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IOBE

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

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Foreword

IOBE publishes its fourth bulletin on the Greek economy for 2019, as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek economy, in which the economic environment, in terms of the expectations of businesses and households, but also capital markets valuations (government borrowing rates) is the most favourable of recent years. That said, it is perhaps the greatest challenge for economic policy to take advantage of these conditions, to support investment and entrepreneurship as a whole, and to strengthen work. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with a text which analyses the prospects for growth and the necessary priorities for targeting economic policy. The rest of the report is structured as follows:

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

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

Chapter 4 presents the findings of a study on the provision of tax incentives, as part of a reform of the social security system, to mobilise savings for placements in the Greek capital market.

The report refers to and is based on data that were available up to 21 January 2020.

IOBE's next quarterly bulletin on the Greek economy will be published in mid-April 2020.

GROWTH AND ECONOMIC POLICY TARGETING

The Greek economy is in a phase of accelerating real growth. Its rate for 2019 is estimated to be marginally above 2% and for 2020 it is expected to be somewhat higher, in the region of 2.2% to 2.5%. Consumer confidence and the economic climate are broadly strengthening to levels not seen in twenty and twelve years respectively. The cost of financing is easing for the public and, gradually, for the private borrowers. Major sectors, such as tourism, continue to make a positive contribution, while others, such as construction, are recovering from years of lethargy. Exports continue to grow despite a relative slowdown in the international economy.

The Greek economy is in a phase of accelerating growth

Following the completion of the third adjustment programme, the lifting of capital controls and the easing of immediate risks to the economy, a smoother operation is restored. Together with the still favourable international climate, these developments lead, from a low base, to growth rates which over the next two or three years may be significantly higher than in the previous two or three years and also higher than the European averages. Having achieved a fiscal balance, and benefiting from the reduction in funding costs, the economy reflects the sentiment that the crisis is over.

The lifting of the extreme uncertainty that prevailed for almost a decade, harming in particular the decisions to invest in tangible and human capital, has beneficial effects in itself. For the Greek economy the next year will be the first in a decade, where more attention can be put on the challenges of the future than on the problems it has inherited from the past. Its anxieties can now focus more on whether and how it will take advantage of the opportunities created by international technological trends and adapt to changes in the international division of labour, rather than on whether its macroeconomic and budgetary imbalances will risk derailing it completely.

Next year will be the first in a decade where more attention can be put on the challenges of the future rather than on the problems of the past.

This does not mean that the Greek economy will run its course without obstacles and difficulties or that the decisions required will be obvious and automatic. Quite the opposite is true of a country with structural weaknesses, weak production base and high external public debt. Despite the adjustment during the ten-year crisis, our economy is still characterised by a low degree of innovation, low share of manufacturing in GDP and low productivity. The overall level of investment in our country remains about half of what would be needed for convergence with the rest of the Eurozone economies. Credit growth is still negative, albeit marginally so, as is the savings of the average household. The reduction of unemployment is taking place at a relatively slow pace, while the systematically low proportion of the population's participation in the labour force in relation to Europe is equally a burden.

However, the Greek economy will not run its course without obstacles and difficulties

The fiscal balance of the country has been largely achieved, as there has been significant progress in the external balance. However, significant structural weaknesses persist, while the crisis has left severe wounds on households, businesses and infrastructure in the country. The overall way in which the crisis has been tackled has led to a contraction of the economy much more than to its reform, which explains the long duration of the crisis itself. Now, the hopes for rapid growth in the next decade are strong enough to reverse a significant part of the loss of prosperity that has existed. Such a course, however, presupposes continued transformation and targeting of economic policy.

The evolution of the economy will be influenced by critical external factors but, above all, decisions in domestic economic policy. One area of direct interest is the country's external balance. In particular, to what extent it will be possible for exports to continue to grow when the economies of the country's trading partners, mainly in Europe, are undergoing a period of growth slowdown. The course of imports, which may expand to the extent that consumption will increase, while the competitiveness of the Greek economy is still weak, will also be an issue of concern of particular importance. The second key point is investment, as the growth of the economy neither in the next year nor in the medium term can be mainly based on consumption. Investment fell sharply in the last decade and has

A critical factor is resilient growth of exports remained at very low levels. Without their significant boost, the overall macroeconomic objectives will not be achieved. This cannot happen only by attracting funds from abroad and it is necessary to strengthen domestic savings. The third central point concerns the production base of the economy and how the growth model will gradually evolve. In the short term, growth could also be boosted by strengthening the most introverted sectors of the economy, yet such a development would derail its medium-term growth prospects.

Overall, there is a weakness in terms of attracting capital, in labour and in productivity, i.e. the factors that together determine the rate of growth of an economy. After the next few years, where improvement is expected, the fundamentals of the economy will not push growth from 2% to 3% in the medium term, but instead drag it down to 1% of real growth annually. It will therefore be particularly useful to realise that the process of strengthening the economy is not completed, nor will it be automatic. Targeted and horizontal policies will be required, in particular in relation to the pension, education and tax systems. The aim must be to systematically boost labour remuneration and entrepreneurship in the country. Only if this happens, the growth of the economy recorded today will lead to conditions for strong growth in the medium term.

Without investment growth, the overall macroeconomic objectives will not be achieved

It is crucial that opportunities and limitations are understood, and that there is no delay in turning to a new model of growth. A positive course of transformation of our economy will have some central features that complement one another. The production shift towards world rather than internal markets, by strengthening the relative contribution of manufacturing and the quality of products and services through innovation. The drastic change of the education system which will be the basis for systematic creation of human capital and scientific research, while at the same time it may become a hub in the wider geographical area, highlighting the cultural and historical characteristics of the country and attracting people. The redesign of the public administration will also have a key role to play in order for it to acquire an executive role, using digital cutting-edge technologies that will continuously develop, with fewer employees but of higher value, and by separating the state from party functions.

Central feature is the shift of production to global markets

Particularly crucial will be the rationalisation of the tax and pension systems, to draw a new social contract, which will not overburden those who do not resort to the shadow economy or immigration and will allow the generation of considerable incomes for the younger generation. Recent interventions to reduce tax rates and increase pensions use up existing fiscal space to boost the growth rate of the economy. However, three relevant points should be made here. Firstly, the additional fiscal space to be created, including the possible reimbursement of profits from bond payments, must strengthen the economy as a top priority through investment. Secondly, it is of the utmost importance that there are as much stability and simplicity of the rules as possible and to avoid relentless changes. A permanent solution for the use of the excess surpluses that is systematic and not opportunistic will contribute to this. Thirdly, the specific choices are crucial as they set behavioural incentives. Recent interventions make the income tax system even more progressive, maintaining an extremely high burden on the relatively small proportion of the population paying taxes. Together with the interventions announced in the social security system, they favour, in relative terms, much more self-employment and small entrepreneurship compared to salaried employment, which does not contribute to boosting the economy's productivity and openness. To this end, it would be particularly positive to reduce the level of social security contributions on salaried employment and the very high cap on insured income, to strengthen the reciprocity and flexibility of pensions through the second and third pillars, and to reduce the extreme progressiveness of the income tax.

The Greek economy needs to strengthen its structure in order to be able to cope in the midst of shocks.

Certainly, it is crucial for the Greek economy, as domestic consumption will not be able to recover quickly, to significantly boost exports and its interconnection with international technological developments. In this regard, the cost of capital is falling further, internationally and in Europe in particular, yet the appetite for investments continues to be weak. The search for returns moves funds to placements where the risk may not be properly assessed. How and when the central banks will withdraw from the unconventional role that they have played for a long time, without burdening real growth, remains a crucial question.

Policies, following the last international crisis, have smoothed the shocks, but more than ten years later, many problems have been concealed rather than resolved. Europe is now acquiring many of the stagnation characteristics that have long characterised Japan's economy, but without the same political and social cohesion. In the United States, policies bring forward growth that would have taken place in the next few years and to some extent undermine its foundations. Therefore, the Greek economy should not bet on achieving strong growth only when it is favoured by the international environment. It should be taken for granted that geopolitical and other tensions in the region, alongside global economic turbulence, will arise in the coming years. The Greek economy needs to strengthen its structure in order to be able to cope through turbulence, which will inevitably and periodically will be coming back.

Economies that will become more open, acting as regional or global hubs for human capital, investment ideas and innovation, will continuously benefit

Overall, in the coming years, the economies that will become more open, operating as regional or global hubs for human capital, investment ideas and innovation, will benefit by taking advantage of exponential technological advances in artificial intelligence, automation, biotechnology, energy and broader fields. However, the economies that are entrenched in boundaries inherited from the past, promising citizens high prosperity through a short-sighted conservative approach to change, will decline rapidly and not just linearly. It is obvious that the Greek economy is facing a very important window of opportunity to transform its current expansion into strong and sustainable growth in the medium term.

1. BRIEF OVERVIEW

Slight further slowdown in the global economy in the third quarter of 2019

According to the latest available data on the course of economic activity worldwide, for the third quarter of the previous year, its annual growth rate was rather stagnant compared to the previous quarter. In the OECD countries, the average growth rate was 1.6% in July-August, the same as in the second quarter of the previous year. However, a year earlier, although slowing down, it stood at 2.2%. In the major developed economies (G7) growth also did not slow down quarter on quarter in the summer quarter (1.6% in both quarters). Among these countries, the largest, albeit slight, slowdown was recorded in the US (from 2.3% to 2.1% – its lowest rate in at least 2.5 years) and Canada (from 1.9% to 1.7%). The strongest acceleration among the G7s occurred in Japan, by 0.9 percentage points (to 1.3%) and in Italy (from 0.2% to 0.5%). In the large Asian developing economies, China's economic growth slowed further in the third quarter last year, to 6.0% from 6.2% a quarter earlier and 6.7% in the same quarter of 2018. Slightly stronger was the slowdown of the Indian economy, to 4.7% from 5.0% in the previous quarter and 7.2% in the same period the year before. In Latin America, Brazil's growth strengthened slightly, to 1.2% from 1.1% in the second quarter, but it was weaker than a year earlier (1.5%), while in Argentina the recession deteriorated further, to 1.1% from 2.2% and 6.4% at the beginning of the year.

Therefore, the trends are mixed, both in the most developed and in the developing economies, with positive developments in activity largely offset by negative ones. Among the developing countries with difficulties, the sharp slowdown in India stems from the acute problems of non-bank financial institutions, the withdrawal of some of the banknotes, and the implementation of reforms, e.g. the merger of banks and tax relief for businesses. In China, the escalation of trade protectionist measures up until the third quarter exerted greater pressure on its economy, as well as the completion in the first quarter of 2019 of the loose credit policy for the country's businesses, with the cancellation of part of their debts. In the most developed countries with a slowdown, the US, in addition to the effects of trade protectionist measures, lost support from the fiscal package of tax reductions on income, which expired. In the United Kingdom, the uncertainty about Brexit escalated again, putting pressure on investment, while changes in the government weakened public consumption too.

However, towards the end of last year and at the beginning of the current year, some of the sources of shocks in the world economy seem to be weakening or at least not getting worse. The possibility of an agreement between the United States and China on the principle of non-intensification of trade protectionist measures prevailed. In addition, China should partially remove some of the measures it has taken. This development has rekindled the forecasts for world trade more broadly. However, it is a recent development and many steps are needed to restore confidence in the cooperation between the two countries. In addition, an agreement was reached on a consensual Brexit and a gradual transition to a new relationship with the EU. In the Euro area, the industry is adapting to the required structural changes and the expectations have ceased their decline.

In the field of monetary policy, most of the central banks of the most developed economies have adopted a more accommodative policy, with the Fed having performed three successive reductions in the intervention rate within three and a half months and the ECB relaunching from 1 November its quantitative easing programme, with fewer asset purchases monthly than during most of its first phase (€20 billion, against €60 billion), but essentially of indefinite duration, to end before the ECB starts to raise its basic interest rates. Similar approaches have been followed by central banks in many emerging economies.

Of course, significant sources of uncertainty that hamper economic activity remain, with quite likely prospects of escalation. These include the US-Iran relations, geopolitical tensions in the South-east Mediterranean and the Middle East, and even recent strong natural disasters (Australia, Eastern and Southern Africa). At the same time, some large emerging economies remain in recession for a long time and have no potential for a return to a strong recovery soon (Argentina, Turkey).

In view of these developments and prospects in the world economy, it is estimated that its growth rate last year stood at about 2.9%, which will be the lowest since 2008-2009, escalating slightly this year, to slightly below 3.5%.

Growth slowdown in the third quarter of last year, following a revision in the previous quarter

The growth rate of domestic output in Greece weakened quarter on quarter in the third quarter of 2019, to 2.3% from 2.8%. However, in ELSTAT's communication on the provisional data of GDP for this quarter, it included a significant revision for the previous quarter, which changed from 1.9% to 2.8%. The upward revision of the growth rate is mainly due to the similar, extensive change in public consumption, resulting in its increase from 5.3% to 9.4%, in the October 2019 release on Q2 GDP. Overall in the first nine months of 2019, GDP increased slightly stronger than a year earlier, by 2.2% instead of 2.0%.

In detail as to the trends in individual components of GDP in the first nine months of 2019, domestic consumption slightly increased year on year, by 0.7%, slightly stronger compared to the growth recorded a year earlier (0.3%). Given the recent revision of public consumption in the second quarter, the strengthening of domestic consumption came mainly from this component, which increased by 3.0%, offsetting its decrease by 2.9% in the previous year. Household consumption was only 0.3% higher than in the same period of 2018, when it was growing by 1.0%.

Investment strengthened by 3.0% in the first nine months of 2019, slightly stronger than in the corresponding period of the preceding year (marginal growth by 0.7%). However, their performance deteriorated gradually over the first three quarters of 2019, as their growth by 14.6% in the first quarter slowed down in the next, to turn to contraction by 5.0% in the third quarter. In addition, if the impact from the accumulation of stocks on the level of investment is not taken into account, which was positive and larger than in 2018 (€1.25 billion, against €884 million), the gross fixed capital formation was marginally higher in 2019 than in the preceding year, by just 1.0% higher against 6.2%. Therefore, the increase in investment in the first nine months of 2019 was almost exclusively due to stronger accumulation of stocks.

The trend in the majority of fixed capital categories was positive. However, in most of the categories that had been strengthened since the start of the year, the trend shifted to negative in the third quarter. The strongest increase, in relative and absolute terms, took place in investments in Transport Equipment - Weapon Systems, by 15.5% or €363 million, offsetting to a large degree their contraction by 23.6% a year earlier. The increase is almost exclusively taking place in the second quarter, while in the third investment declined. The second largest increase was recorded in fixed capital formation in Housing, by 9.8% or €98 million, continuing its expansion from January - September 2018 by 12.5%. And in this category of fixed capital, the trend in the most recent quarter is negative. A similar boost in absolute terms as Housing, albeit much lower in relative terms, was recorded in investments in Other Machinery (by 2.8% or €108 million), when a year earlier it had reached 20.5%. By contrast, the largest drop in the first nine months of 2019 was registered in Other Construction, by 15.3%, continuing their reduction from the same period of last year by 22.7%.

In the external sector of the economy, the export expansion from the first half of 2019 accelerated sharply in the third, to reach 9.5%. As a result, their growth stood at 6.6% overall in the first nine months of the year. This growth rate was lower than that recorded in the same period of 2018 (8.1%). The increase in total exports came by 3/4 from more exports of services, which expanded by 10.8%. The rise in the goods component was notably weaker, by 3.3%. A year earlier, the demand for goods from abroad was growing slightly faster than that for services, by 8.5%, compared with 8.0%.

In contrast to exports, the strengthening of imports in the first half of the previous year was followed by a decline in its next quarter. It came exclusively from a fall on the product side, by 4.9%, as opposed to extensive growth a year ago, by 15.5%. Despite this decline, the stronger import demand in the first nine months came mainly from their side, with the rise reaching 2.7%, higher than in the same period of 2018 (0.8%). The percentage increase in the imports of services was higher (5.9%), but much lower than a year earlier (by 14.8%). Overall, imports increased by 3.3%. The stronger increase in exports compared to imports in the first nine months of 2019 strengthened the external balance, which in national accounting terms reached a deficit of €976 million (61.1% reduction year on year) or 0.7% of GDP.

Stronger growth of the Greek economy in 2019, further acceleration in 2020

As noted in the previous IOBE report on the Greek economy, the expiry of the effects of the elections and gradual policy changes by the new government, are the major developments in the political and economic environment domestically in the final quarter of 2019 and the first half of the following year. The most important developments in economic policy are the fiscal interventions implemented last year and those included in the 2020 budget, mostly tax reliefs (Law 4646/2019), the development law ("Invest in Greece", Law 4635/2019), the Hercules programme for the provision of guarantees in the securitisation of non-performing loans of banks in Greece (Law 4649/2019) and the upcoming law on the social security system.

Following the restraining effect of elections on the Enhanced Surveillance process, the implementation of outstanding public sector reforms and structural changes in the economy should also accelerate in the current period. In order to achieve the fiscal targets for yet another year, alongside the tax relief and the welfare benefits, reforms are also necessary in the fiscal administration, which will enhance the control of public spending and revenues and the efficiency of public sector resources in general (human, fixed capital). Such interventions are included in the Draft State Budget for 2020, such as a review of expenditures and revenues of General Government bodies and transition to performance-based budget by creating a system of key performance indicators (KPIs) and a more realistic reflection of the expenditure limits of ministries as a result of their cooperation with the General Accounting Office. In addition to the reforms in fiscal administration, to balance the tax reliefs and the welfare benefits, this year's budget includes interventions to fight tax evasion, broaden the tax base, raise the collection of real estate revenues and accelerate the resolution of outstanding tax disputes in the courts.

The government change, the immediate implementation of some of the pre-election commitments involving households and businesses, their continued implementation with measures included in the 2020 State Budget, the complete lifting of the capital controls and the strong reduction of the Greek State's borrowing rates from the capital markets have led to a prolonged, significant improvement in expectations. Under the influence of these developments, the Economic Sentiment Indicator reached a 12-year peak at the end of 2019, while Consumer Confidence achieved its best performance since October 2000. The major recent developments reflecting the results of the economic policy and the improvement of the economic environment are the recent upgrade of Greece's credit rating by Fitch and the issue of a 15-year bond by the Greek State, with very high demand and low coupon rates.

These developments are expected to lead shortly to an upgrade of Greece's credit assessment by other rating agencies. As long as the banking system continues to improve rapidly, particularly as regards the reduction of non-performing loans, and the fiscal balance is not disturbed, the upgrading of the country's credit rating will continue, which will enable it to join the new quantitative easing programme of the European Central Bank. Unlike the previous one, the duration of the new programme is essentially limitless, as it is expected to be in place for as long as is necessary to strengthen the facilitating effect of the ECB policy rates and will end shortly before the ECB starts to raise its key interest rates. Therefore, it is likely that Greece will be included in the current quantitative easing programme.

In addition to improving household expectations, tax reductions will strengthen the real income of households and thus their consumption expenditure. Given that the incremental effects on consumption in the first three quarters of 2019 from successive one-off budgetary interventions ('social dividend' at the end of 2018, retrospective payment of wages, an extraordinary allowance to pensioners), as well as from the upward adjustment of the minimum wage from 01/02/2019, were small, the basis of comparison for the corresponding period of 2020 has remained low. The fact that in the same period the households expanded their savings by around €7.0 billion compared to a year earlier, may be an additional driver in their consumption spending one year later.

In addition to the fiscal measures, domestic disposable income of households in late 2019 and in 2020 will continue to be supported by the year-on-year decline of unemployment. Employment is expected to increase for another year, primarily thanks to the export-oriented sectors (Tourism, Transport, Manufacturing) and the public sector, as recruitment has already been announced in quite a few of its fields while several temporary work programmes will be implemented by OAED. The reduction of social security contributions since July will contribute to the reduction in unemployment.

The new measures are projected to bring about substantial boost to the liquidity of companies. Its utilisation is another crucial factor of the effects that fiscal policy will have on GDP. For example, it is quite likely that several companies will use a significant part of it to meet their accumulated obligations rather than to carry out investment projects or to distribute it to the shareholders, following the new reduction, the second in two years, of the tax on dividends.

The fiscal measures for 2020, the continued overrun of the fiscal balance target over four years, the intention to accelerate the privatisation programme by the new government, the recent developments regarding the NPL reduction and the improvement of the quality of the assets of the banks, are, according to Fitch, the main causes of the recent upgrade of Greece's credit rating from BB- to BB. Following the credit rating upgrade, the Greek State issued a bond. Despite the long duration of the security (15-year), the bids exceeded the size of the issue by 7.5 times, reaching €18.8 billion, while its coupon rate was only 1.875%. The decline in investor uncertainty is mainly reflected in the sharp de-escalation of the yields of the Greek government's 10-year bond over most of 2019, as from 3.42% on average in March, it stood at 1.34% in October, remaining close to that level in the following two months. These are the lowest rates since at least 1993.

If the borrowing cost for the Greek state continues to fluctuate at these levels, it will limit debt servicing costs, creating "fiscal space" for the implementation of policies with various objectives. In addition, it facilitates the lending of banks and large enterprises from the domestic and international capital markets, on viable terms. Following the end of the elections, since September there has been a significant uptick in bond issues, which is expected to escalate this year.

With regard to developments in the effort to reduce non-performing loans in order for the banking system to be able to proceed with raising its new lending, the Hercules plan for providing guarantees on NPL securitisations was approved in December by the Greek Parliament. According to this plan, by providing guarantees from the Greek state of up to €12 billion, the banks will be able to securitise loans of more than €30 billion over a period of 18 months from 10 October 2019, the date on which the European Commission's decision on the programme was published. The maximum amount and the period for granting the guarantees may be extended with a decision of the Finance Minister. On the side of the banks, the efforts to limit NPLs focus for the most part on loan sales and to a lesser extent on write-offs. The reduction of non-performing loans through active management (loan restructuring, collateral liquidations, collection of arrears, etc.) remains limited. At the end of September, the NPLs totalled €71.2 billion (42.1% of the total loans), €10.6 billion lower compared to the end of 2018. For the end of 2019, the target is set at 38.3% of the NPLs, which is considered ambitious, as the NPLs should decline by 3 p.p. within a quarter. For the end of this year it has been set close to 30% of the NPLs and is considered feasible with the help of the Hercules programme.

Apart from the recent and expected developments on the NPL front with the approval of the Hercules plan, private sector deposits (of households and non-financial corporations) are another major driver of credit supply by the banking system. They were growing steadily between March and July 2019, then slightly declined in August and remained unchanged until November. Their reduction stemmed solely from the decline in the deposits of non-financial corporations while household deposits were steadily rising over this period, having grown over almost two years.

The lending of the banking system to non-financial corporations has continued to expand for about a year, since December 2018 and until November 2019. The financing of non-financial corporations expanded year on year at an average rate of 2.2% over this period, while credit to households continued to contract unabated in September - November, resulting in an average contraction rate of by 2.6% over the first eleven months of 2019.

As long as the factors which have so far led to growth of credit to non-financial corporations and the weakening of credit contraction to the private sector overall remain in force, then, in conjunction with the implementation of the Hercules plan, these trends in funding are now considered likely to continue in 2020. Their continuation will depend on the dynamics in the savings of businesses, which are not stable, and on the effects of changes in the protection of the primary residence of borrowers from 1 May this year, under the new bankruptcy code that is pending and is expected to tighten up the criteria for the protection of the primary residence.

The support of liquidity and investment activity from the Public Investment Programme (PIP) was once again subdued in 2019. Its grants over the whole year were lower by 4.6% than a year earlier, at €5.64 billion, from €6.24 billion, lower than the revised down target for last year (€6.15 billion). This level of expenditure was a new record low since at least the year 2000. Having said that, given that for 2020, the grants target has been set in the budget at €6.75 billion for yet another year (fifth in a row), it is likely that they will post an increase this year, with more front-loaded implementation, which will strengthen their impact on economic activity. The PIP expansion must be based on a significant increase in capital flows from the EU structural and cohesion funds. During the NSRF 2014-2020 Greece received the lowest flows proportionate to the total budget among the EU countries, which had a corresponding impact on economic activity (Box 2.1 in this report).

The liquidity stimulus from the payment of arrears of the Greek state was much weaker than in 2018. Between January and November of 2019, no additional grants were given to public sector entities for payment of arrears including tax refunds. In fact, grant returns for the payment of arrears totalled €118.1 million. Over the same period, €107.6 million were paid to beneficiaries, while the arrears increased in relation to December 2018 by about €210 million, from €1.83 billion to €2.04 billion, exclusively from higher tax refunds outstanding for more than 90 days, by €225 million. No target for the current year is indicated, e.g. on payments to beneficiaries or balance of arrears at the end of the year, in the arrears section of the 2020 Budget. It is mentioned that avoiding the creation of new arrears is a continuous action from the Financial Assistance Facility Agreement with the ESM which was completed in August 2018 and is now part of the Enhanced Surveillance. In this respect, it is likely that the boost of liquidity from this source will be very low this year too.

Regarding other features of the domestic investment environment that are affected by the public sector, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity from 2020. For 2019, the projection in the 2019 Budget for the revenues from the privatisation programme, excluding the concession fee for the AIA extension, amounting to €1.13 billion, which concerns a transaction completed in 2018, totalled €1.53 billion. In the end, the extension of the concession was completed last year. However, the revenue did not exceed €1.21 billion, so it came almost entirely from this contract. The HRADF revenue target for 2020 is set at €2.45 billion, of which €2.07 billion is expected to come from tenders that will be completed this year and €376 million either from tenders for which binding bids have been submitted and the expected first disbursement falls this year, or from instalments of completed transactions of previous years. However, in the 2020 Budget only €376 million are specified, most of which concerns the first instalment of the fee from the sale of Hellinikon SA (€300 million). The remaining €2.07 billion is reported to come from actions which are in preparation or close to completion, without specifying the tenders expected to be completed in 2020 with their corresponding expected revenues. These actions 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 and other real estate.

As already envisaged in previous IOBE reports on the Greek economy, exports boosted economic activity for yet another year, albeit to a weaker extent than in the previous two years. In contrast to 2018, the growth of the exports of services was stronger than that of products. The exports of goods to the Euro area expanded significantly, by more than 6.5%, albeit weaker than in 2018 (about 13% growth). The lower demand from the Euro area can be attributed to the completion of the expansion of the quantitative easing programme by the European Central Bank, the problems facing EU industry in adapting to structural changes and the decline in export demand from China, effects that are expected to weaken or even end this year (e.g. a new quantitative easing programme from the ECB). Still, the observed loss of the strong momentum from 2018 in international demand for Greek goods appears to be largely related to its retreat in few particular, mostly neighbouring, countries with a relatively large share in exports, rather than from a broad weakening of demand for Greek goods. In particular, 62% of the decline to all destinations where Greek exports fell came from Lebanon, Egypt, Turkey, but also Singapore and Gibraltar. On the side of the exports of services, receipts from international tourism continued to grow in October - November, despite the bankruptcy of Thomas Cook, albeit at a notably weaker rate than in the summer months.

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of oil (Brent) stood in the fourth quarter of 2019 at $63.2/barrel, down 8.1% compared to the same quarter of the preceding year ($68.8/barrel). However, since the beginning of last October its trend has been steadily positive. As a result, in the second half of November it exceeded its level from a year earlier and at the end of December 2019 it was 34% higher year on year. The higher level at the end of last year was partly due to expectations that economic conditions worldwide in 2020 would be better than originally predicted, as well as the events in Iran, which increased the risk of oil production disruptions in the Middle East.

The slightly stronger growth of global economic activity in the current year, from 2.9% to 3.3%, as mentioned in the section on the global economy, will be the main factor of a corresponding trend in the price of oil. The acceleration is not expected to come from the most developed economies, where the average GDP growth rate according to the latest reports of international organisations will be either unchanged or marginally lower than last year. It will be based primarily on stronger growth in large emerging and developing economies in Latin America, the Middle East, Central Asia and India. In this global environment, the oil price for 2020 is expected to be lower by about $1.5, or 2.5% than in the previous year, at €66.0/barrel.

The steadily lower year on year exchange rate of the euro against the dollar strengthened the inflationary effect of the higher oil price in late 2019 in the Eurozone countries. The exchange rate depreciation is mainly due to the end of the accommodative monetary policy by the European Central Bank at the end of 2018, the consequences of the worsening expectations about the EU economy on its capital markets, and the slowdown in world trade growth, due to the effects of trade protectionist measures. By contrast, its stabilisation in the final quarter of 2019 is probably related to the expectations for relaunch of ECB's quantitative easing programme. In addition, the Euro area has to deal with a number of other major challenges, such as the exit of the UK from the EU, launched a few days ago, which will be "consensual", the adaptation of its industry to structural changes (e.g. in the automotive industry) and geopolitical tensions and military conflicts in the Middle East and North Africa. Also, no reassuring developments are evident in the trade relations between the US and the EU. However, the signs of "fatigue" of the US economy intensify, as its growth slowed further in the third quarter, to 2.1%, from 2.3% in the previous quarter and 3.1% in the same quarter of 2018. Taking into account these effects, it is quite probable that the euro-dollar exchange rate will fluctuate in the first half of 2020 at slightly higher level than currently, slightly higher or similar year on year. Therefore, it will cushion slightly the higher energy cost coming from the higher oil prices.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to changes in direct corporate and personal taxation in the 2020 Budget, the very low lending rates of the Greek state, the quite positive expectations domestically, the risks for deterioration of the global environment, but also the ECB's recent decision to restart the QE programme) for the forecast of the GDP components and other macroeconomic indicators, household consumption spending are estimated to have strengthen in the final quarter of 2019. Their reinforcement stemmed mainly from the end of the uncertainty due to the elections, but also from confidence in the adopted economic policy. The increased propensity to consume can also be supported by higher transfer payments and the raise of the minimum wage in the first half of 2019. In 2020, private consumption will strengthen from the budget measures to reduce direct taxation and contributions, as well as from other interventions announced for this year. The domestic private consumption spending will benefit for yet another year from further decline in unemployment. Bank financing is not foreseen to boost consumption spending, as the credit expansion will most probably be channelled entirely to businesses. Taking this into account, consumption spending is estimated to have expanded by 0.7% last year, while in 2020 its growth will strengthen slightly, to about 1.3-1.5%.

In the component of domestic consumption carried out by the public sector, as foreseen in the previous IOBE report on the Greek economy, the strong growth in the April-June quarter, which was revised upwards when the GDP data were released for the third quarter, was temporary and came as a result of the elections. Their level a year ago, which was significantly higher than in the previous quarters, is considered to have contributed to the restraint in the final quarter and is expected to produce a negative base effect one year later. In 2020, certain structural changes in the public administration, mentioned above, will hinder the expansion of public consumption. Moreover, the election-related spending in 2019 will not be repeated in 2020. By contrast, the increase in employers' contributions by the public sector and expected recruitment in a wide range of government services will counteract these developments. Under the above effects, the rise in public consumption in 2019 is estimated at 2.0%, while in 2020 it is expected to weaken slightly, by 0.5-1.0%.

Regarding investment, as the elections uncertainty eased, major issues are the rapid completion of recent changes in the relevant regulatory framework on investment and of other measures related to entrepreneurship (taxation, industrial relations, non-performing loans) and securing liquidity, on sustainable terms. The implementation of the investment law requires the completion of extensive secondary legislation. Measures related to direct taxation, in addition to clarifying key features of the business environment, provide funding to entrepreneurship, with those in direct taxation enhancing the viability of investment projects. The suspension of VAT on new buildings and of the capital gains tax on the transfer of real estate are not expected to strongly stimulate the activity of the Construction sector, at least in the coming period, as they will increase transactions in the existing housing stock. The biggest boost to Construction in 2020 will come from projects in concessions and privatisations, as well as by construction in the Tourism sector.

The recent and expected developments in the management of NPLs, the credit rating and the interest rates may also boost investment growth. Stronger growth is expected this year in credit to businesses. The current low interest rates will be used in the near future by more of the largest companies to raise funds from the capital markets. Export growth for yet another year in 2019 and their estimated further strengthening in 2020 will continue to support investment projects in the most export-oriented sectors or those with rapidly rising exports.

Taking into account the marginal increase in fixed capital formation in the first nine months of this year, investment activity is estimated to have strengthened less than anticipated in previous IOBE reports, by about 4-5%. Investment will strengthen sharply in 2020, with a double-digit expansion, in the region of 13-15%.

In the external sector of the Greek economy, the positive trend in the exports of goods most probably weakened in the final quarter of 2019, mostly from the extensive decline in exports to specific countries and as growth in the main export destination, the Euro area, is not expected to have strengthened. The 2019 growth slowdown in the Euro area will ease slightly in 2020, which will reflect on the demand for Greek products as well. The exports of Greek goods will be supported this year by accelerating world trade. The geopolitical tensions and conflicts, if they continue, in the South-East Mediterranean and the Middle East, where some of Greece's major trading partners are located, will interfere with the growth of exports.

On the side of services, the increase in receipts from international tourism appears to have been sustained until the end of 2019. It is still premature to make predictions about the trend in tourism in 2020. If the geopolitical tensions in the South-East Mediterranean escalate, tourism flows will be negatively affected in all countries in this region, but to a different extent. The growing international transport through Greece, which presents strong prospects in the coming years with the sale of the Thessaloniki Port Authority and the expansion of Cosco's activity in Piraeus, will continue to contribute to the expansion of the exports of services. In view of the above trends and developments, the average growth of exports of goods and services in 2019 is estimated to have reached 6.0%. In 2020, their growth will be equally strong, or perhaps slightly weaker.

Due to the stronger growth in private consumption spending in the final quarter of last year and the mild recovery of investment activity, the increase in demand for products from abroad is estimated to have strengthened in late 2019. The demand for tourist services from abroad also appears to have continued to strengthen in the final quarter of last year. In 2020, the much higher investment and greater private consumption will boost the demand for imports of goods. The demand for travel services from abroad will be on the rise again. As a result of the above particular trends, imports increased in 2019 by 4.0%, accelerating to 6.5-7.0% in 2020.

Taking into account the current and expected developments in the final quarter of 2019 and in 2020 that affect the trends in the GDP components, the output growth estimate for 2019 was revised from 1.8% to 2.1%. The revision is largely due to updated second-quarter data. Growth will accelerate marginally in the following year, to about 2.2-2.5%. Note that the GDP forecasts for 2019 and 2020 are based on provisional 2018 GDP estimates of March 2019, as its second estimate scheduled for 16 October was postponed. Therefore, any significant changes in GDP in 2018 and its components from the current review may affect the forecasts in subsequent IOBE reports for 2020, in a way that cannot be predicted.

State Budget: achieving the targets in 2019, mainly by cutting costs

According to the State Budget implementation figures, on a modified cash basis (not ESA or Enhanced Surveillance methodology), its balance was €168 million in deficit, against a deficit of €4.58 billion a year earlier. This result is better than the revised target for the same period (€839 million deficit). The primary surplus reached €5.02 billion, from just €91 million a year earlier, exceeding the target for last year (€4.4 billion). The fall of the deficit to levels below the target is almost exclusively due to the restraint of expenditure (89.4%) and to a lesser extent to higher revenue (10.6%). The lower spending against the target is mainly due to the under-implementation of the Public Investment Programme (€508 million less or 91.7% of the target), and the zero non-allocated expenditure (against a target of €462 million).

On the revenue side, the overrun compared to the previous year came mainly from corresponding developments in Other current revenues, by €447 million (€2.53 billion receipts), and Other taxes on specific services, by €87 million (€1.92 billion receipts). The greatest lag behind the target was recorded in the revenues from transfers, by €348 million, due to less than planned take-offs from the EU's structural and investment funds, resulting in them not exceeding €4.41 billion.

State Budget 2020: Slight deterioration compared to 2019

According to the Explanatory Report of the 2020 Draft Budget, the State Budget balance, based on the methodology of the European National Accounts, is projected to be in a deficit of €2.45 billion or 1.2% of GDP, slightly higher than the estimate for 2019 (€2.2 billion or 1.1% of GDP). The primary balance of the State Budget will be in a surplus of €3.55 billion or 1.8% of GDP, lower than last year (€4.37 billion or 2.3% of GDP). As the net revenues are projected this year to increase by €448 million or 0.8% from last year, the marginal deterioration of the State Budget result will come from the expansion of expenditure, by €772 million or 1.4% compared to 2019.

The higher State Budget expenditure planned for the current year relate to the PIP (up by €600 million, to €6.75 billion), other (excluding the PIP) non-allocated expenditure (by €1.0 billion, to €1.5 billion) and compensation of employees (by €390 million, to €13.4 billion). Employee expenditure is mainly intended to cover the higher contributions for EFKA, EOPPY and other social security funds. The deterioration of the primary result of the State Budget is due to lower interest payments by €500 million.

Unemployment reduction in 2019, to the same extent as in the previous year. Similar decline this year.

