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Foreword

IOBE publishes its second bulletin on the Greek economy for 2021, as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek and the global economy. While the health crisis eased significantly in most countries in the second quarter, making the transition to the post-pandemic era discernible, strong uncertainties remain. These uncertainties are mainly related to the possible spread of strong mutations of the virus, the degree of progress that has been achieved in vaccination and its momentum in the coming months, the effectiveness of vaccines in the treatment of mutations, etc. The role of policy interventions, domestically and internationally, in curbing the effects of the pandemic and shaping the recovery opportunities remains crucial. Nevertheless, they have a strong impact on the fiscal balance and public debt for the second year in a row. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with a text on the emerging recovery prospects and key priorities. The rest of the report is structured as follows:

The first chapter is a brief overview of the report, presenting its key points that are analysed in detail in the following sections. The second chapter focuses on the general economic conditions, including: i) an analysis of the global economic environment in the first quarter of 2021, as well as the outlook for the rest of the year, based on the latest OECD report, ii) an outline of the economic sentiment in Greece in the second quarter of this year, based on data from the latest IOBE business and consumer surveys, iii) an assessment of the execution of the General Government Budget and public debt for 2020, as well as of the General Government Budget in the first five months of 2021, iv) an outline of the developments in the domestic financial system between March-May of 2021.

The third chapter focuses on the performance of the Greek economy mainly in the first quarter of 2021. First, it maps the macroeconomic environment over the same quarter and makes forecasts for 2021, taking into account all the available data on the effects of the pandemic, both domestically and internationally. It also records developments in key productive sectors in the first quarter of the current year 2021 and presents the export performance of the Greek economy in January – February 2021. Next, it examines the developments in the labour market in the first quarter of 2021. Then, it analyses the trends in inflation for the first five months of this year. Finally, the chapter concludes with the assessment of the balance of payments for January-April. The fourth chapter of the report includes a presentation of a study on the potential effects of the innovative activity of very small, small and medium-sized enterprises in Greece and Germany. At a methodological level, this report refers to and is based on data available until 28/06/2021. IOBE's next quarterly bulletin on the Greek economy will be published in late October 2021.

THE WAVE OF RECOVERY AND THE UNDERGROUND CURRENTS OF THE GREEK ECONOMY

The world economy is recovering steadily

The global economy is recovering steadily, with growth already very strong in major parts of the world. The deep recession that started at the beginning of last year is gradually easing, with the key indicators of the economy moving in a positive direction. While complications in the pandemic can certainly not be ruled out, the central scenario is that it will now be easier to manage it, as it becomes a smaller problem in the coming months. In this case, the recovery of the economies is expected to widen in the coming months. Stock and real estate prices are moving up, unemployment pressures are easing, financing costs remain low, and inflation seems to be under control, at least for now.

In Europe, the recession in the first quarter was lower than expected and forecasts are now for stronger growth throughout the year. Exports of key goods are recovering strongly. Although the economies of the US and many Asian countries have shown relatively greater dynamism, Europe has not lost significant positions in world trade which remains strong. Coordination problems remain in the European Union, sometimes significant, but tackling the pandemic has prompted mobilisation and more timely and effective policy making than in previous crises. In particular, combined fiscal and monetary policy measures reduced risks for the weaker economies, preventing the pandemic from triggering a funding crisis.

The recession in the first quarter was lower than anticipated initially.

In this context, the Greek economy also has the prospect of a strong recovery. The recession in the first quarter was lower than anticipated initially and some macroeconomic and other indicators moved in a positive direction. Growth for the whole year is expected to be strong, probably above 5%, following a strong recession over the previous year of more than 8%. Overall, the new crisis, due to the pandemic, has hit the Greek economy harder than other European economies. In this regard, not only the great recession in real terms but also the loss of the growth previously expected for last year, close to 3%, and even the deflation must be taken into account. The main factor for this heavy blow is the composition of production, with a large share of sectors that have declined sharply due to restrictions, such as tourism, retail, transport and food services.

Ongoing high level of support

The main reasons why the GDP of Greece has evolved more positively than initially expected are the following. First, the European and world economies are overall performing better than expected, with a direct favourable effect on Greece. Secondly, businesses and employees have continued to receive strong support, which of course also leads to a deep fiscal deficit in the current year, as in the previous one. Third, the framework of monetary and fiscal policy in Europe continues to provide security, keeping financing costs low for the Greek economy as well. Fourth, major sectors of the economy have a positive response, showing resilience centred on exports of goods.

The economic sentiment is already moving strongly

Given the above, the growth prospects of the Greek economy look positive, with a strong recovery in the rest of this year and the next, when the impact of the pandemic on the economy would be largely reversed. Exactly how the economy will eventually develop will, of course, depend on the further course of the pandemic and any subsequent necessary measures, and in particular the evolution of revenue from inbound tourism. However, the economic climate is already moving strongly up, while major indices such as industrial production, exports of goods and the real estate market also have a positive development.

The large investment gap can be gradually reduced

Overall, over the next five years, economic growth rates may be strong, exceeding under certain conditions more than 3%, on average. Contributing to this are a number of factors such as financing costs that are expected to remain low due to central bank policies, reduced uncertainty and the inflow of funds from the Recovery Fund and other EU programmes. The large investment gap, as well as unemployment, can be gradually reduced, fuelling growth, with the economy approaching its medium-term production capacity. During this period, the Greek economy has the potential to grow faster than the Eurozone average. However, there are relatively critical questions and conditions for growth to be strong and to continue after this period. These concern the strengthening of the structure and the competitiveness of the economy. A key precondition is the implementation of substantial structural reforms in the public sector and the markets.

The Greek economy still has much lower investment, weak labour market participation and high unemployment, as well as low productivity. Therefore, the critical areas of interest are many, but three issues stand out from the rest.

Gradual transformation of the economy

First, the economy should gradually transform with a shift to tradeable products and services while productive investment and innovation should strengthen. In this process, it is important to attract foreign investment and achieve growth of small and medium-sized enterprises, quality upgrade their output and integration of their production with research.

Secondly, work and income stemming from it should be boosted. The prerequisites for this include reduction of the tax and social security burden, gradual but decisive transfer of resources from the informal to the formal economy and modernisation of education and training systems.

Thirdly, the domestic capital market, the framework of corporate governance and the settlement of legal disputes over business matters should strengthen, while the resolution of the non-performing loans problem should accelerate in order to reinforce the production base.

Reverse current fiscal deficits

Progress in the above aspects of the economy is a precondition for taking advantage of the wave of recovery that is expected to follow the pandemic. It is also needed to prevent underground currents, expressed by production oriented for domestic markets, inefficient public administration and low competitiveness, to strengthen or dominate the economy. In fact, the recovery must take place in conditions that will reverse the current budget deficits, so that there is a credible course of the economy, which is a prerequisite for its growth.

1 BRIEF OVERVIEW

Global economy recovery forecast in 2021 to make up for last year's losses

Pressure from the COVID-19 pandemic on global economic activity eased notably in the first quarter of this year, although lockdown of activities and travel restriction measures continued during this period. The slowdown was mainly due to similar developments in the most developed countries as a whole and the sharp acceleration of the recovery in China. According to available data, in January-March of this year, GDP fell in OECD countries by 0.4%, from 2.9% in the previous quarter. The recession at the beginning of 2021 was weaker than in the same quarter of last year when the pandemic had begun (-0.9%). The GDP growth rate in the most developed economies (G7) stood at -0.7% in the first quarter, compared with -3.2% in the previous quarter and 1.3% in the same quarter of last year. By contrast, in the OECD's 20 largest economies, the recession intensified, to 3.4% from 0.7% in the previous quarter. Among the most developed countries, the largest quarter-on-quarter change in the GDP growth rate occurred in France (+1.5% from -4.8%), in Italy (-1.4%, against -6.6%) and in Canada (+0.3%, from -3.2%). France, Canada and the US (+0.4%) were the countries in the most developed group where there was a recovery trend. By contrast, the recession intensified in early 2021 only in Japan (-1.8%, from -1.0%). Among the major Asian emerging economies, China's economy grew in the first quarter of this year by 18.3%, the highest in at least 30 years, after growing 6.5% a quarter earlier. India's recovery accelerated gently, to 1.8% from 0.5% at the end of 2020. In Latin America, the economies of Argentina and Brazil recovered at a similar rate (2.2-2.3%), from a recession of 4.6% and 1.2% the previous quarter.

The sharp easing of the recession or the shift to recovery in the most developed countries, as well as in China, in the first quarter of this year, is primarily due to the strong revival of international trade (+9.2%, from +2.6% in the previous quarter). This stemmed mainly from the export activity of the most developed economies, China and the Middle East-Africa, with the trend in the latter region being mainly related to the sharp growth of fuel exports. China, along with Eastern Europe-Commonwealth of Independent States, led the way in emerging regions for imports too. Import rates were high in the strongest economies as well, but lower than those in their exports.

Recent trends in GDP also reflect the continuation of support interventions in the major economies, both in fiscal and monetary policy terms. That said, the impact of the stronger support measures on their fiscal balance, which is expected to be close to last year's high deficit levels, is already being felt. Such a development again entails a significant burden on public debt, which may make its refinancing difficult in the future in countries where it is already high.

Policy interventions in developed countries, which are expected to strengthen in the current half mainly in the European Union, with the launch of the Next Generation EU fund, will continue to spill over to other parts of the world economy, supporting developing economies where there are limited or no such possibilities. Of course, the speed of recovery will depend to a large extent on factors related to the pandemic, such as the spread of strong virus variants, the speed of vaccination, but also structural characteristics of economies, such as their degree of dependence on tourism and international trade. A key factor in the recovery of the global economy will be the sharp rise in oil prices, which exceeded 55% in the first half.

In addition to the speed of recovery, the interest in its quality is also growing. Most countries have certain common characteristics, regardless of their level of development, with young workers and those with low skills being the ones most affected by the crisis. The emphasis on the spread of digitisation, in order to meet the challenges of the pandemic, will probably exacerbate the difficulties of reintegration into a second-class labour market. Emphasis is therefore needed on retraining programmes, with specific content. Especially in developing countries, women's employment has been affected, exacerbating the relevant inequalities.

The analysed trends for this year and the expected developments, as well as the fact that the pandemic impact to global economic activity in 2020 was less than initially expected, causing less turmoil in the functioning of economies and their interaction, converge to a forecast for a recovery of the world economy this year at a rate of about 5.5-6.0%, exceeding its recession last year by 4.4%.

Significant easing of the recession in the first quarter of 2021, despite prolonged lockdowns

The strong effects of the new coronavirus pandemic on domestic economic activity in 2020, declined significantly in the first quarter of this year. Domestic output shrank in the initial quarter of 2021 by 2.3%, compared with a revised downward decline in GDP in the final quarter of 2020 (-6.9% from -7.9%) and a marginal recession of 0.5% in the same quarter last year.

In terms of trends in GDP components in the January-March quarter this year, domestic consumption shrank by 2.4%, while a year earlier it had expanded slightly, by 0.7%. The decrease was due to the sharp decline in private consumption by 4.9%, a drop of the same intensity as in the previous quarter, while a year earlier household consumption had increased marginally (+0.3%). Extraordinary expenditure on tackling the pandemic has sustained the expansion of public spending (+4.9%), albeit to a lesser extent than at the end of last year (+7.3%). Over the same period last year, public consumption expanded by 1.4%.

Investments expanded slightly in the January-March quarter by 1.0%, after a sharp decline of 17.1% at the end of last year and a similar small increase a year ago (+0.6%). The change in the investment trend since the end of 2020 is mainly due to the smaller decline in stocks in January-March compared to a year earlier. However, the increase in fixed capital formation was stronger than in the fourth quarter of 2020 (+8.6% vs. +3.2%). At the beginning of 2020, investment increased purely from expanding stocks.

Investment strengthened or steadied in all fixed asset categories. The strongest reinforcement in absolute terms was presented by Mechanical equipment-weapons systems (+€186 million or +16.1%), reflecting the effect of the increased defence expenses, as well as by ICT Equipment (+€184 million or +39, 1%), in contrast to its decline a year earlier by 28.5% and 8.1% respectively. Next came investment in Other Construction, which increased by €125 million or 10.7%, in contrast to its sharp decline in the corresponding quarter last year by 7.6%. Its expansion is partly due to the higher expenditures of the PIP (Public Investment Programme), a significant part of which falls into this category of fixed capital, and which were higher in the first quarter of last year by €1.38 billion or 170.1%. Most of this increase, about 73%, came from supporting measures to businesses and the self-employed against the effects of COVID-19. Small was the rise in Transport equipment (+€18 million or +5.4%), as opposed to the very strong fall in the January-March 2020 quarter. The expansion of fixed capital formation in Housing was also small, €11 million or 2.7%, following a much stronger increase at the beginning of last year (+21.8%). Investment in Agricultural Machinery and Other Products was unchanged, while in the same period last year it showed small negative changes (-1.0% and +1.4% respectively).

On the external balance of the economy, the prolonged outbreak of the pandemic worldwide since last November, which continued into the first quarter of this year, has continued to limit international travel. As a result, services exports continued to shrink sharply, by 38.7%, slightly lower than a quarter earlier (-44.5%) and against a decline of 3.0% a year earlier. By contrast, product exports remained on a rising trajectory, at a slightly slower pace than a quarter earlier, at 8.2% compared to 13.7%. However, at the beginning of 2020 the increase was much smaller, 2.6%. Overall, exports fell by 13.4% in January-March a year ago, when they also declined, but much more slowly (-3.0%), while in the October-November 2020 quarter they had decreased by 17.6%.

The contraction of imports also slowed down towards the end of 2020, to 5.0% from 8.8%. In absolute terms, the decline was lower than that in exports. The slowdown came exclusively from imports of services, which were again reduced by 9.2% against 30.7% in the previous quarter, while at the same time the decline in imports of products escalated slightly to 3.0% from 2.0%. At the beginning of 2020, imports stabilised (+0.2%), with imports of goods showing a similar trend (+0.3%), while imports of services increased by 3.1%. Overall, the external balance deficit widened in the first quarter of this year compared to the same period last year from €935 million, which was a record low level for this period of the year, to €2.3 billion a year later (+146%).

Prospects for a significant recovery in Greece in 2021, depending on the course of the pandemic

Positive developments around the health crisis, both domestically and internationally, such as increasing advances in vaccination, more easily accessible means of detecting the virus (self-tests) and improving health conditions in most countries, largely determine the trends in the economy and society in the current period. They will probably have stronger effects later on in 2021, as long as adverse pandemic developments do not take place again. As a result of their effects so far, it has been possible to partially or completely lift many of the restrictions that were in place during the third phase of the pandemic. In this context, it was possible to reopen certain important sectors and activities of the Greek economy, which are also related to the summer tourist season (accommodation, passenger transport, catering, retail trade).

The positive dynamics of recent months does not mean that the health and the consequent economic crisis have ended. Although the pandemic is clearly declining, it has not yet been fully tamed. Besides, the declining dynamics is due, in addition to the above factors, to seasonality, as the rise in temperature has a deterrent effect on the spread of the new coronavirus. Therefore, any complacency regarding the treatment of COVID-19 may lead to adverse developments, e.g. after the summer. In any case, a constant challenge related to the pandemic is the mutations of the virus, some of which enhance its transmissibility, while there is uncertainty as to the extent to which existing vaccines deal with them.

In the first quarter of this year, although the second and third phases of the health crisis were under way in many countries and public health measures remained strong, the pace of recession either slowed significantly or shifted to small growth in larger economies and economic zones: In the OECD countries, GDP fell by just 0.4%, compared with a recession of 2.9% in the fourth quarter of 2020 and 0.9% in the first quarter of last year, while in the EU output fell by 1.2%, from 4.4% a quarter earlier and 2.7% a year ago. The Chinese economy, where the health crisis began, recorded the highest growth rate in at least the last 30 years (18.3%) in the first quarter of this year.

The third "wave" of the pandemic is in most countries in a phase of significant recession since April and seems to be coming to an end this season. At the same time, in some countries, new cases of the virus have either subsided to a small extent compared to their maximum level (e.g. Argentina, Russia), or are on a recent upward trend (e.g. Brazil, United Kingdom). The latter trends highlight the risks that continue to exist due to COVID-19. However, the general downward trend of the pandemic forms prospects for a greater revival of economic activity from the second quarter. This momentum of the world economy has already been reflected in the cost of energy, with the price of oil being stable since mid-March last year at higher levels than before the pandemic.

The limited lifting of restrictive measures domestically in April, which escalated from early May to June, led to the continuation of most business and household support interventions. However, the lifting of the suspension of activities has reduced the number of beneficiaries for support interventions. In any case, the continuation of policy interventions mitigates the economic impact of the suspension of activities. As these restrictions are lifted for more and more activities, companies that will no longer be supported by support measures will have to find ways to make up for the benefits they enjoyed. In any case, the implementation of the above further burdens the fiscal balance. According to government estimates, the intervention budget in 2021, until the beginning of June, to deal with the effects of the pandemic, reached €11.4 billion, marking a significant excess of the target in the Budget of 2021 (€7.5 billion).

The IOBE's macroeconomic forecasts are based on alternative assumptions for factors that are considered to influence the key macroeconomic variables in the medium term. The most important factors for this year remain, as in 2020, the development of the health crisis, in Greece and internationally, especially in the Eurozone, as well as the size of policy interventions to halt its effects. Therefore, macroeconomic scenarios should take into account, in the form of relevant assumptions, possible developments in these parameters. Especially the dynamics of the new coronavirus pandemic in the second half of 2021 will depend to a large extent on progress in vaccination and virus mutations. As for policy interventions, as previously analysed, their level this year is already well above the budget. Their final amount will depend, in addition to the pandemic trend, on the raising of capital resources from the Next Generation EU. In addition, activity in the tourism sector, whose contribution to Greece's GDP is much higher than in other countries, was closely correlated last year with the trend of the health crisis. For this reason, alternative forecast scenarios should include assumptions about the size of turnover in this area.

In particular, the assumptions of the basic forecast scenario for 2021 are the following: no new strong outbreak of the pandemic is expected in the second half of this year, like the one in the fourth quarter last year or this year in March, without excluding smaller, temporary outbreaks. International tourism will increase gradually, at least in the second quarter and at the beginning of the third. It is considered quite possible that we will observe a sharp escalation from the middle of summer, as well as extension of the tourist season, e.g. until the beginning of the fourth quarter. Subsequently, revenues from international tourism services will be boosted from last year, reaching 40-45% of their level in 2019, up from 24% in 2020, an increase from €3.0 billion in 2020. up to €3.8 billion. The effects of the health crisis will be mitigated by the operation of the Next Generation EU, whose resources will flow in from the second half of the year, with the relevant target in the 2021 Budget (€5.5 billion) clearly exceeded, according to the announcements during the approval of the Greek Recovery Plan. Significant support, more than expected at the beginning of this year, will be received by businesses and households from policy interventions, which already exceed the target. As for the GDP trend in the Eurozone, it is supposed to be in the range of current forecasts, with a recovery rate higher than projected last winter (European Commission: 4.3%).

The alternative macroeconomic scenario incorporates some less positive or negative contingencies than the baseline scenario. Less progress in vaccination, combined with adverse developments in the pandemic (e.g. exacerbation of mutations), will lead to a new outbreak during the second half of the year and strong restrictive measures on the operation of branches and activities. These will probably be milder than those of the first and third lockdowns, thanks to the contribution of self-tests (e.g. click inside, click away). A new escalation of protection measures will also lead to more interventions to support businesses and households. As far as international tourism traffic is concerned, the above developments concerning the health crisis will mitigate its increase. The tourist season will end later compared to last year, yet earlier that in the baseline scenario. Therefore, revenues from international tourism services will increase compared to 2020, reaching 35% of their level in 2019, growth corresponding to an increase of €2.1 billion. Less positive health developments internationally will also mitigate the recovery in the Eurozone, resulting in lower growth rate than the recent forecast, in the region of 3.5%. Regarding the NGEU inputs, it is assumed that they will be formed close to the target in the 2021 Budget (≈ €5.5 billion).

In greater detail, in terms of recent and expected developments regarding the pandemic domestically, despite the high number of new cases and deaths in early April, significant progress in the vaccination process and more detection possibilities for the virus have made it possible to phase out restrictions. Thus, their first relaxation in Retail and travel took place in early April (shopping by appointment, inter-municipal travel within the prefecture only on weekends for exercise). At the end of April, the inter-municipal movements within the prefecture were allowed for any reason, while from the beginning of May, outdoor food services reopened. Most changes have been in force since 14/5: 1) the obligation to send a message before going out has been cancelled, 2) interregional travel has been allowed, 3) retail appointments have been cancelled, 4) the suspension for businesses in the tourism sector has ended. At the end of May, open-air cultural spaces (theatres, concerts) were reopened, gyms were opened, and the compulsory rate of teleworking in the public and private sectors was reduced to 20%. Finally, from June 24 the mask mandated was abolished for outdoor areas with no congestion and from 28/6 the night travel ban was lifted.

Regarding the measures for international passenger travel in Greece, the ban on entry by air of third country nationals other than the countries of the European Union and the Schengen Agreement continues, with the exception of some countries. The excluded countries since June are clearly more than those at the opening of international tourism last year, at the beginning of July (26 vs. 15), so there are conditions for higher tourist traffic this year. An additional source of income for Tourism compared to last year will come from cruises, an activity which has been allowed since May 14.

The limited lifting of restrictive measures domestically in April, which escalated in May and continued in June, led to the continuation of most business and household support interventions (special purpose allowance for suspended employees, reduction of rent for affected businesses and compensation of affected real estate owners, suspension of payment of regulated tax and insurance debts of companies, extension of unemployment benefits by 2 months, etc.). That said, the lifting of the suspension of activities has reduced the number of beneficiaries for the above support interventions. In addition, the seventh repayable advance programme was implemented in May, but no such programmes are planned to continue, the programme of coverage of 100% of insurance contributions was continued for six months for 100k new jobs in the private sector and the SYN-WORK program was extended until June, while especially for the Tourism sector the extension reaches until September. A number of non-recurring interventions initiated in the second quarter are highlighted: (a) GEFYRA 2 programme, for subsidising mortgage loan instalments, which also concerns businesses, with a budget of €300 million and (b) the third cycle of the Hellenic Development Bank's COVID-19 guarantee programme.

In terms of developments in financing, which may play a key role in halting the effects of the pandemic, especially on investment, banks in Greece continue to use the ECB liquidity-providing financial instruments, which have emerged in response to emergencies. These include the Pandemic Emergency Purchase Programme (PEPP), with a budget of €1.85 trillion, and non-targeted longer-term pandemic refinancing operations (PELTRO). In addition, the terms of the targeted longer-term refinancing operations (TLTRO III) have been gradually eased. In this context of financial capabilities, the liquidity of Greek banks from the Eurosystem reached €24.4 billion in April-September 2020 and amounted to €38.96 billion at the end. From then until March 2021, it fluctuated and finally amounted to €44.6 billion. Therefore, in 13 months, banks have raised €32.2 billion. These developments do not include the activity of banks under the PEPP.

Lending is also favoured by a rapid increase in private sector deposits (households and non-financial enterprises). Following their strong expansion in 2020 by 13.6% or €19.3 billion, deposits rose further in the first four months of this year by €4.92 billion (+3,0%). Compared to the corresponding period last year, they were higher by €20.9 billion (+14.6%), which highlights the acceleration of their growth. The new rise came exclusively from higher household deposits, by €5.0 billion (+3.9%), as corporate deposits marginally declined (-€80 million or -0.2%).

While the trends just mentioned favour credit expansion by banks, the prolonged uncertainty over the duration and severity of the health crisis, as well as its impact on lending, will continue to have a deterrent effect on bank lending, at least in the first half of 2021. The suspension of activity in many sectors from last November, which continued in most of them until the end of April, exerted additional pressures on business turnover and household incomes, affecting the ability to service lending. That said, the further suspension of bank loan instalments, by the end of 2021 at most, will prevent the reflection of these developments on non-performing loans (NPLs). The most likely component of the above is the significant surge in bank loan defaults. The results of the four systemic banks for 2020 include outstanding balances of non-performing loans, from loans that were found in a payment moratorium, amounting to €3.1 billion. However, banks have made much higher provisions for both the loan moratoria and those loans that may turn into non-performing loans in 2021. According to the Bank of Greece, the balance of loans in moratorium at the end of 2020 was €4.1 billion, as the suspension period had expired for 85% of loans subject to this scheme before the end of the year. However, since then there has been a new possibility of further suspension of payments, which has again extended the loans under this scheme.

In terms of the evolution of non-performing loans (NPLs), they recorded a marginal increase in the first quarter of 2021 by 0.2% or €0.1 billion, a change that stops the trend of their systematic decline for five consecutive years. The stagnation is mainly due to the absence of large transactions of non-organic reduction, but also to pressures on the organic part of the change of NPLs due to the economic crisis. The total level of NPLs in March 2021 was €47.3 billion or 30.3% of total loans, approximately €59.9 billion or 55.9% lower than the maximum level of March 2016. In business credit, the percentages of NPLs recorded a marginal increase in the first quarter of 2021, to 27.9% of loans, from 27.7% in the previous quarter, as well as in mortgage portfolios, from 31.0% to 31.1%. The largest increase in NPLs, from 46.0% to 47.3%, was recorded in consumer loans.

The revised targets for the reduction of NPLs by the end of 2021 set by the banks (below 20% of loans), combined with the quite possible increase in non-performing loans due to the health crisis, highlight the need for immediate use of all possibilities to limit them. Under the second guarantee programme from the Greek government for the securitisation of bank loans (Hercules II), there is the possibility of securitisation of NPLs up to €32 billion, with €11-12 billion of new government guarantees. At present, the largest banks have expressed interest in loan securitisation of €18.6 billion through the new programme. Within the second quarter, two NPL transactions were made, both in June, by Piraeus Financial Holdings and Alpha Services and Holdings.

In this context of developments in the banking system, the provision of bank loans to non-financial corporations continued at a high pace in the first four months of 2021. However, it experienced a de-escalation in this period compared to the end of the previous year, as from 10.4% in January it reached 6.7% in April (average for the period 8.1%). During the same period, the rate of credit contraction to households was unchanged compared to 2020, in the area of 2.5%. The smaller increase in loans to the business sector is due to the sharp escalation of lending to the General Government, with the relative average rate reaching 87.4% in the first four months of this year. Through other measures, the interconnection of the banking system with the state has significantly increased.

In terms of public sector financing opportunities, as pointed out in previous IOBE reports on the Greek economy, the resources of the Next Generation EU (NGEU) will be the most important additional source of investment capital in the coming years. The National Plan for Recovery and Sustainability of Greece (Greece 2.0) was presented on 31/03/2021. According to this, Greece will receive up to €18.2 billion in grants and up to €12.7 billion in loans, i.e. a total of €30.9 billion, in the period 2021-2026, However, together with the domestic funds that will be mobilised, the total capital resources that will be allocated for investments under the implementation of the recovery plan, are projected to reach €57.5 billion. The Explanatory State Budget Report for 2021 provided that the resources to be raised from the NGEU this year (2021) will be around €5.5 billion. At the time of the adoption of the Greek Resilience and Recovery Plan at the beginning of June, it was announced that €8 billion would be disbursed later this year, with half of these resources disbursed in August. As the rate of absorption of NGEU funds is included in the assumptions of the alternative macroeconomic forecast scenarios, if it is formed close to the above announcements, it will contribute to the realisation of the baseline scenario.

Concerning the regular financing of investments from the public sector, through the Public Investment Programme, in the first five months of 2021 the support from the PIP reached €3.56 billion, far exceeding the relevant target in the Budget of 2021 (€1.74 billion) and to a lesser extent the corresponding capital disbursements last year (€3.36 billion). However, a significant portion of these, amounting to €1.59 billion or 44.7% of the total, concerned pandemic support interventions, mainly in the form of repayable advances (€1.1 billion). Excluding these, PIP expenditure in the January-May period was €1.97 billion. Therefore, they again exceeded the target in this year's budget. Taking into account the dynamics presented by the provision of resources through the PIP until May, as well as the fact that the Programming Period 2014-2020 is nearing its completion, it is estimated that the support of investment projects through the PIP will exceed its level in 2020 (€6.37 billion), approaching the relevant target set in the 2021 Budget (€6.75 billion).

As for the developments in the field of privatisations-concessions, which can affect the dynamics of investments, as they concern important infrastructures and real estate, the relevant revenue target in the Budget is €1.79 billion, of which €1.47 billion from tenders to be completed this year and €321 million either from tenders for which binding offers have been submitted and the expected first tranche will be made this year, or from tranches of completed transactions from previous years. Most of the second amount was the first tranche from the sale and transfer of Hellinikon SA (€300 million), and was paid recently, with the completion of the relevant procedures. However, although several tendering procedures are underway, with some at a mature stage, in the first half of 2021 the proceeds from privatisations come almost exclusively from this transaction. This makes it particularly difficult to meet the revenue target for the current year. Following the low implementation of the privatisation programme last year too, due to the sharp deterioration of the investment environment due to the health crisis, the low impact of privatisations on investment activity is intensifying.

With regard to recent trends in international tourism, the importance of which for the Greek economy had escalated sharply in the years before the pandemic, the available data on international tourism traffic in the second quarter of this year show signs of a clear strengthening compared to last year, but still significantly below its level in 2019. International arrivals at Athens International Airport fell by 88.8% in the two months of April-May and 80.8% respectively of their level the year before last, compared with corresponding falls last year of 99.2% and 98.4%. Given the significant progress in vaccinations internationally and in Greece, secondly the strong recession of the health crisis in the two months of May-June in most countries, it is now considered likely that international tourist traffic will be much higher than last year, with a similar impact on income. However, it will remain at a great distance from the level of 2019, as assumed in the basic forecast scenario. The weakening of the health crisis in major export destinations will continue to stimulate their demand for Greek products.

Taking into account for the realisation of macroeconomic forecasts mainly the recent and possible developments regarding the COVID-19 pandemic, e.g. the spread of strong mutations of the virus, the escalation of the vaccination process, the clearly greater than originally planned measures to support households and businesses domestically, but also the faster recovery of the global economy, it is estimated that the significant decline in household spending will be reversed in the coming quarters. Firstly, given the particularly strong decline in private consumption during the pandemic in the second quarter of last year, secondly the gradual lifting of restrictions on Retail Trade from the beginning of April, earlier than a year ago, its growth in the second quarter is expected to be strong. The large accumulation of savings by households since the onset of the health crisis, amounting to almost €14 billion, can fuel the increase in their consumption in this and the next quarters of this year. Income tax cuts (social security contributions, social solidarity levy) are an additional factor in stimulating the consumption potential of the private sector this year.

Although there is potential for a significant increase in consumer spending, their dynamics will depend to a large extent on the evolution of the health crisis and the intensity of public health protection measures. Unless there is a new significant outbreak of the pandemic in the second half (basic forecast scenario), the operation of industries that mostly account for household consumption (Retail, Tourism, Catering, Arts-Entertainment) etc., will be generally seamless. But businesses will be wary of a new outbreak of the pandemic, with employment slowing slightly, especially in sectors where economic activity was hit particularly hard last year, with corresponding boosts in domestic income and consumption potential. A significant increase in jobs in the baseline scenario will result in the lifting of support measures, which will lead to the loss of many of them which were maintained with the help of state aid. Otherwise, i.e. with a new outbreak of the pandemic, the consumer confidence, but also the possibilities of consumption will be limited. Subsequently, the pressures on a part of the companies in suspension will be strong, following the previous lockdowns and despite the additional support measures that will be taken. Taking into account the effect of the above factors, under the basic macroeconomic forecast scenario, it is predicted that the increase in private consumption will move in the range of 3.5%-4.5%, while in the case of the unfavourable scenario its increase is projected between 1.0% and 2.0%.

As for the developments in public consumption this year, the continuation and escalation of extraordinary expenditures due to COVID-19, mainly for public sector staff, for ICT infrastructure and equipment, for the supply of vaccines and tests, etc., will stimulate consumption. Taking into account the amount of business and household support interventions in the first half of 2021 and the recent budget announcements for the current half (€4.5 billion), they are estimated under the baseline scenario of macroeconomic developments to be much higher, almost double, than expected in the 2021 Budget, at a level slightly lower than last year. In addition, they will be more front-loaded compared to last year, stimulating more domestic economic activity and imports. That said, there will be no retroactive payments to retirees this year, as in the fourth quarter last year. However, if a new outbreak of the pandemic occurs in the July-December half of the year, additional emergency expenditures and support interventions will probably be needed, leading to an increase in consumption spending in the range of 5.0% -6.0%.

In terms of investment, the increased bank lending from last year, which continues, has already made it possible for a large number of companies to make investments. The decline of pandemic caution is a key precondition for the implementation of investment plans in many of them. Companies from Manufacturing activities, the demand of which is related to the health crisis or have shown resilience to it (e.g. Medicines, PC manufacturing, Plastics), are considered the most likely to expand their investment activity. The implementation of "Hercules II" will substantially contribute to the coverage of any negative developments in the assets of banks from the pandemic, such as an expansion of NPLs, but also further, in their reduction, favouring the credit expansion.

As noted in IOBE reports, support from the aforementioned and other emergency actions to address the effects of the pandemic on businesses and the self-employed (e.g. repayable advance, special purpose allowance), although not related to investments, were reflected in investment expenditures, as they are made available under the Public Investment Programme. The continuation of such actions in 2021, to a large extent, is still partially financed through the PIP, so they are expected to maintain a large part of the fixed capital formation in 2020, which came from them. Despite these more technical effects on investment and GDP, investment assistance through the PIP is projected to be slightly higher this year than last year, as funding for the 2014-2020 Programming Period is completed.

The most decisive factor for the impact of the public sector on investment activity this year, but also in the coming years, will be the resources of Next Generation EU, in combination with the national resources that they will leverage. Following the recent developments mentioned above and showing a higher-than-expected budget inflow of resources this year, their stimulating effects on investment activity under both macroeconomic scenarios, will be stronger than expected in previous Greek IOBE reports on the Greek economy.

The significant sub-implementation of the privatisation programme in 2020 will result in their small contribution to the investment activity this year, and possibly next year, given the long maturation period required for projects of this scale. However, the recent completion of the Hellinikon concession creates very important medium-term prospects for investment, economic activity more broadly, and employment.

As can be seen from the trends in relevant short-term indicators, construction projects seem to show a reinforcement at the beginning of this year. This has already been reflected in the formation of fixed capital in GDP and is estimated to continue in the coming quarters.

Taking into account the above effects, mainly of the strong credit expansion to businesses, of the extraordinary financial instruments for the pandemic and the resources from NGEU, as well as the upward dynamics of the exports of goods from last year, which determines the investment decisions in Industry, in the baseline scenario of macroeconomic developments, investments will recover by 14-17%. If there is a new outbreak of the pandemic, e.g. in the autumn, investment sentiment will weaken and investment will expand more gently, by between 8% and 10%.

In the external sector of the economy, on the exports side, the dynamics of services exports will primarily determine their change. As predicted in the previous IOBE report on the Greek economy, the fact that the pandemic experienced successive flare-ups at the end of 2020 and the initial quarter this year prevented a significant increase in tourist interest from the beginning of 2021. Progress in vaccination internationally has gradually counterbalanced these effects. While the tourist season began in mid-May, with the pandemic in a phase of significant recession in most countries, however, there are currently some disincentives to international tourism. Examples include travel restrictions from the United Kingdom and the United States, but also some potential ones, such as the effects of the spread of new mutations. These recent developments and prospects have been incorporated in tourism revenue assumptions in both macroeconomic forecast scenarios, which have been slightly revised down compared to the previous report. Therefore, the boost from tourism will be less than projected earlier this year.

Eurozone recovery in 2021, slightly faster than expected at the beginning of this year, will escalate demand for Greek products. Stronger-than-expected in late 2020 growth is projected this year in other major export destinations, such as the Middle East-Central Asia and Emerging Europe. Clearly, in the event of a new strong outbreak of coronavirus, e.g. in Europe, the recovery in international demand for Greek products will be milder. Taking into account the mostly positive trends in the factors presented and related to the export demand, in the basic scenario of developments, exports will rise by 12-15% this year, while in the unfavourable scenario the increase will be milder (7-9%).

The strengthening of domestic demand, as well as exports of goods this year, will have a strong positive impact on imports of goods. In the case of the alternative macroeconomic scenario, the expected milder growth of both will be clearly reflected respectively in import demand. Following the sharp decline in service imports in 2020, mainly due to lower demand for tourism services, but also for transport, the facilitation of international travel in the summer compared to last year, mainly due to vaccinations and more means of detecting the virus, is estimated that will stimulate the tourism of Greeks abroad this year. However, in case of significant resurgence of the pandemic, e.g. due to strong mutations, the resumption of restrictions will mainly affect this part of imports, significantly mitigating its strengthening. Under these effects, imports are projected to rise in the range of 10% to 13% in the baseline scenario, which will be milder in the alternative scenario (7-9%).

The process of estimating the trends in the components of GDP this year, based on different scenarios for the developments related to the COVID-19 pandemic in Greece and internationally, as well as other determinants of these, resulted in corresponding forecasts for the change in domestic output. According to the forecasts, unless there is a new outbreak of the pandemic in the second half of this year, taking into account the faster recovery of the Eurozone, the much stronger budget support interventions, as well as the increased resources from the recovery fund, the Greek economy will grow faster than expected earlier this year, at a rate of 5.0-5.5%. In case of a new outbreak of the pandemic, domestically and internationally, which will have a negative impact on the tourist season, but also on the recovery of the Eurozone, however further expanding the interventions to support businesses and households, growth will be kept in the range of 2.5-3.0%.

State Budget: behind targets in the first five months due to additional support measures and higher defence spending

According to state budget execution data, in the period January-May this year, its deficit reached €10.8 billion, compared with a target in the 2021 Budget for a deficit of €9.8 billion and a deficit of €7.5 billion in the previous year. The primary balance of the State Budget in the same period was a deficit, by €8.1 billion, compared to a deficit of €4.8 billion a year ago and against a deficit target for the same period of €7.2 billion. The shortfall against the target came mainly from the expenditure side of the State Budget. In particular, expenditure exceeded the relevant target by €757 million, almost as much as exceeding the provision for purchases of fixed assets (+€691 million). Expenditure on transfers was higher than budgeted by €1.78 billion (to €15.3 billion) and that of the PIP by €1.82 billion (to €3.56 billion) and mainly related to aid interventions to businesses and the self-employed (€1.59 billion). The excess in transfers was covered by appropriations under allocation.

On the side of the State Budget revenues, the lag against the target in the first two months reached €249 million, resulting in €18.3 billion total. This development is mainly due to lower than projected VAT revenues (-€384 million) and excise revenues (-€221 million), which reflect the effects of restrictions on economic activity to stem the pandemic. The shortfall would have been wider if no additional revenue of €346 million had been achieved as expected for this period, of which €209 million came from auction receipts for 5th generation (5G) networks, as well as additional taxes of vehicles amounting to €625 million.

More broadly, firstly, given the amount of support interventions implemented by the beginning of June, of approximately €11.4 billion, and well above the relevant target in the 2021 Budget (€7.55 billion), secondly their budget announced for the second half (€4.5 billion), the achievement of the target for the State Budget expenditures is considered a challenge for public finances this year, probably the most important one. However, the possibility of absorbing more resources than the target in the 2021 Budget under the Next Generation EU (€8 vs. €5.5 billion), according to the announcements during the EU approval of the National Recovery and Resilience Plan is now considered likely to lead to a significant exceedance of the State Budget revenue target.

Unemployment is most likely to be stable in 2021 as restrictions on the economy are lifted, while support measures expire

Although the recession weakened significantly in the January-March quarter of this year, the reflection of the cumulative decline in GDP since the beginning of the pandemic on the labour market remains clearly milder than expected in such unfavourable conditions in the economy. As mentioned in previous reports on the Greek economy, measures to protect jobs from the effects of the pandemic, as well as the fact that a large proportion of those who lose their jobs are leaving the labour force, have contributed to this development. Following the average decline in the unemployment rate in Greece last year by one percentage point, which was in absolute terms the highest in the EU, in the first quarter of this year it rose by 0.9 percentage points compared to a year ago, to 17.1%. However, the number of unemployed showed a marginal increase, by 0.3k, and totalled 745,400 in the first quarter this year. This marginal change is due to the fact that although employment fell in the period January-March of this year by 227,500, almost all of them (227,200) fell out of the labour force. Similar trends in the labour force, yet much milder, have been recorded since the beginning of the pandemic. Given this very large change in employment, the fact that virtually all of it has been taken out of the labour force, therefore either unable to work or not looking for work, according to the relevant definitions of the Labour Force Survey, cannot be explained.

At the sectoral level, most jobs were lost compared to the first quarter last year, in the Tourism sectors (-135.9k or -41.3%), in Wholesale-Retail Trade (-53.3k or -7.5%) and in Transport-Storage (-23.0k, or -10.6%). That said, an increase in jobs was mainly presented by the Public Administration-Defence-Compulsory Social Security (+38.9k or +11.7%), the Scientific-technical activities (+34.3k or +15.9%), Agriculture-Forestry-Fisheries (+19.6% or +4.6%) and Human Health Activities (+11.6k or +4.4%), with trends in the first and fourth sectors reflecting emergencies created by the health crisis.

In terms of expected labour market developments for the rest of this year, the phasing out of restrictive measures from the beginning of the second quarter, which began with Retail Trade in April, continued in Food Services and Tourism in May and extended to outdoor Arts-Entertainment in June is estimated to have boosted employment in these and related activities, which had previously come under strong pressure this year. As long as the pandemic does not resurge (basic forecast scenario), e.g. through some strong mutation, many of the companies in the above and other sectors will operate, under health protocol, for the most part of 2021. In addition, the duration of the tourist season will be sufficient for most seasonal businesses. That said, once these developments on the health issue take place, employment support interventions, or at least the majority of them, will expire within the third quarter of the year. However, it is reiterated that for those companies that have entered into a repayable advance scheme, job protection is in place for a number of months. For example, those companies supported by the 6th repayable advance cycle must keep their jobs until 31 July, while those in the 7th cycle by 31 August. As a result, a significant proportion of jobs will be under protection for a few more months, which will prevent an immediate increase in unemployment once the other measures expire.

In the opposite case of developments related to the pandemic, i.e. its new outbreak in the second half (alternative forecast scenario), the protection measures will return, however with less intensity, thanks to vaccination and self-tests, nevertheless limiting the impetus to employment. If the new outbreak occurs within the third quarter, the tourist season will be significantly shorter than the baseline scenario and will be reflected in seasonal employment, respectively.

Last year's boost in exports, which will continue this year, will support job creation in export-oriented manufacturing. Increased export activity will be reflected in their investments, which will also have a boost on employment.

More broadly, investments and related jobs will benefit mainly from the continued rapid credit expansion by the financial sector. An additional boost to investment activity this year will come from the Public Investment Programme, which will be clearly more frontloaded in its implementation than last year and with slightly more spending. Investment stimulation will also be achieved from the NextGenerationEU funds, depending on the rate of their absorption.

Boosts to domestic employment this year will be acted on by the public sector, with the ongoing 100k job creation support programme, recruitment in the health system and OAED temporary employment programmes.

The significant decline in the labour force last year and in the first quarter of this year, from workers who lost their jobs and were discouraged by the conditions for looking for a new one, is estimated to be gradually reversed this year, strongly increasing the number of unemployed. For example, if half of the fall in employment in the initial quarter this year (113.75k people) were recorded among the unemployed and the rest came out of the labour force, the unemployment rate would be 19.1%, instead of 17.1%.

Taking into account the above effects on the labour market, the unemployment rate is estimated in the baseline macroeconomic development scenario for 2021 in the range of 16.0-16.3%, close to last year's level, while in the alternative scenario it will strengthen slightly (17.0-17.3%).

Small increase in consumer prices this year, due to significant increase in energy costs and gradual escalation of consumer demand

In the period January - May 2021, a decrease in prices was recorded compared to a year ago, with the average rate of change of the National Consumer Price Index (NCPI) being -1.0% - compared to the relevant period of 2020 - versus a marginal decline by 0.3% a year ago. The deflation is mainly due to the decline in domestic demand, with prolonged adverse health developments since last November amplifying uncertainty in households, reducing and then reversing the positive impact of their demand on prices last year. Negative, yet slightly lower than a year ago was the effect of indirect taxation on prices. It comes from the reduction of some indirect taxes from last June (reduced VAT on non-alcoholic beverages, show tickets, food services, etc.). The inflationary effect of energy costs in the first five months was marginal, in contrast to its negative impact on prices a year ago. However, given the strong average increase in the price of oil during this period (+42.8% Brent oil, in euros) and its impact on energy products, the impact of energy was significantly lower than expected.

As for the expected trends in the key components of the Consumer Price Index for the rest of this year, the effect of demand will depend, as expected, on developments in the pandemic and their impact on employment and subsequently on disposable income and consumption. Under the basic macroeconomic scenario, strong public health protection measures will not be reintroduced, as there will be no new severe outbreak of the pandemic, allowing for continued activity in quarantined sectors and increased employment. Combined with job creation in export-oriented industries, as well as more investment, it will increase domestic disposable income, boosting consumer demand and then prices. But if there is a new resurgence of the pandemic, rising economic activity and employment will be halted again. In general, the concern about the development of the health crisis will dampen consumer confidence. The earlier a new outbreak occurs, the stronger its negative effects will be. In any case, the reduction of direct taxation is expected to have a positive effect on income and consumption, from the suspension of the solidarity levy and the reduction of social security contributions.

In terms of the expected effects of indirect taxes on the formation of the CPI, extending these reductions for specific goods and services until September 30, 2021, will probably no longer have a substantial effect on prices, as the reductions were imposed last June.

The dynamics of the pandemic through its impact on global demand will drive developments in the field of energy costs. In the field of energy production, the slight reduction of cuts in daily oil production by OPEC+ countries in the first half of this year, which is expected to continue in the current half, is not enough to cover the rapid increase in demand from reheating of the world economy. Continued progress in vaccinating the population and improving epidemiological data in the two months April-May in many countries worldwide, partly due to seasonal factors, boost expectations of overcoming the health crisis and support an expansion of investment and consumption. That said, significant challenges remain in tackling the pandemic, such as the potential effects of mutations in the virus, continued high-rate vaccination and the effectiveness of vaccines, which may delay recovery. In the most recent forecasts of international organisations (OECD) the recovery of global economic activity has been revised for the better, with the economy of China, which is the second largest consumer of oil internationally, but also India, leading the way.

Taking into account the above possible trends in the key components of the domestic Consumer Price Index, as well as the effects of similar trends in the past, as well as the rate of change in the first five months of this year, the baseline macroeconomic scenario predicts an inflation rate of 0.3% to 0.6%. Under the alternative macroeconomic scenario, the milder rise in consumer demand and the negative impact of indirect taxes will halt the increase in energy costs, leading to a new, marginal decline in consumer prices (-0.1% to -0.3%).

Special study: Innovation in the micro, small and medium enterprises in Greece and Germany

In today's unfavourable economic environment, as it has developed since the pandemic crisis, there is a growing concern in Europe as a whole, but especially in developed economies, about the weakening of business productivity. At the same time, the productivity of global enterprises remains robust, with the result that the gap between them and the rest of the companies is constantly widening. Given this, the objectives of this study, which is presented in the fourth chapter of the report, are to identify the driving forces for the emergence of fast-growing companies in economies affected by the economic crisis, as in the case of Greece. In this context of analysis, special emphasis is placed on the role that the following factors can play in such developments: corporate strategy, research and development capabilities and human capital.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- The global economy is estimated to recover at a rate of 5.5% -6.0% in 2021, faster than previously estimated.
- The speed of recovery varies from country to country depending on the extent of fiscal support, dependence on vulnerable sectors, but also the speed of vaccinations.
- Uncertainties and challenges remain due to the COVID-19 mutations, the expansion of global public debt following the extended support measures in 2021, as well as the upward inflationary pressures, mainly due to the escalation of energy costs.

The COVID-19 pandemic continued to exert pressure on global economic activity in the first quarter of this year, but clearly lower than in the previous quarter. The contraction rate in OECD countries eased to 0.4% in the first quarter of 2021, from 2.9% a quarter ago and 0.9% in the first quarter last year. The weakening was mainly due to similar developments in the most developed countries as a whole and the sharp acceleration of the recovery in China. Annual GDP change in the most developed economies (G7) stood at -0.7%, compared with -3.2% in the previous quarter and -1.3% in the same quarter of 2020. By contrast, in the 20 largest economies of the OECD, the recession escalated to 3.4% in the first quarter of this year, from 0.7% in the previous quarter. In the trends at the level of countries, among the most developed countries, the largest change in the GDP rate compared to the previous quarter occurred in France (+1.5% from -4.8%), in Italy (-1.4%, compared to -6.6%) and in Canada (+0.3%, from -3.2%). In the major Asian emerging economies, China's economy grew in the first quarter of this year at 18.3%, the highest in at least 30 years, after growing 6.5% a quarter earlier. India's recovery accelerated slightly to 1.8% from 0.5% at the end of 2020. In Latin America, the economies of Argentina and Brazil recovered at a similar rate (2.2-2.3%) from a recession of 4.6% and 1.2% a quarter ago.

The outlook for the global economy has improved this year, due to the sharp escalation of international trade. The growth rate in the first quarter accelerated to 9.2%, from 2.6% in the immediately preceding quarter. The acceleration came mainly from the export activity of the most developed economies, China and the Middle East-Africa. China, along with Eastern Europe-Commonwealth of Independent States, has led the way in emerging regions and in imports. Import rates were high even in the strongest economies, but lower than those in their exports.

Developments in health that support the improvement of economic and social conditions are the widespread availability of vaccines, the increased possibility of performing diagnostic tests (e.g. self-tests) and the progress in the discovery of drugs against the new coronavirus. More broadly, the gradual adjustment to pandemic conditions over the year that has passed since its spread, by businesses and households, has helped the global economy perform better when restrictive measures are in place, as was the case until April in many countries, in particular the developed ones.

Strong fiscal support measures continue to support economies, especially the most developed ones, where fiscal space is larger and borrowing costs are very low. That said, their impact on the fiscal balance of these countries is already felt. In OECD member countries, budget deficits are projected to remain high in 2021 (10.1% of GDP from 10.8% in 2020). This development again entails a significant burden on public debt, which for countries where it is already high, may make it difficult to refinance it in the future.

However, recovery rates vary between countries, reflecting new waves of virus spread, different progress in the vaccination process, but also varying degrees of dependence on pandemic-prone industries (e.g. tourism) and interconnection with stronger economies, e.g. through international trade. For every country though, challenge to the health crisis and a strong source of uncertainty are the new mutations in the virus, as they may reduce the effectiveness of vaccines and prolong the duration of the pandemic. Emerging economies in particular are more vulnerable due to their limited access to vaccines and reduced budgetary flexibility. A key factor in the recovery of the world economy will be the sharp rise in the price of oil, which exceeded 55% in the first half.

