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Editorial Policy

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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 second bulletin on the Greek economy for 2019, as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek economy, in the aftermath of recent parliamentary elections, which brought about change in government. A major politico-economic issue in the coming period will be the mix of economic policy to be pursued to achieve the fiscal objectives, following the recent measures announced in May and the pre-election proclamations. 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 conditions for taking advantage of the significant opportunities that arise for the Greek economy currently, together with the necessary relevant targets. The rest of the report is structured as follows:

Chapter 1 presents a brief overview of the report. Chapter 2 examines the general economic conditions, including: i) an analysis of the global economic environment in the first quarter of 2019 and its outlook for the rest of the year, based on the latest reports of the International Monetary Fund and the Organisation for Economic Development and Cooperation; ii) an outline of the economic climate in Greece in the second quarter of 2019, based on data from the latest IOBE business and consumer surveys; iii) an assessment of the execution of the Budget at the General Government level last year and the execution of the State Budget in the first five months of the current year; iv) an outline of the developments in the domestic financial system in April and May.

Chapter 3 focuses on the performance of the Greek economy mainly in the first quarter of 2019. It includes an analysis of: the macroeconomic environment in the first quarter of 2019 and its outlook for the rest of the year; the developments in key production sectors in the first quarter; the export performance of the Greek economy over the first four months of the year; the developments in the labour market in the first quarter; the trends in inflation in the first five months of 2019; and, finally, the trends in the balance of payments in the first four months of the year.

Chapter 4 presents the findings of a study on the energy efficiency of buildings and the prerequisites for it to become a growth driver of the Greek economy.

The report refers to and is based on data that were available up to 1 July 2019.

IOBE's next quarterly bulletin on the Greek economy will be published in late October 2019.

EXPECTATIONS AND GROWTH

The elections and the subsequent inauguration of the new Government have reasonably created strong expectations for positive developments in the economy, with stronger growth rates and rising household well-being. The strong expectations were reflected, *inter alia*, in both the rising IOBE consumer confidence index in recent months, and the strong performance in the market for Greek equities and bonds in the short period between the European and national elections. The positive expectations are mainly focused on reducing the tax burden, which will cause, and at the same time be supported by, significantly stronger income growth rates and better business environment.

Strong expectations for positive developments in the economy after the recent elections

There is, indeed, a significant window of opportunity and scope for optimism. Ten years after the onset of the crisis, after eight years with three economic adjustment programmes, with the last of the three formally completed last August, the economy has steadied also due to the effects of the accumulated deep recession. There is now a possibility for the new Greek government, in cooperation with the new European Commission, to pave the way for stronger growth in the country.

The current conditions move the Greek economy in a positive direction, but with growth rates that are relatively weak. This year, as pointed out by IOBE for some time now, real GDP growth is expected to remain below 2%, more likely around 1.8%. This growth rate is clearly inferior to the rate set as an economic policy target, as has been the case for the last three years. It is also lower than the rate in other economies in the European periphery shortly after the end of their own economic adjustment programmes. It is

GDP is expected to grow at a rate below 2%

lower than the rate that would allow for the smooth management of public and private debt in the economy over the medium term.

Nevertheless, the economic fundamentals alone lead to a reduction of the growth rate in the medium term from 2% to 1%. With this in mind, the economic policy changes must be decisive and properly targeted, if the aim is to systematically strengthen growth. Paving the way for high growth rates is not a luxury but an absolute necessity, given that the external environment might be quite turbulent in the coming years. In particular, our two largest neighbouring economies, Italy and Turkey, can be a source of instability in the coming period, each for different reasons, which may threaten our economy if it is not on a path of robust growth.

The structural transformation of the economy is essential, but there are many crucial challenges for the forthcoming period

The mere projection of the current, weak, momentum in the coming years, with only marginal interventions, certainly does not suffice. The level of investment is approximately half of that of the other European economies and unemployment is about four times higher. The problems are even more profound. Systematic lack of productive investment and labour force participation were present in our economy even before the crisis, as a result of the low remuneration of these production factors. At the same time, productivity, the main factor that determines incomes in the medium and long term, falls considerably short of the European averages, while the demographic trends are particularly unfavourable.

It must be clear that the objective cannot be the return to the pre-crisis conditions of "regularity", as is often argued in the public discourse, as this, after a period of income expansion, would again lead the economy to a retreat and possibly a new crisis. The Greek economy went into a deep crisis ten years ago, because incomes and consumption were disproportionately high for its international competitiveness. The crucial issue now is to achieve a structural transformation of the economy, which has been attained only to a small degree in the last decade.

There are many crucial challenges in the short term, inherited from the crisis and prior economic policy choices. To manage the non-performing loans, the return of deposits and, more generally, to strengthen the operation of the banking system. To transform the energy sector, with market opening, streamlining of rules, and investment in cutting-edge technologies. To strengthen the protection of vulnerable households, with targeted guaranteed minimum income and support of young families. To attract investment and improve the business environment. To modernise the education system and support research and innovation. However, there are three main pillars that manifest the structural transformation of the economy.

The first pillar concerns the interconnected matters of public expenditure, tax and insurance systems. Rationalising them can not only relieve households, but also create a sustained growth momentum. Those who currently work and do business with transparency are overburdened. The reduction of tax rates, however, cannot be horizontal because it would lead to a fiscal derailment. Thus, difficult choices need to be made. The tax relief should focus on boosting incentives for production and savings, rather than consumption. Applying lower rates to incomes should be a priority.

The tax rate reduction should focus on boosting incentives for production and savings, not consumption

If income tax is simplified and unified independently of the source and many of the exemptions are abolished, much lower rates would yield the same revenues to the State, boosting growth and financing the guaranteed minimum income for the vulnerable parts of society. With the existing system, taxes are paid by a small percentage of the population, much lower than the European average. As long as the tax base is small, the tax rates are extremely high, discouraging productive activity and tax compliance, in a vicious cycle. Modern methods, mainly through electronic payments, can be linked to tax discounts, contributing crucially to the alignment of taxpayer incentives. Property taxation must also be streamlined, as its current structure, and in particular the supplementary tax, keeps the yields and prices of real estate low, creating a significant burden on households, banks and the economy as a whole. Having said that, there is room for expenditure cuts, as well as areas where expenditure has to be increased, such as public investment in human capital and infrastructure.

The small tax base leads to exceptionally high tax rates

The reduction of income tax rates should be accompanied by a gradual transition to a modern social security system. With the existing, fully pay-as-you-go system, the contributions have little to do with future pensions, especially after the horizontal cuts in recent years, and are therefore considered by the employees as an additional tax and not as savings that belong to them. Contributions to the existing system, which support its redistributive role, should be reduced to make room for contributions to personal pension accounts, with incentives for saving and employment, especially for the new generation. As a recent IOBE study has shown, the transition to such a system has a relatively low cost, while the benefits for the economy will be very high. The proper, joint, reform of the tax and insurance systems can contribute to the creation of many new jobs.

Modernisation of the social security system: reduction in contributions and incentives for saving and employment

The second pillar concerns the functioning of the public sector. The bureaucratic and regulatory burden is high, while the services offered to the public are of a much lower quality than desired. Here, the functioning of the public administration and the State must be distinguished from the wider public sector. Regarding the former, the digitisation and interconnection of public services will be an important step, which has been delayed. The same applies to the evaluation of services and employees. However, the results will not be adequate, unless these changes are accompanied by a much deeper separation of public administration from the political system and each government in power.

Structural reforms for the separation of public administration from the political system and the political cycle

This separation requires drastic changes in the process of appointing, evaluating and promoting public servants. A new philosophy for the functioning of the State is necessary to attract foreign and domestic long-term investment, but also to help the economy shift from inward and informal activities to export-oriented entrepreneurship with simple rules and transparency.

Liberalisation of individual public sector institutions from State regulation – operation with autonomy and accountability

Regarding the wider public sector, and particularly key areas such as health and education, the institutions must be freed from the suffocating state regulation and operate with autonomy and accountability. For the education system in particular, the suffocating regulatory framework is not found in other developed countries and is the main reason for the large gap between Greece and Europe, a gap that undermines the prospects of the new generation. Radical reforms in these areas, the results of which will have a direct positive impact on wellbeing, are very important, as they will also strengthen social cohesion and the social support for the broader modernisation of the economy.

The third pillar concerns the functioning of markets, which need to be made much more open, with stronger competition, driven by the pursuit of profits from innovation, rather than from rents from non-transparent relations. The transformation of the State and the modernisation of the State and the education system will contribute crucially to this purpose.

The expected investments should be accompanied with pro-growth structural reforms

Overall, suitable structural reforms are required to ensure that the expected inflow of capital will strengthen mainly the productive activities that express the innovative and export-oriented parts of the economy. Otherwise, the inflow will contribute only to a temporary easing of the problems, creating gradually and in parallel the conditions for another crisis in the medium term. For this very reason, it is of paramount importance that the influx of investments, which is expected to take place shortly, will occur alongside growth-boosting structural reforms, so that the opportunity to lay a solid foundation for growth is not lost. Besides, although there is a clear shift in the investment climate, neither its continuation nor its ultimate effectiveness can be taken for granted.

The Greek economy should use the window of opportunity that is currently offered in the very next few years, when the cost for debt servicing will still be relatively low, to converge in real terms with the rest of the Euro area. This will help to eliminate the likelihood of future shocks, the threat of which is generating costs now by raising significantly the perceived risk premium of the economy as a whole.

Growth in the coming years for the Greek economy can be strong, but only under certain conditions. There is a significant window of opportunity, which should not be lost.

1. BRIEF OVERVIEW

The slowdown of the world economy halted quarter on quarter in the first quarter of 2019

As there is currently no official activity data on the world economy for the first quarter of the year, there are indications that it continued to grow at a rate similar to that in the last quarter of 2018. Nevertheless, it has clearly slowed down compared to the first quarter of the previous year. In particular, in the first quarter of this year, the average growth rate among the OECD member countries stood at 1.8%, unchanged from the previous quarter, compared with 2.6% in the first quarter of last year. This particular rate was the lowest since the fourth quarter of 2016. While the growth appears to be no different for the global economy as a whole in early 2019 compared to late 2018, the trends differ among key country groups. In the major economies (G7), growth accelerated from 1.8% to 2.1%, mainly in Japan, by 0.6 percentage points (to 0.8%), in the United Kingdom, by 0.4 points (to 1.8%) and in the US, by 0.2 points (to 3.2%). Growth slowed down only in Canada among the G7, by 0.3 percentage points, as its economy expanded by 1.3%. In the large Asian developing economies, the growth of China's economy at the beginning of this year did not change compared to late 2018 (6.4%), against a rate of 6.8% a year earlier. The Indian economy expanded by 6.0%, from 6.6% in the preceding quarter and 7.8% at the beginning of 2018. In Latin America, Brazil grew marginally, by 0.4%, considerably less than in the previous quarter (1.1%), but not that different from its expansion in the corresponding quarter of last year (0.9%).

The apparent quarter-on-quarter steadying of global growth in early 2019 reflects mainly the continued positive effects of the pro-cyclical policy on the US economy, despite the impact of trade protectionist measures, together with impetus from supportive monetary and fiscal policy in China. The adoption of a more supportive monetary policy by the central banks of the major developed countries will hinder further slowdown over the current year. The Fed announced in June that it will not increase its interest rates further in the second half of this year and might potentially reduce it. In addition, the ECB will maintain its rates rate at the current levels at least until mid-2020. Meanwhile, the central banks of Japan and England also made moves along those lines.

Nevertheless, there are still potential factors of instability in the global economy, notably the escalation of US trade protectionist measures and the reactions of their trading partners, a possible intensification of the tension between the US and Iran, which can cause chain reactions in countries in the region, with an impact on oil production, and a disorderly Brexit. In May, following an unsuccessful conclusion of the negotiations on their bilateral trade, the US and China imposed new restrictive measures on each other's imports, with additional duties of $200 billion and $60 billion respectively.

Especially in the European Union, in addition to the uncertainty of the prolonged decision-making process in the United Kingdom concerning Brexit, the drivers of economic slowdown include the conclusion of the 'quantitative easing' (QE) programme by the ECB in the Euro area, the adjustment of the German automobile industry to new environmental standards, and the US trade restrictions. While the ECB's monetary policy, as mentioned above, seems to return back to normal, on the other hand, in case that the legal dispute between Boeing and Airbus is not resolved, the US are set to impose additional duties on a list of European product, with imports estimated to total $25 billion per annum.

As for the developments in the major emerging economies, the Chinese government is trying to compensate for the impact of tariffs, by escalating the stimulus from monetary and fiscal policy, which has side effects on the-already high-level of corporate debt. Another development with a negative effect at a regional level is the ongoing economic instability in Turkey and Argentina.

Despite the oil production cuts by OPEC and its partner countries, notably Russia, since the beginning of 2019, as well as the US restrictions on exports of Iran and Venezuela, the average price of Brent oil in the first half of this year was slightly lower than last year, by 7%, as a result of weakening global economic growth. This trend is anticipated not to be altered by the recent extension of the OPEC cuts for nine months.

Under these developments and prospects of the global economy, IOBE estimates that its growth will slow further down this year, to 3.3%.

Further slowdown of growth in the first quarter of this year

The Greek domestic product increased by 1.3% in the first quarter of 2019, compared to the corresponding period of 2018, when the growth rate was twice as high, at 2.6%. The growth in the first quarter was the weakest in the recent recovery period of the Greek economy, which reached two years in the specific quarter.

As to the trends in individual components of GDP in the first quarter of this year, domestic consumption remained essentially unchanged, declining marginally by 0.1%, which did not differ substantially from the change recorded a year earlier (growth by 0.2%). The rise of private consumption by 0.8% and the fall of public consumption by 4.1% had a similar absolute effect in the first quarter of this year, offsetting each other. The increase of the first component was slightly stronger than a year ago (0.5%), but the reduction in public sector consumption expenditure was much lower then (-0.3%).

Investment strengthened by 21.2% in early 2019, offsetting to a large extent their decline by 23.2% in the corresponding period of the preceding year. Their growth came mostly (75.5% of the total increase) from accumulation of stocks, by €1.1 billion. Higher stocks were the only source of investment growth in the previous quarter, while it was again the main factor in the third quarter of 2018. Gross fixed capital formation increased by 7.9% in the first quarter of this year, against a decline by 9.0% a year earlier. The expansion of fixed capital formation came mostly from growth in Other Buildings and Structures, which mostly concern public works, by €308 million or 31.9%, against a weaker growth by 7.4% in the same period of last year. Investment in Transport Equipment - Weapon Systems came next, with a growth by €151 million or 21.4%, offsetting in part their contraction by 55.4% a year earlier. Other Machinery and Housing followed in terms of contribution to investment growth, with similar intensity, growing by €23 million (2.0%) and €21 million (6.2%) respectively, both considerably weaker than in the first quarter of 2018 (by 21.6% and 11.1%).

In the external sector of the economy, the export expansion carried over into the first quarter, for the third consecutive year. However, it was weaker than last year (8.6%) and the year before that (6.0%), as it did not exceed 4.0%. In addition, of the two main components of exports, the rise came exclusively from the exports of services, which strengthened by 8.7%, more than in the same period of 2018 (5.1%). The exports of goods declined slightly from a year ago (-0.7%), when they had posted their biggest rise in four years, by 11.1%.

In the external sector of the economy, the export expansion carried over into the first quarter, for the third consecutive year. However, it was weaker than last year (at 8.6%) and the year before that (6.0%), as it did not exceed 4.0%. Out of the two main components of exports, the rise came exclusively from the exports of services, which strengthened by 8.7%, more than in the same period of 2018 (5.1%). The exports of goods declined slightly from a year ago (-0.7%), when they had posted their biggest rise in four years, by 11.1%.

The new, weaker than last year, export increase was exceeded, by far, by the rise of imports, which reached 9.5%. However, a year ago imports followed the opposite trend, with a similar intensity (-7.5%). The then strong decline stemmed from the vertical drop of the imports of ships (-72.8%), which dragged down the total of imports of goods (-11.3%). A year later the imports of goods widened by 9.9%. This increase largely determined the expansion of imports in the past quarter (January – March), as imports of services increased by 5.5% in this period. The stronger increase in imports compared to exports led to a deterioration of the external deficit, which reached €1.13 billion (75.0% growth year on year) or 2.36% of GDP.

Further growth of the Greek economy in 2019, at a slightly lower rate than last year

The swift political developments that emerged from the successive polls, highlight the significant economic effects of the elections. The change of government that emerged from the recent parliamentary elections is expected to have, as has happened in similar cases in the past, a strengthening effect on the expectations of businesses and households, at least in the short term. The duration of the change in expectations, and more broadly the developments in the economy that will be triggered, will depend on changes in economic policy, from this and the coming years.

However, for the time being, these changes have not been finalised, so it is not possible to assess them.

Any changes sought in the economic policy mix will be evaluated by the enhanced surveillance mechanism that applies to Greece, following the completion of the third economic adjustment programme, but also from the regular EU-wide procedures, such as the European Semester. Besides, regardless of the current political events and the developments that they will cause, Greece must achieve the fiscal targets set in the Medium-Term Fiscal Strategy 2019-2022. Furthermore, the implementation of the reforms for which the country has committed must continue, in order to facilitate, sustain and strengthen the recovery of the Greek economy, but also to further improve the conditions of access to the international capital markets.

The evaluation of the newly planned measures and the effectiveness of the interventions introduced in May will be the subject of the next enhanced surveillance review. As stated in the third enhanced surveillance report "a re-assessment of compliance with the requirements of the preventive arm of the Stability and Growth Pact (following the May interventions) will be carried out in autumn 2019, including a revision of the applicable benchmark for net expenditure growth in 2020".

Understandably the ability to implement fiscal measures will depend primarily on the available fiscal space. Prior to the announcement of the fiscal interventions on pensions and VAT in May, the latest forecast on the primary surplus this year, according to the enhanced surveillance methodology, in the Stability Programme 2019-2022, was 4.1% of GDP, 0.5 percentage points higher than in the 2019 budget. However, the Commission's subsequent stability programme forecast stood at 3.6% of GDP and considered that the prediction of the Greek authorities was based on a more optimistic macroeconomic scenario for this year and a different approach to the PIP allocation. [1] Regardless of the "starting point", taking into account the taxation of income on the new lump-sum pension aid, the contributions imposed on it (for the national health service EOPYY), and the boost of consumption spending and thus of tax revenues, IOBE made an approximate estimation of the net fiscal impact from the payment. The estimation showed that in the event that the target for the concerned expenditure (EUR €800 million) is achieved, the net fiscal impact in GDP terms for 2019 is projected to reach 0.22%. For the assessment of the fiscal impact of the reduction in VAT rates a number of assumptions ought to be made, such as to what degree the reduction is passed on to the final prices of the goods and services where it was implemented, to what extent tax compliance might improve etc., which requires extensive analysis of the relevant data. Therefore, whether there is fiscal space for the implementation of the May measures in 2019 is a function of the assessment of the level of the primary surplus without these measures.

In addition to the impact on the fiscal balance, the recent budgetary interventions will boost the real income of households and their consumption expenditure in the short term. The upwards readjustment of the minimum wage from 1 February, by 10.9% to €650, and the abolition of the sub-minimum wage for workers up to 24 years old, which pushes up a number of allowances, constitute perhaps a development that will impact household income most than any other in the current year.

[1] European Economic Forecast Spring 2019, European Commission, May 2019

A section of the business community has adopted an anticipatory stance until the finalisation of the fiscal measures that concern business activity. That said, note that the measures in the 2019 budget include the gradual reduction of the income tax rate of legal entities from this year by 1% per annum for four years, and of the tax rate on dividends by 1% annually for five years, together with the granting of subsidy of 50% of employer social security contributions for new employees. Therefore, many of the companies have taken into account in their planning for the coming years that direct taxation will decline and will not be particularly affected by additional measures in this direction.

Due to the successive election polls, which resulted in the inability to take and implement political decisions on planned reforms, the next enhanced supervision review will probably be postponed for a short period of time. The reforms that should be completed by then include, inter alia, the completion of the third mobility cycle in the public sector, which began in August 2018, the evaluation of the action plans to limit and eliminate State arrears, and the compilation of an action plan to clear pending court cases on indebted households. However, it is necessary to accelerate actions in many policy areas, as stated in the latest enhanced supervision report.[2]

The effects of the election cycle extend to the cost of borrowing of the Greek state and the Greek economy more broadly. The announcement of additional measures for 2019 and 2020 halted the decline in the yield of the 10-year Greek bond, which had started in mid-November 2018, as it fell from 4.58% to 3.31% in mid-May. However, the positive trend following the announcement of the fiscal interventions had a short duration and low intensity, as after a week it switched to a decline again. Since then, at least until the end of June, the trend did not change sign. A key development for this trend is considered to be the early proclamation of parliamentary elections, together with pre-election proclamations to reduce direct corporate taxation and the likelihood of forming a new government, based on the outcome of the European elections, which usually reinforces the expectations of changes in economic policy. As a result, at the end of June, the interest rate of the 10-year Greek bond fell marginally below 2.5%, to 2.48%, reaching its lowest level at least since 1993.

If these yields and the corresponding rates for the remaining bond maturities are retained following the elections, this will limit the interest payments of the Greek state and will have catalytic effects on the funding of banks and large companies from the international capital markets. The opportunities offered by the current cost of raising capital were recently exploited by Piraeus Bank, which successfully issued a Tier 2 subordinated bond, totalling EUR €400 million. Corresponding actions by the other banks, combined with the reduction of non-performing loans, are necessary to strengthen the supply of liquidity to the Greek economy. In addition to the low interest rates, the almost continuous rise of the Athens Stock Exchange since last November is expected to reignite the processes of raising capital through this channel following the end of the election period.

With regard to developments in the effort to reduce non-performing loans (NPLs), the recent actions mainly concern write-offs and sales. According to the latest data on non-performing loans, the NPLs totalled €80.0 billion (45.2% of the total loans) at the end of March, only €1.8 billion lower compared to the end of 2018. The decline in the stock of NPLs came exclusively from write-offs

[2] Enhanced Surveillance Report, Institutional Report 103, European Commission, June 2019

(€0.9 billion) and sell-offs (€0.8 billion). Thus, the stock of NPLs continued to decline primarily with methods that exerted negative pressure on assets, net capital and profitability of the banks. According to the latest report of the enhanced surveillance procedure, in the first quarter of this year, about two thirds of the online auctions were cancelled, postponed or drew no interest. In order to limit the abuse of deferrals of auctions, the relevant provisions in the Civil Penal Code are undergoing an assessment, which should be completed until the next enhanced surveillance review. Therefore, the likelihood that the conditions for auctioning this year will change is small.

Taking into account the above trends in indicators and the developments in the regulatory framework, it is now considered likely that the achievement of the demanding NPL reduction target for the end of this year (€65.0 billion), which entails their fall by €15 billion in three quarters, will be pursued through sales and write-offs. This strategy is evident in the recent and planned bank actions, as in early June, Piraeus Bank sold off corporate non-performing exposures (NPEs), with gross accounting value of €507 million and total credit receivables of €535 million. The National Bank of Greece sold in mid-May a portfolio of loans of small and medium-size enterprises, with a nominal value of approximately €950 million.

As to the trends in another driver of credit supply by the banking system, private sector deposits (households and non-financial corporations) have begun to grow slightly, following their stagnation earlier in the year. In particular, deposits increased by €2.6 billion or 2.0% in March-April, to reach €132.8 billion, from no change between October 2018 and February 2019. Their growth came mostly from the increase in household deposits by €1.46 billion, following the rise that they had in the previous five months and throughout 2018. The increase of deposits of non-financial corporations during these two months reached €1.17 billion. That said, the growth rate was larger than in households (5.9%). The fact that the rise in household deposits has been going on for 20 months, albeit at a moderate rate, currently standing at €112.45 billion (up by 12.6%), is considered to reflect the strengthening recovery of the confidence in the banking system. The positive outcome of the stress test last year and the gradual lifting of the capital controls contributed to this development.

The duration and stability of the upward trend in household deposits, coupled with the achievement of the NPL targets so far, as well as the full repayment of the funds received by the banks from the ECB's ELA mechanism, the interest rate of which was relatively high, constitute the main factors which led to the year-on-year expansion of the lending of the banking system to non-financial corporations in December 2018 – April 2019, compared to the corresponding period one year earlier. Loans to this category of borrowers increased for the first time since the second half of 2011. During the same period, the rate of credit contraction to households and private non-profit institutions did not change compared to the preceding months. In particular, the financing of non-financial corporations expanded at an average rate of 0.8%, while credit to households continued to contract, by 2.2%.

Despite meeting the NPL targets thus far, their achievement for the whole year continues to be a very big challenge. Moreover, although the net deposit flow from households, which have the largest share of private sector deposits, has been positive for a long time, its intensity is weak. Thus, even if the flow continues to increase and slightly speeds up, deposits will not increase by much. For these reasons, credit to businesses will most probably continue to expand at a slightly stronger pace in the second half of 2019, leading to a small credit expansion overall in the private sector. If indeed this happens, such an uptick would take place for the first time since 2010.

Regarding developments in factors affecting business liquidity that are mainly driven by the public sector, the expenditure of the Public Investment Programme (PIP) in January – May this year increased by 46.7% compared to last year, when it had reached its lowest level at least since 2000. It stood this year at €1.17 billion, from €794 million last year, however, it lagged behind the relevant target in the 2019 budget (€1.3 billion). Taking into account, firstly, that the budget of the PIP is the same as in recent years (€6.75 billion), secondly the under-performance of the programme each year, a more frontloaded implementation of the programme than in the previous two years is to be expected for 2019 overall, with slightly higher disbursed grants than in 2018.

Apart from the expected stronger PIP boost to investment activity this year, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity this year. Recall that six major tenders were concluded last year, including the sale of 5% of the common shares of OTE S.A., 66% of the shares of DESFA, 67% of the Port of Thessaloniki and 100% of ROSCO (EESSTY). In addition, the tender for the concession of 1800 MHz radio frequencies for 2018-2035 was concluded and the first payment was collected, while the 20-year extension of the concession agreement of the Athens International Airport (AIA) was also concluded.

For 2019, the projection in the Budget for the revenue from the privatisation programme, excluding the concession fee for the AIA extension, which concerns a transaction completed last year, is notably lower than the target set in the Budget for 2018 (€1.53 billion against €2.74 billion). The fact that more than 97% of the revenue has been planned for its last quarter is probably related to sluggishness in the functioning of the State because of the elections. The influence of the elections is considered to reflect on the performance of the Hellenic Republic Asset Development Fund (HRADF) this year: in the first six months of the year, the fee for the extension of the concession of the AIA (€1.4 billion), and the fee for selling 100% of ROSCO (EESSTY-€22 million) were collected. In addition, preferred investor was selected for the 40-year concession of Alimos Marina. That said, the sale of the shares of Hellinikon SA is still pending, no binding offers were submitted for the acquisition of 50.1% of the share capital of Hellenic Petroleum, there are still obstacles for the 35-year concession of Egnatia Odos and no progress has been made on the sales planned for this year of 11% and 24% of the equity capital of EYDAP and EYATH respectively. Taking this into account, the HRADF activity is anticipated to be less productive than last year.

On the impact of the external sector on economic activity this year, the growth of exports is anticipated to be weaker than in the previous two years. Moreover, this year, unlike last year, the receipts from services will grow stronger than the receipts from goods. The main reason behind the weakening of the favourable effects is the deterioration of the conditions of international trade, at the EU level, but also globally, from the implementation of trade protectionism measures by the US and the reactions they have caused, leading to counter-measures being taken by affected trading partners. The negotiations between the US and China on their bilateral trade relations ended unsuccessfully in April, while the restrictive measures on imports were reinforced on both sides in May, with additional tariffs of $200 billion and $60 billion respectively. Due to the relatively small exposure of Greek exports to products where the US imposed restrictions, their indirect effects are expected to be more pronounced than their direct effects, through their impact on EU exports and those of third countries, which will in turn affect the demand for Greek products in these countries. Within the Euro area, the completion of the expansion of the quantitative easing programme by the European Central Bank at the end of 2018 will also contribute to the slowdown of international trade, as announced by the ECB in early June.

As for the trends in key figures of the world economy that affect the prospects of all national economies, the slowdown in global economic growth this year will prevent a prolonged, strong rise in oil prices, despite the daily production cuts by the OPEC countries since the beginning of 2019, which recently expanded for nine months, and the US sanctions against Venezuela and Iran on their oil exports. Under these effects, the average price of oil in 2019 is projected to move around $64/barrel, i.e. on average 6.0% lower than in 2018. The lower year on year exchange rate of the euro against the dollar will ease the disinflationary or mildly inflationary effect of the lower oil price in the Eurozone countries. It currently stands at its lowest level since June 2017, at around 1.13, while a year ago it was 6.5% higher, in the region of 1.20. The exchange rate depreciation is mostly due to successive interest rate increases by the Fed, which attract foreign capital, following the steadily strong growth in the US, at least in the first quarter of 2019, coupled with low interest rates in the Euro area. The recent ECB announcement to keep them unchanged at least until the summer of 2020, together with an announcement by the Fed in late March that it would not increase its interest rates at least for the remainder of this year and might even reduce them, have formed a period until the end of 2019 for the investors, during which there are strong indications that the US securities will generate higher yield than the securities of the Euro area. Taking into account these effects, it is quite probable that the euro-dollar exchange rate will fluctuate in the second half of the current year slightly lower both against its current level and its level from a year ago.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to the changes in the 2019 budget and the May fiscal interventions, the minimum wage increase, the change in government and its impact on expectations, the trend in the yields of Greek bonds in the capital markets, and the challenging and volatile global environment) for the forecast of the GDP components and other macroeconomic indicators, the changes in the 2019 Budget that resulted in higher social expenditure and tax relief amounting to €1.25 billion, as well as the effects of the increase in the minimum wage and the abolishment of the sub-minimum wage, are expected to be the key drivers of household consumption growth in the current year. The new fiscal interventions for next year, announced during the elections, will have indirect effects this year, through expectations, depending on whether there will be considered to be sufficient fiscal space for their implementation or not, complete or partial etc. Consumption expenditure will also be boosted by further employment growth, which, however, is going to be weaker than in previous years, due to the developments in the regulatory framework of the labour market and the already observed weaker boost from global trade. Taking into account the weak growth momentum demonstrated by consumption demand of the private sector in the first quarter, despite the disbursement of transfer and retrospective payments, private consumption is expected to grow by about 1.2%.

Regarding the current trends and outlook of public consumption, the recruitment of 7.500 people that is envisaged in the 2019 budget is taking place in accordance with the "1 departure – 1 recruitment" rule which should be implemented as per the agreement made with the European partners. The fact that new hires usually have lower salaries than the departing public servants will most probably restrain public spending. The available data on components of public consumption (up until May) point either to a small increase or no change in spending. Especially in the second quarter, the cost of the elections will boost public consumption. Taking into account the contraction of public consumption in the first quarter of this year, public consumption is expected to remain unchanged or increase slightly in 2019.

The conclusion of the election ballots earlier than expected prior to the European elections implies a quicker easing of uncertainty for a part of the businesses that gave increased weight to the politico-economic developments resulting from the elections. However, as mentioned earlier, no new fiscal interventions are expected to be finalised before the completion of the next enhanced surveillance review. The funding opportunities from the banking system have improved in the current year compared to previous years, as evident from the continuous mild credit extension to such businesses since the end of 2018. As it is expected that the net inflow of private sector deposits will continue to be mostly positive in 2019 and that there will be no substantial deviations from the NPL targets, the credit expansion to non-financial corporations is anticipated to slightly strengthen in the remaining months of 2019. The current, considerably lower than in previous years, yields of Greek bonds traded on the capital markets allow the supply of credit to businesses on conditions that do not hinder their servicing. The larger companies, in particular, will seek to exploit right away the improved borrowing conditions and the decline of electoral uncertainty among the investment public, for raising capital.

The very good export performance in recent years will be sufficient incentive for investment in certain sectors and companies, regardless of this year's trend in exports. Besides, in Tourism, certain branches of Manufacturing and Transport, exports continue to expand this year, but to a lesser extent than in previous years, mainly due to the weakening of demand from the Euro area. The implementation of investment will be carried out by the construction industry, while many investment plans will involve the acquisition of machinery and equipment, information and communications technologies, and means of transport, covered to a large extent by imports. The reduction of ENFIA on average by 10% will stimulate construction activity this year. Regarding the impact on investment of public sector activity, the implementation of investment projects is expected to strengthen in completed privatisation deals and from the small uptick in the Public Investment Programme.

Based on the observed and expected trends in its drivers, and bearing in mind that the significant rise in the first quarter of this year is largely due to base effects, as a year ago it stood at a fairly low level, investment activity will most likely strengthen in 2019, with a growth rate of about 8%-11%.

In the external sector of the Greek economy, boost to Greek exports from the strong growth in the Euro area, the region with the largest contribution to the significant expansion of Greek exports of goods in 2017-2018, will weaken in the current year due to the conclusion of the quantitative easing and the effects of the trade protectionism policies. The impact of these policies may strengthen, if the recent announcements on expansion of the restrictions to EU products materialise. The significantly stronger export demand from the countries of the Middle East – North Africa counteracts the slowdown of the rise in the exports of goods. The considerably higher tourism proceeds in the first four months of this year (by 22.8%), outside the usual tourist season, are seen as an indication of a new boost in tourism activity this year, even if in the summer the strong recovery of competing tourist destinations, such as Egypt and Turkey, exercises pressure. The milder demand for tourist services might be offset by the growing international transport services. For these reasons, the strengthening of the exports of services this year will be the main driver of the new growth in total exports, which is projected to be in the order of 5-5.5%.

Boost of imports is expected from investment, but it will not be intense, as a significant part of investment relate to construction, which is carried out mostly with domestically produced materials. Demand from abroad for the household consumption needs will be similar to last year, but the demand for tourist services will strengthen. As a result of the constituent trends, imports will grow in the current year by 6.0-6.5%.

Taking into account the expected developments in the current year that affect the trends in the GDP components, output is projected to grow by about 1.8% in 2019.

State budget: achievement of the January-May targets with higher than anticipated revenues

According to the State budget execution results for the first five months of this year, the total fiscal balance was in a deficit of €1.76 billion, compared with a deficit of €1.00 billion a year earlier. That said, this result was much better than the target, by €3.05 billion. The primary surplus was slightly larger than last year, at €916 million, against €853 million, significantly exceeding the target for a deficit of €1.45 billion. The slight improvement of the primary balance compared to a year ago was mainly due to two factors on the revenue side, as on the expenditure side, the performance this year deteriorated in all categories, except social benefits, which have little weight in total expenditure. The first factor is the increase in revenues from the sale of goods and services, by €996 million, to €1.36 billion, which came from the collection of €1.18 billion from the extension of the concession contract of the Athens International Airport. The second factor is related to the higher revenue from transfers by €538 million, which reached €2.08 billion, coming from the holdings of government bonds by the Bank of Greece (ANFAs and SMPs). Tax revenues were slightly elevated both year on year (by €245 million) and the target (by €617 million), totalling €17.7 billion. Among the tax categories, the strongest expansion was recorded in VAT on other products and services, by €678 million, reaching €6.4 billion, out of which €272 million came from the AIA contract extension.

On the expenditure side, the strongest increase among its main categories occurred in transfers, the major expenditure category, by €1.2 billion, totalling €11.65 billion. This increase came exclusively from one subcategory, transfers to Social Security Finds, which expanded by €1.09 billion, which is mainly linked to the payment of the new, one-off retirement benefit in May. Compensation of employees had the second largest increase, by €461 million, with gross wages growing year on year by €354 million.

Weaker unemployment reduction to about 18.0% this year

The apparent extension of the tourist season in the first few months of the current year, following the extensive increase in receipts, and the expansion of employment in the public sector, were the main drivers of employment year-on-year growth in the first quarter of 2019, as in the previous quarter. A strong upward trend was the tendency of employment in other sectors as well, although in some of them this trend is difficult to explain. In particular, most of the year-on-year job creation in the first quarter of this year came primarily from Tourism (20,200 more jobs or 6.7%) and

Education (also 20,200 or 6.7%). The intensity of the second increase is unusual for a sector supplying largely non-tradable services, dominated by public sector activity. Information – Communication followed in employment growth in absolute terms, adding 14,700 jobs. This strong increase does not seem to be consistent with the decline in the sector's output over the same time period by 2.3%, which was the second largest contraction among the main sectors of the Greek economy. The employment of 12,300 more people in Public Administration – Defence – Compulsory Social Security (increase by 3.7%) contributed to the expansion of employment in the public sector, in addition to its rise in Education. Professional – Scientific – Technical – Administrative Activities (11,500 or 5.6% growth), Manufacturing (11,300 or 3.2%) and Transport – Storage (11,100 or 6.0%) followed, with a similar employment expansion. The rise in employment by 2.4% or 90,200 people year on year in Greece was almost the sole cause of the new retreat of the number of unemployed, as it accounted for 95.9% of its reduction. The remaining 4.1% (3,900 jobs) came from reduction of the labour force. Subsequently, the unemployment rate stood at 19.2%, 2 p.p. lower year on year, with a marginally weaker decline than the average for last year (2.2 percentage points).

As to the drivers of unemployment in the remaining months of this year, the increase in the minimum wage and the abolition of the minimum wage for workers up to 25 years of age are the regulatory interventions with the greatest impact on the labour market this year, creating a risk of slowing down of the growth in recorded employment. They are considered to affect mainly sectors with a high rate of youth employment, including Tourism, Food Services, and Retail Trade. Taking into account this change in the regulatory framework, together with the above projections on the components of the domestic economy, employment is expected to increase mainly in export activities and Construction. As the expansion of exports will weaken year on year, employment growth will also slow down in export-oriented sectors, such as Tourism and some branches of Manufacturing. In Transport, in contrast to 2018, the trend will be positive this year. Public sector employment is anticipated to continue expand. By contrast, employment in banking, the sector with the largest employment reduction in the first quarter, is projected to continue to decline in 2019 as a result of the extensive restructuring of its assets in the current and subsequent years. Given these and other factors that affect employment, unemployment is expected to decline in 2019 less than in previous years, to 18.0%.

Marginal easing of inflation in 2019

In January – May of this year, inflation strengthened year on year, as the CPI increased on average by 0.6%, against 0.1%. Given that the no new indirect taxes nor hikes in already existing taxes were imposed during this period, and with the oil prices slightly lower on average year on year, the increase of the domestic Consumer Price Index in the first five months of 2019 came exclusively from the inflationary pressures of stronger domestic demand. In particular, at the level of its key components, the price index with fixed taxes and without energy goods, which approximates the effect of demand, increased by 0.8%, exceeding the overall CPI change. The effect of indirect taxes was marginally negative (-0.1%), while energy prices had zero effect. Among the main categories of goods, the largest price increase took place in Communications (by 4.9%), Food – Non-alcoholic beverages (1.4%), Transport (1.2%) and Alcoholic Drinks – Tobacco (1.1%). Prices declined in five of the 12 categories of goods and services included in the domestic CPI, with the greatest reduction taking place in Recreation and Durable goods, household equipment - miscellaneous goods and services by 1.6% and 1.7% respectively, against deflation of 1.3% and 1.8% respectively last year.

As to the expected price developments until the end of 2019, given the marginal negative effect exerted on inflation by indirect taxation from January to May, the reduction of VAT on food services, foodstuffs and energy from the end of the same month will reinforce the downward impact of taxes. Regarding the trends in energy costs, despite the cuts of oil production since the beginning of this year by OPEC and its partner countries, notably Russia, the average price of oil (Brent) in the first half of 2019 was 7% lower than in the corresponding period of the previous year, due to pressures from the slowdown in global growth. The difference compared to a year earlier did not expand in June, despite the growing tensions between the US and Iran. Therefore, the extension in early July, for nine more months, of the production cuts by OPEC, is not expected to push up the price of oil year on year, as indeed in the final quarter of last year it had risen significantly. Thereafter, the zero effect of energy on consumer prices, observed in the first five months of this year, is anticipated to carry over, with small fluctuations, to the rest of the year. Therefore, domestic demand will be the only factor pushing up prices this year, as in the period January – May. The positive impact of consumer demand on prices comes mainly from further declining unemployment and the minimum wage increase. Under the current conditions, the average rate of change of the CPI in the current year is expected to be marginally lower than last year, at 0.3%-0.5%.

Special study: Improving the energy efficiency of buildings as a growth driver of the Greek economy

The fourth chapter of this report presents a study of IOBE, which examines the potential impact on the Greek economy from the accelerated implementation of energy efficiency and energy saving measures in buildings, as foreseen in the relevant national and European law. The analysis shows that in addition to the positive impact on energy and environmental indicators, the resource utilisation and the mobilisation of funds for energy efficiency can potentially have a significant impact on GDP, employment and public revenues.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- Indications of slowing growth in the first quarter of this year: 3.3% in the 20 largest economies of the OECD, compared with 4.0% a year ago.
- Forecasts for slowdown of the global economy growth in 2019 to 3.2%, from 3.6% last year. Return to 3.6% next year.
- Weaker growth in 2019 mainly due to slowdown of manufacturing activity and international trade
- Potential sources of negative developments for the global economy: prolonged tensions in trade relations, the impact of ongoing accommodative monetary and fiscal policy in China and the failure to reach an agreement between the EU and United Kingdom for consensual Brexit

In the first quarter of 2019, there are indications that the world economy continued to grow at a pace similar to that in the final quarter of 2018, but slowed down notably year on year. In particular, in the first quarter of this year, in the 20 strongest OECD economies, the average growth rate stood at 3.3%, as in the previous quarter, compared with 4.0% in the first quarter of last year. According to the latest forecasts of the European Commission,[3] the global economy is expected to decelerate to 3.2% in 2019 and recover to 3.5% in 2020.

In early 2018 and early 2019, Manufacturing weakened significantly, as the global index PMI fell to 2016 levels. Meanwhile, there is a noticeable decline in international trade, most notably in the Euro area and China. In late 2018, China's imports plummeted, resulting in a contraction in trade throughout developing Asia. International trade growth slowed considerably in 2018, to 4.6% from 5.4% in 2017 and is estimated to decelerate further this year, before it starts to recover in 2020, when the prolonged trade tensions are expected to ease and the global economy picks up again.

The 'trade war' between major economies and the so far fruitless negotiations on Brexit, have been exerting pressure on the dynamics of international trade, and by extension on the growth of the world economy, since the second half of last year. Anticipating that these pressures will continue to slow growth in 2019 as well, there is a shift to more accommodative monetary policy in large developed countries, with the Fed announcing that it will not increase interest rates further in the current year. The ECB and the central banks of Japan, China and England appear to have adopted a similar stance.

The global economic environment continues to present significant challenges. The strengthening trade protectionism and the difficulties in normalising the US-China trade relations have significantly weakened the growth of Manufacturing and international trade, thereby hampering the long-term growth prospects. Growth in the EU is slowing down, due to its close dependence on external demand, but also due to endogenous factors, such as the end of the quantitative easing programme, the problems that have arisen in the car industry, and the difficulties in reaching an agreement on Brexit. The deceleration of the Chinese economy observed last year, is expected to take place in 2019 and 2020 as well, albeit to a lesser extent than anticipated initially, contributing to the weakening of the global economy, as the Chinese economy accounts for 18.2% of the global GDP.

Regarding the recent trends in the economies of major countries and groups, in the developed economies, the GDP growth rate stood at 2.2% on average in 2018, against a previous forecast for 2.3% growth in 2018 and growth by 2.4% in 2017. The GDP of the OECD members increased at the same rate in the final quarter of 2018 and the first quarter of 2019, by 1.8%, against 2.2% in the third quarter and 2.5% in the second quarter of 2018.

Regarding the trends in the major economies and economic regions in the first quarter of this year, growth strengthened (United States, UK, Japan) or steadied (Euro area, China) quarter on quarter in most of them, while it slowed down in Latin American countries (Brazil) and India.

Among the developed countries, the growth rate in the US strengthened further in the first quarter of 2019, to 3.2%, from 3.0% in the final quarter of 2018 and 2.6% in the first quarter of 2018. The acceleration largely came from the impact on income and wealth of the recent fiscal package of tax cuts, which boosted domestic demand. In particular, consumption expenditure increased at a slower pace than initially anticipated, whereas business investment and government spending expanded quicker. Based on the spring forecasts of IMF, the US growth rate reached 2.9% in 2018, with projections for growth of 2.3% in 2019 and 1.9% in 2020. Meanwhile, the Fed, following the

[3] European Economic Forecast Spring 2019, European Commission, May 2019.

ninth consecutive rate increase since late 2015 in December 2018 and its fourth in the same year, signalled that statutory interest rates will remain unchanged in 2019, as possible further hikes are moved to 2020 onwards. However, after the last meeting of the Fed, in mid-June, the possibility of reducing interest rates in the current year was left open. The key challenges that the US economy is facing are associated, on the one hand, with escalation of trade protectionism, which increases uncertainty and hampers growth prospects and, on the other, with the pro-cyclical fiscal policy, which is foreseen to push output above its potential level and to increase the fiscal deficit, limiting the possibility of a fiscal stimulus in a future economic recession.

Table 2.1

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

Economy	2018	2019		2020	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.6	3.3	-0.2	3.6	0.0
Developed	2.2	1.8	-0.2	1.7	0.0
Developing	4.5	4.4	-0.1	4.8	-0.1
USA	2.9	2.3	-0.2	1.9	0.1
Japan	0.8	1.0	-0.1	0.5	0.0
Canada	1.8	1.5	-0.4	1.9	0.0
United Kingdom	1.4	1.2	-0.3	1.4	-0.2
Eurozone	1.8	1.3	-0.3	1.5	-0.2
Germany	*1.5*	*0.8*	*-0.5*	*1.4*	*-0.2*
France	*1.5*	*1.3*	*-0.2*	*1.4*	*-0.2*
Italy	*0.9*	*0.1*	*-0.5*	*0.9*	*0.0*
Emerging Europe	3.6	0.8	0.1	2.8	0.4
Turkey	2.6	-2.6	-0.8	1.6	-1.6
Developing Asia	6.4	6.3	0.0	6.3	-0.1
China	*6.6*	*6.3*	*0.1*	*6.1*	*-0.1*
India	*7.1*	*7.3*	*-0.2*	*7.5*	*-0.2*
Commonwealth of Ind. States	2.8	2.2	0.0	2.3	0.0
Russia	*2.3*	*1.6*	*0.0*	*1.7*	*0.0*
Middle East & North. Africa	1.8	1.5	-0.9	3.2	0.2
Latin America	1.0	1.4	-0.6	2.4	-0.1
Brazil	*1.1*	*2.4*	*-0.4*	*2.5*	*0.3*
Sub-Saharan Africa	3.0	3.5	0.0	3.7	0.1
World Trade	3.8	3.4	-0.6	3.9	-0.1

* Difference in percentage points compared with the IMF estimates from January 2019

Sources: World Economic Outlook, IMF, April 2019 and OECD Economic Outlook, May 2019 for Turkey

In the Euro area, the growth rate remained unchanged in the first quarter of 2019, at 1.2%. Notable slowdown was registered in the German, French and Italian economies, which posted the lowest growth rates in the Euro area. Given these trends, the Euro area economy is expected to slow down further to 1.2% in 2019, from 1.8% growth in 2018, accelerating slightly in 2020 to 1.5%. Detailed presentation of the trends follows in the next subsection.

In the United Kingdom, GDP grew by 1.8% in the first quarter of 2019, against 1.4% in the preceding quarter and 1.2% in the first quarter of 2018. The deadlock of the negotiations on the post-Brexit period has fed into the uncertainty, making the possibility of a no-deal exit more likely. Following successive failures to pass a consensual exit plan by the UK House of Commons, the country's prime minister resigned in early June and launched the election of a new prime minister by the end of July. Recall that the latest withdrawal deadline expires on 31 October. Provisional data from the statistical office point to a slowdown in the British economy in the second quarter of the year. As a result, the British economy is expected to have a growth of 1.2% in 2019, from 1.4% in 2018.

In Canada, the growth rate weakened further in the first quarter of 2019, to 1.3%, from 1.6% in the previous quarter and 2.2% in the first quarter of 2018. The annual growth is anticipated to slow down to 1.5% in 2019, from 1.8% in 2018.

In Japan, the growth rate stood at 0.9% in the first quarter of 2019, from 0.3% in the preceding quarter and 0.8% overall in 2018. According to the latest IMF projections,[4] the Japanese economy is expected to expand by 1.0% in 2019 and 0.5% in 2020. Inflation eased further in the first quarter of 2018, to about 0.3%, from 0.9% in the final quarter of 2018. As a result, the monetary policy is expected to continue to be accommodative until price growth approaches the inflation target of 2%, at least until the spring of 2020. The persistently low inflation and the demographic issue remain the main challenges to the Japanese economy.

The Turkish economy contracted further in the first quarter of 2019, by 2.8%, following a decline by 3.0% in the final quarter of 2018 and 7.1% growth in the first quarter of the year. The recession is expected to be in the order of 1.8% in 2019, against growth of 2.9% last year. The economic situation in Turkey deteriorated significantly in mid-2018, due to growing inflationary pressures, capital outflows and rising yields of the Turkish bonds. The inflation rate peaked at 25.2% in October, its highest rate since 2003. It has slowed slightly down since then, to 18.7% in May 2019. There is no doubt that the economic developments in Turkey have a direct effect on Greece, as inter alia Turkey is the third largest destination for Greek exports of goods, but also a competitor in certain types of products and services, such as tourism.