The stronger growth of the exports of both services and products in the summer quarter of 2019 was reflected in the employment of the corresponding production sectors. Combined with the increase in jobs in Education, this was the main cause of the new expansion of employment over this period, by 2.0% or 77,000 people, which was weaker than in the preceding quarters. Overall in the first nine months of 2019, the unemployment rate stood at 17.5%, 2 p.p. lower year on year, with a similar decline as in the preceding year. Its fall came by 91.0% from rise in employment (by 88,000 people) and by 9.0% from labour force reduction (-8,600 people). Most of the year-on-year job creation in the first three quarters of 2019 came primarily from Education (20,100 or 6.7% more jobs). As mentioned in the previous IOBE report on the Greek economy, the strong expansion of employment in Education since the beginning of 2019 is considered unusual for a largely non-tradable services sector, due to the high share of public sector activity in it. Tourism (19,600 or 5.4% growth) and Transport – Storage (19,000 or 10.3%) came next. Manufacturing followed with a marginally weaker employment expansion in the first nine months of 2019 (18,100 or 5.1%). By contrast, employment declined mainly in the Primary Sector (-13,600 or -2.9%) and Financial-Insurance Activities (-3,300 or -3.7%).

The steady growth in the exports of goods and services in the final quarter of 2019 and in 2020 will continue to be the major driver of unemployment reduction, through the increase in employment in the most export-oriented sectors, such as Tourism, Transport – Storage and Manufacturing. The strong expansion of employment in Education in the first nine months of 2019 will carry over into the final quarter, following the intake of substitute teachers in secondary education for the school year 2019-2020. The public sector will boost employment through anticipated recruitment in several government services (education, health, public safety, national defence, local government, etc.), and with temporary employment through OAED, such as social employment programmes, in municipalities, regions, social welfare centres and departments of ministries, but also for other purposes. The stronger consumption demand will increase jobs in sectors providing services to final consumers (Retail Trade, Food Services). More broadly, the projected significant growth of investment activity, for the reasons mentioned above, will have a positive impact on job creation in a number of sectors and mostly in Construction. The further lowering of the social security contributions for employers and employees will mainly boost labour demand. Taking into account the above factors affecting employment, unemployment is estimated to have stood on average at

17.4% in 2019, almost two percentage points lower year on year. Its decline will continue with a similar intensity in 2020, to reach about 15.5%.

Inflation accelerating this year, mainly from a pick-up in demand

The rate of change in the Consumer Price Index in the final quarter of 2019 was, as in the previous quarter, virtually zero (0.1% after -0.1%), against 1.1% in late 2018. The effect of the VAT reduction in May seems to be weakening, as the fall in prices in the category Food – Non-alcoholic beverages slowed from 1.8% to 0.6%. The stronger price fall in the Housing category, from -0.3% to -1.4%, which was also affected by the VAT changes, is due to the temporary, far-reaching fall in energy prices for domestic use last October, which disappeared in the next two months. On average last year, the rate of change in the domestic Consumer Prices Index was marginally positive, at 0.3%, compared to a slightly stronger increase the year before, by 0.6%. The marginal price increase in 2019 is due solely to domestic demand, as the increase in the general index with fixed taxes and excluding energy goods stood at 1.3%, while the impact of indirect taxation was negative (-0.8 points) and that of energy goods essentially neutral (-0.1 points).

The new fiscal measures concerning the households (lower ENFIA tax, reduction of the tax rate for the lowest income bracket from 22% to 9% and of the rates in the remaining income brackets by one percentage point), as well as those announced for the rest of the year (further reduction of ENFIA, reduction of solidarity levy) will boost real incomes and thus consumption demand. The decline in unemployment will also provide a stimulus to this. That said, the deflationary effect from the 2019 VAT reductions will continue, albeit weakening, until May. Regarding the impact of energy prices, the slightly stronger global growth in 2020, at 3.3% against 2.9% in 2019, with a significant revival of world trade, will boost petroleum demand. The geopolitical tensions involving oil-producing countries will exert inflationary pressure on oil prices. The impact of these drivers on prices will be tempered by the strong year-on-year expansion of oil production in the US. In the Eurozone countries, the restraint on price growth from the higher euro/dollar rate will be only marginal. The most likely result of these developments will be a small increase in energy costs. Taking into account all the above data and trends, inflation is anticipated to accelerate slightly in 2020, to 0.5% - 0.8%, from 0.3% in 2019, from stronger domestic demand and perhaps a mild inflationary effect of energy goods on prices.

Special study: Boosting savings and growth through the capital markets

To cover the country's investment gap, it is necessary to mobilise more fully the domestic savings. Capital markets and banks link savings, investment, and growth. However, given the high rate of non-performing loans, bank financing faces significant constraints in Greece. By contrast, there is considerable scope for increasing funding from the capital markets, as compared to other countries in Europe, but even more so, with other OECD countries, as capital markets are not being sufficiently utilised in Greece.

The aim of the study presented in Chapter 4 was to highlight the prospects created for financing domestic investments through initiatives to strengthen the domestic capital market. In particular, the study examines the European experience in providing tax incentives for domestic private investment. Based on this experience, it develops a proposal to provide similar incentives in Greece, both through a reform of the social security system and through incentives for long-term investments in financial instruments with specific characteristics. The study concludes with an assessment of the benefits for the Greek economy from the implementation of the proposal.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The Global Environment

- The global economy is estimated to have grown at a rate of 2.9% in 2019 (compared to 3.6% in 2018), with developed economies at 1.7% and the developing economies at 3.7%
- Uncertainty about global activity remains, yet the likelihood of specific adverse risks (Brexit without a deal, escalation of US-China tariffs) has subsided
- Early signs from short-term activity indicators that pressures on global economic activity have eased, making it possible to accelerate the recovery from the start of 2020 with the support of monetary policy
- The global economy is projected to grow at a rate of 3.3% in 2020, with developed economies growing at 1.6% and developing at 4.4%

Over the last two years, the global growth momentum has constantly weakened, amid ongoing political uncertainty and weak international trade and investment flows. Based on the latest data, the annual GDP growth rate in OECD countries in the third quarter of 2019 remained unchanged compared to the previous quarter, at 1.6%. However, a year ago it was significantly stronger (2.2%). Growth in the most developed countries (G7) was also unchanged quarter on quarter, at 1.6%, compared with 2.0% in the third quarter of 2018. According to IMF estimates, the world economy grew at an annual rate of 2.9% in 2019, compared with a forecast of 3.5% a year ago and a growth of 3.6% last year, which is the lowest since the financial crisis of 2008. The GDP growth rate is estimated at 1.7% for 2019 for the developed economies (from 2.2% in 2018 and against an initial forecast of 2.0%) and at 4.4% for the developing economies, from 4.5% the year before, same as the initial forecast for 2019. For 2020, the world economy is projected to grow at 3.3%, with the developed economies growing at 1.6% and the developing at 4.4%.

Global economic activity continues to be vulnerable due to uncertainty about trade policy and geopolitical tensions, which mainly affect international trade and the manufacturing industry. However, there are signs based on leading indicators for the fourth quarter, that the rate of global growth is starting to stabilise, assisted by accommodative monetary policy, which is expected to contribute to the recovery of global activity from the beginning of 2020.

Psychology in international markets has been strengthened by some early indications that pressures on manufacturing activity and international trade have begun to subside, due to a wide shift towards more accommodative monetary policy, from some positive news for the trade negotiations between the USA and China and the recent ratification by the British Parliament of a Brexit agreement with the European Union. In particular, the first phase of the US-Chinese trade agreement on 15 January includes the non-imposition of new duties on both sides and the reduction of some already imposed. The duties imposed by the US will remain in force, albeit reduced, at least until the presidential elections held in the country next November. However, few real developments that represent a turning point for faster growth or recovery are currently evident in macroeconomic data worldwide.

Regarding the recent trends in the economies of major economies and economic regions, in the developed economies, the GDP growth rate stood at 1.7% on average in 2019, following the sharp fall in the second half of 2018.

Among the developed countries, the US economy maintained its momentum in the third quarter of 2019, with an annual growth rate of 2.1%, from 2.0% in the previous quarter. The growth of private and public consumption and the strengthening of investment in housing contributed to GDP growth, while remaining investment remained sluggish. The IMF estimates growth for 2019 at 2.3%, milder than in 2018, which will slow further to 2.0% in 2020. These growth forecasts are revised slightly down by 0.1% compared to last October, as they reflect the return to neutral fiscal policy and weaker support from further relaxation of the financial conditions.

In the Eurozone, annual GDP growth remained stable quarter on quarter in the third quarter of 2019, at 1.2%, while it is estimated to be at this level overall in 2019 as well. For 2020, the IMF forecasts growth of 1.2% (0.1% lower than the previous forecast). The October forecasts for the growth of France remain unchanged, while for Germany the forecasts have been revised down for 2020, as manufacturing continues to face problems.

In the United Kingdom, GDP increased year on year by 1.1% in the third quarter of 2019, supported by household consumption, while investment and public consumption negatively affected GDP growth. The growth rate is estimated at 1.3% in 2019 and is expected to steady in 2020, at 1.4%, as predicted since October, under the assumption of a smooth exit from the European Union at the end of January, followed by a gradual transition to a new economic relationship, which seems to be the process that will eventually be implemented in practice, following recent developments.

In Japan, GDP growth increased significantly in the third quarter of 2019 to 1.7% from 0.9% in the previous quarter, reflecting healthy private consumption, partly supported by fiscal countermeasures to the increase in excise duties, robust investment expenditure, and revisions of national accounts data. Japan's economy is estimated to grow by 1.0% in 2019, against 0.3% the year before. A slight slowdown is forecast for 2020 at 0.7%, 0.2 percentage points higher than previous forecasts, supported by the measures of $122 billion announced by the Japanese government in December, in order to prevent the threat of recession from a significant drop in exports and the contraction of retail sales, following the recent increase in sales tax.

Table 2.1

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

Economy	2018	2019	2020	
		Estimation	Forecast	Difference from previous forecast*
World	3.6	2.9	3.3	-0.1
Developed	2.2	1.7	1.6	-0.1
Developing	4.5	3.7	4.4	-0.2
USA	2.9	2.3	2.0	-0.1
Japan	0.3	1.0	0.7	0.2
Canada	1.9	1.5	1.8	0.0
United Kingdom	1.3	1.3	1.4	0.0
Eurozone	1.9	1.2	1.3	-0.1
Germany	1.5	0.5	1.1	-0.1
France	1.7	1.3	1.3	0.0
Italy	0.8	0.2	0.5	0.0
Emerging Europe	3.1	1.8	2.6	0.1
Russia	2.3	1.1	1.9	0.0
Turkey	2.8	0.3	3.0	1.4
Developing Asia	6.4	5.6	5.8	-0.2
China	6.6	6.1	6.0	0.2
India	6.8	4.8	5.8	-1.2
Middle East & North. Africa	1.9	0.8	2.8	-0.1
Saudi Arabia	2.4	0.2	1.9	-0.3
Latin America	1.1	0.1	1.6	-0.2
Brazil	1.3	1.2	2.2	0.2
Sub-Saharan Africa	3.2	3.3	3.5	-0.1
World Trade	3.7	1.0	2.9	-0.3

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

Source: World Economic Outlook, IMF, January 2020 and Economic Outlook, OECD, November 2019 for Turkey

Turkey's economy grew at a rate of 0.9% annually in the third quarter of 2019 and thus returned to positive rates following the negative performance of the previous three quarters. Major fiscal support packages for the economy have boosted domestic demand more than expected, while the devaluation of the Turkish lira supports exports. Therefore, for the whole of 2019 the growth rate is estimated to be marginal, at 0.3%, much lower than in the previous year (2.8%). This year, weak foreign demand, geopolitical uncertainty, and high private debt are expected to keep the growth rate at 3.0%, down from the potential growth rate and the target of 5% set by the Turkish Government.

Growth in the Middle East and Central Asia region is estimated at 0.8% in 2019, but a significant acceleration to 2.8% is expected in 2020. The slowdown compared to 2018 (1.8%) is due to lower oil production, due to OPEC's decision to reduce supply since the beginning of the previous year, which has been extended and is still ongoing.

Next, the current section presents the main economic policy trends and challenges in five developing economies and economic regions, which produce almost 1/3 of the global GDP in total.

In detail, China's economy grew at a rate of 6.0% year on year in the third quarter of 2019, marking a new slowdown compared to the previous quarter. This growth rate is the lowest since the first quarter of 1992, amid a commercial confrontation with the US, a weakening of global demand and a worrying increase in shadow lending (off-balance-sheet loans to insolvent borrowers). Growth is estimated at 6.1% in 2019 and 6.0% for 2020. Indeed, the 2020 forecast is revised up compared to that in October, reflecting the expected partial withdrawal of current tariffs and the decision not to impose new ones until November, as part of the first phase of the trade agreement with the US, which is expected to have a positive effect in the short term.

India's economy grew at a rate of 4.5% per annum in the third quarter of 2019 from 5.0% in the previous quarter, remaining in a slowdown for the fifth consecutive quarter, with domestic demand weakening more than expected amid pressures on the non-bank financial sector and a fall in credit growth. The growth rate for 2019 is estimated at 4.8%, two percentage points down year on year, a slowdown which will be partially offset in 2020, with a growth of 5.8%.

Russia's gross domestic product increased by 0.8% annually in the third quarter of 2019, a performance slightly better than in the previous quarter (0.7%). The activity is also supported by the improvement in financing conditions. For 2019 growth is estimated at 1.1%, half that of 2018 (2.3%), while for 2020 it is projected at 1.9%.

Latin America is expected to return to growth in 2020 (1.6%), following a stagnation last year (0.1%). This year's forecast is revised down due to a weakening of the growth prospects of Mexico and Chile. However, this is partly offset by the upward revision of Brazil's prospects, due to the improved economic climate and the weakening of negative factors related to the mining sector.

The IFO estimates on the economic climate in the world economy in the fourth quarter of 2019 deteriorated further, with the index falling from -10.1 to -18.8 points. Both the assessment of the current situation and the expectations over the coming six months weakened significantly, as the global economy remains weak.

In the Euro area, the economic sentiment indicator significantly deteriorated quarter on quarter in the fourth quarter by nearly ten points, to -16.3 points, its lowest level since spring 2013. The assessment of the current situation declined for a seventh quarter in a row, passing to negative territory, at -3.5 points, from 6.4 points in the previous quarter. Expectations dropped sharply, to -28.3 from -18.9 points.

Despite the continued creation of new jobs, with the level of unemployment already at a low level over some time in some cases, structural inflation remained low in developed economies. In developing economies, it declined further due to subdued activity. Weak demand has had a negative effect on metal and energy prices, holding back overall inflation.

Table 2.2

IFO – Global economic climate (balances)

Quarter/Year	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Economic Climate	17.1	26.0	16.5	2.9	-2.2	-13.1	-2.4	-10.1	-18.8
Assessment of Current Situation	17.2	28.3	27.4	17.5	12.2	2.6	1.4	-5.4	-16.4
Expectations	16.9	23.9	6.1	-10.6	-15.7	-27.7	-6.1	-14.7	-21.1

Source: IFO Institute, Center for Economic Studies

Table 2.3

IFO - Euro area estimates (Economic climate balances)

Quarter/Year	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Economic Climate	37.0	43.2	31.1	19.6	6.6	-11.1	-6.3	-6.7	-16.3
Assessment of Current Situation	42.9	51.3	49.9	41.4	29.9	18.3	7.9	6.4	-3.5
Expectations	31.3	35.4	13.8	-0.1	-14.3	-36.6	-19.5	-18.9	-28.3

Source: IFO Institute, Center for Economic Studies

Monetary policy worldwide continues to be accommodative. The Fed reduced its base rate by 25 basis points to the range of 1.5-1.75%, as expected, while the ECB announced a second round of quantitative easing (QE) with bond purchases of €20 billion on a monthly basis, keeping its base rate negative at -0.5%. China's central bank reduced the base rate of borrowing by 5 basis points to 3.25%. In Turkey, the central bank reduced the base rate by 450 basis points to 12%, while central banks in Russia and Brazil reduced their interest rates by 75 and 100 basis points (to 6.5% and 5%), respectively.

B. The economies of the EU and the Euro area

- Growth rate in the euro area and the EU in the third quarter of 2019 unchanged from the previous quarter, at 1.4% and 1.2% respectively. Slowdown compared to the corresponding quarter of 2018 (1.8% and 1.6%)
- Negative contribution of net exports to growth in July - September in the Eurozone and the European Union, for the fifth consecutive quarter
- Further retreat of the Economic Sentiment Indicator in both economic regions in the fourth quarter
- Eurozone growth estimates at 1.2% in 2019 and 1.4% in 2020
- Main sources of uncertainty: structural adjustment difficulties in EU industry, Brexit risks, geopolitical tensions in the Middle East, larger migration flows
- But also, positive prospects from the ECB's restart of quantitative easing, US-China trade deal for non-escalation of the trade war and gradual lifting of measures

In the third quarter of 2019, the economies of the European Union and the Euro area grew at the same rate as in the preceding quarter, by 1.4% and 1.2% respectively, against growth of 1.8% in the EU and 1.6% in the Euro area year earlier. According to the latest forecasts of the European Commission,[1] the Euro area economy is expected to grow by 1.1% and 1.2% in 2019 and 2020 respectively, compared to 1.9% in 2018, while the EU economy is projected to grow by 1.4% in both years, from 2.0% in 2018.

Domestic demand was the main growth driver in the EU in the third quarter of 2019, to the same degree as in the previous quarter, as the positive contribution of investment declined (from 1.1% in the second quarter of 2019 to 0.7% in the following quarter), while the contribution of private consumption strengthened to 0.9% from 0.7% in the second quarter of last year. Net exports had a negative contribution to growth in the third quarter of 2019, for the fifth consecutive quarter, at -0.7% against -0.2% in the same quarter of last year. The trends in the composition of growth in the Eurozone economies are slightly different, with domestic demand being the main driver, but having weakened slightly quarter on quarter, to 2.2% from 2.4% in the second quarter of 2019. The positive contribution of investment declined quarter on quarter (1,1% of GDP, from 1.5% in the previous quarter), as in the Euro area, while the contribution of consumption strengthened to 0.8%, from 0.6%. In addition, in this quarter, net exports had negative contribution to growth in the Euro area, by 1.1%, slightly weaker than a quarter earlier (1.3%).

The composition of the GDP expenditure components remained similar in the EU and the Euro area, with consumption representing 76% and 74.5% of GDP respectively, investment 21.8% and 22.5%, exports 48% and 49.8% and imports 45,9% and 46.9%.

The highest growth rates in the EU in the second quarter of this year (in terms of year-on-year changes in seasonally adjusted data) were recorded in Hungary (4.8%), Estonia (4.1%) and Poland (4.1%). Greece, at 12.3%, outperformed the average growth of the Euro area (1.2%). The lowest growth rates were recorded in Italy (0.3%), Germany (0.5%) and the United Kingdom (1.0%). In terms of a 12-month moving average, Greece recorded growth of 2.0%, higher than the average

[1] European Economic Forecasts autumn 2019, European Commission, November 2019

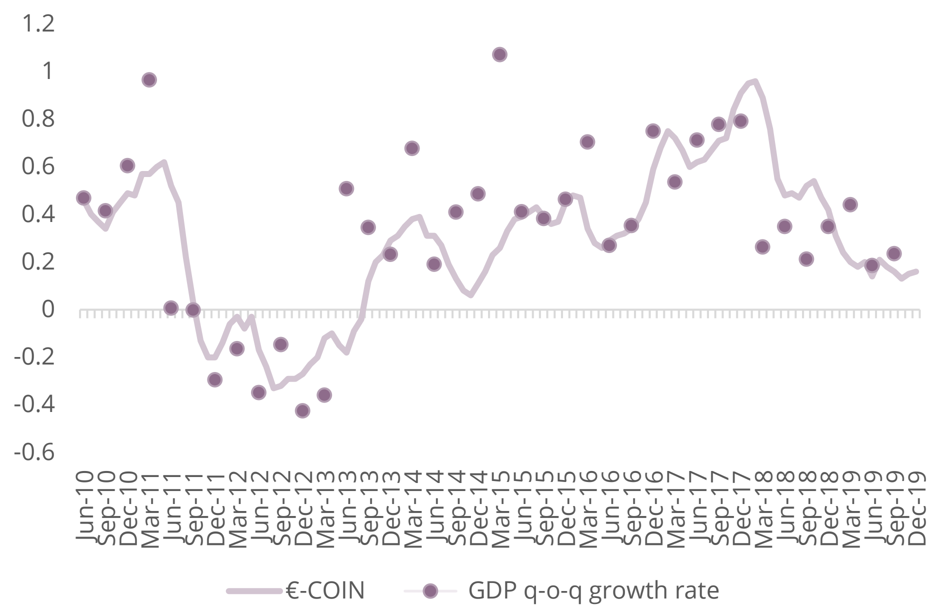
for the EU (1.5%) and the Euro area (1.3%). Greece was ahead of the United Kingdom, France and Germany, which posted a (12-month rolling) growth rate of 1.5%, 1.3% and 0.6% respectively in the third quarter of 2019. The countries with the lowest 12-month growth rate were Italy (0.1%), Finland (1.2%) and Belgium (1.4%). By contrast, the highest growth in the EU on a 12-month moving average basis was recorded in Hungary (5.1%) and Estonia (4.5%).

Regarding the economic climate and the key leading indicators of economic activity in the Euro area and the European Union, the €-COIN index declined in the fourth quarter of the year, to 0.15 points, from 0.18 points in the preceding quarter, while it remained significantly lower year on year (against 0.48 points). On a monthly basis, the index stood at 0.16 points in December 2019, at the levels of January 2015, signifying that the trend continues to shift away from the positive climate in the Eurozone economy that prevailed until early 2018.

The economic sentiment indicator of the European Commission declined further in the EU and the Euro area in the final quarter of 2019, for the eighth consecutive quarter, after recording its best performance since the year 2000 in the final quarter of 2017.

Figure 2.1

Monthly €-COIN Index & Eurozone GDP*



Decrease in the leading indicator €-COIN in the fourth quarter of 2019. Lower level than in Q1 of 2015.

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

Source: CEPR and Bank of Italy

In December 2019, the economic sentiment indicator remained steady at 100 points in the EU, while in the Euro area it stood at 101.5 points in the Euro area, lower month on month by 1.3 points. Year on year, it declined by 7.5 and 5.9 points respectively.

Overall in the fourth quarter of 2019, the indicator in the EU declined by 1.4 points quarter on quarter, and by 9.2 points year on year. In the Euro area, the economic sentiment fell by 1.3 points quarter on quarter and 7.7 points year on year. Among the major EU economies, the climate indicator declined quarter on quarter in France by 0.6 points, up year on year by 1 point. The economic sentiment indicator subsided in Germany as well, by 0.5 points quarter on quarter and 11 points year on year. In Italy, the economic sentiment marginally declined by 0.2 points quarter on quarter, down year on year, by 4.6 points. Finally, in Greece the economic sentiment indicator strengthened quarter on quarter by 0.8 points. The indicator reached its highest level since the first quarter of 2008, at 109.5 points, about 8.6 points higher year on year (from 100.9 points).

Table 2.4

Economic Climate Index EU-28 & Euro Area (av. 1990-2018=100)

Month	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
EU-28	113.9	113.7	111.7	111.7	111.8	111.7	111.5	111.5	110.7	110.1	109.3	107.5
Euro area	114	113.2	112	112.2	111.5	111.8	111.2	111	110.4	109.7	109.5	107.4

Month	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
EU-28	106.2	105.4	105.2	103.7	103.9	102.4	102	101.4	100	99.2	100	100
Euro area	106.3	106.2	105.6	103.9	105.2	103.3	102.7	103.1	101.7	100.8	101.2	101.5

Source: European Commission (DG ECFIN), January 2020

In the United Kingdom, due to prolonged uncertainty on Brexit, the economic sentiment deteriorated further, by 2.3 points quarter on quarter and by 16.9 points in relation to the same quarter of 2018. Recall that on 17 October 2019, the European Commission President Jean-Claud Junker and the British Prime Minister Boris Johnson announced a Brexit deal. Mr Johnson put the revised agreement to the British Parliament on 19 October, which was approved with an amendment of the withdrawal deadline from 31/10/19 to 31/01/20. The House of Commons approved the agreement, but not the timetable for its debate. As a result, early elections were called for 12 December. The Conservatives won a majority in the elections, with Mr Johnson stating that the United Kingdom would leave the EU in early 2020. On 23 January, with 330 votes in favour, the withdrawal agreement was approved by the British Parliament and the United Kingdom withdrew from the EU at the end of January 2020. The Withdrawal Agreement provides for a transitional period until 31 December 2020, during which the UK will be subject to European regulations.

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

In greater detail, according to Eurostat data for the third quarter of 2019 (year-on-year changes in seasonally adjusted data), private consumption in the European Union increased by 1.6%, stronger than in the preceding quarter (1.3%), against 1.4% growth in the same period of 2018. Household consumption in the Euro area expanded by 1.5%, against 1.1% in the preceding quarter and 1.5% a year earlier. The European Commission projected in November year-on-year growth in household consumption in the EU in 2019 at 1.4%, accelerating slightly to 1.5% in 2020. For the Euro area, it projected weaker private consumption growth at 1.1% in 2019 and marginally stronger growth by 1.2% in 2020. Among the EU countries, private consumption increased by 1.8% in Germany, stronger than in the preceding quarter (1.4%). In France, its growth steadied at 1.4, while in Italy it strengthened by 0.8%, from 0.5% in the preceding quarter. In the United Kingdom, private consumption growth slowed down quarter on quarter to 1.0%, from 1.2%. In Spain, private consumption growth strengthened to 1.4% from 0.8% in the preceding quarter, while in Greece it declined marginally by 0.2%, against fall by 0.2% in the preceding quarter.

Table 2.5

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

	EU			Eurozone		
	2018	2019	2020	2018	2019	2020
GDP	2	1,4	1,4	1,9	1,1	1,2
Private Consumption	1,6	1,4	1,5	1,4	1,1	1,2
Public Consumption	1,2	1,8	1,7	1,1	1,6	1,5
Gross Investment	2,5	3,8	1,8	2,3	4,3	2,0
Exports of Goods and Services	3	2,5	2,3	3,3	2,4	2,1
Imports of Goods and Services	2,9	3,3	2,8	2,7	3,2	2,6
Employment	1,4	1,0	0,5	1,5	1,1	0,5
Unemployment (% labour force)	6,8	6,3	6,2	8,2	7,6	7,4
Inflation	1,9	1,5	1,5	1,8	1,2	1,2
Balance of General Government (% GDP)	-0,7	-0,9	-1,1	-0,5	-0,8	-0,9
Debt of General Government (% GDP)	81,9	80,6	79,4	87,9	86,4	85,1
Current Account Balance (% GDP)	2,2	1,9	1,8	3,8	3,3	3,2

Source: European Economic Forecasts, Autumn 2019, European Commission, November 2019

Public consumption growth strengthened quarter on quarter in the third quarter of this year in the EU and the Euro area to 2.1% and 1.7%, from 1.9% and 1.5% respectively. In the third quarter of 2018, public consumption had increased by 0.9% in both the Euro area and the EU. For 2019 and 2020, the European Commission anticipated stronger growth by 1.8% and 1.7% respectively in the EU, while for the Euro area, it estimated growth by 1.6% and 1.5%. In the third quarter of 2019, public consumption decreased in Greece, by 0.5%, against 9.4% growth in the preceding quarter coming from fiscal interventions related to the elections.

Investment expanded in the third quarter of 2019 in the EU by 3.3%, notably lower than in the previous quarter (5.4%), while its growth slowed down in the Euro area to 5.0%, against 7.0% in the preceding quarter. In the same quarter of 2018, investment had expanded by 5.1% in the EU and by 4.8% in the Euro area. The European Commission anticipated investment to grow by 3.8% in

2019 and by 1.8% in 2020 in the EU, while it anticipated investment growth by 4.3% and 2.0% respectively in the Euro area. Investment declined in the third quarter of 2019 in Germany by 4.9%, against growth by 2.4% in the preceding quarter, while in Italy it contracted further by 1.3%, against 4.8% decline in the second quarter. In France, investment growth strengthened to 2.7% from 1% in the previous quarter, while in the UK its trend shifted in the third quarter of the year, to -7.7% from 2.1% growth. Greece saw a fall of 5.0%, compared with a positive change of 1.3% in the second quarter of 2019.

The growth of exports of goods and services strengthened in the third quarter of 2019, both in the EU (2.5%) and in the Euro area (2.4%), compared with 2.1% and 2.3% growth in the preceding quarter, and expansion by 2.7% and 3.0% correspondingly in the third quarter of 2018. For 2019 and 2020, the European Commission anticipates the growth of exports in the EU to slow down compared to 2018 to 2.5% and 2.3% respectively. For the Euro area, it anticipates growth of 2.4% in 2019, followed by a slowdown to 2.1% in 2020. At the country level, exports expanded in Germany by 1.6% in the third quarter, from a decline by 0.3% in the second quarter of 2019. In France and Italy, exports expanded in the second quarter of this year by 1.6% and 1.2% respectively, from 2.5% and 2.9% in the previous quarter. In Greece, export growth strengthened significantly in the third quarter, to 9.5% from 5.8%. Growth of growth by 3.5% in the third quarter of 2019, against a decline by 1.9% in the second, was observed in the UK. Exports growth strengthened in Spain, to 3.0%, from 2.1% in the previous quarter, while in Cyprus exports expanded by 1.6%, after falling by 6.9% in the second quarter of the same year.

Imports growth remained unchanged quarter on quarter in the third quarter in the EU at 4.2%. Slightly weaker growth was recorded in the Euro area, at 5.0%, from 5.3%. Their growth was stronger than a year earlier, when imports were expanding by 3.4% in the EU and by 3.7% in the Euro area. For 2019 and 2020, the European Commission anticipates growth of imports by 3.3% and 2.8% respectively for the EU, while for the Euro area it projects a slowdown of the growth rate to 3.2% in 2019 and 2.6% in 2020. At the country level, imports expanded in Spain (3.1% in the third quarter of 2019, from 0.2% decline in the preceding quarter), France (2.8%, from 1.9%) and Italy (1.6%, from 1%). By contrast, imports growth slowed down in Germany (1.3% from 2.6% in the second quarter of 2019). In Greece, imports decreased by 2.9%, while in the previous quarter they were up by 3.7%. In the United Kingdom imports remained stable compared to the corresponding quarter of 2018, while in the previous quarter they showed a positive rate of change of 1.1%.

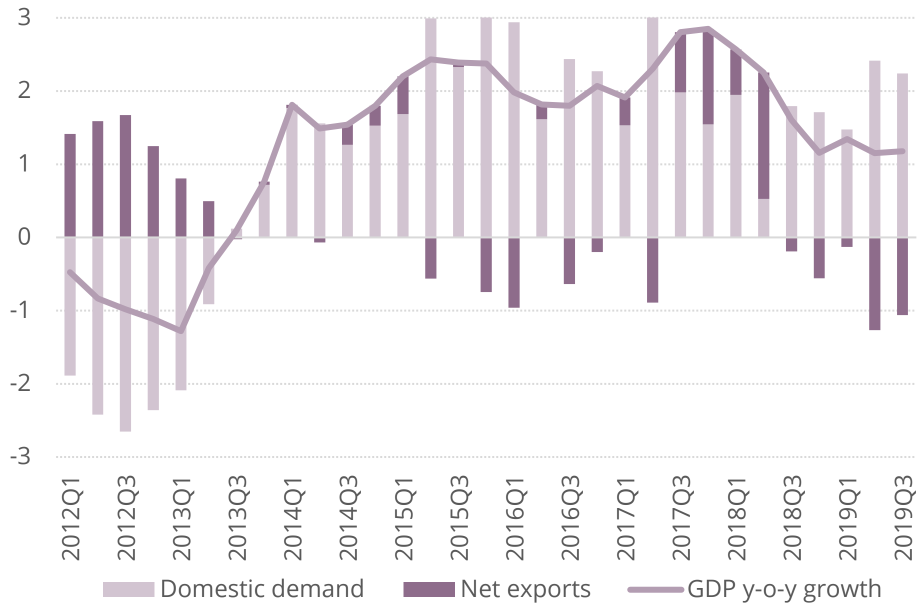
As a result of the developments in the GDP components in the Euro area, net exports had a negative contribution to growth in the second and third quarters of 2019 (1.3% and 1.1% respectively), against marginally negative contribution in the third quarter of 2018 (-0.2%). The slightly weaker negative contribution of net exports in the third quarter came from the marginally stronger exports growth, from 1.1% in the preceding quarter to 1.2% in the third quarter and the weaker negative contribution of imports, from 2.4% in the second quarter to 2.2% in the next. As already mentioned, domestic demand had a positive contribution by 2.2% of GDP, slightly weaker than in the preceding quarter (2.4%). The weakening came mainly from investment, which contributed 1.1% to GDP growth in the third quarter of this year, comparted to 1.5% in the second quarter of 2019.

The harmonised inflation weakened in the third quarter of 2019 in the EU and the Euro area, at a rate of 1.3% and 1.0%, from 1.7% and 1.4% respectively. In the third quarter of 2018, harmonised inflation had stood notably higher, at 2.2% and 2.1%, in the EU and the Euro area respectively. For

2019 and 2020, the European Commission projected recently that the inflation would remain unchanged at 1.2% in the Euro area and reach 1.5% in the EU in both 2019 and 2020.

Figure 2.2

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



Negative contribution of net exports to GDP growth in the Euro area in Q3 2019. Domestic demand had a positive but weakening contribution, due to a slowdown in investment.

Source: Eurostat

The growth of employment weakened quarter on quarter in the third quarter of 2019, to 0.8% in the EU and 1.0% the Euro area, from 1.0% and 1.2% respectively. It also slowed down compared to the same period of 2018 (1.3% and 1.5% respectively). The European Commission projected that employment growth would weaken in the EU in 2019 and 2020, to 1.0% and 0.5% respectively, from 1.4% in 2018. In the Euro area, employment growth is also anticipated to slow down, to 1.1% in 2019 and 0.5% in 2020, from 1.5% in 2018. Employment increased most in the third quarter of 2019 in Malta (4.7%), Luxembourg (3.7%), Cyprus (3%), Ireland (2.4%) and Estonia (1.8%). In Greece, the expansion reached 1.6%. By contrast, employment contracted in Lithuania (1.7%), Romania (1.0%), Latvia (0.3%) and Poland (0.1%).

Unemployment fell further in the third quarter of 2019, to 6.1% in the EU and 7.3% in the Euro area, compared to 6.2% and 7.5% respectively in the preceding quarter, its lowest level in both regions since 2008. In the third quarter of last year, the unemployment rate had stood at 6.5% in the EU and 7.8% in the Euro area. For 2019 and 2020, the European Commission projects further decline of unemployment in the EU, to 6.3% and 6.2% respectively (from 6.8% in 2018), while in the Euro area the unemployment rate is projected at 7.6% in 2019 and 7.4% in 2020, compared to 8.2% overall in 2018. In the third quarter of this year (July-September), the highest unemployment rate was recorded once more in Greece (16.4%), followed by Spain (13.9%) and Italy (9.1%), while it stood at 8.3% in France and at 3.1% in Germany.

Regarding the fiscal performance, the general government deficit in the EU reached 0.7% of GDP in the third quarter of 2019, from 0.6% in the preceding quarter. The European Commission projects that it will increase to 0.9% and 1.1% in 2019 and 2020. In the Euro area, the fiscal deficit is anticipated to reach 0.8% of GDP in 2019 and 0.9% in 2020, from 0.5% in 2018. Public debt in the Euro area stood at 86.1% of GDP in the third quarter of 2019, from 86.1% in the preceding quarter. It is projected to decline in 2019 and 2020 respectively, to 86.4% and 85.1% of GDP respectively. Despite the progress, public debt remained very high across quite a few Member States in the third quarter of 2019, with the highest rate as a percentage of GDP recorded in Greece (178.2%), Italy (137.3%), Portugal (120.5%), Belgium (102.3%) and France (100.5%).

As to the monetary policy framework, the announcement of the European Central Bank on its lending rate in September and October was of interest for the supply of liquidity. In particular, it was announced that the interest rate will remain unchanged at its current level (0.25%) until inflation converges definitely to levels below and close to 2% in the medium term. Furthermore, from 1 November 2019 the ECB resumed purchasing bonds and other assets at a monthly pace of €20 billion for as long as necessary (QE 2), stating that they will end shortly before the ECB starts raising the key interest rates. The principal payments from maturing securities purchased under the APP programme will continue to be fully reinvested for an extended period of time past the date on which the ECB starts raising the key interest rates.[2]

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

- Global manufacturing slowdown hits EU exports
- Concerns over the World Trade Organisation's ability to support the multilateral trading system
- Signing of a major trade agreement between the US and China on non-escalation of the trade war with gradual lifting of measures
- Geopolitical tensions in the Middle East
- The final implementation of the agreement on the withdrawal of the United Kingdom from the EU and its terms. It significantly affects many issues, such as the rights of EU citizens in Britain and the terms of trade. Until the final implementation of the new rules, investment and consumer confidence will be affected, mainly in the UK and much less in the Eurozone economy.
- Weakening of trade between the EU member states
- In the sovereign bond market, a generalised sense of worsening forecasts and expectations for a prolonged period of accommodative monetary policy put pressure on their yields
- Maintaining stability in the financial system: very high rates of non-performing loans in some member states

[2] *Press release "Monetary policy decision", ECB, October 2019*

Box 2.1

NSRF 2014 - 2020: Progress in implementation and impact on GDP

The total budget of the co-financed expenditure from the six main structural and investment funds of the EU in Greece during the fifth programming period 2014-2020 is €26.2 billion, of which €21.4 billion come from EU funds and €4.8 billion from national contribution. By 30/09/2019, around €22 billion or 84% were allocated to national actions and programmes. Each Member State has the right to use the allocated funds, if eligible investments of equivalent value are found to receive their support. However, the investments made in Greece during the same period reached €7.4 billion or 28% of the total budget, while in other countries of the European south the implementation has reached 43% (Portugal) and 44% (Cyprus). Finland has exceeded 64% of their budget, resulting in the country being one of the best practices in making use of the Community funds (Figure 2.2A).