According to the OECD, the rate of change in world GDP in 2021 will be in the region of 5.8%, clearly higher than forecast at the end of last year (4.2%).

Table 2.1 shows the annual GDP changes in 2020 and the recent OECD forecasts for its annual changes in 2021 and 2022 in the global economy and in selected developed and developing countries.

The following are the recent and expected trends in the economies of major countries and unions of countries for 2021 and 2022.

Among the most developed countries, the US economy in the first quarter of 2021 experienced an annual growth rate of 0.4% from a 2.4% recession in the previous quarter and growth 0.3% in the first quarter of 2020. For the whole of 2021, a rapid growth of 6.9% is forecasted, thanks to the additional fiscal interventions, restoring the real GDP to levels higher than 2019. For 2022, the growth rate is projected to ease to 3.7%. The US federal government continues to provide strong fiscal support to address the effects of the pandemic in 2021, with a strong impact on the budget deficit, which is projected to remain particularly high (15.9% of GDP). The boost in consumer and business confidence is significant, while employment indicators are improving, as the economy has gradually opened up and vaccinations are making significant progress.

Table 2.1

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

Economy	2020	2021		2022	
		Forecast	Difference from previous forecast *	Forecast	Difference from previous forecast *
World	-3,5	5,8	1,6	4,4	0,7
USA	-3,5	6,9	3,7	3,6	0,1
Japan	-4,7	2,6	0,3	2,0	0,5
Canada	-5,4	6,1	2,7	3,8	1,7
United Kingdom	-9,8	7,2	3,0	5,5	1,4
Eurozone	-6,7	4,3	0,7	4,4	1,1
Germany	-5,1	3,3	0,5	4,4	1,1
France	-8,2	5,8	-0,2	4,0	0,7
Italy	-8,9	4,5	0,2	4,4	1,2
Russia	-2,6	3,5	0,6	2,8	0,6
Turkey	1,8	5,7	2,8	3,4	0,2
China	2,3	8,5	0,5	5,8	0,9
India	-7,7	9,9	2,1	8,2	3,4
Brazil	-4,1	3,7	1,1	2,5	0,3
World Trade	-8,5	8,2	4.3	5,8	1,4

* Difference in percentage points from previous OECD estimates (OECD Economic Outlook, December 2020)

Source: OECD Economic Outlook, May 2021

The eurozone economy continued to shrink in the first quarter of the year, but at a much slower pace, by 1.3% from 4.7% in the previous quarter and against a contraction of 3.3% in the same quarter of 2020. Private consumption and the services sector continued to show weakness due to restrictive measures, but strong external demand gave a significant boost to the manufacturing sector. Activity is expected to gradually increase as the course of vaccinations improves and restrictive measures are lifted. Fiscal policy is expected to continue to be expansionary this year with government deficits remaining at last year's levels (7.2% of GDP). Policy interventions will be stepped up this semester, with the launch of the Next Generation EU facility and the allocation of its resources to member countries. Thus, a recovery of 4.3% is forecast for 2021, which will continue next year at a similar pace (4.4%), bringing GDP back to pre-pandemic levels.

In the UK, GDP fell further by 6.1% in the first quarter of 2021, from a decline by 7.3% in the previous quarter and a contraction of 2.2% a year ago. As a high proportion of the population has been vaccinated, several restrictions on economic activity have been lifted. Eventually, however, there is concern about the escalation of cases due to the new mutation of the virus. Previously, consumption, especially in the services sector, was expected to lead to strong growth of 7.2% for the whole of 2021 and return to pre-pandemic levels from 2022, with growth of 5.5%.

In Japan, GDP shrank by 1.5% in the first quarter this year, following a 1.0% decline in the previous quarter. Strong external demand supports industrial activity, but health restrictions curb private consumption and the service sector. A recovery of 2.6% is forecast for the current year and 2.0% for the next. Public spending is also expected to decline from this year, but strong public investment and external demand will support GDP, with private consumption gradually returning to pre-pandemic levels.

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

In detail, as mentioned earlier, China's economy recorded a sharp increase in its growth rate in the first quarter of 2021, to 18.3%, from a rate of 6.5% in the previous quarter and a rate of -6.8% a year earlier. Overall, strong growth of 8.5% is forecast for 2021 as a whole, while growth of 5.8% is forecast for 2022. Export growth remains strong, improving the current account balance, and monetary policy remains supportive. That said, fiscal support is gradually being withdrawn and credit growth is more restrained. Significant financial risks remain, in particular due to increased corporate debt.

India's economy grew by 1.8% in the first quarter of this year, from 0.5% growth in the fourth quarter of 2020 and 3.2% growth a year ago. The strong resurgence of the pandemic due to the spread of a more contagious mutation of the coronavirus and the low rate of vaccination coverage delays the recovery of activity. Although monetary policy remains supportive, fiscal support is limited. The new outbreak of the pandemic is expected to subside. Given the very low level of GDP in the second quarter last year due to the very strong recession (-24.2%), for the whole of this year a strong growth of 9.9% is forecast, which will replace last year's losses (7.7%) and will continue with slightly lower intensity next year (8.2%).

Russia's gross domestic product fell 2.0% year-on-year in the first quarter of the year, following a 2.7% decline in the previous quarter and a 0.1% increase in the corresponding quarter of 2020. Overall, the Russian economy is projected to grow at a rate of 3.5% this year and 2.8% in 2022.

The Turkish economy recorded a high annual growth rate in the first quarter of 2021, 6.7% from 5% in the previous quarter and 4.6% a year ago. For the whole of 2021, the Turkish economy is projected to grow at a rate of 5.7%, double what was expected at the end of last year, and at a rate of 3.4% next year. The annual inflation rate remains high (16.6% last May), while the Turkish lira's exchange rate continues to fall (-14.6% and -12.2% against the dollar and the euro respectively since the beginning of the year).

Amid Latin American countries, Brazil's economy grew by 2.3% in the first quarter of 2021, down from 1.2% in the previous quarter. Pandemic resurgence and low vaccination rates hold back recovery momentum and hurt confidence. Interest rates are rising due to higher inflation, while fiscal space is limited. However, as the vaccination rate accelerates and the pandemic is controlled, a 3.7% recovery is projected for 2021, which will continue to be milder in 2022 (2.5%), covering losses due to the health crisis.

The OECD composite leading index for its member countries remained on track for growth in the first quarter of 2021, rising to 100.5 points in May, higher than pre-pandemic levels (99.1 points in January 2020). The business confidence index recovered significantly in May, reaching 101.8 points (from 98.4 in January 2020), while the consumer confidence index also recovered strongly, rising to 100.2 points, slightly below the pre-pandemic level (100.7 points).

Inflation has recovered in most OECD countries (3.3% last April) from its low levels in early/mid-2020, due to base effects but also due to the rise in consumer demand with the opening up of economies, rising commodity prices, restrictions on certain sectors and trade disruptions. Price pressures are expected to ease by the end of the year, as the productive capacity of economies will recover and the services sector will regain lost ground, provided that inflation expectations do not change significantly and wage growth remains limited.

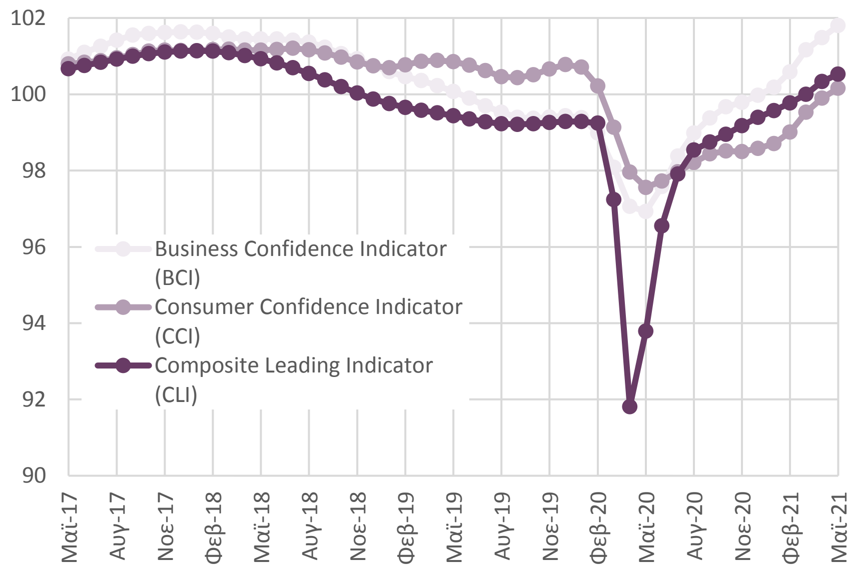
Despite price pressures, global monetary policy remains supportive in keeping borrowing costs low for both governments and businesses and households. The commitment of central banks to maintain the favourable environment of low interest rates is important, despite the temporary exceedance of the inflation targets close to 2%. The Fed, meanwhile, recently revised its US inflation forecast for this year to 3%, well above the 2.2% forecast in March, but said inflationary pressures would be temporary. It also pledged to continue to support the recovery of the economy, seeking to significantly reduce the level of unemployment. And the ECB has recently confirmed its commitment to its supportive policy for the Eurozone, and to continue bond purchases at an even higher rate than in previous months, under the PEPP programme totalling €1.85 billion, until at least March 2022 and in line with the evolution of the pandemic.

World trade volume projected to increase in 2021 despite weak trade in services. As long as the pandemic continues to create constraints, tourism flows will remain limited, in contrast to the commodity trade which is expected to continue to grow at a steady pace. Overall, international trade is projected to grow by 8.2% in 2021 and 5.8% in 2022, after falling 8.5% last year.

Figure 2.1

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

The economic activity leading indicator and the OECD's business and consumer confidence indicators continue to recover. The latter are growing for more than a year.



Source: OECD

B. The Economies of the EU and the Euro area

- Pandemic and public health protection measures eased in the European Union in the second quarter of this year
- Clear recession in the EU and the Eurozone in the first quarter of 2021, to 1.2% from 4.4% and 4.7% in the previous quarter
- Greater positive contribution of net exports to growth in the period January - March
- The European Commission forecasts faster recovery in the Eurozone compared to the beginning of the year (4.3% from 3.8%, May 2021)
- Significant strengthening of the Economic Sentiment Indicator in both zones in the second quarter
- The implementation of the Next Generation EU begins in the second half of the year, the ECB's PEPP continues to operate

The COVID-19 pandemic and the restrictive measures taken to protect public health across Europe in March-May last year have disrupted the functioning of the EU economy. At the same time, monetary and fiscal policy interventions were carried out to mitigate the impact of protection measures. A halt to the recession began in May, with the easing of measures, the opening of businesses and the liberalisation of travel within and across borders. Then, during the summer, a relative sense of normality returned temporarily to Europe. However, since the end of the third and fourth quarters of 2020, a sharp increase in cases across Europe, more pronounced than during the initial outbreak of the pandemic, has led to the reinstatement (or extension) of restrictive measures, raising intense concerns over their economic effects. These have depended since the end of 2020 and in this year largely on progress in vaccination and its effectiveness, in combination with medical treatments, in the fight against the COVID-19 pandemic.

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

To mitigate the effects of the health crisis, the European Commission has, from the outset, implemented policy, monetary and budgetary interventions. The most important of these is the Next Generation EU, with a budget of €750 billion. and the enhanced EU budget for the period 2021-2027, close to €1.05 trillion. The ECB's COVID-19 policy actions are presented at the end of the current sub-section.

In particular with regard to economic developments in the first quarter of 2021 in the European Union and the Eurozone, both experienced a recession of 1.2%, compared with a recession of 4.4% and 4.7% (respectively) in the previous quarter and a GDP decline by 2.8% and 3.4% a year earlier. According to the European Commission's recent forecast report[1], after a recession of 6.6% in 2020, growth in the euro area is expected to be 4.3% in 2021 (from 3.8% in February) while a recovery of 4.4% is forecast for 2022. For the European Union, after a recession of 6.1% in 2020, growth of 4.2% is projected for this year (compared to a forecast of 3.7% earlier this year) and a slight acceleration is anticipated in 2022, at a rate of 4.4%.

[1] European Economic Forecasts Spring 2021, European Commission, May 2021

The recession in the economies of the European Union in the period January - March this year resulted from the decline in domestic demand, with the contribution of investment maintaining its negative sign, but clearly milder than in the previous quarter (-0.5% from -2.0% of GDP). Less was the weakening of the negative contribution of consumption at 2.6 p.p. of GDP from 3.7 p.p. in the fourth quarter of 2020. The positive impact of net exports on GDP change in the first quarter of 2021 was greater compared to the end of 2020, 1.3%, from 0.7%. The trends in the structure of the recession in the Eurozone economies are similar, with domestic demand being a factor in the recession, but clearly weakening (-2.9 points from -5.5 points in the fourth quarter of last year). In particular, the negative contribution of investment also decreased compared to the last quarter last year (-0.6% from -2.1% of GDP), while the negative effect of consumption decreased from 4.0 p.p. to 2.9 p.p. in the next one. Moreover, in this quarter, the contribution of net exports to the euro area was positive by 1.7%, versus 0.8% a quarter earlier.

The structure of GDP components on the expenditure side remains close in the EU and the Eurozone, with consumption accounting for 73.8% and 73.9% of GDP respectively, investment accounted for 22.5% and 22.3% of GDP, exports for 52.2% and 50.5% and imports for 48.5% and 46.7% of GDP.

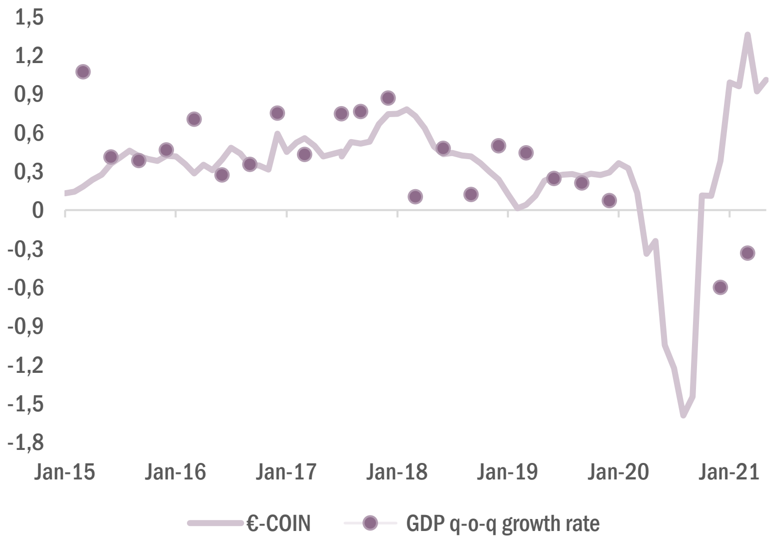
Stronger in the EU in the first quarter of the year was growth in Ireland (annual changes in seasonally adjusted data) at a rate of 12.8%. Next came Estonia (5.0%), Luxembourg (4.9%), Slovenia (2.3%) and France (1.7%). In Greece, the recession (2.3%) was the third worst performance among EU countries (average: 1.2%) after Spain (4.2%) and Austria (4.5%). The countries in which the deepest recession occurred, in addition to the above, were the Czech Republic (2.1%), Malta (2.1%) and Bulgaria (1.8%). On a rolling 12-month level, Greece showed a negative growth rate of 8.3%, the third worst performance in the EU (5.9%) and the EC (6.2%). The country with the deepest economic contraction, on a 12-month basis, was Spain (-10.8%), followed by Malta (8.5%). In contrast, the only country with a positive growth rate in the EU was Ireland (4.7%).

In terms of economic climate trends and key leading indicators of economic activity in the euro area and the European Union, the €-COIN index increased strongly in the first quarter of 2021, to 1.10 points, from 0.20 points in the previous quarter, while it is higher than in the first quarter of the previous year (0.27). The monthly performance of May 2021 (1.01 points) indicates a significant q-o-q GDP growth in this period, as in the first quarter of this year.

The European Commission's Economic Sentiment Indicator for the EU and the Eurozone increased significantly in the period April - June this year compared to the previous quarter, by 18.9 and 19.0 points respectively, while compared to the same period last year it is 42.4 and 42.3 points higher. In particular, the index stood at 113.6 and 114.3 points respectively. In June, the Economic Sentiment Indicator rose to 117.0 points in the EU and stood at 117.9 points in the Eurozone, 3.0 and 3.4 points higher than the previous month. That said, it stood 39.8 points higher than a year ago for both the EU and the EA.

Figure 2.2

Monthly €-COIN Index & Eurozone GDP*



Strong rise in the leading index €-COIN in the second quarter of 2021, "a harbinger" of recovery in the Eurozone

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

Source: CEPR and Bank of Italy

Table 2.2

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

Month	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan - 20	Feb - 20	Mar - 20	Apr-20	May-20	June-20
EE-27 (2020)	102.4	102.7	101.3	100.4	100.9	101	102.5	103	94.5	67.1	69.4	77.2
Euro area	102.3	102.6	101.1	100.2	100.7	100.9	102.6	103.4	94.1	67.8	70.2	78.1

Month	Jul - 20	Aug - 20	Sep - 20	Oct - 20	Nov - 20	Dec - 20	Jan - 21	Feb - 21	Mar - 21	Apr-21	May - 21	June - 21
EE-27 (2020)	83.7	88.4	91.5	91.7	88.6	91.6	91.1	93.1	99.9	109.9	114	117
Euro area	84.2	89.1	92.3	92.5	89.3	92.4	91.5	93.4	100.9	110.5	114.5	117.9

Source: European Commission (DG ECFIN), May 2021

Among the largest EU economies, in France in the second quarter of this year the index increased significantly compared to the previous quarter (17.1 points difference), while compared to the second quarter of 2020 the index stood 36.0 points higher. Strengthening compared to the first quarter of last year was recorded in Germany, by 15.5 points, where the index was 35.4 points higher than in the second quarter of 2020. In Italy the index increased by 18.1 points compared to the previous quarter and strengthened by 43.3

points compared to the same quarter of 2020. Finally, in the period April - June 2021, the Economic Sentiment Indicator in Greece increased compared to the previous quarter by 11.9 points, to 105.1, a level that was about 13.0 points higher than a year earlier (92.1 points).

More complete information on the trends in the figures that make up the GDP of the Eurozone and the EU in the first quarter of 2021 and the other macroeconomic variables, as well as the estimated trends in them in the near future is provided in the rest of this subsection. Then, the forecasts for the period 2021-2022, as they appear for the EU and the Eurozone, are presented in the latest forecast report of the European Commission.

In greater detail, according to Eurostat data for the first quarter of 2021 (annual changes in seasonally adjusted data), private consumption in the European Union decreased by 4.9%, when in the previous quarter it fell by 7.0%, while in the same period of 2020, its trend was also downward (3.2%). In the euro area, household consumption fell by 5.4%, from a decrease of 7.4% in the previous quarter, while a year earlier it had fallen by 3.9%. The European Commission forecast a 2.8% increase in household consumption in May this year, following a 7.4% contraction this year. For the Eurozone, it predicted a similar rise, after weakening by 8.0% in the previous year. At country level, in Germany private consumption was 8.9% lower in the first quarter, while in the previous quarter it was reduced by 5.9% and in France there was a much weaker decline (1.2%). In Italy it decreased by 9.9%, from a decrease of 7.7% a quarter before, while in Spain it contracted by 4.2% significantly less than in October-December (-9.9%). In Greece, private consumption fell 4.9%, for the second consecutive quarter.

Public consumption in the EU and the Euro area increased in the first quarter of 2021 by 2.9% and 3.0% respectively, from similar gain a quarter ago. In the same quarter of 2020 public consumption had risen by 1.3% in the EU and 1.2% in the Eurozone. Overall, for 2021 the European Commission expects a stronger increase in public consumption in the EU than in the first quarter, primarily due to measures to deal with the effects of the health crisis, by 3.7%, while for the Eurozone it estimates a similar enlargement (3.8%). Next year the expansion will escalate, to 5.9% and 6.0%, in EU and EA respectively.

Investments in the EU fell in January-March 2021, by 2.4%, much less than in the previous quarter (-8.8%). Similarly in the Eurozone, the decline was 2.9%, compared to a significant decrease of 9.4% a quarter earlier. In the relevant quarter of 2020, investments expanded by 1.1% in the EU and 1.6% in the Eurozone. The European Commission forecasts a 6.2% increase in 2021 in the EU, compared to a 7.4% contraction in 2020, and a 6.7% recovery in the Eurozone, down from 8.2% last year. In the first quarter of 2021, investments in Germany remained stable after a significant decrease of 7.0% in the previous quarter, while in Italy they increased by 7.5%, compared to a decrease of 3.5% in the quarter October - December 2020. The growth rate of investments in France was at the level of 7.1%, from a decrease of 2.5% in the previous quarter. In Greece, there was a small increase in investment, by 1.0%, compared to a high negative change of 17.1% in the fourth quarter of 2020.

There was a weak increase in exports of goods and services to the EU (0.2%), while in the Eurozone there was a slight decrease (0.3%), but a strong decline, by 4.1% and 5.1% respectively, in the previous quarter and shrinkage of 2.6% and 3.2% in the first quarter of 2020. For this year, the European Commission forecasts an increase in exports by 8.7% in both regions, compared to a decline in 2020 by 8.7% in the Eurozone and 9.3% in the EU. At country level, exports from France shrank in the first quarter of this year to 4.3%, down from 9.7% a quarter earlier. In Italy there was an increase (of exports) by 1.2%

from a contraction of 8.0%. A significant decline in exports was recorded in Spain, by 10.7%, from a sharp decline of 16.3% in the fourth quarter, while in Cyprus it did not exceed 1.8%, following a decrease of 5.8% in the fourth quarter of last year.

Table 2.3

Key macroeconomic figures, EU-27 and the Euro area

(annual % change in real terms, unless indicated otherwise)

	EU			Eurozone		
	2020	2021	2022	2020	2021	2022
GDP	-6.1	4.2	4.4	-6.6	4.3	4.4
Private Consumption	-7.4	2.8	5.9	-8.0	2.7	6.0
Public Consumption	1.3	3.7	0.6	1.3	3.8	0.6
Gross Investment	-7.4	6.2	5.4	-8.2	6.7	5.3
Exports of Goods and Services	-8.7	8.7	6.5	-9.3	8.7	6.5
Imports of Goods and Services	-8.3	8.1	6.8	-9.0	8.0	6.9
Employment	-1.5	0.0	1.0	-1.6	0.0	1.2
Unemployment (% labour force)	7.1	7.6	7.0	7.8	8.4	7.8
Inflation	0.7	1.9	1.5	0.3	1.7	1.3
Balance of General Government (% GDP)	-6.9	-7.5	-3.7	-7.2	-8.0	-3.8
Debt of General Government (% GDP)	92.4	94.4	92.9	100.0	102.4	100.8
Current Account Balance (% GDP)	3.0	3.1	3.1	3.0	3.1	3.1

Source: European Economic Forecasts, spring 2021 European Commission, May 2021

There was also a slowdown in imports into the EU in the first quarter of 2021 compared to the previous quarter, to 2.5% from a negative change of 5.8%. A similar slowdown was recorded in the EA, at 3.8% from a 7.1% drop in the fourth quarter of 2020. A year earlier, imports had increased by 0.5% and 0.6% respectively. For the years 2020 and 2021, the European Commission has forecast for the EU a fall of 8.3% and an increase of 8.1% respectively. For the Eurozone it expects growth of 8.0% this year, but then a contraction of 9.0% in 2020. At the country level, in the first quarter of 2021 imports decreased in Spain by 5.2%, compared with a larger drop by 9.4% in the previous quarter. In France imports were on a downward trajectory, with a speed of 1.9%, from a decrease of 7.9% a quarter ago, while in Italy, by contrast, an increase of 1.4% was observed from a decrease of 7.0%. Negative rate was recorded in Germany (2.7%), from a decrease of 7.3% in the fourth quarter of 2020.

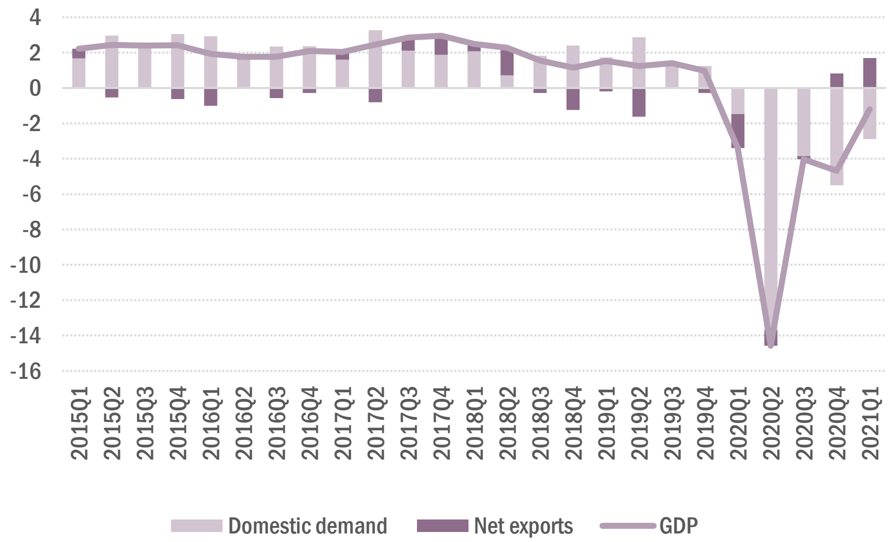
Based on the developments in the components of GDP in the Eurozone, the contribution of net exports to it was negative but declining in the first three quarters of 2020 (1.9%, 0.9% and 0.2% respectively), compared to a positive contribution in fourth quarter 0.8%. In the first quarter of this year the positive trend continued and escalated with the contribution reaching 1.7%. The positive contribution of net exports in the first quarter came from the simultaneous weakening of the negative contribution of exports, from 2.6% in the fourth quarter to 0.1% in January-March 2021, as well as the lesser negative impact of imports, from 3.4% in the fourth quarter to 1.8% in the next. As already mentioned, the negative contribution of domestic demand was around 2.9% of GDP, from a larger negative impact in the previous quarter (-5.5%). The largest decrease came mainly from private consumption, which had a negative effect of 4.0% of GDP in the fourth quarter of 2020, while in the first quarter of 2021 its restrictive contribution to GDP fell to 2.9 p.p.

Harmonised inflation (index) accelerated strongly in the first quarter of 2021 in the EU and the Eurozone, recording a rate of 1.4% and 1.1% from 0.3% and -0.3% respectively a quarter earlier. In the first quarter of 2020, harmonized inflation stood at 1.5% in the EU and 1.1% in the EA respectively. Overall for 2021, the European Commission forecasts that inflation will rise to 1.9% and 1.7% respectively in the EU and the Eurozone, from 0.7% and 0.3% a year earlier, approaching the ECB target level.

Figure 2.4

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

Positive contribution of net exports to GDP change in the euro area in the first quarter of 2021. A negative impact of domestic demand due to a decline in private consumption compared to the same quarter of 2020.



Source: Eurostat

A decrease in employment was found in the first quarter of 2021, -1.9% in the EU and -0.2% in the EC from -1.6% and -2.4% respectively, while in the same period of 2020 there was a decline in 2.5% and 3.3% respectively. The European Commission predicts a reduction in job creation in the EU for 2020 and stagnation in 2021, by -1.5%, after an increase of 0.9% in 2019. For the Eurozone, it also forecast a drop in employment last year, by 1.6%, and stagnation in 2021, from an expansion of 1.1% in 2019. Employment growth in the first quarter of 2021 was recorded in Croatia (8.6%), Finland (5.7%), Greece (5.4%) and Malta (3.3%). The largest contraction in employment was recorded in Romania (46.0%), Bulgaria (9.4%), Germany (5.4%) and Poland (5.1%).

Unemployment fell in the fourth quarter of 2020 to 7.2% in the EU and to 8.0% in the Eurozone from 7.6% and 8.5% respectively in the third quarter of 2020. In the fourth quarter of last year, it was 6.6% in the EU and 7.4% in the EU. For 2020, the European Commission has estimated an increase in unemployment rates in the EU-27 and the Eurozone, to 7.1% and 7.8% respectively, from 6.7% and 7.5% respectively in 2019, while for 2021 it expects unemployment rates of 7.6% and 8.4%. In the period October - December 2020, the highest unemployment rate was recorded in Greece (16.2%), followed by Spain (16.1%) and Italy (9.50%), while in France unemployment was in the order of 8.3%.

In the area of fiscal performance, the general government deficit in the EU in the fourth quarter of 2020 was around 5.3% of GDP, while in the third quarter of 2020 it was equal to 11.2%. The European Commission predicts that the average deficit will reach 7.5% this year, from 6.9% a year ago. The average budget deficit in the Eurozone is expected to reach 8.0% of GDP in 2021, slightly higher than last year (7.2%). In terms of public debt, it formed in the Eurozone countries in the fourth quarter of this year at 98.1% of GDP. It is estimated that on average in 2020, it will increase to 100.0% and this year will be further strengthened to 102.4% of GDP. Government debt, as a percentage of GDP, increased significantly in the fourth quarter of 2020 in many members, with its highest level being recorded in Greece (205.6%), Italy (155.8%), Portugal (133, 6%), Cyprus (118.2%) and France (116.3%).

As for the monetary policy framework, due to the COVID-19 pandemic and the related adverse economic effects, it is recalled that the ECB started in mid-March 2020 to take a series of monetary and credit policy measures aimed at stimulating liquidity. According to a recent announcement by the ECB, the interest rate on major refinancing operations as well as the interest rate on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The budget of the Pandemic Emergency Purchase Programme (PEPP) was extended in December 2020 by €500 billion, reaching €1.85 trillion. Purchases under PEPP will continue at least until the end of March 2022 and, in any case, until the COVID-19 crisis is over. An important fact for Greece is the exception made by the ECB regarding the eligibility of securities in PEPP, in order to enable the country's participation in it. It was also decided last December to offer four additional emergency pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which will continue to be an effective liquidity-enhancing mechanism.

Net purchases under the asset purchase program (APP) will continue at €20 billion per month. The measures collectively support the provision of bank loans, in particular by facilitating the conditions under which credit claims are accepted as collateral.

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

- Maintaining the major pandemic recession in the second quarter of this year as a springboard for exiting the health crisis
- Treatment of COVID-19 mutations
- The implementation of the Next Generation EU, which starts in the current six months
- Sectoral disturbances, with the tourism and transport sectors most affected by the health crisis
- The emergence of significant regional disparities from the health crisis, which will be felt when it is completed
- Fiscal imbalances from successive emergency pandemic programmes
- Eu implementation of the consensual Brexit, the terms of which were agreed at the end of 2020
- Geopolitical tensions in the Middle East and migration flows

2.2 The Economic Environment in Greece

A. Economic Sentiment

● Significant strengthening of the Economic Sentiment Indicator in Greece during the second quarter of 2021 compared to the immediately preceding quarter (105.1 from 93.2 points). Stronger improvement compared to the corresponding quarter last year (92.1 points). The recent level is equivalent to the 2019 average.
● Business expectations strengthened in the recent quarter compared to the previous year in all sectors, especially in Construction and Services, while they improved slightly in Retail and Industry
● The Consumer Confidence Index was higher in the period April-June than in the first quarter of this year, at -27.5 from -43.0 points. At the same time, it slightly exceeds its level from a year earlier (-31.1 points).

The IOBE business and consumer surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the indicators used in the surveys constitute leading indicators for various economic variables and can be used to predict near-term developments and even the course of GDP[2].

In the second quarter of this year, the Economic Sentiment Indicator strengthened again significantly compared to the immediately preceding quarter (+11.9 points). As a result of this gain, the index has now reached pre-pandemic levels. In addition, the Consumer Confidence Index stood 15.5 points higher than in the previous quarter of this year, at -27.5. It seems that the gradual lifting of restrictions on movements, the restart of almost all the activities of the economy that had been suspended, albeit with restrictions, as well as the prospect of the tourist season, combined with the ongoing vaccination process, have significantly improved the climate in the country. The dynamics of these developments have created prospects for further improvement. However, sources of uncertainty about the pandemic remain and are troubling, such as the emergence of a strong new mutation of the virus in combination with the delay in the vaccination programme in sections of the population. In addition, it remains a fact that many of the adverse effects of the pandemic have not yet been substantially reflected in the economy, due to ongoing support interventions. As the transition to the post-pandemic era gradually becomes visible, it will be crucial that policy decisions are made in a timely manner in preparation for the next day of the economy and in support of its prospects for systematically strong growth.

In greater detail, the Economic Sentiment Indicator in Greece in the April-June quarter was significantly strengthened compared to the previous quarter of 2021, at 105.1 from 93.2 points, while it fluctuated at a significantly higher level compared to the average corresponding to last year (92.1 point). Its recent level is close to the 2019 average (105.6 points).

In Europe, the corresponding average was significantly higher during the period under review compared to the previous one, both in the EU and in the Eurozone. In particular, the Economic Sentiment Indicator stood at 113.6 (from 94.7) points in the second quarter of this year in the EU, and at 114.3 (from 95.3) points in the Eurozone.

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

At the sector level, business expectations in Greece strengthened in all sectors in the recent quarter compared to the previous one and especially in Services and Construction. They saw a milder improvement in Industry and Retail. On the consumer side, there was also a significant improvement in the consumer confidence index. Compared to the corresponding quarter last year, the average indicators improved in all sectors without exception. In more detail:

The Consumer Confidence Index in Greece in the quarter April-June this year was higher on average than the first quarter of 2021, at -27.5 from -43.0 points, a level slightly higher than the corresponding one a year ago (-31.1 mon.). The relevant average index strengthened significantly in the EU, to -6.5 (from -14.8) points, as well as in the Eurozone (-5.5 from -13.7 points). These levels are clearly higher than a year ago (-18.9 and -18.5 points respectively).

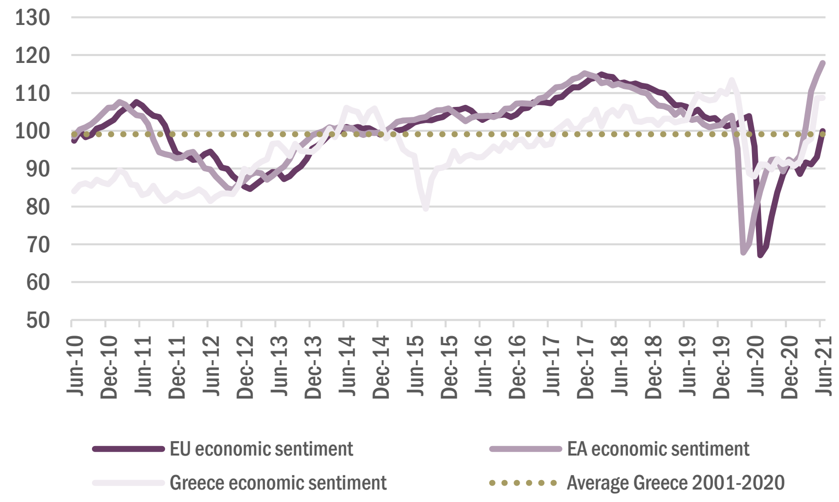
The trends in the individual key elements that make up the overall index were mainly upward in the second quarter of 2021 compared to the first quarter. Thus, the pessimistic forecasts of consumers in Greece for the economic situation of their households over the next 12 months, fell significantly, as did those for the economic situation of the country. At the same time, households' estimates of their current situation have strengthened slightly, in contrast to the intention for major purchases in the coming period, which has fallen slightly.

In greater detail, the percentage of those who are pessimistic about the financial situation of their household in the next 12 months fell significantly, to 31% (from 42% in the previous quarter), while the percentage of those who say the opposite increased to 11% (from 6%). At the same time, the percentage of consumers in Greece who make pessimistic forecasts about the economic situation of the country weakened to 54% (from 69%), with 23% (from 14%) expecting improvement. As for the intention to save, the percentage of households that do not consider saving possible in the next 12 months remained at 78%, while the percentage of those who consider it possible remained at 21%. In the forecasts for the development of unemployment, the share of those who estimate that the situation will deteriorate weakened significantly to 59% (from 79%), with 22% (from 9%) on average to express a contrary view. The percentage of consumers who report “running into debt” in the first quarter of 2021 fell marginally, to 6% (from 8%), slightly lower than the same quarter last year (7%). Also, the percentage of respondents who state that they save a little (from 18% in the corresponding quarter of 2020) increased marginally to 25% (from 24%). Finally, the percentage of those who report that they "just make ends meet" increased further to 62% (from 59% and 60% in the last two quarters) and the percentage of households that report that they "draw from their savings" fell to 6 % (from 8%), with the corresponding percentage for 2020 fluctuating around 10%.

The index of business expectations in the industry in the second quarter of 2021 was 105.0 (from 98.2 in the first quarter of 2021) points, much higher compared to the corresponding performance in 2020 (87.6 points). In key activity data, the index in the forecasts for the short-term development of production from +19.0 points in the last quarter of 2020 strengthened significantly in the examined quarter and averaged +27.4 points, while the negative estimates for the level of orders and demand were slightly reduced (at -11.0 from -15.8 points the relevant index). Estimates for finished goods stocks indicate a slight de-escalation (at +11.6 from +18.3 points the relevant index), while trends in export variables are upward: forecasts for export dynamics for the next quarter improved slightly (+29.6 from +25.6 points), while at the same time the current estimates for the exports of the sector changed significantly upwards (to +19.9 from +9.9 points), and the estimates for orders and demand abroad changed more mildly (-4.4 out of -6.7 points). In the employment forecasts, the relevant average quarterly balance marked a significant increase, to +14.0 (from -2.9) points on average. The utilisation rate of the factory potential fluctuated slightly upwards, to 75.0% (from 73.8%), while the months of guaranteed production of the enterprises weakened slightly, to 4.6 (from 4.8) months on average.

Figure 2.4

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



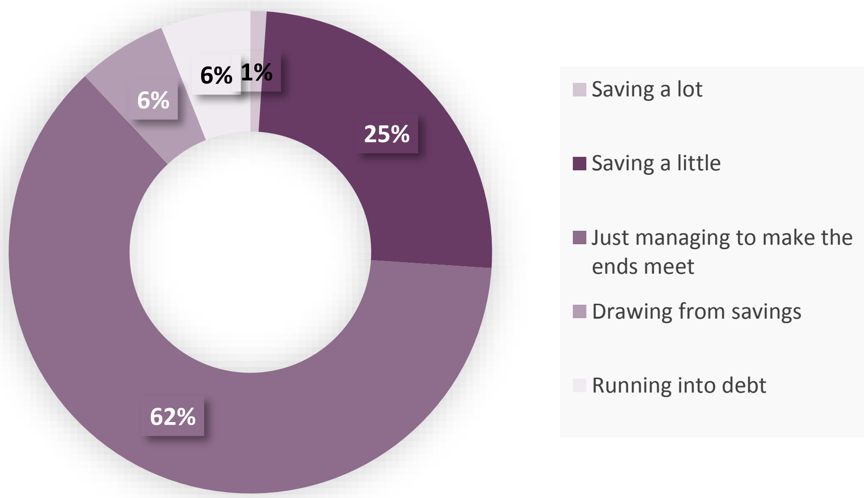
The Economic Sentiment Indicator was significantly stronger in the second quarter this year compared to the previous quarter, reaching pre-crisis levels

...sion, DG ECFIN

...xpectations index in the quarter under consideration was significantly ...ious one, at 97.9 points (from 90.2), a much higher performance than ...ter last year (80.3 points). Of the key variables in the index, the average balance for current sales estimates strengthened gently to -3 (from -10) points. Of the companies in the sector, 39% felt that their sales had fallen, with 36% (from 32%) reporting the opposite. Regarding projected sales, the index of +8 points strengthened significantly and stood at +25, with stocks weakening marginally (at +9 from +10 points the index). From the other activity items, the forecast balance for orders to suppliers was significantly strengthened (at +17 from +3 points the average quarterly price), while at the same time, for the employment of the sector, the average forecast balance weakened slightly to +11 (from +18) points. Finally, in terms of prices, the relevant balance strengthened sharply (+25 from +1) points, with only 1% (from 5%) of companies expressing expectations of price de-escalation and 26% (from 6%) predicting the opposite. Strengthening business expectations was recorded in the second quarter of 2021 in all the sub-sectors of retail trade considered except the Food-Drink-Tobacco sector, where there was a significant decline.

Figure 2.5

Consumer survey data on the financial situation of households (April-June 2021)



Source: IOBE

Increase in relation to the first quarter of 2021 of the percentage which states that they are just making ends meet (62%). Marginal retreat of the rate of those who say that they are running into debt.

Table 2.4

Economic Sentiment Indicators

Time Period	Economic Sentiment Indicator			Business Expectations Index (Greece)				Consumer Confidence Index (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	99.3	99.1	86.3	79.9	52.2	61.3	68.1	-56.9
2011	99.8	99.9	84.8	81.1	37.7	60.9	66.1	-70.5
2012	88.0	88.1	83.7	81.4	47.5	59.1	58.8	-73.9
2013	90.8	90.8	93.6	92.6	71.5	72.6	75.3	-69.3
2014	99.6	99.4	102.0	99.7	88.4	92.3	93.3	-52.8
2015	102.9	102.9	91.7	86.3	62.0	83.9	78.2	-50.3
2016	104.2	104.0	94.4	96.1	61.3	101.4	79.3	-62.9
2017	110.4	110.4	98.9	98.1	55.4	94.6	92.7	-58.9
2018	111.5	111.5	103.8	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.7	113.9	103.3	105.1	60.3	97.1	91.4	-49.8
Q2 2018	112.5	112.4	104.7	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.5	111.5	105.0	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.5	109.4	102.7	97.7	56.6	108.2	94.6	-32.6
Q1 2019	106.6	106.4	102.6	101.8	56.7	105.8	85.7	-31.1
Q2 2019	104.7	104.4	102.6	103.8	54.8	97.8	92.6	-29.4
Q3 2019	102.8	102.6	108.3	104.8	52.7	115.5	108.2	-11.7
Q4 2019	101.5	101.2	109.0	104.1	68.1	119.1	104.4	-7.1
Q1 2020	101.0	100.8	110.9	108.6	84.9	115.1	106.5	-10.4
Q2 2020	71.4	72.2	92.1	87.6	28.1	80.3	58.6	-31.1
Q3 2020	87.9	88.6	90.6	86.7	67.0	73.5	68.8	-36.9
Q4 2020	90.7	91.4	91.8	92.6	70.7	83.0	70.0	-46.2
Q1 2021	94.7	95.3	93.2	98.2	106.2	90.2	70.9	-43.0
Q2 2021	113.6	114.3	105.1	105.0	121.9	97.9	99.3	-27.5

Sources: European Commission, DG ECFIN, IOBE

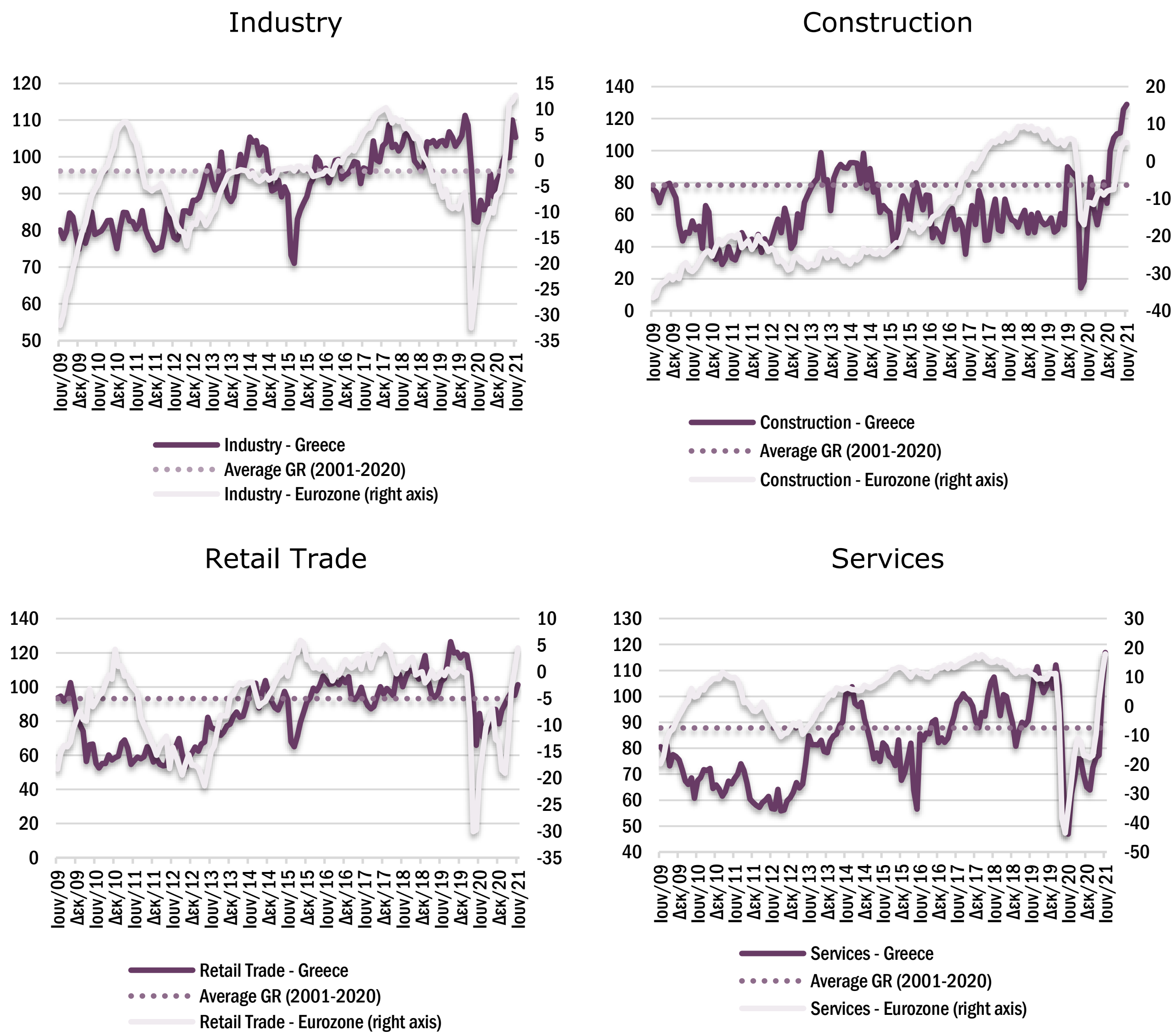
Business expectations in Construction strengthened significantly in the second quarter of 2021, with the relative balance at 121.9 (from 106.2) points on average, which was the second largest among the main sectors of activity, after that of the Services. This performance is at a much higher level than in the corresponding quarter of 2020 (only 28.1

points). In the key variables, the forecasts for employment in the sector improved significantly, with the relative balance from normal for the season reaching +13 points, with 30% (from 11%) of companies expecting more jobs, and 17% (from 10%) expecting their reduction. The negative forecasts of the companies for the planned works strengthened significantly (at -29 from -16 points the index), while at the same time the estimates for the current level of the work programme fell slightly (at -36 from -28 points the relevant balance). The months of secured activity of the companies in the sector fell marginally to 13.0, while at the same time the negative balance in the price forecasts fell (+2 from -3 points), with 7% (from 8%) of the companies expecting a reduction in the short term. and a 9% (from 5%) increase. Finally, the percentage of companies that report that they do not face operation obstacles increased to 15% (from 7%), while among the other companies, 50% consider low demand as the most important obstacle, 13% (from 11%) insufficient funding and a 12% (from 50%) factors such as the general economic situation of the country, capital controls, high taxation, lack of projects, late payment by the state, etc. At the sectoral level, business expectations moved strongly upwards in the Private Construction sector, while in the Public Construction sector there was a slight decline.

The index of business expectations in Services in the examined quarter was sharply higher than the previous one, at 99.2 points (from 70.9). At the same time, this performance was much higher compared to that in the corresponding quarter of 2020 (58.9 points) and the highest among the key sectors of activity. Of the key variables, estimates for current demand strengthened significantly, with the relevant index gaining 27 points on average and reaching +6 points. Estimates for the current situation of the company also moved strongly upwards (+2 from -32 points on average), with the balance in the forecasts for the short-term demand of the companies in the sector strengthening significantly and the forecasts from the marginally positive (+1 points) moved to +39 points. Of the other activity data, a marginal improvement showed the balance of employment forecasts of respondents which was strengthened by one point, to +17 points, while in prices the average business expectations index fell gently to -10 (from -8) points. Finally, the percentage of respondents who report smooth business operation increased marginally, to 18% (from 16%) on average, with 29% declaring insufficient demand as the main operation obstacle, 7% the lack of working capital and 37% other factors, which are related to the general financial situation, the impossibility of borrowing, the high taxation, the late payment, etc. The indicators strengthened significantly in the second quarter of 2021 in all branches of Services without exception.

Figure 2.6

Business Confidence Indicators



Source: IOBE

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

B. Fiscal Developments and Outlook

- General Government Budget Balance 2020: deficit of 9.7% of GDP, against a target for a surplus of 1.2% of GDP, primarily from extraordinary transfers due to the pandemic, as well as falling revenues. Primary deficit of 6.7% of GDP, compared to a surplus of 3.8% of GDP
- General Government debt at 205.6% in 2020 compared to 180.5% in 2019
- State Budget Balance, Jan-May 2021: deficit of €10,800 million, against a target for a deficit of €9,769 million and a deficit of €7,494 million over the same period in 2020.
- Primary State Budget Balance Jan-May 2021: deficit of €8.139 million, compared to a target of a primary deficit of €7.169 million and a primary deficit of €4.843 million over the same period in 2020.
- Increase of both net revenues (+14.0%) and expenditures (+23.6%) of the State Budget compared to last year. These changes came, on the one hand, from the collection of the last two installments of income tax and ENFIA and, on the other hand, from the support interventions against the pandemic and the increased payments for armaments programmes.

General Government Balance Results: 2016-2020

According to the most recent national accounting data relevant to the General Government (GG) and communicated to Eurostat last April, GG balance for 2020 was negative for the first time after four consecutive years in which it had recorded a surplus. In particular, the deficit stood at 9.7% of GDP, against a target in the 2020 Budget for a surplus of 1.2% of GDP. Respectively, the primary deficit amounted to 6.7% of GDP, compared to the initial target for a surplus of 3.8% of GDP (Table 2.5). Also, according to the (European) Enhanced Surveillance methodology, in 2020 the General Government's primary deficit is estimated at 7.2% of GDP, while the country's contractual obligation provided for a primary surplus of 3.5% of GDP for 2020.

