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Foreword

IOBE publishes its third bulletin on the Greek economy for 2019, as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek economy, in which after more than four years the capital controls were lifted, while the cost of borrowing of the Greek state is at record low levels. The mix of economic policy pursued to achieve the fiscal objectives in the following year, following the recent fiscal measures and those planned in the 2020 Draft Budget, is a major politico-economic issue. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with a text which outlines the needed features of the Greek economy's growth. The rest of the report is structured as follows:

Chapter 1 presents a brief overview of the report. Chapter 2 examines the general economic conditions, including: i) an analysis of the global economic environment in the second quarter of 2019 and its outlook for the rest of the year and for 2020, based on the latest report of the International Monetary Fund; ii) an outline of the economic climate in Greece in the third quarter of 2019, based on data from the latest IOBE business and consumer surveys; iii) an assessment of the execution of the State Budget in the first eight months of the current year; iv) an outline of the developments in the domestic financial system between June and August.

Chapter 3 focuses on the performance of the Greek economy mainly in the second quarter of 2019. It includes an analysis of: the macroeconomic environment in the same quarter of 2019 and its outlook for the rest of the year and for 2020; the developments in key production sectors in the first six or eight months of the year, depending on the data availability; the export performance of the Greek economy over the first eight months of the year; the developments in the labour market in the second quarter; the trends in inflation in the first nine months of 2019; and, finally, the trends in the balance of payments in the first eight months of the year.

Chapter 4 presents the findings of an analysis on measures that could boost digital payments and fiscal revenues.

The report refers to and is based on data that were available up to 21 October 2019.

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

THE GREEK ECONOMY'S GROWTH FEATURES

The Greek economy is going through a third consecutive year of growth at a rate which, given the deep and prolonged crisis that preceded it, is not particularly high, yet it is expected to accelerate over the following year. In particular, the real growth rate is expected to range between 1.5% and 2% in 2019, as in the previous two years, while in the following year it is expected to exceed 2%. This growth path of the Greek economy is based on three main pillars. First, it has achieved overall, after a ten-year adjustment, a fiscal balance and there is no need for further consolidation. In fact, there may be fiscal space to boost growth prospects. Second, the improvement of the business environment is a central objective of the new Government's policy, which meets broad support and emerging consensus. At the same time, the risks in the country from political developments in the foreseeable future have been minimised. Third, the international environment is favourable for maintaining and reducing further the cost of financing, a development that facilitates the overall policy making in the Greek economy.

The growth rate is expected to be between 1.5% and 2% in 2019, while in 2020 it will exceed 2%.

The positive prospects of the economy are reflected in the particularly strong improvement of the economic climate, as measured by IOBE. The economic climate index is overall at its highest level since the onset of the crisis in 2008, while the consumer confidence index is at its highest level in nineteen years. It is noteworthy that the improvement in expectations occurs while the expectations in the rest of Europe, on average, are significantly declining. The positive prospects are also reflected first of all in the very significant reduction in the cost of funding for the country, as

The economic climate index is overall at the highest level since the onset of the crisis evident from the yields of the ten-year bond, but also gradually in the rest of the economy. This development, which was neither certain nor can be assumed to hold indefinitely, is crucial for an economy where public and private debt has accumulated, while it must finance its transition to a more competitive growth model.

Positive prospects with attentiveness for the structure of the economy and developments in the international environment

Although the current positive foundations create positive prospects for the following year and beyond, there is no shortage of risks and reasons for being cautious. These relate on the one hand to the structure of the Greek economy and on the other to negative developments that may come about in the international economic environment, with direct impact on the Greek economy. Therefore, it is particularly important that today's positive conditions are utilised in a way that lays the ground for systematically higher growth rates over the next decade, an evolution that is necessary so that the economic crisis can truly be left behind. In particular, the necessary structural reforms that would make the Greek economy more open and competitive, thus supporting a new growth model, cannot be considered to have been completed. At the same time, the reduction in the cost of financing to the whole economy, which is particularly critical and welcome, should be used to strengthen the production base and to facilitate structural changes and not to temporarily raise consumption.

Extensive investment gap - less than half of Europe's investments as a percentage of GDP

Given the above, the question posed for the Greek economy is whether its structural characteristics will improve, so that the current growth rates of around 2% increase to a higher level, of around 3%, for a reasonable period of time or whether the current fundamentals, which push this growth rate to 1% over the medium term, will prevail. Besides, despite the positive conditions, we should bear in mind that the investment gap in the country is extensive, with investment as a percentage of GDP being overall both below half of that in Europe on average and the rate that prevailed before the start of the crisis. At the same time, in recent years, investment does not cover the depreciation of capital, resulting in its decline in net terms. Unemployment is still at a very high level and its reduction will not be easy, even to 10%, despite the fact that the economy is suffering from systematically low labour force participation and emigration flows over the past few years. Also, credit continues to shrink and its expansion in the coming year constitutes an issue of major concern. In this regard, the strengthening of the banking system, shortly after the complete lifting of the capital controls and with the deposit base at low levels, is a prerequisite for the systematic reinforcement of growth through investment.

Without the essential shift to a new growth model focused on investment and exports, the upcoming higher growth rates of the economy would not last. At present, the achievement of strong growth rates approaching or exceeding 3% is not supported by the very structure of the economy, which may have improved in the decade of adaptation, yet not to a sufficient degree. In particular, strong overall growth through consumption boost is not feasible, as it would lead to a significant rise in imports. Meanwhile, growth through investment and exports requires strong and systematic efforts in the economy as a whole over the coming years. In any case, and for the following year, the growth of the economy will be lower than desired due to expected strong performance of imports of both consumer and capital goods. The objective of achieving growth at a rate above 2.5% is particularly ambitious and can only be met with a significant increase in investment. Some investment projects may develop within the next year, but others will need a longer incubation time.

The achievement of strong growth rates approaching or exceeding 3% runs against the very structure of the economy

Based on all the above, the economic policy choices that will be made in the current period are particularly important. Certainly, improving the business environment is a prerequisite not only for boosting investment in the short term, but also for linking the economy with technological developments, innovation and international value chains in the medium term. The exports of Greek products, despite particularly significant individual efforts and successes, still have on average low content of innovation and thus competitiveness. It is of particular importance that the necessary investments, both in physical and human capital, are medium and long-term in nature. Therefore, the temporary improvement of expectations is not sufficient but what is needed is the formation of positive expectations on the state of the Greek economy a decade from now.

Highly critical economic policy choices

Together with the individual measures to improve the business environment, still, the policy decisions that affect the economy more broadly will also be of a crucial importance, with particular emphasis on the tax mix, the reform of the social security system and the development of human capital. As far as taxation is concerned, the reduction of the overall rates has a beneficial effect on consumption and investment decisions of households and businesses, while the rationalisation of the fiscal surplus recorded in the previous two years can also have a significant positive effect. However, it is crucial that the existing degrees of freedom are used to rationalise the system primarily in the direction of a simpler and more stable system that does not overburden labour, as is the case today. Such a development will also be a precondition for stronger investment, especially of a more long-term and productive kind, and must be the focus of economic policy. By contrast, the easing of the burden on income from employment is going to be insignificant for most except the lowest income categories, as evident by leaked information on the tax reform so far.

Rationalisation in the direction of a simpler and more stable system that does not overburden labour is essential

The widening of the tax base is a central prerequisite for improving the structure of the new system, as today a very small proportion of workers and entrepreneurs are burdened with a large share of taxes. A recent study by IOBE demonstrated the benefits of a suitable policy of incentives for the households. In this respect, a policy which rewards the transparent transactions in market segments with higher tax evasion would be appropriate and certainly more desirable than the horizontal increase in the relevant thresholds, which can distort decisions and drive resources towards consumption rather than savings for high-income households. Without such targeting, the desired increase in tax revenue may not be feasible.

A reform of the social security system is necessary

The overburdening of the employees is reinforced by the structure of the social security system, the reform of which can be the key to release the productive forces of the Greek economy in the right direction. The high rates of contributions, the low proportionality of the system and the lack of the so-called “second” and “third pillar”, in contrast to most European countries, constitute an impediment to growth. A measured yet decisive reform of the system is not only feasible, as a recent IOBE study has shown, but is also necessary. Changing the parameters of the system neither can be delayed nor should concern only those who enter the labour market in the future, as in such a case the changes will have meagre results. After all, the reform of the social security system is a precondition for encouraging domestic savings and supporting investment.

The systematic reduction of the fiscal burden on labour is also a precondition for boosting human capital

The systematic reduction of the fiscal burden on labour is also a precondition for boosting human capital, which currently flows out of the country in significant numbers or shifts to the informal economy. Naturally, for the development of this human capital, it is of central importance to modernise the education system and improve its interconnection with the labour market and the production system. The Greek education system needs a radical change in its structure in order to free schools and universities from suffocating central regulation, following the example of most European countries, and to operate within a framework of incentives. If proper structural changes do not take place, our education system will prove completely incapable of supporting the shift to a new model of economic growth, and will continue to act as a factor of underdevelopment, especially for the new generations. Adverse demographic developments are, after all, an additional factor that exerts significant pressure on the system, so that changes must not stall.

The continued implementation of non-conventional monetary policy measures adopted to avoid a relapse to recession has clear limits

It would be an omission, finally, not to outline the risks from the international economic environment. The growth rates in the country strengthen, while in the rest of Europe and in our trading partners they are falling. The slowdown in global growth rates may reduce the cost of financing due to central bank policies, but it is a clear obstacle for an economy such as the Greek one, which must grow through exports. At the same time, the continued implementation of unconventional monetary policy measures adopted to avoid a relapse to recession has clear limits as well as side effects. It is the responsibility of governments as well as the

European institutions in general to promote a more balanced and effective fiscal policy and structural reforms in order to boost productivity.

1. BRIEF OVERVIEW

The global economy slowed down slightly further in the second quarter of 2019

According to the latest available data on global economic activity, its growth rate decreased slightly in the second quarter of 2019 both compared to the preceding quarter and in relation to the final quarter of 2018. The GDP growth in the OECD countries averaged 1.6% in the second quarter of 2019, from 1.7% in the previous quarter, but also in the final quarter of the previous year. However, a year ago it was clearly stronger, when it had reached 2.7%. Growth in the G7 countries slowed to 1.6% in the second quarter of 2019, from 1.9% in the preceding quarter.

At the country level, the slowdown was more pronounced in the UK, by 0.6 percentage points (at 1.2%), Germany by 0.5 percentage points (0.4%) and the US, by 0.4 points (at 2.3%). Among the G7 countries, growth strengthened marginally in Canada, by 0.2 percentage points (to 1.3%), France and Japan, by 0.1 points, to 1.3% and 1.1%. In the major Asian developing economies, growth in China slowed further in the second quarter, to 6.2% from 6.4% a quarter earlier and 6.8% in the same quarter of 2018. The slowdown of the Indian economy was more pronounced, to 5.1%, from 5.8% a quarter ago and 7.9% in the same period of the preceding year. By contrast, in Latin America, the recovery of Brazil's economy strengthened, with growth reaching 1.0%, 0.5 percentage points higher quarter on quarter and unchanged year on year (0.9%), while in Argentina the recession weakened significantly, to 1.8%, from 6.4% at the start of the year.

Therefore, the new slowdown mainly came from the most developed economies. The US suffers the effects of uncertainty stemming from the escalating trade protectionism measures, which are now partially offset by a two-year fiscal package of income tax cuts, which is about to expire. In the UK the impact of Brexit is escalating, as the trend in investment changed in the second quarter from positive to negative, which was moderated by the rise in public consumption. In Germany, the car industry continues to come under intense pressure from the process of adapting to emissions standards and the decline in demand from China. In the latter country, in addition to the impact of restrictions on its bilateral trade, the expiry of tax incentives puts pressures on the economy.

The aforementioned effects on developed economies and China will persist in the second half of 2019 and at least in the first half of 2020. Further intensification of the effects from Brexit, which is now 'just around the corner' and from the imposition of tariffs between the US and China, which is constantly expanding, with new measures on imports of €125 billion and $75 billion respectively in August 2019, cannot be ruled out. The adoption of a more supportive monetary policy by the central banks of some of the most developed countries and regions will counteract these effects. The Fed recently made two reductions in the intervention rate, following the eight successive interest rate increases by the Fed between December 2016 and December 2018. Meanwhile, the ECB announced in September that it would keep its base interest rates unchanged at its current level (0.25%) for as long as necessary and that it would restart the quantitative easing programme from 1 November, with asset purchases of €20 billion per month. Nevertheless, according to the IMF, growth in the G7 countries is not expected to accelerate in late 2019 and 2020, with its rate in the fourth quarter and overall in both years estimated at 1.7%.

Regarding the major developing economies, monetary and fiscal measures to stimulate the economy are expected to be taken in India, to stem the slowdown in the growth of domestic demand. In Argentina, the economy will continue to be in recession, as liquidity remains at very low levels. Economic instability in Turkey will probably escalate after the imposition of sanctions by the US, and possibly in the near future by other countries, following the conflict on the border with Syria.

Despite the July decision of OPEC and its partner countries, mainly Russia, to extend the oil production restrictions until March 2020, the US sanctions on Iran and Venezuela exports and the attack on Saudi Arabia's refinery, the average price of Brent oil was lower year on year in the third quarter of 2019 by 17.5%. This development came as a result of weakening global economic growth on the demand side and, on the supply side, from the large increase in production in the Gulf of Mexico, which is not expected to subside. Therefore, there will probably be no increase in the price of oil at least until the end of 2019.

In view of these developments and prospects of the global economy, IOBE anticipates that its growth will weaken further in 2019, to 3.0%, while in 2020 it will accelerate to 3.3%.

Stronger growth in the second quarter of 2019

The growth rate of domestic output in Greece strengthened quarter on quarter in the second quarter of 2019, to 1.9% from 1.1%. It was also higher year on year (1.5% in the same quarter of 2018). However, overall in the first half of 2019, GDP grew less than a year earlier, by 1.5% instead of 2.1%.

As to the trends in individual components of GDP in the first half of 2019, domestic consumption slightly increased year on year, by 0.5%, albeit marginally stronger compared to the change recorded a year earlier (growth by 0.3%). In the first quarter, the expansion came from household consumption, while in the second, from the consumption spending in the public sector, most probably as a result of the elections. Overall in the first half of this year, private consumption remained virtually unchanged from last year (-0.1%), against growth by 1.0% at the time. Public consumption in 2019 was 1.9% higher, an increase that almost offset its 2.1% reduction a year ago.

Investment strengthened by 7.6% in the first half of 2019, against a decline by 13.8% in the corresponding period of the preceding year. However, their growth weakened significantly between the first two quarters of 2019, from 14.5% to 1.1%. In addition, if the impact from accumulation of stocks on the level of investment is not taken into account, which in the first half of 2018 was negative (-€306 million) and a year later was positive (€436 million), the gross fixed capital formation is marginally higher this year than in the preceding year, by only 0.7%. A year earlier it had strengthened by 4.4%. Therefore, the increase in investment in the first half of 2019 was almost exclusively due to the different trend of stocks.

The trend in the majority of fixed capital categories is positive. The strongest increase, in relative and absolute terms, took place in investments in Transport Equipment - Weapon Systems, by 43.6%, offsetting to some degree their contraction by 51.6% a year earlier. The second largest increase was recorded in fixed capital formation in Housing, by 13.1%, continuing its expansion by 8.5% in January - June 2018. A similar boost in absolute terms as Housing, albeit much lower in relative terms, was recorded in investments in Other Machinery (by 3.1%), when a year earlier it had reached 21.9%. Marginally higher than last year was the formation of fixed capital in ICT Equipment (by 1.1%), as opposed to its increase of 21.3% a year earlier. By contrast, the drop in Other Construction reached 26.9% in the first half of the year, surpassing their expansion in the same period of last year by 21.6%. The decline in Agricultural Machinery and Other Products was much weaker, by 2.9% and 0.6% respectively.

In the external sector of the economy, the export expansion from the first quarter accelerated slightly in the second, to reach 4.8% overall in the first half. Nevertheless, this growth rate was almost half of that recorded in the first half of 2018 (8.9%). The increase in 2019 came by 3/4 from more exports of services, which expanded by 8.0%. The rise in the goods component was considerably milder, by 1.8%, coming from their increase in the second quarter alone. A year earlier, the demand for goods from abroad had strengthened by 8.9%, with the increase in services marginally weaker (by 8.6%).

In contrast to exports, the quarter-on-quarter percentage expansion in imports weakened in the second quarter of 2019. It was higher than the expansion of exports, at 6.7% on average in the first six months of the year, when over the same period of 2018, imports had fallen by 2.5%. The imports of goods were up by 6.9% in 2019, driving the trend in total imports. The imports of services remained on a positive trend in the first half of 2019 for the fourth year in a row, yet their pace was significantly slower, at 4.5%, compared with 13.9% in the preceding year and 11.6% in 2017. The stronger increase in imports compared to exports led to a deterioration of the external deficit, which in national accounting terms reached €1.57 billion (69.3% growth year on year) or 1.63% of GDP.

The Greek economy will continue to grow in 2019, at a rate slightly lower than in 2020, accelerating in 2020

The expiry of the effects of the elections, the elucidation of changes in economic policy by the new government and the start of their implementation, are the major developments in the political and economic environment domestically in the current period and the following months. As is usually the case when a government changes following elections, business and household expectations were boosted post-election. The implementation of some of the pre-election commitments has contributed to this development. The measures for 2020 included in the Draft State Budget constitute implementation of campaign announcements. Given the above, a shift of the trend in expectations to negative is not expected any time soon, yet fluctuations close to current levels cannot be ruled out.

Nevertheless, alongside the tax relief, in order to achieve the fiscal targets for yet another year, a careful restructuring of public expenditure and the implementation of effective actions for the strengthening of tax revenues are essential. The Draft State Budget includes fiscal interventions aimed at streamlining and monitoring of public finances, together the measures to fight tax evasion.

The measures contained in the 2020 Draft Budget that concern the households are expected to boost their real income and in turn their consumption spending. However, following the successive one-off budgetary interventions throughout 2019 ('social dividend' at the end of the previous year, retroactive payments of special wage grid salaries, extraordinary allowance to pensioners), perhaps their impact on spending in 2020 would not be greater than in 2019. Greater boost from the new measures is projected for the liquidity of businesses than for household disposable income. Its utilisation is another major factor in the effects of fiscal policy on GDP.

To maintain and further improve expectations is also closely linked to the implementation of reforms. Regarding businesses and potential investors, the reforms should understandably concern the easing of the start-up or expansion of activity, particularly in sectors producing internationally tradable goods and services with higher potential, the simplification of transactions with the public sector, the acceleration of administering justice, etc. In order to achieve a good economic environment in most parts of an economy, it is also necessary to curb the pessimism of households. Therefore, relevant reforms are also needed, in areas such as health, the social security system, the transactions with the State, education, and internal security. As far as the implementation of the agreed reforms under the Enhanced Surveillance, although the procedures for the fourth review were completed in late September, the Report of the Commission accompanying them was not published by the time when this report on the Greek economy was written. Therefore, there is no recent information on the progress made in these matters. In all likelihood, the elections hindered their implementation. An intensification of the actions and the achievement of results in reforms would be a major, but not the only factor in improving the credit rating of the Greek economy.

Upgrade of the credit rating is a prerequisite for Greece's inclusion in the new quantitative easing programme by the European Central Bank. As the programme does not have a predetermined duration, it is quite likely that the country will be admitted if certain developments take place. The most decisive development is the reduction of the banks' non-performing loans. The European

Commission's recent adoption of the Hercules plan is expected to speed up the reduction of non-performing exposures. According to this plan, by providing guarantees from the Greek state of up to €9 billion, the banks will be able to securitise loans of approximately €30 billion over the next 18 months, with the possibility of extending the plan for another six months. On the side of the banks, the efforts to limit NPLs continue for the most part through securitisation and loan sales.

The rise in private sector deposits since the beginning of 2019 strengthened up until mid-Q3. The duration and stability of the positive trend in household deposits, coupled with the achievement of the NPL targets so far, as well as the full repayment of the funds received by the banks from the ECB's ELA mechanism, the interest rate of which was relatively high, constitute the main factors which led to the year-on-year expansion of the lending of the banking system to non-financial corporations since the start of 2019 and until August. Loans to this category of borrowers increased over this period at an average rate of 1.6% year on year, while credit to households continued to contract at a steady rate (-2.4%). Note that by the end of this period, credit growth to businesses strengthened to 2.7%.

As long as the factors which have so far led to growth of credit to non-financial corporations and the weakening of credit contraction to the private sector remain, then, in conjunction with the implementation of the Hercules plan, these trends in funding are now considered likely to continue in the remaining months of 2019 and in 2020, with a catalytic role on the rise in investment.

Although there has been no improvement in the credit rating of the Greek economy since the beginning of March, the near continuous decline in yields of the Greek bonds during this period is a de facto strengthening of the credibility of the Greek economy. The recent issue of a 10-year Greek government bond achieved an interest rate of 1.5%. This interest rate is the lowest since at least 1993, according to data of the European Central Bank. In addition, the spread against Germany's 10-year bond has fallen to 209 basis points, a level last seen nearly 10 years ago in December 2009. The continued decline in the borrowing cost for the Greek state, in addition to limiting its debt servicing costs, creates "fiscal space" for the implementation of policies with various objectives and facilitates the lending of banks and large enterprises from the domestic and international capital markets, on viable terms. Since September there has been a significant uptick in relevant activity, with successful bond issues (OTE, Hellenic Petroleum, the National Bank of Greece, Wind Hellas, TERNA Energy), which is expected to continue in the months ahead.

Slightly stronger support of liquidity and investment activity than in 2018 is expected to come from the Public Investment Programme (PIP). Its grants in January - August this year were 35.4% higher than a year earlier. This increase was due to the low level of PIP expenditure in the first eight months of 2018, one of the lowest since at least 2000. However, in the 2020 Draft Budget, the spending target for 2019 has been revised down to €6.15 billion, lower even from the very low level of last year (€6.24 billion). Nevertheless, due to more frontloaded PIP implementation in 2019, its contribution to investment is thought to be slightly greater. No significant changes are expected for 2020, as the grants target has been set at €6.75 billion for yet another year (fifth in a row).

The liquidity stimulus from the payment of arrears of the Greek state is projected to be lower than in the previous year. Between January and July of 2019, no additional grants were given to public sector entities for payment of arrears including tax refunds. During the same period, €107.6 million were paid to beneficiaries, while the arrears increased in relation to December 2018 by €83.7 million, to €1.68 billion. In the corresponding period of 2018, the payments of arrears had reached

€526.7 million, while their trend was strongly negative (-€584 million), with arrears totalling €2.72 billion in July 2018. The 2020 Draft Budget, which has a section on the evolution of arrears, does not contain any targets for 2019 and 2020. The 2020 State Budget may have such information.

Regarding other features of the domestic investment environment that are affected by the public sector, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity in 2019. In 2019, the projection in the Budget for the revenues from the privatisation programme, excluding the concession fee for the AIA extension, which concerns a transaction completed last year, totals €1.53 billion. However, as no significant progress has been made in several of the procedures which were intended to generate revenue (sales of the share capital of EYDAP, EYATH, Athens International Airport, Hellenic Petroleum and DEPA, Egnatia Road concession), it is now possible that the expected revenue for this year will not be raised and the lag in receipts against the target is now likely to be significant. As regards the HRADF activity in 2020, the State Budget tabled in November is anticipated to contain the relevant plans.

As already envisaged in previous IOBE reports on the Greek economy, exports will boost economic activity for yet another year, albeit to a weaker extent than in the previous two years, while, unlike 2018, the receipts from services will grow stronger than the receipts from goods. The implementation of trade protectionist measures by the US do not appear to have a direct impact the Greek economy, as the exports of goods to the US are expanding again in nominal values, at a rate higher than the average increase in exports of goods. Naturally, there are also indirect negative effects through US demand for the products of Greece's trading partners in the Euro area. However, the exports to the Euro area are also expanding significantly, by more than 7% at current prices in the first seven months of 2019, albeit weaker compared to a year ago (about 13%). The observed loss of last year's strong momentum in international demand for goods appears to be mainly related to its retreat in neighbouring countries with a relatively large share in exports, mainly in Turkey, but also in the Lebanon and Egypt. Therefore, the prolonged crisis in the Turkish economy has an impact on the Greek economy as well, which is likely to escalate from the recent tension on the border with Syria and the corresponding sanctions by the US and possibly soon by other countries. The restart of the ECB's quantitative easing programme is expected to counteract these pressures.

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of oil (Brent) stood in the third quarter of 2019 at $61.9/barrel, down 17.5% compared to the same quarter of the preceding year ($75.1/barrel). Therefore, despite OPEC extending the oil production restrictions until March 2020, the geopolitical strains in the Middle East, ongoing tension in the US-Iran relations and sanctions in Venezuela, the price of oil remained at levels well below those recorded a year earlier. The increase in production in the Gulf of Mexico, where the oil-producing companies have increased their production in 2019 by 2 million barrels per day and are willing to keep their production at these levels, even if oil prices remain low will counteract these developments. Therefore, this will probably thwart a significant price rise in 2020.

Apart from the oil supply factors, the year-on-year significant slowdown in global economic growth in 2019 is also pushing oil prices down. According to the latest projections of international organisations (IMF), the growth rate of global GDP will fall to 3.0% in 2019, compared with an initial forecast at the end of 2018 of 3.4%, a performance which is the lowest since the global financial crisis of 2008-2009. At present, global growth is forecast to scale up to 3.4% in 2020, with a significant revival of world trade growth (to 3.2%, from 1.1% in 2019). Given the above, the oil price for 2019 overall is expected to average $63.0/barrel, 11.5% down year on year, while for 2020 it is expected to recover to €68.0/barrel.

The lower year on year exchange rate of the euro against the dollar has eased the disinflationary or mildly inflationary effect of the lower oil price in the Eurozone countries. The exchange rate depreciation is considered to reflect the pressures facing the Eurozone economy this year, such as the difficulties of the German car industry in adapting to emissions standards and to the decline in demand from China, from the less expansionary credit policy and the trade protectionist measures. However, the US economy has also begun to show signs of "fatigue" from the ongoing trade war, as its growth rate slowed further in the second quarter, to 2.3%, from 2.7% in the previous quarter. The Euro area has to deal with a number of other challenges, such as the exit of the UK from the EU, the management of refugee flows, the deleveraging of the banking system in certain countries etc. Taking into account these effects, it is quite probable that the euro-dollar exchange rate will fluctuate in late 2019 and early 2020 close to its current level, slightly lower year on year. Therefore, it will cushion somewhat the decline of energy cost coming from the fall in oil prices.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to measures in the 2020 Draft Budget, the May fiscal interventions, the negative trend in the yields of Greek bonds, the risks from the volatile global environment, but also the ECB's recent decision to restart the QE programme) for the forecast of the GDP components and other macroeconomic indicators, household consumer spending is not expected to strengthen significantly in the second half of 2019. After all, in the first half of 2019, despite the high extraordinary transfers and the hike in the minimum wage in February, private consumption was virtually unchanged from a year earlier. That said, households may have been wary at that time about consumption in the run-up to the parliamentary elections, as evident from the strong boost of the Consumer Confidence Index in July - September, following the conclusion of the elections, and their consumption behaviour may gradually change in the second half of the year. The short-term activity indicators that are closely related to households, such as the volume index in retail trade, do not yet point to such a development. The measures contained in the Draft State Budget for 2020 (reduction of the income tax entry rate and social security contributions) is more likely to further boost their expectations and real income in 2020. The strengthening of private consumption spending in 2020 will benefit from further decline in unemployment. Taking into account the above, it is envisaged that the increase of private consumption in 2019 will be well below the rate expected earlier, in the range of 0.5%. In 2020, its growth will strengthen slightly, to about 1.0%.

In the other component of domestic consumption, public consumption will probably return in the second half of 2019 to its trend of mild growth recorded before the elections. In 2020, some structural changes envisaged in the 2020 Draft Budget, such as a review of public expenditure and revenue and the introduction of performance-based budgeting, will hinder the expansion of public consumption. By contrast, the increase in employer contributions in the public sector, mainly due to the increase in the rate of employers' contributions in favour of the EFKA fund will increase public consumption. Moreover, the election-related spending in 2019 will not be repeated in 2020. Under the above effects, the rise in public consumption in 2019 will reach 1.3%, while in 2020 it is expected to weaken slightly.

Regarding investment, the measures already taken by the new government and chiefly the fiscal interventions for 2020 in the Draft Budget that relate to the enterprises accelerate the easing of uncertainty caused by the elections and stimulate the undertaking of investment risks. In general, the measures provide capital support for entrepreneurship, with those relating to direct taxation also enhancing the sustainability of investment projects. The suspension of VAT on new buildings will have a stimulating effect on activity in the Construction sector, with its impact depending on the scope of its implementation. Thus far, the details of this measure have not been clarified, which has put many of the construction companies on hold, slowing building activity. The biggest boost to Construction next year will come from projects in concessions and privatisations.

The developments in the management of NPLs and interest rates are considered equally important as the tax relief from the new budgetary measures. Already, some very large companies have taken advantage of the current, very good conditions for raising funds from the capital markets. This practice will probably escalate in the remaining months of 2019 and into 2020. For companies that do not have access to these markets, the apparent acceleration of credit expansion by the banking system will be the main supporting factor in the implementation of investments. Export growth for yet another year in 2019 and their estimated further strengthening in 2020 will continue to support investment projects in the most export-oriented sectors or those with rapidly rising exports.

Taking into account the marginal increase in fixed capital formation in the first half of this year, the negative effects of the elections on investment, and the observed and expected trends in its remaining drivers, investment activity will most likely strengthen, less than anticipated in previous IOBE reports, with a growth rate of about 6-7%. Investment will escalate sharply in 2020, with a double-digit expansion, in the region of 15%.

In the external sector of the Greek economy, the positive trend in exports of goods will weaken in the second half of 2019, from the widespread decline in exports to specific countries (Turkey, Lebanon, and Singapore) and as growth in the main export destination, the Euro area, is not expected to strengthen. The 2019 growth slowdown in the Euro area will ease slightly in 2020, with the help of more supportive monetary policy, following the restart of the quantitative easing programme. At present, there is no strong direct negative impact of the US trade protectionist measures. On the side of services, the data available so far for the third quarter signal a significant increase in activity in Tourism for yet another year. However, the bankruptcy of Thomas Cook will slow this momentum, yet to what extent this will happen is difficult to assess at the moment. It is still premature to make predictions about the trend in tourism in 2020. The growing international transport through Greece, which presents strong prospects in the coming years with the sale of the Thessaloniki Port Authority and the expansion of Cosco's activity in Piraeus, is also contributing to the expansion of the exports of services. Subsequently, the projected average growth of exports of products and services in 2019 remains in the range of 5.0% - 5.5%. In the following year, their rise will be equally strong, or perhaps slightly lower, with Brexit and developments in Turkey as the major risk factors.

Due to the slight rise in domestic consumer spending, coupled with the lower-than-expected growth of investment activity earlier in 2019, the momentum of the demand for goods from abroad will be weaker than initially anticipated. By contrast, the demand for services from abroad has strengthened more than initially expected, a development which is almost exclusively due to tourist services. The much stronger investment, as well as greater private consumption, will boost the demand for imports of goods in 2020. Demand for travel services from abroad will grow further. As a result of the above particular trends, imports will grow in the current year by 3.5-4.0%, accelerating to 6.0-6.5% in 2020.

Taking into account the current and expected developments in the current and the following year that affect the trends in the GDP components, output is projected to grow by about 1.5-1.7% in 2019, accelerating to about 2.3-2.5% in the following year. Note that the GDP forecasts for 2019 and 2020 are based on provisional 2018 GDP estimates of March 2019, as its second estimate scheduled for 16 October was postponed. The postponement is due to data revisions, which this time include the extensive incorporation of administrative economic data coming from the tax authorities. Therefore, any significant changes in GDP in 2018 and its components from the current review may affect the forecasts in subsequent IOBE reports for 2019 and 2020, in a way that cannot be predicted.

State Budget: the targets were achieved in January - August, mainly from extraordinary revenues

According to data on State budget execution for the January - August period, the total balance had a deficit of €1.59 billion, compared with a deficit of €2.67 billion a year earlier. This result was much better than the revised target for the same period (€4.98 billion). The primary surplus more than doubled year on year, to €2.91 billion, from €1.12 billion, far exceeding the relevant target for a deficit of €272 million. The deficit restraint much below the target came by 71.5% from excess revenue and by 28.5% from lower than the target expenditure. The excess over the expected revenue came from extraordinary developments, without which they would have fallen by 1.7% year on year. The extraordinary revenues stemmed mainly from sales of goods and services, by €1.1 billion, to €1.53 billion, which came from the collection of €1.12 billion from the renewal of the Athens International Airport (AIA) concession contract. Secondly, they came from higher transfer revenues by €858 million, which reached €2.64 billion, from ANFA's and SMP's receipts. VAT revenues exceeded the target by €573 million, up year on year by €506 million, a rise due solely to higher VAT receipts on other products and services, by €653 million, to €10.3 billion. Of these, €272 million came from the AIA deal.

On the expenditure side, the lowest spending against the target in the first eight months of 2019 took place in called guarantees (21.8% of the target or €88 million), military procurement (28.1% of the target or €149 million) and the Public Investment Programme (29.6% of the target or €2.0 billion).

The 2020 Draft State Budget

According to the 2020 Draft State Budget, the primary surplus of the general government is forecasted for 2020 at €7.03 billion, or 3.56% of GDP, in the scenario with the new fiscal interventions and according to the Enhanced Surveillance methodology. The total balance (based on ESA methodology) will also be in surplus, at €1.95 billion, or 1.0% of GDP. The overall balance of the State Budget is projected to be in deficit, by €2.9 billion, or 1.5% of GDP, slightly higher than in 2019 (deficit of €2.0 billion or 1.1% of GDP). The slight deterioration is mainly due to the increase by 29.6% or €2.0 billion of non-allocated expenditure (€8.26 billion), which includes the new contingency reserve, the effects of the planned additional reduction in corporate income tax for the fiscal year 2019 (-€457 million in revenue) and the increase in compensation of employees (by

€415 million), primarily from the increase in the rate of employer contributions to the EFKA fund. Given the projected deficit in the State Budget, the general government surplus will come from certain GG bodies, mainly from legal entities (surplus €2.87 billion, from €2.55 billion in 2019) and social security institutions (surplus of €1.84 billion, up from €1.67 billion).

Unemployment declined in 2019 as in 2018, similar fall projected for 2020

The continued significant boost of the exports of services in April-June of 2019 was reflected in the employment of the sectors that provide these services. Combined with the increase in jobs in Industry and Education, this was the main cause of the new expansion of employment over this period, by 2.5% or 96,000 people. Overall in the first half of 2019, the unemployment rate stood at 18.1%, 2 percentage points lower compared with a year earlier, when it had declined marginally stronger (by 2.1 percentage points). Its fall came by 95.4% from rise in employment (by 93,100 people) and by 4.6% from labour force reduction (-4,400 people). Most of the year-on-year job creation in the first half of 2019 came primarily from Education (22,900 or 7.5% more jobs). As mentioned in the previous IOBE report on the Greek economy, the strong expansion of employment in Education since the beginning of 2019 is considered unusual for a largely non-tradable services sector, due to the high share of public sector activity in it. Tourism (20,400 or 5.9% growth) and Transport – Storage (11,100 or 6.0%) came next. Manufacturing followed with a marginally weaker employment expansion (15,800 or 4.4%).

The steady growth in the exports of goods and services in the second half of 2019 and in 2020 will continue to be the major driver of unemployment reduction, through the increase in employment in the most export-oriented sectors, such as Tourism, Transport – Storage and Manufacturing. The strong expansion of employment in Education in the first half of 2019 will carry over into the rest of the year, following the intake of 3,000 special needs teachers in secondary education for the school year 2019-2020. As in the past, the public sector will boost seasonal employment through social employment programmes, as a new eight-month programme is expected to be announced in November, with 35,000 beneficiaries. More broadly, the projected significant growth of investment activity, for the reasons mentioned above will have a positive impact on job creation, among other sectors in that of Construction. The increase in the minimum wage and the abolition of the minimum wage for workers up to 25 years of age may hamper further unemployment decline. The lowering of the social security contributions by 0.5% from 01/06/2019 and the planned in the 2020 Draft Budget further reduction by one percentage point will mainly boost labour supply. Taking into account the above factors affecting employment, the decline in unemployment in 2019 will be stronger than initially expected, by two percentage points, at 17.3%, continuing with a similar intensity in 2020 (15.6%).

Near-stagnation of prices in 2019, mild inflation in the following year

The decline of household consumption in the second quarter of 2019, the price of oil remaining during this period at levels slightly lower year on year and the reduction of VAT on food services, food products and energy since the end of May, led to a return of disinflationary trends from the end of the second quarter, for the first time since the first quarter of 2018. The average rate of change in the domestic Consumer Price Index (CPI) stood at 0.3% in the second quarter of 2019, from 0.7% in the previous quarter and 0.5% in the same period of the preceding year. Overall in the first half of 2019, inflation averaged 0.5%, as much as a year earlier. Prices fell in the first half of 2019 in five of the 12 main categories of goods and services that make up the CPI, mainly in Durable Goods (-1.7%), Art-Recreation-Entertainment (-1.6%) and Clothing – Footwear (-1.3%). By contrast, only Communications posted high price growth (by 4.7%), but this is also gradually easing. Alcoholic Beverages – Tobacco (1.1%), Food – Non-Alcoholic Beverages (1.0%) and Transport (1.0%) followed in terms of price growth, mainly due to inflation in the first quarter.

Concluding with the consumer price forecasts, given the negative effects of indirect taxation following the reduction of VAT on food and electricity – natural gas and the steadily neutral impact of energy prices, inflationary pressures in the third quarter and the rest of 2019 are expected to come only from stronger domestic demand. However, the effects of indirect taxation and domestic demand on prices have almost offset each other since June. In the final quarter of 2019, domestic demand will receive a slight stimulus by recent fiscal measures. The restrictive pressures on consumer prices will intensify temporarily in October from their relatively high level a year earlier due to the then rise in the price of petroleum.

No change in indirect consumption taxes is planned for 2020, according to the 2020 Draft Budget, but the deflationary effect from the 2019 VAT reductions will continue, albeit weakening, until May. The new measures concerning households (reduction of the entry tax rate from 22% to 9%, reduction of social security contributions) will to some extent boost real incomes and thus consumption demand. The decline in unemployment will continue to provide a stimulus to this. However, the positive impact of some extraordinary transfer payments and developments in 2019, such as the pension allowance given in May, the retroactive payment of special wage grid salaries and the increase in the minimum wage, are not expected to carry over into 2020. For this reason, while demand is predicted to create inflationary pressures in 2020, their intensity will be weaker than in 2019. Regarding the impact of energy prices, stronger global growth in 2020, with a significant revival of world trade, will boost petroleum demand as well. Its impact on prices will be tempered by the adjustment of global oil production, mainly in the US. Taking into account all the above data and trends, the rise of the domestic Consumer Price Index in 2019 is estimated to be marginal, lower than last year, at 0.1% - 0.3%. Inflation will accelerate slightly in 2020, to 0.3% - 0.6%.

Special study: Measures for boosting digital payments and fiscal revenues

The fourth chapter of this report presents an analysis of IOBE that examines the impact of measures to strengthen electronic means of payment (EMP) and tax revenues. The analysis begins with recent developments in the use of EMP and an assessment of the current situation. The possibilities for strengthening existing measures to boost the use of electronic means of payment are then examined. It concludes with a review of some new measures to enhance the use of electronic payments.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- Global growth is still fragile and uncertain, with forecasts for 2019 at 3%, a performance that is the lowest since the financial crisis of 2008, after growth of 3.6% last year
- Growth forecasts of 1.7% for developed and 3.9% for developing economies for 2019
- Manufacturing activity has weakened considerably, to levels not seen since the global financial crisis of 2008
- Activity in services withstands pressure in several developed economies, making a positive contribution to job creation
- The escalation of trade and geopolitical tensions has increased uncertainty about the future of the global trading system and international cooperation in general, with negative impact on business confidence, investment and global trade
- The global economy is projected to grow at a rate of 3.4% in 2020, with developed economies growing at 1.7% and developing at 4.6%

Since the third quarter of 2018, the global growth rate has weakened drastically, affecting large economies (US and especially the Eurozone) and smaller developed economies. The decline in activity is more pronounced in emerging markets and developing economies, such as Brazil, China, India, Mexico, and Russia, as well as in some economies with macroeconomic and financial difficulties. The GDP growth in the OECD countries in the second quarter of 2019 slowed marginally compared to the preceding quarter, to 1.6% from 1.7%. However, a year ago it was clearly stronger (2.7%). Growth in the G7 countries slowed to 1.6% in the second quarter of 2019, compared with 1.9% in the previous quarter and 2.4% in the second quarter of 2018. According to IMF forecasts[1] the global economy is expected to grow at an annual rate of 3% in 2019, compared with 3.6% in the previous year, the lowest since the 2008 financial crisis.

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

The main reason for the weakening of growth compared to the second quarter of 2018 is the widespread decline in industrial production, with the industrial production index falling to its 2016 levels and the PMI (purchasing managers' index) having slipped to negative levels.

As a result of the slowdown in industrial production, the annual growth rate of international trade has fallen to just 1%, its lowest rate since 2012. To a large extent this development is due to China's economy, the economies of East Asia, and in general developing economies that experience difficulties. Investment expenditure, closely related to the volume of international trade, is declining in line with imports, reflecting cyclical factors, a sharp decline in investment in economies in difficulty and the impact of rising trade tensions on business confidence in the manufacturing sector. The decline in car production and sales is another factor that slows world trade down.

Unlike manufacturing, service activity seems to be withstanding the pressure in several developed economies, making a positive contribution to job creation, which in turn supports household consumption and domestic demand.

The continued accommodative macroeconomic policy in the major economies and the projected stabilisation in several developing countries is expected to slightly help global growth in the rest of 2019 as well as in 2020, bringing growth back up to 3.4% in 2020. The recovery to higher growth rates, unlike the slowdown, will not be broad-based and will also be uncertain. Growth at 1.7% is expected for developed economies in 2019 and 2020, while in the developing economies it is expected to accelerate to 3.9% and 4.6% for 2019 and 2020 respectively. Half of the latter growth will come from an economic recovery or shallower recession in economies under pressure, such as Turkey, Argentina, and Iran. The rest will stem from recovery in countries where growth slowed a lot in 2019 compared to 2018, such as Brazil, Mexico, India, Russia, and Saudi Arabia.

Regarding the recent trends in the major economies and economic regions, recall that in the developed economies, GDP growth stabilised in the first half of 2019, following the sharp fall in the second half of 2018.

Among the developed countries, the US economy maintained its momentum in the first half of 2019. Although investment remained sluggish, employment and consumption are at a high level. The IMF expects growth for 2019 at 2.4%, which will slow to 2.1% in 2020, due to the projected transition of fiscal policy from expansionary to neutral. The recent two-year fiscal package of cuts

[1] World Economic Outlook, IMF, October 2019

in income and capital taxes offsets the reduced effects of the 2017 tax cuts and employment stimulus. The recent forecasts for growth rates in 2019 and 2020 are slightly revised upwards by 0.1% and 0.2% respectively, at 2.4% and 2.1%. The downward revisions to the GDP data of previous quarters and uncertainty over trade policy have a negative effect on the growth rate, but the two-year fiscal package and the Fed's interest rate cut policy compensate for these pressures.

Table 2.1

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

Economy	2018	2019		2020	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	3.6	3.0	-0.3	3.4	-0.2
Developed	2.2	1.7	-0.1	1.7	0.0
Developing	4.5	3.9	-0.5	4.6	-0.2
USA	2.9	2.4	0.1	2.1	0.2
Japan	0.8	0.9	-0.1	0.5	0.0
Canada	1.8	1.5	0.0	1.8	-0.1
United Kingdom	1.4	1.2	0.0	1.4	0.0
Eurozone	1.9	1.2	-0.1	1.4	-0.1
Germany	*1.5*	*0.5*	*-0.3*	*1.2*	*-0.2*
France	*1.7*	*1.2*	*-0.1*	*1.3*	*-0.1*
Italy	*0.9*	*0.0*	*-0.1*	*0.5*	*-0.4*
Emerging Europe	4.5	3.9	-0.5	4.6	-0.2
Russia	2.3	1.1	-0.5	1.9	0.2
Turkey	2.8	0.2	2.7	3.0	0.5
Developing Asia	6.4	5.9	-0.4	6.0	-0.3
China	*6.6*	*6.1*	*-0.2*	*5.8*	*-0.3*
India	*6.8*	*6.1*	*-1.2*	*7.0*	*-0.5*
Middle East & North. Africa	1.9	0.9	-0.9	2.9	-0.4
Saudi Arabia	2.4	0.2	-1.6	2.2	0.1
Latin America	1.0	0.2	-1.2	1.8	-0.6
Brazil	*1.1*	*0.9*	*-1.2*	*2.0*	*-0.6*
Sub-Saharan Africa	3.2	3.2	-0.3	3.6	-0.1
World Trade	3.6	1.1	-2.3	3.2	-0.7

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

Source: World Economic Outlook, IMF, October 2019

The Euro area experienced slightly lower annual growth in the second quarter of 2019 (1.2%) compared to the previous quarter (1.3%), while domestic demand remained stable. Weak exports have limited economic activity in the Euro area since mid-2018. The latter is expected to increase slightly in the rest of the year and into 2020, as external demand, mainly from China, is projected to regain some momentum and the impact of temporary burdens, such as the new emissions rules mainly affecting the German car industry, will decline. The IMF forecasts growth of 1.2% in 2019 (0.1% lower than the April forecast) and 1.4% in 2020. The growth of France and Germany was revised down slightly due to the larger than expected decline in external demand in the first half of 2019. For Italy, the weaker forecasts are due to frail private consumption, a smaller fiscal boost than expected and weaker external environment. The outlook is also slightly worse for Spain, with its growth projected to gradually de-escalate, from 2.6% in 2018 to 2.2% in 2019 and 1.8% in 2020.

The UK economy also slowed in the second quarter and recent indicators show weak growth in the third quarter. It is anticipated to expand by 1.2% in 2019 and 1.4% in 2020, reflecting the negative impact of weak global growth, uncertainty about Brexit and the positive impact of the recently announced higher public consumption. It should be noted that this forecast incorporates an orderly exit from the European Union, followed by a gradual transition to the new regime of relations with the EU. However, the final form of Brexit remains extremely uncertain, following parliament's approval of the relevant agreement between the European Commission and the UK government, but not its timetable, which led to a request for a further extension.

Japan experienced strong growth in the first half of this year, due to robust private and public consumption, factors that offset the continued weakness of the external sector. Japan's economy is projected to grow by 0.9% in 2019, essentially as much as last year, while a slowdown of 0.5% is forecast for 2020, as temporary fiscal measures are expected to mitigate part of the expected reduction in private consumption, following the consumption tax hike in October 2019.

Turkey shrank at a slower pace in the second quarter of 2019 (-1.5%) compared to the previous two quarters (-2.4% in the first quarter of 2019 and -2.8% in the last quarter of 2018), benefiting from higher budgetary spending and strong performance in tourism. However, investment continued to shrink and credit growth was weak. Turkey's economy is expected to shrink by 0.3% in 2019 and return to positive growth rates from 2020 (1.6%), yet the forecasts do not incorporate the impact of the recent military conflict on the border with Syria and sanctions from the USA and possibly from other countries and economic groups.

Growth in the Middle East and Central Asia region is expected to reach 0.9% in 2019 and 2.9% in 2020. The downward adjustment, by 0.9 and 0.4 percentage points respectively compared to the April forecasts, is due to the tougher sanctions imposed on Iran by the US and the reduced oil production by Saudi Arabia under the extension of the OPEC production restriction agreement until March 2020 and the weak oil market. The effect of the recent attack on refineries of key importance cannot yet be accurately determined, but is weaker than initially expected.

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

In detail, the economy of China recorded annual growth of 6.2% in the second quarter of 2019, compared with a 6.4% increase in the first quarter of the year. The effects of escalating tariffs and the weakening of external demand exacerbated the slowdown, which is also related to the current regulatory policy to limit debt accumulation. Seeking to address the consequences of the trade war with the US, Beijing has taken economic stimulus measures, such as higher public spending and tax cuts. As support for the economy will continue, growth is forecast at 6.1% in 2019 and 5.8% in 2020, up from 6.6% last year.

India's economy slowed in the second quarter due to specific weaknesses in the automotive industry and the real estate market. It is now predicted that output will expand by 6.1% in 2019 and 7% in 2020, 1.2 and 0.5 percentage points lower respectively than in previous years. The downward adjustment reflects the weaker-than-expected outlook for domestic demand, against growth of 6.8% in the previous year. Economic activity will be supported by monetary policy easing, lower corporate tax rates, recent measures to address uncertainty about corporate and environmental regulation, and government programmes to boost consumption in rural areas.

Russia's gross domestic product grew by 0.9% year-on-year in the second quarter of 2019, accelerating from a two-year low of 0.5% in the previous quarter. The small boost came from higher industrial production. Growth of 1.1% is forecast for 2019, while for 2020 it is projected at 1.9%, lower than in 2018 (2.3%).