The progress towards the implementation of the NSRF 2014-2020 from 2015 and until the third quarter of 2019, per EU Fund from which the capital resources originate, ranges from 11% to 42%. These, in descending order of absorption rate, are classified as follows:

- European Agricultural Fund for Rural Development (EAFRD), 42% implementation (€2.2 billion, from a budget of €5.2 billion)
- European Social Fund (ESF), 35% implementation (€1.8 billion from a budget of €5.0 billion)
- Youth Employment Initiative, 29% implementation (€0.2 billion from €0.6 billion)
- European Regional Development Fund (ERDF), 23% implementation (€2.5 billion from a budget of €11.0 billion)
- Cohesion Fund, 20% implementation (€0.8 billion from €3.8 billion)
- European Maritime and Fisheries Fund (EMFF), 11% implementation (€0.06 billion from €0.5 billion)

Figure 2.2B shows the divergence per year in the implementation of co-financed investments in Greece in relation to the two countries of the south and Finland, in terms of percentage points of each country's total budget. With the exception of 2016, Greece lags each year behind the countries in question.

In order to approach the effects on the Greek economy of lagging behind in the utilisation of resources from the EU Structural and Investment Funds for the 2014-2020 programming period, the following exercise took place. The results in GDP were estimated for an overall implementation of the NSRF 2014-2020, over the period from 2015 to the third quarter of 2019, of the same rate as the average cumulative level of implementation of co-financed programmes in countries of the EU periphery with economies with structural characteristics similar to Greece (Cyprus, Portugal), as well as in Finland. In the first two countries during this period, 43% of the co-financed budget for the fifth programming period had been allocated to investments.

Figure 2.2A

Cumulative progress in co-financed expenditure implementation in indicative countries - (Percentage of the total budget, up to Q3 2019)

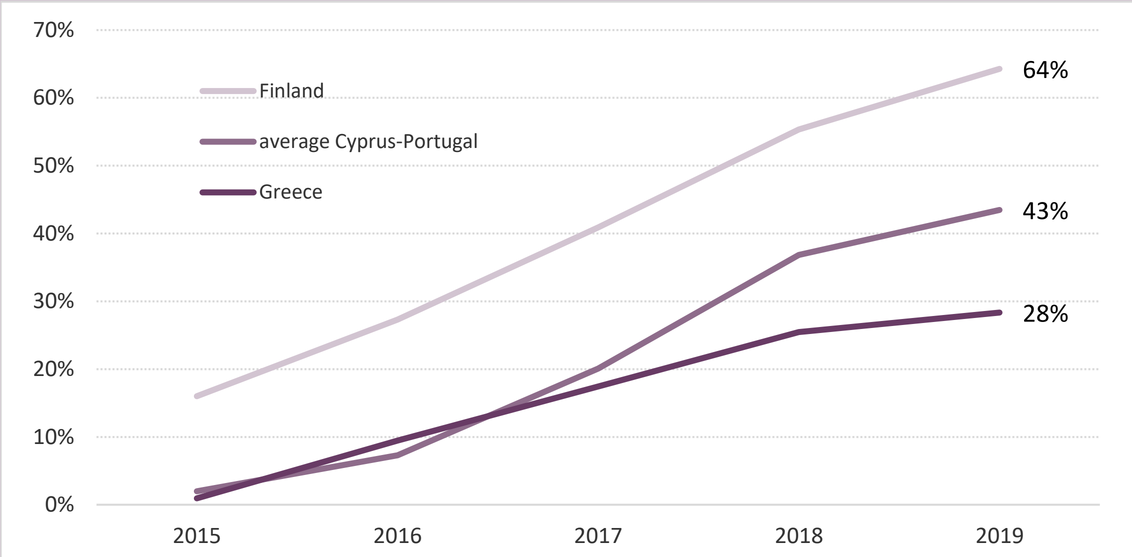
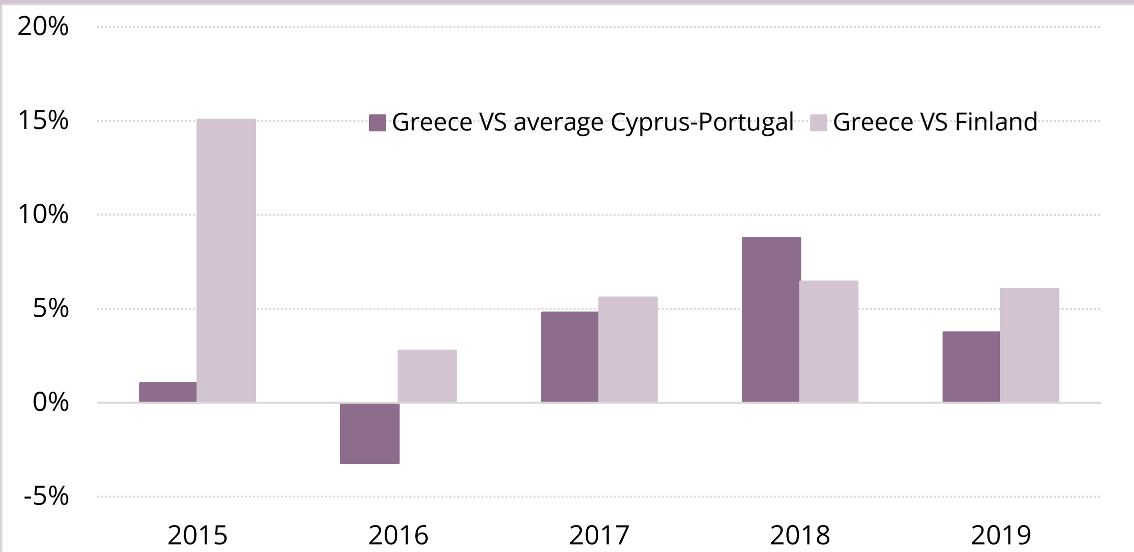


Figure 2.2B.

Annual deviation in Greece in the implementation of co-financed investments (difference per year, in percentage points of budget 2014-2020)*

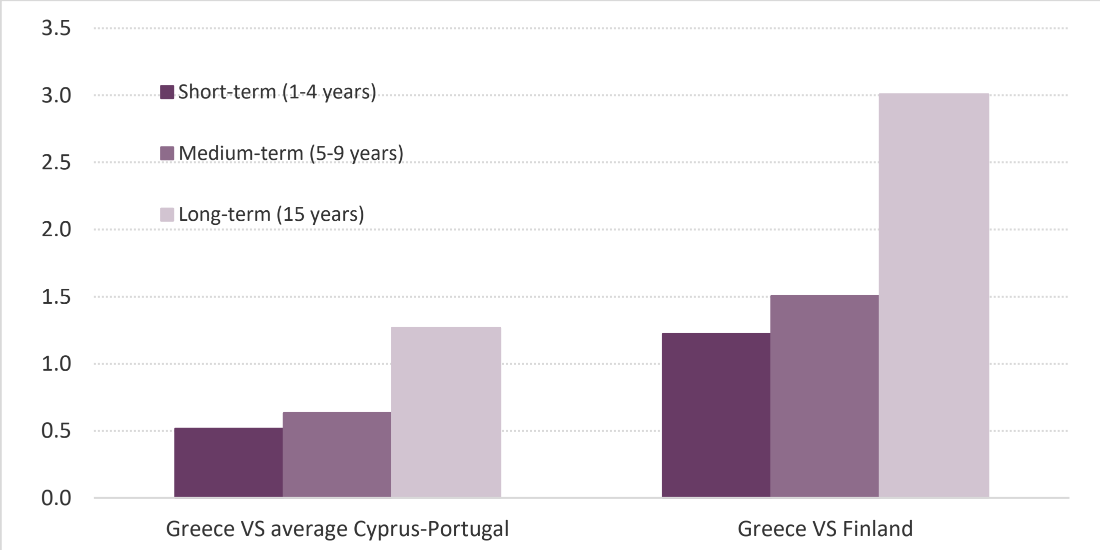


* A negative value implies that Greece outperforms in implementation

If the degree of implementation domestically was the same as that, overall in the period 2015 – Q3 2019 the NSRF expenditures 2014-2020 would total around €4.0 bn or 53% more than those incurred. These accounts for approximately €790 million per year or 0.44% of the average nominal GDP in 2015-2018. Furthermore, if Greece had achieved the pace of implementation of Finland's co-financed programmes (cumulatively 64%), more aid of around €9.4 billion or 126% would have been allocated in the five-year period 2015-2019 than has been made so far. These grants account for €1.88 billion per year or 1% of nominal GDP in 2015-2018.

Figure 2.2C

Estimated average GDP loss in Greece, based on the deviation in the absorption rate of the 2015-2019 budget against other countries (€ billion).)



Source: European Commission ESIF data, Data processing and estimates: IOBE

The IOBE concludes within the first half of 2020 a study on the impact of EU funds on macroeconomic aggregates of the Greek economy. As part of the study, the short- and long-term multipliers of co-financed expenditure (EU funds and national participation) in GDP were estimated. Applying the estimated multipliers to the observed divergences of co-financed investments in Greece by the third quarter of 2019, we estimate that a faster implementation of the NSRF in each year in the period 2015-2019, at the rates of implementation of Cyprus and Portugal, would have resulted in higher GDP growth by €0.5 billion in the short term, which over 15 years would reach €1.3 billion (Figure 2.2c). A faster implementation at the rates of Finland would result in a larger growth in GDP, by €1.2 billion in the short term, and up to €3.0 billion in the long term (15 years). Therefore, in the five years in which the NSRF is implemented, if the rate of the countries of the Euro area's south were followed, the overall direct boost of GDP would have reached €2.6 billion and €6.3 billion in the long term, while if Finland's best practices were applied, the short-term impact would have been €6.1 billion, which within a 15-year outlook would amount to up to €15.0 billion.

In conclusion, it is appropriate to give high political priority in the coming period to the timely and effective utilisation of NSRF funds 2014-2020, at rates similar to or even faster than those recorded by other European countries. The lag so far in the implementation of co-financed investments in the framework of the eighth programme period, compared to the majority of EU countries, exacerbates the impact of the multi-annual economic adjustment period 2010-2018, increasing the distance of the Greek economy from the average in the EU. The tightness of capital from the banking system, which is in a multi-annual restructuring phase, increases the need for rapid and effective use of EU structural and investment funds in the coming years.

2.2 The Economic Environment in Greece

A. Economic Sentiment

- The economic sentiment indicator slightly strengthened quarter on quarter in Greece in the final quarter of 2019 (at 107.7 from 107.0 points). Notable increase compared with the corresponding quarter of last year (100.8 points). The recent level is the highest since the fourth quarter of 2007
- Business expectations strengthened quarter on quarter in the final quarter in Retail Trade and Construction, marginally declining in Industry, and falling stronger in Services
- The consumer confidence indicator stood quite higher, at -7.1 points, from -11.4 points in the preceding quarter and -32.6 points a year earlier, posting its best performance since the first quarter of 2002.

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

In the fourth quarter of 2019, the economic sentiment indicator strengthened slightly in comparison to the previous quarter. This post-election development was largely expected. However, it was also due to the start of implementation of election promises (reduction of the property tax ENFIA, extension of debt settlement in 120 instalments to enterprises) and its continuation with the fiscal measures for businesses and households in the 2020 Budget, which supports the confidence in government policy. There has not been any friction in the relationship with partners and creditors, which is a relatively more important factor for businesses. The reduction in the Greek government lending rates also helped to improve the expectations of businesses and citizens. The good performance of certain short-term indicators relating to households, such as unemployment and inflation, also has had a positive effect on their expectations. These developments have resulted in a significant strengthening of the Consumer Confidence Index and its boost to its highest level in 17.5 years. Having said that, there are sources

[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.*

of significant uncertainty in the international environment, and in the region where Greece is located, e.g. from geopolitical tensions in the South-East Mediterranean. In greater detail:

The Economic Sentiment Indicator increased slightly in Greece quarter on quarter in the final quarter of 2019, to 107.7 points on average, higher than the average from the same quarter of the previous year as well (100.8 points). The recent level is its highest since the fourth quarter of 2007.

In Europe, the corresponding indicator declined quarter on quarter in the quarter under examination both in the EU and in the Euro area. In particular, the Economic Sentiment Indicator averaged 99.7 (from 101.1) points in the fourth quarter of 2019 in the EU and 101.2 (from 102.5) points in the Euro area.

At the sector level in Greece, the business expectations improved quarter on quarter in the fourth quarter of the year in Retail Trade and more substantially in Construction, while in Industry they marginally declined and weakened slightly in Services. On the consumer side, the Consumer Confidence Indicator marginally declined. Compared to the same quarter of the preceding year, the average indicator increased in all sectors, mainly in Construction, Retail Trade and the consumers, while in Services and Industry the increase was weaker. In more detail:

The Consumer Confidence Indicator in Greece in the final quarter of 2019 was on average much higher at -7.1 points (from -11.7 points in the third quarter), a performance notably better than last year as well (-32.6 points), reaching its highest level since the first quarter of 2002. At the country level, the Greeks were no longer the most pessimistic in Europe, ranked 11th instead. The corresponding average European index marginally weakened to -7.0 (from -6.4) points in the EU and -7.6 (from -6.7) points in the Euro area. These levels are slightly lower in relation to last year as well (-6.0 and -6.4 points respectively).

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

In particular, the percentage of consumers pessimistic about their household's financial situation over the next 12 months decreased slightly, to 19% (from 22% in the previous quarter), while the share of respondents holding the opposite view increased to 30% (from 28%). Furthermore, the percentage of Greek consumers with gloomy expectations about the country's economic situation declined slightly to 18% (from 20%), with 50% (from 45%) expecting a slight improvement. Considering the intention to save, the percentage of households that did not consider it possible that they would do any savings in the following 12 months declined slightly to 77% (from 79%), while the percentage of those that considered it possible increased to 21% (from 19%). The percentage of those believing that unemployment would increase fell to 23% (from 27%), while 45% (from 38%) on average expressed the opposite opinion. The percentage of consumers that reported to be «in debt» in the final quarter of 2019 remained at 9%, considerably lower in comparison with the same quarter the year before (12%), while the percentage of respondents who said they saved a little increased to 19% (from 14% in the third quarter of last year). Finally, the percentage of those who declared that they were "just about managing to make ends meet on their income" slightly decreased, to 60% (from 64%), while the percentage of households reporting that they were "drawing on their savings" also fell slightly, to 11% (from 13% in the preceding quarter), a marginally lower level than in the same quarter of 2018 (13%).

The Business Climate Indicator in Industry stood at 104.1 (from 104.8) points in the fourth quarter of 2019, considerably higher than its corresponding level of 2018 (97.7 points). In the key activity indicators, the expectations for short-term output change declined slightly in the examined quarter (20.0 from 23.8 points on average), while the estimates for the level of orders and demand remained steadily negative (to -7.5 from -7.6 points). The assessment of the stock of finished products point to a slight decline (to 10.5 from 12.3 points), while the trends in the export indicators were positive. The export expectations over the following quarter strengthened slightly (23.5 from 20.1 points), while a stronger positive change was recorded in the assessment of current exports for the sector (at 12.9 from 7.6 points) and in the expectations on foreign orders and international demand (-4.7 from -9.4 points). In the employment expectations, the quarterly balance strengthened to 2.3 (from -3.6) points on average. The production capacity utilisation rate increased marginally, to 72.8% (from 72.1%), while the guaranteed production period averaged 5.2 (from 4.8) months.

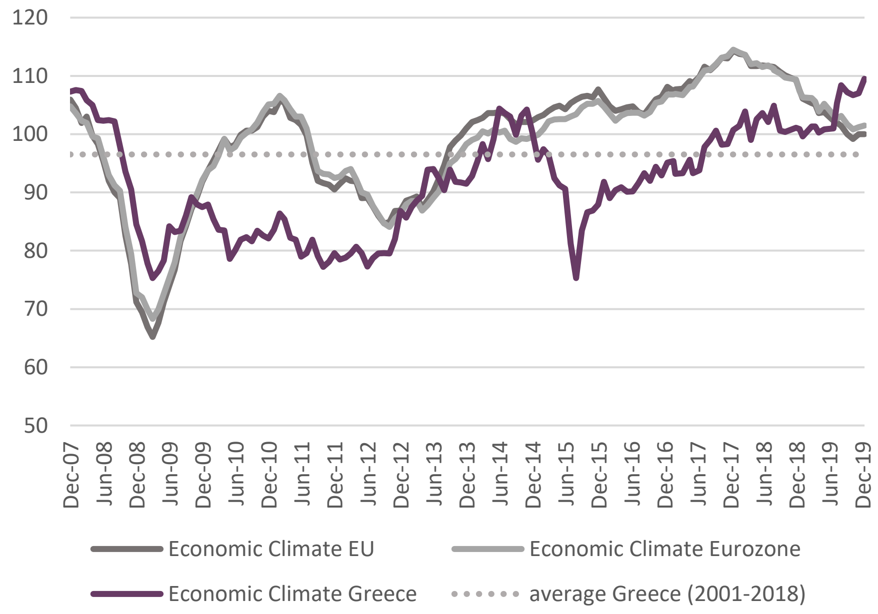
The Business Climate Indicator in Retail Trade increased slightly in the examined quarter to 119.1 (from 115.5) points, much higher than in the same quarter of the previous year as well (108.2 points). Among the key components of the indicator, the average balance of the current sales assessment increased slightly to 40 (from 35) points. About 18% (from 23%) of the enterprises in the sector reported that their sales had declined, with 57% (from 58%) stating the opposite result, while the projected sales indicator strengthened further from 38 to 48 points, and the assessment of inventories strengthened (to 7 from 4 points). Regarding the remaining activity indicators, the balance of expectations for orders to suppliers slightly increased (35 from 29 points on average per quarter), while the short-term employment forecast strengthened slightly to 23 (from 18) points. Finally, the balance of price expectations remained steadily positive (at 7 from 8 points), with 3% (from 4%) of the companies expressing expectations of a decline in prices and 86% (from 85%) predicting price stability. Business expectations strengthened in the fourth quarter of 2019 in all subsectors of Retail Trade, except for Textiles - Clothing - Footwear.

Business expectations in Construction strengthened significantly in the fourth quarter of 2019, with the balance standing at 68.1 (from 52.6) points on average. The indicator stood much higher year on year (56.6 points). Among the key components of the indicator, the employment expectations in the sector strengthened notably, to -29 (from -41) points, while 20% (from 10%) of the companies were expecting job creation in the sector, with 49% (from 51%) expecting a decline. The expectations of the businesses about their activity level improved (to -53 from -68 points), while the assessment of their current level of activity notably improved (-9 from -29 points).

The months of activity accounted for work in hand in the sector increased to 9.0 (from 8.0), while the negative balance of price expectations remained at about the same levels (-7 from -6 points), with 16% (from 12%) of the companies expecting a decrease in the short-term and 9% (from 6%) an increase. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business increased to 11% (from 8%), while among the remaining businesses, 17% (from 23%) reported low demand as the main barrier, 45% insufficient funding and 19% factors such as the country's general economic situation, capital controls, high taxes, lack of projects, and belated payment by the state. At the subsector level, business expectations strengthened slightly in Public Works, with a stronger boost in Private Construction, a change that came mostly from a significant increase in the construction of other buildings.

Figure 2.3

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



The domestic Economic Sentiment Index in Q4 of 2019 strengthened marginally quarter on quarter, and significantly year on year

Source: European Commission, DG ECFIN

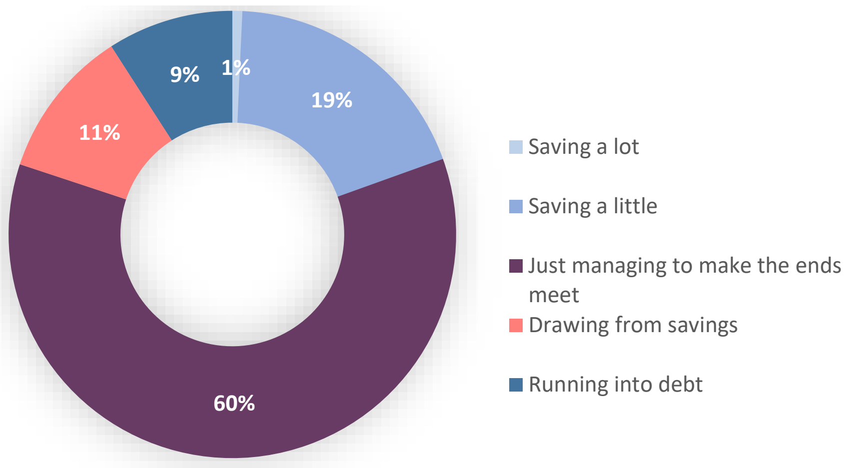
In Services, the average Business Climate Indicator declined quarter on quarter in the fourth quarter of 2019, to 104.4 (from 108.2) points, remaining at a higher level than in the same period of 2018 (94.6 points). Among the main components, the assessment of current demand declined marginally, with the index losing 2 points on average to reach 22 points. The assessment of the current level of business activity also decreased (at 21 from 31 points on average), while the short-term demand expectations of the businesses in the sector weakened marginally to 22 (from 24) points. Regarding the remaining activity indicators, the balance of employment expectations of the respondents declined (to 14 from 19 points on average), while price expectations lost 4 points (from 0 in the previous quarter). Finally, the percentage of respondents reporting a seamless business operation decreased slightly to 30% (from 35%) on average, with 33% declaring lack of demand as a major barrier to their operation, 18% citing working capital shortage and 13% other factors, such as the country's general economic situation, difficulties in obtaining credit, high taxes, and arrears. Among the examined subsectors of Services, the indicators strengthened marginally quarter on quarter in the fourth quarter in Financial Intermediaries and the Various Business Activities. Stronger increase was recorded in Hotels-Restaurants-Travel Agencies and Land Transport while the IT sector also posted strong recovery.

Figure 2.4

Consumer survey data on the financial situation of households

(average: October – December 2019)

The share of respondents stating that they save increased quarter on quarter (19%), while the share of those responding that they barely make ends meet decreased to 60% from 64%.



Source: IOBE

Table 2.6

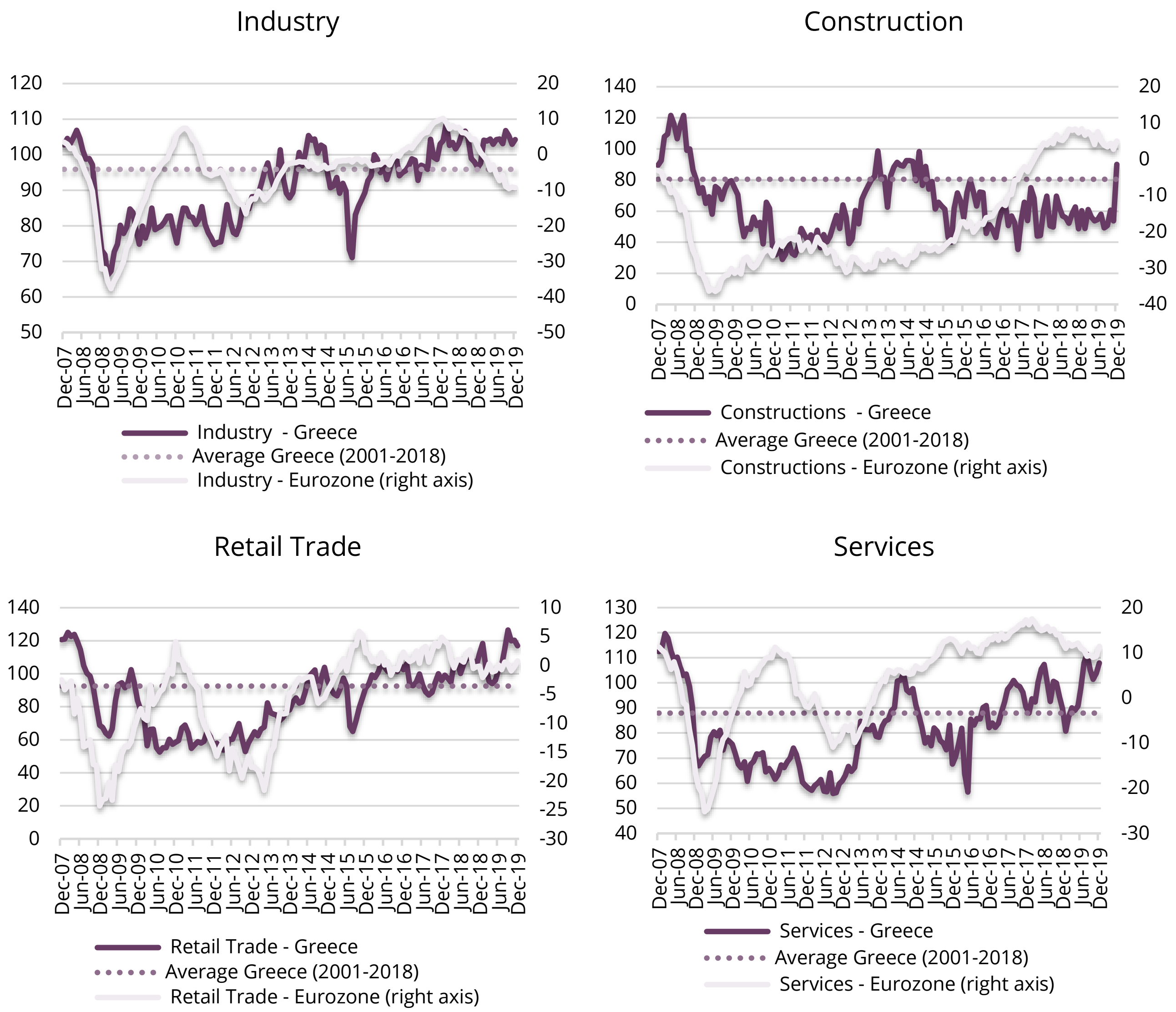
Economic Sentiment Indicator

Time Period	Economic Sentiment Indicator			Business Climate Index (Greece)				Consumer Confidence Index (Greece)
	EU	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2008	92.2	92.9	100.1	96.9	104.8	105.9	104.6	-38.2
2009	77.2	78.6	82.6	76.0	72.0	83.3	75.0	-36.7
2010	99.3	99.2	82.8	79.9	52.2	61.3	68.1	-56.9
2011	98.5	99.9	81.2	81.1	37.7	60.9	66.1	-70.5
2012	88.6	88.9	80.0	81.4	47.5	59.1	58.8	-73.9
2013	93.2	91.4	90.9	92.6	71.5	72.6	75.3	-69.3
2014	102.7	99.7	100.0	99.7	88.4	92.3	93.3	-52.8
2015	105.2	103.2	88.8	86.3	62.0	83.9	78.2	-50.3
2016	105.1	104.1	91.8	96.1	61.3	101.4	79.3	-62.9
2017	110.5	110.1	96.6	98.1	55.4	94.6	92.7	-58.9
2018	111.3	111.2	102.1	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.1	113.2	101.4	105.1	60.3	97.1	91.4	-49.8
Q2 2018	111.8	111.8	102.8	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.2	110.9	103.4	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.0	108.9	100.8	97.7	56.6	108.2	94.6	-32.6
Q1 2019	105.5	106.0	100.7	101.8	56.7	105.8	85.7	-31.1
Q2 2019	103.2	104.1	100.7	103.8	54.8	97.8	92.6	-29.4
Q3 2019	101.1	102.5	107.0	104.8	52.7	115.5	108.2	-11.7
Q4 2019	99.7	101.2	107.7	104.1	68.1	119.1	104.4	-7.1

Sources: European Commission, DG ECFIN, IOBE

Figure 2.5

Business Climate Indicator



Source: IOBE

Business expectations strengthened quarter on quarter in the fourth quarter in Construction and Retail Trade and weakened marginally in Industry and more substantially in Services.

B. Fiscal developments and outlook

- State Budget balance target surpassed in Jan. – Nov., by €2.4 billion, with €1.9 billion surplus against €343 million surplus. Similarly, better primary surplus, at €6.9 billion, against a target of €4.7 billion
- The deficit containment was achieved by extraordinary, unbudgeted revenues of €2.1 billion (AIA agreement, ANFA's and SMP's), holding back expenditure of the Ordinary Budget against the target by €1.0 billion, mainly from lower transfers, and under-implementation of the Public Investment Programme by about €0.9 billion
- State Budget 2020: deficit of 1.2% of GDP, compared with an estimated deficit of 1.1% of GDP last year. Primary surplus of 1.8% of GDP, from 2.3% in 2019.
- A small increase in the SB deficit from slightly higher primary expenditure related to the PIP (by €600 million), other (excluding PIP) non-allocated expenditure (1.0 billion) and compensation of employees (€390 million)
- Decline in the SB primary surplus from less interest than last year by €500 million

General Government figures (national accounting basis)

Final results 2018

According to the latest fiscal data,[4] compiled with the National Accounting methodology (ESA 2010), in 2018 the General Government (GG) had a surplus of €1,923 million or 1.0% of GDP.[5] In addition, the primary surplus of the GG for 2018 totalled €7,997 million or 4.3% of the GDP, strongly overshooting the target outlined in the third Programme for Economic Adjustment, namely 3.5% of GDP (Table 2.7).

Table 2.7

General Government Outcome on National Accounting Basis (ESA 2010, % on GDP)

	2015	2016	2017	2018	2019[1]		2020
					Initial	Est.	
General Government Outcome	-2.9	0.3	0.8	1.0	0.6	1.2	1.2
Primary GG Outcome	0.7	3.5	3.9	4.3	3.9	4.1	3.8
Primary GG Outcome (Master Financial Assistance Facility Agreement / Enhanced Surveillance)	0.25	3.6	4.1	4.2	3.6[2]	3.7[2]	3.6[2]
MFAFA Target	-0.25	0.50	1.75	3.5	-	-	-
Enhanced Surveillance Target	-	-	-	3.5	3.5	3.5	3.5
GDP (€ million)	177,258	176,488	180,218	184,714	192,749	190,004	197,315

* Without the net funding to financial institutions

Sources: ELSTAT Press Release, 21 October 2019 and Explanatory Budget Reports 2019 and 2020, Ministry of Finance, November 2018 and 2019. Notes: 1. Provisional data and estimates. 2. Enhanced Surveillance methodology

[4] ELSTAT Press Release, 21 October 2019.
[5] Without counting the impact of bank supporting measures, amounting to EUR 97 million in 2018

As in 2017, the GG surplus for 2018 was substantially revised. Initially (Budget 2018), a surplus of €1,126 million or 0.6% of GDP was expected. In the end, the surplus was 70.8% higher and reached €1,923 million or 1.0% of GDP. However, the primary surplus increased only slightly, as the interest expenditure of GG from €6.590 million, which was the 2018 budget forecast, eventually fell to €6,070 million. The higher surplus, as in 2017, came mostly from better performance of the Social Security Funds (SSFs), reaching €3,291 million, against an initial forecast for €1,786 million surplus. In addition, the result of the Other State Institutions and the reclassified state-owned enterprises (within central government), which, while budgeted at €2,084 million, finally reached €4,100 million. By contrast, the result of the Ordinary Budget (OB) deteriorated greatly, as it was in a deficit of €6,365 million, compared with an initial forecast for a deficit of €3,229 million, i.e. almost twice as high.

Estimates of the 2019 results

According to the 2020 Budget Report, the 2019 surplus is expected to be almost double the initial forecast at €2,217 million, against €1,133 million. As a percentage of GDP, it is estimated at 1.2%, against a forecast of 0.6% of GDP (Table 2.7).

Public debt

The amount of debt of the GG and its changes incorporate and reflect more comprehensively than any other indicator the fiscal performance. This is because certain transactions of public bodies, inside or outside GG, are not recorded for various reasons in the annual result but are recorded directly in the public debt (stock-flow adjustments). For this reason, observing the development of GG debt is necessary in order to have a more comprehensive view of the fiscal developments. Moreover, the level and changes in a country's debt are carefully monitored by the investment community and international rating agencies. Any negative developments usually adversely affect the country's rating and cause the country's borrowing rates to rise.

Table 2.8

General Government Total Debt (in million €)

	2014	2015	2016	2017	2018	2019*
Debt	319,629	311,729	315,009	317,484	334,721	329,300
% GDP	*178.9*	*175.9*	*178.5*	*176.2*	*181.2*	*173.3*

*Estimate

Sources: ELSTAT, Data Release as part of the Excessive Deficit Procedure, October 2019 and Explanatory Budget Report 2020, Ministry of Finance, November 2019

The total amount of debt of the General Government increased steadily between 2016 and 2018, even though the GG had a surplus throughout this period (Table 2.8). This paradox is mainly due to the fact that surpluses were not used mainly to reduce public debt. Initially, a portion of them was spent to cover borrowings for the payment of arrears by the State, which was registered directly in debt and then, since 2017, and for the accumulation of a significant cash buffer in view of the country's exit from the Third Programme in August 2018, in order to make it available in the event of inability to borrow from the capital markets. In addition, for the same purpose, in 2018 the Greek State borrowed €11.4 billion from ESM.

However, in 2019 public debt is estimated to have fallen compared to 2018 by €5.5 billion, or by 8 percentage points of GDP. This includes the repayment of part of the IMF loans (€2.7 billion), which had a high interest rate. Undoubtedly, this is a positive development, which sends a signal of deleveraging and sustainability to the capital markets. However, despite its reduction, the debt size, at 173.3% of GDP, remains unfathomable and no complacency is justified. On the contrary, it is necessary to continue and intensify efforts to continuously reduce public debt over the medium term.

The big reduction in interest rates[6] and the acceleration of the growth rate of the economy, observed in the second and third quarters of 2019, if they continue, are ideal conditions for a significant de-escalation of the debt-to-GDP ratio in 2020. This development will trigger a new upgrade of the country's credit rating by the agencies and further lowering of the yields. The full lifting of capital controls last August will also help for the upgrade. At this rather favourable juncture, it is necessary to continue efforts to ensure that the Greek State's credit rating regains an investment grade and the country's bonds participate in the ECB's new quantitative easing programme, ensuring low interest rates similar to the other Eurozone countries, and favourable financing for the private sector of the economy.

As long as public debt is so high, fiscal consolidation would remain incomplete, fragile, and easily reversible. Therefore, any fiscal space should be used either for measures to accelerate the rate of economic growth (e.g. reduction of taxes and contributions, acceleration of structural reforms, public investment) or for debt reduction.

As noted in previous IOBE reports, there are still huge macroeconomic imbalances in the Greek economy that make it particularly vulnerable to external shocks. One of these imbalances is the high public debt. The taxpayers' arrears to the tax authorities and the SSFs, which in the autumn exceeded €140 billion,[7] the non-performing loans, high unemployment, extremely low levels of investment etc. are other potential sources of domestic imbalances. These imbalances were also identified by the European Commission in February 2019 under the Macroeconomic Imbalances Procedure, in which Greece took part for the first time since leaving the third Economic Adjustment Programme. So, there is still a long way to go in order to ensure the stability of the Greek economy in the medium term, in many respects.

Execution of the State Budget, January-November 2019

Throughout 2019 there was a significant relaxation of budgetary policy in relation to the forecasts and measures of last year's budget, without jeopardising the achievement of the agreed primary surplus. This objective was met, on the one hand, by the collection of substantial ad-hoc revenue, which was not foreseen in the budget, on the other, thanks to a significant cut in investment expenditure for yet another year.

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[6] The reduction in interest rates has a direct effect mainly on short-term borrowing and debt refinancing. On 9 October the yield on the three-month treasury bills was negative (-0.02%).
[7] Without fines and surcharges. Between December 2018 and November 2019, the arrears to the tax office alone increased from €104.3 billion, to €105.4 billion.