Table 2.5

General Government (GG) Balance Result * (% of GDP, on a national accounting basis, ESA 2010)

	2016	2017	2018	2019	2020	
					Initial targets	Actual
GG Balance	0.3	0.6	0.9	1.1	1.2	-9.7%
GG Primary Balance	3.5	3.7	4.3	4.1	3.8	-6.7
GDP (million €)	176,488	177,152	179,727	183,413	197,315	165,830

Sources: Fiscal data for the period 2017-2020 – 1st notification, EL.STAT., April 2021 and Explanatory Budget Report 2021, December 2020, Ministry of Finance, pp. 59-60

* Excluding the net financing to financial institutions.

The high deficit of the General Government Balance is solely due to the balance of the Central Government, which from a surplus of €764 million in 2019 was transformed into a deficit of €16.8 billion in 2020. At the same time, the surplus of the Social Security Funds (SSFs) was reduced by 52.8%, to €599 million in 2020 from €1.27 billion in 2019. By contrast, the surplus of the local authorities increased by 14.9% to €77 million last year from €67 million in 2019.

The significant deterioration in the Central Government's balance is primarily due to the increase in the deficit in its working balance of accounts from €168 million in 2019 to €22.8 billion in 2020 despite a surplus of €2.57 billion in other financial transactions (compared to a deficit of €48 million the year before last year) and an increase by 17.1% or €0.56

billion surplus from public enterprises and legal entities (€3.3 billion in 2019 and €3.97 billion in 2020). The increase in the deficit in the working balance of Central Government accounts is mainly due to a 27% increase in State Budget expenditure (or by €14.9 billion, to €70.2 billion) and secondarily to a 14% reduction in The State Budget's net revenue (or by €7.7 billion, to €47.4 billion in 2020). The main reason for the rise of the former was the increase of transfers by €10.6 billion or 37.4%, to €38.8 billion, while the reduction of the latter came primarily from the reduction of tax revenues by €8.2 billion or 16%, to €43.2 billion. The above trends reflect different aspects of the effects of the health crisis on public finances: The sharp increase in expenditure is mainly due to policy interventions to support businesses and households against restrictive measures to protect public health, (e.g. repayable advance, special-purpose compensation, extension of unemployment benefits, rent subsidy), but also in the emergency costs of dealing with the pandemic. The decline in revenues is also due in part to support measures (extension of deadlines for payment of social security contributions, suspension of collection of confirmed and overdue debts, 25% discount on social security contributions for self-employed and freelancers, etc.), but also to significant economic activity.

In addition to tackling the pandemic of the new coronavirus which has halted, at least temporarily, the pace of normalisation and recovery of economic activity, as well as the fiscal balance of previous years, significant economic challenges remain. These pre-existed the health crisis and most of them were exacerbated because of it: tackling the problem of non-performing loans, the development of which since last year is uncertain due to delays in payments, promoting privatisations, restructuring public spending, with an emphasis on productive spending, the start of works in Hellinikon etc. Dealing with them can make a decisive contribution to a continuous recovery of the Greek economy.

In addition, the Greek economy is still characterised by significant macroeconomic imbalances. Overall, the debts to the tax authorities (over €108 billion, of which €24 billion uncollectible), the social security funds (almost €38 billion) and PPC (€2.25 billion for the whole group, according to the annual financial report of 2020, from €2.15 billion in 2019) have reached approximately 89% of GDP, while together with the amount of non-performing loans to banks (€47.2 billion according to with the European Central Bank) they far exceed it. Continuous debt "settlements" only aggravate and perpetuate these situations, as they allow strategic defaulters to abuse the arrangements, while creating a huge "moral hazard" and posing a great challenge to honest taxpayers.

That said, in trying to get out of the pandemic crisis, the Greek economy, like the rest of Europe, has a strong financial tool that did not exist until now, the Next Generation EU for the period 2021-2026. The challenges and issues mentioned above make it more imperative to make timely and efficient use of the resources of the new fund.

General Government Debt

After its fall in 2019, both in absolute terms and as a percentage of GDP, for the first time since 2015, in 2020 the General Government debt recorded a sharp increase. In particular, its absolute level stood at €341.0 billion, showing an increase of 3% or €9.9 billion compared to 2019 (€331.1 billion). This expansion, combined with the particularly strong recession due to the pandemic, which in nominal terms reached 9.6% of GDP in 2019 (Table 1), resulted in the debt-to-GDP ratio rising to 205.6% in 2020 compared to 180.5% in 2019 (Table 2.6).

Table 2.6

Consolidated General Government Debt (€million)

	2014	2015	2016	2017	2018	2019	2020
Consolidated General Government Debt	319,629	311,729	315,010	317,481	334,721	331,073	341,023
% GDP	178.9	175.9	178.5	179.2	186.2	180.5	205.6
GDP	178.656	177.258	176.488	177.152	179.727	183.413	165.830

Sources: Fiscal data for the period 2017-2020 -1st notification, EL.STAT., April 2021

The increase in the nominal debt of the General Government in relation to 2019 is located in the category "long-term bonds" as the lending in long-term bonds increased, due to the issuance of new securities. In particular, long-term bonds increased in 2020 by €10.0 billion or 21.6%, to €56.1 billion from €46.1 billion a year earlier. By contrast, the cost of borrowing decreased as in 2020 the yield on 10-year bonds fell to 1.25% from 2.59% a year earlier.

While a reduction in the debt-to-GDP ratio to 167.0% had been estimated for 2020, the emergence of the pandemic necessitated extensive, unprecedented interventions to protect public health and support businesses and households, which had high fiscal costs. In addition, the suspension of operations in many industries in the spring and autumn of last year resulted in a strong contraction of domestic production. According to the Stability Programme 2021-2024, for 2021 a reduction of the rate to 204.8% (to €352.5 billion) is foreseen. This forecast is based on the relatively limited financing needs of the Greek State this year, the high cash resources (€30.0 billion at the end of March 2021) and the resources of the Next Generation EU that are expected to be disbursed within the current year (total €7.5 billion). These conditions limit the need to issue new debt. At the same time, the gradual normalisation of economic activity, unless there is a new outbreak of the pandemic in the second half of this year, will contribute to GDP growth, restraining the ratio of public debt to it. It is noted that the Greek State in the first half of this year has borrowed a total of €23.6 billion, of which €11.5 billion relates to bond issues (against a target for raising €12.0 billion in the whole year) and the remaining €12.1 billion relate to issues of interest-bearing bills.

Implementation of the 2021 Budget (January - May)

The implementation of the 2021 budget started with the economy in a state of suspension of operation of a significant part of it, for reasons of protection of public health. These conditions were largely maintained in the first four months of this year, with negative effects mainly on the expenditure side, but also on the revenues of the State Budget, as will be shown below. This year's budget and the relevant macroeconomic scenarios were formulated under the assumption of "rapid return of the Greek economy to a sustainable growth trajectory, from the second quarter of 2021". Health developments have somewhat delayed the start of the recovery, and it is too early to assess whether it will be stable, due to the significant uncertainties that remain in relation to the health crisis (mutation effects, vaccination course).

In any case, according to relevant statements of the government's financial staff, the resources that had been used until the beginning of June to support businesses and households, exceed the relevant provisions in the budget for the whole of 2021 (€11.4 billion against €7.5 billion). As another €4.5 billion of interventions have already been planned for the current half of the year, their total for this year will be more than double the initial target, burdening the budget balance accordingly.

That said, recent developments regarding the Next Generation EU indicate that the inflow of resources from it will probably be much higher than in the budget, as announced during the approval of the National Recovery and Resilience Plan in early June (€8.0 billion against €5.5 billion). Apart from their direct contribution to the Greek economy, which lies in stimulating investment and reforms, they are also expected to improve the fiscal balance, as it is not certain that they will be available in full in 2021. The medium-term positive fiscal effects of the NGEU will be stronger, through stimulus and employment and income.

A crucial factor for the implementation of the budget will be the tax revenues from the activities that were suspended at the beginning of the year. These will depend on the dynamics of household demand following the easing of measures, depending of course on the evolution of the pandemic.

In summary, the State Budget (SB) Balance deteriorated in January-May compared to the previous year, due to increased primary expenditures, mainly due to pandemic support interventions and increased armament payments. Revenues were increased due to the collection of the last two instalments of income tax and ENFIA, as well as the extension of payment of road taxes until the beginning of March 2021.

Table 2.7

State Budget Implementation: January-May 2021* (million €)

	January-May		% Change	2020	2021 Budget	% Change
	2020	2021				
I. SB NET REVENUE (1+2)	16.029	18.275	14,0	47.364	52.970	11,8
1. Net OB revenue	14.735	16.592	12,6	41.822	48.778	16,6
Less Tax refunds	1.775	*1.644*	*-7,4*	*5.672*	*5.256*	*-7,3*
SB revenue	16.510	18.236	10,5	47.494	54.034	13,8
2. PIP revenue	1.294	1.683	30,1	5.542	4.192	-24,4
II. SB EXPENDITURE (3+4)	23.523	29.074	23,6	70.169	67.811	-3,4
3. OB expenditure	20.163	25.515	26,5	59.522	61.061	2,6
Primary expenditure [2,3]	17.511	22.694	29,6	54.748	56.551	3,3
Interest	2.652	2.821	6,4	4.774	4.510	-5,5
4. PIP expenditure	3.360	3.559	5,9	10.647	6.750	-36,6
III. SB Deficit (-)/Surplus (+) (I-II)	-7.494	-10.800		-22.806	-14.841	
% of GDP	*-4,6*	*-6,3*		-14,0	-8,6	
IV. SB Primary Balance	-4.843	-8.139		-18.195	-10.331	
% of GDP	*-3,0*	*-4,7*		-11,2	-6,0	
GDP (at current prices)	162.776	171.934		162.776	171.934	

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

Source: Monthly State Budget Execution Bulletin, May 2021, Ministry of Finance, June 2021

Balance and primary State Budget Balance

According to the state budget implementation data (SB), on an amended cash basis, for the period January - May of this year, there is a deficit in its balance of €10,800 million, against a deficit target of €9,769 million in the 2021 Budget and a deficit of €7,494 million in the same period in 2020. The primary result was a deficit of €8,139 million, compared to a target for a primary deficit of €7,169 million and a primary deficit of €4,843 million in the same period last year (Table 2.7).

Compared to last year, both revenues and expenditures increased in almost all key categories. The expansion of SB expenditures (+23.6%) was greater than the expansion of net revenues (+14.0%), leading to a significantly higher SB deficit compared to the same period in 2020 and a primary deficit almost double of last year. Regarding the PIP, both revenues (+30.1%) and expenditures (+5.9%) increased compared to the previous year.

Ordinary Budget Revenue

In the five months of January-May, the net revenue of the Ordinary Budget (OB) this year amounted to €16,592 million, lagging behind by €274 million or 1.5% compared to the estimate for the specific period included in the 2021 Explanatory Budget Report (Table 2.8). Compared to the same period of 2020, however, there was an increase by 12.6%. OB revenues were lower than last year (+10.5%), but tax refunds decreased by 7.4%. Total State Budget (SB) revenues amounted to €19,919 million, reduced by €296 million or 1.5% compared to the target.

Table 2.8

State Budget Revenue: January-May 2021* (EUR million).

	Jan - May		% Change	*2020*	*2021 Budget*	*% Change*
	2020	2021				
Net SB revenue	16,029	18,275	14.0	47,364	52,970	11.8
Net OB revenue	14,735	16,592	12.6	41,822	48,778	16.6
Tax refunds	1,775	1,644	*-7.4*	*5,672*	*5,256*	*-7.3*
OB revenue	16,510	18,236	10.5	47,494	54,034	13.8
Income tax, of which:	4,157	4,653	11.9	13,589	15,429	13.5
--Personal	*3,406*	*3,617*	*6.2*	*10,155*	*10,383*	*2.2*
--Corporate	*327*	*621*	*89.9*	*2,361*	*3,922*	*66.1*
Property tax	430	582	35.3	2,427	2,847	17.3
Taxes on donations, inheritance etc.	62	78	25.8	180	214	18.9
Tariffs	103	107	3.9	245	286	16.7
Taxes on goods and services, of which:	9,606	9,775	1.8	23,945	26,418	10.3
--VAT	*6,183*	*6,553*	*6.0*	*15,008*	*17,492*	*16.6*
--Excise duties	2,509	2,350	*-6.3*	*6,427*	*6,599*	*2.7*
Other production taxes	627	595	-5.1	1,069	1,046	-2.1
Other current taxes	485	1,070	120.6	1,743	2,412	38.4
Social contributions	22	23	4.5	54	54	0.0
Sales of goods and services, of which:	168	226	34.5	507	603	18.9
Other current revenue	551	906	64.4	2,731	1,636	-40.1
Sales of fixed assets	2	3	50.0	8	330	4025.0
PIP Revenue	1,294	1,683	30.1	5,542	4,192	-24.4

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

Source: Monthly State Budget Implementation Bulletin, February 2021, Ministry of Finance, March 2021.

Despite the restrictive measures for most of the five-month period, as well as the suspensions of payments of tax liabilities, which had not been introduced in the first quarter of 2020, tax revenues reached €16,859 million and fell short by €193 million or 1.1% against the target included in the 2021 Budget. At the same time, revenue returns were €1,644 million, lower by €22 million compared to the target. Revenues from income tax were 11.9% higher compared to the same period last year, with a large increase in revenues from corporate tax, from €327 million to €621 million (+89.9%), but also 6.2% increase in personal income tax revenues, from €3,406 million to €3,617 million. Property tax revenues increased significantly, by 35.3%, to €582 million and inheritance and donation tax revenues by 25.8% to €78 million. Revenues from other current taxes increased by 120.6%, to €1070 million, with an increase in the sub-category of vehicle tax revenues by 392.6%. The increase observed in total tax revenues for the first five months of 2021 compared to the corresponding period last year is attributed to the increase in revenues from other current taxes, income tax, as well as regular real estate taxes. The upward trend of revenues in the above categories compared to the relevant period of the previous year is determined by the extension of instalments for the payment of income taxes (for individuals and legal entities) as well as, by the extension of the instalments of EN.F.IA. and the deadline for payment of traffic fees in the first quarter of 2021. The increase in the use and purchase and sale of cars may have played a role in vehicle taxes due to the gradual lifting of restrictive measures. Revenue from sales of goods and services increased by 34.5% from €168 million to €226 million. Other current revenue increased by 64.4%, to €906 million, an increase which came from the amount received from the auction for the 5th generation (5G) networks.

Having said that, there was a decrease in revenues in two important categories, excise duties (-6.3%) and other production taxes (-5.1%), trends that are considered to be effects of restrictive measures on business operations and travel.

Ordinary Budget Expenditure

State Budget expenditures in the period January - May of the current year reached €29,074 million and are higher by €757 million or 2.7% compared to the target (Table 2.9). The under-execution at Ordinary Budget level, amounting to €733 million, is mainly due to the fact that a significant part of the appropriations to be transferred to the category of transfers within the period January-May were not transferred, mainly because there was a later budget decision, to partially serve the measure of repayable advance from PIP resources. Cash payments related to the equipment procurement programmes of the Ministry of National Defence (category of acquisitions of fixed assets) increased in relation to the initial target by €688 million, mainly for the procurement of fighter aircraft. Similarly, interest payments also increased in relation to the original target, by EUR 221 million.

SB expenditures were higher by 26.5% compared to last year. They expanded due to pandemic support interventions and increased payments for armaments programs.

In detail, the increase in SB expenditure came largely from its primary expenditure, which widened sharply, by 29.6%, reaching €25,515 million, and less from interest payments, which widened by 6.4%. Employee benefits were almost at 2020 level (-1.0%), but transfers were 33.9% higher due to pandemic support measures. The purchases of fixed assets also showed a vertical increase, from €58 million to €1248 million. These include payments related to the equipment procurement programmes of the Ministry of National Defence. Social benefits increased from €53 million to €116 million and goods and services markets expanded from €362 million to €456 million (+26.0%).

The only category that showed a decrease and even a large one was subsidy payments, which decreased by 36.0%.

Table 2.9

	January-May		% change	*2020*	*2021 Budget*	*% change*
	2020	2021				
SB Expenditure (1+2+3)	23,523	29,074	23.6	70,169	67,811	-3.4
OB Expenditure (1+2)	20,163	25,515	26.5	59,522	61,061	2.6

State	1.Primary OB Expenditure	17,511	22,694	29.6	54,748	56,551	3.3
	Compensation of employees	5,567	5,509	-1.0	13,335	13,544	1.6
	Social benefits	53	116	118.9	137	199	45.3
	Transfers	11,446	15,328	33.9	38,751	31,394	-19.0
	(of which SSFs)	*7,302*	*7,841*	*7.4*	*21,625*	*20,610*	*-4.7*
	Purchase of goods and services	362	456	26.0	1,618	1,251	-22.7
	Subsidies	25	16	-36.0	248	80	-67.7
	Other current expenditure	3	20	566.7	29	91	213.8
	Non allocated expenditure	0	0	-	0	4,709	-
	Purchase of fixed assets	56	1,248	2128.6	631	2,646	319.3
	2. Interest[1] (gross basis)	2,652	2,821	6.4	4,774	4,510	-5.5
	3. PIP Expenditure	3,360	3,559	5.9	10,647	6,750	-36.6

Budget Expenditure: January-May 2021* (million €)

*According to the new expenditure classification in effect from 01/01/2019

Source: Monthly State Budget Implementation Bulletin, May 2021, Ministry of Finance, June 2021

Public Investment Programme (PIP)

Revenues of the Public Investment Program (PIP) amounted to €1,683 million, remaining by €254 million against the target but increased by 30.1% compared to last year. The increase was mainly due to revenues from the EU to fund measures to address the pandemic. However, in a year in which inflows for the 2014-2020 programming period are gradually being completed, it was expected that revenues would move at least close to the targets, and could exceed them, at least in the first months of the year, in order to avoid any loss of resources from delays.

PIP expenditures were much higher than the target, by €1,819 million, at €3,559 million, mainly due to the aforementioned payments for emergency support measures for businesses and the self-employed, totalling €1.59 billion or 44.7%. Excluding this aid, PIP expenditure in January-May amounted to €1.97 billion. Therefore, they again exceeded the target in this year's budget. Compared to the same period last year, PIP aid was higher by 5.9%.

C. Financial developments

- Banks have high liquidity following Eurosystem support measures.
- Credit expansion to businesses continues under the influence of domestic financing and guarantee programmes, although on a milder scale.
- NPLs in the first quarter of 2021 recorded stagnation, after 5 years of continuous decline.
- Banks have increased their exposure to government bonds to a decade-high level.
- Private deposit stock continues to grow.
- Low borrowing costs for businesses and the public, but higher than in other countries.

The banking system continues to have high levels of liquidity at its disposal at a fairly low cost. In the first half of 2021, the ECB's facilitation measures to stimulate bank financing also contributed to this, as well as those on the part of the domestic authorities, with which a number of new corporate liquidity channels were opened (e.g. Business Guarantee Fund). The investment climate towards domestic banks is gradually improving. After the sharp drop in bank valuations by 60% at the beginning of the pandemic (March 2020), the evolution of NPLs, thanks to the securitisation guarantee programme ("Hercules" programme), its expansion (Hercules II), and the positive news from the vaccination programme, have led to a recovery of part of the losses in the last eight months, at levels about 25% lower compared to the onset of the pandemic.

Concerns about the duration of the effects of the health crisis remain, despite the positive developments regarding the vaccination of the population and the recession of the pandemic in the two months of April-May. This is due to the fact that uncertainty remains regarding the emergence of new strong mutations in the virus, and the effectiveness of vaccines in their treatment, on which possible new outbreaks will depend. This potentially negative outlook exacerbates the challenges for the domestic banking system, especially in terms of asset quality and short-term profitability prospects.

At the common-European-monetary-policy level, the ECB continued to facilitate the provision of liquidity to Greek banks, as well as to stimulate demand for Greek government bonds through the PEPP securities purchase programme. The possibility of long-term low-cost refinancing for banks (e.g. TLTROs) proved to be particularly important, as it averaged €43 billion in the first five months of 2021, from €15.4 billion in the corresponding five months of 2020. At the same time, government bond purchases under the PEPP programme exceeded €3.7 billion in the two months of April-May 2021, compared to about 3.0 billion in the immediately preceding two months.

At the national level, the implementation of extraordinary fiscal measures to support borrowers continued, such as the temporary interest rate subsidy from the state for performing business loans and loans to individuals with primary residence mortgage ("BRIDGE" programme, with a budget of €314 million for 2021), the temporary suspension of the instalments of selected loans by the banks, with a maximum duration of up to 9 months, the temporary subsidisation of loan instalments - both of performing loans and restructured NPLs - of affected small and medium-sized enterprises for a period of 8 months (GEFYRA 2 programme, with a budget of €300 million for 2021). At the same time, banks often provide programmes for partial payment of instalments and cash facilities of borrowers, with a time horizon until the middle of 2022.

Among the positive trends in the bank fundamentals, despite the decline in economic activity, the return of private deposits continued in the first half of the year, further strengthening the liquidity of the banking system. The funding cost continued to fluctuate at low levels, while credit growth to businesses continued, although at a downward pace.

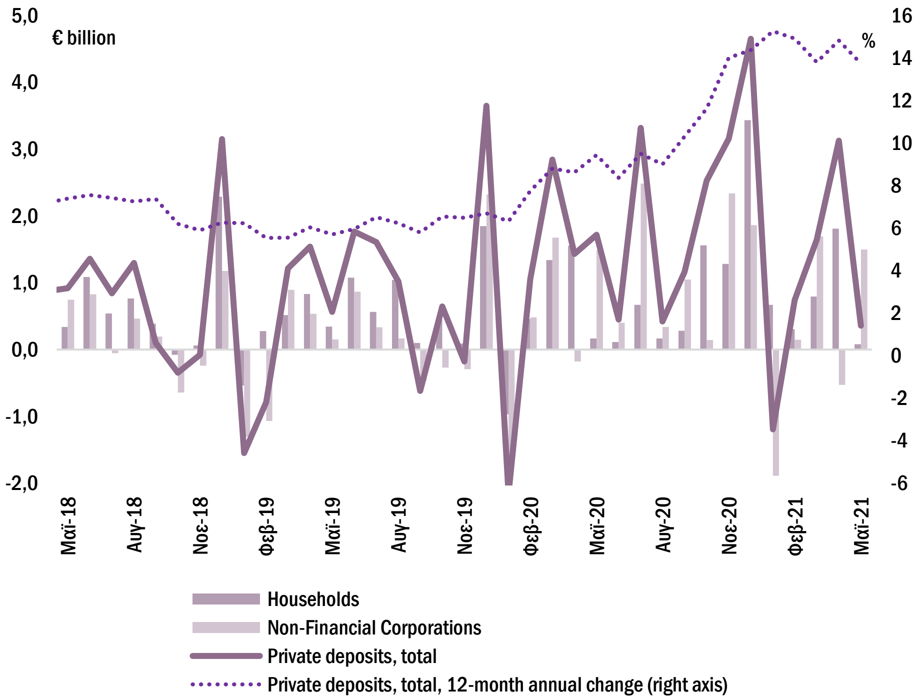
Nevertheless, the long-standing weaknesses of the Greek banking system remain. The weak quality elements of equity and assets stand out, including the internationally high stock of Non-Performing Loans (NPLs), which acts as a deterrent to the lending capacity of banks. Indicative of the challenges exacerbated by the pandemic crisis is that NPLs did not continue their downward trend in the first quarter of 2021, for the first time in five years. As regards the impact of banks on the real economy, credit contraction to households continues unabated and the cost of private sector banking financing, although at historically low levels, remains higher than European partners.

As a result of the economic recession due to a pandemic, according to the estimates of the banks, but also of the Bank of Greece, it is considered probable that a new "generation" of NPLs will appear in the near future, with their range between around €5 billion and €10 billion. It is noted that the total of loans recorded as serviced loans that were suspended in 2020 reached €22 billion, of which a significant percentage is expected to become NPLs. The non-organic reduction of NPLs, i.e. mainly sale-offs, securitisation and to a lesser extent write-offs, will continue to counteract this shock. In this regard, the programme of providing guarantees by the Greek state for securities of NPLs was extended in April 2021 for an additional 18 months ("Hercules 2").

Figure 2.3

Monthly net flow of private deposits at Greek banks

Private sector deposits continued to grow until May, reaching a cumulative amount of EUR 26.4 billion since March 2020.



Source: Bank of Greece

On the banks' liabilities side, private deposits were boosted in the period March-May 2021 by €5.1 billion, of which €2.7 billion came from households (Figure 2.7). The twelve-month rate of change remained high, exceeding 14% over the same period. Amid the pandemic and the growing uncertainty it has caused, since March 2020, private deposits have increased cumulatively by €26.4 billion, of which €14.2 billion came from households. From August 2015 to May 2021, private sector deposits expanded by €54.5 billion, of which

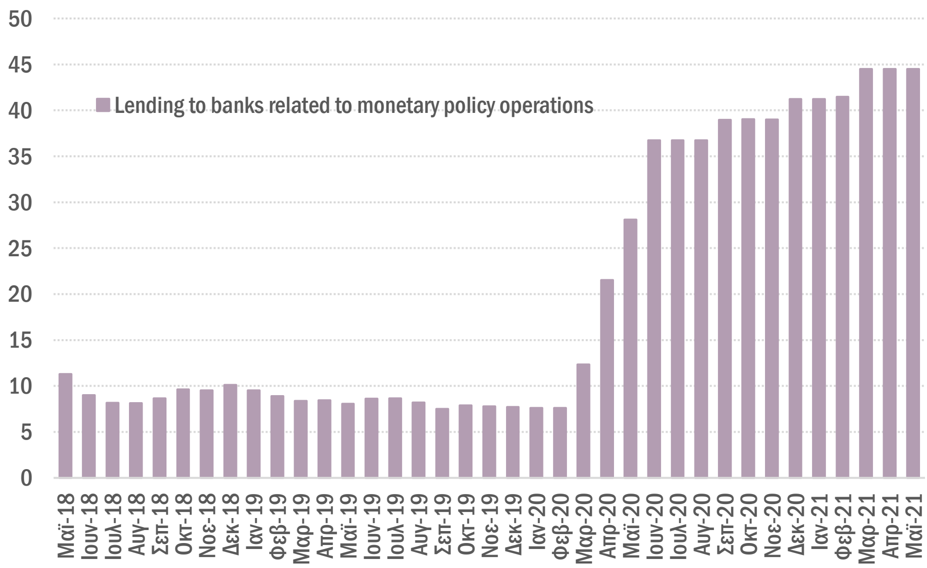
€31.6 billion came from households and €22.9 billion from businesses. Thus, the cumulative outflows of deposits in the period December 2014-July 2015 by €44.4 billion have now been more than offset by €11.1 billion, signalling the significant restoration of depositors' confidence in the banking system.

For the rest of 2021, the positive trend in private deposits is expected to slow down. The gradual reduction of the uncertainty regarding the pandemic is expected to lead to a recovery of the momentum for consumption and a relative de-escalation of the momentum for saving, having a restraining effect on the increase of deposits.

The second part of banks' liabilities concerns financing by the Eurosystem. The ECB's emergency package to boost bank liquidity continues to offer Greek banks liquidity-raising capabilities. Eurosystem financing of banks during the pandemic crisis increased from February 2020 by at least €36.9 billion, including through low-cost loans through long-term monetary policy operations (Figure 2.8). At the same time, the assets of the domestic banking system accepted by the Eurosystem as collateral for monetary policy operations, as reflected in the Bank of Greece's financial statements, increased over the same period by around €44.2 billion.

Figure 2.4

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



The Eurosystem provides low-cost liquidity to Greek banks, with an average balance of more than €44 billion between March and May 2021.

Source: Bank of Greece

On the banks' assets side, credit expansion to non-financial corporations (NFCs) slowed down, but remained at an annual rate of around 5.7% in May 2021 (Figure 2.9). At the same time, credit to self-employed and individual enterprises continued to increase at rates close to 4%, while credit contraction to households continued unabated, with an annual rate of change of around -2.5%. As a result, financing in the private sector as a whole, excluding loan write-offs, recovered in the period March-May 2021 by 2.5% in terms of annual change, compared with an expansion of 3.7% in the first two months of the year and 1.2% in the whole of 2020 (Table 2.10). The largest credit expansion to NFCs in May 2021 was recorded in the sectors of Transport, Tourism, Real Estate Management, Shipping, Agriculture, Communication, Professionals, Trade and Industry.

Table 2.10

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

Quarter / Year	2/20	3/20	4/20	1/21	Apr.21	Mai.21
Total private sector	0.5	1.9	2.9	3.4	2.4	2.2
Households & NPIs	-2.8	-2.5	-2.4	-2.5	-2.5	-2.5
Sole proprietors and unincorporated partnerships	-2.2	-0.1	1.2	3.2	4.2	3.9
Non-financial corporations	4.1	7.3	9.1	9.8	6.7	6.2
Agriculture	1.9	3.2	3.2	10.6	10.9	11.2
Industry	7.1	9.0	9.7	8.2	2.6	1.0
Trade	3.1	8.3	9.7	10.9	8.6	8.4
Tourism	2.2	9.5	13.7	16.4	16.7	17.1
Shipping	-6.2	0.6	9.1	11.2	11.4	11.2
Construction	-3.4	-3.8	-2.4	-0.3	-1.3	-0.8
Electricity-gas-water supply	4.5	5.4	9.4	7.4	-0.7	-0.5
Transport and logistics	3.0	16.2	27.6	22.9	20.7	19.4
Interest rates on new loans (period average, %)						
Consumer credit	9.86	9.71	9.58	9.59	9.38	-
Mortgage credit	2.83	2.95	2.80	2.67	2.79	-
Loans to non-financial corporations	3.15	3.08	3.17	3.11	2.79	-

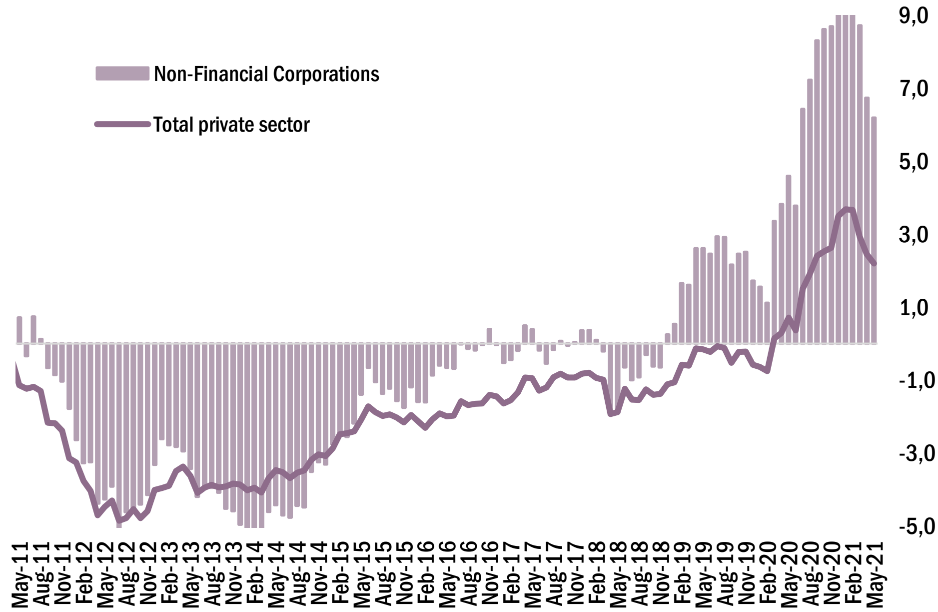
Source: Bank of Greece

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

Figure 2.5

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

Credit growth to corporations continues at a declining pace, offsetting the credit contraction to households.



Source: Bank of Greece

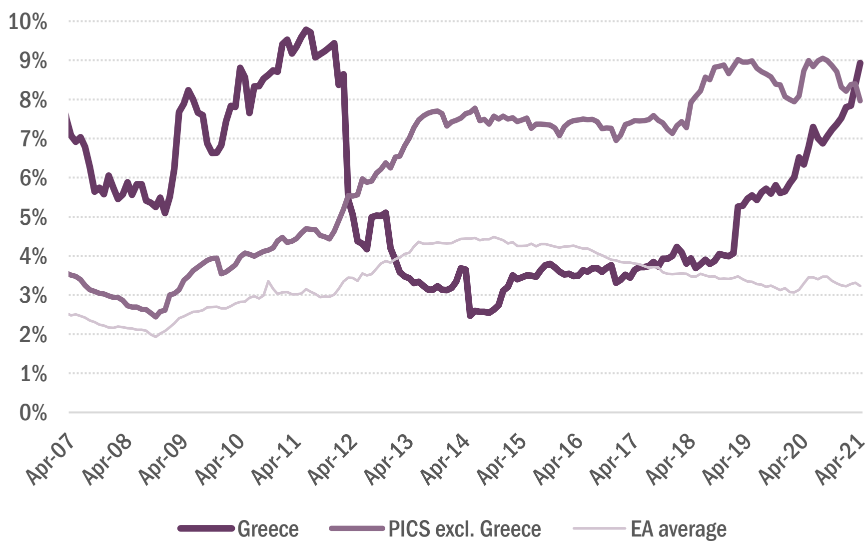
* The flows result from changes of outstanding balances corrected for loan write-offs, re-evaluation of securities, foreign exchange differences and reclassification/transfer of loans.

Both changes in supply and demand for loans under the influence of the pandemic contribute to these trends in bank financing. On the supply side, measures to stimulate liquidity at home and European level continue to have a positive effect on NFCs. On the demand side, although the need for liquidity and working capital of companies is increasing, and at the same time uncertainty is holding back new investments. The Bank of Greece's survey of bank lending in the first quarter of 2021 recorded a strengthening in demand for loans for both short- and long-term loans, but this was lower than that observed during 2020. Credit criteria remained stagnant, also not expected to change in the short term. By contrast, there was a slight contraction in the Construction and Energy sectors.

During the pandemic, there is an increasing role of the public sector in the absorption of resources of the domestic banking system as well. On the new bank financing side, there is a high annual rate of credit growth towards general government, which stood at a 12-month rolling basis in May at a rate of 63%. On the banks' asset side, banks have increased their exposure to sovereign debt to €28.4 billion in April 2021 from €17.5 billion at the end of 2019, a level that is the maximum of the decade. Thus, the share of total assets of the Greek banks invested in government bonds exceeded the relevant share of other countries in the south of the Eurozone, for the first time since 2012, while it remains significantly higher than the corresponding share for the average of the Eurozone countries (Figure 2.10).

Figure 2.6

Banks' government bond holdings over total assets (%)



The exposure of Greek banks to sovereign bonds is significantly higher than the euro area average.

Source: ECB

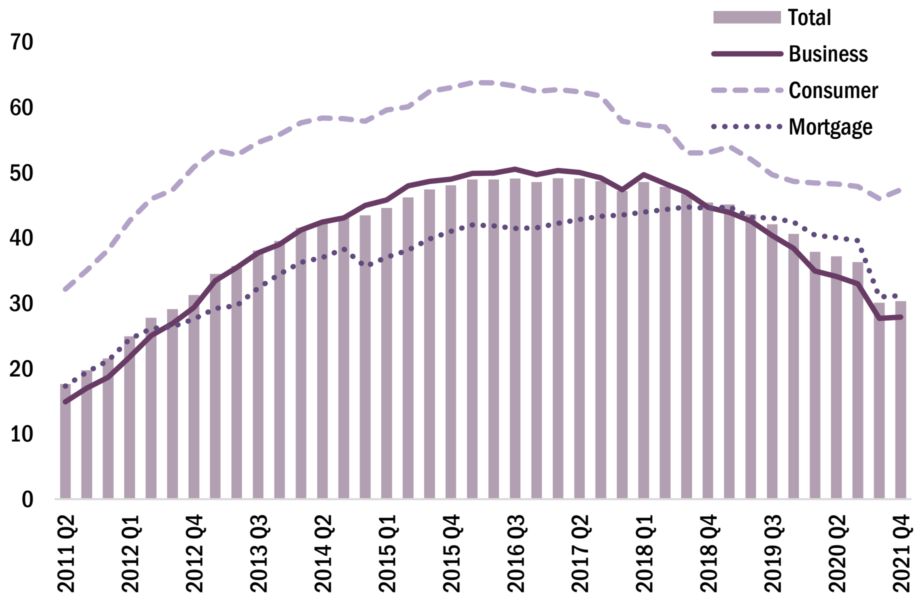
The Non-Performing Loans (NPLs) recorded a marginal increase in the first quarter of 2021 by 0.2% or €0.1 billion[3], a change that halts the trend of systematic reduction for five consecutive years (Figure 2.11). The stagnation is mainly due to the absence of large non-organic/operational transactions, but also to pressures on the organic/operational part of the change in NPLs due to the economic crisis. The total level of NPLs in March 2021 was €47.3 billion or 30.3% of total loans, approximately €59.9 billion or 55.9% lower than the maximum level of March 2016. However, it remains significantly higher than in other European countries, where it moves in low single-digit percentages. In business credit, the percentages of NPLs recorded a marginal increase in the first quarter of 2021, to 27.9% of loans, from 27.7% in the previous quarter, as well as in mortgage portfolios, from 31.0% to 31.1%. The largest increase, from 46.0% to 47.3%, was recorded in consumer loans.

Figure 2.7

[3] Data on NPLs that only include on-balance sheet items are presented on an individual basis

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

In the first quarter of 2021, the downward trend of NPLs was halted. Sale-offs and securitisations remain a key driver of their reduction.



Source: Bank of Greece
* On-balance-sheet loans (before provisions) for all Greek banks on a non-consolidated level.

As a consequence of the economic crisis due to the pandemic, banks are in the process of revising the operational plans with the strategic goal of reducing NPLs to single digits by the end of 2022. It is particularly important to accelerate the implementation of the 'Hercules Plan', as well as other NPLs reduction solutions, as some tools to limit them are still under-utilised, such as auction receipts and collateral liquidations. Indicatively, in the whole of 2020, the decrease of the recorded NPLs by €21.1 billion is mainly due (about 80-90%) to sale-offs and the implementation of the Greek State guarantee programme in securitised NPL portfolios (Hercules Plan, law 4649/2019), by approximately 10% in write-offs, while only a single-digit percentage came from active management and liquidations.

During the period of operation of "Hercules I", the non-performing loans of the four systemic banks were reduced by approximately €31 billion, while there is the possibility for further securitisation of NPLs of up to €32 billion through "Hercules II". To achieve this result, about €11 billion to €12 billion in new government guarantees are needed. In addition to the Hercules programme, it is also advisable to consider additional solutions, such as those sometimes proposed by bodies such as the Bank of Greece, in the direction of securitisation of part of the banks' receivables from deferred taxation, as well as the creation of an Asset Management Company (bad bank).

As for the dynamics of NPLs in the short term, the gradual reintroduction of stricter supervisory rules by the European Banking Authority, as well as the withdrawal of support measures for affected borrowers, will have an increasing impact on the stock of NPLs, reflecting the difficulties in repaying loans. The relevant estimates of the banks and the Bank of Greece result in an increase of NPLs between €5 billion and €10 billion respectively, which will of course be largely offset by the progress in their non-organic reduction transactions. In the medium term, a further reduction of NPLs is expected, especially through the implementation of the "Hercules II" programme. Overall, the decline in NPLs in the near future is unlikely to be linear, due to the effects of the health crisis and the cessation of temporary borrower support measures.

As for new credits, the credit contraction in households is expected to continue, while the policy measures led by the inflows from the Next Generation EU and the relevant leverage of private investments are expected to significantly strengthen the credit expansion to businesses. Indicatively, based on the Greek Recovery Plan Greece 2.0, which has been approved by the European Authorities, the NGEU can finance loans of €12.7 billion in the period 2021-2026, which are expected to be leveraged with approximately corresponding amounts of credit coming from \ Greek banks and the European Investment Bank, to support investments that will be included in the project. In this context, the decisive and systematic reduction of NPLs is crucial for the banks' lending capacity that will be needed for the implementation of the Recovery Plan.

New deposit rates fell further in March-April 2021, to an all-time low for Non-Financial Institutions (NFIs) and households, to 0.03% and 0.08%, from 0.07% and 0.12% respectively in the whole of 2020. In the same two months this year, the average interest rate on new loans remained low, at 3.8%, at around 4.6% for individuals, 4.5% for the self-employed and 3.1% for NFCs. The difference between the average interest rate on loans and deposits (interest rate margin) remained at 3.8%, as in the first two months of the year. However, it was lower compared to the average difference of 4% in 2020.

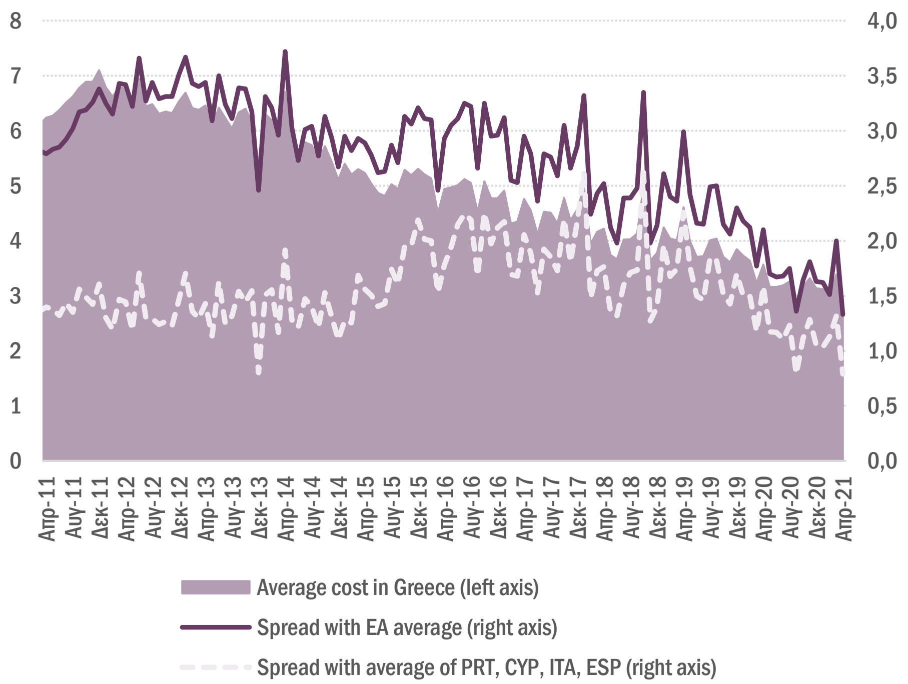
The average cost of new banking financing for private sector NFCs fell to 2.9% in April, from 3.0% in the first two months and 3.2% in the previous year as a whole, which is the lowest cost of new corporate lending (Figure 2.12). Nevertheless, costs still remain significantly higher than in the rest of the euro area countries. Indicatively, according to the weighted cost index of the ECB bank lending, the cost for non-financial corporations in April 2021 amounted to 1.6% in the Eurozone, 1.7% in Germany, and 2.1% in the countries of the "Eurozone South" (Portugal, Italy, Cyprus, Spain). The spread of borrowing costs for Greek companies in relation to the average of the Eurozone and the average of the "South", although decreasing, remains positive, at 133 bps and 79 bps respectively. Comparing it with the level before the financial crisis of 2010, the spread of borrowing costs for Greek companies in relation to the average of other countries in the "Eurozone South" remains significantly higher.

The prolonged duration of the recent wave of the health crisis, combined with the uncertainty about the resilience of the mutations, led to a slight increase in government bond yields, despite the significant positive impact of the ECB's ongoing liquidity stimulus policies, in which Greece is now partially involved. Thus, for the 10-year bond, the average yield increased in April-February 2021 to 0.99% (Figure 2.13). By contrast, the additional burden on the new cost of 10-year borrowing of the Greek State in relation to the rest of the Eurozone countries declined. Thus, it was formed in April at 121 bps and 35 bps in relation to the German bond and the average of the "Eurozone South" countries respectively (from 178 bps and 56 bps respectively on average for the whole of 2020). Despite the significant improvement, the spreads remain significantly higher than their average values in the first decade of the Eurozone (54 bps and 2 bps respectively).

Figure 2.8

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

The average cost of new lending for businesses is at historic low levels, around 2.9% in April, but 79 bps higher than the Euro area "south" average.

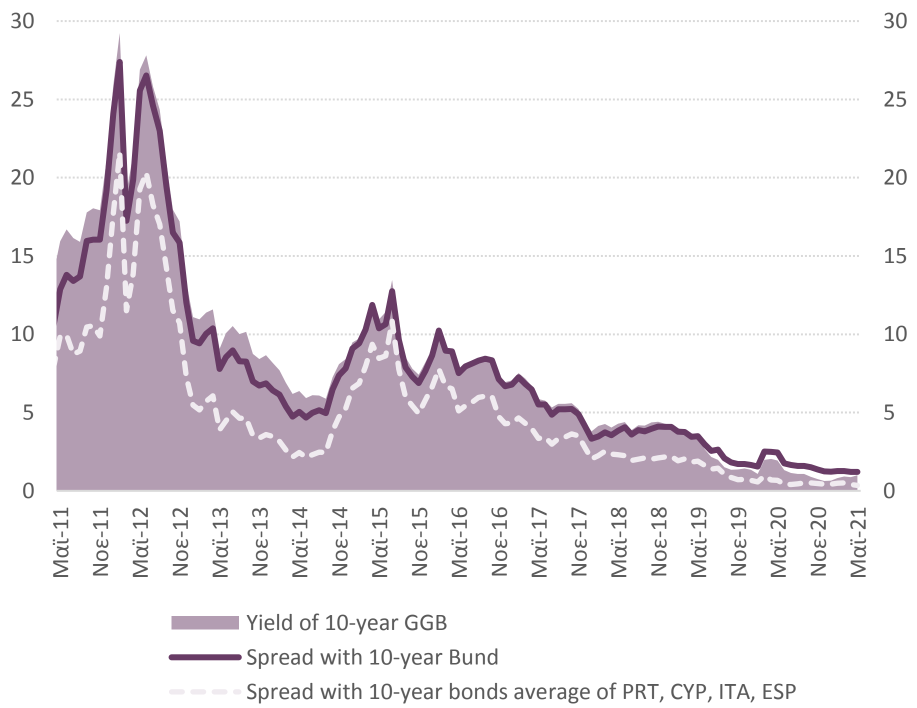


Source: ECB

Figure 2.9

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

The ten-year government bond yield increased between February and May, reaching a level close to 1% at the end of the period.



Source: ECB

Following the five successful government debt auctions held in 2020, the Greek State made four new long-term issues in the first half of 2021, raising a total of €11.5 billion: a 10-

year bond issue in January, which raised total funds of €3.5 billion at an interest rate of about 0.8%, a 30-year bond issue in March, which raised total funds of €2.5 billion with a marginally lower interest rate of less than 2.0%, a 5-year bond issue in May that raised a total of €3.0 billion with a near-zero interest rate, and a 10-year bond issue in June, raising total funds amounting to €2.5 billion with an interest rate of about 0.9%. All issues were over-subscribed by particularly high demand. In terms of their qualitative characteristics, the vast majority of buyers were long-term institutional investors. Nevertheless, the level of Greek public debt remains one of the largest internationally as a percentage of GDP, with the risk that the current economic crisis and the ongoing expansionary fiscal policy will clearly worsen its dynamics. However, some of its qualitative features, such as average repayment period, improve its long-term viability perspective.

3 PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments.

- Weakening recession in Greece in the first quarter 2021 to 2.3%, from 6.9% in the previous quarter and against a decrease in GDP by 0.5% in the respective quarter last year.
- Smaller GDP drop in the first quarter this year from a change in investment trend to slightly upward (+1.0%) and a milder decline in exports (-13.4%), due to a milder contraction in services exports, which, however, remained strong (-38.7%)
- Slight improvement of the external sector balance compared to the fourth quarter of 2020 from a milder de-escalation of the reduction of imports (-5.0% from -8.8%). A year ago, imports were stagnant (+0.2%)
- The contraction of household consumption expenditure has not eased since the end of 2020 (-4.9%). The expansion of public consumption is weaker (also +4.9%, from +7.3%).

Recent macroeconomic developments in Greece

The recession in the Greek economy weakened significantly in the first quarter of 2021, to 2.3%, compared to the revised estimate for GDP fall in the last quarter of 2020 (-6.9%) and a marginal recession of 0.5% in the corresponding quarter last year[4]. The weakening of the recession compared to the previous quarter was mainly driven by the change in trend in investment from strong downward to bullish and the decline in the fall in services exports, which however remained strong. The significant contraction in household consumption continued unabated, while the expansion of public consumption expenditure declined. The slightest decrease in imports mitigated the weakening of the recession.

Analysing the developments in the GDP components at the beginning of 2021, domestic consumption shrank by 2.4%, while a year earlier it expanded slightly, by 0.7%, as the first effects of the pandemic had manifested. Its decline was driven by a sharp decline in private consumption by 4.9%, of the same intensity as in the previous quarter, while a year earlier it had strengthened marginally (+0.3%). Extraordinary expenditure on the

[4] The initial estimate of GDP change for the fourth quarter released in March 2021 was -7.9%

pandemic (medical, support measures for workers and households) maintained the significant expansion of public spending (+4.9%), but to a lesser extent than at the end of last year (+7.3%). Over the same period last year, public consumption had expanded by 1.4%.

Investment expanded slightly, by 1.0%, in the January-March quarter this year, after a sharp decline of 17.1% at the end of last year and a similar small increase a year ago (+0.6%). The change in the trend since the end of 2020 is mainly due to the smaller decline in stocks in January-March compared to a year earlier, yet the increase in fixed capital formation was also stronger (+8.6% versus +3.2%). At the beginning of 2020, investment increased purely from expanding stocks.

In terms of trends in fixed capital classes, they were upward or stabilizing in all. The strongest increase in absolute terms in the first quarter was presented by Machinery-equipment-weapons systems (+€186 million or +16.1%), reflecting the effect of the supply of fighter aircraft, as well as ICT Equipment (+€184 million or +39.1%), in contrast to their decline a year earlier by 28.5% and 8.1% respectively. Investment in Other Constructions followed (+€125 million or +10.7%), in contrast to their sharp decline in the corresponding quarter last year by 7.6%. Their expansion is partly due to the higher expenditures of the PIP, a significant part of which falls into this category of fixed capital, and which were higher in the first quarter of last year by €1.38 billion or 170.1%. Most of this increase, about 73%, came from aid to businesses and the self-employed against the effects of COVID-19. The increase in Transport equipment was small (+€18 million or +5.4%), in contrast to the very strong decline in the January-March 2020 quarter. Both trends are related to the dynamics of vehicle sales, which shifted from a sharp decline last year to a slight growth this year (e.g. new passenger and light truck licenses: +12.6%, from -18.5%). The expansion of fixed capital formation in Housing was also small, €11 million or 2.7%, following a much stronger increase at the beginning of last year (+21.8%). Investments in agricultural machinery and other products were unchanged, while in the same period last year they showed small changes (-1.0% and +1.4% respectively).

