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IOBE

The Foundation for Economic and Industrial Research (IOBE) is a private, non-profit, public benefit research organisation. Its purpose is to promote research on current problems and prospects of the Greek Economy and its sectors and to generate reliable information, analysis and proposals for action that can be of value to policy makers.

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Foreword

IOBE publishes its first bulletin on the Greek economy for 2021, as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek and the global economy, amid successive outbreaks of the new coronavirus pandemic, which have led to prolonged restrictive measures in business operations and passenger travel. Nevertheless, the progress in the vaccination process since the end of 2020, as well as the expansion of the means detecting the virus, create prospects for overcoming the health crisis. However to this end, the road is not predetermined, nor easy, as the increasing mutations of the virus are the most important relevant challenge to deal with, over the current and the coming period. The role of policy interventions, domestically and internationally, will be crucial in halting the effects of the pandemic and shaping recovery opportunities from this year and beyond. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with a text analysing the difficulties and challenges of the current phase of the pandemic. The rest of the report is structured as follows:

The first section is a brief overview of the report, which presents its key points, which are analysed in detail in the following sections. The second section focuses on the general economic conditions, including: i) an analysis of the global economic environment in the fourth quarter of 2020, as well as the outlook for 2021, based on the most recent IMF report, ii) an outline of the economic sentiment in Greece in the first quarter of this year, based on data from the latest IOBE business and consumer surveys, iii) an assessment of the execution of the General Government Budget for the whole 2020, and in the first two months of the current year, iv) an outline of the developments in the domestic financial system between December 2020-February 2021.

The third section focuses on the performance of the Greek economy mainly in the fourth quarter of 2020. First, it maps the macroeconomic environment in the same quarter and presents forecasts for 2021, taking into account all the available data on the effects of the pandemic, both domestically and internationally. Developments in key productive sectors are also recorded for the whole year 2020 or in the first two months or the current year, depending on the data availability, while the export performance of the Greek economy is presented during the whole year 2020. Next, it outlines the developments in the labour market in 2020. Then, it analyses the trends in inflation for the first two months of this year, and finally the section concludes with an assessment of the balance of payments for the previous year (2020).

The fourth section of the report includes the presentation of a study on the evaluation of labour-market reforms in Greece over the period 2010-2018.

At a methodological level, this report refers to and is based on data available until 14/04/2021.

IOBE's next quarterly bulletin on the Greek economy will be published in early July 2021.

THE FINAL PART OF THE PANDEMIC IS THE MOST CHALLENGING

As more than a year has passed since the start of the pandemic, with severe health and economic effects, one can take stock of the developments and prospects that have emerged so far. Clearly, the development and the response to the problem were not the same throughout the planet, with some regions now closer to returning to normality and others still in a very difficult situation. However, in no case can it be considered that the health problem has been irrevocably tamed and that, therefore, the immediate economic outlook is only positive.

Some areas are close to returning to normality

Given the magnitude and unprecedented characteristics of the crisis, the overall response cannot be assessed, at least for the time being, as negative. In the health field, there has been a considerable, albeit not fully satisfactory, level of coordination and, with regard to the progress made in vaccinating the population, no one could have taken it for granted only a few months ago. At the same time, in the economic field, fiscal and monetary policy have been coordinated to provide a necessary safety net. As far as the structural dimensions of the issue are concerned, technological progress in key regions has been very important, while the rules and structures of the world trade have not been broken and as a result, no one expects negative trends in productivity or in labour participation after the end of the pandemic.

Fiscal and monetary policy have been coordinated to provide a safety net

Intense uncertainty remains the main feature

Despite the above positive dimensions, strong uncertainty remains the main feature in the current period. On the one hand, one expects that, as the health problem eases and becomes more manageable, there will be a strong economic recovery worldwide from the summer onwards. On the other, economic policy interventions are reaching their limits, over-indebtedness is accumulating at the private and public levels, and a number of new challenges require urgent response.

In the Greek economy, the recession over the past year has been deep, with intensity and characteristics already described in previous IOBE bulletins. The blow to core sectors of the economy, such as tourism, food services and retail trade, was largely covered by support measures for workers and businesses, but the public deficit has reached a particularly high level, while the country's trade balance has also come under pressure, mainly due to the decline in tourism and despite the resilience in the manufacturing sector and the decline in energy imports. This return to a state of twin deficits, which also characterised the previous ten-year crisis, although of course for new exogenous reasons, can only cause concern. Evaluating the growth prospects for the current year, a strong recovery in the second half transpires, with the real growth rate ranging between 3.5% - 4%, without ruling out a more adverse development. Deflationary trends are expected to give way to inflation, while the trade balance is anticipated to improve. Three main problems remain. First, the uncertainty about the final outcome of the health problem remains, which feeds back into economic performance. Second, the high level of lending reduces the degrees of freedom from now on and requires solid coordination of governments and the credit system. Third, there are direct pressures on work and businesses, as unemployment and business bankruptcies have been artificially maintained at levels that do not correspond to the great difficulties of the post-COVID reality.

Return to twin deficit mode

In this context, it is worth to analyse the challenges and perspectives in greater depth in four areas: fiscal developments, the recovery fund, labour -force adjustment and public-sector interventions.

Fiscal balancing will be painful to achieve if growth rates are not strengthened in the medium term.

The budget deficit, overall but also at the primary level, was particularly high last year. This was due to a decline in revenues but even more so because of the expanded support measures, with transfers to workers and businesses. The monetary and fiscal policy framework in the Euro area, which offered an umbrella of protection for all its members, provided the possibility of financing the economy through such a high deficit. Without the moves first by the European Central Bank and then by the European Commission, it is highly doubtful whether an economy with such high government debt and a recent financial crisis could borrow from international markets at low interest rates. Therefore, and because this protection cannot be taken for granted forever, the economy should return on a path to fiscal balance. Note first that fiscal balance will be particularly difficult and painful to achieve if real growth rates are not strengthened in the medium term. Second, it is crucial to reduce deficits as early as in the current year, gradually, with a stricter choice for subsidies and favourable tax treatment. Channelling liquidity through deficits on its own does not support the economy in the present time, when it is done beyond what is necessary. Third, the Greek economy should return from next year to primary surpluses which will be systematic but not excessive, of 1% of GDP in the medium term. Fourth, the revenue and expenditure mix should obtain a clear growth stigma, indicative of continued easing of the burden on employed labour and targeted use of positive measures for electronic transactions as an incentive to shift from the informal to the formal economy.

With regard to the recovery fund and the recently announced plan, its importance cannot be underestimated. On the one hand, in an economy with an accumulated deep investment gap, the inflow of resources that will primarily support investment is crucial. On the other, linking funding to structural reforms, as provided for in the European framework, which was elaborated further domestically, creates the hope that the impact of its resources can be catalytic. However, the difficulties of this effort are significant, both for the detailed policy design henceforth and mainly for its implementation. The resources that will come, no matter how significant, are by no means sufficient to fill the investment gap on their own, but it is crucial to create a framework for mobilising private investment. After all, a significant amount of European resources have entered the Greek economy in recent decades in different forms and not always with a positive effect. The deeper and inherent difficulty of the use of the recovery fund and other European resources is that large sections of the Greek public administration and entrepreneurship are not able to cope with the short time for the completion of demanding investment planning. Therefore, its success will depend on the broader economic policy and its orientation.

Deeper and inherent difficulties

The most important source of concern in the near future concerns how quickly the Greek economy will be able to create new jobs with good wages and at the same time if and how employed and unemployed will be helped to move to more dynamic sectors and companies. Following the public sector and the construction industry, which have ceased to be an important source of employment since the beginning of the ten-year crisis, the new crisis is directly affecting core areas of employment such as tourism, retail trade, food services and travel. Therefore, it is necessary to implement labour support measures with systematic reduction of its tax and social security burden and targeted active labour market programmes. At the same time, it is crucial to implement innovative and effective training programmes in line with the best international standards.

New jobs with good pay

Finally, the new crisis, in the aftermath of the previous one, clearly shows the need to improve the efficiency of the wider public sector and to

Need for a more effective health system

modernise the terms of its cooperation with the private sector. It cannot be ruled out that a crisis like the current one will return in the foreseeable future. Therefore, the need for a more efficient health system as a whole is urgent, as is the case for education, but also for the functioning of public administration in general. In particular with regard to the field of health, the need to improve its structure and operation, such as by strengthening primary health care, digital information systems and the interconnection of healthcare units, is obvious.

Overall, the country can expect a strong economic recovery in the second half of the year and growth overall, but without ruling out new problems and uncertainties. In any case, the challenges of balancing and reforming the Greek economy remain stronger as ever.

1 BRIEF OVERVIEW

Milder than the initially estimated recession in the global economy in 2020. Recovery in 2021 expected to make up for the losses.

The pressure from the COVID-19 pandemic on global economic activity eased further in the final quarter of last year, to a small extent, as measures to suspend activity and travel resumed in early November, mainly in developed economies, due to the new outbreak of the coronavirus. According to available data on economic activity worldwide, in the period October-December last year, GDP fell in OECD countries by 3.0%, from 3.8% the previous quarter, while in the fourth quarter of 2019 it had increased by 1.6%. The rate of change of GDP in the major developed economies (G7) was -2.7%, compared to -3.6% in the previous quarter and 1.3% in the same quarter of last year. In the 20 largest OECD economies, the de-escalation of the recession was clearly more pronounced, from 2.2% in the third quarter to 0.5% in the next. Thus, the GDP decline weakened mainly in the developing economies. Among the developed countries, the strongest recession was again in the United Kingdom (-7.3%). It was followed by Italy, with 6.6%, and France, with 4.9%. In contrast, GDP fell in Japan by 1.3%, less than the rest of the major developed countries, and in the US by 2.4%. Japan also experienced the sharpest slowdown in the fourth-quarter recession from 5.8% to 1.3%. In the major Asian emerging economies, China's economy was the only one to grow in the fourth quarter of 2020, at a rate of 6.5%, faster than in the previous quarter (4.9%). India's economy was steadying at the end of 2020 (+0.1%), marking a strong slowdown in the recession (-7.0% in the third quarter). In Latin America, Argentina's economy shrank by 4.7% (from -10.1% a quarter ago), while Brazil's GDP decreased by 1.2% (from -3.9%). Overall in 2020 economic activity was down by 3.3% according to the most recent estimates (WEO, IMF), slightly milder than expected at the beginning of this year (-3.5%, WEO Update, IMF).

The deceleration of GDP decline in the fourth quarter, especially in developing countries and economic regions, is due to the gradual diffusion of the effects of the supportive policies in developed countries. Indicative of these effects is the significant recovery of exports from China and developing Asian countries in this period, compared to a year ago, while overall world exports continued to decline marginally and exports of the major developed countries were unchanged from last year. In addition, in some of the developing economies there was no new outbreak of the pandemic in October-December, as, because they are in the southern hemisphere, this period coincides with spring and part of summer, seasons that do not favour the spread of the new coronavirus (e.g. Brazil, Argentina). As a result, no pressure was exerted on their domestic output. By contrast, the end of the summer season in these countries during the first quarter of this year was accompanied by a sharp outbreak of the pandemic, which is expected to have similar economic consequences.

The policy interventions in developed countries that continue in 2021, with the US as an indicative example, although spilling over to parts of the world economy, overall maintain or widen the divergence in the prospects for recovery from the health crisis compared to the developing economies, where respective policy option are limited or non-existent. Of course, the speed of the countries' recovery will depend on other factors, such as the speed of vaccination, which has generally accelerated, and the degree of use of new means for detecting the virus (self-tests), or structural features of economies, such as the degree of their dependence on tourism, and international trade. The effects of these factors are mainly reflected in the recent forecasts for the recovery rate this year, with those for emerging economies now being slightly better than those for developed ones (6.7% vs. 6.1%, IMF), as the former were revised down and the latter were upped.

In addition to the speed of recovery, which is of particular interest in terms of when economic activity will return to pre-COVID-19 levels, there is growing interest in its quality. In this respect, most countries share some common characteristics, regardless of their development level, with young workers and those with low skills being the ones most affected by the crisis. The emphasis on the spread of digitalisation in order to address the challenges of the pandemic is likely to exacerbate the difficulties of reintegrating the low-skilled in the labour market. Therefore, emphasis is needed on retraining programmes, with specific content. Especially in developing countries, women's employment has been affected, exacerbating the inequalities in this area.

Considering the expected developments and trends for the current year described, as well as the fact that the impact on global economic activity in 2020 from the pandemic was lesser than initially expected - causing less disruption to the functioning of economies and their interconnection - is the upward revision of the global economy recovery for this year, in the range of 5.5-6.0%.

Slight slowdown in recession in the fourth quarter of 2020, despite the new suspension of activities

The particularly strong impact of the new coronavirus pandemic on economic activity in Greece continued into the final quarter of the previous year. However, their intensity appears to have been weaker than in previous quarters. Domestic output shrunk in the last quarter of 2020 by 7.9%, from 10.5% in the previous quarter and 13.8% in the second quarter, while a year ago it was relatively stable (+0.1%). Overall in 2020, GDP was 8.0% less than a year earlier, while in 2019 it had increased by 1.6%.

Regarding the trends in GDP components over the past year, domestic consumption shrunk by 3.1%, while a year earlier it had increased by 1.5 %. The decline resulted from a sharp fall in private consumption by 4.7%, despite measures to support workers in pandemic-affected sectors, against to a 1.6% increase in 2019. The intensity of the decline was more pronounced in the second (12.9%) and in the fourth quarter (-4.7%), i.e. in the quarters with lockdown in place. By contrast, public consumption increased by 2.6%, to address the emergency caused by the health crisis. The rise would have been greater had it not been for the decline in consumption expenditure in the second quarter of last year (-2.6%), due to their high level a year earlier, from the measures taken during the then election period. The increase strengthened during the second half of the previous year, reaching 4.8% in the third and 7.3% in the following quarter. However, despite its expansion in 2020, public consumption expenditure was slightly lower than in 2015-2017.

Investment increased by 4.6% in 2020, offsetting their reduction by 2.5% a year earlier. The rise came mainly from the third quarter, when investment increased sharply by 35.3%, with the last quarter being the only one with a decline, albeit strong (-19.0%). However, the strong growth came almost exclusively from the expansion of stocks, which reached €5.0 billion, from €4.0 billion in 2019 (+24.6%), as the formation of fixed capital was almost unchanged (+0.3%). The level of stocks last year was the highest at least since 2011, the last year for which the National Accounts have been revised with respect to the current base year (2015). Although based on the Eurostat National Accounts methodology, stocks balance the GDP estimates from the supply-side and demand-side approaches, the fact that in the third quarter last year they accounted for 4.4% of GDP domestically highlights the excessive impact they have on domestic output in some quarters and concerns about their overall level.

The fall in investment expenditure was halted by recording as investment the interventions to support enterprises against the effects of the pandemic. Over the whole of 2020, the outflows of the Public Investment Programme (PIP) were higher by €3.671 mil. compared to the target for the same period (€10.42 bn), mainly due to expenditures related to the above target and reached €4.28 billion. The impact of the interventions was reflected in the increase in investments in Other Constructions, which include a significant part of the expenditures of PIP and posted the strongest growth in absolute and relative terms last year. In particular, investments in Other Construction increased by €416 mil. or 9.24%, in contrast to their sharp decline in 2019 by 25.2%. Next came Housing, with an increase of €205 mil. or 14.7 %, Machinery (+€122 mil. or +2.6%) and ICT Equipment (+€100 mil. or +4.9%). Investment in Agricultural Products (+€1 million or +0.8%), which have the smallest share of fixed investments, had a mild recovery. The rise in these fixed capital categories was almost offset by the very strong decline of investment in Transport Equipment throughout last year, resulting in a total of €840 million (-41.3 %).

Regarding the developments in the external balance of the economy, the deterrent effect of the new outbreak of the pandemic in the autumn globally on international travel prolonged the sharp decline of exports from lower exports of services in the final quarter of 2020. The latter shrank by 55.4%, leading to a decrease in total exports by 13.4%. As a result of this development, the exports of services were 43.9% less than in 2019, when they had been increased by 7.2%. The exports of products followed a positive trend last year, with the exception of only the second quarter, with the trend strengthening at the end of the year (+13.6%), leading to an average expansion last year of 4.3%. Overall, exports decreased by 21.7 %, as opposed to growth by 4.8 % in 2019.

The milder pressures from the pandemic on imports in relation to exports continued in the final quarter of last year, when imports declined by 9.5%. Overall in 2020, they were 6.9% below their level a year earlier, when they had mildly increased by 3.1%. Among the import components, the decrease was stronger in the imports of goods (-16.0% or -€3.05 billion), compared with an increase of 4.9% a year earlier. The imports of services shrank by €1.97 billion or 3.8% after growth by 2.3% in 2019. The much larger decline in exports compared to imports worsened the external balance, leading to a deficit of €10.2 billion (6.1% of GDP), from slightly negative balance in 2019 (-€1.47 billion).

Prospects for a significant recovery in 2021, from a rise in exports, provided that the many investment support opportunities are utilised

The health crisis remains the most decisive factor in political and economic developments, domestically and internationally and it is expected to be in this position throughout 2021. In the current period, the related developments concern the new, severe outbreak of the health crisis since the beginning of March in Greece, as well as the increasing progress in the vaccination process, the use of new and easily accessible self-tests for the detection of the virus, as well as the relaxation of some of the restrictive measures since the beginning of April. The burgeoning mutations of the virus, which are thought to increase its contagion, while creating uncertainty as to the response from existing vaccines constitute an escalating challenge this year. The coming period will be crucial for the gradual reopening of certain important sectors and activities of the Greek economy, which are also related to the approaching tourist summer season (accommodation, passenger transport, food services, retail trade).

In the fourth quarter of the previous year, when the pandemic was in its second wave and measures to protect public health had escalated, the rate of recession either declined slightly or slightly strengthened, in the larger economies and economic regions: It stood at 3.0% in the OECD countries, from 3.8% in the third quarter, at 4.6% from 4.1% in the EU, and at 2.4% from 2.8% in the US. In China, GDP growth accelerated further, from 4.9% in the third quarter to 6.5% in the next.

Following the easing of the pandemic in early 2021, there has been a new wave since March in many countries, with different intensity. However, in some countries, the number of new cases of the virus has either steadied or fallen. Therefore, the dynamics of the health crisis not only differ across countries, but it has also spread to a varying degree. Despite the third wave of the new coronavirus, no new initiatives, with few exceptions, were taken to support economies and societies by national governments and multinational bodies. The exception is the US, where the American Rescue Plan was approved at the beginning of March, including another round of relief interventions and an estimated cost of $1.85 trillion. From the decline of policy interventions, it seems that the strongest developed and developing countries are trying to harness the deterioration of their public finances from the measures taken to tackle the pandemic over the past year and to restore their economies, so that a large share of activities are not permanently ruptured by inaction. In addition, they are trying to avoid overheating phenomena from continuing the successive liquidity interventions of central banks.

The new coronavirus pandemic continues to have an impact on other major economic activity indicators worldwide, such as the price of oil. Despite the decisions of OPEC and its partner countries (Russia) for a gradual reduction in their daily production cuts of April 2020, the price of oil remained on an upward track between November 2020 and February 2021, returning towards the end of this period to its pre-crisis levels. Oil prices have steadied since the beginning of March 2021. The rise in oil prices is probably mainly due to the strong recovery of China's economy and the restocking of winter supplies.

Since IOBE’s first report on the Greek economy following the outbreak of the COVID-19 pandemic, the macroeconomic forecasts are based on alternative assumptions for factors that are judged to affect the key macroeconomic variables over the medium term. During the current period, the most important factors for this year remain, as in 2020, the duration of the high-intensity health crisis, in Greece and internationally, especially in the Eurozone, as well as the size of policy interventions to stem its effects. In greater detail, the evolution of the pandemic of the new coronavirus in 2021 will depend largely on progress in vaccination, virus mutations, and the use of self-tests. The macroeconomic scenarios should therefore take into account, in the form of relevant assumptions, possible developments in these parameters. The dynamics of the health crisis have a strong impact on the activity of Tourism, whose contribution to Greece’s GDP is much higher than in other countries. For this reason, assumptions about turnover in this sector should be incorporated into the alternative forecast scenarios. In terms of policy interventions, their size this year will depend, apart from the pandemic trend, on the raising of capital resources from the European recovery fund (NextGenerationEU).

In particular, the assumptions of the basic forecast scenario for 2021 are the following: Public health protection measures are not expected to be extensively lifted for most of the first half of this year. This is expected to take place within the next six months, depending on the progress in vaccination, the effects of the application of self-tests etc. Compared to the first lockdown, more companies in Greece opt in the current phase of the outbreak of the pandemic to adapt their activity to the new health rules, rather than suspend it, and the mobility of people is much greater. No new strong “resurgence” of the pandemic is expected in the second half. Its strong increase at least until the beginning of the second quarter, both inside and outside Greece, will not allow Tourism to operate until at least mid-May. After that date, international tourism is expected to rise gradually, in line with the decline of cases and progress in vaccination internationally. The summer season is expected to last until the beginning of the fourth quarter. As a result, revenues from international tourism services will be strengthened from last year, reaching 45-50% of their level in 2019, from 24% in 2020, an expansion corresponding to an increase from €3.8 to €4.7 bn. The impact of the health crisis will be mitigated by the operation of the European recovery fund, the resources of which will flow from the second half, with the relevant target in the Budget of 2021 (€5.5 billion) achieved or approached. With regard to the trend of GDP in the Eurozone, it is assumed to be close to current relevant forecasts (IMF: 4.4%).

The alternative macroeconomic scenario is more unfavourable than the baseline scenario. According to this scenario, the health crisis, in Greece and internationally, will ease significantly later in the second quarter, resulting in the operation of the tourism sector starting in early June. Also, progress in vaccination internationally will be slower (e.g. out of caution about possible side effects of vaccines), restraining the growth in tourist flows. As in the baseline scenario, the tourist season will end later than last year. In this respect, revenues from international tourism services will be higher compared to 2020, but less than in the baseline scenario, in the area of 35-40% of their level in 2019, an increase corresponding to an expansion of €2.1 to €3.0 billion. A new significant resurgence of the pandemic is expected in the second half (e.g. from an outbreak of mutations), milder than those that led to the first and third lockdown, thanks to the vaccination. This will bring new restrictive measures, possibly less strict compared to the first and third lockdowns, e.g. due to the contribution of self-tests. A new escalation of protection measures will also lead to more support for businesses and households. The milder positive health developments worldwide will also mitigate the recovery in the Eurozone, resulting in a lower growth rate than the latest forecasts (3.5%). The NGEU inflows will be well below the target in the 2021 budget, e.g. due to procedural problems at the EU level (~€4.0 billion).

In detail with regard to recent and anticipated developments regarding the pandemic domestically, following the escalation of the number of new cases at the end of last January, measures for the protection of public health have been stepped up, gradually coming close to the measures of the first lockdown in March 2020. Despite the implementation of the measures, new cases and ICU patients with coronavirus increased sharply since the beginning of March. As a result, the measures to protect public health were further stepped up. Despite this, the number of new cases did not decline, while ICU patients with coronavirus and deaths resurged. Nevertheless, on 31/3 a partial removal of some of the restrictions was announced, with the aim of relaxing the pressures on the population from the lockdown and the gradual reopening of the market, respecting health rules. In particular, from 5/4 the operation of retail trade stores other than department stores and shopping centres was allowed, with purchases either in stores or at the store entrance, upon appointment in both cases. It should be noted that activity from brick-and-mortar shops in Retail Trade, but also in other activities, such as education, food services, transport and shortly tourism, is based on regular, frequent self-testing for the new coronavirus. Also, from Saturday 3/4 and only for weekends, inter-municipal travel by car for exercise was allowed. Therefore, for the time being, the relaxation of the protection measures is limited. However, if the application of self-tests proves effective in curbing and limiting the spread of the pandemic, for employees in businesses with physical contact with customers, as well as for the rest of the population, together with progress in vaccination, this can be a key factor in the 'return to normality' of the economy and of people's lives. If this dynamic manifests itself, its effects are expected to be felt mainly from autumn, as there will be no new, sharp spread of the pandemic, as in March and November last year, as well as in March this year, without ruling out a mild wave. As a result, the wariness about the duration and effects of the health crisis will begin to weaken, facilitating the decisions of the economic units.

The new strong resurgence of the health crisis in Greece in February and March and the extension and strengthening of public health measures led the Greek Government to continue or reinstate interventions in support of businesses and households. In addition, a number of new interventions have been implemented (extension of maturity and payment of securities by affected companies, partial exemption from repayment for the repayable advance programmes 1 to 3, subsidy of part of the 2020 fixed costs that are not covered by other aids). According to government estimates, the budget of interventions in 2021 until the beginning of April, to address the effects of the pandemic, exceeds €14 billion, while in the Explanatory Report of the 2021 State Budget, their budget was €4.54 bn, while another €3 bn were available for the same purpose, as non-allocated funds. Therefore, the budget for the actions decided so far is almost twice the budget target and the support measures will burden the budget balance this year as well. However, enterprise support measures partly compensate for the losses of businesses as a result of the COVID-19 pandemic and cannot replace the normal functioning of the market in the medium term. As some sectors have been suspended for more than six months during the health crisis (Retail Trade, Tourism, Food Services, etc.), their businesses are now under considerable pressure and their effects are expected to be felt when the majority of aid interventions are lifted, especially on employment and thus on private consumption.

Moving on to the presentation of developments in funding, which can play a decisive role in halting the effects of the pandemic, especially on investments, banks in Greece continue to step up the use of the ECB's liquidity-generating capabilities that arose in response to the exceptional circumstances. The most important financial instrument of these is the Pandemic Emergency Purchase Programme, with a budget of €1.85 trillion after its two extensions. The duration of the PEPP has been extended until March 2022, with the ECB reinvesting maturing securities at least until the end of 2023. Meanwhile, a new liquidity facility was created, for non-targeted longer-term refinancing operations due to the pandemic (PELTRO), at an interest rate 25 points lower than the average main refinancing rate (MRO) for the duration of such an operation. In December 2020, the ECB announced four additional pandemic emergency refinancing operations, one per quarter in 2021, with a duration of one year. In this context of funding options, the liquidity of the Greek banks drawn from the Eurosystem reached €24.4 bn in April-September 2020 and totalled €38.96 bn at its end. Since then and up to February 2021, it has fluctuated slightly and has eventually increased mildly to €41.5 bn.

Lending is also boosted by a rapid increase in private-sector deposits (of households and non-financial corporations). In 2020 private sector deposits increased at an average rate of 9.6% or by €13 bn. The rise was mainly from household deposits (+€7.1 billion or +6.3%), but its rate was much stronger in the deposits of non-financial corporations (+€6.9 billion or +27.0 %). The trend in private deposits in the first two months of this year is conducive to further credit growth, with its rate reaching 14.6% (+€20.3 billion).

While the developments just mentioned are conducive to credit expansion by banks, the prolonged uncertainty as to the duration and intensity of the health crisis, as well as its impact on the servicing of loans, will continue to interfere with the granting of bank credit, at least for most of the first half of 2021. The suspension of activity in many sectors since last November, which has continued in most, puts additional pressure on business turnover and household incomes, affecting the ability to serve their loans. Nevertheless, the further suspension of payment of bank loan instalments, at most until the end of 2021, will continue to mask the trend in non-performing loans (NPLs). The most likely component of the above is the significant resurgence of defaults with banks. The financial results of the four systemic banks for 2020 include balances of NPLs, from loans with suspended payments, amounting to €3.1 bn, out of an outstanding amount of €18.4 bn of loans in moratorium. However, banks have formed much higher provisions for both loan moratoriums and loans that may become non-performing in 2021. The Bank of Greece's estimate of the new NPLs in 2021, in the recent Governor's Report, is between €8-10 bn.

The non-performing loans (NPLs) declined sharply in the final quarter of last year. In particular, they totalled €47.4 bn in December, from €58.7 bn in September and €68.5 bn a year earlier. The significant acceleration of the decline in the NPL stock towards the end of 2020 was mainly due to sales of loans under the state guarantee scheme for bank loan securitisations (Hercules programme). Last year, loans of €19.3 billion were sold on an individual basis using this programme, with the NPL write-offs totalling €2.6 bn, while their reduction with collections through active management was less extensive.

The revised targets for reducing the NPLs set by the banks until the end of 2021 (below 20% of the total loans), together with the fairly likely increase in non-performing loans due to the health crisis, highlight the need for immediate use of all reduction possibilities. As the provision of guarantees by the Greek State under the “Hercules” programme was about to expire in early April, an extension request was submitted to the Directorate-General for Competition of the European Commission, which was subsequently approved. Through Hercules II there will be the possibility for banks to make up to €32 billion new NPL securitisations, with €11-12 billion new state guarantees. At present, the largest banks have expressed an interest in securitisations of loans amounting to €18.6 billion through the new programme. Other systemic solutions for the reduction of NPLs have also been proposed, such as the plan of the Bank of Greece for the creation of an Asset Management Company or “bad bank”, which will be linked to addressing the issue of deferred tax claims (DTC). The plan was submitted in mid-September by the BoG to the government and the institutions and was presented at the end of December to bank administrations. The recent Governor’s Report for 2020 states the government is considering the feasibility of establishing an asset management company.

As to the possibilities for financing enterprises from the public sector, as noted in previous IOBE reports on the Greek economy, the resources of the European recovery fund NextGenerationEU (NGEU) will be the most important additional source of investment funds in the coming years. Greece’s National Recovery and Resilience Plan (Greece 2.0) was presented on 31/03/2021. According to the plan, Greece will receive up to €18.2 bn in grants and up to €12.7 bn in loans, i.e. a total of €30.9 bn, in the period 2021-2026, yet, together with leveraged domestic funds, the total capital resources allocated for investments in the context of the implementation of the Recovery Plan are projected to reach €57.5 billion. The project comprises four pillars: A) Green Transition, b) Digital Transition, c) Employment, Skills, Social Cohesion and d) Private investment – transformation of the economy, with the first pillar expected to gather most resources, both from the EU and domestic funds.

As mentioned in the assumptions of the alternative macroeconomic scenarios, a determining factor for the NGEU's impact on the domestic economy this year will be the rate of absorption of its funds. This will also determine the extent to which the base effects of the extraordinary liquidity programmes of 2020 on business investment, which transpired through the Public Investment Programme (PIP), will be felt in the current year. One possible reason for delaying the activation of the NGEU is the decision to suspend its ratification in Germany in February by the constitutional court, which has not yet been revoked. The Explanatory Report of the State Budget for 2021 envisages that the resources drawn from the NGEU this year will be around €5.5 billion. According to the 2020 Governor’s Report of the Bank of Greece, advances from NGEU this year will reach 13% of the total available funds for Greece, without specifying whether they will relate to grants or loans. Therefore, it is not expected to exceed €4.0 bn. The expected particularly positive effects of the NGEU on the economy will be felt mainly in the coming years. According to recent estimates by the Bank of Greece, the impact will exceed 2.0% of GDP per year from the first stages of its implementation, reaching maximum intensity in 2026 (4.3% of GDP). It will then gradually decline, but will remain higher than 2.0% of GDP until 2030. The NGEU will also support public finances, with tax revenues as % of GDP expanding by an average of 1.6% per year. If the use of NextGenerationEU resources is accompanied by structural changes, the impetus to GDP will be much greater.

With regard to the regular state financing of investment, through the Public Investment Programme, the relevant target set in the draft is €6.75 billion. This target is set for a sixth consecutive year. In the first two months of 2021, the PIP grants amounted to €1.68 bn. However, most of this amount, €967 mil., concerned aid due to the pandemic in the form of the repayable advance. Excluding this amount, the expenditure of the PIP was €717 million in January-February, much more than in 2020 (€492 mil.), and the budget target for this year (€590 mil.). Given, firstly, the slight delay in the implementation of the PIP last year against a similar expenditure target to the current year (excluding emergency support interventions for businesses and the self-employed), at € 6.37 billion against € 6.75 billion, as well as the fact that the 2014-2020 programming period is nearing completion, support for investment projects through the PIP may be similar or slightly higher than in 2020.

Pressures on the exports of services from restrictions or bans on cross-border passenger travel due to the pandemic continue to exert a strong impact on domestic output and in the first three quarters of the health crisis were by far the strongest among the components of GDP. Imports are also weakening overall, at clearly milder pace, considered to be largely due to the high import content of the exports of products, which remained resilient last year. Available data on international tourism flow in the first quarter of this year show a continuation of its strong retreat (-87.2% at all airports, -72.2% in March in the AIA). If its current wave continues further unabated, or new outbreaks occur, it is now likely that tourist flows will be slightly higher than last year, thanks mainly to the vaccination of part of the travellers. However, should the pandemic subside substantially, passenger travel will strengthen, favouring tourism. A significant relaxation or lifting of public health protection measures in export destinations will stimulate their import demand for Greek products.

Taking into account, in particular, the recent and potential developments regarding the COVID-19 pandemic, in particular its successive waves in late 2020 and early 2021, in Greece and internationally, as well as the reactions of enterprises and households to the relevant restrictive measures, the scale of the vaccination process, the added possibilities for detection of the virus (self-tests), the extensive support measures for households and businesses domestically in early 2021, the decline of household consumption spending in the first quarter of this year is estimated to be milder compared to the previous lockdown periods. The weaker decline is due to the temporary lifting of the measures in January, tax relief on incomes (social security contributions, social solidarity levy), which will boost people's mobility, compared to previous lockdowns, throughout this year.

Given the particularly strong decline in private consumption during the spread of the pandemic in the second quarter of last year, its trend will be reversed a year later. However, its intensity should not be taken for granted and will depend on the pace of lifting of the restrictive measures, especially those on travel, both domestically and internationally. The dynamics of tourism and related activities (Food Services, Arts-Recreation, Transport, etc.) and thus their employment will depend on the relevant developments. Another crucial factor for employment and income will be the pace of lifting of support measures, which has made it possible for many businesses and jobs to be viable since last year. Their completion in a short period of time will probably not be offset in the short term by employment growth. As long as positive developments are delayed within the second quarter (adverse scenario), the growth in private consumption will weaken. In addition, its growth is likely to be weak in the summer quarter, as a year earlier consumption spending had decreased moderately.

As long as there is no significant resurgence of the pandemic in the second half of the year, e.g. in the autumn (basic scenario), employment will continue to strengthen, particularly in sectors with strong impact on economic activity last year, as mentioned above, but also in Manufacturing, whose activity has shown considerable resilience in the current crisis, boosting domestic income and consumption. However, note that even in this scenario of developments, no significant expansion of employment is expected, as the lifting of support measures will lead to the loss of many of those retained by the aid of State grants. In the opposite case, i.e. a new outbreak of the pandemic, the pressures on a part of the companies to be suspended will be strong in the autumn, leading several of them to close. Taking this into account, under the baseline macroeconomic scenario, private consumption is projected to increase in the region of 2.5-3.5%, while in the case of the unfavourable scenario it is expected to increase by between 1.0% and 1.5%.

As to the developments in public consumption this year, the growing emergency health costs due to COVID-19, mainly for the supply of vaccines and tests, for health workers, to increase ICUs and new medicines, will stimulate consumption demand. The interventions to support businesses and households will be clearly higher than planned in the 2021 budget, yet they will probably fall short of those recorded last year. Moreover, this year there will be no retrospective payments to pensioners, as in the fourth quarter of last year. The above trends in public consumption expenditure are expected to lead to its reduction by 3.0% to 4.0% compared to last year's level. However, if the current outbreak of the pandemic continues with a strong intensity over most of the second quarter or a new wave emerges in the autumn, the decline in consumption expenditure will be mitigated, in the region of 1.0%-2.0 %. Progress in vaccination by the end of summer and the new means of virus detection (self-tests) are expected to prevent a strong escalation of cases, such as those observed last November and this March.

On the investment side, the stronger bank lending since last year has already shaped the possibility of higher investment by a large number of companies. Manufacturing activities that benefited from the health crisis or proved to be resilient to it (e.g. Pharmaceuticals, Computers, Plastics), and the most export-oriented activities, are considered to be the most likely to make investments. The implementation of "Heracles II" will contribute substantially to the remedy of any negative developments in the assets of banks from the pandemic, such as an expansion of the NPLs, but also to their further reduction, favouring credit expansion. However, the expansion of deposits in the coming period will depend on the evolution of the health crisis and its impact on employment and income. Thus, its intensity, and even its continuation, should not be taken for granted.

As pointed out in IOBE reports following the outbreak of the new coronavirus pandemic, the support from the aforementioned and other exceptional actions to address the effects of the pandemic on businesses and the self-employed (e.g. repayable advance, special-purpose compensation), although not related to investments, were partly reflected through investment expenditure on GDP, as they are made available under the Public Investment Programme. The continuation of such actions in 2021, is still partly financed through the PIP, which is why they are expected to sustain a large part of the fixed capital formation in 2020 that resulted from interventions of this kind. Regardless of these technical effects, investment support through the PIP is projected to be around last year's level or slightly higher.

The most decisive factor for the impact of the public sector on investment activity this year, but also in the coming years, will be the use of the resources of NextGenerationEU, combined with the national resources that it will leverage. Under the relevant assumptions of both macroeconomic scenarios, their stimulus on investment activity will begin in the second half of this year, probably from the autumn.

The significant under-performance of the privatisation programme in 2020, which is also related to the pandemic and is currently continuing in 2021, will result in their small contribution to investment activity this year, and possibly next year, given the long maturation period required for projects on this scale. However, if the relevant procedures accelerate, e.g. for the completion of the concession of Hellinikon and the regional ports, strong investment impetus can come in the coming years, directly and indirectly, in the wider regions.

The decline of the formation of fixed capital in 2020 was counteracted by building works, which were particularly strong at the beginning of the year and continued weakened until last September. However, as this came largely from investment in Tourism, in hotel construction and real estate renovation for use with Airbnb, it is likely that it will be severely affected this year.

Therefore, the level of investment will be determined by a large number of factors, with different effects, in direction and extent. Taking into account these effects, notably the strong credit expansion towards businesses, the exceptional financial instruments for the pandemic and the NGEU resources, as well as the upward dynamics of exports of goods since last year, which determines investment decisions in industry, investment is expected to recover by 12-15% in the main macroeconomic scenario. If the weakening of the pandemic outbreak is slow, domestically and internationally, and there is a new wave in the autumn, investment sentiment will weaken and capital formation will expand more slowly, by between 7% and 9%.

In the external sector of the economy, on the export side, the dynamics of exports of services will be the main trend driver. As stated in the previous IOBE report on the Greek economy, the fact that the pandemic presented successive waves in late 2020 and in the first quarter of this year prevented a significant resurgence of tourist interest from the beginning of 2021 and affected bookings. The progress with vaccination internationally gradually counteracted these effects. The escalation of tourist demand will depend on the attenuation rate of the spring wave of the pandemic. Each of the macroeconomic scenarios includes an assumption regarding the starting point of the tourist season. Even in the unfavourable scenario, its duration will be similar to last year, while international tourism will be much higher, thanks to vaccination and more ways of detecting the virus, with revenues clearly higher than last year, so their contribution to the change in total exports will be positive. Nevertheless, reaching half their 2019 level will be a challenge.

With regard to the provision of international transport services, as evident from the current account data, the heightened restrictive measures since November have raised the pressure mainly on receipts from the main categories of services. This trend is considered to have persisted throughout the first quarter of this year at least. However, the recovery in the Eurozone, a major export destination, which according to recent forecasts will reach 4.4%, and in international trade in goods, which according to the World Trade Organisation will be in the region of 8.0%, will revive international transport. Coupled with the extensive contraction of activity in the sector last year, it is not planned to shrink further this year, even if the health crisis resurfaces in the autumn.

The projected growth of the Eurozone in 2021, although milder than expected last autumn (5.2%), partly due to the major challenges facing the European economy, and the prolonged outbreak of the pandemic at the beginning of the year, will escalate the demand for Greek products. By contrast, growth in other important export destinations, such as the Middle East-Central Asia (3.7%) and developing Europe (4.4%), is expected to be stronger than expected in late 2020. Understandably, in the event of a strong rise in the coronavirus in the autumn of 2021, e.g. in Europe, the recovery of international demand for Greek products will be weaker. Taking into account the mostly positive trends in the presented drivers that concern export demand, in the baseline scenario, exports will rise by 11-13% this year, while in the unfavourable scenario the rise will be weaker (6-8%).

The boost of domestic demand, as well as exports this year, under the main macroeconomic scenario, will have a strong positive impact on the imports of goods. In the case of the unfavourable macroeconomic scenario, the anticipated weaker increase in exports of products is expected to prevent imports from falling, as the former have a high import content. Following the strong decline in the imports of services in 2020, mainly due to the lower demand for tourist services, but also for transport, the easier international travel in summer compared to last year, mainly due to vaccinations and more means of detecting the virus, is expected to stimulate the tourism of Greeks abroad this year. Under these effects, imports are forecast to rise by about 8% to 11% in the baseline scenario, and at a weaker rate in the unfavourable scenario (4-6%).

The process of estimating trends in the components of GDP this year, based on different scenarios for the developments in the pandemic of COVID-19 in Greece and internationally, as well as other determinants of these factors, as described above, produced corresponding forecasts for the change of domestic output. According to the forecasts, if the health crisis declines significantly by mid-May, without any new flare-ups and restrictive measures during the rest of the year, the Greek economy will grow in 2021, at a rate of 3.5-4.0%. In the event of a slower decline of the current outbreak of the pandemic, domestically and internationally, which will have a negative effect on the tourist season, and its resurgence in autumn, growth will be weaker, in the region of 1.5-2.0%.

State Budget: the targets for the first two months of this year are met. Additional pandemic measures are expected to have effects.

According to state budget execution data, in January-February this year, its deficit reached €3.27 billion, against a target for a deficit of €4.5 billion and a deficit of €1.1 billion a year ago. The primary balance of the State Budget in the same period was in a deficit, by €1.5 billion, from a surplus of €831 million a year ago and against a two-month deficit target of €2.7 billion. The target overshot came mainly from the State Budget expenditure. In particular, it fell short of the target by €959 million, despite exceeding the provision for purchases of fixed assets by €590 million, due to payments for armaments programmes. The restraint came from the fact that a significant part of the non-allocated expenditure, which were to be moved to the category of transfers in January - February, totalling €2.36 billion, was not transferred, because of a post-budget decision, part of the repayable advance measure to be covered with funds of the Public Investment Programme. This is reflected in the PIP expenditure exceeding the target by € 1.1 billion, out of which €967 million is due to this measure.

However, State Budget expenditure in the first two months of 2021 were € 3.13 billion more than last year, with most of the increase (67.2% or €2.11 billion) due to measures to support businesses and households against the pandemic. More broadly, given the budget of support interventions announced until the beginning of April, in excess of €14 billion and well above the relevant target in the 2021 Budget (€7.55 billion), the achievement of the target for the State Budget expenditures for the following months and overall in 2021 is considered a challenge for public finances.

On the side of the State Budget revenues, the target in the first two months was surpassed by €280 million, to total €8.53 billion. It came mainly from current revenues exceeding expectations for this period by €335 million, of which €209 million came from receipts from the auction for the 5th generation (5G) networks. Tax revenues were slightly higher than expected, at €7.62 billion against €7.56 billion.

Unemployment is likely to decline slightly in 2021, under the influence of employment support interventions

The strong recession continued to reflect milder than expected in the trend of unemployment in the fourth quarter last year. As mentioned in previous reports on the Greek economy, a number of factors have contributed to this development. In particular, the measures to protect jobs against the effects of the pandemic taken by the government and the fact that a large proportion of those who lose their jobs are leaving the workforce contributed to the lack of expansion in the number of unemployed. However, although the unemployment rate continued to decline compared to the corresponding quarter of 2019, this difference has been sharply lower since the second quarter of 2020, at 0.2 percentage points in that and the following quarters and 0.6 p.p. in the final quarter, while in the first quarter of 2020 the fall was of the order of 3 percentage points. Together with the rate recorded in the previous nine months of last year, this set unemployment in 2020 at 16.3%, 1.0 percentage points lower than a year earlier. It was also the lowest annual unemployment rate since 2011.

The strongest year-on-year employment contraction in the fourth quarter of the year, as in the previous two, was recorded in the Primary sector (-50.0k or -11.2%) and in Tourism (-44.3k or -11.9%), followed by Transport - Storage (-20.1k or -9.3%). By contrast, employment expanded in Public Administration - Defence -Compulsory Social Security (+42.5k or +12.8%), Scientific-Technical Activities (+33.1k or +15.4%) and Human Health Activities (+20.9k or +8.3%).

Developments regarding the health crisis will be the major driver of the trend in employment and thus unemployment this year. The continued measures to protect public health during the first months of 2021 escalated pressures on employment in sectors in suspension and in related activities (Retail Trade, Tourism, Food Services, Transport, Arts - Recreation). As last year, the negative effects are considered to have been mitigated by job-support interventions. The rate of lifting the restrictive measures will determine the positive effects on employment. If their removal occurs largely by mid-May and they are not reinstated in the autumn, e.g. thanks to vaccination and self-testing, many of the companies in these and other sectors will operate, respecting health rules, for most of 2021. In addition, the duration of the tourist season will be sufficient for more seasonal businesses. If the protection measures continue during most of the second quarter and return in the autumn, albeit milder than earlier this year (an adverse scenario), the impetus to employment will be weaker. The shorter tourist season, in this case, will reflect respectively in seasonal employment.

It should be noted that jobs are protected for certain months in enterprises included in a repayable advance scheme. For example, in the 5th round of the repayable advance, applications for which were submitted until the beginning of February, jobs in the recipient enterprises should be maintained until 30 June. Similarly, in the 6th round of the repayable advance programme, the applications for which were submitted by the end of February must be maintained until 31 July. Therefore, even if the lockdown of activities and furloughs are lifted within the second quarter, a significant part of the jobs will remain for a few more months under protection, which prevents a possible immediate increase in unemployment.

The significant decline of the workforce last year, from workers who lost their jobs and were discouraged by the conditions to search for a new one, is expected to be reversed this year, pushing up the number of unemployed.

The stronger exports of goods last year, which will continue to expand this year, will support the creation of jobs in export-oriented manufacturing sectors, as last year. The stronger export activity will also be reflected in their investment, which will also help employment. More broadly, investments will benefit chiefly from growth of credit from the financial sector.

The public sector will stimulate domestic employment this year, with the ongoing programme of support for the creation of 100k jobs, recruitment in the health system and OAED employment programmes.

Taking into account the above effects on the labour market, it is estimated that the unemployment rate under the basic scenario of macroeconomic developments for 2021 will be in the range of 15.5%-16.0%, while in the unfavourable scenario it will be higher (17.0-17.3%).

Easing of deflationary pressures this year, with possible a slight rise in prices, due to a significant increase in energy costs

In January - March of this year, there was a reversal of the price trend compared to a year ago, with the average rate of change of the domestic Consumer Price Index (CPI) reaching a negative value range, for the first time after two consecutive years of inflation in that period. In particular, the CPI recorded a decline in the first quarter of this year compared to the corresponding period of 2020 by 1.6%, from an increase of 0.4% a year ago. The deflation is mainly due to the negative price impact of indirect tax relief (lower VAT on non-alcoholic beverages, show tickets, food services, etc.) and secondarily, of domestic demand. Prolonged adverse health developments since last November have caused strong uncertainty in households, reducing and then reversing the positive impact of their demand on prices, which was the only factor holding back the CPI's decline last year. The deflationary effect of energy costs in the first quarter was the weakest among the main determinants of the CPI trend, reflecting the significant rise in the global oil prices since the end of 2020.

As expected, the evolution of the health crisis this year will be the major determinant of prices, through its counteracting effects on domestic demand and energy goods. In particular, the effects of the pandemic on employment and then on disposable income will shape the dynamics of consumer demand and thus, its effect on prices. Under the baseline scenario of macroeconomic developments, a significant easing of strong public health measures by mid-May and a lack of a second wage in the autumn will lead to a gradual recovery of activity and employment in quarantine-affected sectors. Combined with the creation of jobs in industrial export-oriented activities, as well as from more investment, domestic disposable income will increase, stimulating consumer demand and thus prices. If the current wave of the pandemic subsides slower, in Greece and abroad, as assumed in the unfavourable scenario, the growth of economic activity and employment in the summer will be weaker. The recovery will weaken further should there be a new wave of the virus in the autumn. This will then mitigate or reverse employment growth, causing similar trends in income and demand. In any case, the reduction of direct taxation (suspension of the solidarity levy and reduction of social security contributions) is expected to have a positive effect on incomes.

Regarding the expected impact of indirect taxes on the CPI formation in 2021, the extension of these reductions for certain goods and services until 30 April 2021 will maintain their deflationary effect on prices over the same period. For the rest of 2021, if these measures are not extended, the price trend in the concerned categories of products and services will be reversed, as they have been imposed since last June. However, the prevailing scenario is that the reduction of these indirect taxes will be extended throughout 2021, which from June will have little effect on prices.

The dynamics of the pandemic through its impact on global demand will also determine developments on the side of energy cost. On the energy production side, the cuts in daily oil production by OPEC+ member countries, which began in April 2020 and has gradually de-escalated, is considered to have contained slightly the sharp fall in the price of Brent in the first four months of 2020. The rise in oil prices since then is considered to be more, but not exclusively, related to the rapid recovery of China, , the world's second-largest oil consumer, and the restocking of supplies ahead of the winter season. The increasing progress in the vaccination of the population in many countries worldwide, despite delays in vaccine production, is creating a prospect of exiting the health crisis, lifting public health protection measures and reviving economic activity. In the latest forecasts of international organisations (IMF), the prediction of a significant recovery of economic activity worldwide remains, with China's economy leading the way.

Taking into account the above possible trends in the key components of the domestic Consumer Price Index, as well as the effects of similar trends in the past, as well as the rate of change in the first quarter of this year, the baseline macroeconomic scenario projects a marginal inflation rate of 0.1-0.3%. Under the adverse macroeconomic scenario, the mild rise in consumer demand and the negative impact of indirect taxes on prices will curb the increase in energy prices, leading to a further mild decrease in consumer prices (-0.3% to -0.5%).

Special study: Evaluation of labour market reforms in Greece 2010-2018

Within the framework of the three successive programmes to support the Greek economy in 2010-2018, reforms were legislated and implemented in order to restore fiscal sustainability and its external competitiveness. Some of the most radical structural changes took place in the labour market. This study evaluated the economic effects of these reforms in relation to the initial planning and objectives, both in terms of the microeconomic incentives for employment but also in terms of main macroeconomic indicators of the labour market. Empirical analysis has shown that the reforms: a) have largely met the objective of strengthening cost competitiveness, (b) increased flexibility in labour regulations, through which they partially supported the goal of adjusting the labour market through prices (wage reduction) rather than through the level of employment (redundancies); but also (c) left, for the most part, unresolved some long-term weaknesses, such as the low labour market participation rate and the high tax burden on labour. The study highlights raising labour productivity and reducing unemployment and inequality as priorities for policy.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- The global economy is projected to recover at a rate of 6% in 2021, slightly higher than previous estimates (5.5%).
- The speed of recovery varies from country to country depending on the extent of budget support, dependence on vulnerable sectors, but also the speed of vaccinations.
- Sources of uncertainty and challenges remain, due to the mutations of COVID-19 but also the expansion of public debt worldwide.

The COVID-19 pandemic continued to put pressure on global economic activity in the fourth quarter of last year, slightly less than in the previous quarter. The recession rate in OECD countries declined in the last quarter of 2020 to 3.0%, from 3.8% the previous quarter. The rate of change of GDP in the major developed economies (G7) stood at -3.3%, compared to -4.1% in the previous quarter and 1.3% in the respective quarter of 2019. In the 20 most developed OECD countries, the recession eased, from 2.2% to 0.5%, indicating that among the developing countries, the decline in GDP was deeper. Country-level trends point to a further acceleration in the recovery of China's economy, from 4.9% to 6.5%, as well as to the fact that domestic output in India was unchanged from last year, following a decrease of 7.0% in the third quarter and 23.5% in the second quarter of 2020. Among developed countries, the strongest recession was again experienced by the United Kingdom (-7.3%). In contrast, GDP in Japan fell by 1.3%, less than the rest of the most developed countries. Japan also experienced the sharpest slowdown in the recession in the fourth quarter compared to the previous one, from 5.8% to 1.3%. Overall in 2020, economic activity fell by 3.3%

according to the latest forecasts,[1] slightly milder than expected at the beginning of this year (-3,5%[2]).

The deceleration of GDP decline in the fourth quarter, especially in developing countries and economic zones, is estimated to be due to the gradual spill-over of the effects of supportive policies in developed countries. Indicative of these effects is the significant recovery of exports from China and developing Asian countries in this period, compared to a year ago, while overall over the same period global exports continued to decline marginally and exports of the most developed countries were unchanged since the previous year. These and other trends in international trade in 2020 are presented in box 2.1, in this section of the report.

Since the beginning of the pandemic, policymakers have taken strong action in many countries, supporting households and the labour market and providing liquidity to businesses to prevent medium- and long-term effects of the health crisis on their economies. According to the IMF, total fiscal support worldwide reached $14 trillion.[3] However, as repeatedly pointed out in the IOBE reports, policy interventions have a strong negative impact on the fiscal balance. The global fiscal deficit amounted to 10.8% of GDP in 2020, from a deficit of 3.6% in 2019. This has resulted in global debt rising to 97.3% of GDP at the end of last year, from 83.7% the year before last. In countries with the highest public debt, this trend creates uncertainty about its viability after the end of the pandemic and the consequent tightening of fiscal rules. For example, some of the emerging economies that have been hit hard by the pandemic and will not be able to quickly return to pre-COVID-19 GDP levels are likely to need to restructure their public debt in the coming years.

The outlook for the global economy has improved this year, supported by the widespread availability of vaccines, the discovery of drugs against the new coronavirus, but also the increased ability to perform diagnostic tests. Strong fiscal support measures continue and in some cases escalate, especially in the most developed economies, with the most typical example being the new interventions, of over $1.8 trillion in the US. More broadly, the gradual adaptation to the pandemic by businesses and households has helped the global economy perform better, although in late 2020 and early 2021 restrictive measures were still in place in many countries, especially in the developed economies.

However, recovery rates will vary from country to country, depending on the economic support measures that benefit the developed economies, which have more available options, the rate at which vaccines are available, and their degree of dependence on pandemic-prone industries (e.g. tourism). An additional, horizontal challenge to the health crisis and a factor of uncertainty is the ever-increasing mutations of the virus, as they may limit the effectiveness of vaccines and prolong the duration of the pandemic.

In addition to the speed of recovery, which is of particular interest as to when economic activity will return to pre-COVID-19 levels, interest in its quality is also growing. In this respect, most countries share some common characteristics, regardless of their level of development, as young workers and those with low skills are most affected by the crisis. The emphasis on the spread of digitalisation in order to address the challenges of the pandemic is likely to exacerbate the

[1] World Economic Outlook, IMF, April 2021
[2] World Economic Outlook Update, IMF, January 2021
[3] Until March 17

difficulties of reintegrating the latter category in the labour market. Therefore, emphasis is needed on retraining programmes with specific content. Especially in developing countries, women's employment has been affected, exacerbating the relevant inequalities.

According to the IMF, the rate of change in world GDP in 2021 will be in the region of 6.0%, slightly higher than projected earlier this year (5.5%). The developed economies are projected to grow at a rate of 5.1% this year and the developing ones at a rate of 6.7%, with both forecasts revised for the better, especially for the developed economies.

Table 2.1 lists the annual changes in GDP and the IMF's recent forecasts for annual changes in GDP in the world economy and in selected developed and developing countries for the years 2021 and 2022.

Table 2.1

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

Economy	2020	2021		2022	
		Forecast	Difference from previous forecast *	Forecast	Difference from previous forecast *
World	-3.3	6.0	0.5	4.4	0.2
Developed	-4.7	5.1	0.8	3.6	0.5
Developing	-2.2	6.7	0.3	5.0	0.1
USA	-3.5	6.4	1.3	3.5	1.0
Japan	-4.8	3.3	0.2	2.5	0.1
Canada	-5.4	5.0	1.4	4.7	0.6
United Kingdom	-9.9	5.3	0.8	5.1	0.1
Eurozone	-6.6	4.4	0.2	3.8	0.2
Germany	-4.9	3.6	0.1	3.4	0.3
France	-8.2	5.8	0.3	4.2	0.1
Italy	-8.9	4.2	1.2	3.6	0.0
Russia	-3.1	3.8	0.8	3.8	-0.1
Turkey	1.8	6.0	0.0	3.5	0.0
China	2.3	8.4	0.3	5.6	0.0
India	-8.0	12.5	1.0	6.9	0.1
Saudi Arabia	-4.1	2.9	0.3	4.0	0.0
Brazil	-4.1	3.7	0.1	2.6	0.0
World Trade	-8.5	8.4	0.3	6.5	0.2

* Difference in percentage points from previous IMF estimates (World Economic Outlook Update, January 2021)

Source: World Economic Outlook, IMF, April 2021

The recent and expected trends in the economies of major countries and political or monetary unions for 2021 and 2022 are presented next.

Among the major developed countries, the US economy in the fourth quarter saw an annual GDP change of -2.4%, from -2.8% in the previous quarter and 2.3% in the fourth quarter of 2019. Overall in 2020, the US economy shrank at a rate of 3.3%, from a growth rate of 2.2% in 2019. Rapid growth of 6.4% is forecast for 2021, thanks to the additional fiscal interventions, restoring the real GDP to levels higher than in 2019. However, as a result of the extended fiscal measures against the pandemic, the primary deficit of the US federal government reached 13.6% of GDP in 2020, from 3.4% in 2019. As mentioned above, the US federal government continues to provide strong fiscal support to deal with the effects of the pandemic in 2021, with the adoption of a new $1.85 trillion (8.8% of GDP) package of measures last March. In addition, the US president recently announced a stronger $3 trillion development plan (14.3% of GDP) with a focus on infrastructure, education and health, and the green economy, which will be financed by tax increases for the rich and businesses. Its approval by the House of Representatives is still pending.