Activity declined significantly in the first half of the year in the largest economies of Latin America, mainly due to idiosyncratic factors. The average growth rate in this geographical region is expected to be just 0.2% in 2019, compared with 1.0% in 2018. In Brazil, growth rebounded in the second quarter after shrinking in the first quarter, driven in part by temporary factors (a mining disaster). Growth of 0.9% is forecast for 2019, slightly lower than last year (1.1%), while an acceleration (2.0%) is expected for 2020. Meanwhile, output continued to contract in Argentina in the first half of the year, albeit at a slower pace, while the sharp deterioration in market conditions generates risks for the future. A recession is forecast for 2019, stronger than in the previous year, at 3.1% from 2.5%, with further contraction in the following year (-1.3%).

The IFO estimates on the economic climate in the world economy in the third quarter of 2019 were exceptionally bleak, falling sharply from -2.4 to -10.1 points. Both the assessment of the current situation and the expectations over the coming six months weakened significantly. The intensification of the trade tensions has significant detrimental effects on the global economy.

Table 2.2

IFO – Global economic climate (balances)

Quarter/Year	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
Economic Climate	13.2	17.1	26.0	16.5	2.9	-2.2	-13.1	-2.4	-10.1
Assessment of Current Situation	12.5	17.2	28.3	27.4	17.5	12.2	2.6	1.4	-5.4
Expectations	14.0	16.9	23.9	6.1	-10.6	-15.7	-27.7	-6.1	-14.7

Source: IFO Institute, Center for Economic Studies

Table 2.3

IFO - Economic climate in the Euro area (balances)

Quarter/Year	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19
Economic Climate	35.2	37.0	43.2	31.1	19.6	6.6	-11.1	-6.3	-6.7
Assessment of Current Situation	33.4	42.9	51.3	49.9	41.4	29.9	18.3	7.9	6.4
Expectations	37.1	31.3	35.4	13.8	-0.1	-14.3	-36.6	-19.5	-18.9

Source: IFO Institute, Center for Economic Studies

In the Euro area, the economic sentiment indicator remained almost unchanged quarter on quarter in the third quarter, at -6.7 points, from -6.7 points. The assessment of the current situation deteriorated further, to 6.4 points, from 7.9 points in the preceding quarter. However, the expectations were less pessimistic April-May, when the balance slightly strengthened, from -19.5 to -18.5 points. For the time being, the Euro area lacks momentum.

Due to weakening energy prices and slowing growth, inflation in developed countries is expected to average 1.5% this year, up from 2.0% in 2018. With the US economy operating above its potential, structural inflation (excluding prices of fresh food and energy) is projected to reach around 2.6% in 2020-2021, above the medium-term target of 2.2% (the level consistent with Fed's 2% inflation target). Japan's structural inflation is expected to rise to about 1% in 2019-2020 due to the consumption tax increase. In the Euro area, inflation is expected to rise gradually to 1.2% in 2019 and 1.4% in 2020, continuing to lag behind the ECB's target of near but no more than 2.0%. In the developing economies except Venezuela, the rate of price change is expected to fall to 4.7% this year. However, Argentina is moving in the other direction, with inflation rising due to the devaluation of the peso. Inflation has also escalated in Russia, due to an increase in value added taxes and in China, in part due to rising pork prices. In the medium term, inflation in the developing economies is forecast in the region of 4.4%, as expectations will align with inflation targets and the impact of previous devaluations will ease.

Compared to the April forecasts, the monetary policy of the major central banks is expected to be more accommodative in the medium term. The Fed's base rate is expected to range between 1.75 and 2% by 2023, rising to 2-2.25% in 2024. The corresponding interest rates from the ECB and the central bank of Japan are expected to remain negative.

B. The economies of the EU and the Euro area

- Growth weakened quarter on quarter in the second quarter in the Euro area and the EU, to 1.4% and 1.2% respectively, from 1.6% and 1.3% in the previous quarter and 2.3% in both regions in the same quarter a year before
- Net exports had zero contribution to growth in the Euro area and slightly positive contribution in the EU in the second quarter, after three quarters of negative contribution
- Further weakening of the economic sentiment indicator in the Euro area and the EU in the third quarter
- Projections for Eurozone growth at 1.2% in 2019 and 1.4% in 2020
- Main sources of uncertainty: difficulties in the automotive industry in Germany, imposition of additional trade protectionist measures by the USA on China; uncertainty regarding Brexit, larger migration flows

In the second quarter of 2019, the economies of the European Union and the Euro area grew at a slightly lower rate compared to the preceding quarter, by 1.4% and 1.2% respectively, against growth of 1.6% and 1.3% in the first quarter of 2019 and 2.3% in both the EU and the Euro area a year earlier. According to the latest forecasts of the European Commission,[2] the Euro area economy is expected to grow by 1.2% and 1.4% in 2019 and 2020 respectively, compared to 1.9% last year, while the EU economy is projected to grow by 1.4% this year and 1.6% next year, from 2.0% in 2018.

Domestic demand was the main growth driver in the EU in the second quarter of 2019, albeit to a lesser degree than in the previous quarter, as the positive contribution of investment declined significantly (from 1.1% in the first quarter of 2019 to just 0.1% in the following quarter), while the contribution of private consumption remained unchanged at 0.8%. Net exports had a positive

[2] European Economic Forecasts Summer (Interim) 2019, EC, July 2019

contribution to growth in the second quarter of 2019, after three quarters of negative contribution, at 0.2% against 1.2% in the same quarter of last year. The trends in the composition of growth in the Eurozone economies are slightly different, with domestic demand being the main driver, but having weakened slightly quarter on quarter, to 1.1% from 1.3%. The positive contribution of investment declined quarter on quarter (0.2% in the second quarter of this year, from 0.5% in the first quarter and -0.6% in the same quarter of last year), while the contribution of consumption did not change (0.6%). In addition, in this quarter, net exports had zero contribution to growth in the Euro area.

The composition of the GDP expenditure components remained similar in the EU and the Euro area, with consumption representing 75.6% and 74.2% of GDP respectively, investment 21.3% and 21.5%, exports 48.1% and 49.9% and imports 45% and 45.7%.

The highest growth rates in the EU in the second quarter of this year (in terms of year-on-year changes in seasonally adjusted data) were recorded in Ireland (6%), Hungary (5.2%), Romania (4.6%) and Poland (4.2%). Greece, at 1.9%, outperformed the average growth of the Euro area (1.2%) in the second quarter of 2019. The lowest growth rates were recorded in Italy (0.1%), Germany (0.4%), Sweden (1.0%) and the United Kingdom (1.2%). In terms of a 12-month moving average, Greece recorded the eighth lowest growth rate in the EU, at 1.6%, close to the EU average and slightly above the average for the Euro area (1.4%). Greece was ahead of the United Kingdom, France and Germany, which posted a (12-month rolling) growth rate of 1.5%, 1.4% and 0.8% respectively in the second quarter of 2019. The countries with the lowest 12-month growth rate were Italy (0.1%), Finland (1.2%) and Belgium (1.3%). By contrast, the highest growth in the EU on a 12-month moving average basis was recorded in Malta and Ireland (6.1%), Hungary (5.2%) and Poland (4.8%).

Regarding the economic climate and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN index marginally increased in the third quarter of the year, to 0.18 points, from 0.17 points in the preceding quarter. However, it remained significantly lower year on year (against 0.49 points). On a monthly basis, the index stood at 0.16 points in September 2019, at the levels of January 2015, signifying that the trend continues to shift away from the positive climate in the Eurozone economy that prevailed until early 2018.

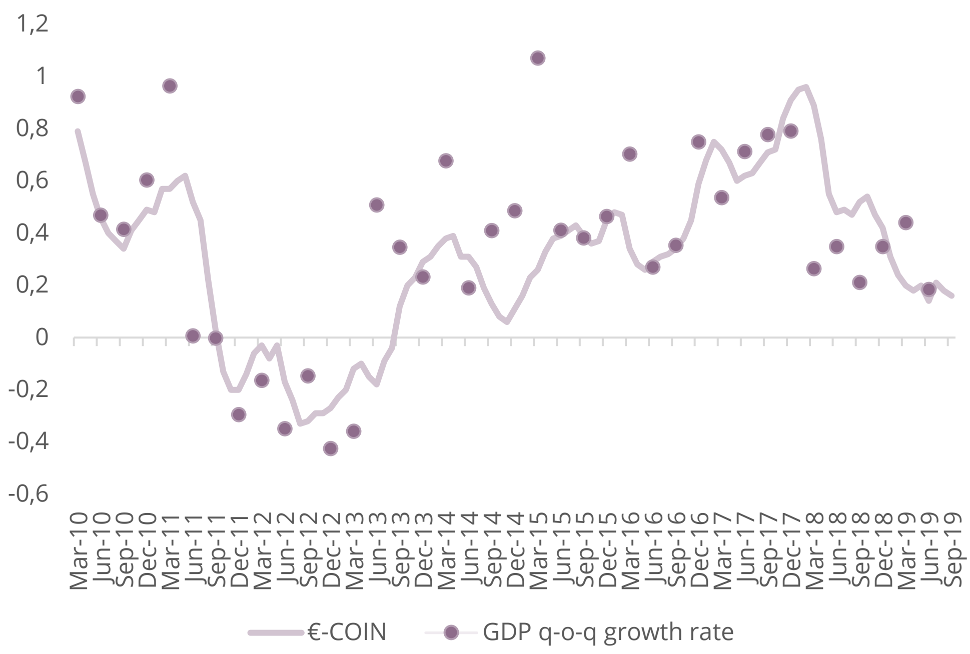
The economic sentiment indicator of the European Commission declined further in the EU and the Euro area in the third quarter of 2019, for the seventh consecutive quarter, after recording its best performance since the year 2000 in the final quarter of 2017. In September 2019, the economic sentiment indicator stood at 100 points in the EU and 101.7 points in the Euro area, lower month on month by 1.4 in both regions. Year on year, it declined by 10.7 and 8.7 points respectively.

Overall in the third quarter of 2019, the indicator in the EU declined by 2.1 points quarter on quarter, and by 10.1 points year on year. In the Euro area, the economic sentiment fell by 1.6 points quarter on quarter and 8.4 points year on year. Among the major EU economies, the climate indicator strengthened quarter on quarter in France by 0.7 points, falling year on year by 2 points. In the United Kingdom, due to prolonged uncertainty on Brexit, the economic sentiment deteriorated further, by 4.7 points quarter on quarter and by 17.1 points in relation to the same quarter of 2018. It should be noted that on 17 October 2019, the European Commission President and the British Prime Minister announced a Brexit deal. The UK parliament approved the Brexit bill on a second reading, but rejected its timetable, which led to a request for an extension to the EU. If the EU approves the extension request, the Brexit deadline will be re-extended for 31 January 2020.

Marginal increase of the leading indicator €-COIN in the third quarter of 2019

Figure 2.1

Monthly €-COIN Index & Eurozone GDP



Source: CEPR and Bank of Italy

Table 2.4

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

Month	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
EU-28	113.2	113	114.4	113.9	113.7	111.7	111.7	111.8	111.7	111.5	111.5	110.7
Euro area	113.2	113	114.4	114	113.2	112.0	112.2	111.5	111.8	111.2	111.0	110.4

Month	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
EU-28	110.1	109.3	107.5	106.2	105.4	105	103.6	103.8	102.3	102	101.4	100.0
Euro area	109.7	109.5	107.4	106.3	106.2	105.6	103.9	105.2	103.3	102.7	103.1	101.7

Source: European Commission (DG ECFIN), September 2019

The economic sentiment indicator subsided in Germany as well, by 4.3 points quarter on quarter and 12.1 points year on year. The economic sentiment remained relatively stable in Italy, with a marginal increase by 0.1 points quarter on quarter. However, in Italy as well, the indicator declined year on year, by 6.7 points. Finally, in Greece the economic sentiment indicator strengthened quarter on quarter by 6.3 points, 4.5 points above the Euro Area average. The indicator reached its highest level since the first quarter of 2008, at 107.2 points, about 6.5 points higher year on year (from 100.6 points).

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

In greater detail, according to Eurostat data for the second quarter of 2019 (year-on-year changes in seasonally adjusted data), private consumption in the European Union increased by 1.4%, same as in the preceding quarter, against 1.8% growth in the same period of 2018. Consumption in the Euro area expanded by 1.2%, against 1.1% in the preceding quarter and 1.5% a year earlier. The European Commission projected in May the same year-on-year growth in household consumption in the EU in 2019 as last year, at 1.6%, accelerating to 1.7% in 2020. For the Euro area, it also projected stable private consumption growth at 1.3% in 2019 and stronger growth by 1.6% in 2020. Among the EU countries, private consumption increased by 1.4% in Germany, at a similar rate as in the preceding quarter (1.5%), in France its growth accelerated to 1.3%, from 0.9% in the first quarter of 2019, while in Italy it increased marginally stronger, by 0.5% from 0.4% in the preceding quarter. In the United Kingdom, private consumption growth did not change quarter on quarter (at 1.7%). In Spain, private consumption growth slowed to 0.6% from 1% in the preceding quarter, while in Greece it declined by 0.7 against growth by 0.5% in the preceding quarter.

Table 2.5

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

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

* Source: European Economic Forecasts (Interim), Summer 2019, European Commission, July 2019

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

Public consumption growth strengthened quarter on quarter in the second quarter of this year in the EU to 1.5% (from 1.4% in the preceding quarter), remaining unchanged in the Euro area (1.3%). In the second quarter of last year, public consumption had increased by 1.3% in the Euro area and by 1.2% in the EU. For 2019 and 2020, the European Commission anticipated growth by 1.6% and 1.3% respectively in the EU, while for the Euro area, it estimated an increase by 1.4% and 1.3%. In the second quarter of 2019, public consumption increased in Greece, by 5.3%, due to fiscal interventions related to the elections, against 1.4% decline in the preceding quarter.

Investment expanded in the second quarter of 2019 in the EU at a rate lower by 0.3% quarter on quarter (5%), while its growth slowed down in the Euro area to 1.1%, against 2.2% in the preceding quarter. In the second quarter of 2018, investment had declined by 0.6% in the EU and by 2.5% in the Euro area. The European Commission anticipated investment to grow by 2.1% in 2019 and 2020 in the EU, while it anticipated investment growth by 2.3% in both years in the Euro area. Investment growth slowed down in the second quarter of this year in Germany to 1.6%, from 2.6% in the preceding quarter, while in Italy investment contracted further and stronger by 5.8%, against 3.9% decline in the first quarter of the current year. in France, investment growth slowed down to 0.8% from 2.1% in early 2019, while in the UK its trend shifted in the second quarter of the year, to -1.3% from 23.6% in the preceding quarter.

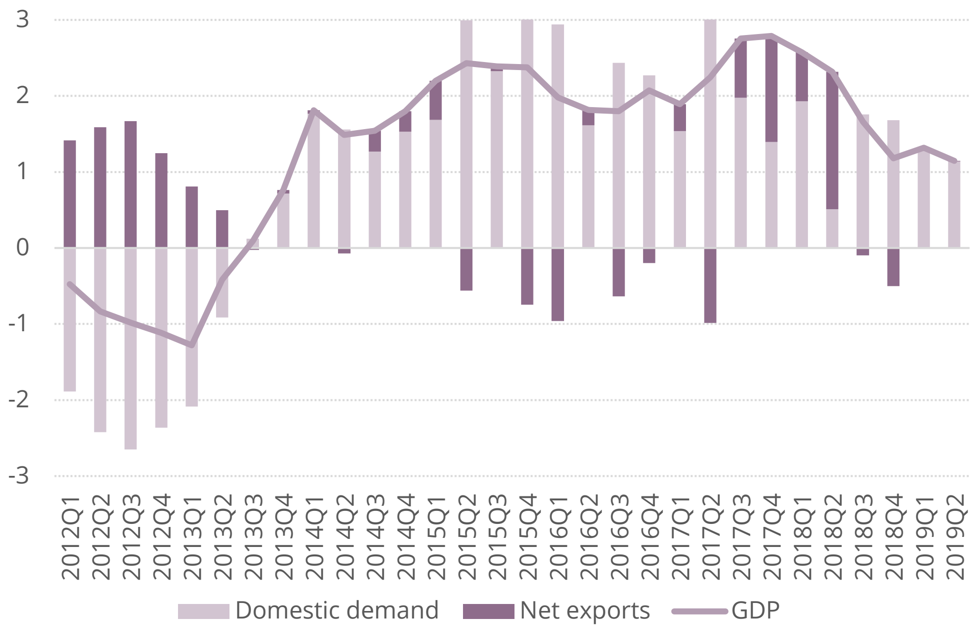
The exports of goods and services expanded in the second quarter of 2019 as well, by 2.3% in the EU and 2.4% in the Euro area, compared with 3.5% and 3.4% growth in the preceding quarter, and expansion by 3.8% and 4.3% correspondingly in the second quarter of 2018. For 2019 and 2020, the European Commission anticipated the growth of exports in the EU to slow down compared to last year to 2.5% and 3.1% respectively. Slightly stronger slowdown is anticipated in the Euro area in 2019, to 2.3%, with a recovery to 3.0% anticipated in 2020. At the country level, exports growth slowed down in Germany, to 0.1%, from 2.1% in the first quarter of 2019. In France and Italy, exports expanded in the second quarter of this year, by 2.5% and 3.9% respectively, from 3.2% and 2.8% in the previous quarter. In Greece, export growth slightly strengthened in the second quarter, to 5.4% from 4.3% earlier this year. A slowdown in exports growth was observed in the second quarter of 2019 in the UK, to 0.5% from 3%. Exports growth strengthened in Spain, to 2.2%, from 0.3% in the previous quarter, while in Cyprus exports declined by 3.1%, from 1.2% in the first quarter of this year.

Imports growth slowed down sharply in the second quarter in the EU to 2%, from 4.9% in the preceding quarter. Weaker slowdown was recorded in the Euro area, to 2.6%, from 3.8%. Their growth was stronger than a year earlier, when imports were expanding by 1.4% in the EU and by 0.6% in the Euro area. For 2019 and 2020, the European Commission anticipated growth of imports by 3.1% and 3.3% respectively for the EU, while for the Euro area it projected a slowdown of the growth rate to 2.8% in 2019, and a recovery to 3.3% in 2020. At the country level, imports growth slowed down in most countries in the second quarter of 2019. In particular, extensive slowdown of import growth was recorded in Germany (2.5% in the second quarter of 2019, from 4.4% in the preceding quarter), Italy (1.4%, from 1.9% in the preceding quarter), France (1.7% from 2.7%) and Greece (3.7%, from 9.8%). By contrast, imports contracted in Spain (-0.7% from -0.4%) and the United Kingdom (-0.8%, from 14.3% in the preceding quarter).

As a result of the developments in the GDP components in the Euro area, net exports had zero contribution to growth in the first and second quarters of 2019, against 1.8% in the second quarter of 2018. The zero contribution of net exports came from the slowdown of exports growth from 1.7% in the preceding quarter to 1.2% in the second quarter and the weaker negative contribution of imports, from 1.7% in the first quarter to 1.2% in the second. Domestic demand had a positive contribution by 1.1% of GDP, lower than in the preceding quarter (1.3%). The weakening came mainly from investment, which contributed 0.2% to GDP growth in the first quarter of this year, comparted to 0.5% in the first quarter of 2019.

Figure 2.2

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



Zero contribution of net exports to GDP growth in the Euro area in Q2 2019. Domestic demand had a positive but weakening contribution, due to a slowdown in investment.

Source: Eurostat

The harmonised inflation marginally strengthened in the second quarter of 2019 in the EU, at a rate of 1.7%, from 1.6% in the preceding quarter, while in the Euro area it remained unchanged at 1.4%. In the corresponding quarter of last year, harmonised inflation stood at 1.9% and 1.7%, in the EU and the Euro area respectively. For 2019 and 2020, the European Commission projected recently that the inflation would remain unchanged at 1.4% in the Euro area, and reach 1.6% and 1.7% in the EU, mainly due to the drop in oil prices. In September, harmonised price index was higher year on year by 1.1% in France, while in Greece and Italy it strengthened by 0.3%.

The growth of employment weakened quarter on quarter in the second quarter of 2019, at 1% in the EU and 1.2% the Euro area, from 1.2% and 1.4% respectively. It also slowed down compared to 2018 (1.3% and 1.6% respectively). The European Commission projected that employment growth would weaken in the EU in 2019 and 2020, to 0.8% and 0.7% respectively, from 1.3% in 2018. In the Euro area, employment growth is also anticipated to slow down, to 0.9% in 2019 and 0.8% in 2020, from 1.5% in 2018. Employment increased most in the second quarter of 2019 in Cyprus (3%), Slovenia (2.6%), Spain (2.2%), Hungary (2.1%), the Netherlands (2.1%) and Greece (2%). By contrast, employment contracted in Latvia (-0.7%), Poland (-0.4%) and Romania (-0.2%).

Unemployment fell further in the second quarter of 2019, to 6.2% in the EU and 7.5% in the Euro area, compared to 6.8% and 8.1% respectively in the preceding quarter, its lowest level in both regions since 2008. In the second quarter of last year, the unemployment rate had stood at 6.8% in the EU and 8.2% in the Euro area. For 2019 and 2020, the European Commission projects further decline of unemployment in the EU, to 6.5% and 6.2% respectively (from 6.8% in 2018), while in the

Euro area the unemployment rate is projected at 7.7% in 2019 and 7.3% in 2020, compared to 8.2% overall in 2018. In the second quarter of this year (April-June), the highest unemployment rate was recorded once more in Greece (16.9%), followed by Spain (14%) and Italy (9.8%), while it stood at 8.1% in France and at 3.1% in Germany.

Regarding the fiscal performance, the general government deficit in the EU declined to 0.7% of GDP in the second quarter of 2019, from 1.3% in the preceding quarter. The European Commission projected that it will marginally increase to 1.0% in 2019 and 2020. In the Euro area, the fiscal deficit is anticipated reach 0.9% of GDP in 2019 and 2020, from 0.5% in 2018. Public debt in the Euro area stood at 86.4% of GDP in the second quarter of 2019, from 85.9% in the preceding quarter. It is projected to decline in 2019 and 2020 respectively, to 85.8% and 84.3% of GDP respectively. Despite the progress, public debt remained very high across quite a few Member States in the first quarter of 2019, with the highest rate as a percentage of GDP recorded in Greece (180.2%), Italy (138%), Portugal (121.2%), Cyprus (107.2%) and Belgium (104.7%).

As to the monetary policy framework, the announcement of the European Central Bank on its lending rate in September was of interest for the supply of liquidity. In particular, it was announced that the interest rate will remain unchanged at its current level (0.25%) inflation converges definitely to levels below and close to 2% in the medium term. Furthermore, from 1 November the ECB will resume purchasing bonds and other assets worth €20 billion for as long as necessary (QE 2). In order to ensure the effective transmission of this policy through the banks, a two-tier system for the remuneration of reserves will be established, where part of the excess liquidity held by banks will be excluded from the negative interest rate on the deposit facility.[3]

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

- Continued imposition of trade protectionism measures by UK on China, which affects the demand for imports from the EU
- Further extension of the uncertainty regarding the negotiations with the UK on Brexit, following the approval by its Parliament of the agreement between the European Commission and the UK government, but not its accompanying timetable
- Difficulties for Germany's automotive industry in adapting to emission standards
- Weakening of trade between the EU member states
- Maintaining stability in the financial system: very high rates of non-performing loans in some member states

[3] Press release "Monetary policy decision", ECB, September 2019

2.2 The Economic Environment in Greece

A. Economic Sentiment

- The economic sentiment indicator strengthened quarter on quarter in Greece in the third quarter of 2019 (at 107.0 from 100.7 points). Notable increase compared with the corresponding quarter of last year as well (103.4 points). The recent level is the highest since the fourth quarter of 2007
- Business expectations strengthened quarter on quarter in the third quarter in Industry, Retail Trade and Services, marginally declining in Construction
- The consumer confidence indicator stood quite higher, at -11.7 points, from -29.4 points in the preceding quarter and -44.7 points a year earlier, posting its best performance since the second quarter of 2002.

The IOBE economic sentiment surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the indicators used in the surveys constitute leading indicators for various economic magnitudes and can be used to predict near-term developments and even the course of GDP.[4]

In the third quarter of this year, the economic sentiment indicator strengthened significantly in comparison to the previous quarter. As this is a post-election quarter, this development was largely expected. However, it was also due to the start of implementation of pre-election announcements, with the first budgetary measures (reduction of the property tax ENFIA, extension of debt settlement in 120 instalments to enterprises), which supports the confidence in government policy. The good performance of certain short-term indicators relating to households, such as unemployment and inflation, also has had a positive effect on their expectations. These developments have resulted in a significant strengthening of the Consumer Confidence Index and its boost to its highest level in 17.5 years. There has not been any friction in the relationship with partners and creditors, which is a relatively more important factor for businesses. In addition to the particular circumstances in each sector, the strengthening of expectations for most of them in the third quarter relates to the pending reform of the tax system, the main aspects of which were presented in the Draft 2020 Budget, but have not yet been discounted by businesses and consumers in the context of the Business and Consumer Surveys. Having said that, there are sources of significant uncertainty in the international environment, such as the Brexit negotiations, the war on the Turkish-Syrian border and the escalation of the migration flows. In greater detail:

The Economic Sentiment Indicator increased significantly in Greece quarter on quarter in the third quarter of 2019 in Greece, to 107.0 points on average, higher than the average from the same

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

quarter of the previous year as well (103.4 points). The recent level is its highest since the fourth quarter of 2007.

In Europe, the corresponding indicator declined quarter on quarter in the quarter under examination both in the EU and in the Euro area. In particular, the Economic Sentiment Indicator averaged 101.1 (from 103.2) points in the third quarter of 2019 in the EU and 102.5 (from 104.1) points in the Euro area.

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

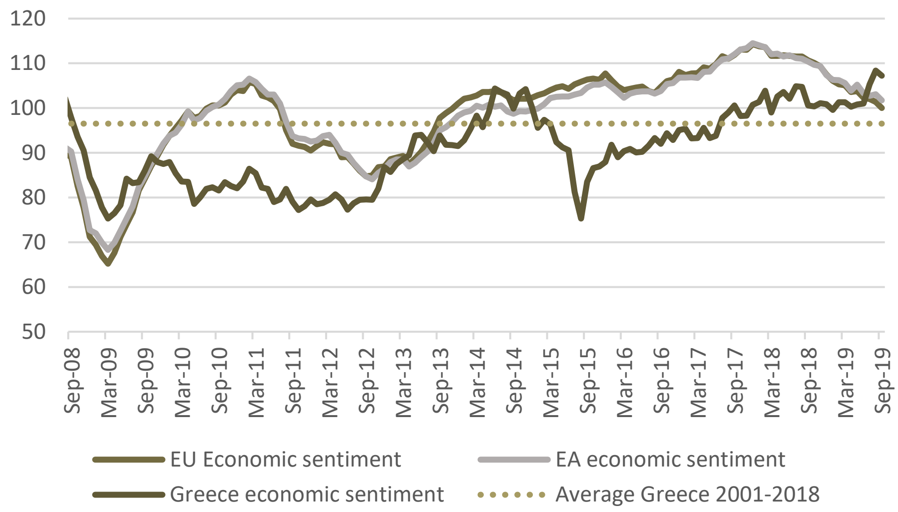
The Consumer Confidence Indicator in Greece in the third quarter of 2019 was on average much higher at -11.7 points (from -29.4 points in the second quarter), a performance substantially better than last year as well (-44.7 points), reaching its highest level since the second quarter of 2002. At the country level, the Greeks were no longer the most pessimistic in Europe. The corresponding average European index marginally strengthened to -6.4 (from -6.8) points in the EU and -6.7 (from -7.0) points in the Euro area. These levels are slightly higher in relation to last year as well (-4.5 and -5.1 points respectively).

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

In particular, the percentage of consumers pessimistic about their household's financial situation over the next 12 months decreased notably, to 22% (from 40% in the previous quarter), while the share of respondents holding the opposite view doubled to 28% (from 13%). Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation declined strongly to 20% (from 44%), with 45% (from 20%) expecting a slight improvement. Considering the intention to save, the percentage of households that did not consider it possible that they would do any savings in the following 12 months declined slightly to 79% (from 84%), while the percentage of those that considered it possible increased to 19% (from 15%). The percentage of those believing that unemployment would increase fell to 27% (from 43%), while 38% (from 26%) on average expressed the opposite opinion. The percentage of consumers that reported to be «in debt» in the third quarter of 2019 was 9% (from 10%), considerably lower in comparison with the same quarter the year before (12%), while the percentage of respondents who said they saved a little increased to 17% (from 11% in the third quarter of last year). Finally, the percentage of those who declared that they were "just about managing to make ends meet on their income" marginally increased to 64%, while the percentage of households reporting that they were "drawing on their savings" fell to 9% (from 11% in the preceding quarter), a marginally lower level than in the same quarter of 2018.

Figure 2.3

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



The domestic Economic Sentiment Index in Q3 this year strengthened significantly quarter on quarter, up year on year as well

Source: European Commission, DG ECFIN

The Business Climate Indicator in Industry stood at 104.8 (from 103.8) points in the third quarter of 2019, lower than its corresponding level of 2018 (105.7 points). In the key activity indicators, the expectations for short-term output change declined significantly in the examined quarter (23.8 from 28.2 points on average), while in contrast the estimates for the level of orders and demand slightly strengthened (to -7.6 from -14 points). The assessment of the stock of finished products point to a slight decline (to 12.3 from 13.2 points), while the trends in the export indicators were mixed. The export expectations over the following quarter weakened substantially (20 from 27 points), while a positive change was recorded in the assessment of current exports for the sector (at 7.6 from 7.2 points) and in the expectations on foreign orders and international demand (-9.4 from -12 points). The quarterly balance of employment expectations declined significantly to -4 (from 11) points on average. The production capacity utilisation rate increased marginally, to 72.1% (from 71.6%), while the guaranteed production period averaged 4.8 (from 4.7) months.

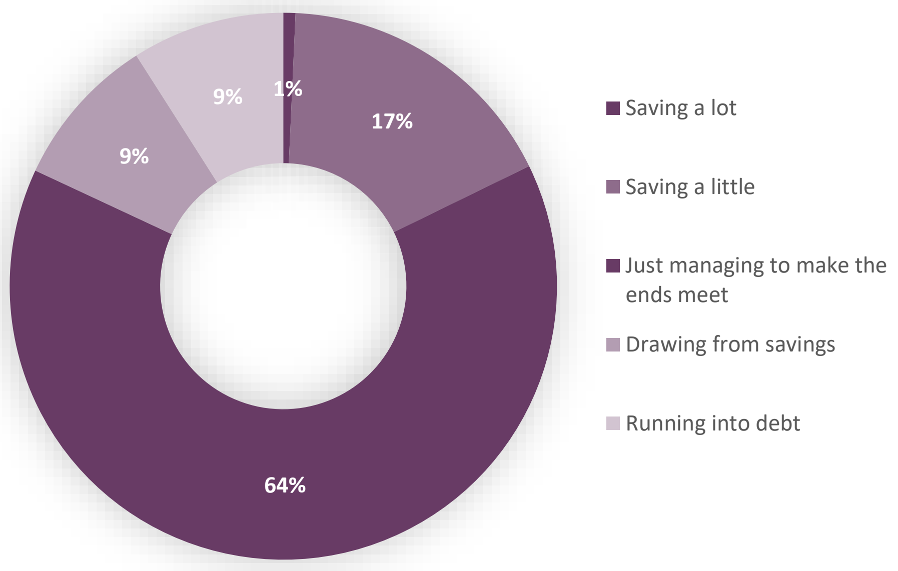
The Business Climate Indicator in Retail Trade increased substantially in the examined quarter to 115.5 (from 97.8) points, much higher than in the same quarter of the previous year as well (108.3 points). Among the key components of the indicator, the average balance of the current sales assessment increased strongly to 35 (from 1) points. About 23% (from 40%) of the enterprises in the sector reported that their sales had declined, with 58% (from 41%) stating the opposite result, while the projected sales indicator strengthened further from 25 to 38 points, and the assessment of inventories declined (to 4 from 14 points). Regarding the remaining activity indicators, the balance of expectations for orders to suppliers strongly increased (29 from 10 points on average per quarter), while the short-term employment forecast declined slightly to 17 (from 21) points. Finally, the balance of price expectations strengthened to 8 (from 1) points, with 4% (from 8%) of the companies expressing expectations of a decline in prices and 85% (from 84%) predicting price stability. Business expectations strengthened in all subsectors of Retail Trade in the third quarter of 2019.

Figure 2.4

Consumer survey data on the financial situation of households

(average: July – September 2019)

The share of respondents stating that they save (17%) and of those responding that they barely make ends meet (64%) increased



Source: IOBE

Table 2.6

Economic Sentiment Indicator

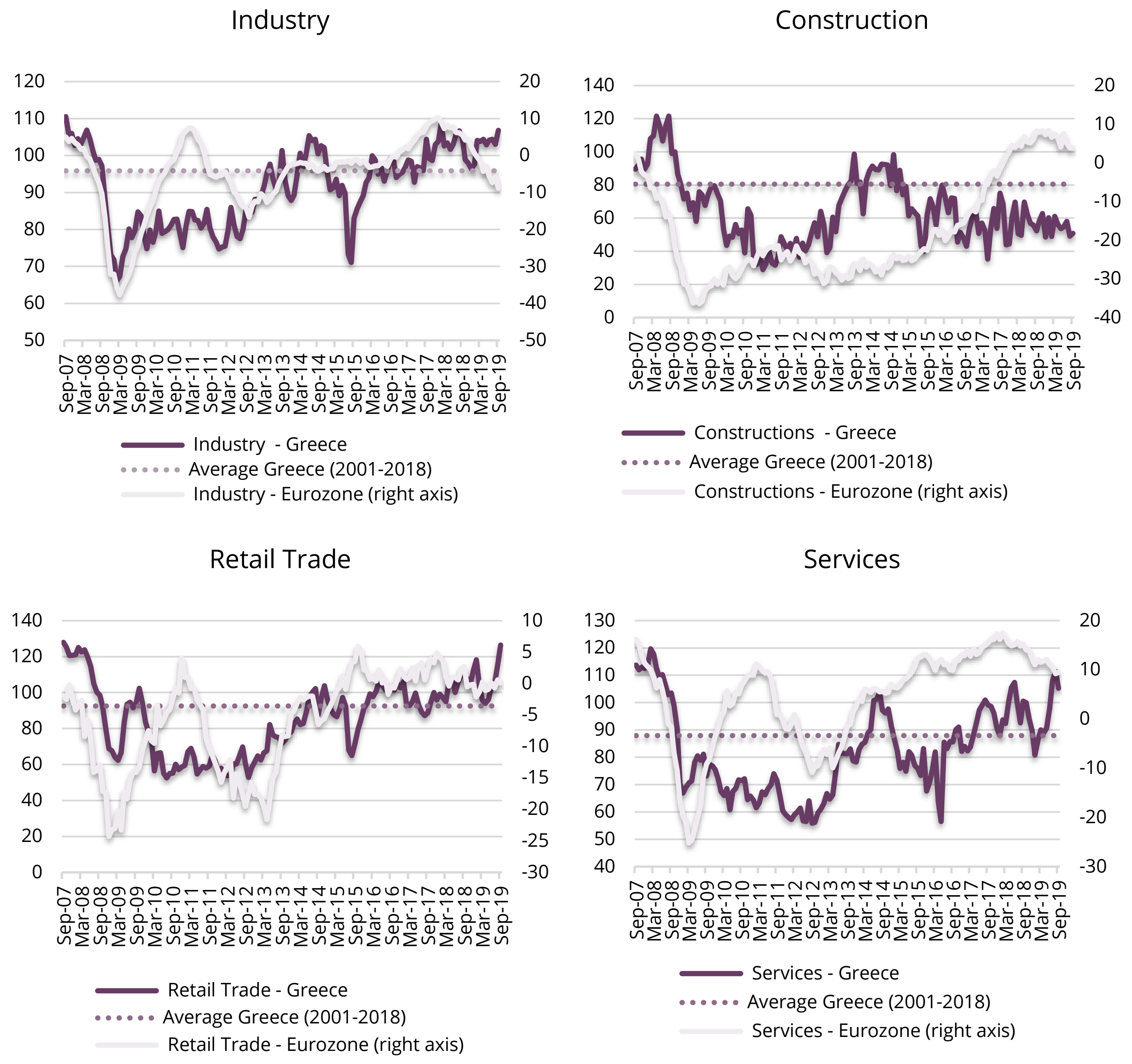
Time Period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2008	92.2	92.9	100.1	96.9	104.8	105.9	104.6	-38.2
2009	77.2	78.6	82.6	76.0	72.0	83.3	75.0	-36.7
2010	99.3	99.2	82.8	79.9	52.2	61.3	68.1	-56.9
2011	98.5	99.9	81.2	81.1	37.7	60.9	66.1	-70.5
2012	88.6	88.9	80.0	81.4	47.5	59.1	58.8	-73.9
2013	93.2	91.4	90.9	92.6	71.5	72.6	75.3	-69.3
2014	102.7	99.7	100.0	99.7	88.4	92.3	93.3	-52.8
2015	105.2	103.2	88.8	86.3	62.0	83.9	78.2	-50.3
2016	105.1	104.1	91.8	96.1	61.3	101.4	79.3	-62.9
2017	110.5	110.1	96.6	98.1	55.4	94.6	92.7	-58.9
Q1 2018	113.1	113.2	101.4	105.1	60.3	97.1	91.4	-49.8
Q2 2018	111.8	111.8	102.8	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.2	110.9	103.4	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.0	108.9	100.8	97.7	56.6	108.2	94.6	-32.6
Q1 2019	105.5	106.0	100.7	101.8	56.7	105.8	85.7	-31.1
Q2 2019	103.2	104.1	100.7	103.8	54.8	97.8	92.6	-29.4
Q3 2019	101.1	102.5	107.0	104.8	52.7	115.5	108.2	-11.7

Sources: European Commission, DG ECFIN, IOBE

Business expectations in Construction slightly declined in the third quarter of 2019, with the balance standing at 52.6 (from 54.8) points on average. The indicator stood lower year on year (55.0 points). Among the key components of the indicator, the employment expectations in the sector weakened notably, to -41 (from -30) points, while 10% (from 8%) of the companies were expecting job creation in the sector, with 51% (from 39%) expecting a decline. The expectations of the businesses about their activity level improved (to -68 from -75 points), while the assessment of their current level of activity notably improved (-29 from -16 points).

Figure 2.5

Business Climate Indicator



Source: IOBE

Business expectations strengthened quarter on quarter in the third quarter in Industry, Retail Trade and Services, declining marginally in Construction.

The months of activity accounted for work in hand in the sector increased to 8.0 (from 7.1), while the negative balance of price expectations improved strongly to -6 (from -19) points, with 12% (from 23%) of the companies expecting a decrease in the short-term and 4% (from 6%) an increase. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business fell to 8% (from 14%), while among the remaining businesses, 23% (from 20%) reported low demand as the main barrier, 56% insufficient funding and 13% factors such as the country's general economic situation, capital controls, high taxes, lack of projects, and belated payment by the state. At the subsector level, business expectations weakened slightly in Public Works and strengthened marginally in in Private Construction, a change that is mostly due to a slight increase in the construction of dwellings.

In Services, the average Business Climate Indicator increased quarter on quarter in the third quarter of 2019, to 108.2 (from 92.6) points, reaching a higher level than in the same period of 2018 as well (97.6 points). Among the main components, the assessment of current demand strongly improved, with the index gaining 24 points on average (from 0 in the previous quarter). The assessment of the current level of business activity also increased strongly (at 31 from 3 points on average), while the short-term demand expectations of the businesses in the sector improved marginally to 24 (from 21) points. Regarding the remaining activity indicators, the balance of employment expectations of the respondents declined (to 19 from 23 points on average), while price expectations balanced out (from 2 points). Finally, the percentage of respondents reporting a seamless business operation increased slightly to 35% (from 31%) on average, with 32% declaring lack of demand as a major barrier to their operation, 15% citing working capital shortage and 15% other factors, such as the country's general economic situation, difficulties in obtaining credit, high taxes, and arrears. Among the examined subsectors of Services, the indicators strengthened quarter on quarter in the third quarter in all subsectors except IT Services.

B. Fiscal developments and outlook

- State Budget Deficit Target surpassed in Jan. – Aug., by €3.4 billion, to €1.6 billion. Similarly better primary surplus, at €2.9 billion, against a target of €0.3 billion
- The deficit containment was achieved by extraordinary, unbudgeted revenues of €2.1 billion (AIA agreement, ANFA's and SMP's), holding back expenditure of the Ordinary Budget against the target by €1.5 billion and under-implementation of the Public Investment Programme by €0.4 billion
- Draft 2020 Budget: primary surplus of 3.5% of GDP, as in the relevant "Enhanced Surveillance" target
- Tax relief by €1.2 billion (reduction of corporate tax rate from 28% to 24% for fiscal year 2019, lowest tax bracket for natural persons down from 22% to 9%, suspension of VAT – capital gains tax on buildings for 3 years)
- Cost reduction from a review of spending - revenue in General Government bodies, transition to a performance budget (KPIs) and an increase in revenues from broadening the tax base by measures to boost electronic transactions

Since the preparation of the 2019 Budget, there has been a relaxation of strict budgetary policy,[5] in the sense that pre-legislated spending cuts (pension adjustment) were abolished, while a limited tax reduction (10% weighted average reduction of ENFIA and lower social security contributions for self-employed, freelancers and farmers) was also envisaged. The easing continued with the May 2019 measures, focused on the granting of an ad-hoc pension benefit, in addition to the aid given in December, while some measures were also implemented to reduce the tax burden (reduction of VAT on food services, food products and energy). Tax reduction measures that would apply from 2020 were also announced (lifting of the solidarity levy for incomes up to €20,000, increase in the depreciation rate of investments to 150%, subsidy of social security contributions for young workers up to 25 years of age and a cut in the reduced VAT rate from 13 to 11%). Despite the easing, fiscal policy has remained tax-centred.

A more substantial change in the fiscal policy direction occurred with the significant reduction of the ENFIA and the September announcements of further tax cuts from 2020, most notably the reduction of corporate taxation (from the 2019 fiscal year). The tax cuts were part of a broader economic policy aimed at creating a friendly business environment and attracting investment in order to accelerate growth. Recall that in the last two years for which data are available (2017-2018), the Greek economy has fallen by 11 places in the World Bank's "Ease of Doing Business" index. Also, according to the World Economic Forum's Competitiveness Report for 2017, Greece was ranked 137th and last in terms of the impact of taxation on investment.[6]

The need to reduce excessive taxation in order to create more favourable conditions for growth was highlighted on several occasions in IOBE reports on the Greek economy.[7] However, it is appropriate to clarify the following: Firstly, the reduction in taxation should be accompanied by a substantial effort to rationalise and contain public expenditure on a permanent basis. The Greek experience has shown that whenever tax cuts were attempted without simultaneously curbing spending, the deficits have burgeoned, threatening the stability of the economy. Furthermore, it is appropriate to restructure in favour of 'growth-friendly' expenditure, such as infrastructure improvement and digital upgrading. Recall that public investment has declined significantly in recent years. Secondly, in parallel with the attempted reduction in the tax burden, it is appropriate to take measures to curb tax evasion which has taken on very large dimensions.[8] The reduction in tax rates helps in this direction, but it is not sufficient to deal with this phenomenon. However, it may become the reason for more drastic and immediate measures to be taken on tax evasion. According to studies both in Greece and abroad,[9] the most effective measure is to increase the likelihood of detecting tax evasion by intensifying tax audits and, of course, the immediate imposition of the envisaged penalties. According to a relevant study, in Greece an increase of audits by 1% results in an increase in revenues directly by 0.4% and indirectly by 0.1%.[10] Moreover, a

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[5] Particularly in relation to the MTFS 2019-2022, which was drawn up in June 2018, just four months before drafting the budget.
[6] Sub-index 7.01: Effect of taxation on incentives to invest.
[7] See e.g. the IOBE Report on the Greek Economy 02/19, p. 52.
[8] In 2018, employees and pensioners filed 81.8% of the total income in income tax returns (Kathimerini, 18/8/2019).
[9] Kleven, H.J., M.B. Knudsen, C.I. Kreiner, S. Pedersen and E. Saez (2010), "*Unwilling or Unable to Cheat? Evidence from a Randomized Tax Audit Experiment in Denmark*", NBER, Working Paper No 15769, February 2010. See also Tagalakis, Athanasios (2014), *"The direct and indirect effects of audits on the tax revenue in Greece,* Economics Bulletin, Vol. 34 (2), σελ. 984-1001.
[10] Tagalakis, *op. cit.*

successful fight against tax evasion will create room for a further reduction in tax rates, and it is also a fundamental act of justice towards honest taxpayers.

The announcement of a new "tax closure", as well as the imputed income items, are evidence of the inefficiency and inadequacy of the tax collection mechanism, but also a reward for tax evaders. Despite the progress made during the adjustment programmes, there are still major structural weaknesses both in the identification of taxable income and in the recovery of verified obligations, which amount to €104.4 billion, i.e. almost a third of the General Government's debt.

The reduction in taxation should not be seen as a relaxation or abandonment of the efforts for fiscal consolidation, which has not yet been completed, either in terms of public debt or in terms of the composition of revenue and expenditure. The huge debt of the general government requires that moderate primary surpluses are maintained for decades in order to reduce the debt-to-GDP ratio. Accelerating growth would help reduce the debt-to-GDP ratio, but this is not enough to reduce it rapidly. Debt is so high that it is appropriate to seek its reduction in absolute terms whenever there is fiscal space. Moreover, according to all relevant studies, public debt of more than 90% of GDP has a negative impact on growth. Furthermore, recent court decisions on pensions may oblige the authorities to increase annual expenditure, which may jeopardise budgetary balances.

In addition to public debt, other major macroeconomic imbalances remain in the economy. The taxpayers' arrears to the tax office, to social security funds, to PPC, etc., amount to almost 80% of GDP. Together with the non-performing loans, they far exceed the country's GDP. Persistent high unemployment, very low investment and limited output indicate that a significant share of the production factors remains inactive. In the medium term, the viability of the social security system is not fully guaranteed.

Reducing the tax burden strengthens the growth prospects of the economy, but does not automatically lead to higher growth rates. Other interventions are needed, such as structural reforms and privatisations. Privatisations should focus on loss-making rather than profitable public sector businesses, as has been the case in several occasions in the past. In addition, in order to improve 'structural competitiveness' and to have growth of a more permanent nature, interventions are needed in the education system,[11] research and innovation, speed of justice, modernisation of public administration, reduction of red tape, improvement of internal security, etc.

Another issue crucial to the country's growth in the medium term is the country's participation, albeit as an exception, in the new 'quantitative easing' programme recently announced by the ECB. Greece was the only Eurozone country that did not participate in the ECB's first quantitative easing programme, which put Greek banks and businesses at a great disadvantage compared to all their competitors in the Euro area. That said, the Greek economy enjoyed indirect positive effects, through a significant increase in exports to this region. It is very important that every effort is made to involve the country in the new ECB measures so that its banking system can soon support substantially the recovery of the economy.

[11] According to a recent report by the European Commission (published on 27/9/2019), the Greek secondary school students perform very poorly in mathematics, essay-writing, science and reading.

The current state of the Greek economy does not allow for any complacency, nor is there room for error. From the point of view of the authorities, too much needs to be done in a short period of time. More broadly, certain attitudes, perceptions, fixations and practices that began with the transition from the dictatorship in the 1970s and led us to the crisis should change.

Execution of the State Budget, January-April 2019

The data on the execution of the State Budget (SB) for the first eight months of the current year point, prima facie, to a very positive performance, particularly compared to the revised targets for this period. The SB deficit did not exceed €1.6 billion, against a revised target of €5 billion.[12] Respectively, the primary surplus reached €2.9 billion, against a target of about €0.3 billion. These results have also improved year on year (Table 2.7).

The containment of the SB deficit was achieved thanks to extraordinary, unbudgeted revenues of €2.1 billion, lower expenditure of the Ordinary Budget (OB) against the target by €1.5 billion and under-implementation of investment expenditure by almost €0.4 billion. Meanwhile, the government's arrears to individuals, including tax refunds, increased by €611 million in the first eight months of the year.

Overall, the year-to-date August results indicate that the annual deficit targets are going to be met, in the absence of significant reversals in the rest of the year. Significant revenues are expected to be received in the last four months of the year, while there will also be a lot of pressure to increase expenditure on items, such as public investment, repayment of arrears, and hospital support, based on the relevant targets in the 2019 budget.

State Budget Balance and Primary Balance

The SB deficit in the period January - August was cut to €1,588 million, against a deficit of €2,677 million in the corresponding period of 2018 and a revised target[13] of deficit of €4,976 million. Correspondingly, the primary surplus of the SB reached €2,911 million, compared to €1,129 million in the preceding year and a new target for a surplus of €272 million (Table 2.7).

The deficit restraint much below the target came by 71.5% from excess revenue and by 28.5% from lower than the target expenditure. About 39.4% of the cost reduction came from lower investment expenditure, as for the fifth year in a row there is a significant delay in the PIP implementation.

