the international petroleum prices. Overall 2017, the average CPI change was positive for the first time after four years of deflation, as it reached +1.1% on average, compared to a decline by 0.8% in 2016.

Among the categories of goods and services included in the CPI, the weak inflation in the final quarter of 2018 came once more from categories affected by the petroleum prices and the changes in indirect taxes in early 2017. In particular, the highest price growth rates were recorded in Alcoholic Beverages – Tobacco, Transportation, Hotels – Cafés – Restaurants and Communications, by 7.2%, 5.3% and 1.3% in the latter two categories. However, the prices in Housing, which in general move with changes in the petroleum prices, declined for the first time in the final quarter of last year, by 0.6%, despite the growth in petroleum prices over the same period. Possibly the trend change may came from the dissolution of the impact of the increase of the excise duty on heating oil a year earlier. In the remaining six CPI categories of goods and services, prices slightly increased only in Food – Non-Alcoholic Beverages (+0.4%) and Education Activities (+0.2%). In addition, note that Housing, Transport and Hotels-Cafés-Restaurants posted the largest decline in the rate of price change between the third and the fourth quarter, by 2.9, 0.5 and 1.1 percentage points respectively, despite the changes mentioned above that are conducive to keeping them at a high level. This development is considered indicative of weakening household consumption demand at the end of 2017.

In conclusion, given, firstly, the stagnation of domestic consumer spending last year overall and, secondly, the larger negative effect of the external sector, the increase of GDP in 2017 came exclusively from the growth in investment. However, as already noted, 1/3 of this came from accumulation of stocks, rather than from stronger fixed capital formation. In addition, most fixed capital investment came almost entirely (96.5%) from transport equipment. This combination of trends in investment activity, which resulted in its rise and subsequently in the GDP growth last year, is considered to have little chance to be repeated this year, with any category of fixed capital.

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
2005	229,932	0.8%	200,678	3.5%	48,462	-10.6%	48,499	3.4%	68,697	2.5%
2006	242,775	5.6%	207,998	3.6%	59,903	23.6%	50,972	5.1%	77,760	13.2%
2007	250,467	3.2%	216,978	4.3%	64,947	8.4%	56,384	10.6%	88,883	14.3%
2008	249,883	-0.2%	221,542	2.1%	58,983	-9.2%	58,484	3.7%	89,821	1.1%
2009	239,106	-4.3%	219,963	-0.7%	43,175	-26.8%	47,775	-18.3%	71,683	-20.2%
2010	226,047	-5.5%	207,094	-5.9%	38,648	-10.5%	49,963	4.6%	69,215	-3.4%
2011	205,319	-9.2%	188,127	-9.2%	30,223	-21.8%	49,998	0.1%	63,490	-8.3%
2012	190,289	-7.3%	173,952	-7.5%	22,977	-24.0%	50,579	1.2%	57,528	-9.4%
Q1 2013	46,006	-5.2%	41,628	-8.0%	5,884	6.3%	12,581	-1.5%	14,150	-3.0%
Q2 2013	46,042	-3.4%	41,732	-4.4%	5,023	-13.3%	12,884	4.5%	13,773	-3.3%
Q3 2013	46,246	-1.7%	42,193	-1.4%	5,383	1.7%	13,178	6.8%	14,381	0.1%
Q4 2013	45,967	-2.3%	42,243	0.0%	4,423	-30.5%	12,741	-3.0%	13,258	-7.5%
2013	184,261	-3.2%	167,796	-3.5%	20,712	-9.9%	51,385	1.6%	55,563	-3.4%
Q1 2014	46,350	0.7%	42,079	1.1%	4,858	-17.4%	13,287	5.6%	14,161	0.1%
Q2 2014	46,269	0.5%	42,051	0.8%	5,494	9.4%	13,471	4.6%	15,005	8.9%
Q3 2014	46,839	1.3%	42,160	-0.1%	6,013	11.7%	14,365	9.0%	15,173	5.5%
Q4 2014	46,227	0.6%	42,013	-0.5%	5,707	29.0%	14,229	11.7%	15,508	17.0%
2014	185,684	0.8%	168,303	0.3%	22,073	6.6%	55,352	7.7%	59,846	7.7%
Q1 2015	46,373	0.0%	42,274	0.5%	4,782	-1.6%	14,989	12.8%	16,394	15.8%
Q2 2015	46,463	0.4%	42,413	0.9%	4,344	-20.9%	15,041	11.7%	15,692	4.6%
Q3 2015	45,724	-2.4%	41,275	-2.1%	5,095	-15.3%	13,197	-8.1%	13,021	-14.2%
Q4 2015	46,478	0.5%	42,063	0.1%	5,996	5.1%	13,711	-3.6%	14,981	-3.4%
2015*	185,038	-0.3%	168,025	-0.2%	20,216	-8.4%	56,937	2.9%	60,089	0.4%
Q1 2016	46,191	-0.4%	41,728	-1.3%	5,502	15.1%	13,560	-9.5%	14,843	-9.5%
Q2 2016	46,026	-0.9%	41,661	-1.8%	6,117	40.8%	13,499	-10.3%	15,391	-1.9%
Q3 2016	46,260	1.2%	42,195	2.2%	5,052	-0.8%	14,416	9.2%	14,844	14.0%
Q4 2016	46,080	-0.9%	41,835	-0.5%	5,021	-16.3%	14,385	4.9%	15,761	5.2%
2016*	184,557	-0.3%	167,419	-0.4%	21,691	7.3%	55,860	-1.9%	60,838	1.2%
Q1 2017	46,375	0.4%	41,888	0.4%	7,113	29.3%	14,263	5.2%	16,488	11.1%
Q2 2017	46,721	1.5%	41,836	0.4%	6,051	-1.1%	14,803	9.7%	16,130	4.8%
Q3 2017	46,908	1.4%	41,809	-0.9%	5,604	10.9%	15,509	7.6%	16,259	9.5%
Q4 2017	46,953	1.9%	41,695	-0.3%	6,158	22.6%	15153	5.3%	16,540	4.9%
2017*	186,957	1.3%	167,228	-0.1%	24,925	14.9%	59728	6.9%	65,417	7.5%

* Provisional data

Source: Quarterly National Accounts, March 2018, ELSTAT

Therefore, in order to maintain and to strengthen the recovery of the Greek economy this year, the composition of the components that will support it needs to change. Taking into account the divestment taking part in Greece since 2011, a continuation of last year's growth of investment and its acceleration, with enlargement of the fixed capital categories on which it rests, can preserve and enhance last year's growth rate and the production capacity of the Greek economy. That said, if this comes largely from investment in machinery, information technology and communication equipment, it would to a deterioration in the external balance. However, as a large part of the above categories of investment in machinery and equipment refers to non-domestically produced goods, in order for the businesses to align with international trends and prospects in their production, a deterioration of the external balance for this purpose is not considered undesirable.

Besides, this is a precondition for its reversal in the future, when businesses will have streamlined their production processes and enhanced their productivity.

A rise in exports, with a higher rate than last year, could counterbalance the negative effect of an increase in imports for capital goods. At present, the economic environment in the Euro area and more widely in the EU, the major export destinations of Greece, encourages this development. The escalating tensions in the South-eastern Mediterranean are expected, as in the recent past, to significantly hurt the attractiveness of the countries in the region as tourist destinations. In contrast, the protective trade policy measures by the US are expected to affect Greece's exports mainly indirectly, through their effects on exports from third countries. Nevertheless, this negative impact is currently difficult to quantify. Moreover, it is not clear whether regulatory interventions in this direction have been completed. Subsequently, our macroeconomic projections are presented in detail.

Medium-term Outlook

- Slightly stronger growth of the Greek economy in 2018, at 2.1%
- Key drivers of GDP growth - the outcome and the speed of completion of the fourth review, of the negotiations for debt relief measures and of the framework of relations in the post-programme period
- GDP growth coming mainly from growth in exports (+8.0%) and investment (+16.0%)
- Further deterioration of the external balance (om national accounting base), due to strengthening of the domestic demand for imports from higher consumption and stronger investment activity

As pointed out in the previous quarterly report on the Greek economy, the much faster conclusion of the third review of the current programme, compared to previous reviews, prevented the escalation of uncertainty that usually accompanies this process. In addition, while the review was approaching its conclusion, a seven-year bond was issued by the Hellenic Republic at the beginning of February, with bids outweighing the capital raising target (approximately €7 billion compared with €3 billion) and an yield at 3.5%, substantially lower than the five-year bond issued last July (4.625%). This pointed out to signs of confidence in the implementation of the agreed policies and the attainment of the 2017 fiscal targets. However, the first of the associated with this review subtranches of the loan from the European Stability Mechanism, amounting to €5.7 billion, was disbursed at the end of March. In addition, the next subtranche of €1 billion, which will be used exclusively for the repayment of outstanding arrears of the public sector, will be made available after 1 May, following a new decision by the ESM, as previously €500 million from the previous subtranche should be paid for the same purpose, together with the respective national participation (half a euro for every euro of the loan for arrear repayment).

Although the third review was completed in a short time, since then the climate in the Greek economy has not followed a trend of steady or uninterrupted improvement. In March, the Economic Sentiment Index of the European Commission for Greece, which is compiled by IOBE, declined considerably, to 99.8 from 104.3 points, yet it remained higher year on year (93.6 points). Admittedly, its fall took place after a quarter of a strong rise by 10 points, yet the decline occurred at a time when a further boost of the sentiment was considered more likely. The expectations indicators worsened in all four key sectors, stronger in Construction and Industry, with Services being the only sector with a small drop. The consumer confidence index for households remained unchanged from the previous month, when it had subsided slightly. The positive trend turned negative in March in the Purchasing Managers Index, compiled by Markit, as well. That said, this occurred after a month, when the index stood at its highest level in at least a decade. In addition, its value remains higher than 50, at 55 points, indicating further growth in industry.

The halt, at least temporarily, of the improvement of the expectations and the assessments of the economic units for the trends in economic activity may be due to the anticipated start of the next and final review, which is clearly more critical than the previous one. Apart from the implementation of the prior actions, a significant part of the framework of Greece's relationship with the official creditors following the completion of the third programme will take shape during the final review. In addition, negotiations will start for the finalisation of the medium-term measures to relieve debt servicing which will apply immediately upon the completion of the program, and for interventions along this line that can be implemented over the long term. Understandably, the decisions around these issues are particularly critical, as they will determine the ability of the Greek State to refinance the debt through the capital markets in a sustainable manner, but also more broadly, the access of the private sector to these markets. Thus, this puts a part of the business sector, mainly the larger enterprises, that can benefit from positive developments in these issues in a wait-and-see mode.

More broadly, apart from the forthcoming review and the public debt negotiations, the fact that there is a lack of a steady, clearly perceptible growth momentum in parts of the domestic production hampers a further improvement in business and consumer expectations or at least their stabilisation at a relatively high level, transcending the range of climate boost created after a successful review. There do not seem to be any sectors that stimulate economic activity without an interruption. The majority of the observed positive trends in industries prove to be only transient, with the steadily growing Tourism sector as the major exception in recent years. This is partly due to the fact that a comprehensive medium-term production recovery plan for the domestic economy has not yet been prepared, let alone implemented, as the strategic planning on economic matters so far has mainly covered public finances.

The outcome of the new capital adequacy assessment of the banking system will affect the economic developments over the course of this year and in the medium term. The assessment will provide indications on the progress on major issues for the banks, such as the management of non-performing loans and the execution of electronic auctions. These issues affect the decisions of a significant part of the enterprises and the households. If capital needs emerge from the stress tests that could be met with unspent funds from the third loan or by issuing debt securities, there would not be any sudden changes in the bank financing of the Greek economy. In addition, the credit rating agencies might improve the credit rating of the banking institutions, facilitating their access to international capital markets, which could allow for a small credit extension, especially to businesses.

In the external sector of the Greek economy, the continued high growth in the current year in the EU, a key destination of Greek exports, at a rate similar to that recorded last year, will be the main factor that will lead to their significant further growth. This trend may be mitigated to a small extent by protectionist trade policy measures in the US on imported steel and aluminium products, in case that the temporary exclusion granted to the EU is not extended, as the exports of these products from Greece are low, amounting to €130 million in 2017 or 0.4% of exports. The impact of these specific measures will mainly be indirect, through their effects on exports from third countries, which in turn will affect their demand for Greek exports.

Therefore, as noted in the previous report, completion of the fourth review in a similar way as the previous one, and reaching an agreement on medium-term relief measures of public debt without lengthy negotiations are required in order to maintain the relatively less uncertain economic environment, with all the challenges that arise from this. The outcome of the stress test that does not indicate new, significant capital shortfalls and lags from the targets for non-performing loans will contribute to maintaining an economic climate conducive to growth at the same or faster rate than last year. The impact of completing the negotiations without long delays and the assessment of capital adequacy in the banking system without results that could be hard to manage will reflect mainly on investment, but also in consumption and subsequently on imports.

The aforementioned conditions and trends are the basic assumptions underpinning the IOBE macroeconomic forecasts for the Greek economy and are summarised in Box 3.1.

Box 3.1

Assumptions of the central macroeconomic scenario of IOBE

- Successful completion of the fourth review of the current financial assistance programme
- Determination – implementation of medium-term debt relief measures and conclusion of an agreement on the framework of the relations between Greece and the lenders after the end of the programme, without prolonged procedures
- Improved creditworthiness and debt refinancing through bond issues
- Coverage of any capital needs of the banks resulting from the upcoming ECB stress test
- Accelerating growth in the EU and stronger international trade
- Finalisation of licensing – start of investment in privatisations

In greater detail, some of the most important negotiations in the period of economic adjustment programmes in Greece are expected to take place in the coming months. These negotiations will concern the medium and long-term debt relief measures, the accompanying conditions for their implementation and relations with the official sector lenders in the period following the completion of the current programme. At present, the consultations are not officially launched, as the completion of the fourth review takes precedence. Despite the completion of the third review in a short period of time, the importance and the complexity of the issues to settle from these negotiations are expected to result in their relatively long duration, weighing, at least over that period, on the economic climate. Regardless of the agreement on the post-programme period the box below outlines the regular supervisory process of the European Commission, beyond the excessive deficit procedure, for all the countries of the European Union. Greece has already been included in this, but it was exempt of any obligations, owing to the current programme.

Box 3.2

Monitoring mechanism for macroeconomic imbalances in the European Union

Alongside the fiscal rules of the Stability and Growth Pact, the European Commission has adopted a Macroeconomic Imbalances Procedure as part of the European semester. This procedure includes the publication in November of Alert Mechanism Report, which assesses the macroeconomic situation of the EU member states along 14 quantitative criteria. If based on these criteria there is a need for further investigation of the situation in any country, the Commission carries out an in–depth review. As a result, a country can be found to be in a state of no imbalances, with imbalances, with excessive imbalances or with excessive imbalances and corrective action. If the Commission considers that a member state has excessive imbalances, then the Council issues recommendations that define a set of policy measures and time limits for submitting a corrective action plan. If the draft is considered adequate, it receives approval by the Council. The member state submits progress reports regularly to the Council and the Commission. In the event that a Member State repeatedly fails to present adequate corrective plan or to implement it, it may be penalised. In practice, the application of the supervisory mechanism has so far remained with an advisory nature.

The latest performance of Greece and selected Euro area members along the criteria used in the AMR, and the performance of Greece at the beginning of the economic adjustment programmes are presented in Table 3.2. Their assessment suggests that Greece has made considerable progress between 2010 and 2016, as after the latest review it met 10 of the 14 criteria, compared to only 6 of 14 in 2010. That said, it is well out of reach on the remaining four criteria, namely the stock of public debt, the overall unemployment rate, the net international investment position, and the change in export market shares. However, other countries of the "South" of the Euro area, such as Portugal, Spain and Cyprus, still show significant imbalances along these criteria and particularly with respect to debt, public and private, unemployment and the net investment position. In contrast, the countries of the "North" of the Euro area, such as Germany and the Netherlands, exhibited excessive surpluses in the external balance.

Overall, despite the favourable international economic environment, there are still significant macroeconomic imbalances within the Euro area. The southern countries need to focus on policies to boost employment and reduce debt, while the northern countries should take measures to stimulate domestic demand.
In relation to the accuracy and the completeness of the agreed 14 criteria, there is room for improvement as regards (a) more symmetrical definition of imbalances and (b) the trends that are assessed by the criteria.

With respect to the symmetry of the criteria, it may be appropriate to add thresholds for acceptable credit contraction, fall in housing prices and contraction of the liabilities of the financial system. As regards additional trends that could be monitored, the output gap of the economy and indicators of banking asset quality could be indicatively mentioned. These indicators monitor aspects of policy coordination of policies within the Euro area that is just as useful as those that are being monitored currently.

Table 3.2

Performance in the Macroeconomic Imbalance Procedure Scoreboard, 2016

Indicator	Balance threshold	Greece 2010	Greece	PRT	ESP	CYP	NLD	DEU
Current account, % of GDP, 3-year moving average	[-4% +6%]	**-12.9**	-1.0	0.3	1.4	-3.6	**8.6**	**8.1**
Net international investment position,% of GDP	> -35%	**-99**	**-139.4**	**-104.7**	**-83.9**	**-127.8**	67.7	54.4
Real effective exchange rate, 3-year percentage change	[-5% +5%]	2.8	-3.9	-1.8	-4.3	-6.8	-2.2	-2.7
Export market shares, % of world exports, 5-year percentage change	> -6%	**-14.2**	**-19.0**	5.8	2.2	-3.0	0.1	2.6
Nominal unit labour costs, 3-year percentage change	< 9%	**14**	-3.3	0.8	0.4	-6.4	-1.1	5.2
Housing prices, y-o-y change	< 6%	-8.1	-2.0	**6.1**	4.7	1.6	4.4	5.4
Private sector credit flow, % of GDP	< 14%	5.5	-1.7	-2.2	-1.1	10.2	1.5	3.8
Private sector debt, % of GDP	< 133%	128.1	124.7	**171.1**	**146.7**	**342.8**	**221.5**	99.3
Public debt, % of GDP	< 60%	**146.2**	**180.8**	**130.1**	**99.0**	**107.1**	**61.8**	**68.1**
Unemployment rate, 3 year moving average	< 10%	**10**	**25.0**	**12.6**	**22.1**	**14.7**	6.8	4.6
Total financial sector liabilities, y-o-y change	< 16,5%	8.3	-16.6	-0.2	0.8	0.7	5.3	5.2
Activity rate, 3 year change in p.p.	> -0,2	1.3	0.7	0.7	-0.1	**-0.2**	0.3	0.3
Long-term unemployment rate, 3-year change in p.p.	< 0,5	1.5	-1.5	-3.1	-3.5	-0.3	0.0	-0.6
Youth unemployment rate, 3-year change in p.p.	< 2,0	10.3	-11.0	-9.9	-11.1	-9.8	-2.4	-0.7

Note: Besides the performance of Greece in 2010 and 2016, the 2016 performance of Portugal (PRT), Spain (ESP), Cyprus (CYP) and Germany (DEU) is also indicatively presented. The values for which a country does not meet the threshold are in red.

Source: European Commission, November 2017

The implementation of the medium-term measures stated in the decisions of the Eurogroup on 25 May 2016 and 15 June 2017, with so far unspecified quantitative parameters (restart of the return of the profits of central banks from ANFAs and SMPs to Greece, reduction of the interest spread for a specific tranche of the second programme, further extension of the grace period and maturity of all of its bonds, settlement of payment obligations arising from the loan agreement for the third programme) is expected to lower the borrowing needs to refinance public debt for a number of years, without reducing the size of debt, in absolute terms or as a percentage of GDP. The management of unallocated funds from the current loan agreement creates opportunities for reducing the stock of government debt, e.g. by buying back Greek sovereign bonds, which will be explored in the upcoming negotiations.

Once the medium-term public-debt measures are finalised, including possible utilisation of unallocated funds of the third programme, the uncertainty about its viability will weaken, which will be reflected in the decline in the interest rates on Greek bonds. The reductions will depend on the intensity of the effect of the measures taken, which will determine the possibility of refinancing debt from the international capital markets. A similar impact is expected on the yields of the banks and the remaining private sector that has access to the capital markets.

The negotiations on the debt and the agreement for the post-programme period will be preceded by the fourth review, which will begin in the coming weeks. Currently, a small portion of the 88 prior actions for its successful completion have been implemented, including reforms in sectors and licensing, modernisation of public administration etc. (12 completed actions). The key deliverables do not include any fiscal measures for the current year. However, in the compliance report for the previous review, it was envisaged that if the IMF, in cooperation with the European institutions and the Greek authorities, consider that such measures are needed in order to achieve a primary surplus of 3.5% GDP in 2019, then the implementation of the personal income tax measures contained in law No. 4472/2017 (reduction of the tax-free income threshold) will be brought earlier to that year. In addition, as revealed further down, new interventions might be sought if there are significant deviations from the targets in General Government sectors. In any case, given the low progress achieved so far in the implementation of the key deliverables, delays in the completion of the review cannot be ruled out.

Although there are no plans for the next review to impose new fiscal interventions in the current year, measures set in the Medium-Term Fiscal Strategy (MTFS) 2018-2021 (Law N. 4472/2017) were implemented from the beginning of 2018. The increase of VAT in the Northeast Aegean and the Dodecanese Islands,[30] the imposition of a booking tax in hotels, rented rooms and apartments, the abolition of the 10% tax discount from medical expenses and the 1.5% discount on withheld tax during the clearance of tax returns of employees and pensioners, are the most important of these measures. In addition, existing direct taxes were raised or expanded, such as the increase of social security contributions of self-employed persons, as they are now calculated on gross earnings, and the extension of the contribution of shipping companies for one more year. New tax was imposed from 1/1/2018 on income from short-term leases of real estate. Capital gains tax on property sales, based on the difference between the purchase and the sale price, was planned for this year, yet its application was suspended. Nevertheless, projected in the budget revenues from the unified property tax ENFIA, and other taxes and fees on real estate, might change from the upcoming update of the real estate assessed values.

The new measures will exert pressures mainly on the disposable income of households. According to the explanatory report of the 2018 State Budget, the revenue from personal income tax this

[30] Lesbos, Chios, Samos, Kos and Leros are excluded from the abolition of the VAT discount until 30/06/2018 because of the refugee flows.

year is projected to reach €456 million higher than last year. Total receipts of direct taxes according to the State budget, which includes property taxes and direct taxes from previous fiscal years, will increase by €478 million compared with 2017. Already in the first two months of this year, the receipts from individuals increased by €157 million year on year. The receipts from taxes on real estate are marginally higher (+€10 million to €427 million). By contrast, the revenue from direct taxation of legal entities slightly decreased in the current period (-€6 million, to €23 million.). Nevertheless, their retreat is compatible with the forecast of their reduction in the State budget for the whole of this year by €111 million. The decline was due to significantly higher advance tax which was collected in the previous year and is not expected to be of similar volume in the current year, probably because of the reduction of the corresponding tax base, as many freelancers terminated their activity, at least under this particular work status. Overall, total receipts from direct taxes increased by €199 million year on year in the first two months of this year.

Regarding the revenues from indirect taxation, the revenues from VAT rose in the first quarter of this year by €88 million, exceeding the prediction for the annual increase in the budget (+€78 million). The revenues from consumption taxes increased year on year by €70 million, a change that is compatible with the prediction for 2018 overall (+€439 million). The higher consumption tax receipts came primarily from tobacco products, which expanded by €89 million, or 27.0%, following their intense retreat last year due to stockpiling in 2016. The above trends in direct and indirect taxes are a first indication of the expected from the previous quarterly reports pressures in 2018 from changes in taxation on the disposable income of households. However, it is likely that the very good course of VAT revenues at the beginning of 2018 is partly due to stronger consumer demand coming from the considerably higher year on year social dividend.

As revealed in the previous quarterly report of IOBE, the bulk of the aspired improvement in the primary balance of the General Government this year will come from one institution category and namely the Social Security Funds (SSF). The surplus in the 2018 budget is projected to reach around €1.8 billion, €700 million higher than last year. The major improvement will come primarily through further expenditure restraint, from lower pension payments, their non-indexation as legislated since 2018, and cuts in other expenses. The SSF revenues are expected to expand, inter alia, from higher contributions from professionals, as they will now be included in their income. In the first two months of the year, the consolidated cash balance of the SSFs remains in surplus, yet it is lower year on year by €78 million, at €533 million. If during the forthcoming review there is a significant deviation in the SSF balance in 2018 from the corresponding target, other fiscal interventions, in other areas of the General Government, as well as in the revenue and the expenditure of the State Budget might be sought out to cover the gap.

In contrast to the effects of increased direct and indirect taxation on economic activity, the Public Investment Programme (PIP) is anticipated to provide greater stimulus this year. This expectation is based on the significant underperformance of PIP in the previous year, when the grants reached €5.95 billion, their lowest level since at least 2000. The expenditure budget for the current year is the same as last year, at €6.75 billion, so the final amount is anticipated to be higher than last year. In addition, following the large delay in the implementation of PIP in 2017, its execution is expected to be more front-loaded this year, thus its impetus on investment and jobs is anticipated to be stronger than in the previous year. Nevertheless, in the first two months of this year, the PIP expenditure was marginally greater than the very low level recorded a year ago, at only €187 million from €174 million, noticeably short of the corresponding target (€385 million). However, the withdrawal of capital from the EU funds has significantly improved since last year, at €675 million, from €358 million, exceeding the corresponding target (€458 million), which implies that PIP might accelerate in the coming months.

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 (e.g. the Hellinikon area, Piraeus Port Authority, the regional airports) are still 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, the tender for the acquisition of 5% of the common shares of the Hellenic Telecommunications Organisation (OTE) was published. Expression of interest was submitted for Egnatia Road, Alimos Marina, Chios Marina and the ROSCO S.A. 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 one tender has been completed, while the tenders scheduled for completion this year are many more than those for which either expression of interest has been submitted or invitation for submission has been published (14). Taking into account 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).

Passing to other factors and developments that will affect the liquidity of companies and investments, as mentioned above, part of the first, great subtranche of the loan that is connected on the third review, amounting to €500 million, is earmarked for the payment of state arrears, while the second subtranche of €1 billion is exclusively provided for this purpose and will be paid upon once the previous €500 million are used accordingly. Taking for granted that the Greek Government will honour its commitment towards its European partners and will pay the national contribution to cover overdue arrears, then the disbursement of both subtranches will be available for paying arrear to the amount of €2.25 billion. With this payment and if new arrears are not created in the meantime, most of the outstanding arrears will be covered, as at the end of January this year they reached €3.14 billion, including outstanding tax refunds. As long as these payments take place without delays, they will be particularly useful for boosting the liquidity of businesses, taking also into account that the provision of loans from the banking system will not change significantly overall in 2018, as shown further down in this subsection.

