The Greek Economy

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Foreword

IOBE publishes its third bulletin on the Greek economy for 2020, as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek and the global economy, as the pandemic of the new coronavirus escalates again, following its strong recessionary effects in the second quarter of this year. Governments and state unions have taken unprecedented measures to reduce the spread of the health crisis and mitigate its socioeconomic consequences. However, these measures have had a strong impact on economic activity and public finances. Subsequently, the forecasts for the global economy anticipate a significant recession in 2020, though a recovery is expected for 2021. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators, in the context of the quantitative monitoring of the Lisbon Strategy. The bulletin starts with a text on the challenges raised by the current crisis in the coming period. The rest of the report is structured as follows:

The first section is a brief overview of the report, presenting its key points that are analysed in detail in the following sections. The second section addresses the general economic conditions, including: i) an analysis of the global economic environment in the second quarter of 2020, and its outlook for the rest of the year and in 2021, based on the latest report of the International Monetary Fund, ii) an outline of the economic climate in Greece in the third quarter of 2020, based on data from the latest IOBE business and consumer surveys, iii) an assessment of the execution of the General Government Budget in the first eight months of 2020, iv) an outline of the developments in the domestic financial system between June and August 2020.

The third section focuses on the performance of the Greek economy mainly in the second quarter of 2020. First, it maps the macroeconomic environment in the same quarter and presents forecasts for 2020 (as a whole) and 2021, taking into account all the available data on the effects of the pandemic, both domestically and internationally. It also records developments in key production sectors in the first half to eight months of 2020, depending on data availability, and presents the export performance of the Greek economy from the beginning of 2020 until July. Next, it outlines the developments in the labour market in the April-June quarter. Then, it analyses the trends in inflation in January - August, and finally the section is completed with the assessment of the balance of payments for the same period.

The fourth section of the report presents a study on the macroeconomic and socio-economic impact of the Hellenic Republic asset development programme.

At a methodological level, this report refers to and is based on data available until 21/10/2020. IOBE's next quarterly bulletin on the Greek economy will be published in late January 2021.

LAYING THE GROUNDWORK FOR RECOVERY, AS THE CRISIS CONTINUES

In the past period, the evolution of the health and economic crisis has been rather flat, with no particularly surprising positive or negative trends. It is becoming clear that globally the problem will not be ameliorated within 2020 but it will carry over into a significant part of 2021, substantially influencing consumer and investment decisions, especially during the first half. At the global economic level, mixed trends coexist, albeit with variations, such as between China, which is recovering well, and Western Europe and the United States, where recession and uncertainty still prevail. In these Western economies, the recession this year is projected to be particularly deep, possibly of a double-digit rate, but its intensity and unemployment in particular are limited to some extent by strong monetary and fiscal policy measures. Parts of the economy are growing, especially those related to new technologies, while others, especially those based on direct human contact, are deeply affected. Stock markets and other indices reflect expectations on the basis of this contrasting trajectory of parts of the economy.

Globally, the problem is not limited to the current year

In this broader context and in the case of the Greek economy, it becomes clear that the health problem will play a dominant role throughout the winter. In 2020 and 2021, growth was expected to accelerate and the fiscal position to strengthen, laying the ground for growth in the medium term. Instead, as part of the global turmoil, we are in a deep recession, posting fiscal deficits. There are

Three strong trends coexist

three strong trends, firstly those caused by the current crisis, secondly those reflecting the dynamics created after ten years of adjustment and the respective three programmes and thirdly the expectation of support from the European Union, through the special fund and not only.

Exports of goods show resilience

These trends are evident in diverging economic indicators. In tourism, the blow is particularly severe as it appears that the revenues corresponding to arrivals from abroad will be much lower than in the previous year. Demand and profitability are also declining sharply for businesses in a number of other sectors directly affected by the health problem or the measures taken to address it, such as transport, food services, retail and culture. Exports of goods, however, show remarkable resilience, as their decline is small, contributing positively to the country's external balance. Business financing has been significantly supported through emergency programmes to deal with the adverse situation and conditions are created for credit expansion in the coming months. The country's financing costs, as recorded in recent bond issues, remain low.

The fiscal space is not inexhaustible

The impact on the fiscal balance of the undertaken exceptional measures is strongly negative, with the widening of the deficit, due to both lower revenue and higher expenditures. While this contribution by the treasury to the economy is reasonable in a crisis with current characteristics, its margins are not inexhaustible. From next year, the relevant trends will have to be reversed, which will inevitably affect the growth rates of the economy in the opposite way than this year. At present, a cornerstone for fiscal and other domestic policies is the European framework, which greatly mitigates the risks even for an economy such as the Greek one, with particularly high public debt and structural weaknesses. This is a necessary but not sufficient condition to maintain the credibility of the country's public finances in the near future. As early as next year, the economy will have to show stronger momentum, expressed in higher investment and exports, a development that also requires accelerated progress in the structural reforms that will determine the course of productivity over the medium term.

A new model with a stronger role for investment and exports

In this context, the planning for the national growth plan, on the basis of which the new European resources will be claimed and managed, should be appropriately targeted. Resources should not be used to fortify the current production model of the economy but, instead, should play a supporting role in the necessary infrastructure and structural changes that will express a new model of a more open economy, with a stronger role for investment and exports. It will be of particular importance that the public resources mobilise additional private investment and human capital.

The available resources are very significant, but by themselves they do not fill the large investment gap in the country nor will they correct chronic institutional weaknesses. The growth of the economy in the coming years, and the move away from new perils, is strongly linked to boosting productivity and employment. Although gradual, the improvement there must be done decisively.

The strong inflow of resources in the years following the adoption of the single currency boosted revenues, but without sufficiently improving the functioning of the public sector and markets. In the years of the programmes that followed, with external pressure and structural changes, the lack of resources made the endeavour organisationally and politically difficult. At today's crossroads, it is crucial that resources are used to transform the economy and act as catalysts to attract private investment and human capital over the next decade. This means reducing the transition costs for businesses and households, but mainly increasing the incentives for those who will convey the new production model.

A clear shift marked by the policy areas

In addition to the individual economic policy options, their interconnection and stability of goals are of particular importance for their coherent operation. Changing rules, in central areas such as taxation and education, can also drastically change the behaviour of businesses and households, leading to higher prosperity. For this to happen, however, policy initiatives must not be temporary, signalling a clear shift.

Every crisis is an opportunity for a change of direction. When the health crisis will approach its resolution, the institutional response in the global economy will be strong but the growth opportunities will not be shared equally and automatically. Preparation, through stronger productivity and business openness, which also requires changes in the economy as a whole, is crucial for the country to strengthen its international competitive position in the international division of labour. In any case, as the recession deepens globally and the end time of the health problem remains unclear, a shift in expectations and a global financial market crisis cannot be ruled out. Therefore, economies like ours should be prepared on time for such an eventuality.

1 BRIEF OVERVIEW

Strong recession in the global economy in 2020, slightly milder than initially expected. Recovery at a similar rate in 2021.

The strong, unprecedented economic effects of the first phase of the new coronavirus outbreak in the second quarter of 2020 are reflected in the GDP trend in this period. According to available data on economic activity worldwide, in the period April to June, GDP fell by 11.7% in the OECD countries, after a marginal decline in the previous quarter (-0.9%) and a mild growth of 1.5% in the same quarter of the previous year. Growth in the major developed economies (G7) stood at -11.9%, compared to -1.3% in the previous quarter and 1.5% in the respective quarter of 2019. Amid the developed countries, the United Kingdom had the strongest recession year on year and quarter on quarter, at 21.5% and 19.4% respectively. This was followed by a GDP decline in France by 18.9%, which was in a recession of 5.7% already in the first quarter, and in Italy, by 18.0%, 12.4 percentage points stronger decline than in the quarter January - March. GDP fell by 9.0% in the US, less than in the other major economies (from +0.3% in the first quarter) and by 10% in Japan (from -1.9%). In the major Asian developing economies, China's economy was the only one to grow in the second quarter, at a rate of 3.2%, compared with a recession of 6.8% a quarter earlier. In contrast, India experienced the largest recession among the OECD countries, by 23.5%, against growth of 3.0% at the beginning of 2020. In Latin America, Argentina's economy declined by 19.8%, a development that alongside other reasons led the country to seek new IMF funding, while Brazil's GDP was 11.4% lower (from -1.4% in the first quarter).

Despite a particularly strong recession in many economies in the second quarter, according to the IMF the decline in global economic activity was milder than expected. This development is mainly due to unprecedented fiscal, monetary and regulatory interventions in the most developed countries and economic regions, such as the European Union.

Having said that, the prospects of some developing economies have deteriorated considerably. In many of them, this took place for the opposite reason to the one that eased the decline in economic activity in the most developed ones, namely their inability to proceed with income support and liquidity-boosting measures, because of their high accumulated debt and current spending. In many of these cases, further assistance and facilities will be required from the countries' creditors. A typical example is Argentina, which, as mentioned above, has requested a new IMF support programme. In any case, output losses in these countries will be greater compared to developed economies. In addition, their recovery will be more gradual.

The resurgence of the pandemic in many countries since September, combined with the fact that the virus has not been contained yet and it is unclear when this will be achieved, increase the need for more medium-term policy interventions. In the major developed economies, some of the planned instruments, such as the European Recovery Fund (ERF), have such a character. More broadly, this will require a transition from income transfers to policies that attempt to stem the effects of the health crisis. These may relate to digital transition and green development, policies to strengthen the public health system, and to ensure access to high-quality raw materials. These and other objectives are included in those of the EU's Multiannual Financial Framework and the ERF.

Regarding the trend in economic activity in the global economy over the medium term, due to the strong policy interventions taken immediately, China's rapid return to recovery, and the anticipated weaker decline in the third quarter, the recession now forecast for 2020 is slightly milder than initially estimated, in the range of 4.5%. The first forecast for 2021 is for a recovery of a similar scope with the losses of 2020.

Very strong recession in the second quarter of 2020 due to the pandemic

The impact of the new coronavirus pandemic on economic activity was felt particularly strongly in Greece in the second quarter of this year. Domestic output shrank during this period by 15.2%, a decline which is the largest on record. This particularly strong decline occurred one year after GDP rose by 2.8%, the largest since the fourth quarter of 2007.

In terms of trends in GDP components in early 2020, domestic consumption shrank by 5.1%, while a year earlier it expanded by 0.8%. The decline is mainly due to a sharp fall in private consumption by 6.1%, in contrast to its slight increase, also by 0.8%, in the first half of 2019. Most of the decline in household consumption occurred in the second quarter, when it fell by 11.6%. Public consumption also declined by 1.0%, continuing its marginal decline from last year (-0.6%). Its decline is due solely to the same trend in the second quarter, despite fiscal interventions to tackle the new coronavirus. This development came from the base effect of having a high level of public consumption expenditure in the same quarter of 2019.

Investment fell by 8.0%, offsetting their rise by 7.3% a year earlier. Following this development, they completed a year of continuous decline. This came from a lower fixed capital formation, by 8.0%, rather than from a lower accumulation or reduction in stocks compared to last year. The drop in investment costs is estimated to have been restrained by the recording of part of the business support interventions against the effects of the pandemic as investment. By June, the outflows of the Public Investment Programme were €1,928 million higher than the target for the same period, mainly due to costs to support businesses and self-employed. This trend is also reflected in the development of a specific category of investment that absorbed most of the expenditure of the Public Investment Programme (PIP).

Among the fixed capital formation categories, Housing increased most, by 29.1%, more than twice compared to 2019 (+13.0%). Other Constructions came next (+13.8%), which include the PIP expenditure, in contrast to their reduction in the same period last year by 19.3%. This expansion is due exclusively to their rise in the second quarter by 32.0%, which highlights its correlation with the sharp expansion of PIP spending to support companies and the self-employed. The largest decline was recorded in Metal Products-Machinery (-54.8%), more than offsetting their reinforcement a year earlier (+44.9%). Next came Transport Equipment (-6.5%), Agricultural Products (-6.0%) and Other Products (-5.2%), with a much weaker decline. The smallest drop in investments was recorded in Transport Equipment (-0.4%).

On the external balance of the economy, as expected due to the pandemic's containment effect on economic activity worldwide, exports shrank by 32.1% in the April-June period and by 15.0% in the first half of 2020. The sharp contraction came mainly from the exports of services, by 49.4% in the second quarter and 25.0% in the first half, compared with a significant increase a year earlier (+7.6%). The decline in the exports of goods was notably milder, at -15.4% and -6.0% respectively, while in the first half of 2019 they had widened by 2.5%. Intense pressure was exerted by the pandemic on imports as well. However, it was weaker than in exports, as they decreased by 17.2% in the second quarter, while in the whole January-June period, imports were 9.2% less than in the previous year, when they had also declined, by 1.6%. In absolute terms, the decline was stronger in the imports of goods, reaching 15.3% in the second quarter and 8.2% overall in the first half of this year. The imports of services shrank by 25.7% and 13.2% respectively. The stronger decline in exports compared to imports worsened the external balance, forming a deficit of €3.25 billion (3.6% of GDP), from a marginal surplus in the same period of 2019 (€ 480 million).

Strong recession in Greece in 2020. Potential for significant recovery in 2021, depending on the epidemiological conditions.

The health crisis of COVID-19, the developments it has caused (public health protection measures, support for businesses and households) and those that will derive from it, will be the decisive drivers of the economic developments in the rest of 2020 and probably in 2021, both domestically and internationally. The second phase of health-crisis escalation is currently under way, in EU countries and in Greece. The next period will be particularly critical for the dynamics of the pandemic in the fall, and therefore for its effects on the Greek economy and society.

The strong impact of the first phase of the global pandemic at economic level was reflected in the GDP trend in the second quarter of 2020; its decline in the largest economies and economic zones reached or approached double digits: OECD countries -11.7%, EU -13.9%, USA -9.0%. However, the weaker decline in the third quarter, along with the policy interventions, have significantly improved expectations.

By contrast, since September there has been a new phase of coronavirus outbreak in many European countries (such as France, Italy, Belgium, Portugal, the Netherlands, the United

Kingdom, Poland, Romania and Czechia), in most of them with more daily cases than in the first phase of the pandemic. Mild exacerbation is taking place in the US. Domestically, the spread of the pandemic remains limited, compared to other euro-area countries with the same or similar population (e.g. Belgium, Portugal). The upcoming autumn enhances the chances that these trends remain and escalate. If they do not weaken, it is now considered likely that extensive public health protection measures will be reinstated, locally or possibly at country level. Subsequently, new initiatives will be implemented to support economies and societies, by national governments, but also by multilateral actors (EU, IMF, UN, World Bank).

This shift in the domestic health crisis has led to new measures to protect public health. The main difference with those in the first phase is that they are imposed at regional level, on municipalities, etc., i.e. they are not universal in nature. At the same time, business and household support interventions are introduced or extended. To these some new ones were added (the Bridge or GEFYRA programme, to subsidise instalments of private mortgages, a programme to cover 100% of social security contributions for six months for 100k new jobs in the private sector). While these interventions mitigate the pandemic's economic impact, they have a strong, negative effect on the fiscal balance.

The effects of the new coronavirus pandemic extend to other important variables for global economic activity, such as the price of oil, which came under intense pressure during the first two months of the health crisis and has since partially recovered. Thus, energy costs are at significantly lower levels than they were a year ago and at the beginning of 2020.

Since the first IOBE bulletin on the Greek economy after the outbreak of the COVID-19 pandemic, the two factors that are related to it and which were considered as the most decisive for its macroeconomic effects were its duration, domestically and internationally, as well as the intensity of the measures to address that impact. Especially for the macroeconomic developments in Greece, the evolution of the health crisis in the Eurozone and its economic consequences, as well as the policy interventions at EU level for dealing with them, are of great importance. These parameters are still considered to be the most important for the economic developments in the second half of 2020 and at least for the first half of 2021. The ongoing second, possibly more severe phase of the health crisis, as well as the remaining uncertainty about the scientific means to combat it (vaccine, drugs), make it difficult to predict their progression. For this reason, the macroeconomic forecasts are based on alternative assumptions on the progression of the pandemic.

In particular, the assumptions of the baseline forecast scenario are as follows: for the rest of 2020 and 2021, domestic health conditions fluctuate around the current levels. The health crisis does not resurge strongly in a large part of the country and no substantial further fiscal measures are required than those already taken or planned. Subsequently, there is no return of internal measures to protect public health, extending to the whole territory of Greece, concerning the suspension of activities and restrictions on the movement of people. A possible exception concerns areas with a strong outbreak of cases. In addition, it is assumed that the health crisis in the EU and internationally does not escalate significantly.

The alternative forecast scenario includes the sharp deterioration of the health crisis in many European countries and in Greece during the winter, affecting the forecast for 2021. This development leads to extensive measures to protect public health, with strong effects on economic activity. In such a case, additional support measures are expected to be implemented at European and national level. Nevertheless, there are strong effects on domestic demand, exports of Greek products and foreign direct investment, while international travel to Greece is also adversely affected.

In detail, regarding the recent developments around the pandemic domestically, in response to its resurgence since the end of July, the government took new measures to protect public health. Especially with regard to the measures for international passenger transport in Greece, which has major significance due to the high contribution of tourism to GDP, the ban on entry by air into the country of non-EU citizens continues. The bans exempts citizens and permanent residents of 11 non-EU countries. The ports of Patras and Igoumenitsa continue to receive ships, while cruises were allowed from August 1st, but the first took place in late September. Therefore, there are still significant restrictions on international arrivals, which reduces tourism receipts until the end of 2020 from countries with a significant contribution in past years (e.g. USA, Russia, Turkey). According to the latest data, international arrivals at the country's airports declined sharply in July - August, by 72.5% in the first month and by 66.2% in the following month, but less than in the second quarter for most of which flights were suspended (-98.8%).

The taken and planned fiscal measures for households ease the weakening of consumer demand and thus the decline of business liquidity and employment. Much of the liquidity that businesses need to maintain jobs and meet current expenses (to the public sector, banks, their suppliers) is provided by emergency financial instruments. That said, the persistent high uncertainty about the course of the new coronavirus, combined with the fact that there is no visibility for when the COVID-19 pandemic will end, will strongly deter investment.

While these interventions mitigate the economic impact of the pandemic, they have a strong, negative impact on the fiscal balance. According to the preliminary draft of the State Budget for 2021, its expenditure in 2020 will be €11.37 billion higher than the relevant target for this year, while tax revenues will be well below the target (-€7.57 billion or -14.5%). The primary balance of the State Budget will deteriorate by €16.1 billion. Support measures are planned for 2021 (suspension of social solidarity levy, reduction of social security contributions of private sector employees), but their budget is much smaller than in 2020, €1.47 billion on the expenditure side and €913 million on the revenue side. However, if the course of the pandemic so requires, other measures are expected to be taken, many of which will be based on what is already being implemented.

In terms of developments and trends in the financial system, banks continue to utilise the ECB's ability to raise liquidity that has arisen in response to emergencies. The most important of these financial instruments is the Pandemic Emergency Purchase Programme (PEPP), with a budget of €1.35 trillion, the duration of which has been extended until June 2021, with the ECB reinvesting the proceeds from maturing securities until the end of 2022. The financial instruments include the TLTRO III programme, through which banks have access to funds with a negative interest rate (-1% for the first year and -0.50% for the next year) while they can also transfer their lending from other ECB programmes to this instrument. In this context of financial possibilities, the liquidity of Greek banks by the Eurosystem through long-term refinancing operations reached €26.6 billion in April-September, with their "dependence" on the ECB more than tripling compared to the end of March, at almost €39.0 billion.

While these developments are an incentive for credit expansion, the caution over the duration and severity of the health crisis will dampen the lending by the banking system. The strong growth of lending to non-financial corporations (average rate of 5.8% in June-August, compared to 2.8% in the respective quarter of 2019) comes largely from the emergency liquidity programmes to address the effects of the pandemic (Entrepreneurship Fund II, Guarantee Fund for COVID-19) and is not due to a change in the lending policy of banking institutions. The suspension of activity in many sectors in the second quarter, the strong decline of international tourism flows, with a similar impact on sectors related to tourism, exert significant pressure on business activity and worsen their prospects. That said, the relatively mild decline in the exports of goods excluding petroleum products and ships highlights the high competitiveness of some industrial sectors and parts of the primary sector and their sound medium-term prospects.

Next, the default on bank loans is quite likely to resurge, leading to a further expansion of non-performing loans (NPLs). Only if these sources of uncertainty recede significantly will both supply and demand for bank credit recover. The possibility of more non-performing loans due to the health crisis and the revised targets for the reduction of NPLs by the end of 2021 highlight the need for immediate, greater use of the capacity of the "Hercules" program and other systemic solutions, such as the creation of an Asset Management Company or "bad bank", which will be linked to addressing the issue of deferred tax credit (DTC). The Bank of Greece (BoG) submitted a draft proposal on this in mid-September to the Greek government and the European institutions.

Moving on to the public sector financing opportunities for enterprises, the resources of the European Recovery Fund (ERF – 'Next Generation EU') will be the most important additional source of investment funds across Europe in the coming years. Out of the total resources of the fund, amounting to €750 billion, of which €390 billion will be given through grants and €310 billion through loans, Greece can receive up to €19.3 billion in grants and up to €12.7 billion in loans. All Member States must submit to the European Commission plans on how they will use the aid from the new European Fund by 30 April 2021. According to the state Draft Budgetary Plan for 2021, the Greek Recovery and Resilience Plan will be submitted to the European Commission in the first quarter of 2021, aiming at obtaining an approval of the first tranche to be paid within the second quarter of the same year and with a view that the payment of the second tranche is paid in the fourth quarter of 2021. Overall in 2021, total inflows of €5.5 billion are expected from the ERF, of which approximately €4.23 billion in the form of grants. More information on the EDF (targets, financial instruments, etc.) can be found in Box 2.1 of the current report, in Section 2.1 B (EU and Eurozone Economies).

With regard to ordinary public investment financing, through the Public Investment Programme, in January - August, its expenditure reached €5.18 billion, a level higher than the target for this period in the 2020 Budget of €1.89 billion and more than double that in the same period last year (€2.0 billion). However, the increase mainly concerns expenditure on emergency programmes due to the COVID-19 pandemic for businesses and self-employed persons, which are transfer payments. The trend in the investment grants is not evident from the State Budget execution bulletins. In the Draft State Budget for 2021, the PIP expenditure is estimated to total €9.52 billion in 2020, compared to €8.0 billion in the May supplementary State Budget and the target of €6.75 billion in the 2020 (initial) budget. Taking into account the estimates for the payments under the above interventions, also from the Draft State Budget, it is now considered possible that the expenses of the programme for investment support will fall in 2020.

The target set for the financing of investments by the PIP in 2021 in the draft budget is €6.75 billion. Given, firstly, the new decline in financial emergency assistance this year and secondly, the fact that no action is planned for next year to support businesses and the self-employed in the face of the COVID-19 pandemic, which are implemented in 2020 via the PIP, investment support through the PIP for 2021 might be clearly higher than in 2020.

As predicted in previous IOBE bulletins on the Greek economy, export pressures from restrictions or bans on cross-border passenger traffic and the wider shrinking of international trade put the strongest pressure on domestic output, based on GDP data for the second quarter of 2020. Imports are also weakening, although the elasticity of imports of goods - the main component of imports - with respect to changes in domestic demand is small, holding back their decline. The outbreak of the second phase of the pandemic in many countries since September, including some in the EU with a significant share in tourism receipts and exports of goods, dampens the expectations that a significant part of the revenue losses incurred in the second and third quarter will be offset in the last quarter of 2020.

Taking into account recent and possible developments in the pandemic of the new coronavirus, in particular the emerging second phase of its expansion, but also the fiscal and monetary policy packages to date, in Greece and internationally, as well as trends in GDP and its components in the first half of 2020 and in short-term economic indicators in the third quarter, the unprecedented decline in household consumption in April-June is expected to weaken in the second half of the year. Nevertheless, its decline will remain strong. Pressures on private sector consumption spending will be exerted primarily by the widespread decline in employment. The sharp decline in activity in sectors with a significant share of GDP following the lifting of the lockdown, such as Tourism, Food Services, Transport and Professional - Scientific - Technical Activities, will greatly reduce the incomes of their employees.

To contain these effects, household income support measures will be implemented in the second half of 2020. In addition, the emergency needs arising from the health crisis have a positive impact on employment and income in relevant activities, such as health services, internet and digital services and couriers. Employment boost in the near future will come from the programme of subsidising 100% of employer contributions for the first six months of a newly created job. In view of the above developments, private consumption is estimated to fall by 6.1% to 6.5% in 2020.

With regard to the trend of private consumption in 2021, the tax relief planned in the budget will boost disposable income and then consumer spending. These interventions will replenish to some extent, but not fully, the extraordinary transfers to households due to COVID-19 given in 2020. Unless the health crisis resurges sharply, the biggest boost in consumption will come from the recovery of economic activity and the increase in employment. Significant growth is also expected in investment activity. Against this background, under the baseline macroeconomic forecast scenario, private consumption is projected to grow in the range of 3.5-4.5%.

In case of opposite development regarding the new coronavirus, the consumption trend will continue to decline in 2021. Household incomes will be mainly constrained by further weakening of domestic demand, due to continued fall in employment. But they will also be pressured by lower exports and lower foreign investment interest. Private consumption is projected to contract further by between 2.5% and 4.5% in this scenario.

With regard to developments in public consumption, the continuation of exceptional expenditure due to the pandemic, as well as the disbursement of €1.4 billion in retroactive payments to pensioners, will change the trend of public consumption in the second half of 2020, from negative to positive, at a rate in the region of 5%. After all, their decrease in the second quarter of this year came largely from the negative "base result" due to their high level a year ago, due to the elections. Subsequently, public consumption will be higher throughout 2020 by 2.0% to 3.0%.

According to the Draft State Budget for 2021, some of the COVID-19 interventions will continue in the coming year (2021), regardless of its development, and new ones will emerge (e.g. supply of vaccines, new medicines). Overall these are projected to be much less than in 2020. In addition, pensioners will not receive again next year retroactive payments. Therefore, there is a possibility of a significant reduction in consumption compared to 2020. However, if a new strong wave of the pandemic occurs in Greece, it will be again necessary to implement fiscal interventions to address it. As a result of such a development, the reduction of public consumption will be significantly weaker, while a further small increase cannot be ruled out. In particular, public consumption expenditure is projected to fall by 5.5-7% in 2021 if health conditions do not deteriorate sharply, while otherwise the expected change ranges from -2.0% to -4.0%.

On the investment side, the adverse environment will continue until the pandemic is eradicated or at least severely contained, in Greece and in most of the countries with which it has strong commercial ties. This stems from the fact that the decision to invest is made by assessing potential trends in the medium to long term. The possibility that such containment can be achieved in the second half of 2020 or in early 2021 is considered as limited. Given this, a small part of the existing investment plans will be implemented during this period. In case of that the health conditions improve rather early next year, with strengthening in parallel of the means for fighting the pandemic (vaccine-drugs) and their distributions to the population, the investment sentiment can strengthen considerably in the second half of 2021.

The notably higher liquidity available from the banking system compared to a few years ago, following the curb of non-performing loans, the return of deposits, but also the access for the first time to an ECB debt purchase programme, has created new financial opportunities for banks and businesses respectively, which did not exist in previous years. However, as long as there is no sign of an exit from the health crisis, the banks are expected to be quite cautious in their lending, as there is a risk of a new rise in non-performing loans.

The vital importance of the European Development Fund's capital resources for investment in 2021 was analysed previously. As regards the financing from the emergency programmes to deal with the effects of the pandemic, although not related to investments, they are partly reflected in investment expenditure and in GDP, as they are allocated under the Public Investment Programme. Their recording in investment in the second quarter of this year was a key deterrent to investment decline. As a large part of the funds from these mechanisms were allocated during the third quarter of this year, they are expected to stimulate investment in that period as well. No such funding interventions are currently planned for 2021, but it is now likely that if there is a need to do so, similar programmes will be implemented. Given this, the PIP resources for investment purposes are foreseen to increase in 2021, following their extensive use in 2020 to meet extraordinary current needs.

Taking into account the above effects on investment in 2020, it is estimated to decline by 6.0-7.0%. The trend of investment activity next year will be strongly positive, unless the health crisis resurges again. Even in the latter case, the investment decline will be moderated by the ERF resources. In the event of no further pandemic flare-up, investment is projected to recover by 15-20%, otherwise it will fall again, relatively mildly, by 5% to 10%.

The latest trends in short-term indicators, presented earlier, highlight the continuing strong decline in international tourism flows in the third quarter, while the contraction of the corresponding revenues is clearly greater. The decline in the provision of international transport services is weaker, but remains substantial. That said, following the extensive contraction of activity in both sectors in 2020, no such development is forecast for 2021, even if the health crisis resurges. However, as the events of 2020 have created a high degree of caution about health developments, even if a new outbreak of COVID-19 does not occur next year, tourism demand will pick up later and more gradually than in the past. Its growth may be higher near the summer season, while it is quite possible that medicines would be then available to treat the virus.

The exports of goods, in particular of those excluding fuels and ships, whose decline in the pandemic was weaker than that of the global trade of goods, continue to contain the impact on total exports of the decline in the exports of services. The downward revision of the 2020 recession forecasts in the Eurozone (IMF: 8.3%, from 10.2%), the main export destination of Greek products, explains part of this trend. That said, the Eurozone's growth forecast for 2021 has deteriorated (IMF: 5.2% versus 6.0%), highlighting the significant challenges facing the European economy, many of which existed before the health crisis. Under these conditions, the decline in exports in 2020 will average 23-25%, while next year export will probably rise by 16-20%. In the event of a rapid deterioration in the health conditions in 2021, the decline in exports will continue, rather mildly following their strong decline this year, at a rate of 7.0% to 11%.

As mentioned in previous IOBE bulletins on the Greek economy, the contraction of imports this year will be primarily determined by the decrease in domestic demand for products and exports of goods which are characterised by a relatively high proportion of imported raw materials. Given this, the resilience of product exports in the second quarter is a key reason for the milder-than-expected decline in the imports of goods. In addition, the low share of travel payments in total imports compared to total exports, prevents an extensive decline of total imports from a large contraction of travel payments. As the current report projects a weakening decline in private consumption and investment in the second half of 2020, the decline in imports of goods will also weaken. In addition, if the current health conditions carry over to 2021, the demand for imports will increase significantly. By contrast, a strong second phase of the health crisis will lead to lower consumption, fewer exports and investment in imports. But these effects will not be stronger than in 2020.

The above estimates of the GDP components for 2020 and 2021, under the two different macroeconomic scenarios, resulted in respective forecasts for the change in domestic GDP. On this basis, the recession in the Greek economy in 2020 will be around 8.0%, slightly higher than in the previous IOBE bulletins for the Greek economy (7.5%). In 2021, unless the health crisis escalates sharply, a significant recovery is expected in the region of 4.0-4.5%. However, if the health crisis worsens sharply during the winter, GDP will continue to fall, at a rate of 2.5% to 4.0%.

State Budget: deviation from the targets due to pandemic impact and related policy interventions

According to the data on State Budget execution, in January – August 2020, its deficit reached €9.7 billion, compared to a deficit target of €2.9 billion and to a deficit of €1.6 billion a year earlier. The primary balance of the State Budget for the same period reached a deficit of €5.5 billion, out of a surplus of €2.9 billion a year earlier, against a target for a surplus of €1.15 billion for the first eight months of 2020. The gap against the target in the eight-month period is greater on the expenditure side of the State Budget, highlighting the impact of emergency interventions to support businesses, self-employed and households. The target for the State Budget expenditure was overshot by €4.4 billion, coming mainly from transfers, which exceeded the target for this period by €3.1 billion, mostly from the expenditure on extraordinary compensation of employees and scientists. Next - in absolute terms of target overshot - came the expenditure of the Public Investment Program (higher by €1.88 billion), from the extraordinary compensation of businesses and the self-employed, the subsidy of interest on SME loans, the Entrepreneurship Fund II and the establishment of a corporate Guarantee Fund due to the COVID-19 pandemic. Therefore, on the expenditure side, the deviation from the target came from the conditions created by the health crisis.

On the side of the State Budget revenue, the shortage came from the decline of activity, as well as the interventions to facilitate businesses and households. Revenue lags behind by € 2.5 billion. Receipts from VAT (€1.9 billion less) and income taxes (-€655 million) post the largest deviation from the 2020 Budget, followed by excise duties (-€312 million).

Rising unemployment in 2020, due to the health crisis, for the first time since 2014. Prospect of a slight decline in 2021.

The sharp change in the GDP trend has so far had a mild impact on unemployment. As pointed out in the previous bulletin on the Greek economy, a number of factors are considered to have contributed to this development. Above all, these include the measures taken by the government to protect jobs from the effects of the pandemic and the fact that the sharp decline in the number of employees in the second quarter came primarily from their exit from the workforce, due to the lack of job search opportunities, resulting in no increase in the number of unemployed. If these people had been considered unemployed, the unemployment rate would have stood at 18.6% instead of 16.7% in April-June 2020. This rate is 0.2 percentage points lower than in the corresponding period of 2019, a difference which represents a significant slowdown in the decline of unemployment. Unemployment in the first half of 2020 stood at 16.5%, 1.6 percentage points lower than a year ago and the lowest for this period since 2012.

Most job losses in the second quarter compared to the same quarter of the previous year were recorded in the branches of Tourism (-82.3k or -20.4%), in the Primary sector (-29.6k or -6.5%) and in Construction (-14.3k or -9.5%). By contrast, employment increased most in Wholesale - Retail Trade (+18.7k or +2.7%), despite the suspension of activity in most physical stores in the sector in March - April, in Human Health Activities (+15.7k or +6.3%) and Transport - Storage (+9.5k or +4.6%).

From the activity indicators for the third quarter, in Tourism, during the busiest period for this sector, it is now considered probable that employment will continue to decline strongly. The significant reduction of jobs in Construction will continue in the second half of the year, due to strong pressures on construction activity. By contrast, the production decline in Manufacturing weakened significantly during the summer period (-0.3% in July - August), due to the good trend of exports excluding fuel-ships (-2.5% in July), easing the pressures on the jobs in the sector. Retail trade continued to decline mildly from May to July, by almost 3.0% in terms of volume. Therefore, the current developments in sectoral employment are varied.

As with all macroeconomic variables, the evolution of the new coronavirus pandemic will have a decisive impact on the labour market in 2021. After all, in Greece, as in the vast majority of the European countries, the pandemic has already entered its second phase of expansion. Therefore, it is likely that to escalate significantly during the winter. In this case, the downward pressure on employment will resurge, primarily in sectors affected already during the previous wave. In these circumstances, exceptional measures will be taken to support jobs again, mitigating their decline.

Under the basic scenario of macroeconomic developments, in which no substantial obstacles to the activity of the vast majority of sectors of the Greek economy are expected to occur next year, employment is anticipated to strengthen most in the sectors that experienced the strongest pressures in 2020 (Tourism, Food Services, Construction, Retail - Wholesale Trade). In addition, world trade will significantly recover, boosting exports of goods and transport, with a respective impact on their activity and thus employment.

In any case, as mentioned earlier, the currently unfavourable conditions have created specific needs for services, which can maintain or even increase jobs in the respective sectors in 2020. Indicatively, this includes the recruitment of 6.2k health personnel in the public sector, covering most of the announced 7.3k recruitments of permanent staff in the coming period.

The public sector will boost domestic employment next year in any case, at least through the recruitments in the health system, as well as the employment programmes of the Manpower Employment Organisation OAED, especially the one in the local authorities. The start of the disbursement of funds from the European Recovery Fund, as well as for the programming period 2021-2027, will be a key factor in stimulating investment and job creation.

As a result, under the baseline macroeconomic scenario, the unemployment rate is expected to reach 18.0% in 2020 and to decline slightly in the following year (17.0%). In the scenario of a new strong outbreak of COVID-19 in many countries, especially the Eurozone, and in Greece, unemployment will increase further in 2021 (to 19.5% - 20.5%).

Falling prices in 2020, due to the effects of indirect taxes and energy prices. Trend shift in 2021 due to stronger domestic demand.

The domestic Consumer Price Index declined year on year in January - August of 2020 by 0.8%, against an increase of 0.4% in 2019. The deflation came from energy goods and indirect taxes, as the change in the index with fixed taxes and without energy goods was positive, at 1.1%. The effect of taxation on the change in consumer prices was negative, namely -1.2 percentage points, from -0.6 percentage points a year ago and is mainly due to the reduction of indirect tax rates in May 2019, but also in June 2020. The decrease in the price of oil over the same period, which is a key component of energy costs, by 36.0%, also explains the negative contribution of energy prices on the rate of domestic price change, by 0.7 percentage points, compared with zero contribution in 2019.

For the rest of 2020, and in early 2021, the gradual decline in oil production by OPEC and Russia since last April will continue to partially deter its further price decline. If the health crisis escalates again, the demand for fuel and thus fuel prices will weaken further. These trends will be alleviated and perhaps eliminated if the second phase continues beyond March, as the first phase of the pandemic in 2020 exerted very strong pressure on oil prices a year earlier.

In the event that this unfavourable development does not take place (baseline macroeconomic scenario in the report), no significant recovery of travel and economic activity is expected until the uncertainty of a possible resurgence of the health crisis subsides. In case of a strong resurgence of the health crisis in 2021, the price of oil is forecast to fall by about 37.0% in 2020 and to increase by about 10.0% in 2021. Under the basic macroeconomic scenario, a similar decline in oil prices is expected in 2020 (-37%), with a stronger increase in the following year (+19.5%).

In terms of the effects that will be exerted on prices by domestic factors, the extension of the temporary measures to reduce VAT (means of transport, tourist packages, soft drinks) from 31 October 2020 to 30 April 2021 will prolong their disinflationary effect. The retroactive payment of €1.4 billion to retirees, as well as the tax cuts that will take effect from 1/1/2021, will stimulate household demand and increase prices, regardless of other developments.

The dynamics of domestic demand in the rest of 2020 and into the coming year will depend on the effects of the new coronavirus pandemic on household disposable income. The significant decline in economic activity this year is the most impactful factor. The expected development of disposable income next year is reflected in the two forecasts of change in private consumption, based on the alternative macroeconomic scenarios. Understandably, unless there is a new, strong escalation of the health crisis in 2021, stronger economic activity, investment and exports will significantly boost disposable income and demand. The opposite effects will be exerted on income and demand under the adverse macroeconomic scenario.

Taking into account the expected trends in the key components of the domestic Consumer Price Index, as well as the fact that in January - August 2020 there was 0.8% deflation, it is predicted that the Consumer Price Index will decline in 2020 by 1.2% to 1.4% compared to 2019. In 2021, under the basic scenario of macroeconomic developments, the Consumer Price Index is expected to increase by 1.7%, due to stronger demand and weakening of the disinflationary effect of energy. In case of resurgence of the health crisis, we forecast a deflation of 0.4%.

Special study: The macroeconomic and socio-economic impact of the Hellenic Republic asset development programme

The aim of the study presented in the fourth chapter is to highlight the macroeconomic and socio-economic effects of the development of assets owned by the Hellenic Republic. In particular, it examines the effects of the overall work programme of the Hellenic Republic Asset Development Fund (HRADF -TAIPED) for 2011-2019 and the results from some completed large projects. The effects are presented in terms of changes in socio-economic indicators such as GDP, net fiscal revenue and employment.

The privatisation programme has strong positive effects on the Greek economy with clear social benefits, in a particularly difficult period for Greece. Across the programme, privatisations are estimated to have boosted the country's GDP by around €1 billion a year on average over the period 2011-2019. During the same period, the average impact on employment approached 20k full-time jobs.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The global Environment

- Particularly strong health crisis impact on the global economy in the second quarter. Recession of 11.7% in the OECD countries, from -0.9% in the previous quarter
- Slight amelioration of the recession in the second quarter from unprecedented fiscal, monetary and regulatory interventions in the most developed countries and economic regions
- The outlook for some emerging economies has deteriorated significantly, as they are unable to take action to deal with the effects of the crisis
- The new coronavirus pandemic continues to disrupt economic activity as most countries face a second wave of its spread
- Need to implement medium-term policy interventions, from income transfers to measures that seek to curb the effects of the health crisis (public health protection, digital transition, green growth)
- The global economy is projected to shrink at a rate of 4.5% in 2020, slightly less than previously estimated this year. In addition, it is projected to recover more mildly in 2021, as overall the recovery will be more gradual (in the region of +5.0%).

The pandemic of the new coronavirus has significantly affected economic activity worldwide. The annual rate of GDP change in the OECD countries in the second quarter of 2020 fell significantly compared to the previous quarter, to -11.7% from -0.9%. The growth rate in the most developed economies (G7) was -11.9%, compared to -1.3% in the previous quarter and 1.5% in the respective quarter of 2019.

Despite a particularly strong recession in many economies in the second quarter, according to the IMF global economic activity declined less than expected. This development is mainly due to unprecedented fiscal, monetary and regulatory interventions in the most developed countries and economic regions, such as the European Union.

The global economy is gradually recovering after the major blow it suffered in the second quarter from the lockdown imposed on many countries. However, the prospects of some developing economies have deteriorated significantly. In many of them this happened for the opposite reason from the one that held back the decline of economic activity in the most developed economies, ie their inability to take income support and liquidity stimulus measures, due to their high accumulated debt and current expenditure. In many of these cases, further assistance and facilities will be required from the countries' creditors. A typical example is Argentina, which has requested a new IMF support programme. In any case, GDP losses in these countries will be greater than in developed economies.

The new coronavirus continues to spread and most countries are now facing a second wave of its spread since the beginning of autumn. Under these conditions, with restrictions on economic activity remaining in place and likely further deterioration, the recovery of the world economy to pre-pandemic levels is projected to be slower than originally expected, with significant differences in pace between countries and with strong uncertainty factors.

Imposing a second total lockdown in 2020 or 2021 is not a good option in most countries due to the limited resilience of their economies. However, owing to the second wave of the pandemic, more severe measures will probably be required, as well as local lockdowns, where high intensity rates of the health crisis are recorded. As winter approaches, the extra measures will put increasing pressure on the economies of many developed countries. An additional source of uncertainty is the size of the multiplier effect caused by the decrease in income from the rise in unemployment and the fall in tourism and other activities. It is also difficult to assess the effects of a possible deterioration in global financial market conditions.

In this volatile environment, there is a growing need for more medium-term policy interventions. In the most developed economies, some of the planned instruments have this character, such as the European Recovery Fund (ERF). More broadly, this will require a transition from income transfers to policies that attempt to contain the effects of the health crisis. These may relate to digital transition and green growth, policies to strengthen the public health system, etc. These and other objectives are included in the Multiannual Financial Framework and the ERF of the European Union.

In this context of developments, IMF recently revised its forecast for the rate of change in global GDP in 2020 to -4.4% from -5.2% (June forecast), due to the smaller-than-expected fall in economic activity in the second quarter, the strong policy interventions taken immediately, China's rapid return to recovery, and the expected lesser losses in the third quarter. It also slightly adjusted its growth forecast for 2021, with a more gradual recovery expected, to 5.2%, from 5.4%. Table 2.1 presents the latest IMF forecasts for annual GDP changes in the global economy and in selected developed and developing countries for the years 2020 and 2021.

Table 2.1

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

Economy	2019	2020		2021	
		Forecast	Difference from previous forecast*	Forecast	Difference from previous forecast*
World	2.8	-4.4	0.8	5.2	-0.2
Developed economies	1.7	-5.8	2.3	3.9	-0.9
Developing economies	3.7	-3.3	-0.2	6.0	0.2
USA	2.2	-4.3	3.7	3.1	-1.4
Japan	0.7	-5.3	0.5	2.3	-0.1
Canada	1.7	-7.1	1.3	5.2	0.3
United Kingdom	1.5	-9.8	0.4	5.9	-0.4
Eurozone	1.3	-8.3	1.9	5.2	-0.8
Germany	0.6	-6.0	1.8	4.2	-1.2
France	1.5	-9.8	2.7	6.0	-1.3
Italy	0.3	-10.6	2.2	5.2	-1.1
Developing Europe	2.1	-4.6	1.2	3.9	-0.3
Russia	1.3	-4.1	2.5	2.8	-1.3
Turkey	0.9	-5.0	0.0	5.0	0.0
Developing Asia	5.5	-1.7	-0.9	8.0	0.6
China	6.1	1.9	0.9	8.2	0.0
India	4.2	-10.3	-5.8	8.8	2.8
Middle East & Central Asia	1.4	-4.1	0.4	3.0	-0.5
Saudi Arabia	0.3	-5.4	1.4	3.1	0.0
Latin America and the Caribbean	0.0	-8.1	1.3	3.6	-0.1
Brazil	1.1	-5.8	3.3	2.8	-0.8
Sub-Saharan Africa	3.2	-3.0	0.2	3.1	-0.3
World Trade	1.0	-10.4	1.5	8.3	0.3

* Difference in percentage points compared with IMF estimates in June 2020

Source: World Economic Outlook Update, IMF, October 2020

The latest and expected trends in the economies of major states and regional blocks in the midst of the health crisis are analysed below. Among the most developed countries, the US economy shrank significantly in the second quarter of 2020 because of the lockdown measures from mid-March, resulting in millions of unemployed. The annual rate of GDP change in the second quarter was -9.0%, from 0.3% in the previous quarter and 2.0% a year ago. That said, the recession in the US was the lowest among the most developed economies. For 2020, the IMF forecasts a GDP decline by 4.3%, with a partial regain of these losses projected for 2021 (recovery by 3.1%). Since the outbreak of the coronavirus crisis, the US federal government has taken measures of $4.1 trillion (19.1% of GDP) with an estimated fiscal impact of $3.3 trillion (15.4% of GDP). Additional support initiatives by the end of the year of about $2 trillion are also under discussion.

In the Eurozone, the annual GDP growth rate fell sharply in the second quarter of 2020 to -14.7%, from -3.2% in the previous quarter and 1.2% in the same quarter of the previous year. GDP is projected to fall by 8.3% for the whole of 2020, while for 2021 a partial regain of the losses, by 5.2% is expected. In Germany, GDP fell 11.3% year-on-year in the second quarter, down from 2.2% in the previous quarter, while in France and Italy it fell by 18.9% and 18.0% respectively (down 5.7% and 5.6% in the previous quarter).

In the UK, GDP fell 21.5% year on year in the second quarter of 2020; from a decline by 2.1% in the previous quarter and growth by 1.0% a year ago. A recession of 9.8% is forecast for the year 2020 as a whole, while a recovery of 5.9% is forecast in 2021.

In Japan, GDP shrank by 10.1% in the second quarter of 2020, following a decline of 1.9% in the previous quarter. For the whole of 2020, IMF forecasts a contraction by 5.3%, while for 2021 it projects a recovery by 2.3%.

Next, the current subsection presents the latest economic trends and economic policy challenges in five developing countries and economic regions, which together produce almost 1/3 of the world GDP.

In detail, China's economy returned to a positive annual growth rate of 3.2% in the second quarter of 2020, from a contraction of 6.8% in the previous quarter and growth of 6.2% a year earlier. IMC projects a growth rate of 1.9% for the whole of 2020 and an acceleration to 8.2% in 2021.

India's economy shrank by 23.5% in the second quarter of 2020, which was the strongest decline among the OECD countries. It had grown by 3.3% in the previous quarter and by 5.0% a year earlier. India's GDP is projected to shrink by 10.3% this year, followed by a strong recovery (8.8%) in 2021.

Russia's gross domestic product decreased by 5.6% year-on-year in the second quarter of 2020, from a decrease of 0.1% in the previous quarter and an increase of 2.7% in the respective quarter of the previous year. Its output is projected to shrink by 4.1% for the whole of 2020 and to partially regain its losses in the following year (2.8%).

Turkey's economy recorded an annual GDP growth rate of -9.0% in the second quarter of 2020 from 4.4% in the previous quarter and -0.9% a year ago. GDP is estimated to shrink by 5.0% for the whole of 2020, while a rather strong recovery of about 5.0% is forecast for 2021.

In Latin America, the recession will average 8.1% in 2020. In the second quarter of 2020, Brazil's economy shrank at an annual rate of 11.4%, from 1.4% growth in the previous quarter. For 2020, the Brazilian economy is projected to shrink by 5.8%, while for 2021 it is expected to partially recover, by 2.8%.

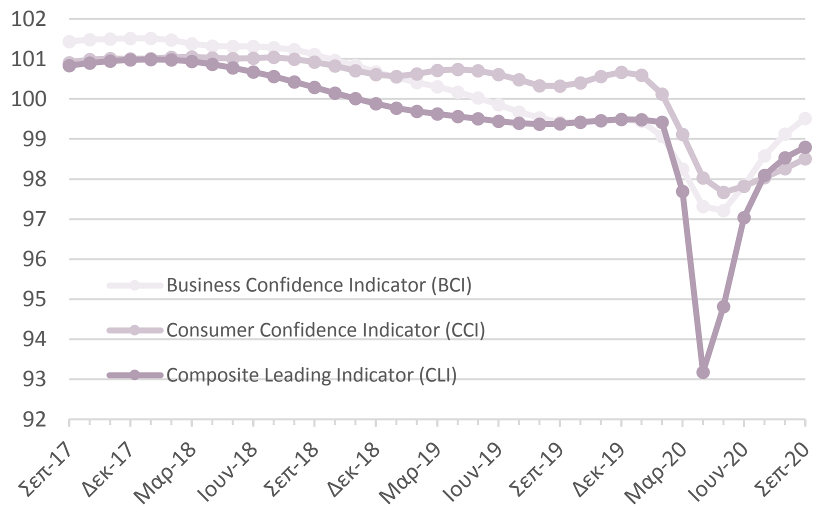
The OECD Composite Leading Indicator for its member countries continues to recover in the third quarter, reaching 98.8 points in September (+1.9% since June) and it is now marginally lower than the pre-pandemic levels (99.4 points in February). The business confidence index recovered significantly in the same month, to 99.5 points in September (+1.7% since June), marginally higher than its February levels (99 points). However, the consumer confidence index is recovering at a slower pace, as it stood at 98.5 points in September (+0.7% since June) from 100.1 points last February.

Average inflation among developed economies is projected to reach 0.8% in 2020 from 1.4% in the previous year, while for 2021 it is projected to accelerate to 1.6%. In emerging markets, inflation is expected to average 5.0%, from 5.1% in 2019, while for 2021 it is expected to slow slightly to 4.7%.