[12] Στην Εισηγητική Έκθεση του Προϋπολογισμού 2019 ο στόχος για το έλλειμμα του οκταμήνου ήταν €5.862 εκατ. (σελ. 60, Πίνακας 3.12). Στο δελτίο τύπου του Υπουργείου Οικονομικών της 25ης Σεπτεμβρίου, ο στόχος του οκταμήνου έχει αλλάξει σε €4.976 εκατ.

[13] In the budget execution bulletin for August 2019, both the target of the 8-month deficit and the target for the SB expenditure were revised down by €886 million compared to the sums indicated in the Introductory Report of the Budget (p. 60, Table 3.12).

Table 2.7 Revenue, expenditure and deficit of the State Budget

	January - August		% change 19/18	Budget 2018	2018	Budget 2019	% change 19B/18
	2018	2019					
I. SB revenue (1+2)	31,114	33,130	6.5	54,244	51,793	53,022	2.4
1. Gross OB revenue	29,679	31,604	6.5	50,509	49,155	49,282	0.3
OB revenue before tax refunds [1]	32,986	34,584	4.8	54,157	54,735	54,100	-1.2
Tax refunds	3,307	2,980	-9.9	3,648	5,580	4,818	-13.7
2. PIP revenue	1,435	1,526	6.3	3,735	2,638	3,740	41.8
of which: revenue from EU	1,364	1,456	6.7	3,555	2,098	3,590	71.1
II. SB expenditure (3+4)	33,791	34,718	2.7	55,188	56,372	56,796	0.8
3. OB expenditure	32,314	32,718	1.3	48,438	50,135	50,046	-0.2
Primary expenditure [2,3]	28,508	28,219	-1.0	43,238	45,459	44,446	-2.2
Interest	3,806	4,499	18.2	5,200	4,676	5,600	19.8
4. PIP expenditure	1,477	2,000	35.4	6,750	6,237	6,750	8.2
III. SB balance (I-II)	-2,677	-1,588		-944	-4,580	-3,774	
% of GDP	-1.5	-0.8		-0.5	-2.5	-2.0	
OB deficit/surplus	-2,635	-1,114		2,071	-980	-764	
PIP deficit/surplus	-42	-474		-3,015	-3,600	-3,010	
IV. OB primary balance	1,129	2,911		4,256	96	1,826	
% of GDP	0.6	1.5		2.3	0.0	1.0	
GDP (at current prices)	184,714	192,749		184,714	184,714	192,749	

Source: Explanatory Budget Report 2019, Ministry of Finance, November 2018 and SB Execution Bulletin January-August 2019, Ministry of Finance, September 2019.

Ordinary Budget Revenue

As mentioned above, about three-quarters of the deficit reduction came from extraordinary receipts of the Ordinary Budget. Overall in the period January - August, the OB revenue before tax refunds increased by 4.8% in relation to 2018, amounting to €34,584 million. However, this sum includes significant lump-sum revenues: (a) €1,119 million from the renewal of the Athens International Airport concession contract; (b) €271.6 million VAT corresponding to this transaction; (c) receipts from ANFA's and SMP's amounting to €1,035 million, of which €744 million were not foreseen in the budget[14] (Table 2.8). If the eight-month revenues of the OB of both 2018 and 2019 are adjusted appropriately to restore comparability, then the OB revenues would be lower year on year by 1.7%. Thus, the good performance of OB revenues came exclusively from extraordinary one-off revenues of €2,135 million, which will probably not happen again in 2020.

Among the subcategories, the revenue from income tax in the first eight months declined compared to 2018 by 0.5%, short of the eight-month target as well (-1.0%). The shortage comes mainly from the proceeds from "other income taxes" (-13.0% or €115 million below the target) and to a much lesser extent from receipts from businesses. By contrast, income from households is higher both compared to 2018 (by 1.7%), and in relation to the eight-month target.

The revenue from the property taxes, essentially from the ENFIA tax, decreased in the first eight months by 4.8%, which was foreseen in the budget. This development is not linked to the recent significant reduction in ENFIA, the effects of which will be seen in the coming months, starting in September. Lastly, revenues from the taxation of inheritance and donations increased significantly in the first eight months, although the amount is relatively small, resulting in receipts already exceeding the annual forecast by the end of August (Table 2.8).

In indirect taxation, the proceeds from VAT increased by 5.3% compared to 2018 and reached €12,007 million. However, as noted earlier, these revenues are reinforced with an amount of EUR €272 million by the extension of the concession contract of the Athens airport. Without the specific revenues, the rise is limited to 2.9%. Nevertheless, it remains satisfactory in relation to the forecast for an annual rise of 0.2% (Table 2.8).

In contrast to the VAT, the revenues from excise duties declined year on year by 1.5% in the first eight months, falling behind the target for this period by €127 million. On an annual basis, the receipts from excise duties are projected to increase by 2.6% in the 2019 Budget. In order to achieve the annual target, the relevant receipts should increase at a rate of 11.3% in the rest of the year, which is considered to be of little probability. The slippage comes mainly from the excise duty on tobacco products (€112 million) and to a lesser extent from fuel tax receipts. Note that passenger car sales in the period January - August increased by 9.8% compared to 2018, reaching 86,900 vehicles, their highest level in five years. The increase in sales is reflected in both vehicle registration tax revenues (an increase of 6.8%), and traffic charges (an increase of 3.8%). Thus, the indicators do not justify the retreat of the fuel excise duty revenues. What's more, they suggest

[14] Of the €744 million, €100 million are extraordinary, yet they are not related to ANFA's and SMP's. The 2019 Budget provided for only €291 million from ANFA's and SMP's by the Bank of Greece (744+ 291=1,035).

widespread tax evasion. Finally, year-on-year decline was recorded in other taxes on production (-28.0%), other current taxes (-16.3%), and other current revenue (-14.0%, Table 2.8).

The tax refunds declined by 9.9% compared to 2018. As a result, net OB revenues increased faster in the first eight months than the gross OB revenues (6.5% against 4.8%), to reach €31,604 million (Table 2.8).

Table 2.8

State Budget Expenditure*- (million €)

	Jan-Aug		% Change	2018*	2019* Budget	% Change
	2018*	2019*				
Net SB revenue	31,114	33,130	6.5	51,793	53,022	2.4
Net OB revenue	29,679	31,604	6.5	49,155	49,282	0.3
Tax refunds	3,307	2,980	-9.9	5,580	4,818	-13.7
OB revenue	32,986	34,584	4.8	54,735	54,100	-1.2
Income tax, of which:	9,332	9,289	-0.5	16,548	16,796	1.5
--Personal	6,819	6,932	1.7	10,902	11,070	1.5
--Corporate	1,592	1,591	-0.1	4,299	4,420	2.8
Property tax	763	726	-4.8	3,082	2,801	-9.1
Taxes on donations, inheritance etc.	97	166	71.1	161	159	-1.2
Tariffs	152	201	32.2	232	237	2.2
Taxes on goods and services, of which:	18,158	18,639	2.6	27,437	27,559	0.4
--VAT	11,401	12,007	5.3	17,184	17,210	0.2
--Excise duties	4,779	4,705	-1.5	7,184	7,381	2.7
Other production taxes	902	649	-28.0	1,238	944	-23.7
Other current taxes	1,016	850	-16.3	2,564	2,631	2.6
Social contributions	38	37	-2.6	65	58	-10.7
Transfers, of which:	524	1,160	121.4	681	459	-32.6
--ANFA's and SMP's	314	1,035	229.6	314	…	
Sales of goods and services, of which:	456	1,532	236.0	740	773	4.5
Concession extension of the Athens Airport	-	1,119	-	-	…	
Other current revenue	1,532	1,317	-14.0	1,968	1,348	-31.5
Sales of fixed assets	16	18	12.5	18	335	1,761.1
PIP Revenue	1,4351	1,5262	6.3	2,639	3,740	41.7

Sources: Explanatory Budget Report 2019, Ministry of Finance, November 2018, Table 3.2 and SB Execution Bulletin January-August 2019, Ministry of Finance, September 2019.

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

1. In order to show separately investment income, €1,386 million were deducted from the category "Transfers" and €49 million from the category 'Other current revenue'.

2. In order to show separately the investment revenues, €1,475 million were deducted from the category "Transfers" and €51 million from the category 'Other current revenue'.

The preceding analysis shows that the positive trend in revenue came mainly from extraordinary non-tax revenues and to a lesser extent from higher VAT revenues and increased vehicle traffic. Moreover, the revenue developments do not seem to reflect the estimated 2.0% increase in economic activity this year in real terms in the recent draft State Budget for 2020, nor the rise in income from the extraordinary allowances for December 2018 and May 2019, as well as from the increase in the minimum wage. Based on the 2019 Budget forecasts, €19.5 billion, or 36.1% of the annual revenue, are expected to be collected in the last four months of the year. This amount does not include the effect on revenues from the recent reduction of ENFIA.

Ordinary Budget Expenses

In January – August 2019, the OB payments increased slightly, by 1.3% compared to the same period in 2018 and reached €2,718 million. Primary expenditure in particular decreased by 1.0% compared to the previous year (Table 2.9). These results are quite positive, especially considering that expenditure, such as the May emergency aid to pensioners, the housing allowance, etc. made in the first half of 2019, did not occur in the previous year. However, the analysis of the available data shows a containment of other categories of expenditure, but it is considered difficult to maintain this until the end of 2019.

In the categories of primary expenditure, payments for compensation of employees increased by 7.3% year on year in the first eight months, to reach €8,905 million. This rate falls to 3.4% if €326 million are deducted, related to retroactive payments in January to special wage grid categories. Recall that for these retroactive payments, the 2019 Budget was credited with €982 million, so €656 million were saved. However, the corrected rate of 3.4% remains high and confirms the continued upward trajectory of wage spending over the past three years (Table 2.9).

The social benefit costs decreased sharply since the beginning of the year, as payments for family allowances were moved from 01/01/2019 to the Transfers category. That said, the eight-month payments for social benefits (€320 million) have already significantly exceeded the annual credit of €246 million (Table 2.9).

According to the new classification of expenditure, payments for transfers are the largest category of primary expenditure and includes a number of subcategories. These expenditure slumped year on year by 2.2% in the first eight months of 2019, despite the fact that they include the May one-off aid of €971 million, for which there was no credit in the Budget. However, in other subcategories, there was a significant delay in the disbursement of the funds, compared to last year.[15] Such cases are the transfers to local authorities (€454 million), hospital grants (€150 million) and called guarantees, which were very few in the first eight months of 2019, at €88 million, against €915 million in the same period of 2018. This is a year-on-year saving of €826 million. Thus only from these three categories and from the retroactive payments of the special wage grid salaries, the savings reach €2,086 million. Whether the restraint will be permanent or it will be overturned in the last four months is a crucial issue for the evolution of expenditure this year. Note that in order to achieve the annual targets for the three categories mentioned above (hospitals, local authorities and called guarantees) €1,544 million ought to be spent in the last four months of 2019.

Payments for the acquisition of fixed assets (86.0% are for the purchase of defence equipment) also lagged behind the annual target, with only 26.7% disbursed. In order to achieve the budget forecast, €452 million ought to be disbursed in the last four months of the year (Table 2.9).

Table 2.9

[15] There are no published detailed data on the monthly expenditure targets, except for some total figures shown in Table 1 of the monthly SB execution bulletin.

State Budget Expenditure* (million €)

	Jan-Aug		%	2018*	2019*	%
	2018*	2019*	Change		Budget	Change
SB Expenditure (1+2+3)	33.791	34.718	2,7	56.372	56.796	0,8
OB Expenditure (1+2)	32.314	32.718	1,3	50.135	50.045	-0,2
1.Primary OB Expenditure	28.508	28.219	-1,0	45.459	44.445	
Compensation of employees	8.298	8.905	7,3	13.121	13.016	-0,8
Social benefits	814	320	-60,7	1.978	246	-87,5
Transfers	18.334	17.930	-2,2	28.179	26.104	-7,3
(of which SSFs)	11.853	12.727	7,4			
Purchase of goods and services	878	745	-15,1	1.532	1.324	-13,6
Subsidies	38	119	213,2	75	150	100,0
Other current expenditure	18	36	100,0	32	51	59,4
Non allocated expenditure	-	-	-	-	2.938	-
Purchase of fixed assets	128	165	28,9	542	617	13,8
2. Interest[1] (gross basis)	3.806	4.499	18,2	4.6761	5.6001	19,8
3. PIP Expenditure	1.477	2.000	35,4	6.237	6.750	8,2

Sources: Explanatory Budget Report 2019, Ministry of Finance, November 2018, Table 3.2 and SB Execution Bulletin January-August 2019, Ministry of Finance, September 2019.

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

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

Interest payments were 18.2% higher than in 2018, at €4,499 million. This increase was expected, as it came very close to the projected annual rate of 19.8%.

Overall, taking into account developments in the January - October period and the experience of the last 3-4 years, where a disproportionately large share of expenditure was disbursed in the last two months of the year, the developments in the first eight months of 2019 do not justify any complacency. Moreover, in the rest of the year, emergency aid for EFKA, PPC or ELTA may be necessary.

Public Investment Programme (PIP)

In the first eight months of 2019, the PIP deficit stood at €474 million, against a deficit of €42 million in 2018. The widening of the deficit is due to an acceleration in the rate of disbursement of grants compared to the previous year's first eight months (+35.4%), while over the same period revenues increased by only 6.3% (Table 2.7).

Despite the acceleration of payments, only 29.6% of the annual grants were disbursed by the end of August, as the high increase came from the very low expenditure in 2018 (base effect). If the PIP is to be executed without discrepancies, then €4,750 million should be disbursed over the remaining months of the year.

Revenue growth (6.3%) is not satisfactory at all as on an annual basis a 41.8% increase in receipts is budgeted. The rate of increase in withdrawals from EU funds is particularly low (6.7%), against a provision for growth rate of 71.1% for the whole year. Note that in 2018 the PIP withdrawals from the EU funds were the lowest in at least the last two decades. Thus, the 6.7% rise in the period January - August of 2019 is not satisfactory. Recall also that last year, due to very low withdrawals from the EU and the threat of high PIP deficit, it was considered necessary to cut investments by €513 million, as domestic revenues reached €540 million, while the 2018 budget forecast for domestic revenue was only €180 million, about as much as in the 2019 budget (€150 million).

Draft State Budget 2020

According to the draft of the new budget, it is estimated that the 2019 SB deficit will reach €2.0 billion, compared with an initial forecast (2019 Budget) for a deficit of €3.8 billion. The further containment of the deficit, relative to the initial target, comes by €1.3 billion from higher revenues and by €0.5 billion from lower expenditure, including public investment cuts (Table 2.7 and Table 2.10).

These estimates, according to the Enhanced Surveillance methodology, result in a primary GG surplus of 3.68% of GDP for 2019 (national accounting basis). Thus, the general government primary surplus target of 3.5% of GDP in 2019 is met.

As for 2020, the budgetary estimates are based on an optimistic macroeconomic scenario, which predicts an acceleration of growth to 2.8%. The acceleration is based on the rise in private consumption at a three times higher rate than in 2019, as well as a 13.4% increase in gross investment. According to the Draft Budget, gross fixed capital formation is expected to make the greatest contribution to GDP growth in 2020 (p. 16).

Table 2.10

Revenue, expenditure and SB deficit (€ million)

	2019 estimates	2020 Budget	% change
Net SB revenue	54,306	54,129	-0.3
Of which: PIP revenue	3,724	4,100	10.1
SB expenditure	56,302	57,052	1.3
Of which: PIP expenditure	6,150	6,750	9.8
Primary OB expenditure	49,802	51,052	2.5
SB deficit	-1,996	-2,923	
% of GDP	-1.1	-1.5	
Primary SB Surplus	4,499	3,077	
% of GDP	2.4	1.6	
Primary GG surplus target of the Enhanced Surveillance (% of GDP)	3.5	3.5	
Primary GG surplus, Enhanced Surveillance	3.68	3.5	
GDP	190,004	197,315	

Source: Tables 2.9 and 2.10, Draft Budget 2020, Ministry of Finance, October 2019

In terms of budgetary figures, the net SB revenues are expected to be slightly reduced, by €177 million or 0.3%, compared to 2019. By contrast, expenditure is projected to increase by 1.3% compared to the previous year. The increase in expenditure is due to an increase by 9.8% in public investment and by 2.5% in primary expenditure. Meanwhile, interest expenses will fall by 7.7% (Table 2.10).

The 2020 projections on the expenditure side are significantly affected by the streamlining of operating and other costs, which is projected to save €500 million, as well as by the reduction of interest payments compared to 2019, also by €500 million. On the revenue side, the fight against tax evasion is expected to generate additional revenues of €642 million (Draft Budget, p. 40). Just like in the previous four years, investment expenditure is projected at €6,750 million, while investment revenues will total €4,100 million. These figures point to higher SB deficit of €2,923 million and a reduced primary surplus of €3,077 million in 2020 compared to the previous year (Table 2.10).

At the GG level, the above SB forecasts lead to a primary surplus of 3.5% of GDP, as measured in accordance with the "Enhanced Surveillance" methodology (Table 2.10).

C. Financial developments

- Sharp decline in the cost of new funding for the Greek State, with the spread reaching its lowest level in a decade
- Adoption of the 'Hercules' bank asset protection plan for a faster reduction of NPLs, which will help meet the ambitious NPL targets by 2021
- Complete lifting of the capital controls after four years
- Strengthening recovery of credit to non-financial corporations
- Continued, steady contraction of credit to households
- Gradual recovery of private deposits

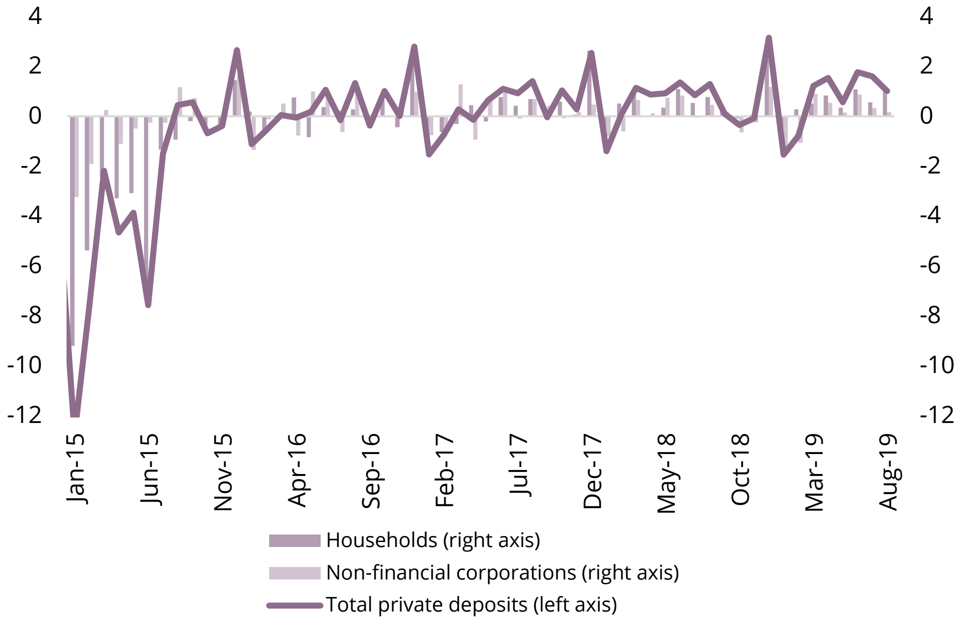
The systematic decline in government bond yields, both globally and in Greece, was the dominant feature of financial developments in the third quarter of 2019. The market factors that boosted the domestic investment climate include the formation of a one-party government in the wake of the parliamentary elections, earlier than expected at the beginning of 2019, the announcement of a series of tax breaks as well as the continuous record high levels of liquidity internationally over time, under the influence of the extension of the accommodative monetary policies. These developments resulted in a significant decrease in Greek government bond yields, at historically low levels of below 1.5%, while the spread against German bonds reached its lowest level since 2009, at around 200 basis points. At the same time, prospects for the banking system improve in the medium term, as more active instruments are expected to be implemented to reduce Non-Performing Loans (NPLs), following the adoption by the European Commission of the Hercules Asset Protection Scheme for the banks. The recovery of the Greek economy, the complete lifting of capital controls, the steady deposit growth, the improved conditions for raising capital from alternative sources, the gradual increase in the sale of NPL portfolios, and regulatory changes concerning the indebted households also have a positive impact on the banking system.

In spite of these positive developments, the banks continue to face major challenges. The weak quality of their assets and equity, and the ambitious NPL reduction targets by the end of 2021 are the most prominent challenges. With regard to recent changes in the regulatory framework, it is crucial that the platform for the protection of primary residences and the property auctions are effectively implemented. Regarding the impact of the banks on the real economy, credit to households has continued to contract, while the cost of bank financing to the private sector has remained higher compared to other European countries. However, the recovery of business lending has strengthened since the beginning of 2019, after eight years of uninterrupted contraction.

On the liabilities side of the banks' balance sheet, private deposits continued to recover. Between June and August 2019, the monthly net inflow averaged €1.5 billion, of which €0.5 billion came from non-financial corporations (NFCs) and €0.9 billion from households (Figure 2.6). Compared to the average monthly net inflow in the same period of 2018, the deposit flow increased slightly, by €46 million and €97 million respectively. In terms of the average monthly inflow of deposits between August 2015 and August 2019, the inflows from NFCs and households increased by €252 million and €578 million respectively. In terms of a 12-month moving average, the average monthly inflow of private deposits totalled €683 million in August 2019, higher compared to early 2019 (€659 million net average inflow), yet lower compared to the same month of 2018 (€741 million).

Figure 2.6

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



Bank deposits of households and businesses kept growing in June - August 2019

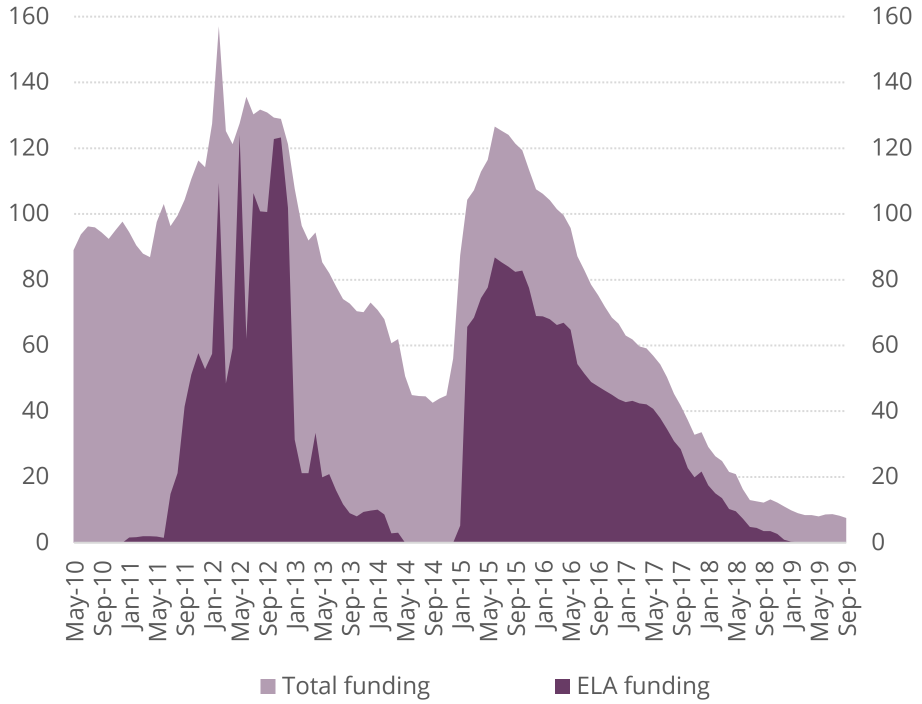
Source: Bank of Greece

Between August 2015 and August 2019, the private sector deposits increased by €25.8 billion, out of which €15.4 billion came from households and €10.1 billion came from non-financial corporations. Nevertheless, the total amount of private deposits remained significantly lower than in November 2014, by €19.8 billion, of which €18.5 billion came from households and only €1.3 billion from businesses. The deposits from non-financial corporations have increased since 2015 by €1.9 billion. The lifting of the remaining restrictions on sending remittances abroad closed a four-year cycle of capital controls in September 2019, which had significantly shaken public and business confidence towards the banking system.

Figure 2.7

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

Banks have geared towards alternative, market sources of financing and away from the exceptional forms that prevailed during the crisis



Source: Bank of Greece

In the final quarter of 2019 and in 2020, private deposits are expected to continue to follow a mild positive trend, as the citizens gradually regain confidence in the banking system, the economy is recovering and to the extent that the policy makers prioritise long-term-growth-friendly reforms.

The second pillar of the bank liabilities concerns the financing from the Euro system (Figure 2.7). The end of the funding from the Emergency Liquidity Assistance (ELA) in early 2019 has turned the banks to utilise alternative liquidity sources, such as repurchase agreements (repos) on the inter-bank market and through cheaper sources directly from the ECB, when and where the bank's collateral is recognised as having the minimum adequate quality grade, a recognition, which is directly linked to the credit ranking of the Hellenic Republic. The upgrades of the Greek banks by international credit rating agencies throughout 2019 have had a positive impact on the cost of the alternative sources of liquidity.

On the asset side, the recovery of credit to non-financial corporations that had begun in early 2019, accelerated in July-August, after eight years of contraction, while the credit to households continued to contract for the ninth year. Factors concerning both the supply and the demand for credit contribute to these trends. On the demand side, the gradual recovery of the economy, especially in sectors such as tourism, shipping, transport, and construction, has had a positive impact. On the supply side, the low quality of their equity and assets, and the exclusion of Greek bonds from the ECB quantitative easing programme have a negative impact on the lending capacity of the banks, while the restriction of the banks' dependence on expensive sources of exceptional funding is having a positive impact.

Table 2.11

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

Quarter / Year	3/18	4/18	1/19	2/19	Jul 19	Aug 19
Total private sector	-1.4	-1.3	-0.7	-0.2	-0.1	-0.1
Households & NPIs	-2.0	-2.1	-2.2	-2.4	-2.8	-2.8
Sole proprietors and unincorporated partnerships	-1.5	-1.9	-1.7	-1.8	-2.3	-2.4
Non-financial corporations	-0.7	-0.3	1.3	2.6	2.9	2.9
Agriculture	3.8	5.6	3.0	0.7	0.1	-1.0
Industry	1.4	-0.6	0.3	0.1	-0.6	-0.4
Trade	-0.3	-0.7	-0.5	-0.3	0.0	-0.2
Tourism	3.4	4.1	3.9	5.5	4.5	3.9
Shipping	-3.9	-1.9	1.8	2.2	1.1	1.9
Construction	-2.4	-1.8	-0.7	-0.1	0.2	0.4
Electricity-gas-water supply	-10.1	0.3	8.1	18.4	27.6	27.2
Transport and logistics	-1.3	-0.5	33.1	50.5	48.3	48.5
Interest rates on new loans (period average, %)						
Consumer credit	9.87	9.44	9.10	9.49	9.68	9.65
Mortgage credit	3.01	3.24	3.20	3.16	3.25	3.16
Loans to non-financial corporations	4.05	4.08	4.06	4.06	3.70	3.95

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.

Private sector funding, excluding loan write-offs, decreased year on year by only 0.1% in July-August 2019, slightly less compared to the second quarter of 2019 (-0.2%) and the first quarter of the year (-0.7% - Figure 2.8). In July-August 2019, the annual credit contraction in the private sector came from its reduction by 2.8% to households, and by 2.3% to sole proprietors, offsetting the expansion of credit to non-financial corporations by 2.9% (Table 2.11). Credit to NFCs expanded by 2.2% in the first eight months of this year, for the first time in eight years. The annual rates of change for the first eight months of 2018 were -2.2% for households, -1.0% for freelancers and -0.7% for non-financial corporations. The strongest credit expansion was recorded in Transport, Energy, Tourism, Shipping and Construction. By contrast, credit to Agriculture, Industry and Retail Trade continued to contract.

On the demand side, the Bank of Greece bank credit survey for the second quarter of 2019 continued to indicate stronger loan demand, while the lending criteria remained unchanged and no significant fluctuations are expected in the short term. Indicatively, loan demand reached its level of 2014, after a period of decline between 2015-2018, driven mostly from larger businesses and long-term loans.

The Non-Performing Loans (NPLs) declined in the second quarter of 2019 by 5.7% or €4.5 billion, much faster than in the preceding quarter (-2.3%).[16] The NPLs totalled €75.4 billion or 43.6% of the total exposure in June 2019, about €31.8 billion or 29.7% lower than their peak in March 2016. In

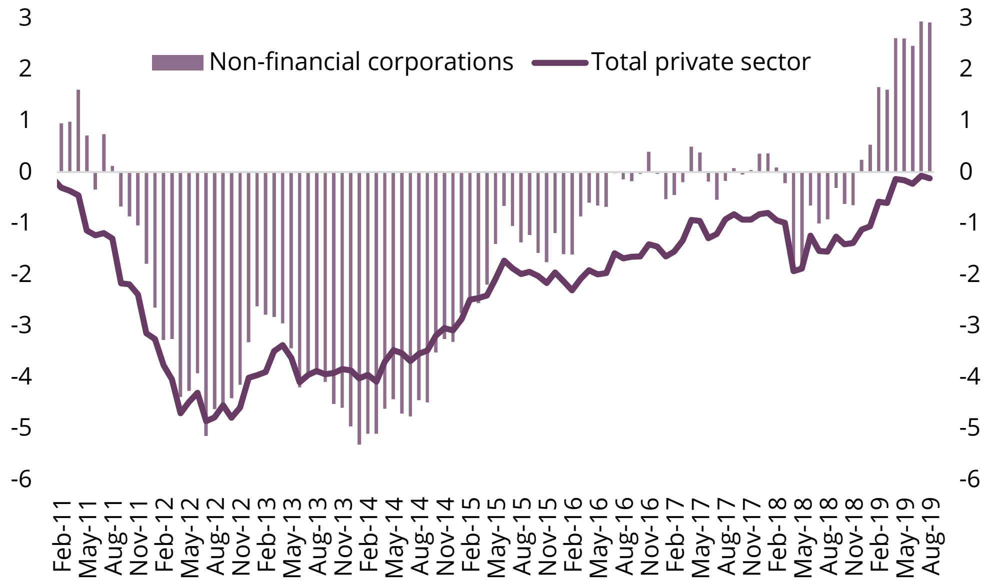
[16] Excluding off-balance-sheet NPEs.

business credit, the NPL rate declined to 42.6% in the second quarter of 2019, from 43.9% in the first quarter, while correspondingly in consumer loans it fell from 54.0% to 52% and in housing portfolios it decreased from 44.7% to 43.1%.[17]

Figure 2.8

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

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



Source: Bank of Greece

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

Note that the initial target agreed between the banks and the SSM envisaged a cumulative decrease of NPLs by about €43.0 billion or 40% from March 2016 until the end of 2019, to €65 billion. In accordance with this target, up until June 2019, the banks had successfully implemented 74% of the total consolidation. In addition to the quantitative targets, it is necessary to improve the qualitative characteristics of the NPL reduction. Around half of the cumulative reduction of the NPLs since the beginning of 2016 was mainly based on loan write-offs, an instrument with the strongest negative impact on the profitability and capital adequacy indicators of the banks. Since last year, the sale of NPL portfolios have gained ground, while sales of large portfolios are also planned in the current year. The instruments of NPL reduction that continue to underperform include mainly (a) low receipts through active management (b) low receipts from collateral auctions and liquidations, (c) high percentage of loans placed under restructuring that fall again in delays shortly after the restructuring is put in effect.

In these circumstances, the operational targets for the reduction of NPLs were revised, aiming to fall below 20% of total loans by the end of 2021. According to the new targets, the biggest reduction will come from loan sales, with second driving force the liquidation of collateral and only third loan write-offs. Regarding the constituent portfolios, 55% of the cumulative reduction of NPLs is envisaged to come from business loans, 33% from mortgages and only 12% from consumption

[17] The quarterly report of the Bank of Greece entitled 'Report on Operational Targets for Non-Performing Exposures' has been discontinued, so statistics on the evolution of NPLs per individual portfolios of business loans, as well as data on the factors that led to the reduction of NPLs in the second quarter 2019 are not available

loans. In order to achieve the revised target, improve the policy mix and accelerate the clean-up of the banks' assets, two proposals on the NPL reduction strategy (one from the Financial Stability Fund and one from the Bank of Greece) have been put up for public scrutiny. The two proposals outline different ways through which part of the NPLs, but also the deferred tax credits of the banks, can be securitised and sold to third-parties, though a special purpose vehicle.

As part of the HFSF plan, on 10 October 2019, the European Commission approved as compatible with state aid rules, one of the proposals named "Hercules", as it considered that the Greek State would be remunerated in accordance with market conditions for the risk it assumes when providing guarantees for securitised NPLs. The plan, which is expected to be implemented shortly, actually makes it easier for banks to securitise NPLs and remove them from their balance sheets, while at the same time for lower-risk securities, the State will be able to provide the State guarantees, receiving in exchange a fee in line with market conditions. The guarantees are capped at €9 billion within 18 months, with the possibility of an extension for six months. With these guarantees, it is estimated that the banks would be able to securitise loans of around €30 billion. The remuneration of the state will be based on a benchmark which will rise with the level of risk and the duration of the granted guarantee. Recent developments in the cost of new Greek government borrowing have pushed the CDS risk premiums down, making the "Hercules" plan more attractive to banks by improving its effectiveness prospects.

In the medium term, the current NPL reduction rates are not enough to achieve shortly convergence with the European average which stands at around 3%. In order to achieve the revised targets for 2019-2021, the rate of reduction of NPLs should speed up and the mix of reduction measures to improve. The implementation of the Hercules plan and supplementary tools contained in the BoG proposal will be key to speed up the NPL reduction, which together with the envisioned economic recovery is expected to have a gradual positive impact on the credit supply policy of the banks, especially in relation to business portfolios.

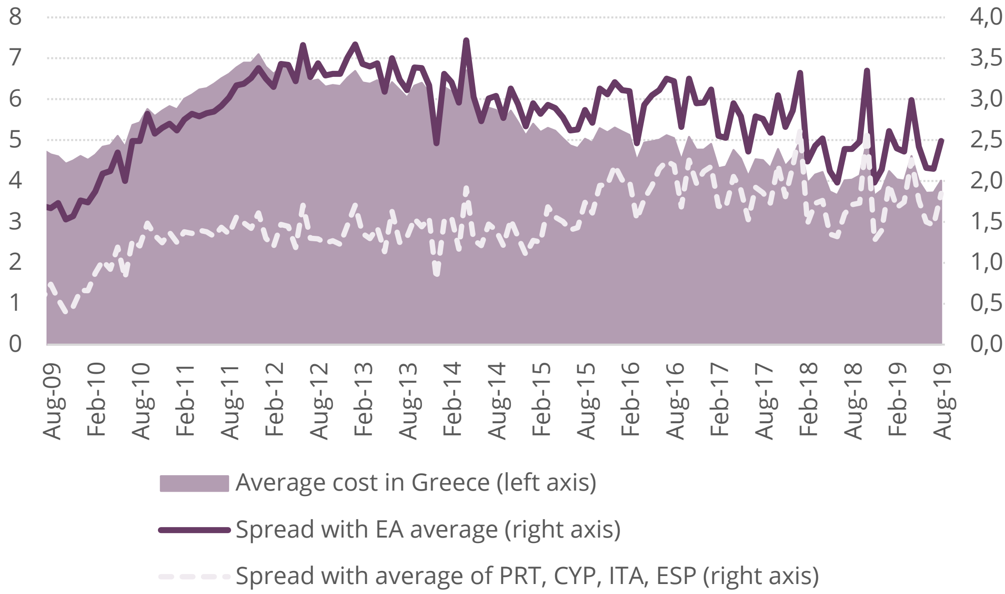
The interest rates on new deposits for non-financial corporation (NFCs) and households declined in the third quarter to 0.23% and 0.27% respectively, from 0.27% and 0.28% in the first half of 2019. The interest rates on new loans declined marginally to 4.6% in the third quarter, from 4.7% in the first half of 2019, mostly due to lower lending cost for NFCs, which was offset by higher interest rates to households for consumption purposes (Table 2.11).

The average cost of bank financing to the private sector NFCs increased to about 4.0% in August 2019, slightly up from 3.7% in the preceding month and its lowest point at 3.6% last November. It has remained significantly higher than in the remaining Eurozone countries. Indicatively, according to the ECB composite indicator of borrowing costs (Figure 2.9), the cost for non-financial corporations in August 2019 stood at 1.5% in the Euro area, 1.5% in Germany, and 2.2% in the Euro area "South" (Portugal, Italy, Cyprus, Spain). The spread of the cost of borrowing for Greek corporations in comparison with the averages for the Eurozone and the "South" remained close to 250 b.p. and 185 b.p., respectively, from its lowest level in the last eight years recorded in November 2018, at 198 and 127 b.p., respectively. Compared with their level before the crisis, the spread of the cost of borrowing to Greek corporations has remained high. To conclude, the average cost of borrowing for Greek corporations has remained notably higher than the average of the other countries in the periphery of the Euro area.

Figure 2.9

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

The cost of new borrowing for businesses in August 2019 remained 185 bps higher than the average of the Eurozone "South"



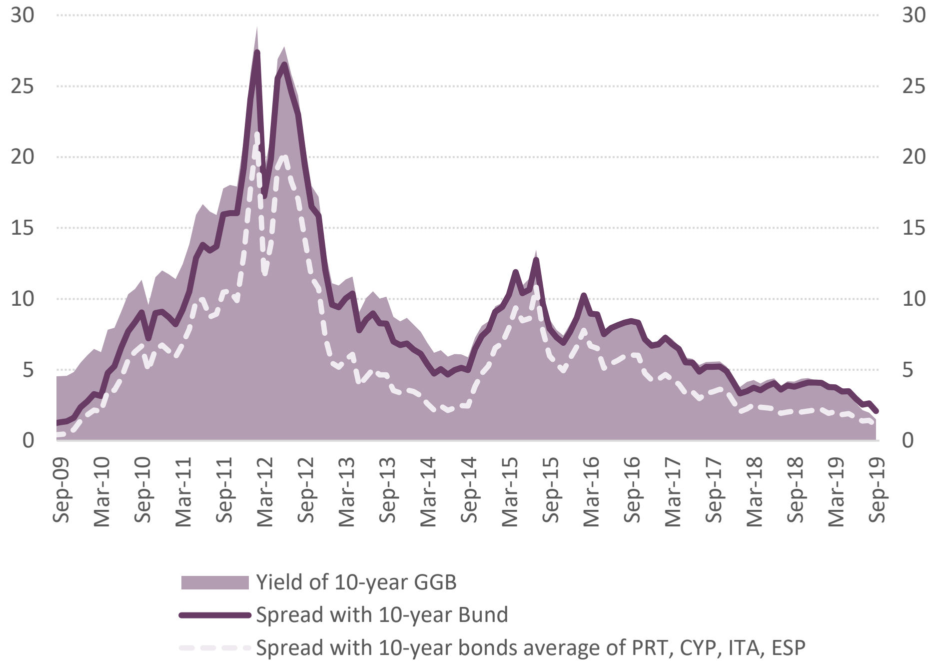
Source: ECB

During the third quarter of 2019, the sovereign bond yields continued their marked decline, as the yield of the 10-year bonds dropped to historic lows in September, at 1.5%. It is indicative that a marginally negative lending rate was also recorded in the issue of 3-month treasury bills at the beginning of October 2019. The improved global investment sentiment, the successful re-issue of a complementary part of the ten-year bond maturing in March 2029 and the improvement of the domestic economic climate, which is partly associated with reduced political uncertainty since the recent elections, contributed to a large extent to this trend. The extra cost of borrowing for the Greek State from the markets in comparison with the rest of the countries in the Euro area fell to its late-2009 levels (Figure 2.10). In particular, the spread fell to 209 basis points (bps) against the German 10-year bond (from 409 bps in late 2018) and to 106 bps against the average of the countries of the Eurozone "South" (from 220 bps in December 2018). The reduction of public lending costs, apart from a critical indication of the degree of confidence of international investors in the Greek economy, has direct benefits, both in relation to the prospects for the effective implementation of the plan for state guarantees to part of the banks' NPLs, and in terms of budgetary benefits.[18] Despite the significant decline of the lending rate, the credit rating of Greece has remained between three and four notches below the "investment grade".

Figure 2.10

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

[18] Based on data of the Public Debt Management Agency on the redemption schedule of Budgetary Central Government Debt, assuming that the Greek state was rolling the debt to the current market rate only for the maturing amounts, and without taking into account any early debt repayment, then a reduction of the yield on treasury bills by 100 basis points saves up to €1 billion cumulatively in the period 2019-2023.



The decline of the spread of the 10-year Greek bonds against the German bonds accelerated, to about 200 bps in September, its lowest level in a decade

Source: ECB

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Stronger growth rate in Greece in the second quarter of 2019, at 1.9%, from 1.1% in the previous quarter and 1.5% in the same quarter of 2018
- GDP growth of 1.5% overall in the first half of 2019, compared with 2.1% in the same period of 2018
- The acceleration in Q2 came mainly from the external sector of the economy, with the growth of exports exceeding that of imports (5.4% vs. 3.7%).
- Public consumption followed in terms of contribution to growth, under the influence of the elections (+5.3%)
- By contrast, private consumption had a negative contribution, first time since the first quarter of 2018 (-0.7%)

Recent macroeconomic developments in Greece

The growth rate of domestic output in Greece strengthened quarter on quarter in the second quarter of 2019, to 1.9% from 1.1%. It was also higher year on year (1.5% in the same quarter of 2018). However, overall in the first half of 2019, GDP grew less than a year earlier, by 1.5% instead of 2.1%. The stronger GDP growth came mostly from the external sector, with the deficit of the previous quarter turning into a surplus, due to a stronger increase in exports compared to imports. The significant expansion of public consumption came next in terms of contribution to GDP growth, for the first time in three and a half years, a development which is thought to be linked to the effects of the elections on public spending during this period (e.g. extraordinary allowance for pensioners in May). The strengthening of investment was marginal, while private consumption declined compared to a year ago, a development that had not occurred since the last quarter of 2017.

In detail as to the trends in individual components of GDP in the first half of 2019, domestic consumption slightly increased year on year, by 0.5%, albeit marginally stronger compared to the change recorded a year earlier (growth by 0.3%). The rise stemmed from the same trend in one of the two main components of consumption demand in each of the two quarters. In the first quarter, the expansion came from household consumption, while in the second, from the consumption spending in the public sector, most probably as a result of the elections, as mentioned above. Overall in the first half of this year, private consumption remained virtually unchanged from last year (-0.1%), against growth by 1.0% at the time. Public consumption in 2019 was 1.9% higher, an increase that almost offset its 2.1% reduction a year ago.

Investment strengthened by 7.6% in the first half of 2019, against a decline by 13.8% in the corresponding period of the preceding year. However, their growth weakened significantly between the first two quarters of 2019, from 14.5% to 1.1%. In addition, if the impact from accumulation of stocks on the level of investment is not taken into account, which in the first half of 2018 was negative (-€306 million) and a year later was positive (€436 million), the gross fixed capital formation is marginally higher this year than in the preceding year. In particular, it was just 0.7% higher when a year earlier it strengthened by 4.4%. Therefore, the increase in investment in the first half of 2019 was almost exclusively due to the different trend of stocks.

The trend in the majority of fixed capital categories is positive, with its strength varying considerably across these categories. The strongest increase, in relative and absolute terms, took place in investments in Transport Equipment - Weapon Systems, by 43.6% or €555 million, offsetting to some degree their contraction by 51.6% a year earlier, which was mainly the result of the sharp drop of investment in ships (-73.2% or -€1.73 billion the corresponding imports). The second largest increase, much lower than that in transport, was recorded in fixed capital formation in Housing, by 13.1% or €85 million, continuing its expansion by 8.5% in January - June 2018. A similar boost in absolute terms as Housing, albeit much lower in relative terms, was recorded in investments in Other Machinery (by 3.1% or +€80 million), when a year earlier it had reached 21.9%, a rise that was the strongest among fixed capital categories. Marginally higher than last year was the formation of fixed capital in ICT Equipment (by 1.1% or €9 million), as opposed to its increase of 21.3% a year earlier.

By contrast, the mild drop in the first quarter of 2019 in Other Construction, mostly related to public investment, intensified sharply in the next quarter, resulting in 26.9% drop in the first half of the year (-€1.12 billion), surpassing their expansion in the same period of last year by 21.6%. The decline in Agricultural Machinery and Other Products, which have little contribution to domestic investment activity, was much weaker, by 2.9% (-€1 million) and 0.6% (-€9 million) respectively.

In the external sector of the economy, the export expansion from the first quarter accelerated slightly in the second, to reach 4.8% overall in the first half. This growth rate was almost half of that recorded in the first half of 2018, when it had reached 8.9%. The increase in 2019 came by 3/4 from more exports of services, which expanded by 8.0%, from the further growth of tourist traffic and international transport, according to the revenue data from the Bank of Greece. The rise in the goods component was considerably milder, by 1.8%, coming from their increase in the second quarter alone. A year earlier, the demand for goods from abroad had strengthened by 8.9%. On the other hand, the slightly higher level of exports of goods in the first half of 2019 was their historic record high for this period of the year, while the level of service exports lagged by 10.6% from the corresponding highest value which was recorded in 2008.

In contrast to exports, the quarter-on-quarter percentage expansion in imports weakened in the second quarter of 2019. Nevertheless, it was higher than the expansion of exports, at 6.7% on average in the first six months of the year. Over the same period of 2018, imports had fallen by 2.5%, due to their decline in the first quarter. As mentioned earlier, the then retreat was due to a sharp fall in imports of ships, which led the total import of products to a 5.8% decrease. A year later, the imports of goods were up by 6.9%, driving the trend in total imports, as the absolute size of the imports of services has traditionally been much smaller. The imports of services remained on a positive trend in the first half of 2019 for the fourth year in a row. However, their pace was significantly lower than in previous years, at 4.5%, compared with 13.9% in the preceding year and 11.6% in 2017. The stronger increase in imports compared to exports led to a deterioration of the external deficit, which in national accounting terms reached €1.57 billion (69.3% growth year on year) or 1.63% of GDP.

On the supply side, the domestic gross value added increased year on year by 1.3% in the first half of this year, against growth by 1.8% in the same period of last year. Among the ten main sectors of the Greek economy, activity strengthened in four, remained unchanged year on year in one and declined in five. The strongest growth of production, in absolute and relative terms, took place in Construction, by €686 million or 35.1%, following their growth a year earlier by 6.4%. Professional – Scientific – Technical – Administrative Activities came next, with growth by 3.5% (or €135 million), albeit with at a weaker rate than a year earlier (6.8%), followed by Wholesale – Retail Trade - Transport – Storage - Hotels – Restaurants with 2.7% growth (up by €466 million), also weaker than a year earlier (3.5%). The weakest output growth was recorded in Industry, by 0.6%, where production a year ago was growing at 1.9%. The value added remained essentially unchanged from last year in the first half of this year in Real Estate Activities (0.2% growth), carrying over their trend from last year.

Among the sectors with declining activity in the first half of this year, the sharpest contraction was recorded in Financial-Insurance Activities (-10.0%), as was the case a year earlier (-9.4%). The Primary Sector and Public Administration – Defence – Compulsory Social Security, followed with considerably smaller output decline, by 2.5% and 1.3% respectively, against growth by 3.0% and 1.7% accordingly last year. The smallest decline was recorded in Information-Communication and Arts – Recreation – Entertainment, by 0.6% and 0.4% respectively, against a similar decline a year ago in the former (-0.8%) and growth by 7.1% in the latter sector, which recorded the strongest growth among the sectors of the Greek economy during that period.