Regarding the conditions and developments in the banking system, as mentioned repeatedly in the IOBE bulletins, the new stress test from the ECB is the most decisive event for the credit policy that will be followed this year and in the coming years. This will be also affected by the outcome of the sales and settlement of non-performing loans, and the property auctions. According to the latest figures announced by the Bank of Greece, the non-performing exposures (NPEs) declined quarter on quarter by 4.8% in the final quarter of 2017, at their highest rate since the beginning of the crisis, and amounted to €95.7 billion, or 43.1% of total exposures. This level is approximately €13.0 billion or 12% lower than their peak level recorded in March 2016. Recall that the NPE target, agreed by the banks and the Single Supervisory Mechanism (SSM) of the ECB, is that the NPEs should cumulatively decline by 40% by the end of 2019 from their March 2016 peak, i.e. to €65.2 billion. Therefore, even though progress is being made in their reduction, the contraction rate must be kept high in 2018 and 2019 in order to hit the target.

As the announcement of the results of the stress test is approaching, the expectations for their outcome are positive. However, in case that new capital needs will arise, unused funds of the financial assistance programme, intended for the banking system, totalling approximately €10 billion, can be approved for this purpose. In addition, following the successful issues of covered bonds by the four largest banks, totalling €2.25 billion, with relatively low yields (2.2-3%) and with the participation of foreign investors, any additional capital needs are fairly likely to be covered in part or in full with new issues, with lower returns. The issue of new bonds by the Greek Government in February, with a lower yield than the previous bond issued in July 2017 (3.5% against 4.625%), is conducive to such a development.

Regardless of how any capital needs of the banks, arising from the upcoming stress test, are going to be covered, the banks are not expected to alter their credit policy and engage in credit expansion, at least until the announcement of the test's outcome and, if some banks need recapitalisation, until its completion. This assessment is based on the trend in the rate of credit contraction to the private sector, which has steadied since last August and until January, at the range of 0.8-1.0%.[31] Among the main borrower categories, the outstanding balance of loans has declined mainly to households, by about 2.3-2.4% since last July, while it marginally declined between November 2017 and February 2018 among the sole proprietors, by 0.1-0.3%, after a period of no change between July and October last year. Credit expanded only to non-financial corporations, at a marginal rate, by 0.2% on average during the same time period.

A steady return of deposits can help change the trend of credit supply by the banks to the private sector, following the completion of the stress testing process. Between May and December 2017, the outstanding balance of deposits of the private sector (non-financial corporations and households, from Greece and the Eurozone) expanded by €7.8 billion, to reach €124.6 billion, their highest level since June 2015. Most of the growth in absolute terms, by +€4.8 billion or +4.8%, came from the households, while the non-financial corporations contributed to this trend with €3.0 billion, corresponding to an increase of their deposits by 17.3%. In January 2018, although quite quickly it became evident that the third review was going to have a positive outcome, the private sector deposits fell to €122.5 billion, remaining at this level in the following month as well, according to the latest data. Their fall is mainly due to the reduction of deposits of businesses, by €1.4 billion. However, experience shows that corporate deposits tend to decline at the beginning of the year. This is probably caused by their usual increase in the end of the previous year, e.g. for the purposes of the annual closure of their balance sheets. The gradual increase of deposits is likely to continue for some time in the third quarter, after the conclusion of the fourth review and mainly from the implementation of medium-term public debt relief measures and the conclusion of the agreement on the post-programme period.

Having said that, despite their observed growth, the deposits remain at a much lower level than at the end of 2014, when their last major slide began. Therefore, their growth needs to continue and strengthen this year, in order for the banks to be able to gradually alter the flow of credit to the private sector of the economy, after the stress test and fortification of their capital adequacy. The developments around the settling of non-performing loans and the property auctions will affect,

[31] Rate of change of outstanding balance of loans, excluding loan write-offs, re-evaluation of securities and foreign exchange differences. Source: Bank of Greece

apart from the bank assets, the property of businesses and households and therefore their saving decisions.

The anticipated continuation of the mild credit contraction at least in the first six months of the current year will push businesses to search for alternative ways of funding. In addition to the opportunities from the expected acceleration of the PIP implementation, which mainly concerns the SMEs, the large companies, especially those listed on the stock markets, will seek access to financing through the capital markets, in Greece and abroad, at lower yields than the bank interest rates, as anticipated in previous IOBE reports. Such moves last year, with the issuance of debt securities by many enterprises, were considered successful, given the achieved yields. There were no new issues during the third review, perhaps because of stronger uncertainty in the investment community that this process causes. However, after its successful conclusion and the bond issue by the Hellenic Republic some companies considered that the conditions for new bond issues were favourable and proceeded to make such issues. The construction company GEK TERNA, which issued a bond at the end of last March, with a total amount of €120 million and a yield of 3.95%, provides a characteristic example. The starting shortly next review and the consultations on debt relief measures are expected to escalate, at least slightly, the uncertainty around the Greek economy, preventing many new issues as long as these processes last.

The export businesses experienced a boost of liquidity, activity and employment last year, because of strengthening growth in the Euro area, which is the major destination of Greek exports, and from the acceleration of world trade. These trends will carry over to 2018, according to the latest reports of international organisations, and even with greater intensity than anticipated in early 2018, despite the effects of protectionist trade policy measures in the US and China.[32] That said, the demand for imports is growing strongly, as a result of the accumulation of needs of businesses and households from the capital controls, but also from the growth of income, both on the supply and the demand side. This effect will hamper the improvement of the external balance of goods and services.

The latest data from the Bank of Greece on the exports of goods and services concern the first two months of 2018, which is not sufficient in order to draw reliable conclusion about the trend in the two components of the external sector of the Greek economy and its balance. In particular, the exports of goods and services at current prices rose in January and February this year by 13.4% or €855.7 million year on year. Their expansion came mainly from the exports of goods (+€700.4 million or +16.9%) and to a much lesser extent from higher exports of services (+€155.3 million or +6.8%). Most of the rise of the exports of goods, more than 67%, came from growth of exports except fuel and ships, by 16.7%. The remaining growth of the exports of goods came from fuel exports, which increased by 18.5%, as the exports of ships declined (-5.0%). Regarding the exports of services, almost all of their growth (92.0%) came from stronger receipts from transport services by 11.2%. The remaining growth came from travel receipts, which expanded by 4.2%.

On the side of imports, the percentage rise was slightly in January and February, at 14.0% or €1.25 billion. It mainly came from higher imports of goods, also by 14.0% or €1.01 billion, as the imports of goods except fuels and ships contributed most (61.5%) to this growth. Almost all of the

[32] World Economic Outlook, IMF, April 2018`

remaining growth (37.2%) came from the imports of fuels, which increased at about the same rate as the exports of fuels (19.1%). The payments for services increased by 14.4%, or €236.4 million over the same period, concerning mainly transport (60.7% of the increase in imports of services from their growth by 18.7%) and less in other services (23.1% share) and travel services (16.2% contribution). The greater in absolute and relative terms, growth of imports compared to exports, resulted in a widening of the deficit in the external balance for the second consecutive year, by 15.8%, from €2.47 billion to €2.86 billion, after growth by 13.2% in the preceding year.

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of Brent oil kept growing throughout the second half of 2017 and until the end of last January, recording an overall growth over that time of about 45%, exceeding €69 per barrel. The OPEC decision at the end of last November to extend the restraint on oil production for the entirety of the current year and the harsher than expected winter in the northern hemisphere, particularly in the US, fuelled this growth. Since then and until mid-February, the price of Brent showed a mild correction, returning to the area of $62. However, in the last two months, it has begun climbing again, overcoming $72 in early April, for the first time since November 2014. The almost continuous uptrend came from steadily high income growth, both in developed and emerging economies. The latest macroeconomic forecasts from international organisations for 2018 (IMF) are more optimistic for the GDP growth rate in the major economies from early this year, while the expectations about the developing economies as a group have not changed. Therefore, there are conditions in the world economy that will continue to fuel the energy demand growth and thus pushing the oil prices higher. That said, their rise from the end of 2017 until mid-April, was sustained, yet it was relatively mild in intensity, in the region of 9%. As a result, the average price of Brent oil in 2018 is expected to be higher than last year by about 26% at €68

The steadily higher year on year exchange rate of the euro against the dollar continues to moderate the impact of the significant 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, it has stopped and since then it has fluctuated in the region of 1.23 – 1.24. In the first four months of 2018 it was approximately 17.5% higher than a year earlier. The arrest of the exchange rate appreciation is estimated to be due to the announcement and implementation of fiscal measures in the US, after a long gestation period. The tax cuts and tax breaks for businesses have significantly improved expectations in the business community and investors about the effects on their financial results, leading to a transfer of capital to the US. That said, the effectiveness of protectionist trade policy measures on the international competitiveness of the American products is considered uncertain, with a deterring impact on capital outflows from the Euro area. Besides, the clearly higher than expected growth in 2017, which continues this year, improved the profitability of its businesses, enhancing the attractiveness of placements in their capital. Taking this into account, it is quite probable that the euro-dollar exchange rate will keep on growing at a low rate in the short term. As the appreciation of the euro since the beginning of this year is milder year on year than the corresponding rise in the price of oil, this mitigates the impact of rising oil prices. However, it is not hurting strongly the international competitiveness of the products and services in the Euro area, with a positive effect on their demand.

As to the latest developments in domestic economic activity and in short-term economic indicators, the trends in early 2018 vary. In some indicators, the growth from late 2017 has turned to contraction (industrial production, receipts from foreign visitors in tourism), in other indicators the opposite holds (volume of retail trade), while elsewhere the rise is accelerating (building activity). However, the available for the current year data cover a small time period, therefore they do not provide robust indication on the trends in the corresponding figures. In detail, based on the latest data, the increase in industrial production of 1.6% in the final quarter of 2017 turned to contraction in the first two months of 2018, by 2.0%, in contrast to strong growth a year earlier, by 10.5%. The trend shift was recorded in three of the four industry sectors, with more pronounced change in Electricity (-6.1% from +31.7%) and Mining-Quarrying (-12.7% from +9.4%). In Water Supply, output declined by 4.0%, against a marginal growth by 0.5% in the first two months of the previous year. In Manufacturing, production remained essentially unchanged (+0.2%), compared to an expansion by 5.7% in early 2017. The latest available data on construction for January 2018 show that the number of building permits increased by 18.0%, while the surface area and volume expanded even stronger, by 45.2% and 45.8% respectively. These rates of change do not differ essentially from those recorded in the fourth quarter of 2017 (+7.4%, +29.9% and +40.0%), strengthening compared to the third quarter, which indicates a rekindling of the building activity. The first data on the tourist sector for this year, which are limited to January, reflect a small decline of receipts, by 3.0%, to €157.8 million, despite the rise in foreign visitors by 16.0% to about 604,000 people.

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 1.5% in January, following its marginal decline by 0.5% in the final quarter of last year. As to consumer price trends, which are indications of the household consumption propensities, their stability in the first quarter, in contrast to the positive rate of change at the same period last year (1.4%), is considered to be due to the significant weakening of the effect of indirect taxes and the low domestic demand. Hotels-Cafés-Restaurants is the only category of products and services out of the four categories with an increase in prices in the first quarter (+1.2%), which can be associated with recent changes in indirect taxes (VAT in the Northeast Aegean and the Dodecanese Islands, levy of booking tax in hotels, rooms to let and apartments). The largest price rise among the categories was recorded in this period in Alcoholic Beverages – Tobacco, by 2.6%, probably due to delayed pass-through on prices from last year's increase in indirect taxes on tobacco. The next largest increase, in Transport, came from the significant rise in the price of oil, which, however, is much milder than a year ago, when the excise duties on fuel had also increased (+2.0%, compared to +6.7% a year earlier). In Housing, the other category of services with prices affected by trends in the petroleum prices, the prices receded at the beginning of this year by 1.6%, probably because of changes in particular electricity charges, i.e. reduction of the regulatory charges to fund renewable energy from 01/01/2018 and discounts in the competitive element of the tariffs exceeded increases in the public service obligation charges. However, a year ago the Housing prices were growing at a rate of 3.8%. Finally, the increase in Education prices were only marginal, by 0.2%. The price drop in the remaining five categories of goods and services that compose the domestic consumer price index is considered to reflect sluggish household consumption demand.

Taking into account the above trends in economic indicators, and the anticipated developments (mainly those linked to the upcoming review of the economic adjustment programme, the domestic banking sector and the Eurozone growth) for the forecasting of the GDP components and other macroeconomic indicators, household consumption is anticipated to expand in the current year. The further expansion of exports in the current year, in both goods and services, and the upturn in construction activity, will keep unemployment on a downward path, raising the total household disposable income and consumption spending. Furthermore, the slight price increase will reduce the purchasing power of wages and transfers less than in 2017. The payment of the social dividend, which was larger year on year, is also considered to have contributed to the mild strengthening of consumer spending late last year and in early 2018. In contrast, the new fiscal measures, especially the removal of the 1.5% discount on advance tax payment at the clearance of tax returns, will act as an impediment to a greater increase of private consumption this year. Also, regardless of the outcome of the stress test, the credit to households is anticipated to continue to decline, albeit to a lesser extent compared to the second half of last year. Under the influence of these factors, private sector consumption is considered most likely to continue to grow this year, at a rate slightly higher than last year, in the region of 1.0%.

Regarding the trend of public consumption in the current year, as the fiscal consolidation will continue mainly through higher revenue from direct and indirect taxes, and social security contributions, according to the fiscal measures for 2018, public consumption would most likely increase slightly. The data on budget execution at the General Government level (consolidated basis) for January and February provide some early indications for expansion of consumption expenditure of the State. In particular, the expenditure for salaries (current prices), rose in this period by 6.7%, from €2.56 billion last year to €2.73 billion. The expenditure for the procurement of products and services increased by 18.2%, reaching €468 million. Thus, the assessment that the fiscal policy implemented in 2018 is conducive to an expansion of public consumption in 2018, at a rate of about 1.5%, still holds.

The factors that affect investment activity will exert pressure in varying directions. The factors that will have a restraining effect include mainly a) sharpening of the uncertainty from the upcoming review and the negotiations for the debt relief measures and the framework for relations with the official sector lenders in the post-programme period b) the stress test of the banks and c) the anticipation by banks and borrowers of the outcome of the management of non-performing bank loans process. At least until the announcement of the stress test results in May, the consolidating credit policy to non-financial corporations since last November is not expected to change. After that, the necessary conditions for a change to a mild credit expansion are to cover promptly any capital needs that will arise from the stress test, to restart the return of deposits already from the current quarter and to continue the reduction of non-performing loans in accordance with the relevant targets. In turn, the choices for the settlement of non-performing loans by the banks will also affect the intention of saving in the private sector, for both individuals and businesses.

In terms of sectoral trends that may affect investment activity in the current year, the further export demand rise, from stronger growth in key (Eurozone) or emerging (Middle East, North Africa) export destinations of Greek exports, will boost investment activity in export-oriented branches of Manufacturing, Tourism and Transport. The start of work on major construction projects in privatisation – concessions and other building works by the private sector, after many years of idleness, is expected to boost the construction activity.

The large Greek corporations will address the difficulties in finding investment and working capital from the banking system by raising 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.

Following the PIP underperformance in the previous year, with considerable delay, there are prospects for its greater contribution to investment activity this year. As its expenditure budget in the explanatory note of the State budget for 2018 does not differ from that of 2017, the stronger effect is expected to come mainly from its more upfront implementation. The leverage of public and private funds sought via the PIP will probably trigger stronger impetus than the bank financing.

In contrast, 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. Taking into account these effects, investment is expected to grow at a double-digit rate this year, by about 16%.

In the external sector of the Greek economy, the continuous strong growth in the EU and the US in 2018, according to the latest reports of international organisations,[33] a key export destination of Greek products, as well as in developing and emerging economies with a growing share in the Greek exports of goods (Middle East, North Africa), will contribute to their further increase in the current year. The negative effects of the US protectionist trade policy measures taken so far, from which, at least temporarily, the EU has been excluded, are expected to be mostly indirect, from the negative impact on the exports of third countries to the US. In any case, the value of Greek exports of products where import restrictions were imposed constitute a small part of the value of all domestic exports. That said, this will be offset partly by stronger than initially anticipated growth in the US, due to the extensive tax reform that was adopted in January, which will enhance the import demand for the remaining products, where no recent restrictions were imposed. In addition, the tendency of capital return to the US because of the new tax incentives will probably reverse the rise of the euro/dollar exchange rate, which is expected to weaken slightly in the coming months. As a result, the competitiveness of the exports of the Euro area will strengthen, favouring the Greek exports as well. However, the imposition of other restrictions by the US and retaliatory measures by the European Union, with both sides reacting to each other, cannot be ruled out, which could generate unpredictable consequences for international trade. Regarding the exports of services, the continuation of the conflicts in the Arab countries and the lingering tension in the Turkey-EU relations will continue to act as a deterrent to Tourism in the region and to favour international transport through Greece. Taking into account the above developments and prospects, exports are anticipated to grow further in 2018, at the rate of about 8.0%.

The rise of imports will continue in 2018, from the larger increase in domestic consumption and the strengthening of fixed capital formation. However, as noted in the previous IOBE quarterly bulletin, the projected substantial increase in investment would not have a similar effect on imports, as a large part of it concerns construction projects. The domestic purchasing power will benefit for most of 2018 from higher than that a year ago euro exchange rate against the dollar. In addition, given the high elasticity of imports to changes in domestic demand (total consumption spending and gross capital formation) in 2017, as presented in the subsection on recent macroeconomic developments, the expansion of imports is expected to exceed that of exports. The high elasticity of imports with respect to domestic demand, which is considered to come in

[33] World Economic Outlook, IMF, April 2018

part from the impact of capital controls (curbing imports, preventing the stockpiling of imported products), is expected to lead to a marginally two-digit percentage increase of imports, close to 10%.

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 exports, of goods and services, as well as from recovery of construction activity, which will boost employment and household disposable income. 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. The investment prospects at sectoral level are favourable for export-oriented branches of Manufacturing, Tourism and Transport. The completion of privatisation – concessions and other building works by the private sector, after many years of idleness, is expected to boost the construction activity. After the delays in the execution of the Public Investment Programme in the previous year, it is quite possible that its contribution to investment activity will strengthen in 2018, as its budget does not differ from last year and its more front-loaded implementation is possible.

Table 3.3

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	1.6	2.5	2.5
Private Consumption	0.0	0.9	1.2	1.2
Public Consumption	-1.5	0.9	0.2	0.4
Gross Fixed Capital Formation	1.6	5.1	11.5	12.1
Exports of Goods and Services	-1.8	6.8	4.6	4.4
Imports of Goods and Services	0.3	6.0	3.8	4.2
Employment	0.5	1.9	1.7	1.8
Compensation of Employees per capita	-0.9	0.8	1.5	1.8
Real Unit Labour Cost	0.8	0.2	-0.3	-0.4
Harmonised Index of Consumer Prices*	0.0	1.1	0.8	1.3
Contribution to real GDP growth				
Final Domestic Demand	-0.2	1.4	2.2	2.5
Net Exports	-0.7	0.2	0.0	0.0
Inventories	0.6	0.0	0.2	0.0
As a percentage of GDP				
General Government Balance	1.5	-1.2	0.9	0.8
Current Account Balance	-0.6	-0.2	0.4	1.0
General Government Gross Debt	180.8	179.6	177.8	170.1
In percentage terms				
Unemployment (% of labour force)	23.6	21.8	20.4	18.7

* European Economic Forecast, winter 2018, European Commission, February 2018

Source: European Economic Forecast, autumn 2017, European Commission, November 2017

That said, the ongoing stress test of the banking system and the settlement of non-performing loans will prevent a change in the restrictive credit policy of the banking system, at least until the completion of the stress testing process. The large Greek companies will address the difficulty in accessing investment and working capital by drawing funds from the capital markets.

In the external sector of the Greek economy, the stronger growth in the EU, the US and in developing and emerging economies with a growing share in the Greek exports of goods will contribute to their further increase in the coming year. If the EU continues to be exempt, the protectionist trade policy measures in the US will mostly have indirect negative effects, from the negative impact on the exports of third countries and at least partly will be offset by the strengthening of the import demand in the US economy, due to faster growth, for goods where restrictions were not imposed in the recent round. The continuation of conflicts in the Arab countries and the lingering tensions in the Turkey-EU relations will continue to favour tourism and international transport through Greece. The competitiveness of the Greek exports will receive a mild boost from the interruption of the euro exchange rate appreciation against the dollar and its expected small decline, coming from stronger capital flows to the US due to the recent tax reform and the rise in US interest rates. The rise will continue on the import side, from the increase in domestic consumption and fixed capital formation, but also from the high elasticity of imports to changes in domestic demand, which is partially due to the capital controls. Taking into account 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 2.1%.

Table 3.4

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

(at constant 2010 market prices, annual % changes)

	MinFin		EC		IOBE		IMF		OECD	
	2017	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*	*2017*	*2018*
GDP	1.6	2.5	1.6	2.5	1.3	2.1	1.4	2.0	1.4	2.3
Private Consumption	0.9	1.2	0.9	1.2	0.8	1.1	:	:	0.9	1.3
Public Consumption	0.9	0.2	0.9	0.2	-1.8	1.5	:	:	1.3	0.4
Gross Fixed Capital Formation	5.4	11.1	5.1	11.5	1.5	19.0	:	:	3.3	7.2
Exports	6.9	4.6	6.8	4.6	8.0	8.0	:	:	5.7	5.8
Imports	6.0	3.8	6.0	3.8	8.3	10.0	:	:	5.0	4.3
Unemployment (%)	21.7	20.2	21.8	20.4	21.5	19.8	21.5	19.8	21.7	20.5
Harmonised Index of Consumer Prices (%)	1.2	0.8	1.1	0.8	1.0	0.5	1.1	0.7	1.2	1.0
General Government Balance (% GDP)	-0.6	0.6	-1.2	0.9	:	:	0.0	-0.1	-0.9	-0.1
Current Account Balance (% GDP)	:	:	-0.2	0.4	:	:	-0.8	-0.8	0.4	0.4

* Based on the Labour Force Survey methodology

Sources: Explanatory note of the 2018 Budget, Ministry of Finance, November 2017 – European Economic Forecast, autumn 2017, European Commission, November 2017 – European Economic Forecast, winter 2018, European Commission, February 2018 - IOBE - OECD Economic Outlook No. 102, November 2017 – World Economic Outlook, IMF, April 2018 - Fiscal Monitor, IMF, April 2018

Unemployment is expected to ease further in 2018, mainly from the envisaged new boost of export demand, which will create jobs in the current year 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 in privatisations 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. From the first official figures for this year, if only for its first month, both the seasonally adjusted and the non-seasonally adjusted unemployment rates fall month on month, to 20.6% and 20.9% respectively (3.1 and 2.6 percentage points lower than a year ago), despite the fact that the non-seasonally adjusted unemployment usually grows after the December festive season. As a result of the above effects, unemployment will decline in the current year to about 19.8%, or perhaps a little lower.

Concluding with the inflation forecasts, the influence of changes in indirect taxes from 1 January 2018 are anticipated to continue to be mild throughout the current year. Besides, a hike in indirect taxes or the imposition of new levies later in the year is not yet anticipated. Given the acceleration of global growth this year, likely more than initially anticipated in early 2018 according to the latest forecasts by international organisations, the petroleum prices will probably increase further, at least in the current half of the year. As a result, their hitherto small impact on prices will strengthen, as the appreciation of the euro against the dollar, which had a countervailing effect on this, is not expected to continue. Nevertheless, it will remain significantly lower than in 2017, when the energy commodities alone generated CPI increase by 0.5%. The projected slight increase in private consumption will also generate only marginal inflationary pressures. Therefore, there is no factor at present that would lead to higher price growth compared with last year, thus inflation is estimated to weaken to about 0.5% in the current year.

3.2 Developments and prospects in key areas of the economy

- Stronger industrial production in 2017 (+4.5%). Slight retreat in the first two months of this year (-1.6%)
- The Construction production index slipped back into a recession in 2017 (-15.1%)
- Slight improvement in Retail Trade in the previous year (+0.6%)
- Increase in turnover last year compared with 2016 in nine of the thirteen sub-sectors of services

Industry

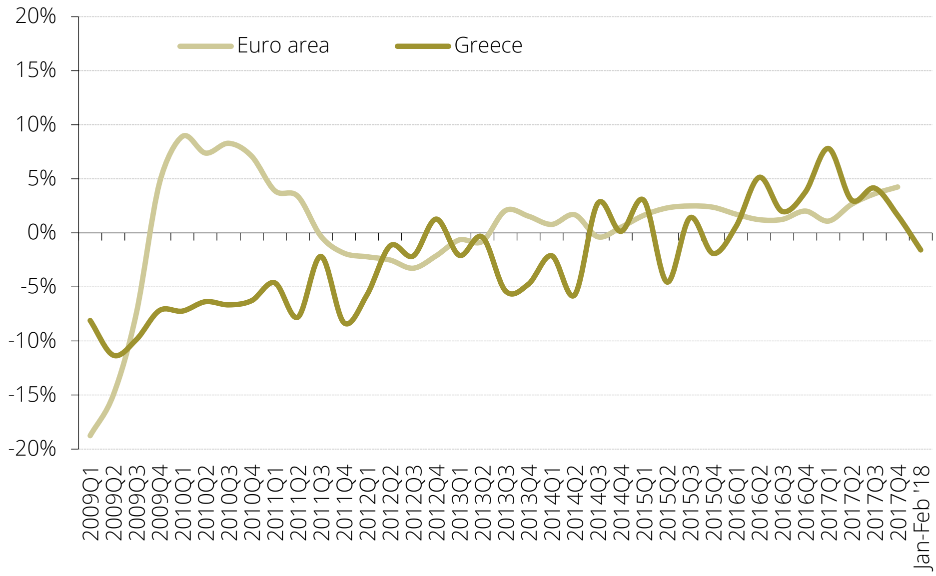
Industrial production in Greece showed clear signs of recovery in 2017, as the indicator increased by 4.5%, compared with 2.5% growth in 2016. That said, the industry sector lost about 20% of its output between 2009 and 2014. Since 2015, it has posted positive growth and as a result by 2017 the industrial production increased by 8.2% compared to its lowest level in 2014. Despite its strengthening between 2015 and 2017, the annual average index stood five points lower in 2017 than in 2010.

The 2017 increase was succeeded by a small decline in production during the first two months of 2018 (-1.6%), in contrast with the strong rise 10.5% a year ago. However, the increase of industrial production gradually slowed down year on year over the 2017 quarters. The course of industry output for the foreseeable future will depend on a variety of macroeconomic and micro-economic factors (such as growth in key trading partners and exports, domestic investment activity etc.).

In 2017, the producer price index in Industry increased by 5.3%, offsetting its drop by 5.7% in 2016. The rise in prices and production volume led to an increase in turnover by 10.6%, against a decline by 5.3% in 2016.

Figure 3.1

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



Stronger industrial production in 2017 (+4.5%), slight decline in the first two months of this year (-1.6%).