In the midst of the health crisis, monetary policy worldwide continues to be accommodative, limiting the impact of the pandemic on the banking system and the financial markets. In particular, the Fed has pledged to keep its key interest rate in the range of 0-0.25% until 2023, and intends to maintain its accommodative stance until inflation is close to the long-term target of 2%. In addition, the Fed president Jerome Powell announced that the central bank's policy is being revised to allow inflation to even exceed 2% to some extent, to meet its long-term goal. Respectively, the ECB, keeping its key interest rate at -0.5%, is considering following the steps of the Fed in terms of flexibility in its approach to achieve the long-term inflation target of close to 2%.

Figure 2.1

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



Source: OECD

V-shaped recovery for the OECD Composite Leading Indicator and the Business Confidence Index. By contrast, a slower (U-shaped) recovery in consumer confidence.

B. EU and Euro area economies

- New outbreak of COVID-19 in Europe in the third quarter, of varying intensity between countries
- Successive programmes to support the European economy, most significantly the Next Generation EU and the raised EU budget 2021-2027 (Multiannual Financial Framework -MFF)
- Higher Economic Sentiment Indicator in both regions (EA and EU) in the third quarter due to the easing of the administrative measures to deal with the new coronavirus
- Negative GDP growth rate in the EU and the Euro area in the second quarter of 2020, at extremely low levels, -13.9% and -14.7% respectively
- Negative contribution of net exports to growth in April - June in the Euro area and the European Union
- European Commission forecasts (July 2020) for an 8.7% recession in the Eurozone in 2020 and a 6.1% recovery in 2021

The COVID-19 pandemic and the restrictive measures implemented to ensure public health across Europe have disrupted the functioning of the EU economy. The impact is strong on demand, supply chains, labour supply, industrial production, prices, trade and capital flows. The fact that the European economy at this juncture was relatively vulnerable to a shock, as it had already slowed down significantly in 2019, mainly due to some structural problems in sectors of the EU industry, amplified the impact of the health crisis. It is now possible that the EU has entered the deepest and most prolonged economic downturn in its history.

In addition, in September there was a new wave of COVID-19 infections in many European countries (France, Italy, Belgium, Portugal, the Netherlands, the United Kingdom, Poland, Romania, the Czech Republic, etc.). In most of these countries, the number of new cases per day exceeded the levels reached in the previous phase of the outbreak. Russia is also one of the countries with growing infections. Therefore, a 'resurgence' of the health crisis is probably under way, which is quite likely to be more severe than the first. The likelihood of sustained or escalating infection rates is higher in the autumn and winter seasons. The fact that there is currently no cure or prevention for the virus (medicine or vaccine) significantly increases the uncertainty about the duration and effects of this new phase. If the number in cases continues to grow, it may lead to extensive measures to protect public health, locally, or perhaps even at country level. Subsequently, new initiatives of economic support are expected to be implemented by national governments and the EU. The latest action is the decision of the European Commission on 25/9 to allocate €87.4 billion to 16 member countries, as part of the initiative Support to mitigate Unemployment Risks in an Emergency (SURE). The current section of this bulletin concludes with a presentation - in a text box - of the objectives, financial mechanisms and procedures of the European Recovery Mechanism (Next Generation EU). It also presents the actions of Greece for raising resources from the Fund and the relevant targets for 2021.

In greater detail, in the second quarter of 2020 the economies of the European Union and the Eurozone experienced a recession, by 13.9% and 14.7% respectively, compared with growth of 1.4% in the EU and 1.2% in the EU a year earlier. According to the European

Commission's recent forecast[1], following growth of 1.3% in 2019, the recession in the euro area is expected to be 8.7% for 2020 while a significant recovery of 6.1% is forecast for 2021. For the European Union, after growth of 1.5% in 2019, it forecasts a recession of 8.3% in 2020 and a significant rebound of 5.8% of GDP in 2021.

The recession in the economies of the EU in April-June this year came from the decline in domestic demand, with the contribution of investment turning negative (-4.4% of GDP), from marginally positive in the previous quarter (0.2%), while the negative contribution of consumption reached -8.1%, from -1.7% in the first quarter of 2020. The impact of net exports on GDP change in the first quarter of 2020 was negative for the third consecutive quarter, by 1.0%, compared to a stronger negative impact of 1.3% in the previous quarter. The trends in the composition of the recession in the Eurozone economies are similar, with domestic demand being the main recession driver (-13.8 percentage points, from -1.6 p.p. in the first quarter of the year). The contribution of investment was also negative (-4.7% of GDP), compared to a marginally positive effect in the previous quarter (+0.3% of GDP), while the effect of consumption remained negative, strengthening from -2.1 p.p. in the first quarter of 2020 to -8.6 p.p., in the following quarter. In addition, in the same quarter, the contribution of net exports in the Eurozone was negative, at 0.9%, milder than a quarter earlier (-1.7%).

The composition of GDP components on the expenditure side remains similar in the EU-27 and the Eurozone, with consumption accounting for 76.5% and 76.8% of GDP respectively, investment accounting for 21.6% and 21%.3% of GDP, exports for 47.1% and 46.0% and imports for 45.3% and 44.2% of GDP.

The recession in the EU-27 was milder in the second quarter of this year (annual changes in seasonally adjusted data) in Ireland (3.7%), Lithuania (4.6%), Finland and Estonia (6.5%). In Greece, the 15.2% recession is slightly stronger than the Eurozone average (-14.7%). The countries with the deepest recession were Spain (21.5%), France (18.9%) and Italy (18.0%). In terms of a rolling 12-month average, Greece posted a negative growth rate of 3.2%, slightly lower than that of the EU (3.5%) and the Euro Area (3.9%). The country with the deepest economic contraction, on a twelve-month basis, was Italy (-5.8%), followed by France and Spain (5.6%). In contrast, the countries with the highest positive growth rate in the EU-27 were Ireland (3.8%) and Lithuania (1.4%).

Regarding the economic climate trends and key leading indicators of economic activity in the Euro Area and the European Union, the €-COIN index fell in the third quarter of 2020 to -0.48 points, from -0.27 points in the previous quarter, well below its level from the third quarter of 2019 (0.18), indicating a deterioration due to the economic impact of the COVID-19 pandemic. In September 2020, it reached -0.31, at about the same level as in September 2012.

The European Commission's Economic Sentiment Indicator for the EU-27 and the Eurozone increased by 17.8 and 17.6 points respectively in July - September of 2020, compared to the previous quarter, when it was quite low due to the first wave of the pandemic. In particular, it stood at 86.3 and 87.0 points respectively. In September, the economic sentiment indicator increased to 90.2 points in the EU-27 and stood at 91.1

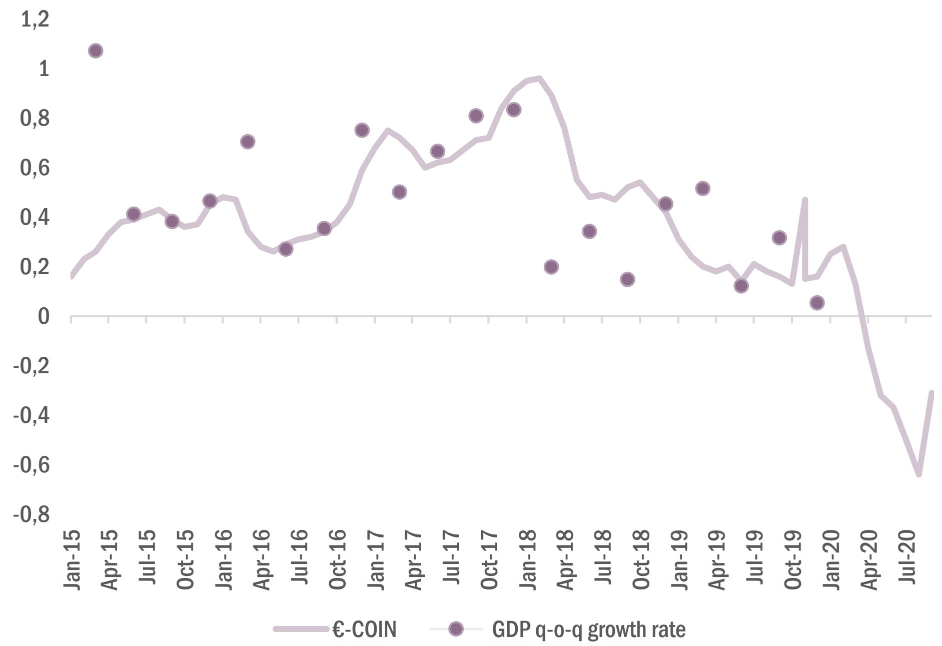
[1] European Economic Forecasts Summer 2020, European Commission, July 2020

points in the Eurozone, 3.4 and 3.6 points higher than in the previous month. In addition, it was 11.1 and 10.0 points lower than a year ago.

Figure 2.2

Monthly €-COIN Index & Eurozone GDP*

Significant fall in the €-COIN leading indicator until August 2020, due to the economic impact of the health crisis and related administrative measures



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

Source: CEPR και Bank of Italy

Table 2.2

Economic Sentiment Indicator EU-27 & Euro Area (av. 1990-2018=100)

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
EE-27 (2020)*	110.1	109.3	107.5	106.2	105.4	105.2	104	105	103.1	102.4	102.7	101.3
Euro area	109.7	109.5	107.4	106.3	106.2	105.6	103.6	105	102.9	102.3	102.6	101.1

Month	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
EE-27 (2020)*	100.4	100.9	101	102.5	103	94.5	63.8	66.7	74.9	81.8	86.8	90.2
Euro area	100.2	100.7	100.9	102.6	103.4	94.1	64.9	67.5	75.8	82.4	87.5	91.1

*27 countries after 2020

Source: European Commission (DG ECFIN), September 2020

Overall in the third quarter of 2020, the EU Economic Sentiment Indicator was 17.8 points higher than in the previous quarter and 15.9 points lower than in the respective quarter of 2019. In the Eurozone, the Economic Sentiment Indicator was 17.6 points higher than in the previous quarter and 15.0 points below its level from the same period of 2019. Among the largest EU economies, France saw an increase in the index in the third quarter of 2020 by 18.8 points compared to the previous quarter, while compared to the third quarter of 2019 the index was 12.8 points lower. Significant increase compared to the second quarter was observed in Germany, by 16.3 points, where the index was 6.3 points lower than in the third quarter of last year. In Italy the index increased by 15.4 points compared to the previous quarter and decreased by 18.1 points compared to the respective quarter of 2019. Finally, in July - September 2020, the Economic Sentiment Indicator fell much less in Greece than in other European countries. Compared to the previous quarter, it decreased by 1.5 points, to 89.5, about 17.8 points lower than a year earlier (108.3 points).

Further information on the trends in the GDP components and other macroeconomic variables in the Eurozone and the EU in the second quarter of 2020, as well as anticipated trends in the near future is provided below in this subsection. The forecasts for 2020-2021 for the EU and the Eurozone are drawn from the latest reports of the European Commission.

Table 2.3

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

	EU-27			Eurozone		
	2019	2020	2021	2019	2020	2021
GDP*	1.5	-8.3	5.8	1.3	-8.7	6.1
Private Consumption	1.6	-8.5	6.7	1.3	-9.0	7.1
Public Consumption	1.8	3.3	0.6	1.7	3.2	0.6
Gross Investment	5.7	-13.2	9.7	5.7	-13.3	10.2
Exports of Goods and Services	2.7	-12.8	9.5	2.5	-12.9	9.5
Imports of Goods and Services	3.7	-12.8	9.5	3.8	-12.9	9.7
Employment	1.0	-4.4	3.3	1.2	-4.7	3.9
Unemployment (% labour force)	6.7	9	7.9	7.5	9.6	8.6
Inflation*	1.4	0.6	1.3	1.2	0.3	1.1
Balance of General Government (% GDP)	-0.6	-8.3	-3.6	-0.6	-8.5	-3.5
Debt of General Government (% GDP)	79.4	95.1	92.0	86.0	102.7	98.8
Current Account Balance (% GDP)	3.2	3.1	3.4	3.3	3.4	3.6

Source: European Economic Forecasts, Spring 2020, European Commission, May 2020
*European Economic Forecasts, Summer 2020, European Commission, July 2020

In greater detail, according to Eurostat data for the second quarter of 2020 (annual changes in seasonally adjusted data), private consumption in the European Union decreased by 15.1%, against a fall of 3.2% recorded in the previous quarter and a positive trend in the corresponding period of 2019 (1.5%). In the Eurozone, household consumption fell by 15.9%, from a 3.8% decline in the previous quarter and growth a year earlier by 1.3%. The European Commission last May forecast a 8.5% reduction in total household consumption in the EU in 2020 and a 6.7% recovery in 2021. For the Eurozone, it forecast a 9.0% decline in private consumption in 2020 and an expansion of 7.1% in the following year. At country level, private consumption in Germany was 12.9% lower, against a decline by 2.3% in the preceding quarter, while in France it decreased stronger (by 16.3%). In Italy, it decreased by 17.3%, against a decline by 6.5% in the preceding quarter, and in Spain it contracted by 24.7%, from a decrease of 6.1% in the first quarter of 2020. In Greece, the decline was relatively lower than in these countries, by 11.6%, after a decrease of 0.7% in the first quarter of the year.

Public consumption in the EU and the Eurozone fell in the second quarter of 2020 by 2.0% and 2.5% respectively, from an increase of 0.8% and 0.6% a quarter earlier. In the same quarter of 2019, public consumption had risen by 1.6% in both the EU and the Eurozone. For 2020, the European Commission expects stronger growth in the EU-27 compared to last year, primarily to address the effects of the health crisis, to 3.3%, while it estimated similar expansion for the Eurozone (3.2%). In 2021, the positive change will slow significantly, to 0.6% in both economic regions. In the second quarter of 2020, public consumption decreased in Greece by 3.2% compared to a year ago, when in the previous quarter it had increased by 1.4%.

Investment recorded a strong decline in April-June 2020 in the EU, by 19.2%, in contrast to the previous quarter when it increases (+0.8%). Similarly in the Eurozone, the decline totalled 20.5%, compared to an increase by 1.4% in the first quarter of 2020. In the respective quarter of 2019, investment had expanded by 7.4% in the EU and 8.6% in the Eurozone. The European Commission forecasts a 13.2% contraction in 2020 and a 9.7% growth in 2021 in the EU, while it expects a 13.3% decline and a 10.2% recovery for the Eurozone respectively. In the second quarter of 2020, investment in Germany shrank by 9.6%, following a smaller decline of 2.8% in the previous quarter, while in Italy its decline intensified to 25.4% from 4.4% in the January - March 2020 quarter. In France, investment declined by 18.7%, from 8.3% in the previous quarter. In Greece, it fell by 9.0%, compared to a contraction by 6.9% in the first quarter of 2020. Therefore, investment in some of the major EU economies was falling even before the pandemic.

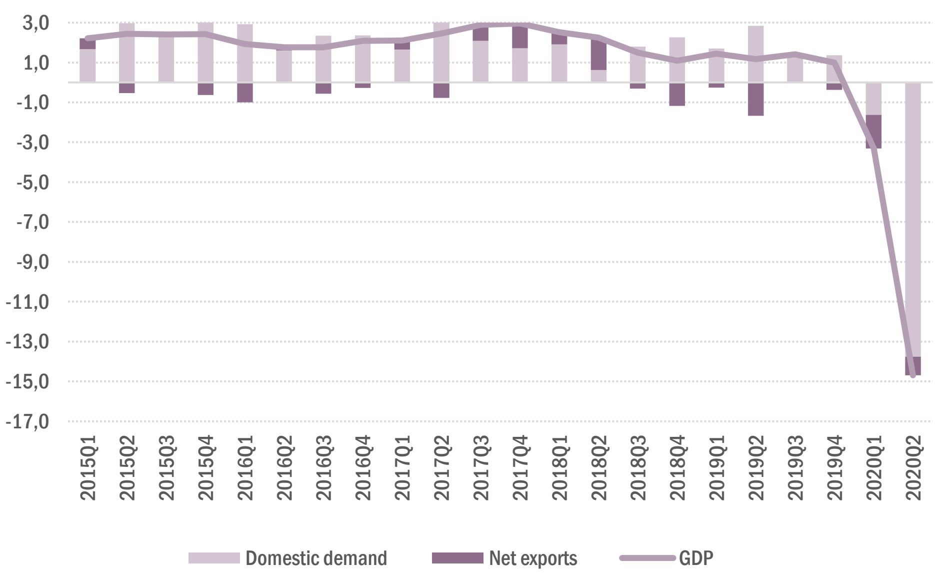
Strong decline was recorded in the exports of goods and services in the second quarter of 2020, both in the EU (21.0%) and in the Eurozone (21.5%), compared to a lower decline of 2.5% and 3.1% respectively in the previous quarter and growth by 2.6% and 2.4% in the second quarter of 2019. For 2020, the European Commission predicts a decrease in the exports of the EU-27 compared to 2019 by 12.8% and an increase in the following year by 9.5%. For the Eurozone, it forecasts a contraction of 12.9% for 2020 and an increase of 9.5% in 2021. At country level, Germany recorded a 22.2% drop in exports in the second quarter of 2020, from a 3.8% decline in the first quarter. The contraction in exports in France and Italy in the second quarter of this year was 30.5% and 33.0% respectively, down from 7.8% and 7.4% decline in the previous quarter, respectively. In Greece, exports decreased by 32.1% in the second quarter, from an increase of 2.4% in the first quarter. Exports decreased in Spain by 38.1%, from a smaller decrease of 5.6% in the first quarter, and in Cyprus (-17.1%), following a decrease of 4.3% in the first quarter of the year.

Imports declined in the EU in the second quarter of 2020 compared to the previous quarter, by 20.1%, from a positive change of 0.2%. In the Euro area, imports fell in the second quarter of 2020 compared to the previous quarter, by 20.7%, from growth by 0.2% in the first quarter. A year earlier, they had increased by 5.7% and 6.3% respectively. For the years 2020 and 2021, the European Commission forecasts for the EU-27 a fall of 12.8% and an increase of 9.5% respectively. For the Eurozone, it expects a decrease of 12.9% in 2020 and an increase of 9.7% in 2021. At country level, in the second quarter of 2020 imports in Spain decreased by 33.5%, compared to a smaller decrease of 5.4% in the previous quarter. Similarly, they went down in France by 21.2%, from a decrease of 5.7% a quarter earlier, and in Italy by -26.9%, from -6.0%. A negative rate of change was recorded in Germany (-17.4%), from a fall of 2.0% in the first quarter of 2020. In Greece, imports decreased by 17.2%, while in the previous quarter they were lower by 1.1%.

Based on developments in the components of GDP in the Eurozone, the contribution of net exports was negative in the first and second quarters of 2020 (1.7% and 0.9% respectively), as it was a year ago as well (1.7%). The larger negative contribution of net exports in the second quarter came simultaneously from the change in the contribution of exports, from -1.6% in the first quarter to -10.7% in April-June 2020, and the negative contribution of imports, from +0.1% in the first quarter to -9.8% in the next. As already mentioned, the negative contribution of domestic demand was of the order of 13.8% of GDP, against a smaller decline in the previous quarter (-1.6%). The decrease was mainly due to the larger decline in private consumption, which contributed -2.1% of GDP growth in the first quarter of 2020, while in the second quarter its negative contribution was stronger, at 8.6 p.p.

Figure 2.3

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



Negative contribution of net exports to the change in EA GDP in the second quarter of 2020. Negative contribution of domestic demand due to a significant decrease in private consumption.

Source: Eurostat

Harmonised inflation decreased in the second quarter of 2020 in the EU and the Eurozone, recording a rate of 0.6% and 0.2% from 1.5% and 1.1% respectively. In the second quarter of 2019, harmonised inflation stood at 1.6% and 1.4%, in EU and the Euro area (EA) respectively. For the year 2020, the European Commission recently predicted that inflation will slow significantly in the EA, to 0.3%, but also in the EU, to 0.6%, while in 2021 it will return to previous levels, to 1.1% and 1.3% respectively.

Employment declined in the second quarter of 2020 compared to the first quarter, by 2.9% in the EU and 3.1% in the EA, against +0.4%, while it also declined year on year (by 1.0% and 1.3% respectively). The European Commission forecasts a reduction in job creation in the EU for 2020 and an increase in 2021, by 4.4% and 3.3% respectively, following a rise of 1.0% in 2019. For the Eurozone, it also forecasts a drop in employment this year, by 4.7%, and an increase equal to 3.9% in 2021, from an expansion of 1.2% in 2019. Employment growth in the second quarter of 2020 was recorded in Malta (4.2%) and Luxembourg (1.4%). In Greece the reduction reached 3.4%. The largest decline in employment was recorded in Spain (7.6%), Hungary (5.6%), Portugal (3.6%) and the Czech Republic (1.9%).

Unemployment remained stable in the second quarter of 2020, at 6.7% in the EU, falling to 7.3% in the Eurozone, compared to 7.5% respectively in the first quarter of 2020. In the second quarter of 2019, it stood at 6.6% in the EU and 7.4% in the Euro area. For 2020, the European Commission forecasts an increase in unemployment in the EU-27 and the Eurozone, to 9.0% and 9.6%, from 6.7% and 7.5% respectively in 2019, while for 2021 it expects unemployment rates of 7.9% and 8.6%, compared to 6.7% and 7.5% in 2019. In April - June 2020, the highest unemployment rate was recorded, for yet another quarter, in Greece (16.7%), with Spain (15.3%) and Sweden (9.1%) following, while in France unemployment was around 6.8%.

In the field of fiscal performance, the general government deficit in the EU-27 in the first quarter of 2020 decreased by 3.8% of GDP, while in the fourth quarter of 2019 it had remained unchanged. The European Commission (EC) predicts that it will change to -8.3% and -3.6% of GDP in 2020 and 2021 respectively. Regarding the budget deficit on average in the Euro area, the EC expects it to expand to -8.5% of GDP in 2020 and -3.5% in 2021, from -0.6% in 2019. Public debt amounted to 86.3% of GDP in the Euro area countries in the first quarter of 2020. It is estimated that in 2020 it will increase to 102.7% and in 2021 it will fall to 98.8% of GDP respectively. Public debt, as a percentage of GDP, remained particularly high in the first quarter of 2020 in several member countries, with the highest level recorded in Greece (176.7%), Italy (137.6%), Portugal (120.0 %), Belgium (104.4%) and France (101.2%).

As for the monetary policy framework, due to the COVID-19 pandemic and the related adverse economic effects, recall that the ECB started in mid-March a series of monetary and credit policy measures aimed at stimulating liquidity. According to a recent ECB announcement, the interest rate on the main refinancing operations as well as the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. Purchases of assets through the Pandemic Emergency Purchase Program (PEPP) continue, totalling € 1,350 billion. The purchases will continue at least until the end of June 2021 and, in any case, until the coronavirus crisis is over. Net purchases under the Asset Purchase Program (APP) will continue at €20 billion per month, combined with €120 billion in additional funding provisionally available until the end of the year.[2] An important element here is the waiver for Greece's participation in the extraordinary purchasing programme. The measures collectively support the provision of bank loans, in particular by facilitating the conditions under which credit claims are accepted as collateral.

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

- The looming new wave of the pandemic and the possible new administrative measures to limit its spread may make the overall economic consequences more severe.
- Possible need for new fiscal and monetary measures beyond what has been taken (e.g. Next Generation EU and PEPP) to address the second wave.
- Heightened uncertainty in the markets on both sides (consumers and businesses)
- Sectoral disturbances, with tourism and transport hit hardest.
- Implementation of the UK Withdrawal Agreement on specific issues such as the rights of EU citizens in the UK, the financial settlement and the settlement of trade terms.
- Geopolitical tensions in the Middle East and migration flows.

[2] Monetary policy decisions press release, ECB, September 2020

Box 2.1

Purposes, resources and financing mechanisms of the Next Generation EU fund

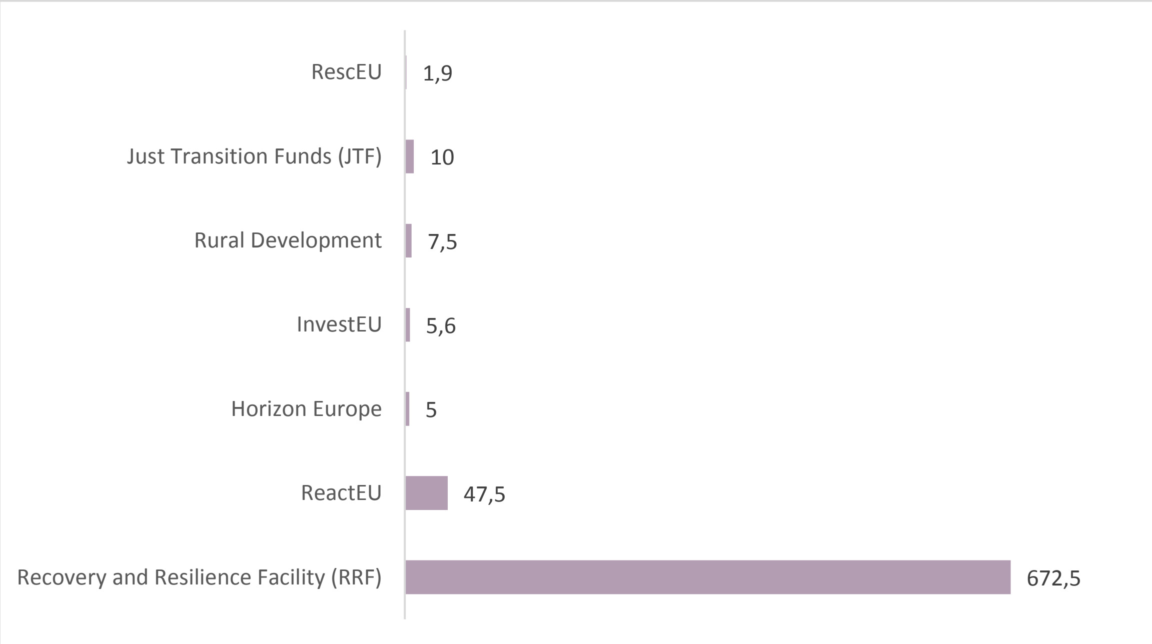
The European Commission proposed in May 2020 a comprehensive plan for Europe, aiming at recovery from the health crisis and the protection and creation of jobs. The Commission has presented a very broad package of interventions, combining the Multiannual Financial Framework (MFF) 2021-2027 with the emergency funding instrument "Next Generation EU" (NGEU). On 21 July 2020, the EU leaders approved an intervention package totalling €1,824.3 billion, combining MFF 2021-2027 (€1,074.3 billion) with the NGEU (€750 billion). The package aims to help the EU recover after the COVID-19 pandemic, supporting also investment in green and digital transitions.

The NGEU resources will come from the Commission borrowing on behalf of the EU from the capital markets. They will be allocated to EU programmes based on the NGEU. The new net borrowing activity will cease at the end of 2026 at the latest. The funds can be used for loans totalling up to €360 billion and for grants of up to €390 billion, at 2018 prices. Legal commitments for NGEU programmes are to end on 31 December 2023. Payments will be made by 31 December 2026. In total, Greece is projected to benefit from the NGEU with €32 billion, of which €19.3 billion relates to grants and €12.7 billion to loans.

The allocation of the NGEU budget to individual programmes is shown in Figure 2. It follows that the vast majority of its resources (€672.5 million or 89.6%) will be allocated through the Recovery and Resilience Facility (RRF), with the REACT-EU initiative coming next in the allocation of funds (€47.5 billion or 6.3%). As for the distribution of grants to Greece, €16.2 billion will come from RRF, €2.3 billion from ReactEU, €0.4 billion from the Just Transition Funds and €0.4 billion from the European Agricultural Fund for Rural Development.

Figure 2.4.

Allocation of the Next Generation EU budget, € billion



Source: European Council, 21 July 2020, EUCO 10/20

Recovery and Resilience Facility (RRF)

On 9 October 2020, following the political agreement of 6 October 2020, the Permanent Representatives of the Member States to the EU approved the Council 's position on the Recovery and Resilience Facility (RRF). This facility is the central tool of the NGEU, aiming to address the COVID-19 crisis and the challenges posed by the digital and green transition. Next in the process come the negotiations between the European Parliament and the Council on the RRF. The European Parliament has not yet voted on its position.

Through the RRF, €312.5 billion will be allocated to Member States in grants, of which 70% will be pledged in 2021 and 2022 and 30% by the end of 2023. Each Member State's allocation key for the years 2021-2022 will be calculated on the basis of its population, the inverse of its GDP per capita and the unemployment rate over the past five years. For 2023, the unemployment criterion is replaced by the percentage change in real GDP in 2020 and the overall percentage change in real GDP in 2020-2021, in line with the Commission's autumn 2020 forecast, with the same weight. These criteria will then be updated by 30 June 2022, based on the latest available statistics.

Regarding the possibility of borrowing through the RRF, loans will be made available to member states until the end of 2023. Loans for each Member State will not exceed 6.8% of GDP.

Member States should draw up National Recovery and Resilience Plans (NRRP) in order to receive financial support through the RRF, identifying their reform and investment programmes by 2026, as well as targets, milestones and estimated costs. Each plan should be based on the priorities set out in the European Semester framework for the country concerned. In addition, the plans should work together to strengthen the growth potential, job creation and economic and social resilience of the Member States. More than 37% of the project funds should relate to the green transition and at least 20% to digital transformation. Interventions that entered into force on or after 1 February 2020 are considered eligible to support.

Member States can submit their drafts to the Commission from 15 October 2020 and must formally submit their plans by 30 April 2021 at the latest. The pre-financing of the facility will be paid to the Member States on request in 2021 and will amount to up to 10% of the total support provided for in the relevant NRRP. The funds will be disbursed to the Member States provided that the implementation of the projects is in line with the milestones and targets set out in the relevant NRRPs.

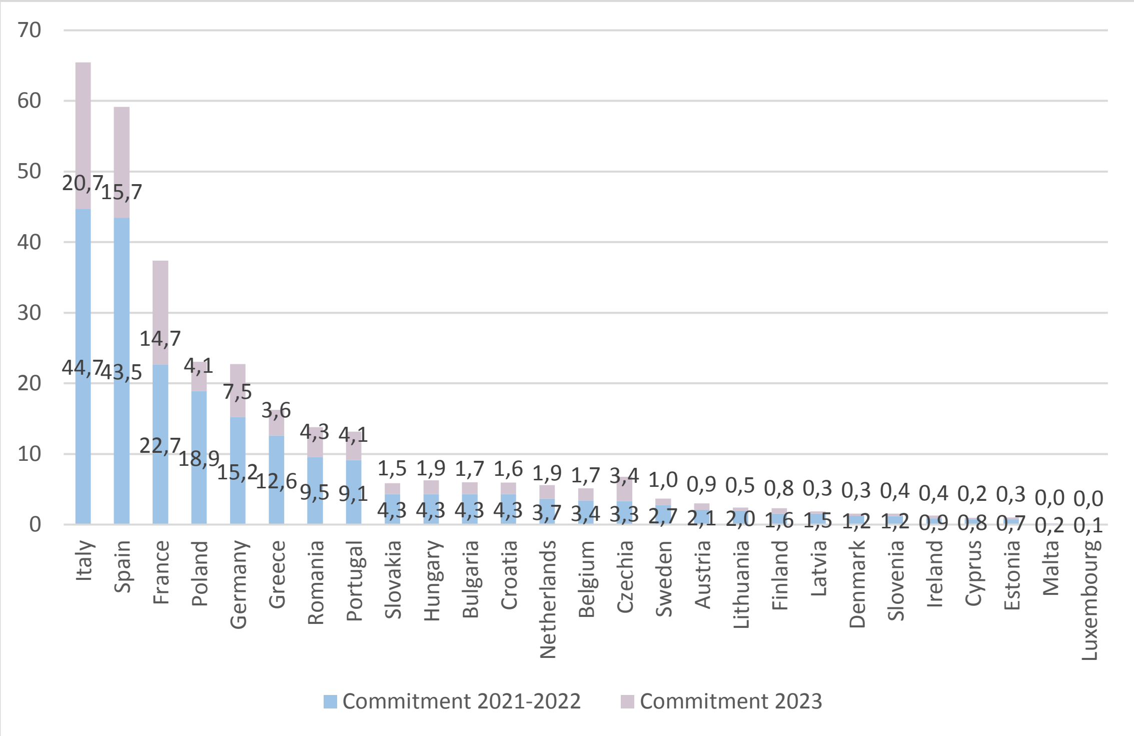
The Commission encourages the Member States to include in their plans investments and reforms in the following key areas:

- Power up - frontloading of future-proof clean technologies and acceleration of the development and use of renewables.
- Renovate - improvement of energy efficiency of public and private buildings.
- Recharge and Refuel - promotion of future-proof clean technologies to accelerate the use of sustainable, accessible and smart transport, charging and refuelling stations and extension of public transport.
- Connect - fast rollout of rapid broadband services to all regions and households, including fibre and 5G networks.
- Modernise - digitalisation of public administration and services, including judicial and healthcare systems.
- Scale-up - increase in European industrial data cloud capacities and the development of the most powerful, cutting edge, and sustainable processors..
- Reskill and upskill - adaptation of education systems to support digital skills and educational and vocational training for all ages.

The distribution of €312.5 billion in grants as part of the RRF among the EU member countries, as per the conclusions of the July 21 agreement, is depicted in Figure 2.5.

Figure 2.5.

Recovery and Resilience Facility - Allocation of grants per country



Source: European Council, 21 July 2020, EUCO 10/20

Hellenic Recovery and Resilience Plan

According to the Draft State Budget for 2021, the Hellenic Recovery and Sustainability Plan (HRRP) is expected to be submitted to the European Commission in the first quarter of 2021, with the aim of having the disbursement of the first tranche approved in the second quarter of the same year and with prospects for the disbursement of the second tranche in its fourth quarter. Thus, for the whole of 2021, total inflows from RRF and REACT-EU amounting to €5.5 billion, of which approximately €4.23 billion in the form of grants, are expected in the draft budget.

The HRRP guidelines are expected to be in line with the national reform plan under the European Semester, the new Partnership Agreement for the Development Framework (ESPA) 2021-2027, the National Development Programme (NDP, national arm of the PIP - Public Investment Programme), as well as the individual sectoral strategies (such as energy and climate, the circular economy, transport, agricultural policy). An important contribution to the priorities of the HRRP will be the Development Plan for the Greek Economy (DPGE), drafted by an independent committee of experts chaired by Professor Chr. Pissarides.

In DPGE's interim report (July 2020) published for public consultation, three main objectives for the Greek economy stand out: (a) increasing productivity (b) increasing openness and (c) linking production with technology and innovation. In this context, policy priorities related to: (1) taxation, such as reducing the burden on salaried work, (2) the social security system, with stronger incentives for work and household savings, (3) financing, through the development of the capital market, (4) the justice system, with a view to reducing dispute resolution time, (5) better governance in public administration, (6) the labour market and the welfare system, with objectives such as encouraging participation, training and social mobility, (7) modernisation of education (8) research and innovation, (9) health and (10) 'green' growth actions such as energy efficiency, switching to renewable energy sources and developing circular economy systems.

In conclusion, the resources of the Next Generation EU represent an important opportunity to finance the recovery of the Greek economy, following two successive economic crises. For this reason, it is imperative to use the new European resources to strengthen Greece's production structure, through the creation of the necessary infrastructure and the financing of structural reform initiatives, rather than to support consumption, which provides only a transitory boost to the economy.

2.2 The Economic Environment in Greece

A. Economic Sentiment

- Marginal decline of the Economic Sentiment Indicator in Greece in the third quarter of 2020 compared to the immediately preceding quarter (90.3 from 91.8 points). Much stronger deterioration compared to the respective quarter of 2019 (108.1 points). The recent level is similar to the 2015 average.
- Business expectations weakened in the recent quarter compared to the previous one in Industry and Retail Trade, while they strengthened more intensely in Construction and to a lesser extent in Services.
- The Consumer Confidence Index was lower in July-September than in the second quarter of this year, at -36.9 from -31.1 points. However, it lags significantly behind its level from a year earlier (-11.7 points).

The IOBE business and consumer surveys offer significant indications on developments in the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the indicators used in the surveys constitute leading indicators for various economic variables and can be used to predict near-term developments and even the course of GDP.[3]

In the third quarter of 2020, the Economic Sentiment Indicator (ESI) fell again compared to the previous quarter (-1.5 points), but much less compared to the decline between the second and first quarters (-19.6 points). This development is mainly due to the wider manifestation of the effects of the first wave of the new coronavirus pandemic, but also to the start of its second wave, which led to new public health protection measures imposed by the authorities in the mid of the tourist season. However, these measures have been taken so far at the level of regions and municipalities rather than the whole country, as in the first wave, which limits their economic impact. The fall in the Consumer Confidence Index (CCI) in the second quarter was stronger than that of the ESI (5.8 points). It reflects the escalation of the current effects of the health crisis on the households, as it came mainly from the significant deterioration of their assessment of their current financial situation. In key sectors, the recovery of expectations in Construction and Services in the third quarter is a correction of their strong decline in the previous one, which was much larger than in Industry and Retail. After all, the services sector is quite heterogeneous, with a differentiation in sectoral trends, which largely reflects developments in the different factors affecting each sector. In the immediate future, the expectations will be mainly affected by the dynamics of the second wave of the health crisis, which is gaining strength in many EU countries. The fact that there is still no visibility on when the COVID-19 pandemic will end, with the appropriate means

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

(vaccine, therapeutic drugs), will intensify the uncertainty in the event of a new strong outbreak. This strengthens the importance of policy interventions, not only for the preservation of public health, but also to consolidate a supportive economic environment over the medium term.

In greater detail, the Economic Sentiment Indicator in Greece in July-September 2020 was slightly lower compared to the second quarter of 2020, at 90.3 from 91.8 points, while it was significantly lower year on year (against 108.1 units). Its recent level is close to the 2015 average.

In Europe, the respective average of the indicator was significantly higher quarter on quarter, both in the EU and in the Euro area. In particular, the Economic Sentiment Indicator stood at 86.3 (from 68.5) points in the third quarter of this year in the EU, and 87.0 (from 69.4) points in the euro area.

At sector level, business confidence in Greece weakened quarter on quarter in the third quarter of 2020 in Industry and Retail. By contrast, they strengthened slightly in Services and more intensely in Construction. On the consumer side, consumer confidence deteriorated. Year on year, the indicators declined in all sectors except Construction and the consumers. In particular:

The Consumer Confidence Indicator in Greece in July-September 2020 was lower on average than in the second quarter, at -36.9 from -31.1 points, notably lower year on year (against -11.7 points). The respective average of the indicator strengthened slightly in the EU, to -15.3 (from -19.0) points, and in the Euro area (-14.5 from -18.5 points). These levels are significantly lower than a year ago (-5.9 and -6.8 points respectively).

The quarter-on-quarter trends in the key components that make up the overall index were mixed in the third quarter of 2020. The consumer expectations in Greece for the economic situation of their households over the next 12 months significantly strengthened, as did those for the economic situation of the country, while the households' assessment of their current situation fell sharply and the intention for major purchases in the coming period changed marginally.

More specifically, the percentage of those pessimistic about the financial situation of their household in the next 12 months significantly fell to 45% (from 55% in the previous quarter), while the percentage of those stating the opposite increased to 9% (from 6%). Also, the percentage of consumers in Greece holding pessimistic expectations about the country's economic situation decreased to 61% (from 71%), whilst 15% (from 10%) were expecting an improvement. In terms of intention to save, the share of households that did not rate savings as likely in the next 12 months fell slightly, to 81% (from 84%), while by contrast the share of those considering it likely increased to 18% (from 15%). In the unemployment expectations, the percentage of those expecting the situation to worsen slightly decreased to 82% (from 85%), with 7% (from 4%) on average expressing the opposite view. The share of consumers reporting that they were "running into debt" in the third quarter of 2020 increased marginally, to 9% (from 7%), to the same levels as in the respective quarter of the previous year. Also, the percentage of respondents who stated that they were saving a little increased slightly to 20% (from 17% in the respective quarter of 2019). Finally, the percentage of those who reported that they were "just making ends meet" decreased to 62% (from 65%) and the percentage of households reporting that they were "drawing from their savings" decreased marginally to 9% (from 10%), at the level of the corresponding quarter of 2019.

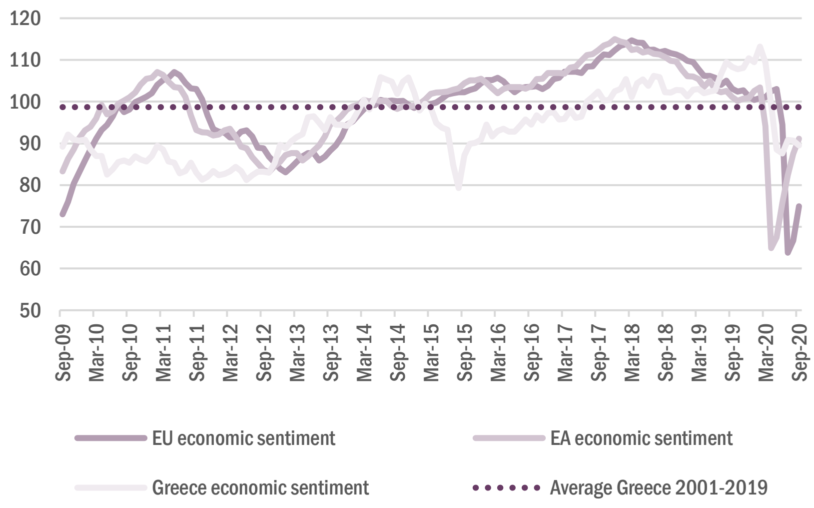
The Industry confidence indicator stood at 86.7 (from 87.6) points in the third quarter of 2020, much lower year on year (from 104.8 points). In the key activity data, the expectations for the short-term change of production strengthened slightly in the examined quarter - from normal for the season - and reached +8.8 points on average, while the assessment of the level of orders and demand weakened further (the indicator at -40.6 from -32.0 points). The assessment for stocks of finished goods indicate a slight increase (to +16.6 from +14.1 points), while the trends in the export indicators are mixed: the expectations for the export dynamics of the following quarter improved significantly (+14.4 from -0.4 units), while the current assessment of the exports of the sector (to -16.4 from -15.0 units) and the assessment of the orders and demand from abroad declined (-29.7 from -24.7 units). In the employment expectations, the average quarterly balance declined, to -8.2 (from +2.5) points on average. By contrast, the rate of production capacity utilisation increased to 70.6% (from 65.9%), while the months of production assured by orders on hand decreased to 5.3 months on average.

The Retail Trade confidence indicator slightly declined quarter on quarter in the examined quarter, at 73.5 points (from 80.3), a level much lower year on year (115.5 points). Of the key components of the indicator, the assessment of the business situation over the past three months fell significantly to -25 (from -8) points. Of the companies in the sector, 58% reported that their sales had decreased, with 33% (from 41%) reporting the opposite result. In terms of projected sales, the balance of -9 points fell further, to -12, with the volume of stocks remaining almost unchanged (at +28 from +27 points the index). Of the remaining activity data, the balance of intentions of placing orders remained unchanged (at -9 points on average in the quarter), while in contrast the balance of employment expectations slightly increased to +31 (from +22) points. Finally, the balance of selling-price expectations improved, turning positive (+3 from -8) points, with 2% (from 12%) of the companies expressing expectations of price decline and 91% (from 83%) predicting price stability. Business confidence weakened in the third quarter of 2020 in all sub-sectors of Retail Trade, except Textiles-Clothing-Footwear and Home Equipment, where the gain was marginal, and Vehicles-Spare Parts, which it strengthened significantly.

Construction business confidence strengthened sharply in the third quarter of 2020, with the balance of the indicator reaching 67.0 (from 28.1) points on average, the largest change among the main activity sectors. This level was slightly higher year on year (from 52.7 points). In the key components, the employment expectations for the sector improved significantly, with the balance reaching -30 (out of -68) points, as 33% (from 4%) of the companies were expecting job creation and 41% (from 72%) a reduction. The order books strengthened sharply (at -54 from -83 points), while the trend of activity compared to the preceding month weakened significantly (at -50 from -27 points).

Figure 2.4

Economic Sentiment Indicators: EU-27, Euro area and Greece (1990-2017=100, seasonally adjusted data)



The Economic Sentiment Indicator in the third quarter of 2020 slightly weakened compared to the previous quarter, to a level well down year on year.

Source: European Commission, DG ECFIN

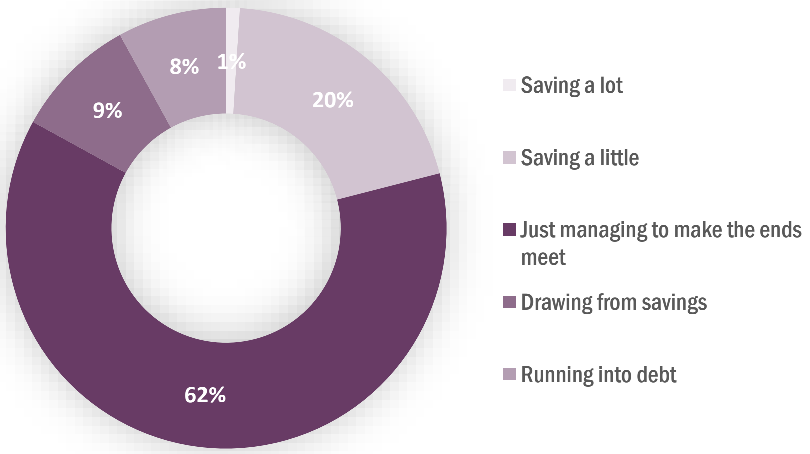
The months of production assured by orders on hand significantly declined to 9.0, while the negative balance in the price expectations eased (to -16 from -27 points), with 26% (from 33%) of the companies expecting a reduction in the short term and a 10% an increase. Finally, the share of companies reporting no major obstacles to their operation remained at 2%, while of the remaining companies, 19% (from 12%) reported low demand, 45% insufficient financing and 26% (from 46%) factors such as the general economic situation of the country, high taxes, lack of projects, late payment by the state, etc. as the major obstacles in their operation. At the sectoral level, business confidence improved strongly in both Private Construction and Public Works.

The index of business expectations in Services in the examined quarter increased notably quarter on quarter, to 68.8 points (from 58.6). However, this level was much lower year on year (from 108.2 points). Of the key components, the assessment of current demand improved slightly, with the indicator gaining 6 points on average and standing at -28 points. The assessment of the business situation over the past three months slightly strengthened (to -32 from -37 points on average), with the balance of the short-term demand expectations in the sector strengthening more, reaching 0 from -21 points. Among the remaining activity data, the balance of employment expectations slightly improved (at -2 from -10 points on average), while the selling-price expectations strengthened significantly to -13 (from -23) points. Lastly, the percentage of respondents reporting no major obstacles to their business operations fell further, to 14% (from 17%) on average, with 39% citing insufficient demand as the main obstacle to its operation, 11% the lack of working capital and 29% other factors, related to the general financial situation, insufficient funding, high taxation, arrears, etc. Of the examined Services sectors, the sub-indices strengthened significantly in the third quarter of this year in all sectors, with the exception of Land Transport, where they marginally deteriorated.

Figure 2.5

Consumer survey data on the financial situation of households (average: July – September 2020)

The share of respondents stating that they were just managing to make ends meet decreased quarter on quarter in the second quarter of 2020 (62%). Mild increase in the share of those reporting that they were running into debt.