The continued significant boost of the exports of services in April-June of 2019 was reflected in the employment of the sectors that provide these services. Combined with the increase in jobs in Industry and Education, this was the main cause of the new expansion of employment over this period, by 2.5% or 96,000 people. The rise in employment was once more the sole cause of the new retreat of the number of unemployed, to 16.9% (95.0% of the reduction in the number of unemployed). Overall in the first half of 2019, the unemployment rate stood at 18.1%, 2 p.p. lower year on year, with a marginally weaker decline than the average for last year (2.1 percentage points). Its fall came by 95.4% from rise in employment (by 93,100 people) and by 4.6% from labour force reduction (-4,400 people). From the trend of unemployment in the first half of 2019, the main factor that caused it (employment growth), the comparison of these developments with the corresponding period of 2018 and taking into account the milder growth this year, at present there are no indications of a noticeable negative effect on the labour market from raising the minimum wage and abolishing the sub-minimum wage in February.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change
2006	242,800	5.6%	208,007	3.6%	59,923	23.7%	50,966	5.1%	77,707	13.2%
2007	250,517	3.2%	216,981	4.3%	64,994	8.5%	56,373	10.6%	88,904	14.4%
2008	249,872	-0.3%	221,538	2.1%	59,020	-9.2%	58,486	3.7%	89,864	1.1%
2009	239,118	-4.3%	219,976	-0.7%	43,186	-26.8%	47,790	-18.3%	71,705	-20.2%
2010	226,146	-5.4%	207,102	-5.9%	38,614	-10.6%	49,959	4.5%	69,237	-3.4%
2011	205,345	-9.2%	188,127	-9.2%	30,202	-21.8%	49,998	0.1%	63,436	-8.4%
2012	190,326	-7.3%	173,953	-7.5%	22,966	-24.0%	50,577	1.2%	57,497	-9.4%
2013*	184,243	-3.2%	167,798	-3.5%	20,701	-9.9%	51,387	1.6%	55,585	-3.3%
Q1	46,308	0.6%	42,064	0.8%	4,915	-16.9%	13,296	5.6%	14,124	0.1%
Q2	46,230	0.4%	42,109	0.7%	5,441	8.9%	13,466	4.5%	14,998	8.9%
Q3	46,827	1.3%	42,292	0.6%	5,907	11.0%	14,358	9.0%	15,174	5.5%
Q4	46,302	0.8%	42,051	-0.2%	5,801	29.8%	14,232	11.7%	15,574	16.9%
2014*	185,667	0.8%	168,516	0.5%	22,065	6.6%	55,352	7.7%	59,870	7.7%
Q1	46,475	0.4%	42,333	0.6%	4,927	0.3%	15,006	12.9%	16,357	15.8%
Q2	46,508	0.6%	42,343	0.6%	4,215	-22.5%	15,021	11.6%	15,684	4.6%
Q3	45,607	-2.6%	41,636	-1.6%	4,580	-22.5%	13,191	-8.1%	13,022	-14.2%
Q4	46,170	-0.3%	42,131	0.2%	5,661	-2.4%	13,698	-3.8%	15,049	-3.4%
2015*	184,760	-0.5%	168,443	0.0%	19,383	-12.2%	56,916	2.8%	60,112	0.4%
Q1	46,177	-0.6%	41,862	-1.1%	5,236	6.3%	13,622	-9.2%	14,827	-9.4%
Q2	45,914	-1.3%	41,833	-1.2%	5,821	38.1%	13,485	-10.2%	15,383	-1.9%
Q3	46,056	1.0%	42,216	1.4%	4,818	5.2%	14,366	8.9%	14,843	14.0%
Q4	46,130	-0.1%	42,197	0.2%	4,661	-17.7%	14,344	4.7%	15,751	4.7%
2016*	184,277	-0.3%	168,107	-0.2%	20,537	5.9%	55,817	-1.9%	60,805	1.2%
Q1	46,172	0.0%	42,169	0.7%	6,790	29.7%	14,438	6.0%	17,220	16.1%
Q2	46,716	1.7%	42,410	1.4%	5,727	-1.6%	14,703	9.0%	16,275	5.8%
Q3	46,927	1.9%	42,412	0.5%	4,514	-6.3%	15,370	7.0%	15,553	4.8%
Q4	47,118	2.1%	42,298	0.2%	5,454	17.0%	15,137	5.5%	16,254	3.2%
2017*	186,932	1.4%	169,290	0.7%	22,486	9.5%	59,649	6.9%	65,302	7.4%
Q1	47,403	2.7%	42,576	1.0%	5,212	-23.2%	15,689	8.7%	15,923	-7.5%
Q2	47,400	1.5%	42,271	-0.3%	5,577	-2.6%	16,036	9.1%	16,729	2.8%
Q3	47,873	2.0%	42,400	0.0%	6,367	41.1%	16,435	6.9%	17,977	15.6%
Q4	47,837	1.5%	42,452	0.4%	5,685	4.2%	16,683	10.2%	16,606	2.2%
2018	190,513	1.9%	169,699	0.2%	22,842	1.6%	64,843	8.7%	67,235	3.0%
Q1	47,909	1.1%	42,461	-0.3%	5,968	14.5%	16,360	4.3%	17,486	9.8%
Q2	48,312	1.9%	42,769	1.2%	5,637	1.1%	16,899	5.4%	17,344	3.7%

* provisional data

Source: Quarterly National Accounts, ELSTAT, September 2019

Most of the year-on-year job creation in the first half of 2019 came primarily from Education (22,900 or 7.5% more jobs). As mentioned in the previous IOBE report on the Greek economy, the strong expansion of employment in Education since the beginning of 2019 is considered unusual for a largely non-tradable services sector, due to the high share of public sector activity in it. Tourism (20,400 or 5.9% growth) and Transport – Storage (11,100 or 6.0%) came next. Manufacturing followed with a marginally weaker employment expansion in the first half of this year (15,800 or 4.4%), a development which is consistent with the higher year on year output of the sector, as shown in the presentation of the macroeconomic forecasts. The top 5 of sectors with the largest contribution to job creation in 2009 is completed with Public Administration - Defence – Compulsory Social Security (up by 13.1 million or 3.9%). Employment declined mainly in the Primary Sector (-8,000 or -1.7%), Financial-Insurance Activities, reflecting the restructuring in the sector (-3,900 or -4.4%) and Construction (-2,800 or -1.9%), a trend which, taking into account the sharp strengthening of activity in this sector, is difficult to explain.

The decline of household consumption in the second quarter of 2019, presented above, the price of oil remaining during this period at levels slightly lower year on year and the reduction of VAT on food services, food products and energy since the end of May, led to a return of disinflationary trends from the end of the second quarter, for the first time since the first quarter of 2018. Subsequently, in April - June the average rate of change in the domestic Consumer Price Index (CPI) stood at 0.3%, from 0.7% in the previous quarter and 0.5% in the same period of the preceding year. Overall in the first half of 2019, inflation averaged 0.5%, as much as a year earlier. Prices fell in the first half of 2019 in five of the 12 main categories of goods and services that make up the CPI, mainly in Durable Goods (-1.7%), Art-Recreation-Entertainment (-1.6%) and Clothing – Footwear (-1.3%). By contrast, only Communications posted high price growth (by 4.7%), but this is also gradually easing. Alcoholic Beverages – Tobacco (1.1%), Food – Non-Alcoholic Beverages (1.0%) and Transport (1.0%) followed in terms of price growth, mainly due to inflation in the first quarter.

To sum up, the trends in the GDP components in the first half of 2019 indicate a continued reversal of the positive effect exerted by the external sector. As noted in the previous IOBE report on the Greek economy, this is not due to decline in exports, but to their lower growth compared to imports. The decline in support for the Greek economy from exports was expected, due to the end of the expansion of the ECB's quantitative easing programme, and the impact of trade protectionism measures and countermeasures. On the other hand, note the significant boost for yet another year of international demand for services, which has prevented a greater weakening of the positive contribution of exports. It seems, as reflected in the next subsection, from the latest short-term indicators on the third quarter, that the expectations at the beginning of the year for decline of receipts from international tourism are not confirmed. Together with the very good performance of international transport receipts, they sustain a large part of the growth momentum of exports from previous years.

In addition, the significant expansion of imports came mainly from considerably stronger demand for raw materials and industrial goods. Based on data of the Panhellenic Exporters Association 69.8% of the growth in the imports of goods came from these categories and as a result their share in the imports of goods increased slightly, from 58.2% to 58.7%. Therefore, stronger import demand does not imply a greater substitution of domestically produced consumer goods with imports, but concerns to the same extent as last year inputs to production and capital goods, which contribute to the upgrade of the production capacity of the Greek economy. The expected weakening of import growth in the second half, due to their strong growth in the third quarter of the preceding year, coupled with the momentum created in exports of services, is expected to reverse the negative impact of the external sector in the second half of this year.

The contribution of domestic demand (private consumption + public consumption + fixed capital formation) to growth is equally sluggish as in the previous year, in the range of 0.3-0.4%. However, in the current year a number of developments including (a) the social dividend granted at the end of 2018, (b) retroactive payment for special wage grid salaries in January, (c) the increase in the minimum wage and the abolition of the subminimum wage for people aged under 25 years (d) the payment of an extraordinary pension allowance in May and (e) the new, significant decline in unemployment, were expected to give a significant boost to household consumption demand. Perhaps, the increase in their deposits in January - June by €2.5 billion reflects their decision to increase their savings rather than consumption in light of the above developments. However, this development should be reflected in investment activity. Although bank lending to non-financial corporations increased alongside savings, there was no positive impact on investment activity. Perhaps, the elections hindered the implementation of investments, pending any business-related changes in economic policy from the formation of a new government. The end of the election period, combined with the recently announced direct tax relief measures for enterprises, favour the use of the positive conditions for making investment in the second half of the year. However, consumption demand is not expected to rekindle substantially during that period. The next subsection presents in detail the macroeconomic forecasts for the rest of 2019 and 2020.

Medium-term outlook

- Expected growth of the Greek economy by 1.5-1.7% in 2019 and by 2.3-2.5% in the following year
- Growth of consumption spending by 0.5% this year and 1.1% in 2020. Stronger growth next year from tax deductions and further unemployment decline
- Growth of public consumption by 1.4% in 2019 and small reduction in 2020, from structural changes in the budget (public expenditure - revenue review, performance budget)
- Lower than expected growth in investment activity in the current year (by 6-7%), which will strengthen next year (15%), from stronger credit expansion, low interest rates, tax deductions and investment in large concession – privatisation deals
- Export growth by 5.0-5.5%, which will carry over at the same or slightly lower rate in the following year, due to turbulence in economies with great weight in Greek exports (Turkey, Lebanon, and Egypt) and uncertainty about the effects of Brexit. Accelerating demand from the Eurozone in 2020, thanks to the new QE programme.

The expiry of the effects of the elections, the elucidation of changes in economic policy by the new government and the start of their implementation, are the major developments in the political and economic environment domestically in the current period and the following months. As is usually the case when a government changes following elections, business and household expectations were boosted post-election. The implementation of some of the pre-election commitments (reduction of ENFIA by 10% to 30%, and extension of the debt settlement scheme of up to 120 instalments to businesses, with more flexible payment conditions) has contributed to this development. The measures for 2020 included in the Draft State Budget (reduction of direct corporate and personal taxation, reduction of social security contributions of full-time employees by approximately one percentage point, suspension of VAT on new buildings for three years and property capital gains tax, etc.) highlight the continued implementation of campaign announcements, reducing the tax burden and broadly strengthening incentives for production and labour. A combination of these measures with investment incentives to enterprises would have had a greater positive impact on economic activity. Given the above, a shift of the trend in expectations to negative is not expected any time soon, yet fluctuations close to current levels cannot be ruled out.

Nevertheless, alongside the tax relief, in order to achieve the fiscal targets for yet another year, a careful restructuring of public expenditure and the implementation of effective actions for the strengthening of tax revenues are essential. Fiscal interventions aimed at streamlining and monitoring of public finances are included in the Draft State Budget, such as a review of expenditures and revenues of General Government bodies, and the transition to performance-based budget by creating a system of key performance indicators (KPIs). Regarding the interventions to fight tax evasion, while the intended increase in electronic transactions is a fairly effective instrument, in order to maximise their effectiveness, it would be better to focus the measures on sectors and activities where this phenomenon is found to be more acute. Achieving a higher level of payment with electronic means as a share of income, which can also be done with spending in sectors with low tax evasion, will not have a strong boost of tax revenues. In any case, the new changes in economic policy are under review under the Enhanced Surveillance process, as well as by regular procedures at the EU level, such as the European Semester.

To maintain and further improve expectations is also closely linked to the implementation of reforms. Regarding businesses and potential investors, the reforms should understandably concern the easing of the start-up or expansion of activity, particularly in sectors producing internationally tradable goods and services with higher potential, the simplification of transactions with the public sector, the acceleration of administering justice, etc. However, in order to achieve a good economic environment in most parts of an economy, it is also necessary to curb the pessimism of households. Therefore, relevant reforms are also needed, in areas such as health, the social security system, the transactions with the State, education, internal security, etc. As far as the implementation of the agreed reforms under the Enhanced Surveillance, although the procedures for the fourth review were completed in late September, the Report of the Commission accompanying them was not published by the time when this report on the Greek economy was written. Therefore, there is no recent information on the progress made in these matters. In all likelihood, the elections hindered their implementation. Therefore, it will probably be necessary to speed up the relevant policy measures in the coming period.

Upgrade of the credit rating, at a rapid pace, is a prerequisite for Greece's inclusion in the new quantitative easing programme by the European Central Bank, which would strengthen liquidity in the economy. As the programme does not have a predetermined duration, it is quite likely that the country will be admitted if certain developments take place. The most decisive development is the reduction of the banks' non-performing loans. To achieve it, banks are mainly proceeding with their sale to debt management companies. The European Commission's recent adoption of the Hercules plan is expected to speed up the reduction of non-performing exposures. The rise in private sector deposits (households and non-financial corporations) since the beginning of the year has strengthened. Provided that this momentum is maintained, it will contribute significantly to enhancing the liquidity of the banking system in the medium term, boosting the credit expansion to non-financial corporations which has started since January 2019.

The recent and anticipated politico-economic developments that dominate in the global environment, which will affect the Greek economy, include the aforementioned relaunch of the ECB's quantitative easing programme, which, in addition to the intended direct effects, may have indirect effects, as in the past, through the significant expansion of Greece's exports to the countries of the Euro area. A more accommodative monetary policy is followed by other central banks as well, such as the Fed. The impact of trade protectionist policies imposed by the US and China has strengthened, following the new tariffs imposed on either side at the end of August. On the subject of Brexit, uncertainty has subsided slightly after an agreement was reached on the withdrawal from the EU, but its approval by the UK parliament is pending.

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

Box 3.1

Assumptions of the central macroeconomic scenario of IOBE

- Continued fiscal adjustment, with easing of the tax burden, targeted interventions for rationalisation of the public spending and stronger tax compliance
- Stronger reform implementation
- Attainment of the targets for asset consolidation of the banking system
- Positive impact from the accommodative monetary policy by the ECB
- Mild impact from the escalating protectionist measure and the Brexit process
- Retention of the oil price at around $64 or slightly higher

In greater detail, the end of the election period in early July, four months ahead of the earlier envisaged schedule for the parliamentary elections, in conjunction with the implemented budgetary interventions following the elections and those announced for 2020 are considered to be the main reasons for the surge in household and business expectations in the third quarter of this year. The sharper decline in unemployment, the rate of which (non-seasonally adjusted) decreased by almost three percentage points between February and July, resulting in it falling to its lowest level for this period of the year since 2011 (16.7%), is also thought to have contributed to this development. In September, the European Commission's Economic Sentiment Indicator stood at its highest level since March 2008, at 107.2 points, up from 100.8 in May, prior to the municipal and regional elections. The strengthening of this index came mainly from stronger expectations of households, with the relevant index (Consumer Confidence) reaching -6.8 points in September, 21 points higher than their pre-election level, achieving their highest level in almost 19 years (since October 2000). The widespread easing of household pessimism is reflected on the business side in the significant strengthening of expectations in Retail Trade, resulting in the relative index reaching 126.5 points in September, at a level close to its all-time record (128.7 point), 23.5 points above their level from four months earlier. The Services and Industry sectors followed in terms of expectations boost, by 7.1 and 2.6 points respectively, resulting in the indicator reaching its highest level since May 2008 and October 2007 respectively. Only Construction posted a deterioration, by

3.8 points, resulting in a year-on-year decline as well. The different reaction in Construction mainly reflects ongoing pressures on their planned production, which may be partly due to their anticipatory stance until the VAT suspension arrangement on newly built properties is finalised.[19]

The expectations trend of the economic units will depend to a large extent, but not exclusively, on the post-election path of implementing the announced measures and reforms. It is quite possible that in the coming months the effects on the expectations from developments in the international environment will intensify, particularly in the South-East Mediterranean and more broadly (Turkey-Syria conflict, migration flows from the Middle East, geostrategic developments in the EEZ of Cyprus, Brexit). As mentioned above, the tax relief measures included in the 2020 State Budget Draft are part of the election announcements and are expected to strengthen the incentives for production and labour. The most significant measures include the reduction of corporate income tax from 28% to 24%, the reduction of social security contributions for full-time employees by about one percentage point and the reduction of the entry rate of personal income taxation to 9%.

In order to ensure that the new measures to combat tax evasion are effective, a part of the increase in the electronic transactions required to achieve the maximum income tax deduction for natural persons or all of it should be focus on sectors and activities where this phenomenon is acute. The importance of better targeting of this measure is reinforced by the fact that it is envisaged in the 2020 Draft Budget to bring more than 50% of the yield of interventions that counterbalance provided tax relief and social benefits (€642 million from €1.23 billion). The uncertainty as to the effectiveness of these interventions is reflected in the Euroworking Group conclusions of 26/09/2019, which refer to the existence of a preliminary "fiscal gap" of around €1 billion (0.55% of GDP). This was reassessed following the submission of the Draft State Budget to the Commission on 15/10, with the final assessment of the existence and size of any fiscal gap included in the fourth Enhanced Surveillance report, to be published towards the end of October.

Regardless of the impact on the budget balance in the coming and subsequent years of the measures contained in the 2020 Draft Budget, these measures are expected to boost the real income of households and in turn their consumption spending. However, following the effects on income in 2019 from successive one-off budgetary interventions during the year ('social dividend' at the end of the previous year, retroactive payments of special wage grid salaries, extraordinary allowance to pensioners), perhaps their strength in the new year would not be greater than in 2019. The reduction of ENFIA by 10% to 30% is a recent additional driver of income growth, while the upward adjustment of the minimum wage from 1 February by 10.9% to €650, together with the abolition of the subminimum wage for workers up to 24 years of age, also had a boosting effect.

Greater boost from the new measures is projected for the liquidity of businesses than for household disposable income. Its utilisation is another major factor in the effects of fiscal policy on GDP. For example, it is quite possible that companies will use a significant part of it to cover their obligations rather than to carry out investment projects.

The elections had a negative effect, apart from the restraint of public finances, as mentioned above, in the field of reform implementation as well. The reforms that were planned to be

[19] It is not yet determined whether the suspension will relate to the properties to be completed from now on or the already completed but unsold as well.

completed by the fourth review included the completion of the third mobility cycle in the public sector, which began in August 2018, the evaluation of the action plans to limit and eliminate State arrears, the compilation of an action plan to clear pending court cases on indebted households, and review of the criminal civil code with regard to opportunities to abuse the procedures for the protection of the primary residence. However, it is necessary to accelerate actions in many policy areas, as stated in the enhanced supervision report of the third review. It is therefore necessary to speed up the relevant policy actions.

An intensification of the actions and the achievement of results in reforms would be a major, but not the only factor in improving the credit rating of the Greek economy. In the third quarter, although the elections were concluded and the uncertainty they were causing for the economic policy to be pursued by the new government began to recede, there was no improvement in the credit rating of the Greek economy by international rating agencies. At the end of August, Moody's maintained the rating of the Hellenic Republic at B1, with a stable outlook. The stability in the outlook was justified by changes in fiscal policy, including the pre-election measures, which nevertheless were considered to be of low risk, by moderate growth prospects, but also by the need for institutional improvements in public administration. The company considered that a significant acceleration of investment was needed to improve the medium-term growth prospects, which required further reforms in the business environment, a more growth-friendly tax regime, and the maintenance of a prudent fiscal framework. Thus, the analysis of Moody's on the policies that would accelerate growth and contribute to better credit rating focuses on faster implementation of structural changes related to entrepreneurship. More broadly, the announcement of Moody's states that the Greek economy would remain in grade "B" in the coming years, in the absence of significant further strengthening of institutions and economic performance.[20]

Although there has been no improvement in the credit rating of the Greek economy since the beginning of March, the near continuous decline in yields of the Greek bonds during this period is a de facto strengthening of the credibility of the Greek economy. The recent issue of a 10-year Greek government bond on 8 October achieved an interest rate of 1.5%. The amount of funds raised was small, at €1.5 billion, but the total bids reached €5.4 billion. Since then, the yield of the Greek 10-year bond has stayed close to this interest rate, at its lowest level since at least 1993, according to data of the European Central Bank. In addition, the spread against Germany's 10-year bond has fallen to 209 basis points, a level last seen nearly 10 years ago in December 2009. Earlier in mid-July, the issue of a seven-year bond raised €2.5 billion, at an interest rate of 1.9%, while the bids exceeded €13 billion. The fall of the interest rate since December 2018 came from surpassing the 2018 fiscal targets, the early repayment of 50% of the Greek government debt to the IMF in April, the call for early parliamentary elections, and the formation of a new government, which has launched the implementation of its election announcements to limit direct taxation, particularly on the business side, facilitating entrepreneurship and investment. The Greek government's borrowing interest rates also benefited from the broader trend of interest rates in the Euro area, mainly due to the rising concern about the prospects of the UK economy following the recent political developments in the country, but also because of the upcoming Brexit, under the current conditions.

[20] The highest three sub-categories in the B category fall under the investment grade

The continued decline in the borrowing cost for the Greek state, in addition to limiting its debt servicing costs, creating "fiscal space" for the implementation of policies with various objectives (strengthening the weakest incomes, health, education, corporate tax relief, investment support), facilitates the lending of banks and large enterprises from the domestic and international capital markets, on viable terms. And on this issue, the elections and the ensuing summer season delayed decisions and actions. However, since September there has been a significant uptick in activity, which is expected to continue in the months ahead. The most recent relevant action by the banks is the issue of Tier II subordinated debt of €400 million, at an interest rate of 8.25%, by the National Bank of Greece in early July. The oversubscription of the issue by more than four times, in a very short period of time from the opening of the bids to the closing of the book, reflects the strong investor interest in Greek securities. Corresponding actions by the other banks, combined with the reduction of non-performing loans, are necessary to strengthen the supply of liquidity to the Greek economy. On the side of businesses, recently TERNA Energy issued a seven-year bond of €150 million, at an interest rate of 2.7%. In early October, WIND Hellas completed the issue of a five-year bond on the international capital markets, totalling €525 million, with a coupon rate at 4.25%. Hellenic Petroleum raised €500 million, at an interest rate of 2.125%, against a target of €400 million and an initial yield of 2.5%, with bids three times the finally raised amount. In mid-September, OTE's seven-year bond also raised €500 million, of which €100 million from Deutsche Telekom, with an interest rate of 0.875%.

In addition to the low interest rates, the fluctuation of the Athex Composite Share Price Index of the Athens Stock Exchange in the current period to levels well above those at the end of December 2018 (+43%), reflects the investor interest and favours the raising of capital with equity issues. Indicatively, the general assembly of AVAX approved in late September an equity issue totalling €20 million.

With regard to developments in the effort to reduce non-performing loans in order for the banking system to be able to proceed with raising its new lending, the major recent development is the approval of the Hercules plan by the competent authorities of the European Commission (DG Comp). According to this plan, by providing guarantees from the Greek state of up to €9 billion, the banks will be able to securitise loans of approximately €30 billion over the next 18 months, with the possibility of extending the plan for another six months. For the guarantees, the banks will pay annual commission fee to the State. Especially for the senior tranche of the non-performing loans (NPLs) in the first few years, the commission will be lower than that paid by the Italian banks under their corresponding plan, probably below 180 basis points.

On the side of the banks, the efforts to limit NPLs continue for the most part through securitisation and loan sales and to a lesser extent by liquidation and auctioning of collateral. Alpha Bank is currently implementing the sale of a portfolio with loans of small and medium-sized enterprises worth €1.8 billion, and in parallel the securitisation of mortgage loans with a nominal value of €1.9 billion. Eurobank has proceeded with securitisation of a loan portfolio through PIMCO with a nominal value of €1.98 billion. The National Bank of Greece is preparing the sale of four portfolios, totalling €1.9 billion. Of this amount, €900 million concern loans to SMEs, €400 million - business loans and retail banking loans in Cyprus, €300 million - loans to shipping companies and €200 million - loans to shipping companies. The latest data on non-performing loans for the whole banking system cover the first quarter of 2019. At the end of March, the NPLs totalled €80.0 billion

(45.2% of the total loans), only €1.8 billion lower compared to the end of 2018. The decline in the stock of NPLs came primarily from write-offs (€0.9 billion) and sell-offs (€0.8 billion).

Thus, the proceeds from liquidating loan collaterals and from online auctions were minimal. Recall that at the end of September last year, the banks submitted revised targets for the reduction of NPLs, spanning over a longer period than the original targets, until 2021 instead of 2019. According to the new targets, the NPLs should fall below 20% of the total loans. For the end of the current year, the target is set at €65.0 billion, thus the NPLs should decline in the coming three quarters by €15 billion, which is not easy to achieve. That said, as mentioned above in order to limit the abuse of deferrals of auctions, the relevant provisions in the Civil Penal Code are undergoing a review by the Greek authorities and the Hellenic Banking Association. The conditions for auctioning will therefore be revised, most probably in 2020, giving impetus to the use of this procedure. Recall that at the end of September last year, the banks submitted revised targets for the reduction of NPLs, spanning over a longer period than the original targets, until 2021 instead of 2019. According to the new targets, the NPLs should fall below 20% of the total loans. For the end of the current year, the target is set at €65.0 billion, thus the NPLs should decline in the coming three quarters by €15 billion, which is not easy to achieve.

In addition to the favourable developments on the NPL front, for their reduction and the boost of new lending with the approval of the Hercules plan, positive trends are taking place in another driver of credit supply by the banking system, private sector deposits (households and non-financial corporations, domestic and Eurozone's). They remain on a rising trajectory since March 2019, up by 5.5% or €7.5 billion over this period, to reach €137.7 billion. In absolute terms, the growth was stronger for households, by €4.6 billion or 4.2%, for which the rise had started much earlier, since the beginning of 2018, now exceeding €11.5 billion. The percentage increase in non-financial corporations is stronger in 2019, by 14.5% (+€2.9 billion), with their deposits totalling €22.9 billion, which shows the strengthening of the credibility of the banking system. However, the mild continuous growth in household deposits for 20 months, which has now covered the losses of their most recent decline between December 2014 and July 2015, is considered a more reliable indication of the escalation of confidence in the banking system.

The duration and stability of the positive trend in household deposits, coupled with the achievement of the NPL targets so far, as well as the full repayment of the funds received by the banks from the ECB's ELA mechanism, the interest rate of which was relatively high, constitute the main factors which led to the year-on-year expansion of the lending of the banking system to non-financial corporations since the start of 2019 and until the latest month with available data (August). Loans to this category of borrowers increased for the first time since the first half of 2011. During the same period, the rate of credit contraction to households and private non-profit institutions strengthened compared to the preceding months. In particular, the financing of non-financial corporations expanded year on year in January-August at an average rate of 1.6%, while credit to households continued to contract, by 2.4%. Credit growth to businesses strengthened during this period, from 0.2% at the beginning to 2.7% at the end of it. The contraction of loans to households increased from 2.2% to 2.8%, reaching its highest level since the beginning of 2017. As a result, the outstanding balance of loans to the private sector remained essentially unchanged year on year (-0.1%), for the first time since December 2010 – January 2011. Since the beginning of 2019, loans to the private sector have declined on average by 0.4%, compared with a reduction of 1.4% last year.

As long as the factors which have so far led to growth of credit to non-financial corporations and the weakening of credit contraction to the private sector overall remain, then, in conjunction with the implementation of the Hercules plan, which can contribute to the securitisation of a very large part of the loans against the NPL target by the end of 2021, these trends in funding are now considered likely to continue in the remaining months of 2019 and in 2020. Subsequently, a small credit expansion is expected across the private sector in the second half of 2019, for the first time since 2010, solely due to the increase in loans to businesses. This development in lending is expected to continue and escalate gently over 2020, with a catalytic role on the rise in investment. A box below presents an estimate of the gaps in savings and productive domestic investments since 2000 and especially in the period since the start of the recession in Greece (Box 3.1).

Box 3.1

Evolution of the gaps in savings and investment in Greece between 2000 and 2018

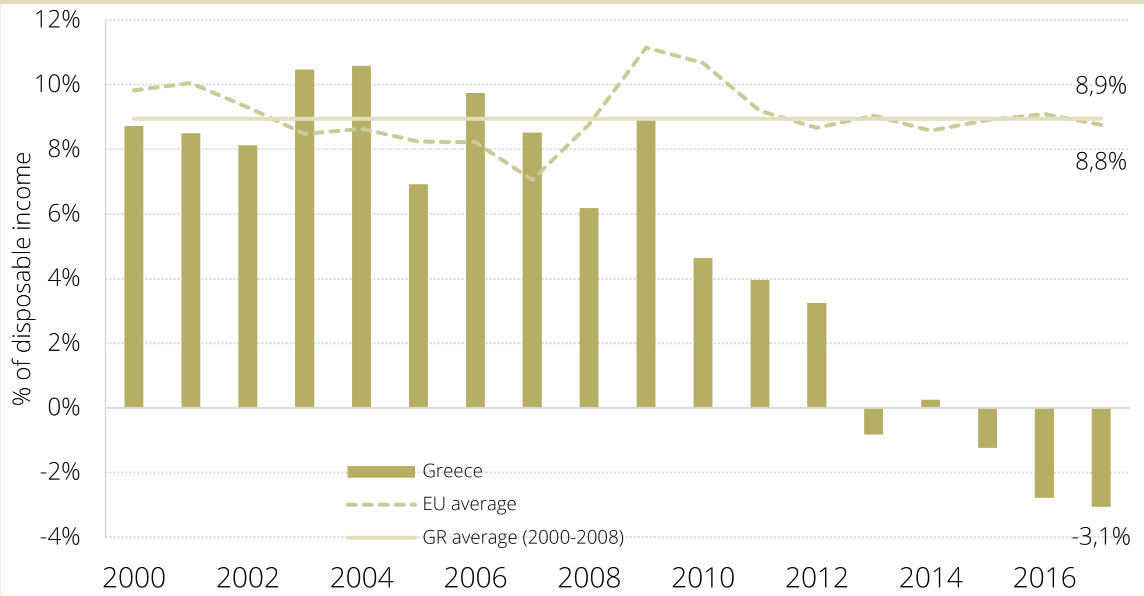
In order for the growth of the Greek economy to strengthen in the coming years, but also for its transition to a new growth model, with less dependence on domestic consumption and an emphasis on higher productivity and structural competitiveness, it is necessary to boost the formation of fixed capital. Besides, the sharp decline in fixed asset investment at constant prices between 2008 and 2013, by 64.0%, was the main cause of the strong recession over that period, with an average negative impact per year of 3.2% of GDP and an average annual contraction of GDP by 5.0%. The analysis that follows highlights the key importance of the reduction in savings in this negative development, which therefore necessitates their rapid increase for the resurgence of investment activity and the strengthening of growth.

In particular, although the domestic recession essentially ended in 2013, with GDP showing little variation between 2014 and 2017, and exceeding this level substantially for the first time in 2018, savings have remained at a very low level, systematically indicating a 'savings gap'. This is apparent both in comparison with the EU savings rate, but also with the corresponding pre-crisis average in Greece. In the period 2000-2007, savings accounted on average for 8.9% of disposable income (Figure 3.1). Note that during this period Greece was moving relatively close to the EU average, unlike in recent years, when the divergence with Europe has widened considerably. Since 2010, savings have been almost constantly on a downward trajectory, with the exception of 2014. Especially in 2013 and 2015-2017, net savings were negative. In 2017, the Greek households recorded the second worst savings performance in the EU as a percentage of disposable income, which fell to -3.1% of their disposable income (Figure 3.1). Overall in 2009 - 2017, Greek households experienced a significant shortfall in savings as a percentage of household's annual disposable income ("savings gap") compared to the EU rate at the same time, by 7.3 percentage points (pp). Cumulatively, in absolute terms, the gap reached €94 billion. Compared with the savings in Greece before the crisis, which can be seen as an indication of the savings potential domestically in the medium term, households were saving 7.0 pp less of their disposable income, with a cumulative gap of €88 billion.

As mentioned, gross fixed capital investment in Greece fell sharply after 2007, both in absolute terms and as a percentage of the declining due to the crisis GDP. In particular, investment in residential construction fell sharply, by 95.1% (cumulatively by €23 billion in 2008-2018), bringing down the total fixed asset investment. Moreover, by separating productive investment (machinery and equipment, construction of buildings and military equipment) from dwellings, Greece showed a significant divergence in investment activity from the European average, not only during but also before the financial crisis. In particular, with the exception of 2001 and 2003, the level of productive investment in Greece between 2001 and 2018 was falling short of the EU average (Figure 3.2). During this period, the formation of fixed capital except the construction of houses in Greece recorded an annual "investment gap" compared to the EU average of about 2.6 pp of GDP. This dimension entails lower annual investments except dwellings by €5.2 billion each year or cumulatively by €94 billion in 2000-2018, in the hypothetical scenario where Greece would have been at the same level as the EU average over the same period.

Figure 3.1

Household savings in Greece and EU average, as % of disposable income



Source: Eurostat

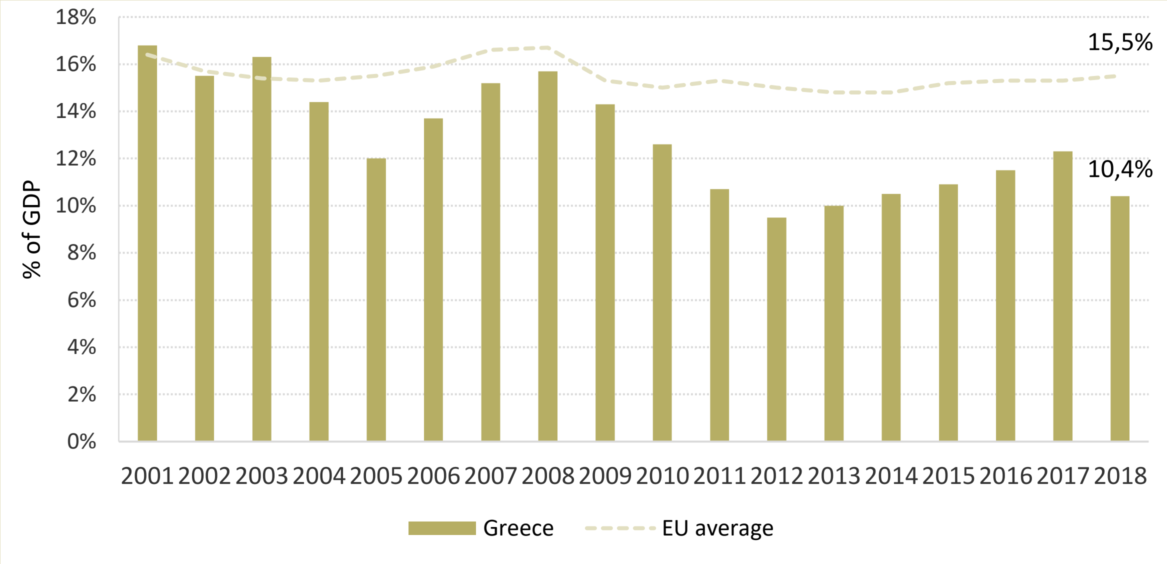
Note: The arithmetic mean of non-Greece member countries was used for the EU average. Croatia and Malta were excluded due to lack of data.

Therefore, during the crisis, both the savings and the investment gap increased significantly. As mentioned above, the savings gap vis-à-vis the EU averaged 7.3 pp of disposable income or €94 billion cumulatively, while the investment gap amounted to 3.6 pp of GDP or €75 billion in total. Therefore, although if the savings gap did not exist, it would have been utilised in uses other than productive investment, its existence is considered a major factor for the large gap in productive investment in Greece in relation to the EU in 2009-2017.

The long-standing gap, even before the outset of the domestic crisis, of Greece in relation to European performance in productive investment is due to the fact that over time the average Greek households have invested a large part of their savings in the real estate market. By contrast, investment in securities through institutional investors are very few and amongst the lowest in the EU. This is mainly because of the small reserves of the Greek pension funds, but also the small size of placements in voluntary pension - saving plans.

Figure 3.2

Gross fixed capital investment other than residential construction (Greece and EU)



Source: Eurostat

Note: The arithmetic mean of non-Greece member countries was used for the EU average. Croatia and Malta were excluded due to lack of data.

During the crisis, the investment gap was exacerbated by the weakening of savings, as previously shown, and the remaining problems of the banking system (losses from the PSI, burgeoning non-performing loans). A reform of the social security sector by boosting the 2nd and 3rd pillars the system, combined with tax incentives for domestic long-term investment, will reduce the 'investment gap', contributing to stronger growth and the pursued change in the growth model.

Slightly stronger support of liquidity and investment activity than in 2018 is expected to come from the Public Investment Programme (PIP). Its grants in January - August this year were 35.4% higher than a year earlier, at €2.0 billion. This increase was due to the low level of PIP expenditure in the first eight months of 2018, one of the lowest since at least 2000. Moreover, despite the significant increase, the PIP payments from the beginning of 2019 until August represent only 29.6% of the target for the whole year in this year's Budget, which is the same as for 2018 (€6.75 billion). However, in the 2020 Draft Budget, the spending target for 2019 has been revised down to €6.15 billion, lower even from the very low level of last year (€6.24 billion). So, while public investment is higher year on year up until August 2019, overall in 2019 it will lag slightly compared to 2018. Nevertheless, due to more frontloaded PIP implementation in 2019, its contribution to investment is thought to be slightly greater. No significant changes are expected for 2020, as the grants target has been set at €6.75 billion for yet another year (fifth in a row).

The liquidity stimulus from the payment of arrears of the Greek state is projected to be lower than in the previous year. Between January and July of 2019, no additional grants were given to public sector entities for payment of arrears including tax refunds.[21] In addition, €67.5 million that were made available to social security institutions for this purpose, were redirected to the repayment of outstanding pension applications, limiting the available resources of the social security funds. During the same period, €107.6 million were paid to beneficiaries, while the arrears increased in relation to December 2018 by €83.7 million, to €1.68 billion, exclusively from higher arrears other than outstanding tax refunds by €121 million.[22] In the corresponding period of 2018, the payments of arrears had reached €526.7 million, while their trend was strongly negative, falling by €584 million from the end of 2017, with arrears totalling €2.72 billion in July 2018. As noted in previous IOBE reports on the Greek economy, the State Budget for 2019 did not specify specific arrear targets set for this year, for example on their decrease to a certain level, nor was there a specific amount allocated for this purpose. Neither the 2020 Draft Budget, which has a section on the evolution of arrears from 2016 to the first seven months of 2019, contain any targets for 2019 and 2020. The 2020 State Budget, to be tabled in November, may have such information. With this in mind, it is anticipated that their payment in the current year will slow down compared to 2018, while it is not feasible to make forecasts for 2020 at present.

Regarding other features of the domestic investment environment that are affected by the public sector, apart from the Public Investment Programme, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity in 2019, as anticipated in previous IOBE reports on the Greek economy as well. Recall that six major tenders were concluded last year, including the sale of 5% of the common shares of OTE S.A., 66% of the shares of DESFA, 67% of the Port of Thessaloniki and 100% of ROSCO (EESSTY). In addition, the tender for the concession of 1800 MHz radio frequencies for 2018-2035 was concluded and the first payment was collected, while the 20-year concession of the Athens International Airport (AIA) was also finalised. Out of these deals, the new concession of the AIA, whose first expansion phase started last year, and the radio frequency rights, are expected to contribute to investment from this year on.

In 2019, the projection in the Budget for the revenues from the privatisation programme, excluding the concession fee for the AIA extension, which concerns a transaction completed last year, totals €1.53 billion. The fact that more than 97% of the revenue has been planned for its last quarter is probably related to sluggishness in the functioning of the State because of the elections. Yet, as this period has been reached and no significant progress has been made in several of the procedures which were intended to generate revenue in its duration (sales of the share capital of EYDAP, EYATH, Athens International Airport, Hellenic Petroleum and DEPA, Egnatia Road concession), it is now possible that the expected revenue for this year will not be raised and the lag in receipts against the target is now likely to be significant. In particular, up until September, the collected revenues include the fee for the extension of the concession of the AIA (€1.4 billion), and the fee for selling 100% of ROSCO (EESSTY-€22 million). In addition, preferred investor was selected for the 40-year concession of Alimos Marina and the Chios Marina was conceded for 40 years. In June, the call for expressions of interest for 30% of the share capital of "Athens International Airport S.A." was published. That said, no binding offers were submitted for the acquisition of 50.1% of the share capital of Hellenic Petroleum, there are still obstacles for the 35-

[21] Includes outstanding tax refunds that can be repaid, i.e. that do not present any impediment (e.g. non-response from a beneficiary or failure to provide supporting documents).
[22] Transfers / Grants - Payments of General Government Arrears, July 2019, Ministry of Finance, September 2019.

year concession of Egnatia Odos and no progress has been made on the sales planned for this year of 11% and 24% of the equity capital of EYDAP and EYATH respectively.[23] As regards the HRADF activity in 2020, the 2020 Draft Budget does not contain relevant plans, although such plans are expected to be included in the State Budget tabled in November.

As already envisaged in previous IOBE reports on the Greek economy, exports will boost economic activity for yet another year, albeit to a weaker extent than in the previous two years. Moreover, in 2019, unlike 2018, the receipts from services will grow notably stronger than the receipts from goods, with transport having an equally significant contribution to growth as tourism. As anticipated earlier this year, the implementation of trade protectionist measures by the US do not appear to have a direct impact the Greek economy, as the exports of goods to the US are expanding again, at a rate higher than the average increase in exports of goods. Naturally, there are also indirect negative effects from the deterioration in international trade conditions, through US demand for the products of Greece's trading partners in the Euro area, which as a whole is the major export destination for Greek products. However, the exports to the Euro area are also expanding significantly, by more than 7% at current prices in the first seven months of 2019. The slowdown in their growth compared to a year ago (13%), should be partly attributed to the completion of the expansion of the quantitative easing programme by the European Central Bank at the end of 2018, and to the problems facing Germany's economy from its automotive industry, not exclusively from the indirect consequences of the 'trade war'.

The observed loss of last year's strong momentum in international demand for goods appears to be mainly related to its retreat in neighbouring countries with a relatively large share in exports, mainly in Turkey, but also in the Lebanon and Egypt. Therefore, the prolonged crisis in the Turkish economy has an impact on the Greek economy as well, which is likely to escalate from the recent tension on the border with Syria and the corresponding sanctions by the US and possibly soon by other countries. The restart of the ECB's quantitative easing programme is expected to counteract these pressures.

According to the latest forecasts, the growth of world trade this year will weaken to 1.1% in real terms, from 3.6% last year, while for next year, it is projected to bounce back to 3.2%.[24] The data available on global trade for May-July this year point to a contraction of its volume by 1.1% year on year, against no change in the first four months of the year and expansion by 4.8% in the corresponding period of last year. Their retreat was the strongest in this quarter since 2010.[25]

Regarding the trends in international trade flows of Greek goods and services, the latest data from the Bank of Greece and ELSTAT, covering the first eight months of 2019, indicate a shift in the trend in the export of goods from mildly positive to negative and a slowdown in the exports of services. In greater detail, the exports of goods, in current prices, declined year-on-year in May-August this year, by 1.4%, against growth by 3.8% in the first four months of 2019 and 22.0% in the second four months of 2018. The contraction of exports came mostly from a decline in the exports of fuels by 7.5% or €306.1 million, against growth by 44.1% or €1.25 billion a year earlier and no change in the first four months of the current year. Ship exports declined sharply, however their absolute volume

[23] "Enhanced Surveillance Report, Greece, June 2019", Institutional Paper 103, European Commission
[24] Economic Outlook 105, OECD, May 2019
[25] CPB Netherlands World Trade Monitor

is much smaller than that of fuel, so in absolute terms the retreat totalled €67.0 million. Their fall exceeded their last year growth by 133% and was much stronger than the decline in the four months of January - April this year by 8.3%. Of the main components of exports of goods, the exports of goods except fuels and ships moved up, by 2.9% or €215 million, yet they had strengthened by 5.7% in the first four months and by 11.7% a year earlier. As the imports of goods expanded by 2.2%, albeit much weaker than a year earlier (by 17.7%), the decline of exports led to expansion of the trade deficit by 7.4%, to €7.36 billion, from €6.86 billion. Overall since the beginning of the year, the deficit expanded by more than €1.05 billion (+7.7%).

Regarding the trade flows in services, the latest data referring to May – July 2019, indicate that the growth of receipts slowed down (growth by 6.8% or €842.8 million), compared to both the first four months (11.1%) and the same period of the previous year (13.7%). For another year, the growth of exports came mostly from international tourism, which expanded by 11.0% or €768.4 million, less than in the preceding four months (22.8%) and the same period of 2018 (15.5%). International transport services came next in growth rate terms, expanding by 3.8% (€161.0 million), against 9.8% at the start of the year and 17.2% last year. The trend in the provision of other services abroad shifted, from positive in January-April (7.1% growth), to negative in the following three-month period (-7.5%), as in the same period a year earlier (-5.5%). The domestic demand for services from abroad expanded by 4.9%, or €219.2 million, at the same rate as in the preceding four months, yet rather weaker than a year earlier (14.4%). The increased demand mainly concerned tourism services (up by 23.3% or €126.4 million) and transport services (3.8% or €104.4 million). As the exports of services increased stronger than imports, the surplus of the services account strengthened by 7.8% or €623.5 million. Overall since the beginning of the year, the surplus in international flows of services is up by €1.12 billion (+11.6%).

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of oil (Brent) stood in the third quarter of 2019 at $61.9/barrel, down 17.5% compared to the same quarter of the preceding year ($75.1/barrel). Therefore, despite OPEC extending the oil production restrictions until March 2020, the geopolitical strains in the Middle East, ongoing tension in the US-Iran relations and sanctions in Venezuela, the price of oil remained at levels well below those recorded a year earlier. The increase in production in the US, with oil-producing companies in the Gulf of Mexico having increased their production in 2019 by 2 million barrels per day, counteracted the reduction of production elsewhere. These companies will keep their production at these levels, even if oil prices remain low. Therefore, they will probably thwart a significant price rise in 2020. That said, the sharp fall recorded a year earlier will ease the year-on-year reduction of oil prices in December.

The year-on-year significant slowdown in global economic growth in 2019 is also pushing oil prices down. According to the latest projections of international organisations, the growth rate of global GDP will fall to 3.0% in 2019, compared with an initial forecast at the end of 2018 of 3.4%, a performance which is the lowest since the global financial crisis of 2008-2009. The effects of the slowdown are particularly noticeable in global trade, with its growth rate limited this year to 1.1%, from 3.6%. At present, global growth is forecast to scale up to 3.4% in 2020, with a significant revival of world trade (by 3.2%). The acceleration next year is not expected to come from the most developed economies, but from the recovery or the easing of recession in major emerging and developing economies in Latin America, the Middle East, Central Asia and Russia. In this global environment, the oil price for 2019 overall is expected to decline by about $8.3 or 11.5% from last year, at $63.0/barrel, while for 2020 it is expected to recover gently, by about $5.0, or 8.0%, to €68.0/barrel.

The lower year on year exchange rate of the euro against the dollar has eased the disinflationary or mildly inflationary effect of the lower oil price up thus far in the Eurozone countries. The year-on-year change eased between July and October, not because of the appreciation of the euro, the exchange rate of which marginally decreased during this period, but because a year ago the exchange rate had fallen. As a result, the year-on-year change eased to 4.4% during this period, from about 7.5% in the first half. Currently, the exchange rate stands at its lowest level since May 2017, at around 1.10. The exchange rate depreciation throughout 2019 is considered to reflect the pressures facing the Eurozone economy this year, such as the difficulties of the German car industry in adapting to emissions standards and to the decline in demand from China, from the less expansionary credit policy and the trade protectionist measures. The interest rate differential against the US is also a key driver, following the eight successive interest rate increases by the Fed between December 2016 and December 2018. The interest rate dimension has been tempered by the two recent reductions by the Fed, to 2.25% in July and 2.0% in September. Meanwhile, the ECB announced in September that it would keep its base interest rates unchanged at its current level (0.25%) since March 2016 until it was evident that inflation was definitely converging to a level close to, but lower than, 2.0%.

Aside from the above developments, the Euro area has to deal with a number of other major current and upcoming challenges, such as the exit of the UK from the EU, the management of refugee flows, especially following the military conflict at the Turkey-Syria border, the deleveraging of the banking system in certain countries etc. In its external environment, the impact of trade protectionism is intensifying: in mid-August China imposed tariffs on imports from the US, the value of which is estimated at $75 billion annually, following an announcement by the US of the imposition of tariffs on imports of Chinese products totalling $300 billion in two phases. The first phase began on 1 September, concerning imports of $125 billion per year, while the second is scheduled for 15 December 2019. Negotiations have been underway since 19 September between the two countries on their bilateral trade. The escalating trade war is hurting demand for Eurozone exports from China. However, the US economy has also begun to show signs of "fatigue", as its growth rate slowed further in the second quarter, to 2.3%, from 2.7% in the previous quarter and 3.1% in the final quarter of 2018. Taking into account these effects, it is quite probable that the euro-dollar exchange rate will fluctuate in late 2019 and early 2020 close to its current level, slightly lower year on year. Therefore, it will cushion somewhat the decline of energy cost coming from the fall in oil prices, yet it will boost the competitiveness of those Eurozone goods and services for which there are no restrictions in the US.

