The Greek Economy

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Foreword

IOBE publishes its first bulletin on the Greek economy for 2019, within the context of the overview of the Greek economy. Its publication takes place during a period when the Greek economy is trying to adjust to the post-programme environment, with major challenges to implement the planned reforms, gain access to the global financial market and restructure the loan portfolios of the banks. Another, crucial, factor affecting the economic environment are the upcoming elections. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with an outline of challenges on development and the necessary policy decisions that are needed. The rest of the report is structured as follows:

Chapter 1 presents a brief overview of the report. Chapter 2 examines the general economic conditions, including: i) an analysis of the global economic environment in the final quarter of 2018 and its outlook for 2019, based on the latest report of the International Monetary Fund; ii) an outline of the economic climate in Greece in the first quarter of 2019, based on data from the latest IOBE business and consumer surveys; iii) an assessment of the execution of the State Budget last year and in January and February of the current year; iv) an outline of the developments in the domestic financial system between January and March 2019 and its outlook for the new year.

Chapter 3 focuses on the performance of the Greek economy in the fourth quarter of 2018. It includes an analysis of: the macroeconomic environment in the fourth quarter of 2018 and in the first quarter of 2019; the developments in key production sectors last year; the export performance of the Greek economy over the same period; the developments in the labour market in 2018 overall; the trends in inflation in the first quarter of 2019; and, finally, the trends in the balance of payments in 2018.

Chapter 4 presents the findings of a study on the impact of property taxes and the future of the Construction sector in Greece.

The report refers to and is based on data that were available up to 12/04/2019.

IOBE's next quarterly bulletin on the Greek economy will be published in mid-July 2019.

POLICY DECISIONS AND GROWTH

The Greek economy is recovering from a prolonged economic downturn that lasted for years. The real growth rate for the current year is expected to stand at about 2%, same as last year. Exports have a strong positive momentum, which in part comes from the still favourable global environment, yet it also shows the tendency of sectors and businesses to shift their focus to export activity, which has gradually been happening over the past decade. Fiscally, there is a balance, in accordance with the economy's limits and responsibilities. Prices are also stable. Steps are being made, albeit slowly and with delays, for the country to regain access to the global capital markets and to gradually improve its funding, which will also facilitate the course of the banking system in the country over the medium term.

Exports have strong positive momentum

Rather low level of investments

In parallel with the above positive features of the current economic environment, there are valid reasons to be concerned and on alert. The rather low level of investment lies at the heart of the problem. It is unclear how fast investment can climb to the level needed so that it can systematically support high growth rates in the medium term. Besides, the share of business investment in the Greek economy was low even before the crisis, with housing and other construction absorbing a major part of investment. Aside from the fact that the boost in the real estate market and construction is a necessary element of the future development of the country, it is certain that they cannot have the same share as before the crisis. Therefore, the boost in investment is an integral element of the further shift of the country's production model towards exports and innovation.

The level and dynamic of unemployment should also be a cause of concern. There is a risk that the decline of unemployment will stall at an exceptionally high level over the medium term, with serious economic and social repercussions. Meanwhile, the Greek economy has a particularly low level of labour force participation. Unless it recovers gradually, this will undermine the growth rate.

The consolidation was achieved mainly through contraction

Looking back, the Greek economy is coming out of a crisis that has lasted for almost ten years, having concluded three economic adjustment programmes and having largely remedied the imbalances in the twin deficits - the fiscal and the external. In addition, there has been considerable improvement in specific sectors. Overall, however, the country remains in a fragile state, with a weak growth momentum, mostly because the consolidation was achieved mainly through recession and not to the desired extent through structural changes in the economy.

Imperative need not to waste any opportunities pre-election. Implementation of a plan post-election

Looking ahead, aside from the dangers from the global economic environment, there is a wide range of possible complications related to the denial or inability to move forward with the necessary structural transformation of the economy. This will be the biggest threat in the upcoming years, which is obviously also linked to the way economic policy is formulated and implemented. Unless the Greek economy frees up and mobilises strong productive forces, the economy will soon slip back into a recession, which in turn will undermine the debt repayment in the upcoming years. It is imperative that no time or opportunities are wasted during the period of elections and that an effective growth plan is pursued post-election.

Series of in-depth studies

IOBE has recently published a series of in-depth studies, which, when viewed in combination, outline a possible framework for the growth prospects of the Greek economy in the medium term. They revolve around three main axes where radical reforms are needed: the social security, tax and education systems. In order to develop proposals on each of these axes, as well as how they could all come together, it is important to take into account the positive and negative experience of the past few years in the country. In addition, practices from other countries that have managed to modernise and improve these systems should also be taken into account.

Weak and distorted employment incentives

Immediate reforms to strengthen the funded pillars of the social security system

The social security system is of crucial importance to the development of the overall economy, both due to its sizeable fiscal burden and due to the incentives and counter-incentives that it creates for employment and savings. During the programmes, some positive steps were taken to rationalise expenses and merge different social security funds. The current system, however, gives birth to weak and distorted incentives for employment. It weighs heavy on the economy with contributions that don’t generate returns, it does not create capital reserves in the economy for investment and it does not cultivate trust in its future sustainability, especially among younger employees. It is therefore necessary to make immediate reforms in order to strengthen its funded pillars. It is estimated that the gap in order to finance the transition stands at an order of magnitude that is manageable over the coming years. The corresponding benefits from a lift of employment and the creation of capital reserves that will significantly boost investment in the country are particularly high.

Regarding the tax system, detailed studies on income tax, property tax and electronic payments point to a joint proposal that boosts significantly the growth prospects, without endangering fiscal stability. The reform should

combine a simplified income tax system, with a wider base and lower rates, and an easing of the excessive tax burdens on real estate. The possibility of significantly increasing revenues from VAT and income taxes through targeted incentives that boost electronic payments is particularly important and should be a key ingredient of the tax policy mix.

Income tax, property tax and electronic payments

Finally, in the educational system, expenses are not allocated efficiently and the system has particularly weak links with the economy. However, demographic developments in the country, as well as technological developments globally, make the reform of the system an absolute priority. The number of students in primary and secondary education is expected to decrease by a third in the upcoming years, resulting in significant changes in the needed inputs and expected outputs of the education system.

The need to reform the Greek economy towards strengthening of its production base is imperative for at least four reasons. It is of vital importance that the real growth rates of the economy in the next five years are at a level that systematically exceeds 2%, in order to both help with the management of private and public debt and proceed with the gradual convergence with other Eurozone economies.

Feeble links of the educational system to the economy

It is also equally important to set the foundation for raising the growth rate over the projected 1% rate in the medium and long term, a development which requires an increase in productivity and of the share of investment in the economy.

A positive dynamic in the Greek economy would also enable a better connection with the developments in the rest of Europe, which are not expected to move linearly in the next few years. Furthermore, enhancing the capacity to influence these developments will help the country's economy to move away from the side lines and effectively claim its share from the global investment pool. It has been proven that the implementation of structural reforms in an economy also enables it to benefit from developments in monetary and fiscal policy. Of course, the possibility of another global or European crisis cannot be ruled out – the shocks from such an event should not find the Greek economy in a fragile state.

Increase in productivity and of the share of investment

The last, but certainly not least, reason why the productive structure of the country should be strengthened is social cohesion. Following a decade-long crisis and given the foreseen economic developments and the pressure technology is expected to exert on significant parts of employment, there should be some concern. Many households are systematically excluded from high-value employment and have inadequate access to high-quality healthcare and education services. As a result, the risk of them being trapped in a state of low prosperity remains particularly high.

Social cohesion

Overall, the Greek economy responded to the crisis in the past years by reducing its twin deficit, indicative of its past structural imbalances. Yet, the shift towards a growth model that guarantees prosperity in the medium term

is still in its infant stage. The decisions to be taken in the upcoming months, when it will be clearer to assess how the economy will progress in the post-programme period, will have a special weight for the setting of its trajectory over the medium term.

1. BRIEF OVERVIEW

Slowing growth of the world economy in 2018 and this year

In the final quarter of last year, the growth of the world economy slowed further. The GDP of the OECD members increased by 1.8% in October-December 2018, against 2.2% and 2.5% in the two preceding quarters. The slowdown was more pronounced in the most developed economies. Among them, growth strengthened quarter on quarter in the final quarter only in the US and Japan, by 0.1 percentage point. However, the difference in the growth rate between the two countries was very large (3.1%, against 0.3%). By contrast, the strongest slowdown occurred in Germany and Italy, by 0.6 percentage points in both, resulting in growth rates of 0.6% and 0.0%. These rates were the lowest in both countries since the second and the fourth quarter of 2013, respectively. Among the major Asian developing economies, the growth of China's economy again slowed marginally, to 6.4%, from 6.5% in the preceding quarter and 6.7% a year earlier. Stronger slowdown was observed in the Indian economy, from 7.2% to 6.8%. In Latin America, Brazil's GDP expanded by 1.1%, slightly less than in the previous quarter (1.3%) and at a distance from the same quarter of 2017 (2.2%). According to the latest IMF estimates, the world economy grew last year by 3.6%, compared to 3.8% in 2017.

The slowdown of global growth in the final quarter of last year came, inter alia, from the protectionist trade measures taken by the US and their counter-measures, mainly from China, the attempt of Germany's automotive sector to adapt to new environmental standards, the weaker credit expansion in China and the escalation of economic instability in Turkey and Argentina.

In the first quarter of this year, the developments that affect adversely the international economic environment have proliferated. They come mainly from Europe and include the completion of the expansion of the ECB's quantitative easing programme and the intense difficulties in reaching an agreement with the United Kingdom for a consensual, gradual Brexit, after the Parliament of the

country successively rejected the corresponding plans. The recent extension of the Brexit deadline until 31 October 2019 has accentuated the corresponding uncertainty. In the Euro area, the concerns about the outcome of the forthcoming European elections, linked the effects from the recovery of euro-scepticism, constitute an additional source of uncertainty. As all recent and potential developments that affect the EU economy intensify the downside risks, its growth will slow down this year.

Slowing growth is also the most likely outcome in the United States, because of the impact of the trade policy and the weakening of the stimulus from the budgetary measures of last year. The consequences of the protectionist trade measures might be alleviated by achieving an agreement between the US and China on their bilateral trade relations, in the light of consultations that have been taking place on this since last December. The more accommodative monetary policy, following the Fed's decision at the end of March not to raise its interest rates again this year, will also contribute to growth.

The almost constant increase in the price of oil does not currently have strong negative effects, as prices have not exceeded their respective levels from a year ago, while they have boosted income in some oil-producing countries.

Regarding the developments in the major developing economies, the Chinese government is trying to counteract the effects of tariffs, strengthening the stimulus from monetary and fiscal policy. The Russian economy receives a boost from higher oil prices.

Given these developments and prospects of the world economy, IOBE estimates that the growth of global GDP will weaken further in the current year, to 3.4%.

Slower growth in the final quarter of last year, GDP growth by 1.9% overall in 2018, compared with 1.5% in 2017

The Greek domestic product increased by 1.6% year on year in the final quarter of 2018, growing 0.6 percentage points slower than a year earlier. The growth in the fourth quarter was also 0.5 percentage points lower than in the preceding quarter. As a result, the Greek economy continued to grow in 2018, by 1.9%, slightly faster than the year before, also by 0.5 percentage points. This rate is very close to the initial GDP forecast of IOBE for 2018, in October 2017 (2.1%).

As to the trends in individual components of GDP in 2018, domestic consumption increased marginally, by only 0.3%, less than in 2017 (by 0.6%). Its increase was solely driven by household consumption, with a rise by 1.0%, about the same as in the previous year (0.9%). The higher year on year consumption demand carried over to the final quarter of 2018, increasing by 1.1%, as in the previous quarter. Public consumption steadily declined throughout 2018, at an average rate of 2.5%, notably stronger than a year earlier (0.5%).

Investment expenditure was slightly higher year on year, growing for the third consecutive year. However, their growth did not exceed 1.6%, against 9.5% in 2017 and 5.9% in 2016. Furthermore, unlike the year before, the expansions came exclusively from higher stocks, by €1.48 billion, as gross fixed capital formation fell significantly (by 12.0%). In 2017, most investments came from higher fixed capital formation, by 9.4%, while stocks were €1.78 billion lower than in 2016. The decline of fixed capital formation intensified in the final quarter of last year, reaching 27.2%, a

decline that was the strongest among the 2018 quarters. The decline of fixed capital formation came mostly from a fall in Other Buildings and Structures, by €2.42 billion or 24.8%, against a much weaker contraction by 1.2% in the previous year. Transport Equipment - Weapon Systems came next, with a decline by €1.7 billion or 38.6%, which did not offset the strong growth recorded in 2017 (51.9%). Recall that that increase was mainly the result of higher investment in ships throughout 2017, except for its third quarter, causing a negative base effect a year later. The only other category of fixed capital where investment declined was Other Products, albeit marginally, by only €5 million or 0.17%. By contrast, the strongest growth in absolute terms was recorded in Other Machinery (by €732 million or 16.6%), in the wake of their growth by 5.4% a year before. Similar growth rates were recorded in the investment in ICT equipment and Housing, by 17.2% and 17.4%, yet their growth in absolute terms was much smaller, by €240 and €204 million respectively.

In the external sector of the economy, the export expansion carried over and strengthened in the fourth quarter, surpassing for the first time last year, albeit marginally, 10% (10.6%). Overall in 2018, exports were up by 8.8% year on year, compared to a slightly weaker growth in 2017 (by 6.9%). The change in the exports of services was higher than in the exports of goods (9.3% against 8.4%), though in absolute terms the exports of goods increased more (€2.76 billion, against €2.48 billion). Following the new boost, the exports of goods reached a new record level, both in terms of value, at constant prices (€35.7 billion), and as percentage of GDP (18.8%). The exports of services did not reach their peak in absolute level, recorded in 2008, yet their share in GDP was also the highest on record (15.3%). As a result, total exports reached 34.1% of GDP last year, for the first time in history, while their absolute value, in constant prices, was also the largest on record (€64.9 billion).

While export growth strengthened in late 2018, import growth slowed sharply, to 2.0% from 15.6% in the third quarter. This development stemmed solely from the imports of goods, which remained virtually unchanged compared with a year earlier, while the imports of services expanded at a double-digit rate, as in all quarters of 2018. Overall in 2018, imports were 2.9% higher than in the previous year, a pace which constitutes a significant deceleration in relation to 2017 (+7.4%). Given that the imports of goods increased by only 0.6%, against 7.0% in 2017, the expansion of the imports of services by 14.4%, in the wake of their strong growth in 2017 (9.0%), was the main driver of the increase of overall imports. The much stronger increase in exports compared to imports led to a significant fall of the trade balance deficit, by 59% or €3.3 billion, resulting in its drop to €2.3 billion or 1.2% of GDP, from 3.0% of GDP.

Steady growth of the Greek economy this year, at a similar rate with last year

The Greek economy is going through its first year since 2010 without the implementation of an Economic Adjustment Programme. At the same time, however, this year will be the first when elections for three different levels of Government (municipal – regional, national, European) will take place over a relatively short period of time, creating a prolonged period of election uncertainty. The international front is dominated by the relaxation of the accommodative monetary policy by some of the major central banks (ECB, FED, Japan), the peaking uncertainty on agreeing a consensual exit of the UK from the EU and the developments around the protectionist trade policy measures, especially between the US and China. The effects of these factors are

expected to form the operational framework of the Greek economy, at least in the first half of 2019 and probably for most of its length.

In greater detail, as indicated in previous IOBE reports on the Greek economy, a key issue for economic policy this year remains the smooth transition to the post-programme period. Such a transition implies that the medium-term fiscal targets and the planned reforms are systematically pursued, without any slippages and deviations, as was the case throughout the duration of the programmes. Any development in the opposite direction will lead to loss or weakening of confidence in the Greek state and the domestic economy. This will reflect on the cost of borrowing of the Greek state. Recently, the second review of the enhanced surveillance process noted delays in the reforms, and as a result it was not completed in early March, preventing the ESM from disbursing the planned return of yields of the central banks of the euro area from ANFAs and SMPs. The pending issues related to the management of public revenue, financial stability, energy, privatisations and the modernisation of public administration. The required actions for the above issues were completed by the end of March and subsequently in the Eurogroup of 5 April the review was completed and the transfer of the profits from ANFAs and SMPs was approved. Nevertheless, achieving progress on reform policies in the upcoming period amid successive election campaigns, which usually cause inertia in the governance of the country, remains a critical issue.

Despite the delay in fulfilling its commitments, the Greek Government issued a 10-year bond a few days later, on 5 March, for the first time since March 2010. Offers worth €11.8 billion were submitted and €2.5 billion were raised, with a yield of 3.9%. Primarily the volume of bids and the fact that the vast majority of these bids came from abroad and to a lesser extent the final interest rate, equal to the spread from the German bond with corresponding duration, are considered indications of a continuation of the gradual strengthening of the confidence of the investment community in the Greek economy. After the completion of the second review, on 5 April, the yield of the 10-year bond eased further, marginally higher than 3.5%. The recent agreement with the IMF, for the early repayment of 50% of the Greek government obligations to the fund will also contribute to the reduction of the yield.

As for the current conditions in public finances, the decision not to cut pensions remains as the most important difference compared to the commitments in the Medium-Term Fiscal Strategy 2019 – 2022. However, as the compensatory to the reduction of pensions measures will not be implemented either, the boost on spending would not be extensive, reaching €335 million. Most new fiscal interventions constitute tax deductions, totalling €437 million and include the reduction of the property tax ENFIA by 10% on average (-€260 million) and lower social security contributions for freelancers, self-employed and farmers from 15% to 10% (estimated impact €177 million). In addition, the income tax rate for legal entities will decline by 1% each year for four years (from 29% to 25% in total) and in the tax rate on dividends by 1% for five years (from 15% to 10%). Policy revisions that do not affect structural changes which the Greek economy needs, such as in the social insurance system and in the fiscal targets and use any "fiscal space" available, for example in the direction of reducing the high direct and indirect taxation, and social security contributions, are considered appropriate. Especially the gradual reduction of the corporate income tax rate and the tax rate on dividends, although ongoing at a slow speed, creates prospects for changes in the tax system that improve business expectations.

The taken set of measures will also boost household disposable income. The payment of "social dividend" and the retrospective payment of special wage grid categories in the public sector in December last year, amounting to €1.6 billion in total, are expected to have a positive impact on income and consumer spending, at least in early 2019. However, the short-term indicators of economic activity available so far, which will be presented in detail further down, do not point to growth of consumption demand in early 2019. Other developments, beyond the fiscal measures, projected to impact household income in 2019 are: a) the upwards readjustment of the minimum wage from 1 February, by 10.9% to €650, and the abolition of the sub-minimum wage for workers up to 24 years old. The increase pushes up 24 allowances, such as the unemployment allowance, the allowance for the long-term unemployed, the remuneration in the employment programmes, and the public sector redundancy compensation; b) the decision of the Labour Ministry last September to expand sector-specific collective agreements in four sectors (banking, shipping agencies and businesses, travel and tourism agencies and agencies that are members of the International Shipping Union), a practice which could possibly expand to other sectors. Note that the increase in the minimum wage will initially boost the income of those already in work, yet their medium-term consequences on employment and therefore total labour income might be negative if they do not reflect underlying growth of productivity, and thus output, as in such a case they would imply an increase in unit labour cost.

Besides fiscal policy, the elections, especially those for parliament, constitute a major political development that is expected to significantly impact the decisions of economic units this year. Over the years, it has been observed that household expectations improve in the period before parliamentary elections, as they seem to expect favourable changes from their outcome. Besides, the incumbent government usually spends more over this period, upping recruitment or making announcements to that effect. Businesses tend to adopt an anticipatory stance until the elections, waiting to see whether the new government arising from the elections will make changes that affect them (e.g. in fiscal policy or the regulatory framework for entrepreneurship). At the level of GDP components, the election campaign is considered more likely to boost private and public consumption, restraining certain investments.

Developments in the banking system were particularly critical in the second review under the enhanced surveillance, especially those concerning the revision of the conditions for protection of the primary residence of borrowers and the scope of provided protection, i.e. the maximum debt for which the primary residence is protected. The abuse of deferrals of auctions that have been ordered by a court, often at the request of debtors for review of the starting price, is also an issue of crucial significance. Its resolution is scheduled for the next review in the context of the enhanced surveillance. The new regulatory framework and the upcoming changes to prevent postponing auctions, increase the likelihood that the banks will receive their compensation for non-performing loans, faster than in the current period. As a result, these changes are expected to facilitate the supply of new loans.

However, it will take a certain amount of time, possibly several months, until the effects of the above changes are felt in a large number of non-performing obligations to the banking system, the progress in the reduction of non-performing loans (NPL), together with the way this is achieved, and the trend in deposits of the private sector (non-financial corporations and households) will be the key drivers for the flow of funds from the banking system in the current year as well. The NPEs totalled €81.8 billion or 45.4% of the total exposure in December 2018, €12.7 billion lower

compared to the end of 2017 and slightly higher than the target. The decline in the stock of NPLS came primarily from write-offs (€5.9 billion) and sell-offs (€5.8 billion). Therefore, the reduction of the NPL stock was achieved in a way that has negative effects on assets, net equity and profitability of the banks, hampering the supply of credit as well. At the end of September last year, the banks submitted revised targets for the reduction of NPLs to the Bank of Greece and the ECB, spanning over a longer period than the original targets, until 2021 instead of 2019. According to the new targets, the non-performing loans will decline by the end of 2021 to €34.1 billion, representing 21.2% of the loans. There is no official information about the tools that will be used to achieve this target. Decisive developments for the NPLs are quite likely to come from implementing the relevant proposals of the Hellenic Financial Stability Fund (HFSF). The reply of DG Comp of the European Commission (DG Comp) on the HFSF plan is anticipated to be issued by the end of April.

As to the trends in another driver of credit supply by the banking system, private sector deposits (households and non-financial corporations) have remained unchanged in early 2019, as in the preceding four months. In the first two months of this year, they stood at around €130 billion. Their stagnation is due to opposite trends in the two main components, as the slight increase in household deposits is offset by declining deposits of non-financial corporations. Given the much larger volume of household deposits, if they keep growing slightly as in the first months of the current year, a much larger percentage decline of business deposits should take place so that the total deposits of the private sector remain unchanged. Therefore, if the expansion of household deposits is maintained over the coming months, total deposits of the private sector would start to move up to a small extent. However, given, first, the completion of the third reform programme without recourse to a new programme, and secondly, the full lifting of the capital controls on transactions within Greece and their further relaxation for international transaction in September last year, the stabilising trend in deposits, and even their small increase in the near future, are developments that do not signal a steady, gradual recovery of the confidence in the banking system.

The low stock of deposits, combined with the major steps that the banks should make this year to limit non-performing loans, is not conducive to a shift shortly, e.g. within the next six months, in the credit policy of the banks to credit expansion. It is possible that some segments of bank credit might increase, e.g. to non-financial corporations, yet their growth is not expected to generalise and be strong. These features of credit policy are reflected in the latest data on the flow of bank loans. In January-February the outstanding balance of loans to the private sector continued to decline, at a lower rate than in the final quarter of last year. That said, the trend to non-financial corporations has changed to slightly positive since December, resulting in growth in the first two months of the current year by 1.1%. However, a similar development took place at the beginning of last year as well, which was subsequently followed again by credit contraction.

The continued scarcity of bank credit, together with the gradual easing of the caution on the prospects of the Greek economy, will lead many enterprises to utilise financing tools available through the capital markets, something which many did do in the past two years. The Folli Follie Group affair shook the trust of investors in the Greek capital market and more broadly in Greek enterprises by the end of the third and at the start of the fourth quarter, dampening activity in this particular market. But these negative effects appears to have passed, as the index of the Athens Stock Exchange is growing since the end of December, and as a result it has currently reached its maximum levels in nine months. The yield that was achieved with the recent 10-year bond issue

by the Greek State and more generally its lower levels after that will foster the access of businesses to finance with viable conditions from this particular market.

Regarding features of the domestic investment environment that are affected by the public sector, the budget of the Public Investment Programme was lowered by €550 million in relation to the MTFS 2019-2022 in order to achieve the primary balance target for this year, despite the negative impact of the new measures. As a result, it is standing, for yet another year, at €6.75 billion. Together with the underspending in the PIP last year overall, and for yet another year, this forebodes a similar development in 2019. That said, as only 40% of the grants paid out last year were disbursed by November, a more front-loaded implementation of public investment this year is feasible. The data on the first two months of 2019 contain indications to that effect, as payments reached €270 million, from €187 million in the same period in 2018. Still, they fall short of the target for this period, at €370 million. The prior assessment that privatisation deals and concessions completed in previous years, until 2017 and perhaps for some completed in 2018, are anticipated to provide greater impetus to investment activity this year, still holds.

The anticipated further expansion of the exports of goods and services, albeit weaker than in the previous two years, will boost for one more year the access to liquidity of the export businesses. The main reason behind the weakening of the favourable effects is the deterioration of the conditions of international trade, from the implementation of trade protectionism measures by the US and the reactions they have caused, leading to counter-measures being taken by affected trading partners. Their negative repercussions are expected to come firstly from decline of demand for Greek products, which might strengthen considerably if recent US pronouncements on expansion of duties materialise, and secondly, through their impact on EU exports and those of third countries with strong demand for Greek products. The negotiations between the US and China that began last December on their bilateral trade relations may potentially offset these developments. Within the Euro area, in particular, the completion of the expansion of the quantitative easing programme by the European Central Bank will also contribute to the slowdown of international trade. However, the support of the liquidity in the Euro area that the ECB provided in recent years will not end abruptly, as its main refinancing rate will not change at least until the end of 2019, possibly later, for as long as it takes to ensure inflation stays slightly lower but close to 2% over the medium term.

As to trends in other factors that affect export activity, the euro/dollar exchange rate is anticipated to fluctuate at levels lower than a year ago, at least in the current half of the year. Therefore, the exchange rate will not restrain the competitiveness of products and services in the Euro area. That said, at these levels the exchange rate has no buffering effect on the inflationary pressures coming from the oil price, which has been almost constantly rising since the start of this year. Nevertheless, the oil price has still remained lower year on year. The projected slowdown in global economic growth is anticipated to offset a prolonged, strong rise in oil prices, despite the curb of daily production from the beginning of 2019 and the US sanctions on oil production in Venezuela and Iran. Under these effects, the average oil price in 2019 is projected to reach about $62/barrel, 12.8% lower on average than in 2018.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to the changes in fiscal policy for 2019, the upcoming elections, the deteriorating global environment, and the changes in wages and benefits after the minimum wage increase) for the

forecast of the GDP components and other macroeconomic indicators, the changes in the 2019 Budget that resulted in higher social expenditure and tax relief, as well as the effects of the increase in the minimum wage and the abolishment of the sub-minimum wage, are expected to be the key factors behind a stronger momentum of household consumption in the current year. Consumption expenditure will also be boosted by further employment growth, which, however, will be considerably weaker than in previous years, due to the developments in the regulatory framework of the labour market. The negative impact of inflation will be milder than last year. Taking this into account, private consumption is expected to grow faster in 2019 than in 2018, by 1.3%.

Regarding public consumption, the announced recruitments in the context of the new fiscal interventions in the budget respect the "1 departure – 1 recruitment" rule, while the new hires usually have lower salaries than the departing public servants. Therefore, they will not expand the consumption expenditure of the General Government. That said, the retroactive payments for the special wage grid planned for this year have a larger allocated budget compared to last year (€982 million in the 2019 Budget). The cost of running three elections this year will also lead to a slight growth of public consumption. As a result of the above effects, public consumption for 2019 is expected to increase by 1.5-2.0%.

The anticipation of the outcome of the elections, especially for the Greek parliament, will restrain the realisation of some investments, with the businesses waiting to see if changes in fiscal policy, the regulatory framework, etc. that affect them will take place. Despite the changes in the legal framework for primary residence protection, if the stagnation of private sector deposits carries over from September - February to the current period, the rate of change of credit to businesses will remain at the current level of around zero for most of 2019.

That said, the recovery in the stock market in the first four months of this year, together with the new issues of Greek Government bonds, will motivate businesses to search funding solutions through the capital markets. Moreover, the very good export performance in recent years will be sufficient incentive for investment for quite a few export companies, regardless of this year's trend in exports. Besides, a year of milder growth would give them the opportunity to respond easier to the investment requirements. At the branch level, investment interest is concentrated mainly in tourism (including renting through Airbnb), Manufacturing, Transport and Storage. The implementation of investment will be carried out by the construction industry, boosting its activity. However, many investment plans will involve the acquisition of machinery and equipment, information and communications technologies, and transport vehicles, covered to a large extent by imports. The reduction of ENFIA on average by 10%, which is included in the new fiscal measures, will stimulate construction activity this year.

Following the activity of HRADF in the past two years, the implementation of investment projects in completed privatisation deals is expected to strengthen. Marginal boost of investment activity may also come from a more frontloaded implementation of the Public Investment Programme, after the significant delays last year. Taking into account the trends in its key drivers, investment activity will most likely strengthen in 2019, with a growth rate of about 8%-11%.

In the external sector of the Greek economy, the strong growth in the Euro area, which led to significant expansion of exports in the previous years, will weaken in the current year, mainly due to the conclusion of the expansion of the quantitative easing by the ECB and the effects of the

trade protectionism policies adopted by the US. The US protectionist measures will also have direct effects on exports, which might strengthen if recent announcements on their expansion materialise. Growth is not anticipated to strengthen in China either, the export destination with the largest increase in absolute terms in 2018. The current euro-dollar exchange rate, lower compared to last year, is not expected to change significantly at least over the first half of 2019 and might decline further, which will boost the competitiveness of the Eurozone exports.

Especially on the part of exports of tourism services, which led the rise of exports in the previous years, the available data so far do not provide a reliable indicator for the flow of international tourists this year. It is likely to be lower than last year during the summer months, although the booking data in airports that form the basis for the decline projection, are very likely to be revised shortly. Moreover, the tourist season might extend this year, if the rise of tourism receipts achieved in January carries over to the subsequent months. The strong rebound of competing tourist destinations, such as Turkey and Egypt, which started last year, may prevent a further, significant strengthening of international tourism and revenue. Taking into account the above trends, exports are anticipated to continue to grow, but at a lower rate than last year, of around 5.5%.

Investment is expected to stimulate imports, but only to a certain degree, as a significant part of investment is anticipated to concern construction, carried out mainly with domestically produced materials. The growth of household consumption will reinforce for yet another year the demand for imports. Proportionally stronger growth is expected in the demand for services rather than goods. As a result, the growth of imports this year is expected to average about 5.0%.

Taking into account the expected developments in the current year that affect the trends in the components of GDP, output is projected to grow by about 2.0%, or perhaps slightly lower, in 2019.

State budget: the targets for the first two months of this year were met, yet there are potential sources of slippage over the rest of the year

According to the available data on the execution of the State Budget (SB) for the first two months, the SB deficit reached €1.14 billion, against a surplus of €1.53 billion over the same period in 2018. However, the balance was better compared to the corresponding target, by €910 million. The primary surplus also declined year on year, to €822 million, from €2.7 billion, yet it exceeded the relevant target for a deficit of €196 million. The year-on-year decline of the primary balance was driven primarily by two factors. The first effect is transient and comes from the fact that revenues from "other taxes on production", linked to revenue from the Bank of Greece, dropped year on year by 93.8% in the first two months of the year, (-€618 million). This fall will be covered shortly, as the corresponding revenue, which in 2018 was collected in February, will be transferred this year in April. The other major adverse factor is the expansion of payments for compensation of employees by 19.6% or €400 million, yet it does not have structural, permanent characteristics. In particular, this increase came mostly from retroactive payments amounting to €324 million. Adjusting for the retroactive payments, the compensation of employees increases by 3.7%. Having said that, the excess over the primary surplus target in the first two months came largely from the fact that while "non-allocated expenditure" was budgeted at €1,563 million, eventually approximately €968 million were spent. On the revenue side, VAT revenues slightly exceed the target (by €140 million), and transfers did as well (by €127 million). Note that the expenses for

January-February have not been burdened with the payment of family and housing allowances, as their payment started after February. In addition, the impact from the increase of the minimum wage, which inflates more than 20 allowances, has not reflected on expenses for this period. For this reason, significant pressure to increase spending is anticipated for the rest of the year.

Unemployment declined to 19.3% in 2018, weaker reduction anticipated in the current year

The extension of the tourist season, but also the expansion of employment in the public sector, were the main reasons behind a new year-on-year drop in unemployment in the final quarter of last year, which led to a further easing of unemployment, at a faster pace than in the preceding quarters of last year. In particular, the unemployment rate stood at 18.7%, 2.5 p.p. lower year on year and half p.p. higher quarter on quarter. On average in 2018, unemployment stood at 19.3%, 2.2 p.p. lower than a year earlier. The decline in unemployment by 112,000 people came mainly from a rise in employment by 2.0% or 75,400 people (67.3% of the reduction of unemployment) and secondarily from a decline of the labour force (-36,700 people). Most new jobs were created in sectors that had not previously shown strong uptrend in employment: in the Primary Sector, by 16,300 people (3.6% growth), Health Services (11,000 people, 3.1%) and Tourism (11,000 people, 4.7%). Sectors with significant contribution to employment in 2017, such as Wholesale-Retail Trade and Manufacturing, had either a much weaker growth last year (9,300 against 21,300 jobs a year before) or even a slight job contraction (-500, from 10,500 jobs).

In 2019, employment is expected to increase in the Construction sector, mostly due to investment in completed privatisations-concessions, as well as from construction activity in renovation or building of residences. Job creations is also expected to take place in Wholesale - Retail Trade, due to higher than last year growth in private consumption. The notably weaker expansion of exports will slow down employment expansion in export-oriented sectors, such as Manufacturing and Tourism, where output may cease to grow this year. Public sector employment is anticipated to continue to receive a boost from temporary social employment programmes run by OAED, and in particular the programme for 26.800 individuals in municipalities, regional authorities and social welfare centres that began last October. Another social employment programme is expected to begin in the current quarter in municipalities and environmental agencies, targeting almost 9.000 people. By contrast, employment in the banking sector is projected to continue to decline, as a result of its continued restructuring. Given these and other factors that affect employment in 2019, unemployment is expected to decline less than in previous years, to 18.0%.

Disinflation in 2019

In the first quarter of this year inflation slowed, as the average growth rate of prices stood at 0.7%, compared to 1.1% in the previous quarter. However, a year ago the domestic consumer price index was falling (-0.1%). The slight price increase stemmed mainly from Communications, by 6.0%, Food – non-alcoholic beverages (1.8%), Alcoholic drinks – tobacco and Housing (1.3% in both categories). Prices rose in other three categories of goods and declined in five, with the sharpest reduction taking place in Clothing - Footwear (-2.2%) and Arts – Recreation (-1.6%). Despite the continuous growth in the price of oil in this period, the fact that it was not higher than a year earlier had no significant inflationary effects: Transport prices were almost unchanged (0.1%), while in Housing they strengthened by 1.3%. The fact that there was no increase in indirect taxes and no new taxes

were imposed from the beginning of 2019, together with the extension of the VAT discount to the five islands of the Eastern Aegean islands with the largest migratory flows, contributed to the mild positive momentum of prices. Besides, the change of the HICP with constant taxes was marginally negative in the first two months (-0.1%). Moreover, HICP with constant taxes excluding energy goods rose by 0.9%, more than the total index and against much smaller rise last year, which points to a mild recovery in domestic demand.

Given that the fiscal measures for 2019 do not include any new indirect taxes or increases in already existing taxes, and with the oil prices projected to decline year on year on average in the current year, inflationary pressures are expected to come only from stronger demand, as was the case in the first quarter. The expected increase in demand is anticipated to come primarily from an increase in household income from the payment of allowances ("social dividend"), retroactive payments, and the new fiscal measures that include higher than initially planned allowances and tax reliefs. The increase of the minimum wage and the abolition of the sub-minimum wage will also boost demand, in the short-term at least, until the labour market adjusts to this development and its effects on employment fully play out. If unexpected developments in factors that influence prices occur (e.g. an extensive increase in oil prices, following the reduction in daily production since the beginning of the year), the rate at which prices increase will accelerate. However, under the current conditions, the average rate of change of the CPI in the current year is expected to be similar to that of last year, at 0.5%-0.7%.

Special study: Property taxation and the future of the construction sector in Greece

Chapter fourth of this report presents a recent IOBE study, which examined the taxation of property in Greece and its impact on the Greek economy. In addition, it quantified the economic and fiscal impact from the implementation of certain interventions in property taxation, such as a VAT reduction on new residences and the abolition of the supplementary property tax.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- Global economic growth weakened slightly in 2018 to 3.6% from 3.8% in 2017
- Further weakening of growth in 2019 to 3.3%, mostly due to slowdown in the developed economies (especially Italy and Germany) and the US
- Likely sources of negative developments for the global economy: a sharper deceleration in China and a no-deal Brexit
- Weaker economic expectations, mostly in the EU and the US, and global trade
- High public and private debt and instability in certain emerging economies

The global economic growth in 2018 was driven mainly by a boost of domestic demand in developed and developing economies, with its rate gradually slowing down as the year progressed. In the developed economies, the ample liquidity supply by the central banks (Euro area, Japan) and the expansionary fiscal policy in the US continued to provide a strong stimulus. In the developing economies, growth came mainly from countries like China, Brazil and Mexico, while recession was recorded in Turkey and Argentina.

Overall in the previous year, the world economy grew at an average rate of 3.6%, compared to 3.8% in 2017, while it is projected to weaken to 3.3% in 2019 and bounce back to 3.6% in 2020,

according to the latest IMF forecasts. Note that the projection for 2019 is revised downwards by 0.2 p.p. in comparison to the previous IMF forecast (January 2019), while many economies have already begun to slow down notably, especially in the EU, since the final quarter of 2018. The ongoing "trade war" between major economies, and the impasse in Brexit negotiations between the European Union and the UK exert pressure since the second quarter of 2018 on the global trade dynamics. Moreover, instability in emerging markets, such as Turkey and Argentina, raises the perceived risk and hampers investment trust, with the uncertainty already affecting short-term indicators of economic expectations, which are weakening. Assessing that these pressures will continue to hamper growth in the first half of 2019, monetary authorities in major developed economies are changing their policy outlook, with the Fed declaring it will not raise interest rates any further this year, while the ECB, the Central Banks of Japan, China and the UK have adopted a more supportive stance.

The implementation of a series of trade protectionism measures and countermeasures between countries and economic unions in 2018 significantly weakened the positive dynamic of global trade. In the latest IMF World Economic Outlook, serious concerns are expressed regarding the impact of growing trade protectionism and weaker global trade, despite the relative normalisation of the trade relations between China and the US with the bilateral negotiations since last December, which were accompanied by a moratorium on further restrictions of their bilateral trade. This resulted in a negative revision of the growth rate of global trade by volume to 3.8% for 2018 and 3.4% this year, from 4.0% in the previous IMF Outlook for both years and from 5.3% in 2017.

The recent deterioration of the growth projections holds for most of the countries and regions of the planet, which, however, will still continue to grow. Indicatively, economies and economic regions where the projections were revised down include the Euro Area and more specifically, Germany and Italy, the UK, Canada and a series of emerging economies such as Mexico, Turkey, India and the countries of the Middle East.

The global economic environment continues to present significant challenges. In the developed economies, apart from the tendency of strengthening trade protectionism and the recent normalisation of the US-China trade relations, the long-term growth prospects are deteriorating, the population is aging fast, there are risks to the financial system, while the newly generated wealth is unequally distributed. In the developing economies, further challenges arise from the capital outflows due the appreciation of the US dollar following the interest rate rise, inflationary pressures, growing private debt and high fiscal deficits. Turkey and Argentina are prominent examples of countries with pronounced capital flight and national currency devaluation. The deceleration of the Chinese economy observed last year and expected for 2019 and 2020 as well, contributed and will continue to contribute to the weakening of the global economy, as the Chinese economy amounts for 18.2% of the global GDP.

Regarding the recent trends in the economies of major countries and groups, in the developed economies, the GDP growth rate is estimated to have stood at 2.2% on average in 2018, against a previous forecast for 2.3% growth in 2018 and growth by 2.4% in 2017. The GDP of the OECD members increased by 1.8% in October-December 2018, against 2.2% and 2.5% in the two preceding quarters.

Table 2.1

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

Economy	2018	2019		2020	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.6	3.3	-0.2	3.6	0.0
Developed	2.2	1.8	-0.2	1.7	0.0
Developing	4.5	4.4	-0.1	4.8	-0.1
USA	2.9	2.3	-0.2	1.9	0.1
Japan	0.8	1.0	-0.1	0.5	0.0
Canada	1.8	1.5	-0.4	1.9	0.0
United Kingdom	1.4	1.2	-0.3	1.4	-0.2
Eurozone	1.8	1.3	-0.3	1.5	-0.2
Germany	*1.5*	*0.8*	*-0.5*	*1.4*	*-0.2*
France	*1.5*	*1.3*	*-0.2*	*1.4*	*-0.2*
Italy	*0.9*	*0.1*	*-0.5*	*0.9*	*0.0*
Emerging Europe	3.6	0.8	0.1	2.8	0.4
Turkey	2.9	-1.8	-1.4	3.2	0.5
Developing Asia	6.4	6.3	0.0	6.3	-0.1
China	*6.6*	*6.3*	*0.1*	*6.1*	*-0.1*
India	*7.1*	*7.3*	*-0.2*	*7.5*	*-0.2*
Commonwealth of Ind. States	2.8	2.2	0.0	2.3	0.0
Russia	*2.3*	*1.6*	*0.0*	*1.7*	*0.0*
Middle East & North. Africa	1.8	1.5	-0.9	3.2	0.2
Latin America	1.0	1.4	-0.6	2.4	-0.1
Brazil	*1.1*	*2.4*	*-0.4*	*2.5*	*0.3*
Sub-Saharan Africa	3.0	3.5	0.0	3.7	0.1
World Trade	3.8	3.4	-0.6	3.9	-0.1

* Difference in percentage points compared with the IMF estimates from January 2019 Source: World Economic Outlook, IMF, April 2019 & OECD Economic Outlook, February 2019 for Turkey

Among the developed countries, the growth rate in the US stabilised in the fourth quarter of 2018, for the second consecutive quarter, at 3.0%, from 2.9% in the previous quarter and 2.2% on average in 2017. The acceleration largely came from the impact on income and wealth of the recent fiscal package of tax cuts, which boosted domestic demand. Based on the latest forecasts of IMF, the US growth rate is estimated at 2.9% in 2018, with projections for growth of 2.3% in 2019 and 1.9% in 2020. Meanwhile, the Fed, following the ninth consecutive rate increase since late 2015 in December 2018, signalled that statutory interest rates will remain stable in 2019, as possible further hikes are moved to 2020 onwards. The key challenges that the US economy is facing are associated, on the one hand, with escalation of trade protectionism, which increases uncertainty and hampers the growth prospects and, on the other, with the pro-cyclical fiscal policy, which is foreseen to push output above its potential level and to increase the fiscal deficit, limiting the possibility of a fiscal stimulus in a future economic recession.

Regarding the trends in the Euro area, which are presented in detail in the next subsection, the growth rate significantly slowed down in the October-December 2018, for the fifth consecutive

quarter, to 1.1% from 1.6% in the previous quarter and 2.4% in 2017. A large part of this decrease is due to the slowdown of the German, French and Italian economies, which posted the lowest growth rates in the Euro area. Given these trends, the Euro area is estimated to have grown by 1.8% in 2018, with a further drop to 1.1% projected in 2019, but also with an acceleration in 2020 to 1.6%.

In the United Kingdom, GDP grew by 1.4% in the final quarter of 2018, same as in the preceding quarter and 1.7% on average in 2017. The deadlock of the negotiations on the post-Brexit period has fed into the uncertainty, making the possibility of a no-deal exit more likely, despite the recent extension of the withdrawal deadline until 31 October 2019. Still, the fiscal initiatives to boost the economy included in the Budget for 2019 are projected to absorb part of the pressure, resulting in the British economy growing by 1.2% in 2019, from 1.4% in 2018.

In Canada, the growth rate continued to weaken in the fourth quarter of 2018, to 1.6%, from 2.1% in the previous quarter. The projections of international organisations converge to an annual growth close to 1.5% for 2019, from 1.8% in 2018 and 3.0% in 2017.

In Japan, the growth rate stood at 0.3% in the fourth quarter of 2018, from 0.3% in the preceding quarter and 1.7% overall in 2017. Given the latest IMF projections[1] on the Japanese economy, it is expected to strengthen by 1.0% in 2019 and 0.5% in 2020, from 0.8% in 2018. Inflation eased in the fourth quarter of 2018, to about 0.8%, from 1.1% in the preceding quarter, while the monetary policy is expected to continue to be restrictive until price growth approaches the inflation target of 2%. Having said that, the persistently low inflation and the demographic issue remain the main challenges to the Japanese economy.

The emerging and developing economies are estimated to have expanded at an average rate of 4.5% in 2018, at a rate slightly lower than the IMF forecast from January 2019. In addition, the IMF revised down its projections on the growth rate of the developing economies for 2019, to 4.4%. The emerging and developing economies of Europe are expected to grow by 0.8% in 2019, from 3.6% in 2018 and 6% in 2017. The slowdown will mostly stem from the Turkish economy, projected to have a contraction by 1.8% in 2019, from 2.9% growth in 2018 and 7.4% in 2017. The economic situation in Turkey deteriorated significantly in mid-2018, due to growing inflationary pressures, capital outflows and rising yields of the Turkish bonds. The inflation rate peaked at 25.2% in October, its highest rate since 2003. It has slowed slightly down since then, at 19.7% this February. There is no doubt that the economic developments in Turkey have a direct effect on Greece, as inter alia Turkey is the third largest destination for Greek exports of goods, but also a competitor in certain types of products and services, such as tourism.

Apart from the emerging countries in Europe, the Middle East – North Africa (MENA) is another region outside of the EU that has significant trade relations with Greece. A significant slowdown to 1.5% growth is expected for 2019, the largest negative revision in the IMF projections since January 2019 (by 0.9 p.p.), following a growth by 1.8% in 2018. The reasons behind this development are lower oil production and geopolitical tension in certain countries. The growth rate is expected to pick up to 3.0% in 2020.

[1] World Economic Outlook, IMF, April 2019

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

In detail, the economy of China kept growing in the third and fourth quarter of 2018, albeit at a lower rate than earlier in the year, by 6.5% and 6.4% respectively, against 6.9% overall in 2017. The slowdown for the duration of last year is primarily a result of the implementation of a contractionary regulatory policy, in effort to limit non-systemic banking activity and public investments with overrun budgets, and to a lesser extent from the trade war with the US. The growth rate of China is estimated to have stood at 6.6% in 2018, from 6.9% in 2017. Further slowdown is anticipated in 2019 and 2020, to 6.3% and 6.1% respectively, because of the escalating trade war. The recent, and at least temporary, easing of the trade tensions between the US and China due to their ongoing bilateral negotiations, contributed to the slightly positive revision of the growth projection of the Chinese economy this year by the IMF (=0.1 p.p.).

In India, the economy slowed down to 6.8% in the fourth quarter, from 7.2% in the preceding quarter, and 7.1% in 2017. Growth is estimated to have reached 7.3% in 2018, mainly from the strong momentum of investment and exports. The high fiscal deficit and the high rate of non-performing loans are the key structural characteristics of the country's economy.

In Russia, the economy strengthened in the final quarter of 2018, growing at a rate of 3.4% from 1.4% in the previous quarter. For 2018 overall, the growth rate is estimated at 2.3%, aided by the rebound of international oil prices and the subsequent boost of consumption and investment. It is anticipated to slow down marginally to 1.6% in 2019, returning back to 1.7% in 2020. The strong dependence on the international prices of energy commodities and income inequality remain the main challenges ahead for the Russian economy.

Growth is expected to accelerate in the upcoming two years for the Latin American economies overall, after a slowdown in 2018. Growth by 1.4% and 2.4% is projected for 2019 and 2020, from 1.1% in 2018. Argentina, in particular, has experienced a sharp decline in economic activity since the second quarter of 2018, with a 2.5% contraction in 2018, after a 2.9% growth in 2017. In the third quarter of 2018, the economy shrank further by 3.5%. In an attempt to reduce fiscal imbalances, a strict monetary policy was enforced, which led to a drop in domestic demand. The economy is expected to contract in 2019 by 1.2%, mostly due to a weakening of this particular GDP component. In Brazil, the economy remained on a growth path, following the deep recession of 2015 and 2016. The growth rate stood at 1.1% in the fourth quarter of 2018, from 1.3% in the preceding quarter and 1.1% in 2017. The IMF revised down its forecast for the growth of the economy of Brazil, to 2.1% in 2019 and 1.1% in 2018.