Source: IOBE

Table 2.4

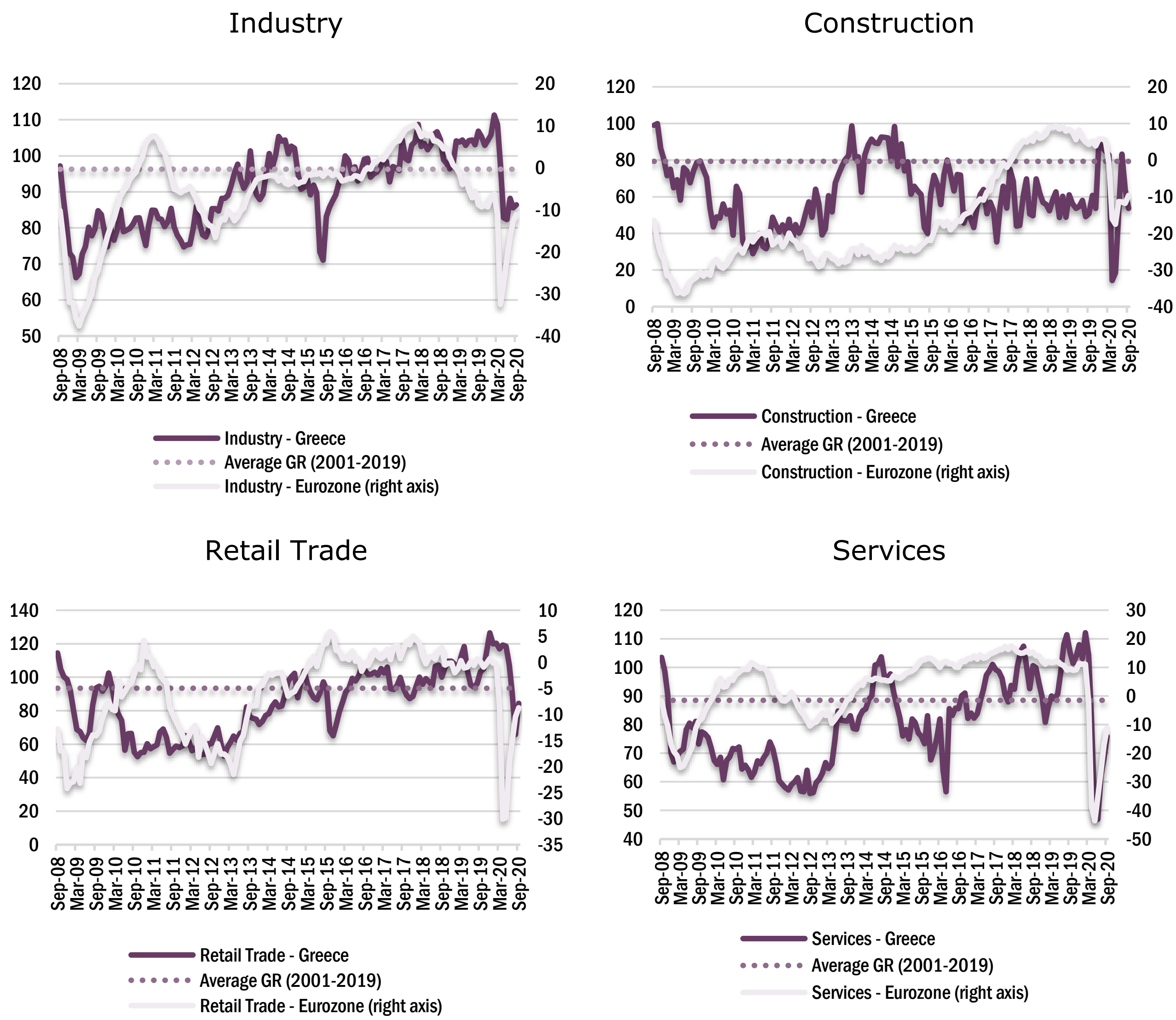
Economic Sentiment Indicator

Time Period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	99.3	99.1	86.3	79.9	52.2	61.3	68.1	-56.9
2011	99.8	99.9	84.8	81.1	37.7	60.9	66.1	-70.5
2012	88.0	88.1	83.7	81.4	47.5	59.1	58.8	-73.9
2013	90.8	90.8	93.6	92.6	71.5	72.6	75.3	-69.3
2014	99.6	99.4	102.0	99.7	88.4	92.3	93.3	-52.8
2015	102.9	102.9	91.7	86.3	62.0	83.9	78.2	-50.3
2016	104.2	104.0	94.4	96.1	61.3	101.4	79.3	-62.9
2017	110.4	110.4	98.9	98.1	55.4	94.6	92.7	-58.9
2018	111.5	111.5	103.8	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.6	113.6	103.2	105.1	60.3	97.1	91.4	-49.8
Q2 2018	112.2	112.2	104.5	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.2	111.2	104.8	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.0	109.0	102.6	97.7	56.6	108.2	94.6	-32.6
Q1 2019	106.0	105.8	102.4	101.8	56.7	105.8	85.7	-31.1
Q2 2019	104.0	103.8	102.4	103.8	54.8	97.8	92.6	-29.4
Q3 2019	102.1	102.0	108.1	104.8	52.7	115.5	108.2	-11.7
Q4 2019	100.8	100.6	108.8	104.1	68.1	119.1	104.4	-7.1
Q1 2020	100.0	100.1	110.7	108.6	84.9	115.1	106.5	-10.4
Q2 2020	68.4	69.3	91.8	87.6	28.1	80.3	58.6	-31.1
Q3 2020	86.3	87.0	90.3	86.7	67.0	73.5	68.8	-36.9

Source: European Commission, DG ECFIN, IOBE

Figure 2.6

Business Confidence Indicators



Source: IOBE

Business expectations weakened in the recent quarter compared to the previous one in Industry and Retail, while they strengthened strongly in Construction and milder in Services

B. Fiscal Developments and Outlook

- Strong impact of the COVID-19 pandemic on public finances in January-August, on both expenditure and revenue, to support businesses and households.
- State Budget 2020 (Jan.-Aug.): Deficit of € 9,681 million, compared to a deficit of €1,588 million a year ago. Deficit more than three times above the target for the first eight months of 2020, based on the 2020 Budget (€ 2,892 million).
- Expenditure increased compared to 2019 by 14.4% or €5.01 billion, mainly due to higher expenditure of the Public Investment Programme (+€3.19 billion).
- Revenue decline by 14.5% or €4.99 billion, mainly due to the backlog of VAT receipts (-€1.98 billion).
- 64.6% of the deviation from the eight-month target is due to revenue shortfall and 31.1% to expenditure overrun.

In the first IOBE bulletin on the Greek economy in 2020 (p. 64) it was pointed out that "The duration of the pandemic… will play a decisive role in economic developments". Unfortunately, the pandemic has spread in its eighth month to almost all countries of the world, causing more than a million deaths and overturning the way of life of billions of people.

In Greece, the pandemic found the economy very vulnerable and at an extremely critical stage, as it was coming out of a ten-year economic crisis. The year 2020 would have been the first year of significant acceleration of the growth rate, at 2.3% to 2.8%, according to the forecasts of IOBE and international and domestic organisations and bodies prior to the outbreak of the health crisis. However, since the beginning of the pandemic there have been significant negative consequences in most sectors of economic activity, particularly in trade, tourism, food services, transport, etc. As the pandemic has entered a second wave since August, both domestically and internationally, its economic impact is growing. Subsequently, the GDP forecasts for this year have been revised several times on hand, with the latest estimates pointing to a recession, ranging between 7.5% and 9.8% (see Table 3.3 of this bulletin).

The cessation of economic activity last spring and the recession have also had a major impact on the fiscal developments. Since March, fiscal policy has shifted sharply to strongly expansionary, in order to support businesses and households, curb the recession first and accelerate economic recovery later on. The compulsory cessation of economic activity in many sectors of the economy created the need to support both businesses and their employees. Meanwhile, a great number of economic activities were affected indirectly. In this context, successive packages of measures have been adopted and continue to be adopted since March, at a huge cost to the budget. According to the Draft State Budget for 2021, the total cost of the fiscal measures amounts to €13.0 billion and the direct burden on the fiscal deficit to €11.8 billion.

The easing of fiscal policy is a fact in all countries and economic regions globally, including the Eurozone. In March, it was decided to relax fiscal rules in the EU, based on the provision of the Stability and Growth Pact for exceptional circumstances. As the pandemic continued, in July it was decided to extend the easing of the fiscal rules to 2021. At the same time, it was decided to create the recovery fund (Next Generation EU) and implement additional interventions, such as the support initiative for mitigating the risks of unemployment in an emergency (SURE).

In Greece, this year's budget has been essentially overturned and fiscal developments are largely determined by the course of the health crisis. The health crisis is considered to also have a medium-term impact on the economy due to a significant reduction in investment,[4] increase in public debt, etc.

Until now, measures to address the economic consequences of the pandemic are primarily aimed at directly supporting the affected households and businesses and protecting existing jobs.[5] The incomes support restrained the fall of consumption and the support of companies the increase of unemployment, which was already high even before the pandemic.

However, to deal with the medium to long-term economic impact of the health crisis, a different economic policy is appropriate, with a substantial increase in investment. With regard to the public sector, it is appropriate to significantly accelerate investment in infrastructure. Something similar to the "big projects" of the 90's. In any case, during the Economic Adjustment Programmes, public investment was very low.

Improving infrastructure is necessary to increase the production capacity of the economy and at the same time it is a prerequisite for attracting private investment, as it enhances the return on capital and the overall competitiveness of the economy. It also has a multiplier effect on the growth of economic activity and the reduction of unemployment. It is known that public investment in Greece has the largest multiplier of all categories of public spending.[6] Especially in times of recession, the multiplier is significantly higher.[7]

In the current situation, it is necessary to drastically reduce the preparation time ("maturation") of public investment in Greece, which for large projects lasts for years. Similarly, it is appropriate to speed up the time of implementation and completion of projects. The acceleration of the procedures will allow the absorption of significant resources from the EU Funds approved for Greece, in line with the Council Decisions of 21 July 2020. Note that the very low interest rates that prevail internationally at this time are conducive to the undertaking of large infrastructure projects.

In this context, the forecast of the Draft Budget for public investment amounting to €6,750 million in 2021 as well is considered insufficient. Recall that since 2016, every year the budgeted amount of investment is fixed at €6,750 million, while in the end the actual expenditure is lower than the forecast. Indicative of the current economic policy is the observation that in total in 2016-2019, public investment cuts totalled €2.9 billion.

State Budget deficit

[4] According to the Draft State Budget, Fixed Capital Formation in 2020 will decline by 10.9%. This will further weaken the economy's long-term potential output, especially if the pandemic carries over into 2021.

[5] An important exception is the recently announced measure to cover the non-wage costs of 100,000 new jobs.

[6] See. Box V.I, Monetary Policy Report 2018-2019, BoG, July 2019

[7] Monokroussos, P. & D., Thomakos (2012). Fiscal multipliers in deep economic recessions and the case for a 2-year extension in Greece’s austerity programme. Eurobank Economy & Markets, Issue 4, Volume VIII

Based on the latest available data, the State Budget (SB) deficit in January-August amounted to €9,681 million or 5.7% of GDP. The SB primary deficit totalled €5,478 million or 3.2% of GDP.

About 85.8% of the deficit concerns the Ordinary Budget (OB) and 14.2% the Public Investment Programme (PIP - Table 2.5). It has come mainly from the increase in PIP expenditures, by € 3,187 million, to support businesses and the self-employed (32.9% of the deficit). Therefore, on the budget side, there has been a very significant boost to the economy.

Table 2.5

State Budget execution* (million €)

	January - August			% change	
	2018	2019	2020	19/18	20/19
I. SB REVENUE (1+2)	31,114	33,130	30,050	6.5	-9.3
1. Gross OB revenue	29,679	31,604	26,243	6.5	-17.0
a. OB revenue before tax refunds.	32,986	34,584	29,575	4.8	-14.5
b. Less Tax refunds	3,307	2,980	3,332	-9.9	11.8
2. PIP revenue	1,435	1,526	3,807	6.3	149.5
II. SB EXPENDITURE	33,791	34,718	39,731	2.7	14.4
3. OB expenditure	32,314	32,718	34,544	1.3	5.6
a. Primary expenditure	28,508	28,219	30,341	-1.0	7.5
b. Interest (gross)[1]	3,806	4,499	4,203	18.2	-6.6
4. PIP expenditure	1,477	2,000	5,187	35.4	159.4
III. SB Deficit (-) / Surplus (+)	-2,677	-1,588	-9,681		
% of GDP	*-1.5*	*-0.8*	*-5.7*		
OB deficit/surplus	*-2,635*	*-1,114*	*-8,301*		
PIP deficit/surplus	*-42*	*-474*	*-1,380*		
SB Primary Balance	1,129	2,911	-5,478		
% of GDP	*0.6*	*1.5*	*-3.2*		
GDP (at current prices)	184,714	187,456	170,721		

	2018	2019	2020 Budget	% change	
				19/18	20/19
I. SB REVENUE (1+2)	51,793	55,097	53,751	6.4	-2.4
1. Gross OB revenue	49,155	52,240	50,072	6.3	-4.2
a. OB revenue before tax refunds.	54,735	57,284	54,998	4.7	-4.0
b. Less Tax refunds	5,580	5,044	4,926	-9.6	-2.3
2. PIP revenue	2,638	2,857	3,679	8.3	28.8
II. SB EXPENDITURE	56,372	55,265	56,037	-2.0	1.4
3. OB expenditure	50,135	49,623	49,287	-1.0	-0.7
a. Primary expenditure	45,459	44,398	44,787	-2.3	0.9
b. Interest (gross)[1]	4,676	5,225	4,500	11.7	-13.9
4. PIP expenditure	6,237	5,642	6,750	-9.5	19.6
III. SB Deficit (-) / Surplus (+)	-4,580	-168	-2,286		
% of GDP	*-2.5*	*-0.1*	*-2.4*		
OB deficit/surplus	*-980*	*2,617*	*785*		
PIP deficit/surplus	*-3,600*	*-2,785*	*-3,071*		
SB Primary Balance	91	5,057	2,215		
% of GDP	*0.1*	*2.7*	*1.1*		
GDP (at current prices)	184,714	187,456	197,315		

Source: Monthly SB Execution Bulletin April 2020, Ministry of Finance, September 2020.

OB = Ordinary Budget, SB = State Budget

* According to the new way of presenting revenue and expenditure

This expansionary policy seems to carry over to the rest of the year, as the Draft Budget estimates that the SB deficit, on a national accounting basis, will reach €18.4 billion, i.e. the deficit will double by the end of the year. The primary deficit is estimated at €12.5 billion. These deficits, combined with the estimated reduction in nominal GDP to €170.2 billion, will affect the debt-to-GDP ratio, which was already extremely high.

Note that, to date, Greece has received only a small amount of EU aid to deal with the effects of the pandemic, as most of the funds will most likely be disbursed in 2021. In particular, it is estimated that Greece received by August approximately €1.3 billion, recorded in the revenues of the PIP, which for this reason increased by 149.5% (Table 2.5).

Ordinary Budget Revenue

In January-August, Ordinary Budget (OB) revenues before tax refunds decreased by 14.5% compared to 2019, to €29.6 billion. Clearly, this negative development is due to the significant decline in economic activity and travel since mid-March. However, it is also due to the measures taken to defer the payment of taxes, confirmed and overdue obligations by companies affected by public health protection measures, as well as - to a lesser extent - the 25% discount for those companies that paid their obligations on time. Note that the revenue of 2019 was upped by €1.1 billion from the extension of the Athens International Airport contract. If the necessary adjustments are made for the AIA proceeds, the 2020 eight-month reduction is limited to 11.6%. Note that due to higher tax refunds, the year-on-year decline in net income is even stronger, by 17.0% (Table 2.6).

More specifically, revenue from income tax decreased in January - August by 7.2%, compared to 2019, with the decline mainly located in the corporate tax revenue (-23.4%).

The proceeds from personal income taxes decreased less, by 3.4%, as part of the proceeds comes from the clearance of the 2019 tax returns. Significant decrease, by 21.2%, was also recorded in the revenue from real estate taxes, essentially from ENFIA. However, this is not considered to be related to the pandemic, but mainly to the reduction of the tax rates in 2019.

As expected, the largest revenue losses were recorded in indirect taxation, as much of the retail trade in physical stores, travel and broader economic activity ceased in March-April at least. VAT revenues fell by 16.5% compared to the previous year. Note that the VAT revenues in 2019 were boosted by €272 million from the extension of the concession contract of the Athens International Airport. Without these extraordinary revenues, the year-on-year reduction eases to 14.6%.

Revenues from excise duties were 9.7% lower compared to 2019, with the decrease found mainly in the fuel excise duty (-9.1%), due to the reduction of economic activity and the travel restrictions. A smaller decrease of 6.5% was recorded in the proceeds from the excise duty on tobacco products.

Revenue from "other production taxes", which consist mainly of proceeds (dividends) from the Bank of Greece (BoG), increased by 23.0%. This significant increase is due to the high dividend from the BoG, which amounted to €528 million from approximately €353 million in 2019.

Table 2.6

State Budget Revenue* (million €)

	January – August			% change		2018	2019	% change
	2018	2019	2020	19/18	20/19			
Net SB revenue	31,114	33,130	30,050	6.5	-9.3	51,793	55,097	6.4
Net OB revenue	29,679	31,604	26,243	6.5	-17.0	49,155	52,240	6.3
Tax refunds	*3,307*	*2,980*	*3,332*	*-9.9*	*11.8*	*5,580*	*5,044*	*-9.7*
OB revenue	32,986	34,584	29,575	4.8	-14.5	54,735	57,284	4.7
Income tax, of which:	9,332	9,289	8,621	-0.5	-7.2	16,548	16,716	1.0
--Personal	*6,819*	*6,932*	*6,699*	*1.7*	*-3.4*	*10,902*	*11,029*	*1.2*
--Corporate	*1,592*	*1,591*	*1,219*	*-0.1*	*-23.4*	*4,299*	*4,512*	*5.0*
Property tax	763	726	572	-4.8	-21.2	3,082	2,786	-9.6
Taxes on donations, inheritance etc.	97	166	115	71.1	-30.7	161	245	52.2
Tariffs	152	201	166	32.2	-17.4	232	298	28.4
Taxes on goods and services, of which:	18,158	18,639	15,798	2.6	-15.2	27,437	28,014	21.0
--VAT	*11,401*	*12,007*	*10,022*	*5.3*	*-16.5*	*17,184*	*17,792*	*3.5*
--Excise duties	*4,779*	*4,705*	*4,248*	*-1.5*	*-9.7*	*7,184*	*7,125*	*-0.8*
Other production taxes	902	649	798	-28.0	23.0	1,238	991	-20.0
Other current taxes	1,016	850	927	-16.3	9.1	2,564	2,365	-7.8
Social contributions	38	37	36	-2.6	-2.7	65	55	-15.4
Transfers, of which:	524	1,160	1,104	121.4	-4.8	681	1,645	141.6
--ANFA's and SMP's	*314*	*1,035*	*998*	*229.6*	*-3.6*	*314*	*1,035*	*229.6*
Sales of goods and services *of which:*	456	1,532	317	236.0	-79.3	740	1,728	133.5
Extension of the Athens International Airport contract	-	*1,119*	--	--	--	-	*1,119*	--
Other current revenue	1,532	1,317	1,116	-14.0	-15.3	1,968	2,432	23.6
Sales of fixed assets	16	18	5	12.5	-72.2	18	10	-44.4
PIP Revenue	1,435[1]	1,526[2]	3,807[3]	6.3	149.5	2,639	2,857	8.3

Source: Monthly SB Execution Bulletin August 2020, Ministry of Finance, September 2020

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

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

2 In order to show the investment income separately, €1,475 million have been deducted from "Transfers" and €51 million from "Other current income".

3. In order to show the investment income separately, €3,000 million have been deducted from "Transfers" and €807 million from "Other current income".

Finally, after the positive '6th Enhanced Surveillance Report' of the European Commission for Greece, revenues increased in July by €747 million, from the return of the profits of the European central banks from holding Greek bonds (ANFA's and SMP's), i.e. the same amount as last year. In general, the evolution of revenues in the first eight months of 2020 reflects the decline of economic activity, as well as measures to defer the payment of taxes, confirmed and overdue obligations by businesses.

Ordinary Budget Expenditure

In January-August, the Ordinary Budget payments increased by 5.6% compared to 2019 and reached €34.5 billion. This amount includes the extraordinary spending related to the pandemic, in addition to an amount paid through the PIP (see below). All extraordinary expenditure falls into the category of primary expenditure, which increased year on year at a rate of 7.5% (Table 2.7).

Table 2.7

State Budget Expenditure* (million €)

	January -August*			% Change	
	2018	2019	2020	19/18	20/19
SB Expenditure (1+2+3)	33,791	34,718	39,731	2.7	14.4
OB Expenditure (1+2)	32,314	32,718	34,544	1.3	5.6
1.Primary OB Expenditure	28,508	28,219	30,341	-1.0	7.5
Compensation of employees	8,298	8,905	8,880	7.3	-0.3
Social benefits	814	320	82	-60.7	-74.4
Transfers	18,334	17,930	20,390	-2.2	13.7
(of which SSFs)	*11,853*	*12,727*	*12,304*	*7.4*	*-3.3*
Purchase of goods and services	878	745	696	-15.1	-6.6
Subsidies	38	119	66	213.2	-44.5
Other current expenditure	18	36	19	100.0	-47.2
Non allocated expenditure	-	-	-	-	-
Purchase of fixed assets	128	165	208	28.9	26.1
2. Interest[1] (gross basis)	3,806	4,499	4,203	18.2	-6.6
3. PIP Expenditure	1,477	2,000	5,187	35.4	159.4

	2018	2019	% Change
SB Expenditure (1+2+3)	56,372	55,265	-2.0
OB Expenditure (1+2)	50,135	49,623	-1.0
1.Primary OB Expenditure	45,459	44,398	
Compensation of employees	13,121	13,247	1.0
Social benefits	1,978	653	-67.0
Transfers	28,179	28,205	0.1
(of which SSFs)	*18,037*	*19,243*	*6.7*
Purchase of goods and services	1,532	1,458	-4.8
Subsidies	75	224	198.7
Other current expenditure	32	50	56.3
Non allocated expenditure	-	-	-
Purchase of fixed assets	542	562	3.7
2. Interest[1] (gross basis)	4,676[1]	5,225	11.7
3. PIP Expenditure	6,237	5,642	-9,5

Source: Monthly SB Execution Bulletin August 2020, Ministry of Finance, September 2020

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

From January 2019 the annual interest expenses are shown by the General Accounting Office (GAO) lower by €844 million for 2018 and by €1,000 million for 2019, compared to the amounts shown in Explanatory Report of the 2019 State Budget (Table 3.2).

Of the sub-categories of primary expenditures, payments for "compensation of employees" decreased by 0.3% compared to 2019, as the 2019 budget included the retroactive payments of €324 million in salaries of the special wage grid. If the necessary adjustments are made for comparability reasons, then the rate of change in 2020 will turn from negative to positive (3.5% increase). Note that in the last five years, staff costs show a small but continuous increase every year (Table 2.7).

Payments for social benefits decreased compared to 2019 by 74.4%, as expenditure on family allowances has been transferred since this year to the category "transfers".

The increase in primary expenditure in the first eight months of 2020 came exclusively from the category 'transfers', which increased by 13.7% compared to last year. This development is due to the fact that the transfers also include payments of €2.2 billion concerning the 'refundable advance' of employees and scientists, as well as the 'special-purpose compensation'. Expenditure is expected to continue to be upped by COVID-19 transfers in the coming months, as several of the pandemic measures have been extended (e.g. 'refundable advance', 'special purpose compensation'), while a number of additional payments have been introduced (e.g. social security contribution subsidy of up to 100k new recruits in the private sector). Also, according to recent announcements, up to € 1.4 billion will be disbursed in retroactive payments to retirees in late October, which will appear in SSFs, the largest subcategory of "transfers" (Table 2.7).

Unlike primary expenditure, interest payments are lower by 6.6%, compared to 2019. The 2020 budget foresees an annual reduction of 13.9% (Tables 2.5 and 2.7). In order to achieve the budget target, interest expenditure should be reduced year on year by 59% in the last four months of the year.

In the first eight months of 2020, many categories of expenditure were contained in order to deal with the health crisis emergencies. However, it is unclear whether this restraint can be kept throughout the year. In the last months of 2020 there could be very high pressure on spending.

In addition, in the examined period, government-guaranteed loans increased by €3.8 billion. Of these, €2.4 billion concerns guarantees in securitisations of credit institutions (the Hercules programme), €0.3 billion in business loans and the remaining approximately €1.0 billion in the COVID-19 Guarantee Fund.

Finally, note that in August the arrears of the State to its suppliers (including outstanding tax refunds) amounted to €2,624 million, higher by €630 million compared to December 2019.

Public Investment Programme (PIP)

The implementation of the PIP in January-August of 2020 was significantly affected by the ongoing pandemic, as some of the interventions to support businesses and the self-employed were implemented through the investment budget.

In particular, PIP receipts increased significantly, by 149.5%, against the low revenues of 2019. However, as mentioned above, this amount also includes revenues from the EU amounting to €1.3 billion, related to the health crisis and not with investment (Table 2.5).

PIP expenditure also increased rapidly compared to 2019 (+159.4%) and amounted to €5,187 million. This amount includes payments of approximately €2,550 million on the "repayable advance". Investment expenditure amounts to €2,630 million, higher by about 30% compared to 2019. That said, investment expenditures in the same period of both 2018 and 2019 were very low, so the 30% increase (approximately €600 million) is not considered very extensive.

C. Financial developments

- Fundamental indicators of the domestic financial system have shown resilience to the first wave of the health crisis.
- ECB measures to support the liquidity of banks and business financing by domestic authorities play a key role.
- Critical challenges for banks remain, especially in terms of profitability and asset quality.
- The recorded NPLs continued to decline despite the sharp downturn in economic activity, although their reduction slowed.
- Both 10-year government bond yields and the cost of new corporate borrowing fluctuated at all-time lows.

Despite the strong impact on economic activity, the first wave of the health crisis did not significantly affect the fundamental indicators of the domestic financial system. The policy measures implemented both by the ECB to stimulate bank financing and by domestic authorities to strengthen liquidity channels for the affected companies have made a decisive contribution to this.

High uncertainty, both in relation to the intensity of the second wave of the health crisis and in relation to the speed of recovery of the real economy, heightens the challenges for the domestic banking system. Following a sharp drop in bank valuations by 60% in March, the relatively effective management of the health crisis by the Greek authorities stabilised their market value in the second and third quarters of the year.

Regarding the common European monetary policy, the ECB continued to facilitate the liquidity supply to Greek banks, as their securities remained eligible collateral, while the valuation haircuts were reduced. The possibility of long-term low-cost refinancing for banks through the ECB TLTRO III programme became particularly important after the lockdown, with the use of this source of liquidity by the Greek banks increasing fivefold in six months, reaching a total of €39 billion in September. At national level, extraordinary fiscal measures to support borrowers were extended, such as the temporary interest rate subsidy for performing business loans and loans to individuals who have mortgaged their primary residence as collateral, as well as the temporary suspension by banks of certain loan instalments. Indicatively, by the end of September, the loans under suspension of instalments amounted to approximately €25 billion, of which about 50% concerned individuals and very small businesses.

The long-term weaknesses of the Greek banking system inclusw the weak quality of equity and assets, including the high stock of Non-performing loans (NPLs), which has a deterrent effect on both the credit capacity of banks and their profitability prospects. As regards the impact of banks on the real economy, credit contraction to households continues unabated and the cost of private sector banking financing, although at historically low levels, remains higher than in European partners.

At the same time, there were fundamental trends with significant positive elements. NPLs continued their downward trend, despite the sharp decline in economic activity, while the rate of return of private deposits to the banking system increased under the influence of rising private savings due to the prolonged uncertainty. The cost of money continued to decline to historically low levels, and credit continued to expand for the entire private sector as a result of new business loans, largely due to liquidity support policy measures.

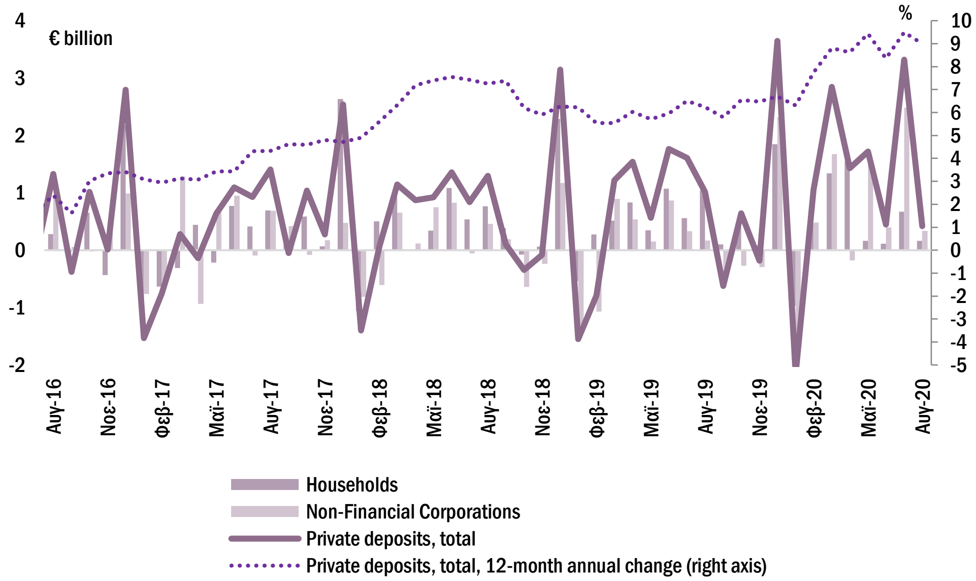
On the liabilities side, the year-on-year growth rate of private sector deposits was maintained at high levels in June-August 2020, at close to 9%. A net inflow of €4.2 billion was recorded, due to an inflow of €3.2 billion from non-financial corporations (NFIs) and €0.9 billion from households (Figure 2.7). In the same period of 2019, the net inflow of private deposits was marginally higher, amounting to €4.4 billion. On a rolling 12-month basis, the average monthly trend for the return of private deposits reached €1047 million in August 2020, marginally lower than the decade high recorded in May 2020 (€1064 million).

From August 2015 to August 2020, private sector deposits expanded by €41.2 billion, of which €21.4 billion came from households and €16.5 billion from non-financial corporations. Nevertheless, the stock of total private deposits is still below the level of 2014 (November), by €6.1 billion, of which €12.5 billion comes from lower household deposits, while non-financial corporations show an increase compared to that level by € 8.3 billion.

Figure 2.7

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

The net flows of private sector deposits remained highly positive in June-August 2020



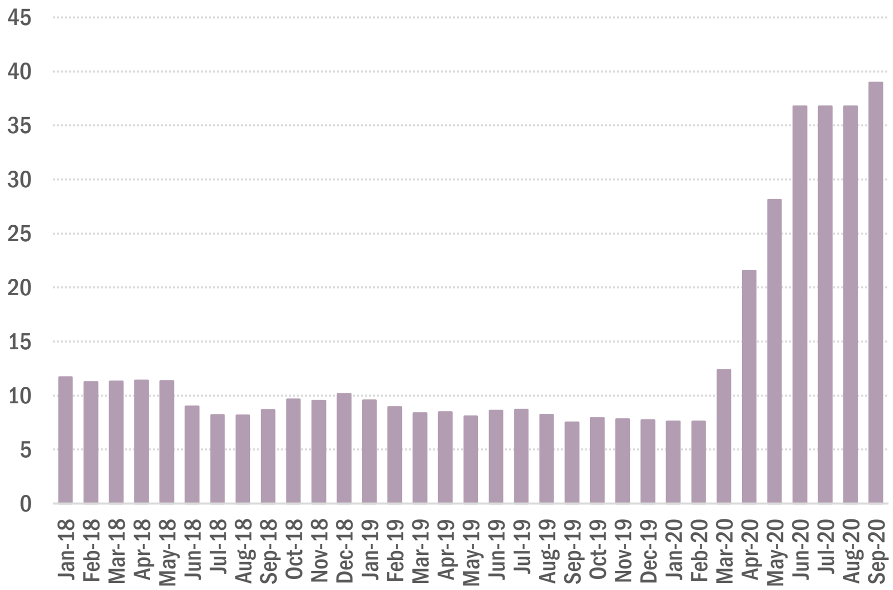
Source: Bank of Greece

For the rest of 2020, the positive trend in private deposits is expected to slow down, as households and businesses will face the effects of the pandemic, implying a reduction in disposable income. Conversely, declining consumption and increasing uncertainty raise domestic savings, positively affecting deposits.

Another part of the bank liabilities concerns financing from the Eurosystem. The extension of the ECB's emergency package to boost bank liquidity, temporarily easing the criteria on which collateral received under quantitative easing programs is considered eligible, now offers the Greek banks the opportunity to raise liquidity at low cost. The increase in the Eurosystem-financing recorded in the last six months is indicative of this, as low-cost loans through long-term monetary policy operations, such as the ECB's TLTRO III program increased fivefold in value, from €7.6 billion in February to almost €39.0 billion in September (Figure 2.8). The assets of the domestic banking system accepted by the Eurosystem as collateral for monetary policy operations, as reflected in the Bank of Greece's data, reached €54.0 billion in September, compared to just €15.8 billion in February before the ECB's emergency support measures.

Figure 2.8

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



The ECB's package of extraordinary measures has increased by a factor of 5 the low-cost liquidity financing of the banks from the Eurosystem in March-September 2020.

Source: Bank of Greece

On the assets side, the recovery of loans to non-financial corporations accelerated since the beginning of 2019, the decline in loans to freelancers and sole proprietorships halted after four years, while the credit contraction to households continued unabated now in its tenth year. Both loan supply and demand factors contribute to these trends. On the demand side, the needs for liquidity and working capital of companies affected by the sharp downturn in economic activity are increasing, while the uncertainty of the outcome of the pandemic spread has a negative effect on the demand for financing for new investments. On the supply side, despite the high stock of Non-Performing Loans (NPLs) that have a deterrent effect on the lending activity of banks, the activation of exceptional liquidity stimulus policy measures through guarantee programmes (Hellenic Development Bank, Entrepreneurship Fund II and III) were particularly positive for the NFCs. Loans of around €3.2 billion were disbursed with the support of these programmes from April to August, while the aim is to channel at least €10.0 billion into the market.

Private sector financing, excluding loan write-offs, recovered by 1.7% year-on-year in July-August 2020, driven by loans to NFCs that recovered by 6.7% over the same period (Table 2.8). During the same period, the credit contraction to the self-employed eased and turned to growth, for the first time since 2017 (Table 2.8). The largest credit expansion to NFCs per sectors of economic activity was recorded in Transport, Real Estate Management, Industry, Tourism, Trade, Agriculture and Energy. By contrast, credit contracted in Construction, Shipping and Professionals. As regards the quality characteristics, the new loans to NFCs concern both SMEs and larger enterprises, while their collateral-coverage rate has decreased.

Table 2.8

Domestic banking finance per sector (annual % change of flows*)

Quarter / Year	3/19	4/19	1/20	2/20	Jul.20	Aug.20
Total private sector	-0.2	-0.3	-0.4	0.5	1.5	1.7
Households & NPIs	-2.8	-2.9	-2.9	-2.8	-2.6	-2.5
Sole proprietors and unincorporated partnerships	-2.3	-2.0	-2.4	-2.2	-0.3	0.2
Non-financial corporations	2.7	2.2	2.0	4.1	6.4	7.2
Agriculture	0.0	2.2	-0.5	1.9	3.5	3.7
Industry	-0.8	0.7	1.7	7.1	8.5	8.9
Trade	-0.3	-0.1	0.8	3.1	7.7	8.1
Tourism	4.2	3.8	3.6	2.2	6.9	9.8
Shipping	1.7	1.1	-1.0	-6.2	-0.6	-0.4
Construction	0.5	-1.7	-4.4	-3.4	-3.7	-3.1
Electricity-gas-water supply	24.0	11.5	8.0	4.5	2.8	3.6
Transport and logistics	48.5	50.4	19.5	3.0	14.6	18.6
Interest rates on new loans (period average. %)						
Consumer credit	9.68	9.59	9.70	9.86	9.33	9.89
Mortgage loans	3.17	2.93	2.84	2.83	2.98	2.94
Loans to non-financial corporations	3.87	3.62	3.43	3.15	3.19	3.23

Source: Bank of Greece

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

On the demand side, the Bank of Greece survey on bank lending in the second quarter of 2020 recorded a significant increase in the demand for loans, which is expected to further strengthen in the short term. The credit criteria remained unchanged and are expected to remain so in the short term. Loans to meet liquidity needs of both SMEs and large enterprises appear to be the driving force behind the increased demand.

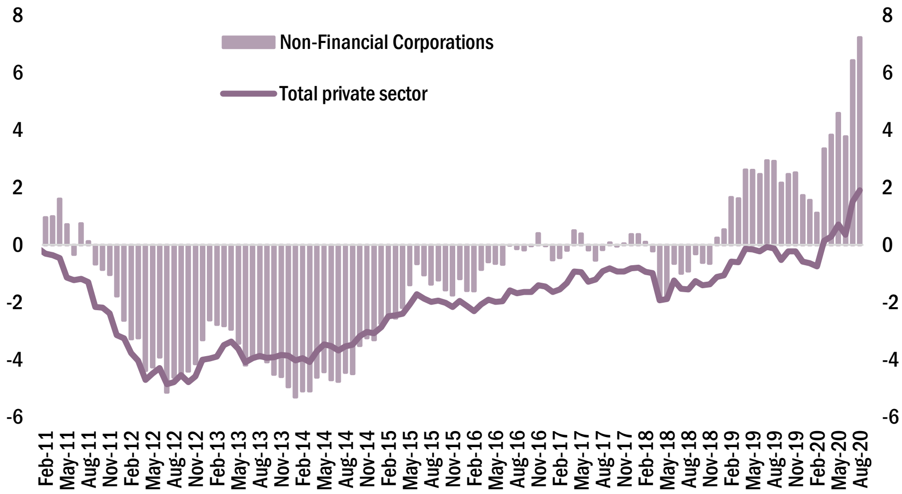
The Non-performing loans (NPLs) continued to decline in the second quarter of 2020, by 1.5% or € 1.2 billion[8], significantly less than in the previous quarter (9.3% or €7.6 billion), when a systemic bank recorded significant securitisations. The total amount of NPLs in June 2020 was €59.7 billion or 36.7% of total loans, approximately €47.5 billion or 44.3% lower than the maximum level of March 2016. In business credit, the NPL rate decreased to 33.3% of loans in the second quarter of 2020, from 34.2% in the first quarter (42.6% in the same quarter of 2019), while a marginal decrease from 47.9 % to 47.8%, was recorded in consumer loans (52.0% in the same quarter of 2019), as well as in housing portfolios, from 40.4% to 40.0% (43.1% in the same quarter of 2019 - Figure 2.9). Note that the temporary easing of the supervisory rules by the European Banking Authority in the context of the financial crisis, as well as measures to support affected borrowers,

[8] The data presented for NPLs contain only on-balance sheet items

such as temporary repayment moratoriums and arrears, have a positive effect on the recording of NPLs, which to some extent leads to a temporary underestimation of the repayment difficulties on the part of the borrowers.

Figure 2.9

Bank financing of the domestic private sector 2011-2020 (annual % change of flows*)



Bank financing to businesses has accelerated significantly, under the influence of emergency liquidity support measures by the Government

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.

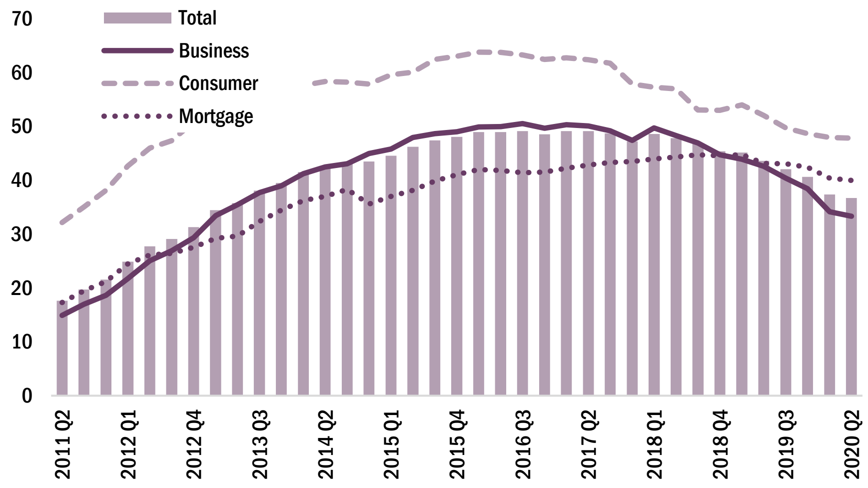
While in the first quarter of 2020 the decrease of NPLs was based mainly on sales through securitisations based on the first implementation of the Greek State guarantee programme in securitised NPL portfolios ("Hercules Plan", law 4649/2019), the lower reduction in the second quarter relied mainly on write-offs. Regarding the implementation of the Hercules Plan, it is expected that the State will provide guarantees totalling €12 billion for the securitisation of NPLs of up to €36 billion within a period of 18 months from October 2019, with the possibility of extension. It is particularly important to accelerate the implementation of the Hercules Plan as well as other solutions to reduce NPLs, as some tools to reduce them are still under-utilised, such as proceeds from auctions and liquidation of collateral. It is also advisable to consider additional proposals, such as that of the Bank of Greece for the securitisation of part of the bank receivables from deferred taxation, as well as the creation of an asset management company to manage distressed assets.

As a result of the new economic crisis, banks are in the process of reviewing their business plans and strategic targets for reducing NPLs by the end of 2022. In line with the European Single Supervisory Mechanism (SSM), the aim is most of the further reduction of NPLs to come from loan sales, with collateral liquidation coming second and write-offs only third. Also, a larger contribution is envisaged to come from business loans, followed by mortgages and less from consumer loans.

Figure 2.10

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

The recorded NPLs continued to decline, at a weaker rate, in the second quarter of 2020, despite the sharp contraction in economic activity



Source: Bank of Greece

* On-balance-sheet loans (before provisions) on an individual basis.

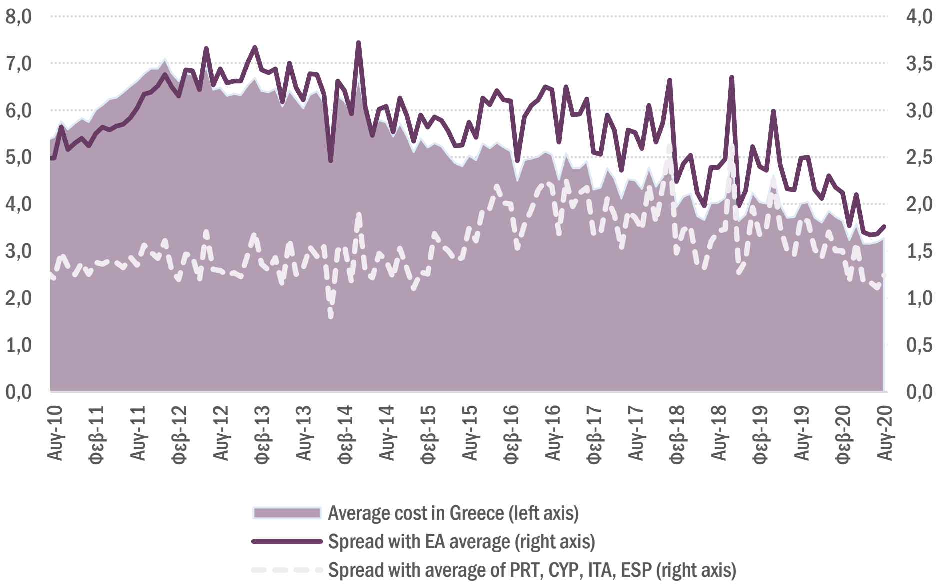
In the short term, the accounting of NPLs is positively affected by the extraordinary measures of liquidity supply, temporary supervisory easing and measures to facilitate affected borrowers, thus underestimating the real fundamental trends in relation to the loan repayment difficulties. In the medium term, NPLs are likely to continue to decline, especially through the more extensive implementation of the Hercules plan, although possibly at a slower pace, due to the effects of the pandemic and the new NPLs that will appear after the expiry of the temporary measures to support borrowers. The projected economic downturn for the current year and the uncertainty for the medium-term horizon act as a deterrent to the recovery of bank credit for productive investments, while consumer and mortgage portfolios will continue to contract. That said, unprecedented liquidity-enhancing measures, such as guarantee schemes for financing NFCs, and expected demand to meet liquidity needs will support credit expansion, especially for businesses, making it possible for credit expansion to continue in 2020. Decisive and systematic reduction of NPLs is crucial for the banks' lending capacity.

The rates on new deposits fell further to a record low in July-August 2020 for Non-Financial Corporations (NFCs) and households, to 0.10% and 0.12%, from 0.13% in the previous quarter of the year and 0.25% in 2019. The interest rates on new lending remained at 4.1% over the same two months of 2020, unchanged compared to the preceding quarter, mainly due to the small reduction in borrowing costs to individuals, offset by a marginal increase in the interest rates of lending to NFCs (Table 2.8).

The average cost of bank financing for private sector NFCs remained around 3.2% in August 2020, close to the lowest level for new borrowing since the country joined the Eurozone. However, this cost remained significantly higher compared to the rest of the Eurozone. Indicatively, according to the weighted ECB bank lending cost ratio (Chart 2.10), the cost for NFCs in August 2020 stood at 1.5% in the Eurozone, 1.7% in Germany, and 2.0% in the "southern" countries of the Eurozone (Portugal, Italy, Cyprus, Spain). As a result, the spread of the borrowing costs for Greek companies in relation to the average of the Eurozone and the average of the "south" remained at around 175 b.p. and 124 bp. respectively. Comparing it with the pre-crisis level, the spread of borrowing costs for Greek companies in relation to the average of other countries in the "south" of the Eurozone has remained significantly higher.

Figure 2.10

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



The cost of new borrowing for businesses remained close to the historically low level of 3.2%, but remained 124 b.p. higher than the average for the Eurozone "south".

Source: ECB

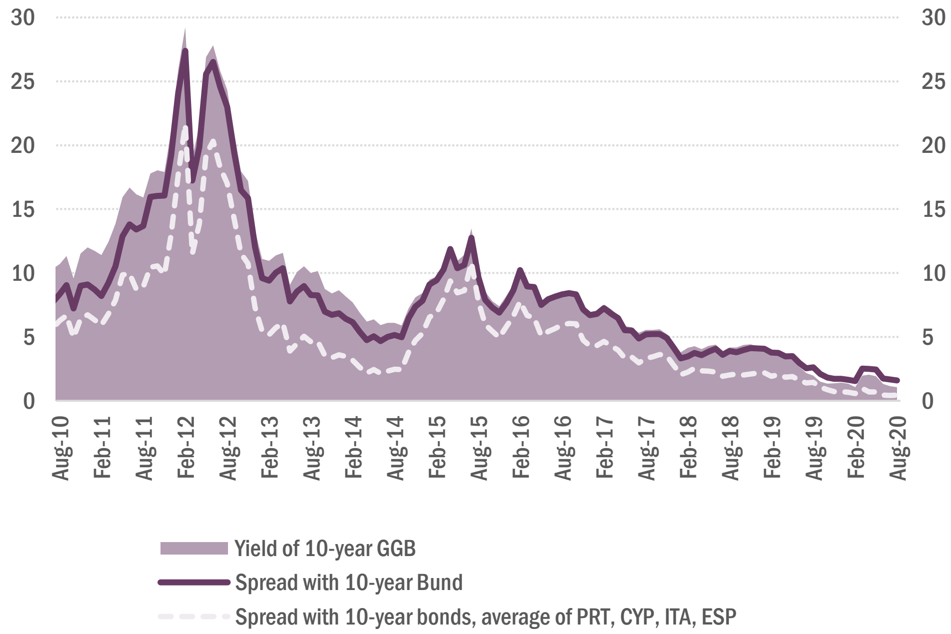
The relatively effective response to the first wave of the health crisis restored the trend of sharp de-escalation in government bond yields observed in early 2020, which for the 10-year bond fell to about 1.1% in August, approaching once more the lowest ever monthly average recorded in February (Figure 2.11). The spread on the new borrowing costs of the Greek State from the markets declined in relation to the German ten-year bond (to 160 bp in August from 250 bp amid the lockdown in April 2020) and in relation to the average of the countries of the "south" of the Eurozone (to 44 points from 69 points in April of the same year).

The policy of the ECB, which for the first time gave the country access to a government and corporate bond market programme since the second quarter of 2020, with the Pandemic Emergency Purchase Programme, total budget €1250 billion, also contributed to the improvement of the investment sentiment towards the Greek government bonds. As a result, following the issue of €3.0 billion 10-year bond by the Greek State in June 2020, oversubscribed due to particularly high demand and a market interest rate of less than 1.6%, in September, the Greek government managed to raise €2.5 billion from the markets, with the reissue of a 10-year bond with a historically low yield of close to 1.2%. In terms of the quality characteristics of the reissue, demand exceeded €18.0 billion and far exceeded supply, while the vast majority of buyers were foreign institutional investors. The further reduction of the additional cost of new borrowing in Greece compared to other countries reflects the degree of recovery of the relative confidence of international investors in the Greek economy.

Figure 2.11

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

Greek bond yields moved in August close to the all-time low of 1.1%, converging with the countries of the European south



Source: ECB

3 PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Unprecedented recession of 15.2% in Greece in the second quarter of 2020 due to the effects of the health crisis, compared with GDP growth of 2.8% in the same quarter of 2019. Overall in the first half, 7.9% recession, instead of growth of 2.3% a year ago.
- GDP contraction in the second quarter (2020Q2) mainly due to the contraction of exports, against growth a year ago (-32.1%, from + 4.8% in 2019Q2)
- Deterioration of the external sector balance, as imports fell less than exports (-17.2%, against + 3.9%)
- Domestic output contraction also due to falling household consumption, in contrast to stability last year (-11.6%, from + 0.1%)
- Contractionary effects from lower consumption of the public sector (-3.2%, compared to +9.8% a year earlier)
- Relatively mild decline in investments, after a small increase in 2019 (-[illegible]%, from + 2.[illegible]%)

Recent Macroeconomic Developments in Greece

The impact of the new coronavirus pandemic on economic activity was felt particularly strongly in Greece in the second quarter of this year. Domestic output shrank during this period by 15.2%, a decline which is the largest on record. The particularly strong decline is in contrast to GDP growth of 2.8% a year ago, which was the largest since the fourth quarter of 2007. Combined with the fall of GDP by 0.5% in the first quarter, GDP decreased by 7.9% in the first half of 2020, while in the respective period of 2019 it expanded by 2.3%. Focusing on trends in GDP components in the second quarter of 2020, the decline in domestic output is primarily due to declining exports, with shrinking household consumption coming second as a recession driver. The fall in investment and public consumption was much smaller. The significant drop of imports moderated the GDP fall, preventing a larger drop in domestic output.

Regarding the trends in the GDP components in the first half of 2020, domestic consumption shrank by 5.1%, while a year earlier it had expanded gently, by 0.8%. The GDP decline came mainly from a sharp decline in private consumption by 6.1%, in contrast to its small increase, also by 0.8%, in the first half of 2020. Understandably, most of this decline occurred in the second quarter, when household consumption fell by 11.6%. Public consumption also decreased, by 1.0%, continuing its marginal decline from last year (-0.6%). Its decline is due solely to fall in the second quarter, despite fiscal interventions to address the effects of the new coronavirus. This development came from the baseline effect due to the high level of public consumption spending in the same quarter of 2019, driven by the measures implemented before the elections (e.g. the "13th pension"), as well as the fact that business support interventions were not recorded as public consumption expenditure, but as investment, as shown below.

Investment fell by 8.0%, offsetting its rise by 7.3% a year earlier. Following this development, investment completed a year of continuous decline. It should be noted that, despite the spread of the pandemic, the decline in investment did not intensify significantly, as it stood at 10.3% in April-June, from 6.4% in the previous quarter. The contraction of investment came from lower formation of fixed capital, by 8.0%, rather than a weaker accumulation or decline of stocks year on year, as in the first six months of 2020 the latter marginally increased (by €14 million, to €382 million). The fall in investment expenditure has been held back, as mentioned above, by the recording of interventions to support businesses in the face of the effects of the pandemic as investment. Specifically, until June, the outflows of the Public Investment Programme (PIP) were higher by €1,928 million against the target for the same period, mainly due to expenses for the special purpose compensation of businesses and the self-employed, for the subsidy of loan interest of SMEs, for the repayable advance of businesses and the establishment of a business guarantee fund due to the COVID-19 pandemic[9]. This fact is reflected in the trends of the specific category of investments, which is presented immediately below.