As to the latest developments in domestic economic activity and in short-term economic indicators, the available data, covering the first two months of the third quarter or just July, point to mixed trends, as in some sectors the recovery is accelerating, in others it has slowed down, while in some the trend has turned negative. In greater detail, according to the latest data, the trend in industrial production shifted in May-August to slightly negative (-0.5%), from positive in the preceding four months (1.9%) and in the same period of 2018 (1.5%). The trend shift came from a similar development in Electricity supply, from 2.3% growth in the first four months to a decline by 4.1% in the subsequent period. The strongest output contraction occurred in Mining (-12.6%), albeit weaker than earlier in the year (-14.6%). As production growth in Manufacturing slowed, from 2.4% to 0.9%, it was not possible to prevent a fall in Industry as a whole. Developments were positive only in Water Supply, which expanded by of 1.7% in May - August, compared with a fall of 0.7% previously. In construction activity, the negative trend in the first quarter gave way to growth in the next. The new constructions increased year on year in the second quarter (10.6% growth in the number of permits), expanding in terms of surface area (by 13.8%) and volume (by 9.4%). At the beginning of the third quarter, in July, the rise in construction works strengthened, with double-digit growth in all components (18.5%, 34.7% and 26.3%). Contrary to what was expected up until the first two months of this year, activity in tourism continued to expand for yet another year. As mentioned above, the steady increase in the exports of services in May-July mainly comes, for yet another year, from higher tourist receipts, by 11.0%. The available data so far on international arrivals at the main airports for the summer quarter are also encouraging, as there is still growth in July –August, by 2.9% or 215.1 million, albeit milder than in the first half of the year (about 6.0%). Over the same period, international road increases increased, for the first time this year, by 6.2% or 267.9 million.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted index of volume in retail trade continued to decline in May-July, on average by 1.1%, slightly stronger than in the first four months of the year (0.9%), despite the disbursement of ad-hoc pension benefits totalling €970 million and the cuts in VAT on food. That said, the reduction in VAT is reflected in the fall in prices in Food - Non-alcoholic beverages in July - September by 1.8%, which is marginally the second largest among the categories of products and services that comprise the domestic Consumer Price Index. The impact of the VAT reduction becomes more noticeable when we take into account that the second biggest price rise in the first four months this year occurred in this product category, before the VAT changes. The change in the price trend in Housing from positive to mildly negative was also driven by the same factor (-0.3% in the third quarter, from 1.3% in the first four months of the year). The biggest price decline in the third quarter was recorded in Durable goods, household appliances and services, by 2.0% and the third largest in Recreation – cultural activities (-1.7%). In the third quarter, the rate of change of CPI was marginally negative (-0.1%), for the first time since the first quarter of last year, while it was positive in the preceding quarter of 2019 (0.6%). The biggest price increase in the recent period was recorded in Communications (by 3.0%), Health services (2.0%) and Transport (1.7%), mainly from the rise in air travel prices.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to changes in direct corporate and personal taxation and other measures in the 2020 Draft Budget, the May fiscal interventions, the negative trend in the yields of Greek bonds in the capital markets, the risks from the volatile global environment, but also the ECB's recent decision to restart the QE programme) for the forecast of the GDP components and other macroeconomic indicators, household consumer spending is not expected to strengthen significantly in the second half of 2019. After all, in the first half of 2019, despite the disbursement of a "social dividend" at the end of December, with a positive impact in early 2019, retroactive payments of special wage grid categories in January, higher minimum wage by 10% since February and the granting of an extraordinary pension allowance in May, private consumption was virtually unchanged from a year earlier. Perhaps, despite these favourable developments in their income, households may have been wary at that time about consumption in the run-up to the parliamentary elections and any adverse changes in economic policy by the government which would arise from them. This attitude towards this particular event is reflected by the increase in their savings in that period of time. The strengthening of the Consumer Confidence Index, which had started mildly since March and escalated sharply in July - September, following the conclusion of the elections, pushing the index to its highest level in 19 years, also shows the uncertainty that the elections had caused.

That said, the short-term activity indicators that are closely related to households, such as the volume index in retail trade, do not yet point to a change in their behaviour immediately after the July elections. However, it is possible that such a change will start to manifest itself later in 2019. The continued implementation of the pre-election announcements, with the measures contained in the recent Draft State Budget for 2020 concerning the households (reduction of the income tax entry rate and social security contributions) is more likely to further boost their expectations, contributing to a change in their consumption propensity compared to the first half of 2019. Understandably, the impact of these measures will be fully manifested over the next year. The strengthening of private consumption spending in 2020 will benefit, as in 2019, from further decline in unemployment. The expansion of employment is expected to come again mainly from sectors of internationally tradable goods and services, such as Tourism, Transport and certain branches of Manufacturing. However, for yet another year, a boost of consumer spending from bank financing is not foreseen, as the credit expansion will most probably be channelled entirely to businesses. Taking into account the fact that consumption demand in the private sector did not grow in January - June, despite transfer and retroactive payments, it is envisaged that its increase in 2019 will be well below the rate expected in previous IOBE reports, in the range of 0.5%. In 2020, its growth will strengthen slightly, to about 1.0%.

In the other component of domestic consumption, carried out by the public sector, the sharp, strong growth in the April-June quarter, under the influence of the elections, as foreseen in the previous IOBE report on the Greek economy, will not carry over to the subsequent quarters. Public consumption will probably return in the second half of 2019 to its trend recorded before the elections. The high level recorded in the last quarter of 2018, which was well above that in preceding quarters, is expected to cause a negative base effect a year later, contributing to this development. The hiring of 3,015 teachers and specialists for the disabled from October, which was envisaged in the 2019 Budget, will impede a stronger decline in public consumption spending over the same period. In 2020, some structural changes will hinder the expansion of public consumption. In particular, the envisaged in the 2020 Draft Budget review of public expenditure and revenue, which will lead to the adjustment of the expenditure "ceilings", is expected to bring about savings of €500 million. As mentioned above, achieving this performance will depend on the readiness of the relevant services within the public administration from relatively early in 2020. By contrast, the increase in employer contributions in the public sector, mainly due to the increase in the rate of employers' contributions in favour of the EFKA fund from 10% in 2019 to 13.33% in 2020, will increase public consumption by €327 million. Moreover, the election-related spending in 2019 will not be repeated in 2020. Under the above effects, the rise in public consumption in 2019 will reach 1.3%, while in 2020 it is expected to weaken slightly.

Regarding investment, as noted in previous IOBE reports on the Greek economy, the conclusion of the election ballots earlier than expected prior to the European elections implies a quicker easing of uncertainty for a part of the businesses that gave increased weight to the politico-economic developments resulting from the elections, affecting accordingly their expectations in the second half of this year. The measures already taken by the new government, without taking into account here their budgetary effects (extension of the 120 instalments scheme to enterprises), but mainly the budgetary interventions for 2020 in the Draft Budget that relate to the enterprises (reduction of the corporate income tax rate by four percentage points for the fiscal year 2019, reduction in employer contributions) support these trends. In general, the measures provide capital support for entrepreneurship, with those relating to direct taxation also enhancing the sustainability of investment projects.

As far as the measure for the suspension of VAT on new buildings for three years is concerned, it will have a stimulating effect on the activity of the Construction sector for this specific time period. Its impact will depend on whether the measure will concern properties that will be built or completed from 2020 or if it will also concern already constructed, but unsold properties, which has not yet been finalised. In the first case, there is a greater incentive for construction growth, yet the tax relief is weaker. Also, different categories of real estate would be created, depending on whether they are subject to the VAT reduction or not. Until the parameters of the VAT suspension are clarified, most likely in the 2020 Budget, many of the building companies will remain on standby, so there will be a period of relative inactivity. Since 2019, the reduction of ENFIA by 10% to 30% stimulates building activity. However, the biggest boost to Construction next year will come from projects in concessions and privatisations, such as those in the Hellinikon area, the Piraeus Port Authority, the expansion of Athens International Airport, regional airports, etc. Having said that, HRADF's low results this year will stem this momentum, at least temporarily, in the coming years.

The developments mentioned above in the management of NPLs and interest rates are considered equally important as the tax relief from the new budgetary measures, and may have a stronger positive impact. As shown earlier, following the easing of uncertainty since the election, some very large companies, instead of borrowing from banks, took advantage of the current, very good conditions for raising funds from the capital markets. This practice will probably escalate in the remaining months of 2019 and into 2020. For companies that do not have access to these markets, the apparent acceleration of credit expansion by the banking system, following the continued achievement of the targets for the reduction of NPLs, which is estimated to accelerate with the Hercules plan, as well as thanks to the further albeit mild return of deposits, will be the main supporting factor in the implementation of investments in the rest of this year and even more so in 2020.

Export growth for yet another year in 2019 and their estimated further strengthening in 2020 will continue to support investment projects in the most export-oriented sectors or those with rapidly rising exports. At the branch level, investment interest is concentrated mainly in Tourism (including renting through Airbnb), Manufacturing, Transport and Storage. As repeatedly noted already, many investment plans will involve the acquisition of machinery and equipment, information and communications technologies, and means of transport, covered to a large extent by imports.

As to actions of the public sector that contribute to investment, apart from the HRADF activity that was assessed above, a small boost is also expected to come from the Public Investment Programme, mainly because of its more frontloaded implementation this year compared to last year. The volume of grants through the PIP in 2019 will most probably be slightly lower than in 2018 (€6.24 billion). Given that its budget is unchanged at €6.75 billion for the fifth consecutive year, its impact on investment is not anticipated to strengthen substantially.

Taking into account the marginal increase in fixed capital formation in the first half of this year, the negative effects of the elections on investment, which extends at least until the start of the economic policy exercise by the new government and the observed and expected trends in its drivers, investment activity will most likely strengthen, less than anticipated in previous IOBE reports, with a growth rate of about 6-7%. Investment will escalate sharply in 2020, with a double-digit expansion, in the region of 15%.

In the external sector of the Greek economy, as shown above, the trend in exports of goods at current prices has turned negative in May - August (-1.4%), while the expansion of the exports of services has slowed, albeit remaining strong (6.8%). Developments in the exports of goods mainly concern specific countries, rather than regional trends. In particular, since the beginning of 2019, the exports to Turkey fell by €351.6 million or 22.5%, due to the problems facing its economy that have caused a recession from the last quarter of 2018 to at least the second quarter of 2019. As a result, Turkey retreated from second to fourth place among the major export destinations of Greece in 2019. Lebanon (-€214.3 m), Singapore (-€195.9 m) and Egypt (-€154.7 million) came next in terms of export contraction volume. The export contraction from these countries far exceeds the total decline in the recent four months (-€157.8 million). Following the military tensions on the Turkish-Syrian border and the imposition of sanctions by the US, which may be followed by other countries and unions of states, the pressure on the Turkish economy will intensify. The expansion of exports to the Euro area in 2019, the major region for Greek exports, although strong for another year (by 7.6%), clearly falls short of the previous year's expansion (14.0%) and is not sufficient to cover these losses alone.

As noted in previous IOBE bulletins on the Greek economy, the weakening of the growth of exports from the Euro area is due to a slowdown in GDP growth, with its pace in the second quarter of 2019 remaining unchanged quarter on quarter at 1.2%, compared with 2.3% a year earlier. The growth slowdown stems mainly from the conclusion of the expansion of the accommodative monetary policy by the ECB, the problems in the German economy from adjustment issues in its automotive industry and the decline of export demand from China due to the effects of the trade protectionism policies on its economy. Most of these adverse effects will carry over into the rest of 2019 and at least into the first half of 2020. The exception here is the renewed expansion of quantitative easing, which the ECB announced in mid-September to start from 1 November, resuming asset purchases at a slower pace than at the start of the programme's implementation (€20 billion per month). It remains difficult to assess the effects of the upcoming Brexit, regardless of whether it would be hard or soft. Mainly under these effects, the latest reports by international organisations project that the Eurozone economy will grow by 1.2% in 2019 and 1.4% in the following year, from 1.9% in 2018 and 2.4% in 2017, a slowdown that will soften its import demand. For this reason, a slight acceleration of Greek exports to the Euro area is now likely in 2020. As for the immediate effects of US trade protectionist measures on Greece's exports of goods, at present there is no strong negative impact, as they kept growing in the first eight months of 2019 at a rate of 6.1%, but clearly less than a year earlier (14.0%).

On the side of services, the steady growth in international arrivals during the first two months of the third quarter, as well as a significant increase in receipts from international tourism in the most recent quarter for which data are available (May – July), augur the expansion of tourist revenues for yet another summer. Overall in the first seven months of 2019, international travel receipts expanded at a rate slightly lower than in the previous year, by 12.4% against 14.5%, which marks a significant strengthening of activity in Tourism for yet another year, despite pressures from competing destinations such as Turkey and Egypt. However, the recent bankruptcy of Thomas Cook will to some extent slow this momentum. As most of the tourist season had passed, no strong impacts are expected, but for the time being it is difficult to make a precise assessment. It is still too early to make forecasts for the trend in 2020. If the duration and extent of the conflict on the Turkish-Syrian border is significant, tourist traffic in the neighbouring country will be adversely affected in 2020. The expansion of receipts from the provision of services internationally is supported by the provision of international transport services, the revenues of which increased by 6.9% in the first seven months of 2019. The sale of 67% of the Port of Thessaloniki and the expansion of Cosco's activity in Piraeus can contribute to their growth in the years to come. In view of the above trends and developments, the average growth of exports of products and services in 2019 is estimated to be in the range of 5.0% - 5.5%. In the following year, their rise will be equally strong, or perhaps slightly lower, with Brexit and developments in Turkey as the major risk factors.

Table 3.2

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

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

*Source: European Economic Forecast, summer 2019, European Commission, July 2019

The slight rise in domestic consumer spending, coupled with the lower-than-expected growth of investment activity earlier in 2019, slow the momentum of the demand for goods from abroad. That said, their growth is supported by the stronger export performance, as the import content of exports is high. The sharp increase in imports of goods in the third quarter of 2018, when they had expanded by 15.5% is a technical factor that will likely halt the rise in total imports in the same period of 2019. By contrast, the demand for services from abroad strengthened more than initially expected, a development which is almost exclusively due to tourist services, with the expansion of the relevant payments in January - July reaching the 25.3%. This trend is estimated to have strengthened further in the remaining months of the third quarter, at least.

Regarding the projected import dynamics in 2020, much stronger investment, as well as greater private consumption, will boost the demand for imports of goods. However, as a large part of investment growth will concern construction, which is carried out mainly with domestically produced materials, the growth of import demand due to increased investment is expected to be weaker than the growth of investment. Demand for travel services from abroad will grow further. As a result of the above particular trends, imports will grow in the current year by 3.5-4.0%, accelerating to 6.0-6.5% in 2020.

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2019 – 2020 (at constant market prices, annual % changes)

	MinFin		EU		IOBE		IMF		OECD	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
GDP	2.0	2.8	2.1*	2.2*	1.8	2.3-2.5	2.0	2.2	2.1	2.0
Private Consumption	0.6	1.8	1.3	1.2	0.5	1.0	1.0**	1.2**	1.0	1.5
Public Consumption	1.6	0.6	3.1	0.4	1.3	-0.5	0.3**	0.5**	2.3	1.2
Gross Fixed Capital Formation	8.8	13.4	10.1	10.8	3.5	18.0	4.0**	10.7**	1.2	8.4
Exports	4.9	5.1	4.7	4.2	5.3	4.7	8.1**	5.7**	5.3	3.1
Imports	4.1	5.2	5.7	4.1	3.8	6.2	5.2**	5.2**	2.8	3.8
Harmonised Index of Consumer Prices (%)	0.6	0.7	0.8*	0.8*	0.2	0.6	0.6	0.9	0.8	1.3
Unemployment (% of labour force)	17.4	15.6	18.2	16.8	17.3	15.5	17.8	16.8	18.1	17.3
General Government Balance (% GDP)	1.3	0.8	0.5	-0.1	:	:	-0.3	-1.0	0.1	0.3
Current Account Balance (% GDP)	:	:	-1.0	-0.8	:	:	-3.0	-3.3	-1.3	-1.2

* Source: European Economic Forecast, summer 2019, European Commission, July 2019

** Source: First Post – Program Monitoring Discussions, IMF, March 2019

Sources: Explanatory Report of the State Budget 2020, Ministry of Finance, October 2019 – European Economic Forecast, spring 2019, European Commission, May 2019 - The Greek Economy 03/19, IOBE, October 2019 – World Economic Outlook, IMF, October 2019 – Fiscal Monitor, IMF, October 2019 - Economic Outlook 105, OECD, May 2019

Summing up the forecasts for the trends in the key components of GDP for 2019, despite the higher ad-hoc social transfers in the first, the increase of the minimum wage and the unemployment reduction, household consumption was unchanged from last year, and no significant strengthening is expected in the current six months. That said, households may have been cautious in the run-up to the parliamentary elections, as highlighted by the widespread strengthening of the Consumer Confidence Index following their conclusion, in July-September, and their consumer behaviour may change progressively in the second half of the year. The tax breaks in the 2020 Draft Budget will further improve their expectations and boost their real income in the coming year. The strengthening of private consumption spending in 2020 will benefit from a further decline in unemployment.

On the other side of domestic consumption, public sector consumption spending will likely return in the second half of 2020 close to its mildly positive trend from before the elections. In 2020, some structural changes will slow the momentum of public spending, such as the public expenditure and revenue review, and the introduction of a performance-based budget, with key performance indicators (KPIs). By contrast, the increase in the public sector's employer contributions will widen public consumption.

In the field of investment, the measures already taken post-election, and in particular the budgetary interventions for 2020 in the Draft Budget that concern enterprises, further ease the uncertainty that was created by the elections, encouraging the take-up of investment risks. The measures constitute capital support for entrepreneurship, with those relating to direct taxation enhancing the viability of investment plans. The impact on construction activity from suspending VAT on new construction will depend on the scope of the measure. The strongest boost to Construction next year will come from projects in concessions and privatisations.

Developments in the management of NPLs and interest rates are considered equally important as the tax relief from the new budgetary measures. Already some very large companies took advantage of the very good conditions of raising funds from the capital markets, which other companies are expected to do as well in the coming months and especially in 2020. For companies without access to these markets, the apparent acceleration of credit expansion by the banking system will be the main driver in the implementation of investments. Export growth for yet another year in 2019 and their estimated further strengthening in the following year will continue to support investment by companies in the sectors with the strongest or rapidly rising export orientation.

In the external sector of the Greek economy, the positive trend in exports of goods will weaken in the second half of 2019, from the widespread decline in exports to specific countries (Turkey, Lebanon, and Singapore) and as growth in the main export destination, the Euro area, is not expected to strengthen. Following the start of a conflict on the Turkish-Syrian border and the imposition of sanctions by the US, and possibly other countries and unions of states, the pressure on the Turkish economy will intensify. The 2019 growth slowdown in the Euro area will ease slightly in 2020, with the help of more supportive monetary policy, following the restart of the quantitative easing programme. At present, there is no strong direct negative impact of the US trade protectionist measures, with exports to this destination growing slower in 2019. On the side of services, the data available so far for the third quarter signal a significant increase in activity in Tourism for yet another year. However, the bankruptcy of Thomas Cook will slow this momentum, yet to what extent this will happen is difficult to assess at the moment. It is still premature to make predictions about the trend in tourism in 2020. The growing international transport through Greece, which presents strong prospects in the coming years with the sale of the Thessaloniki Port Authority and the expansion of Cosco's activity in Piraeus, is also contributing to the expansion of the exports of services.

Due to the slight rise in domestic consumption spending, coupled with the lower-than-expected earlier in 2019 expansion of investment activity, the increase in demand for products from abroad will be weaker than originally predicted. By contrast, the demand for services from abroad expanded more than initially expected, almost exclusively due to tourist services. The much higher investment and greater private consumption will boost the demand for imports of goods in 2020. The demand for travel services from abroad will be on the rise again.

Taking into account the current and expected developments in the current and the following year that affect the trends in the GDP components, output is projected to grow by about 1.8% in 2019, accelerating to about 2.3-2.5% in the following year. Note that the GDP forecasts for 2019 and 2020 are based on provisional 2018 GDP estimates of March 2019, as its second estimate scheduled for 16 October was postponed. The postponement is due to data revisions, which this time include the incorporation of administrative economic data coming from the tax authorities. Therefore, any significant changes in GDP in 2018 and its components from the current review may affect the forecasts in subsequent IOBE reports for 2019 and 2020, in a way that cannot be predicted.

The steady growth in the exports of goods and services in the second half of 2019 and in 2020 will continue to be the major driver of unemployment reduction, through the increase in employment in the most export-oriented sectors, such as Tourism, Transport – Storage and Manufacturing. The strong expansion of employment in Education in the first half of 2019 will carry over stronger into the rest of the year, following the intake of 3,000 special needs teachers in secondary education for the school year 2019-2020. As in the past, the public sector will boost seasonal employment through social employment programmes, as a new eight-month programme is expected to be announced in November, with 35,000 beneficiaries. More broadly, the projected significant growth of investment activity, for the reasons mentioned above (tax relief, stronger credit expansion to enterprises, borrowing from capital markets on viable terms, projects in large concessions and privatisations) will have a positive impact on job creation, among other sectors in that of Construction. The increase in the minimum wage in February and the abolition of the minimum wage for workers up to 25 years of age may hamper further unemployment decline. The lowering of the social security contributions by 0.5% from 01/06/2019 and the planned in the 2020 Draft Budget further reduction by one percentage point will mainly boost labour supply. Taking into account the above factors affecting employment, the decline in unemployment in 2019 will be stronger than initially expected, by two percentage points, at 17.3%, continuing with a similar intensity in 2020 (15.5%).

Concluding with the consumer price forecasts, given the negative effects of indirect taxation following the reduction of VAT on food and electricity – natural gas and the steadily neutral impact of energy prices, inflationary pressures in the third quarter and the rest of 2019 are expected to come only from stronger domestic demand. However, the effects of indirect taxation and domestic demand on prices have almost offset each other since June. In the final quarter of 2019, domestic demand will receive a slight stimulus by recent fiscal measures, notably the reduction of ENFIA. The restrictive pressures on consumer prices will intensify temporarily in October from their relatively high level a year earlier due to the then rise in the price of petroleum.

No change in indirect consumption taxes is planned for 2020, according to the 2020 Draft Budget, but the deflationary effect from the 2019 VAT reductions will continue, albeit weakening, until May. However, the new measures concerning households (reduction of the entry tax rate from 22% to 9%, reduction of social security contributions) will to some extent boost real incomes and thus consumption demand. The decline in unemployment will continue to provide a stimulus to this. However, the positive impact of some extraordinary transfer payments and developments in 2019, such as the pension allowance given in May, the retroactive payment of special wage grid salaries and the increase in the minimum wage, are not expected to carry over into 2020. For this reason, while demand is predicted to create inflationary pressures in 2020, their intensity will be weaker than in 2019. Regarding the impact of energy prices, stronger global growth in 2020, at 3.4%, with a significant revival of world trade (by 3.2%), will boost petroleum demand as well. Its impact on prices will be tempered by the adjustment of global oil production, mainly in the US. Taking into account all the above data and trends, the rise of the domestic Consumer Price Index in 2019 is estimated to be marginal, lower than last year, at 0.1% - 0.3%. Inflation will accelerate slightly in 2020, to 0.3% - 0.6%.

3.2 Developments and Prospects in Key Areas of the Economy

- Higher industrial production in the first eight months of the year (by 0.78%, against 1.1% growth last year). However, production declined in August. Significant decline in European industry, mainly from contraction in German industry.
- Contraction of activity in Construction by 12.1%, against a milder reduction by 2.8%
- Decline in the volume of Retail Trade as well in the first seven months of 2019 (-1.0%, against growth by 1.7%)
- Turnover contraction in the first half of 2019 in nine of the thirteen sub-sectors of services

Industry

Despite the decline of the industrial production Index this August, by 0.3%, overall in the first eight months of this year, industrial production increased by 0.7%, while in the previous year it was growing slightly faster (by 1.1%).

The prices of industrial products increased by 0.7% in the first eight months of 2019, at a significantly weaker rate to that at the same time of 2018 (4.3%). Turnover of Greek industry steadied over the same period, growing by 1.2%, against a much stronger expansion a year earlier (8.8%).

In the Euro area, in January – August of this year, industrial production declined by 1.2%, against a 2.1% increase in the corresponding period of 2018. As noted in previous IOBE reports on the Greek economy, the production index has been declining since the beginning of 2019, at a rate that intensifies month by month. The slowdown in orders worldwide due to the trade war between China and the US also appears to be affecting European industry. The negative effect of declining demand from China on the German car industry is also strong, which is also called upon to adapt to new emissions standards. For this reason, the largest decline in industrial production among the EU member states is recorded in Germany (-4.2%, against an increase of 2.3% in the corresponding period of 2018).

Production in key industrial sectors in Greece during the first eight months of 2019 followed mixed trends. The strongest contraction took place in Mining, where production declined by 13.5%, against growth by 3.0% in 2018. Electricity Generation followed, with a much more limited retreat, by 1.0%, against a 3.8% reduction in the preceding year. Output in manufacturing increased, but at a lower rate than in 2018 (1.6%, against 2.7%).

In greater detail regarding Mining, output declined sharply in Coal-Lignite (-20.0%, against growth by 32.9% last year), followed by Mining of Metal Ores (-18.3%, against -14.2%), and Other Mining (-9.6%, against -5.2% in 2018). Output expanded, at a much lower rate than last year, in Extraction of Crude Petroleum - Natural Gas (4.3%, against 44.0%).

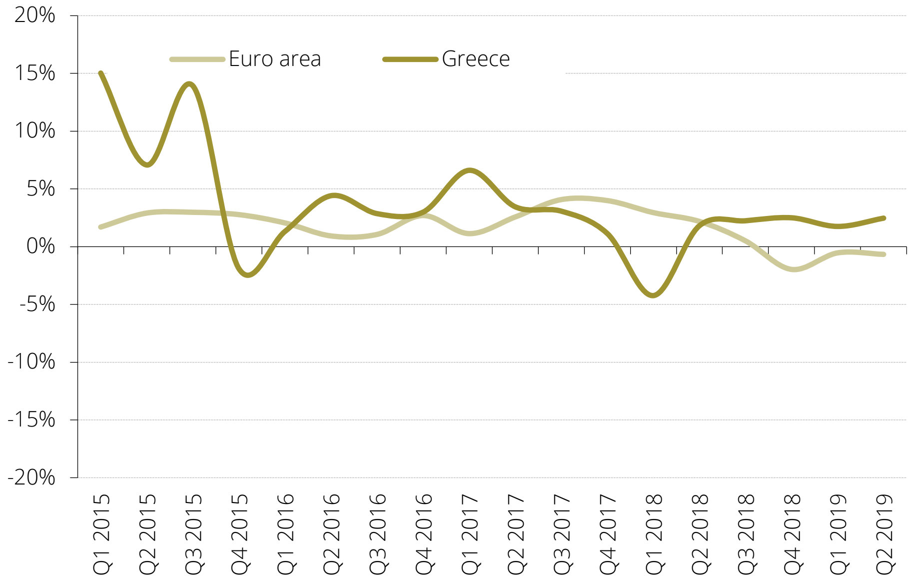
In Manufacturing, output increased in half of its branches (12 out of 24). Among the branches with particular significance for the Greek economy, production increased strongly in Basic Pharmaceuticals, by 26.7%, stronger than a year earlier (18.2%). Food production increased marginally, by 0.2%, against 0.7% a year earlier, while in Basic Metals output declined by 1.6%, from 2.8% growth in the same period of 2018.

Among the remaining branches of Manufacturing, the contraction strengthened in those that recorded a negatively year-on-year trend. In particular, the largest contraction in the first eight months of the current year was recorded in Coke - Refined Petroleum Products (-6.9%, against 4.0% growth a year earlier), Other Transport Equipment (-6.6%, against -4.8%) and Clothing (-6.1%, against -1.2%). Motor Vehicles came next (-5.6%, against -4.9%), followed by Products from Non-Metallic Minerals (-4.9%, against -2.9%), Paper (-4.6%, against 2.0%) and Textiles (-3.3%, against -4.5%).

Figure 3.1

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

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



Low growth of industrial production in Greece in Jan.-Aug. 2019, by 0.7%, against 1.1% in 2018. Contraction in industry in the Euro area (-1.2%)

Sources: ELSTAT, Eurostat

By contrast, output increased strongly in Tobacco, by 30.8%, against decline by 21.2% in the previous year. Computers-Electronics came next, with a rise of 27.1%, against 12.6% last year.

Output in Plastic - Rubber Products strengthened by 8.0%, against 1.3% growth a year earlier, while in Chemicals output increased by 7.2%, at about the same rate as a year earlier (6.8%).

Over the same period, output increased in just two of the five key groups of industrial products. In particular, the production of Non-durable Consumer Goods strengthened by 5.6%, more than double the rate it recorded last year (2.3%). The output of Capital Goods increased at a similar rate (by 5.2%, against 4.9%). By contrast, output declined in Durable Consumer Goods (-2.2%, against 4.9%), Energy (-2.9%, against -1.2%) and Intermediate Goods (-1.2%, against 2.0%).

Construction

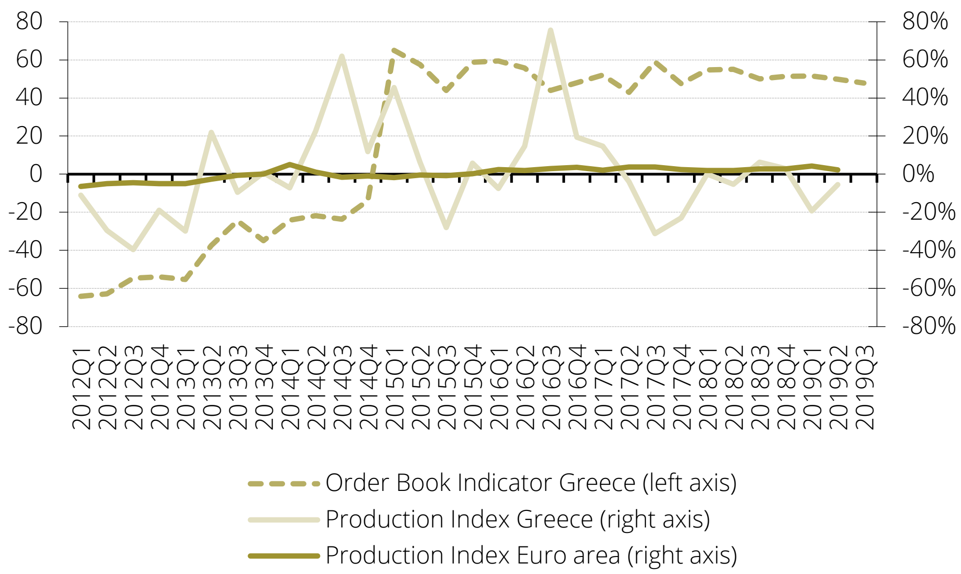
During the second quarter of 2019, the production index in Construction declined at a similar rate as in the same period of the preceding year (-5.5%, against -5.2%). In the first half of the year, the index fell by 12.1% against of a milder decline of 2.8% last year. The index averaged 35 points, 65 points lower from its average level in the base year (2010). Construction production In the Euro area expanded further over the same period, by 3.3%, at a stronger rate than in the preceding year (1.9%).

Among its constituent activities, the production index in Buildings declined by 12.3% against its level from the first half of 2018 (24.5%). The production index in Civil Engineering declined by 11.8%, continuing a 22.6% drop a year earlier. The monthly data on building activity for the same period point to an increase in the number of permits (by 4.8%, against 8.8% a year earlier), yet the volume of new buildings has declined (-0.1%, against 15.4%), while their surface has marginally expanded (by 0.2%, against 16.5%).

Figure 3.2

Production Index in Construction and Building Activity Index

Production in Construction contracted in the first half of 2019, at a similar rate as in 2018 (-5.5%, against -5.2%)



Source: ELSTAT

Retail Trade

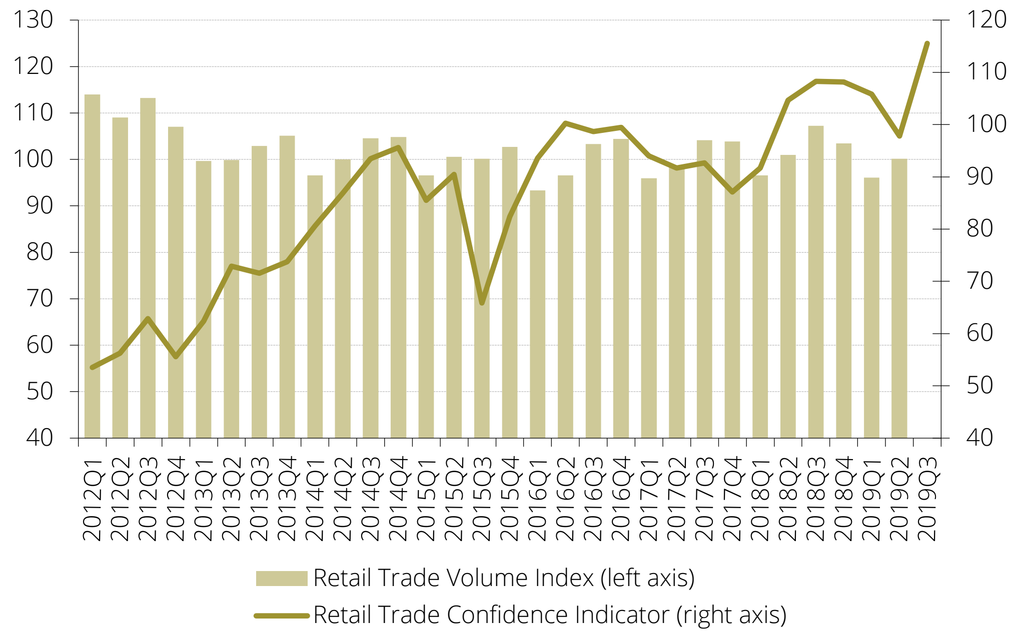
In the first seven months of 2019, the volume index in Retail Trade declined by 1.0%, against growth by 1.7% in the same period of 2018.

The volume of activity increased in three of the eight branches of Retail Trade. The strongest growth was recorded in Books - Stationary, by 10.9%, against a weaker decline by 0.7% in the same period of 2018. Furniture – Electrical Equipment – Household Appliances came next at a distance, with weaker growth than last year (4.1%, against 6.9%). Activity strengthened slightly in Fuels – Motor Lubricants (by 1.1%, against a marginal decline by 0.3%). By contrast, turnover contracted significantly in Department Stores (-16.6%, against 2.1%). Food – Drinks came next (-5.7%, against -6.2%), followed by Pharmaceuticals-Cosmetics (-5.1%, against 3.6%) and Clothing – Footwear (-2.4%, against 0.4% growth). Turnover remained relatively stable in Supermarkets (-0.2%, against 3.9%).

Despite turnover losses, the expectations in Retail Trade strengthened slightly year on year in the first nine months of 2019, according to the leading indicators of the Business Surveys conducted by IOBE. The index for Retail Trade increased by 2.6 points year on year, notably less than the increase by 8.9 points in the corresponding period of last year.

Figure 3.3

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



Slight decline in Retail trade in the first seven months of 2019 (1.0%), against growth by 1.7% in 2018.

Source: IOBE

At the branch level, the expectations strengthened by 15.9 points year on year in Food-Beverages-Tobacco, against a marginal expansion by 0.4 points in 2018. The index also increased in Department Stores (by 10.7, against 8.7 points last year). By contrast, expectations deteriorated in Household Appliances (-18.9 points, against 13.0 points gain a year earlier) and Clothing - Footwear (-11.1 points, against -8.1 points in 2018). In Motor Vehicles – Spare Parts, the index declined by 4.0

points, against a gain by 15.9 points a year earlier. In Motor Vehicles alone, the balance of current sales declined to 44 points, from 60 points a year earlier, with a fall of the companies reporting sales growth in the current period. In stocks, the consolidation trends eased, as the number of companies that consider stocks being at a low level increased. The balance of orders and the expectations on sales in the following quarter notably strengthened, as the percentage of businesses that expected growth of orders and sales increased. Lastly, as regards employment, strong stabilisation trends remain.

Table 3.4

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan- July 2017	Jan- July 2018	Jan- July 2019	% Change 2018/2017	% Change 2019/2018
Overall Index	98.8	100.4	99.4	1.7%	-1.0%
Overall Index (excluding automotive fuels and lubricants)	99.8	101.7	100.1	1.9%	-1.6%
Store Categories					
Supermarkets	100.0	104.0	103.8	3.9%	-0.2%
Department Stores	106.7	108.9	90.8	2.1%	-16.6%
Automotive Fuels	92.5	92.3	93.2	-0.3%	1.1%
Food – Drink – Tobacco	93.9	88.0	83.0	-6.2%	-5.7%
Pharmaceuticals – Cosmetics	98.1	101.6	96.4	3.6%	-5.1%
Clothing – Footwear	110.1	110.6	107.9	0.4%	-2.4%
Furniture – Electric Equipment – H. Appliances	98.1	104.8	109.1	6.9%	4.1%
Books – Stationary	104.0	104.7	116.1	0.7%	10.9%

Source: ELSTAT

Table 3.5

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

	Jan. – Sep. 2017	Jan. – Sep. 2018	Jan. – Sep. 2019	% Change 2018/2017	% Change 2019/2018
Food-Drinks-Tobacco	83.6	84.0	99.9	0.5%	18.9%
Textiles - Clothing – Footwear	103.0	94.9	83.8	-7.9%	-11.7%
Household Appliances	82.3	95.3	76.4	15.8%	-19.8%
Vehicles-Spare Parts	106.7	122.6	118.6	14.9%	-3.3%
Department Stores	87.5	95.9	106.6	9.6%	11.2%
Total Retail Trade	91.3	100.2	102.8	9.7%	2.6%

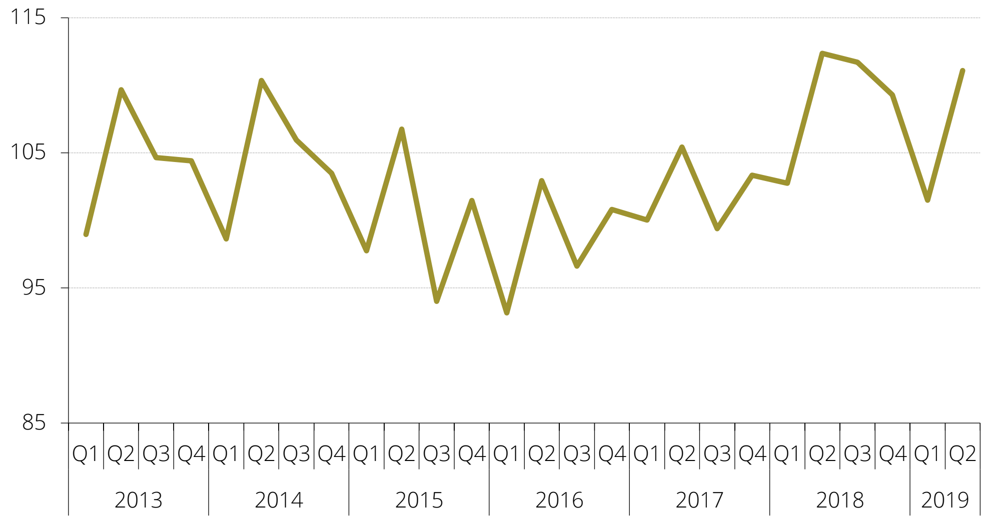
Source: IOBE

Wholesale Trade

The decline recorded in Retail Trade was reflected in Wholesale Trade as well. Turnover in Wholesale Trade declined by 1.2% in the first half of 2019, against growth by 4.7% a year earlier.

Figure 3.4

Turnover Index in Wholesale Trade



Turnover decline by 1.2% in Wholesale Trade in the first half of 2019, against growth by 4.7% last year.

Source: ELSTAT

Services

In the first half of 2019, turnover declined year on year in nine of the thirteen branches of Services. The strongest activity contraction was recorded in Other Professional - Scientific - Technical Activities, where turnover declined by 10.7%, against a boost by 8.9% in the first half of last year. Cleaning Activities came next (-7.7%, after a contraction by 5.9% last year), followed by Security-Investigation Activities (-5.4%, against -1.5%), Office Administrative - Other Business Support Activities (-4.3%, against 4.6%), and Information Service Activities (-1.1%, against 11.4%).

Among the sectors where turnover expanded year on year over the same period, the strongest growth was observed in Employment Activities (21.1%, against 23.3%), Publishing Activities (16.4%, against -15.5% a year earlier), and Information Services (10.7%, against -1.7%). Postal-Courier Activities came next (8.9%, against 7.0%), followed by Computer Programming (3.8%, against 8.0% last year), and Telecommunications (1.6%, against -0.1%).

According to the leading indicators of the Business Surveys conducted by IOBE for the first nine months of 2019, the sentiment weakened slightly, as the overall indicator for Services declined by about 2.2 points year on year. The decline was driven mainly from weaker expectations in Tourism (-17.9 points, against growth by 1.6 points a year earlier) and to a lesser degree from decline in Financial Intermediaries (-0.6 points, against growth by 2.4 points).

Table 3.6

Turnover Indexes (2010=100)

Services branch	% change H1 2018/2017	% change H1 2019/2018
Employment activities	23,3%	21,1%
Publishing activities	-15,5%	16,4%
Information service activities	-1,7%	10,7%
Postal and courier activities	7,0%	8,9%
Advertising and market research	4,3%	6,4%
Computer programming, consultancy and related activities	8,0%	3,8%
Legal, accounting and management consultancy activities	9,6%	2,3%
Telecommunications	-0,1%	1,6%
Architectural and engineering activities; technical testing and analysis	-13,9%	0,6%
Office administrative, office support and other business support activities	11,4%	-1,1%
Security and investigation activities	-1,5%	-5,4%
Cleaning activities	-5,9%	-7,7%
Other professional, scientific and technical activities	8,9%	-10,7%

Source: ELSTAT

Table 3.7

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

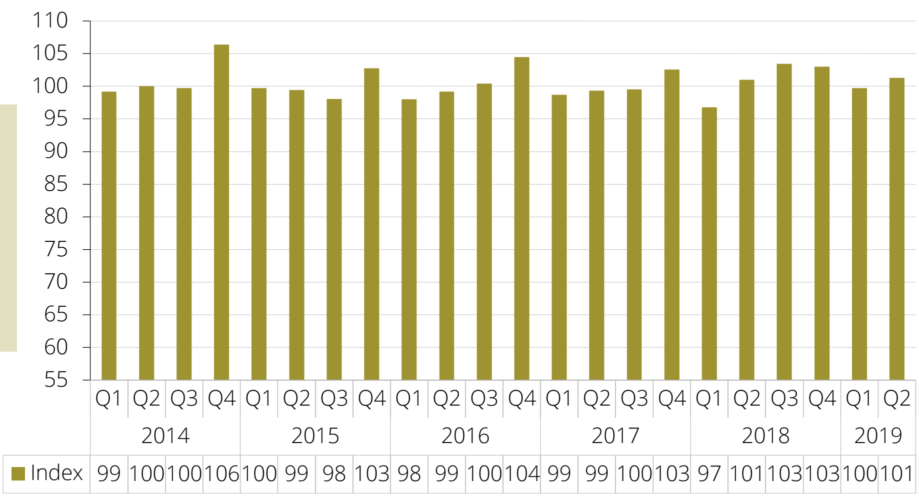
	Jan - Sep 2017	Jan - Sep 2018	Jan - Sep 2019	% change	% change	Change 2018/2017	Change 2019/2018
Hotels – Restaurants – Travel Agencies	109.8	111.4	93.5	1.5%	-16.07%	1.6	-17.9
Other Business Services	63.3	66.2	85.6	4.6%	29.31%	2.9	19.4
Financial Intermediation	87.8	90.2	89.6	2.7%	-0.67%	2.4	-0.6
Information Services	72.2	69.3	79.4	-4.0%	14.57%	-2.9	10.1
Total Services	86.5	91.4	89.2	5.7%	-2.41%	4.9	-2.2

Source: IOBE

Figure 3.5

Turnover Index in Telecommunications (branch 61)

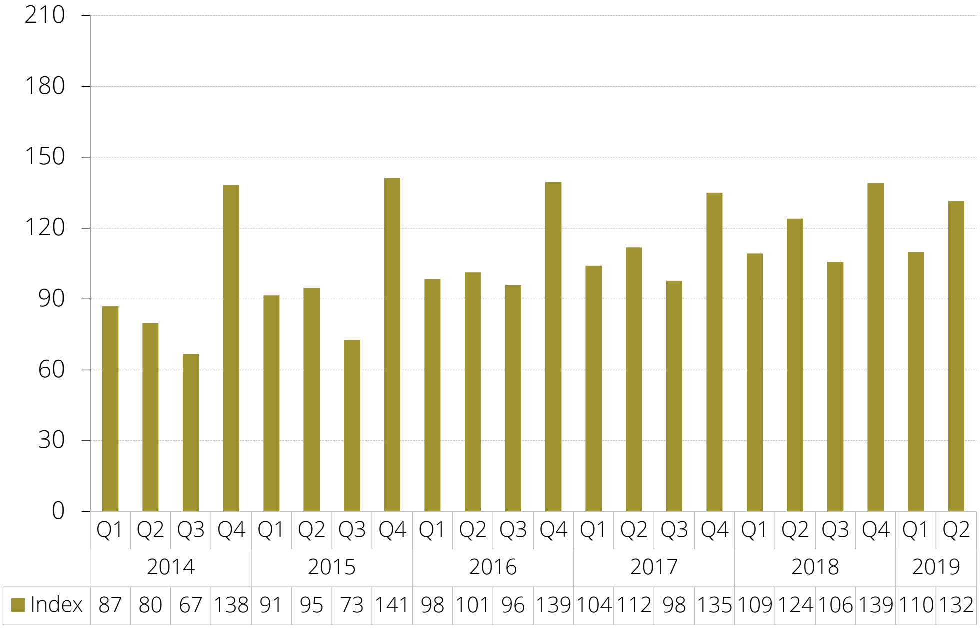
Increase by 1.7% year on year in the first six months of 2019, against decline by 0.1% a year earlier



Source: ELSTAT

Figure 3.6

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

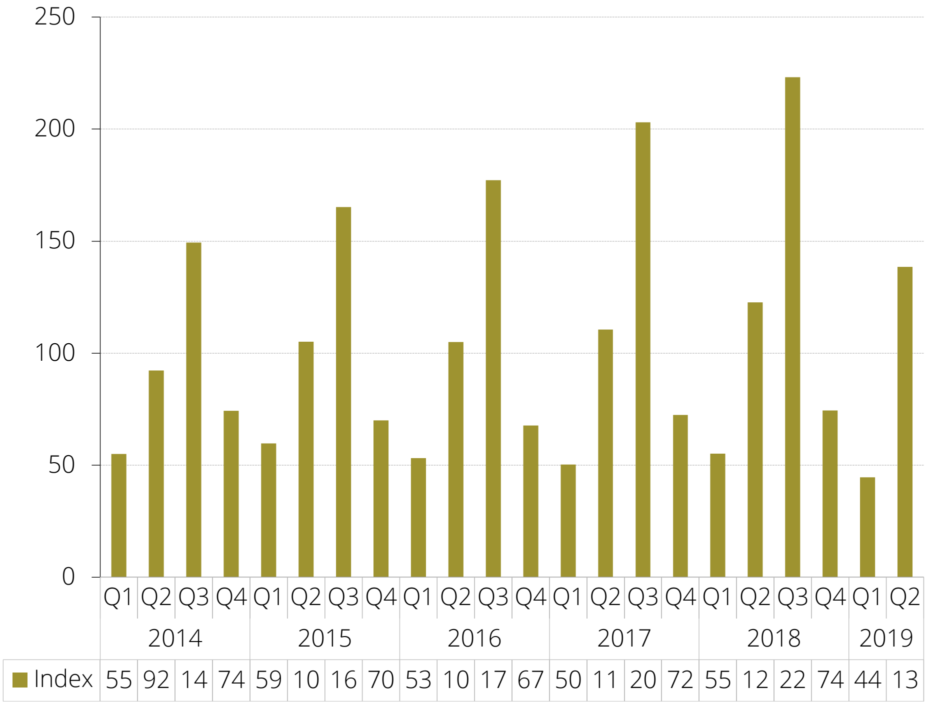


Expansion by (3.5%) in the first half of 2019, against growth by 8.0% in the preceding year

Source: ELSTAT

Figure 3.7

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



Weaker growth in the first half of 2019, by 2.9%, against 10.6% a year ago

Source: ELSTAT

3.3 Export Performance of the Greek Economy

- The exports of goods continued to grow in the first eight months of 2019, by 1.7% (and by 4.3% when petroleum products are excluded), with a lower rate than in 2018 (17.5% and 12.0% respectively).
- Stronger demand primarily from EU countries (by 7.3% or €826.0 million) and from the countries of North America (by 6.1% or €65.7 million)
- Among the categories of goods, the exports of Food – Live Animals, Chemicals and Miscellaneous Manufactured Articles had the greatest contribution to export growth

The exports of goods stood at €22.1 billion in the first eight months of 2019, from €21.8 billion in 2018, recording an increase of 1.7%. Excluding petroleum products and ships, exports increased by 4.3%, to reach €15.0 billion, from €14.5 billion in the same period of 2018 (Figure 3.10). Imports increased by 3.7% in the first eight months of this year, to reach €36.0 billion, from €34.7 billion a year earlier. As a result of the above trends in the main components of the external balance of goods, its deficit declined by €926.2 million, from €12.9 billion to €13.9 billion (+7.1%). Subsequently, the value of the exports of goods of the Greek economy accounted for 61.4% of its imports in the first eight months of 2019, from 62.6% in 2018.