In the Eurozone, the GDP contraction intensified slightly in the fourth quarter of 2020, to 4.9% from 4.2% in the previous quarter, in contrast to growth of 1% in the same quarter of 2019. In 2020, GDP fell by 6.6%, while for 2021 a partial recovery of 4.4% is forecast, which will continue next year at a similar rate (3.8%), bringing GDP back to pre-pandemic levels. As a consequence of fiscal support measures to mitigate the effects of the pandemic, Eurozone countries are estimated to have averaged a primary deficit of 6.3% of GDP in 2020, compared to a primary surplus of 0.8% in 2019. Similarly, general government debt increased to 96.9% of GDP on average from 84% in 2019. The speed of disbursement of the EU emergency pandemic fund (NextGenerationEU) and the regular EU budget for 2021-2027 (MFF) will play a key role in the speed of the Eurozone recovery. In particular for 2021, it is estimated that €245.5 billion (1.8% of GDP) will be available across Member States. In the UK, GDP fell by 7.3% in the final quarter of 2020, down from 8.5% in the previous quarter and growth of 1.2% a year ago. For the whole of 2020, the recession rate stood at 9.9%, with a partial recovery envisaged for 2021 (5.3%) and a return to pre-pandemic levels in 2022, with similar growth (5.1%).

In Japan, GDP shrank by 1.3% in the fourth quarter last year, after a 5.8% decline in the previous quarter. Overall in 2020, there was a contraction of 4.8%, while a recovery of 3.3% is forecast for the current year and of 2.5% for the next. The primary state budget deficit in 2020 is estimated at 11.9% of GDP from 2.4% in 2019, leading to public debt to 256.2% of GDP last year, from 234.9% in 2019.

The following sub-section presents recent economic trends and economic policy challenges in five developing countries and economic regions, which generate almost a third of the world's GDP in total.

In detail, China's economy recorded a high annual growth rate of 6.5% in the fourth quarter of 2020, up from 4.9% in the previous quarter and 5.8% a year earlier. Overall, for the whole of 2020, the rate of change was 2.3%, with China being the only country among the major economies to record a positive rate of change in GDP last year. A strong acceleration is forecast for 2021, at 8.4%, while growth of 5.6% is forecast for 2022.

India's economy steadied in the fourth quarter of 2020 (+0.1%), after shrinking 7.0% in the previous quarter and growing 3.3% a year earlier. In 2020, its GDP shrank by 8.0%, but a strong recovery is forecast from this year, which will make up for last year's losses (12.5%) and will continue into next year (6.9%).

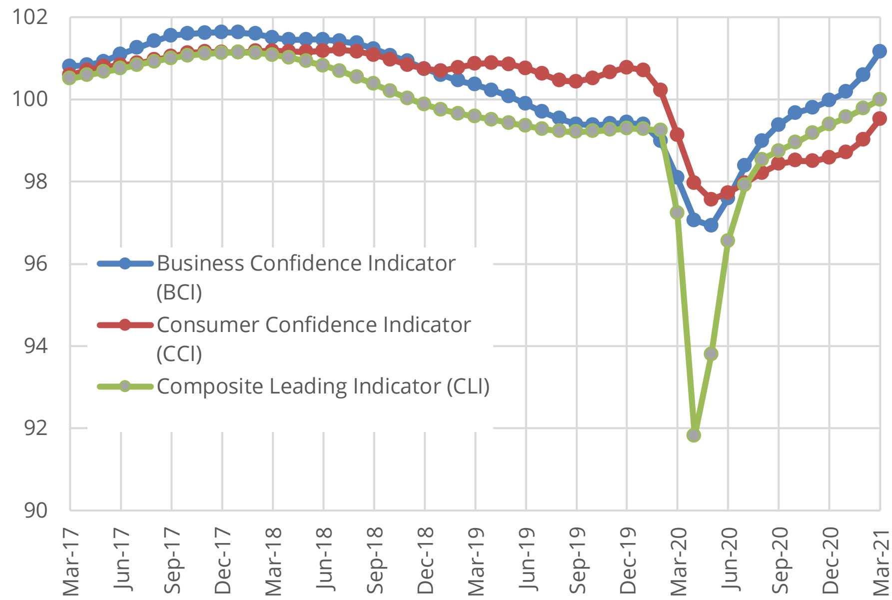
Russia's gross domestic product decreased by 2.8% year-on-year in the fourth quarter of 2020, following a 3.0% decline in the previous quarter and an increase of 0.7% in the respective quarter of 2019. Overall last year the Russian economy shrank by 3.1%, while growth by 3.8% is forecast for this year and the next.

The Turkish economy grew at an annual rate of 5.0% in the final quarter of last year, from an equally significant growth (5.4%) in the previous quarter and growth of 6.3% a year ago. Overall in 2020, the Turkish economy grew at a rate of 1.8%, which is projected to accelerate significantly to 6.0% in 2021 and 3.5% next year. The budget deficit in 2020 was 5.4% of GDP, about the same as in 2019 (5.6%). Much of the growth support is due to the significant credit expansion from the domestic banking system. In 2020, the financial flows of Turkish banks to the domestic economy reached TL888 billion ($104 billion, 18% of GDP), recording an annual increase of 39%. The consequence of these interventions was the acceleration of inflation, which rose sharply, reaching 12.3% on average last year, while last March it reached 16.2%. Also, the exchange rate of the Turkish pound has marked a significant slide since the beginning of 2020 (-20% and -27% against the dollar and euro respectively overall in the previous year). The central bank gradually raised its key interest rate to 19% from the level of 8.25% it had lowered in May last year, bringing the real interest rate back to positive territory. Among the Latin American countries, Brazil's economy contracted at an annual rate of 1.2% in the fourth quarter of 2020, down from 3.9% in the previous quarter. Overall in 2020 its economy shrank by 4.1%, while for 2021 a partial recovery of 3.7% is expected, which will continue milder in 2022 (2.6%), covering the losses of the pandemic.

The OECD Composite Leading Indicator for its member countries remained on track for growth in the first quarter of 2021, rising to 100 points in March (+0.6% since December), and is now higher than the pre-pandemic levels (99.4 points in February 2020). The business confidence indicator recovered significantly in March, reaching 101.2 points (+1.2% since December), while the consumer confidence indicator also strengthened to 99.5 points (+1% since December).

Figure 2.1

Economic sentiment indicators and the Composite Leading Indicator for the OECD countries (seasonally adjusted data, long-term average = 100)



The OECD CLI is continuing to recover for the twelfth month in March. Business and consumer confidence recovered significantly in the past two months.

Source: OECD

Inflation has recovered in developed economies from its low levels in early/mid-2020, but last February it was below pre-pandemic levels (indicatively 1.68% and 1.3% in the US and EU respectively). It is expected to gradually return to the long-term average for most countries by the end of 2022, with some volatility in the coming months due to base effects. In most developing economies, inflation is expected to be moderate or even slow down over the next two years. However, inflation in some of them could accelerate if their currency were to depreciate again.

With the ongoing health crisis, global monetary policy continues to be accommodative in reducing the impact of the pandemic on the banking system and financial markets. In particular, the Fed has pledged to maintain its key interest rate in the range 0-0.25% until 2023, while continuing its supportive stance, buying assets at a rate of $120 billion (0.6% of GDP) per month, aiming to maximise employment and achieve inflation close to the long - term target of 2%.

The ECB also maintains its accommodative policy for the Eurozone, and has committed to continue bond purchases at a rate of €20 billion (0.38% of GDP) per month until March 2022, under the PEPP programme totalling €1.85 billion, depending on the evolution of the pandemic.

World trade volume was hit hard by the pandemic last year, falling 8.5%. As economic activity gradually recovers, international trade is expected to grow at a rate of 8.4% this year and 6.5% next year. In contrast, cross-border tourism and transport are expected to remain low until the pandemic is brought under control, as insecurity and travel restrictions remain. Box 2.1 examines the trends of international trade in the world, between and within groups of countries (developed-developing).

Box 2.1

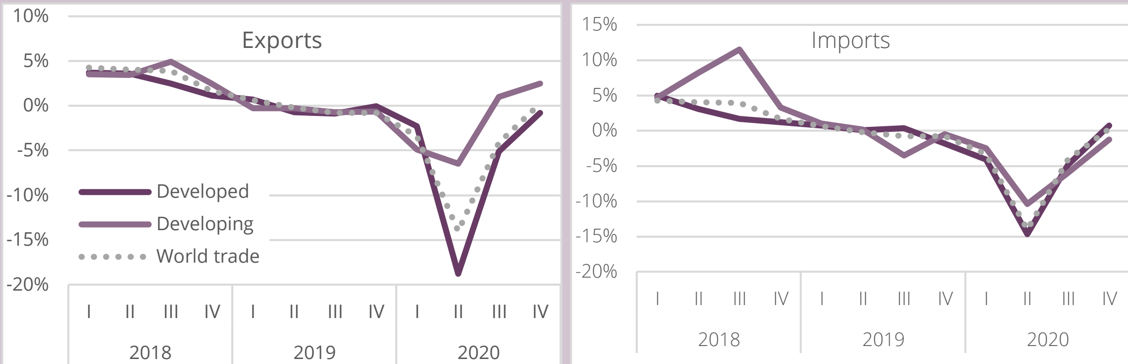
Trends in world trade in 2020

Due to the suspension of operations in certain sectors, which also affected related activities, as well as the restrictions on passenger travel, the pandemic of the new coronavirus had a particularly significant impact on international trade. Overall, international trade fell by 5.3% last year, according to data from the CPB Netherlands Bureau for Economic Policy Analysis, following a marginal decline in 2019 (-0.3%). Last year's contraction was the deepest since 2010, following the 2009 fall due to the global financial crisis. This box shows next the trend of both indicators in developed and developing economies, as well as in major economies and political unions, in order to highlight the first effects of the pandemic on the international division of labour, through international trade.

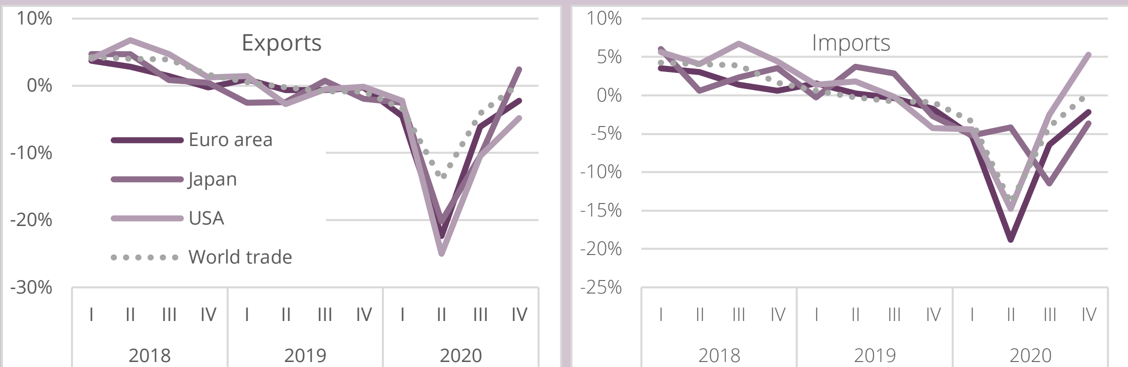
In detail, the first lockdown of business activity and travel in the second quarter of 2020 caused a significant decline in world trade compared to the corresponding quarter of 2019 (-14.0%, Figure 2.2.A). This was more pronounced in developed economies, with 18.8% and 15% decline in exports and imports respectively. In emerging economies, where China plays a significant role, the decline was milder over the same period (6.5% and 10.4% respectively). The notably different intensity of change between these groups of countries reflects the smaller initial impact of the health crisis in emerging than in developed economies. Strong support for fiscal and monetary policy interventions in many countries, especially in developed ones, has also contributed to the gradual slowdown in world trade contraction. While the de-escalation was more pronounced in the developed economies, with both export and import changes at almost zero in the final quarter of last year, in the developing countries, where the effects of the pandemic were milder, the export trend had already turned positive from the third quarter (+1.0%), with their imports continuing to decline, albeit mildly, until the end of the previous year. Overall, in 2020, the international trade of developed countries declined by 5.7% on side of exports and by 6.7% on the imports side, compared to changes of 5.0% and 2.0% in developing countries, respectively. Taking into account the volume of trade in 2019, at 2010 $ prices, the trade balance of developed economies deteriorated (deficit of $728 billion in 2020, from $643 billion the year before), while that of developing countries improved (surplus of $539 billion, from surplus of $374 billion).

Figure 2.2

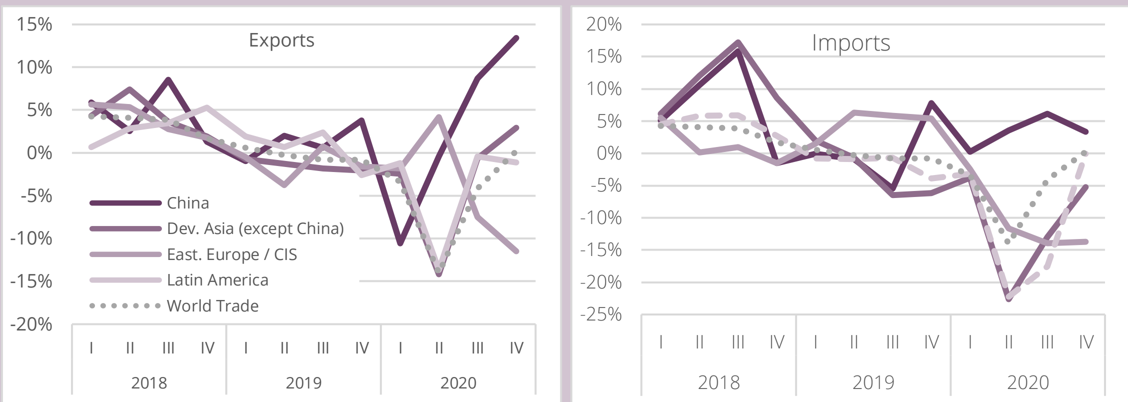
A. Evolution of trade in developed and developing economies (annual percentage changes)



B. Evolution of trade between selected developed economies (annual percentage changes)



C. Evolution of trade between selected developing economies (annual percentage changes)



Source: CPB Netherlands Bureau for Economic Policy Analysis. Data processing: IOBE.

Among developed economies [Figure 2.2.B], Japan experienced one of the sharpest falls in exports in the second quarter of last year, by more than 20%, without its imports falling accordingly, in the same and subsequent quarters. The rapid de-escalation of the decline in exports in the second half, which increased in the fourth quarter (+2.4%), was not sufficient to improve the trade balance, the surplus of which was almost zero (from $14.8 billion in 2014 in 2010 prices to $0.5 billion). The rapid recovery in US imports, which topped 5.0% in the final quarter of last year, narrowed their decline to 4.1% overall in 2020, compared to a 10.6% drop in exports, worsening the external balance to a deficit of $980 billion, compared to a deficit of $915 billion in 2019.

Among the developing countries [Figure 2.2.C], in China, after an 11% drop in exports in the first quarter of 2020, the trend has moved up from the next quarter, with their growth reaching 13.5% in the final quarter and an average of 2.8% last year. As China's imports continued to rise last year, their average expansion of 3.3% led to a marginal decline in the trade surplus to $167.1 billion (2010 prices) from $173 billion the year before last. In the developing countries of Eastern Europe and Russia, as well as In Latin America, the sharper contraction in imports (-10.5% and -10.9% respectively) compared to exports (-4.3% and -4.1%), improved their trade balances (surplus of $236.1 billion, from $220.4 billion, and surplus of $174 billion, from $112.6 billion).

B. The Economies of the EU and the Euro area

- New outbreak of COVID-19 in Europe in the fourth quarter last year, of different intensity between countries. Re-imposition of administrative lockdown measures.
- Multiple support programmes for the European economy, most notably the NextGenerationEU, the augmented EU budget for 2021-2027 (MFF) and ECB's Pandemic Emergency Purchase Programme (PEPP). The implementation of the fiscal programmes needs to speed up, as the public finances of the countries are burdened by national interventions.
- Stronger Economic Sentiment in the EU and the Eurozone in the first quarter of 2021
- Recession in the EU and the Eurozone in the fourth quarter of 2020, 4.6% and 4.9% respectively, stronger than in the previous quarter (4.1% and 4.2% respectively)
- Positive contribution of net exports to growth in October-December in both regions
- European Commission forecasts a recession in the Euro area of 6.8% in 2020 and a recovery of 3.8% in the following year (February 2021)

The COVID-19 pandemic and the restrictive measures implemented across Europe to protect public health in March-May last year have had the effect of disrupting the functioning of the EU economy. To mitigate the impact of protection measures on businesses and households, monetary and fiscal policy interventions were carried out. In May last year, a de-escalation of the health crisis began, which led to the relaxation or lifting of protective measures, with the start of business activity and the liberalisation of domestic and international travel. During the summer season of 2020, a relative sense of normality returned to Europe. However, by the end of the third and fourth quarters of 2020, the sharp rise in new coronavirus cases across Europe, more pronounced than at the time of the initial pandemic, led to the resumption of restrictive measures. Following the de-escalation of the pandemic in early 2021, a new outbreak occurred since March in many countries, including some European ones (e.g. Italy, France, Germany, Poland), with varying intensities. However, in some countries the new cases of the virus have either steadied or declined (e.g. United

Kingdom, Spain, Netherlands). Following these developments, public health protection measures were reinstated.

The sharp fluctuations of the pandemic have caused great concern for their economic effects, mainly for the possibilities of dealing with it, in order not to continue or escalate its impact on human lives. Nevertheless, the strong uncertainty due to the above developments from the end of 2020 and this year is moderated by the start of vaccinations and the progress made so far, as well as by the expansion of the means of detecting the virus (e.g. self-tests), and the progress in discovering treatments and medicines. To mitigate the economic impact of the health crisis, the European Commission has, from the outset, implemented political, monetary and fiscal interventions. The most important of these are the European recovery fund NextGenerationEU, with a budget of €750 billion and the augmented EU budget for the period 2021-2027, at close to €1.05 trillion. The ECB COVID-related policy actions are presented at the end of the current subsection. While the planning of budgetary actions started relatively early during the pandemic, its implementation has not yet begun, mainly due to procedural issues, both at EU and national level. However, there is a need to significantly speed up their implementation, as the countries' budgets are burdened by national support programmes due to the pandemic, which may affect the sustainability of their public finances.

The impact of the 2020 pandemic on the EU has been strong on demand, supply chains, labour supply, industrial production, prices, trade and capital flows. The impact of the health crisis in Europe was also influenced by the fact that the European economy at this juncture was relatively vulnerable to a shock, as it had already slowed down significantly in 2019, mainly due to some structural problems in sectors of EU industry.

In particular with regard to economic developments in the fourth quarter of 2020 in the European Union and the Eurozone, both regions experienced a recession, by 4.6% and 4.9% respectively, stronger than in the previous quarter (4.1% and 4.2% respectively), and against growth of 1.2% in the EU and 1.0% in the Euro area the year before. According to the European Commission's recent forecasts[4], after growing by 1.3% in 2019, the recession in the Eurozone is estimated at 6.8% for 2020. A recovery is forecast for 2021 which will partly cover these losses by 3.8%. The European Union, after growth of 1.5% in 2019, is projected to experience a recession by 6.3% last year and a partial correction of 3.7% of GDP in 2021.

The downturn in the European Union's economies in October-December last year resulted from a decline in domestic demand, With the contribution of investment as negative as in the previous quarter (-2.0%), the negative contribution of private consumption was more intense, 3.8 p.p. of GDP, from 2.3 p.p. in the third quarter of 2020. The opposite was true of the net-exports' effect on GDP's rate of change. In the fourth quarter of 2020, it was positive, at 0.7 p.p., compared to a negative impact of 0.3 p.p. in the previous quarter. The trends in the structure of the recession in the Eurozone economies are similar, with domestic demand the main recession driver (-5.7 p.p. from -3.9 p.p. in the third quarter of the year). There was also a negative contribution of investment to year-on-year GDP change, similar in intensity to the previous quarter (-2.1 p.p. from -1.9 p.p. of GDP), while the negative impact of private consumption intensified, from 2.5 p.p. in the third quarter last year to 4.1 p.p. in the following quarter. Moreover, in this quarter, the contribution of

[4] European Economic Forecasts, Winter (Interim) 2020, European Commission, February 2021

net exports to the euro area (GDP) was positive, by 0.8 p.p., while a quarter earlier it was marginally negative (-0.2 p.p.).

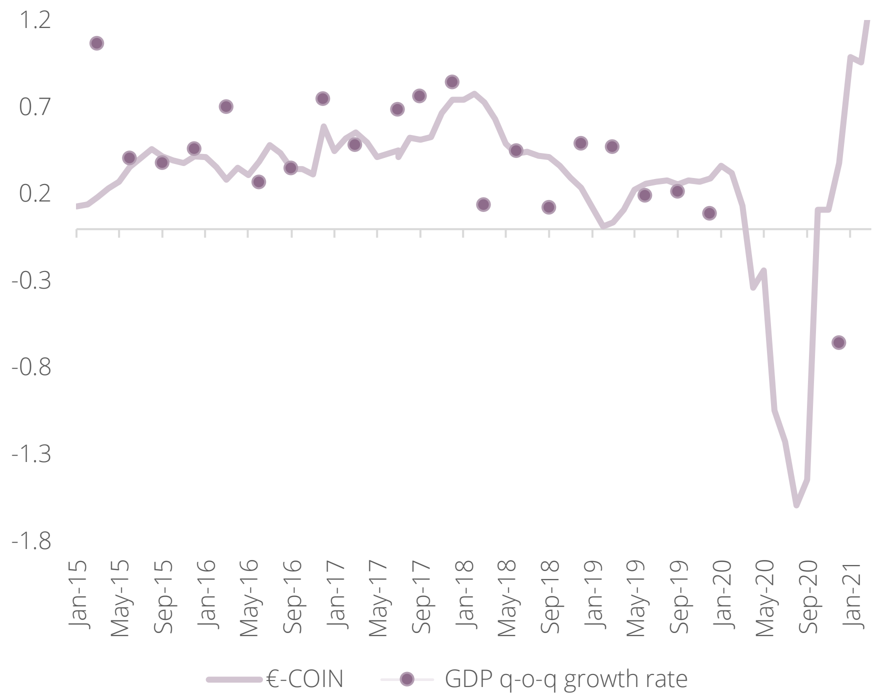
The structure of GDP components on the expenditure side stands similar for the EU-27 and the Eurozone, with consumption at 74.7% and 74.8% of GDP respectively, investment at 21.7% and 21.5%, exports at 51.4% and 49.7% and imports at 47.8% and 46.0% of GDP.

Luxembourg is the only country which experienced growth in the EU in the fourth quarter of last year (annual changes in seasonally adjusted data), at a rate of 1.4%. The mildest recession occurred in the fourth quarter in Ireland (0.2%), Lithuania (1.0%), Denmark (1.5%) and Finland (1.7%). In Greece, the recession (7.9%) was the second strongest among the EU countries after Spain (8.9%). Next in the ranking of countries with the deepest recession came Croatia (7.1%), Italy (6.6%) and Malta (6.2%). On a rolling 12-month basis, Greece had a negative growth rate of 8.0%, stronger than the averages of the EU (6.3%) and the Euro area (6.8%). The country with the deepest economic contraction, on a twelve-month rolling basis, was Spain (-10.9%), followed by Italy (9.0%) and France (8.2%). In contrast, the only country with a positive growth rate in the EU-27 was Ireland (2.5%).

Figure 2.3

Monthly €-COIN Index & Eurozone GDP*

Strong rise of the €-COIN leading indicator in the first quarter of 2021, “harbinger” of recovery in the Euro area



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

Source: CEPR and Bank of Italy

Regarding economic climate trends and key leading indicators of economic activity in the Euro area and the European Union, the €-COIN index increased in the first quarter of 2021 to 1.10 points, from 0.20 points in the previous quarter, while it was much higher than in the first quarter of last year (0.20). The monthly performance in March 2021, at 1.36 points, is extremely high, indicating a significant increase of GDP q-o-q, in the first quarter of 2021.

The European Commission's Economic Sentiment Indicator for the EU and the Eurozone in January-March this year stood at 94.7 and 95.3 points, respectively, higher than in the previous quarter, by 4.1 and 3.9 points, however lower than the same period last year, by 5.3 and 4.8 points. In March this year, the Economic Sentiment Indicator stood at 99.9 points in the EU and 100.9 points in the Eurozone, 6.8 and 7.5 points higher than in the previous month. Moreover, it stood 5.4 and 6.8 points higher than a year ago.

Table 2.2

Economic Sentiment Indicator EU-28 & Euro Area (av. 2000-2020=100)

Μήνας	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan - 20	Feb - 20	Mar - 20
EE-27 (2020)	104	105	103.1	102.4	102.7	101.3	100.4	100.9	101	102.5	103	94.5
Euro area	103.6	105	102.9	102.3	102.6	101.1	100.2	100.7	100.9	102.6	103.4	94.1

Μήνας	Apr - 20	May - 20	Jun - 20	Jul - 20	Aug - 20	Sep - 20	Oct - 20	Nov - 20	Dec - 20	Jan - 21	Feb - 21	Mar - 21
EE-27 (2020)	67.1	69.4	77.2	83.7	88.4	91.5	91.7	88.6	91.6	91.1	93.1	99.9
Euro area	67.8	70.2	78.1	84.2	89.1	92.3	92.5	89.3	92.4	91.5	93.4	100.9

Source: European Commission (DG ECFIN), March 2021

Among the largest EU economies, in France the index in the first quarter of this year increased slightly compared to the previous quarter (+1.3 points), while compared to the first quarter of 2020 it was 10.0 points lower. Growth compared to the fourth quarter of last year was recorded in Germany, by 1.6 points, while the index was only 0.9 points lower than in the first quarter of 2020. In Italy, the index increased by 6.7 points compared to the previous quarter and fell by 0.7 points compared to the same quarter last year.

Fuller information on trends in the GDP components and other macroeconomic indicators of the Euro area and the EU economies in the fourth quarter of 2020, as well as on the estimated trends in them this year is provided next in this sub-section. Estimates and forecasts for 2020 and 2021 as they emerge for the EU and the Eurozone from the latest forecasting report of the European Commission are also presented.

In detail, according to Eurostat data for the fourth quarter of 2020 (annual changes in seasonally adjusted data), private consumption in the European Union decreased by 7.1%, when the previous quarter it recorded a fall of 4.3%, while in the corresponding period of 2019 its trend was positive

(1.5%). In the euro area, household consumption fell by 7.6%, from a decrease by 4.6% in the previous quarter, while a year earlier it had increased by 1.2%. The European Commission predicted last November that household consumption in the EU as a whole would fall by 8.2% in 2020 and recover in 2021 by 4.2%. For the Eurozone, it predicted a weakening of private consumption of 8.7% last year and a 4.3% expansion in the following year. At country level, in Germany private consumption was 6.9% lower in the fourth quarter than a year ago, and in France there was a similar decrease (7.0%) in the fourth quarter. In Italy it fell by 9.9%, from a fall of 7.7% a quarter ago, while in Spain it shrank by 9.2%, similar to last quarter.

Table 2.3

Key macroeconomic figures, EU-27 and the Euro area (annual % change in real terms, unless indicated otherwise)

	EU-27			Eurozone		
	2019	2020	2021	2019	2020	2021
GDP*	1.5	-6.3	3.7	1.3	-6.8	3.8
Private Consumption	1.6	-8.2	4.2	1.3	-8.7	4.3
Public Consumption	2.0	2.1	2.3	1.9	1.9	2.3
Gross Investment	5.7	-10.3	5.6	5.8	-11.2	6.1
Exports of Goods and Services	2.7	-11.3	6.2	2.5	-11.5	6.2
Imports of Goods and Services	3.8	-10.0	6.1	3.9	-10.1	6.0
Employment	0.9	-4.5	1.8	1.1	-5.3	2.5
Unemployment (% labour force)	6.7	7.7	8.6	7.5	8.3	9.4
Inflation*	1.4	0.7	1.5	1.2	0.3	1.4
Balance of General Government (% GDP)	-0.5	-8.4	-6.1	-0.6	-8.8	-6.4
Debt of General Government (% GDP)	79.2	93.9	94.6	85.9	101.7	102.3
Current Account Balance (% GDP)	2.9	2.5	2.5	3.1	2.6	2.6

Source: European Economic Forecasts, Autumn 2020, European Commission, November 2020
*European Economic Forecasts, Winter 2021 (Interim), European Commission, February 2021

Public consumption increased in the EU and the Eurozone in the fourth quarter of 2020 by 2.4% and 2.5% respectively, from a boost of 2.1% and 2.4% in the previous quarter. In the same quarter in 2019, public consumption had risen by 2.2% in the EU and 2.0% in the Euro area. For 2020, the European Commission expected a marginally stronger growth of public consumption in the EU-27 compared to the previous year, mainly due to the measures to deal with the effects of the health crisis, to 2.1% from 2.0%, while for the Eurozone it estimated same expansion as in 2019 (1.9%). This year, growth will strengthen to 2.3% in both economic regions. In the fourth quarter of 2020 there was an increase in public consumption in Greece by 7.3% compared to a year ago (-0.8%), when in the previous quarter it had increased by 4.8%.

Investment fell strongly in October-December 2020 in the EU, by 8.7%, similar to the previous quarter. Similarly in the Eurozone, the decline was of the order of 9.4%, compared to a smaller decrease of 8.9% in the third quarter of last year. In the same quarter of 2019, investment had expanded by 0.7% in the EU and 0.8% in the Euro area. The European Commission forecasts their contraction by 10.3% in 2020 and a 5.6% increase in 2021 in the EU, while expecting a 11.2% decline and a 6.1% recovery in the Eurozone respectively. In the fourth quarter of 2020, investment in

Germany shrank by 4.8%, after a significant decline of 11.5% in the previous quarter, while in Italy there was a sharp slowdown to 3.8% from 9.6% in July - September 2020. The rate of decline in investment in France was at the level of 2.3%, from 6.7% in the previous quarter. In Greece there was a significant decrease in investment, by 19.0%, compared with a high positive change of 35.3% in the third quarter of 2020, mainly due to the large expansion of stocks.

Exports of goods and services fell for another quarter in both the EU (4.6%) and the Eurozone (5.6%), albeit against a much stronger decline, by 8.3% and 9.0% respectively in the previous quarter and an expansion of 1.7% and 1.8% in the fourth quarter of 2019. For 2020 the European Commission predicted a fall in exports in the EU-27 compared to 2019 of 11.3% and an increase in the following year of 6.2%. For the Eurozone, it expects a contraction of 11.5% for the whole of 2020 and an increase also by 6.2% in 2021. At country level, Germany experienced a 5.1% drop in exports in the fourth quarter of 2020, down from 9.5% in its third quarter. The decline in exports to France and Italy in the third quarter this year was 9.8% and 8.1% respectively, down from 15.6% and 9.8% in the previous quarter. In Greece there was a sharp decline in the fourth quarter, by 13.4%, from a vertical decline of 41.9% in the third quarter. Exports decreased in Spain by 16.3%, from a 19.8% drop in the third quarter, as in Cyprus (27.9%), following a decrease of 26.6% in the third quarter of the year.

The contraction of imports in the fourth quarter of 2020 in the EU slowed down compared to the previous quarter, to 6.3%, from a negative change of 8.3%. A similar change was observed in the Euro area, at 7.6% from 9.2% in the third quarter of 2020. A year earlier there had been an increase by 2.3% and 2.5% respectively. For the years 2020 and 2021, the European Commission has forecast for the EU-27 a fall of 10.0% and an increase of 6.1% respectively. For the Eurozone, it expects a decrease of 10.1% in 2020 and an increase of 6.0% in 2021. At country level, in the third quarter of 2020 imports in Spain decreased by 9.4%, compared to a larger decline of 15.7% in the previous quarter. Similarly they were on a downward trajectory in France, by 7.5%, from a decrease of 10.0% a quarter ago, and in Italy, by 7.1% from -14.0%. Negative rate of change occurred also in Germany (6.8%), down from 9.9% in the third quarter of 2020; in Greece, imports decreased by 9.5%, while in the previous quarter they were less by 5.8%.

Based on developments in the GDP components in the Eurozone, the contribution of net exports to its growth was negative in the first three quarters of 2020 (1.7%, 0.9% and 0.2% respectively), compared to a positive contribution of 0.8% in the fourth quarter. In the fourth quarter a year ago it was negative and equal to 0.3% The positive contribution of net exports in the fourth quarter came from the simultaneous weakening of the negative contribution of exports, from 4.5% in the third quarter to 2.8% in October-December 2020, as well as the lesser negative impact of imports, from 4.3% in the third quarter to 3.6% in the following. As already mentioned, the negative contribution of domestic demand was around 5.7% of GDP, from a smaller negative impact in the previous quarter (-3.9%). The largest deterioration in the impact between its components came mainly from private consumption, which had a negative effect of 2.5% of GDP in the third quarter of 2020, while in the fourth quarter its negative contribution fell to 4.1 p.p.

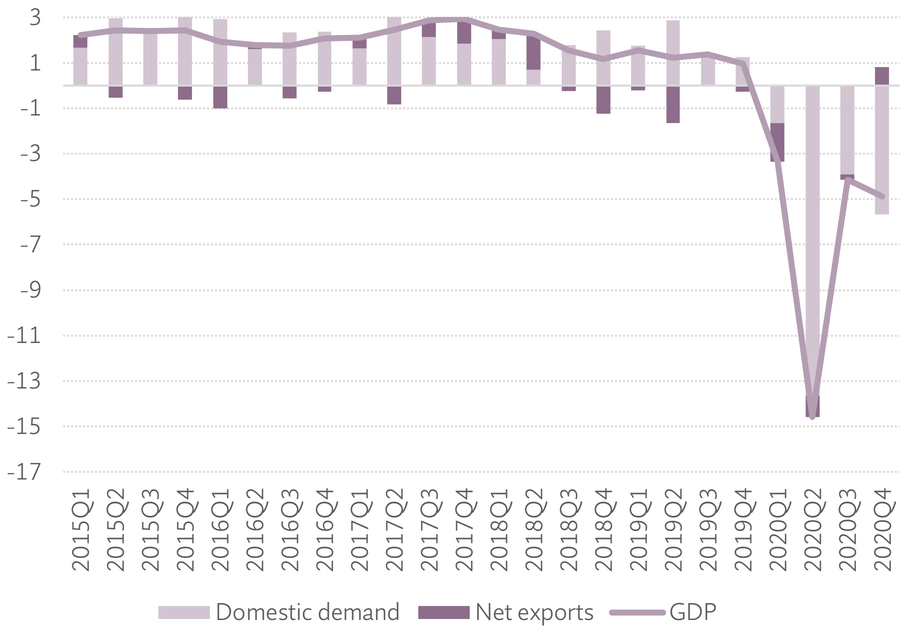
Harmonised inflation slowed in the fourth quarter of 2020 in the EU and the Eurozone, recording a rate of 0.3% and -0.3% from 0.5% and 0% a quarter earlier. In the fourth quarter of 2019 harmonised inflation was 1.3% in the EU and 1.0% in the Eurozone. Overall for last year, the European Commission predicted last February that inflation would slow in the Eurozone to 0.7%, but also in the EU to 0.3%, well below the ECB target of close to 2.0%, while in 2021 it will return close to the levels of 2019, to 1.4% and 1.5% respectively.

The decline in employment continued in the fourth quarter of 2020, -1.6% in the EU and -1.9% in the Eurozone, although it was milder than in the third quarter (-2.0% and -2.1% respectively), while in the same period of 2019 there was an increase in jobs, by 1.0% and 1.1%. The European Commission has forecast a reduction in employment in the EU for 2020 and an increase in 2021, by 4.5% and 1.8% respectively, following a rise of 0.9% the year before last. For the Eurozone, it also forecast a decline in employment last year, by 5.3%, and an increase of 2.5% in 2021, from an expansion of 1.1% in 2019. Employment growth in the fourth quarter of 2020 was recorded in Luxembourg (1, 7%) and in Poland (0.8%).

Figure 2.4

Eurozone GDP change – Contribution of components to the real annual rate of change (in percentage points)

Positive contribution of net exports to the change in the GDP of the Euro area in Q4 2020. Stronger negative impact of domestic demand due weaker contribution of private consumption



Source: Eurostat

The unemployment rate increased in the third quarter of 2020 to 7.5% in the EU and 8.4% in the Eurozone, compared with 6.7% and 7.3% respectively in the second quarter of 2020. In the third quarter of last year it was 6.5% in the EU and 7.3% in the EU. For 2020 the European Commission has estimated an increase in unemployment rates in both the EU and the Eurozone, to 7.7% and 8.3% respectively, from 6.7% and 7.5% respectively in 2019, while for 2021 it expects unemployment rates of 8.6% and 9.4%. In July - September 2020, the highest unemployment rate was recorded in Spain (16.3%), with Greece (16.2%) and Italy (10.0%) following, while in France unemployment was about 8.9%.

In the area of fiscal performance, the general government deficit in the EU in the third quarter of 2020 was around 5.3% of GDP, while previously, in the second quarter of 2020, it stood at 11.2% of GDP. The European Commission predicts that in 2020 and 2021 it will stand at -8.4% and -6.1% of GDP respectively. Regarding the budget deficit on average in the Eurozone, it expects to reach -8.8% of GDP in 2020 and -6.4% in 2021, from -0.6% the year before last. As far as public debt is concerned, it reached 97.3% of GDP in the Euro area countries in the third quarter of this year.

It is estimated that on average in 2020, it will increase to 101.7% of GDP and next year it will strengthen further to 102.3% of GDP. Government debt, as a percentage of GDP, increased significantly in the third quarter of 2020 in many member countries, with its highest level recorded in Greece (199.9%), Italy (154.2%), Portugal (130.8%), Cyprus (119.5%) and France (116.5%).

With regard to the monetary policy framework, due to the COVID-19 epidemic and the associated adverse economic effects, recall that the ECB launched in mid-March 2020 a series of monetary and credit policy interventions aimed at boosting liquidity. According to a recent announcement by the ECB, the interest rate on major refinancing operations as well as the interest rate on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The budget of the Pandemic Emergency Purchase Programme (PEPP) was expanded in December 2020 by €500 billion, to reach €1.85 trillion. Such purchases will continue until at least the end of March 2022, with the ECB reinvesting mature securities at least until the end of 2023. By the end of March 2021, net worth of securities purchases had reached €943.6 billion, and it was also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, one per quarter of 2021, lasting one year. Net purchases under the asset purchase programme (APP) will continue at €20 billion per month. The measures collectively support the provision of bank loans, in particular by facilitating the conditions under which credit claims are accepted as collateral.

In summary, the economy in Europe, and in particular in the Eurozone, is currently facing a number of challenges. The main ones are:

- New outbreak of the pandemic in the first quarter of 2021 and reinstatement of administrative measures to address it, making its economic consequences more severe
- Dealing with mounting COVID-19 mutations
- Possible need for additional budgetary and monetary measures at collective level, in addition to those taken to deal with the third outbreak of the pandemic
- Sectoral disturbances, with the tourism and transport sectors, and subsequently the countries that rely on them, most affected by the health crisis
- Significant regional inequalities due to the health crisis, which will transpire after its end
- Fiscal imbalances from emergency national pandemic programmes
- Implementation of a consensual Brexit by the EU, the terms of which were agreed at the end of 2020
- Geopolitical tensions in the Middle East and migration flows
- Resurgence of the geopolitical crisis between Russia and Ukraine

2.2 The Economic Environment in Greece

A. Economic Sentiment

- Slight increase of the Economic Sentiment Indicator in Greece in the first quarter of 2021 compared to the immediately preceding quarter (93.2 from 91.8 points). Sharp deterioration compared to the respective quarter of last year (110.9 points). The recent level is equivalent to the 2013 average.
- Business expectations strengthened quarter on quarter in the recent quarter in all sectors, stronger in Construction and Industry, and slightly in Retail Trade and Services.
- The Consumer Confidence Indicator stood higher in January-March than in the final quarter of the previous year, at -43.0 from -46.2 points. However, it lags significantly behind its level from a year earlier (-10.4 points).

The IOBE business and consumer 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 variables and can be used to predict near-term developments and even the course of GDP.[5]

In the first quarter of this year, the Economic Sentiment Indicator strengthened again slightly compared to the immediately preceding quarter (+1.3 points). In addition, the Consumer Confidence Indicator stood 3.2 points higher than in the last quarter last year, at -43.0. It seems that the extension of the lockdown of activities and the restrictions on travel at the beginning of 2021 had a much milder effect on the expectations of businesses and households, than in the second quarter of 2020. Probably a large part of both were prepared for these conditions after the first lockdown, in March-April last year. In addition, the start of the vaccination process at the end of December and the progress made in it, have begun to allay business and household concerns about the duration and effects of the pandemic. These positive developments do not mean that the way out of the health crisis is preordained. Emerging mutations in the virus, usually with a higher transmissibility against which vaccine efficacy is tested, will be the most important challenge in the near future. In any case, advances in vaccination, as well as more possibilities for detecting the virus, allow planning for the phasing out of restrictive measures and the partial reopening of the economy. This outlook mainly affects household expectations, but also sectors that have long been suspended, such as Retail Trade and Tourism, both with significant weight for the Greek economy. In addition to developments in the epidemiological conditions, economic policy decisions in the coming months, in Europe and domestically, will be crucial for the development of the economic climate and the creation of prerequisites for 'return to normality'.

In greater detail, the Economic Sentiment Indicator in Greece in January-March was slightly stronger compared to the final quarter of 2020, at 93.2 from 91.8 points, while it fluctuated at a

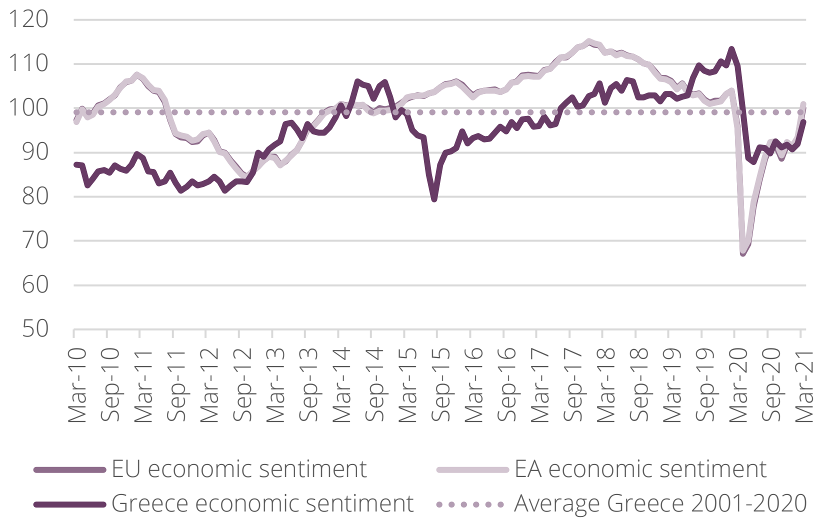
[5] Note that since March 2018, the base period of the series presented in the sectoral business sentiment indicators, i.e. the indicators in Manufacturing, Retail Trade, Services and Construction, has changed. In particular, the 2000-2010 period was designated as a new base (= 100). Until February 2018, 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.

significantly lower level compared to the average corresponding to last year (110.9 points.). Its recent level is close to the average of 2013 (93.8 points).

In Europe, the relevant average was significantly higher quarter on quarter during the period under review, both in the EU and in the Eurozone. In particular, the Economic Sentiment Indicator stood at 94.7 (from 90.7) points in the first quarter of this year in the EU, and at 95.3 (from 91.4) points in the Eurozone.

Figure 2.5

Economic Sentiment Indicators: EU-27, Euro area and Greece (1990-2018=100, seasonally adjusted data)



The Economic Sentiment Indicator was slightly stronger in the first quarter of this year compared to the previous quarter, but well below the corresponding quarter of 2020

Source: European Commission, DG ECFIN

At the sector level, business expectations in Greece strengthened in all sectors in the recent quarter compared to the previous one, especially in Industry and Construction. At the same time, they recorded a milder improvement in Retail Trade and marginal increase in Services as well. On the consumer side, there has been an improvement in the consumer confidence indicator. Compared to the same quarter of last year, the average indicators deteriorated in all sectors except Construction. In greater detail:

The Consumer Confidence Indicator in Greece in January-March this year was higher on average than in the fourth quarter of 2020, at -43.0 from -46.2 points, slightly lower than a year ago (-10.4 points). The corresponding average index strengthened gently in the EU, to -14.8 (from -16.6) points, and in the Eurozone (-13.7 from -15.6 points). These levels are significantly lower than those from a year ago (-7.7 and -8.6 p. respectively).

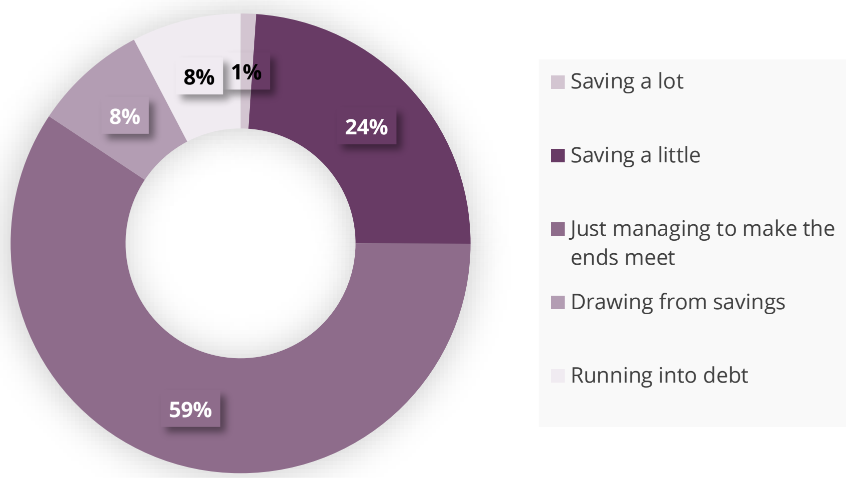
The trends in the key components that make up the overall index were diverse in the first quarter of 2021 compared to the final quarter of the previous year. Thus, the pessimistic expectations of consumers in Greece for the financial situation of their households in the next 12 months eased slightly, while by contrast those for the economic situation of the country strengthened slightly. At the same time, households' assessments of their current situation deteriorated slightly, as did the intention for major purchases in the near future.

In greater detail, the percentage of those pessimistic about the financial situation of their household in the next 12 months fell slightly, to 42% (from 46% in the previous quarter), while the percentage of those who state the opposite remained at 6%. At the same time, the percentage of consumers in Greece who make pessimistic expectations regarding the economic situation of the country increased to 69% (from 66%), with 14% (from 12%) expecting an improvement. As for the intention to save, the percentage of households that do not consider saving as possible in the next 12 months decreased marginally, to 78% (from 79%), while by contrast, the percentage of those who consider it possible increased to 21% (from 20%). In the expectations for the course of unemployment, the percentage of those who estimate that the situation will deteriorate slightly decreased to 79% (from 80%), with an average of 9% (from 7%) expressing the opposite view. The percentage of consumers reporting to be "running into debt" increased marginally in the first quarter of 2021 to 8% (from 7%), slightly lower than the corresponding quarter of last year too (10%). Also, the percentage of respondents stating that they save a little slightly increased, to 24% (from 22% and 17% in the corresponding quarter of 2020). Finally, the percentage of those reporting that they "just make ends meet" decreased further to 59% (from 60% and 62% in the last two quarters) and the percentage of households reporting that they were "drawing from their savings" fell to 8% (from 10%), with the relevant percentage for 2020 at 12%.

Figure 2.6

Consumer survey data on the financial situation of households (January- March 2021)

The share of respondents stating that they were just managing to make ends meet decreased quarter on quarter (59%). Marginal increase in the share of those reporting that they were running into debt.



Source: IOBE

The business expectations index in Industry stood at 98.2 points in the first quarter of 2021 (from 92.7 in the fourth quarter of 2020), well below the respective performance in 2020 (108.6 points). In the main activity data, the index in the expectations for short-term production growth strengthened significantly in the quarter considered and stood at +19.0 points on average, from +3.8 points, while the negative estimates on the level of orders and demand (at -15.8 from -21.2 points in the relevant index) mildly decreased. The estimates for finished goods stocks indicate a small increase (at +18.3 from +13.8 points), while the trends in export variables are mixed: The expectations for the export dynamics of the next quarter improved significantly (+25.6 from +18.6 points), while by contrast the current estimates for the exports of the sector slightly declined (to

+9.9 from +13.3 points), and so did the estimates for orders and demand abroad (-6.7 out of -4.6 points). In the employment expectations, the relative average quarterly balance fell to -2.9 (from +0.2) points on average. The factory capacity utilisation rate remained virtually unchanged, at 73.8% (from 73.6%), while the companies' months of secured production strengthened gently, to 4.8 (from 4.2) months on average.

The business expectations index in Retail Trade was significantly higher in the quarter under review than in the previous quarter, at 90.2 points (from 83.0), a performance much lower than in the corresponding quarter of last year (115.1 points). Of the key index components, the average balance for current sales estimates fell marginally to -10 (from -9) points. Of the companies in the sector, 42% believe that sales have decreased, with 32% (from 35%) estimating the opposite. Regarding the projected sales, the index of -18 points eased sharply and turned positive, at +8, with stocks escalating mildly (at +10 from +8 points). From the other activity items, the expectations balance for orders to suppliers significantly strengthened (at +3 from -16 points on average per quarter), while at the same time, for the employment of the sector, the average expectation balance weakened slightly to +18 (from +23) points. Finally, in terms of prices, the corresponding balance fell slightly (+1 from +4) points, with 5% (from 4%) of companies expressing expectations of de-escalation of prices and 90% (from 89%) predicting stability. A strengthening of business expectations was recorded in the first quarter of 2021 in all branches of Retail Trade except the Food-Drink-Tobacco sector and Department Stores, where there was a slight decline.

Business expectations in Construction strengthened significantly in the first quarter of 2021, with the relevant balance reaching 106.2 (from 70.7) points on average, a change that was the largest among the key sectors of activity. This performance is at a significantly higher level than in the same quarter of 2020 (84.8 p.). In the key components, the employment expectations for the sector improved significantly, with the relevant balance reaching normal levels for the season, from -13 points, with 11% (from 16%) of the companies expecting more jobs and 10% (from 29%) expecting reduction. The companies' expectations for their planned works eased sharply (at -16 from -64 points the index), while at the same time the estimates for the current level of the work programme improved slightly (at -28 from -39 points the relevant balance).

The months of secured activity of the companies in the sector strengthened significantly to 14.0, while at the same time the negative balance in price expectations fell (-3 from -12 points), with 8% (from 18%) of the companies expecting a reduction in the short term and a 5% increase. Finally, the percentage of companies reporting that they did not face obstacles to operation was limited to 7% (from 15%), while of the other companies, 28% considered low demand as the most important obstacle, 11% (from 18%) insufficient funding and a 50% (from 32%) factors such as the general economic situation of the country, high taxation, lack of projects, late payment by the state, etc. At the sectoral level, business expectations moved strongly up in both Public Works and Private Construction.

The index of business expectations in Services in the examined quarter was marginally higher than in the previous one, at 70.9 points (from 70.0). However, this performance was much lower compared to that in the corresponding quarter of 2020 (106.5 points). Of the key components, estimates for current demand fell slightly, with the relative index losing 3 points on average and standing at -21 points. Estimates for the current situation of the company also moved slightly down (-32 from -26 points on average), with the balance in the expectations for the short-term demand of the companies in the sector easing significantly and the expectations turning marginally positive

(+1 points, from -12 points). From the rest of the activity data, the balance of expectations of the respondents regarding employment showed a significant improvement and from normal for the season it was +16 points, while in prices the average expectations of the enterprises strengthened significantly to -8 (from -18) points. Finally, the percentage of respondents reporting smooth business operation increased marginally, to 16% (from 15%) on average, with 33% stating insufficient demand as the main obstacle to operation, 9% the lack of working capital and 30% other factors, related to the general financial situation, borrowing difficulties, high taxation, late payments, etc. Of the Services sectors examined, the indicator strengthened significantly in the first quarter of 2021 in all sectors, with the exception of Hotels-Restaurants where it showed a slight decline.

Table 2.4

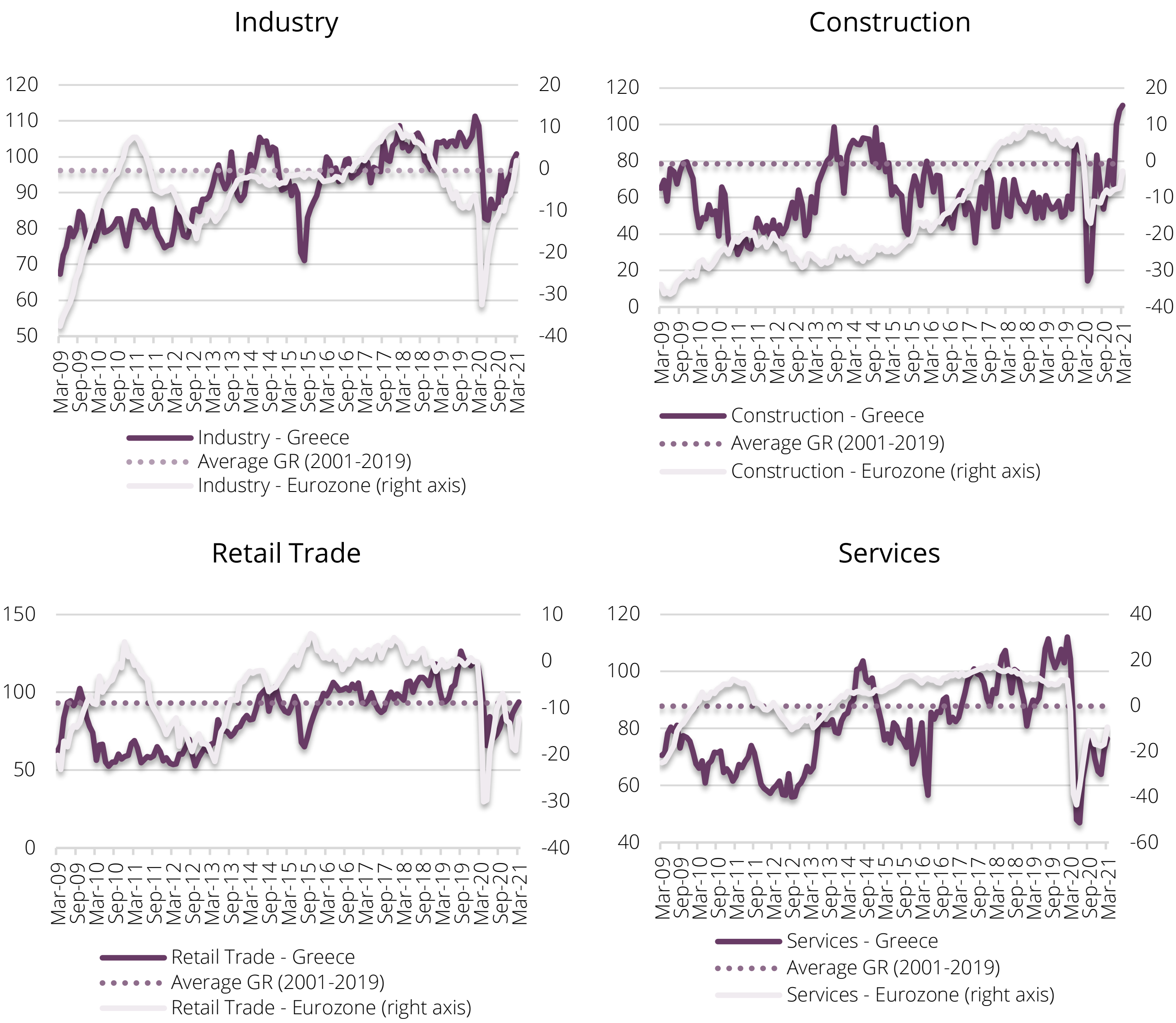
Economic Sentiment Indicators

Time Period	Economic Sentiment Indicator			Business Climate Indicator (Greece)				Consumer Confidence Indicator (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	99.3	99.1	86.3	79.9	52.2	61.3	68.1	-56.9
2011	99.8	99.9	84.8	81.1	37.7	60.9	66.1	-70.5
2012	88.0	88.1	83.7	81.4	47.5	59.1	58.8	-73.9
2013	90.8	90.8	93.6	92.6	71.5	72.6	75.3	-69.3
2014	99.6	99.4	102.0	99.7	88.4	92.3	93.3	-52.8
2015	102.9	102.9	91.7	86.3	62.0	83.9	78.2	-50.3
2016	104.2	104.0	94.4	96.1	61.3	101.4	79.3	-62.9
2017	110.4	110.4	98.9	98.1	55.4	94.6	92.7	-58.9
2018	111.5	111.5	103.8	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.7	113.9	103.3	105.1	60.3	97.1	91.4	-49.8
Q2 2018	112.5	112.4	104.7	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.5	111.5	105.0	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.5	109.4	102.7	97.7	56.6	108.2	94.6	-32.6
Q1 2019	106.6	106.4	102.6	101.8	56.7	105.8	85.7	-31.1
Q2 2019	104.7	104.4	102.6	103.8	54.8	97.8	92.6	-29.4
Q3 2019	102.8	102.6	108.3	104.8	52.7	115.5	108.2	-11.7
Q4 2019	101.5	101.2	109.0	104.1	68.1	119.1	104.4	-7.1
Q1 2020	101.0	100.8	110.9	108.6	84.9	115.1	106.5	-10.4
Q2 2020	71.4	72.2	92.1	87.6	28.1	80.3	58.6	-31.1
Q3 2020	87.9	88.6	90.6	86.7	67.0	73.5	68.8	-36.9
Q4 2020	90.7	91.4	91.8	92.6	70.7	83.0	70.0	-46.2
Q1 2021	94.7	95.3	93.2	98.2	106.2	90.2	70.9	-43.0

Sources: European Commission, DG ECFIN, IOBE

Figure 2.7

Business Confidence Indicators



Source: IOBE

Business expectations strengthened in the first quarter of 2021 compared to the final quarter of 2020 across all sectors

B. Fiscal Developments and Outlook

- State Budget Balance 2020: deficit of €22,806 million, against a deficit target of €2,453 million in the 2020 budget and a deficit of €168 million the year before last.
- Primary balance 2020: deficit of €18.195 million, against a target for a primary surplus of €3.547 million in the 2020 budget and a primary surplus of €5.017 million the year before last.
- 77.6% of the State Budget deficit last year comes from the Ordinary Budget and 22.4% from the Public Investment Programme. Significant increase in both revenues and expenditures of PIP compared to last year.
- State Budget Balance, Jan.-Feb. 2021: deficit of €3,268 million, compared to a deficit target of €4,507 million and a deficit of €1,107 million over the same period in 2020.
- Primary State Budget Jan-Feb 2021: deficit of €1,497 million, against a target for a primary deficit of €2,737 million and a primary surplus of €831 million for the same period in 2020.
- Significant increase in revenue of PIP (+94.2%) but also in its expenses (+242.3%), mainly due to the payments of the repayable advance measure

Final results of State Budget 2020

As mentioned in previous IOBE reports on the Greek economy, the pandemic played a key role in economic developments in 2020, both domestically and internationally. Domestically, the pandemic found the economy in an extremely critical phase, as it was emerging from a ten-year economic crisis and 2020 would have been the first year of significant acceleration of growth. However, since the beginning of the pandemic there have been significant negative consequences in most sectors of economic activity, especially in trade, tourism, food services, transport, etc.