Among the fixed capital categories, only those related to constructions strengthened in the first half of this year. The largest increase was recorded in Dwellings, by 29.1%, which was the strongest for the first half of the year in the last three years and more than double the 2019 increase (+13.0%). It was followed by Other Constructions, with an increase of 13.8%, which include the expenses of the PIP, in contrast to their decrease in the same period last year by 19.3%. This expansion is solely due to their rise in the second quarter by 32.0%, which highlights its link with the sharp expansion of PIP spending over the same period to strengthen businesses and the self-employed against the effects of the new coronavirus. Among the other categories, the largest decline was recorded in Metal Products-Machinery (-54.8%), more than offsetting their strong reinforcement a year earlier (+44.9%). Next, with a much smaller and similar contraction rate, came Transport Equipment (-6.5%), Agricultural Products (-6.0%) and Other Products (-5.2%). The first category had in the first half of 2019 an increase of 4.4%, while the other two had posted small or marginal decline (-1.8% and -0.2% respectively). The weakest drop in investments was recorded in Transport Equipment (-0.4%), in contrast to their increase by 3.9% in 2019.

On the side of the external balance of the economy, as expected due to the restraining effect of the pandemic on global economic activity, the slight upward trend in exports in the first quarter of this year turned into a sharp decline in the next. After shrinking by 32.1% in April-June, exports were 15.0% lower year on year in the first half of 2020. The sharp decline was mainly due to exports of services, by 49.4% in the second quarter and

[9] Source: State Budget Execution Bulletin June 2020, Ministry of Finance, July 2020

25.0% in the first half, reflecting the negative effects of the suspension of activity in tourism, compared to a significant increase a year earlier (+7.6 %). The decline in the exports of goods was notably milder, -15.4% and -6.0% respectively, while in the first half of 2019 it had expanded by 2.5%.

Intense pressure was exerted by the pandemic on imports as well. However, it was weaker than in exports, as imports decreased by 17.2% in the second quarter, while in January - June, imports were 9.2% lower than in 2019, when they also had declined, but to a much lesser extent (-1.6%). In absolute terms, the decline was stronger in imports of goods, reaching 15.3% in the second quarter and 8.2% overall in the first half of 2020. Imports of services shrank by 25.7% and 13.2% respectively, offsetting their rise in 2019 by 9.4%. The broader decline in exports compared to imports worsened the external balance, turning it into a deficit of €3.25 billion (3.6% of GDP), from a small surplus in the same period of 2019 (€480 million).

On the supply side, domestic gross value added (GVA) decreased by 14.0% in the April-June quarter and by 7.7% in the first half of 2020. Its weaker decline, compared to the contraction of GDP and aggregate demand presented above, can be explained with the significant fall in the proceeds from taxes on products in the second quarter, by 23.3%, which are added to GVA in order to approach GDP from the production side. Subsidies on products, which are also taken into account when estimating GDP through the production approach, decreased in the same period by 16.2%. In eight of the ten main sectors of the Greek economy, activity weakened in April-June. Exceptions were the Construction sector, where activity expanded by 24.2% in the second quarter and by 20.6% in the first half of the year, and Public Administration - Defence - Social Security, where it increased by 0.9% and 1.1% respectively. The increase in Construction is related to the increase in investment in housing and other construction mentioned above. In addition, the sector continued its strong recovery from the first half of 2019, by 31.4%, while in Public Administration there was no significant change in activity over that period (+0.2%).

By contrast, the largest decline in activity in the second quarter was recorded in Wholesale - Retail Trade - Transport - Storage - Hotels - Restaurants, by 35.6%, leading to a decrease of 19.5% in the first half of this year, in contrast to growth by 4.1% a year earlier. However, the sharpest decline in January-June was recorded in Arts - Recreation - Entertainment, by 22.3%, compared to a marginal increase of 0.6% in the preceding year and a decline of 33.0% in the second quarter. Next in terms of production contraction in January - June 2020 came the Professional - Scientific - Technical - Administrative Activities (-12.7% and -25.5% in the second quarter) and Financial - Insurance Activities (-8.3% and -11.2%), compared to an increase of 4.2% and a decline of 9.5% a year earlier, respectively. Similar decline was recorded in the Primary sector (-6.6% and -7.7%) and Industry (-6.4% and -11.2%), compared to relative stability a year earlier (-0.4% and +0.3% respectively). The smallest decline was recorded in Information-Communication and Real Estate Management, by 1.5% and 0.6%, against marginal growth in both sectors in the preceding year (+0.2%).

The sharp change in the trend in GDP has so far had a mild impact on the unemployment trend. As mentioned in the previous bulletin on the Greek economy, a number of factors are considered to have contributed to this development. In particular, these factors include the measures taken by the government to protect jobs from the effects of the pandemic, the lag of several months that is observed between the emergence of developments in the labour market in relation to those in economic activity, and the fact that the strong decline in the number of employees in the second quarter was primarily attributed to their exit from the labour force, thus not leading to an increase in the number of unemployed.

According to ELSTAT's press release for the labour force survey results in the second quarter of 2020, part of the increase in the economically inactive comes from the flow of unemployed to the economically inactive as, according to the definition of unemployed and economically inactive population, persons who are not working, not actively looking for work and not available to take up work directly are not classified as unemployed but as part of the economically inactive population. If these people had been considered unemployed and there was no reduction in the labour force, the unemployment rate would have reached 18.6% in April-June 2020, instead of the 16.7% which was eventually recorded. That said, 16.7% is 0.2 percentage points lower year on year, representing a significant slowdown in the year-on-year decline in unemployment, which in the first quarter of 2020 had reached 3 percentage points. At the sectoral level, most of the trends follow those in production activity, yet there is some significant divergence in some sectors, such as in Construction.

Employment fell in the second quarter of 2020 by 2.8% or 112.4k people year on year, posting its strongest decline in six years, since the second quarter of 2014. However, this decline did not lead to an increase in the number of unemployed, which decreased by 36.7k, but to an increase in the inactive population (by 121.6k). Unemployment in the first half of 2020 stood at 16.5%, 1.6 percentage points lower year on year, the lowest rate for this period since 2012. Most year-on-year job losses were recorded in Tourism (-82.3k or -20.4%), in the Primary sector (-29.6k or -6.5%) and -in contrast to the strong increase in production- in Construction (-14.3k or -9.5%), which is an indication of the artificial growth effect on the value added of the sector from the funds distributed through the PIP. Next in terms of job losses came Administrative - Support Activities (-7.8k or -8.4%) and Public Administration - Defence - Compulsory Social Security (-7.5k or -2.2%). By contrast, employment increased in Wholesale - Retail Trade (+18.7k or +2.7%), despite the suspension of activity in most physical stores in March - April, in Human Health Activities (+15.7k or +6.3%) and in Transport - Storage (+9.5k or +4.6%), developments which are considered to reflect the emergency needs in services created by the health crisis.

The deflationary pressures in the second quarter, mainly due to the decline in energy prices, as well as the lower indirect taxation, following the reduction of VAT from 1 June on certain products and services (means of transport, tourist packages, coffee, soft drinks, etc.), led to a decline in the Consumer Price Index by 1.4%, the strongest decline for this period of the year since 2016, reversing its trend from the previous year (+0.3%). The deflationary effects of energy prices are reflected in the fall of prices in Transport by 7.4% and Housing by 4.4%, which were the largest in the second quarter, with the first trend partly due to the reduction in VAT. Next in terms of price decline came Communications (-2.3%), Durables - Household Goods (-1.2%) and Cultural - Recreation Activities (-1.1%). The stability of prices in Hotels - Cafes - Restaurants, in contrast to their increase by 0.7% in the first quarter of 2020, reflects the reduction of indirect taxation. However, this effect is not evident in the prices of food and non-alcoholic beverages, which increased by 2.0% in the second quarter, notably stronger than the increase of 0.2% in the previous quarter. By contrast, Health Services posted the strongest price increase (+1.4%), a development related to their increased demand due to the new coronavirus, while prices also increased in Clothing - Footwear (+0.6%), albeit much less than in the January-March quarter (3.6%), a development that is considered to reflect the general weakening of demand.

To sum up, unsurprisingly, economic activity was particularly affected in the second quarter by interventions to protect public health from the pandemic of the new coronavirus, in Greece and abroad. The effects of the decline in domestic demand from this cause were particularly strongly felt in private consumption and imports. At first glance, these effects were milder in investment activity, the decline of which was slightly stronger in April-June than in the first quarter of 2020 and the final quarter of 2019. However, as noted earlier, the reduction in gross capital formation was restrained by PIP spending to support businesses and the self-employed in the current, particularly unfavourable situation. Indicatively, 76% of the total increase in individual fixed capital categories came from the category of investments in other constructions, which recorded most of the expenditure of the PIP. In addition, this classification of public expenditure in the National Accounting system restrained the level of public consumption, and as a result, due also to its high base in the second quarter of 2019, it declined slightly a year later. As these PIP grants are mainly transfers to aid the viability and the current operation of the companies, it is considered that they do not have an investment scope over the medium to long term. In addition, their extraordinary nature makes it difficult for them to be sustained at the same pace in the second half of this year and in the coming years. Therefore, the decline in investment is quite likely to strengthen significantly in the second half of 2020.

Taking into account the continuous decline of investment activity since the third quarter of 2019, as well as possible difficulties in the near future in financing investments by the banking system, which are currently not reflected in the relevant trends, e.g. due to a possible increase in non-performing loans, it is considered necessary to allocate more funds from the PIP for investment and broader development purposes, with actions designed for the needs and challenges created by the pandemic. As pointed out in previous IOBE reports on the Greek economy, given the mostly "horizontal" measures, implemented before the outbreak of the new coronavirus, the necessary additional interventions may need to be targeted at specific sectors or value chains. The potential and resources of the Next Generation EU financial mechanism should be utilised to enhance investment, as analysed in the next subsection of the current IOBE bulletin.

As for the evolution of demand from abroad during the first wave of the pandemic, it is reflected in the sharp decline in exports, especially of services. The decline in the exports of services came primarily (86.5%) from the decline in tourism receipts by 97.0% or €4.53 billion, due to restrictions on passenger travel from abroad. On the side of goods, the decline, in national accounting terms and constant prices, reached 15.3%, as mentioned above. This decline was slightly weaker than that in global trade volumes over the same period, according to the World Trade Organization (-18.5%).[10] Therefore, exports of goods appear to have shown relative resilience over this period. Note that 66.8% of their reduction in current prices came from the export of petroleum products, which fell by 57.1%. Exports excluding petroleum products and ships, which have the largest share of exports of goods, in April-June 2020 were 11.7% lower year on year, which highlights their competitiveness. In addition, this segment of exports has, on average, a lower import content than petroleum exports, so it does not have a particularly negative effect on the external balance. Therefore, policy interventions to support export procedures and, more broadly, to promote exports, could mitigate the effects of the health crisis on economic activity domestically. In any case, as the share of services in total exports, which were subject to stronger restrictive measures than the exports of goods, is higher in the third quarter than in the previous two, strong pressures are expected on total Greek exports during this period. The next subsection contains all medium-term macroeconomic forecasts.

Table 2.9

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

[10] Source: https://www.wto.org/english/news_e/pres20_e/pr858_e.htm

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change
2008	249,918	-0.2%	221,539	2.1%	59,020	-9.2%	58,486	3.7%	89,870	1.1%
2009	239,150	-4.3%	219,992	-0.7%	43,185	-26.8%	47,790	-18.3%	71,708	-20.2%
2010	226,122	-5.4%	207,014	-5.9%	38,613	-10.6%	49,959	4.5%	69,241	-3.4%
2011	205,359	-9.2%	188,193	-9.1%	30,201	-21.8%	49,998	0.1%	63,430	-8.4%
2012	190,333	-7.3%	173,961	-7.6%	22,965	-24.0%	50,577	1.2%	57,493	-9.4%
2013	184,285	-3.2%	167,809	-3.5%	20,699	-9.9%	51,387	1.6%	55,588	-3.3%
2014	185,709	0.8%	168,336	0.3%	22,064	6.6%	55,351	7.7%	59,872	7.7%
2015*	184,775	-0.5%	168,502	0.1%	19,383	-12.2%	56,914	2.8%	60,114	0.4%
Q1 2016	46,192	-0.6%	41,868	-1.4%	5,249	6.3%	13,639	-9.2%	14,823	-9.3%
Q2 2016	45,905	-1.3%	41,836	-1.4%	5,826	38.1%	13,495	-10.2%	15,372	-1.9%
Q3 2016	46,046	1.0%	42,204	1.8%	4,775	4.9%	14,305	8.7%	14,830	14.0%
Q4 2016	46,150	0.0%	42,277	0.3%	4,686	-17.5%	14,372	4.8%	15,779	4.6%
2016*	184,294	-0.3%	168,184	-0.2%	20,536	5.9%	55,811	-1.9%	60,803	1.1%
Q1 2017	46,180	0.0%	42,134	0.6%	6,810	29.7%	14,476	6.1%	17,220	16.2%
Q2 2017	46,704	1.7%	42,331	1.2%	5,734	-1.6%	14,726	9.1%	16,263	5.8%
Q3 2017	46,896	1.8%	42,503	0.7%	4,449	-6.8%	15,238	6.5%	15,533	4.7%
Q4 2017	47,171	2.2%	42,295	0.0%	5,492	17.2%	15,198	5.7%	16,283	3.2%
2017*	186,952	1.4%	169,264	0.6%	22,484	9.5%	59,637	6.9%	65,299	7.4%
Q1 2018	47,453	2.8%	42,580	1.1%	5,241	-23.0%	15,771	8.9%	15,922	-7.5%
Q2 2018	47,347	1.4%	42,170	-0.4%	5,587	-2.6%	16,084	9.2%	16,717	2.8%
Q3 2018	47,752	1.8%	42,568	0.2%	6,269	40.9%	16,147	6.0%	17,956	15.6%
Q4 2018	47,972	1.7%	42,423	0.3%	5,743	4.6%	16,815	10.6%	16,642	2.2%
2018	190,524	1.9%	169,741	0.3%	22,841	1.6%	64,816	8.7%	67,238	3.0%
Q1 2019	48,269	1.7%	42,704	0.3%	5,881	12.2%	16,533	4.8%	17,477	9.8%
Q2 2019	48,682	2.8%	43,045	2.1%	5,741	2.8%	16,921	5.2%	17,376	3.9%
Q3 2019	48,785	2.2%	42,789	0.5%	5,974	-4.7%	17,609	9.1%	17,460	-2.8%
Q4 2019	48,348	0.8%	42,902	1.1%	5,411	-5.8%	16,930	0.7%	16,599	-0.3%
2019	194,083	1.9%	171,440	1.0%	23,008	0.7%	67,993	4.9%	68,912	2.5%
Q1 2020	48,015	-0.5%	42,658	-0.1%	5,473	-6.9%	16,928	2.4%	17,276	-1.1%
Q2 2020	41,270	-15.2%	38,696	-10.1%	5,224	-9.0%	11,492	-32.1%	14,386	-17.2%

* provisional data

Source: Quarterly National Accounts, ELSTAT, September 2020

Medium-term outlook

- The coronavirus pandemic fluctuations and the measures to address its effects, restricting activity, but also aiding businesses and households, remain the main determinants of GDP growth in 2020-2021
- The forecasts for all macroeconomic variables are based on alternative sets of assumptions (scenarios) for the parameters that affect them (e.g. new phase of the health crisis, in Greece and abroad, economic support measures, multiplier of measures, oil price)
- Recession of 8.0% in 2020 and growth in the region of 4.0-4.5% in 2021 if there is no strong resurgence of the pandemic. If the health conditions deteriorate sharply during the winter, in Greece and abroad, the recession will carry over to 2021, at a rate of 2.5-4.0%.
- GDP decline in 2020 mainly from a decline in exports (-23 to -25%) and private consumption (-6.1 to -6.5%).
- Increase in public consumption (2-3%) from extraordinary spending for health and Public Administration due to COVID-19, as well as for retroactive payments for pensions
- Retention of investment decline (-6.0 to -7.0%), mainly from construction projects and programmes to support businesses and the self-employed in the first half of the year

The health crisis due to COVID-19, the developments it has caused (measures to protect public health and to support businesses and households) and those that will come from it, will be the main determinants of the political and economic developments in the rest of 2020 and probably in 2021, in Greece and globally. The second stage of the escalation of the health crisis is currently under way, also in Greece. The next period will be particularly critical for the dynamics of the pandemic during the winter, therefore also for its effects on Greek society and economy. The relevant uncertainty is reinforced by the fact that it is not yet clear when the scientific means to treat it will be available (vaccine, specialised treatment medicines).

The strong economic impact of the first wave of the pandemic worldwide was reflected in the trend of GDP of the second quarter, with its decline in the largest economies and economic blocks approaching or exceeding double digits: OECD countries -11.7%, EU -13.9%, USA -9.0%. The exception is China's economy, which returned to growth in the second quarter at a rate of 3.2%. However, the easing of the pandemic in the third quarter, as well as policy interventions, have significantly improved expectations. Recent relevant actions are: a) the decision of the European Commission on 25/9 to allocate €87.4 billion to 16 member countries, as part of the Support to mitigate Unemployment Risk in an Emergency (SURE) programme; (b) in the USA, the allocation of another $44 billion was announced on 8/8, to assist student loan payments, defer employee social security contributions and provide alternatives for tenants and homeowners in order to avoid evictions); (c) in India, on 22/9, the parliament approved the amendment of the Bankruptcy Code, to postpone bankruptcy cases until 25/3/21. Under these and other similar policy interventions, the OECD Composite Leading Indicator (CLI) was constantly rising in May-September, reaching very close to the level of the beginning of the year (99.0 points in September from 99.5 in Jan.-Feb.). The European Commission's Economic Sentiment Indicator in the EU and the Eurozone followed a similar trend over the same period. However, it remained in September far from its level from February (90.2 against 103.0 points in the EU, 91.1 against 103.4 points in the Eurozone).

Regardless of the support measures against the effects of the new coronavirus, a new outbreak occurred in September in many European countries (France, Italy, Belgium, Portugal, the Netherlands, the United Kingdom, Poland, Romania, the Czech Republic, etc.), most of which having more cases per day than in the previous phase of its outbreak.

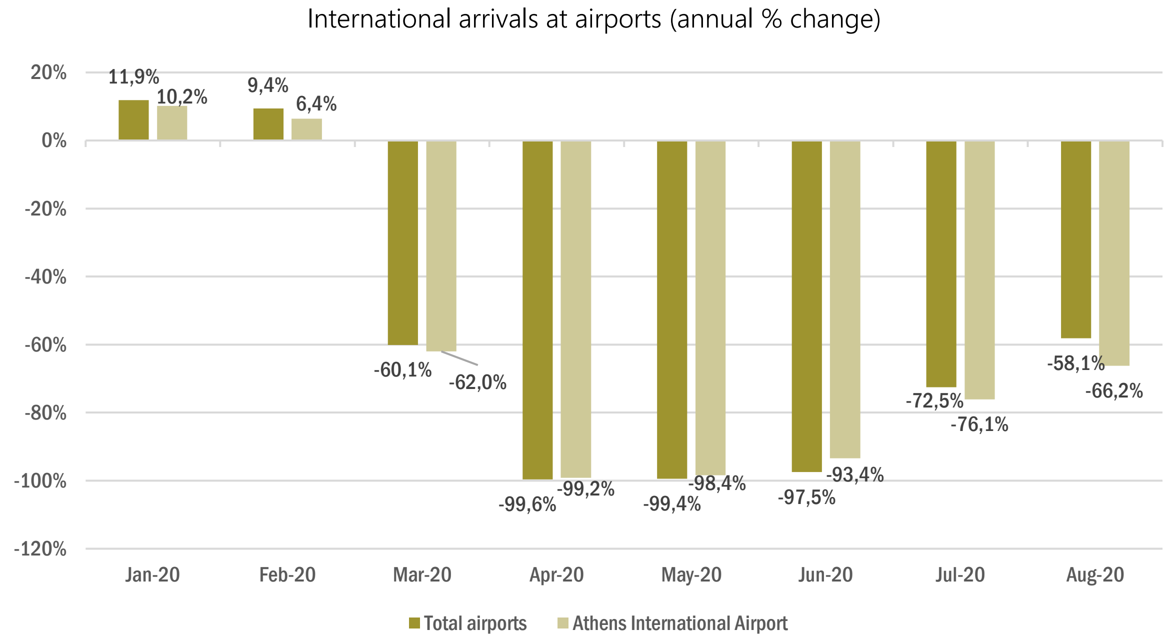
The pandemic intensified slightly in the USA; while in India and Brazil, the countries that came second and third in terms of the number of infections, it slightly eased. Russia is also among the countries recovering from the COVID-19 pandemic. Therefore, it seems that the health crisis is in its second wave, which is probably more severe than the first. The upcoming autumn boosts the likelihood of the outbreak intensifying further. The fact that the COVID-19 vaccine, nor any related drug, has not yet been discovered, reinforces the uncertainty about the extent and effects of this new phase. If the outbreak does not weaken relatively soon, it is now considered likely that extensive local health protection measures will be reinstated. Subsequently, new initiatives are expected to be implemented to support economies and societies, by national governments, but also multinational actors (EU, IMF, UN, World Bank).

Domestically, in June and throughout most of July, the daily number of new COVID-19 cases and new deaths was low. Since the end of July, both figures have risen sharply. As of August 9, the daily number of cases is almost always over 200. It surpassed 300 for the first time on 10 September, 400 on 21 September and 500 on 16 October. In addition, 11 and 15 October saw the highest number of new deaths (13). Consequently, Greece has entered the second wave of the pandemic since the end of July. Despite this, its spread domestically has remained limited, compared to other Eurozone countries with the same or similar populations (e.g. Belgium, Portugal, Austria).

The pressures of the first phase of the pandemic on production and incomes worldwide, together with the duration of the lockdown measures in tourism and international passenger transport in Greece, seem to have had a strong impact on its companies during the third quarter. According to the latest data, international arrivals at the country's airports declined sharply in July - August, by 72.5% in the first month and by 66.2% in the following month, but less than in the second quarter, for most of which flights were suspended (-98.8%). At the same time, until 26/9 there were no cruises either, resulting in the loss of another source of income from tourism.

This turn of the domestic health crisis has led the Greek government to take new measures to protect public health. The main difference between these measures and those during the first wave is that they are imposed at the regional level, in municipalities, etc., i.e. they are not universal in nature, like most measures in the first wave. At the same time, interventions to support businesses and households have been implemented or extended (e.g. SYN-ERGASIA programme, special purpose compensation, relief on the payment of business rent, second and third phase of the repayable advance programme), some new ones were introduced (GEFYRA programme to subsidise instalments of mortgage loans with primary residence as collateral, a programme to cover 100% of the social security contributions for six months for 100k new jobs in the private sector). While these interventions mitigate the economic impact of the pandemic, they have a strong, negative impact on the fiscal balance. According to the 2021 Draft Budget, its expenditures in 2020 will be €11.37 billion higher than the relevant target in the 2020 Budget (+19.9%), which was already higher by €1.24 billion of the 2019 expenditure. In addition, tax revenues will fall far short of the target (-€7.57 billion or -14.5%). The draft State Budget for 2021 envisages its expenditures to remain notably higher than in 2019 and tax receipts and revenues from social security contributions lower, as some support interventions - tax relief for businesses and households, which have already been announced and are presented in detail below - will remain in place.

Figure 3.1



Sources: Civil Aviation Authority, Athens International Airport

In light of the above current and anticipated developments, the economic environment has stabilised over the past five months at the low levels formed during the lockdown in May. In particular, the Economic Sentiment Indicator (ESI) has hovered around 90 points since May, about 23 points lower than in February, when it reached its highest level in 19.5 years. Its current level is the lowest since the beginning of 2016, shortly after the imposition of capital controls and the start of the third Economic Adjustment Programme. The Consumer Confidence index has fallen sharply in the pandemic, particularly during the lockdown period, when it lost almost 28 points since February, when it also reached its highest level in 19.5 years. In the five months of April - August it fluctuated in the range of -33 to -34 points. But in September it fell again, slightly below -40 points (-41), to its lowest level in two years. The expectations have not deteriorated since May in any of the key sectors, yet in all of them they fall short of the pre-pandemic levels. The strongest lag appears in Retail Trade, in the area of 42 points (76.8 in September), followed by Services with about 36 points (75.9) and Construction (-31 points, at 53.7). The smallest decline was recorded in Industry, by almost 25 points (to 86.5 in September).

The effects of the new coronavirus pandemic extend to other important indicators for global economic activity, such as the price of oil, which came under intense pressure during the first two months of the health crisis until the end of April and has since partially recovered. In addition, this event, unprecedented in scope and intensity of effects, has overshadowed other developments in the international environment, which affect, to a much lesser extent, the Greek and European economies. These include the geopolitical issues in the south-eastern Mediterranean, the related migration and refugee crisis and the implementation of the consensual exit of the UK from the EU.

Already from the first IOBE bulletin on the Greek economy after the outbreak of the COVID-19 pandemic, the two factors that are related to it and were considered as the most decisive of its effects on macroeconomic variables were its duration, domestically and internationally, and the intensity of the measures to address its effects. Especially for the macroeconomic developments in the medium term in Greece, the evolution of the health crisis and its economic implications in the Eurozone are of great importance, as well as the size of policy interventions at EU level to deal with them. The trend in energy costs, approximated by the price of oil, which fluctuates significantly this year, was also included from the beginning in the determinants of the macroeconomic forecasts.

These parameters are still considered the most important for economic developments in the second half of 2020 and in the first half of 2021 at least. The ongoing second, possibly more severe wave of the health crisis, which began at the end of the summer season, as well as the uncertainty about the means of dealing with it, highlight the difficulty of predicting its development. Hence, there is still some concern about the development of all the factors related to the health crisis in the medium term, until the end of 2021. Therefore, it is not possible to pinpoint how these factors will develop in order to make the macroeconomic predictions. For this reason, as in the previous IOBE bulletins on the Greek economy, the macroeconomic forecasts are based on alternative assumptions for those factors. The forecasts that emerge from the different assumptions form a forecast range for GDP, its components and other macroeconomic variables.

Under this approach to macroeconomic forecasting, the factors whose changes are expected to affect the macroeconomic forecasts for the Greek economy are as follows:

Box 2.1

Factors affecting the macroeconomic forecasts

- Duration and intensity of the second wave of the coronavirus pandemic in Greece
- The course of the second wave of the health crisis in the Eurozone and its consequences
- Possible subsequent phases of the pandemic, related to the progress in the treatment of the virus (vaccine, pharmaceutical treatments)
- Size and duration of policy interventions to deal with the effects of the crisis in Greece
- Size and duration of policy interventions to address the effects of the crisis at EU level
- Petroleum prices

In detail, with regard to recent developments in the pandemic domestically, as mentioned above, in response to the acceleration of the occurrences in new cases and deaths since the end of July, the government has taken new measures to protect public health. The main difference between these measures and those in the first wave is that they are imposed at regional level, in municipalities, etc. Indicatively, these measures include: 1) mandatory use of masks in retail stores and in all enclosed, open or crowded public spaces, 2) ban on opening bars and restaurants from 11 p.m. or 12 p.m. to 7 a.m., 3) curfew from 12:00 to 6 a.m., 4) ban on opening kiosks and mini-markets from 12:00 to 5 p.m., 5) maximum number of people per table in restaurants (4 or 6, in case of close relatives), 6) ban on concerts and theatrical performances in enclosed or all spaces, 7) mandatory COVID-19 test for travellers from specific countries 72 hours before their arrival in Greece (details below).

Especially with regard to the measures for international passenger travel in Greece, the importance of which is high because of the major contribution of tourism to GDP, the entry by air into the country by non-European citizens continues to be banned. Citizens and permanent residents of the following 11 countries are exempt from the ban: Australia, Canada, Georgia, Japan, New Zealand, Rwanda, South Korea, Thailand, Tunisia, Uruguay and the United Arab Emirates, which are subjected to random COVID-19 tests upon arrival in Greece. There are fewer exempt countries compared to 1 July. Those traveling to Greece by air from Bulgaria, Romania, Hungary, the United Arab Emirates, Malta, Belgium, Spain, Israel, Albania and Northern Macedonia enter Greece only with a negative COVID-19 test, performed up to 72 hours before their arrival. Flights between Greece and Turkey and between Greece and the region of Catalonia in Spain are currently suspended. The ports of Patras and Igoumenitsa accept ships, to and from Italy, which was ranked third in terms of the number of tourists and fifth in terms of tourist revenues in 2019, while cruises were allowed from 1 August, but the first one took place in late September. With regard to land travel, only the Border Station of Promachonas has remained open for entry, where a negative COVID-19 PCR test is required at least 72 hours prior to arrival. Therefore, the entry of visitors from the USA, Russia, Turkey, Qatar and Saudi Arabia continues to be banned. Some of these countries had a high contribution to international tourism revenues in 2017-2019, such as the USA (3rd place) and Russia (10th). The remaining restrictions on international arrivals imply that tourist receipts from countries with a significant contribution in previous years will not be collected throughout the summer and until the end of the year.

In addition, business and household support interventions remain in force, were extended or were introduced. Their positive effects will be commensurate with their implementation, which will depend on the conditions for inclusion and their utilisation by potential beneficiaries. The degree of their implementation varies. However, on average, it is high. Indicatively, regarding the financial instrument "repayable advance", which consists of financial support from the Greek State, with a low interest rate (below 1.0%), two phases were implemented by September 2020. During the first phase, 52.5k companies received financial support of €602 million and in the second phase 89.7k beneficiaries received €1.26 billion. The support under the third cycle will be based on the reduction of turnover in June-July 2020. It has a budget of approximately €1.1 billion, with an interest rate of 0.94%. In the first cycle of the interest rate subsidy program by the Hellenic Development Bank (HDB) and the Entrepreneurship Fund II, for bank loans to SMEs affected by the pandemic protection measures, 10.7k applications were submitted between May and mid-June 2020, related to loans amounting to €1.4 billion, of which 10.15k loans amounting to €1.29 billion gained access to the measure. In addition, on 4/6/2020, approximately 31k applications for loans of €10.5 billion were submitted to the COVID-19 Business Guarantee Fund, also of the HDB, which guarantees a portion of new bank loans to companies. Funds of €2.03 billion were allocated for the two cycles of the Business Guarantee Fund, with a maximum liquidity leverage of approximately €7 billion. In the "GEFYRA" programme, which subsidises mortgage loan instalments, 138.6k applications were submitted from the end of July until the beginning of October, with the application period ending at the end of the month. Its estimated budget cost is €108 million for 2020 and €280 million for 2021. Finally, in June, about 3,400 companies and 32,000 employees joined the "SYN-ERGASIA" programme, in order to support work rotation by subsidising the net salaries of employees, while 5,501 companies and 48,507 employees joined the programme in July.

More broadly, according to the data on the execution of the State Budget until August, the expenditure for dealing with the effects of the new coronavirus reached €4.6 billion.[11] However, it is not possible from these figures to calculate the effects of interventions relating to relief of businesses and households, e.g. on the 2021 income tax downpayment, the payment of rents by businesses and employees in affected sectors, and the temporary reduction of VAT on certain goods and services. Also, it is not possible to estimate the temporary benefit from the postponement of payment of social security contributions, tax obligations, restructured debts and collection of arrears to the Greek State, as well as the instalments of business loans that were performing up until 31/12/2019. According to the Draft State Budget for 2021, the interventions on the side of public revenue (General

[11] Source: State Budget Implementation Bulletin August 2020, Ministry of Finance, September 2020.

Government) will have a total negative impact of €4.3 billion, while the impact of those on the expenditure side will total €8.7 billion.

Actions to mitigate the impact of the health crisis are already planned for 2021. The most important of these are the three percentage point reduction in the social security contributions of private sector employees and the suspension of payment of the special solidarity levy. In addition, the "GEFYRA" programme will continue to have an impact, while most of the action to cover social security contributions (subsidy of €200, for six months) for hiring long-term unemployed as part of the programme of creating 100,000 new jobs will also be implemented during that period. According to the Draft State Budget for 2021, the provision of special purpose compensation is foreseen for the next year as well, in a much smaller extent than this year (expenditure of €72 million, compared to an estimate of €1.26 billion for 2020). The projected overall impact of the interventions in 2021 is €1.47 billion on the expenditure side and €913 million on the revenue side. However, depending on how the pandemic will evolve, other measures might need to be taken, many of which will be based on what is already being implemented.

As mentioned in the previous IOBE reports on the Greek economy, the adopted and planned fiscal measures for households restrain the weakening of consumer demand and thus the reduction of business liquidity and employment. Part of the liquidity that companies need in order to maintain jobs and meet their current obligations (to the public administration, banks and suppliers) is provided by the extraordinary financial tools mentioned above. Having said that, this support is considered to have a much less positive impact on investment. The high uncertainty about the development of the new coronavirus, until an effective means for its treatment or prevention (vaccine) is found, will have a strong deterrent effect on investment risk taking. Unlike other global economic crises in the past, the current one is not due to an economic cause, such as the financial crisis of 2008 and the oil crises of 1973 and 1979, but to a non-economic, currently unpredictable factor, which is why the concern it causes is difficult to determine and limit. Thus, the availability of financial instruments is a necessary, but not a sufficient condition for a significant investment revival.

Nevertheless, many companies have made or will make investments, adapting their way of working, production or sales to the current conditions (e.g. teleworking, online shopping) for a short or indefinite period of time. However, for the most part these changes do not lead to the creation of new products and services. Exceptions are investments related to health, by the public and private sector, e.g. for the creation of appropriate infrastructure to deal with the pandemic, for the manufacture of medicines and health protection consumables, for health and safety in transport, etc., investments in public projects, and investments in concluded privatisations.

Taking into account the current dynamics of the new coronavirus pandemic, in Greece and abroad, mainly in the country's major trading partners, the developments around the discovery of vaccines and treatments, the developments regarding the fiscal-financial interventions domestically and in the EU, and the latest forecasts for the recession this year in the Eurozone (IMF), the assumptions of the basic forecast scenario are as follows: for the rest of 2020 and 2021, the domestic health conditions will fluctuate around current levels. The health crisis will not resurge strongly in a large part of the country and will not require substantially more fiscal measures than those already taken or planned. As a result, public health protection measures such as suspension of operations and restrictions on the movement of people within Greece will be limited to areas with a strong outbreak and will not extend to the whole country. Furthermore, it is assumed that the health crisis in the EU and internationally will not escalate significantly. With regard to the change in GDP in the euro area in 2020 and 2021, it is assumed that it will be close to recent forecasts (-8.5% and +5.2% respectively).

The alternative forecast scenario includes the sharp deterioration of the health crisis in many European countries and in Greece during the winter, affecting the forecast for 2021. This development will lead to extensive public health protection measures, with strong implications for economic activity. In such a case, additional support actions are expected to be implemented at European and national level. Despite these measures, there will be strong effects on domestic demand, Greek exports and foreign direct investment, while international travel to Greece will also be negatively affected. In addition, the current recession and the recovery next year in the Eurozone will be bigger and smaller respectively than recently projected (9.0% and 4.0% respectively).

Moving on to developments and trends in funding, which may play a key role in tackling the effects of the pandemic, the banks in Greece continue to leverage the ECB facilities, created in response to the current extraordinary circumstances, to draw liquidity. The most important such financial instrument is the Pandemic Emergency Purchase Program (PEPP), with a budget of €1.35 trillion. The financial instruments include the TLTRO III program, through which banks have access to funds with a negative interest rate (-1% for the first year and -0.50% for the next year), while it can also be used to absorb lending transferred from other ECB programs. Meanwhile, a new liquidity facility was created, concerning non-targeted long-term refinancing operations due to the pandemic (PELTROs), with an interest rate that is 25 points lower than the average main refinancing rate (MRO) throughout the duration of the refinancing operation. The duration of the PEPP has been extended until June 2021, with the ECB reinvesting mature securities by the end of 2022. In this context of financial conditions, the liquidity of Greek banks drawn from the Eurosystem reached €24.4 billion in April-June and as a result their "dependence" on the ECB almost tripled compared to the end of March, to €36.8 billion. In July-August, it remained unchanged.

While these developments create incentives for credit expansion, the uncertainty about the duration and severity of the health crisis dampen credit supply. After all, the suspension of activity in many sectors for most of the second quarter, the strong decline in international tourism during the summer, with a respective impact on the activity of the tourism industry and those related to it, will exert significant pressure on business activity and household income. By contrast, the relatively mild decline in the exports of goods except petroleum products and ships, noted in the previous subsection, highlights the strong competitiveness of some industries and parts of the primary sector in the current particularly unfavourable situation and their good medium-term outlook. Combining the effects of the above developments, it is quite possible that bank loan defaults will resurge, leading to a further expansion of non-performing loans (NPLs). For the same reasons, the demand for capital from businesses and households will remain sluggish. Only if these sources of uncertainty recede significantly will both supply and demand for bank credit recover.

Still, NPLs were on a downward trajectory up until the end of March.[12] At that time point, they had fallen to €60.9 billion (37.4% of total loans), €7.6 billion lower than in December 2019 and about €46.3 billion below their level in March 2016. Their reduction in the first quarter of this year is mainly due to the Eurobank's transfer of NPLs within its group, in view of the completion of a sale through securitisation of loans worth €2.4 billion. This deal is the first action taken under the Hellenic Asset Protection Scheme ('Hercules'). Excluding this intragroup transaction, NPLs decreased by €1.1 billion in the first quarter of this year,

[12] The latest published data on NPLs is available up until March 2020.

mainly due to write-offs of €0.6 billion. Therefore, in contrast to 2019, the reduction of non-performing loans was achieved at the beginning of this year through active management. No other operations, taking advantage of the opportunities provided by the "Hercules" scheme, were carried out by the banking institutions.

The revised targets for the reduction of NPLs set by the banks for the period until the end of 2021, when they should have been reduced below 20% of loans, but also the possibility of NPL resurgence due to the health crisis, highlight the need for immediate, greater use of the "Hercules" scheme. Recall that this program provides guarantees from the Greek government of up to €12 billion, for the securitisation of loans of over €30 billion, within a period of 18 months from 10/10/2019. According to the law related to the programme (L. 4649/2019), the maximum amount and the period of provision of guarantees can be extended with a decision of the Minister of Finance, following a relevant decision of the European Commission. If the trend in new NPLs turns to growth due to the health crisis, this opportunity will probably be seized. After all, in Italy, which was hit hardest by the pandemic, the respective programme, also approved with an initial duration of 18 months, has been extended repeatedly and remains in force. However, according to the Bank of Greece (BoG), other systemic solutions should be considered, such as the creation of an Asset Management Company ('bad bank'), which will also address the issue of deferred tax claims (DTC). The relevant plan was submitted in mid-September by the BoG to the government and the institutions. This approach seeks to gradually record the relevant losses, so that the capital adequacy of the banks does not fall below the minimum supervisory threshold. The rapid settlement of NPLs, combined with the utilisation of the ECB's financial instruments, can allow for credit expansion to businesses and households, a certain period after the significant weakening of the spread of COVID-19.

Despite the current, particularly unfavourable and unpredictable circumstances, with persistently high uncertainty about the development of the health crisis, the domestic banking system has significantly raised the supply of loans to businesses, resulting in credit expansion to the private sector as a whole. In June-August, the rate of change in loans to non-financial corporations increased sharply, from 4.6% in May to 7.1% in August, reaching its highest rate in eleven years. The average growth rate in this period was 5.8%, compared to 2.9% in the first five months of 2020 and 2.8% in the respective quarter of 2019. However, the boost in corporate lending largely comes from emergency liquidity programmes to deal with the effects of the pandemic, such as the Entrepreneurship Fund II and the COVID-19 Business Guarantee Fund, both of which were implemented by the Hellenic Development Bank during this period. Simultaneous, extensive liquidity borrowing by the ECB allows credit expansion to businesses to carry over into the rest of 2020 and early 2021. However, as previously noted, this will largely depend on the dynamics of the pandemic, which will affect both the supply and demand of loans. On the household side, credit contraction continues at a similar pace compared to the beginning of the year, at a rate of 2.6%, from 2.9% in the first five months of this year and 2.7% a year earlier. As a result, in the private sector as a whole, lending from the banking system expanded on average in June-August at a rate of 1.2%, which is the highest since the last quarter of 2010, compared to stagnation in the previous five months (0.0%) and in the respective quarter of 2019 (-0.1%).

The liquidity supply to enterprises continues to be on very favourable terms: in June-August the average interest rate on new fixed-term loans to non-financial corporations stood at 3.00%, from 3.20% in the first five months of 2020 and 3.78% on average in 2019. The recent level is the lowest at least since 2010. The average interest rate of the same category of new loans to freelancers/self-employed was 5.09%, from 5.37% in the first five months of 2020 and 5.52% on average in 2019. This interest rate is also the lowest since at least 2010. For all new loans to households, the respective average interest rate was 4.86%, lower than earlier in 2020 (4.91%) and in 2019 (4.94%). Unlike the interest rates on new loans to businesses and freelancers in June - August 2020, the rate on loans to households are not the lowest in the last decade, with their minimum level in this period occurring in the first quarter of 2015 (4.5%).

The lower bank lending rates of companies and freelancers in the first eight months of 2020 are also related to the sharp de-escalation of lending rates of the Greek government from the second half of 2019. In February 2020, the average yield on the 10-year Greek government bond stood at 1.07%, its lowest level since at least 1993. Contributing to this development was the upgrade by the Fitch rating agency of Greece's credit rating from BB- to BB and the issue in the same month of a 15-year bond, with particularly high demand (oversubscribed by 7.5 times) and an interest rate of 1,875%. Despite the continuing high international concern over the pandemic in June-August and the strong impact of the related measures on public finances, the capital markets for the public sector in Greece and the rest of the EU remained relatively affordable, thanks to the ECB monetary policy measures mentioned above. Thus, the average yield on the 10-year bond did not fluctuate sharply and stood at 1.18%. In early September, the Greek government moved to take advantage of these favourable conditions again and borrowed €2.5 billion with a 10-year bond and an interest rate of 1.19%, while the total offers were much higher than the issue, at € 18.0 billion. This was the fourth issue of a government bond this year, after the 15-year bond in January, the seven-year bond in April and the 10-year bond in June. However, it should be noted once again that the very good climate in the financial markets is not compatible with the prolonged uncertain economic outlook under the influence of the new coronavirus pandemic and the difficulty so far in dealing with it, preserving the likelihood that the financial conditions internationally will change sharply and worsen in case of a new, strong flare-up of COVID-19. Therefore, it should not be taken for granted that the Greek State, banks and large enterprises will continue to have favourable market access over the medium term.

Especially for the largest non-financial corporations, the effects of the health crisis on the assessment of their prospects and the difficulties of accessing financing outside the banking system, from the capital markets, are reflected in the fact that the Athex Composite Share Price Index (CI) stood 277 points or 30% lower in mid-October than its level on February 20, when its fall began, at 636.3 points. Previously, by early April, the CI had weakened strongly, by 376 points (-41%, at 484.4 points). It then rose by 200 points until 5 June (683.5 points). From then until mid-October, it ranged between 615 and 677 units. Therefore, its initial decline was disproportionate to the changes due to the pandemic concerning the future dynamics of the listed companies on the Athens Stock Exchange. These developments in the domestic capital market ran in the opposite direction, compared to those prior to the health crisis in 2019 and up until February 2020. During this period, the CI strengthened by about 350 points or 57.8%.

In addition, since September 2019, following the elections, activity in the issuance of corporate bonds had recovered, often exceeding the target of raising funds, reflecting investor confidence. Indicative examples of companies that took advantage of this opportunity to raise funds before the health crisis are: Ellaktor (five-year bond, €70 million), Mytilineos (five-year, €500 million), TERNA Energy (seven-year, €150 million) and WIND Greece (five-year, €525 million). In March-May, no company took such an action. At the end of June, GEK TERNA made the first issue of a corporate bond after the health crisis, with seven-year maturity, amounting to €500 million, with coupon of 2.75%. In mid-July, Lamda Development issued a bond through a public offering of €320 million, oversubscribed 1.93 times, with a coupon of 3.4%. At the end of September, the National

Bank of Greece issued the first Green Senior Bond in the Greek market, totalling €500 million and a yield of 2.875%. In mid-October, OPAP announced that its board of directors had decided to issue a bond of up to €200 million, with a minimum amount of €150 million. These actions highlight the increased activity in corporate bond issues, as well as the significant investment interest. In the absence of developments that will upset the international capital markets, the relevant activity is anticipated to strengthen significantly in 2021.

Moving on to public sector financing opportunities, the resources of the Next Generation EU fund will be the most important additional source of investment capital in the coming years. Out of the total resources of the fund, amounting to €750 billion, of which €390 billion will be given through grants and €310 billion through loans, Greece can receive up to €19.3 billion in grants and up to €12.7 billion in loans. All Member States must submit to the European Commission plans to use the aid from the new European fund by 30 April 2021, but they can submit a draft together with their national draft budget in October 2020. The Draft State Budget for 2021 envisages that approximately €5.5 billion will be raised from the fund. More information about Next Generation EU, its objectives, firepower and the procedure of raising funds from it is included in section 2.1 B (EU and Eurozone economies) of the current report.

Regarding the regular public financing of investments, through the Public Investment Programme (PIP), the execution data of the State Budget point, at first sight, to a significant expansion in 2020. In January-August, the expenditure of the programme reached €5.18 billion, a level higher than the relevant target in the 2020 Budget by €1.89 billion. Moreover, it more than doubled year on year (from €2.0 billion). However, the press release on budget execution for the first eight months states that the increase mainly concerns expenditure on special purpose reimbursement for businesses and the self-employed, interest subsidies to small and medium-sized enterprises, the repayable advance measure, and the establishment of a corporate guarantee fund due to the COVID-19 pandemic. Therefore, the expansion of PIP expenditure mainly concerns extraordinary transfer payments to companies and the self-employed, due to the health crisis; thus the trend of investment grants is unclear. In the Draft State Budget for 2021, the estimate for the PIP expenditures for the whole of 2020 is €9.52 billion, compared to €8.0 billion in the supplementary state budget adopted in late May and the target €6.75 billion in the 2020 budget. According to the Draft Budget, the increase will be used to cover funding needs to address the continuing effects of the pandemic. Taking into account the estimate for this year's PIP grants and the estimates for the payments under the above interventions, also from the draft State Budget, it is now considered possible that the expenditure of the investment support programme will be reduced for yet another year in 2020.

In terms of investment financing from the PIP in 2021, the relevant target set in the draft is €6.75 billion. This target is set for the sixth consecutive year. Given, firstly, the new decline of grants this year and secondly, the fact that no support actions are planned for next year for businesses and the self-employed against the COVID-19 pandemic, which are being implemented in 2020 through the PIP, public investment support might be significantly higher than in 2020.

The exceptional measures of March included the immediate payment of all outstanding public liabilities to individuals and businesses in cases of up to €30k. At the end of last February, overdue liabilities (excluding tax refunds) totalled €1.56 billion. Although €218 million were paid in such cases from the end of the same month to mid-March, at the end of March the overdue liabilities reached €1.79 billion. According to the latest data, at the end of August they were slightly reduced to €1.72 billion.[13] No information is provided on the arrear payments made during this period. The Draft State Budget for 2021 states that the implementation of the action plan for the settlement of arrears adopted in October 2019 was negatively affected by the health crisis and the measures adopted to halt the pandemic. No targets are set for the level of arrears at the end of 2020 and 2021. Given the above, no substantial reduction of arrears is expected by the end of 2021.

The remaining strong uncertainty in the economic environment continues to be a major deterrent to the implementation of structural changes through concessions and privatisations. As mentioned in previous IOBE bulletins on the Greek economy, the budget target of the Hellenic Republic Asset Development Fund (HRADF) for 2020 totalled €2.45 billion, of which €2.07 billion was expected to come from tenders to be completed in 2020 and €376 million either from tenders for which binding offers had been submitted and the expected first disbursement would have been made in 2020, or from instalments of transactions completed in previous years. The 2020 Budget specified the sources of the €376 million part, most of which concerning the first instalment for the sale of Hellinikon SA that is yet to be completed (€300 million). The remaining €2.07 billion was anticipated to come from tenders that were ongoing or nearing their completion, without specifying which were expected to be completed in 2020 and the expected revenue for each tender. These tenders include the sale of 30% of the shares of AIA SA, 65% of the shares of DEPA SA, the concession of Egnatia Odos for 35 years, the concession of regional ports and marinas (e.g. Itea and Aretsos Thessaloniki) and other real estate included in the HRADF portfolio.

As the revenue target for this year is 77.4% higher than the maximum annual revenue on record (€1.38 billion in 2017), it was considered ambitious from the beginning. In the adverse investment environment created by the pandemic, it was assessed in the previous IOBE bulletin in April as most likely not be achieved. The progress of HRADF work in January-September is an indication of this development. Until March, the candidates for the second phase of the tender (binding offers) for the acquisition of 30% of the share capital of AIA SA were pre-selected, the concession of the marina of Chios was completed, with the one-off part of the price at €600k, and an investment group submitted an expression of interest for the marina of Itea. In June, six investment consortia passed to the second phase of the tender for the acquisition of 100% of DEPA Infrastructure SA and seven investment consortia qualified for the second phase of the tender for 65% of DEPA Commercial SA, while the concession contract of Alimos Marina was signed for 40 years for a price of €57.5 million (in net present value terms). During the same period, the international tender for the concession of the underground gas field "South Kavala" as a natural gas storage area was launched. The most recent action of the HRADF is the start of the tender procedures for the development of the ports of Alexandroupolis, Igoumenitsa and Kavala. Therefore, the revenue from tenders in the current year currently reaches around €60m. The Draft State Budget does not analyse the progress in the implementation of privatisations in 2020 and the targets for 2021.

Export pressures from restrictions or bans on cross-border passenger transport and more broadly the contraction in world trade are already having a strong impact on domestic output, based on GDP data for the second quarter. Imports are also weakening, although the elasticity of imports of goods, which is their main component, with respect to domestic demand is small, restraining their decline. Previously in the current section, the available data on international tourism flow in the third quarter were presented, showing signs of a particularly strong decline. The outbreak of the second phase of the pandemic in many

[13] Source: General Government Monthly Data Bulletin – August 2020, Treasury of the State, October 2020

countries since September, including in some EU countries with a significant share in tourism receipts and exports, deflates the expectations that a significant part of the second and third quarter losses would be covered from receipts in the last quarter of 2020.