The IFO estimates on the economic climate in the world economy in the first quarter of 2019 weakened significantly for the fourth consecutive quarter. In particular, the world economic climate balance declined to -13.1 points, from -2.2 points in the preceding quarter. Regarding the assessment of the current situation, the positive balance declined further, to 2.6 points, from 12.2 points in the fourth quarter. In addition, the expectations over the coming six months remained negative, with a significant decline of the indicator in the first quarter, to -27.7 points, from -15.7 points in the final quarter of 2018. It should be noted, that the worsening of the economic climate mostly stems from the developed economies, with expectations worsening considerably in the EU

and US economies. By contrast, the expectations in developing countries remained stable, after their sharp decline in the two preceding quarters. A significant improvement of the economic climate is observed in the economies of the MENA region.

Table 2.2

IFO – Global economic climate (balances)

Quarter/Year	I/17	II/17	III/17	IV/17	I/18	II/18	III/18	IV/18	I/19
Economic Climate	3.0	13.5	13.2	17.1	26.0	16.5	2.9	-2.2	-13.1
Assessment of Current Situation	-8.7	5.1	12.5	17.2	28.3	27.4	17.5	12.2	2.6
Expectations	15.5	22.2	14.0	16.9	23.9	6.1	-10.6	-15.7	-27.7

Source: IFO Institute, Center for Economic Studies

Table 2.3

IFO - Economic climate in the Euro area (balances)

Quarter/Year	I/17	II/17	III/17	IV/17	I/18	II/18	III/18	IV/18	I/19
Economic Climate	17.3	26.4	35.2	37.0	43.2	31.1	19.6	6.6	-11.1
Assessment of Current Situation	8.0	21.9	33.4	42.9	51.3	49.9	41.4	29.9	18.3
Expectations	27.0	31.0	37.1	31.3	35.4	13.8	-0.1	-14.3	-36.6

Source: IFO Institute, Center for Economic Studies

The economic climate in the Euro area also deteriorated in the first quarter of 2019, moving into negative territory for the first time since 2014, with the economic sentiment indicator falling to -11.1 points, from 6.6 points in the fourth quarter. Regarding the assessment of the current situation, the balance declined significantly, to 18.3 points, from 29.9 points in the preceding quarter. In addition, the expectations balance deteriorated notably, falling to -36.6 in the first quarter of 2019, against -14.3 in the preceding quarter. At a country level, the lowest value of the economic climate indicator was observed in Italy. In Spain, there was a small decrease in the indicator, while in Germany the indicator continued to decline. Significant negative realignment of expectations was observed In France and Belgium.

The inflation rate in the developed economies of the G7 group remained stable at 1.3% in February of 2019 (compared to January 2019), from 1.9% in the final quarter of 2018, influenced by the falling international oil prices. Yet, it remained below the target in some countries. This phenomenon remains more acute in Japan, where the rate of price change stood at 0.9% in the fourth quarter of 2018 and 0.2% in February 2019, significantly lower than the inflation target of "close to 2%". In the Euro area, the total inflation rate reached 1.9% in the fourth quarter of 2018 from 2.1% the previous quarter, while in the US it stood higher at 2.2% and 2.6% respectively. In February 2019, the inflation rate stood at 1.5% for both the US and the Euro area. The inflation rate in certain developing economies, such as Argentina and Turkey, remained at exceptionally high levels in the final quarter of the previous year, namely at 47.6% and 22.4% respectively, standing at 51.3% and 19.7% respectively in February 2019. This development was largely due to the fact that the gradual increase in US interest rates sparked currency devaluation and inflationary pressures in emerging markets. In the global economy overall, inflationary pressures eased after the stabilisation of

international prices of basic commodities, especially fuel, the price of which subsided from the beginning of the final quarter of 2018 till the end of the first quarter of 2019 by more than 17%.

Following the small increase of interest rates carried out by the Fed in December 2018, further increase in interest rates are anticipated starting from early 2020. Meanwhile, the ECB, having concluded its bond purchasing programme at the end of 2018 and maintaining its policy of re-investing the funds from the repayment of bonds that mature, announced it would keep its interest rate on the main refinancing operations at zero at least until the summer of 2020.

B. EU and Eurozone Economies

- Growth slowed down significantly in the Euro area in the final quarter, to 1.1% from 1.6% in the preceding quarter and 2.8% a year before
- Negative contribution of net exports to growth, with significant slowdown of imports and exports in parallel
- Weaker economic expectation and investment growth compared to the previous quarter
- Projections for Eurozone growth at 1.1% in 2019 and 1.6% in 2020
- Main sources of uncertainty: weakening of global trade, extended uncertainty regarding Brexit, high public debt and non-performing loans

In the fourth quarter of 2018, the economies of the European Union and the Euro area grew at a slower pace, by 1.4% and 1.1% respectively, from 1.8% and 1.6% in the third quarter and 2.7% and 2.6% respectively in the final quarter of 2017 and 2.4% for 2017 overall. According to the latest forecasts of the European Central Bank, the Euro area economy is expected to grow by 1.1% and 1.6% in 2019 and 2020, respectively. The European Commission projected earlier, in February, growth by 1.5% and 1.7% in 2019 and 2020 in the EU.

Domestic demand was the main growth driver in both regions in the final quarter of 2018, albeit to a substantially lower degree than in the previous quarter, as the positive contribution of consumption increased slightly, due to higher public consumption, while the contribution of investment declined significantly. The impact of net exports in the fourth quarter of 2018 in both regions remained negative, due to weaker contribution to GDP growth of both imports and exports. In addition, in the quarter under examination, the contribution of net exports in the Euro area declined (-0.3% in the fourth quarter, against -0.2% in the third), while it remained stable in the EU-28 (-0.3% in both quarters).

The composition of the GDP expenditure components remained similar in the EU and the Euro area, with consumption representing 75% and 74.3% of GDP respectively, investment at 21% and 21.5%, exports at 48% and 49.5% and imports at 45% and 45.2% of GDP.

The highest growth rates in the EU in the fourth quarter of 2018 (in terms of year-on-year changes in seasonally adjusted data) were recorded in Malta (7.4%), Latvia (5.6%) and Hungary (4.9%). Greece, at 1.6% outperformed the average growth of the Euro area and the EU last year. The lowest growth rates were recorded in Italy (0.0%), Germany (0.6%), France (1.0%) and the United Kingdom (1.4%). In terms of a 12-month moving average, Greece recorded the 7th lowest rate of growth in

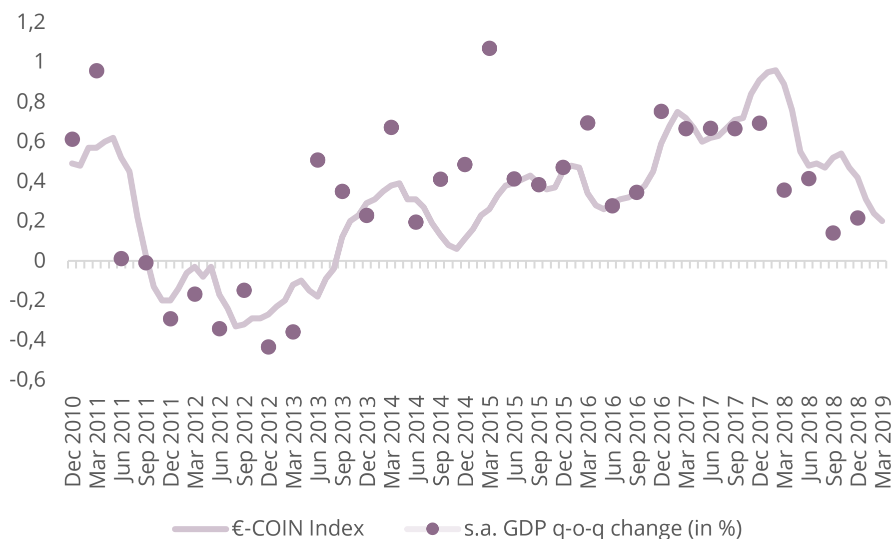
the EU, at 1.9%, essentially converging to the average of the Euro area (1.8%) and the EU (2.0%), ahead of France and Germany, which posted a growth rate of 1.6% and 1.5% respectively in the fourth quarter of 2018. The countries with the lowest 12-month growth rate were Italy (0.8%), the United Kingdom (1.4%), Belgium (1.4%) and Denmark (1.4%). In contrast, the highest growth in the EU on a 12-month moving average basis was recorded in Ireland (7.0%), Malta (6.5%) and Poland (5.1%).

Regarding the economic climate and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN index experienced a steep decline in the first quarter of the year, to 0.25 points, from 0.48 points in the final quarter of 2018, its weakest quarterly performance since the first quarter of 2015, capturing a clear trend shift away from the positive climate in the Eurozone economy. The index dropped for the fifth consecutive month, probably influenced by the uncertainty regarding the Brexit outcome.

Figure 2.1

Monthly €-COIN Index & Eurozone GDP

Drop in the €-COIN climate index in Q1 2019, at a level similar to Q1 2015



Source: CEPR, Bank of Italy

The economic sentiment indicator of the European Commission declined further in the EU and the Euro area in the first quarter of 2019, for the fifth consecutive quarter, after recording its best performance since the year 2000 in the final quarter of 2017. In March 2019, the economic sentiment indicator stood at 105 points in the EU and 105.5 points in the Euro area, lower by 0.4 and 0.7 points respectively compared with the previous month. Year on year, it declined by 6.7 and 6.5 points respectively.

Table 2.4

Economic Climate Index EU-28 & Euro Area (av. 1990-2017=100)

Month	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
EU-28	109.1	108.8	109.9	111.6	111.0	111.9	113.2	113.0	114.4	113.9	113.7	111.7
Eurozone	109.1	108.8	109.9	111.6	111.0	111.9	113.2	113.0	114.4	114.0	113.2	112.0

Month	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
EU-28	111.8	111.9	111.7	111.5	111.5	110.7	110.1	109.3	107.5	106.2	105.4	105.0
Eurozone	112.2	111.5	111.8	111.2	111.0	110.4	109.7	109.5	107.4	106.3	106.2	105.5

Source: European Commission (DG ECFIN), March 2019

Overall in the first quarter of 2019, the indicator in the EU stood lower by 3.5 points quarter on quarter, and by 7.6 points year on year. In the Euro area, the economic climate index stood lower by 2.9 points quarter on quarter and 7.1 points year on year. At the country level, the climate indicator deteriorated in France by 1.2 points quarter on quarter, with much stronger decline year on year (-8.2 points), probably due to the extensive protests in the country. In the United Kingdom, due to continued uncertainty regarding the deal with the EU on Brexit, the economic climate deteriorated by 5 points quarter on quarter and 6.9 points in the relation to the same quarter of 2018. It should be noted that Brexit did not take place as originally set on the 29th of March 2019, as a new extension was granted for the withdrawal of the United Kingdom from the EU until 31 October 2019. Note also that the economic climate index subsided in Germany as well, by 2.8 points quarter on quarter and 6.2 points year on year. The economic climate also worsened in Italy, by 3.4 points quarter on quarter and 7.5 points year on year. Finally, in Greece the economic climate indicator subsided by 0.1 points quarter on quarter, lagging 5.3 points behind the Euro Area average in the first quarter of 2019. Still, the indicator steadied at 101.3 points in March, higher than the 99 points of March 2018.

More comprehensive information on the GDP components in the Euro area and the EU in the first quarter of 2019, as well as on potential trends in the coming period is provided next in this subsection. Predictions for 2018-2020, as reflected in the European Commission forecasts (November 2018 and February 2019) for the EU-28 are also presented, while for the Euro area the projections are based on the Macroeconomic Projection Reports of the European Central Bank (March 2019).

In greater detail, according to Eurostat data for the fourth quarter of 2018 (year-on-year changes in seasonally adjusted data), private consumption in the European Union increased by 1.4%, same as in the preceding quarter, against 1.9% in 2017. Similarly, consumption in the Euro area expanded by 1.0%, same as in the preceding quarter, against 1.6% in the previous year. The European Commission projected in November 2018 a slight weakening of the year-on-year growth in household consumption in the EU, to 1.8% in 2018 and 2019. Correspondingly for the Euro area, the ECB in March 2019 projected that private consumption will steady at 1.3% in 2019 and recover to 1.6% in 2020 (Table 2.5).

Table 2.5

Key Macroeconomic Figures, EU-28, Eurozone (annual % change in real terms, unless otherwise noted)

	EU-28			Eurozone		
	2018	2019	2020	2018	2019	2020
GDP	1.9	1.5	1.7	1.9	1.3	1.6
Private Consumption	1.8	1.9	1.7	1.3	1.3	1.6
Public Consumption	1.2	1.5	1.3	1.1	1.7	1.6
Gross Investment	3.2	2.9	2.8	3.3	2.1	2.4
Exports of Goods and Services	3.4	3.6	3.2	2.8	2.8	3.6
Imports of Goods and Services	3.2	3.9	3.6	2.7	3.7	4.1
Employment	1.2	0.8	0.7	1.4	0.7	0.6
Unemployment (% labour force)	6.9	6.6	6.3	8.2	7.9	7.7
Inflation	1.9	1.6	1.8	1.7	1.4	1.5
Balance of General Government (% GDP)	-0.7	-0.8	-0.7	-0.5	-1.0	-1.0
Debt of General Government (% GDP)	81.4	79.5	77.6	85.0	83.8	82.3
Current Account Balance (% GDP)	2.5	2.3	2.3	3.0	2.4	2.3

Sources: For the EU: European Economic Forecast, Autumn 2018, European Commission, November 2018 exc. data on GDP and inflation that are based on the Interim European Economic Forecast, Winter 2019, European Commission, February 2019. For the Eurozone: ECB Macroeconomic Projections, March 2019

Among the EU countries, private consumption growth remained steady, albeit low, in Germany at 0.5%, slowed down in France to 0.6% (from 0.8% in the third quarter of 2018), and went even further down in Italy to 0.4%. In the United Kingdom, private consumption kept its growth at 1.6%. Greece recorded a growth rate of private consumption of 1.1%, same as in the third quarter.

Public consumption growth strengthened quarter on quarter both in the EU (+1.3%) and the Euro area (+1.2%) in the final quarter of 2018. In 2017, public consumption had increased by 1.0% in the EU and by 1.2% the Euro area. For 2018 and 2019, the European Commission anticipated in November 2018 growth by 1.2% and 1.5% respectively in the EU, while for the Euro area, the European Central Bank estimated in March 2019 a 1.7% and 1.6% increase in 2019 and 2020, respectively. In the fourth quarter of 2018, public consumption declined in Greece (-1.4%) and Italy (-0.1%).

Investment growth slowed down substantially in the final quarter of 2018 in the EU and the Euro area, achieving a rate of 3.3% and 3.0% respectively, compared to 5.8% and 5.5% in the previous quarter. In 2017, investment had increased by 3.1% in the EU and 2.6% in the Euro area. The European Commission anticipated investment to grow by 3.2% and 2.9% in 2018 and 2019 in the EU. The ECB anticipated investment growth by 2.1% and 2.4% in 2019 and 2020 in the Euro area, respectively. The largest slowdown in investment growth in the fourth quarter of 2018 was recorded in Germany to 5.8%, from 8.4% in the preceding quarter, while in Italy investment contracted by 1.7%.

The growth of the exports of goods and services continued to slow down significantly in the final quarter of 2018, to 1.7% and 1.5% in the EU and the Euro area respectively, compared with 2.5% and 2.9% growth in the previous quarter, but also with a significantly stronger expansion by 5.4% and 5.2% in 2017. For 2018 and 2019, the European Commission anticipated a decline in the growth

of exports in the EU-28 to 3.4% and 3.6% respectively. For the Euro area, a similar slowdown of exports was projected by the ECB, to 2.8% in 2019, with a recovery to 3.6% anticipated in 2020. At the country level, exports slowed down further in Germany to 0.3% growth in the final quarter of 2018, from 1.3% in the third quarter and 3.7% in Q1. In Greece, export growth strengthened in the final quarter to 10.6% from 7.1% and 8.1% in the third and first quarter, respectively. In contrast, a mild increase in exports was observed in the final quarter of 2018, after two consecutive quarters of decline, in the United Kingdom at 0.2% (-1.3% and -0.3% in the third and second quarter last year).

Import growth weakened in the fourth quarter in the EU to 2.6%, from 3.3% in the preceding quarter. It fell similarly in the Eurozone to 2.4%, from 3.7% in the preceding quarter. The growth rate remained significantly lower than in 2017, when imports were expanding by 4.2% in the EU and by 3.9% in the Euro area. For 2018 and 2019, the European Commission anticipated growth by 3.2% and 3.9% respectively for the EU, while for the Euro area, the ECB projected an acceleration of the growth rate to 3.7% in 2019, and a further increase to 4.1% in 2020. At the country level, imports slowed down in Germany (3.2% from 3.9% in Q3) and Italy (0.8% from 1.9% in Q3), while they accelerated in France (1.0% from 0.3%). A significant increase in imports was observed in the United Kingdom (2.6% in Q4 from -0.1% in Q3 and -0.2% in Q2 of 2018). In Greece, imports slowed down significantly in the final quarter of 2018 (to 2.0% from 15.6% in Q3). Lastly, in the final quarter, imports dropped in Cyprus and Malta, by -6.3% and -2.2%, respectively.

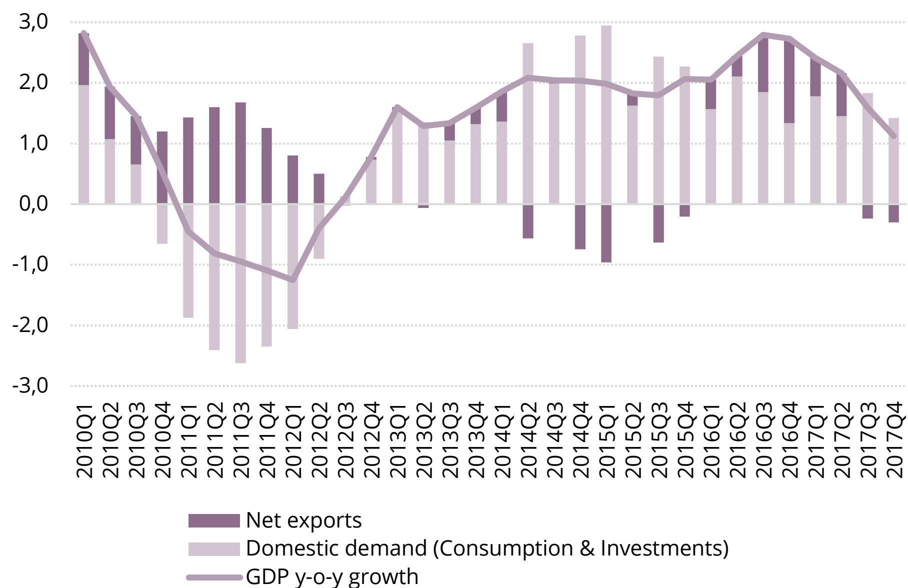
As a result of the developments in the GDP components in the Euro area, the contribution of net exports in the fourth quarter of 2018 remained negative (at -0.3%) for the second consecutive quarter, after 6 consecutive quarters of positive contribution. The negative contribution of net exports is associated equally with the slowdown in the expansion of exports and stronger growth in imports. This outcome is possibly linked to the slowdown of the expansion of global trade. The contribution of domestic demand remained significant (1.4%), albeit lower than in the previous quarter, mainly due to the positive contribution of investment (0.6%) and consumption (0.5%).

The harmonised inflation rate slowed down slightly in the fourth quarter of 2018, standing at 2.0% in the EU-28 and at 1.9% in the Euro area, from 2.2% and 2.1% in the preceding quarter in the two regions respectively. The inflation rate based on the harmonised index excluding energy goods also slowed down in the fourth quarter of 2018, at 1.3% and 1.2% in the EU and the Euro area respectively. Overall in 2018, the harmonised inflation rate stood at 1.9% and 1.7% for the EU and the Euro area respectively. For 2019 and 2020, the European Commission projected in February that the inflation in the Euro area would stand at 1.3% and 1.6%, while for the EU it projected an inflation rate of 1.5% and 1.7% respectively, mainly due to the drop in oil prices. In February, inflation stood at 1.6% in France, at 0.8% in Greece, at 1.7% in Germany and at 1.1% in Italy.

Figure 2.2

Eurozone GDP Change – Contribution of Component to the Real Annual Rate of Change (in percentage points)

Net exports had a negative contribution to the change in GDP in Q4 2018 due to slowdown of export growth and stronger imports



Source: Eurostat

The growth of employment, based on data from the Labour Force Survey of Eurostat, remained unchanged in the final quarter of 2018 at 1.0% in the EU and 1.1% in the Euro area, slowing down compared to the second quarter of 2018. The European Commission projected last November employment growth would weaken in the EU in 2018 and 2019, to 1.2% and 0.8% respectively, from 1.6% in 2017. In the Euro area, the ECB projected slower employment growth, at 0.7% in 2019 and 0.6% in 2020. Employment increased most in the final quarter of 2018 in Cyprus (5.4%) and Malta (5.1%), while contraction of employment was observed only in Poland (-0.1%) and Bulgaria (-1.1%). Greece recorded a steady increase in the fourth quarter of 2018 (2.5%), higher than in the respective quarter of 2017, when it stood at 2.2%.

Unemployment fell further in the fourth quarter of 2018 to 6.6% in the EU and 7.9% in the Euro area, compared to 6.8% and 8.1% respectively in the preceding quarter, its lowest level in both regions since 2008. In 2018 overall, the average unemployment rate stood at 6.9% in the EU and 8.2% in the Euro area. For 2019 and 2020, the European Commission projects further decline of unemployment in the EU, to 6.6% and 6.3% respectively (from 7.6% in 2017). Similarly, lower unemployment rates are also anticipated in the Euro area at 7.9% in 2019 and 7.7% in 2020, compared to 9.1% in 2017. Between October and December 2018, the highest unemployment rate was recorded in Greece (18.3%), followed by Spain (14.5%) and Italy (10.6%), while it stood at 9.0% in France and at 3.3% in Germany.

Regarding the fiscal performance, the European Commission projected in November 2018 a further decline in the general government deficit in the EU in 2018 to 0.7% of GDP (from 1.0% in 2017) and 0.8% in 2019. In the Euro area, the European Central Bank expected the deficit to decrease to 1% of GDP in 2019 and 0.5% in 2020. Spain is the only country that has remained under

monitoring based on the excessive deficit procedure (EDP) and it must comply with a deficit target of below 3%. Public debt in the Euro area stood at 85% of GDP last year, with the gradual decrease expected to carry over to 2019 and 2020, as it is projected to reach 83.8% and 82.3% of GDP respectively. Despite the progress, public debt remained very high across many Member States in the third quarter of 2018, with the highest rate as a percentage of GDP recorded in Greece (182.3%), Italy (133.3%), Portugal (124.7%) and Cyprus (110.2%).

As to the monetary policy framework, the European Central Bank continued to pursue accommodative monetary policy by maintaining very low interest rates, following the conclusion in December 2018 of the unconventional quantitative easing (QE) programme that lasted for four years. The ECB has announced that it will not increase the interest rates until at least late-2019, with the market consensus forecasts expecting the first hike in early 2020. The main interest rates of the ECB will remain at their current levels at least until the end of 2019 and as long as needed in order to ensure the continuation of the convergence of inflation to levels below and close to 2% in the mid-term. The ECB will maintain its policy of reinvesting the principal payments from maturing securities for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary, yet it will no longer partake in net asset purchases.

In summary, the economy in Europe, and more specifically in the Euro area, is facing a series of challenges that trouble policy makers. These are:

- Announcement of new trade protectionism measures by trade partners, such as the US
- Serious complications in the negotiations with the UK on Brexit, with a negative impact on investment and consumer confidence in the economies of the UK and to a lesser extent the Euro area, generating uncertainty for both
- Weakening of trade between the EU member states
- Maintaining stability in the financial system: very high levels of non-performing loans in some member states
- Rapid population aging, with impacts on the sustainability of the social security system of many member states

2.2 The Economic Environment in Greece

A. Economic Climate

- Stagnant economic climate indicator in Greece in the first quarter of 2019 compared with the last quarter of 2018 (100.7 from 100.8 points). Small drop compared with the corresponding quarter of last year (101.4 points)
- Business expectations worsened in the first quarter of 2019 in Retail Trade and Services, remained unchanged in Construction and improved only in the Industry
- The consumer confidence indicator stood higher at -31.1 points, from -32.6 in the fourth quarter of 2018.

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 indicators used in the surveys constitute leading indicators for various economic magnitudes and can be used to predict near-term developments and even the course of GDP.[2]

In the first quarter of this year, the economic sentiment indicator did not change in comparison to the previous quarter. The Greek economy as a whole seems to be, for the time being, on hold. The stagnation in early 2019 is considered to be largely a product of diverging views on current developments. On the one hand, the expectations of households strengthened significantly for the second consecutive quarter, possibly due to the fiscal changes for 2019, as the new cuts in pensions were not enacted, while expectations have been shown systematically to improve in periods leading up to elections. On the other, elections usually hamper decision making in businesses, which discount the possibility of changes in economic policy by a new government and often adopt a wait-and-see stance before making any major decisions. More broadly, there does not seem to be a powerful positive momentum in particular sectors of economic activity, such as tourism and exports in the previous years. Besides, the global environment worsened in the second half of 2018, due to the announced conclusion of the quantitative easing programme by the ECB and the impact of trade protectionism measures on global trade. In addition, the businesses are currently trying to assess the recent changes in the labour market, with the increase of the minimum wage and the abolition of the sub-minimum wage. Therefore, expectations will soon be influenced by the developments surrounding the elections, initially for the European Parliament, and then by developments in the Eurozone economy. In detail:

The Economic Sentiment Indicator slightly decreased in Greece between January-March 2019 in relation to the fourth quarter of 2018, to 100.7 points on average (from 100.8 in the previous quarter), at a lower level than the average from the same quarter of 2017 (101.4 points on average).

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[2] 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 was referenced to average values from the 1996-2006 period. The historical series of the indicators are fully revised, in order to ensure that the data series 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.

In Europe, the corresponding indicator declined quarter on quarter in the quarter under examination, both in the EU and in the Euro area. In particular, the Economic Sentiment Indicator averaged 105.5 points (from 109) in the first quarter of 2019 in the EU and 106 (from 108.9) points in the Eurozone.

At the sector level in Greece, the business expectations deteriorated quarter on quarter in the first quarter of the year in Services and Retail Trade, remained unchanged in Construction and slightly improved in Industry. On the consumer side, the average quarterly Consumer Confidence Indicator marginally increased. Compared to the same quarter of the preceding year, the indicator increased in Retail Trade and decreased in Services, Construction and Industry, while consumer confidence strengthened substantially. In more detail:

The Consumer Confidence Indicator in Greece in the first quarter of 2019 was on average slightly higher at -31.1 points (from -32.6 points in the fourth quarter), a performance substantially better than last year (-49.8 points), reaching its highest level since the third quarter of 2007. At the country level, the Greeks maintained their top rank on the European pessimism scale. The corresponding average European index weakened considerably in both the Euro area (to -7.5 from -6.9 points) and the EU (-7.4 from -6.4). These levels are lower in the Euro area and the EU in relation to last year as well (-4.2 and -4.1 points respectively).

The quarter-on-quarter trends in the individual components that make up the overall indicator were mixed in the first quarter of 2019. The expectations of the Greek consumers for the financial situation of their households in the following 12 months and the expectations for the country's economic situation weakened slightly, while the intent to make major purchases in the near future strengthened quarter on quarter in the first quarter of the year.

In particular, the percentage of consumers pessimistic about their household's financial situation over the next 12 months dropped to 44% (from 45% in the previous quarter), while the share of respondents holding the opposite view increased to 12% (from 10%). Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation declined marginally to 47% (from 48%), with 18% (same as in the previous quarter) expecting a slight improvement. Considering the intention to save, the percentage of households that did not consider it possible that they would do any savings in the following 12 months was about 84% (from 83%), while those that considered it possible stood at 14%. The percentage of those believing that unemployment would increase climbed to 45% (from 43%), while 24% (from 25%) on average expressed the opposite opinion. The percentage of consumers that reported to be «in debt» in the first quarter of 2019 was 11% (from 12%), lower in comparison with the same quarter the year before (16%), while the percentage of respondents who said they saved a little stood at 15% (from 14% in the preceding quarter and 8% last year). Finally, the percentage of those who declared that they were "just about managing to make ends meet on their income" reached 63% (from 60%) while the percentage of households reporting that they were "drawing on their savings" dropped to 10%, at the same level as in the same quarter of the previous year (11%), from 13% in Q4 of 2018.

The Business Climate Indicator in Industry stood at 101.8 (from 97.7) points in the first quarter of 2019, lower than its corresponding level of 2018 (105.1 points). In the key activity indicators, the

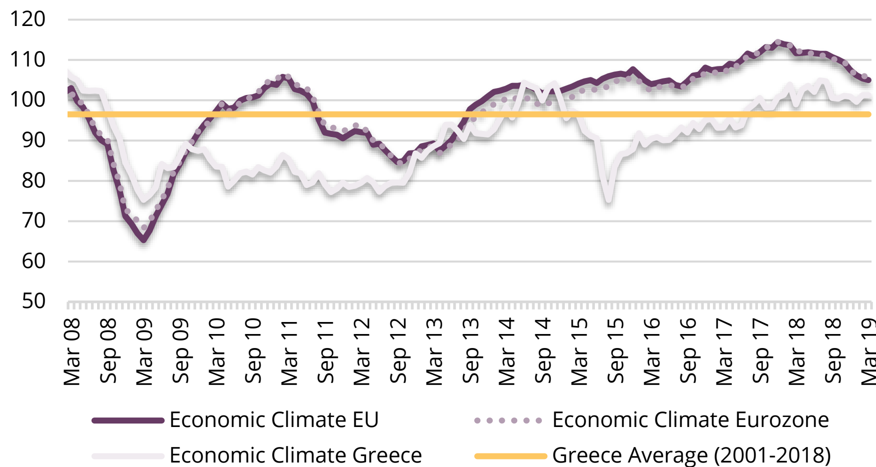
expectations for short-term output change strengthened significantly in the examined quarter (+22 from +9 points on average), while the estimates for the level of orders and demand declined (to -17 from -16 points). The assessment of the stock of finished products remained almost unchanged (to +9 from +10 points), while the trends in the export indicators were mixed. The export expectations over the following quarter improved, contrary to the assessment of current estimates of exports for the sector (at 6 from 11 points) and the expectations on foreign orders and international demand (-19 from -16 points). The quarterly balance of employment expectations increased to +5 (from +1) points on average. The production capacity utilisation rate stood at 70.4% (from 71%), while the months of guaranteed production averaged 5.1 (from 4.8).

The Business Climate Indicator in Retail Trade decreased in the examined quarter to 105.8 points (from 108.2), higher than in the same quarter of the previous year (97.1 points). Among the key components of the indicator, the average balance of the current sales assessment increased to +21 (from +18) points. About 27% (from 29%) of the enterprises in the sector reported that their sales had declined, with 48% (from 47%) stating the opposite result, while the projected sales indicator dropped from +31 to +18, and the assessment of inventories decreased to balance out (to +0 from +3 points). Regarding the remaining activity indicators, the change in the balance of expectations for orders to suppliers is positive (+17 from +15 points on average per quarter), while the short-term employment forecast increased to +21 (from +14) points. Finally, the balance of price expectations increased slightly (+1 point), with 5% (from 6%) of the companies expressing expectations of a decline in prices and 88% (from 89%) predicting price stability. At the subsector level, the sentiment strengthened in the fourth quarter only in Food-Beverages-Tobacco, while it remained stable in Textiles and Clothing, declining in all other sectors.

Business expectations in Construction remained unchanged in the first quarter of 2019, with the balance standing at 56.7 (from 56.6) points on average. The indicator stood much lower year on year (60.3 points). Among the key components of the indicator, the employment expectations in the sector improved to -32 points (from -40), while 7% (from 6%) of the companies were expecting job creation in the sector, with 40% (from 46%) expecting a decline. The expectations of the businesses about their activity level became more pessimistic (at -69 from -62 points), while the assessment of their current level of activity slightly improved (-26 from -32 points). The months of activity accounted for work in hand in the sector dropped to 7.5 (from 8), while the negative balance of price expectations remained stable at -21 (from -20) points, with 25% (from 26%) of the companies expecting a decrease in the short-term and 4% (from 6%) an increase. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business reached 9% (from 11%), while among the remaining businesses, 16% reported low demand as the main barrier, 52% named insufficient funding and 16% factors such as the country's general economic situation, capital controls, high taxes, lack of projects, and late payment by the state**.** At the subsector level, overall business confidence improved in the examined quarter in Private Construction, a change that is mostly due to the significant increase in the construction of dwellings.

Figure 2.3

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



The Economic Sentiment Index in Q1 this year decreased marginally quarter on quarter, down year on year as well

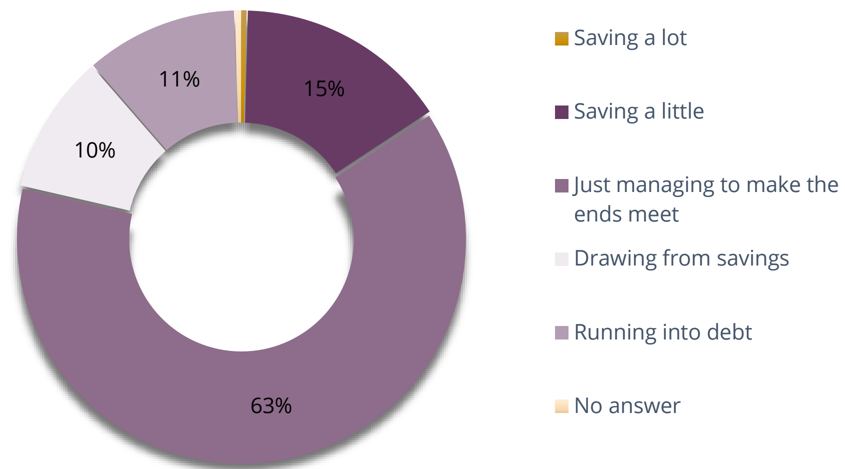
Source: European Commission (DG ECFIN)

In Services, the average Business Climate Indicator decreased quarter on quarter in the first quarter of 2019, to 85.7 (from 94.6) points, reaching a lower level than in the same period of 2018 (91.4 points). Amongst the main components, estimates on current demand plummeted with the index reaching -2 (from +14) points on average. The assessment of the current level of business activity declined (at -6 from +10 points on average), while the short-term demand expectations of the businesses in the sector improved slightly to +7 points. Regarding the remaining activity indicators, the balance of employment expectations of the respondents strengthened (to +7 from +4 points on average), while the balance of price expectations stood at -2 (from -3) points. Finally, the percentage of respondents reporting a seamless business operation receded to 25% (from 26%), with 33% declaring lack of demand as a major barrier to their operation, 18% citing working capital shortage and 18% other factors, such as the country's general economic situation, difficulties in obtaining credit, high taxes, and late payments. Among the examined subsectors of Services, the indicators deteriorated quarter on quarter in the first quarter in Hotels-Restaurants-Travel Agencies, Land Transport and Financial Intermediaries and improved in IT Services and Various Business Activities.

Figure 2.4

Consumer survey data on the financial situation of households
(average: January – March 2019)

The number of respondents stating that they save increased slightly (15% from 14% in Q4), while 63% responded that they barely make ends meet (from 60%)



Source: IOBE

Table 2.6

Economic Sentiment Indicator

Time Period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU-28	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2008	92.2	92.9	100.1	96.9	104.8	105.9	104.6	-38.2
2009	77.2	78.6	82.6	76.0	72.0	83.3	75.0	-36.7
2010	99.3	99.2	82.8	79.9	52.2	61.3	68.1	-56.9
2011	98.5	99.9	81.2	81.1	37.7	60.9	66.1	-70.5
2012	88.6	88.9	80.0	81.4	47.5	59.1	58.8	-73.9
2013	93.2	91.4	90.9	92.6	71.5	72.6	75.3	-69.3
2014	102.7	99.7	100.0	99.7	88.4	92.3	93.3	-52.8
2015	105.2	103.2	88.8	86.3	62.0	83.9	78.2	-50.3
2016	105.1	104.1	91.8	96.1	61.3	101.4	79.3	-62.9
2017	110.5	110.1	96.6	98.1	55.4	94.6	92.7	-58.9
2018	111.3	111.2	102.1	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.1	113.2	101.4	105.1	60.3	97.1	91.4	-49.8
Q2 2018	111.8	111.8	102.8	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.2	110.9	103.4	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.0	108.9	100.8	97.7	56.6	108.2	94.6	-32.6
Q1 2019	105.5	106.0	100.7	101.8	56.7	105.8	85.7	-31.1

Sources: European Commission, DG ECFIN, IOBE

Figure 2.5

Business Climate Indicator

Industry

Industry - Greece
Average of Greece (2001-2018)
Industry - Eurozone (Right Axis)

Construction

Construction - Greece
Average of Greece (2001-2018)
Constrcuction - Eurozone (Right Axis)

Retail Trade

Retail Trade - Greece
Average of Greece (2001-2018)
Retail Trade - Eurozone (Right Axis)

Services

Services - Greece
Average of Greece (2001-2018)
Services - Eurozone (right axis)

Source: IOBE

Business expectations deteriorated quarter on quarter in the first quarter in Retail Trade and Services, strengthened in Industry and remained unchanged in Construction. Year on year, the indicator increased on average in Retail Trade and declined in Construction, Services and Industry.

B. Fiscal developments and outlook

- Primary surplus of the State budget at €3.24 billion in 2018, against an initial target of €4.26 billion
- At the General Government level (national accounting basis), the deterioration of the SB results were offset by higher surpluses of social security funds (SSFs) and reclassified state-owned enterprises
- The State budget primary balance target was exceeded in the two months, at €822 million against -€196 million, from lower non allocated expenditure and outperformance in certain revenue items(VAT, income from transfers

Final results of the State Budget for 2018

Two significant negative developments were observed in the execution of the State Budget (SB) in 2018: (a) the draw-offs of the Public Investment Programme (PIP) from the EU Funds were €1.4 billion (or 41.0%) lower than the budgeted amount (b) the expenses on interest exceeded the initial projections by €0.4 billion. At the same time, primary expenditure exceeded the initial projections by €1.0 billion, but this had been taken into account in the informal update of the Budget in June 2018.

These developments were addressed mostly with expenditure cuts in investment and over-performance of the Ordinary Budget (OB) revenue by €0.6 billion. However, despite the cuts and the additional revenues, the OB deficit more than doubled (+145.3%) and the primary surplus was around 25% lower than the initial projections of the budget for 2018 (Table 2.14). This performance was partly the result of the decision made later to disburse a "social dividend". It should be clarified that the presented outcomes are not on an accrual basis and therefore do not include the outstanding payments of the State (including tax refunds), which by the end of 2018 amounted to €2.0 billion. According to the third Economic Adjustment Programme, these payments should have been conducted by 20 August 2018.

The significant cuts in investment expenditure, for the third consecutive year, constitute a very negative development. In total, from 2016 up until 2018, annual investment stood on average at €6.1 billion. The total cuts over these three years amount to €1.8 billion, while the Greek economy has had a great immediate need for investment. It was also observed that the large primary surplus of the State Budget by the end of last November, amounting to €7.6 billion, or 4.1% of the GDP, dropped within a month by 57.6% and by the end of December amounted to 1.7% of GDP. This development was to be expected, because of the many pending issues present at the end of November (see IOBE Bulletin on the Greek Economy 04/18). For yet another time, the Budget was executed to a very large extent in December, as was the case in the previous three years.

Table 2.7

Revenue, Expenses & Deficit of the State Budget[3]

	2015	2016	2017	2018 Budget	2018	2019 Budget	% change 16/15	17/16	18/17	19Π/18
I. OB Revenue (1+2)	51,421	54,161	51,422	54,244	53,682	53,022	5.3	-5.1	4.4	-1.2
1. Gross OB Revenue	46,589	49,982	48,973	50,509	51,042	49,283	7.3	-2.0	4.2	-3.4
Revenue before tax refunds[4]	49,510	53,246	54,333	54,157	54,722	54,101	7.5	2.0	0.7	-1.1
Excl. tax refunds	*2,922*	*3,263*	*5,360*	*3,648*	*3,680*	*4,818*[5]	*11.7*	*64.3*	*-31.3*	*30.9*
2. PIP Revenue	4,832	4,178	2,449	3,735	2,639	3,740	-13.5	-41.4	7.8	41.7
From which: EU Revenue	*3,900*	*3,861*	*1,964*	*3,555*	*2,098*	…	*-1.0*	*-49.1*	*6.8*	…
II. SB Expenses (3+4)	54,951	55,723	55,690	55,188	55,998	56,796	1.4	-0.1	0.6	1.4
3. OB Expenditure	48,545	49,435	49,740	48,438	49,761	50,046	1.8	0.6	0.0	0.6
Primary Expenses[6,7]	42,744	43,847	43,532	43,238	44,207	44,446	2.6	-0.7	1.6	0.5
Interest	5,800	5,588	6,208	5,200	5,554	5,600[8]	-3.7	11.1	-10.5	0.8
4. PIP Expenditure	6,406	6,288	5,950	6,750	6,237	6,750	-1.8	-5.4	4.8	8.2
III. SB Deficit (I-II)	-3,530	-1,562	-4,268	-944	-2,316	-3,774				
% of GDP	*-2.0*	*-0.9*	*-2.4*	*-0.5*	*-1.3*	*-2.0*				
SB Deficit/Surplus	-1,956	547	-767	2,071	1,281	-763				
PIP Deficit	-1,574	-2,110	-3,501	3,015	-3,598	-3,010				
IV. SB Primary Surplus	2,270	4,026	1,940	4,256	3,237	1,826				
% of GDP	*1.3*	*2.3*	*1.1*	*2.3*	*1.7*	*1.0*				

[3] The data series are comparable within the period 2015-2018. The 2019 column reflects the new budget drafting approach followed by the national treasury and is not absolutely comparable with previous years.
[4] Inc. Revenue from concessions (see Table 2)
[5] From 2019, the tax refunds are not comparable to previous years. Up until 2018, part of the refunds were funded through lending and did not appear in the Budget. Under the new approach, the total amount for 2018 would be €5,580 million, not €3,680 million.
[6] Includes called guarantees, military procurement and EFSF disbursement fees and excludes arrears by the state
[7] Called guarantees of General Government entities are presented in net terms for 2015 and 2016. From 2017, the General Accounting Office records them in gross terms. For this reason, expenditure in 2015 and 2016 is not absolutely comparable to that of 2017 and 2018.
[8] Since 2019, OB interest is reported by GAO in gross terms.

Balance and Primary Balance

According to the final results for 2018, the State Budget had a deficit of €2,316 million or 1.3% of GDP, against a deficit target of €944 million or 0.5% of GDP. Respectively, the SB primary surplus was limited to €3.24 billion, against a target of €4.26 billion (Table 2.14).

Despite the deviations from the Budget projections, the 2018 results were better to the previous year. Yet, 86.1% of this improvement came from significantly lower tax refunds (-31.3%), compared to 2017.

At the General Government level, on National Accounting basis (ESA 2010), the worse performance of the SB was offset, as in 2017, by higher surpluses from other General Government bodies, mostly social security finds (SSFs) and the reclassified state-owned enterprises (SOEs). Hence, the General Government primary surplus (according to ESA 2010) for 2018 is estimated[9] at 4.1% of the GDP, against an initial projection[10] of a primary surplus amounting to 4.2% of the GDP.

Ordinary Budget Revenue

The revenue (before tax refunds) of the Ordinary Budget (OB) increased by 0.7% to €54.7 billion in 2018. The increase of tax revenue was even higher (+2.7%), while non-tax revenues declined by €901 million. Recall that in 2017, the non-tax revenues received a one-off boost by the concession of regional airports (table 2.14)

The receipts from direct taxation increased by 1.3% in 2018. In particular, the earnings from the income tax of households increased by 4.0%, as the 1.5% discount applicable to withheld income tax (essentially for salaries and pensions) was scrapped since 1 January. In addition, the proceeds from the income taxation of businesses increased by 6.0%, from a very low base in 2017, remaining lower than the 2016 receipts.

By contrast, the revenue from property taxes, mainly the unified property ownership tax (ENFIA), declined by 1.1%. A larger decline (by 8.6%) was recorded in the direct taxes of previous economic years and in all the other direct taxes by 5.0%.[11]

The good tax revenue performance in 2018 is essentially due to the receipts from indirect taxation[12], which increased by 3.8% in relation to the year before, reaching €27,966 million, from €26,942 million in 2017 (Table 2.14). VAT revenue increased by 2.7% to €16.2 billion. This increase matches the new estimate[13] of the nominal GDP growth by 2.5%.

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[9] Explanatory Budget Report 2019, p. 39-41, Table 3.2.

[10] Explanatory Budget Report 2018, p. 55-57, Table 3.2.

[11] Includes one-off direct taxes, such as the special solidarity contribution of households (€1.04 billion) and the business levy on freelancers (€495 million).

[12] About 79,4% of the tax revenue increase came from indirect taxation.

[13] The previous estimate for real GDP growth by 3.0% implied that the increase in VAT (in the first eleven months) was not satisfactory (see IOBE bulletin for the 4th quarter of 2018).

The revenues from excise duties increased by 3.0%. The increase came from the taxation of tobacco (9.0% increase), while the revenue from fuel taxes declined by 3.1% and the revenues from the taxation of alcoholic beverages increased slightly, by 0.9%.

The revenues from indirect taxes from previous years once more increased significantly, by 18.0%, to reach €1,139 million. An equally significant 23.2% increase was recorded in the revenues from other indirect taxes.

In 2018, the receipts from not-tax revenues fell by 13.3% year on year, as the revenues from permits and rights had received a strong one-off boost from the concession of regional airports in 2017.

Table 2.8

State Budget revenue (million €)

Revenue category	2016	2017	2018	% change	
				17/16	18/17
1.Gross SB revenue (2+4)	54,161	51,422	53,682	-5.1	4.4
2. Gross OB revenue	49,982	48,973	51,042	-2.0	4.2
Tax refunds	3,263	5,360	3,680	64.3	-31.3
3. OB revenue	53,246	54,333	54,722	2.0	0.7
Direct Taxes	21,839	20,622	20,887	-5.6	1.3
--Income Taxes	13,379	12,973	13,563	-3.0	4.5
--Property Taxes	3,604	3,254	3,217	-9.7	-1.1
--Direct Taxes of Previous Years	1,765	1,930	1,764	9.3	-8.6
--Other Direct Taxes	3,091	2,465	2,342	-20.3	-5.0
Indirect Taxes	25,680	26,942	27,966	4.9	3.8
--Transaction Taxes	15,540	16,398	16,885	5.5	3.0
Of which: VAT	(15,010)	(15,790)	(16,220)	(5.2)	(2.7)
--Consumption Taxes	9,033	9,207	9,485	1.9	3.0
--Indirect Taxes of Previous Years	753	965	1,139	28.2	18.0
--Other Indirect Taxes	354	371	457	4.8	23.2
Non-tax revenues	5,727	6,770	5,869	18.2	-13.3
--Receipts from the EU	415	388	322	-6.5	-17.0
--Non-Ordinary Revenue	804	708	687	-11.9	-3.0
Of which ANFA and SMP	(375)	(345)	(314)	(-8.0)	(-9.0)
--Permits and Rights	106	1,296	234	1.122.6	-81.9
--Other	4,402	4,378	4,626	-0.5	5.7
4. PIP Revenue	4,178	2,449	2,639	-41.4	7.8

Sources: Explanatory Budget Report, Ministry of Finance, November 2019 & SB Execution Report, December 2018 and February 2019, Ministry of Finance.

The 2018 results reveal a trend of stronger contribution of indirect taxes to total tax revenue of the Ordinary Budget. In particular, the revenue from indirect taxes amounted to 54.0% in 2016, 56.6%

in 2017 and 57.3% in 2018 of the total tax revenue. By contrast, the share of the revenue from direct taxation eased gradually from 46.0% in 2016 to 42.8% in 2018.

Finally, tax refunds dropped by 31.3% in 2018, to reach €3,680 million, from €5,360 million in 2017.

Ordinary Budget Expenditure

OB expenditure for 2018 remained essentially unchanged from 2017, as the increase in primary expenditure by €675 million was fully offset by a decrease in interest payments by €654 million (Table 2.9).