The change in fiscal policy direction began on 15 May when a package of expansionary fiscal measures amounting to 0.7% of GDP was passed. The most significant of these measures were: (a) the granting of an exceptional benefit to pensioners, totalling €971 million, (b) the option for taxpayers to settle all their arrears to tax authorities, local authorities and social security funds, in 120 monthly instalments on particularly favourable terms, and (c) the shift from the standard (24%) to the reduced (13%) rate of VAT of certain foodstuffs and food services, as well as the shift of energy from the reduced (13%) to the super-reduced rate (6%). The European Commission considered these measures jeopardising the achievement of the agreed primary surplus and boosting consumption, while it was agreed since 2017 to take growth-friendly measures such as the reduction of the tax burden on labour (non-wage costs) and businesses.[8]

In June it was decided to abolish the already legislated reduction from 01/01/2020 of the tax-free allowance on the personal income tax, while abolishing the so-called "compensatory measures". In July the significant reduction in the rates of the property tax ENFIA for 2019 was adopted and in December a tax law was passed that provides for a reduction in the tax rate of corporate profits from 28% to 24%, which concerns the financial results of 2019 as well.

State Budget Balance and Primary Balance

According to GAO data, during the period January-November, SB had a significant surplus of €1,922 million or 1.0% of GDP, compared to a small surplus of 0.1% of GDP in the corresponding period of 2018. Also, the primary surplus of the SB reached €6,985 million or 3.7% of GDP, compared to 2.6% in the preceding year. It should be noted that the improved result in the first eleven months was achieved despite the increase in investment expenditure, compared to the very low corresponding payments of 2018 (Table 2.9).

The significant improvement in the SB execution in the first eleven months of 2019 is due solely to higher OB revenues. By contrast, the expenditure of both the OB and the PIP increased compared to last year. As far as the PIP is concerned, due to a faster increase in payments than revenues, its deficit in the eleven months period is almost twice as high as in the previous year. However, a significant cut in investment has been decided for the year as a whole, which is expected to be lower than in 2018 (Table 2.9).

At first sight, the budgetary developments in the first eleven months appear to be very satisfactory. However, a large part of the increase in revenues comes from one-off receipts that will not be repeated in 2020. Moreover, in the first eleven months, the tax refunds are lower by €503 million compared to 2018, although by the end of October[9] the pending tax returns and arrears totalled €2,457 million, which should have been eliminated by August 2018. This development in the repayment of debts was also pointed out by the European Commission, which described it as disappointing.[10]

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[8] *Enhanced Surveillance Report, Institutional Paper 105, European Commission, June 2019, p. 5.*
[9] *There were no available data for November*
[10] *Enhanced Surveillance Report, Institutional Paper 105, European Commission, June 2019, p. 6.*

Table 2.9

Revenue, expenditure and deficit of the State Budget

	January-November		% change 19/18	2018	Budget 2019	2019 estimates	% change 19E/18
	2018	2019					
I. SB revenue (1+2)	45,873	48,429	5.6	51,793	53,022	55,026	6.2
1. Gross OB revenue	44,022	46,504	5.6	49,155	49,282	51,478	4.7
OB revenue before tax refunds [1]	48,795	50,774	4.1	54,735	54,100	56,510	3.2
Tax refunds	4,773	4,270	-10.5	5,580	4,818	5,032	-9.8
2. PIP revenue	1,851	1,924	3.9	2,638	3,740	3,549	34.5
of which: revenue from EU	1,496	1,830	22.3	2,098	3,590	3,349	59.6
II. SB expenditure (3+4)	45,621	46,508	1.9	56,372	56,796	55,865	-0.9
3. OB expenditure	43,127	43,332	0.5	50,135	50,046	49,714	-0.8
Primary expenditure [2, 3]	38,621	38,269	-0.9	45,459	44,446	44,470	-2.2
Interest	4,506	5,063	12.4	4,676	5,600	5,244	12.1
4. PIP expenditure	2,495	3,174	27.2	6,237	6,750	6,150	-1.4
III. SB balance (I-II)	252	1,922		-4,580	-3,774	-839	
% of GDP	0.1	1.0		-2.5	-2.0	-0.4	
OB deficit/surplus	895	3,172		-980	-764	1,764	
PIP deficit/surplus	-644	-1,250		-3,600	-3,010	-2,601	
IV. OB primary balance	4,758	6,985		96	1,826	4,405	
% of GDP	2.6	3.7		0.0	1.0	2.3	
GDP (at current prices)	184,714	190,004		184,714	192,749	190,004	

Source: SB Execution Monthly Bulletin November 2019 (provisional), Ministry of Finance, December 2019

Besides, according to the official estimates for the annual result of 2019, which are included in the 2020 Budget Draft Report, the surplus of the SB is expected to decrease by €2.8 billion at the end of the year and turn into a deficit. Just like it happened in the past 2-3 years.

Ordinary Budget Revenue

As mentioned above, the achievement of a significant surplus in the first eleven months came from extraordinary receipts of the Ordinary Budget. Overall, the OB revenue before tax refunds increased by 4.1% in relation to 2018, amounting to €50,774 million, against €48,795 million in the previous year. However, this sum includes significant lump-sum and extraordinary revenues and namely: (a) €1,119 million from the renewal of the Athens International Airport concession contract; (b) €272 million VAT corresponding to this transaction; (c) receipts from ANFA's and SMP's amounting to €1,035 million, of which €744 million were not foreseen in the budget[11] (Table 2.10). If the eleven-month revenues of the OB of both 2018 and 2019 are adjusted appropriately to restore comparability, then the OB revenues would be marginally lower year on year by 0.3%. Thus, the good performance of OB revenues in the January - November period came exclusively from extraordinary one-off revenues of €2,135 million, which will probably not happen again in 2020.

Among the subcategories, the revenue from income tax in the first eleven months increased compared to 2018 by 1.9%. Proceeds from households were up 2.7% but fell behind the revised target of €32 million. Receipts from businesses increased by 4.4% compared to 2018 and exceeded the target by €27 million (Table 2.10).

The revenue from the property taxes decreased in the first eleven months by 8.6%, which was in part foreseen in the budget and in part due to the recent significant reduction in ENFIA that was adopted in July. Lastly, revenues from the taxation of inheritance and donations increased significantly in the first eleven months, by 57.1%, although the amount is relatively small.

In indirect taxation, the proceeds from VAT increased by 3.7% compared to 2018 and reached €16,526 million. However, as noted earlier, these revenues are reinforced with an amount of EUR €272 million by the extension of the concession contract of the Athens airport. Without the specific one-off revenues, the rise is limited to 2.0 %, which remains satisfactory considering: (a) the estimated in the 2020 budget slowdown in the rise of private consumption in 2019 compared with the previous year, from 1.1% to 0.6% and (b) the aforementioned transfer of goods to lower VAT rates at the beginning of last summer.

In contrast to the VAT, the revenues from excise duties declined year on year by 1.0% in the first eleven months, falling marginally behind the revised target for this period. On an annual basis, the receipts from excise duties were initially projected to increase by 2.7%. The revised annual target in the 2020 budget foresees a reduction of 0.8% compared to 2018. In relation to the original targets, the slippage for 2019 overall is anticipated to come mainly from the excise duty on tobacco products (about €200 million) and to a lesser extent from fuel tax receipts.

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

Table 2.10

State Budget Expenditure* (million €)

	Jan. – Nov.		% change 19/18	2018*	2019* budget	2019 estimate	% change 19E/18
	2018*	2019*					
Net SB revenue	45,873	48,429	5.6	51,793	53,022	55,026	6.2
Net OB revenue	44,022	46,504	5.6	49,155	49,282	51,478	4.7
Tax refunds	*4,773*	*4,270*	*-10.5*	*5,580*	*4,818*	*5,032*	*-9.8*
OB revenue	48,795	50,774	4.1	54,735	54,100	56,510	3.2
Income tax, of which:	14,788	15,062	1.9	16,548	16,796	16,739	1.2
--Personal	*9,884*	*10,148*	*2.7*	*10,902*	*11,070*	*11,083*	*1.7*
--Corporate	*3,696*	*3,859*	*4.4*	*4,299*	*4,420*	*4,459*	*3.7*
Property tax	2,673	2,442	-8.6	3,082	2,801	2,796	-9.3
Taxes on donations, inheritance etc,	140	220	57.1	161	159	264	64.0
Tariffs	213	275	29.1	232	237	304	31.0
Taxes on goods and services, of which:	25,253	25,791	2.1	27,437	27,559	27,916	1.7
--VAT	*15,941*	*16,526*	*3.7*	*17,184*	*17,210*	*17,802*	*3.6*
--Excise duties	*6,553*	*6,489*	*-1.0*	*7,184*	*7,381*	*7,124*	*-0.8*
Other production taxes	1,122	874	-22.1	1,238	944	986	-20.4
Other current taxes	1,420	1,277	-10.1	2,564	2,631	2,358	-8.0
Social contributions	52	50	-3.8	65	58	55	-15.4
Transfers, of which:	577	1,347	133.4	682	459	…	-
--ANFA's and SMP's	*314*	*935*	*197.8*	*314*	*291*	*935*	*197.8*
Sales of goods and services, of which:	685	1,674	144.4	740	773	1,776	58.9
Concession extension of the Athens Airport	-	*1,119*	-	-	-	*1,119*	-
Other current revenue	1,854	1,754	-5.4	1,968	1,348	…	-
Sales of fixed assets	18	8	-55.6	18	335	26	44.4
PIP Revenue	1,851	1,924	3.9	2,638	3,740	3,549	34.5

Sources: SB Execution Monthly Bulletin November 2019 (provisional), Ministry of Finance, December 2019 and Explanatory Budget Reports 2019 and 2020, Ministry of Finance, November 2018 and 2019

* In adjusted cash-based accounting. According to the new revenue classification in effect since 01/01/2019. In order to show separately investment income for 2018, €1,581 million were deducted from the category "Transfers" and €270 million were removed from the category 'Other current revenue'. In order to show separately the investment revenues for 2019, €1,852 million were deducted from the category "Transfers" and €72 million from the category 'Other current revenue'.

Year-on-year decline was recorded in other taxes on production (-22.1%), other current taxes (-10.1%), and other current revenue (5.4% - Table 2.10). Meanwhile, the tax refunds declined by 10.5% in the first eleven months compared to 2018. As a result, net OB revenues increased faster than the gross OB revenues (by 5.6% against 4.1%), to reach €46,504 million.

The preceding analysis shows that the positive trend in revenues in the first eleven months came exclusively from extraordinary non-tax revenues. Moreover, the developments in the remaining revenue categories do not seem to reflect the estimated increase in economic activity for 2019 by 2.0% in real terms and by 2.9% in nominal terms, nor the rise in income from the extraordinary allowances in December 2018 and May 2019, as well as from the increase in the minimum wage.

Shadow economy and tax evasion

The shortfalls in revenues from the excise duties are consistent with recent investigations and other evidence suggesting the existence of extensive tax evasion. In particular, according to a recent KPMG survey,[12] in 2018 Greece ranked first in the illicit production of duty-free cigarettes between EU countries, with a loss of tax revenue of €690 million. Regarding fuels, we can observe the following: (a) Car sales in the first eleven months have risen by 9.6% compared to the previous year, reaching 107.5k vehicles, their highest level in five years at least. The increase in sales is reflected both in the revenue from the vehicle registration tax (up by 9.6 %) and in road taxes (up by 26.9 %) for the first eleven months of the year; (b) In 2019 vehicle traffic across the country increased significantly.[13] In particular, on the Athens-Thessaloniki motorway, the increase in recent months reached 10.0%. Thus, the available data not only do not justify a reduction in fuel tax revenues compared to 2018, but also suggest widespread tax evasion.

Moreover, especially in recent years, all self-employed persons have systematically declared incomes below the tax-free threshold, which are not sufficient even for the bare minimum.

According to a recent IMF survey, [14] Greece held one of the top positions in the EU in terms of the size of the shadow economy.[15] For 2016, the last year covered by the survey, the grey economy in Greece was estimated at 30.2% of GDP, or at EUR 53.3 billion. Of course, the grey economy is not the same as tax evasion either conceptually or as a size, but there is a close positive relationship between them. In general, a large grey economy also suggests widespread tax evasion.

Ordinary Budget Expenses

In January – November 2019, the OB payments increased by 0.5% compared to the same period in 2018 and reached €43,332 million. By contrast, primary expenditure decreased by 0.9% compared to the previous year despite the fact that non-budgeted expenditure, such as the May emergency aid to pensioners, the housing allowance, etc. made in the first half of 2019, did not occur in the previous year (Table 2.11). The course of expenditure comes from reduced spending on called guarantees, revenue transfers to local authorities and military procurement.

In the categories of primary expenditure, payments for compensation of employees increased by 6.3% year on year in the first eleven months, to reach €12,135 million. This rate falls to 3.4% if €326 million are deducted, related to retroactive payments in January to special wage grid categories. For these retroactive payments, the 2019 Budget was credited with €982 million, so €656 million were saved. However, the corrected rate of 3.4% remains high and confirms the continued upward trajectory of wage spending over the past few years.

The social benefit costs decreased sharply since the beginning of the year (-65.6%), as payments for family allowances were moved from 01/01/2019 to the Transfers category. That said, despite

[12] *Project Stella report, KPMG, 2019*

[13] *«Η... ανάκαμψη των αυτοκινήτων», Kathimerini, 15/12/2019*

[14] *Explaining the Shadow Economy in Europe: Sizes, Causes and Policy Options, Working Paper 19/278, IMF, November 2019*

[15] *With the exception of the countries of the former Soviet Union.*

this change, the eleven-month payments for social benefits (€367 million) have already significantly exceeded the revised annual forecast of €272 million.

According to the new classification of expenditure, payments for transfers are the largest category of primary expenditure and includes a number of subcategories. This expenditure slumped year on year by 1.7% in the first eleven months of 2019, despite the fact that they include the May one-off aid of €971 million, for which there was no credit in the Budget. However, in other subcategories, there was a significant reduction, compared to last year.[16] Such cases are the transfers for called guarantees which were lower in the first eleven months of 2019 by 88.4% (2019: €109 million, 2018: €937 million), the transfers to local authorities, which decreased by 30.7% (2019: €1,868 million, 2018: €2,699 million), and hospital grants, which fell by €99 million compared to 2018. Thus, only from these three categories, the year-on-year savings reach €1,758 million. Due mainly to the retention in these subcategories, total payments for transfers appear to be reduced year on year.

Payments for the acquisition of fixed assets (90.0% are for the purchase of defence equipment) increased by 52.4% in the first eleven months to €253 million, yet this represents only 40.8% of the annual target. In order to achieve the budget forecast, €367 million ought to be disbursed in December (Table 2.11).

Table 2.11

State Budget Expenditure* (million €)

	January- November		% Change 19/18	2018*	2019* Budget	2019* Estimate	% Change 19E/18
	2018*	2019*					
SB Expenditure (1+2+3)	45,621	46,508	1.9	56,372	56,796	55,865	-0.9
OB Expenditure (1+2)	43,127	43,332	0.5	50,135	50,046	49,714	-0.8
1.Primary OB Expenditure	38,621	38,269	-0.9	45,459	44,446	44,470	
Compensation of employees	11,417	12,135	6.3	13,121	13,016	13,346	1.7
Social benefits	1,066	367	-65.6	1,978	246	272	-86.2
Transfers	24,667	24,241	-1.7	28,179	26,104	27,938	-0.9
(of which SSFs)	*16,187*	*17,394*	*7.5*	*17068*	…	*19,198*	*12.5*
Purchase of goods and services	1,214	1,091	-10.1	1,532	1,324	1,514	-1.2
Subsidies	59	140	137.3	75	150	225	200.0
Other current expenditure	32	42	31.3	32	51	92	187.5
Non allocated expenditure	-	-	-	-	2,938	462	-
Purchase of fixed assets	166	253	52.4	542	617	620	14.4
2. Interest[1] (gross basis)	4,506	5,063	12.4	4,676[1]	5,600[1]	5,244	12.1
3. PIP Expenditure	2,495	3,174	27.2	6,237	6,750	6,150	-1.4

Sources: State Budget Execution Monthly Bulletin, November 2019 (provisional), Ministry of Finance, December 2019 and Explanatory Budget Reports 2019 and 2020, Ministry of Finance, November 2018 και 2019

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

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

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

Interest payments were 12.4% higher than in 2018, at €5,063 million. This increase was expected, as it came very close to the projected annual rate of 12.1%.

Overall, taking into account developments in the January - November period and the experience of the last 3-4 years, when a disproportionately large share of expenditure was disbursed in the final month of the year, the expenditure developments do not justify any complacency.

Public Investment Programme (PIP)

In the first eleven months of 2019, the PIP deficit stood at €1,250 million, against a deficit of €644 million in 2018. The deficit doubled as a result of the acceleration in the rate of disbursement of grants compared to the previous year's first eleven months (27.2%), while over the same period revenues increased by only 3.9% (Table 2.9). Despite the acceleration of payments, only 47.0% of the (initial) annual grants and 51.6% of the revised target were disbursed by the end of November, as the high increase came from the very low expenditure in 2018 (base effect). If the PIP is to be executed without discrepancies against the revised target, then €2,976 million should be disbursed in December.

Revenue growth (3.9%) is not satisfactory at all as on an annual basis a 34.5% increase (revised target) in receipts is budgeted. The rate of increase in withdrawals from EU funds (22.3%) is at first sight satisfactory, but initially (2019 Budget) a growth rate of 71.1% was forecast, revised to 59.6%. Note that in 2018, the PIP withdrawals from the EU funds were the lowest in a decade. Thus, the 22.3% rise is not satisfactory, as it largely reflects the low revenues of 2018 (base effect). Its effects until the third quarter of 2019 on the absorption of funds from the EU structural and cohesion funds under the NSRF 2014-2020 are examined in a special text box (Box 2.1).

As in previous years, the annual expenditure of the PIP for 2019 is projected in the 2020 Budget to be cut by €600 million and to stand at €6.150 million, while there is a great need for investment and there is no cash shortage. It is likely that this expenditure will be further cut, even below €6.0 billion.

State Budget 2020

The change in the direction of fiscal policy that began in the spring of 2019[17], continues in 2020. Meanwhile, the nature of the fiscal policy mix is changing towards a pro-growth direction, with emphasis on the reduction of the tax burden, with the ultimate aim of strengthening economic activity. Nevertheless, a primary surplus of 3.6% of GDP is forecast for the current year, which covers the country's contractual obligation for a surplus of 3.5 % of GDP.

As early as the spring, the change in the fiscal policy mix was welcomed by the markets, as reflected in the rapid decline in public borrowing rates and in the negative yields on short-term borrowing

[17] In 2019, the cyclically adjusted primary GG balance declined by around 0.8% of potential GDP, which implies a change in fiscal policy in an expansionist direction. Monetary Policy Interim Report, Bank of Greece, 2019, p. 119.

since October, for the first time. As a result, the yields on Greek securities approached, after many years, the yields of the other Eurozone countries.

As a result of the measures to reduce the tax burden for 2020, mainly for businesses, but also of the overall improvement of the business climate, the new budget is based on an optimistic macroeconomic scenario. Economic growth is projected to accelerate this year to 2.8%, compared with 2.0% in 2019. The acceleration is expected to stem from significantly stronger growth in private consumption, from 0.6% last year to 1.8%, as well as from an increase in fixed capital investment by 13.4%, compared with an increase of 8.8% in the previous year. By contrast, the impetus from the external sector of the economy will be weaker.

Undoubtedly, the reduction of the tax burden, especially on businesses, will have a positive effect on the economy. However, the question is whether tax relief is in itself a necessary and sufficient condition for immediate stimulation of production and economic activity. The level of taxation is one of the many factors that are taken into account in investment decisions. In parallel with the reduction of taxes, in the case of Greece, other profound structural changes are needed in the regulatory framework, as well as changes in attitudes, perceptions, and values, in order to radically change the environment in which healthy business is developing. It is also necessary to immediately resolve the problem of non-performing loans so that, together with the fall in interest rates, favourable and inexpensive financing for companies fulfilling the necessary conditions is ensured, similar to the other Eurozone countries.

It is also necessary to speed up privatisations and simplify bureaucratic procedures, while digitising public administration and increasing its effectiveness, particularly in the administration of justice. Other major issues include the improvement of education at all levels, the need for closer link between higher education programmes and the labour market, and the integration of young people into the labour market at an early age. A significant reduction in non-wage costs will help to strengthen the competitiveness of businesses and reduce unemployment. Improving public infrastructure will also help increase the productivity and competitiveness of the private sector of the economy.

In general, the country needs to move with more vigour in more creative directions, by raising production and strengthening competition, innovation and its participation in the fourth industrial revolution.

Balance and primary balance of the State Budget

According to the new way of preparing and presenting the State Budget (ESA 2010),[18] in 2020 the SB is projected to have a deficit of €2,453 million, or 1.2% of GDP, compared with a deficit of 1.1% in 2019. Similarly, the primary surplus of the SB will be reduced to €3,547 million, or 1.8% of GDP, compared with a surplus of 2.3% last year (Table 2.12).

[18] The State Budget figures of 2020, as shown in the Introductory Report, Table 3.2, are not directly comparable to previous years, except in 2019 which has been adapted to the methodology of this year's budget. They are not comparable to the figure in the State Budget execution monthly bulletins either. Also, the figures in Tables 2.12, 2.13 and 2.14 in this section are not directly comparable to those in Tables 2.9, 2.10, 2.11.

The deficit comes entirely from the PIP, while the OB is expected to have a small surplus. The reduction in the primary surplus of the SB is the result of the increase in primary expenditure by 1.5%, against an increase in revenues of only 0.8%.

The retention of the SB deficit close to last year's levels, despite the reduction of several taxes, is due to interventions, both on the revenue and expenditure sides, totalling €1,859 million. The planned reduction of expenditure amounts to €977 million, while the increase in revenue to €882 million. The reduction of expenditure concerns both OB (€500 million) and other General Government bodies (€477 million). On the other hand, revenue growth is solely in the SB. Achieving these objectives is absolutely essential for the smooth implementation of the budget.

Table 2.12

Revenue, Expenditure and State Budget Balance 2020

	2019 Estimates	2020 Budget	% Change 20B/19
I. SB revenue (1+2)	54,262	54,710	0.8
1. Gross OB revenue	50,538	50,610	0.1
OB revenue before tax refunds [1]	*5,032*	*4,926*	*-2.1*
Tax refunds	55,570	55,536	-0.1
2. PIP revenue	*3,724*	4,100	10.1
of which: revenue from EU	…	…	-
II. SB expenditure (3+4)	56,391	57,163	1.4
3. OB expenditure	50,241	50,413	0.3
Primary expenditure [2, 3]	43,741	44,413	1.5
Interest	6,500	6,000	-7.7
4. PIP expenditure	6,150	6,750	9.8
III. SB balance (I-II)	-2,129	-2,453	
% of GDP	*1.1*	*1.2*	
OB deficit/surplus	297	197	
PIP deficit/surplus	-2,426	-2,650	
IV. OB primary balance	4,371	3,547	
% of GDP	*2.3*	*1.8*	
GDP (at current prices)	190,004	197,315	3.8

* On national accounting basis (ESA 2010)

Source: Explanatory Budget Report 2020, Ministry of Finance, November 2019, Table 3.2

Ordinary Budget Revenue

Due to the reduction of the tax burden, as well as the absence of extraordinary receipts of 2019, OB revenue in 2020, before tax refunds, are expected to show a marginal decrease compared to

2019 (-0.1%) and to reach €55,537 million. As a percentage of GDP, it is expected to decrease by 1.1 percentage points, from 29.3% last year to 28.2% this year (Table 2.13). Note that the 2020 revenue includes €557 million, which will come from the reduction of tax evasion, through the promotion of electronic transactions, as well as other €325 million, mainly from the rationalisation of the system for determining the fair value of real estate and other interventions.[19]

Table 2.13

State Budget Revenue 2020* (million €)

	2019 Estimates	2020 Budget	% Change 20 B/19
Gross SB revenue	54,262	54,710	0.8
Gross OB revenue	50,538	50,610	0.1
Tax refunds	*5,032*	*4,926*	*-2.1*
OB revenue	55,570	55,537	-0.1
Income Tax From Which:	16,760	16,663	-0.6
--Personal income tax	*11,092*	*11,415*	*2.9*
--Corporate income tax	*4,463*	*4,017*	*-10.0*
Property taxes	2,745	2,829	3.1
Capital taxes	265	273	3.0
Taxes and tariffs on imports	304	322	5.9
Taxes on goods and services From which:	27,919	28,557	2.3
--VAT	*17,801*	*18,276*	*2.7*
--Excise Taxes	*7,126*	*7,214*	*1.2*
Other taxes on production	1,040	1,130	8.7
Other current taxes	2,359	2,391	1.4
Social contributions	55	55	0.0
Transfers	1,116	492	-55.9
Sales of goods and services	…	…	-
Other current revenue	668	687	2.8
Sale of fixed assets	-	-	-
PIP Revenue	2,313	1,806	-21.9
Gross SB revenue	26	332	1,176.9
Gross OB revenue	3,724	4,100	10.1

* On national accounting basis (ESA 2010). According to the new classification of revenues, in effect since 01/01/2019.

Source: Explanatory Budget Report 2020, Ministry of Finance, November 2019, Table 3.2

Among the constituent categories, revenue from personal income tax is expected to increase by 2.9% compared to the previous year, despite the reduction of the tax rate of the lowest tax bracket from 22% to 9% and the reduction of the rates of all other brackets by one percentage point. Revenue growth is expected to stem from higher employment and incomes.[20]

By contrast, revenue from corporate income tax is projected to decrease by 10.0% compared to 2019, as income declared in 2020 will be taxed at the reduced rate of 24% (Table 2.13). Also, these proceeds will be negatively affected by the reduction of the down-payment from 100% to 95%, as well as by a reduction in the taxation of dividends from 10% to 5%.

[19] *Explanatory Budget Report 2020, Ministry of Finance, November 2019, p. 75, Table 3.8*
[20] *ibid, p. 78*

The proceeds from the taxation of real estate property, essentially by ENFIA, are expected to increase by 3.1% compared to last year. The 2020 forecast includes €142 million, which will result from the expansion and rationalisation of the system for determining the fair value of real estate. Also, receipts from inheritance tax, donations, etc., are expected to rise by 3.0% this year.

Regarding indirect taxes, the revenue from customs duties and taxes on imports is forecast to increase by 5.9%. This estimate is in line with the expected acceleration of import growth to 5.2% from 4.1% in 2019.

Also, the VAT revenue is projected to increase by 2.7% and reach €18,276 million. However, the revenue from 2019 includes €272 million from the extension of the concession of the Athens airport, which will not happen again in 2020. If the necessary adjustments are made, the rate of increase in this revenue for 2020 stands at 4.3%. Note also that in 2020, the VAT revenues will be negatively affected by transfers of goods to reduced VAT rates made in the summer and December 2019, as well as by the suspension of VAT on housing for three years. By contrast, VAT receipts are expected to be positively affected by the rise in electronic transactions required to ensure a tax deduction on personal income tax for 30% of their income. However, the expected increase of €557 million is a rather optimistic forecast, as a large proportion of the taxpayers have already reached this level of electronic transactions.

An increase of 1.2% compared to 2019 is also forecast for the revenue from excise duties. The available data do not provide information on tobacco, fuel and spirits. But other current taxes, which include traffic charges, are projected to rise by 1.4%. Finally, revenue from the sales of fixed assets is expected to increase, due to the proceeds from the Hellinikon property development agreement.

Ordinary Budget Expenditure

As mentioned above, expenditure savings of €500 million are expected in 2020 from the review and rationalisation of OB payments. This is why OB expenditure is projected to increase only slightly, by 0.3% compared to 2019. Part of the retention is also due to interest payments, which will not exceed €6,000 million, from €6,500 million in 2019. As a result, the primary OB expenditure is projected to rise faster, by 1.5%, compared to total payments (Table 2.14).

In greater detail, expenditure for compensation of employees, which includes gross wages and the social contributions for civil servants, is expected to increase by 3.0% to reach €13.390 million, continuing their steady upward trend from recent years.

The payments for social benefits are expected to decrease by 48.7% to €134 million, due to the payment of a significant part of the heating allowance for 2020 last December.[21]

The expenses for transfers are expected to decrease by 0.4% compared to 2019, totalling €27,844 million. The reduction is mainly found in the transfer to social security funds, which is expected to

[21] *Explanatory Budget Report 2020, Ministry of Finance, November 2019, p. 80*

be reduced by €498 million or 2.6% compared to last year. Part of the fall will result from the abolition of the EKAS allowance (Table 2.14).

Also, the expenses for purchases of goods and services are projected to fall by 33.4%, or by €486 million, due to rationalisation of the management of the relevant funds.[22] The expense for subsidies (-60.4%) is expected to decrease, as subsidies for serving low-demand transport routes have been transferred to the PIP.

Table 2.14

State Budget Expenditure* (million €)

	2019 Estimates.	2020 Budget	% change 20B/19
SB expenditure (1+2+3)	56,391	57,163	1.4
OB expenditure (1+2)	50,241	50,413	0.3
1.Primary OB expenditure	43,741	44,413	1.5
Compensation of employees	13,001	13,390	3.0
Social benefits	261	134	-48.7
Transfers	27,958	27,844	-0.4
(of which to SSFs)	*19,198*	*18,700*	*-2.6*
Purchases of goods and services	1,454	968	-33.4
Subsidies	225	89	-60.4
Other current expenditure	92	71	-22.8
Non-allocated expenditure	492	1,495	203.9
Purchases of fixed assets	258	421	63.2
2. Interest payments (gross)	6,500	6,000	-7.7
3. PIP expenditure	6,150	6,750	9.8

* According to the new classification of revenues, in effect since 01/01/2019

Source: Explanatory Budget Report 2020, Ministry of Finance, November 2019

In Table 8 the category 'non-allocated expenditure' does not include the expenditure of the PIP, as shown in the Explanatory Report,[23] but appears as a distinct expenditure category. The large increase, by 203.9% compared to 2019, is due to the special reserve to deal with any excesses in expenditure, as well as recruitment payments. Finally, the purchases of fixed assets, which essentially includes procurement expenses for military equipment, is also projected to increase in 2020, by 63.2%, as this expenditure in 2019 was very low.

Public Investment Programme

In 2020, the PIP is expected to have a €2,650 million deficit, higher than in 2019. The increase in the deficit by €224 million is attributed entirely to a projected increase in expenditure by 9.8% for 2020, as revenues will increase by 10.1%. The total expenditure has been budgeted again at €6,750 million, as in the past four years. As is well known, expenditure eventually fell below forecasts in all these four years (Table 2.12).

According to the Explanatory Report,[24] in 2020 the expenditure of the PIP includes a larger part of co-financed projects, which entails more inflows of funds from the EU. Finally, PIP revenue is

[22] *Explanatory Budget Report 2020, p. 80.*
[23] *In the Explanatory Budget Report 2020, this expenditure is included in the non-allocated expenditure.*
[24] *Pages 81-82*

expected to increase by 10.1% in 2020 to reach €4,100 million, after several years with low revenues.

Conclusions

The 2020 Budget is based on an optimistic macroeconomic scenario, which envisages a significant acceleration of private consumption, investment and GDP. The forecasts are linked to the reduction in the tax burden, which began in 2019 and continued with the tax breaks in the budget.

The new fiscal policy mix seems to be welcomed by the markets, as can be seen in the rapid fall in the yields of Greek securities. However, the country's credit rating is still far from the investment grade, which would ensure its participation in the ECB's new programme and much larger and cheaper financing for businesses and households.

The reduction of the tax burden is undoubtedly a step in the right direction, but it should be supplemented with structural reforms and institutions which will significantly improve the business environment.

The realisation of the macroeconomic scenario and the smooth implementation of the new budget will not be easy. The international economic environment continues to deteriorate. Already the international organisations, in their autumn forecasts, have revised down their estimates of the 2020 growth rate for the OECD countries and those of the EU and the Eurozone. The slowdown will negatively affect exports and the performance of the Greek economy.[25] Moreover, all three international organisations (OECD, IMF and EU) forecast a lower growth rate for the Greek economy in 2020 than the draft budget report. The Greek economy, due to the high public debt, remains vulnerable to international developments.

Added to the deterioration of the international economic environment in recent months was the increased geopolitical uncertainty, which, among other things, could lead to a significant rise in the price of oil, a development that would negatively affect the entire Greek economy.

Finally, in order to achieve the targets of the new budget, expenditure is lowered by €977 million and revenue is raised by €882 million with new measures and interventions, to be implemented for the first time in 2020. Usually, in the first year of implementation of a new measure, there is a greater likelihood of difficulties and deviations from the expected result. Such a development would adversely affect the smooth implementation of the budget this year.

[25] *European Economic Forecasts, autumn 2019, European Commission, November 2019, pp. 90-91*

C. Financial developments

- The cost of new borrowing for the Greek government at historic low, the spread at a minimum level in a decade
- The cost of new lending for businesses is at a historic low. The spread remains high compared to other countries in the Eurozone's "south".
- The start of implementation of the banks' asset protection plan (Hercules programme) for faster reduction of non-performing loans is pending
- Continued, steady recovery of credit to non-financial corporations
- Unabated contraction of credit to households

The systematic decline in government bond yields, both globally and in Greece, combined with the strong uptrend in capital markets, was the dominant feature of financial developments in the final quarter of 2019 and in January 2020. The market factors that boosted the domestic investment climate include the priorities of the new government focusing on implementing a series of tax reliefs in the 2020 Budget, the recent credit upgrade by the rating agency Fitch, and the continuous record high levels of liquidity internationally over time, under the influence of the extension of the accommodative monetary policies. These developments resulted in a significant decrease in Greek government bond yields, at historically low levels of below 1.3%, while the spread against German bonds reached its lowest level since 2009, at around 170 basis points. In addition, following the new review, a 15-year bond was issued, with high demand and a very low interest rate. At the same time, interest rates on new deposits and loans were lowered, while the recovery in the corporate financing, which began in early 2019 after eight consecutive years of contraction, carried on. The gradual acceleration of the recovery of the Greek economy, the complete lifting of capital controls, and the improved conditions for raising capital from alternative sources have a positive impact on the banking system.

In spite of these positive developments, the banks continue to face major challenges. The weak quality of their assets and equity, and the ambitious NPL reduction targets by the end of 2022 to single-digit rates are the most prominent challenges. At the same time, although the prospects for the banking system are improving in the medium term, the implementation of more drastic tools to reduce non-performing loans (NPLs) is pending, following the approval by the European Commission of the “Heracles” asset protection scheme. Regarding the impact of the banks on the real economy, credit to households has continued to contract, while the cost of bank financing to the private sector has remained higher compared to other European countries.

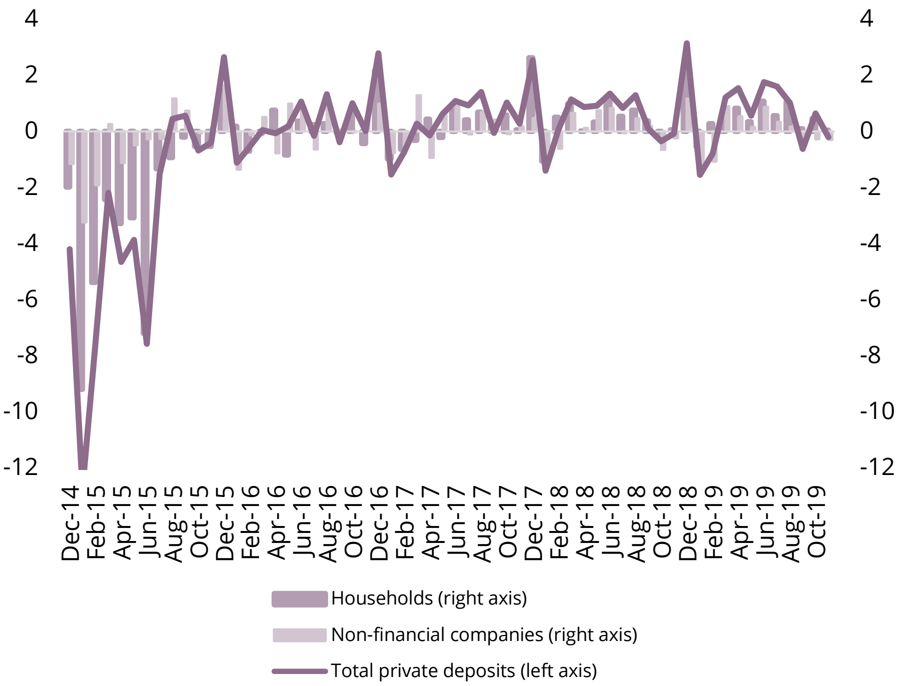
On the liabilities side of the banks' balance sheet, the recovery of private deposits weakened, mainly due to negative deposit flows from businesses. Between September and November 2019, the monthly net outflow of €184 million came exclusively from €1.0 billion outflow from non-financial corporations (NFCs) offsetting the €0.6 billion inflow from households (Figure 2.6). On the other side, over the same period of 2018, the net outflow of private deposits was greater, amounting to €324 million. In terms of a 12-month moving average, the average monthly inflow of private deposits totalled €695 million in November 2019, higher compared to early 2019 (€659 million net average inflow) and to the same month of 2018 (€609 million).

Between August 2015 and November 2019, the private sector deposits increased by €25.6 billion, out of which €16.1 billion came from households and €9.0 billion came from non-financial corporations. Nevertheless, the total amount of private deposits remained significantly lower than in November 2014, by €18.8 billion, of which €17.9 billion came from households and only €0.9 billion from businesses. The deposits from non-financial corporations have increased since 2015 by €0.9 billion.