The above expected trends in the exports and imports of key categories of goods and services are largely reflected in the hitherto available balance of payments data of the Bank of Greece. Exports of goods, at current prices, fell by 19.0% (-€1.65 billion) in May-July, slightly less than in the previous two months of lockdown (-20.9%). The contraction comes mainly from lower exports of fuels, by 46.9% (-€1.16 billion), as in March-April (-48.2%). The decreasing exports of goods excluding fuel – ships come next in terms of contribution to the overall decrease in exports of goods during the recent quarter, with a much weaker decline than that of fuel exports, by 8.1% (-€501.0 million) and marginally lower than in the lockdown period (-8.9%). Exports of ships, which have very small weight in total exports, increased strongly (+62.1%), in contrast to their deep contraction at the beginning of the health crisis (-75.2%), but this rise in absolute terms corresponds to only €12 million. The slightly stronger proportional decrease of most imports of goods, compared to exports in absolute terms, in May-July (-23.3% or - € 3.4 billion) - which was stronger than earlier this year (-20.6%), mainly due to lower fuel imports (-52.4% or -€1.97 billion) - led to a reduction in the deficit of the goods account by 29.7% or €1.75 billion, to €4.14 billion.

The decline in the deficit of the goods account was more than offset by the sharp contraction of the balance in the services account. The exports of services fell by 61.4% (-€8.19 billion), falling much more than in the lockdown (22.7%). As expected for the first two months of the summer, the decline came for the most part (87.0%) from travel receipts, which collapsed (-91.0% or -€7.12 billion), falling proportionally more than in March-April (-88.5%). The rest of the decrease in revenues came almost exclusively from the supply of transport services abroad (23.1% or -€1.03 billion), which also declined more sharply than during the quarantine (-8.1%). The weakest proportional and absolute decline was recorded in the supply of other services (-3.9% or -€41.4 billion), in contrast to their marginal increase in the preceding two months (+1.3%). The demand for imported services also weakened in the post-lockdown quarter, but its intensity, although stronger than during the lockdown (-16.3%) was much lower than in the exports of services (-20.8% or -€977.2 million). The decline was mainly due to weakened domestic demand for travel services, which also collapsed (-79.0% or -€516.1 million), as in the previous two months (-89.4%). The decline in international trade and restrictions on passenger transport have also reduced domestic demand for transport services (-16.0% or -€459.9 million), with demand for other services unchanged. The result of the changes in the two main components of the services account in May-July was the very strong contraction of its surplus, by 83.3% or €7.21 billion, to €1.44 billion. This decrease was much stronger than during the quarantine (-38.9%). As a consequence of this development, the overall balance of goods and services evolved from a surplus in May-July 2019 (+€2.76 billion) to a deficit in 2020 (-€2.70 billion).

Restrictions on global production activity due to the health crisis, as well as restrictions on international transport, have significantly reduced the demand for oil and other energy goods. On 12 April 2020, OPEC and its partner countries, together with Russia, agreed to gradually reduce production until April 2022, starting with a reduction of 10 million barrels per day until May 2020, in order to ease the fall in prices. Nevertheless, the price of Brent oil last April stood at $18.4 per barrel, 74.2% lower year on year, while in May it reached 29.4 $/barrel, falling by 58.8 % year on year. The decision of OPEC+ to extend the above production limit in July, combined with the lifting of the spring lockdown internationally, boosted demand and oil prices. Despite these trends, the average price of Brent oil for this period was 34.8% (or $22.3) lower year on year, at $41.8, reflecting the weakened economic activity from last year. Although these oil-producing countries are gradually adjusting their production since the beginning of August to reach the target for the period up until the end of the year (-7.7 million barrels per day), this adjustment is not reflected in its price. After a slight increase this month, it declined in September and now hovers around $40, with a widening year-on-year difference.

From the above fluctuations of the oil price, it seems that the reduction of the oil supply has partially moderated the decline of its price stemming from the effects of the COVID-19 pandemic. With the health crisis on the rise in many European countries before the autumn and some governments of major economies having already imposed restrictions on travel and in certain sectors (e.g. France, the Netherlands), a strong second phase of the pandemic is seen as likely in the winter, as foreseen in the alternative macroeconomic scenario, which will lead to extensive measures to protect public health. In this case, restrictions on passenger travel, within countries that have reinstated lockdown measures, but also internationally, will reduce the demand for fuel. This trend will also be reinforced by the suspension of business activities. Subsequently, current oil prices will fall further year on year. The duration and intensity of this change will depend on the respective characteristics of the new phase of the pandemic. However, this effect will ease and will probably cease if the second phase continues beyond March 2021, as the first phase of the pandemic in 2020 put very strong pressure on oil prices.

In the event that this unfavourable development regarding the new coronavirus does not take place, as foreseen in the baseline forecast scenario, no significant recovery of travel and economic activity is expected until the uncertainty for a possible resurgence of the health crisis subsides. This development is linked to the discovery of treatment for the virus. The more gradual recovery of the global economy due to uncertainties about the new coronavirus is reflected in the recent, small downward revision of the growth rate of the global economy for 2021, compared to the summer forecasts (5.2% from 5.4%).[14] Given the above scenarios on the international developments and in case of a strong resurgence of the health crisis in 2021, then a fall in the oil price of around 37.0% this year and an increase of about 10.0% in 2021 is anticipated. Under the basic scenario of macroeconomic forecasts, a similar decline in oil prices is expected in 2020 (-37%) and a stronger increase in the coming year (+19.5%).

Successive monetary policy interventions by the major central banks have prevented large exchange rate fluctuations due to the effects of the pandemic on economic activity and expectations. In addition, in combination with the fiscal measures taken in each economic region, they affect the credibility of economic policy in terms of its ability to respond to a difficult situation, such as the current one. In particular, the euro / dollar exchange rate fluctuated between 1.07 and 1.14 from the beginning of the spread of COVID-19 in Europe and the US until mid-July. As highlighted in previous IOBE bulletins on the Greek economy, the rate fluctuations are related to the announcements of new policy interventions on both sides of the Atlantic. From mid-July to mid-August the exchange rate increased notably, reaching 1.19, its highest level since May 2018. This development is considered to be mainly related to the decision of the EU Summit on the Next Generation EU fund, but also the flux in the US in terms of the assessment of the virus by the Trump administration and the actions to deal with it, as well as with the weakening of COVID-19 over the summer. The euro / dollar exchange rate does not seem to be affected in the current period by the

[14] World Economic Outlook, IMF, October 2020.

upcoming US elections, which have traditionally boosted business and household expectations. As a result, it remains in the range of 1.16-1.17.

In relation to the above analysis, the fluctuation of the euro / dollar exchange rate in the rest of 2020 and 2021 will depend on the evolution of COVID-19 and the relevant policies to deal with it. It may rise temporarily after the US elections, from optimism about the government that will emerge from them. Taking into account the evolution of the exchange rate in the first nine months of 2020, it is expected to be on average at 1.14, 1.8% higher than in 2019 (1.12). The first forecast for next year is that it will strengthen further, to 1.16. This will reduce energy costs and to a small extent boost the competitiveness of Eurozone products and services.

The latest trends in parts of the domestic economic activity, as well as in the short-term economic indicators, during the third quarter, point to a weakening of the contraction from the first wave of the COVID-19 pandemic, with the exception of those in the construction activity, which continued to deepen, albeit with weaker intensity than in the first half. In detail, on the supply side of the economy, industrial production fell in July - August by 1.9%, much milder than in the second quarter of 2020 (1.2%) and against a decline of 1.1% in the same period of 2019. At the level of key industrial sectors, the easing of the contraction came mainly from Manufacturing, whose output fell marginally, by 0.3%, in contrast to its decline of 7.4% in the previous quarter. The easing of the decline in Mining - Quarrying, to 7.4%, from 17.3% in April-June, also contributed to this. The easing of the output contraction was weaker in Electricity Supply, to 8.1% from 10.0%, while in Water Supply the trend changed from growth in the second quarter (+2.3%), to stagnation in July-August (-0.1%). Regarding the latest trends in construction activity, the number of permits increased by 12.0%, while weaker growth was observed in terms of volume (+7.5%) and area of new buildings (+3.8%). The specific changes come after stronger growth in the preceding quarter, by 16.0% in the number of permits, 11.8% in the area of new buildings and 12.2% in their volume.

Regarding the figures that reflect the economic sentiment and the trends on the demand side of the domestic economy, the (seasonally adjusted) volume index in Retail Trade fell slightly in July, by 2.7%. Its decrease is similar to that in the previous two months (average: 3.0%), highlighting the widespread easing of the consumer demand contraction from the beginning of the pandemic.

Taking into account for the macroeconomic forecasts the recent and possible developments regarding the new coronavirus pandemic, and mainly the emerging second wave of its outbreak, the uncertainty about the discovery of vaccines and treatments, but also the public and monetary policy, in Greece and internationally, to address its effects, as well as trends in GDP and its components in the first half of this year and in short-term economic indicators in the third quarter, the unprecedented contraction of household consumption in April-June is anticipated to ease during the second half of 2020 - as predicted in the previous bulletin on the Greek economy. However, its fall will be significant again. Private sector consumer spending pressures will be driven primarily by the widespread decline in employment, with current adverse conditions discouraging job search. The sharp decline in activity in sectors with a significant contribution to GDP following the lifting of the lockdown, such as Tourism, Food Services, Transport and Professional - Scientific - Technical Activities, will greatly reduce the incomes of their workers. Similar effects are expected in the Arts - Recreation - Entertainment sector.

Household income support measures (special purpose allowance, extension of unemployment benefits, GEFYRA programme for mortgage loans), with some of them targeted to the above affected sectors, will ease these effects. In addition, the emergency needs for services arising from the health crisis, e.g. health, social care, internet services, courier services, have a positive impact on the employment of the activities concerned and on incomes. A boost in employment in the near future will also come from the programme to subsidise 100% of employer contributions in the first six months of a new job creation. In view of the above developments, a fall in private consumption of 6.1% to 6.5% is estimated for 2020.

With regard to the trend of private consumption in 2021, the tax cuts planned in the budget (suspension of the payment of social solidarity contribution of private sector employees, reduction of social security contributions) will increase the disposable income and thus consumption spending. Income support will also come from the GEFYRA programme, most of which will be implemented next year. These interventions will compensate, but not fully, for the emergency transfers to households due to COVID-19 given in 2020. Unless the health crisis resurges sharply in Greece and abroad, the biggest boost in consumption will come from recovery of economic activity and employment growth. These are expected to manifest in some of the most affected sectors this year (Tourism, Food Services, Arts - Entertainment, Transport), but also in Manufacturing, due stronger international trade. Significant revival is also expected in investment activity, as analysed below. Taking this into account, under the baseline macroeconomic forecast scenario, it is projected that private consumption will expand next year by about 3.5-4.5%.

In the event of an adverse development with regard to the new coronavirus, the trend in consumption will remain negative in 2021. Household incomes will be constrained mainly by further weakening of domestic demand, due to continued decline in employment, but they will also be pressured by lower exports and dampened foreign investment sentiment. Under this scenario, private consumption is projected to contract further by 2.5% to 4.5%.

As for the developments in public consumption, the continued extraordinary expenses due to the pandemic, for the support of households, the staffing of the health system and the coverage of its needs in consumables, for the adjustment of the operation of the education system, for emergency needs of public administration bodies, etc., but also the retroactive payment to retirees, amounting to €1.4 billion, will change the trend of public consumption in the second half of 2020, from decline to growth, at a rate of about 5%. Besides, its decrease in the second quarter of this year came largely from the negative "base result" due to its high level a year ago, due to the elections. As a result, public consumption will be higher overall in 2020 by 2.0% to 3.0%.

According to the Draft State Budget for 2021, some of the interventions due to COVID-19 will continue in the new year, regardless of the evolution of the pandemic (e.g. recruitment of temporary and permanent health staff, increased functional needs of the health system, special purpose compensation), while new ones will also emerge (e.g. supply of vaccines and new drugs). Overall, these are projected to be much lower than in 2020. In addition, they will be no retroactive payment to retirees. Therefore, there is a possibility of reducing consumption compared to its current level, perhaps to a significant extent. However, if a new strong wave of the pandemic occurs in Greece, it will again be necessary to implement fiscal interventions to tackle it. As a result of such a development, the reduction in public consumption will be significantly weaker. In particular, public consumption expenditure is projected to fall by 5.5-7% in 2021 if health conditions do not deteriorate sharply, and by 2.0% to 4.0% in the alternative scenario.

On the investment side, the environment will remain adverse until the pandemic is eradicated, or at least largely contained, in Greece and in the vast majority of the countries with which it is commercially related, mainly for exports. This will happen because the decision to make investments is made by assessing potential trends in the medium to long term. The possibility for this process in the second half of this year and at the beginning of 2021 is considered very limited. Given this, a small part of the existing investment plans will be implemented during this period. These are investment projects from export-oriented sectors with a significant activity increase in recent years, such as Tourism, Transport, Manufacturing, but also from sectors that have benefited from stronger domestic demand in recent years and structural changes, such as Wholesale - Retail Trade, some Manufacturing sectors, Energy etc. In case of improvement of the health conditions relatively early next year, together with strengthening of the means for tackling the pandemic (vaccine-drugs) and their distribution to the population, the investment sentiment can strengthen considerably in the second half of 2021.

The notable rise in liquidity available from the banking system compared to the recent past, due to the reduction of non-performing loans, the repayment of deposits, but also thanks to the ability of banks to access the ECB securities purchase programmes for the first time, has created new financial opportunities for banks and businesses, which were not present in recent years. However, as long as there is no way out of the health crisis and its consequences, banking institutions are expected to be quite cautious in lending, as there is a risk of a new rise of non-performing loans. As mentioned above, the significant boost in credit expansion in June-August came largely from emergency liquidity programmes to address the effects of the pandemic, such as the Entrepreneurship Fund II and the COVID-19 Business Guarantee Fund. Therefore, it is not due to a change in banks' lending policy, nor does it reflect a large increase in the demand for investment resources by companies. The level of NPLs at the beginning of 2021, following the lifting of the suspension of arrears due to the pandemic, will be a determining factor in the supply of bank credit.

The vital importance of the capital resources for investment from the EU funds in 2021 has been analysed previously. The ratio 'Investment expenditure on GDP' also reflects the funding from the emergency mechanisms to deal with the effects of the pandemic, as it is allocated under the Public Investment Programme. The funding from the emergency mechanisms, recorded in investment in the second quarter of this year, was the main deterrent to its decline. As a large part of these funds were allocated during the third quarter of this year, they are expected to have a stimulating effect on investment in this period as well, while their role will be much smaller in the final quarter of 2020. At the moment, no financial interventions of this kind have been planned for 2021, based on the Draft State Budget. However, it is now likely that similar programmes will be implemented if such a need arises due to a new outbreak of COVID-19 in Greece,.

The support of the investment activity from the remaining, regular part of the Public Investment Programme will be again lower year on year in 2020, as evident when the above extraordinary stimulus is excluded from the total payments of PIP estimated in the draft budget. That said, this will create a low base of comparison for next year's support, which has been budgeted once more at €6.75 billion. Overall, unless emergency funding is required, PIP spending in 2021 will be lower than in 2020, contributing less to GDP. However, this shortfall may be offset by the additional resources estimated in the Draft State Budget to come from the Next Generation EU.

The effects of the current, particularly high, investment uncertainty, which may be caused by other crises of smaller scope, highlight the importance of public works and investment in concluded privatisations, for a relatively stable investment activity, with long-term development prospects. In late 2020 and in 2021, the most important ongoing or upcoming investments of this kind concern Hellinikon, the Piraeus Port Authority, the Athens International Airport and the regional airports. Their role is estimated to be important for propping the level of investment activity, especially in 2020. The specific investments will reflect in activity in Constructions. If the privatisations had been carried out more rapidly in previous years, more investments would have been made now in infrastructure, limiting the influence of transient factors on investment activity. The impact of the significant lag this year in the implementation of the privatisation programme, which is also due to the pandemic, will reflect in investment in the coming years.

A slight halt in the decline in fixed capital formation this year will come from construction projects, as they had a particularly strong growth at the beginning of the year, which continued, quite weakened, until last July. However, as this has largely come from investing in Tourism, building hotels and renovating real estate for use via Airbnb, it is quite likely that it will be hit in the next year if the health crisis does not subside from early 2020 and especially if it escalates sharply.

The above analysis shows that the level of investment is determined by a large number of factors, with different effects, in direction and extent. Taking into account these effects, mainly that of the extraordinary financial instruments for the pandemic, investment is estimated to decline by 6.0-7.0% for 2020. The trend of investment activity next year will be strongly positive, unless the health crisis resurges again. Even in that case, investment will be propped up with resources from the EU funds. In the event of no further pandemic flare-up, investments are projected to recover by 15-20%, while otherwise they will fall again, relatively mildly, by 5% to 10%.

The latest trends in short-term indicators, presented earlier, highlight the decline in international tourism flows in the third quarter of more than 55%, while the contraction in related revenues is notably larger. As the health crisis has resurged significantly in September-October, these trends are not expected to change until the end of the third and final quarter of 2020 and will be the most decisive of the change in total exports in 2020. The decline in the provision of international transport services is weaker, but remains high. That said, following the widespread contraction in activity in both sectors this year, resulting in them ranked among those most affected by the pandemic, no respective development is foreseen in 2021, even if the health crisis re-ignites, in which case their decline will be relatively weaker. However, as the events of 2020 have created a high degree of concern about health developments, even if there is no new outbreak, tourism demand will manifest later and more gradually than in the past. In addition, some of the most vulnerable groups in the population, such as the elderly, who have an increased share in the international arrivals to Greece, will be wary of traveling. Demand for touris may strengthen near the summer, when the possibility of pandemic resurgence will be small, while it is quite possible that pharmaceuticals will then be available to tackle the virus.

Table 2.10

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

	2018	2019	2020	2021
Annual Percentage Change				
Gross Domestic Product	1.9	1.9	-9.0*	6.0*
Private Consumption	1.1	0.8	-9.0	7.5
Public Consumption	-2.5	2.1	4.9	-2.4
Gross Fixed Capital Formation	-12.2	4.7	-30	33.0

Exports of Goods and Services	8.7	4.8	-21.4	17.9
Imports of Goods and Services	4.2	2.5	-18.0	15.8
Employment	1.7	2.0	-3.7	3.8
Compensation of Employees per capita	1.3	1.1	-3.6	3.2
Real Unit Labour Cost	0.5	1.7	3.0	-1.3
Harmonised Index of Consumer Prices	0.8	0.5	-0.5*	0.5*
Contribution to real GDP growth				
Final Domestic Demand	-1.3	1.5	-8.7	7.6
Net Exports	1.5	0.8	-1.3	0.5
Inventories	1.8	-0.4	0.2	-0.2
As a percentage of GDP				
General Government Balance	1.0	1.5	-6.4	-2.1
Current Account Balance	-1.1	-0.3	0.1	-1.2
General Government Gross Debt	181.2	176.6	196.4	182.6
In percentage terms				
Unemployment (% of the labour force)	19.3	17.3	19.9	16.8

* Source: European Economic Forecast, summer 2020, European Commission, July 2020.

Source: European Economic Forecast, spring 2020, European Commission, May 2020

The exports of goods, especially those excluding fuel - ships, whose decline within the pandemic is milder compared to the global trade in goods, continue to moderate the impact of the exports of services on total exports. The revision of the recession forecasts for 2020 for the Euro area (IMF: 8.3%, from 10.2%),[15] main export destination region for Greek goods, explains part of this trend. That said, the Eurozone growth forecast for 2021 deteriorated (IMF: 5.2% instead of 6.0%), highlighting the significant challenges facing the European economy, many of which were present before the health crisis. As long as its intensity remains strong, in Europe and beyond, it will affect international trade and Greek exports. Under these conditions, if there is no escalation of the pandemic, in 2020 and 2021, exports will decline by about 23-25% and will rise by 16-20% in 2021. In the event of a rapid deterioration in the health conditions in 2021, the exports will continue to decline, rather mildly after their strong fall in 2020, at a rate of 7.0% to 11%.

As mentioned in previous IOBE bulletins on the Greek economy, the contraction in imports will be determined primarily by the decline of the domestic demand for products and the exports of goods that have a relatively high share of imported raw materials. Given this, the resilience of the Greek exports of goods in the second quarter is a key reason for the milder-than-expected decline in the imports of goods. In addition, the low share of travel payments in total imports, compared to total imports, prevents an extensive reduction of total imports by a large contraction of travel payments. This relationship was reflected in the course of imports and their components during the second quarter of 2020. As the contraction of private consumption and investment are anticipated in this bulletin to ease in the second half of 2020, the decline in imports of goods will weaken. In addition, if the health conditions continue to be mildly strained in 2021, import demand will strengthen, in proportion to the growth of private consumption, investment and exports. That said, a strong second phase of the health crisis abroad will affect imports through fewer exports and investment. If the health crisis intensifies internationally and domestically, additional pressure will be exerted on imports. But both effects will not be stronger than in 2020.

Table 2.11

[15] Went: World Economic Outlook, October 2020, IMF and World Economic Outlook Update, July 2020, IMF

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

	MinFin		EU		IOBE			IMF		OECD	
					Baseline		Alternative				
	'20	'21	'20	'21	2020	2021	2021	'20	'21	'20	'21
GDP	-8.2	7.5	-9.0*	+6.0*	-8.0	+4.0 to +4.5	-2.5 to -4.0	-9.5	4.1	-9.8	2.3
Private Consumption	-6.0	5.8	-9.0	7.5	-6.1 to –6.5	+3.5 to +4.5	-2.5 to -4.5	:	:	-8.4	3.1
Public Consumption	1.7	-1.8	4.9	-2.4	+2 to +3	-5.5 to -7.0	-2 to -4	:	:	1.9	-0.4
Gross Fixed Capital Formation	-10.9	30.4	-30.0	33.0	-6 to -7	+15 to +20	-5 to -10	:	:	-17.3	11.0
Exports	-24.8	22.2	-21.4	17.9	-23 to -25	+16 to +20	-7 to -11	:	:	-13.6	-1.3
Imports	-15.1	18.0	-18.0	15.8	-15 to -17	+15	-10 to -12	:	:	-10.8	0.5
Harmonised Index of Consumer Prices (%)	-0.6	0.6	-0.5*	0.5*	-1.2 to –1.4	+1.7	-0.4	-0.6	-0.7	0.1	0.0
Unemployment (% of labour force)	18.6	16.5	19.9	16.8	18.0	17.0	19.5-20.5	19.9	18.3	19.6	20.4
General Government Balance (% GDP)	-8.6	-3.7	-6.4	-2.1	:	:	:	-9.0	-3.0	-8.8	-6.6
Current Account Balance (% GDP)	:	:	0.1	-1.2	:	:	:	-7.7	-4.5	-0.6	-0.4

*Source: European Economic Forecast, summer 2020, European Commission, July 2020

Sources: Draft Budgetary Plan, Ministry of Finance, October 2020 – European Economic Forecast, Spring 2020, European Commission, May 2020 - The Greek Economy 03/20, IOBE, October 2020 – World Economic Outlook, IMF, October 2020 - Fiscal Monitor, IMF, October 2020 - Economic Outlook 107 OECD, June 2020

The forecasts for the change of GDP result from the estimation of the changes in the GDP components in 2020 and 2021 under the two scenarios of macroeconomic developments. On this basis, the recession in the Greek economy in 2020 will reach around 8.0%, slightly higher than in previous IOBE forecasts for the Greek economy (7.5%). In 2021, unless health crisis escalates sharply, a significant recovery is expected of about 4.0-4.5%. However, if the health crisis largely repeats its pattern from 2020, the GDP will continue to decline, at a rate of 2.5% to 4.0%.

The March-April lockdown measures had strong negative effects on employment in many sectors, not only in that period, but also after that, primarily because the lockdown acted as a deterrent to the reopening of companies, in sectors such as Tourism, Food Services, Arts-Entertainment and Retail Trade, i.e. in services to final consumers. As mentioned in the previous subsection, the increase in unemployment was restrained by job protection measures, but also by the fact that, according to EL.STAT., a large proportion of those who lost their jobs were discouraged by the current circumstances to look for another job and were not recorded as part of the active population.

From the indications of activity in the third quarter, it is now considered probable that the strong decline in employment will continue in Tourism during the strongest period of activity of the sector. The significant reduction of jobs in Construction in the first half of the year will carry over to the second half of 2020, due to strong pressures on construction activity. By contrast, the decline in production in Manufacturing weakened significantly during the summer, due to the favourable trend in exports except fuel-ships (-2.5% in July), easing the job pressures in the sector. Retail Trade continues to decline mildly during this period, almost by 3.0% in terms of volume. Therefore, current developments in employment vary across sectors.

As with all macroeconomic variables, the evolution of the new coronavirus pandemic will have a decisive impact on the labour market and unemployment in the final quarter of 2020 and in 2021. After all, in Greece, as in the vast majority of European countries, it has already entered its second wave. Therefore, it is likely to escalate during the winter. In this case, the downward pressures on employment will resurge, primarily in sectors affected during the previous phase of the pandemic. Of course, in these circumstances, emergency job support measures will be taken again, mitigating their reduction. A technical effect will come from the fact that, due to the particularly unfavourable labour market conditions, a significant part of those who lose their employment are discouraged from seeking a new job, at least in the short term. The reverse of the above developments will take place if the health crisis does not intensify.

In any case, the current unfavourable conditions have created specific needs for the provision of services, e.g. health care, internet services, courier services, which can maintain or even increase jobs in the respective sectors in 2020. Indicatively, 6.2k health staff were recruited in the public sector, the vast majority of which coming from the announced recruitment of almost 7.3k permanent staff in the next period. If there is a new outbreak of the pandemic, the recovery of demand for these services will stimulate their employment.

In any case, the public sector will boost domestic employment next year, at least through recruitments in the health system and the OAED employment programmes, in particular the one in local government. The start of disbursement of funds from the Next Generation EU and for the 2021-2027 programming period will be a key factor in stimulating investment.

Then, under the baseline macroeconomic scenario, the unemployment rate is expected to reach 18.0% in 2020 and decline slightly next year (17.0%). In the scenario of a new strong outbreak of COVID-19, in many countries, especially the Eurozone, and in Greece, unemployment will increase further and faster in 2021 than in 2020 (19.5% - 20.5%).

With regard to price-related developments, restrictions on production activity, as well as on passenger cross-border transport, due to public health protection measures, have had a sharp negative impact since March on the demand for petroleum and other energy goods. The gradual reduction of petroleum production by OPEC and Russia since April and over a period of two years, has partially eased the decline in its price, by about 60%. If the health crisis resurges strongly again (alternative scenario), the demand for fuel and thus prices will weaken further. That said, these trends will be mitigated and may be eliminated if the second wave continues beyond March 2021, as the initial phase of the pandemic in 2020 put very strong pressure on oil prices a year earlier. In the event that the above developments do not occur (basic macroeconomic forecast scenario), no significant recovery of travel and economic activity is expected until the uncertainty for a possible resurgence of the health crisis subsides. Taking this into account, the price of petroleum is expected to rise by about 10.0% or 19.5% and to have milder or stronger inflationary effects.

In terms of the effects that will be exerted on prices by domestic factors besides the pandemic, the extension of the completion of the temporary measures to reduce VAT (transport, tourism packages, soft drinks) from October 31 to April 30, 2021, will extend their deflationary effect. The retroactive payment of €1.4 billion to retirees, as well as the temporary tax relief that will take effect from 1/1/2021, will stimulate household demand regardless of other developments.

The dynamics of domestic demand in the rest of 2020 and in 2021 will depend on the impact of the new coronavirus pandemic on disposable household income. The significant decline in economic activity this year is its most decisive factor. The expected development of disposable income next year is reflected in the two forecasts of change in private consumption under the alternative macroeconomic scenarios. Clearly, in the face of a new, strong escalation of the health crisis in 2021, the increase in economic activity, investment and exports will significantly boost disposable income and demand. The reverse effects will be exerted on income and demand in the opposite case.

Taking into account the expected trends in the key components of the domestic Consumer Price Index, as well as the fact that in January - August 2020 there was 0.8% inflation, it is predicted that the Consumer Price Index will decline in 2020 by 1.2% to 1.4% compared to 2019. In 2021, under the basic scenario of macroeconomic developments, the Consumer Price Index is expected to strengthen by 1.7%, due to stronger demand and weakening of the deflationary effect of energy prices. In case of resurgence of the health crisis, we forecast a deflation of 0.4%.

3.2 Developments and Prospects in Key Sectors of the Economy

- Decrease in industrial production in the first eight months of 2020 by 3.9%, against an increase of 0.5% in 2019. Decrease of 7.4% in the second quarter, against an increase of 2.4% a year earlier
- Strong decline in Construction in the second quarter (26.6%) against an increase of 7.0% in the same period of 2019
- Decrease of 4.1% in the seven months of 2020 in Retail trade against a weaker decline by -0.9% in 2019
- Turnover growth in seven of the thirteen branches of the Services in the first half of 2020

Industry

In the second quarter of 2020, the industrial production index fell by 7.4%, mainly due to measures to restrict the spread of the COVID-19 pandemic. In the same period of 2019, the index had increased by 2.3%. In the first eight months of 2020, industrial production fell by 3.9% against an increase of 0.5% in the same period of 2019.

The prices of industrial products during the same period of 2020 fell by 7.0%, against an increase of 0.4% in 2019. Prices declined stronger for exported products (-15.2%, from -0.6% in 2019) than for the goods sold in the Greek market (-4.3%, from +0.6% a year earlier). Respectively, the industry turnover fell by 14.5%, when in the corresponding period of 2019 it had increased by 0.2%.

In the Eurozone, in the second quarter, industrial production fell sharply, at a rate of 20.7%, when in the same quarter of 2019 it had decreased marginally, by less than 1.0%. Note that since the fourth quarter of 2018, industrial production in the Eurozone has been declining, which accelerated shortly before the outbreak of the pandemic. In the first seven months of 2020, production in the Eurozone fell by 12.1%, against contraction of 1.1% in 2019.

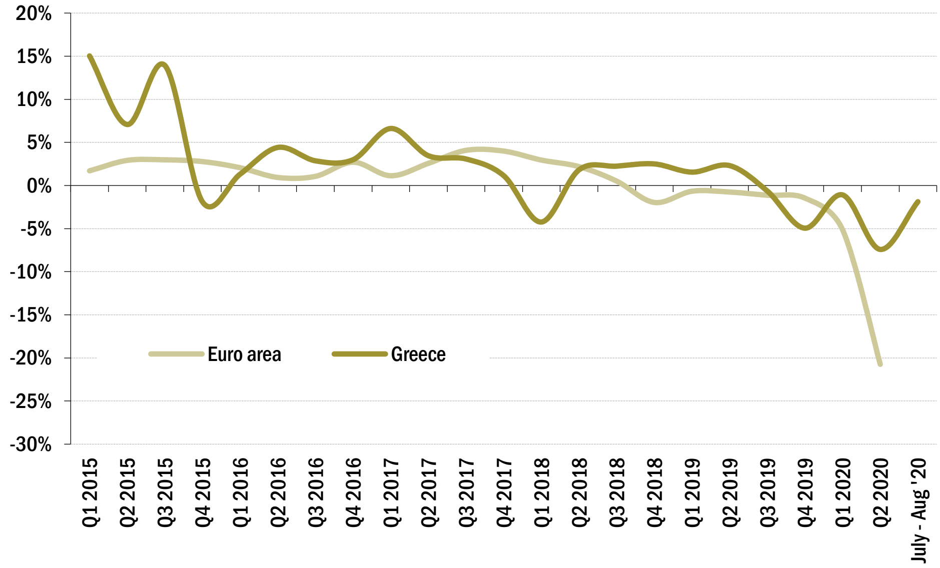
At the level of key sectors of Greek industry in January - August 2020, growth was recorded only in Water Supply (+0.8%, from +1.2% a year earlier). In the other sectors, output declined by 9.7% in Electricity Supply (after -1.0% in 2019), by 4.0% in Mining - Quarrying, albeit less than in 2019 (-8.8%) and by -2.5% in Manufacturing, against +1.3% in the same period of 2019.

Among the Mining sectors, production increased only in Mining of Metal Ores (+34.9%, against -20.0%). The production of Mining of Coal and Lignite - Extraction of Crude Petroleum and Natural Gas fell to only a quarter of its level from the previous year (-78.3%), following a significant decrease of 18.7% a year earlier. There was a also drop in production in Other Mining and Quarrying (-12.2%, against -2.0%).

In Manufacturing, production increased in 8 of its 24 branches. Among the branches with higher significance for the Greek economy, output increased in Basic Pharmaceuticals (+13.6%, after +22.8% a year earlier). By contrast, Basic Metals production was down by 6.4%, after output losses of 2.0% in 2019. Food production shrank by 2.0%, against an increase of 0.6% in the corresponding period of 2019.

Figure 2.11

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



Industrial production fell in Greece in Jan.-Aug. 2020 by 3.9%. Decrease of 7.4% in the second quarter. Strong 20.7% drop in production in the Euro area in the second quarter of 2020.

Sources: ELSTAT, Eurostat

In the remaining branches of Manufacturing, the largest decline was recorded in Leather and Related Products (-38.7%, after a decrease of 4.0% a year ago), in Wearing Apparel (-30.9% from -7.0%) and in Beverages (-12.4%. against -0.6%). Next came Wood and Cork Products (-10.9%, against +1.5% a year earlier), Machinery and Equipment (-9.5 from + 4.7%), Furniture (-9.3% from -0.6%) and Electrical Equipment (-9.3% from +2.2%). Output strengthened in Motor Vehicles (+30.9%, against -5.1%), Paper Products (+4.1%, against -2.4%), Tobacco Products (+2.9%, against an increase of 26.6%) and Computer, Electronic and Optical Products (+3.7%, against +27.8%).

During the same period, output declined across all five major industrial product groups. In particular, the production of durable consumer goods decreased by 11.2% (following a decrease of 1.9% a year earlier). Energy production shrank by 6.9%, against a milder decline of 2.8% a year earlier. Production in Intermediate goods was lower by 3.4%, following a decrease of 1.2% last year, while in Non-durable consumer goods output decreased by 1.3%, against an increase of 5.0% in the corresponding period of 2019. The production of capital goods fell by 1.0%, against an increase of 5.4% a year earlier.

Construction

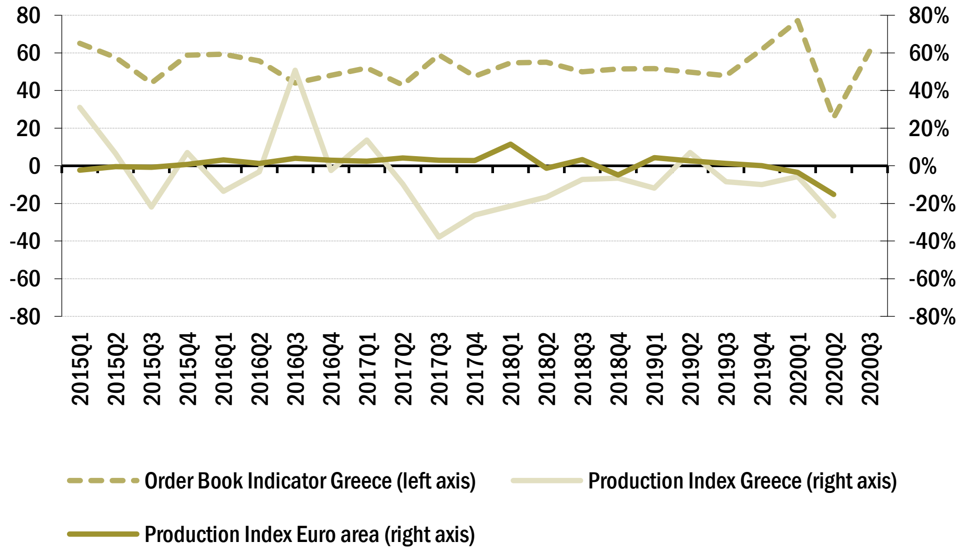
During the second quarter of 2020 the production index in the Construction sector decreased by 26.6%, against growth by 7.0% in the same period of 2019. In the constituent activities, the Construction of buildings decreased by 18.6% compared to 2019, when it had increased by 5.7%. The production index of Civil Engineering decreased by 31.3%, against growth by 7.9% in the second quarter of 2019.

Based on the monthly data of construction activity, the number of permits increased by 15.6% in the first seven months of 2020, compared to a weaker growth by 5.5% in 2019. The volume of new buildings increased by 19.0%, against a decline by 0.3% in the previous year. A similar increase was recorded in surface of new buildings (+ 20.8%, against -1.3%). Note that the above increase in construction activity took place in all months during that period, except April and May 2020. In the Euro area, the production index in Construction fell by 15.2% over the same period, against growth by 2.7% in the same period of 2019.

Figure 2.12

Production Index in Construction and Building Activity Index

Decline in the production index in Greece in the second quarter of 2020 by 26.6%. Fall of 15.2% in Construction in the Eurozone



Source: ELSTAT

Retail Trade

The revised volume index[16] in Retail Trade declined in the seven months from January to July 2020 by 4.1%, against a weaker decline by 0.9% in the respective period of 2019. The decline is due to the course of the index from March onwards, a period in which it was decreasing by close to 3.0%, while in April it fell by 24.6%. As a result, in the second quarter of 2020 the index fell by 10.4%, against a marginal decline of 0.8% in 2019.

Over the same period, the volume of activity increased in just 2 of the 8 sub-sectors. In particular, turnover increased by 12.3% in Pharmaceuticals - Cosmetics, against a 4.5% contraction a year ago, and by 5.6% in Supermarkets, against a marginal reduction of 0.2% in 2019.

By contrast, the largest decline was recorded in Clothing - Footwear (-19.1%, against -2.7% in 2019), Food-Beverages-Tobacco (-13.1%, from -4.2%), Fuels -Lubricants (-11.9%, against 1.0%) and Department Stores (-11.7%, compared to -16.9%). Weaker contraction was recorded in Books - Stationery (-3.9%, against growth by 10.9%) and in Furniture - Household Equipment (-2.2%, against 4.5%).

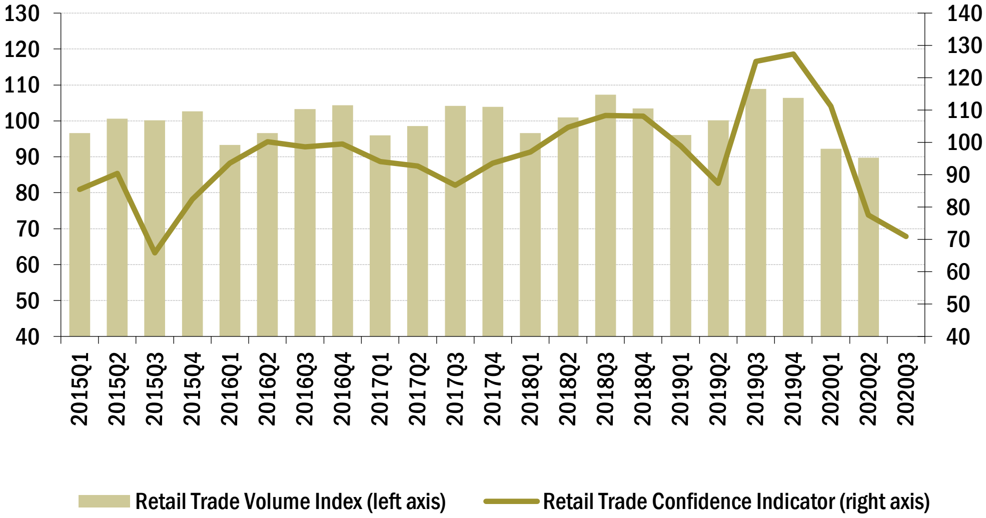
Expectations in Retail Trade declined year on year in January - September 2020, as reflected in the leading indicators of the IOBE Business and Consumer Surveys. The relevant index decreased by 16.2 points, against an increase of 3 points in the same period of 2019.

[16] New base year 2015

At branch level, the expectations deteriorated in the first nine months of 2020 in Vehicles-Spare Parts (-38.2 points, against a decrease of 2.3 points in the previous year), in Textiles-Clothing-Footwear (-22.1 points, following a fall of 12.7 points), in Household Equipment (-14.4 points, against -19.5 points) and in Department Stores (-3.5 points, against an increase of 10.8 points in 2019). By contrast, expectations strengthened in Food - Beverages - Tobacco (+6.7 points, against +16.7 points in the previous year), probably due to supermarkets.

Figure 2.13

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



Decline of 4.1% in the first eight months of 2020 in Retail Trade. Weak sales expectations for the following quarter.

Source: IOBE

Especially in Cars – Vehicles, the relevant index stood at 86.3 points in the third quarter of 2020, lower year on year by 33.4%, compared to a decrease of 53% in the second quarter. Thus, after the strong decline of expectations in the second quarter due to the effects of the pandemic, there is a gradual normalisation. Comparing the performance of the recent quarter with the second quarter of 2020, the factors that led to the halt of the decline include the balance of orders and upcoming sales, where the very negative estimates recorded during the lockdown period were significantly corrected. In particular, the current sales balance stood at -67 points, compared with +44 points in 2019, indicative of the market situation. About 75% of the businesses estimated sales to be lower in the preceding quarter, but with a significant improvement in September. There has been no significant change in stocks. The balance of orders deteriorated to 11 points, compared with 26 points in the previous year, while in the second quarter of 2020 it stood at -59 points, due to negative sentiment and uncertainty in the market. In September, the balance became significantly positive. A similar development is reflected in sales expectations, with the balance falling to 13 points, compared with 37 points in 2019 and -43 in the second quarter of 2020, with about 1 in 3 companies expecting growth of sales. Finally, on the issue of employment, almost all enterprises hold expectations of no change.

Table 2.12

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)

	Jan. - July 2018	Jan. - July 2019	Jan. - July 2020	Change 2018/2017	Change 2019/2018
Overall Index	100.4	99.5	95.4	-0.9%	-4.1%
Overall Index (excluding automotive fuels and lubricants)	101.7	100.3	98.5	-1.4%	-1.8%
Store Categories					
Supermarkets	104.0	103.8	109.6	-0.2%	5.6%
Department Stores	108.9	90.5	79.9	-16.9%	-11.7%
Automotive Fuels	92.3	93.2	82.0	1.0%	-11.9%
Food – Drink – Tobacco	88.0	84.4	73.3	-4.2%	-13.1%
Pharmaceuticals – Cosmetics	101.6	97.0	108.9	-4.5%	12.3%
Clothing – Footwear	110.6	107.6	87.0	-2.7%	-19.1%
Furniture – Electric Equipment – H. Appliances	104.8	109.6	107.2	4.5%	-2.2%
Books – Stationary	104.7	116.1	111.6	10.9%	-3.9%

Source: ELSTAT

Table 2.13

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

	Jan.-Sep. 2018	Jan.-Sep. 2019	Jan.-Sep. 2020	% Change 2019/2018	% Change 2020/2019
Food-Drinks-Tobacco	83.2	99.9	106.6	20.1%	6.7%
Textiles - Clothing – Footwear	96.5	83.8	61.7	-13.2%	-26.4%
Household Appliances	95.9	76.4	62.0	-20.3%	-18.8%
Vehicles-Spare Parts	120.9	118.6	80.4	-1.9%	-32.2%
Department Stores	95.8	106.6	103.1	11.3%	-3.3%
Total Retail Trade	99.8	102.8	86.6	3.0%	-15.8%

Source: IOBE

Wholesale Trade

The revised turnover index in Wholesale Trade fell by 21.0% in the second quarter of 2020, when in the same period of 2019 its contraction did not exceed 1.0%. In the first half of 2020 the index fell by 12.0%, compared with a milder decrease of 1.1% in 2019.

Services

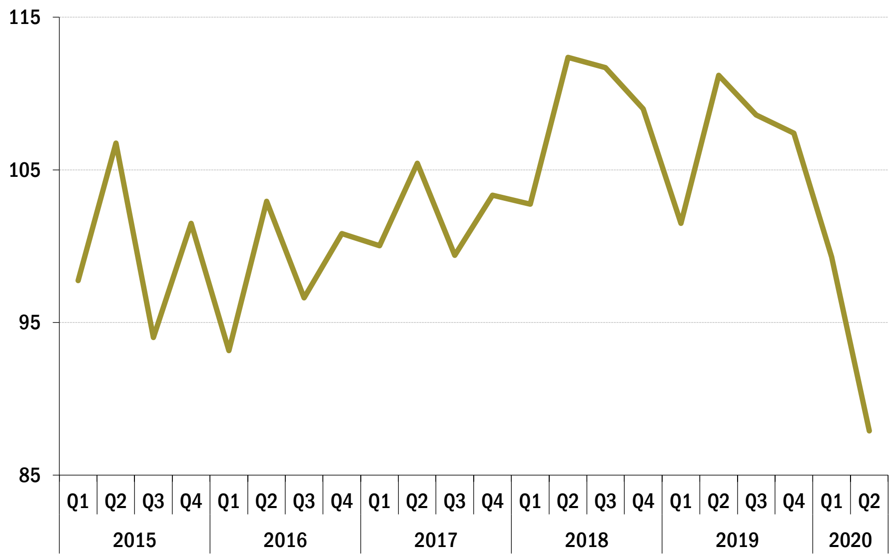
In the first half of 2020 turnover increased year on year in seven of the thirteen branches of Services.

The largest decline was recorded in Advertising - Market Research (-17.2%, against an increase of 6.1% in 2019), Other Professional, Scientific and Technical Activities (-16.5%, against -10, 6%) and Publishing Activities (-12.7%, against +16.1% in 2020). Next came the services of Office Administrative Activities (-10.9%, against -0.8%), Security - Investigation Activities (-7.0%, against -5.4% in 2019). The cumulative index for Legal - Accounting Activities and Management Consulting Services fell by 2.8%, offsetting its rise of 2.6% in the previous year.

By contrast, year-on-year growth was recorded in Services to Buildings (+15.0%, against -7.7%), Computer Programming (+4.9%, after an increase of 3.3%) and Information Service Activities (+3.1%, against a sharper increase of 8.4% a year earlier).

Figure 2.14

Turnover Index in Wholesale Trade



Contraction of Wholesale Trade turnover in the first half of 2020 by 12.0% compared to 2019.

Source: ELSTAT

Table 2.14

Turnover Indexes (2010=100)

Services branch	% Change Q1 2019	% Change Q1 2020
Publishing activities	16.1%	-12.7%
Architectural and engineering activities	0.6%	0.4%
Information service activities	8.4%	3.1%
Security and investigation activities	-5.4%	-7.0%
Telecommunications	1.6%	-1.8%
Advertising and market research	6.1%	-17.2%
Postal and courier activities	8.9%	-1.5%
Computer programming, consultancy and related activities	3.3%	4.9%
Other professional, scientific and technical activities	-10.6%	-16.5%
Legal, accounting and management consultancy activities	2.6%	-2.8%
Office administrative, office support and other business support activities	-0.8%	-10.9%
Employment activities	20.9%	1.2%

Source: ELSTAT

According to the IOBE's leading economic indicators of business and consumer surveys for the first 9 months of 2020, expectations deteriorated in all four key branches of Services, while the overall indicator fell by 16.3 points, after a decrease of 2.2 points in the first nine months of 2019.

As expected due to the health crisis, the indicator fell sharply, by 30.4 points in Hotels - Restaurants, after a decline of 17.9 points in 2019, followed by Business Services (-19,3 points, against similar growth by 19.4 points in 2019) and Financial Intermediaries, which weakened by 7.2 points against a decrease of 0.6 points in 2019. IT services lost about 5.5 points against an increase of 10.1 points in 2019.