On the side of developments in the external balance of the economy, the prolonged outbreak of the global pandemic since last November, which continued in the first quarter of this year, has maintained strong pressures on international travel during this period. As a result, services exports continued to shrink sharply, by 38.7%, slightly lower than a quarter earlier (-44.5%) and against a decline of 3.0% a year earlier. In contrast, product exports remained on a rising trajectory, at a slightly slower pace than a quarter earlier, at 8.2% compared to 13.7%. However, at the beginning of 2020 the increase was much smaller, 2.6%. Overall, exports fell by 13.4% from their level in January-March a year ago, when they also declined, but much more slowly (-3.0%), while in the October-November 2020 quarter they decreased by 17.6%.

Imports also slowed down from the end of 2020, to 5.0% from 8.8%. In absolute terms it was lower than that in exports. The slowdown came exclusively from imports of services, which were again reduced by 9.2% from 30.7% in the previous quarter, as at the same time the decline in imports of products escalated slightly to 3.0% from 2.0%. At the beginning of 2020, imports stabilised (+0.2%), with imports of goods showing a similar trend (+0.3%), while imports of services increased by 3.1%. Overall, the external balance deficit widened in the first quarter of this year compared to the same period last year from €935 million, which was a time minimum for this period of the year, to €2.3 billion a year later (+146%).

Approaching GDP on the production side, domestic gross value added declined by 2.0% in the first quarter of this year. In four of the ten main sectors of the Greek economy, activity weakened in this period compared to a year ago, while in one of them the product was unchanged. Reflecting the effects of continuous or almost continuous inactivity in certain industries and activities during the first quarter, the decline in the product was stronger in Arts-entertainment (-34.9%) and in Wholesale - retail, transport - storage, hotels - restaurants (-12.0%), which had fallen by 5.4% and 10.1% respectively a year earlier, when the pandemic had begun to manifest. In order to highlight the importance of these falls, it is reported that from these two sectors came in the initial quarter last year 29% of the domestic added value of production, a share that has now fallen to 25.2%. Next in terms of volume of activity contraction came Professional - scientific - technical - administrative activities (-5.4%), several of which were also affected by the lockdown, and Financial - insurance activities (-3.1%), after experiencing stronger pressures a year earlier (-9.7% and -28.5%, the largest drop in the first quarter of 2020). In Real Estate Activities, the change was marginal, indicating stability (-0.2%), following a similar trend a year earlier (+0.2%).

By contrast, the largest increase in activity was recorded in the first quarter of this year in Construction (+14.3%), similar to last year (+12.5%). This was followed by the strengthening of output in Public administration-defence-compulsory social security (+4.6%) and Information-Communication (+3.9%), following a milder increase in both sectors a year earlier (1.4% and 2.2% respectively). The lesser output increases were recorded in Industry (+2.3%) and the Primary Sector (1.2%). In the first case there was a similar decline a year ago (-2.1%), while in the second a marginal increase (+0.4%).

Compared to last year's final quarter, there was an improvement in the trend of activity in all sectors, with the sole exception of Arts-entertainment-recreation, where the decline escalated. The improvement was more pronounced in Wholesale - retail trade, transport - storage, hotels - restaurants (-12.0% from -20.5%) and in Construction (+14.3%, against +0.6%), sectors with total share in GDP in the region of 23-25%.

Although the recession weakened significantly in the January-March quarter of this year, the impact of the cumulative decline in GDP since the beginning of the pandemic in the labour market remains clearly milder than expected in such unfavourable conditions in the economy. The impact of the health crisis on the unemployment rate in 2020 was related to the significant slowdown in its decline compared to a year earlier. Nevertheless, the fall of last year in Greece by one percentage point was in absolute terms the largest in the EU, while in relative terms, i.e. in terms of the unemployment rate in 2019, the second strongest. The mild decline compared to the same period a year ago did not continue in the initial quarter this year, as unemployment rose by 0.9 percentage points from last year, to 17.1%. However, the increase in unemployment is not due to the increase in the number of unemployed, who increased by only 0.3k compared to the first quarter of 2020, but to the strong contraction of the labour force, by 227.2k or by 4.9%. Similar trends, but much milder ones, have been recorded since the beginning of the pandemic, with a large proportion of those losing their jobs being considered as not looking for employment and therefore leaving the labour force.

Table 3.1

Trends in key macroeconomic figures – National Accounts (seasonally adjusted data, 2015 constant 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
2008	249,918	-0.2%	221,539	2.1%	59,020	-9.2%	58,486	3.7%	89,870	1.1%
2009	239,150	-4.3%	219,992	-0.7%	43,185	-26.8%	47,790	-18.3%	71,708	-20.2%
2010	226,122	-5.4%	207,014	-5.9%	38,613	-10.6%	49,959	4.5%	69,241	-3.4%
2011	194,764	-13.9%	176,040	-15.0%	25,699	-33.4%	47,975	-4.0%	55,608	-19.7%
2012	180,684	-7.2%	163,316	-7.2%	20,378	-20.7%	48,917	2.0%	52,558	-5.5%
2013	176,131	-2.5%	156,580	-4.1%	19,677	-3.4%	49,835	1.9%	50,824	-3.3%
2014	177,478	0.8%	156,772	0.1%	20,508	4.2%	53,893	8.1%	54,283	6.8%
2015*	176,176	-0.7%	156,302	-0.3%	21,399	4.3%	56,585	5.0%	58,453	7.7%
Q1 2016	43,770	-1.2%	38,676	-1.9%	6,124	10.0%	13,917	-1.2%	14,932	0.5%
Q2 2016	43,619	-1.4%	38,817	-1.2%	5,968	18.5%	13,915	-1.9%	14,758	0.9%
Q3 2016	43,835	0.7%	39,188	1.4%	5,398	6.6%	14,235	1.2%	15,114	6.7%
Q4 2016	44,027	0.0%	39,092	0.4%	5,178	-9.8%	14,471	2.7%	14,878	0.4%
2016*	175,251	-0.5%	155,774	-0.4%	22,668	5.9%	56,538	0.2%	59,682	2.1%
Q1 2017	43,964	0.4%	39,216	1.4%	5,090	-16.9%	14,820	6.5%	15,144	1.4%
Q2 2017	44,320	1.6%	39,472	1.7%	5,637	-5.6%	15,198	9.2%	15,988	8.3%
Q3 2017	44,681	1.9%	39,670	1.2%	5,956	10.3%	15,449	8.5%	16,348	8.2%
Q4 2017	44,524	1.1%	39,950	2.2%	5,533	6.9%	15,643	8.1%	16642	11.9%
2017*	177,488	1.3%	158,307	1.6%	22,215	-2.0%	61,110	8.1%	64121	7.4%
Q1 2018	44,864	2.0%	40,119	2.3%	5,363	5.4%	16,126	8.8%	16819	11.1%
Q2 2018	44,957	1.4%	39,738	0.7%	5,954	5.6%	16,478	8.4%	17200	7.6%
Q3 2018	44,997	0.7%	39,860	0.5%	5,609	-5.8%	16,701	8.1%	17412	6.5%
Q4 2018	45,250	1.6%	39,811	-0.3%	6,389	15.5%	17,196	9.9%	17778	6.8%
2018	180,068	1.5%	159,527	0.8%	23,314	4.9%	66,500	8.8%	69209	7.9%
Q1 2019	45,682	1.8%	40,166	0.1%	6,085	13.5%	17,291	7.2%	17669	5.1%
Q2 2019	45,980	2.3%	40,501	1.9%	5,445	-8.6%	17,504	6.2%	17673	2.8%
Q3 2019	45,703	1.6%	40,395	1.3%	4,957	-11.6%	17,700	6.0%	17960	3.1%
Q4 2019	45,675	0.9%	40,777	2.4%	6,262	-2.0%	16,950	-1.4%	18084	1.7%
2019	183,040	1.7%	161,838	1.4%	22,749	-2.4%	69,446	4.4%	71386	3.1%
Q1 2020	45,465	-0.5%	40,457	0.7%	6,124	0.6%	16,774	-3.0%	17709	0.2%
Q2 2020	39,603	-13.9%	36,106	-10.9%	5,768	5.9%	12,900	-26.3%	15350	-13.1%
Q3 2020	41,126	-10.0%	40,384	0.0%	6,728	35.7%	13,121	-25.9%	16970	-5.5%
Q4 2020	42,543	-6.9%	39,711	-2.6%	5,192	-17.1%	13,967	-17.6%	16494	-8.8%
2020	168,737	-7.8%	156,658	-3.2%	23,812	4.7%	56,761	-18.3%	66522	-6.8%
Q1 2021	44,425	-2.3%	39,469	-2.4%	6,185	1.0%	14,522	-13.4%	16819	-5.0%

* provisional data

Source: Quarterly National Accounts, ELSTAT, June 2021

At the sectoral level, the trends are mostly congruent to those in production activity mentioned above. However, some important contradictions continue between the two trends, such as in the Primary sector, in Construction and in Professional-scientific-technical-administrative activities. Most jobs were lost compared to the first quarter last year, in the Tourism sector (-135.9k or -41.3%), in Wholesale-Retail Trade (-53.3k or -7.5%) and Transport-Storage (-23.0k or -10.6%). Next, in terms of job losses, came Arts-

Entertainment (-22.1k or -37.8%) and Education (-21.7k or -6.6%). By contrast, the increase of jobs was mainly presented by Public administration-defence-compulsory social security (+38.9k or +11.7%), Scientific-technical activities (+34.3k or +15.9%), Agriculture-Forestry-Fisheries (+19.6% or +4.6%) and Human Health Activities (+11.6k or +4.4%), with the trends in the first and fourth sectors considered as reflecting emergencies in services created by the health crisis.

Deflationary pressures continued in the first quarter of 2021, but with less intensity than in the previous quarter, as the rate of change of the Consumer Price Index stood at -1.6%, from -2.1%. The slowdown in the decrease in prices was driven by the corresponding trend in the prices of energy products, with the negative impact of taxes on prices, due to the reduction of VAT from 1/6/2020 on some products and services, as well as the reduction of demand, essentially not changing. Only in one of the 12 categories of products and services that enter the domestic CPI, Education, there was no decline in prices following a slight increase last year (+0.5%). Among the other categories, the sharpest drop in prices was recorded in Clothing-Footwear (-8.0%), Transport, which was affected by the cost of energy products (-3.6%) and Durable goods - household items (-2,0%). However, the first two categories showed the largest increase a year ago, so this year's trends are partly due to a "base effect". By contrast, prices for Durable goods - household items had declined at the beginning of 2020, by 0.8%. The same decrease in the period January-March this year was recorded in prices in Communications (-1.8%) and Housing (-1.7%), followed by a milder trend a year earlier (-0.5% and -1.3 % respectively). Next ranked prices in Health, in contrast to last year, which showed the second largest increase (-1.1%, from +1.5%). The smallest decreases were recorded in Hotels-cafes-restaurants (-0.5%), Food-alcoholic beverages and Recreation-cultural activities (-0.4%) and Alcoholic beverages-tobacco (-0.2%).

To sum up, the significant weakening of the recession in the first quarter of 2021 is related to components of GDP, in which, if the trends of this period continue, there will be prospects for a stable recovery. In particular, the continuous de-escalation of the contraction of exports immediately after the first lockdown, from the third quarter of 2020, is now likely to continue in the next quarters of 2021, with quite possible change of the trend to an upward from the summer quarter. These developments are expected to come mainly from the change of the trend in exports of services, due to the escalation of international tourist traffic. However, its rise is likely to be slightly milder than initially expected. The further expansion of exports of goods, mainly from the higher demand from the main export destination, the eurozone countries, will also contribute to the strengthening of exports, the recovery in which this year appears to be stronger than expected. The external balance will also be improved by import dynamics, the trend change in which is expected to not be as strong as in exports, mainly because imports of services fell much less last year than exports of services.

In the field of investments, their share in the first half of last year, which came from emergency aid to businesses and the self-employed, will probably be strengthened this year, as it escalated. By contrast, the impetus from housing construction is estimated to be milder. As the pandemic is expected to subside gradually, support interventions will be limited. At the same time, however, the first resources will flow from the Resilience and Recovery Fund (RRF), which will finance investments in the priorities of the relevant plan (Greece 2.0) from the end of this year and especially in the coming years. Following the very strong decline last year in investment in transport, already in the first quarter of this year there is a reversal of this trend, as shown by the data presented earlier.

Investments will be supported by the continued expansion of funding from the banking system to non-financial corporations since last year, which is due on the one hand to the consistently high return of deposits to the banking system and on the other hand to the liquidity it has raised and continues to draw from the ECB's exceptional mechanisms. A fairly likely significant increase in non-performing loans - from new suspended loans or credit deferrals - may act on credit growth.

The phasing out of restrictive measures since early April, starting with Retail and Transportation, thanks to advances in vaccinations, more virus detection capabilities and improved epidemiological data, is estimated to have already significantly warmed household consumption. Unless adverse developments take place around the health issue, which will reverse these trends, the dynamics of private consumption are expected to be strongly upward in the coming months. Conversely, as the pandemic continues to recede, emergency public spending on health care and household support will be reduced. Therefore, it is likely that public consumption will be below last year's level, especially in the summer quarter. The next subsection presents all medium-term macroeconomic forecasts.

Medium-term outlook

- The developments of the COVID-19 pandemic domestically and internationally, mainly in the EU, which will affect tourism, the interventions to deal with its effects (restrictions – aid to businesses and households), the absorption of funds from the European recovery fund, are the main determinants of GDP change in 2021.
- The macroeconomic indicators are projected based on alternative sets of assumptions (scenarios) for the above and other factors.
- Given the significantly higher transfers due to the pandemic in the first half of the year, unless a new strong outbreak occurs, with the result that the summer tourist season is longer than last year in duration and intensity, while the absorption of funds from the NGEU moves to the level of announcements during approval of the Recovery Plan, growth of 5.0-5.5% is foreseen.
- Alternative scenario: new strong outbreak of the pandemic in the second half, again restrictive measures, but also more transfers, shorter tourist season, lower absorption of NGEU resources (as in the budget: change in GDP +1.0 to +2.0%)
- Recovery in both scenarios primarily from export growth (+13.5% in the baseline scenario, +8% in the alternative scenario).
- This is followed by private consumption (+3.5% and +1.5%) and investment (+13.5% and +9%), which alternate in importance in the two scenarios.
- Significant increase in public consumption this year (+4.0% and +5.5% respectively)
- Significant expansion of imports from higher domestic demand and increase in exports of products with imported raw materials (+11.5% in the baseline scenario, +8.0% in the alternative)

Positive developments around the health crisis, both domestically and internationally, such as advances in vaccination, more and more easily accessible means of virus detection (self-tests) and improved health conditions in most countries, largely determine the conditions and trends in the economy and society in the current period. They are likely to have a stronger impact after 2021, as long as there are no more adverse pandemic developments. As a result of their effects so far, it has been possible to partially or completely lift many of the restrictions that were in place during the third phase of the pandemic, since the beginning of last February. In this context, it was possible to reopen some important sectors and activities of the Greek economy, which are also related to the summer tourist season (accommodation, passenger transport, food services, retail trade).

However, the positive momentum of recent months does not imply the end of the health and subsequent economic crisis. Although the pandemic is clearly declining, it has not yet been fully tamed. Besides, the declining dynamics is due, in addition to the above factors, to seasonality, as the rise in temperature has a deterrent effect on the spread of the new coronavirus. Therefore, any complacency regarding the treatment of COVID-19 may lead to adverse developments, e.g. after the summer. In any case, the growing challenge of the pandemic is the growing mutations in the virus, many of which enhance its transmissibility, while there is uncertainty about how to deal with existing vaccines.

In the first quarter of this year, although the second and third phases of the health crisis were under way in many countries and public health protection measures remained strong, the pace of recession either declined significantly or shifted to small growth in the largest economies and economic zones: In the OECD countries, GDP fell by just 0.4%, compared with a recession of 2.9% in the fourth quarter of 2020 and 0.9% in the first quarter of last year, while in the EU output fell by 1.2%, from 4.4% a quarter earlier and down by 2.7% a year ago. The US showed a shift towards recovery at the beginning of 2021, at a rate of 0.4%, instead of a 2.4% fall in GDP at the end of last year, while a year earlier it saw the same intensity of growth (0.3%). China's economy, where the health crisis began, saw its highest growth rate in at least 30 years (18.3%) in the first quarter of this year, followed by 6.5% growth in the previous quarter and a 6.8% decline in the corresponding quarter last year. This recovery momentum is considered to have similarly affected international trade and was also reflected in the Greek economy, with exports of products remaining on a growth trajectory, with significant pace, for a third quarter.

The third "wave" of the pandemic is - in most countries with large populations - in a phase of significant recession since April and seems to be ending this season (France, Germany, India, Italy, Spain, USA, Poland, Turkey). Over the same period of time, in some countries, new cases of the virus have either subsided to a small extent compared to their maximum level (e.g. Argentina, Russia), or have recently shown an upward trend (e.g. Brazil, United Kingdom). The second trends highlight the risks that continue to exist due to COVID-19. However, the general downward trend of the pandemic forms prospects for a greater revival of economic activity from the second quarter. These dynamics of the global economy have already been reflected in the cost of energy, with the price of oil being consistently higher than before the pandemic since the middle of last March.

As pointed out by the previous IOBE bulletins on the Greek economy, while there was a third "revival" of the new coronavirus from the middle of the first quarter, with few exceptions, no new initiatives were taken to support economies and societies by national governments and intergovernmental organisations. The exception was the US, where the US Rescue Plan was approved in early March, at an estimated cost of $ 1.85 billion (about 8.8% of 2020 GDP). The non-expansion or continuation of fiscal policy interventions shows that the strongest developed and developing countries are trying to tame the deterioration of their public finances over the past year and to put their economies back into operation, so that a large part of the inaction is not permanently disrupted. However, monetary policy interventions continue, with particularly low or negative intervention rates from the major central banks, public and private sector securities purchase programmes, credit lines, etc. If they do not deescalate significantly relatively soon, the "overheating" of stronger economies and economic regions will become more likely.

Under the developments described, household and business expectations have improved significantly and returned to pre-pandemic levels. The OECD Composite Leading Indicator (CLI) is at a steady, mild pace since last September and since January is at levels higher than February 2020, while in May it reached the highest level since August 2018 (100.6 points). The European Commission's Economic Sentiment Index for the EU and the Eurozone rose sharply in the March-May quarter. As a result, it stood in the last month at 114.5 points in the Eurozone (up from 93.4 points in February) and 113.9 points in the EU (from 93.1 points), both of which are much higher than those before the onset of the health crisis in Europe and the maximum since February 2018. Consequently, the de-escalation of the pandemic in many large countries of Europe, Latin America and Asia during the second quarter, led to a significant de-escalation of pessimism. The particularly positive change in the expectations and dispositions of businesses and households is expected to be reflected in their investment and consumer spending respectively.

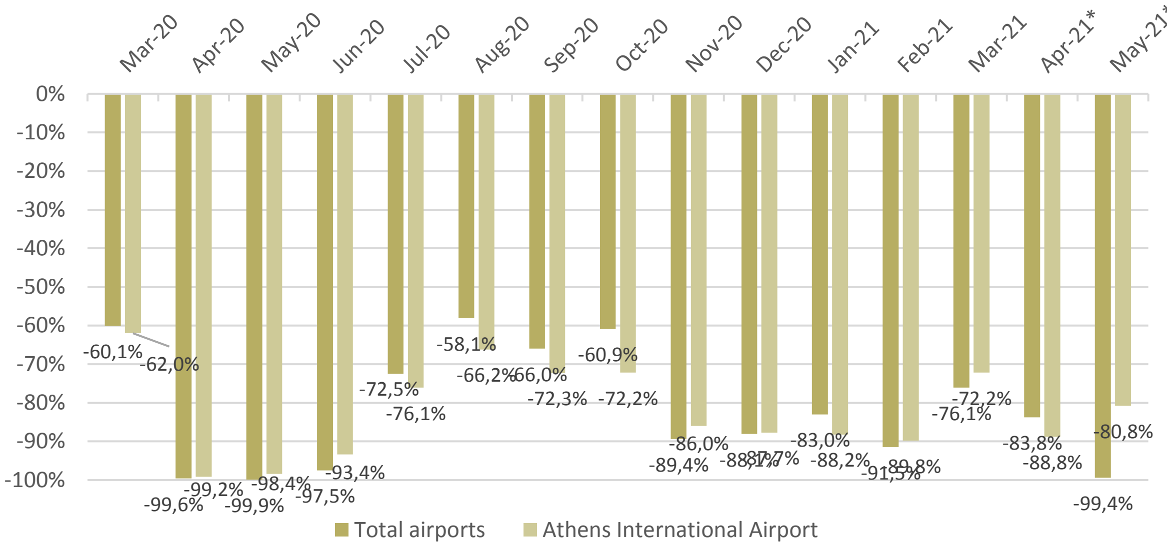
The limited lifting of restrictive measures domestically in April, which escalated from the beginning of May to June, has led to the continuation of most business and household support interventions (special purpose compensation for suspended workers, coverage of their social security contributions, reduction of rent in the properties of affected companies, as well as in the properties of employees in suspension of work, compensation of owners of these properties, suspension of payment of restructured tax and social security arrears of companies, suspension of instalments of restructured tax debts of employees of affected companies, 2-month extension of unemployment benefits). However, the lifting of the suspension of activities has limited the number of beneficiaries for the above support interventions. In addition, the seventh repayable advance programme was implemented in May, but no such programmes are planned any longer, while the scheme of covering 100% of social security contributions for six months for 100k new jobs in the private sector has continued and the SYN-ERGASIA programme was extended until June, as especially for the tourism sector the extension reaches until September. Some non-recurring interventions that took place or began during the second quarter are highlighted: a) increased special purpose compensation from €1,000 to €4,000 in April, for businesses that remain closed by state order and employ up to 50 employees and b) GEFYRA 2 programme, for the subsidy of mortgage instalments, which also concerns businesses, with a budget of €300 million, compared to €108 million of the initial phase, c) a subsidy program for part of the fixed costs of 2020, which were not covered by other supportive measure, with a budget of €500 million, d) third cycle of the COVID-19 guarantee programme by the Hellenic Development Bank.

As pointed out in previous IOBE bulletins on the Greek economy, the continuation of policy interventions due to the pandemic, mitigates the economic effects of the suspension of activities. As these restrictions are lifted for more and more activities, the scope of the support measures and their stimulating effect is reduced. Therefore, businesses that are no longer supported by them, will have to find through their operation the ways to make up for the benefits they enjoyed. In any case, the implementation of the above further burdens the fiscal balance. According to government estimates, the budget for interventions in 2021, by early June, to address the effects of the pandemic, reached €15.9 billion. In the Explanatory Report of the State Budget for 2021, their budget was €4.54 billion, while another €3 billion were made available for the same purpose as allocation appropriations. Therefore, the budget for the interventions decided so far is more than double the budget target.

Pressures of restrictions on international travel continued for most of the second quarter of 2021, according to the available data. This development took place at a time when the share of revenues from international tourism in revenues from export services was at levels observed before the health crisis, in the region of 43-45%, however less than in the summer quarter. Similar is the share of international transport, which was also hit during the lockdown last spring, but much less than tourism (down 17.1% in April-May 2020). According to the most recent data, international arrivals at the country's airports continued to decline sharply in the two months of April-May compared to their level in 2019, by 83.8% in the first month and by 99.4% in the next, compared to same decreases last year by 99.4% and 99.9% respectively. In the same months, international arrivals at Athens International Airport were 88.8% and 80.8% below their level from the year before last (from -99.2% and -98.4% in the same two months of 2020). Overall in the first five months of this year, international arrivals at AIA were 86.6% less than in 2019.

Figure 3.1

International arrivals at airports (annual % change)



*Year-on-year changes in arrivals

Sources: Civil Aviation Authority, Athens International Airport

The health crisis has overshadowed other developments in the international environment, which may affect the Greek and European economies in the medium to long term. These include the geopolitical issues in the south-eastern Mediterranean and the implementation of consensual Brexit, the terms of which were agreed at the end of 2020. In addition, in mid-November the Regional Comprehensive Economic Partnership (RCEP) was concluded by 10 countries in Southeast Asia, together with South Korea, China, Japan, Australia and New Zealand. With this agreement, the largest trade union in the world was achieved. It does not include the United States, which withdrew from a competitive Asia-Pacific trade pact in 2017. The new agreement is expected to further strengthen China's influence in these regions.

Since the first IOBE bulletin on the Greek economy after the outbreak of the COVID-19 pandemic, macroeconomic forecasts are based on alternative assumptions about factors that are expected to affect key macroeconomic variables over time and in the medium term. The most important factors for this year remain, as in 2020, the evolution of the health crisis, in Greece and internationally, especially in the Eurozone, as well as the size of policy interventions to halt its effects. Therefore, the macroeconomic scenarios take into account, in the form of relevant assumptions, possible developments in these factors. Especially the dynamics of the novel coronavirus pandemic in the second half of 2021 will largely depend on progress in vaccination, the utilisation of self-tests and mutations of the virus. As for policy interventions, as previously shown, their level this year is already well above the budget. Their final size will depend, in addition to the pandemic trend, on raising capital from Next Generation EU. In addition, the activity of the Tourism sector, whose contribution to the GDP of Greece is much higher compared to other countries, was closely correlated last year with the trend of the health crisis. For this reason, alternative forecast scenarios should incorporate assumptions about the size of turnover in that sector.

A factor that is not mainly related to COVID-19, whose potential trends were taken into account in the macroeconomic forecasts, is the energy cost, which was approximated by the oil price forecasts. The forecasts that emerge from the different assumptions for the factors form a forecast range for GDP, its components and other macroeconomic variables.

Under this approach to macroeconomic forecasting, the factors whose changes are expected to affect the macroeconomic aggregates of the Greek economy are the following:

Box 3.1

Factors whose changes will affect macroeconomic forecasts

- Duration of the COVID-19 outbreak domestically and in the Eurozone, taking into account the progress in vaccination
- Level of policy interventions in Greece and the Eurozone to address the effects of the crisis
- Absorption of Next Generation EU resources
- Activity in the field of Tourism
- Oil price fluctuation

In detail, regarding the recent and expected developments regarding the pandemic domestically, despite the high number of new cases and deaths in early April, the significant progress in the vaccination process and the greater possibilities of detecting the virus, shaped the possibility of gradual lifting of the restrictive measures. Thus, the first relaxation in Retail and Transportation took place from the beginning of April. In particular, from 5/4, the operation of Retail Stores was allowed, except for department stores and shopping centres, with purchases either inside the store or at the entrance of the store, after an appointment in both cases. Also, from Saturday 3/4 and only for the weekends, the inter-municipal travel within the regional unit for exercise by vehicle was allowed. On 12/4, the upper secondary schools reopened. On 29/4 the inter-municipal travel was allowed for any reason, while the duration of the curfew was limited by one hour, between 10 pm-5pm. From 3/5 outdoor food services reopened and the possibility of going out was extended by one hour, until 11 at night. On 10/5, kindergartens, primary schools and lower secondary schools reopened.

Most of the changes took effect from 14/5: 1) the sending of message for going out was abolished; 2) the supra-local - interregional travel was allowed. Especially for the transfer to and from the islands (except Lefkada, Evia and Salamina) the passenger were required to present a vaccination certificate, 14 days after the second dose of the vaccine, or a negative PCR test up to 72 hours before the transfer, or a rapid test or self-test 24 hours before embarkation; 3) Retail appointments were lifted; 4) The freedom of movement was extended until 12:30; 5) The suspension for Tourism and Casino activities was lifted. On 28/5 the outdoor cultural venues (theatres, concerts) reopened. In addition, on 31/5 gyms were opened, under certain conditions, sports events were allowed under certain conditions outside stadiums and organised sports facilities and the mandatory rate of teleworking in the public and private sectors was reduced to 20%. On 12/6 the curfew was limited between 01:30 and 05:00 and the occupancy rate in music and entertainment activities was increased and on 19/6 the density limit of customers in retail trade increased from 1 person per 25 sq. m. to 1 person per 16 sq. m. Finally, from June 24 the use of masks in outdoor areas with no congestion was abolished and from 28/6 the travel ban was lifted.

Note that activity in Retail Trade physical stores, Tourism, Food services, education, gyms, etc., and the reduction of the mandatory teleworking rate, rely on the regular, frequent self-tests for the new coronavirus. From 24/5 a self-test once a week, up to 24 hours before the first working day, was mandated for all private sector employees in a dependent employment relationship. As indicated in the previous IOBE bulletin on the Greek economy, the implementation of self-tests is a key factor for the "return to normalcy" of the economy, but also the lives of citizens.

Especially with regard to the measures for international passenger travel in Greece, the ban on entry by air into the country of nationals of third countries other than the European Union and the Schengen Agreement countries continued. As of May, citizens and residents of more countries were excluded from it than in April (21 versus 10), with the number of exempt countries expanding further in June (to 26). The exempt countries are as follows: Australia, North Macedonia, United Arab Emirates, USA, UK, Israel, Canada, Belarus, Bahrain, New Zealand, South Korea, Qatar, China, Kuwait, Ukraine, Rwanda, Russia, Saudi Arabia, Serbia, Singapore, Thailand, Bosnia and Herzegovina, Montenegro, Albania, Japan and Lebanon. The exempt countries are clearly more compared to those at the time of the opening of international tourism last year, in early July (15 countries), which did not include some with a high contribution to tourist arrivals and receipts, such as the USA, the UK and Russia. Therefore, there are conditions for higher tourist travel this year, but also for increased revenues from it. All travellers from abroad must have either a negative molecular (PCR) test up to 72 hours or 48 hours before arrival, or a negative rapid-test or a self-test 24 hours before arrival, or a vaccine certificate, or a COVID-19 certificate.

As for land travel, only the border stations of Promachonas and Kakavia are open, where a negative COVID-19 molecular test (PCR) is required for entry, conducted up to 72 hours before arrival. The maximum allowed entry limit is 400 people per day, excluding truck drivers. The border stations of Ormenio, Evzones, Kipi, Exohi and Nymfaia are open only to trucks, with the same entry conditions as Promachonas for the first two. An additional source of income for Tourism compared to last year will be the income from cruises, an activity which has been allowed since May 14.

Interventions to support businesses and households continue in 2021, with, for the most part, a high degree of implementation. As part of the fourth round of the "repayable advance" financial instrument, €44.1 billion were given to 447.1k beneficiaries, far exceeding the €1.2 billion target, while in the fifth round the aid reached €1.23 billion to 359.7k beneficiaries, not far from the target of €1.5 billion. In the sixth round, the percentage of companies that received aid amounted to approximately 40% of the applications, i.e. 286.2k, as the imposed conditions led to the rejection of the majority of them, with the aid reaching approximately €500 million. In the "GEFYRA" program, with a budget of €108 million, which provides a subsidy of mortgage instalments, more than 160.5k were submitted by the deadline for the submission of applications (31/10). Loans of 69.4k beneficiaries were subsidized until the end of last January, with €47.9 million. In the programme "GEFYRA 2", 42k businesses submitted an application. In addition to the public sector support interventions, the suspension of payment of bank loan instalments continues, for applications submitted until 31/03/2021 and a maximum duration of suspension of nine months. By the beginning of June, the government estimated that measures amounting to €11.4 billion have been implemented.

As mentioned in the previous IOBE bulletins on the Greek economy, support interventions for households have had a restraining effect on the weakening of consumer demand and subsequently on the reduction of business activity and their employment. A significant part of the liquidity that companies need in order to maintain their jobs and meet their current obligations has come from the beginning of the pandemic from the emergency financial tools mentioned above. This fact is also reflected in the trend in business closures in 2020, which was slightly less than in 2019, as presented in this report (section 3.2). Having said that, as the completion of the interventions has started or they become more targeted towards their beneficiaries, their support will decrease. Adapting to or exiting the pandemic will be the biggest challenge for many households and businesses from the second half of 2021. In this context, strong pressures are quite likely to emerge when the majority of aid interventions are lifted, especially in employment and then in private consumption.

In addition, as analysed in the previous subsection and in previous IOBE reports on the Greek economy, part of the support interventions for businesses and the self-employed affect the formation of fixed capital since last year. As these continued in the first five months of 2021, with approximately €1.6 billion of the relevant aid having come in this period from the Public Investment Programme, support for fixed capital formation from this source will continue. The availability of investment resources from the public sector to businesses will be boosted compared to last year mainly by the Next Generation EU, primarily by its Resilience and Recovery Facility pillar. Following the recent approval of the Greek Recovery and Resilience Plan by the European Commission, the possibility of disbursing up to €8 billion of funds by the end of 2021 was announced, clearly more than the relevant target in the 2021 Budget (€5.5 billion).

Taking into account the steady de-escalation of the third outbreak of the virus in the two months of May-June, in Greece and most countries, the escalating progress of vaccination internationally, but also the continuous occurrence of mutations, the fact that no effective medication has been discovered that could contribute to addressing a new wave, the data on fiscal interventions domestically and in the EU, the latest forecasts for the recession this year in the Eurozone (European Commission), the assumptions of the basic forecast scenario for 2021 are as follows: Thanks to the progress in vaccination and the utilisation of self-tests, no new strong "resurgence" of the pandemic is expected in the second half, such as the one in the fourth quarter last year or in March this year, without excluding smaller, temporary outbreaks of the pandemic. International tourism will increase gradually, at least in the second quarter and at the beginning of the third. A sharp escalation from the middle of summer is quite possible, as well as the extension of the tourist season, e.g. until the beginning of the fourth quarter. Subsequently, revenues from international tourism services will increase from last year, reaching the area of 40-45% of their level in 2019, from 24% in 2020, an expansion corresponding to an increase from €3.0 billion to €3.8 billion. The effects of the health crisis will be mitigated by the operation of the NextGenerationEU, the resources of which will flow from the second half of the year, with the relevant target in the 2021 Budget (€5.5 billion) clearly to be exceeded. Significant support, more than foreseen in the budget and generally expected at the beginning of this year, will be received by businesses and households from policy interventions, which already exceed the target. Regarding the GDP trend in the Eurozone, it is supposed to be in the area of the current relevant forecasts, with a recovery rate higher than projected last winter (European Commission: 4.3%).[5]

The alternative macroeconomic scenario incorporates some negative or less positive scenarios in relation to the baseline scenario. The lower progress in vaccination, combined

[5] European Economic Forecast, spring 2021, European Commission, May 2021

with adverse developments of the pandemic (e.g. mutation outbreak), will bring about a new wave during the fourth quarter and strong restrictive measures on the operation of sectors and activities, but possibly milder than those of the first and third lockdowns, thanks also to the contribution of self-tests (e.g. "click inside" or "click away", rather than suspension of operation). A further escalation of the protection measures will lead to further support interventions for businesses and households. As far as international tourism is concerned, the above developments concerning the health crisis will mitigate its growth. The tourist season will end later compared to last year, however earlier that in the baseline scenario. That being said, revenues from international tourism services will strengthen compared to 2020, reaching 35% of their level in 2019, an increase corresponding to an expansion of €2.1 billion. The less positive health developments internationally will also mitigate the recovery in the Eurozone, resulting in its growth rate being lower than the recent forecasts, in the region of 3.5%. As far as NGEU inflows are concerned, it is assumed that they will be formed close to the target in the 2021 Budget (≈ €5.5 billion).

Presenting developments in financing, which may play a key role in halting the effects of the pandemic, especially on investment, banks in Greece continue to escalate the ECB's liquidity-raising potential in response to the extraordinary circumstances. The most important financial instrument of these is the Pandemic Emergency Purchase Programme (PEPP), with a purchase budget of €1.85 trillion after two enlargements. Also, the duration of the PEPP has been extended until at least March 2022, with the ECB reinvesting the mature securities it buys at least until the end of 2023. By mid-June 2021, the net worth of securities purchases had reached €1.15 trillion. Another liquidity facility set up by the ECB to halt the effects of the pandemic is non-targeted longer-term refinancing operations (PELTROs). Their interest rate is 25 points lower than the average principal refinancing rate (MRO) during such an operation. In December 2020, the ECB announced four additional emergency pandemic refinancing operations, one per quarter of 2021, lasting one year. In addition, the terms of the targeted longer-term refinancing operations (TLTRO III) gradually eased, with the result that the eligible loans of Greek banks from the programme reach €92 billion, while their lending limit rose from 30% to 50%. Funds through TLTRO III are raised at a negative interest rate of 1% for the first year and 0.50% for the next. The validity of these terms was extended from December 2020 to June 2022 with the total amount that counterparties are entitled to borrow extending from 50% to 55% of the balance of their eligible loans. Since the previous IOBE report on the Greek economy, no new interventions to support liquidity have been adopted by the ECB, nor have the characteristics, conditions and terms of the existing ones been modified.

In this context of financial capabilities, the liquidity of Greek banks from the Eurosystem reached €24.4 billion in the period April-September 2020 and totalled €38.96 billion by the end. From then until February 2021, it recorded some volatility and finally increased slightly, reaching €41.5 billion. In March 2021, the liquidity raised reached €44.6 billion, a level at which it remained in April. Therefore, in 13 months, banks have raised €32.2 billion. These developments do not include the activity of banks under the PEPP. However, it is indicative of the availability of capital and the possibilities they have in order, among other objectives, to provide funding to businesses.

Lending is also favoured by the rapid increase in private sector deposits (households and non-financial corporations).). Following their strong expansion in 2020 by 13.6% or €19.3 billion, deposits rose further in the first four months of this year by €4.92 billion or 3.0%. Compared to the same period last year, they were higher by €20.9 billion or 14.6%, which highlights the acceleration of their growth. The new rise came exclusively from higher household deposits, by €5.0 billion (+3.9%), as corporate deposits marginally declined (-€80 million or -0.2%).

While the trends just mentioned favour credit expansion by banks, the prolonged uncertainty over the duration and severity of the health crisis, as well as its impact on lending, will continue to have a deterrent effect on bank lending, at least in the first half of 2021. The suspension of activity in many sectors from last November, which continued in most of them until the end of April, exerted additional pressures on business turnover and household incomes, affecting their ability to service debt. That said, the further suspension of bank loan instalments, by the end of 2021 at the latest, will have a deterrent effect on these developments reflecting in non-performing loans (NPLs). The most likely component of the above is the significant resurgence of bank defaults. The results of the four systemic banks for 2020 include balances of loans that were found in a payment moratorium of €3.1 billion. However, banks have set much higher forecasts for both the loan moratoria and other loans that may turn into non-performing loans in 2021. According to the Bank of Greece, the balance of moratorium loans at the end of 2020 was €4.1 billion, as the suspension period had expired for 85% of the loans subject to this scheme before the end of the year. Although the possibility of further suspension of payments has since been extended, which has again expanded the loans under this scheme, it is considered that the relevant provisions of the banks are sufficient.

Uncertainty about the evolution of the pandemic will also be the reason why the demand for capital from businesses and households is expected to be subdued this year. Having said that, the rather strong increase in exports of non-petroleum goods in the four months of January-April (+17.6%), following their slight increase last year (+2.9%), due to the high competitiveness of certain industries and parts of the primary sector, facilitates their financing. The continuation of significant progress in vaccination in Greece and the possible persistence of new cases of COVID-19 at quite low levels, not only in summer but also in autumn, will be important factors in substantially weakening the uncertainty, allowing the recovery of both supply and demand for bank credit.

Regarding the evolution of non-performing loans (NPLs), they declined sharply in the first quarter of this year. In particular, they stood at €47.2 billion in December, up from €58.7 billion last September and €68.5 billion the year before. Thereafter, they accounted for 30.2% of total loans by the end of 2020.[6] However, there is a slowdown in their decline in the first half of April-September last year, during which they were reduced by only €2.2 billion. The significant acceleration of the decline in the stock of NPLs towards the end of 2020 was mainly due to within-group transfers of NPLs by Eurobank and Piraeus bank, in the context of securitisation transactions, with simultaneous corporate transformation (hive down), as well as in the agreement for the sale through securitisation of loans by NBG. These transactions took advantage of the state guarantee programme for securitisation of bank loans ("Hercules" programme). Last year, loans amounting to €19.3 billion were sold on an individual basis using this programme. The write-offs of NPLs reached €2.6 billion, while their reduction from receivables through active management (restructuring / loan arrangements, collection of arrears, etc.) was smaller. According to the BoG, borrowers' support interventions, such as the suspension of loan instalments, the instalment subsidy (GEFYRA (BRIDGE) I and II programmes), as well as the suspension of enforcement measures, also contributed to the decrease in NPLs last year.

The revised targets for the reduction of NPLs set by banks for the period until the end of 2021, when they should have been reduced below 20% of loans, combined with the quite possible increase in non-performing loans due to of the health crisis, highlight the need for immediate use of all reduction possibilities. As the provision of guarantees by the Greek state under the "Hercules" programme was completed at the beginning of last April, on

[6] Financial Stability Report, Bank of Greece, June 2021

12/03/21 a request for its extension was submitted to the Directorate-General for Competition of the European Commission, which was approved on 09/04/21. In the first period of operation of " Hercules", the non-performing loans of the four systemic banks were reduced by €31.35 billion. Through Hercules II the banks could proceed with securitisation of NPLs of up to €32 billion, with €11-12 billion of new government guarantees. At present, the largest banks have expressed interest in securitisation of loans of €18.6 billion through the new programme. Within the second quarter, two NPL transactions took place, both in June. Piraeus Financial Holdings sold a portfolio of non-performing exposures Sunrise I with a total gross book value of €7.2 billion and Alpha Services and Holdings sold 51% of the securitisation bonds of mezzanine and low (junior) non-performing securities with a total value of €10.8 billion.

As mentioned above, in order to shrink the NPLs, some banks have launched operational transformation processes through hive down. According to the Bank of Greece, other systemic solutions should be implemented to reduce the NPLs, such as the creation of a troubled asset management company (Asset Management Company or "bad bank"), which will be linked to addressing the issue of the deferred tax asset (DTC). This approach seeks to gradually record the relevant losses, so that the capital adequacy of banking institutions does not fall below the minimum supervisory threshold. Such a plan was submitted in mid-September by the BoG to the government and institutions and was presented at the end of December to the bank administrations. The Governor's Report for 2020 states that "The Government is considering the establishment of an asset management company". The settlement of NPLs as soon as possible, in combination with the utilisation of the ECB's financial instruments, will make a decisive contribution, when the new coronavirus has weakened significantly and for a long time, to a strong credit expansion, mainly to businesses, but also to households.

Despite the significant difficulties in the smooth functioning of the economy from the successive strong outbreaks of the health crisis since last autumn, in Greece and internationally, the banking system has domestically significantly escalated the provision of loans to businesses, resulting in credit growth overall to the private sector in 2020. As recorded in the previous IOBE report on the Greek economy, the average growth rate of loans to non-financial corporations last year was 5.6%, with continuous escalation over the year and approaching 10% towards the end of the year. This rate of credit expansion is the highest in the last eleven years. Credit shrinkage to households continued last year, at an average rate of 2.7%, while overall loans to the private sector expanded last year, for the first time since 2010, at an average rate of 1.2%. As also mentioned in previous IOBE reports on the Greek economy, the high boost in corporate lending is largely related to emergency liquidity schemes to address the effects of the pandemic, such as TEPIX II and the Business Guarantee Fund COVID-19, both from the Hellenic Development Bank. The aforementioned significant repayment of deposits and the extensive liquidity of the ECB also contributed to this.

The provision of bank credit to non-financial corporations at a high pace continues in the initial four months of 2021. However, it showed a de-escalation during this period compared to the end of the previous year, as its growth fell from 10.4% in January to 6.7% in April. During the same period, the rate of credit contraction to households was unchanged compared to 2020, in the area of 2.5%. Subsequently, the average growth rate of loans to the private sector as a whole in January-April of this year was 3.0%. It is pointed out that the de-escalation towards non-financial corporations is not related to a similar trend in the total financing of the economy by banks, the expansion of which has accelerated since the beginning of 2021. The smaller increase in loans to the business sector is due to the sharp escalation of lending to the General Government, with the relative average rate reaching 87.4% in the initial four months, which is the highest over time. Subsequently, the interconnection of the banking system with the government was significantly increased (more information in subsection 2.2.C of this bulletin).[7]

The financial facilities from the ECB and, as it continues, the rapid expansion of deposits, allow the continuation of the credit expansion to companies in 2021. The second development this year will be related to the dynamics of the pandemic, which will affect both the supply and demand of loans, as well as the trend of NPLs. Based on the data on the instalment moratorium loans at the end of last year, such as the banks' forecasts on how many of them will become non-performing in 2021, no strong expansion is anticipated in the near future.

The provision of liquidity to companies continues to be done on very favourable terms: the average interest rate on new loans to non-financial corporations stood at 2.88% in the first four months of this year, marginally lower than in the last quarter of 2020 (3.02%), which is a new minimum at least since 2010. The average interest rate of the same category of new loans to freelancers fell significantly in the same period, to 4.64% from 5.7% the previous quarter, a level that is also the lowest since at least 2010. In the new consumer loans to households, the corresponding average interest rate was 9.54%, slightly lower than at the end of last year (9.58%). However, these levels are close to the highest levels since 2012.

The lower bank lending rates of companies and freelancers in 2020 are also related to the sharp de-escalation of the lending rates of the Greek government. As mentioned in previous IOBE reports on the Greek economy, following the upgrade in February 2020 by the Fitch rating agency of Greece's credit rating from BB- to BB, as well as the issuance in the same month of a 15-year bond, with a particularly high demand and a coupon rate of 1.875%, the average yield of the ten-year Greek government bond stood at 1.07%, a level that was then at least the lowest since 1993. Despite the successive outbreaks of the pandemic since last November, the growing concern about the ability to control it, mainly due to coronavirus mutations, and its strong impact on public finances, capital markets have remained particularly accessible for the public sector of Greece and other EU countries, thanks to the ECB's monetary policy measures mentioned above. In the case of Greece, the ratings of credit rating agencies also contributed, as they did not change, despite the crisis.

Thus, the average yield on the ten-year bond declined further in the final quarter of last year and in January this year, to 0.65%, a level that is the lowest ever. At the end of January, the Greek government again took advantage of these favourable conditions and the confirmation of Greece's credit rating at investment grade "BB" by Fitch, proceeding with the issuance of a 10-year bond. With this, it raised €3.5 billion, with a yield of 0.807%, the lowest ever for all Greek government issues. Demand was particularly strong, with offers exceeding the issue by 9 times. In mid-March, the 30-year bond issue received bids of €26 billion and finally raised €2.5 billion, at a coupon rate of 1.95%. At the beginning of May, the Greek government issued a 5-year bond, with bids exceeding €20 billion, while €3 billion was raised, with a rate of 0.17%, while a month later it continued with a 10-year bond, which raised 2.5 billion, at a yield of 0.888%, in conditions of particularly high demand (€29 billion). With this release, the target of raising €12 billion from the markets this year was approached.

[7] Financial Stability Report, Bank of Greece, June 2021

However, it is reiterated that the very good climate in the financial markets is not compatible with the still uncertain medium-term economic outlook from the impact of the new coronavirus and especially with its strong impact on public finances. According to the Stability Programmes recently adopted by the European Commission, in many EU countries the public deficit will be as high as last year. Such a development again entails a significant burden on the public debt, which for countries where it is already high, may make it disproportionately difficult to refinance for a period of time. Therefore, the international financial situation is likely to change and worsen, especially when COVID-19 declines steadily and the emergency liquidity support interventions of the largest central banks internationally decrease considerably. In a recent report on Greece, Moody's said that its high public debt, which remains the main challenge for the country's debt.[8] Therefore, favourable access to capital in the medium term by the Greek state, banks and large enterprises should not be taken for granted. In the four months of February-May, the average yield on the ten-year bond was growing, standing at 0.99% in May (for more information, subsection 2.2 C of this bulletin).

Especially for the largest non-financial corporations, the possibilities of access to financing outside the banking system, i.e. from the capital markets, and their wider prospects, seem to be improving in the recent period, based on the evolution of the Composite Index of the Athens Stock Exchange. From the end of last October until mid-April, the index was constantly rising, with the exception of January. As a result, it rose during this period from 569.5 points to 902.4 points (+332.9 points or +58.5%). From then until the end of June it hovered around the recent level, which is a short distance from its average level before the pandemic, in the area of 920 points. Therefore, it seems that investor confidence in the prospects of listed companies has returned to pre-health levels, despite its prolonged escalation in the first four months of this year. Its weakening since then, in combination with the start of the inflow of the resources of the Recovery Fund soon, create prospects for the index to rise in the next period.

Investor confidence in the prospects of larger domestic companies is reflected in the upward trend in corporate bond issues. The absence of activity in the issuance of bonds in the period November '20 - January '21 is considered to be largely related to the second lockdown. In February, PPC raised €650 million at a rate of 3.875%, against an initial target of €500 million, with bids reaching €3 billion. Following this successful process, Public Power Corporation S.A (PPC/DEI) raised an additional €100 million at the end of March. At the beginning of March, a new Tier II bond was issued by Alpha Bank, amounting to €500 million, with a coupon of 5.5% and offers exceeding €1 billion. In addition, in mid-March Motor Oil raised €200 million in a seven-year bond loan, at a rate of 1.9%, while the issue was covered 5.1 times. At the end of April, Mytilineos proceeded with the issuance of a bond of €500 million, lasting 5.5 years, with a rate of 2.25% and oversubscription of almost four times. Forthcoming issues are expected from Hellenic Petroleum, Ellaktor and again from Motor Oil, while more are likely to take place. This activity will be reflected in investment.

Regarding the possibilities of business financing from the public sector, as pointed out in previous IOBE reports on the Greek economy, the resources of the Next Generation EU (NGEU), amounting to €750 billion, will be the most important additional source of investment funds in the coming years. As known, all the Member States had to submit to the European Commission a plan for the utilisation of the aid from the new European fund by 30 April 2021. Greece's National Recovery and Resilience Plan was presented on 31/03/2021. According to it, Greece will receive up to €18.2 billion in grants and up to

[8] Annual Credit Analysis, Moody's, May 2021

€12.7 billion in loans, i.e. a total of €30.9 billion, in the period 2021-2026. However, together with domestic funds, the total capital resources that will be allocated for investment in the context of the implementation of the Recovery Plan, are projected to reach €57.5 billion. The plan includes four pillars: a) Green Transition, b) Digital Transition, c) Employment, Skills, Social Cohesion and d) Private investment - transformation of the economy, with the first pillar expected to raise the most resources, both from the EU and domestically. The Explanatory Report of the State Budget for 2021 predicted that the resources to be raised from the NGEU this year will be approximately €5.5 billion. Following the recent approval of the Greek Resilience and Recovery Plan, it was announced that €8 billion is expected to be disbursed later this year, with half of these resources disbursed in August. Given that the absorption rate of NGEU funds is among the factors influencing the assumptions of alternative macroeconomic scenarios, if it is close to the above announcements, it will contribute to the realisation of the baseline scenario.