Sources: ELSTAT, Eurostat

In the first two months of 2018, the prices of industrial products fell marginally by 0.7% (against 10.7% rise in the first two months of 2017). That said, turnover continued to grow at a high rate, yet lower in relation to the first two months of 2017 (7.8% against 24.5%). The discrepancy between falling industrial production, falling prices and higher turnover could be due to factors such as sales from the stocks of industrial products.

In the Euro area, industrial production strengthened by 2.9% in 2017, compared to 1.5% growth in the year before. The European industry has entered a stable growth path since 2014, showing low but stable growth.

Production increased in almost all major branches of industry in Greece in 2017. In particular, production increased most in Electricity generation (+7.7%, against +1.7% in 2016), followed by Mining and Quarrying (+6.7%, against 14.7% contraction a year earlier) and Manufacturing (+3.3%, against +4.2% in 2016). By contrast, production contracted in Water Supply (-2.5%, against +0.4%).

In greater detail, in Mining, production increased in Coal-Lignite (15.0%, against a contraction by 29.5%) and Mining of Metal Ores (+3.5% against 1.7% in 2016). In contrast, production declined in Extraction of Crude Petroleum by 19.7%, against a sharp increase by +140% in 2016. Production in Other Mining remained essentially unchanged (-0.5% against 1.3% in 2016).

During the first two months of this year, output increased in Manufacturing (+3.3% from +4.5% during the corresponding two months of 2017) and in Mining and Quarrying (2.8% from 2.1%). In contrast, production declined in Electricity generation (-15.1% against +30.0%) and Water Supply (-4.2% instead of 0.9%).

In Manufacturing, output declined in 2017 in 9 of its 24 branches. Among the branches with special significance for the Greek economy, production increased most in Basic Metals by 22.8% (against +6.0% in 2016) and Basic Pharmaceuticals by 14.1% (against +4.4%). Food Products followed with a lower output growth rate than in 2016 (+1.9% against +2.2%).

Among the remaining branches of Manufacturing, the largest contraction in 2017 was recorded in Tobacco Products (-18.5% against +2.4% in 2016), Other Transport Equipment (-12.7% compared to +0.8%) and Printing (-10.9% against -0.4%). In Clothing production declined at a similar rate as in 2016 (-8.1%, against -8.4%).

Other branches with growing output in 2017 were Motor Vehicles, where production increased by 14.1%, following growth by 30.9% in 2016, Computers (+10.9% against -20.7%) and Electrical equipment (+7.2% compared to +2.8% last year). Lower growth was recorded in Other Manufacturing (+5.0%, against +2.1% in 2016), Machinery and Equipment (+4.5%, against +11.2%) and Refined Petroleum Products (+4.4%, against +7.4%).

Production increased in all main groups of industrial products in 2017. In particular, the production of Intermediate Goods strengthened by 6.3%, against a growth by 4.7% a year earlier. The Energy Goods came next (+5.7% against +1.4%), followed by Durable Consumer Goods (+3.1% against -1.4%), Capital Goods (+2.3%, against +2.9%) and lastly Non-durable Consumer Goods (+0.2%, against +2.3%).

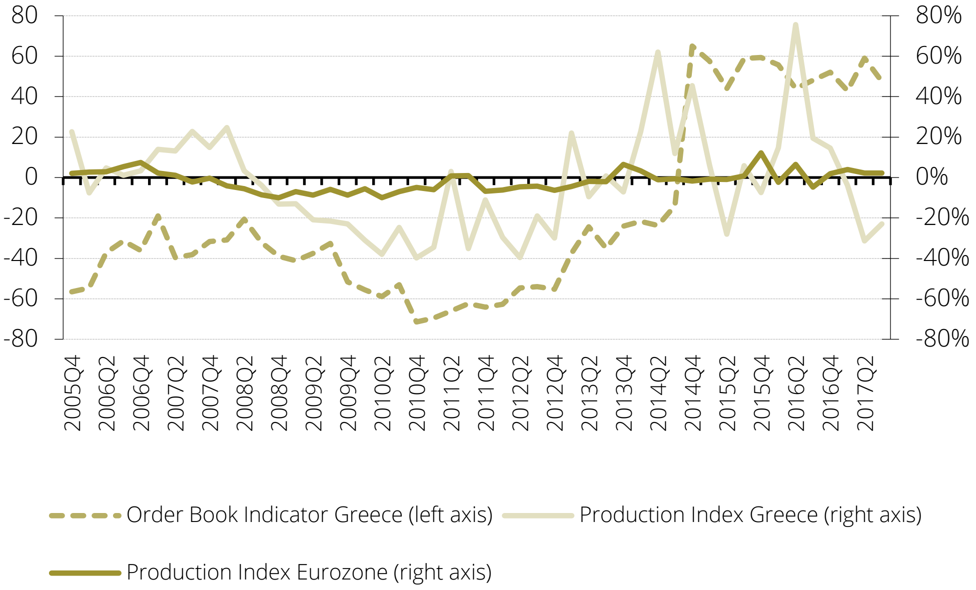
Construction

The production index in Construction declined by 15.1% in 2017, losing most of the ground it gained in 2016, when it increased by 23.5%. With the exception of the first quarter of last year, in all other quarters substantial year-on-year losses were recorded. The average index for 2017 has lost about 50 points since its base year 2010.

Similar trends were recorded in the constituent indicators. In particular, the Construction of Buildings declined by 10.6% in 2017, against an increase by 18.5% in 2016. Meanwhile, the production index in Civil Engineering declined by 18.5%, against 27% growth in 2016. However, the monthly data on building activity indicate growth of the number of permits (+8.7% against -5.5% in 2016), with growth in both the surface (+18.2%, against -12.2%) and the volume (+19.4%, against -28.9%) of new buildings.

Figure 3.2

Production Index in Construction and Building Activity Index



Construction is again in recession, with 15.1% drop in production last year

Source: ELSTAT

Production in construction in the Euro area in 2017 rose at a steady rate in relation to 2016 (2.6% against 2.4% the year before).

Retail Trade

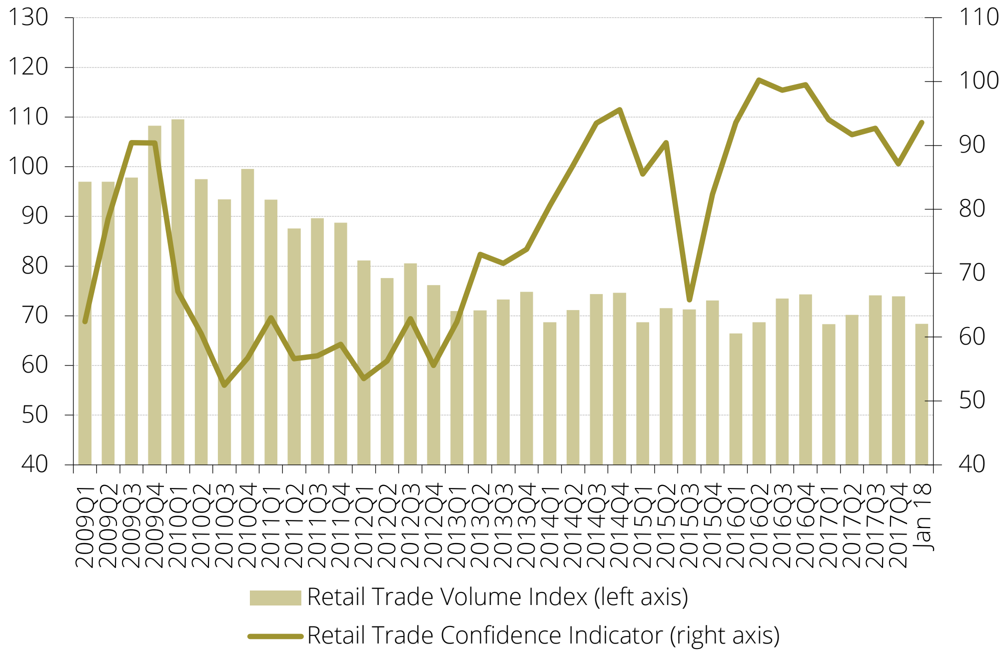
The volume index in retail trade kept growing at a low rate in 2017 (+0.6%), as in the preceding year. Turnover increased in six of the eight branches of Retail Trade. The strongest growth was recorded in Books-Stationery (+12.4%, against -4.1% a year earlier), Clothing-Footwear (+8.8% against -5.1%), Department Stores (+7.0% against -6.2%) and Furniture – Electrical Equipment – Household Appliances (+4.9%, against +3.2%). In contrast, the largest decline was recorded in Fuel - Car Lubricants, where the indicator fell by 5.8%, against growth by 4.3% in 2016, followed by Pharmaceuticals-Cosmetics, where turnover declined by 0.7%, following its growth by 2.8% in 2016.

In January 2018, the volume index in retail trade increased by 1.5%, compared with a year ago, when it fell by 0.1%. In addition, the sales expanded in 6 out of the 8 sectors, yet in most cases this increase was limited. The branches with falling sales were Food-Beverages, with 5.1% decline and Department Stores, with 3.4% reduction.

Mild increase in the volume of retail trade in 2017, as much as in 2016 (+0.6%)

Figure 3.3

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



Source: IOBE

The expectations overall in the retail industry were mixed in the first quarter of 2018 compared with a year earlier, according to the leading indicators of the Business Surveys conducted by IOBE. The index for total retail trade fell by 3.3 points year on year. Pessimism was strongest in Food-Beverages (-36.9, against +8.5 points last year) and Department Stores, where the indicator declined by 1.9 point this year, against growth by 8.3 points in the first quarter of 2017. In contrast, the representatives of Clothing–Footwear (+42 points against -13.6 in 2017), Household Appliances (+19.7, against -11.3 points) and Motor Vehicles – Spare Parts, where the indicator strengthened by 13.7 points, against losses by 3.3 points in the first quarter of 2017, appeared more optimistic.

Over the same period, the annual passenger car sales increased by about 30% year on year. The current sales balance doubled to 28 points in the quarter, as the share of enterprises that reported an increase in sales expanded significantly while the share of those reporting decline in sales remained unchanged. The balance of inventories steadied over time, at 84% in the first quarter of 2018. The sales prospects over the coming period strengthened significantly to 37 points, from 14 points in 2017, as the share of enterprises expecting growth of sales increased by 16 points, while the share of enterprises anticipating reduced sales declined.

Table 3.5

Annual Changes in the Volume Index in Retail Trade

Category of Retail Trade Stores	Volume Index (2010=100)						
	2015	2016	2017	Jan. 2018	% Change 2016/2015	% Change 2017/2016	% Change Jan'18/'17
Overall Index	70.8	71.2	71.6	68.4	0.6%	0.6%	1.50%
Overall Index (excluding automotive fuels and lubricants)	73.2	72.9	74.2	69.8	-0.5%	1.8%	1.50%
Store Categories							
Supermarkets	80.1	79.8	80.7	75.5	-0.4%	1.1%	1.2%
Department Stores	85.1	79.8	85.4	76.6	-6.2%	7.0%	-3.4%
Automotive Fuels	64.2	67.0	63.1	63.3	4.3%	-5.8%	1.8%
Food – Drink – Tobacco	64.4	65.4	62.3	50.1	1.6%	-4.7%	-5.1%
Pharmaceuticals – Cosmetics	65.6	67.4	66.9	63.5	2.8%	-0.7%	2.4%
Clothing – Footwear	75.6	71.7	78.0	95.8	-5.1%	8.8%	5.3%
Furniture – Electric Equipment – H. Appliances	62.1	62.8	65.9	60.3	1.2%	4.9%	16.4%
Books – Stationary	99.4	95.3	107.1	96.7	-4.1%	12.4%	3.6%

Source: ELSTAT

Table 3.6

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

	Q1 2016	Q1 2017	Q1 2018	Change 2017/2016	% Change 2017/2016	Change 2018/2017	% Change 2018/2017
Food-Drinks-Tobacco	101.3	109.8	72.9	8.5	8.4%	-36.9	-33.6%
Textiles - Clothing – Footwear	88.4	74.8	116.9	-13.6	-15.4%	42.1	56.3%
Household Appliances	82.4	71.1	90.8	-11.3	-13.7%	19.7	27.7%
Vehicles-Spare Parts	106.6	103.3	117.0	-3.3	-3.1%	13.7	13.3%
Department Stores	91.5	99.8	97.9	8.3	9.1%	-1.9	-1.9%
Total Retail Trade	93.6	94.0	90.7	0.4	0.4%	-3.3	-3.5%

Source: IOBE

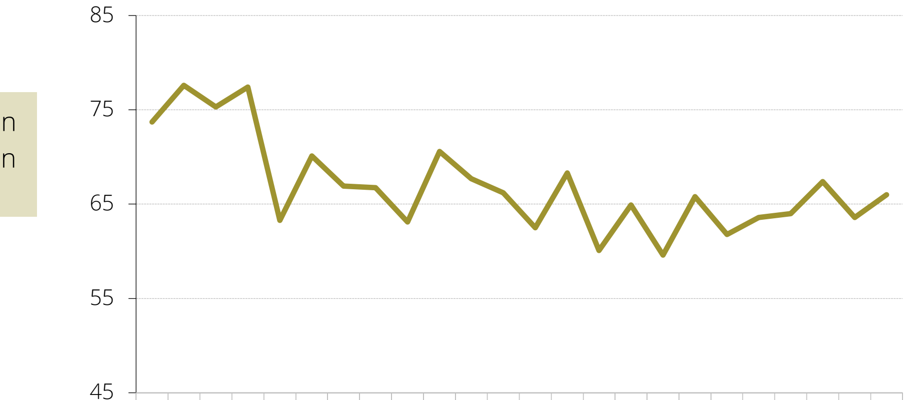
Wholesale Trade

Turnover in wholesale trade increased by 4.1% in 2017, against a decline by 6.3% in 2016. As a result, it reached 65 points, which implies that the index remained below its 2010 reference level by about 35 points.

Figure 3.4

Turnover Index in Wholesale Trade

Higher turnover in Wholesale Trade than in 2016 (+4.1%)



	2012				2013				2014				2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	74	78	75	77	63	70	67	67	63	71	68	66	63	68	60	65	60	66	62	64	64	67	64	66

Source: ELSTAT

Services

Turnover increased in nine of the thirteen branches of Services in 2017. The strongest activity growth was recorded in Other Professional – Scientific – Technical Activities (+13.5%, against -8.8% in 2016), Employment Activities (+7.0%, against +17.8%), Legal – Accounting – Management Consultancy Activities (+5.6% against -13.5%) and Advertising (+3.9% against -5.9%). Computer Programming (+3.6%, from +8.8%) came next, followed by Scientific Research and Development (+1.2% against +15.2%) and Telecommunications (0.1%, against +0.5%).

In contrast, the largest decline was recorded in Publishing Activities (-19.5%, following a decline by 8.5% in 2016) and Architectural – Engineering Activities (-8.5% against -9.1% a year earlier). Cleaning Activities came next (-3.8%, against -23.0%), followed Information Service Activities (-1.1%, against -16.1%). Therefore, in the branches of services where turnover receded, the downward trend of the previous year carried over to the current year.

According to the leading indicators of the Business Surveys conducted by IOBE for the first quarter of 2018, the sentiment improved year on year in all branches of Services. The overall indicator for Services rose by 8.9 points, following an increase by 7.5 in the previous year. At the branch level, the indicator increased by 21.8 point in Financial Intermediaries (compared with 17.3 points increase in the first quarter of 2016), Other Business Activities (9.5 against 1.1 points), Computer Programming (6.2 against -5.5 points) and Tourism (2.9 against +17.5 points).

Table 3.7

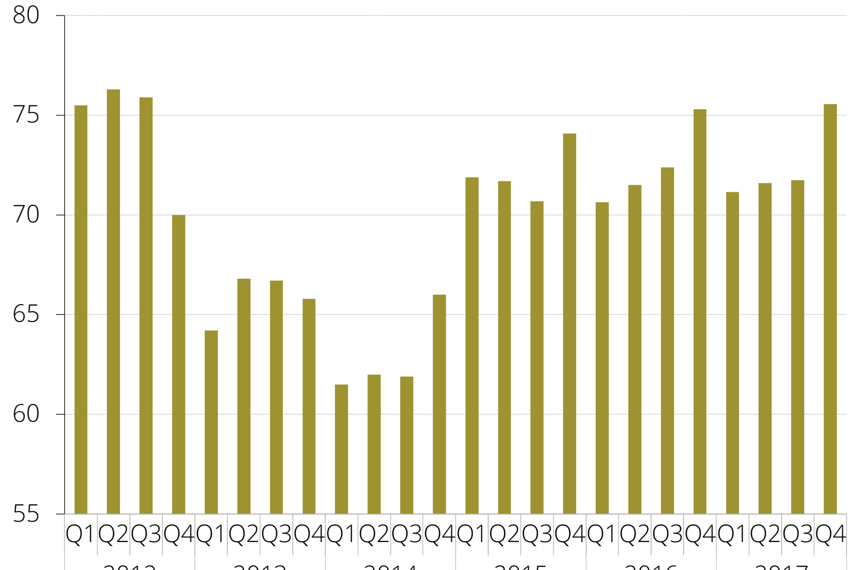
Turnover Indices (2010=100)

Services branch	% Change '17-'16	% Change '16-'15
Other professional, scientific and technical activities	13.5%	-8.8%
Employment activities	7.0%	17.8%
Legal and accounting activities	5.6%	-13.5%
Advertising and market research	3.9%	-5.9%
Computer programming, consultancy and related activities	3.6%	8.8%
Office administrative, office support and other business support activities	1.2%	15.2%
Postal and courier activities	0.9%	-2.7%
Security and investigation activities	0.3%	0.2%
Telecommunications	0.1%	0.5%
Information service activities	-1.1%	-16.1%
Services to buildings and landscape activities	-3.8%	-23.0%
Architectural and engineering activities; technical testing and analysis	-8.5%	-9.1%
Publishing activities	-19.5%	-8.3%

Source: ELSTAT

Figure 3.5

Turnover Index in Telecommunications (branch 61)



	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Index	76	76	76	70	64	67	67	66	62	62	62	66	72	72	71	74	71	72	72	75	71	72	72	76

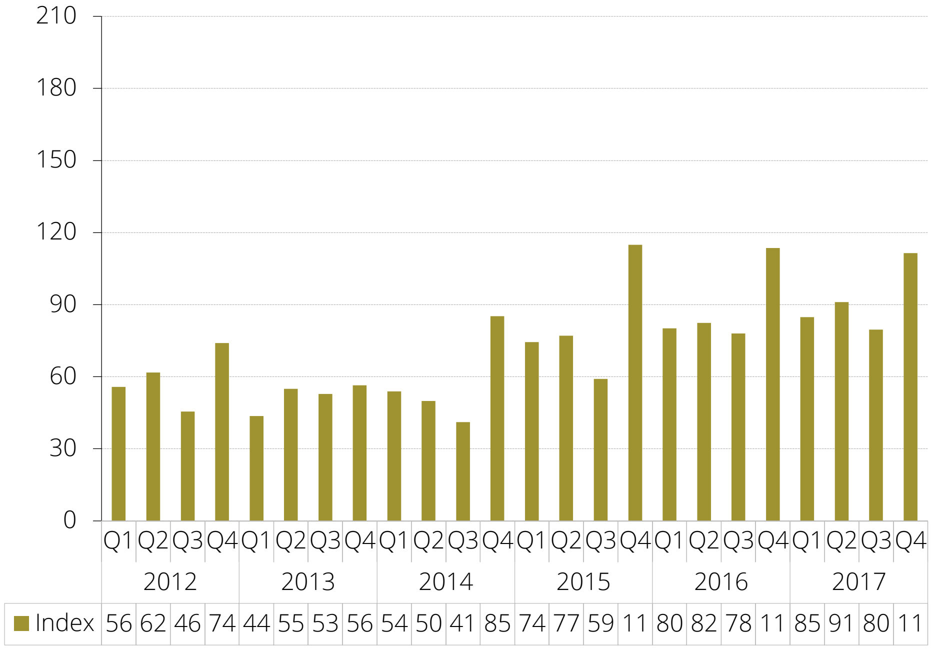
Marginal improvement of the index last year (0.1%), stronger in Q4 of 2017 (0.3%)

Source: ELSTAT

Slowdown in 2017 compared to 2016 (3.6% from 8.8%)

Figure 3.6

Turnover Index in Information Services (branch 62)

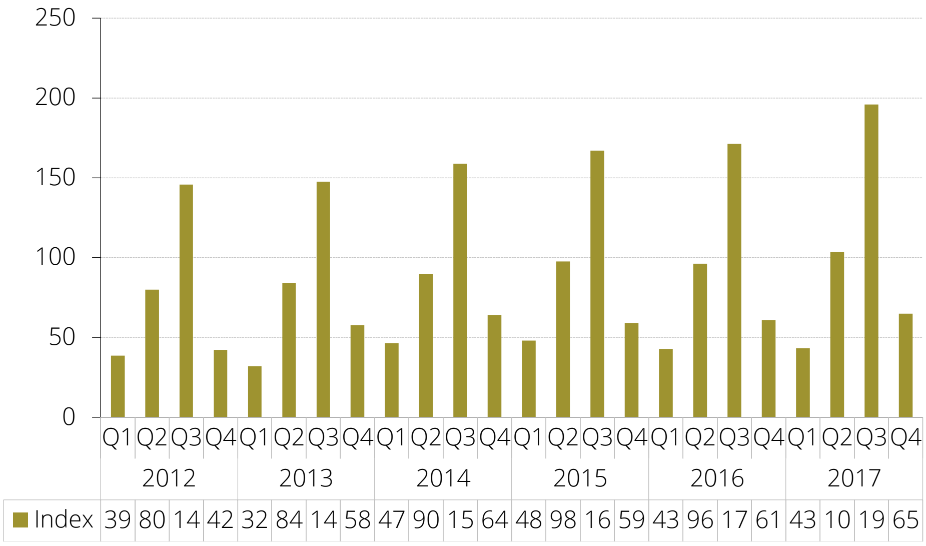


Source: ELSTAT

Increase in turnover last year not only seasonally in Q3 (14.4%), but in all quarters of the previous year (Avg: 9.8%).

Figure 3.7

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



Source: ELSTAT

Table 3.8

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

	Q1 2016	Q1 2017	Q1 2018	% Change '17-'16	% Change '18-'17
Hotels – Restaurants – Travel Agencies	75,1	92,6	95,5	23,3%	3,1%
Other Business Services	55,8	56,9	66,4	2,0%	16,7%
Financial Intermediation	55,9	73,2	95	30,9%	29,8%
Information Services	76,4	71	77,2	-7,1%	8,7%
Total Services	69	77,9	85,4	12,9%	2,0%

Source: IOBE

3.3 Export performance of the Greek economy

- Highest level of exports on record in 2017, for total goods and for exports excluding petroleum products
- Increase of the trade balance deficit, to its highest level in the past five years

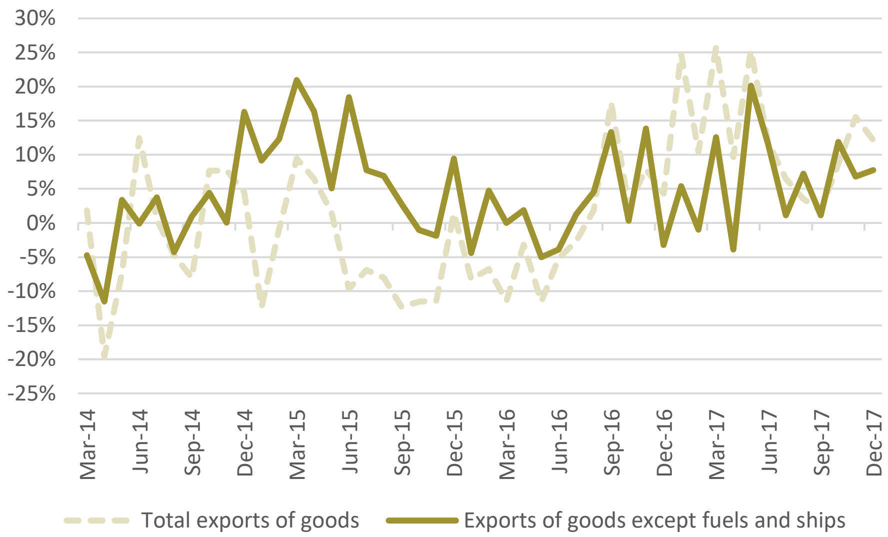
The exports of goods stood at €28.8 billion overall in 2017, from €25.5 billion in 2016, recording an increase of 13.3%, according to data from ELSTAT. However, if petroleum and ship exports are not taken into account, the remaining exports increased by 6.6%, to reach €19.8 billion in 2017, from €18.5 billion in 2016 (Figure 3.8). Note that both export categories reached their highest level on record. Imports increased slightly stronger in 2017, by 13.8%, to reach €50.3 billion, from €44.2 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit increased by €2.7 billion year on year (+14.4%), to €21.4 billion, from €18.7 billion. Subsequently, the value of the exports of goods of the Greek economy accounted for 57.3% of its imports, from 57.6% in 2016.

In greater detail, the exports of Agricultural Products declined by 1.4% in 2017, to reach €5.5 billion, from €5.6 billion in 2016, while the exports of Fuel increased sharply, by 30%, to €8.9 billion, from €6.9 billion in 2016 (Table 3.9). The exports of these product categories accounted for 51% of the Greek exports, from 49.8% in 2016. The decline in Agricultural Products came mainly from a 15.9% drop in the exports of Oils and Fats of Animal or Plant Origin, to €562.2 million (from €668.4 million in 2016). As a result, their share in total exports shrank from 2.7% in 2016 to 2.0% in 2017. The exports of Food – Live Animals, which accounts for approximately 77.1% of the exports of Agricultural Products, increased by 1.2%, from €4.2 billion to €4.3 billion. The foreign demand for Beverages – Tobacco, which represent 2.5% of the exports of Agricultural Products, totalled €705.8 million in 2017, lower by 3.3% year on year (from €729.9 million).

Figure 3.8

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

Exports excluding oil and ship totalled €19.8 billion in 2017, 6.6% higher than in 2016



Source: ELSTAT Processing: IOBE

The exports of Industrial Products increased by 9.7% in 2017, with their value reaching €12.1 billion, from €11.0 billion a year earlier. This rise is explained mainly by the strengthening of foreign demand for Manufactured Goods Classified Chiefly by Raw Material, by 16.5%, with their value reaching €4.6 billion. The exports of Chemical and Related Products also rose, by 11.7% (to €3.0 billion in 2017, from €2.7 billion a year earlier), while the exports of Miscellaneous Manufactured Articles increased by 7.1% (to €2.0 billion in 2017, from €1.9 billion a year earlier). In contrast, deterioration in the export performance was recorded in Machinery and Transport Equipment, by 0.9% (to €2.5 billion, from €2.6 billion in 2016).

Finally, the exports of Raw Materials increased by 26.2%, from €1.0 billion in 2016, to €1.3 billion in 2017, while the exports of Commodities and Transactions Not Classified by Category decreased by 2.8%, from €544.3 million in 2016 to €529 million in 2017.