Figure 3.8

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

Exports except petroleum products and ships stood at €15 billion over January-August, 4.3% higher than in 2018

Source: ELSTAT, Data processing by IOBE

In greater detail, the exports of Agricultural Products decreased by 4.7% in the first eight months of the year, to reach €3.8 billion, from €4.0 billion a year earlier, while the exports of Fuels declined by 3.4%, to €7.3 billion from €7.5 billion in the previous year (Table 3.8). The exports of these two product categories accounted for 50.2% of the Greek exports in the current year, from 53.0% a year earlier. The decrease in agricultural products came mainly from a 47.0% decrease in the demand for Oils and Fats of Animal or Plant Origin, the value of which totalled €258.9 million, from €488.2 million a year earlier and, as a result, their share in total exports declined from 2.2% in 2018 to 1.2% in 2019. The exports of Food – Live Animals, which account for approximately 80.4% of the exports of Agricultural Products, marginally increased, by 0.4%, from €3.06 billion in the preceding year to €3.07 billion in 2019. The exports of Beverages - Tobacco Products, which account for approximately 12.8% of the exports of Agricultural Products, stood at €489.3 million in the first eight months of 2019, up by 6.0% against the same period of 2018 (€461.7 million).

The exports of Industrial Products increased by 8.4% in the first eight months of 2019, with their value reaching €9.8 billion, from €9.0 billion a year earlier. This rise is explained mainly by the strengthening of foreign demand for Chemicals and Related Products, by 16.6%, with their value reaching €2.6 billion. The exports of Miscellaneous Manufactured Articles also rose, by 25.7%, to €1.8 billion in 2019, from €1.4 billion in the preceding year, while Machinery and Transport Equipment increased by 4.3%, to €1.99 billion, from €1.91 billion in 2018. By contrast, the exports of Manufactured Goods Classified Chiefly by Raw Material declined by 1.7%. Finally, the exports of Raw Materials increased by 10.6%, reaching €903.1 million, from €816.6 million in the previous year, while the exports of Commodities and Transactions Not Classified by Category decreased by 12.4%, from €377.4 million in the first eight months of 2018, to €330.4 million in the same period of the following year.

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 7.6% in the first eight months of the current year, to reach €8.7 billion, from €8.0 billion in the same period of 2018. As a result, this country group absorbed almost 39.3% of the Greek exports of goods. There was slightly higher increase in the EU, by 7.3% or €826.0 million, with the exports to the region totalling €12.1 billion, from €11.3 billion a year earlier. Among the Eurozone countries with the largest share of Greek exports, growth was recorded in Italy, by 6.3%, from €2.2 billion in 2018 to €2.4 billion in the following year, and Cyprus, by 6.4%, from €1.1 billion to €1.2 billion, while the exports to Germany increased by 4.2%, from €1.41 billion in 2018 to €1.48 billion in the following year. The largest percentage contraction in exports in the first eight months of 2019 in the Eurozone was recorded in Latvia, by 24.9% or €4.8 million, to €14.4 million. By contrast, the highest percentage growth was recorded in Estonia, at 98.1% or €14.3 million.

Among the remaining countries of the European Union, where total exports grew by 6.5% or €211.9 million, to reach €3.5 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 12.6% or €114.1 million year on year. The exports to two other countries, which also absorb a significant share of Greek exports from this group of countries, UK and Romania, also increased, by 3.1% or €24.2 million, to €805.2 million in the former and by 5.7% or €35.7 million to €658.3 million in the latter. The largest percentage growth, by 85.2%, was recorded in Croatia, where Greek exports increased by €55.4 million, from €65.1 million in 2018 to €120.5 million in 2019.

The Greek exports to the remaining European countries decreased by 9.6% in the first eight months of this year to €3.3 billion, to €3.6 billion in the same period of the preceding year. In Turkey, one of the major destinations for Greek products, exports declined significantly, by 22.5%, from €1.6 billion to €1.2 billion. The absolute extent of the decline in exports to the neighbouring country (-€351.6 million) was the largest recorded in any country in 2019.

Exports to North American countries moved up by 6.1%, from €1.0 billion in the first eight months of 2018, to €1.1 billion a year later, mainly due to growth in exports to the US by 6.9%, from €862.3

million in 2018 to €921.6 million in 2019, and to Mexico, by 6.4% or €6.8 million. Exports to Canada declined marginally (-0.3%).

Exports to the Middle East and North Africa decreased by 4.3%, to €3.3 billion from €3.4 billion, mainly due to the decrease in exports to Egypt (20.8%) where exports stood at €590.7 million in January - August 2019, compared with €745.4 million a year earlier. Subsequently, this country fell from ninth to 13th place among the major export destinations (Figure 3.11). The decrease in export activity to this geographical region was moderated by the increase to Libya (by 18.1%, from €280.4 million to €331.0 million). On the contrary, in Saudi Arabia, another major export destination in the Middle East, exports increased by 37.6%, to €562.8 million, while by contrast in the United Arab Emirates they declined by 11.7% to €158.2 million.

Table 3.8

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

Product	Value		% Change	% Share	
	2019*	2018*	19*/18*	2019*	2018*
AGRICULTURAL PRODUCTS	3,825.5	4,014.3	-4.7%	17.3%	18.5%
Food and Live Animals	3,077.4	3,064.4	0.4%	13.9%	14.1%
Drinks and Tobacco	489.3	461.7	6.0%	2.2%	2.1%
Oils and Fats of animal or plant origin	258.9	488.2	-47.0%	1.2%	2.2%
RAW MATERIALS	903.1	816.6	10.6%	4.1%	3.8%
Non-edible Raw Materials excluding Fuels	903.1	816.6	10.6%	4.1%	3.8%
FUELS	7,270.7	7,523.2	-3.4%	32.9%	34.6%
Minerals, Fuels, Lubricants etc.	7,270.7	7,523.2	-3.4%	32.9%	34.6%
INDUSTRIAL PRODUCTS	9,781.3	9,019.7	8.4%	44.2%	41.5%
Chemicals and Related Products	2,608.7	2,236.6	16.6%	11.8%	10.3%
Industrial Products Sorted by Raw Material	3,397.4	3,454.9	-1.7%	15.4%	15.9%
Transport Equipment	1,994.1	1,911.5	4.3%	9.0%	8.8%
Various Manufactured Goods	1,781.1	1,416.6	25.7%	8.1%	6.5%
OTHER	330.4	377.4	-12.4%	1.5%	1.7%
Goods and Transactions not sorted by Category	330.4	377.4	-12.4%	1.5%	1.7%
TOTAL EXPORTS	22,111.0	21,751.1	1.7%	100.0%	100.0%

* Provisional Data

Sources: ELSTAT, PSE-KEEM

The flow of exports of Greek products to Oceania increased by 20.2%, with their value reaching €135.2 million in the first eight months of 2019, from €112.4 million a year earlier. The exports to Australia increased by 19.1%, from €101.1 million in 2018, to €120.3 million in 2019. Exports increased strongly to New Zealand as well (by 30.6%).

The exports to the markets of Central and Latin America increased significantly in the first eight months of this year, by 20.7%, with their value amounting to €285.4 million, from €236.4 million a year earlier. The better export performance to these countries came mainly from strong growth in the demand for Greek products from Brazil, by 19.1%, where their value expanded to €96.8 million, from €81.2 million in the preceding year, and from Panama, by 61.3%, to €128.4 million.

The foreign demand for Greek goods retreated in the Asian countries, where exports decreased by 10.7% year on year in the first eight months, to €1.3 billion, from €1.5 billion a year earlier. This development came mainly from the abatement of demand from Singapore (-65.9%, to €101.3 million, from €297.2 million in 2018) and the Philippines (-93.3%, to €4.2 million, from €62.4 million in 2018). By contrast, a significant rise of Greek exports of products, by 10.2%, was recorded in

China, from €552.3 million in 2018 to €608.6 million this year, and by 135.8% in Japan, from €45.5 million in 2018, to €107.2 million this year.

Table 3.9

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

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% SHARE	
	2019	2018	19/18	2019	2018
World	22,111.0	21,751.1	1.7%	100.0%	100.0%
OECD	12,187.0	11,613.2	4.9%	55.1%	53.4%
EU	12,168.6	11,342.5	7.3%	55.0%	52.1%
Euro Area	8,679.7	8,065.6	7.6%	39.3%	37.1%
G7	6,538.0	6,070.7	7.7%	29.6%	27.9%
North America	1,135.9	1,070.2	6.1%	5.1%	4.9%
BRICS	950.4	950.2	0.0%	4.3%	4.4%
Middle East & North Africa	3,276.3	3,424.3	-4.3%	14.8%	15.7%
Rest of Africa	1,267.0	1,400.1	-9.5%	5.7%	6.4%
Oceania	135.2	112.4	20.2%	0.6%	0.5%
Latin America	285.4	236.4	20.7%	1.3%	1.1%
Rest of Asia	1,302.1	1,458.1	-10.7%	5.9%	6.7%
OPEC	1,356.0	1,089.0	24.5%	6.1%	5.0%

* Provisional Data

Source: ELSTAT, Processing KEEM

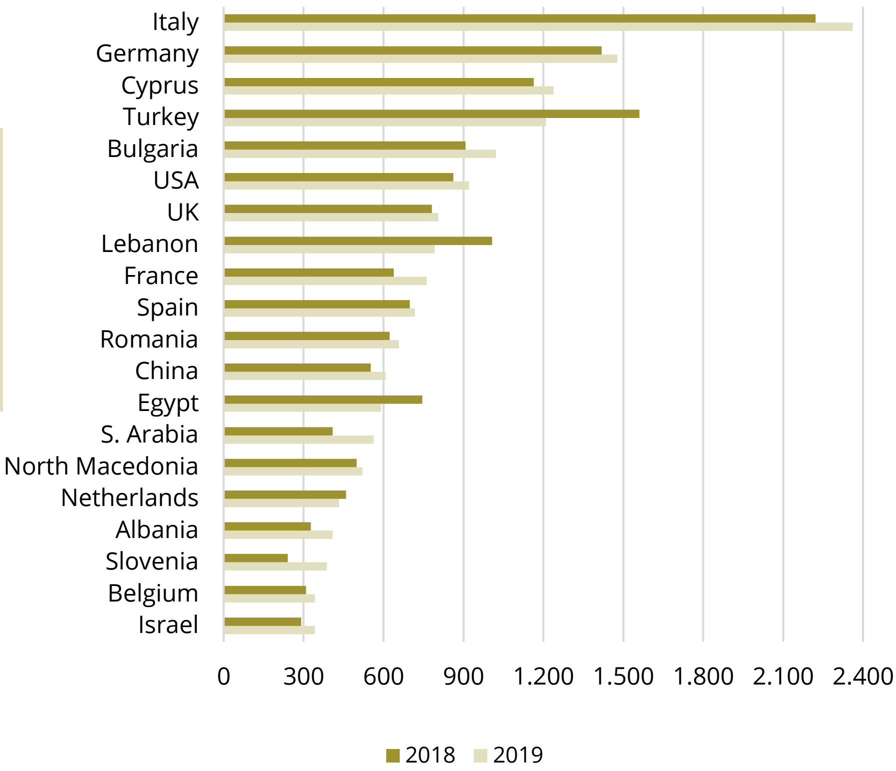
In conclusion, Greek exports increased slightly in the first eight months of the current year, by 1.7%, a rate much lower than in the same period of the previous year (17.5%), but also compared to the first quarter, when they increased by 3.8%. The sharp slowdown did not come from a similar development of exports to the Euro area, as demand from this region also increased in 2019 much stronger than the total demand for Greek products. Exports to the US also increased, at a rate significantly higher than total exports, thus there is no marked direct negative impact of the trade protectionist measures. The trend in the exports of goods mainly came from a sharp decline in certain countries, which are among the major export destinations (Turkey, Lebanon, Egypt) of Greece and Singapore. From the beginning of 2019 up until August, the exports of Greek products to these countries fell by €916.5 million. The expansion in the same period of exports to the Euro area by €614.1 million and more broadly, to the EU (by €826.0 million) was not sufficient to cover these losses, which at least until August were offset by other destinations.

Following the start of a conflict on the Turkish-Syrian border and the imposition of sanctions by the US, and possibly other countries, the pressures on the Turkish economy will intensify. As the EU economy is not expected to accelerate strongly in the final quarter of the year, a slight decrease in total exports overall in 2019 is quite likely, for the first time since 2016. However, excluding petroleum products, the exports of goods will increase marginally for yet another year.

Figure 3.9

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

Largest increase of exports over Jan-Aug in absolute terms to Saudi Arabia (by €153.8 million). The share of Italy remains the largest



Source: PSE-KEEM. Processing: IOBE

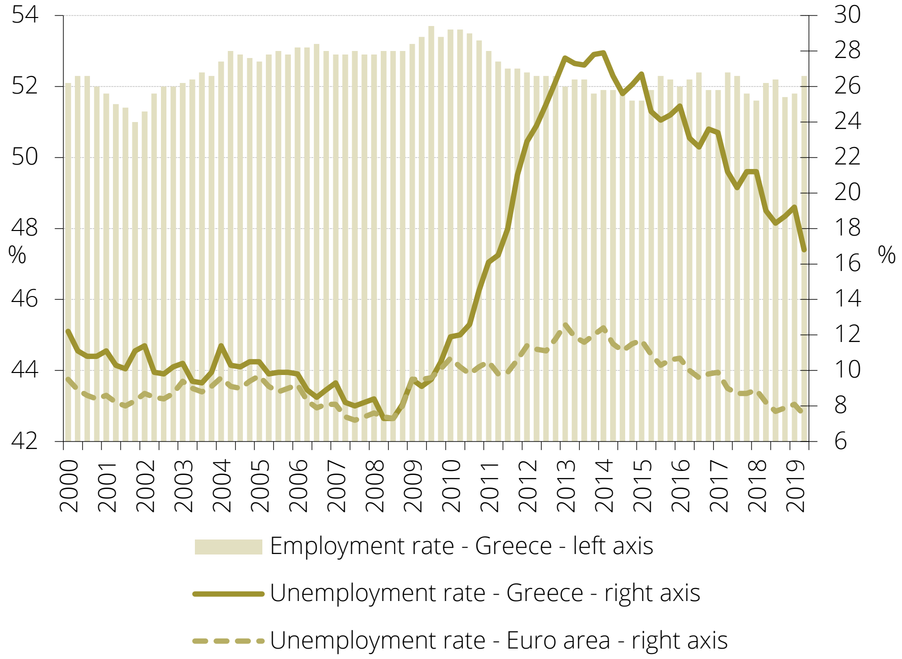
3.4 Employment – Unemployment

- The unemployment rate stood at 16.9% in the second quarter of 2019, from 19% in Q2 2018
- Drop in unemployment by 95% due to higher employment and by 5% from a reduction in the labour force
- Largest increase in employment in Education (by 25,600 people), Transport - Storage (21,400 people), Tourism (20,500 people), and Manufacturing (+20,200 people)
- The seasonally adjusted wage cost index increased by 2.2% in the second quarter of this year, growing for the seventh consecutive quarter

According to data from the Labour Force Survey of ELSTAT, the unemployment rate in the second quarter of 2019 fell to 16.9%, 2.1 percentage points lower year on year and 2.3 points lower quarter on quarter. This is the lowest level in this period of the year since 2012, yet it remains the highest in the EU. The number of unemployed fell year on year by about 101,000 people, to 805,000, down from 906,000 people a year earlier. The drop in unemployment came by 95% from employment growth (by 96,000, from 3,860,400 in Q2 2018 to 3,956,400) and by only 5% from labour force contraction (by 5,000, from 4,766,400 in Q2 2018, to 4,671,400). In July 2019, the non-seasonally adjusted unemployment rate fell to 16.7%, from 18.4% a year earlier.

Figure 3.10

Labour force participation and unemployment rates



Decline in unemployment in the second quarter of 2019 to 16.9%, from 19% in the previous year

Sources: ELSTAT – Labour Force Survey, Eurostat

In the Euro area, unemployment continued to decline, reaching 7.5% in the second quarter of 2019, from 8.2% a year before. The lowest unemployment rate was recorded once more in Germany, at 3.1% from 3.5% in Q2 of 2018, followed by the Netherlands and Malta, where it stood at 3.3% (from 3.9%) and 3.4% (from 3.7%) respectively. By contrast, the largest unemployment (after Greece) was recorded In Spain, where it stood at 14% in the second quarter of 2019, 1.3 percentage points down year on year (from 15.3%). In the other major economies of Euro area, France and Spain, the unemployment rate declined by 0.6 (from 8.7% to 8.1%) and 0.9 (from 10.7% and 9.8%) percentage points respectively.

In Greece, the unemployment rate among men fell to 13.7% in the second quarter of 2019, from 15.3% in the same quarter of 2018, while among women the decline was stronger, by 3 percentage points to 20.7% from 23.7%. In the Euro area, in contrast to Greece, the difference in the unemployment rate between men and women is small. In particular, unemployment among men fell from 7.9% in Q2 of 2018, to 7.2% a year later, while among women it declined from 8.5% to 7.8%.

Regarding the age composition in Greece, unemployment declined year on year in the second quarter in every age group. Across the age groups, higher unemployment is recorded among younger ages. In particular, the highest unemployment was recorded among people aged 15-19 in the second quarter of 2019, where it declined most, to 41.5%, from 48.9% a year earlier. That said, among people aged 65 and over the unemployment rate was the lowest among the age groups and also had the smallest drop, by just 0.1 percentage points (from 10.1% to 10%). Among people aged 20-24, unemployment declined by 4.8 percentage points, from 37.5% in Q2 2018 to 32.7% a year later, and among 25-29 year olds by 2.4 percentage points (from 27% to 24.6%). The lowest reduction was recorded among those aged 30-44, by only 1.4 p.p., to 19% in the first quarter of this year. Lastly, among people 30-44 and 45-64, unemployment declined by 1.6 (from 18.2% to 16.6%) and 1.9 (from 15.7% to 13.8%) percentage points, respectively.

Regarding the duration of unemployment, the number of long-term unemployed declined year on year in the second quarter of 2019 by 83,400 people or 12.8%, (from 653,400 to 570,100 people). As a result, the percentage of long-term unemployed has decreased steadily for the sixth consecutive quarter, to reach 70.8%, from 72.1% in the second quarter of 2018.

Regarding the unemployment trends with respect to the education level, unemployment eased year on year in all categories, except for individuals for individuals with no schooling, whereas this is inversely proportional to the level of education. In particular, the holders of doctorate or master's degrees had the lowest unemployment rate, which dropped to 8%, from 9.4% a year earlier. By contrast, the highest unemployment rate was recorded among individuals with no schooling, which increased to 57%, from 44.6% in Q2 of 2018 (up by 12.4 percentage points). Unemployment fell most among people with some elementary education, by 5.7 percentage points, from 42.2% in Q2 of 2019 to 36.5% a year later. The percentage decline in unemployment was the same (2.3 percentage points) among university graduates (from 14.1% to 11.8%) and tertiary technical education graduates (from 19.8% to 17.5%). Finally, the percentage decrease of the unemployment rate was essentially the same among people with upper secondary education (-2.1 percentage points, from 20.8% to 18.7%) and people with lower secondary education (-2.0 percentage points, from 21.7% to 19.7%), while among people with primary education it fell from 21.1% to 19.6%.

Unemployment decreased year on year in the second quarter of 2019 in 11 of the 13 regions of the country. West Macedonia had the highest rate in Q2 of 2019, where it declined to 24.6%, from 27.1% a year earlier (-2.5 percentage points), while the lowest rate was recorded in the South Aegean region, where it stood at 8.1% from 14.5% in the second quarter of 2018, while also showing the highest percentage reduction compared to the rest of the country (-6.4 percentage points). The lowest percentage drop in unemployment was recorded in Thessaly, from 18.9% to 17.9%. Meanwhile, in Eastern Macedonia-Thrace and Western Greece, the unemployment rate increased by 0.8 (from 15.1% to 15.9%) and 0.9 (from 23% to 23.9%) percentage points, respectively. In Attica, the country's largest region, unemployment decreased from 19.9% to 17.2% (-2.7 percentage points), while the decline in the unemployment rate was stronger in Epirus (-5.2 percentage points, from 21.2% to 16%), and in the Northern Aegean (-4.6 percentage points, from 21.7% in the second quarter of 2018 to 17.1% in the second quarter of 2019).

At the level of key economic sectors, employment increased in the Secondary and the Tertiary sectors, declining in the Primary sector. In particular, employment in the Primary sector declined after six consecutive quarters of growth. In the second quarter of 2019, it fell by 3.5% or 16,500 (from 472,500 in the second quarter of 2018 to 456,000). In the Secondary sector, employment remained on the rise for the 18th consecutive quarter in the second quarter of 2019, strengthening by 3.4% or 19,900 (from 586,500 to 606,400). Lastly, the Tertiary sector experienced the largest increase in employment in absolute terms, by 92,500 (or 3.3%), i.e. from 2,801,400 to 2,893,900 employees.

Employment declined in 6 of the 21 branches of economic activity. The biggest increase in employment in the second quarter of 2019, in absolute terms, was posted in Education, where the number of employed increased from 307,700 people a year earlier, to 333,300 (up by 25,600 people or 8.3%). Transport - Storage came next, where employment strengthened by 21,400 or 11.7%, (from 183,400 to 204,800 employees), followed by Accommodation – Food Services, where the number of employed increased by 20,500 (or 5.4%), to 403,400 people in the second quarter of 2019, Manufacturing, with 20,200 more workers (or 5.6%, to 379,900) and Public Administration, with an increase of 13,800 (or +4.2%, to 344,100). By contrast, employment in Wholesale-Retail Trade declined by 4,100 (or -0.6%, from 690,100 to 686,000) and in financial and insurance activities by 2,500 (or -2.9%, from 86,200 to 83,700). Finally, in Construction and Electricity -Gas-Steam-Air Conditioning Supply, employment fell by 900 (or -0.6%, to 150,400 employees) and 1,800 (or -5.6%, to 30,300 in the second quarter of 2019) respectively.

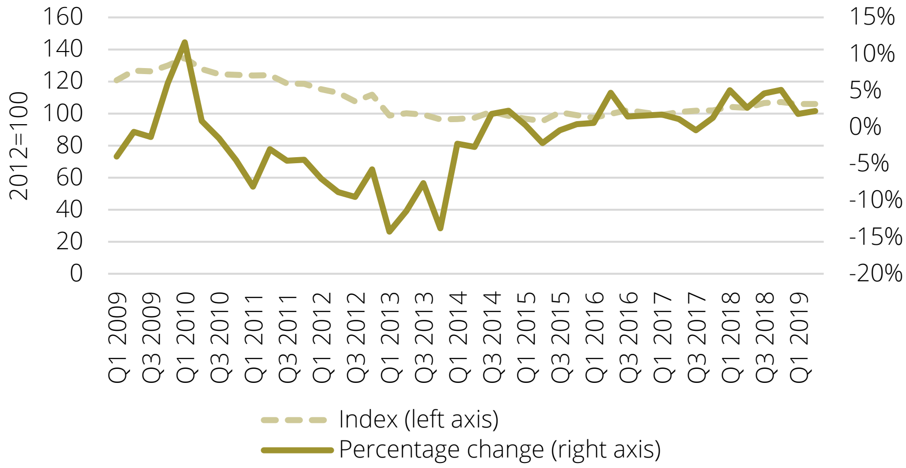
To sum up, the data on employment per sector shows that the total increase in employment in the second quarter of 2019 stemmed mostly from:

- A strong expansion in Education, for the second quarter (by 25,600 employees), which is unusual for a sector largely providing non-tradable service, due to the high share of public sector activity in it.
- Expansion in Transport and Storage (by 21,400 people).
- An increase in Tourism (by 20,500 people), in line with the year-on-year growth of international travel receipts in the second quarter by €346.2 million (or by 9.7%, from €3,566.2 million to €3,912.5 million).
- Expansion in Manufacturing (by 20,200 people), in line with the year-on-year rise of the seasonally adjusted Industrial Production Index by almost 1.0% in the second quarter of 2019 (to 109.9 from 108.9 points) and despite its decline in the Primary sector (-16,500), Wholesale-Retail Trade (-4,100) and Financial - Insurance Activities (-2,500).

The seasonally adjusted wage cost index overall for the Greek economy increased in the second quarter of 2019, for seventh consecutive quarter. In particular, it rose by 2.2% during that period, to reach 105.9 points, from 103.6 points in the same quarter of 2018.

Figure 3.11

Seasonally adjusted wage cost index and percentage point change (2009 Q1 - 2019 Q2)



Increase in the seasonally adjusted wage cost index, for the seventh consecutive quarter in the second quarter of this year, by 2.2%

Source: ELSTAT

Table 3.10

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

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	9,372.9	52.7	4,054.4	82.2	881.8	17.9
2012	9,344.8	52.3	3,695.0	75.6	1,195.1	24.4
2013	9,309.5	52.1	3,513.2	72.5	1,330.4	27.5
2014	9,282.1	51.8	3,536.3	73.5	1,274.4	26.5
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0
Q4 2015	9,234.1	52.2	3,641.7	75.6	1,174.7	24.4
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
Q1 2016	9,226.3	52.0	3,606.3	75.1	1,195.1	24.9
Q2 2016	9,217.2	52.2	3,702.6	76.9	1,112.1	23.1
Q3 2016	9,208.3	52.4	3,736.7	77.4	1,092.6	22.6
Q4 2016	9,199.4	51.9	3,648.6	76.4	1,124.0	23.6
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2
Q4 2017	9,163.3	51.8	3,736.3	78.8	1,006.8	21.2
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2
Q2 2018	9,144.7	52.1	3,860.4	81.0	906.0	19.0
Q3 2018	9,135.5	52.2	3,894.2	81.7	871.8	18.3
Q4 2018	9,126.4	51.7	3,833.7	81.3	881.1	18.7
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
Q1 2019	9,117.3	51.8	3,814.0	80.8	907.1	19.2
Q2 2019	9,108.0	52.3	3,956.4	83.1	805.0	16.9

Source: ELSTAT, Labour Force Survey

Medium-term outlook

The start of the implementation of the new government's pre-election announcements, to reduce ENFIA from 2019 by 10% to 30% and extend the 120-instalment scheme for arrears to businesses, has boosted the climate of strengthening expectations and easing uncertainty domestically following the recent parliamentary elections. These budgetary interventions are expected to have a positive impact on the liquidity of households and businesses, boosting their consumption and investment and thus employment in the final quarter of 2019. Furthermore, stronger positive effects are projected to come in the following year from the measures in the 2020 Draft State Budget. Due to these developments, and in particular the steady growth of export demand, the strongest positive effects on employment in the second half of 2019 are again expected to come from Tourism, Manufacturing, Transport and Public Administration. Construction will join these sectors in the following year, while employment in the public sector, particularly of a seasonal kind, will continue to expand.

Regarding Tourism, the international tourism receipts, according to the latest data of the Bank of Greece, increased year on year by 10.4% or €383.7 million in the first half of 2019. The data on international airport arrivals available so far for the summer quarter are also encouraging, as in July - August there was a rise, milder than in the first half of the year (≥6.0%), yet extensive, by 2.9% or 215,100 people. Over the same period, for the first time in 2019, international road arrivals increased by 6.2% or 267,900, which signals the expansion of tourist revenues in the summer of 2019 as well. Subsequently, activity in Tourism will strengthen for yet another year, albeit less than last year. It is premature to make predictions for 2020. If the conflict on the Turkish-Syrian border has long duration and large extent, tourism flows in the neighbouring country will be adversely affected in the following year.

In Manufacturing, exports of industrial products in the first seven months of 2019 increased by 8% compared to the same period of last year, to €8.1 billion. However, this rate is down compared to last year (about 13%), mainly as a result of the decrease in exports to Turkey (-€329 million or -23.4%) and the similar slowdown in the expansion of exports to the Euro area. The sharp fall in Turkey stems from the problems faced by its economy that have caused a recession since the final quarter of 2018. Perhaps, the recent conflict outbreak and the imposition of sanctions by the US and possibly by other countries in the near future will increase the pressure on the Turkish economy. The weakening in the Eurozone is due to a decline in its growth, which according to the latest forecasts of international organisations[26] will continue throughout 2019 (at an average rate of 1.2%, from 1.9% in 2018). A slight boost to 1.4% is expected next year, which will slightly stimulate the demand for imports of Greek products. Perhaps, following the restart of ECB's quantitative easing programme from the beginning of November, with less intensity than in the past, growth will slightly strengthen.

In the Construction sector, the recent reduction of ENFIA and the suspension of VAT on new properties for three years from the beginning of 2020 will boost construction projects. However, the biggest stimulus to Construction next year will come from works in concessions and privatisations (Hellinikon, Piraeus Port Authority, Athens International Airport, regional airports, etc.), boosting employment.

More broadly, progress in the management of NPLs and the increase in private sector deposits, which have strengthened credit expansion from the banking system to non-financial corporations since the beginning of 2019 and the unprecedented decline in lending rates from international capital markets, have significantly facilitated the raising of funds for investment implementation, which will also boost employment. The prospects for reducing non-performing loans in 2020 were significantly enhanced by the recent approval of the Hercules plan by the competent services of the European Commission. Part of the recent successful bond issues by large business groups (OTE, TERNA Energy, Hellenic Petroleum, and WIND) will also be directed to investment purposes, with a positive effect on employment.

[26] World Economic Outlook, IMF, October 2019

Regarding the developments in employment in the public sector, 3,015 special needs teachers were recently recruited in secondary education for the school year 2019-2020. Moreover, it is now possible that the social employment programmes of OAED for forest firefighting and the migration issue will be extended, as both activities have not yet been completed. The extension of programmes for 3,000 positions for nursing staff in hospitals, health centres and health district administrations, 700 positions in various specialties and 300 positions in organisations supervised by the Ministry of Health is also being considered. In November, a new eight-month community service programme is expected to be announced, covering 35,000 positions in municipalities, social welfare centres and 37 departments of the Ministry of Environment and Energy. The programme will reflect on employment in 2020.

The hike in the minimum wage and the abolition of the subminimum wage for people aged up to 25 may slow down the reduction of unemployment. However, by the end of the second quarter, no negative impact has been felt on the labour market. The reduction of social security contributions by 0.5% from 01/06/2019 and the further cut by one percentage point envisaged in the 2020 Preliminary Draft Budget will mainly boost labour supply.

In view of the above, the IOBE forecast for the annual unemployment rate for 2019 is revised down from the previous report to about 17.3%, from 19.3% last year. For 2020, it is forecast to decline by a similar margin, to about 15.5%.

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

In Industry, the average balance of 11 points of the previous quarter decreased by 14 points in the third quarter of 2019. Compared to the preceding year, the average quarterly index increased by 9 points. In the examined quarter, the percentage of industrial firms that expected a drop in employment in the coming months stood at 14%, while the percentage of those expecting employment growth declined to 11% (from 21%). The vast majority of businesses in the sector (75% from 68%) were expecting employment to remain unchanged.

In Construction, the balance of employment expectations weakened from an already low level, to -41 (from -30) points, at a slightly lower level compared to the same period of 2018 (-39 points). In Q3 of 2019, 51% (from 39%) of the businesses in the sector were anticipating further job losses, while 10% (from 8%) of the respondents were expecting employment growth. At the sub-sector level, the strong decline of the index in Private Construction (-36 from -16 points) was accompanied by a weaker decline, from a much lower level, of the index in Public Works (to -44 from -40).

The employment outlook indicator in Retail Trade declined slightly quarter on quarter in the third quarter of the year, at 18 points. However, the index was marginally up (by 1 point) compared to last year. About 3% (from 4%) of the firms in the sector were expecting job cuts, while 21% (from 25%) were anticipating employment growth, with those expecting job stability taking up 75% (from 71%) of the total. In the constituent branches, the employment expectations indicator strengthened only in Household Appliances, declining in all other branches.

Services are another sector where employment expectations lost ground compared to the previous quarter, even though year on year they recorded strong gains. In particular, the balance of 23 points from the previous quarter declined in the quarter under examination to 19 points, while year on year it increased by 21 points. Once more, about 4% of the companies in the sector were expecting a drop in employment, while the percentage predicting an increase fell to 23% (from 27% in the previous quarter). At the subsector level, the trend was positive in Financial Intermediaries and Land Transport – Pipelines and negative in all the other examined branches of services.

Figure 3.12

Employment expectations (difference between positive and negative responses)

Source: IOBE

In the third quarter of 2019, the short-term employment expectations weakened quarter on quarter in all sectors.

3.5 Consumer and Producer Prices

- Inflation of 0,3% in the first nine months of 2019, against stronger price increase in the corresponding period of 2018
- Negative impact from indirect taxes and no impact from energy products on prices in January-September of the current year
- The rate of change of CPI with constant taxes and excluding energy reached 1.2% in January-September 2019 (from 0.3% in 2018), reflecting a boost from rising domestic demand
- Expected inflation rate in the region of 0.1-0.3% in 2019 overall

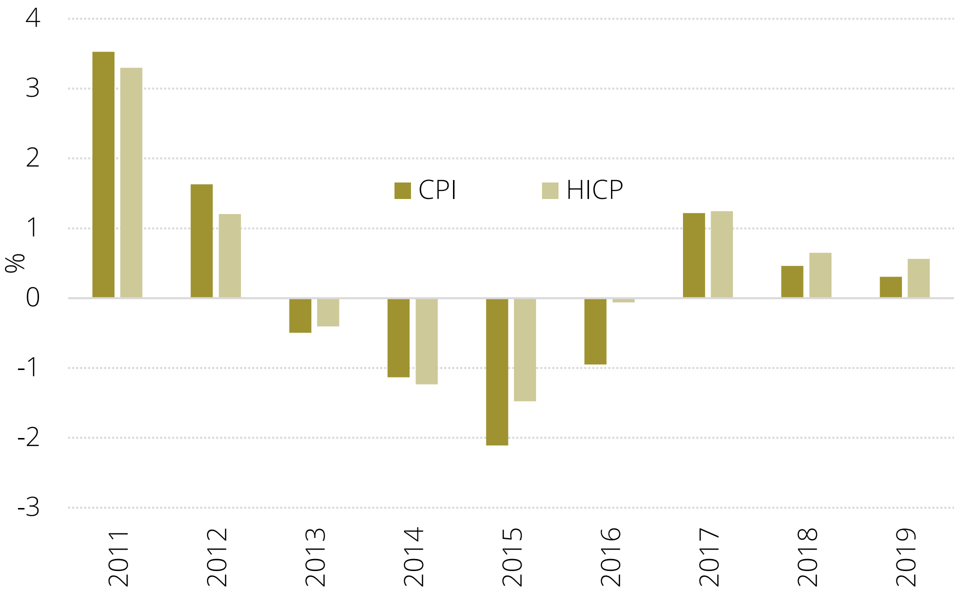
Recent Developments

In first nine months of 2019, the rate of change of the domestic Consumer Price Index (CPI) strengthened for the third year in a row. In particular, CPI increased year on year by 0.3% in January – September 2019, compared to a slightly stronger change, by 0.5%, in the same period of 2018. Furthermore, the Harmonised Index of Consumer Prices (HICP) increased by 0.6% over the same period, at the same rate as in the corresponding period of 2018 (Figure 3.15). In September 2019, the annualised price change based on the domestic CPI was marginally negative, at -0.1%, against a notably positive change, by 1.1%, in the same month of the preceding year (Figure 3.16).

Figure 3.13

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

The CPI strengthened by 0.3% in the first nine months of 2019, compared to marginally stronger growth, by 0.5%, in the same period of 2018



Source: ELSTAT, data processing by IOBE

Examining the factors that impact CPI, it seems that its small increase in January-September largely stemmed from a recovery in domestic demand, as the change of the general index with constant taxes and excluding energy goods stood at 1.2%, higher than the change of the overall index. A year earlier, this indicator had increased at a notably weaker rate, by 0.5% (Figure 3.17). Note that the increase in prices excluding energy and taxes is recorded for the second year, after eight consecutive years of decline (2011-2017, Figure 3.17).

Taxation seems to have had a negative impact on price changes in the current year. In particular, the impact of indirect taxes on the annual changes of the HICP in the first nine months of 2019 was negative, at 0.6 percentage points, compared to marginally positive impact, by 0.2 p.p., in the corresponding period of 2018 (Figure 3.17).

Figure 3.14

CPI in Greece (annual percentage change per month)

The change in prices remained negative in September, against positive rate of change in the corresponding month of 2018

Source: ELSTAT. Data processing by IOBE

As to the impact from energy goods on CPI, international oil prices declined year on year in the first nine months of 2019. However, the continuous weakening of the euro-dollar exchange rate since April partly offset the fall in international oil prices. In particular, the average Brent oil price stood at $64.6/barrel in January – September 2019, from $72.2/barrel a year earlier, down by 10.4%.[27] However, the lower rate of the euro against the dollar over the same period, by 5.9%, at 1.12, from 1.19 in 2018, moderated the decrease in oil prices. As a result, the international oil price in Euros averaged €57.6/barrel, 4.8% down year on year. Given these observations on key components of the energy cost, the fact that the energy goods had a slightly negative impact on average on the rate of price change domestically in January – September (-0.1%), based on the HICP of energy goods with fixed taxes, should not come as a surprise. Over the same period in the preceding year, the indicator was marginally rising, by 0.3%, while stronger negative impact was recorded in the same period of 2014 (-0.7%), due to a rapid drop in oil prices (Figure 3.17).

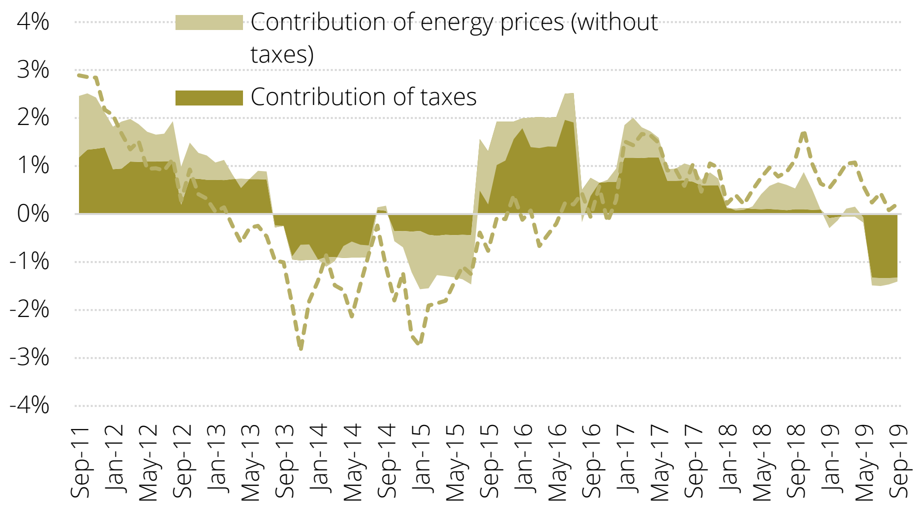
[27] Average values based on the Europe Brent Spot Price. Source: EIA, US Energy Information Administration https://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

The HICP percentage change in Greece in January-September 2019 was lower than the Eurozone average, at 0.6% against 1.3%, the second lowest rate in the Eurozone slightly higher compared only to Portugal (0.3%). The price rise was slightly higher in Cyprus (0.7%), while in Croatia, Italy and Denmark it reached 0.8%. Domestic demand is the key inflation driver in the Euro area as well, as the price index excluding taxes and energy goods increased by 1.1%, same as a year earlier (Figure 3.18).

Figure 3.15

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

Negative impact of taxes on prices in the first nine months of 2019, by 0.6%, compared with marginally positive effects in the corresponding period of last year



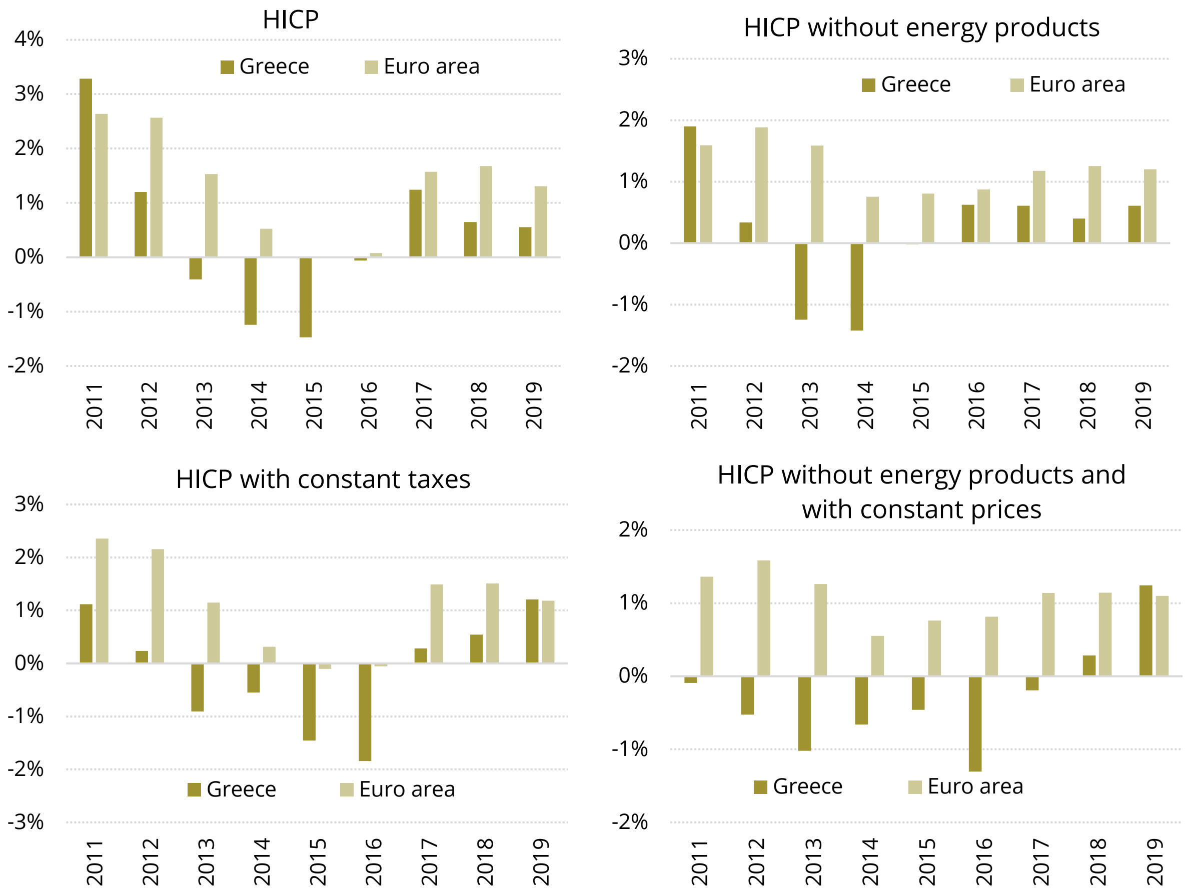
Source: Eurostat. Data processing by IOBE

Regarding the trends in the individual categories of goods and services that comprise the Consumer Price Index, the largest increase in prices in January-September 2019 was recorded in Communications, by 4.1%, against a milder increase by 2.4% in the same period of the previous year. Transport and Healthcare came next, with much lower price growth, by 1.3% and 1.2% respectively, against 2.8% and 0.4% respectively in the first nine months of 2018. Alcoholic Beverages-Tobacco and Hotels followed, with an increase of 0.9%, and 0.5% respectively, compared with an increase of 3.1% and 1.3% respectively in January - September of the previous year. The price growth in Housing and Food Products was marginal, by 0.3% and 0.1%, compared with a change of -0.7% and 0.2% in January - September 2018. In the remaining five categories of goods and services of the domestic CPI, prices declined year on year in the nine months of the year, with the greatest reduction taking place in Durable goods, household equipment - miscellaneous goods and services, by 1.8%, and Recreation, by 1.6%, against deflation of 1.5% and 1.2% respectively last year.

In terms of price trends on the production side, the Producer Price Index (PPI) of the domestic and foreign markets as a whole kept growing year on year in the first nine months of 2019, for the third consecutive year, albeit weaker than in the past. In particular, the index increased by 0.7% in the examined period of 2019, compared to a notably stronger increase (by 4.3%) in the same period of 2018 (Figure 3.19). The PPI excluding energy increased marginally, by 0.2%, essentially at the same rate as a year earlier (0.3%). In terms of the trends in the categories of industrial products, the strongest inflation was recorded in Electricity – Natural Gas – Steam and Electrical Equipment, by 5.0% and 4.8%, respectively, against their mild reduction of 1% and 1.5% respectively in the first nine months of 2018. Milder price rise was recorded in Tobacco Products (+2.0%), against 1.3% in the first nine months of the previous year. By contrast, producer prices declined strongly in Coal and Lignite, following their milder weakening a year earlier (-5.4% from -2.1%).

Figure 3.16

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



Higher domestic prices in the first nine months of 2019, solely due to stronger demand.

Source: Eurostat. Data processing by IOBE

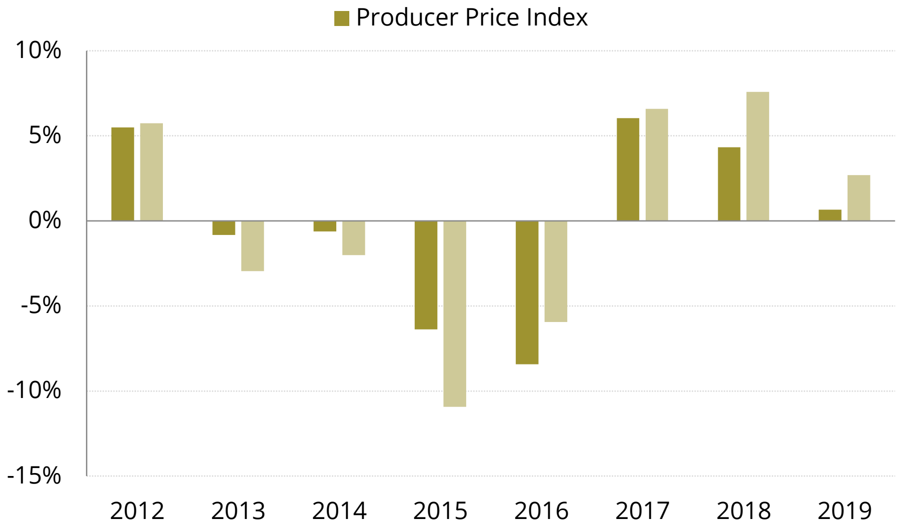
Regarding imports used as inputs for production, the overall Import Price Index (IPI) posted notably weaker growth year on year in the first eight months of 2019, at 2.7%, against 7.6% a year earlier. As a result, Greece topped the ranking of the countries with the largest increase amongst the ten Eurozone countries with available data for this period, followed by Spain (1.2%). On the other end of the spectrum is Slovakia, with a retreat of 1.6%. Note that in January - August 2019, the changes in import prices in the Euro area countries, either positive or negative, were weaker than in the same period of the previous year, with the relevant indicator in the Euro area remaining unchanged, against an increase by 2.7% in the corresponding period of 2018. The differences in IPI inflation between countries reflect the varying degrees of use of energy products, as well as the size of trade with countries outside the Euro area.

Looking at the trends in individual categories of imported goods, the largest increase in January–August 2019 was recorded in Electricity Supply, by 13.6%, against 14.2% a year earlier, and in Refined Petroleum Products, by 5.6%, against much stronger rise a year earlier (24%). Prices also increased in Mining of Metals, by 2.5%, against an increase by 3.2% in the same period of 2018, as well as in Tobacco Products, by 1.7%, against a marginal decrease of 0.6% in the same period of the previous year. By contrast, the largest drop in import prices was recorded in Mining of Coal-Lignite, by 1.6%, against 1.7% decline a year earlier, and in Basic Metals, by 1.4%, against an increase in the first nine months of 2018 (3.7%).

Figure 3.17

Annual change of PPI and IPI in Greece January – August

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



Source: ELSTAT. Data processing by IOBE

Medium-term outlook

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

In greater detail, the recent fiscal interventions, introduced in May, included a reduction in certain indirect taxes, which came into force at the end of the same month. In particular, the measures included reduction of VAT in Food Services from 24% to 13%, transfer of foodstuffs from the 24% rate to the low rate of 13%, and reduction of VAT on electricity and natural gas from 13% to the super-reduced rate of 6%, for businesses and households. In June - September, prices in Housing and Food Services, the two categories of goods and services affected by the tax reductions, recorded a price decline by 1.6% and 0.4% respectively, while in the first five months of 2019 prices were increasing in both, by 0.9% and 1.4%. Therefore, there is a clear deflationary effect from these measures, which will carry over to 2020, until a year has been completed since their imposition. No change in indirect consumption taxes is planned for 2020, according to the Draft Budget. However, the three-year suspension of VAT on new buildings is expected to have a secondary effect on the prices of products and services related to construction activity. In addition, following the rise in migration flows from Turkey, the VAT discount for five islands in the North-East Aegean, which expires at the end of 2019, will be re-extended.

As to the impact of other budgetary interventions on prices, the new measures concerning households (reduction of the entry tax rate from 22% to 9%, and reduction of social security contributions by one percentage point) will significantly strengthen real incomes and thus consumption demand. The reduction of ENFIA by 10% to 30% will also provide a small boost to this in the final months of 2019. The inflationary pressure of consumer demand on prices has mainly come from further decline of unemployment, which will carry over to the second half of 2019 and to the following year. However, the positive impact of some major extraordinary developments, such as the increase in the minimum wage in February by 10.9% and the pension allowance given in May this year, is not expected to carry over into 2020. For this reason, while it is anticipated that demand will exert inflationary pressures in 2020, its intensity will be lower than in 2019.