The Middle East – North Africa (MENA) is another region outside of the EU that also has significant trade relations with Greece. A slowdown to 1.5% growth is expected for 2019, following a growth by 1.8% in 2018. The reasons behind this development are mainly lower oil production and geopolitical tension in certain countries in the region. That said, the growth rate is expected to pick up strongly in 2020, to 3.0%.

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

In detail, the economy of China kept growing in the first quarter of 2019, at the same rate as in the final quarter of 2018 (by 6.4%), against 6.6% overall in 2018. The slowdown last year came primarily from the implementation of a contractionary regulatory policy, in effort to limit non-systemic banking activity and public investments with overrun budgets, and to a lesser extent from the trade war with the US. After months of negotiations to normalise the trade relations that ended in April, the two countries failed to come to an agreement. The restrictive measures on imports were

[4] World Economic Outlook, IMF, April 2019

reinforced on both sides in May, with additional tariffs of $200 billion by the US and $60 billion by China. In late June, the US government decided not to impose additional duties totalling $300 billion, opting for negotiations with China. Given these developments, further slowdown, albeit not as much as initially anticipated, is expected in 2019 and 2020, to 6.3% and 6.1% respectively.

In India, the economy slowed down to 6.0% in the first quarter of 2019, from 6.6% in the fourth quarter of 2018, and 7.8% in its first quarter. For 2019, growth is projected at 7.3%, mainly from the strong momentum of investment and exports. The high fiscal deficit and the high rate of non-performing loans are the key structural characteristics of the country's economy.

In Russia, the economy strengthened significantly in the final quarter of 2018, growing at a rate of 2.8% from 2.1% in the preceding quarter. For 2018 overall, the growth rate is estimated to have stood at 2.3%, aided by the rebound of international oil prices and the subsequent boost of consumption and investment. In the current year, the Russian economy is anticipated to slow down to 1.6%, growing slightly stronger in 2020 (by 1.7%). The strong dependence on the international prices of energy commodities and income inequality remain the main challenges for the Russian economy.

Growth is expected to accelerate in the upcoming two years for the Latin American economies overall, after a slowdown in 2018. In particular, growth by 1.4% and 2.4% is projected for 2019 and 2020 respectively, from 1.1% in 2018. Economic activity in Argentina has declined sharply since the second quarter of 2018, posting a 2.5% contraction in 2018, after a 3.5% growth in the first quarter of last year. In an attempt to reduce fiscal imbalances, a strict monetary policy was enforced, which led to a drop in domestic demand. The economy shrank by 6.4% in the fourth quarter of 2018, as in the first quarter of 2019. In Brazil, the economy remained on a path of recovery, following the deep recession of 2015 and 2016. The growth rate slowed down in the first quarter of 2019 to 0.4%, from 1.1% in the fourth quarter of 2018. The IMF revised down its forecast for the growth of the economy of Brazil, to 2.1% in 2019, from 1.1% in 2018.

The IFO estimates on the economic climate in the world economy in the second quarter of 2019 were negative, yet milder than in the preceding quarter. In particular, the world economic climate balance strengthened to -2.4 points, from -13.1 points in the preceding quarter. Regarding the assessment of the current situation, the positive balance declined further, to 1.4 points, from 2.6 points in the fourth quarter. In addition, the expectations over the coming six months remained negative, albeit to a lesser degree, as the indicator reached -6.1 points in the second quarter, from -27.7 points in the first.

Table 2.2

IFO – Global economic climate (balances)

Quarter/Year	II/17	III/17	IV/17	I/18	II/18	III/18	IV/18	I/19	II/19
Economic Climate	13.5	13.2	17.1	26.0	16.5	2.9	-2.2	-13.1	-2.4
Assessment of Current Situation	5.1	12.5	17.2	28.3	27.4	17.5	12.2	2.6	1.4
Expectations	22.2	14.0	16.9	23.9	6.1	-10.6	-15.7	-27.7	-6.1

Source: IFO Institute, Center for Economic Studies

Table 2.3

IFO - Economic climate in the Euro area (balances)

Quarter/Year	II/17	III/17	IV/17	I/18	II/18	III/18	IV/18	I/19	II/19
Economic Climate	26.4	35.2	37.0	43.2	31.1	19.6	6.6	-11.1	-6.3
Assessment of Current Situation	21.9	33.4	42.9	51.3	49.9	41.4	29.9	18.3	7.9
Expectations	31.0	37.1	31.3	35.4	13.8	-0.1	-14.3	-36.6	-19.5

Source: IFO Institute, Center for Economic Studies

The economic climate in the Euro area also improved in the second quarter of 2019, albeit remaining in negative territory, with the economic sentiment indicator reaching -6.3 points, from -11.1 points in the preceding quarter. Regarding the assessment of the current situation, the balance declined significantly, to 7.3 points, from 18.3 points in the preceding quarter. Meanwhile, the expectations balance improved, yet it remained negative, at -19.5 points in the second quarter of the year, from -36.6 in the preceding quarter. Therefore, the improvement came purely from less pessimistic expectations for the future.

The inflation rate in the developed economies of the G7 group eased month-on-month in May 2019 to 1.6%, against 1.4% in the first quarter of 2019. It remained below the target in some countries. This observation remains more acute in Japan, where the rate of price change stood at 0.3% in the first quarter of 2019, from 0.9% in the final quarter of 2018 and at 0.7% in May 2019, notably lower than the inflation target of "close to 2%". In the Euro area, the total inflation rate reached 1.4% in the first quarter of this year from 1.9% in the previous quarter, while in the US it stood higher at 1.7% and 2.2% respectively, yet here too disinflation was observed. In May 2019, the inflation rate stood at 1.8% in the US and at 1.2% in the Euro area. The inflation rate in certain developing economies, such as Argentina and Turkey, remained at exceptionally high levels in the first quarter of the year, namely at 51.8% (from 47.6% in late 2018) and 19.9% (from 22.4% previously) respectively. In May 2019, it stood respectively at 57.3% and 18.7%. This development was largely due to the fact that the gradual increase in US interest rates sparked currency devaluation and inflationary pressures in emerging markets. In the global economy overall, inflationary pressures eased after the stabilisation of international prices of basic commodities, especially fuel.

Following the small increase of interest rates carried out by the Fed in December 2018, fourth in a row in the same year, further increase in interest rates were anticipated to start from early 2020. However, as stated above, at the last meeting of the Fed in June, the possibility of reducing interest rates in the current year was left open. Meanwhile, the ECB, having concluded its bond purchasing programme at the end of 2018 and maintaining its policy of re-investing the funds from the repayment of bonds that mature, announced it would keep its interest rate on the main refinancing operations at zero at least until the summer of 2020.

B. The economies of the EU and the Euro area

- Growth remained unchanged quarter on quarter in the first quarter in the Euro area and the EU, at 1.2% and 1.9% respectively, from 2.5% and 2.4% in the same quarter a year before
- Negative contribution of net exports to growth for the third consecutive quarter in the first three months of the year
- Weaker economic sentiment indicator in the Euro area and the EU in the second quarter, compared to the previous quarter and the same quarter of 2018
- Projections for Eurozone growth at 1.2% in 2019 and 1.5% in 2020
- Main sources of uncertainty: weakening global trade, extended uncertainty regarding Brexit, high public debt and non-performing loans

In the first quarter of 2019, the economies of the European Union and the Euro area grew at a the same pace as in the preceding quarter, by 1.5% and 1.2% respectively, against 2.5% and 2.4% growth a year earlier. According to the latest forecasts of the European Commission,[5] the Euro area economy is expected to grow by 1.2% and 1.5% in 2019 and 2020 respectively, compared to 1.9% last year, while the EU economy is projected to grow by 1.4% this year and 1.6% next year, from 2.0% in 2018.

Domestic demand was the main growth driver in the EU in the first quarter of 2018, to a slightly higher degree than in the previous quarter, as the positive contribution of investment increased slightly (from 0.9% in late 2018 to 1.0% in the first quarter of this year), while the contribution of consumption remained unchanged. The impact of net exports on growth remained negative in the first quarter of 2019 for the third consecutive quarter, at -0.6% against -0.5% in the final quarter of last year. The trends in the composition of growth in the Eurozone economies are slightly different, with domestic demand being the main driver, but having weakened quarter on quarter, to 1.4% from 1.7%, due to weaker positive contribution of investment (0.5% in the first quarter of this year, from 0.9% in the final quarter of last year), while the effect of consumption did not change. In addition, in this quarter, the contribution of net exports remained negative in the Euro area for the third consecutive quarter, yet it weakened quarter on quarter.

The composition of the GDP expenditure components remained similar in the EU and the Euro area, with consumption representing 75% and 74.3% of GDP respectively, investment at 22% and 21.5%, exports at 48% and 49.7% and imports at 45% and 45.5% of GDP.

The highest growth rates in the EU in the first quarter of this year (in terms of year-on-year changes in seasonally adjusted data) were recorded in Hungary (5.2%), Romania (5.1%) and Malta (4.8%). Greece, at 1.3%, marginally outperformed the average growth of the Euro area in the first quarter of 2019. The lowest growth rates were recorded in Italy (-0.1%), Germany (0.7%), France (1.2%) and the United Kingdom (1.8%). In terms of a 12-month moving average, Greece recorded the sixth lowest growth rate in the EU, at 1.6%, essentially converging to the average of the Euro area and the EU (1.8%), ahead of France and Germany, which posted a growth rate of 1.4% and 1.1% respectively in the first quarter of 2019. The countries with the lowest 12-month growth rate were Italy (0.4%), the United Kingdom (1.5%) and Belgium (1.4%). By contrast, the highest growth in the

[5] European Economic Forecasts Spring 2019, EC, May 2019

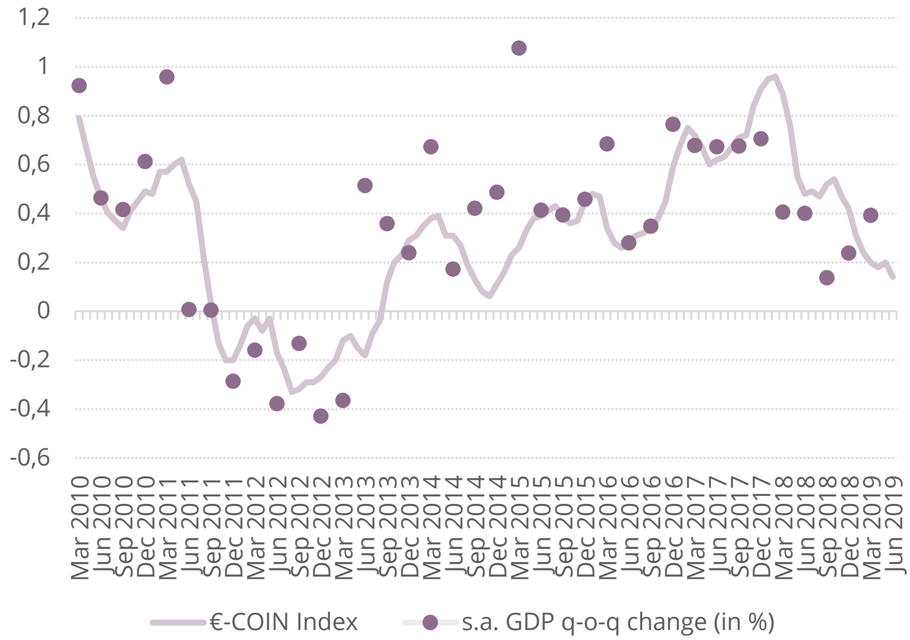
EU on a 12-month moving average basis was recorded in Malta (6.6%), Hungary (5.1%) and Poland (5.1%).

Regarding the economic climate and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN index[6] declined further in the second quarter of the year, to 0.17 points, from 0.25 points in the preceding quarter and 0.57 points in the second quarter of 2018. On a monthly basis, the index fell to 0.14 points in June 2019, at the levels of December 2014, capturing a clear trend shift away from the positive climate in the Eurozone economy that prevailed until early 2018.

Figure 2.1

Monthly €-COIN Index & Eurozone GDP

Further decline of the leading indicator €-COIN in the second quarter of 2019. It reached its lowest level since the first quarter of 2015



Source: CEPR and Bank of Italy

The economic sentiment indicator of the European Commission declined further in the EU and the Euro area in the second quarter of 2019, for the sixth consecutive quarter, after recording its best performance since the year 2000 in the final quarter of 2017. In June 2019, the economic sentiment indicator stood at 102.3 points in the EU and 103.3 points in the Euro area, lower month on month by 1.5 and 1.9 points respectively. Year on year, it declined by 9.4 and 8.5 points respectively.

Overall in the second quarter of 2019, the indicator in the EU stood lower by 2.3 points quarter on quarter, and by 8.5 points year on year. In the Euro area, the economic sentiment indicator stood lower by 1.9 points quarter on quarter and 7.7 points year on year. At the country level, the climate indicator strengthened in France by 1.8 points quarter on quarter, falling year on year by 4.6 points. In the United Kingdom, due to prolonged uncertainty on Brexit, the economic sentiment

[6] 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.

deteriorated further, by 4.9 points quarter on quarter and 10.2 points in the relation to the same quarter of 2018.

Table 2.4

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

Month	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
EU-28	111.6	111.0	111.9	113.2	113.0	114.4	113.9	113.7	111.7	111.7	111.8	111.7
Euro area	111.6	111.0	111.9	113.2	113.0	114.4	114.0	113.2	112.0	112.2	111.5	111.8

Month	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
EU-28	111.5	111.5	110.7	110.1	109.3	107.5	106.2	105.4	105.0	103.6	103.8	102.3
Euro area	111.2	111.0	110.4	109.7	109.5	107.4	106.3	106.2	105.6	103.9	105.2	103.3

Source: European Commission (DG ECFIN), June 2019

Note that the economic sentiment indicator subsided in Germany as well, by 3.4 points quarter on quarter and 7.5 points year on year. The economic sentiment also worsened in Italy, by 1.1 points quarter on quarter and 7.2 points year on year. Finally, in Greece the economic sentiment indicator remained unchanged quarter on quarter, lagging 3.4 points behind the Euro Area average in the second quarter of 2019. Still, the indicator marginally increased month on month in June 2019 to 101 points, albeit down on the 102.1 points recorded a year earlier.

More comprehensive information on the GDP components in the Euro area and the EU in the second quarter of 2019, as well as on potential trends in the coming period is provided next in this subsection. Predictions for 2019-2020, as reflected in the latest European Commission forecasts for the EU-28 and the EU area are also presented.

In greater detail, according to Eurostat data for the first quarter of 2019 (year-on-year changes in seasonally adjusted data), private consumption in the European Union increased by 1.4%, same as in the preceding quarter, against 2.0% in the same period of 2018. Similarly, consumption in the Euro area expanded by 1.1%, same as in the preceding quarter, against 1.8% a year earlier. The European Commission projected in May 2019 the same year-on-year growth in household consumption in the EU as last year, at 1.6% in 2019, accelerating to 1.7% in 2020. For the Euro area, it also projected stable private consumption growth at 1.3% in 2019 and stronger growth by 1.6% in 2020. Among the EU countries, private consumption growth strengthened substantially in Germany, to 1.6% from 0.6% in the preceding quarter, marginally increased in France to 0.8%, from 0.7% in the final quarter of 2018, while by contrast it slowed down in Italy to 0.2% from 0.5%. In the United Kingdom, private consumption growth marginally strengthened quarter on quarter to 1.7%, from 1.6% in the final quarter of 2018. In Spain and Greece, private consumption growth slowed to 1.4% and 0.8% respectively, from 1.9% and 1.1% in late 2018.

Public consumption growth strengthened quarter on quarter in the first quarter of this year in the EU (+1.4%), remaining unchanged in the Euro area (+1.1%). In the first quarter of last year, public consumption had increased by 1.1% in the Euro area and by 1.2% the EU. For 2019 and 2020, the European Commission anticipated growth by 1.6% and 1.3% respectively in the EU, while for the Euro area, it estimated an increase by 1.4% and 1.3%. In the first quarter of 2019, public consumption declined substantially in Greece, by 4.1%, against 1.4% in the preceding quarter.

Table 2.5

Key macroeconomic figures, EU-28 and the Euro area (annual % change in real terms, unless indicated otherwise)

	EU-28			Eurozone		
	2018	2019	2020	2018	2019	2020
GDP	2.0	1.4	1.6	1.9	1.2	1.5
Private Consumption	1.6	1.6	1.7	1.3	1.3	1.5
Public Consumption	1.1	1.6	1.3	1.1	1.4	1.3
Gross Investment	3.2	2.1	2.1	3.3	2.3	2.3
Exports of Goods and Services	3.0	2.5	3.1	3.2	2.3	3.0
Imports of Goods and Services	3.2	3.1	3.3	3.2	2.8	3.3
Employment	3.1	1.9	1.6	1.5	0.9	0.8
Unemployment (% labour force)	6.8	6.5	6.2	8.2	7.7	7.3
Inflation	1.9	1.6	1.7	1.8	1.4	1.4
Balance of General Government (% GDP)	-0.6	-1.0	-1.0	-0.5	-0.9	-0.9
Debt of General Government (% GDP)	81.5	80.2	78.8	87.1	85.8	84.3
Current Account Balance (% GDP)	2.2	2.0	1.9	3.6	3.3	3.2

Source: European Economic Forecasts, Spring 2019, European Commission, May 2019

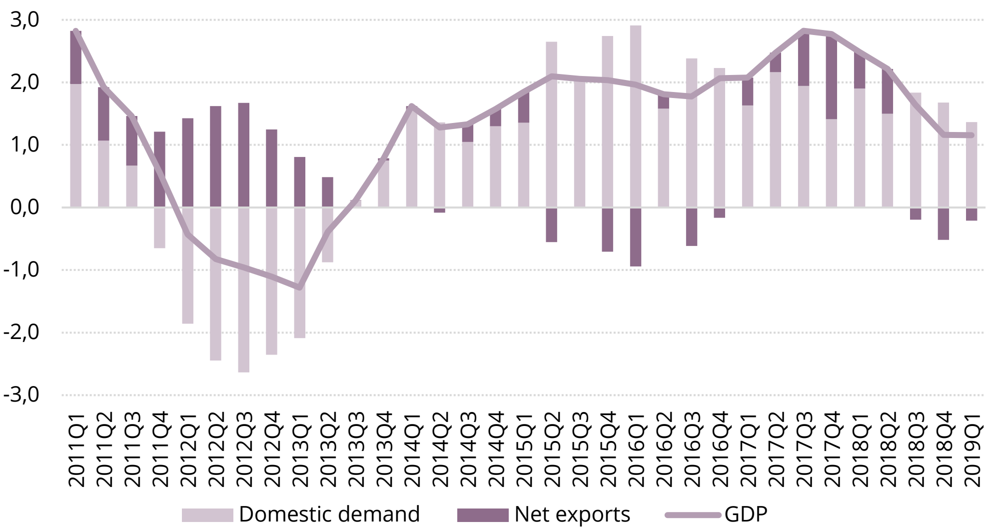
Investment expanded in the first quarter of 2019 at the same rate in the EU as in the preceding quarter (4.5%), while its growth slowed down in the Euro area to 2.5%, against 4.2% in the preceding quarter. In the first quarter of 2018, investment had increased by 3.4% in both the EU and the Euro area. The European Commission anticipated investment to grow by 2.1% in 2019 and 2020 in the EU, while it anticipated investment growth by 2.3% in both years in the Euro area. Investment growth slowed down in the first quarter of this year in Germany to 2.4%, from 5.8% in the preceding quarter, while in Italy investment contracted further and stronger by 4.6%, against -1.3% in the final quarter of 2018. Investments in France accelerated sharply, to 1.9% from 0.3% in late 2018, while in the UK it strengthened much more in the first quarter of the year, ahead of the forthcoming Brexit and uncertainties for the future trade relations with the EU, to 17.2% from 4.7% in late 2018.

The growth of the exports of goods and services strengthened in the first quarter of 2019, after five quarters of a slowdown, as it reached 3.2% in both the EU and the Euro area, compared with 2.2% and 2.0% growth in the preceding quarter, and expansion by 3.7% and 3.9% correspondingly in the first quarter of 2018. For 2019 and 2020, the European Commission anticipated the growth of exports in the EU to slow down compared to last year to 2.5% and 3.1% respectively. Slightly stronger slowdown is anticipated in the Euro area in 2019, to 2.3%, with a recovery to 3.0% anticipated in 2020. At the country level, exports growth strengthened in Germany, after four continuous quarters of slowdown, to 1.6%, from 0.3% in the final quarter of 2018. Likewise, exports to France and Italy accelerated in the first quarter this year, to 3.6% and 3.5% respectively, from 2.8% and 1.0% in the previous quarter. By contrast, export growth slowed down sharply in Greece in the first quarter, to 4.0% from 10.1% in the final quarter of 2018, respectively. A mild increase in exports growth was observed in the first quarter of 2018 in the UK, to 1.5% from 0.2% in the final quarter of 2018, after two consecutive quarters of decline (-1.3% and -0.3% in the third and second quarters of 2018). Exports decreased slightly in Spain, by 0.5%, from 1.0% in the previous quarter, while in Cyprus exports declined for the fourth consecutive quarter, by 9.1% from -0.2% in late 2018.

Import growth strengthened in the first quarter in the EU to 4.7%, from 3.5% in the preceding quarter. Weaker acceleration was recorded in the Euro area, to 4.0%, from 3.4%. Their growth rate was stronger than a year earlier, when imports were expanding by 3.1% in the EU and by 2.9% in the Euro area. For 2019 and 2020, the European Commission anticipated growth by 3.1% and 3.3% respectively for the EU, while for the Euro area it projected a slowdown of the growth rate to 2.8% in 2019, and a recovery to 3.3% in 2020. At the country level, imports growth strengthened in most countries in the first quarter of 2019. In particular, stronger import growth was recorded in Germany (4.2% in the first quarter of 2019, from 3.2% in the preceding quarter), Italy (1.8% from 1.4%), and France (3.1% from 1.0%). In contrast, imports contracted in Spain (-1.2% from 1.7%). Lastly, a significant increase in imports was observed in the United Kingdom (by 10.2%, from 2.6% in Q4 of 2018), which is probably related to the concern about the effects of Brexit on trade relations with the EU, and in Greece (by 9.5%, from 2.1% previously).

Figure 2.2

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



The negative contribution of net exports to GDP growth in the Euro area eased in Q1 2019. Domestic demand had a positive but weakening contribution, due to a slowdown in investment

Source: Eurostat

As a result of the developments in the GDP components in the Euro area, the contribution of net exports remained negative in the first quarter of 2019, for the third consecutive quarter, albeit weaker than in the final quarter of 2018 (-0.2%, against -0.5%). The contribution of net exports was negative, despite the stronger growth acceleration of exports compared to imports, as the growth of imports remained stronger. Domestic demand had a positive contribution (1.4%) of GDP, lower than in the preceding quarter (1.7%). The weakening came from investment, which contributed 0.5% to GDP growth in the first quarter of this year, comparted to 0.9% in the final quarter of 2018.

The harmonised inflation rate slowed down in the first quarter of 2019 in both the EU and the Euro area, standing at 1.6% and 1.4% respectively, from 2.0% and 1.9% in the preceding quarter. In the corresponding quarter of last year, harmonised inflation stood at 1.5% and 1.1%, in the EU and the Euro area respectively. For 2019 and 2020, the European Commission projected recently that the inflation in the Euro area would stand at 1.4%, reaching 1.6% and 1.7% in the EU, mainly due to the drop in oil prices. In May, harmonised inflation stood at 1.1% in France, at 0.6% in Greece, at 1.3% in Germany and at 0.9% in Italy.

The growth of employment remained unchanged in the first quarter of 2019 at 0.2% in the EU and the Euro area, yet it slowed down notably compared to the first quarter of 2018 (1.4% and 1.3% respectively). The European Commission projected that employment growth would weaken in the EU in 2019 and 2020, to 0.8% and 0.7% respectively, from 1.3% in 2018. In the Euro area, employment growth is also anticipated to slow down, to 0.9% in 2019 and 0.8% in 2020, from 1.5% in 2018. Employment increased most in the first quarter of 2019 in Malta (2.5%), Ireland (1.5%) and Cyprus (1.3%), while employment contracted in Poland (-0.1%), Bulgaria (-0.7%), Lithuania (-0.4%), Hungary (-0.2% and Greece (-0.3%).

Unemployment fell further in the first quarter of 2019, to 6.5% in the EU and 7.7% in the Euro area, compared to 6.6% and 7.9% respectively in the preceding quarter, its lowest level in both regions since 2008. In the first quarter of last year, the unemployment rate had stood at 7.1% in the EU and 8.5% in the Euro area. For 2019 and 2020, the European Commission projects further decline of unemployment in the EU, to 6.5% and 6.2% respectively (from 6.8% in 2018), while in the Euro area the unemployment rate is projected at 7.7% in 2019 and 7.3% in 2020, compared to 8.2% overall in 2018. In the first quarter of this year, the highest unemployment rate was recorded once more in Greece (18.3%), followed by Spain (14.2%) and Italy (10.4%), while it stood at 8.7% in France and at 3.2% in Germany.

Regarding the fiscal performance, the general government deficit declined to 0.6% of GDP in 2018 in the EU, from 1.0% in 2017. The European Commission projected that it will marginally increase to 1.0% in 2019 and 2020. In the Euro area, the fiscal deficit is anticipated to expand to 0.9% of GDP in 2019 and 2020, from 0.5% in 2018. Public debt in the Euro area stood at 87.1% of GDP last year. It is projected to decline in 2019 and 2020 respectively, to 85.8% and 84.3% of GDP respectively. Despite the progress, public debt remained very high across quite a few Member States in the fourth quarter of 2018, with the highest rate as a percentage of GDP recorded in Greece (181.1%), Italy (133.5%), Portugal (121.5%), Cyprus (102.5%) and Belgium (102%).

As to the monetary policy framework, the European Central Bank continued to pursue accommodative monetary policy by maintaining very low interest rates, after the end of the unconventional quantitative easing (QE) programme in December 2018. According to a recent ECB announcement, from early June, the interest rates will remain unchanged until at least the first half of 2020 and as long as needed in order to ensure the continuation of the convergence of inflation to levels below and close to 2% in the medium term. Note that the current levels of interest rates were set in March 2016.[7]

Furthermore, the ECB will maintain its policy of reinvesting the principal payments from maturing securities for an extended period of time after the first hike in the interest rates, and in any case

[7] Press release "Monetary policy decision", ECB, June 2019

for as long as necessary to maintain favourable liquidity conditions and the largely accommodative character of monetary policy, yet it will no longer partake in net asset purchases.

In short, the economy in Europe, and more specifically in the Euro area, is currently facing a series of challenges and mainly:

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

2.2 The Economic Environment in Greece

A. Economic Sentiment

- The economic sentiment indicator remained stagnant quarter on quarter in Greece in the second quarter of 2019 (at 100.8 points). Small reduction compared with the corresponding quarter of last year (102.8 points)
- Business expectations weakened quarter on quarter in the second quarter in Retail Trade and Construction, and strengthened marginally in Industry and to a greater extent in Services
- The consumer confidence indicator stood higher, at -29.4 points, from -31.1 points in the preceding quarter and -48.7 points a year earlier, posting its best performance since the first quarter of 2008.

The IOBE economic sentiment surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the indicators used in the surveys constitute leading indicators for various economic magnitudes and can be used to predict near-term developments and even the course of GDP.[8]

In the second quarter of this year, the economic sentiment indicator did not change in comparison to the previous quarter. Thus, the Greek economy as a whole was seemingly on hold during that period. This is considered to be largely a product of diverging views of businesses and consumers, mainly with respect to the forthcoming at the time elections and their repercussions. On the one

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

hand, the expectations of households strengthened for the third consecutive quarter, possibly due the early proclamation of parliamentary elections and the possibility of forming new government, which usually reinforces the expectations for changes in economic policy, and the new fiscal interventions in May. On the other, in case of that they are not implemented or a significantly cut, expectations will subside, probably strongly. The approach of businesses in the pre-election period differs from that of consumers, as usually they adopt a wait-and-see stance until the finalisation of the announced measures of their concern, following the elections. Besides, at the international level, the activity in the EU, the main export destination of Greece, is under pressure, from the conclusion of the quantitative easing programme by the ECB and the impact of trade protectionism measures on global trade. For this reason, changes in expectations in key sectors are mild and not in the same direction. Especially the businesses with high seasonal employment are trying to adjust to the recent changes in the labour market, with the increase of the minimum wage and the abolition of the sub-minimum wage. Thus, developments surrounding the implementation of the announced budgetary measures will soon drive the expectation trends. In greater detail:

The Economic Sentiment Indicator remained unchanged quarter on quarter in the second quarter of 2019 in Greece, at 100.7 points on average, yet it was lower than the average from the same quarter of the previous year (102.8 points).

In Europe, the corresponding indicator declined quarter on quarter in the quarter under examination both in the EU and in the Euro area. In particular, the Economic Sentiment Indicator averaged 103.2 points (from 105.5) in the second quarter of 2019 in the EU and 104.1 (from 106.0) points in the Eurozone.

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

The Consumer Confidence Indicator in Greece in the second quarter of 2019 was on average slightly higher at -29.4 points (from -31.1 points in the first quarter), a performance substantially better than last year (-48.7 points), reaching its highest level since the first quarter of 2008. At the country level, the Greeks maintained their top rank on the European pessimism scale. The corresponding average European index marginally strengthened in the EU to -6.8 (from -7.0 points), while in the Euro area it remained unchanged (at -7.0). These levels are lower in the Euro area and the EU in relation to last year as well (-4.4 and -4.7 points respectively).

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

In particular, the percentage of consumers pessimistic about their household's financial situation over the next 12 months marginally decreased to 40% (from 44% in the previous quarter), while the share of respondents holding the opposite view increased to 13% (from 12%). Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation declined marginally to 44% (from 47%), with 20% (from 18%) expecting a slight improvement. Considering the intention to save, the percentage of households that did not consider it possible that they would do any savings in the following 12 months remained unchanged at 84%, while the percentage of those that considered it possible marginally increased to 15% (from 14%). The percentage of those believing that unemployment would increase eased to 43% (from 45%), while 26% (from 24%) on average expressed the opposite opinion. The percentage of consumers that reported to be «in debt» in the second quarter of 2019 was 10% (from 11%), marginally lower in comparison with the same quarter the year before (11%), while the percentage of respondents who said they saved a little remained at 15% (from 10% in the second quarter of last year). Finally, the percentage of those who declared that they were "just about managing to make ends meet on their income" remained unchanged at 63%, while the percentage of households reporting that they were "drawing on their savings" marginally increased to 11% (from 10% in the preceding quarter), at the same level as in the same quarter of 2018.

The Business Climate Indicator in Industry stood at 103.8 (from 101.8) points in the second quarter of 2019, lower than its corresponding level of 2018 (102.7 points). In the key activity indicators, the expectations for short-term output change strengthened significantly in the examined quarter (28.2 from 22 points on average), while the estimates for the level of orders and demand declined (to -14 from -17 points). The assessment of the stock of finished products point to enlargement (to 13 from 9 points), while the trends in the export indicators were positive. The export expectations over the following quarter improved strongly (27 from 16 points), while positive yet milder change was recorded in the assessment of current exports for the sector (at 7 from 6 points) and in the expectations on foreign orders and international demand (-12 from -19 points). The quarterly balance of employment expectations increased to 11 (from 5) points on average. The production capacity utilisation rate increased marginally to 71.6% (from 70.4%), while the guaranteed production period averaged 4.7 (from 5.1) months.

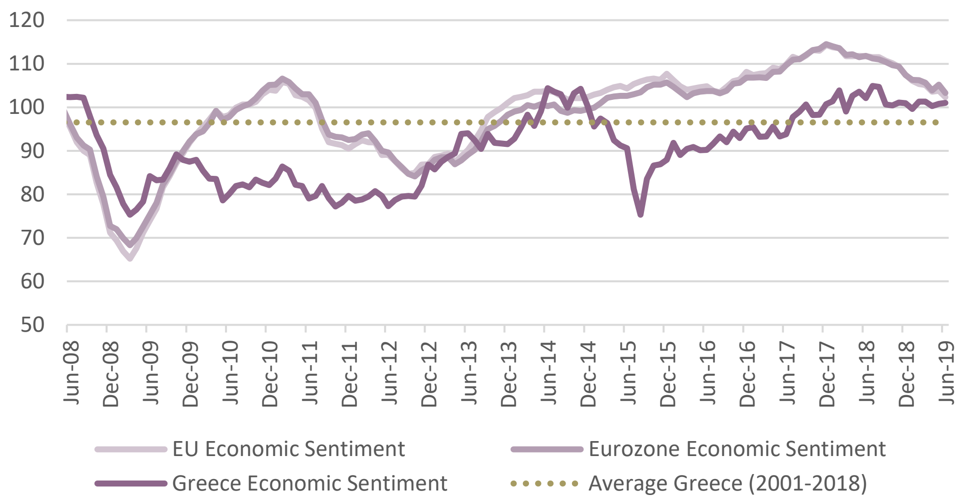
The Business Climate Indicator in Retail Trade decreased in the examined quarter to 97.8 points (from 105.8), lower than in the same quarter of the previous year (104.7 points). Among the key components of the indicator, the average balance of the current sales assessment declined notably to 1 (from 21) point. About 40% (from 27%) of the enterprises in the sector reported that their sales had declined, with 41% (from 48%) stating the opposite result, while the projected sales indicator strengthened slightly from 18 to 25 points, and the assessment of inventories increased (to 14 from 0 points). Regarding the remaining activity indicators, the balance of expectations for orders to suppliers declined (10 from 17 points on average per quarter), while the short-term employment forecast remained unchanged at 21 points. Finally, the balance of price expectations remained at 1 point, with 8% (from 5%) of the companies expressing expectations of a decline in prices and 84% (from 88%) predicting price stability. Business expectations weakened in all subsectors of Retail Trade in the second quarter of 2019.

Business expectations in Construction slightly declined in the second quarter of 2019, with the balance standing at 54.8 (from 56.7) points on average. The indicator stood lower year on year (60.5 points). Among the key components of the indicator, the employment expectations in the sector improved slightly to -30 points (from -32), while 8% (from 7%) of the companies were expecting job creation in the sector, with 39% (from 40%) expecting a decline. The expectations of the businesses about their activity level became more pessimistic (at -75 from -69 points), while the assessment of their current level of activity slightly improved (-16 from -26 points). The months of activity accounted for work in hand in the sector dropped to 7.1 (from 7.5), while the negative balance of price expectations slightly improved to -19 (from -21) points, with 23% (from 25%) of the companies expecting a decrease in the short-term and 4% an increase. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business reached 14% (from 9%), while among the remaining businesses, 20% reported low demand as the main barrier (from 16%), 51% named insufficient funding and 14% factors such as the country's general economic situation, capital controls, high taxes, lack of projects, and belated payment by the state. At the subsector level, business expectations strengthened slightly in Public Works and deteriorated sharply in in Private Construction, a change that is mostly due to the significant decline in the construction of other private buildings.

Figure 2.3

Economic Sentiment Indicators: EU, Euro area and Greece, (1990-2017=100, seasonally adjusted data)

The Economic Sentiment Index in Q2 this year remained unchanged quarter on quarter, slightly up year on year



Source: European Commission, DG ECFIN

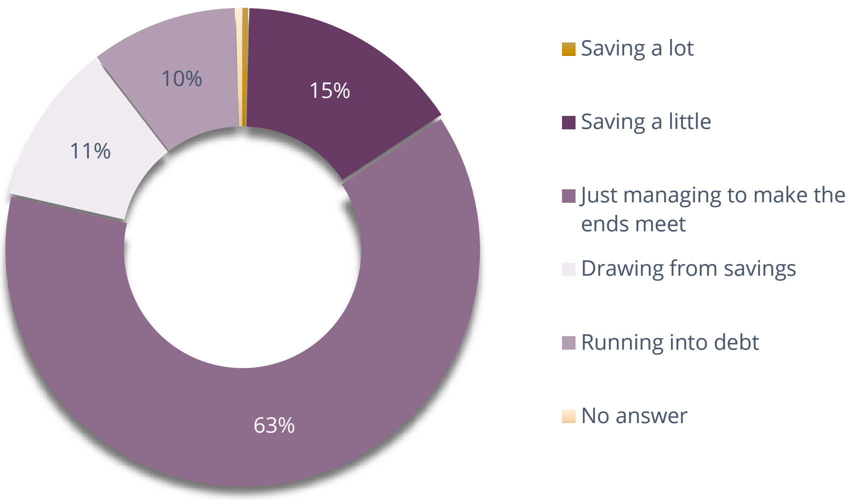
In Services, the average Business Climate Indicator increased quarter on quarter in the second quarter of 2019, to 92.6 (from 85.7) points, reaching a lower level than in the same period of 2018 (104.4 points). Amongst the main components, estimates on current demand marginally improved, with the index balancing out on average from -2 in the previous quarter. The assessment of the current level of business activity also increased (at 3 from -6 points on average), while the short-term demand expectations of the businesses in the sector improved strongly to 21 (from 7) points. Regarding the remaining activity indicators, the balance of employment expectations of the respondents strengthened (to 23 from 7 points on average), while the balance of price expectations stood at 2 (from -2) points. Finally, the percentage of respondents reporting a seamless business operation increased slightly to 31% (from 25%) on average, with 32% declaring lack of demand as a major barrier to their operation, 16% citing working capital shortage and 15% other factors, such as the country's general economic situation, difficulties in obtaining credit, high taxes, and arrears.

Among the examined subsectors of Services, the indicators strengthened quarter on quarter in the second quarter in all subsectors except IT Services.

Figure 2.4

Consumer survey data on the financial situation of households

(average: April – June 2019)



The number of respondents stating that they save (15%) and of those responding that they barely make ends meet (63%) remained unchanged from the first quarter

Source: IOBE

Table 2.6

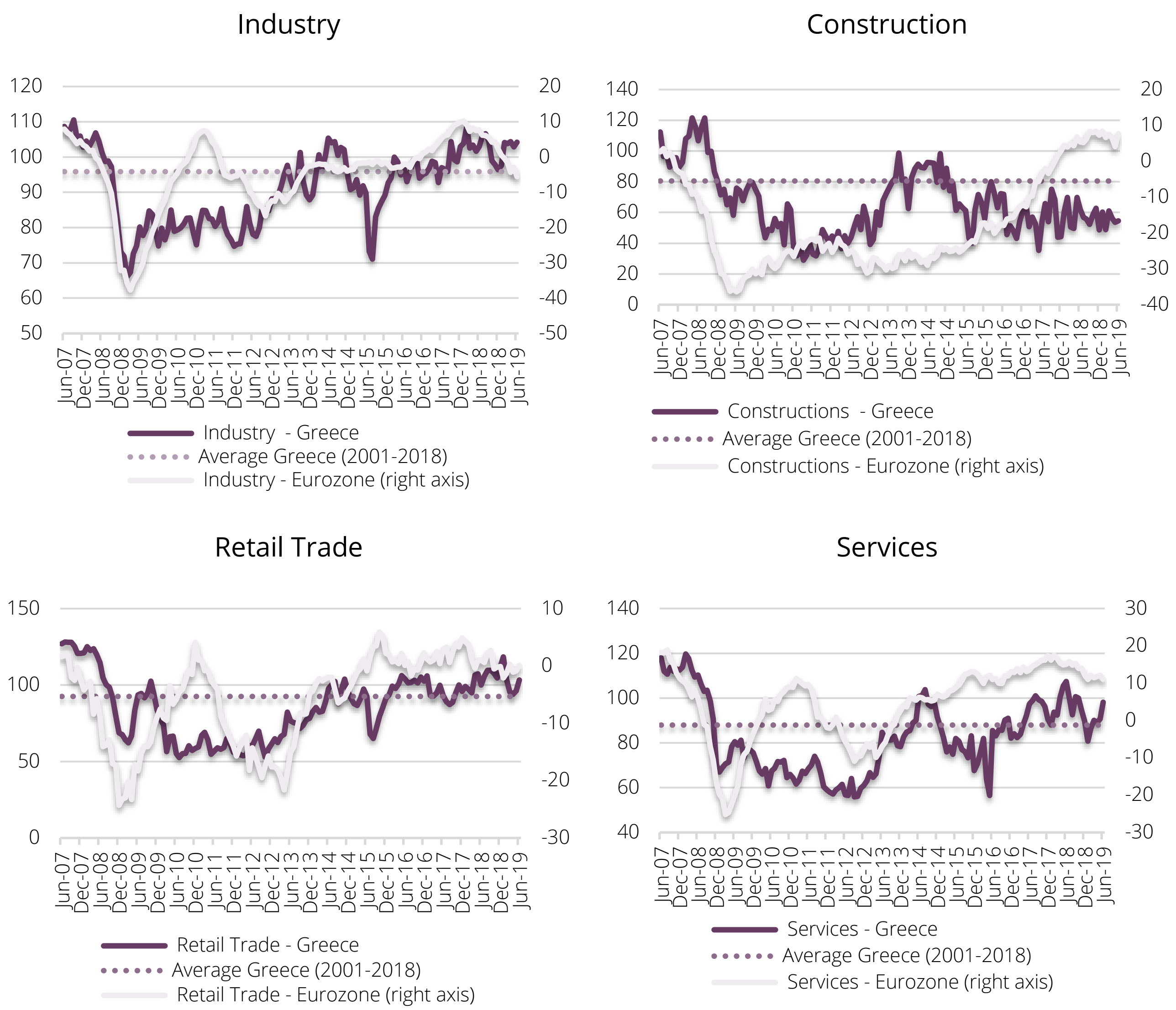
Economic Sentiment Indicator

Time Period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2008	92.2	92.9	100.1	96.9	104.8	105.9	104.6	-38.2
2009	77.2	78.6	82.6	76.0	72.0	83.3	75.0	-36.7
2010	99.3	99.2	82.8	79.9	52.2	61.3	68.1	-56.9
2011	98.5	99.9	81.2	81.1	37.7	60.9	66.1	-70.5
2012	88.6	88.9	80.0	81.4	47.5	59.1	58.8	-73.9
2013	93.2	91.4	90.9	92.6	71.5	72.6	75.3	-69.3
2014	102.7	99.7	100.0	99.7	88.4	92.3	93.3	-52.8
2015	105.2	103.2	88.8	86.3	62.0	83.9	78.2	-50.3
2016	105.1	104.1	91.8	96.1	61.3	101.4	79.3	-62.9
2017	110.5	110.1	96.6	98.1	55.4	94.6	92.7	-58.9
2018	111.3	111.2	102.1	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.1	113.2	101.4	105.1	60.3	97.1	91.4	-49.8
Q2 2018	111.8	111.8	102.8	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.2	110.9	103.4	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.0	108.9	100.8	97.7	56.6	108.2	94.6	-32.6
Q1 2019	105.5	106.0	100.7	101.8	56.7	105.8	85.7	-31.1
Q2 2019	103.2	104.1	100.7	103.8	54.8	97.8	92.6	-29.4

Sources: European Commission, DG ECFIN, IOBE

Figure 2.5

Business Climate Indicator



Source: IOBE

Business expectations deteriorated quarter on quarter in the second quarter in Retail Trade and Construction and strengthened slightly in Industry and more notable in Services.

B. Fiscal developments and outlook

General Government Results 2014—2018

According to the latest national accounting data,[9] submitted to Eurostat in April, the General Government (GG) reported a surplus, for the third consecutive year, of 1.0% of GDP, against forecasts for a surplus of 0.6% of GDP in the budget. Greece posted the sixth highest surplus in the EU last year. Recall that until the end of November 2018, the surplus estimate in the budget of

[9] Fiscal data 2018, 1st announcement, ELSTAT, April 2019

2019 was 0.6% of GDP. Correspondingly, the primary surplus of GG reached 4.5% of GDP, against an initial forecast for a surplus of 4.2% of GDP and latest estimate for 4.1% surplus in the 2019 budget (Table 2.7). In addition, in accordance with the methodology of the Enhanced Surveillance, the primary surplus reached 4.3% of GDP last year, against a contractual obligation of the country for a primary surplus of 3.5% of GDP.

These fiscal results are considered very good, yet as pointed out in the past, they were achieved at great cost in terms of public investment, growth and employment. The implementation of a strongly contractionary fiscal policy was one of the reasons why the growth rate in 2018 was restricted to 1.9%, against 2.5% as initially anticipated in the 2018 budget. The new cut in public investment by €513 million in fiscal terms is considered unjustified. On national-accounting basis, investment fell in 2018 to their lowest level in recent years, at just €5,601 million. The fiscal results, achieved with this kind of cuts, contributed to the achievement of the fiscal targets, but they do not promote growth.

Table 2.7

General Government results* (% of GDP, national accounting data, ESA 2010)

	2014	2015	2016	2017	2018		
					Initial targets	2019 Budget	Actual
General Government Balance	-3.6	-2.9	0.3	0.7	0.6	0.6	1.0
Primary GG balance	0.4	0.6	3.4	3.9	4.2	4.1	4.5

Sources: Fiscal data 2018, 1st announcement, ELSTAT, April 2019 - Explanatory Report Budget 2018 and 2019, Ministry of Finance, November 2017 and November 2018

* Excluding the impact from funding of financial institutions

As in the preceding years, the improvement in the General Government balance came almost exclusively from social security funds (SSFs) [10], which were anticipated initially (2018 Budget) to have a surplus of €1,785 million, but achieved almost double that amount (surplus of €3,308 million). The same had happened in 2017. At the same time, according to the information available, the overdue pensions, i.e. those that are ready to be paid, reach about 49,000, while many thousands main and supplementary, together with a large number of lump-sum, pensions are still pending. The local authorities account also improved slightly, by €331 million, as in 2017. By contrast, the Central Government reported almost double the deficit that was initially budgeted, at €1,990 million, against €1,001 million, despite the cut in public investment by €513 million. Similar developments occurred in 2017.

The macroeconomic scenario of the Budget for 2018 was anticipating economic growth by 2.5% and a primary GG surplus of 4.2% of GDP. In the end, economic growth did not exceed 1.9%, while the primary surplus reached 4.5% of GDP.[11] If only those measures that were necessary to achieve primary surplus of 3.5% of GDP were taken (in line with the country's contractual obligations) and

[10] Excluding hospitals

[11] Excluding the impact from funding of financial institutions

investment was not cut again, then the growth performance of the economy last year would have been much better.

Contrary to the good budgetary performance, significant chronic problems, such as arrears of the public sector, non-performing loans,[12] the start of the Hellinikon works etc., the resolution of which would have accelerated notably the pace of growth, remained unsolved in 2018. The financial markets take very seriously into account the growth performance and prospects of each economy, perhaps more than the primary surpluses, especially when growth is underperforming.

The current tax-centric policy leads in the medium term to an impasse. The continuous increase of taxation augments the taxpayer arrears to the State, despite the new recovery measures applied by the Independent Authority for Public Revenue AADE, reflect the heavy taxation and the inability of taxpayers to meet their obligations. According to the latest data, in January – February 2019 the new arrears to the tax office exceeded €2.0 billion. In addition to the high tax burden, its distribution is particularly problematic, as some low and middle income taxpayer groups are burdened much more than others.

The Greek economy continues to be characterised by macroeconomic imbalances. Indicatively, it is reported that the arrears to the tax office, amounting to almost €105 billion,[13] the social security funds (more than €34 billion) and PPC (€2.7 billion) correspond to approximately 77% of GDP. Along with arrears to banks, they far exceed GDP. Recurrent debt restructuring exacerbates and perpetuates the problem, as it allows strategic payers to abuse the restructuring. It is indicative of the effectiveness of the restructuring programmes, that of those who initially enter such a programme, after some, not long, period, many discontinue to serve their debt. As regards access to the new programme with 120 instalments, it is considered to be a significant fault that it does not include any wealth criteria, while deposits are not taken into account either. Such arrangements are a hotbed of high moral hazard and an affront to honest taxpayers, which lost the small pre-payment discount of 1.5% in 2018.

As there has been great progress in fiscal consolidation, the overriding aim of economic policy should be to support investment, exports and growth, and to reduce unemployment. In this regard, any fiscal space should be used mostly, but not exclusively, for reducing taxes and public debt. In such a way, the fiscal policy will contribute both to achieving a higher growth rate and to reducing the imbalances that still exist in the economy. Otherwise, it is quite likely that the private sector imbalances will affect public finances as well.

General Government Debt

In 2017 the consolidated general government debt increased by approximately €1.7 billion, reaching €334.5 billion, from €317.5 billion in 2017. Meanwhile, despite the rise in nominal GDP by 2.5%, the public debt-to-GDP ratio increased last year by five percentage points, from 176.2% of GDP in 2017 to 181.1%. As a result, the debt-to-GDP ratio reached its highest level since the early 1950s (Table 2.8).

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[12] The relevant law was finally passed in April, but other steps are still needed

[13] Without surcharges and fines.