Table 2.9

State Budget Expenditure (million €)

Expenditure Category	2016	2017	2018	% change	
				17/16	18/17
1.State Budget Expenditure	55,723	55,690	55,998	-0.1	0.6
2. Ordinary Budget Expenditure	49,435	49,740	49,761	0.6	0.0
Interest	5,588	6,208	5,554	11.1	-10.5
Primary Expenditure	43,847	43,532	44,207	-0.7	1.6
--Salaries & Pensions	18,065	12,143	13,224	-32.8	8.9
Wages	11,454	11,739	12,114	2.5	3.2
Other allowances	297	284	998	-4.4	251.4
Pensions	6,315	120	112	-98.1	-6.7
--Social expenditure	14,017	19,700	19,548	40.5	-0.8
Grants to Social Security Funds	11,784	15,993	16,579	35.7	3.7
Social protection	1,670	3,220	2,445	92.8	-24.1
Grants to OAED	505	425	463	-15.8	8.9
Other	58	63	67	8.6	6.3
--Operational and other	8,517	8,639	8,223	1.4	-4.8
Subsidies	1,442	1,533	1,525	6.3	-0.5
Consumption	1,572	1,525	1,698	-3.0	11.3
Conditional	2,295	2,330	2,058	1.5	-11.7
Other*	3,208	3,251	2,942	1.3	-9.5
--Earmarked funds	3,248	3,049	3,212	-6.1	5.3
--Contingency reserve	-	-		-	
3. PIP Expenditure	6,288	5,950	6,237	-5.4	4.8

Sources: SB Execution Bulletins, December 2017 and 2018, Ministry of Finance

Since 2016, the National Treasury has transferred expenses for (a) duty calls of doctors and (b) other provisions to hospital staff from the "wages" category to "other expenses". In additions, expenses on emergency services (EKAB) staff have been transferred to "subsidies". In 2016, €630 million were included for the retroactive payment to pensioners with a low main pension. *Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fees, called guarantees and the assumption of debt of General Government bodies.

In greater detail, primary expenditure increased by 1.6%, to reach €44.2 billion, against €43.5 billion in 2017. This development is mainly due to retroactive payments for individuals in the special wage

grid, following respective court decisions. It is also due to increased expenditure for salaries by 3.2% year on year. For the second consecutive year, this expenditure category increased steadily, by an accelerating rate (2017: 2.5%, 2018: 3.2%). The steady increase in salary expenditure tends to assume permanent features and is a serious cause of concern, especially in light of the new recruitment waves announced for 2019 and 2020.

Social expenditure declined by 0.8% to €19.6 billion. This development is due to a decrease in expenditure for "social protection" by 24.1%. By contrast, all other social expenditure categories recorded growth in 2018.

Operating expenditure declined by 4.8% and €8,223 million, mostly due to restraint of conditional expenses and a significant decrease in the Other expenditure. The second subcategory encompasses a series of significant expenses, presented in more detail in Table 2.10.

Table 2.10

Other expenditure (million €)

Expense Category	2017	2018	% change 2018/2017
Hospital subsidies	1,300	1,009	-22.4
Doctors' duty calls	331	343	3.6
Military procurement	472	500	5.9
Called guarantees outside the GG	30	28	-6.7
Called guarantees within the GG*	857	924	7.8
Debt assumption	192	---	---
EFSF disbursement fees	69	140	102.9
Total	3,251	2,942	-9.5

Source: SB Execution Bulletins, January-December 2018, Ministry of Finance

*On a gross basis

As evident in the data from Table 2.10, the largest decrease in other expenses by 9.5% comes mostly from hospital subsidies (-22.4%). Also, even though in 2017 the General Government assumed €192 million debt from various GG entities, this year there was no such expense.

Public Investment Programme

The PIP's deficit in 2018 was significantly higher than the target (17.9%) and reached €3,598 million, slightly higher than in 2017 (Table 2.7). PIP expenditure increased by €6,237 million, but was €513 million short of the target and was lower than in 2015 and 2016.

PIP revenue increased by 7.8% against 2017, but was significantly lower than the target (-29.3%). The slippage, amounting to €1,457 million or 41.0%, came exclusively from receipts from EU funds. By contrast, own revenue reached €541 million, while the estimate of the budget for 2018 was only for €180 million.

In 2016-2018 the cuts in public investment amounted to €1.8 billion. Over the same period, the conducted receipts from EU Funds were €3.8 billion lower than the respective budget projections, with €3.5 billion of the gap observed in 2017-2018.

The recurrent, unsubstantiated cuts in investment have significant negative consequences for the return of the country to high velocity growth, and for employment. To begin with, according to econometric models for Greece, the multiplier of public investment is larger than any other public expenditure, significantly higher than 1. The €1.8 billion cut in three years implies a loss of GDP amounting to €2.7 billion. Secondly, the maintenance and creation of new infrastructure in the country improves the productivity and efficiency of all private investment, including direct foreign investment, creating a more attractive investment environment. Thirdly, to the extent that public investment is funded by EU Funds, there is a boost of liquidity in the economy, which under the current circumstances is quite important.

Public investment is not and should not be considered a "balancing item" of the budget, which fluctuates in order to achieve the needed primary surplus. On the contrary, it is one of the most productive categories of public spending.

Budget Execution in 2019 (January – February)

When the Budget for 2019 was submitted (November 2018), the deficit was projected to increase compared to 2018 by €1.6 billion, while the primary surplus was projected to decline by €0.5 billion. At the General Government level (national accounting data according to ESA 2010), these projections corresponded to a GG surplus amounting to 0.6% of GDP, same as in 2018, as well as a marginal decrease of the primary surplus from 4.1% in 2018 to 3.9% in 2019[14].

These projections were based on the then estimates of the 2018 budget figures, as well as on an optimistic macroeconomic scenario, which projected acceleration of the growth rate in 2019 to 2.5% and increase in nominal GDP by 3.8%. The growth projections for 2019 are based on higher private consumption by 1.1%, higher private investment by 11.9% and higher exports by 5.8%.

However, according to the final data on the execution of the 2018 budget, the fiscal projections for 2019 were not confirmed in practice. The SB[15] deficit for 2018 stood at €4.6 billion, against a €3.2 billion estimate. Respectively, the SB primary surplus almost reached zero[16], at €91 million, against a €2.3 billion estimate (Table 2.11). In addition, according to the latest ELSTAT estimates, the growth rate in 2018 reached 1.9%, while the budget was drafted based on a 2.1% estimate.

Given the weaker fiscal and macroeconomic outcomes in 2018, achieving the targets in 2019 seems to be more difficult, as the deterioration will carry over into 2019. Besides, the global economic environment has also deteriorated further compared to the autumn of 2018 and the uncertainty regarding the economic developments has intensified. In this context, it will take considerable effort in order to achieve the fiscal targets for 2019.

Note that the fiscal policy outlined in the Budget for 2019 is considerably more "loose" than the one included in the MTFS 2019-2022, which was drafted in June 2018. Indicatively, the Budget for 2019 includes a summary of measures amounting to €1.2 billion, as follows: (a) cancelling pension

[14] Explanatory Budget Report 2019, p. 39-41.
[15] According to the new approach of drafting the Budget.
[16] This development is also due to a reduction in interest payments by €0.8 billion, which are no longer included in the budget. Otherwise, the primary surplus would have stood at €0.9 billion and its reduction at approximately €1.4 billion.

cuts for old pensions, which will continue to differ from those granted from 2016 onwards, (b) average reduction of the ENFIA by 10%, (c) payment of housing allowance, (d) subsidy of social security contributions for young employees and (e) reduction of social security contributions for the self-employed, freelancers and farmers. In order to partly offset the negative impact of these measures on public finances, public investment was cut from €7,300 million in the MTFS 2019-2022 to €6,750 million.

As mentioned above, the alignment of new and old pensions[17], and the abolition of the "personal difference" from the 1 January 2019, was not implemented. According to the European Commission's report on Greece, this change does not directly affect the commitment of the country to achieve a primary surplus amounting to 3.5% in 2019.

However, in the long-term, up until 2040 on average, the fiscal costs will be higher. This fact has a negative impact on the debt sustainability projections and as a result on the improvement of the credit standing of the Greek State.[18]

The non-alignment of pensions, which was legislated in 2018 (N.4472/2018), together with some other measures adopted in December 2018 and early 2019, send the wrong "message", creating the impression of a partial reversal of reforms. This development does not help with the boosting the credit rating, nor with the restoring the credibility of the Greek economic policy.

That said, the two bond issues in early 2019, of five- and ten-year maturity, constitute one more step towards the recovery of the creditworthiness of the Greek state. Nevertheless, despite some improvement of its credit rating, it remains at a distance from the investment grade. Besides, as shown in a text box in the previous IOBE report on the Greek economy (2.2.C), it took almost 3.5 years after the conclusion of the reform programme for Portugal and Cyprus to regain this particular grade.

From the data regarding the execution of the Budget in the first two months of 2019, there seems to be a significant deterioration compared to the same period in 2018, despite the fact that the aforementioned transfers have not yet had any impact.[19] That said, two months is too short a period to draw definitive conclusions.

[17] Meaning pensions given before and after Law N 4287/2016.

[18] See Bank of Greece, Annual Report for 2018, p.161 (in Greek).

[19] The measures regarding social security contributions and pensions do not affect the SB, while the ENFIA reduction and the payment of the housing allowance has not been executed in the first two months.

State Budget Balance and Primary Balance

The available data on the execution of the State Budget (SB) for the first two months point to a significant deterioration of the fiscal figures compared to 2018. In particular, the SB deficit reached €1,136 million or 0.6% of GDP, against a surplus of €1,526 million or 0.8% over the same period in 2018. This implies that the SB balance deteriorated by 1.4% of GDP. Respectively, the primary surplus dropped by 1.1% of GDP, in relation to 2018 (Table 2.11).

Table 2.11

State Budget, January-February 2019* (million €)

	Jan-Feb		% Change	2018	2019 Budget	% Change
	2018	2019				
SB revenue (1+2)	8,918	7,833	-12.2	51,793	53,022	2.4
1. Gross OB revenue	8,242	7,380	-10.5	49,155	49,282	0.3
a. OB revenue before tax refunds	8,991	8,011	-10.9	54,735	54,100	-1.2
b. Tax refunds	749	631	-15.8	5,580	4,818	-13.7
2. PIP revenue	675	452	-33.0	2,638	3,740	41.8
SB expenditure (3+4)	7,393	8,968	21.3	56,372	56,796	0.8
3. OB expenditure	7,206	8,698	20.7	50,135	50,045	-0.2
α. Primary expenditure	6,037	6,740	11.6	45,459	44,445	-2.2
β. Interest[1] (on gross basis)	1,169	1,958	67.5	4,676[1]	5,600[1]	19.8
4. PIP expenditure	187	270	44.4	6,237	6,750	8.2
SB balance	1,526	-1,136		-4,580	-3,774	
% of GDP	*0,8*	*-0,6*		*-2,5*	*-2,0*	
OB primary balance	2,695	882		91[2]	1,826	
% of GDP	*1,5*	*0,4*		*0,1*	*1,0*	
GDP (at current prices)	184,714	192,749		184,714	192,749	

Source: SB Execution Bulletin January-February 2019, Ministry of Finance, March 2019

* According to the new approach of reporting revenue and expenditure.

1. Since January 2019, the annual expenses on interest appear lower by €844 million for 2018 and by €1,000 million for 2019, in relations to the figures shown in the explanatory budget report for 2019 (Table 3.2).

2. €5 million were deducted due to refunds of interest payments

However, the balance of the first two months was better compared to the monthly targets[20], by €939 million. This development is due to the fact that the target for the period includes €1,563 million "non-allocated expenditure". This sum included a projection for retroactive payments starting from January amounting to €982 million, as well as investments amounting to €380 million. From the retroactive payments, €324 million were already disbursed, while the payments for investments reached €270 million. Following the covering of excess costs in other expenses, about €595 million from the non-allocated expenditure were not used after all. If to this amount we add the revenue overshoot (€345 million), then the deficit is lower than the target by €940 million.

[20] The monthly targets are shown in the explanatory budget report for 2019, p. 60, Table 4.4.

The way in which this improvement arises, mainly the huge difference in retroactive payments, in conjunction with the short time-span of the data, does not allow for the time being for drawing definitive conclusions or making credible estimates on the execution of the State Budget for the entire year.

Ordinary Budget Revenue

The OB revenue before tax refunds dropped over the first two months of the year by 10.9% in relation to 2018, amounting to €8,011 million, while compared to the target set for January-February, it was higher by 3.5% (Table 2.12).

Table 2.12

State Budget Revenue* (million. €)

	Jan-Feb		% Change	2018* Est.	2019* Budget	% Change
	2018*	2019*				
Gross SB revenue	8,918	7,833	-12.2	51,793	53,022	2.4
Gross OB revenue	8,242	7,380	-10.5	49,155	49,282	0.3
Tax refunds	*749*	*631*	*-15.8*	*5,580*	*4,818*	*-13.7*
OB revenue	8,991	8,011	-10.9	54,735	54,100	-1.2
Income tax, of which:	2,142	2,117	-1.2	16,548	16,796	1.5
--Personal	*1,676*	*1,663*	*-0.8*	*10,902*	*11,070*	*1.5*
--Corporate	*219*	*206*	*-5.9*	*4,299*	*4,420*	*2.8*
Property tax	414	389	-6.0	3,082	2,801	-9.1
Taxes on donations, inheritance etc.	19	35	84.2	161	159	-1.2
Tariffs	39	49	25.6	232	237	2.2
Taxes on goods and services, of which:	4,582	4,679	2.1	27,437	27,559	0.4
--VAT	*3,011*	*3,121*	*3.7*	*17,184*	*17,210*	*0.2*
--Excise duties	*1,104*	*1,107*	*0.3*	*7,184*	*7,381*	*2.7*
Other production taxes	659	41	-93.8	1,238	944	-23.7
Other current taxes	288	236	-18.1	2,564	2,631	2.6
Social contributions	10	9	-10.0	65	58	-10.7
Transfers	288	37	-87.1	141	309	119.1
Sales of goods and services	97	77	-20.6	740	773	4.5
Other current revenue	450	342	-24.0	2,509	1,498	-40.3
Sales of fixed assets	3	0	-100.0	18	335	1.761.1
PIP Revenue	675	452	-33.0	2,638	3,740	41.8

Sources: Table 3.2, Explanatory Budget Report 2019, Ministry of Finance, November 2018 & SB Execution Bulletin for February 2019, Ministry of Finance, March 2019

*In adjusted cash-based accounting. According to the new revenue classification in effect since 01/01/2019.

The revenue from income tax dropped compared to 2018 by 1.2%, with the drop being essentially due to revenues from the taxation of legal persons (-5.9%). The proceeds from the personal income tax decreased slightly compared to 2018 (-0.8%), yet it was higher compared to the target. Note that the revenue from the personal income tax over this period increased due to the taxes on the retroactive payments conducted in January. Hence, in the upcoming months, the rate of increase might recede, given that the retroactive payments were excluded, without a substantiation, from

the extraordinary solidarity levy, an exception which was not taken into account in the budget. Additionally, the revenue from the property taxes also decreased over this period by 6.0% (Table 2.12).

In indirect taxation, the proceeds from VAT increased by 3.7% compared to 2018 and reached €3,121 million. A small increase was also recorded in the revenues from excise duties (+0.3%), coming exclusively from the excise duty on fuels, which increased both compared to 2018 (2.9%) and the target. By contrast, the revenues from the excise duty on tobacco declined by 4.5% compared to both 2018 and the target, while the proceeds from the excise duty on alcohol remained unchanged.

The revenues from “other taxes on production” dropped significantly, by 93.8% compared to 2018. This development is linked to revenue from the Bank of Greece, which in 2018 was collected in February, while this year it will be transferred in April.

The large drop (-87.1%) in revenue from transfers, is also due to a change in the timing of payment of the proceeds from the sovereign bonds held by the Bank of Greece (ANFA’s and SMP’s), which is also expected to happen in April this year.

Finally, other current revenue is down 24%, while other current taxes are lower by 18.1%, year on year.

Overall, the revenue performance over this period is mixed, as some items exceed the targets while they drop significantly year on year, which in some cases is expected to change in the upcoming months. In addition, revenue is expected to increase shortly from the receipt of approximately €1.1 billion for the extension of the concession of the Athens International Airport for 2026-2046.

Ordinary Budget Expenses

In January – February 2019, the OB payments increased by 20.7% compared to the same period in 2018 and reached €8,698 million. This amount includes the retroactive payments (€324 million). If the necessary adjustments are made, the growth rate reaches 16.2%. Large part of the increase in expenses comes from interest payments. For this reason, the increase in primary spending over this period is only 11.6%. If the retroactive payments are not counted, the rate of increase of primary spending drops to 6.3% (Table 2.13).

In the categories of primary expenditure, payments for compensation of employees, essentially salaries, increased by 19.6% year on year, standing at €2.435 million. Adjusting for the retroactive payments, the compensation of employees increases by 3.7%. This increase is larger than the annual salary growth of 2018 (3.2% - Tables 2.9 and 2.13).

Social benefits increased year on year by 3.5%, reaching €178 million, exceeding significantly the target for this period, set at €20 million. On an annual basis, these expenses were estimated at €246 million, but 72.4% of them has already been disbursed. Additionally, transfers increased by 7.2% year on year, exceeding the respective target by €181 million. Expenses for subsidies, amounting to €63 million, are double than the target (€30 million) and a multiple of the respective expenses in 2018.

The payments for interest increased 67.5% year on year, but this increase was foreseen in the relative target for the period (€1,879 million). Besides, these expenses are projected to be higher compared to 2018 on an annual basis.

It should be that the expenses for January-February have not been burdened with the payment of family and housing allowances, as their payment started after February. In addition, the impact from the increase of the minimum wage, which inflates more than 20 allowances, has not impacted expenses for this period. For the rest of the year significant pressure to increase spending beyond the projections of the budget is anticipated, especially if the court decisions on the annulment of 2012 cuts in pensions and bonuses, are implemented, even partly. This possibility constitutes the greatest threat regarding the proper execution of the budget and the course of public finances in the years to come.

Table 2.13

State Budget Expenditure*- (million €)

	Jan-Feb		% Change	2018*	2019* Budget	% Change
	2018*	2019 *				
SB Expenditure (1+2+3)	7,393	8,968	21.3	56,372	56,796	0.8
OB Expenditure (1+ 2)	7,206	8,698	20.7	50,135	50,045	-0.2
1.Primary OB Expenditure	6,037	6,740	11.6	45,459	44,445	
Compensation of employees	2,036	2,435	19.6	13,121	13,016	-0.8
Social benefits	172	178	3.5	1,978	246	-87.5
Transfers	3,729	3,996	7.2	28,179	26,104	-7.3
Purchase of goods and services	59	47	-20.3	1,532	1,324	-13.6
Subsidies	1	63	-	75	150	100.0
Other current expenditure	2	20	900.0	32	51	59.4
Non allocated expenditure	-	-	-	-	2,938	-
Purchase of fixed assets	37	1	-97.3	542	617	13.8
2. Interest	1,169	1,958	67.5	4,676[1]	5,600[1]	19.8
3. PIP Expenditure	187	270	44.4	6,237	6,750	8.2

Sources: Table 3.2, Explanatory Budget Report 2019, Ministry of Finance, November 2018 & SB Execution Bulletin for February 2019, Ministry of Economics, March 2019

*In adjusted cash-based accounting. According to the new classification of expenditure, in effect since 01/01/2019.

Since January 2019, the General Accounting Office reports lower annual expenses on interest by €844 million for 2018 and €1,000 million for 2019 in relations to the explanatory budget report for 2019 (Table 3.2).

It should be noted that by the end of February, the arrears of the State towards its suppliers amounted to €1,669 million, €144 million higher than in December. To this amount, €480 million worth of outstanding tax refunds should also be added.

Public Investment Programme

The PIP contributed to outperformance of the SB against the target in the first two months of the year, as its surplus is €210 million higher in comparison with the projections. That said, the surplus was €306 million lower than in 2018 (Table 2.11).

In more detail, PIP revenue over those two months was 33% lower compared to 2018, falling to €452 million. Due to the new approach of reporting the budget figures, it is not clear whether the decline comes from the receipts from the EU Funds or the PIP own revenue. Regarding PIP expenses, they were €110 million lower than the target, but higher compared to 2018.

For the time being, it is not yet possible to make credible estimates on the trajectory of the PIP in the current year. It should be noted, however, that for 2019 the investment expenditure was already cut by €550 million in the Budget, compared to the Medium-Term Fiscal Strategy 2019-2022, drafted in the summer of 2018.

C. Financial developments

- Recovery of investor interest in the banking sector
- Stagnation in the flow of private deposits towards banks
- Steady credit contraction to households, recovery of credit to non-financial corporations
- Pending decisions on new strategic plan to reduce NPLs, given also the revised targets for 2019-2021
- Steady decline in the cost of funding for the Greek State

The investment climate in the finance sector improved in February and March 2019, as the stock exchange index for banks increased by 40%, recovering almost a third of its cumulative losses since late 2017. The factors that help overturn the negative investment climate include the successful issue of a 10-year bond of the Greek State in March 2019 and the upgrade of the credit rating of the country and of the banks by international rating agencies. At the same time, the positive developments in banking fundamentals, such as the mild yet steady reduction of NPLs (Non-Performing Loans), the complete exit of the banks from the Emergency Liquidity Assistance (ELA) of the ECB, the update of the regulatory framework on indebted households, and the gradual recovery of the Greek economy, open prospects for the banking system in the medium term.

Nevertheless, the banks continue to face major challenges. The weak quality of their assets and equity, the modified ambitious targets, the need to redefine the NPL reduction strategy over the medium term and the sluggish return of banking deposits are the most prominent challenges. Regarding the impact of the banks on the real economy, the contraction of credit to the private sector, indicative of the pressure to normalise the large stock of NPLs, might have become less acute in early 2019 due to the small recovery of business lending, yet lending to households continued to decline. At the same time, the cost of bank financing has remained higher compared to other European countries. These trends make the need to intensify the effort to achieve the NPL reduction targets, and to improve the quality of the banks’ fundamentals, all the more important.

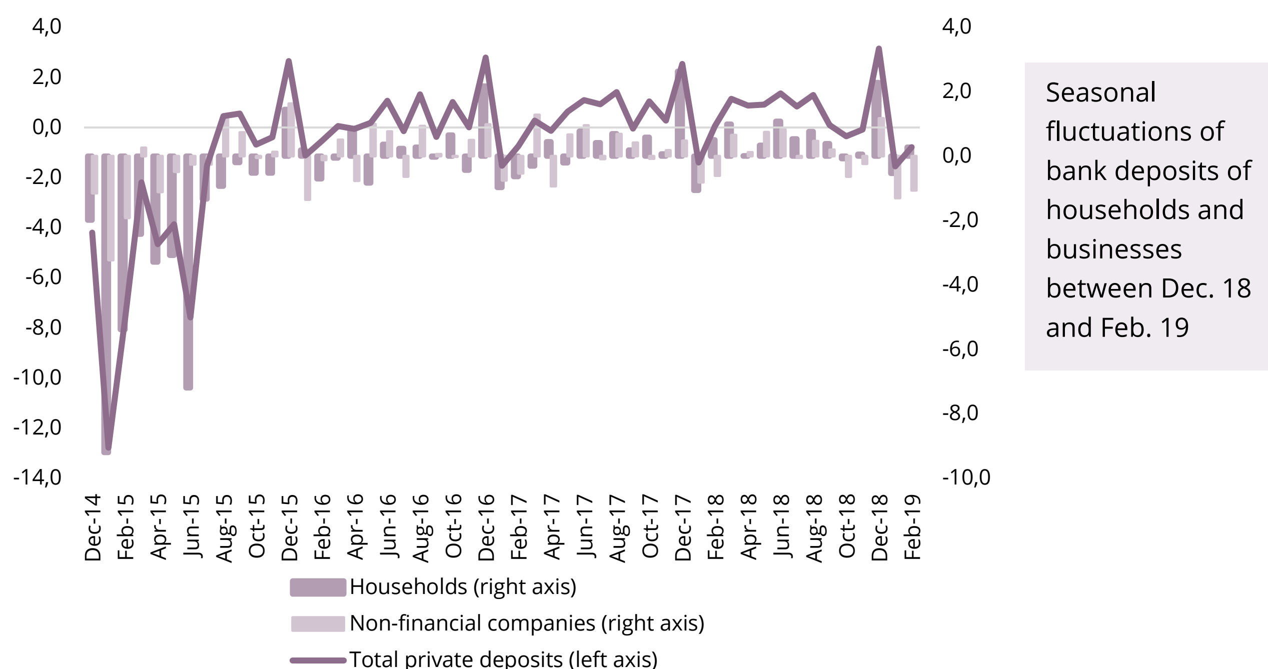
On the liabilities side of the banks' balance sheet, the strong inflow of private deposits recorded in December 2018, due to strong seasonality effects that deposits experience near the end of each

year, was partly reversed in January and February (Figure 2.6). In terms of a 12-month moving average, the rate of return of private deposits slowed down since mid-2018 and appears to have stagnated between September 2018 and February 2019. The return of deposits from households reached cumulatively €5.6 billion since early 2018, while in businesses the trend shifted and now business deposits are at a similar level as in early 2018. The reversal of the positive trend signifies a wait-and-see stance by the business depositors, which is largely supported by the pending decisions on the strategic plan that the banks will follow for faster NPL reduction, and by the remaining capital controls on international transfers.

Between August 2015 and February 2019, the private sector deposits increased by €18.1 billion, out of which €11.1 billion came from households and €7.1 billion came from non-financial corporations. Nevertheless, the total amount of deposits remained significantly lower than in November 2014, by €26.3 billion, of which €22.8 billion came from households and only €3.5 billion from businesses. The deposits from non-financial corporations decreased marginally since 2015, by €1.0 billion. The monthly average deposit flow reached €675 million for households and -€400 million for non-financial corporations between September 2018 and February 2019. The return of deposits during that period weakened compared with the average monthly deposits' inflow over the same period in 2018, by €18 million and €85 million respectively. Compared to the average monthly deposit inflow between August 2015 and February 2019, they increased by €418 million for households, while for non-financial corporations, they declined by €566 million.

Figure 2.6

Monthly net private deposit flow at Greek Banks (billion €)



Source: Bank of Greece

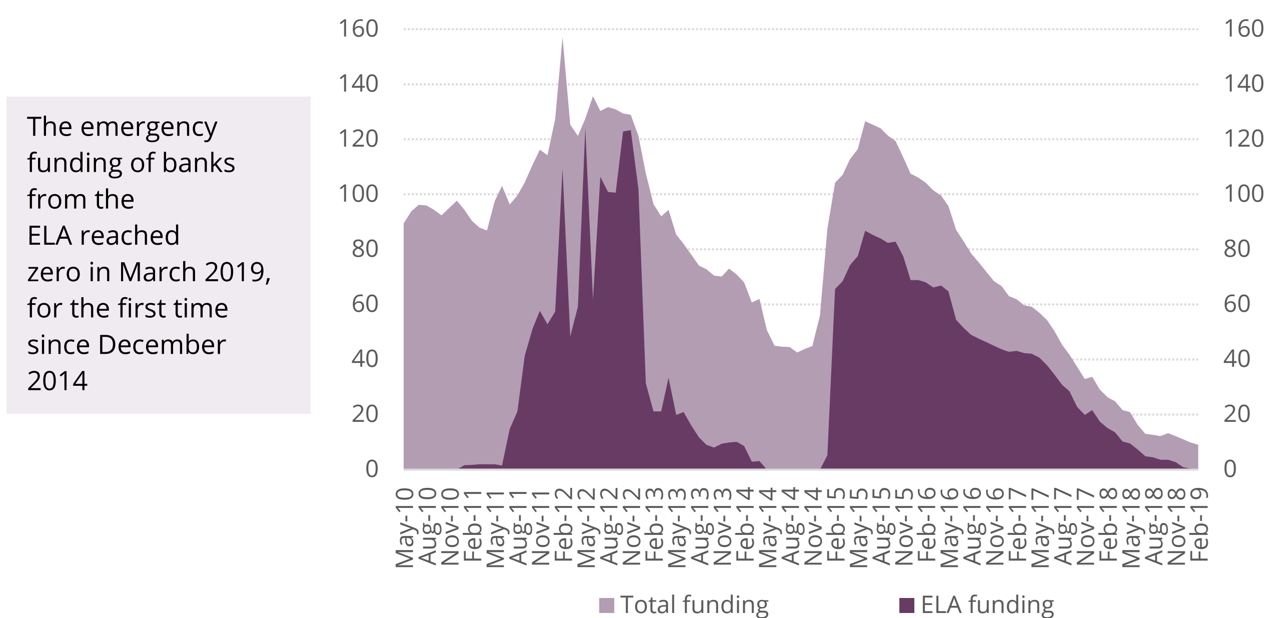
The pending issues regarding the review of the NPL reduction strategy heighten the uncertainty and delay the trust recovery and the deposits return. For 2019, private deposits are expected to

follow a mild positive trend, to the extent that factors of political uncertainty that would question the dedication of the country to reform policies, do not become more pronounced, given that a series of elections will take place in 2019.

The second pillar of the bank liabilities concerns the financing from the Euro system. March 2019 marked a milestone for the Greek banks, when they ceased to be dependent on the Emergency Liquidity Assistance (ELA), as the ELA funding had fallen to €4.5 billion in August 2018, when the support programmes ended, from €86.8 billion in June 2015 (**Error! Reference source not found.**7). Correspondingly, the total funding from the Euro system has kept falling, with the outstanding balance standing in February 2019 at its lowest level in a decade, at €9.0 billion, from €12.6 billion in August 2018 and €126.6 billion in June 2015. The orderly decline of funding from the Eurosystem has allowed the banks to develop alternative liquidity sources, such as repurchase agreements (repos) on the inter-bank market. Recent upgrades of the Greek banks by international credit rating agencies in early 2019 had a positive impact on the cost of these alternative sources of liquidity, creating prospects for finding liquidity through issuing bonds in the near future.

Figure 2.7

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



Source: Bank of Greece

On the asset side, credit activity remains subdued, despite some signs of recovery in non-financial corporations. This is likely the result of factors concerning both the supply and the demand for credit. Concerning the supply, the low quality of the banks' equity, with high rate of deferred taxes and negative effects from instruments used for achieving the targets for NPL reduction through write-offs, and their exclusion from the ECB's quantitative easing programme are considered to be among the crucial factors that have limited the credit capacity of the banks.

Private sector funding, excluding loan write-offs, shrunk by 0.8% in January and February 2019, slightly better in comparison with the same two months of 2018 (-0.9%), and considerably better

compared to last year overall (-1.3%), when credit contracted for the eighth consecutive year (Table 2.8). In the first two months of 2019, the credit contraction in the private sector came from its reduction by 2.2% to households, and by 1.8% to sole proprietors, while credit to non-financial corporations expanded by 1.1% (Table 2.14). The corresponding annual rates of change for the first two months of 2018 were -2.3% for households, -0.3% for freelancers and +0.2% for non-financial corporations. The trends of bank credit differentiated strongly among the economy's sectors, with credit expansion in Tourism, Agriculture, Energy, Transport, Real Estate Activities, and Shipping, marginal fluctuations in Industry and contraction in Construction, Retail Trade, Communications and others.

Table 2.14

Domestic Banking Finance per sector (annual % change of flows*)

Quarter / Year	1/18	2/18	3/18	4/18	Jan 19	Feb 19
Total private sector	-0.9	-1.7	-1.4	-1.3	-1.1	-0.6
Households & NPIs	-2.3	-2.2	-2.0	-2.1	-2.2	-2.2
Sole proprietors and unincorporated partnerships	-0.4	-1.3	-1.5	-1.9	-1.9	-1.6
Non-financial corporations	0.1	-1.5	-0.7	-0.3	0.5	1.6
Agriculture	-3.3	-2.9	3.8	5.6	4.9	3.5
Industry	-1.7	-1.6	1.4	-0.6	-0.1	0.4
Trade	1.8	0.2	-0.3	-0.7	-0.4	-0.4
Tourism	1.1	1.8	3.4	4.1	3.5	4.2
Shipping	-3.4	-3.3	-3.9	-1.9	1.6	1.5
Construction	-1.5	-1.8	-2.4	-1.8	-1.1	-0.9
Electricity-gas-water supply	-1.7	-10.7	-10.1	0.3	7.3	8.0
Transport and logistics	20.2	-6.6	-1.3	-0.5	-2.3	49.3
Interest rates on new loans (period average. %)						
Consumer credit	8.42	8.80	9.87	9.44	9.92	8.69
Mortgage credit	2.88	2.93	3.01	3.24	3.33	3.14
Loans to non-financial corporations	4.32	3.83	4.05	4.08	4.21	4.02

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.

The Bank of Greece bank credit survey showed that, even though the lending criteria remained unchanged in the first quarter of 2019, loan demand strengthened substantially. In particular, loan demand reached its highest level since late 2014. Demand was driven mostly from larger businesses asking for long-term loans. On the supply side, the criteria have remained unchanged for most of the past five years. In relation to the expectations for mid-2019, no significant fluctuations are expected on the supply side.

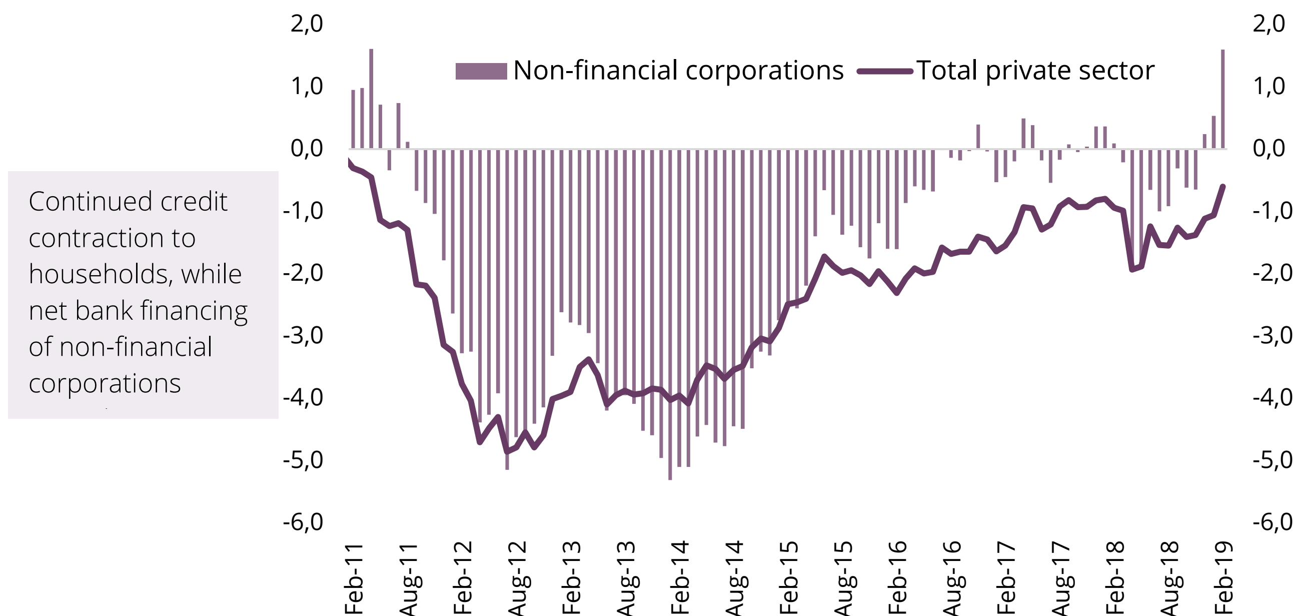
Non-Performing Loans (NPLs) declined in the third quarter of 2018 by 3.4% or €2.9 billion, slightly less than in the preceding quarter (-4.4%).[21] The NPEs totalled €81.8 billion or 45.4% of the total exposure in December 2018, about €25.4 billion or 23.7% lower than their peak in March 2016. In

[21] Does not include off-balance-sheet NPEs.

business credit, the NPL rate declined in December 2018 among sole proprietors and micro businesses, remaining exceptionally high (67.4% from 68.6% quarter on quarter), small and medium businesses (at 57.5% from 60.9%), and large businesses (at 25.8% from 27.4%).

Figure 2.8

Bank financing of the domestic private sector 2011-2018 (annual % change of flows*)



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.

Note that the target agreed between the banks and the SSM envisaged a cumulative decrease by about €43.0 billion or 40% from March 2016 until the end of 2019. In accordance with the intermediate targets of the operational plans, up until December 2018, the banks have successfully implemented 59% of the total correction. In addition to the quantitative targets, it is necessary to improve the qualitative characteristics of the NPE reduction. Around 64% of the cumulative reduction of the NPLs since the beginning of 2016 was mainly based on loan write-offs (€16.2 billion in total), with €1.5 billion written-off in the fourth quarter of 2018 (against €4.4 billion in the first three quarters of 2018, and €6.5 billion in 2017). This is an instrument with the strongest negative impact on the profitability and capital adequacy indicators of the banks. In the final quarter of 2018, the sale of NPL portfolios dropped to €0.6 billion compared to €5.2 billion in the first three quarters of 2018. due to persistently very low transfer prices that cause pressure on the financial results. The positive trends include faster liquidation connected to the gradual implementation of electronic auctions and the out-of-court settlement mechanism, as well as a stabilisation of the cure rate at higher level than the default rate. However, the receipts from the active management of assets linked to the out-of-court settlement mechanism and other loan facilitation remained limited.

In these circumstances, the banks submitted to the ECB revised ambitious operational targets for the reduction of NPLs over a three-year period, aiming to reach €34.1 billion or 21.2% of total loans at the end of 2021. According to the new targets, the biggest reduction would come from loan sales, with second driving force the liquidation of collateral and only third the loan write-offs. In

relation to the contribution of specific portfolios, 55% of the cumulative reduction of NPLs is envisaged to come from business loans, 33% from mortgages and only 12% from consumption loans. Therefore, in order to achieve the revised targets for 2019-2021, the rate of reduction of NPLs should speed up and the mix of measures to improve, e.g. through stronger collection revenues from active management and collateral liquidation, while the cure rate should consistently exceed the default rate.

Nevertheless, even under the revised operational targets of the banks, the current NPL reduction rates are not enough to achieve immediate convergence with the European average which stands below 4%. In order to achieve the NPL reduction target, and in parallel to accelerate the clean-up of the banks' assets, two proposals on the NPL reduction strategy (one from the FSF and one from the Bank of Greece) have been put up for public debate since late 2018. The two proposals outline different ways through which part of the NPLs, but also the deferred tax credits of the banks, can be securitised and sold to third-parties, though a special purpose vehicle. Regardless of the solution chosen in coordination with the Directorate-General on Competition of the European Commission (which assesses the use of state aid) and the European Single Supervisory Mechanism (SSM), it is important that the final decisions are expedited in order to ease the uncertainty on the potential for quick recovery of the investment sentiment towards the banks.

In the medium term, the implementation of a holistic plan to improve the quality of the assets and to speed up the NPL reduction, together with the envisioned economic recovery and the improved access to the cross-border banking market, are expected to have a positive, yet gradual, impact on the credit supply policy of the banks. A more efficient use of tools, such as the online auctions and the new regulatory framework for indebted households, could contribute to a better mix of NPE reduction approaches. Larger businesses will continue to seek alternative to bank borrowing forms of financing, using tools available on the capital market.

The interest rates on new deposits remained stable at 0.28% in early 2019, remaining at a similar level since the end of 2017. The interest rates on new loans also remained unchanged at 4.7% over the same period, from 4.7% in the second half and 4.6% in the first half of 2018. Small changes were recorded in interest rates to both businesses and households, especially in mortgages (Table 2.14).

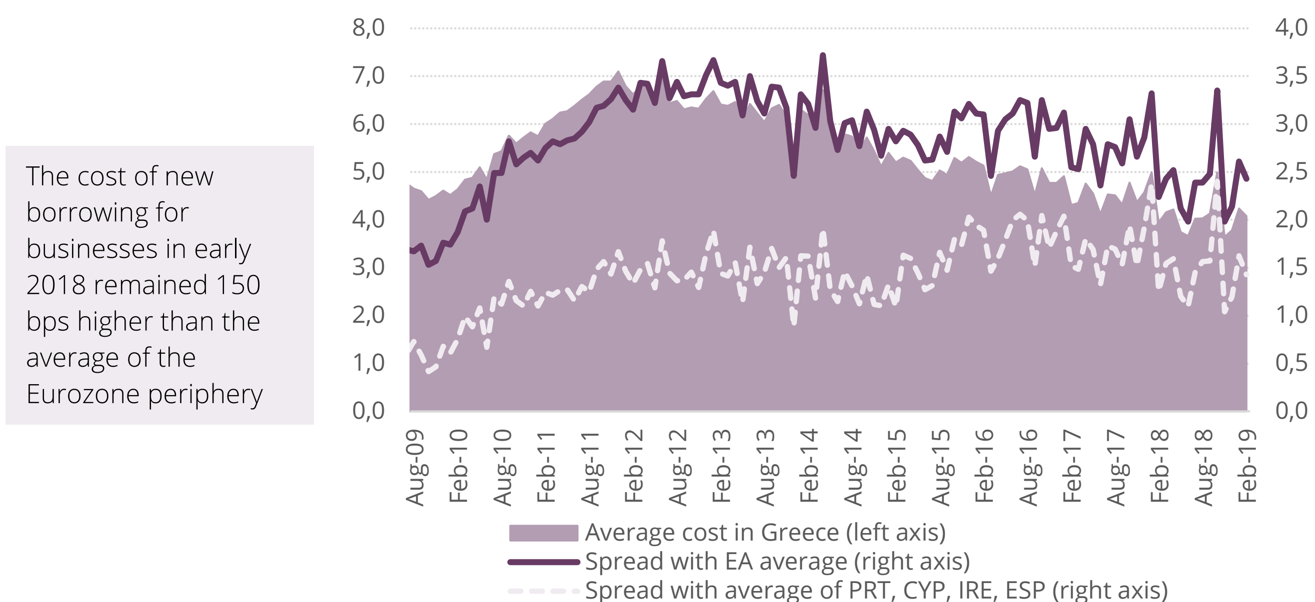
The average cost of bank financing to the private sector increased to 4.1% in February 2019, after reaching its lowest point since the adoption of the Euro at 3.6% last November. It returned to the rate recorded in the first half of 2018, standing lower than the 4.5% in 2017, yet it has remained significantly higher than in other Eurozone countries. Indicatively, according to the ECB composite indicator of borrowing costs (Figure 2.9), the cost for non-financial corporations in February 2018 was at 1.7% in the Euro area, 1.6% in Germany, and 2.7% in the periphery countries of the Euro area that completed a reform programme (Portugal, Ireland, Cyprus, Spain). The spread of the cost of borrowing for Greek corporations in comparison with the average for the Eurozone and the EU periphery increased to 243 b.p. and 143 b.p., respectively, from its lowest level in the last eight years recorded in November 2018, at 198 and 105 b.p., respectively. Compared with their level before the crisis, the spread of the cost of borrowing to Greek corporations against the Euro area in total and its periphery in particular has more than doubled (100 and 37 b.p. in 2008) and more than tripled. The average cost of borrowing for Greek corporations is considerably higher than the average of the countries in the periphery of the Euro area.

With regards to the cost of new borrowing from the markets by the Greek state, the average yield of the 10-year bonds dropped to 3.75% in March 2019, from 4.3% in late 2018, reaching its lowest level since February 2006. Up to a certain degree this is due to the improved investment sentiment and the successful issue of a ten-year bond by the Greek State for the first time in nine years, with a 3.9% yield and an oversubscription of the €2.5 billion issue by more than four times. The successful issue of a seven-year bond with a 3.5% yield for €3.0 billion had paved the way in February 2018.

Meanwhile, there are indications of gradual re-emergence of the interest from institutional investors that have a more long-term horizon, despite the uncertainty regarding policy measures which raise questions about the reform orientation of the country after the end of the support programmes, especially given that 2019 is a year of elections. Despite the improvement, the cost of borrowing for the Greek State from the markets has remained substantially higher in comparison with the rest of the countries in the Euro area (Figure 2.10). In particular, the spread stood at 375 basis points (bps) against the German 10-year bond (409 bps the late 2018) and at 255 bps against the average of the countries of the periphery that implemented similar support programmes (from 268 bps in December 2018).

Figure 2.9

Composite cost of borrowing for non-financial corporations (%)

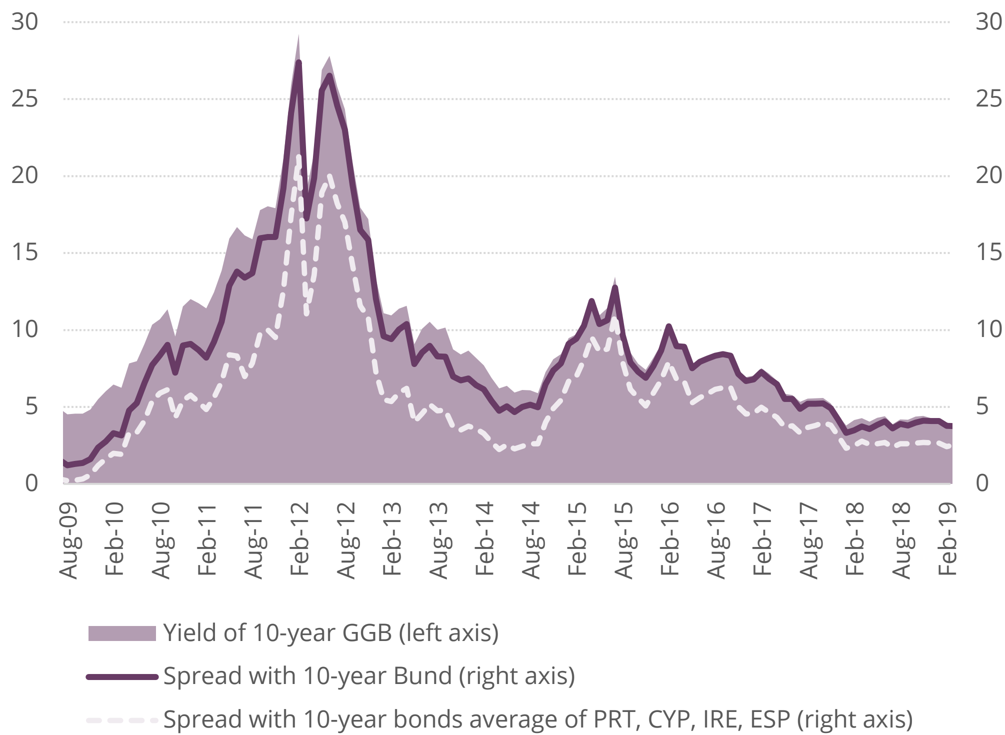


Source: ECB

The favourable trend of falling costs of public borrowing was strengthened by the recent upgrades of the credit rating of Greek bonds in mid-2018 (S&P and Fitch) and early 2019 (Moody's). Nevertheless, the rating of the Greek bonds has remained between three (Fitch) and four (S&P and Moody's) notches away from the investment grade. The time it takes to recover the confidence towards Greece can only be sped up through persistence on reform policies that improve the domestic investment climate.

Figure 2.10

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



The spread of the 10-year Greek bonds against the German bonds dropped to 350 bps in March, slightly higher than the 8-year low in early 2018

Source: ECB

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Slowdown of the growth rate in Greece in the fourth quarter of 2018 to 1.6%, from 2.1% in the preceding quarter and 2.2% in the same quarter of 2017
- GDP expanded by 1.9% overall in 2018, 0.5 points faster than in 2017
- Recovery continued in late 2018, mostly from stronger external sector, due to strong growth of exports (+10.6%) and a sharp slowdown of the growth of imports (+2.0)
- Weaker investment growth in Q4, at 4.1%. Once more, exclusively from different trend in stocks and not by fixed capital formation, the fall of which intensified (-27.2%).
- Steady increase in private consumption (1.1%, as in Q3) and lower cuts in public sector consumption (-1.4%, from-4.5%)

Recent macroeconomic developments in Greece

The Greek domestic product increased by 1.6% year on year in the final quarter of 2018, growing 0.6 percentage points slower than a year earlier. The growth in the fourth quarter was also 0.5 percentage points lower than in the preceding quarter. As a result, the GDP growth rate for 2018 overall averaged 1.9%. Therefore, the Greek economy continued to grow in 2018, slightly faster than the year before, by 0.5 percentage points. The new increase in GDP is attributed mostly due to the sharp slowdown of imports growth and to a lesser extent due to stronger growth of exports. Household consumption also contributed to growth, while public consumption once more had a negative contribution to GDP, but less than in previous quarters. Investment provided the weakest contribution. However, as in the third quarter, when it drove the GDP growth, their expansion came from stronger stock accumulation, rather than a higher growth in gross fixed capital formation.

In detail as to the trends in individual components of GDP in 2018, domestic consumption increased marginally, by only 0.3%, less than in 2017 (by 0.6%). Its increase was solely driven by household consumption, with a rise by 1.0%, about the same as in the previous year (0.9%). The higher year on year consumption demand carried over to the final quarter of 2018, increasing by 1.1%, as in the previous quarter. Public consumption steadily declined throughout 2018, at an average rate of 2.5%, notably stronger than a year earlier (0.5%). In the fourth quarter, the cuts in public consumption spending reached 1.4%, less than in the third quarter of 2017, when it recorded the greatest reduction among that year's quarters (4.5%).

Investment expenditure was slightly higher year on year, growing for the third consecutive year. However, their growth did not exceed 1.6%, against 9.5% in 2017 and 5.9% in 2016. Furthermore, unlike the year before, the expansions came exclusively from higher stocks, by €1.48 billion, as gross fixed capital formation fell significantly (by 12.0%). In 2017, most investments came from higher fixed capital formation, by 9.4%, while stocks were €1.78 billion lower than in 2016. The decline of fixed capital formation intensified in the final quarter of last year, reaching 27.2%, a decline that was the strongest among the 2018 quarters. However, the very different trend in stocks (€677 million rise, rather than contraction by €1.41 billion), resulted in a slight increase in investment (4.1%), following much stronger expansion in late 2017 (20.6%).