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 7.4%, to reach €10.5 billion in 2017, from €9.8 billion 2016, absorbing as a result almost 37% of the Greek exports of goods last year. There was a similar increase in the EU, by 7.7%, or €1.0 billion, with the export to the region totalling €15.1 billion, from €14.0 billion a year earlier. Among the Eurozone countries with the largest share of Greek exports, growth was recorded in Cyprus, by 13.2%, from €1.5 billion in 2016 to €1.7 billion in 2017, Germany, by 4.4%, from €1.9 billion to €2.0 billion, and Italy, by 8.1% (from €2.8 billion in 2016 to €3.0 billion last year). The largest percentage contraction in exports in 2017 in the Eurozone was recorded in Finland, where it reached 11.9% (from €152.3 million a year earlier to €134.2 million in 2017), while the highest percentage increase was recorded in Estonia (+54.9% or €6 million).

Among the remaining countries of the European Union, where total exports grew by 8.5% or €360.3 million, to €4.6 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 7.7% or €96.0 million. The exports to two other countries, which also absorb a significant share of Greek exports from this group of countries, Romania and the UK, also increased, by 3.8% or €40.5 million, to €1.1 billion, and by 13.1% or €98.1 million, to €848.4 million, respectively. The largest percentage growth among the non-Euro area members of the EU, by 16.1%, was recorded in Denmark, where Greek exports increased by €26.7 million (from €166.2 million in 2016, to €193.0 million in 2017).

The Greek exports to other European countries increased by 26.8% last year, to €4.8 billion, from €3.8 billion in 2016. In Turkey, one of the major export destinations, exports expanded significantly, by 44.4%, from €1.35 billion to €1.95 billion. The increase of exports to the key neighbouring country was the greatest in absolute terms recorded for any country last year (€600 million).

The exports to the North American countries increased by 2.6%, from €1.4 billion in 2016 to €1.43 billion in 2017, mainly due to the increase in exports to the US by 2.5%, from €1.0 billion in 2016 to €1.1 billion last year, and to a lesser extent from the growth of the export to Canada, by 11.1% or €15.2 million.

The exports to the Middle East and North Africa expanded by 16.3% (from €3.7 billion to €4.3 billion), mainly due to an increase in the exports to Tunisia (+41.1%), where they reached €144.3 million, from €102.3 million in 2016. The increased export activity to the specific geographical region was moderated by a reduction in some North African countries, namely Algeria (-31.5%, from €202.7 million to €138.8 million) and Libya (-19.5%, from €331.8 million to €266.9 million). That said, the exports to two other major export destinations in the Middle East, Saudi Arabia and the United Arab Emirates, increased by 52.1% (to €680.3 million) and 5.7% (to €255.6 million), respectively.

The flow of exports of Greek products to Oceania increased, with their value reaching €166.6 million in 2017, against €141.6 million a year earlier. The exports to Australia expanded by 17.5%, to €151 million, from €128.5 million in 2016. Likewise in New Zealand, exports increased by 19.1%, from €13.2 million in 2016 and €15.7 million in 2017.

Table 3.9

Exports per category at current prices, (million €)

PRODUCT	VALUE		% CHANGE	% SHARE	
	2017*	2016*	17*/16*	2017*	2016*
AGRICULTURAL PRODUCTS	5,547.9	5,629.2	-1.4%	19.5%	22.4%
Food and Live Animals	4,279.9	4,230.9	1.2%	15.0%	16.8%
Drinks and Tobacco	705.8	729.9	-3.3%	2.5%	2.9%
Oils and Fats of animal or plant origin	562.2	668.4	-15.9%	2.0%	2.7%
RAW MATERIALS	1,279.6	1,013.9	26.2%	4.5%	4.0%
Non-edible Raw Materials excluding Fuels	1,279.6	1,013.9	26.2%	4.5%	4.0%
FUELS	8,967.9	6,896.6	30.0%	31.5%	27.4%
Minerals, Fuels, Lubricants etc.	8,967.9	6,896.6	30.0%	31.5%	27.4%
INDUSTRIAL PRODUCTS	12,139.1	11,066.0	9.7%	42.6%	44.0%
Chemicals and Related Products	3,018.5	2,701.7	11.7%	10.6%	10.7%
Industrial Products Sorted by Raw Material	4,567.0	3,921.8	16.5%	16.0%	15.6%
Transport Equipment	2,531.3	2,553.7	-0.9%	8.9%	10.2%
Various Manufactured Goods	2,022.3	1,888.9	7.1%	7.1%	7.5%
OTHER	529.0	544.3	-2.8%	1.9%	2.2%
Goods and Transactions not sorted by Category	529.0	544.3	-2.8%	1.9%	2.2%
TOTAL EXPORTS	28,463.5	25,150.0	13.2%	100.0%	100.0%

* Provisional data

Source: ELSTAT, Data processing: PSE-KEEM

Table 3.10

Exports by destination * (€ million)

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% SHARE	
	2017	2016	2017/2016	2017	2016
World	28,463.5	25,150.0	13.2%	100.0%	100.0%
OECD	15,443.3	13,710.6	12.6%	54.3%	54.5%
EU	15,100.7	14,020.0	7.7%	53.1%	55.7%
Euro Area	10,518.5	9,798.1	7.4%	37.0%	39.0%
G7	8,287.6	7,797.5	6.3%	29.1%	31.0%
North America	1,439.8	1,402.8	2.6%	5.1%	5.6%
BRICS	895.7	753.4	18.9%	3.1%	3.0%
Middle East & North Africa	4,279.2	3,679.9	16.3%	15.0%	14.6%
Rest of Africa	1,410.9	1,475.5	-4.4%	5.0%	5.9%
Oceania	166.6	141.6	17.6%	0.6%	0.6%
Latin America	204.3	279.3	-26.9%	0.7%	1.1%
Rest of Asia	1,807.1	1,311.2	37.8%	6.3%	5.2%
OPEC	1,560.2	1,382.6	12.8%	5.5%	5.5%

* Provisional data

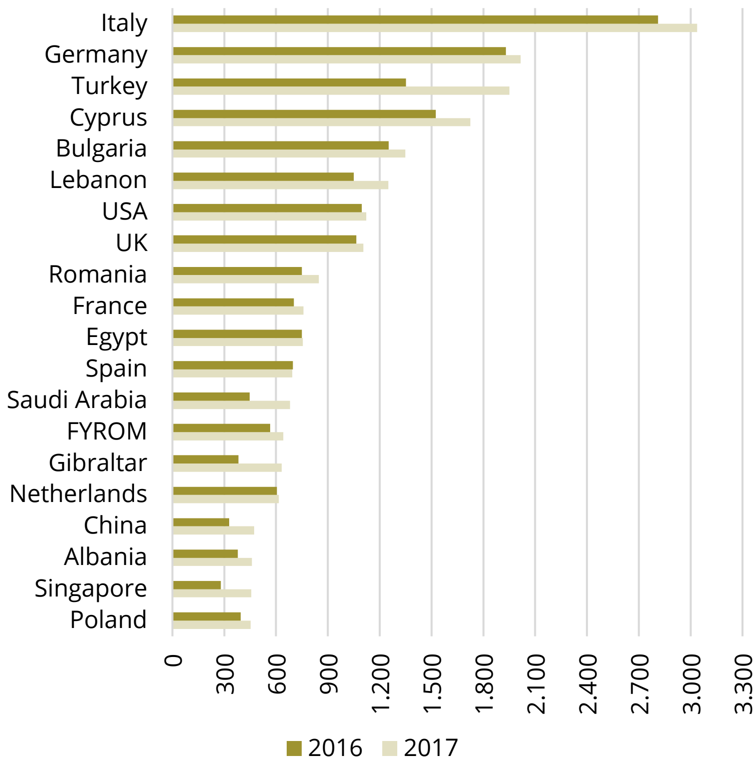
Source: ELSTAT, Data processing: PSE-KEEM

The exports to the markets of Central and Latin America declined significantly in 2017, by 26.9, with their value falling to €204.3 million, from €279.3 million a year earlier. The deterioration in the export performance to these countries came mainly from the sharp fall in the demand for Greek products from Brazil, by 72.5%, with their value falling to €26.1 million, from €94.7 million in 2016.

In contrast, the demand for Greek goods increased significantly in the Asian countries, where exports increased by 37.8%, to €1.8 billion from €1.2 billion in 2016. This development came mainly from the strengthening of exports to Singapore (+63.3%, to €457.4 million from €279.6 million in 2016), and China (+44.4%, to €192.8 million from €133.5 million in 2016). Similarly, a significant expansion of Greek products was recorded in South Korea, by 44.4%, (from €133.5 million in 2016, to €192.8 million a year later) and Japan, by 70.1% (from €55.5 million in 2016 to €94.3 million last year).

Figure 3.9

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



The largest increase in exports in absolute terms last year was recorded in Turkey (+€600 million)

Source: PSE-KEEM Processing: IOBE

3.4 Employment – Unemployment

- Reduction of unemployment for the fourth consecutive year. At 21.5% in 2017 from 23.5% in 2016, the lowest level of the past six years
- Decline by 3/4 from higher employment and by 1/4 from workforce reduction
- The seasonally adjusted wage cost index increased last year by 0.8%, after a rise by 1.3% in 2016

For the fourth consecutive year, unemployment declined last year in Greece. According to data from the Labour Force Survey of ELSTAT, the unemployment rate declined to 21.5% in 2017, two percentage point lower than in 2016 (from 23.5%). The number of unemployed totalled 1,027,100 people, from 1,130,900 in 2016 (decline by 9.2% or 103,900 people). Last year's unemployment rate was the lowest in the past six years. This development is considered to have come from the growth of the Greek economy by 1.4% in the previous year, but also from the structural changes in the labour market in recent years. Their impact is reflected in characteristics of the new jobs created in a period of unemployment decline which started in 2014, such as the ratio of full-time over part-time jobs (Box 3.2). Based on the latest unemployment data for this year's January, the non-seasonally adjusted unemployment rate stood at 20.9%, 0.3 percentage points lower compared with December 2017 (21.2%) and 3.1 percentage points down from the same month of last year (24%).

Box 3.3

Full and part-time employment trends in the period of unemployment decline between 2014 and 2017

The domestic fiscal crisis of 2010 resulted in the implementation of programmes of economic adjustment, which included structural changes in addition to the fiscal consolidation measures. These include changes aimed at removing rigidities in the labour market, with the ultimate goal of adapting the labour market to the needs of the new growth model of Greece. To achieve this, extensive labour market reforms were legislated between 2010 and 2012. They focused on issues such as the relative force of collective agreements in relation with other contracts (e.g. sector versus company collective bargaining agreements), the automatic extension of the former, setting of the minimum wage, the possibilities for setting the working hours, mass layoffs, etc. Given the above extensive market changes with a view to making it more flexible, trends in full and part-time employment indicators in Greece are analysed for the period between 2014 and 2017, during which the unemployment rate was falling.

According to ELSTAT data on the last four years, overall employment in Greece increased by 6.1%, from 3,536,300 to 3,752,600 people (+216,300 jobs). The number of employees under part-time employment increased by 9.9%, from 335,800 to 369,200, while the percentage increase in the number of full-time workers stood low at 5.7%, from 3,200,500 to 3,383,400 (+182,900 employees). As a result of the above changes, the share of part-time jobs in total employment increased marginally between 2014 and 2017, from 9.5% to 9.8%, with a corresponding marginal decline in the share of full-time employment, from 90.5% to 90.2%. Note that in the EU and the Euro area, part-time work is more prevalent than in Greece, as in 2017 20.3% (from 20.5% in 2014) and 22.3% (unchanged from 2014) of the total employees respectively worked in part time employment.

As to the age structure of the rise in part-time employment in Greece between 2014 and 2017, the biggest increase in the number of employees under this working status occurred among those aged 25-49 years, which was the age category with the highest share of part-time in total employment (66.7%, on average, of the total employees were working part-time in the examined period). Their number increased by 7.2% or 16,300 people, from 225,300 to 241,600. In the age category of 15-24 years old, the number of employees rose from 31,900 to 40,100 (+26.0%). Weaker growth of part-time work was recorded among those aged 50-64 years, where it stood at 17.4% (or +11,400 employees, from 65,400 to 76,800). By contrast, among employees over the age of 65 years old, the number of part-time workers declined by 18.9%, from 13,200 to 10,700.

As to the evolution of the share of the age groups in part-time work over the period 2014-2017, in the age categories 15-24 y.o. and 50-64 y.o., a slight increase was observed, from 9.5% to 10.9% and from 19.5% to 20.8%, respectively. By contrast, in the categories of 25-49 y.o. and over 65 years old, there was a slight decrease, from 67.1% to 65.4% and from 3.9% to 2.9%, respectively. Therefore, mostly the youngest and the oldest have used the part-time opportunities for finding a job.

Continuing the analysis at sectoral level, the sectors that had the biggest increase in the share of part-time in total employment were Tourism (from 13.2% to 17.1%), Wholesale-Retail Trade (from 16.4% to 19.8%) and Education (from 9.7% in 12.2%). By contrast, the sectors with the greatest decrease in the part-time employment share were Agriculture-Forestry-Fisheries (from 16.3% to 12.3%), Construction (from 7.8% to 5.2%) and Activities of Households as Employers (from 6.5% to 4.0%). Note that in Manufacturing and Public Administration, important for the Greek economy sectors, the share of part-time employment marginally decreased in the former (from 6.0% to 5.8%) and marginally increased in the latter (from 0.7% to 0.8%).

In summary, between 2014 and 2017, when unemployment domestically declined, part-time work increased, and as a result its share in total employment marginally expanded. However, the percentage of full-time work remains very high, over 90% at the end of this period. Despite a slight increase in its share in Greece, part-time work is clearly less prevalent than in the EU and the Euro area, where it exceeds 20.4% and 22.3% respectively of those employed between 2014 and 2017. The age categories 15-24 years old and 50-64 years old experienced a slight increase in their share in total part-time work in Greece, while in the categories 25-49 and over 65 y.o. slight reduction was observed. At the sector level, Tourism, Wholesale-Retail Trade and Education increased their share in total part-time employment, while in contrast, in the primary sector, Construction and Activities of Households as Employers the share in total part-time work declined. From the above trends, it appears that, despite the far-reaching structural changes that have taken place in the labour market, employment did not undergo a major restructuring, at least as regards the use of more flexible forms of work.

Table 3.11

Evolution of full and part-time employees per age category (2014-2017, thousand persons)

	Part-time employment					Full-time employment				
Age category	15-24	25-49	50-64	65+	Total	15-24	25-49	50-64	65+	Total
2014	31.9	225.3	65.4	13.2	335.8	113.7	2,209.1	834.1	43.6	3,200.5
2015	32.4	231.5	68.9	10.5	343.3	107.8	2,254.4	853.1	52.2	3,267.5
2016	36.3	243.0	74.2	9.5	363.0	101.5	2,258.8	896.5	53.7	3,310.5
2017	40.1	241.6	76.8	10.7	369.2	108.0	2,263.5	952.6	59.3	3,383.4
Percentage change 2014-2017	25.7%	7.2%	17.4%	-18.9%	9.9%	-5.0%	2.5%	14.2%	36.0%	5.7%
Absolute change 2014-2017	8.2	16.3	11.4	-2.5	33.4	-5.7	54.4	118.5	15.7	182.9

Source: Eurostat, Data processing: IOBE

The trend in unemployment in the Eurozone countries did not change from the previous quarters. As a result, Spain followed Greece at a distance, with an unemployment rate, at 17.3% from 19.6% a year earlier. Italy came next with a significantly lower unemployment rate (11.2% in 2017, from 11.7% in 2016), followed by Cyprus (11.1% from 13%). The lowest unemployment rate was recorded in Germany, where unemployment fell by 0.3 percentage points compared to 2016 (3.8%). The unemployment rate was similarly low in Malta, where it stood at 4%, from 4.7% a year earlier. Among the other major economies in Europe, in France, unemployment declined to 9.4% from 10.1% in 2016, while in the United Kingdom it stood at 4.4%, lower by 0.5 percentage points than in 2016. On average, the unemployment rate in the Euro area fell to 9.1% in 2017, from 10% in the previous year.

As repeatedly noted, unemployment has remained higher among women than men. In 2017, the unemployment rate among women in Greece stood 8.3 percentage points higher than the unemployment among men (26.1% against 17.8%), with the difference between the two remaining unchanged from 2016 (28.1% against 19.9% respectively). In the Eurozone, this difference does not exceed 0.7 percentage points both in 2016 and 2017. As a result, the unemployment rate among men declined from 9.7% to 8.8% in 2017, while women it fell from 10.4% to 9.5%.

Regarding the age structure, unemployment decreased in all six main age groups. The highest fall in unemployment occurred among young people aged 20-24, where the unemployment rate fell to 42% in 2017 from 46.2% a year earlier. The weaker drop occurred in the age groups over 65 years old (from 12.8% to 11.7%) and 15-19 y.o. (from 56.5% in 2016 to 55.3% in 2017). In the age category 25-29 y.o., unemployment fell by 2.7 percentage points in 2017 (from 33.8% in 2016 to

31.2%), while among the 30-44 years old, unemployment declined by 1.6 percentage points (from 22.3% to 20.7%).

The percentage of long-term unemployed increased in 2017, after two consecutive years of reduction. In particular, it stood at 72.9%, from 72% in 2016. In contrast, the number of long-term unemployed decreased last year for third consecutive year, to reach 747,200 from 813,900 in 2016 (-8.2%).

The unemployment rates declined in 2017 in six of the eight educational levels reported in the Labour Force Survey. Unemployment increased significantly among people with elementary or no education, from 31.1% to 41.8% and from 31.4% to 41.1%, respectively. Among holders of doctorate or master degrees, which exhibit the lowest unemployment rate over time, it stood at 11.1%, from 11.7% a year earlier. The unemployment rate among tertiary education graduates was lower than the national average, at 16%, 1.9 percentage points lower than in 2016 (17.9%). Among people with higher technical vocational education diploma, unemployment declined last year by 1.5 percentage points in comparison with 2016, from 24.4% to 22.9%. Finally, persons with upper secondary classes or equivalent education and holders of lower secondary education diploma, the unemployment rate fell by 2.4 (from 25.7% to 23.3% in 2017) and 3.2 (from 27.7% to 24.6%) percentage points respectively.

Regarding the regional structure of unemployment, it decreased in all but three of the 13 regions of the country. The highest unemployment rate was recorded in Western Macedonia, at 29.1%, from 31.2% a year earlier. Next came Western Greece, where the unemployment rate stood at 26.3%, 3.6 percentage points lower compared with 2016 (29.9%). The strongest reduction of unemployment was observed in Thessaly and Crete, by 4.9 percentage points in both regions, from 25.5% to 20.6% and from 22.6% to 17.7% respectively. Unemployment dropped significantly in Central Greece as well, by 4.1 percentage points, from 25.0% to 20.9%, while in Attica, the largest region in the country, the unemployment rate dropped to 21.6% in 2017, from 23.0% a year earlier. The biggest regional rise in unemployment in 2017, by 4.2 percentage points, took place in the North Aegean (from 18.3% to 22.5%) and in the Ionian Islands (+3.7 percentage points, from 16.2% to 19.9%).

At the level of basic economic sectors, in the Primary sector the number of employed has steadily fallen since 2014. In 2017, the number of employed in this sector decreased marginally, by 1,200 people or 0.3%, from 454,500 to 453,400. In the other two major sectors (Secondary and Tertiary) employment strengthened for the third and fourth consecutive year respectively. In particular, employment strengthened by 3.3%, from 560,000 in 2016 to 578,200 in 2017, in the Secondary Sector and by 62,100 people (from 2,659,000 to 2,721,100) in the Tertiary sector.

Employment increased in 14 of the 21 sectors of economic activity, including important for the Greek economy branches. The biggest rise in the number of employees in 2017 was recorded in the most populous in employment terms sector - Wholesale-Retail Trade - where employment increased following its fall in 2016, by 21,300, reaching 679,200 people. Human Health and Social Work Activities came next, with an expansion of employment by 13,200 people, to reach 231,600 people, followed by Manufacturing, where employment has strengthened for a third consecutive year, by 10,600 employees, to 358,200 people. In Other Service Activities jobs expanded by 9,900, from 67,400 the year before to 77,300 in 2017, while in Tourism employment increased by 9,500, from 341,200 in 2016 to 350,700 in the following year. In Construction, another important sector of the Greek economy, employment increased for the second consecutive year, reaching 149,300 people, from 147,100 a year earlier. In contrast, the largest decrease in the number of employees in 2017 occurred in the sector Activities of Households as Employers, by 5,100 people, with employment falling to 35,000. Finally, in Public Administration – Defence, employment declined marginally in 2017, by 0.2%, from 331,300 to 330,600, while Financial-Insurance Activities experienced a 1.6% drop, from 94,300 to 92,800 employees.

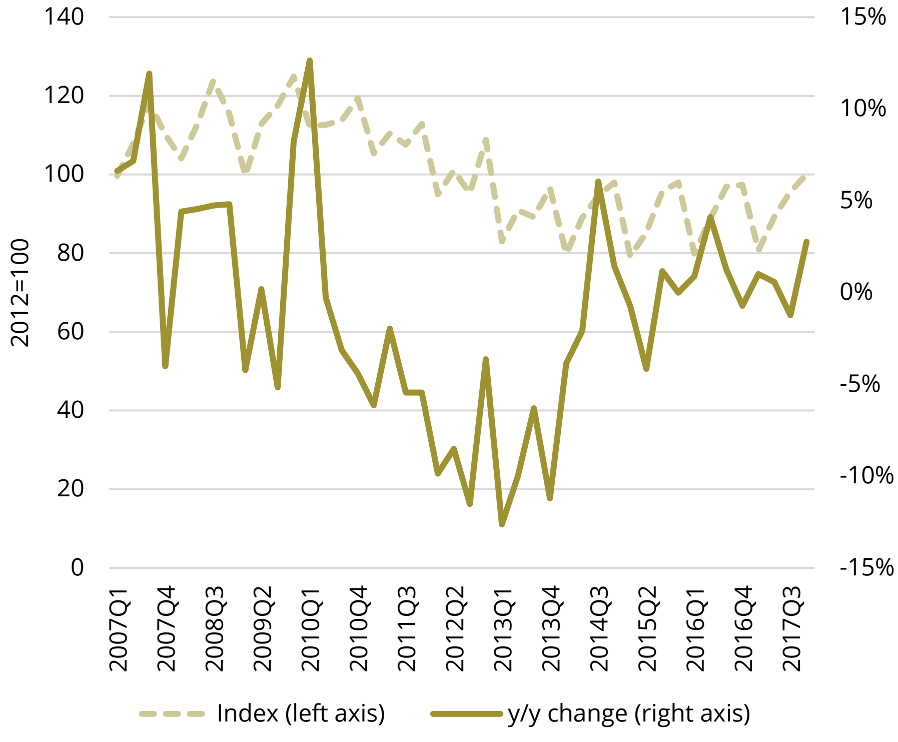
In conclusion, the increase of employment in 2017 originated mainly from:

- Wholesale-Retail Trade (+21,300 people or +3.2%), in line with the increase in the seasonally adjusted turnover indices in Wholesale Trade by 3.7% and Retail Trade by 1.7%
- Manufacturing (+10,600 people or +3.0%), in line with the growth of the activity indicator of the sector last year by 6.3%
- Other service activities (+9,900 people or +14.7%).

Figure 3.10

Seasonally adjusted wage cost index (Q1/2007-Q4/2017)

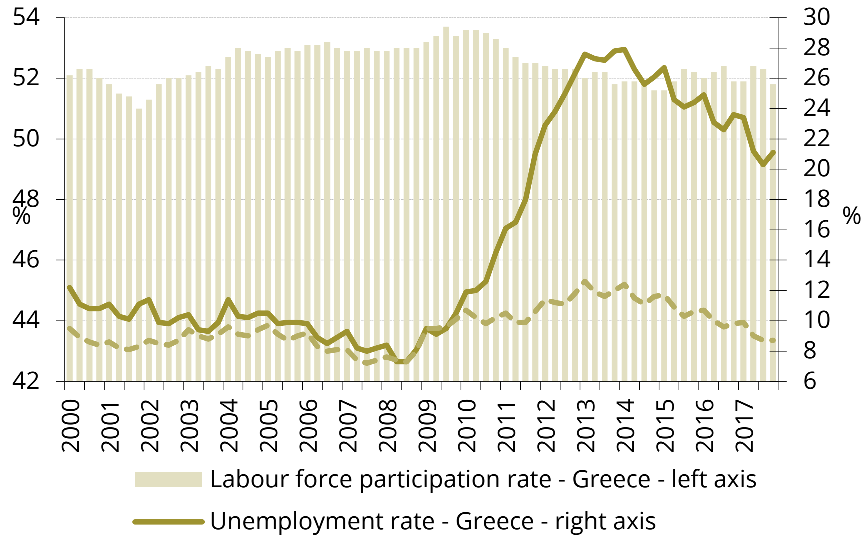
Increase in the seasonally adjusted wage cost for the whole of the Greek economy by 0.8% last year, less than in 2016 (1.3%)



Source: ELSTAT, Data processing: IOBE

Figure 3.11

Labour force participation and unemployment rates



Reduction of unemployment in Q4 2017 to 21.2% from 23.6% in Q4 of 2016. Overall in 2017, it declined by two percentage points to 21.5%.

Source: ELSTAT, Data processing: IOBE

Regarding the trend in the seasonally adjusted labour cost index for the economy as a whole, after its contraction in Q3 of 2017, it increased 2.8% year on year in the following quarter. On an annual basis, the index rose in 2017 by 0.8%, following its growth by 1.3% in 2016.

Table 3.12

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
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
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 2015	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

Source: ELSTAT, Labour Force Survey

Medium-term outlook

The positive developments recorded in the Greek economy in 2017 that had a positive impact on employment are expected to exert positive effects in 2018 as well, mainly through exports, of goods and services, and investment.

As for exports, the steadily high rates of growth in the EU and the US in 2018, based on the latest reports from international organisations (2.4% and 2.9% respectively),[34] and in developing and emerging economic regions with a growing share of the Greek exports of goods (Middle East, North Africa) as well, will lead to their increase in the current year too. The negative effects of the protective trade policy measures taken so far in the US are thought to be mostly indirect, from the negative impact on EU exports, as the value of Greek exports in products where import restrictions were imposed has a small share in the value of all domestic exports (section 3.3 of the current report). According to the latest data from the Bank of Greece, exports without fuel and ships in the first two months of this year widened by 16.7%, from €2,837.2 million to €3,310.1 million.

Especially in tourism, the proceeds of which are the principal component of the exports of services, according to SETE the international arrivals at major airports of the country widened by 20.6% year on year in the first two months of 2018, reaching 649,100 (from 538,300) people. According to a recent study of SETE[35], the prospects for the tourist flows in regional airports of Greece are favourable as the scheduled airline seats by 31/01/2018 for this year's summer season increased by 22% compared with a year ago. This indicator is considered to point to a possible new record of international arrivals this summer.