Since March, fiscal policy has shifted sharply to support businesses and households and contain the recession. The compulsory cessation of economic activity in many sectors, both last spring and in autumn, as well as the strong decline of tourism in the summer, created the need to support the businesses and their employees. At the same time, a large number of other economic activities were affected indirectly. In this context, successive packages of measures have been implemented, at high cost to the budget.

At the same time, at European level, it was decided in March 2020 to relax fiscal rules in the EU, based on the provision of the Stability and Growth Pact for emergencies. As the pandemic continued, in July it was decided to extend the easing of fiscal rules to 2021. These decisions significantly strengthened the ability to take support measures last year and this year.

Under the above developments, the 2020 budget domestically, as in all European countries, was overturned and fiscal developments were largely determined by the course of the health crisis and policy interventions to address it. Of course, since the support measures were primarily aimed at direct income support for the affected households and businesses, they did not support the implementation of investments to adapt businesses to operating conditions due to the pandemic, which in the medium term would better have alleviated the effects of the new crisis. Boosting incomes has held back falling consumption and support for businesses has prevented unemployment from rising, at least in the short term. According to the State Budget Report for 2021, the total cost of the fiscal measures for 2020 reached €18.2 billion.

To address the medium and long-term economic effects of the health crisis, a different economic policy is appropriate, focusing on a substantial increase in investment. With regard to the public sector, it is appropriate to significantly accelerate investment in infrastructure. Something similar to the "big projects" of the 90's. In any case, during the Economic Adjustment Programmes, public investment was particularly low. Expenditure through the PIP last year, excluding emergency transfers due to the health crisis, which reached €6.37 billion, falling short of the relevant target in the 2020 Budget (€6.75 billion), is considered insufficient for this purpose. The need to fill the "investment gap" of the last decade, makes first priority the utilisation of the funds of the European recovery fund NextGenerationEU, created at European level to deal with the effects of the pandemic, with a budget of €750 billion, of which €30.9 billion concern Greece.

Balance and primary balance of State Budget 2020

According to the State Budget execution data, on a modified cash basis, for the period January - December 2020, there was a state budget deficit of €22,806 million (11.2% of GDP), compared to a deficit target of €2,453 million included in the 2020 budget and a marginal deficit of €168 million in 2019. 77.6% of the deficit comes from the Ordinary Budget and the rest from the PIP. The primary result was a deficit of €18,195 million, against a target for a primary surplus of €3,547 million and a primary surplus of €5,017 million the year before (Table 2.5). The particularly high deficits, combined with the estimated strong decline in nominal GDP to €162.8 billion (-11.2%), strongly influenced the debt-to-GDP ratio, which was already extremely high. These effects will be addressed shortly, in the first communication of last year's budgetary data to Eurostat, in the context of the Excessive Deficit Procedure.

Note the significant impact on the deficit of the increase in the expenditure of the PIP since last year, by €5.005 million (+94.0%), of which €4.28 billion were related to support for businesses and the self-employed. That said, the revenues of the programme increased by €2,685 million. Therefore, there was a very significant boost to the economy on the budget side, but with a strong negative budgetary impact.

Ordinary Budget Revenue

The net revenues of the Ordinary Budget amounted to €41,822 million, compared to a target for revenues of €50,610 million in the 2020 budget (-21.0%) and revenues of €52,240 million in 2019. Understandably, this negative development is due to the significant decline in economic activity and travel in the spring and autumn. However, it is also due to the measures taken to suspend the payment of taxes, confirmed and overdue debts by companies affected by the public health protection measures, which resumed in November, as well as - to a lesser extent - the 25% discount for those companies paying their obligations on time. Note that the revenues of 2019 were upped by €1.1 billion from the extension of the contract of Athens International Airport. If the necessary adjustments are made for the AIA revenues, the reduction in 2020 is down to 18.2%.

In more detail, income tax receipts decreased by 18.7% in 2020, compared to 2019, with the fall mainly in corporate tax revenues (-47.7%). The revenues from the taxation of individuals experienced a smaller decrease, by 7.9%, as part of the receipts correspond to collections from processing 2019 tax forms. Significant decrease, by 12.9%, was also recorded by the revenues from property taxes, essentially from ENFIA. However, this is not considered to be linked to the pandemic, but mainly to the reduction in tax rates in 2019.

Table 2.5

Revenue, expenditure and deficit of the State Budget (billion €)*

	2019	2020	% change 20/19	Budget 2020	Budget 2021*	% change 21/20
I. SB REVENUE (1+2)	55,097	47,364	-14.0	54,710	46,454	-1.9
1. Gross OB revenue	52,240	41,822	-19.9	50,610	40,988	-2.0
OB revenue before tax refunds[1]	57,284	47,494	-17.1	55,536	46,348	-2.4
Less Tax refunds	5,044	5,672	12.5	4,926	5,360	-5.5
2. PIP revenue	2,857	5,542	94.0	4,100	5,466	-1.4
of which: revenue from EU	2,383	3991	118.1	3,479	4,486	88.3
II. SB EXPENDITURE (3+4)	55,265	70,169	27.0	57,163	70,774	0.9
3. OB expenditure	49,623	59,522	19.9	50,413	60,353	1.4
Primary expenditure [2,3]	44,398	54,748	23.3	44,413	55,658	1.7
Interest	5,225	4,774	-8.6	6,000	4,695	-1.7
4. PIP expenditure	5,642	10,647	88.7	6,750	10,421	-2.1
III. SB Deficit (-)/Surplus (+) (I-II)	-168	-22,806		-2,453	-24,319	
% of GDP	-0.001	-11.2		-1.2	-14.1	
OB deficit/surplus (1-3)	2,617	-17,700		197	-19,365	
PIP deficit/surplus (2-4)	-2,785	-5,105		-2,650	-4,955	
IV. SB Primary Balance	5,017	-18,195		3,547	-19,624	
% of GDP	2.7	-8.4		1.8	-11.4	
GDP (at current prices)	183,413	162,776		197,315	171,934	

*Estimates for 2020 in the 2021 Preliminary Budget Report

Sources: Monthly SB Execution Bulletin, Dec. 2019 2020, Ministry of Finance, January 2021, Explanatory Budget Report 2020, November 2019.

As expected, the largest revenue losses were recorded in indirect taxation, as much of the retail trade in physical stores and economic activity in general, as well as travel, was halted in March-April and again from November. VAT revenues fell by 15.6% compared to the previous year. Note that VAT revenues in 2019 were higher by €272 million from the extension of the concession contract of the Athens International Airport. Excluding these extraordinary revenues, the reduction compared to 2019 is slightly limited to 14.3%.

Receipts from excise duties were 9.8% lower compared to 2019, with the decrease found mainly in the fuel taxes (-9.2%), due to the reduction of economic activity and travel restrictions. A smaller decrease of 5.0% was recorded in the revenues from the excise duties of tobacco products.

Revenues from "other production taxes", which consist mainly of revenues (dividends) from the Bank of Greece, increased by 7.8%. The largest decrease (70.7%) was recorded in revenues from the sale of goods and services, because as mentioned above, the AIA's concession contract was renewed in the preceding year. Excluding the revenue from the airport contract expansion, the reduction in this revenue category is significantly reduced to just 16.7%.

Finally, after the positive 6th Enhanced Surveillance Report for Greece by the European Commission, revenues increased in July by €747 million, from the return of profits of European central banks from holding Greek bonds (ANFA's and SMP's), same amount as last year. In general, the evolution of revenues in the twelve months reflects the limitation of economic activity, as well as the measures of deferral of payment of taxes and confirmed and overdue debts by companies.

Table 2.6

State Budget Revenue* (million €)

	Jan. – December		% Change 20/19	2020 Budget	2021** Budget	% Change 21/20
	2019*	2020*				
Net SB revenue	55,097	47,364	-14.0	54,710	46,454	-1.9
Net OB revenue	52,240	41,822	-19.9	50,610	40,988	-2.0
Tax refunds	5,044	5,672	12.5	4,926	5,360	-5.5
OB revenue	57,284	47,494	-17.1	55,536	46,348	-2.4
Income tax, of which:	16,716	13,589	-18.7	16,613	12,923	-4.9
--*Personal*	11,029	10,155	-7.9	11,415	9,788	-11.3
--*Corporate*	4,512	2,361	-47.7	4,017	2,074	-12.6
Property tax	2,786	2,427	-12.9	2,829	2,496	2.8
Taxes on donations, inheritance etc.	245	180	-26.5	273	175	-2.8
Tariffs	298	245	-17.8	322	240	-2.0
Taxes on goods and services, of which:	28,014	23,945	-14.5	28,557	23,478	-2.0
--*VAT*	17,792	15,008	-15.6	18,276	14,505	-3.4
--*Excise duties*	7,125	6,427	-9.8	7,214	6,463	0.6
Other production taxes	991	1,069	7.8	1,130	1,110	3.8
Other current taxes	2,365	1,743	-26.3	2,391	2,359	35.3
Social contributions	55	54	-1.8	55	54	0.0
Transfers, of which:				1,139		…
--ANFA's and SMP's	1,035	999	-3.6	251	999	;;
Sales of goods and services, of which:	1,728	507	-70.7	687	547	7.9
Concession extension of the Athens Airport	1,119	-	-	-	-	-
Other current revenue	2,527	2,731	8.1	1,806	2,663	-2.5
Sales of fixed assets	10	8	-0.2	332	25	212.5
PIP Revenue				4,100	5,466	

Sources: (a) Monthly SB Execution Bulletin, Dec 2020, Ministry of Finance, January, December 2020 and Explanatory Budget Reports 2020 and 2021, Ministry of Finance, January, December 2019 and 2020

* In adjusted cash-based accounting. According to the new revenue classification in effect since 01/01/2019. **Estimates for 2020 in the Explanatory Report of the 2021 Budget.

Ordinary Budget Expenditure

Ordinary Budget expenditures for the period January - December 2020 amounted to €59,522 million, higher compared to the target in the 2020 Budget (€50,413 million, +18.1%) and the expenditures of 2019, which were € 49,623 million (Table 2.7). The largest increase compared to 2019 occurred in transfers and PIP, mainly due to the aforementioned measures to address the effects of COVID-19. The relevant extraordinary expenditures due to the pandemic other than those through PIP fall into the category of primary expenditures, which increased by 23.3% compared to the previous year (Table 2.7).

Of the sub-categories of primary expenditure, payments for 'employee benefits' show a slight increase of 0.7% compared to 2019, as the 2019 budget includes the payment of retroactive payments of €324 million on special payrolls. It is noted that over the last five years staff costs have increased slightly but continuously each year.

Payments for social benefits decreased by 79% compared to 2019, as the expenses for family allowances were moved from last year to the category "transfers".

The increase in primary expenditure is mainly found in the category 'transfers', which saw an increase of 37.4% compared to the year before last. This development is due to the fact that the transfers also include exceptional payments of €8.1 billion. approximately, relating to the 'special purpose compensation' of employees and scientists, as well as the 'repayable advance', in so far as it is implemented by the ordinary budget and not by the PIP, and the exceptional grant to EFKA and EOPYY to cover a shortfall in revenue from the reduced social security contributions. Also, since the end of October, €1.4 billion were paid retroactively to retirees, which appear in transfers to Social Security Funds (SSFs), which are the largest subcategory of "transfers" (Table 2.7).

Table 2.7

State Budget Expenditure* (million €)

	January- December		% Change 20/19	2020 Budget.	2021** Budget.	% Change 21Π/20
	2019*	2020*				
SB Expenditure (1+2+3)	55,265	70,169	27.0	57,163	70,774	0.9
OB Expenditure (1+2)	49,623	59,522	19.9	50,413	60,353	1.4
1.Primary OB Expenditure	44,398	54,748	23.3	44,413	55,658	1.7
Compensation of employees	13,247	13,335	0.7	13,390	13,415	0.6
Social benefits	653	137	-79.0	134	241	75.9
Transfers	28,205	38,751	37.4	27,844	38,997	0.6
(of which SSFs)	19,243	*21,625*	*12.4*	*18,700*	*21,867*	*1.1*
Purchase of goods and services	1,458	1,618	11.0	968	1,802	11.4
Subsidies	224	248	10.7	89	102	-58.9
Other current expenditure	50	29	-0.42	71	72	148.3
Non allocated expenditure	0	0	-	8,245	362	-
Purchase of fixed assets	562	631	12.3	421	668	5.9
2. Interest[1] (gross basis)	5,225	4,774	-8.6	6,000	4,695	-1.7
3. PIP Expenditure	5,642	10,647	88.7	6,750	10,421	-2.1

Sources: Monthly SB Execution Bulletin December 2020, Ministry of Finance, December 2019; Explanatory SB Report 2020 and 2021, Ministry of Finance, December 2019 and 2020.

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

**Estimates for 2020 in the Explanatory Budget Report on the 2021.

1. Since January 2019, the General Accounting Office reports lower annual expenses on interest by €1.000 million. for the 2019, in relations to the Explanatory Budget Report for 2019 (Table 3.2).

In contrast to primary expenditure, interest payments were reduced by 8.6%, compared to 2019. Also, in 2020, the loans guaranteed by the State increased by €4.35 billion, to €15.95 billion. Out of this, €2.4 billion is related to guarantees in securitisations of credit institutions (Hercules programme), €1.6 billion to business loans, approximately €0.7 billion to the COVID-19 Guarantee Fund and approximately €1.6 billion to guarantees from the Hellenic Development Bank. Finally, note that in December the overdue liabilities of the State to its suppliers (including outstanding tax refunds) amounted to €1,841 million, lower compared to December 2019 by €153 million.

Public Investment Programme (PIP) Implementation

Revenues of the Public Investment Programme (PIP) amounted to €5,542 million, higher by 35.2% compared to the target in the 2020 budget and by 94.0% compared to their level the year before last. PIP expenditures increased by 88.7% compared to last year. Overall, the PIP deficit almost doubled in 2020 compared to 2019, from €2,785 million to €5,105 million.

The implementation of the PIP in the previous year was significantly affected by the ongoing pandemic, as some of the interventions to support businesses and the self-employed, amounting to €4.28 billion, were implemented through the investment budget. That said, the expansion of expenditure was supported by exceptional revenues from the EU due to the health crisis. In particular, the amount of revenue mentioned above includes revenues from the EU of at least €1.3 billion, which are linked to the health crisis and not to investment.

Implementation of the 2021 Budget (January - February)

The implementation of the 2021 budget started with the economy in a state of suspension of operations in a significant part of it, for reasons of protection of public health. The budget of measures to support businesses and households under such conditions for this year (€7.5 billion) corresponds to a much shorter period of restrictive measures than in 2020.

In the two months of January-February, there was a limited lifting of protection measures, mainly in Retail Trade, but not in travel, tourism and food services, with an impact on economic activity and tax revenues, mainly from indirect taxes. In addition, a significant part of the resources were used to support businesses and households. This had an impact on the level of expenditure, on the one hand, and on the other it used up relatively early the resources available for the whole year. As the lockdown was extended in March and eased again in April, these resources are already running out, which is expected to be reflected in the implementation data of the State Budget in the coming months.

Note the significant increase in direct tax revenues in the first two months compared to last year, which overcompensated for the shortfall in indirect taxation. This trend is an indication of the trend in the level of economic activity in 2020, as well as at the beginning of 2021.

Balance and Primary Balance of the State Budget

According to the state budget execution data, on a modified cash basis, for the period January - February 2021, there is a deficit in the state budget of €3,268 million, compared to a deficit target of €4,507 million for the corresponding period of 2021, in the Explanatory Budget Report for 2021, and a deficit of €1,107 million in the corresponding period of 2020. The primary balance was in a deficit of €1,497 million, compared to a target for a primary deficit of €2,737 million and a primary surplus of €831 million for the same period in 2020 (Table 2.8).

However, compared to last year, both revenues and expenditures increased in almost all key categories. The increase in expenditure was much greater than the increase in revenue. As a result, the SB deficit was three times higher than last year, while the primary surplus of last year turned into a primary deficit a year later. The increase of the revenues of the PIP (+94.2%), as well as its expenses, is significant.

Table 2.8

SB Implementation: January-February 2021* (million €)

	Jan.-February		% Change	2020	2021 budget	% Change
	2020	2021				
I. SB NET REVENUE (1+2)	7,557	8,533	12.9	47,364	52,970	11.8
1. Net OB revenue	7,126	7,696	8.0	41,822	48,778	16.6
Less Tax refunds	723	*602*	*-16.7*	*5,672*	*5,256*	*-7.3*
OB revenue	7,849	8,298	5.7	47,494	54,034	13.8
2. PIP revenue	431	837	94.2	5,542	4,192	-24.4
of which: revenue from EU	...	...	...	3,479„	,,	..
II. SB EXPENDITURE (3+4)	8,664	11,801	36.2	70,169	67,811	-3.4
3. OB expenditure	8,172	10,117	23.8	59,522	61,061	2.6
Primary expenditure [2,3]	6,233	8,194	31.5	54,748	56,551	3.3
Interest	1,939	1,923	-0.8	4,774	4,510	-5.5
4. PIP expenditure	492	1,684	242.3	10,647	6,750	-36.6
III. SB Deficit (-)/Surplus (+) (I-II)	-1,107	-3,268		-22,806	-14,841	
% of GDP	*-0.6*	*-1.9*		-14.0	-8.6	
IV. SB Primary Balance	831	-1,497		-18,195	-10,331	
% of GDP	*0.5*	*-0.9*		-11.2	-6.0	
GDP (at current prices)	162,776	171,934		162,776	171,934	

* According to the method of presentation of revenue and expenditure in effect from 01/01/2019.

Source: Monthly SB Execution Bulletin, February 2021, Ministry of Finance, March 2021

Ordinary Budget Revenue

The net OB revenues in January-February this year amounted to €7,696 million, exceeding by €503 million or 7.0% the estimate for the corresponding period in the explanatory report of the 2021 Budget (Table 2.9). Net OB revenues also increased compared to the first two months of 2020, by 8.0%. OB revenues were lower (5.7%), but tax refunds decreased by 16.7%. Tax revenues amounted to €7,624 million, exceeding by €65 million or 0.9% the relevant target, while they were higher by €239 million from last year. At the same time, revenue returns were €602 million, lagging behind the target by €85 million (€687 million). Income tax revenues were 15.0% higher compared to the same period last year, mainly from the increase in corporate tax revenues, from €191 million to €477 million (+149.7%), but and a 5.6% increase in personal income tax revenues, from €1,553 million to €1,640 million. Income from property taxes increased by 29.6% to €425 million and income from other current taxes by 185.4% to €839 million. By contrast, there was a decrease in revenues in other categories of taxes, such as inheritance taxes (-20.5%), customs duties and import taxes (-26.8%), taxes on goods and services (-15.0%), and mainly, based upon their relative weight on tax revenues, VAT (-15.0%) and excise duties (-18.7%).

In terms of trends in other income categories, receipts from sales of goods and services increased by 6.3%, to €84 million. Other current revenue expanded sharply, by 63.6%, to €584 million, an increase which came from the amount received from the auction for the 5th generation (5G) networks.

Table 2.9

State Budget Revenue: January-February 2021* (million €)

	Jan. – February		% Change	2020	2021 Budget	% Change
	2020	2021				
Net SB revenue	7,557	8,533	12.9	47,364	52,970	11.8
Net OB revenue	7,126	7,696	8.0	41,822	48,778	16.6
Tax refunds	723	*602*	*-16.7*	*5,672*	*5,256*	*-7.3*
SB revenue	7,849	8,298	5.7	47,494	54,034	13.8
Income tax, of which:	1,980	2,277	15.0	13,589	15,429	13.5
-- Personal	*1,553*	*1,640*	*5.6*	*10,155*	*10,383*	*2.2*
-- Corporate	*191*	*477*	*149.7*	*2,361*	*3,922*	*66.1*
Property tax	328	425	29.6	2,427	2,847	17.3
Taxes on donations, inheritance, etc	39	31	-20.5	180	214	18.9
Tariffs and import duties	56	41	-26.8	245	286	16.7
Taxes on goods and services, of which:	4,622	3,931	-15.0	23,945	26,418	10.3
-- VAT	*3,111*	*2,759*	*-11.3*	*15,008*	*17,492*	*16.6*
--Excise duties	1,068	868	*-18.7*	*6,427*	*6,599*	*2.7*
Other production taxes	67	80	19.4	1,069	1,046	-2.1
Other current taxes	294	839	185.4	1,743	2,412	38.4
Social contributions	9	9	0.0	54	54	0.0
Transfers, of which:	*72*	…	-	*1,139*		
--ANFA's and SMP's	…	…	-	*251*		
Sales of goods and services, of which:	79	84	6.3	507	603	18.9
Other current revenue	357	584	63.6	2,731	1,636	-40.1
Sales of fixed assets	1	2	100.0	8	330	4025.0
PIP Revenue	431	837	94.2	5,542	4,192	-24.4

* On a national accounting basis (ESA 2010). In adjusted cash-based accounting. According to the new revenue classification in effect since 01/01/2019.

Sources: Monthly SB Execution Bulletin, February 2021, Ministry of Finance, March 2021.

Ordinary Budget Expenses

Ordinary Budget expenditures in January - February this year amounted to €10,117 million, lower by €2,053 million than the target (€12,170 million, Table 2.10). However, OB expenditures were higher by 23.8% than last year. OB spending has widened due to pandemic measures and increased payments for armaments programmes.

In detail, the expansion of OB expenditure came from its primary expenditure, which increased by 31.5%, to €8,194 million, not from interest. Employee compensation was at the 2020 level, but transfers were 33.0% higher due to pandemic support measures. Purchases of fixed assets also increased significantly from €1 million to €660 million. These include payments related to the armaments programmes of the Ministry of National Defence, which exceeded the two-month target by €589 million to service the relevant contracts and were almost the sole reason for exceeding the target for asset purchases.

The only categories that decreased are the purchases of goods and services (-60.0%) and the subsidies that were set at zero. The increase in PIP expenditures was large (242.3%), for reasons which are analysed in the next subsection. A significant part of the appropriations to be allocated for this year which were to be moved to the transfer category within the period January – February, were ultimately not transferred; mainly because there was a post-budget decision, to partially service the measure of the repayable advance from the resources of the PIP as well.

Table 2.10

State Budget Expenditure* (million €)

	Jan. – February		% Change	*2020*	*2021 Budget*	*% Change*
	2020	2021				
SB Expenditure (1+2+3)	8.664	11.801	36,2	70.169	67.811	-3,4
OB Expenditure (1+2)	8.172	10.117	23,8	59.522	61.061	2,6
1.Primary OB Expenditure	6.233	8.194	31,5	54.748	56.551	3,3
Compensation of employees	2.170	2.177	0,3	13.335	13.544	1,6
Social benefits	20	55	175,0	137	199	45,3
Transfers	3.957	5.262	33,0	38.751	31.394	-19,0
(of which SSFs)	*2.771*	*2.951*	*6,5*	*21.625*	*20.610*	*-4,7*
Purchase of goods and services	80	32	-60,0	1.618	1.251	-22,7
Subsidies	6	0	-100,0	248	80	-67,7
Other current expenditure	0	8	-	29	91	213,8
Non allocated expenditure	0	0	-	0	4.709	-
Purchase of fixed assets	1	660	-	631	2.646	319,3
2. Interest (gross basis)	1.939	1.923	-0.8	4.774	4.510	-5,5
3. PIP Expenditure	492	1.684	242,3	10.647	6.750	-36,6

* According to the new revenue classification in effect since 01/01/2019.

Sources: Monthly SB Execution Bulletin, February 2021, Ministry of Finance, March 2021

Public Investment Programme (PIP)

The revenues of the Public Investment Programme (PIP) amounted to €837 million, €223 million less than the target, but significantly higher compared to last year (+94.2%, Table 2.10). PIP support measures reached €1.68 billion and more than tripled from last year (€492 million), while the relevant target was exceeded (€590 million). However, most of this, €967 million, concerned support measures due to the pandemic, in the form of repayable advance; while another €45 million was allocated to subsidise interest on SME loans. Excluding these, PIP expenditure in January-February reached €672 million, 36% more than in 2020 and 14% above the Budget target.

Therefore, it is necessary to accelerate the investment support actions of the PIP in the coming months, in order for them to give as much impetus to economic activity as possible.

C. Financial developments

- ECB liquidity support measures for banks strengthen their resilience.
- Programmes to boost business financing by domestic authorities drive private sector credit expansion.
- NPLs in the fourth quarter of 2020 recorded the largest decrease over time in a quarter, mainly through loan sales and securitisations.
- Key challenges for the banking system - the quality of assets and the impending difficulty of repayment by borrowers affected by the pandemic.
- The stock of private deposits continues to grow, also based on the temporarily high propensity to save.
- Low cost of new lending for businesses, but higher than in other countries.
- Stronger international investor confidence and ECB measures keep the cost of new government borrowing low, for an unprecedented 30-year horizon.

Despite the extension of the restrictive measures to deal with the pandemic beyond the beginning of January, when they were expected to ease, the second and third waves of the health crisis do not seem to have had a significant negative impact on the fundamental indicators of the domestic financial system. As was the case during the initial outbreak of the virus, the policy measures implemented by both the ECB to stimulate low-cost bank financing and of the domestic authorities to strengthen liquidity supply channels to companies affected by the restrictive measures, contributed decisively to this outcome.

Uncertainty about the duration of the effects of the second and third waves of the health crisis remains, despite the positive developments regarding the development of vaccines, but also the vaccination of the population. At present, it is mainly related to the mutations of the virus and the effectiveness of vaccines in dealing with it, on which possible new waves will depend, a perspective that undoubtedly maintains or intensifies the challenges for the domestic banking system. Following the sharp drop in bank valuations by 60% in March 2020, the positive news of the start of the vaccination programme led to a recovery of some of the losses in the last two months of last year, to levels about 40% lower than in the previous year at the onset of the pandemic.

At the level of a common European monetary policy, the ECB continued to facilitate the provision of liquidity to Greek banks, as well as to stimulate demand for Greek government bonds through PEPP. Bank securities remained accepted as eligible collateral, while valuation haircuts were reduced. The possibility of long-term low-cost refinancing for banks emerged as particularly important, averaging €38 billion in the second half of 2020, from €21.3 billion in the previous quarter. Respectively, government bond acquisitions under PEPP averaged €1.8 billion per month in March-November 2020.

At national level, exceptional fiscal measures were carried out to support borrowers, such as the temporary interest subsidy for performing business loans and loans to individuals with a primary residence mortgage (BRIDGE programme), as well as the temporary suspension of instalments of selected loans by banks, with a maximum duration of up to 9 months from the date of suspension, in accordance with the instructions of the European Banking Authority. After the suspension expires, banks often provide partial instalment and cash facilities to borrowers by mid-2022. Applications to the BRIDGE 2 programme, which also concerns enterprises, with a budget of €300 million, have recently started, for €108 million of its initial phase.

Among the positive trends in bank fundamentals, despite the decline in economic activity, the rate of return of private deposits increased, the liquidity of the banking system improved, while the non-organic decline in NPLs continued. The cost of capital continued to decline, to historic lows, and at the same time credit expansion to businesses accelerated, largely under the influence of liquidity-support policy measures.

Nevertheless, the long-term weaknesses of the Greek banking system remain. Weak quality of equity and assets stands out, including the high stock of Non-performing loans (NPLs), which acts as a deterrent to banks' lending capacity. According to recent data from the European Banking Authority, it is estimated that up to half of all loans suspended until the third quarter of 2020 (around €11 billion out of €22 billion) are likely to be considered non-performing in the near future, while their coverage rate with provisions is low, at around 25%. Similar forecasts of the banks themselves and the Bank of Greece point to an increase in NPLs due to the pandemic of between €5 billion and €10 billion respectively. As regards the impact of banks on the real economy, credit contraction to households continues unabated and the cost of private sector bank financing, although at historically low levels, remains higher than in European partners.

As the provision of guarantees by the Greek state under the "Hercules" programme was recently completed (10/04/2021), on 12/03/21 a request for its extension was submitted to the Directorate-General for Competition of the European Commission, which was approved on 09/04/21. In the first phase of "Hercules", the non-performing loans of the four systemic banks decreased by €31.35 billion. Through Hercules II, it will be possible for banks to make NPLs securitisations of up to €32 billion, with €11-12 billion new state guarantees. At present, the largest banks have expressed interest in loan securitisations of €18.6 billion through the new programme.

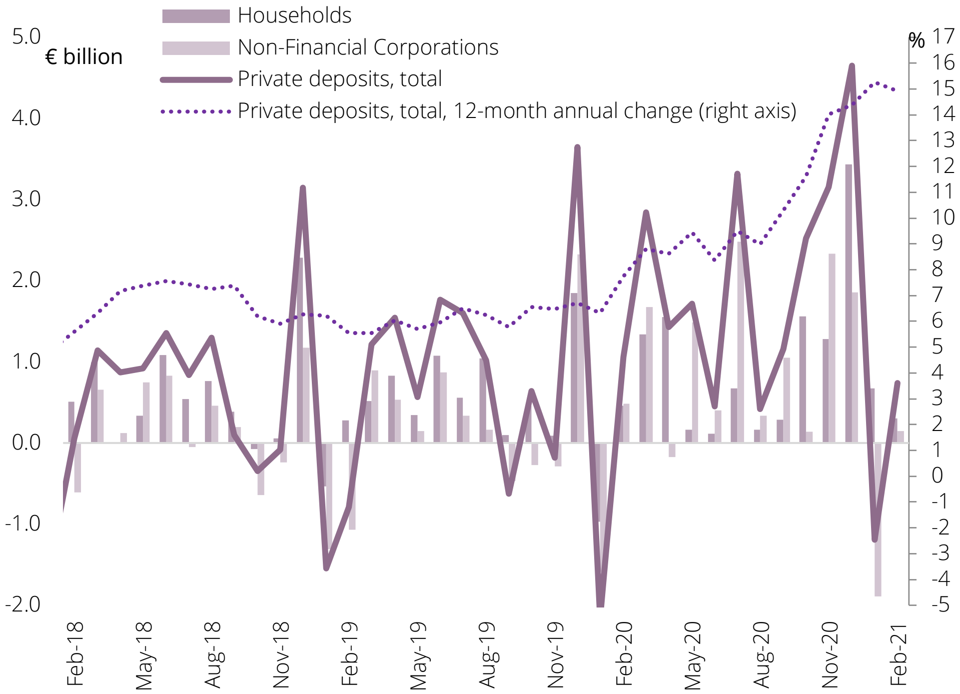
On the banks' liabilities side, private deposits increased in December 2020-February 2021 by €4.2 billion. Thus, the twelve-month rate of change recorded a twelve-year high, reaching 15% over the same period. Amid a pandemic and growing uncertainty, private deposits have increased cumulatively by €21.2 billion over the 12-month period since the restrictive measures began in March 2020, of which €11.5 billion came from households. In December 2020-February 2021, the recorded net inflow was due exclusively to households, with an increase of €4.4 billion, while non-financial corporations (NFCs) recorded a marginal outflow of €0.2 billion (Figure 2.8).

From August 2015 to February 2021, private sector deposits increased by €49.4 billion, of which €29.0 billion came from households and €20.4 billion from businesses. Thus, the cumulative outflows of deposits in December 2014-July 2015 by 44.4 billion have now been more than offset, by €5.0 billion, signalling the significant restoration of depositors' confidence in the banking system.

For the rest of 2021, the positive trend in private deposits of households is expected to slow down, following the observed slowdown for businesses. The gradual reduction of uncertainty is expected to lead to a recovery of the propensity for consumption and a relative weakening of the propensity for saving, restraining the increase of deposits.

Figure 2.8

Monthly net flow of private deposits at Greek banks



Private sector deposits continue to grow, with a high 12-month annual rate of change close to 15%.

Source: Bank of Greece

The second part of the banks' liabilities concerns Eurosystem financing. ECB's extraordinary liquidity-enhancing package continues to offer Greek banks low-cost liquidity options. The Eurosystem bank financing during the pandemic increased by at least €33.9 billion from February 2020, including low-cost long-term monetary lending (TLTRO III, Figure 2.9). At the same time, the assets of the domestic banking system accepted by the Eurosystem as collateral for monetary policy operations, as reflected in the financial statements of the Bank of Greece, increased by approximately €38 billion during the last year.

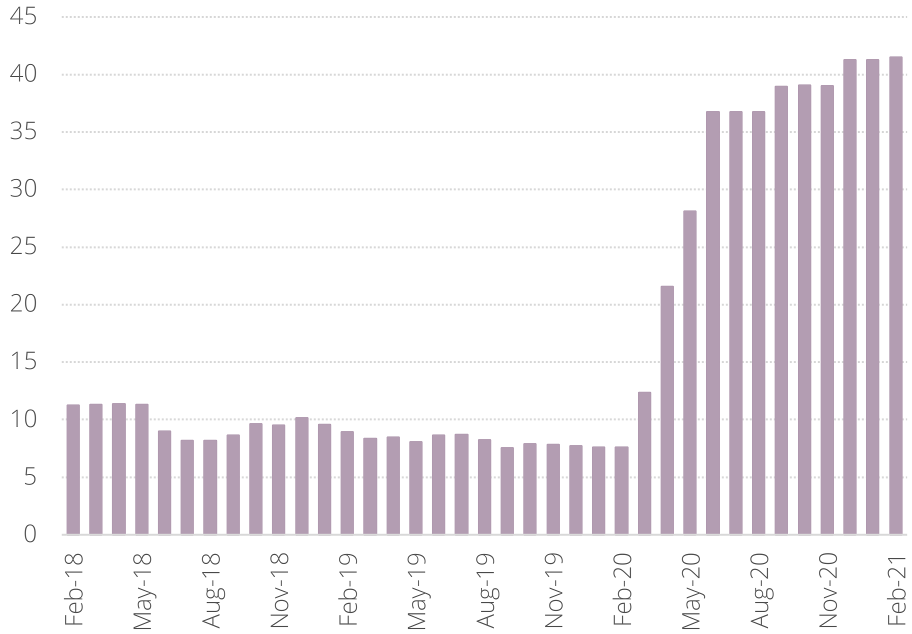
On the banks' assets side, in the first two months of 2021, a double-digit rate of credit recovery to non-financial corporations (MFIs) was recorded, for the first time since 2009 (Figure 2.10). Also, the small increase of credits to freelancers and sole proprietors continued, while the credit contraction to households remained unchanged, for the tenth consecutive year. Financing in the private sector as a whole, excluding loan write-offs, recovered in January-February 2021 by 3.7% in terms of annual change, compared to an increase of 1.2% in 2020 as a whole (Table 2.11). The largest credit expansion to SMEs was recorded in the sectors of Transport, Tourism, Trade, Real Estate Management, Agriculture, Shipping, Industry, Communication, Professionals and Energy. By contrast, there was a contraction in the Construction sector.

Changes in supply and demand for loans under the influence of the pandemic contribute to these trends. On the supply side, despite the high stock of Non-Performing Loans (NPLs) that have restrained banks' credit activity, the activation of emergency liquidity-boosting policy measures through guarantee programmes (Greek Development Bank, Entrepreneurship Fund) and liquidity support interventions by the ECB have had a particularly positive effect on Non-Financial Corporations (NFCs).

Figure 2.9

Long-term financing of the Greek banks from the Eurosystem (billion €)

The Eurosystem continues to provide low-cost liquidity to Greek banks, totalling more than €41 billion in December 2020-February 2021.



Source: Bank of Greece

Table 2.11

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

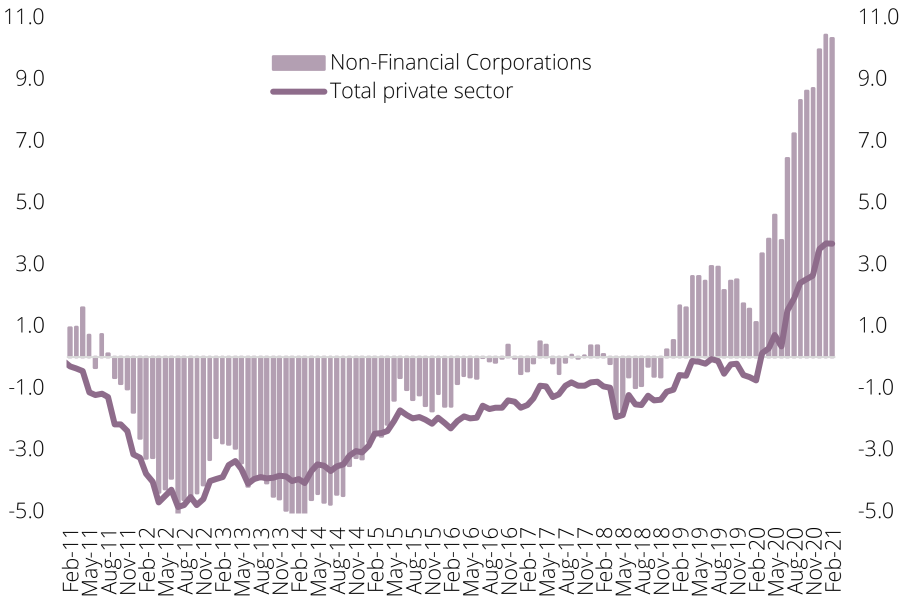
Quarter / Year	1/20	2/20	3/20	4/20	Jan.21	Feb.21
Total private sector	-0.4	0.5	1.9	2.9	3.7	3.7
Households & NPIs	-2.9	-2.8	-2.5	-2.4	-2.5	-2.5
Sole proprietors and unincorporated partnerships	-2.4	-2.2	-0.1	1.2	2.8	3.1
Non-financial corporations	2.0	4.1	7.3	9.1	10.4	10.3
Agriculture	-0.5	1.9	3.2	3.1	10.4	9.7
Industry	1.7	7.1	9.0	9.7	10.1	9.2
Trade	0.8	3.1	8.3	9.7	11.4	11.7
Tourism	3.6	2.2	9.5	13.7	15.9	16.7
Shipping	-1.0	-6.2	0.6	9.1	13.7	6.2
Construction	-4.4	-3.4	-3.8	-2.4	-0.2	0.1
Electricity-gas-water supply	8.0	4.5	5.4	9.4	7.8	8.0
Transport and logistics	19.5	3.0	16.2	27.6	26.1	21.0
Interest rates on new loans (period average, %)						
Consumer credit	9.70	9.86	9.71	9.58	10.01	9.66
Mortgage credit	2.84	2.83	2.95	2.80	2.54	2.74
Loans to non-financial corporations	3.43	3.15	3.08	3.17	3.05	2.92

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

Figure 2.10

Bank financing of the domestic private sector 2011-2021 (annual % change of flows*)



Bank financing to businesses recorded double-digit growth rates in early 2021, boosted by emergency liquidity support measures

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.

On the demand side, the need for liquidity and working capital is increasing, but at the same time uncertainty is holding back new investment. The Bank of Greece survey on bank lending in the fourth quarter of 2020 recorded an increase in demand for loans, both for short-term and long-term loans. The credit criteria remained stagnant, also not expected to change in the short term. Loans to meet liquidity needs, driven by both small and medium-sized enterprises and large enterprises, appear to be the driving force of increased demand.

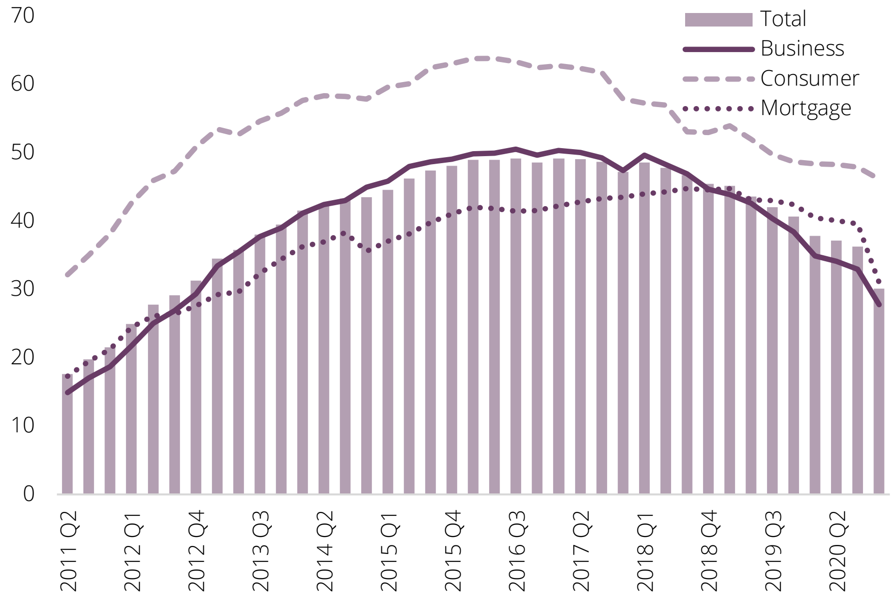
The non-performing loans (NPLs) fell in the fourth quarter of 2020 by 21% or €12.6 billion[6], their largest decline recorded in a single quarter. The improvement is mainly due to sales and securitisations that took place in this quarter, thanks to the implementation of the Hercules programme. The total level of NPLs in December 2020 was €47.4 billion or 30.2% of total loans, approximately €59.8 billion or 55.7% lower than the maximum level of March 2016, albeit remaining significantly higher compared to other European countries (low single-digit rates). In business credit, the rate of NPLs recorded a big drop, to 27.8% of loans at the end of 2020, from 33.0% in the third quarter and 38.4% at the end of 2019, as well as in mortgage portfolios, from 39,6% to 31.0% (42.4% at the end of 2019). A smaller decrease, from 47.9% to 46.2%, was recorded in consumer loans (48.6% at the end of 2019). In business credit, the rate of NPLs in the fourth quarter of 2020 decreased significantly for self-employed (to 51.0% from 55.4% in the previous quarter) and small and medium-sized enterprises (to 39.2% from 47.0%) while remaining at a particularly high level, while it also declined for large companies, to 14.8% from 16.6% in the third quarter of 2020.

[6] Data are presented for NPLs that include only the items in the balance sheet, on an individual basis

Figure 2.11

Non-Performing Loans, % of total loans by category*

In the fourth quarter of 2020, the NPLs recorded the largest decrease recorded over time in a quarter, by EUR12.6 bn, mainly through sales and securitisations of loans.



Source: Bank of Greece
* On-balance-sheet loans (before provisions) on an individual basis.

Overall in 2020, the decrease of the recorded NPLs by €21.1 billion is mainly due (about 80-90%) to sales and the implementation of the guarantee programme of the Greek State in securitised NPL portfolios ("Hercules" Plan, Law 4649/2019), and by 10% approximately to write-offs, while the rest came from active management and liquidations.

As a result of the new financial crisis due to the pandemic, the banks are in the process of reviewing their business plans and strategic targets for reducing NPLs by the end of 2023. It is particularly important to accelerate the implementation of the "Hercules" Plan, as well as other solutions to reduce NPLs, as some tools to reduce them are still under-utilized, such as auction receipts and collateral liquidation. It is also advisable to consider additional proposals, such as that of the Bank of Greece for the securitisation of part of the banks' deferred taxation claims, as well as the possible creation of a troubled-asset management company.

In the short term, the temporary easing of supervisory rules by the European Banking Authority, as well as measures to support affected borrowers, have a positive effect on the stock of NPLs, which to some extent underestimates the fundamental trends of repaying loans. Relevant estimates of the banks themselves and the Bank of Greece result in a possible increase in NPLs after the cessation of the temporary relaxation of the supervisory rules by the European Banking Authority, amounting to between €5 billion and €10 billion respectively.

In the medium term, a further decline in NPLs is likely, especially through the more extensive implementation of the recently renewed Hercules programme. The decline in NPLs may continue not at a linear rate, due to the effects of the pandemic crisis but also the new NPLs that will arise after the cessation of temporary borrower support measures. Credit contraction in consumer and mortgage portfolios is expected to continue, while the unprecedented liquidity enhancement measures and the expected demand to meet liquidity and investment needs will act in support of credit expansion to businesses. Decisive and systematic reduction of NPLs is crucial for banks' lending capacity.

New deposit rates fell further in the first two months of 2021, to an all-time low for Non-Financial Corporations (NFCs) and households, to 0.04% and 0.08%, from 0.11% and 0.12% respectively overall in 2020. In the same two months of this year, the average interest rate on new loans decreased to 3.8%, due to the small reduction in lending costs to both individuals and NFCs. The difference between the average interest rate on loans and deposits (interest rate margin) was also lower, close to 3.8%, compared to the average difference of 4% for the whole of 2020.

The average cost of new bank financing for private sector NFCs fell to 2.9% in February, compared with 3.2% in the previous year, a level which is close to the lowest cost of new borrowing - since the country joined the Eurozone - recorded in September 2020 (2.8%). Nevertheless, costs remain significantly higher than in the rest of the Euro area. Indicatively, according to ECB's composite cost of borrowing indicator, the cost for non-financial corporations in February 2021 was 1.5% in the Eurozone, 1.6% in Germany, and 1.9% in the countries of the Eurozone "south" (Portugal, Italy, Cyprus, Spain). As a result, the spread of borrowing costs for Greek companies in relation to the average of the Eurozone and the average of the "south" stood, albeit decreasing, at 151 b.p. and 113 b.p. respectively. Compared to the pre-crisis level, the spread of borrowing costs for Greek businesses compared to the average of other countries in the Eurozone 'South' remains significantly higher.

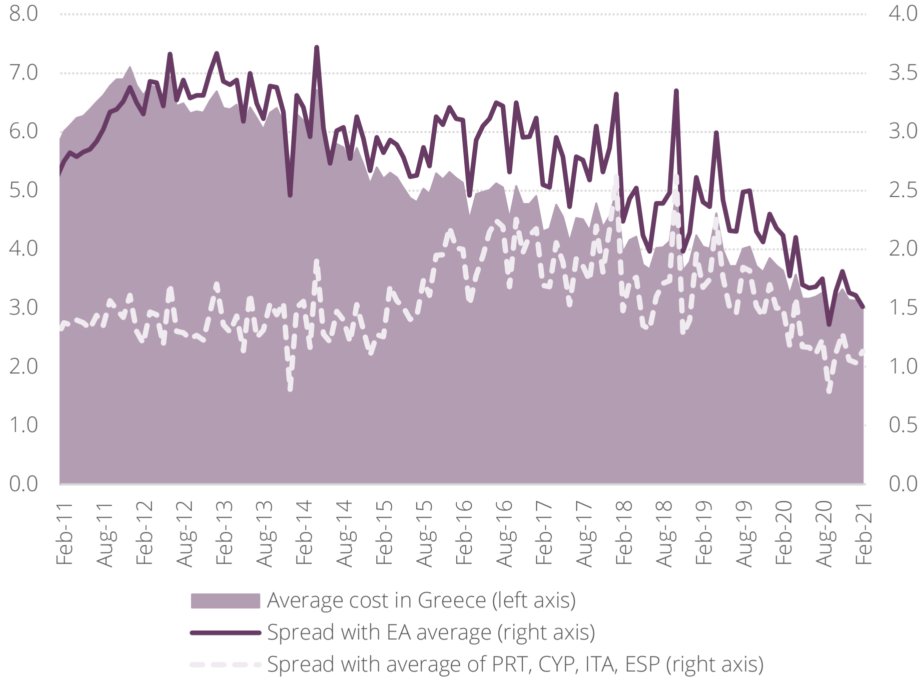
The prolonged intensity and duration of the recent wave of the health crisis has had a deterrent effect on the trend of de-escalation of government bond yields, despite the significant positive impact of the ECB's ongoing liquidity-boosting policies, in which Greece is now partially involved. Thus, for the 10-year bond, the average yield increased in February 2021 to 0.81%. At the same time, the additional burden on the new cost of 10-year borrowing of the Greek State in relation to the other countries of the Eurozone, was maintained in February at 126 b.p. and 49 b.p., in relation to the German bond and the average of the countries of the Eurozone "south" respectively. Despite a significant improvement over the past year, spreads remain significantly higher than their average in the first decade of the Eurozone.

Following the five successful government debt auctions held in 2020, the Greek State proceeded with two new long-term issues in the first quarter of 2021. A ten-year bond issue in January, which raised total funds of €3.5 billion at an interest rate of about 0.8%, the lowest over time for all Greek government issues, and a 30-year bond issue in March, which raised a total of capital of €2.5 billion with an interest rate marginally lower than 2.0%. Both issues were overshadowed by very high demand, while regarding the quality features of these issues, the vast majority of buyers were long-term institutional investors. Greece's ability to borrow from the markets even over a 30-year period reflects the degree of significant recovery of the relative confidence of international investors in the Greek economy. Nevertheless, the level of Greek public debt remains one of the largest internationally, with the risk that the current economic crisis will clearly worsen its dynamics; yet some of its quality characteristics, such as the average repayment period, improve its long-term sustainability outlook.

Figure 2.12

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

The cost of new borrowing for businesses remained marginally lower than 3% in February, 113 b.p. higher than the average for the Eurozone "south".

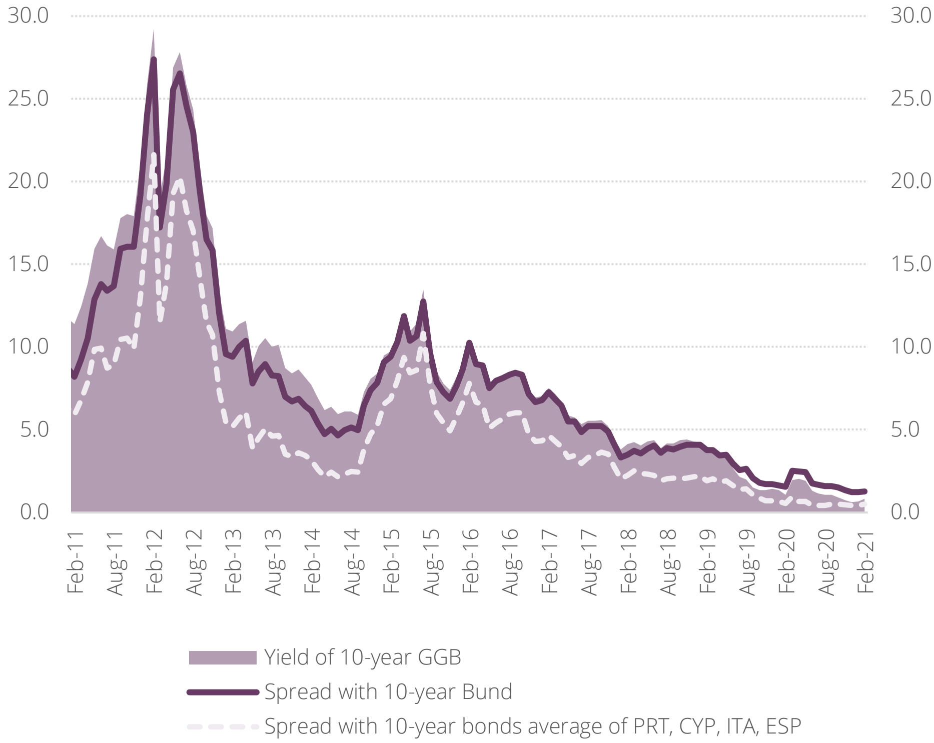


Source: ECB

Figure 2.13

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

The yield of the sovereign 10-year bond rose marginally in February this year, remaining close to the very low level of 0.8%.



Source: ECB

3 PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- A sharp recession of 7.9% in Greece in Q4 2020 due to the effects of the health crisis, albeit milder than in the previous quarter, compared to GDP growth of 1.6% in the corresponding quarter of last year. Overall in 2020 recession of 8.2% against growth of 1.9% a year earlier.
- GDP contraction in Q4 again mainly due to the sharp drop in exports (-13.4 %), due to exports of services (-55.4 %). Export reduction of 21.7% last year.
- A deterioration in the external sector's balance, as imports decreased much less than exports (-9.5 %). Overall in 2020 imports declined by 6.9%.
- Recession in Q4 also from the decline of private consumption (-4.7 %) and investment (-19.0%). Overall in 2020, private consumption declined by 4.7%, while investment increased by 4.6%.
- Only public sector consumption expenditure expanded, rather sharply (+7.3%), among the components of domestic demand in the fourth quarter. Growth by 2.6% last year.

Recent Macroeconomic Developments in Greece

The particularly strong impact of the new coronavirus pandemic on economic activity in Greece continued into the final quarter of the previous year. However, their intensity appears to have been weaker than in previous quarters. Domestic output shrunk in the last quarter of 2020 by 7.9%, from 10.5% in the previous quarter and 13.8% in the second quarter[7], while a year ago it had a mild rise (+0.8 %). Overall in 2020, GDP was 8.2% less than a year earlier, while in 2019 it had increased by 1.9%. As public consumption and investment increased, the continuation of the strong recession in the fourth quarter resulted mainly from the continued sharp decline in exports, due to the shrinking of tourism, as well as a significant decrease in consumption, due to the

[7] The initial GDP change estimate for the third quarter in December 2020 was -11.7 %. The initial estimate for the second quarter in September 2020 was -15.2%.

resumption of lockdown since the beginning of last November. The intensity of the recession was tempered by imports, which decreased considerably stronger than in the previous quarter.

In detail on the developments in the components of GDP last year, domestic consumption shrunk by 3.1%, while a year earlier it had increased by 1.5 %. The decline resulted from a sharp fall in private consumption by 4.7%, despite measures to support workers in pandemic-affected sectors, against to a 1.6% increase in 2019. The intensity of the decline was more pronounced in the second (12.9%) and in the fourth quarter (-4.7%), i.e. in the quarters with lockdown in place. By contrast, public consumption increased by 2.6%, to address the emergency caused by the health crisis. The rise would have been greater had it not been for the decline in consumption expenditure in the second quarter of last year (-2.6%), due to their high level a year earlier, from the measures taken during the then election period. The increase strengthened during the second half of the previous year, reaching 4.8% in the third and 7.3% in the following quarter. However, despite its expansion in 2020, public consumption expenditure was slightly lower than in 2015-2017.

Investment increased by 4.6% in 2020, over-compensating for their reduction by 2.5% a year earlier. The rise came mainly from the third quarter, when investment increased sharply by 35.3%, with the last quarter being the only one with a decline, albeit strong (-19.0%). However, the strong growth came almost exclusively from the expansion of stocks, which reached €5.0 billion, from €4.0 billion in 2019 (+24.6%), as the formation of fixed capital was almost unchanged (+0.3%). The level of stocks last year was the highest at least since 2011, the last year for which the National Accounts have been revised with respect to the current base year (2015). Although based on the Eurostat National Accounts methodology, stocks balance the GDP estimates from the supply-side and demand-side approaches, the fact that in the third quarter last year they accounted for 4.4% of GDP domestically highlights the excessive impact they have on domestic output in some quarters and concerns about their overall level.

Investment in fixed assets was almost unchanged overall in 2020 as well (+0.3%), compared to the previous year when they had declined by 7.3 %. The fall in investment expenditure was halted by recording as investment the interventions to support enterprises against the effects of the pandemic. Over the whole of 2020, the outflows of the Public Investment Programme (PIP) were higher by €3.671 mil. compared to the target for the same period, to reach €10.42 bn, mainly due to expenses for the establishment of a guarantee fund due to the pandemic of COVID-19, for the measure of the repayable advance of enterprises, the special-purpose compensation of businesses and the self-employed and for the subsidy of interest on loans of small and medium-sized enterprises[8].