In 2020, the positive trend in private deposits is expected to strengthen, as the households gradually regain their trust in the banking system, the economy is recovering and to the extent that the policy makers prioritise long-term-growth-friendly reforms. The lifting of the remaining restrictions on sending remittances abroad in September 2019 closed a four-year cycle of capital controls, which had significantly shaken public and business confidence towards the banking system.

Figure 2.6

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



Positive household deposit flows are offset by negative business deposit flows in September-November 2019

Source: Bank of Greece

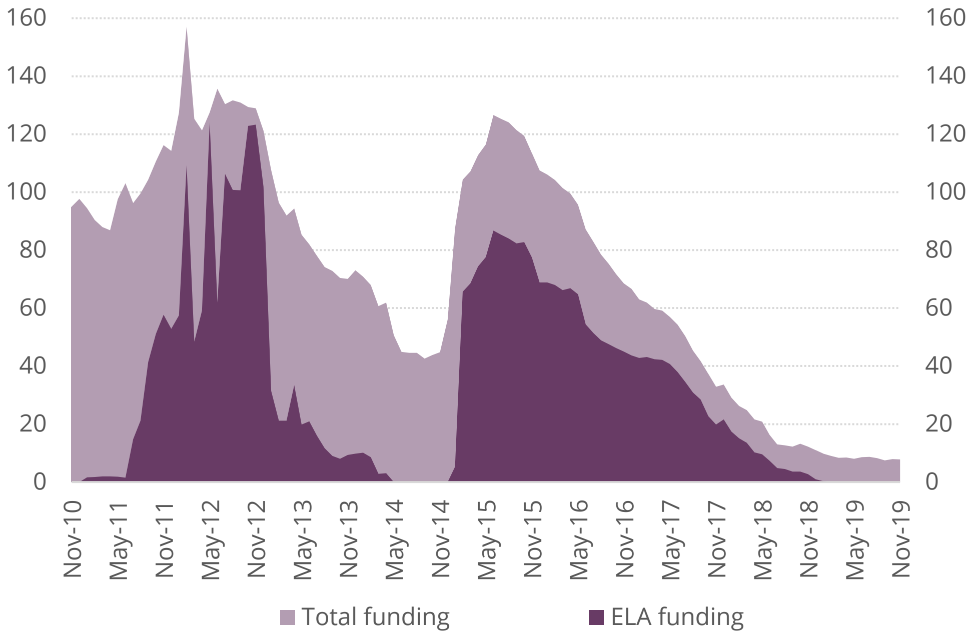
The second pillar of the bank liabilities concerns the financing from the Euro system. Almost a year since the end of the funding from the Emergency Liquidity Assistance (ELA) and following the upgrades of the Greek banks by international credit rating agencies throughout 2019, the banks have turned to alternative liquidity sources, such as repurchase agreements (repos) on the inter-bank market, the issue of bonds, and through cheaper sources directly from the ECB, when and where the bank's collateral is recognised as having the minimum adequate quality grade.

On the asset side, the recovery of credit to non-financial corporations that had begun in early 2019, carried on until November, after eight years of contraction, while the credit to households continued to contract for the ninth year. Factors concerning both the supply and the demand for credit contribute to these trends. On the demand side, the recovery of activity, especially in sectors such as tourism, transport, and energy, has had a positive impact, while the high stock of private household and business debt has a negative effect. On the supply side, the high stock of non-performing loans (NPLs) has a negative impact on the lending capacity of the banks, while the recovery in house prices is having a positive impact.

Figure 2.7

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

The Eurosystem bank financing remains stable, at low levels



Source: Bank of Greece

Private sector funding, excluding loan write-offs, decreased year on year by 0.2% in October-November 2019, a steady trend in both the second and third quarters of 2019, but improved compared to the first quarter (Table 2.15). In October-November 2019, the annual credit contraction in the private sector came from its reduction by 2.9% to households, and by 2.1% to sole proprietors, offsetting the expansion of credit to non-financial corporations by 2.5% (Table 2.15). Credit to NFCs expanded by 2.2% in the first eleven months of 2019, for the first time in eight years. The annual rates of change for the first eleven months of 2018 were -2.2% for households, -1.2% for freelancers and -0.7% for non-financial corporations. The strongest credit expansion was recorded in Transport, Energy, Tourism, Agriculture, Shipping and Industry. By contrast, credit to Construction and Trade continued to contract.

On the demand side, the Bank of Greece bank credit survey for the third quarter of 2019 continued to indicate slight strengthening of loan demand, while the lending criteria remained unchanged and no significant fluctuations are expected in the short term. The driving force behind demand is long-term loans, from both SMEs and large enterprises.

Table 2.15

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

Quarter / Year	4/18	1/19	2/19	3/19	Oct19	Nov 19
Total private sector	-1.3	-0.7	-0.2	-0.2	-0.2	-0.3
Households & NPIs	-2.1	-2.2	-2.4	-2.8	-2.8	-2.9
Sole proprietors and unincorporated partnerships	-1.9	-1.7	-1.8	-2.3	-2.0	-2.2
Non-financial corporations	-0.3	1.3	2.6	2.7	2.5	2.5
Agriculture	5.6	3.0	0.7	0.0	2.1	4.2
Industry	-0.6	0.3	0.1	-0.8	0.8	0.8
Trade	-0.7	-0.5	-0.3	-0.3	-0.2	-0.3
Tourism	4.1	3.9	5.5	4.2	4.0	3.6
Shipping	-1.9	1.8	2.2	1.7	1.6	1.6
Construction	-1.8	-0.7	-0.1	0.5	-0.3	-0.3
Electricity-gas-water supply	0.3	8.1	18.4	24.0	14.5	13.7
Transport and logistics	-0.5	33.1	50.5	48.5	48.1	50.0
Interest rates on new loans (period average, %)						
Consumer credit	9.44	9.10	9.49	9.68	9.43	9.70
Mortgage credit	3.24	3.20	3.16	3.17	2.98	2.89
Loans to non-financial corporations	4.08	4.06	4.06	3.87	3.63	3.52

Source: Bank of Greece

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

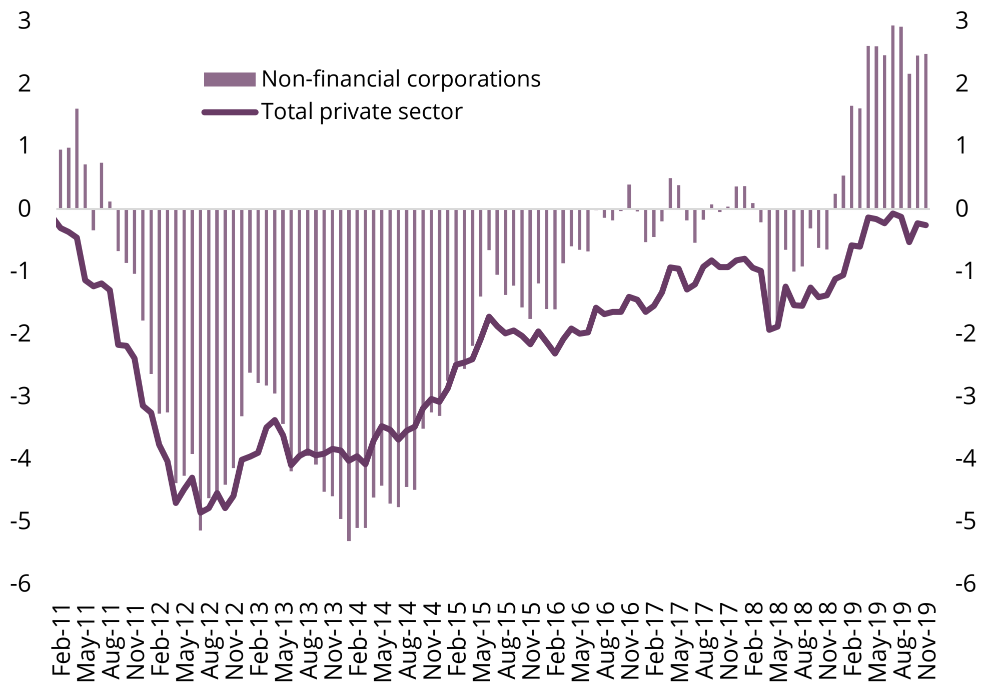
The Non-Performing Loans (NPLs) declined in the third quarter of 2019 by 5.5% or €4.1 billion, slightly weaker than in the preceding quarter (-€4.5 billion). The NPLs totalled €71.2 billion or 42.1% of the total exposure in September 2019, about €36.0 billion or 33.5% lower than their peak in March 2016. In business credit, the NPL rate declined to 40.4% in the third quarter of 2019, from 42.6% in the second quarter (46.7% in the same quarter of 2018), while it fell in consumer loans from 52.0% to 49.7% (53% in the same quarter of 2018) and in housing portfolios from 43.1% to 43.0% (44.7% in the same quarter of 2018). In business credit, the percentages of NPLs in September 2019 declined among self-employed and micro-enterprises but remained at a particularly high level (64.2% from 67.4% at the end of 2018), while they fell in large and medium-sized enterprises to 22.4% and 55.3% respectively, from 25.8% and 57.5% in December 2018.

During 2019, the banks agreed with the European Single Supervisory Mechanism (SSM) on revised operational targets for the reduction of NPLs by the end of 2021 to less than 20% of total loans. According to the plan, the biggest reduction will come from loan sales, with second driving force the liquidation of collateral and only third loan write-offs. Regarding the constituent portfolios, 55% of the cumulative reduction of NPLs is envisaged to come from business loans, 33% from mortgages and only 12% from consumption loans. In addition to the quantitative targets, it is necessary to improve the qualitative characteristics of the NPL reduction. Around half of the cumulative reduction of the NPLs since the beginning of 2016 was mainly based on loan write-offs, an instrument with the strongest negative impact on the profitability and capital adequacy indicators of the banks. Gradually, the sale of NPL portfolios have gained ground, which corresponded to €5.8 billion in 2018 (46% of the total decrease of the NPLs in the same year) and €7.1 billion in the first nine months of 2019 (67% of the total reduction of the NPLs in the same period). Despite progress in the quality mix of NPL reduction, certain instruments of NPL reduction continue to underperform, including (a) receipts through active management and (b) receipts from collateral auctions and liquidations.

Figure 2.8

Bank financing of the domestic private sector 2011-2019 (annual % change of flows*)

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



Source: Bank of Greece

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

In order to accelerate the clean-up of the banks' assets, two proposals on the NPL reduction strategy (one from the Financial Stability Fund and one from the Bank of Greece) have been put up for public scrutiny. The two proposals outline different ways through which part of the NPLs, but also the deferred tax credits of the banks, can be securitised and sold to third parties, though a special purpose vehicle. The European Commission approved in October 2019 a version of the HFSF plan, named "Hercules", as compatible with state aid rules, as it considered that the Greek State would be remunerated in accordance with market conditions for the risk it assumes when providing guarantees for securitised NPLs. The plan makes it easier for banks to securitise NPLs and remove them from their balance sheets, while at the same time for lower-risk securities, the State will be able to provide State guarantees, receiving in exchange a fee in line with market conditions. The remuneration of the state will be based on a benchmark which will rise with the level of risk and the duration of the granted guarantee. Recent developments in the cost of new Greek government borrowing have pushed the CDS risk premiums down, making the "Hercules" plan more attractive to banks by improving its effectiveness prospects. However, more than three months after its adoption, the implementation of the plan is pending, although it is expected to start soon.

In the medium term, the current NPL reduction rates are not enough to achieve shortly convergence with the European average which stands at around 3%. In order to achieve the revised targets for 2019-2021, the rate of reduction of NPLs should speed up and the mix of reduction measures to improve. The immediate implementation of the Hercules plan and supplementary tools contained in the BoG proposal and which, inter alia, relate to the high volume of deferred tax claims will be key to speed up the NPL reduction, which together with the envisioned economic recovery is expected to have a gradual positive impact on the credit supply policy of the banks, especially in relation to business portfolios. Consumer and especially housing portfolios are expected to have much slower credit recovery rates, with their decline carrying over, albeit at a weaker rate, to the current year.

The interest rates on new deposits for non-financial corporation (NFCs) and households declined in October-November 2019 to 0.21% and 0.20% respectively, from 0.26% and 0.27% in the first nine months of 2019. The interest rates on new loans also declined to 4.3% in the same period, from 4.7% in the first nine months of 2019, mostly due to lower lending cost for NFCs, which was offset by higher interest rates to households for consumption purposes (Table 2.15).

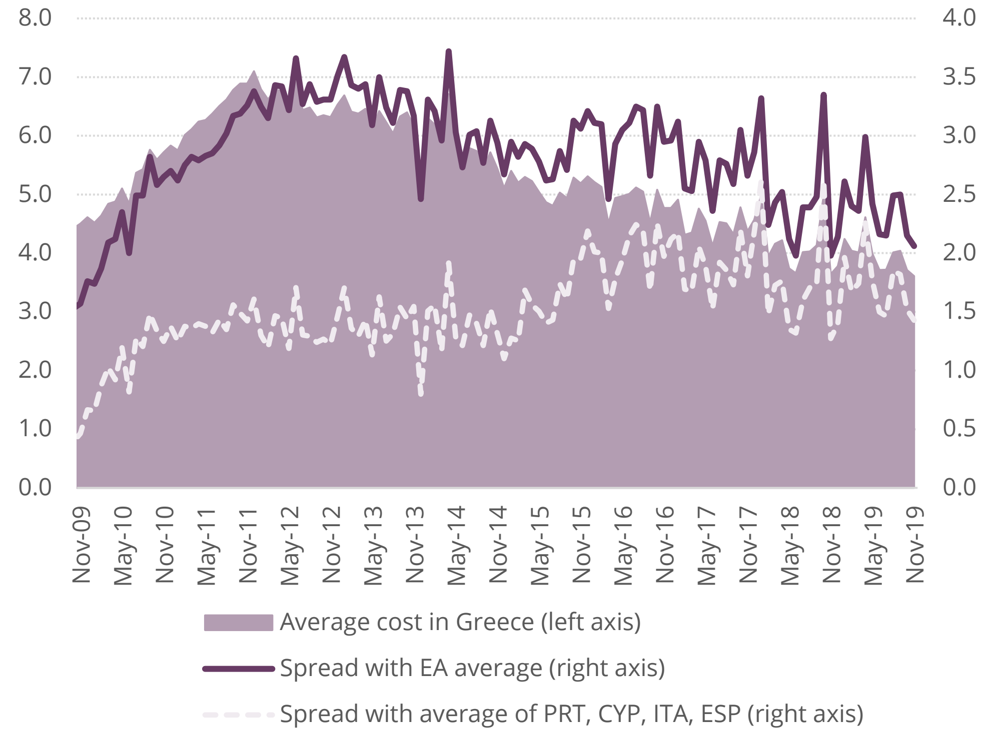
The average cost of bank financing to the private sector NFCs fell to 3.6% in November 2019, which is the lowest cost of new borrowing since the country's accession to the Eurozone. However, it has remained significantly higher than in the remaining Eurozone countries. Indicatively, according to the ECB composite indicator of borrowing costs, the cost for non-financial corporations in November 2019 stood at 1.6% in the Euro area, 1.6% in Germany, and 2.2% in the Euro area “South” (Portugal, Italy, Cyprus, Spain). The spread of the cost of borrowing for Greek corporations in comparison with the averages for the Eurozone and the “South” remained close to 210 b.p. and 140 b.p., respectively, slightly higher than its lowest level in the last eight years recorded in November 2018, at 198 and 127 b.p., respectively. Compared with their level before the crisis, the spread of the cost of borrowing to Greek corporations has remained notably higher than the average of the other countries in the Euro area "south".

During the fourth quarter of 2019, the sovereign bond yields continued their marked decline, as the yield of the 10-year bonds dropped to historic lows in January 2020, below 1.2%. It is indicative that a marginally negative lending rate was also recorded in a number of 3-month treasury bill issues in the final quarter of 2019. The improved global investment sentiment and high levels of international liquidity, upgrades to Greece's sovereign debt rating from S&P (October 2019) and Fitch (January 2020) by one notch, and the improvement of the domestic economic climate contributed to a large extent to this trend. In this favourable context, at the end of January 2020 a new round of fundraising amounting to €2.5 billion was carried out by the Greek State with a 15-year bond issue, which was covered by a particularly high demand (higher by a factor of 7.5), leading to a market rate of less than 2% (1,875%). This is the lowest ever yield achieved for a bond issue of the Greek State of such long maturity.

Figure 2.8

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

The cost of new borrowing for businesses in November 2019 reached record low levels, yet it remained 143 bps higher than the average of the Eurozone "South"

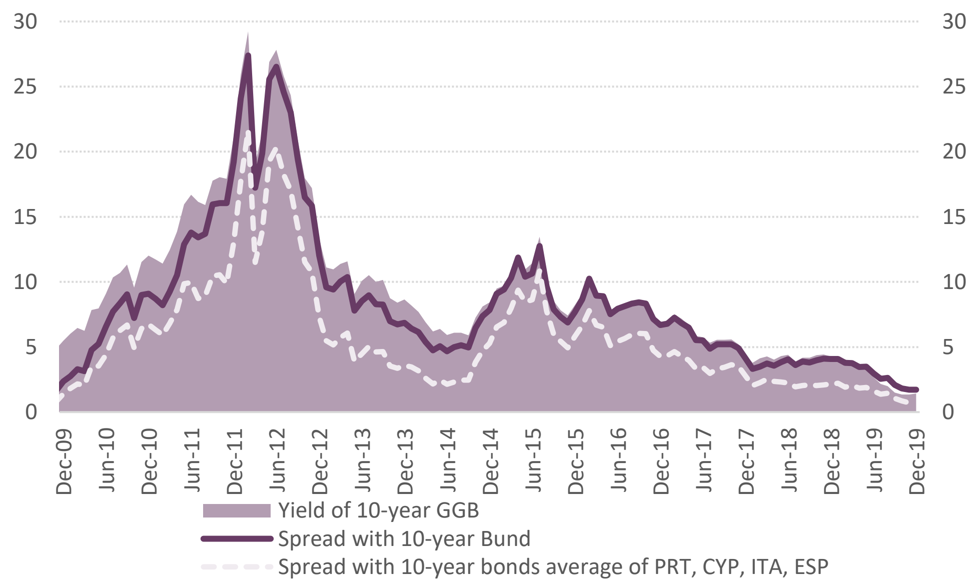


Source: ECB

Figure 2.9

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

The decline of the spread of the 10-year Greek bonds against the German bonds accelerated, to about 170 bps in December, its lowest level in a decade



Source: ECB

Despite the significant decline of the lending rate, the credit rating of Greece has remained between two (Fitch) and four (Moody's) notches below the "investment grade". The extra cost of borrowing for the Greek State from the markets in comparison with the rest of the countries in the Euro area fell to its 2009 levels (Figure 2.9). In particular, the spread fell to 172 basis points (bps) against the German 10-year bond (from 409 bps in late 2018) and to 73 bps against the average of the countries of the Eurozone "South" (from 220 bps in December 2018). The extensive reduction of the public lending cost spread against other countries indicates a significant recovery of the degree of confidence of international investors in the Greek economy, improved the prospects for the effective implementation of the Hercules plan and creates conditions for gaining further fiscal space.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Weaker growth rate in Greece in the third quarter of 2019, at 2.3%, following a revision of GDP growth in the second quarter, from 1.9% to 2.8%, mainly due to a much higher increase in public consumption
- Marginally stronger GDP growth overall in the first nine months of 2019, at 2.2% compared with 2.0% in the same period of 2018
- The slowdown in Q3 came mainly from the opposite reason for the escalation in the previous quarter, i.e. the change in the trend of public consumption to negative (-0.5% against +9.4%).
- Constraining effects from the fall in investments, for the first time last year (-5.0%). Excluding changes in stocks, small expansion (+1.0%).
- Private consumption change trend as well, from negative to marginally positive (+0.2%)
- Stronger export growth (+9.5%), mainly in services (+14.5%) and decrease in imports (-2.9%), from fewer product imports (-4.9%).

The growth rate of domestic output in Greece weakened quarter on quarter in the third quarter of 2019, to 2.3% from 2.8%. However, in ELSTAT's communication on the provisional data of GDP for this quarter, it included a significant revision for the previous quarter, which changed from 1.9% to 2.8%. The upward revision of the growth rate is mainly due to the similar, extensive change in public consumption, resulting in its increase from 5.3% to 9.4%, which came from additional data for the General Government, in the context of the European Commission's excessive deficit procedure in October 2019. Following the revision, GDP growth in April-June was the highest since the beginning of the Greek economy's current recovery period in the first quarter of 2017. Overall in the first nine months of 2019, GDP increased slightly stronger than a year earlier, by 2.2% instead of 2.0%.

Focusing on the trends in the third quarter, the slowdown in domestic output growth stemmed primarily from the opposite reason of its escalation in the previous quarter, i.e. the change in trend in public consumption from strongly positive to negative. The decline in investment also affected growth, for the first time in a year. By contrast, the GDP growth was supported by stronger exports, a decline in imports for the first time in a year and a half, and a small increase in household consumption, in contrast to its decline one quarter earlier.

In detail as to the trends in individual components of GDP in the first nine months of 2019, domestic consumption slightly increased year on year, by 0.7%, slightly stronger compared to the growth recorded a year earlier (0.3%). Given the recent revision of public consumption in the second quarter, the strengthening of domestic consumption came mainly from this component, which increased by 3.0%, offsetting its previous decrease by 2.9%. Household consumption was only 0.3% higher than in the same period of 2018, when it was growing by 1.0%, with last year's rise almost exclusively due to the increase in the first quarter (+0.7%).

Investment strengthened by 3.0% in the first nine months of 2019, slightly stronger than in the corresponding period of the preceding year (marginal growth by 0.7%). However, their performance deteriorated gradually over the first three quarters of 2019, as their growth by 14.6% in the first quarter slowed down in the next, to turn to contraction by 5.0% in the third quarter. In addition, if the impact from the accumulation of stocks on the level of investment is not taken into account, which was positive and larger than in 2018 (€1.25 billion, against €884 million), the gross fixed capital formation was marginally higher in 2019 than in the preceding year. In particular, it was just 1.0% higher when a year earlier it was falling by 6.2%. Therefore, the increase in investment in the first nine months of 2019 was almost exclusively due to stronger accumulation of stocks.

The trend in the majority of fixed capital categories was positive. However, in most of the categories that had strengthened since the start of the year, the trend shifted to negative in the third quarter. The strongest increase, in relative and absolute terms, took place in investments in Transport Equipment - Weapon Systems, by 15.5% or €363 million, offsetting to a large degree their contraction by 23.6% a year earlier, which was mainly the result of the sharp drop of investment in ships (-49.3% or -€1.19 billion in the corresponding imports). The increase is almost exclusively taking place in the second quarter, while in the third investment declined. Therefore, it does not follow a steady trend. The second largest increase, much lower in absolute terms than that in transport equipment, was recorded in fixed capital formation in Housing, by 9.8% or €98 million, continuing its expansion from January - September 2018 by 12.5%. And in this category of fixed capital, despite the overall rise in the first three quarters of last year, the trend in the most recent quarter is negative. A similar boost in absolute terms as Housing, albeit much lower in relative terms, was recorded in investments in Other Machinery (by 2.8% or €108 million), when a year earlier it had reached 20.5%, a rise that was the strongest among fixed capital categories. Marginally higher than in the previous year was the formation of fixed capital in ICT Equipment (by 0.7% or €8 million), as opposed to its increase of 19.4% a year earlier.

By contrast, the largest drop in the first nine months of 2019 was registered in Other Construction, by 15.3% (-€913 million), continuing their reduction from the same period of last year by 22.7%.

The decline in Agricultural Machinery, which have little contribution to domestic investment activity, was much weaker, by 3.7% (-€3 million), of the same degree as their growth in the preceding year (+3,9%). Finally, the formation of fixed capital in Other Products was 0.8% lower (-€17 million), against a marginal increase of 0.2% a year earlier.

In the external sector of the economy, the export expansion from the first half of 2019 accelerated sharply in the third, to reach 9.5%. As a result, their growth stood at 6.6% overall in the first nine months of the year. This growth rate was lower than that recorded in the same period of 2018 (8.1%). The stronger growth in the third quarter came primarily from the exports of services, which expanded by 14.5%. The acceleration in the exports of goods was considerably milder, at 6.2%. The increase in total exports came by 3/4 from more exports of services, which expanded by 10.8%, from the further growth of tourist traffic and international transport, according to the revenue data from the Bank of Greece. The rise in the goods component was notably weaker, by 3.3%. A year earlier, the demand for goods from abroad was growing slightly faster than that for services, by 8.5%, compared with 8.0%.

In contrast to exports, the strengthening of imports in the first half of the previous year was followed by a decline in its next quarter. It came exclusively from a fall on the product side, by 4.9%, as opposed to extensive growth a year ago, by 15.5%. In the summer months of 2018, the imports of services had also risen sharply, by 16.7%, but they continued to expand a year later (by 8.6 %). In the first three quarters of 2019, imports increased with the same rate as in the corresponding period of 2018, by 3.3 %. Despite the decline in the demand for products from abroad in the third quarter, the stronger import demand in the first nine months came mainly from their side, with the rise reaching 2.7%, higher than in the same period of 2018 (0.8%). The percentage increase in the imports of services was higher (5.9%), but much lower than a year earlier (by 14.8%). The stronger increase in exports compared to imports in the first nine months of 2019 strengthened the external balance, which in national accounting terms reached a deficit of €976 million (61.1% reduction year on year) or 0.7% of GDP.

On the supply side, the domestic gross value added increased year on year by 1.3% in the first nine months of this year, against stronger growth, by 1.8% in the same period of last year. Its weaker expansion, despite slightly faster GDP growth, is due to a much higher increase in product taxes than last year, which is part of the GDP paid to the state, by 7.7% compared with an increase of 2.7% in 2018. Among the ten main sectors of the Greek economy, in the first three quarters of 2019 activity strengthened in four, remained unchanged year on year in three and declined in three. The strongest growth of production, in absolute and relative terms, took place in Construction, by €1,06 billion or 28.2%, following their growth a year earlier by 5.2%. Professional – Scientific – Technical – Administrative Activities came next, with growth by 3.9% (or €243 million), albeit at a weaker rate than a year earlier (6.3%), followed by Wholesale – Retail Trade - Transport – Storage - Hotels – Restaurants, mainly due to the new strengthening of international tourism, with 3.5% growth (up by €979 million), also weaker than a year earlier (4.1%). The weakest output growth was recorded in Arts - Entertainment - Recreation, by 2.4%, where production a year ago was growing at 3.6%.

The value added remained essentially unchanged from last year in the first nine months of this year in Industry, Real Estate Activities and Information - Communication (0.2% growth in the first two sectors and 0.1% contraction in the third). Trends in the latter two sectors are no different from those of the previous year. But Industry has been losing momentum since 2018, when its output increased at a rate of 1.3%. Among the sectors with declining activity in the first nine months of 2019, the sharpest contraction was recorded in Financial-Insurance Activities (-8.7%), as was the case a year earlier (-9.5%). The Primary Sector and Public Administration – Defence – Compulsory Social Security, followed with considerably smaller output decline, by 2.4% and 0.6% respectively, against growth by 4.4% and 0.8% a year earlier.

The stronger growth of the exports of both services and products in the summer quarter of 2019 was reflected in the employment of the corresponding production sectors. Combined with the increase in jobs in Education, this was the main cause of the new expansion of employment over this period, by 2.0% or 77,000 people, which was weaker than in the preceding quarters. The rise in employment was the main driver of the new retreat of the number of unemployed, to 16.4% (82.0% of the reduction in the number of unemployed), with a small part of it coming from the reduction of the workforce. Overall in the first nine months of 2019, the unemployment rate stood at 17.5%, 2 p.p. lower year on year, with a similar decline as in the preceding year. Its fall came by 91.0% from rise in employment (by 88,000 people) and by 9.0% from labour force reduction (-8,600 people). From the trend of unemployment in the first nine months of 2019, the main factor that caused it (employment growth), the comparison of these developments with the corresponding period of 2018 and taking into account the milder GDP growth on the supply side this year, at present there are no indications of a noticeable negative effect on the labour market from raising the minimum wage and abolishing the sub-minimum wage in February.

Most of the year-on-year job creation in the first three quarters of 2019 came primarily from Education (20,100 or 6.7% more jobs). As mentioned in the previous IOBE report on the Greek economy, the strong expansion of employment in Education since the beginning of 2019 is considered unusual for a largely non-tradable services sector, due to the high share of public sector activity in it. Tourism (19,600 or 5.4% growth) and Transport – Storage (19,000 or 10.3%) came next. Manufacturing followed with a marginally weaker employment expansion in the first nine months of 2019 (18,100 or 5.1%), despite the stagnation in its output presented above. The top 5 of sectors with the largest contribution to job creation in 2009 is completed with Public Administration - Defence – Compulsory Social Security (up by 11,200 or 3.4%). By contrast, employment declined mainly in the Primary Sector (-13,600 or -2.9%), Financial-Insurance Activities, reflecting the restructuring in the sector (-3,300 or -3.7%) and Construction (-3,100 or -2.1%), a trend which, taking into account the sharp strengthening of activity in this sector, is difficult to explain.

The reduction of VAT on food services, food products and energy since the end of May, together with the much lower price of oil, offset the inflationary effects of the small boost of household consumption demand in the third quarter of 2019. Price stability during the summer months of 2019 (-0.1 %), against a marginal increase by 0.3% in the previous quarter and 1.0% growth in the same period of the preceding year, is essentially the result of the above trends. On average in the first nine months of 2019, the domestic Consumer Price Index (CPI) increased year-on-year by 0.3%, marginally less than a year earlier (0.5%). The reduction in VAT is reflected in the drop in prices in the category Food – non-alcoholic beverages in July – September, by 1.8 %, which by a small margin is the second largest among the categories of goods – services which comprise the domestic Consumer Price Index. The effect of the reduction in VAT is more evident if we take in view the fact that the products concerned had the second-largest price rise in the initial quarter of this year, before the VAT changes. For the same reason, the price trend in Housing changed from positive to slightly negative (-0.3% in the third quarter, from 1.3% in the first four months). Prices fell in the first three quarters of 2019 in five of the 12 main categories of goods and services that make up the CPI, mainly in Durable Goods (-1.8%), Art-Recreation-Entertainment (-1.6%) and Other goods – services (-0.8%). By contrast, only Communications posted high price growth (by 4.2%), but this is also gradually easing over the course of the year. Health and Transport (1.2% in both categories) and Alcoholic Beverages – Tobacco (0.9%) followed at a distance in terms of price growth.

The sum up, the change in GDP in the nine months of the previous year shows a slight acceleration in the recovery of the Greek economy. However, this trend is almost exclusively due to the large increase in public consumption in the second quarter, due to the elections. In order to highlight this effect, assuming that its change in that quarter was equal to the provisional quarterly GDP estimate for this period published in September, according to which it increased by 5.3%, i.e. also much more than its long-term average, then GDP in January-September of last year would be 1.9% higher year on year, a rate marginally lower than the one with which it had increased in the preceding year (2.0%). Lower growth in the second quarter of 2019, such as in its first quarter (0.2%) would have further weakened the recovery.

Alternatively, looking at the contribution of the remaining components of GDP to growth in the first nine months of last year, there is slightly less support from the external sector than a year earlier, by 1.1 percentage points of GDP compared to 1.5 p.p., due to weaker positive impact of exports from 2.6 to 2.2 p.p., as the restraining effects of imports on growth remained essentially unchanged (1.2 against 1.1 p.p. in 2018). The components of domestic demand, i.e. private consumption and gross fixed capital formation, overall have a positive contribution in economic activity, but of low intensity, by 0.3 percentage points of GDP compared to -0.1 p.p. in the previous year. Even this stimulus is offset by the decline in the positive contribution of stocks, from 0.9 p.p. to 0.6 p.p. Therefore, overall, besides public consumption spending, the remaining GDP components do not point to stronger output growth than in 2018 (1.6% against 2.3%).

For yet another year, note the small contribution of fixed capital formation in economic activity growth, with only 0.1 p.p. of GDP, after negative contribution in 2018 (-0.8 p.p.) and a much larger boost in 2017 (0.9 p.p.). Perhaps, the elections hindered the implementation of investments, pending any business-related changes in economic policy from the formation of a new government. However, even under these conditions, the level of investment was significantly short of what was expected. The end of the election period in the third quarter, combined first with the recently announced direct tax relief measures for enterprises, which were officially announced in the draft budget for 2020 in October and adopted in December, and second, with the continuous credit expansion to non-financial corporations since the beginning of 2019, are sufficient for the gradual revival of investment activity from the fourth quarter of 2019.

The positive contribution to GDP growth from the remaining components of domestic demand, i.e. household and public sector consumption, is not expected to strengthen in the final quarter. The trend in the second component has changed since the third quarter to marginally negative from strongly positive in the previous quarter. Private consumption had a marginally positive contribution to GDP growth in January-September, although several events in the first six months of last year were expected to give a significant boost to consumer demand of households (social dividend at the end of 2018, retrospective payments to special wage grids in January, an increase in the minimum wage – abolition of the sub-minimum wage, extraordinary pension allowance in May and a new, significant decline in unemployment). That said, the continuous expansion of household savings in the first three quarters of last year, by €5.0 billion, reflects the decision of households to increase savings rather than consumption, after consecutive years of negative savings.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change	million €	Annual rate of change
2006	242,802	5.6%	208,060	3.7%	59,922	23.7%	50,966	5.1%	77,704	13.2%
2007	250,512	3.2%	216,948	4.3%	64,994	8.5%	56,373	10.6%	88,906	14.4%
2008	249,885	-0.3%	221,475	2.1%	59,020	-9.2%	58,486	3.7%	89,867	1.1%
2009	239,124	-4.3%	220,037	-0.6%	43,185	-26.8%	47,790	-18.3%	71,706	-20.2%
2010	226,127	-5.4%	206,967	-5.9%	38,613	-10.6%	49,959	4.5%	69,239	-3.4%
2011	205,345	-9.2%	188,221	-9.1%	30,201	-21.8%	49,998	0.1%	63,433	-8.4%
2012	190,323	-7.3%	173,929	-7.6%	22,964	-24.0%	50,577	1.2%	57,495	-9.4%
2013*	184,256	-3.2%	167,790	-3.5%	20,699	-9.9%	51,387	1.6%	55,586	-3.3%
2014*	185,670	0.8%	168,379	0.4%	22,063	6.6%	55,351	7.7%	59,870	7.7%
Q1 2015	46,477	0.4%	42,445	1.0%	4,931	0.3%	15,010	12.9%	16,357	15.8%
Q2 2015	46,507	0.6%	42,395	0.7%	4,225	-22.4%	15,029	11.6%	15,685	4.6%
Q3 2015	45,605	-2.6%	41,535	-1.5%	4,568	-22.6%	13,176	-8.2%	13,021	-14.2%
Q4 2015	46,171	-0.3%	42,097	0.0%	5,658	-2.4%	13,698	-3.8%	15,049	-3.4%
2015*	184,760	-0.5%	168,472	0.1%	19,381	-12.2%	56,913	2.8%	60,112	0.4%
Q1 2016	46,179	-0.6%	41,865	-1.4%	5,241	6.3%	13,630	-9.2%	14,827	-9.4%
Q2 2016	45,909	-1.3%	41,841	-1.3%	5,837	38.1%	13,501	-10.2%	15,384	-1.9%
Q3 2016	46,055	1.0%	42,203	1.6%	4,801	5.1%	14,333	8.8%	14,843	14.0%
Q4 2016	46,136	-0.1%	42,256	0.4%	4,655	-17.7%	14,345	4.7%	15,751	4.7%
2016*	184,278	-0.3%	168,165	-0.2%	20,533	5.9%	55,810	-1.9%	60,805	1.2%
Q1 2017	46,174	0.0%	42,147	0.7%	6,798	29.7%	14,455	6.1%	17,221	16.1%
Q2 2017	46,702	1.7%	42,347	1.2%	5,750	-1.5%	14,739	9.2%	16,276	5.8%
Q3 2017	46,926	1.9%	42,473	0.6%	4,487	-6.5%	15,299	6.7%	15,552	4.8%
Q4 2017	47,136	2.2%	42,315	0.1%	5,446	17.0%	15,141	5.5%	16,253	3.2%
2017*	186,938	1.4%	169,280	0.7%	22,481	9.5%	59,634	6.9%	65,302	7.4%
Q1 2018	47,415	2.7%	42,558	1.0%	5,223	-23.2%	15,726	8.8%	15,923	-7.5%
Q2 2018	47,353	1.4%	42,192	-0.4%	5,611	-2.4%	16,113	9.3%	16,730	2.8%
Q3 2018	47,869	2.0%	42,538	0.2%	6,327	41.0%	16,280	6.4%	17,976	15.6%
Q4 2018	47,886	1.6%	42,476	0.4%	5,673	4.2%	16,690	10.2%	16,606	2.2%
2018	190,523	1.9%	169,763	0.3%	22,835	1.6%	64,809	8.7%	67,235	3.0%
Q1 2019	48,069	1.4%	42,528	-0.1%	5,985	14.6%	16,436	4.5%	17,486	9.8%
Q2 2019	48,686	2.8%	42,915	1.7%	5,685	1.3%	17,055	5.8%	17,344	3.7%
Q3 2019	48,967	2.3%	42,745	0.5%	6,009	-5.0%	17,820	9.5%	17,457	-2.9%

* provisional data

Source: Quarterly National Accounts, ELSTAT, December 2019

Given the expected dynamics in the components of domestic demand, the external sector is anticipated to have remained at the core of growth in the final quarter of last year. Although the positive contribution of exports has slightly weakened in 2019, it remains high. Moreover, its decline was expected, due to the end of the expansion of the ECB's quantitative easing programme, which slowed down growth in the Euro area, Greece's major export destination. But there were also some extraordinary, strong negative effects, such as the crisis in Turkey's economy. Nevertheless, the decline in the contribution of exports to GDP growth last year is mild, thanks to the new expansion of incoming tourism in the summer, as predicted in the previous IOBE report on the Greek economy, as well as the very good progress in the revenues from international transport. The relaunch of the quantitative easing programme in November is expected gradually to be reflected positively in the export demand from the Eurozone, mainly from the new year.