Table 2.15

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

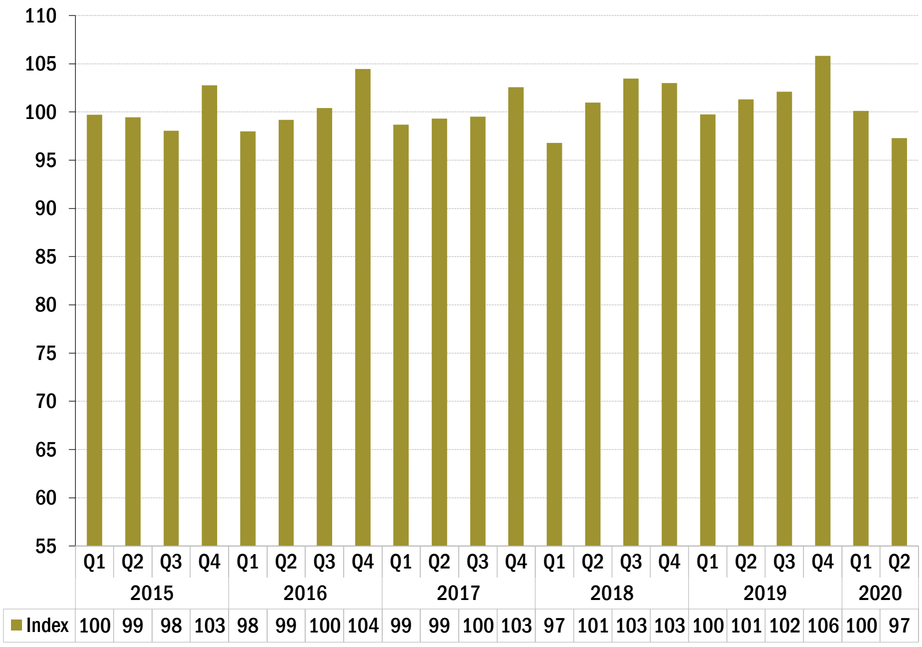
	Q1 2018	Q1 2019	Q1 2020	Δ% '19-'18	Δ% '20-'19	Change 2018/2017	Change 2019/2018
Hotels – Restaurants – Travel Agencies	111.4	93.5	63.1	-16.1%	-32.5%	-17.9	-30.4
Other Business Services	66.2	85.6	66.3	29.3%	-22.6%	19.4	-19.3
Financial Intermediaries	90.2	89.6	82.4	-0.7%	-8.0%	-0.6	-7.2
Information Services	69.3	79.4	73.9	14.6%	-6.9%	10.1	-5.5
Total Services	91.4	89.2	72.9	-2.4%	-18.3%	-2.2	-16.3

Source: IOBE

Figure 2.15

Turnover Index in Telecommunications (branch 61)

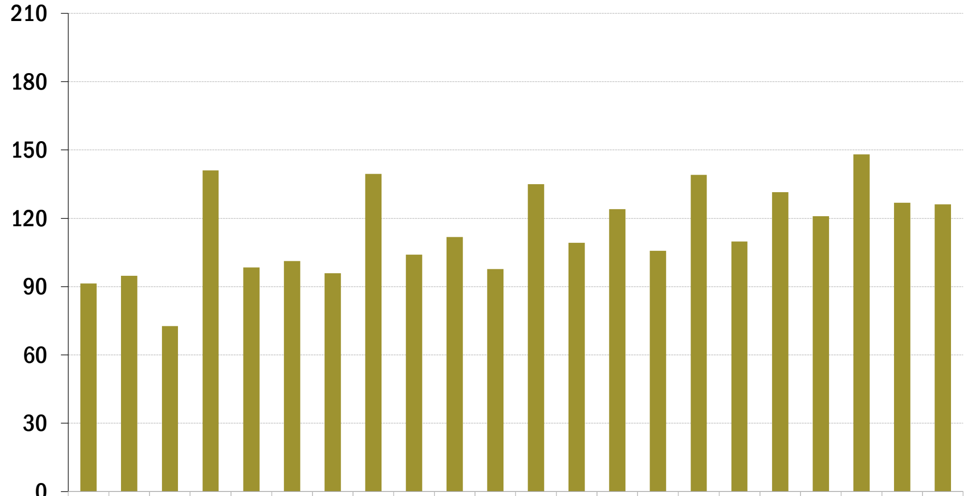
Contraction of 1.8% in Telecommunications in the first half of 2020, against growth of 1.6% a year earlier



Source: ELSTAT

Figure 2.16

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



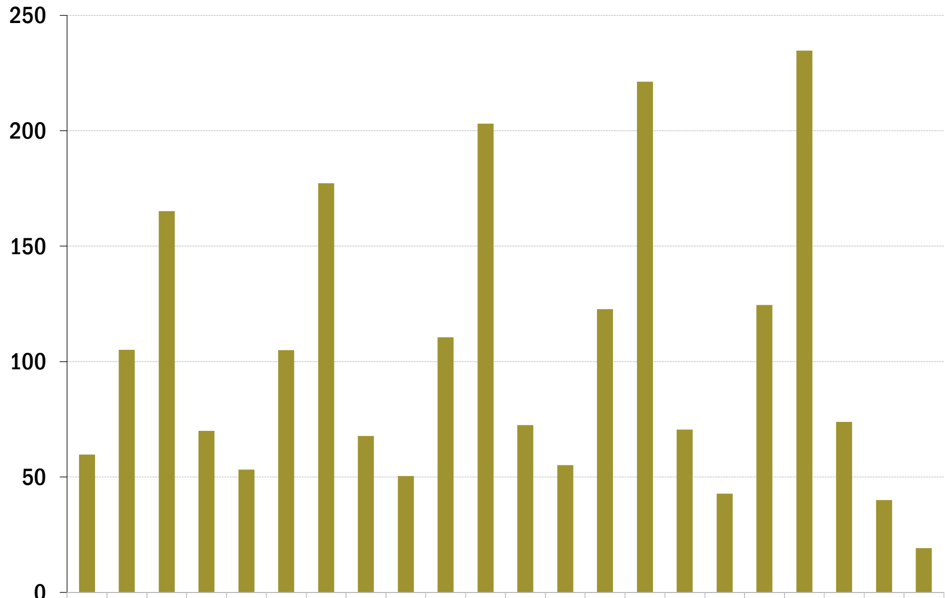
	2015				2016				2017				2018				2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Index	91	95	73	141	98	101	96	139	104	112	98	135	109	124	106	139	110	132	121	148	127	126

Activity growth of 4.9% in IT Services, after a milder increase of 3.3% a year earlier.

Source: ELSTAT

Figure 2.17

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



	2015				2016				2017				2018				2019				2020	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Index	59,	105	165	70,	53,	105	177	67,	50,	110	203	72,	55,	122	221	70,	42,	124	234	73,	40	19

Vertical drop of activity in tourism. Contraction by 64.6% in the first half, after a 6.0% fall a year earlier. A drop of 84.6% in the second quarter.

Source: ELSTAT

3.3 Export Performance of the Greek Economy

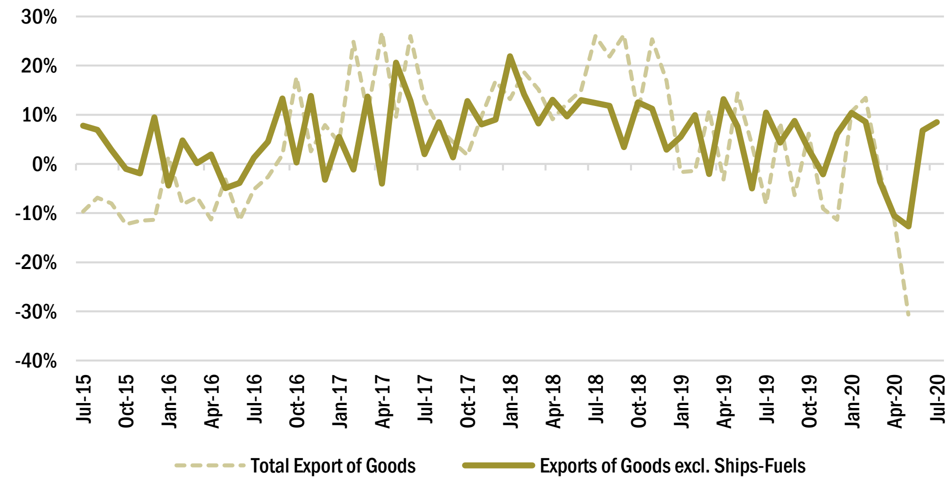
- Decrease in the exports of goods in the first seven months of 2020, at a rate of 11.8% and -by contrast - a slight increase in exports excluding petroleum products (+0.9%).
- Decrease in the trade deficit by 19.2% year on year, to €2.5 billion.
- Among the product categories, the largest decline was recorded in the exports of Fuels, Raw Materials and Miscellaneous Manufactured Articles
- Contraction of demand mainly from the countries of the Middle East and North Africa (-37.7% or -€1.1 billion) and the EU (-1.8% or -€192.4 million).

Exports of goods stood at €17.7 billion in the first seven months of 2020, compared to €20.0 billion in the corresponding period of 2019, recording a decrease of 11.8%. Excluding exports of fuels and ship, other exports increased marginally, by 0.9%, totalling €13.8 billion, from €13.6 billion in the first seven months of 2019 (Figure 3.11). Imports decreased by 14.7% in January-July 2020 to €28.1 billion, from €32.9 billion in the same period a year earlier. As a result of the above trends in the key components of the external balance, the trade deficit was €2.5 billion lower than in the previous year (-19.2%), at €10.4 billion, from €12.9 billion. Subsequently, the value of exports of goods of the Greek economy in the first seven months of 2020 corresponded to 62.9% of its imports, against 60.9% a year earlier.

Figure 2.18

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

Exports excluding petroleum products – ships totalled €13.7 billion in January-July 2020, 0.9% higher than a year earlier.



Source: Eurostat, Processing: IOBE

In greater detail, the exports of Agricultural Products increased by 12.0% in January-July 2020, to €3.9 billion, from €3.5 billion in the same period a year earlier, while fuel exports fell by 40.2%, mainly as a result of the fall in oil prices, to reach €3.9 billion, from €6.5 billion in the previous year (Table 3.8). The exports of the two specific categories correspond to 43.9% of domestic exports this year, from 49.6% a year earlier. The increase in Agricultural Products came mainly from the 37.9% increase in demand for Animal and Vegetable Oils, Fats and Waxes, which totalled €337.3 million, from €244.6 million in 2019; as a result, their share in total exports increased from 1.2% in 2019 to 1.9% in 2020. In the Food - Live Animals category, which represents approximately 79.1% of Agricultural

Products, exports increased by 10.7% to €3.1 billion. In Beverages and Tobacco Products, which represent 12.2% of the exports of Agricultural Products, demand totalled €477.6 million in January-July 2020, 6.3% higher compared to the same period in 2019 (€449.1 million).

The exports of Manufactured Goods were virtually unchanged in January-July 2020 (+0.1%), with their value reaching €8.96 billion, from €8.95 billion in 2020. This development came mainly from the decline in international demand for Miscellaneous Manufactured Articles, by 17.4%, with their value reaching €1.3 billion. There was also a decrease in exports of Manufactured goods classified chiefly by material, by 8.4% (€ 2.8 billion from € 3.1 billion). By contrast, exports of Chemicals and related products increased significantly, by 22.9%, from €2.4 billion to €2.9 billion, while the exports of Machinery - Transport Equipment steadied at around €1.82 billion (+0.3%).

Finally, exports of Raw Materials decreased by 20.1%, falling to €679.6 million from €850.2 million in the previous year, while the exports of Commodities and transactions not classified elsewhere also declined, by about 8.9%, from €302.3 million in the first seven months of 2019 to €275.3 million in the same period of 2020.

Table 2.16

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

Product	Value		% Change	% Share	
	2020*	2019*	20*/19*	2020*	2019*
AGRICULTURAL PRODUCTS	3,903.0	3,483.7	12.0%	22.1%	17.4%
Food and Live Animals	3,088.0	2,790.0	10.7%	17.5%	13.9%
Beverages and Tobacco	477.6	449.1	6.3%	2.7%	2.2%
Animal and vegetable oils and fats	337.3	244.6	37.9%	1.9%	1.2%
RAW MATERIALS	679.6	850.2	-20.1%	3.8%	4.2%
Non-edible Raw Materials excluding Fuels	679.6	850.2	-20.1%	3.8%	4.2%
FUELS	3,863.4	6,459.4	-40.2%	21.8%	32.2%
Mineral fuels, lubricants, etc	3,863.4	6,459.4	-40.2%	21.8%	32.2%
INDUSTRIAL PRODUCTS	8,961.0	8,951.2	0.1%	50.7%	44.7%
Chemicals and related products	2,950.5	2,401.7	22.9%	16.7%	12.0%
Manufactured goods classified chiefly by raw material	2,850.2	3,111.3	-8.4%	16.1%	15.5%
Machinery and transport equipment	1,818.5	1,813.9	0.3%	10.3%	9.0%
Miscellaneous manufactured articles	1,341.8	1,624.3	-17.4%	7.6%	8.1%
OTHER	275.3	302.3	-8.9%	1.6%	1.5%
Commodities and transactions not classified by category	275.3	302.3	-8.9%	1.6%	1.5%
TOTAL EXPORTS	17,682.3	20,046.8	-11.8%	100.0%	100.0%

* Provisional Data

Source: Eurostat

In terms of export trends by geographical area, exports declined to the Eurozone countries, by 2.9%, approaching €7.74 billion in 2020 from €7.97 billion in the same period of 2019; as a result 43.8% of the Greek exports of goods were directed to these countries in 2020. Similarly, exports to the EU-27 decreased by 1.8% or €192.4 million, reaching €10.3 billion, from €10.4 billion a year earlier. Among the Eurozone countries that absorb the largest share of Greek exports, exports expanded to France, by 42.7%, from €709.4 million to €1.0 billion, and to Germany by 10.1%, from €1.3 billion to €1.4 billion. Exports to Greece's major trading partner, Italy, decreased by 12.1%, totalling €1.9 billion.

Among the other countries of the European Union, where total exports increased by 1.4% or €35.0 million, reaching €2.5 billion, Bulgaria remains the main export destination, despite a year-on-year decrease in product outflows by 5.6% or €53.8 million. Positive developments were recorded to two other countries in this group, which absorb a significant share of Greek exports, Romania and Poland, where exports increased by 6.9% or €41.3 million, to €642.7 million, and by 13.8% or €41.0 million, to €337.2 million respectively.

In the rest of Europe, the demand for Greek exports decreased by 18.1%, from €3.6 billion in 2019 to € 3.0 billion in 2020. The contraction took place mainly in the Greek exports to Turkey, by 26.9%, from €1.1 billion to €788 million, and secondarily to the United Kingdom, by 14.1%, falling from €716.1 million in January - June 2019 to € 615.0 million in the same period of 2020.

Exports to North American countries fell by 18.7%, from €1.0 billion in 2019 to €832.4 million a year later, mainly due to the decline in exports to the US by 20.5% , from €833.3 million in the previous year to €662.3 million in 2020, and to Mexico by 18.2% or €18.9 million. Exports to Canada also slightly decreased (-1.3%) .

Table 2.17

Exports by destination, January - July (million €)*

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2020	2019	20/19
EU (27)	10,251.7	10,444.1	-1.8%
Euro Area	7,744.0	7,971.3	-2.9%
G7	5,925.7	5,909.1	0.3%
North America	832.4	1,023.4	-18.7%
BRICS	642.6	863.8	-25.6%
Middle East & North Africa	1,825.9	2,930.4	-37.7%
Oceania	129.3	120.0	7.8%
Central-Latin America	126.8	260.4	-51.3%
Asia	1,189.3	1,183.4	0.5%
OPEC countries	259.0	572.4	-54.7%

* Provisional Data.
Source: Eurostat

Exports to the Middle East and North Africa fell sharply, by 37.7%, to €1.8 billion from €2.9 billion, mainly due to lower exports to Egypt (-43.3 %), where exports in the seven months of 2020 totalled €286.7 million, compared to €505.9 billion a year earlier, but also to Lebanon (-47.7%), down by €332.2 million in 2020 compared to 2019 (Figure 3.11). Similarly, in another major export destination in the Middle East, Saudi Arabia, exports fell sharply, by 62.9%, to €188.9 million, while to the United Arab Emirates they fell by 8.4%, to €129.0 million.

The flow of Greek exports to Oceania increased by 7.8%, with their value reaching €129.3 million in January-July of 2020 from €120.0 million a year earlier. The rise came from exports to Australia, which rose by 11.0% to €117.7 million in 2020. By contrast, exports to New Zealand declined (-17.1 %).

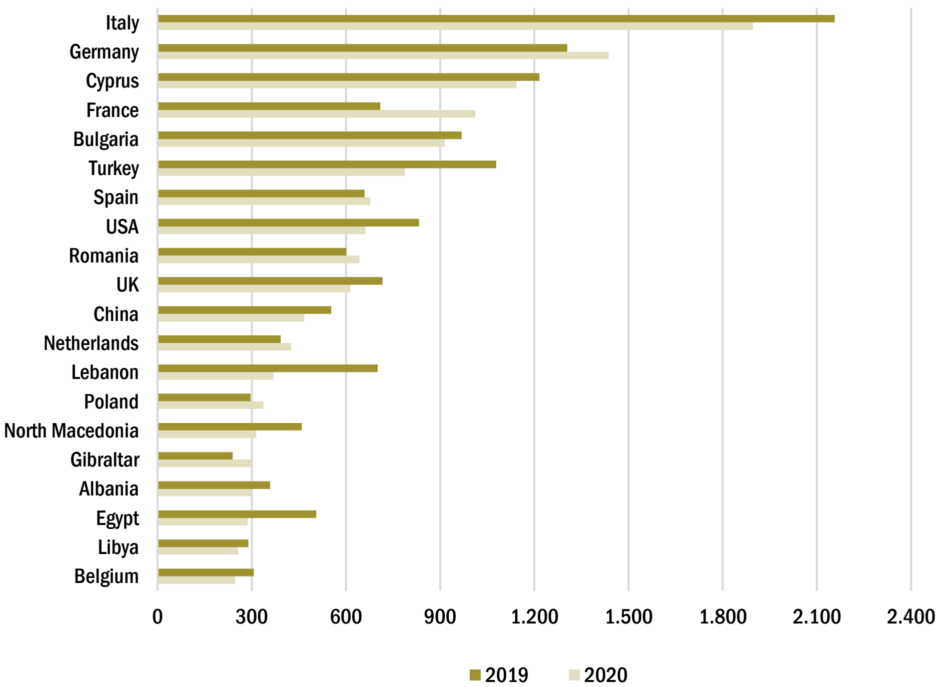
In the first seven months of 2020, exports to the markets of the Latin American countries declined strongly, by 51.3%, with their value totalling €126.8 million, from €260.4 million a year earlier. The decrease in exports to the countries of this region is mainly due to the vertical drop in demand for Greek products from Brazil, by 84.2%, which set their value at €15.1 million from €95.5 million a year earlier.

International demand for Greek goods increased in Asia, where exports increased by 0.5%, to €1.89 billion from €1.83 billion a year earlier. This development is mainly due to the strong growth, by 113.9%, to Japan, from €101.6 million in 2019 to €217.3 million in 2020, and by 76.4% to South Korea, from €87.0 million in the previous year to €153.5 million in 2020. By contrast, there was a decline in demand from China (-15.5%, to € 467.4 million) and Singapore (-33.2%, to €59.9 million from €89.7 million in 2019).

In summary, the exports of goods decreased year on year by 11.8% in January-July 2020, however this decline is mainly due to petroleum products, the exports of the remaining goods increased, albeit marginally, by 0.9%, at €13.8 billion. This rise, which occurred despite the COVID-19 pandemic and the lockdown in many countries, including important destinations for Greek exports, highlights the competitiveness of some of the categories of domestically produced products. Note that in the examined period there was a strong increase in the openness of food and chemical sectors, where exports increased by 10.7% and 22.9% respectively. These export trends are expected to continue for the rest of 2020, unaffected by lockdown measures. As a result, total exports of goods are anticipated to decline overall in 2020 at a rate marginally lower than 10%, while exports excluding fuels will increase slightly.

Figure 2.19

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



The greatest increase in exports of products in Jan. – Apr. in absolute terms to France (+302.6 million). The largest fall, to Lebanon (-332.2 million). Italy remains the country with the largest share.

Source: Eurostat, Processing: IOBE

3.4 Employment - Unemployment

- Marginal decline of the unemployment rate in the second quarter of 2020, to 16.7% from 16.9% a year earlier, yet higher by 0.5 percentage points compared to the first quarter of 2020.
- Decline mainly because the widespread decline in employment was reflected in an exit from the labour force
- Largest increase in jobs in Wholesale and Retail Trade (+18.7k people), Human Health Activities (+15.7k people) and Transport-Storage (+9.5k people)
- Largest decrease of employment in Tourism (-82.3k people), the Primary sector (-29.6k people) and Construction (-14.3k people)
- The seasonally adjusted wage cost index, increased by 3.8% year on year in the second quarter of 2020, after an increase by 0.8% in the first quarter of the year.

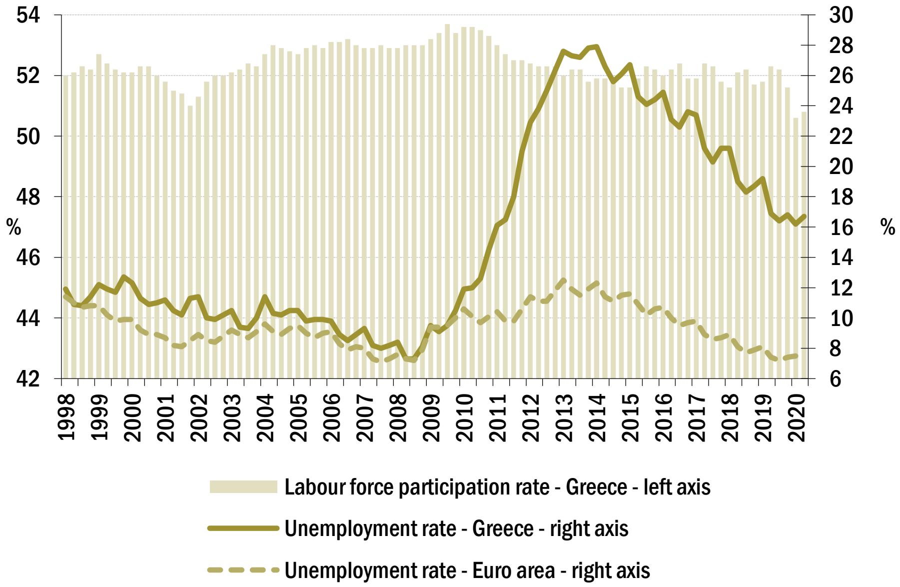
Accordingly to the ELSTAT's Labour Force Survey for the second quarter of 2020, the unemployment rate was marginally lower compared to a year earlier, at 16.7% from 16.9% in the second quarter of 2019, while the number of unemployed decreased by 36.7k people, i.e. to 768.3k (-4.6%). During the same period, the number of employees decreased by 112.4k people, i.e. from 3,956.4k to 3,844.0k. However, the above trend in the second quarter of 2020 is different if the immediately preceding quarter is taken into account. In particular, relatively to the first quarter of 2020, the unemployment rate increased by 0.5 percentage points and the number of unemployed by 23.2k people (745.1k in the first quarter), though the number of employees decreased by 8.6k. In addition, the strong decline in the number of employed in the second quarter was attributed by EL.STAT primarily to their exit from the labour force and as a result it did not lead to an increase in the number of unemployed. If these people had been considered unemployed and there was no reduction in the labour force, the unemployment rate would have been 18.6% in April-June 2020, instead of 16.7%. In the first half of this year, unemployment stood at 16.6%, from 18.1% a year earlier.

With regard to the trends in the Euro area, in most countries unemployment increased. In particular, Spain had the highest unemployment rate after Greece, at 15.3%, 1.3 percentage points higher than in the corresponding quarter of 2019. Finland came next, with unemployment rising to 8.9% from 7.7%, followed by Latvia and Lithuania, where unemployment stood at 8.6% in both countries from 6.4% and 6.2% respectively. This is followed by Italy, where the unemployment rate fell by 2.1 percentage points to 7.7%. Germany and the Netherlands had the lowest unemployment rates in the Eurozone in the second quarter of 2020, with 3.6% (from 3.1% a year earlier) and 3.8% (from 3.3%) respectively. Next came Malta and Belgium, where unemployment stood at 4.4% and 4.9%, respectively, from 5.3% and 3.6%. In other major European economies, in France the unemployment rate fell by 1.3 percentage points, to 6.8%, while in the United Kingdom it stood unchanged at 3.7%. On average in the Euro area, the unemployment rate fell year on year in the second quarter of 2020 by 0.2 percentage points, to 7.2%.

Regarding the development of unemployment per sex in Greece, the unemployment rate among women in the second quarter of this year was 5.8 percentage points higher than the respective rate among men. That said, this difference is lower compared to the second quarter of 2019 (from 7.2 percentage points). In greater detail, the unemployment rate among women in the second quarter of 2020 was 19.9%, lower by one percentage point compared to the second quarter of 2019, while the unemployment rate among men was 0.4 percentage points higher year on year, at 14.1%. In the Eurozone as a whole, the unemployment rate for men in the second quarter of 2020 was 0.3 percentage points lower compared to women. In particular, it stood at the same level as in the second quarter of 2019, at 7.1%, while for women it dropped to 7.4%, from 7.7% in the second quarter of 2019.

Figure 2.20

Labour force participation and unemployment rates



Decrease in the unemployment rate in the 2020 Q2 to 16.7%, from 16.9% 2019 Q2, but higher by 0.5 percentage points compared to 2020 Q1 (16.2%).

Sources: ELSTAT - Labour Force Survey, Eurostat

As for the age composition, unemployment decreased in all age categories except for people aged 20-24 and 25-29 years old. The strongest decline, by 9.0 percentage points, was recorded among people aged 15-19, where the unemployment rate fell to 32.5%, while the decline was much lower among people over 65, by 1.5 percentage points, to 10.0%. By contrast, unemployment increased most among people aged 20-24, by 3.7 percentage points, to reach 36.4%, and among people aged 25-29 years, where unemployment increased from 24.6% to 26.5%.

In relation to the duration of unemployment, the proportion of the long-term unemployed among all the unemployed in the second quarter 2020 decreased by 4.6 percentage points compared to the respective quarter of 2019, to 66.2% from 70.8%. Over the same period, the number of long-term unemployed significantly declined, by 61.3k or 10.7%, to 508.8k from 570.1k.

With regard to unemployment per education level, the trends vary, as in four categories unemployment decreased, in two it increased, while in two more it remained unchanged. In particular, the strongest drop in unemployment was recorded in the two categories with the highest unemployment rates over time, i.e. among those who attended some elementary school classes and among those who did not go to school at all. In the first category, the unemployment rate fell by 3.5 percentage points compared to the second quarter of 2019, to 33.0%, and in the second by 2.7 percentage points, to 54.3%. In the category with the lowest unemployment rates over time, i.e. people with a PhD or Master's degree, unemployment declined to 7.2% from 8.0%. By contrast, unemployment increased slightly during the same period for people with lower secondary education (+0.8 percentage points, to 20.5%) and for people with a university degree (+0.3 percentage points, to 12.1%). Finally, the unemployment rate remained unchanged in the second quarter among people with a degree in Higher Technical Vocational Education (17.5%) and for people with primary education (19.6%).

Table 2.18

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

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	9,372.9	52.7	4,054.4	82.2	881.8	17.9
2012	9,344.8	52.3	3,695.0	75.6	1,195.1	24.4
2013	9,309.5	52.1	3,513.2	72.5	1,330.4	27.5
2014	9,2821	51.8	3,536.3	73.5	1,274.4	26.5
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2
Q4 2017	9,163.3	51.8	3,736.3	78.8	1,006.8	21.2
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2
Q2 2018	9,144.7	52.1	3,860.4	81.0	906.0	19.0
Q3 2018	9,135.5	52.2	3,894.2	81.7	871.8	18.3
Q4 2018	9,126.4	51.7	3,833.7	81.3	881.1	18.7
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
Q1 2019	9,117.3	51.8	3,814.0	80.8	907.1	19.2
Q2 2019	9,108.0	52.3	3,956.4	83.1	805.0	16.9
Q3 2019	9,089.9	52.2	3,971.9	83.6	777.0	16.4
Q4 2019	9,089.9	51.6	3,901.8	83.2	786.4	16.8
2019	9,103.5	52.0	3,911.0	82.7	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	83.8	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	83.3	768.3	16.7

Source: ELSTAT, Labour Force Survey

With regard to its regional dimension, unemployment declined in seven regions of Greece, increased in five and in one it remained unchanged. The strongest unemployment decline in the second quarter of 2020 took place in the region of Western Macedonia, where the unemployment rate fell by 6.7 percentage points compared to a year ago and stood at 17.9%. The unemployment rate fell less in Attica, by 3.5 percentage points, to 13.7%. By contrast, the unemployment rate increased very strongly in the South Aegean and Crete, two regions with significant tourism activity, which was negatively affected by the restriction of international and domestic passenger transport due to the COVID-19 pandemic. In the South Aegean, unemployment rose to 26.6% in the second quarter, from 8.1% (+18.5 percentage points) a year earlier, while in Crete it stood at 19.5% from 9.4% (+10.1 percentage points). Unemployment increased notably in the Ionian Islands and Central Greece by 7.2 (to 19.1%) and 4.1 (to 19.7%) percentage points, respectively. Finally, the unemployment rate in the region of Thessaly remained unchanged at 17.9%.

At the level of key sectors, employment decreased in all of them. The largest decrease, by 59.0k people (-2.0%), occurred in the second quarter of 2020 in the Tertiary sector, where the number of employees decreased to 2,834.9k from 2,893.9k in the second quarter of 2020. Next came the Primary sector, where employment decreased from 456.0k to 426.4k people (-6.5%), followed by the Secondary sector, where the number of employees fell year on year by 23.7k people or 3.9%, to reach 582.7k in the second quarter of 2020.

In greater detail, employment declined in 14 branches of economic activity and in seven it strengthened. The severely negative impact of the restriction of passenger transport due to the COVID-19 pandemic on tourist activity and the suspension of operations for almost a full quarter were reflected in the strong reduction of employment in Tourism by 82.3k people or 20.4%, to 321.1k. The Primary sector follows, with a much weaker decline, by 29.6k people or 6.5%, where employment fell to 426.4k employees in the second quarter of 2020, from 456.0k in the same quarter of the previous year. Employment decreased by 14.3k people or 9.5% in Construction, to 136.1k people. By contrast, employment increased most in Wholesale-Retail Trade, by 18.7k people (or 2.7%), to 704.7k. Next came Human Health and Social Welfare Activities, with its employees increasing by 15.7k people (or +6.3%), to 263.1k. Finally, employment in Transport-Storage increased by 9.5k people (+ 4.6%), to 214.3k. The employment growth in these sectors stemmed from the increased needs arising from the outbreak and spread of the new coronavirus. In particular, with the outbreak of the pandemic, the need for additional health personnel in hospitals (mainly doctors and nurses) increased, while at the same time, the consumer demand for food from supermarkets and related stores strengthened, thus creating corresponding recruitment needs. Finally, the imposition of the lockdown resulted in far more online purchases from wholesale and retail businesses, leading to the hiring of additional staff related to transport of goods.

In conclusion, from the employment data at sectoral level, it appears that the decrease in the second quarter of 2020 came mainly from the reduction of employment:

- in Tourism (-82.3k employees), in congruence with the reduction of travel receipts in the second quarter of 2020 by 97.0% or € 4,526.7k year on year (from €4.67 billion to €140.4 million),
- in the Primary sector (-29.6 thousand employees),
- in Construction (-14.3 thousand employees),

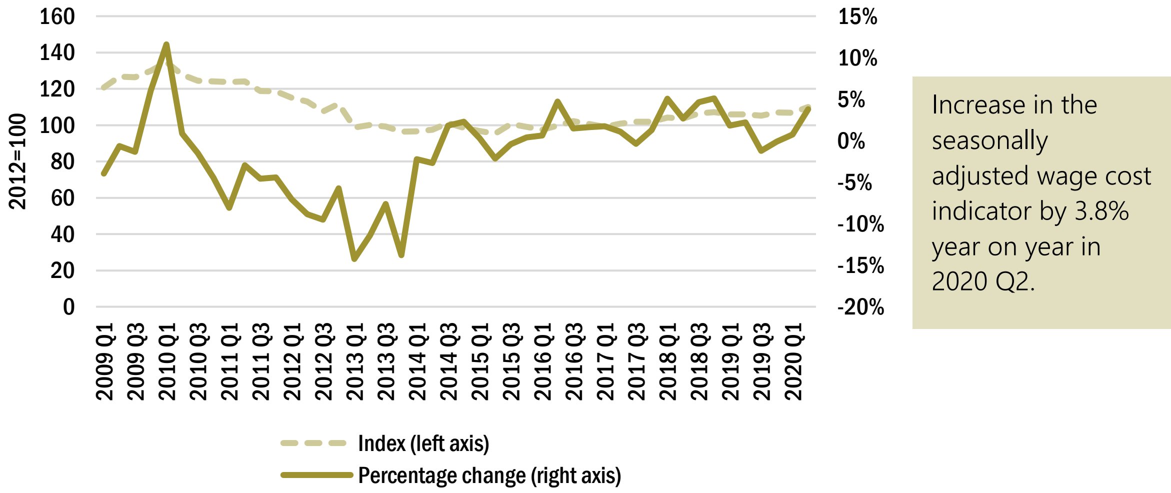
despite the rise in employment in

- Wholesale-Retail Trade (+18.7k employees), in contrast to the reduction of seasonally adjusted turnover ratios in Wholesale (-20.9%) and Retail Trade (-9.6%) and the seasonally adjusted volume of Wholesale Trade index (-10.0%),
- in Human Health and Social Welfare Activities (+15.7k employees) and
- in Transport-Storage (+9.5k people).

The seasonally adjusted wage cost index for the entire Greek economy was up year on year by 3.8% in the second quarter of 2020, after a rise by 0.8% in the first quarter of the year.

Figure 2.21

Seasonally adjusted wage cost index and percentage point change



Source: ELSTAT

Medium-term outlook

The negative effects of the lockdown measures on the employment of many sectors in March-April were strong. Despite the gradual lifting of the measure in May-June, there is still uncertainty about the evolution of the COVID-19 pandemic, especially since Greece, as well as many European countries, has entered its second wave of infections. This is likely to escalate in the coming months, possibly leading to further business suspension and travel restrictions, at least locally. At the same time, policy interventions continue to be implemented to financially support companies, self-employed and workers affected by the pandemic (e.g. extension of monthly special purpose compensation, settlement of tax liabilities of individuals and legal entities created in March-June 2020, possibility of continued repayment of restructured debts whose payment was suspended due to the pandemic).

The employment trends up until the second quarter were strongly negative in most sectors which contributed to the weakening of unemployment in previous years. In tourism, as previously shown, employment was at a much lower level than in the previous year. From the indications for the third quarter, the strongest period of activity of the sector, it is now considered probable that the decline will continue, with slightly less intensity, but still very strong. International arrivals at the country's airports declined sharply, by 72.5% in July and by 66.2% in August, but less than in the second quarter (-98.8%). In addition, travel receipts declined at a high rate in July, -84.4%, compared to -97% in the previous quarter.[17]

The output contraction in Manufacturing has weakened significantly in the first two months of the summer compared to the second quarter, from 7.4% to 0.3%, resulting in a weaker contraction of the output in Industry overall (1.9% from 7.8%). The relatively mild decline in exports excluding fuels and ships in May-June, which has carried over to July at least, is considered to have contributed to this development, based on available data (-2.5% in

[17] Sources: Civil Aviation Authority, Athens International Airport

July). Subsequently, there are still small pressures on employment in the sector. However, in the event of a sharp escalation of the health crisis during the winter or later in 2021, which will be accompanied by strong public health protection measures, it is now likely that the decline will intensify significantly, returning to double digits.

The significant reduction of jobs in Construction in the first half of 2020 will continue in the second half of the year, under strong pressures on building activity. Further job cuts are expected also in Education, where their rise last year was one of the key factors for the decline of unemployment.

The significant employment decline in April-June, although not reflected in the unemployment rate, as it led to an increase in the inactive population, is considered to be one of the drivers of the significant decline in household consumption during this period, as it reduced their income. Its effect will carry over to the second half of the year at least. Besides, the volume of Retail Trade continues to decline at the beginning of the third quarter. Nevertheless, it is quite mild given the extraordinary circumstances, by 2.7%, of similar intensity to the last two months of the previous quarter (-3.0%). Therefore, there is no reason for a significant reduction of employment in the sector, yet activity is expected to continue to decline in the remaining months of 2020, mitigating the increase in employment recorded in the sector in the first two quarters.

By contrast, the current unfavourable situation has created specific needs for services, e.g. health, social welfare, internet services, couriers, which, despite the general decline of economic activity, will maintain or increase jobs in the respective sectors. Indicatively we can mention the recruitment of 6.2k health personnel in the public sector, which will cover the vast majority of the announced recruitment of almost 7.3k permanent staff in the coming period. Employment protection measures maintain some of the threatened jobs, as shown in the analysis in box 3.2 on the first effects of the pandemic on employment that follows the current section. Moreover, due to particularly unfavourable labour market conditions, a significant part of those who have lost their employment or will lose it may be discouraged from looking for work, at least in the short term. This development occurred in the second quarter, according to ELSTAT.

The public sector offers temporary employment in 2020 through OAED programmes, with most important the community service programme in local government, with 36.5k beneficiaries for eight months of employment, boosting jobs throughout the second half of 2020 and in early 2021. The extension of the special employment programme for 4,000 long-term unemployed in the public health sector for an additional 12 months was recently approved, as well as the new extension of the community service programme in migrant reception, identification and hospitality centres, with 1,690 beneficiaries.

In 2021, the normalisation of developments regarding the pandemic will be a key condition for the recovery of employment. A significant escalation of the health crisis will have further negative consequences for the economy and employment. Unless the current health conditions change significantly, domestically and internationally, mainly in the Eurozone, as envisaged in the baseline macroeconomic scenario, the recovery in employment will come from activity in Tourism, free from the restrictions on its operation. This will take place under new conditions and health safety regulations. In addition, world trade will significantly recover, boosting exports of goods and transport, with a corresponding impact on the relevant sectors and, consequently, on their employment. The absence of the need for strong restrictive measures to protect public health will boost Retail Trade. Demand for this sector will also be propped up by tax reliefs announced for the coming year and included in the Draft State Budget for 2021, such as the reduction of social security contributions by three percentage points from 01/01/2021 and the suspension of the solidarity levy on the incomes of private sector employees, which will boost disposable income.

The public sector will also support domestic employment next year, at least through recruitment in the health system and OAED's employment programmes. No substantial boost to employment from investment and the construction sector is expected as long as there is no pharmaceutical solution to prevent or combat the new coronavirus. The beginning of disbursement of funds from the Next Generation EU fund, as well as for the 2021-2027 programming period, is expected to start in the second half of 2021, probably around the start of the fourth quarter.

Clearly, if the health crisis intensifies, the above forecasts will be upturned, with corresponding effects on the trend of unemployment. However, in such a case, additional support measures will be taken and some or many of those that have been implemented or will be implemented in 2020 will come into force again, mitigating the effects of the pandemic on unemployment.

To summarise, under the above forecasts of employment trends in sectors with a special significance for the Greek economy or which have played an important role in job creation in recent years, in the main macroeconomic scenario, the unemployment rate is expected to rise to 18.0% in 2020 and fall slightly in 2021 (17.0%). In the scenario of a new strong COVID-19 wave, in many countries, especially the Eurozone, and in Greece, unemployment will increase further and faster in 2021 than in 2020 (19.5% - 20.5%).

According to the latest data of the IOBE Economic and Business Surveys, the short-term employment expectations strengthened quarter on quarter in July-September 2020 in all sectors except Industry. Year on year, employment expectations strengthened in Retail Trade and Construction, slight worsened in Industry and declined stronger in Services. In more detail:

In Industry, the average balance of +2.5 points in the previous quarter decreased by 11 points in the third quarter of 2020. Year on year, the average quarterly index was lower by about 5 points. In the examined quarter, the percentage of industrial enterprises predicting a drop in their employment in the near future stood at 20%, while the percentage of those expecting an increase in the number of jobs decreased to 12% (from 15%). However, the vast majority of companies in the sector (68% to 72%) anticipated employment stability.

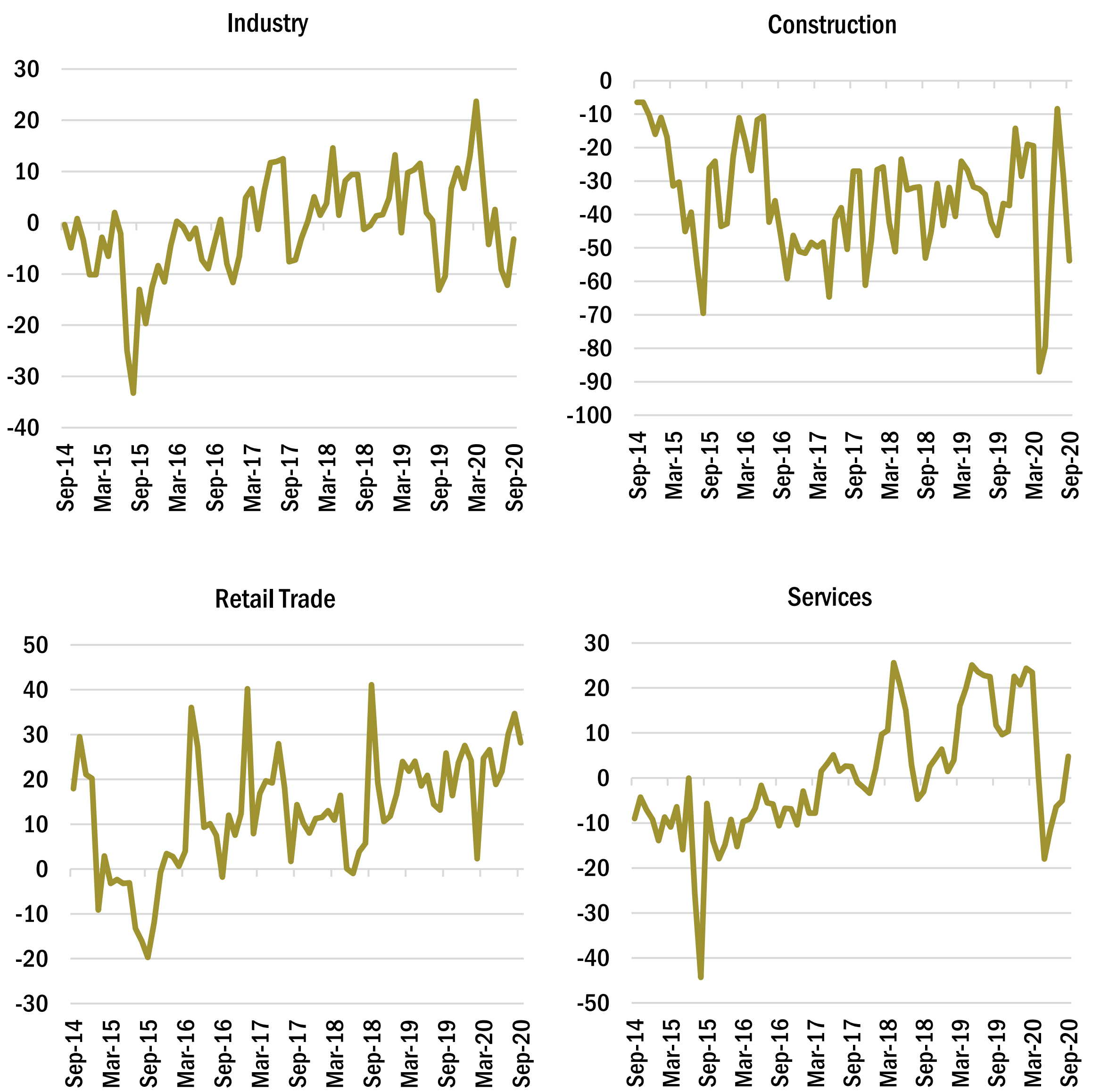
In Construction, the employment expectations indicate a marked improvement in the sector's low balance, which stood at -30 points (from -68 points), at a slightly higher level compared to the same period in 2019 (-41 points). In the quarter under review, 41% (from 72%) of the companies in the sector anticipated fewer jobs, while the percentage of respondents expecting an increase in employment reached 11% (from 4%). At the level of sub-sectors, the significant improvement of the relevant index in Public Works (-43 from -71 points) was accompanied by a corresponding strengthening of the index in Private Constructions (-23 from -65 points).

The employment expectations indicator in Retail Trade increased slightly in the third quarter of the year compared to the previous quarter, to +31 points (from +22). In addition, this level was much higher, by 13 points, compared to the same period of 2019. Only 4% of the companies in the sector expected job cuts, while 35% (from 26%) predicted employment growth, with those expecting stability moving to 61% (from 70%) of the total.

The balance of employment expectations strengthened in all sub-sectors, except Textiles-Clothing-Footwear, where it significantly declined.

Figure 2.22

Employment expectations (difference between positive and negative responses)



Source: IOBE

In July-September 2020, the short-term employment expectations strengthened quarter on quarter in all sectors except Industry.

In Services, the employment expectations indicate a slight improvement compared to the previous quarter, but not year on year. The relative balance of -10 points of the previous quarter, strengthened during the examined quarter to -2 points, while in relation to the same period of 2019 it decreased by 21 points. Of the companies in the sector, 17% (from 21% in the previous quarter) expect a decrease in employment, with the percentage of those predicting an increase reaching 14% (from 11% in the previous quarter). At the branch level, the trend is strongly positive in the IT sector and in Hotels-Restaurants, while in the other examined sectors it is negative.

Box 3.2

Initial impact of COVID-19 on employment (2nd quarter 2020)

The emergence and rapid spread of the new coronavirus since March, in addition to the negative effects on public health, domestically and internationally, disrupted social life and had a strong impact on key economic variables. These variables include employment, which has been adversely affected by suspension of certain activities and restrictions on travel within the country, and international passenger travel, mainly in March-April 2020. The analysis that follows aims to outline briefly the initial impact of COVID-19 on employment in Greece, in line with trends in economic activity. The analysis is done at the level of single-digit sectors according to NACE Rev. 2 and assesses year-on-year changes in the second quarter of 2020, as no data on sectoral employment with a higher frequency are available. The changes will be compared with those in the first quarter of 2020. In addition, other qualitative changes in employment are explored, such as its breakdown in partial and full employment and in terms of the position of employees in the profession (self-employed with or without staff, employees).

As mentioned earlier, at the beginning of the section of the report on employment and unemployment, in the second quarter of 2020, employment in Greece fell year on year by 112.4k people, to 3,844k employees, when in the first quarter of 2020, employment increased by 1.0% or 38.6k people compared to a year earlier (from 3,814.0k to 3,852.6k people employed). The trend in total business turnover was not the same, as it fell year on year in both quarters of 2020: In the first quarter by 2.9% (from €67.0 billion to €65.1 billion), while in the second quarter the decline was much stronger reaching 25.1% or €19.8 billion (from €78.8 billion in the second quarter of 2019 to €59.0 billion a year later).

More specifically, at sector level, the largest year-on-year decline in total employment in the second quarter of 2020 was recorded, as previously mentioned, in Tourism, by 82.3k employees or 20.4%, while in the first quarter of 2020 employment in the sector increase by 6.9k people or 2.1%. The turnover in this sector dropped in the second quarter of 2020 by 78.8% or €2.6 billion, to just €0.7 billion, the strongest decline among the double-digit sectors of the Greek economy. However, in the first quarter of 2020, when employment was growing, the activity declined by 11.8% or €0.2 billion.

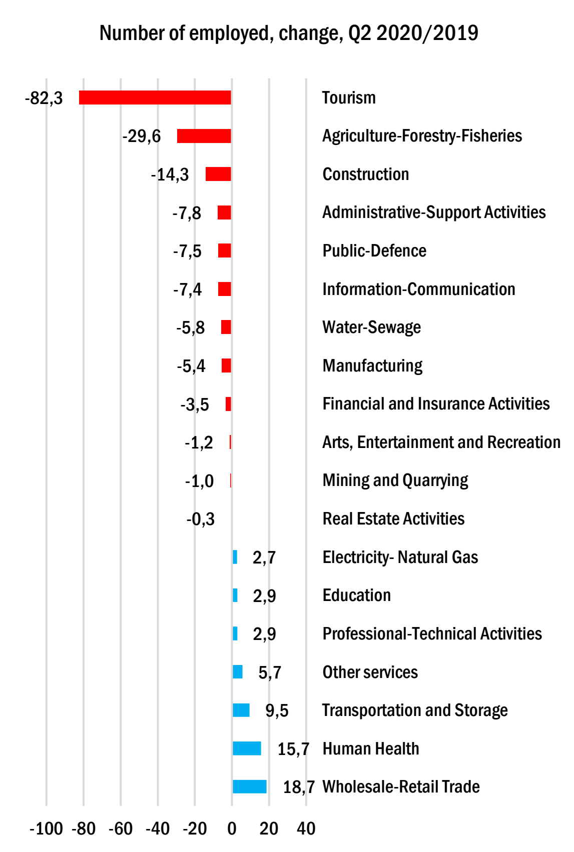
The second largest contraction in number of employees in the second quarter of 2020 was posted in the Primary sector, by 29.6k people (-6.5%), following a stronger fall in the first quarter of 2020, by 41.9k employees. The decline in turnover in April-June was limited compared to other sectors, by 3.4%. In addition, although turnover increased by 5.3% in the first quarter of 2020, this did not prevent employment from declining.

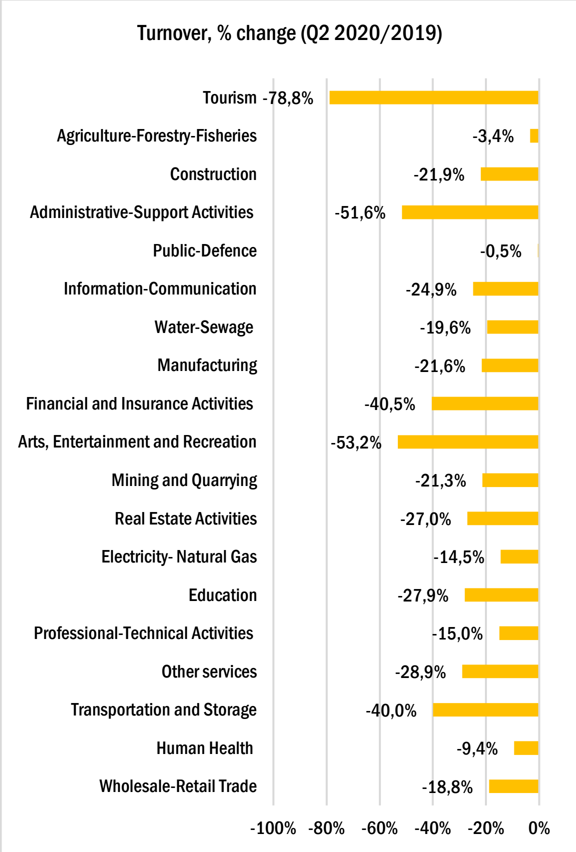
The reduction of employment in the second quarter of 2020 was extensive in Construction, by 14.3k people (to 136.1k employees) or by 9.5%. At the same time, the sector's turnover decreased by 21.9% or €0.5 billion, to €1.9 billion. In the first quarter of 2020, employment and turnover in this sector also decreased year on year, by 5.1k employees and 3.5% respectively.

By contrast, there are sectors, as mentioned in the relevant chapter of the quarterly report, where employment expanded despite the COVID-19 pandemic. Wholesale-Retail Trade was the sector with the largest increase, where employment expanded both in the first quarter of 2020 (by 29.9k or +4.4%) and the second quarter (by 18.7k or +2.7%). At the same time, turnover in this sector increased slightly in the first quarter of 2020, by 1.3%, while it fell in the next, by 18.8%. The employment trend may be due to the significant increase in demand from supermarkets during the lockdown period.

Figure 2.23

Employment and turnover per sector





Source: ELSTAT

Next in terms of employment growth came Human health and social care activities, where employment rose by 15.7k (+6.3%) in the second quarter, while in the first three months it expanded by 16.2k people (+6.6%). This development is probably mainly due to the extraordinary needs for additional staff (doctors, nurses, paramedics) due to the pandemic. However, while the turnover of the sector slightly increased in the first quarter of 2020 by 2.8%, it shrank in the next quarter, by 18.8%, to € 463.0 million. It is possible that the diverging employment trend reflects the precautionary nature of some of the recruitments made in order to be available in the event that the pandemic escalates.