Among the categories of fixed capital, the strongest growth in absolute and relative terms last year was recorded in those related to construction. In particular, investments in Other Construction, which included a significant part of the PIP's expenditure, increased by €416 mil. or 9.24%, in contrast to their sharp decline in 2019 by 25.2%. Their expansion is mainly due to their rise in the second quarter (+24.7%), when the expenditure of the PIP increased sharply, due to the aid of enterprises and the self-employed against the impact of COVID-19, which is considered to highlight the link between the latter and Other Constructions. Housing followed, with an increase of €205 mil. or 14.7 %, compared to their relative stability one year earlier (+0.36%). Machinery (+€122 mil.

[8] Source: State Budget Execution Bulletin December 2020, Ministry of Finance, January 2021

or +2.6%) and ICT Equipment (+€100 mil. or +4.9%), continue their growth, by 6.1% and 2.5% respectively. Investment in Agricultural Products (+€1 million or +0.8%), which have the smallest share of fixed investments, have a much milder recovery. The rise in these fixed capital categories was almost offset by the very strong decline of investment in Transport Equipment throughout last year, resulting in a total of €840 million (-41.3 %).

Regarding the developments in the external balance of the economy, the deterrent effect of the new outbreak of the pandemic globally on international travel prolonged the sharp decline of exports from lower exports of services in the final quarter of 2020. The latter shrank by 55.4%, leading to a decrease in total exports by 13.4%. As a result of this development, the exports of services were 43.9% less than in 2019, when they had been increased by 7.2%. The exports of products followed a positive trend last year, with the exception of only the second quarter, with the trend strengthening at the end of the year (+13.6%), leading to an average expansion last year of 4.3%. Overall, exports decreased by 21.7 %, as opposed to growth by 4.8 % in 2019.

The milder pressures from the pandemic on imports in relation to exports continued in the final quarter of last year, when imports declined by 9.5%. Overall in 2020, they were 6.9% below their level a year earlier, when they had mildly increased by 3.1%. Among the import components, the decrease was stronger in the imports of goods (-16.0% or -€3.05 billion), compared with an increase of 4.9% a year earlier. The imports of services shrank by €1.97 billion or 3.8% after growth by 2.3% in 2019. The much larger decline in exports compared to imports worsened the external balance, leading to a deficit of €10.2 billion (6.1% of GDP), from slightly negative balance in 2019 (-€1.47 billion).

Approaching GDP on the production side, domestic gross value added decreased by 7.8% last year. Activity declined in 2020 in seven of the ten main sectors of the Greek economy. The exception came from Construction, Public Administration – Defence - Social Security and Information - Communication, which saw an expansion of activity by 11.9%, 2.5% and 0.5% respectively, after growth of 3.3% and 0.9% in the first and third sectors and a marginal reduction of 0.4% in Public Administration in 2019. The increase in Construction is related to the rise of investment in Housing and Other Construction mentioned above.

By contrast, the biggest decline in activity occurred last year in Arts – Recreation - Entertainment, by 25.1%, compared with an increase of 5.0% in 2019 (the second strongest among the sectors). It was followed with a slightly lower decline by Wholesale – Retail Trade, Transport – Storage, Hotels – Restaurants (-20.8%), against a slight increase of 1.6% a year earlier. Next in terms of production contraction in 2020, came, at a distance, Professional – Scientific – Technical – Administrative Activities (-10.8%) and Financial – Insurance Activities (-7.4%), compared to a marginal decline in activity in both sectors one year earlier (-0.3% in both). The decline in Industry (-3.9%) was milder, after 0.9% growth in 2019. The smallest decline occurred in Real Estate Activities and in the Primary sector, by 0.6% and 0.3% respectively, against no change in 2019 in the former (+0.2%) and a strong positive trend in the latter (+5.1%) sector.

The strong recession continues to reflect milder than expected in the trend of unemployment. As mentioned in previous reports on the Greek economy, a number of factors have contributed to this development. In particular, the measures to protect jobs against the effects of the pandemic taken by the government and the fact that a large proportion of those who lose their jobs are leaving the workforce contributed to the lack of expansion in the number of unemployed.

Indicatively, according to the press release of EL.STAT. for the Labour Force Survey of the second quarter of 2020, part of this increase (of the economically inactive) came from the flow of unemployed to the economically inactive as, according to the definition of the unemployed and the economically inactive population, if a person does not work, is not actively searching for work and is not available to take up work immediately, is not classified as unemployed but as part of the economically inactive population. However, although the unemployment rate continued to decline compared to the corresponding quarter of 2019, this difference has been sharply lower since the second quarter of 2020, at 0.2 percentage points in that and the following quarters and 0.6 p.p. in the final quarter, while in the first quarter of 2020 the fall was of the order of 3 percentage points. This trend is considered to be due to the effects of the pandemic, mainly on seasonal employment, since many of the regular jobs are maintained by the suspension regime. At a sectoral level, the trends are mostly linked to production activity, yet there are some significant contrasts, such as the Primary sector, Professional-Scientific-Technical-Administrative activities, Arts-Recreation-Entertainment, and Construction.

In particular, employment declined in the fourth quarter of 2020 by 0.6% or 23.3k people compared to the same quarter last year, when it had increased by 1.8%. This fall was the smallest since the start of the pandemic. For the third in a series of quarters, the decline in employment did not lead to an increase in the number of unemployed, which fell by 36.3k, but to an increase in the inactive population (+43.9k). The unemployment rate for October-December, together with the rate recorded in the previous nine months of last year, set unemployment in 2020 at 16.3%, 1.0 percentage points lower than a year earlier. It was also the lowest annual unemployment rate since 2011. The strongest year-on-year employment contraction in the fourth quarter of the year, as in the previous two, was recorded in the Primary sector (-50.0k or -11.2%) and in Tourism (-44.3k or -11.9%), followed by Transport - Storage (-20.1k or -9.3%). Next came Manufacturing (-18.7k or -4.9%) and Water Supply - Sewerage Treatment (-10.7k or -33.1%). By contrast, employment expanded in Public Administration - Defence -Compulsory Social Security (+42.5k or +12.8%), Scientific-Technical Activities (+33.1k or +15.4%) and Human Health Activities (+20.9k or +8.3%), with the trends in the first and third sectors considered to reflect the emergencies created by the health crisis.

The deflationary pressures persisted in the final quarter of 2020, mainly due to the weakening of demand and the decline in prices of energy products. However, the downward effect of lower indirect taxation due to the reduction in VAT from 1 June on certain products and services (transport means, tourist packages, non-alcoholic beverages such as coffee, soft drinks, etc.) is estimated to have weakened, while in some categories of products it seems to have stopped. In particular, the Consumer Price Index declined in October-December of last year by 2.1%, which is the strongest deflation for this period of the year since 2014, while a year earlier price remained relatively stable (-0.1%). Overall, there was a deflation of 1.2% last year, compared with a marginal increase in 2019 (+0.3%). Only one of the 12 categories of products and services included in the domestic CPI saw a rise in prices (Food - Non-Alcoholic Beverages), despite the decrease in VAT (+1.5%). Price stability prevailed in education (+0.0%). The deflationary effects of energy prices are reflected in the price drop in Transport by 7.2% and in Housing by 4.4%, the strongest for a second quarter in a row, with the trend in the first sector partly due to the reduction in VAT. Prices in Hotels – Cafes – Restaurants, where indirect taxation was also reduced, were 0.6% lower than the year before, compared to their increase of 0.7% in the first quarter of that year. Next came the prices of Clothing - Footwear (-2.4 %), as opposed to the rise of only 2.0% in the previous quarter, Communications (-2.3 %) and Durables – Household Goods (2.0%). The trend in Health Services remained negative for three more months (-1.1%).

To sum up, economic activity domestically was particularly strongly affected in the final quarter of 2020 by the pandemic of the new coronavirus, due to the new suspension of operation of branches and activities and restrictions on travel and passenger transport, not only in Greece, but also internationally. As in the second quarter of last year, the impact of the new lockdown was reflected on household consumption and exports of service. In the recent period, the fall in private consumption was considerably milder than in April-June. This is estimated to be due to the fact that fewer businesses were shut down domestically at the end of 2020, as well as the greater mobility of citizens. The decline in the exports of services continued with unabated intensity, as in the majority of Eurozone countries restrictive measures on international passenger transport again escalated sharply around the same period as in Greece, at the end of October - in early November. By contrast, the trend in the exports of goods changed extensively between the two quarters with lockdown, from mildly negative to strongly positive, which is also considered to be related to the narrower cessation of activity and greater mobility of people in the countries of Europe in late 2020. It is also an indication of the international competitiveness of Greek products. After all, last year Greece was among the three EU countries where exports of industrial goods (excluding petroleum products) increased, taking second place in the ranking.

Regardless of the fluctuations of the measures, within and outside Greece, it is estimated that these trends in household consumption of export components will continue at least at the beginning of this year, as analysed in the next subsection. Moreover, as mentioned in previous IOBE reports, policy interventions to facilitate export procedures and, more generally, to promote exports, can mitigate the impact of the health crisis on economic activity domestically.

Fixed capital formation increased slightly in both quarters last year with strong restrictive measures, but the – negative – trend of total investment was determined in the final quarter of the previous year by the level of stocks, which was much lower than a year earlier. As mentioned above, the resilience of fixed capital investment in the previous year is largely, but not exclusively, due to the impact of measures to stem the effects of the health crisis on businesses and the self-employed, a large part of which is recorded in the Public Investment Programme. According to the State Budget Execution Bulletins, in the October-December quarter, this expenditure reached at least €836 mn. Overall in 2020, it totalled €4.28 bn, which corresponds to 40.2% of the total expenditure of the PIP. Of course, these grants from the PIP are transfers for the viability and running of the companies, so they are not medium- and long-term investment in nature and do not improve the productivity of enterprises. Moreover, their volume last year makes it difficult to continue at the same pace in 2021, although the pandemic of the new coronavirus continues with strong intensity. Therefore, a negative impact on investment this year from their decline is quite likely. However, this retreat can be compensated by the resources and the capabilities of the European Commission's NextGenerationEU financial mechanism, which aims to counteract the effects of the health crisis. However, the use of these funds should focus on investment and broader development goals, with actions designed to address the needs and challenges posed by the pandemic. As mentioned in previous IOBE reports on the Greek economy, these interventions need to be sectoral or concern value chains involving specific sectors.

The strengthening of investment spending last year is also due to the significant expansion of funding from the banking system to non-financial corporations. This development was possible, on the one hand, due to the continued and growing return of deposits in the banking system, and on the other, to the liquidity it has raised through the ECB emergency mechanisms. Any continuation of these trends and capabilities will sustain and enhance credit growth. A fairly likely significant increase in non-performing loans from those currently in suspension of payments can counteract this development. The following subsection presents all medium-term macroeconomic forecasts.

Table 3.1

Trends in key macroeconomic figures – National Accounts (seasonally adjusted data, constant 2015 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
2010	216,447	-5.4%	191,901	-5.9%	37,564	-10.6%	47,699	4.5%	61,385	-3.4%
2011	194,764	-10.1%	176,040	-8.3%	25,699	-31.4%	47,975	0.6%	55,608	-9.4%
2012	180,684	-7.2%	163,316	-7.2%	20,378	-20.7%	48,917	2.0%	52,558	-5.5%
2013	176,131	-2.5%	156,580	-4.1%	19,677	-3.4%	49,835	1.9%	50,824	-3.3%
2014	177,478	0.8%	156,772	0.1%	20,508	4.2%	53,893	8.1%	54,283	6.8%
2015*	176,176	-0.7%	156,302	-0.3%	21,399	4.3%	56,585	5.0%	58,453	7.7%
2016*	175,304	-0.5%	155,750	-0.4%	22,658	5.9%	56,399	-0.3%	59,683	2.1%
Q1 2017	43,952	0.3%	39,210	1.4%	5,119	-16.6%	14,944	7.0%	15,142	1.4%
Q2 2017	44,344	1.7%	39,466	1.7%	5,644	-5.5%	15,358	12.1%	15,990	8.3%
Q3 2017	44,703	2.0%	39,665	1.2%	5,942	10.2%	15,668	9.1%	16,353	8.2%
Q4 2017	44,550	1.1%	39,945	2.2%	5,492	6.6%	15,175	5.6%	16,642	11.8%
2017*	177,549	1.3%	158,286	1.6%	22,197	-2.0%	61,145	8.4%	64,127	7.4%
Q1 2018	44,861	2.1%	40,114	2.3%	5,412	5.7%	16,172	8.2%	16,827	11.1%
Q2 2018	44,976	1.4%	39,733	0.7%	5,968	5.7%	16,640	8.3%	17,205	7.6%
Q3 2018	45,028	0.7%	39,853	0.5%	5,586	-6.0%	17,001	8.5%	17,412	6.5%
Q4 2018	45,247	1.6%	39,805	-0.3%	6,316	15.0%	16,826	10.9%	17,746	6.6%
2018	180,113	1.4%	159,506	0.8%	23,281	4.9%	66,639	9.0%	69,189	7.9%
Q1 2019	45,734	1.9%	40,155	0.1%	6,184	14.3%	17,094	5.7%	17,718	5.3%
Q2 2019	46,002	2.3%	40,488	1.9%	5,476	-8.2%	17,313	4.0%	17,685	2.8%
Q3 2019	45,719	1.5%	40,403	1.4%	4,910	-12.1%	18,827	10.7%	17,928	3.0%
Q4 2019	45,599	0.8%	40,800	2.5%	6,119	-3.1%	16,624	-1.2%	17,995	1.4%
2019	183,054	1.6%	161,845	1.5%	22,688	-2.5%	69,858	4.8%	71,326	3.1%
Q1 2020	45,799	0.1%	40,365	0.5%	6,306	2.0%	17,298	1.2%	17,843	0.7%
Q2 2020	39,654	-13.8%	36,081	-10.9%	5,821	6.3%	12,094	-30.1%	15,385	-13.0%
Q3 2020	40,897	-10.5%	40,485	0.2%	6,642	35.3%	10,931	-41.9%	16,884	-5.8%
Q4 2020	41,990	-7.9%	39,911	-2.2%	4,959	-19.0%	14,404	-13.4%	16,285	-9.5%
2020	168,340	-8.0%	156,842	-3.1%	23,729	4.6%	54,726	-21.7%	66,397	-6.9%

* provisional data

Source: Quarterly National Accounts, ELSTAT, March 2021

Medium-term outlook

- The developments in the COVID-19 pandemic domestically and internationally, mainly in the EU, the measures to address its effects (restrictive measures and support measures for businesses and households) and the progress with the European recovery fund are the main drivers of the GDP trend in late 2020 and in 2021.
- The forecasts for macroeconomic variables are based on alternative assumption sets (scenarios) for the above and other factors.
- In 2021, if most restrictive measures are largely lifted by mid-May, there is no new strong outbreak of the pandemic, resulting in the summer season being longer than last year in duration and intensity, and the absorption of funds from NGEU moves close to the target (base scenario), growth is projected at 3.5-4.0%.
- Alternative scenario (unfavourable): Easing of the current outbreak of the pandemic late in the second quarter, new, milder escalation in the autumn, duration of the tourist season unchanged from last year, with higher flows, lower absorption of NGEU resources: GDP change 1.0-2.0%
- Recovery in both scenarios, primarily from an increase in exports (+11 % in the base case, + 7% in the unfavourable scenario).
- Private consumption (+3.0% and +1.5%) and investment (+13.5% and +8%), which alternate in importance in the two scenarios, come next in terms of contribution to the recovery.
- Mild or slight decline in public consumption this year (-3.5% and -1.5% respectively).
- Expansion of imports from higher domestic demand and increased exports of goods with imported raw materials (+9.5% in the base case, +7.0 % in the unfavourable scenario).

Developments in the health crisis remain the most decisive factor in political and economic developments, domestically and internationally and they are expected to be in this position throughout 2021. These are currently related to the new, severe outbreak of the health crisis since the beginning of March in Greece, as well as the increasing progress in the vaccination process, the use of new and easily accessible (free) self-tests for the detection of the virus, as well as the relaxation of some of the restrictive measures since the beginning of April. Recall that the previous report identified the danger of a further outbreak from the end of winter and early spring. The burgeoning mutations of the virus, which are thought to increase its contagion, while creating uncertainty as to the response from existing vaccines constitute an escalating challenge this year. The coming period will be crucial for the gradual reopening of certain important sectors and activities of the Greek economy, which are also related to the approaching tourist summer season (accommodation, passenger transport, food services, retail trade).

In the fourth quarter of the previous year, when the pandemic was in its second wave and measures to protect public health had escalated, the rate of recession either declined slightly or slightly strengthened, in the larger economies and economic regions: It stood at 3.0% in the OECD countries, from 3.8% in the third quarter and 11.6% in the second quarter, at 4.6% from 4.1% and 13.8% in the EU, and at 2.4% from 2.8% and 9.0% in the US. In China, GDP growth accelerated further, from 4.9% in the third quarter to 6.5% in the next. Following the easing of the pandemic in early 2021, there has been a new wave since March in many countries (e.g. Italy, France, Germany, Poland, Brazil, Argentina, India), with different intensity. As a result of these developments, measures to protect public health have been reinstated. However, in some countries, the number of new cases of the virus has either steadied or fallen (e.g. in the US, the United Kingdom, Spain, the Netherlands and Russia). Therefore, the dynamics of the health crisis not only differ across countries, but it has also spread to a varying degree. Where the pandemic is strong and growing, it has an effect on economic activity and international trade.

Despite the third eave of the new coronavirus, no new initiatives, with few exceptions, were taken to support economies and societies by national governments and multinational bodies. The exception is, as in the previous quarter, the US, where the American Rescue Plan was approved at the beginning of March, including another round of relief interventions and an estimated cost of $1.85 trillion (about 8.8% of GDP in 2020). These relate to investments in public health and fixed-term aid to families, communities and businesses, extension of unemployment benefits, direct financial support to approved beneficiaries, as well as aid to state and local authorities. From the decline of policy interventions, it seems that the strongest developed and developing countries are trying to harness the deterioration of their public finances from the measures taken to tackle the pandemic over the past year and to restore their economies, so that a large share of activities are not permanently ruptured by inaction. In addition, they are trying to avoid overheating phenomena from continuing the successive liquidity interventions of central banks.

With regard to trends in expectations, under these developments, the OECD's composite leading indicator (CLI) continued to rise at a steady, mild rate in the first quarter of 2021, surpassing for the first time since the outbreak of the pandemic its pre-crisis levels (99.5 points). With the exception of January, the trend in the European Commission's Economic Sentiment Indicator in the EU and the Eurozone was positive over the same period, especially in March. As a result, this indicator in the last month reached at 100 points in the EU (from 91.8 points in December) and 101 points in the Eurozone (from 92.4), coming close to its level from February 2020, before the outbreak of the pandemic in Europe (103.6 and 104.0 points respectively). Therefore, despite the deterioration of the pandemic in many large countries in Europe, Latin America and Asia in early 2021, pessimism has subsided since late 2020, with expectations tending or even surpassing their level from before the health crisis.

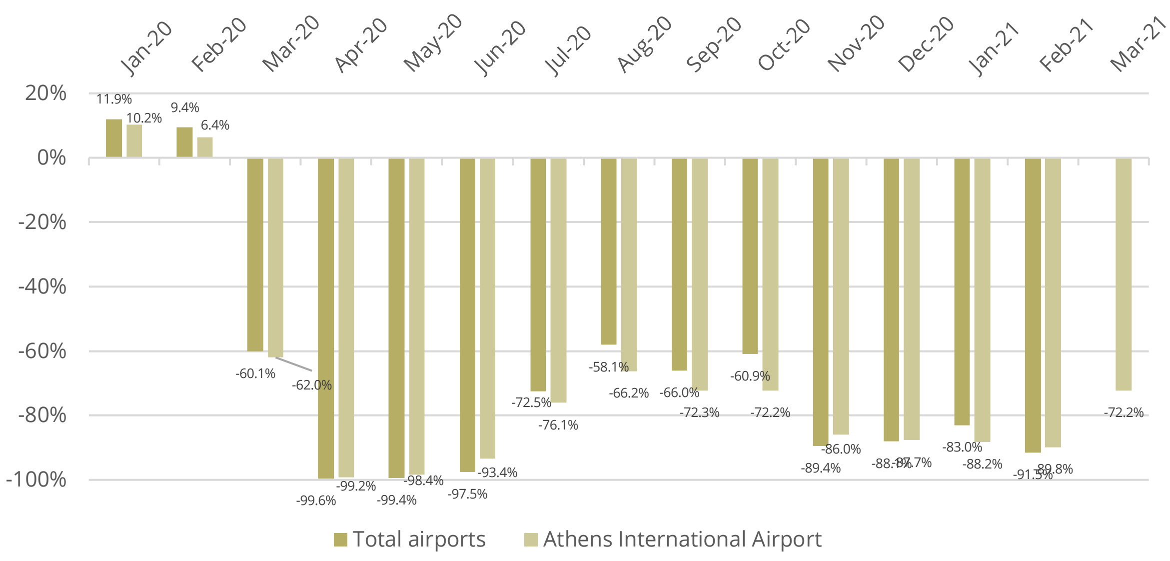
The new strong resurgence of the health crisis in Greece in March and the extension and strengthening of public health measures led the Greek Government to continue interventions in support of businesses and households (special-purpose compensation for workers in furlough, coverage of their social security contributions on the basis of nominal wages, reduction of rent in commercial real estate of affected enterprises, as well as of furloughed workers, compensation of the owners of these properties, suspension of payment of restructured tax and social security arrears of businesses, suspension of payments of restructured tax arears of workers in affected companies, new repayable advance programmes (No. 6 and 7), extension of unemployment benefits by 2 months, one-off aid to long-term unemployed that are not receiving other benefits, Easter bonuses). In addition to this, an extension of maturity and payment of securities by affected companies has been implemented since the end of January. A partial exemption from repayment for the repayable advance programmes 1 to 3 was granted to enterprises with a significant fall in turnover in 2020. A programme was set up to subsidise part of fixed costs in 2020, not covered by other aids. In particular for April, an increased special-purpose compensation of €1.000 to €4.000 will be granted for enterprises that remain closed under government mandate and employ up to 50 employees. At the same time, the following measures continue to be in place: (a) the BRIDGE programme, for subsidising mortgage loan payments, extended to businesses as well, (b) the programme to cover 100% of social security contributions for six months for 100k new jobs in the private sector; and (c) the SYN-ERGASIA programme, with an extension until June 2021.

Understandably, as policy interventions continue, they mitigate the economic impact of suspended sectors and activities, and travel restrictions. However, on the one hand, these interventions further burdened the budgetary balance and, on the other, their existence implies that the companies' abstention from their normal operation is prolonged. In particular, according to government estimates, the budget of interventions in 2021 until the beginning of April, to address the effects of the pandemic, exceeds €14 billion. In the Explanatory Report of the 2021 State Budget, their budget was €4.54 bn, while another €3 bn were available for the same purpose, as non-allocated funds. Therefore, the budget for the actions decided so far is almost twice the budget target.

The pressures of the health crisis on Tourism continued in the first quarter of 2021. The completion in March of a year since its start should lead to either a significant weakening of the decline in the relevant figures or even a change to a positive trend. That said, the importance of international tourism receipts for the revenues from the exports of services is traditionally much lower in the first quarter than in the third, in the region of 10-13% of receipts from services. Meanwhile, international transport, which was also affected during the lockdown last spring, but much less than tourism (down by only 0.9% in January-March 2020) is more significant. According to the latest data, international arrivals at the country's airports continued to decline sharply in January-February, by 83.0 % in the first month and by 91.5 % in the next. Especially at Athens International Airport, the strong decline continued in March, reaching 72.2%, after a reduction of 62.0% a year earlier, which highlights the continuation of the major impact of the health crisis for the second year, as in many countries passenger transport restrictions remain. Overall in the first quarter of this year, international arrivals at AIA were 83.4% lower than a year earlier.

Figure 3.1

International arrivals at airports (annual % change)



Sources: Civil Aviation Authority, Athens International Airport

The new coronavirus pandemic continues to have an impact on other major economic activity indicators worldwide, such as the price of oil. Despite the decisions of OPEC and its partner countries (Russia) for a gradual reduction in their daily production cuts of April 2020 since last August, the price of oil remained on an upward track between November 2020 and February 2021, returning towards the end of this period to its pre-crisis levels. Oil prices have steadied since the beginning of March 2021.

The health crisis has overshadowed other developments in the international environment, which can affect the Greek and European economies in the medium to long term. These include geopolitical issues in the South-eastern Mediterranean and the implementation of the consensual Brexit by the EU, the terms of which were agreed at the end of 2020. In addition, the Regional Comprehensive Economic Partnership (RCEP) was concluded in mid-November, by 10 countries in Southeast Asia, as well as South Korea, China, Japan, Australia, and New Zealand. This agreement formed the world's largest trade union. It excluded the United States, which withdrew from a competitive Asia-Pacific trade pact in 2017. The new agreement is considered to further strengthen China's influence in these regions.

Since IOBE's first report on the Greek economy following the outbreak of the COVID-19 pandemic, the macroeconomic forecasts are based on alternative assumptions for factors that are judged to affect the key macroeconomic variables over the medium term. During the current period, the most important factors for this year remain, as in 2020, the duration of the high-intensity health crisis, in Greece and internationally, especially in the Eurozone, as well as the size of policy interventions to stem its effects. In greater detail, the evolution of the pandemic of the new coronavirus in 2021 will depend largely on progress in vaccination, virus mutations, and the use of self-tests. The macroeconomic scenarios should therefore take into account, in the form of relevant assumptions, possible developments in these parameters. The current coronavirus phase has had a significant disruptive effect on economic activity, at least in the first quarter of this year. In addition, the dynamics of the health crisis have a strong impact on the activity of Tourism, whose contribution to Greece's GDP is much higher than in other countries. For this reason, assumptions about turnover in this sector should be incorporated into the alternative forecast scenarios. In terms of policy interventions, their size this year will depend, apart from the pandemic trend, on the raising of capital resources from the European recovery fund (NextGenerationEU).

A factor not primarily related to COVID-19, whose potential trends have been taken into account in the macroeconomic forecasts, is energy costs, approached by the oil price forecasts. The forecasts resulting from the different assumptions for the factors form a forecast range for GDP, its components and other macroeconomic variables. Under this approach for macroeconomic forecasting, the factors whose changes are expected to affect the macroeconomic aggregates of the Greek economy are presented in Box 3.1.

In detail with regard to recent and anticipated developments regarding the pandemic domestically, following the escalation of the number of new cases at the end of last January, measures for the protection of public health have been stepped up, gradually coming close to the measures of the first lockdown in March 2020. These measures included: 1) in-store purchases in areas of elevated risk for clothing, footwear, books and stationery, by appointment (from 30/01), 2) purchases at the store entrance in elevated-risk areas, by appointment (from 08/02), 3) closures of shops, hairdressers and schools in elevated-risk areas (from 11/02) and 4) restrictions on the movement of people: curfew from 18:00 to 05:00 in elevated-risk areas, with the exception of Attica where the ban is valid from 21:00 to 05:00 on weekdays and from 18:00 to 05:00 on weekends, and in areas under surveillance (from 30/01). The lower secondary schools, which began operating on 1 February, remained open.

Box 3.1

Factors affecting the macroeconomic forecasts

- Duration of the COVID-19 pandemic domestically and in the Eurozone, taking into account the vaccination progress
- Policy interventions in Greece and the Eurozone to deal with the effects of the crisis
- Absorption of the NextGenerationEU resources
- Activity in Tourism
- Oil price fluctuation

Despite the implementation of the above measures in February, new cases and ICU patients with coronavirus increased sharply since the beginning of March. As a result, the measures to protect public health were further stepped up. In particular, from 16 March schools of all levels were suspended (pre-schools and primary schools had started to operate on 11/1, lower secondary schools from 1/2). In addition, from the same date, travel outside the municipality limits was allowed for physical exercise only on foot or by bicycle. Despite additional constraints, the number of new cases did not decline, while ICU patients with coronavirus and deaths resurged. Nevertheless, on 31/3 a partial removal of some of the restrictions was announced, with the aim of relaxing the pressures on the population from the lockdown and the gradual reopening of the market. In particular, from 5/4 the operation of retail trade stores other than department stores and shopping centres was allowed, with purchases either in stores or at the store entrance, upon appointment in both cases. It should be noted that activity from brick-and-mortar shops in Retail Trade, but also in the near term in other activities, such as education, tourism and food services, is based on regular, frequent self-testing for the new coronavirus. Also, from Saturday 3/4 and only for weekends, inter-municipal travel by car for exercise was allowed. Therefore, for the time being, the relaxation of the protection measures is limited. However, if the application of self-tests proves effective in curbing and limiting the spread of the pandemic, for employees in businesses with physical contact with customers, as well as for the rest of the population, together with progress in vaccination, this can be a key factor in the 'return to normality' of the economy and of people's lives.

Especially with regard to the measures for international passenger travel in Greece, the ban on entry by air into the country of third-country nationals other than the member states of the European Union and the Schengen Agreement continued. The excludes citizens and permanent residents of the following ten countries: Australia, New Zealand, Rwanda, South Korea, Thailand, United Arab Emirates, Israel, Singapore, the Russian Federation and following Brexit, the United Kingdom. The countries with an exception are marginally more in number than those for which it applied in the previous report (9). All travellers from abroad must have a negative PCR test up to 72 hours before arrival. Those travelling to Greece from abroad are subject to a mandatory preventive quarantine at home or at the place of temporary residence for seven days. Especially for Israel, from 25/3 all vaccinated passengers enter Greece without a 7-day quarantine. Also, from 21/3 the suspension of flights from Turkey and arrivals only at "Eleftherios Venizelos" airport for travellers from Albania and North Macedonia was lifted. With regard to land travel, only the border station of Promachonas remains open for entry, requiring negative PCR test result up to 72 hours before arrival. The border stations of Kakavia, Evzoni, Ormeniou. Nymphaias, Kipoi and Exochi are open only for trucks, with the same conditions of entry as the Promachonas for the first two. Therefore, the ban on entry has been limited to visitors from the US, Qatar, and Saudi Arabia. As long as restrictions on international arrivals remain, tourism receipts from countries with significant contribution in previous years are not being collected.

Business and household support interventions continue in 2021, mostly with a high degree of implementation. In the context of the fourth cycle of the financial instrument of the 'repayable advance', 447.1 beneficiaries received €2.17 billion, far exceeding the €1.2 billion target, while in the fifth cycle the aid amounted to €1,23 billion to 359,7k beneficiaries, not a great distance from the target of €1,5 billion. Under the sixth round, the percentage of enterprises receiving aid amounted to approximately 40% of the applications, i.e. 286,2k, because of the conditions that led to the rejection of most of them, with aid amounting to approximately €500 million. In the BRIDGE programme, with a budget of €108 million, which provides a subsidy to cover instalments for mortgage loans, up to the expiry of the relevant application deadline (31/10) more than 160.5k applications were submitted, while until the end of January the loans of 69.4k beneficiaries received a subsidy, totalling €47.9 million. In addition to the public sector support interventions, the suspension of payment of bank loan instalments continues for applications submitted until 31/03/2021 and a maximum period of suspension of nine months.

As mentioned in previous IOBE reports on the Greek economy, the implemented and planned fiscal measures for households have affected and will continue to interfere with the weakening of consumption demand and thus the reduction of business activity and employment. Some of the liquidity that businesses need in order to maintain their jobs and meet their current obligations has come from the beginning of the pandemic from the extraordinary financial instruments mentioned above. However, enterprise support measures partly compensate for the losses of businesses as a result of the COVID-19 pandemic and cannot replace the normal functioning of the market in the medium term. As some sectors have been suspended for more than six months during the health crisis (Retail Trade, Tourism, Food Services, with the exception of outlets with delivery), their businesses are now under considerable pressure and their effects are expected to be felt when the majority of aid interventions are lifted, especially on employment and thus on private consumption.

However, the figures for 2020 showed, as analysed in the previous subsection, that part of the assistance for enterprises and the self-employed affects fixed capital formation. As these measures continue in 2021, with around €1 billion of the related aid coming from the Public Investment Programme in January-February this year, support for fixed capital formation from this source will continue. The availability of investment resources from the public sector to businesses will be stimulated compared to last year mainly by NextGenerationEU, primarily by its Resilience and Recovery Facility, in the second half of 2021.

Taking into account the current, strong dynamics of the new coronavirus pandemic, in Greece and internationally, the escalating progress of vaccination internationally, as well as the delay in the discovery of effective medication, the data on fiscal-financial interventions both domestically and in the EU, the latest forecasts for the recession this year in the Eurozone (IMF), the assumptions of the main forecast scenario for 2021 are as follows: Public health protection measures are not expected to be extensively lifted for most of the first half of this year. This is expected to take place within the next six months, depending on the progress in vaccination, the effects of the application of self-tests and the developments in the mutations of the pandemic. However, compared to the first lockdown, more companies in Greece opt in the current phase of the outbreak of the pandemic to adapt their activity to the new health rules, rather than suspend it, and the mobility of people is much greater. No new strong "resurgence" of the pandemic is expected in the second half, as in the fourth quarter of last year or in March this year, without excluding shorter, temporary flare-ups. Its strong increase at least until the beginning of the second quarter, both inside and outside Greece, will not allow Tourism to operate until at least mid-May. After that date, international tourism is expected to rise gradually, in line with the decline of cases and progress in vaccination internationally. The summer season is expected to extend towards the end of the third quarter and the beginning of the fourth. As a result, revenues from international tourism services will be strengthened from last year, reaching 45-50% of their level in 2019, from 24% in 2020, an expansion corresponding to an increase from €3.8 to €4.7 bn. The impact of the health crisis will be mitigated by the operation of the European recovery fund, the resources of which will flow from the second half, with the relevant target in the Budget of 2021 (€5.5 billion) achieved or approached. With regard to the trend of GDP in the Eurozone, it is assumed to be close to current relevant forecasts (IMF: 4.4%).[9]

The alternative macroeconomic scenario is more unfavourable than the baseline scenario. According to this scenario, the health crisis, in Greece and internationally, will ease significantly later in the second quarter, resulting in the operation of the tourism sector starting in early June. Also, progress in vaccination internationally will be slower (e.g. out of caution about possible side effects of vaccines), restraining the growth in tourist flows. As in the baseline scenario, the tourist season will end later than last year. In this respect, revenues from international tourism services will be higher compared to 2020, but less than in the baseline scenario, in the area of 35-40% of their level in 2019, an increase corresponding to an expansion of approximately €3.0 billion. The weaker progress in vaccination, combined with adverse developments in the pandemic (e.g. an increase of mutations), will bring new strong restrictive measures to the operation of sectors and activities in the fourth quarter, possibly less strict compared to the first and third lockdowns (e.g. click-and-collect), due to the contribution of self-tests too. A new escalation of protection measures will also lead to more support for businesses and households. The milder positive health developments worldwide will also mitigate the recovery in the Eurozone, resulting in a lower growth rate than the latest forecasts, in the region of 3.5%. The NGEU inflows are assumed to be well below the target in the 2021 budget, e.g. due to procedural problems at the EU level (~€4.0 billion).

Moving on to the presentation of finance developments, which can play a decisive role in halting the effects of the pandemic, especially on investments, banks in Greece continue to step up the use of the ECB's liquidity potential that arose in response to the exceptional circumstances. The most important financial instrument of these is the Pandemic Emergency Purchase Programme, with a budget of €1.85 trillion after its two extensions. The duration of the PEPP has also been extended until March 2022, with the ECB reinvesting maturing securities at least until the end of 2023. By the end of March 2021, the net value of security purchases had reached €943.6 billion.

[9] World Economic Outlook, IMF, April 2021

Meanwhile, a new liquidity facility was created, for non-targeted longer-term refinancing operations due to the pandemic (PELTRO), at an interest rate 25 points lower than the average main refinancing rate (MRO) for the duration of such an operation. In December 2020, the ECB announced four additional pandemic emergency refinancing operations, one per quarter in 2021, with a duration of one year. In addition, the terms of the targeted longer-term refinancing operations (TLTRO III) were gradually eased, resulting in the eligible loans of Greek banks from the programme to reach €92 billion, while their lending threshold rose from 30% to 50%. The funds under TLTRO III are raised at a negative interest rate of 1% for the first year and 0.50% in the following year. The validity of these terms was extended in December 2020 until June 2022 with the total amount that counterparties are entitled to borrow raised from 50% to 55% of the balance of their eligible loans.

In this context of funding options, the liquidity of the Greek banks drawn from the Eurosystem reached €24.4 bn in April-September 2020 and totalled €38.96 bn at its end. Since then and up to February 2021, it has fluctuated slightly and has eventually increased mildly to €41.5 bn. This development does not include the activity of the banks under the PEPP. However, it is indicative of the availability of funds and the possibilities they have in order, among other objectives, to provide funding to businesses.

Lending is also boosted by a rapid increase in private-sector deposits (of households and non-financial corporations). In 2020 private sector deposits increased at an average rate of 9.6% or by €13 bn. The rise was mainly from household deposits (+€7.1 billion or +6.3%), but its rate was much stronger in the deposits of non-financial corporations (+€6.9 billion or +27.0 %). The trend in private deposits in the first two months of this year is conducive to further credit growth, with its rate reaching 14.6% (+€20.3 billion).

While the developments just mentioned are conducive to credit expansion by banks, the prolonged uncertainty as to the duration and intensity of the health crisis, as well as its impact on the servicing of loans, will continue to interfere with the granting of bank credit, at least for most of the first half of 2021. The suspension of activity in many sectors since last November, which has continued in most, puts additional pressure on business turnover and household incomes, affecting the ability to serve their loans. Nevertheless, the further suspension of payment of bank loan instalments, at most until the end of 2021, will continue to mask the trend in non-performing loans (NPLs). The most likely component of the above is the significant resurgence of defaults with banks. The financial results of the four systemic banks for 2020 include balances of NPLs, from loans with suspended payments, amounting to €3.1 bn, out of an outstanding amount of €18.4 bn of loans in moratorium. However, banks have formed much higher provisions for both loan moratoriums and loans that may become non-performing in 2021.

The uncertainty in the current period due to the pandemic will also be the reason why the demand for capital from businesses and households will be subdued, at least for the first half of this year. That said, the mild decline in exports of non-petroleum products in 2020 due to the high competitiveness of certain industrial sectors and parts of the primary sector and their good medium-term prospects facilitates their financing. Significant progress in vaccination in Greece and a steady decline in the new cases of COVID-19 will be the main factors for substantially weakening uncertainty, allowing the recovery of both supply and demand for bank credit.

Non-performing loans (NPLs) declined sharply in the final quarter of last year. In particular, they totalled €47.4 bn in December, from €58.7 bn in September and €68.5 bn a year earlier. As a result, at the end of 2020 they accounted for 30.2% of the total loans. Note, however, the slowdown in their decline in April-September last year, when they decreased by only €2.2 billion. The significant acceleration of the decline in the NPL stock towards the end of 2020 was mainly due to sales of loans under the state guarantee scheme for bank loan securitisations (Hercules programme). Last year, loans of €19.3 billion were sold on an individual basis using this programme. The NPL write-offs amounted to €2.6 bn, while their reduction with collections through active management (loan restructuring/adjustments, recovery of arrears etc.) was less extensive. According to the BoG, the suspension of instalment payments also contributed to the NPL reduction.

The revised targets for reducing the NPLs set by the banks until the end of 2021, to below 20% of the total loans, together with the fairly likely increase in non-performing loans due to the health crisis, highlight the need for immediate use of all reduction possibilities. As the provision of guarantees by the Greek State under the “Hercules” programme was about to expire (10/04/2021), on 12/03/21, an extension request was submitted to the Directorate-General for Competition of the European Commission, which was approved on 09/04/21. In the first period of operation of “Hercules”, the non-performing loans of the four systemic banks were reduced by €31.35 billion. Through Hercules II there will be the possibility for banks to make up to €32 billion new NPL securitisations, with €11-12 billion new state guarantees. At present, the largest banks have expressed an interest in securitisations of loans amounting to €18.6 billion through the new programme.

In order to shrink the NPLs, some banks launched transformation procedures through hive down. Furthermore, as the Bank of Greece argues, other systemic solutions for the reduction of NPLs, such as the creation of an Asset Management Company or “bad bank”, which will be linked to addressing the issue of deferred tax claims (DTC), should also be implemented. This approach seeks to gradually register related losses, in order not to reduce the capital adequacy of banks below the minimum supervisory threshold. The relevant plan was submitted in mid-September by the BoG to the government and the institutions and was presented at the end of December to bank administrations. The recent Governor’s Report for 2020 states that the government is considering the feasibility of establishing an asset management company. The quickest possible settlement of the NPLs, combined with the use of the ECB’s financial instruments, will make a decisive contribution to strong credit growth, mainly to businesses, but also to households, once the COVID-19 outbreak has weakened significantly and for a sufficient period of time.

Despite significant difficulties in the smooth functioning of the economy from the successive strong outbreaks of the health crisis since last autumn, in Greece and internationally, the banking system has significantly upped the provision of loans to businesses, resulting in credit growth to the private sector overall. In 2020, the average growth rate of loans to non-financial corporations was 5.6%, constantly escalating over the year and approaching 10% towards the end of the year. This rate of credit growth is the highest in eleven years. As mentioned in previous IOBE reports on the Greek economy, the high boost of the provision of credit to businesses is largely related to the exceptional liquidity-supply programmes to address the effects of the pandemic, such as the Entrepreneurship Fund II and the Guarantee Fund for COVID-19, both provided by the Hellenic Development Bank. The return of deposits and the extensive liquidity withdrawal from the ECB also contributed to this development. However, on the household side, credit continued to contract last year, at an average rate of 2.7%, similar to that in 2019 (2.6%). Overall, loans to the private sector expanded last year, for the first time since 2010, at an average rate of 1.2%.

The extension and strengthening of the ECB's financing facilities and, for as long as it continues, the rapid expansion of deposits, enables the continuation of the credit expansion to businesses in 2021. The second development is expected to relate this year to the dynamics of the pandemic, which will affect both supply and demand for loans, as well as the trend of the NPLs. In the first two months of this year loans to businesses were 10.2% higher than during the same period of 2020, while those to households were again lower, at a rate of 2.5%.

The provision of liquidity to undertakings continues to take place on particularly favourable terms: Last year the average interest rate for new fixed-maturity loans to non-financial corporations stood at 2.92%, from an average of 3.78% in 2019, which has been a new low since at least 2010. The average interest rate for the same category of new loans to freelancers declined less and stood at 5.29%, from 5.52% the year before, which was also the lowest rate since 2010. By contrast, in new consumer loans to households, the corresponding average interest rate stood at 9.67%, slightly higher than a year earlier (9.46%) and the highest since 2012. These trends continue this year, with the average interest rate for non-financial corporations falling to 4.35% and for freelancers 6.65%, while for consumer loans to households it stood at 9.83%.

The lower interest rates on bank lending to businesses and freelancers in 2020 are also associated with the sharp de-escalation of the Greek State's lending rates. As mentioned in previous IOBE reports on the Greek economy, following the February 2020 upgrade by Fitch of Greece's credit rating from BB- to BB, as well as the issuance in the same month of a 15-year bond with particularly high demand and interest rate of 1.875%, the average yield of the ten-year bond of the Greek State stood at 1,07%, which was then the lowest rate since 1993. Despite the successive outbreaks of the pandemic since last November, the prolonged concern about the capabilities to control it, mainly due to the coronavirus mutations, as well as the strong impact of its handling on public finances, the capital markets for the public sector in Greece and other EU countries have remained very affordable thanks to the ECB's monetary policy measures mentioned above. In the case of Greece, the credit ratings, which did not change despite the crisis, also contributed to this.

The average interest rate of the ten-year bond declined further in the final quarter of last year and in the initial two months this year, reaching 0.72% recently, which is a historic low. At the end of January this year, the Greek State took advantage of these favourable conditions, and of the confirmation of Greece's credit rating at the investment grade "BB" by Fitch, and issued a 10-year bond. It raised €3.5 billion, with a yield of 0.807 %, the lowest ever for any Greek government bond issue. The demand was particularly strong, with offers exceeding 9 times the issue. In mid-March, the 30-year bond issue attracted €26 bn bids and eventually raised €2.5 bn at a rate of 1.95%.

However, recall that the very good climate in the financial markets is not compatible with the uncertain medium-term economic prospects due to the impact of the new coronavirus and the strong impact of dealing with it on public deficit and debt. For this reason, it is still possible that the financial conditions will change and worsen internationally, especially once COVID-19 steadily subsides and the exceptional liquidity support interventions of the largest central banks worldwide are significantly reduced. Therefore, favourable access to capital in the medium term by the Greek State, banks and large companies should not be taken for granted. In any case, the borrowing costs remain higher than in other Eurozone countries, with the spread higher than in the first decade of the common currency (for more information, see section 2.2 C of the report).

Especially for the largest non-financial corporations, the opportunities for access to finance outside the banking system, i.e. from the capital markets, and more broadly their prospects, seem to have improved in the recent period, based on the evolution of the Composite Index (CI) of the Athens Stock Exchange. Since the end of October, the index has been rising continuously, except in January. As a result, it rose from 569.5 to 891.7 points in the first ten days of April (+322.2 points or +56.6 %). Following this increase, the composite index is at a short distance from the average pre-pandemic level, in the area of 920 points. Therefore, the strong decline of the CI last year, due to the health crisis, which reached up to 47.0% (-484.4 points) in its first month, was inconsistent with the medium-term assessment of the dynamics of companies listed on the Athens Stock Exchange. As these trends continue on the domestic capital market, they signal the strengthening of confidence in the prospects of listed companies, despite the health crisis.

Investor confidence in the prospects of larger domestic companies is reflected in the upward trend in corporate bond issues recently. The lack of activity in the issuance of bonds in November '20-January 21, as in March-May, is considered to be largely related to the second lockdown. In February, PPC raised €650 million at a coupon rate of 3.875%, against an initial target of €500 million, with the bids reaching €3 bn. After this successful operation, PPC raised an additional €100 mil. at the end of March. At the beginning of March, Alpha Bank issued new Tier II bond, amounting to €500 million, with a coupon rate of 5.5% and bids exceeding €1 bn. In addition, in mid-March, Motor Oil drew €200 million with a seven-year bond loan, with a coupon rate of 1.9%, while the issue was oversubscribed 5.1 times. As long as there are no developments that will disrupt the international capital markets, the activity is expected to escalate this year, boosting investment.

As to the possibilities for financing enterprises from the public sector, as noted in previous IOBE reports on the Greek economy, the resources of the European recovery fund NextGenerationEU (NGEU) will be the most important additional source of investment funds in the coming years. Recall that of the total resources of the fund, amounting to €750 bn, €390 bn will be provided through grants and €310 bn through loans. All Member States must submit to the European Commission by 30 April 2021 a plan on how the aid from the new European fund will be used. Greece's National Recovery and Resilience Plan was presented on 31/03/2021. According to the plan, Greece will receive up to €18.2 bn in grants and up to €12.7 bn in loans, i.e. a total of €30.9 bn, in the period 2021-2026, yet, together with leveraged domestic funds, the total capital resources allocated for investments in the context of the implementation of the Recovery Plan are projected to reach €57.5 billion. The project comprises four pillars: A) Green Transition, b) Digital Transition, c) Employment, Skills, Social Cohesion and d) Private investment – transformation of the economy, with the first pillar expected to gather most resources, both from the EU and domestic funds. The Explanatory Report of the State Budget for 2021 envisages that the resources drawn from the NGEU this year will be around €5.5 billion.

As mentioned in the assumptions of the alternative macroeconomic scenarios, a determining factor for the NGEU's impact on the domestic economy this year will be the rate of absorption of its funds. This will also determine the extent to which the base effects of the extraordinary liquidity programmes of 2020 on business investment, which transpired through the Public Investment Programme (PIP), will be felt in the current year. One possible reason for delaying the activation of the NGEU is the decision to suspend its ratification in Germany in February by the constitutional court, which has not yet been revoked. Indicative of the absorption of the funds of the recovery fund this year, according to the 2020 Governor's Report of the Bank of Greece, advances from NGEU this year will reach 13% of the total available funds for Greece, without specifying whether they will relate to grants or loans. Therefore, it is not expected to exceed €4.0 bn.

With regard to the regular state financing of investment, through the Public Investment Programme, for the previous year, from the execution figures of the State Budget, at first sight, there seems to be a significant expansion of the State Budget. Overall in 2020, the expenditure of the programme reached €10.65 bn, a level higher than the corresponding target in the 2020 Budget by €3.9 bn. In addition, it exceeded the expenditures of 2019 by €5.0 bn (€5.64 bn). However, the execution bulletin with data until December of the previous year shows that, as in previous months, the excess resulted from exceptional transfer payments to businesses and freelancers, due to the health crisis (special-purpose compensation of enterprises and self-employed, interest subsidy on small and medium-sized enterprises, repayable advance, Entrepreneurship Fund II, Guarantee Fund for COVID-19), amounting to a total of €4.28 billion. Excluding these non-investment grants, last year's PIP expenditure reached €6.37 bn, higher by €703 million from the previous year, but short of the 2020 Budget target by €380 million.

Regarding the financing of investments by the PIP in 2021, the relevant target set in the draft is €6.75 billion. This does not include transfers due to COVID-19. This target is set for a sixth consecutive year. In the first two months of 2021, the PIP grants amounted to €1.68 bn. However, most of this amount, €967 mil., concerned aid due to the pandemic in the form of the repayable advance. Excluding this amount, the expenditure of the PIP was €717 million in January-February, much more than in 2020 (€492 mil.), and the budget target for this year (€590 mil.). Given, firstly, the slight delay in the implementation of the PIP last year against a similar expenditure target to the current year, as well as the fact that the 2014-2020 programming period is nearing completion, support for investment projects through the PIP may be similar or slightly higher than in 2020.

The extraordinary measures of last March included the immediate payment of all the State's arrears to households and businesses for cases of up to €30k. At the end of February 2020, arrears (not including tax refunds) reached €1.56 billion. According to the latest figures, at the end of February this year they had reached €1.62 bn. In the interim period, they had reached higher levels (€1,85 bn, in June), but also lower than their recent level (€1.2 billion, December 2020), which implies that some arrears were repaid. No information is given in the budget execution bulletins on the amount of arrear payments made during that period. The Explanatory Report of the 2021 State Budget states that the implementation of the action plan for the clearance of arrears adopted in October 2019 was negatively affected by the health crisis and the measures adopted to halt the pandemic. In addition, it is stated that, in order to restore the pace of implementation of the action plan and to achieve the relevant objectives, the agencies have adopted, on a case-by-case basis, measures to reduce their accumulated arrears. Therefore, there is no central planning to limit arrears. In addition, no targets have been set for their level at the end of 2020 and the new year. In view of the above, no substantial de-escalation of arrears is expected by the end of 2021.

As analysed in previous IOBE reports on the Greek economy, the process of privatisations last year showed a strong, unprecedented deviation from the target, as revenues from tenders reached around €58.5 mil., compared to the 2020 Budget target of €2.45 bn. As a result, the real revenues amounted to only 2.4% of the relevant target.

In the 2021 State Budget's Explanatory Report, the target of privatisation revenues is set at €1.79 bn, of which €1.47 bn is projected to come from tenders that will be completed this year and €321 mil. from tenders for which binding bids have been submitted and the expected first disbursement will be made this year, or from payments of completed transactions of previous years. Most of the second amount, for yet another year, comes from the expected first instalment of the upfront payment from the sale of Hellinikon SA (€300 million). The level of the target, which is clearly lower than in 2020 and not at a great distance from its peak in 2017, coupled with the fact that last year many tenders began (DEPA Infrastructure, DEPA Commercial, Port Authorities of Alexandroupolis, Igoumenitsa and Kavala, Egnatia Odos etc.), had been considered by the previous report to create the possibility of meeting or approaching the revenue target, provided that the economic climate continues to improve, which is linked to the development of the economy. However, as uncertainty about the dynamics of the pandemic remains strong, this will have a negative impact on HRADF's activity and especially on investment interest.

The actions and the economic environment in the first four months of this year in the field of privatisation are more relevant to the second scenario of developments. At the end of January, the tendering procedure for the concession of the Marina of Kalamaria began. At the end of March, there was a pre-selection of investors for the ports of Alexandroupolis and Kavala, as well as for the site of the natural gas deposit "South Kavala". In early April two binding bids were submitted for the concession of Egnatia Odos and the tendering process for the concession of the Port of Heraklion started. Therefore, although several tendering procedures are under way, with some at a mature stage, until now, almost 1/3 of the 2021 duration, no revenues from privatisations have been realised. This undermines the prospects for achieving the revenue target for this year. In addition, following the slight progress made last year, it exacerbates the low impact of privatisations on investment activity.

Pressures on the exports of services from restrictions or bans on cross-border passenger travel due to the pandemic continue to exert a strong impact on domestic output and in the first three quarters of the health crisis were by far the strongest among the components of GDP. Imports are also weakening overall, at clearly milder pace, considered to be largely due to the high import content of the exports of products, which remained resilient last year and at the beginning of 2021. Previously, the current section presented the available data on international tourism flows in the first quarter of this year, which shows signs of continuing its strong decline. As March marks one year since the start of the pandemic, if its current wave continues further unabated, or new outbreaks occur, it is now likely that tourist flows will be slightly higher than last year, thanks mainly to the vaccination of part of the travellers. However, should the pandemic subside substantially, passenger travel will strengthen, favouring tourism. A significant relaxation or lifting of public health protection measures in export destinations will stimulate their import demand for Greek products.

In detail about the recent developments in the export and import flows of basic categories of products and services, according to the latest available balance of payments data of the Bank of Greece, exports of goods at current prices declined in November-January by 5.7% (-€459.9 million), much less than in September-October (-10.5 %). The contraction stemmed exclusively from lower exports of fuels, by 23.2% (-€515.5 million), which decreased less than last year (-36.4%). Exports of goods excluding ships and fuels were unchanged at the end of 2020 and at the beginning of this year compared to one year earlier (+0.1% or +€7.3 million), after a slight fall early last autumn (-

1.5%). Exports of ships, which have a very low share in total exports, increased by €48.3 million, a change particularly strong for their absolute level (+148.3%), following their previous strong increase (+258.4%). The much stronger drop in imports from exports of goods in November-January (-9.2% or -€1.2 billion), as in early autumn (-17.7 %.), which stemmed primarily from fewer imports of goods other than fuels and ships (3.8% or -€373.5 million), and from fuel imports (-24.5% or -€830 million), led to a reduction in the deficit of the goods account by 14.5% or €771.4 billion.

The decline in the deficit in the balance of goods in November-January was largely offset by the further decline of the surplus in the balance of services. Exports of services were 29.9% less than a year ago (-€1.93 billion), yet they declined to a lesser extent than in the previous two months (-48.1%). The fall was mainly due to the provision of transport services abroad (-28.1% or -€1.2 billion), which fell less than in the previous two months (-32.2%), not so much from the drop in travel receipts, even though they declined sharply (85.3% or -€759.9 million), proportionally more than in early autumn (-67.3%). However, their share in the balance of services is considerably lower in winter than in summer, until October. By contrast, exports of other services increased slightly, by 2.0% (+€26.0 million), as opposed to their mild decline in September-October (-4.3%). Demand for imported services also declined in November-January, but its intensity was slightly lower than in exports, -27.7% (-€1.39 billion), but also compared to the previous two months (-32.9%). The decline is due mainly to weaker domestic demand for transport (-25.6% or -€759.1 million), after a fall of 27.3% in early autumn. Domestic demand for tourist services again severely declined, by 85.9% or €562.5 million, stronger than earlier last year (-77.6%). The smallest decline occurred in other services (-4.7% or -€64.7 million), compared with 3.3% growth in September-October. As a result of the changes in the two main components of the balance of services in November-January, the deficit of the overall balance of goods and services in November-January declined year on year by 5.9% or €226.9 million, to €3.62 bn.

Pressures on production worldwide due to the health crisis, as well as restrictions on international transport, have significantly reduced the demand for oil and other energy goods. On 12 April 2020, OPEC and its partner countries, together with Russia, agreed to gradually reduce production until April 2022, starting from a reduction of 10 million barrels per day until last May. Nevertheless, the price of Brent oil last April was 74.2% lower than a year earlier, while in May the decline reached 58.8% compared to the previous year. The decision of OPEC+ to extend the above production cuts in July, combined with the end of spring lockdown internationally, boosted demand and oil prices. Despite these trends, the average price of Brent oil in that period was 34.8% (or $22.3) lower than a year ago, reflecting the fairly weakened economic activity since 2019. As these oil-producing countries gradually upped their production from the beginning of August in order to meet the reduction target set for the end of 2020 (-7.7 million barrels per day), this adjustment was reflected in the oil price. After a mild increase in August to about $45, the price declined in September to around $40, with the year-on-year gap widening. The price steadied in October at these levels.

As mentioned in the present subsection, Brent's price has been steadily rising since the beginning of last November, with the exception of January this year. This development has taken place in spite of a new, strong upsurge in the pandemic since the beginning of autumn in Europe, which since mid-October has gradually led its governments to take strong measures to protect public health and to prevent the spread of the new coronavirus, which has again escalated pressures on travel and economic activity. However, in China, the second-largest oil-consumer country in the world, growth accelerated significantly in the second half of last year, reaching a rate higher in the final quarter of 2020 than it was a year earlier (6.5%, compared with 6.0% in Q4 2019 and 3.2% in Q2 2020). The outlook for its economy in the new year is even more positive (IMF: + 8.4%), a development which is expected to be reflected in the demand for energy. In the US as well, the world's top oil consumer, the recession eased slightly in the fourth quarter, to 2.4% from 2.8%, posting the second-lowest contraction rate among the major developed countries, behind Japan. The decision of OPEC+ to reduce the production of its members slightly from January this year to 7.2 million barrels per day, which continued in February (-7.125 million), with further production cuts by 1 million barrels from Saudi Arabia, and was extended until the end of April, is estimated to have contributed to some extent to the observed upward trend in prices in 2021. Overall in the first quarter of this year, Brent's price stood at $61.1, 22.9 % higher than last year.