The new rise of export activity is expected to stimulate investment in export sectors, in order to cope with the higher demand. After the delays in the execution of the Public Investment Programme in the previous year, it is quite possible that its contribution to investment activity will strengthen in 2018, as its budget does not differ from last year and its more front-loaded implementation is possible. The completion of privatisation – concessions, investment plans of large corporations that raised funds by issuing bonds (e.g. Mytilineos Group, TERNA Energy), and other building works by the private sector, after many years of idleness, is expected to boost the construction activity.

In parallel, relevant programmes of the Manpower Employment Organisation OAED, such as the community service programmes, will continue to exert positive effects on employment in 2018. These programmes are expected to create new jobs in municipalities, ministries, health services, refugee reception centres and other public-sector institutions. About 40,000 new jobs are anticipated to be announced, for eight-month employment, of whom 25,000 positions will be in municipalities and 15,000 in other services. A relevant programme for forest fire protection was announced, which will lead to the recruitment of 5,066 unemployed.

Taking into account the above effects, IOBE's forecast regarding the unemployment rate in 2018 is kept unchanged at around 19.8%.

[34] World Economic Outlook, IMF, April 2018

[35] Outlook 2018 - The prospects of inbound tourism in Greece in 2018, March 2018.

According to the latest IOBE business surveys, the short-term employment expectations improved quarter on quarter in the first quarter of 2017 in all sectors, with a stronger increase in Construction and Services. Compared to the same period of the preceding year, the expectations improved in all sectors, except Retail Trade, where it deteriorated substantially. In greater detail:

In Industry, the -3 points average balance of the previous quarter increased by 6 points in the first quarter of this year, to +3. Compared to last year, the average quarterly index was higher by 2 points. In the quarter under examination, the percentage of industrial firms that expected a drop in employment in the next period fell to 5% (from 12%), while the percentage of those expecting employment growth remained at 9%. The vast majority of businesses in the sector (86% from 79%) were expecting employment to remain unchanged.

In Construction, the balance of employment expectations improved from a very low level, to -35 (from -45) points, 18 points higher year on year. In the first quarter of 2018, 44% (from 53%) of the businesses in the sector were anticipating further job losses, while 12% (from 8%) of the respondents were expecting employment growth. At the sub-sector level, the rise of the index in Public Works (to -43 from -62 points on average) was partly offset by a fall in Private Construction (to -15 from +1).

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 -2 points of the previous quarter became +7 points in the quarter under examination (from -6 points on average in the corresponding quarter of 2017). About 10% (from 17%) of the companies in the sector were expecting a drop in employment, with the percentage predicting an increase growing to 17% (from 15%). The trend is positive in all branches of services, with the strongest rise observed in Hotels, Restaurants, Travel Agencies and Land – Pipeline Transport.

The employment outlook indicator in Retail Trade marginally increased quarter on quarter in the first quarter of the year, to +12 (from +10) points. This performance is down by 10 points compared to last year. About 5% (from 3%) of the firms in the sector were expecting job cuts, while 13% (from 15%) were anticipating employment growth, with those expecting stability taking up 79% (from 83%) of the sample. The employment expectations indicator improved in the first quarter of 2018 in all branches of Retail Trade, except for Household Appliances, where it declined slightly.

Figure 3.12

Employment expectations (difference of positive – negative responses)

Stronger business forecasts for the short-term employment outlook in the first quarter of this year in all sectors, primarily in construction and services

Source: IOBE

3.5 Consumer and Producer Prices

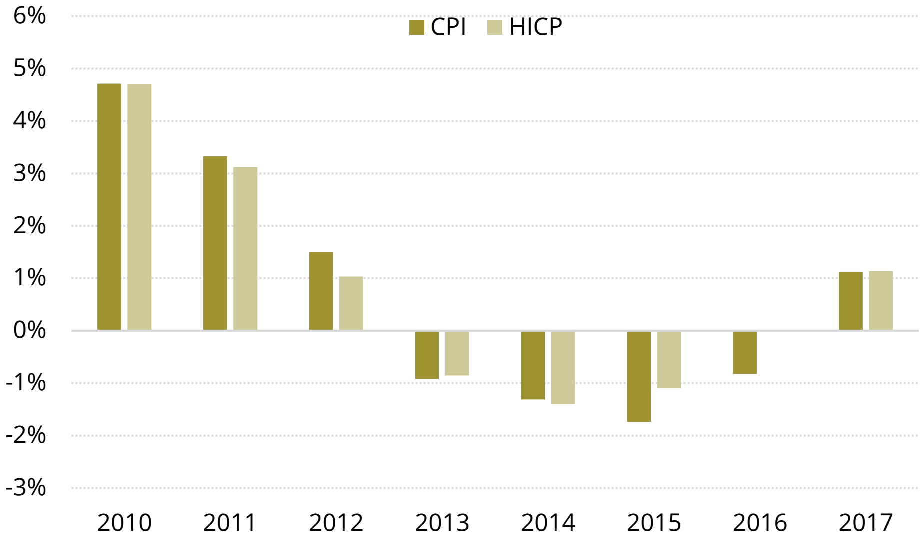
- Price stagnation in the first quarter of this year
- Fading inflationary impact of indirect taxes, weak pressure from energy products
- Marginally positive core inflation without taxes and energy, after 7 years
- Expected inflation rate at about 0.5% in 2018

Recent Developments

The Greek economy returned to price stability in the first quarter of 2018, after one year of inflation in 2017 and four years of continuous deflation before that. In particular, the Consumer Price Index (CPI) marginally declined, by 0.1% year on year, compared with a rise by 1.4% in the same period of 2016. The Harmonised Index of Consumer Prices (HICP) increased by 0.3%, compared to 1.5% inflation last year (Figure 3.13). In the first quarter of 2018, the annualised price increase based on the 12-month moving average of the CPI stood at 0.7%.

Figure 3.13

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



The 2017 inflationary trend came to a halt in early 2018

Source: ELSTAT, Processing IOBE

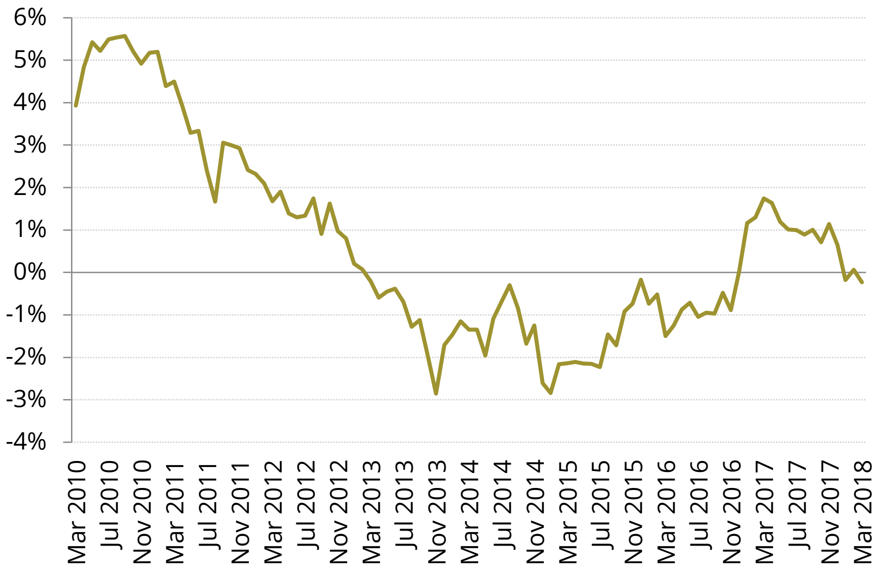
The main causes for the stagnation of prices in the first quarter of 2018 were the weakening of the inflationary effect of indirect taxes, the sluggish domestic demand and the weaker impact of energy prices (Figure 3.14).

Regarding indirect taxation, the inflationary effect of indirect taxes that were hiked or came into force in early 2017 elapsed, as one year passed since their implementation (excise duty on petroleum products, tobacco, electronic cigarettes, fixed telephony and coffee). The new indirect taxes from 01/01/2018 (VAT increase in 27 of the 32 Northeast Aegean-Dodecanese islands and the tax on bookings in hotels, rooms to let and apartments) had only marginally boosting effects on inflation in early 2018.[36] Indicative of the diminishing impact of indirect taxes is that in the first quarter of 2018, the annual HICP change was only marginal, at +0.1%, compared to +1.2% in the same period of 2017 and +0.9% overall in 2017.

Figure 3.14

CPI in Greece (annual percentage change per month)

Marginal fall of CPI in Q1 2018 after four quarters of inflation



Source: ELSTAT, Processing IOBE

As to the impact from energy goods, the higher year on year international oil price in the first quarter of 2018 was offset by the stronger exchange rate of the euro, and by lower overall regulatory charges in electricity tariffs, as the reduction of renewable energy tariffs from 01/01/2018 that was decided by the Regulatory Energy Authority overcompensated for the increase in public service obligation charges. The average global oil price strengthened year on year by 25% in the first quarter of 2018 in ($/barrel) [37], which was offset in part by the higher average exchange rate of the euro against the dollar, by 15% (1.23 USD/EUR on average in the first quarter of 2018, against 1.06 in the first quarter of 2017). As a result of the above changes, the average crude oil price in the first quarter of 2018 reached about €54/barrel, 8% higher year on year. Indicative of the weakening impact of energy prices is that in the first quarter of the year the annual HICP did not change, compared to +0.7% in the first quarter of 2017 and +0.4% overall in 2017.

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 3.15). In the first quarter of 2018, the percentage change in the HICP in Greece was lower than the Eurozone average by 90 basis points (0.3% against 1.2%), recording the second lowest rate in the Euro area, after Cyprus (-0.8%). Removing the effect of energy prices and taxes, prices rose slower

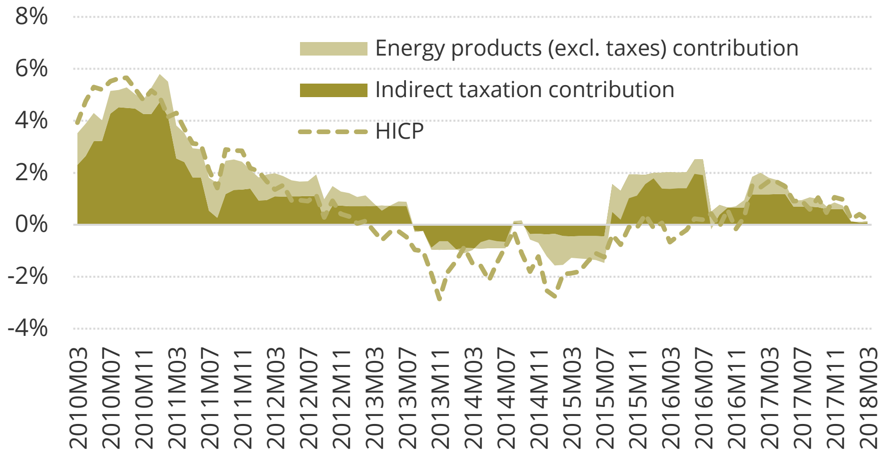
[36] Lesbos, Chios, Samos, Kos and Leros are excluded from the abolition of the VAT discount due to the refugee flows until 30/06/2018

[37] Average values based on Europe Brent Spot Price. Source: EIA, US Energy Information Administration, https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

in Greece than in the Euro area (0.2% against 1.1%). This indicator increased for the first time after six years of continuous decline (2012-2017, recording the second lowest rate of change in the Euro area after Cyprus (-0.8%).

Figure 3.15

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



The inflationary effect of energy goods and taxes shrank to a marginally positive rate in Q1 of 2018, from 1.9% a year ago.

Source: Eurostat, Processing IOBE

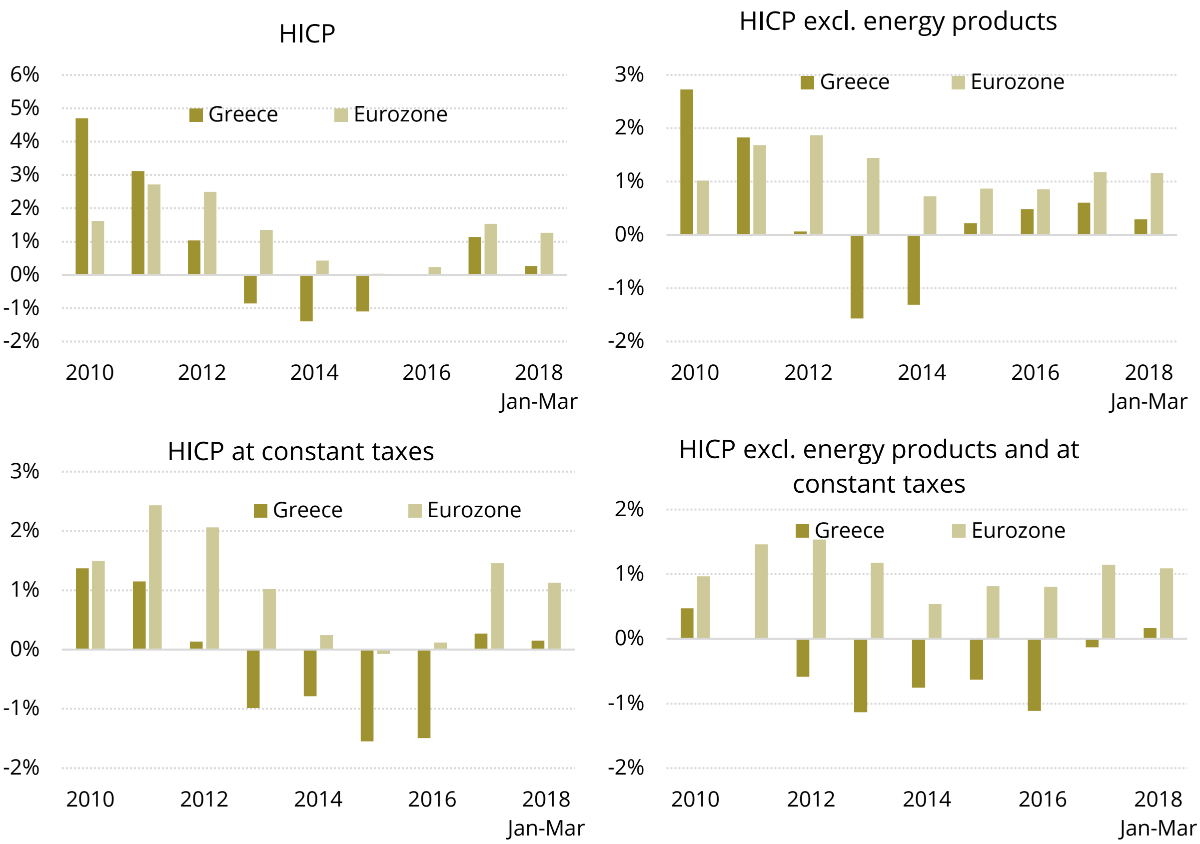
The inflationary effects of higher oil prices, indirect taxes and demand in sectors such as Tourism were reflected in the different price changes in individual categories of goods and services in the first quarter of 2018. The largest increase in prices was recorded in Alcoholic Beverages – Tobacco (+6.3% against +2.6% in the first quarter of 2017), reflecting possible 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 quarter of 2018 (+2.0%, compared to +6.7% a year earlier). Hotels-Cafe-Restaurants came next (+1.2%, against 1.6% in the first quarter of 2017), due to high external demand for tourist services. Education services experienced marginal price rise. The prices in the remaining categories of goods and services declined year on year in the first quarter of 2018, with the greatest reduction occurring in Other Goods (-2.2%, following a fall by 1.6% in the first quarter of 2017), Car Insurance, Durable Goods, Household Appliances and Services (-2.1%, after -2.6% in the corresponding period of 2017) and Housing (-1.5%, against inflation by 3.8%). The price decline in housing came, inter alia, from reducing regulatory charges on electricity.

The Producer Price Index (PPI) of the domestic and foreign markets as a whole increased notably less year on year in the first two months of 2018, by 0.7% in 2017, compared with 10.5% increase in the same period of 2017 (Figure 3.17). The large fluctuation of the PPI largely reflects corresponding changes in the prices of energy products due to fluctuations in the price of oil. PPI without energy also increased less in the first two months of 2018, by 0.5%, against a 0.8% rise in the same period of 2017.

In greater detail, the strongest inflation in the first two months of 2018 was recorded in Energy goods excluding electricity, by +2.9% (compared to explosive growth by 55.9% a year earlier), Intermediate Goods, by 1.3% (1.4% in the first two months of 2017) and Mining-Quarrying-Manufacturing, by +1.2% (13% a year earlier). Weaker positive changes were recorded, inter alia, in Energy Goods, Capital Goods and Durables. Producer prices declined in the first two months of 2018 in Consumer Goods.

Figure 3.16

Annual HICP change in Greece and the Euro area



The inflation with fixed taxes and without energy goods was marginally positive, for the first time after six years of price decline

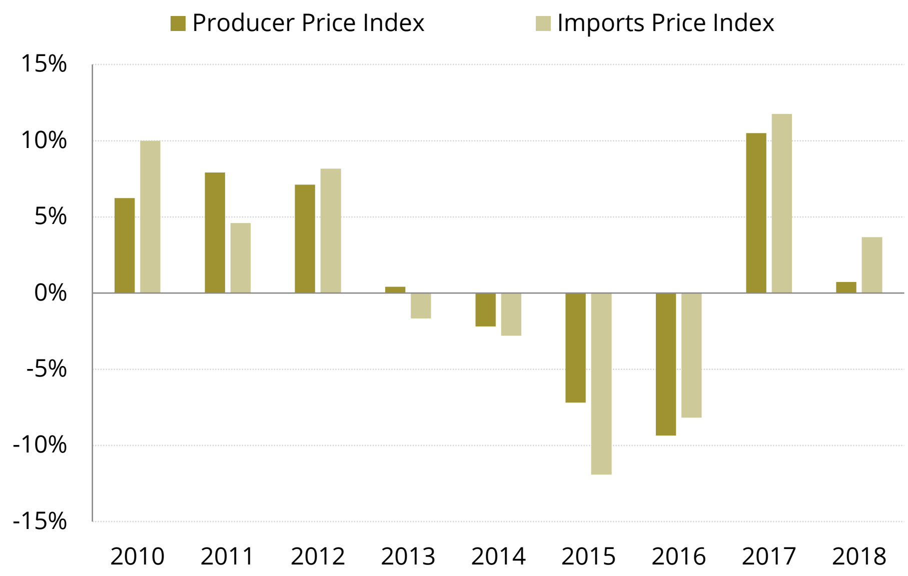
Source: Eurostat, Processing IOBE

Medium-term outlook

As evident from the analysis of the trends in changes in consumer prices in the first quarter of 2018, the disinflation came primarily from significantly weaker impact from indirect taxes. Other factors that slow down price growth include sluggish household demand, gradual strengthening of competition in sectors that implemented structural reforms and the so far smaller than expected effect from the increase in the global petroleum prices due to the stronger euro and the reduction of regulatory charges in electricity tariffs. The effect of all these factors are expected to carry over to 2018, with the effect of oil prices gradually picking up. The rate of core inflation excluding energy and taxes is expected to continue to be negligible, perhaps at marginally positive levels.

Figure 3.17

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



Significant slowdown of the growth of import and producer prices compared with a year ago, due to the weaker impact of energy goods.

Source: ELSTAT, Processing IOBE

In particular, the impact from increases in indirect taxes in early 2017, especially those on motor diesel and LPG, as well as new indirect taxes (fixed telephony, coffee) elapsed at the end of 2017, when one year since their entry into force expired. The increase of VAT in Northeast Aegean Islands and the Dodecanese and the levy of new indirect taxes (residence tax in hotels and rented rooms and apartments) since the beginning of the 2018 are expected to have a marginal inflationary impact on the general price level. Besides, the impact of indirect taxes in the first two months of the year was at +0.1%, significantly weaker than the impact of indirect taxes overall in 2017 (+0,9%).

During 2018, the international oil prices are expected to fluctuate in the vicinity of the levels recorded in early April (about 68 $/barrel), slightly higher than in earlier forecasts by analysts (US Energy Information Administration), which implies that it will fluctuate on average 15% higher than the 2017 average in euros (in dollars, the average annual rise is expected to reach about 26%). The upward trend in oil prices is supported by accelerating economic growth in both developed and developing economies, and the OPEC decision at the end of last November to extend the petroleum production cuts for the whole of the current year. The geopolitical tension in the Middle East may also lead to higher international prices.

The appreciation of the euro against the dollar ameliorates the propping effect of petroleum on consumer prices. With the exchange rate of the euro expected not to increase in the current year and to stay at around 1.23 dollars/euro, the average rate in 2018 will be about 9% higher than last year. With the growth in the Euro area continuing with at least comparable pace in 2018, a plausible preservation of the exchange rate at slightly higher level year on year would largely alleviate 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 larger discounts in the competitive tariff elements are expected to be offset by changes in the calculation of public service charges. The rise of the global petroleum prices drags along the gas prices with a delay of a few months, thus 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 small yet positive in 2018.

In summary, the weakening of the inflationary impact of indirect taxes, the subdued domestic demand and the smaller than last year effect of the increase of international petroleum prices on CPI will slow inflation down in 2018, to about 0.5%.

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.

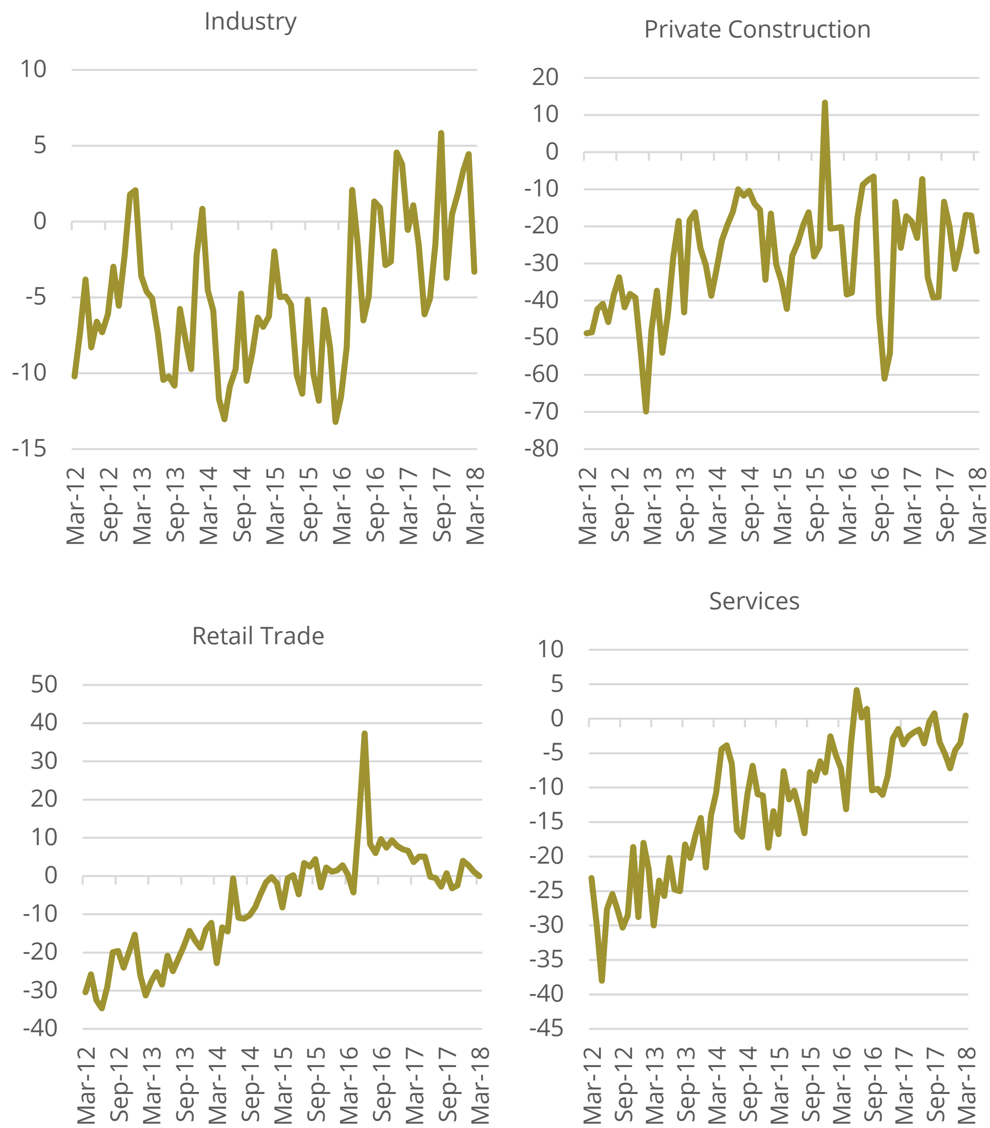
The quarter-on-quarter changes in the price expectations increased in the first quarter of 2018. In particular, the price expectations indicator increased slightly quarter on quarter in Industry and Retail Trade, with stronger growth in Services and Private Construction. Year on year, the expectations for price changes declined in Industry and Retail Trade, and remained unchanged in Private Construction and Services. In greater detail:

In Industry, the price expectations indicator marginally increased quarter on quarter in the first quarter, as the balance increased from 0 to +2 points (from +6 points in the same quarter of the previous year). About 8% (from 9% on average) of the companies in the sector predicted a fall in prices in the upcoming period, with 83% (from 82%) expecting stability and 9% a price increase.

In Retail Trade, the index for price expectations in the sector increased from -1 point from the previous quarter by 2 points (from +6 in the corresponding quarter of last year). About 7% (from 6%) 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 8% (from 5%), with the remaining 85% (from 89%) of the businesses expecting price stability. The price expectations strengthened slightly quarter on quarter in the first quarter of the year in all sub-sectors of Retail Trade, except for Food-Beverages-Tobacco, where the indicator declined slightly.

Figure 3.18

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



Source: IOBE

Year-on-year upswing in the price expectation in all sectors in Q1 of 2018

The average index for the anticipated change in prices in Services in the examined quarter slightly strengthened quarter on quarter, moving to -3 (from -5) points, returning to its level recorded in the same quarter of last year. In the current quarter, 11% (from 13%) of the companies in the sector were expecting a fall in prices, while for one more quarter 8% were expecting an increase. At the branch level, the index declined in Various Business Activities and Information Services, increasing in the remaining branches.

Finally, in Private Construction, the negative balance of -26 points from the previous quarter increased to -20 points, yet it remained unchanged compared to the same period of the preceding year. About 24% (from 27%) of the businesses in the sector were anticipating their prices to decline, while the percentage of those expecting inflation during the examined quarter totalled 4% (from 1%).

3.6 Balance of Payments

- The current account deficit fell to 0.8% of GDP in 2017, from 1.9% the year before, recording its second lowest level since 2002
- The deficit in the Goods Account increased in 2017, due to higher growth of imports than exports
- The increase in the deficit on the products side was more than compensated by a significant increase in the surplus of services, from Tourism and Transport receipts

Current Account

In 2017, the Current Account had a deficit totalling €1.4 billion, from €1.9 billion deficit in 2016. The deficit narrowed by about €500 million from the significant boost of the surplus in the Services Account, which compensated for the increase of the deficit in the Goods Account.