From the above trends, it is evident that there is no clear correlation between employment and activity during the second quarter. The specificities of each sector in these unprecedented circumstances affected their employment. In addition, in most of the sectors with the greatest changes in employment, its trend did not change between the first and the second quarter, i.e. from the effects of COVID-19.

Nevertheless, it is possible that jobs have been affected by an exogenous factor in all sectors - the policy interventions made to preserve them. Regarding this parameter, it is noted that a large part of the companies in the above sectors were included in the list of sectors affected by the coronavirus pandemic, as a result of which they received support from these interventions (special purpose compensation, extension of deadlines for social security contributions, suspension of confirmed and delayed obligations, 25% discount on social security contributions for self-employed and professionals, etc.). Combined with the previous analysis of employment and activity trends, there are indications that the above measures supported jobs in Wholesale-Retail Trade, as while its turnover in the second quarter fell sharply, its employment strengthened. By contrast, the measures do not seem to have had a positive effect on employment in Tourism, Construction, and the Primary sector, as the decline in their turnover was accompanied by a reduction in employment.

Proceeding to the analysis of trends in more qualitative characteristics of employment, from the data of employment flows published by the system "ERGANI" of the Ministry of Labour (Table 3.11), in the second quarter of 2020 recruitments fell by 56.9% or 509.0k people compared to the corresponding quarter of 2019 (at 386.2k), while the departures from the labour market decreased by 52.4% or by 339.2k people (at 308.4k). Regarding exits, the dismissals have the largest share (58% of labour market exits in the second quarter of 2019 and 55.4% in the second quarter of 2020).

As a result of the above changes, the employment balance remained positive in the second quarter of 2020, at 77.8k people, but it is significantly lower compared to the second quarter of 2019, by 68.6% or 169.8k people (247.6k) and its decrease is mainly due to the greater contraction of recruitment compared to exits. Therefore, these data contain indications of support for existing jobs from the measures taken for COVID-19.

Table 2.19

Balance of employment flows in the private sector

	06/2019	06/2020	Change		Q2 2019	Q2 2020	Change	
Recruitment	289,489	238,353	-51,136	-17.7%	895,194	386,165	-509,029	-56.9%
Exits	258,082	200,785	-57,297	-22.2%	647,608	308,417	-339,191	-52.4%
Dismissals	164,938	118,539	-46,399	-28.1%	375,934	170,786	-205,148	-54.6%
Voluntary departures	93,144	82,246	-10,898	-11.7%	271,674	137,631	-134,043	-49.3%
Balance	31,407	37,568	6,161	19.6%	247,586	77,748	-169,838	-68.6%

Source: ERGANI

Taking into account the position in the profession held by the employed, it appears that the largest proportional decrease in employment occurred in the second quarter this year to employees, the number of which decreased by 3.2% or 86.0k (to 2,612.0k) compared to the same quarter of 2019 (Table 3.12). Similar rate of contraction was observed in the number of employees who were assistants in a family business, 3.1% or 3.9k people (to 122.9k). The number of self-employed (with or without employees) declined by 22.5k or 2.0% (to 1,109.1k). Therefore, all job categories in the profession were affected by the pandemic, and the negative consequences were proportionately more pronounced for employees. Taking into account the data of the "ERGANI" system, which indicated a more intense decline in recruitment in relation to exits, this development probably came from greatly reduced seasonal recruitments in 2020.

Table 2.20

Evolution of employment by position in the profession

	Q2 2019	Q2 2020	Change	
Self-employed (with or without employees)	1,131.6	1,109.1	-22.5	-2.0%
Employees	2,698.0	2,612.0	-86.0	-3.2%
Assistants in family businesses	126.8	122.9	-3.9	-3.1%
TOTAL EMPLOYMENT	3,956.4	3,844.0	-112.4	-2.8%

Source: ELSTAT

It is also interesting to investigate the impact of the pandemic on the composition of unemployment in terms of its duration (full or part time). In the first quarter of 2020, when the economy functioned normally, both part-time and full-time employment increased, stronger in the former category. Part-time employment increased by 4.4% compared to a year earlier, bringing the number of part-time employees to 364.6k, while the corresponding increase in full-time employees was 0.7% and their number to 3,482.3k (Table 3.13). The next quarter saw a decline in both categories of employment, which was stronger in the category of full-time employment. The number of full-time employees decreased by 3.0%, while the number of part-time employees was reduced by 1.5%. As a result of the above changes, the share of part-time employment increased slightly both in the first quarter (at 9.5% from 9.2% a year earlier) and in the second quarter of 2020 (to 9.2% from 9.1%). Therefore, regardless of the effects of the pandemic, part-time work has a tendency to strengthen in Greece.

Table 2.21

Development of full-time and part-time employment

	Q1 2019	Q1 2020	Q1 2019 - Q1 2020		Q2 2019	Q2 2020	Q2 2019 - Q2 2020	
Part-time	349.2	364.6	15.4	4.4%	359.3	354.0	-5.3	-1.5%
Full-time	3,459.4	3,482.3	22.9	0.7%	3,591.1	3,485.1	-106.0	-3.0%
TOTAL EMPLOYMENT	3,808.6	3,846.9	38.3	1.0%	3,950.4	3,839.1	-111.3	-2.8%

Source: Eurostat

Regarding the indications of the impact of the pandemic on teleworking, the share of people who usually work from home or sometimes work from home (in total employment) increased from 5.3% in the second quarter of 2019 to 10.7% in the second quarter of 2020, with a parallel decrease in the percentage of people not working from home from 94.7% to 89.3% (Table 3.14). The increase came solely from the increase in the share of people usually working from home (from 1.9% to 7.4%), as the percentage of people occasionally working from home marginally declined (from 3.4 % to 3.3%).

The sectors with the highest share and the highest growth of teleworking are Education (47.4% in the second quarter of 2020 from 19.6% in the second quarter of 2019), Information-Communication (26.6% from 12.1%), Real Estate Management (24.3% from 17.3%), Professional-Scientific-Technical Activities (25.0% from 15.6%) and Financial-Insurance Activities (19.4% in the second quarter of 2020, from 7.9% in the second quarter of 2019).

In conclusion, the previous analysis showed that the sector most adversely affected in terms of employment by the COVID-19 pandemic in the second quarter of this year was Tourism, with the Primary sector and Construction coming next. By contrast, the largest increase in employment during the same period took place in Wholesale-Retail Trade and the Health-Social Care. The analysis of the activity data showed that the employment trend in these sectors is often not related with the change of their activity. Sectoral employment was influenced by the specifics of each sector in the specific period, mainly in relation to the pandemic (e.g. suspension of activity in tourism, coverage of extraordinary potential health needs, enhanced demand from supermarkets), but also by policy interventions to maintain employment (e.g. part of the increase in Wholesale - Retail Trade). However, the support measures do not appear to have propped up employment in all affected sectors, as it significantly declined in some (Tourism, Construction).

Table 3.14

Evolution of teleworking rate in total employment

	Usually working	Occasionally working	Not working

	from home	from home	from home
Q2 2019	1,9%	3,4%	94,7%
Q2 2020	7,4%	3,3%	89,3%
Change	+5,5%	-0,1%	-5,4%

Source: ELSTAT

The balance of employment entries and exits remained positive in the second quarter of 2020, albeit significantly reduced year on year, mainly due to a larger year-on-year contraction in entries compared to exits. Therefore, these data provide indications of support for existing jobs from the measures taken for COVID-19 (special purpose allowance, repayable advance programme, interest rate subsidy programme, suspension of payment of taxes-contributions, etc.). Despite policy interventions, the negative effects of the pandemic were more pronounced for the employees than for the self-employed (with or without assistants) and this is probably due more to seasonal employment, which was very limited in the second quarter of 2020.

Regarding the trends in full-time and part-time employment, the relevant data for the first two quarters of 2020 did not show a different dynamic due to the effects of the new coronavirus, with the share of part-time employment in total jobs increasing in both quarters. Finally, in the second quarter of 2020 the share of people working from home has doubled from a year ago, with the rise coming solely from the increase in the share of people usually working from home. As the health crisis is likely to pass through many phases, as it has entered a new wave of expansion since September, the regular analysis of labour market developments is necessary for the proper planning of relevant policy actions.

3.5 Consumer and Producer Prices

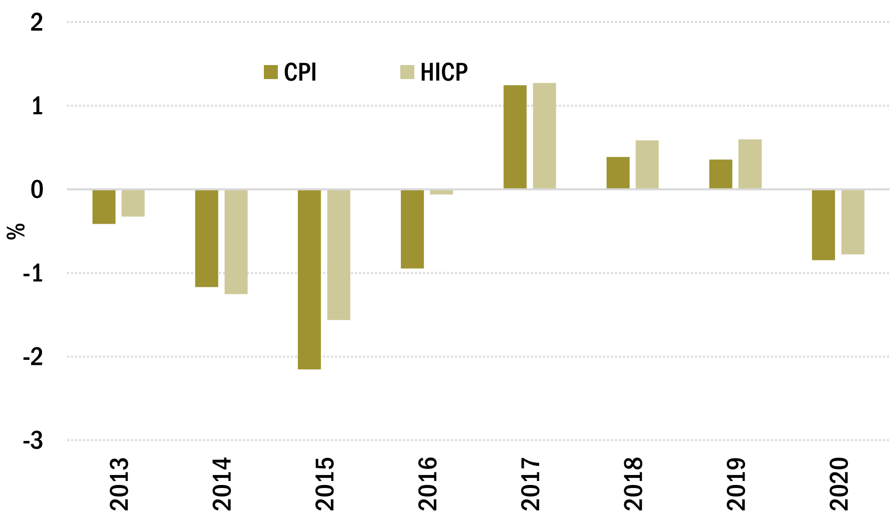
- Deflation of 0.8% in January-August 2020, from inflation of 0.4% in the same period of 2019
- Negative impact on prices from indirect taxes and energy goods
- Rate of change of CPI with fixed taxes and excluding energy at 1.1% in the first eight months of 2020, from 1.2% a year earlier, which reflects the positive effect of domestic demand on prices
- CPI decline in 2020 by 1.2% to 1.6%, based on alternative macroeconomic scenarios, compared with a marginal increase of 0.3% in 2019.
- In 2021, the CPI is expected to strengthen by 1.7% if the health crisis does not resurge strongly and by 0.9% if the opposite happens in many countries, but not in Greece. In the case of such a development in Greece as well, deflation of 0.4% is foreseen.

Recent developments

In January - August 2020, the price trend shifted compared to a year ago, with the average rate of change of the domestic Consumer Price Index (CPI) turning negative, for the first time after three consecutive years of inflation. In particular, the domestic CPI declined year on year in the first eight months of 2020 by 0.8%, against an increase of 0.4% in 2019. After three years of growth, the Harmonised Index of Consumer Prices (HICP) also declined, by 0.8%, over the same period, against inflation of 0.6% in the same period of 2019 (Figure 3.14). In September 2020, the domestic CPI fell by 2.0% compared to the previous year, when it recorded a marginal decline of 0.1% (Figure 3.15).

Figure 2.24

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



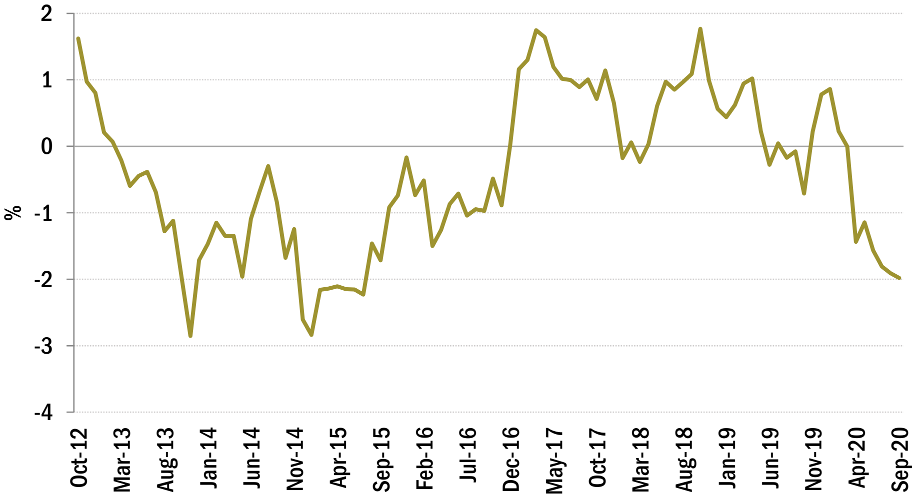
Average CPI fall by 0.8% year on year in Jan.-Aug.

Source: ELSTAT, processing IOBE

Figure 2.25

CPI in Greece (annual percentage change per month)

Domestic CPI fell sharply in September 2020 (-2.0%), compared with a change of -0.1% in the corresponding month of 2019



Source: ELSTAT, processing IOBE

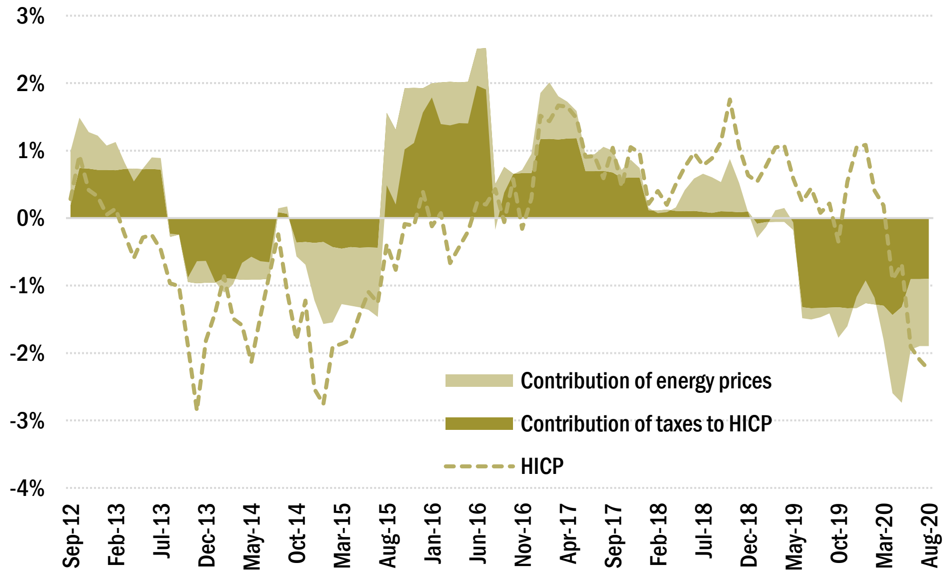
Regarding the effects of the HICP components on its trend, its weakening in January - August is due to energy goods and indirect taxes, as the change in the index with fixed taxes and without energy goods was positive, by 1.1%, much higher than the overall change in the HICP (Figure 3.16). Therefore, domestic demand has had a supportive effect on prices. In contrast, the contribution of taxation to consumer price change was negative during that period, by -2.2 percentage points, from -0.6 percentage points a year earlier (Figure 3.17).

Regarding the developments in the prices of energy goods and their impact on the HICP, the average international oil price in January-August 2020 fell sharply year on year. In particular, the average price of Brent crude oil in the first eight months of the year stood at 41.2 $/barrel, from 64.9 $/barrel a year earlier, recording a decline of 36.4%.[18] The marginal year-on-year decline in the average euro exchange rate against the dollar, by 0.7%, to 1.12 against 1.13, did not have a significant effect on the price of oil in euros, with its average price at €36.9/barrel, 36.0% lower than in the first eight months of 2019. The weakening of the oil price, which is a key component of energy costs, also explains the negative average effect of energy commodity prices on the rate of change of prices in Greece in the first eight months of 2020, by 0.7% (from no effect a year earlier).

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

Figure 2.26

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



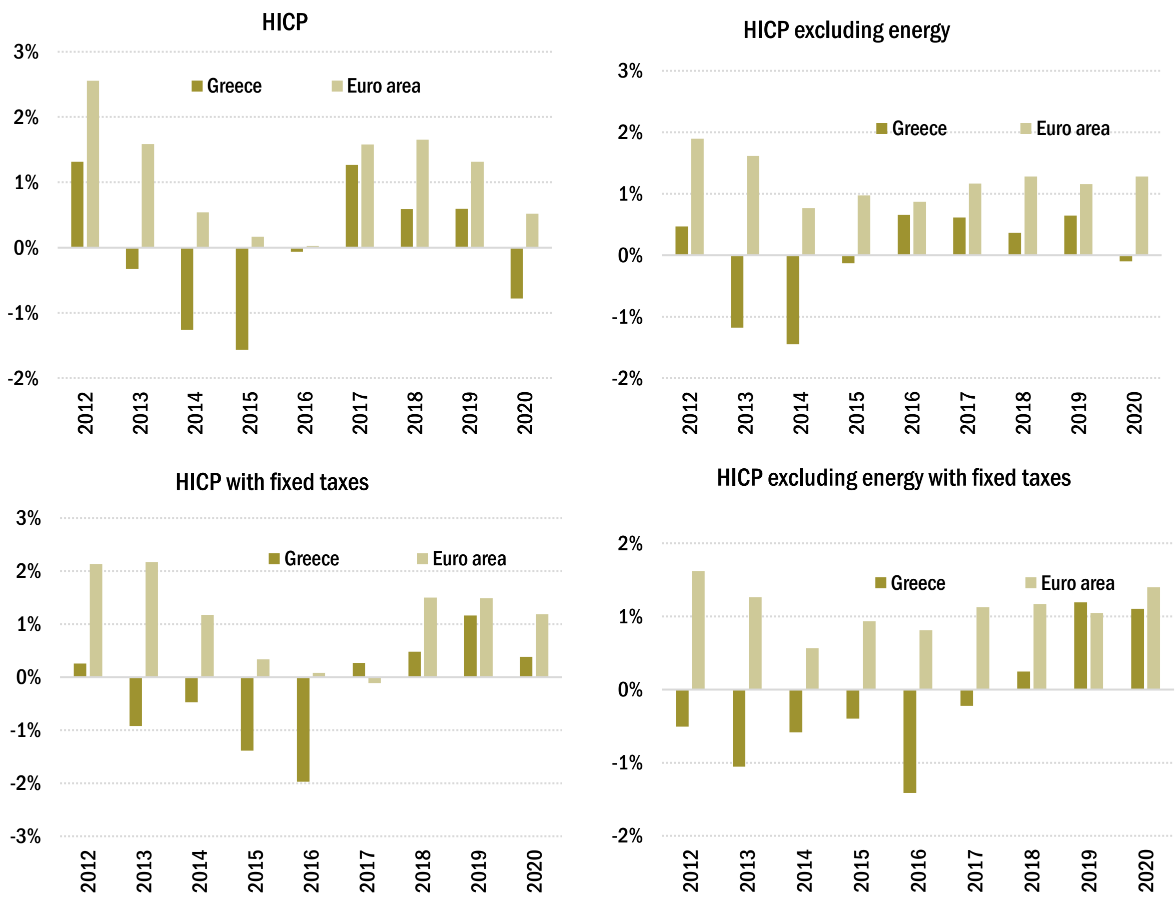
Significant negative contribution of taxes on price change in Jan.-Aug. 1.2 p.p., compared with a milder effect a year earlier (-0.6%)

Source: Eurostat, processing IOBE

The price level in Greece based on the HICP in January-August of 2020 fell, in contrast to the Eurozone average, which increased by 0.5%, a development that ranks the country in the penultimate position among the Euro area countries, higher only than Cyprus (-1.0%). Harmonized inflation moved slightly higher than Greece in Estonia (-0.3%), Spain and Ireland (-0.1% for both countries). Domestic demand seems to have been the main driver of inflation in the Eurozone, as the price index with fixed taxes and without energy goods increased by 1.4%, against 1.0% in the same period of 2019.

Figure 2.27

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



Domestic price growth in January - August 2020, solely from stronger demand, which had a positive contribution of 1.1 p.p., from 1.2 p.p. in the corresponding period of the previous year

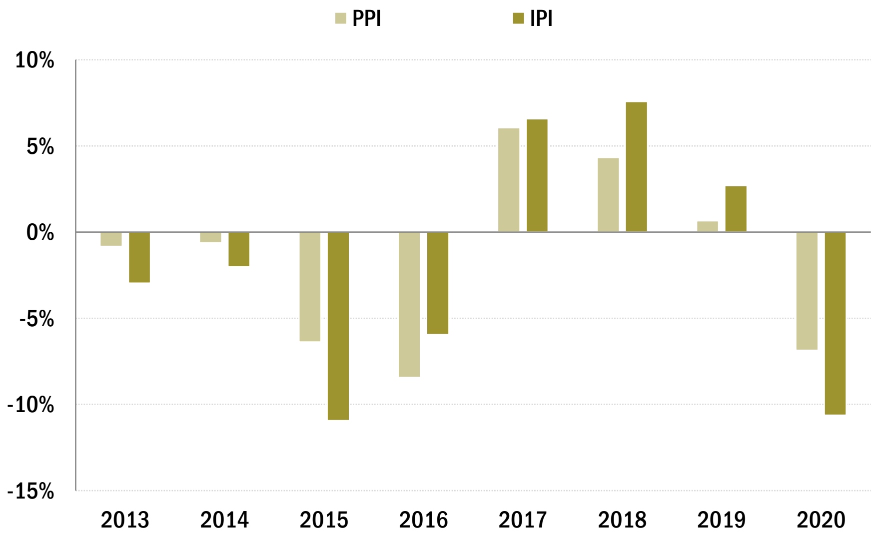
Source: Eurostat, processing IOBE

As for the trends in the categories of products and services included in the Consumer Price Index, the highest increase in January - August 2020 was recorded by Clothing - Footwear, by 2.2%, after a slight weakening by 0.8% in the same period of 2019. Food and Health categories had much smaller positive changes, by 1.3% and 0.7% respectively, against a marginal increase by 0.1% and an increase by 1.2% in the corresponding period of 2019. Slightly lower was the increase in Education and Alcoholic Beverages - Tobacco, 0.5% and 0.2% respectively, compared to a decline of 0.7% and a rise of 0.9% in the first eight months of 2019, while prices in Hotels - Cafes - Restaurants were unchanged, against a marginal increase of 0.5% a year earlier, reflecting the reduction of indirect taxation on tourism since June. By contrast, the largest decline in prices in the first eight months of 2020 was recorded in Transport, by 4.5% and in Housing, by 3.6%, against rising prices by 1.2% and 0.3%, under the influence of falling oil prices and the travel restrictions. Prices decreased in Communications, by 1.6%, and in Recreation, by 1.2%, from a significant increase of 4.2% and a decrease of 1.6%, respectively, a year ago. The mildest decline was in Durables and Other Goods, -1.0% in both, following a decrease of 1.8% and 0.9% a year earlier.

Examining the price trends on the production side, in January - August 2020, the Producer Price Index (PPI), for the domestic and foreign markets in total, decreased by 6.9% year on year. In greater detail, the PPI excluding energy fell by 0.2% in the first eight months of 2020, compared with an increase in the same period in 2019. With regard to trends in the prices of industrial products, the largest increase was recorded by Electricity - Natural Gas, with 4.8%, after a similar rise of 5.0% a year earlier, followed by Wood products, with slightly lower rate of positive change, of 3.4%, compared with a milder strengthening of 0.6% in the same period of 2019. By contrast, the trend in producer prices in Refined Petroleum Products was sharply negative, compared to a marginal weakening in 2019 (-32.7% from -0.3%). Milder but significant was the decline in Mining - Quarrying, by 9.9%, after price stability in the previous year (-0.1%). A decline in producer prices was also recorded in Metal Ores and Computers, 3.5% in both, followed by a decline of 1.4% and a rise of 0.5% respectively, in the first eight months of the previous year. Producer prices also decreased in Electrical Equipment, by 2.7% and Pharmaceuticals (-1.6%), compared to an increase of 4.8% and a decline of 0.9% in the previous year.

Figure 2.28

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



Sharp drop in import prices (-0.6%), mainly due to the negative impact of prices of energy goods. Milder decline in producer prices in January-Aug 2020 (-6.9%).

Source: Eurostat, processing IOBE

The Imports Price Index (IPI) declined strongly by 10.6% in January - August 2020, compared to an increase of 2.7% a year earlier. The decline of the relevant index in the Eurozone was weaker (-5.3%), compared to no change in the first eight months of 2019. The sharp decline in import prices ranks Greece first in terms of their reduction among ten Eurozone countries for which data are available at this time, with Lithuania coming next (-7.4%). It should be noted that in all euro area countries for which data are available there is a year-on-year fall in import prices over the period considered, a trend which largely reflects the relative impact of the health crisis on international trade, mainly on petroleum products.

Among the sub-categories of imported products, the largest decrease in the first eight months of 2020 was recorded in the prices of Refined Petroleum Products, by 33.1%, compared to an increase of 5.6% in the corresponding period of 2019. Significantly lower was the decline in Basic Metals, by 5.3%, from a much milder decrease of 1.4% in the same period of 2019, but also in Electricity and Gas, by 3.9%, against a sharp rise of

13.6% in the same period of the previous year. The price fall was weaker in Paper Products, by 3.0%, and Tobacco Products, by 1.8%, from an increase of 1.3% and 1.7%, respectively, in January - August last year. By contrast, a slight increase of prices in January - August 2020 was recorded in Other Manufacturing, by 1.4%, and in Other Mining and Quarrying, by 1.3%, against a marginal increase of 0.6% and 1.5% respectively one year earlier.

Medium-term outlook

The trends in the key components of the domestic Consumer Price Index in January - August 2020 show that its decline is a result of offsetting the positive effect from domestic demand with the negative impact of both energy and indirect taxes. For the rest of 2020, the price trend will depend mainly on the intensity of the effects of the health crisis on energy prices and to a lesser extent on the recent indirect tax reduction measures, which were recently extended until April 2021. The evolution of the health crisis in 2021 will be the most important driver of prices, mainly through its effects on domestic demand and less through those on energy goods, as in 2020.

In greater detail, regarding the expected impact of indirect taxes on the formation of the CPI for the rest of 2020 and in 2021, the extension of the tax reduction for specific goods and services until 30 April 2021 (VAT reduction on non-alcoholic beverages, tickets for shows, food services, etc.) will maintain their deflationary impact on prices. That said, the interventions planned in the Draft State Budget to reduce direct taxation, i.e. suspension of the solidarity contribution and reduction of social security contributions, are expected to have a positive effect on CPI in 2021.

In terms of energy cost developments, OPEC +, including Russia, continues to implement the agreement to gradually reduce its daily oil production since April, due to the sharp drop in oil prices. Adjustment of daily oil production by 7.7 million barrels began in August, from 9.6 million by the end of August. This level is scheduled to be maintained until December 2020. OPEC + also decided to put pressure on countries such as Iraq and Nigeria to offset their overproduction from May to July. In addition, Russia has stated that it does not intend to reduce its daily oil production, while Iran, Venezuela and Libya increase their production further.[19] Following these developments, the international price of Brent crude oil last month stood at 40.9 $/barrel from 44.7 $/barrel in August and 43.2 $/barrel in July. From these fluctuations in oil prices, it appears that the second, weaker reduction in oil supply has not led to a halt in the price fall due to the COVID-19 pandemic, like the previous one, by about 10 million barrels. Recall that from the beginning of 2021 until April 2022, the OPEC + agreement provides for limiting the reduction of daily production to 5.7 million barrels.

On the oil demand side, the uncertainty about economic developments in the near future due to the COVID-19 pandemic, which was the main cause of the fall in international oil prices in the first half of 2020, seems to largely remain at least for the rest of 2020. The current second wave of its spread since September, mainly in Europe, at a rapid pace, combined with the uncertainty as to when it will be treatable (with vaccine - drugs), is expected to maintain the scepticism about the prospects of both the European and the world economy at least in late 2020 and early 2021. The effect of limited demand on the

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

price of Brent oil is largely reflected in the fact that in September 2020 it was 35% lower year on year (62.8 $/barrel).

Signs of faster recovery in global demand this year emerge from recent macroeconomic forecasts. According to the IMF, the world GDP is expected to fall by 4.4% in 2020, 0.8 p.p. less than in June. The revision is mainly due to the change of GDP in the second quarter in developed economies, where economic activity began to improve earlier than expected, following the lifting of the restrictive measures.[20] However, the overall recovery of the world economy seems to be slower and more gradual than originally estimated, with its growth rate in 2021 projected at 5.2%, 0.2 percentage points lower than in June. The available data indicate a large production gap and high unemployment in both developed and developing economies. Although there are significant differences between economies in terms of the extent and intensity of the effects of the pandemic, which correlates with the effectiveness of the measures to limit the spread of COVID-19 taken by each country, but also with the structural characteristics of each economy, the widespread contraction of economic activity will continue to have an impact on oil demand.

Taking into account the latest forecasts of international organisations,[21] within the current macroeconomic scenario of the current report (largely unchanged health conditions, domestically and internationally), the average oil price in 2020 is projected to reach 41 $/barrel, recording a decrease of 36% compared to the previous year, while for 2021 it is estimated to increase by about 20%, to 49 $/barrel (+19.5%), yet remaining notably lower than the average level in 2019 (64.3 $/barrel). Indicatively of the effect on prices, a decrease of the same extent as the estimated one for this year was recorded in 2016 and the contribution of energy goods on the CPI change domestically in that year was negative, in the area of 0.8 percentage points. Similarly, for 2021, the projected increase in the price of oil of about 20% was last recorded in 2010, during the recovery from the global financial crisis, with the then contribution of energy goods to CPI change reaching about +0.9 percentage points.

In the event of a strong second wave of the pandemic internationally during the winter (alternative macroeconomic scenario of the current report), which will lead to extensive public health protection measures (suspension of operations, passenger travel restrictions, within countries and internationally, etc.), the demand for fuel will be notably weaker than in the previous case. The weakening of demand will be mitigated, possibly eliminated, if the second phase continues beyond February, as there were very strong pressures on oil prices during the first phase of the pandemic in 2020. Subsequently, the average price will reach 43 $/barrel in 2021, recording an annual increase of about 10%. Indicatively of the effect on prices, an increase in the price of oil in the region of 10% was recorded in 2017 and the prices of energy goods had a positive contribution to the CPI change of about 0.4 percentage points.

The euro / dollar exchange rate on average in 2020 is expected to reach 1.14, higher by 1.8% than in 2019, while for 2021 it is expected to further strengthen to 1.16.[22] The upward trend is likely to be temporarily halted during the US presidential election, with market expectations improving from the change of government, while the adoption of new measures to support the US economy against the effects of COVID-19 will have a decisive role for next year. Clearly, the evolution of the pandemic and the efforts to address its effects, both in the US and in the EU, will affect the exchange rate. Subsequently, the average price of oil in euros in 2020 in the first macroeconomic scenario is expected to

[20] World Economic Outlook, ΔΝΤ, October 2020

[21] Short-Term Energy Outlook, US Energy Information Administration, October 2010

[22] Macroeconomic projections, ECB, October 2020

reach 36.0 €/barrel, recording a decline of 37.3% compared to the previous year, while for 2021 it is estimated that it will appreciate slightly, to 42.2 €/barrel, a development which implies inflationary pressures from energy costs. Similarly, in the event of a strong second phase of the pandemic internationally, the average price of oil in euros in 2021 will rise slightly, close to 38 €/barrel.

The evolution of the current second phase of the health crisis, its intensity and duration in particular, will be decisive for the impact of domestic demand on prices. Unless they lead again to generalised restrictive measures to protect public health, in Greece and abroad (1st macroeconomic forecast scenario), the decline of economic activity will ease in late 2020, turning to significant growth in 2021, with a corresponding impact on employment and income. The resurgence of activity will come mainly from sectors that were hit hardest during the first phase of the pandemic, such as Tourism, Food Services, Arts-Entertainment and Retail Trade. It will also concern sectors with stronger export orientation, due to the recovery of international trade (Primary sector, Mining-Quarries, Manufacturing). However, the current epidemiological data, mainly in EU countries, point to a likely new round of restrictive measures to protect public health. They may have a regional dimension, in different parts rather than whole countries. After all, since mid-October, many European countries have imposed restrictive measures to protect public health (suspension of certain categories of shops / for a few hours daily, travel restrictions). But if the health crisis resurges strongly, internationally and domestically, the effects on production and employment will be significant. In any case, a positive effect on domestic demand is expected to come at the end of 2020 and the beginning of next year from the retroactive payment of pensions, amounting to €1.4 billion.

Taking into account the expected trends in the main components of the domestic Consumer Price Index, as well as the fact that in January - August this year there was a deflation of 0.8%, it is forecast that the Consumer Price Index will fall in 2020 by 1.2% to 1.4% compared to 2019. In 2021, under the baseline macroeconomic scenario, the Consumer Price Index is expected to increase by 1.7%, due to stronger demand and weaker deflationary effect of energy. In the event of a resurgence in the health crisis, deflation is forecast at 0.4%.

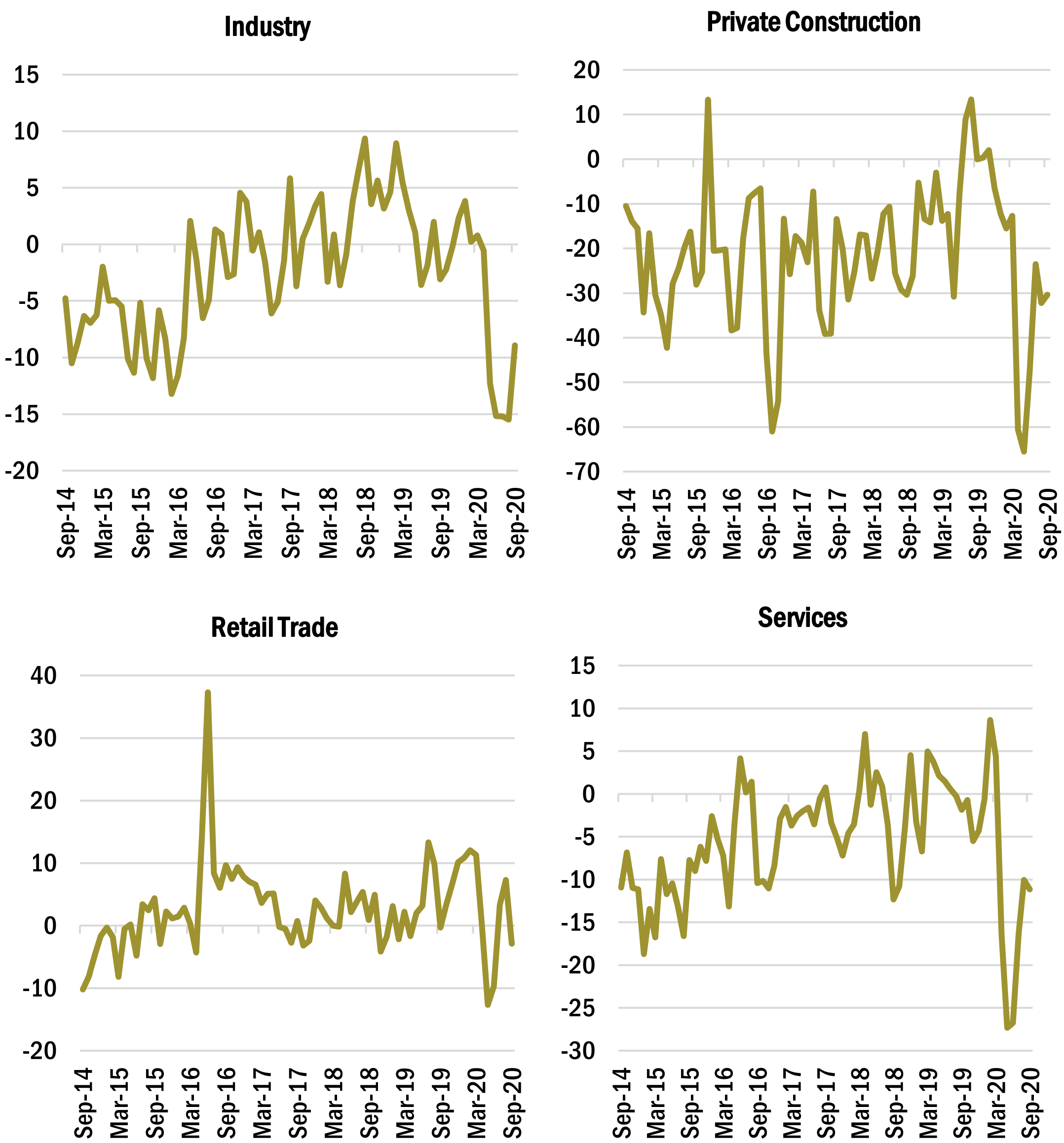
The results of the IOBE's monthly business and consumer surveys, precursors to the price development on the supply side, also provide significant information on price developments over the coming period.

The quarter-on-quarter trends in price expectations were mainly positive in the third quarter of 2020, as the balance increased mildly in Services and Retail, and significantly in Construction, falling only in Industry. Year on year, the price expectations weakened in all sectors, with a stronger decline in Construction. In more detail:

In Industry, the price expectations slightly weakened quarter on quarter in the third quarter of the year. In particular, the index decreased by 4 points in the examined quarter, to reach -13 points, 12 points lower year on year. Among the companies of the sector, 15% were expecting prices to fall in the short term, while the percentage of those anticipating their rise was around 2% (from 4%), with the remaining 83% expecting price stability.

Figure 2.29

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



Source: IOBE

Price strengthened quarter on quarter in most sectors in the third quarter of the year, with the balance increasing mildly in Services and Retail, and significantly in Construction, declining only in Industry.

In Retail Trade, the balance of -8 points in the price expectations of the companies in the sector in the previous quarter decreased by 10 points, while at the same time it was 5 points lower compared to the corresponding period of 2019. Of the companies in the sector, 3% (from 12%) were expecting prices to fall in the short term, while the percentage of those anticipating their rise marginally increased to 6% (from 5%), with the remaining 91% (from 83%) expecting price stability. In the sub-sectors of Retail Trade, price expectations strengthened quarter on quarter in the third quarter of 2020 in all examined sub-sectors except Textiles-Clothing-Footwear.

The average indicator of price expectations in Services strengthened significantly quarter on quarter in the examined quarter, to reach -13 (from -23) points, while it moved to a much lower level compared to its last year performance, when it stood at normal for the season levels (0 points). In the third quarter, 17% (from 27%) of the companies in the sector were expecting price reductions and once more 4% were anticipating increase. In the examined sub-sectors, the indicator increased strongly in Hotels, Restaurants, Tourist Agencies, Land Transport and Various Business Activities, and to a lesser extent in Financial Intermediaries and IT Services.

Finally, in Private Construction, the negative balance of -58 points of the previous quarter strengthened to -29 points, having at the same time changed considerably compared to the corresponding level of the previous year (-36 points). In addition, 29% (from 58%) of the companies in the sector were anticipating a decline of prices in the sector, while the percentage of those who were expecting an increase remained near zero, with 71% (from 41%) predicting price stability.

3.6 Balance of Payments

- Increase in the current account deficit in January - August 2020, with twice the fall in receipts compared to payments
- Strong decline in the surplus of the Services Account, only partially offset by improvement in the other accounts

Current Account

In January-August 2020, the Current Account (CA) recorded a deficit of €7.9 billion, compared to a deficit of €1.0 billion in the same period of 2019. The deficit widened due to the significant drop in the surplus of the Services Account, due to the restriction of tourism activity, while little compensation came from improvement of the Goods, Primary and Secondary Income accounts.

In greater detail, the deficit of the Goods account shrank to €12.4 billion, lower year on year by €3.1 billion, due to the double drop in imports compared to exports. Exports totalled €18.7 billion, lower by €2.9 billion, mainly due to falling oil prices and demand, which resulted in a decrease in fuel exports by €2.2 billion, while a fall was also recorded in other goods by €670.5 million, returning to their 2018 levels. The imports of goods fell to €31.1 billion (down by €5.9 billion), with imports of fuel falling by €3.4 billion and those of other goods by €2.4 billion. The deficit of the Goods account excluding fuel and ships totalled €10.0 billion, down by €1.7 billion.

The pandemic-related developments significantly reduced the surplus in the Services account in January-August, with the most dynamic for tourism months already incorporated. In particular, the surplus dropped to €4.6 billion, compared with €15.3 billion in the same period of 2019, mainly due to a significant drop in receipts. In greater detail, total receipts from services fell to €15.2 billion, compared with €27.4 billion in the same period of the previous year, as receipts from travel services totalled €2.7 billion, lower by 80%, due to restrictions because of the coronavirus pandemic and the fall in demand; while in August alone, receipts decreased by 67%. Receipts from transport services fell by 14.5%, to €9.7 billion, while in other Services they fell slightly, by 1.4%. Payments for services totalled €10.6 billion, down by €1.5 billion compared to 2019. Payments for travel services decreased by 67.1% to €592.2 million and payments for transport services fell by 5.7%, to 6.9 billion.

In the Primary Income account, the deficit in the first eight months of the year decreased by €688 million compared to a year ago, to reach -€443.6 million. Receipts totalled €4.8 billion, higher by 7.4%, while payments declined by 6.3%, to €5.3 billion. In greater detail, labour receipts decreased by 17.7%, to €137.1 million, investment increased by 2.7% to €1.9 billion, while other primary income (subsidies and taxes on production) expanded by 12.8%, to €2.7 billion. Payments for income from labour decreased to €934.5 million (-1.1%), from investments by -7.7% to €4.0 billion, while payments for other primary incomes also decreased by 2.4 %, at €307.9 million.

The Secondary Income account recorded a surplus of €390.6 million, with receipts totalling €2.7 billion, from €2.5 billion in the previous year, and payments at €2.3 billion, compared to €2.1 billion a year earlier.

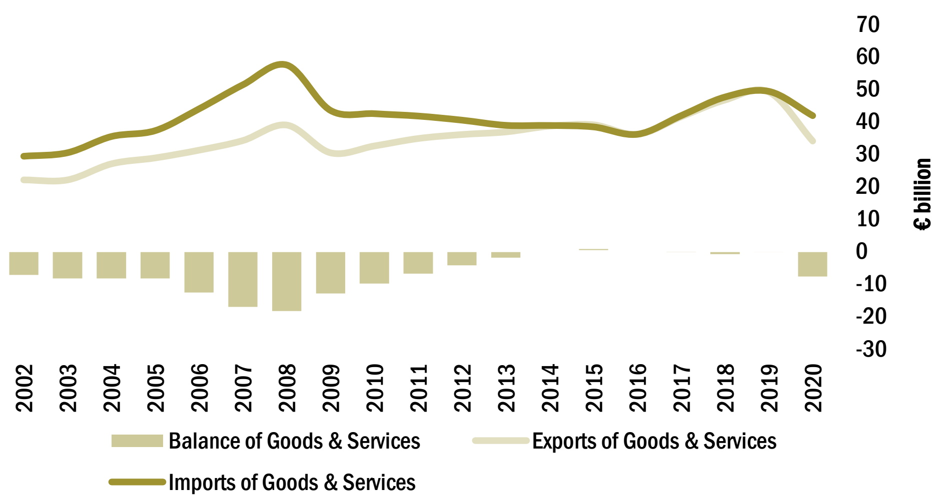
Capital Account

The Capital Account surplus[23] increased to €1.4 billion, compared to €261.6 million in 2019, due to an increase in transfers from the EU to the General Government by €790 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 €6.4 billion, in January-August, against €742.6 million in 2019.

Figure 2.30

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



A strong increase in the deficit of the goods and services account in January-August, to €7.8 billion, compared with €217.4 million in 2019.

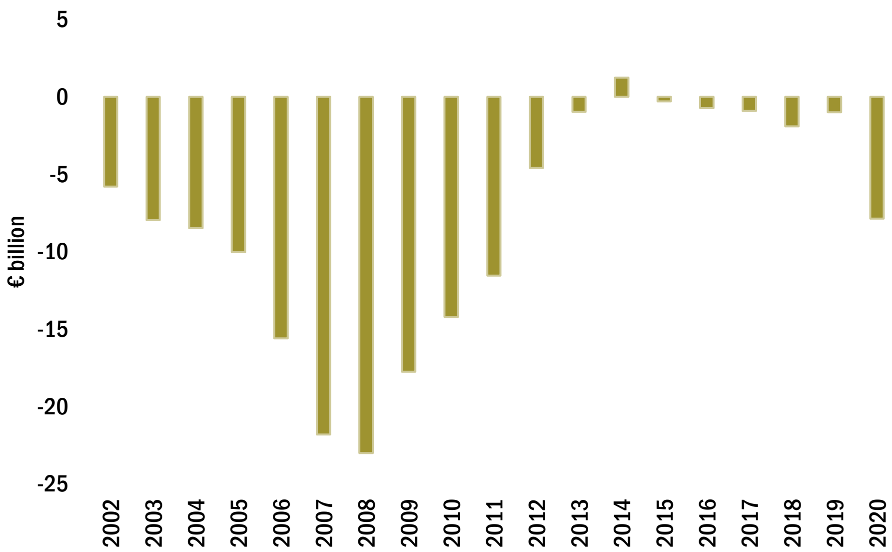
Source: Bank of Greece, Data processing IOBE'

[23] 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 structural funds – excluding the European Social Fund - and the Cohesion Fund under the Community Support Framework).

Figure 2.31

Current Account (January - August), 2002-2020

A strong deterioration in the current account deficit to €7.9 billion, compared with €1.0 billion in 2019



Source: Bank of Greece, Data processing IOBE

Financial Account

The Financial Account was in a deficit in the first eight months of 2020, at €6.3 billion, compared to a small surplus of €16.4 million in 2019.

In the constituent accounts, the net receivables of residents from direct investment abroad increased by €440.7 million, while net liabilities to non-residents (investments in Greece by non-residents) increased significantly, by €2.2 billion, even though no significant transactions took place in August.

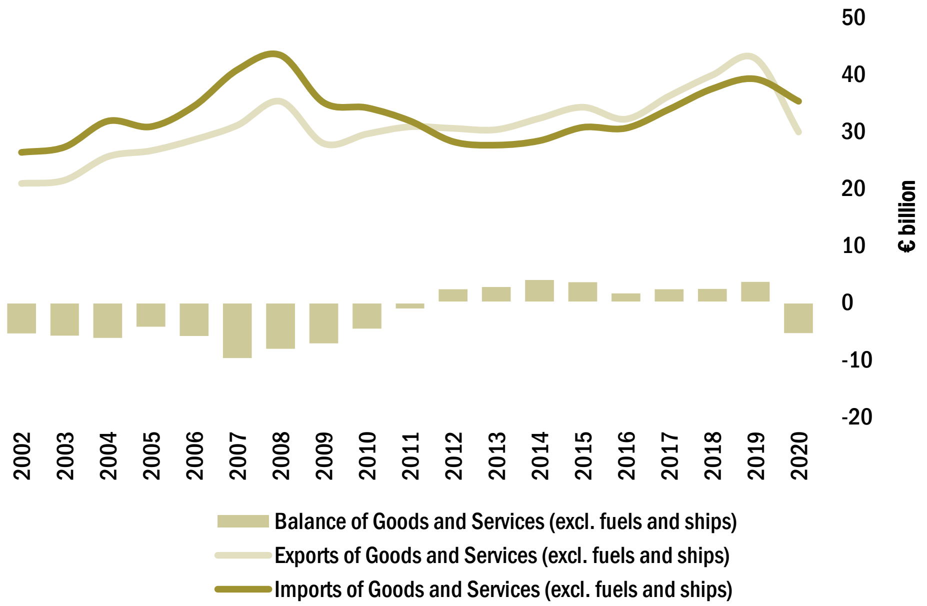
In portfolio investment, the claims of residents vis-à-vis abroad increased significantly, by €30,7 billion, as according to the BoG, holdings of residents in foreign bonds and treasury bills increased (€29.9 billion). Liabilities to non-residents decreased by €9.9 billion in January - August, mainly due to the reduction of non-residents' placements in bonds and interest-bearing bills of the Greek State.

In the category of other investments, the claims of residents to non-residents increased by €755.7 million. Liabilities increased by €46.8 billion, reflecting the increase in deposits and repos of non-residents in Greece by €38.1 billion (including the TARGET account). Moreover, according to BoG, public and private sector debt obligations to non-residents increased by €6.4 δισεκ. Major changes in portfolio investment and other investment categories are largely due to loan securitisations of systemic banks.

Finally, the Reserve Assets of the country totalled €9.6 billion by the end of August 2020, against €7.5 billion in August 2019.