Regarding the regular state financing of investments, through the Public Investments Programme, the relevant target set in the draft is €6.75 billion. This does not include transfers due to COVID-19. This target was set for the sixth year. In the initial five months of 2021, PIP grants reached €3.56 billion, far exceeding the relevant target in the 2021 Budget (€1.74 billion) and to a lesser extent the corresponding last year's disbursements of funds (€3.36 billion). However, a significant part of this year budget, €1.59 billion or 44.7%, was related to aid due to the pandemic, mainly in the form of a repayable advance (€1.1 billion). Excluding these, the PIP expenditure totalled €1.97 billion in the period January-May. Therefore, it again exceeded the target in this year's budget, which did not incorporate extraordinary transfers. Taking into account the dynamics presented by the provision of resources through the PIP until May, as well as the fact that the Programming Period 2014-2020 is nearing its completion, it is estimated that the support of investment projects through the PIP will exceed its level in 2020 (€6.37 billion).

The extraordinary measures of last March included the immediate payment of all overdue obligations of the State to citizens and businesses for cases amounting to €30k. Arrears (excluding tax refunds) stood at €1.56 billion at the end of February 2020. According to the latest figures, at the end of April this year they reached €1.75 billion.[9] In the interim, they were higher (€1.85 billion, June 2020, €1.92 billion, March 2021), but also lower than the recent level (€1.2 billion, December 2020), which indicates the repayment of some of them and the creation of new ones. No information is provided on the budget implementation sheets regarding the amount of arrear payments made during this period. The Budget Explanatory Report for 2021 states that the implementation of the action plan for the settlement of arrears adopted in October 2019, was negatively affected by the health crisis and the measures adopted to contain the pandemic. In addition, it is stated that, in order to restore the pace of implementation of the action plan and the achievement of the relevant objectives, the institutions have adopted on a case-by-case basis measures to reduce their accumulated overdue debts. Therefore, there is no central planning to limit arrears. In addition, no targets have been set for their level at the end of 2021. In view of the above, no substantial de-escalation of arrears is expected by the end of this year.

As analysed in previous IOBE reports on the Greek economy, the implementation of privatisations last year showed a strong lag compared to the target, as revenues from tenders reached approximately €58.5 million, compared to a target in the 2020 Budget of €2.45 billion. Therefore, real revenues accounted for only 2.4% of the target.

[9] Source: Bulletin of monthly data of general government – April 2021, Treasury of the State, June 2021

In the Explanatory Report of the State Budget for 2021, the target of privatisation revenues is €1.79 billion, of which €1.47 billion is expected to come from tenders that will be completed this year and €321 million either from tenders for which binding offers have been submitted and the expected first disbursement will take place in the current year, or from instalments of completed transactions of previous years. The largest part of the second amount is, for another year, the expected first instalment from the sale of Hellinikon S.A. (€300 million). The height of the target, which is clearly lower than in 2020 and not far from their maximum level in 2017, in combination with the fact that last year many tender procedures started (DEPA Infrastructure, DEPA Commerce, ports of Alexandroupolis, Igoumenitsa and Kavala , Egnatia Odos etc.), had been considered from previous reports as making it possible to achieve or approach the expected revenues, if the domestic economic climate shows a trend of continuous improvement, a perspective which is linked to the evolution of COVID-19. However, if the uncertainty about the dynamics of the pandemic remains strong, it will have a negative impact on the activity of the HRADF and especially on investment interest.

The economic environment for most of the first half of this year was more relevant to the second of the above scenarios of developments in the field of privatisation, which was reflected in the relevant actions. At the end of January, the tendering process for the concession of Kalamaria marina began. At the end of March, investors were pre-selected for the ports of Alexandroupolis and Kavala, as well as for the area of the gas field "South Kavala". At the beginning of April, two binding offers were submitted for the concession of Egnatia Odos and the tendering process for the development of the Heraklion Port Authority began, while towards the end of the same month seven investment schemes qualified for the phase of submitting binding offers for the development of the Igoumenitsa Port Authority. Towards the end of June, the first privatisation process was completed this year, which concerned the sale and transfer of Hellinikon S.A., with HRADF (TAIPED) receiving the first part of the relevant payment of €915 million, amounting to €300 million. Therefore, although several tendering procedures are underway, with some at a mature stage, however in the first half of 2021 the proceeds from privatisations are those from this action. This makes it particularly difficult to meet the revenue target for the current year. In addition, following the small progress last year, the low impact of privatisations on investment activity is intensifying.

Pressures on exports of services from restrictions or bans on cross-border passenger travel due to the pandemic, continue to put intense pressure on domestic output and were in the first year of the health crisis by far the strongest among the components of GDP. It is reported that their decline in 2020 exceeded the fall in GDP (-€15.2 billion, compared to -€14.3 billion). Imports are also weakening overall, clearly milder, a trend which is considered to be due in large part to the high import content of exports of products, which showed resilience last year, while showing strong upward dynamics in the first half of 2021. Previously in the current section the available data for the international tourist traffic in the second quarter of this year were presented, from which there are indications of a clear strengthening compared to last year, however it is still significantly lower than 2019. Given, mainly, the significant progress in vaccinations internationally and in Greece, secondly the strong easing of the health crisis in the two months of May-June in most countries, it is now considered likely that international tourism will be much higher than last year's level, with a similar impact on revenues, but will remain at a great distance from the level of 2019, as assumed in the baseline forecast scenario. The weakening of the health crisis in important export destinations will continue to stimulate their demand for Greek products.

In greater detail regarding the recent developments in the export and import flows of basic categories of products and services, according to the most recent available data of the balance of payments of the Bank of Greece, the exports of products, at current prices, widened sharply in the quarter February-April, by 32.6% (+€2.25 billion), in contrast to their decline by 5.7% in the November-January quarter. The increase came mainly (63.0%) from exports excluding fuel-ships, which strengthened by 25.9% (+€1.42 billion), while a quarter earlier they were unchanged (+0.1%). The rest of the increase in goods exports came from the much higher fuel exports (+58.5% or +€824.7 million), due to the large increase in their international prices, as analysed below in the current subsection, in contrast to their contraction by 23.2% in the previous quarter. Ship exports, whose weight in total exports is very small, amounted to €8.3 million, a particularly strong change for their absolute level (+59.7%), following their previous particularly strong increase (+148.3%). Therefore, the particularly significant increase in exports of goods did not come mainly from higher prices. Despite the strong increase in exports of products, the stronger expansion of imports in the February-April quarter (+24.2% or +€2.85 billion), which came primarily (85.0%) from higher imports of goods excluding fuel and ships (+26.7% or +€2.42 billion) and fuel imports (+15.6% or +€416.7 million), led to a widening of the goods deficit by 12.2% or €594.5 million, to €5.46 billion.

Contraction of the services surplus accompanied the widening of the goods deficit during the period February-April. Exports of services were 2.2% higher than a year ago (+€111.3 million), in contrast to its sharp decrease of 29.9% in the previous quarter November-January. Their rise was mainly due to the provision of other services abroad (+€198.2 million or +18.0%), which had strengthened a quarter earlier (+2.0%). Transport services expanded by €139.4 million (+3.7%), in contrast to their decline of 28.1% in the previous quarter. However, the sharp decline in travel receipts continued (-€226.3 million or -69.3%), slightly milder than at the end of 2020 and the beginning of 2021 (-85.3%).

Demand for imported services also increased in the February-April quarter, with a greater relative and absolute intensity than that for services exports (+10.6% or +€427.1 million). The increase was mainly due to the enhanced domestic demand for transport (+13.5% or +€360.8 million), with the contribution of other services to the increase to follow (+18.2% or +€211.0 million). By contrast, domestic demand for tourism services declined again sharply, by 66.2% or €144.6 million. The result of the changes in the two main components of the services balance in the February-April quarter was the further contraction of its surplus by 28.0% or by €315.9 million. As a consequence of this negative development, the deficit of the total balance of goods and services widened in the same period by 24.4% or €910.4 million, compared to a year earlier, at €4.64 billion.

As mentioned above in this subsection, the rise in the price of oil that began at the beginning of last November, continued in the second quarter of this year, with the result that its levels have been consistently higher since the middle of last March than those before the pandemic. An exception to the upward trend was last January and the first half of March. Understandably, the recent upward trend was mainly due to the decline of the pandemic and the gradual lifting of restrictions on industry activity and travel in most developed countries. This development is considered to have resulted from the strong acceleration of the growth rate in China, the second largest oil consumer country in the world, which in the initial quarter reached the time high level of 18.3%, as also mentioned above. In the U.S., which is leading the oil consumption, there was a change in the trend in GDP at the beginning of 2021, to a marginal recovery, from a recession at the end of last year.

OPEC+'s decision to cut mildly the decline in production of its members from January of this year (-7.2 million barrels per day), which continued in February (-7.125 million), adding a gradual increase in production of 1 million barrels per day from Saudi Arabia, and has expanded until the end of May, is estimated to have contributed to some extent to the observed upward trend in prices in 2021, as the global economy and subsequently oil demand recovered much faster. For June, it was decided to ease the production limit to 6.775 million barrels, while for July to 6.334 million. In addition, Saudi Arabia increased its production by 350k barrels in June and by 400k barrels in July. Overall, in the second quarter of this year, the price of Brent stood at $68.2, 129.4% higher than a year ago, while its rise in the previous quarter was 22.9%.

The fluctuations in the price of Brent oil, the developments in its production and economic activity highlight the importance of the latter factor in the trend in oil prices above all. As estimated in previous reports, the trend in economic activity globally will depend on the dynamics of the pandemic. As long as its current decline is largely sustained and no new outbreaks occur, e.g. due to COVID-19 mutations, a strong recovery of the global economy will be possible, for which energy needs will increase. According to the most recent OECD forecasts, the growth rate of the global economy in 2021 will be significantly higher than expected last November, of about 5.8%, compared to a previous forecast of 4.2%.[10] In China, the recovery is expected to be around 8.5%, compared with a previous forecast of 8.0%. Much stronger acceleration is forecast for the US, at a rate of 6.9%, from a forecast of 3.2% at the end of last year. If less positive developments take place, e.g. due to delays in vaccination, outbreak of mutations, oil demand will recover more slowly. As far as the supply of oil is concerned, there is no information on changes in OPEC+ production by its members in the coming months. It is estimated that the policy of gradual, mild easing of restrictions followed by this organisation will not be changed. In any case, given the very low oil prices in the third quarter of 2020, its cost is expected to rise compared to 2020. In the case of positive developments in the global economy, the price of oil will be on average 65.0% higher than last year, while under adverse developments the rise will be milder, in the range of 45.0%.

Successive monetary policy interventions by major central banks have prevented large exchange rate fluctuations due to the effects of the pandemic on economic activity and expectations. In addition, in combination with the fiscal measures taken in the economically developed regions, they strengthen the credibility of economic policy in terms of its ability to respond to a particularly unfavourable situation such as the current one. As pointed out in previous IOBE bulletins on the Greek economy, given the stable strategy for dealing with the pandemic in the European Union, with emphasis on vaccination and the availability of investment funds (European Recovery Fund) and current liquidity (ECB interventions), the fluctuation of the euro exchange rate this year, and possibly in the coming years, will depend mainly on the strategy and policy interventions of the new US administration. The $1.85 trillion additional policy interventions in response to the pandemic, approved by the House of Representatives on March 11, are seen as the main reason for the euro exchange rate decline this month. US policy decisions did not prevent the euro from rising slightly in the first quarter of this year, to 1.20, from 1.10 a year earlier, which is considered to highlight the comparatively higher investor confidence in the European pandemic strategy. This average level, as well as the difference compared to 2020, were maintained in the following quarter, where no major policy decisions were taken in both the EU and the US. An important challenge for European policy this semester will be the launch of the recovery fund, as well as the implementation of the Brexit agreement. Next, the forecast for the euro / dollar exchange rate this year is that it will strengthen further in 2021, to 1.19 from 1.14 last year, mitigating slightly the increase in energy costs from the higher price of oil and its effects on the competitiveness of Eurozone goods and services.

[10] Economic Outlook, OECD, May 2021

Regarding the latest trends in parts of the economic activity domestically, as well as in the short-term economic indicators, at the end of the first quarter and at the beginning of the second quarter, it seems that the upward trends in both the production and the demand side are escalating. In detail, on the supply side of the economy, the growth of industrial production escalated sharply in the two months of March-April this year, reaching 13.6%, compared to an increase of 4.0% in the initial quarter of 2021. The particularly strong increase is partly due to the low basis of comparison a year ago, when at the beginning of the pandemic the industrial sector's output had declined by 5.4% in that two-month period, due to an 11.0% decrease in April. At the level of key industrial sectors, the strong escalation came mainly from Manufacturing, where production expanded by 12.4% compared to a 2.0% increase at the beginning of this year. The contribution of Mining-Quarrying to the strong growth was also significant, with the growth rate reaching 22.4%, from just 0.9% two months earlier. Electricity Production remained on a strong upward trajectory, at a rate of 20.0%, from 11.2% in the two months of January-February. In Water Supply there was the smallest increase in output, by 1.3%, compared to a drop of 0.8% at the beginning of this year. Construction activity escalated sharply in the two months of February-March covered by the new data compared to the previous report, as it increased by 33.2% in surface terms and by 36.0% in volume terms, with the increase in permits being milder (+19.9%). In the first month of this year the corresponding changes were 4.9%, 5.4% and 6.4% respectively.

In terms of the indicator that reflects the climate and the demand side of the domestic economy, the volume index in Retail Trade (seasonally adjusted) showed an unprecedented increase in April, by 38.3%, as in contrast to this year, a year earlier the sector was suspended. However, in the previous months it showed a continuous weakening in the fall of its product, with the result that in March it was marginal (-0.6%).

Taking into account for the realisation of macroeconomic forecasts mainly the recent and possible developments regarding the COVID-19 pandemic, e.g. the spread of strong mutations of the virus, the escalation of the vaccination process, the greater possibility of detecting the virus (self-tests), the clearly more than originally planned measures to support households and businesses at home, the faster recovery of the global economy, the significant contraction of household consumption expenditure in the first quarter of this year is anticipated to be reversed from the following quarters. Firstly, given the particularly strong decline in private consumption during the pandemic in the second quarter of last year, and secondly the gradual lifting of restrictions on Retail trade from the beginning of April, earlier than a year ago, its growth in the second quarter is anticipated to be strong. The large accumulation of savings by households, amounting to almost €14 billion since the onset of the health crisis, could fuel the increase in their consumption in this and the next quarters of this year. Income tax breaks (social security contributions, social solidarity levy) are an additional factor in stimulating the consumption potential of the private sector this year.

Although there is potential for a significant increase in consumer spending, its dynamics will depend to a large extent on the evolution of the health crisis and the intensity of public health protection measures. These affect consumption directly, by whether or not and how (e.g. physical - online stores) industries and activities in which a significant part of private consumption takes place (Retail, Tourism, Catering, Arts-Entertainment, Transport, etc.) operate, as well as indirectly, through their effects on employment. Contrary to the restrictive measures, the measures to support businesses and households have an effect in each case. Unless there is a new significant outbreak of the pandemic in the second half, e.g. in the autumn (baseline forecast scenario), the operation of sectors that mostly account for household consumption will be generally uninterrupted. In addition, as businesses become wary of a new outbreak of the pandemic, employment will escalate slightly, especially in the sectors where economic activity was hit particularly hard last year, but also in Manufacturing, whose activity has shown considerable resilience in the current crisis, with stimulating effects on domestic income and consumer potential. Job growth is also estimated to come by the escalation of investment activity, due to the provision of liquidity by banking institutions, but also by the PIP and the recovery fund. A significant increase in jobs in the baseline scenario will result in the lifting of support measures, which will lead to the loss of many of those maintained with the help of state aid. Otherwise, i.e. a new outbreak of the pandemic, the consumer mood, but also the possibilities of consumption will be limited. Also, the pressures on a part of the companies in suspension will be strong, following the previous lockdowns and despite the additional support measures that will be taken. Given the macroeconomic forecast scenario, it is predicted that the increase in private consumption will be in the range of 3.5-4.5%, while in the case of the unfavourable scenario its increase is projected between 1.0% and 2.0 %.

As for the developments in public consumption this year, the continuation and escalation of extraordinary expenditures due to COVID-19, mainly for staff in the public sector, for infrastructure and ICT equipment, for the supply of vaccines and tests, for the increase of ICUs (intensive care units) etc., will stimulate its consumption demand. Taking into account the amount of business and household support interventions in the first half of 2021 and the recent budget announcements for the current half (€4.5 billion), under the baseline scenario of macroeconomic developments they are estimated to be much higher than expected in the 2021 Budget, almost double, leaving slightly behind those of last year. In addition, they will be more forward-looking compared to last year, stimulating more domestic economic activity, but also imports. Having said that, they will be no retroactive payments to retirees again this year, as in the fourth quarter of last year. A common component of the above trends in public consumption expenditure is expected to be its widening compared to last year's level, by 3.0% to 4.5%. However, if a new outbreak of the pandemic occurs in the July-December half of the year, additional emergency expenditures and support interventions will probably be needed, leading to an increase in consumer spending, in the range of 5.0% - 6.0%.

As far as investments are concerned, the continued return of deposits from the private sector at a high rate, the systematic reduction of non-performing loans, as well as the access of banks for the first time to an ECB securities purchase programme due to the pandemic, continue to enhance the liquidity of banking institutions, which is far from the levels it was at a few years ago. Subsequently, financial capabilities for businesses have improved. These have already been reflected in the strong credit expansion to the non-financial sector in 2020, which continued and escalated sharply over time. Having said that, in the first four months of 2021, the expansion of lending to businesses is slowing down, due to the particularly strong expansion of bank financing to the public sector. This trend raises uncertainty about banks' financing priorities and, more broadly, whether significant additional liquidity is utilised for productive purposes, and raises questions about the degree of interconnection of the banking and public sectors.

In any case, the increased bank lending from last year, which continues, has already made it possible for a large number of companies to make investments this year. The easing of pandemic caution is a key condition for the implementation of the investment plans of many of them. Companies from Manufacturing activities, the demand of which is related to the health crisis or have shown resilience to it (e.g. Medicines, Electronics, Plastics), are considered the most likely to expand their investment activity. The implementation of "Hercules II" will substantially contribute to the coverage of any negative developments in the assets of banks from the pandemic, such as an expansion of NPLs, but also further, in their reduction, favouring credit expansion. The Bank of Greece's estimate for new NPLs in 2021, repeated in the Governor's Report, is between €8-10 billion.[11] In terms of deposits, their trend in the rest of 2021 will also be correlated with the evolution of the health crisis. If this does not recover, the momentum towards consumption will increase, weakening or reversing the saving propensity.

As pointed out in IOBE bulletins, aid from the aforementioned and other emergency actions to address the effects of the pandemic on businesses and the self-employed (e.g. repayable advance), although not investment-related, is partly reflected in investment to GDP, as they are available under the Public Investment Programme. The continuation of such actions in 2021, which were previously listed in the current sub-section (repayable advance No. 5-6-7, business guarantee fund), is still financed in part or in full through the PIP, so they are expected to maintain a large part of the 2020 fixed capital formation. Regardless of these more technical effects on investment and GDP, investment aid through the PIP is projected to be around last year's level or slightly higher this year, as funding for the 2014-2020 Programming Period is completed.

The most decisive factor for the impact of the public sector on investment activity this year, but also in the coming years, will be the resources of the Next Generation EU, in combination with the national resources that it will leverage. Following the recent developments mentioned above and showing a higher-than-expected budget inflow of resources this year, their stimulus effects on investment activity under both macroeconomic scenarios, will be stronger than expected in previous Greek IOBE bulletins.

The significant under-implementation of the privatisation programme in 2020, which is also related to the pandemic and continues in the first half of 2021, will result in their small contribution to investment activity this year, possibly next year, given the long period maturation required for projects of this scale. Such indicative current investments are those in the regional airports and the Athens International Airport, as well as for the expansion of the passenger port of PPA. However, the recent completion of the Hellinikon concession creates very important medium-term prospects for investment, economic activity in general, as well as for employment.

The halt of the decline in fixed capital formation in 2020 came from construction projects, as they showed a particularly strong increase at the beginning of the year, which continued to weaken, until last September. However, as can be seen from the trends in relative short-term indicators set out earlier, construction projects appear to be on the rise again at the beginning of this year. This has already been reflected in the formation of fixed capital in GDP and is estimated to continue in the coming quarters.

Therefore, for another year, the level of investment will be determined by a large number of factors, with different effects, in direction and extent. Taking into account these effects, mainly the strong credit expansion to businesses, the extraordinary financial instruments for the pandemic and the PIP resources, as well as the upward dynamics of exports of goods from last year, which determines the investment decisions in Industry, investment is expected in the key macroeconomic developments scenario to recover by 14-17%. If there is a new pandemic outbreak, e.g. in the autumn, investment sentiment will weaken and investment will expand more gently, by between 8% and 10%.

[11] Governor's Report, 2020, Bank of Greece, April 2021

In the external sector of the economy, in the part of exports, the dynamics of exports of services will be the one that will mainly determine their change. As predicted in the previous IOBE bulletin on the Greek economy, the fact that the pandemic showed successive outbreaks at the end of 2020 and in the first quarter of this year, prevented a significant resurgence of tourist interest from the beginning of 2021. Progress in vaccination internationally has gradually counteracted these effects. While the tourist season started in mid-May, as was assumed in the baseline scenario of the previous IOBE report on the Greek economy, with the pandemic in a phase of significant recession in most countries, which continues, however, there are currently some deterrents in international tourist flows. For example, travel restrictions from the United Kingdom and the United States, but also some potential ones, such as the effects of the spread of new mutations. These recent developments and outlooks have been integrated into the tourism revenue assumptions in both macroeconomic projection scenarios, which have been revised slightly down compared to the previous report. Therefore, the boost from tourism will be weaker than projected earlier this year.

In terms of the provision of international transport services, as evidenced by the current account balance data, the increased restrictive measures from last November to the first four months of this year, not only in Greece but also internationally, continued to put pressure on revenues from specific category of services. However, the recovery in the Eurozone, the main export destination, which according to recent forecasts will reach 4.3%,[12] as well as in international trade in products, which according to the World Trade Organization will be in the region of 8.0%, will reheat international transport.[13] Combined with the widespread contraction in the sector last year, no further contraction is expected this year, even if the health crisis re-emerges in the autumn.

Table 3.2

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

	2018	2019	2020	2021
Annual Percentage Change				
Gross Domestic Product	1.6	1.9	-8.2	4.1
Private Consumption	2.3	1.9	-5.2	2.5
Public Consumption	-4.2	1.2	2.7	2.2
Gross Fixed Capital Formation	-6.6	-4.6	-0.6	12.9
Exports of Goods and Services	9.1	4.8	-21.7	9.1
Imports of Goods and Services	8.0	3.0	-6.8	6.3
Employment	1.4	1.2	-1.3	0.4
Compensation of Employees per capita	1.8	1.0	0.0	1.3
Real Unit Labour Cost	1.7	0.2	9.2	-2.0
Harmonised Index of Consumer Prices	0.8	0.5	-1.3	-0.2
Contribution to real GDP growth				
Final Domestic Demand	-0.1	1.0	-3.1	3.7
Net Exports	0.3	0.7	-5.8	0.4
Inventories	1.4	1.0	0.7	0.0

[12] European Economic Forecast, spring 2021, European Commission, May 2021
[13] World Trade Organisation, Press Release No 876, 31/03/2021

As a percentage of GDP				
General Government Balance	0.9	1.1	-9.7	-10.0
Current Account Balance	-3.6	-2.2	-7.8	-7.6
General Government Gross Debt	186.2	180.5	205.6	208.8
In percentage terms				
Unemployment (% of the labour force)	19.3	17.3	16.3	16.1

Source: European Economic Forecast, spring 2021, European Commission, May 2021

The projected growth of the Eurozone in 2021 will escalate the demand for Greek products. Stronger-than-expected growth by 2020 is projected to grow this year in other major export destinations, such as the Middle East-Central Asia and Emerging Europe. Understandably, in case of a new strong outbreak of the coronavirus, e.g. in Europe, the recovery of international demand for Greek products will be milder. Taking into account the mostly positive trends in the factors presented and related to the export demand, in the basic scenario of developments, exports will rise by 12-15% this year, while in the unfavourable scenario the increase will be milder (7-9%).

The strengthening of the domestic demand, but also of the exports of products during the current year, will have a strong positive imprint on the imports of products. In the case of the alternative macroeconomic scenario, the expected softer growth of both will obviously be reflected in import demand, respectively. Following the sharp decline in service imports in 2020, mainly due to lower demand for tourism services, but also for transport, the facilitation of international travel in the summer compared to last year, mainly due to vaccinations and more means of detecting the virus, is estimated that will stimulate the tourism of Greeks abroad this year. However, in the event of a significant recovery of the pandemic, e.g. due to strong mutations, the reintroduction of restrictions will mainly affect this part of imports, significantly mitigating its strengthening. Under these effects, imports are projected to rise in the range of 10% to 13% in the baseline scenario, which would be milder in the alternative scenario (7-9%).

The process of identifying trends in the components of GDP this year, based on different scenarios for developments related to the COVID-19 pandemic in Greece and internationally, as well as other determinants of these, as described above, resulted in corresponding projections for the change in domestic output. According to them, if the health crisis does not show a new strong exacerbation, without ruling out smaller escalations, with a stronger than originally projected recovery of the Eurozone and support transfers quite higher against the target for this year, the Greek economy will grow significantly in 2021, at a rate in the range of 5.0-5.5%. In the event of a new outbreak of the pandemic, domestically and internationally, which will have a negative effect on the tourist season, as well as a milder recovery of the Eurozone, growth will be contained in the range of 2.5-3.0%.

Table 3.3

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

	MinFin		EU		IOBE			IMF		OECD	
	2020	2021	2020	2021	2020	2021*	2021**	2020	2021	2020	2021
GDP	-8.2	3.6	-8.2	4.1	-8.0	+5.0 to +5.5	+2.5 to +3.0	-8.2	3.8	-8.2	3.8
Private Consumption	-5.2	2.6	-5.2	2.5	-4.7	+3.5 to +4.5	+1.0 to +2.0	:	:	-5.2	1.6

Public Consumption	2.7	1.5	2.7	2.2	+2.6	+3.0 to +4.5	+5.0 to +6.0	:	:	2.7	2.1
Gross Fixed Capital Formation	-0.6	7.0	-0.6	12.9	+4.6	+14 to +17	+8 to +10	:	:	-0.6	11.5
Exports	-21.7	10.4	-21.7	9.1	-21.7	+12 to +15	+7 to +9	:	:	-21.7	4.9
Imports	-6.8	6.9	-6.8	6.3	-6.9	+10 to +13	+7 to +9	:	:	-6.8	1.5
Harmonised Index of Consumer Prices (%)	-1.3	0.0	-1.3	-0.2	-1.3	0.3 to +0.6	-0.1 to -0.3	-1.3	0.2	-1.3	-0.2
Unemployment (% of labour force)	16.3	16.3	16.3	16.3	16.3	16.0 – 16.3	17.0-17.3	16.6	15.2	16.3	15.9
General Government Balance (% GDP)	-9.7	-9.9	-9.7	-10.0	:	:	:	-9.9	-8.9	-9.7	-10.1
Current Account Balance (% GDP)	:	:	-7.8	-7.6	:	:	:	-6.6	-3.5	-6.7	-6.5

* Basic IOBE scenario, **Alternative IOBE scenario

Sources: Stability Programme, Ministry of Finance, April 2021 – European Economic Forecast, spring 2021, European Commission, May 2021 - The Greek Economy 02/21, IOBE, July 2021 – World Economic Outlook, IMF, May 2021 - Fiscal Monitor, IMF, April 2021 - Economic Outlook 109, OECD, May 2021

As pointed out in previous IOBE bulletins, developments regarding the health crisis will be the most decisive of the trend in employment and thus of the unemployment rate this year. The continuation of public health protection measures in the first months of 2021 escalated the pressures on employment of the sectors in suspension of operation and related activities (Retail Trade, Tourism, Food services, Transport, Arts-Entertainment), as shown by the relevant data in the previous subsection. The phasing out of the measures from the beginning of the second quarter, which started with Retail Trade in April, continued in Food Services and Tourism in May and extended to open-air Arts-Entertainment in June, is estimated to have stimulated employment in these and related activities, which had previously been under strong pressure this year. As long as the pandemic does not resurge, e.g. through some strong mutation, many of the businesses in the above and other sectors will operate, under health protocols, for the most part in 2021. Moreover, the length of the tourist season will be sufficient for more seasonal businesses. Otherwise, protection measures will be restored, e.g. in the fall, however, with less intensity, thanks to vaccination and self-tests, nevertheless limiting the impetus to employment. If the new outbreak occurs within the third quarter, the tourist season will be shorter and that will be reflected respectively in seasonal employment.

It should be noted again that, for those companies that have joined a repayable advance action, there is job protection for certain months. e.g. in the repayable advance 5 scheme, applications for which were submitted until the beginning of last February last year, the jobs of the beneficiary enterprises must be maintained until 30 June. Similarly, in repayable advance 6, applications for which were submitted by the end of February, jobs must be maintained until 31 July. Therefore, even if the suspension of operations and the suspension of employment contracts are completed within the second quarter, a significant part of the jobs will still be under protection for a few more months, which prevents a possible immediate increase in unemployment. Indicatively, it is mentioned that in the repayable advance payment 5 the beneficiaries were 359.7k and in its sixth cycle 286.2k. However, when the protection period expires, a significant increase in the number of unemployed is possible.

The significant decline in the labour force last year, by workers who lost their jobs and were discouraged by the conditions for searching for a new one, is estimated to be reversed this year, increasing the number of unemployed.

The health crisis has created the needs for the provision of specific services (couriers, health services, creation of ICT applications). New jobs were created in 2020 to cover them. This trend is expected to continue this year more mildly, notably in the creation of ICT applications and telecommunications.

Last year's boost in exports, which will continue this year, will support job creation in export-oriented manufacturing. The increased export activity will be reflected in investments, which will also affect positively employment. More broadly, investment will mainly benefit from credit growth from the financial sector.

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

Taking into account the above effects on the labour market, it is estimated that the unemployment rate in the basic scenario of macroeconomic developments for 2021 will be in the range of 16.0-16.3%, i.e. close to last year, while in the alternative scenario it will increase slightly (17.0-17.3%).

As for the expected trends in the key components of the Consumer Price Index for the rest of this year, the effect of demand will depend, as expected, on pandemic developments and their impact on employment and subsequently on disposable income and consumption. Under the baseline macroeconomic scenario, strong public health protection measures will not be reintroduced, as there will be no new severe outbreak of the pandemic, allowing continued activity in the restricted sectors and increased employment. Combined with job creation in export-oriented industries, as well as more investment, this will increase domestic disposable income, boosting consumer demand and then prices. But if there is a new resurgence of the pandemic, the rise in economic activity and employment will be halted again. In general, the concern about the development of the health crisis will dampen consumer sentiment. The earlier a new outbreak occurs, the stronger the negative effects just mentioned will be. In addition, similar effects will be exerted on income and demand. In any case, the reduction of direct taxation is expected to have a positive effect on income, from the suspension of the solidarity contribution and the reduction of social security contributions.

On the side of the expected effects from indirect taxes on CPI, the extension of the reduction for specific goods and services until 30 September 2021 will probably no longer have any substantial effect on prices, given that the reductions were imposed from June last year.

The dynamics of the pandemic through its impact on global demand will determine developments in the field of energy costs. On the energy production side, the mild reduction in cuts in daily oil production by OPEC+ member countries in the first half of this year, which is estimated to continue into the next, current six months, is not sufficient to cover the rapid increase in its demand from the revival of the global economy. The continuous progress in vaccinating the population and the improvement of epidemiological data in the two months of April-May in many countries worldwide, partly due to seasonal factors, reinforce the expectations of exit from the health crisis and support a widening of investments, consumption. Nevertheless, significant challenges remain in dealing with the pandemic, such as the possible effects of mutations of the virus, the continuation of vaccination at a high rate and the effectiveness of vaccines, in order to ensure immunity, drug discovery, etc. In the latest forecasts of international organisations (OECD) the recovery of global economic activity has been revised for the better, with the economy of China, which is the second largest consumer of oil internationally, but also India, leading the way.

Taking into account the above possible trends in the key components of the domestic Consumer Price Index, as well as the effects of similar trends in the past, as well as the rate of change in the first five months of this year, the baseline macroeconomic scenario predicts an inflation rate of 0.3% to 0.6%. Under the alternative macroeconomic development scenario, the milder rise in consumer demand and the negative impact of indirect taxes will curb rising energy costs, leading to a new, marginal decline in consumer prices (-0.1% to -0.3%).

3.2 Developments and Prospects in Key Sectors of the Economy.

- Industrial production growth in the first four months of 2021 by 8.7%, against a 3.4% decline in 2020
- A further decline in Construction in the first quarter of 2021, by 5.6%, following a decline of 6.2% a year ago
- Turnover increase by 4.0% in the first quarter of 2021 in Retail Trade against a decrease of 4.0% a year earlier.
- Turnover increase in eleven of the thirteen sub-sectors of Services last year

Industry

In April 2021, the industrial production index strengthened sharply, by 22.5% compared to the same month of 2020, when it had declined strongly. Overall in the first four months, the index increased by 8.7%, instead of decreasing by 3.4% in the same period of 2020.

Over the same period, the prices of industrial products strengthened by 4.1%, when a year earlier they had fallen by 5.3%. The increase is due more to the increase in prices of exported products (+6.9%, instead of a decline of 12.5% last year) and less to the prices of products available on the domestic market (+3.3% instead of a decrease of 2.9% in 2020).

Industry turnover appears to be recovering in the four months of January - April 2021 to pre-pandemic levels as the relative index increased by 12.0%, instead of losses of the same extent (12.0%) a year ago.

In the Eurozone, industrial production in the same period increased at a rate of 10.0%, when in 2020 it showed losses of 11.4%.

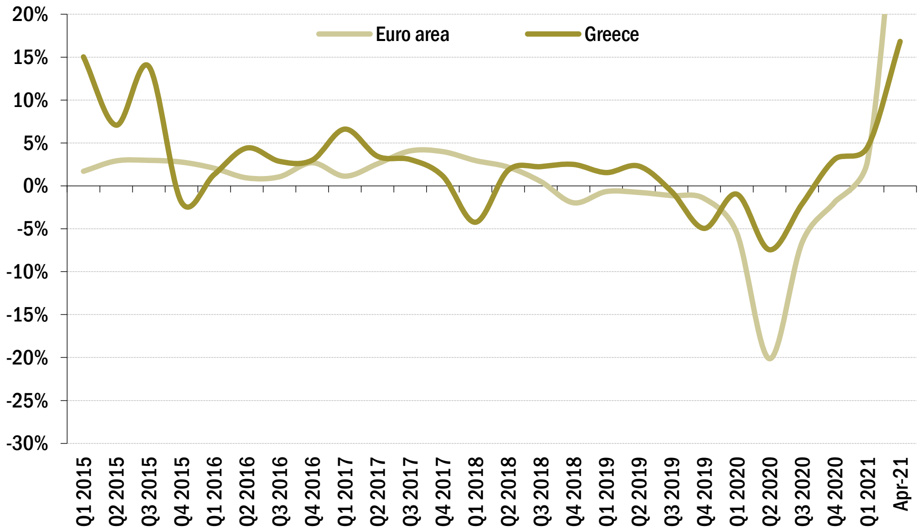
All the main sectors of Greek industry performed better than last year in the period January - April 2021. In greater detail, the largest increase was recorded in the production of Electricity Supply (+14.9% instead of -9.4% in 2020), followed by the production of Mining - Quarrying (11.5% instead of -2.6%) and Manufacturing (7.4% instead of -2.1%). Production in Water Supply improved marginally (+0.3% instead of +0.8% in 2020).

In the Mining-Quarrying sectors, production in Mining of Coal and Lignite - Extraction of Crude Petroleum and Natural Gas in the first four months of 2021 more than doubled compared to 2020 instead of a sharp decline by 85.9% last year. There was an increase in Other Mining and Quarrying (+17.0%, from -8.9% in 2020), while production in Mining of Metal Ores was marginally reduced (-0.1% instead of +34.0% a year earlier).

In Manufacturing, one of the key sectors for the Greek economy, pharmaceutical production strengthened by 10.4% following a strong increase of 16.2% in 2020. This was followed by an increase in the production of Basic Metals (+7.9% instead of -8.9%) and Food, whose production increased by 0.5%, instead of an increase of 2.0% in the same period of 2020.

Figure 3.2

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



IPI strengthened by 8.7% in the first four months of 2021, against a 3.4% decline in the same period last year.

Sources: ELSTAT, Eurostat

Production also increased in most of the other manufacturing sectors. In the remaining Manufacturing activities, it increased by 28.8% (instead of losses of 16.1% last year), followed by an increase in the manufacture of Electrical Equipment (+26.3% instead of -7.0%), the production of Textiles (+24.3% instead of -12.2%) and Tobacco Products (+22.8%, then +3.7%). By contrast, the manufacture of Motor Vehicles and Trailers (-9.4% instead of +33.0% a year ago) and the Repair and Installation of Machinery and Equipment (-5.1% after a decline of 4.9% recorded a decrease compared to last year) declined year on year. Marginal losses were recorded in the manufacture of Leather Products (-0.2% instead of -43.8% in 2020), Paper (-0.2% compared to +9.2%) and Wood (-0.1% against -10.4%).

Finally, output strengthened in the five main groups of industrial products. In greater detail, production increased in Capital goods by 11.7% (instead of losses of 0.8% in 2020) and in Intermediate Goods (10.0% instead of -4.1%), followed by Durable Consumer Goods (9.7% against -15.2%), Energy (9.1% instead of -7.0%) and Non-Durable Consumer Goods (6.5% instead of 0.7%).

Construction

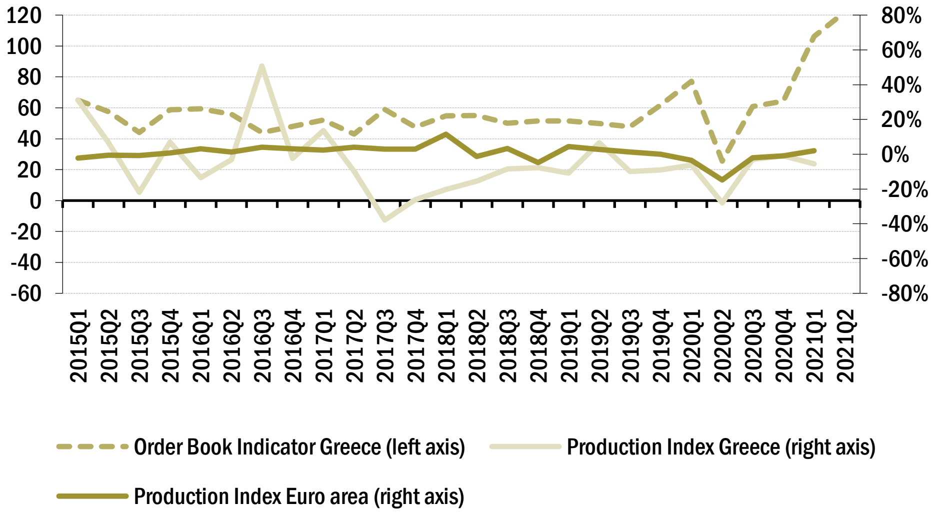
In the first quarter of 2021, the production index in the Construction sector decreased by 5.6%, following losses of 6.2% in the same period of 2020. In the sub-indices, the Construction of Buildings decreased by 15.1% compared to 2020, when it had risen marginally (+0.5%). Output of Civil Engineering increased by 1.6%, against a sharp decrease of 10.7% a year ago.

From the data on construction activity in the first quarter of 2021 there is an increase of 14.7% in terms of the number of licenses, instead of a much higher increase of 43.1% in the same period of 2020. An increase, but milder than last year, was also recorded in terms of surface area (24.7% from 53.4% in 2020) and volume (27.6% instead of 55.7%).

Figure 3.3

Production Index in Construction and Building Activity Index

Output decline in Greece by 5.6% in the first quarter of this year, following a decline of 6.2% a year ago.



Source: ELSTAT

In the Eurozone over the same period, the construction production index strengthened by 2.0%, instead of a decline by 3.5% in the first quarter of 2020.

Retail Trade

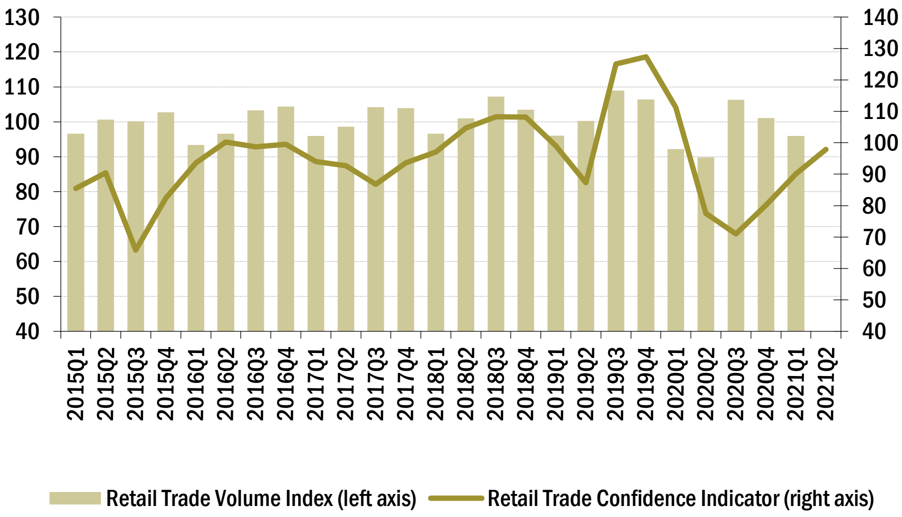
The volume index in the Retail sector in the first quarter of 2021 increased by 5.4% instead of a 4.0% decrease a year earlier. The workload increased in 6 of its 8 sub-sectors. In particular, the largest increase was recorded in Furniture and Electrical Goods (+20.3% instead of -11.6% a year earlier) and Pharmaceuticals – Cosmetics, where turnover increased by 20.2%, following an increase of 10.9% in the first quarter of 2020. This was followed by Department Stores (+11.3% instead of -21.0%), Clothing and Footwear (+11.1% compared to -32.7%) and Stationery-Books where turnover increased by 10.9%, almost offsetting losses in the same period of 2020 (-11.6%). Finally, in Food, Beverages, Tobacco the relative index rebounded at a rate of 9.3% instead of a decrease of 10.5% last year. By contrast, the retail trade of Fuels and Lubricants (-7.4%, followed by a decline-13.3%) and Supermarkets (-2.7% versus of an increase of 13.8%) performed worse than in 2020.

Expectations in the Retail sector during the first half of 2021, as reflected in the leading indicators of the IOBE Business and Consumer Surveys, weakened compared to the corresponding period a year earlier. The relevant index decreased by 3.7 points, following a decrease of 4.1 points a year ago.

In terms of activities, expectations in the first half of 2021 deteriorated mainly in Department Stores (-54.6 points, instead of an increase by 27.4 points in 2020) and in Food – Beverages – Tobacco (-33.2 points instead of an increase of 21.7 points in 2020). By contrast, they strengthened in Motor Vehicles - Spare Parts (+24.2 points instead of -30.5 points last year), in Home Appliances (+14.5 points instead of -3.0 points a year ago) and in Textiles - Clothing - Footwear (+3.4 points instead of -19.9 points last year).

Figure 3.4

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



Increase in retail trade volume by 5.4% in the first quarter of 2021, compared with a decline of 4.0% a year ago. Significant year-on-year improvement in expectations in the second quarter.

Sources: ELSTAT, IOBE

Table 3.4

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Q1 2019	Q1 2020	Q1 2021	Change 2019/2018	Change 2020/2019
Overall Index	96.1	92.2	95.9	-4.0%	4.0%
Overall Index (excluding automotive fuels and lubricants)	95.8	94.2	99.8	-1.7%	5.9%
Store Categories					
Supermarkets	98.7	112.3	109.3	13.8%	-2.7%
Department Stores	88.4	69.8	77.6	-21.0%	11.3%
Automotive Fuels	95.1	82.4	76.3	-13.3%	-7.4%
Food – Drink – Tobacco	78.4	70.2	76.7	-10.5%	9.3%
Pharmaceuticals – Cosmetics	92.5	102.6	123.2	10.9%	20.2%
Clothing – Footwear	106.3	71.5	79.5	-32.7%	11.1%
Furniture – Electric Equipment – H. Appliances	98.8	87.3	105.0	-11.6%	20.3%
Books – Stationary	115.3	101.9	112.9	-11.6%	10.9%

Source: ELSTAT

In particular, expectations for Motor Vehicles stood at 127.5 points in the second quarter of 2021, compared to 57.3 points in the respective period of 2020, during which travel restriction measures were implemented. The current sales balance was positive again, at 11 points, compared to -61 points last year, with a significant increase in the percentage of those anticipating increased sales, and a decline in companies declaring reduced sales, a trend that improves during the months of April - June. On the stock side, the percentage of those who considered stocks to be elevated is lower, with estimates of stable stocks prevailing again. The balance of orders also returned to a positive sign, with 23 points, compared to -59 last year, with a doubling of those who estimate increased orders and a sharp decrease in those who expect a fall in the coming period. In the balance for sales expectations, estimates are even more positive, with 60% expecting increased sales and only 9% expecting sales to decline, bringing the balance to +50 points, compared to -43 points last year. On the employment side, strong signs of stabilisation remain, with a significant decline in negative expectations.

Table 3.5

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

	Q1 2019	Q1 2020	Q1 2021	Change 2020/2019	Change 2021/2020
Food-Drinks-Tobacco	94.0	115.7	82.5	21.7	-33.2
Textiles - Clothing – Footwear	81.3	61.4	64.8	-19.9	3.4
Household Appliances	74.8	71.8	86.3	-3.0	14.5
Vehicles-Spare Parts	118.0	87.5	111.7	-30.5	24.2
Department Stores	93.1	120.5	66.1	27.4	-54.4
Total Retail Trade	101.8	97.7	94.0	-4.1	-3.7

Source: IOBE

Wholesale Trade

During the first quarter of 2021, the turnover index in Wholesale Trade increased at a rate of 2.6% compared to a decrease of 2.2% in the same period of 2020.

Services

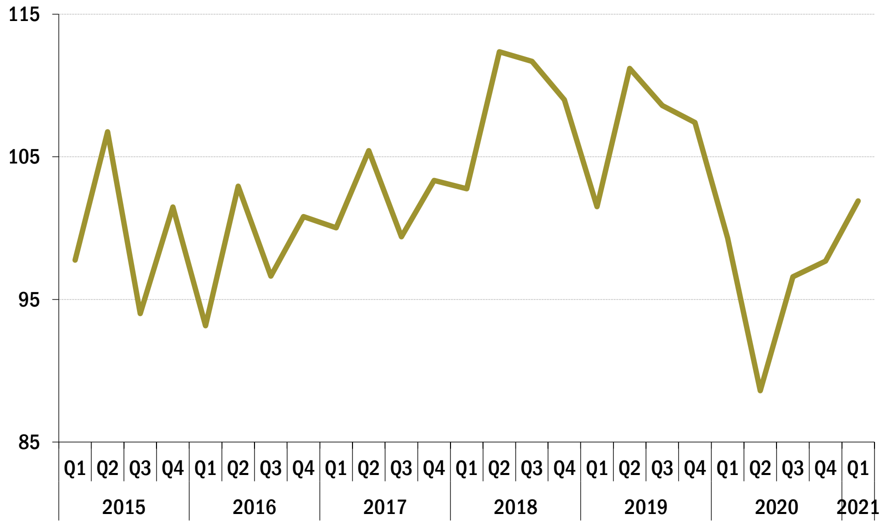
In the first quarter of 2021, turnover declined in 2 out of 13 service sectors compared to the first quarter of 2020.

The largest increase was recorded in Architectural and Engineering Activities (+43.5% instead of an increase of 5.5% a year ago), followed by the services of Office Administrative Activities (+27.5% instead of -10.1%) and Data Processing - Information Activities (+25.6%, then +11.6%). Employment Activities increased by 16.9% (from +2.8% a year ago), while in Publishing Activities turnover increased by 16.0% (instead of -6.4% in 2020). The index of Computer Programming strengthened by 10.4%, following a rise of 14.7% a year earlier, while Telecommunications also moved better (+8.8% instead of +0.4% in 2020).

By contrast, worse than in the previous year were the activity in Security Activities (-3.0% instead of -4.4%) and the cumulative index concerning Legal, Accounting and Management Consultancy Activities (-5.3 % instead of +6.9%).

Figure 3.5

Turnover Index in Wholesale Trade



Increase of turnover in Wholesale Trade in the first quarter of 2021 by 2.6%, compared with a decline of 2.2% a year earlier

Source: ELSTAT

Table 3.6

Turnover Indexes in Services (2010=100)

Branches of Services	% Change. Q1 2020	% Change. Q1 2021
Publishing activities	-6.4	16.0
Architects and Engineers	5.5	43.3
Data and Information service activities	11.6	25.6
Security and investigation activities	-4.4	-3.0
Telecommunications	0.4	8.8
Advertising and market research	1.0	4.2
Postal and courier activities	-3.4	13.3
Computer programming, consultancy and related activities	14.7	10.4
Other professional, scientific and technical activities	-18.8	2.6
Legal, accounting and management consultancy activities	6.9	-5.3
Office administrative, office support and other business support activities	-10.1	27.5
Employment activities	2.8	16.9

Source: ELSTAT

According to recent trends as reflected in the leading indicators of the IOBE Business and Consumer Surveys, whose values concern the first half of 2021, expectations improved in three of the four sectors of Services examined, while the general index of the sector strengthened by 2.4 points, instead of a decrease by 6.4 points a year ago.

The index improved in Business Services (+12.2 points instead of -10.8 points last year) and Hotels - Restaurants (+11.1 points instead of -25.9 points in 2020). Next came the services of Financial Intermediaries (+10.4 points instead of -1.5 points in 2020). In contrast, expectations declined in IT services (-17.8 points, then -15.1 points in the same period last year).

The section concludes with an analysis of trends in business start-ups and terminations in 2020 as well as activity changes that occurred during the pandemic (Box 3.2).

Table 3.7

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

	Q1 2019	Q1 2020	Q1 2021	Change % 20-'19	Change % 21-'20
Hotels – Restaurants – Travel Agencies	93.6	67.7	78.8	-27.7%	16.40%
Financial Intermediation	111	109.5	119.9	-1.4%	9.50%
Other Business Services	88.5	77.7	89.9	-12.2%	15.70%
Information Services	91.9	76.8	59	-16.4%	-23.18%
Total Services	89.1	82.7	85.1	-7.2%	2.90%

Figure 3.6

Turnover Index in Telecommunications (branch 61)

Turnover in telecommunications strengthened by 8.8% in the first quarter of 2021, against a marginal increase of 0.4% a year earlier.