On the import side, their almost unchanged contribution to GDP growth since 2018 is alleviated by the fact that the expansion of imports stems mainly from increased demand for raw materials and industrial products. Based on data of the Panhellenic Exporters Association, their rise exceeds that of all imports of goods (€1.65 billion compared to €1.05 billion), and as a result their share in the imports of goods increased from 57.3% to 59.4%. Therefore, stronger import demand does not imply a greater substitution of domestically produced consumer goods with imports but concerns to a larger extent than last year inputs to production and capital goods, which contribute to the upgrade of the production capacity of the Greek economy. The expected weakening of import growth in the final quarter of 2019, after their mild growth in the preceding year, will slightly boost their cushioning role in the positive contribution of exports on GDP. The next subsection presents in detail the macroeconomic forecasts for the rest of 2019 and 2020.

Medium-term outlook

- Revision of the Greek economy's growth forecast in 2019 to 2.1% from 1.8%, due to a revision of the rise in public consumption in the second quarter
- Marginally stronger growth at 2.2-2.4% in 2020
- Growth of consumption spending by 0.5% this year and 1.2-1.4% in 2020. Stronger growth next year from tax deductions and further unemployment decline
- Growth of public consumption by 2.0% in 2019 and small reduction in 2020 (-0.7%), from structural changes in the budget (public expenditure - revenue review, performance budget) and negative base effect in the second quarter
- Expansion in investment activity in the final quarter of 2019, yet a small increase in investment activity overall in 2019 (by 4-5%). Stronger growth in 2020 (12-15%), from stronger credit expansion, low interest rates, tax deductions and investment in large concession – privatisation deals
- Export growth by 6.0% in 2019, which will carry over at the same or slightly lower rate in 2020, due to turbulence in economies with great weight in Greek exports (Turkey, Lebanon, Egypt, China). Accelerating demand from the Eurozone in 2020, thanks to the new QE programme and gradual adaptation of industry to the new conditions.

As noted in the previous IOBE report on the Greek economy, the expiry of the effects of the elections, the elucidation of changes in economic policy by the new government and the start of their implementation, are the major developments in the political and economic environment domestically in the final quarter of 2019 and the first half of the following year. The most important developments in economic policy are the fiscal interventions implemented last year and those included in the 2020 budget, mostly tax reliefs (Law 4646/2019), the development law ("Invest in Greece", Law 4635/2019), the Hercules programme for the provision of guarantees in the securitisation of non-performing loans of banks in Greece (Law 4649/2019) and the upcoming law on the social security system.

Following the restraining effect of elections on the Enhanced Surveillance process, the implementation of outstanding public sector reforms and structural changes in the economy should also accelerate in the current period. Indicatively, the latter include the launch of the target model in the energy market, accelerated implementation of the privatisation programme, completion of the control system for the cash reserves of the General Government bodies by the General Accounting Office, the operation of the three pillars of the Social Solidarity Income, and the electronic licensing system for investments.[26]

In order to achieve the fiscal targets for yet another year, alongside the tax relief and the welfare benefits, reforms are also necessary in the fiscal administration, which will enhance the control of public spending and revenues and the efficiency of public sector resources in general (human, fixed capital). Such interventions are included in the Draft State Budget for 2020, such as a review of expenditures and revenues of General Government bodies and transition to performance-based budget by creating a system of key performance indicators (KPIs) and a more realistic reflection of the expenditure limits of ministries as a result of their cooperation with the General Accounting Office. In addition to the reforms in fiscal administration, to balance the tax reliefs and the welfare benefits, this year's budget includes interventions to fight tax evasion, broaden the tax base, raise the collection of real estate revenues and accelerate the resolution of outstanding tax disputes in the courts.

The government change following the elections, the immediate implementation of some of the pre-election commitments involving households and businesses (reduction of ENFIA by 10% to 30% and extension of the arrear settlement scheme of up to 120 instalments to businesses) and their continued implementation with 2020 measures included in the draft and final State Budget have led to a prolonged, significant improvement in expectations. This development has also contributed to the complete lifting of the capital controls and the strong reduction of the Greek State's borrowing rates from the capital markets, which is a manifestation of the increased confidence of investors in the medium- to long-term prospects of the Greek economy. Under the influence of these developments, the Economic Sentiment Indicator reached a 12-year peak at the end of 2019, while Consumer Confidence achieved its best performance since October 2000. The Purchasing Managers' Index (PMI) declined marginally in December, but remains above 50 points, which suggests growth, at 53.5 points. Earlier last year, in April, it had reached its highest level in at least a decade. The major recent developments reflecting the results of the economic policy and the improvement of the economic environment are the recent upgrade of Greece's credit rating by Fitch and the issue of a 15-year bond by the Greek State, with very high demand and low coupon rates.

[26] *Enhanced Surveillance Report, Institutional Paper 116, European Commission, November 2019*

As the vast majority of budgetary measures have been implemented, the impact of their implementation on the tax burden, investment, employment and economic activity will determine the trend in the expectations of economic units in the coming months. This will also affect policy interventions concerning the regular operation of businesses and the everyday life of households, such as the simplification of transactions with the public sector, the acceleration of the administration of justice, the social security system, health, education, the operation of the internal security forces, etc.

The realisation of reforms, the implementation of the Hercules Program and especially the complete removal of capital controls, are expected to lead shortly to an upgrade of Greece's credit assessment by other rating agencies. As long as the banking system continues to improve rapidly, particularly as regards the reduction of non-performing loans, and the fiscal balance is not disturbed, the upgrading of the country's credit rating will continue, which will enable it to join the new quantitative easing programme of the European Central Bank over the medium term. Unlike the previous one, the duration of the new programme will not be redefined at regular intervals, but it is expected to be in place for as long as is necessary to strengthen the facilitating effect of the ECB policy rates and will end shortly before the ECB starts to raise its key interest rates.[27] Therefore, it is likely that Greece will be included in the current quantitative easing programme. In any case, an upgrade entails an increase in investment funds placed on the domestic capital market. In other developments in the banking system, the positive trend of private sector deposits (households and non-financial corporations) from February to August last year was followed by stagnation in the following quarter, due to the decline in corporate deposits. Despite this development, credit contraction to the private sector has been halted, while credit to businesses continues to expand.

Regarding the recent and anticipated politico-economic developments that dominate in the global environment, which will affect the Greek economy, geopolitical tensions in the south-eastern Mediterranean, which affects Greece as well and the relevant negotiations are in progress, were at the heart of the international relations during the recent period. In the final quarter of 2019, the concern over the Brexit process intensified, as once again a deadline for finding a consensual solution with the EU was approaching, to expire at 31/01/2020. By contrast, substantial signs appeared for de-escalation in the dispute between the US and China over their bilateral trade, following the signing of an agreement between the two countries at the highest political level on 15 January.

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

[27] *Press release, ECB Governing Council, 12/09/2019*

Box 3.1

Assumptions of the central macroeconomic scenario of IOBE

- Stronger reform implementation, mainly in the investment environment
- Attainment of the targets for asset consolidation of the banking system – low cost of capital
- Slightly stronger growth in the Euro area
- Mild impact from the Brexit process and the geopolitical developments in the south-eastern Mediterranean
- Oil price at around $60-$62 or slightly higher

In greater detail, changes in direct business taxation (reduction of profit tax from 28% to 24% for incomes in 2019, reduction of dividend tax from 10% to 5% for distributed dividends from 01/01/2020, reduction of corporate income tax downpayment at 95% of the income tax for 2018, the introduction of a low tax rate of 10% for agricultural cooperatives, etc.) and to the direct taxation of households (reduction of the lowest tax bracket rate from 22% to 9%), as well as other fiscal interventions (e.g. suspension of VAT on housing with building permits from 01/01/2006 onwards, suspension of the capital gains tax on the transfer of real estate for three years), which were included in the 2020 budget, are expected to have the strongest impact on decisions at the beginning of the new year. Budgetary measures which will affect the expectations and decisions mainly of the households during the year, from the second quarter, are the announced adjustment of fair property values, together with the further reduction of ENFIA by 8%, as well as the reduction of the solidarity levy, the extent of which has not yet been decided. These measures will be finalised in light of the outcome of the current negotiations under the fifth enhanced surveillance procedure to free up fiscal space, from this and the coming years. Small, additional relief for households and businesses will come from a reduction in social security contributions from mid-year by 0.9 p.p. For the time being, the total amount of tax reliefs in this year's budget is €1.18 billion.

In order to make it possible to provide further tax relief, actions are being implemented for effective control of public expenditure and revenue and to enhance the efficiency of public sector resources, as mentioned above. In particular, the reviewed expenditures and revenues are allocated to horizontal and sectoral categories. The horizontal are joint actions to many or even all bodies of the General Government, while the sectoral relate to policies of a specific ministry or a General Government agency. The performance of the agencies is assessed using KPIs. The transition to a performance budget initially includes the structuring of the budget in programmes, sectoral and horizontal. An annual plan is drawn for each programme. Each ministry also develops an executive planning programme for the horizontal services that support its operation. Each programme includes evaluation methods that take into account objectives and KPIs. The highest yield of this category of interventions is expected to come from the adjustment of the expenditure ceilings in the Ordinary Budget, by about €500 million, while further €184 million are intended to be saved from the General Government's revenue and expenditure review and €123 million by improving the efficiency of its agencies.

Under the measures to broaden revenue, the reduction of tax evasion is mainly pursued by increasing electronic transactions, through the obligation to achieve a higher rate of payments by electronic means in relation to income in order to qualify for the income tax deduction. The relevant revenues are expected to reach €557 million. In order to limit tax evasion, the tax audits will also intensify. IOBE's position that the extension of compulsory electronic transactions is a fairly effective way of limiting tax evasion has been formulated repeatedly in its studies, with emphasis on the need for greater targeting and complementing the negative with positive measures. In order to maximise the effectiveness of these measures, it is appropriate to encourage electronic transactions in sectors and activities where tax evasion has been found to be more acute over time. The possibility of achieving a high level of electronic transactions, even exclusively from spending in sectors with low tax evasion, which has been in force so far, may not significantly boost tax revenues. The overall performance of these cost savings and public revenue growth measures has been estimated at €1.86 billion, thus exceeding the tax reductions and relief, creating a small fiscal space.

Regardless of the final impact on the fiscal balance of the current year of the above measures, tax reductions, including the extensive reduction of ENFIA last August, will strengthen the real income of households and thus their consumption expenditure. Given that the incremental effects on consumption in the first three quarters of 2019 from successive one-off budgetary interventions ('social dividend' at the end of the previous year, retrospective payment of wages, an extraordinary allowance to pensioners), as well as from the upward adjustment of the minimum wage from 01/02/2019 by 10.9%, to €650, were small, the basis of comparison for the corresponding period of 2020 has remained low. The fact that in the same period the households expanded their savings by around €7.0 billion compared to a year earlier, as will be shown below, may be an additional driver in their consumption spending one year later.

In addition to the fiscal measures, domestic disposable income of households in late 2019 and in 2020 will continue to be supported by the year-on-year decline of unemployment. Employment is expected to increase for another year, primarily thanks to the export-oriented sectors (Tourism, Transport, Manufacturing) and the public sector, as recruitment has already been announced in the fields of health and education. An impetus to employment will also come from the construction sector. The reduction of social security contributions since July will contribute to the reduction in unemployment.

The new measures are projected to bring about substantial boost to the liquidity of companies. Its utilisation is another crucial factor of the effects that fiscal policy will have on GDP. For example, it is quite likely that several companies will use a significant part of it to meet their accumulated obligations rather than to carry out investment projects or to distribute it to the shareholders, following the new reduction, the second in two years, of the tax on dividends.

Apart from the direct impact of economic policy on the decisions of economic units, through budgetary interventions, there are also indirect effects, exerted by the Greek State's borrowing rates, which affect the cost of borrowing of the private sector as well. In addition to the objectives and instruments of fiscal policy, capital markets assess economic policy on the basis of its performance in the field of structural changes. Successive elections at the end of the second and the beginning of the third quarter last year, and the change of government, undoubtedly resulted in delays in carrying out reforms, including those planned under the Enhanced Surveillance. However, according to the report on the fourth review, the new development bill (Law 4635/2019) includes interventions expected to improve the business environment. Such are the alignment of the classification of nuisance activities with the environmental impact classification, which is in line with the relevant EU legislative acts (Directive 85/337/EEC, Directive 2010/75/EU), and the reduction of licensing requirements in specific cases, e.g. for enterprises located in zones with defined industrial uses and in business parks. The law also includes provisions for speeding up the preparation of local spatial plans and the adoption of specific spatial plans, which are expected to have a direct impact on investment. The new national growth strategy, which is being prepared, is also seen by the European Commission as an initiative that will put an emphasis on export and investment policies, with measures for a more supportive tax system for entrepreneurship and a broader, economic environment.

In the field of public property development and privatisations, there are ongoing activities of the Hellenic Company of Assets and Participations in matters where there are commitments towards the European Commission, according to the latest evaluation report in the context of the Enhanced Surveillance.[28] Regarding the HRADF's activity, the speed and progress in ongoing concessions and privatisations vary considerably.

The fiscal measures for 2020, the continued overrun of the fiscal balance target over four years, the improvement of the sustainability of the public debt, the intention to accelerate the privatisation programme by the new government, the recent developments regarding the NPL reduction and the improvement of the quality of the assets of the banks, are, according to Fitch, the main causes of the recent upgrade of Greece's credit rating from BB- to BB. In addition, the prospect of evaluation is positive. Following the credit rating upgrade, the Greek State issued a bond. Despite the long duration of the security (15-year), the bids exceeded the size of the issue by 7.5 times, reaching €18.8 billion, while its coupon rate was only 1.875%.

The upgrade by Fitch, with similar developments expected from the remaining rating agencies, and the terms of the new bond issue are a recognition of the fiscal performance of recent years and reflect confidence in the new government and more broadly, in the good prospects of the Greek economy. The decline in investor uncertainty is mainly reflected in the sharp de-escalation of the yields of the Greek government's 10-year bond over most of 2019, as from 3.42% on average in March, it stood at 1.34% in October, remaining close to that level in the following two months. These are the lowest rates since at least 1993, based on data from the European Central Bank. In addition, the spread with Germany's 10-year bond has fallen to 172 basis points, a level at which it was last found almost ten years ago, in December 2009. The decline in Greek public borrowing rates is also supported by the wider trend of falling interest rates in the Euro area. These rates are expected to be reflected in bond issues in the coming period as well. The precursor of this development is the fact that since the end of last October the yields on six-month-old bond issues remained at zero.

If the borrowing cost for the Greek state continues to fluctuate at these levels, it will limit debt servicing costs, creating "fiscal space" for the implementation of policies with various objectives. In addition, it facilitates the lending of banks and large enterprises from the domestic and international capital markets, on viable terms. Following the end of the elections, since September there has been a significant uptick in bond issues, which is expected to escalate this year. A common feature of these fundraising initiatives that reflects investor confidence is their over-subscription. Recent issues include that of ELLAKTOR, amounting to €70 million, with a coupon rate

[28] *ibid.*

at 6.375% and maturity in 2024. The original size of the issue was €50 million, but receiving bids for over €200 million, the amount raised was increased. It was followed by a bond of €600 million in December, which was mainly used for refinancing debt. In November, Mytilineos issued a five-year bond of €500 million, with a coupon rate of 2.5%, while the bids exceeded €1.9 billion. In mid-October, Terna Energy issued a seven-year bond of €150 million, at a coupon rate of 2.6% and oversubscription by 4,5 times, while at the beginning of the same month, WIND Hellas completed the issue of a five-year bond on the international capital markets, raising €525 million, with a coup rate at 4.25%. The Greek banks have not issued bonds in recent months. It is likely that some will use this financing instrument, following the completion of the credit assessments and the next bond issue by the Greek State.

In addition to the low interest rates, the fluctuation of the Athex Composite Share Price Index of the Athens Stock Exchange in the current period at levels quite higher year on year (up by 50.4%), as well as compared to those before the parliamentary elections (+6,6%), reflects the investor interest and favours the raising of capital with equity issues.

With regard to developments in the effort to reduce non-performing loans in order for the banking system to be able to proceed with raising its new lending, the Hercules plan for providing guarantees on NPL securitisations was approved in December by the Greek Parliament (Law 4649/2019). Recall that according to this plan, by providing guarantees from the Greek state of up to €12 billion, the banks will be able to securitise loans of more than €30 billion over a period of 18 months from 10 October 2019, the date on which the European Commission's decision on the programme was published.[29] The maximum amount and the period for granting the guarantees may be extended with a decision of the Finance Minister, adopted following the approval by the European Commission. In Italy, the programme was also approved with an initial duration of 18 months but has been extended on several occasions and remains in force. For the guarantees, the banks will pay annual commission fee to the State, which will be calculated on the basis of insurance policies against the risk of bankruptcy (CDS) of Greek government bonds. This is estimated to be in the area of 1.7%. However, according to the Bank of Greece, other schemes should be considered, such as the one prepared by its staff, which, alongside the problem of the NPLs, addresses the issue of deferred tax claim (DTCs).[30]

On the side of the banks, the efforts to limit NPLs up until September 2019 focused for the most part on loan sales and to a lesser extent on write-offs. At the end of September, the NPLs totalled €71.2 billion (42.1% of the total loans), €10.6 billion lower compared to the end of 2018. The decline in the stock of NPLs came primarily from loan sales (€7.1 billion) and to a lesser degree from write-offs (€3.1 billion). Thus, the reduction of non-performing loans through active management (loan restructuring, collateral liquidations, collection of arrears, etc.) remains limited (€0.4 billion). Recall that at the end of September 2018, the banks submitted revised targets for the reduction of NPLs, spanning over a longer period than the original targets, until 2021 instead of 2019. According to the new targets, the NPLs should fall below 20% of the total loans. For the end of 2019, the target is set at 38.3% of the NPLs, which is considered ambitious, as the NPLs should decline by 3 p.p. For

[29] *C(2019)7309 final 10.10.2019*

[30] *Monetary Policy - Interim Report, Bank of Greece, December 2019*

the end of this year it has been set close to 30% of the NPLs and is considered feasible with the help of the Hercules programme.

Apart from the recent and expected developments on the NPL front with the approval of the Hercules plan, private sector deposits (of households and non-financial corporations, domestic and those of the Eurozone) are another major driver of credit supply by the banking system. They were growing steadily between March and July 2019, then slightly declined in August and remained unchanged until November. Their reduction stemmed solely from the decline in the deposits of non-financial corporations. Compared to the beginning of the previous year, deposits of the private sector were higher by €4.0 billion, or 3.0%, at €138.1 billion in November. Household deposits, which were steadily rising over this period, reached €115.5 billion and were 4.6% or €5.2 billion higher than in December 2018. As their deposits have grown over almost two years, this points to a recovery in household confidence in the domestic banking system. By contrast, the business sector's deposits, although steadily expanding in March-August, following their decrease in September-November, were lower by €951 million or 4.6% than in December 2018, at €21.5 billion. The decline of corporate deposits is probably related to the complete lifting of capital controls at the end of last August.

The positive trend in household deposits, the progress with the NPL reduction, the anticipated approval of the "Hercules" programme and the full repayment of the funds received by the banks from the ECB's ELA mechanism by the end of March 2019, the interest rate of which was relatively high, constitute the main factors which led to the year-on-year expansion of the lending of the banking system to non-financial corporations since December 2018 and until November 2019. Loans to this category of borrowers increased for a full year for the first time since the first half of 2010. During the same period, the rate of credit contraction to households and private non-profit institutions strengthened compared to the preceding months. In particular, the financing of non-financial corporations expanded year on year in January-November at an average rate of 2.2%, against credit contraction at an average rate of 0.7% a year earlier. Over the same period, credit to households continued to contract, by 2.6%, against 2.2% in 2018. Credit growth to businesses strengthened during this period, from 0.5% at the beginning to 2.9% in July-August, then it weakened slightly to 2.5%. The contraction of loans to households increased from 2.2% to 2.8%-2.9% in July, reaching its highest level since the beginning of 2017. As a result, the outstanding balance of loans to the private sector remained essentially unchanged year on year in April-August (-0.1%), for the first time since December 2010 – January 2011. In the following September-November quarter, the credit contraction intensified somewhat, to 0.3%. Since the beginning of 2019, loans to the private sector have declined on average by 0.4%, compared with a reduction of 1.4% in 2018. These trends in bank financing cannot have been overturned in December, so they concern the whole of the previous year.

As long as the factors which have so far led to growth of credit to non-financial corporations and the weakening of credit contraction to the private sector overall remain in force, then, in conjunction with the implementation of the Hercules plan, which can contribute to the securitisation of a very large part of the loans against the NPL target by the end of 2021, these trends in funding are now considered likely to continue in 2020. Their continuation will depend on the dynamics in the savings of businesses, which are not stable, and on the effects of changes in the protection of the primary residence of borrowers from 1 May this year, under the new bankruptcy code that is pending. This is expected to tighten up the criteria for the protection of the primary residence, which will probably affect the savings behaviour of households in the second half of this year.

Subsequently, a small credit expansion is expected across the private sector in 2020, for the first time since 2010, solely due to the increase in loans to businesses. This development is expected to boost investment, following the increase in credit to non-financial corporations throughout 2019, part of which is intended for the implementation of investment projects, many of which were probably postponed for the final quarter of 2019 and 2020 due to the elections.

The support of liquidity and investment activity from the Public Investment Programme (PIP) was once again subdued in 2019. Its grants over the whole year were lower by 4.6% than a year earlier, at €5.64 billion, from €6.24 billion, lower than the revised down target for last year (€6.15 billion in the 2020 budget, from €6.75 billion initially). This level of expenditure was a new record low since at least the year 2000.

Having said that, it is likely that the PIP grants will increase this year, with more front-loaded implementation, which will strengthen their impact on economic activity. For 2020, the grants target has been set at €6.75 billion for yet another year (fifth in a row). In addition, the expansion and front-loading of the PIP must be based on a significant increase in capital flows from the EU structural and cohesion funds. During the NSRF 2014-2020 Greece received the lowest flows proportionate to the total budget among the EU countries. The extent of lagging behind in the absorption of European funds and its impact on economic activity are examined in a dedicated text box of this report (Box 2.1).

The liquidity stimulus from the payment of arrears of the Greek state was much weaker than in 2018. Between January and November of 2019, no additional grants were given to public sector entities for payment of arrears including tax refunds.[31] In fact, grant returns for the payment of arrears totalled €118.1 million, almost exclusively in February - March. Out of these, €67.5 million that were made available to social security institutions, were redirected to the repayment of outstanding pension applications. Over the first eleven months, €107.6 million were paid to beneficiaries, while the arrears increased in relation to December 2018 by €210 million, from €1.83 billion to €2.04 billion, exclusively from higher tax refunds outstanding for more than 90 days, by €225 million.[32] In the corresponding period of 2018, the payments of arrears had reached €1.14 billion, while their trend was strongly negative, falling by €740 million from the end of 2017, with arrears totalling €2.58 billion in November 2018.[33]

With regard to the expected developments with the arrears of the State this year, the relevant section of the 2020 budget shows their evolution from July 2016 to September of last year, along with the funds for their repayment. No target for the current year is indicated, e.g. on payments to beneficiaries or balance of arrears at the end of the year. It is mentioned that avoiding the creation

[31] *Includes outstanding tax refunds that cannot be repaid, i.e. have some impediment (e.g. non-response from a beneficiary or failure to provide supporting documents).*
[32] *Transfers / Grants - Payments of General Government Arrears, November 2019, Ministry of Finance, January 2020.*
[33] *Includes pending tax refunds of less than 90 days, which are not overdue, as by the end of 2018 they were not recorded separately from overdue tax refunds.*

of new arrears is a continuous action from the Financial Assistance Facility Agreement with the ESM which was completed in August 2018 and is now part of the Enhanced Surveillance. Note that the figures set out in this year's budget show that almost all grants to the ministries and general government bodies to cover arrears, including tax refunds and excluding pension claims, have been used up (€5,726 million, against €5,733 million). Therefore, it is necessary to find new sources of funds to repay the remaining arrears, e.g. from newly created fiscal space. In this respect, it is likely that the boost of liquidity from this source will be very low this year as well.

Regarding other features of the domestic investment environment that are affected by the public sector, apart from the Public Investment Programme, privatisation deals and concessions that were completed in previous years are anticipated to provide greater impetus to investment activity from 2020. Six major tenders were concluded in 2018, including the sale of 5% of the common shares of OTE S.A., 66% of the shares of DESFA, 67% of the Port of Thessaloniki and 100% of ROSCO (EESSTY). In addition, the tender for the concession of 1800 MHz radio frequencies for 2018-2035 was concluded and the first payment was collected, while the 20-year concession of the Athens International Airport (AIA) was also finalised.

For 2019, the projection in the 2019 Budget for the revenues from the privatisation programme, excluding the concession fee for the AIA extension, amounting to €1.13 billion, which concerns a transaction completed in 2018, totalled €1.53 billion. In the end, the extension of the concession was completed last year. However, the revenue did not exceed €1.21 billion, so it came almost entirely from this contract.[34] The next major completed concessions-privatisations last year, in revenue terms, with an upfront fee, were the sale of 100% of ROSCO (EESSTY – €22 million) and the sale of land in the southern part of the Afandou area in Rhodes (€15.2 million), while €23.2 million were collected from the concession of the regional airports, which took place in 2016. In addition, a preferred investor was selected for the 40-year concession of Alimos Marina and the Chios Marina was conceded for 40 years, with the first instalments of the relevant fees scheduled to be collected this year. In June, the call for expressions of interest for 30% of the equity capital of Athens International Airport S.A. was published. Tenders scheduled but not completed in 2019 include the sale of 100% of Hellinikon SA, sales of the stock of EYDAP, EYATH, the Athens International Airport, Hellenic Petroleum and DEPA, as well as the Egnatia Road concession. These developments were predicted in previous IOBE reports on the Greek economy. Therefore, no significant impetus to investment activity is expected from last year's privatisations – concessions.

The HRADF revenue target for 2020 is set at €2.45 billion, of which €2.07 billion is expected to come from tenders that will be completed this year and €376 million either from tenders for which binding bids have been submitted and the expected first disbursement falls this year, or from instalments of completed transactions of previous years. However, in the 2020 Budget only €376 million are specified, most of which concerns the first instalment of the fee from the sale of Hellinikon SA (€300 million). The remaining €2.07 billion is reported to come from actions which are in preparation or close to completion, without specifying the tenders expected to be completed in 2020 with their corresponding expected revenues. These actions 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. of Itea and Aretsous of Thessaloniki) and other real estate included in the HRADF portfolio. Taking into account the annual revenue target, which is

[34] *Explanatory budget report 2020, Ministry of Finance, November 2019*

77.4% higher than the maximum revenues in one year so far (€1.38 billion in 2017), the implementation of the concession – privatisation programme this year remains a big challenge.

As already envisaged in previous IOBE reports on the Greek economy, exports and more generally the external sector boosted economic activity for yet another year, albeit to a weaker extent than in the previous two years. Moreover, in the first eleven months of 2019, the increase in receipts is primarily due to services, whereas last year it came from products. The exports to the Euro area expanded significantly, by more than 6.5% at current prices, in the first eleven months of 2019 as well. The slowdown in their growth compared to a year ago (about 13%) should be partly attributed to the completion of the expansion of the quantitative easing programme by the European Central Bank at the end of 2018, and to the problems facing EU industry in adapting to various sectoral and market-specific structural changes. That said, the Greek economy may have suffered from direct effects from the implementation of trade protectionist measures by the US, in addition to indirect negative effects through US demand for the products of Greece's trading partners in the Euro area, as the trend in the exports of goods turned negative in the fourth quarter, from positive in the third. The observed loss of the strong momentum from 2018 in international demand for goods appears to be largely related to its retreat in neighbouring countries with a relatively large share in exports, mainly in Egypt, Lebanon and Turkey. The restart of the ECB's quantitative easing programme is expected to counteract these pressures.

The data available on global trade for September-November 2019 point to a stronger year-on-year contraction, compared to January-August. In particular, its volume contracted by 1.3% year on year, against 0.2% decline earlier in the year and expansion by 2.9% in the corresponding period of 2018.[35] According to the latest forecasts, the growth of world trade this year will strengthen to 2.2%, from 1.1% in 2019. [36] However, this rate is revised notably down compared to the previous forecast (3.2%).

Regarding the trends in international trade flows of Greek goods and services, the latest data from the Bank of Greece and ELSTAT, covering up until November of 2019, indicate a stronger contraction in the export of goods, against growth in the first four months of the year, together with a marginal slowdown in the exports of services. In greater detail, the exports of goods, in current prices, declined year-on-year in September - November 2019, by 5.3%, against contraction by 1.4% in the preceding four months and growth by 17.6% in the same period of 2018. The contraction of exports came exclusively from a decline in the exports of fuels by 21.2% or €655.4 million, against growth by 37.8% or €849.2 billion a year earlier and decline by 7.5% in the preceding four months of 2019. By contrast, ship exports increased sharply, by 106.1%, yet their absolute size is much smaller than that of fuel, so in absolute terms the retreat totalled €14.0 million. Their growth surpassed their 2018 contraction by 24.1%. The boost of exports of goods except fuels and ships by 3.0% or €170.6 million restrained mainly the fall in total exports of goods. It was of the same intensity as their increase in May - August (by 2.9%), but much less than a year earlier (by 9.0%). As the imports of goods declined by 2.2%, the decline of exports led to expansion

[35] *CPB Netherlands World Trade Monitor*

[36] World Economic Outlook Update, ΔΝΤ, January 2020

of the trade deficit by 2.1%, to €112.1 million, from €5.42 billion to €5.53 billion. Overall since the beginning of the year, the deficit expanded by €1.18 billion (6.2%).

Regarding the trade flows in services, receipts continued to grow in September-November of 2019, at a similar rate as in the preceding quarter (by 6.1% or €597.8 million, a gain 6.8%), yet much slower than in late 2018 (14.3%). The growth of exports of services continued to come mostly from international tourism (11.7% or €486.7 million), which expanded at a similar rate with that in the previous quarter (by 11.0%) and faster than in the same quarter of 2018 (7.8%), a trend which probably highlights the expansion of the tourist season. The provision of other services abroad came next in growth rate terms, expanding by 8.1% (€94.8 million), against a contraction by 7.5% in the previous quarter and growth by 7.3% a year earlier. International transport services slowed down further, to 0.4% from 3.8% in the previous quarter and 23.0% in September - November 2018.The domestic demand for services from abroad strengthened, but not as much as the exports of services. It expanded by 10.7%, or €469.9 million, against growth by 4.9% in the preceding quarter and notably stronger growth a year earlier (14.8%). The increased demand mainly concerned other services (up by 18.6% or €214.8 million) and tourism services (36.0% or €182.8 million). As the exports of services increased stronger than imports, the surplus of the services account strengthened by 1.9% or €102.0 million. Overall since the beginning of the year, the surplus in international flows of services was up by €1.78 billion (9.5%).

As for the trends in key figures of the world economy that affect the prospects of all national economies, the price of oil (Brent) stood in the fourth quarter of 2019 at $63.2/barrel, down 8.1% compared to the same quarter of the preceding year ($68.8/barrel). However, since the beginning of last October its trend has been steadily positive. As a result, in the second half of November it exceeded its level from a year earlier and at the end of December 2019 it was 34% higher year on year, which is also due to the temporary very low level which it took a year earlier. The higher level at the end of last year was partly due to market expectations that economic conditions worldwide in 2020 would be better than originally predicted, coming from a possible trade agreement between the United States and China, as well as the events in Iran, which increased the risk of oil production disruptions in the Middle East.

The slightly stronger growth of global economic activity in the current year, from 2.9% to 3.3%, will be the main factor of a corresponding trend in the price of oil. The acceleration is not expected to come from the most developed economies, where the average GDP growth rate according to the latest reports of international organisations will be either unchanged or marginally lower than last year.[37] It will be based primarily on stronger growth in large emerging and developing economies in Latin America, the Middle East, Central Asia and India. In this global environment, the oil price for 2020 is expected to be lower by about $1.5, or 2.5% than in the previous year, at €66.0/barrel.

The steadily lower year on year exchange rate of the euro against the dollar strengthened the inflationary effect of the higher oil price in late 2019 in the Eurozone countries. The year-on-year change eased between late August and mid-December, not because of the appreciation of the euro, the exchange rate of which was relatively stable during this period, but because a year ago the exchange rate was on a negative trend. From mid-December until the end of January, the difference has widened slightly, reaching last November's levels. As a result, the year-on-year change eased to 2.9% during this period, from about 5.9% in the first nine months of 2019.

[37] *World Economic Outlook Update, IMF, January 2020*

Currently, the exchange rate stands at its lowest level since May 2017, at around 1.10. The exchange rate depreciation is mainly due to the end of the accommodative monetary policy by the European Central Bank at the end of 2018, the consequences of the worsening expectations about the EU economy on its capital markets, and the slowdown in world trade growth, due to the effects of trade protectionist measures. By contrast, its stabilisation in the final quarter of 2019 is probably related to the expectations for relaunch of ECB's quantitative easing programme.

Aside from the above developments, the Euro area has to deal with a number of other major current and upcoming challenges, such as the exit of the UK from the EU, launched a few days ago, which will be "consensual", the adaptation of its industry to structural changes (e.g. in the automotive industry), geopolitical tensions and military conflicts in the Middle East and North Africa, the deleveraging of the banking system in certain countries etc. By contrast, following the US-China trade agreement on 15 January, the prospect of a gradual de-escalation of the trade protectionist measures is emerging. Phase 1 of their agreement includes the non-imposition of new duties on both sides and the reduction of some of those already imposed. The duties imposed by the US will remain in force, albeit reduced, at least until the presidential elections are held in the country next November. The ongoing almost two years 'trade war' between the two largest global economies has hit the demand for exports of the Eurozone from China. In the medium term, however, there are no such reassuring developments in the direct trade relations between the US and the EU. On the basis of subsidies to Airbus, the US imposed duties on imports of European products worth $7.5 billion, with WTO approval, but the EU also expects a corresponding decision on subsidies from the US government to Boeing. In addition, the US plans to impose duties on France as retaliation for its digital tax.

However, the signs of "fatigue" of the US economy intensify, as its growth slowed further in the third quarter, to 2.1%, from 2.3% in the previous quarter and 3.1% in the same quarter of 2018. Taking into account these effects, it is quite probable that the euro-dollar exchange rate will fluctuate in the first half of 2020 at slightly higher level than currently, slightly higher or similar year on year. Therefore, it will cushion slightly the higher energy cost coming from the higher year on year oil prices. In addition, it will not have positive year-on-year effects on the competitiveness of those Eurozone goods and services for which there are no restrictions in the US.