The decline of fixed capital formation came mostly from a fall in Other Buildings and Structures, by €2.42 billion or 24.8%, against a much weaker contraction by 1.2% in the previous year. Transport Equipment - Weapon Systems came next, with a decline by €1.7 billion or 38.6%, which did not offset the strong growth recorded in 2017 (51.9%). Recall that that increase was mainly the result of higher investment in ships throughout 2017, except for its third quarter. Overall, the imports of ships in that year reached €3.09 billion at current prices, higher by €1.15 billion or 59.2% than in 2016. The much lower fixed capital formation in this kind of means of transportation a year later (-€1.79 billion or -60.0% fall in the corresponding imports) was the key driver of the drop in the category of Transport - Weapon Systems. The negative effects of much lower investment in ships carried over to the final quarter of 2018, when their imports fell year on year by €540.4 million or 88.5%. As a result, investments in the wider category declined by 72.5%. The only other category of fixed capital where investment declined was Other Products, albeit marginally, by only €5 million or 0.17%.

By contrast, the strongest growth in absolute terms was recorded in Other Machinery (by €732 million or 16.6%), in the wake of their growth by 5.4% a year before. Similar growth rates were recorded in the investment in ICT equipment and Housing, by 17.2% and 17.4%, yet their growth in absolute terms was much smaller, by €240 and €204 million respectively. Note that investment in Housing expanded in 2018 for the first time since 2008, which probably relates to the attempt to increase capacity in tourism, following the strong growth in the sector over a number of years. The lowest growth was recorded in investment in Agricultural Machinery, by 3.8% or €4 million, much smaller than in the same period of the preceding year (+19.3%). At the end of the current subsection, we analyse the trends in fixed capital categories from 2001 to 2017.

In the external sector of the economy, the export expansion carried over and strengthened in the fourth quarter, surpassing for the first time last year, albeit marginally, 10% (10.6%), twice the rate of 2017 (5.8%). The biggest increase came mainly from services (12.8%) and to a lesser extent from goods (8.2%). Overall in 2018, exports were up by 8.8% year on year, compared to a slightly weaker growth in 2017 (by 6.9%). The change in the exports of services was higher than in the exports of

goods (9.3% against 8.4%), though in absolute terms the exports of goods increased more (€2.76 billion, against €2.48 billion). In both categories, growth strengthened compared to the preceding year (5.6% for goods, 8.4% for services), while following the new boost in 2018, the exports of goods reached a new record level, both in terms of value, at constant prices (€35.7 billion), and as percentage of GDP (18.8%). Despite their substantial expansion last year, the exports of services did not reach their peak in absolute level, recorded in 2008 (€29.1 billion against €33.4 billion), yet their share in GDP was also the highest on record (15.3%). As a result, together with the share of the exports of goods, total exports reached 34.1% of GDP last year, for the first time in history, while their absolute value, in constant prices, was also the largest on record (€64.9 billion).[22]

While export growth strengthened in late 2018, import growth slowed sharply, to 2.0% from 15.6% in the third quarter, an increase slightly weaker than that in the same period the year before (3.2%). This development stemmed solely from the imports of goods, which remained virtually unchanged compared with a year earlier, while the imports of services expanded at a double-digit rate, as in all quarters of 2018. The sudden slowdown of the growth in goods is related to the negative base effect mentioned above in the analysis of investment per category of fixed capital, stemming from high imports of ships in the same period of 2017. Overall in 2018, imports were 2.9% higher than in the previous year, a pace which constitutes a significant deceleration in relation to 2017 (+7.4%). Given that the imports of goods increased by only 0.6%, against 7.0% in 2017, the expansion of the imports of services by 14.4%, in the wake of their strong growth in 2017 (9.0%), was the main driver of the increase of overall imports. The much stronger increase in exports compared to imports led to a significant fall of the trade balance deficit, by 59% or €3.3 billion, resulting in its drop to €2.3 billion or 1.2% of GDP, from 3.0% of GDP.

On the supply side, the growth of domestic gross value accelerated in the final quarter of last year to 1.7% from 1.4%. The acceleration, despite the slowdown of GDP, came from notably weaker rise of taxes in the final quarter, by 2.4%, compared with their growth by 5.8% earlier last year. The strongest growth in late 2018 took place in Construction, by 11.1%, followed by Wholesale – Retail Trade - Transport – Storage - Hotels – Restaurants (4.7%). By contrast, activity in Financial - Insurance Activities contracted most, by 9.7%, continuing their decline from the earlier quarters of last year. Arts – Recreation – Entertainment followed with a contraction by 3.4%. These were the only sectors in which output declined.

Overall last year, the activity of the branches strengthened on average by 1.8%, slightly less than the year before (2.0%). The greatest rise once again was recorded in Construction, where the gross value added rose for the first time since 2007, by 7.1%, followed by Professional Scientific – Technical Activities, with 5.5% (3.3% a year earlier). Wholesale – Retail Trade – Transport – Storage – Hotels – Restaurants came next, with an increase of 4.2%, slightly higher than the year before (3.6%), followed by the Primary Sector, which experienced the biggest boost in 2017 (8.9%), with 3.8%. Growth of similar intensity was recorded in Industry and Arts – Recreation – Entertainment, 1.7% and 1.9%, yet it was greater in the former the year before (3.7%), while in the latter output remained unchanged compared with 2016. The lowest growth in 2018 was recorded in in Public Administration – Defence – Compulsory Social Security, at a similar rate with its contraction a year

[22] Since at least 1960, based on data from the online base AMECO, DG ECFIN, European Commission.

ago (0.8%, compared with -0.5%). Activity in Real Estate Activities and Information-Communication remained essentially unchanged (+ 0.2% and + 0.1%).

Fall of activity occurred in the previous year only in Financial - Insurance Activities, by 10%, escalating the retreat of 2017 (-6.5%). This is the only sector of the Greek economy where output has contracted constantly over the past five years, posting an overall contraction by 24.0%.

The extension of the tourist season, but also the expansion of employment in the public sector, were the main reasons behind a new year-on-year drop in unemployment in the final quarter of last year, which led to a further easing of unemployment, at a faster pace than in the preceding quarters of last year. In particular, the unemployment rate stood at 18.7%, 2.5 p.p. lower year on year and half p.p. higher quarter on quarter. On average in 2018, unemployment stood at 19.3%, 2.2 p.p. lower than a year earlier. The decline in unemployment by 112,000 people came mainly from a rise in employment by 2.0% or 75,400 people (67.3% of the reduction of unemployment) and secondarily from a decline of the labour force (-36,700 people).

Most new jobs were created in sectors that had not previously shown strong uptrend in employment. The strongest employment growth in 2018 was recorded in the Primary Sector, by 16,300 people (3.6% growth), Health Services (11,000 people, 3.1%) and Tourism (11,000 people, 4.7%), followed by Information – Communication (9,700, 11.2%) and Professional – Scientific – Technical – Administrative Activities (9,700, 4.7%). Sectors with significant contribution to employment in 2017, such as Wholesale-Retail Trade and Manufacturing, had either a much weaker growth last year (9,300 against 21,300 jobs a year before) or even a slight job contraction (-500, from 10,500 jobs).

The steady growth of household consumption in late 2018, at the same rate as in the preceding quarter, is not reflected in the trend in the growth of prices in these two periods. The average is essentially the same (1.0% in Q3, 1.1% in the next quarter), yet during the final quarter inflation slowed down, from 1.8% in October to 0.6% in December. As will become apparent in the next subsections, inflation continued to be low in the first quarter of this year. The sudden acceleration of inflation in October came mainly from a price increase in Housing, (by 3.7%, against a 0.5% in September), due to the start of the heating period when the sales of heating oil are allowed, as the international price of oil was at a much higher level than a year earlier. Indicatively, the price of Brent oil on 1 October last year was 49.6% higher than a year ago, at $84.98 against $56.79. The sharp decline in international oil prices that followed throughout the fourth quarter eased the related inflationary pressures. The growth rate in housing prices receded to 1.1% in December. The trend in Transport, a branch of services also strongly influenced by international prices of oil, was similar, as the price increase slowed sharply in the fourth quarter, from 4.3% at its start to 0.8% at its end. Therefore, the data on prices in the final quarter of last year do not point to a strong or rising household consumption demand.

Inflation stood on average at 0.6% in 2018, half a percentage point lower than the year before. Prices rose in seven of the 12 main categories of goods and services that make up the consumer price index. The biggest price increase was recorded in Communications, by 2.9%, followed at a short distance by Transport (2.7%) and Alcoholic drinks – Tobacco (2.6%). Next, Hotels – cafés – restaurants came with 1.2% increase in prices, followed by Health Services and Food – Non-Alcoholic Beverages (0.5% and 0.4%). By contrast, the strongest price decline was recorded in

Durable Goods - Household Appliances & Services (-1.6%), Other Goods – Services (-1.2%) and Art – Recreation - Entertainment (-1.1%).

To sum up, the trends in the GDP components in the final quarter and overall in 2018 highlight the sluggish domestic demand (sum of the total consumption demand and the gross fixed capital formation), which weakened for the first time since 2015, by 1.2%. Given that private consumption slightly strengthened last year (by 1.0%), the decline of domestic demand came from public consumption (decline by 2.5%) and investment (fall by 12.0%). The part of the decline that came from investment stemmed from decline in Other Buildings and Structures, which include public investment, and the drop of investment in means of transportation and ships, in particular, due to the negative base effect from their high level in 2017. The remaining categories of fixed capital increased steadily throughout 2018. Given, firstly, the significant under-utilisation of the Public Investment Programme for yet another year last year, secondly, the relatively low level of investment in transport equipment following its contraction last year, the reversal of the downtrend in these specific categories of fixed capital is considered probable.

The stronger international demand for goods and services more than offset the negative contribution of domestic demand to GDP (€5.2 billion against -€2.4 billion). Combined with the mild rise in imports, largely to the decline in investment in transportation, the improvement in the trade balance was the main growth driver, contributing 1.87 percentage points of the GDP growth in 2018. The contribution of the third GDP component, the difference in stocks, by 1.74 p.p. was equally significant as that of the external sector. That said, given the deterioration in the international environment, in particular the slowdown of growth in the Euro area, a key trading partner of Greece, in the second half of last year, which is projected to continue the current year, the positive impact of the external sector on GDP will probably weaken. An increase in fixed capital, albeit weak, is quite likely, which will have a positive effect on domestic demand, but is expected to be filled largely with imports, as many capital goods are not produced domestically, weighing on the external balance on this side as well, beyond the weakening of export growth. Also, it is now considered likely that stocks will not have such a strong contribution to GDP again this year, as in 2018 it was the highest since 2011.

Therefore, in order to offset the possibly weaker positive effects on GDP from the external sector and stocks, domestic demand for consumption and investment should probably strengthen this year, but this has to be met to a significant degree with domestically made products. That said, despite the significant expansion of employment in the second half of 2018 (2.3%), the increase in private consumption spending was as strong (1.8%, at current prices). In order the above developments to take place, fixed capital formation needs to strengthen in Construction as well. The conditions for this are present, after last year's decline in Other Constructions mentioned above and the slight rise in Dwellings, after 11 years of continuous decline. However, the conditions created by the rather unfavourable recent trends in the international economic environment, should hinder the effort to boost the international competitiveness of the Greek economy, in order to continue its transition to a new growth model. Moreover, this effort is supported by stronger investment activity which the Greek economy would need this year in any case. The macroeconomic forecasts for 2019 are presented next in greater detail.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	million €	Annual rate of change	**million €**	Annual rate of change	**million €**	Annual rate of change	**million €**	Annual rate of change	**million €**	Annual rate of change
2006	242,798	5.6%	208,005	3.6%	59,922	23.7%	50,966	5.1%	77,719	13.2%
2007	250,517	3.2%	216,979	4.3%	64,994	8.5%	56,373	10.6%	88,899	14.4%
2008	249,868	-0.3%	221,535	2.1%	59,019	-9.2%	58,487	3.7%	89,854	1.1%
2009	239,115	-4.3%	219,974	-0.7%	43,185	-26.8%	47,790	-18.3%	71,699	-20.2%
2010	226,149	-5.4%	207,100	-5.9%	38,613	-10.6%	49,959	4.5%	69,232	-3.4%
2011	205,344	-9.2%	188,125	-9.2%	30,200	-21.8%	49,998	0.1%	63,449	-8.4%
2012	190,326	-7.3%	173,952	-7.5%	22,964	-24.0%	50,578	1.2%	57,504	-9.4%
2013*	184,239	-3.2%	167,796	-3.5%	20,697	-9.9%	51,389	1.6%	55,579	-3.3%
Q1 2014	46,298	0.6%	42,054	1.0%	4,930	-16.8%	13,288	5.6%	14,151	0.1%
Q2 2014	46,225	0.4%	42,039	0.7%	5,435	8.8%	13,468	4.5%	14,999	8.9%
Q3 2014	46,823	1.3%	42,163	0.0%	5,901	11.0%	14,362	9.0%	15,160	5.5%
Q4 2014	46,297	0.8%	42,066	-0.4%	5,795	29.8%	14,238	11.7%	15,553	16.9%
2014*	185,643	0.8%	168,321	0.3%	22,061	6.6%	55,356	7.7%	59,863	7.7%
Q1 2015	46,465	0.4%	42,362	0.7%	4,950	0.4%	14,990	12.8%	16,385	15.8%
Q2 2015	46,505	0.6%	42,554	1.2%	4,206	-22.6%	15,026	11.6%	15,686	4.6%
Q3 2015	45,613	-2.6%	41,452	-1.7%	4,571	-22.5%	13,198	-8.1%	13,007	-14.2%
Q4 2015	46,176	-0.3%	42,137	0.2%	5,653	-2.5%	13,711	-3.7%	15,028	-3.4%
2015*	184,758	-0.5%	168,505	0.1%	19,379	-12.2%	56,925	2.8%	60,105	0.4%
Q1 2016	46,163	-0.6%	41,938	-1.0%	5,270	6.5%	13,586	-9.4%	14,850	-9.4%
Q2 2016	45,925	-1.2%	41,766	-1.9%	5,807	38.1%	13,496	-10.2%	15,385	-1.9%
Q3 2016	46,060	1.0%	42,203	1.8%	4,805	5.1%	14,382	9.0%	14,829	14.0%
Q4 2016	46,131	-0.1%	42,264	0.3%	4,647	-17.8%	14,372	4.8%	15,751	4.8%
2016*	184,279	-0.3%	168,172	-0.2%	20,529	5.9%	55,836	-1.9%	60,814	1.2%
Q1 2017	46,155	0.0%	42,249	0.7%	6,840	29.8%	14,361	5.7%	17,229	16.0%
Q2 2017	46,729	1.8%	42,224	1.1%	5,706	-1.7%	14,727	9.1%	16,277	5.8%
Q3 2017	46,935	1.9%	42,470	0.6%	4,494	-6.5%	15,404	7.1%	15,560	4.9%
Q4 2017	47,128	2.2%	42,269	0.0%	5,434	16.9%	15,199	5.8%	16,252	3.2%
2017*	186,948	1.4%	169,212	0.6%	22,475	9.5%	59,692	6.9%	65,317	7.4%
Q1 2018	47,325	2.5%	42,332	0.2%	5,287	-22.7%	15,521	8.1%	159,32	-7.5%
Q2 2018	47,453	1.5%	42,509	0.7%	5,545	-2.8%	16,086	9.2%	16,731	2.8%
Q3 2018	47,914	2.1%	42,490	0.0%	6,337	41.0%	16,506	7.1%	17,983	15.6%
Q4 2018	47,865	1.6%	42,387	0.3%	5,659	4.1%	16,810	10.6%	16,582	2.0%
2018	190,556	1.9%	169,719	0.3%	22,829	1.6%	64,921	8.8%	67,229	2.9%

* provisional data

Source: Quarterly National Accounts, ELSTAT, December 2018

Box 3.1

Developments in the makeup of Investments over 2001-2017

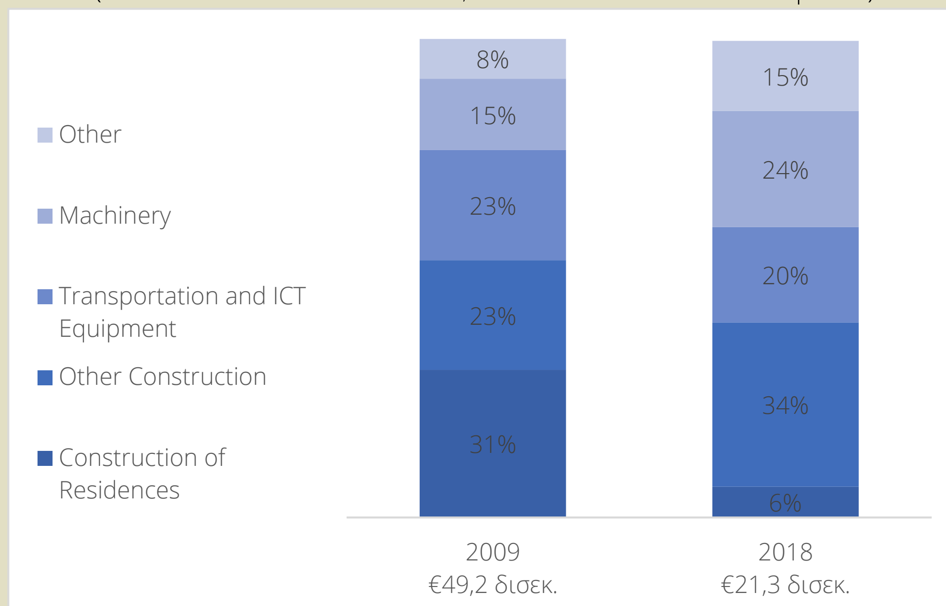
Strong investment activity is one of the main prerequisites for the medium-term growth of an economy and its ability to adjust to changes in the international division of labour and in production systems. In the case of Greece, investments are needed in order to finance the transition to a new production model, after a prolonged recession. However, in order to achieve all of the above, a relatively high share of investment in GDP is not enough. Its composition is equally important, and mainly whether it concerns means of production and public infrastructure necessary for the smooth functioning of the economy (roads, ports, telecommunications). For all of these reasons, the trends in the size of investment, as percentage of GDP, as well as their composition, are presented below.

During the first decade of Greece's membership in the Economic and Monetary Union, between 2001 and 2009, the average rate of investment as % of GDP stood at 23.4%, slightly higher than the Eurozone average of 22.1%. More than a third of the fixed capital investment in Greece before the crisis went for housing construction. The remaining investment in machinery, transport and public infrastructure amounted to only 14.9% of GDP, lagging behind the respective Eurozone average by at least one p.p. per year.

During the period of economic adjustment programmes, in 2010-2018, fixed investment in Greece shrunk from €49.2 billion in constant prices or 20.8% of GDP to €21.3 billion or 11.1% of GDP (Figure 3.1). At the same time, their composition changed significantly, as the share of housing dropped from 31% to 2009 to just 6% of the total in 2018. The share of other types of construction, mostly public works, and machinery increased from 23% and 15% respectively in 2009 to 34% and 24% respectively in 2018.

Figure 3.1

Distribution of investment in fixed assets, Greece, before and after the adjustment programme (share in total fixed assets in %, amounts in constant 2010 prices)



Source: Eurostat, Data Processing by IOBE

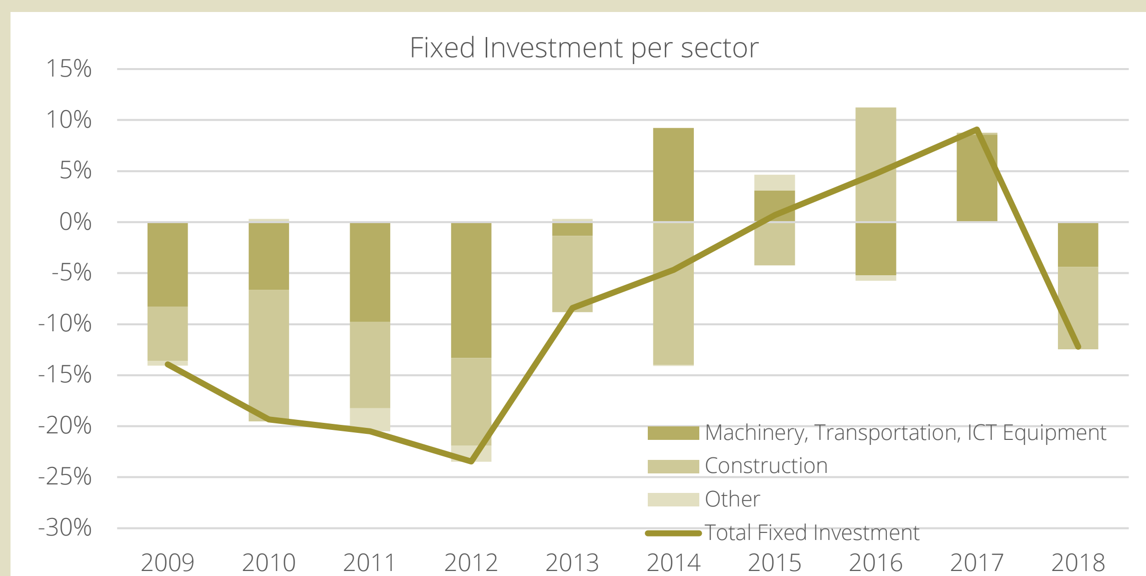
As for the developments in the absolute level of total and fixed investment, during the crisis its drop was dramatic. This drop is both due to the declining investment in construction up until 2015, as well as a drop in investment in machinery, transportation equipment and ICT equipment up until 2013 (Figure 3.2).

Since 2014, a recovery of investment is observed in transportation equipment and machinery, which despite some fluctuations, ended up surpassing in volume in 2018 investment in construction, which had long been the main segment of fixed investment. The drop of investment in construction came as a result of a dramatic drop in investment in housing, as their 2018 level was at a tenth of that of 2009. That drop was partly offset by a recovery of investment in other construction that was recorded in the years when a few major public works moved forward, e.g. in 2016 and 2017. As a result, investment on other construction constituted 84% of total investment in the construction sector in 2018.

The impact of changes in inventories on the investment trend is a noteworthy feature of the composition of total investment. In four out of the five most recent years (2017 being the only exception), the changes in inventories had a larger impact in the trends of total investment than changes in all fixed capital categories (Figure 3.3). The capital controls imposed in 2015 led businesses to make greater use of their inventories, due to the severe import difficulties, which reflected in their negative impact on total investment. By contrast, in the three years that followed, from 2016 to 2018, inventories strengthened significantly, alleviating the pressure from 2015, which offset the changes in fixed investment even for 2018, when it dropped significantly.

Figure 3.2

Contribution of investment categories in the annual percentage change of fixed capital investment (in p.p of total fixed capital investment)



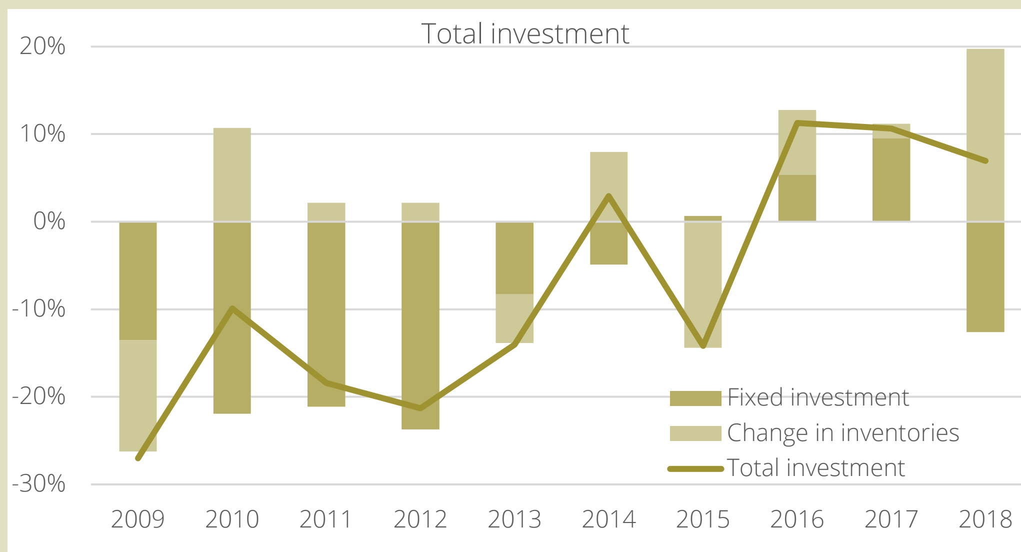
Source: Eurostat, Data Processing by IOBE

The statistical recording of the changes in inventories results from a series of necessary statistical adjustments to balance GDP in production and demand terms. This makes their economic interpretation and forecast a major challenge. That said, their volume, which on average stands at 1% of GDP, exceeding in some years this rate, makes them a major driver of the investment trend. For this reason, their monitoring and interpretation are of particular interest.

To conclude, the makeup of fixed capital investment over the period of Economic Adjustment Programmes shifted towards investment in transportation equipment, machinery and other construction, which in principle includes mostly public works, while over this particular period it concerned mostly roadworks. This development could contribute to the gradual shift of the growth model that the country needs. However, the total level of fixed investment in 2018 was still lagging behind the Eurozone average, by 10 p.p. of GDP. Therefore, while investment indeed tends to have a more productive content, yet it does not suffice to cover the disinvestment of the previous years and boost the recovery of the Greek economy. For this reason, it is imperative to push for reforms that will increase the appeal of the domestic investment environment, as well as for the clean-up of the banking system in order to free up capital needed for funding investment.

Figure 3.3

Contribution of fixed investment and inventories to the annual percentage change of total investment (in p.p. of total investment)



Source: Eurostat, Data processing by IOBE

Medium-term outlook

- Expected growth of the Greek economy in 2019 at 2.0%, possibly slightly less
- Stronger growth of consumption spending this year, 1.3% from 0.9% last year, from more social spending and tax deductions, increase of the minimum wage and lifting of the sub-minimum wage
- Growth of public consumption by 1.5%-2.0%, due to continued retrospective payments from court rulings and upcoming elections
- Stronger investment activity (+8-11%), from strong export growth in previous years and completed concession – privatisation deals
- Deteriorating environment, globally and in the European Union, resulting in lower export growth (5.5%)

The Greek economy is going through its first year since 2010 without the implementation of an Economic Adjustment Programme. Throughout its duration, decisive steps should be made to restore lending from the capital markets. At the same time, however, this year will be the first when elections for three different levels of Government (municipal – regional, national, European) will take place over a relatively short period of time, creating a prolonged period of election uncertainty. The international front is dominated by the relaxation of the accommodative monetary policy by some of the major central banks (ECB, FED, Japan), the peaking uncertainty on agreeing a consensual exit of the UK from the EU and the developments around the protectionist trade policy measures, especially between the US and China. The effects of these factors are expected to form the operational framework of the Greek economy, at least in the first half of 2019 and probably for most of its length.

Even though Greece is no longer under an Economic Adjustment Programme, the Greek government committed last year in the Medium-Term Fiscal Strategy 2019-2022 and during the final review of the last programme to implement an extensive plan of reforms for the period following the second half of 2018, to be mostly concluded by 2021. According to the memorandum of understanding accompanying the fourth review, these reforms aim at achieving sustainability of public finances (tax revenues, management of public finances, contracts with the public sector, social welfare), financial stability (resolution of NPLs, bank corporate governance), competitiveness boost and higher economic growth (labour market, product markets and business environment, sectors under state regulation, privatisations) and the modernisation of public administration (Justice system, independent/regulatory authorities).

The attainment of the fiscal targets and the implementation of the reform plan are monitored by the enhanced surveillance mechanism of the European Commission. Any deviation from the fiscal targets or the structural change implementation will not carry the strong immediate consequences that loomed during the period of the Economic Adjustment Programmes, such as the withholding of funding within the context of the respective lending agreement. The only existing direct leverage that the partners and lenders in the Euro area can use is not returning the yields of central banks of the euro area from ANFAs and SMPs of the ECB for the previous year, which are usually returned at the beginning of the following year. This option was activated recently, as part of the second enhanced surveillance review, for as long as the planned reforms remain incomplete. Of course, there are important indirect negative effects in case of deviations from the agreed commitments, such as greater difficulty of the Greek State to refinance its debt from capital markets, under viable

conditions. Following the recent bond issues, the cash buffer of the Greek state is sufficient to refinance public debt up at least until the end of 2020. Hence, in order to achieve the needed occasional access to the markets from this year and to make it more regular in the coming years, in favourable terms, any slippage from the fiscal targets and the reform plan should be avoided. Besides, the cash buffer of the Greek state does not guarantee access to funds, under sustainable terms, for the private sector. The delay that occurred recently in implementing reforms agreed with our partners was the first such instance during the period of enhanced surveillance and it had a short duration, thus it did not create negative repercussions.

Regarding the impact from the upcoming elections, the fact that the deadline set in the law for the parliamentary elections is approximately five months after the first two elections, with the likelihood that they might take place earlier remaining firmly in the public debate, has created a prolonged election campaign period. These effects have begun to appear already since last year. Indicatively, the Consumer Confidence index has increased steadily from last July through March, with a temporary interruption in February. In January, the index reached its highest level in nine years (since December 2009). But the trends in sectoral expectations indicators over the same period differ in most of them, compared with the expectations for households. In Retail Trade, which is greatly influenced by consumer confidence, expectations strengthened in most months of the second half of 2018 and in January 2019, with the relevant indicator reaching that month its highest level since June of 2008. However, in the two months that followed it weakened sharply, falling below the level that it had when it started growing. By contrast, in Industry the sentiment weakened steadily from September to December, yet it strengthened in the first quarter of this year, while finally, the momentum in Services is mostly negative. These differences in the evolution of expectations reflect the different way in which the households and businesses assess the elections.

The developments and conditions in the banking system, for yet another year, are going to be pivotal for major economic decisions made by businesses and households. They are expected to be shaped by the progress made towards reducing the non-performing exposures and their impact on the banks' fundamentals. The recent legislation to protect the primary residence of borrowers adds new parameters to this issue. The maximum value of the protected primary residence was limited to €175,000 (€250,000 if the repaired loans include business lending). The maximum outstanding amount was set at €130,000 (or €100,000 if business loans are included), while the personal income of the applicant was capped at €12,500, upped by €8,500 if there is a spouse and by €5,000 for each (up to 3) dependent member. The outcome of these processes in the banking system is also expected to reflect on the trajectory of the Greek stock exchange, whose general index has followed a positive trend since the end of December, and as a result it has reached its highest levels in nine months, indicating that the repercussions of the Folli Follie Group affair have been overcome. Moreover, following the announcement of the parameters of the primary residence legislation, the stock index of the banks increased, while since the beginning of the year it has risen by 40%.

Significant changes are taking place in the global environment as well, most of which are likely to lead to its deterioration. The end of the monetary quantitative easing by the ECB at the end of 2018, restricts the growth momentum of the EU, in particular through weaker stimulus provided to investment. At the same time in Europe the concern about whether the Brexit will be consensual or "hard" has peaked, as plans for the first of two options were repeatedly rejected by the UK

parliament. The tumultuous developments surrounding Brexit are taking place amid an election campaign for the European parliament, which is quite likely to further strengthen the already significant Euroscepticism tide, altering the balance between the political forces in the new European parliament. Outside Europe, the politico-economic developments happening around the US protectionist trade policy and the corresponding counter-measures have a dominating presence. The ongoing for more than four months discussions on this issue with China, while both sides have paused imposing further import restrictions, on the one hand stimulate international trade, on the other enhance the possibility of their removal. The decision made by OPEC and its partner countries to reduce daily oil production by 1.2 million barrels starting in 2019 has been the main factor of the continuous upward trend in its price until at least April, which increased by almost 30% over this period, reaching its level from last year.

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

Box 3.2

Assumptions of the central macroeconomic scenario of IOBE

- Slight impact of the upcoming elections on public finances, the implementation of reforms and business decisions
- Attainment of the targets for asset consolidation of the banking system
- Mild impact on the EU from the conclusion of the QE programme and the UK decision about the direction of Brexit
- Retention of the oil price at approximately $60 or slightly higher

In greater detail, as indicated in previous IOBE reports on the Greek economy, a key issue for economic policy this year remains the smooth transition to the post-programme period. Such a transition implies that the medium-term fiscal targets and the planned reforms are systematically pursued, without any slippages and deviations, as was the case throughout the duration of the programmes. Any development in the opposite direction will lead to loss or weakening of confidence in the Greek state and the domestic economy. This will reflect on the cost of borrowing of the Greek state. Recently, the second review of the enhanced surveillance process noted delays in the reforms, and as a result it was not completed in early March, preventing the ESM from disbursing the planned return of yields of the central banks of the euro area from ANFAs and SMPs. The pending issues related to the management of public revenue, financial stability, energy, privatisations and the modernisation of public administration. In some of these cases, certain technical steps had to be completed (restructuring of DEPA, Egnatia motorway concession, appointment of FSF executives), while in other the policies that were to be followed were still under discussion during that period (financial sector, including the protection of primary residence). Nevertheless, the required actions for the above issues were completed by the end of March and subsequently in the Eurogroup of 5 April the review was completed and the transfer of the profits from ANFAs and SMPs was approved. Despite these positive developments, achieving progress on reform policies in the upcoming period amid successive election campaigns, which usually cause inertia in the governance of the country, remains a critical issue.

Despite the delay in fulfilling its commitments, following the publication of the second report of the European Commission in the context of the enhanced surveillance procedure on 27 February,

which recorded the pending issues mentioned above, the Greek Government issued a 10-year bond a few days later, on 5 March, for the first time since March 2010. The upgrade of the creditworthiness of Greece by Moody's by two grades, three days before the issues, to B1 with a stable outlook, from B3 with a positive outlook, also contributed to this development. Offers worth €11.8 billion were submitted and €2.5 billion were raised, with a yield of 3.9%, lower than the interest rate of 4.125% that was set initially. Primarily the volume of bids and the fact that the vast majority of these bids came from abroad and to a lesser extent the final interest rate, equal to the spread from the German bond with corresponding duration, are considered indications of a continuation of the gradual strengthening of the confidence of the investment community in the Greek economy. After the completion of the second review, on 5 April, the yield of the 10-year bond eased further, marginally higher than 3.5%, reaching its lowest level since October 2005. The recent agreement with the IMF, for the early repayment of 50% of the Greek government obligations to the fund will also contribute to the reduction of the yield.

As for the current conditions in public finances, the decision not to cut pensions remains as the most important difference compared to the commitments in the Medium-Term Fiscal Strategy 2019 – 2022. However, as the compensatory to the reduction of pensions measures will not be implemented either, the boost on spending would not be extensive and, based on the forecasts in the explanatory report of the budget, will reach €335 million. Another major measure included in the State budget that is going to be applied in place of the compensatory to the pension cuts interventions, is the provision of housing allowance to households living in rented property and to borrowers, with a total budget of €400 million. Most new fiscal interventions constitute tax deductions, totalling €437 million and include the reduction of the property tax ENFIA by 10% on average (-€260 million), lower social security contributions for freelancers, self-employed and farmers from 15% to 10% (estimated impact €177 million) and a subsidy of 50% of the employer contributions for young employees (€51 million). In addition, the income tax rate for legal entities will decline by 1% each year for four years (from 29% to 25% in total) and in the tax rate on dividends by 1% for five years (from 15% to 10%). These changes will have a fiscal impact starting from 2020. The total, negative impact on the fiscal balance of the measures adopted for this year is estimated in the budget to total €1.25 billion. With a ministerial decision, the VAT discount was extended in the five islands of the Aegean with the highest migratory flows in early 2019. Hence, no increase or implementation of a new direct or indirect tax is envisaged so far in the current year. As a result, the forecast of the primary surplus, according to the enhanced surveillance methodology, has declined from 3.96% of GDP in the MTFS 2019-2022 last June, to 3.6%, only €200 million higher than the corresponding target.

As noted in the previous report of IOBE on the Greek economy, in order to achieve the primary balance target for this year, despite the negative impact of the new measures, adjustments were made to categories of revenue and expenditure. In particular, the budget of the Public Investment Programme was lowered by €550 million in relation to the MTFS 2019-2022, and as a result, it is standing, for yet another year, at €6.75 billion. Together with the underspending in the PIP last year overall, and for yet another year (€6.24 billion expenditure against €6.75 billion target), this forebodes a similar development in 2019. That said, as only 40% of the grants paid out last year were disbursed by November, a more front-loaded implementation of public investment this year is feasible. The data on the first two months of 2019 contain indications to that effect, as payments reached €270 million, from €187 million in the same period in 2018. Still, they fall short of the target for this period, at €370 million, which supports the prediction of under-execution of PIP this year

as well, coming from the usual idleness of parts of the State apparatus whenever elections come close.

More broadly, policy revisions that do not affect structural changes which the Greek economy needs, such as in the social insurance system and in the fiscal targets and use any "fiscal space" available, for example in the direction of reducing the high direct and indirect taxation, and social security contributions, are considered appropriate. Especially the gradual reduction of the corporate income tax rate and the tax rate on dividends, although ongoing at a slow speed, creates prospects for changes in the tax system that improve business expectations.

The taken set of measures will also boost household disposable income. The payment of “social dividend” and the retrospective payment of special wage grid categories in the public sector in December last year, amounting to €790 million and €800 million respectively, with a total amount that exceeds the “social dividend” for 2017 (€1.3 billion), are expected to have a positive impact on income and consumer spending, at least in early 2019. However, the short-term indicators of economic activity available so far, which will be presented in detail further down, do not point to growth of consumption demand in early 2019.

Other developments, beyond the fiscal measures, projected to impact household income in 2019 are: a) the upwards readjustment of the minimum wage from 1 February, by 10.9% to €650, and the abolition of the sub-minimum wage for workers up to 24 years old. The increase pushes up 24 allowances, such as the unemployment allowance, the allowance for the long-term unemployed, the remuneration in the employment programmes, the public sector redundancy compensation, and the remuneration for apprenticeships and training programmes of students of technical educational institutes; b) the decision of the Labour Ministry last September to expand sector-specific collective agreements in four sectors (banking, shipping agencies and businesses, travel and tourism agencies and agencies that are members of the International Shipping Union), a practice which could possibly expand to other sectors; and, to a lesser extent c) the decision of labour dispute arbitration to increase the minimum wage, recognise allowances, and rehiring of staff for the next tourist season from businesses operating rented rooms and apartments in food services and tourism. The consequences of the proposals on the minimum and sub-minimum wage have not yet been estimated. Such developments, together with the expansion of collective agreements, initially boost the income of those already in work, yet their medium-term consequences on employment and therefore total labour income might be negative if they do not reflect underlying growth of productivity, and thus output, as in such a case they would imply an increase in unit labour cost.

Understandably, in addition to the new fiscal measures, the progress with public investment etc., the elections, especially those for parliament, constitute a major political development that is expected to significantly impact the decisions of economic units this year. The divergence in the evolution of the expectations between households and businesses, as reflected in the results of the Business and Consumer Surveys, highlights the different viewpoints on the elections. Over the years, it has been observed that household expectations improve in the period before parliamentary elections, as they seem to expect favourable changes from their outcome. Besides, the incumbent government usually spends more over this period, upping recruitment or making announcements to that effect. Not implementing the measures and countermeasures outlined in the MTFS 2019-2022 and the implementation of a different set of measures, which will burden the fiscal balance with €1.25 billion, can also be seen in this light. In addition, the announcement in

late 2018 of a 7,500 strong recruitment in the current year and 18,500 in 2020, which in the second case exceed the number of expected departures (8-8,500 per year) and the "1 departure-1 recruitment" rule in the public sector, are also based on the release of 10,000 jobs from the wage grid, following the separation of the priesthood from the public sector.

Businesses tend to adopt an anticipatory stance until the elections, waiting to see whether the new government arising from the elections will make changes that affect them (e.g. in fiscal policy, the regulatory framework for entrepreneurship, etc.). The fact that the parliamentary elections will be the last of three elections and that they might take place towards the end of the year, in October, will maintain the wait-and-see attitude of the businesses in most of the current year. At the level of GDP components, the election campaign is considered more likely to boost private and public consumption, restraining certain investments.

Developments in the banking system were particularly critical in the second review under the enhanced surveillance. As already mentioned, the major developments concern the revision of the conditions for protection of the primary residence of borrowers and the scope of provided protection, i.e. the maximum debt for which the primary residence is protected. The abuse of deferrals of auctions that have been ordered by a court, often at the request of debtors for review of the starting price, is also an issue of crucial significance. Its resolution is scheduled for the next review in the context of the enhanced surveillance. The more restrictive conditions, as to the access to the primary residence protection scheme, are expected to increase the number of auctions and the cases of debt restructuring, as the likelihood of protection from the law is now smaller. As already mentioned, the abuse of delaying auctions is a critical parameter for conducting more auctions and recovering bank debt. In any case, the new regulatory framework and the upcoming changes to prevent postponing auctions, increase the likelihood that the banks will receive their compensation for non-performing loans, faster than in the current period. As a result, these changes are expected to facilitate the supply of new loans.

Despite the significant developments in primary residence protection and in the auctions, the progress in the reduction of non-performing loans (NPL), together with the way this is achieved, and the trend in deposits of the private sector (non-financial corporations and households) will be the key drivers for the flow of funds from the banking system in the current year as well. The NPEs totalled €81.8 billion or 45.4% of the total exposure in December 2018, €12.7 billion lower compared to the end of 2017 and slightly higher than the target.[23] The decline in the stock of NPLS came primarily from write-offs (€5.9 billion) and sell-offs (€5.8 billion). The proceeds from liquidating loan collaterals and from online auctions were low. Therefore, the reduction of the NPL stock was achieved in a way that has negative effects on assets, net equity and profitability of the banks, hampering the supply of credit as well.

At the end of September last year, the banks submitted revised targets for the reduction of NPLs to the Bank of Greece and the ECB, spanning over a longer period than the original targets, until 2021 instead of 2019. According to the new targets, the non-performing loans will decline by the end of 2021 to €34.1 billion, representing 21.2% of the loans. For the end of 2019, the target is set at €65.0 billion (38.2%), compared to the previous target of €64.6 billion. Therefore, the NPLs should decline this year by 20.5%. There is no official information about the tools that will be used

[23] Source: Annual Report 2018, Bank of Greece, April 2019

to achieve this target. An auction of the National Bank for a portfolio with non-performing loans of SMEs with total value €1.6 billion is currently ongoing. Another auction from the same bank relates to consumer loans, with total value of €1.0 billion. Piraeus Bank has also auctioned two portfolios, one with consumer loans worth €500 million and another one with shipping loans worth €800 million. Later in 2019, perhaps in the second half, Alpha Bank plans to sell two portfolios, one with loans of small and medium-sized enterprises amounting to €1.5 billion, either with debt securitisation or direct sale, and another portfolio of securitised mortgages worth €2.0 billion. It therefore follows that the emphasis continues to be put on the sale of NPLs. However, this approach is not favourable for the fundamentals of the banks, which would be supported better by practices such as liquidating collaterals through the online loan out-of-court settlement and the online auctions.

Decisive developments for the NPLs are quite likely to come from implementing the relevant proposals of the Hellenic Financial Stability Fund (HFSF). The reply of DG Comp of the European Commission (DG Comp) on the HFSF plan is anticipated to be issued by the end of April. The creation of a model for NPL reduction, with slight differences from the corresponding Italian model, is at the heart of the negotiations. Copying the Italian model in its entirety is not possible, as the Greek bonds do not have an investment grade.

As to the trends in another driver of credit supply by the banking system, private sector deposits (households and non-financial corporations) have remained unchanged in early 2019, as in the preceding four months. In the first two months of this year, they stood at around €130 billion. Their stagnation is due to opposite trends in the two main components, with household deposits increasing slightly in January – February (increase of approximately €2 billion, to €109.7 billion), offset by declining deposits of non-financial corporations (-€1.2 billion, to €19.3 billion). That said, given the much larger volume of household deposits, if they keep growing slightly as in the first months of the current year, a much larger percentage decline of business deposits should take place so that the total deposits of the private sector remain unchanged. Therefore, if the expansion of household deposits is maintained over the coming months, total deposits of the private sector would start to move up to a small extent.

Of course, given, first, the completion of the third reform programme without recourse to a new programme, and secondly, the full lifting of the capital controls on transactions within Greece and their further relaxation for international transaction in September last year, the stabilising trend in deposits, and even their small increase in the near future, are developments that do not signal a steady, gradual recovery of the confidence in the banking system. The low stock of deposits, combined with the major steps that the banks should make this year to limit non-performing loans, but also the tools that they rely on heavily for this purpose and their effects, are not conducive to a shift shortly, e.g. within the next six months, in the credit policy of the banks to credit expansion. It is possible that some segments of bank credit might increase, however, their growth will not be strong and it will not spread out to other segments. These features of credit policy are reflected in the latest data on the flow of bank loans. In January-February the outstanding balance of loans to the private sector continued to decline, at a lower rate than in the final quarter of last year, by 0.8% against 1.3%. That said, the trend to non-financial corporations has changed to slightly positive since December, resulting in growth in the first two months of the current year by 1.1%. However, a similar development took place at the beginning of last year as well, which was subsequently followed again by credit contraction. Credit to households continued to contract in 2019, at a rate of 2.2%, as in the previous quarter (2.1%), and in the same period a year earlier (2.3%).

As repeatedly predicted in the reports for the Greek economy of IOBE, the continued scarcity of bank credit, together with the gradual easing of the caution on the prospects of the Greek economy, will lead many enterprises to utilise financing tools available through the capital markets, something which many did do in the past two years. The Folli Follie Group affair shook the trust of investors in the Greek capital market and more broadly in Greek enterprises by the end of the third and at the start of the fourth quarter, dampening activity in this particular market. But these negative effects appears to have passed, as the index of the Athens Stock Exchange is growing since the end of December, and as a result it has currently reached its maximum levels in nine months. The rise in banks, with the industry index having risen by more than 40% since the beginning of the year is a catalyst for this trend. The yield that was achieved with the recent 10-year bond issue by the Greek State and more generally its lower levels after that will foster the access of businesses to finance with viable conditions from this particular market. The efforts to raise capital in this way are expected to weaken close to the elections, before and after. Relevant recent developments include the public offering of Forthnet shares, raising €2.62 million, from converting bonds worth €8.72 million, and public offering with cash payment for shares of Varvaresos, which was covered by 95.5%, raising €1.41 million. Other public offering of shares expected to take place soon concern J&P Avax, as decided recently by the company's General Assembly, with total value of €20 million, and of Motodynamiki, amounting to €10 million.

Moving on to other factors which will affect business activity this year, the anticipated further expansion of the exports of goods and services, albeit weaker than in the previous two years, will boost for one more year the access to liquidity of the export businesses. The main reason behind the weakening of the favourable effects is the deterioration of the conditions of international trade, at the EU level, but also globally, rather than a sharp decline of international competitiveness of the Greek products and services. This development will stem from the implementation of trade protectionism measures by the US and the reactions they have caused, leading to counter-measures being taken by affected trading partners. Due to the relatively small exposure of Greek exports to products where the US imposed restrictions, their indirect effects are expected to be more pronounced than their direct effects, through their impact on EU exports and those of third countries, which will in turn affect the demand for Greek products in these countries. The negotiations between the US and China that began last December on their bilateral trade relations may potentially offset these developments.

Within the Euro area, the completion of the expansion of the quantitative easing programme by the European Central Bank will also contribute to the slowdown of international trade, as the ECB will purchase securities only in order to maintain the total value of its asset purchasing programme unchanged at its level from the end of 2018. However, the support of the liquidity in the Euro area that the ECB provided in recent years through other monetary policy tools as well, will not end abruptly, as in March it announced that its main refinancing rate will not change at least until the end of 2019, possibly later, for as long as it takes to ensure inflation stays slightly lower but close to 2% over the medium term. By contrast, the prolonged difficulties in reaching agreement on a consensual Brexit, which has escalated the concerns of UK businesses for fracturing of relations with the EU, leading to increased imports in order to have adequate stocks may provide an extraordinary boost to EU exports.

The data available on global trade up to January this year point to a sharp slowdown and then decline, resulting in a contraction by 0.4% in the November – January quarter.[24] Among the key components, the deterioration is more pronounced in the volume of world exports,-0.6%, compared with 3.8% expansion in the August – October period, with the decline in imports at 0.2%, compared with 4.0% rise a quarter earlier.