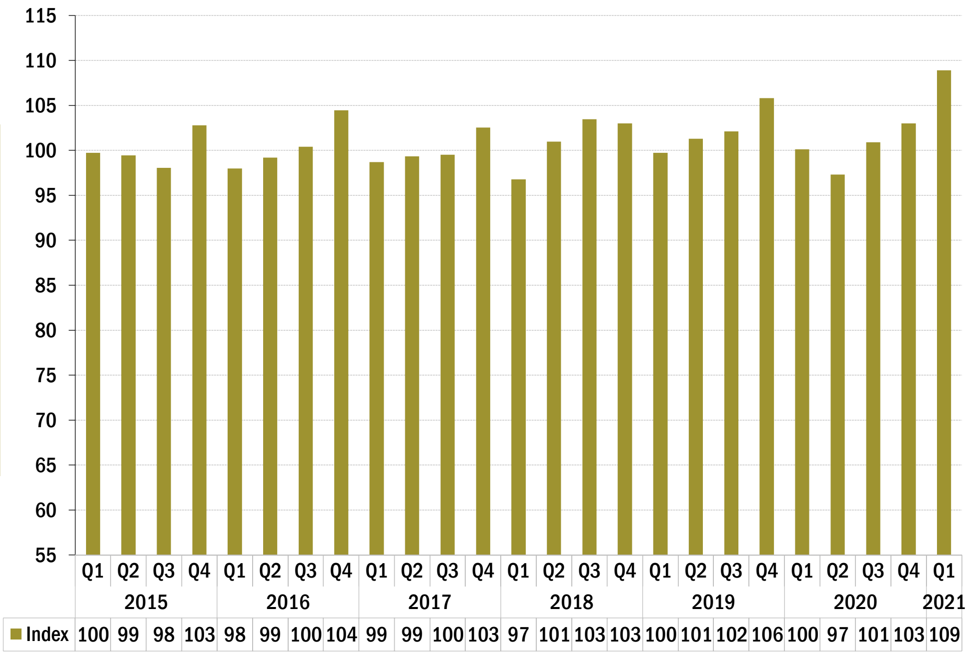
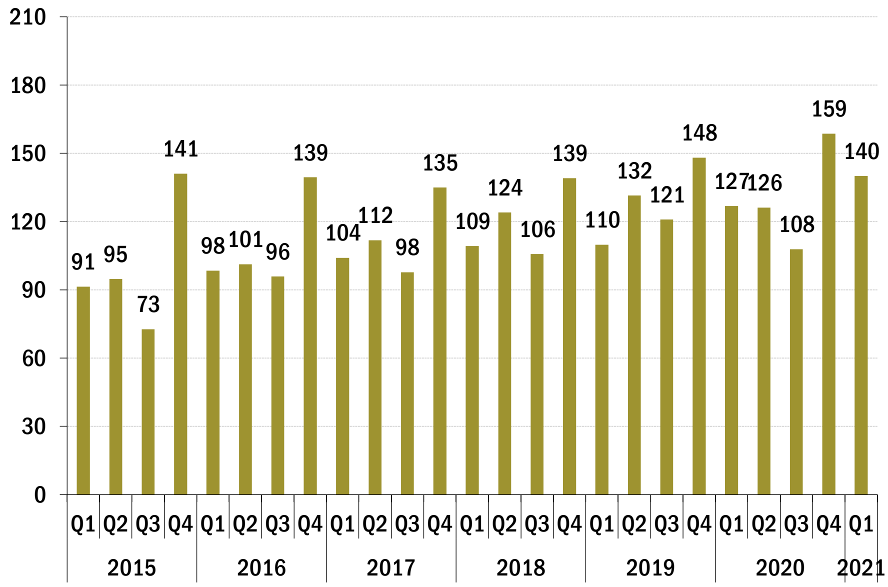


Figure 3.7

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

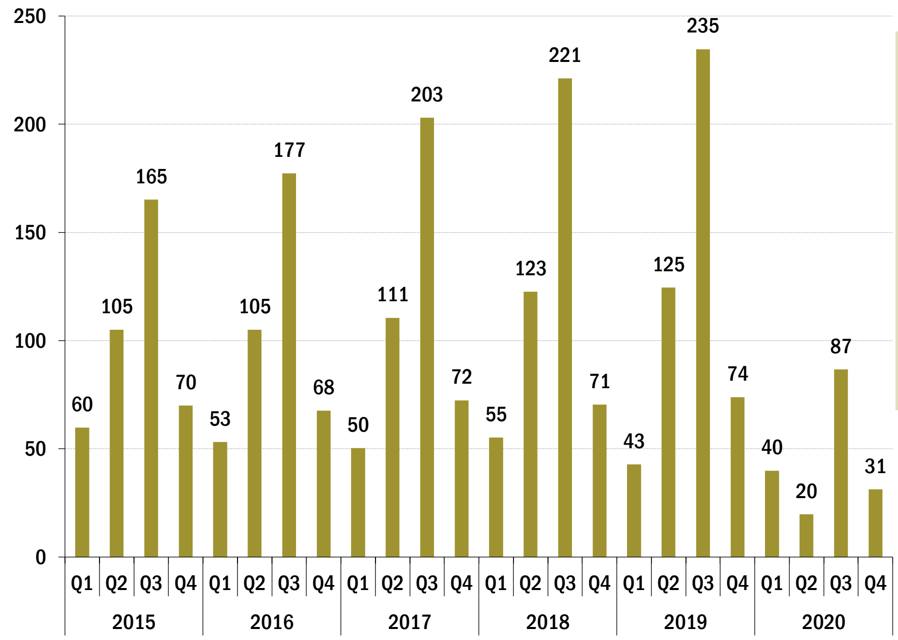


Higher turnover by 10.4% in IT services in the first quarter of 2021, after an increase of 14.7% a year earlier.

Source: ELSTAT

Figure 3.8

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



The decline in activity in the tourism sector continued in the first quarter of 2021. Fall of 59.7%, against a mild reduction of 6.8% in the first quarter of 2020.

Source: ELSTAT

Box 3.2 Trends in business demographics in 2020

The measures to protect public health against COVID-19 related to the suspension of operations in sectors and activities, had a strong negative impact on the Greek economy in 2020, which are mainly summarised in the decline of its GDP last year by 8.2%. Beyond this quantitative depiction of the impact of the health crisis on the economy, a qualitative approach is probably more important. This can be done in the current period, which is not significantly far from the previous year, through the analysis of trends in business demographics domestically. Demographic data refer to the start-ups and terminations of companies, as well as to the change of their activity. Therefore, they capture all the trends and realignments in entrepreneurship. Thus, they serve not only to interpret the developments in economic activity during the previous year, but also to examine the adaptation of the enterprises to the new conditions on the demand side, as well as to identify possible medium-term business opportunities, which have begun to be reflected in the creation of businesses.

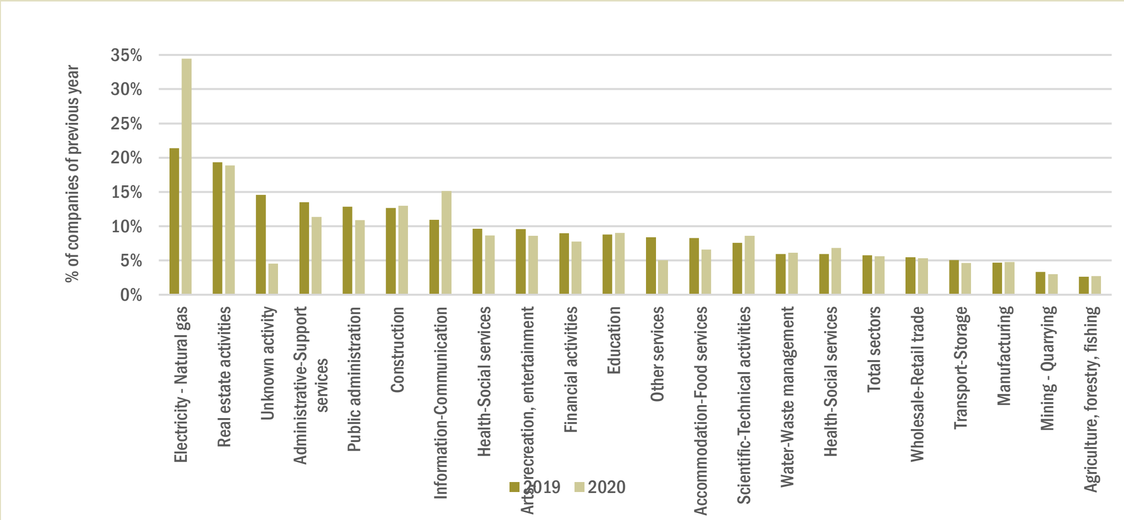
The number of start-ups reached 84.1k last year, the same number as in 2019. Therefore, at first glance, it seems that the pandemic did not affect the creation of businesses. However, examining the trend of starts per quarter, there is a significant increase in the initial quarter last year compared to the same quarter of 2019 (+14.8%), which highlights the dynamics of strong growth in the Greek economy before the pandemic. The outbreak of the health crisis and the first suspension of business operations were reflected in the sharp trend change in business start-ups to a sharply declining (-26.2%). However, the trend changed again in the third quarter (+18.5%), a development which is probably due to the expectations of a rapid end of the pandemic, following its weakening in the two months May-June 2020 and the removal of most restrictions on business operations. The new recovery of the health crisis in the last quarter of 2020 is reflected in the decline in the number of new businesses, much milder, however, than during the initial spread of COVID-19 (-3.9%). The slowdown in the decline in start-ups may reflect the impact of measures to support businesses in the face of the pandemic, which have alleviated uncertainty on its impact. However, this effect will be felt more on the side of business terminations. Therefore, the same number of start-ups last year as in 2019 is due to opposite trends in the quarters of the year, due to the effects of the above factors.

Among the sectors of the Greek economy (single-digit NACE Rev.2 sectors), the start-ups in 2020 almost doubled in electricity and gas (+92.9% compared to 2019). In the Information-Communication sector, they increased by 45.2%, with Scientific-Technical activities and the Health-Social Care sector following in the creation of new businesses (+17.5% in both cases). The upward trend in the latter sector is obviously related to the needs created by the health crisis. By contrast, a decrease in business openings was recorded in Other activities (37.2%), Accommodation – Food Services (-18.3%), Financial Services (-9.9%) and Administrative – Support Activities (-9.1%), also reflecting in the case of the second sector the effects of the health crisis.

Adjusting the start-ups in each sector last year to the total of the existing enterprises, the Electricity-Gas Supply sector presents the largest rate, with the new enterprises corresponding to more than 1/3 of the old enterprises (34.5%, Figure 3.9). It is followed by the sectors of Real Estate Activities (new businesses at 18.9% of the existing ones), Information-Communication (15.1%), Construction (13.0%) and Administrative-Support Activities (11.3%). With the exception of the Information-Communication sector, the remaining sectors had high rates of business start-ups in 2019 as well. The imposition of a suspension of operations as a measure to limit the effects of the pandemic, as well as the general decrease in demand, seem to have affected most the relevant sectors, as business openings in those sectors increased at a rate lower than the overall average (9.2%). In particular, business openings increased in Accommodation - Food Services by 6.6%, Arts - Entertainment by 8.6% and Wholesale by 5.3%.

Figure 3.9

Business start-ups by branch of economic activity (percentage of existing firms)



Source: ELSTAT, Data processing: IOBE

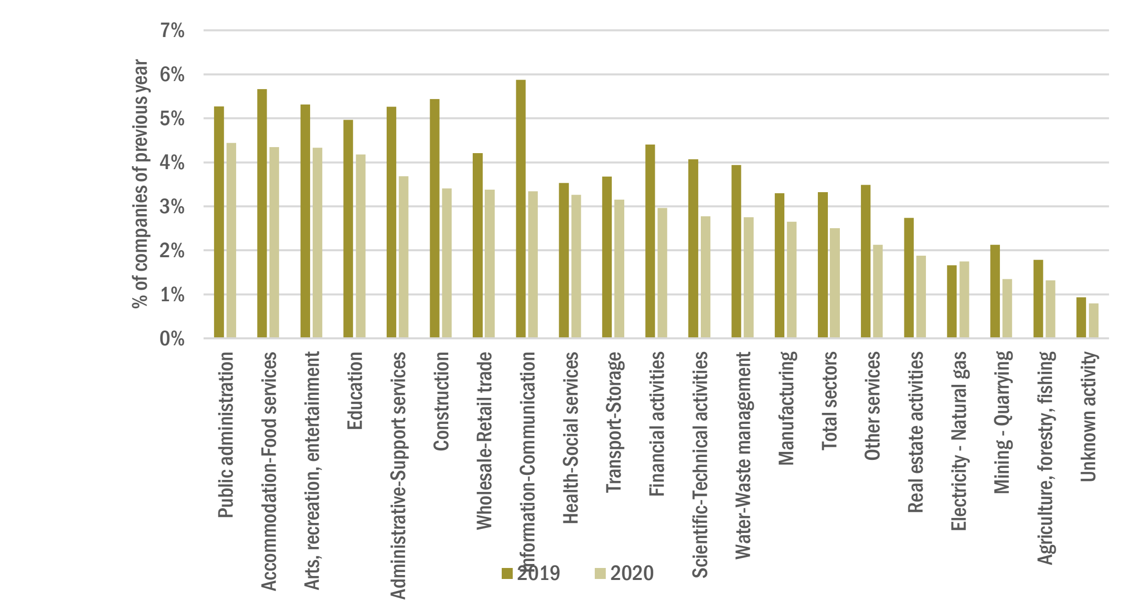
As far as the trends in business closures are concerned, in 2020, about 37.3k businesses stopped operating, lower by 22.7% than in 2019 (48k closures). The significant reduction in closures last year, despite restrictive measures in industries and activities due to the pandemic, but also the restrictions on travel that put pressure on demand, is probably due to the interventions in support of the affected sectors. These effects are reflected in the evolution of the maturity rate in 2020. From declining, which means a decrease in closures, intensity 14.7% in the first quarter, when the negative effects of the health crisis were not felt, it accelerated to -28.0% in the next quarter, fell to -10.0% in the summer quarter and escalated to -37.6% in the last quarter of 2020. Therefore, during the crisis last year, the decrease in operating closures was strengthened compared to the first quarter of 2020, even though at the beginning of the year the Greek economy had prospects of an accelerated recovery compared to 2019, as it emerged from the business openings. This development can be correlated without further quantitative analysis (e.g. with appropriate econometric models of business survival) mainly with the interventions of business support against the pandemic effects.

With the exception of the Electricity and Gas sector, where business closures increased by 26.4% last year compared to 2019, in the other sectors they were limited. Closures decreased last year mainly in Information-Communication (-40.3%), Mining- Quarrying (-35.7%), Construction (-32.8%) and Water, Sewage and Waste Treatment (-28.8%). The sectors where closures decreased but at a slower rate include Health (-5.4% compared to last year) and Manufacturing (-18.6%). Finally, closures increased only in Electricity and Gas (+26.4%).

From the adjustment of the closures in each sector last year to the total number of existing businesses, it seems that proportionally most expirations occurred in Public Administration (4.4% of existing businesses, Figure 3.10), Accommodation - Food Services (4.3%), Arts-Entertainment (4.3%), Education (4.2%) and Administrative-Support Activities (3.4%). In contrast, the activities with the lowest closure rates include Mining (1.3%), Agriculture, Forestry, Fisheries (1.3%), Electricity and Gas (1.8%) and Real Estate Activities (1.9%). From the above results, it is obvious that the existing entrepreneurship was mainly affected in sectors where operating restrictions were imposed (Tourism, Food Services, Arts-Entertainment, Education).

Figure 3.10

Business closures by branch of economic activity (percentage of existing enterprises)



Source: ELSTAT, Data processing: IOBE

In 2020, in all sectors the balance of openings and closures was positive by 46.7k companies and clearly higher than in 2019 (35.9k openings), which is another indication of the positive effect of the business support measures.

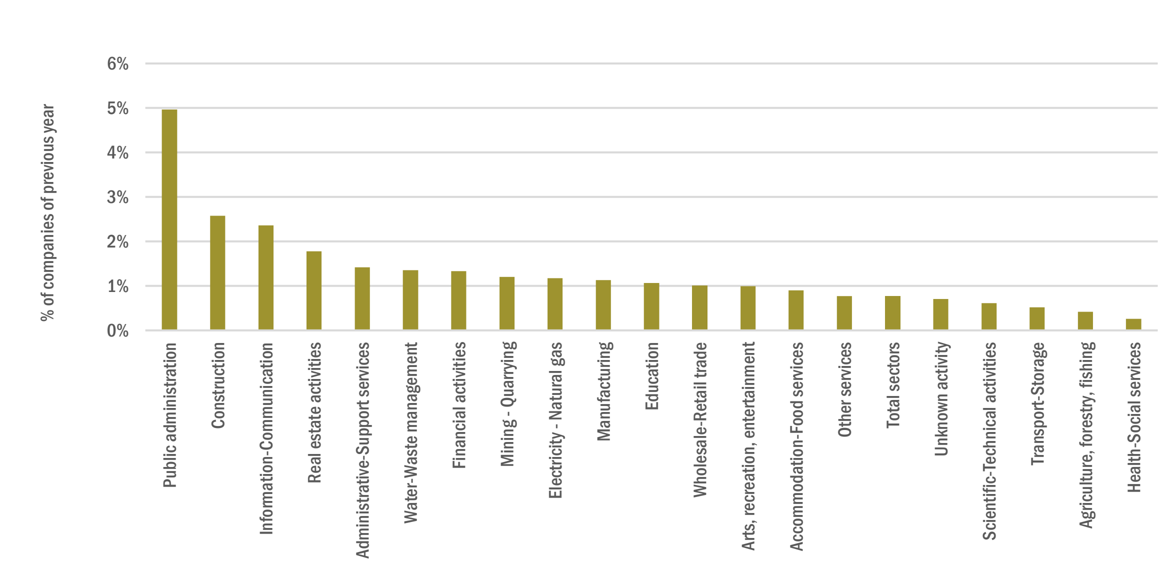
Regarding the changes of activity, in 2020 they stood at 0.8% of the total enterprises of the Greek economy in 2019, i.e. approximately 11.4k. This percentage is double that in 2019 (0.4%). However, given, firstly, the health crisis, secondly, business and self-employed support interventions, the rate of change of activity is considered to be relatively small. In combination with the significant decline in operating closures in 2020, last year's trend in the change of activity is interpreted as an attempt by the majority of businesses to go through the crisis without any particular adjustments in activity.

The sectors with the highest proportion of businesses that have changed activity include Public Administration, Defence, Social Security (5.0%), Construction (2.6%), Information-Communication (2.4%), Real Estate Management (1.8%, Figure 3.11).

Having said that, the sectors in which the least change of activity took place, in proportion to the number of their existing businesses were Health and Social Welfare (0.3%), Agriculture, Forestry, Fisheries (0.4%), Transport - Storage (0.5%) and Scientific-Technical Activities (0.6%).

Figure 3.11

Enterprises that changed activity, by origin sector (percentage of existing enterprises)



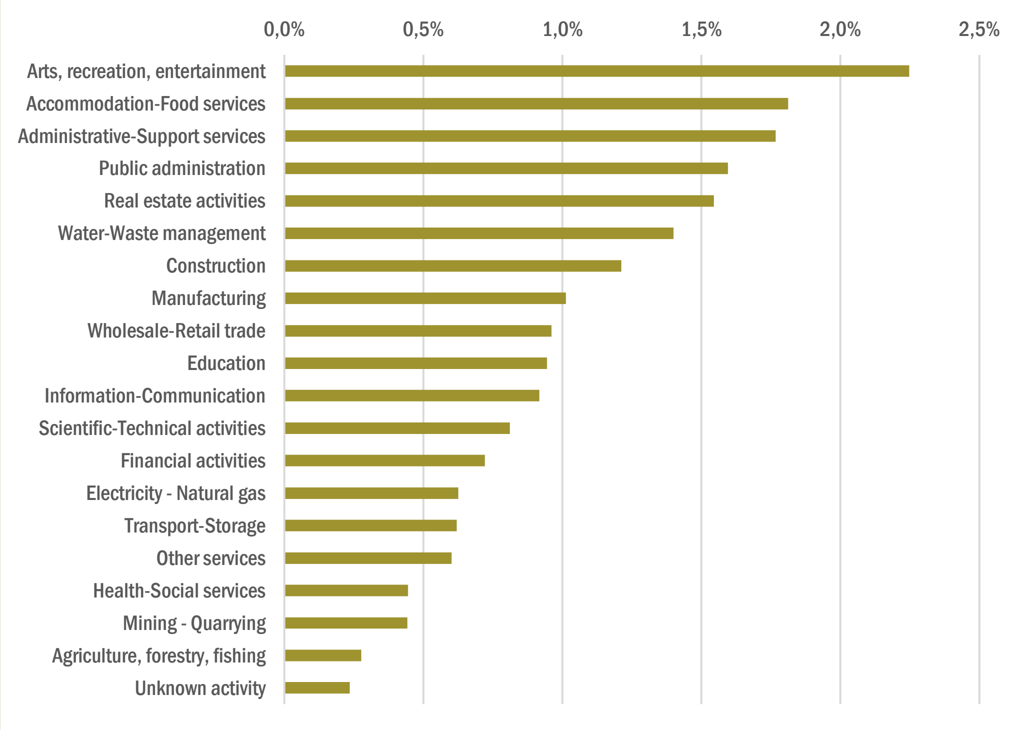
Source: ELSTAT, Data processing: IOBE

It is also interesting to record the new activity of the companies that changed it in the previous year. By adapting the new entrants to an existing business sector, most of the activity changes were made to Arts - Entertainment, where the changes accounted for 2.2% of the existing businesses (Figure 3.12). This was followed by Accommodation-Food Services and Administrative-Support Activities, with the same percentage of new entrants to existing businesses (1.8%). Proportionally fewest companies were directed to the Primary sector (0.3%), Mining-Quarrying (0.4%) and Health-Social Welfare (0.4%).

Summing up, despite the extremely unfavourable conditions that prevailed in the Greek and the world economy for most of 2020, due to the pandemic, the start-ups of new businesses amounted to 84.1k, at the level of 2019. This is estimated to stem from the impact of business support measures against the pandemic, which eased uncertainty about its effects. The sectors with the most business start-ups in terms of all existing businesses include Electricity-Gas Supply, Real Estate Activities and Information and Communication. The number of closures stood at 37.3k, down 22.7% compared to 2019. Therefore, despite the great difficulties for businesses in 2020, overall closures were reduced, a development which is also considered to be related to business support measures. The sectors with the most closures in terms of share in all existing enterprises include Mining-Quarrying, Agriculture, Forestry, Fisheries and Electricity - Natural Gas. In 2020, in all sectors, the openings-closures balance was positive by 46.7k starts and higher than in 2019 (+35.9k openings). Finally, among the companies that changed activities in 2020, most moved, in proportion to the existing companies in the new activity, to Arts - Entertainment, Accommodation and Administrative-Support Activities.

Figure 3.12

Enterprises that changed activity, by new business sector (percentage of existing enterprises)



Source: ELSTAT, Data processing: IOBE

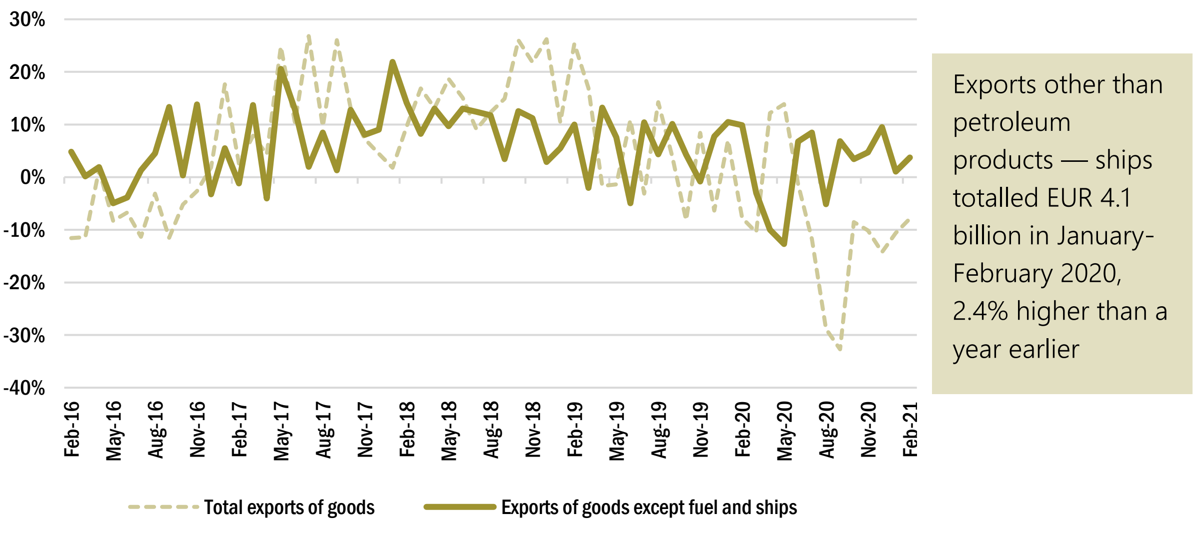
3.3 Export Performance of the Greek Economy

- Decrease in exports of goods in the first two months of 2021, at a rate of 2.7%. In contrast, exports excluding petroleum products increased (+2.4%).
- Reduction of the trade deficit by 29.3% compared to 2019, to €2.4 billion.
- Among goods categories, decline mainly in Fuel exports, and in Items and transactions not classified by category. Growth primarily in Raw materials but also in Industrial and Agricultural products.
- Decline in demand mainly from the countries of the Eurozone (-6.8% or -€154.8 million) and N. America (-5.6% or €15.2 million).

Exports of goods in the first two months of 2021 amounted to €5.3 billion, compared to €5.5 billion in 2020, down 2.7%. However, exports excluding fuels and ships increased by 2.4%, to €4.1 billion, from €4.0 billion in 2020. Imports declined by 13.1% in January-February this year to €7.8 billion, from €9.0 billion a year earlier. As a result of the above trends in the key components of the external balance, the trade deficit was €1.0 billion lower than last year (-29.3%), to €2.4 billion, from €3.5 billion. Subsequently, the value of exports of products of the Greek economy in the first two months of 2021 corresponded to 68.5% of its imports, while a year earlier it had reached 61.2%.

Figure 3.13

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



Source: Eurostat. Processing: IOBE

In greater detail, exports of Agricultural Products increased by 1.2% in the two months of January-February this year, to €1,096 billion, from €1,083 billion in 2020, while Fuel exports decreased by 13.1%, mainly as a result of the fall in the price of oil, resulting in €1.3 billion, from €1.5 billion in 2020. Exports of these two categories account for 44.8% of domestic exports of products this year, from 46.9% a year earlier. The increase in Agricultural Products was mainly driven by a 4.3% increase in demand for Beverages and tobacco products, the value of which stood at €127.9 million, from €122.6 million in 2020, strengthening their share in total exports from 2.2% in 2020 to 2.4% in 2021. In the Food-Livestock category, which represents approximately 77.1% of Agricultural Products exports, exports increased by 1.7%, to €845.4 million from €830.9 million. In oils-fats of animal or vegetable origin, which represent 11.2% of exports of Agricultural Products, demand stood in the first two months of 2021 at €123.3 million, 4.9% lower than in 2020 (€129.7 million).

Table 3.8

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

Product	Value		% Change	% Share	
	2021	2020	21/20	2021	2020
AGRICULTURAL PRODUCTS	1,096.7	1,083.2	1.2%	20.7%	19.9%
Food and Live Animals	845.4	830.9	1.7%	15.9%	15.2%
Beverages and Tobacco	127.9	122.6	4.3%	2.4%	2.2%
Animal and vegetable oils and fats	123.3	129.7	-4.9%	2.3%	2.4%
RAW MATERIALS	276.0	243.0	13.6%	5.2%	4.5%
Non-edible Raw Materials excluding Fuels	276.0	243.0	13.6%	5.2%	4.5%
FUELS	1,280.6	1,472.9	-13.1%	24.1%	27.0%
Mineral fuels, lubricants, etc	1,280.6	1,472.9	-13.1%	24.1%	27.0%
INDUSTRIAL PRODUCTS	2,584.4	2,574.7	0.4%	48.7%	47.2%
Chemicals and Related Products	870.6	761.4	14.3%	16.4%	14.0%
Manufactured goods classified chiefly by raw material	846.4	829.8	2.0%	16.0%	15.2%
Machinery and transport equipment	483.5	508.1	-4.8%	9.1%	9.3%
Miscellaneous manufactured articles	383.9	475.4	-19.2%	7.2%	8.7%
Other goods and transactions not classified by category	66.5	80.2	-17.1%	1.3%	1.5%
TOTAL EXPORTS	66.5	80.2	-17.1%	1.3%	1.5%

* Provisional Data

Source: Eurostat

Exports of Industrial Products marginally strengthened in the two months of January-February 2021 (+0.4%), with their value reaching €2.58 billion, from €2.57 billion last year. This development was mainly driven by the increase in exports for Chemicals and Related Products, by 14.3%, from €761.4 million to €870.6 million. Having said that, there was a decline in international demand for Various Industrial Goods, by 19.2%, with their value amounting to €383.9 million. Also, exports of Machinery and Transport Equipment decreased by 4.8% (to €483.5 million from €508.1 million), while by contrast, exports of Manufactured goods classified chiefly by raw material increased (+2.0%, to €846.4 million).

Finally, exports of Raw Materials increased by 13.6% to €276.0 million, from €243.0 million a year earlier, while exports of Other goods and transactions not classified by category fell by 17.1%, from €80.2 million in the two months of 2020 to €66.5 million a year later.

In terms of trends by geographical area, exports to the Eurozone countries declined by 6.8%, approaching €2.1 billion in the period January-February 2021, from €2.3 billion in the same period 2020, as a result of which 40.1% of the exports of Greek products were directed to those countries last year. To the EU-27 there was a decrease, by 5.0% or €149.9 million, with exports to it reaching €2.8 billion, from €3.0 billion a year earlier. Among the Eurozone countries that absorb the largest share of Greek exports, there was a significant expansion to France, by 30.1%, from €253.4 million to €329.7 million, and then, with a difference in the growth rate from the first country, to Germany, by 5.3%, from €390.2 million to €410.9 million. Exports to their most significant destination, Italy, showed a strong decline, reflecting the effects of the pandemic in the neighbouring country, by 28.4%, resulting in €498.0 million in the first two months of 2021 from €696.1 million in the same period of 2020.

Table 3.9

Exports by destination, January -December 2021 (million €)*

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2021	2020	21/20
EU (27)	2,844.6	2,994.5	-5.0%
Euro Area	2,128.0	2,282.8	-6.8%
G7	1,658.6	1,810.3	-8.4%
North America	253.9	269.0	-5.6%
BRICS	172.4	226.9	-24.0%
Middle East & North Africa	722.7	650.9	11.0%
Oceania	35.8	31.3	14.4%
Central-Latin America	51.6	40.2	28.4%
Asia	452.1	377.0	19.9%
OPEC countries	293.8	243.8	20.5%

* Provisional Data

Source: Eurostat

Among the rest of the European Union, where total exports increased by 0.7% or €4.9 million, reaching €4.3 billion, Bulgaria remained the main export destination, despite reduction of product outflows to it compared to 2020 by 8.7% or €22.1 million. Positive developments were noted to two other countries in this group which absorb a significant share of Greek exports, Romania and Poland, to which exports increased by 0.9% or €1.6 million, to €180.0 million, and by 16.8% or €15.1 million, to €105.2 million respectively.

The rest of Europe recorded a decrease in demand for Greek exports by 9.7%, from €945.2 in 2020 to €853.4 billion in 2021. It was manifested primarily to Turkey, by 13.1%, from €304.4 million to €264.5 million, and secondarily in the United Kingdom, by 23.3%, with the result that exports fell from €171.4 million in the period January - February 2020 to €131.4 million in the corresponding period of 2021.

Exports to North American countries moved slightly downwards, by 5.6%, from €269 million in 2020 to €253.9 million a year later, mainly due to the decline in exports to the US by 2.8%, from €218.7 million last year to €212.5 million in 2021, and to Mexico, by 43.5% or 13.0 million. By contrast, exports to Canada increased (+19.6%).

Exports to the Middle East and North Africa increased by 11.0% to €722.7 million from €650.9 million, mainly due to the increase in exports to Libya (+63.6 %), where exports amounted to €128.8 million in the first two months of 2021, compared to €78.7 million a year earlier, but also to Tunisia (+58.7%) recording an increase of €31.2 million in 2021 compared to 2020. Similarly, to Israel, a major export destination in the Middle East, exports increased by 21.6% to €82.2 million, while to the United Arab Emirates they increased by 15.0% to €47.4 million. By contrast, towards Saudi Arabia they declined by 3.0% to €69.7 million.

The flow of Greek exports to Oceania increased by 14.4%, with their value in the period January-February 2021 reaching €35.8 million from €31.3 million a year earlier. The rise came from a similar trend towards Australia, where exports increased by 13.6% to €32.2 million this year. Similarly, there was an increase towards New Zealand (+22.4%).

Exports to Central-Latin American markets recorded a strong increase of 28.4% in the first two months of this year, with their value reaching €51.6 million from €40.2 million in the corresponding period in 2020. The decrease in exports to the countries of this region is mainly due to the vertical increase in demand for Greek products from Brazil, by 383.0%, which set their value at €21.8 million from €4.5 million a year earlier.

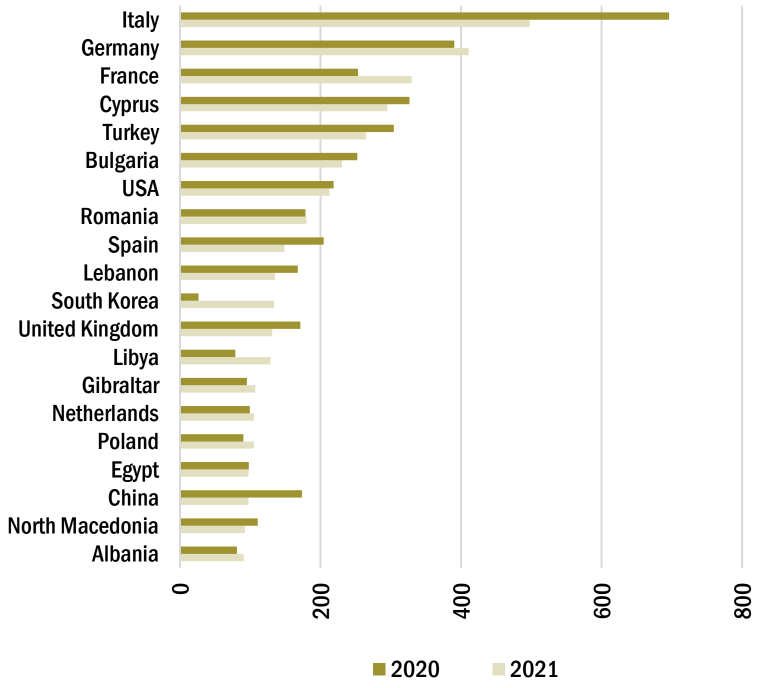
An increase in international demand for Greek goods was recorded in Asian countries, where exports increased last year by 19.9%, to €452.1 million from €377.0 million in 2020. This development is mainly due to the vertical increase, by 409.8%, to South Korea, from €26.3 million in the two months of 2020 to €134.0 million in 2021, as well as by 276.4% to Singapore, from €19.9 million last year to €75.0 million a year later. By contrast, there was a sharp decline in demand from China (-43.9%, to €97.5 million from €173.7 million in 2020) and Japan (-14.3%, to €51.6 million from €60.2 million in 2020).

Summing up, Greek exports of goods fell in the first two months of 2021 by 2.7% compared to the previous year. The decline is mainly due to petroleum products, the demand for which this year was much lower due to much lower economic activity than last year, while their prices were slightly lower (-2.1% Brent oil in two months). However, excluding petroleum products, 2021 started with a positive sign as exports increased by 2.4%, to €4.1 billion, continuing the upward trend of 2020, which had led to a new maximum level over time. The root cause of the contraction in total exports of goods is expected to be reversed in the rest of this year. The change in the trend in the value of exports of petroleum products will come mainly from the evolution of their prices, which rose sharply in the four months of March-June, for which there are data (+60.2%) from last year, while their demand will also move upwards, as the protection measures against the pandemic have declined during the same period and thus the recovery of the economies is escalating. This upward trend in the European and world economy and then in international trade, will depend in the second half of this year mainly on developments in the pandemic. Progress in vaccination so far internationally has shaped quite positive prospects for the possibilities of dealing with the health crisis in the period July-December this year. However, there are also significant pandemic challenges, such as the ongoing mutations of the virus, which favour its spread, and the weak financial data of companies that are hindering their operation, especially in emerging economies that have been hit hard by the health crisis, without having the policy instruments that mitigate its effects, as done in the most developed economies.

Especially with regard to Greek exports, the projected acceleration of the growth of the Eurozone this year, which is the main export trade destination (European Commission: 4.3% from 3.8%), as well as the growth in other important destinations, as in the Middle East-Central Asia (3.7%) and in Emerging Europe (4.4%), will escalate the demand for Greek products. Taking into account the above recent trends in key factors affecting the exports of Greek products, as well as the prospects for the rest of 2021, it is estimated that their slight decline in the initial two months will shift to growth later in the year, from the second quarter. Unless there is a new upheaval in the global economy from the pandemic, exports will rise to the whole of 2021, with a single-digit growth rate, in the range of 5-9%.

Figure 3.14

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



Strongest growth in absolute terms in the first two months of 2021 in the exports of goods to South Korea (+€107.7 million). Largest decline in exports to Italy (-€198 million). Nevertheless, it still holds the largest share in exports.

Source: Eurostat. Processing: IOBE

3.4 Employment - Unemployment

- The unemployment rate increased in the first quarter of 2021 to 17.1% from 16.2% a year earlier, but the number of unemployed increased by only 0.3k as a result of the reduction of the labor force by 4.9% or 227,200 people.
- Highest employment growth in Wholesale and Retail Trade (+21.8k people) and in Human Health Activities (+20.6k people).
- Largest decrease in employment in the Primary sector (-41.6k) and in Tourism (-38.2k people).
- Increase of the seasonally adjusted wage cost index by 3.0% in 2020, following its rise by 0.7% in 2019.

According to the ELSTAT Labour Force Survey, the unemployment rate in the country increased compared to a year earlier, for the first time since the first quarter of 2014. In particular, it rose to 17.1% from 16.2% a year earlier. However, the number of unemployed increased marginally, by 0.04% or 0.3k and totalled 745.4k in the first quarter of this year, from 745.1k in the same quarter last year. The marginal change is due to the fact that although employment fell in the period January-March of this year by 227.5k people or 5.9% from last year, almost all of them (227.2k) dropped out of the labour force. Given this very large change in employment, the fact that virtually all of it went out of the labour force, i.e. were either unable to work or not looking for work, according to the relevant definitions of the Labour Force Survey, cannot be explained.

Regarding the evolution of gender-based unemployment in Greece, the difference in the unemployment rate between men and women increased significantly in the first quarter of

2021 compared to a year ago, to 7.6 from 5.6 percentage points, with unemployment lower in the former category. The unemployment rate for women reached 21.3% in the first quarter of this year, 2.0 percentage points higher compared to the same period last year (19.3%), while for men it was unchanged, at 13.7%.

In terms of the evolution of the unemployment rate based on age, it continues to decline as the age increases. In the first quarter of this year the unemployment rate increased in all age groups, except those aged 45-64. The largest increase, by 26.0 percentage points, is found in people aged 15-19, where unemployment rose from 34.2% to 60.2%. The age group 20-24 years follows, with a significantly milder increase, from 34.5% in the first quarter last year to 41.4% in the same quarter this year. In the 25-29 age group, the unemployment rate rose by 5.4 percentage points to 31.4%. In the age groups 30-44 and over 65, unemployment increased by one percentage point. In the first category it reached 16.5% and in the second 9.2%. Finally, among people aged 45-64, unemployment was reduced by one percentage point, from 13.0% in the first quarter of 2020 to 12.0% a year later.

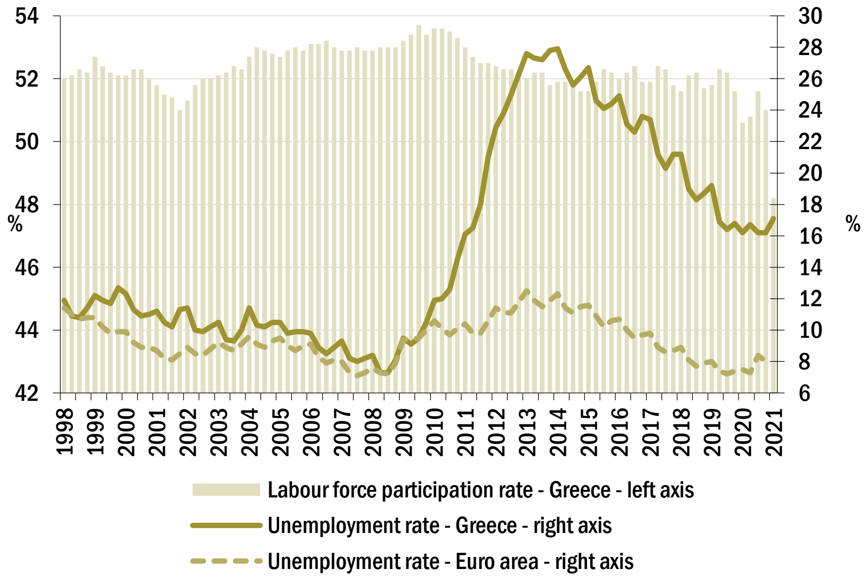
In terms of duration of unemployment, the long-term unemployment rate fell sharply, falling by 12.1 percentage points, from 70.5% in the first quarter last year to 58.4% a year later. The number of long-term unemployed decreased by 85.4k or 16.3% and stood at 439.8k people.

As for the trend of unemployment based on the level of education, it declines as the level of education rises. At all levels of education except for those with primary education and those who attended some classes or did not go to school at all, the unemployment rate increased in the period January-March this year. The largest increase, by 2.0 percentage points, occurred in those with a lower secondary education, where unemployment rose to 21.2% in the first quarter of 2021. The lowest unemployment rate in the first quarter this year was recorded among individuals with a Doctoral or Postgraduate degree, as it stood at 7.7%, 0.8 percentage points higher than a year earlier. The highest unemployment rate, but also the strongest fall is found in people who attended some elementary school classes or did not go to school at all. In particular, unemployment in this category fell by 15.4 percentage points, to 34.6% from 50.0% a year earlier. Finally, among those with primary education, the unemployment rate decreased slightly, by 1.3 percentage points and reached 17.7%.

Regarding the regional dimension of unemployment, in nine regions of the country there was an increase and in the remaining four a decrease. In the first group, the highest unemployment rate was recorded in the region of Central Greece, where it amounted to 22.7% in the first quarter of 2021 from 19.3% in the same quarter of 2020, while the highest rise in unemployment in the first quarter of this year was reported in the South Aegean, by 8.4 percentage points, resulting in 22.4%. By contrast, the lowest unemployment rate was recorded in the Attica region where it fell to 13.0% from 14.3% and the strongest decrease in the unemployment rate was observed in the North Aegean region, by 2.3 percentage points, resulting in 14.0%. Unemployment rates in Western Macedonia rose to levels above 20% (20.5% in the first quarter of 2021 from 19.4% in the first quarter of 2020) and Eastern Macedonia-Thrace (21.4% from 16.7%), while the rise of unemployment in Crete was strong (+5.3 percentage points, at 22.3%). The unemployment rate was similar in the regions of Thessaly (19.6% in the first quarter this year from 16.2% in the same quarter last year) and Epirus (19.5% from 17.5%).

Figure 3.15

Labour force participation and unemployment rates



Increase in the unemployment rate in Greece in Q1 of 2021, for the first time since the Q1 of 2014, to 17.1% from 16.2% one year earlier.

Sources: ELSTAT – Labour Force Survey, Eurostat

As for the development of employment based on the professional status, it declined in all categories of employed persons. The strongest percentage drop was found in contributing family workers, where employment in the first quarter of 2021 was down by 9.0% (or by 10,900 people) from the same quarter of 2020, to 110,100. This is followed by the reduction of employment in the most populous category of employed persons, the employees, where it declined by 7.3% (or by 191,000 people) and amounted to 2,431,700. Finally, employment in the category of the self-employed was down by 2.3% (or by 25,700 people) to 1,083,200.

In terms of the employment trend at the level of key sectors, it decreased in two and increased in one. The biggest reduction in absolute terms in the first quarter 2021 took place in the tertiary sector, where employment declined to 2,618,100 from 2,840,700 in the first quarter 2020 (-7.8%). In the secondary sector, employment was down by 4.2% or 24,700 people and amounted to 563,100, while in the primary sector it amounted to 443,800 employees in the first quarter this year, increased by 19,600 people or by 4.6% compared to the first quarter of 2020. At the level of sectors of economic activity in Greece, in 15 there was a decrease in employment and in six an increase. The strongest drop in employment in the first quarter of 2021 in absolute terms was recorded in Accommodation and food services, where it fell by 135,900 people (or by 41.3%) to 193,100 employees from the 329,000 a year earlier, a trend related to the effects of the pandemic protection measures. In Wholesale-Retail Trade, employment was lower by 53,300 people (or by 7.5%) and amounted to 653,000 employees, a development which is also related to public health protection measures. Next came Arts-Recreation-Entertainment and Education. In the first sector, the employment was down by 22,100 people, to 36,300, and in the second by 21,700 people, to 308,800. In Manufacturing, employment was lower by 7,800 people, as the number of employees fell to 367,900. By contrast, the sector with the strongest increase in employment in the first quarter of the current year was Public Administration, where it strengthened by 38,900 people (or by 11.7%), reaching 371,300, a development which reflects the emergency needs for state services created by the health crisis. Next came Professional-Scientific-Technical Activities, where employment increased by 34,300 people, to 250,400 employees, and the Primary sector, where employment increased by 19,600 people, to 443,800.

In conclusion, from the employment data at sectoral level, it appears that its decrease in the first quarter of 2021 compared to the same period last year came mainly from its decline in the following sectors:

- Tourism (-135,900 employees), in line with the decrease of international tourism receipts in the first quarter by 86.1% (or by €510.6 million, from €593.3 million to €82.7 million) and
- Wholesale-Retail Trade (-53,300 employees), in connection with the decrease of the seasonally adjusted volume index in retail trade by 2.2%, as well as the turnover in wholesale trade by 0.7%

despite its rise in:

- Public administration (+38,900 employed),
- Professional-Scientific-Technical activities (+34,300 employees) and
- Primary sector (+19,600 employed)

As for the trend of the seasonally adjusted wage cost index for the entire Greek economy, it showed an increase for the fifth consecutive quarter in the period January-March this year, by 5.8%, to 112.9 points.

Figure 3.16

Seasonally adjusted wage cost index and percentage point change

Increase in seasonally adjusted wage cost index in the first quarter of 2021 by 5.8% compared to the first quarter of 2020

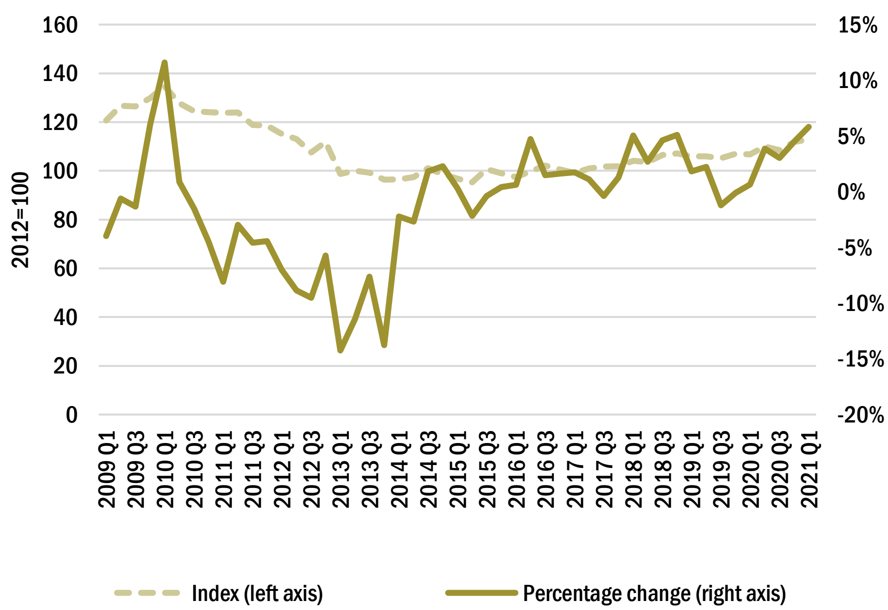


Table 3.10

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
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2
Q2 2018	9,144.7	52.1	3,860.4	81.0	906.0	19.0
Q3 2018	9,135.5	52.2	3,894.2	81.7	871.8	18.3
Q4 2018	9,126.4	51.7	3,833.7	81.3	881.1	18.7
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
Q1 2019	9,117.3	51.8	3,814.0	80.8	907.1	19.2
Q2 2019	9,108.0	52.3	3,956.4	83.1	805.0	16.9
Q3 2019	9,089.9	52.2	3,971.9	83.6	777.0	16.4
Q4. 2019	9,089.9	51.6	3,901.8	83.2	786.4	16.8
2019	9,103.5	52.0	3,911.0	82.7	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	83.8	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	83.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	83.8	756.4	16.2
Q4. 2020	9,074.2	51.0	3,878.5	83.8	750.1	16.2
2020	9,079.0	51.0	3,878.5	83.7	755.0	16.3
Q1 2021	9,070.8	48.2	3,625.1	82.9	745.4	17.1

Source: ELSTAT, Labour Force Survey

Medium-term outlook

After months of lockdown and the imposition of strict measures on travel and economic activity, the most important restrictions were gradually abolished or relaxed in May, some of which had put significant pressure on economic activity and, by extension, on employment (3 May: opening of outdoor food services; 14 May: opening of inter-city - regional travel, Tourism, abolition of appointments in retail trade; 29 May: reduction of mandatory teleworking rate in the public and private sector to 20%, reopening of open-air cultural venues (for theatres, concerts) and gyms). At the same time, the vaccination programme of the population continued and expanded to additional age groups. As a result, by the end of June, about 35% of the population had been fully vaccinated and about 45% had received the first dose. As a result of all the above, economic activity has largely returned to normal.

As mentioned in previous IOBE reports, the trend in unemployment throughout 2021 will depend, as in the previous year, mainly on the evolution of the health crisis, domestically and internationally. The factors whose evolution will be affected by the pandemic and will determine the unemployment rate include the pace of recovery in the Eurozone, through exports, activity in the tourism sector, as well as measures to support businesses against the pandemic.