As to the latest developments in domestic economic activity and in short-term economic indicators, the available data, covering the first two months of the fourth quarter or just October, point mostly to positive trends. In some sectors the recovery is accelerating, in others it has slowed down, while in a few the contraction is intensifying. In greater detail, according to the latest data, the decline in industrial production deepened in September - November to 1.8%, from 0.4% in June - August, against growth by 2.8% a year earlier. The stronger contraction in industrial production came from a similar development in Electricity supply, where output declined by 13.0%, from 1.7% in the preceding quarter. Production in Water Supply slowed down from 3.0% to 0.8%, which is an activity with low weight in Industry output. By contrast, the decline weakened in Mining, to 7.8%, from 12.9%, while in Manufacturing, which is the core of Industry, there was a slight increase in production in the recent quarter, by 1.6 %, compared to a marginal growth by 0.3% in the summer months. The growth of new constructions strengthened year on year in the summer months of 2019 (17.6% from 10.6% growth in the number of permits), both in terms of surface area (31.5%

against 13.8%) and volume (38.6% against 9.4%). In October, at least temporarily, there was a decline in building projects, as the number of permits increased (by 12.6 %), but their surface and volume declined (-6.0% and -12.0% respectively). As mentioned above, tourism activity continued to strengthen until at least November, being the main cause of the expansion of the exports of services. International arrivals at the main airports expanded in the fourth quarter, by 8.9% or 206.4k people year on year. Over the same period, international road arrivals marginally declined, by 1.7% or 36,400.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the fourth quarter of last year marked a clear boost of activity in Retail Trade, as the seasonally adjusted index of volume in retail trade increased strongly in both October and November, on average by 5.1%, against growth by 1.4% previously. This development marks a strengthening of consumption demand. That said, the rate of change in the Consumer Price Index in the final quarter of 2019 was, as in the previous quarter, virtually zero (0.1% after -0.1%). The effect of the VAT reduction in May is weakening, as the fall in prices in the category Food – Non-alcoholic beverages slowed from 1.8% to 0.6%. The stronger price fall in the Housing category, from -0.3% to -1.4%, is due to the temporary, far-reaching fall in energy prices for domestic use last October, which disappeared in the next two months. The largest price decrease in the fourth quarter was recorded in Recreation – cultural activities (-1.8%) and Durable goods, household appliances and services (-1.5%). Communications (2.0%), Health services (1.9%) and Transport (1.8%), mainly from the rise in air ticket prices, posted the largest price increase in the recent period. These positive trends had appeared almost since the beginning of 2019.

Considering the above trends in economic indicators and anticipated developments (mainly with respect to changes in direct corporate and personal taxation in the Budget and the remaining measures announced for 2020, the very low yields of Greek bonds in the capital markets, the quite positive expectations domestically, the risks for deterioration of the global environment, but also the ECB's recent decision to restart the QE programme) for the forecast of the GDP components and other macroeconomic indicators, household consumption spending are estimated to have strengthen in the final quarter of 2019. Their reinforcement stemmed mainly from the end of the uncertainty due to the elections, but also from confidence in the adopted economic policy, from the immediate implementation of certain tax relief commitments and from the measures included in the 2020 budget. Both developments in the expectations of households are reflected in the continuous improvement of consumer confidence, which has resulted in it hovering over this period of time at its highest level in 19 years. The increased propensity to consume can also be supported by the higher payments of special wage grid categories, the granting of an extraordinary pension allowance in May, and the raise of the minimum wage in the first half of 2019, which had not been reflected in household expenditure during that period. The stronger growth of private consumption since October is reflected in short-term activity indicators that are closely related to households, such as the volume index in retail trade.

The impact of the budget measures related to households will take place mainly during this year, as will other interventions announced for this year (further reduction of ENFIA, reduction of the solidarity levy, lower social security contributions). The domestic private consumption spending will benefit in 2020 from further decline in unemployment. The expansion of employment is expected to come again mainly from sectors of internationally tradable goods and services, such as Tourism, Transport and certain branches of Manufacturing, as well as from Construction and the public sector. That said, for yet another year, a boost of consumption spending from bank financing is not foreseen, as the credit expansion will most probably be channelled entirely to businesses. Taking this into account, consumption spending is estimated to have expanded by 0.5% last year, while in 2020 its growth will strengthen slightly, to about 1.3-1.5%.

In the component of domestic consumption carried out by the public sector, as foreseen in the previous IOBE report on the Greek economy, the strong growth in the April-June quarter, which was revised upwards when the GDP data were released for the third quarter, was temporary and came as a result of the elections. Public consumption returned in the third quarter of 2019 to its trend recorded before the elections. After all, continuing such a strong rise would create a risk of divergence from budgetary targets. Their level a year ago, which was significantly higher than in the previous quarters, is considered to have contributed to the restraint in the final quarter and is expected to produce a negative base effect one year later.

In 2020, some structural changes in the setting, monitoring and reviewing of public expenditure, which were mentioned above, will hinder the expansion of public consumption. In particular, according to the 2020 Budget these policies are expected to bring about savings of €673 million. Moreover, the election-related spending in 2019 will not be repeated in 2020. By contrast, the increase in employers' contributions by the public sector, mainly due to the increase in the rate of employers' contributions in favour of EFKA from 10% this year to 13.33% next year, will increase public consumption by €325 million. The expected recruitment in a wide range of government services (education, health, public security, national defence, local government, etc.) will also boost the public sector's consumption expenditure. Under the above effects, the rise in public consumption in 2019 is estimated at 2.0%, while in 2020 it is expected to weaken slightly, by 0.5-1.0%.

Regarding investment, following the conclusion of the elections earlier than expected and the corresponding easing of uncertainty major issues are the rapid completion of recent changes in the relevant regulatory framework and other measures related to entrepreneurship (taxation, industrial relations, non-performing loans) and securing liquidity, on sustainable terms. The new development law (Law 4635/2019), the extension of the 120 instalments scheme for arrears to social security funds, more instalments in the permanent settlement scheme to the tax authorities), and mainly the tax reliefs included in the 2020 budget, shape in a short period of time the basic parameters of the investments and the ordinary liabilities of the companies. The implementation of the investment law requires the completion of extensive secondary legislation (ministerial and joint ministerial decisions), therefore the relevant procedures must be expedited in order for the law to become operational. Measures related to direct taxation, in addition to clarifying key features of the business environment, provide funding to entrepreneurship, with those in direct taxation enhancing the viability of investment projects.

Especially regarding the measure for the suspension of VAT on new buildings with a permit issued after 01/01/2006 and the suspension of the capital gains tax on the transfer of real estate for three years will have a stimulating effect on the real estate market, which has slumped in recent years, compared to before the domestic debt crisis. However, they are not expected to strongly stimulate the activity of the Construction sector for this specific time period, as they will initially increase transactions in the existing housing stock. The reduction of ENFIA by 10% to 30% stimulates the acquisition of dwellings in 2020. That said, the anticipation of the adjustment of fair values, which will take place at the same time as the further reduction of ENFIA, will temporarily impede the revival of the real estate market. In any case, the biggest boost to Construction in 2020 will come from projects in concessions and privatisations, such as those in the Hellinikon area, the Piraeus Port Authority, the expansion of the Athens International Airport, regional airports, marinas etc., as well as by construction in the Tourism sector, to increase capacity and expand or improve the provided services.

The recent and expected developments in the management of NPLs, the credit rating and the interest rates may also boost investment growth. On this basis, stronger growth is expected this year in credit to businesses, which will also depend on the flow of private-sector deposits to banks. The current low interest rates will be used in the near future by more of the largest companies to raise funds from the capital markets. The recent upgrade of the credit rating, which is expected to be followed by more upgrades by the rest of the rating agencies in the second quarter of 2020, will lead to an increase in foreign investors' holdings on the domestic capital market, providing an additional source of liquidity for listed companies on the Athens Stock Exchange.

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

As to actions of the public sector that contribute to investment, apart from the HRADF activity that was assessed above, a small boost is also expected to have come in 2019 from the Public Investment Programme, mainly because of its more frontloaded implementation compared to 2018, and not because of the overall level of grants, which was probably slightly lower or similar to that in 2018, one of the lowest on record. Given last year's implementation and that its budget is unchanged at €6.75 billion for the fifth consecutive year, it is possible that spending will increase this year, strengthening its impact on investment activity.

Taking into account the marginal increase in fixed capital formation in the first nine months of this year, coming mostly from the negative effects of the elections on investment, and the observed and expected trends in its drivers, investment activity is estimated to have strengthened less than anticipated in previous IOBE reports, with a growth rate of about 4-5%. Investment will strengthen sharply in 2020, with a double-digit expansion, in the region of 13-15%.

In the external sector of the Greek economy, as shown above, the trend in exports of goods at current prices was negative in September - November (-5.3%), while the expansion of the exports of services did not change much compared to the preceding four months (6.8%). As noted in previous bulletins, developments in the exports of goods mainly concern few specific countries, rather than a general weakening of the demand for Greek products. In particular, since the beginning of 2019 until November, the exports declined by €337.3 million or 23.9% to Lebanon, by €241 million or 65.1% to Singapore, by €224.5 million or 20.5% to Egypt, to Turkey by €193.4 million or 10.1% and to Gibraltar by €155.4 million. or 27.3%, i.e. by a total of €1.15 billion in these five countries. Of these came 62% of the drop to all destinations where Greek exports declined last year. The expansion of exports to the Euro area in 2019, the major region for Greek exports, although strong for another year (by 6.6% or €750.5 million), was notably weaker than in 2018 (16.0%). The trend towards the US was mildly negative, at -3.8% or -€33.8m, as opposed to their rise by 22.0% in 2018.

As noted in previous IOBE bulletins on the Greek economy, the weakening of the growth of exports from the Euro area is due to a slowdown in GDP growth, with its pace in the first three quarters of 2019 remaining at 1.3%, compared with 2.1% a year earlier. The growth slowdown stems mainly from the conclusion of the expansion of the accommodative monetary policy by the ECB, the difficulties of adapting industry to structural changes (e.g. in the automotive sector), the decline of export demand from China, and the US trade protectionism policies. That said, the labour market is very resilient and unemployment continues to decline. Most of these adverse effects will carry over at least into the first half of 2020. The exception here is the renewed expansion of quantitative easing from 1 November, with the ECB resuming asset purchases of €20 billion per month. It remains difficult to assess the effects of the upcoming Brexit. Mainly under these effects, the latest reports by international organisations estimate that the Eurozone economy expanded by 1.2% in 2019 and will grow by 1.3% in 2020, from 1.9% in 2018 and 2.4% in 2017. In line with the slightly stronger growth this year in the Euro area, a slight acceleration of Greek exports to the region is now likely in 2020. More broadly, exports of products will be supported by an acceleration of the rate of expansion of the volume of world trade, from 1.0% to 2.9%.[38]

On the side of services, based on the relevant data mentioned above, receipts from international tourism continued to grow in September - November, despite the bankruptcy of Thomas Cook. It is still too early to make forecasts for the trend in 2020. If the geopolitical tensions in the South-Eastern Mediterranean escalate, tourist traffic in the all countries in the region will be adversely affected, to a varying degree, in 2020. The expansion of receipts from the provision of services internationally is supported by the provision of international transport services, less than in the previous year. The sale of 67% of the Port of Thessaloniki and the expansion of Cosco's activity in Piraeus can contribute to their growth in the years to come. In view of the above trends and developments, the average growth of exports of products and services in 2019 is estimated to have reached 6.0%. In 2020, their growth will be equally strong, or perhaps slightly weaker. This will depend mainly on the parameters affecting the exports of services (geopolitical developments, Brexit), which last year made a greater contribution in the rise in exports than products.

The evident in the Retail Trade data for the fourth quarter of last year stronger growth in private consumption spending, coupled with the mild recovery of investment activity, trends related to the end of the election campaign, are estimated to have strengthened the demand for goods from abroad in late 2019, which earlier in the year was largely supported by exports. In this period, the negative base effect from a high level one year earlier, will not prevent the rise of imports of goods, as in the third quarter of last year. The demand for services from abroad, mostly for tourist services, also appears to have continued to strengthen in the final quarter of last year, according to the balance of payments data.

Regarding the projected import dynamics in 2020, much stronger investment, as well as greater private consumption, will boost the demand for imports of goods. The high import content of most

[38] *World Economic Outlook Update, January 2020*

product exports will once more be a key factor in strengthening imports. However, as a large part of investment growth will concern construction, which is carried out mainly with domestically produced materials, the growth of import demand due to increased investment is expected to be weaker than the growth of investment. Demand for travel services from abroad will grow further. As a result of the above particular trends, imports increased in 2019 by 4.0%, accelerating to 6.5-7.0% in 2020.

Summing up the forecasts for the trends in the key components of GDP for 2019 and 2020, household consumption spending strengthened in the final quarter of 2019. Their reinforcement stemmed mainly from the end of uncertainty due to the elections, but also from acquired confidence in economic policy. The increased propensity to consume can also be supported by high transfer payments and an increase in the minimum wage in the first half of last year. This year, private consumption will be boosted by budgetary measures to limit direct taxation and contributions, as well as from fiscal interventions announced for the remainder of the year. The domestic private consumption spending in 2020 will be boosted for yet another year from a further decline in unemployment. A boost in consumption spending is not envisaged to come from bank financing, the net growth of which is likely to be directed entirely to businesses.

Table 3.2

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

Annual Percentage Change	2017	2018	2019	2020
Gross Domestic Product	1.5	1.9	1.8	2.3
Private Consumption	0.9	1.1	0.5	1.5
Public Consumption	-0.4	-2.5	3.4	0.3
Gross Fixed Capital Formation	9.1	-12.2	10.1	12.5
Exports of Goods and Services	6.8	8.7	4.3	3.4
Imports of Goods and Services	7.1	4.2	5.1	4.0
Employment	1.5	1.7	2.2	2.2
Compensation of Employees per capita	0.5	1.3	0.4	1.1
Real Unit Labour Cost	0.0	0.5	0.0	0.1
Harmonised Index of Consumer Prices	1.1	0.8	0.5	0.6
Contribution to real GDP growth				
Final Domestic Demand	1.6	-1.3	2.1	2.5
Net Exports	-0.1	1.5	-0.3	0.3
Inventories	0.1	1.8	0.0	0.0
As a percentage of GDP				
General Government Balance	0.7	1.0	1.3	-0.1
Current Account Balance	-1.0	-1.1	-0.8	-0.8
General Government Gross Debt	176.2	181.2	175.2	163.1
In percentage terms				
Unemployment (% of labour force)	21.5	19.3	17.3	15.4

Source: European Economic Forecast, autumn 2019, European Commission, November 2019

On the side of domestic consumption that is spent by the public sector, public consumption spending in the third quarter of 2019 returned to its mildly negative trend from before the elections, which will carry over to the final quarter. In 2020, some structural changes will slow the momentum of public spending, such as the public expenditure and revenue review, and the introduction of a performance-based budget. By contrast, the increase in the public sector's employer contributions and anticipated recruitment in a broad range of public services will counteract this trend.

In the field of investment, following the ease of uncertainty that was created by the elections, major issues are the rapid completion of recent changes in the regulatory framework for investments and other measures related to entrepreneurship (tax, labour relations, non-performing loans), as well as securing liquidity on sustainable terms. The implementation of the investment law requires the completion of extensive secondary legislation; therefore, it will not be operational immediately. The tax measures, in addition to clarifying key features of the business environment, constitute funding support for entrepreneurship, enhancing the viability of investment plans. The suspension of VAT on buildings and capital gains tax on the transfer of real estate will initially increase transactions in the existing housing stock. The strongest boost to Construction next year will come from projects in concessions and privatisations, as well as from construction in the tourism sector.

Table 3.3

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

	MinFin		EC		IOBE		IMF		OECD	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
GDP	2,0	2,8	1,8	2,3	2,1	2,2-2,4	1,8	2,3	1,8	2,1
Private Consumption	0,6	1,8	0,5	1,5	0,7	1,4	0,8	1,3	0,6	1,8
Public Consumption	1,6	0,6	3,4	0,3	2,0	-0,8	1,9	1,0	2,3	1,1
Gross Fixed Capital Formation	8,8	13,4	10,1	12,5	2,5	16,0	7,8	13,0	7,3	10,3
Exports	4,9	5,1	4,3	3,4	6,0	5,6	4,3	4,3	3,9	3,6
Imports	4,1	5,2	5,1	4,0	4,0	6,7	4,2	4,9	4,0	3,1
Harmonised Index of Consumer Prices (%)	0,6	0,7	0,8	0,5	0,5	0,8	0,5	0,6	0,4	0,4
Unemployment (% of labour force)	17,4	15,6	19,3	15,4	17,4	15,5	17,5	15,6	17,5	16,3
General Government Balance (% GDP)	1,2	1,2	1,0	1,3	:	:	0,1	-0,5	1,3	1,0
Current Account Balance (% GDP)	:	:	-1,1	-1,1	:	:	-2,8	-2,9	-0,5	0,2

Sources: Explanatory Report of the State Budget 2020, Ministry of Finance, November 2019 – European Economic Forecast, autumn 2019, European Commission, November 2019 - The Greek Economy 04/19, IOBE, February 2020 – 2019 Article IV Consultation, IMF, November 2019 - Economic Outlook 106, OECD, November 2019

Recent and anticipated developments in the management of NPLs, credit ratings and interest rates are also conducive to investment growth. The credit expansion to companies is anticipated to strengthen compared to last year. The currently low interest rates will soon be used by more of the larger companies for raising funds from the capital markets. Export growth for yet another year in 2019 and their estimated further strengthening in the following year will continue to support investment by companies in the sectors with the strongest or rapidly rising export orientation.

In the external sector of the Greek economy, the positive trend in the exports of goods most probably weakened in the final quarter of 2019, mostly from the extensive decline in exports to specific countries (Lebanon, Singapore, Egypt) and as growth in the main export destination, the Euro area, is not expected to have strengthened. The 2019 growth slowdown in the Euro area will ease slightly in 2020, with the help of more supportive monetary policy, following the restart of the quantitative easing programme, the gradual tackling of structural problems in its industry and the gradual de-escalation of the US-China trade war. Exports of products will be supported this year by accelerating world trade. The geopolitical tensions and conflicts, if they continue, and especially if they escalate, in the South-East Mediterranean and the Middle East, where some of Greece's major trading partners are located, will interfere with the growth of exports.

On the side of services, the increase in receipts from international tourism appears to have been sustained until the end of 2019, at a notably weaker rate than in the summer, possibly due to the effects of the bankruptcy of Thomas Cook. It is still premature to make predictions about the trend in tourism in 2020. If the geopolitical tensions in the South-East Mediterranean escalate, tourism flows will be negatively affected in all countries in this region, but to a different extent. The growing international transport through Greece, which presents strong prospects in the coming years with the sale of the Thessaloniki Port Authority and the expansion of Cosco's activity in Piraeus, will continue to contribute to the expansion of the exports of services.

Due to the stronger growth in private consumption spending in the final quarter of last year and the mild recovery of investment activity, the increase in demand for products from abroad is estimated to have strengthened in late 2019. The demand for tourist services from abroad also appears to have continued to strengthen in the final quarter of last year. In 2020, the much higher investment and greater private consumption will boost the demand for imports of goods. The demand for travel services from abroad will be on the rise again.

Taking into account the current and expected developments in the final quarter of 2019 and in 2020 that affect the trends in the GDP components, the output growth estimate for 2019 was revised from 1.8% to 2.1%. The revision is largely due to updated second-quarter data. Growth will accelerate to about 2.2-2.5% in the following year. Note that the GDP forecasts for 2019 and 2020 are based on provisional 2018 GDP estimates of March 2019, as its second estimate scheduled for 16 October was postponed. Therefore, any significant changes in GDP in 2018 and its components from the current review may affect the forecasts in subsequent IOBE reports for 2020, in a way that cannot be predicted.

The steady growth in the exports of goods and services in the final quarter of 2019 and in 2020 will continue to be the major driver of unemployment reduction, through the increase in employment in the most export-oriented sectors, such as Tourism, Transport – Storage and Manufacturing. The strong expansion of employment in Education in the first nine months of 2019 will carry over stronger into the final quarter, following the intake of 3,700 special needs substitute teachers in secondary education for the school year 2019-2020. The public sector will boost employment through anticipated recruitment in several government services (education, health, public safety, national defence, local government, etc.), and with temporary employment through OAED, such as social employment programmes, in municipalities, regions, social welfare centres and departments of ministries, but also for other purposes (fire protection, unemployed graduates, etc.). The stronger consumption demand will increase jobs in sectors providing services to final consumers (Retail Trade, Food Services). More broadly, the projected significant growth of investment activity, for the reasons mentioned above (tax relief, stronger credit expansion to enterprises, borrowing from capital markets on viable terms, projects in large concessions and privatisations and in tourism infrastructure), will have a positive impact on job creation in a number of sectors and mostly in Construction. The lowering of the social security contributions by 0.5% from 01/06/2019 and the further reduction by one percentage point envisaged in the 2020 budget will mainly boost labour demand. Taking into account the above factors affecting employment, unemployment is estimated to have stood on average at 17.4% in 2019, almost two percentage points lower year on year. Its decline will continue with a similar intensity in 2020, to reach about 15.5%.

The new fiscal measures concerning the households (lower ENFIA tax, reduction of the tax rate for the lowest income bracket from 22% to 9% and of the rates in the remaining income brackets by one percentage point), as well as those announced for the rest of the year (further reduction of ENFIA, reduction of solidarity levy) will boost real incomes and thus consumption demand. The decline in unemployment will also provide a stimulus to this. The budget included indirect tax reductions on specific products that do not have a significant impact on the Consumer Price Index (childcare items, child seats, motorcycle helmets), and thus on inflation. But the deflationary effect from the 2019 VAT reductions will continue, albeit weakening, until May. Regarding the impact of energy prices, the slightly stronger global growth in 2020, at 3.3% against 2.9% in 2019, with a significant revival of world trade (2.9% against 1.0%), will boost petroleum demand. The geopolitical tensions involving oil-producing countries will exert inflationary pressure on oil prices. The impact of these drivers on prices will be tempered by the strong year-on-year expansion of oil production in the US, while in the Eurozone countries, the restraint on price growth from the higher euro/dollar rate will be only marginal. The most likely result of these developments will be a small increase in energy costs. Taking into account all the above data and trends, inflation is anticipated to accelerate slightly in 2020, to 0.5% - 0.8%, from 0.3% in 2019, from stronger domestic demand and perhaps a mild inflationary effect of energy goods on prices.

3.2 Developments and Prospects in Key Areas of the Economy

- Stagnation of industrial production in the first nine months of the year (up by 0.1%), against 1.6% growth in 2018
- Weaker contraction of activity in Construction by 3.9%, against a fall by 15.0% in 2018
- Growth in the volume of Retail Trade in the first ten months of 2019 by 0.8%, against 1.4% in 2018
- Turnover growth year on year in the first nine months of 2019 in most sub-sectors of services

Industry

In the first eleven months of 2019, industrial production remained essentially unchanged year on year (up by 0.1%), while in the previous year it was growing slightly (by 1.6%). Note the strong decline in the industrial production index last November, by 8.1%.

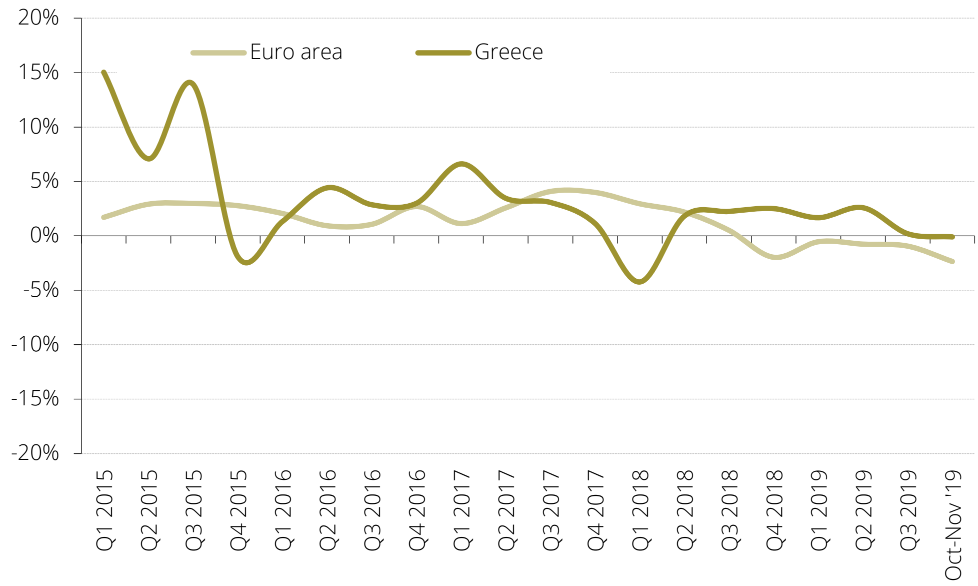
The prices of industrial products also remained unchanged year on year over the same period, compared to price growth of 4.7% in 2018. That said, the strongly positive trend in the turnover index in 2017-2018 (+18.0% and +9.6% respectively) was halted in 2019, as in the first eleven month the index declined by about 1.4%.

Figure 3.1

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

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

Industrial production remained unchanged in the first 11 months of 2019 (+0.1%), against growth by 1.6% in the corresponding period of 2018



Sources: ELSTAT, Eurostat

In the Euro area, in January – November of 2019, industrial production declined by 1.5%, against a 1.3% increase in the corresponding period of 2018. The index has been declining since the beginning of 2019, at a rate that intensifies month by month. The largest decline in industrial production among the EU member states is recorded in Germany (-4.5%, against an increase of 1.4% in the corresponding period of 2018). In contrast, the largest increase was posted in Hungarian industry (+6.2%, against +3.5% in 2018).

Production in key industrial sectors in Greece during the first eleven months of 2019 followed mixed trends. The strongest contraction took place in Mining, where production declined by 11.8%, against growth by 0.5% in 2018. Electricity Generation followed, with a much more limited retreat, by 4.3%, against a 2.1% reduction in the preceding year. Output in manufacturing increased, but at a lower rate than in 2018 (1.7%, against 2.9%).

In greater detail regarding Mining, output declined sharply in Coal - Lignite- Extraction of crude petroleum - Natural gas (-27.6%, against -11.0% in 2018), followed by Mining of Metal Ores (-11.3%, against growth by 20.0%), and Other Mining (-10.1%, against -5.1% in 2018).

In Manufacturing, output increased in 14 out of its 24 branches. Among the branches with particular significance for the Greek economy, production increased strongly in Basic Pharmaceuticals, by 24.8%, (against 19.4% a year earlier). Stronger growth than in 2018 was also registered in Food production, by 1.8%, against 0.1% a year earlier. Lastly, in Basic Metals output declined by 2.1%, from 3.8% growth in the same period of 2018.

Among the remaining branches of Manufacturing, the contraction strengthened in the first eleven months of 2019 in Other Transport Equipment (-11.5%, against -5.5%), Coke - Refined Petroleum Products (-8.7%, against 3.9% growth a year earlier), and Clothing (-5.9%, against -0.9%). Output also declined in Products from Non-Metallic Minerals (-5.2%, against 2.4%) and Leather products (-2,1%, against -3.6%).

By contrast, output increased strongly in Computers-Electronics, for the second year in a row (25.9%, against 15.5%) and in Tobacco products (by 22.5%, against decline by 10.1% in 2018). Output in Plastic - Rubber Products increased by 7.8%, stronger than a year earlier (2.2%), while in Chemicals output increased by 6.0%, slightly weaker than in 2018 (7.2%).

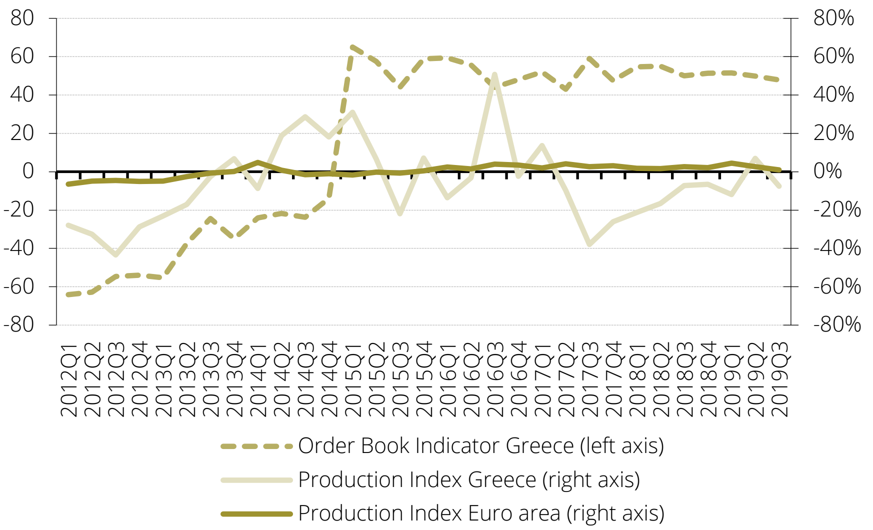
Over the same period, output increased in three of the five key groups of industrial products. In particular, the production of Non-durable Consumer Goods strengthened by 6.3%, more than double the rate it recorded last year (2.8%). The output of Capital Goods increased at a similar rate (by 5.2%, against 5.8%). Lastly, output also increased, by 1.6%, in Durable Consumer Goods (2.7% in 2018). By contrast, production declined by 5.4% in Energy, faster than in 2018 (-0.2%) and in Intermediate Goods (-1.0%, against 1.6% growth in 2018).

Construction

During the third quarter of 2019, the production index in Construction declined at a similar rate as in the same period of the preceding year (-7.6%, against -7.3%). In the first nine months of the year, the index fell by 3.9%, notably less than in 2018 (-15.0%). The index averaged 64.8 points, about 35 points lower from its average level in the base year (2015). Construction production in the Euro area expanded over the same period by 2.7%, at a slightly stronger rate than in the preceding year (2.0%).

Figure 3.2

Production Index in Construction and Building Activity Index



Production in Construction continued to contract in the first nine months of 2019, at a lower rate than in 2018 (-3.9%, against -15.0%)

Source: ELSTAT

Among its constituent activities, the production index in Buildings increased by 0.4% against its level from the first eleven months of 2018 (-9.1%). The decline of the production index in Civil Engineering eased (-6.3%, against 18.0% a year earlier). The monthly data on building activity for the same period point to an increase mainly in the number of permits (by 22.9%, against 1.4% decline a year earlier), but also in the volume (5.1%, against 20.2%) and surface of new buildings (6.6%, against 18.7%).

Retail Trade

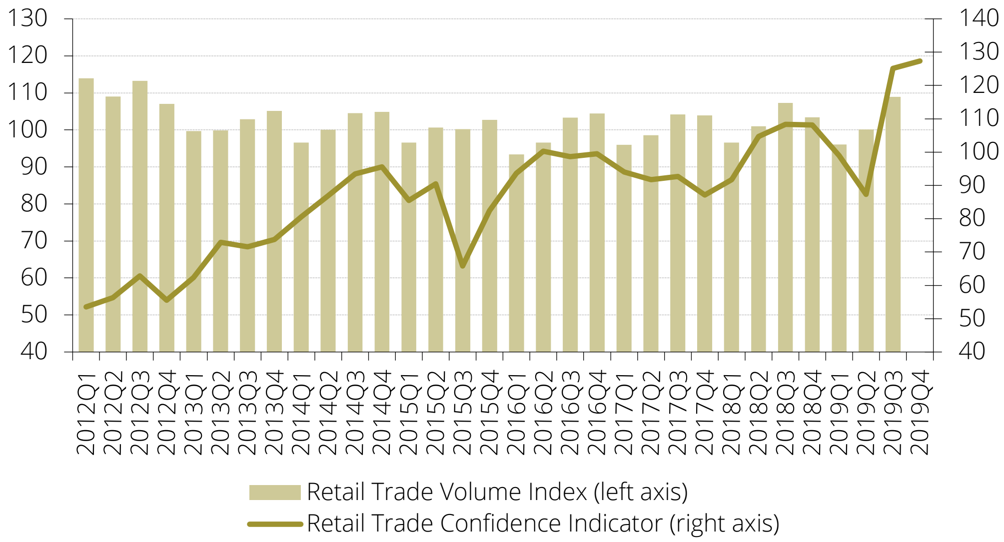
In the first ten months of 2019, the volume index in Retail Trade increased by 0.8%, against growth by 1.4% in the same period of 2018.

The volume of activity increased in four of the eight branches of Retail Trade. The strongest growth was recorded in Books - Stationary, by 10.5%, against a weaker growth by 1.9% in the same period of 2018. Furniture – Electrical Equipment – Household Appliances came next at a distance, with growth by 6.9%, against 5.1% in 2018. Activity strengthened in Fuels – Motor Lubricants (by 2.2%, against a decline by 1.2% in 2018) and in Supermarkets (1.5%, against 3.6%). By contrast, turnover contracted significantly in Department Stores (-12.4%, against 0.7%). Food – Drinks came next (-5.6%, against -4.0%), followed by Clothing – Footwear (-0.9%, against 0.6% growth) and Pharmaceuticals-Cosmetics (-0.2%, against 1.7%).

Figure 3.3

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

Slight expansion in the volume of Retail trade in the first ten months of 2019 (0.8%), against growth by 1.4% in 2018.



Source: IOBE

In line with the slight growth in sales volume, the expectations in Retail Trade strengthened slightly year on year in 2019, according to the leading indicators of the Business Surveys conducted by IOBE. The index for Retail Trade increased by 5.1 points, notably less than the increase by 13.1 points in 2018.

At the branch level, the expectations strengthened by 17.1 points year on year in Food-Beverages-Tobacco, against an expansion by 3.9 points in 2018. The index also increased in Department Stores (by 13.8, against 6.7 points last year). By contrast, expectations deteriorated in Household Appliances (-17.3 points, against 11.5 points gain a year earlier) and Clothing - Footwear (-13.5 points, against -8.2 points in 2018).

Table 3.4

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	January - October 2017	January - October 2018	January - October 2019	Change 2018/2017	Change 2019/2018
Overall Index	99.5	101.0	101.8	1.4%	0.8%
Overall Index (excluding automotive fuels and lubricants)	100.5	102.2	102.7	1.7%	0.4%
Store Categories					
Supermarkets	101.3	104.9	106.4	3.6%	1.5%
Department Stores	106.6	107.3	94.1	0.7%	-12.4%
Automotive Fuels	93.7	92.6	94.7	-1.2%	2.2%
Food – Drink – Tobacco	95.0	91.2	86.2	-4.0%	-5.6%
Pharmaceuticals – Cosmetics	98.4	100.0	99.8	1.7%	-0.2%
Clothing – Footwear	107.4	108.0	107.0	0.6%	-0.9%
Furniture – Electric Equipment – H. Appliances	100.1	105.3	112.5	5.1%	6.9%
Books – Stationary	105.8	107.9	119.3	1.9%	10.5%

Source: ELSTAT

Table 3.5

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

	2017	2018	2019	% Change 2018/2017	% Change 2019/2018
Food-Drinks-Tobacco	82,0	85,9	103,0	4,8%	19,9%
Textiles - Clothing – Footwear	101,0	92,8	79,3	-8,1%	-14,5%
Household Appliances	84,9	96,4	79,1	13,5%	-17,9%
Vehicles-Spare Parts	108,2	134,0	131,1	23,8%	-2,2%
Department Stores	89,2	95,9	109,7	7,5%	14,4%
Total Retail Trade	91,4	104,5	109,6	14,3%	4,9%

Source: IOBE

According to the Business and Consumer Surveys of IOBE, in Motor Vehicles, the index declined by 2.2 points in 2019, weakening in the 2nd and 4th quarters. In particular, in late 2019 the index was falling by 3%, against an increase by 15.5% in the last quarter of 2018. Overall in 2019, the index stood at 131 points, compared to 134 points in 2018.The balance of current sales weakened to 42 points, from 49 points a year earlier, with a marginal reduction of the companies reporting sales growth. Stocks remain normal for three-quarters of businesses, with a slight increase in those who consider them elevated. The balance of orders strengthened to 27 from 21 points, as the percentage of businesses that expected growth of orders increased. Sales expectations are not different compared to the previous year, while as regards employment, strong stabilisation trends dominate.

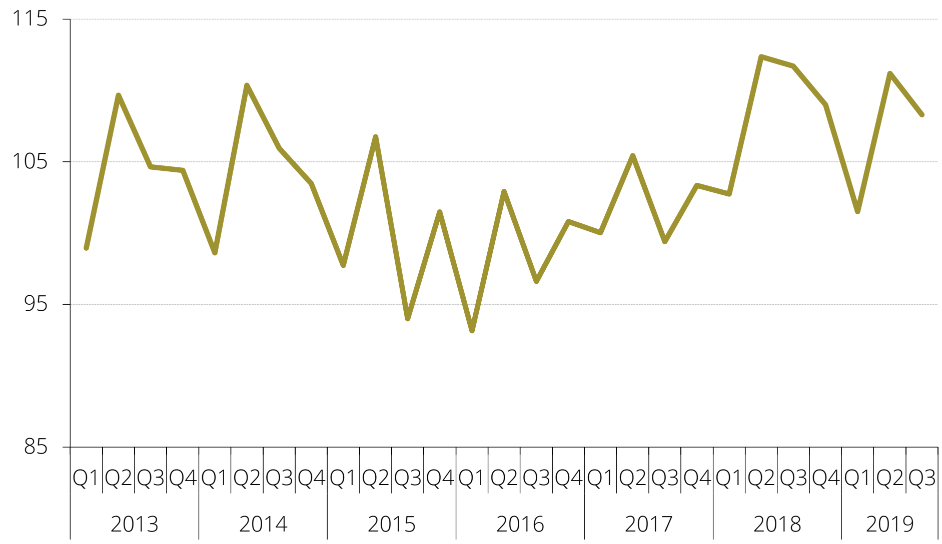
Wholesale Trade

In contrast to the slight improvement recorded in Retail Trade, turnover in Wholesale Trade declined by 1.8% in the first nine months of 2019, against growth by 7.2% a year earlier. In the most recent quarter, the index fell by 3.0%, stronger than in the previous two quarters.