Table 2.8

General Government consolidated debt (million €)

	2013	2014	2015	2016	2017	2018
General Government consolidated debt	320,509	319,629	311,729	315,010	317,485	334,537
% GDP	177.4	178.9	175.9	178.5	176.2	181.1
GDP	180,654	178,656	177,258	176,488	180,218	184,714

Source: Fiscal data 2018, 1st announcement, ELSTAT, April 2019

The rise in debt in 2018, despite the overall surplus and the high primary surplus, came from significant public lending from the ESM, in order to strengthen the security cash reserve[14], of €11.4 billion, in view of the conclusion of the third economic adjustment programme in August 2018. This reserve will be used in the event of market access difficulties. In addition to the negative mark generated by the debt size, significant amounts are paid for interest on the borrowed funds. Greece's debt, as a percentage of GDP, remains the largest in the European Union, at a great distance from Italy, which has the second highest debt (132.2% of GDP).

For a country with high debt, the pursuit and achievement of primary surpluses marks two developments. First, that the current fiscal management is sound, and second, that the debt momentum is weakening and the debt-to-GDP ratio begins to decline. In Greece, despite the continued achievement of primary surpluses since 2014 and overall surpluses since 2016, the debt ratio, for various reasons[15], has kept rising.

It is not certain that markets prefer high primary surpluses[16], sluggish growth and growing debt-to-GDP ratio, albeit creating in parallel a security cash buffer. The international experience of successful sovereign debt reductions in the past shows that the following are required: (a) sustained long-term effort, (b) sufficient growth rates, and (c) attainment of (moderate) primary surpluses over a long number of years, which, however, are based on a permanent reduction in expenditure, not on high taxes. The continuous and steady reduction of the debt-to-GDP ratio for many years is the best indication that the country has finally changed its fiscal policy and is aiming firmly at debt reduction. In the case of Greece, the markets are also awaiting the consolidation of the banking system and the completion of reforms.

For the time being, Greece projects a mixed picture. While high primary surpluses are being achieved, public debt is not decreasing. Meanwhile, the borrowing from the markets takes place with quite higher interest rates, compared to the other Eurozone countries. At the same time, there are risks for significant expansion of public expenditure by: (a) the recent final judgments on

[14] The total borrowing from the ESM in 2018 amounted to €21.7 billion, of which €11.4 billion were allocated exclusively for boosting the cash reserves. Also, in 2018 €3 billion were borrowed from the markets.

[15] One of the reasons, for example, is the repayment of old arrears of the state to its suppliers. Funds were borrowed for this purpose, but the related expenses are not accounted in the deficit for the current year and have no effect on it. However, public debt increased.

[16] Which, however, are almost impossible to sustain over a long number of years.

seasonal allowances and retrospective payments to pensioners, (b) annulment of pension cuts[17], (c) newly announced allowances, (d) difficult financial situation of state-owned enterprises, such as PPC and ELTA. In addition, the state arrears to its suppliers, which should have been fully repaid by August 2018,[18] amount to €2.36 billion (end of April 2019), against €2.0 billion at the end of 2018.

Execution of the State Budget, January-April 2019

As analysed in detail in IOBE's first quarterly report for 2019, the final figures of the State budget (SB) for 2018 were ultimately worse than the estimates on the basis of which the 2019 budget was drawn up. In particular, the SB[19] deficit for 2018 stood at €4.6 billion, against a €3.2 billion initial estimate. Respectively, the SB primary surplus almost disappeared[20], at €91 million, against a €2.3 billion estimate (Table 2.9). In addition, according to the ELSTAT data, the growth rate in 2018 did not exceed 1.9%, while the 2019 budget was drafted based on a 2.1% projection for 2018.

Given the weaker fiscal (on cash basis) and macroeconomic outcomes in 2018, achieving the targets in 2019 becomes more difficult, as the deterioration will carry over into 2019. Besides, the global economic environment has also deteriorated further and the uncertainty has intensified compared to the autumn of 2018. The increase of GDP in the first quarter of this year, by 1.3%, makes it quite possible that the growth forecast for this year in the 2019 budget (2.5%) is not going to be achieved. In this regard, it will take considerable effort in order to achieve the fiscal targets for 2019, which is hampered by the fact that the current year is a year of multiple elections, with implications for the planning and operation of the state.

Note also that the fiscal policy outlined in the Budget for 2019 is considerably more "loose" than the one included in the MTFS 2019-2022, which was drafted in June 2018, only four months prior to the submission of the budget to parliament. Indicatively, the Budget for 2019 includes a summary of measures amounting to €1.2 billion, as follows: (a) cancelling pension cuts for old pensions, which will continue to differ from those granted from 2016 onwards, (b) average reduction of the ENFIA by 10%, (c) payment of housing allowance, (d) subsidy of social security contributions for young employees and (e) reduction of social security contributions for the self-employed, freelancers and farmers. In order to partly offset the negative impact of these measures on public finances, public investment was cut from €7,300 million in the MTFS 2019-2022 to €6,750 million.

The alignment of new and old pensions[21], and the abolition of the "personal difference" from the 1 January 2019, was not implemented. According to the European Commission's report on Greece,[22] this change does not directly affect the commitment of the country to achieve a primary surplus of 3.5%. However, in the long-term, up until 2040 on average, the fiscal costs will be higher.

[17] The differences that have arisen between old and new pensioners (after 2016) are very difficult to maintain in case of court challenges.
[18] A new extension was granted until the end of May 2019
[19] According to the new approach of drafting the Budget.
[20] This development is also due to a reduction in interest payments by €0.8 billion, which are no longer included in the budget. Otherwise, the primary surplus would have stood at €0.9 billion and its reduction at approximately €1.4 billion.
[21] Meaning pensions given before and after Law N 4387/2016.
[22] Box 3.1, Enhanced Surveillance Report, Greece, Institutional Report 090, European Commission, November 2018, pp. 14-17

This fact has a negative impact on the debt sustainability projections and as a result on the improvement of the credit rating of the Greek State.[23]

Besides, the non-alignment of pensions, which was legislated in 2018 (N.4472/2018), together with some other measures adopted in December 2018 and early 2019, (e.g. the special favourable tax treatment of the retroactive payments to special wage grids), as well as the additional measures of last May, create the impression of a partial reversal of reforms. This development has negative repercussions and does not help for upgrading the credit rating and restoring the credibility of economic policy in Greece.

The two bond issues in early 2019, of five- and ten-year maturity, as well as the decision to repay part of the debt to the IMF,[24] constitute one more step towards the recovery of the creditworthiness of the Greek state. Nevertheless, despite some improvement, its credit rating remains at a distance from the investment grade and the interest rates of the two issues were high compared to corresponding Euro area countries.

The new measures of May 2019

The measures announced in the first ten days of May are considered to constitute a relaxation of fiscal policy. The new interventions are divided into two categories. The first package includes measures to be implemented immediately and the second arrangements to be implemented in 2020.

In particular, the first package includes: (a) the immediate payment of a lump-sum allowance to pensioners, calculated as a percentage of their main pension, ranging from 100% for low up to 30% for high pensions, (b) the transfer of food services and certain foodstuffs from the standard VAT (24%) to the reduced rate (13%), and (c) the transfer of electricity and gas from the reduced (13%) to the super-reduced rate (6%). The reduction of the property tax ENFIA by 30%, for properties worth up to €60,000 was added to these measures. The amount of the reduction shall not exceed €100.

The second package contains more proposals, which are also more interesting, with a clear growth dimension, such as increase of the depreciation rate to 150%, and reduction of the social security contributions for workers aged up to 29 years, which will be implemented from 2020 onwards and might be revised by that time. For this reason, they will be examined, if implemented, in a future IOBE quarterly report.

With regard to the first package, it has been repeatedly noted in this section of the report that at this stage, the Greek economy must be given a direct priority to return to high and sustained growth rates. The acceleration of the growth process should be based on investment and exports. The measures of the first package do not seem to promote these aims. The rise of the disposable income of pensioners from the payment of temporary lump-sum aid will undoubtedly boost aggregate demand. However, the experience in Greece is that higher demand translates primarily in rising imports and inflation.

[23] See Bank of Greece, Annual Report for 2018, p. 161 (in Greek).
[24] Loans amounting to about €3.7 billion, with an interest rate in excess of 5.0%.

The second measure, to reduce VAT on food services and certain foodstuffs, might strengthen tourism. However, sector experts stress that large deals with the main tour-operators for 2019 have already been struck since the first quarter of the year, so its effect this year will not be strong. They also point out that the measure should cover accommodation services, which essentially set the price of the 'tourist package', rather than food services.

Finally, the reduction of VAT rates on electricity and natural gas may help with the cash liquidity of certain companies, yet it does not constitute a substantial reduction in production cost, as the VAT on inputs is offset against the VAT on the company outputs.

From the above, it is clear that the first package of measures, for which strong reservations have been expressed by the 'institutions' as well, does not have a substantial growth aspect and is addressed mainly to final consumers. In general, any tax reduction is welcome if it promotes economic growth and at the same time is accompanied by a corresponding permanent containment of expenditure in order to safeguard fiscal stability. These conditions are not met in this case.

State Budget Balance and Primary Balance

The available data on the execution of the State Budget (SB) for the first four months of the current year point to a deterioration of the key fiscal figures compared to 2018. In particular, the SB deficit reached €1,041 million or 0.5% of GDP, against a surplus of €119 million or 0.1% of GDP over the same period in 2018. This implies that the SB balance deteriorated by 0.6% of GDP. Respectively, the primary surplus dropped by 0.2% of GDP, in relation to 2018 (Table 2.9).

However, the balance of the first four months was better compared to the initial target[25], by €2.6 billion. This development is due to: (a) lower than anticipated retroactive payments for special wage grids by about €0.7 billion; (b) collection of lump-sum revenues[26] from the renewal of the Athens International Airport contract amounting to €0.9 billion, (c) collection of the lump-sum VAT corresponding to this transaction, amounting to about €0.3 billion, (d) reduction of the interest payment target by €0.5 billion. In addition, investment expenditure is below the target by €0.2 billion, while there are also other smaller differences.

From the above it is evident that the results of the first four months were heavily influenced by extraordinary factors, which, in conjunction with the May measures that push expenditure up, increases the uncertainty regarding the fiscal developments and, for the time being, prevent the formulation of credible forecasts.

[25] The initial monthly targets are shown in the explanatory budget report for 2019, p. 60, Table 3.12. However, these targets have been unofficially revised, as the targets in certain categories of revenue and expenditure in the budget execution bulletins differ. According to the revised targets, the overshoot totalled €2.1 billion. The difference of EUR €535 million is due to the different way of recording interest.

[26] The total revenue from the renewal amounts to €1,176 million, of which about €272,000 were recorded as VAT revenues.

Table 2.9

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

	January - April		% Change	2018	2019 Budget	% Change
	2018	2019				
SB revenue (1+2)	15,387	15,956	3.7	51,793	53,022	2.4
1. Gross OB revenue	14,294	15,063	5.4	49,155	49,282	0.3
a. OB revenue before tax refunds	15,652	16,254	3.8	54,735	54,100	-1.2
b. Tax refunds	1,358	1,191	-12.3	5,580	4,818	-13.7
2. PIP revenue	1,093	893	-18.3	2,638	3,740	41.8
SB expenditure (3+4)	15,268	16,997	11.3	56,372	56,796	0.8
3. OB expenditure	14,764	16,111	9.1	50,135	50,045	-0.2
α. Primary expenditure	13,083	13,607	4.0	45,459	44,445	-2.2
β. Interest[1] (on gross basis)	1,681	2,504	49.0	4,676[1]	5,600[1]	19.8
4. PIP expenditure	504	886	75.8	6,237	6,750	8.2
SB balance	119	-1,041		-4,580	-3,774	
% of GDP	*0.1*	*-0.5*		*-2.5*	*-2.0*	
OB primary balance	1,800	1,463		91[2]	1,826	
% of GDP	*1.0*	*0.8*		*0.1*	*1.0*	
GDP (at current prices)	184,714	192,749		184,714	192,749	

Source: SB Execution Bulletin January-April 2019, Ministry of Finance, May 2019.

* According to the new approach of reporting revenue and expenditure

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

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

Ordinary Budget Revenue

The OB revenue before tax refunds over the first four months of the year increased by 3.8% in relation to 2018, amounting to €16.25 billion, while compared to the target set for the first four months, it was higher by 9.2%. This positive development is essentially due to the collection of revenues amounting to €1,176 million from the extension of the concession contract of the Athens airport for the period 2026-2046. Without this collection,[27] the OB revenues, pre-tax refunds, are lower year on year by 2.5% (Table 2.10).

The revenue from income tax declined compared to 2018 by 3.4%, with the reduction coming essentially from the proceeds from the personal income tax and "other income taxes". This development is partly due to the fact that in the first few months of the year, the new arrears of taxpayers to the state have significantly increased, as well as the fact that the retroactive payments paid since January were excluded from the extraordinary solidarity levy.

[27] The sums of €199 million and €1,176 respectively were deducted from the proceeds for 2018 and 2019 respectively. As mentioned above, part of the €1,176 million sum was recorded in the VAT revenue.

The revenue from the property taxes also decreased slightly over the first four months, essentially from the ENFIA tax on property. In contrast, revenues from the taxation of inheritance and donations increased (Table 2.10).

Table 2.10

State Budget Revenue* (million. €)

	Jan.-Apr.		%	2018*	2019*	%
	2018*	2019*	Change	Est.	Budget	Change
Net SB revenue	15,387	15,956	3.7	51,793	53,022	2.4
Net OB revenue	14,294	15,063	5.4	49,155	49,282	0.3
Tax refunds	*1,358*	*1,191*	*-12.3*	*5,580*	*4,818*	*-13.7*
OB revenue	15,652	16,254	3.8	54,735	54,100	-1.2
Income tax, of which:	3,725	3,597	-3,4	16,548	16,796	1,5
--Personal	*2,966*	*2,911*	*-1.9*	*10,902*	*11,070*	*1.5*
--Corporate	*342*	*324*	*-5.3*	*4,299*	*4,420*	*2.8*
Property tax	520	505	-2.9	3,082	2,801	-9.1
Taxes on donations, inheritance etc.	45	77	71.1	161	159	-1.2
Tariffs	76	89	17.1	232	237	2.2
Taxes on goods and services, of which:	8,728	9,043	3.6	27,437	27,559	0.4
--VAT	*5,514*	*5,872*	*6.5*	*17,184*	*17,210*	*0.2*
--Excise duties	*2,243*	*2,183*	*-2.7*	*7,184*	*7,381*	*2.7*
Other production taxes	695	442	-36.4	1,238	944	-23.7
Other current taxes	520	441	-15.2	2,564	2,631	2.6
Social contributions	19	18	-5.3	65	58	-10.7
Transfers	408	343	-15.9	141	309	119.1
Sales of goods and services	199	1,104	454.8	740	773	4.5
Other current revenue	712	594	-16.6	2,509	1,498	-40.3
Sales of fixed assets	5	2	-60.0	18	335	1,761.1
PIP Revenue	1,093	893	-18.3	2,638	3,740	41.8

Sources: Explanatory Budget Report 2019, Ministry of Finance, November 2018, Table 3.2 and SB Execution Bulletin for April 2019, Ministry of Finance, May 2019.

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

In indirect taxation, the proceeds from VAT increased by 6.5% compared to 2018 and reached €5.872 million. Note that these revenues are reinforced with an amount of EUR €272 million by the extension of the concession contract of the Athens airport. Without the specific revenues, the rise is limited to 1.6%. The revenues from excise duties declined by 2.7% in the first four months, coming essentially from the excise duty on tobacco products (-8.9%). Note that the revenues from the excise duty on tobacco were also short of the target, by €78 million. Likewise, the proceeds from the excise duty on alcohol (and from "other excise duties") were slightly lower both compared to 2018 and the target (Table 2.10).

The revenues from "other taxes on production", which relate to revenue from the Bank of Greece, also declined, by 36.4%. The reduction came from the repayment of ELA by the commercial banks. The Reduction was also recorded in revenue from transfers, which comes from sovereign bonds held by the Bank of Greece (ANFA's and SMP's). Finally, other current revenue is down 16.6% in the first four months of the year.

Note that the tax refunds are significantly lower compared to 2018 (-12.3%), resulting in net OB revenues showing a significant year-on-year rise in the first four months (5.4%).

From the state of the revenues in the first four months, excluding the proceeds from the airport concession, it is not feasible at present to project their trend overall for 2019, as in several cases the targets are exceeded, yet there is also a significant lag compared to the previous year.

Ordinary Budget Expenses

In January – April 2019, the OB payments increased by 9.1% compared to the same period in 2018 and reached €16.11 billion. This amount includes the retroactive payments of €324 million, disbursed to special wage grid public servants in January. [28] Large part of the increase in expenses comes from interest payments. Without these payments, primary spending grows by 4.0%. Excluding retroactive and interest payments, the rate of increase of primary spending drops to 1.5% (Table 2.13).

In the categories of primary expenditure, payments for compensation of employees increased by 10.2% year on year, to reach €4.552 million. Adjusting for the retroactive payments, the compensation of employees increases by 2.3%. The payments for social benefits declined notably year on year, by 47.8%, reaching €251 million, yet they exceeded significantly the target for this period, set at €42 million. Note that this expenditure for the first four months of the year has already exceeded its annual target, set at €246 million (Table 2.11).

Payments for transfers increased by 4.1% year on year, to reach €8,450 million. Most of this category of expenditure (68.6%) relates to grants from social security funds (SSFs). In the first four months, the transfers to local authorities, which are also included in the category "transfers", declined by 23.5%. This trend might be reversed in the coming months, exerting upward pressure on OB expenditure.

Expenses for subsidies, amounting to €82 million, are almost double than the target (€45 million) and a multiple of the respective expenses in 2018, yet the overall amount is small. Lastly, the payments for interest increased 49.0% year on year, to reach €2,504 million, yet the increase is lower than the corresponding target (€2,982 million). Besides, these expenses were projected from the outset to be much higher compared to 2018 on an annual basis.

It should be that the expenses for January-April were burdened with the payment of the first instalment of various allowances (e.g. family and housing). However, they have not been burdened with the lump-sum aid to pensioners paid in May. For the rest of the year, significant pressure to increase spending beyond the projections of the budget is anticipated, especially if the court decisions on the annulment of 2012 cuts in pensions and bonuses, are implemented, even partly. Such developments constitute the greatest threat for the proper execution of the budget and the course of public finances in the years to come.

[28] Without the retroactive payments, the year-on-year growth falls to 6.9%.

Table 2.11

State Budget Expenditure*- (million €)

	Jan-Apr		% Change	2018*	2019* Budget	% Change
	2018*	2019*				
SB Expenditure (1+2+3)	15,268	16,997	11.3	56,372	56,796	0.8
OB Expenditure (1+ 2)	14,764	16,111	9.1	50,135	50,045	-0.2
1.Primary OB Expenditure	13,083	13,607	4.0	45,459	44,445	
Compensation of employees	4,131	4,552	10.2	13,121	13,016	-0.8
Social benefits	481	251	-47.8	1,978	246	-87.5
Transfers	8,118	8,450	4.1	28,179	26,104	-7.3
(of which SSFs)	*5,656*	*5,797*	*2.5*			
Purchase of goods and services	259	222	-14.3	1,532	1,324	-13.6
Subsidies	12	82	583.3	75	150	100.0
Other current expenditure	10	26	160.0	32	51	59.4
Non allocated expenditure	-	-	-	-	2,938	-
Purchase of fixed assets	71	23	-67.6	542	617	13.8
2. Interest[1] (gross basis)	1,681	2,504	49.0	4,676[1]	5,600[1]	19.8
3. PIP Expenditure	504	886	75.8	6,237	6,750	8.2

Sources: Explanatory Budget Report 2019, Ministry of Finance, November 2018, Table 3.2 and SB Execution Bulletin for April 2019, Ministry of Economics, May 2019.

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

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

By the end of February, the arrears of the State towards its suppliers (including outstanding tax refunds) amounted to €2,360 million, €342 million higher than in December 2018. If these arrears are fully repaid by mid-2019, in accordance with the relevant commitment under the Enhanced Supervision[29], this will also cause upward pressure on spending in coming months.

Public Investment Programme

In the first four months of this year, the payments for investment increased, resulting in an essentially balanced PIP, as it had a surplus of only €7 million. PIP revenue was 18.3% lower compared to 2018, falling to €893 million. With the new approach of reporting the figures in the Budget Execution Bulletin, the PIP revenues per source (EU Funds, domestic contribution) are no longer shown, thus it is not clear where the decline comes from. It is, however, most likely to be due to the limited proceeds from the EU, as traditionally the vast majority of revenues come from its funds.

PIP expenses increased year on year by 75.8%, yet they remained below the corresponding target for this period of the year by €154 million. This is an important development, as in recent years the PIP was systematically under-executed until November and a very large part of its expenditure was made in December.

[29] "Enhanced Surveillance Report, Greece, June 2019", Institutional Paper 103, European Commission, pp. 30

For the time being, it is not possible to make credible estimates on the trajectory of PIP in the current year. Note, however, that for 2019 the investment expenditure was already cut by €550 million in the Budget, compared to the Medium-Term Fiscal Strategy 2019-2022, drafted in the summer of 2018. As a result, it reached €6.75 billion, as in the previous three years.

C. Financial developments

- Recovery of market value in the banking sector
- Significant decline in the cost of funding for the Greek State, with the spread reaching its lowest level in nine years
- Recovery of credit to non-financial corporations
- Gradual increase in the flow of private deposits
- Revised targets for NPL reduction, pending decisions on new system strategy

The investment climate in the finance sector continued to improve significantly in the second quarter of 2019, as the stock exchange index for banks increased cumulatively by 85% since the start of the year, recovering its losses from the second half of 2018. The market factors that boosted the investment climate include the reduced duration of the election period, as the parliamentary elections were brought forward a few months, and the international climate of euphoria in the markets, under the influence of indications that the accommodative monetary policies is going to be prolonged. These developments resulted in a significant decrease in Greek government bond yields, at historically low levels of below 2.5%, while the spread against German bonds reached its lowest level since 2009, falling under 300 basis points. At the same time, the update of the regulatory framework on indebted households, the recovery of the Greek economy and the gradual strengthening of banking fundamentals, such as the mild deposit growth, the reduction of Non-Performing Loans (NPLs), and the complete disengagement of the banks from the Emergency Liquidity Assistance (ELA) create positive prospects for the banking system in the medium term.

In spite of these positive developments, the banks continue to face major challenges. The weak quality of their assets and equity, the modified ambitious targets and the delays in the finalisation of a stronger NPL reduction strategy are the most prominent challenges. Indicatively, decisions on how to systematically deal with NPL through securitisation, as laid out in the draft proposals of the HFSF and the Bank of Greece, in order to achieve the new ambitious reduction targets over the medium term, are still pending. With regard to recent changes in the regulatory framework, it is crucial that the platform for the protection of primary residences is effectively implemented by excluding strategic non-payers. Changes in property auctions, which mostly end up today with the property staying on the books of the banks, are also important.

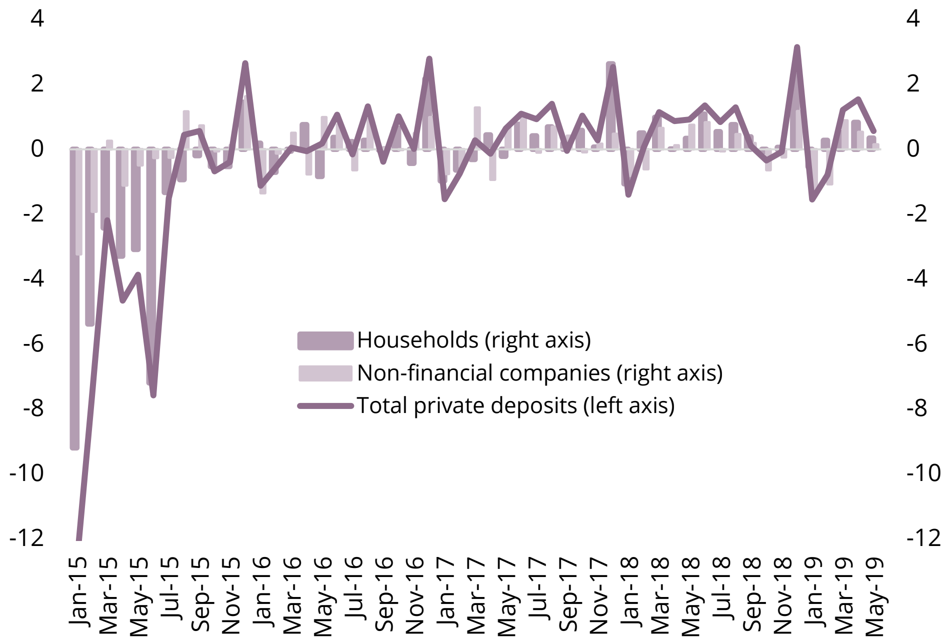
Regarding the impact of the banks on the real economy, the credit contraction to households remains unchanged. However, business lending recovered over a number of months, after eight years of uninterrupted contraction. Despite the easing of the cost of lending for the Greek state, the cost of bank financing has remained higher compared to other European countries. These trends make the need to intensify the effort to achieve the NPL reduction targets, and to improve the quality of the banks' fundamentals, all the more important.

On the liabilities side of the banks' balance sheet, private deposits began to recover. Between March and May 2019, the monthly net inflow averaged €1.1 billion, of which €0.5 billion came from non-financial corporations (NFCs) and €0.6 billion from households (Figure 2.6). Compared to the average monthly net inflow in the same period of 2018, the deposit flow significantly increased, by €357 million and €417 million respectively. In terms of the average monthly inflow of deposits between August 2015 to May 2019, the inflows from NFCs and households increased by €337 million and €288 million respectively. In terms of a 12-month moving average, the rate of return of private deposits slowed down since mid-2018 (€750 million net monthly inflow), although it showed signs of a small recovery in the most recent quarter (€609 million net average inflow on a 12-month rolling basis in May, compared with €577 million in the preceding three months), both in households and businesses.

Figure 2.6

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

Bank deposits of households and businesses increased in March - May 2019



Source: Bank of Greece

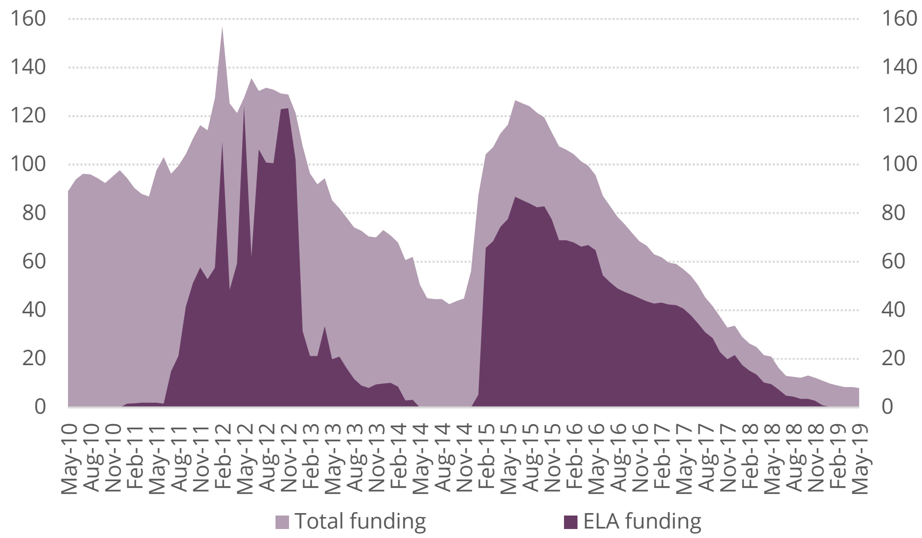
Between August 2015 and May 2019, the private sector deposits increased by €21.4 billion, out of which €12.8 billion came from households and €8.7 billion came from non-financial corporations. Nevertheless, the total amount of deposits remained significantly lower than in November 2014, by €23.0 billion, of which €21.1 billion came from households and only €1.9 billion from businesses. The deposits from non-financial corporations increased marginally since 2015, by €0.5 billion. In the second half of 2019, private deposits are expected to follow a mild positive trend, to the extent that the country remains dedicated to the fiscal targets and the reform policies, regardless of the recent political developments due to the elections.

The second pillar of the bank liabilities concerns the financing from the Euro system (Figure 2.7). March 2019 marked a milestone for the Greek banks, when they fully repaid their lending from the Emergency Liquidity Assistance (ELA), which had approached €123 billion in November 2012 and €87 billion in June 2015. Box 2.1 presents an assessment of the effects on banks and the economy of the use of ELA in the period 2011-2019.

The end of the ELA funding will allow the banks to develop alternative liquidity sources, such as repurchase agreements (repos) on the inter-bank market and through cheaper sources directly from the ECB, when and where the bank's collateral is recognised as having the minimum adequate quality grade, a recognition, which is directly linked to the credit ranking of the Greek State. The upgrades of the Greek banks by international credit rating agencies in early 2019 had a positive impact on the cost of the alternative sources of liquidity, raised the interest of investors to participate in their equity, and created prospects for finding liquidity through issuing bonds in the near term.

Figure 2.7

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



The banks have fully paid off the extraordinary and more expensive ELA funding since March 2019

Source: Bank of Greece

On the asset side, credit to non-financial corporations began to recover, after eight years of contraction, while the credit to households continued to contract for the ninth year. Factors concerning both the supply and the demand for credit contribute to these trends. On the one hand, the gradual recovery of the economy, the reduction of economic and political uncertainty in relation to the period 2009-2016, and the limitation of banks' dependence on expensive sources of funding have a positive impact (Box 2.1). On the other, the low quality of their equity, the NPL reduction through write-offs, and the exclusion of Greek bonds from the ECB quantitative easing programme continue to have a negative impact on the lending capacity of the banks.

Private sector funding, excluding loan write-offs, decreased year on year by only 0.1% in April-May 2019, less compared to the first quarter of 2019 (-0.7%) and last year overall (-1.3%). In April-May 2019, the annual credit contraction in the private sector came from its reduction by 2.4% to households, and by 1.7% to sole proprietors, offsetting the expansion of credit to non-financial corporations by 2.6% (Table 2.12). Credit to NFCs expanded by 1.8% in the first five months of this year, for the first time in eight years. The annual rates of change for the first five months of 2018 were -2.3% for households, -0.7% for freelancers and -0.7% for non-financial corporations. The strongest credit expansion was recorded in Transport, Energy, Tourism, Real Estate Activities, Shipping, Agriculture, and Industry. Credit to Construction, Retail Trade, Communications and the remaining business activities continued to contract.

On the demand side, the Bank of Greece bank credit survey for the first quarter of 2019 showed that loan demand strengthened substantially, while the lending criteria remained unchanged and no significant fluctuations are expected in the short term. Indicatively, loan demand reached its highest level since late 2014, driven mostly from larger businesses and long-term loans.

Table 2.12

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

Quarter / Year	2/18	3/18	4/18	1/19	April 19	May 19
Total private sector	-1.7	-1.4	-1.3	-0.7	-0.1	-0.1
Households & NPIs	-2.2	-2.0	-2.1	-2.2	-2.3	-2.5
Sole proprietors and unincorporated partnerships	-1.3	-1.5	-1.9	-1.7	-1.7	-1.7
Non-financial corporations	-1.5	-0.7	-0.3	1.3	2.6	2.7
Agriculture	-2.9	3.8	5.6	3.0	3.3	-0.6
Industry	-1.6	1.4	-0.6	0.3	0.4	0.7
Trade	0.2	-0.3	-0.7	-0.5	-0.6	-0.1
Tourism	1.8	3.4	4.1	3.9	5.5	6.1
Shipping	-3.3	-3.9	-1.9	1.8	2.8	1.4
Construction	-1.8	-2.4	-1.8	-0.7	-0.2	-0.1
Electricity-gas-water supply	-10.7	-10.1	0.3	8.1	18.8	17.9
Transport and logistics	-6.6	-1.3	-0.5	33.1	51.5	50.8
Interest rates on new loans (period average. %)						
Consumer credit	8.80	9.87	9.44	9.10	9.22	
Mortgage credit	2.93	3.01	3.24	3.20	3.15	
Loans to non-financial corporations	3.83	4.05	4.08	4.06	4.58	

Source: Bank of Greece

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

The Non-Performing Loans (NPLs) declined in the first quarter of 2019 by 2.2% or €1.8 billion, less than in the preceding quarter (-3.4%).[30] The NPLs totalled €80.0 billion or 45.2% of the total exposure in December 2018, about €27.2 billion or 25.4% lower than their peak in March 2016. In business credit, the NPL rate declined in March 2018 among sole proprietors and micro businesses, remaining exceptionally high (65.9% from 67.4% quarter on quarter) and fell further among large businesses (to 24.5% from 25.8%), while among small and medium businesses it increased (to 58.9% from 57.5%).

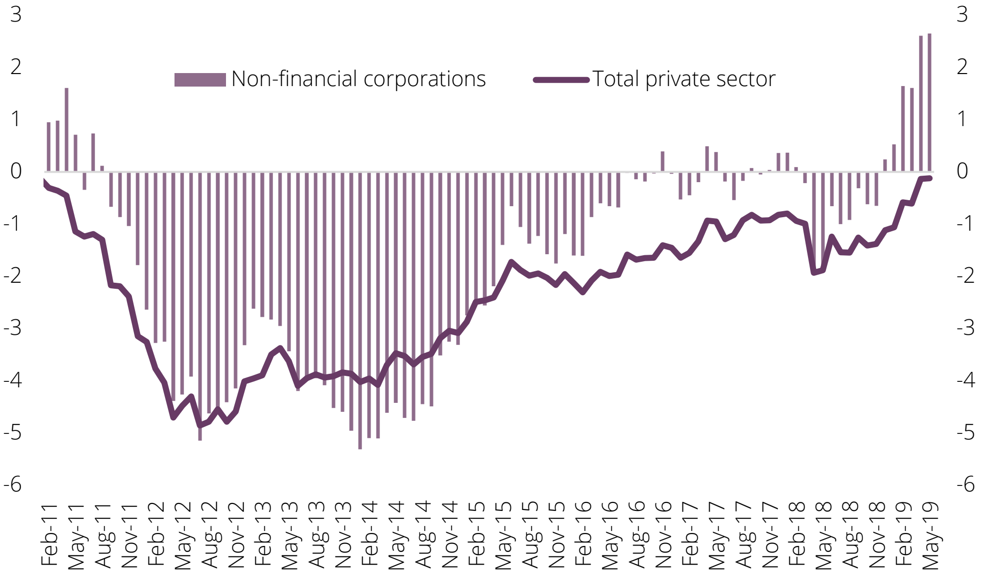
Note that the target agreed between the banks and the SSM envisaged a cumulative decrease by about €43.0 billion or 40% from March 2016 until the end of 2019. In accordance with this target, up until March 2019, the banks had successfully implemented 63% of the total consolidation. In addition to the quantitative targets, it is necessary to improve the qualitative characteristics of the

[30] Excluding off-balance-sheet NPEs.

NPL reduction. Around 63% of the cumulative reduction of the NPLs since the beginning of 2016 was mainly based on loan write-offs (€17.1 billion in total), with €0.9 billion written-off in the first quarter of 2019 (against €5.9 overall in 2018, and €6.5 billion in 2017). This is an instrument with the strongest negative impact on the profitability and capital adequacy indicators of the banks. In the first quarter of 2019, the sale of NPL portfolios totalled €0.8 billion, compared to €5.8 billion overall in 2018. Note, however, that sales of large portfolios for the current year are underway. Indicatively, Eurobank is preparing, first, the securitisation of 48,000 non-performing loans (NPLs), housing (21,000) and consumer (27,000) loans, with total accounting value of approximately €2 billion, second, the securitisation of other 36,000 NPLs, 21,000 housing and 15,000 consumer loans, with accounting value of €7.5 billion. In the first case, intermediate (mezzanine notes) and low-grade (junior notes) bonds will be used.

Figure 2.8

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



Recovery of bank financing of non-financial corporations, after eight years of credit contraction, while credit to households continued to contract

Source: Bank of Greece

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

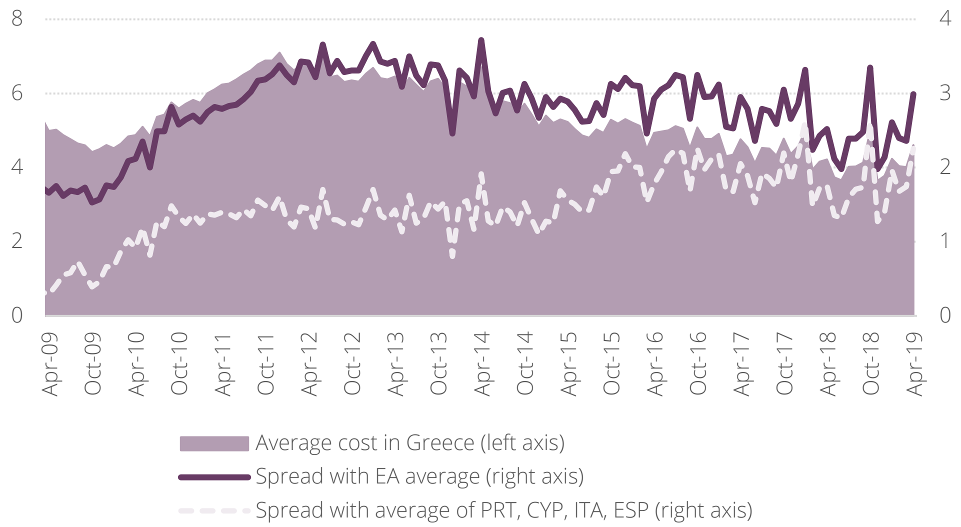
The major negative trends in the reduction of NPLs in early 2019, which need improvement, include (a) low receipts through active management related to the out-of-court mechanism and other loan arrangements (b) low receipts from collateral auctions and liquidations, (c) high percentage of loans placed under restructuring that fall again in delays shortly after the restructuring is put in effect. On the positive side in NPL limitation, the cure rate steadied at a level that did not fall below the default rate.

In these circumstances, revised ambitious operational targets for the reduction of NPLs over a three-year period were agreed, aiming to fall below 20% of total loans at the end of 2021. According to the new targets, the biggest reduction will come from loan sales, with second driving force the liquidation of collateral and only third loan write-offs. In relation to the contribution of specific portfolios, 55% of the cumulative reduction of NPLs is envisaged to come from business loans, 33% from mortgages and only 12% from consumption loans. In order to achieve the revised target, improve the policy mix and accelerate the clean-up of the banks' assets, two proposals on the NPL reduction strategy (one from the FSF and one from the Bank of Greece) have been put up for public scrutiny. The two proposals outline different ways through which part of the NPLs, but also the deferred tax credits of the banks, can be securitised and sold to third-parties, though a special purpose vehicle. It is important that the final decisions are expedited, in coordination with the Directorate-General on Competition of the European Commission (which assesses the use of state aid) and the European Single Supervisory Mechanism (SSM), in order to recover shortly the credit capacity of the banks.

Figure 2.9

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

The cost of new borrowing for businesses in April 2019 remained 200 bps higher than the average of the Eurozone "South"



Source: ECB

In the medium term, even under the revised operational targets of the banks, the current NPL reduction rates are not enough to achieve convergence with the European average which stands at 3.2%. In order to achieve the revised targets for 2019-2021, the rate of reduction of NPLs should speed up and the mix of measures to improve. The implementation of a holistic plan to improve the quality of the assets and to speed up the NPL reduction, together with the envisioned economic recovery and the improved access to the cross-border banking market, are expected to have a positive, yet gradual, impact on the credit supply policy of the banks. A more efficient use of tools, such as the online auctions and the new regulatory framework for indebted households, could contribute to a better mix of NPE reduction approaches.

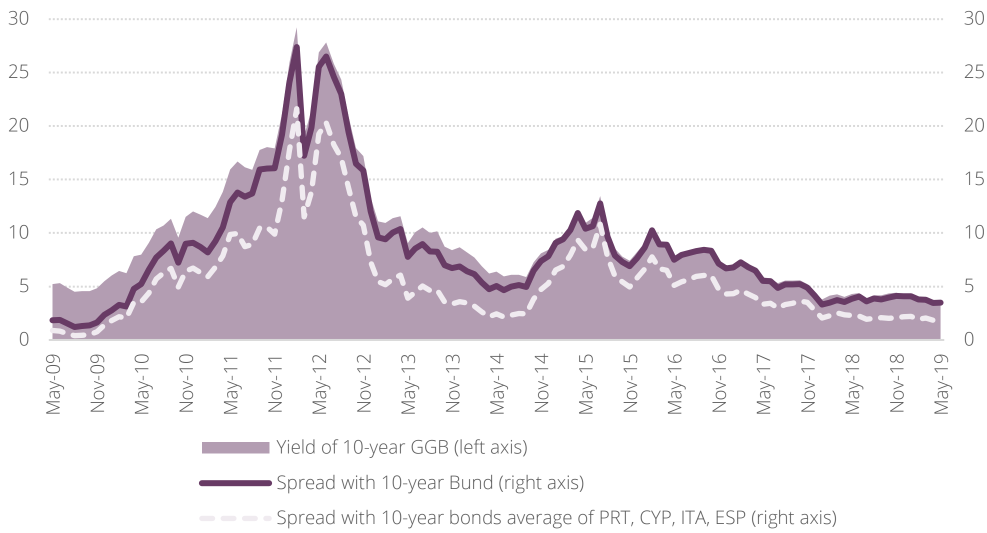
The interest rates on new deposits remained stable for non-financial corporation (NFCs) and households, at 0.27% and 0.29% respectively, in April, remaining at a similar level since the end of 2017. The interest rates on new loans increased to 4.9% in April 2019, from 4.7% in the second half of 2018 and the first half of 2019, mostly due to higher lending cost for NFCs (Table 2.12). Small changes were recorded in the interest rates to households.

The average cost of bank financing to the private sector NFCs increased to 4.6% in April 2019, after reaching its lowest point since the adoption of the Euro at 3.6% last November. It has remained significantly higher than in the remaining Eurozone countries. Indicatively, according to the ECB composite indicator of borrowing costs (Figure 2.9), the cost for non-financial corporations in April

2019 stood at 1.6% in the Euro area, 1.5% in Germany, and 2.4% in the Euro area "South" (Portugal, Italy, Cyprus, Spain). The spread of the cost of borrowing for Greek corporations in comparison with the average for the Eurozone and the "South" increased to 299 b.p. and 226 b.p., respectively, from its lowest level in the last eight years recorded in November 2018, at 198 and 105 b.p., respectively. Compared with their level before the crisis, the spread of the cost of borrowing to Greek corporations has remained high (100 b.p. compared to the Euro area average and 37 b.p. against the "South" in 2008). To conclude, the average cost of borrowing for Greek corporations has remained notably higher than the average of the countries in the periphery of the Euro area.

Figure 2.10

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



The decline of the spread of the 10-year Greek bonds against the German bonds accelerated, to below 300 bps in June, its lowest level in nine years

Source: ECB

During the second quarter of 2019, the sovereign bond yields declined markedly, as the yield of the 10-year bonds dropped to historic lows in June, ranging between 2.0% and 3.0%. This was reflected in the average yield of the 10-year bonds, which declined to 3.37% in May 2019, from 4.3% in late 2018. The improved global investment sentiment and the successful issue of a ten-year bond by the Greek State in March, for the first time in nine years, together with the shorter than anticipated domestic election campaign period and the likely formation of a new government, which usually reinforces the expectations for changes in economic policy, contributed to a large extent to this. Meanwhile, there are indications of growing interest from institutional investors that have a more long-term investment horizon, despite the lingering uncertainty regarding the reform orientation of the country after the end of the support programmes. The extra cost of borrowing for the Greek State from the markets in comparison with the rest of the countries in the Euro area fell to its 2009 levels (Figure 2.10). In particular, the spread declined to close to 300 basis points (bps) against the German 10-year bond (from 409 bps in late 2018) and at 200 bps against the average of the countries of the Eurozone "South" (from 220 bps in December 2018).

The reduction of public lending costs, apart from a critical indication of the degree of confidence of international investors in the Greek economy, has direct fiscal benefits. Based on data of the Public Debt Management Agency in April 2019 on the redemption schedule of Budgetary Central

Government Debt, assuming that the Greek state was rolling the debt to the current market rate only for the maturing amounts, then every reduction of the yield on treasury bills by 20 basis points saves at least €30 million on an annual basis, and every reduction of the yield on Greek government bonds by 100 basis points saves up to €1 billion cumulatively in the period 2019-2023. Direct savings can be greater, to the extent that the Greek state may choose to repay part of the current debt prematurely, by issuing new bonds at lower service costs. Despite the upgrades of the Greek state's debt by international rating agencies in 2018 and 2019, the credit rating of Greece has remained between three and four notches below the "investment grade".

Box 2.1

Effects of emergency liquidity provision through the ELA to the Greek banks

As part of the operation of the Eurosystem (article 14 (4) of the ECB statute), during the sovereign debt crisis in euro area countries, the mechanism for providing Emergency Liquidity Assistance (ELA) was released to financial institutions of Euro area member countries. The ELA mechanism was designed as a source of last resort for liquidity provision to banks which, although considered solvent, face significant, but temporary, liquidity problems, resulting, first, in incapacity to borrow in the interbank market and, second, in providing collateral that is not considered to have an adequate credit rating so that they can be borrowed directly and on preferential terms from the European Central Bank (ECB). When ELA is provided, the banks borrow short-term amounts from their national central bank, after approval by the ECB. For this borrowing, the banks may provide collateral not only of high-rating sovereign bonds, but also part of their loan portfolio. As a result, the ELA mechanism has significantly higher costs for banks than alternative lending sources. Indicatively, its cost is foreseen by statute to be at least 100 basis points higher than the direct funding from the Eurosystem. In June 2017, the ECB published the revised agreement governing the operation of ELA by the national central banks of the Eurosystem.

The ELA mechanism was applied in Ireland, Cyprus and Greece. In Greece, it was implemented in two separate phases. The first started in early 2011, with the ELA stock reaching up to €124 billion in October 2012, falling significantly in early 2013, to reach zero levels in May 2014. The second phase of implementation began in February 2015, peaking in June of the same year, to reach €87 billion, and has since been gradually fallen, until it was fully repaid in March 2019. The ELA mechanism on the one hand made a decisive contribution to meeting the liquidity needs of banks, especially during periods of heavy deposit outflows, where alternative sources of financing, such as the interbank market or directly from the ECB, were not available. On the other, its direct impact for Greek banks was the highest average cost of borrowing from ELA, which is estimated to have ranged around 150 basis points higher than the ECB's main refinancing rate during the two periods when ELA was active.

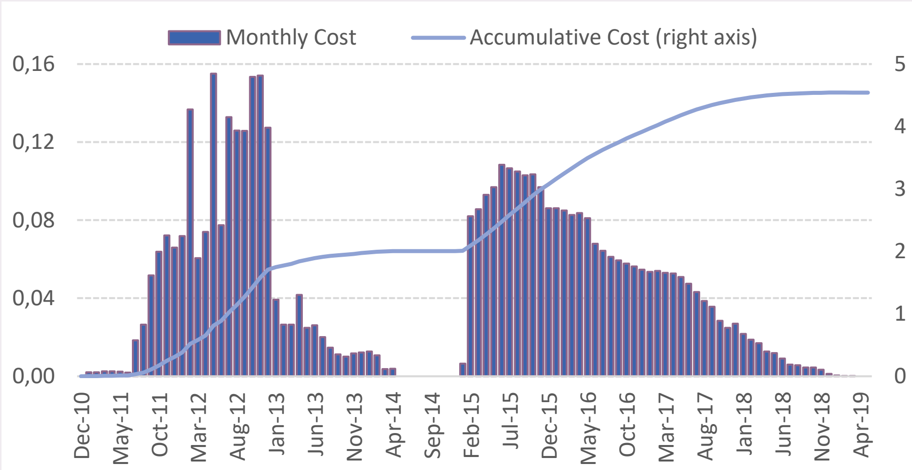
Figure 2.11.A depicts estimates of the cost to banks from the use of ELA, in relation to direct financing by the ECB at the main refinancing rate, in terms of higher paid interest to the ECB. It follows that the total cost for the period 2011-2019 reached €4.5 billion, of which about €2.0 billion

concerned the first phase 2010-2014 and €2.5 billion was related to the second phase 2015-2019. This cost in part may have led banks to raise their lending rates, in order to recover some of the cost, yet it also had a negative impact on the profitability of the banks, which in turn reduced the degrees of freedom to implement more active measures to limit non-performing loans (NPLs).