As to the trends in energy cost, oil prices (Brent) reached $61.9/barrel in the third quarter of 2019, falling year on year by 17.5% (from $75.1/barrel). Therefore, despite the OPEC agreement to cut oil production from the start of 2019, the geopolitical tensions in the Middle East and the turmoil in the relations between the US and Iran, with a recent attack on an Iranian tanker, oil prices remained at notably lower levels compared to a year ago. Note that OPEC has reached an agreement to maintain oil production cuts until the first quarter of 2020,[28] while Libya's oil production remains uncertain, due to armed disputes and internal instability. Strong growth from the US counteracts these developments in oil production and prices. Oil-producing companies in the Gulf of Mexico are pumping large quantities of oil and do not intend to limit their production, even if oil prices fluctuate at low levels. They will therefore hinder a price rise in 2020. This year oil production in this region increased by 2 million barrels per day.[29] The deflationary impact of lower oil prices will be moderated in the Eurozone countries by lower than a year before euro/dollar exchange rate. This effect will probably change sign in 2020, as the exchange rate is not expected to decline further.

In addition to the factors that shape oil production and demand, the price trend is affected by the significant year-on-year slowdown in the growth of the world economy. According to the latest projections by international organisations, the growth rate of the world economy will fall to 3.0% in 2019, against an initial forecast in late 2018 of 3.4%, its lowest rate since the global financial crisis of 2008-2009.[30] The slowdown is due to the impact of trade protectionist measures, less supportive monetary policy from the major central banks, the intense problems of some major developing economies (Turkey, Argentina), and the difficulties of adapting Germany's automotive industry to environmental standards. The effects of the slowdown are particularly noticeable in global trade,

[28] www.eia.gov
[29] https://www.wsj.com/, https://www.bloomberg.com
[30] Source: World Economic Outlook, IMF, October 2019

with its growth rate falling in 2019 to 1.1%, from 3.6%. At present, global growth is forecast to strengthen in 2020, to 3.4%, with a significant revival of world trade (by 3.2%).[31]

Given the above, the price of oil for 2019 is projected to reach $63/barrel, down 11.5% from the previous year, while next year it is projected to reach $68/barrel, recording a 7.9% increase over 2019. The euro/dollar exchange rate will average 1.12 in 2019, lower than in 2018, while it is expected to strengthen to 1.16 in 2020. As a result, the average price of oil in euro this year is expected to be €56.3/barrel, down 6.7% compared to the previous year, while for 2020 it is estimated to be slightly higher, at €58.6/barrel, a development that entails inflationary pressures from energy costs.

Taking into account all the above observations and trends, the domestic Consumer Price Index is expected to increase marginally, less than last year, by about 0.1%-0.3%. The rate of CPI change is expected to be in the range of 0.3% -0.6%, mainly due to a possible increase in energy prices and a boost in domestic demand, while the effect of indirect taxes will be negative, at least in the first five months of the year.

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

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

In Industry, the price expectations indicator declined marginally quarter on quarter in the third quarter. In particular, the indicator declined by 1 point, to -1 points, (from 6 points in the same quarter of the previous year). About 6% (from 8%) of the companies in the sector predicted a fall in prices in the upcoming period, while the percentage of those anticipating price growth declined to 5% (from 8%), with the remaining 88% (from 84%) expecting price stability. Overall in 2018 compared to 2017, the relevant index averaged +3 points (from 0).

In Retail Trade, the balance of price expectations of 1 point in the preceding quarter, increased by 6 points in the third quarter, 4 points higher year on year. About 4% (from 8%) of the companies in the sector were expecting a fall in prices in the short term, while the percentage of those forecasting price growth increased marginally to 11%, with the remaining 85% (from 84%) of the businesses expecting price stability. At the branch level, the price expectations strengthened quarter on quarter in the third quarter of the year most in Food-Beverages-Tobacco, and to a lesser degree in Motor Vehicles – Spare Parts and Household Appliances, weakening in the remaining branches.

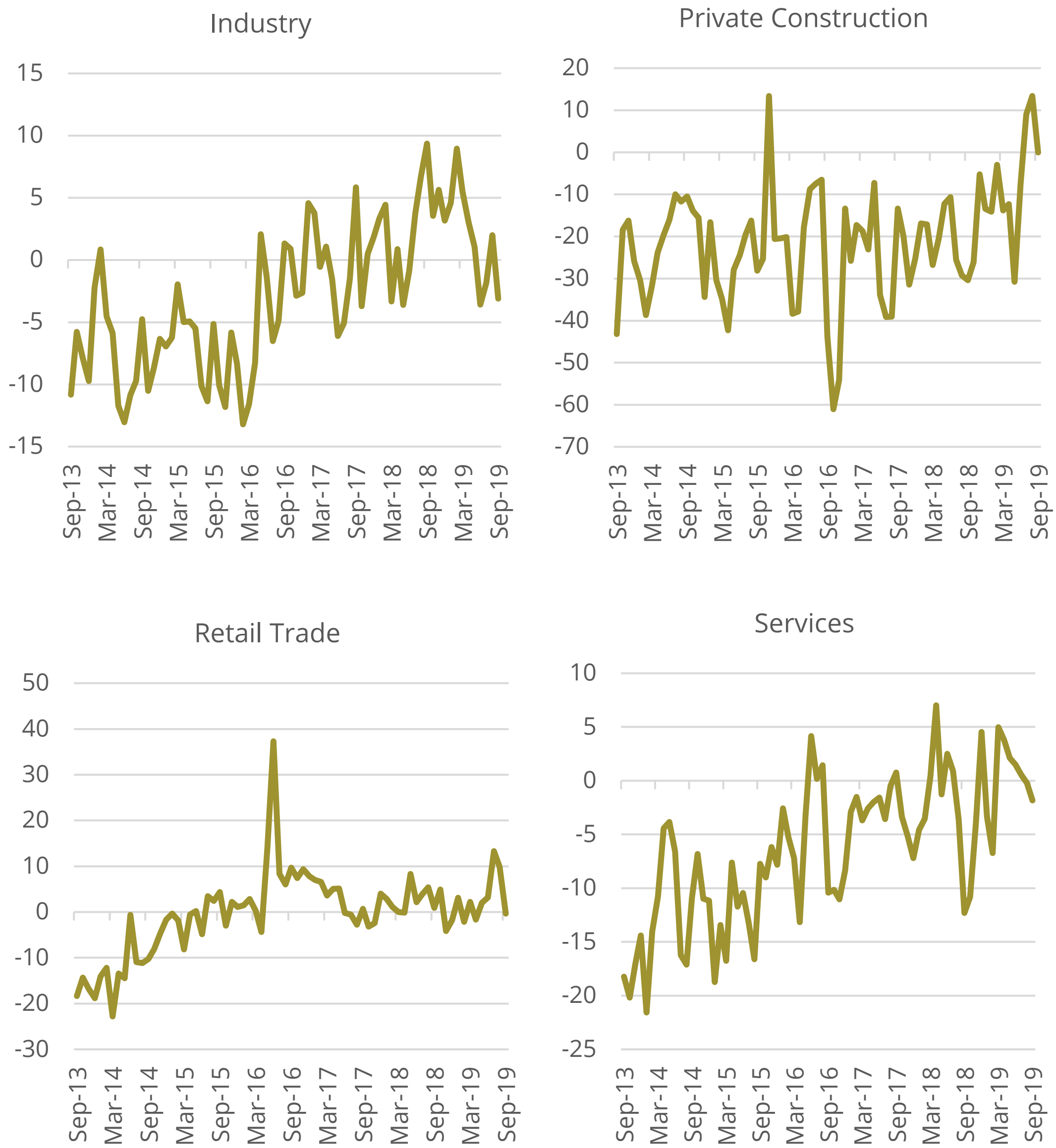
In Services, the average price expectations indicator slightly decreased quarter on quarter in the examined quarter, to 0 (from 2) points, slightly higher year on year (from -5 points). In the current quarter, 5% (from 7%) of the companies in the sector were expecting a fall in prices, while 5% (from 9%) were expecting an increase. At the branch level, the indicator declined in Hotels – Restaurants - Travel Agencies, Financial Intermediaries and IT Services and strengthened in Various Business

[31] Ibid.

Activities and Land Transport. Finally, in Private Construction, the negative balance of -17 points from the previous quarter increased strongly to 7 points, rising compared to the same period of the preceding year as well (from -28 points). Only 1% (from 17%) of the businesses in the sector were anticipating prices to decline, while the percentage of those expecting inflation increased by 8 points, with 92% (from 83%) predicting price stability.

Figure 3.18

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



Source: IOBE

The trends in price change expectations were mixed in the third quarter of 2019, as the balance of expectations declined quarter on quarter in two sectors (Industry, Services) and strengthened slightly in Retail Trade and more intensely in Construction.

3.6 Balance of Payments

- Reduction of the Current Account deficit in January – August 2019, to €911 million from €1.9 billion
- The increase of the surplus of the Services and Incomes accounts was more than offset by an increase in the trade deficit

In the first eight months of the current year, the Current Account had a deficit totalling €911 million, against a deficit of €1.9 billion in the same period of 2018. The deficit declined, as the increase of the surplus of the Services and Incomes accounts was more than offset by an increase in the trade deficit.

Regarding the trends in the individual components, the deficit of the Goods Account reached €15.5 billion, expanding by €982.1 million year on year. Exports totalled €21.6 billion, stronger by 1.1% (€231.1 million),[32] against an increase by 17.4% in 2018, with a rise in other goods (4.8%) and a fall in the exports of fuels (-6.2%). Imports expanded by 3.4% (€1.2 billion) to reach €37.1 billion, compared with an increase of 13.7% in 2018, which is an indication of the intense slowdown in the growth of both exports and imports in 2019. The deficit of the Goods Account excluding fuels and ships approached €11.7 billion, higher year on year by 4.3%. The deficit of the Fuels Account increased to €3.5 billion in the first eight months of this year, against €3.3 billion in 2018, with a stronger decline in exports than in imports.

At the end of this section, an analysis is carried out on the evolution of the imports of vehicles into Greece and other EU countries (Box 3.3).

The surplus in the Services Account increased by €1.7 billion year on year, to reach €15.2 billion in the first eight months of 2019, with an increase of both receipts and payments. In particular, total receipts from services amounted to €27.4 billion, up by 8.9% compared to 2018. At the constituent categories, the receipts from travel services reached €13.2 billion, up by 13.6%, against growth by 10.1% in 2018. In addition, the receipts from transport services increased by 6.0% to €11.3 billion, while the receipts from other services remained almost unchanged at €2.8 billion. Total payments for services reached €12.2 billion in 2019, from €11.6 in 2018. Payments for travel services increased by 28.3% to €1.8 billion, payments for transport services increased slightly, by 2.5% to €7.3 billion, while payments for other services fell marginally, to €3.1 billion.

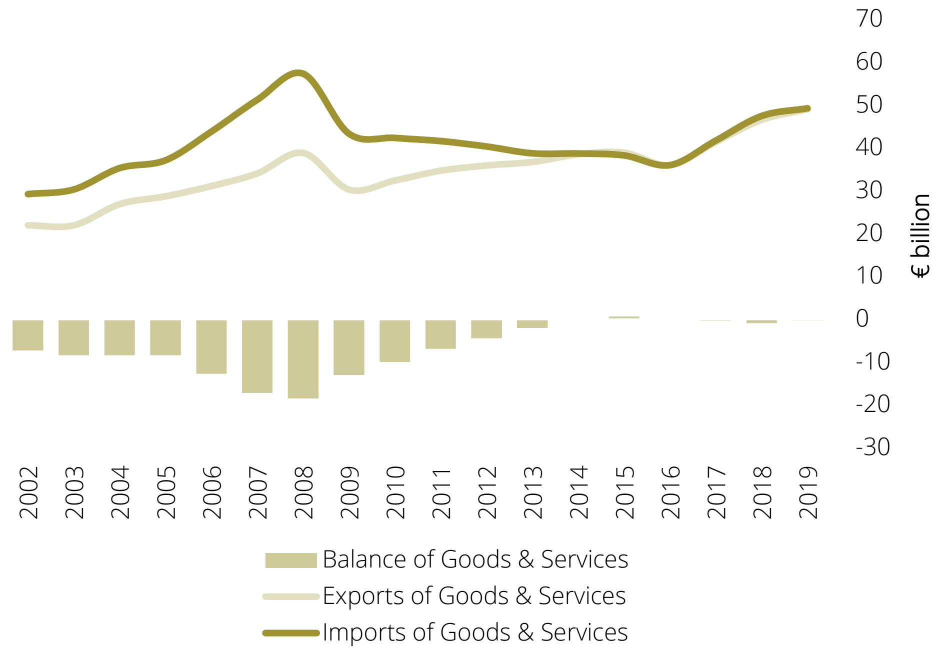
The Primary Income Account deficit increased by €59.5 million, reaching €1.0 billion. Revenues totalled €4.4 billion, lower year on year by 2.5%, while payments declined by 3.1%, to €5.4 billion. In greater detail, receipts from labour increased by 18.9% to €167 million, receipts from investments strengthened by 1.9%, to €1.8 billion, while other primary income (subsidies and taxes on production) decreased by 6.6%, to €2.4 billion. Payments for labour increased by 5.9% to €945 million, payments for investment decreased by 5.8%, to €4.1 billion, while those for other primary income increased by 9.9%, to reach €316 million.

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

The Secondary Income Account had a surplus of €349 million in the first eight months of 2019, against a surplus of €95 million a year earlier, with receipts standing at €2.5 billion, from €1.6 billion in 2018, while payments totalled €2.1 billion, from €1.5 billion last year.

Figure 3.19

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

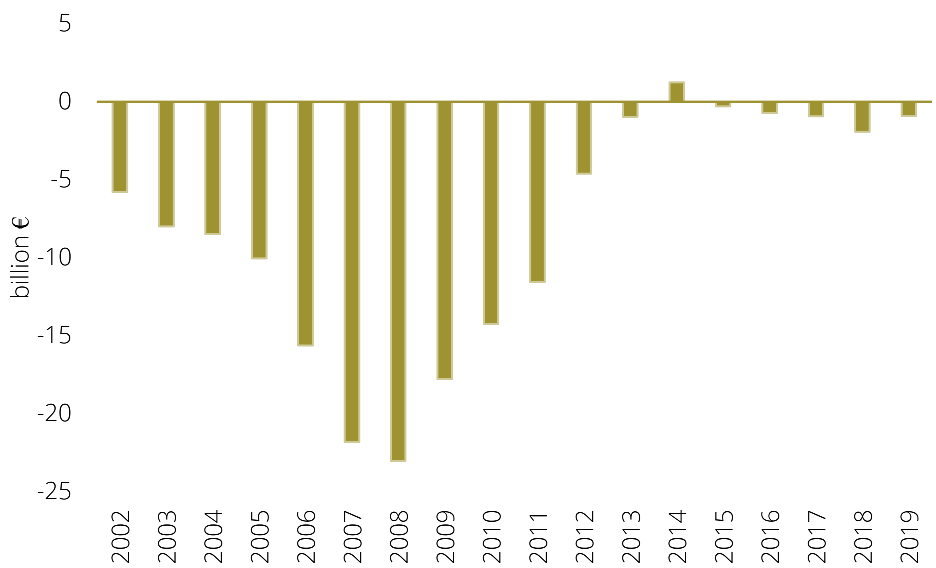


Fall of the Goods and Services Account deficit, to €238 million, from €919 million a year earlier

Source: Bank of Greece, Data Processing IOBE

Figure 3.20

Current Account (January – August), 2002-2019



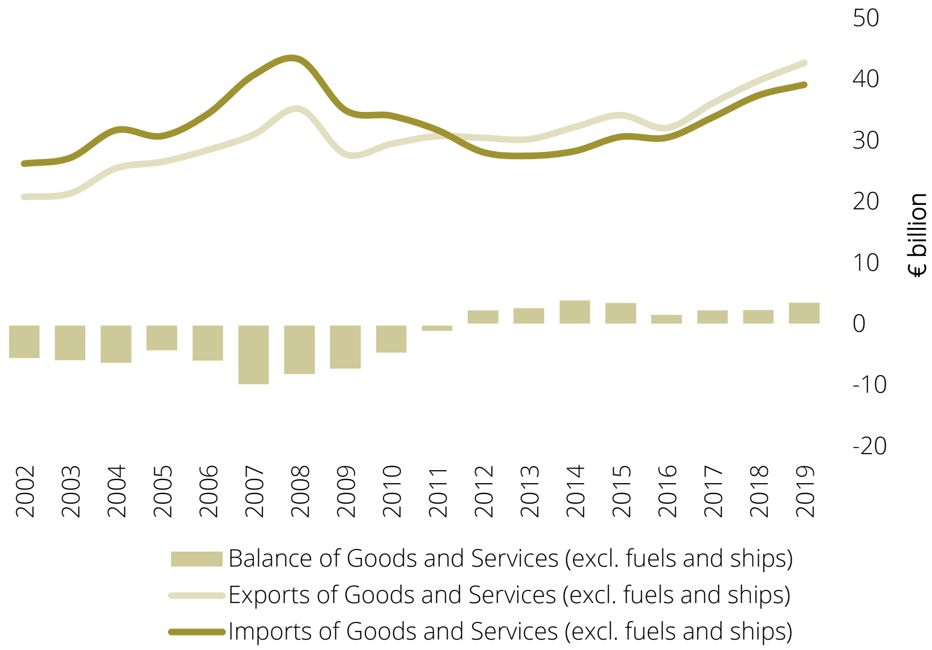
Decline of the current account deficit in the first eight months of this year, by €994.7 million, to €911 million

Source: Bank of Greece. Data processing by IOBE

Figure 3.21

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

Lower deficit of the Goods and Services Account excluding fuels and ships, by €1.2 billion, to €3.6 billion



Source: Bank of Greece. Data processing by IOBE

Capital Account

The Capital Account[33] was in a surplus in the first eight months of 2019, at €262 million, against €284 million last year, as receipts increased to €636 million, while payments rose to €374 million.

Finally, the Current and Capital Account, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, recorded a deficit of €649 million, against €1.6 billion deficit in 2018.

Financial Account

The Financial Account was in a surplus of €126 million in the first eight months of 2019, compared to a deficit of €1.2 billion in 2018.

In greater detail, the investments of residents abroad (net receivables of residents from direct investment abroad) increased by €183 million, while the investments of non-residents in the country (net liabilities to non-residents) strengthened by €2.5 billion.

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

In the category of portfolio investments, the claims of the residents to non-residents increased by €1.9 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad increased. The liabilities to non-residents increased by €4.1 billion, due to higher placements of non-residents in domestic bonds and treasury bills.

In the category of other investments, the claims of residents to non-residents increased by €319 million, with a net decrease of €1.9 billion in the deposits and repos of residents abroad. The liabilities declined by €4.5 billion, reflecting the reduction of the public and private sector debt to non-residents by €3.0 billion and the decline in deposits and repos of non-residents in Greece by €1.5 billion (Including the TARGET account).

Finally, the Reserve Assets of the country totalled €7.5 billion at the end of August 2019, against €6.1 billion in August 2018.

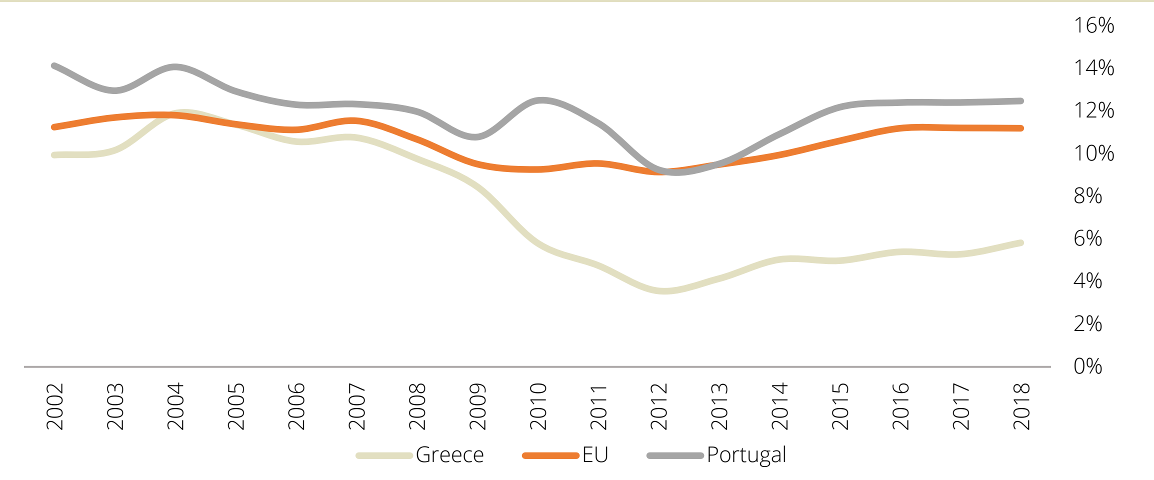
Box 3.1

Evolution of the imports of new vehicles during the Economic Adjustment period

Vehicles and especially passenger cars are a key driver of imports in the Greek economy, as there is essentially no domestic production. The value of imports of new vehicles, of all types, averaged around €4.4 billion in 2002-2009, with their peak recorded in 2007, when imports surged to €5.6 billion. Imports of vehicles were on average 10.4% of the country's total imports, excluding fuels, below that of the EU average over the same period (11.1%) and Portugal (12.7%), which has similar characteristics to the Greek economy. Even in producer countries, the share of imports was higher than in Greece: vehicle imports accounted for 16.8% of the country's total imports in Spain, 12.8% in Italy, 12.1% in the United Kingdom, 11.4% in France and 10.5% in Germany.

Figure 3.24

Share of imports of new vehicles in total imports (excluding fuel)



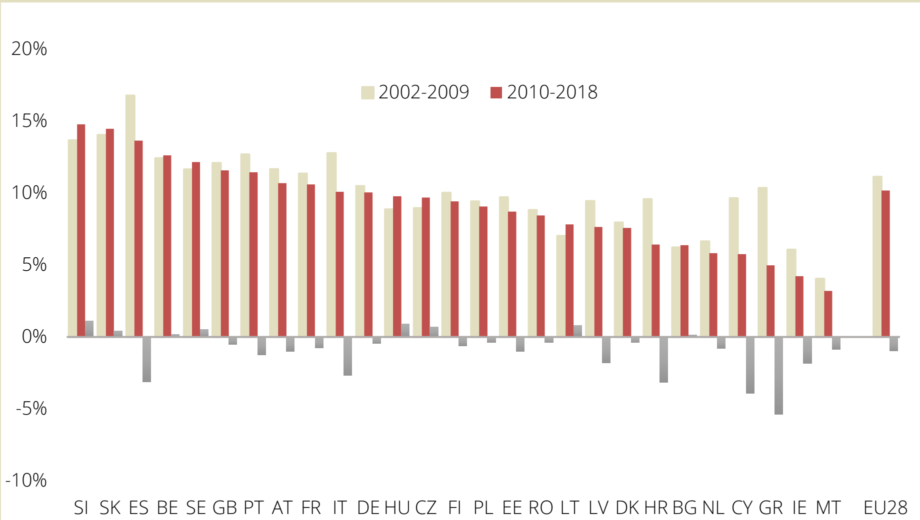
Source: Eurostat

Of all vehicle imports, new passenger cars accounted for 62% of the imports of new vehicles in 2002 - 2009, compared with 52.6% in the European Union and 48.6% in Portugal. Based on passenger car sales data in Greece, almost 80% concerned retail sales, against 20% corporate sales, i.e. mainly rent-a-car and long-term leases (corporate fleets). Therefore, a very large part of the imports concerned private passenger cars.

After 2010 and the start of the Economic Adjustment Programmes, consumption declined significantly, pushing down vehicle sales and hence imports. In 2010-2018, the value of the imports of vehicles fell on average to €1.6 billion with the minimum level of imports recorded in 2012, at €1.06 billion. The change in sales between 2009 and 2018 stood at -40%, with Greece being the only country with a negative sign over this period.

Figure 3.25

Share of imports of new vehicles in total imports (excluding fuel)



Source: Eurostat

As a result of the sharp fall, the value of vehicle imports made up 5.0% of total non-fuel imports in 2010-2018, i.e. half the level from the previous period. At the EU level, imports accounted for 10.2% of total imports during this period, while despite the 2009-2010 crisis, the shares in the five major vehicle-producing countries mentioned earlier did not change significantly, with the exception of Spain, where the share of vehicles fell to 13.7%.

The above observations reveal the strong impact of the recession on the car market and on vehicle imports, as despite the fact that total imports of goods fell after 2010 as a result of the reduced incomes, the imports of vehicles decreased stronger, retreating to a smaller share of total imports. This development was anticipated in part, as vehicles are durable goods, for which the elasticity of demand with respect to income is higher than one. For this reason, when income falls, they experience proportionally stronger decline both compared to income and to the imports of non-durable goods.

The sharp decline in imports had a strong negative economic impact as well. The vehicle sales network shrank by 1,100 stores. In terms of employment, the wider sector of vehicle trade, maintenance and sale of spare parts maintained 97,300 jobs in 2009, which accounted for 2.1% of total employment. Following the pressures of the recession, but also due to the increase in taxation, employment in the sector declined between 2010 and 2019 by 27,000 people, recording a 28%contraction, much greater than that in the economy as a whole (-16%).

In 2010-2018, new passenger cars accounted for 55% of the imported new vehicles, compared with 48% in the European Union, when in the previous period the corresponding rates were, as mentioned above, 62% and 52.6%. In Portugal, the imports of passenger cars now account for 44% of the total imports of vehicles. They therefore experienced a similar decline in their share in percentage point terms to the EU average, while in Greece the decrease was twice as strong. In addition to the decrease in imports, the mix of new passenger cars also changed, as retail sales now account for 53% of total passenger car sales, compared with 78% in 2002-2009.

It is obvious that the imports of vehicles, in the absence of domestic production, and thus also lacking exports, weigh on the country's trade balance. At the same time, however, based on the latest available data, the share of imports of vehicles in total imports in Greece was not far from the European average, while before 2009 it was lower compared with countries with a similar structure in their economy. It is now at even lower levels, with significant impact on economic activity and employment. Meanwhile, the imports of vehicles, especially new ones, enhance productivity and road safety, while contributing to environmental protection, as the new vehicles emit lower emissions.

Table 3.11 Balance of payments (€ million)

		January – August			August		
		2017	2018	2019	2017	2018	2019
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-915.1	-1,905.4	-910.7	1,706.8	1,354.3	1,873.6
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-354.7	-918.5	-238.0	2,122.3	2,032.4	2,643.2
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-13,358.4	-14,497.4	-15,479.4	-1,796.5	-1,935.7	-1,868.2
	Oil balance	-2,660.2	-3,267.0	-3,528.5	-593.4	-558.4	-526.0
	Trade balance excluding oil	-10,698.2	-11,230.4	-11,951.0	-1,203.2	-1,377.3	-1,342.2
	Ships balance	-9.8	-43.6	-280.1	9.2	-0.7	-164.5
	Trade balance excluding ships	-13,348.7	-14,453.8	-15,199.4	-1,805.8	-1,935.0	-1,703.7
	Trade balance excluding oil and ships	-10,688.4	-11,186.8	-11,670.9	-1,212.4	-1,376.6	-1,177.7
I.A.1	Exports	18,180.7	21,347.2	21,578.3	1,973.1	2,519.9	2,330.0
	Oil	5,100.3	6,564.9	6,158.2	532.6	866.4	625.6
	Ships (sales)	77.0	116.9	56.8	14.1	1.6	4.5
	Goods excluding oil and ships	13,003.4	14,665.4	15,363.3	1,426.3	1,651.8	1,699.9
I.A.2	Imports	31,539.1	35,844.6	37,057.8	3,769.6	4,455.5	4,198.2
	Oil	7,760.5	9,831.9	9,686.7	1,126.0	1,424.8	1,151.5
	Ships (buying)	86.8	160.6	336.9	4.9	2.3	169.0
	Goods excluding oil and ships	23,691.8	25,852.1	27,034.2	2,638.7	3,028.5	2,877.6
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	13,003.7	13,578.9	15,241.4	3,918.8	3,968.0	4,511.4
I.B.1	Receipts	23,191.2	25,199.5	27,436.3	5,188.9	5,480.4	6,071.3
	Travel	10,586.9	11,658.4	13,241.5	3,552.7	3,601.3	4,182.5
	Transportation	9,568.1	10,669.7	11,310.6	1,246.7	1,552.3	1,560.5
	Other services	3,036.2	2,871.5	2,884.2	389.4	326.8	328.4
I.B.2	Payments	10,187.5	11,620.7	12,194.9	1,270.0	1,512.3	1,559.9
	Travel	1,275.3	1,433.8	1,839.8	164.7	169.5	255.4
	Transportation	6,195.6	7,121.3	7,298.2	802.5	941.5	980.6
	Other services	2,716.6	3,065.6	3,056.8	302.8	401.2	324.0
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	-442.5	-1,081.4	-1,021.9	-309.5	-576.1	-657.3
I.C.1	Receipts	4,757.9	4,502.6	4,389.5	528.2	316.6	380.2
	From work (wages, compensation)	152.0	140.1	166.7	16.7	19.1	17.9
	From investments (interest, dividends, profit)	2,288.8	1,747.5	1,781.3	399.7	192.8	191.0
	Other primary income	2,317.1	2,615.0	2,441.5	111.9	104.7	171.4
I.C.2	Payments	5,200.3	5,584.0	5,411.5	837.7	892.6	1,037.5
	From work (wages, compensation)	911.8	892.8	945.2	107.4	113.9	123.8
	From investments (interest, dividends, profit)	4,004.4	4,404.0	4,150.7	702.6	755.1	888.0
	Other primary income	284.1	287.2	315.6	27.7	23.6	25.8
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	-117.9	94.5	349.3	-106.0	-102.0	-112.3
I.D.1	Receipts	1,471.2	1,610.9	2,480.0	120.9	105.6	156.2
	General government	772.4	871.7	1,560.8	37.3	34.9	57.1
	Other sectors	698.9	739.3	919.2	83.6	70.7	99.1
I.D.2	Payments	1,589.1	1,516.4	2,130.8	226.9	207.6	268.4
	General government	1,105.6	1,051.9	1,312.4	156.9	133.7	146.0
	Other sectors	483.6	464.5	818.4	70.1	73.9	122.5
II	CAPITAL ACCOUNT (II.1-II.2)	374.1	283.6	261.6	2.3	91.3	0.7
II.1	Receipts	476.2	497.5	636.0	12.4	117.0	61.0
	General government	425.0	301.9	507.9	0.6	66.1	54.3
	Other sectors	51.2	195.5	128.0	11.8	50.9	6.7
II.2	Payments	102.0	213.8	374.3	10.1	25.6	60.3
	General government	1.8	1.9	2.4	0.2	0.4	0.4
	Other sectors	100.2	211.9	371.9	9.9	25.3	59.9
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	*-540.9*	*-1,621.7*	*-649.0*	*1,709.2*	*1,445.6*	*1,874.3*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-673.4	-1,205.4	126.2	1,896.6	1,401.8	1,661.8
III.A	DIRECT INVESTMENT*	-2,196.0	-2,208.4	-2,370.4	-167.1	-86.2	-195.9
	Assets	-56.2	222.0	183.5	13.2	20.4	-45.0
	Liabilities	2,139.9	2,430.4	2,553.9	180.3	106.6	150.9
III.B	PORTFOLIO INVESTMENT*	-5,226.6	-3,358.8	-2,169.8	-5,687.3	1,187.2	-1,128.3
	Assets	-8,564.3	-1,217.0	1,888.2	-4,865.3	605.1	-1,272.4
	Liabilities	-3,337.6	2,141.8	4,058.0	822.0	-582.1	-144.2
III.C	OTHER INVESTMENT*	6,807.3	4,630.8	4,817.5	7,383.0	523.8	2,870.0
	Assets	-6,966.5	-4,471.8	318.6	-119.0	2,478.4	3,261.0
	Liabilities	-13,773.8	-9,102.6	-4,498.9	-7,502.0	1,954.7	391.0
	(Loans of general government)	4,665.3	20,156.0	-1,794.4	-0.6	14,995.2	2.0
III.D	CHANGE IN RESERVE ASSETS**	-58.0	-269.0	-151.0	368.0	-223.0	116.0
IV	BALANCE ITEMS (I +II +IV +V = 0)	-132.4	416.3	775.2	187.4	-43.8	-212.5
	RESERVE ASSETS (STOCK)***				6,430	6,083	7,489

Source: Bank of Greece

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

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4. MEASURES FOR BOOSTING DIGITAL PAYMENTS AND FISCAL REVENUES

- The value of transactions with payment cards soared from €6.1 billion in 2014 to €23.1 billion in 2018.
- The VAT revenues as a percentage of GDP totalled 8.3% in 2018, up from 7.1% in 2014.
- Greece's position remains very low in the ranking of EU member states based on the use of payment cards.
- Despite a significant increase in VAT revenues, the "VAT gap" in Greece remained the second highest in the EU for 2016.
- Therefore, there is still a great potential for further limiting the shadow economy through strengthening the use of digital payments.
- Policies introduced to keep the momentum strong seem to have yielded results, yet further measures are needed to boost electronic payments in sectors with a high risk of tax evasion.

4.1 Introduction

The excessive tax burden is an obstacle to economic recovery. In addition, the need for measures to support vulnerable groups of the population who were particularly hit during the crisis remains heightened. Given the need for social and growth-supporting interventions, but also the very narrow fiscal space, it is necessary to exploit every opportunity to reduce tax evasion and boost tax revenue through expansion of the tax base.

In this direction, the IOBE study on electronic means of payment (EMP) published in July 2018[34] showed that there is a statistically significant positive correlation between the increase in VAT revenue and electronic payments. The study also highlighted that the rapid increase in the use of EMP is not only due to the imposition of restrictions on cash withdrawals, but also based on the measures taken by Law 4446/2016 (such as higher income tax for individuals with a low rate of electronic payments use, mandatory installation of POS card terminals and lottery with lots resulting from electronic payments).

The need to create fiscal space and the positive impact of the measures to strengthen the use of EMP on tax revenues substantiate the need for additional incentives in this direction. This chapter analyses recent developments in relation to the use of EMP and tax compliance and examines the possibilities for strengthening the incentives to use EMP.

4.2 Recent developments and assessment of the current situation

The use of EMP in Greece has dramatically strengthened since the domestic banking system imposed cash withdrawal restrictions in 2015. The value of transactions with payment cards soared from €6.1 billion in 2014 to €23.1 billion. 2018 (3.7 times growth). The increase was even higher (by 7.1 times) in terms of number of transactions – from 88.0 million payments in 2014 to 631.1 million payments in 2018 (Figure 4.1). However, the growth rate of electronic payments has slowed down after 2016, particularly strongly in 2018 and early 2019.

Despite the significant progress since 2015, Greece's position remains very low in the ranking of EU member countries based on the use of payment cards, while the distance from the EU and Eurozone averages remains long (Figure 4.2). Indicatively, the value of transactions with payment cards is estimated at 18.4% of private consumption in Greece, compared with an average of 29.3% in the Euro area and 36.7% in the EU. Only three countries (Romania, Bulgaria and Germany) have a lower position than Greece.

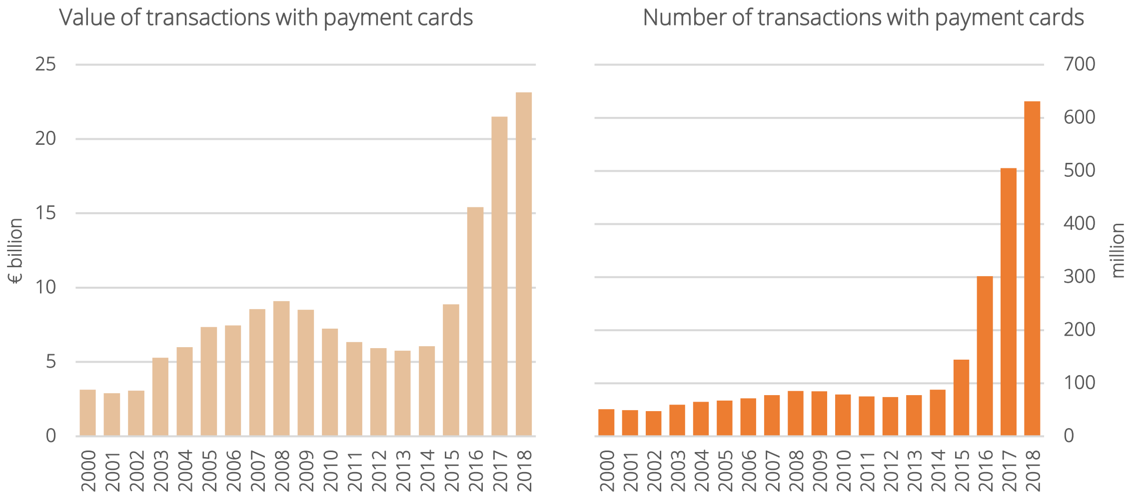
Alongside the stronger EMP use, the revenues from Value Added Tax (VAT) increased from €12.7 billion in 2014 to €15.3 billion in 2018 (20.6% overall increase). As a percentage of GDP, VAT revenues totalled 8.3% in 2018 and 8.1% in 2017 (up from 7.1% in 2014), recording the highest level in this index since at least 2000 (Figure 4.3). Despite a significant increase in VAT revenue, according to a recent European Commission estimate, the "VAT gap" in Greece remained the second highest

[34] IOBE (2018), Digital payments after the capital controls: Support measures and tax revenues, http://iobe.gr/research_dtl_en.asp?RID=162

in the EU for 2016, as the actual VAT revenues were estimated to be lower than the expected VAT revenues by around 29% or €6 billion, while the corresponding indicator averaged 10% in the EU.

Figure 4.1

Payment card transactions in Greece, 2000-2018



Source: European Central Bank

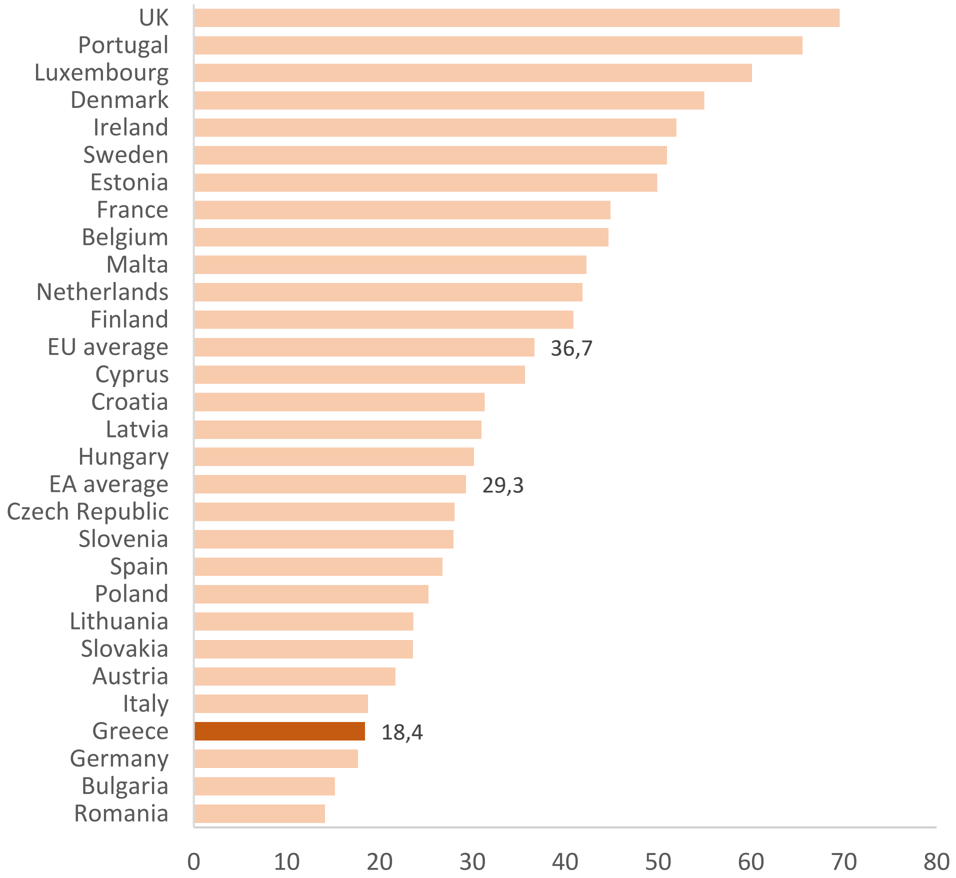
Therefore, the progress made recently in Greece both in boosting the use of electronic payments and in collecting VAT revenue is significant. The measures of Law 4446/2016 appear to have yielded positive results, overall boosting electronic payments. The obligation to install POS card terminals in a large number of sectors, together with the obligation to achieve a minimum value of electronic payments and the restrictions on the withdrawal of cash from the banking system, led to a change in the payment culture in the country. Nowadays, a card payment in large and small food stores, eateries and other consumer goods outlets is no longer an exception.

However, there is still a lot of room for further limiting the shadow economy through boosting the use of EMP. It seems that the use of EMP in sectors with high risk of tax evasion remains very low. In particular, in branches of services where it is possible for the consumers to pay a lower price when no receipt is issued, the use of card payments has remained rare despite the compulsory POS installation. As a result, a large share of POS terminals in these branches underperform or remain inactive.

Therefore, stronger policy interventions are needed, aimed at transactions with high tax evasion risk, so that the increase in electronic payments can generate further benefits in terms of shadow economy reduction. The objective to improve tax compliance can be achieved through stronger incentives to use EMP, disincentives for the use of cash, but also through the conversion of existing EMP support instruments to more targeted incentives.

Figure 4.2

Value of payment card transaction in EU countries as a percentage of private consumption in 2018

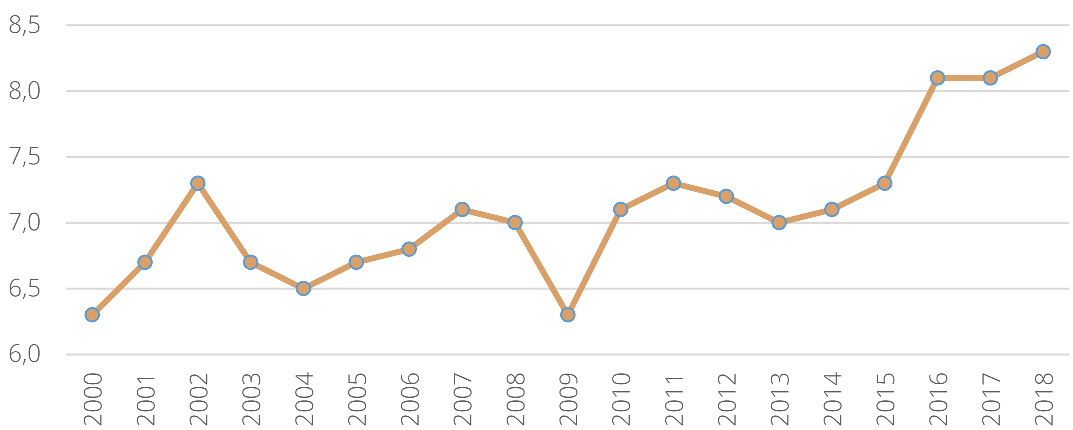


Note. The figures for the United Kingdom relate to 2017.

Source: ECB. Data processing: IOBE

Figure 4.3

VAT revenue as a percentage of GDP



Source: Eurostat

4.3 Possibilities for strengthening existing measures

Tax surcharge for low EMP use

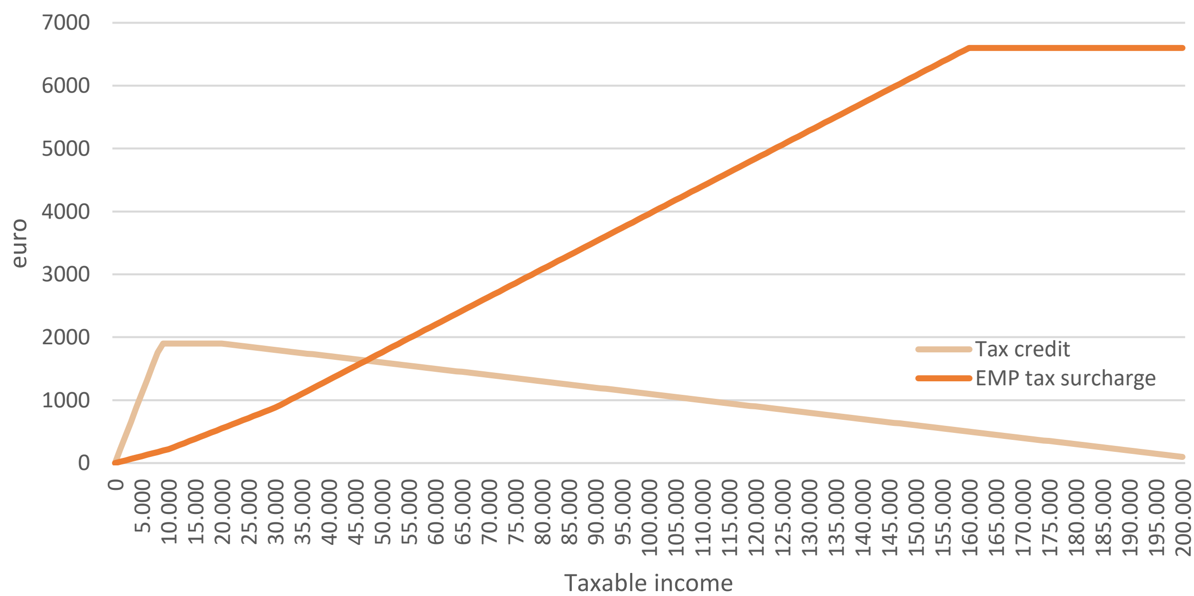
The tax surcharge in the event of insufficient use of EMP for people receiving income from salaries and pensions is a key policy measure to boost the use of EMP. It equals 22% times the difference between required and actual use of EMP per income bracket. The "required" use of EMP is set at 10% of income for annual income up to €10,000, 15% of income for annual income between €10,000 and €30,000 and 20% of income for an annual income of more than €30,000.

The main weaknesses of the existing measure are that it is limited to income from wages and pensions, it is exclusively punitive, disincentives are created for savings for higher incomes and there is no targeting in transactions with higher risk of tax evasion. Most of these weaknesses are related with the nominal link between the measure and the tax deduction on income from wages and pensions, which acts as tax allowance.

The surcharge has been verbally linked to the tax credit, yet it essentially acts as an independent tax measure. The link is only verbal, as if a person who does not use EMP at all and declares income from salaries and pensions below a certain threshold (approximately €47,000), the tax deduction she receives is higher than the surcharge for non-use of EMP. Accordingly, for people with higher income, the surcharge in the event of non-use of EMP is considerably higher than the tax deduction that they receive (Figure 4.4).

Figure 4.4

Tax surcharge due to non-use of EMP and the tax credit



The high surcharge for not using EMP on high incomes acts as a disincentive to savings. The disincentive will be further strengthened once the planned increase to 30% of income in the rates setting the required use of EMP is implemented. In order to limit this disincentive, the ceiling of the surcharge (€6,600) can be reduced or an equivalent incentives to boost savings (such as a tax deduction for long-term placements in domestic securities and a boost of the 2nd and 3rd pension pillars) can be introduced.

The link with the tax allowance limits the scope of the measure to income from salaries and pensions, as the tax code does not provide for a tax deduction for income from other sources (e.g. from business activity). Thus, the existing tax measure does not provide incentives to use EMP to a significant part of the taxpayers (such as the self-employed). The decoupling of the surcharge from the tax allowance enables the extension of the measure to other sources of income.

The verbal interconnection with the tax allowance creates risks of significantly weakening the incentives of the surcharge. Today, the rate of the tax surcharge for insufficient use of EMP and the entry rate on the income tax scale are equal (22%). If the planned change in the entry tax rate from 22% to 9% also drags down the rate of the EMP tax surcharge, the strength of this incentive will weaken significantly.

In the direction of strengthening the targeting of existing measures, a possible change concerns the differentiation of the definition of the required use. Transactions with a low estimated risk of tax evasion (e.g. payments for utilities) could be of reduced weight or excluded, while transactions with a high estimated risk of tax evasion could have increased weight in the calculation of the required use. Alternatively, part of the existing tax deduction could be converted into a conditional deduction linked to adequate use of EMP in transactions with a heightened risk of tax evasion.

The main weakness of the targeting effort through the existing tax surcharge or through a real link to the tax allowance is that it raises the complexity of the income tax system. One of the basic principles of tax policy planning is that taxation should be understandable to the taxpayers. When the tax system is complicated, it makes it difficult for households and businesses to make optimal decisions, the taxpayers may not behave as the tax policy planners expect and ultimately tax policy may not lead to the desired result.

Therefore, in order to target the use of EMP in transactions with higher risk of tax evasion, it is preferable to introduce measures that are not punitive in nature, do not increase the complexity of existing measures with parametric changes and are not linked to measures established for other economic and social policy purposes (such as the tax allowance). Such measures are described in the next section of this chapter.

Lottery with lots resulting from electronic payments

An additional measure of Law 4446/2016 that can be significantly improved is the lottery for the use of EMP. Improvements can be made both in terms of its targeting and in terms of its public awareness.