The Brent price fluctuations, as well as the developments in oil production and economic activity, highlight the importance of the latter for the trend in oil prices. The trend in economic activity worldwide will depend on the dynamics of the pandemic. As long as its current, prolonged wave weakens and no new waves resurge, e.g. thanks to the vaccination progress, a strong recovery in the global economy will be possible, for which energy needs will be heightened. According to the latest IMF forecasts, the growth rate of the world economy in 2021 will be slightly higher than expected last October, in the region of 6.0%. If less positive developments take place, e.g. due to delays in vaccination, mutation outbreaks, the recovery of oil demand will be weaker. Regarding oil supply, there is no information on changes in the production of OPEC+ by its members in the coming months. In any case, given the very low oil prices in the second and third quarters of 2020, as well as its upward trend in the first quarter of 2021, despite the escalation of the pandemic, its cost is expected to rise compared to 2020. On average, the price of oil this year is expected to be 39.0% higher than last year.

Successive monetary policy interventions by the major central banks have prevented large exchange rate fluctuations due to the effects of the pandemic on economic activity and expectations. In addition, combined with the budgetary measures taken in each economic region, they strengthen the credibility of economic policy in terms of its ability to respond to a difficult situation, such as the current crisis. The euro/dollar rate does not seem to have been affected even by the elections in the US, which traditionally strengthen the investors' sentiment. Under these influences and developments, the average rate in 2020 stood at 1.14, slightly higher than the year before (+1.8%). This change contributed slightly to the reduction of energy costs.

At the beginning of this year, political and social turbulence in the United States, which began with the ratification of the election of the country's new president by Congress, caused short-term uncertainty about social cohesion, which worsened the investment climate too. This effect was partly reflected in the euro/dollar rate, as on 05/01/2021, the day of the riots at the US Capitol, it reached its highest level for 2021, slightly above 1.23. However, as pointed out in the previous IOBE report on the Greek economy, given the stable strategy for tackling the pandemic in the European Union, with emphasis on vaccination and the availability of funds for investment (NextGenerationEU) and current liquidity (ECB interventions), the fluctuation of the exchange rate in the current, and possibly in the coming, years will depend mainly on the policy axes and interventions of the new US administration. Additional policy interventions to deal with the pandemic, amounting to $1,85 trillion, approved by the House of Representatives on 11 March, are considered the root cause of the decline in the exchange rate during that month. Once the additional measures announced by President Biden at the end of March are adopted, they are expected to reinforce this downward trend, at least temporarily. Policy decisions in the US did not prevent a slight rise in the euro's exchange rate in the first quarter of this year, to 1.20, from 1.10 a year earlier, which is considered to highlight the comparatively greater confidence of investors in the European pandemic strategy. Next, the forecast for the euro/dollar rate this year is that it will strengthen further in 2021, to 1.18, slightly mitigating the significant increase in energy costs from the higher price of oil and its impact on the competitiveness of the products and services of the Eurozone.

With regard to the latest trends in domestic economic activity and short-term economic indicators during the first quarter of this year, the contraction from late 2020 is weakening, while industrial production is growing. In detail, on the supply side of the economy, industrial production continued to grow in January-February this year, by 4.0%, following an increase of 2.9% in the final quarter of 2020 and a decline of 1.7% at the beginning of that year. At the level of key industrial sectors, the rise came mainly from Electricity Supply, where output expanded by 11.2%, after an increase of 9.3% in the previous quarter, and in Manufacturing, with an increase of 2.0%, slightly stronger than one quarter earlier (+1.5%). Production increased marginally in Mining-Quarrying in early 2021 (+0.9%), against its decline by 2.8% in the final quarter of last year. Water Supply was the only sector with a decline in January-February, but it was marginal (-0.8 %), from a mild increase in the final quarter of 2020 (+1.0%). Building activity expanded slightly compared to the same month last year, by 6.4% in the number of building permits, 4.9% in surface and 5.4% in volume terms. These changes run counter to the decline in October-December, by 6.0% in the number of permits and 0.5% in the volume of new buildings, while their surface was unchanged compared to the end of 2019 (+0.1%).

On the part of indicators that reflect sentiment and expectations on the demand side of the domestic economy, the (seasonally adjusted) volume index in Retail Trade declined in January by 3.6%, slightly less than in the final quarter of last year (-4.7%).

Taking into account, in particular, the recent and potential developments regarding the COVID-19 pandemic, in particular its successive waves in late 2020 and early 2021, in Greece and internationally, as well as the reactions of enterprises and households to the relevant restrictive measures, the scale of the vaccination process, the added possibilities for detection of the virus (self-tests), the extensive support measures for households and businesses domestically in early 2021, the decline of household consumption spending in the first quarter of this year is estimated to be milder compared to the previous lockdown periods. The weaker decline is due to the temporary lifting of the measures in January, tax relief on incomes (social security contributions, social solidarity levy), which will boost people's mobility, compared to previous lockdowns, throughout this year.

Given the particularly strong decline in private consumption during the spread of the pandemic in the second quarter of last year, its trend will reverse a year later. However, its intensity should not be taken for granted and will depend on the pace of lifting of the restrictive measures, especially those on travel, both domestically and internationally. The dynamics of tourism and related activities (Food Services, Arts-Recreation, Transport, etc.) and thus their employment will depend on the relevant developments. Another crucial factor for employment and income will be the pace of lifting of support measures, which has made it possible for many businesses and jobs to be viable since last year. As long as positive developments are delayed within the second quarter (adverse scenario), the growth in private consumption will weaken. In addition, its growth is likely to be weak in the summer quarter, as a year earlier consumption spending had decreased moderately.

As long as there is no significant resurgence of the pandemic in the second half of the year, e.g. in the autumn, employment will continue to strengthen, particularly in sectors with strong impact on economic activity last year, as mentioned above, but also in Manufacturing, whose activity has shown considerable resilience in the current crisis, boosting domestic income and consumption. Growth in jobs is also anticipated by stronger investment activity, mainly due to the supply of liquidity by banks. However, note that even in this scenario of developments, no significant expansion of employment is expected, as the lifting of support measures will lead to the loss of many of those retained by the aid of State grants. In the opposite case, i.e. a new outbreak of the pandemic, the pressures on a part of the companies to be suspended will be strong in the autumn, leading several of them to close. Taking this into account, under the baseline macroeconomic scenario, private consumption is projected to increase in the region of 2.5-3.5%, while in the case of the unfavourable scenario it is expected to increase by between 1.0% and 1.5%.

As to the developments in public consumption this year, the growing emergency health costs due to COVID-19, mainly for the supply of vaccines and tests, for health workers, to increase ICUs and new medicines, will stimulate consumption demand. The interventions to support businesses and households will be clearly higher than planned in the 2021 budget, yet they will probably fall short of those recorded last year. Moreover, this year there will be no retrospective payments to pensioners, as in the fourth quarter of last year. The above trends in public consumption expenditure are expected to lead to its reduction by 3.0% to 4.0% compared to last year's level. However, if the current outbreak of the pandemic continues with a strong intensity over most of the second quarter or a new wave emerges in the autumn, the decline in consumption expenditure will be mitigated, in the region of 1.0%-2.0 %. Progress in vaccination by the end of summer and the new means of virus detection (self-tests) are expected to prevent a strong escalation of cases, such as those observed last November and this March.

On the investment side, the notably higher availability of liquidity than a few years ago by the banking system, after the decline of non-performing loans, the return of deposits, but also thanks to the accessibility of banks for the first time to a ECB asset purchase programme, has created new financing opportunities for businesses, which were not present in the recent past. These opportunities were reflected in bank credit expansion to non-financial corporations in the previous year, which escalated strongly throughout its duration. As noted above, part of the expansion of bank lending last year was based on the extraordinary liquidity-supply programmes by the Greek State (Entrepreneurship Fund II, Guarantee Fund). That said, the fact that the strong growth in lending to enterprises has carried over to early 2021, following the implementation of these programmes, shows that it is probably not closely related to the specific actions, but above all to the other developments mentioned above.

In any case, the stronger bank lending since last year has already shaped the possibility of higher investment by a large number of companies. Manufacturing activities that benefited from the health crisis or proved to be resilient to it (e.g. Pharmaceuticals, Computers, Plastics), and the most export-oriented activities, are considered to be the most likely to make investments. The implementation of "Heracles II" will contribute substantially to the remedy of any negative developments in the assets of banks from the pandemic, such as an expansion of the NPLs, but also to their further reduction, favouring credit expansion. The Bank of Greece's assessment of the new NPLs in 2021, repeated in the recent Governor's Report, is between €8-10 bn. However, the expansion of deposits in the coming period will depend on the evolution of the health crisis and its impact on employment and income. Thus, its intensity, and even its continuation, should not be taken for granted.

As pointed out in IOBE reports following the outbreak of the new coronavirus pandemic, the support from the aforementioned and other exceptional actions to address the effects of the pandemic on businesses and the self-employed (e.g. repayable advance, special-purpose compensation), although not related to investments, were partly reflected through investment expenditure on GDP, as they are made available under the Public Investment Programme. The continuation of such actions in 2021, presented previously in the current sub-section (refundable advance No5-6-7), is still partly financed through the PIP, which is why they are expected to sustain a large part of the fixed capital formation in 2020 that resulted from interventions of this kind. Regardless of these technical effects, investment support through the PIP is projected to be around last year's level or slightly higher, as funding for the 2014-2020 programming period is nearing its completion.

The most decisive factor for the impact of the public sector on investment activity this year, but also in the coming years, will be the use of the resources of NextGenerationEU, combined with the national resources that it will leverage. Under the relevant assumptions of both macroeconomic scenarios, their stimulus on investment activity will begin in the second half of this year, probably from the autumn.

The significant under-performance of the privatisation programme in 2020, which is also related to the pandemic and is currently continuing in 2021, will result in their small contribution to investment activity this year, and possibly next year, given the long maturation period required for projects on this scale. Such indicative current investments are those in regional airports and the Athens International Airport, as well as for the expansion of the passenger port of PPA. However, if the relevant procedures accelerate, e.g. for the completion of the concession of Hellinikon and the regional ports, strong investment impetus can come in the coming years, directly and indirectly, in the wider regions.

The decline of the formation of fixed capital in 2020 was counteracted by building works, which were particularly strong at the beginning of the year and continued weakened until last September. However, as this came largely from investment in Tourism, in hotel construction and real estate renovation for use with Airbnb, it is likely that it will be severely affected this year.

Therefore, the level of investment will be determined by a large number of factors, with different effects, in direction and extent. Taking into account these effects, notably the strong credit expansion towards businesses, the exceptional financial instruments for the pandemic and the NGEU resources, as well as the upward dynamics of exports of goods since last year, which determines investment decisions in industry, investment is expected to recover by 12-15% in the main macroeconomic scenario. If the weakening of the pandemic outbreak is slow, domestically and internationally, and there is a new wave in the autumn, investment sentiment will weaken and capital formation will expand more slowly, by between 7% and 9%.

In the external sector of the economy, on the export side, the dynamics of exports of services will be the main trend driver. As stated in the previous IOBE report on the Greek economy, the fact that the pandemic presented successive waves in late 2020 and in the first quarter of this year prevented a significant resurgence of tourist interest from the beginning of 2021 and affected bookings. The progress with vaccination internationally gradually counteracted these effects. The escalation of tourist demand will depend on the attenuation rate of the spring wave of the pandemic. Each of the macroeconomic scenarios includes an assumption regarding the starting point of the tourist season. Even in the unfavourable scenario, its duration will be similar to last year, while international tourism will be much higher, thanks to vaccination and more ways of detecting the virus, with revenues clearly higher than last year, so their contribution to the change in total exports will be positive. Nevertheless, reaching half their 2019 level will be a challenge.

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates (at constant 2015 market prices)

	2018	2019	2020	2021
Annual Percentage Change				
Gross Domestic Product	1.9	1.9	-10.0*	3.5*
Private Consumption	1.1	1.9	-5.5	4.0
Public Consumption	-2.5	1.2	-0.1	2.2
Gross Fixed Capital Formation	-12.2	-4.6	-8.0	5.5
Exports of Goods and Services	8.7	4.8	-21.6	10.7
Imports of Goods and Services	4.2	3.0	-9.8	6.7
Employment	1.7	1.2	-3.6	1.7
Compensation of Employees per capita	1.3	1.0	-1.0	0.3
Real Unit Labour Cost	0.5	0.2	6.2	-3.3
Harmonised Index of Consumer Prices	0.8	0.5	-1.3*	-0.1*
Contribution to real GDP growth				
Final Domestic Demand	-1.3	1.7	-4.6	3.9
Net Exports	1.5	0.7	-4.6	0.8
Inventories	1.8	-0.5	0.0	0.0
As a percentage of GDP				
General Government Balance	1.0	1.5	-6.9	-6.3
Current Account Balance	-1.1	-1.7	-6.2	-6.4
General Government Gross Debt	181.2	180.5	207.1	200.7
In percentage terms				
Unemployment (% of the labour force)	19.3	17.3	18.0	17.5

*Source: European Economic Forecast, winter 2021, European Commission, February 2021

Source: European Economic Forecast, autumn 2020, European Commission, November 2020

With regard to the provision of international transport services, as evident from the current account data, the heightened restrictive measures since November have raised the pressure mainly on receipts from the main categories of services. This trend is considered to have persisted throughout the first quarter of this year at least. However, the recovery in the Eurozone, a major export destination, which according to recent forecasts will reach 4.4%, and in international trade in goods, which according to the World Trade Organisation will be in the region of 8.0%, will revive international transport. Coupled with the extensive contraction of activity in the sector last year, it is not planned to shrink further this year, even if the health crisis resurfaces in the autumn.

The predicted growth of the Eurozone in 2021, although milder than expected last autumn (5.2%), partly due to the major challenges facing the European economy, and the prolonged outbreak of the pandemic at the beginning of the year, will escalate the demand for Greek products. By contrast, growth in other important export destinations, such as the Middle East-Central Asia (3.7%) and developing Europe (4.4%), is expected to be stronger than expected in late 2020. Understandably, in the event of a strong rise in the coronavirus in the autumn of 2021, e.g. in Europe, the recovery of international demand for Greek products will be weaker. Taking into account the mostly positive trends in the presented drivers that concern export demand, in the baseline scenario, exports will rise by 11-13% this year, while in the unfavourable scenario the rise will be weaker (6-8%).

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2020 – 2021 (at constant market prices, annual % changes)

	MinFin		**EU**		**IOBE**			**IMF**			
	2020	2021	2020	2021	2020	2021**	2021***	2020	2021	2020	2021
GDP	-10.5	4.8	-10.0*	3.5*	-9.0 to -9.5	+3.5 to +4.0	+1.5 to +2.0	-8.2	3.8	-10.1	0.9
Private Consumption	-7.6	3.0	-5.5	4.0	-4.5 to -5.5	+2.5 to +3.5	+1 to +1.5%	:	:	-7.0	1.3
Public Consumption	2.1	-1.9	-0.1	2.2	+2.5 to + 3.5	-3.0 to -4.0	-1.0 to - 2.0	:	:	1.3	0.5
Gross Fixed Capital Formation	-14.3	23.2	-8.0	5.5	+10 to +11.0	+12 to +15	+7 to +9	:	:	-11.5	4.6
Exports	-30.3	22.5	-21.6	10.7	-25.5 to -26.5	+11 to +13	+6 to +8	:	:	-23.8	-5.2
Imports	-17.4	16.4	-9.8	6.7	-6.5 to -7.5	+8 to +11	+4 to +6	:	:	-12.1	-3.1
Harmonised Index of Consumer Prices (%)	-1.1	0.6	-1.3*	-0.1*	-1.3	0.1 to +0.3	-0.3 to - 0.5	-1.3	0.2	-1.2	-0.2
Unemployment (% of labour force)	18.9	17.9	18.0	17.5	16.5	15.5 – 16.0	17.0-17.3	16.6	15.2	16.9	17.8
General Government Balance (% GDP)	-9.9	-6.7	-6.9	-6.3	:	:	:	-9.9	-8.9	-9.4	-7.0
Current Account Balance (% GDP)	:	:	-6.2	-6.4	:	:	:	-6.6	-3.5	-5.2	-5.7

* European Economic Forecast, winter 2021, European Commission, February 2021, **Basic and favourable IOBE scenarios, ***Adverse IOBE scenario

Sources: Explanatory Report of the State Budget, Ministry of Finance, November 2020 European Economic Forecast, autumn 2020, European Commission, Nov. 2020 - The Greek Economy 01/21, IOBE, April 2021 –- World Economic Outlook, IMF, April 2021 - Fiscal Monitor, IMF, April 2021 - Economic Outlook 107, OECD, December 2020

The boost of domestic demand, as well as exports this year, under the main macroeconomic scenario, will have a strong positive impact on the imports of goods. In the case of the unfavourable macroeconomic scenario, the anticipated weaker increase in exports of products is expected to prevent imports from falling, as the former have a high import content. Following the strong decline in the imports of services in 2020, mainly due to the lower demand for tourist services, but also for transport, the easier international travel in summer compared to last year, mainly due to vaccinations and more means of detecting the virus, is expected to stimulate the tourism of Greeks abroad this year. Under these effects, imports are forecast to rise by about 8% to 11% in the baseline scenario, and at a weaker rate in the unfavourable scenario (4-6%).

The process of estimating trends in the components of GDP this year, based on different scenarios for the developments in the pandemic of COVID-19 in Greece and internationally, as well as other determinants of these factors, as described above, produced corresponding forecasts for the change of domestic output. According to the forecasts, if the health crisis declines significantly by mid-May, without any new flare-ups and restrictive measures during the rest of the year, the Greek economy will grow in 2021, at a rate of 3.5-4.0%. In the event of a slower decline of the current outbreak of the pandemic, domestically and internationally, which will have a negative effect on the tourist season, and its resurgence in autumn, growth will be weaker, in the region of 1.5-2.0%.

As pointed out in previous IOBE reports, developments regarding the health crisis will be the major driver of the trend in employment and thus unemployment this year. The continued measures to protect public health during the first months of 2021 escalated pressures on employment in sectors in suspension and in related activities (Retail Trade, Tourism, Food Services, Transport, Arts - Recreation). As last year, the negative effects are considered to have been mitigated by job-support interventions. The rate of lifting the restrictive measures will determine the positive effects on employment. If their removal occurs largely by mid-May and they are not reinstated in the autumn, e.g. thanks to vaccination and self-testing, many of the companies in these and other sectors will operate, respecting health rules, for most of 2021. In addition, the duration of the tourist season will be sufficient for more seasonal businesses. If the protection measures continue during most of the second quarter and return in the autumn, albeit milder than earlier this year (an adverse scenario), the impetus to employment will be weaker. The shorter tourist season, in this case, will reflect respectively in seasonal employment.

It should be noted that jobs are protected for certain months in enterprises included in a repayable advance scheme. For example, in the 5th round of the repayable advance, applications for which were submitted until the beginning of February, jobs in the recipient enterprises should be maintained until 30 June. Similarly, in the 6th round of the repayable advance programme, the applications for which were submitted by the end of February must be maintained until 31 July. Therefore, even if the lockdown of activities and furloughs are lifted within the second quarter, a significant part of the jobs will remain for a few more months under protection, which prevents a possible immediate increase in unemployment. Indicatively, the repayable advance had 359.7k beneficiaries in round 5 and 286.2k beneficiaries in round 6. However, when the protection period has passed, the number of unemployed is likely to increase significantly.

The significant decline of the workforce last year, by workers who lost their jobs and were discouraged by the conditions to search for a new one, is expected to be reversed this year, pushing up the number of unemployed.

The health crisis has created needs for specific services (courier, health services, creation of ICT applications). New jobs were created to cover these needs in 2020. This trend is expected to continue this year, particularly in the creation of ICT applications and telecommunications.

The stronger exports of goods last year, which will continue to expand this year, will support the creation of jobs in export-oriented manufacturing sectors, as last year. The stronger export activity will also be reflected in their investment, which will also help employment. More broadly, investments will benefit chiefly from growth of credit from the financial sector.

The public sector will stimulate domestic employment this year, with the ongoing programme of support for the creation of 100k jobs, recruitment in the health system and OAED employment programmes.

In view of the above effects on the labour market, it is estimated that the unemployment rate under the basic macroeconomic scenario for 2021 will stand at 15.5%-16.0%, while in the unfavourable scenario it will be higher (17.0-17.3%).

With regard to the expected trends in consumer prices this year, the impact of demand will, as expected, depend on developments in the pandemic and their effect on employment and thus on disposable income and consumption. Under the baseline scenario of macroeconomic developments, a significant easing of strong public health measures by mid-May and a lack of a second wage in the autumn will lead to a gradual recovery of activity and employment in quarantine-affected sectors. Combined with the creation of jobs in industrial export-oriented activities, as well as from more investment, domestic disposable income will increase, stimulating consumer demand and thus prices. If the current wave of the pandemic subsides slower, in Greece and abroad, as assumed in the unfavourable scenario, the growth of economic activity and employment in the summer will be weaker. The recovery will weaken further should there be a new wave of the virus in the autumn. More generally, concern about the evolution of the health crisis will resurge. This will then mitigate or reverse employment growth, causing similar trends in income and demand. In any case, the reduction of direct taxation, by the suspension of the solidarity levy and the reduction of social security contributions, is expected to have a positive effect on incomes.

Regarding the expected impact of indirect taxes on the CPI formation in 2021, the extension of these reductions for certain goods and services until 30 April 2021 will maintain their deflationary effect on prices over the same period. For the remainder of the current year, if these measures are not extended, the price trend in the concerned categories of products and services will be reversed, as they have been imposed since last June.

The dynamics of the pandemic through its impact on global demand will also determine developments on the side of energy cost. On the energy production side, the cuts in daily oil production by OPEC+ member countries, which began in April 2020 and has gradually de-escalated, is considered to have slightly halted the sharp fall in the price of Brent in the first four months of 2020. The rise in oil prices since then is considered to be more, but not exclusively, related to the rapid recovery of China’s economy and the restocking of supplies ahead of the winter season. The increasing progress in the vaccination of the population in many countries worldwide, despite delays in vaccine production, is creating a prospect of exiting the health crisis, lifting public health protection measures and reviving demand. Nevertheless, important challenges to address the pandemic remain, such as the potential effects of virus mutations, the effectiveness of vaccines in ensuring immunity, the discovery of new medicines etc. In the latest forecasts of international organisations (IMF), the prediction of a significant recovery of economic activity worldwide remains, with China’s economy, which is the second largest oil consumer worldwide, taking the lead in this.

Taking into account the above possible trends in the main components of the domestic Consumer Price Index, as well as the effects of similar trends in the past, as well as the rate of change in the first quarter of this year, the baseline macroeconomic scenario projects a marginal inflation rate of 0.1-0.3%. Under the adverse macroeconomic scenario, the mild rise in consumer demand and the negative impact of indirect taxes on prices will curb the increase in energy prices, leading to a further mild decrease in consumer prices (-0.3% to -0.5%).

3.2 Developments and Prospects in Key Sectors of the Economy

- Reduction of industrial production in 2020 by 2.1%, against a marginal decline of 0.7% in 2019
- Construction declined by 9.5% last year, following a fall of 6.1% in 2019
- Retail Trade turnover down 5.4%, against a marginal decline of 0.8% a year earlier.
- Higher turnover in six of the thirteen branches of Services last year

Industry

The industrial production index fell in 2020 by 2.1%, against a smaller decline by 0.7% in 2019. During the first two months of 2021, for which the latest data are available, the index increased by 4.0% compared to the corresponding two months of 2020.

As for the trend in industrial product prices in 2020, they were reduced by 7.3%, when a year earlier they had increased slightly, by 0.4%. In the first two months of 2021, prices fell by 2.7% against an increase of 1.1% in the first two months of last year, before the outbreak of the pandemic and the decline in economic activity. Producer prices decreased more in exported products (-5.7% against -1.2% in 2020) and less in those sold on the Greek market (-1.7% against +1.8% in 2020).

The turnover of Industry fell last year by 13.1%, when in 2019 it was down by 1.4%. In January 2021, turnover decreased by 12.2% compared to January 2020, when it had increased by 5.4%.

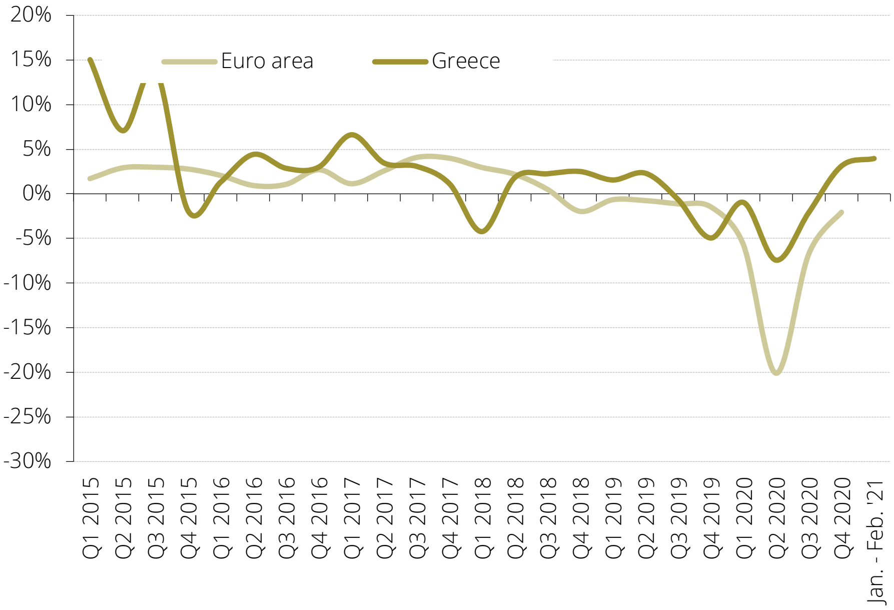
In the Eurozone, industrial production in 2020 continued to decline at a rate of 8.7%, while in 2019 it recorded milder losses of 1.4%. In January 2021 (the month with the latest available data), industrial production decreased by 0.5% compared to January 2020, against a stronger decline by 2.3% in January 2020.

At the level of key sectors of Greek industry, overall in 2020, a strengthening was recorded only in Water Supply (+0.9% against 1.7%). Production in the other sectors declined - in Mining-Quarrying by 4.3% (against -6.5% in 2019), in Electricity Supply by 4.2% (against -5.9%) and in Manufacturing by 1.6% (against +0.9 %). In the first two months of 2021, an improvement was recorded in Electricity Supply (+11.4%, as opposed to -12.7% in 2020), in Manufacturing (2.0% against +1.7% last year) and in Mining - Quarrying (0.9% against + 12.1% in the first two months of 2020). By contrast, production in Water Supply fell by 0.8% against -0.1% last year.

Among the mining sub-sectors, overall in 2020 production was boosted only in Mining (18.2% against -9.3%). Production of Coal and Lignite – Oil and Gas extraction was sharply reduced, to a third in 2019 (losses of 61.3%), following a significant decrease of 32.3% a year earlier. There was a smaller decrease in production in Other Mining - Quarrying (-8.9% against -1.9%).

Figure 3.2

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



Industrial production down by 2.1% in Greece in 2020, against -0.7 % in 2019. Stronger retreat in the Euro area over the same period: -8.4%, after -1.4 % the year before.

Sources: ELSTAT, Eurostat

In Manufacturing, production increased in 9 of the 24 branches. In branches with increased weight for the Greek economy, there was an increase in the output of Basic Pharmaceuticals (+11.6%, after +18.3% a year earlier). By contrast, the production of Basic Metals was down by 2.1%, following losses of 2.1% in 2019, while Food production shrank by 2.5%, against an increase of 1.8% a year earlier.

In the other manufacturing branches, the biggest, particularly strong decline occurred last year in Leather and Leather Products (-40.8% from -2.5% the year before last), Clothing (-32.0% after -7.0%) and in Refined Petroleum Products (-12.0% against -0.7%). Next, indicatively, came Wood - Cork Products (-11.9% against + 5.3%), Other Manufacturing Activities (-9.2% compared to +4.7 in 2019) and Repair - Installation of Machinery (-6.2%, against +7.8%). Production strengthened in the manufacture of Motor Vehicles (+13.7% against +5.7%) and Tobacco Products (+11.5% then +2.5%).

Overall in 2020, output fell in all five main groups of industrial products. In particular, production decreased in Durable consumer goods by 9.9% (against +1.7% the year before), in Energy by 4.4% (against -6.1%), in Intermediate goods by -0.7% (corresponding decline with 2019), in Non-Durable Consumer Goods (-0.7% against + 4.3%) and finally, in Capital Goods (-0.2% against + 6.0%).

Construction

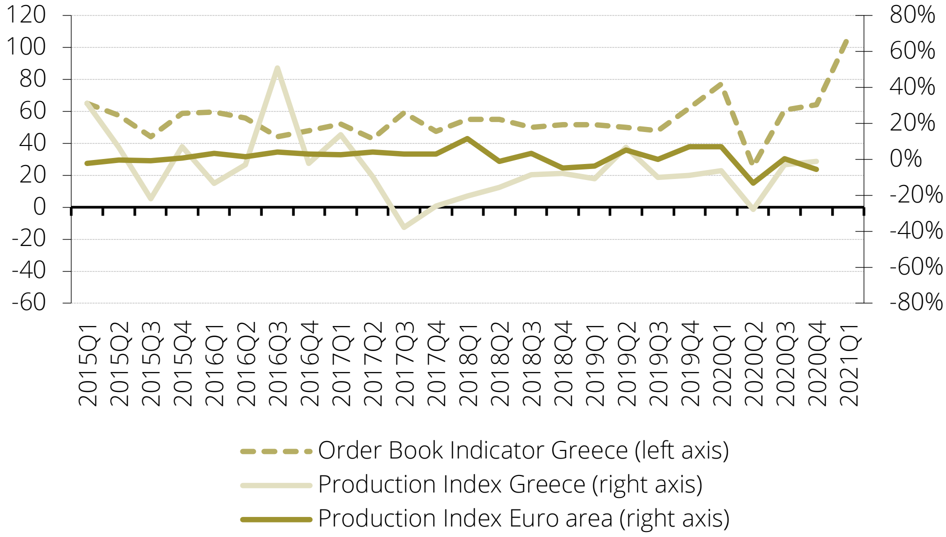
In the fourth quarter of 2020, the production index in the Construction sector decreased by 1.0%, after losses of 10.0% in the same period of 2019. Overall in the previous year, production was down by 9.5%, a decline of more than in 2019 (-6.1%).

In the sub-sectors, the production in Construction of Buildings was down by 5.8% overall in 2020 compared to 2019 (-6.2%). The index of Civil Engineering decreased significantly, by 11.8%, against a milder decrease by 5.9% in 2019.

Figure 3.3

Production Index in Construction and Building Activity Index

Decline in the production index in Construction in Greece in 2020 by 9.5%. Fall of 3.2% of Construction in the Eurozone.



Source: ELSTAT

The monthly data of construction activity point to an increase of 8.9% overall in 2020 in terms of number of permits, against an improvement of 13.5% the year before last. A corresponding increase was recorded in terms of surface (8.9% from 9.3% in 2019) and volume (5.9% against 9.8%) of new buildings.

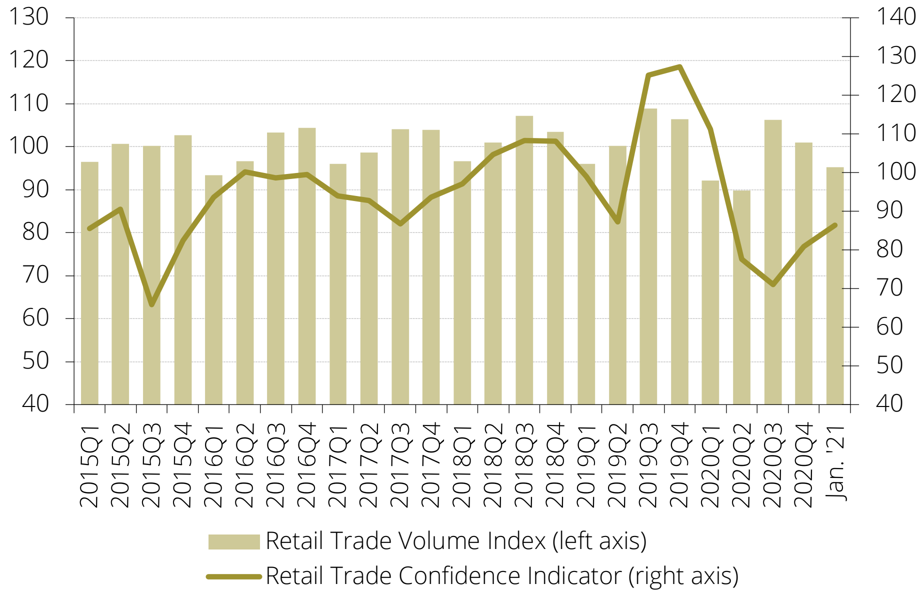
In the Euro area, the construction output index fell by 3.2% overall in 2020, while in 2019 it had strengthened by 2.1%.

Retail Trade

The Volume Index of Retail Trade for 2020 as a whole was down by 5.4%, against a small increase of 0.8% a year earlier. The trade volume increased in just 2 of the 8 sub-sectors. In particular, in Pharmaceuticals - Cosmetics turnover increased by 16.3%, against a marginal improvement of 0.8% in 2019, while in Supermarkets sales increased by 5.3% against an improvement of 1.2% in 2019. By contrast, the biggest decline was recorded in Clothing - Footwear (-25.8% against +0.2% in 2019), Fuels - Lubricants (-15.2% against + 1.6%), Department Stores (-10.2% against -11.3%), and Food-Beverages-Tobacco (-7.2% against -6.6%). Losses were recorded in the sales of Books - Stationery (-7.2% against an improvement of 9.3% in 2019) and Furniture - Home Equipment (-6.2% against +7.0%).

Figure 3.4

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



Decline of 5.4% of the volume of Retail Trade. Weaker expectations in the first quarter of the current year.

Sources: ELSTAT, IOBE

Table 3.4

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	2018	2019	2020	Change 2019/2018	Change 2020/2019
Overall Index	102.1	102.9	97.3	0.8%	-5.4%
Overall Index (excluding automotive fuels and lubricants)	103.5	104.0	101.3	0.6%	-2.6%
Store Categories					
Supermarkets	104.8	106.0	111.6	1.2%	5.3%
Department Stores	106.7	94.6	85.0	-11.3%	-10.2%
Automotive Fuels	93.4	94.9	80.5	1.6%	-15.2%
Food – Drink – Tobacco	92.4	86.3	79.6	-6.6%	-7.7%
Pharmaceuticals – Cosmetics	99.3	100.2	116.5	0.8%	16.3%
Clothing – Footwear	110.1	110.4	81.9	0.2%	-25.8%
Furniture – Electric Equipment – H. Appliances	109.9	117.6	110.3	7.0%	-6.2%
Books – Stationary	114.7	125.3	116.3	9.3%	-7.2%

Source: ELSTAT

In January 2021 (the month with the latest available data), the retail trade volume index decreased by 3.0% compared to January 2020, when it had increased at a rate of 6.2%.

Expectations in the Retail sector in the first quarter of 2021, as reflected in the leading indicators of the IOBE Business and Consumer Surveys, weakened sharply compared to the corresponding period a year earlier. The relevant index decreased by 24.1 points, against an increase of 8.9 points last year.

In terms of activities, expectations in the first quarter of the new year deteriorated mainly in Department Stores (-75.5 points, against an increase of 38.4 points in 2020), Textiles - Clothing - Footwear (-24.6 points, following a fall of 17.8 points), Household Equipment (-23.9 points against +24.0 points) and Vehicles - Spare Parts (-20.2 against -14.7). Finally, expectations weakened in Food - Beverage - Tobacco by 9.9 points (against an increase of 11.1 points last year).

Table 3.5

Business Confidence Indicators in Retail Trade (1996-2006=100)

	Q1 2019	Q1 2020	Q1 2021	Change 2020/2019	Change 2021/2020
Food-Drinks-Tobacco	98.9	110.0	100.1	11.1	-9.9
Textiles - Clothing – Footwear	91.2	73.4	48.8	-17.8	-24.6
Household Appliances	79.8	104.6	80.7	24.8	-23.9
Vehicles-Spare Parts	123.4	108.7	88.5	-14.7	-20.2
Department Stores	101.6	140.0	64.5	38.4	-75.5
Total Retail Trade	102.3	111.2	87.1	8.9	-24.1

Source: IOBE

In Vehicles - Spare Parts, the deterioration of expectations is due to the decline in the first two months of the year, as the index of March is 7.2% stronger compared to last year. The current sales balance stood at -47 points in the first quarter, with a significant decline compared to the corresponding quarter of 2020 (22 points). The drop in the balance was due to the more than doubling of the percentage of those who estimated reduced sales, and the rapid decline of companies that estimated increased sales, but a trend that improved in March. On the stock side, stabilising trends prevail, with a decrease in companies that considered stocks increased. The balance of orders also became negative, as did sales, doubling those who estimate reduced orders and a reduction in half of those who expect an increase in the near future. The balance of sales expectations deteriorated to 11 points, compared to 22 points last year, while on the employment side strong signs of stabilisation remain.

Analysis of developments in retail trade and its activities over the past year follows in Box 3.2.

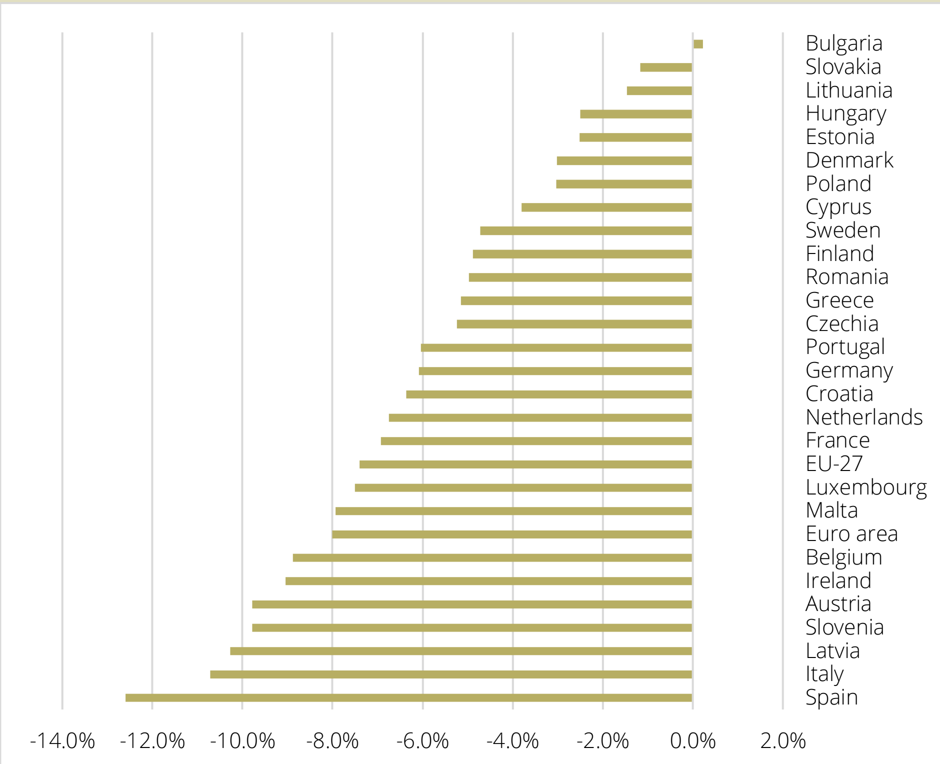
Box 3.2 The Effects of the Pandemic on Retail trade in 2020

Retail Trade is one of the most important sectors for the Greek economy, in terms of contributing to GDP and employment. At the onset of the domestic financial crisis in 2010, the direct contribution of retail trade to domestic output, excluding the impact on its suppliers and through its employees exceeded 6.0% (Eurostat), a share significantly higher than the corresponding average of the European economy (4.1%) and the third highest in Greece. In terms of the contribution of retail trade to domestic employment, it is the highest among the (double-digit) sectors of the Greek economy, in the range of 13.0%. During the first years of the economic adjustment (2010-2014), primarily the severe limitation on the disposable income of the households but also the conditions in the banking system, which did not favour the financing for consumer purposes, limited the direct impact of the retail trade on the economy, which moved in the wider range of 4.5%, but was still slightly higher than the European average. It fluctuated at these levels until the onset of the pandemic.

In 2020, the pandemic due to the new coronavirus has at times led to the imposition of restrictive measures on sectors, as well as households, to prevent its spread. These included the suspension of the operation of retail businesses, except for specific activities (super markets, pharmacies, etc.). The aforementioned fact reduced private consumption in Greece by 5.2%, a rate lower than the European average (EU27, -7.2%), continuing pressures on retail.

Figure 3.5

Household consumption, annual change, 2020/2019

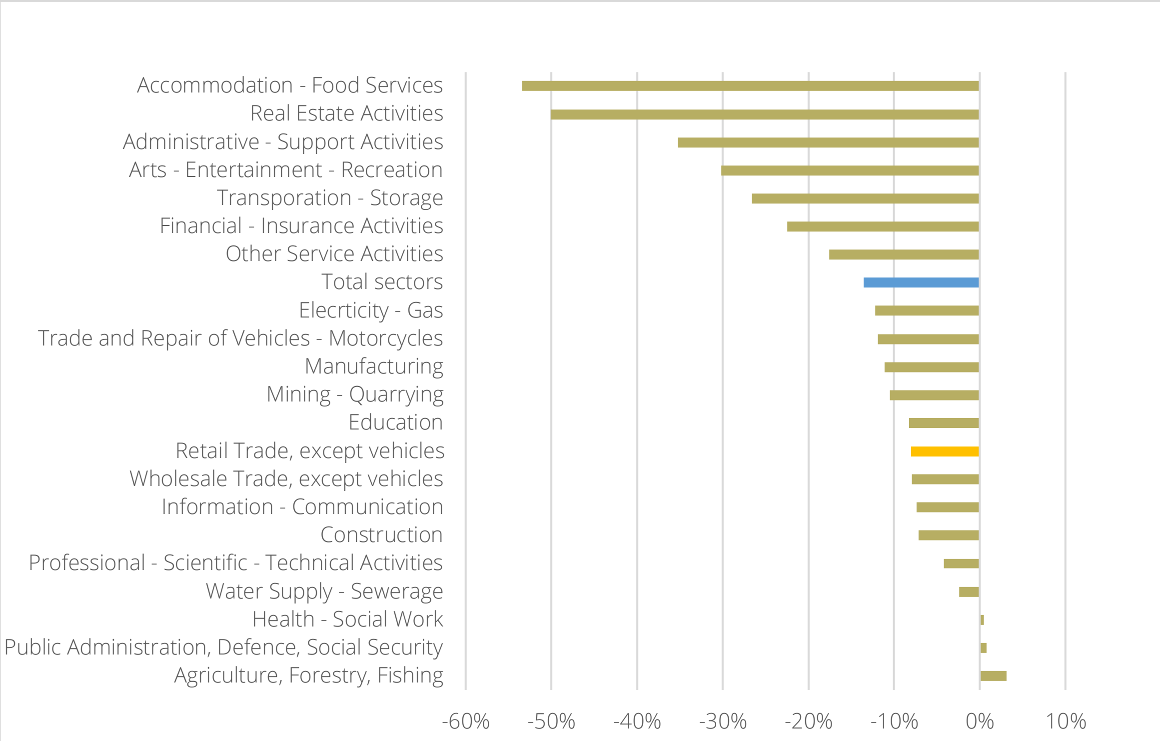


Source: Eurostat

Domestically last year, the turnover reduction in all sectors of the economy stood at 13.5%. The largest decline was recorded in tourism - food services (-53.4%), real estate management (-0,1%) and business support activities (-35.3%). The decline in retail turnover, excluding vehicle trade, reached 8.0%, which was milder than the average for the Greek economy. This relates to activities within the sector which have not been locked down, and which meet significant needs of the households. It is also due to the spread of e-commerce.

Figure 3.6

Annual percentage change in turnover of sectors of the Greek economy, 2020



Source: ELSTAT

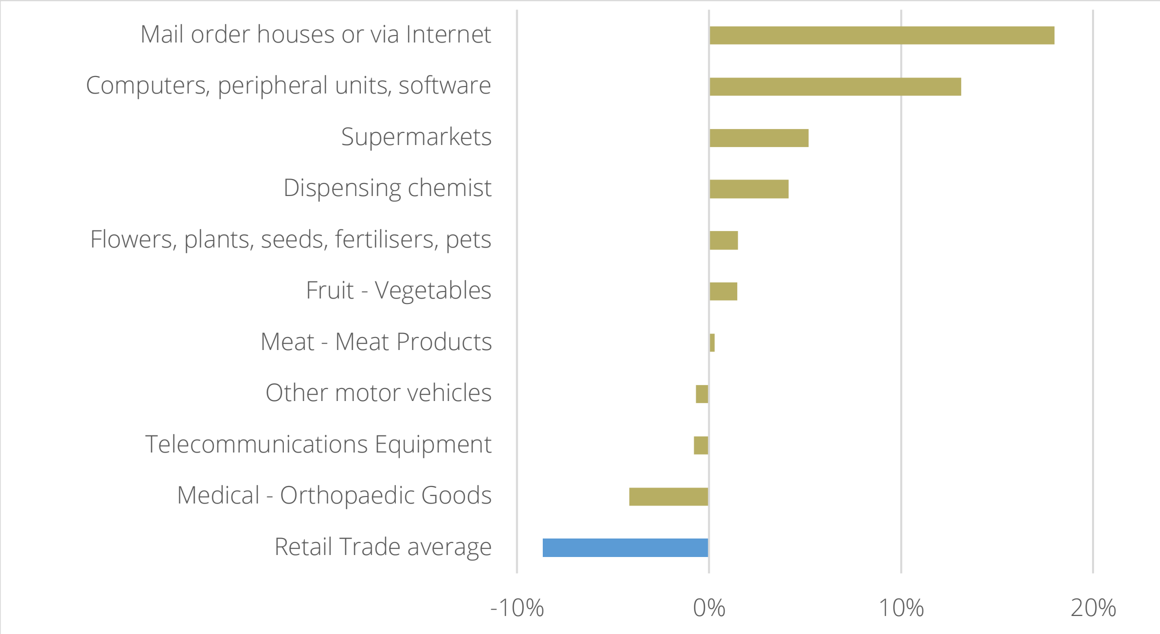
Among the retail trade activities, the largest decline in turnover occurred in those that are mostly carried out in physical stores or are affected by travel and transportation (Figure 3.8). In greater detail, the largest decline was recorded in jewellery sales (-46.8%), in the sale of textiles in open-air markets (-39.8%), in the sale of clothing in specialty stores (-36.6%) and in footwear (-34.9%). Restricted travel also sharply reduced fuel sales (-23.1%).

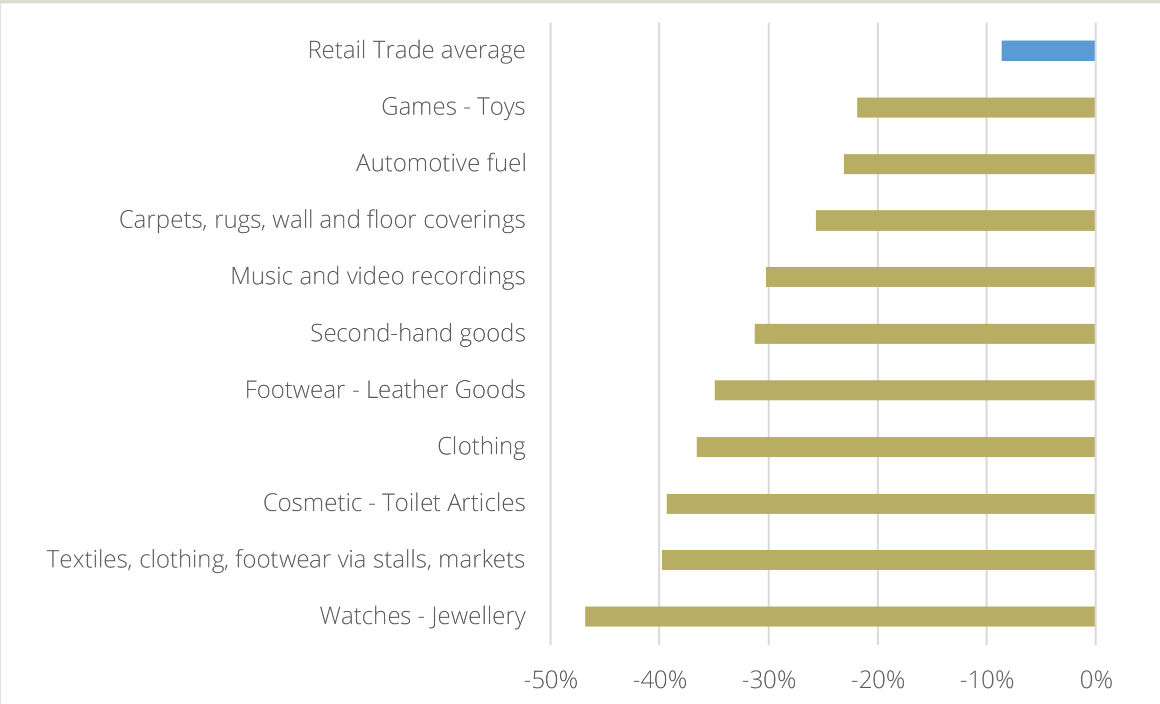
In contrast, the activities with strongest growth include some related to pandemic effects (e.g. remote work, virus protection), such as online sales (+18.0%), electronics (+13.1%) and pharmaceuticals (+4.1%). In addition, food sales increased, with non-specialist food stores growing by 5.2%, vegetable-fruit sales by 1.5% and meat sales increasing marginally (+0.2 %). There was also an increase in activity in sectors related to activities that were allowed during the lockdown, such as sales of plants and fertilisers, pet-shops (1.5%).

The decline in domestic economic activity due to the pandemic had a relatively small negative impact on employment, which was down by 0.9%, though in 2019 it had increased by 2.0%. This development is mainly due to measures to protect existing employment in sectors which have been suspended. Among the key sectors of the Greek economy, employment shrank in two out of four. The largest proportional decline occurred in the primary sector (-9.2% then -3.4% in 2019), and in Industry (-2.6% against + 4.7% the year before last). By contrast, in Construction there was an increase in employment by 3.2% (after +0.5% in 2019) and in Services by 0.9% (after +2.9% the year before last).

Figure 3.7

Retail trade activities with the largest annual growth/decrease in 2020

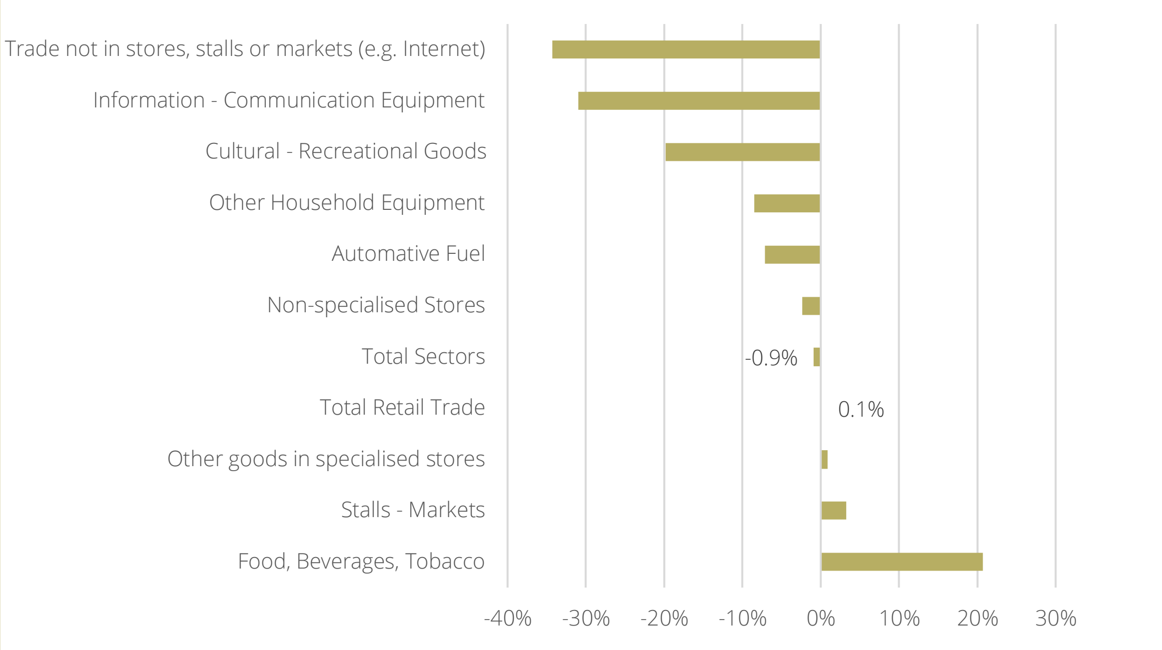




Source: ELSTAT

Figure 3.8

Changes in employment in retail subsectors



In Retail Trade, stabilising trends in employment prevailed, as it changed marginally (+0.1%), following an increase of 0.6% in 2019. The retention of jobs came, as mentioned earlier, to a significant extent from employment protection interventions. In addition, it came as a result of strong, opposing employment trends in its sub-sectors, depending on whether or not they have been affected by COVID-19 restrictive measures. In particular, jobs fell in six of the nine retail sub-sectors (Figure 3.9). The largest decline was recorded in retail trade not in stores, stalls or markets (-34.3%), in sales of information and communication equipment (-31.0%) and in the retail trade of cultural - recreational items (-19.8%). Employment decreased at a slower pace in household equipment stores (-8.5% against + 2.9%), in fuel (-7.1% against -18.4% in 2019) and in non-specialised stores (-2, 4% against + 2.9%). By contrast, employment increased in food - beverage - tobacco stores (+20.7% against -1.2% the year before last year), in trade via stalls and markets (+3.2% against +21.6% last year) and in other stores (+0.9% against +21.6% in 2019).

Wholesale Trade

Overall in 2020, the turnover index in the Wholesale Trade moved sharply downwards and recorded losses of 10.9%, compared to a clearly milder decrease the year before, by 1.6%.

Services

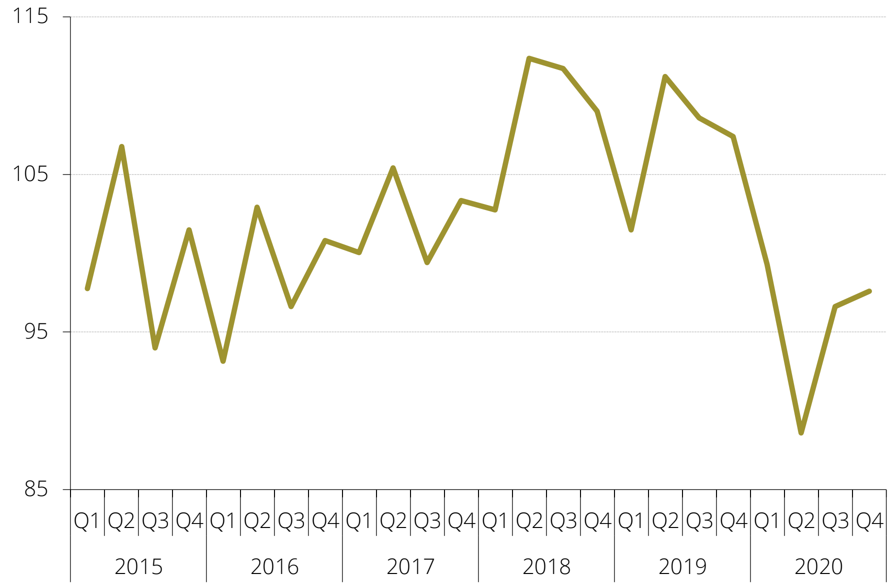
Overall in 2020 turnover decreased compared to 2019 in 7 of the 13 branches of Services.

The sharpest decline occurred in Other Professional - Scientific - Technical Activities (-12.3% after -6.2% in 2019) and Security - Investigation Activities (-8.9% against +0.9% in 2019). Next came Advertising (-8.6% against + 9.9% the year before last), Publishing activities (-7.6% against + 4.6%) and Legal - Accounting - Management Consultancy (-2.9% against + 6.0%). Telecommunications lost about 2.6% of their turnover from the year before last, when it had strengthened by about the same extent (+2.4%). Marginal losses (-0.2%) were recorded by Office Administrative Support Activities.

Figure 3.9

Turnover Index in Wholesale Trade

Contraction of Wholesale Trade turnover in 2020 by 10.9% compared to 2019



Source: ELSTAT

Table 3.6

Turnover Indices (2010=100)

Services branch	% Change 2019	% Change 2020
Publishing activities	4.6	-7.6
Architectural and Engineering services	0.4	4.1
Information service activities	8.2	12.0
Security and investigation activities	0.9	-8.9
Telecommunications	2.4	-2.6
Advertising and market research	9.9	-8.6
Postal and courier activities	4.7	5.4
Computer programming, consultancy and related activities	6.8	0.3
Other professional, scientific and technical activities	-6.2	-12.3
Legal, accounting and management consultancy activities	6.0	-2.9
Office administrative, office support and other business support activities	1.7	-0.2
Employment activities	19.4	4.4

Source: ELSTAT

By contrast, the activity of Information services (+12.0%, then +8.2%), Services to buildings (+11.5%, from +0.9%) and Postal - Courier Activities (+ 5.4% against + 4.7%) increased stronger than in 2019, reflecting the needs created by the pandemic. Architectural - Engineering Services strengthened by 4.4%, an increase much lower than in 2019 (+19.4%). There was a marginal improvement in Computer Programming (+0.3% against 6.8%).