Figure 2.32

Imports-Exports of Goods excluding fuel and ships, 2002-2019



Fall in the deficit in the account of goods and services excluding fuel in January - August, to €3.5 billion, from €3.8 billion

Source: Bank of Greece, Data processing IOBE

Table 2.22 **Balance of payments (€ million).**

		January - August			August		
		2018	2019	2020	2018	2019	2020
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-1,905.4	-1,004.3	-7,869.4	1,354.3	1,803.2	79.7
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-918.5	-217.4	-7,816.5	2,032.4	2,589.0	214.0
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-14,497.4	-15,479.4	-12,402.7	-1,935.7	-1,868.2	-1,399.9
	Oil balance	-3,267.0	-3,528.5	-2,358.7	-558.4	-526.0	-81.4
	Trade balance excluding oil	-11,230.4	-11,951.0	-10,043.9	-1,377.3	-1,342.2	-1,318.6
	Ships balance	-43.6	-280.1	-75.1	-0.7	-164.5	-10.3
	Trade balance excluding ships	-14,453.8	-15,199.4	-12,327.6	-1,935.0	-1,703.7	-1,389.6
	Trade balance excluding oil and ships	-11,186.8	-11,670.9	-9,968.9	-1,376.6	-1,177.7	-1,308.3
I.A.1	Exports of Goods	21,347.2	21,578.3	18,708.4	2,519.9	2,330.0	2,015.3
	Oil	6,564.9	6,158.2	3,961.1	866.4	625.6	492.9
	Ships (sales)	116.9	56.8	54.5	1.6	4.5	6.0
	Goods excluding oil and ships	14,665.4	15,363.3	14,692.7	1,651.8	1,699.9	1,516.5
I.A.2	Imports of Goods	35,844.6	37,057.8	31,111.0	4,455.5	4,198.2	3,415.2
	Oil	9,831.9	9,686.7	6,319.8	1,424.8	1,151.5	574.2
	Ships (buying)	160.6	336.9	129.6	2.3	169.0	16.3
	Goods excluding oil and ships	25,852.1	27,034.2	24,661.6	3,028.5	2,877.6	2,824.7
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	13,578.9	15,262.0	4,586.2	3,968.0	4,457.2	1,614.0
I.B.1	Receipts	25,199.5	27,415.6	15,200.3	5,480.4	5,993.3	2,846.9
	Travel	11,658.4	13,220.9	2,684.0	3,601.3	4,104.4	1,373.2
	Transportation	10,669.7	11,310.6	9,672.4	1,552.3	1,560.5	1,116.6
	Other services	2,871.5	2,884.2	2,844.0	326.8	328.4	357.1
I.B.2	Payments	11,620.7	12,153.6	10,614.1	1,512.3	1,536.0	1,232.9
	Travel	1,433.8	1,798.6	592.2	169.5	231.5	54.1
	Transportation	7,121.3	7,298.2	6,881.7	941.5	980.6	814.0
	Other services	3,065.6	3,056.8	3,140.2	401.2	324.0	364.8
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	-1,081.4	-1,131.8	-443.6	-576.1	-671.1	-197.8
I.C.1	Receipts	4,502.6	4,510.7	4,844.5	316.6	395.3	655.4
	From work (wages, compensation)	140.1	166.7	137.1	19.1	17.9	14.4
	From investments (interest, dividends, profit)	1,747.5	1,902.5	1,953.0	192.8	206.1	197.1
	Other primary income	2,615.0	2,441.5	2,754.4	104.7	171.4	443.9
I.C.2	Payments	5,584.0	5,642.5	5,288.2	892.6	1,066.4	853.2
	From work (wages, compensation)	892.8	945.2	934.5	113.9	123.8	107.2
	From investments (interest, dividends, profit)	4,404.0	4,381.7	4,045.7	755.1	916.9	730.8
	Other primary income	287.2	315.6	307.9	23.6	25.8	15.2
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	94.5	344.9	390.6	-102.0	-114.7	63.4
I.D.1	Receipts	1,610.9	2,480.0	2,725.3	105.6	156.2	260.2
	General government	871.7	1,560.8	1,666.1	34.9	57.1	148.0
	Other sectors	739.3	919.2	1,059.2	70.7	99.1	112.2
I.D.2	Payments	1,516.4	2,135.1	2,334.7	207.6	270.9	196.8
	General government	1,051.9	1,312.4	1,252.9	133.7	146.0	86.4
	Other sectors	464.5	822.7	1,081.8	73.9	125.0	110.4
II	CAPITAL ACCOUNT (II.1-II.2)	283.6	261.6	1,420.1	91.3	0.7	850.3
II.1	Receipts	497.5	636.0	1,638.6	117.0	61.0	868.3
	General government	301.9	507.9	1,499.5	66.1	54.3	843.9
	Other sectors	195.5	128.0	139.1	50.9	6.7	24.4
II.2	Payments	213.8	374.3	218.4	25.6	60.3	18.0
	General government	1.9	2.4	3.0	0.4	0.4	0.3
	Other sectors	211.9	371.9	215.5	25.3	59.9	17.7
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	-1,621.7	-742.6	-6,449.3	1,445.6	1,803.9	930.0
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-1,205.4	16.4	-6,315.9	1,401.8	1,648.1	1,049.9
III.A	DIRECT INVESTMENT*	-2,208.4	-2,480.3	-1,809.2	-86.2	-209.7	-123.6
	Assets	222.0	261.6	440.7	20.4	-29.9	9.8
	Liabilities	2,430.4	2,741.8	2,249.9	106.6	179.8	133.5
III.B	PORTFOLIO INVESTMENT*	-3,358.8	-2,169.8	40,650.8	1,187.2	-1,128.3	3,000.5
	Assets	-1,217.0	1,888.2	30,735.0	605.1	-1,272.4	2,188.7
	Liabilities	2,141.8	4,058.0	-9,915.8	-582.1	-144.2	-811.8
III.C	OTHER INVESTMENT*	4,630.8	4,817.5	-46,095.5	523.8	2,870.0	-2,092.6
	Assets	-4,471.8	318.6	755.7	2,478.4	3,261.0	-446.6
	Liabilities	-9,102.6	-4,498.9	46,851.2	1,954.7	391.0	1,646.0
	(Loans of general government)	20,156.0	-1,794.4	-206.9	14,995.2	2.0	3.1
III.D	CHANGE IN RESERVE ASSETS**	-269.0	-151.0	937.9	-223.0	116.0	265.6
IV	BALANCE ITEMS (I +II +IV +V = 0)	416.3	759.0	133.4	-43.8	-155.9	119.9
	RESERVE ASSETS (STOCK)***				6,083	7,489	9,558

Source: Bank of Greece

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

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

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

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4 THE MACROECONOMIC AND SOCIOECONOMIC IMPACT OF THE HELLENIC-REPUBLIC ASSET DEVELOPMENT PROGRAMME

- The privatisation programme has had a strong positive impact on the Greek economy, with notable social benefits, during a particularly difficult period for Greece.
- For the overall programme, it is estimated that privatisation boosted the country's GDP by around EUR 1 bn per year on average over the period 2011-2019.
- Over the same period, the average annual impact on employment was close to 20,000 full-time jobs.

4.1 Introduction

The development of the private property of the Hellenic Republic has been a key pillar of the effort to correct the structural problems and macroeconomic imbalances that had led Greece to the deep social and economic crisis of the past decade. The revenues from the concessions of infrastructure and the sale of shares and real estate have created a fiscal space, which should otherwise have been covered by further cuts in public spending or by tax hikes.

In addition, the privatisation agreements contain improvements and interventions in the regulatory framework, as well as investment commitments, which have stimulated economic activity and increased the efficiency of the production factors during a particularly difficult period. Furthermore, the changes in the business model and corporate governance that take place with the entry of strategic investors in the developed assets have a positive effect on productivity. Finally, the progress with the privatisation programme has been seen by the international investor community as evidence of the state's commitment to the effort to reform the Greek economy.

The aim of this study is to highlight the macroeconomic and socio-economic impact of the Hellenic Republic's asset development programme.[24] In particular, the study examines the effects of the overall programme of the Hellenic Republic Asset Development Fund (HRADF) for the period 2011-2019 and quantifies the impact of selected major privatisation projects. The effects are presented in terms of changes in socio-economic indicators such as GDP, net fiscal revenue and employment.

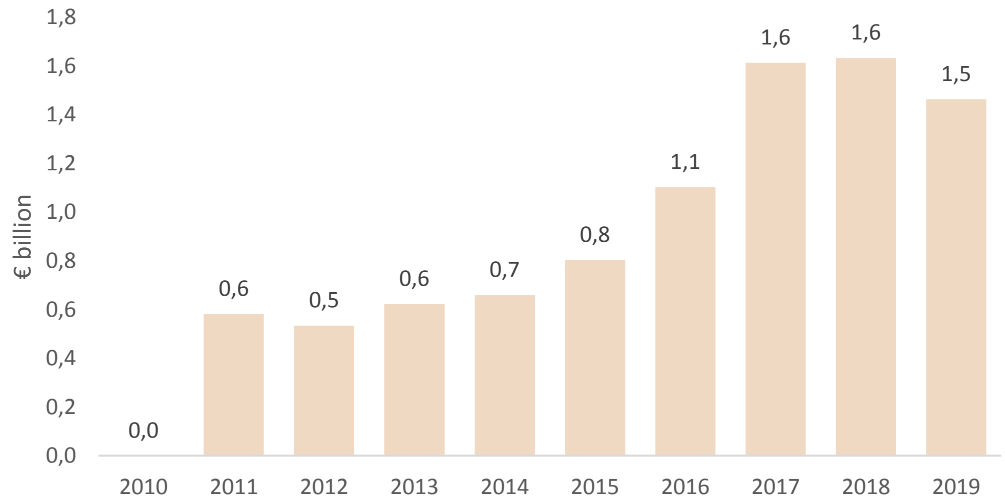
4.2 Macroeconomic impact of the privatisation programme

The privatisation programme has had a strong positive impact on the Greek economy, with clear social benefits during a particularly difficult period for the country. The overall privatisation programme is estimated to have boosted the country's GDP by around €1 bn a year on average over the period 2011-2019 (Figure 4.1). Over the same period, the average impact on employment was close to 20,000 full-time jobs.

A significant part of this impact came from investment made throughout the economy as a result of a signalling effect with the completion of large privatisation deals. The econometric analysis showed the existence of a positive and statistically significant correlation between gross fixed investments (other than dwellings) and initial receipts from completed privatisation agreements. In particular, it is estimated that around €5.6 billion of fixed investments made in the country between 2011 and the second quarter of 2019 can be attributed to the privatisation programme. It follows that every €1 of initial privatisation proceeds corresponds to an average of €1.02 fixed investments in the economy as a whole.

Figure 4.1

Boost of Greece's real annual GDP due to the implementation of the privatisation programme, compared to the level of GDP if the programme had not been implemented (base scenario - reference year 2010)



Source: IOBE estimates

4.3 Socio-economic effects

[24]The full study and its presentation are available on the IOBE website: http://iobe.gr/research_dtl.asp?RID=202

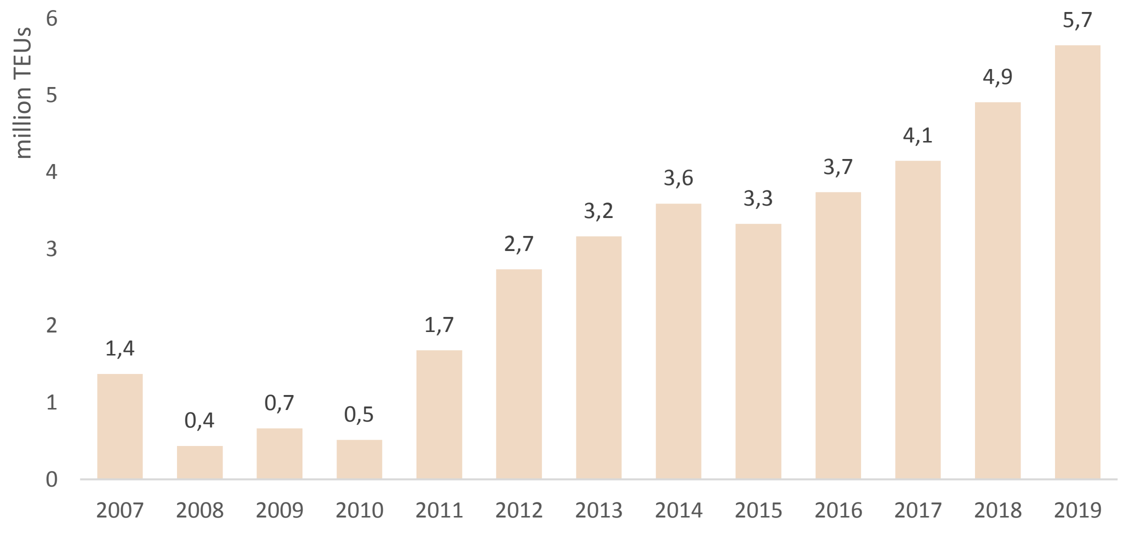
The privatisation impact is not limited to the time of completion of each transaction but extends to the future and in many cases strengthens over time. The new shareholders make significant investments and make changes to the business model, resulting in a significantly stronger economic activity. Increased entrepreneurial activity leads to positive effects on employment and fiscal revenues, while the implemented business model changes often involve the adoption of systems for environmental monitoring and management. Finally, through interconnections with other production processes at local and national level, the stronger activity due to privatisation results in multiplier effects on GDP, employment and fiscal revenues for the whole country.

Piraeus Port Authority

The master plan of the Piraeus Port Authority (PPA) provides for the implementation of investments with a total budget of €21 million by 2034, peaking at €120 million in 2022. In addition, subject to normalisation of the economic conditions after the pandemic, it is estimated that the change in ownership will lead to higher business revenues towards the end of this decade by €140 million, with the highest percentage of revenue coming from the container docks (€96.1 million). Already, the privatisation of PPA has led to a dramatic increase in the volume of transported containers (Figure 4.2) and as a result the port of Piraeus is ranked 4th in Europe (from 17th in 2007) and 1st in the Mediterranean.

Figure 4.2

Container traffic in TEUs in 2007-2019



Source: PPA, World Shipping Council

The broader effects of the privatisation of the Piraeus Port Authority on the whole economy are also strong. Taking into account the multiplier effects, the impact of this privatisation on the country's GDP is expected to exceed €375 million in about a decade, from €90 million in 2018. In terms of employment, the overall impact is expected to exceed 5,500 jobs in years when investment activity in the port is expected to be particularly strong.

Regional airports

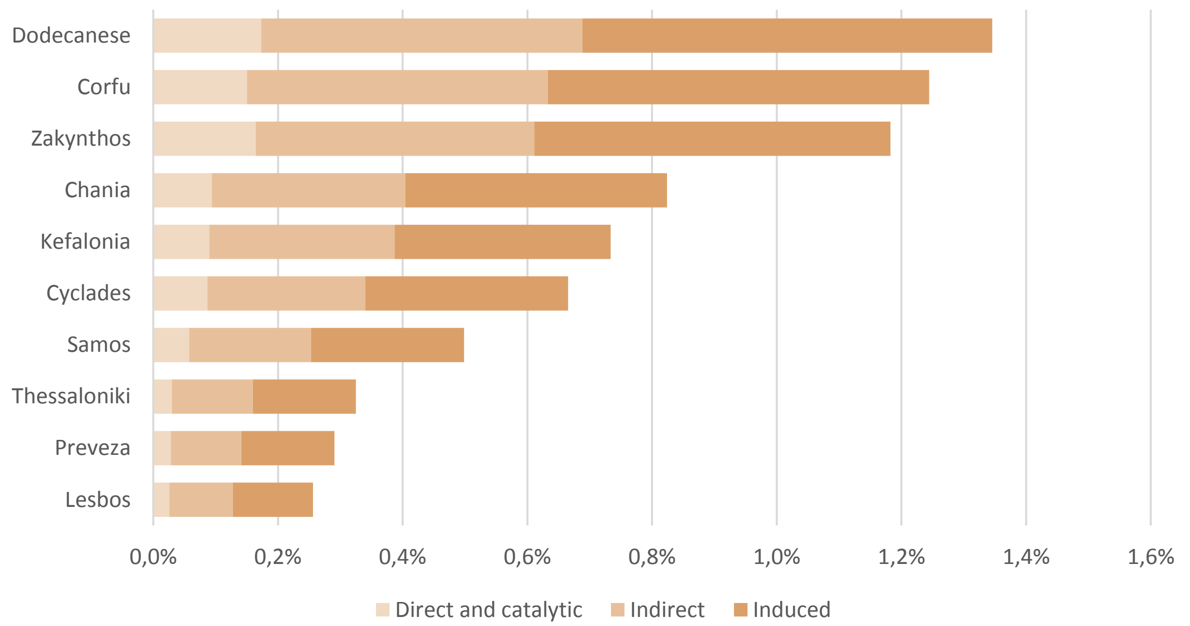
The concession of the 14 regional airports to Fraport Greece is one of the largest investments made in recent years in Greece. The experience of Fraport AG, which is one of the largest airport management companies in the world, has boosted the competitive position of the 14 regional airports and of the areas in which they operate.

For the modernisation, development and expansion of the airport infrastructure, the company is implementing investments that will exceed €463 million by the end of 2020. In addition, with the inclusion of new routes, the strengthening of the network by adding new airlines and with incentive programmes to airlines, Fraport Greece has contributed to the further development of domestic and international traffic. The positive trend recorded since the second quarter of 2017 in the 14 regional airports reflects broader growth of tourism, but also the positive impact of the change in the operation of these airports with the implementation of the company's business plan, as demonstrated by the econometric analysis. It is estimated that an additional tourism expenditure of €225 million in 2017-2018 in the country as a whole is linked to this particular boost of passenger traffic.

The investment carried out at regional airports and the tourist traffic boost due to their upgrade have a significant positive impact on the overall economy. Together with the multiplier effects, the total impact of the concession on the country's annual GDP reached €300 million already from 2019, while in the medium term it is expected to reach €630 million. In terms of employment, the overall impact reached about 7,200 jobs in 2019, while it is expected to exceed 11,600 jobs in about a decade.

Figure 4.3

Effects of the privatisation of regional airports on the GDP of each region, as a percentage of the GDP of each region, selected regions for the year 2018



Source: IOBE estimates

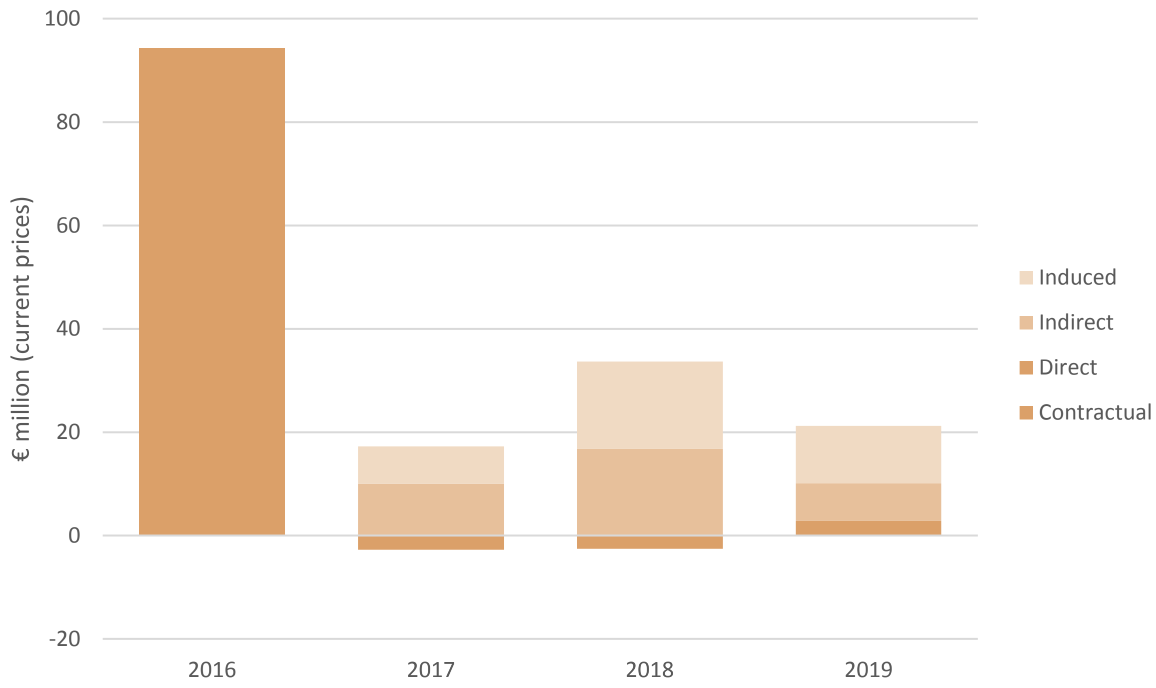
The socio-economic impact of the airport concessions has an important regional dimension. Particularly strong are the impacts on the prefectures of Thessaloniki and the Dodecanese (€51 million and €45 million in GDP terms in 2018 and about 1,300 jobs in each prefecture). Taking into account the size of the local economy, the impact is also strong on the prefectures of Corfu and Zakynthos (about 1.2% of GDP and 1.3% of employment respectively – Figure 4.3).

Astir Palace Vouliagmeni

The privatisation of Astir Palace Vouliagmeni SA had a significant positive impact on the company's business revenues after the completion of the renovation works in 2017 and 2018 (€27.6 million in 2019). Towards the end of the first decade of operation of the hospitality resort under the new shareholder structure, and provided that there is a full recovery after the COVID-19 pandemic, the revenue difference from the counterfactual scenario is estimated to exceed €35 million.

Figure 4.4

Effects of the privatisation of Astir Palace on public revenue during the period 2016-2019



Source: IOBE estimates

Together with the investments carried out for the extensive upgrade of the resort, it is estimated that the overall impact on GDP amounts to €107 million in 2018 and is expected to stand at €50 million per year after about a decade after the signing of the privatisation agreement. In terms of employment, the overall impact is estimated at about 3,200 jobs in 2018 and is expected to stabilise over the medium term at about 1,000 jobs. Net fiscal revenues, despite the loss of income from dividends, are also estimated to be higher, by around €13 million towards the end of the examined period.

TRAINOSE

The privatisation of TRAINOSE S.A. on 14 September 2017 and its merger with ROSCO S.A. on 1 April 2019 are expected to significantly strengthen the company, utilising FSI's know-how and experience in providing rail services. In particular, the operating revenues are expected to increase by 27% for the merged company at the end of the examined ten-year period.

Taking into account the multiplier effects, the stronger activity in the railway services offered by the company raised the country's GDP by about €27 million in 2019, while in the medium term the overall impact on annual GDP is expected to reach €86 million. Similarly, in employment terms, the number of jobs in the economy in the medium term are expected to be higher by 1,400 compared to the counterfactual scenario.

Regional ports

The ports of Greece have a key role for the sustainable development of the Greek economy and its regions. Due to the country's particular morphology and multitude of islands, the ports are an important communication hub not only for passenger traffic but also for commercial activity between mainland Greece and the islands. Moreover, Greece's strategic location is an important advantage for the development of ports serving trade between three continents (Europe-Asia-Africa).

The activity in the ten regional ports that have the legal form of limited-liability companies with shares held by the HRADF has been growing over the past five years, but the level of investment and the utilisation of the port capacity are very low. In addition, the linkage of the ports with the remaining supply chain infrastructure is incomplete, thus the positive interactions with other local production activities and more broadly with the domestic economy are rather limited.

The inflow of new capital, the enhanced corporate governance and the development of new business initiatives by strategic investors with a long-term vision for the operation of the regional ports can contribute effectively to an essential upgrade of the country's port infrastructure. A good development in this direction can contribute substantially to a more balanced economic development of the regions of the country and ultimately it can give a strong boost to the necessary reconstruction of the domestic economy.

APPENDIX

Table 1: GDP Rate of Change

	Annual Data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	0.7	0.0	0.7	1.0	2.0	2.4	2.6	1.4
Belgium	0.7	0.5	1.6	2.0	1.5	1.9	1.5	1.4
Bulgaria	0.4	0.3	1.9	4.0	3.8	3.5	3.1	3.4
France	0.3	0.6	1.0	1.1	1.1	2.3	1.8	1.5
Germany	0.4	0.4	2.2	1.5	2.2	2.6	1.3	0.6
Denmark	0.2	0.9	1.6	2.3	3.2	2.8	2.2	2.8
Czech Republic	-0.8	0.0	2.3	5.4	2.5	5.2	3.2	2.3
EU 27	-0.7	0.0	1.6	2.3	2.0	2.8	2.1	1.5
Greece	-7.1	-2.7	0.7	-0.4	-0.5	1.3	1.6	1.9
Estonia	3.1	1.3	3.0	1.8	3.2	5.5	4.4	5.0
Euro area	-0.9	-0.2	1.4	2.0	1.9	2.6	1.8	1.3
Ireland	0.1	1.2	8.6	25.2	2.0	9.1	8.5	5.6
Spain	-3.0	-1.4	1.4	3.8	3.0	3.0	2.4	2.0
Italy	-3.0	-1.8	0.0	0.8	1.3	1.7	0.9	0.3
Croatia	-2.2	-0.5	-0.1	2.4	3.5	3.1	2.7	2.9
Cyprus	-3.4	-6.6	-1.8	3.2	6.4	5.2	5.2	3.1
Latvia	4.3	2.3	1.1	4.0	2.4	3.3	4.0	2.1
Lithuania	3.8	3.6	3.5	2.0	2.5	4.3	3.9	4.3
Luxembourg	-0.4	3.7	4.3	4.3	4.6	1.8	3.1	2.3
Malta	4.1	5.5	7.6	9.6	3.9	8.0	5.2	4.9
Netherlands	-1.0	-0.1	1.4	2.0	2.2	2.9	2.4	1.7
Hungary	-1.4	1.9	4.2	3.8	2.1	4.3	5.4	4.6
Poland	1.3	1.1	3.4	4.2	3.1	4.8	5.4	4.5
Portugal	-4.1	-0.9	0.8	1.8	2.0	3.5	2.8	2.2
Romania	2.0	3.8	3.6	3.0	4.7	7.3	4.5	4.2
Slovakia	1.9	0.7	2.6	4.8	2.1	3.0	3.8	2.3
Slovenia	-2.6	-1.0	2.8	2.2	3.2	4.8	4.4	3.2
Sweden	-0.6	1.2	2.7	4.5	2.1	2.6	2.0	1.3
Finland	-1.4	-0.9	-0.4	0.5	2.8	3.3	1.5	1.1

Table 2: General Government Debt as % of GDP

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

Table 3: General Government Balance as % of GDP

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

Annual Data (%)

Table 4: Percentage of Population in Poverty or Social Exclusion * (see. p.145)

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

Table 5: Inflation

	Annual Data (%)					January- August (%)			Change (%)	
	2015	2016	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	0.8	1.0	2.2	2.1	1.5	2.1	1.6	1.5	0.0	-0.5
Belgium	0.6	1.8	2.2	2.3	1.2	2.1	1.6	0.5	-1.2	-0.4
Bulgaria	-1.1	-1.3	1.2	2.6	2.5	2.4	2.6	1.6	-1.0	0.2
France	0.1	0.3	1.2	2.1	1.3	2.0	1.3	0.8	-0.6	-0.7
Germany	0.7	0.4	1.7	1.9	1.4	1.8	1.5	0.8	-0.6	-0.3
Denmark	0.2	0.0	1.1	0.7	0.7	0.7	0.8	0.3	-0.5	0.1
Czech Republic	0.3	0.6	2.4	2.0	2.6	2.0	2.4	3.5	1.0	0.4
EU 27	0.1	0.2	1.7	1.9	1.5	1.7	1.5	0.9	-0.6	-0.2
Greece	-1.1	0.0	1.1	0.8	0.5	0.6	0.6	-0.8	-1.4	0.0
Estonia	0.1	0.8	3.7	3.4	2.3	3.3	2.5	-0.3	-2.8	-0.8
Euro area	0.2	0.2	1.5	1.8	1.2	1.7	1.3	0.5	-0.8	-0.3
Ireland	0.0	-0.2	0.3	0.7	0.9	0.6	0.9	-0.1	-1.0	0.3
Spain	-0.6	-0.3	2.0	1.7	0.8	1.7	1.0	-0.1	-1.1	-0.7
Italy	0.1	-0.1	1.3	1.2	0.6	1.1	0.8	0.1	-0.8	-0.3
Croatia	-0.3	-0.6	1.3	1.6	0.8	1.6	0.8	0.1	-0.6	-0.9
Cyprus	-1.5	-1.2	0.7	0.8	0.5	0.4	0.8	-1.0	-1.8	0.4
Latvia	0.2	0.1	2.9	2.6	2.7	2.3	3.0	0.4	-2.6	0.7
Lithuania	-0.7	0.7	3.7	2.5	2.2	2.6	2.4	1.4	-0.9	-0.3
Luxembourg	0.1	0.0	2.1	2.0	1.6	1.8	1.9	0.2	-1.6	0.1
Malta	1.2	0.9	1.3	1.7	1.5	1.7	1.6	1.0	-0.6	-0.1
Netherlands	0.2	0.1	1.3	1.6	2.7	1.5	2.7	1.2	-1.4	1.1
Hungary	0.1	0.4	2.4	2.9	3.4	2.7	3.5	3.6	0.1	0.8
Poland	-0.7	-0.2	1.6	1.2	2.1	1.1	1.9	3.7	1.7	0.8
Portugal	0.5	0.6	1.6	1.2	0.3	1.2	0.4	0.1	-0.3	-0.8
Romania	-0.4	-1.1	1.1	4.1	3.9	4.2	4.0	2.6	-1.5	-0.2
Slovakia	-0.3	-0.5	1.4	2.5	2.8	2.7	2.6	2.3	-0.4	0.0
Slovenia	-0.8	-0.2	1.6	1.9	1.7	1.9	1.7	0.0	-1.7	-0.2
Sweden	0.7	1.1	1.9	2.0	1.7	1.9	1.8	0.8	-1.0	-0.1
Finland	-0.2	0.4	0.8	1.2	1.1	1.0	1.2	0.5	-0.8	0.2

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

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

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

	Annual Data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	117.9	117.3	116.8	117.3	117.5	116.3	116.5	115.5
Belgium	130.1	130.2	131.2	131.6	130.7	129.7	129.2	129.1
Bulgaria	43.7	42.9	44	44.5	45.7	46	47.1	48.6

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

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

	Annual Data (%)			Q2			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	75.4	76.2	76.8	76.3	76.9	74.3	-2.6	0.6
Belgium	68.5	69.7	70.5	69	71	69.6	-1.4	2
Bulgaria	71.3	72.4	75.0	72.6	75.7	72.2	-3.5	3.1
France	70.6	71.3	71.6	71.5	71.8	70.8	-1	0.3
Germany	79.2	79.9	80.7	79.6	80.5	:	:	0.9
Denmark	76.6	77.5	78.3	77.8	78.3	77.4	-0.9	0.5
Czech Republic	78.5	79.9	80.3	79.8	80.2	79.4	-0.8	0.4
EU 27	71.3	72.3	73.1	72.4	73.2	71.6	-1.6	0.8
Greece	57.8	59.5	61.2	59.9	61.9	60.5	-1.4	2
Estonia	78.7	79.5	80.2	79.6	79.3	77.3	-2	-0.3
Euro area	70.9	71.9	72.6	71.9	72.7	70.9	-1.8	0.8
Ireland	73	74.1	75.1	74	74.8	71.4	-3.4	0.8
Spain	65.5	67	68.1	67.1	68.2	63.7	-4.5	1.1
Italy	62.3	63	63.5	63.5	64	62	-2	0.5
Croatia	63.6	65.2	66.7	65.8	66.4	67.1	0.7	0.6
Cyprus	70.8	73.9	75.7	74.9	76.6	75.2	-1.4	1.7
Latvia	74.8	76.8	77.4	76.8	77.2	76.8	-0.4	0.4
Lithuania	76	77.8	78.2	77.6	78.4	76.4	-2	0.8
Luxembourg	71.5	72.1	72.8	71.3	73.2	71.9	-1.3	1.9
Malta	73	75.5	77.2	75.1	76.9	76.6	-0.3	1.8
Netherlands	78	79.2	80.2	78.9	80.1	79.6	-0.5	1.2
Hungary	73.3	74.4	75.3	74.5	75.2	74	-1.2	0.7
Poland	70.9	72.2	73.0	72.4	73.1	72.7	-0.4	0.7
Portugal	73.4	75.4	76.2	75.5	76.1	73.5	-2.6	0.6
Romania	68.8	69.9	70.9	70.7	71.6	70.4	-1.2	0.9
Slovakia	71.1	72.4	73.4	72	73	71.7	-1.3	1
Slovenia	73.4	75.4	76.5	75.5	77.1	74.9	-2.2	1.6
Sweden	81.8	82.4	82.1	82.8	82.4	80.7	-1.7	-0.4
Finland	74.2	76.3	77.2	76.8	77.5	75.9	-1.6	0.7

(*) % 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 (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	51.3	54.0	54.5	53.4	54.2	54.2	0	0.8
Belgium	48.3	50.3	52.1	49.8	52.3	53.5	1.2	2.5
Bulgaria	58.2	60.7	64.4	61.0	65.0	64.0	-1	4
France	51.3	52.3	53.0	52.1	53.0	53.6	0.6	0.9
Germany	70.1	71.4	72.7	70.8	72.3	:	:	1.5
Denmark	68.2	69.2	71.3	69.5	72.1	71.4	-0.7	2.6
Czech Republic	62.1	65.1	66.7	65.1	66.7	68.1	1.4	1.6
EU 27	56.1	57.8	59.1	57.6	59.0	58.9	-0.1	1.4
Greece	38.3	41.1	43.2	40.9	43.6	43.9	0.3	2.7
Estonia	68.1	68.9	72.5	66.8	71.3	69.9	-1.4	4.5

Euro area	57.1	58.8	60.0	58.5	59.9	59.4	-0.5	1.4
Ireland	58.4	60.4	61.8	60.5	61.3	61.1	-0.2	0.8
Spain	50.5	52.2	53.8	52.0	53.9	53.7	-0.2	1.9
Italy	52.2	53.7	54.3	54.1	54.8	54.0	-0.8	0.7
Croatia	40.3	42.8	44.0	43.4	45.0	45.3	0.3	1.6
Cyprus	55.3	60.9	61.1	61.7	62.4	61.0	-1.4	0.7
Latvia	62.3	65.4	67.3	65.3	67.0	69.4	2.4	1.7
Lithuania	66.1	68.5	68.4	67.5	69.4	66.8	-2.6	1.9
Luxembourg	39.8	40.5	43.1	39.6	42.6	43.0	0.4	3
Malta	47.2	50.2	51.6	48.9	50.3	53.0	2.7	1.4
Netherlands	65.7	67.7	69.7	67.3	69.3	70.7	1.4	2
Hungary	51.7	54.4	56.7	53.5	56.1	58.8	2.7	2.6
Poland	48.3	48.9	49.6	49.4	49.2	50.6	1.4	-0.2
Portugal	56.2	59.2	60.4	59.4	60.3	59.3	-1	0.9
Romania	44.5	46.3	47.8	46.0	48.1	48.2	0.1	2.1
Slovakia	53.0	54.2	57.0	53.4	57.1	58.1	1	3.7
Slovenia	42.7	47.0	48.6	47.6	49.7	51.5	1.8	2.1
Sweden	76.4	78.0	77.7	77.7	77.9	77.2	-0.7	0.2
Finland	62.5	65.4	66.8	65.1	66.6	66.7	0.1	1.5

(*) % 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		
	2015	2016	2017	2018	2019	2018	2019	2020
Austria	0.8	1.8	1.0	1.3	0.9	1.2	0.8	-3.1
Belgium	0.0	0.9	1.0	2.4	1.5	1.7	3.1	-1.8
Bulgaria	1.6	-0.6	4.0	-0.1	2.2	-0.5	2.8	-5.9
France	0.1	0.5	0.8	0.8	0.2	0.6	0.3	-2.0
Germany	0.7	2.5	0.8	0.4	1.0	0.3	1.0	:
Denmark	1.7	1.7	1.1	1.5	1.5	1.8	1.2	-1.7
Czech Republic	1.0	1.7	1.6	1.0	0.1	1.4	0.0	-1.5
EU 27	1.0	1.5	1.4	1.1	0.9	1.1	0.8	-2.4
Greece	2.0	1.8	2.0	1.9	2.0	1.7	2.3	-3.1
Estonia	2.3	-0.1	2.2	0.7	0.6	1.9	-0.1	-3.7
Euro area	1.0	1.7	1.3	1.2	1.0	1.2	1.1	-2.4
Ireland	3.2	3.6	2.8	2.6	2.7	2.9	2.1	-3.9
Spain	2.9	2.6	2.6	2.6	2.3	2.8	2.3	-6.2
Italy	0.7	1.2	0.9	0.6	0.4	1.3	0.2	-3.6
Croatia	1.1	0.5	2.3	1.7	1.2	1.9	0.0	-0.4
Cyprus	-1.4	1.1	4.5	5.4	3.5	5.5	3.2	0.3
Latvia	1.1	-0.6	0.0	1.3	-0.3	1.7	-0.8	-1.8
Lithuania	1.0	1.3	-0.9	1.4	0.0	0.5	0.5	-2.5
Luxembourg	5.1	1.6	4.0	3.1	3.2	2.4	5.3	-0.2
Malta	4.1	5.2	6.0	8.1	5.5	7.5	6.8	2.9
Netherlands	1.1	1.3	1.9	2.0	1.7	1.9	1.9	-0.7
Hungary	2.6	3.2	1.5	0.9	0.6	1.1	0.4	-2.7
Poland	1.4	0.6	1.1	0.3	-0.2	0.4	-0.6	-1.5
Portugal	1.3	1.4	3.3	2.2	0.8	2.7	0.6	-3.7
Romania	-0.2	-0.8	2.4	0.2	0.3	-1.3	0.2	-3.2
Slovakia	2.4	2.8	1.2	1.2	0.4	0.7	0.6	-2.6
Slovenia	1.0	0.1	4.5	2.0	0.8	2.4	1.4	-2.4
Sweden	1.4	1.6	2.1	1.6	0.6	1.8	0.5	-2.2
Finland	-0.8	0.5	1.0	2.6	0.9	3.1	0.6	-2.8

Table 11: Unemployment Rate – Total Population

	Annual Data (%)			β΄ τρίμηνο			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	5.5	4.9	4.5	4.6	4.5	5.7	1.2	-0.1
Belgium	7.1	6	5.4	6.1	5.3	4.9	-0.4	-0.8
Bulgaria	6.2	5.2	4.2	5.5	4.2	5.9	1.7	-1.3
France	9.4	9	8.5	8.7	8.1	6.8	-1.3	-0.6
Germany	3.8	3.4	3.2	3.5	3.1	3.6	0.5	-0.4
Denmark	5.8	5.1	5	4.9	4.7	5.2	0.5	-0.2
Czech Republic	2.9	2.2	2	2.2	1.9	2.4	0.5	-0.3
EU 27	8.2	7.3	6.7	7.2	6.6	6.6	0	-0.6
Greece	21.5	19.3	17.3	19	16.9	16.7	-0.2	-2.1
Estonia	5.8	5.4	4.5	5.1	5.1	7.1	2	0
Euro area	9.1	8.2	7.6	8.1	7.4	7.2	-0.2	-0.7
Ireland	6.7	5.8	5	6	5.4	5.1	-0.3	-0.6
Spain	17.2	15.3	14.1	15.3	14	15.3	1.3	-1.3
Italy	11.2	10.6	:	10.7	9.8	7.7	-2.1	-0.9
Croatia	11	8.4	6.7	7.6	6.1	6.5	0.4	-1.5
Cyprus	11.1	8.4	7.1	7.4	6.5	6.8	0.3	-0.9
Latvia	8.7	7.4	6.3	7.7	6.4	8.6	2.2	-1.3
Lithuania	7.1	6.2	6.3	5.9	6.2	8.6	2.4	0.3

Luxembourg	5.6	5.5	5.6	5.5	5.3	6.4	1.1	-0.2
Malta	4	3.7	3.4	3.7	3.6	4.4	0.8	-0.1
Netherlands	4.9	3.8	3.4	3.9	3.3	3.8	0.5	-0.6
Hungary	4.2	3.7	3.4	3.6	3.3	4.6	1.3	-0.3
Poland	4.9	3.9	3.3	3.6	3.2	3.1	-0.1	-0.4
Portugal	9	7	6.5	6.8	6.3	5.6	-0.7	-0.5
Romania	4.9	4.2	3.9	4.1	3.8	5.4	1.6	-0.3
Slovakia	8.1	6.5	5.8	6.6	5.7	6.6	0.9	-0.9
Slovenia	6.6	5.1	4.5	5.2	4.2	5.2	1	-1
Sweden	6.7	6.3	6.8	6.9	7.1	9.1	2	0.2
Finland	8.6	7.4	6.7	8.2	7.7	8.9	1.2	-0.5

Table 12: Unemployment Rate among Men

	Annual Data (%)			β΄ τρίμηνο			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	5.9	5.0	4.6	4.9	4.5	5.9	1.4	-0.4
Belgium	7.1	6.3	5.7	6.3	5.6	5.1	-0.5	-0.7
Bulgaria	6.4	5.7	4.5	6.1	4.6	6.2	1.6	-1.5
France	9.5	9.0	8.5	8.7	8.2	7.1	-1.1	-0.5
Germany	4.1	3.8	3.5	3.9	3.4	3.9	0.5	-0.5
Denmark	5.6	4.9	4.8	4.9	4.8	4.7	-0.1	-0.1
Czech Republic	2.3	1.8	1.7	1.8	1.6	2.2	0.6	-0.2
EU 27	7.9	7.0	6.4	7	6.3	6.5	0.2	-0.7
Greece	17.8	15.4	14.0	15.3	13.7	14.1	0.4	-1.6
Estonia	6.2	5.4	4.1	5.3	4.7	6.8	2.1	-0.6
Euro area	8.7	7.9	7.2	7.8	7.1	7.1	0	-0.7
Ireland	7.1	5.8	5.2	6.2	5.6	5.1	-0.5	-0.6
Spain	15.7	13.7	12.5	13.7	12.5	14.1	1.6	-1.2
Italy	10.3	9.7	:	9.9	9.1	7.2	-1.9	-0.8
Croatia	10.3	7.6	6.2	6.7	5.3	6.1	0.8	-1.4
Cyprus	10.9	8.1	6.3	7.3	6.4	7	0.6	-0.9
Latvia	9.8	8.4	7.2	9.2	8	10.2	2.2	-1.2
Lithuania	8.6	6.9	7.1	6.5	6.8	9.7	2.9	0.3
Luxembourg	5.6	5.3	5.6	5.3	5.3	6.7	1.4	0
Malta	3.8	3.8	3.3	3.9	3.3	4.2	0.9	-0.6
Netherlands	4.5	3.7	3.4	3.8	3.3	3.8	0.5	-0.5
Hungary	3.8	3.5	3.4	3.5	3.4	4.4	1	-0.1
Poland	4.9	3.9	3.0	3.7	3.2	3.2	0	-0.5
Portugal	8.6	6.6	5.9	6.5	5.9	5.6	-0.3	-0.6
Romania	5.6	4.7	4.3	4.7	4.1	5.6	1.5	-0.6
Slovakia	7.9	6.1	5.6	6.2	5.7	6.7	1	-0.5
Slovenia	5.8	4.6	4.0	4.8	3.8	4.5	0.7	-1
Sweden	6.9	6.4	6.7	7.1	7	9.1	2.1	-0.1
Finland	8.9	7.4	7.2	8.4	8.2	9	0.8	-0.2

Table 13: Unemployment Rate among Women

	Annual Data (%)			β΄ τρίμηνο			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	5.0	4.7	4.4	4.3	4.4	5.4	1.0	0.1
Belgium	7.1	5.6	4.9	5.9	5.0	4.7	-0.3	-0.9
Bulgaria	6.0	4.7	3.9	4.7	3.7	5.5	1.8	-1.0
France	9.4	9.1	8.4	8.7	8.0	6.4	-1.6	-0.7
Germany	3.3	2.9	2.7	3.0	2.8	3.2	0.4	-0.2
Denmark	6.1	5.4	5.3	5.0	4.6	5.7	1.1	-0.4
Czech Republic	3.6	2.8	2.4	2.7	2.3	2.6	0.3	-0.4
EU 27	8.5	7.6	7.1	7.5	6.8	6.8	0.0	-0.7
Greece	26.1	24.2	21.5	23.7	20.9	19.9	-1.0	-2.8
Estonia	5.3	5.3	4.8	4.8	5.5	7.4	1.9	0.7
Euro area	9.5	8.6	7.9	8.5	7.7	7.4	-0.3	-0.8
Ireland	6.3	5.7	4.7	5.8	5.2	5.1	-0.1	-0.6
Spain	19.0	17.0	16.0	17.1	15.8	16.7	0.9	-1.3
Italy	12.4	11.8	:	11.8	10.7	8.4	-2.3	-1.1
Croatia	11.9	9.3	7.4	8.6	7.0	6.9	-0.1	-1.6
Cyprus	11.3	8.8	8.0	7.5	6.7	6.6	-0.1	-0.8
Latvia	7.7	6.4	5.4	6.1	4.7	6.9	2.2	-1.4
Lithuania	5.7	5.4	5.5	5.3	5.5	7.4	1.9	0.2
Luxembourg	5.6	5.7	5.5	5.7	5.4	5.9	0.5	-0.3
Malta	4.3	3.5	3.6	3.5	4.0	4.8	0.8	0.5
Netherlands	5.3	4.0	3.4	4.0	3.3	3.8	0.5	-0.7
Hungary	4.6	4.0	3.5	3.7	3.2	4.9	1.7	-0.5
Poland	4.9	3.9	3.6	3.5	3.3	3.1	-0.2	-0.2
Portugal	9.5	7.4	7.2	7.1	6.7	5.6	-1.1	-0.4
Romania	4.0	3.5	3.4	3.3	3.3	5.1	1.8	0.0
Slovakia	8.4	7.0	6.0	7.2	5.7	6.6	0.9	-1.5

Slovenia	7.5	5.7	5.0	5.7	4.7	5.9	1.2	-1.0
Sweden	6.4	6.2	6.9	6.6	7.2	9.1	1.9	0.6
Finland	8.4	7.3	6.2	7.9	7.1	8.7	1.6	-0.8

Table 14: Long-Term Unemployment Rate (*)

	Annual Data (%)					β' τρίμηνο			Change (%)	
	2015	2016	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	29.2	32.2	33.3	28.9	25.2	30.8	26.5	22.6	-3.9	-4.3
Belgium	51.7	51.6	48.8	48.7	43.5	51.6	46	40.8	-5.2	-5.6
Bulgaria	61.1	58.9	54.9	58.3	56.9	58.3	59.2	37.5	-21.7	0.9
France	44.2	45.7	45.4	42.0	40.2	43.3	41.2	31.7	-9.5	-2.1
Germany	44.0	41.1	41.9	41.3	37.8	40.9	39.2	:	:	-1.7
Denmark	25.7	20.4	20.5	19.1	16.4	19.5	16	15	-1	-3.5
Czech Republic	47.4	42.1	35.0	30.6	30.0	30.2	32.2	20.8	-11.4	2
EU 27	49.9	48.5	46.7	44.9	41.5	45.9	42.1	29.6	-12.5	-3.8
Greece	73.0	71.8	72.6	70.1	70.3	72.1	70.8	66.2	-4.6	-1.3
Estonia	38.8	31.6	33.2	23.7	19.7	35	22.3	12.4	-9.9	-12.7
Euro area	51.5	50.1	48.9	46.9	43.6	47.9	44.4	31.5	-12.9	-3.5
Ireland	55.0	52.2	46.4	37.1	32.3	33.9	31.2	21.6	-9.6	-2.7
Spain	51.6	48.3	44.4	41.7	37.8	43.4	38.6	26.8	-11.8	-4.8
Italy	58.9	58.3	58.7	59.0	56.1	59.9	57	47.6	-9.4	-2.9
Croatia	63.1	50.6	41.0	40.2	35.6	44.4	30.6	24	-6.6	-13.8
Cyprus	45.6	44.5	40.7	31.6	29.5	33.7	31.7	27.1	-4.6	-2
Latvia	45.5	41.5	37.4	42.0	37.8	41.3	39.6	26.8	-12.8	-1.7
Lithuania	42.8	38.2	37.7	32.2	30.7	33.7	30	27.4	-2.6	-3.7
Luxembourg	28.4	34.9	38.1	24.7	22.9	22.1	24.8	27.5	2.7	2.7
Malta	50.2	50.0	50.8	48.1	33.3	40.6	:	20.1	:	:
Netherlands	43.2	42.4	40.0	36.8	30.3	39.9	30.9	19.8	-11.1	-9
Hungary	45.5	46.5	40.4	38.6	31.9	40.3	33.5	19.5	-14	-6.8
Poland	39.3	34.9	31.0	26.9	21.5	28.2	21.4	19.7	-1.7	-6.8
Portugal	57.2	55.2	49.6	43.4	42.7	45.3	45	29.9	-15.1	-0.3
Romania	43.9	50.0	41.5	44.1	42.4	43.2	40.7	22.6	-18.1	-2.5
Slovakia	65.8	60.2	62.4	61.7	58.2	62.6	58.2	49.2	-9	-4.4
Slovenia	52.3	53.3	47.5	42.9	43.0	44.8	42.2	39	-3.2	-2.6
Sweden	20.8	19.4	19.6	18.3	13.7	18.3	12.4	12.2	-0.2	-5.9
Finland	24.6	25.9	24.4	21.9	17.9	19.6	14	12.4	-1.6	-5.6

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

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

	Annual Data (%)			β΄ τρίμηνο			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	9.8	9.4	8.5	9.1	8.4	11.7	3.3	-0.7
Belgium	19.3	15.8	14.2	18	13.6	15.3	1.7	-4.4
Bulgaria	12.9	12.7	8.9	15.1	9.5	17	7.5	-5.6
France	22.1	20.8	19.6	19.4	18	19.6	1.6	-1.4
Germany	6.8	6.2	5.8	6.6	5.4	7.3	1.9	-1.2
Denmark	12.4	10.5	10.0	9.3	8.2	10.8	2.6	-1.1
Czech Republic	7.9	6.7	5.6	7	5.7	7.2	1.5	-1.3
EU 27	18.0	16.1	15.1	16	14.8	16.5	1.7	-1.2
Greece	43.6	39.9	35.5	38.8	33.6	36	2.4	-5.2
Estonia	12.1	11.9	11.0	8.7	14.1	18.4	4.3	5.4
Euro area	18.8	16.9	15.7	16.8	15.3	16.8	1.5	-1.5
Ireland	14.4	13.8	12.5	15.4	15.7	16.6	0.9	0.3
Spain	38.6	34.3	32.5	34.7	33.1	39.6	6.5	-1.6
Italy	34.7	32.2	:	31.6	28.4	24.7	-3.7	-3.2
Croatia	27.2	23.3	17.0	21.1	9.7	19.8	10.1	-11.4
Cyprus	24.7	20.2	16.6	17.9	14.9	17.8	2.9	-3
Latvia	17.0	12.2	12.4	11.2	15.1	18.2	3.1	3.9
Lithuania	13.3	11.1	11.9	10.9	10.2	21.1	10.9	-0.7
Luxembourg	15.5	14.1	16.9	13	17.5	23.3	5.8	4.5
Malta	10.6	9.1	9.2	8.4	9.1	10.8	1.7	0.7
Netherlands	8.9	7.2	6.7	6.9	6.3	9.5	3.2	-0.6
Hungary	10.7	10.2	11.4	9.5	10.8	14.7	3.9	1.3
Poland	14.8	11.7	9.9	10.2	10.4	9.5	-0.9	0.2
Portugal	23.8	20.3	18.2	19.4	18.1	19.9	1.8	-1.3
Romania	18.3	16.2	16.8	15.5	15	15.4	0.4	-0.5
Slovakia	18.9	14.9	16.1	13.7	14.6	18.5	3.9	0.9
Slovenia	11.2	8.8	8.1	8.1	6.5	15.6	9.1	-1.6
Sweden	17.8	17.4	20.0	20.6	23.5	30	6.5	2.9
Finland	20.1	17.0	17.2	21.6	22.5	28.2	5.7	0.9

(*) 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