Based on the first data for the current year, in the first two months of the year, the Current Account was in deficit of about €1.9 billion, against a €1.4 billion deficit in the corresponding period of 2017, mainly due to surging of the deficit in the Goods Account, as imports strengthened more than exports.

Regarding the trends in the components in 2017, the deficit of the Goods Account reached €18.3 billion, expanding by €1.7 billion, from greater absolute increase in imports than in exports, compared with a reduction by €649.3 million in 2016. In particular, exports amounted to €27.9 billion, strengthened by 14.1% (€3.4 billion),[38] with a significant rise in fuels (27.2%), ships (26.1%) and other goods (9.5%). Imports increased by 12.7% (€5.2 billion) to reach €46.3 billion. The deficit of the Goods Account excluding fuel and ships stood at €14.4 billion in 2017, higher by 5.5% year on year, as alongside the boost of exports by €1.7 billion, imports increased stronger, by €2.5 billion. The deficit of the fuel account increased significantly, to €3.7 billion in 2017, from €2.8 billion in 2016, also from stronger increase in the imports of fuels.

The surplus in the Services Account increased by €2.1 billion in 2017, to €17.4 billion, with a simultaneous increase in receipts and payments. The travel account had a significant contribution in shaping the surplus between 2015 and 2017, as around 72% of the total surplus in services comes from this component, compared with about 62% between 2004 and 2014. In 2017, total receipts from services amounted to €28.3 billion, up on 2016 by 13.2% (€3.3 billion). At the component categories, the receipts from travel services reached €14.6 billion, up by 10.8%, the receipts from transport services increased by 16.9%, to €9.1 billion, while lastly the receipts from other services increased by 13.8%, to €4.5 billion. The total payments for services reached €10.9 billion in 2017, against €9.7 billion in the preceding year. The payments for travel services declined by 5% to €1.9 billion, the payments for transport services increased by 13.3% to €5.0 billion, while

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

the payments for other services reached €3.9 billion, higher by 21% compared with 2016. At the end of this section, an analysis of the evolution of the balance of the external sector in Greece and Portugal, two countries that both have implemented economic adjustment programme and exhibit several common structural characteristics, is presented (Box 3.4).

The Primary Income Account was in surplus of €91.2 million in 2017, compared with practically balanced account in 2016. Revenues amounted to €6.1 billion, up by 3.9%, while payments declined by 2.3% to €6.0 billion. In greater detail, income from labour remained close to €135 million, from investments it increased by 21.8% to €3.3 billion, while other primary income (subsidies and taxes on production) decreased by 11.8%, to €2.7 billion. Payments for labour income increased to €277.8 million, payments for investment income increased by 2.0%, to €5.3 billion, and those for other primary income decreased by 4.1%, to €403 million.

The Secondary Income Account recorded almost the same deficit as in 2016, at €585.7 million. Receipts totalled €1.9 billion, from €1.8 billion in 2016, while payments amounted to €2.5 billion, against €2.4 billion in 2016.

Capital Account

The Capital Account[39] was in surplus last year, at about the same level as in 2016 (€914.5 million, against €1.0 billion). Receipts declined by €144.6 million, while payments decreased by €23.4 million.

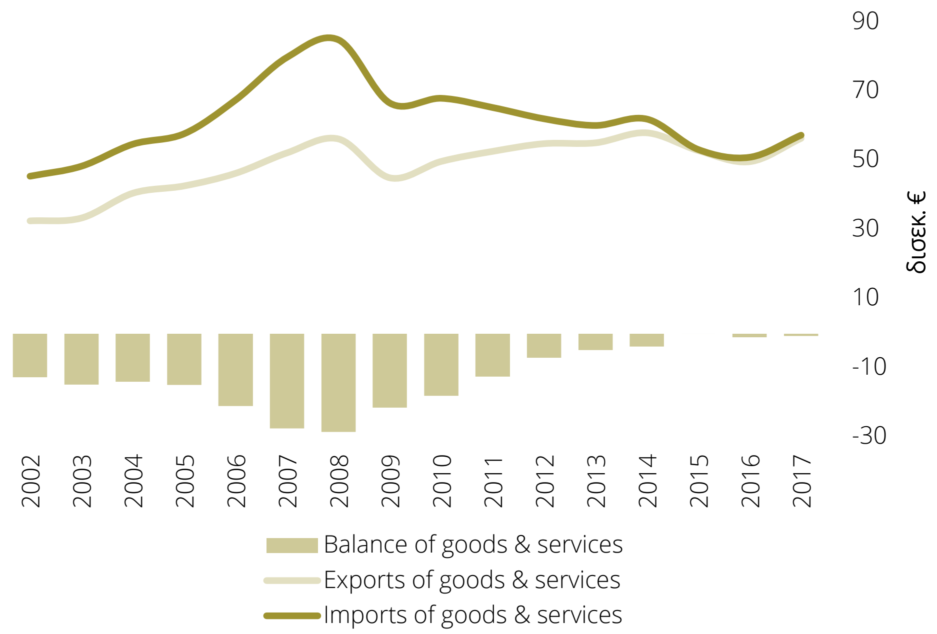
Finally, the Current and Capital Account, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, recorded a deficit of €500 million, compared with a deficit of €836.2 million in 2016.

[39] 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).

The deficit in the balance of goods and services was almost eliminated in 2017, falling below €1.0 billion, from €28.7 billion in 2008.

Figure 3.19

Imports-Exports of Goods and Services 2002-2017

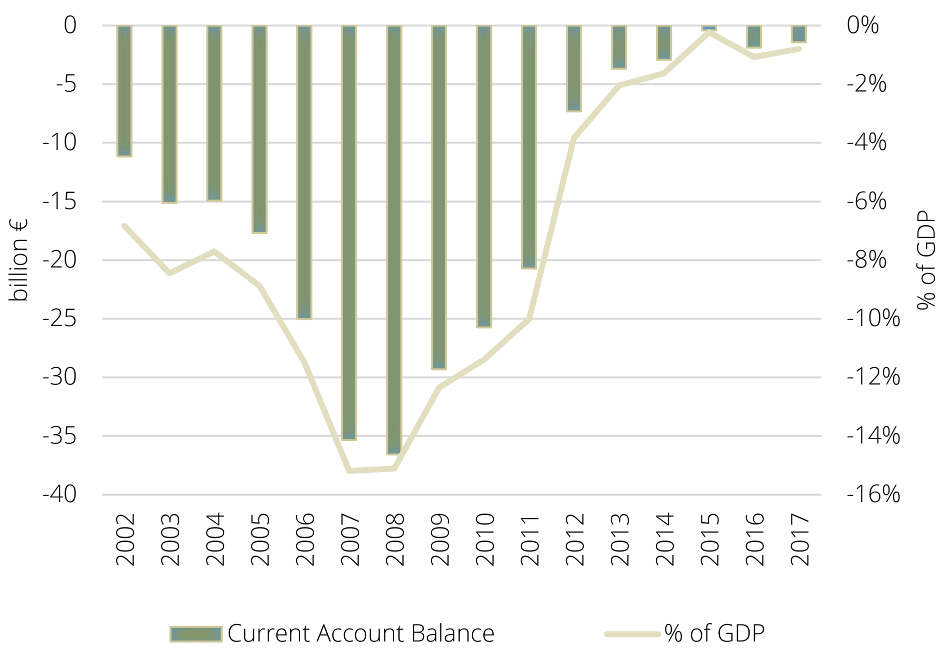


Source: Bank of Greece - Data processing IOBE

The current account deficit reached 0.8% of GDP in 2017, compared to 15.1% in 2008

Figure 3.20

Current Account 2002-2017



Source: Bank of Greece - Data processing IOBE

Financial Account

The Financial Account was in a deficit of €1.1 million in 2017, compared to a deficit of €891.9 million in 2016.

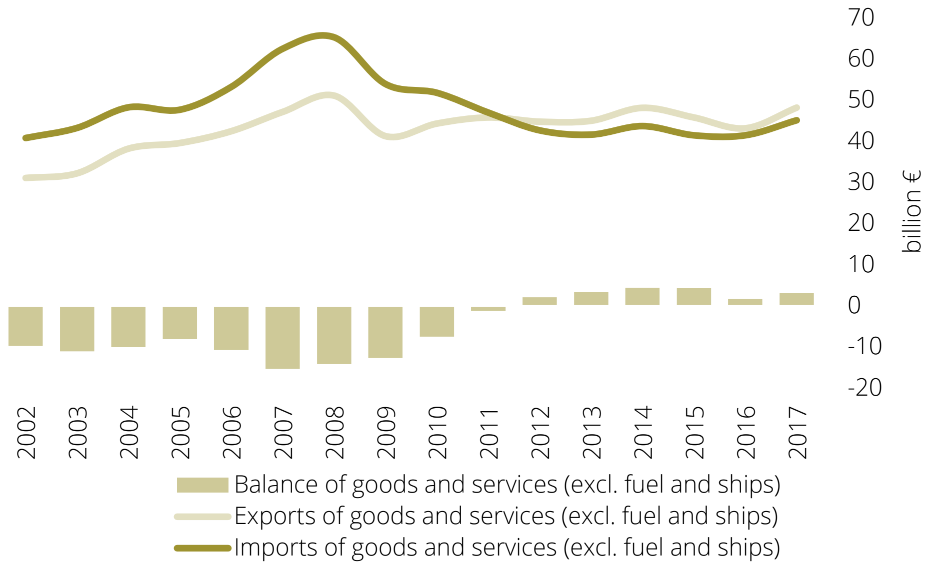
In greater detail, the net receivables of the residents from direct investment abroad increased by €596.3 million, while the net liabilities to non-residents (investments of non-residents in the country) increased significantly, by €3.6 billion.

In the category of portfolio investments, the claims of the residents to non-residents decreased by €19.4 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad decreased. The liabilities to non-residents increased by €725.7 million.

In the category of other investments, the claims of residents to non-residents declined by €11.4 billion, with a net decrease of €2.5 billion in the deposits and repos of residents (credit institutions and institutional investors) abroad. The liabilities declined by €33.3 billion, reflecting the reduction of the deposits and repos of non-residents in Greece by €29.9 billion, while public and private sector debt to non-residents increased by €6.0 billion. Finally, the Reserve Assets of the country totalled €6.5 billion at the end of December 2017, at about the same level as in 2016.

Figure 3.21

Imports-Exports of Goods and Services 2002-2017



The account of goods and Services without fuel has been in surplus since 2012. In 2017, the surplus totalled €3.0 billion.

Source: Bank of Greece, Data processing IOBE

Box 3.4

Impact of the adjustment programmes on export activity

Five Euro area countries have requested foreign financial assistance from the official sector since 2010: Greece, Ireland, Portugal, Spain and Cyprus. Ireland and Spain entered economic adjustment programmes, mainly due to crises in the property market, and subsequent problems in the banking system, while Cyprus needed assistance because of a crisis in its banking system. Only Greece and Portugal adopted adjustment programmes due to budget deficits and weakening of the competitiveness of their economies. The two countries, apart from the similar programme entry conditions, have significant similarities, e.g. with respect to their population and area, thus comparing their performance is particularly instructive. There are also certain small differences, however, as until the crisis of 2008, the GDP per capita of the Greek economy reached €21,800, compared to €16,900 in Portugal, while exports accounted for 23.4% of GDP in Greece and 31.1% in Portugal. Therefore, Portugal entered the global financial crisis of 2008, and the subsequent Eurozone debt crisis, with lower GDP per capita than Greece, but with a higher share of exports in GDP. In addition, the minimum wage was at 65% of the Greek minimum wage. Based on the above elements, the competitiveness of Portugal was slightly stronger.

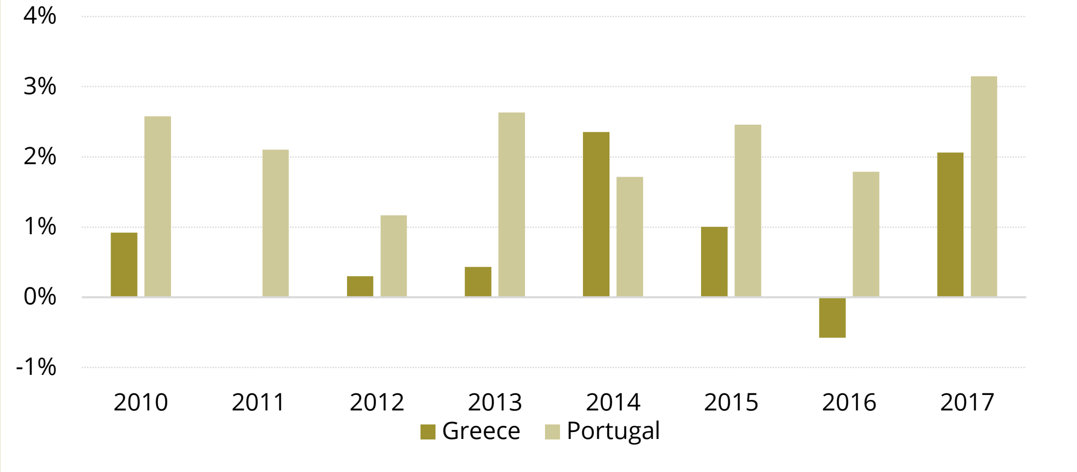
Greece entered the economic adjustment programme in 2010, and since then it has entered two more programmes (2012, 2015). Portugal entered one adjustment programme in 2011, which was completed in 2014. The internal devaluation, carried out in Greece and Portugal with restrictive fiscal and income policies, by reducing public spending, increasing taxes and reducing or restraining wages in the private sector, aimed at the recovery of competitiveness, which was one of the two main objectives of the programmes. The course of exports in the two countries is of particular interest, as it provides important clues as to whether, and to what extent, their competitiveness indeed improved. The contribution of exports to GDP growth between 2010 and 2017 period was consistently positive in Portugal and notably stronger than in Greece, with the exception of 2014 (Figure 3.22). Over the same period, the impact of exports on GDP in Greece shifted from positive to negative and back.

Attempting an interpretation of these trends and developments, in Greece the minimum wage decreased by 20% in 2012, remaining unchanged until today. As a result, the Real effective exchange rate in terms of the unit labour costs (REER ULC) has subsided considerably. However, the Real Effective Exchange Rate measured in terms of inflation (REER CPI) declined less strongly (Figure 3.23). The difference between labour costs and final prices possibly reflects distortions in the markets for products and services, the impact of tax increases on prices etc. Therefore, due to the milder reduction of the exchange rate in inflation terms, the Greek economy's exports did not grow as expected given the falling labour costs in 2012 and 2013. It is possible, of course, that other endogenous and exogenous factors have also affected export performance.

Similar discrepancy of the exchange rates occurred in Portugal in 2012, yet sooner than in Greece the two rates began moving at the same pace. Note that the minimum wage remained stable in Portugal between 2011 and 2014 and has been growing since 2015. Unlike the Greek economy, exports in Portugal increased steadily from 2013 until 2017, which explains the greater contribution of exports to GDP growth. Between 2014 and 2017, the contribution of exports in Greece fluctuated significantly, despite the harmonisation of the trends in REER in terms of labour costs and consumer prices. The decline in the contribution of exports in 2015 and their negative impact in 2016 are estimated to come from the imposition of capital controls in June 2015.

Figure 3.22

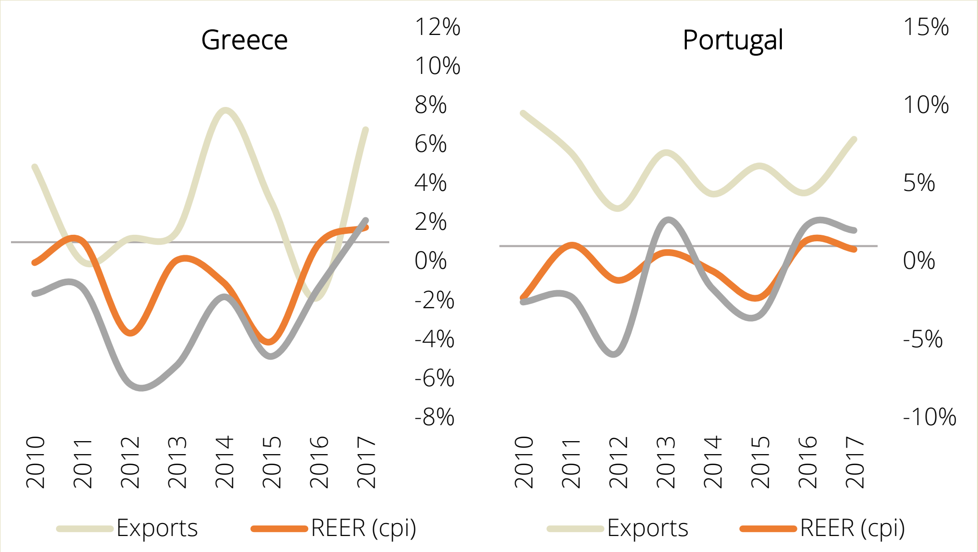
Contribution of exports to GDP growth (percentage points)



Source: Eurostat

Figure 3.23

Change in exports and REER in Greece and Portugal



Source: Eurostat

Cumulatively between 2010 and 2017, the REER in terms of labour costs decreased by 18% in Greece, compared with 6% in Portugal, while the rate in terms of final prices remained stable in Portugal, falling by 5% in Greece. Over the same period, however, the exports of the Greek economy expanded by about 20%, compared to an increase of about 50% in Portugal. As a result, the share of exports in Greece reached 33% of GDP by 2017, compared with 43% in Portugal, from 22% and 30% respectively.

In conclusion, although Greece has regained some of the competitiveness lost prior to the crisis, its exports grew slower than in Portugal. The starting point of the two countries at the onset of the crisis, the deviation of the REER in terms of unit labour costs and inflation, additional adaptation measures implemented in the Greek economy related to indirect taxation, the capital controls and possibly other factors, such as the international relations of the two countries, as Portugal neighbours with Spain - a major economy, with quite a few common cultural characteristics - are factors that could explain this deviation.

Table 3.13 Balance of Payments in million €

		January – December			January - February		
		2015	2016	2017	2016	2017	2018
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-404.5	-1,872.0	-1,414.1	-1,725.0	-1,370.1	-1,879.5
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-298.8	-1,270.5	-919.6	-2,183.7	-2,473.0	-2,863.2
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-17,231.2	-16,581.9	-18,353.2	-2,587.0	-3,098.6	-3,407.8
	Oil balance	-4,208.1	-2,832.5	-3,777.1	-370.8	-724.3	-869.6
	Trade balance excluding oil	-13,023.1	-13,749.3	-14,576.1	-2,216.2	-2,374.3	-2,538.2
	Ships balance	-431.2	-141.3	-214.3	-8.5	-19.0	-35.0
	Trade balance excluding ships	-16,800.0	-16,440.6	-18,138.9	-2,578.5	-3,079.6	-3,372.8
	Trade balance excluding oil and ships	-12,591.9	-13,608.0	-14,361.8	-2,207.7	-2,355.3	-2,503.2
I.A.1	Exports	24,787.2	24,486.7	27,928.8	3,501.0	4,133.5	4,833.9
	Oil	6,713.7	6,156.1	7,831.0	747.1	1,242.0	1,472.2
	Ships (sales)	175.5	156.1	196.9	13.4	54.3	51.6
	Goods excluding oil and ships	17,898.0	18,174.5	19,900.9	2,740.5	2,837.2	3,310.1
I.A.2	Imports	42,018.4	41,068.6	46,282.0	6,088.0	7,232.1	8,241.7
	Oil	10,921.8	8,988.7	11,608.1	1,118.0	1,966.3	2,341.8
	Ships (buying)	606.7	297.3	411.2	21.9	73.3	86.6
	Goods excluding oil and ships	30,489.9	31,782.6	34,262.7	4,948.2	5,192.6	5,813.3
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	16,932.4	15,311.4	17,433.5	403.4	625.7	544.6
I.B.1	Receipts	27,919.2	25,014.6	28,310.5	1,885.8	2,270.8	2,426.1
	Travel	14,125.8	13,206.7	14,630.1	318.5	292.6	304.9
	Transportation	9,968.3	7,814.2	9,135.3	1,077.4	1,279.2	1,422.0
	Other services	3,825.0	3,993.6	4,545.1	489.8	699.0	699.2
I.B.2	Payments	10,986.8	9,703.2	10,877.0	1,482.4	1,645.1	1,881.5
	Travel	2,037.4	2,005.3	1,904.7	273.4	259.7	298.0
	Transportation	5,430.0	4,453.4	5,045.2	667.8	766.4	909.9
	Other services	3,519.4	3,244.5	3,927.1	541.2	619.0	673.5
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	415.9	-3.3	91.2	422.4	785.5	712.2
I.C.1	Receipts	7,023.7	5,887.9	6,117.0	1,570.6	1,830.7	1,972.3
	From work (wages, compensation)	153.8	134.0	135.1	16.6	20.7	18.9
	From investments (interest, dividends, profit)	3,705.3	2,702.1	3,290.4	480.8	436.6	428.9
	Other primary income	3,164.6	3,051.8	2,691.5	1,073.1	1,373.5	1,524.5
I.C.2	Payments	6,607.8	5,891.2	6,025.8	1,148.2	1,045.2	1,260.1
	From work (wages, compensation)	379.4	233.2	277.8	33.4	42.6	43.8
	From investments (interest, dividends, profit)	5,929.3	5,237.9	5,345.0	1,055.2	959.9	1,168.2
	Other primary income	299.1	420.1	403.0	59.6	42.6	48.1
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	-521.5	-598.2	-585.7	36.3	317.3	271.5
I.D.1	Receipts	1,909.7	1,803.7	1,909.9	464.9	673.4	651.5
	General government	1,054.9	1,017.3	897.2	357.7	457.8	508.2
	Other sectors	854.9	786.4	1,012.7	107.2	215.6	143.3
I.D.2	Payments	2,431.2	2,401.9	2,495.5	428.6	356.1	380.0
	General government	1,695.0	1,825.9	1,779.2	337.7	241.7	272.8
	Other sectors	736.2	576.1	716.3	90.9	114.4	107.2
II	CAPITAL ACCOUNT (II.1-II.2)	1,988.6	1,035.7	914.5	631.9	252.7	179.6
II.1	Receipts	2,369.5	1,278.4	1,133.8	673.8	275.5	211.5
	General government	2,319.3	1,198.2	1,040.2	667.0	267.2	184.2
	Other sectors	50.2	80.2	93.6	6.8	8.3	27.3
II.2	Payments	380.9	242.7	219.3	41.9	22.8	31.9
	General government	4.1	28.5	3.0	0.3	0.5	0.4
	Other sectors	376.8	214.2	216.3	41.6	22.4	31.4
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	1,584.1	-836.2	-499.6	*-1,093.1*	*-1,117.4*	*-1,699.9*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	2,820.0	-891.9	-1,093.6	-644.7	-1,295.6	-1,706.9
III.A	DIRECT INVESTMENT*	279.4	-4,156.5	-2,994.1	-48.4	-192.0	0.4
	Assets	1,426.2	-1,382.2	596.3	133.0	156.2	405.5
	Liabilities	1,146.8	2,774.2	3,590.5	181.4	348.2	405.0
III.B	PORTFOLIO INVESTMENT**	8,348.3	9,622.6	-20,117.7	2,282.4	-1,199.4	-6,318.6
	Assets	6,996.0	7,059.0	-19,392.1	1,887.5	-945.9	-2,098.7
	Liabilities	-1,352.4	-2,563.6	725.7	-394.9	253.6	4,219.9
III.C	OTHER INVESTMENT*	-6,162.2	-6,939.5	21,900.2	-3,236.8	378.8	4,558.3
	Assets	16,699.8	-15,458.9	-11,425.8	-344.9	-804.5	-1,200.9
	Liabilities	22,861.9	-8,519.3	-33,326.0	2,891.8	-1,183.4	-5,759.2
	(Loans of general government)	11,921.6	6,492.9	5,693.7	-467.4	-1,987.4	-448.4
III.D	CHANGE IN RESERVE ASSETS***	354.4	581.5	118.0	358.0	-283.0	53.0
IV	BALANCE ITEMS (I +II +IV +V = 0)	1,235.9	-55.6	-594.0	448.4	-178.2	-7.0
	RESERVE ASSETS (STOCK)***				-1,725.0	-1,370.1	-1,879.5

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 THE NEW GROWTH MODEL FOR GREECE AND FINANCING THROUGH THE GREEK STOCK MARKET[40]

- For a steady return to high growth, a new development model is required, with more business investment and a greater contribution of the external sector
- The banking system's ability to provide the needed resources is limited compared to the past. The capital markets in Greece and in Europe are not fully utilised, especially in comparison with the US.
- The policy challenges in attracting foreign investment funds throughout Europe and in Greece are related to stabilisation of the financial system, relaxation or lifting of the capital controls, dealing with the stock of domestic public debt and continued structural changes
- The capital markets can play an important role in terms of ensuring the sustainability of the social security system as well

4.1 Introduction

Between 2008 and 2015, the Greek economy lost 26.1% of its output. It is a matter of urgency for Greece to return to high growth, for the gradual replenishment of losses in its GDP, but also in order to boost the sustainability of its public finances. To put the Greek economy back on a high growth trajectory, the growth model has to change. The new model should be structured to focus on the following basic objectives: 1) limit the importance of consumer spending for growth as

[40] The study was conducted with the support of the Athens Exchange Group S.A. The full text of the study is available (in Greek) on the IOBE website http://iobe.gr/research_dtl.asp?RID=157.

compared with the preceding growth phase 1994-2007, 2) reinforce the role of business investment, 3) increase the net contribution of the external sector, mainly by increased exports.

In pursuit of these objectives, investment and export activity in sectors that innovate and produce internationally competitive market goods and services with high added value and multiplier effect on the economy should be facilitated. The banking system's ability to provide these sectors with the resources that they need is limited. Alternatives to bank lending must be developed in order to secure the necessary funds. The capital markets in Greece and in Europe are not fully utilised, especially in comparison with the US. Funding through the domestic stock market could and should be used to a greater extent.

The stock markets can play a significant role in strengthening the sustainability of the social security system as well. The prevailing demographic trends in developed countries, and in particular the growing ratio of retirees to workers, have made it necessary to carry out relevant reforms. These reforms aim at softer redistributive function of the social security system, which ensures a basic level of income for all pensioners, while providing incentives to workers to save capital, supplementing their basic, guaranteed income. The penetration of the funded pension system and the development of the second and third pillar in Greece are taking place at very slow rates. The further development of the Greek capital market, as an integral part of the Capital Markets Union, is an important and necessary step to strengthen the second and third pillars of the insurance system in the country.

Taking into account the objectives and the conditions for the recovery of the Greek economy and the change of its growth model, and the needs of the social security system, the study highlights solutions offered by the domestic capital market for the pooling of resources for these purposes.