According to the recent trends in the leading indicators from the business surveys of IOBE, referring to the first quarter of 2021, expectations deteriorated in all four examined sub-sectors of Services, while the general index of the sector fell by 33.2 points, against an increase of 19.4 last year.

The relevant sectoral index declined further, as expected, in Hotels – Restaurants by 39.3 points, against an increase of 13.9 points in the first quarter of 2020. Next came Other Business Services which deteriorated by 31.3 points against an improvement by 19.7 points in 2019 and Financial Institutions, where the expectations indicator fell by 5.6 points, against a strengthening by 20.6 points last year. Information services lost 4.0 points against an increase of 2.9 points in 2020.

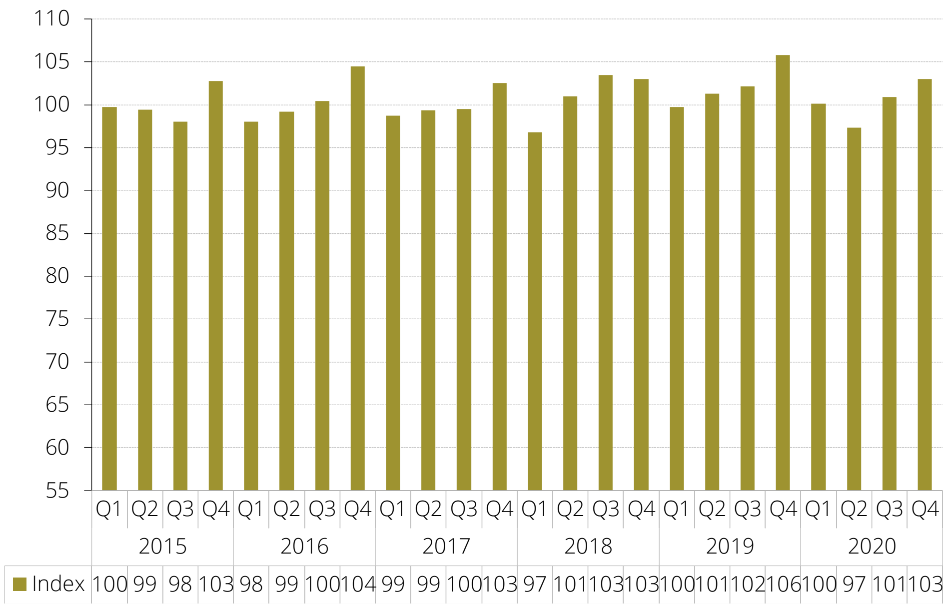
Table 3.7

Business Confidence Indicators in branches of Services (1998-2006=100)

	Q1 2019	Q1 2020	Q1 2021	Change % 20-'19	Change % 21-'20
Hotels – Restaurants – Travel Agencies	78.9	92.8	53.5	17.6%	-42.35%
Financial Institutions	73	93.6	88	28.2%	-5.98%
Other Business Services	79.8	99.5	68.2	24.7%	-31.46%
Information Services	82.6	85.5	81.5	3.5%	-4.68%
Total Services	80.1	99.5	66.3	24.2%	-33.37%

Figure 3.10

Turnover Index in Telecommunications (branch 61)



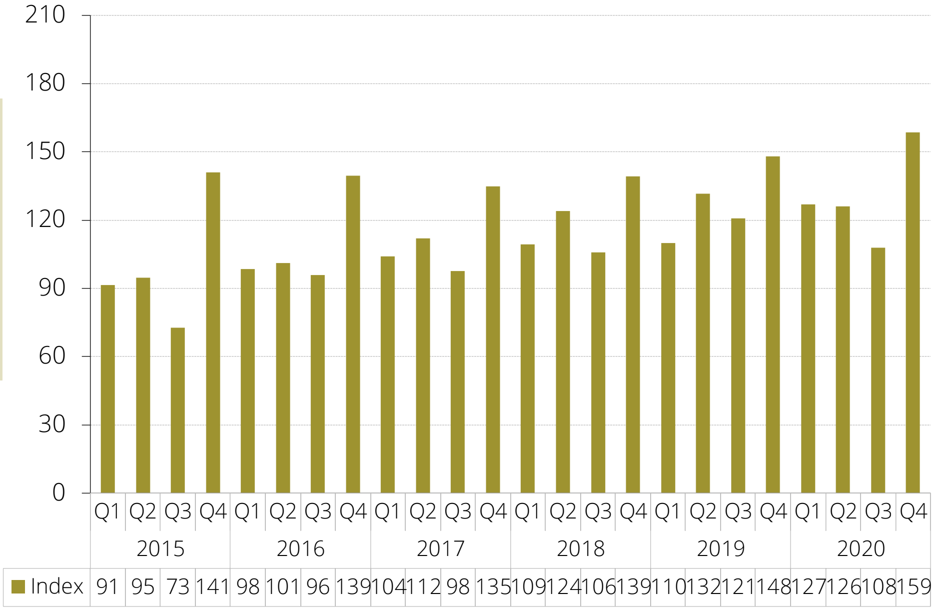
Contraction of 1.9% in Telecoms in 2020, against slight increase of 1.2% in 2019

Source: ELSTAT

Figure 3.11

Turnover Index in Computer Programming, Consultancy and Related Activities (branch 62)

Mild turnover boost of 1.8% in Computer Programming Services in 2020, after an increase of 6.7% in 2019

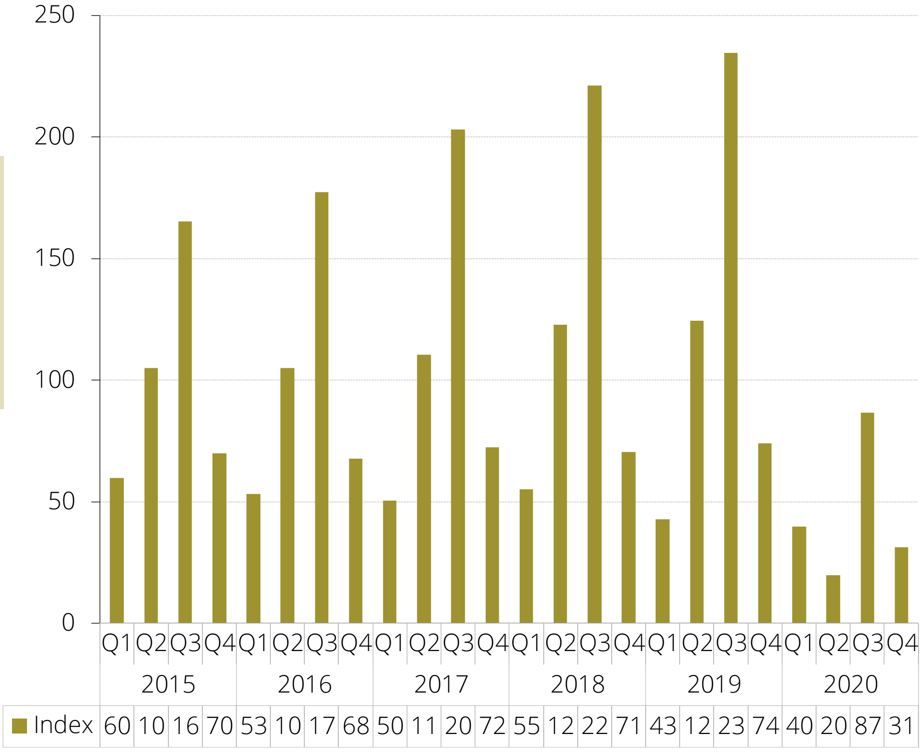


Source: ELSTAT

Figure 3.12

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

Vertical drop of activity in tourism in 2020. Contraction by 62.7%, against growth by 1.3% in 2019



Source: ELSTAT

3.3 Export Performance of the Greek Economy

- Decrease in the exports of goods in 2020, at a rate of 9.3%, and - by contrast - an increase in exports excluding petroleum products (+2.3%)
- Decrease in the trade deficit of 19.2% compared to 2019, to €16.9 billion.
- Among the categories of goods, exports declined mainly in Fuels, Raw Materials and Items and transactions not classified by categories. Growth occurred primarily in Industrial and Agricultural Products
- Demand declines mainly from the countries of the Middle East - North Africa (-30.5% or -€1.4 billion) and the Eurozone (-2.1% or -€278.3 million).

The exports of goods stood at €30.3 billion in 2020, compared with €33.4 billion in 2019, with a decrease of 9.3%. Excluding fuels and ships, exports increased by 2.3% to €23.7 billion, from €23.2 billion in 2019. Imports decreased by 13.1% in 2020 and amounted to €47.3 billion, from €54.4 billion a year earlier. As a result of the above trends in the key components of the external balance, the trade deficit was €4.0 billion lower than in the previous year (-19.2%), at €16.9 billion, from €21.0 billion. As a result, the value of exports of goods of the Greek economy in 2020 corresponded to 64.2% of its imports, while a year earlier it had reached 61.5%.

Figure 3.13

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

Exports excluding petroleum products – ships totalled €23.7 billion in 2020, 2.3% higher than a year earlier.

Source: Eurostat, Processing: IOBE

In greater detail, the exports of Agricultural Products increased by 11.7% last year, to €6.6 billion, from €5.9 billion in 2019, while Fuel exports decreased sharply, by 37.1%, mainly as a result of the fall in the price of oil, totalling €6.7 billion, from €10.7 billion in 2019. Exports of the two specific categories in 2020 corresponded to 43.8% of domestic exports of goods, from 49.5% a year earlier. The increase in Agricultural Products came mainly from the 36.1% increase in the demand for Oils or Fats of Animal or Plant Origin, the value of which amounted to €560.6 million, from €411.8

million in 2019, resulting in an increase in their share of total exports from 1.2% in 2019 to 1.8% in 2020. Exports in the Food-Livestock category, which represents approximately 79.5% of Agricultural Product exports, increased by 10.4%, to €5.2 billion from €4.7 billion. In Beverages - Tobacco Products, which represent 12.0% of the exports of Agricultural Products, demand reached €785.9 million in 2020, 6.3% higher than in 2019 (€739.3 million).

Table 3.8

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

Product	Value		% Change	% Share	
	2020	2019	20/19	2020	2019
AGRICULTURAL PRODUCTS	6,569.6	5,882.2	11.7%	21.7%	17.6%
Food and Live Animals	5,223.1	4,731.1	10.4%	17.2%	14.1%
Beverages and Tobacco	785.9	739.3	6.3%	2.6%	2.2%
Animal and vegetable oils and fats	560.6	411.8	36.1%	1.8%	1.2%
RAW MATERIALS	1,248.9	1,463.0	-14.6%	4.1%	4.4%
Non-edible Raw Materials excluding Fuels	1,248.9	1,463.0	-14.6%	4.1%	4.4%
FUELS	6,715.2	10,668.3	-37.1%	22.1%	31.9%
Mineral fuels, lubricants, etc	6,715.2	10,668.3	-37.1%	22.1%	31.9%
INDUSTRIAL PRODUCTS	15,335.1	14,892.4	3.0%	50.6%	44.5%
Chemicals and Related Products	4,992.0	4,055.0	23.1%	16.5%	12.1%
Manufactured goods classified chiefly by raw material	4,804.7	4,957.7	-3.1%	15.8%	14.8%
Machinery and transport equipment	3,188.8	3,104.1	2.7%	10.5%	9.3%
Miscellaneous manufactured articles	2,349.5	2,775.6	-15.4%	7.7%	8.3%
Other and transactions not classified by category	457.8	531.6	-13.9%	1.5%	1.6%
TOTAL EXPORTS	30,326.5	33,437.6	-9.3%	100.0%	100.0%

* Provisional Data

Source: Eurostat

The exports of Industrial Products were up last year (+3.0%), with their value reaching €15.3 billion, from €14.9 billion the year before last. This development was mainly due to the significant increase in the exports of Chemicals and related products, by 23.1%, from €4.1 billion to €5.0 billion. By contrast, there was a significant decline in international demand for Miscellaneous Industrial Goods, by 15.4%, with their value amounting to €2.3 billion. The exports of Manufactured goods classified chiefly by raw material declined by 3.1% (to €4.8 billion from €5.0 billion), while exports of Machinery and Transport Material also declined (-2.7%, to €3.2 billion).

Finally, the exports of Raw Materials decreased by 14.6%, falling to €1.2 billion, from €1.5 billion a year earlier, while exports of Goods and transactions not classified by category also declined, by 13.9%, from €531.6 million in 2019 to €457.8 million a year later.

In terms of trends by geographical area, exports declined to the Eurozone countries by 2.1%, approaching €12.9 billion in 2020 from €13.2 billion in 2019, taking up 42.6 % of the exports of Greek products last year. Towards the EU-27 there was a marginal decrease, by 0.3% or €52 million, with exports reaching €17.26 billion, from €17.31 billion a year earlier. Among the Eurozone countries that absorb the largest share of Greek exports, there was a significant expansion to France, by 49.9%, from €1.2 billion to €1.8 billion, and then, at a distance, to Germany, by 4.4%, from €2.25 billion to €2.35 billion. Exports to the most important destination, Italy, decreased by 11.5%, totalling €3.2 billion from €3.7 billion in 2019.

Among the rest of the European Union, where total exports increased by 5.5% or €226.3 million, reaching €4.3 billion, Bulgaria remained the main export destination, despite reduction of product outflows compared to 2019 by 5.8% or €91.3 million. Positive developments were noted to two other countries in this group which absorb a significant share of Greek exports, Romania and Poland, where exports increased by 7.4% or €75.7 million, to €1.1 billion, and by 14.8% or €73.8 million, to €571.5 million respectively.

Table 3.9

Exports by destination, January -December 2020 (million €)*

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2020	2019	20/19
EU (27)	17,264.9	17,317.0	-0.3%
Euro Area	12,931.8	13,210.1	-2.1%
G7	10,195.1	9,985.8	2.1%
North America	1,438.7	1,628.7	-11.7%
BRICS	1,182.9	1,402.1	-15.6%
Middle East & North Africa	3,281.3	4,723.3	-30.5%
Oceania	222.1	210.8	5.3%
Central-Latin America	206.0	421.7	-51.2%
Asia	2,207.9	2,027.4	8.9%
OPEC countries	1,510.4	1,845.2	-18.1%

* Provisional Data.

Source: Eurostat

The rest of Europe showed a decrease in demand for Greek exports by 20.2%, from €6.3 billion in 2019 to €5.0 billion in 2020. This was observed primarily to Turkey, by 32.2%, from €2.0 billion to €1.3 billion, and secondarily to the United Kingdom, by 5.6%, with exports falling from €1.2 billion in 2019 to €1.2 billion in 2020.

Exports to North American countries declined by 11.7%, from €1.6 billion in 2019 to €1.4 billion a year later, mainly due to the decline in exports to the US by 12.9%, from €1.3 billion the year before to €1.1 billion in 2020, and to Mexico by 20.3% or €34.6 million. By contrast, exports to Canada increased (+8.5 %).

Exports to the Middle East and North Africa fell sharply, by 30.5%, to €3.3 billion from €4.7 billion, mainly due to the decline in exports to Egypt (-47.3 %), where exports amounted to €497.0 million in 2020, compared to €942.9 million a year earlier, but also to Lebanon (-44.4%), declining by €517.1 million 2020 compared to 2019. Similarly, to Saudi Arabia, a major export destination in the Middle East, exports fell sharply, by 60.3%, to €296.8 million, while to the United Arab Emirates, they fell more slightly, by 7.6%, to €234.1 million and to Israel by 21.6%, to €369.6 million.

Increased by 5.3% was the flow of exports of Greek products to Oceania, with their value in 2020 reaching €221.1 million from €210.8 million a year earlier. The rise came from a similar trend in Australia, where exports grew at a rate of 6.7% to €201.0 million last year. By contrast, there was a decrease towards New Zealand (-6.1%). Last year, exports to the markets of Central-Latin American countries showed a strong decline of 51.2%, with their value reaching €206.0 million from €421.7 million in 2019. The decrease in exports to the countries of this region is mainly due to the vertical decline in demand for Greek products from Brazil, by 74.2%, which set their value at €34.8 million from €134.6 million a year. earlier, as well as from Panama (-49.8% or €96.2 million).

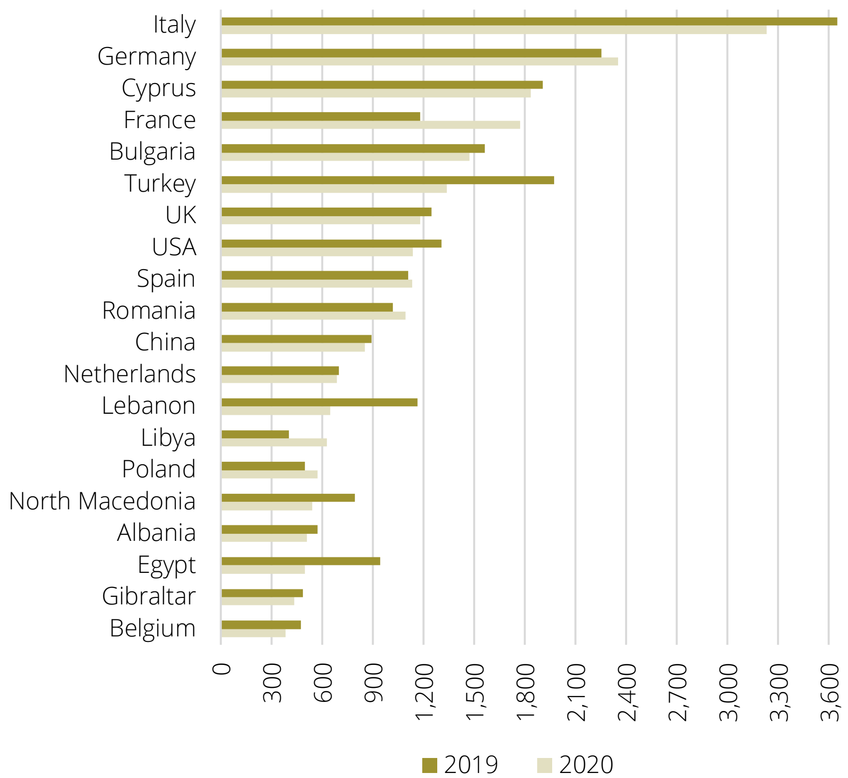
International demand for Greek goods increased in the Asian countries, where exports increased by 8.9% last year, to €2.2 billion from €2.0 billion in 2019. This development is mainly due to the strong increase, by 84.9%, to Japan, from €190.3 million in 2019 to €355.2 million in 2020, as well as by 111.2% to South Korea, from €156.8 million the year before to €331.0 million a year later. By contrast, there was a decline in demand from China (-4.3%, to €853.8 million from €892.5 million in 2019) and Singapore (-24.8%, to €108.2 million. from €143.8 million in 2019).

To sum up, Greece's exports of goods in 2020 fell by 9.3% compared to the previous year, but this decline was solely due to the oil sector as exports excluding petroleum products increased by 2.3%, to €23.7 billion. Despite the problems that the COVID-19 pandemic continues to create in the global and domestic economic activity, the exports of Greek products have shown resistance to the pressures, with some important markets remaining on an upward trajectory for another year. Indicatively, the food and chemical sectors had a decisive role in the increase of Greek exports for 2020. At the same time, due to the decline in domestic consumption and the reduction of production, there was a decline in imports, resulting in the reduction of the trade deficit (-19.2%).

Figure 3.14

Countries with the largest share in the exports of Greek goods, January - December 2020 (million €)

The greatest increase in the exports of goods in 2020 in absolute terms to France (+590.6 million). The largest fall was in exports to Turkey (-635.7 million). Italy remains the country with the largest share.



Source: Eurostat, Processing: IOBE

The trend in global economic activity and thus in international trade flows in 2021 will largely depend on developments in the pandemic. Positive prospects are created by the progress in vaccination, which will gradually be reflected in the lifting of restrictive measures and the "opening up" of economies, as well as the continuation and expansion of business and household support interventions. However, there are also significant pandemic challenges, such as the ongoing mutations of the virus, which are conducive of its spread, and the weak financial data of companies that are hindering their operation, especially in developing economies that have been hit hard by the health crisis, without having the policy tools to mitigate its effects, unlike the most developed economies. Especially in terms of Greek exports, the projected significant growth of the Eurozone this year, which is the main export trade destination (IMF: 4.4%), as well as growth in other important destinations, such as the Middle East-Central Asia (3.7%) and in Developing Europe (4.4%), will escalate the demand for Greek products. The increase in their value will be contributed by a factor that last year had a declining effect on it, the higher oil prices, the increase of which in the first quarter of this year exceeded 20% compared to last year.

3.4 Employment - Unemployment

- The unemployment rate fell in 2020 to 16.3% from 17.3% in 2019. The highest decline in the Eurozone, despite the 8.0% recession.
- Unemployment fell solely as a result of the decline in the labour force.
- Greater employment growth in Wholesale-Retail Trade (+21.8k people) and Human Health Activities (+20.6k people).
- Largest decrease in employment in the Primary sector (-41.6k) and in Tourism (-38.2k people).
- Increase of the seasonally adjusted wage cost index by 3.0% in 2020, following its rise by 0.7% in 2019.

According to the Labour Force Survey of ELSTAT, the unemployment rate overall in 2020 was 16.3%, i.e. one percentage point lower compared to 2019 (17.3%) and three points down compared to 2018 (19.3%), while the number of unemployed decreased by 7.8%, reaching 755.0k from 818.9k in 2019 (63.9k less unemployed). At the same time, during the period under review, both the number of employees and the workforce were reduced by 35.5k (or 0.9%, to 3,875.5k last year) and 99.5k people (or by 2.1%, to 4,630.5k in 2020) respectively. Therefore, the reduction in unemployment came solely from the reduction of the labour force. It should be noted that the reduction in unemployment for this reason was due to the fact that, according to the Eurostat definition for the unemployed and economically inactive population, if a person who is not working is not actively looking for work and is not available to work immediately, is not classified among the unemployed but in the economically inactive population, therefore leaving the workforce. The latter, in the period under review, increased by 1.7% or by 74.9k people (from 4,373.6k to 4,448.5k).

Regarding the evolution of unemployment in the Eurozone in 2020, in the vast majority of its countries there was an increase in unemployment. Exceptions are Greece, France and Italy. Indeed, Greece experienced the largest decrease in the unemployment rate in the Eurozone last year, by one percentage point, with Italy (-0.8 percentage points, 9.2% in 2020) and France (-0.4 percentage points, 8.0% in 2020) following. In the Eurozone as a whole, the percentage increased from 7.5% to 7.8%. The highest unemployment rate last year, after Greece, was recorded in Spain, where it rose to 15.5%, from 14.1% a year earlier. The largest increase in the unemployment rate in 2020 among the Eurozone countries occurred in Estonia and Lithuania. In the former, it increased by 2.4 percentage points, to 6.8% and in the latter by 2.3 percentage points, to 8.6%. In 2020, the countries with the lowest unemployment rates were Germany, where it rose from 3.2% to 3.8%, and the Netherlands, where it rose from 3.4% to 3.9%. Unemployment was marginally up in Belgium (+0.2

percentage points, at 5.6%) and Portugal (+0.4 percentage points, at 6.9%). Finally, in the United Kingdom the unemployment rate stood at 4.2% in 2020 from 3.7% in 2019.

On the evolution of gender-based unemployment in Greece, the difference in the unemployment rate between men and women was narrowed. In 2020, the unemployment rate of men (13.6%) was 6.2 percentage points lower compared to that of women (19.8%), when in 2019 the corresponding difference was 7.5 percentage points (14.0% in men and 21.5% in women). From the above it appears that between 2019 and 2020 the unemployment rate of men was down by 0.4 percentage points, while the decline in unemployment of women was much higher, at 1.7 percentage points. In the Eurozone, the unemployment rate for men increased between 2019 and 2020 from 7.2% to 7.5% and was 0.7 percentage points lower last year compared to the unemployment rate for women, which stood at 8.2%, from 7.9% a year earlier.

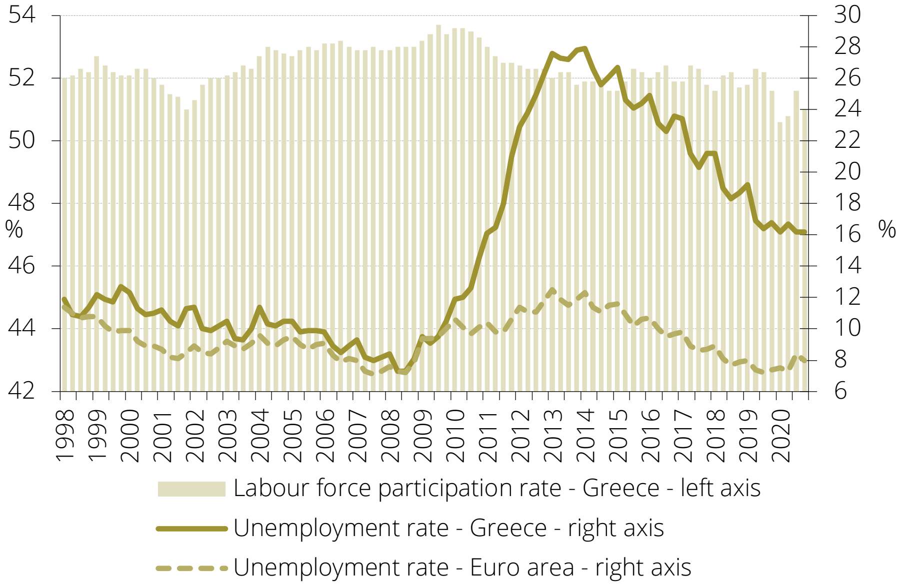
As for the evolution of the unemployment rate based on age, as it happens over time, it was lower as the age increased. The age group 15-19 years presented the highest unemployment rate but also the strongest decline. Thus, the unemployment rate in this age group was down in 2020 by 5.6 percentage points compared to 2019, to 37.9%. By contrast, the lowest unemployment rate was recorded in the age group over 65, where in 2020 it stood at 8.7% from 9.8% in 2019. The largest increase in employment occurred in people aged 25-29, by 1.3 percentage points, reaching 27.2%. Marginal was the rise in the unemployment rate in the 20-24 age group as it stood 0.3 percentage points higher last year, at 34.7%, which was the second highest among the age groups. Unemployment fell similarly in the other age groups. Unemployment among those aged 30-44 decreased by 1.1 percentage points (from 17.0% to 15.9%) and those aged 45-64 by 1.3 percentage points (from 13.9% to 12, 6%).

In terms of the duration of unemployment, the long-term unemployment rate fell for the third consecutive year, but its fall in 2020 was the strongest in three years, by 3.9 percentage points. In particular, it stood at 66.5% from 70.4% in 2019 and 70.6% in 2018. The number of long-term unemployed fell for the sixth consecutive year, reaching 502.1k from 574.4k in 2019 (-12.6%) and 643.7k in 2018 (-10.8%).

As for unemployment trend as per the level of education, it continued to decline as the level of education rose. At all levels of education, except those with a university degree, the unemployment rate was down between 2019 and 2020. In greater detail, the highest unemployment rate and its second largest decline occurred last year among those who did not go to school at all, as it stood at 47.8%, 6.2 percentage points lower than a year earlier. The highest decrease in the unemployment rate, by 6.5 percentage points, is found in people who attended some primary school classes, from 35.1% the year before to 28.6% in 2020. The lowest unemployment rate and the smallest decline in 2020 occurred in people with a doctorate or postgraduate degree, where it was down to 8.5% from 8.7% a year earlier. Unemployment among those with a university degree increased by 0.3 percentage points, to 12.6%. Finally, a similar decline was recorded in the unemployment rate last year for those with a lower secondary school diploma (-1.1 percentage points, to 18.9% in 2020) and for those with a higher technical vocational education degree (-1.2 percentage points, at 16.8%).

Figure 3.15

Labour force participation and unemployment rates



Decrease in the unemployment rate in 2020 to 16.3%, from 17.3% in 2019, while in the Euro are it increased to 7.8% from 7.5%

Sources: ELSTAT - Labour Force Survey, Eurostat

Regarding the regional dimension of unemployment, in seven regions of the country there was a decrease and in the remaining six an increase. Among the first group, the strongest decline in unemployment in 2020 is located in the region of Western Macedonia, by 4.9 percentage points, at 19.6%. By contrast, the region with the lowest drop in unemployment, but at the same time the lowest rate in 2020, was Peloponnese, where it stood at 11.3% from 12.0% a year earlier (-0.7 percentage points). In the Attica region, where most of the country's workforce is concentrated, unemployment fell by 2.9 percentage points in 2020 to 14.1%. Unemployment was similar in the Ionian Islands and the South Aegean. In the first region, it increased from 12.6% to 15.9% (+3.3 percentage points), while in the second it rose to 16.8% in 2020 from 13.8% a year earlier. The strongest rise in unemployment last year is located in the region of Crete, by 5.6 percentage points, reaching 17.3%. In addition, the highest unemployment rate last year was recorded in the region of Western Greece, despite its decline by 2.5 percentage points compared to 2019, to 21.6%.

As for the evolution of employment based on the occupational status, in the case of the largest group of employed in the Greek economy, i.e. employees, employment was down by 22.6k people or by 0.9%, to 2,640.9k. For the self-employed (with or without staff) employment was also reduced, by 6.0k people or by 0.5%, to 1,118.0k, while for assistants in family businesses, the number of employed decreased to 116.6k in 2020, declining by 6.9k or 5.6%.

In terms of the employment trend at the level of key sectors, it decreased in two and increased in one. The largest decrease in absolute terms in 2020 took place in the primary sector, where employment was down to 412.0k from 453.6k in 2019 (-9.2%). In the secondary sector, employment was down by 3.1% or 18.4k people and amounted to 581.5k, while in the tertiary sector it amounted to 2,882.1k employees, higher by 24.5k people or 0.9%.

In the branches of economic activity in Greece, in 10 there was a decrease in employment last year and in 11 an increase. The strongest decline in employment in absolute terms was recorded in the primary sector, by 41.6k people or 9.2%, followed by Tourism, where employment was down by 38.2k people or 10.0%, at 343.7k. In Manufacturing, the decrease in employment was 6.0k people or -1.6% (371.1k people) and in Construction 6.9k people or 4.6% (140.8k people). By contrast, the strongest increase in employment last year was recorded in Wholesale-Retail Trade (+21.8k or +3.2%, to 713.7k employees) and Human health - social care activities (+20.6k or + 8.3%, to 269.0k), due to the increased demand for food from supermarkets and the need for additional medical staff in hospitals (mainly doctors and nurses), which occurred following the pandemic outbreak. The increase of employment in Professional, scientific, technical activities was remarkable, by 11.3k or 5.2%, to 229.5k people, while in the sectors of Public Administration and Education the employment increased by 9.0k. or 2.7% (350.5k people) and by 3.0k people or 0.9% (323.9k people), respectively.

In conclusion, employment data at sectoral level show that its decrease in 2020 compared to 2019 was mainly due to its decline in:

- Primary sector (-41.6k employees) and
- Tourism (-38.2k employees), in line with the reduction of tourist revenues by 76.2% (from €8.2 billion in 2019 to €4.3 billion in 2020) and international arrivals at the country's main airports by 72.5% or 15.6 million people (from 21.5 million to 5.9 million)

Despite its rise in:

- Wholesale-Retail Trade (+21.8k employees), despite the decrease of the seasonally adjusted turnover index in Wholesale Trade (-10.5%) and turnover in Retail Trade (-3.7%),
- Human health and social care activities (+20.6k employees) and
- Professional, scientific, technical activities (+11.3k people).

As for the trend of the seasonally adjusted wage cost index for the entire Greek economy, it showed an increase for the fifth consecutive year. It increased by 3.0% in 2020, to 109.2 points, after increase by 0.7% in 2019.

Figure 3.16

Seasonally adjusted wage cost index and percentage point change

Increase in the seasonally adjusted wage cost indicator by 3.0% 2020, after an increase by 0.7% in 2019

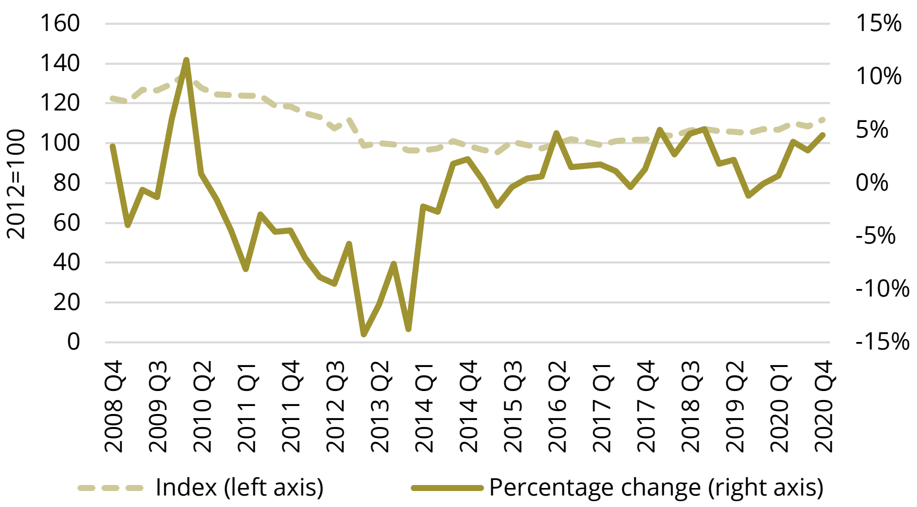


Table 3.10

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
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
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
Q1 2019	9,117.3	51.8	3,814.0	80.8	907.1	19.2
Q2 2019	9,108.0	52.3	3,956.4	83.1	805.0	16.9
Q3 2019	9,089.9	52.2	3,971.9	83.6	777.0	16.4
Q4 2019	9,089.9	51.6	3,901.8	83.2	786.4	16.8
2019	9,103.5	52.0	3,911.0	82.7	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	83.8	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	83.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	83.8	756.4	16.2
Q4. 2020	9,074.2	51.0	3,878.5	83.8	750.1	16.2
2020	9,079.0	51.0	3,878.5	83.7	755.0	16.3

Source: ELSTAT, Labour Force Survey

Medium-term outlook

Due to the third wave of the COVID-19 pandemic in Greece, suspension of activities and restrictive measures on the movement of people was imposed domestically since the beginning of last February. Despite the gradual lifting of restrictions on travel and operation of retail stores since the beginning of April, the strongly negative effects on sectors with a significant share in domestic employment, such as Tourism, Food Services, Arts-Entertainment and Retail Trade continued in the first quarter of this year. The negative effects on these sectors have been mitigated, as in the previous phases of the pandemic, by measures to support existing employment (special purpose compensation for suspended workers, subsidy on social security contributions) and business support in general (e.g. repayable advance schemes, suspension of business rent payment).

Overall in 2021, the trend in unemployment will depend, as in the previous year, primarily on the development of the health crisis domestically and internationally. This year, the dynamics of the pandemic will be mainly related to the course of vaccinations, the use of more means of detecting the virus (self-tests) and developments related to its mutations. Other factors that will affect the unemployment rate will be the pace of recovery in the Eurozone, through exports, and the utilisation of the greater available liquidity in the economy, by the banking system, due to the extraordinary, "unconventional" mechanisms of the ECB. higher savings, and the European recovery fund.

In particular as regards the effects of the pandemic, in practice they will depend on the rate at which the existing restrictive measures are lifted and whether they are reinstated again. If their removal largely occurs by mid-May and are not re-imposed in the fall, e.g. thanks to vaccination and self-tests, as assumed in the baseline macroeconomic development scenario, many of the companies in the aforementioned and other sectors will operate, under health rules, for most of 2021. However, if protection measures continue for most of the second quarter or return in the fall, albeit milder than at the beginning of this year, e.g. due to self-tests (unfavourable development scenario), the boost in employment will be weaker.

It is pointed out that, for those companies that are included in a repayable advance scheme, there is a protection of jobs for certain months: For instance, in the repayable advance round 5, applications for which were submitted until the beginning of last February, the jobs in the beneficiary companies must be retained until 30 June. Similarly, in the repayable advance round 6, applications for which were submitted until the end of February, the jobs must be retained until 31 July. Therefore, even if the suspension of operations and the suspension of employment contracts are completed within the second quarter, a significant part of the jobs will still be under protection for a few months, which prevents a possible immediate increase in unemployment.

The public sector will have a stimulating effect on domestic employment this year, both directly and indirectly. In the first case, this will be achieved with the ongoing support programme for the creation of 100k jobs, the recruitments in the health system and the employment programmes of OAED. Especially for the OAED programmes, at the beginning of April, two-month extension of the community service programme in the municipalities was announced, which concerns 36,500 beneficiaries. A new programme of community service is being prepared, lasting eight months in municipalities, regions, regional social welfare centres, ministries and other bodies, which will concern 25,000 unemployed people. In the second case, positive effects on employment will come from the contribution of the public sector to the escalation of investment activity, through the increase of Public Investment Programme aid and the utilisation of resources from the European recovery fund NextGenerationEU. The positive effects of NextGenerationEU will depend on when the flow of its resources to the Greek economy will begin as well as on the rate of their absorption. The baseline macroeconomic scenario predicts that the inflow of resources will start in the second half of this year and the target of the 2021 Budget for inflows of €5.5 billion within the year will be achieved or approached. However, it is possible that there will be delays in the start of flows or the rate of their absorption this year will be low, with the result that the funds that will flow into the economy will fall below the budget target (unfavourable development scenario).

The job-creating investments will mainly benefit from the continued rapid credit expansion from banks to non-financial corporations. It is expected to be used mainly by manufacturing sectors, with a significant increase in their exports last year and this year, which need to strengthen their factory capacity. New jobs will be created directly in these sectors too, to meet the increased demand with the existing production capacity.

Contrary to these positive developments in the labour market, the trend of a significant decline in the labour force last year that emerged in the previous subsection, from workers who lost their jobs and were discouraged by the conditions for looking for a new one, is expected to be reversed this year, pushing up in the number of unemployed.

Taking into account the above effects on the labour market, it is estimated that the unemployment rate under the basic scenario of macroeconomic developments for 2021 will be in the range of 15.5% -16.0%, while in the unfavourable scenario it will increase (17.0-17.3%).

According to the latest Business and Consumer Surveys of IOBE, the short-term employment expectations strengthened quarter on quarter in January-March 2021 in all sectors except Retail Trade and Industry. Compared to the same period of 2020, there was a slight decline in Industry and Services, while in Construction there was a significant improvement, with Retail Trade remaining unchanged. In more detail:

In Industry, the average balance of the previous quarter from normal for the season was down by 3 points in the first quarter of 2021 and stood at -3 points. Compared to the same performance last year, the average quarterly index is lower by about 5 points. In the quarter considered, the proportion of industrial enterprises predicting a fall in their employment in the coming period is 13% (from 12%), while the proportion of those expecting an increase in the number of their jobs decreased to 10% (from 12%) in the coming period. However, the vast majority of companies in the sector (77%) predict stability in terms of employment.

In Construction, the relevant expectations indicate a sharp improvement in the employment balance of the sector, which strengthened significantly and achieved a zero balance (from -13 points), to a much higher level compared to the same period in 2020 (-22 points). In the examined quarter, 10% (from 29%) of the companies in the sector anticipated fewer jobs, while the percentage of the respondents who expected an increase in employment was at 11% (from 16%). At the level of individual sectors, the significant improvement of the relevant index in Public Works (-1 from -18 points) is accompanied by a corresponding strengthening of the index in Private Constructions (+2 from -11 points).

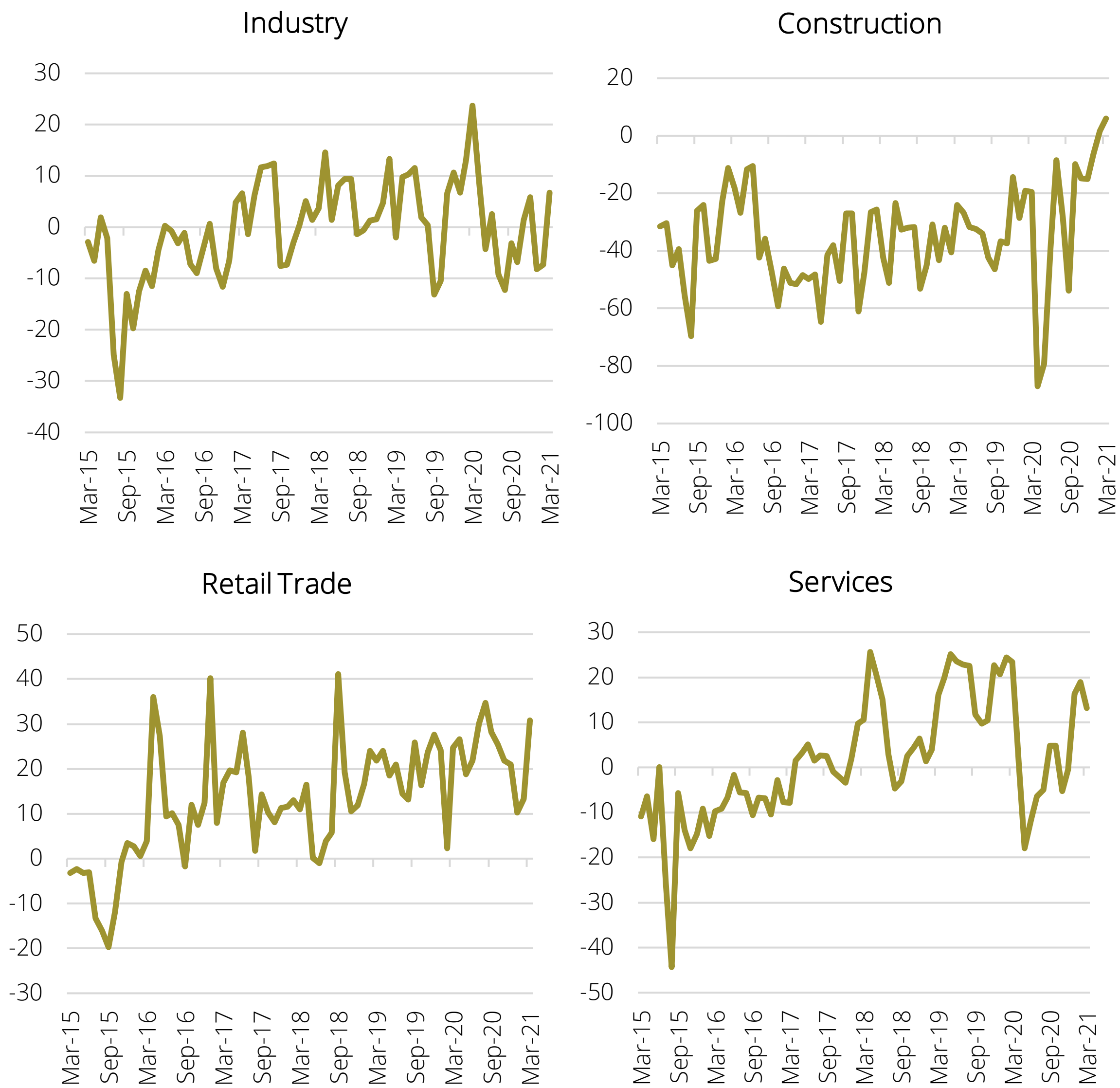
The index of employment expectations in Retail Trade fell slightly in the final quarter of last year compared to the previous quarter, to +18 points (from +23), a performance at the same levels compared to the same period last year (+17 points)). Only 9% of companies in the sector expected job cuts, while 27% (from 26%) predicted employment growth, with those expecting stability moving to 64% (from 70%) of the total. Among the individual examined sectors, there is a significant decrease of the relevant balance in Department Stores, milder in Motor Vehicles and Household Equipment, while by contrast there is a slight increase in the other examined sectors.

In Services, the relevant expectations for the examined quarter indicate a significant improvement compared to the previous quarter, in contrast to the corresponding period last year. Thus, the relevant balance for the fourth quarter of 2020, from normal for the season, increased by 16 points in the quarter considered, while compared to the corresponding period of 2020 it decreased by 7 points. Of the companies in the sector, 7% (from 15% in the previous quarter) expected a decrease in employment, with the percentage of those anticipating an increase reaching 23% (from 15% in the previous quarter). At the sectoral level, the trend is strongly upward in the sector of Financial

Intermediaries, in Hotels-Restaurants and in Land Transport, unchanged in Various Business Activities, and slightly declining in IT Services.

Figure 3.17

Employment expectations (difference between positive and negative responses)



Source: IOBE

In the January-March 2021 quarter, compared to the previous quarter, there was an improvement in expectations for the short-term employment outlook in Construction and Services and a deterioration in Retail Trade and Industry

3.5 . Consumer and Producer Prices

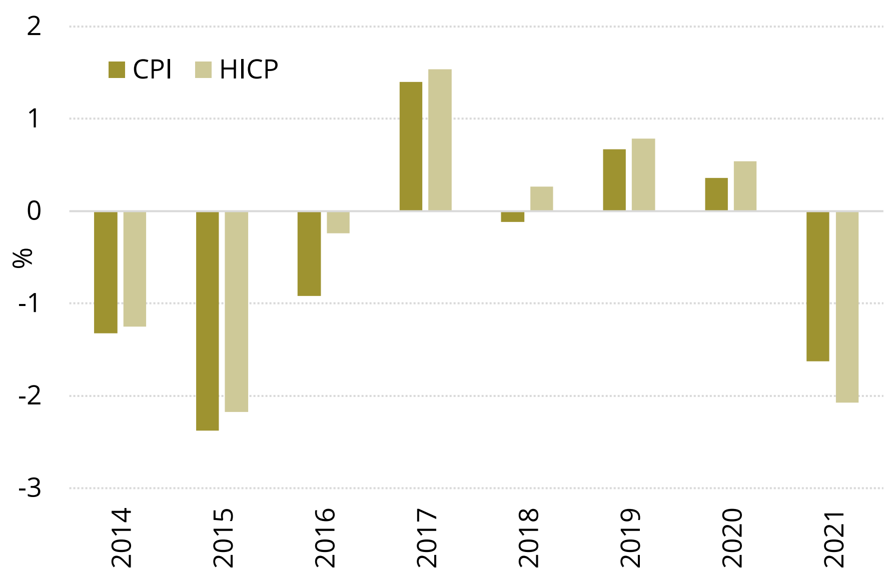
- Deflation 1.6% in the first quarter of 2021, from inflation 0.4% a year ago
- Negative effect in January-February 2021 on prices from indirect taxes and energy goods
- Rate of change in CPI with fixed taxes and without energy -0.7% in the first two months of 2021, from 1.8% a year ago.
- In 2021, CPI is expected to strengthen by 0.1-0.3%, in case of significant de-escalation of the pandemic crisis from mid-May, without a new outbreak. If the easing of the pandemic is slower and it resurges in the fall, the CPI will decline at a rate of 0.3-0.5%.

Recent developments

In the period January - March of the current year, there was a reversal of the price trend compared to a year ago, with the average rate of change of the domestic Consumer Price Index (CPI) reaching a negative value range, for the first time after two consecutive years of rise in that period. In particular, the domestic CPI recorded a decline in the first quarter of this year compared to the corresponding period of 2020 by 1.6%, from an increase of 0.4% a year earlier. The Harmonised Consumer Price Index (HCPI) also showed a decline after four years of increase in the first quarter of 2021, by 2.1%, from an increase of 0.5% in the corresponding period last year. In March 2021, the domestic CPI weakened by 1.6% compared to the same month of 2020, when it was unchanged from the previous year.

Figure 3.18

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



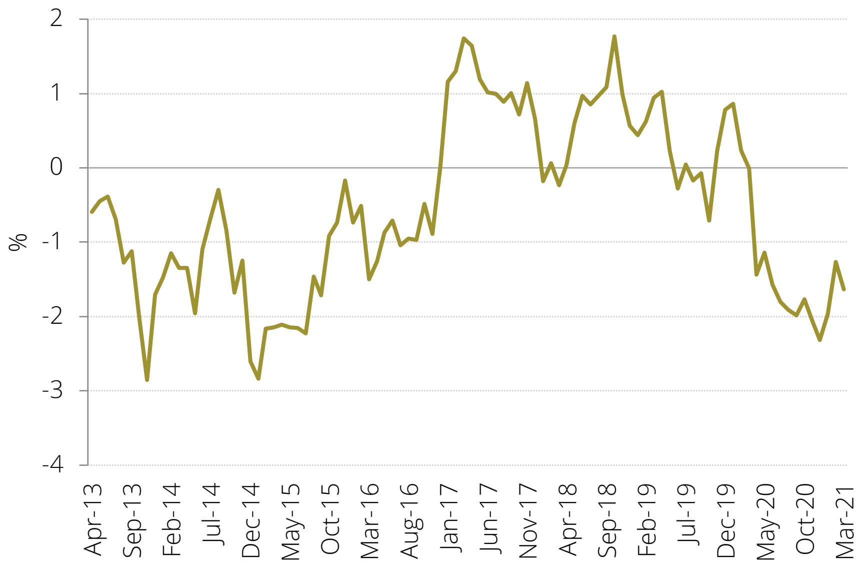
Average CPI fall by 1.6% year on year in Q1 2021, from 0.4% inflation in 2020

Source: ELSTAT, processing IOBE

Figure 3.19

CPI in Greece (annual percentage change per month)

Domestic CPI fell sharply in March 2021 (-1.6%), compared with price stability in the corresponding month of 2020



Source: ELSTAT, processing IOBE

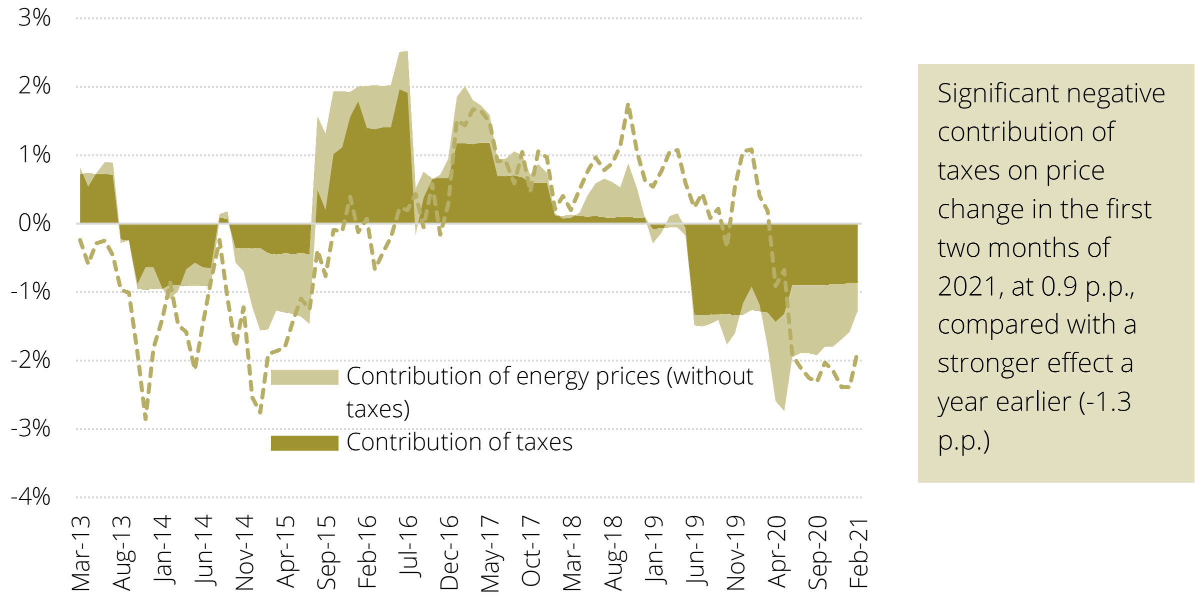
Regarding the effects of the HICP components on its trend during the period January - February, for which data are available, the change in the harmonised index (-2.1% from +0.7% in the corresponding period of 2020), is due to both energy goods - indirect taxes and domestic demand, as the change in the index with fixed taxes and without energy goods was negative, by 0.7%. Negative and stronger than that of demand was the negative impact of taxation on prices in the first two months of this year, by 0.9 percentage points, from 1.3 percentage points in the same period last year.

Regarding the developments in the prices of energy goods and their impact on the HICP, the average international oil price in January - February of this year recorded a slight decline compared to the respective period in 2020. In particular, the average price of Brent crude oil during this period was $58.5 / barrel, from $59.6 / barrel a year ago, recording a decline of 2.2%.[10] The simultaneous significant strengthening of the average exchange rate of the euro against the dollar in relation to the corresponding period of last year, by 10.2%, to 1.21 against 1.10, led to a significant decline in the price of oil in euros, with average price at €48.3 / barrel, 11.3% lower than last year. This weakening of the oil price, which is a key component of energy costs, explains the negative average effect of energy commodity prices on the rate of change of prices domestically in the two months of January - February of this year, by 0.5, against a positive effect of 0.2% in the first two months of 2020.

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

Figure 3.20

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



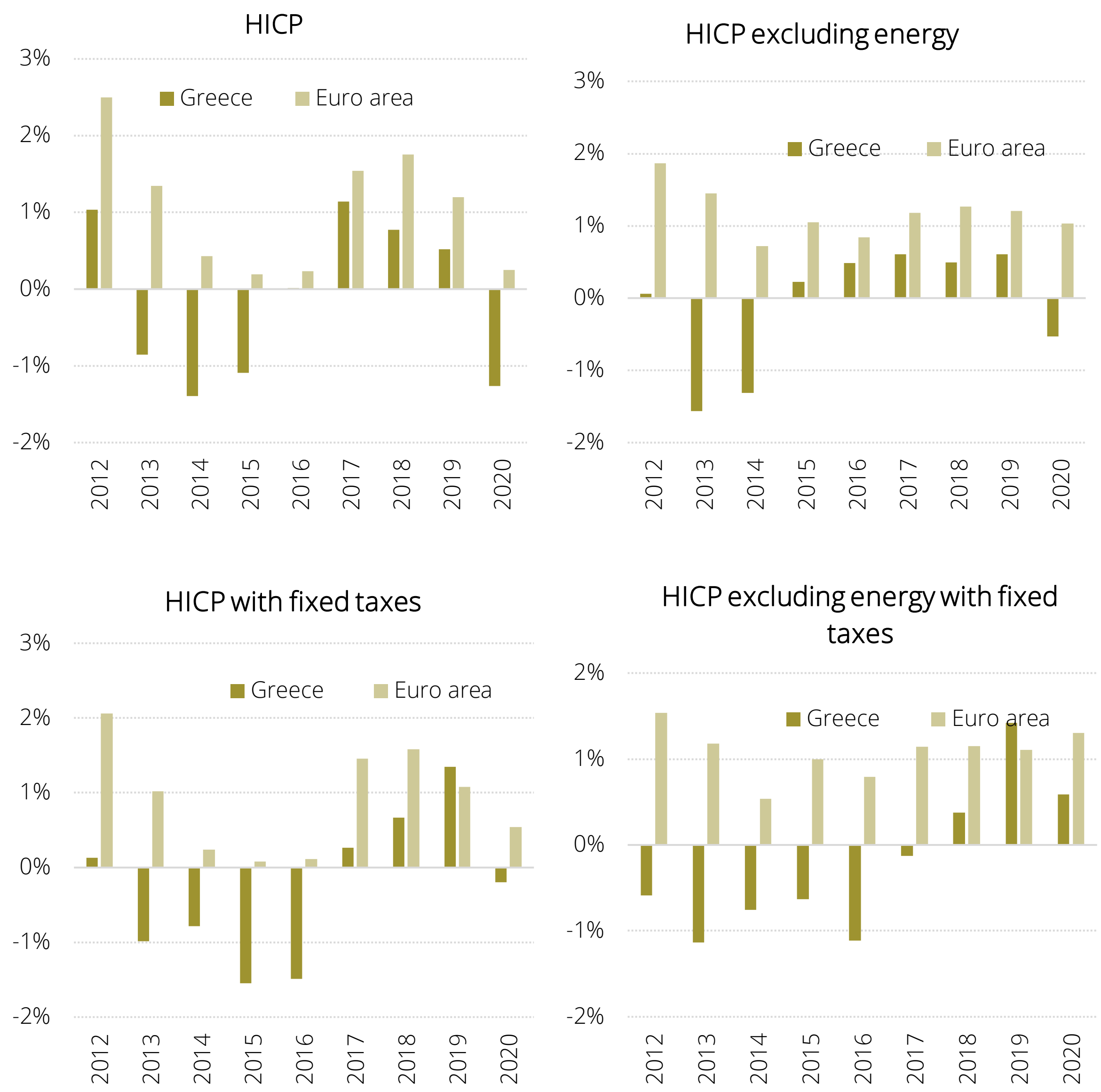
Source: Eurostat, processing IOBE

The decline in the price level in Greece based on the HICP in the first quarter of this year, in contrast to the Eurozone average, ranks the country last among the countries of this region, for which data are available in terms of the rate of change of the HICP. The average change in the HICP in the Eurozone in the first quarter was positive (+1.3%). The deflation in Slovenia (-0.6%) and Cyprus (-0.5%) moved to slightly lower levels than in Greece. Focusing on the determinants of this change in the Eurozone, for which there are data for the first two months of 2021, when the average HICP rate in the Eurozone stood at + 0.9%, domestic demand seems to have been the main factor in the rise of prices: The price index with fixed taxes and without energy goods increased by 1.4% compared to the corresponding period of 2020, when it increased by 1.3%.