Regarding the trends in international trade flows of Greek goods and services, the latest data from the Bank of Greece and ELSTAT cover short periods, especially in services, where there is data only for the first month of the year. For this reason, the trade balance data provide some first indications for its trend, but these are not sufficient to carry out predictions for the rest of the year. In greater detail, the growth of the exports of goods, in current prices, slowed down sharply in the first two months of the year, to 3.7%, from 12.3% in the preceding quarter and 16.9% in the first quarter of 2018. Export growth weakened in all key product categories, but especially in the exports of goods except fuels and ships, from 17.9% to 7.0%. The exports of fuels followed with marginally weaker contribution to the slowdown, growing by 3.2% from 16.5% a year earlier. Ship exports also had a small contribution, declining by 12.7% in the first two months the year, against 63.2% contraction in the same period of 2018. The extensive slowdown in fuel exports probably reflects a corresponding trend in demand, since in the final quarter of last year, when most of the oil futures contracts with implementation in early 2019 were probably contracted, the oil price was higher year on year (by 11.6%). The rise in imports, at a faster pace than a year ago, by 4.0% against 0.2%, augmented the negative impact on the trade balance from the slowdown in exports. Still, the recent rise was weaker than that in final quarter of 2018 (7.9%). As the changes on both sides of the trade balance in early 2019 had a negative impact, the deficit widened by 4.1%, to €3.85 billion, from €3.69 billion in the same period of last year.

Regarding the trade flows in services, the latest data refer only to the first month of this year, thus cannot be considered indicative of the annual trend. According to the data, the receipts increased year on year by 14.2% or €252 million, with the rise coming primarily from the exports of transport services (11.4% or €142.6 million) and to a lesser extent from tourism, as the first few months of each year are still outside the domestic tourist season (53.2% or €80.7 million). However, the domestic demand for services from abroad also strengthened, by 11.8%, or €166.1 million, with the largest increase in other services both in absolute and in relative terms (23.3% or €91.2 million), followed in absolute terms by international transport (€46.7 million or 5.3%). As a result, the surplus of the services account strengthened by €86.6 million or 22.9%.

Regarding features of the domestic investment environment that are affected by the public sector, apart from the Public Investment Programme that was analysed above, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity this year. Recall that seven major tenders were concluded last year, including the sale of 5% of the common shares of OTE S.A., 66% of the shares of DESFA, 67% of the Port of Thessaloniki and 100% of ROSCO (EESSTY). In addition, the tender for the concession of 1800 MHz radio frequencies for 2018-2035 was concluded and the first payment was collected. The tender for the 20-year expansion of the AIA concession contract was also concluded. In addition, the land plot in the Afantou region of Rhodes was sold and the first and largest instalment for the deal was collected. Out of these deals, the new concession of the AIA whose first expansion phase started

[24] Source: CPB Netherlands World Trade Monitor

last year, and the radio frequency rights, are expected to contribute to investment from this year on.

In the current year, the projection in the Budget for the revenue from the programme, excluding the concession fee for the AIA extension, which concerns a transaction completed last year, is notably lower than the target set in the Budget for 2018 (€1.53 billion against €2.74 billion). The fact that more than 97% of the revenue has been planned for its last quarter is probably related to sluggishness in the functioning of the State because of the elections. Yet, this causes uncertainty regarding its achievement, compared to previous years. The influence of the elections is considered to reflect on the performance of the Hellenic Republic Asset Development Fund (HRADF) this year, as in the first four months of the year the fee for the extension of the concession of the AIA (€1.4 billion), and the fee for selling 100% of ROSCO (EESSTY-€22 million) were paid, and the submission of binding offers for the acquisition of 50.1% of the share capital of Hellenic Petroleum and for 40-year concession of Alimos Marina were completed. The sale of 100% of the shares of Hellinikon SA is still pending, while the tenders for the concession of Egnatia Odos for 35 years and Chios Marina are ongoing from the previous year. Taking this into account, the HRADF activity is estimated to be subdued this year compared to last year.

The financial liquidity of businesses continued to improve in the final quarter of 2018 and in early 2019, from the payment of arrears of the Greek state. In November 2018 through January 2019, even though no additional grants were given to public sector entities for this purpose, the payment of arrears, including tax refunds reached €446.9 million.[25] However, earlier last year, €1.25 billion was allotted between April and August, while €837.3 million were disbursed until October, thus some funds were left on reserve. With the payment in mid-June of the second sub-tranche of the loan from the ESM, amounting to €1 billion, which was connected with the third review and was provided exclusively for this purpose, together with €500 million from the previous sub-tranche received in late March and the commitment to pay national contribution of 50% to the funds made available from the third loan for settling arrears, the available resources for this purpose totalled €2.25 billion. Part of these funds, at around €311.9 million, was given since January to cover pending pension applications. Therefore, approximately €688 million from the €2.25 billion remained unallocated at the end of last January. Overall last year, €1.39 billion were paid, €290 million more than in 2017.

After the disbursement of the payments in November - January 2019, the stock of arrears to businesses dropped by €559 million. As a result, the outstanding balance of the stock of arrears stood at €2.07 billion. The State Budget for 2019 does not specify when the arrears should be fully repaid, while there are no specific targets set for this year, for example on their decrease to a certain level, nor is there a specific amount allocated for this purpose. With this in mind, it is anticipated that their payment will weaken in 2019.

As for the trends in key figures of the world economy that affect the prospects of all national economies, after its sharp drop in the final quarter of 2018, by more than 40%, the price of oil has been almost constantly rising since the start of this year. Nevertheless, the oil price has still remained lower year on year. The trend change came from the decisions of OPEC countries on the

[25] Transfers / Grants - Payments of General Government Arrears, December 2018 & January 2019, Ministry of Finance, February and March 2019.

7th of December to limit daily production from the beginning of 2019 by 800,000 barrels per day, and of their partner countries, mainly Russia, by 400,000 barrels. The US sanctions against Venezuela, which relate to oil production, have escalated the concern for the development of international production. In addition, the perceived as quite likely possibility of China and US reaching an agreement on their bilateral trade relations, resulting in the lifting of the restrictions, has warmed the expectations for the course of the global economy this year.

While developments in production push oil prices up, the projected slowdown in global economic growth is anticipated to offset this throughout the current year. According to the latest projections of international organisations, the growth rate of global GDP will reach 3.3% this year, 0.3 percentage points lower than in the previous year. Key reasons behind the slower growth in most developed economies will be the impact of protectionist trade policies, liquidity reductions by the larger central banks worldwide in their effort to restore monetary policy to a relatively normal state, the credit crunch in China, the problems in the car industry in Germany, and the difficulties in the economies of Argentina and Turkey. However, it is likely that these pressures on economic activity will slightly ease in the second half of this year. For example, monetary policy changes will ease, with the FED having suspended further increases in interest rates. The fiscal stimulus will regain strength in China. In this global environment, the oil price for 2019 overall is expected to decline by $9.2 or 13.4% from last year. Thus oil prices will not drive up production cost in the current year, limiting the competitiveness of products and services for countries with a relatively high dependency on oil imports, such as Greece.

The lower year on year exchange rate of the euro against the dollar ease the disinflation effect of the lower oil price in the last quarter in 2019 in the Eurozone countries. It currently stands at its lowest level since June 2017, at around 1.12, while a year ago it was almost 10% higher, in the region of 1.23. The exchange rate depreciation is mostly due to the already mentioned successive interest rate increases by the Fed, which attract foreign capital. The ECB decision to keep its base interest rates unchanged at least until the summer of 2019, in order to avoid a sharp decline in liquidity following the end of the Q-E extension, also contributed to this. However, the Fed announced in late March that it would not continue to raise US interest rates, in order to avoid negative effects on investment and consumption, which would weaken the strong growth of 2018 in the US.

Aside from the developments in monetary policy, the Euro area has to deal with major upcoming challenges, such as Brexit (especially after the successive rejections of the deal by the House of Commons), the turmoil in the automotive sector in Germany, the strengthening Euroscepticism (which creates concern about the results of the upcoming European elections), the management of refugee flows, the deleveraging of the banking system in certain countries etc. In its external environment, the impact of trade protectionism has intensified, following the recent announcement by the US to impose additional duties totalling $11 billion, causing a similar reaction from the EU. The bilateral EU-Japan agreement for trade liberalisation (abolition of almost all tariffs), signed in July 2018, can counteract the pressure on European exports from the US restrictions. Taking into account the various, mostly negative effects, it is quite probable that the euro-dollar exchange rate will fluctuate in the first half of the current year slightly lower both against its current level and its level from a year ago. Therefore, it will cushion somewhat the positive effects on energy cost coming from the fall in oil prices, yet it will boost the competitiveness of those Eurozone goods and services for which there are no restrictions in the US.

As to the latest developments in domestic economic activity and in short-term economic indicators, the available data cover the first month or the first two months and are not considered to be indicative of trends for this year. In greater detail, according to the latest data, industrial production growth strengthened in January-February, in relation to the preceding quarter, to 3.2% from 1.5%. A year ago, it declined by 1.5%. The year-on-year acceleration of industrial activity mainly stemmed from stronger activity growth in Electricity, from 0.2% to 12.9% and the easing of the contraction in Mining, to 3.9% from 12.9%. The output of Manufacturing continued to grow, but at a slower pace, at 2.3% against 5.0%, while production growth slowed down in Water Supply, from 2.5% to 1.6%. The latest available data on construction activity for January indicates that the December contraction carried over to the current year, stronger in terms of number of permits (-10.2%, from -7.5%), slightly weaker in terms of surface area (-18.0%, from -20.5%), and much weaker in terms of volume (-12.5% from -27.3%). In Tourism, the limited data for the current year show a strong expansion of receipts year on year in January, by 53.2%, at €232.4 million, yet this cannot be regarded as indicative of the trend in the sector this year. International arrivals also increased in the first two months of this year, by 13.9%. By contrast, the up to now schedule of airlines at regional airports of Greece for the summer period is 7% lower than a year ago, at 18.73 million, from 20.03 million, seats.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted index of volume in retail trade declined by 2.4% in January, against a marginal decline in December by 0.1%. The index weakened despite the disbursement of a "social dividend" and retrospective payments of special wage grid categories in December totalling €1.59 billion, €300 million more than the "social dividend" of 2017. The trend in the Consumer Price Index can also be seen as an indication of relatively weak demand, with the average growth rate standing at 0.7%, compared to 1.1% in the previous quarter and the marginal contraction a year ago (-0.1%). The slight price increase stemmed mainly from Communications, by 6.0%, Food – non-alcoholic beverages (1.8%), Alcoholic drinks – tobacco and Housing (1.3% in both categories). Prices rose in other three categories of goods and declined in five, with the sharpest reduction taking place in Clothing - Footwear (-2.2%) and Arts – Recreation (-1.6%). Despite the continuous growth in the price of oil in this period, the fact that it was not higher than a year earlier had no significant inflationary effects: Transport prices were almost unchanged (0.1%), while, as mentioned above, in Housing they strengthened by 1.3%. The fact that there was no increase in indirect taxes and no new taxes were imposed from the beginning of 2019, together with the extension of the VAT discount to the five islands of the Eastern Aegean islands with the largest migratory flows, contributed to the mild positive momentum of prices.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to the changes in fiscal policy for 2019, the upcoming elections, the changes in wages and benefits after the minimum wage increase, and the deteriorating global environment) for the forecast of the GDP components and other macroeconomic indicators, the changes in the 2019 Budget that resulted in higher social expenditure and tax relief amounting to €1.25 billion compared to the MTFS 2019-2022, as well as the effects of the increase in the minimum wage and the abolishment of the sub-minimum wage, are expected to be the key factors behind a stronger momentum of household consumption in the current year. Consumption expenditure will also be boosted by further employment growth, which, however, will be considerably weaker than in previous years, due to the developments in the regulatory framework of the labour market (increase in the minimum wage, abolition of the sub-minimum wage, expansion of collective

agreements in certain sectors), and the expected slowdown of the global trade growth. New jobs are expected to be created mostly in Retail Trade and in Construction, yet less than last year, while by contrast, job creation will strengthen in the public sector. The negative impact of inflation will be milder than last year. Taking this into account, private consumption is expected to grow faster in 2019 than in 2018, by 1.3%.

Regarding public consumption, as anticipated in the previous IOBE bulletin, the retroactive payments of €800 million in some categories of the public sector wage grid in December eased significantly the fall in public consumption in the final quarter of last year, compared to the previous two quarters. The changes in the fiscal sphere for 2019 include the recruitment of 4.500 teachers and specialists for the disabled. Together with the change in the work status of 3.000 people employed in home care from temporary to permanent contrasts, as envisaged in the MTFS 2019-2022, these recruitments will take place according to the “1 departure – 1 recruitment” rule which should be implemented as per the agreement made with the European partners. Therefore, they are not expected to increase employment in the public sector, while the fact that new hires usually have lower salaries than the departing public servants will restrain public spending. That said, despite the fact that retroactive payments for the special wage grid were made at the end of 2018, such payment has also been planned for this year, with a larger allocated budget compared to last year (€982 million from €800 million), which will increase public consumption. In the first two months, €324 million were disbursed. The three elections this year will also boost public consumption. As a result of the above, public consumption for 2019 is expected to increase by 1.5-2.0%.

In the investment front, the anticipation of the outcome of the elections, and in particular for parliament, and emerging from the available data intense slowdown of exports growth, confirmed by the easing of imports in the Euro area, the most significant export destination for Greece, constitute the most important new factors that affect investment activity. Nevertheless, following the strong rise in exports of goods and services in 2018, there is a need to increase the production capacity in some companies or to maintain existing capacity at high levels in most remaining exporting businesses. A year of milder growth would give them the opportunity to respond easier to these requirements, without strong pressure and limitations from the production side. Especially for the exports of services, the available data are minimal and do not provide a clear indication of the trend. For example, in the summer international tourist traffic may be weaker, as evident in the hitherto airport bookings. However, an enlargement of the tourist season, which may have contributed to the strong growth of receipts in January, might cover or exceed this decline. In any case, the very good export performance in recent years will be sufficient incentive for investment, regardless of this year's trends. At the branch level, investment interest is concentrated mainly in tourism (including renting through Airbnb), Manufacturing, Transport and Storage. The implementation of investment will be carried out by the construction industry, while many investment plans will involve the acquisition of machinery and equipment, information and communications technologies, and transport vehicles, covered to a large extent by imports. The reduction of ENFIA on average by 10%, which is included in the new fiscal measures, will stimulate construction activity this year.

The supply of credit to companies has benefited by recent developments in the legal framework for the protection of primary residences, which will contribute to the achievement of the demanding targets for reducing non-performing loans for this year. Of course, a certain amount of time, possibly several months, will be needed until the effects of these changes are felt for a

large number of non-performing obligations to the banking system. Until that happens, if the stagnation of private sector deposits continues, the supply of loans to businesses will not change substantially, as the rate of change of their balance fluctuating around zero, as in the final quarter of last year and in the first two months of 2019. The recent expansion of household deposits, if it continues, will lead to small credit expansion, as it is not possible that contraction in deposits of enterprises will continue to offset this growth, as in January – February.

The steady recovery of the stock market in the first four months of this year, coupled with the two issues of Greek Government bonds and the achieved yields, will encourage businesses to search funding solutions through the capital markets. Such efforts are no longer focused on bonds, as was the case in previous years, but other funding instruments, more prevalent in the past, are utilised as well, such as public offering of shares. Of course, the successive elections will restrain this development as well. For this reason, the volume of funds to be raised this year with these tools is not expected to exceed that of last year. Following the Folli Follie Group affair, the work on the draft law on corporate governance may boost the supply and demand for funds through the capital markets.

As to actions of the public sector that contribute to investment, following the HRADF activity in the previous two years, the implementation of investment projects in completed privatisation deals (e.g. regional airports, AIA, PPA, Asteras Vouliagmenis) is anticipated to intensify. Little boost will also come from the Public Investment Programme, mainly because of its exceptionally backloaded implementation last year, enabling its acceleration this year, rather than because of higher volume of grants, as the PIP budget is the same as in 2017, at €6.75 billion, following its downward revision by €550 million in the 2019 budget compared to the MTFS 2019 – 2022.

Based on the expected trends and prospects in its drivers, investment activity will most likely strengthen in 2019, with a growth rate of about 8%-11%.

In the external sector of the Greek economy, the strong growth in the Euro area, the region that constitutes the main export destination of Greek products, will weaken in the current year. According to the latest forecasts, its GDP growth rate will fall to 1.3% from 1.9% in 2018.[26] The slowdown stems from the conclusion of the expansion of the loose monetary policy by the ECB, the effects of the trade protectionism policies adopted by the US and the problems in the German economy from adjustment issues in its automotive industry. Of course, the US protectionist measures will have wider negative effects, manifesting through decline of demand from other export destinations for Greece, but also by direct effects on exports, which might strengthen if recent announcements on their expansion materialise. Growth is not anticipated to strengthen in China either, the export destination with the largest increase in absolute terms in 2018, not only due to the turmoil in international trade, but also following the tightening of its credit policy. By contrast, exports are expected to grow stronger to Brazil, which drove the largest percentage increase per geographical area last year (in Central-Latin America).

[26] World Economic Outlook, IMF, January 2019

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates

(at constant 2010 market prices)

	2016	2017	2018	2019
Annual Percentage Change				
Gross Domestic Product*	-0.2	1.5	2.0*	2.2*
Private Consumption	0.0	0.9	0.8	0.4
Public Consumption	-0.7	-0.4	1.2	0.2
Gross Fixed Capital Formation	4.7	9.1	-2.1	14.6
Exports of Goods and Services	-1.8	6.8	8.4	5.7
Imports of Goods and Services	0.3	7.1	3.6	6.1
Employment	0.5	1.5	1.8	1.4
Compensation of Employees per capita	-0.9	0.5	0.9	1.3
Real Unit Labour Cost	0.0	0.0	0.1	-0.2
Harmonised Index of Consumer Prices*	0.0	1.1	0.7*	1.3*
Contribution to real GDP growth				
Final Domestic Demand	0.4	1.6	0.5	2.1
Net Exports	-0.7	-0.1	1.6	-0.1
Inventories	0.1	0.1	0.0	0.0
As a percentage of GDP				
General Government Balance	0.5	0.8	0.6	0.6
Current Account Balance	-0.6	-1.0	-0.2	-0.2
General Government Gross Debt	178.5	176.1	182.5	174.9
In percentage terms				
Unemployment (% of labour force)	23.6	21.5	20.1	18.4

* Based on the Labour Force Survey methodology

Source: European Economic Forecast, winter 2019, European Commission, February 2019

Especially on the part of exports of tourism services, which led the rise of exports in the previous years, the available data so far do not provide a reliable indicator for the flow of international tourists this year. It is likely to be lower than last year during the summer months, although the booking data in airports that form the basis for the decline projection, are very likely to be revised shortly. That said, the tourist season might extend this year, if the rise of tourism receipts achieved in January carries over to the subsequent months. The strong rebound of competing tourist destinations, such as Turkey and Egypt, which started last year, may prevent a further, significant strengthening of international tourism and revenue. Mild growth or slight contraction in the sector in 2019 could contribute to the consolidation of the market and the corresponding needs and requirements, which have changed radically in the past few years. More broadly, the current lower euro-dollar exchange rate, compared to last year, is not expected to change significantly at least over the first half of 2019 and might decline further, which will boost the competitiveness of the Eurozone exports.

Taking into account the trends in international trade and relevant developments, in Greece and globally, exports are anticipated to continue to grow, but at a lower rate than last year, of around 5.5%.

As anticipated in the previous report by IOBE on the Greek economy, the high ship imports in the final quarter of 2017 set a high comparison base for the corresponding period of the following

year, leading to a strong contraction in this import category in the final quarter of 2018 (-88.5% or-€602.4 million), which was reflected in the corresponding category of investments (-72.5% or-€960 million). In addition, this contraction was the main cause of the sharp slowdown in imports in this period, to 0.2% from 15.5% a quarter earlier. Following the strong fall in imports of ships throughout the previous year, averaging 58.0%, the probability of their further retreat this year is considered to be small. The other categories of fixed capital are expected to stimulate the inflow of goods from abroad, but only to a certain degree, as a significant part of investment is anticipated to concern construction, carried out mainly with domestically produced materials. The growth of household consumption will reinforce for yet another year the demand for imports. Proportionally stronger growth is expected in the demand for services rather than goods. The growth of imports this year is expected to average about 5.0%.

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2018 – 2019 (at constant 2010 market prices, annual % changes)

	MinFin		EU		IOBE		IMF		OECD	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
GDP	2.1	2.5	2.0*	2.2*	2.0	2.0	2.1	2.4	2.1	2.2
Private Consumption	1.0	1.1	0.8	0.4	0.9	1.3	1.0	1.2	1.1	1.2
Public Consumption	0.2	0.6	1.2	-0.2	-2.0	1.8	0.3	0.5	0.5	1.2
Gross Fixed Capital Formation	0.8	11.9	-2.1	14.6	0.2	12.0	4.0	10.7	2.4	8.8
Exports	7.5	5.8	8.4	5.7	7.7	5.5	8.1	5.7	7.7	4.7
Imports	3.4	5.2	3.6	6.1	4.0	5.0	5.2	5.2	3.5	5.0
Harmonised Index of Consumer Prices (%)	0.8	1.2	0.7*	1.3*	0.8	0.6	0.8	1.1	0.8	1.3
Unemployment (% of labour force)**	19.6	18.2	19.6	18.2	19.3	18.0	19.6	18.5	19.5	18.1
General Government Balance (% GDP)	0.6	0.6	0.6	0.6	:	:	0.4	-0.2	0.3	0.1
Current Account Balance (% GDP)	:	:	-0.2	-0.2	:	:	-3.4	-2.7	-0.5	-0.6

* Source: European Economic Forecast, winter 2019, European Commission, February 2019

** Based on the labour force survey methodology.

Sources: Explanatory Report of the State Budget 2019, Ministry of Finance, November 2018 - European Economic Forecast, autumn 2018, European Commission, November 2018 - The Greek Economy 04/18, IOBE, January 2019 – First Post-Program Monitoring Discussions, IMF March 2019

Summing up the forecasts for the trends in the key components of GDP for 2019, the higher social expenditure and tax reliefs in the 2019 Budget, together with the increase of the minimum wage and the abolition of the sub-minimum wage, will be the main drivers of the stronger rise of household consumption. Consumer expenditure will also be supported by a further increase in employment, which, however, will be notably weaker than in previous years, because of changes in the regulatory framework of the labour market. Regarding public consumption, the announced recruitment respect the "1 departure – 1 recruitment" rule, and the new recruits usually receive lower wages than those that retire. However, retrospective payments for special wage grids are

slightly higher in the current year. The three elections this year will also contribute to a mild expansion of public consumption.

The anticipation of the outcome of the elections, especially for the Greek parliament, will restrain the realisation of some investments, with the businesses waiting to see if changes in fiscal policy, the regulatory framework, etc. that affect them will take place. Despite the changes in the legal framework for primary residence protection, if the stagnation of private sector deposits carries over from September - February to the current period, the rate of change of credit to businesses will remain at the current level of around zero for most of 2019. That said, the recovery in the stock market in the first four months of this year, together with the new issues of Greek Government bonds, will motivate businesses to search funding solutions through the capital markets. The very good export performance in recent years will be sufficient incentive for investment for quite a few export companies, regardless of this year's trend in exports. Following the activity of HRADF in the past two years, the implementation of investment projects in completed privatisation deals is expected to strengthen.

In the external sector of the Greek economy, the strong growth in the Euro area, the region that constitutes the main export destination of Greek products, will weaken in the current year. The US protectionist trade measures will have negative effects on external trade, stronger direct effects, if the recent announcements on expansion of the restrictions materialise, as well as indirect by the decline in demand from the main export destinations of Greece. The current euro-dollar exchange rate, lower compared to last year, is not expected to change significantly at least over the first half of 2019 and might decline further, which will boost the competitiveness of the Eurozone exports. Boost of imports is expected from investment, but it will not be intense, as a significant part of investment relate to construction, which is carried out mostly with domestically produced materials. The growth of household consumption will reinforce for another year the demand for foreign goods and services. The demand for services is expected to grow proportionally stronger than that of goods.

Taking into account the expected developments in the current year that affect the trends in the components of GDP, output is projected to grow by about 2.0%, or perhaps slightly lower, in 2019.

Given the developments discussed above in domestic economic activity and the components of the labour market, employment is expected to increase in Wholesale - Retail Trade, due to higher than last year growth in private consumption. Employment is also expected to increase in the Construction sector, mostly due to investment in completed privatisations-concessions, as well as from construction activity in renovation or building of residences. The notably weaker expansion of exports will slow down employment expansion in export-oriented sectors, such as Manufacturing and Tourism, where output may cease to grow this year. Public sector employment is anticipated to continue to receive a boost from temporary social employment programmes run by OAED, and in particular the programme for 26.800 individuals in municipalities, regional authorities and social welfare centres that began last October. Another social employment programme is expected to begin in the current quarter in municipalities and environmental agencies, targeting almost 9.000 people. By contrast, employment in the banking sector is projected to continue to decline in the current and the upcoming years, as a result of the extensive restructuring of its assets. Given these and other factors that affect employment in 2019, unemployment is expected to decline less than in previous years, to 18.0%.

Concluding with the consumer price forecasts, given that the fiscal measures for 2019 do not include any new indirect taxes or increases in already existing taxes, and with the oil prices projected to decline year on year on average in the current year, inflationary pressures are expected to come only from stronger demand. The expected increase in demand is anticipated to come primarily from an increase in household income from the payment of allowances ("social dividend"), retroactive payments, the new fiscal measures and higher than initially planned allowances and tax reliefs. The increase of the minimum wage and the abolition of the sub-minimum wage will also boost demand, in the short-term at least, until the labour market adjusts to this development and its effects on employment fully play out. If unexpected developments in factors that influence prices occur (e.g. an extensive increase in oil prices, following the reduction in daily production since the beginning of the year), the rate at which prices increase will accelerate. However, under the current conditions, the average rate of change of the CPI in the current year is expected to be similar to that of last year, at 0.5%-0.7%.

3.2 Developments and Prospects in Key Areas of the Economy

- Growth in industrial production in 2018 by 1.1%, against 4.1% in 2017
- Growth in Construction by 1.0%, against a 15.1% drop in 2017
- Continued mild growth in Retail Trade in 2018, with a similar rate to the previous year (1.5%, against 1.2%)
- Turnover contraction in 2018 in seven of the thirteen sub-sectors of services.

Industry

In 2018, industrial production increased by 1.1% year on year, from 4.5% growth last year. However, during the first two months of 2019, industrial production strengthened by 3.2%, when in the same period 2018 it declined by 1.5%.

The prices of industrial products increased by 4.3% in 2018, against stronger rise in 2017 by 5.3%. Last year was the second consecutive year when the prices of industrial products increased, after four years of decline (2013-2016). The increase came more from exported products (+7.6%, from +9.1% a year earlier) and less from products directed to the domestic market (+4.3% from 5.3%). The above trends are reflected in turnover in Industry, which expanded by 11.1% in 2018, at a similar rate as in 2017 (11.8%). The above discrepancy in the growth of industrial production with prices and turnover is possibly linked to sales of stocks of Greek industry. In the Euro area, industrial production increased less in 2018 compared to 2017 (1.0% from 2.9%).

At the sector level, marginal increase overall in 2018 was recorded only in Manufacturing, by 2.1%, compared to almost twice as strong a rate in 2017 (3.8%) a year before. By contrast, output contracted in Water Supply (-2.3%, against -2.6% in 2017), Electricity Generation (-1.4%, against 7.7% a year earlier) and Mining (-1.0%, against 7.4% in 2017).

In greater detail regarding Mining, output increased only in Extraction of Crude Petroleum, by 45.7%, against 19.7% decline in 2017. In all other sectors output decreased. The greatest drop was

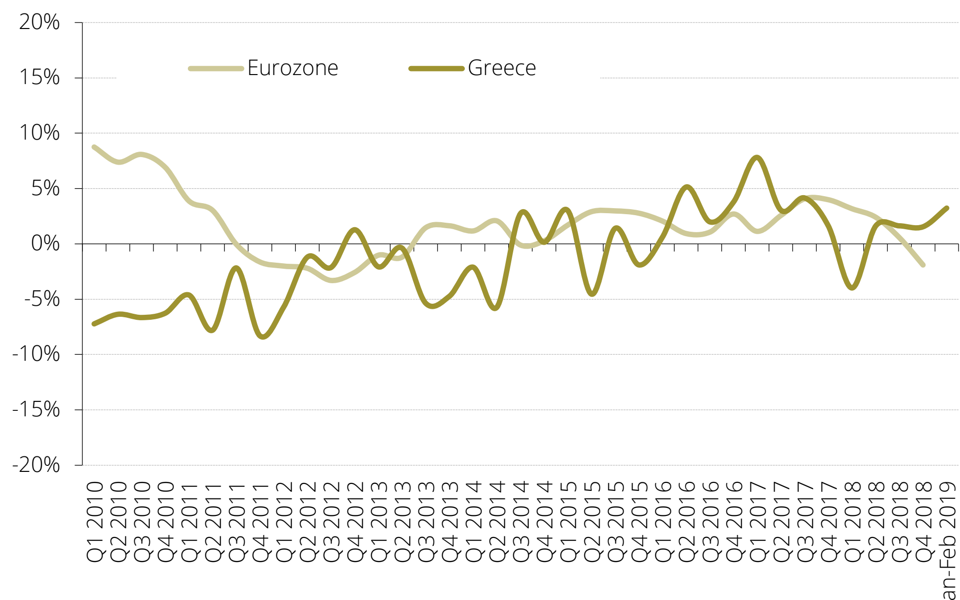
recorded in Other Mining (-4.4%, from 0.7%), followed by Coal-Lignite (-2.4% from 15.5%), the trend of which is influenced by Electricity production, which declined last year. A similar reduction was recorded in Mining of Metal Ores (-2.1%, against 3.9% a year earlier).

In Manufacturing, output increased in 13 of its 24 branches. Among the branches with particular significance for the Greek economy, production increased in Basic Pharmaceuticals by 16.3%, slightly slower than a year earlier (+18.0%), and Basic Metals, much slower than in the preceding year, at 3.3% from 25.9%. Food production was about the same (-0.3%), after a 1.7% increase in 2017.

Figure 3.4

Industrial Production Index in Greece and in the Eurozone-19 p.p. (% change compared to the same quarter of the preceding year)

Slower growth in 2018 than in 2017, at 1.1% from 4.1%. Improvement in the first two months of the 2019, 3.2% instead of -1.5% last year



Sources: ELSTAT, Eurostat

Among the remaining branches of Manufacturing, the largest contraction in 2018 was recorded in Tobacco Products, by 25.8%, against a contraction by 18.5% in 2017. Electrical Equipment came next (-16.3% from 1.4%), followed by Motor Vehicles (-7.7% from +21.3%) and Other Transport Equipment (-5.3% from -17.9%). Branches with growing output include Furniture (14.1% from 10.8% in 2017), Computers-Electronics (14.1%, from 10.8%) and Beverages (6.9% from 6.6%). The production of Chemicals increased less, by 4.4% (by 1.3%), followed by output in Petroleum and Coal (2.3%, against 4.4%).

In 2018, output increased in two of the five key groups of industrial products. In particular, the production of Non-durable Consumer Goods strengthened by 2.9%, against a notably weaker growth by 0.7% in 2017. The output of Capital Goods increased at a similar rate, albeit weaker than in 2017 (2.0%, against 4.5%). Energy production remained stable (0.0%, against 5.8%), while the production of Intermediate Goods increased marginally (0.7%, against 6.8%). By contrast, output declined in Durable Consumer Goods, by 2.9% against 2.8% growth in 2017.

Construction

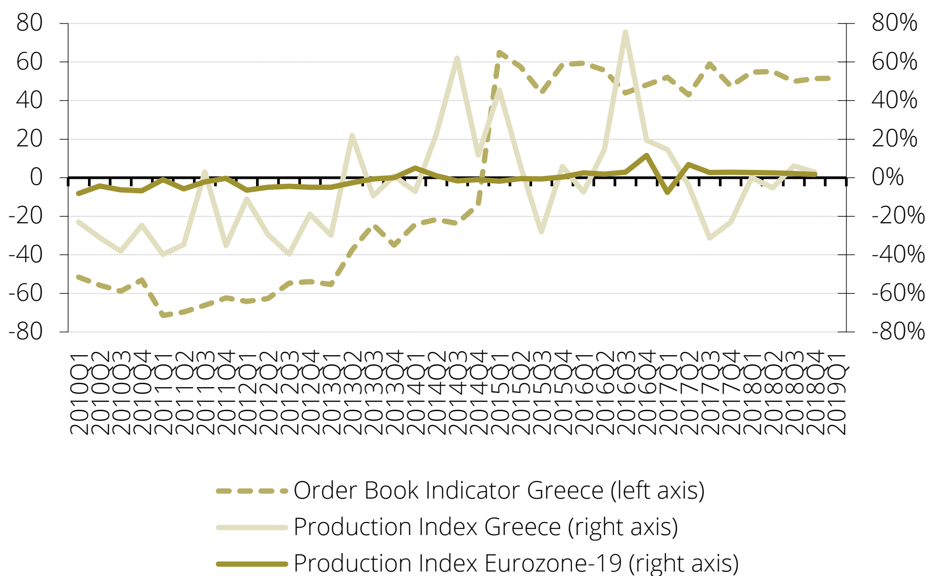
Overall in 2018, the production index in Construction marginally increased, by only 1.0%, against a sharp drop by 15.1% in the preceding year. The index averaged 45.2 points.

Strong and diverging trends prevailed among its constituent activities: the production index in Buildings strengthened by 17.8%, against a contraction by 10.6% in 2017. By contrast, the production index in Civil Engineering declined by 12.8%, continuing an 18.5% drop a year earlier. These developments imply a strengthening of private construction in 2018 and decline in public works.

The monthly data on building activity for 2018 point to marginal increase by 0.1% in terms of number of permits (against 9.0% in 2017). Meanwhile, activity strengthened in terms of both volume (22.8%, against 18.4%) and surface (21.4% against 19.5%).

Figure 3.5

Production Index in Construction and Building Activity Index



Growth of production in construction by 1.0% in 2018, against 15.1% contraction the year before

Source: ELSTAT

In the Euro area, construction production expanded further in 2018, at a rate of 2.2%, against 1.2% in 2017.

Retail Trade

The revised volume index[27] in Retail Trade strengthened in 2018 by 1.5%, at a marginally higher rate than in 2017 (1.2%).

[27] 2015 being the new base year of comparison

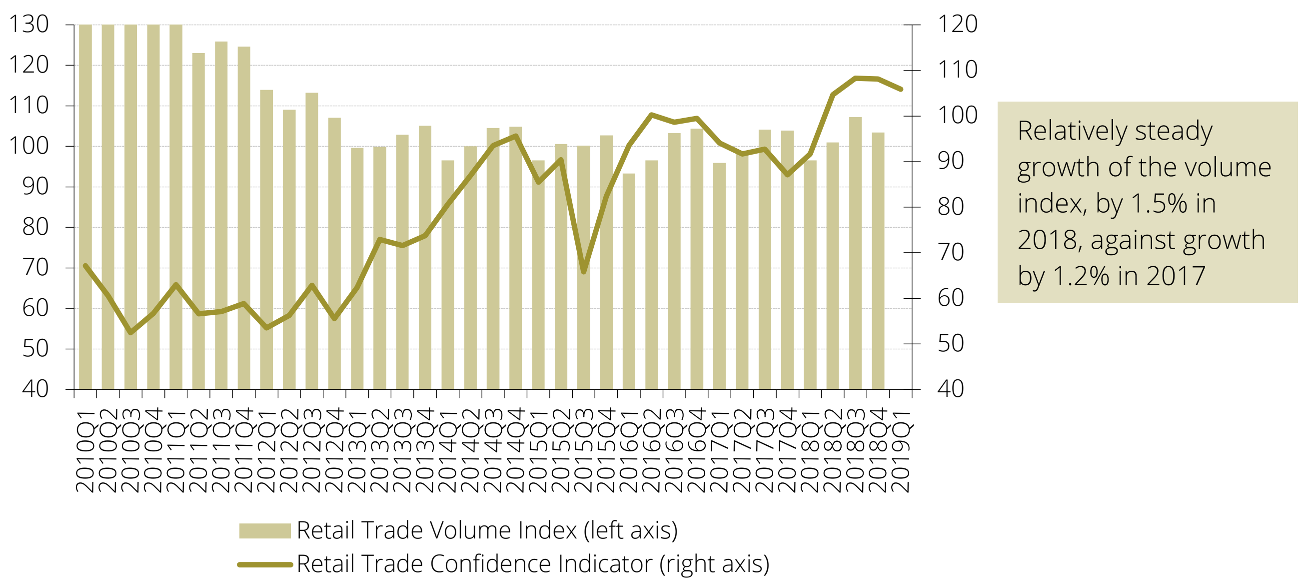
The volume of activity increased in four of the eight branches of Retail Trade. The strongest growth was recorded in Furniture – Electrical Equipment – Household Appliances, by 4.7%, against stronger growth by 6.2% in 2017. Supermarkets came next, with 3.5% growth (from only 0.7% a year earlier), followed by Clothing-Footwear (1.2%, against 3.3% in 2017). Turnover in Pharmaceuticals-Cosmetics remained unchanged in 2018, after growing by 2.2% in 2017. By contrast, turnover contracted in Food – Beverages (-2.9% from -3.3%), Fuels (-0.8% from -1.8%) and Department Stores (-0.4% from 0.4%).

The available data for the 2019 cover only its first month. In it, the volume index declined by 2.9%, against growth by 1.0% in January 2018.

In the first quarter of 2019, the expectations in Retail Trade strengthened year on year. According to the leading indicators of the Business Surveys conducted by IOBE, the index for Retail Trade overall increased by 8.5 points year on year, compared with a marginal year-on-year decline (by 0.2 points) in the corresponding period of last year.

Figure 3.6

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



Source: IOBE

At the branch level, the expectations weakened year on year in the first quarter of 2018 in Clothing – Footwear, by 25.7 points, while in the same quarter of the previous year they had strengthened by 42.1 points. Household Appliances followed a similar trend, as the expectations index decreased by 11 points, against strong growth by 19.7 points in the first quarter the year before. By contrast, expectations improved in Food-Beverages (+26 points against -37 points in 2018) and Department Stores (3.7 against -1.9 points).

Table 3.4

Change in the Retail Trade Volume Index (Jan-Dec)

Category of Retail Trade Stores	Volume Index (2010=100)				
	2016	2017	2018	Change 2017/2016	Change 2018/2017
Overall Index	99.4	100.6	102.1	1.2%	1.4%
Overall Index (excluding automotive fuels and lubricants)	100.5	101.8	103.5	1.3%	1.7%
Store Categories					
Supermarkets	100.5	101.2	104.8	0.7%	3.5%
Department Stores	106.6	107.0	106.7	0.4%	-0.4%
Automotive Fuels	95.9	94.2	93.4	-1.8%	-0.8%
Food – Drink – Tobacco	98.4	95.2	92.4	-3.3%	-2.9%
Pharmaceuticals – Cosmetics	97.3	99.3	99.3	2.1%	0.0%
Clothing – Footwear	105.4	108.9	110.1	3.3%	1.2%
Furniture – Electric Equipment – H. Appliances	98.8	104.9	109.9	6.2%	4.7%
Books – Stationary	104.4	112.4	114.7	7.7%	2.0%

Source: ELSTAT

Table 3.5

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

	Q1 2017	Q1 2018	Q1 2019	% Change 2017/2016	% Change 2018/2017
Food-Drinks-Tobacco	109.8	72.9	98.9	-33.6%	35.7%
Textiles - Clothing – Footwear	74.8	116.9	91.2	56.3%	-22.0%
Household Appliances	71.1	90.8	79.8	27.7%	-12.1%
Vehicles-Spare Parts	103.3	117.0	123.4	13.3%	5.5%
Department Stores	99.8	97.9	101.6	-1.9%	3.8%
Total Retail Trade	94.0	93.8	102.3	-0.2%	9.1%

Source: IOBE

In Vehicles, in particular, the index stood at 133.7 points in the first quarter of 2019, compared with 126.8 points in the corresponding period the year before, i.e. it increased by 5.5%, less however than the increase recorded in the first quarter of 2018 (13.4%). Over the same period, the sales of passenger vehicles declined by about 2%, against growth by 26.9% in the same period of last year. Despite the sluggish performance, the balance of current sales more than doubled to 58 points in the first quarter, with an increase in the share of those who anticipated higher sales, and significant reduction of the enterprises expecting lower sales. In stocks, consolidation trends dominate over time, with their share reaching 84% in the first quarter of 2019. The balance of orders strengthened, with an increase by 15 points, yet the percentage of those expecting more orders remained unchanged, while ambivalence is reflected in the expectations on sales, with the balance remaining positive (27 points), yet declining from last year (37 points). As regards employment, the

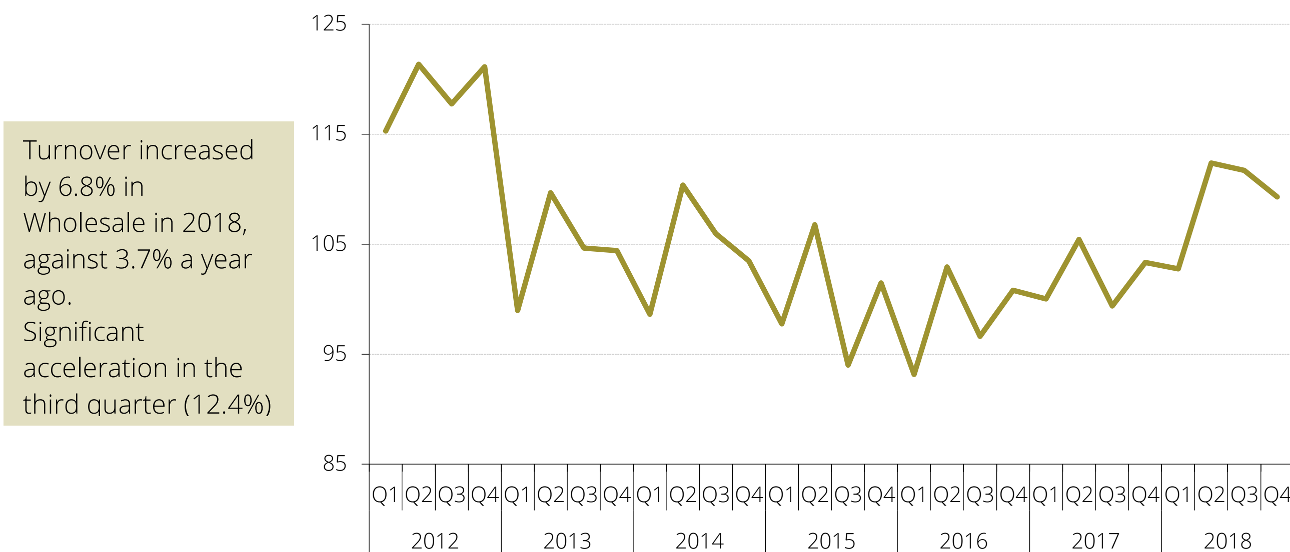
strong signs of stabilisation from the previous quarter eased slightly, with an increase in those expecting employment expansion over the coming period.

Wholesale Trade

The revised index for turnover in wholesale trade increased by 6.8% in 2018, growing throughout the year, against a milder growth by 3.7% in 2017. The highest growth was recorded in the third quarter of 2018, when the index strengthened by 12.4%, posting its best third quarter performance since 2009.

Figure 3.7

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

In 2018, turnover declined in seven of the thirteen branches of Services. The strongest activity contraction was recorded in Architectural – Engineering Activities (-12.8% from 8.4% in 2017) and Cleaning Activities (-9.7%, from -3.8%). Information Service Activities came next (-5.8%, against -1.1%), followed by Security - Investigation Activities (-4.0%, against 0.3% in 2017) and Publishing Activities, where turnover contracted by 3.2%, much less than in 2017 (-19.5%). Weaker contraction was recorded in Advertising - Market Research Activities (-1.5% against 3.9%).

By contrast, turnover increased in Employment Activities (16.4%, against 7.0% in 2017), Courier Activities (8.1%, against 0.9%) Computer Programming (6.6% against 3.1%) and Telecommunications (+1.0 against 0.5%). Note that 2018 was the fifth consecutive year when IT services strengthened, which highlights the sector's resilience to economic cycles.

Table 3.6

Turnover Indexes (2010=100)

Services	2017	2018
	-19.5%	-3.2%
Publishing Activities	-8.4%	-12.8%
Architectural and engineering activities; technical testing and analysis	-3.8%	-9.7%
Cleaning Services	-1.1%	-5.8%
Computer programming, consultancy and related activities	0.3%	-4.0%
Security and investigation activities	-0.5%	1.0%
Telecommunications	3.9%	-1.5%
Advertising and market research	0.9%	8.1%
Postal and courier activities	3.1%	6.6%
Information service activities	13.5%	3.8%
Other professional, scientific and technical activities	4.1%	7.2%
Legal and accounting activities	1.2%	9.6%
Office administrative, office support and other business support activities	7.0%	16.4%

Source: ELSTAT

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 two of the four branches of Services. However, the overall indicator for services declined by 5.3 points, against growth by 7.5 points a year earlier. The indicator increased by 13.4 points in Various Business Activities (against 9.5 points in the first quarter of 2018) and by 5.4 points in IT services (against 6.2 points last year). By contrast, the significant improvement in expectations in Financial Intermediaries in the first quarter of 2018 was lost in 2019 (-22 points, against 22 last year). In Tourism, expectations weakened by 16.6 points, after mild growth in the first quarter of 2018 (2.9 points).