4.2 Trends in key figures of the Greek Stock Exchange

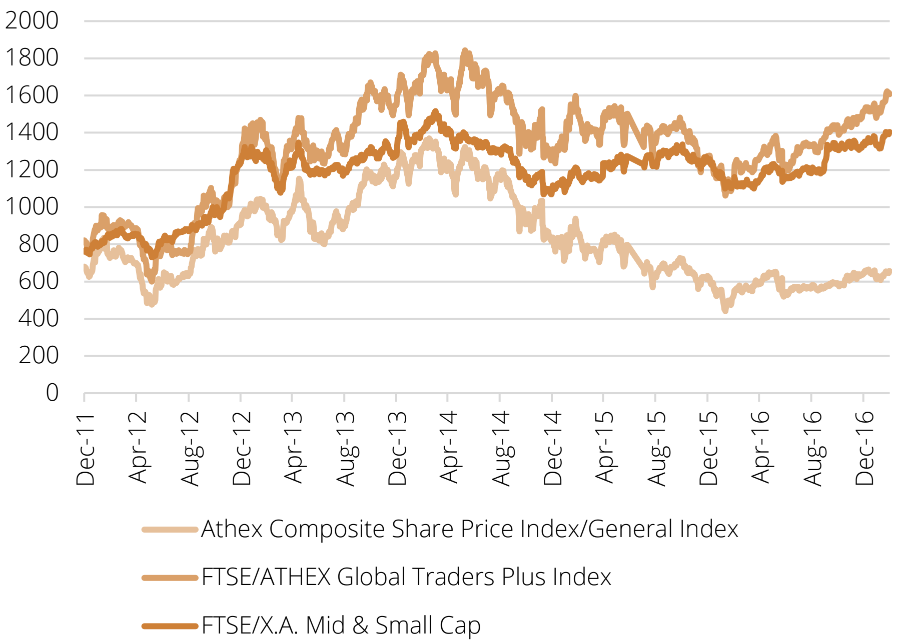
The trends in key figures of the Greek capital market are presented and interpreted for the period 2000-2016, in order to detect possible correlations with the period of accelerated growth of the Greek economy between 2000 and 2007 and the impact of the global financial crisis and the domestic public debt servicing crisis. The variance of the Athens Exchange indices in the examined period, the marketability of shares that are traded on it, the evolution of the structure of its market capitalisation and more broadly the trends in other figures of the domestic capital market, highlight that they are affected by economic and political events, domestic and internationally, negatively but also positively in some cases. This fact means that in times of economic downturn, fiscal consolidation, global capital market crises, etc., the most probable development in the domestic capital market is that it will resonate with these trends. Having said that, when the Greek economy will enter a recovery trajectory, the stock market will follow shortly, as was the case in the second half of 2013 and the first half of 2014. The significance of a positive correlation between the capital market trends and political developments is likely to be critical at the beginning of a period of recovery for its consolidation through funding and opportunities provided by the Athens Exchange.

Among the many, diverse trends in key figures of the Athens Exchange during the examined period, those that have taken place since 2014 are highlighted, in order to reveal the upward dynamic of parts of the stock market in times of uncertainty. In particular, after its rise from June 2012 to June

2014, the ATHEX Composite Share Price Index was set on a downward path, which continued until March 2016. Political events of that period, such as delays in the fifth review of the second economic adjustment programme in the fall of 2014, turbulent negotiations in the first half of 2015 with institutional lenders and the imposition of capital controls at the end of June of the same year, are considered to have contributed to this trend. However, not all indicators of the Athens Stock Exchange followed a similar trend during that period. In particular, the FTSE/ATHEX Global Traders Plus Index increased between July 2014 and October 2015. It experienced a minor correction between November 2015 and February 2016, but since then it follows a positive trend (Figure 4.1). The different evolution of this indicator in 2014 and in 2015 is considered to be due to rising exports during this period, by 13.0% in real (volume) terms overall, which resulted in the resilience of the export companies at times of intense political developments. The FTSE/ATHEX Mid & Small Cap Factor-Weighted Index also followed a similar trend.

Figure 4.1

Trends in key figures of the Athens Exchange



Milder drop of the FTSE/ATHEX Global Traders Plus Index between October 2014 and February 2016, most probably due to resilience of export enterprises. A similar trend of the FTSE/ATHEX Mid & Small Cap Factor-Weighted Index.

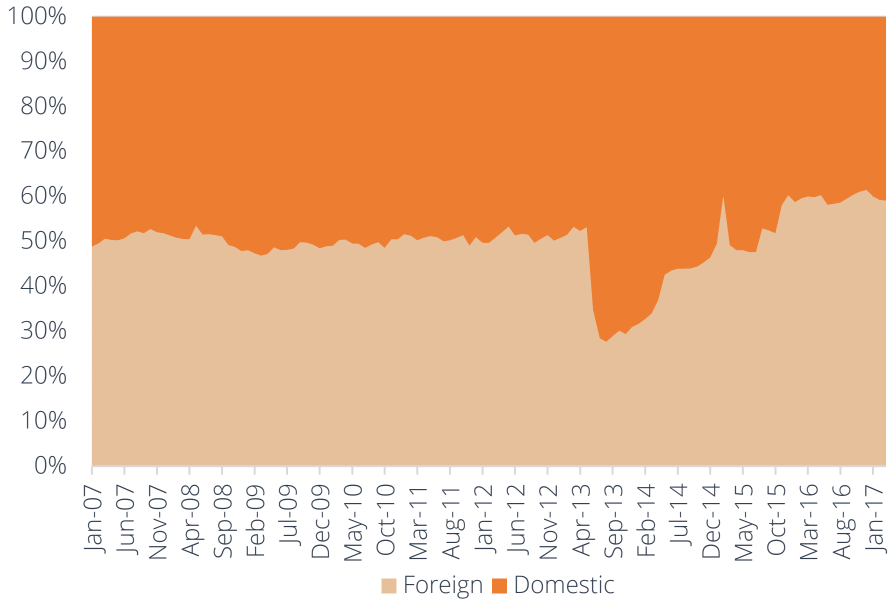
Source: Athens Exchange Group, Processing: IOBE

The trend in the rate of participation of foreign investors in the total capitalisation of the Greek Exchange is also of particular interest. Between January 2007 and May 2013, half of the capitalisation came from domestic investors and the other half from foreign sources (Figure 4.2). The imposition of Bank holiday and capital controls in Cyprus in 2013 brought a steep decline in the share of foreign investors in the market capitalisation. Then, the share of foreign investors gradually increased from 35% to 60%, with the exception of the first half of 2015, when developments around the last review of the second economic adjustment programme and the imposition of capital controls in Greece affected negatively the foreign investors.

Figure 4.2

% share of domestic and foreign investors in the market capitalisation of the Athens Exchange

Sharp fall of the share of foreign investors in market capitalisation in 2013, due to the imposition of bank holiday - capital controls in Cyprus and in 2015, due to similar economic and political developments in Greece.



Source: Athens Exchange Group, Processing: IOBE

4.3 Degree of leverage in the Greek economy and options for deleveraging through the stock market

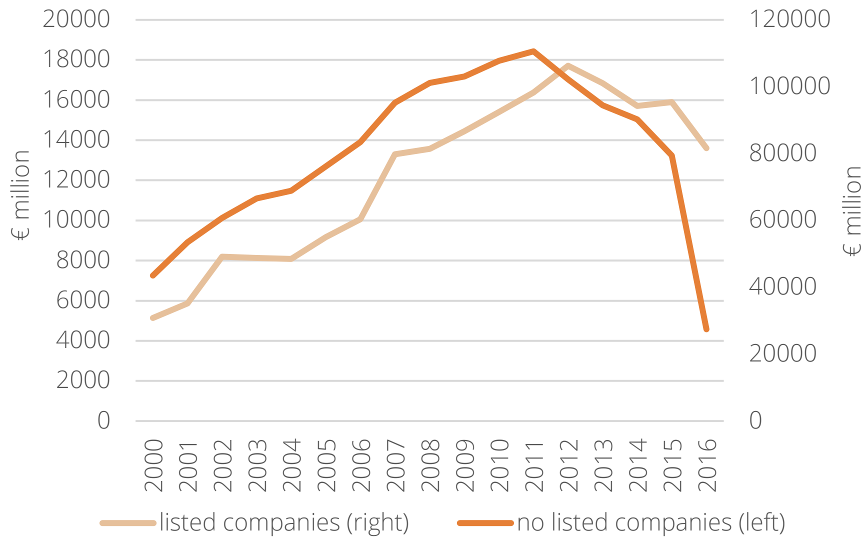
The total liabilities of companies in Greece, short-term and long-term, were growing continuously, at a high rate, between 2000 and 2011 (Figure 4.3). The short-term obligations of firms not listed on the Athens Stock Exchange began to recede in 2011, while the same process started in the following year for the listed companies. The retreat could be attributed to their repayment. In addition, this could be due to their conversion into long-term obligations or to increase of bankruptcies. The last two possibilities are considered the most likely interpretations, due to the prolonged strong downturn of the Greek economy between 2008 and 2013, which put pressure particularly on non-listed SMEs, and because of the trend in long-term obligations.

Following their continuous climb until 2008, the long-term liabilities stabilised in the following two years among non-listed companies and until 2011 among listed companies (Figure 4.4). Their further expansion in 2013 and 2014 coincides fully with the fall in short-term obligations among listed companies and to a large extent with the same trend among non-listed companies. The fall of both long-term and short-term liabilities in 2015 among unlisted companies implies that evolution of the two types of obligations was not correlated in that year. Perhaps, the key driver of the trend in obligations that year was the closure of a large number of companies in this category. Regardless of the factors which influenced the trend of obligations of businesses, listed on the Athens Exchange or not, they have remained at high levels since 2010.

Following the analysis of the evolution of business obligations, empirical examination of the trend of their leverage was conducted at sectoral level. The level of leverage by industry was examined through the debt-to-equity ratio. The estimates showed increased leverage over the medium term, until 2020, in 18 of the 24 branches of the Greek economy. In six branches, including Chemical Products, Non-Metallic Mineral Products, Electrical Equipment, Public Administration – Defence, Hotels and Leather Products, leverage follows a mild downward trend. Sectors with the highest levels of leverage include some of those with the best growth prospects, such as Food - Drinks and Basic Metals.

Figure 4.3

Short-term liabilities of companies in Greece



Fall of short-term obligations since 2011 among non-listed companies, and since 2012 among listed companies, mainly from their conversion into long-term obligations

Source: Hellastat, Processing: IOBE

*Data on non-listed companies, based on financial statements availability during the preparation of the study

The upward trend of leverage in the majority of branches and the high financing needs for the recovery of the Greek economy through investment and the transition to a new growth model, combined with the credit crunch from the banking system, necessitate the utilisation of available financial instruments outside the banking system, such as those available through the capital markets (Figure 4.6). These instruments include securitisation, public offering of share capital, bond issues, listed private equity funds and warrants.

The Alternative Market of the Athens Exchange is another mechanism to raise capital, aimed exclusively at SMEs. Some features of the Alternative Market that facilitate access are the entry criteria, which quite a few of the medium-sized and smaller enterprises in Greece can satisfy. Apart from that, the SMEs in Greece can take advantage of listed private equities, such as portfolio investment companies and closed-end investment companies as a funding instrument.

Figure 4.4

Long-term liabilities of enterprises in Greece

Total obligations of listed and non-listed companies at a high level since 2010

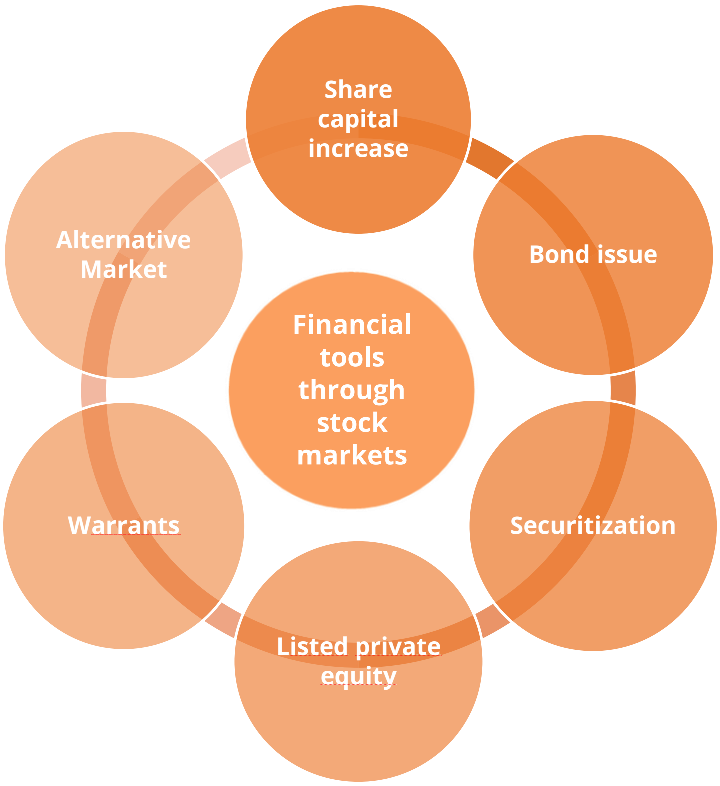
Source: Hellastat, Processing: IOBE

*Data on non-listed companies, based on financial statements availability during the preparation of the study

Despite the presence of a number of options to raise capital through the capital markets, their contribution to financing the economy in Greece and in Europe has not been fully utilised, especially in comparison with the US. Main cause for the low appeal of instrument for funding through the capital markets to the businesses is the lack of relevant information. The information about funding opportunities through digital means, such as electronic trading platforms and crowdfunding is particularly low. Their main advantage against more conventional funding instruments, especially for SMEs, is the low cost of access, since you don't need the intervention of specialised organisations, such as investment banks.

Figure 4.5

Available financing instruments through the stock markets



The credit crunch and high financing requirements necessitate the use of available financial instruments through the financial markets

Source: IOBE

4.4 Policies to attract foreign investment funds

Attracting capital by companies in Greece requires the establishment of appropriate conditions. For this purpose, specific policies should be implemented.

Achieving fiscal balance by changing the current fiscal mix that is based mainly on raising taxes, the application of debt relief measures, which will strengthen the confidence in the stability of the Greek economy, and the removal of regulatory constraints on entrepreneurship, should constitute priorities of policy domestically for attracting international investment funds.

The stabilisation of the financial environment, following the global financial crisis of 2008, not only in Greece, but at the European level, is a prerequisite for this development. The Banking Union, a supervision system that includes a bank resolution mechanism, operating with common rules for all EU countries, serves this purpose.

Loosening or removing restrictive regulations on transboundary transfers and management of funds also constitutes an important incentive for attracting international investment funds. The Alternative Investment Fund Managers Directive (2011/61/EU), which aims to facilitate transactions by managers of alternative investment funds (e.g. private equity funds, real estate mutual funds) in all EU Member States is indicative as to the actions at EU level for the harmonisation of the legal frameworks for capital investment. However, in some cases the regulatory framework for cross-border capital transfers is relatively strict, for reasons such as investor protection. A typical example of that commitment is the EU Solvency II Directive, which regulates insurance companies and investment firms.

Taxation provides major investment incentives in the EU, according to the relevant literature. Policies such as the establishment of a single corporate tax are considered to have the potential for a significant contribution to investment and employment. The Common Consolidated Corporate Tax Base (CCCTB) of the EU single market will facilitate cross-border companies and thus direct investment.

4.5 Capital markets and the insurance system

The capital markets can play a significant role in enhancing the sustainability of the social security system internationally and thus in Greece. The dominant reform trend in social security systems recently is to move towards a system which includes a pillar, which is under state control, together with two funded pillars. The countries that have transitioned to systems with this feature aim to address the factors that threaten the long-term viability of their social security system, such as the aging of a growing part of their population and the rise of life expectancy.

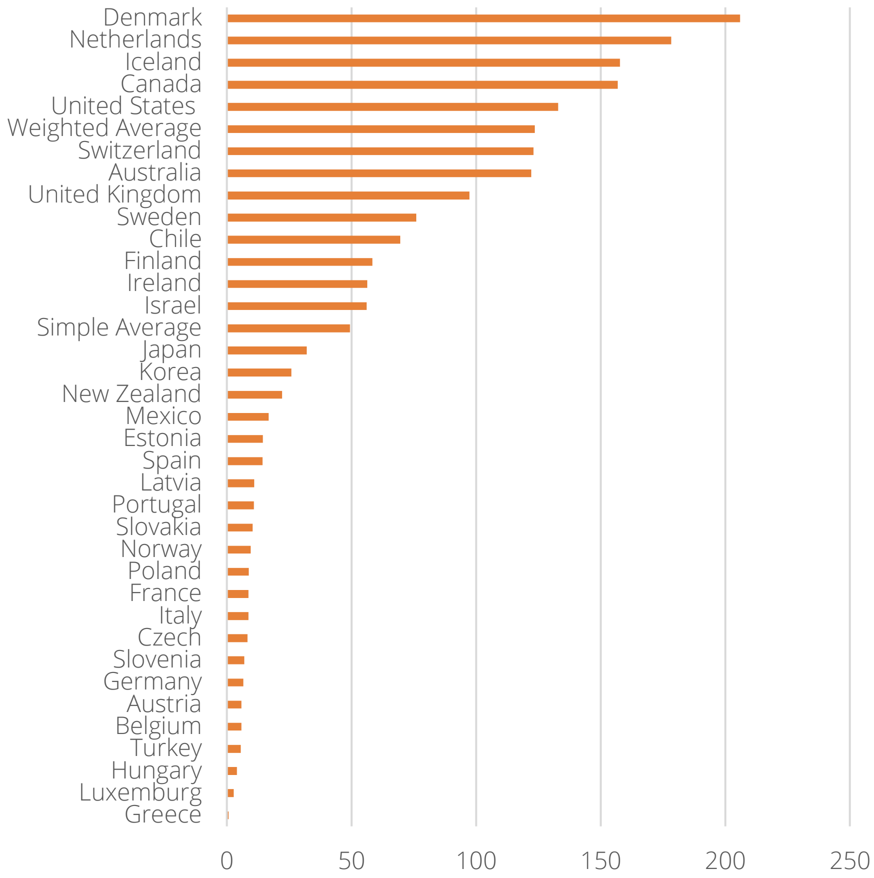
In Greece, the unfunded pillar of the pension system, which has purely redistributive role, has a dominant role in the domestic social security system. Nevertheless, formally the domestic pension system consists of the three pillars defined by the World Bank in 1994. The second pillar includes employer funded schemes, while the third social security pillar refers to voluntarily, individually funded private insurance coverage programmes. The private, professional and personal pension plans are too few in Greece, which is reflected in the fact that Greece trails behind the OECD countries with respect to the demand for private pension schemes over total disposable financial assets (Figure 4.6). Therefore, the Greek households expect the state-run, unfunded redistributive system to cover their retirement costs.

The placement choice of the social security funds in Greece differ from the average of the OECD countries, as they resemble stronger savings rather than investments. The conservative placements of the social security funds in Greece restrain correspondingly their yields (Figure 4.7).

The EU Capital Markets Union (CMU) can contribute to the necessary gradual restructuring of the social security system in Greece in the direction of developing its funded pillars. The CMU complements the financial reforms of recent years in the EU, such as the Banking Union, aimed at strengthening the supervision of the financial sector after the 2008 global financial crisis. In addition, the CMU extends previous initiatives to promote the single market for financial services, by setting common goals with the pre-existing Financial Services Action Plan. These goals include the lowering of barriers to cross-border financial investments, with a view to increasing efficiency through greater competition and greater diversification of investment risk by expanding the options for placements.

Figure 4.6

Private pension plans in OECD countries (2015, % of GDP)



Greece trails behind the OECD countries with respect to the demand for private pension schemes

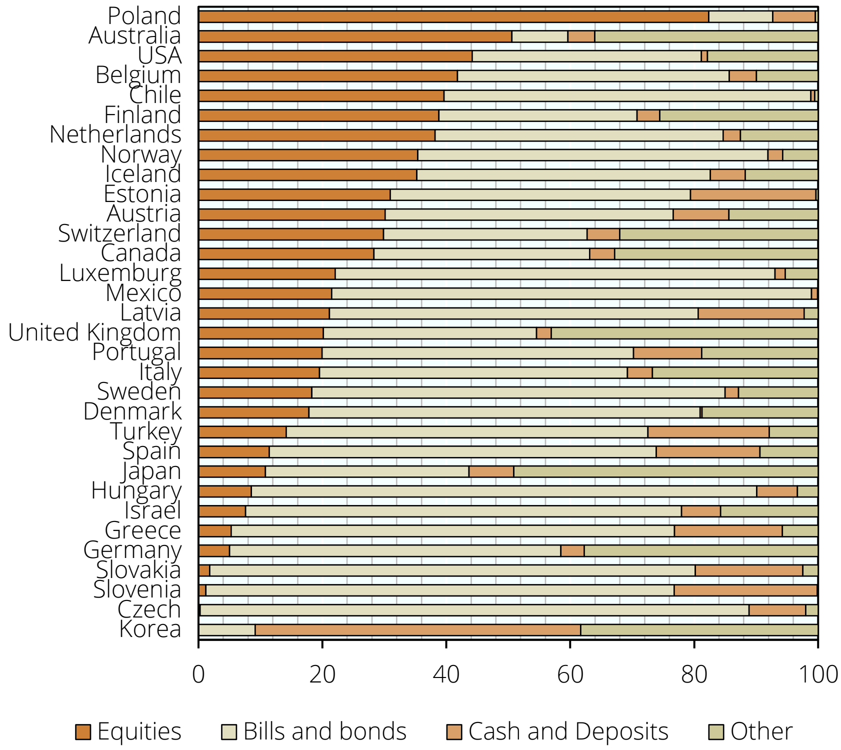
Source: Pension Markets in Focus, 2016, ΟΟΣΑ

The reform of the first pillar, with the introduction of a funded element based on the model of Notional Defined Contribution Systems is a pressingly needed development for the restructuring of the domestic social security system in order to enhance its savings features. A number of changes for the development of the second pillar will also contribute to the strengthening of the funded element of the social security system, such as: i) reduction of the required minimum number of employees in a company for the establishment of a plan, ii) provision of tax incentives for employers and iii) allow the creation of professional funds by a number of employers. Given the significant pressures exerted on the individual and family disposable income by the recession and the increase of direct taxation, the participation in the third pillar should remain optional.

Figure 4.7

Composition of pension fund placements, OECD countries (2015)

Stronger emphasis on savings than investment (2015: 71.5% in bonds, 17.4% in deposits-cash, 5.3% in equity).



Source: Pension Markets in Focus, 2016, OECD

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	0.8	1.1	1.5	2.9
Belgium	0.8	-2.3	2.7	1.8	0.2	0.2	1.4	1.4	1.5	1.7
Bulgaria	6	-3.6	1.3	1.9	0	0.9	1.3	3.6	3.9	3.6
France	0.2	-2.9	2	2.1	0.2	0.6	0.9	1.1	1.2	1.8
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	2.2
Czech Republic	2.7	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.6	4.4
EU	0.4	-4.3	2.1	1.7	-0.4	0.3	1.8	2.3	2.0	2.4
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	-0.5	-4.2	1.7	1.5	1.5	2.1	3.1	2.3	1.9	1.8
Ireland	-3.9	-4.6	1.8	3	0	1.6	8.3	25.6	5.1	7.8
Spain	1.1	-3.6	0	-1	-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	2.1	-7.4	-1.4	-0.3	-2.2	-0.6	-0.1	2.3	3.2	2.8
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	2.6	1.9	3.0	2.2	4.5
Lithuania	2.6	-14.8	1.6	6	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	1.4	2.6	4.6	8.1	9.9	5.5	6.6
Netherlands	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2.3	2.2	3.2
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	1.6	1.4	3.3	3.8	2.9	4.6
Portugal	0.2	-3	1.9	-1.8	-4	-1.1	0.9	1.8	1.6	2.7
Romania	8.3	-5.9	-2.8	2	1.2	3.5	3.1	4.0	4.8	6.9
Slovakia	5.6	-5.4	5	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	2.7	-0.3	1.2	2.6	4.5	3.2	2.4
Finland	0.7	-8.3	3	2.6	-1.4	-0.8	-0.6	0.1	2.1	2.6

Table 2: General Government Debt as % of GDP

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	64.7	68.4	79.6	82.4	82.2	81.7	81.0	83.8	84.3	83.6
Belgium	87.0	92.5	99.5	99.7	102.6	104.3	105.5	106.8	106	105.7
Bulgaria	16.3	13.0	13.7	15.3	15.2	16.7	17.0	27.0	26.0	29.0
France	64.3	68.0	78.9	81.6	85.2	89.6	92.4	95.0	95.8	96.5
Germany	63.7	65.1	72.6	80.9	78.6	79.8	77.4	74.6	70.9	68.1
Denmark	27.3	33.3	40.2	42.6	46.1	44.9	44.0	44.0	39.5	37.7
Czech Republic	27.5	28.3	33.6	37.4	39.8	44.5	44.9	42.2	40.0	36.8
EU	64.9	68.6	78.4	83.8	86.1	89.4	91.3	91.8	89.9	88.9
Greece	103.1	109.4	126.7	146.2	172.1	159.6	177.4	179.0	176.8	180.8
Estonia	3.7	4.5	7.0	6.6	6.1	9.7	10.2	10.7	10.0	9.4
Euro area	57.5	60.7	72.7	78.3	81.0	83.7	85.6	86.5	84.5	83.2
United Kingdom	41.9	49.9	64.1	75.6	81.3	84.5	85.6	87.4	88.2	88.3
Ireland	23.9	42.4	61.5	86.1	110.3	119.6	119.4	104.5	76.9	72.8
Spain	35.6	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.4	99.0
Italy	99.8	102.4	112.5	115.4	116.5	123.4	129	131.8	131.5	132
Croatia	37.7	39.6	49.0	58.2	65.0	70.6	81.7	85.8	85.4	82.9
Cyprus	53.5	45.1	53.8	56.3	65.7	79.7	102.6	107.5	107.5	107.1
Latvia	8.0	18.2	35.8	46.8	42.7	41.2	39.0	40.9	36.9	40.6
Lithuania	15.9	14.6	28.0	36.2	37.2	39.8	38.8	40.5	42.6	40.1
Luxemburg	7.7	14.9	15.7	19.8	18.7	22.0	23.7	22.7	22.0	20.8
Malta	62.3	62.6	67.6	67.5	70.1	67.8	68.4	63.8	60.3	57.6
Netherlands	42.7	54.7	56.8	59.3	61.6	66.3	67.8	68.0	64.6	61.8
Hungary	65.0	71.0	77.2	79.7	79.9	77.6	76.0	75.2	74.7	73.9
Poland	44.2	46.3	49.4	53.1	54.1	53.7	55.7	50.2	51.1	54.1
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129	130.6	128.8	130.1
Romania	12.7	13.2	23.2	30.2	34.4	37.3	37.8	39.4	37.9	37.6
Slovakia	30.1	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.3	51.8
Slovenia	22.8	21.8	34.6	38.4	46.6	53.8	70.4	80.3	82.6	78.5
Sweden	39.3	37.8	41.4	38.6	37.9	38.1	40.8	45.5	44.2	42.2
Finland	34.0	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.6	63.1