As for the effects of the pandemic, unless there is a new strong resurgence in the second half and the vaccination of the population proceeds, then most of the companies in the sectors affected by the successive suspensions of their operation within the pandemic, mainly Retail, Tourism, Food Services and Arts-Entertainment, are expected to function smoothly for most of 2021, with corresponding positive effects on their employment, without ruling out less intense outbreaks of the disease by taking milder protection measures (basic macroeconomic scenario). Otherwise, protection measures will be restored, e.g. in the fall, however, with less intensity, thanks to vaccination and self-tests, nevertheless limiting the impetus to employment (alternative forecast scenario).

Especially in the tourism sector, in the basic scenario of macroeconomic developments, a gradual escalation of the international tourist flows is expected, with a possible strong strengthening in the middle of the third quarter, while the tourist season will be extended compared to last year. The inclusion of Greece in the health-safe travel destinations from countries from which a significant number of tourists come (e.g. England, USA) will give a significant boost to tourism revenues and employment in the relevant sectors. Under the assumptions of the baseline scenario, it is estimated that revenues from international tourism will reach the levels of 40-45% of 2019 revenues, up from 24% last year. However, in the alternative scenario, a new intense "resurgence" of the pandemic within the current semester, e.g. from the spread of a strong mutation of the virus, will interrupt the tourist flows to Greece and the duration of the tourist season, depending on when this will occur. In such a case, the escalation of tourism is predicted to be milder and the revenues from it are estimated to reach about 35% of the revenues of 2019.

Regarding the recovery in the Eurozone, the basic forecast scenario adopts the recent forecast of the European Commission for an increase in the GDP of the Eurozone by 4.3%, compared to the previous forecast for growth of 3.8%.[14] Stronger-than-expected growth in late 2020 is projected this year in other major export destinations, such as the Middle East-Central Asia and Emerging Europe in export-oriented manufacturing industries. The stronger export activity will be reflected in their investments, which will also have a supportive effect on employment. However, a milder increase in the GDP of the Eurozone, e.g. at the level of 3.5% (alternative forecast scenario), will lead correspondingly to a lower increase in employment.

Investments and jobs in their implementation will mainly benefit from the continuation of the rapid credit expansion by the financial sector. Its average rate in the period January-April this year was 8.1%, following an average increase of 5.6% in 2020. Additional impetus to investment activity this year will come from the Public Investment Programme, but mainly from the resources of the Recovery Fund. In the basic macroeconomic forecast scenario, it is estimated that their absorption this year will approach the level announced during the approval of the Greek Recovery Plan in June (€8 billion). In the alternative scenario, inflows from the EU would be close to the 2021 Budget target (€5.5 billion).

In addition to the above, the public sector will act as a boost to domestic employment this year, due to the emergency needs for services from the state created by the pandemic (e.g. in Health), as well as through the temporary employment programmes of OAED. Regarding the last dimension, it is worth to mention the two-month extension of the community service programme in the municipalities, which concerns 36,500 beneficiaries. In addition, the second cycle of the Public Benefit Programme is being prepared, which is expected to involve 25,000 beneficiaries who will work for eight months in municipalities, regions, regional social welfare centres, ministry services and other bodies.

It is noted, at the same time, that the companies included in the repayable advance programme are obliged to maintain their jobs for certain months. For example, for the 7th round of the repayable advance, applications for which were submitted until the beginning of May, the jobs must be retained until 31 August, which prevents an increase in unemployment. However, when the protection period expires, a significant increase in the

[14] European Economic Forecast, Spring 2021, European Commission, May 2021

number of unemployed is possible. The effect of the employment suspension measure is analysed in Box 3.3 below.

Nevertheless, the significant decline in the labour force in 2020 from workers who lost their jobs and were discouraged by the conditions for looking for a new one, is estimated to be reversed this year, increasing the number of unemployed.

Taking into account the above effects on the labour market, it is estimated that the unemployment rate in the basic scenario of macroeconomic developments for 2021 will be in the range of 16.0-16.3%, close to last year's level, while in the alternative scenario it will be strengthened in the range of 17.0-17.3%.

According to the latest data of the Business and Consumer Surveys of IOBE, in the quarter April-June 2021 in relation to the first quarter of the year, there is an improvement in the short-term employment prospects in all sectors except Retail trade. Compared to the same period of 2020, there was a slight increase in Industry and Services, while in Construction there was a significant improvement, with Retail trade declining. In more detail:

In Industry, the average balance of the previous quarter from -3 points in the first quarter of 2021, strengthened significantly and stood at +14 points. Compared to the same period of last year, the average quarterly index is higher by about 11 points. In the quarter under review, the proportion of industrial enterprises that predicted a fall in their employment in the near future is 4% (from 13%), while the proportion of those expecting an increase in the number of their jobs strengthened to 18% (from 10%). However, the vast majority of enterprises in the sector (78%) foresee stability in terms of employment.

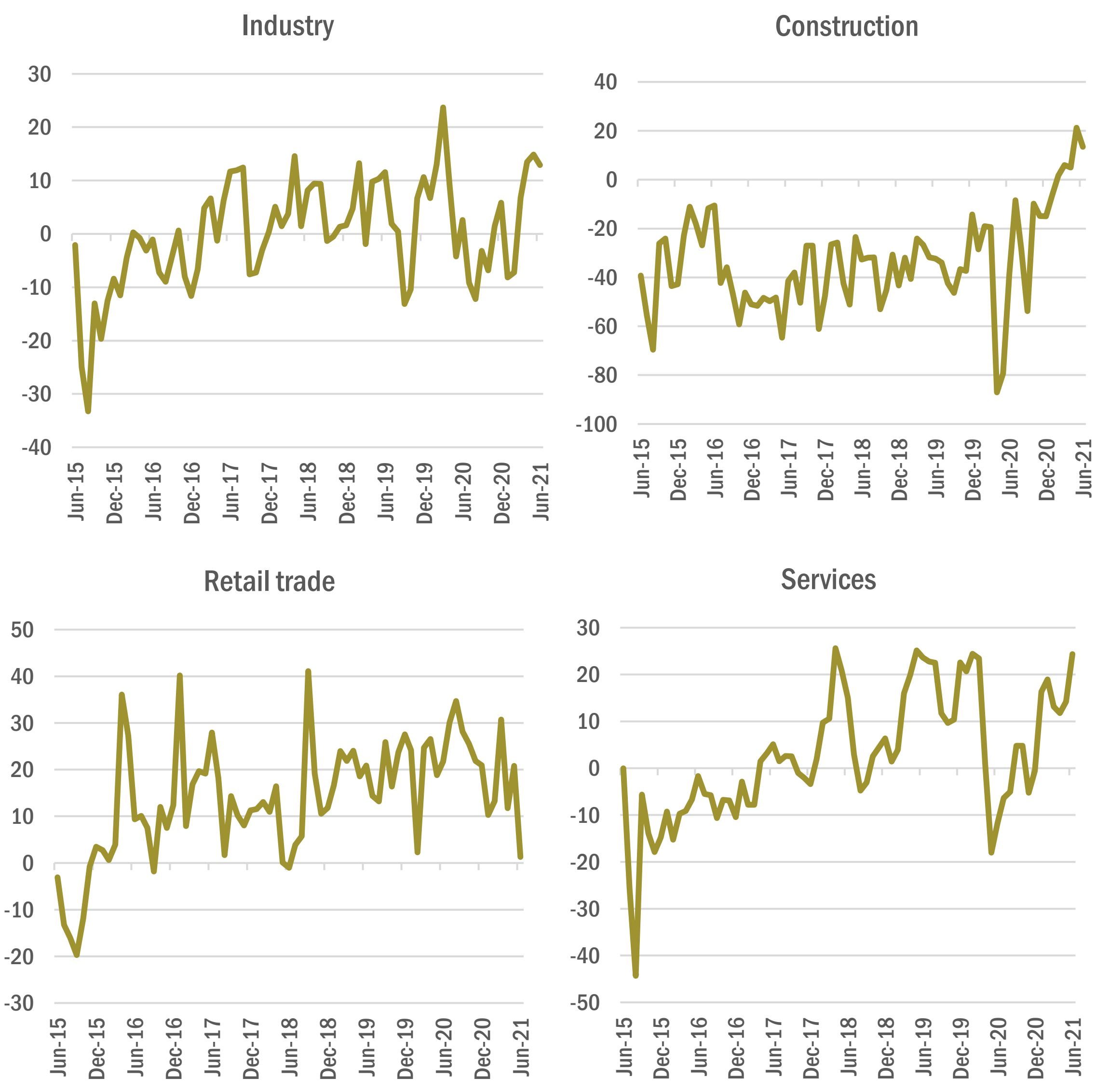
In Construction, the relevant expectations suggest a strong improvement in the sector's employment balance, which strengthened significantly and from zero increased to +13 points, at a much higher level compared to the same period in 2020 (+82 points). In the examined quarter, 17% (from 10%) of the companies in the sector provide fewer jobs, while the percentage of the respondents who expect an increase in employment stood at 30% (from 11%). At the level of sub-sectors, the small improvement of the relevant index in Public Works (+4 from -1 point) is accompanied by a significant strengthening of the index in Private Construction (+24 from +2 points).

The employment expectations indicator in Retail Trade fell slightly in the second quarter of this year compared to the previous quarter, to +11 points (from +18), a performance significantly lower compared to the same period last year (+22 points). Only 2% of the companies in the sector expect job cuts, while 13% (from 27%) predict employment growth, with those expecting stability moving to 85% (from 64%) of the total. In the examined sub-sectors, there is a significant decrease of the relevant balance in Department Stores, milder in Food and Beverages, while by contrast there is a slight increase in the other examined sectors.

In Services, the expectations indicate a marginal improvement in the examined quarter compared to the previous quarter, in contrast to the same period last year. Thus, the relative balance of the first quarter of 2021 strengthened by one point to +17 points in the examined quarter, while in relation to the corresponding period of 2020 it improved by 26 points. Of the companies in the sector, 3% (from 7% in the previous quarter) expect a decrease in employment, with the percentage of those forecasting an increase falling to 20% (from 23% in the previous quarter). At the sectoral level, the trend is strongly upward in Hotels-Restaurants, IT and Various business activities, while it is slightly declining in the Financial Intermediaries and Land Transport.

Figure 3.17

Employment expectations (difference between positive and negative responses)



Source: IOBE

In the April-June 2021 quarter, compared to the previous quarter, there was an improvement in the forecasts for the short-term employment prospects in all sectors except Retail.

Box 3.3 Approach to the impact of the suspension of employment contracts on employment in 2020

The second IOBE report on the Greek economy in 2020 presented policy interventions to support jobs against the impact of COVID-19. Among the first interventions that have been carried out and are still ongoing is the furlough of employment contracts for workers employed in branched affected by the pandemic. Employees whose employment contracts are placed under this scheme have been entitled to a special purpose compensation. The purpose of the analysis below is to summarise the data relating to the implementation of this measure in the period March-December 2020. The relevant monthly data come from the IT system ERGANI. In order to highlight the importance of absolute numbers related to suspensions of employment contracts, each indicator was presented as a percentage of the corresponding total employment. Employment figures in terms of different dimensions (e.g. by sex, age, region) are available from ELSTAT on a quarterly basis.

For this reason, the monthly data of the ERGANI system were adjusted on a quarterly basis (second, third and fourth quarters of 2020). Please note that the adjustment in terms of employment is considered reasonable since, according to ELSTAT, persons suspended from a contract are considered to be employed if the duration of the furlough is less than 3 months or if they receive more than 50% of their remuneration. The large variation in work furloughs between successive quarters allows for adjustment, as the majority of them were of short duration.

In greater detail, from 603.0k in the second quarter of 2020, the total number of furloughed workers fell to 108.2k in the following quarter, increased back to 565.0k in the final quarter of 2020. The strong fluctuation reflects the significant ease of the pandemic in the summer months, which led to a reduction in restrictions on economic activity and subsequently to having fewer affected sectors, a trend that changed in the fourth quarter. On average, in these three quarters of 2020, the number of furloughed workers totalled 425.4k. Their share in total employment fluctuated in a similar way, falling from 15.7% in the second quarter, to 2.8% in the third quarter and growing to 14.6% in the fourth quarter, with the average rate standing at 11.0%.

As regards the sex of furloughed employees, the absolute figures are similar between men (301.6k in Q2, 54.4k in Q3 and 276.3k in Q4) and women (301.4k, 53.8k and 288.7k respectively). However, the rates of furloughed workers are higher among women (18.5% in Q2, 3.2% in Q3 and 17.6% in Q4, compared with 13.6%, 2.4% and 12.4% respectively for men), with an average of 9.5% for men and 13.1% for women.

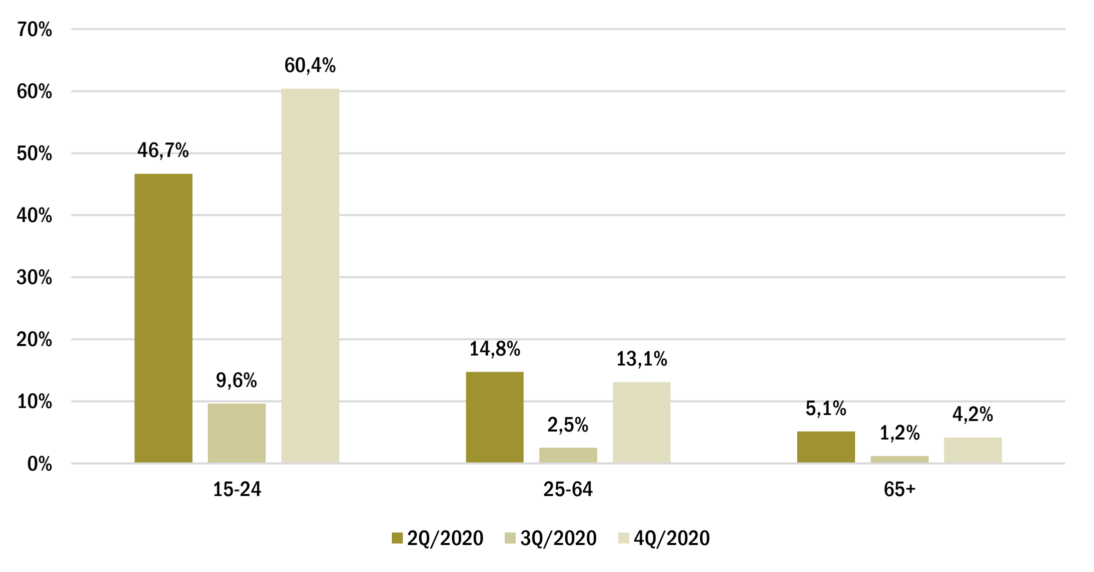
In terms of the age structure, although in absolute terms the vast majority of furloughed workers belong to the age group 25-64 (367.6k on average in the second, third and fourth quarters of 2020), the highest share in total employment of each age group is recorded among those aged 15-24 (38.9% on average in the three quarters of 2020, Figure 3.18). Regarding the sex of furloughed workers in this age group, the average percentage for women aged 15-24 (48.6%) is clearly higher than the corresponding rate for men (31.8%).

From the distribution of employment contract suspensions by region, it emerged that the regions with the highest number of furloughed employees, on average, in the period under review were Attica (202.9k), Central Macedonia (71.2k), Crete (28.2k), Thessaly (18.5k), Western Greece (17.3k) and South Aegean (16.8k). The ranking differs when the number of employees in each region is also taken into account. Under this approach, first in the relative ranking comes the region of South Aegean (14.5% on average in the three quarters) followed by the regions of Attica (13.8%), Ionian Islands (12.6%), Crete

(12.2%), Central Macedonia (11.1%) and Epirus (8.2% - Figure 3.19). Therefore, in island regions and regions with large urban centres, proportionately more workers have been furloughed.

Figure 3.1818

Composition of furloughed workers by age group



Sources: ERGANI, ELSTAT, Data processing: IOBE

According to the employment status criterion, the full-time persons who entered a furlough regime (206.1k on average in the three quarters) were more than the part-time employees who found themselves in the same situation (191.0k). However, the second category has much higher rate of furloughed workers, as the total number of employees is much lower than in the first. In particular, the average rate of part-time workers in suspension was 58.7% compared to 5.8% for full-time people. The interpretation of this very big difference probably lies in the fact that part-time workers, like full-time workers, receive special purpose compensation according to the days they are suspended, not based on the number of hours they would work on those days. In addition, the daily allowance does not differ between the two categories. Therefore, based on their income when they work, part-time workers have a greater financial incentive to be suspended. The percentage of men working part-time (72.3%) is higher than that of women (50.5%).

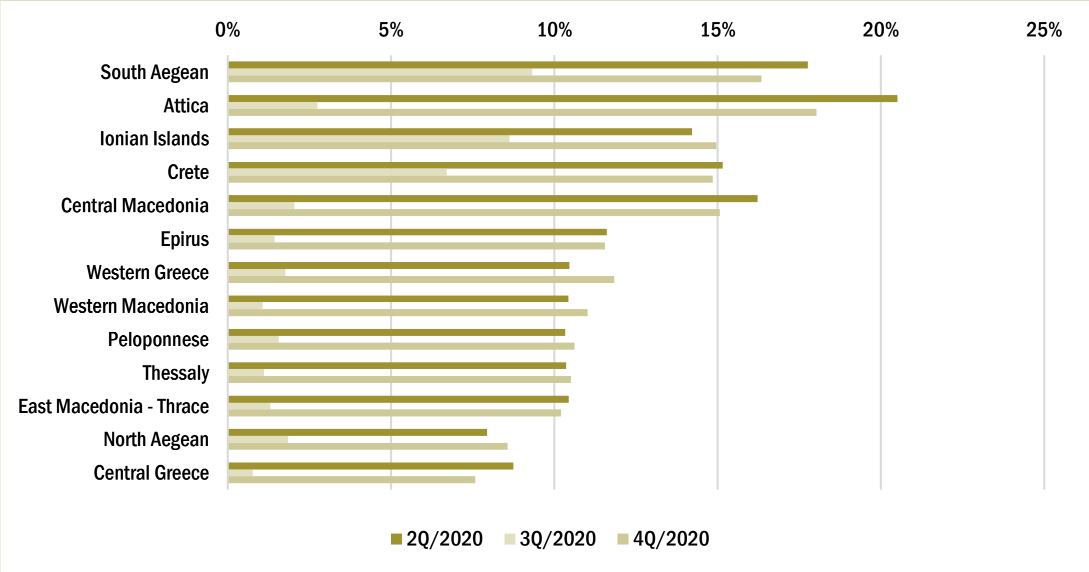
In terms of the sectoral structure of work suspensions (by a double-digit NACE Rev.2 sector), the activities with the highest number of furloughed workers come from Services. These are Food Services (120.4k on average in the three quarters), Retail trade except of motor vehicles and motorcycles (48.5k), Accommodation (36.2k), Wholesale trade except of motor vehicles and motorcycles (28.7k) and Education (24.4k).

Taking into account the rates of labour suspensions per sector, 14 of the top 15 sectors in the relevant ranking belong to the Tertiary sector, while from Industry only the Manufacture of clothing was ranked so high. In greater detail, the highest rates are found in Sports-Amusements-Recreation activities (62.3% on average in the three quarters), followed by Accommodation (49.7%), Activities of Head Offices-Management Consulting (45.7%), Food Services (45.5%) and Gambling-Betting (43.1% - Figure 3.20). Next came the branches of Travel agencies (42.9%), Real Estate Activities (40.3%), Rental - Leasing Activities (30.5%), Creative Activities - Arts - Entertainment (30.1%) and Manufacture of Wearing Apparel

(30.0%). Finally, the ranking is completed by the sectors Other Personal Service Activities (24.6%), Publishing (21.7%), Financial - Insurance Activities (21.4%), Wholesale Trade except motor vehicles and motorcycles (21.1%) and Office Administrative Activities (19.9%).

Figure 3.199

Breakdown of furloughed workers by region in the overall sample (2Q/2020-4Q/2020)



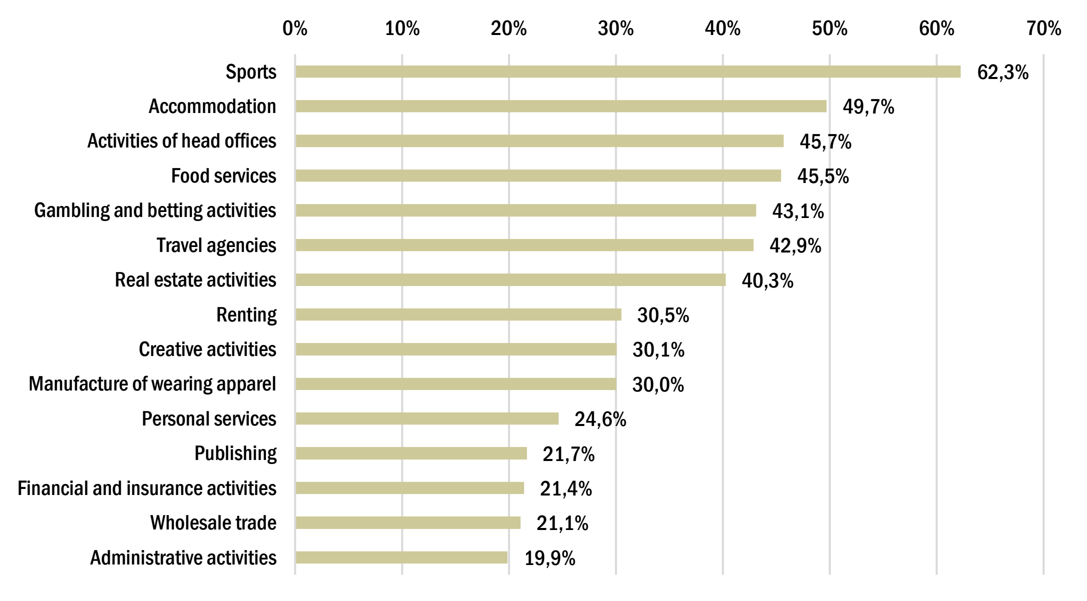
Sources: ERGANI, ELSTAT, Data processing: IOBE

In conclusion, the analysis above showed that an average of 11.0% of employees or 425.4k in the period Q2-Q4 of 2020 were furloughed, with the rate significantly down between the second and third quarters, from 15.7% to 2.8%, due to the seasonal decline of the pandemic, and then rising again (14.6% the fourth quarter). As for the sex of the suspended workers, the rate was higher among women. Proportionately more furloughed people were found in the age group 15-24 years. The rate of work suspensions was much higher among those working part-time, which is probably due to the fact that the special purpose allowance is calculated on the basis of days, not on the basis of hours in contract suspension. The regions with the highest rate of suspended workers included the islands and those with the largest urban centres, i.e. the regions of the South Aegean, Attica, Ionian Islands, Crete and Central Macedonia.

At the sectoral level, the highest rates were presented by tourism, sports, management consulting, entertainment and recreation services. Given the above, when the measure of suspension of employment contracts is completed, it is quite possible that there will be employment shocks in some of the above dimensions, where the adoption of this measure was more intense (e.g. in part-time workers, in specific sectors, in island-urban regions).

Figure 3.20

Breakdown of furloughs by branch of activity



Sources: ERGANI, ELSTAT, Data processing: IOBE

3.5 Consumer and Producer Prices

- Deflation of 1.0% in the first five months of 2021, against deflation of 0.3% a year earlier
- Negative impact in the period January-May of 2021 on prices from indirect taxes and household demand
- HICP rate of change at constant tax rates and excluding energy -1.1% in the first five months of 2021, from 1.9% a year earlier.
- In 2021, the CPI is expected to strengthen by 0.3-0.6%, in case there is no further escalation of the pandemic in the second half, while in case of a new strong outbreak in the autumn it will decline by 0.1-0.3%.

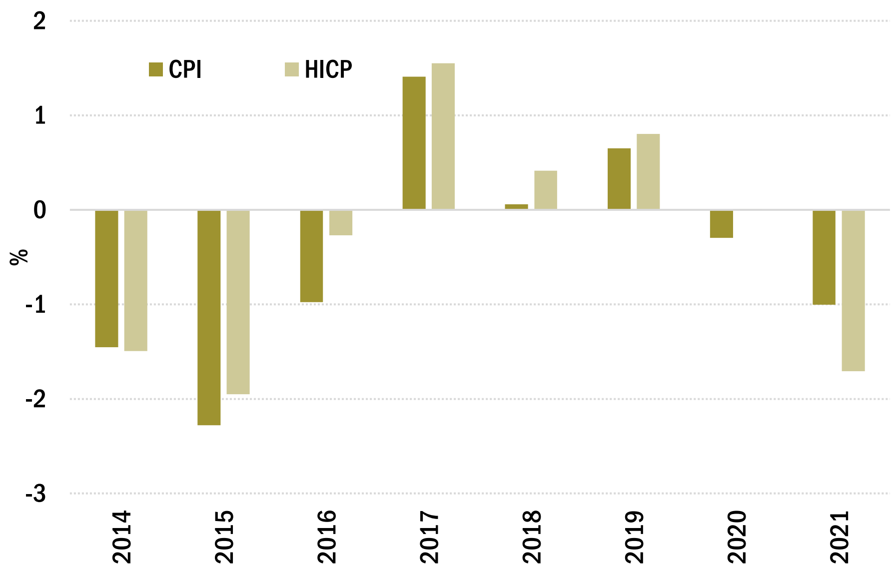
Recent developments

In the period January - May 2021 prices declined year on year, with the average rate of change of the Consumer Price Index (CPI) at -1.0% compared to the corresponding period of 2020, against a marginal decline of 0.3% a year ago. Weakening, after four years of growth, was recorded in the first five months of 2021 in the Harmonised Index of Consumer Prices (HICP) as well, by 1.7%, from stability in the corresponding period last year. In May 2021, the domestic CPI increased marginally, for the first time since February 2019, by 0.1% compared to the same month of 2020, when it was declining by 0.3%.

Regarding the effects of the HICP components on its trend in January-May, the decline of the harmonised index is due to both indirect taxes and domestic consumer demand, as the change in the index at constant tax rates and excluding energy was negative, by 1.1%. Therefore, it seems that domestic demand also had a negative effect on price changes. Negative, but less pronounced than last year, was the effect of indirect taxation on prices in the first five months of this year, by 0.9 percentage points, from 1.3 percentage points in the same period of 2020.

Figure 3.21

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

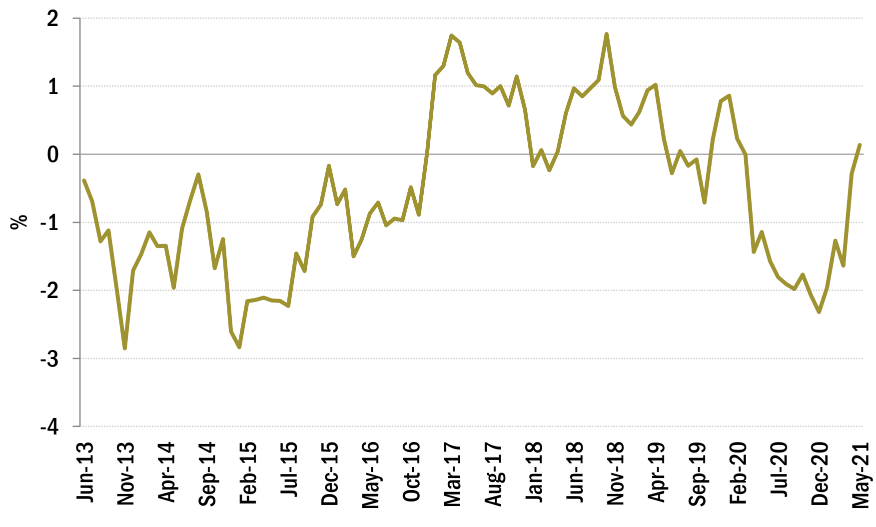


Average CPI decline in the first five months of 2021 compared to a year ago by 1.0%, from marginal deflation of 0.3% in the previous year.

Source: ELSTAT. Processing IOBE

Figure 3.22

CPI in Greece (annual percentage change per month)



Domestic CPI strengthened marginally in May 2021 (0.1%), compared to a decline of 0.3% in the corresponding month of 2020

Source: ELSTAT. Processing IOBE

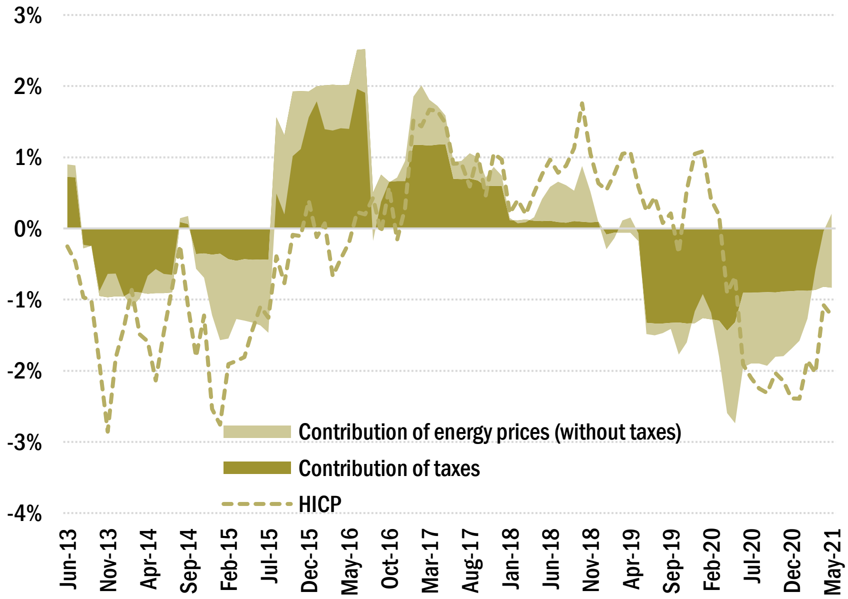
Regarding the developments in the prices of energy goods and their impact on the HICP, the average international oil price in the period January - May of the current year marked a strong increase compared to the respective period in 2020. In particular, the average price of Brent crude oil in the first five months of 2021 stood at $63.18 per barrel, from

$40.3 per barrel a year ago, marking an increase of 56.7%[15]. The strengthening of the average exchange rate of the euro against the dollar in the same period compared to the corresponding period of last year, by 9.8%, to 1.21 against 1.10, mitigated the rise in the price of oil in euros, with its average level at €52.5 per barrel, 42.8% higher than a year earlier. The increase in the price of oil, which is a key component of energy costs, explains the positive average effect of energy prices on the rate of change of prices domestically in the period January - May of this year, by 0.2% (from a negative effect 0.5% in the first five months of 2020). However, given the strong rise in the price of oil and its weight in energy products, the rise in their prices was clearly lower than expected.

Figure 3.23

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

Significant negative tax impact on prices in the first five months of 2021, by 0.9 pp., compared with a stronger impact in the previous year (-1.3 pp.)



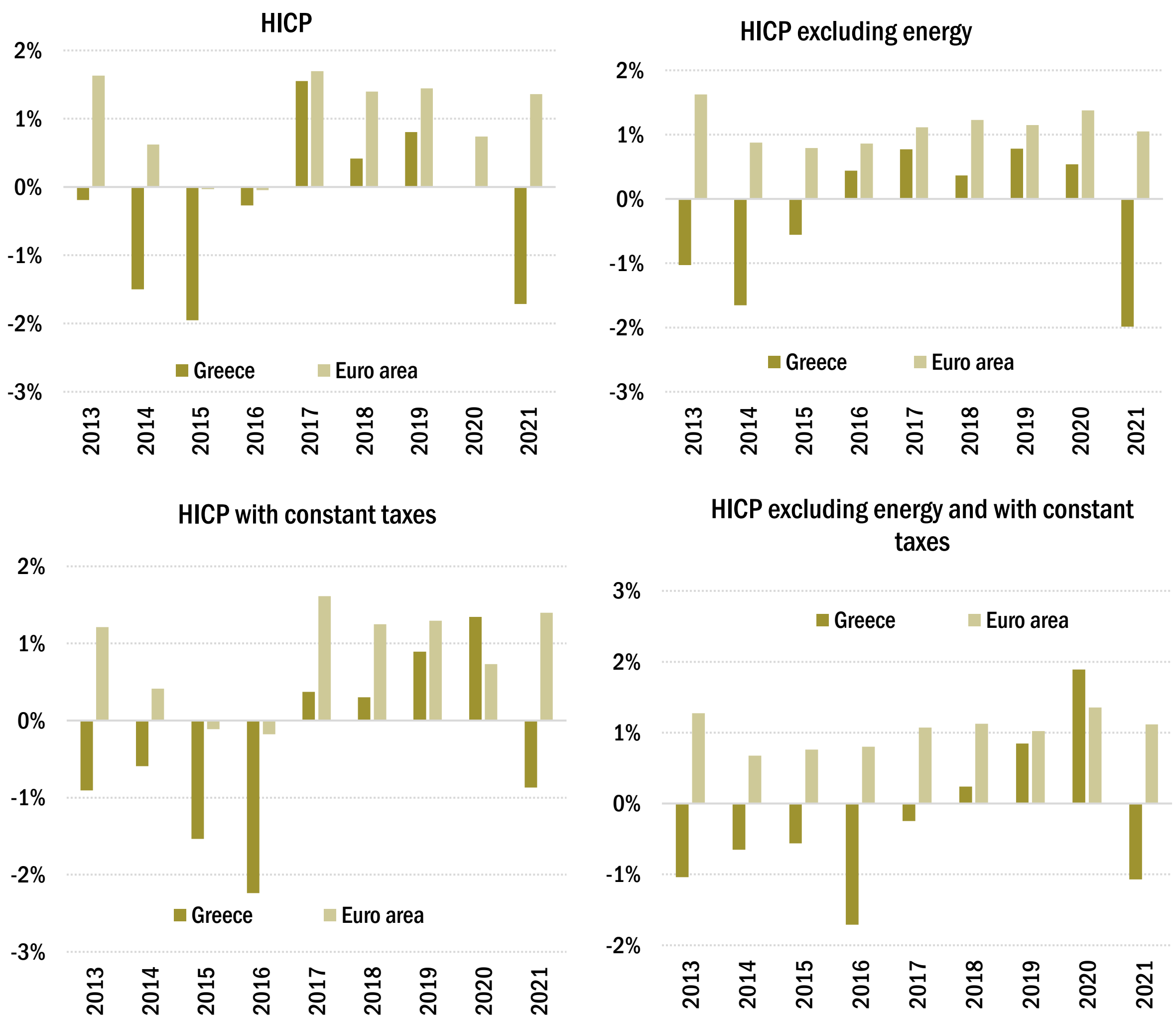
Source: Eurostat. Processing IOBE

The decline in the price level in Greece based on the HICP in the first five months of this year, in contrast to its average in the Eurozone, makes Greece the only member state with deflation. The average change in the HICP in the Eurozone was positive (1.3% from 0.7% last year). The change in the HICP in Cyprus (0.0%) and Portugal (0.2%) was slightly higher than in Greece. Domestic demand seems to have been the main driver of price growth in the Eurozone, as the price index at constant tax rates and excluding energy increased by 1.1% in January-May 2021 compared to a year earlier, when it was growing by 1.4%.

Figure 3.24

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

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



Source: Eurostat. Processing IOBE

Price decrease domestically in the first five months of 2021, due to the negative impact of indirect taxes and demand.

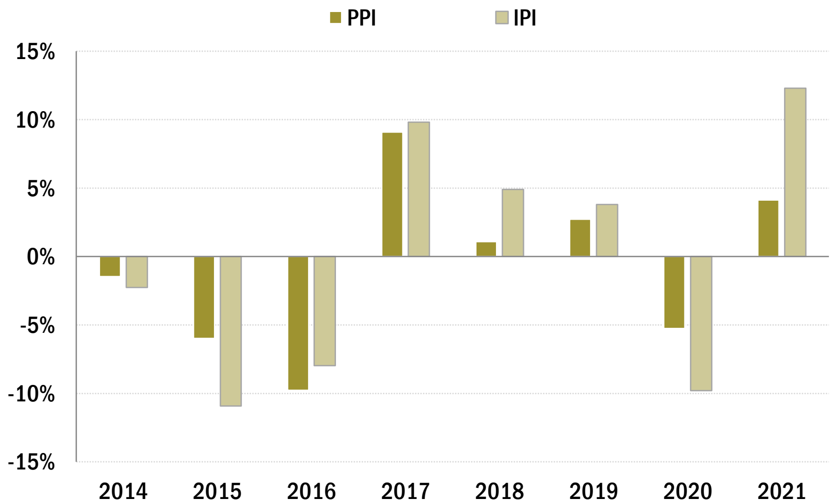
Regarding the trends in the categories of products and services that are included in the Consumer Price Index, none of them showed an increase in the period January - May of the current year. Prices in Housing and Education remained unchanged, from a decline of 2.5% and a slight increase of 0.5% respectively a year ago. The lowest decrease was recorded in the prices of Alcoholic beverages - Tobacco, by 0.2%, after a marginal increase of 0.1% in the corresponding period of 2020. The food and recreation categories showed mild negative changes, by 0.5% and 0.6%, respectively, from an increase of 0.4% and a decrease of 1.2% a year ago. At a slightly higher level was the decline in prices in Transport and Hotels, by 0.8% both, compared to a decrease of 1.2% and an increase of 0.6% in the first five months of 2020. However, given the restrictive measures for most of the five-month period, both changes were mild. Weakening trends also prevailed in Health, by 1.1% from a rise of 1.5% a year ago. Prices in Durable Goods and Communications fell by 1.7%, in both categories, following a weakening of 1.0% and 1.2%, respectively, a year ago, while in Other Goods the price reduction was 1.9% from a slightly milder decrease of 0.8% last year. The highest decrease in prices was recorded in Clothing-footwear category, by 5.3%, a category which is strongly influenced by the imposition of suspension in sectors to stop the pandemic, after strengthening by 2.9% a year ago.

In terms of price trends on the production side in the period January - April 2021 for which data are available, the Producer Price Index (PPI), for the domestic and foreign market as a whole, increased by 4.1% compared to its level in the same period one year earlier (Figure 3.18). In detail, the PPI excluding energy strengthened in the first four months of this year by 1.4%, compared to a marginal decrease in the respective period of 2020. Regarding the trends in the prices of industrial products, the largest increase was recorded by Coal and lignite, with 53%, followed by a decrease of 4.7% a year ago, while next with a significantly lower yet substantial level of growth came Crude oil-natural gas and Refined Petroleum Products, with 18.5% and 15.4% respectively, against a decrease of 23% and 25.9% a year ago. Rising producer prices also prevailed in Electrical equipment, by 8.8% against a decline of 1.3% in the first four months of 2020, and in Basic metals, by 5.4%, compared to a decline of 1.8% last year. Having said that, the trend in producer prices in Tobacco Products was downward, compared to a mild increase in 2020 (-3.9% from 1.1%). The weakening in Electronics was milder, by 2.5% following a decrease of 3.0% in 2020. Producer prices also fell in Pharmaceuticals, by 1.2% compared to a decrease of 1.5% last year.

Figure 3.25

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

Strong growth in import prices in the first quarter of 2021 (12.3%) mainly due to the positive effect of energy prices. Moderate increase in producer prices (4.1% in the first five months).



Source: ELSTAT. Processing IOBE

Regarding the evolution of the Import Price Index (IPI) in the period January-April 2021, for which data are available, it showed a strong increase of 12.3%, compared to a decline of 9.8% a year ago. Significantly lower than in Greece was the strengthening of the same index in the Eurozone (3.1%), compared to a weakening of 4.3% in the corresponding period of 2020. The strong rise in import prices ranks Greece in second place in terms of growth among ten Eurozone countries for which data are available for this period, with Lithuania leading the rise (17.3%). It should be noted that in all euro area countries for which data are available, import prices are strengthened in the period under review compared to a year ago, a trend that largely reflects the strengthening effect mainly of petroleum products, as the effects of the health crisis on economic activity declined at the beginning of this year. The exception is Spain, where import prices declined by 0.5%, compared to a sharper decrease of 3.4% in the corresponding period of 2020.

Among the sub-categories of imported products, the largest increase in the first four months of 2021 was recorded in the prices of crude oil, by 49%, compared to a decrease of 30% in the corresponding period of 2020, interpreting the positive effect of energy goods on prices. The strengthening for Refined Petroleum Products was much lower, 22.1%, from a decline of 24.9% in the same period of 2020. At lower levels was the increase in prices in Electricity Supply, by 11.8%, and Basic metals, by 8.5%, from weakening 4.4% and 5.3%, respectively in the first four months of 2020. By contrast, a decline in prices was recorded in the period January - April of this year in Pharmaceuticals, by 5.6%, and in Tobacco Products, by 3.7%, followed by a decline of 0.6% and 1.9% respectively one year before.

Medium-term outlook

Examining the trends in the key components of the domestic Consumer Price Index in the first five months of 2021, it emerged that its decline is a result of the negative impact on it of both indirect taxes and domestic demand. Adverse health developments have brought about intense uncertainty in households. The progress in vaccinations and the effects of the new mutations of the virus on the rest of the current year, which will mainly determine the evolution of the health crisis and then the economic activity, will be the most decisive factors of the price trend, through its effects on domestic demand and energy goods.

With regard to the expected impact of indirect taxes on the formation of the CPI in the second half of 2021, the extension of the reduction of these for specific goods and services until 30 September 2021 (VAT on non-alcoholic beverages, entertainment tickets, shops of sanitary interest, etc.), which will most likely be extended again, will probably no longer have any substantial effect on prices, since the reductions were imposed since June 2020. By contrast, the reduction of direct taxation from the beginning of 2021 is expected to have a positive effect, i.e. the suspension of the solidarity levy and the reduction of social security contributions, through the increase of disposable income and ultimately consumer demand.

Regarding the expected developments in energy costs, which are largely related to the trend in oil prices, OPEC+ (including Russia), following the agreement last April, which provided for a further reduction of oil production cuts from May this year, decided in early June a new escalation of cuts until July. These include Saudi Arabia's voluntary cuts, which it has agreed to reduce. In detail, under the agreement, after the increase of the daily production by 350,000 barrels in May, it is foreseen to add an additional 350,000 barrels per day in June, while for July the oil production will increase by 441,000 barrels per day. However, although OPEC+ has decided to proceed with gradual increases in daily production, it will review conditions every month in order to halt production growth if it is not in line with the trend in oil demand and general economic developments.

In the medium term, the ongoing talks between the US and Iran could lead to easing of sanctions and an increase in Iranian oil supply on the world market. At present, OPEC+ members estimate that the possible outcome of the talks remains unclear and does not bring about changes to the cut-off agreement on a daily basis. In addition, if an agreement is reached on a significant increase in Iranian oil production, it will be implemented in the long run.

Under these developments, the international price of Brent oil stood at $72/barrel in June 2021 from $68.5/barrel in May this year. Note that in the first half of 2021 the international price of oil stood at $64.3/barrel from $40.3/barrel a year ago, recording an increase of 59.6%.

On the oil demand side, it is now likely that uncertainty about the continuation of the COVID-19 pandemic and its economic impact will weaken in the second quarter of 2021. The continued vaccination of the population internationally, which now covers a large part of it, has allowed the lifting or significant relaxation of most public health protection measures (suspension of operations, restrictions on passenger travel, within countries and across borders, in tourism etc.) and the resurgence of demand. Of course, like in 2020, the evolution of the pandemic is also seasonal, as high temperatures prevent the spread of the virus. However, the increase in vaccinations during the summer will strengthen the so-called "wall of immunity" in the population until the autumn. Virus mutations will soon be a crucial factor in the dynamics of the pandemic.

The prospects for a recovery in global demand in 2021 are reflected in the recent macroeconomic forecasts of international organisations. According to the OECD, global GDP is expected to rise to 5.8% this year[16], clearly higher than the estimate six months earlier, which will overcompensate for its decline in 2020 (-4.2%), while for 2022 a rate of change of 4.4% is projected. The upward revision of the change in world GDP reflects the additional measures of fiscal support to economies and the lifting of restrictive measures due to the acceleration of the vaccination process, mainly in the second quarter of 2021, thus stimulating demand. The expected particularly strong growth in China and India, as well as the strengthening of the US economy with a new support package from March, seem to be creating positive conditions in the global economy. In other economies, a positive rate of GDP change is expected, however at lower levels, as there is strong variation in the extent and intensity of the effects of the pandemic, but also the effectiveness of the vaccination process. Any further increase in cases of the virus mutations and a slowdown in the vaccination process will necessitate the imposition of new restrictive measures, weakening growth, especially as economic support measures will be less than in previous outbreaks.

Analysts estimate that even with the aforementioned additions to daily oil production, as the escalation of demand is expected to be particularly strong, the lifting of restrictions on activities and transport, will lead to a much greater expansion of oil consumption, resulting in a rise in its price. Global oil consumption is expected to increase by an average of 5.4 million barrels per day in 2021, reaching 96.2 million barrels[17].

In light of these recent developments and future prospects, and taking into account the latest forecasts by international organisations[18], the average price of oil in 2021 is estimated to reach $68/barrel from $41.7/barrel in 2020, up by 63%. The euro/dollar exchange rate on average this year is expected to be 1.19, up 6.1% from 2020[19]. However, in the current year for the economic developments of the two economies, the taking of new support measures, both in the USA and in the EU, as well as the evolution of vaccinations will play a decisive role. As a result, the average international oil price is expected to reach €57.1 / barrel, recording an increase of 56% compared to 2020. A corresponding increase in the price of oil in the past had occurred in 2011, with a positive impact on the change in the CPI by 1.2 pp.

Domestically, the evolution of the current health crisis will also be the most decisive factor in the trend of domestic demand and its impact on prices. In the absence of a new strong "resurgence" of the pandemic in the second half of the year, without however excluding

[16] OECD Economic Outlook, Volume 2021 Issue 1, May 2021
[17] Short-Term Energy Outlook, US Energy Information Administration, June 2021
[18] Short-Term Energy Outlook, US Energy Information Administration, June 2021
[19] Macroeconomic projections, EKT, June 2021

smaller bursts, with corresponding protection measures, along with the contribution of a faster recovery in the Eurozone, which is the main export destination, household consumption is expected to strengthen from 3% to 4% in 2021 compared to the previous year (baseline macroeconomic scenario of this report). The increase in consumption will come from the resurgence of activity and employment in the sectors that have been hit hardest by the pandemic crisis, such as Food Services, Arts-Entertainment and Retail Trade. The current gradual escalation of international tourism, which may strengthen significantly in the middle of the third quarter, and the expected expansion of the tourist season, will have a positive impact on employment in the sector and income generation. Taking into account the expected trends in domestic demand under the baseline macroeconomic scenario of this report, as well as the other key components of the domestic Consumer Price Index, it is predicted that the Consumer Price Index will strengthen in 2021 by 0.3% to 0.6% compared to 2020, due to the strengthening of demand and prices of energy goods.

In the event of a new strong outbreak of the pandemic (e.g. from a significant slowdown in vaccinations, strong mutations), and the imposition of new strong restrictive measures, the alternative scenario foresees that private consumption will strengthen in 2021 from 1.0% to 2.0% compared to 2020. The smallest increase in consumption will come mainly from the re-imposition of restrictive measures, but milder than in previous lockdowns (due to vaccinations, self-tests). Under the alternative macroeconomic scenario, the General Consumer Price Index is projected to decline slightly, by 0.1-0.3%. This decline will be smaller than in 2020, due to the - smaller than in the baseline scenario - positive effect on energy prices, and the slight increase in demand.

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

The trends in the expectations of price changes are mainly upwards in the second quarter of 2021 compared to the first quarter of the current year, with the relative balance increasing significantly in Industry and Retail trade, slightly in Construction, while falling only in Services. Compared to the corresponding quarter of 2020, the expectations for price developments recorded a strongly positive change in Construction, milder but noticeable change in Industry and Retail, while the change in Services was smaller. In more detail:

In Industry, the price expectations in the second quarter of the year were significantly higher than in the previous quarter. In particular, the index strengthened by 15 points in the quarter under review and stood at +27 points, while it moved 36 points higher than the corresponding quarter of 2020. Of the companies in the sector, 3% expect prices to fall in the short term, while the percentage of those who predict their rise is around 30% (from 18%), with the remaining 67% expecting stability.

Figure 3.26

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

Source: IOBE

The trends in the forecasts of price changes are mainly upward in the first quarter of 2021 compared to the fourth quarter of the previous year, with the relative balance significantly improving in Industry and Retail trade, slightly in Construction, while falling only in Services.

In Retail Trade, the balance of +1 points in the price expectations of companies in the sector during the previous quarter increased by 24 points, while at the same time it was 33 points higher compared to the corresponding period of 2020. Of the companies in the sector, only 1% (from 5%) expect a fall in prices in the short term, while the percentage of those who anticipate their rise is significantly strengthened to 26% (from 6%), with the remaining 73% (from 90%) expecting stability. In the sub-sectors of Retail Trade, the changes in the price forecasts in the second quarter of 2021 compared to the immediately preceding quarter were upward in all the sub-sectors examined.

The average expectations index of the change in prices in Services in the examined quarter declined mildly compared to the previous quarter and stood at -10 (from -8) points, while at the same time it moved at a much higher level compared to the corresponding average performance of the second quarter of 2020 (-23 points). In the current quarter, 17% (from

11%) of businesses in the sector expect a price decrease and only 6% a rise. In the sub-sectors examined, the relative index strengthened mildly in most, with the exception of Information Technology and Land Transport where it declined mildly.

Finally, in the sector of Private Construction, the negative balance of -12 points of the previous quarter fell significantly, to -2 points, having at the same time changed sharply upwards compared to the corresponding level of 2020 (-58 points). In addition, 5% (from 13%) of the companies in the sector predict a decline in industry prices, while the percentage of those who expect an increase is around 3%, with 92% (from 87%) predicting price stability.

3.6 Balance of Payments

- Small widening of the current account deficit in the first four months of 2021, with relatively smaller growth in exports versus imports.
- Deterioration in all balances with the exception of primary incomes.

Current Account

In the first four months of 2021, the Current Account (CA) recorded a deficit of €4.8 billion, compared to €4.7 billion in 2020. The relatively small increase in the deficit is due to the deterioration of the Goods, Services and Secondary Income accounts. In these deteriorations, the improvement in the surplus of Primary Incomes acted as a counterweight.

In the sub-items, the Goods Account deficit stood at €7.0 billion, in the four-month period, increased by €170.2 million compared to last year, due to the higher increase in imports versus exports. Exports increased to €11.5 billion (€1.9 billion)[20], with a significant increase in fuels (+26.4%), due to the particularly strong rise in international oil prices in the first four months of 2021, after the sharp decline a year earlier. It is noted that Brent prices stood at $42 in the four months of 2020, while this year they stood at $62. Ship exports also increased (+41.4%), while exports of other goods increased by 17.6% (€1.3 billion). This increase came from pharmaceutical, basic metals, agricultural products and food. Imports also increased by 12.5% (€2.1 billion), with zero change in fuels and boost from other goods by 16.6%, mainly Electronic Equipment, Transport Equipment, Basic Metals and Chemicals. The Goods Account deficit, excluding fuel and ships, amounted to €5.7 billion, higher by €749.8 million compared to 2020.