It would be useful for the lottery to focus on transactions with high risk of tax evasion, where it is particularly difficult to incentivise the consumers to use EMP through tax exemptions. In this type of transactions, the parties to the transaction can fully avoid paying tax by paying cash and therefore the incentive to deduct some of the tax cannot exceed the consumers' profit from using cash and at the same time achieve a positive fiscal impact. In such cases, it makes particular sense to implement the lottery measure, which introduces in the transaction the element of luck. The consumer (as well as the professional, as proposed in the next section) gets the opportunity to win a prize of much higher value than the profit she receives by avoiding paying VAT.

In order to increase the likelihood of a win per transaction of this type, the lottery should only concern transactions with high risk of tax evasion (e.g. for services offered by freelancers). Alternatively, the number of lots gained by transactions could be differentiated by sector, depending on the risk of tax evasion (low, moderate and high).

In terms of improving public awareness, it would be instructive to learn from the lottery implementation practices in other countries, such as Portugal and Serbia. In Portugal, the lottery is designed in such a way that there are fewer winners, but bigger prizes and more advertising. In Serbia, the lottery has fewer draws, but enjoys more media coverage.

4.4 Indicative new measures to increase the use of EMP

The international experience in introducing measures to promote electronic payments shows us that there are still a number of interventions that could be considered in the case of Greece as well. The additional interventions in the regulatory framework can be grouped into three categories per recipient – consumers, businesses and the State (Figure 4.5).

On the consumer side, a small income tax deduction could be given for the use of EMP, excluding transactions with low risk of tax evasion (e.g. food, clothing, household equipment and other consumer goods). In this way, tax discounts for specific household expenditure items, such as payments for medical services, which were recently abolished, could be reinstated, provided that they are paid electronically. The use of electronic means of payment increases the effectiveness of these tax deductions in terms of revealing more taxable income, as it improves transparency and the possibility of audits by the tax authorities through cross-checking with banking system data. It is recommended to introduce a maximum limit on this income tax deduction in euro per household to contain the cost of the measure.

In addition, a measure that has had significant results in South Korea could be implemented in Greece as well, adapted to the characteristics of the Greek economy. In particular, a percentage (e.g. 5%) of the value of transactions could be reimbursed if they are undertaken with EMP in sectors of medium and high risk of tax evasion or even in regions of the country with low use of EMP. The choice of sectors and regions can also be linked to recent VAT interventions, such as the abolition of the reduced rate for food services and the discount for the Aegean islands. The repayment of part of the transaction value if electronic payment is made to specific branches and regions can be made either at the end of each transaction or it can aggregated to be paid on a regular basis (e.g. by monthly credit to bank accounts). For this incentive as well, it is recommended that there is a maximum amount of reimbursement per household (e.g. €500 per year) to limit the total fiscal cost of the measure.

On the business side, in addition to ensuring full compliance with the obligations under Law 4446/2016, there is room for positive incentives for EMP acceptance in transactions with moderate and high risk of tax evasion. For example, it would be reasonable to consider extending the lottery and income tax deduction measures for self-employed and categories of entrepreneurs active in sectors with high risk of tax evasion, as long as they achieve annual targets for accepting electronic payments. The eligibility of the undertakings will be determined mainly on the basis of sectoral criteria (e.g. per activity code), but also possibly on the basis of their size or geographical characteristics.

Figure 4.5

Indicative policy measures to boost incentives to use EMP

Demand - Consumers

- 5% refund on the value of card transactions in targeted sectors or regions
- Small deduction on income tax targeted in cases of high EMP use in sectors with medium & high risk of tax evasion

Supply - Businesses

- Lottery or tax deduction for freelancers achieving EMP penetration targets
- Deduction of expenses only when paid with EMP
- Implementation of e-invoicing

State

- Monitoring of the timely and full implementation of Law 4446/2016
- Mandatory declaration of all professional accounts used by businesses and self-employed persons, within a specific deadline, and imposition of fines in the event of non-compliance

Source: IOBE (2018)

The EMP penetration targets can include a combination of both the level of EMP usage and their desired increase in use over time. For example, a small deduction on income tax or the eligibility of a free-lancer for the lottery may depend on her total annual turnover with EMP, while a higher deduction on income tax can be set on incremental turnover with EMP achieved by the company compared to the previous year.

At the same time, it is necessary to ensure the full implementation of the mandatory installation of POS terminals as well as the e-invoicing in all categories of professionals in accordance with the implementation phases laid down in Law 4446/2016. In addition to monitoring and the imposition of fines in the event of refusal to accept cards, the consumers may be incentivised to report businesses and professionals that have refused a card payment (even in cases where there is a POS terminal which repeatedly experiences a "technical problem"), with tougher penalties in cases of repeated offences. In addition, the possibility of deducting a business expenditure could be conditioned on payment with EMP.

On the side of the State, it is important to ensure the timely and full implementation of Law 4446/2016. In this regard, the compulsory installation of a POS terminal should be extended to professions and sectors where this is still pending (e.g. taxis, public transport). It is important to further strengthen the public services that analyse and utilise the EMP transactions data to better target the audits by the tax authorities, while ensuring the protection of personal data.

In relation to additional administrative measures that may increase the penetration of EMP, an important area is the mandatory introduction of EMP on all kinds of payroll. This concerns both the supervision of the existing regulation where payments of salaries, pensions and allowances must be made through the banking system, but also to extend this measure for payments to contractors and employed free-lancers.

There is also room to extend the use of EMP in a large number of public services and procedures. This includes the spread of EMP acceptance in public services and state-owned enterprises (e.g. enable the use of NFC devices for contactless transactions on public transport), or the extension of the use of the digital administrative fee (e-paravolo) together with the possibility of paying it with alternative EMP (e.g. POS terminals in the citizen offices KEP and the use of QR Codes through mobile applications).

An administrative measure taken in Greece in 2014 was to reduce the cash transaction cap to €500. As the use of cash in Greece remains high compared to other countries, and although the monitoring of the implementation of this measure is not easy, the cap on payment of invoices with cash can be reduced further. This limit could even be set to zero for legal entities, for which non-compliance with the measure could make the expenditure non-deductible.

An obstacle to the further spread of the use of EMP, on the part of both consumers and businesses, stems from the volatility and instability of tax policy. The uncertainty and frequency of tax changes affects adversely the use of EMP. The consumers may be concerned that these transactions may be used in the future for the calculation of imputed income and taxes or trigger audits on their own tax compliance. It is necessary to reward the use of EMP and ensure that it is not used as a measure to further charge compliant taxpayers who make increased use of EMP.

4.5 Conclusions

The spread of the use of EMP in Greece gained strong momentum after the imposition of cash withdrawal restrictions in the summer of 2015. This dynamic did not have transient features, despite the gradual easing of the restrictions, as it strengthened in 2017, presenting prospects for further growth in the future.

Policies introduced to keep the momentum strong seem to have yielded good results, yet further measures are needed to boost electronic payments in sectors with a high risk of tax evasion. The transfer of good practices to the domestic regulatory framework, taking into account the specificities of the Greek economy and providing appropriate incentives to consumers, businesses and the State, could maintain and even strengthen the EMP penetration momentum, with significant benefits for the country's public finances. The immediate implementation of more targeted incentives to support the use of EMP will lead to stronger tax compliance and broader tax base.

APPENDIX

Table 1: GDP Rate of Change

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-3.8	1.8	2.9	0.7	0	0.7	1.1	2	2.6	2.4
Belgium	-2.3	2.7	1.8	0.2	0.2	1.3	1.7	1.5	1.7	1.4
Bulgaria	-3.6	1.3	1.9	0	0.5	1.8	3.5	3.9	3.8	3.1
France	-2.9	1.9	2.2	0.3	0.6	1	1.1	1.1	2.3	1.7
Germany	-5.6	4.1	3.7	0.5	0.5	2.2	1.7	2.2	2.2	1.5
Denmark	-4.9	1.9	1.3	0.2	0.9	1.6	2.3	2.4	2.3	1.5
Czech Republic	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.5	4.4	3
EU	-4.3	2.1	1.8	-0.4	0.3	1.8	2.3	2	2.5	2
Greece	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.4	-0.2	1.5	1.9
Estonia	-14.7	2.3	7.6	4.3	1.9	2.9	1.9	3.5	4.9	4.8
Euro area	-4.5	2.1	1.6	-0.9	-0.2	1.4	2.1	1.9	2.4	1.9
United Kingdom	-4.2	1.7	1.6	1.4	2	2.9	2.3	1.8	1.8	1.4
Ireland	-5	1.9	3.7	0.2	1.3	8.8	25.1	5	7.2	8.2
Spain	-3.6	0	-1	-2.9	-1.7	1.4	3.6	3.2	3	2.4
Italy	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.9	1.1	1.7	0.8
Croatia	-7.3	-1.5	-0.3	-2.3	-0.5	-0.1	2.4	3.5	2.9	2.6
Cyprus	-2	1.3	0.4	-2.9	-5.8	-1.3	2	4.8	4.5	4.1
Latvia	-14.4	-3.9	6.4	4	2.4	1.9	3	2.1	4.6	4.6
Lithuania	-14.8	1.6	6	3.8	3.5	3.5	2	2.4	4.1	3.6
Luxembourg	-4.4	4.9	2.5	-0.4	3.7	4.3	3.9	2.4	1.5	3.1
Malta	-2.5	3.5	1.3	2.8	4.6	8.7	10.8	5.6	6.8	6.8
Netherlands	-3.7	1.3	1.6	-1	-0.1	1.4	2	2.2	2.9	2.6
Hungary	-6.6	0.7	1.7	-1.6	2.1	4.2	3.5	2.3	4.1	5.1
Poland	2.8	3.6	5	1.6	1.4	3.3	3.8	3.1	4.8	5.1
Portugal	-3	1.9	-1.8	-4	-1.1	0.9	1.8	1.9	2.8	2.4
Romania	-5.5	-3.9	2	2.1	3.5	3.4	3.9	4.8	7	4
Slovakia	-5.4	5	2.8	1.7	1.5	2.8	4.2	3.1	3.2	4.1
Slovenia	-7.8	1.2	0.6	-2.7	-1.1	3	2.3	3.1	4.9	4.1
Sweden	-5.2	6	2.7	-0.3	1.2	2.6	4.5	2.7	2.1	2.3
Finland	-8.3	3	2.6	-1.4	-0.8	-0.6	0.5	2.8	3	1.7

Table 2: General Government Debt as % of GDP

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

Table 3: General Government Balance as % of GDP

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-5.3	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.6	-0.8	0.1
Belgium	-5.4	-4.0	-4.2	-4.2	-3.1	-3.1	-2.4	-2.4	-0.8	-0.7
Bulgaria	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.7	0.1	1.2	2
France	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.5	-2.8	-2.5
Germany	-3.2	-4.2	-1.0	0.0	-0.1	0.6	0.8	0.9	1	1.7
Denmark	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.3	-0.1	1.4	0.5
Czech Republic	-5.5	-4.2	-2.7	-3.9	-1.2	-2.1	-0.6	0.7	1.6	0.9
EU	-6.6	-6.4	-4.6	-4.3	-3.3	-2.9	-2.3	-1.7	-1	-0.6
Greece	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.6	0.5	0.7	1.1
Estonia	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3	-0.4	-0.6
Euro area	-6.2	-6.2	-4.2	-3.7	-3.1	-2.5	-2.0	-1.6	-1	-0.5
United Kingdom	-10.1	-9.3	-7.5	-8.1	-5.3	-5.3	-4.2	-2.9	-1.9	-1.5
Ireland	-13.8	-32.1	-12.8	-8.1	-6.2	-3.6	-1.9	-0.7	-0.3	0
Spain	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.3	-4.5	-3.1	-2.5
Italy	-5.2	-4.2	-3.7	-2.9	-2.9	-3.0	-2.6	-2.5	-2.4	-2.1
Croatia	-6.0	-6.3	-7.9	-5.3	-5.3	-5.1	-3.2	-1.0	0.8	0.2
Cyprus	-5.4	-4.7	-5.7	-5.6	-5.1	-9.0	-1.3	0.3	1.8	-4.8
Latvia	-9.5	-8.6	-4.3	-1.2	-1.2	-1.4	-1.4	0.1	-0.6	-1
Lithuania	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.3	0.2	0.5	0.7
Luxembourg	-0.7	-0.7	0.5	0.3	1.0	1.3	1.4	1.9	1.4	2.4
Malta	-3.2	-2.4	-2.4	-3.5	-2.4	-1.7	-1.0	0.9	3.4	2
Netherlands	-5.1	-5.2	-4.4	-3.9	-2.9	-2.2	-2.0	0.0	1.2	1.5
Hungary	-4.5	-4.5	-5.4	-2.4	-2.6	-2.6	-1.9	-1.6	-2.2	-2.2
Poland	-7.3	-7.3	-4.8	-3.7	-4.1	-3.7	-2.7	-2.2	-1.5	-0.4
Portugal	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0	-3	-0.5
Romania	-9.1	-6.9	-5.4	-3.7	-2.2	-1.3	-0.7	-2.7	-2.7	-3
Slovakia	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.6	-2.2	-0.8	-0.7
Slovenia	-5.8	-5.6	-6.7	-4.0	-14.7	-5.5	-2.8	-1.9	0	0.7
Sweden	-0.7	0.0	-0.2	-1.0	-1.4	-1.6	0.0	1.0	1.4	0.9
Finland	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.8	-1.7	-0.8	-0.7

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

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	19.1	18.9	19.2	18.5	18.8	19.2	18.3	18.0	18.1	17.5
Belgium	20.2	20.8	21.0	21.6	20.8	21.2	21.1	20.7	20.3	19.8
Bulgaria	46.2	49.2	49.1	49.3	48.0	40.1	41.3	40.4	38.9	32.8
France	18.5	19.2	19.3	19.1	18.1	18.5	17.7	18.2	17	17.4
Germany	20.0	19.7	19.9	19.6	20.3	20.6	20.0	19.7	19	18.7
Denmark	17.6	18.3	17.6	17.5	18.3	17.9	17.7	16.8	17.2	17.4
Czech Republic	14.0	14.4	15.3	15.4	14.6	14.8	14.0	13.3	12.2	12.2
EU	:	23.8	24.3	24.8	24.6	24.4	23.8	23.5	22.4	21.7
Greece	27.6	27.7	31.0	34.6	35.7	36.0	35.7	35.6	34.8	31.8
Estonia	23.4	21.7	23.1	23.4	23.5	26.0	24.2	24.4	23.4	24.4
Euro area	21.6	22.0	22.9	23.3	23.1	23.5	23.1	23.1	22.1	21.6
United Kingdom	22.0	23.2	22.7	24.1	24.8	24.1	23.5	22.2	22	:
Ireland	25.7	27.3	29.4	30.1	29.9	27.7	26.0	24.4	22.7	:
Spain	24.7	26.1	26.7	27.2	27.3	29.2	28.6	27.9	26.6	26.1
Italy	24.9	25.0	28.1	29.9	28.5	28.3	28.7	30.0	28.9	27.3
Croatia	:	31.1	32.6	32.6	29.9	29.3	29.1	27.9	26.4	24.8
Cyprus	23.5	24.6	24.6	27.1	27.8	27.4	28.9	27.7	25.2	23.9
Latvia	37.9	38.2	40.1	36.2	35.1	32.7	30.9	28.5	28.2	28.4
Lithuania	29.6	34.0	33.1	32.5	30.8	27.3	29.3	30.1	29.6	28.3
Luxembourg	17.8	17.1	16.8	18.4	19.0	19.0	18.5	19.8	21.5	21.9
Malta	20.3	21.2	22.1	23.1	24.6	23.9	23.0	20.3	19.3	19
Netherlands	15.1	15.1	15.7	15.0	15.9	16.5	16.4	16.7	17	16.7
Hungary	29.6	29.9	31.5	33.5	34.8	31.8	28.2	26.3	25.6	19.6
Poland	27.8	27.8	27.2	26.7	25.8	24.7	23.4	21.9	19.5	18.9
Portugal	24.9	25.3	24.4	25.3	27.5	27.5	26.6	25.1	23.3	21.6
Romania	43.0	41.5	40.9	43.2	41.9	40.3	37.4	38.8	35.7	32.5
Slovakia	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1	16.3	:
Slovenia	17.1	18.3	19.3	19.6	20.4	20.4	19.2	18.4	17.1	16.2
Sweden	17.8	17.7	18.5	17.7	18.3	18.2	18.6	18.3	17.7	18
Finland	16.9	16.9	17.9	17.2	16.0	17.3	16.8	16.6	15.7	16.5

Table 5: Inflation

	Annual Data (%)				January - September			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	0.8	1.0	2.2	2.1	2.2	2.1	1.5	-0.6	-0.1
Belgium	0.6	1.8	2.2	2.3	2.3	2.2	1.5	-0.6	-0.1
Bulgaria	-1.1	-1.3	1.2	2.6	1.0	2.5	2.5	0.0	1.5
France	0.1	0.3	1.2	2.1	1.1	2.1	1.3	-0.8	0.9
Germany	0.1	0.4	1.7	1.9	1.7	1.8	1.6	-0.2	0.0
Denmark	0.2	0.0	1.1	0.7	1.0	0.7	0.8	0.0	-0.3
Czech Republic	0.3	0.7	2.4	2.0	2.4	2.0	2.5	0.4	-0.4
EU	0.0	0.3	1.7	1.9	1.7	1.8	1.4	-0.5	0.1
Greece	-1.1	0.0	1.1	0.8	1.2	0.6	0.6	-0.1	-0.6
Estonia	0.1	0.8	3.6	3.4	3.5	3.3	2.5	-0.9	-0.2
Euro area	0.0	0.2	1.5	1.7	1.6	1.7	1.3	-0.4	0.1
United Kingdom	0.1	0.6	2.7	2.5	2.6	2.5	:	:	0.0
Ireland	0.0	-0.2	0.3	0.7	0.2	0.7	0.9	0.2	0.5
Spain	-0.6	-0.3	2.0	1.7	2.2	1.7	0.9	-0.8	-0.5
Italy	0.1	0.0	1.3	1.2	1.4	1.2	0.8	-0.4	-0.2
Croatia	-0.3	-0.6	1.3	1.6	1.2	1.6	0.8	-0.9	0.4
Cyprus	-1.5	-1.2	0.7	0.8	0.9	0.5	0.7	0.1	-0.3
Latvia	0.2	0.1	2.9	2.6	3.0	2.4	3.0	0.5	-0.6
Lithuania	-0.7	0.7	3.7	2.5	3.6	2.6	2.3	-0.3	-1.0
Luxembourg	0.1	0.0	2.1	2.0	2.2	1.9	1.8	-0.1	-0.3
Malta	1.2	0.9	1.3	1.7	1.2	1.8	1.6	-0.2	0.6
Netherlands	0.2	0.1	1.3	1.6	1.3	1.5	2.7	1.1	0.2
Hungary	0.1	0.5	2.4	2.9	2.4	2.8	3.4	0.6	0.4
Poland	-0.7	-0.2	1.6	1.2	1.6	1.2	2.0	0.8	-0.4
Portugal	0.5	0.6	1.6	1.2	1.5	1.3	0.3	-0.9	-0.2
Romania	-0.4	-1.1	1.1	4.1	0.7	4.3	4.0	-0.3	3.6
Slovakia	-0.3	-0.5	1.4	2.5	1.2	2.7	2.7	0.0	1.5
Slovenia	-0.8	-0.2	1.6	1.9	1.6	1.9	1.7	-0.2	0.4
Sweden	0.7	1.1	1.9	2.0	1.9	2.0	1.7	-0.2	0.1
Finland	-0.2	0.4	0.8	1.2	0.9	1.1	1.2	0.1	0.1

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

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	126	128	132	131	130	129	128	127	127
Belgium	120	119	121	120	119	118	118	116	115
Bulgaria	44	45	46	45	47	47	48	49	50
France	108	108	107	108	107	106	104	104	104
Germany	120	123	124	124	126	124	124	124	123
Denmark	129	128	127	128	128	127	126	128	126
Czech Republic	83	83	82	84	86	87	88	89	90
EU	100	100	100	100	100	100	100	99	99
Greece	85	75	72	72	71	69	68	67	68
Estonia	65	71	74	75	77	76	77	79	81
Euro area	108	108	107	107	107	106	106	106	106
United Kingdom	108	106	108	108	109	109	107	106	104
Ireland	130	130	131	132	136	178	177	181	187
Spain	96	92	91	89	90	91	91	92	91
Italy	104	104	101	98	96	95	97	96	95
Croatia	59	60	60	60	59	59	61	62	63
Cyprus	100	96	91	84	81	82	84	85	87
Latvia	53	57	60	62	63	64	64	67	70
Lithuania	60	66	70	73	75	75	75	78	81
Luxembourg	257	265	260	261	269	266	260	253	254
Malta	83	82	84	85	89	93	95	98	98
Netherlands	135	134	134	135	131	130	128	128	129
Hungary	65	66	66	67	68	68	67	68	70
Poland	62	65	67	67	67	69	68	70	71
Portugal	82	77	75	76	77	77	77	77	76
Romania	51	52	54	54	55	56	59	63	64
Slovakia	74	74	76	76	77	77	77	76	78
Slovenia	83	83	82	82	82	82	83	85	87
Sweden	125	126	127	125	124	125	122	121	121
Finland	116	117	115	113	110	109	109	109	110

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

	Annual Data								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	115.3	115.6	117.5	116.8	116.3	116.9	117.5	116.3	118.2
Belgium	131.2	129.6	130.5	130	130.3	129.8	129.7	128.9	:
Bulgaria	41.2	42.1	43.5	42.7	43.8	44	45.3	45.5	47.2
France	116.9	116.6	115	116.3	115.7	115.4	115.2	115.1	126
Germany	105	106.3	105.1	104.5	106.4	105.7	106.4	106.3	123.2
Denmark	115.1	114.5	114.2	115	115.1	114.5	114.3	116.3	134.8
Czech Republic	77.1	77.3	76	76.5	79	79.7	79.9	81.6	76.1
EU	100	100	100	100	100	100	100	100	100
Greece	89.5	85.4	85.8	86.8	86.1	83.2	81.3	80.3	64.2
Estonia	70.5	71.9	73.2	73.1	74.7	71.7	73.5	74.4	70.5
Euro area	107.8	107.7	107.1	107.2	107.3	107.1	107.2	106.9	110.5
United Kingdom	104	102.2	102.6	102.3	102	101.7	100.3	100.1	97.7
Ireland	141.6	144.4	146.8	142.7	146.4	188.2	183.4	187	178.4
Spain	101.8	101.1	102.9	103.2	103.2	101.9	101.3	100.9	96.3
Italy	112.7	112	109.9	108.5	107	106.1	107.7	107	100.9
Croatia	67.2	70.1	72.3	73.4	70.6	70.5	72.3	71.9	65.1
Cyprus	91.4	89.8	88.6	86.6	84.9	84.5	84.1	83.8	76.3
Latvia	58.7	61.3	62.8	62.3	64.3	63.9	64.5	67.3	59.6
Lithuania	67.1	71.2	72.9	74	74.5	73.1	72.1	75.2	66.3
Luxembourg	162.3	166.1	161.8	163.1	169.1	167.5	165.1	160.6	177.8
Malta	94.6	91	90	89.2	90.9	94.9	95.8	94.6	81
Netherlands	114.6	113.3	113.1	114.9	113.1	112.4	110.4	110.5	126.3
Hungary	73	74	72.7	73	71	69.9	66.9	67.3	66.5
Poland	70	72.6	73.9	73.7	73.5	74.2	73.9	75.4	63.4
Portugal	79.7	76.3	76.6	79.5	78.7	78.1	77.8	75.6	65.3
Romania	50.4	51.2	55.4	56	56.5	58.4	63	65.2	62
Slovakia	83.4	81.4	82.3	83.5	83.8	82.5	81.6	80.3	78.2
Slovenia	79.4	80.6	80	80.3	81.2	80.5	80.7	81.9	84.1
Sweden	116.7	116.2	116.2	113.9	113.2	114.7	112.4	111.7	113.8
Finland	112.5	112.4	109.3	108.1	107.3	107.4	107.9	108.6	110.9

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

	Annual Data (%)					Q2 (%)			Change (%)	
	2014	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	74.2	74.3	74.8	75.4	76.1	75.7	76.3	76.9	0.6	0.6
Belgium	67.3	67.2	67.7	68.5	69.7	68.2	69.0	71.0	2.0	0.8
Bulgaria	65.1	67.1	67.7	71.3	72.4	71.7	72.6	75.7	3.1	0.9
France	69.2	69.5	70	70.6	71.3	71.0	71.5	71.8	0.3	0.5
Germany	77.7	78	78.6	79.2	79.9	79.0	79.6	80.5	0.9	0.6
Denmark	75.9	76.5	77.4	76.9	78.2	76.8	78.5	78.3	-0.2	1.7
Czech Republic	73.5	74.8	76.7	78.5	79.9	78.2	79.8	80.2	0.4	1.6
EU	69.2	70	71	72.1	73.1	72.3	73.2	74.0	0.8	0.9
Greece	53.3	54.9	56.2	57.8	59.5	58.2	59.9	61.9	2.0	1.7
Estonia	74.3	76.5	76.6	78.7	79.5	77.7	79.6	79.3	-0.3	1.9
Euro area	68.1	68.9	69.9	70.9	71.9	70.9	71.9	72.7	0.8	1.0
United Kingdom	76.2	76.8	77.5	78.2	78.7	78.2	78.5	79.1	0.6	0.3
Ireland	68.1	69.9	71.4	73	74.1	72.7	74.0	74.8	0.8	1.3
Spain	59.9	62	63.9	65.5	67.0	65.5	67.1	68.2	1.1	1.6
Italy	59.9	60.5	61.6	62.3	63.0	62.5	63.5	64.0	0.5	1.0
Croatia	59.2	60.6	61.4	63.6	65.2	63.8	65.8	66.4	0.6	2.0
Cyprus	67.6	67.9	68.7	70.8	73.9	71.1	74.9	76.6	1.7	3.8
Latvia	70.7	72.5	73.2	74.8	76.9	74.3	76.8	77.2	0.4	2.5
Lithuania	71.8	73.3	75.2	76	77.8	76.3	77.6	78.4	0.8	1.3
Luxembourg	72.1	70.9	70.7	71.5	72.1	71.4	71.3	73.2	1.9	-0.1
Malta	67.9	69	71.1	73	75.0	72.7	75.1	77.3	2.2	2.4
Netherlands	75.4	76.4	77.1	78	79.2	77.9	78.9	80.1	1.2	1.0
Hungary	66.7	68.9	71.5	73.3	74.4	73.2	74.5	75.2	0.7	1.3
Poland	66.5	67.8	69.3	70.9	72.2	71.1	72.4	73.1	0.7	1.3
Portugal	67.6	69.1	70.6	73.4	75.4	73.2	75.5	76.1	0.6	2.3
Romania	65.7	66	66.3	68.8	69.9	70.5	70.7	71.6	0.9	0.2
Slovakia	65.9	67.7	69.8	71.1	72.4	71.1	72.0	73.0	1.0	0.9
Slovenia	67.7	69.1	70.1	73.4	75.5	73.4	75.5	77.1	1.6	2.1
Sweden	80	80.5	81.2	81.8	82.6	82.1	82.8	82.8	0.0	0.7
Finland	73.1	72.9	73.4	74.2	76.3	74.6	76.8	77.5	0.7	2.2

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

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

	Annual Data (%)					Q2 (%)			Change (%)	
	2014	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	45.1	46.3	49.2	51.3	54.0	50.8	53.4	54.2	0.8	2.6
Belgium	42.7	44.0	45.4	48.3	50.3	47.7	49.8	52.3	2.5	2.1
Bulgaria	50.0	53.0	54.5	58.2	60.7	58.3	61.0	65.0	4.0	2.7
France	46.9	48.7	49.8	51.3	52.1	51.7	52.1	53.0	0.9	0.4
Germany	65.6	66.2	68.6	70.1	71.4	70.2	70.8	72.3	1.5	0.6
Denmark	63.2	64.7	67.8	68.9	70.7	69.7	70.9	72.1	1.2	1.2
Czech Republic	54.0	55.5	58.5	62.1	65.1	61.6	65.1	66.7	1.6	3.5
EU	51.8	53.3	55.2	57.1	58.7	57.1	58.6	59.9	1.3	1.5
Greece	34.0	34.3	36.3	38.3	41.1	38.0	40.9	43.6	2.7	2.9
Estonia	64.0	64.5	65.2	68.1	68.9	68.3	66.8	71.3	4.5	-1.5
Euro area	51.7	53.3	55.3	57.1	58.8	57.2	58.5	59.9	1.4	1.3
United Kingdom	61.0	62.2	63.4	64.1	65.3	64.0	65.3	66.3	1.0	1.3
Ireland	52.6	55.4	56.8	58.4	60.4	58.4	60.5	61.3	0.8	2.1
Spain	44.3	46.9	49.1	50.5	52.2	50.5	52.0	53.9	1.9	1.5
Italy	46.2	48.2	50.3	52.2	53.7	52.3	54.1	54.8	0.7	1.8
Croatia	36.2	39.2	38.1	40.3	42.8	40.0	43.4	45.0	1.6	3.4
Cyprus	46.9	48.5	52.2	55.3	60.9	53.7	61.7	62.4	0.7	8.0
Latvia	56.4	59.4	61.4	62.3	65.4	62.1	65.3	67.0	1.7	3.2
Lithuania	56.2	60.4	64.6	66.1	68.5	66.2	67.5	69.4	1.9	1.3
Luxembourg	42.5	38.4	39.6	39.8	40.5	39.1	39.6	42.6	3.0	0.5
Malta	39.5	42.3	45.8	47.2	49.7	44.1	48.9	50.9	2.0	4.8
Netherlands	59.9	61.7	63.5	65.7	67.7	65.5	67.3	69.3	2.0	1.8
Hungary	41.7	45.3	49.8	51.7	54.4	51.2	53.5	56.1	2.6	2.3
Poland	42.5	44.3	46.2	48.3	48.9	48.2	49.4	49.2	-0.2	1.2
Portugal	47.8	49.9	52.1	56.2	59.2	56.1	59.4	60.3	0.9	3.3
Romania	43.1	41.1	42.8	44.5	46.3	46.1	46.0	48.1	2.1	-0.1
Slovakia	44.8	47.0	49.0	53.0	54.2	52.7	53.4	57.1	3.7	0.7
Slovenia	35.4	36.6	38.5	42.7	47.0	43.5	47.6	49.7	2.1	4.1
Sweden	74.0	74.5	75.5	76.4	77.9	76.7	77.7	78.2	0.5	1.0
Finland	59.1	60.0	61.4	62.5	65.4	62.4	65.1	66.6	1.5	2.7

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

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

	Annual Data (%)							Q2 (%)	
	2012	2013	2014	2015	2016	2017	2018	2019/18	2017/16
Austria	0.8	0.5	0.1	0.9	1.7	1.0	1.4	0.8	1.2
Belgium	0.3	0.1	0.4	0.1	0.8	1.1	2.5	3.1	1.7
Bulgaria	-1.1	0.0	1.6	1.7	-0.5	4.4	0.1	2.8	-0.5
France	0.2	-0.1	2.3	0.2	0.6	1.1	0.9	0.0	0.6
Germany	0.9	1.0	0.8	0.8	2.6	0.9	0.6	1.0	0.3
Denmark	-0.5	0.0	1.0	1.4	3.2	-0.8	1.8	-0.5	2.4
Czech Republic	0.4	0.9	0.7	1.3	1.9	1.6	1.4	0.0	1.4
EU	-0.2	-0.2	1.3	1.2	1.5	1.5	1.2	0.8	1.1
Greece	-8.8	-4.9	0.6	2.1	1.8	2.2	2.0	2.3	1.7
Estonia	1.9	1.0	0.6	2.6	0.6	2.2	0.9	-0.1	1.9
Euro area	-0.6	-0.5	1.0	1.1	1.8	1.5	1.4	1.0	1.3
United Kingdom	1.0	1.2	2.3	1.7	1.4	1.1	1.1	0.9	0.9
Ireland	-0.4	3.0	2.6	3.4	3.7	2.9	2.8	2.1	2.9
Spain	-4.3	-2.8	1.2	3.0	2.7	2.6	2.7	2.3	2.8
Italy	-0.2	-1.7	0.3	0.8	1.3	1.2	0.8	0.2	1.3
Croatia	-3.6	-2.6	2.9	1.3	0.3	2.2	1.7	0.0	1.9
Cyprus	-3.1	-5.1	-0.6	-1.3	1.3	4.6	5.5	3.2	5.5
Latvia	1.6	2.1	-1.0	1.3	-0.3	0.2	1.6	-0.8	1.7
Lithuania	1.7	1.3	2.0	1.3	1.7	-0.6	1.5	0.5	0.5
Luxembourg	4.9	1.1	3.0	4.7	1.4	4.2	3.0	5.3	2.4
Malta	4.0	4.8	5.0	4.0	5.0	6.0	6.2	6.4	7.5
Netherlands	0.6	-0.8	-0.6	1.0	1.3	2.1	2.3	1.9	1.9
Hungary	1.8	1.7	5.3	2.7	3.4	1.6	1.1	0.4	1.1
Poland	0.2	-0.1	1.9	1.4	0.7	1.4	0.4	-0.6	0.4
Portugal	-4.2	-2.5	1.9	1.2	1.4	3.3	2.3	0.6	2.7
Romania	0.9	-0.7	0.8	-0.9	-1.0	2.6	0.2	0.2	-1.3
Slovakia	0.6	0.0	1.5	2.5	2.8	1.5	1.4	0.6	0.7
Slovenia	-1.2	-1.9	0.9	0.4	-0.1	4.7	2.2	1.4	2.4
Sweden	0.7	1.0	1.4	1.4	1.5	2.3	1.8	0.7	1.8
Finland	0.4	-1.1	-0.4	-0.4	0.5	1.0	2.7	0.6	3.1

Table 11: Unemployment Rate – Total Population

	Annual Data (%)				Q2 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2017/16
Austria	3.8	4.1	3.7	3.3	5.4	4.6	4.5	-0.1	-0.8
Belgium	5.1	4.7	4.2	3.6	7.0	6.1	5.3	-0.8	-0.9
Bulgaria	5.5	4.5	3.8	3.2	6.3	5.5	4.2	-1.3	-0.8
France	6.3	6.1	5.7	5.5	9.1	8.7	8.1	-0.6	-0.4
Germany	3.2	2.9	2.6	2.4	3.8	3.5	3.1	-0.4	-0.3
Denmark	4.2	4.3	4.0	3.4	5.6	5.0	4.7	-0.3	-0.6
Czech Republic	3.3	2.6	1.9	1.5	3.0	2.2	1.9	-0.3	-0.8
EU	6.0	5.5	4.9	4.4	8.1	7.3	6.6	-0.7	-0.8
Greece	14.8	14.1	12.8	11.5	21.2	19.0	16.8	-2.2	-2.2
Estonia	4.3	4.8	4.1	3.9	7.0	5.1	5.1	0.0	-1.9
Euro area	6.9	6.4	5.8	5.2	9.0	8.2	7.5	-0.7	-0.8
United Kingdom	3.7	3.3	3.0	2.8	4.3	3.9	3.7	-0.2	-0.4
Ireland	6.6	5.6	4.5	3.9	6.9	6.0	5.4	-0.6	-0.9
Spain	14.5	12.8	11.2	9.9	17.2	15.3	14.0	-1.3	-1.9
Italy	6.7	6.6	6.4	6.1	10.9	10.7	9.8	-0.9	-0.2
Croatia	9.5	7.5	6.5	4.9	10.5	7.9	6.4	-1.5	-2.6
Cyprus	10.0	8.6	7.4	5.7	10.7	7.4	6.5	-0.9	-3.3
Latvia	6.7	6.6	6.0	5.2	8.9	7.7	6.4	-1.3	-1.2
Lithuania	6.1	5.3	4.8	4.3	7.0	5.9	6.2	0.3	-1.1
Luxembourg	4.3	4.0	3.5	3.6	5.3	5.4	5.4	0.0	0.1
Malta	3.2	2.9	2.5	2.4	3.9	3.7	3.4	-0.3	-0.2
Netherlands	4.8	4.2	3.4	2.7	5.0	3.9	3.3	-0.6	-1.1
Hungary	4.1	3.1	2.6	2.3	4.3	3.6	3.3	-0.3	-0.7
Poland	4.6	3.8	3.0	2.4	5.0	3.6	3.2	-0.4	-1.4
Portugal	8.3	7.3	5.9	4.7	9.0	6.8	6.3	-0.5	-2.2
Romania	4.1	3.5	3.0	2.5	4.8	4.1	3.8	-0.3	-0.7
Slovakia	7.3	6.2	5.2	4.2	8.1	6.6	5.7	-0.9	-1.5
Slovenia	5.7	5.0	4.3	3.4	6.4	5.2	4.2	-1.0	-1.2
Sweden	5.4	5.0	4.9	4.6	7.3	6.8	6.9	0.1	-0.5
Finland	6.2	5.8	5.7	4.9	9.9	8.2	7.7	-0.5	-1.7

Table 12: Unemployment Rate among Men

	Annual Data (%)				Q2 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2017/16
Austria	6.1	6.5	5.9	5.0	5.8	4.9	4.5	-0.4	-0.9
Belgium	9.1	8.1	7.1	6.3	7.0	6.3	5.6	-0.7	-0.7
Bulgaria	9.8	8.1	6.4	5.7	6.9	6.1	4.6	-1.5	-0.8
France	10.8	10.3	9.5	9.0	9.2	8.7	8.2	-0.5	-0.5
Germany	5.0	4.5	4.1	3.8	4.3	3.9	3.4	-0.5	-0.4
Denmark	5.9	5.8	5.6	4.8	5.4	4.9	4.8	-0.1	-0.5
Czech Republic	4.2	3.4	2.3	1.8	2.4	1.8	1.6	-0.2	-0.6
EU	9.3	8.4	7.4	6.6	7.9	7.0	6.4	-0.6	-0.9
Greece	21.8	19.9	17.8	15.4	17.7	15.3	13.7	-1.6	-2.4
Estonia	6.2	7.4	6.2	5.4	7.7	5.3	4.7	-0.6	-2.4
Euro area	10.7	9.7	8.7	7.9	8.7	7.9	7.2	-0.7	-0.8
United Kingdom	5.5	5.0	4.5	4.1	4.5	3.9	4.0	0.1	-0.6
Ireland	10.8	9.1	7.1	5.8	7.5	6.2	5.6	-0.6	-1.3
Spain	20.8	18.1	15.7	13.7	15.6	13.7	12.5	-1.2	-1.9
Italy	11.3	10.9	10.3	9.7	10.1	9.8	9.1	-0.7	-0.3
Croatia	15.6	12.7	10.3	7.7	9.7	7.3	5.6	-1.7	-2.4
Cyprus	15.1	12.7	10.9	8.1	10.2	7.3	6.4	-0.9	-2.9
Latvia	11.1	10.9	9.8	8.4	10.4	9.2	8.0	-1.2	-1.2
Lithuania	10.1	9.1	8.6	6.9	8.6	6.5	6.8	0.3	-2.1
Luxembourg	5.9	6.1	5.6	5.3	5.4	5.1	5.3	0.2	-0.3
Malta	5.4	4.4	3.8	3.8	3.9	3.9	3.3	-0.6	0.0
Netherlands	6.5	5.6	4.5	3.7	4.6	3.8	3.3	-0.5	-0.8
Hungary	6.6	5.1	3.8	3.5	4.0	3.5	3.4	-0.1	-0.5
Poland	7.3	6.1	4.9	3.9	5.2	3.7	3.2	-0.5	-1.5
Portugal	12.4	11.1	8.6	6.6	8.5	6.5	5.9	-0.6	-2.0
Romania	7.5	6.6	5.6	4.7	5.7	4.7	4.1	-0.6	-1.0
Slovakia	10.3	8.8	7.9	6.1	8.0	6.2	5.7	-0.5	-1.8
Slovenia	8.1	7.5	5.8	4.6	5.5	4.8	3.8	-1.0	-0.7
Sweden	7.5	7.3	6.9	6.4	7.6	7.0	7.1	0.1	-0.6
Finland	9.9	9.0	8.9	7.4	10.1	8.4	8.2	-0.2	-1.7

Table 13: Unemployment Rate among Women

	Annual Data (%)				Q2 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018
Austria	5.3	5.6	5.0	4.7	4.9	4.3	4.4	0.1	-0.6
Belgium	7.8	7.6	7.1	5.6	7.1	5.9	5.0	-0.9	-1.2
Bulgaria	8.4	7.0	6.0	4.7	5.7	4.7	3.7	-1.0	-1.0
France	9.9	9.9	9.3	9.1	8.9	8.7	8.0	-0.7	-0.2
Germany	4.2	3.8	3.3	2.9	3.2	3.0	2.8	-0.2	-0.2
Denmark	6.4	6.6	5.9	:	5.9	5.0	4.6	-0.4	-0.9
Czech Republic	6.1	4.7	3.6	2.8	3.7	2.7	2.3	-0.4	-1.0
EU	9.5	8.8	7.9	7.1	8.3	7.5	6.9	-0.6	-0.8
Greece	28.9	28.1	26.1	24.2	25.5	23.7	20.7	-3.0	-1.8
Estonia	6.1	6.1	5.3	:	6.2	4.8	5.5	0.7	-1.4
Euro area	11.0	10.4	9.5	8.6	9.3	8.5	7.8	-0.7	-0.8
United Kingdom	5.1	4.7	4.2	4.0	4.1	3.9	3.4	-0.5	-0.2
Ireland	8.9	7.6	6.3	5.7	6.2	5.8	5.2	-0.6	-0.4
Spain	23.6	21.4	19.0	17.0	19.1	17.1	15.8	-1.3	-2.0
Italy	12.7	12.8	12.4	11.8	12.1	11.8	10.7	-1.1	-0.3
Croatia	16.7	14.2	11.9	9.3	11.5	8.7	7.3	-1.4	-2.8
Cyprus	14.8	13.4	11.3	8.8	11.2	7.5	6.7	-0.8	-3.7
Latvia	8.6	8.4	7.7	6.4	7.4	6.1	4.7	-1.4	-1.3
Lithuania	8.2	6.7	5.7	5.4	5.4	5.3	5.5	0.2	-0.1
Luxembourg	7.1	6.5	5.6	5.7	5.3	5.8	5.6	-0.2	0.5
Malta	5.4	5.2	4.3	3.6	4.0	3.5	3.5	0.0	-0.5
Netherlands	7.3	6.5	5.3	4.0	5.5	4.0	3.3	-0.7	-1.5
Hungary	7.0	5.1	4.6	4.0	4.6	3.7	3.2	-0.5	-0.9
Poland	7.7	6.2	4.9	3.9	4.7	3.5	3.3	-0.2	-1.2
Portugal	12.9	11.3	9.5	7.4	9.4	7.1	6.7	-0.4	-2.3
Romania	5.8	5.0	4.0	3.5	3.6	3.3	3.3	0.0	-0.3
Slovakia	12.9	10.8	8.4	7.0	8.3	7.2	5.7	-1.5	-1.1
Slovenia	10.1	8.6	7.5	5.7	7.5	5.7	4.7	-1.0	-1.8
Sweden	7.3	6.5	6.4	6.3	6.9	6.6	6.7	0.1	-0.3
Finland	8.8	8.6	8.4	7.3	9.8	7.9	7.1	-0.8	-1.9

Table 14: Long-Term Unemployment Rate (*)

	Annual Data (%)			Q2 (%)			Change (%)	
	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	32.4	33.5	28.9	32.8	30.8	26.5	-4.3	-2.0
Belgium	51.6	48.9	48.7	52.5	51.6	46.0	-5.6	-0.9
Bulgaria	59.2	55.0	58.7	55.3	58.3	59.2	0.9	3.0
France	45.9	45.4	42.0	47.1	43.8	42.2	-1.6	-3.3
Germany	41.2	42.0	41.4	42.8	41.4	39.4	-2.0	-1.4
Denmark	22.4	22.6	21.1	20.7	21.0	16.0	-5.0	0.3
Czech Republic	42.0	34.7	30.5	37.4	30.2	32.2	2.0	-7.2
EU	46.9	45.2	43.5	46.1	44.9	41.6	-3.3	-1.2
Greece	72.0	72.9	70.4	74.0	72.1	70.8	-1.3	-1.9
Estonia	31.5	33.7	24.8	30.7	35.0	22.3	-12.7	4.3
Euro area	50.2	49.0	46.9	50.3	48.4	45.2	-3.2	-1.9
United Kingdom	27.2	25.9	26.3	26.0	26.8	26.9	0.1	0.8
Ireland	52.4	46.4	37.4	48.2	35.2	31.9	-3.3	-13.0
Spain	48.3	44.5	41.7	45.7	43.4	38.6	-4.8	-2.3
Italy	58.3	58.8	59.1	60.9	60.7	58.2	-2.5	-0.2
Croatia	50.6	41.0	40.5	46.6	44.4	30.6	-13.8	-2.2
Cyprus	44.5	40.7	31.9	46.3	33.7	31.7	-2.0	-12.6
Latvia	41.4	37.6	41.8	39.4	41.3	40.0	-1.3	1.9
Lithuania	38.3	37.7	32.1	37.9	33.7	30.0	-3.7	-4.2
Luxembourg	34.9	38.2	24.7	44.2	22.2	24.8	2.6	-22.0
Malta	39.7	40.1	31.0	37.8	23.3	:	:	-14.5
Netherlands	42.7	40.7	37.9	42.0	41.4	32.0	-9.4	-0.6
Hungary	46.5	40.3	38.6	42.0	40.3	33.5	-6.8	-1.7
Poland	34.9	31.1	26.9	30.0	28.2	21.4	-6.8	-1.8
Portugal	55.4	49.8	43.6	51.6	45.3	45.0	-0.3	-6.3
Romania	49.9	41.3	44.2	41.0	43.2	40.7	-2.5	2.2
Slovakia	60.1	62.4	61.8	63.1	62.6	58.2	-4.4	-0.5
Slovenia	53.3	47.5	42.7	51.3	44.8	42.2	-2.6	-6.5
Sweden	19.3	19.7	19.8	18.0	19.7	16.1	-3.6	1.7
Finland	26.2	24.6	22.0	21.3	19.8	14.2	-5.6	-1.5

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

Table 15: Unemployment Rate among Youth 15-24

	Annual Data (%)			Q2 (%)			Change (%)	
	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	11.2	9.8	9.4	8.9	9.1	8.4	-0.7	0.2
Belgium	20.1	19.3	15.9	19.9	18.0	13.6	-4.4	-1.9
Bulgaria	17.3	12.9	12.6	13.2	15.1	9.5	-5.6	1.9
France	24.6	22.3	20.8	21.9	19.4	18.1	-1.3	-2.5
Germany	7.1	6.8	6.2	7.0	6.6	5.5	-1.1	-0.4
Denmark	12.0	11.1	9.4	11.6	9.3	8.2	-1.1	-2.3
Czech Republic	10.5	8.0	6.7	8.3	7.0	5.7	-1.3	-1.3
EU	18.7	16.9	15.2	18.1	16.1	14.9	-1.2	-2.0
Greece	47.4	43.6	39.9	43.8	38.8	32.9	-5.9	-5.0
Estonia	13.5	14.1	11.9	15.9	8.7	14.1	5.4	-7.2
Euro area	20.9	18.8	16.9	19.0	16.9	15.5	-1.4	-2.1
United Kingdom	13.0	12.1	11.3	11.6	10.6	10.8	0.2	-1.0
Ireland	16.8	14.4	13.7	16.1	15.4	15.7	0.3	-0.7
Spain	44.5	38.7	34.4	39.5	34.7	33.1	-1.6	-4.8
Italy	37.8	34.8	32.2	34.2	31.6	28.4	-3.2	-2.6
Croatia	31.3	27.5	23.8	22.2	20.1	15.8	-4.3	-2.1
Cyprus	29.1	24.7	20.2	25.3	17.9	14.9	-3.0	-7.4
Latvia	17.3	17.0	12.2	16.5	11.2	15.1	3.9	-5.3
Lithuania	14.5	13.3	11.2	13.1	10.9	10.2	-0.7	-2.2
Luxembourg	18.7	15.4	14.1	15.5	14.8	14.0	-0.8	-0.7
Malta	10.7	10.6	9.2	10.2	8.4	9.1	0.7	-1.8
Netherlands	10.8	8.9	7.2	9.0	6.9	6.3	-0.6	-2.1
Hungary	13.0	10.7	10.2	11.0	9.5	10.8	1.3	-1.5
Poland	25.8	26.5	27.3	14.6	10.2	10.4	0.2	-4.4
Portugal	30.2	38.0	38.1	22.7	19.4	18.1	-1.3	-3.3
Romania	23.9	22.6	23.7	15.4	15.5	15.0	-0.5	0.1
Slovakia	33.7	34.0	33.7	17.7	13.7	14.6	0.9	-4.0
Slovenia	15.7	20.6	21.6	10.0	8.1	6.5	-1.6	-1.9
Sweden	22.8	23.7	23.6	21.8	20.6	21.6	1.0	-1.2
Finland	20.1	19.0	19.9	27.4	21.6	22.5	0.9	-5.8

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

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

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