Figure 2.11

ELA use, cost estimates and correlation with credit flows

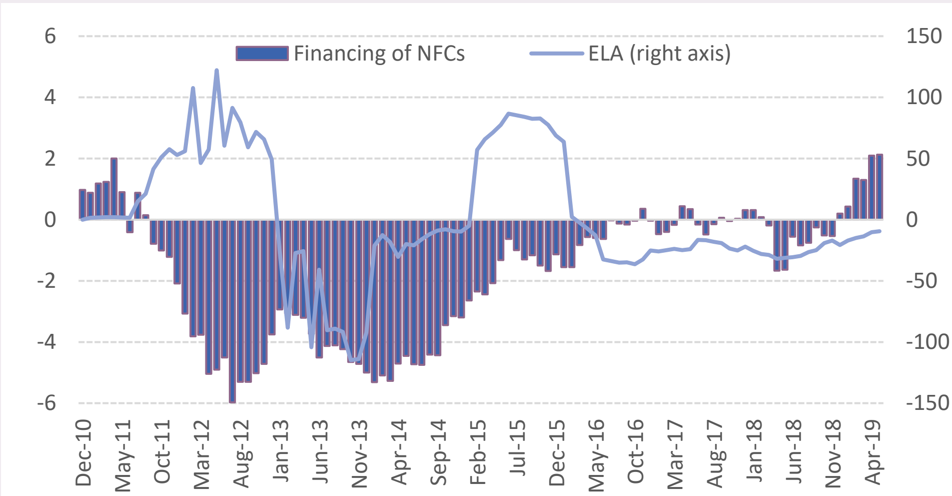
A. Estimates of ELA cost for Greek banks (€ billion)*



* Assuming average cost of 150 basis points

B. ELA flows and financing of non-financial corporations

(rolling 12-month average, € billion)



Source: Bank of Greece, ECB. Data processing: IOBE

As a result of the slower deleveraging of the banks from NPLs, their degrees of freedom for new allocations were lowered. Figure 2.11.B depicts the evolution of the 12-month flows from ELA and the net change in bank credit to non-financial corporations (NFCs) of the private sector. Note that the linear correlation coefficient between the two variables is negative, equal to -0.07 for the entire period, and-0.53 especially for the period 2015-2019. This estimate is interpreted as an indication that as the dependence on ELA increased, it became greater obstacle for credit expansion by the banks.

In conclusion, while the ELA mechanism was crucially useful for the Greek banks between 2011 and 2019, its use is estimated to have had a direct cumulative cost of around €4.5 billion, as well as significant indirect costs, slowing the pace of NPL resolution and exacerbating the banks' lending capacity.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Slowdown of the growth rate in Greece in the first quarter of 2019 to 1.3%, from 2.6% in the in the same quarter of 2018
- The GDP growth rate in Q1 of this year was the lowest in the current recovery period, which reached two years in this quarter
- Recovery continued in early 2019, mostly from investment growth (21.2%), against a decline by 23.2% a year ago. Most of the investment growth came from accumulation of stocks (75.5% of the increase), rather than from stronger fixed capital formation (7.9% growth)
- Exports (4.0%) came next in terms of contribution to GDP growth, yet their positive impact was fully offset by the stronger growth of imports (9.5%)
- Mild increase in household consumption expenditure (0.8%), slightly stronger than last year (0.5%). Deeper cuts in public sector consumption (-4.1%, from -0.3%)

Recent macroeconomic developments in Greece

The Greek domestic product increased by 1.3% in the first quarter of 2019, compared to the corresponding period of 2018, when the growth rate was twice as high, at 2.6%. The growth in the first quarter was the weakest in the recent recovery period of the Greek economy, which reached two years in the specific quarter. The new increase in GDP was mostly due to higher investment, whose expansion came mostly from stronger stock accumulation, rather than a higher growth in gross fixed capital formation. Higher exports came next in terms of contribution to GDP growth, yet their positive impact was outweighed by stronger rise in imports. On the side of domestic consumption, the soft increase of household consumer expenditure was upended by lower consumption spending in the public sector.

In detail as to the trends in individual components of GDP in the first quarter of this year, domestic consumption remained essentially unchanged, declining marginally by 0.1%, which did not differ substantially from the change recorded a year earlier (growth by 0.2%). The rise of private consumption by 0.8% and the fall of public consumption by 4.1% had a similar absolute effect in the first quarter of this year, offsetting each other. The increase of the first component was slightly stronger than a year ago (0.5%), but the reduction in public sector consumption expenditure was much lower then (-0.3%).

Investment strengthened by 21.2% in early 2019, offsetting to a large extent their decline by 23.2% in the corresponding period of the preceding year. However, their growth came mostly (75.5% of the total increase) from accumulation of stocks, by €1.1 billion. Higher stocks were the only source of investment growth in the previous quarter, while it was again the main factor in the third quarter last year. Gross fixed capital formation increased by 7.9% in the first quarter of this year, against a decline by 9.0% a year earlier.

The expansion of fixed capital formation came mostly from growth in Other Buildings and Structures, which mostly concern public works, by €308 million or 31.9%, against a weaker growth by 7.4% in the same period of last year. Investment in Transport Equipment - Weapon Systems came next, with a growth by €151 million or 21.4%, offsetting in part their contraction by 55.4% a year earlier, which was mainly the result of the sharp drop of investment in ships (-72.8%). Other Machinery and Housing followed in terms of contribution to investment growth, with similar intensity, growing by €23 million (2.0%) and €21 million (6.2%) respectively, both considerably weaker than in the first quarter of 2018 (21.6% and 11.1%). Investment in Agricultural Machinery remained substantially unchanged (-€80,000 or -0.4%), against a mild growth a year ago (by 3.1%). ICT Equipment and Other Products were the only categories where investment expenditure declined, to a small extent in both, by 1.8% and 2.3%, when a year earlier it increased sharply at the first, by 21.6%, and remained unchanged in the second.

In the external sector of the economy, the export expansion carried over into the first quarter, for the third consecutive year. However, it was weaker than last year (8.6%) and the year before that (6.0%), as it did not exceed 4.0%. In addition, of the two main components of exports, the rise came exclusively from the exports of services, which strengthened by 8.7%, more than in the same period of 2018 (5.1%). The exports of goods declined slightly from a year ago (-0.7%), when they had posted their biggest rise in four years, by 11.1%.

The new, weaker than last year, export increase was exceeded, by far, by the rise of imports, which reached 9.5%. However, a year ago imports followed the opposite trend, with a similar intensity (-7.5%). As mentioned earlier, the then strong decline stemmed from the vertical drop of the imports of ships (-72.8%), which dragged down the total of imports of goods (-11.3%), and was not offset by the significant increase in imports of services (+ 11.8%), as the absolute size of the latter is traditionally much smaller than that of the former in the first quarter of each year. A year later the imports of goods widened by 9.9%. This increase largely determined the expansion of imports in the past quarter (January – March), as imports of services increased by 5.5% in this period. The stronger increase in imports compared to exports led to a deterioration of the external deficit, which reached €1.13 billion (75.0% growth year on year) or 2.36% of GDP.

On the supply side, the domestic gross value added increased marginally in the first quarter of this year, by 0.3%, against growth by 2.2% in the same period of last year. Similarly to GDP on the demand side, the recovery of value added in early 2019 was the smallest in the current recovery period of the Greek economy, which reached two years in the particular quarter. The notable weaker growth of gross value added compared to GDP came from strong increase in taxes on products, by 4.4%. Among the ten main sectors of the Greek economy, activity strengthened in four, remained unchanged year on year in one and declined in five. The strongest growth of production, in absolute and relative terms, took place in Construction, by €386 million 32.2%, following their growth a year earlier by 5.2%. Wholesale – Retail Trade - Transport – Storage - Hotels – Restaurants came next, with growth by €235 million or 2.5%, weaker than a year earlier (4.3%). Professional Scientific – Technical Activities and Real Estate Activities were the sectors with the weakest recovery, by 1.8% and 0.2% respectively, from 7.5%, which was the second largest in the same period of 2018, and also by 0.2%. The value added in Arts – Recreation – Entertainment remained unchanged from last year in the first quarter of this year, against its rise by 8.1% last year, the highest among all sectors in recovery.

Among the sectors with declining activity in the first quarter of this year, the sharpest contraction was recorded in Financial-Insurance Activities (-10.6%), as was the case a year earlier (-8.6%). Information-Communication and Public Administration – Defence – Compulsory Social Security, followed with considerably smaller output decline, by 2.3% and 1.4% respectively, against a marginal increase of 0.2% and a rise of 1.5% last year. The smallest decline was recorded in the Primary Sector (-0.9%) and in Industry (-0.2%). In the first quarter of 2018, the former had the third largest percentage increase (by 6.9%), while in the latter activity strengthened slightly (by 0.8%).

The apparent extension of the tourist season in the first few months of the current year, but also the expansion of employment in the public sector, were the main drivers of employment year-on-year growth in the first quarter of 2019, as in the previous quarter. A strong upward trend was the tendency of employment in other sectors as well, although in some of them this trend is difficult to explain, as evident below. In any case, the rise in employment by 2.4% or 90,200 people year on year was almost the sole cause of the new retreat of the number of unemployed, as it accounted for 95.9% of its reduction. The remaining 4.1% (3,900 jobs) came from reduction of the labour force. Subsequently, the unemployment rate stood at 19.2%, 2 p.p. lower year on year, with a marginally weaker decline than the average for last year (2.2 percentage points).

Most of the year-on-year job creation in the first quarter of this year came primarily from Tourism (20,200 more jobs or 6.7%) and Education (also 20,200 or 6.7%). Information – Communication followed with a strong percentage growth (16.2%) and 14,700 more jobs. Still, this strong increase does not seem to be consistent with the decline in the sector's output over the same time period by 2.3%, which was mentioned earlier and was the second largest among the main sectors of the Greek economy. The employment of 12,300 more people in Public Administration – Defence – Compulsory Social Security (increase by 3.7%) contributed to the expansion of employment in the public sector, in addition to its rise in Education. Professional – Scientific – Technical – Administrative Activities (11,500 or 5.6% growth), Manufacturing (11,300 or 3.2%) and Transport – Storage (11,100 or 6.0%) followed, with a similar employment expansion. While the employment developments in the first sector are consistent with those in its activity, the same is not true for Manufacturing and Construction, where, despite the extensive expansion of activity in the first quarter of this year employment fell by 4,700 jobs (-3.1%), posting the third largest contraction in absolute terms at the sector level.

The slightly stronger year on year growth of household consumption in the first quarter of the current year was reflected in the mild inflation this year, of about 0.7%, against essentially price stability a year earlier (-0.1%). Given that in the first quarter no new indirect tax was imposed nor was an existing one increased, the fact that the increase in prices is mainly due to a small demand boost and not, for example, from a rise in the cost of energy goods, was reflected in prices on Transport remaining essentially unchanged (increase by 0.1%). The particular category of Goods – Services has the second largest weight in the formation of the Consumer Price Index (CPI) and is influenced more than any other by the fluctuations in energy product prices. In addition, housing prices, which are partly determined by energy prices as well, increased by 1.3%. Inflation in early 2019 came mainly from higher by 1.8% prices of Food – Non-Alcoholic Beverages, which has the greatest weight in the formulation of the CPI, as well as by rise in prices in Communications by 6.0%. Other categories of products and services with rising prices included Alcoholic Drinks (1.3%), Health Services (0.8%) and Hotels – Cafés – Restaurants (0.6%). Prices declined in five groups, mainly in Clothing – Footwear (-2.2%), Durable Goods-Household Appliances & Services (-1.6%) and Art-Recreation-Entertainment (also by -1.6%).

To sum up, the trends in the GDP components in early 2019 indicate a reversal of the positive effect exerted by the external sector. However, this is not due to decline in exports, but to their lower growth compared to imports. The decline in support for the Greek economy from exports was expected, due to the end of the expansion of the ECB's quantitative easing programme, and the impact of trade protectionism measures and countermeasures. In turn, the significant expansion of imports came from considerably stronger demand for goods from the rest of the world. This trend is not a priori negative for the Greek economy. The nature of its effect depends on the mixture of imported products. Based on data on the composition of the imports of goods in the first quarter, excluding petroleum products, raw materials and industrial investment products took up 63.8%, a share identical to that in the corresponding period of last year. Their distribution in these two categories also remained unchanged. Therefore, stronger import demand does not imply a greater substitution of domestically produced consumer goods with imports, but concerns to the same extent as last year inputs to production and capital goods, which contribute to the upgrade of the production capacity of the Greek economy.

The negative contribution of net exports to GDP at the beginning of this year, by 1.8 percentage points, is partly outweighed by the strengthening of domestic demand and changes in stocks, which have a similar contribution to GDP growth of about 1.5 percentage points. Therefore, the recovery of domestic demand is still sluggish. That said, it comes mainly from fixed capital formation and secondarily from private consumption, thus it is of productive nature. Besides, as evident from the presentation of the trends in the composition of fixed capital formation, most of investment growth relates to construction other than dwellings, which have a lower import content, compared to investment In machinery, equipment, transport vehicles, etc. Given that, for the reasons set out above, the favourable impact of net demand from abroad should not be expected to rebound later this year, with the exception of the third quarter, as last year imports increased strongly, the growth of the Greek economy and its acceleration in the remaining quarters of 2019, are more likely to come from a boost in domestic demand, consumption and investment, which to a significant extent will be covered by domestically produced goods.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change
2006	242,800	5.6%	208,007	3.6%	59,923	23.7%	50,966	5.1%	77,707	13.2%
2007	250,517	3.2%	216,981	4.3%	64,994	8.5%	56,373	10.6%	88,904	14.4%
2008	249,872	-0.3%	221,538	2.1%	59,020	-9.2%	58,486	3.7%	89,864	1.1%
2009	239,118	-4.3%	219,976	-0.7%	43,186	-26.8%	47,790	-18.3%	71,705	-20.2%
2010	226,146	-5.4%	207,102	-5.9%	38,614	-10.6%	49,959	4.5%	69,237	-3.4%
2011	205,345	-9.2%	188,127	-9.2%	30,202	-21.8%	49,998	0.1%	63,436	-8.4%
2012	190,326	-7.3%	173,953	-7.5%	22,966	-24.0%	50,577	1.2%	57,497	-9.4%
2013*	184,243	-3.2%	167,798	-3.5%	20,701	-9.9%	51,387	1.6%	55,585	-3.3%
Q1 2014	46,301	0.6%	42,055	1.0%	4,916	-16.9%	13,295	5.6%	14,131	0.1%
Q2 2014	46,227	0.4%	42,039	0.7%	5,431	8.8%	13,468	4.5%	14,994	8.9%
Q3 2014	46,824	1.3%	42,163	0.0%	5,907	11.0%	14,358	9.0%	15,171	5.5%
Q4 2014	46,298	0.8%	42,066	-0.4%	5,813	4.0%	14,231	11.7%	15,573	16.9%
2014*	185,649	0.8%	168,322	0.3%	22,067	6.6%	55,352	7.7%	59,869	7.7%
Q1 2015	46,468	0.4%	42,362	0.7%	4,929	0.3%	15,004	12.9%	16,364	15.8%
Q2 2015	46,506	0.6%	42,555	1.2%	4,199	-22.7%	15,026	11.6%	15,680	4.6%
Q3 2015	45,611	-2.6%	41,452	-1.7%	4,580	-22.5%	13,191	-8.1%	13,018	-14.2%
Q4 2015	46,174	-0.3%	42,137	0.2%	5,679	-2.3%	13,695	-3.8%	15,049	-3.4%
2015*	184,759	-0.5%	168,507	0.1%	19,387	-12.1%	56,916	2.8%	60,111	0.4%
Q1 2016	46,166	-0.6%	41,941	-1.0%	5,238	6.3%	13,618	-9.2%	14,833	-9.4%
Q2 2016	45,924	-1.3%	41,766	-1.9%	5,797	38.1%	13,494	-10.2%	15,379	-1.9%
Q3 2016	46,059	1.0%	42,203	1.8%	4,818	5.2%	14,365	8.9%	14,840	14.0%
Q4 2016	46,128	-0.1%	42,262	0.3%	4,687	-17.5%	14,338	4.7%	15,754	4.7%
2016*	184,278	-0.3%	168,171	-0.2%	20,541	6.0%	55,816	-1.9%	60,807	1.2%
Q1 2017	46,159	0.0%	42,255	0.8%	6,793	29.7%	14,430	6.0%	17,224	16.1%
Q2 2017	46,731	1.8%	42,223	1.1%	5,691	-1.8%	14,723	9.1%	16,271	5.8%
Q3 2017	46,933	1.9%	42,466	0.6%	4,514	-6.3%	15,369	7.0%	15,554	4.8%
Q4 2017	47,118	2.1%	42,259	0.0%	5,494	17.2%	15,125	5.5%	16,257	3.2%
2017*	186,941	1.4%	169,204	0.6%	22,492	9.5%	59,647	6.9%	65,305	7.4%
Q1 2018	47,342	2.6%	42,354	0.2%	5,217	-23.2%	15,670	8.6%	15,927	-7.5%
Q2 2018	47,458	1.6%	42,512	0.7%	5,523	-3.0%	16,079	9.2%	16,725	2.8%
Q3 2018	47,903	2.1%	42,476	0.0%	6,367	41.1%	16,432	6.9%	17,978	15.6%
Q4 2018	47,836	1.5%	42,355	0.2%	5,743	4.5%	16,659	10.1%	16,605	2.1%
2018	190,539	1.9%	169,697	0.3%	22,850	1.6%	64,841	8.7%	67,234	3.0%
Q1 2019	47,943	1.3%	42,322	-0.1%	6,325	21.2%	16,304	4.0%	17,434	9.5%

* provisional data

Source: Quarterly National Accounts, ELSTAT, June 2019

The mild increase in household consumption expenditure in the first quarter, despite higher transfer payments in late 2018 and early 2019 (social dividend, retroactive payments for special wage grids), shows that the consumption propensity is not strong. This may be due to fluctuations in the labour market. Thus, investment have gained greater weight in achieving significant growth this year. However, the investment trends are closely linked to domestic politico-economic developments and the economic policy that will be followed by the new government. The macroeconomic forecasts for 2019 are presented next in greater detail.

Medium-term outlook

- Expected growth of the Greek economy in 2019 at 1.8%
- Growth of consumption spending this year by 1.2% from 1.0% last year, from more social spending and tax deductions, increase of the minimum wage and lifting of the sub-minimum wage, and further slight increase in employment
- Stability or small growth of public consumption (0.5%), as the announced recruitment complies with the rule "1 withdrawal – 1 recruitment"
- Stronger investment activity (by 8-11%), from small credit expansion by the banks and considerably lower interest rates, strong export growth in previous years and completed concession – privatisation deals
- Slowdown in export growth (5.0%), from weaker growth in the European Union. Milder growth of tourism revenues from the expansion of the tourist season, stronger international transport

The swift political developments that emerged from the successive polls, highlight the significant economic effects of the elections. These effects were partly foreseen in previous IOBE reports on the Greek economy, as it was not feasible to assess the developments that took place due to the outcome of the European elections. The change of government that emerged from the recent parliamentary elections is expected to have, as has happened in similar cases in the past, a strengthening effect on the expectations of businesses and households, at least in the short term. The duration of the change in expectations, and more broadly the developments in the economy that will be triggered, will depend on changes in economic policy, from this and the coming years. However, for the time being, these changes have not been finalised, so it is not possible to assess them.

Any changes sought in the economic policy mix will be evaluated by the enhanced surveillance mechanism that applies to Greece, following the completion of the third economic adjustment programme, but also from the regular EU-wide procedures, such as the European Semester. Besides, regardless of the current political events and the developments that they will cause, Greece must achieve the fiscal targets set in the Medium-Term Fiscal Strategy 2019-2022. Furthermore, the implementation of the reforms for which the country has committed must continue, in order to facilitate, sustain and strengthen the recovery of the Greek economy, but also to further improve the conditions of access to the international capital markets.

In the banking system, the effort to reduce non-performing loans is ongoing and strengthening, mainly through sales to debt management companies. However, the plans developed by the Financial Stability Fund and the Bank of Greece for a systemic resolution covering all banking institutions, are still pending approval by the European authorities. The trend in private sector deposits (households and non-financial corporations) in the recent period has turned positive, yet it has remained sluggish. Recently, the ECB announced the technical details for the 2020 stress test, for which the banks will prepare during the second half of this year.

The recent and anticipated politico-economic developments that dominate in the global environment include the escalation of the implementation of trade protectionism measures by the US and China, following the fruitless negotiations that lasted for months, the new tension between Iran and the US following the attack on Japanese tankers in the Gulf of Oman, which may escalate sharply, and the easing of the accommodative monetary policy of some of the major central banks (ECB, Fed, Bank of Japan), albeit to a lesser extent than anticipated earlier this year. On the subject of Brexit, uncertainty prevails after the new EU extension of the deadline for consensual exit agreement by 31 October of this year. The latest breakthrough is the resignation of the UK Prime Minister on 7 June and the start of the process of her succession at the Conservative Party leader and Prime Minister positions. The effects of these factors are expected to largely shape the operating parameters of the Greek economy for the greater part or most of 2019.

These recent, current and forthcoming developments form the framework of assumptions underlying the macroeconomic projections of IOBE for the Greek economy, as summarised in Box 3.1.

Box 3.1

Assumptions of the central macroeconomic scenario of IOBE

- Continued pursuit of the fiscal targets and implementation of the reforms by the new government
- Attainment of the targets for asset consolidation of the banking system
- Mild impact from the escalating protectionist measures, notably between the US and China, and the prolonged Brexit uncertainty
- Continuation of the soft accommodative monetary policy by the ECB
- Retention of the oil price at approximately $64 or slightly higher

In greater detail, the current election period, with multiple polls, is the major politico-economic event for this year, with varying effects on the economic environment. The early proclamation of parliamentary elections, four months earlier than the deadline set in the election law, together with the announced budgetary interventions following the elections and the possibility of a government change following the outcome of the European elections, rekindled, as is usually the case, household expectations. In June, the consumer confidence index reached -27.8 units, its highest level since December 2009. Still, household expectations were close to that level in the preceding two months. On the business side, there were no such trends, as the business climate indicator strengthened in Retail Trade and Services, but not in Industry and Construction. In the two sectors where there was a rise, the index lagged considerably compared to the third quarter of 2018, which the index reached its highest level since the second and third quarters of 2008. In addition to the effect of the pre-election climate on households, the strengthening consumer confidence is considered to be related to the implementation of fiscal measures announced at the beginning of May, the effects of which were not captured by the business and consumer surveys of the preceding month. These usual variations on the business side reflect the fact that the enterprises approach the proclamations with greater reserve, focusing on their implementation. Nevertheless, in the ongoing growth phase of the Athens Stock Exchange that began on 20 May, the general index has risen by more than 20%, which captures the optimism of foreign and domestic investors about the effects of the elections on economic policy and the prospects of the Greek economy.

Understandably, the implementation of the announced measures after the elections will probably be the most critical factor in the trend of household expectations in the coming period. In case that they are not implemented or are cut significantly, expectations will subside, probably strongly. A section of the business community has adopted an anticipatory stance until the finalisation of the fiscal measures, e.g. on the rates of direct taxation of legal entities, taxation of dividends, social security contributions, possibly postponing some of the business decisions on investment and recruitment. However, note that the measures in the 2019 budget, approved by the European Commission, include the gradual reduction of the income tax rate of legal entities from this year by 1% per annum for four years (from 29% to 25%), and of the tax rate on dividends by 1% annually for five years (from 15% to 10%), together with the granting of subsidy of 50% of employer social security contributions for new employees. Therefore, many of the companies have taken into account in their planning for the coming years that direct taxation will decline and will not be particularly affected by additional measures in this direction. For these businesses, changes in the regulatory framework, e.g. on investment licensing, labour issues, settlement of arrears to the public sector, the speed of court rulings, procurement, will probably be more helpful. For entrepreneurship, a stronger, more systematic effort to implement structural changes, which will strengthen confidence in the prospects of the Greek economy, resulting, inter alia, in the reduction of the borrowing costs for the Greek economy is a higher priority.

In any case, the implementation of additional fiscal measures, from next year based on the recent election proclamations, will depend primarily on the fiscal space that remains following the May fiscal interventions on pensions and VAT. Prior to their announcement, the most latest forecast on the primary surplus this year, according to the enhanced surveillance methodology, in the stability programme 2019-2022, was 4.1% of GDP, 0.5 percentage points higher than in the 2019 budget.[31] However, the Commission's subsequent stability programme forecast stood at 3.6% of GDP and considered that the prediction of the Greek authorities was based on a more optimistic macroeconomic scenario for this year and a different approach to the PIP allocation. Regardless of the "starting point", taking into account the taxation of income on the new lump-sum pension aid, the contributions imposed on it (for the national health service EOPYY), and the boost of consumption spending and thus of tax revenues, IOBE made an approximate estimation of the net fiscal impact from the payment. The estimation showed that in the event that the target for the concerned expenditure (EUR €800 million) is achieved, the net fiscal impact in GDP terms for 2019 is projected to reach 0.22%. For the assessment of the fiscal impact of the reduction in VAT rates a number of assumptions ought to be made, such as to what degree the reduction is passed on to the final prices of the goods and services where it was implemented, to what extent tax compliance might improve etc., which requires extensive analysis of the relevant data. Therefore, whether there is fiscal space for the implementation of the May measures in 2019 is a function of the assessment of the level of the primary surplus without these measures.

In addition to the impact on the fiscal balance, the recent budgetary interventions will boost the real income of households and their consumption expenditure in the short term. The upwards readjustment of the minimum wage from 1 February, by 10.9% to €650, and the abolition of the sub-minimum wage for workers up to 24 years old, which pushes up a number of allowances, such as the unemployment allowance, the allowance for the long-term unemployed, the remuneration in the employment programmes, the public sector redundancy compensation, and the

[31] Ministry of Finance, April 2019

remuneration for apprenticeships and training programmes of students of technical educational institutes, constitute perhaps a development that will impact household income most than any other in the current year. As pointed out in previous IOBE reports on the Greek economy, the increase in the minimum wage, together with the expansion of collective agreements, initially boost the income of those already in work. However, their medium-term consequences on employment and therefore total labour income might be negative if they do not reflect underlying growth of productivity, and thus output, as in such a case they would imply an increase in unit labour cost and decline in competitiveness.

The evaluation of the new tax relief measures planned for the forthcoming year and the effectiveness of the recent measures will be the subject of the next enhanced surveillance review. As stated in the third enhanced surveillance report "a re-assessment of compliance with the requirements of the preventive arm of the Stability and Growth Pact[32] will be carried out in autumn 2019, including a revision of the applicable benchmark for net expenditure growth in 2020".[33] Probably, the implementation of the measures planned for 2020 in the Medium-Term Fiscal Strategy, which were repealed with the May interventions, i.e. the reduction of income tax on contracted employment and pensions, the reduction of the tax rate on income up to €20,000 from 22.0% to 20.0%, the increase of the income threshold for individuals or inheritance, for which a special solidarity levy is imposed, to €30,000 and reduction of the ENFIA property tax by 30%, when it does not exceed €700, may be discussed again.

Due to the successive election polls, which resulted in the inability to take and implement political decisions on planned reforms, the next enhanced supervision review will probably be postponed for a short period of time. Subsequently, the draft State budget for 2020 is quite likely to be drawn up without prior consideration of any additional fiscal interventions. The reforms that should be completed by the next review include, inter alia, the completion of the third mobility cycle in the public sector, which began in August 2018, the evaluation of the action plans to limit and eliminate State arrears, the compilation of an action plan to clear pending court cases on indebted households, and review of the criminal civil code with regard to opportunities to abuse the procedures for the protection of the primary residence. However, it is necessary to accelerate actions in many policy areas, as stated in the latest enhanced supervision report.

The effects of the election cycle extend to the cost of borrowing of the Greek state and the Greek economy more broadly. The announcement of additional measures for 2019 and 2020 halted the decline in the yield of the 10-year Greek bond, which had started in mid-November 2018, as it fell from 4.58% to 3.31% in mid-May. Its decline towards the end of this period came from the agreement with the IMF on the early repayment of 50% of the Greek government's debt to the Fund and the overshot of the target and the projections for the primary fiscal balance in 2018, according to the Eurostat data announced at the end of last April. However, the positive trend following the announcement of the fiscal interventions had a short duration and low intensity, as after a week, after the interest rate had risen slightly to 3.5%, it switched to a decline again. Since then, at least until the end of June, the trend did not change sign. A key development for this trend is considered to be the early proclamation of parliamentary elections, together with pre-election proclamations to reduce direct corporate taxation and the likelihood of forming a new

[32] following the May interventions

[33] "Enhanced Surveillance Report, Greece, June 2019", Institutional Paper 103, European Commission

government, based on the outcome of the European elections, which usually reinforces the expectations of changes in economic policy. As a result, at the end of June, the interest rate of the 10-year Greek bond fell marginally below 2.5%, to 2.48%, reaching its lowest level at least since 1993.

If these yields and the corresponding rates for the remaining bond maturities are retained following the elections, this will limit the interest payments of the Greek state and will have catalytic effects on the funding of banks and large companies from the international capital markets. The opportunities offered by the current cost of raising capital were recently exploited by Piraeus Bank, which successfully issued a Tier 2 subordinated bond, totalling EUR €400 million. According to Moody's, the bank's capital adequacy ratio strengthened as a result by about 90 basis points. Corresponding actions by the other banks, combined with the reduction of non-performing loans, are necessary to strengthen the supply of liquidity to the Greek economy. On the side of businesses, the election period seems to have hampered the raising of capital from the stock market and more broadly from the capital market. Indicatively, the latest relevant actions are the decision of Diversa at the end of June to issue new equity of up to €15.8 million, open until 30/06/2020, the decision of Motodynamics SA at the end of May to issue a bond of up to €5 million, which has not been implemented yet, the issue of new shares by the same company of €6.3 million in the first fortnight of the same month and the decision to raise €1.4 million as equity, also at the end of May, by Intertech. In addition to the low interest rates, the almost continuous rise of the Athens Stock Exchange since last November is expected to reignite the processes of raising capital through this channel following the end of the election period.

With regard to developments in the effort to reduce non-performing loans, the recent actions mainly concern write-offs and sales. Their reduction through online auctions continues this year at a low, declining pace, according to the latest report of the enhanced surveillance procedure.[34] According to the Greek authorities, in the first quarter of this year, about two thirds of the auctions were cancelled, postponed or drew no interest. Therefore, the stock of NPLs continued to decline primarily with methods that exerted negative pressure on assets, net capital and profitability of the banks. In order to limit the abuse of deferrals of auctions, the relevant provisions in the Civil Penal Code are undergoing a review by the Greek authorities and the Hellenic Banking Association. As mentioned above, this process should be completed until the next enhanced surveillance review. Therefore, the likelihood that the conditions for auctioning this year will change is small and the effects of such a development will be reflected in the trend of NPLs from next year. The assessment by the European Commission's Directorate-General for Competition (DG Comp) of the Asset Protection Scheme of the Hellenic Financial Stability Fund, which has a large overlap with the corresponding Italian scheme (GACS), is being delayed, with a major stumbling block the fact that the Greek bonds do not have an investment grade. In addition, there has also been no progress in combining this plan with the establishment of an Asset Management Company, as proposed by the Bank of Greece.

In this context of events and developments regarding the reduction of NPLs, the banks recently took the following actions: In early June, Piraeus Bank sold off corporate non-performing exposures (NPEs), with gross accounting value of €507 million and total credit receivables of €535 million. The National Bank of Greece sold in mid-May a portfolio of loans of small and medium-size enterprises, with a nominal value of approximately €950 million. Eurobank is preparing, first,

[34] "Enhanced Surveillance Report, Greece, June 2019", Institutional Paper 103, European Commission

the securitisation of 48,000 non-performing loans (NPLs), both mortgage (21,000) and consumer (27,000) loans, with a total accounting value of approximately €2 billion, and second, the securitisation of other 36,000 NPLs, 21,000 mortgage and 15,000 consumer loans, with accounting value of €7.5 billion. In the first case, intermediate (mezzanine notes) and low-grade (junior notes) bonds will be used. The latest data on non-performing loans cover the first quarter of 2019. At the end of March, the NPLs totalled €80.0 billion (45.2% of the total loans), only €1.8 billion lower compared to the end of 2018. The decline in the stock of NPLs came primarily from write-offs (€0.9 billion) and sell-offs (€0.8 billion). Thus, the proceeds from liquidating loan collaterals and from online auctions were minimal. Recall that at the end of September last year, the banks submitted revised targets for the reduction of NPLs, spanning over a longer period than the original targets, until 2021 instead of 2019. According to the new targets, the NPLs should fall below 20% of the total loans. For the end of the current year, the target is set at €65.0 billion, thus the NPLs should decline in the coming three quarters by €15 billion, which is not easy to achieve.

As to the trends in another driver of credit supply by the banking system, private sector deposits (households and non-financial corporations) have begun to grow slightly, following their stagnation earlier in the year. In particular, deposits increased by €2.6 billion or 2.0% in March-April, to reach €132.8 billion, from no change between October 2018 and February 2019. Their growth came mostly from the increase in household deposits by €1.46 billion, to €111.6 billion, following the rise that they had in the previous five months and throughout 2018. The rise of private deposits due to this specific component was foreseen in the previous IOBE report on the Greek economy. The increase of deposits of non-financial corporations during these two months reached €1.17 billion. That said, the growth rate was larger than in households, 5.9%, given the much smaller volume of NFC deposits, reaching €21.16 billion, following their recent rise. The fact that the rise in household deposits has been going on for 20 months, albeit at a moderate rate, currently standing at €112.45 billion (up by 12.6%), is considered to reflect the strengthening recovery of the confidence in the banking system. The positive outcome of the stress test last year and the gradual lifting of the capital controls contributed to this development.

The duration and stability of the upward trend in household deposits, coupled with the achievement of the NPL targets so far, as well as the full repayment of the funds received by the banks from the ECB's ELA mechanism, the interest rate of which was relatively high, constitute the main factors which led to the year-on-year expansion of the lending of the banking system to non-financial corporations in the past five months with available data (December 2018 – April 2019), compared to the corresponding period one year earlier. Loans to this category of borrowers increased for the first time since the second half of 2011. During the same period, late 2018 and this year, the rate of credit contraction to households and private non-profit institutions did not change compared to the preceding months. In particular, the financing of non-financial corporations expanded year on year at an average rate of 0.8%, while credit to households continued to contract, by 2.2%. In March-April, the outstanding balance of loans to the private sector remained essentially unchanged year on year (-0.1%), for the first time since December 2010. Since the beginning of 2019, loans to the private sector have declined on average by 0.5%, compared with a reduction of 1.3% last year.

Despite meeting the NPL targets thus far, their achievement for the whole year, mostly in ways that do not have negative effects on assets, net capital and profitability of the banks, i.e. with a significant increase in receipts and liquidations, continues to be a very big challenge. Moreover, although the net deposit flow from households, which have the largest share of private sector deposits, has been positive for a long time, its intensity is weak. Thus, even if the flow continues to increase and slightly speeds up, deposits will not increase by much. For these reasons, an extensive change in bank credit policy in the second half of this year is not expected. Credit to businesses will probably continue to expand mildly, perhaps at a slightly stronger pace, leading to a small credit expansion in the private sector overall in the second half of 2019. That said, such an, albeit small, uptick will take place for the first time since 2010.

Regarding developments in factors affecting business liquidity that are mainly driven by the public sector, the expenditure of the Public Investment Programme (PIP) in January – May this year increased by 46.7% compared to last year, when it had reached its lowest level at least since 2000. It stood this year at €1.17 billion, from €794 million last year, however, it lagged behind the relevant target in the 2019 budget (€1.3 billion). Taking into account, firstly, that the budget of the PIP is the same as in recent years (€6.75 billion), secondly the under-performance of the programme each year (€6.24 billion expenditure last year, €5.95 billion in 2017), a more frontloaded implementation of the programme than in the previous two years is to be expected for 2019 overall, with slightly higher disbursed grants than in 2018. Subsequently, the multiplier effect of this expenditure in the domestic economy will come earlier and more of it will be accounted in the current year results. Nevertheless, the target is not expected to be achieved, for yet another year.

Contrary to the expected greater impetus in 2019 from the PIP to the liquidity of enterprises, the impact from the payment of arrears of the Greek state is foreseen to be weaker than in the previous year. Between January and April of this year, no additional grants were given to public sector entities for payment of arrears including tax refunds. During the same period, €60 million were paid to beneficiaries, while the arrears increased in relation to December 2018 by €342 million, to €2.36 billion, mainly by higher outstanding tax refunds by €194 million.[35] In the corresponding period of 2018, the payments of arrears had reached €161.1 million, while their growth was weaker, by €36 million from the end of 2017, with arrears totalling €3.36 billion in April 2018. Recall that arrears of €1.39 billion were repaid overall last year, using funding from the loan of the third programme earmarked to cover arrears, combined with the mandatory domestic contribution (50% of the loan funds). However, the arrears of the public sector declined slightly, by €1.28 billion, so new liabilities went overdue. Following the coverage of outstanding pension applications, it is estimated that at the end of 2018 the unallocated resources totalled around €688 million, considerably less than the €2.36 billion pending payments. As noted in previous IOBE reports on the Greek economy, the State Budget for 2019 did not specify specific arrear targets set for this year, for example on their decrease to a certain level, nor is there a specific amount allocated for this purpose. With this in mind, it is anticipated that their payment will slow down compared to 2018.

Regarding other features of the domestic investment environment that are affected by the public sector, apart from the Public Investment Programme, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity this year, as anticipated in previous IOBE reports on the Greek economy as well. Recall that six major tenders were concluded last year, including the sale of 5% of the common shares of OTE S.A., 66% of the shares of DESFA, 67% of the Port of Thessaloniki and 100% of ROSCO (EESSTY). In

[35] Transfers / Grants - Payments of General Government Arrears, April 2019, Ministry of Finance, June 2019.

addition, the tender for the concession of 1800 MHz radio frequencies for 2018-2035 was concluded and the first payment was collected. Out of these deals, the new concession of the AIA, whose first expansion phase started last year, and the radio frequency rights, are expected to contribute to investment from this year on.

In the current year, the projection in the Budget for the revenue from the privatisation programme, excluding the concession fee for the AIA extension, which concerns a transaction completed last year, is notably lower than the target set in the Budget for 2018 (€1.53 billion against €2.74 billion). The fact that more than 97% of the revenue has been planned for its last quarter is probably related to sluggishness in the functioning of the State because of the elections. Yet, this causes uncertainty regarding its achievement, compared to previous years. The influence of the elections is considered to reflect on the performance of the Hellenic Republic Asset Development Fund (HRADF) this year. In particular, in the first six months of the year, the fee for the extension of the concession of the AIA (€1.4 billion), and the fee for selling 100% of ROSCO (EESSTY-€22 million) were collected. In addition, preferred investor was selected for the 40-year concession of Alimos Marina. That said, the sale of 100% of the shares of Hellinikon SA is still pending, no binding offers were submitted for the acquisition of 50.1% of the share capital of Hellenic Petroleum, there are still obstacles for the 35-year concession of Egnatia Odos and no progress has been made on the sales planned for this year of 11% and 24% of the equity capital of EYDAP and EYATH respectively.[36] HRADF activity came to the fore in June, with the completion of the sales of Golf – North Afandou for €29.5 million and South Afandou for €15.2 million, and the publication of the call for expressions of interest for 30% stake in the "Athens International Airport SA". Taking this into account, the HRADF activity is anticipated to be less productive than last year.

On the impact of the external sector on economic activity this year, the growth of exports is anticipated to be weaker than in the previous two years. Moreover, this year, unlike last year, the receipts from services will grow stronger than the receipts from goods. The main reason behind the weakening of the favourable effects is the deterioration of the conditions of international trade, at the EU level, but also globally, rather than a sharp decline of international competitiveness of the Greek products and services. This development will stem from the implementation of trade protectionism measures by the US and the reactions they have caused, leading to counter-measures being taken by affected trading partners. The negotiations between the US and China that began last December on their bilateral trade relations ended unsuccessfully in April, while the restrictive measures on imports were reinforced on both sides in May, with additional tariffs of $200 billion and $60 billion respectively. In late June, the US government decided not to impose additional duties totalling $300 billion, opting for negotiations with China. Due to the relatively small exposure of Greek exports to products where the US imposed restrictions, their indirect effects are expected to be more pronounced than their direct effects, through their impact on EU exports and those of third countries, which will in turn affect the demand for Greek products in these countries.

Within the Euro area, the completion of the expansion of the quantitative easing programme by the European Central Bank at the end of 2018 will also contribute to the slowdown of international trade. However, the support of the liquidity in the Euro area that the ECB provided in recent years

[36] "Enhanced Surveillance Report, Greece, June 2019", Institutional Paper 103, European Commission

through other monetary policy tools, such as low key interest rates, will not end abruptly. In early June, the ECB announced that its main refinancing rate will not change from current levels, which have been in effect since before the end of the Q-E extension at least until mid-2020, possibly later, for as long as it takes to ensure inflation stays slightly lower but close to 2% over the medium term. By contrast, the prolonged difficulties in reaching agreement on a consensual Brexit, which has escalated the concerns of UK businesses for fracturing of relations with the EU, leading to increased imports in order to have adequate stocks, has provided an one-off boost to EU exports. The rise of the country's imports in the first quarter of this year was the strongest in the EU (by 10.2%).

According to the latest forecasts, the growth of world trade this year will weaken to 2.1% in real terms, from 3.9% last year, while for next year, it is projected to bounce back to 3.1%.[37] The data available on global trade up to April this year point to a sharp slowdown year on year. Its change in these months fluctuated around zero, resulting in an average growth from the beginning of the year of 0.4%, when a year ago it expanded by 4.3%.[38]

Regarding the trends in international trade flows of Greek goods and services, the latest data from the Bank of Greece and ELSTAT, covering the first quarter of this year, indicate weakening from the previous year of the rise in the exports of goods and strengthening in services. In greater detail, the growth of the exports of goods, in current prices, slowed down significantly in the first four months of the year, to 3.8% year on year, from 13.6%. The weakening of the export expansion came almost equally from the slowdown in the exports of goods except fuels and ships by €461 million, at 5.7% from 13.8%, and stagnation in the exports of fuels (-0.1%), against a rise of 13.3% or €389.7 million a year earlier. Ship exports remained on a negative trend, declining by 8.3%, against 7.2% contraction in early 2018. The stagnation in fuel exports probably reflects a sharp slowdown in demand growth, as in the first quarter of this year, when most of the oil futures contracts with implementation in January-April 2019 were probably contracted, the Brent oil price was 5% down year on year. As the imports pf goods expanded faster than exports, by 5.7%, against virtually no change a year earlier (-0.1%), the trade deficit widened by 7.7%, to €7.62 billion, from €7.07 billion.

Regarding the trade flows in services, the latest data referring to the first four months of this year indicate that the growth of receipts strengthened significantly, by 11.1% year on year (€810 million), from 3.1%. The rise came primarily from the exports of transport services (by 9.8% or €471.6 million). For another year, tourism moved up in early 2019, with a pace that implies an extension of the domestic tourist season (22.8% or €240.5 million). The smallest both in absolute and in relative terms increase took place in the provision of other services abroad (by 97.8 million or 7.1%). The domestic demand for services from abroad also expanded, by 4.9%, or €277.9 million, much weaker than a year earlier (12.5%). The increased demand mainly concerned tourism services (up by 22.8% or €164.3 million) and other services (10.9% or €80.1 million). As the imports of services increased much less than exports, the surplus of the services account strengthened by €532.1 million or 32.2%.

As for the trends in key figures of the world economy that affect the prospects of all national economies, after its steady rise in the first four months of this year, the price of oil declined for

[37] Economic Outlook 105, OECD, May 2019
[38] CPB Netherlands World Trade Monitor

about a month, while from mid-June, following the attack on Japanese tankers in the Gulf of Oman, the concerns over the imposition of additional sanctions on Iran, and even military actions, have escalated. The rise in early 2019 came primarily from the embargo on Iran and Venezuela. The December 2018 decision of OPEC countries to limit daily production by 800,000 barrels per day, and of their partner countries, mainly Russia, by 400,000 barrels contributed to this trend. The increase in production in the US counteracted the reduction of production elsewhere. However, even during the prolonged increase in the price of oil, it did not exceed its level from one year earlier. On average in the first half of 2019, the price of Brent oil was about 7.0% lower year on year.

While most developments in production push oil prices up, the projected slowdown in global economic growth is anticipated to offset this throughout the current year, keeping prices lower year on year. According to the latest projections of international organisations, the growth rate of global GDP will reach 3.2% this year, 0.3 percentage points lower than in the previous year.[39] The growth slowdown comes from the impact of protectionist trade policies, with these measures escalating between the US and China, the gradual liquidity reductions by the major central banks worldwide in their effort to restore monetary policy to a relatively normal state, the credit crunch in China, the problems in the car industry in Germany, and the difficulties in the economies of Argentina and Turkey. However, it is likely that these pressures on economic activity will slightly ease in the second half of this year. For example, monetary policy changes is easing, with the FED having suspended further increases in interest rates in the current year and the ECB announcing in June that there would be no changes of its key interest rates until at least the middle of 2020. The extension of the production cuts by OPEC countries and their partners for nine months at the beginning of July will prevent a sharp decline in oil prices. In this global environment, the oil price for 2019 overall is expected to decline by about $5.0 or 6.0% from last year. Thus oil prices will not drive up production cost in the current year, limiting the competitiveness of products and services for countries with a relatively high dependency on oil imports, such as Greece.

The lower year on year exchange rate of the euro against the dollar ease the disinflationary or mildly inflationary effect of the lower oil price in the first half of 2019 in the Eurozone countries. It currently stands at its lowest level since June 2017, at around 1.13, while a year ago it was 6.5% higher, in the region of 1.20. The exchange rate depreciation is mostly due to the aforementioned successive interest rate increases by the Fed, which attract foreign capital, following the steadily strong growth in the US, at least in the first quarter of 2019, with positive effects on business profitability and stock market indices, together with low interest rates in the Euro area. The recent ECB announcement to keep its base interest rates unchanged at least until the summer of 2020, coupled with a previous announcement by the Fed in late March that it would not continue the increase in its interest rates at least for the remainder of this year, have formed a period until the end of 2019 for the investors, during which there are strong indications that US securities, of both the public and the private sector, will generate higher yield than the securities of the Euro area. Therefore, the yields in the capital markets of the Euro area and the US favour the continued outflow of capital to the latter economy, which will exert pressure on the euro exchange rate.

[39] Economic Outlook 105, OECD, May 2019

Aside from the developments in monetary policy, the Euro area has to deal with major current and upcoming challenges, such as Brexit (especially after the successive rejections of the deal by the House of Commons), the turmoil in the automotive sector in Germany, the strengthening Euroscepticism, the management of refugee flows, the deleveraging of the banking system in certain countries etc. In its external environment, the impact of trade protectionism might intensify: in case that the subsidy dispute between Boeing and Airbus is not resolved, the US are set to impose additional duties on a list of European product, with imports estimated to total $25 billion per annum, causing a similar reaction from the EU. Taking into account the various, mostly negative effects, it is quite probable that the euro-dollar exchange rate will fluctuate in the second half of the current year slightly lower both against its current level and its level from a year ago. Therefore, it will cushion somewhat the decline of energy cost coming from the fall in oil prices, yet it will boost the competitiveness of those Eurozone goods and services for which there are no restrictions in the US.

As to the latest developments in domestic economic activity and in short-term economic indicators, the available data, covering the first four months of the year, point to mixed trends, as in some sectors the recovery is accelerating, in others it remains unchanged from last year, while in some the trend has turned negative. In greater detail, according to the latest data, the average industrial production growth was sluggish in the first four months of the year, at 0.8%, compared to stagnation a year ago (0.1%). Industrial activity strengthened year on year in Electricity, by a similar rate as last year (2.2%), as well as in Manufacturing, by 1.1%, offsetting to a small extent the decline by 5.7% in the corresponding period of last year. In Water Supply, output decreased marginally (-0.7%), less than in the same period of 2018 (-2.5%). The strongest contraction occurred in Mining (-11.4%), much stronger than a year earlier. In construction activity, negative trends dominated in the first half in the number of permits (-9.9%) and even more so in terms of volume (-20.5%) and surface area (also -20.5%). In the first quarter of last year the trend was positive, with a 5.1% increase in permits, and expansion mainly in surface terms (10.6%) and to lesser extent in volume (3.1%). Contrary to what was expected up until the first two months of this year, activity in tourism continued to expand for another year. The international tourism receipts in the first quarter increased by 22.8% compared to last year, when they were growing considerably weaker, by 7.4%. The international arrivals at the main airports also increased year on year in January – May 2019, by 6.1%.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted index of volume in retail trade declined on average by 0.9% in the first four months of the year, at the same rate as a year earlier. Note that the index weakened despite the disbursement of a "social dividend" and retrospective payments of special wage grid categories since last December. Given that the fiscal measures for 2019 do not include any new indirect taxes or increases in already existing taxes, and with the oil prices projected to decline year on year on average in the current year, the increase of the domestic Consumer Price Index in the first five months of 2019 exclusively from the inflationary pressures from stronger demand were expected. In particular, during that period the CPI increased on average by 0.6%, compared to a marginal inflation a year ago (0.1%). At the level of its key components, the price index with fixed taxes and without energy goods, which approximates the effect of demand, increased by 0.8%, exceeding the overall CPI change. The effect of indirect taxes was marginally negative, by 0.1 percentage point, while energy prices had zero effect. Among the main categories of goods, the largest price increase took place in Communications (by 4.9%), Food – Non-alcoholic beverages (1.4%), Transport (1.2%) and Alcoholic Drinks – Tobacco (1.1%). Prices declined in five of the 12 categories of goods and services included in the domestic CPI.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to the changes in the 2019 budget and the May fiscal interventions, the minimum wage increase, the change in government and its impact on expectations, the trend in the yields of Greek bonds in the capital markets, and the challenging and volatile global environment) for the forecast of the GDP components and other macroeconomic indicators, the changes in the 2019 Budget that resulted in higher social expenditure and tax relief amounting to €1.25 billion compared to the MTFS 2019-2022, as well as the effects of the increase in the minimum wage and the abolishment of the sub-minimum wage, are expected to be the key drivers of household consumption growth in the current year. The effect of the additional, extraordinary pension aid paid in May on consumer demand will be transient. The new fiscal interventions for next year, announced during the elections, will have indirect effects this year, through expectations, depending on whether there will be considered to be sufficient fiscal space for their implementation or not, complete or partial etc. Therefore, their assessment is thus far premature.