Regarding the trends in the categories of products and services included in the national General Price Index, none of them showed an increase in the first quarter of 2021. The highest decrease in prices was recorded in the category Clothing-footwear by 6.8%, which is affected by the imposition of operating restrictions on retail trade, following an increase of 3.6% a year earlier, as well as in Transport, by 3.6% under Impact of lower oil prices and restrictions on passenger transport, against rising by 2.3% in the corresponding period of 2020. On the other hand, prices in Education were almost unchanged, from a slight increase, 0.5% a year ago, while the lowest decrease was recorded by Alcoholic beverages - Tobacco, by 0.2%, after a marginal increase of 0.1% the corresponding during 2020. The Food and Leisure categories showed mild negative changes, by 0.4% both, from a weakening of 0.1% and 1.2%, respectively last year. The decline in prices in Health and Housing was higher, by 1.1% and 1.7% respectively, compared to an increase of 1.5% and a decrease of 1.3% in the first quarter of 2020. Prices in Other Goods and Communications fell by 1.8% in both categories, then weakened by 0.8% and 0.5%, respectively, a year ago. Consumer goods also had a downward trend in prices, by 2.0% from a marginal decline of 0.8% in the first quarter of last year.

Figure 3.21

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



Source: Eurostat, processing IOBE

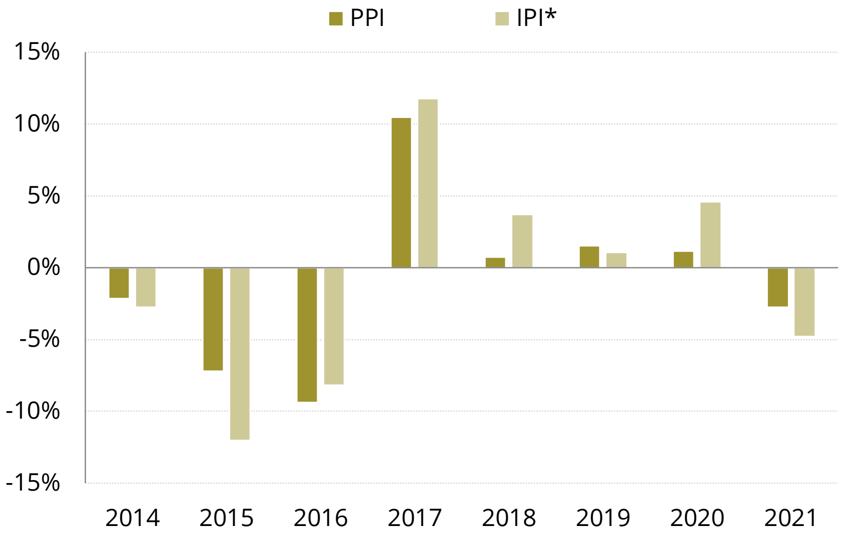
Falling prices domestically in the first two months of 2021, mainly due to the negative impact of energy goods, but also similar trends in indirect taxes and demand

As for the price trends on the production side, in the period January-February 2021 for which data are available, the Producer Price Index (PPI), for the domestic and foreign market as a whole, showed a decline of 2.7% compared to the same period a year earlier. In greater detail, the PPI without energy moved up in the first two months of 2021 by 0.9%, compared to stability in the corresponding period of 2020. Regarding the trends in the prices of industrial products, the largest increase was recorded by Coal - Lignite, with 40.6%, after a decrease of 4.7% last year, while Electrical Equipment followed with a much lower positive change (+5.9%), compared to a marginal increase of 0.8% a year ago. Rising producer prices also appeared in Basic metals, by 3.5%, compared to a decline of 1.0% in the first two months of 2020. By contrast, producer prices for Refined Petroleum Products sharply declined, under the influence of the decline in oil prices, against a slight rise in 2020 (-15.8% from +1.6%). Milder but significant was the weakening in Tobacco Products (-4.3%), after an increase a year earlier (+1.0%). Decline in producer prices was recorded in Computers (-1.4%), after a stronger weakening by 3.0% in January - February 2020. Producer prices decreased in Pharmaceuticals, after falling by 1.1% a year ago.

Regarding the evolution of the Import Price Index (IPI) in January 2021, the latest month for which data are available, it showed a significant weakening of 4.8%, compared to an increase of 5.6% a year ago. Milder than in Greece was the decline of the same index at the level of the Eurozone (-2.8%), compared to a weakening of 0.4% in the corresponding period of 2020. The strong decline in import prices ranked Greece second in terms of their decline among ten Eurozone countries for which data are available for this period, with Spain leading the decline (-5.8%). It should be noted that in all Eurozone countries for which data are available, import prices have fallen in the period under review compared to a year ago, a trend which largely reflects the reversible effect of the health crisis on oil demand and, more broadly, on international trade. The exception is Lithuania, where import prices rose by 7.9%, compared to a small decrease of 0.5% in January 2020.

Figure 3.22

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



Drop in import prices by 4.8% in January 2021, mainly due to the negative impact of prices of energy goods. Milder decline in producer prices (-2.7% in the first two months of 2021).

Source: ELSTAT, processing IOBE

Note: The data on import prices for February are not available

Among the sub-categories of imported products, the largest decrease in January 2021 was recorded in the prices of Refined Petroleum Products, by 26%, compared to an increase of 22.3% in the corresponding period of 2020. The decrease in Pharmaceuticals was clearly lower, but strong, -9.0%, from a marginal decline of 1.1% in the same period of 2020. Milder price decline was recorded in Tobacco Products, by 4.7%, and Food, by 2.8%, against a weakening of 2.4% and an increase of 1.5%, respectively, in the first month of the previous year. By contrast, price increase was recorded in January of this year in Electricity Supply, by 8.6%, and in Basic Metals, by 2.2%, following a decline of 1.5% and 3.6% respectively last year.

Medium-term outlook

Examining the trends in the key components of the domestic Consumer Price Index in the first two months of 2021, it emerged that its decline was a result of the negative impact of mainly indirect taxes, as last year, but also of domestic demand and energy goods. Prolonged adverse health developments since last November have created strong uncertainty in households, gradually reversing the positive impact of domestic demand on prices, which was the only factor holding back prices from falling last year. By contrast, last year's strong weakening of energy prices has already eased significantly. The evolution of the health crisis this year will be the most important determinant of prices, through its effects on domestic demand and energy goods.

In greater detail, regarding the expected effect of indirect taxes on the formation of CPI in 2021, the extension of their reduction for specific goods and services until 30 April 2021 (VAT on non-alcoholic beverages, show tickets, food services, etc.) will maintain their deflationary effect on prices over the same period. Subsequently, if the decline is maintained, it will continue to exert negative pressure on prices, until May, as the measure was imposed from June last year. But it will have no effect over the rest of 2021. Should the measure be lifted from May, the price trend in the product and service categories concerned will reverse from June, when at least a mild positive effect of indirect taxes on the CPI change is expected for the rest of 2021. However, the prevailing scenario seems to be the extension of the reduction of indirect taxes on specific goods and services until 2021. The reduction of direct taxation, through the suspension of the solidarity contribution and the reduction of social security contributions, is expected to have a positive effect on prices, as it will strengthen disposable income and thus consumer demand.

Regarding the expected developments in energy costs, which are mainly related to the trend in oil prices, on the supply side, OPEC+ (including Russia), in the framework of the agreement to limit oil production from April last year, continues to implement cuts by 7.7 million barrels per day until April 2021, seeking to prevent oversupply and price collapse.[11] Saudi Arabia has voluntarily stepped up production cuts of 1 million barrels a day, fearing a possible collapse in demand due to the lockdown in winter in higher-consumption countries. Russia and Kazakhstan, by contrast, increased production by 65,000 barrels a day in February and March this year.

On April 8th, OPEC+ decided to gradually reduce production cuts from May this year, including Saudi Arabia, which also agreed to limit voluntary production cuts. In particular, under the new agreement, 350,000 barrels per day are planned to be added to production in May, while in June the daily oil production will be raised by an additional 350,000. In July 2021, oil production will increase by 450,000 barrels per day. The decision to increase daily production is due to the estimation that demand will recover during the summer in both the US, China and Europe. However, note that although OPEC+ has decided to proceed to gradual increases in daily production over the coming months, it will review the conditions every month and may halt these increases if they are not in line with oil demand and general economic developments.

In terms of oil demand trends, uncertainty about the economic impact of the COVID-19 pandemic, which was the main cause of the fall in international oil prices last year, continues to weaken, at least in the first quarter of 2021. Uncertainty is mainly affected by the acceleration of vaccination

[11] Source: S&P Global Platts, https://www.spglobal.com/platts/en/market-insights/latest-news/oil/100920-opec-improves-compliance-in-sep-but-catch-up-cuts-remain-scant-platts-survey

of the population, which strengthens the prospects of overcoming the health crisis and phasing out of public health protection measures (suspension of operations, restrictions on domestic and international passenger travel, on tourism, etc.), reheating demand. However, strong pandemic challenges remain, such as tackling the virus mutations. In any case, the escalating, strong recovery in China at least in the second half of last year, the country that is the second largest oil consumer in the world, is estimated to have been a significant driver of oil demand. Under these effects, the international price of Brent crude oil in March 2021 reached \$61.0 / barrel from \$62.3 / barrel in February of the same year. It is noted that, in the first quarter of 2021, the international oil price was at \$61 / barrel from \$50.4 / barrel a year ago, recording an increase of 21.1%.

Prospects for global demand recovery in 2021 also emerge from the recent macroeconomic forecasts. According to the latest macroeconomic forecasts of the IMF[12] for 2021, global GDP is expected to rise by 6%, which will more than offset the estimated decline in 2020 (-3.3%). This forecast is an improved revision of the change in global GDP,[13] reflecting the effects of fiscal and monetary support measures on economies, the lifting of restrictive measures due to the acceleration of the vaccination process, notably in the second half of 2021 and, finally, the continued adjustment of economic activity to sluggish mobility. The further escalation of China's growth, as well as the prospects for a strong recovery in India, as well as the announcements of boosting the US economy with economic support packages, seem to create a positive climate in the world economy. In the remaining economies, a positive rate of GDP change is expected, but at lower levels, as there is strong variation in the extent and intensity of the effects of the pandemic, the evolution of vaccinations, but also the structural characteristics and problems of each economy. Taking this into account, world oil consumption is expected to increase by an average of 5.5 million barrels per day in 2021, reaching 97.7 million barrels.[14]

Under these circumstances, taking into account the latest forecasts of international organizations, it is estimated that the average price of oil in 2021 will be \$58 / barrel from \$42 / barrel in 2020, strengthening by 39%. The average euro / dollar exchange rate this year is expected to reach 1.18, 3.5% higher than in 2020.[15] However, a key role in the current year for the economic developments of the two economies will be the possible implementation of new support measures, both in the US and in the EU, as well as the development of vaccinations. As a result, the average international oil price is expected to be €49/barrel, recording a 33% increase compared to 2020. A similar increase in oil prices in the past had occurred in 2011, with a positive effect on the change in CPI of the order of 1.2 p.p.

The evolution of the current domestic health crisis, in particular its duration, will be crucial for the trend of domestic demand and its impact on prices. If the majority of public health protection measures are maintained for most of the first half of the year, with clearly more businesses in operation than in previous lockdowns, and with tourism traffic gradually increasing from mid-May, household consumption is expected to increase by 2.5% to 3.5% in 2021 compared to the previous year (baseline macroeconomic scenario of this report). The increase in consumption will come from the resurgence of activity and employment in some of the sectors that have been hit hardest by the pandemic crisis, such as Retail Trade, Food Services and Tourism, with revenues in the latter

[12] IMF, World Economic Outlook, April 2021
[13] In October 2020 it was estimated that the rate of change in world GDP for 2021 would be 5.2%
[14] Short-Term Energy Outlook, US Energy Integration, April 2021
[15] Macroeconomic projections, ECB, March 2021

sector projected to rise to 45-50% of their level in 2019, from 24% in 2020. Employment in Manufacturing will also increase, mainly due to the improvement of the international environment and in the Eurozone, which is the main export destination of Greek products. Under this scenario of macroeconomic developments (basic), taking into account the expected trends in demand and other key components of the domestic Consumer Price Index, as well as the deflation at the beginning of 2021 (-1.6%), CPI is projected to strengthen overall in the current year by 0.1% to 0.3% compared to 2020. The marginal increase will come mainly from energy prices and the decline in the negative impact of taxation.

In the event of a slower de-escalation of the current pandemic outbreak, in Greece and internationally, until late in the second quarter, with most public health protection measures maintained for a longer period, and a new outbreak of the pandemic in the autumn, probably milder than the previous ones (unfavourable macroeconomic scenario), private consumption will increase from 1.0% to 1.5% in 2021 compared to 2020. As a result, the strengthening of the activity in the sectors mentioned in the basic scenario will be milder, with the start of activity in Tourism from the beginning of mid-June. Under this scenario, the Consumer Price Index is projected to fall in the range of 0.3 -0.5%.

The results of the IOBE's monthly business surveys, leading indicators for the price development on the supply side, also provide significant information on price developments over the coming period.

The trends in the price change expectations are mainly positive in the first quarter of 2021 compared to the fourth quarter of the previous year, with the relative balance increasing significantly in Industry and Services, slightly in Construction, while declining only in Retail Trade. Compared to the same period of last year, the expectations for price developments recorded a strongly negative change in Services and Retail Trade, while they moved slightly higher in Construction and more strongly in Industry. In more detail:

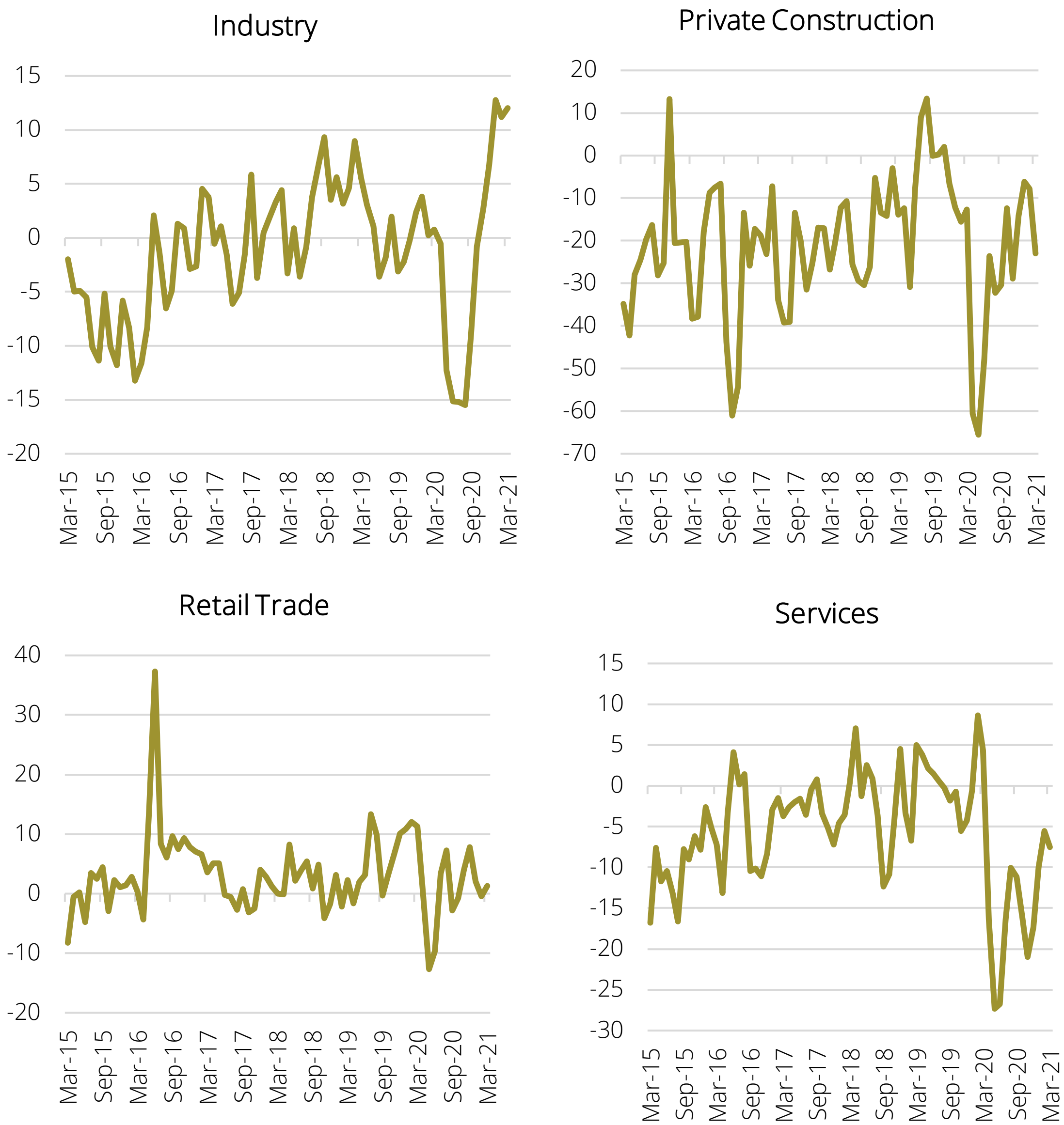
In Industry, price forecasts for the first quarter of the year were slightly higher than in the previous quarter. In particular, the index strengthened by 9 points in the quarter under review and stood at +12 points, while it moved 10 points higher than the corresponding quarter of 2020. Amid the companies in the sector, 6% were expecting a fall in prices in the short term, while the percentage of those who predicted their rise was around 18% (from 9%), with the remaining 76% were expecting price stability.

In Retail Trade, the price balance of +4 points of the companies in the sector in the previous quarter fell by 3 points, while at the same time it was 10 points lower compared to the corresponding period of 2020. Of the companies in the sector, 5% (from 4%) were expecting a fall in prices in the short term, while the percentage of those predicting their rise fell marginally to 6% (from 7%), with the remaining 90% (from 89%) expecting price stability. In the sub-sectors of Retail Trade, the price expectations in the first quarter of 2021 compared to the immediately preceding quarter declined in all the examined sub-sectors except for Department Stores and Textiles-Clothing-Footwear.

The average expectations indicators of the change in prices in Services in the examined quarter strengthened slightly compared to the previous quarter and stood at -8 (from -18) points, while moving at a much lower level compared to the corresponding average performance of the first quarter of 2020 (-12 points). In the current quarter, 11% (from 19%) of the companies in the sector were expecting price reductions and only 3% increase. The indicator strengthened significantly in most of the examined branches of Services, with the exception of IT Services, where it moved up slightly.

Figure 3.23

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



Source: IOBE

The trends in price change expectations are mainly positive in the first quarter of 2021 compared to the fourth quarter of the previous year, with the relative balance improving significantly in Industry and Services, and mildly in Construction, while falling only in Retail Trade.

Finally, in Private Construction, the negative balance of -18 points of the previous quarter eased slightly, to -12 points, having at the same time changed marginally up compared to the corresponding level of 2020 (-13 points). In addition, 13% (from 18%) of the companies in the sector were anticipating a decline in prices, while the percentage of those expecting an increase remained unchanged, with 87% (from 82%) predicting price stability.

3.6 Balance of Payments

- Vertical rise in the current account deficit overall in 2020, to €11.1 billion from €2.7 billion, with almost double the percentage drop in exports-receipts compared to import-payments
- The significant deterioration in the surplus of the Services Account was partially offset by the reduction in the deficit of the Goods Account

Current Account

January 2021

The Current Account was in deficit by €435.7 million, compared to a deficit of €1.3 billion in the corresponding month of 2020, with an improvement in the goods, primary and secondary income accounts; however, the surplus in the services account was limited.

January - December 2020

In 2020, the Current Account (CA) recorded a deficit of €11.1 billion, compared to a deficit of €2.7 billion in 2019. The deficit widened by €8.4 billion, mainly due to the sharp drop in the surplus of Services, due to the travel restrictions. The decrease in this surplus was partially offset by the narrowing of the deficit in the Goods and Primary Income accounts, with the Secondary Income Account recording a slight deterioration.

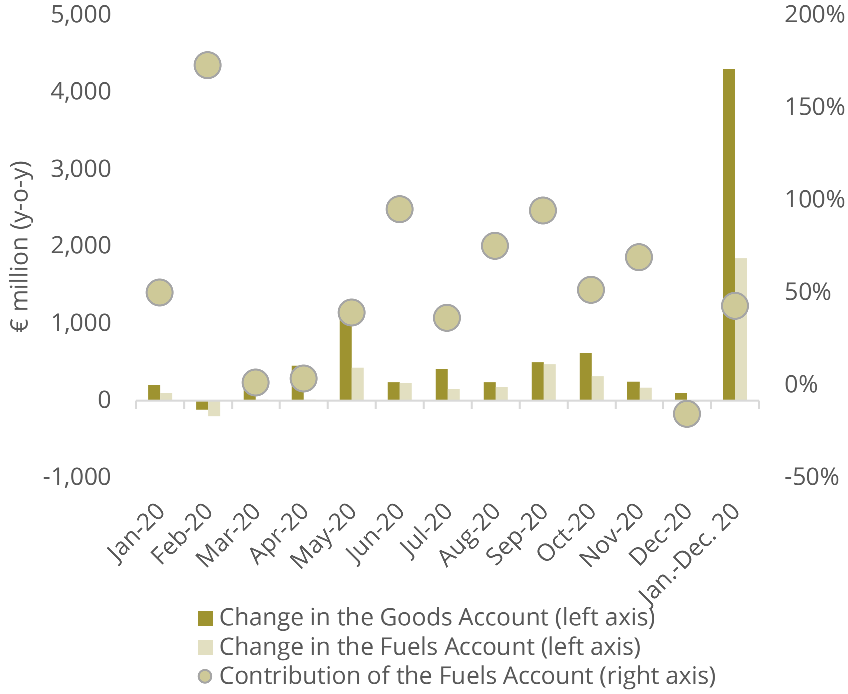
In greater detail, the goods account deficit fell to €18.5 billion, lower by €4.3 billion. compared to 2019, due to the more than double drop in imports compared to exports. Exports amounted to €28.9 billion, down by €3.5 billion, mainly due to lower oil exports by €3.0 billion, while a decline was recorded in other goods, by €614.4 million. The imports of goods fell to €47.4 billion (-€7.8 billion)[16], with fuel imports falling by €4.8 billion, and those of other goods by €2.8 billion. The deficit in the Goods Account excluding fuel and ships amounted to €15.3 billion, lower by €2.2 billion. In a text box, we present in detail the trends in structural indicators of trade flows (Box 3.3).

In particular in fuels, the significant fall in both quantities and prices in 2020 has shrunk the value of exports and imports. Overall last year, international oil prices fell by an average of 30.9%, with a sharp fall in April (-73.9%) and May (-53.1%). Exports and imports of fuel were significantly down due to lower prices and reduced demand, with a greater intensity of the decline in imports, which resulted in the negative balance of the Fuel account shrinking in 2020, contributing significantly to the improvement of the Goods Account. Fuel exports fell by 32.8% last year, compared with a 34.1% fall in imports. The contraction of the Fuel Account deficit (-€1.8 billion) caused 42.8% of the contraction of the overall deficit in the Goods Account (-€4.3 billion). This contribution was most pronounced in June, September and August, when almost the entire correction in the Goods Account came from fuel, while in January 2021 the contribution of fuels to the account correction reached 38%, despite a relatively mild fall in prices.

[16] The amounts in parentheses represent the absolute change from the corresponding period of the previous year, unless otherwise stated.

Figure 3.24

Change in the Goods and Fuels accounts, 2020-2021

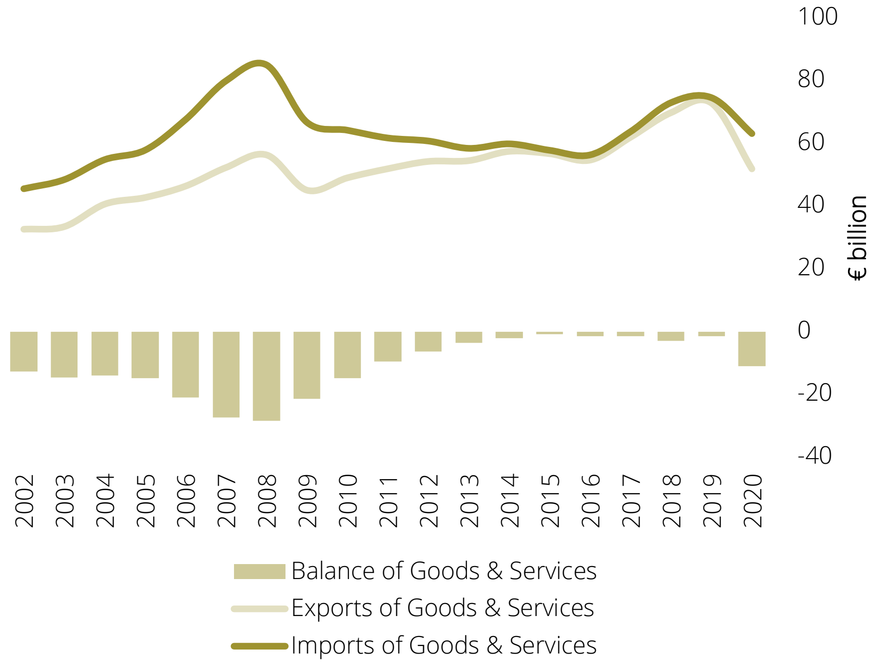


Significant contribution of the Fuels account to the decline of the Goods account deficit in 2020, at almost 43%.

Source: Bank of Greece, Data processing IOBE

Figure 3.25

Imports-Exports of Goods and Services (January - December), 2002-2020



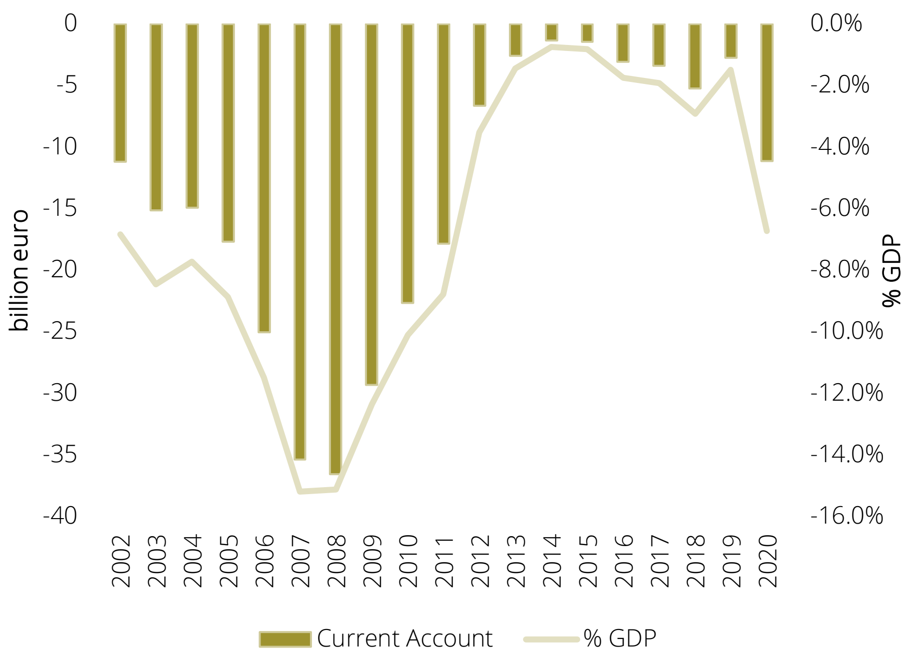
Increase in the deficit of the goods and services account in 2020, to €11.2 billion, compared with €1.7 billion in 2019

Source: Bank of Greece, Data processing IOBE

Figure 3.26

Current Account (January - December), 2002-2020

A strong deterioration in the current account deficit to €11.1 billion, compared with €2.7 billion in 2019. At 6.7% of GDP the CA deficit in 2020, from 1.5% in 2019.



Source: Bank of Greece, Data processing IOBE

The surplus of the Services account amounted to €7.3 billion in 2020, compared to €21.1 billion in 2019, due to the widespread decline in receipts. In particular, receipts from services totalled €22.7 billion, compared to €40.2 billion the year before, while receipts from travel services amounted to €4.3 billion, lower by 76.2% from 2019 , due to the effects of the pandemic. Revenues from transport services decreased by 20.2%, to €13.8 billion, while revenues from other services decreased slightly, by 2.2%, to €4.6 billion. Total service payments amounted to €15.4 billion, lower by €3.6 billion compared to 2019. Payments for travel services fell 71.1% to €792.9 million and payments for transport services fell 13.2% to €9.9 billion, while payments for other services declined by 3.2%, to €4.8 billion.

In the Primary Income account, the deficit shrank in 2020 by €1.1 billion compared to 2019, and totalled €455.6 million. Receipts increased by 4.1% to €6.5 billion, while a decrease of 11.3% was recorded in payments, to reach €6.9 billion. In greater detail, receipts from labour decreased by 18.4%, to €201.4 million, from investments remained close to €3.0 billion, while by contrast, from other primary income (subsidies and taxes on production) they expanded by 9.3%, to €3.2 billion. Payments from labour income decreased to €1.3 billion (-5.3%), from investments decreased by 13.8% to €5.1 billion, while other primary incomes increased by 4.4% and reached €424.7 million.

The surplus of the Secondary Income account fell to €561.2 million, from €583.5 million in 2019, with weaker increase in receipts compared to payments. In particular, receipts increased to €4.1 billion while payments stood at €3.5 billion.

Capital Account

The surplus of the Capital Account[17] strengthened to €2.7 billion, compared to €679.8 million in 2019, due to an increase in transfers from the EU to general government by €1.9 billion, mainly because of transfers to address the negative effects on the economy from the pandemic.

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 in 2020, of €8.4 billion, against €2.0 billion in 2019.

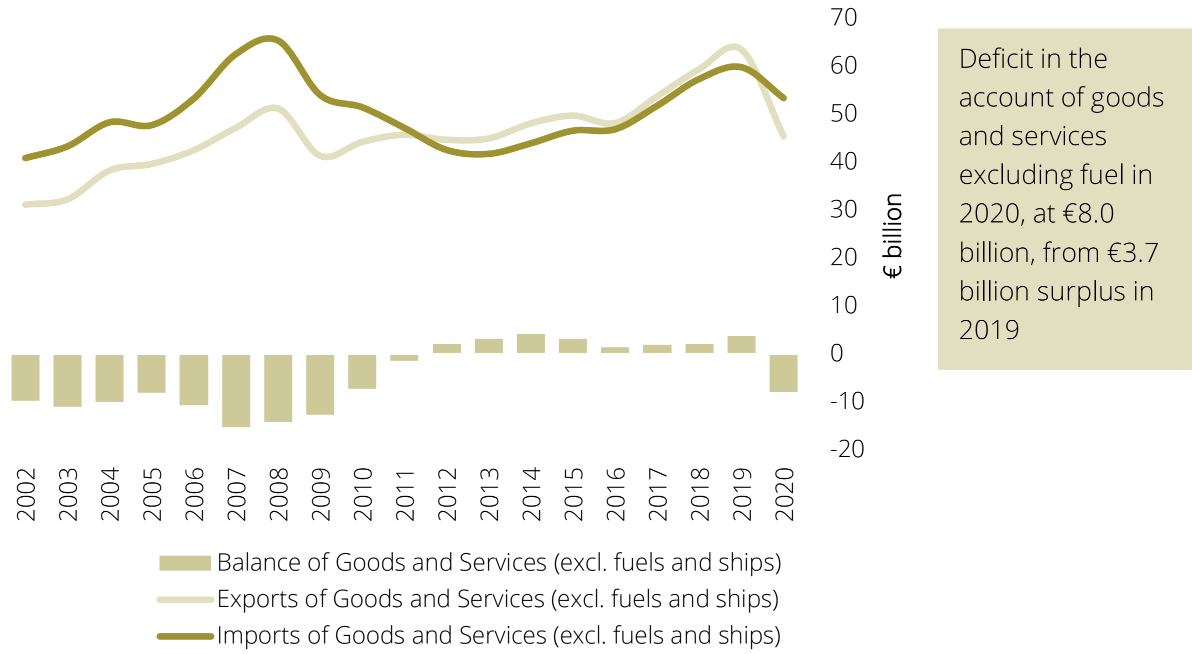
Financial Account

The Financial Account was in a deficit last year 2020, of €7.9 billion, against a deficit of €2.2 billion in 2019.

In the constituent accounts, the net receivables of residents from direct investment abroad increased by €703.6 million, while net liabilities to non-residents (investments in Greece by non-residents) increased significantly, by €3.2 billion.

Figure 3.27

Imports-Exports of Goods excluding fuel and ships (January - December), 2002-2020



Source: Bank of Greece, Data processing IOBE

In the portfolio investment category, the claims of residents vis-à-vis abroad increased considerably, by €35.4 billion, as according to the BoG, the holdings of residents in foreign bonds

[17] The capital balance reflects capital transfers, i.e. unilateral receipts and payments between residents and non-residents linked to fixed capital investments. Capital transfers mainly include part of the transfers (receivables) from the Community budget of the European Union to the General Government (receipts from the Structural Funds – other than the European Social Fund – and from the Cohesion Fund under the CSPs).

and treasury bills increased (€33.7 billion). The liabilities to non-residents decreased by €12.9 billion in 2020, mainly due to the reduction of holdings of non-residents in Greek government bonds and interest-bearing bills.

In the category of other investments, the claims of residents from non-residents increased by €2.4 billion. The liabilities increased by €57.6 billion, reflecting the increase in deposits and repos of non-residents in Greece by €40.1 billion (TARGET account included). The large changes in the categories of portfolio and other investments are largely due to securitisations of loans of systemic credit institutions.

Finally, the country's foreign exchange reserves stood at the end of January 2021 at €9.2 billion, compared to €7.6 billion in January 2020.

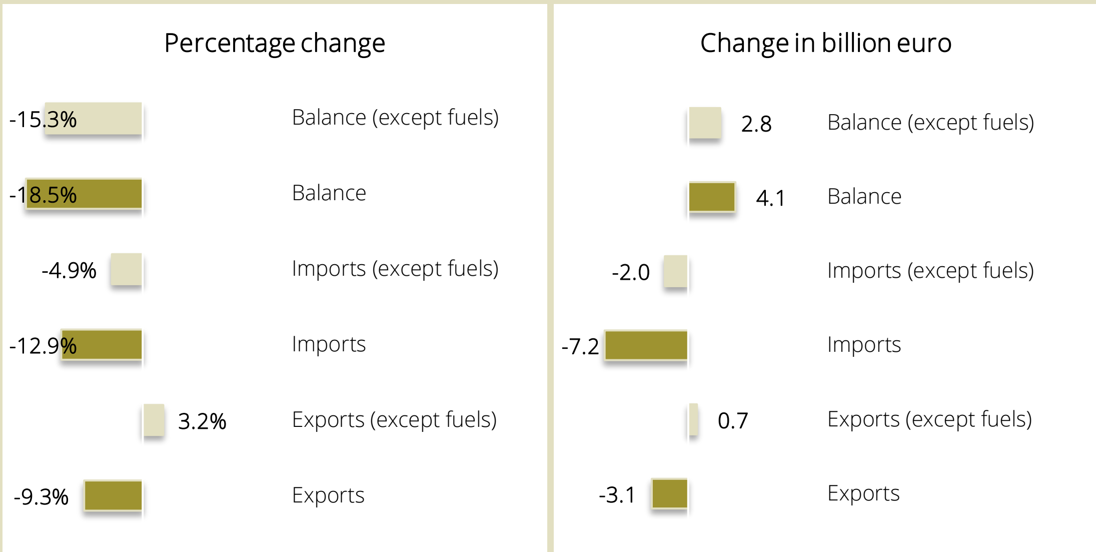
Box 3.3

Trends in Greece's international goods trade in 2020

The COVID-19 pandemic affected almost all economies in 2020, changing trade flows on a global scale. The contraction in economic activity in each country reduced its imports and thus the exports of those who produced them. World trade volume fell by 5.3% in 2020 compared to 2019, with a slightly sharper decline in imports (-5.5%) compared to exports (-5.2%, Source: World Trade Monitor, April 2021 , CPB Netherlands Bureau for Economic Analysis). In Greece, the exports of goods decreased by 9.3% in 2020 and imports by 12.9%, with an absolute change of €3.1 billion and €7.2 billion respectively. As a result, the trade deficit shrank by 18.5%, improved by €4.1 billion.

Figure 3.28

Change in exports-imports of goods 2019/2020



Source: Eurostat

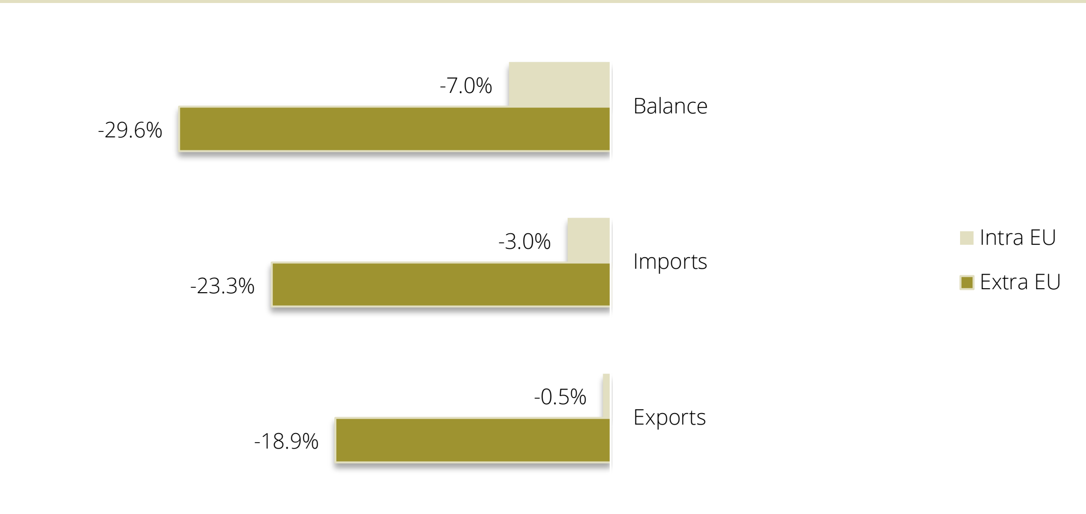
Trade flows include fuels, the value of which is significantly affected by international fuel prices. In 2020, due to the sharp decline in fuel demand due to transport constraints, international prices fell by 30.9%. This decrease affected fuel imports (-36%) and exports (-37%). As a result, the share of fuel imports in total imports stood at 34.9% in 2020, while fuel exports accounted for 45.3% of total exports respectively. Due to these fuel shares, changes in total imports and exports are 'altered' by factors affecting their value, such as their prices. Excluding fuels, imports of other goods decreased by 4.9%, compared to 12.9% in total, while exports of other goods increased by 3.2%, compared to a decrease in total by 9.3%. This increase in other goods led to a record of exports in 2020.

Trends in the geographical distribution of trade flows

Exports and imports of the Greek economy changed differently in 2020 between intra-Community and extra-Community trade, i.e. with EU countries and non-EU countries. Greece's exports fell marginally to the EU countries (-0.5%), while in contrast, there was a significant drop in non-EU countries by 18.9% (Figure 3.25). Respectively in imports, Greece's intra-Community trade decreased slightly, by 3.0%, compared to a decline of 23.3% with non-EU countries. Trade with non-EU countries largely concerns the import and export of fuels to and from oil-producing countries, with the result that the reduction in fuel flows has a significant effect on total imports and exports with these countries. However, even without the impact of fuel, imports from outside the EU were more affected than imports from EU countries, indicating that in the midst of a pandemic there was a shift to imports from EU countries. Non-fuel exports to EU countries increased by 5.4% in 2020, while to the non-EU countries they decreased marginally, thus fuel had a significant share in this.

Figure 3.29

Change in exports-imports of goods with EU and non-EU countries, 2019/2020



Source: Eurostat

At country level, the largest share in terms of value of imports for 2019 was taken up by Germany, Italy and Iraq with 11.1%, 8.7% and 8.2% respectively, while in exports Italy, Germany and Cyprus had the largest shares, with 10.9%, 6.8% and 6.1% respectively. The pandemic significantly affected imports and exports by country (Figure 3.27). Imports from Ireland doubled in 2020 compared to 2019, mainly due to higher imports from the Pharmaceuticals sector, to meet the needs of health consumables, medicines, etc. This is followed by an increase in imports, with much less intensity, from the Netherlands and Poland.

From the Netherlands there was a strong increase in imports from the refining of fuels and chemicals, while there was a large decrease in food. From Poland there was an increase in computer, electronic and optical products.

Figure 3.30

Change of exports/imports of goods 2019/2020 in the 20 major destination/origin countries (based on 2019 value)

Source: Eurostat

Imports fell in the remaining countries with a high share in 2019, with the strongest fall in South Korea, Iraq and Saudi Arabia. The decrease in the latter two are related to fuel, while in South Korea - with the manufacture of other transport equipment. In countries with a decrease in imports last year and a high share as a whole, from Germany a decrease was recorded mainly in imports of machinery and equipment, as well as motor vehicles. From Italy, imports decreased from the oil refining industry and vehicles.

In the export sector, amid a pandemic last year, among the countries with a high share, there was an increase mainly towards France (by 48.6%), Poland (by 14.4%), but also Romania, Germany and Spain. The large increase in exports to France is mainly due to the pharmaceutical sector and, to a lesser extent, the oil refining sector. Exports to Germany increased mainly in the food sector, as well as in agricultural products.

The decrease in exports to Cyprus came from the refining sector (-€78 million), and clothing (-€20 million). Amid the countries with the most exports in 2019 and decline last year, fuel exports to Italy experienced the largest absolute decline, of the same extent as in Germany, followed by clothing and base metals.

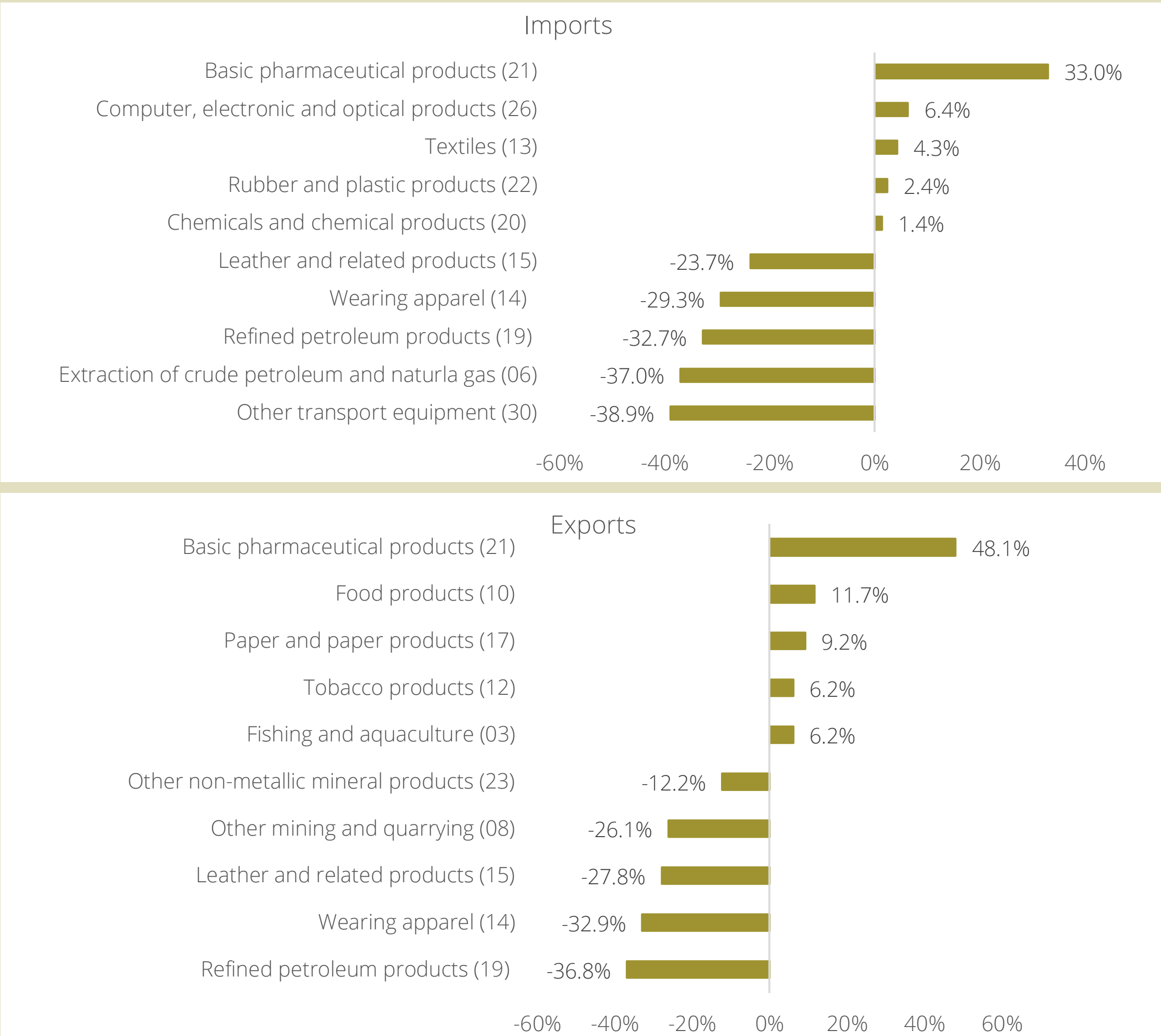
By contrast, exports fell mainly to Saudi Arabia, Egypt and Lebanon, mainly due to declining refined petroleum exports.

Sectoral analysis of trade flows

The pharmaceuticals sector showed the largest percentage increase in imports in 2020, by 33% or €1.2 billion, followed by the computer industry with 6.4% (Figure 3.28). Both sectors are linked to the effects of the pandemic, as demand for pharmaceuticals has risen sharply and computers have risen due to rising teleworking and distance learning.

Figure 3.31

Change in exports-imports of goods 2019/2020 by branch of activity (2-digit NACE Rev.2)



Source: Eurostat

By contrast, imports mainly declined for other machinery and equipment, by 38.9%, while oil extraction and refined petroleum both showed a decrease of more than 33%. Clothing and leather also recorded a strong decline in imports, due to limited domestic demand and the closure of retail stores for long periods in 2020.

In exports, the pharmaceutical sector also led the way, with an increase of 48.1%, followed by the food sector, with 11.7%. By contrast, refined petroleum products experienced a decrease of 36.8%, followed by clothing and leather with a decrease of 32.9% and 27.8% respectively.

Table 3.11 Balance of payments (€ million).

		January – December			January		
		2018	**2019**	**2020**	**2019**	**2020**	**2021**
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	**-5,232.2**	**-2,725.5**	**-11,144.2**	**-1,196.3**	**-1,289.5**	**-435.7**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-3,184.7**	**-1,717.4**	**-11,249.7**	**-1,738.3**	**-1,596.3**	**-1,295.9**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-22,489.1**	**-22,833.3**	**-18,528.1**	**-2,200.3**	**-1,997.3**	**-1,573.0**
	Oil balance	-5,180.7	-5,040.5	-3,196.0	-644.6	-543.2	-382.0
	Trade balance excluding oil	-17,308.4	-17,792.8	-15,332.1	-1,555.7	-1,454.1	-1,191.0
	Ships balance	-56.8	-345.1	-64.9	-85.2	-19.5	-9.1
	Trade balance excluding ships	-22,432.3	-22,488.2	-18,463.2	-2,115.1	-1,977.8	-1,563.9
	Trade balance excluding oil and ships	-17,251.6	-17,447.7	-15,267.2	-1,470.5	-1,434.6	-1,181.9
I.A.1	**Exports of Goods**	**32,372.8**	**32,433.6**	**28,904.4**	**2,403.2**	**2,718.3**	**2,353.6**
	Oil	10,016.9	9,078.8	6,102.5	659.9	744.0	484.4
	Ships (sales)	130.9	91.5	153.1	1.7	3.5	2.4
	Goods excluding oil and ships	22,225.0	23,263.4	22,648.9	1,741.7	1,970.8	1,866.8
I.A.2	**Imports of Goods**	**54,861.9**	**55,266.9**	**47,432.5**	**4,603.5**	**4,715.6**	**3,926.6**
	Oil	15,197.5	14,119.3	9,298.4	1,304.5	1,287.2	866.4
	Ships (buying)	187.7	436.6	217.9	86.8	23.0	11.5
	Goods excluding oil and ships	39,476.7	40,711.1	37,916.1	3,212.2	3,405.4	3,048.7
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**19,304.4**	**21,115.9**	**7,278.3**	**462.0**	**401.0**	**277.1**
I.B.1	**Receipts**	**37,159.3**	**40,162.6**	**22,711.3**	**2,036.3**	**2,029.0**	**1,473.2**
	Travel	16,085.8	18,178.8	4,318.8	230.4	280.6	25.4
	Transportation	16,629.9	17,303.1	13,814.2	1,393.2	1,394.0	1,041.5
	Other services	4,443.6	4,680.7	4,578.3	412.7	354.4	406.2
I.B.2	**Payments**	**17,854.9**	**19,046.8**	**15,433.0**	**1,574.3**	**1,628.0**	**1,196.1**
	Travel	2,191.0	2,743.8	792.9	167.3	182.9	23.1
	Transportation	11,044.3	11,377.4	9,873.0	924.7	991.7	756.6
	Other services	4,619.6	4,925.5	4,767.1	482.3	453.4	416.4
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**-1,726.4**	**-1,591.6**	**-455.6**	**436.4**	**391.4**	**730.5**
I.C.1	**Receipts**	**6,058.5**	**6,202.9**	**6,459.1**	**825.3**	**826.8**	**1,054.7**
	From work (wages, compensation)	223.0	246.9	201.4	21.5	18.1	18.3
	From investments (interest, dividends, profit)	2,731.4	3,046.7	3,077.0	257.4	267.9	339.8
	Other primary income	3,104.1	2,909.3	3,180.7	546.4	540.8	696.6
I.C.2	**Payments**	**7,784.9**	**7,794.5**	**6,914.7**	**388.9**	**435.5**	**324.2**
	From work (wages, compensation)	1,363.7	1,411.6	1,336.4	117.8	121.1	99.0
	From investments (interest, dividends, profit)	6,019.1	5,975.9	5,153.6	247.4	268.5	185.9
	Other primary income	402.1	407.0	424.7	23.7	45.9	39.2
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**-321.1**	**583.5**	**561.2**	**105.7**	**-84.6**	**129.7**
I.D.1	**Receipts**	**2,177.6**	**3,827.9**	**4,064.5**	**362.3**	**314.3**	**455.4**
	General government	1,034.7	2,361.2	2,452.7	182.1	180.3	232.2
	Other sectors	1,142.9	1,466.8	1,611.9	180.2	134.1	223.2
I.D.2	**Payments**	**2,498.8**	**3,244.5**	**3,503.4**	**256.6**	**398.9**	**325.8**
	General government	1,702.8	1,830.3	1,914.9	134.3	259.9	222.1
	Other sectors	796.0	1,414.2	1,588.5	122.3	139.0	103.7
II	**CAPITAL ACCOUNT (II.1-II.2)**	**353.2**	**679.8**	**2,733.6**	**260.0**	**33.4**	**482.9**
II.1	**Receipts**	**1,007.4**	**1,178.7**	**3,124.5**	**311.8**	**65.4**	**521.2**
	General government	627.5	1,023.0	2,932.0	306.9	60.0	514.9
	Other sectors	379.8	155.8	192.5	4.9	5.4	6.4
II.2	**Payments**	**654.2**	**498.9**	**390.9**	**51.7**	**32.0**	**38.4**
	General government	4.1	4.9	4.4	0.2	0.4	0.3
	Other sectors	650.1	494.0	386.5	51.5	31.5	38.1
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-4,879.1***	***-2,045.6***	***-8,410.6***	***-936.3***	***-1,256.1***	***47.1***
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**-3,923.7**	**-2,247.0**	**-7,927.4**	**-1,205.0**	**-1,732.6**	**-325.9**
III.A	**DIRECT INVESTMENT***	**-2,960.7**	**-3,910.5**	**-2,512.0**	**-276.5**	**-366.4**	**-301.7**
	Assets	437.8	562.4	703.6	33.9	-34.4	23.9
	Liabilities	3,398.5	4,472.9	3,215.7	310.4	332.0	325.6
III.B	**PORTFOLIO INVESTMENT***	**73.8**	**24,231.5**	**48,339.5**	**-1,558.7**	**912.6**	**3,469.9**
	Assets	1,377.7	25,927.1	35,443.0	-1,024.0	-5.8	2,538.9
	Liabilities	1,303.9	1,695.6	-12,896.5	534.7	-918.4	-931.0
III.C	**OTHER INVESTMENT***	**-966.8**	**-22,652.0**	**-55,291.1**	**782.1**	**-1,995.9**	**-3,414.7**
	Assets	-3,050.8	-3,605.6	2,362.1	-4,902.8	1,692.2	201.6
	Liabilities	-2,084.0	19,046.4	57,653.2	-5,684.9	3,688.1	3,616.3
	(Loans of general government)	19,555.0	-4,444.8	1,342.6	-455.1	-12.0	-315.1
III.D	**CHANGE IN RESERVE ASSETS****	**-70.0**	**84.0**	**1,536.2**	**-152.0**	**-283.0**	**-79.5**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**955.4**	**-201.3**	**483.2**	**-268.8**	**-476.5**	**-373.0**
	RESERVE ASSETS (STOCK)***				**6,586**	**7,596**	**9,672**

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" in 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 . EVALUATING THE IMPACT OF LABOUR MARKET REFORMS IN GREECE DURING 2010-2018[18]

- During the economic adjustment programmes, radical interventions in the labour market were implemented in Greece.
- Compared to economic objectives, empirical analysis shows that the reforms:
    - have largely fulfilled the objective of enhancing cost competitiveness
    - increased flexibility in labour regulations, through which they partially supported the goal of adjusting the labour market through prices (reduction of wages) rather than through the level of employment (redundancies)
    - have left, for the most part, unresolved other long-term weaknesses such as the low labour market participation rate and its high tax burden
- There are indications that further reduction of the tax burden may enhance labour market participation by strengthening the medium-term growth prospects
- The priority for policy measures in the following directions is highlighted:
    - boosting labour productivity
    - reducing unemployment and inequality

[18] This chapter is based on a recent study by IOBE researchers conducted with the kind support of the Hellenic Observatory at the London School of Economics. The full text in English as well as a presentation of the study in Greek are available on the IOBE site: http://iobe.gr/research_dtl.asp?RID=219

4.1 Introduction

Under three successive programmes to support the Greek economy, reforms were legislated and implemented with the aim of restoring fiscal sustainability and external competitiveness. Some of the most radical structural reforms took place in the labour market. The study assessed the economic impact of these reforms in relation to their initial planning and objectives, both in terms of microeconomic incentives for employment and in terms of changes in key macroeconomic variables related to the labour market.

The analysis is based on two complementary approaches. The first focuses on the households level and analyses the impact of reforms on people's incentives to enter the formal labour market. The second assesses, for the first time, counterfactual paths that selected macroeconomic and social indicators, such as employment and unemployment, would have followed in the absence of labour market reforms. The main conclusion of the study is that the reforms have succeeded to a significant extent in strengthening the competitiveness of the labour market, by reducing costs and raising flexibility, but without solving some key structural problems and chronic weaknesses of the labour market.

4.2 Characteristics of the Greek labour market

The Greek labour market has traditionally been marked by structural weaknesses, which were systematically reflected before the Greek crisis in a number of indicators. The higher than European average unemployment rate in times of economic growth stands out, indicating high structural unemployment, while during the economic crisis, Greece experienced the highest unemployment rate in Europe for many years, at a distance from the second country in the relative ranking. Among the structural challenges in the labour market, several are linked to the education system, such as the mismatch of skills and positions as well as inadequate vocational education and training.

During the country's first decade of membership in the monetary union, unit labour costs (ULC) increased significantly, by 47%, greater than in most other euro area countries (Figure 4.1). This implies that productivity growth was systematically slower than wage growth before the domestic debt crisis, and this divergence was among the largest among the Euro area members. A significant adjustment of the ULC took place in 2010-2018.