Table 3.7

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

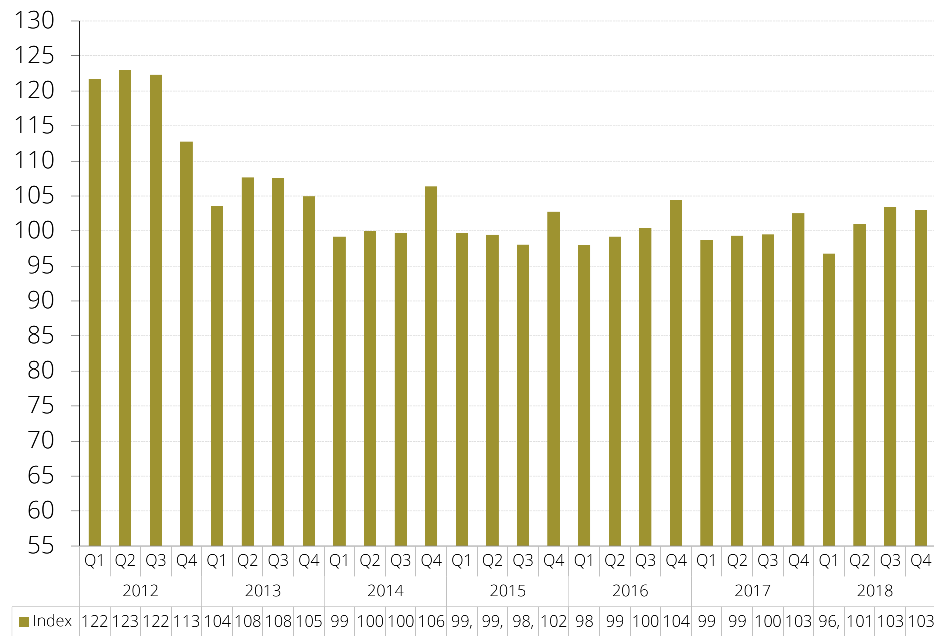
	Q1 2017	Q1 2018	Q1 2019	% change	% change	Change 2018/2017	Change 2019/2018
Hotels – Restaurants – Travel Agencies	92.6	95.5	78.9	3.1%	-17.4%	2.9	-16.6
Other Business Services	56.9	66.4	79.8	16.7%	20.2%	9.5	13.4
Financial Intermediation	73.2	95.0	73.0	29.8%	-23.2%	21.8	-22.0
Information Services	71.0	77.2	82.6	8.7%	7.0%	6.2	5.4
Total Services	**77.9**	**85.4**	**80.1**	**9.6%**	**-6.2%**	**7.5**	**-5.3**

Source: IOBE

Figure 3.8

Turnover Index in Telecommunications (branch 61)

Marginal increase in 2018, by 1.0%, against decline by 0.5% a year before

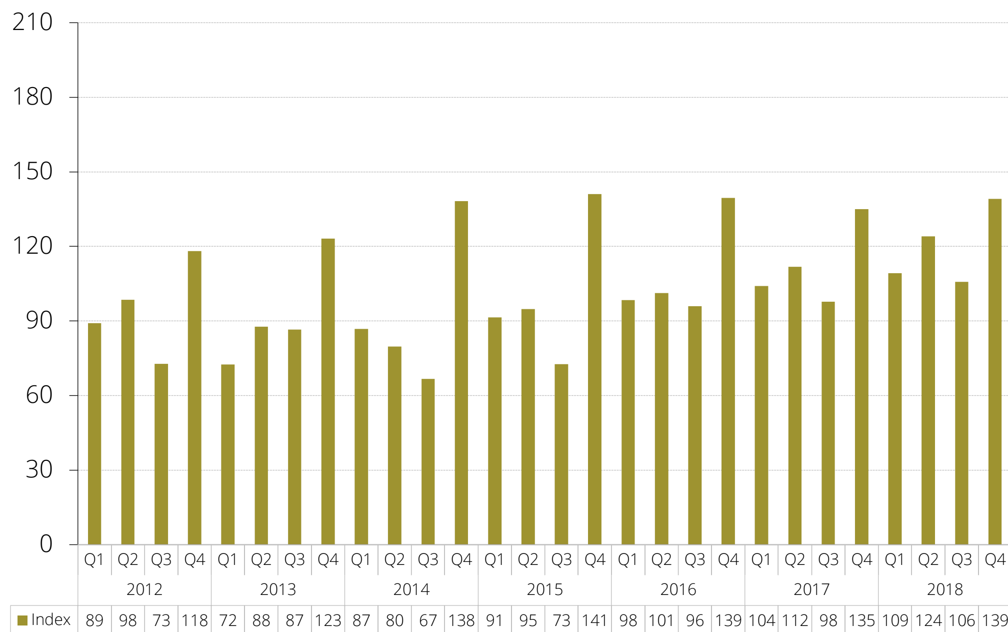


Source: ELSTAT

Figure 3.9

Turnover Index in Information Services (branch 62)

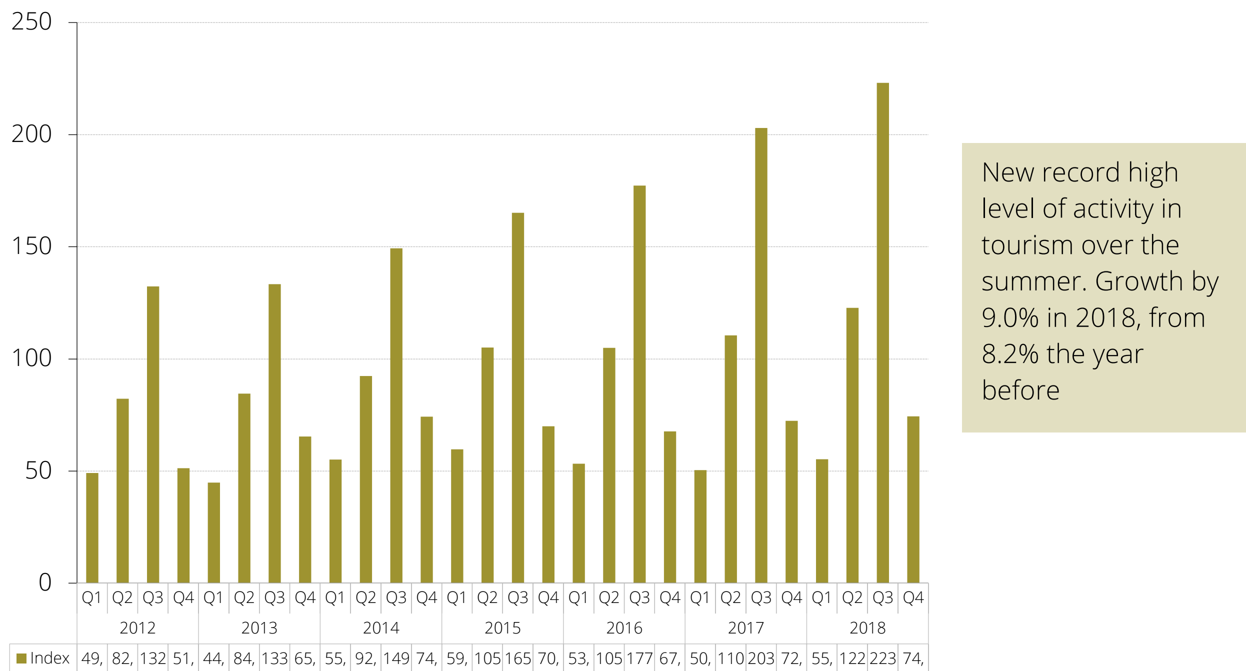
Continued activity expansion In 2018, by 6.6%, faster than in 2017 (3.1%)



Source: ELSTAT

Figure 3.10

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



Source: ELSTAT

3.3 Export Performance of the Greek Economy

- The exports of goods increased in 2018, at a high rate (15.2%), in total goods and excluding fuel (10.1%).
- Stronger demand mainly from EU countries (+14.0% or +€2.1 billion), due to steadily high growth

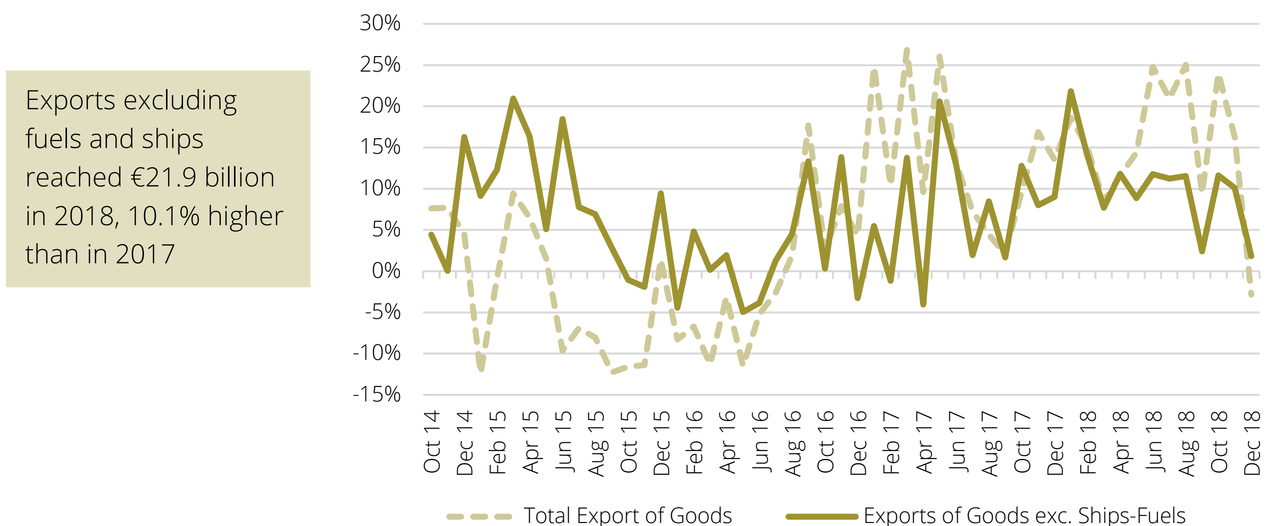
The exports of goods totalled €33.3 billion overall in 2018, from €28.9 billion in 2017, recording an increase of 15.2%, according to data from ELSTAT, reaching their highest level since at least 2004. Excluding petroleum products and ships, the remaining exports increased by 10.1%, to reach €21.9 billion, from €19.9 billion in the preceding year (Figure 3.11). Imports increased by 9.4% to reach €53.8 billion, from €49.1 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit stood at €20.7 billion, from €20.6 billion (+0.6%) in 2017, approximately €116.9 million higher. Subsequently, the value of the exports of goods of the Greek economy accounted for 61.4% of its imports, from 58.0% in 2017.

In greater detail, the exports of Agricultural Products increased by 6.4% last year, to reach €5.9 billion, from €5.6 billion a year earlier, while the exports of Fuels sharply increased by 27.9%, to €11.5 billion from €9.0 billion in the previous year (Table 3.7). The exports of these two product categories accounted for 52.7% of the Greek exports in the current year, from 51.0% a year earlier. The growth in Agricultural Products came mainly from a 22.1% increase in the demand for Oils and Fats of Animal or Plant Origin, the value of which amounted to €685.3 million, from €561.3 million

a year earlier and, as a result, their share in total exports strengthened from 2.0% in 2017 to 2.1% in 2018. The exports of Food – Live Animals, which account for approximately 76.4% of the exports of Agricultural Products, increased by 5.3%, from €4.3 billion in 2017 to €4.5 billion last year. The foreign demand for Beverages – Tobacco, which represent 12.0% of the exports of Agricultural Products, totalled €711.5 million in 2018, higher by 0.7% year on year (from €706.5 million).

Figure 3.11

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



Source: ELSTAT, Data processing by IOBE

The exports of Industrial Products increased by 12.9% in 2018, with their value reaching €13.7 billion, from €12.2 billion a year earlier. This rise is explained mainly by the strengthening of foreign demand for Manufactured Goods Classified Chiefly by Raw Material, by 13.4%, with their value reaching €5.2 billion. The exports of Chemical and Related Products also rose, by 13.9%, (to €3.4 billion in 2018 from €3.0 billion a year earlier), while the exports of Miscellaneous Manufactured Articles increased by 10.0%, to €2.2 billion, from €2.0 billion a year earlier. The export performance strengthened in Machinery and Transport Equipment as well, by 13.2%, to €2.9 billion, from €2.5 billion.

Finally, the exports of Raw Materials increased by 6.0%, reaching €1.4 billion from €1.3 billion, while the exports of Commodities and Transactions Not Classified by Category expanded by 1.5%, from €530.6 million in 2017, to €538.7 million in 2018.

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 16.2%, to reach €12.3 billion in 2018, from €10.6 billion in 2017, absorbing as a result almost 37.2% of the Greek exports of goods in 2018. There was a similar increase in the EU, by 14.0% or €2.1 billion, with the exports to the region totalling €17.2 billion, from €15.1 billion a year earlier. Among the Eurozone countries with the largest share of Greek exports, growth was stronger towards Italy, by 12.2%, from €3.1 billion in 2017 to €3.4 billion a year later, and towards Germany, by 4.8%, from €2.0 billion in 2017 to €2.1 billion, followed by Cyprus where they increased by 1.3% reaching €1.74 billion. The highest percentage increase in 2018 was recorded towards Slovenia, by 115.1%, reaching €426.7 million from €198.4 million a year later.

Table 3.8

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

Product	Value		% Change	% Contribution	
	2018*	**2017***	**18*/17***	**2018***	**2017***
AGRICULTURAL PRODUCTS	5,914,3	5,558,8	6.4%	17.9%	19.5%
Food and live animals	4,517,5	4,291,1	5.3%	13.7%	15.1%
Beverages and tobacco	711,5	706,5	0.7%	2.2%	2.5%
Animal and vegetable oils and fats	685,3	561,3	22.1%	2.1%	2.0%
RAW MATERIALS	1,361,9	1,284,3	6.0%	4.1%	4.5%
Crude materials, inedible, except fuels	1,361,9	1,284,3	6.0%	4.1%	4.5%
FUELS	11,480,7	8,979,5	27.9%	34.8%	31.5%
Minerals, Fuels, Lubricants etc.	11,480,7	8,979,5	27.9%	34.8%	31.5%
INDUSTRIAL PRODUCTS	13,725,4	12,157,4	12.9%	41.6%	42.6%
Chemicals and Related Products	3,445,2	3,025,3	13.9%	10.4%	10.6%
Manufactured goods classified chiefly by raw material	5,183,7	4,571,4	13.4%	15.7%	16.0%
Machinery and transport equipment	2,864,1	2,531,2	13.2%	8.7%	8.9%
Miscellaneous manufactured articles	2,232,4	2,029,4	10.0%	6.8%	7.1%
OTHER	538,7	530,6	1.5%	1.6%	1.9%
Commodities and transactions not classified by category	538,7	530,6	1.5%	1.6%	1.9%
TOTAL EXPORTS	33,021.0	28,510.6	15.8%	100.0%	100.0%

* Provisional Data

Sources: ELSTAT, PSE-KEEM

Among the remaining countries of the European Union, where total exports grew by 8.9% or €405.5 million, to reach €5.0 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 6.9% or €91.4 million year on year. The exports to two other countries, which also absorb a significant share of Greek exports from this group of countries, UK and Romania, also increased, by 7.3% or €80.6 million to €1.2 billion in the former and by 10.8% or €92.2 million to €944.2 million in the latter. The largest percentage growth, by 33.8%, was recorded towards Croatia, where Greek exports increased by €26.3 million, from €77.7 million in 2017 to €104.0 million in 2018.

The Greek exports to the remaining European countries increased by 7.4% in 2018, to €5.2 billion, from €4.8 billion in 2017. In Turkey, one of the major export destinations, exports expanded by 4.2%, from €1.95 billion to €2.03 billion.

The flow of exports of Greek products to Oceania increased by 5.8% over the examined period, with their value reaching €176.3 million. The exports to Australia expanded by 4.9%, from €151.0 million in 2017, to €158.4 million in 2018. In New Zealand, exports also increased, by 14.9%.

The exports to the markets of Central and Latin America increased significantly last year, by 73.1%, with their value amounting to €356.0 million, from €205.6 million a year earlier. The better export performance to these countries came mainly from rapid growth in the demand for Greek products from Brazil, by 323.9%, where their value expanded to €110.6 million.

Table 3.9

Exports by destination, January – December* (in current prices, million €)

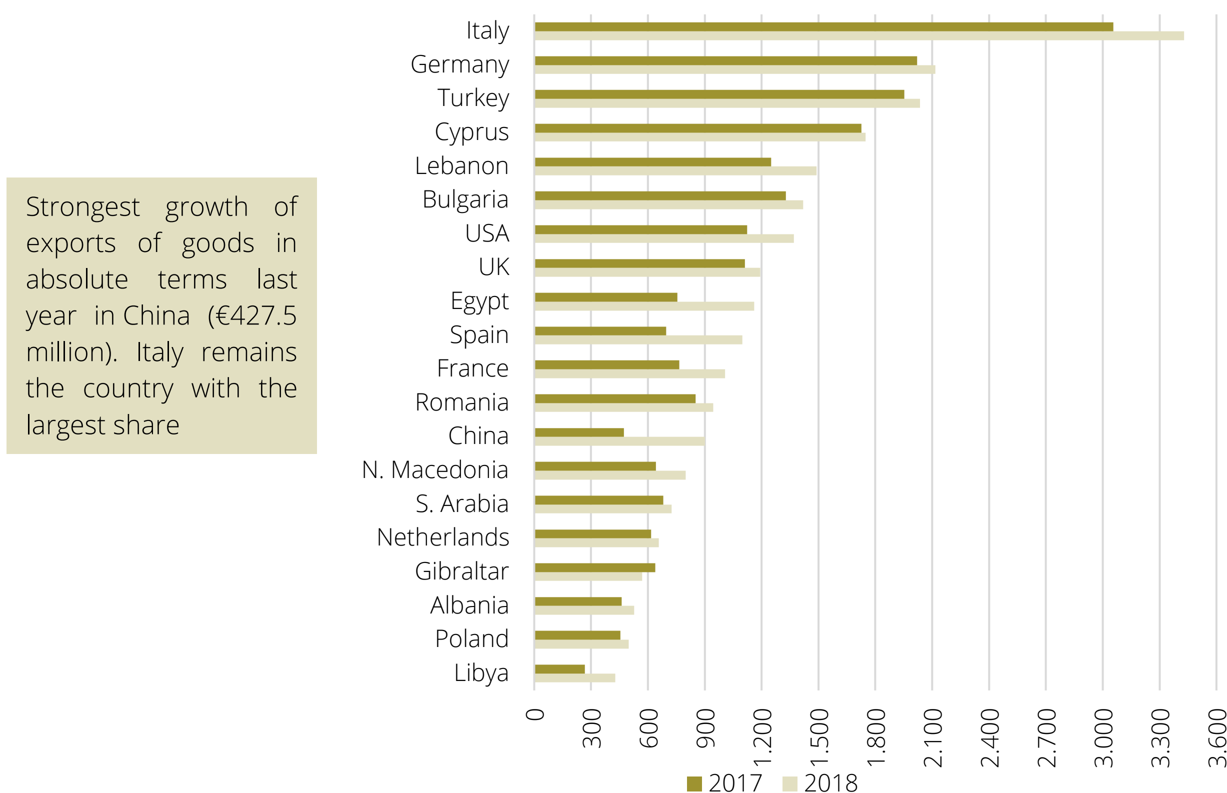
Economic groups – geographical areas	Exports		% Change	% Contribution	
	2018	2017	18/17	2018	2017
World	33,021.0	28,510.6	15.8%	100.0%	100.0%
OECD	17,551.7	15,362.0	14.3%	53.2%	53.9%
EU	17,249.0	15,135.3	14.0%	52.2%	53.1%
Euro Area	12,267.8	10,559.5	16.2%	37.2%	37.0%
G7	9,399.7	8,324.0	12.9%	28.5%	29.2%
North America	1,693.5	1,440.2	17.6%	5.1%	5.1%
BRICS	1,469.4	895.7	64.0%	4.4%	3.1%
Middle East & North Africa	5,373.9	4,282.3	25.5%	16.3%	15.0%
Rest of Africa	2,191.3	1,413.2	55.1%	6.6%	5.0%
Oceania	176.3	166.6	5.8%	0.5%	0.6%
Latin America	356.0	205.6	73.1%	1.1%	0.7%
Rest of Asia	2,303.9	1,807.1	27.5%	7.0%	6.3%
OPEC	1,843.6	1,560.0	18.2%	5.6%	5.5%

* Provisional Data

Source: ELSTAT, Data processing by KEEM

Figure 3.12

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



Source: PSE – KEEM, Data processing by IOBE

The demand for Greek goods strengthened significantly in the Asian countries, where exports increased by 27.5%, to €2.3 billion, from €1.8 billion in 2017. This development came mainly from the strengthening of exports to the Philippines (+249.4%, to €65.1 million, from €18.6 million in 2017), and China (+90.2%, to €901.3 million from €473.8 million). By contrast, a significant decline of Greek exports was recorded in South Korea, by 41.4%, from €192.8 million in 2017, to €113.0 million a year later, and by 7.2% towards Singapore from €457.4 million to €424.6 million.

In conclusion, exports continued to grow strongly in 2018, at a rate of 15.2%, maintaining their momentum from 2017. An important aspect of this increase is its broad base, evident in every sector and every geographical region or economic group. The strong growth of Greek exports last year led to a new openness record, as exports passed for the first time the €33 billion mark.

The strong dynamic of the past two years is expected to carry over to the current year, albeit somewhat weakened. The slowdown in the region that constitutes the main export destination of Greek products, the Eurozone, due to the conclusion of the expansion of the Q-E programme by the ECB, the effects of the trade protectionism policies adopted by the USA and the problems in the German economy stemming from the automotive industry constitute the main cause for the anticipated weakening of the growth momentum. Growth is not anticipated to strengthen in China either, the export destination with the largest increase in absolute terms in 2018, following the tightening of its credit policy. By contrast, exports are expected to grow stronger to Brazil, which drove the largest percentage increase per geographical area last year (in Central-Latin America). As a result, the growth rate of the exports of goods is expected to stand at around 5.0%.

3.4 Employment - Unemployment

- The unemployment rate stood 2.2 percentage points lower in 2018, compared to 2017
- Drop in unemployment by 67.3% due to higher employment and by 32.8% from a reduction in the labour force
- Largest increase in employment in the Primary Sector (+20,300 people), Wholesale – Retail Trade (+19,800 people) and Tourism (+12,400 people
- The seasonally adjusted wage cost index increased by 4.7% in the final quarter of last year, growing for the fourth consecutive quarter

According to data from the Labour Force Survey of ELSTAT, the unemployment rate for 2018 overall dropped by 2.2 percentage points compared to 2017, to 19.3% from 21.5%. The number of unemployed fell below one million for the first time since 2011, standing at 915,000 from 1,027,100 people in 2017 (a reduction by 112,000 or 10.9%). The number of employed rose by 75,400 people or 2.0% (from 3,752,700 to 3,828,000), while the labour force dropped by 36,700 people or 0.8% (from 4,779,800 to 4,743,000). Therefore, the drop in unemployment came by 67.3% from employment growth and by 32.8% from labour force contraction. According to the latest data, in January 2019, the non-seasonally adjusted unemployment rate stood at 19.6%, from 20.9% in the same month of 2018, while the number of unemployed dropped by 68,500 people (from 993,400 to 924,900).

In the Eurozone countries, unemployment has been falling year on year since 2014 (11.6%), while in 2018 it stood at 8.2%, 0.9 percentage points lower than a year before (9.1%). In Spain, which has

the highest unemployment rate after Greece, unemployment dropped by two percentage points year on year from 17.3% in 2017 to 15.3% a year later. The largest drop in 2018 was recorded in Cyprus by 2.7 p.p., from 11.1% to 8.4% and the lowest in Luxembourg by 0.2 percentage points (from 5.6% to 5.4%). The lowest unemployment rate was recorded once more in Germany at 3.4% (from 3.8% a year earlier) and in Malta (3.7% from 4%). In the largest economies of Europe, the unemployment rate in Italy dropped from 11.2% to 10.6%, in France from 9.4% to 9.1%, while in the United Kingdom there was a 0.4 percentage point drop, from 4.4% to 4.0%.

Drop in unemployment in 2018 to 19.3% from 21.5% in 2017

Figure 3.13

Labour force participation and unemployment rates

Sources: ELSTAT – Labour Force Survey, Eurostat

The trends in unemployment by sex in Greece have not changed. Unemployment remained higher among women than men, as the unemployment rate amongst women in 2018 was 8.8 percentage points higher compared to that of men, at 24.2% against 15.4%, decreasing slower compared to that of men (by -1.9 p.p. against -2.2 p.p., respectively). In the Euro area, the decline in the unemployment rate among men and women is essentially the same, while the percentage is slightly higher amongst women. In particular, unemployment stood at 7.9% among men from 8.8% in 2017) and at 8.6% among women (from 9.5% a year earlier).

Regarding the age structure, unemployment declines with age, while there is a drop in unemployment in every age group compared to 2017. The largest reduction occurred amongst the age group with the highest unemployment, namely among people aged 15-19, where unemployment fell by 5 p.p., to 50.3%. People aged 20-24 follow with a 3.4 p.p. drop to 38.6%. The lowest reduction was recorded among those aged 65 and over, which already had the lowest rate, by only 1.1 p.p., to 10.6% from 11.7%. Among people aged 30-44, unemployment also fell slightly below the country average, to 18.6% from 20.7% in 2017.

Regarding the duration of unemployment, the percentage of long-term unemployed has decreased steadily, yet weakly each year since 2015, (expect for 2017) and in 2018 it stood at 70.4%,

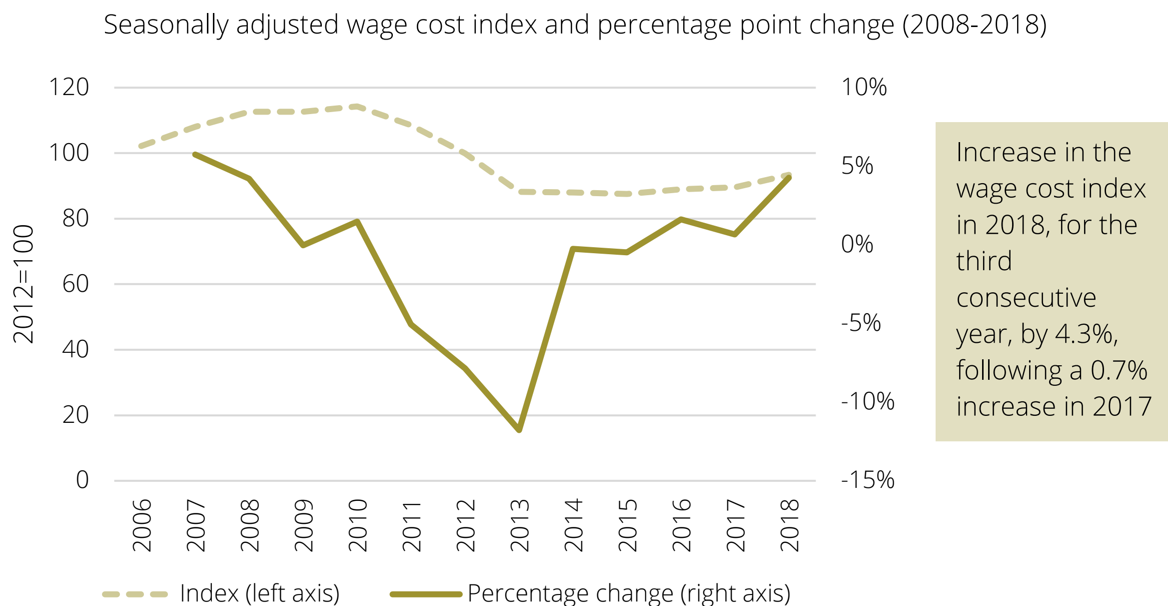
2.5 p.p. lower than in 2017. The number of long-term unemployed reached 643,700 in 2018, from 742,200 people a year earlier (reduction by -103,500 people or -13.9%) and 875,200 people in 2015.

As mentioned in previous IOBE reports on the Greek economy, the unemployment rate is inversely related to the education level - it decreases as the educational attainment increases. Given this trend, the highest unemployment rate in 2018 was recorded among individuals with no schooling, the only category where unemployment increased from 41.4% to 47.7%. The holders of doctorate or master's degrees had the lowest unemployment rate, which dropped below 10% for the first time since 2010, at 9.9% from 11.1% of 2017. People who have graduated from tertiary technical education recorded the largest drop, by 2.5 p.p., where the unemployment rate stood at 20.4%. Next came people with upper secondary education (2.4 p.p.), from 23.3% to 20.9% and people with a lower secondary education diploma (from 24.6% to 22.2%).

Unemployment decreased in all regions of the country. The highest drop was recorded in Epirus, where it fell from 24.8% to 20.1% (-4.7 p.p.), followed by Crete, by 4.3 p.p., at 13.4%, posting the lowest unemployment rate among all regions in 2018. The smallest drop in unemployment rate was recorded in the North Aegean region, by 0.2 p.p., to 22.3%, while the only climb in the unemployment rate was recorded in the South Aegean region, by 0.7 p.p. to 17%. Finally, West Macedonia had the highest rate, despite the 2.1 p.p. reduction, at 27.0%, while in Attica, the unemployment rate stood slightly higher than the country average (at 19.9% from 21.6%, falling by 1.7 p.p.).

Figure 3.14

Seasonally adjusted wage cost index and percentage point change (2008-2018)



Source: ELSTAT

At the level of key economic sectors, in all three employment increased. In the Primary sector, employment rose most, by 3.6% or by about 16,300 people (from 453,400 to 469,600 employees), while in the Secondary sector it increased by 0.9% or 5,400 people (from 578,200 to 583,700). In the Tertiary sector, employment rose by 2.0% or from 2,721,100 employees to 2,774,400 (+53,600).

Table 3.10

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

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
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 2016	9,199.4	51.9	3,648.6	76.4	1,124.0	23.6
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2
Q4 2017	9,163.3	51.8	3,736.3	78.8	1,006.8	21.2
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2
Q2 2018	9,144.7	52.1	3,860.4	81.0	906.0	19.0
Q3 2018	9,135.5	52.2	3,894.2	81.7	871.8	18.3
Q4 2018	9,126.4	51.7	3,833.7	81.3	881.1	18.7
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3

Source: ELSTAT, Labour Force Survey

Employment declined in 8 branches of economic activity and increased in the remaining 13. The largest increase in the number of employees, by 16,300 people (+3.6% at 469,600), was recorded in 2018 in Agriculture-Forestry-Fishing, followed by Accommodation - Food Services (from 350,700 to 361,700 people) and Healthcare – Social Work (from 231,600 to 242,500). The weakest increase in employment was recorded in Real Estate Activities (+1,000 individuals, at 4,900). By contrast, employment dropped in 2018 in Finance – Insurance, by 5,100 people or 5.6%, from 92,800 to 87,600 employees. In Wholesale-Retail Trade, which has the largest number of employees, employment increased by 9,300 individuals reaching 688,600 people, while in Construction it increased by 2,300 to reach 151,600 employees. Finally, in Public Administration the number of employees increased by 1.8% or 6,100 (from 330,600 to 336,700 people).

To sum up, the data on employment per sector shows that the total increase in employment last year stemmed mostly from:

- An expansion in Agriculture-Forestry-Fishing by 16,300 people or 3.6%.
- An increase in Tourism by 11,000 people (3.1%), in line with the increase of the Turnover Index in the sector last year by 9.0%, from 109.1 points in 2017 to 118.9.
- An increase in Healthcare-Social Work by 11,000 people (+4.7%).
- An increase in Wholesale-Retail Trade (+9,300 people or 1.4%), in line with the increase in the volume index in Retail Trade last year by 1.3% (from 100.6 points to 102 points) and the Turnover index in Wholesale Trade by 6.7% (from 102.1 points to 108.9 points).

The wage cost index overall for the Greek economy increased in 2018, for the third consecutive year, by 4.3% (from 89.6 to 93.4 points). Text box 3.3 explores the relation between wage costs, employment and output between 2014 and 2017, when unemployment declined.

Box 3.3

Relation between wage cost & employment between 2014 and 2017

Following a steep increase in 2008-2013, unemployment levels in Greece fell by 6 percentage points between 2014 and 2017, from 27.5% in 2013 to 21.1% in 2017. Over this period there was a 6.8% growth in employment in number of employees and 3.0% in number of total workhours. It should be noted that the trend of employment in workhours is not affected by the composition of part-time and full-time employment, in contrast to employment when measured in employees. The aim of the analysis that follows is to examine whether changes in the wage costs and output have contributed to the change in employment in workhours. With this mind, we first identify the sectors with the largest change in employment, wage cost and output.

Tourism (+126.6 million hours or +18.7%) and Administrative-Support Activities (+70,9 million hours or +39,3%), followed by Wholesale-Retail Trade (+38.2 million hours or +2.1%), Construction (+29.8 million hours or +8.1%) and Professional-Scientific-Technical Activities (+21.9 million hours or +4.8%) are the sectors with the largest increase in employment workhours (Table 3.11). Essentially, the largest increase in workhours is observed in sub-sectors of the Tertiary sector, with the highest growth recorded in Tourism, the sector that contributed significantly to GDP growth recently.

By contrast, the Primary Sector (-30.8 million work hours or -3%) was the sector with the largest decrease in total work hours between 2014 and 2017, followed by Financial Activities (-19.4 million work hours or -10.5%), which was hit hard by the economic crisis and over this period consolidated both in number of businesses (merger of banks and their branches) and in employment (e.g. voluntary exit programmes). Manufacturing came third with a drop by 9.1 million workhours (-1.3%).

Table 3.11

Sectors with the largest changes in work hours

Sector	Change of Work hours 2014-2017 (million hours)	Percentage change of work hours 2014-2017
Tourism	126.6	+18.7%
Administrative-Support Activities	70.9	+39.3%
Wholesale-Retail Trade	38.2	+2.1%
Construction	29.8	+8.1%
Professional-Scientific-Technical Activities	21.9	+4.8%
Manufacturing	-9.1	-1.3%
Financial Activities	-19.4	-10.5%
Agriculture-Forestry-Fishing	-30.8	-3.0%
COUNTRY TOTAL	247.5	+3.0%

Source: Eurostat

The sectors with the largest percentage increase of wage cost include Education (13.7%), Electricity - Natural Gas (+17.3%), Public Administration (+12.3%), Arts-Entertainment (+7.6%) and Tourism (+7.8%). Therefore, sectors affiliated with the Public Sector, such as Public Administration

and Education, are mostly included among the sectors with the largest increase in wage cost (Table 3.12). At the other end of the ranking are Professional-Scientific-Technical Activities (-32.1%), Water Supply-Sewerage Treatment (-22.6%), Information-Communication (-13.9%), Wholesale-Retail Trade (-13.3%) and Construction (-12.8%).

Table 3.12

Sectors with the largest change in the wage cost index

	Change of wage cost index 2014-2017(*)	% change of wage cost index 2014-2017(*)
Education	+13.8	+13.7%
Electricity-Natural gas	+13.1	+17.3%
Public Administration	+11.8	+12.3%
Arts-Entertainment	+7.3	+7.6%
Tourism	+5.9	+7.8%
Construction	-11.1	-12.8%
Wholesale-Retail Trade	-11.6	-13.3%
Information-Communication	-12.3	-13.9%
Water Supply - Sewerage Treatment	-21.6	-22.6%
Professional-Scientific-Technical Activities	-25.8	-32.1%
COUNTRY TOTAL	+1.5	+1.7

Source: ELSTAT, (*) : For the definition of the wage cost, see below

Table 3.11 and Table 3.12 show that three of the sectors with some of the highest increases in employment are included in the sectors with the largest percentage point drop in wage costs, namely Wholesale-Retail Trade (%2.1 more workhours, 13.3% decrease in wage costs), Construction (8.1% more workhours, 12.8% drop in wage costs) and Professional-Scientific-Technical Activities (4.8% more workhours, 32.1% drop in wage costs). In Tourism, where workhours increased most (18.7%), wage costs increased by 7.8%. That said, the sectors with the largest drop in employment are not included in the sectors with the highest increase in wage costs. Therefore, there are some indications for a negative relation between wage costs and workhours, which cannot be fully confirmed, however, by the data. Hence, a drop in the wage costs is probably, but not certain, that it will lead to an increase in work hours. Consequently, the level of employment is not exclusively determined by the trends in wage costs.

Regarding the output trends in the sectors with the largest increase in employment, in most gross value added increased as well, at a higher rate than the country average. In particular, value added increased cumulatively by 3.7% in Construction, by 4.7% in Wholesale-Retail Trade and by 8.0% in Tourism, while for the country total value added increased only marginally over the same period, by only 0.8% (Table 3.13).

The largest increase in activity was recorded in Administrative-Support Activities by 27.3%, while output declined only in Professional-Scientific-Technical Activities, despite the highest than in all other sectors drop in wage costs (-32.1%). Therefore, some of the sectors with the largest increase in employment, as well as a significant drop in wage, such as Construction and Wholesale-Retail Trade, were positively impacted by demand shocks as well.

To conclude, the analysis of data on wage costs, work hours and output between 2014 and 2017 provides some indication that a decrease in the wage costs often, but not always, leads to an increase in employment (in terms of work hours). Besides, some of the sectors with a significant drop in wage costs and an increase in employment, seem to have been positively impacted by a demand boost, as their output increased faster than the domestic average. In addition, in Professional-Scientific-Technical Activities, the sector with the largest drop in wage costs and one of the highest increases in employment, output subsided substantially. Therefore, the trends in employment are not linked only to wage costs, but to other factors as well, such as the trends in demand.

Table 3.13

Change of output in sectors with the largest increase in employment

	Change of output 2014 – 2017 (in million €)	% change of output
Wholesale-Retail Trade	670.6	4.7%
Tourism	663.3	6.0%
Administrative-Support Activities	603.0	27.3%
Construction	184.9	3.7%
Professional-Scientific-Technical Activities	-334.3	-6.2%
COUNTRY TOTAL	1.334	0.8%

Source: Eurostat

Medium-term Outlook

Household expectations strengthened steadily in the current half of the year, following the annulment of the pension cuts and the additional tax reliefs and expenses in the 2019 Budget. The election campaign, which may last for most of the year, due to the three election rounds that will take place this year, also contributes to boosting consumer confidence, as shown by experience. The income of households domestically will strengthen, at least temporarily, from the increase of the minimum wage and the abolition of the sub-minimum wage. As a result, demand is expected to strengthen, boosting in turn employment in sectors that supply final goods and services, such as Wholesale-Retail Trade and Accommodation-Food Service.

On the side of the businesses, the return of the Greek state to the international capital markets and the completion of the second review of the enhanced surveillance strengthen the confidence in the prospects of the Greek economy and improve the business and investment environment. However, many businesses will postpone making major business decisions in light of the elections and potential changes in government policy. The businesses are discounting in their employment decisions, the recent increase of the minimum wage and the abolition of the sub-minimum wage. These changes in the labour market could potentially affect negatively employment in the medium term, if they are not reflected in positive trends in productivity.

More jobs are expected in Construction, mostly from the implementation of investment plans in completed privatisations-concessions, but also from the refurbishment or construction of residences.

The global environment is worsening from the trade protectionism measures, the weakening stimulus in the Eurozone economy due to the conclusion of the expansion of the Q-E programme from the ECB, and the prolonged Brexit negotiations. Subsequently, a new significant increase in exports is not expected this year. However, their significant growth in the past two years will constitute a sufficient incentive to invest and increase employment in export-oriented sectors, such as Manufacturing, Transport and Logistics. Especially in Tourism, which led the increase in employment, activity is likely not to increase as strong as in the past years, due to the slowdown of the Eurozone and the recovery of competing tourist destinations such as Turkey and Egypt.

A new boost in public sector employment is expected, mostly through the temporary employment programmes for public benefit of OAED, such as the programme with 26,800 beneficiaries in municipalities, regional authorities and social welfare centres that started last October. One more social programme is expected to start in the current quarter in municipalities and environmental agencies, benefiting 9,000 people, while recently, the programme regarding fire safety was expended, benefiting 5,000 people.

Lastly, a further drop in jobs is expected in the banking sector, due to the extensive consolidation of its assets in past and future years. Taking into account these and other factors that affect employment, unemployment is expected to decrease less in 2019, to 18.0%.

According to the latest data from the Business and Consumer Surveys conducted by IOBE, the expectations on the short-term prospects of employment strengthened quarter on quarter in the first quarter of 2019 in all key sectors. Compared to the same period of last year, job expectations strengthened in Industry and Retail Trade and remained the same in Construction and Services. In more detail:

In Industry, the average balance of 1 point of the previous quarter increased by 4 points in the first quarter of the current year. Compared to last year, the average quarterly index increased by about 2 points. In the examined quarter, the percentage of industrial firms that expected a drop in employment in the coming months remained at 13%, while the percentage of those expecting employment growth increased to 18% (from 9%). The vast majority of businesses in the sector (69% from 83%) were expecting employment to remain unchanged.

In Construction, the balance of employment expectations strengthened from an already very low level, to -32 points, at a similar level compared to the same period of 2018. In Q1 of 2019, 40% (from 46%) of the businesses in the sector were anticipating further job losses, while 7% (from 6%) of the respondents were expecting employment growth. At the sub-sector level, the improvement of the index in Private Construction (-7 from -12 points) was accompanied by a larger increase, from an already very low level, of the index in Public Works (to -46 from -52).

The employment outlook indicator in Retail Trade increased quarter on quarter in the first quarter of the year, to +21 points (from +14). The index was up by 9 points compared to last year. About 3% (from 4%) of the firms in the sector were expecting job cuts, while 24% (from 18%) were anticipating employment growth, with those expecting job stability taking up 72% (from 79%) of the sample. The employment expectations indicator improved in Food-Beverages-Tobacco, Household Appliances, and Department Stores and deteriorated in Motor Vehicles – Spare Parts and Textiles – Clothing – Footwear.

Figure 3.15

Employment expectations (difference between positive and negative responses)

Industry

Construction

Retail Trade

Services

Source: IOBE

Stronger business expectations on employment prospects in all sectors

Services are another sector where employment expectations gained ground compared to the previous quarter, while they remained unchanged in comparison to the same period of last year. The balance of 4 points from the previous quarter increased in the quarter under examination to 7 points (from 7 points on average in the corresponding quarter of 2018). About 9% (from 11%) of the companies in the sector were expecting a drop in employment, with the percentage predicting an increase averaging 16% (same as in the previous quarter). The trend was positive in Other Business Activities, IT and Financial Intermediaries, and negative in all the other branches of services.

3.5 Consumer and Producer Prices

- Return to inflation in the first quarter of 2019, against marginal price reduction in the corresponding period of 2018
- Negative impact from indirect taxes and energy products on prices in January-February of the current year
- Stronger rate of change of CPI with constant taxes and excluding energy, reflecting rising demand

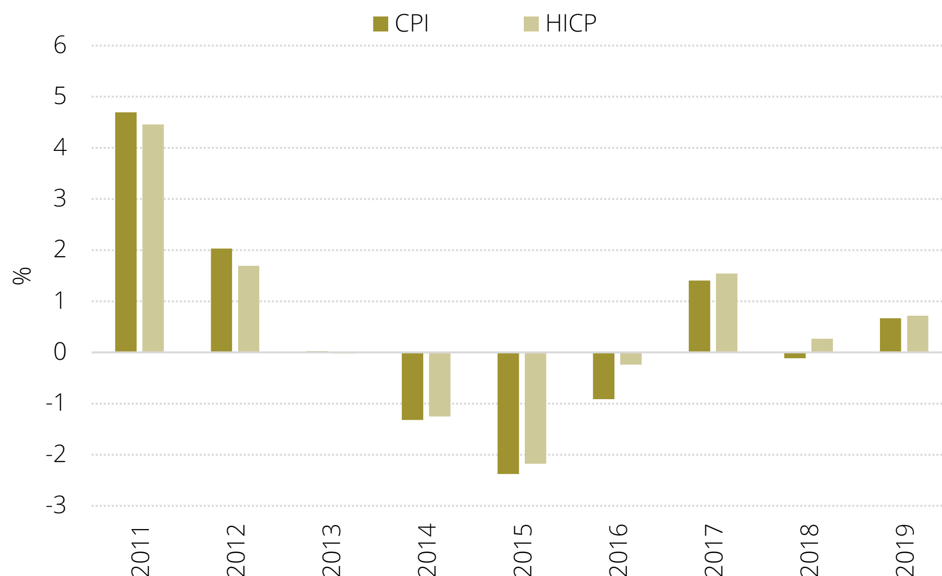
Recent Developments

In first quarter of 2019, the rate of change of the Consumer Price Index (CPI) was positive, in contrast to its drop in January-March 2018. In particular, the domestic CPI increased marginally in the first quarter of 2019, by 0.7% year on year, compared to a -0.1% reduction in the same period of 2018. However, compared to the final quarter of last year, when prices rose by 1.1%, inflation weakened in the beginning of the current year. The Harmonised Index of Consumer Prices (HICP) increased by 0.7% over the same period, compared to 0.3% in the corresponding period of 2018 (Figure 3.16). In March 2019, the annualised price increase based on the domestic CPI stood at 0.9% (Figure 3.17).

Figure 3.16

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

The CPI returned to growth in Q1 2019, at 0.7% from -0.1% in Q1 2018



Source: ELSTAT, data processing by IOBE

Figure 3.17

CPI in Greece (annual percentage change per month)

Weaker average inflation in the previous quarter than in the final quarter of 2018 (1.1%)

Source: ELSTAT, data processing by IOBE

Examining the factors that impact CPI, it seems that its increase in January and February largely stemmed from a recovery in domestic demand, as the change of the general index with constant taxes and excluding energy goods stood at 0.9%, higher than the change of the overall index (Figure 3.18). It should be noted that the increase in prices domestically excluding energy and taxes is recorded for the second year after eight consecutive years of core deflation (2011-2017, Figure 3.18)

Taxation seems to have had a negative impact on price changes. In particular, the impact of indirect taxes on the annual changes of the HICP in the first two months of 2019 was marginally negative, by 0.1 percentage points, compared to marginally positive change, again by 0.1 p.p. in the corresponding period of 2018, due to indirect tax measures imposed in early 2018 (higher VAT in 27 islands, new accommodation tax for hotels, rooms to let and apartments - Figure 3.18).

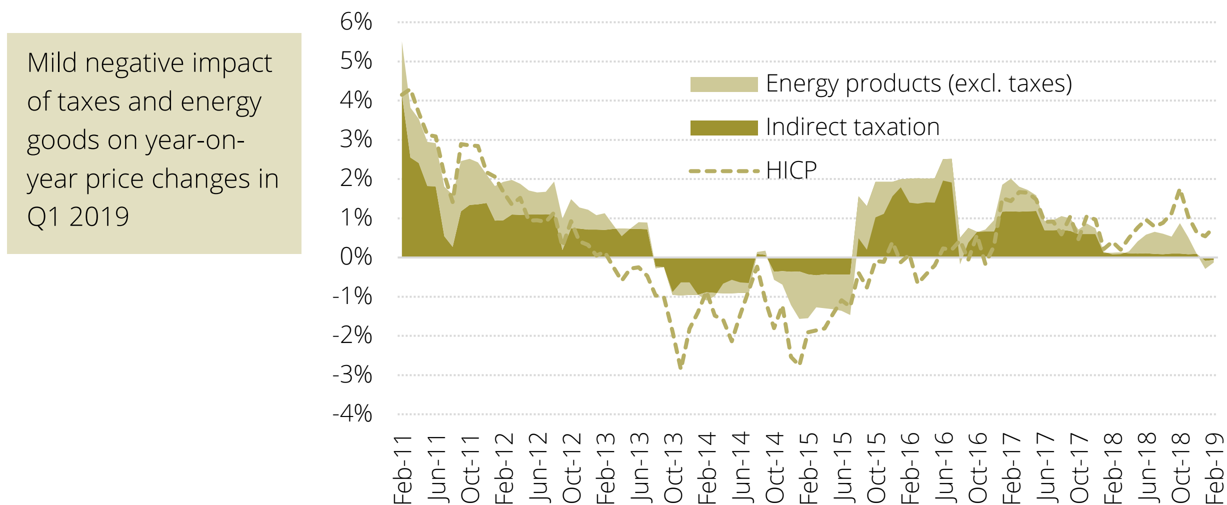
As to the impact from energy goods, in spite of the drop in international oil prices in the first quarter of 2019 compared to the same quarter in 2018, the gradual weakening of the euro-dollar exchange rate, since April, strengthened oil prices in Euros. The average global oil price dropped year on year by 6%, standing at $63.1/barrel in 2019 from $66.9/barrel in 2018.[28] The marginally lower rate of the euro against the dollar in January-March this year, by 8%, at 1.13, from 1.18 in 2017, offset the decrease in oil prices. As a result, the international oil price in Euros averaged 55.6 €/barrel in the first quarter of 2019, 2% higher year on year. According to the latest data for the first quarter of this year, the average impact of energy goods on the rate of price change domestically based on the HICP stood at -0.1% from 0.0% in the first two months of 2018. Note

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

that a strong negative impact was recorded in the same period of 2016, due to a rapid drop in oil prices (Figure 3.18).

Figure 3.18

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



Source: Eurostat, Data processing by IOBE

The HICP percentage change in Greece in January-February 2019 was lower than the Eurozone average, at 0.7% against 1.4%, the lowest rate in the Eurozone which was also recorded in Croatia. Prices increased a bit more in Ireland and Portugal (both at 0.8%). Domestic demand seems to recover in the Eurozone as well, as the price index excluding taxes and energy goods increased by 0.9%, from a 0.2% increase a year ago (Figure 3.19).

Regarding price changes in the individual categories of goods and services that comprise the Consumer Price Index, according to the latest available data, the largest increase in prices was recorded in Telecommunications, by 6.0%, against a 0.1% drop in January-March 2018, followed by Food Products, by 1.8%, against a 1.0% drop a year earlier. Housing and Alcoholic Beverages-Tobacco came next, both by 1.3%, against a 1.6% drop and 6.4% increase, respectively, in the first quarter of 2018. Prices also went up, albeit a bit less, in Healthcare (0.8%) and Hotels-Cafe-Restaurants (0.6%), from -0.3% and 1.2% respectively, in January-March 2018, while in Transport they increased marginally by 0.1%, from 2.0% in the first quarter of last year.

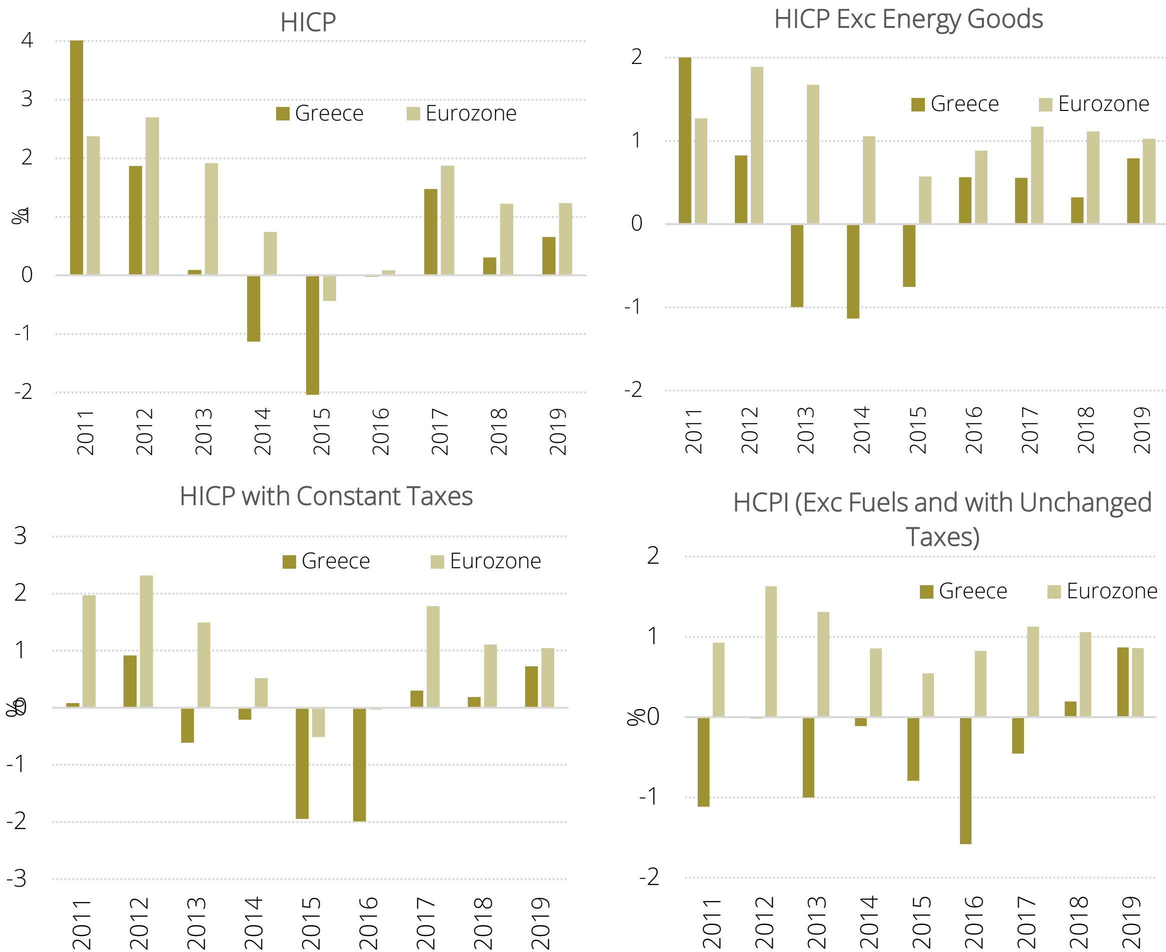
In the remaining five categories of goods and services of the domestic CPI, prices declined year on year in the first quarter, with the greatest reduction taking place in Clothing and Durable goods, household equipment - miscellaneous goods and services by -2.2% and -1.6% respectively, against -0.4% and -2.1% respectively in the first quarter of 2018.