Consumption expenditure will also be boosted by further employment growth, which, however, will be considerably weaker than in previous years, due to the developments in the regulatory framework of the labour market (increase in the minimum wage, abolition of the sub-minimum wage, expansion of collective agreements in certain sectors), and the already observed weaker boost from global trade. New jobs, of permanent and temporary duration, are expected to be created mostly in Tourism, Transport, Retail Trade, Manufacturing and the public sector. The negative impact of inflation will be milder than last year. Taking into account the weak growth momentum demonstrated by consumption demand of the private sector in the first quarter, despite the disbursement of transfer and retrospective payments at the end of the previous year, private consumption is expected to grow by about 1.2%.

Regarding the current trends and outlook of public consumption, the recruitment of 4.500 teachers and specialists for the disabled, together with the change in the work status of 3.000 people employed in home care from temporary to permanent contrasts, is taking place in accordance with the "1 departure – 1 recruitment" rule which should be implemented as per the agreement made with the European partners. Therefore, they are not expected to increase employment in the public sector. Meanwhile, the fact that new hires usually have lower salaries than the departing public servants will restrain public spending. Regarding the retroactive payments for the special wage grid based on Law No. 4575/2018, of the €982 million allocated from budget for this year, €324 million were disbursed by April. The data on components of public consumption from January to May, based on modified cash data for the General Government on a consolidated basis (and not ESA 2010), point to a small increase in staff remuneration, by €162 million or 2.3%, to €7.09 billion, and stagnation of spending for purchases of goods – services, by €4 million, or 0.2%, to €2.15 billion. The three elections that took place will also boost public consumption in the second quarter. Taking into account the contraction of public consumption in the first quarter of this year, for the third year in a row, public consumption is expected to remain unchanged or increase slightly in 2019.

Regarding investment, the conclusion of the election ballots earlier than expected prior to the European elections implies a quicker easing of uncertainty for a part of the businesses that gave increased weight to the politico-economic developments resulting from the elections, affecting accordingly their expectations in the second half of this year. However, any new fiscal interventions that will be implemented from next year, are not expected to be finalised before the completion of the next enhanced surveillance review, which will likely be pushed back in time. Therefore, until then, fiscal policy will not be clarified for next year.

For companies with business plans pending implementation, which are not particularly affected by the electoral cycle, the funding opportunities from the banking system have improved in the current year compared to previous years, as evident from the continuous mild credit extension to such businesses since the end of 2018, for the first time after 8 years of credit contraction. As it is expected that, firstly, the net inflow of private sector deposits will continue to be positive, at least for most of the duration of the current half of the year, secondly, that there will be no deviations from the NPL targets, although the way they are achieved creates burdens for the banks' assets and profitability, the credit expansion to non-financial corporations is anticipated to strengthen slightly in the remaining months of 2019. The repayment of the bank's lending from the ELA mechanism of the ECB, which had relatively high service costs, and the current, considerably lower than in previous years, yields of Greek bonds traded on the capital markets,[40] which the banks have started to utilise in their lending, allow the supply of credit to businesses on conditions that do not hinder their servicing. However, the flow of funding from the banks will remain considerably lower this year than the level required to achieve the amount of investment that the Greek economy needs, as the NPL target at the end of 2021 is still at a great distance and deposits are noticeably lower from their level before their last extended decline in the first half of 2015.

The larger companies are anticipated to seek to exploit right away the improved borrowing conditions and the decline of electoral uncertainty among the investment public, and raise capital from the Greek stock exchange and international markets. However, given their inaction during the long election period and the negative impact of the case of Folli Follie Group on the Greek stock market in late 2018 and early this year, the amount of funds that will be drawn in 2019 will probably be lower than in the previous two years. The finalisation of the draft law on corporate governance, which will enhance transparency in the governance of commercial enterprises, may boost the supply and demand for funds through the capital markets.

The emerging further growth of exports, weaker than in the past years, will contribute to undertaking investment projects in the most export-oriented sectors or those with rapidly rising exports. Besides, the strong rise in exports of goods and services in 2018 has created the need to increase the production capacity in some companies or to maintain existing capacity at high levels in most remaining exporting businesses.[41] At the branch level, investment interest is concentrated mainly in Tourism (including renting through Airbnb), Manufacturing, Transport and Storage. The implementation of investment will be carried out by the construction industry, while many investment plans will involve the acquisition of machinery and equipment, information and

[40] According to ECB data, the 10-year bond in the current period trades at its lowest yield at least since 1993

[41] These investment objectives correspond to the main business priorities as reported in the first Industry Investment Survey of IOBE for this year (June 2019)

communications technologies, and means of transport, covered to a large extent by imports. The reduction of ENFIA on average by 10% will stimulate construction activity this year.

As to actions of the public sector that contribute to investment, as noted in previous bulletins, following the HRADF activity in the previous two years, the implementation of investment projects in completed privatisation deals (e.g. regional airports, AIA, PPA, Asteras Vouliagmenis) is anticipated to intensify. The positive momentum would be clearly stronger if the Hellinikon investment had begun as well. Little boost will also come from the Public Investment Programme, mainly because of its exceptionally backloaded implementation last year, enabling its acceleration this year. The volume of grants through the PIP in 2019 will not differ substantially from previous years, as its budget is unchanged at €6.75 billion, and might be a little bigger this year.

Based on the observed and expected trends in its drivers, and bearing in mind that the significant rise in the first quarter of this year is largely due to base effects, as a year ago it stood at a fairly low level, investment activity will most likely strengthen in 2019, with a growth rate of about 8%-11%.

In the external sector of the Greek economy, as anticipated in previous IOBE bulletins on the Greek economy, the growth in the Euro area, the region that constitutes the main export destination of Greek products in 2017-2018,[42] is slowing down sharply in the current year. According to the latest forecasts, its GDP growth rate will fall to 1.3% from 1.9% in 2018.[43] In the first quarter of 2019, its GDP growth rate was 1.2%, compared with 2.5% a year earlier. According to the latest forecasts, the average growth rate of the Eurozone's GDP will subside this year to 1.2%, from 1.8% in 2018 and 2.5% in 2017.[44] The slowdown stems mainly from the conclusion of the expansion of the accommodative monetary policy by the ECB, the effects of the trade protectionism policies adopted by the US and the problems in the German economy from adjustment issues in its automotive industry. Therefore, a considerably milder boost of export demand is anticipated from this particular destination, with the possibility even of a small decline. By contrast, there is a significant growth of export demand from countries in the Middle East – North Africa, while exports to China continue their strong rise from last year, as a result of the monetary and fiscal stimulus policy, in an effort to address the effects of US trade protectionism measures.

The considerably higher proceeds from tourist services to foreigners in the period January-April, a period of time which is not part of the main domestic tourist season, together with the weaker rise of international arrivals in larger airports from the beginning of 2019 until May, are considered to pave the way for an increase in tourism activity for yet another year, albeit rather smaller than previously. As anticipated in the previous report by IOBE, based on the data of the first four months, the tourist season is gradually expanding. Therefore, it is likely that activity in the industry increase overall this year, even if during the summer months it stands at the same levels as last year or slightly lower. The strong rebound of competing tourist destinations, such as Turkey and Egypt, which started last year, may generate some pressures in the current period. The milder demand for tourist services seems to be offset, and possibly outweighed, by stronger supply of

[42] 31.5% of the increase or €2.5 billion (in current prices). The countries of the Middle East – North Africa came next in contribution terms (21.5% of the rise).

[43] World Economic Outlook, IMF, January 2019

[44] Economic Outlook 105, ΟΟΣΑ, May 2019

international transport services. For these reasons, the strengthening of the exports of services this year will be the main driver of the new growth in total exports, which is projected to be in the order of 5-5.5%.

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates (at constant 2010 market prices)

	2017	2018	2019	2020
Annual Percentage Change				
Gross Domestic Product	1.5	1.9	2.2	2.2
Private Consumption	0.9	1.1	1.3	1.2
Public Consumption	-0.4	-2.5	3.1	0.4
Gross Fixed Capital Formation	9.1	-12.2	10.1	10.8
Exports of Goods and Services	6.8	8.7	4.7	4.2
Imports of Goods and Services	7.1	4.2	5.7	4.1
Employment	1.5	1.7	1.5	1.3
Compensation of Employees per capita	0.5	1.3	2.4	1.7
Real Unit Labour Cost	0.0	0.5	0.5	-0.4
Harmonised Index of Consumer Prices	1.1	0.8	0.8	0.8
Contribution to real GDP growth				
Final Domestic Demand	1.6	-1.3	2.6	2.1
Net Exports	-0.1	1.5	-0.4	0.0
Inventories	0.1	1.8	0.0	0.0
As a percentage of GDP				
General Government Balance	0.7	1.1	0.5	-0.1
Current Account Balance	-1.1	-1.4	-1.0	-0.8
General Government Gross Debt	176.2	181.1	174.9	168.9
In percentage terms				
Unemployment (% of labour force)*	21.5	19.3	18.2	16.8

Source: European Economic Forecast, spring 2019, European Commission, May 2019

* Based on the Labour Force Survey methodology

Part of the projected growth of investment activity will be reflected, as mentioned above, in the demand for machinery, equipment and transport from abroad. Especially for the last category, as anticipated in the previous IOBE report on the Greek economy, the strong decline of ship imports, a key component of imports of transport equipment, throughout 2018 (-58.0%), facilitated a shift in the trend this year. The fact that investment in transport means had the second largest absolute change and the largest percentage change in the first quarter is an indication that this prediction will be verified. That said, a significant, perhaps the largest, part of investment growth in the current year is anticipated to concern construction, as evident from the larger growth than in the remaining capital classes in early 2019. This investment is carried out mainly with domestically produced materials, which explains why the growth of import demand due to increased investment is not expected to be strong. The anticipated growth of private consumption this year, at a similar pace, perhaps marginally lower than last year, will result in a similar to 2018 demand for imports by households. However, the stronger demand for tourism services from abroad in early 2019 will carry over to the rest of the year. As a result of the above particular trends, imports will grow in the current year by 6.0-6.5%.

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

Table 3.3

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

	MinFin		EU		IOBE		IMF		OECD	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
GDP	2.1	2.5	1.9	2.2	2.0	1.8	2.1*	2.4*	1.9	2.1
Private Consumption	1.0	1.1	1.1	1.3	0.9	1.2	1.0	1.2	1.0	1.0
Public Consumption	0.2	0.6	-2.5	3.1	-2.0	0.5	0.3	0.5	-2.5	2.3
Gross Fixed Capital Formation	0.8	11.9	-12.2	10.1	0.2	12.0	4.0	10.7	-12.0	1.2
Exports	7.5	5.8	8.7	4.7	7.7	5.2	8.1	5.7	8.8	5.3
Imports	3.4	5.2	4.2	5.7	4.0	6.2	5.2	5.2	2.9	2.8
Harmonised Index of Consumer Prices (%)	0.8	1.2	-1.0	0.4	0.8	0.4	0.8*	1.1*	0.8	0.8
Unemployment (% of labour force)**	19.6	18.2	19.3	18.2	19.3	18.0	19.6*	18.5*	19.3	18.1
General Government Balance (% GDP)	0.6	0.6	1.1	0.5	:	:	0.4	-0.2	1.1	0.1
Current Account Balance (% GDP)	:	:	-1.4	-1.0	:	:	-3.4*	-2.7*	-2.9	-1.3

* Source: World Economic Outlook, IMF, April 2019

** Based on the labour force survey methodology

Sources: Explanatory Report of the State Budget 2019, Ministry of Finance, November 2018 – European Economic Forecast, spring 2019, European Commission, May 2019 - The Greek Economy 02/19, IOBE, July 2019– First Post – Program Monitoring Discussions, IMF, March 2019 –– Economic Outlook 105, OECD, May 2019

The available data (until May) on modified cash basis for components of public consumption point either to small expansion or stagnation. Especially in the second quarter, the cost of the elections will boost the State consumption expenditure.

The conclusion of the election period, earlier than expected prior to the European elections, implies a quicker easing in uncertainty for the enterprises that had put more weight on the resulting politico-economic developments. However, no new fiscal interventions are expected to be finalised before the completion of the next enhanced supervision review. The funding opportunities from the banking system improved in the current year compared to previous years, as evidenced by the continued mild credit expansion towards businesses since the end of 2018. As it is expected that the net inflow of private sector deposits will be mostly positive in 2019, and that there will be no deviations from the NPL targets, the credit extension to non-financial corporations will slightly strengthen in the following months of the year. The current, considerably lower than in the recent past, yields of Greek bonds traded on the capital markets, allow the supply of credit with better conditions that do not hinder its service. The larger companies especially will seek to exploit shortly the improved borrowing conditions and the easing of electoral uncertainty among the investors, and to raise funds.

The very good export performance in recent years will be a sufficient incentive for investment in certain sectors and companies, regardless of this year's trend in exports. Besides, in Tourism, Manufacturing and Transport, exports continue to expand this year, but to a lesser extent than in previous years, mainly due to the weakening of demand from the Euro area. Regarding the impact on investment of public sector activity, the implementation of investment projects is expected to strengthen in completed privatisation deals and from the small uptick in the Public Investment Programme.

In the external sector of the Greek economy, the strong growth in the Euro area, the region that had the largest share in the significant expansion of Greek exports of goods in 2017-2018, will weaken in the current year, due to the end of QE and the impact of protectionist trade measures. The impact of these policies may strengthen, if the recent announcements on expansion of the restrictions to EU products materialise. The significantly stronger export demand from the countries of the Middle East – North Africa counteracts the slowdown of the rise in the exports of goods. The considerably higher tourism proceeds in the first four months of this year, outside the usual tourist season, are seen as an indication of a new boost in tourism activity this year, even if in the summer the strong recovery of competing tourist destinations exercises pressure. The milder demand for tourist services might be offset by the growing international transport services.

Boost of imports is expected from investment, but it will not be intense, as a significant part of investment relate to construction, which is carried out mostly with domestically produced materials. Demand from abroad for the household consumption needs will be similar to last year, but the demand for tourist services will strengthen.

Taking into account the expected developments in the current year that affect the trends in the GDP components, output is projected to grow by about 1.8% in 2019.

In the labour market, the increase in the minimum wage in February and the abolition of the minimum wage for workers up to 25 years of age are undoubtedly the regulatory interventions with the greatest impact on the labour market this year, creating a risk of slowing down of the growth in recorded employment. They are considered to affect mainly sectors with a high rate of youth employment, including Tourism, Food Services, and Retail Trade. Taking into account this change in the regulatory framework, together with the above projections on the components of the domestic economy, employment is expected to increase mainly in export activities and Construction. As the expansion of exports will weaken year on year, employment growth will also slow down in export-oriented sectors, such as Tourism and some branches of Manufacturing. In Transport, in contrast to 2018, the trend will be positive this year. Public sector employment is anticipated to continue to receive a boost from temporary social employment programmes run by

OAED, such as the programme for 26.800 individuals in municipalities, regional authorities and social welfare centres that began last October. Another social employment programme in municipalities and environmental agencies, with 8,700 beneficiaries, began in May. By contrast, employment in banking, the sector with the largest employment reduction in the first quarter, is projected to continue to decline in 2019 as a result of the extensive restructuring of its assets in the current and subsequent years. Given these and other factors that affect employment, unemployment is expected to decline in 2019 less than in previous years, to 18.0%.

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

Concluding with the consumer price forecasts, given the marginal negative effect exerted on inflation by indirect taxation from January to May, the reduction of VAT on food services, foodstuffs and energy from the end of the same month will reinforce the downward impact of taxes. Regarding the trends in energy costs, despite the cuts of oil production since the beginning of this year by OPEC and its partner countries, notably Russia, the average price of oil (Brent) in the first half of 2019 was 7% lower than in the corresponding period of the previous year, due to pressures from the slowdown in global growth. The difference compared to a year earlier did not expand in June, despite the growing tensions between the US and Iran. Therefore, the extension in early July, for nine more months, of the production cuts by OPEC, is not expected to push up the price of oil year on year, as indeed in the final quarter of last year it had risen significantly. Thereafter, the zero effect of energy on consumer prices, observed in the first five months of this year, is anticipated to carry over, with small fluctuations, to the rest of the year. Therefore, domestic demand will be the only factor pushing up prices this year, as in the period January – May. The positive impact of consumer demand on prices comes mainly from further declining unemployment and the minimum wage increase. Under the current conditions, the average rate of change of the CPI in the current year is expected to be marginally lower than last year, at 0.3%-0.5%.

3.2 Developments and Prospects in Key Areas of the Economy

- Slightly stronger growth of industrial production in the first four months of the year (0.8%, against 0.1% last year). Marginal decline in European industry (-0.3%).
- Contraction of activity in Construction by 18.5%, against a milder reduction by 0.7%
- Decline in the volume of Retail Trade as well compared to the same period of 2018 (1.1%, against 0.9%)
- Turnover contraction in the first quarter of 2019 in five of the thirteen sub-sectors of services

Industry

Despite the decline of the industrial production Index this April, by 0.8%, against a 2.0% rise a year earlier, overall in the first quarter of this year, industrial production increased by 0.8% when last year it remained essentially unchanged (0.1%).

According to the latest data, the prices of industrial products increased by 2.2% in the first five months of 2019, at a rate similar to that at the same time of last year. Turnover in January – April, according to the latest available data, increased by 1.6%, a significantly lower rate than in the preceding years (6.1% in 2018 and 7.1% in 2017). Analysis on the sectors with the greatest contribution to the significant boost of the turnover index of the Greek industry in 2017 and 2018 is presented in a text box at the end of this section (Box 3.2).

In the Euro area, in January – April of this year, industrial production declined by 0.3%, against a 2.7% increase in the corresponding period of last year.

Production in key industrial sectors in Greece during the first four months of 2019 followed mixed trends. The strongest contraction took place in Mining, where production declined by 10.2%, against a milder decrease by 3.2% in 2018. Water Supply followed, with a much more limited retreat, by 0.7%, against a 2.5% reduction last year. By contrast, Electricity Generation strengthened by about 2.3%, against a fall by 5.7% a year ago. Manufacturing also increased, but at a lower rate than in the first quarter of 2018 (1.2%, against 2.1%).

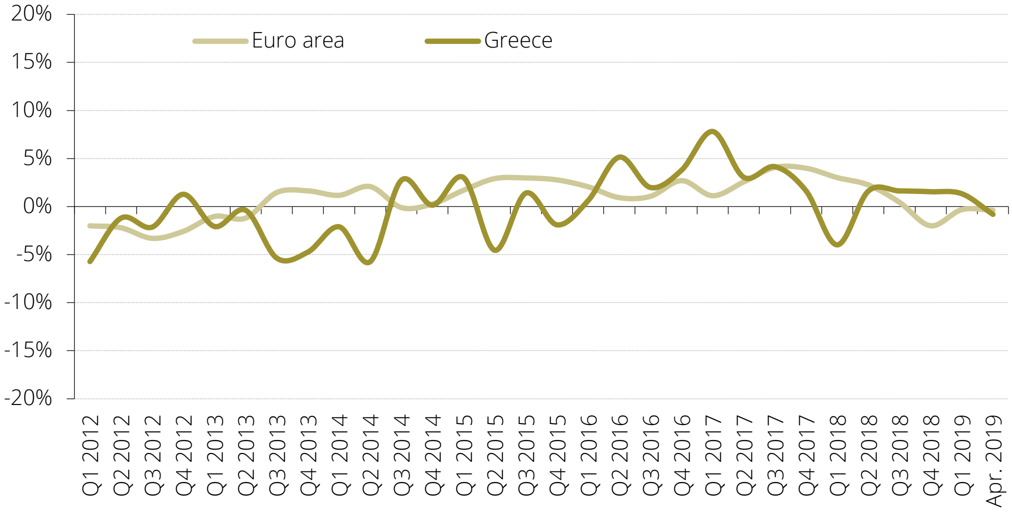
In greater detail regarding Mining, the greatest drop was recorded in Mining of Metal Ores (-21.8%, offsetting its growth by 19.3% last year), followed by Coal-Lignite (-12.5%, from -8.8%), and Other Mining (-3.3%, against -6.5%). Output expanded, at a much lower rate than last year, in Extraction of Crude Petroleum (4.3%, against 44.0%).

In Manufacturing, output increased in half of its branches (12 out of 24). Among the branches with particular significance for the Greek economy, production increased strongly in Basic Pharmaceuticals, by 26.4%, stronger than a year earlier (16.5%). Food production increased slightly, by 1.4%, against 1.0% a year earlier, while in Basic Metals output increased by 2.6%, from 0.7% in the same period of 2018.

Figure 3.1

Industrial Production Index in Greece and in the Eurozone-19 p.p.

(% change compared to the same quarter of the preceding year)



Growth in industrial production in Greece in Jan.-Apr. 2019, by 0.8%, against no change in the same period of 2018 (-0.1%)

Sources: ELSTAT, Eurostat

Among the remaining branches of Manufacturing, the largest contraction in the first four months of the current year was recorded in Motor Vehicles (-43.0%, against 11.7% a year earlier), Clothing (-10.8%, against -100%) and Other Transport Equipment (-10.4%, against -7.5%). Coke - Refined Petroleum Products came next (-8.3%, against 1.1%), followed by Electrical Equipment (-7.6%, from 1.9%), and Furniture (-7.2%, against 25.2%). Finally, production of Beverages slightly decreased, by 1.0%, against an increase of 7.0% last year.

Branches with growing output include Tobacco, by 52.8%, offsetting the decline by 36.5% last year, Computers-Electronics, with a rise of 18.5%, against a small retreat by 1.2% last year, Chemicals (6.4%, against 2.6%), Other Manufacturing (6.3%, against 4.7%), Repair - Installation of Machinery - Equipment (4.8%, from 1.3%) and the production of Plastic - Rubber Products (1.1%, against 1.0%).

Over the same period, output increased in just two of the five key groups of industrial products. In particular, the production of Non-durable Consumer Goods strengthened by 7.9%, more than double the rate it recorded last year (3.1%). The output of Capital Goods also increased slightly (by 0.5%, against 4.1%). By contrast, output declined in Durable Consumer Goods (-13.5%, against 7.7%), Energy (-2.8%, against -3.0%) and Intermediate Goods (-0.3%, against 1.0%).

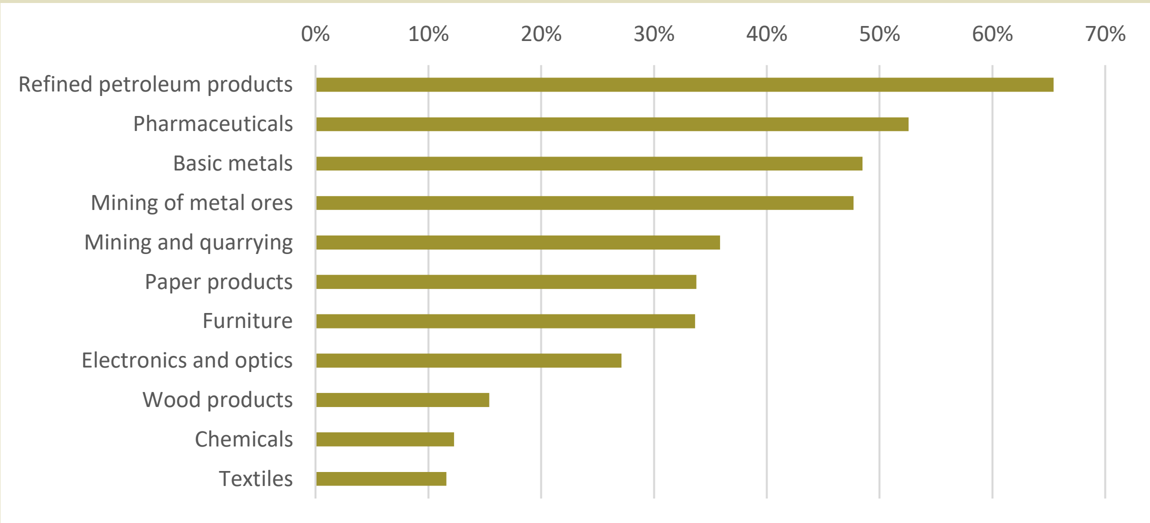
Box 3.2

Transition to a new growth model? Indications from industry sectors

In 2017 – 2018, the turnover index in industry increased strongly, by 24.2%, after contracting by 16.0% overall in the preceding two years. This significant increase took place despite the presence of certain obstacles to business activity, such as capital controls, notably on international transfers, and an increase in the direct tax rate of enterprises with double-entry bookkeeping from 26% to 29% in 2015. At international level, the United Kingdom decided in the June 2016 referendum to exit the EU, while relatively recently, in March 2018, trade protectionism measures were imposed by the US, leading to countermeasures from their affected trade partners (such as the EU, Canada, China, India, and South Korea). Having said that, some favourable developments took place in 2017-2018 or just before that, such as the ECB's quantitative easing (QE) programme from March 2015 to December 2018. Greece was not part of the QE programme, yet it had positive effects through the participation of all other Eurozone countries. The military conflicts in the Middle East and North Africa also favoured the demand for Greek products and services.

Figure 3.2

Change in total (domestic and non-domestic market) turnover index 2017-2018, sectors with the greatest growth



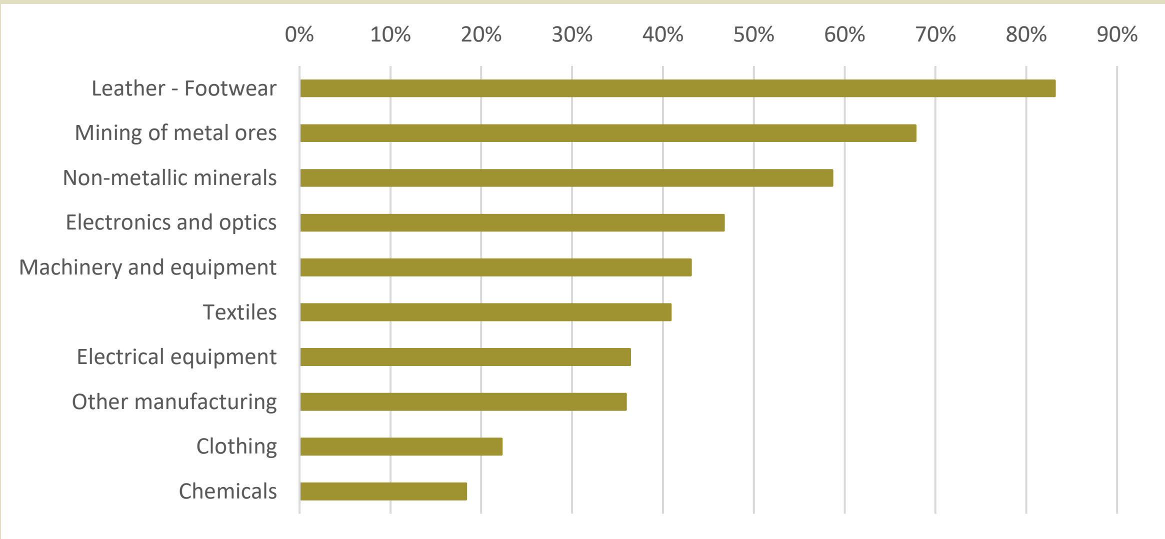
Source: ELSTAT. Data processing: IOBE

The examination of the effect of each of these factors, most of which cannot be quantified, as they have a qualitative dimension, on the significant expansion of industrial activity in 2017-2018, is the subject of an econometrics analysis. The analysis that follows examines whether turnover growth at the level of two-digit NACE Rev. 2 sectors in this period is related to the gradual strengthening of their export orientation and the realisation of investments, which constitute quantitative variables. Of course, these trends depend on the above qualitative factors as well. The analysis will focus on these two quantitative variables, as they are thought to be key components of the transition to a new growth model, which is not primarily based on domestic demand and mainly on consumption, but on exports and investment.

In greater detail, it is apparent from the data that the decisive factor for the strong increase in turnover in the entire industry in 2017 – 2018 was mainly the increase in sales in the international markets (37.3%) and to a lesser extent in the domestic market (14.8%). The stronger sales boost in foreign markets is probably due to the favourable factors of the international environment, as well as the slight boost in the domestic obstacles mentioned above. At the branch level, some branches experienced exceptional turnover expansion. In particular, the Refined Petroleum Products increased its turnover in 2017-2018 by 50.6%. This increase came mainly from the sales boost abroad and the strong momentum gained prior to the two examined years, by 40.8%. Basic Metals came second, where also international sales increased strongly (36.4%), while the boost in the domestic market was considerably weaker (11.9%). Mining of Metal Ores followed (26.2%), with a boost exclusively coming from the international market (67.8%), as the corresponding index in the domestic market declined by 6.6%. Sales of Pharmaceuticals increased by 25.9%, with a large part of the trend attributed to stronger export activity, which had started a little earlier, from 2016, and stood at 58.7%, in contrast to a marginal increase of 0.6% in the Greek market. The sales of Computers - Electronics increased abroad (by 18.3%), yet the domestic market expanded stronger (32.9%), resulting in a cumulative increase of 24.3%. Other mining activities (21.5%) followed, with a rise exclusively from sales on the international market (43.1%), as domestic turnover declined by 6.7%.

Figure 3.3

Change of the turnover index in the non-domestic market 2016-2018, sectors with the greatest growth



Source: ELSTAT. Data processing: IOBE

Based on the above observations, it seems that quite a few of the sectors of industry with the biggest activity growth in 2017-2018 supported a significant part of their turnover expansion on the international market, utilising the positive circumstances mentioned earlier, through a targeted strategy or otherwise. However, the strengthening of exports is not the only factor that enhanced turnover. Some sectors targeted mainly or exclusively the domestic market, with very positive results.

In addition to whether there was a boost from the prolonged growth of export activity in industrial sectors with the largest turnover expansion in recent years, the role of investment in the recovery of sales should also be examined. Indicatively, as a reason for this, investment in research and development is needed for the creation of innovations that are integrated into production, offering significant added value, in order for the Greek products to be competitive in the international and domestic markets.

As the return on investments is generated over time, the evaluation of their contribution to the trend of turnover of the two-digit branches of Greek industry in 2017 – 2018 takes into account their evolution in 2014 – 2016. In addition, by the nature of the activity of the sectors, the volume and needs for investment differ across sectors. The production of some of them is more capital intensive than others (e.g. production of basic metals). Some sectors, such as Information and Communication Technologies, need more skilled staff than others, so they pay less attention to fixed capital. For these reasons, we examine the relationship between turnover and the ratio of investment over output value by sector. Due to limited data, and for reasons mentioned above and related to the return on investment, we consider the investment rate for the period 2014-2016 (Figure 3.4).

Under the above assumptions and constraints, in the sectors with the largest turnover change, in Refined Petroleum Products (branch 19 of NACE Rev. 2) the investment rate increased marginally (0.4 percentage points), whereas in Basic Metals (branch 24) it fell by 1.3 p.p. In addition, both in Mining of Metal Ores (branch 7) and Pharmaceuticals (branch 21), the investment rate decreased, by 8.0 p.p. and 2.5 p.p. respectively. Therefore, in most sectors of industry with high growth of turnover in the two years under consideration, the investment propensity in the preceding period was limited. This observation does not imply that these sectors did not invest, but rather that they did not accelerate their investment activity shortly before the significant expansion of their sales in 2017 – 2018.

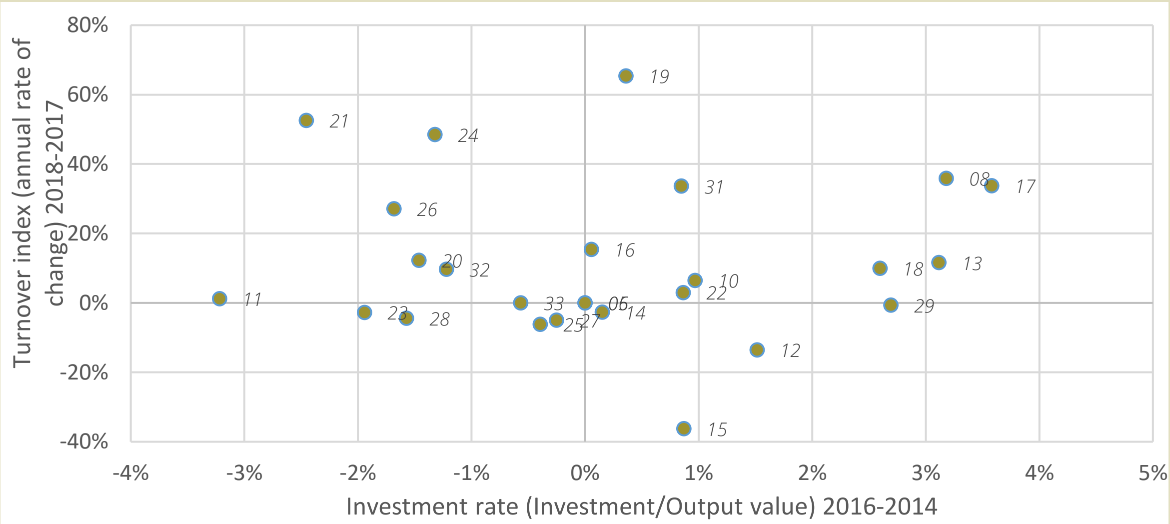
However, there are other sectors with a turnover increase, not among the largest, but with a significant growth of investment activity. Indicatively, in the Paper industry (branch 17), the turnover index strengthened by 33.8% during the period under consideration, while the ratio of investment over production value increased by 3.6 p.p., the strongest rise among the industrial sectors. Similar trends took place in Other Mining Activities (branch 8), with turnover expanding by 36.0% and the investment rate growing by 3.2 p.p.

In some industrial sectors, despite the strengthening of the investment propensity in 2014-2016, turnover declined subsequently. Indicatively, in Other Transport Equipment (branch 30) the investment rate strengthened by 2.9 p.p., while turnover declined by 71.3%. Correspondingly, in Footwear (sector 15), the investment rate increased by 0.9 p.p., while turnover contracted by 36.2%.

Therefore, it is not apparent from the provided data that there is any correlation between the trend in the ratio of investments to production value, as a proxy of the investment propensity, and turnover growth. This finding can be interpreted in many ways. For example, some investments may be taking place gradually, depending on the available resources and the possibility of interference in the flow of the production process that are needed for their implementation. In addition, it is also possible that some investments require a longer period of time in order to generate returns.

Figure 3.4

Correlation of turnover changes (2017-2018) and changes in the ratio of investment to production value (2014 – 2016)



Source: ELSTAT. Data processing: IOBE

To sum up, the analysis of the above data showed that a boost of exports is a common feature of almost all sectors of industry with significant activity growth in the recent two years. No correlation was found between the investment propensity and turnover for these sectors, but there are other sectors with a rise in both investment and turnover. These findings highlight the specificity of the impact of investments by sector. Overall, there are signs that in the past few years industry is undergoing a transition to a new development model, with the features intended by economic policy.

Construction

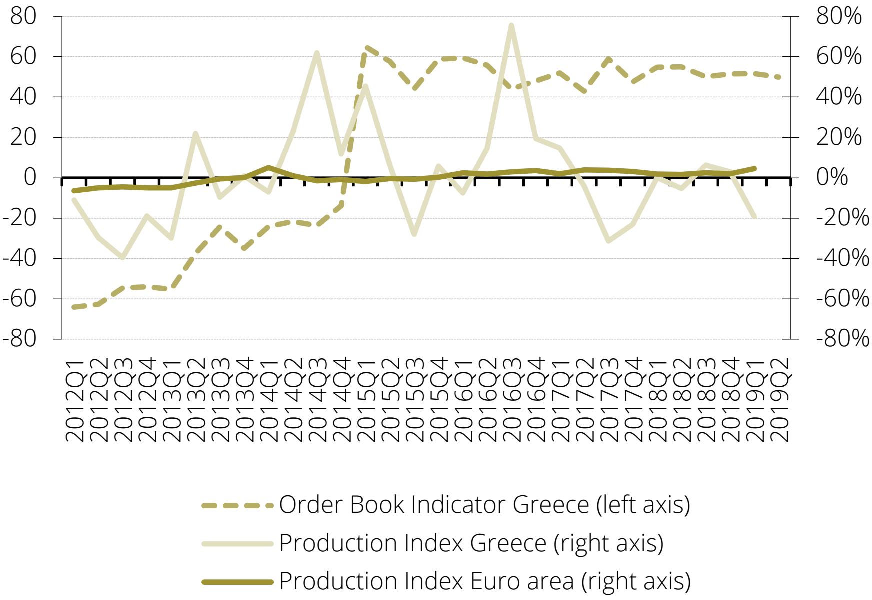
During the first quarter of 2018, the production index in Construction declined strongly, by 18.5%, against a reduction by 0.7% in the same period of the preceding year. The index averaged 32 points in the first quarter of this year, 68 points lower from its average level in the base year (2010). By contract, construction production In the Euro area expanded further, at more than double the rate from the first quarter of last year (4.5%, against 1.8%).

Among its constituent activities: the production index in Buildings declined by 15.3%, against growth by 36.0% in the first quarter of 2018. The production index in Civil Engineering declined by 22.3%, continuing a 24.9% drop a year earlier. The monthly data on building activity for the same period point to decline of the number of permits (-9.1%, against 6.1% a year earlier), volume (-22.3%, against 9.1%) and surface (-22.9%, against 1.8%) of buildings.

Figure 3.5

Production Index in Construction and Building Activity Index

Significant contraction in Construction in the first quarter of 2019 (-18.5%), against a slight reduction the year before (-0.7%)



Source: ELSTAT

Retail Trade

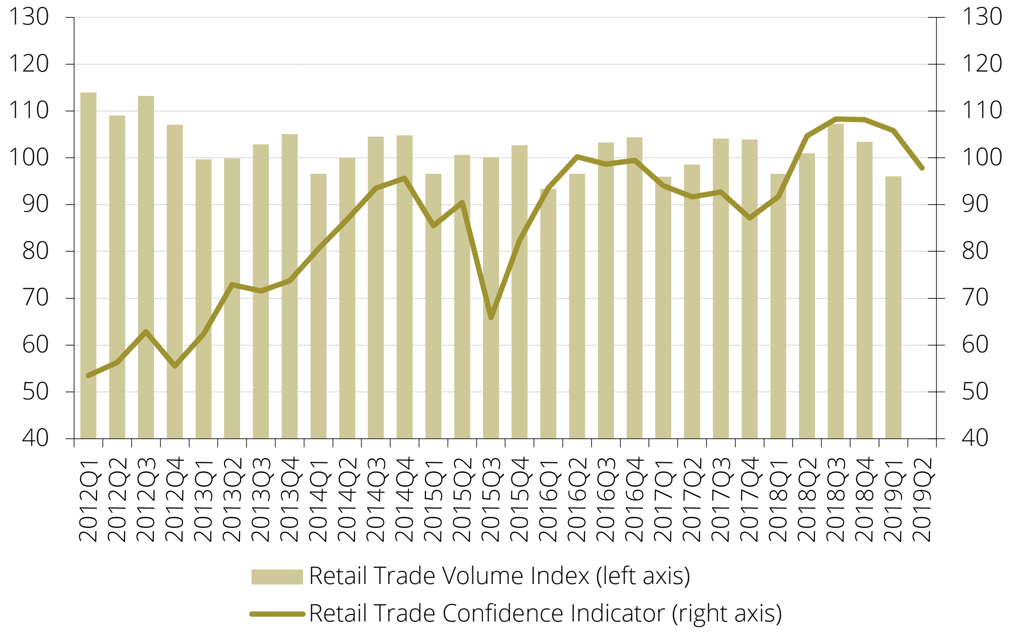
In the first four months of 2019, the volume index in Retail Trade declined by 1.1%, against growth at a similar rate in the first four months of 2018 (0.9%).

The volume of activity increased in three of the eight branches of Retail Trade. The strongest growth was recorded in Books - Stationary, by 14.6%, against a decline by 0.7% in the same period of 2018. Furniture – Electrical Equipment – Household Appliances came next, with weaker growth than last year (3.0%, against 8.4%). In Fuels – Motor Lubricants, activity strengthened by 1.3%, against a marginal decline by 0.2%. By contrast, turnover contracted significantly in Department Stores (-13.5%, against 1.6%), to a lesser degree in Pharmaceuticals-Cosmetics (-5.9%, against 3.1%) and Clothing-Footwear (-5.2%, against 2.4%) and only marginally in Supermarkets (-1.0% from 3.2%).

Despite turnover losses, the expectations in Retail Trade strengthened slightly year on year in the first half of 2019, according to the leading indicators of the Business Surveys conducted by IOBE. The index for Retail Trade overall increased by 0.9 points year on year, notably less than the increase by 7.5 points in the corresponding period of last year.

Figure 3.6

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



Slight increase in the Retail trade during 2019Q1 (1.1%). Similar trends last year (+0.9%)

Source: IOBE

Table 3.4

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

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan- Oct 2017	Jan- Oct 2018	Jan- Oct 2019	% Change 2018/2017	% Change 2019/2018
Overall Index	97.0	97.9	96.8	0.9%	-1.1%
Overall Index (excluding automotive fuels and lubricants)	97.5	98.8	97.1	1.3%	-1.7%
Store Categories					
Supermarkets	98.3	101.5	100.5	3.2%	-1.0%
Department Stores	99.7	101.2	87.5	1.6%	-13.5%
Automotive Fuels	92.5	92.3	93.5	-0.2%	1.3%
Food – Drink – Tobacco	91.6	84.4	81.3	-7.8%	-3.7%
Pharmaceuticals – Cosmetics	96.2	99.1	93.3	3.1%	-5.9%
Clothing – Footwear	106.9	109.5	103.8	2.4%	-5.2%
Furniture – Electric Equipment – H. Appliances	90.0	97.8	100.8	8.6%	3.0%
Books – Stationary	103.2	102.5	117.4	-0.7%	14.6%

Source: ELSTAT

At the branch level, the expectations strengthened by 18.1 points year on year in Food-Beverages-Tobacco, against a contraction by 18.3 points in 2018. The index slightly increased in Department Stores (1.7, against 0.1 points last year). By contrast, expectations deteriorated strongly in Clothing - Footwear (-25 points, against 9.5 points), Household Appliances (-21.4 points, against 16.9) and to a lesser extent in Motor Vehicles – Spare Parts (-4.4, against 24.1). The main cause of the fall of the indicator in Motor Vehicles is the sluggish performance of the balance of current sales, which declined to 17 points, from 51 points a year earlier, with a fall of the companies reporting sales growth in the current period and significant reduction of the enterprises expecting lower sales. In stocks, consolidation trends dominate over time, but with a growth of companies that consider stocks elevated. The balance of orders slightly declined, to 9 points, as the percentage of those expecting more orders remained falling. By contrast, the expectations on sales in the following quarter were more upbeat, with the balance strengthening (by 5 points) year on year, while the percentage of businesses that expected sale growth strengthened. Lastly, as regards employment, strong stabilisation trends remain.

Table 3.5

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

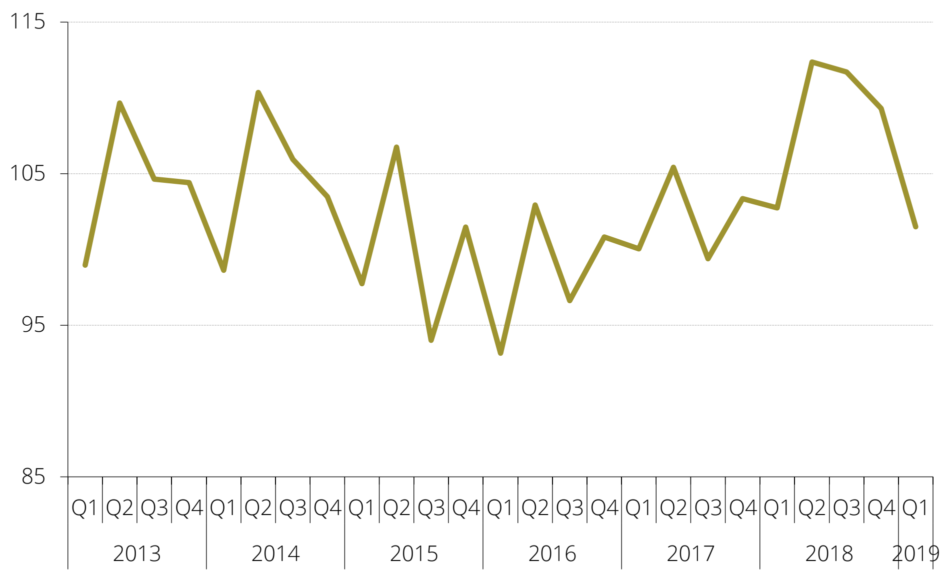
	H1 2017	H1 2018	H12019	% change 2017/2016	% change 2018/2017
Food-Drinks-Tobacco	94.2	75.9	94.0	-19.4%	23.9%
Textiles - Clothing – Footwear	96.8	106.3	81.3	9.8%	-23.5%
Household Appliances	79.3	96.2	74.8	21.3%	-22.2%
Vehicles-Spare Parts	108.1	132.2	127.8	22.3%	-3.3%
Department Stores	91.3	91.4	93.1	0.1%	1.9%
Total Retail Trade	93.4	100.9	101.8	8.0%	0.9%

Source: IOBE

Figure 3.7

Turnover Index in Wholesale Trade

Turnover decline by 1.2% in Wholesale Trade, against growth by 2.7% last year, as a consequence of lower demand in Retail Trade



Source: ELSTAT

Wholesale Trade

The decline recorded in Retail Trade was reflected in Wholesale Trade, the preceding link in the value chain. Turnover in wholesale trade declined by 1.2% in the first quarter of 2019, against growth by 2.7% a year earlier.

Services

Over January-March 2018, turnover declined year on year in five of the thirteen branches of Services.

The strongest activity contraction was recorded in Other Professional - Scientific - Technical Activities, with turnover contracting by 11,5%, against a boost by 14.7% in the first quarter of last year. Services to Buildings - Landscape Activities came next, with -10.0%, after a contraction by 11.8% last year, followed by Office Administrative - Other Business Support Activities (-4.3%, against 4.6%), and Information service activities (-4.1%, against -2.7%). In Security-Investigation Activities, turnover declined by 4.0% for the second year in a row.

Table 3.6

Turnover Indexes (2010=100)

Sector	% change Q1 2018/2017	% change Q1 2019/2018
Postal and courier activities	4.9	13.0
Publishing Activities	-10.3	7.0
Telecommunications	-1.9	3.1
Information service activities	4.9	0.6
Computer programming, consultancy and related activities	-2.7	-4.1
Legal and accounting activities	6.6	5.5
Architectural and engineering activities; technical testing and analysis	-28.1	5.9
Advertising and market research	1.1	8.1
Other professional, scientific and technical activities	14.7	-11.5
Employment activities	24.7	21.2
Security and investigation activities	-4.0	-4.0
Services to buildings and landscape activities	-11.8	-10.0
Office administrative, office support and other business support activities	4.6	-4.3

Source: ELSTAT

Among the sectors where turnover expanded year on year in January – March, the strongest growth was observed in Employment Activities (21.2%, against 24.7%), Postal-Courier Activities (13.0%, against 4.9%), Publishing Activities (7.0%, against -10.3% a year earlier), Advertising-Market Research Activities (8.1%, against 1.1%). Architectural – Engineering Activities came next, with an activity increase of 5.9%, but after strong losses last year (-28.1%), followed by Legal-Accounting Activities (5.5%, against 6.6% last year), Telecommunications (3.1%, against -1.9%) and Computer Programming (1.8%, against 7.8%).

According to the leading indicators of the Business Surveys conducted by IOBE for the first half of 2019, the sentiment weakened, as the overall indicator for Services declined by about 8.2 points year on year. The decline was driven mainly from weaker expectations in Tourism (-20 points, against growth by 4 points a year earlier) and to a lesser degree from decline in Financial Intermediaries (-8.1 points, against growth by 12.7 points).