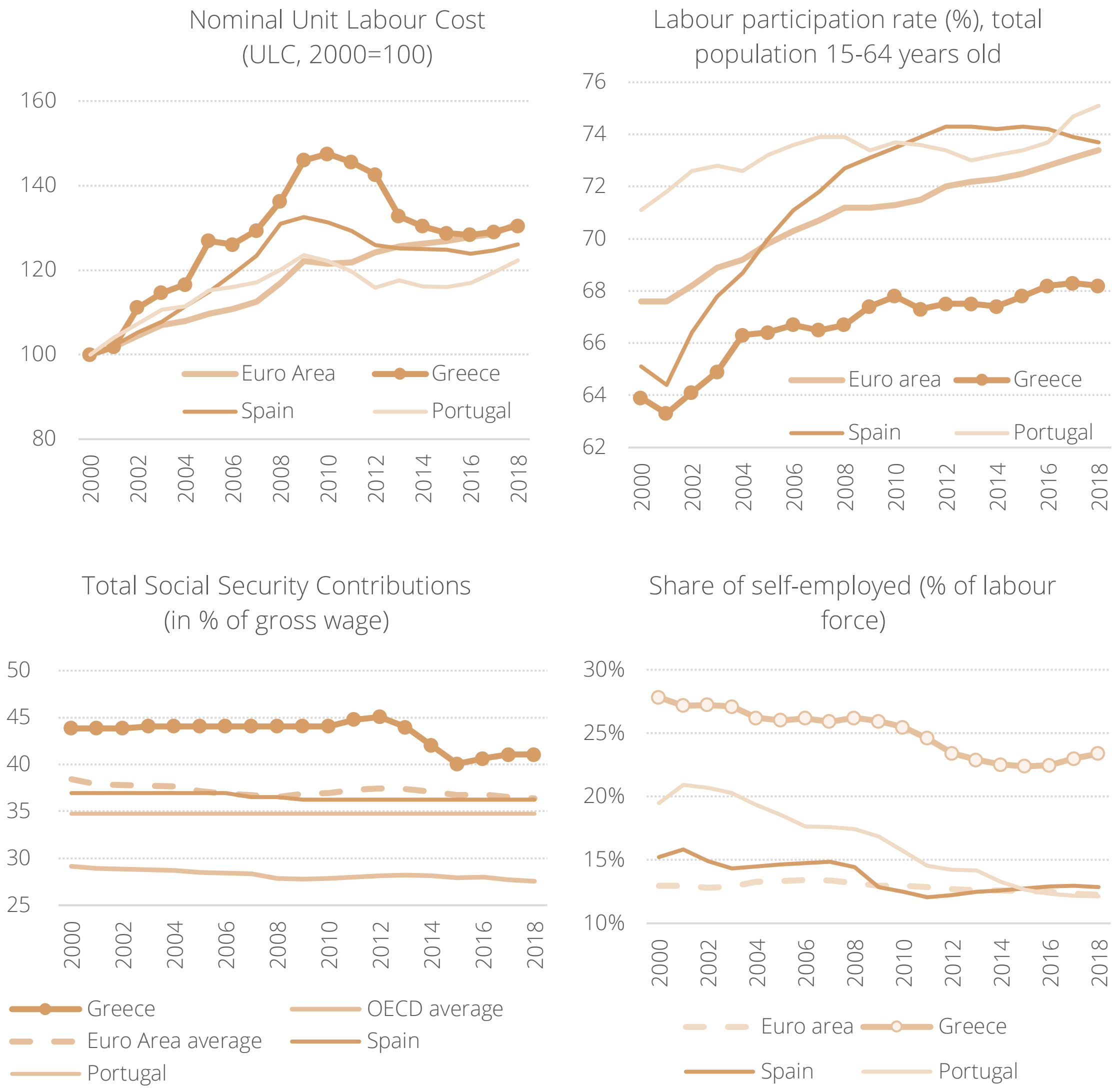
At the same time, the labour market participation rate was and remains systematically below the European average (Figure 4.1). The divergence is recorded mainly among the female and younger cohorts, as well as in the age group over 50 years of age. Participation in formal work, apart from the incentives that depend on wages, labour taxation and the level of unemployment benefits, is linked to a broader policy framework, such as the adequacy of pre-school education and geriatric care, and early retirement schemes.

In Greece, the non-wage labour cost is significantly higher than the European average over time and even higher than the OECD average. Despite signs of declining divergence during 2012-2015, no progress has been made since. Both the high taxation of labour and the level of social security contributions burden the cost competitiveness of Greek production, while acting as a disincentive to official employment. By contrast, the percentage of informal employment has remained high.

At the same time, Greece has one of the highest rates of self-employment in the European Union. In addition, the use of flexible forms of employment was systematically below the European average before the financial crisis, while forms such as involuntary part-time work are recorded at a much higher frequency than in other countries.

Figure 4.1

Indicative structural challenges of the Greek labour market, 2000-2018



Note: Nominal ULC is defined as the ratio of gross wage per employee to real GDP per person employed. Labour participation is defined as the ratio of Labour Force over Population aged 15-64.

Sources: Ameco, Eurostat, OECD, Data processing: IOBE

4.3 Labour market reforms 2010-2018

The economic adjustment programmes were based on three pillars: fiscal consolidation, financial system stability and structural labour and product market reforms. In the context of restoring the fiscal and external balance of the Greek economy, the labour market reforms legislated and implemented in 2010-2018 had basically a dual purpose, as described in the official texts of the economic adjustment programmes.

On the one hand, the reforms were aimed at facilitating the adjustment of the economy through more flexible labour market regulations. In particular, given that domestic demand was hit by the need to implement fiscal austerity measures in order to mitigate their negative impact on employment, priority was given to labour regulations that would facilitate price adjustment (wage reduction) rather than through the number of jobs (dismissals). At the same time, it was considered that this approach would support a faster recovery of the economy, following the restoration of the fiscal balance.

On the other, they aimed to improve the cost competitiveness of the Greek economy. During the first decade of the adoption of the euro, the price competitiveness of the Greek economy weakened relative to the euro area average, but also compared to other southern European countries. In the absence of an exchange rate policy tool, the competitiveness channel required adjustment to relative prices and nominal wages in order to correct large external imbalances, a process particularly painful socially and politically.

The labour market interventions in 2010-2018 can be summarised in five main pillars (Figure 4.2). The first had to do with the system of collective bargaining, in the direction of decentralisation and increasing flexibility. The second concerned a significant reduction in the national minimum wage in 2012, as well as a change in its setting mechanism. The third pillar reduced the degree of job protection, for example by reducing redundancy costs, in order to mitigate the negative impact of uncertainty on new hires. The fourth pillar was aimed at promoting flexible forms of employment in order to facilitate the adaptation of the affected enterprises and to reduce the degree of informal use of these forms of employment. The fifth pillar concerned reducing non-wage costs in order to reduce labour costs without affecting workers' disposable income and to strengthen incentives to participate in the formal labour market.

Figure 4.2.

Five key labour market intervention dimensions and objectives, 2010-2018

Collective bargaining	National minimum wage	Employment protection	Flexible forms of employment	Labour tax wedge
o Increase the system's flexibility, decentralisation and effective representation o Facilitate adjustment via wages rather than via volumes	o Reduce Greece's minimum wage to lower labour costs and keep the low skilled from being priced out of the formal labour market o Introduce new setting mechanism based on tri-partite consultation and evidence-based wage floor setting	o Facilitate the response of enterprises to the economic cycle (hiring/layoffs) o Reduce Greece's exit costs to foster employment, despite the uncertainty	o Facilitate the response of enterprises to the economic cycle (work hours) o Boost labour market participation and shift informal labour relations to the official sector	o Reduce labour costs without adversely affecting net wages o Boost labour market participation and shift informal labour relations to the official sector

Source: Official texts of economic adjustment programmes 2010-2018, EU/ECB/ESM/IMF, Data processing: IOBE

4.4 Microeconomic approach

The first part of the analysis is based on micro-based household-level simulations, which assess the impact of reforms on the incentives for individuals to enter the formal labour market. For this purpose, we used the EUROMOD microeconomic simulation model (European Commission, University of Essex). The application includes the rules on taxation and benefits in force within a given year (policy system) and simulates taxes, benefits, social security contributions and disposable income for each household when the rules of the system are applied. For the simulations, micro-data from the European Union Statistics on Income and Living Conditions (EU – SILC) database for Greece for the period 2010-2018 are used. The sample selection is made according to certain criteria (e.g. emphasis on employees) resulting in a recurring stratified sample ranging from 3,342 people in 2010 to 9,278 people in 2018.

In this context, a microeconomically based indicator is constructed that approaches the disincentives for employment of each individual. This indicator is called Participation Tax Rate (PTR) and is defined as the share of gross earnings gained if the employee becomes unemployed, ceteris paribus.

$$PTR_i = 1 - \frac{Y_h^w - Y_h^U}{E_i}$$

Where Y_h^W the disposable income of the household when the individual is working, $Y_{\mathrm{h}}^{\mathrm{U}}$ the disposable income of the household when the individual becomes unemployed and E_i the gross earnings of the individual (if he or she is part of the workforce). By design, the disincentive to PTR employment decreases as the individual's net earnings increase, taxes on work and social security contributions are reduced, or unemployment benefits are reduced, ceteris paribus. The estimation of the PTR for each person in the sample is done by simulating and comparing two alternative situations for each employee, the employment status and the unemployment status, calculating Y_h^W and $Y_{\mathrm{h}}^{\mathrm{U}}$ in each case.

First, we record how the estimated disincentive for employment PTR has evolved during the programme period and how it differs based on characteristics of individuals and households. In particular, it appears that the disincentives to participate in the formal labour market increased during the economic adjustment programmes (Figure 4.3). The deterioration in incentives to work was most pronounced among men and young people.

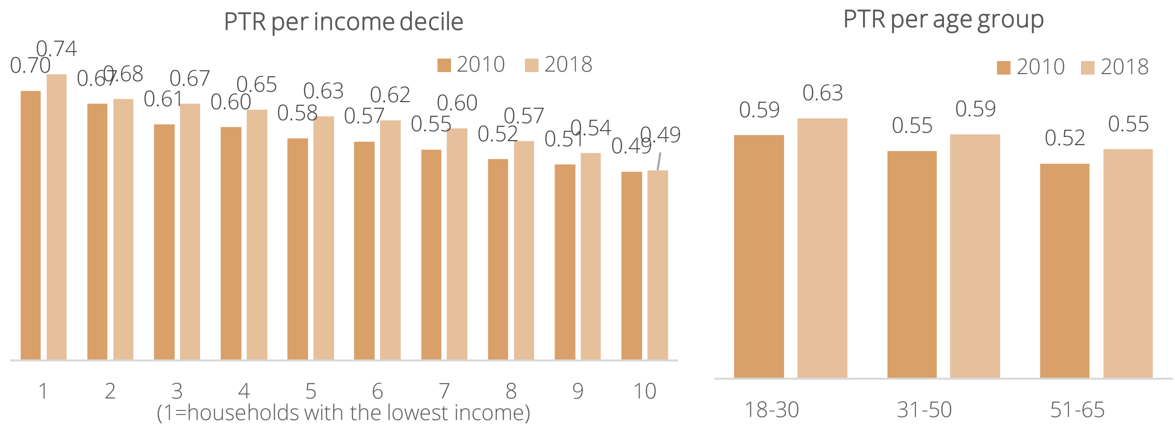
Next, we assessed the effect of the reduction of the social security contributions of the employees that took place in 2014 by 1 percentage point (reform) on the incentives for employment. This is done through an assessment of the PTR for the sample, before and after the policy measure, with the EUROMOD policy system, for 2014. The simulations focus on elements that significantly affect labour market participation incentives, i.e. paid taxes, received benefits, social security contributions and labour earnings for each person in the sample.

The key result of the reduction of employees' insurance contributions in 2014 is the positive effect on incentives for participation in the labour market, through a reduction in PTR, especially among women and young people, population groups with traditionally low participation rates (Figure 4.4).

Across the sample, there is an average decrease in employment disincentives (PTR) of approximately 0.5 p.p., which is estimated to have contributed to an increase in overall labour market participation of approximately 0.4 p.p. or 28k people of the population aged 15-64.

Figure 4.3

Change in the disincentive to work (PTR) during the programmes 2010-2018

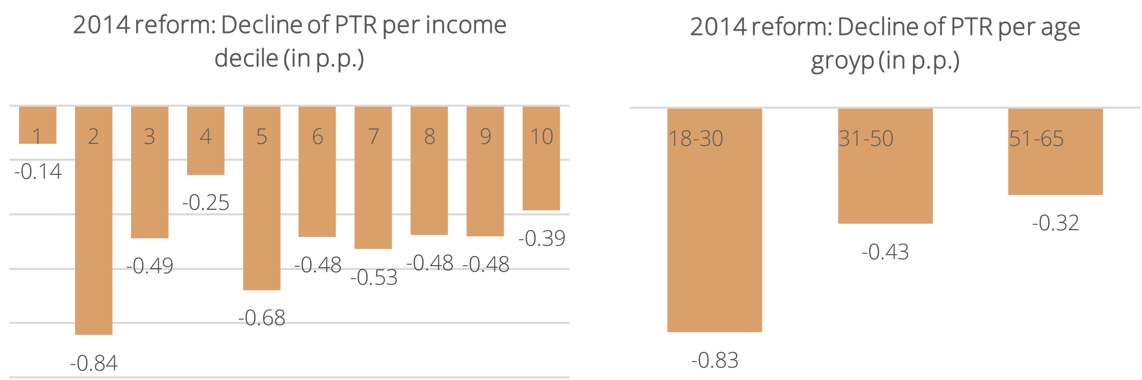


Source: EUROMOD, EU-SILC, Estimation: IOBE

In conclusion, the systematically low labour market participation rates throughout the period of the programmes are considered to be due, on the one hand, to the fact that the reduction in contributions in 2014 was of a limited scale, and, on the other, to the fact that its positive impact was offset by fiscal adjustment measures, which significantly raised the labour tax wedge, affecting in turn the incentives for official employment. After the completion of the programmes, the participation rates in Greece are still lagging behind by about 5 p.p. among the population aged 15-64 in relation to the EU average, while the disincentives to work have remained higher for women and young people. Therefore, the further reduction of the labour tax wedge is emerging as crucial in order to strengthen participation in formal employment in Greece, with positive consequences for the medium-term growth prospects.

Figure 4.4.

Change in the disincentive for work (PTR) after reduction of the social security contributions in 2014



Source: EUROMOD, EU-SILC, Estimation: IOBE

4.5 Macroeconomic approach

The second, complementary part of the analysis is based on an econometric analysis, at country level, of the effects of the reforms in the Greek labour market on selected macroeconomic and social indicators. To this end, we followed the generalised synthetic control method, which allows for the assessment of counterfactual scenarios that selected macroeconomic and social indicators would have followed in the absence of labour market reforms.

Figure 4.5.

Estimated path of select indicators in the counterfactual scenario of no 2012 labour market reform

Source: IOBE estimates. Note: The unemployment rate is defined as the ratio of the number of unemployed over the labour force. The Unit Labour Cost is defined as gross wage per employee of the business economy to real GDP per hour of work.

As part of the methodology, two milestone years were selected for the evaluation of the reforms in the Greek labour market: in 2012, during which most of the reforms presented in section 4.3 were implemented, as well as in 2014, when the rates of social security contributions of employees were reduced, as presented in section 4.4. Greece, Portugal and Spain are the three "treated group countries" where significant interventions in the labour market with common characteristics took place in 2012.

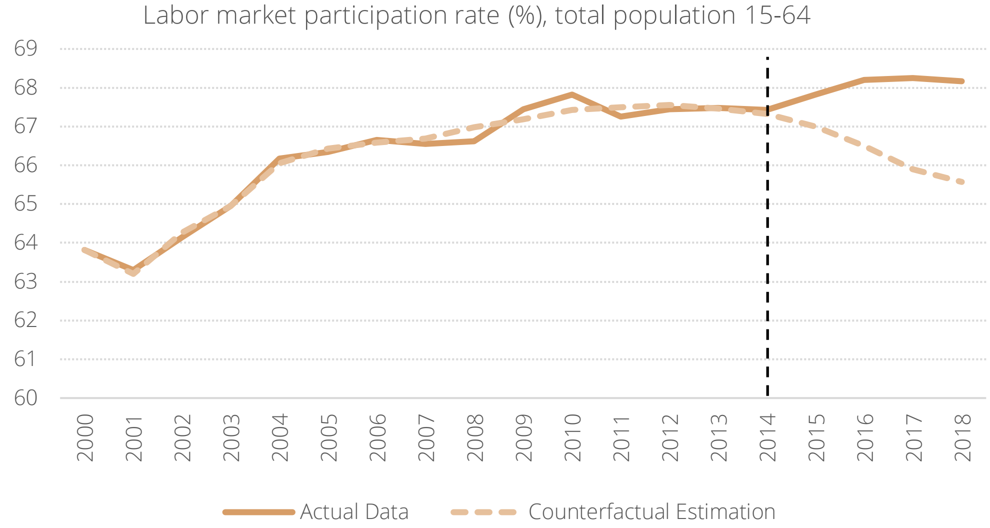
Respectively, a comparable group of 22 advanced economies that are members of both the EU and the OECD, constitute the control group. Taking advantage of the volatility between the interactive fixed effects and given the selection of the control group, the methodology produces results based solely on cross-country observations and not on a theoretical macroeconomic model.

From a macroeconomic point of view, the empirical findings of the study show that the interventions in the Greek labour market around 2012 made a significant contribution to reducing unit labour costs, increasing the use of flexible forms of employment, slowing the dynamics of the unemployment rate and slightly boosting the speed of employment recovery. Indicatively, the annual unemployment rate and unit labour costs in Greece in 2013-2018 were estimated to be on average around 4 p.p. and 10 p.p. higher respectively, in a scenario without the 2012 labour market reforms (Figure 4.5). Similarly, recorded part-time work as a share of total employment in Greece in 2013-2018 was estimated to be on average about 1.3 p.p. higher than in a scenario without the 2012 reforms. In contrast, the 2012 interventions did not appear to improve formal labour market participation rates, while they increased average working hours and inequality.

Finally, the reduction in workers' contributions in 2014 appears to have increased labour market participation, in line with the findings from the microeconomic simulations in section 4.4. The recorded labour market participation is estimated to have exceeded the counterfactual scenario for Greece in 2015-2018 by 1.9 p.p. per year (Figure 4.6).

Figure 4.6.

Estimated labour market participation in a counterfactual scenario without the 2014 reduction of social security contributions of employees



Source: IOBE estimates. Note: The participation rate is defined as the ratio of the labour force over working age population.

4.6 Conclusions

The radical interventions in the labour market implemented in 2010-2018 were aimed at facilitating economic adjustment and improving cost competitiveness. Compared to the objective, the empirical analysis carried out in the context of the present study showed that the reforms: (a) largely met the objective of strengthening cost competitiveness; (b) increased flexibility in labour regulations, through which they only partially supported the goal of rebalancing the labour market through prices (wage reduction) rather than employment (redundancies) and (c) left, for the most part, unresolved other long-term weaknesses such as the low labour market participation and the high labour tax wedge.

Based on these results, the study came up with a series of policy proposals and priorities, in at least three directions. First, further reducing the tax wedge on labour can strengthen labour market participation, reduce the divergence between Greece and other EU countries, and thus strengthen medium-term growth prospects. Second, it highlights areas of the labour market with structural weaknesses that need to be addressed, such as skills mismatch, inadequate vocational education and training, ineffective active labour market policies, and systematically high rates of undeclared work. Third, it emphasises the importance of continuously monitoring the trends of the Greek labour market, so that policy makers can implement measures aimed at further increasing labour productivity, but also reducing unemployment and inequality.

APPENDIX

Table 1: GDP Rate of Change

	Annual data (%)							
	2013	2014	2015	2016	2017	2018	2019	2020
Austria	0.0	0.7	1.0	2.0	2.4	2.6	1.4	-6.6
Belgium	0.5	1.6	2.0	1.5	1.9	1.5	1.4	-6.4
Bulgaria	0.3	1.9	4.0	3.8	3.5	3.1	3.4	-4.2
France	0.6	1.0	1.1	1.1	2.3	1.8	1.5	-8.1
Germany	0.4	2.2	1.5	2.2	2.6	1.3	0.6	-4.9
Denmark	0.9	1.6	2.3	3.2	2.8	2.2	2.8	-2.7
Czech Republic	0.0	2.3	5.4	2.5	5.2	3.2	2.3	-5.6
EU 27	0.0	1.6	2.3	2.0	2.8	2.1	1.5	-6.2
Greece	-2.7	0.7	-0.4	-0.5	1.3	1.6	1.9	-8.2
Estonia	1.3	3.0	1.8	3.2	5.5	4.4	5.0	-2.9
Euro area	-0.2	1.4	2.0	1.9	2.6	1.8	1.3	-6.6
Ireland	1.2	8.6	25.2	2.0	9.1	8.5	5.6	3.4
Spain	-1.4	1.4	3.8	3.0	3.0	2.4	2.0	-10.8
Italy	-1.8	0.0	0.8	1.3	1.7	0.9	0.3	-8.9
Croatia	-0.5	-0.1	2.4	3.5	3.1	2.7	2.9	-8.4
Cyprus	-6.6	-1.8	3.2	6.4	5.2	5.2	3.1	-5.1
Latvia	2.3	1.1	4.0	2.4	3.3	4.0	2.1	-3.6
Lithuania	3.6	3.5	2.0	2.5	4.3	3.9	4.3	-0.8
Luxembourg	3.7	4.3	4.3	4.6	1.8	3.1	2.3	-1.3
Malta	5.5	7.6	9.6	3.9	8.0	5.2	4.9	-7
Netherlands	-0.1	1.4	2.0	2.2	2.9	2.4	1.7	-3.7
Hungary	1.9	4.2	3.8	2.1	4.3	5.4	4.6	-5
Poland	1.1	3.4	4.2	3.1	4.8	5.4	4.5	-2.7
Portugal	-0.9	0.8	1.8	2.0	3.5	2.8	2.2	-7.6
Romania	3.8	3.6	3.0	4.7	7.3	4.5	4.2	-3.9
Slovakia	0.7	2.6	4.8	2.1	3.0	3.8	2.3	-5.2
Slovenia	-1.0	2.8	2.2	3.2	4.8	4.4	3.2	-5.5
Sweden	1.2	2.7	4.5	2.1	2.6	2.0	1.3	-2.8
Finland	-0.9	-0.4	0.5	2.8	3.3	1.5	1.1	-2.8

Table 2: General Government Debt as % of GDP

	Annual data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	81.9	81.3	84	84.9	82.9	78.3	74	70.4
Belgium	104.8	105.5	107	105.2	104.9	101.7	99.8	98.6
Bulgaria	16.7	17.1	27.1	26	29.3	25.3	22.3	20.4
France	90.6	93.4	94.9	95.6	98	98.3	98.1	98.1
Germany	81.1	78.7	75.7	72.1	69.2	65.3	61.9	59.8
Denmark	44.9	44	44.3	39.8	37.2	35.8	33.9	33.2
Czech Republic	44.5	44.9	42.2	40	36.8	34.7	32.6	30.8
EU 27	90.7	92.6	92.8	90.9	90	87.8	85.8	84.1
Greece	159.6	177.4	178.9	175.9	178.5	176.2	181.2	176.6
Estonia	9.8	10.2	10.6	10	10.2	9.3	8.4	8.4
Euro area	84.7	86.4	86.6	84.7	84	81.6	79.6	77.8
Ireland	119.9	119.9	104.4	76.7	73.8	67.7	63.5	58.8
Spain	86.3	95.8	100.7	99.3	99.2	98.6	97.6	95.5
Italy	126.5	132.5	135.4	135.3	134.8	134.1	134.8	134.8
Croatia	70.1	81.2	84.7	84.3	80.8	77.8	74.7	73.2
Cyprus	80.3	104	109.2	107.5	103.4	93.9	100.6	95.5
Latvia	42.4	40.3	41.6	37.3	40.9	39.3	37.2	36.9
Lithuania	39.8	38.7	40.6	42.6	39.7	39.1	33.8	36.3
Luxembourg	22	23.7	22.7	22	20.1	22.3	21	22.1
Malta	67.8	68.4	63.4	58	55.5	50.3	45.6	43.1
Netherlands	66.2	67.7	67.8	64.6	61.9	56.9	52.4	48.6
Hungary	78.6	77.4	76.8	76.2	75.5	72.9	70.2	66.3
Poland	54.1	56	50.8	51.3	54.3	50.6	48.8	46
Portugal	129	131.4	132.9	131.2	131.5	126.1	122	117.7
Romania	37	37.6	39.2	37.8	37.3	35.1	34.7	35.2
Slovakia	51.8	54.7	53.5	51.9	52	51.3	49.4	48
Slovenia	53.6	70	80.3	82.6	78.7	74.1	70.4	66.1
Sweden	37.6	40.4	45.1	43.9	42.2	40.8	38.8	35.1
Finland	53.6	56.2	59.8	63.6	63.2	61.3	59.6	59.4

Table 3: General Government Balance as % of GDP

	Annual data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	-2.2	-2	-2.7	-1	-1.5	-0.8	0.2	0.7
Belgium	-4.3	-3.1	-3.1	-2.4	-2.4	-0.7	-0.8	-1.9
Bulgaria	-0.3	-0.4	-5.4	-1.7	0.1	1.1	2	2.1
France	-5	-4.1	-3.9	-3.6	-3.6	-2.9	-2.3	-3
Germany	0	0	0.6	0.9	1.2	1.2	1.9	1.4
Denmark	-3.5	-1.2	1.1	-1.2	0.1	1.8	0.7	3.7
Czech Republic	-3.9	-1.2	-2.1	-0.6	0.7	1.5	0.9	0.3
EU 27	-3.6	-2.9	-2.4	-1.9	-1.3	-0.8	-0.4	-0.6
Greece	-8.9	-13.2	-3.6	-5.6	0.5	0.7	1	1.5
Estonia	-0.3	0.2	0.7	0.1	-0.5	-0.8	-0.6	-0.3
Euro area	-3.7	-3	-2.5	-2	-1.5	-1	-0.5	-0.6
Ireland	-8.1	-6.2	-3.6	-2	-0.7	-0.3	0.1	0.4
Spain	-10.7	-7	-5.9	-5.2	-4.3	-3	-2.5	-2.8
Italy	-2.9	-2.9	-3	-2.6	-2.4	-2.4	-2.2	-1.6
Croatia	-5.4	-5.3	-5.3	-3.3	-1	0.8	0.2	0.4
Cyprus	-5.6	-5.8	-8.7	-1	0.3	2	-3.7	1.7
Latvia	-1.4	-1.2	-1.6	-1.4	0.2	-0.8	-0.8	-0.2
Lithuania	-3.1	-2.6	-0.6	-0.3	0.2	0.5	0.6	0.3
Luxembourg	0.5	0.8	1.3	1.3	1.8	1.3	3.1	2.2
Malta	-3.5	-2.4	-1.7	-1	1	3.3	1.9	0.5
Netherlands	-3.9	-2.9	-2.2	-2	0	1.3	1.4	1.7
Hungary	-2.3	-2.6	-2.8	-2	-1.8	-2.5	-2.1	-2
Poland	-3.7	-4.2	-3.6	-2.6	-2.4	-1.5	-0.2	-0.7
Portugal	-6.2	-5.1	-7.4	-4.4	-1.9	-3	-0.4	0.2
Romania	-3.7	-2.1	-1.2	-0.6	-2.6	-2.6	-2.9	-4.3
Slovakia	-4.4	-2.9	-3.1	-2.7	-2.5	-1	-1	-1.3
Slovenia	-4	-14.6	-5.5	-2.8	-1.9	0	0.7	0.5
Sweden	-1	-1.4	-1.5	0	1	1.4	0.8	0.5
Finland	-2.2	-2.5	-3	-2.4	-1.7	-0.7	-0.9	-1.1

Table 4: Percentage of Population in Poverty or Social Exclusion * (see. p. 155)

	Annual data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	18.5	18.8	19.2	18.3	18.0	18.1	17.5	16.9
Belgium	21.6	20.8	21.2	21.1	20.9	20.6	20.0	19.5
Bulgaria	49.3	48.0	40.1	41.3	40.4	38.9	32.8	32.5
France	19.1	18.1	18.5	17.7	18.2	17.0	17.4	17.9
Germany	19.6	20.3	20.6	20.0	19.7	19.0	18.7	17.4
Denmark	17.5	18.3	17.9	17.7	16.8	17.2	17.4	16.3
Czech Republic	15.4	14.6	14.8	14.0	13.3	12.2	12.2	12.5
EU 27	24.9	24.6	24.5	23.8	23.7	22.5	21.6	21.1
Greece	34.6	35.7	36.0	35.7	35.6	34.8	31.8	30
Estonia	23.4	23.5	26.0	24.2	24.4	23.4	24.4	24.3
Euro area	23.3	23.1	23.5	23.1	23.1	22.1	21.6	21.1
Ireland	30.1	29.9	27.7	26.2	24.4	22.7	21.1	:
Spain	27.2	27.3	29.2	28.6	27.9	26.6	26.1	25.3
Italy	29.9	28.5	28.3	28.7	30.0	28.9	27.3	:
Croatia	32.6	29.9	29.3	29.1	27.9	26.4	24.8	23.3
Cyprus	27.1	27.8	27.4	28.9	27.7	25.2	23.9	22.3
Latvia	36.2	35.1	32.7	30.9	28.5	28.2	28.4	27.3
Lithuania	32.5	30.8	27.3	29.3	30.1	29.6	28.3	26.3
Luxembourg	18.4	19.0	19.0	18.5	19.8	21.5	21.9	20.6
Malta	23.1	24.6	23.9	23.0	20.3	19.3	19.0	20.1
Netherlands	15.0	15.9	16.5	16.4	16.7	17.0	16.7	16.5
Hungary	33.5	34.8	31.8	28.2	26.3	25.6	19.6	18.9
Poland	26.7	25.8	24.7	23.4	21.9	19.5	18.9	18.2
Portugal	25.3	27.5	27.5	26.6	25.1	23.3	21.6	21.6
Romania	43.2	41.9	40.3	37.4	38.8	35.7	32.5	31.2
Slovakia	20.5	19.8	18.4	18.4	18.1	16.3	16.3	16.4
Slovenia	19.6	20.4	20.4	19.2	18.4	17.1	16.2	14.4
Sweden	17.7	18.3	18.2	18.6	18.3	17.7	18.0	18.8
Finland	17.2	16.0	17.3	16.8	16.6	15.7	16.5	15.6

Table 5: Inflation

	Annual data (%)			Q1			Change (%)	
	2018	2019	2020	2019	2020	2021	2021/20	2020/19
Austria	2.1	1.5	1.4	1.6	2.0	1.5	-0.5	0.4
Belgium	2.3	1.3	0.4	2.0	1.0	0.8	-0.1	-1.0
Bulgaria	2.6	2.5	1.2	2.5	3.0	:	:	0.5
France	2.1	1.3	0.5	1.4	1.3	1.0	-0.4	-0.1
Germany	1.9	1.4	0.4	1.6	1.6	:	:	0.0
Denmark	0.7	0.7	0.3	1.2	0.6	:	:	-0.6
Czech Republic	2.0	2.6	3.3	2.3	3.7	:	:	1.4
EU 27	1.8	1.4	0.7	1.5	1.5	:	:	-0.1
Greece	0.8	0.5	-1.3	0.8	0.6	-2.1	-2.7	-0.2
Estonia	3.4	2.3	-0.6	2.3	1.5	0.5	-1.0	-0.8
Euro area	1.8	1.2	0.3	1.4	1.1	:	:	-0.3
Ireland	0.7	0.9	-0.5	0.9	0.8	-0.1	-1.0	0.0
Spain	1.7	0.8	-0.3	1.1	0.7	0.5	-0.2	-0.4
Italy	1.2	0.6	-0.1	1.0	0.2	0.8	0.5	-0.8
Croatia	1.6	0.8	0.0	0.8	1.2	:	:	0.3
Cyprus	0.8	0.6	-1.1	1.3	0.6	-0.5	-1.1	-0.7
Latvia	2.6	2.7	0.1	2.8	1.9	-0.1	-2.1	-0.9
Lithuania	2.5	2.2	1.1	2.1	2.5	:	:	0.4
Luxembourg	2.0	1.7	0.0	2.1	1.6	1.0	-0.6	-0.5
Malta	1.7	1.5	0.8	1.2	1.2	0.2	-1.1	0.0
Netherlands	1.6	2.7	1.1	2.5	1.3	1.8	0.5	-1.1
Hungary	2.9	3.4	3.4	3.2	4.4	:	:	1.1
Poland	1.2	2.1	3.7	1.2	3.9	:	:	2.7
Portugal	1.2	0.3	-0.1	0.8	0.5	0.2	-0.3	-0.3
Romania	4.1	3.9	2.3	3.8	3.1	:	:	-0.7
Slovakia	2.5	2.8	2.0	2.4	2.9	1.0	-1.9	0.5
Slovenia	1.9	1.7	-0.3	1.3	1.6	-0.6	-2.3	0.3
Sweden	2.0	1.7	0.7	1.9	1.2	:	:	-0.7
Finland	1.2	1.1	0.4	1.2	1.1	1.1	0.0	-0.1

Table 6: GDP per Capita (in PPS, EE-27 =1)

	Annual data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	1.10	1.10	1.11	1.11	1.12	1.13	1.13	1.13
Belgium	1.11	1.12	1.12	1.11	1.12	1.13	1.13	1.13
Bulgaria	0.94	0.94	0.92	0.94	0.96	0.99	1.01	1.03
France	1.14	1.13	1.13	1.12	1.12	1.12	1.11	1.09
Germany	1.07	1.07	1.07	1.08	1.08	1.08	1.09	1.10
Denmark	10.24	10.20	10.23	10.16	10.20	10.03	9.96	9.96
Czech Republic	18.00	17.72	17.73	18.00	18.11	18.11	18.23	18.58
EU 27	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Greece	0.93	0.88	0.85	0.85	0.85	0.84	0.83	0.83
Estonia	0.71	0.72	0.74	0.75	0.76	0.78	0.80	0.81
Euro area	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
Ireland	1.11	1.12	1.14	1.13	1.14	1.16	1.16	1.19
Spain	0.94	0.94	0.92	0.92	0.93	0.92	0.93	0.94
Italy	1.01	1.02	1.03	1.03	1.01	1.00	1.00	1.00
Croatia	4.96	4.96	4.95	4.89	4.87	4.87	4.90	4.90
Cyprus	0.96	0.95	0.95	0.92	0.90	0.90	0.90	0.90
Latvia	0.69	0.69	0.69	0.69	0.70	0.71	0.72	0.74
Lithuania	0.61	0.61	0.62	0.62	0.63	0.65	0.66	0.68
Luxembourg	1.23	1.24	1.23	1.23	1.23	1.24	1.24	1.26
Malta	0.78	0.80	0.82	0.83	0.84	0.85	0.86	0.86
Netherlands	1.12	1.11	1.13	1.13	1.15	1.14	1.15	1.17
Hungary	170.07	173.26	180.63	184.37	190.13	196.61	203.17	210.42
Poland	2.43	2.44	2.47	2.46	2.50	2.54	2.58	2.61
Portugal	0.82	0.81	0.81	0.81	0.82	0.84	0.85	0.85
Romania	2.12	2.23	2.27	2.31	2.30	2.35	2.45	2.53
Slovakia	0.68	0.68	0.68	0.68	0.72	0.74	0.74	0.75
Slovenia	0.82	0.82	0.83	0.83	0.83	0.83	0.84	0.84
Sweden	11.72	11.92	12.18	12.32	12.70	12.76	12.98	13.06
Finland	1.23	1.26	1.27	1.26	1.27	1.26	1.26	1.27

Table 7: Average Labour Productivity (euro per hour of work, EE-27 =100)

	Annual data							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	117.9	117.3	116.8	117.3	117.5	116.3	116.5	115.5
Belgium	130.1	130.2	131.2	131.6	130.7	129.7	129.2	129.1
Bulgaria	43.7	42.9	44	44.5	45.7	46	47.1	48.6
France	115.4	116.8	116.1	115.7	115.3	114.9	115.3	116.7
Germany	105.1	104.3	106.3	105.3	105.9	105.7	105.1	103.6
Denmark	114.7	115.5	115.5	114.9	114.8	116	116.7	116.9
Czech Republic	76.3	76.8	79.3	79.9	79.9	81.4	83.8	85.3
EU 27	100	100	100	100	100	100	100	100
Greece	86.1	87.2	86.4	83.5	81.5	80.6	80.5	78.5
Estonia	73.9	73.8	75.4	72.4	73	74.2	76.7	78.7
Euro area	107.5	107.5	107.6	107.3	107.2	106.9	106.4	105.7
Ireland	147.1	143	146.5	188.6	182.3	187	195.1	196.9
Spain	103	103.4	103.3	102.2	101.8	101.5	99.6	98.2
Italy	111	109.4	107.7	106.6	108.1	107.4	106.4	104.9
Croatia	72.5	73.5	70.8	70.7	72	71.9	72.7	72.1
Cyprus	88.7	86	84	84.9	87.1	85.5	85.3	83.7
Latvia	63.1	62.6	64.7	64.4	64.8	66.7	68.6	68.7
Lithuania	72.9	74.1	74.4	72.8	71.8	75	76	77.5
Luxembourg	162.5	163.8	169.7	169.6	170.8	166	164.6	162
Malta	90.4	89.7	91.5	95.2	95.9	94.1	94.4	93.5
Netherlands	113.5	115.4	113.5	112.8	110.5	110.5	109.8	108
Hungary	73	73.1	71.4	70.9	67.4	67.7	70	71.6
Poland	74.2	74.1	73.8	74.5	74	74.9	76.7	80.1
Portugal	76.8	79.9	79	78.3	77.9	75.8	75.1	76.1
Romania	55.6	56.2	56.7	58.6	63.1	66.1	68.7	72.6
Slovakia	83.5	84.1	84.3	83.5	77	75.7	76.2	76.2
Slovenia	80.6	81.1	81.5	80.6	80.8	81.7	82.1	81.9
Sweden	118.4	115.9	115.2	116.7	113.4	112.9	111.6	112.2
Finland	109.6	108.3	107.7	107.6	108.1	109	107.9	106.6

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

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	74.3	74.8	75.4	76.2	76.8	75.5	-1.3	0.7
Belgium	67.2	67.7	68.5	69.7	70.5	70.0	-0.5	0.8
Bulgaria	67.1	67.7	71.3	72.4	75.0	73.4	-1.6	2.6
France	69.5	70	70.6	71.3	71.6	71.4	-0.2	0.3
Germany	78	78.6	79.2	79.9	80.7			0.8
Denmark	75.4	76	76.6	77.5	78.3	77.8	-0.5	0.8
Czech Republic	74.8	76.7	78.5	79.9	80.3	79.7	-0.6	0.4
EU 27	69	70.1	71.3	72.3	73.1	72.4	-0.7	0.8
Greece	54.9	56.2	57.8	59.5	61.2	61.1	-0.1	1.7
Estonia	76.5	76.6	78.7	79.5	80.2	78.8	-1.4	0.7
Euro area	68.9	69.9	70.9	71.9	72.6	71.7	-0.9	0.8
Ireland	69.9	71.4	73	74.1	75.1	73.4	-1.8	1.0
Spain	62	63.9	65.5	67	68.1	65.7	-2.3	1.0
Italy	60.5	61.6	62.3	63	63.5	62.6	-1.0	0.6
Croatia	60.6	61.4	63.6	65.2	66.7	66.9	0.2	1.5
Cyprus	67.9	68.7	70.8	73.9	75.7	75.0	-0.8	1.8
Latvia	72.5	73.2	74.8	76.8	77.4	77.0	-0.4	0.5
Lithuania	73.3	75.2	76	77.8	78.2	76.7	-1.6	0.4
Luxembourg	70.9	70.7	71.5	72.1	72.8	72.1	-0.6	0.7
Malta	69	71.1	73	75.5	77.2	77.4	0.6	1.3
Netherlands	76.4	77.1	78	79.2	80.2	80.0	-0.2	0.9
Hungary	68.9	71.5	73.3	74.4	75.3	75.1	-0.3	0.9
Poland	67.8	69.3	70.9	72.2	73.0	73.6	0.5	0.9
Portugal	69.1	70.6	73.4	75.4	76.2	74.7	-1.5	0.8
Romania	66	66.3	68.8	69.9	70.9	70.8	-0.2	1.1
Slovakia	67.7	69.8	71.1	72.4	73.4	72.5	-0.9	0.9
Slovenia	69.1	70.1	73.4	75.4	76.5	75.6	-0.9	1.0
Sweden	80.5	81.2	81.8	82.4	82.1	80.8	-1.3	-0.3
Finland	72.9	73.4	74.2	76.3	77.2	76.5	-0.8	0.9

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

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

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/2019	2019/2018
Austria	46.3	49.2	51.3	54.0	54.5	54.7	0.2	0.5
Belgium	44	45.4	48.3	50.3	52.1	53.3	1.2	1.8
Bulgaria	53	54.5	58.2	60.7	64.4	64.2	-0.2	3.7
France	48.7	49.9	51.3	52.3	53.0	53.8	0.7	0.8
Germany	66.2	68.6	70.1	71.4	72.7			1.3
Denmark	63	65.8	68.2	69.2	71.3	71.4	0.1	2.1
Czech Republic	55.5	58.5	62.1	65.1	66.7	68.2	1.5	1.6
EU 27	52.1	54.2	56.1	57.8	59.1	59.6	0.5	1.3
Greece	34.3	36.3	38.3	41.1	43.2	44.6	1.4	2.1
Estonia	64.5	65.2	68.1	68.9	72.5	72.0	-0.5	3.5
Euro area	53.3	55.3	57.1	58.8	60.0	60.2	0.2	1.3
Ireland	55.4	56.8	58.4	60.4	61.8	61.8	0.0	1.4
Spain	46.9	49.1	50.5	52.2	53.8	54.7	0.9	1.7
Italy	48.2	50.3	52.2	53.7	54.3	54.2	0.0	0.6
Croatia	39.2	38.1	40.3	42.8	44.0	45.5	1.5	1.2
Cyprus	48.5	52.2	55.3	60.9	61.1	61.0	-0.2	0.2
Latvia	59.4	61.4	62.3	65.4	67.3	68.6	1.2	1.9
Lithuania	60.4	64.6	66.1	68.5	68.4	67.6	-0.8	-0.1
Luxembourg	38.4	39.6	39.8	40.5	43.1	44.0	0.9	2.7
Malta	42.3	45.8	47.2	50.2	51.6	52.9	1.8	0.9
Netherlands	61.7	63.5	65.7	67.7	69.7	71.0	1.3	2.0
Hungary	45.3	49.8	51.7	54.4	56.7	59.6	2.9	2.3
Poland	44.3	46.2	48.3	48.9	49.6	51.8	2.3	0.6
Portugal	49.9	52.1	56.2	59.2	60.4	60.8	0.4	1.2
Romania	41.1	42.8	44.5	46.3	47.8	48.5	0.7	1.5
Slovakia	47	49	53.0	54.2	57.0	58.3	1.3	2.8
Slovenia	36.6	38.5	42.7	47.0	48.6	50.5	1.8	1.6
Sweden	74.5	75.5	76.4	78.0	77.7	77.6	-0.1	-0.3
Finland	60	61.4	62.5	65.4	66.8	67.5	0.7	1.3

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

Table 10: Change in Employment (persons aged over 15)

	Annual data (%)					
	2015	2016	2017	2018	2019	2020
Austria	0.8	1.8	1.0	1.3	0.9	-1.3
Belgium	0.0	0.9	1.0	2.4	1.5	-0.6
Bulgaria	1.6	-0.6	4.0	-0.1	2.2	-3.6
France	0.1	0.5	0.8	0.8	0.2	-0.6
Germany	0.7	2.5	0.8	0.4	1.0	
Denmark	1.7	1.7	1.1	1.5	1.5	-0.9
Czech Republic	1.0	1.7	1.6	1.0	0.1	-1.2
EU 27	1.0	1.5	1.4	1.1	0.9	-1.4
Greece	2.0	1.8	2.0	1.9	2.0	-1.2
Estonia	2.3	-0.1	2.2	0.7	0.6	-2.2
Euro area	1.0	1.7	1.3	1.2	1.0	-1.5
Ireland	3.2	3.6	2.8	2.6	2.7	-1.5
Spain	2.9	2.6	2.6	2.6	2.3	-3.1
Italy	0.7	1.2	0.9	0.6	0.4	-2.0
Croatia	1.1	0.5	2.3	1.7	1.2	-1.2
Cyprus	-1.4	1.1	4.5	5.4	3.5	0.3
Latvia	1.1	-0.6	0.0	1.3	-0.3	-2.1
Lithuania	1.0	1.3	-0.9	1.4	0.0	-2.0
Luxembourg	5.1	1.6	4.0	3.1	3.2	1.0
Malta	4.1	5.2	6.0	8.1	5.5	2.7
Netherlands	1.1	1.3	1.9	2.0	1.7	-0.1
Hungary	2.6	3.2	1.5	0.9	0.6	-1.4
Poland	1.4	0.6	1.1	0.3	-0.2	-0.3
Portugal	1.3	1.4	3.3	2.2	0.8	-2.1
Romania	-0.2	-0.8	2.4	0.2	0.3	-1.6
Slovakia	2.4	2.8	1.2	1.2	0.4	-2.1
Slovenia	1.0	0.1	4.5	2.0	0.8	-0.5
Sweden	1.4	1.6	2.1	1.6	0.6	-1.5
Finland	-0.8	0.5	1.0	2.6	0.9	-1.5

Table 11: Unemployment Rate – Total Population

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	5.7	6.0	5.5	4.9	4.5	5.4	0.9	-0.4
Belgium	8.5	7.8	7.1	6.0	5.4	5.6	0.2	-0.6
Bulgaria	9.2	7.6	6.2	5.2	4.2	5.1	0.9	-1.0
France	10.4	10.1	9.4	9.0	8.4	8.0	-0.4	-0.6
Germany	4.6	4.1	3.8	3.4	3.1	3.8	0.7	-0.3
Denmark	6.3	6.0	5.8	5.1	5.0	5.6	0.6	-0.1
Czech Republic	5.1	4.0	2.9	2.2	2.0	2.6	0.6	-0.2
EU 27	10.0	9.1	8.1	7.2	6.7	7.1	0.4	-0.5
Greece	24.9	23.6	21.5	19.3	17.3	16.3	-1.0	-2.0
Estonia	6.2	6.8	5.8	5.4	4.4	6.8	2.4	-1.0
Euro area	10.8	10.0	9.0	8.1	7.5	7.8	0.3	-0.6
Ireland	10.0	8.4	6.7	5.8	5.0	5.7	0.7	-0.8
Spain	22.1	19.6	17.2	15.3	14.1	15.5	1.4	-1.2
Italy	11.9	11.7	11.2	10.6	10.0	9.2	-0.8	-0.6
Croatia	16.2	13.1	11.2	8.5	6.6	7.5	0.9	-1.9
Cyprus	15.0	13.0	11.1	8.4	7.1	7.6	0.5	-1.3
Latvia	9.9	9.6	8.7	7.4	6.3	8.1	1.8	-1.1
Lithuania	9.1	7.9	7.1	6.2	6.3	8.5	2.2	0.1
Luxembourg	6.7	6.3	5.5	5.6	5.6	6.8	1.2	0.0
Malta	5.4	4.7	4.0	3.7	3.6	4.3	0.7	-0.1
Netherlands	6.9	6.0	4.9	3.8	3.4	3.8	0.4	-0.4
Hungary	6.8	5.1	4.2	3.7	3.4	4.3	0.9	-0.3
Poland	7.5	6.2	4.9	3.9	3.3	3.2	-0.1	-0.6
Portugal	12.6	11.2	9.0	7.1	6.5	6.9	0.4	-0.6
Romania	6.8	5.9	4.9	4.2	3.9	5.0	1.1	-0.3
Slovakia	11.5	9.7	8.1	6.5	5.8	6.7	0.9	-0.7
Slovenia	9.0	8.0	6.6	5.1	4.5	5.0	0.5	-0.6
Sweden	7.4	7.0	6.7	6.4	6.8	8.3	1.5	0.4
Finland	9.4	8.8	8.6	7.4	6.7	7.8	1.1	-0.7

Table 12: Unemployment Rate among Men

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	6.1	6.5	5.9	5.0	4.6	5.5	0.9	-0.4
Belgium	9.1	8.1	7.1	6.3	5.7	5.7	0.0	-0.6
Bulgaria	9.8	8.1	6.4	5.7	4.5	5.4	0.9	-1.2
France	10.8	10.2	9.5	9.0	8.5	8.1	-0.4	-0.5
Germany	5.0	4.5	4.1	3.8	3.5	4.2	0.7	-0.3
Denmark	6.1	5.6	5.6	4.9	4.8	5.3	0.5	-0.1
Czech Republic	4.2	3.4	2.3	1.8	1.7	2.2	0.5	-0.1
EU 27	9.9	8.9	7.8	7.0	6.4	6.8	0.4	-0.6
Greece	21.8	19.9	17.8	15.4	14.0	13.6	-0.4	-1.4
Estonia	6.2	7.4	6.2	5.4	4.1	7.0	2.9	-1.3
Euro area	10.7	9.7	8.7	7.8	7.2	7.5	0.3	-0.6
Ireland	10.8	9.1	7.1	5.8	5.2	5.6	0.4	-0.6
Spain	20.8	18.1	15.7	13.7	12.5	13.9	1.4	-1.2
Italy	11.4	10.9	10.4	9.8	9.1	8.4	-0.7	-0.7
Croatia	15.6	12.5	10.6	7.7	6.2	7.5	1.3	-1.5
Cyprus	15.1	12.7	10.9	8.1	6.3	7.6	1.3	-1.8
Latvia	11.1	10.9	9.8	8.4	7.2	9.1	1.9	-1.2
Lithuania	10.1	9.1	8.6	6.9	7.1	9.3	2.2	0.2
Luxembourg	6.1	6.0	5.6	5.3	5.7	6.6	0.9	0.4
Malta	5.4	4.4	3.8	3.8	3.4	4.2	0.8	-0.4
Netherlands	6.5	5.6	4.5	3.7	3.4	3.7	0.3	-0.3
Hungary	6.6	5.1	3.8	3.5	3.4	4.1	0.7	-0.1
Poland	7.3	6.1	4.9	3.9	3.0	3.1	0.1	-0.9
Portugal	12.4	11.1	8.5	6.7	5.9	6.6	0.7	-0.8
Romania	7.5	6.6	5.6	4.7	4.3	5.3	1.0	-0.4
Slovakia	10.3	8.8	7.9	6.1	5.6	6.4	0.8	-0.5
Slovenia	8.1	7.5	5.8	4.6	4.0	4.4	0.4	-0.6
Sweden	7.6	7.4	7.0	6.5	6.7	8.3	1.6	0.2
Finland	9.9	9.0	8.9	7.4	7.2	8.0	0.8	-0.2

Table 13: Unemployment Rate among Women

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	5.3	5.6	5.0	4.7	4.4	5.2	0.8	-0.3
Belgium	7.8	7.6	7.1	5.6	4.9	5.4	0.5	-0.7
Bulgaria	8.4	7.0	6.0	4.7	3.9	4.8	0.9	-0.8
France	9.9	9.9	9.4	9.1	8.4	8.0	-0.4	-0.7
Germany	4.2	3.8	3.3	2.9	2.7	3.4	0.7	-0.2
Denmark	6.5	6.4	6.1	5.3	5.3	6.0	0.7	0.0
Czech Republic	6.1	4.7	3.6	2.8	2.4	3.0	0.6	-0.4
EU 27	10.2	9.4	8.4	7.5	7.0	7.3	0.3	-0.5
Greece	28.9	28.1	26.1	24.2	21.5	19.8	-1.7	-2.7
Estonia	6.1	6.1	5.3	5.3	4.8	6.6	1.8	-0.5
Euro area	11.0	10.3	9.4	8.5	7.9	8.1	0.2	-0.6
Ireland	8.9	7.6	6.3	5.7	4.7	5.7	1.0	-1.0
Spain	23.6	21.4	19.0	17.0	16.0	17.4	1.4	-1.0
Italy	12.7	12.8	12.4	11.8	11.1	10.2	-0.9	-0.7
Croatia	16.9	13.8	11.9	9.4	7.2	7.6	0.4	-2.2
Cyprus	14.8	13.4	11.3	8.8	8.0	7.6	-0.4	-0.8
Latvia	8.6	8.4	7.7	6.4	5.4	7.1	1.7	-1.0
Lithuania	8.2	6.7	5.7	5.4	5.5	7.7	2.2	0.1
Luxembourg	7.4	6.6	5.5	5.9	5.5	7.0	1.5	-0.4
Malta	5.4	5.2	4.3	3.5	4.0	4.4	0.4	0.5
Netherlands	7.3	6.5	5.3	4.0	3.4	4.0	0.6	-0.6
Hungary	7.0	5.1	4.6	4.0	3.5	4.5	1.0	-0.5
Poland	7.7	6.2	4.9	3.9	3.6	3.3	-0.3	-0.3
Portugal	12.8	11.3	9.4	7.5	7.2	7.1	-0.1	-0.3
Romania	5.8	5.0	4.0	3.5	3.4	4.7	1.3	-0.1
Slovakia	12.9	10.8	8.4	7.0	6.0	7.1	1.1	-1.0
Slovenia	10.1	8.6	7.5	5.7	5.0	5.6	0.6	-0.7
Sweden	7.3	6.6	6.4	6.2	7.0	8.3	1.3	0.8
Finland	8.8	8.6	8.4	7.3	6.2	7.5	1.3	-1.1

Table 14: Long-Term Unemployment Rate (*)

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	29.2	32.3	33.4	28.9	25.1	24.5	-0.6	-3.8
Belgium	51.7	51.6	48.6	48.7	43.5	41.6	-1.9	-5.2
Bulgaria	61.2	59.1	55	58.4	56.6	45	-11.6	-1.8
France	43.9	45.4	45.1	41.6	40	36.5	-3.5	-1.6
Germany	43.6	40.8	41.7	40.9	37.8	29.6	-8.2	-3.1
Denmark	25.7	20.4	20.5	19.1	16.4	16.4	0	-2.7
Czech Republic	47.3	42.1	35	30.5	30	22.1	-7.9	-0.5
EU 27	49.6	48	46.3	44.4	41.4	35.4	-6	-3
Greece	73.1	72	72.8	70.3	70.1	66.5	-3.6	-0.2
Estonia	38.3	31.6	33.5	24.9	20	17.1	-2.9	-4.9
Euro area	51.1	49.7	48.5	46.4	43.5	37.5	-6	-2.9
Ireland	53.6	50.5	44.9	36.3	32.1	23.6	-8.5	-4.2
Spain	51.6	48.4	44.5	41.7	37.8	32.1	-5.7	-3.9
Italy	58.1	57.4	57.8	58.1	56	51.5	-4.5	-2.1
Croatia	63.1	50.7	41	40.2	35.8	28.1	-7.7	-4.4
Cyprus	45.6	44.4	40.6	31.7	29.1	28.1	-1	-2.6
Latvia	45.3	41.4	37.6	41.6	38	27.3	-10.7	-3.6
Lithuania	42.9	38.3	37.6	32.2	30.6	29	-1.6	-1.6
Luxembourg	28.4	34.8	38.1	24.7	22.8	25.5	2.7	-1.9
Malta	50.1	50.5	50.8	48.1	25.1	25.5	0.4	-23
Netherlands	42.9	41.5	39.5	36.6	30.3	23.2	-7.1	-6.3
Hungary	45.6	46.5	40.4	38.5	31.9	26.2	-5.7	-6.6
Poland	39.3	35	31	26.9	21.6	20	-1.6	-5.3
Portugal	57.4	55.4	49.9	43.7	42.6	33.3	-9.3	-1.1
Romania	43.9	50	41.4	44.1	42.4	29.9	-12.5	-1.7
Slovakia	65.8	60.2	62.4	61.8	58.2	47.8	-10.4	-3.6
Slovenia	52.3	53.3	47.5	42.9	43	38.8	-4.2	0.1
Sweden	19.6	18.3	18.5	17.2	13.7	13.9	0.2	-3.5
Finland	24.4	25.7	24.2	21.8	17.6	15.4	-2.2	-4.2

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

Table 15: Unemployment Rate among Youth 15-24 years old

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	10.6	11.2	9.8	9.4	8.5	10.5	2.0	-0.9
Belgium	22.1	20.1	19.3	15.8	14.2	15.3	1.1	-1.6
Bulgaria	21.6	17.2	12.9	12.7	8.9	14.2	5.3	-3.8
France	24.7	24.5	22.1	20.8	19.5	20.2	0.7	-1.3
Germany	7.2	7.1	6.8	6.2	5.8	7.5	1.7	-0.4
Denmark	12.2	12.2	12.4	10.5	10.1	11.6	1.5	-0.4
Czech Republic	12.6	10.5	7.9	6.7	5.6	8.0	2.4	-1.1
EU 27	21.7	20.0	17.9	16.0	15.0	16.8	1.8	-1.0
Greece	49.8	47.3	43.6	39.9	35.2	35.0	-0.2	-4.7
Estonia	13.1	13.4	12.1	11.8	11.1	17.9	6.8	-0.7
Euro area	22.2	20.8	18.6	16.8	15.6	17.4	1.8	-1.2
Ireland	20.2	16.8	14.4	13.8	12.5	15.3	2.8	-1.3
Spain	48.3	44.4	38.6	34.3	32.5	38.3	5.8	-1.8
Italy	40.3	37.8	34.7	32.2	29.2	29.4	0.2	-3.0
Croatia	42.3	31.3	27.4	23.7	16.6	21.1	4.5	-7.1
Cyprus	32.8	29.1	24.7	20.2	16.6	18.2	1.6	-3.6
Latvia	16.3	17.3	17.0	12.2	12.4	14.9	2.5	0.2
Lithuania	16.3	14.5	13.3	11.1	11.9	19.6	7.7	0.8
Luxembourg	17.3	18.9	15.4	14.2	17.0	23.2	6.2	2.8
Malta	11.6	10.7	10.6	9.1	9.3	10.7	1.4	0.2
Netherlands	11.3	10.8	8.9	7.2	6.7	9.1	2.4	-0.5
Hungary	17.3	12.9	10.7	10.2	11.4	12.8	1.4	1.2
Poland	20.8	17.7	14.8	11.7	9.9	10.8	0.9	-1.8
Portugal	32.0	28.0	23.9	20.3	18.3	22.6	4.3	-2.0
Romania	21.7	20.6	18.3	16.2	16.8	17.3	0.5	0.6
Slovakia	26.5	22.2	18.9	14.9	16.1	19.3	3.2	1.2
Slovenia	16.3	15.2	11.2	8.8	8.1	14.2	6.1	-0.7
Sweden	20.4	18.9	17.9	17.4	20.1	23.9	3.8	2.7
Finland	22.4	20.1	20.1	17.0	17.2	21.4	4.2	0.2

(*) For the exact definition of the indicator 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