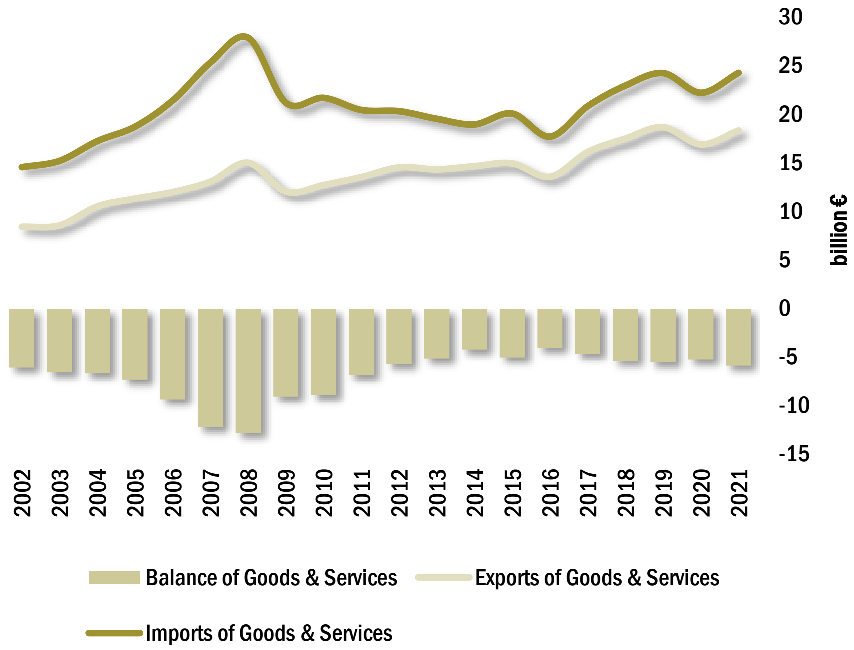
The Services Account surplus decreased to €1.1 billion in the first four months of 2021, compared to €1.5 billion in 2020, mainly due to lower revenues. In greater detail, the total receipts from Services amounted to €6.8 billion, reduced by 6.2% compared to 2020. In its sub-categories, receipts from Travel Services decreased by 79.3%, to €126 million, while a decrease, much smaller, was recorded in Transport Services, by 4.1%, to €4.9 billion. Receipts from Other Services reached €1.7 billion, an increase of 17.2%; total service payments amounted to €5.7 billion, with a marginal decrease. Payments for Travel Services decreased by 75.9%, to €97 million, payments for Transport Services increased by 3.4% to €3.8 billion, while payments for Other Services reached €1.8 billion, with an increase by 10.8%.

[20] The amounts in brackets represent the absolute change in relation to the respective period of the previous year, unless otherwise stated.

Figure 3.277

Imports-Exports of Goods and Services (January - April) 2002-2021

Widening of the deficit in the Goods and Services Account in the first four months, to €5.9 billion, compared to €5.3 billion in 2020

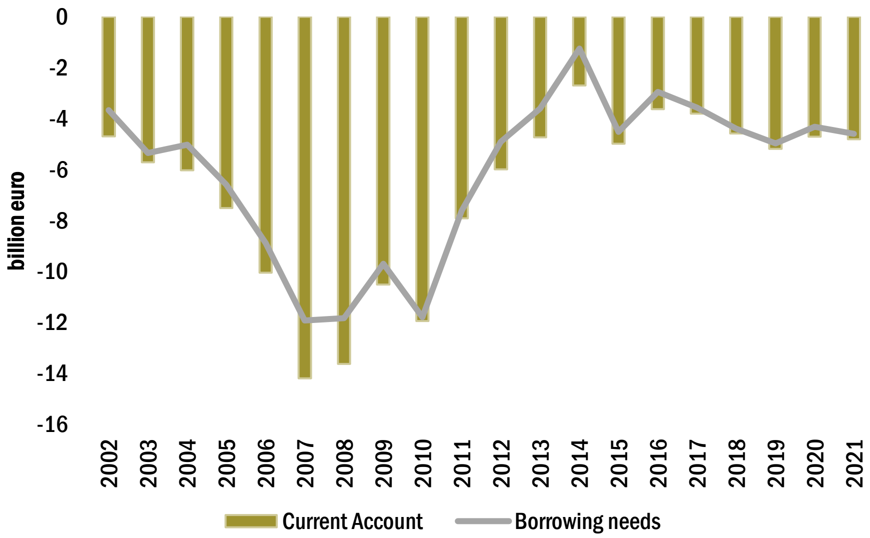


Source: Bank of Greece - Data processing IOBE

Figure 3.288

Current Account (January - April), 2002-2021

At €4.8 billion the current account deficit in the first four months of 2021, from €4.7 billion in 2020.



Source: Bank of Greece - Data processing IOBE

Financial Account

In the Primary Incomes Account, the surplus widened significantly in the first four months of 2021, reaching €1.4 billion, compared to €574 million in 2020. Receipts increased to €3.1 billion, compared to €2.8 billion in 2020, while payments fell to €1.7 billion from €2.2 billion. In detail, receipts from work remained at €67 million, receipts from investments increased by 16.1%, to €1.1 billion, while from other primary incomes (subsidies and taxes on production) recorded an increase of 9.3%, to €1.9 billion. Payments for labour income decreased to €414 billion (-12.8%), from investments decreased by 31.4% to €1.1 billion, while other primary incomes increased strongly by 40.3%, at €184 million.

The Secondary Incomes Account recorded a deficit in the first four months of 2021 amounting to €299 million, with receipts reaching €1.2 billion, at the same level as last year, and payments €1.5 billion, compared to €1.2 billion in 2020.

Capital Account

The surplus of the Capital Account [21] decreased to €221 million, compared to €391 million in 2020, with an increase in receipts by €221 million and payments by €391 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, was in deficit, at €4.6 billion, compared to €4.3 billion in 2020.

The Financial Account was in deficit in the first four months of 2021, at €4.1 billion, compared to €4.3 billion in 2020.

In the sub-accounts, the net claims of residents from foreign direct investment increased by €518 million, while net liabilities to non-residents (investments of non-residents in the country) increased by €1.1 billion.

In the portfolio investment category, residents' claims abroad decreased by €264 million, as according to the BoG, there was a decrease in residents' investments in bonds and notes abroad by €1.2 billion. This move was offset by a €703 million increase in resident equity placements abroad. Liabilities to non-residents increased by €593 million.

In the category of other investments, claims of residents increased by €219 million, as loans granted to non-residents increased by €1.5 billion, while a decrease of €1.2 billion was recorded in residents' investments in deposits and repos abroad. Liabilities increased by €2.4 billion, mainly reflecting the increase by €3.2 billion in non-resident loan liabilities. By contrast, there was a decrease in deposits and repos of non-residents in Greece, by €3.2 billion.

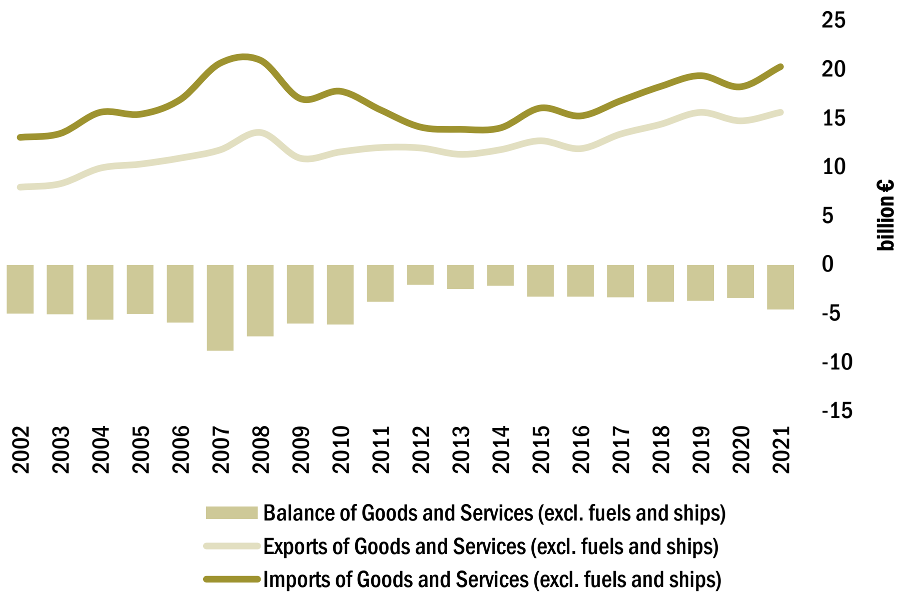
Finally, the country's foreign exchange reserves stood by the end of 2021 at €9,0 billion, against €8.8 billion in April 2020.

Figure 3.299

Imports-Exports of Goods excluding fuel and ships (January - April), 2002-2021

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

A significant widening of the deficit in the balance of goods and services excluding fuels to €4.7 billion from €3.5 billion.



Source: Bank of Greece, Data processing IOBE

Table 3.11 Balance of payments (€million).

		January - April			April		
		2019	2020	2021	2019	2020	2021
I	CURRENT ACCOUNT (I.A +I.B +I.C +I.D)	**-5,187.6**	**-4,709.4**	**-4,816.7**	**-1,410.6**	**-1,146.2**	**-2,079.1**
	GOODS AND SERVICES ACCOUNT (I.A +I.B)	**-5,571.2**	**-5,330.4**	**-5,940.3**	**-1,067.2**	**-879.9**	**-1,662.5**
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	**-7,720.3**	**-6,860.6**	**-7,030.8**	**-1,720.6**	**-1,266.4**	**-1,964.8**
	Oil balance	-1,723.1	-1,804.9	-1,235.7	-299.0	-283.6	-437.6
	Trade balance excluding oil	-5,997.1	-5,055.8	-5,795.0	-1,421.6	-982.8	-1,527.1
	Ships balance	-83.9	-41.2	-30.7	-8.1	-7.1	-12.3
	Trade balance excluding ships	-7,636.4	-6,819.4	-7,000.1	-1,712.5	-1,259.3	-1,952.5
	Trade balance excluding oil and ships	-5,913.2	-5,014.6	-5,764.4	-1,413.4	-975.7	-1,514.8
I.A.1	Exports of Goods	**10,535.9**	**9,632.6**	**11,521.7**	**2,839.6**	**1,981.2**	**3,101.7**
	Oil	3,054.3	2,152.8	2,717.9	909.7	305.5	720.0
	Ships (sales)	33.1	17.4	24.5	2.6	1.4	8.4
	Goods excluding oil and ships	7,448.5	7,462.5	8,779.3	1,927.3	1,674.3	2,373.3
I.A.2	Imports of Goods	**18,256.2**	**16,493.3**	**18,552.5**	**4,560.2**	**3,247.6**	**5,066.4**
	Oil	4,777.4	3,957.7	3,953.6	1,208.7	589.2	1,157.6
	Ships (buying)	117.0	58.6	55.2	10.7	8.5	20.7
	Goods excluding oil and ships	13,361.8	12,477.0	14,543.6	3,340.8	2,650.0	3,888.1
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	**2,149.1**	**1,530.3**	**1,090.5**	**653.4**	**386.5**	**302.3**
I.B.1	Receipts	**8,078.5**	**7,200.5**	**6,756.0**	**2,218.1**	**1,583.5**	**1,878.9**
	Travel	1,290.0	607.1	125.7	543.5	13.8	42.9
	Transportation	5,304.8	5,137.3	4,924.1	1,341.2	1,209.0	1,372.7
	Other services	1,483.7	1,456.1	1,706.1	333.5	360.6	463.3
I.B.2	Payments	**5,929.5**	**5,670.2**	**5,665.5**	**1,564.7**	**1,196.9**	**1,576.7**
	Travel	914.2	401.3	96.9	332.4	8.9	33.3
	Transportation	3,445.3	3,655.1	3,780.8	859.2	843.9	1,098.0
	Other services	1,570.0	1,613.8	1,787.9	373.1	344.1	445.4
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	**517.8**	**574.4**	**1,422.4**	**-235.9**	**-140.9**	**-82.6**
I.C.1	Receipts	**2,736.8**	**2,823.5**	**3,147.6**	**295.4**	**373.8**	**367.6**
	From work (wages. compensation)	87.2	66.8	67.1	23.0	17.1	16.5
	From investments (interest. dividends. profit)	946.6	983.6	1,141.4	225.4	211.9	267.5
	Other primary income	1,703.0	1,773.2	1,939.0	47.1	144.8	83.7
I.C.2	Payments	**2,219.0**	**2,249.1**	**1,725.1**	**531.3**	**514.6**	**450.3**
	From work (wages. compensation)	462.4	474.4	413.7	115.0	120.0	105.8
	From investments (interest. dividends. profit)	1,616.0	1,643.8	1,127.8	391.4	363.4	284.9
	Other primary income	140.6	130.9	183.7	24.9	31.2	59.6
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	**-134.2**	**46.6**	**-298.8**	**-107.6**	**-125.4**	**-333.9**
I.D.1	Receipts	**1,042.2**	**1,224.8**	**1,179.0**	**135.4**	**131.3**	**121.2**
	General government	567.7	591.1	646.3	15.7	48.3	27.9
	Other sectors	474.5	633.7	532.7	119.7	83.0	93.3
I.D.2	Payments	**1,176.4**	**1,178.2**	**1,477.8**	**243.0**	**256.8**	**455.1**
	General government	796.7	742.0	1,041.0	141.2	176.8	337.5
	Other sectors	379.6	436.1	436.8	101.8	79.9	117.6
II	CAPITAL ACCOUNT (II.1-II.2)	**215.7**	**391.4**	**221.1**	**29.0**	**134.9**	**29.6**
II.1	Receipts	**399.9**	**483.2**	**704.3**	**57.5**	**154.9**	**55.8**
	General government	337.8	450.0	542.6	9.7	138.7	11.3
	Other sectors	62.2	33.2	161.7	47.7	16.2	44.4
II.2	Payments	**184.2**	**91.8**	**483.3**	**28.5**	**19.9**	**26.2**
	General government	1.4	1.4	1.4	0.4	0.3	0.4
	Other sectors	182.9	90.3	481.8	28.1	19.7	25.8
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-4,971.9***	***-4,318.0***	***-4,595.7***	***-1,381.6***	***-1,011.2***	***-2,049.5***
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-4,078.4**	**-4,278.9**	**-4,127.7**	**-1,091.3**	**-516.8**	**-1,669.0**
III.A	DIRECT INVESTMENT*	**-1,077.7**	**-948.4**	**-571.9**	**-326.7**	**-101.0**	**-156.5**
	Assets	109.7	142.8	517.6	60.3	18.8	24.4
	Liabilities	1,187.4	1,091.2	1,089.5	387.0	119.8	180.8
III.B	PORTFOLIO INVESTMENT*	**-5,184.8**	**16,253.5**	**-857.4**	**1,459.5**	**11,367.0**	**-1,669.2**
	Assets	-1,050.0	10,676.0	-264.4	-192.6	7,084.0	-2,536.2
	Liabilities	4,134.8	-5,577.5	593.0	-1,652.0	-4,283.0	-867.0
III.C	OTHER INVESTMENT*	**2,509.0**	**-19,974.2**	**-2,232.9**	**-2,168.1**	**-11,738.0**	**227.0**
	Assets	-5,325.5	2,564.0	218.6	-544.2	-273.7	-370.4
	Liabilities	-7,834.6	22,538.2	2,451.5	1,623.9	11,464.3	-597.4
	(Loans of general government)	-634.4	86.6	-3,262.1	-31.9	126.5	-12.8
III.D	CHANGE IN RESERVE ASSETS**	**-325.0**	**390.2**	**-465.5**	**-56.0**	**-44.8**	**-70.4**
IV	BALANCE ITEMS (I +II +IV +V = 0)	**893.5**	**39.1**	**468.0**	**290.3**	**494.4**	**380.4**
	RESERVE ASSETS (STOCK)***				**6,423**	**8,827**	**9,018**

Source: Bank of Greece

* (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, increases in demand are presented with a positive sign while the decrease in receivables is displayed with a negative sign. Similarly, the increase in liabilities is captured with a positive sign, while the reduction of liabilities with a negative sign.

** (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchange reserves with a negative sign.

* * * Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" in the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outside the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB.

4 INNOVATION OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN GREECE AND GERMANY[22]

- The widening gap between large and smaller enterprises has a significant impact on the distribution of profits as well as on the utilisation of potential investment opportunities between businesses, sectors and countries.
- The effort to develop businesses through internationalisation is not just a defence strategy when internal markets cannot create more demand, but a meaningful strategy for business growth and development.
- Fast-growing small-scale enterprises in times of economic crisis are intensifying their R&D activities and are turning to cross-sectoral expansion as a strategy for survival and growth of their employment in order to compensate for the uncertainty and increased risk that their core activity may face.
- Large-scale fast-growing companies are able to significantly increase their workforce not only through internationalised geographical dispersion but also through mergers-acquisitions of other companies, as they seem to realise that under adverse economic conditions there are usually opportunities to acquire vulnerable companies, possessing valuable and non-reproducible resources. At the same time, they can choose to hire low-skilled staff and invest in the training of their employees, in order to improve their knowledge and skills.

[22] This chapter summarises some of the results of a research project prepared by IOBE in collaboration with the German Institute for Economic Research (DIW Berlin), as part of the NATIONAL ACTION: "BILATERAL AND MULTILATERAL R&T COLLABORATIONS" - Greece-Germany Collaboration, funded by the GSRT (now GSRI), under the Operational Programme Competitiveness Entrepreneurship and Innovation. More detailed information about the project is also available on the project website: https://innomsme.gr/

4.1 Introduction

In the current adverse economic environment, as it has now evolved since the pandemic crisis, there is a growing concern in Europe as a whole about the weakening of corporate productivity, especially in developed economies. This slowdown has a negative effect on income generation, wealth and social stability. Economic growth is declining due to a new phenomenon: while the productivity of global companies remains robust, the gap between them and other companies is constantly widening. According to the OECD, this is due, among other things, to obstacles to the diffusion of knowledge and innovation. An ever-increasing share of companies does not have the capacity to innovate or the ability to turn innovation into marketable products. Micro, small and medium-sized enterprises are more vulnerable to such problems, as resource scarcity hinders the process of technology transfer and ultimately the development of added value and innovation. The widening gap between the above companies significantly affects the distribution of profits as well as the exploitation of potential investment opportunities between companies, industries and countries.

Greek and German micro and small & medium-sized enterprises are the backbone of these two economies, making a significant contribution to the economy as a whole. To be able to maintain their competitiveness on a global scale, micro and small and medium-sized enterprises need to improve their capacity to absorb and accumulate new knowledge, as well as to strengthen their efforts to create innovation.

In this context, the main objective of the study is to analyse the extent to which micro and small enterprises in Greece and Germany are able to implement the link between innovation and productivity growth. Despite the significant differences between the two economies, it is extremely important both to understand the factors that support productivity at the enterprise level and to recognise the similarities, common trends and differences. After all, growth through the integration of innovation in the production process is a key issue, especially for Greece, which went through a sharp recession from 2009 to 2013, but is equally important for Germany, which is looking for ways to maintain the innovation and openness of German companies.

The analysis will form the basis for policy interventions. In any case, the improvement of European competitiveness internationally and the increase of incomes and employment presupposes that European economic policy is based on the recognition of its strengths as well as its weaknesses.

This chapter presents the results for the so-called "gazelles" in the literature, i.e. companies that are growing rapidly and which have a specific impact on the economy.

4.2 High Growth Enterprises in a Time of Crisis

The aim of this section of the study is to identify the driving forces for the emergence of fast-growing companies in economies affected by the economic crisis, as is the case in Greece, with particular emphasis on the role that corporate strategy plays in such developments (mergers & acquisitions, cross-sectoral expansion, international geographical dispersion), research and development capabilities (R&D department, participation in research collaborations) and human capital (education level, employee training programmes).

But why is it important for policymakers to focus on high-growth businesses? Typical development policy programmes have shown that for a large number of countries in recession, supporting and stimulating entrepreneurship by simply increasing the number of start-ups is one of the key set objectives (Audretsch et al. 2006). However, the recent economic crisis has highlighted the need not only to create a large number of business initiatives in an economy, but also to encourage the creation of some quality and ambitious business ventures that could become viable, even under adverse economic conditions, enhancing growth and employment.

Figure 4.1

Exploration of potential drivers of high-growth businesses

As pointed out in the annual entrepreneurship reports as part of the Global Entrepreneurship Monitor (GEM) carried out in Greece by IOBE, creating just typical start-ups is not a viable solution for boosting economic growth and job creation. In this regard, Shane (2009) argues that it is preferable and necessary at the same time for policy makers to focus on supporting that subset of companies characterised by growth dynamics, rather than subsidising the creation of a typical business unit with low added value. This is because, as Shane (2009) himself demonstrates, it is more beneficial for an economy to operate a critical mass of high-growth enterprises than a very large number of typical start-ups that find it difficult to grow and survive. Indeed, several recent empirical studies conducted internationally confirm that quality entrepreneurship with fast-growing companies is likely to be more resilient to recessionary economic cycles, while being a major driver of economic growth (Fritsch and Schroeter 2009, Autio and Acs 2010, Henrekson and Johansson 2010).

However, the relevant literature is rather poor in terms of identifying the determinants of this higher quality entrepreneurship, especially in an environment of economic crisis. The case of Greece is in fact a unique case (case study) of an economy that after a prolonged period of growth faced a sharp contraction of GDP, for also a long period. In this research, an attempt was made to fill this gap by focusing on a key quality characteristic of entrepreneurship and in particular on the driving forces for the emergence of fast-growing companies in terms of jobs in times of crisis. There are also some policy intervention lines that we believe fuel the relevant dialogue on public entrepreneurship policies and conditionally contribute to the formation of the overall development policy for the country.

As it is difficult to identify companies that can achieve high growth rates in advance (the so-called "business gazelles"), the planning of relevant policy interventions should be based on identifying entrepreneurs with development aspirations, as well as support from the first stages of life of start-ups with a development perspective (Stam et al. 2009). Conversely, "subsidizing" self-employment without qualitative criteria (e.g. degree of innovation, openness, etc.) and entrepreneurship needs characterised by low growth prospects is likely to prove to be an ineffective policy (Stam et al. 2009).

4.3 Research methodology

Under the above theoretical framework we performed an econometric analysis utilising data concerning 1500 Greek companies that participated in two waves in a field research conducted in 2011 and 2013 by IOBE and EVEO, funded by SEV. The response of companies to the previous crisis is of particular value, as it can give important lessons for companies and policy makers in the context of the current health and economic crisis that has affected the business system in Greece. Applying definitions from the literature to the sample, in order for a business to be classified as fast-growing it must be in the upper 10% of the business growth distribution[23].

In terms of the descriptive characteristics of the sample of analysed enterprises, the group of enterprises of rapid growth in employment terms consists of enterprises that have grown during the period under review (2011-2013) by at least 37% based on the relative employment indicator or have created at least 20 jobs based on the absolute employment indicator. Regarding the group of fast-growing companies in terms of sales this includes companies that increased their turnover by 27% based on the relative sales indicator or by 2,825,589 euros based on the absolute sales indicator. By contrast, it is interesting to note that the lowest 10% of the distribution refers to companies that have reduced their number of employees by at least 75% based on the relative indicator or to companies that have lost at least 40 jobs in the examined period (from 2011 to 2013).

4.4 Econometric findings and discussion of results

The main findings from the research show that Greek companies that adopt a strategy of international geographical dispersion have a significantly higher probability of growing rapidly, regardless of the growth measure used (absolute and relative growth measures in terms of employment and sales). The turbulent economic environment can play an important role, as high-quality companies are likely to intensively pursue cross-border strategies as a way of growth, especially in times of economic crisis. This strong and extremely important finding can have interesting implications for policy-making, highlighting the need to support and facilitate the export activity of companies, especially in small economies such as Greece. For example, support can be provided by providing tax incentives, reducing bureaucratic hurdles that accompany export activity (in terms of cost, time and documents) and by participating in trade fairs, etc.

In addition, cross-sectoral expansion, i.e. the entry and operation of firms in different product markets and the utilisation of R&D capabilities, seems to be critical for smaller

[23] The paper is titled "Inside the black box of high-growth firms in a crisis-hit economy: corporate strategy, employee human capital and R&D capabilities" Y. Caloghirou, I. Giotopoulos, A. Kontolaimou & A. Tsakanikas, published in the International Entrepreneurship and Management Journal (2020). https://doi.org/10.1007/s11365-020-00674-x

rapidly growing enterprises when relative employment is used as a measure of growth. Small-scale fast-growing companies seem to be stepping up their R&D activities in times of economic crisis and turning to cross-sectoral expansion as a strategy for survival and growth of their workforce, in order to offset the uncertainty and increased risk that their core business may face.

Table 4.1: Determinants of the Probability for Businesses to Achieve High Growth Rates (Business Gazelles)

	Template 1 (Relative Growth based on Employees)	Template 2 (Absolute Growth based on Employees)	Template 3 (Relative growth based on Sales)	Model 4 (Absolute Growth based on Sales)
		Corporate Strategy		
Cross-sectoral Expansion	0.0168*** (0.0059)	0.0111* (0.0060)	-0.0054 (0.0081)	-0.0090 (0.0068)
International Geographical Dispersion	0.0507** (0.0240)	0.0685*** (0.0230)	0.0718*** (0.0287)	0.0464* (0.0273)
Mergers & Acquisitions	0.0067 (0.0065)	0.0071* (0.0042)	0.0104 (0.0081)	0.0045 (0.0076)
		Human Capital		
Educational Level of Employees	-0.0011 (0.0007)	-0.0009 (0.0008)	0.0015** (0.0007)	0.0019*** (0.0007)
Employee Training Programs	0.0092 (0.0174)	0.0338* (0.0197)	0.0141 (0.0218)	0.0038 (0.0234)
		R&D Capabilities		
Department of Research & Development	0.0462** (0.0212)	0.0230 (0.0190)	0.0313 (0.0244)	0.0289 (0.0216)
Research Collaborations	0.0422* (0.0252)	0.0335 (0.0224)	-0.0560* (0.0355)	-0.0702** (0.0296)
		Control Variables		
Business Size	-0.0470*** (0.0068)	0.0222*** (0.0056)	-0.0266*** (0.0072)	0.0523*** (0.0067)
Liquidity Restrictions	-0.0028 (0.0053)	-0.0011 (0.0052)	-0.0123** (0.0062)	-0.0042 (0.0057)
Number of Observations	1335	1335	980	980

Note: The table shows the marginal effects of Probit regressions. * Statistically significant at the level of 10%. ** Statistically significant at the 5% level. *** Statistically significant at the level of 1%. Standard errors are shown in brackets. Sectoral dummy variables are included in all models.

By contrast, based on the absolute employment growth measure, there are empirical indications that large companies are able to significantly increase their workforce, not only through internationalised geographical dispersion but also through mergers and acquisitions of other companies with valuable and non-replicable resources, in an effort to address relevant resource gaps. These strategic moves are probably easier for large and financially sound companies as they seem to realise that under adverse economic conditions there are opportunities to acquire other vulnerable companies.

The research findings also show that large, high-growth companies can choose to hire low-skilled staff and invest in training of their employees in order to improve their knowledge and skills. However, the practice of hiring people with low payroll costs and in-house training is not applied by high-growth companies in terms of sales (defined by either the absolute or the relative growth measure), as it seems that they prefer to hire people who hold a master's or doctoral degree. Finally, research collaborations seem to hinder the achievement of high sales in these companies, probably due to the complexity and cost of search, coordination and transaction that characterise the process of concluding research collaborations.

4.5 Conclusions and next steps

The above results lead to some findings, useful in terms of business strategies. A problem that is rather common in small economies and economies affected by recessions is highlighted: Trying to grow businesses through international geographical dispersion is not just a defence strategy when internal markets cannot create more demand. It is rather the appropriate strategy to be followed by companies operating in a turbulent domestic macroeconomic environment, in order to increase the chance not only to survive, but also to maintain a course of sustainable growth. Thus, leveraging economies of scale, enabled by internationalisation and investing in those resources that can support penetration and expansion into diversified geographic markets, can be a successful strategic growth path for businesses in sunk economies that struggle to emerge from a prolonged economic downturn.

As this research project is ongoing, two more empirical studies are being prepared that will contribute to the achievement of the project objectives. Specifically:

A. The correlation between research and development, innovation and productivity for micro and small enterprises in Greece will be analysed using data from a two-wave survey of 524 Greek manufacturing companies during the crisis period (2011 and 2013). Besides, investment in research and development (R&D) is also a tool to achieve the above objectives. Methodologically, the model of Crepon et al (1998) will be applied in order to investigate the reaction of companies belonging to different size groups, as the crisis continued to adversely affect the domestic economy. From previous research, we know that business size is positively related to the decision to invest in R&D, as well as that smaller companies continue to engage and participate significantly in R&D activities (see Hall et al. 2009, Baumann and Kritikos 2016). With this analysis, we are expected to contribute to the literature that focuses on the impact of financial shocks on R&D investment. The implementation of this systematic analysis to investigate the existence of a possible heterogeneity in the correlations observed between R&D-innovation-productivity for different business size group is a first attempt in the international literature to investigate how a persistent shock causes large economic imbalances in economies. In this sense, the Greek economy, which faced a similar shock after the international financial crisis, serves as an important case study for policy-making in the context of the current health crisis. Our research is expected to be particularly relevant and useful in the design of innovation programmes and related policy instruments aimed at improving the resilience of companies belonging to different size groups in adverse economic conditions.

B. The relationship between the various intangible assets of the companies and their total investment will be analysed as well as how they affect the company growth and productivity. Intangible capital, also known as knowledge-based capital, is a key condition for growth in developed economies. It consists of many elements, not only R&D but also software and databases, advertising, training programmes, organisational innovation etc. This part of the research focuses on exploring "if" and "how" SME growth can be improved in terms of sales by adopting forms of ICT with varying intangible capital intensity in 2012, the year in which the economic crisis in Greece peaked during the period of adaptation programmes. This work is a first attempt to assess at the level of small and medium-sized enterprises whether the relationship between the adoption of ICT with intangible capital intensity and business growth for companies achieving different growth rates, i.e. for businesses with high, moderate and low growth momentum. Note that there are several studies investigating the impact of ICT uptake on business productivity (Arvanitis, 2005; Bayo-Moriones & Lera-López, 2007; Cardona et al., 2013; Corrado, et al., 2017; Tran, et al., 2014;) and on the profitability of businesses (Kossaï, and Piget, 2014), but there are very few studies focusing on business growth (Locke, 2004; Sapprasert, 2010). To the best of our knowledge, this research project will attempt to fill the gap in the relevant literature on the impact of ICT adoption on the growth of small and medium-sized enterprises in times of crisis.

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APPENDIX

Table 1: GDP Rate of Change

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

Table 2: General Government Debt as % of GDP

	Annual data (%)							
	2013	2014	2015	2016	2017	2018	2019	2020
Austria	81.3	84	84.9	82.9	78.3	74	70.4	83.9
Belgium	105.5	107	105.2	104.9	101.7	99.8	98.6	114.1
Bulgaria	17.1	27.1	26	29.3	25.3	22.3	20.4	25
France	93.4	94.9	95.6	98	98.3	98.1	98.1	115.7
Germany	78.7	75.7	72.1	69.2	65.3	61.9	59.8	69.8
Denmark	44	44.3	39.8	37.2	35.8	33.9	33.2	42.2
Czech Republic	44.9	42.2	40	36.8	34.7	32.6	30.8	38.1
EU 27	92.6	92.8	90.9	90	87.8	85.8	84.1	98
Greece	177.4	178.9	175.9	178.5	176.2	181.2	176.6	205.6
Estonia	10.2	10.6	10	10.2	9.3	8.4	8.4	18.2
Euro area	86.4	86.6	84.7	84	81.6	79.6	77.8	90.7
Ireland	119.9	104.4	76.7	73.8	67.7	63.5	58.8	59.5
Spain	95.8	100.7	99.3	99.2	98.6	97.6	95.5	120
Italy	132.5	135.4	135.3	134.8	134.1	134.8	134.8	155.8
Croatia	81.2	84.7	84.3	80.8	77.8	74.7	73.2	88.7
Cyprus	104	109.2	107.5	103.4	93.9	100.6	95.5	118.2
Latvia	40.3	41.6	37.3	40.9	39.3	37.2	36.9	43.5
Lithuania	38.7	40.6	42.6	39.7	39.1	33.8	36.3	47.3
Luxembourg	23.7	22.7	22	20.1	22.3	21	22.1	24.9
Malta	68.4	63.4	58	55.5	50.3	45.6	43.1	54.3
Netherlands	67.7	67.8	64.6	61.9	56.9	52.4	48.6	54.5
Hungary	77.4	76.8	76.2	75.5	72.9	70.2	66.3	80.4
Poland	56	50.8	51.3	54.3	50.6	48.8	46	57.5
Portugal	131.4	132.9	131.2	131.5	126.1	122	117.7	133.6
Romania	37.6	39.2	37.8	37.3	35.1	34.7	35.2	47.3
Slovakia	54.7	53.5	51.9	52	51.3	49.4	48	60.6
Slovenia	70	80.3	82.6	78.7	74.1	70.4	66.1	80.8
Sweden	40.4	45.1	43.9	42.2	40.8	38.8	35.1	39.9
Finland	56.2	59.8	63.6	63.2	61.3	59.6	59.4	69.2

Table 3: General Government Balance as % of GDP

	Annual data (%)

	2013	2014	2015	2016	2017	2018	2019	2020
Austria	-2	-2.7	-1	-1.5	-0.8	0.2	0.7	-8.9
Belgium	-3.1	-3.1	-2.4	-2.4	-0.7	-0.8	-1.9	-9.4
Bulgaria	-0.4	-5.4	-1.7	0.1	1.1	2	2.1	-3.4
France	-4.1	-3.9	-3.6	-3.6	-2.9	-2.3	-3	-9.2
Germany	0	0.6	0.9	1.2	1.2	1.9	1.4	-4.2
Denmark	-1.2	1.1	-1.2	0.1	1.8	0.7	3.7	-1.1
Czech Republic	-1.2	-2.1	-0.6	0.7	1.5	0.9	0.3	-6.2
EU 27	-2.9	-2.4	-1.9	-1.3	-0.8	-0.4	-0.6	-6.9
Greece	-13.2	-3.6	-5.6	0.5	0.7	1	1.5	-9.7
Estonia	0.2	0.7	0.1	-0.5	-0.8	-0.6	-0.3	-4.9
Euro area	-3	-2.5	-2	-1.5	-1	-0.5	-0.6	-7.2
Ireland	-6.2	-3.6	-2	-0.7	-0.3	0.1	0.4	-5
Spain	-7	-5.9	-5.2	-4.3	-3	-2.5	-2.8	-11
Italy	-2.9	-3	-2.6	-2.4	-2.4	-2.2	-1.6	-9.5
Croatia	-5.3	-5.3	-3.3	-1	0.8	0.2	0.4	-7.4
Cyprus	-5.8	-8.7	-1	0.3	2	-3.7	1.7	-5.7
Latvia	-1.2	-1.6	-1.4	0.2	-0.8	-0.8	-0.2	-4.5
Lithuania	-2.6	-0.6	-0.3	0.2	0.5	0.6	0.3	-7.4
Luxembourg	0.8	1.3	1.3	1.8	1.3	3.1	2.2	-4.1
Malta	-2.4	-1.7	-1	1	3.3	1.9	0.5	-10.1
Netherlands	-2.9	-2.2	-2	0	1.3	1.4	1.7	-4.3
Hungary	-2.6	-2.8	-2	-1.8	-2.5	-2.1	-2	-8.1
Poland	-4.2	-3.6	-2.6	-2.4	-1.5	-0.2	-0.7	-7
Portugal	-5.1	-7.4	-4.4	-1.9	-3	-0.4	0.2	-5.7
Romania	-2.1	-1.2	-0.6	-2.6	-2.6	-2.9	-4.3	-9.2
Slovakia	-2.9	-3.1	-2.7	-2.5	-1	-1	-1.3	-6.2
Slovenia	-14.6	-5.5	-2.8	-1.9	0	0.7	0.5	-8.4
Sweden	-1.4	-1.5	0	1	1.4	0.8	0.5	-3.1
Finland	-2.5	-3	-2.4	-1.7	-0.7	-0.9	-1.1	-5.4

Table 4: Percentage of Population in Poverty or Social Exclusion * (see endnote)

Annual data (%)								
	2013	2014	2015	2016	2017	2018	2019	2020
Austria	18.8	19.2	18.3	18.0	18.1	17.5	16.9	17.5
Belgium	20.8	21.2	21.1	20.9	20.6	20.0	19.5	18.9
Bulgaria	48.0	40.1	41.3	40.4	38.9	32.8	32.5	32.1
France	18.1	18.5	17.7	18.2	17.0	17.4	17.9	:
Germany	20.3	20.6	20.0	19.7	19.0	18.7	17.4	:
Denmark	18.3	17.9	17.7	16.8	17.2	17.4	16.3	15.9
Czech Republic	14.6	14.8	14.0	13.3	12.2	12.2	12.5	:
EU 27	24.6	24.5	23.8	23.7	22.5	21.6	21.1	:
Greece	35.7	36.0	35.7	35.6	34.8	31.8	30	28.9
Estonia	23.5	26.0	24.2	24.4	23.4	24.4	24.3	23.3
Euro area	23.1	23.5	23.1	23.1	22.1	21.6	21.1	:
Ireland	29.9	27.7	26.2	24.4	22.7	21.1	:	:
Spain	27.3	29.2	28.6	27.9	26.6	26.1	25.3	:
Italy	28.5	28.3	28.7	30.0	28.9	27.3	:	:
Croatia	29.9	29.3	29.1	27.9	26.4	24.8	23.3	:
Cyprus	27.8	27.4	28.9	27.7	25.2	23.9	22.3	:
Latvia	35.1	32.7	30.9	28.5	28.2	28.4	27.3	:
Lithuania	30.8	27.3	29.3	30.1	29.6	28.3	26.3	:
Luxembourg	19.0	19.0	18.5	19.8	21.5	21.9	20.6	:
Malta	24.6	23.9	23.0	20.3	19.3	19.0	20.1	:
Netherlands	15.9	16.5	16.4	16.7	17.0	16.7	16.5	16.3
Hungary	34.8	31.8	28.2	26.3	25.6	19.6	18.9	17.8
Poland	25.8	24.7	23.4	21.9	19.5	18.9	18.2	:
Portugal	27.5	27.5	26.6	25.1	23.3	21.6	21.6	:
Romania	41.9	40.3	37.4	38.8	35.7	32.5	31.2	30.4
Slovakia	19.8	18.4	18.4	18.1	16.3	16.3	16.4	:
Slovenia	20.4	20.4	19.2	18.4	17.1	16.2	14.4	15.0
Sweden	18.3	18.2	18.6	18.3	17.7	18.0	18.8	:
Finland	16.0	17.3	16.8	16.6	15.7	16.5	15.6	16.0

Table 5: Inflation

	Annual data (%)			Q2			Change (%)	
	2018	2019	2020	2019	2020	2021	2021/20	2020/19
Austria	2.1	1.5	1.4	1.6	1.6	2.2	0.6	0.0
Belgium	2.3	1.3	0.4	1.9	0.5	1.0	0.5	-1.4
Bulgaria	2.6	2.5	1.2	2.7	2.2	1.2	-1.1	-0.5
France	2.1	1.3	0.5	1.4	1.0	0.8	-0.1	-0.4
Germany	1.9	1.4	0.4	1.6	1.2	2.1	0.9	-0.4
Denmark	0.7	0.7	0.3	1.0	0.3	1.3	1.0	-0.7
Czech Republic	2.0	2.6	3.3	2.4	3.5	3.1	-0.4	1.1
EU 27	1.8	1.4	0.7	1.6	1.1	1.7	0.6	-0.5
Greece	0.8	0.5	-1.3	0.8	0.0	-1.7	-1.7	-0.8
Estonia	3.4	2.3	-0.6	2.6	0.4	1.3	1.0	-2.3
Euro area	1.8	1.2	0.3	1.4	0.7	1.4	0.7	-0.7
Ireland	0.7	0.9	-0.5	1.1	0.3	0.3	0.0	-0.8
Spain	1.7	0.8	-0.3	1.2	0.1	1.3	1.1	-1.1
Italy	1.2	0.6	-0.1	1.0	0.1	0.9	0.8	-0.9
Croatia	1.6	0.8	0.0	0.9	0.5	1.7	1.2	-0.3
Cyprus	0.8	0.6	-1.1	1.1	-0.2	0.0	0.2	-1.2
Latvia	2.6	2.7	0.1	3.0	1.0	1.4	0.5	-2.1
Lithuania	2.5	2.2	1.1	2.3	1.7	2.7	1.0	-0.6
Luxembourg	2.0	1.7	0.0	2.1	0.5	2.1	1.6	-1.6
Malta	1.7	1.5	0.8	1.4	1.1	0.5	-0.7	-0.3
Netherlands	1.6	2.7	1.1	2.6	1.2	1.7	0.5	-1.3
Hungary	2.9	3.4	3.4	3.5	3.6	4.6	1.0	0.0
Poland	1.2	2.1	3.7	1.6	3.6	4.5	0.9	2.0
Portugal	1.2	0.3	-0.1	0.7	0.1	0.2	0.0	-0.6
Romania	4.1	3.9	2.3	4.1	2.7	2.6	-0.1	-1.4
Slovakia	2.5	2.8	2.0	2.5	2.6	2.3	-0.2	0.1
Slovenia	1.9	1.7	-0.3	1.5	0.5	0.9	0.4	-1.0
Sweden	2.0	1.7	0.7	2.0	0.7	1.7	1.0	-1.3
Finland	1.2	1.1	0.4	1.3	0.5	1.2	0.6	-0.7

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

	Annual data (%)							
	2013	2014	2015	2016	2017	2018	2019	2020
Austria	1.10	1.11	1.11	1.12	1.13	1.13	1.13	1.14
Belgium	1.12	1.12	1.11	1.12	1.13	1.13	1.13	1.12
Bulgaria	0.94	0.92	0.94	0.96	0.99	1.01	1.03	1.05
France	1.13	1.13	1.12	1.12	1.12	1.11	1.09	1.09
Germany	1.07	1.07	1.08	1.08	1.08	1.09	1.10	1.12
Denmark	10.20	10.23	10.16	10.20	10.03	9.96	9.96	9.88
Czech Republic	17.72	17.73	18.00	18.11	18.11	18.23	18.58	18.95
EU 27	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Greece	0.88	0.85	0.85	0.85	0.84	0.83	0.83	0.81
Estonia	0.72	0.74	0.75	0.76	0.78	0.80	0.81	0.80
Euro area	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.06
Ireland	1.12	1.14	1.13	1.14	1.16	1.16	1.19	1.17
Spain	0.94	0.92	0.92	0.93	0.92	0.93	0.94	0.92
Italy	1.02	1.03	1.03	1.01	1.00	1.00	1.00	0.99
Croatia	4.96	4.95	4.89	4.87	4.87	4.90	4.90	4.80
Cyprus	0.95	0.95	0.92	0.90	0.90	0.90	0.90	0.91
Latvia	0.69	0.69	0.69	0.70	0.71	0.72	0.74	0.72
Lithuania	0.61	0.62	0.62	0.63	0.65	0.66	0.68	0.68
Luxembourg	1.24	1.23	1.23	1.23	1.24	1.24	1.26	1.28
Malta	0.80	0.82	0.83	0.84	0.85	0.86	0.86	0.86
Netherlands	1.11	1.13	1.13	1.15	1.14	1.15	1.17	1.16
Hungary	173.26	180.63	184.37	190.13	196.61	203.17	210.42	221.55
Poland	2.44	2.47	2.46	2.50	2.54	2.58	2.61	2.67
Portugal	0.81	0.81	0.81	0.82	0.84	0.85	0.85	0.85
Romania	2.23	2.27	2.31	2.30	2.35	2.45	2.53	2.56
Slovakia	0.68	0.68	0.68	0.72	0.74	0.74	0.75	0.79
Slovenia	0.82	0.83	0.83	0.83	0.83	0.84	0.84	0.83
Sweden	11.92	12.18	12.32	12.70	12.76	12.98	13.06	13.12
Finland	1.26	1.27	1.26	1.27	1.26	1.26	1.27	1.26

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

Annual data

	2013	2014	2015	2016	2017	2018	2019	2020
Austria	117.3	116.8	117.3	117.5	116.3	116.5	115.5	114.3
Belgium	130.2	131.2	131.6	130.7	129.7	129.2	129.1	126.9
Bulgaria	42.9	44	44.5	45.7	46	47.1	48.6	50.5
France	116.8	116.1	115.7	115.3	114.9	115.3	116.7	115.5
Germany	104.3	106.3	105.3	105.9	105.7	105.1	103.6	103.2
Denmark	115.5	115.5	114.9	114.8	116	116.7	116.9	122.1
Czech Republic	76.8	79.3	79.9	79.9	81.4	83.8	85.3	86.2
EU 27	100	100	100	100	100	100	100	100.0
Greece	87.2	86.4	83.5	81.5	80.6	80.5	78.5	70.0
Estonia	73.8	75.4	72.4	73	74.2	76.7	78.7	82.6
Euro area	107.5	107.6	107.3	107.2	106.9	106.4	105.7	104.9
Ireland	143	146.5	188.6	182.3	187	195.1	196.9	215.6
Spain	103.4	103.3	102.2	101.8	101.5	99.6	98.2	96.6
Italy	109.4	107.7	106.6	108.1	107.4	106.4	104.9	103.1
Croatia	73.5	70.8	70.7	72	71.9	72.7	72.1	71.4
Cyprus	86	84	84.9	87.1	85.5	85.3	83.7	80.8
Latvia	62.6	64.7	64.4	64.8	66.7	68.6	68.7	71.7
Lithuania	74.1	74.4	72.8	71.8	75	76	77.5	81.9
Luxembourg	163.8	169.7	169.6	170.8	166	164.6	162	163.1
Malta	89.7	91.5	95.2	95.9	94.1	94.4	93.5	88.7
Netherlands	115.4	113.5	112.8	110.5	110.5	109.8	108	112.1
Hungary	73.1	71.4	70.9	67.4	67.7	70	71.6	72.3
Poland	74.1	73.8	74.5	74	74.9	76.7	80.1	82.3
Portugal	79.9	79	78.3	77.9	75.8	75.1	76.1	75.5
Romania	56.2	56.7	58.6	63.1	66.1	68.7	72.6	75.1
Slovakia	84.1	84.3	83.5	77	75.7	76.2	76.2	74.9
Slovenia	81.1	81.5	80.6	80.8	81.7	82.1	81.9	82.9
Sweden	115.9	115.2	116.7	113.4	112.9	111.6	112.2	116.0
Finland	108.3	107.7	107.6	108.1	109	107.9	106.6	110.9

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

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

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

Table 9: Employment Rate of Persons Aged 55-64(*)

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/2019	2019/2018
Austria	46.3	49.2	51.3	54.0	54.5	54.7	0.2	0.5
Belgium	44	45.4	48.3	50.3	52.1	53.3	1.2	1.8

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

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

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

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

Table 11: Unemployment Rate – Total Population

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	5.7	6.0	5.5	4.9	4.5	5.4	0.9	-0.4
Belgium	8.5	7.8	7.1	6.0	5.4	5.6	0.2	-0.6
Bulgaria	9.2	7.6	6.2	5.2	4.2	5.1	0.9	-1.0
France	10.4	10.1	9.4	9.0	8.4	8.0	-0.4	-0.6
Germany	4.6	4.1	3.8	3.4	3.1	3.8	0.7	-0.3

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

Table 12: Unemployment Rate among Men

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

Table 13: Unemployment Rate among Women

	Annual data (%)						Change (%)	
	2015	2016	2017	2018	2019	2020	2020/19	2019/18
Austria	5.3	5.6	5.0	4.7	4.4	5.2	0.8	-0.3
Belgium	7.8	7.6	7.1	5.6	4.9	5.4	0.5	-0.7
Bulgaria	8.4	7.0	6.0	4.7	3.9	4.8	0.9	-0.8
France	9.9	9.9	9.4	9.1	8.4	8.0	-0.4	-0.7
Germany	4.2	3.8	3.3	2.9	2.7	3.4	0.7	-0.2
Denmark	6.5	6.4	6.1	5.3	5.3	6.0	0.7	0.0
Czech Republic	6.1	4.7	3.6	2.8	2.4	3.0	0.6	-0.4
EU 27	10.2	9.4	8.4	7.5	7.0	7.3	0.3	-0.5
Greece	28.9	28.1	26.1	24.2	21.5	19.8	-1.7	-2.7

Estonia	6.1	6.1	5.3	5.3	4.8	6.6	1.8	-0.5
Euro area	11.0	10.3	9.4	8.5	7.9	8.1	0.2	-0.6
Ireland	8.9	7.6	6.3	5.7	4.7	5.7	1.0	-1.0
Spain	23.6	21.4	19.0	17.0	16.0	17.4	1.4	-1.0
Italy	12.7	12.8	12.4	11.8	11.1	10.2	-0.9	-0.7
Croatia	16.9	13.8	11.9	9.4	7.2	7.6	0.4	-2.2
Cyprus	14.8	13.4	11.3	8.8	8.0	7.6	-0.4	-0.8
Latvia	8.6	8.4	7.7	6.4	5.4	7.1	1.7	-1.0
Lithuania	8.2	6.7	5.7	5.4	5.5	7.7	2.2	0.1
Luxembourg	7.4	6.6	5.5	5.9	5.5	7.0	1.5	-0.4
Malta	5.4	5.2	4.3	3.5	4.0	4.4	0.4	0.5
Netherlands	7.3	6.5	5.3	4.0	3.4	4.0	0.6	-0.6
Hungary	7.0	5.1	4.6	4.0	3.5	4.5	1.0	-0.5
Poland	7.7	6.2	4.9	3.9	3.6	3.3	-0.3	-0.3
Portugal	12.8	11.3	9.4	7.5	7.2	7.1	-0.1	-0.3
Romania	5.8	5.0	4.0	3.5	3.4	4.7	1.3	-0.1
Slovakia	12.9	10.8	8.4	7.0	6.0	7.1	1.1	-1.0
Slovenia	10.1	8.6	7.5	5.7	5.0	5.6	0.6	-0.7
Sweden	7.3	6.6	6.4	6.2	7.0	8.3	1.3	0.8
Finland	8.8	8.6	8.4	7.3	6.2	7.5	1.3	-1.1

Table 14: Long-Term Unemployment Rate (*)

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

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

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

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

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

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