Table 3.7

Sector Indices of Business Sentiment in Services (1998-2006=100)

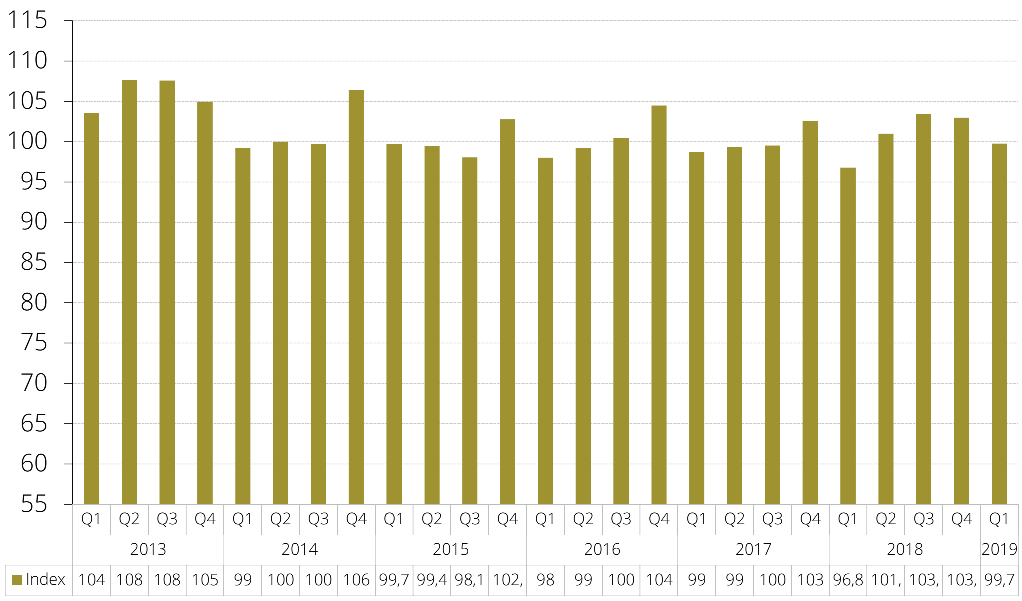
	H1 2017	H1 2018	H1 2019	%Δ	%Δ	Change 2018/2017	Change 2019/2018
Hotels – Restaurants – Travel Agencies	103.3	107.3	87.5	3.9%	-18.5%	4.0	-19.8
Other Business Services	59.5	66.4	80.1	11.6%	20.6%	6.9	13.7
Financial Intermediation	79.9	92.6	84.5	15.9%	-8.8%	12.7	-8.1
Information Services	70.4	75.3	81.6	7.0%	8.4%	4.9	6.3
Total Services	**82.2**	**91.5**	**83.3**	11.3%	-9.0%	9.3	-8.2

Source: IOBE

Figure 3.8

Turnover Index in Telecommunications (branch 61)

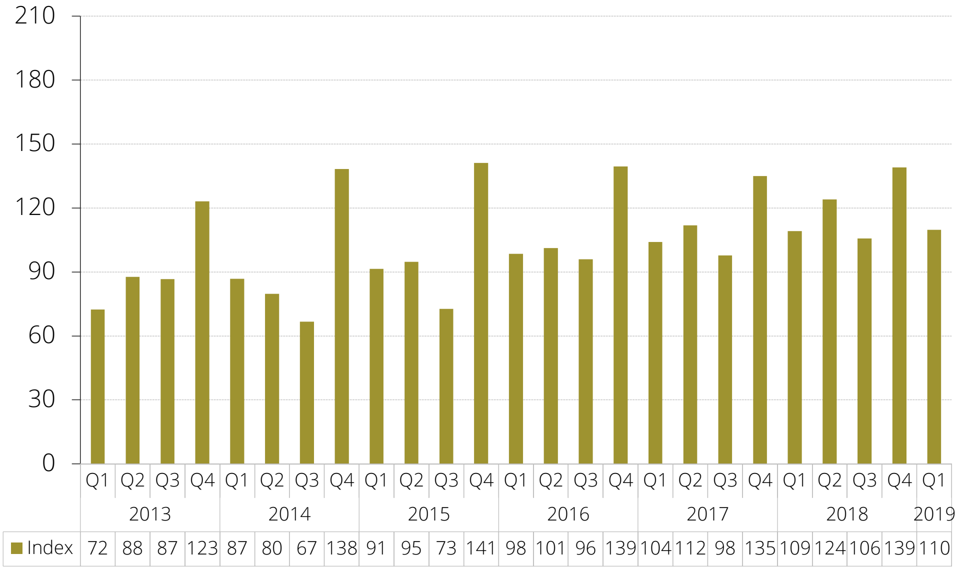
Increase by 3.1% year on year, against decline by 1.9% a year earlier



Source: ELSTAT

Figure 3.9

Turnover Index in Information Services (branch 62)

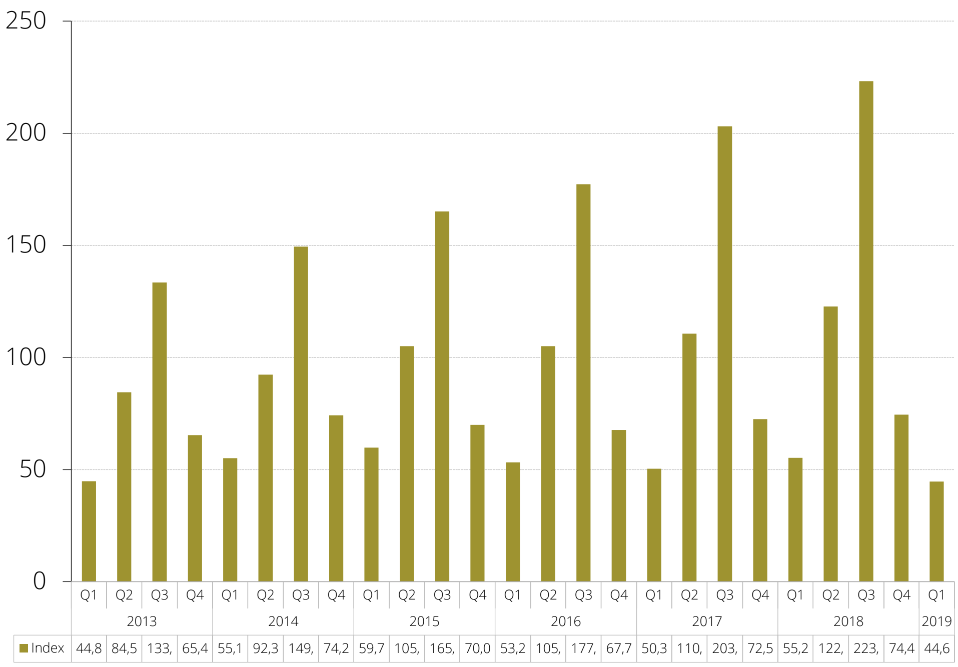


Further slight expansion (0.6%), weaker than in the previous year (4.9%)

Source: ELSTAT

Figure 3.10

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



Strong decline by 19.2% in the first quarter of 2019, against a boost by 9.7% a year ago

Source: ELSTAT

3.3 Export Performance of the Greek Economy

- The exports of goods increased by 3.8% in the first four months of 2019, with a rate notably lower than in 2018 (13.3%).
- Slightly stronger growth excluding petroleum products and ships, by 5.7%
- Higher trade deficit by 6.6% year on year to €7.2 billion
- Among the categories of goods, the exports of Chemicals had the greatest contribution to export growth

The exports of goods stood at €10.9 billion in the first four months of 2019, from €10.5 billion in 2018, recording an increase of 3.8%, according to data from ELSTAT. Excluding petroleum products and ships, exports increased by 5.7%, to reach €7.5 billion, from €7.1 billion in the first four months of 2018 (Figure 3.11). Imports increased by 5.0% in the first four months of this year, to reach €18.0 billion from €17.1 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit stood at €7.2 billion, from €6.8 billion (+6.6%), €449.1 million more than a year ago. Subsequently, the value of the exports of goods of the Greek economy accounted for 59.9% of its imports in the first four months of this year, from 60.5% last year.

Figure 3.11

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

Exports except petroleum products and ships stood at €7.5 billion over January-April, 5.7% higher than in 2018

Source: ELSTAT, Data processing by IOBE

In greater detail, the exports of Agricultural Products decreased by 6.9% in the first four months of the year, to reach €1.8 billion, from €2.0 billion, a year earlier, while the exports of Fuels increased by 1.0%, to €3.41 billion from €3.37 billion in the previous year (Table 3.8). The exports of these two product categories accounted for 48.8% of the Greek exports in the current year, from 51.7% a year earlier**.** The decrease in agricultural products came mainly from a 54.7% decrease in the demand for Oils and Fats of Animal or Plant Origin, the value of which amounted to €146.9 million, from €324.6 million a year earlier and, as a result, their share in total exports weakened from 3.1% in 2018 to 1.4% in 2019. The exports of Food – Live Animals, which account for approximately 79.5% of the exports of Agricultural Products, remained unchanged (+0.1%), to €1.47 billion**.** The exports of Beverages - Tobacco products, which account for approximately 12.5% of the exports of

Agricultural Products, increased by 20.9%, from €190.7 million in the first four months of 2018, to €230.6 million in the same period this year.

The exports of Industrial Products increased by 9.9% in the first four months of 2019, with their value reaching €4.8 billion, from €4.4 billion a year. This rise is explained mainly by the strengthening of foreign demand for Chemical and Related Products, by 21.1%, with their value reaching €1.3 billion. The Manufactured Goods Classified Chiefly by Raw Material also rose, by 2.7%, to €1.69 billion from €1.65 billion, while the exports of Miscellaneous Manufactured Articles increased by 23.5%, (to €839 million, from €679.7 million). The export performance strengthened in Machinery and Transport Equipment as well, by +0.3%, to €981.1 million, from €978.1 million.

Finally, the exports of Raw Materials increased by 25.2%, reaching €536.2 million from €428.2 million in the previous year, while the exports of Commodities and Transactions Not Classified by Category decreased by 20.0%, from €189.8 million in 2018, to €151.8 million this year.

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 5.1%, to reach €4.2 billion this year, from €3.9 billion in the same quarter of 2018, absorbing as a result almost 38.7% of the Greek exports of goods in 2018. There was slightly higher increase in the EU, by 5.7% or €313.2 million, with the exports to the region totalling €5.8 billion, from €5.5 billion a year earlier. Among the Eurozone countries with the largest share of Greek exports, growth was stronger in France at 29.2%, from €301.1 million to €389.1 million, and Germany, by 0.2%, from €666.2 million to €667.5 million**.** The exports to Italy, the major trading partner of Greece, marginally drop by 0.2%, as they reached €1.14 billion. The largest percentage growth in exports in the first four months of 2019 in the Eurozone was recorded in Luxembourg, by 64.4%, from €4.2 million last year, to €7.0 million this year.

Among the remaining countries of the European Union, where total exports grew by 7.1% or €109.8 million, to reach €1.6 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 4.8% or €21.3 million year on year. The exports to two other countries, which also absorb a significant share of Greek exports from this group of countries, UK and Romania, also increased, by 14% or €47.0 million, to €382.0 million in the former and by 10.5% or €30.8 million to €323.9 million in the latter. The largest percentage growth, by 156.5%, was recorded in Croatia, where Greek exports increased by €44.8 million, from €28.6 million in 2018 to €73.4 million in 2019.

The Greek exports to the remaining European countries decreased by 12.9%, from €1.8 billion last year, to €1.6 billion this year. This decline came mostly from Turkey, where Greek exports declined by 26.4%, from €778.9 million to €573.0 million. As a result, the country lost one position in the ranking for the absorption of exports of Greek products and is now the fourth largest export destination.

The flow of exports of Greek products to Oceania increased by 21.4%, with their value reaching €66.5 million in the first four months of 2019, from €54.8 million a year earlier. The rise came from the similar in direction and intensity increase to Australia, at a rate of 22.6%, from €50.0 million in 2018 to €61.3 million in 2019. Exports increased to New Zealand as well (by 9.2%).

The exports to the markets of Central and Latin America increased significantly in the first four months of this year, by 44.8%, with their value amounting to €144.9 million, from €100.1 million a year earlier. The better export performance to these countries came mainly from strong growth in the demand for Greek products from Brazil, by 64.3%, where their value expanded to €60.6 million, from €36.9 million in 2017.

Table 3.8

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

Product	Value		% Change	% Share	
	2019*	2018*	19*/18*	2019*	2018*
AGRICULTURAL PRODUCTS	1,845.4	1,981.5	-6.9%	17.1%	19.1%
Food and Live Animals	1,467.9	1,466.2	0.1%	13.6%	14.1%
Drinks and Tobacco	230.6	190.7	20.9%	2.1%	1.8%
Oils and Fats of animal or plant origin	146.9	324.6	-54.7%	1.4%	3.1%
RAW MATERIALS	536.2	428.2	25.2%	5.0%	4.1%
Non-edible Raw Materials excluding Fuels	536.2	428.2	25.2%	5.0%	4.1%
FUELS	3,412.0	3,377.0	1.0%	31.7%	32.6%
Minerals, Fuels, Lubricants etc.	3,412.0	3,377.0	1.0%	31.7%	32.6%
INDUSTRIAL PRODUCTS	4,830.3	4,393.8	9.9%	44.8%	42.4%
Chemicals and Related Products	1,312.5	1,083.7	21.1%	12.2%	10.4%
Industrial Products Sorted by Raw Material	1,697.6	1,652.3	2.7%	15.8%	15.9%
Transport Equipment	981.1	978.1	0.3%	9.1%	9.4%
Various Manufactured Goods	839.1	679.7	23.5%	7.8%	6.6%
OTHER	151.8	189.8	-20.0%	1.4%	1.8%
Goods and Transactions not sorted by Category	151.8	189.8	-20.0%	1.4%	1.8%
TOTAL EXPORTS	10,775.8	10,370.3	3.9%	100.0%	100.0%

* Provisional Data

Sources: ELSTAT, PSE-KEEM.

Table 3.9

Exports by destination, January – April* (million €)

ECONOMIC UNION – GEOGRAPHIC REGION	**EXPORTS**		**% CHANGE**	**% SHARE**	
	2019	2018	19/18	2019	2018
World	10,775.8	10,370.3	3.9%	100.0%	100.0%
OECD	5,775.7	5,551.5	4.0%	53.6%	53.5%
EU	5,822.5	5,509.4	5.7%	54.0%	53.1%
Euro Area	4,174.6	3,971.3	5.1%	38.7%	38.3%
G7	3,068.6	2,867.6	7.0%	28.5%	27.7%
North America	481.2	445.8	7.9%	4.5%	4.3%
BRICS	501.5	396.1	26.6%	4.7%	3.8%
Middle East & North Africa	1,770.8	1,461.5	21.2%	16.4%	14.1%
Rest of Africa	653.0	617.3	5.8%	6.1%	6.0%
Oceania	66.5	54.8	21.4%	0.6%	0.5%
Latin America	144.9	100.1	44.8%	1.3%	1.0%
Rest of Asia	676.6	753.9	-10.3%	6.3%	7.3%
OPEC	680.9	464.4	46.6%	6.3%	4.5%

* Provisional Data

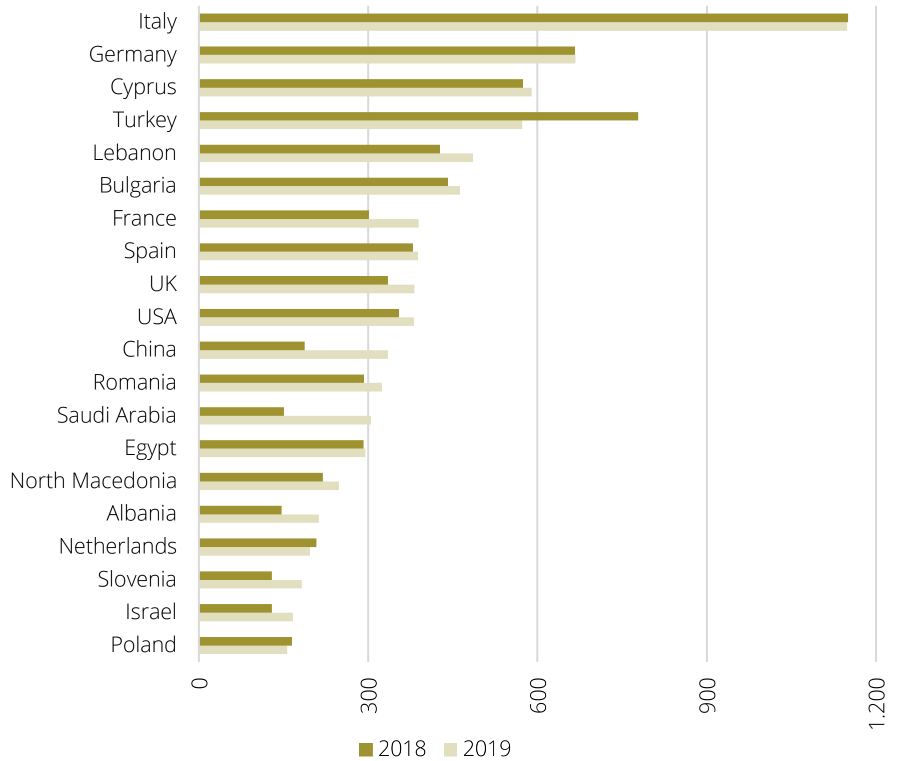
Source: ELSTAT, Processing KEEM

The foreign demand for Greek goods retreated in the Asian countries, where the exports decreased by 10.3%, to €676.6 million, from €753.9 million a year earlier. This development came mainly from the abatement of demand from Singapore (-79.7%, to €42.1 million, from €207.5 million in 2018) and the Philippines (-96.3%, to €2.2 million from €59.9 million in 2018). By contrast, a significant rise, by 79.2% was recorded in China, from €186.9 million in 2018 to €335.1 this year, and by 221.1% in Japan, from €18.0 million in 2018, to €57.6 million this year.

In conclusion, exports increased by 3.8% in the first four months of the current year, while excluding petroleum products and ships, exports grew faster, by 5.7%. However, this rise was much weaker than in previous year (13.6%). Meanwhile, the imports of goods increased faster than exports (5.0%) and as a result the trade deficit increased by 6.6% compared to 2018, to €7.2 billion. Consequently, the growth momentum of exports in the previous two years will probably carry over into this year.

Figure 3.12

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



Largest increase of exports over Jan-April in absolute terms to Saudi Arabia (by €154.5 million). The share of Italy remains the largest

Source: PSE-KEEM. Processing: IOBE

As mentioned in previous IOBE reports on the Greek economy, the slowdown in the region that constitutes the main export destination of Greek products, the Eurozone, due to the conclusion of the expansion of the Q-E programme by the ECB, the effects of the trade protectionism policies adopted by the USA and the problems in the German economy stemming from the automotive industry constitute the main cause for the anticipated weakening of the growth momentum. That said, the fiscal and trade policies implemented in the US favour domestic economic activity, which stimulates the demand for products where the duties were not raised, a trend that is reflected in the Greek exports to this destination in early 2019. Besides, an analysis in this section of the report, presented in a text box, in a previous report by IOBE on the Greek economy, showed that the share of products where the duties were raised in the total Greek exports to the US market in 2017 was not large (14.9%) and was following a negative trend. Export demand in the countries of the Middle East – North Africa strengthened significantly, which is expected to carry over to the remaining quarters of this year. Exports to China kept their strong growth from last year, as a result of monetary and fiscal stimulus, in an effort to address the effects of the US trade protectionism measures. As a result, the forecast in the previous IOBE report for a growth of total exports of products this year by a single-digit rate, in the region of 5.0%, remains unchanged.

3.4 Employment – Unemployment

- The unemployment rate stood at 19.2% in the first quarter of 2019, from 21.2% in Q1 2018
- Drop in unemployment by 95.9% due to higher employment and by 4.1% from a reduction in the labour force
- Largest increase in employment in Tourism (by 20,200 people), Education (20,200 people), Information-Communication (14,700 people) and Public Administration (+12,300 people)
- The seasonally adjusted wage cost index increased by 1.8% in the first quarter of this year, growing for the sixth consecutive quarter

According to data from the Labour Force Survey of ELSTAT, the unemployment rate in the first quarter of 2019 stood at 19.2%, two percentage points lower year on year. The number of unemployed fell year on year by 94,100 people or 9.4%, to 907,100, while the number of employed rose by 90,200 people or 2.4%, to reach 3,814,000. The overall labour force declined year on year by 3,900 people or 0.1% in the first quarter of 2019, from 4,725,000 to 4,721,100. Therefore, the drop in unemployment came by 95.9% from employment growth and by 4.1% from labour force contraction.

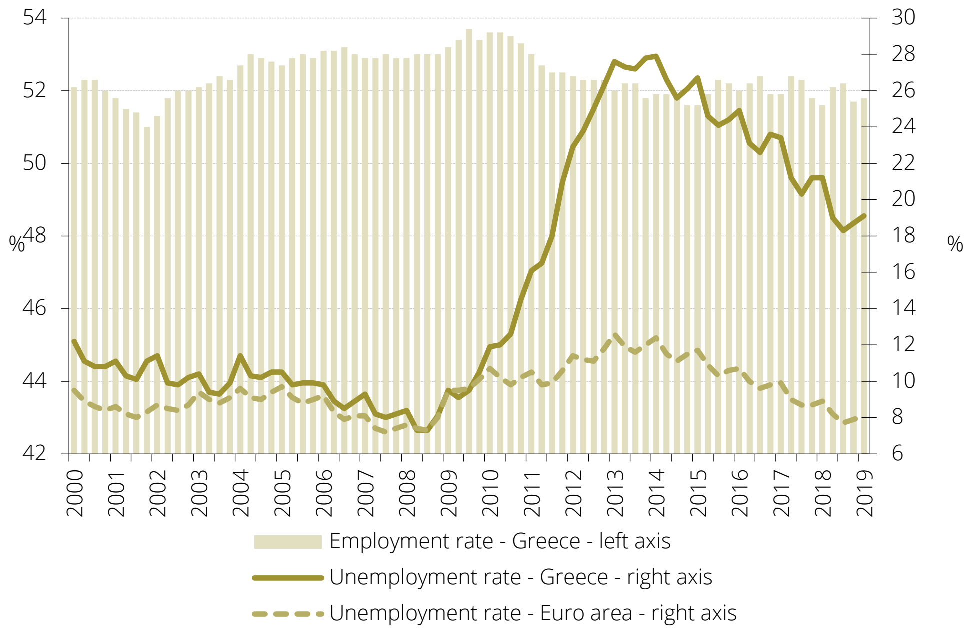
In the Euro area, unemployment has been falling year on year for the 20th consecutive quarter, to reach 8.1% in the first quarter of 2019, from 8.9% a year before. Two-digit unemployment rate, apart from Greece, is also reported by Spain and Italy. In Spain, it declined to 14.7% in the first quarter of 2019, from 16.8% a year earlier, while in Italy it fell from 11.6% to 11.1%. The lowest unemployment rate was recorded once more in Germany, down year on year by 0.3 percentage points, to 3.3%, and in Malta, where it stood at 3.5% from 3.9%. In the other major economies of Europe, unemployment is falling. In particular, in France the unemployment rate declined to 9.1%, 0.5 percentage points lower year on year, while in the United Kingdom it fell from 4.2% to 3.7%.

The trends in unemployment by sex in Greece have not changed. The unemployment rate among women stood at 23.8% in the first quarter of 2019, 8.4 percentage points higher compared to that of men (15.4%). Year on year, the unemployment rate among women decreased more compared to that of men (by -2.4 p.p. against -1.9 p.p., respectively). In the Euro area, the unemployment rate has been slightly lower among men over time. In both demographic groups, the decline of unemployment was about the same. In particular, unemployment among men fell to 7.7% in the first quarter, from 8.6%, while among women it stood at 8.5%, from 9.3% a year earlier.

Regarding the age composition, unemployment declined in the first quarter in every age group except for those aged above 65. Among people aged 15-19, the age group with the highest unemployment, it declined most, by 5 p.p., from 55.2% in the first quarter of 2018 to 50.2% a year later. People aged 20-24 follow, where unemployment declined from 43% to 39.7%. The lowest reduction was recorded among those aged 30-44, by only 1.4 p.p., to 19% in the first quarter of this year. Lastly, among people aged 65 and over, unemployment increased by one percentage point, from 10.2% to 11.2%.

Figure 3.13

Labour force participation and unemployment rates



Decline in unemployment in the first quarter of 2019 to 19.2%, from 21.2% in the previous year

Sources: ELSTAT – Labour Force Survey, Eurostat

Regarding the duration of unemployment, the percentage of long-term unemployed has decreased steadily for the fifth consecutive quarter, as it declined to 64.9%, from 68.4% in the first quarter of 2018. The number of long-term unemployed declined by 95,600 people or 14%, to 589,000. Note that the number of long-term unemployed fell below 600,000 people for the first time since Q4 of 2014.

Regarding the unemployment trends with respect to the education level, unemployment eased year on year in all categories, except for individuals for individuals with primary education or no schooling. Unemployment fell most in a category that over time has one of the highest unemployment rates, namely among people with some elementary education, where it declined by 9.4 percentage points and stood at 30.7% in Q1 of 2019. The smallest decrease occurred in the category with the lowest unemployment rate over time, namely the holders of doctorate or master's degrees, where the unemployment rate declined to 10% from 11%. By contrast, among individuals with no schooling the unemployment rate increased by 5.3 percentage points, i.e. from 49.1% in the first quarter last year to 54.4% one year later, while the rise in unemployment was marginal, 0.3 percentage points, among individuals with primary education diploma, where the unemployment rate averaged 23.5%.

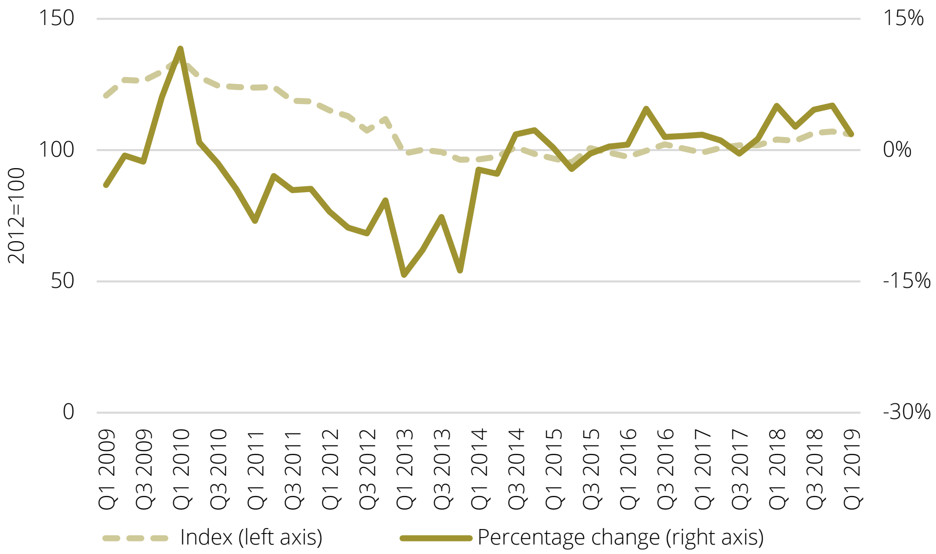
Unemployment decreased in nine regions of the country, increasing in the remaining four. The highest drop in the first quarter of this year was recorded in Epirus, by 6.2 percentage points, from 22.8% to 16.6%. The smallest drop in unemployment rate was recorded in West Macedonia, which had the highest unemployment rate in the first quarter. In particular, the unemployment rate declined in this region, to 27.1%, from 28.1% a year earlier. The largest climb in unemployment was recorded in the South Aegean, by 2.8 p.p., to 26.9%, while the lowest rise is recorded in the region of Western Greece, by 0.1 percentage points, to 25.6%. Lastly, in Peloponnese, the region with the lowest unemployment rate in the country in Q1 of 2019, unemployment fell from 15.9% to 13.4%.

At the level of key economic sectors, in all three employment increased in the first quarter of this year. By far the largest increase in percentage and absolute terms was recorded in the Tertiary sector, where employment rose by 3.2% or 85,300 people, from 2,682,300 employees in the first quarter of 2018 to 2,767,600 a year later. In the Primary sector, employment increased for the sixth consecutive quarter, marginally this time, by 0.1% or by about 500 people, to reach 466,100 people. Lastly, in the Secondary sector employment increased by 0.8% or 4,600 people, from 575,800 to 580,400.

Figure 3.14

Seasonally adjusted wage cost index and percentage point change (2006 - 2018)

Increase in the seasonally adjusted wage cost index, for the sixth consecutive quarter in the first quarter of this year, by 1.8%



Source: ELSTAT

Employment declined in 6 of the 21 branches of economic activity. The largest percentage decline was recorded in the sector Activity of Households as Employers, where it reached 20.6% or 6,700 people, totalling 25,900, while the smallest decrease took place in Human Health - Social Care Activities, by 0.4% or 900 people (to 245,100 in Q1 of this year). The highest percentage increase in Q1 of this year was recorded in Activities of Extraterritorial Organisations (by 72.2% or 1,300, to 3,100 employees) and Real Estate Activities (by 43.9% or 1,800, to 5,900 employees). The biggest increase in employment, in absolute terms, was posted in Education, by 20,200 people, to reach 319,600 employees. Accommodation-Food Services came next (also by 20,200, to 322,100 employees), followed by Information - Communication (by 14,700, to 105,500 employed) and Public Administration (by 12,300, to 348,600 employed). In Wholesale-Retail Trade, which has the largest number of employees, employment increased by 5,000 individuals or 0.7%, reaching 676,400 people, while in Manufacturing, another major branch for the Greek economy, it increased by 11,300 or 3.2% (from 352,200 to 363,500 employees).

Table 3.10

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

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

Source: ELSTAT, Labour Force Survey

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

- An increase in Tourism by 20,200 people (6.7%), in line with the significant increase of international travel receipts in the first quarter by 34.8% or €192.7 million, reaching €746.5 million (Bank of Greece data), as the incoming travel of non-residents in Greece strengthened by 7% or 129,000 people, to 1.97 million.
- An expansion in Education by 20,200 people or 6.7%.
- The rise in information and communication by 14,700 people or 16.2%, despite the output decline in the sector over the same period by 2.3% (in terms of production value added).
- An increase in Public Administration by 12,300 people or 3.7%.

The seasonally adjusted wage cost index overall for the Greek economy increased in the first quarter of 2019, for sixth consecutive quarter. In particular, it rose by 1.8% during that period, to reach 106 points, from 104.1 points in the first quarter of 2018.

Medium-term outlook

As evident from the data on employment in the first quarter of this year, its significant rise in certain sectors, which led to unemployment decline, is consistent with the trend in their activity and other developments (Tourism, Public Administration), while in other sectors it is not easy to interpret (Education, Information – Communication). Therefore, the projection of how a part of the employment expansion from early 2019 will evolve in the remaining quarters presents difficulties. If the unobservable factors that feed this trend continue, the increase in the jobs they cause will be maintained.

The conclusion of the election polls implies that business uncertainty over the politico-economic developments will ease, affecting their expectations in the current half of the year. However, any new fiscal interventions that concern the businesses will probably not be finalised before the completion of the next enhanced surveillance review, which will probably be pushed back in time. Therefore, the increase in the minimum wage in February by 10.9% and the abolition of the minimum wage for workers up to 25 years old will remain the regulatory interventions with the major impact on the labour market this year. They are considered to affect mainly sectors with a high rate of youth employment, such as Tourism, Food Service, and Retail Trade. The minimum wage interventions will also be among the drivers of household consumption demand this year, affecting job creation.

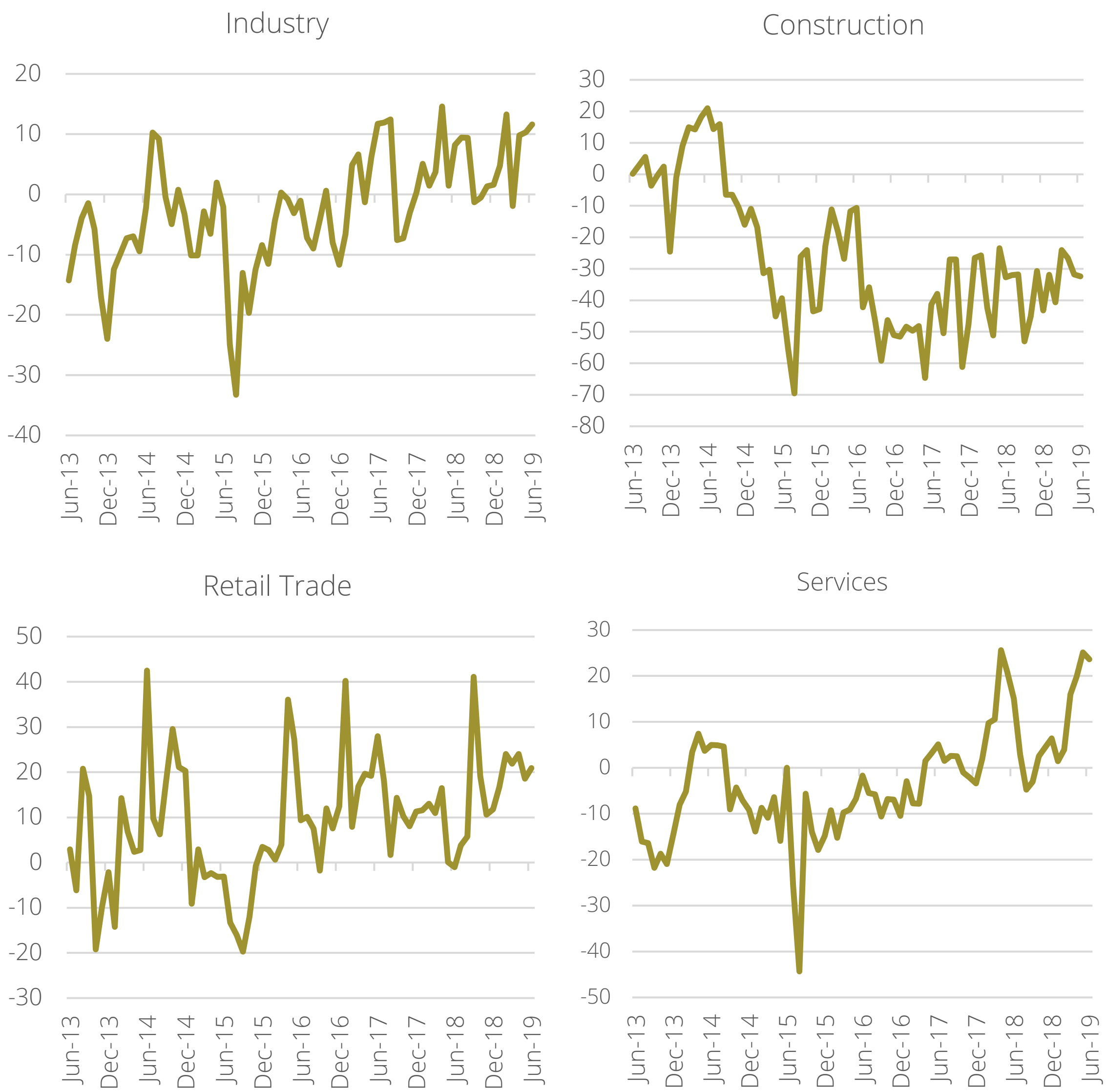
In terms of sectoral trends, in Tourism, despite initial forecasts of stagnation or small decline in industry activity, following successive years of significant growth, the latest available data points to different developments. The international tourism proceeds in the first quarter increased by 22.8% compared to last year, when they had strengthened considerably less, by 7.4%. International arrivals at the main airports also increased in the first five months of the year, by 6.1%. The much higher revenues, outside the usual tourist season, are seen as an indication of a new boost in tourism activity this year, even if during the summer the strong recovery of competing tourism destinations (Egypt, Turkey) will exert some pressure, with equivalent effects on the sector's employment. After all, these effects already manifested themselves in the first quarter of this year. The milder increase in demand for tourist services can be offset by stronger international transport services.

In addition, a new boost in public sector employment is expected, mostly through the temporary employment programmes for public benefit of OAED, such as the programme with 26,800 beneficiaries in municipalities, regional authorities and social welfare centres that started last October. A few days ago, a joint Ministerial Decision (Government Gazette, vol. B, 2466/9.3761/2019) was published, extending the programme for four months. One more social programme in municipalities and environmental agencies, benefiting 8,700 people, began in May.

In Construction, which had the strongest growth in value added in the first quarter of this year, the positive trend is expected to be sustained over the course of this year, mostly from the implementation of investment plans in completed privatisations-concessions, but also from the refurbishment or construction of residences.

Figure 3.15

Employment expectations (difference between positive and negative responses)



Source: IOBE

In the second quarter, the expectations for short-term employment strengthened quarter on quarter in all sectors except Retail Trade, where they remained unchanged.

A further drop in jobs in the banking sector, due to the extensive consolidation of its branch network and is expected to dampen employment growth.

In view of the above, the IOBE forecast for the annual unemployment rate remains unchanged from the previous bulletin at 18.0%.

According to the latest data from the Business and Consumer Surveys conducted by IOBE, the expectations on the short-term prospects of employment strengthened quarter on quarter in the second quarter of 2019 in all key sectors, except Retail Trade, where they remained unchanged.

Compared to the same period of last year, job expectations strengthened in all sectors and especially in Retail Trade. In more detail:

In Industry, the average balance of 5 points of the previous quarter increased by 6 points in the second quarter of the current year. Compared to last year, the average quarterly index increased by 3 points. In the examined quarter, the percentage of industrial firms that expected a drop in employment in the coming months stood at 11%, while the percentage of those expecting employment growth increased to 21% (from 18%). The vast majority of businesses in the sector (68% from 69%) were expecting employment to remain unchanged.

In Construction, the balance of employment expectations strengthened from an already very low level, to -30 points, at a slightly higher level compared to the same period of 2018 (-36 points). In Q2 of 2019, 39% (from 40%) of the businesses in the sector were anticipating further job losses, while 8% (from 7%) of the respondents were expecting employment growth. At the sub-sector level, the improvement of the index in Private Construction (-16 from -7 points) was accompanied by a notable increase, from an already very low level, of the index in Public Works (to -40 from -46).

The employment outlook indicator in Retail Trade remained unchanged quarter on quarter in the second quarter of the year, at 21 points. However, the index was up by 16 points compared to last year. About 4% (from 3%) of the firms in the sector were expecting job cuts, while 25% (from 24%) were anticipating employment growth, with those expecting job stability taking up 71% (from 72%) of the sample. The employment expectations indicator improved in Food-Beverages-Tobacco and Department Stores and deteriorated in Motor Vehicles – Spare Parts, Textiles – Clothing – Footwear and Household Appliances.

Services are another sector where employment expectations gained ground compared to the previous quarter, while they remained unchanged in comparison to the same period of last year. The balance of 7 points from the previous quarter increased in the quarter under examination to 16 points, while year on year it changed by only 2 points. About 4% (from 9%) of the companies in the sector were expecting a drop in employment, with the percentage predicting an increase averaging 27% (from 16% in the previous quarter). At the subsector level, the trend was positive in Hotels – Restaurants – Travel Agencies, Financial Intermediaries, and IT Services and negative in all the other branches of services.

3.5 Consumer and Producer Prices

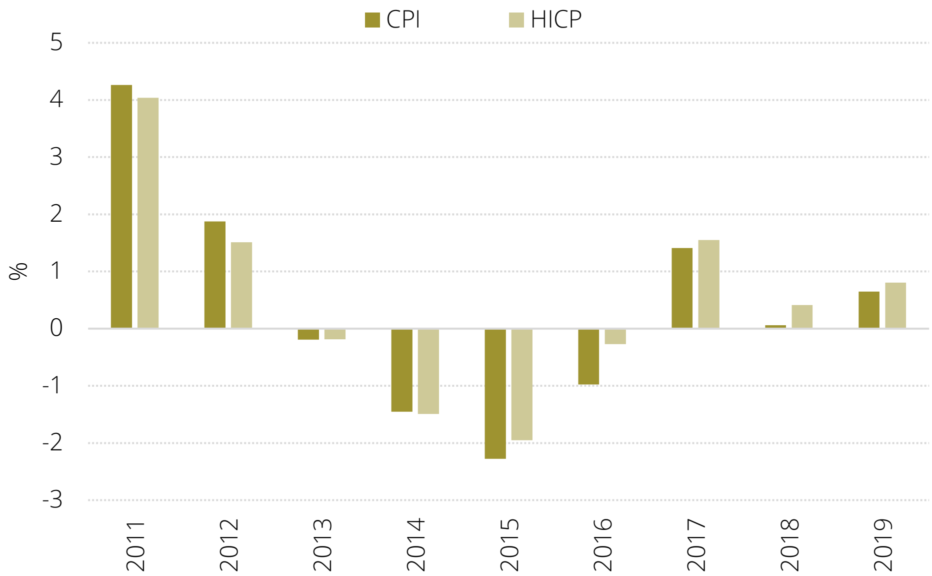
- Inflation of 0,6% in the first five months of 2019, against marginal price increase in the corresponding period of 2018
- Negative impact from indirect taxes and no impact from energy products on prices in January-May of the current year
- Stronger rate of change of CPI with constant taxes and excluding energy, reflecting a boost from rising domestic demand
- Expected inflation rate in the region of 0.3-0.5% in 2019 overall

Recent Developments

In first five months of 2019, the rate of change of the Consumer Price Index (CPI) strengthened for the second year in a row. In particular, CPI increased year on year by 0.6%, compared to a 0.1% change in the same period of 2018. The Harmonised Index of Consumer Prices (HICP) increased by 0.8% over the same period, compared to 0.4% in the corresponding period of 2018 (Figure 3.16). In May 2019, the annualised price increase based on the domestic CPI was marginal, at 0.2%, against 0.6% rise in the same month of last year (Figure 3.17).

Figure 3.16

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



The CPI strengthened by 0.6% in the first five months of 2019, compared to marginal growth by 0.1% in the same period of 2018

Source: ELSTAT, data processing by IOBE

Examining the factors that impact CPI, it seems that its increase in January-May largely stemmed from a recovery in domestic demand, as the change of the general index with constant taxes and excluding energy goods stood at 0.8%, higher than the change of the overall index, while a year ago this indicator increased by 0.2% (Figure 3.18). It should be noted that the increase in prices excluding energy and taxes is recorded for the second year after eight consecutive years of core deflation (2011-2017, Figure 3.18).

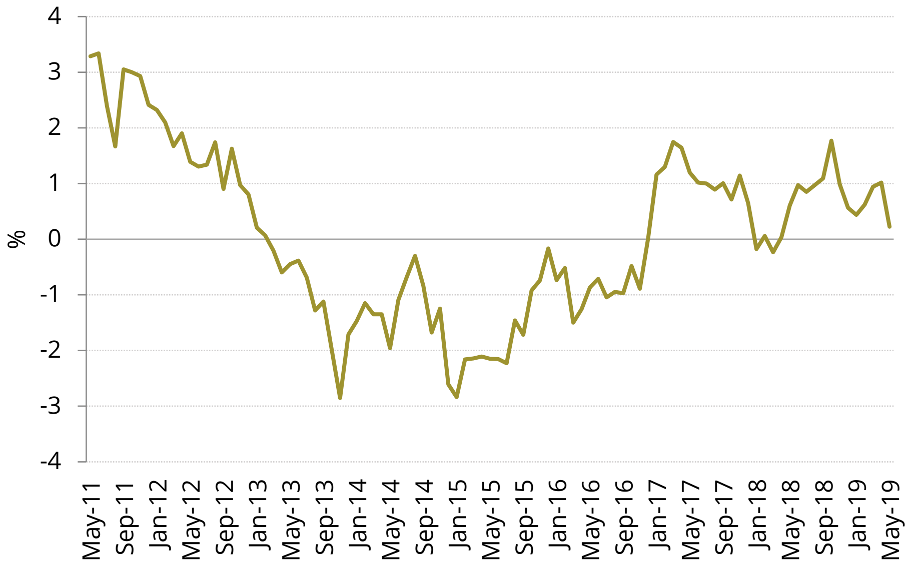
Taxation seems to have had a negative impact on price changes in the current year. In particular, the impact of indirect taxes on the annual changes of the HICP in the first five months of 2019 was marginally negative, at 0.1 percentage points, compared to marginally positive change, again by 0.1 p.p., in the corresponding period of 2018 (Figure 3.18).

As to the impact from energy goods, international oil prices declined slightly year on year in the first half of 2019. However, the continuous weakening of the euro-dollar exchange rate since April partly offset the fall in international oil prices. In particular, the average Brent oil price was lower year on year by 7%, standing at $66.1/barrel from $70.7/barrel in 2018.[45]

Figure 3.17

CPI in Greece (annual percentage change per month)

Weaker inflation in May 2019 than in the same month of 2018 (0.2% against 0.6%)

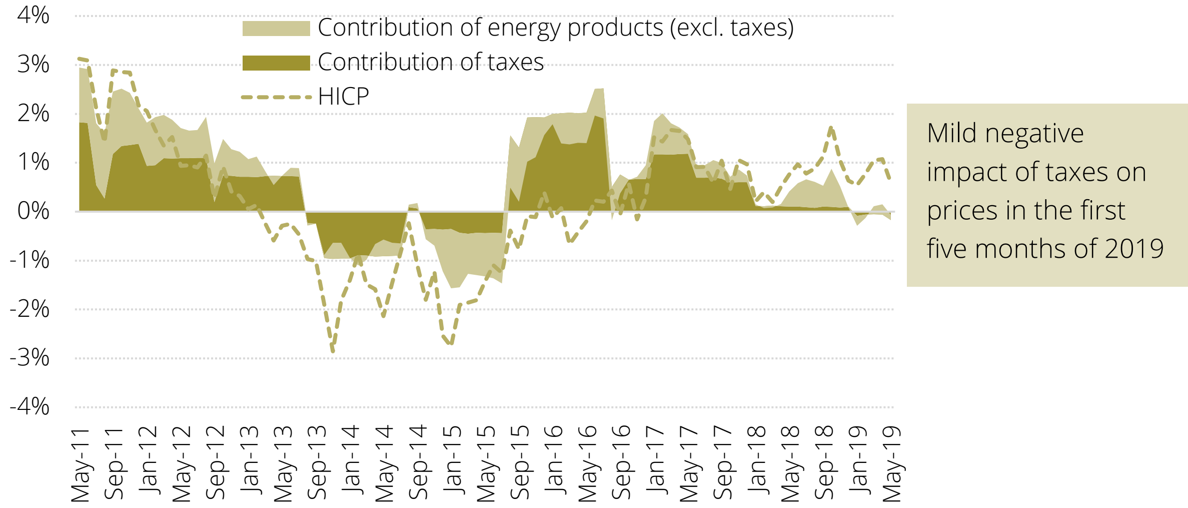


Source: ELSTAT. Data processing by IOBE

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

Figure 3.18

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



Source: Eurostat, Data processing by IOBE

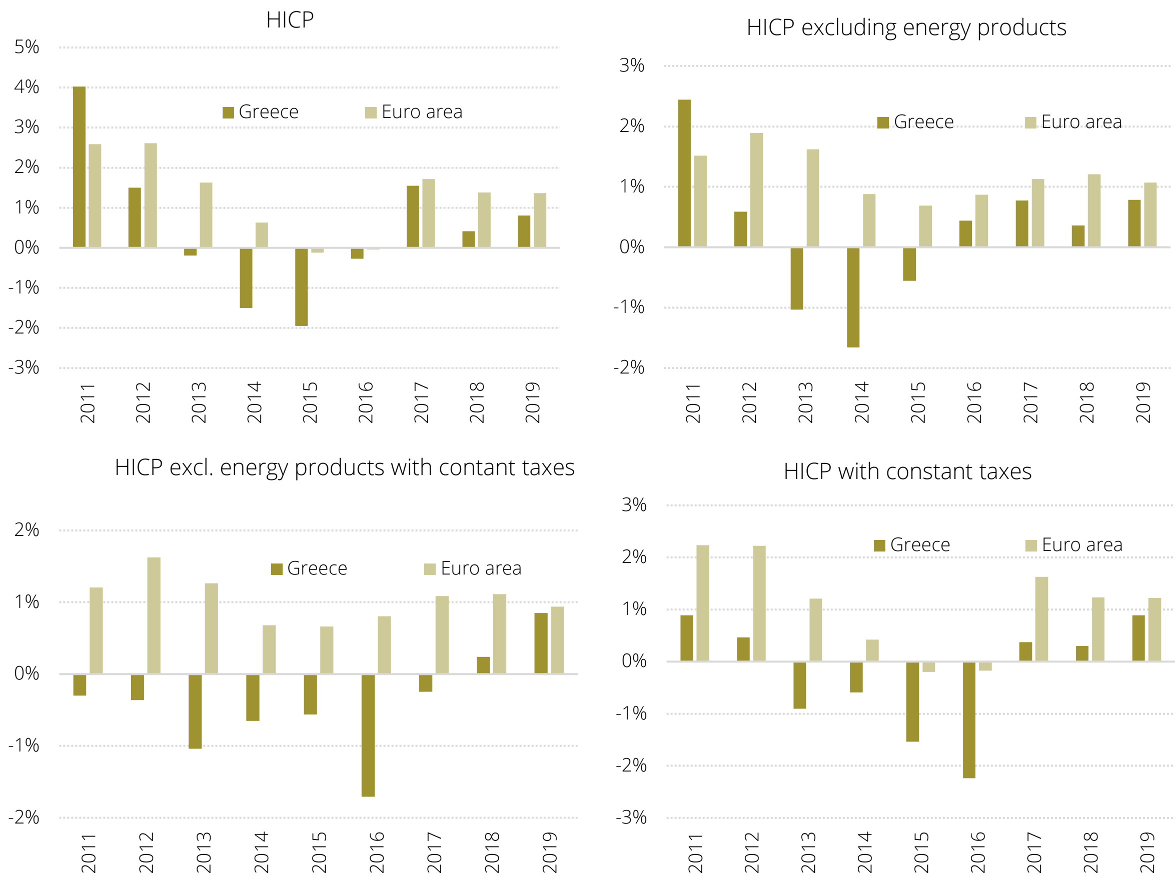
The lower rate of the euro against the dollar over the same period, by 6%, at 1.12, from 1.19 in 2018, offset the decrease in oil prices. As a result, the international oil price in Euros averaged 58.5 €/barrel, unchanged year on year. Given these observations on key components of the energy cost, the fact that the energy goods had no impact on average on the rate of price change domestically, based on the HICP of energy goods with fixed taxes, should not come as a surprise. Over the same period last year, the indicator was marginally rising, by 0.1%, while stronger negative impact was recorded in the same period of 2016 (-0.5%), due to a rapid drop in oil prices (Figure 3.18).