Table 3: General Government Balance as % of GDP

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	-1.4	-1.5	-5.3	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.6
Belgium	0.1	-1.1	-5.4	-4.0	-4.1	-4.2	-3.1	-3.1	-2.5	-2.5
Bulgaria	1.1	1.6	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.6	0.0
France	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.1	-3.9	-3.6	-3.4
Germany	0.2	-0.2	-3.2	-4.2	-1.0	0.0	-0.1	0.3	0.6	0.8
Denmark	5.0	3.2	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.8	-0.6
Czech Republic	-0.7	-2.0	-5.5	-4.2	-2.7	-3.9	-1.2	-1.9	-0.6	0.7
EU	-0.9	-2.5	-6.6	-6.4	-4.6	-4.2	-3.3	-3.0	-2.4	-1.7
Greece	-6.7	-10.2	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.7	0.5
Estonia	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3
Euro area	-0.6	-2.2	-6.3	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1	-1.5
United Kingdom	-2.6	-5.2	-10.1	-9.4	-7.5	-8.2	-5.4	-5.5	-4.3	-2.9
Ireland	0.3	-7.0	-13.8	-32.1	-12.7	-8.0	-6.1	-3.6	-1.9	-0.7
Spain	1.9	-4.4	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.3	-4.5
Italy	-1.5	-2.7	-5.3	-4.2	-3.7	-2.9	-2.9	-3.0	-2.6	-2.5
Croatia	-2.4	-2.8	-6.0	-6.5	-7.8	-5.2	-5.3	-5.1	-3.3	-0.9
Cyprus	3.2	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-8.8	-1.2	0.5
Latvia	-0.5	-4.2	-9.1	-8.7	-4.3	-1.2	-1.0	-1.2	-1.2	0.0
Lithuania	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.2	0.3
Luxemburg	4.2	3.3	-0.7	-0.7	0.5	0.3	1.0	1.3	1.4	1.6
Malta	-2.1	-4.2	-3.2	-2.4	-2.4	-3.5	-2.4	-1.8	-1.1	1.1
Netherlands	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.3	-2.1	0.4
Hungary	-5.0	-3.7	-4.5	-4.5	-5.4	-2.4	-2.6	-2.7	-2.0	-1.9
Poland	-1.9	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.6	-2.6	-2.5
Portugal	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0
Romania	-2.8	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0
Slovakia	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-2.2
Slovenia	-0.1	-1.4	-5.8	-5.6	-6.7	-4.0	-14.7	-5.3	-2.9	-1.9
Sweden	3.4	1.9	-0.7	0.0	-0.2	-1.0	-1.4	-1.6	0.2	1.1
Finland	5.1	4.2	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.7	-1.7

Table 4: Share of population at risk of poverty or social exclusion

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

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

	Annual data (%)								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	125	127	126	128	132	131	130	130	128
Belgium	115	118	120	120	121	120	119	119	118
Bulgaria	43	44	45	45	46	46	47	47	49
France	107	108	108	108	107	108	107	105	104
Germany	117	117	120	123	124	124	126	124	123
Denmark	125	125	129	128	127	128	128	127	124
Czech Republic	84	85	83	83	82	84	86	87	88
EU	100	100	100	100	100	100	100	100	100
Greece	93	94	85	75	72	72	72	69	68
Estonia	69	64	65	71	74	75	76	75	75
Euro area	109	109	108	108	107	107	107	106	106
United Kingdom	110	107	108	106	107	108	109	108	107
Ireland	134	129	130	130	132	132	137	181	183
Spain	101	100	96	93	91	89	90	91	92
Italy	106	106	104	104	102	98	96	95	97
Croatia	63	62	59	60	60	60	59	59	60
Cyprus	105	105	100	96	91	84	81	82	83
Latvia	59	52	53	57	60	62	64	64	65
Lithuania	63	56	60	66	70	73	75	75	75
Luxemburg	262	255	257	265	260	261	270	267	258
Malta	79	81	84	83	84	86	90	93	96
Netherlands	139	137	134	133	133	134	130	129	128
Hungary	63	64	65	66	66	67	68	68	67
Poland	55	60	62	65	67	67	67	68	68
Portugal	81	82	82	77	75	77	77	77	77
Romania	49	50	51	52	54	54	55	56	58
Slovakia	71	71	74	75	76	77	77	77	77
Slovenia	90	85	83	83	82	82	82	82	83
Sweden	127	123	125	126	127	125	124	125	123
Finland	121	117	116	117	115	113	111	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 (%)								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	73.4	73.9	74.2	74.4	74.6	74.2	74.3	74.8	75.4
Belgium	67.1	67.6	67.3	67.2	67.2	67.3	67.2	67.7	68.5
Bulgaria	68.8	64.7	62.9	63.0	63.5	65.1	67.1	67.7	71.4
France	69.5	69.3	69.2	69.4	69.5	69.3	69.5	70.0	70.6
Germany	74.2	75.0	76.5	76.9	77.3	77.7	78.0	78.6	79.2
Denmark	77.5	75.8	75.7	75.4	75.6	75.9	76.5	77.4	76.9
Czech Republic	70.9	70.4	70.9	71.5	72.5	73.5	74.8	76.7	78.6
EU	69.0	68.6	68.6	68.4	68.4	69.2	70.0	71.0	72.2
Greece	65.6	63.8	59.6	55.0	52.9	53.3	54.9	56.2	57.8
Estonia	70.0	66.8	70.6	72.2	73.3	74.3	76.5	76.6	78.8
Euro area	68.8	68.4	68.4	68.0	67.7	68.1	68.9	69.9	70.9
United Kingdom	73.9	73.5	73.5	74.1	74.8	76.2	76.8	77.5	78.2
Ireland	68.0	65.5	64.6	64.4	66.5	67.0	68.7	70.3	73.0
Spain	64.0	62.8	62.0	59.6	58.6	59.9	62.0	63.9	65.5
Italy	61.6	61.0	61.0	60.9	59.7	59.9	60.5	61.6	62.4
Croatia	64.2	62.1	59.8	58.1	57.2	59.2	60.6	61.4	63.6
Cyprus	75.3	75.0	73.4	70.2	67.2	67.6	67.9	68.7	70.7
Latvia	66.6	64.3	66.3	68.1	69.7	70.7	72.5	73.2	74.8
Lithuania	67.0	64.3	66.9	68.5	69.9	71.8	73.3	75.2	76.0
Luxemburg	70.4	70.7	70.1	71.4	71.1	72.1	70.9	70.7	71.6
Malta	59.0	60.1	61.6	63.1	64.8	66.4	67.8	69.6	71.4
Netherlands	78.8	76.8	76.4	76.6	75.9	75.4	76.4	77.1	78.0
Hungary	60.1	59.9	60.4	61.6	63.0	66.7	68.9	71.5	73.3
Poland	64.9	64.3	64.5	64.7	64.9	66.5	67.8	69.3	70.9
Portugal	71.1	70.3	68.8	66.3	65.4	67.6	69.1	70.6	73.4
Romania	63.5	64.8	63.8	64.8	64.7	65.7	66.0	66.3	68.9
Slovakia	66.4	64.6	65.0	65.1	65.0	65.9	67.7	69.8	71.1
Slovenia	71.9	70.3	68.4	68.3	67.2	67.7	69.1	70.1	73.4
Sweden	78.3	78.1	79.4	79.4	79.8	80.0	80.5	81.2	81.8
Finland	73.5	73.0	73.8	74.0	73.3	73.1	72.9	73.4	74.2

(*) 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 (%)								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	39.4	41.2	39.9	41.6	43.8	45.1	46.3	49.2	51.3
Belgium	35.3	37.3	38.7	39.5	41.7	42.7	44.0	45.4	48.2
Bulgaria	46.1	44.9	44.6	45.7	47.4	50.0	53.0	54.5	58.2
France	38.9	39.7	41.4	44.5	45.6	46.9	48.7	49.8	51.3
Germany	56.1	57.8	60.0	61.6	63.6	65.6	66.2	68.6	70.2
Denmark	58.2	58.4	59.5	60.8	61.7	63.2	64.7	67.8	69.0
Czech Republic	46.8	46.5	47.7	49.3	51.6	54.0	55.5	58.5	62.1
EU	45.9	46.2	47.2	48.7	50.1	51.8	53.3	55.2	57.1
Greece	42.4	42.4	39.5	36.5	35.6	34.0	34.3	36.3	38.3
Estonia	60.3	53.8	57.5	60.5	62.6	64.0	64.5	65.2	68.0
Euro area	45.1	45.7	47.0	48.6	50.0	51.7	53.3	55.3	57.1
United Kingdom	57.5	57.2	56.7	58.1	59.8	61.0	62.2	63.4	64.1
Ireland	51.3	50.3	50.1	49.4	51.3	53.0	55.6	57.2	58.7
Spain	44.0	43.5	44.5	43.9	43.2	44.3	46.9	49.1	50.5
Italy	35.6	36.5	37.8	40.3	42.7	46.2	48.2	50.3	52.2
Croatia	39.4	39.1	38.2	37.5	37.8	36.2	39.2	38.1	40.4
Cyprus	55.7	56.3	54.8	50.7	49.6	46.9	48.5	52.2	55.3
Latvia	52.5	47.8	50.5	52.8	54.8	56.4	59.4	61.4	62.3
Lithuania	51.2	48.3	50.2	51.7	53.4	56.2	60.4	64.6	66.1
Luxemburg	38.2	39.6	39.3	41.0	40.5	42.5	38.4	39.6	39.8
Malta	29.1	31.9	33.2	34.7	36.3	37.8	40.3	44.1	45.3
Netherlands	55.1	53.7	55.2	57.6	59.2	59.9	61.7	63.5	65.7
Hungary	31.9	33.6	35.3	36.1	37.9	41.7	45.3	49.8	51.7
Poland	32.3	34.1	36.9	38.7	40.6	42.5	44.3	46.2	48.3
Portugal	49.7	49.5	47.8	46.5	46.9	47.8	49.9	52.1	56.2
Romania	42.6	40.7	39.9	41.6	41.8	43.1	41.1	42.8	44.6
Slovakia	39.5	40.5	41.3	43.1	44.0	44.8	47.0	49.0	53.0
Slovenia	35.6	35.0	31.2	32.9	33.5	35.4	36.6	38.5	42.8
Sweden	70.0	70.4	72.0	73.0	73.6	74.0	74.5	75.5	76.4
Finland	55.5	56.2	57.0	58.2	58.5	59.1	60.0	61.4	62.6

(*) % 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 (%)					
	2012	2013	2014	2015	2016	2017
Austria	1.1	0.4	0.1	0.8	1.8	1.0
Belgium	0.3	0.1	0.3	0.0	0.9	1.0
Bulgaria	-2.5	-0.2	1.3	1.6	-0.6	4.0
France	0.3	-0.1	2.3	0.0	0.5	1.0
Germany	1.2	0.8	0.7	0.7	2.5	0.8
Denmark	-0.3	0.0	0.7	1.4	2.6	-0.5
Czech Republic	0.4	0.7	0.8	1.0	1.7	1.6
EU	-0.5	-0.3	1.3	1.1	1.5	1.4
Greece	-7.8	-4.9	0.6	2.0	1.8	2.0
Estonia	1.7	0.9	0.5	2.3	-0.1	2.2
Euro area	-0.4	-0.6	0.9	0.9	1.7	1.3
United Kingdom	1.1	0.9	2.2	1.5	1.4	1.2
Ireland	-0.6	2.1	1.5	2.3	2.8	2.8
Spain	-3.7	-2.7	1.2	2.9	2.6	2.6
Italy	-0.3	-1.8	0.2	0.7	1.2	0.9
Croatia	-3.6	-2.3	3.2	1.1	0.5	2.3
Cyprus	-4.2	-4.9	-0.4	-1.4	1.1	4.3
Latvia	1.4	1.7	-0.9	1.1	-0.6	-0.1
Lithuania	1.8	1.6	1.9	1.0	1.3	-0.9
Luxemburg	2.4	1.0	2.8	5.1	1.6	4.0
Malta	2.3	3.1	2.8	2.4	3.6	3.4
Netherlands	-0.2	-0.9	-0.9	1.1	1.3	1.9
Hungary	0.1	1.8	5.4	2.6	3.2	1.5
Poland	0.1	-0.2	1.8	1.4	0.6	1.1
Portugal	-4.1	-2.3	2.3	1.3	1.4	3.3
Romania	-4.8	-0.5	0.9	-0.2	-0.8	2.4
Slovakia	0.1	0.0	1.4	2.4	2.8	1.2
Slovenia	-0.9	-2.0	0.5	1.0	0.1	4.5
Sweden	0.7	1.0	0.9	1.4	1.6	2.1
Finland	1.1	-1.1	-0.7	-0.8	0.5	1.0

Table 11: Unemployment rate – Total population

	Annual data (%)							
	2010	2011	2012	2013	2014	2015	2016	2017
Austria	4.8	4.6	4.9	5.4	5.6	5.7	6.0	5.5
Belgium	8.3	7.2	7.6	8.4	8.5	8.5	7.8	7.1
Bulgaria	10.3	11.3	12.3	13.0	11.4	9.2	7.6	6.2
France	9.3	9.2	9.8	10.3	10.3	10.4	10.1	9.4
Germany	7.0	5.8	5.4	5.2	5.0	4.6	4.1	3.8
Denmark	7.5	7.6	7.5	7.0	6.6	6.2	6.2	5.7
Czech Republic	7.3	6.7	7.0	7.0	6.1	5.1	4.0	2.9
EU	9.6	9.7	10.5	10.9	10.2	9.4	8.6	7.6
Greece	12.7	17.9	24.5	27.5	26.5	24.9	23.6	21.5
Estonia	16.7	12.3	10.0	8.6	7.4	6.2	6.8	5.8
Euro area	10.2	10.2	11.4	12.0	11.6	10.9	10.0	9.1
United Kingdom	7.8	8.1	7.9	7.5	6.1	5.3	4.8	4.4
Ireland	14.6	15.4	15.5	13.8	11.9	10.0	8.4	6.7
Spain	19.9	21.4	24.8	26.1	24.5	22.1	19.6	17.2
Italy	8.4	8.4	10.7	12.1	12.7	11.9	11.7	:
Croatia	11.8	13.7	15.8	17.4	17.2	16.1	13.4	11.1
Cyprus	6.3	7.9	11.9	15.9	16.1	15.0	13.0	11.1
Latvia	19.5	16.2	15.0	11.9	10.8	9.9	9.6	8.7
Lithuania	17.8	15.4	13.4	11.8	10.7	9.1	7.9	7.1
Luxemburg	4.6	4.8	5.1	5.9	6.0	6.5	6.3	5.6
Malta	6.9	6.4	6.3	6.4	5.8	5.4	4.7	4.0
Netherlands	5.0	5.0	5.8	7.3	7.4	6.9	6.0	4.9
Hungary	11.2	11.0	11.0	10.2	7.7	6.8	5.1	4.2
Poland	9.7	9.7	10.1	10.3	9.0	7.5	6.2	4.9
Portugal	12.0	12.9	15.8	16.4	14.1	12.6	11.2	9.0
Romania	7.0	7.2	6.8	7.1	6.8	6.8	5.9	4.9
Slovakia	14.5	13.7	14.0	14.2	13.2	11.5	9.7	8.1
Slovenia	7.3	8.2	8.9	10.1	9.7	9.0	8.0	6.6
Sweden	8.6	7.8	8.0	8.0	7.9	7.4	6.9	6.7
Finland	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.6

Table 12: Unemployment rate among men

	Annual data (%)							
	2010	2011	2012	2013	2014	2015	2016	2017
Austria	5.0	4.6	5.0	5.4	5.9	6.1	6.5	5.9
Belgium	8.1	7.1	7.7	8.7	9.0	9.1	8.1	7.1
Bulgaria	10.9	12.3	13.5	13.9	12.3	9.8	8.1	6.4
France	9.0	8.9	9.8	10.4	10.6	10.8	10.3	9.5
Germany	7.4	6.1	5.6	5.5	5.3	5.0	4.5	4.1
Denmark	8.4	7.7	7.5	6.7	6.4	5.9	5.8	5.6
Czech Republic	6.4	5.8	6.0	5.9	5.1	4.2	3.4	2.3
EU	9.7	9.6	10.4	10.8	10.1	9.3	8.4	7.4
Greece	10.1	15.2	21.6	24.5	23.7	21.8	19.9	17.8
Estonia	19.3	13.1	10.9	9.1	7.9	6.2	7.4	6.2
Euro area	10.1	10.0	11.2	11.9	11.5	10.7	9.7	8.7
United Kingdom	8.6	8.7	8.4	8.0	6.4	5.5	5.0	4.5
Ireland	17.2	17.8	17.8	14.9	12.8	10.8	9.1	7.1
Spain	19.6	21.1	24.6	25.6	23.6	20.8	18.1	15.7
Italy	7.5	7.5	9.8	11.5	11.9	11.3	10.9	:
Croatia	11.2	13.6	15.8	17.6	16.6	15.6	12.7	10.4
Cyprus	6.2	8.1	12.6	16.6	17.1	15.1	12.7	10.9
Latvia	22.7	18.6	16.2	12.6	11.8	11.1	10.9	9.8
Lithuania	21.2	17.9	15.2	13.1	12.2	10.1	9.1	8.6
Luxemburg	3.8	3.9	4.5	5.6	5.8	5.9	6.1	5.7
Malta	6.7	6.0	5.7	6.5	6.1	5.5	4.4	3.9
Netherlands	4.5	4.6	5.5	7.2	7.2	6.5	5.6	4.5
Hungary	11.6	11.1	11.3	10.2	7.6	6.6	5.1	3.8
Poland	9.4	9.0	9.4	9.7	8.5	7.3	6.1	4.9
Portugal	11.9	12.6	15.9	16.3	13.8	12.4	11.1	8.6
Romania	7.6	7.7	7.4	7.7	7.3	7.5	6.6	5.6
Slovakia	14.3	13.7	13.5	14.0	12.8	10.3	8.8	7.9
Slovenia	7.5	8.2	8.4	9.5	9.0	8.1	7.5	5.8
Sweden	8.7	7.8	8.2	8.2	8.2	7.5	7.3	6.9
Finland	9.1	8.4	8.3	8.8	9.3	9.9	9.0	8.9

Table 13: Unemployment rate among women

	Annual data (%)							
	2010	2011	2012	2013	2014	2015	2016	2017
Austria	4.6	4.6	4.8	5.3	5.4	5.3	5.6	5.0
Belgium	8.5	7.2	7.4	8.2	7.9	7.8	7.6	7.1
Bulgaria	9.6	10.1	10.8	11.8	10.4	8.4	7.0	6.0
France	9.5	9.6	9.8	10.2	10.0	9.9	9.9	9.3
Germany	6.5	5.6	5.2	4.9	4.6	4.2	3.8	3.3
Denmark	6.5	7.5	7.5	7.3	6.8	6.4	6.6	5.9
Czech Republic	8.5	7.9	8.2	8.3	7.4	6.1	4.7	3.6
EU	9.6	9.8	10.6	10.9	10.3	9.5	8.8	7.9
Greece	16.4	21.5	28.2	31.4	30.2	28.9	28.1	26.1
Estonia	14.1	11.6	9.1	8.2	6.8	6.1	6.1	5.3
Euro area	10.4	10.5	11.6	12.2	11.8	11.1	10.4	9.5
United Kingdom	6.9	7.4	7.4	7.1	5.8	5.1	4.7	4.2
Ireland	11.4	12.5	12.8	12.4	10.9	8.9	7.6	6.3
Spain	20.2	21.8	25.1	26.7	25.4	23.6	21.4	19.0
Italy	9.6	9.5	11.8	13.1	13.8	12.7	12.8	:
Croatia	12.4	13.8	15.8	17.2	18.0	16.7	14.2	12.0
Cyprus	6.4	7.7	11.1	15.2	15.1	14.8	13.4	11.3
Latvia	16.3	13.8	14.0	11.1	9.8	8.6	8.4	7.7
Lithuania	14.5	12.9	11.6	10.5	9.2	8.2	6.7	5.7
Luxemburg	5.5	6.0	5.8	6.2	6.4	7.1	6.5	5.5
Malta	7.1	7.1	7.3	6.3	5.3	5.2	5.2	4.1
Netherlands	5.5	5.4	6.2	7.3	7.8	7.3	6.5	5.3
Hungary	10.7	11.0	10.6	10.1	7.9	7.0	5.1	4.6
Poland	10.0	10.4	10.9	11.1	9.6	7.7	6.2	4.9
Portugal	12.2	13.2	15.6	16.6	14.5	12.9	11.3	9.5
Romania	6.2	6.5	6.1	6.3	6.1	5.8	5.0	4.0
Slovakia	14.7	13.7	14.5	14.5	13.6	12.9	10.8	8.4
Slovenia	7.1	8.2	9.4	10.9	10.6	10.1	8.6	7.5
Sweden	8.5	7.7	7.7	7.9	7.7	7.3	6.5	6.4
Finland	7.6	7.1	7.1	7.5	8.0	8.8	8.6	8.4

Table 14: Long-term unemployment rate (*)

	Annual data (%)							
	2012	2013	2014	2015	2016	2015	2016	2017
Austria	24.9	24.6	27.2	30.5	33.7	30.5	33.7	35.2
Belgium	44.7	46.1	49.9	52.9	52.8	52.9	52.8	51.3
Bulgaria	55.2	57.3	60.4	61.9	59.6	61.9	59.6	55.9
France	40.0	40.5	42.8	45.4	47.2	45.4	47.2	46.7
Germany	45.4	44.7	44.3	45.3	42.7	45.3	42.6	43.6
Denmark	28.0	25.5	25.2	29.8	25.5	29.8	25.5	25.7
Czech Republic	43.4	43.4	43.5	48.2	42.8	48.2	42.8	35.7
EU	46.4	49.8	52.6	50.2	48.6	50.2	48.6	47.0
Greece	59.1	67.1	73.5	73.6	72.4	73.6	72.4	73.2
Estonia	54.7	44.5	45.3	40.0	32.6	40.0	32.6	35.3
Euro area	44.5	47.3	49.5	52.8	51.5	52.8	51.5	50.4
United Kingdom	34.7	36.2	35.8	33.9	30.3	34.0	30.3	28.9
Ireland	61.7	60.6	59.2	59.4	57.3	58.1	56.0	49.9
Spain	44.4	49.7	52.8	52.5	49.2	52.5	49.2	45.5
Italy	53.2	56.9	61.4	59.7	59.1	59.7	59.1	59.7
Croatia	63.7	63.6	58.4	66.2	53.2	66.2	53.2	42.5
Cyprus	30.1	38.3	47.7	46.7	45.3	46.7	45.6	41.6
Latvia	52.1	48.6	43.0	46.2	41.8	46.2	41.8	38.0
Lithuania	49.2	42.9	44.7	43.3	38.8	43.3	38.8	38.3
Luxemburg	30.3	30.4	27.4	30.3	37.0	30.3	37.0	40.0
Malta	48.5	45.7	46.9	48.2	45.3	48.2	45.2	47.4
Netherlands	33.7	35.8	40.0	48.0	47.4	48.0	47.4	45.7
Hungary	45.3	48.6	47.5	46.8	47.7	46.8	47.7	41.3
Poland	40.3	42.5	42.7	40.1	35.9	40.1	35.9	31.9
Portugal	48.8	56.4	59.6	59.1	56.9	59.1	56.9	51.4
Romania	44.2	45.2	41.1	45.1	51.7	45.1	51.7	42.7
Slovakia	67.3	70.2	70.2	66.9	61.4	66.9	61.4	63.4
Slovenia	47.9	51.0	54.5	53.0	53.9	53.0	53.9	48.4
Sweden	18.9	18.5	18.9	24.1	22.4	24.1	22.4	22.8
Finland	21.4	20.7	22.4	27.5	29.4	27.5	29.4	27.4

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

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)							
	2010	2011	2012	2013	2014	2015	2016	2017
Austria	9.5	8.9	9.4	9.7	10.3	10.6	11.2	9.8
Belgium	22.4	18.7	19.8	23.7	23.2	22.1	20.1	19.3
Bulgaria	21.9	25.0	28.1	28.4	23.8	21.6	17.3	12.9
France	23.3	22.7	24.4	24.9	24.2	24.7	24.6	22.3
Germany	9.8	8.5	8.0	7.8	7.7	7.2	7.1	6.8
Denmark	13.9	14.2	14.1	13.0	12.6	10.8	12.0	11.1
Czech Republic	18.3	18.1	19.5	18.9	15.9	12.6	10.5	8.0
EU	21.4	21.7	23.3	23.7	22.2	20.4	18.7	16.9
Greece	33.0	44.7	55.3	58.3	52.4	49.	47.4	43.6
Estonia	32.9	22.4	20.9	18.7	15.0	13.1	13.5	14.1
Euro area	21.4	21.3	23.6	24.4	23.7	22.4	20.9	18.8
United Kingdom	19.9	21.3	21.2	20.7	16.9	14.6	13.0	12.1
Ireland	27.6	29.1	30.4	26.8	23.9	20.9	16.8	14.4
Spain	41.5	46.2	52.9	55.5	53.2	48.3	44.5	38.7
Italy	27.9	29.2	35.3	40.0	42.7	40.3	37.8	34.8
Croatia	32.4	36.7	42.1	50.0	45.5	43.0	31.3	27.5
Cyprus	16.6	22.4	27.7	38.9	36.0	32.8	29.1	24.7
Latvia	36.2	31.0	28.5	23.2	19.6	16.3	17.3	17.0
Lithuania	35.7	32.6	26.7	21.9	19.3	16.3	14.5	13.3
Luxemburg	15.8	16.4	18.0	16.9	22.3	17.3	18.7	15.4
Malta	13.2	13.3	14.1	13.0	11.7	11.8	11.0	10.5
Netherlands	11.1	10.0	11.7	13.2	12.7	11.3	10.8	8.9
Hungary	26.4	26.0	28.2	26.6	20.4	17.3	13.0	10.7
Poland	23.7	25.8	26.5	27.3	23.9	20.8	17.6	14.8
Portugal	28.2	30.2	38.0	38.1	34.7	32.0	27.9	23.9
Romania	22.1	23.9	22.6	23.7	24.0	21.7	20.6	18.5
Slovakia	33.9	33.7	34.0	33.7	29.7	26.5	22.2	18.9
Slovenia	14.7	15.7	20.6	21.6	20.2	16.3	15.3	11.3
Sweden	24.8	22.8	23.7	23.6	22.9	20.4	18.8	17.9
Finland	21.4	20.1	19.0	19.9	20.5	22.4	19.9	19.8

(*) 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