The Producer Price Index (PPI) of the domestic and foreign markets as a whole kept growing year on year in early 2019, for the third consecutive year. In particular, the index increased by 1.5% over January-February 2019, compared to a 0.7% increase in the same period of 2018 (Figure 3.20). The PPI excluding energy increased marginally by 0.1%, against 1.5% over the same period in 2018. In greater detail, the strongest inflation for the second year in a row was recorded in Electricity and Refined Petroleum Products, by 6.8% and 2.9%, respectively, followed by Tobacco and Basic metals

both by 1.9%. Weaker positive changes of the PPI were recorded in Mining-Quarrying-Manufacturing (+0.6%), against a 1.6% drop in the first two months of 2018. By contrast, producer prices declined significantly in Basic Pharmaceuticals, after a significant decline in 2018 (-1.9% from -21.5%).

Figure 3.19

Annual HICP change in Greece and the Euro area (January-February)



Higher domestic prices in the first two months of 2019, solely due to stronger demand, as prices with constant taxes and excluding energy goods increased at a higher rate

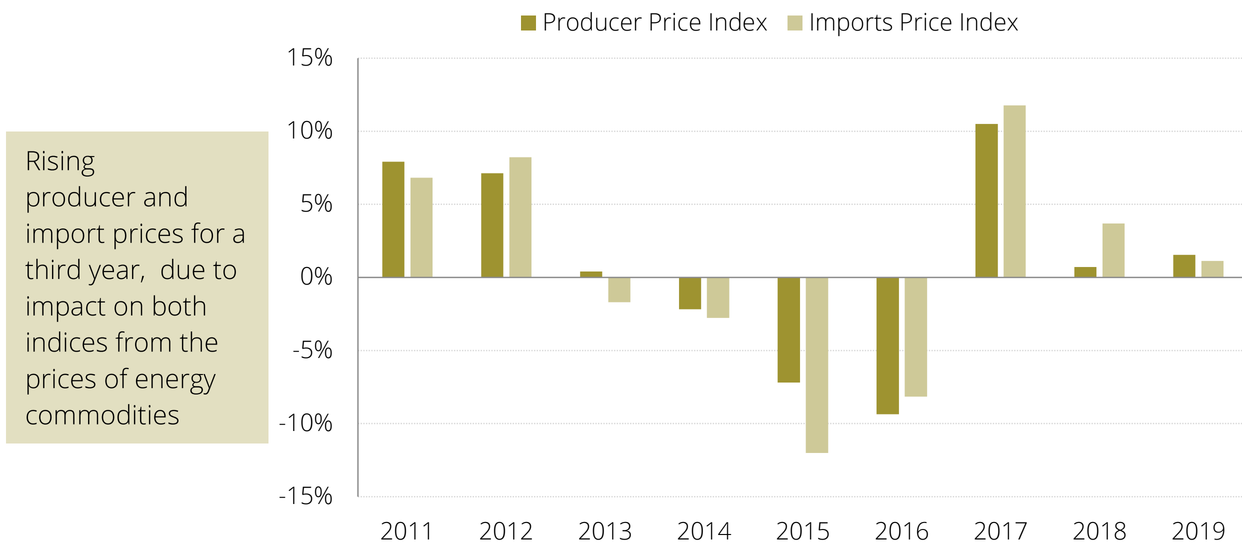
Source: Eurostat, Data processing by IOBE

The overall Import Price Index (IPI) posted a weaker growth year on year in the first two months of 2019. In particular, the rate of change of the IPI eased to 1.1%, against 3.4% a year earlier, with Greece posting the smallest increase amongst the ten Eurozone countries with available data for this period. The index moved up in all these countries at an average of 1.3%, with Slovakia being the only country where a drop was recorded (-0.3%). The firming of import prices in most countries came largely from higher year on year average oil prices. The differences in IPI inflation between countries reflect the varying degrees of use of energy products, as well as the size of trade with countries outside the Euro area.

Looking at the trends in individual categories of imported goods, the largest increase in January–February 2019 was recorded in Electricity Supply by 18.1%, from 9.1% a year earlier and Refined Petroleum Products, by 7%, against a milder increase last year (2.9%). Smaller positive changes were recorded in Mining of Metals, by 5.8%, from a marginal 0.7% drop in the same period in 2018. By contrast, import prices declined slightly year on year in Basic Pharmaceuticals, by 0.9%, from a more pronounced decrease in the first two months of 2018 (-3%) and in Mining of Coal-Lignite, by 0.7%, from 1.7% a year earlier.

Figure 3.20

Annual change of PPI and IPI in Greece January – February



Source: ELSTAT, Data processing by IOBE

Medium-term outlook

As evident from the analysis of the trends in changes in the CPI in early 2019, despite the small negative impact from taxes and energy goods, the CPI increased compared to 2018, solely due to stronger domestic demand. Over the current year, no inflationary pressures are expected to come from indirect taxation, as the fiscal interventions for 2019 do not include hikes in already existing taxation or the levy of new indirect taxes. Moreover, the VAT discount for the five Islands in the North-East Aegean with high migrant inflows, extended at the beginning of January until the end of June, is expected to be re-extended. The carry-over of the negative impact of indirect taxes from the first two months to the rest of this year, perhaps somewhat weakened, implies that businesses absorb to some extent the effects from taxes on prices, limiting their profit margin.

With regards to the recent trends in energy cost, oil prices (Brent) in March 2019 reached $66.3/barrel, similar to their level in March 2018 (+0.4% from $66.1/barrel). The curtailment of oil production agreed by the OPEC last December, which reached 135% of the agreed cuts in March (1.2 barrels daily) and the slowdown of the fast growth of the global economy offset each other, resulting in oil prices remaining relatively stable compared to a year ago.

However, due to the same decision by the OPEC, since this January, oil prices have kept growing. The recent sanctions of the US on Venezuelan and Iranian trade have led to a further decrease in oil production, exerting additional pressure on prices. Nigeria, another country which produces oil,

aims to limit significantly its production in order to achieve higher prices. Under these effects, oil prices posted their highest growth in the first quarter of 2019 since December 2011-March 2012 (+16.3%). This trend will probably continue, at least in the current half of the year. However, due to higher oil prices a year ago, it will not exert any inflationary pressures.

Even though developments in oil production are pushing prices up, at least for the time being, the slowdown of the global economy is anticipated to counteract this throughout the current year. According to the latest projections by international organisations[29], growth will slow from 3.6% in 2018 to 3.3% this year. The trade protectionism measures implemented by the US last year that caused similar reactions from the EU, China and Canada contributed to the slowdown. The trade infighting was rekindled by the recent announcements from the US on the imposition of new tariffs on European goods. That said, negotiations have taken place between the US and China since December, to abolish the measures on their bilateral trade. Regardless of the impact of the trade policy, growth in China will decelerate from the regulatory measures in its banking system, limiting its demand for imports. In the Euro area, growth will decelerate as the German economy is in turmoil due to the implementation of new carbon emission standards in the automotive industry and external demand subsides, especially from emerging Asia.

Nevertheless, the prospects of the global economy might change in the second half of this year, from changes in monetary policy in the US and a potential trade deal between the US and China. As a result, the average oil price for 2019 is expected to stand at approximately $62/barrel, or 12.8% lower on average than in 2018.

The deflationary impact of lower oil prices will be moderated in the Eurozone countries, at least in the current half, by lower than a year before euro/dollar exchange rate. The weakening of the exchange rate is considered to be the result of a series of hikes in the intervention interest rate by the FED, which is attracting foreign capital, in conjunction with the low interest rates in the Euro area, at least until the summer, in order to avoid a sudden drop in liquidity following the conclusion of the expansion of the Q-E programme. However, the FED announced in late March that it would not keep increasing US interest rates, in order to avoid adverse effects on investment and consumption, which would weaken the strong growth of 2018. Consequently, the euro/dollar exchange rate for the first half of 2019 is expected to stand at around 1.11, a bit lower than in 2018. As a result, the lower exchange rate will slightly counteract the drop in oil prices, yet it will boost the competitiveness of Eurozone products and services in the US market. In any case, it will not offset the deflationary pressure from the drop in oil prices.

Hence, prices are expected to increase in the current year only from a boost in domestic demand, yet the possibility of demand itself causing a significant surge in prices is thin. Under the current conditions, the CPI rate of change is anticipated to be about the same as last year, at around 0.5%-0.7%.

Valuable insight 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.

[29] World Economic Outlook, April 2019, IMF

The price expectations strengthened quarter-on-quarter in the first quarter of 2019, as the balance increased in all sectors. Year on year, the price expectations indicator increased in all sectors except for Retail Trade, where they remained unchanged. In greater detail:

In Industry, the price expectations indicator increased quarter on quarter in the first quarter. In particular, the indicator increased by 2 points, from 4 points in the preceding quarter (and 1 points in the same quarter of the previous year). About 5% (from 8%) of the companies in the sector predicted a fall in prices in the upcoming period, while the percentage of those anticipating price growth remained unchanged at 12%, and the remaining 83% (from 80%) expecting price stability. Overall in 2018, the indicator moved to 3 points on average (from 0 in 2017).

In Retail Trade, the balance of price expectations increased from 0 to 1 point, 1 point higher year on year as well. About 5% (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 9%, with the remaining 88% (from 89%) of the businesses expecting price stability. The price expectations weakened slightly quarter on quarter in the first quarter of the year in Food-Beverages-Tobacco and Motor Vehicles – Spare Parts and strengthened in Textiles-Clothing-Footwear, Household Appliances and Department Stores. For 2018 overall, the indicator stood at 2 points on average, remaining unchanged from 2017.

In Services, the average price expectations indicator slightly improved quarter on quarter in the examined quarter to -2 (from -3) points, increasing year on year as will (from -3 points). In the current quarter, 9% (from 13%) of the companies in the sector were expecting a fall in prices, while 8% (from 10%) were expecting an increase. At the branch level, the indicator increased in Hotels – Restaurants - Travel Agencies, Land Transport and Financial Intermediaries and dropped only in IT.

Finally, in Private Construction, the negative balance of -15 points from the previous quarter decreased to -10 points, strengthening compared to the same period of the preceding year as well (from -20 points). About 10% (from 17%) of the businesses in the sector were anticipating prices to decline, while the percentage of those expecting inflation decreased slightly to 0% (from 2%), with 90% (from 80%) predicting price stability.

Figure 3.21

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

Industry

Private Construction

Retail Trade

Services

Source: IOBE

The balance of price expectations increased quarter on quarter in all sectors in the first quarter of this year

3.6 Balance of Payments

- Higher Current Account deficit, due to a sharper increase of imports compared to exports
- The increase of the deficit in the Goods and Primary Income accounts was partly offset by an increase in the surplus of the Services account

Current Account

In 2018 overall, the Current Account had a deficit totalling €5.3 billion, against a deficit of €3.2 billion in 2017 or 2.9% of GDP, compared to 1.8% in 2017. The deficit expanded due to a significant increase of the trade deficit and the deficit in the Primary Income Account, which was only partly offset by higher surplus in the Services account.

This trend carried over to January 2019, with the Current Account posting a €1.2 billion deficit, compared to a €0.7 billion deficit in January 2018, with the same factors driving its growth (higher trade and Primary Income deficits).

Regarding the trends in the individual components for 2018 overall, the deficit of the Goods Account reached €22.5 billion, expanding by €2.7 billion year on year, due to a sharper increase of imports compared to exports. The year before, the deficit had increased by €1.9 billion. In particular, exports totalled €32.4 billion, stronger by 15.5% (€4.3 billion)[30], with a significant rise in ships (28.3%), fuels (27.0%) and other goods (10.8%). Imports reached €54.9 billion, higher by 14.6% (€7.0 billion). The deficit of the Goods Account excluding fuels stood at €17.2 billion, 7.3% higher, as in parallel to higher exports by €2.2 billion, imports increased stronger by €3.4 billion. The deficit of the Fuels Account continued to increase, to €5.2 billion, against €3.7 billion in 2017, with the increase in both imports and exports of fuels stemming from rising oil prices by about 30% in 2018.

The surplus in the Services Account stood at €19.3 billion in 2018, higher by €1.3 billion year on year, with a simultaneous increase of receipts and payments. In particular, total receipts from services amounted to €37.2 billion, up by 10.2% compared to 2017. At the constituent categories, receipts from travel services reached €16.1 billion, up by 9.9%, receipts from transport services increased by 14.9% to €16.6 billion, while lastly the receipts from other services decreased by 2.5% to €4.4 billion. Note that the tourism receipts increased by 14% between 2015 and 2018, with the increase mostly stemming from higher inflow of tourists (+26.6%), as the average tourist spending per capita receded by 10% over the same period. Total payments for services reached €17.8 billion in 2018, from €15.6 in 2017. Payments for travel services increased by 15.0% to €2.2 billion, while payments for transport services increased by 16.0% to €11.1 billion and payments for other services reached €4.6 billion, higher by 10.2% compared with 2017. The trends in imports in the Goods and Services accounts during the period of adjustment programmes are further analysed in Box 3.4, at the end of this subsection.

The Primary Income Account more than doubled its deficit last year, by €871.3 million, reaching €1.7 billion in 2018. Revenues totalled €6.3 billion, lower year on year by 3.1%, while payments increased by 9.0%, to €8.0 billion. In greater detail, receipts from labour increased marginally to

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

€223 million, receipts from investments declined by 14.1%, to €3.0 billion, while other primary income (subsidies and taxes on production) increased by 10.1%, to €3.1 billion. Payments for labour slightly increased to €1.4 billion, payments for investment increased by 11.6% to €6.3 billion, while those for other primary income marginally decreased to €400.0 million.

The deficit of the Secondary Income Account fell to €463.7 million in 2018, with receipts standing at €2.0 billion, from €1.9 billion in 2017, while payments remained unchanged from 2017 at €2.5 billion.

Capital Account

The Capital Account[31] was in a surplus in 2018, at a third of the 2017 surplus (€353.2 million, against €914.5 million in 2017), as receipts decreased to €1.0 billion, while payments increased to €654.2 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 €5.0 billion, against €2.2 billion in 2017.

Financial Account

The Financial Account was in a deficit of €3.8 billion last year, compared to a deficit of €1.7 billion in 2017.

In greater detail, the net receivables of residents from direct investment abroad increased by €752.7 million, while the net liabilities to non-residents (investments of non-residents in the country) strengthened by €3.6 billion. According to data from the Bank of Greece, a significant increase in capital inflow was recorded for real estate deals, due to the Golden Visa program, reaching €650 million, while significant investment was also recorded in the sectors of Finance (€896 million), Real Estate Activities (€752 million) and Transport (€746).

In the category of portfolio investments, the claims of the residents to non-residents increased by €1.4 million, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad increased, due to increase in the purchase of bonds and treasury bills. At the same time, liabilities to non-residents increased a bit less by €1.3 billion.

In the category of other investments, the claims of residents to non-residents declined by €5.8 billion, with a net decrease of €3.3 billion in the deposits and repos of residents (credit institutions and institutional investors) abroad. The liabilities declined by €4.8 billion, reflecting the reduction of the deposits and repos of non-residents in Greece by €20.8 billion (Including the TARGET account), while public and private sector debt to non-residents increased by €20.9 billion.

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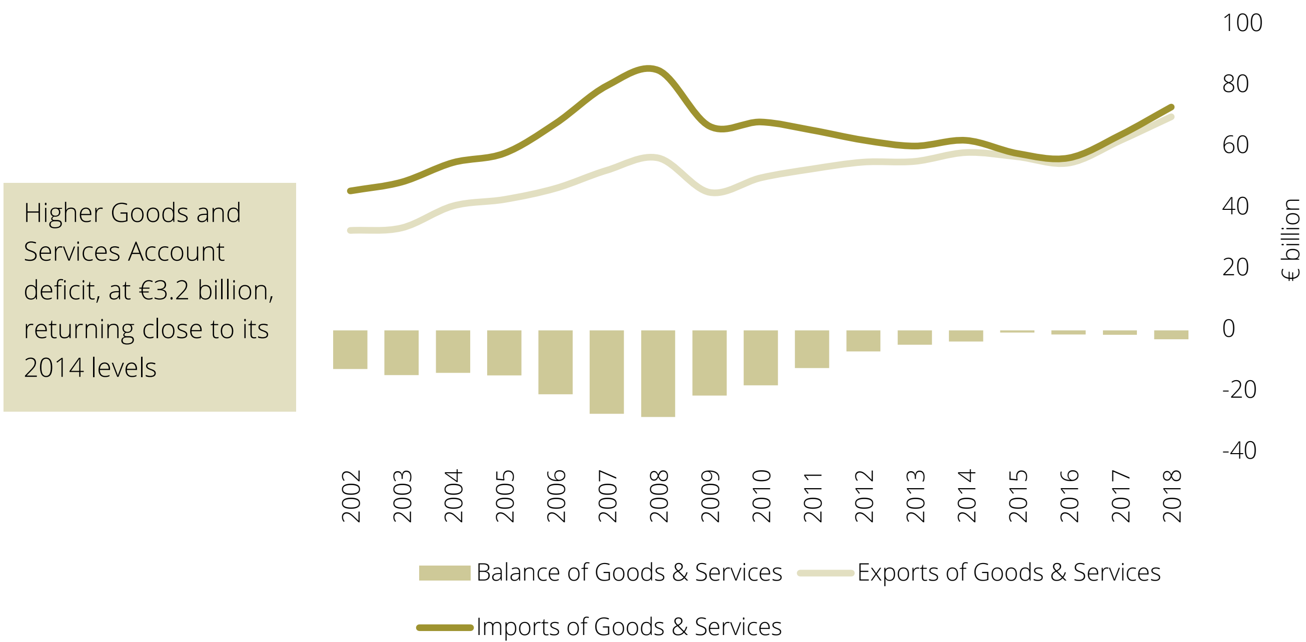
[31] The capital account reflects capital transfers, i.e. ad-hoc receipts and payments between residents and non-residents related to fixed capital formation. Capital transfers include mainly some of the transfers (receipts) from the budget of the EU to the General Government (receipts from the Structural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

Figure 3.22

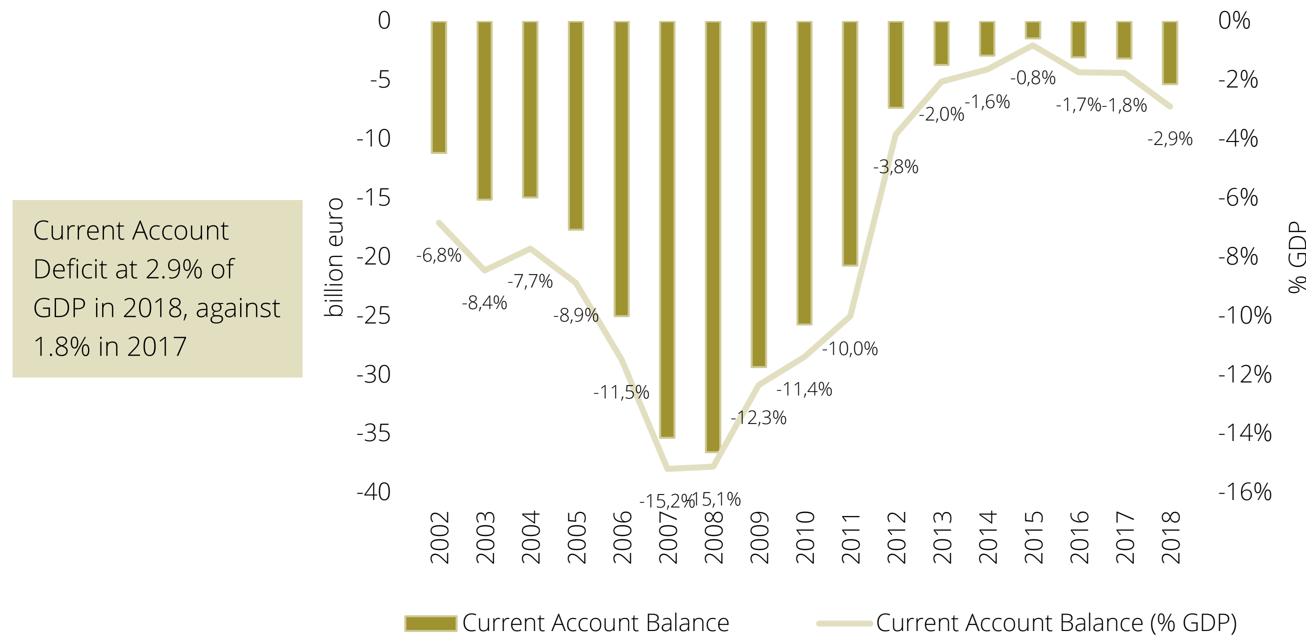
Imports-Exports of Goods and Services, 2002-2018



Source: Bank of Greece, Data Processing by IOBE

Figure 3.23

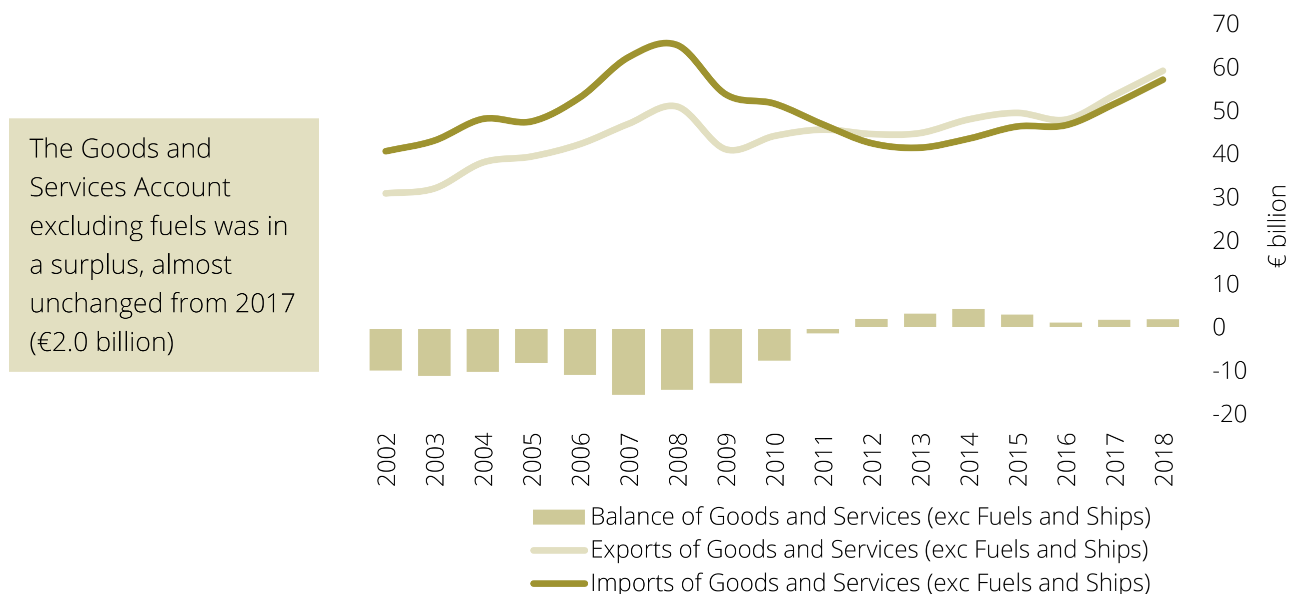
Current Account, 2002-2018



Source: Bank of Greece, Data processing by IOBE

Figure 3.24

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



Source: Bank of Greece, Data processing by IOBE

Finally, the Reserve Assets of the country totalled €6.6 billion at the end of December 2018, same as in 2017.

Box 3.4

Trends in imports and their components

The imports of goods in Greece have been high for decades, mostly due to the small production base of the country and occasionally high demand. The imports mix is not independent of the production model that a small economy, such as Greece follows, due to the incapacity to produce many products, making the imports of goods necessary. Hence, aside from the trend in the absolute level of imports, the types of goods that are imported, that is whether they are used as capital or for consumption, is also important. The capital goods are used to produce other goods and services, resulting in the expansion of the production base of an economy and its exports, while the consumer goods are mostly used to cover immediate needs. With this in mind, we analyse below the trends in the imports of goods in Greece between 2007 and 2018. The broad categories of products, according to the BEC (Broad Economic Categories) taxonomy are:

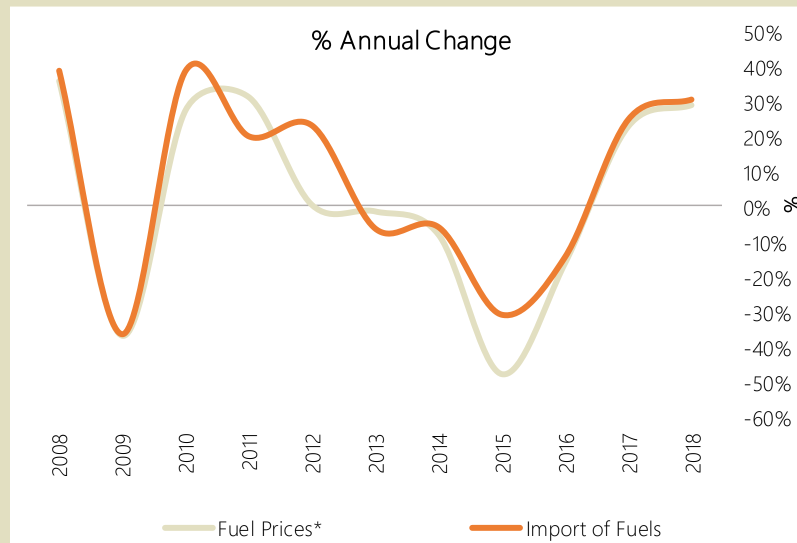
- Consumer Goods, Foods and Beverages
- Capital Goods and Industrial Supplies
- Fuels
- Transports

In order to record better the trends in the imports of goods per category, the "Fuel" category is excluded, as in the trade balance the individual components are reported in value, and not volume

terms, while the value of this particular category is correlated much more with global fuel prices, then with the demanded quantity (Figure 3.25).

Figure 3.25.

Change of prices and import of fuels



*Simple median of three spot prices, in $, per barrel. Dated Brent, West Texas Intermediate and Dubai Fateh. Sources: Eurostat, IMF (Fuel Prices, Crude Oil (Petroleum).

As about 30% of the value of imports in the last five years concerns fuels, their inclusion in the analysis would distort the trend in the shares of the other categories in domestic imports. For this reason, we present the trends in the share of the other three main categories of products in total imports, excluding fuels.

In addition, the other three categories are broken down further in one of three categories of goods, according to the UN (Classification by Broad Economic Categories Rev.5):

- Intermediate goods (capital or consumption goods, used for the production of other goods)
- Capital goods
- Consumption goods (for final consumption)

Consumption goods only serve the final consumption in the economy rather than previous stages in the production process. By contrast, Intermediate and Capital goods are used in domestic production, contributing towards the comparative advantage of the country, as they are combined and processed into goods within the country, aimed either at covering domestic demand or at exports, substituting other, non-domestically-produced, products.

The products for final consumption make up around 41% of the imports of goods (excluding fuels) overall in 2007-2018 (Figure 3.26). The imposition of capital controls reduced the share of consumer goods in total imports, gradually by 2 percentage points between 2015 and 2018, to 39.4%, while

between 2008 and 2015 the share of consumer goods slightly increased. The share at the end of the examined period is similar to that at its beginning (39.6%).

The intermediary goods also make up around 41% of imports in 2007-2018, with significant fluctuations to their share. In 2009, the imports of intermediary goods dropped significantly as a result of the 2008 global crisis, while their share quickly recovered in 2010. In 2014-2017 their share weakened, while in 2018 their share increased significantly, by 3 percentage points, at 44.1%. This is their highest share in the period under examination.

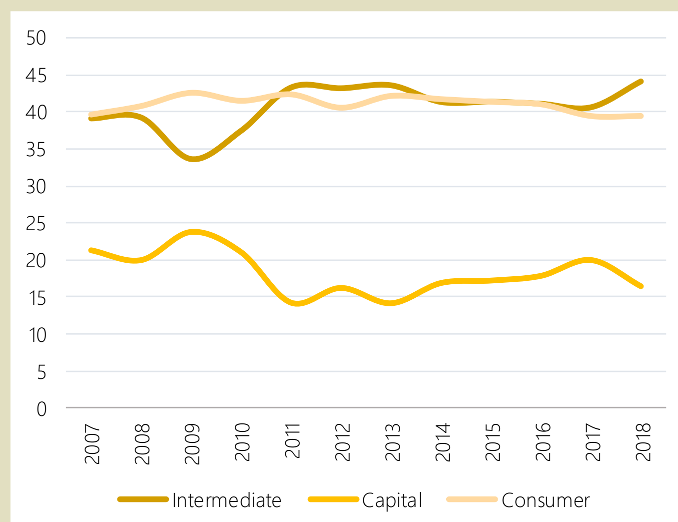
Lastly, capital goods make up around 18% of imports. Their share also fluctuated a lot. It was dropping steadily until 2011. From 2013 until 2017 it recovered, reaching 20%, However, in 2018, the imports of capital goods subsided significantly, at 16.5% of total imports (excluding fuels), their third lowest performance since 2007.

Summing up, the trend up until 2017 was mostly negative for intermediary and consumer goods, even though they took up most of total imports. The share of capital goods increased since 2013, partly recuperating for the significant losses of the previous years. The increase in capital goods is clearly linked to the strengthening of Industry in 2016 and 2017, propped up largely by increase in exports by 14% and 16% respectively, that boosted investment by 4.6% and 9.4% in constant prices. The higher share of capital goods is also linked to the strong growth in the imports of ships in 2017, by 59.2%, at €3.09 billion.

By contrast, investment shrunk by 12% in 2018. This drop was reflected in the imports of capital goods and mostly stemmed from the trend change of the previous year in the imports of ships to strongly negative (-60.0%). The drop in capital goods was counterbalanced by a significant increase in the imports of intermediary goods that also strengthen the production base of the Greek economy. However, the total share of intermediary and capital goods stood at 60.6% last year, same as in 2017, and at a similar level as in the beginning of the period under examination (2007: 60.4%). Therefore, for the time being, the trends in the makeup of the imports of goods (excluding fuels) do not point to a shift towards capital and intermediary goods that would help the Greek economy transition to a new productive model.

Figure 3.26.

Imports of Goods per category (% of total)



Source: Eurostat

Table 3.12 Balance of payments in €

		January-December			January		
		2016	2017	2018	2017	2018	2019
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-3,050.0	-3,159.3	-5,330.1	-400.5	-695.9	-1,182.6
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-1,662.7	-1,790.2	-3,184.7	-1,111.7	-1,608.7	-1,735.4
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-17,960.3	-19,833.9	-22,489.1	-1,607.5	-1,987.1	-2,200.3
	Oil balance	-2,985.5	-3,717.6	-5,180.7	-270.5	-591.7	-644.6
	Trade balance excluding oil	-14,974.7	-16,116.3	-17,308.4	-1,336.9	-1,395.4	-1,555.7
	Ships balance	31.5	-39.9	-56.8	22.8	-5.2	-85.2
	Trade balance excluding ships	-17,991,7	-19,794.0	-22,432.3	-1,630.3	-1,981.9	-2,115.1
	Trade balance excluding oil and ships	-15,006.2	-16,076.3	-17,251.6	-1,359.7	-1,390.3	-1,470.5
I.A.1	Exports	24,613.2	28,040.5	32,372.8	2,080.6	2,464.5	2,403.2
	Oil	6,162.5	7,887.8	10,016.9	660.6	781.0	659.9
	Ships (sales)	119.8	102.0	130.9	28.7	2.2	1.7
	Goods excluding oil and ships	18,330.9	20,050.7	22,225.0	1,391.3	1,681.3	1,741.7
I.A.2	Imports	42,573.5	47,874.4	54,861.9	3,688.1	4,451.6	4,603.5
	Oil	9,148.0	11,605.4	15,197.5	931.1	1,372.7	1,304.5
	Ships (buying)	88.4	141.9	187.7	5.9	7.3	86.8
	Goods excluding oil and ships	33,337.1	36,127.0	39,476.7	2,751.1	3,071.6	3,212.2
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	16,297.6	18,043.7	19,304.4	495.8	378.4	464.9
I.B.1	Receipts	29,795.0	33,661.3	37,159.3	1,694.0	1,785.6	2,038.3
	Travel	13,206.7	14,630.1	16,085.8	157.8	151.7	232.4
	Transportation	12,574.4	14,473.8	16,629.9	1,173.8	1,250.6	1,393.2
	Other services	4,013.9	4,557.3	4,443.6	362.4	383.4	412.7
I.B.2	Payments	13,497.5	15,617.6	17,854.9	1,198.2	1,407.2	1,573.4
	Travel	2,005.3	1,904.7	2,191.0	144.4	138.1	166.3
	Transportation	7,988.9	9,520.6	11,044.3	709.9	878.0	924.7
	Other services	3,503.2	4,192.3	4,619.6	343.9	391.1	482.3
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	-798.9	-810.4	-1,681.7	504.2	691.3	445.3
I.C.1	Receipts	6,217.5	6,550.1	6,344.8	882.3	1,058.6	825.5
	From work (wages, compensation)	211.4	216.6	223.0	18.1	18.1	21.5
	From investments (interest, dividends, profit)	2,828.0	3,514.0	3,017.7	236.7	253.8	257.6
	Other primary income	3,178.2	2,819.5	3,104.1	627.5	786.8	546.4
I.C.2	Payments	7,016.5	7,360.5	8,026.6	378.1	367.4	380.2
	From work (wages, compensation)	1,211.6	1,343.7	1,363.7	118.6	110.2	117.8
	From investments (interest, dividends, profit)	5,380.4	5,611.5	6,260.8	243.8	249.1	238.7
	Other primary income	424.5	405.4	402.1	15.8	8.1	23.7
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	-588.4	-558.7	-463.7	207.0	221.5	107.5
I.D.1	Receipts	1,838.0	1,949.9	2,035.1	354.7	338.2	362.3
	General government	1,059.4	939.8	1,034.7	209.2	262.3	182.1
	Other sectors	778.6	1,010.1	1,000.3	145.5	75.9	180.2
I.D.2	Payments	2,426.4	2,508.6	2,498.8	147.7	116.7	254.7
	General government	1,850.7	1,792.7	1,702.8	89.3	45.9	134.3
	Other sectors	575.7	715.9	796.0	58.3	70.8	120.4
II	CAPITAL ACCOUNT (II.1-II.2)	1,035.7	914.5	353.2	40.4	183.9	260.0
II.1	Receipts	1,278.4	1,133.8	1,007.4	57.5	198.6	311.8
	General government	1,198.2	1,040.2	627.5	52.6	184.0	306.9
	Other sectors	80.2	93.6	379.8	4.9	14.6	4.9
II.2	Payments	242.7	219.3	654.2	17.2	14.7	51.7
	General government	28.5	3.0	4.1	0.4	0.2	0.2
	Other sectors	214.2	216.3	650.1	16.8	14.5	51.5
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	*-2,014.3*	*-2,244.8*	*-4,977.0*	*-360.1*	*-512.0*	*-922.5*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-873.6	-1,702.3	-3,850.5	-401.4	-357.2	-853.4
III.A	DIRECT INVESTMENT*	-4,004.1	-2,688.9	-2,887.5	-255.5	191.0	-256.7
	Assets	-1,551.3	509.0	752.7	42.1	385.5	44.9
	Liabilities	2,452.8	3,197.9	3,640.2	297.6	194.5	301.6
III.B	PORTFOLIO INVESTMENT**	9,622.6	-20,117.7	73.8	107.1	-3,429.7	-1,565.9
	Assets	7,059.0	-19,392.1	1,377.7	325.9	-2,437.7	-1,031.2
	Liabilities	-2,563.6	725.7	1,303.9	218.8	992.0	534.7
III.C	OTHER INVESTMENT*	-7,073.6	20,986.4	-966.8	-59.1	2,840.6	1,121.2
	Assets	-15,512.5	-11,744.7	-5,801.8	-1,015.6	35.7	-798.8
	Liabilities	-8,438.9	-32,731.0	-4,835.0	-956.5	-2,804.9	-1,919.9
	(Loans of general government)	6,492.9	5,693.7	19,555.0	-6.5	-437.4	-455.1
III.D	CHANGE IN RESERVE ASSETS***	581.5	118.0	-70.0	-194.0	41.0	-152.0
IV	BALANCE ITEMS (I +II +IV +V = 0)	1,140.7	542.5	1,126.5	-41.3	154.9	69.1
	RESERVE ASSETS (STOCK)***				6,396	6,529	6,586

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. PROPERTY TAXATION AND THE FUTURE OF THE CONSTRUCTION SECTOR IN GREECE

- Real estate property taxation (ownership tax) in Greece creates significant problems for the economy and the construction sector.
- The abolition of the supplementary ENFIA tax is justified by over-taxation and the distortions it creates on investment yields in relation to alternative investment.
- A VAT reduction on new residencies will lift a significant distortion and increase investment in residencies.
- Property tax relief will yield positive results for growth, employment and the Construction sector, while it is estimated to be fiscally neutral.

4.1 Introduction

A recent IOBE study examined the taxation of property in Greece and its impact on the Greek economy. In addition, it quantified the economic and fiscal impact from the implementation of certain interventions in property taxation, such as a VAT reduction on new residences and the abolition of the supplementary property tax.[32]

[32] The study was commissioned and funded by SEPAK. The full text of the study (in Greek) is available here: http://iobe.gr/docs/research/RES_04_12112018_REP_GR.pdf

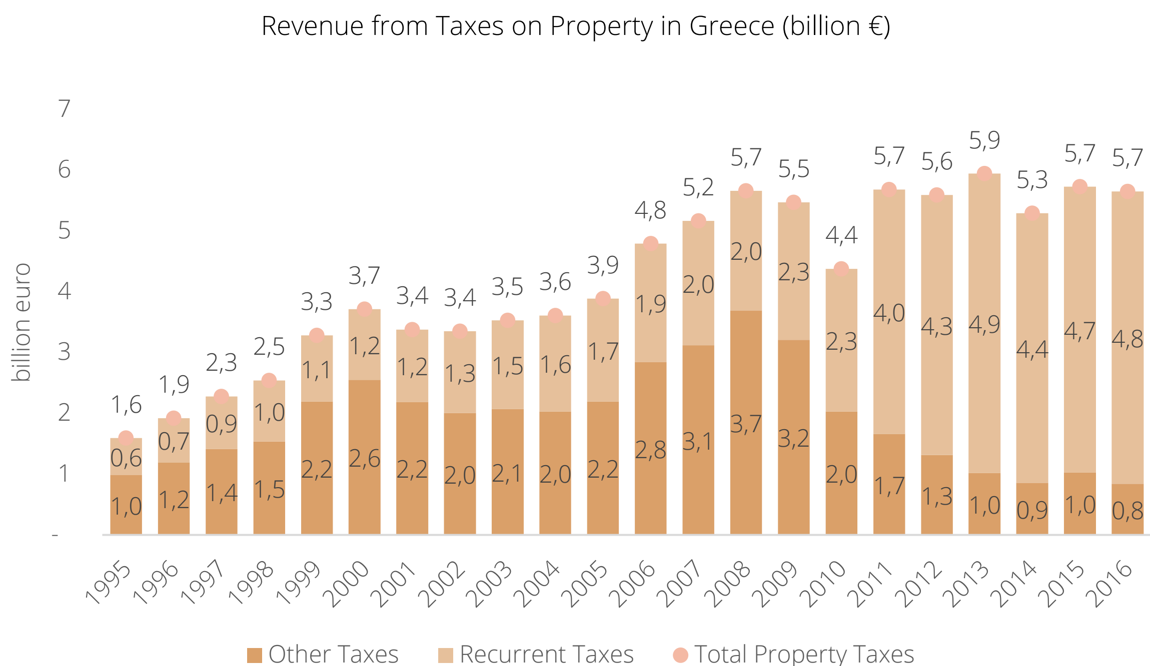
4.2 Property Taxation in Greece

Real estate in Greece is the taxation basis of a large number of taxes and levies which could be categorized into: a) taxes on property transactions, imposed on the acquisition or transfer of property (VAT on construction, property transfer tax, inheritance tax, value-gain tax etc.), b) taxes on the ownership of property, imposed regardless of whether the property owners receive income from it (unified property ownership tax ENFIA and property levy TAP) and c) taxes on the renting and use of property, imposed on income (rents or imputed income) that owners gain from properties under their ownership (income tax on rents, special solidarity levy and stamp duty).

Property taxation in Greece cannot be deemed efficient, according to the tax system assessment criteria. The economic efficiency is undermined by the high level of the property ownership tax, together with additional taxes on property, such as the income tax on rents, VAT and other transaction taxes, which in many cases have the same or similar justification. The absence of the local authorities from the implementation and collection of the property ownership tax weakens the arguments that support the efficiency of the tax. The inefficiency of the system of property value assessment – the values on which the ENFIA tax is imposed do not reflect market prices – as well as the universal payment of the tax, even for properties that generate no income or are confiscated by the State or the banks, are indicative of the inability of the state to assess the taxpaying capacity of its citizens, raise questions regarding the accomplishment of economic justice and equity through the taxation system. The lack of stability and the frequent changes in property taxation drastically impact the real estate market and indicate a lack of understanding regarding the functioning and the role of the real estate market in the economy, and the fact that decision-making from the people responsible is often done under pressure and with inadequate planning.

Figure 4.1

Revenue from Taxes on Property in Greece (billion €)



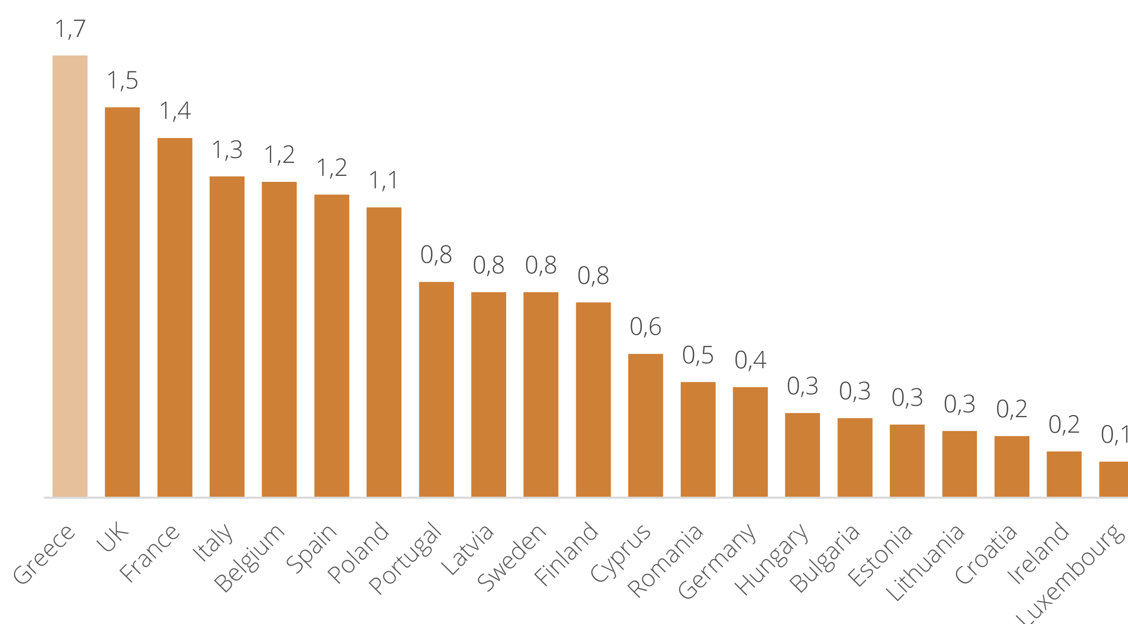
Source: Taxation and Customs, European Commission

The total revenue from (recurrent and other) taxes on real estate property in Greece amounted to €5.7 billion in 2016. The revenue reached its maximum level in 2013, with €5.9 billion, when property taxation included, aside from the EETIDE tax, the real estate property tax FAP. After 2008, the one-off taxes (other taxes), which include the property transaction taxes, declined from €3.7 billion to less than €900 million, due to an intense drop in the number of property transactions, coupled with the reduction of the property transfer tax rate. Over the same period, the revenues from recurrent taxes, namely taxes on the ownership of property, such as EETIDE, ENFIA, TAP and municipal levies, increased from €2.0 billion in 2008 to €4.8 billion in 2016.

The total revenue from taxes on property in Greece are amongst the highest, in relation to the size of the economy, in both the EU and the OECD. Especially in terms of property ownership taxes (e.g. ENFIA), Greece is first in the EU.

Figure 4.2:

Taxes on property ownership (% GDP)



Source: Taxation and Customs, European Commission

The EETIDE and its successor ENFIA were imposed during an exceptionally adverse economic period for Greece, but also on a real estate market that had long been saturated, operating under a low-tax burden regime.

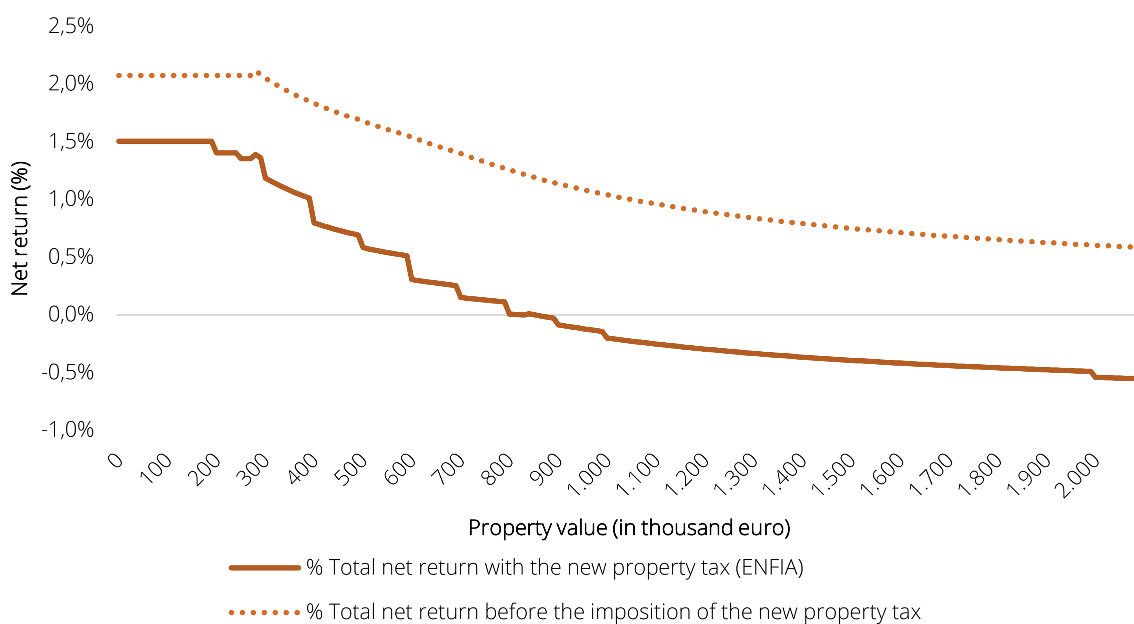
The introduction of the property tax had a direct impact on real estate prices. According to IOBE estimates and given how the tax differs according to the value of the property, the drop in prices which could be attributed to the property ownership tax (initially EETIDE and then ENFIA) stood at approximately 19% for the majority of the buildings (buildings with book values of up to €200,000), increasing with the value of the property, to reach 74% for properties valued at more than €1

million. This implies a corresponding reduction in the value of the property for households and businesses.