The HICP percentage change in Greece in January-May 2019 was lower than the Eurozone average, at 0.8% against 1.4%, the second lowest rate in the Eurozone slightly higher compared only to Portugal (0.7%). The price rise was marginally higher in Croatia, at 0.9%. Domestic demand is the key inflation driver in the Euro area as well, as the price index excluding taxes and energy goods increased by 0.9%, from a 1.1% increase a year ago (Figure 3.19).

Regarding the trends in the individual categories of goods and services that comprise the Consumer Price Index, according to the latest available data, the largest increase in prices in January-May 2019 was recorded in Telecommunications, by 4.9%, against a milder increase by 1.2% in the same period of last year, followed by Food Products, by 1.4%, against a slight decline by 0.7% a year earlier. Transport and Alcoholic Beverages-Tobacco came next with a similar price increase, by 1.2% and 1.1% respectively, against a notably stronger increase by 2.1% and 4.7% respectively in the first five months of 2018. Prices also went up, albeit a bit less, in Housing and Healthcare, by 0.8% in both categories, against a decline by 1.3% and 0.1% respectively in the first five months of 2018. In Hotels-Cafe-Restaurants, the price index increased by 0.6%, against 1.3% in January-May 2018. In the remaining five categories of goods and services of the domestic CPI, prices declined year on year in the five months of the year, with the greatest reduction taking place in Recreation and Durable goods, household equipment - miscellaneous goods and services by 1.6% and 1.7% respectively, against deflation of 1.3% and 1.8% respectively last year.

Figure 3.19

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



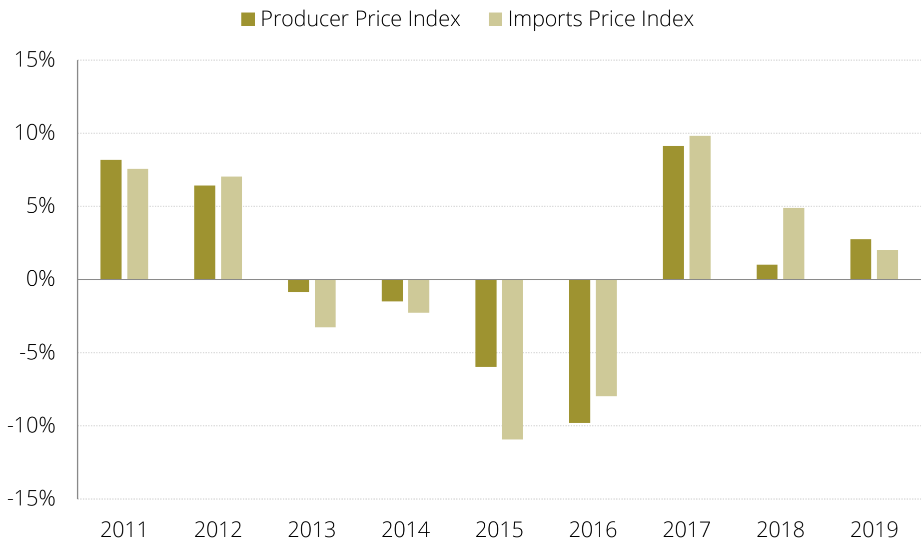
Higher domestic prices in the first five months of 2019, solely due to stronger demand. No impact from prices of energy goods.

Source: Eurostat, Data processing by IOBE

Figure 3.20

Annual change of PPI and IPI in Greece January – April

Rising producer and import prices in the first four months of 2019, for a third year, mainly due to impact on both indices from the prices of energy commodities



Source: ELSTAT, Data processing by IOBE

In terms of price trends on the production side, the Producer Price Index (PPI) of the domestic and foreign markets as a whole kept growing year on year in the first four months of the current year, for the third consecutive year. In particular, the index increased by 2.8% in January-April 2019, compared to a 0.1% increase in the same period of 2018 (Figure 3.20). The PPI excluding energy increased by 2.8%, against 1.0% a year earlier. In terms of trends in the categories of industrial products, the strongest inflation was recorded in Chemicals and Water Collection - Treatment - Supply, by 7.1% and 6.9%, respectively, followed by Machinery - Equipment with 6.0%. Marginally positive changes of the PPI were recorded in Mining-Quarrying-Manufacturing (+0.2%), against a rise by 0.3% in the first four months of 2018. By contrast, producer prices declined in Plastics, after a significant decline in 2018 (-1.7%, against -3.9%).

Regarding imports used as inputs for production, the overall Import Price Index (IPI) posted a weaker growth year on year in the first four months of 2019, to 2.0%, against 4.9% a year earlier. As a result, Greece ranked among the top four countries with the largest increase amongst the ten Eurozone countries with available data for this period. The index moved up in these countries at an average of 1.4%, with Slovakia being the only country where a drop was recorded (-0.5%). The firming of import prices in most countries came largely from higher year on year average oil prices. The differences in IPI inflation between countries reflect the varying degrees of use of energy products, as well as the size of trade with countries outside the Euro area.

Looking at the trends in individual categories of imported goods, the largest increase in January–April 2019 was recorded in Electricity Supply, by 16.1%, against 13.0% a year earlier, and in Refined Petroleum Products, by 10.3%, against 7.3% last year. Notable weaker positive changes were recorded in the Mining of Metals, by 4.0%, from an increase by 1.0% in the first four months of 2018. By contrast, the largest drop in import prices was recorded in Mining of Coal-Lignite, by 0.7%, against 1.7% decline a year earlier, and in Manufacture of Motor Vehicles, by 0.2%, against a slight increase in the first four months of 2018 (0.4%).

Medium-term outlook

As evident from the analysis of the trends in the key components of CPI in the first five months of 2019, the slight increase of CPI came solely from a boost of domestic demand. Indirect taxation had small negative effects during that period, while the effect of energy goods was minimal. Inflationary pressures from indirect taxation and energy products are not expected during the rest of the year either, while the inflationary impact of domestic demand is anticipated to remain steady throughout the year.

In greater detail, the recent fiscal interventions, introduced in May, included a reduction in certain indirect taxes, which came into force at the end of the same month. In particular, the measures include reduction of VAT in Food Services from 24% to 13%, transfer of foodstuffs from the 24% rate to the low rate of 13%, and reduction of VAT on electricity and natural gas from 13% to the super-reduced rate of 6%, for businesses and households. These changes might strengthen the marginal negative effects of indirect taxation on consumer prices that was observed up until May. A possible factor of slight inflationary pressures from taxes, the expiry of the VAT discount for the five Islands in the North-East Aegean with high migrant inflows at the end of June, will not come into effect, as the special scheme was extended until the end of 2019.

As to the recent trends in energy cost, oil prices (Brent) reached $64.2/barrel in June 2019, falling year on year by 13.8% (from $74.4/barrel). Therefore, despite OPEC agreement to cut oil production from the start of the current year, but the recent tensions between the US and Iran, following attacks on Japanese tankers in the Gulf of Oman, oil prices varied at notable lower levels compared to a year ago. Other developments which favoured an increase in oil prices and thus energy costs in the first half of this year include US sanctions on Iran and Venezuela, with oil exports falling in June roughly to 300,000 barrels a day in the former, and below 800,000 barrels a day in the latter. Meanwhile, Libya's oil production remains uncertain, due to armed disputes and internal instability. That said, strong growth from the US counteracts these developments in oil production. Some analysts argue that this expansion of supply can compensate for the inflationary effects of the above factors on prices.[46]

Therefore, the extension for another nine months of the production cuts by 1.2 million barrels a day by the member countries of OPEC and their partner states, notably Russia, is not expected to bring about price growth. Moreover, the main cause of the decline of the international price of oil, the year-on-year slowdown in the growth of the world economy, already reflected in the activity data for the first quarter of this year, will carry over to the rest of the year, with marginally greater intensity than originally foreseen. According to the latest projections by international organisations, the growth rate of the world economy will slow from 3.6% in 2018 to 3.2% this year, against an initial forecast of 3.5%. [47] The deflationary impact of lower oil prices will be moderated in the Eurozone countries by lower than a year before euro/dollar exchange rate.

As for domestic demand, the extraordinary lump-sum allowance to all pensioners as part of the May measures is considered to have stimulated their demand in the short term. The inflationary pressure of consumer demand on prices this year, which has already appeared and will carry over

[46] https://thehill.com/opinion/energy-environment/447334-why-oil-prices-are-dropping-this-summer
https://www.bbc.com/news/topics/cmjpj223708t/oil
[47] Economic Outlook 104 & 105, OECD, November 2018 and May 2019

to the rest of the year, comes mainly from further decline of unemployment, which will be weaker than in previous years (see section 3.5 of this bulletin) and the increase of the minimum wage in February by 10.9%. Taking into account all the above observations and trends, the domestic Consumer Price Index is expected to increase slightly, marginally less than last year, by about 0.3%-0.5%.

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

The trends in price change expectations were mixed in the second quarter of 2019, as the balance of expectations declined quarter on quarter in two sectors (Industry, Construction), remained unchanged in Retail Trade and strengthened in Services. Year on year, the price expectations indicator decreased in Construction and Retail Trade, remained unchanged in Services and marginally increased in Industry. In greater detail:

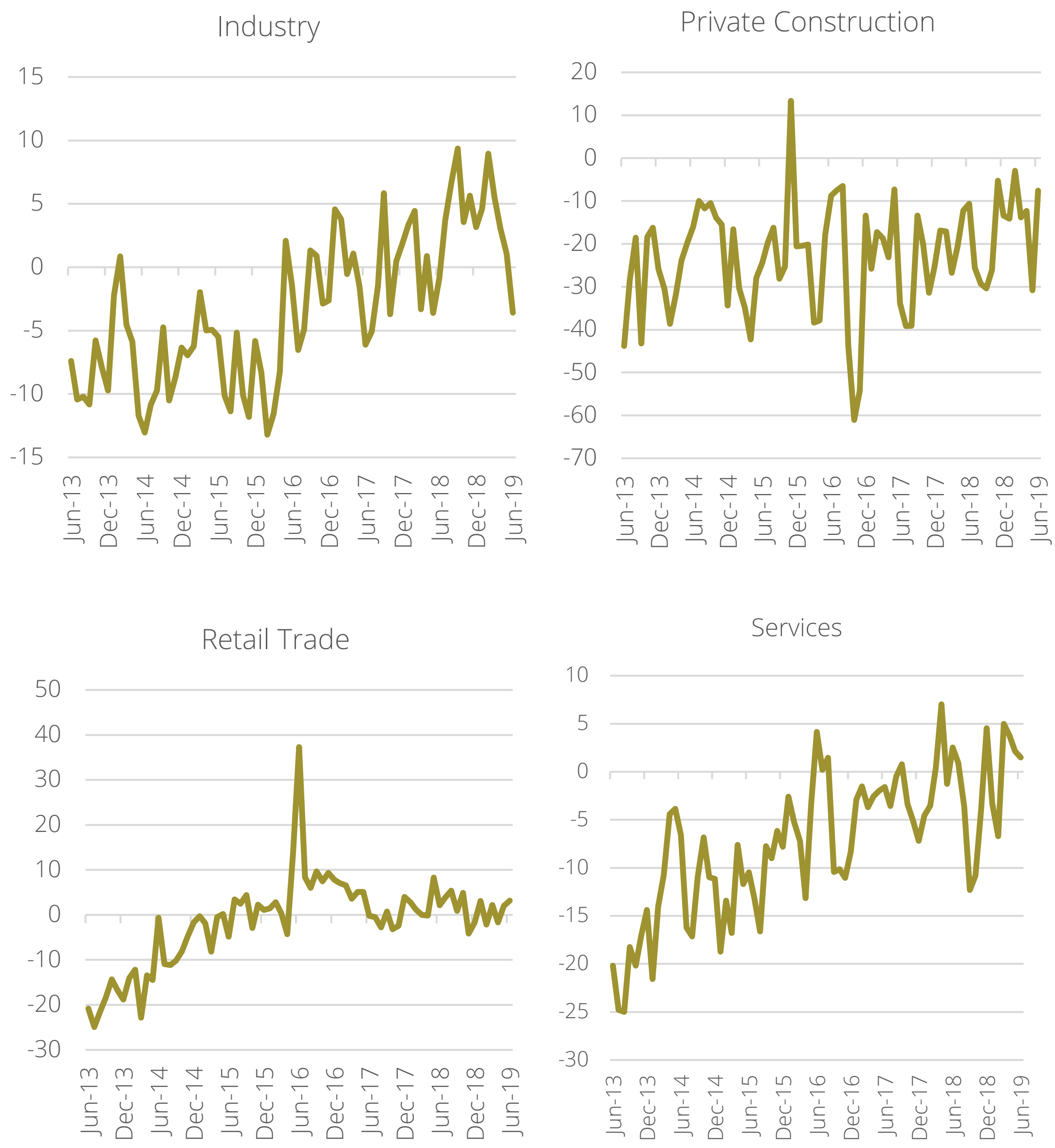
In Industry, the price expectations indicator declined quarter on quarter in the second quarter. In particular, the indicator declined to 0 points, from 6 points in the preceding quarter (and 1 point in the same quarter of the previous year). About 8% (from 5%) of the companies in the sector predicted a fall in prices in the upcoming period, while the percentage of those anticipating price growth declined to 8% (from 12%), and the remaining 83% expecting price stability.

In Retail Trade, the balance of price expectations remained unchanged at 1 point, 2 points lower year on year. About 8% (from 5%) of the companies in the sector were expecting a fall in prices in the short term, while the percentage of those forecasting price growth increased marginally to 9%, with the remaining 84% (from 88%) of the businesses expecting price stability. At the branch level, the price expectations strengthened quarter on quarter in the second quarter of the year only in Food-Beverages-Tobacco, weakening in the remaining branches.

In Services, the average price expectations indicator slightly increased quarter on quarter in the examined quarter, to 2 (from -2) points, marginally lower year on year (from 3 points). In the current quarter, 7% (from 9%) of the companies in the sector were expecting a fall in prices, while 9% (from 8%) were expecting an increase. At the branch level, the indicator increased in Hotels – Restaurants - Travel Agencies, Financial Intermediaries and IT Services and declined in Various Business Activities and Land Transport.

Figure 3.21

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



Source: IOBE

> The trends in price change expectations were mixed in the second quarter of 2019, as the balance of expectations declined quarter on quarter in two sectors (Industry, Construction), remained unchanged in Retail Trade and strengthened in Services.

Finally, in Private Construction, the negative balance of -10 points from the previous quarter decreased to -17 points, weakening slightly compared to the same period of the preceding year as well (from -14 points). About 17% (from 10%) of the businesses in the sector were anticipating prices to decline, while the percentage of those expecting inflation remained for a second quarter at 0%, with 83% (from 90%) predicting price stability.

3.6 Balance of Payments

- Higher Current Account deficit in January – April 2019, to €5.1 billion from €4.7 billion, due to a sharper increase of imports compared to exports
- The increase of the deficit in the Goods and Secondary Income accounts was partly offset by an increase in the surplus of the Services account

Current Account

In the first four months of the current year, the Current Account had a deficit totalling €5.1 billion, against a deficit of €4.7 billion in the same period of 2018. The deficit expanded, as the increase of the trade deficit and the deficit in the Secondary Income Account was only partly offset by higher surplus in the Services account.

Regarding the trends in the individual components, the deficit of the Goods Account reached €7.7 billion, expanding by €604 million year on year, due once more to a sharper increase of imports compared to exports, as in 2018. In particular, exports totalled €10.5 billion, stronger by 3.6% (€370 million),[48] against an increase by 13.0% in 2018, with a significant rise in other goods (6.0%). Imports expanded by 5.6% (€975 million) to reach €18.3 billion. The deficit of the Goods Account excluding fuels and ships approached €6.0 billion, higher year on year by 6.8%. The deficit of the Fuels Account increased to €1.7 billion in the first four months of this year, against €1.5 billion in 2018, with a decline in exports and increase in imports.

The surplus in the Services Account increased by €532 billion year on year, to reach €2.2 billion in the first four months of 2019, with an increase of both receipts and payments. In particular, total receipts from services amounted to €8.1 billion, up by 11.1% compared to 2018. At the constituent categories, receipts from travel services reached €1.3 billion, up by 22.8%, receipts from transport services increased by 9.8% to €5.3 billion, while the receipts from other services increased by 7.1% to €1.5 billion. Total payments for services reached €5.9 billion in 2018, from €5.6 in 2018. Payments for travel services increased by 22.8% to €885 million, while payments for transport services and other services increased slightly.

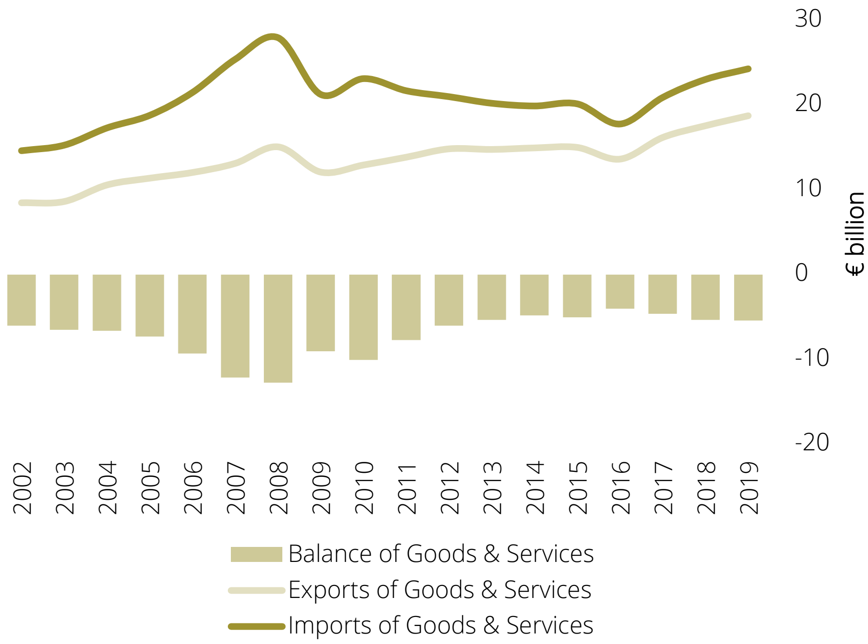
The Primary Income Account increased by €14.9 million, reaching €597 million. Revenues totalled €2.8 billion, lower year on year by 6.8%, while payments declined by 9.1%, to €2.2 billion. In greater detail, receipts from labour increased to €87 million, receipts from investments strengthened by 7.3%, to €991 million, while other primary income (subsidies and taxes on production) decreased by 14.9%, to €1.7 billion. Payments for labour increased to €462 million, payments for investment decreased by 15.6%, to €1.6 billion, while those for other primary income increased substantially, by 66.3%, to €373 million.

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

Figure 3.22

Imports-Exports of Goods and Services (January – April), 2002-2019

Slightly higher Goods and Services Account deficit, at €5.53 billion, from €5.46 billion a year earlier

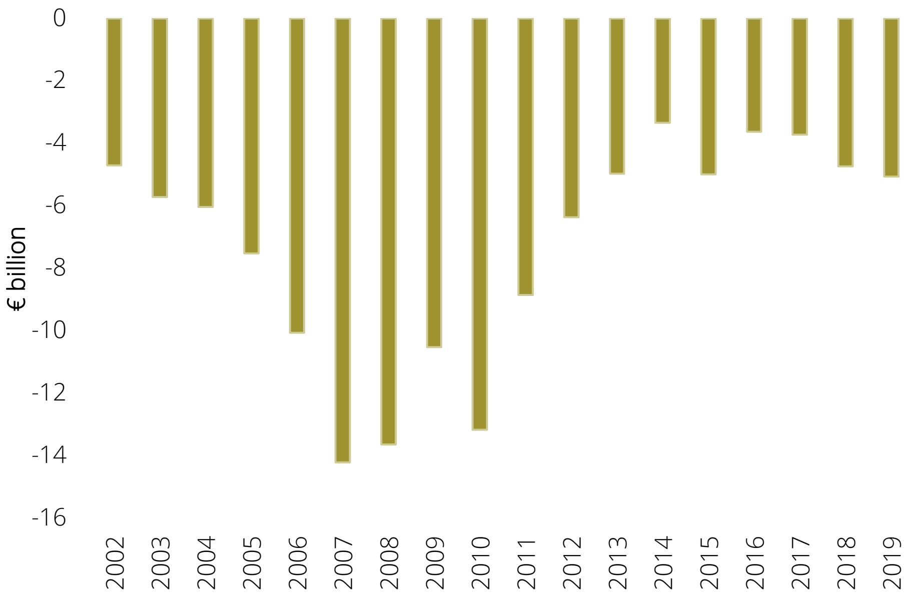


Source: Bank of Greece, Data Processing IOBE

Figure 3.23

Current Account (January – April), 2002-2019

Expansion of the current account deficit in the first quarter of this year, by €334.8 million, to €5.07 billion



Source: Bank of Greece, Data Processing IOBE

The Secondary Income Account had a deficit of €128 million in the first four months of 2018, against a surplus of €150 million a year earlier, with receipts standing at €1.0 billion, from €940 million in 2018, while payments totalled €1.1 billion, from €791 million last year.

The current account developments in the countries which implemented economic adjustment programmes are analysed at the end of this section (Box 3.3).

Capital Account

The Capital Account[49] was in a surplus in the first four months of this year, at €216 million, against €185 million last year, as receipts increased to €400 million, while payments rose to €184 million.

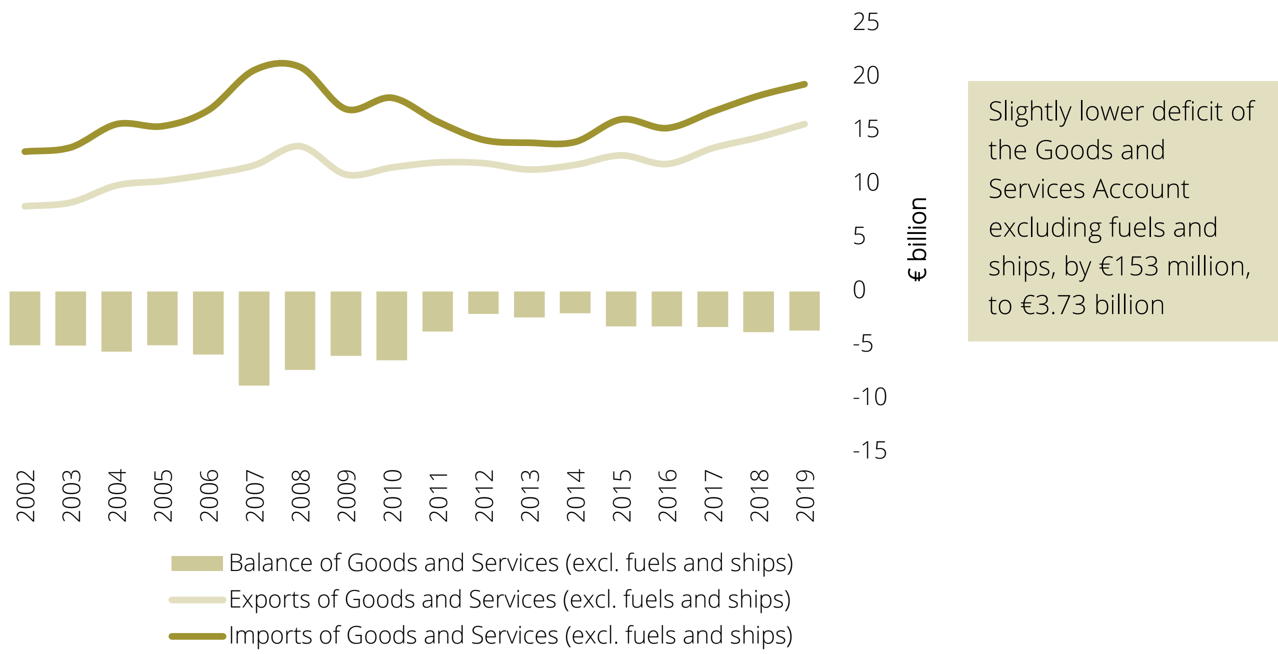
Finally, the Current and Capital Account, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, recorded a deficit of €4.9 billion, against €4.5 billion in 2018.

Financial Account

The Financial Account was in a deficit of €3.7 billion in the first four months of 2019, compared to a deficit of €3.6 billion in 2018.

Figure 3.24

Imports-Exports of Goods excluding fuel and ships (January – April), 2002-2019



Source: Bank of Greece, Data processing by IOBE

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

In greater detail, the net receivables of residents from direct investment abroad increased by €154 million, while the net liabilities to non-residents (investments of non-residents in the country) strengthened by €1.2 billion.

In the category of portfolio investments, the claims of the residents to non-residents decreased by €1.1 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad decreased. The liabilities to non-residents increased by €4.1 billion, due to higher placements of non-residents in domestic bonds and treasury bills.

In the category of other investments, the claims of residents to non-residents declined by €2.7 billion, with a net decrease of €2.3 billion in the deposits and repos of residents abroad. The liabilities declined by €5.5 billion, reflecting the reduction of the deposits and repos of non-residents in Greece by €4.6 billion (Including the TARGET account), while public and private sector debt to non-residents decreased by €867 million. Finally, the Reserve Assets of the country totalled €6.4 billion at the end of April 2019, against €6.6 billion in April 2018.

Box 3.3

Twin deficits in countries with economic adjustment programmes

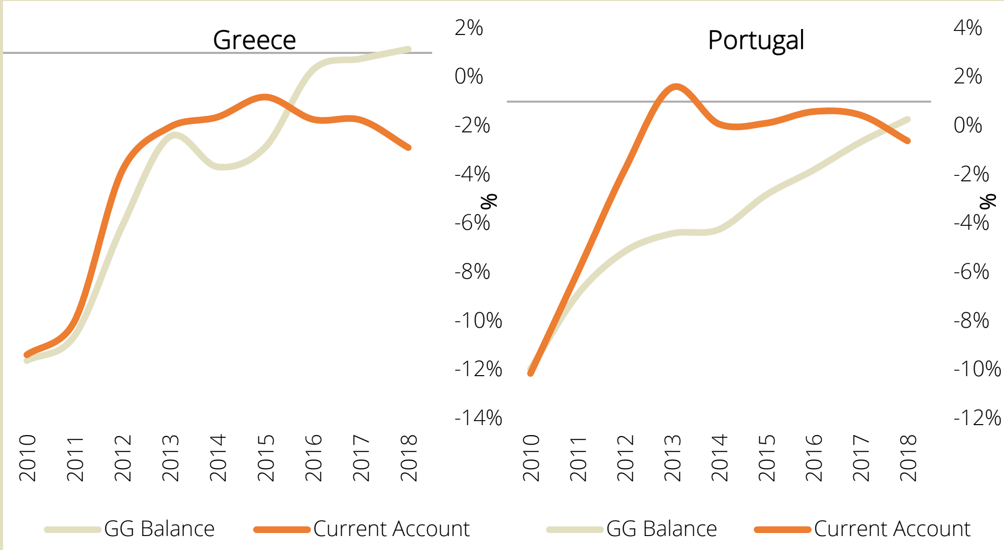
The extent of the Eurozone debt crisis was reflected in the number of countries that have implemented economic adjustment programmes since 2010. Greece requested financial assistance from the official sector in May 2010, followed by Ireland in December of the same year. Portugal entered a programme in May 2011 and Cyprus in 2013. Meanwhile, Spain received financial support in 2012, mainly to strengthen and restructure its banking system, even though it also took some fiscal measures. The main causes for entry into the programmes were not entirely common. Fiscal instability and loss of competitiveness, i.e. high deficits in the state budget and the current account, were the main reasons of entry in Greece and Portugal. Ireland and Spain had significant problems in the housing market, which migrated through mortgage loans to the banking sector, while Cyprus had problems with the robustness of its banking system. The adjustment programmes had a duration of 2 to 3 years, with the exception of Greece, which implemented three adjustment programmes, with the last one ending in 2018, 8 years after the start of the first programme. Figures 3.25 – 3.26 depict the General Government balance and the current account in these five countries, grouped based on the main cause for entry in a programme. Note that the results are expressed as a percentage of GDP. In addition, the funds provided for financial sector support are excluded from the general government balance (Figure 3.25). Greece and Portugal implemented programmes with a dual objective - reduction of the twin deficit and recovery of competitiveness through internal depreciation.

Greece largely corrected both of its deficits through the economic adjustment programmes. Note that in 2014-2015, the fiscal consolidation underwent a phase of "fatigue" (Figure 3.25). The country's external sector deficit declined until 2015. It then increased, as the rise in exports and receipts was lower than the increase in imports and payments in 2016 and 2018. Despite the deterioration of the current account balance last year, its deficit stood at 2.9% of GDP, 8.5

percentage points of GDP lower than at the beginning of the programmes, which represents a significant improvement.

Figure 3.25

General Government Balance and Current Account (% GDP)*



Source: Eurostat

*The dots on the lines indicate the beginning and the end of the economic adjustment programmes

In Portugal, the state balance consolidated without an interruption from 2010 to 2018, while following the improvement of the external sector's balance until 2013, there were small fluctuations around the zero point. Overall the current account deficit declined during the programme by 5.9 percentage points of GDP. The programme is therefore considered to have had significant effects on the twin deficits, with rapid recovery of competitiveness in terms of the current account.

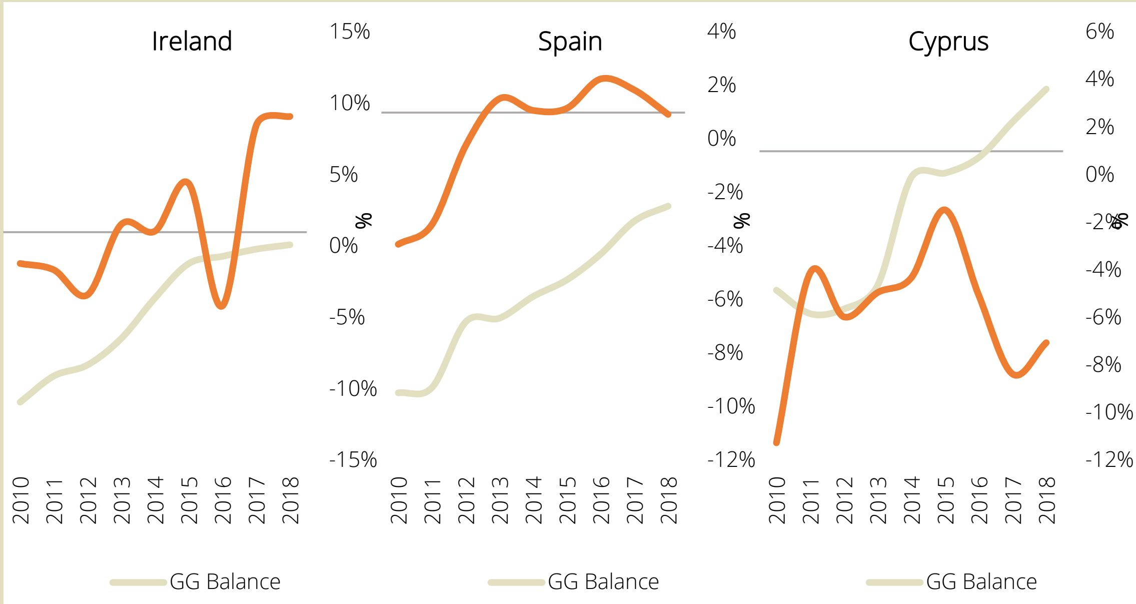
The other two countries that implemented a programme (Ireland, Cyprus) and Spain initially did not have equally large imbalances with Greece and Portugal in their external balance. In all three countries, the general government balance improved extensively during the programmes and thereafter. However, in Spain the deficit remains close to 2% of GDP.

The external sector improved less during the programmes, compared to the consolidation of public finances, and in relation to Greece and Portugal, as the deficit decline did not exceed 2.7 percentage points of GDP (Ireland), while in Cyprus it marginally deteriorated (by -0.2%). In two of the three countries that implemented EAP and some time has elapsed since its completion (Cyprus, Portugal), as well as in Spain, the balance of the external sector has not improved following the completion of the fiscal consolidation. In fact, in Cyprus it deteriorated in 2017 - 2018. By contrast, a significant improvement was recorded in Ireland, with strong fluctuations in 2015-2016, primarily due to a change in the way the data were recorded.

In summary, the implementation of the programmes contributed to a significant improvement in the twin deficits in Greece. That said, the boost of competitiveness until 2015 was mitigated by the growth of imports since then, despite the capital controls. As a result, the Greek economy continues to have a negative external balance. However, with the exception of Ireland, in the remaining four countries of the Eurozone periphery, after a period of improvement during the programmes, the external balance deteriorated. This development is probably linked to the recovery of import needs following the conclusion of fiscal consolidation, when the pressures it usually causes in economic activity and demand subside. As long as the recovery of imports relates mainly to capital, non-domestically produced goods that raise production capacity and the prospects of a country, rather than substitute domestic production within imports, this is considered to be appropriate and useful. Moreover, by strengthening these characteristics of an economy, the imports of this kind will contribute to the improvement of the external balance over the medium term.

Figure 3.26

General Government Balance and Current Account (% GDP)*



Source: Eurostat

*The dots on the lines indicate the beginning and the end of the economic adjustment programmes

Table 3.11

Balance of payments in €

		January-April			April		
		2017	2018	2019	2017	2018	2019
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-3,721.1	-4,730.5	-5,065.3	-661.8	-1,485.5	-1,400.3
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-4,721.2	-5,462.4	-5,534.8	-620.3	-1,248.9	-1,077.9
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-6,783.7	-7,115.9	-7,720.3	-1,343.1	-1,819.3	-1,720.6
	Oil balance	-1,302.7	-1,541.7	-1,723.1	-25.3	-459.3	-299.0
	Trade balance excluding oil	-5,481.0	-5,574.2	-5,997.1	-1,317.8	-1,360.0	-1,421.6
	Ships balance	-12.0	-39.9	-83.9	-20.2	-5.2	-8.1
	Trade balance excluding ships	-6,771.8	-7,076.0	-7,636.4	-1,322.9	-1,814.1	-1,712.5
	Trade balance excluding oil and ships	-5,469.1	-5,534.3	-5,913.2	-1,297.6	-1,354.8	-1,413.4
I.A.1	Exports	8,997.4	10,165.5	10,535.9	2,271.6	2,544.4	2,839.6
	Oil	2,717.0	3,111.2	3,054.3	735.2	812.3	909.7
	Ships (sales)	38.7	26.8	33.1	6.2	7.0	2.6
	Goods excluding oil and ships	6,241.7	7,027.5	7,448.5	1,530.1	1,725.1	1,927.3
I.A.2	Imports	15,781.1	17,281.3	18,256.2	3,614.6	4,363.7	4,560.2
	Oil	4,019.6	4,652.9	4,777.4	760.5	1,271.6	1,208.7
	Ships (buying)	50.7	66.6	117.0	26.4	12.3	10.7
	Goods excluding oil and ships	11,710.8	12,561.8	13,361.8	2,827.7	3,079.9	3,340.8
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	2,062.5	1,653.4	2,185.5	722.8	570.4	642.7
I.B.1	Receipts	7,059.4	7,275.5	8,085.5	2,047.2	2,074.0	2,211.7
	Travel	974.5	1,056.5	1,297.0	485.1	502.6	537.1
	Transportation	4,664.6	4,833.2	5,304.8	1,226.5	1,230.6	1,341.2
	Other services	1,420.3	1,385.9	1,483.7	335.5	340.8	333.5
I.B.2	Payments	4,996.9	5,622.1	5,900.0	1,324.4	1,503.6	1,569.1
	Travel	620.8	720.5	884.8	217.7	293.8	336.8
	Transportation	3,033.1	3,411.7	3,445.3	796.9	859.9	859.2
	Other services	1,343.0	1,489.9	1,570.0	309.8	349.8	373.1
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	783.8	582.2	597.1	66.0	-156.5	-216.1
I.C.1	Receipts	3,009.5	2,985.1	2,781.1	525.0	341.5	306.5
	From work (wages, compensation)	70.0	61.1	87.2	19.7	16.2	23.0
	From investments (interest, dividends, profit)	1,155.2	923.1	991.0	430.0	232.2	236.4
	Other primary income	1,784.3	2,000.8	1,703.0	75.3	93.1	47.1
I.C.2	Payments	2,225.7	2,402.9	2,184.0	459.0	498.0	522.6
	From work (wages, compensation)	461.9	430.1	462.4	117.2	107.8	115.0
	From investments (interest, dividends, profit)	1,671.6	1,872.9	1,581.0	315.9	365.4	382.6
	Other primary income	92.2	99.9	140.6	25.9	24.8	24.9
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	216.3	149.8	-127.6	-107.5	-80.0	-106.3
I.D.1	Receipts	962.6	940.5	1,042.2	98.5	111.0	135.4
	General government	594.8	666.9	567.7	25.1	31.0	15.7
	Other sectors	367.8	273.5	474.5	73.4	80.0	119.7
I.D.2	Payments	746.3	790.7	1,169.8	206.0	191.0	241.7
	General government	522.6	566.4	796.7	147.0	140.7	141.2
	Other sectors	223.8	224.3	373.0	59.0	50.4	100.5
II	CAPITAL ACCOUNT (II.1-II.2)	233.0	185.3	215.7	-2.7	-2.6	29.0
II.1	Receipts	286.1	263.2	399.9	4.8	8.8	57.5
	General government	268.2	185.8	337.8	0.4	0.5	9.7
	Other sectors	17.9	77.4	62.2	4.3	8.3	47.7
II.2	Payments	53.1	77.9	184.2	7.4	11.4	28.5
	General government	1.1	0.9	1.4	0.4	0.2	0.4
	Other sectors	52.0	77.0	182.9	7.0	11.2	28.1
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	*-3,488.2*	*-4,545.1*	*-4,849.6*	*-664.5*	*-1,488.0*	*-1,371.3*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-3,745.9	-3,650.9	-3,745.4	-885.3	-991.4	-878.1
III.A	DIRECT INVESTMENT*	-710.7	-1,089.1	-998.4	-202.3	-597.4	-306.9
	Assets	625.4	223.8	154.1	24.5	-198.9	71.3
	Liabilities	1,336.1	1,312.8	1,152.5	226.8	398.5	378.2
III.B	PORTFOLIO INVESTMENT**	1,573.5	-6,480.6	-5,214.1	300.2	-722.2	1,452.9
	Assets	297.2	-2,226.2	-1,079.3	-750.7	118.2	-199.1
	Liabilities	-1,276.3	4,254.3	4,134.8	-1,050.9	840.4	-1,652.0
III.C	OTHER INVESTMENT*	-4,329.6	3,822.7	2,792.0	-1,009.2	199.2	-1,968.1
	Assets	-3,722.8	-4,124.0	-2,666.5	-1,063.7	-1,435.8	-719.2
	Liabilities	606.9	-7,946.7	-5,458.6	-54.5	-1,635.0	1,248.9
	(Loans of general government)	-2,462.6	5,062.2	-634.4	-227.9	-27.8	-31.9
III.D	CHANGE IN RESERVE ASSETS***	-279.0	96.0	-325.0	26.0	129.0	-56.0
IV	BALANCE ITEMS (I +II +IV +V = 0)	-257.7	894.2	1,104.1	-220.9	496.7	493.2
	RESERVE ASSETS (STOCK)***				6,447	6,629	6,423

Source: Bank of Greece

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

4. IMPROVING THE ENERGY EFFICIENCY OF BUILDINGS AS A GROWTH DRIVER OF THE GREEK ECONOMY

- It is essential to improve energy efficiency in order to reduce greenhouse gases by 80-95% by 2050, compared to 1990 levels, in line with the EU roadmap on energy and climate
- According to IOBE, every €1 million invested in energy upgrading of buildings raised overall, in net terms, Greece's GDP by €1.4 million, employment by 37 jobs and government revenues by €0.5 million in 2018
- The investment in the energy upgrade of residences, according to the strategic planning of the Ministry of Environment and Energy, can stimulate the growth rate of the Greek economy by up to 0.7 percentage points of GDP and employment by up to 40,000 jobs
- The investments foreseen in the strategic plan for upgrade of the buildings of the tertiary sector can add up to 0.4 percentage points to GDP and increase employment by up to 24,700 jobs.

4.1 Introduction

The scope of this IOBE study[50] was to examine the impact on the Greek economy from the accelerated implementation of energy efficiency and energy saving measures in buildings, as foreseen in the relevant national and European law.

The sustainable use of energy along with the development of renewable energy sources and the reduction of greenhouse gas emissions are recognised as key pillars of the European Union's (EU) energy and climate policy. The main expression of this policy are the directives 2012/27/EU and 2013/12/EU on energy efficiency (EED), as well as the Directive 2010/31/EU on Energy Performance of Buildings (EPBD).[51] The EED includes a set of rules and obligations for the Member States that should achieve an indicative target for energy efficiency by 2020[52], while the DEPB sets more specific targets for energy efficiency requirements for the building sector.[53]

The building sector, which is responsible for a large share of the final energy consumption (around 40%) in the EU, is recognised as one of the sectors with significant potential for energy savings at relatively low cost, given the characteristics of the building stock in terms of quality and age. The main measures suggested by the EPBD include the mandatory introduction of energy performance certificates that should be issued before the purchase or renting of buildings, requirements for the construction of new "almost zero-energy" buildings by the end of 2020 (for public buildings by end-2018), renovation obligations for older buildings, mandatory inspections of central heating and cooling systems, or other measures having equivalent effect, and the definition of financial support measures for similar actions.

Similarly, the EED requires from the Member States to define building renovation strategies, as part of the National Energy Efficiency Action Plans, according to which the public sector will annually renovate at least 3% of the total area of owned and used buildings. At the same time, for the 2014 – 2020 period, it imposes an annual aggregate energy saving target for the distribution and retail energy companies, which is equal to 1.5% of the average annual energy sales to final consumers during the 2010-2012 period.

From the above, and taking under consideration that the appropriate financial instruments promoting energy efficiency improvements are established at the EU level, it appears that there is a considerable room for growth of the energy efficiency sector in Greece. Moreover, the age[54] and the technical characteristics of the existing Greek housing stock,[55] necessitate large-scale

[50] The study is available on the website of IOBE
[51] This Directive was amended in July 2018 by Directive 2018/844/EU
[52] Reduction in energy consumption by 20% compared to the projected energy consumption by 2020 without the implementation of additional energy efficiency measures
[53] As these policies have a long-term perspective, under the proposed new energy and climate policy framework for the period up to 2030 (November 2016), the energy efficiency targets are expanded by providing for an additional 30% reduction in energy consumption
[54] According to the Census of Buildings (ELSTAT, 2011), the houses in Greece in 2011 amounted to a total of 6.4 million. Of these, the largest part (1.4 million buildings) was built in the 1970s. In the 2000s, 986 thousand buildings were built, roughly as many as in the past decades of the 1980s and 1990s. The majority of buildings (about 55%) are over 30 years old (built before 1981)
[55] Only 9% of the buildings built after 2001 (7.8% for buildings after 2006) has no insulation systems, when 2/3 of the buildings built before 1981 and 41.5 % of the buildings built between years 1981-1990 did not have any kind of

interventions to save energy in buildings such as thermal insulation, upgrade of heating-cooling systems, replacement of window frames etc. These interventions, when implemented, will contribute significantly to the domestic economic activity, supporting Constructions in Greece, a sector that has suffered huge losses during the economic crisis of recent years.

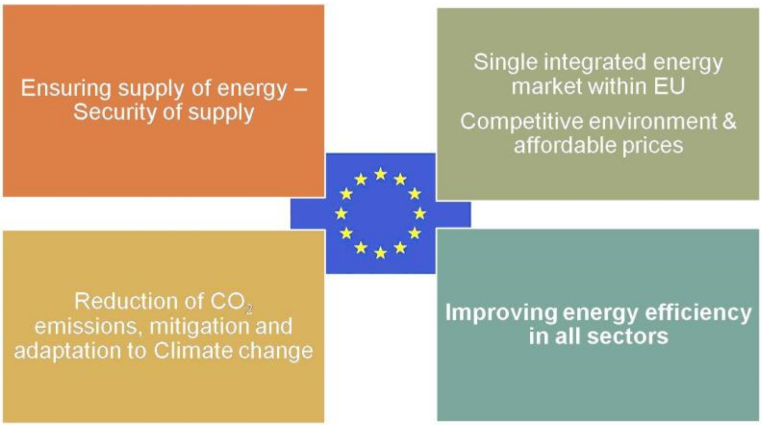
4.2 Overview of the European Union energy efficiency policy

Improving energy efficiency is a central pillar of the European Union (EU) Energy Policy, as it can support its individual objectives, and in particular energy security for all consumers (industry, businesses and households), limit CO_2 emissions, and create necessary infrastructure to mitigate the effects of climate change.

In particular, improving energy efficiency is necessary to reduce greenhouse gas emissions by 80-95% by 2050 compared to 1990 levels. The EU Energy and Climate Roadmap, which is the backbone of energy policy in the Union, lists as its main objective the reform of the energy systems of the Member States. In this context, upgrading the energy performance of buildings is expected to bring significant benefits for the environment and for the finances of households and other related stakeholders.

Figure 4.1

European Energy policy objectives



Source: https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union

4.3 Current situation in Greece

The Greek legislative framework for the promotion of energy efficiency includes Law 3855/2010, which harmonised domestic law with the EU Directive 2006/32/EC, as well as Law 4422/2015. The overall energy savings target for 2014-2020 is set at 3,332.7 ktoe (33.8 TWh), which was planned to take place mainly in 2016-2018 and 2019-2020 (19.5TWh and 15.8 TWh, respectively). Achieving the foreseen objectives is mainly structured around the implementation of relevant measures and

insulation. Overall, although some improvement in the insulation of buildings is evident, especially after 1991, most of today's building stock lacks necessary elements that increase their energy footprint considerably actions in public buildings, the creation of an information system for monitoring the improvement of energy efficiency, the financial support of technological investments that promote research in energy saving, the application of tax exemptions for energy saving interventions and the development of an energy management system in the public sector.

Despite the undoubted benefits of improving energy efficiency in buildings, the need for high initial investment in the implementation of advanced technological solutions seems to be a major barrier for the Greek households.[56] In the residential sector, Greece has not yet fully exploited the potential benefits associated with improving energy efficiency, while the achieved reduction in energy consumption is more related to the reduction of disposable income and economic activity and less to the implementation housing systems with upgraded energy efficiency. This is confirmed by the results of a previous study of IOBE, showing that few households have implemented all the measures available to improve energy efficiency. Similar conclusions derive from the annual reports of the Ministry of the Environment and Energy, where it is noted that most of the housing stock has significant deficiencies associated with their very low energy efficiency. Consequently, most of the buildings concerned are classified in low and medium energy classes.

4.4 Economic effects from implementation of energy savings in buildings

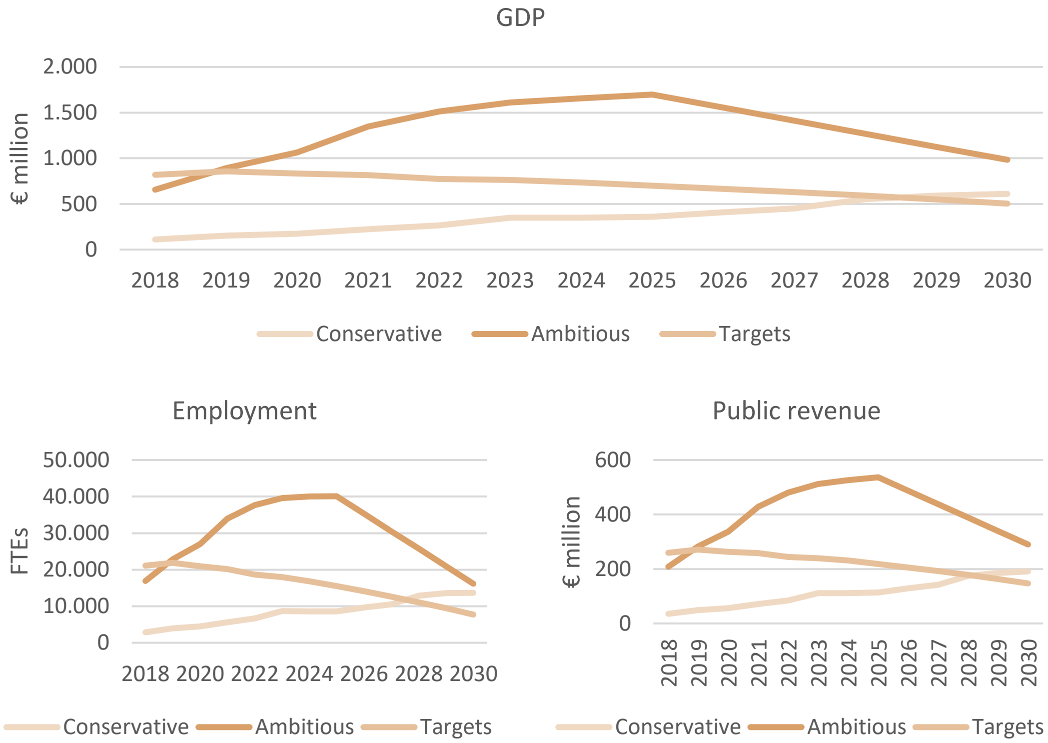
The estimation of the economic impact of energy upgrading activities with the use of an input-output model shows that investments in energy upgrading of buildings have strong multiplier effects on the Greek economy. Every €1 million of investment in energy upgrading of buildings in 2018 raised in total in net terms[57] the GDP of Greece by €1.4 million, employment by 37 jobs and public revenues by EUR €0.5 million in 2018.

The implementation of investments in the energy upgrading of residences, in accordance with the strategic planning of the Ministry of Environment and Energy, as reflected in a relevant report,[58] can boost the Greek economy's growth rate by up to 0.7 percentage points of GDP, and employment by up to 40,000 jobs. Furthermore, implementing the activities foreseen in the Strategic Investment Planning for the energy efficiency upgrade of the building stock of the tertiary sector can bring an additional 0.4 percentage units to the growth rate and increase employment by up to 24,700 jobs. According to the results of the economic analysis, the institutional support of energy efficiency in buildings, besides the considerable positive environmental impact, can generate significant economic benefits at a time when stimulating economic activity and employment growth is a major social need.

[56] The Household Savings II program, which is co-funded by the EU, aims at the provision of financial aid and consequently in removing the relative obstacles for the upgrade of energy performance of residential buildings. The programme, which was launched in February 2018, is expected to support the achievement of national energy savings targets in residential buildings.
[57] Taking into account both the positive economic impact of stimulating investment in energy upgrading of buildings and the negative economic impact of reducing energy expenditure on energy-related goods
[58] Ministry of Environment and Climate Change (2014), Report on the long-term strategy for mobilising investment in the renovation of the national stock of residential and commercial buildings, both public and private.

Figure 4.2

Housing intervention scenarios - Total net effect on GDP, employment and government revenue per scenario 2018-2030



Source: Input-Output model IOBE, Eurostat.

4.5 Policy recommendations

In order to achieve the above objectives, the State should provide additional incentives for households to accelerate investment in energy upgrading of buildings. A tax-credit proportionate to the cost of energy upgrading activities could also have a significant contribution.

Taking into account the multiplier effects of investments related to the improvement of the energy footprint of buildings, it appears that the negative impact on public revenues caused by such a tax deduction is partly or wholly offset by the positive effect on public revenues from the stimulation of economic activities from these additional activities. For example, we estimated that if a 20% tax deduction for renovation works mobilises private investments of the amount described in the ambitious housing upgrades scenario, then public revenues increase, in aggregate terms, over the first six years of implementation.[59] However, an aggregate fiscal gap emerges from 2026 onwards, rising to 4% of the aggregate cost of renovation interventions in 2030.

[59] The aggregate additional public revenues due to the boost of economic activity exceed the aggregate loss of tax revenues due to the tax deduction for each year in the period 2018-2025

APPENDIX

Table 1: GDP Rate of Change

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-3.8	1.8	2.9	0.7	0	0.7	1.1	2	2.6	2.7
Belgium	-2.3	2.7	1.8	0.2	0.2	1.3	1.7	1.5	1.7	1.4
Bulgaria	-3.6	1.3	1.9	0	0.5	1.8	3.5	3.9	3.8	3.1
France	-2.9	1.9	2.2	0.3	0.6	1	1.1	1.1	2.3	1.7
Germany	-5.6	4.1	3.7	0.5	0.5	2.2	1.7	2.2	2.2	1.4
Denmark	-4.9	1.9	1.3	0.2	0.9	1.6	2.3	2.4	2.3	1.5
Czech Republic	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.5	4.4	3
EU	-4.3	2.1	1.8	-0.4	0.3	1.8	2.3	2	2.5	2
Greece	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.4	-0.2	1.5	1.9
Estonia	-14.7	2.3	7.6	4.3	1.9	2.9	1.9	3.5	4.9	3.9
Euro area	-4.5	2.1	1.6	-0.9	-0.2	1.4	2.1	1.9	2.4	1.9
United Kingdom	-4.2	1.7	1.6	1.4	2	2.9	2.3	1.8	1.8	1.4
Ireland	-5	1.9	3.7	0.2	1.3	8.8	25.1	5	7.2	6.7
Spain	-3.6	0	-1	-2.9	-1.7	1.4	3.6	3.2	3	2.6
Italy	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.9	1.1	1.7	0.9
Croatia	-7.3	-1.5	-0.3	-2.3	-0.5	-0.1	2.4	3.5	2.9	2.6
Cyprus	-2	1.3	0.4	-2.9	-5.8	-1.3	2	4.8	4.5	3.9
Latvia	-14.4	-3.9	6.4	4	2.4	1.9	3	2.1	4.6	4.8
Lithuania	-14.8	1.6	6	3.8	3.5	3.5	2	2.4	4.1	3.5
Luxembourg	-4.4	4.9	2.5	-0.4	3.7	4.3	3.9	2.4	1.5	2.6
Malta	-2.5	3.5	1.3	2.8	4.6	8.7	10.8	5.6	6.8	6.7
Netherlands	-3.7	1.3	1.6	-1	-0.1	1.4	2	2.2	2.9	2.6
Hungary	-6.6	0.7	1.7	-1.6	2.1	4.2	3.5	2.3	4.1	4.9
Poland	2.8	3.6	5	1.6	1.4	3.3	3.8	3.1	4.8	5.1
Portugal	-3	1.9	-1.8	-4	-1.1	0.9	1.8	1.9	2.8	2.1
Romania	-5.5	-3.9	2	2.1	3.5	3.4	3.9	4.8	7	4.1
Slovakia	-5.4	5	2.8	1.7	1.5	2.8	4.2	3.1	3.2	4.1
Slovenia	-7.8	1.2	0.6	-2.7	-1.1	3	2.3	3.1	4.9	4.5
Sweden	-5.2	6	2.7	-0.3	1.2	2.6	4.5	2.7	2.1	2.4
Finland	-8.3	3	2.6	-1.4	-0.8	-0.6	0.5	2.8	3	1.7

Table 2: General Government Debt as % of GDP

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	79.9	82.7	82.4	81.9	81.3	84	84.7	83	78.2	73.8
Belgium	99.5	99.7	102.6	104.3	105.5	107.5	106.4	106.1	103.4	102
Bulgaria	13.7	15.3	15.2	16.7	17.1	27.1	26.2	29.6	25.6	22.6
France	83	85.3	87.8	90.6	93.4	94.9	95.6	98	98.4	98.4
Germany	72.6	81.8	79.4	80.7	78.2	75.3	71.6	68.5	64.5	60.9
Denmark	40.2	42.6	46.1	44.9	44	44.3	39.8	37.2	35.5	34.1
Czech Republic	73.3	79	81.6	84	85.8	86.6	84.6	83.4	81.7	80
EU	33.6	37.4	39.8	44.5	44.9	42.2	40	36.8	34.7	32.7
Greece	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.2	181.1
Estonia	7	6.6	6.1	9.7	10.2	10.5	9.9	9.2	9.2	8.4
Euro area	79.2	84.8	86.9	89.9	91.8	92	90.1	89.2	87.1	85.1
United Kingdom	63.7	75.2	80.8	84.1	85.2	87	87.9	87.9	87.1	86.8
Ireland	61.5	86	110.9	119.9	119.7	104.1	76.8	73.5	68.5	64.8
Spain	52.8	60.1	69.5	85.7	95.5	100.4	99.3	99	98.1	97.1
Italy	112.5	115.4	116.5	123.4	129	131.8	131.6	131.4	131.4	132.2
Croatia	48.3	57.3	63.9	69.5	80.4	84	83.7	80.5	77.8	74.6
Cyprus	54.3	56.8	66.2	80.1	103.1	108	108	105.5	95.8	102.5
Latvia	36.3	47.3	43.1	41.6	39.4	40.9	36.8	40.3	40	35.9
Lithuania	28	36.2	37.2	39.8	38.8	40.5	42.6	40	39.4	34.2
Luxembourg	15.7	19.8	18.7	22	23.7	22.7	22.2	20.7	23	21.4
Malta	67.6	67.5	70.2	67.7	68.4	63.4	57.9	55.5	50.2	46
Netherlands	56.8	59.3	61.7	66.2	67.7	67.9	64.6	61.9	57	52.4
Hungary	77.8	80.2	80.5	78.4	77.2	76.7	76.7	76	73.4	70.8
Poland	49.4	53.1	54.1	53.7	55.7	50.4	51.3	54.2	50.6	48.9
Portugal	83.6	96.2	111.4	126.2	129	130.6	128.8	129.2	124.8	121.5
Romania	21.9	29.8	34.2	37	37.6	39.2	37.8	37.3	35.2	35
Slovakia	36.3	41.2	43.7	52.2	54.7	53.5	52.2	51.8	50.9	48.9
Slovenia	34.6	38.4	46.6	53.8	70.4	80.4	82.6	78.7	74.1	70.1
Sweden	41.3	38.6	37.8	38.1	40.7	45.5	44.2	42.4	40.8	38.8
Finland	41.7	47.1	48.5	53.9	56.5	60.2	63.4	63	61.3	58.9

Table 3: General Government Balance as % of GDP

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-5.3	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.6	-0.8	0.1
Belgium	-5.4	-4.0	-4.2	-4.2	-3.1	-3.1	-2.4	-2.4	-0.8	-0.7
Bulgaria	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.7	0.1	1.2	2.0
France	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.5	-2.8	-2.5
Germany	-3.2	-4.2	-1.0	0.0	-0.1	0.6	0.8	0.9	1.0	1.7
Denmark	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.3	-0.1	1.4	0.5
Czech Republic	-5.5	-4.2	-2.7	-3.9	-1.2	-2.1	-0.6	0.7	1.6	0.9
EU	-6.6	-6.4	-4.6	-4.3	-3.3	-2.9	-2.3	-1.7	-1.0	-0.6
Greece	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.6	0.5	0.7	1.1
Estonia	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3	-0.4	-0.6
Euro area	-6.2	-6.2	-4.2	-3.7	-3.1	-2.5	-2.0	-1.6	-1.0	-0.5
United Kingdom	-10.1	-9.3	-7.5	-8.1	-5.3	-5.3	-4.2	-2.9	-1.9	-1.5
Ireland	-13.8	-32.1	-12.8	-8.1	-6.2	-3.6	-1.9	-0.7	-0.3	0.0
Spain	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.3	-4.5	-3.1	-2.5
Italy	-5.2	-4.2	-3.7	-2.9	-2.9	-3.0	-2.6	-2.5	-2.4	-2.1
Croatia	-6.0	-6.3	-7.9	-5.3	-5.3	-5.1	-3.2	-1.0	0.8	0.2
Cyprus	-5.4	-4.7	-5.7	-5.6	-5.1	-9.0	-1.3	0.3	1.8	-4.8
Latvia	-9.5	-8.6	-4.3	-1.2	-1.2	-1.4	-1.4	0.1	-0.6	-1.0
Lithuania	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.3	0.2	0.5	0.7
Luxembourg	-0.7	-0.7	0.5	0.3	1.0	1.3	1.4	1.9	1.4	2.4
Malta	-3.2	-2.4	-2.4	-3.5	-2.4	-1.7	-1.0	0.9	3.4	2.0
Netherlands	-5.1	-5.2	-4.4	-3.9	-2.9	-2.2	-2.0	0.0	1.2	1.5
Hungary	-4.5	-4.5	-5.4	-2.4	-2.6	-2.6	-1.9	-1.6	-2.2	-2.2
Poland	-7.3	-7.3	-4.8	-3.7	-4.1	-3.7	-2.7	-2.2	-1.5	-0.4
Portugal	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0	-3.0	-0.5
Romania	-9.1	-6.9	-5.4	-3.7	-2.2	-1.3	-0.7	-2.7	-2.7	-3.0
Slovakia	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.6	-2.2	-0.8	-0.7
Slovenia	-5.8	-5.6	-6.7	-4.0	-14.7	-5.5	-2.8	-1.9	0.0	0.7
Sweden	-0.7	0.0	-0.2	-1.0	-1.4	-1.6	0.0	1.0	1.4	0.9
Finland	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.8	-1.7	-0.8	-0.7

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

	Annual data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	19.1	18.9	19.2	18.5	18.8	19.2	18.3	18.0	18.1	17.5
Belgium	20.2	20.8	21.0	21.6	20.8	21.2	21.1	20.7	20.3	19.8
Bulgaria	46.2	49.2	49.1	49.3	48.0	40.1	41.3	40.4	38.9	32.8
France	18.5	19.2	19.3	19.1	18.1	18.5	17.7	18.2	17.1	:
Germany	20.0	19.7	19.9	19.6	20.3	20.6	20.0	19.7	19.0	:
Denmark	17.6	18.3	17.6	17.5	18.3	17.9	17.7	16.8	17.2	17.6
Czech Republic	14.0	14.4	15.3	15.4	14.6	14.8	14.0	13.3	12.2	12.2
EU	:	23.8	24.3	24.8	24.6	24.4	23.8	23.5	22.4	:
Greece	27.6	27.7	31.0	34.6	35.7	36.0	35.7	35.6	34.8	31.8
Estonia	23.4	21.7	23.1	23.4	23.5	26.0	24.2	24.4	23.4	:
Euro area	21.6	22.0	22.9	23.3	23.1	23.5	23.1	23.1	22.1	:
United Kingdom	22.0	23.2	22.7	24.1	24.8	24.1	23.5	22.2	22.0	:
Ireland	25.7	27.3	29.4	30.1	29.9	27.7	26.0	24.4	22.7	:
Spain	24.7	26.1	26.7	27.2	27.3	29.2	28.6	27.9	26.6	:
Italy	24.9	25.0	28.1	29.9	28.5	28.3	28.7	30.0	28.9	:
Croatia	:	31.1	32.6	32.6	29.9	29.3	29.1	27.9	26.4	:
Cyprus	23.5	24.6	24.6	27.1	27.8	27.4	28.9	27.7	25.2	:
Latvia	37.9	38.2	40.1	36.2	35.1	32.7	30.9	28.5	28.2	28.4
Lithuania	29.6	34.0	33.1	32.5	30.8	27.3	29.3	30.1	29.6	:
Luxembourg	17.8	17.1	16.8	18.4	19.0	19.0	18.5	19.8	21.5	:
Malta	20.3	21.2	22.1	23.1	24.6	23.9	23.0	20.3	19.3	19.0
Netherlands	15.1	15.1	15.7	15.0	15.9	16.5	16.4	16.7	17.0	:
Hungary	29.6	29.9	31.5	33.5	34.8	31.8	28.2	26.3	25.6	19.6
Poland	27.8	27.8	27.2	26.7	25.8	24.7	23.4	21.9	19.5	:
Portugal	24.9	25.3	24.4	25.3	27.5	27.5	26.6	25.1	23.3	:
Romania	43.0	41.5	40.9	43.2	41.9	40.3	37.4	38.8	35.7	32.5
Slovakia	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1	16.3	:
Slovenia	17.1	18.3	19.3	19.6	20.4	20.4	19.2	18.4	17.1	16.2
Sweden	17.8	17.7	18.5	17.7	18.3	18.2	18.6	18.3	17.7	:
Finland	16.9	16.9	17.9	17.2	16.0	17.3	16.8	16.6	15.7	16.5

Table 5: Inflation

	Annual Data (%)				January-May			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	0.8	1.0	2.2	2.1	2.2	2.0	1.6	-0.4	-0.2
Belgium	0.6	1.8	2.2	2.3	2.7	1.7	1.9	0.2	-1.0
Bulgaria	-1.1	-1.3	1.2	2.6	1.1	1.7	2.7	0.9	0.7
France	0.1	0.3	1.2	2.1	1.3	1.7	1.4	-0.4	0.4
Germany	0.1	0.4	1.7	1.9	1.8	1.5	1.4	-0.1	-0.3
Denmark	0.2	0.0	1.1	0.7	0.8	0.6	1.0	0.4	-0.2
Czech Republic	0.3	0.7	2.4	2.0	2.4	1.8	2.4	0.6	-0.6
EU	0.0	0.3	1.7	1.9	1.8	1.6	1.6	0.0	-0.2
Greece	-1.1	0.0	1.1	0.8	1.5	0.4	0.8	0.4	-1.1
Estonia	0.1	0.8	3.6	3.4	3.3	3.1	2.6	-0.5	-0.1
Euro area	0.0	0.2	1.5	1.7	1.7	1.4	1.4	0.0	-0.3
United Kingdom	0.1	0.6	2.7	2.5	2.4	2.6	1.9	-0.7	0.2
Ireland	0.0	-0.2	0.3	0.7	0.4	0.4	1.1	0.6	0.1
Spain	-0.6	-0.3	2.0	1.7	2.5	1.3	1.2	-0.1	-1.2
Italy	0.1	0.0	1.3	1.2	1.5	0.8	1.0	0.2	-0.7
Croatia	-0.3	-0.6	1.3	1.6	1.2	1.3	0.9	-0.4	0.2
Cyprus	-1.5	-1.2	0.7	0.8	1.3	-0.3	1.1	1.4	-1.6
Latvia	0.2	0.1	2.9	2.6	3.1	2.1	3.0	0.9	-1.0
Lithuania	-0.7	0.7	3.7	2.5	3.1	2.9	2.3	-0.6	-0.2
Luxembourg	0.1	0.0	2.1	2.0	2.4	1.4	2.1	0.7	-1.1
Malta	1.2	0.9	1.3	1.7	1.2	1.4	1.4	0.0	0.2
Netherlands	0.2	0.1	1.3	1.6	1.2	1.3	2.6	1.2	0.1
Hungary	0.1	0.5	2.4	2.9	2.5	2.3	3.5	1.3	-0.2
Poland	-0.7	-0.2	1.6	1.2	1.7	1.0	1.6	0.6	-0.7
Portugal	0.5	0.6	1.6	1.2	1.7	0.9	0.7	-0.2	-0.8
Romania	-0.4	-1.1	1.1	4.1	0.5	4.0	4.1	0.0	3.5
Slovakia	-0.3	-0.5	1.4	2.5	1.0	2.6	2.5	-0.1	1.6
Slovenia	-0.8	-0.2	1.6	1.9	1.8	1.7	1.5	-0.3	-0.1
Sweden	0.7	1.1	1.9	2.0	1.7	1.8	2.0	0.2	0.1
Finland	-0.2	0.4	0.8	1.2	1.0	0.8	1.3	0.5	-0.2

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

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	126	128	132	131	130	129	128	127	127
Belgium	120	119	121	120	119	118	118	116	115
Bulgaria	44	45	46	45	47	47	48	49	50
France	108	108	107	108	107	106	104	104	104
Germany	120	123	124	124	126	124	124	124	123
Denmark	129	128	127	128	128	127	126	128	126
Czech Republic	83	83	82	84	86	87	88	89	90
EU	100	100	100	100	100	100	100	100	100
Greece	85	75	72	72	71	69	68	67	68
Estonia	65	71	74	75	77	76	77	79	81
Euro area	108	108	107	107	107	106	106	106	106
United Kingdom	108	106	108	108	109	109	107	106	104
Ireland	130	130	131	132	136	178	177	181	187
Spain	96	92	91	89	90	91	91	92	91
Italy	104	104	101	98	96	95	97	96	95
Croatia	59	60	60	60	59	59	61	62	63
Cyprus	100	96	91	84	81	82	84	85	87
Latvia	53	57	60	62	63	64	64	67	70
Lithuania	60	66	70	73	75	75	75	78	81
Luxembourg	257	265	260	261	269	266	260	253	254
Malta	83	82	84	85	89	93	95	98	98
Netherlands	135	134	134	135	131	130	128	128	129
Hungary	65	66	66	67	68	68	67	68	70
Poland	62	65	67	67	67	69	68	70	71
Portugal	82	77	75	76	77	77	77	77	76
Romania	51	52	54	54	55	56	59	63	64
Slovakia	74	74	76	76	77	77	77	76	78
Slovenia	83	83	82	82	82	82	83	85	87
Sweden	125	126	127	125	124	125	122	121	121
Finland	116	117	115	113	110	109	109	109	110

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

	Annual Data								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	115.3	115.6	117.5	116.8	116.3	116.9	117.5	116.3	:
Belgium	131.2	129.6	130.5	130	130.3	129.8	129.7	128.9	:
Bulgaria	41.2	42.1	43.5	42.7	43.8	44	45.3	45.5	:
France	116.9	116.6	115	116.3	115.7	115.4	115.2	115.1	:
Germany	105	106.3	105.1	104.5	106.4	105.7	106.4	106.3	:
Denmark	115.1	114.5	114.2	115	115.1	114.5	114.3	116.3	:
Czech Republic	77.1	77.3	76	76.5	79	79.7	79.9	81.6	83.1
EU	100	100	100	100	100	100	100	100	:
Greece	89.5	85.4	85.8	86.8	86.1	83.2	81.3	80.3	:
Estonia	70.5	71.9	73.2	73.1	74.7	71.7	73.5	74.4	:
Euro area	107.8	107.7	107.1	107.2	107.3	107.1	107.2	106.9	:
United Kingdom	104	102.2	102.6	102.3	102	101.7	100.3	100.1	99.4
Ireland	141.6	144.4	146.8	142.7	146.4	188.2	183.4	187	:
Spain	101.8	101.1	102.9	103.2	103.2	101.9	101.3	100.9	99.7
Italy	112.7	112	109.9	108.5	107	106.1	107.7	107	:
Croatia	67.2	70.1	72.3	73.4	70.6	70.5	72.3	71.9	:
Cyprus	91.4	89.8	88.6	86.6	84.9	84.5	84.1	83.8	:
Latvia	58.7	61.3	62.8	62.3	64.3	63.9	64.5	67.3	70
Lithuania	67.1	71.2	72.9	74	74.5	73.1	72.1	75.2	:
Luxembourg	162.3	166.1	161.8	163.1	169.1	167.5	165.1	160.6	160.3
Malta	94.6	91	90	89.2	90.9	94.9	95.8	94.6	:
Netherlands	114.6	113.3	113.1	114.9	113.1	112.4	110.4	110.5	110.4
Hungary	73	74	72.7	73	71	69.9	66.9	67.3	:
Poland	70	72.6	73.9	73.7	73.5	74.2	73.9	75.4	:
Portugal	79.7	76.3	76.6	79.5	78.7	78.1	77.8	75.6	73.7
Romania	50.4	51.2	55.4	56	56.5	58.4	63	65.2	:
Slovakia	83.4	81.4	82.3	83.5	83.8	82.5	81.6	80.3	:
Slovenia	79.4	80.6	80	80.3	81.2	80.5	80.7	81.9	:
Sweden	116.7	116.2	116.2	113.9	113.2	114.7	112.4	111.7	:
Finland	112.5	112.4	109.3	108.1	107.3	107.4	107.9	108.6	108.5

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

	Annual Data (%)					Q1 (%)			Change (%)	
	2014	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	74.2	74.3	74.8	75.4	76.1	74.2	75.2	75.9	0.7	1.0
Belgium	67.3	67.2	67.7	68.5	69.7	67.7	69.3	69.8	0.5	1.6
Bulgaria	65.1	67.1	67.7	71.3	72.4	68.6	71.1	73.1	2.0	2.5
France	69.2	69.5	70	70.6	71.3	69.7	70.7	71.2	0.5	1.0
Germany	77.7	78	78.6	79.2	79.9	78.5	79.5	80.2	0.7	1.0
Denmark	75.9	76.5	77.4	76.9	78.2	75.9	77.3	77.7	0.4	1.4
Czech Republic	73.5	74.8	76.7	78.5	79.9	77.6	79.2	80.1	0.9	1.6
EU	69.2	70	71	72.1	73.1	71.2	72.3	73.2	0.9	1.1
Greece	53.3	54.9	56.2	57.8	59.5	56.2	57.7	59.6	1.9	1.5
Estonia	74.3	76.5	76.6	78.7	79.5	77.9	78.2	79.3	1.1	0.3
Euro area	68.1	68.9	69.9	70.9	71.9	69.9	71.0	72.0	1.0	1.1
United Kingdom	76.2	76.8	77.5	78.2	78.7	77.8	78.6	79.1	0.5	0.8
Ireland	68.1	69.9	71.4	73	74.1	72.3	73.5	75.1	1.6	1.2
Spain	59.9	62	63.9	65.5	67.0	64.3	65.7	67.3	1.6	1.4
Italy	59.9	60.5	61.6	62.3	63.0	61.6	62.0	62.6	0.6	0.4
Croatia	59.2	60.6	61.4	63.6	65.2	60.5	63.6	65.8	2.2	3.1
Cyprus	67.6	67.9	68.7	70.8	73.9	68.6	71.5	74.5	3.0	2.9
Latvia	70.7	72.5	73.2	74.8	76.9	73.3	75.9	76.4	0.5	2.6
Lithuania	71.8	73.3	75.2	76	77.8	74.7	76.1	78.0	1.9	1.4
Luxembourg	72.1	70.9	70.7	71.5	72.1	71.4	72.4	72.5	0.1	1.0
Malta	67.9	69	71.1	73	75.0	71.6	73.4	76.4	3.0	1.8
Netherlands	75.4	76.4	77.1	78	79.2	77.5	78.5	79.8	1.3	1.0
Hungary	66.7	68.9	71.5	73.3	74.4	72.1	73.8	75.1	1.3	1.7
Poland	66.5	67.8	69.3	70.9	72.2	70.1	71.3	72.0	0.7	1.2
Portugal	67.6	69.1	70.6	73.4	75.4	71.7	74.5	75.6	1.1	2.8
Romania	65.7	66	66.3	68.8	69.9	66.2	68.0	69.2	1.2	1.8
Slovakia	65.9	67.7	69.8	71.1	72.4	70.7	71.9	73.5	1.6	1.2
Slovenia	67.7	69.1	70.1	73.4	75.5	71.5	73.9	76.0	2.1	2.4
Sweden	80	80.5	81.2	81.8	82.6	80.8	81.4	82.1	0.7	0.6
Finland	73.1	72.9	73.4	74.2	76.3	72.6	74.6	76.0	1.4	2.0

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

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

	Annual Data (%)					Q1 (%)			Change (%)	
	2014	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	45.1	46.3	49.2	51.3	54.0	49.7	53.4	54.8	1.4	3.7
Belgium	42.7	44.0	45.4	48.3	50.3	46.2	49.6	50.8	1.2	3.4
Bulgaria	50.0	53.0	54.5	58.2	60.7	55.2	58.8	63.0	4.2	3.6
France	46.9	48.7	49.8	51.3	52.1	50.4	51.8	52.3	0.5	1.4
Germany	65.6	66.2	68.6	70.1	71.4	68.8	70.5	71.6	1.1	1.7
Denmark	63.2	64.7	67.8	68.9	70.7	66.9	68.7	70.0	1.3	1.8
Czech Republic	54.0	55.5	58.5	62.1	65.1	60.9	64.4	65.7	1.3	3.5
EU	51.8	53.3	55.2	57.1	58.7	55.8	57.8	59.1	1.3	2.0
Greece	34.0	34.3	36.3	38.3	41.1	37.3	39.5	42.1	2.6	2.2
Estonia	64.0	64.5	65.2	68.1	68.9	66.7	67.7	70.5	2.8	1.0
Euro area	51.7	53.3	55.3	57.1	58.8	55.9	57.9	59.2	1.3	2.0
United Kingdom	61.0	62.2	63.4	64.1	65.3	63.9	64.9	65.8	0.9	1.0
Ireland	52.6	55.4	56.8	58.4	60.4	57.5	59.4	61.4	2.0	1.9
Spain	44.3	46.9	49.1	50.5	52.2	49.7	50.9	53.2	2.3	1.2
Italy	46.2	48.2	50.3	52.2	53.7	51.1	53.0	53.5	0.5	1.9
Croatia	36.2	39.2	38.1	40.3	42.8	36.1	40.1	42.2	2.1	4.0
Cyprus	46.9	48.5	52.2	55.3	60.9	52.1	58.7	59.0	0.3	6.6
Latvia	56.4	59.4	61.4	62.3	65.4	60.1	63.0	66.0	3.0	2.9
Lithuania	56.2	60.4	64.6	66.1	68.5	65.3	68.2	68.2	0.0	2.9
Luxembourg	42.5	38.4	39.6	39.8	40.5	40.5	39.1	43.3	4.2	-1.4
Malta	39.5	42.3	45.8	47.2	49.7	44.7	49.9	52.8	2.9	5.2
Netherlands	59.9	61.7	63.5	65.7	67.7	64.6	66.5	69.3	2.8	1.9
Hungary	41.7	45.3	49.8	51.7	54.4	50.1	53.6	56.2	2.6	3.5
Poland	42.5	44.3	46.2	48.3	48.9	47.0	47.6	48.6	1.0	0.6
Portugal	47.8	49.9	52.1	56.2	59.2	53.9	58.3	59.4	1.1	4.4
Romania	43.1	41.1	42.8	44.5	46.3	41.6	43.9	46.0	2.1	2.3
Slovakia	44.8	47.0	49.0	53.0	54.2	51.7	54.0	55.9	1.9	2.3
Slovenia	35.4	36.6	38.5	42.7	47.0	40.5	44.4	47.8	3.4	3.9
Sweden	74.0	74.5	75.5	76.4	77.9	75.8	77.2	77.9	0.7	1.4
Finland	59.1	60.0	61.4	62.5	65.4	61.7	65.2	65.5	0.3	3.5

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

Table 10: Change in Employment (persons over 15)

	Annual Data (%)							Q1 (%)	
	2012	2013	2014	2015	2016	2017	2018	2019/18	2017/16
Austria	0.8	0.5	0.1	0.9	1.7	1.0	1.4	1.1	1.7
Belgium	0.3	0.1	0.4	0.1	0.8	1.1	2.5	1.2	3.0
Bulgaria	-1.1	0.0	1.6	1.7	-0.5	4.4	0.1	1.6	2.0
France	0.2	-0.1	2.3	0.2	0.6	1.1	0.9	0.3	1.5
Germany	0.9	1.0	0.8	0.8	2.6	0.9	0.6	0.9	1.1
Denmark	-0.5	0.0	1.0	1.4	3.2	-0.8	1.8	0.9	2.0
Czech Republic	0.4	0.9	0.7	1.3	1.9	1.6	1.4	0.8	1.7
EU	-0.2	-0.2	1.3	1.2	1.5	1.5	1.2	1.1	1.5
Greece	-8.8	-4.9	0.6	2.1	1.8	2.2	2.0	2.4	1.8
Estonia	1.9	1.0	0.6	2.6	0.6	2.2	0.9	1.8	0.6
Euro area	-0.6	-0.5	1.0	1.1	1.8	1.5	1.4	1.3	1.5
United Kingdom	1.0	1.2	2.3	1.7	1.4	1.1	1.1	1.1	1.2
Ireland	-0.4	3.0	2.6	3.4	3.7	2.9	2.8	3.7	2.8
Spain	-4.3	-2.8	1.2	3.0	2.7	2.6	2.7	3.2	2.3
Italy	-0.2	-1.7	0.3	0.8	1.3	1.2	0.8	0.6	0.6
Croatia	-3.6	-2.6	2.9	1.3	0.3	2.2	1.7	2.8	4.5
Cyprus	-3.1	-5.1	-0.6	-1.3	1.3	4.6	5.5	5.9	5.3
Latvia	1.6	2.1	-1.0	1.3	-0.3	0.2	1.6	0.6	1.8
Lithuania	1.7	1.3	2.0	1.3	1.7	-0.6	1.5	2.1	0.0
Luxembourg	4.9	1.1	3.0	4.7	1.4	4.2	3.0	2.6	3.6
Malta	4.0	4.8	5.0	4.0	5.0	6.0	6.2	6.3	6.6
Netherlands	0.6	-0.8	-0.6	1.0	1.3	2.1	2.3	2.4	2.1
Hungary	1.8	1.7	5.3	2.7	3.4	1.6	1.1	1.4	1.5
Poland	0.2	-0.1	1.9	1.4	0.7	1.4	0.4	-0.4	0.4
Portugal	-4.2	-2.5	1.9	1.2	1.4	3.3	2.3	1.4	3.2
Romania	0.9	-0.7	0.8	-0.9	-1.0	2.6	0.2	0.1	1.8
Slovakia	0.6	0.0	1.5	2.5	2.8	1.5	1.4	1.8	1.2
Slovenia	-1.2	-1.9	0.9	0.4	-0.1	4.7	2.2	1.6	3.0
Sweden	0.7	1.0	1.4	1.4	1.5	2.3	1.8	1.4	1.9
Finland	0.4	-1.1	-0.4	-0.4	0.5	1.0	2.7	1.8	2.6

Table 11: Unemployment Rate – Total Population

	Annual Data (%)				Q1 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2017/16
Austria	3.8	4.1	3.7	3.3	6.0	5.3	4.9	-0.4	-0.7
Belgium	5.1	4.7	4.2	3.6	7.7	6.2	5.6	-0.6	-1.5
Bulgaria	5.5	4.5	3.8	3.2	6.9	5.7	5.0	-0.7	-1.2
France	6.3	6.1	5.7	5.5	10.0	9.6	9.1	-0.5	-0.4
Germany	3.2	2.9	2.6	2.4	4.1	3.6	3.4	-0.2	-0.5
Denmark	4.2	4.3	4.0	3.4	6.5	5.2	5.5	0.3	-1.3
Czech Republic	3.3	2.6	1.9	1.5	3.5	2.4	2.0	-0.4	-1.1
EU	6.0	5.5	4.9	4.4	8.3	7.4	6.8	-0.6	-0.9
Greece	14.8	14.1	12.8	11.5	23.4	21.2	19.2	-2.0	-2.2
Estonia	4.3	4.8	4.1	3.9	5.6	6.8	4.7	-2.1	1.2
Euro area	6.9	6.4	5.8	5.2	9.9	8.9	8.1	-0.8	-1.0
United Kingdom	3.7	3.3	3.0	2.8	4.5	4.2	3.7	-0.5	-0.3
Ireland	6.6	5.6	4.5	3.9	7.1	5.7	4.8	-0.9	-1.4
Spain	14.5	12.8	11.2	9.9	18.8	16.8	14.7	-2.1	-2.0
Italy	6.7	6.6	6.4	6.1	12.2	11.6	11.1	-0.5	-0.6
Croatia	9.5	7.5	6.5	4.9	14.1	10.4	7.6	-2.8	-3.7
Cyprus	10.0	8.6	7.4	5.7	13.6	10.8	8.8	-2.0	-2.8
Latvia	6.7	6.6	6.0	5.2	9.4	8.2	6.9	-1.3	-1.2
Lithuania	6.1	5.3	4.8	4.3	8.1	7.2	6.5	-0.7	-0.9
Luxembourg	4.3	4.0	3.5	3.6	6.1	5.5	5.4	-0.1	-0.6
Malta	3.2	2.9	2.5	2.4	4.1	3.9	3.5	-0.4	-0.2
Netherlands	4.8	4.2	3.4	2.7	5.6	4.4	3.7	-0.7	-1.2
Hungary	4.1	3.1	2.6	2.3	4.5	3.9	3.6	-0.3	-0.6
Poland	4.6	3.8	3.0	2.4	5.4	4.2	3.9	-0.3	-1.2
Portugal	8.3	7.3	5.9	4.7	10.2	8.0	6.8	-1.2	-2.2
Romania	4.1	3.5	3.0	2.5	5.5	4.7	4.1	-0.6	-0.8
Slovakia	7.3	6.2	5.2	4.2	8.7	7.1	5.8	-1.3	-1.6
Slovenia	5.7	5.0	4.3	3.4	7.8	6.0	4.8	-1.2	-1.8
Sweden	5.4	5.0	4.9	4.6	7.2	6.7	6.8	0.1	-0.5
Finland	6.2	5.8	5.7	4.9	9.3	8.8	7.1	-1.7	-0.5

Table 12: Unemployment Rate among Men

	Annual Data (%)				Q1 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2017/16
Austria	6.1	6.5	5.9	5.0	6.6	5.7	5.2	-0.5	-0.9
Belgium	9.1	8.1	7.1	6.3	7.5	6.5	6.2	-0.3	-1.0
Bulgaria	9.8	8.1	6.4	5.7	6.8	6.3	5.4	-0.9	-0.5
France	10.8	10.3	9.5	9.0	10.0	9.6	9.1	-0.5	-0.4
Germany	5.0	4.5	4.1	3.8	4.6	4.2	3.7	-0.5	-0.4
Denmark	5.9	5.8	5.6	4.8	6.5	4.9	5.0	0.1	-1.6
Czech Republic	4.2	3.4	2.3	1.8	2.8	2.0	1.8	-0.2	-0.8
EU	9.3	8.4	7.4	6.6	8.2	7.2	6.5	-0.7	-1.0
Greece	21.8	19.9	17.8	15.4	19.8	17.3	15.4	-1.9	-2.5
Estonia	6.2	7.4	6.2	5.4	5.9	7.5	4.5	-3.0	1.6
Euro area	10.7	9.7	8.7	7.9	9.6	8.6	7.8	-0.8	-1.0
United Kingdom	5.5	5.0	4.5	4.1	4.8	4.2	3.9	-0.3	-0.6
Ireland	10.8	9.1	7.1	5.8	7.3	5.8	5.1	-0.7	-1.5
Spain	20.8	18.1	15.7	13.7	17.2	15.2	12.9	-2.3	-2.0
Italy	11.3	10.9	10.3	9.7	11.3	10.7	10.3	-0.4	-0.6
Croatia	15.6	12.7	10.3	7.7	13.4	9.5	6.3	-3.2	-3.9
Cyprus	15.1	12.7	10.9	8.1	13.5	10.4	7.8	-2.6	-3.1
Latvia	11.1	10.9	9.8	8.4	10.6	9.0	7.8	-1.2	-1.6
Lithuania	10.1	9.1	8.6	6.9	10.1	8.7	7.0	-1.7	-1.4
Luxembourg	5.9	6.1	5.6	5.3	6.7	5.0	5.6	0.6	-1.7
Malta	5.4	4.4	3.8	3.8	3.6	3.9	3.4	-0.5	0.3
Netherlands	6.5	5.6	4.5	3.7	5.1	4.2	3.6	-0.6	-0.9
Hungary	6.6	5.1	3.8	3.5	4.4	3.5	3.5	0.0	-0.9
Poland	7.3	6.1	4.9	3.9	5.4	4.1	3.4	-0.7	-1.3
Portugal	12.4	11.1	8.6	6.6	9.9	7.8	6.1	-1.7	-2.1
Romania	7.5	6.6	5.6	4.7	6.3	5.3	4.6	-0.7	-1.0
Slovakia	10.3	8.8	7.9	6.1	8.7	6.9	5.7	-1.2	-1.8
Slovenia	8.1	7.5	5.8	4.6	7.5	5.4	4.2	-1.2	-2.1
Sweden	7.5	7.3	6.9	6.4	7.7	6.9	6.9	0.0	-0.8
Finland	9.9	9.0	8.9	7.4	9.9	8.8	7.8	-1.0	-1.1

Table 13: Unemployment Rate among Women

	Annual Data (%)				Q1 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018
Austria	5.3	5.6	5.0	4.7	5.2	4.8	4.6	-0.2	-0.4
Belgium	7.8	7.6	7.1	5.6	8.0	5.8	5.0	-0.8	-2.2
Bulgaria	8.4	7.0	6.0	4.7	7.0	5.1	4.6	-0.5	-1.9
France	9.9	9.9	9.3	9.1	10.0	9.7	9.1	-0.6	-0.3
Germany	4.2	3.8	3.3	2.9	3.6	3.0	2.9	-0.1	-0.6
Denmark	6.4	6.6	5.9	:	6.4	5.6	6.0	0.4	-0.8
Czech Republic	6.1	4.7	3.6	2.8	4.3	3.0	2.3	-0.7	-1.3
EU	9.5	8.8	7.9	7.1	8.5	7.7	7.0	-0.7	-0.8
Greece	28.9	28.1	26.1	24.2	27.8	26.2	24.0	-2.2	-1.6
Estonia	6.1	6.1	5.3	:	5.3	6.1	4.8	-1.3	0.8
Euro area	11.0	10.4	9.5	8.6	10.2	9.3	8.5	-0.8	-0.9
United Kingdom	5.1	4.7	4.2	4.0	4.3	4.1	3.6	-0.5	-0.2
Ireland	8.9	7.6	6.3	5.7	6.8	5.5	4.4	-1.1	-1.3
Spain	23.6	21.4	19.0	17.0	20.5	18.6	16.7	-1.9	-1.9
Italy	12.7	12.8	12.4	11.8	13.3	12.9	12.1	-0.8	-0.4
Croatia	16.7	14.2	11.9	9.3	14.8	11.3	9.1	-2.2	-3.5
Cyprus	14.8	13.4	11.3	8.8	13.6	11.2	9.9	-1.3	-2.4
Latvia	8.6	8.4	7.7	6.4	8.2	7.4	6.0	-1.4	-0.8
Lithuania	8.2	6.7	5.7	5.4	6.1	5.7	6.0	0.3	-0.4
Luxembourg	7.1	6.5	5.6	5.7	5.4	6.2	5.1	-1.1	0.8
Malta	5.4	5.2	4.3	3.6	4.8	3.9	3.8	-0.1	-0.9
Netherlands	7.3	6.5	5.3	4.0	6.1	4.6	3.8	-0.8	-1.5
Hungary	7.0	5.1	4.6	4.0	4.7	4.3	3.6	-0.7	-0.4
Poland	7.7	6.2	4.9	3.9	5.4	4.3	4.6	0.3	-1.1
Portugal	12.9	11.3	9.5	7.4	10.5	8.1	7.6	-0.5	-2.4
Romania	5.8	5.0	4.0	3.5	4.4	3.8	3.5	-0.3	-0.6
Slovakia	12.9	10.8	8.4	7.0	8.7	7.4	6.0	-1.4	-1.3
Slovenia	10.1	8.6	7.5	5.7	8.2	6.6	5.5	-1.1	-1.6
Sweden	7.3	6.5	6.4	6.3	6.7	6.5	6.7	0.2	-0.2
Finland	8.8	8.6	8.4	7.3	8.7	8.8	6.3	-2.5	0.1

Table 14: Long-Term Unemployment Rate (*)

	Annual Data (%)			Q1 (%)			Change (%)	
	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	32.4	33.5	28.9	44.9	43.3	40.8	-2.5	-1.6
Belgium	51.6	48.9	48.7	48.6	46.8	43.7	-3.1	-1.8
Bulgaria	59.2	55.0	58.7	50.4	50.5	43.4	-7.1	0.1
France	45.9	45.4	42.0	54.4	52.4	52.9	0.5	-2.0
Germany	41.2	42.0	41.4	37.1	31.8	32.3	0.5	-5.3
Denmark	22.4	22.6	21.1	24.2	22.2	18.4	-3.8	-2.0
Czech Republic	42.0	34.7	30.5	41.0	40.9	38.2	-2.7	-0.1
EU	46.9	45.2	43.5	34.0	24.3	23.1	-1.2	-9.7
Greece	72.0	72.9	70.4	53.5	38.6	36.8	-1.8	-14.9
Estonia	31.5	33.7	24.8	69.9	68.4	64.9	-3.5	-1.5
Euro area	50.2	49.0	46.9	45.6	41.9	38.4	-3.5	-3.7
United Kingdom	27.2	25.9	26.3	44.7	41.5	40.3	-1.2	-3.2
Ireland	52.4	46.4	37.4	41.7	38.1	42.4	4.3	-3.6
Spain	48.3	44.5	41.7	56.9	58.8	55.1	-3.7	1.9
Italy	58.3	58.8	59.1	39.2	29.8	24.9	-4.9	-9.4
Croatia	50.6	41.0	40.5	38.4	39.4	43.7	4.3	1.0
Cyprus	44.5	40.7	31.9	36.0	34.4	28.3	-6.1	-1.6
Latvia	41.4	37.6	41.8	37.2	26.4	26.9	0.5	-10.8
Lithuania	38.3	37.7	32.1	42.9	40.7	34.9	-5.8	-2.2
Luxembourg	34.9	38.2	24.7	45.0	26.1	20.3	-5.8	-18.9
Malta	39.7	40.1	31.0	40.3	37.9	32.9	-5.0	-2.4
Netherlands	42.7	40.7	37.9	32.0	32.0	24.0	-8.0	0.0
Hungary	46.5	40.3	38.6	29.6	26.6	22.4	-4.2	-3.0
Poland	34.9	31.1	26.9	51.6	45.9	38.8	-7.1	-5.7
Portugal	55.4	49.8	43.6	43.8	41.5	49.1	7.6	-2.3
Romania	49.9	41.3	44.2	45.5	44.4	42.6	-1.8	-1.1
Slovakia	60.1	62.4	61.8	62.0	62.2	60.3	-1.9	0.2
Slovenia	53.3	47.5	42.7	23.7	23.0	17.2	-5.8	-0.7
Sweden	19.3	19.7	19.8	19.9	19.1	18.5	-0.6	-0.8
Finland	26.2	24.6	22.0	25.5	25.6	27.2	1.6	0.1

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

Table 15: Unemployment Rate among Youth 15-24

	Annual Data (%)			Q1 (%)			Change (%)	
	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	11.2	9.8	9.4	10.4	10.2	7.7	-2.5	-0.2
Belgium	20.1	19.3	15.9	21.4	16.9	15.7	-1.2	-4.5
Bulgaria	17.3	12.9	12.6	12.8	11.8	9.8	-2.0	-1.0
France	24.6	22.3	20.8	22.8	21.7	20.1	-1.6	-1.1
Germany	7.1	6.8	6.2	7.0	6.4	5.8	-0.6	-0.6
Denmark	12.0	11.1	9.4	12.1	10.0	10.2	0.2	-2.1
Czech Republic	10.5	8.0	6.7	8.5	6.4	5.4	-1.0	-2.1
EU	18.7	16.9	15.2	17.7	15.9	14.7	-1.2	-1.8
Greece	47.4	43.6	39.9	46.8	44.4	40.9	-3.5	-2.4
Estonia	13.5	14.1	11.9	15.5	11.9	:	:	-3.6
Euro area	20.9	18.8	16.9	19.9	17.8	16.5	-1.3	-2.1
United Kingdom	13.0	12.1	11.3	11.9	11.5	10.1	-1.4	-0.4
Ireland	16.8	14.4	13.7	13.0	12.5	10.9	-1.6	-0.5
Spain	44.5	38.7	34.4	41.7	36.3	35.0	-1.3	-5.4
Italy	37.8	34.8	32.2	37.3	33.8	33.2	-0.6	-3.5
Croatia	31.3	27.5	23.8	34.4	28.2	20.4	-7.8	-6.2
Cyprus	29.1	24.7	20.2	26.7	25.3	19.8	-5.5	-1.4
Latvia	17.3	17.0	12.2	17.3	14.7	13.5	-1.2	-2.6
Lithuania	14.5	13.3	11.2	14.8	13.9	12.5	-1.4	-0.9
Luxembourg	18.7	15.4	14.1	15.8	13.4	13.1	-0.3	-2.4
Malta	10.7	10.6	9.2	12.0	8.0	9.9	1.9	-4.0
Netherlands	10.8	8.9	7.2	10.3	7.8	7.0	-0.8	-2.5
Hungary	13.0	10.7	10.2	10.3	10.4	11.2	0.8	0.1
Poland	25.8	26.5	27.3	15.2	11.8	10.4	-1.4	-3.4
Portugal	30.2	38.0	38.1	25.1	21.9	17.6	-4.3	-3.2
Romania	23.9	22.6	23.7	20.4	16.8	15.6	-1.2	-3.6
Slovakia	33.7	34.0	33.7	18.7	17.1	14.2	-2.9	-1.6
Slovenia	15.7	20.6	21.6	11.6	10.7	9.8	-0.9	-0.9
Sweden	22.8	23.7	23.6	20.3	18.0	20.4	2.4	-2.3
Finland	20.1	19.0	19.9	23.4	21.1	18.9	-2.2	-2.3

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

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

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