The imposition of the property tax significantly affected the net returns of investment in property, which due to the supplementary ENFIA and the progressive scale of rent income taxation, are now dependent on the value of the property. Based on reasonable assumptions, IOBE calculated the net yield of investment in property before and after ENFIA and the changes in rent income taxation. These estimates show **that investment in property, even with the currently low prices, is becoming less and less attractive in terms of net returns, when the total value of the property of a tax payer increases. In fact, net returns turn negative when the value of property exceeds €870,000. By contrast, with the FAP tax that levied before the introduction of ENFIA, net returns did decline with property value, but were always positive.**

Figure 4.3:

Estimates of net property returns before and after the implementation of the property tax (ENFIA, former EETIDE)



Source: IOBE

The change in the profile of investment yields due to ENFIA, even without taking into account possible difference in investment risk, inhibits the acquisition of additional property, as the new acquisition reduces the investment yield for the total property of an individual. Hence, the existing property taxation scheme significantly limits transactions in the real estate market, as was indeed observed in Greece in previous years, while the lack of liquidity further suppresses real estate prices.

With their substantial impact on prices and net property investment returns, **the EETIDE and ENFIA taxes accelerated the recession of the Greek economy, reducing consumer spending and investment on residencies. In addition, they contributed to the freezing of the real estate market, due to their abrupt progressiveness, preventing the smoothening of consumption using savings in a period of deep recession, hindering tax collection and raising**

the non-performing loans. The imposition of ENFIA failed at raising the expected tax revenue, as it did not take into account the loss of tax revenue that stems from the reduction of a) disposable income, b) the value of property and the consumption linked to it and c) investment in residencies due to higher risk and drop in prices, in relation to construction costs.

4.3 Estimates on the Economic and Fiscal impact of Changes in the Property Taxation Scheme in Greece

The weaknesses of the property taxation system in Greece could be addressed if it becomes clear that excessive taxation and the current property taxation scheme have a negative impact on the real estate market, private construction activity and more broadly, on the Greek economy.

Aside from the level of property tax and other taxes and levies on property, severe problems in the functioning and efficiency of the real estate market stem from the combination of the main and supplementary ENFIA, as the latter is an additional property tax with a steep slope (progressiveness) of the tax rates. In addition, the 24% VAT rate imposed on new residences and buildings distorts the real estate market in favour of older properties and prevents further new investment.

The abolition of the supplementary ENFIA has been estimated by IOBE to strengthen disposable income and the value of properties, effects which will boost consumption spending. What is more, higher real estate prices will improve the relation between prices and construction cost and boost investment in new residences. The boost of economic activity stemming from these effects will strengthen expectations and total investment in the upcoming years.

According to estimates, GDP will be higher by €1.1 to €1.4 billion in the years following the abolition of the supplementary property tax, compared to a scenario where the current taxation system remains in place. Most of the impact comes from higher disposable income, part of which feeds into consumer spending. The increase in consumer spending due to wealth effects is also significant, while the increase in total investment and investment in residencies has a lower positive impact. Therefore, with the abolition of the supplementary ENFIA, the rate of growth of the Greek economy in the upcoming years is estimated to be higher by 0.60-0.67 percentage points, compared to the reference case.

The impact from the abolition of the supplementary ENFIA would also be positive for employment. According to IOBE estimates, full-time job creation could gradually exceed 33,000 within five years, a very sizeable number given the high unemployment rates in Greece.

The reduction of the VAT rate in new construction from 24% to 13% would allow the construction companies to reduce the price of new residencies by approximately 9%, improving their relative prices against older residencies. Such a development would lead to higher demand for new residences. An important issue is the extent to which demand will increase and the impact this could have on State revenue. In this regard, note that as there is heightened interest from abroad on investment in properties in Greece, as the data from private property transactions with foreign residents suggests, it is reasonable to expect that a VAT reduction would have a significant economic impact, as long as, aside from increased domestic demand, this leads to attracting more

foreign investments directed to residences. In addition, as VAT revenue from new residences was at a particularly low level, only €13.5 million on average between 2013 and 2017, a reduction of the VAT rate would have no significant fiscal impact. Note that a reduction in the VAT rate implies that some of the VAT paid by the construction companies would not be settled against the VAT that they collect, thus the VAT revenue would not be eliminated, but it will grow in proportion to the level of investment. This is an economic policy measure with a specific and controlled fiscal impact, at least in the short-term, and possibly with significant benefits for the Greek economy.

According to IOBE projections, demand for new residences will expand by 3.1% to 12.4% against the level of investment in new residences in 2016, or by €35-140 million. GDP could increase by €66-€265 million, while employment by 912-3,650 jobs. The revenue from taxes and contributions is estimated to increase by €18-72 million. The essence of these projections is that even if the impact of a VAT reduction on the demand for new residences is rather small, the increased economic activity overcompensates the revenue loss and will end up having a positive fiscal impact, while also adding quite a few jobs to the economy.

4.4 Policy implications on property taxation

Property taxation should be re-examined within a broader effort that takes into account all aspects of the taxation system (income taxation, indirect taxation etc.) and public spending. Such an analysis was not within the scope of the conducted study, which aimed to highlight some of the problematic aspects of property taxation and to quantify the economic impact of possible ways to resolve them. The changes examined in this study are anticipated to have particularly strong positive impact on the Construction sector, the real estate market and the Greek economy. However, in order to restore economic justice and improve economic efficacy, the eradication of other weaknesses of property taxation in Greece is also needed, with interventions such as (indicatively) the development of a property valuation system that will take into account changes in the real estate market, a reduction in the level of the main property ownership tax and an effort to ease the tax burden for those lacking taxpaying capacity.

APPENDIX

Table 1: GDP Rate of Change

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-3,8	1,8	2,9	0,7	0	0,7	1,1	2	2,6	2,7
Belgium	-2,3	2.7	1.8	0.2	0.2	1.3	1.7	1.5	1.7	1.4
Bulgaria	-3.6	1.3	1.9	0	0.5	1.8	3.5	3.9	3.8	3.1
France	-2.9	1.9	2.2	0.3	0.6	1	1.1	1.2	2.2	1.5
Germany	-5.6	4.1	3.7	0.5	0.5	2.2	1.7	2.2	2.2	1.4
Denmark	-4.9	1.9	1.3	0.2	0.9	1.6	2.3	2.4	2.3	1.4
Czech Republic	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.5	4.4	2.9
EU	-4.3	2.1	1.8	-0.4	0.3	1.8	2.3	2	2.4	1.9
Greece	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.4	-0.2	1.5	1.9
Estonia	-14.7	2.3	7.6	4.3	1.9	2.9	1.9	3.5	4.9	3.9
Euro area	-4.5	2.1	1.6	-0.9	-0.2	1.4	2.1	2	2.4	1.8
United Kingdom	-4.2	1.7	1.6	1.4	2	2.9	2.3	1.8	1.8	1.4
Ireland	-5	1.9	3.7	0.2	1.3	8.8	25.1	5	7.2	6.7
Spain	-3.6	0	-1	-2.9	-1.7	1.4	3.6	3.2	3	2.6
Italy	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.9	1.1	1.6	0.9
Croatia	-7.3	-1.5	-0.3	-2.3	-0.5	-0.1	2.4	3.5	2.9	2.6
Cyprus	-2	1.3	0.4	-2.9	-5.8	-1.3	2	4.8	4.5	3.9
Latvia	-14.4	-3.9	6.4	4	2.4	1.9	3	2.1	4.6	4.8
Lithuania	-14.8	1.6	6	3.8	3.5	3.5	2	2.4	4.1	3.4
Luxembourg	-4.4	4.9	2.5	-0.4	3.7	4.3	3.9	2.4	1.5	2.6
Malta	-2.5	3.5	1.3	2.7	4.5	8.5	10.7	5.7	6.7	6.6
Netherlands	-3.7	1.3	1.6	-1	-0.1	1.4	2	2.2	2.9	2.7
Hungary	-6.6	0.7	1.7	-1.6	2.1	4.2	3.5	2.3	4.1	4.9
Poland	2.8	3.6	5	1.6	1.4	3.3	3.8	3.1	4.8	5.1
Portugal	-3	1.9	-1.8	-4	-1.1	0.9	1.8	1.9	2.8	2.1
Romania	-5.5	-3.9	2	2.1	3.5	3.4	3.9	4.8	7	4.1
Slovakia	-5.4	5	2.8	1.7	1.5	2.8	4.2	3.1	3.2	4.1
Slovenia	-7.8	1.2	0.6	-2.7	-1.1	3	2.3	3.1	4.9	4.5
Sweden	-5.2	6	2.7	-0.3	1.2	2.6	4.5	2.7	2.1	2.3
Finland	-8.3	3	2.6	-1.4	-0.8	-0.6	0.5	2.8	2.7	2.3

Table 2: General Government Debt as % of GDP

	Annual Data (%)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	68.7	79.9	82.7	82.4	81.9	81.3	84	84.8	83	78.3
Belgium	92.5	99.5	99.7	102.6	104.3	105.5	107.6	106.5	106.1	103.4
Bulgaria	13	13.7	15.3	15.2	16.7	17.1	27.1	26.2	29.6	25.6
France	68.8	83	85.3	87.8	90.6	93.4	94.9	95.6	98.2	98.5
Germany	65.2	72.6	81	78.6	79.9	77.4	74.5	70.8	67.9	63.9
Denmark	33.3	40.2	42.6	46.1	44.9	44	44.3	39.9	37.9	36.1
Czech Republic	28.3	33.6	37.4	39.8	44.5	44.9	42.2	40	36.8	34.7
EU	68.7	79.2	84.6	86.6	89.7	91.6	91.8	89.9	89.1	86.8
Greece	109.4	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.1
Estonia	4.5	7	6.6	6.1	9.7	10.2	10.5	9.9	9.2	8.7
Euro area	60.7	73.3	78.8	81.4	83.8	85.7	86.4	84.4	83.3	81.6
United Kingdom	49.7	63.7	75.2	80.8	84.1	85.2	87	87.9	87.9	87.4
Ireland	42.4	61.5	86	110.9	119.9	119.7	104.1	76.8	73.4	68.4
Spain	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.3	99	98.1
Italy	102.4	112.5	115.4	116.5	123.4	129	131.8	131.6	131.4	131.2
Croatia	39	48.3	57.3	63.8	69.4	80.4	84	83.7	80.2	77.5
Cyprus	45.6	54.3	56.8	66.2	80.1	103.1	108	108	105.5	96.1
Latvia	18.2	35.8	46.8	42.7	41.2	39	40.9	36.8	40.3	40
Lithuania	14.6	28	36.2	37.2	39.8	38.8	40.5	42.6	39.9	39.4
Luxembourg	14.9	15.7	19.8	18.7	22	23.7	22.7	22.2	20.7	23
Malta	62.6	67.6	67.5	70.1	67.7	68.4	63.7	58.6	56.3	50.9
Netherlands	54.7	56.8	59.3	61.7	66.2	67.7	67.9	64.6	61.9	57
Hungary	71.6	77.8	80.2	80.5	78.4	77.1	76.6	76.6	75.9	73.3
Poland	46.3	49.4	53.1	54.1	53.7	55.7	50.4	51.3	54.2	50.6
Portugal	71.7	83.6	96.2	111.4	126.2	129	130.6	128.8	129.2	124.8
Romania	12.4	22.1	29.7	34	36.9	37.6	39.2	37.8	37.3	35.1
Slovakia	28.5	36.3	41.2	43.7	52.2	54.7	53.5	52.2	51.8	50.9
Slovenia	21.8	34.6	38.4	46.6	53.8	70.4	80.4	82.6	78.7	74.1
Sweden	37.7	41.3	38.6	37.8	38.1	40.7	45.5	44.2	42.4	40.8
Finland	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.6	63	61.3

Table 3: General Government Balance as % of GDP

	Annual Data (%)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	-1.5	-5.3	-4.4	-2.6	-2.2	-2	-2.7	-1	-1.6	-0.8
Belgium	-1.1	-5.4	-4	-4.2	-4.2	-3.1	-3.1	-2.5	-2.4	-0.9
Bulgaria	1.6	-4.1	-3.1	-2	-0.3	-0.4	-5.4	-1.7	0.2	1.1
France	-3.3	-7.2	-6.9	-5.2	-5	-4.1	-3.9	-3.6	-3.5	-2.7
Germany	-0.2	-3.2	-4.2	-1	0	-0.1	0.6	0.8	0.9	1
Denmark	3.2	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.5	-0.4	1.1
Czech Republic	-2	-5.5	-4.2	-2.7	-3.9	-1.2	-2.1	-0.6	0.7	1.5
EU	-2.5	-6.6	-6.4	-4.6	-4.3	-3.3	-2.9	-2.3	-1.7	-1
Greece	-10.2	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.6	0.5	0.8
Estonia	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3	-0.4
Euro area	-2.2	-6.2	-6.2	-4.2	-3.7	-3.1	-2.5	-2	-1.6	-1
United Kingdom	-5.2	-10.1	-9.3	-7.5	-8.1	-5.4	-5.4	-4.2	-2.9	-1.8
Ireland	-7	-13.8	-32	-12.8	-8.1	-6.1	-3.6	-1.9	-0.5	-0.2
Spain	-4.4	-11	-9.4	-9.6	-10.5	-7	-6	-5.3	-4.5	-3.1
Italy	-2.6	-5.2	-4.2	-3.7	-2.9	-2.9	-3	-2.6	-2.5	-2.4
Croatia	-2.8	-6	-6.3	-7.9	-5.3	-5.3	-5.1	-3.4	-0.9	0.9
Cyprus	0.9	-5.4	-4.7	-5.7	-5.6	-5.1	-9	-1.3	0.3	1.8
Latvia	-4.2	-9.1	-8.7	-4.3	-1.2	-1.2	-1.5	-1.4	0.1	-0.6
Lithuania	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.3	0.3	0.5
Luxembourg	3.3	-0.7	-0.7	0.5	0.3	1	1.3	1.3	1.6	1.4
Malta	-4.2	-3.2	-2.4	-2.4	-3.5	-2.4	-1.7	-1	0.9	3.5
Netherlands	0.2	-5.1	-5.2	-4.4	-3.9	-2.9	-2.2	-2	0	1.2
Hungary	-3.7	-4.5	-4.5	-5.4	-2.4	-2.6	-2.6	-1.9	-1.6	-2.2
Poland	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.7	-2.7	-2.2	-1.4
Portugal	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2	-3
Romania	-5.4	-9.1	-6.9	-5.4	-3.7	-2.2	-1.3	-0.7	-2.9	-2.9
Slovakia	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.6	-2.2	-0.8
Slovenia	-1.4	-5.8	-5.6	-6.7	-4	-14.7	-5.5	-2.8	-1.9	0.1
Sweden	1.9	-0.7	0	-0.2	-1	-1.4	-1.6	0.2	1.1	1.6
Finland	4.2	-2.5	-2.6	-1	-2.2	-2.6	-3.2	-2.8	-1.7	-0.7

Table 4: % of Population in Poverty or Social Exclusion (see end of Appendix)

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	19.1	18.9	19.2	18.5	18.8	19.2	18.3	18.0	18.1	:
Belgium	20.2	20.8	21.0	21.6	20.8	21.2	21.1	20.7	20.3	:
Bulgaria	46.2	49.2	49.1	49.3	48.0	40.1	41.3	40.4	38.9	:
France	18.5	19.2	19.3	19.1	18.1	18.5	17.7	18.2	17.1	:
Germany	20.0	19.7	19.9	19.6	20.3	20.6	20.0	19.7	19.0	:
Denmark	17.6	18.3	17.6	17.5	18.3	17.9	17.7	16.8	17.2	17.6
Czech Republic	14.0	14.4	15.3	15.4	14.6	14.8	14.0	13.3	12.2	:
EU	:	23.8	24.3	24.8	24.6	24.4	23.8	23.5	22.4	:
Greece	27.6	27.7	31.0	34.6	35.7	36.0	35.7	35.6	34.8	:
Estonia	23.4	21.7	23.1	23.4	23.5	26.0	24.2	24.4	23.4	:
Euro area	21.6	22.0	22.9	23.3	23.1	23.5	23.1	23.1	22.1	:
United Kingdom	22.0	23.2	22.7	24.1	24.8	24.1	23.5	22.2	22.0	:
Ireland	25.7	27.3	29.4	30.3	29.9	27.7	26.0	24.2	22.7	:
Spain	24.7	26.1	26.7	27.2	27.3	29.2	28.6	27.9	26.6	:
Italy	24.9	25.0	28.1	29.9	28.5	28.3	28.7	30.0	28.9	:
Croatia	:	31.1	32.6	32.6	29.9	29.3	29.1	27.9	26.4	:
Cyprus	23.5	24.6	24.6	27.1	27.8	27.4	28.9	27.7	25.2	:
Latvia	37.9	38.2	40.1	36.2	35.1	32.7	30.9	28.5	28.2	28.4
Lithuania	29.6	34.0	33.1	32.5	30.8	27.3	29.3	30.1	29.6	:
Luxembourg	17.8	17.1	16.8	18.4	19.0	19.0	18.5	19.8	21.5	:
Malta	20.3	21.2	22.1	23.1	24.6	23.9	23.0	20.3	19.3	:
Netherlands	15.1	15.1	15.7	15.0	15.9	16.5	16.4	16.7	17.0	:
Hungary	29.6	29.9	31.5	33.5	34.8	31.8	28.2	26.3	25.6	19.6
Poland	27.8	27.8	27.2	26.7	25.8	24.7	23.4	21.9	19.5	:
Portugal	24.9	25.3	24.4	25.3	27.5	27.5	26.6	25.1	23.3	:
Romania	43.0	41.5	40.9	43.2	41.9	40.3	37.4	38.8	35.7	:
Slovakia	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1	16.3	:
Slovenia	17.1	18.3	19.3	19.6	20.4	20.4	19.2	18.4	17.1	:
Sweden	17.8	17.7	18.5	17.7	18.3	18.2	18.6	18.3	17.7	:
Finland	16.9	16.9	17.9	17.2	16.0	17.3	16.8	16.6	15.7	16.5

Table 5: Inflation

	Annual Data (%)				January-February			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	0.8	1.0	2.2	2.1	2.2	1.9	1.6	-0.4	-0.3
Belgium	0.6	1.8	2.2	2.3	3.2	1.6	1.9	0.3	-1.6
Bulgaria	-1.1	-1.3	1.2	2.6	0.6	1.4	2.4	0.9	0.8
France	0.1	0.3	1.2	2.1	1.5	1.4	1.5	0.1	-0.1
Germany	0.1	0.4	1.7	1.9	2.1	1.3	1.0	-0.3	-0.8
Denmark	0.2	0.0	1.1	0.7	0.8	0.5	1.1	0.6	-0.3
Czech Republic	0.3	0.7	2.4	2.0	2.4	1.8	2.2	0.4	-0.6
EU	0.0	0.3	1.7	1.9	1.8	1.5	1.4	-0.1	-0.3
Greece	-1.1	0.0	1.1	0.8	1.5	0.3	0.7	0.3	-1.2
Estonia	0.1	0.8	3.6	3.4	3.1	3.4	2.3	-1.1	0.3
Euro area	0.0	0.2	1.5	1.7	1.9	1.2	1.2	0.0	-0.7
United Kingdom	0.1	0.6	2.7	2.5	2.1	2.9	:	:	0.7
Ireland	0.0	-0.2	0.3	0.7	0.3	0.5	0.8	0.2	0.3
Spain	-0.6	-0.3	2.0	1.7	3.0	1.0	1.1	0.1	-2.0
Italy	0.1	0.0	1.3	1.2	1.3	0.9	1.0	0.1	-0.5
Croatia	-0.3	-0.6	1.3	1.6	1.2	1.1	0.7	-0.4	-0.1
Cyprus	-1.5	-1.2	0.7	0.8	1.0	-0.9	1.5	2.4	-2.0
Latvia	0.2	0.1	2.9	2.6	3.0	1.9	2.9	1.0	-1.1
Lithuania	-0.7	0.7	3.7	2.5	2.9	3.4	1.8	-1.6	0.6
Luxembourg	0.1	0.0	2.1	2.0	2.6	1.2	1.9	0.7	-1.4
Malta	1.2	0.9	1.3	1.7	1.3	1.3	1.1	-0.1	-0.1
Netherlands	0.2	0.1	1.3	1.6	1.6	1.4	2.3	0.9	-0.3
Hungary	0.1	0.5	2.4	2.9	2.6	2.0	3.0	0.9	-0.6
Poland	-0.7	-0.2	1.6	1.2	1.7	1.1	0.9	-0.2	-0.5
Portugal	0.5	0.6	1.6	1.2	1.4	0.9	0.8	-0.1	-0.6
Romania	-0.4	-1.1	1.1	4.1	0.4	3.6	3.6	0.0	3.2
Slovakia	-0.3	-0.5	1.4	2.5	1.0	2.4	2.2	-0.1	1.4
Slovenia	-0.8	-0.2	1.6	1.9	2.0	1.6	1.2	-0.3	-0.4
Sweden	0.7	1.1	1.9	2.0	1.7	1.6	1.9	0.3	-0.1
Finland	-0.2	0.4	0.8	1.2	1.2	0.7	1.2	0.5	-0.4

Table 6: GDP per Capita (in PPS, EU-28=100)

	Annual Data (%)								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	127	126	128	132	131	130	129	128	127
Belgium	118	120	120	121	120	119	118	118	117
Bulgaria	43	44	45	46	46	47	47	48	49
France	108	108	108	107	108	107	105	104	104
Germany	117	120	123	124	124	126	124	124	124
Denmark	125	129	128	127	128	128	127	126	128
Czech Republic	85	83	83	82	84	86	87	88	89
EU	100	100	100	100	100	100	100	100	100
Greece	94	85	75	72	72	72	69	68	67
Estonia	64	65	71	74	75	76	76	77	79
Euro area	109	108	108	107	107	107	106	106	106
United Kingdom	107	108	106	107	108	109	109	107	105
Ireland	129	130	130	132	132	137	178	177	181
Spain	101	96	93	91	89	90	91	91	92
Italy	106	104	104	102	98	96	95	97	96
Croatia	62	59	60	60	60	59	59	61	62
Cyprus	105	100	96	91	84	81	82	84	85
Latvia	52	53	57	60	62	63	64	64	67
Lithuania	56	60	66	70	73	75	75	75	78
Luxembourg	255	257	265	260	261	270	266	260	253
Malta	81	84	83	84	85	88	92	94	96
Netherlands	137	134	133	133	134	130	130	128	128
Hungary	64	65	66	66	67	68	68	67	68
Poland	59	62	65	67	67	67	69	68	70
Portugal	82	82	77	75	77	77	77	77	77
Romania	51	51	52	54	54	55	56	59	63
Slovakia	71	74	75	76	77	77	77	77	76
Slovenia	85	83	83	82	82	82	82	83	85
Sweden	123	125	126	127	125	124	125	122	121
Finland	117	116	117	115	113	111	109	109	109

Table 7: Average Labour Productivity (Euro per work hour, EU-28=100)

	Annual Data								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria	117.9	115.4	115.7	117.7	117.0	116.5	117.7	116.6	116.9
Belgium	129.6	131.3	129.7	130.7	130.2	130.6	130.2	129.4	128.8
Bulgaria	39.4	41.3	42.2	43.5	42.9	43.8	44.1	45.4	46.7
France	117.5	117.0	116.6	114.9	116.2	115.6	115.4	114.9	115.1
Germany	104.1	105.2	106.4	105.2	104.7	106.4	106.1	105.8	106.2
Denmark	109.6	115.2	114.6	114.4	115.2	115.2	114.3	111.9	113.6
Czech Republic	79.2	77.1	77.4	76.2	76.6	79.1	79.7	80.2	80.5
EU	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100
Greece	98.1	89.5	85.5	85.9	86.9	86.2	83.2	81	79.6
Estonia	66.6	70.6	72.0	73.3	73.3	73.8	70.9	71.8	74.7
Euro area	108.6	107.8	107.7	107.1	107.2	107.3	107.2	107.1	107
United Kingdom	103.8	103.6	101.8	102.2	101.9	101.8	101.6	101.4	99.9
Ireland	135.0	141.0	142.6	144.8	141.5	145.7	189.7	190.2	189.2
Spain	105.5	101.9	101.3	103.1	103.4	103.4	102.2	101.9	101.6
Italy	114.9	112.8	112.2	110.1	108.7	107.2	106.3	107.4	106.8
Croatia	68.5	67.2	70.2	72.4	73.4	70.7	70.2	71.3	71.7
Cyprus	95.2	91.5	89.9	88.7	86.8	85.0	84.8	84.3	84.3
Latvia	56.1	58.8	61.4	62.9	62.5	64.6	63.8	64.8	68
Lithuania	61.2	67.2	71.3	73.0	74.1	74.6	73.3	72.1	75.5
Luxembourg	162.8	162.5	166.3	162.1	163.4	170.0	168.2	163.2	160.7
Malta	94.0	94.7	91.2	90.3	89.6	91.0	95.1	95.5	95.9
Netherlands	115.7	113.4	112.1	111.9	113.8	111.9	112.5	111.6	111.1
Hungary	72.4	73.0	74.1	72.8	73.1	71.1	69.8	67.8	68
Poland	65.3	70.1	72.7	74.1	73.9	73.6	74	74.2	75.9
Portugal	79.5	79.8	76.4	76.7	79.6	78.9	78.2	78	76.5
Romania	51.4	50.6	51.6	55.6	56.3	56.6	58.6	61.6	65.3
Slovakia	79.2	83.5	81.5	82.4	83.7	83.9	82.6	81.7	80.9
Slovenia	80.1	79.5	80.7	80.1	80.5	81.4	80.7	80.7	81
Sweden	116.2	116.7	116.2	116.2	114.0	113.3	114.2	113.7	112.2
Finland	113.4	112.6	112.5	109.5	108.3	107.2	107.7	108.8	108.7

Table 8: Employment Rate for People 20-64(*)

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	73.4	73.9	74.2	74.4	74.6	74.2	74.3	74.8	75.4	76.1
Belgium	67.1	67.6	67.3	67.2	67.2	67.3	67.2	67.7	68.5	69.7
Bulgaria	68.8	64.7	62.9	63	63.5	65.1	67.1	67.7	71.3	72.4
France	69.5	69.3	69.2	69.4	69.5	69.2	69.5	70	70.6	71.3
Germany	74.2	75	76.5	76.9	77.3	77.7	78	78.6	79.2	79.9
Denmark	77.5	75.8	75.7	75.4	75.6	75.9	76.5	77.4	76.9	78.2
Czech Republic	70.9	70.4	70.9	71.5	72.5	73.5	74.8	76.7	78.5	79.9
EU	68.9	68.5	68.6	68.4	68.4	69.2	70	71	72.1	73.1
Greece	65.6	63.8	59.6	55	52.9	53.3	54.9	56.2	57.8	59.5
Estonia	70	66.8	70.6	72.2	73.3	74.3	76.5	76.6	78.7	79.5
Euro area	68.7	68.3	68.4	68	67.7	68.1	68.9	69.9	70.9	71.9
United Kingdom	73.9	73.5	73.5	74.1	74.8	76.2	76.8	77.5	78.2	78.7
Ireland	68	65.5	64.6	64.5	66.5	68.1	69.9	71.4	73	74.1
Spain	64	62.8	62	59.6	58.6	59.9	62	63.9	65.5	67.0
Italy	61.6	61	61	60.9	59.7	59.9	60.5	61.6	62.3	63.0
Croatia	64.2	62.1	59.8	58.1	57.2	59.2	60.6	61.4	63.6	65.2
Cyprus	75.3	75	73.4	70.2	67.2	67.6	67.9	68.7	70.8	73.9
Latvia	66.6	64.3	66.3	68.1	69.7	70.7	72.5	73.2	74.8	76.9
Lithuania	67	64.3	66.9	68.5	69.9	71.8	73.3	75.2	76	77.8
Luxembourg	70.4	70.7	70.1	71.4	71.1	72.1	70.9	70.7	71.5	72.1
Malta	59	60.1	61.6	63.9	66.2	67.9	69	71.1	73	75.0
Netherlands	76.8	76.2	76.4	76.6	75.9	75.4	76.4	77.1	78	79.2
Hungary	60.1	59.9	60.4	61.6	63	66.7	68.9	71.5	73.3	74.4
Poland	64.9	64.3	64.5	64.7	64.9	66.5	67.8	69.3	70.9	72.2
Portugal	71.1	70.3	68.8	66.3	65.4	67.6	69.1	70.6	73.4	75.4
Romania	63.5	64.8	63.8	64.8	64.7	65.7	66	66.3	68.8	69.9
Slovakia	66.4	64.6	65	65.1	65	65.9	67.7	69.8	71.1	72.4
Slovenia	71.9	70.3	68.4	68.3	67.2	67.7	69.1	70.1	73.4	75.5
Sweden	78.3	78.1	79.4	79.4	79.8	80	80.5	81.2	81.8	82.6
Finland	73.5	73	73.8	74	73.3	73.1	72.9	73.4	74.2	76.3

(*) % of employed people between 20 and 64 in relation to their total population

Table 9: Employment Rate for People 55-64(*)

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	39.4	41.2	39.9	41.6	43.8	45.1	46.3	49.2	51.3	54.0
Belgium	35.3	37.3	38.7	39.5	41.7	42.7	44	45.4	48.3	50.4
Bulgaria	46.1	44.9	44.6	45.7	47.4	50	53	54.5	58.2	60.7
France	38.9	39.7	41.4	44.5	45.6	46.9	48.7	49.8	51.3	52.2
Germany	56.1	57.8	60	61.6	63.6	65.6	66.2	68.6	70.1	71.4
Denmark	58.2	58.4	59.5	60.8	61.7	63.2	64.7	67.8	68.9	70.7
Czech Republic	46.8	46.5	47.7	49.3	51.6	54	55.5	58.5	62.1	65.1
EU	45.8	46.2	47.2	48.7	50.1	51.8	53.3	55.2	57.1	58.7
Greece	42.4	42.4	39.5	36.5	35.6	34	34.3	36.3	38.3	41.1
Estonia	60.3	53.8	57.5	60.5	62.6	64	64.5	65.2	68.1	69.0
Euro area	45	45.7	47	48.6	50	51.7	53.3	55.3	57.1	58.8
United Kingdom	57.5	57.2	56.7	58.1	59.8	61	62.2	63.4	64.1	65.3
Ireland	51.2	50.2	50.1	49.3	51.2	52.6	55.4	56.8	58.4	60.4
Spain	44	43.5	44.5	43.9	43.2	44.3	46.9	49.1	50.5	52.2
Italy	35.6	36.5	37.8	40.3	42.7	46.2	48.2	50.3	52.2	53.7
Croatia	39.4	39.1	38.2	37.5	37.8	36.2	39.2	38.1	40.3	42.8
Cyprus	55.7	56.3	54.8	50.7	49.6	46.9	48.5	52.2	55.3	60.9
Latvia	52.5	47.8	50.5	52.8	54.8	56.4	59.4	61.4	62.3	65.4
Lithuania	51.2	48.3	50.2	51.7	53.4	56.2	60.4	64.6	66.1	68.5
Luxembourg	38.2	39.6	39.3	41	40.5	42.5	38.4	39.6	39.8	40.5
Malta	29.1	31.9	33.2	34.7	37.1	39.5	42.3	45.8	47.2	49.8
Netherlands	51.8	52.9	55.2	57.6	59.2	59.9	61.7	63.5	65.7	67.7
Hungary	31.9	33.6	35.3	36.1	37.9	41.7	45.3	49.8	51.7	54.4
Poland	32.3	34.1	36.9	38.7	40.6	42.5	44.3	46.2	48.3	49.0
Portugal	49.7	49.5	47.8	46.5	46.9	47.8	49.9	52.1	56.2	59.2
Romania	42.6	40.7	39.9	41.6	41.8	43.1	41.1	42.8	44.5	46.3
Slovakia	39.5	40.5	41.3	43.1	44	44.8	47	49	53	54.2
Slovenia	35.6	35	31.2	32.9	33.5	35.4	36.6	38.5	42.7	47.1
Sweden	70	70.4	72	73	73.6	74	74.5	75.5	76.4	77.9
Finland	55.5	56.2	57	58.2	58.5	59.1	60	61.4	62.5	65.4

(*) % of employed people between 55 and 64 in relation to their total population

Table 10: Change in Employment (persons over 15)

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	0.9	0.9	0.8	0.5	0.1	0.9	1.7	1.0	1.4
Belgium	1.4	0.5	0.3	0.1	0.4	0.1	0.8	1.1	2.5
Bulgaria	-5.4	-3.6	-1.1	0.0	1.6	1.7	-0.5	4.4	0.1
France	0.2	0.1	0.2	-0.1	2.3	0.2	0.6	1.1	0.9
Germany	-1.3	2.1	0.9	1.0	0.8	0.8	2.6	0.9	0.6
Denmark	-2.3	-0.1	-0.5	0.0	1.0	1.4	3.2	-0.8	1.8
Czech Republic	-1.0	-0.2	0.4	0.9	0.7	1.3	1.9	1.6	1.4
EU	-1.3	0.1	-0.2	-0.2	1.3	1.2	1.5	1.5	1.2
Greece	-3.7	-7.6	-8.8	-4.9	0.6	2.1	1.8	2.2	2.0
Estonia	-4.4	6.2	1.9	1.0	0.6	2.6	0.6	2.2	0.9
Euro area	-1.1	0.1	-0.6	-0.5	1.0	1.1	1.8	1.5	1.4
United Kingdom	0.2	0.5	1.0	1.2	2.3	1.7	1.4	1.1	1.1
Ireland	-4.5	-1.9	-0.4	3.0	2.6	3.4	3.7	2.9	2.8
Spain	-2.0	-1.6	-4.3	-2.8	1.2	3.0	2.7	2.6	2.7
Italy	-0.8	0.3	-0.2	-1.7	0.3	0.8	1.3	1.2	0.8
Croatia	-3.8	-4.0	-3.6	-2.6	2.9	1.3	0.3	2.2	1.7
Cyprus	3.0	0.8	-3.1	-5.1	-0.6	-1.3	1.3	4.6	5.5
Latvia	-6.4	1.3	1.6	2.1	-1.0	1.3	-0.3	0.2	1.6
Lithuania	-5.3	0.4	1.7	1.3	2.0	1.3	1.7	-0.6	1.5
Luxembourg	1.7	1.9	4.9	1.1	3.0	4.7	1.4	4.2	3.0
Malta	1.9	2.5	4.0	4.8	5.0	4.0	5.0	6.0	6.2
Netherlands	-1.0	0.0	0.6	-0.8	-0.6	1.0	1.3	2.1	2.3
Hungary	-0.4	0.7	1.8	1.7	5.3	2.7	3.4	1.6	1.1
Poland	-2.5	0.6	0.2	-0.1	1.9	1.4	0.7	1.4	0.4
Portugal	-1.6	-3.0	-4.2	-2.5	1.9	1.2	1.4	3.3	2.3
Romania	-5.7	-2.1	0.9	-0.7	0.8	-0.9	-1.0	2.6	0.2
Slovakia	-2.1	-0.1	0.6	0.0	1.5	2.5	2.8	1.5	1.4
Slovenia	-1.3	-3.1	-1.2	-1.9	0.9	0.4	-0.1	4.7	2.2
Sweden	0.5	2.3	0.7	1.0	1.4	1.4	1.5	2.3	1.8
Finland	-0.4	1.1	0.4	-1.1	-0.4	-0.4	0.5	1.0	2.7

Table 11: Unemployment Rate – Total Population

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	4.8	4.6	4.9	5.4	5.6	5.7	6.0	5.5	4.9
Belgium	8.3	7.2	7.6	8.4	8.5	8.5	7.8	7.1	6.0
Bulgaria	10.3	11.3	12.3	13.0	11.4	9.2	7.6	6.2	5.2
France	9.3	9.2	9.8	10.3	10.3	10.4	10.1	9.4	9.1
Germany	7.0	5.8	5.4	5.2	5.0	4.6	4.1	3.8	3.4
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	2.2
EU	9.6	9.7	10.5	10.9	10.2	9.4	8.6	7.6	6.8
Greece	12.7	17.9	24.5	27.5	26.5	24.9	23.6	21.5	19.3
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	8.2
United Kingdom	7.8	8.1	7.9	7.5	6.1	5.3	4.8	4.4	4.0
Ireland	14.6	15.4	15.5	13.8	11.9	10.0	8.4	6.7	5.8
Spain	19.9	21.4	24.8	26.1	24.5	22.1	19.6	17.2	15.3
Italy	8.4	8.4	10.7	12.1	12.7	11.9	11.7	11.2	10.6
Croatia	11.8	13.7	15.8	17.4	17.2	16.1	13.4	11.0	8.5
Cyprus	6.3	7.9	11.9	15.9	16.1	15.0	13.0	11.1	8.4
Latvia	19.5	16.2	15.0	11.9	10.8	9.9	9.6	8.7	7.4
Lithuania	17.8	15.4	13.4	11.8	10.7	9.1	7.9	7.1	6.2
Luxembourg	4.6	4.8	5.1	5.9	6.0	6.5	6.3	5.6	5.4
Malta	6.9	6.4	6.2	6.1	5.7	5.4	4.7	4.0	3.7
Netherlands	5.0	5.0	5.8	7.3	7.4	6.9	6.0	4.9	3.8
Hungary	11.2	11.0	11.0	10.2	7.7	6.8	5.1	4.2	3.7
Poland	9.7	9.7	10.1	10.3	9.0	7.5	6.2	4.9	3.9
Portugal	12.0	12.9	15.8	16.4	14.1	12.6	11.2	9.0	7.0
Romania	7.0	7.2	6.8	7.1	6.8	6.8	5.9	4.9	4.2
Slovakia	14.5	13.7	14.0	14.2	13.2	11.5	9.7	8.1	6.5
Slovenia	7.3	8.2	8.9	10.1	9.7	9.0	8.0	6.6	5.1
Sweden	8.6	7.8	8.0	8.0	7.9	7.4	6.9	6.7	6.3
Finland	8.4	7.8	7.7	8.2	8.7	9.4	8.8	8.6	7.4

Table 12: Unemployment Rate among Men

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	5.0	4.6	5.0	5.4	5.9	6.1	6.5	5.9	5.0
Belgium	8.1	7.1	7.7	8.7	9.0	9.1	8.1	7.1	6.3
Bulgaria	10.9	12.3	13.5	13.9	12.3	9.8	8.1	6.4	5.7
France	9.0	8.9	9.8	10.4	10.5	10.8	10.3	9.5	9.0
Germany	7.4	6.1	5.6	5.5	5.3	5.0	4.5	4.1	3.8
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	1.8
EU	9.7	9.6	10.4	10.8	10.1	9.3	8.4	7.4	6.6
Greece	10.1	15.2	21.6	24.5	23.7	21.8	19.9	17.8	15.4
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	7.8
United Kingdom	8.6	8.7	8.4	8.0	6.4	5.5	5.0	4.5	4.1
Ireland	17.2	17.8	17.8	14.9	12.7	10.8	9.1	7.1	5.8
Spain	19.6	21.1	24.6	25.6	23.6	20.8	18.1	15.7	13.7
Italy	7.5	7.5	9.8	11.5	11.9	11.3	10.9	10.3	9.7
Croatia	11.2	13.6	15.8	17.6	16.6	15.6	12.7	10.3	7.8
Cyprus	6.2	8.1	12.6	16.6	17.1	15.1	12.7	10.9	8.1
Latvia	22.7	18.6	16.2	12.6	11.8	11.1	10.9	9.8	8.4
Lithuania	21.2	17.9	15.2	13.1	12.2	10.1	9.1	8.6	6.9
Luxembourg	3.8	3.9	4.5	5.6	5.8	5.9	6.1	5.6	5.1
Malta	6.7	6.0	5.6	6.1	6.1	5.4	4.4	3.8	3.8
Netherlands	4.5	4.6	5.5	7.2	7.2	6.5	5.6	4.5	3.7
Hungary	11.6	11.1	11.3	10.2	7.6	6.6	5.1	3.8	3.5
Poland	9.4	9.0	9.4	9.7	8.5	7.3	6.1	4.9	3.9
Portugal	11.9	12.6	15.9	16.3	13.8	12.4	11.1	8.6	6.6
Romania	7.6	7.7	7.4	7.7	7.3	7.5	6.6	5.6	4.7
Slovakia	14.3	13.7	13.5	14.0	12.8	10.3	8.8	7.9	6.1
Slovenia	7.5	8.2	8.4	9.5	9.0	8.1	7.5	5.8	4.6
Sweden	8.7	7.8	8.2	8.2	8.2	7.5	7.3	6.9	6.4
Finland	9.1	8.4	8.3	8.8	9.3	9.9	9.0	8.9	7.4

Table 13: Unemployment Rate among Women

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	4.6	4.6	4.8	5.3	5.4	5.3	5.6	5.0	4.7
Belgium	8.5	7.2	7.4	8.2	7.9	7.8	7.6	7.1	5.6
Bulgaria	9.6	10.1	10.8	11.8	10.4	8.4	7.0	6.0	4.7
France	9.5	9.6	9.8	10.2	10.0	9.9	9.9	9.3	9.1
Germany	6.5	5.6	5.2	4.9	4.6	4.2	3.8	3.3	2.9
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	2.8
EU	9.6	9.8	10.6	10.9	10.3	9.5	8.8	7.9	7.1
Greece	16.4	21.5	28.2	31.4	30.2	28.9	28.1	26.1	24.2
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	11.0	10.4	9.5	8.6
United Kingdom	6.9	7.4	7.4	7.1	5.8	5.1	4.7	4.2	4.0
Ireland	11.4	12.5	12.8	12.4	10.9	8.9	7.6	6.3	5.7
Spain	20.2	21.8	25.1	26.7	25.4	23.6	21.4	19.0	17.0
Italy	9.6	9.5	11.8	13.1	13.8	12.7	12.8	12.4	11.8
Croatia	12.4	13.8	15.8	17.2	18.0	16.7	14.2	11.9	9.3
Cyprus	6.4	7.7	11.1	15.2	15.1	14.8	13.4	11.3	8.8
Latvia	16.3	13.8	14.0	11.1	9.8	8.6	8.4	7.7	6.4
Lithuania	14.5	12.9	11.6	10.5	9.2	8.2	6.7	5.7	5.4
Luxembourg	5.5	6.0	5.8	6.2	6.4	7.1	6.5	5.6	5.7
Malta	7.1	7.1	7.2	6.1	5.1	5.4	5.2	4.3	3.6
Netherlands	5.5	5.4	6.2	7.3	7.8	7.3	6.5	5.3	4.0
Hungary	10.7	11.0	10.6	10.1	7.9	7.0	5.1	4.6	4.0
Poland	10.0	10.4	10.9	11.1	9.6	7.7	6.2	4.9	3.9
Portugal	12.2	13.2	15.6	16.6	14.5	12.9	11.3	9.5	7.4
Romania	6.2	6.5	6.1	6.3	6.1	5.8	5.0	4.0	3.5
Slovakia	14.7	13.7	14.5	14.5	13.6	12.9	10.8	8.4	7.0
Slovenia	7.1	8.2	9.4	10.9	10.6	10.1	8.6	7.5	5.7
Sweden	8.5	7.7	7.7	7.9	7.7	7.3	6.5	6.4	6.3
Finland	7.6	7.1	7.1	7.5	8.0	8.8	8.6	8.4	7.3

Table 14: Long-Term Unemployment Rate (*)

	Annual Data (%)							
	2011	2012	2013	2014	2015	2016	2017	2018
Austria	26.3	24.9	24.6	33.7	30.5	32.4	33.5	28.9
Belgium	48.3	44.7	46.1	52.8	52.9	51.6	48.9	48.7
Bulgaria	55.7	55.2	57.3	59.6	61.9	59.2	55.0	58.7
France	41.1	40.0	40.5	47.2	45.4	45.9	45.4	42.0
Germany	47.9	45.4	44.7	42.7	45.3	41.2	42.0	41.4
Denmark	24.4	28.0	25.5	25.5	29.8	22.4	22.6	21.1
Czech Republic	40.6	43.4	43.4	42.8	48.2	42.0	34.7	30.5
EU	45.2	46.4	49.8	48.6	50.2	46.9	45.2	43.5
Greece	49.3	59.1	67.1	72.4	73.6	72.0	72.9	70.4
Estonia	57.3	54.7	44.5	32.6	40.0	31.5	33.7	24.8
Euro area	43.0	44.5	47.3	51.5	52.8	50.2	49.0	46.9
United Kingdom	33.5	34.7	36.2	30.3	34.0	27.2	25.9	26.3
Ireland	59.3	61.7	60.6	57.3	58.1	52.4	46.4	37.4
Spain	41.6	44.4	49.7	49.2	52.5	48.3	44.5	41.7
Italy	52.0	53.2	56.9	59.1	59.7	58.3	58.8	59.1
Croatia	61.3	63.7	63.6	53.2	66.2	50.6	41.0	40.5
Cyprus	20.8	30.1	38.3	45.3	46.7	44.5	40.7	31.9
Latvia	54.5	52.1	48.6	41.8	46.2	41.4	37.6	41.8
Lithuania	52.1	49.2	42.9	38.8	43.3	38.3	37.7	32.1
Luxembourg	28.8	30.3	30.4	37.0	30.3	34.9	38.2	24.7
Malta	47.3	48.5	45.7	45.3	48.2	39.7	40.1	31.0
Netherlands	33.2	33.7	35.8	47.4	48.0	42.7	40.7	37.9
Hungary	47.6	45.3	48.6	47.7	46.8	46.5	40.3	38.6
Poland	37.2	40.3	42.5	35.9	40.1	34.9	31.1	26.9
Portugal	48.4	48.8	56.4	56.9	59.1	55.4	49.8	43.6
Romania	41.0	44.2	45.2	51.7	45.1	49.9	41.3	44.2
Slovakia	67.9	67.3	70.2	61.4	66.9	60.1	62.4	61.8
Slovenia	44.2	47.9	51.0	53.9	53.0	53.3	47.5	42.7
Sweden	19.6	18.9	18.5	22.4	24.1	19.3	19.7	19.8
Finland	22.2	21.4	20.7	29.4	27.5	26.2	24.6	22.0

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

Table 15: Unemployment Rate among Youth 15-24

	Annual data (%)							
	2011	2012	2013	2014	2015	2016	2017	2018
Austria	8.9	9.4	9.7	10.3	10.6	11.2	9.8	9.4
Belgium	18.7	19.8	23.7	23.2	22.1	20.1	19.3	15.9
Bulgaria	25.0	28.1	28.4	23.8	21.6	17.3	12.9	12.6
France	22.7	24.4	24.9	24.2	24.7	24.6	22.3	20.8
Germany	8.5	8.0	7.8	7.7	7.2	7.1	6.8	6.2
Denmark	14.2	14.1	13.0	12.6	10.8	12.0	11.1	9.4
Czech Republic	18.1	19.5	18.9	15.9	12.6	10.5	8.0	6.7
EU	21.7	23.3	23.7	22.2	20.4	18.7	16.9	15.2
Greece	44.7	55.3	58.3	52.4	49.	47.4	43.6	39.9
Estonia	22.4	20.9	18.7	15.0	13.1	13.5	14.1	11.9
Euro area	21.3	23.6	24.4	23.7	22.4	20.9	18.8	16.9
United Kingdom	21.3	21.2	20.7	16.9	14.6	13.0	12.1	11.3
Ireland	29.1	30.4	26.8	23.9	20.9	16.8	14.4	13.7
Spain	46.2	52.9	55.5	53.2	48.3	44.5	38.7	34.4
Italy	29.2	35.3	40.0	42.7	40.3	37.8	34.8	32.2
Croatia	36.7	42.1	50.0	45.5	43.0	31.3	27.5	23.8
Cyprus	22.4	27.7	38.9	36.0	32.8	29.1	24.7	20.2
Latvia	31.0	28.5	23.2	19.6	16.3	17.3	17.0	12.2
Lithuania	32.6	26.7	21.9	19.3	16.3	14.5	13.3	11.2
Luxembourg	16.4	18.0	16.9	22.3	17.3	18.7	15.4	14.1
Malta	13.3	14.1	13.0	11.7	11.8	10.7	10.6	9.2
Netherlands	10.0	11.7	13.2	12.7	11.3	10.8	8.9	7.2
Hungary	26.0	28.2	26.6	20.4	17.3	13.0	10.7	10.2
Poland	25.8	26.5	27.3	23.9	20.8	17.6	14.8	11.8
Portugal	30.2	38.0	38.1	34.7	32.0	27.9	23.9	20.3
Romania	23.9	22.6	23.7	24.0	21.7	20.6	18.5	16.3
Slovakia	33.7	34.0	33.7	29.7	26.5	22.2	18.9	14.9
Slovenia	15.7	20.6	21.6	20.2	16.3	15.3	11.3	8.8
Sweden	22.8	23.7	23.6	22.9	20.4	18.8	17.9	16.7
Finland	20.1	19.0	19.9	20.5	22.4	19.9	19.8	16.8

(*) For the exact definition of the index see:

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