Figure 3.4

Turnover Index in Wholesale Trade

Turnover decline by 1.8% in Wholesale Trade in the first eleven months of 2019, against growth by 7.2% in 2018



Source: ELSTAT

Services

In the first nine months of 2019, turnover declined year on year in two of the thirteen branches of Services (against five branches with contraction in 2018). The strongest activity contraction was recorded in Other Professional - Scientific - Technical Activities, where turnover declined by 7.7%, against a boost by 3.8% a year earlier. Cleaning Activities came next with -2.8%, after a contraction by 0.7%.

By contrast, turnover expanded year on year, for the second year in a row in Employment Activities (20.5%, against 17.7%), Advertising - Market Research (7.3%, against 3.8%), Computer Programming (7.0%, against 8.1%), Postal-Courier Activities (6.9%, against 9.0%) and Telecommunications (1.7%, against 1.2%). Growth in place of contraction in 2018 was registered in Publishing Activities (6.3%, against -8.1%), Information Services (6.1%, against -1.1%) and Architectural - Engineering Activities (0.8%, against -6.0%). The tourism sector, whose activity is decisive for the trend of domestic product, increased marginally in the first three quarters of last year, by 0.4% from 10.2%. That said, during the year the trend changed from a sharp decline at the beginning of (-22.3%) to a positive trend, especially in the summer months (+6.1%).

Table 3.6

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

	2017	2018	2019	% change	% change
Hotels – Restaurants – Travel Agencies	108.1	114.6	98.8	6.0%	-13.79%
Other Business Services	65.6	75.1	97.8	14.5%	30.23%
Financial Intermediation	86.2	115.3	121.3	33.8%	5.20%
Information Services	73.5	79	91.4	7.5%	15.70%
Total Services	86.6	97	97.7	12.0%	0.72%

Source: IOBE

Table 3.7

Turnover Indexes in branches of Services (2015=100)

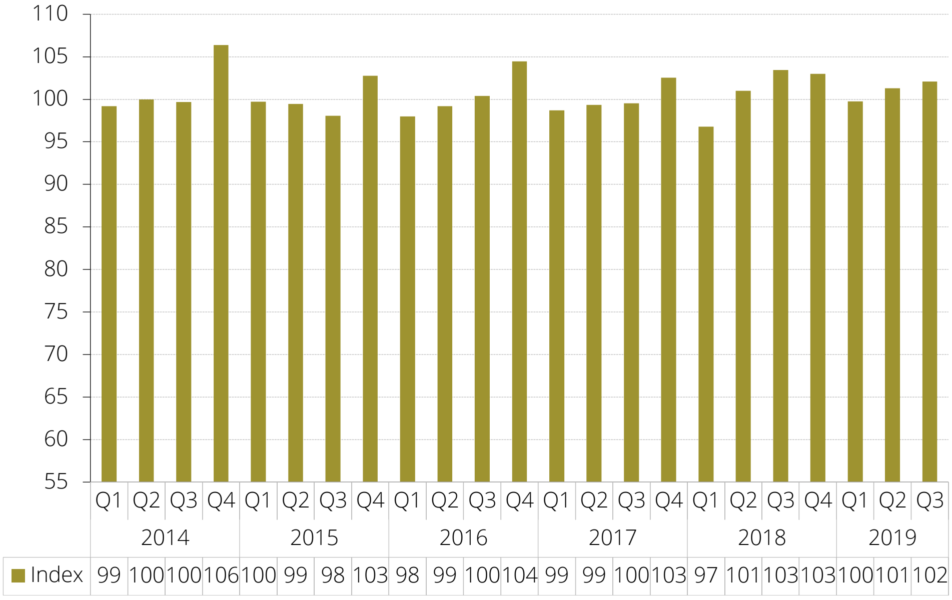
Services branch	% change Ian.-Sep. 2018	% change Ian.-Sep. 2019
Publishing activities	-8.1%	6.3%
Architectural and engineering activities; technical testing and analysis	-6.0%	0.8%
Information service activities	-1.1%	6.1%
Security and investigation activities	-0.7%	-2.8%
Telecommunications	1.2%	1.7%
Advertising and market research	3.8%	7.3%
Postal and courier activities	9.0%	6.9%
Computer programming, consultancy and related activities	8.1%	7.0%
Other professional, scientific and technical activities	9.2%	-7.7%
Office administrative, office support and other business support activities	12.0%	0.7%
Employment activities	17.7%	20.5%

Source: ELSTAT

Figure 3.5

Turnover Index in Telecommunications (branch 61)

Increase by 1.7% year on year in the first nine months of 2019, against growth by 1.2% a year earlier

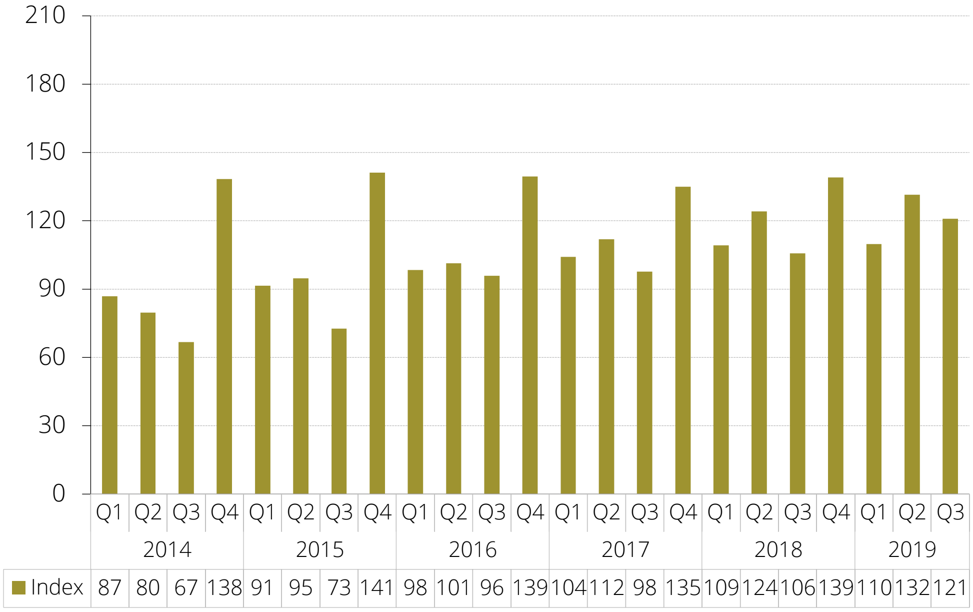


Source: ELSTAT

Figure 3.6

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

Expansion by 7.0% in the first nine months of 2019, against growth by 8.1% in the preceding year



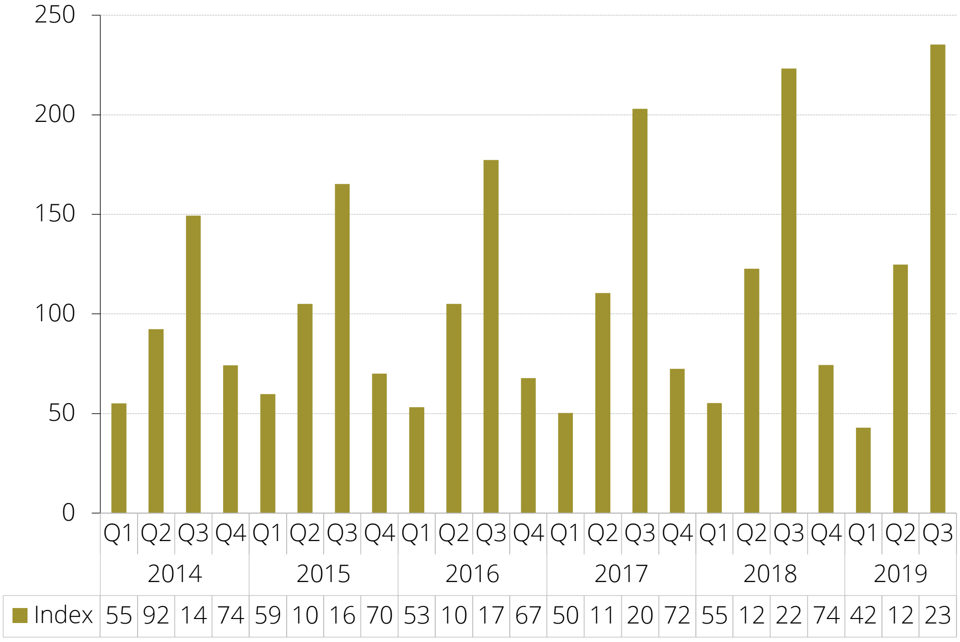
Source: ELSTAT

According to the leading indicators of the Business Surveys conducted by IOBE for 2019, the sentiment slightly strengthened, as the overall indicator for Services increased by about 0.7 points year on year. The expectations weakened only in Tourism (by 15.8 points, against growth by 6.5 points in 2018). By contrast, the index was up in Various Business Services (by 22.7 against 9.7

points), IT services (by 12.4 against 5.5 points) and Financial Intermediaries (by 6.0 against 29.1 points).

Figure 3.7

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



Extensive slowdown of growth in the first nine months of 2019, by 0.4%, against 10.2% a year ago, due to significant contraction in the first quarter of 2019

Source: ELSTAT

3.3 Export Performance of the Greek Economy

- Marginal decline in the exports of goods in the first eleven months of 2019 (-0.1%), and growth by 3.9% when petroleum products are excluded
- Weaker demand mainly from the MENA region (-12.1%) and Asia (-13.2), with stronger demand from the EU countries (6.4%)
- Among the categories of goods, τα Καύσιμα (-9,0%) και τα Αγροτικά προϊόντα (-2,7%) παρουσίασαν τη μεγαλύτερη μείωση

The exports of goods stood at €30.50 billion in the first eleven months of 2019, from €30.53 billion in 2018, recording a marginal decline by 0.1%. Excluding petroleum products and ships, exports increased by 3.9%, to reach €21.0 billion, from €20.2 billion in the same period of 2018 (Figure 3.8). Imports increased by 2.2% in the first eleven months of 2019, to reach €46.7 billion, from €48.6 billion a year earlier. As a result of the above trends in the main components of the external balance of goods, its deficit increased by €1.0 billion in the first eleven months of 2019, from €18.1 billion to €19.2 billion (+5.9%). Subsequently, the value of the exports of goods of the Greek economy accounted for 61.4% of its imports, from 62.8% in the first eleven months of 2018.

Figure 3.8

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

Exports except petroleum products and ships reached €21.0 billion over January-November 2019, 3.9% higher than in 2018

Source: ELSTAT. Data processing: IOBE

In greater detail, the exports of Agricultural Products decreased by 2.7% in the first eleven months of the year, to reach €5.3 billion, from €5.5 billion a year earlier, while the exports of Fuels declined by 9.0%, to €9.7 billion from €10.7 billion in the previous year (Table 3.8). The exports of these two product categories accounted for 49.4% of the Greek exports in 2019, from 52.9% a year earlier. The decrease in agricultural products came mainly from a 45.2% decrease in the demand for Oils and Fats of Animal or Plant Origin, the value of which totalled €355.5 million, from €649.0 million a year earlier and, as a result, their share in total exports declined from 2.1% in 2018 to 1.2% in 2019. The exports of Food – Live Animals, which account for approximately 80.5% of the exports of Agricultural Products, increased by 3.0%, from €4.2 billion in the preceding year to €4.3 billion in 2019. The exports of Beverages - Tobacco Products, which account for approximately 12.8% of the exports of Agricultural Products, stood at €683.0 million in the first eleven months of 2019, up by 3.8% against the same period of 2018 (€657.9 million).

The exports of Industrial Products increased by 8.1% in the first eleven months of 2019, with their value reaching €13.7 billion, from €12.6 billion a year earlier. This rise is explained mainly by the strengthening of foreign demand for Chemicals and Related Products, by 16.7%, with their value reaching €3.7 billion. The exports of Miscellaneous Manufactured Articles also rose, by 21.9%, to €2.5 billion in 2019, from €2.0 billion in the preceding year, while Machinery and Transport Equipment increased by 8.7%, to €2.8 billion, from €2.6 billion in 2018. By contrast, the exports of Manufactured Goods Classified Chiefly by Raw Material declined by 3.9%. Finally, the exports of Raw Materials increased by 8.0%, reaching €1.3 billion, from €1.2 billion in the previous year, while the exports of Commodities and Transactions Not Classified by Category decreased by 6.8%, from €512.2 million in the first eleven months of 2018, to €477.1 million in the same period of the following year.

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 6.6% in the first eleven months of 2019, to reach €12.0 billion, from €11.3 billion in the same period of 2018. As a result, this country group absorbed almost 39.6% of the Greek exports of goods. The exports to the EU increased by 6.4% or €1.0 billion, with the exports to the region totalling €16.9 billion, from €15.9 billion a year earlier. Among the Eurozone countries with the largest share of Greek exports, growth was recorded in Italy, by 7.1%, from €3.1 billion in 2018 to €3.3 billion in the following year, and Cyprus, by 6.6%, from €1.6 billion to €1.7 billion, while the exports to Germany increased by 5.5%, from €1.41 billion in 2018 to €1.48 billion in the following year. The largest percentage contraction in exports in the first eleven months of 2019 in the Eurozone was recorded in Latvia, by 12.6% or €3.2 million, to €21.9 million. By contrast, the highest percentage growth was recorded in Estonia, at 84.2% or €14.5 million.

Among the remaining countries of the European Union, where total exports grew by 5.8% or €268.4 million, to reach €4.9 billion, Bulgaria continues to be the main export destination, with an increase in outflows by 8.8% or €115.7 million year on year. The exports to two other countries, which also absorb a significant share of Greek exports from this group of countries, the UK and Romania, also increased, by 2.4% or €26.9 million, to €1.1 billion in the former and by 6.9% or €60.1 million to €928.7 million in the latter. The largest percentage growth, by 42.4%, was recorded in Croatia, where Greek exports increased by €42.3 million, from €99.8 million in 2018 to €142.1 million in 2019.

Table 3.8

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

Product	Value		% Change	% Share	
	2019	2018	19/18	2019	2018
AGRICULTURAL PRODUCTS	5,319.6	5,464.6	-2.7%	17.4%	17.9%
Food and Live Animals	4,281.1	4,157.7	3.0%	14.0%	13.6%
Drinks and Tobacco	683.0	657.9	3.8%	2.2%	2.2%
Oils and Fats of animal or plant origin	355.5	649.0	-45.2%	1.2%	2.1%
RAW MATERIALS	1,310.3	1,213.0	8.0%	4.3%	4.0%
Non-edible Raw Materials excluding Fuels	1,310.3	1,213.0	8.0%	4.3%	4.0%
FUELS	9,735.5	10,695.8	-9.0%	31.9%	35.0%
Minerals, Fuels, Lubricants etc.	9,735.5	10,695.8	-9.0%	31.9%	35.0%
INDUSTRIAL PRODUCTS	13,662.1	12,642.6	8.1%	44.8%	41.4%
Chemicals and Related Products	3,681.5	3,154.0	16.7%	12.1%	10.3%
Industrial Products Sorted by Raw Material	4,629.9	4,815.7	-3.9%	15.2%	15.8%
Transport Equipment	2,838.7	2,612.0	8.7%	9.3%	8.6%
Various Manufactured Goods	2,512.0	2,061.0	21.9%	8.2%	6.8%
OTHER	477.1	512.2	-6.8%	1.6%	1.7%
Goods and Transactions not sorted by Category	477.1	512.2	-6.8%	1.6%	1.7%
TOTAL EXPORTS	30,504.6	30,528.1	-0.1%	100.0%	100.0%

* Provisional Data

Sources: ELSTAT, PSE-KEEM

The Greek exports to the remaining European countries decreased by 5.8% in the first eleven months of 2019, to €4.6 billion, from €4.9 billion in the same period of 2018. In Turkey, one of the major destinations for Greek products, exports declined by 10,1%, from €1.9 billion to €1.7 billion.

The exports to North American countries moved slightly up, by 1.9%, from €1.53 billion in the first eleven months of 2018, to €1.5 billion a year later, mainly due to decline in exports to the US by 2.7%, from €1.24 billion in 2018 to €1.20 billion in 2019, and to Canada, by 5.5% or €8.1 million. By contrast, exports to Mexico expanded (by 8.2%).

Exports to the Middle East and North Africa decreased by 12.1%, to €4.3 billion from €4.9 billion, mainly due to the decrease in exports to Egypt (-20.5%) where exports stood at €870.4 million in January - November 2019, compared with €1.0 billion a year earlier, but also to Lebanon, with a decrease of €337.3 million (-23,9%), year on year in the first eleven months of 2019 (Figure 3.11). By contrast, in Saudi Arabia, another major export destination in the Middle East, exports increased by 5.9%, to €707.8 million, while in the United Arab Emirates they declined by 23.0% to €225.8 million.

The flow of exports of Greek products to Oceania increased by 18.4%, with their value reaching €190.4 million in the first eleven months of 2019, from €160.7 million a year earlier. The exports to Australia increased by 17.6%, from €144.7 million in 2018, to €170.1 million in 2019. Exports increased strongly to New Zealand as well (by 26.0%).

The exports to the markets of Central and Latin America increased in the first eleven months of this year by 18.6%, with their value amounting to €394.0 million, from €332.3 million a year earlier. The better export performance to these countries came mainly from strong growth in the demand for Greek products from Brazil, by 23.9%, where their value expanded to €132.4 million, from €106.8 million in the preceding year, and from Panama, by 47.0%, to €177.1 million.

The foreign demand for Greek goods retreated in the Asian countries, where exports decreased by 13.2% year on year in the first eleven months, to €1.8 billion, from €2.0 billion a year earlier. This development came mainly from the abatement of demand from Singapore (-65.1%, to €129.9 million, from €371.9 million in 2018) and the Philippines (-90.7%, to €6.0 million, from €64.2 million in 2018). By contrast, a significant rise of Greek exports of products, by 10.2%, was recorded in South Korea, from €103.9 million in 2018 to €140.8 million a year later, and by 71.1% in Japan, from €105.1 million in 2018, to €179.8 million in 2019.

Table 3.9

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

ECONOMIC UNIONS – GEOGRAPHIC REGIONS	EXPORTS		% CHANGE	% SHARE	
	2019	2018	19/18	2019	2018
World	30,504.6	30,528.1	-0.1%	100.0%	100.0%
OECD	16,966.9	16,076.7	5.5%	55.6%	52.7%
EU	16,971.1	15,952.2	6.4%	55.6%	52.3%
Euro Area	12,084.6	11,334.1	6.6%	39.6%	37.1%
G7	9,173.1	8,616.4	6.5%	30.1%	28.2%
North America	1,506.9	1,536.9	-1.9%	4.9%	5.0%
BRICS	1,270.9	1,377.7	-7.8%	4.2%	4.5%
Middle East & North Africa	4,363.2	4,962.5	-12.1%	14.3%	16.3%
Rest of Africa	1,685.9	2,019.8	-16.5%	5.5%	6.6%
Oceania	190.4	160.7	18.4%	0.6%	0.5%
Latin America	394.0	332.3	18.6%	1.3%	1.1%
Rest of Asia	1,815.9	2,091.8	-13.2%	6.0%	6.9%
OPEC	1,717.3	1,691.2	1.5%	5.6%	5.5%

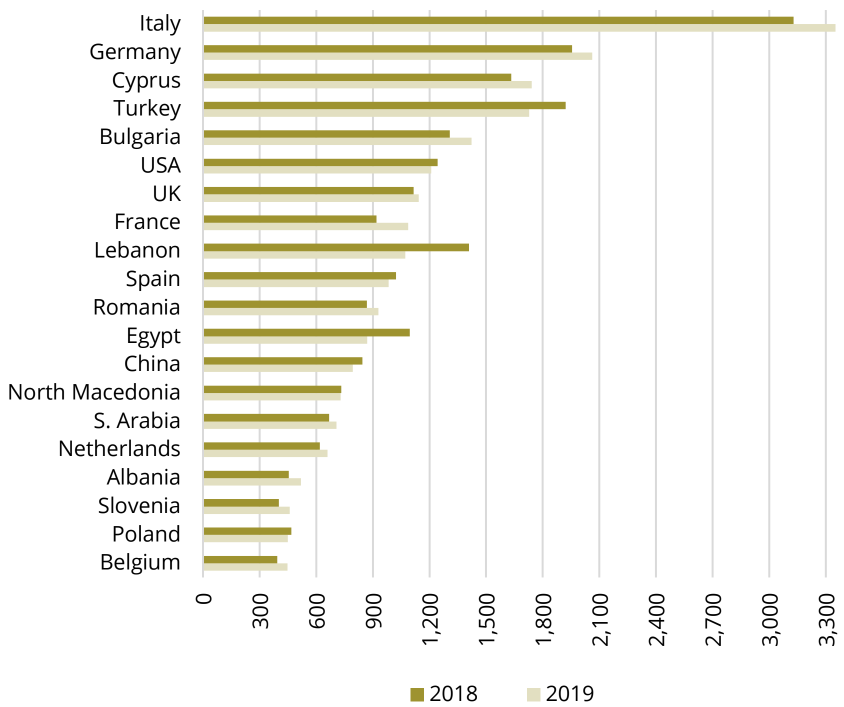
* Provisional Data

Source: ELSTAT., Data processing: PSE-KEEM

In conclusion, Greek exports remained essentially unchanged in the first eleven months of 2019, against strong growth in the same period of the previous year (17.6%). The loss of the growth momentum in the exports of goods mainly came from a sharp decline in certain countries, which are among the major export destinations of Greece (Turkey, Lebanon, Egypt), in Singapore and Gibraltar, rather than from a more general weakening of demand for Greece products. The exports of Greek products to these five countries fell by €1.15 billion, an amount corresponding to 62% of the drop to all destinations to which exports were less than the year before. Towards the Eurozone, the most important region for Greek exports, although the increase was significantly lower than in 2018 (by 16.0%), it continued for another year, reaching 6.6 % or €750.5 million. As the trend in the exports of goods to the US changed from positive in the third to negative in the fourth quarter, the Greek economy may have been directly affected by the trade protectionist measures applied in the US. Subsequently, the expansion in the same period of exports to the Euro area by €750.5 million and more broadly, to the EU (by €1.02 billion) was not sufficient to cover these losses.

Figure 3.9

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



Strongest expansion of exports of goods in January - November in absolute terms to Italy (by €221.4 million). As a result, its share remains the largest among Greece's trading destinations.

Source: PSE-KEEM, Data processing: IOBE

Exports are expected to return to, albeit moderate, growth in the current year. Last year's growth slowdown in the Eurozone will ease slightly, mainly due to more accommodative monetary policy, following the relaunch of the quantitative easing programme by the ECB and the gradual resolution of structural problems in the Eurozone industry, and especially in the automotive sector. Greek exports of products will benefit this year from stronger world trade growth. The geopolitical tensions and conflicts in the south-eastern Mediterranean and the Middle East, regions where some major trading partners of Greece are located, which recorded a significant decline in their demand for Greek products last year, will interfere with the growth of Greek exports, if they continue.

3.4 Employment – Unemployment

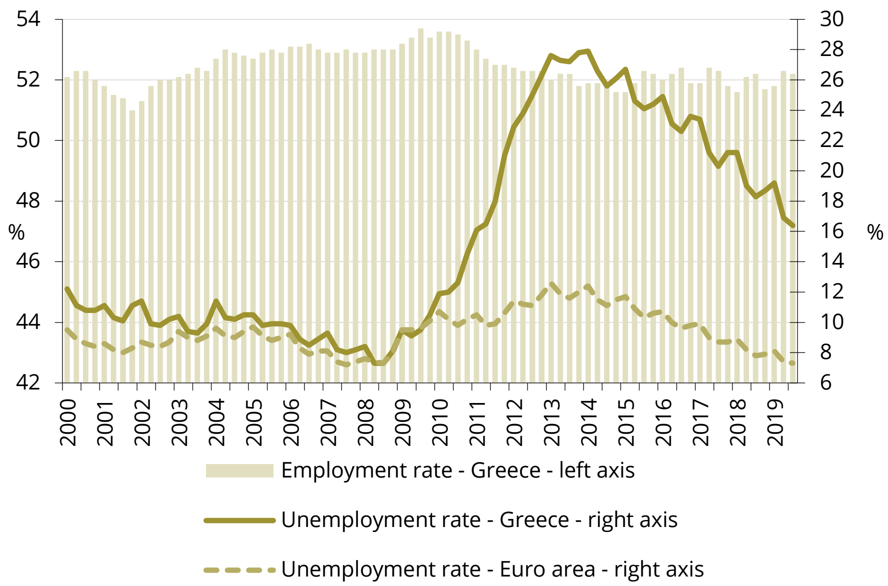
- The unemployment rate stood at 16.4% in the third quarter of 2019, almost 2 percentage points lower than in Q3 2018
- The drop in unemployment in Q3 2019 came by 82% from higher employment and by 18% from a reduction in the labour force
- Largest increase in employment in Transport - Storage (24,400 people), Manufacturing (+22,900 people), Tourism (18,100 people) and Education (14,400 people).
- The seasonally adjusted wage cost index declined in the third quarter of 2019, after seven consecutive quarters of growth, by 1.2% year on year

According to data from the Labour Force Survey of ELSTAT, the unemployment rate in the third quarter of 2019 fell by 1.9 percentage points lower year on year, to 16.4% from 18.3%. The number of unemployed fell year on year by about 94,800 people, to 777,000, down from 871,800 people a year earlier, while the number of employees increased by 77.7k, reaching 3,971.9 million. The drop in unemployment came by 82% from employment growth and by 18% from labour force contraction (by 17,100, to 4,748,800 people). Overall in the first nine months of last year, the unemployment rate was 17.5%, two percentage points lower year on year. In October 2019, the non-seasonally adjusted unemployment rate fell by two percentage points year on year, to 16.6%.

Decline in unemployment in the third quarter of 2019 to 16.4%, from 18.3% in the previous year

Figure 3.10

Labour force participation and unemployment rates



Sources: ELSTAT – Labour Force Survey, Eurostat

In the Euro area, unemployment continued to decline, reaching 7.3% in the third quarter of 2019, 0.5 percentage points lower year on year (7.8%). This level of unemployment is the lowest for this period of the year since 2009. In Germany, which posted the lowest unemployment rate, it declined marginally, at 3.1% from 3.3% in Q3 of 2018. Essentially the same rate was recorded in the Netherlands, where it declined from 3.6% to 3.2%. Malta came next, where unemployment stood at 3.4%, from 3.6% in the third quarter of 2018. By contrast, the largest unemployment (after

Greece) was recorded In Spain, where it stood at 13.9% in the third quarter of 2019, 0.7 percentage points down year on year (from 14.6%). In the other major economies of the Euro area, unemployment also declined. In France, it fell from 8.8% to 8.3%, while in Italy it declined to 9.1% from 9.3%. In the United Kingdom, the unemployment rate fell to 3.9%, from 4.2%. The only Euro area country with rising unemployment in the third quarter was Lithuania, from 5.6% to 6.1%.

As regards the trend in unemployment by sex, in the third quarter of last year unemployment among women (20.5%) was 7.4 percentage points higher than in men's unemployment (13.1%). However, compared to the third quarter of the year before, female unemployment was 2.8 percentage points lower, while the unemployment rate for men decreased by 1.2 percentage points. Thus, domestic unemployment fell more rapidly among women. In the Eurozone, the difference in unemployment rates for men and women has been very low over time. In the third quarter of 2019, it did not exceed 0.7 percentage points (7.0% among men and 7.7% among women). Year on year, it fell by 0.4 percentage points in both sexes.

Regarding the age composition of unemployment, its rate is negatively related to age, while in the third quarter of 2019 it fell in all age categories. The strongest reduction was found in people aged 15-19 and 20-24. In the first category, which has the highest unemployment among all age categories, the unemployment rate declined by 4.9 percentage points, from 44.3% in 2018 to 39.4% a year later, while in the second category it fell to 31.7% from 35.4%. The weakest reduction was posted in those aged 45-64, where unemployment fell by 1.4 percentage points, i.e. from 14.9% to 13.5%. The lowest unemployment rate is recorded in those over the age of 65, where unemployment fell to 8.8%, from 10.9% a year earlier. Finally, in those aged 25-59 and 30-44, unemployment fell by 3.2 p.p. (from 27.1% to 23.9%) and 1.8 p.p. (from 17.7% to 15.9%) respectively over the examined period.

Regarding the duration of unemployment, after six consecutive quarters of decline, the rate of long-term unemployed increased in the third quarter of 2019 and stood at 73.6% from 71.8% in the corresponding quarter of 2018. By contrast, the number of long-term unemployed has been falling since Q4 of 2014 (909.4k unemployed) and in the third quarter of 2019, it stood at 572.0k, lower year on year by 8.6% or 53.9k people.

As mentioned repeatedly in previous IOBE reports on the Greek economy, the unemployment rate has a negative relationship with the level of education. In the third quarter of last year, there is a decrease at all educational levels except for those who attended some grades of primary school and those who did not go to school. In fact, these categories have the highest unemployment rate among all categories of education. Among those who did not go to school, the unemployment rate increased significantly, by 9.2 percentage points, from 43.8% in the third quarter of 2018 to 53% after a year, while the rise in unemployment among those who attended some grades of primary school was 2.3 percentage points, reaching 35.5%. By contrast, the greatest reduction in unemployment is found in university graduates and those with a degree in higher technical vocational education. In the first category, unemployment fell by 2,5 percentage points over the examined period, to 12.3%. A similar fall was observed in the second category (2.4 percentage points), in which unemployment stood at 17% in the third quarter. The lowest unemployment rate for yet another quarter was posted in people with a PhD or master's degree, standing at 10.1% in the third quarter, essentially unchanged year on year (from 10.2%).

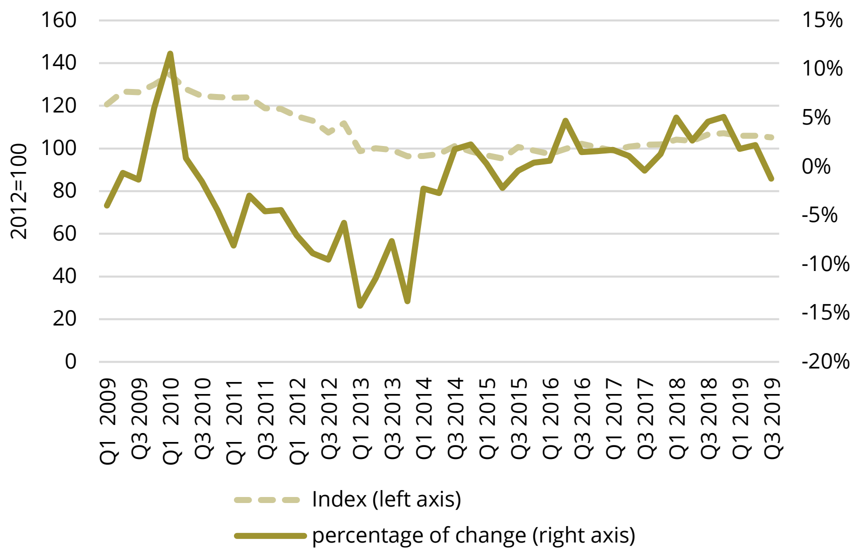
Regarding the regional dimension of unemployment, unemployment decreased year on year in the third quarter of 2019 in all regions of the country except for Thessaly. In this region, its rate increased from 17.8% to 19.5%. The strongest decline occurred in the North Aegean region where the rate in Q3 of 2019 stood at 16.2%, 4.5 percentage points lower than in the same period the year before. A significant fall of 3.8 percentage points was observed in Western Macedonia, where the unemployment rate stood at 23.8%. However, it remains the highest in Greece. The fall in the unemployment rate in the South Aegean and Ionian Islands was similar (by 3.2 percentage points), which had the lowest unemployment rates in the third quarter of 2019. In the former, it fell to 7.2% and in the latter to 6.2%. A similar decline in unemployment, by 3.0 percentage points, from 19.5% to 16.5%, was posted in Attica. A marginal decline occurred in Western Greece, from 23.8% to 23.7%, reaching the second-highest unemployment rate nationwide, while a small decline was recorded in Central Macedonia, by 0.9 percentage points, resulting in 19.2% unemployment in Q3 of 2019.

At the level of key economic sectors, employment in the primary sector declined year on year for the second consecutive quarter. In the third quarter of 2019, the number of employees in the primary sector fell to 447.8k from 472.7k in the same period of last year (-5.3%). In the other two key sectors, employment strengthened. In particular, employment increased in the secondary sector by 4.1% or 24.2k employees and, as a result, they reached 611.7k. In the tertiary sector, employment rose by 2.8% or 78.4k people. As a result, the number of employees in the sector in Q3 of 2019 was 2,912.4k.

Figure 3.11

Seasonally adjusted wage cost index and percentage point change (2009 Q1 - 2019 Q3)

Decline in the seasonally adjusted wage cost index by 1.2%, after seven consecutive quarters of growth



Source: ELSTAT

In seven of the branches of economic activity, employment declined and in the remaining 14, it strengthened. The strongest employment expansion occurred in Transport - Storage, where the number of employees rose from 185.9k in the third quarter of 2018 to 210.3k a year later (24.4k increase). Meanwhile, employment in Manufacturing increased by 22.9k and, as a result, the employees in Manufacturing totalled 385.1k. Double digits in thousands was the increase in the number of employees in Accommodation – Food Services, another sector of internationally traded goods and services, by 18.1k people, to 429.2k. The number of employees in Education increased by 14.4k, i.e. from 293.6k to 308.0k. In line with the employment figures for the key sectors, the largest reduction in employment is found in Agriculture - Forestry - Fisheries, where it reached 24.9k people, while in Wholesale-Retail Trade, the most populous sector of the Greek economy, jobs shrank by 7.6k to 699.9k. In Construction, employment fell from 150.3k to 146.6k people, while in Financial - Insurance Activities, it declined from 88.0k to 86.0k. In Professional-Scientific-Technical Activities and Public Administration, employment strengthened by 5.4k and 7.6k jobs, to 219.6k and 340.6k people respectively.

Table 3.10

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

Reference period	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	9,372.9	52.7	4,054.4	82.2	881.8	17.9
2012	9,344.8	52.3	3,695.0	75.6	1,195.1	24.4
2013	9,309.5	52.1	3,513.2	72.5	1,330.4	27.5
2014	9,282.1	51.8	3,536.3	73.5	1,274.4	26.5
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2
Q4 2017	9,163.3	51.8	3,736.3	78.8	1,006.8	21.2
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2
Q2 2018	9,144.7	52.1	3,860.4	81.0	906.0	19.0
Q3 2018	9,135.5	52.2	3,894.2	81.7	871.8	18.3
Q4 2018	9,126.4	51.7	3,833.7	81.3	881.1	18.7
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
Q1 2019	9,117.3	51.8	3,814.0	80.8	907.1	19.2
Q2 2019	9,108.0	52.3	3,956.4	83.1	805.0	16.9
Q3 2019	9,089.9	52.2	3,971.9	83.6	777.0	16.4

Source: ELSTAT. Labour Force Survey

In conclusion, sectoral employment data show that its overall increase in the third quarter of 2019 came mainly from:

- The rise in Transport - Storage (by 24.4k employees).

- The rise in Manufacturing (by 22.9k people)), although the expansion of its production on the basis of the seasonally adjusted Industrial Production Index was marginal over the same period (by 0.3%)

- The rise in Tourism (by 18.1k employees), in line with the year-on-year increase in travel receipts in the third quarter, by 14.5%, to €10,693.4 million.

- The rise in Education (by 14.4k people), and despite the fall in employment in the Primary sector (-24.9k employees) and Wholesale-Retail Trade (-7.6k).

The seasonally adjusted wage cost index overall for the Greek economy declined in the third quarter of 2019, for the first time after seven consecutive quarters of growth. In particular, it fell by 1.2% during this period, to reach 105.2 points, from 106.5 points in the same quarter of 2018.

Box 3.1

Employment trends in January - September 2019 and their key drivers

In 2019, the Greek economy was growing for a third year, stronger than in the previous years, and also compared to the average of the Eurozone and the EU. This comes mainly from export sectors (Tourism, Transport, Manufacturing) and Construction. Stronger recovery of the Greek economy in the coming years is necessary to reduce unemployment, which, despite the fall since 2014, remains the highest in the EU. While the domestic environment is improving, the international environment has deteriorated since the second half of 2018, mainly due to trade protectionist policies. The EU, the main destination of Greek exports, has been affected by these developments, while it also has to address internal issues (Brexit, structural changes in industry). These changes have an effect on the prospects of Greek exports. Apart from the international factors affecting employment, changes in the labour market took place in 2019, such as an increase in the minimum wage, abolition of the sub-minimum wage, and reduction of social security contributions from 01/07/2019. The purpose of the following analysis is to examine developments in employment and its sectoral composition in January-September 2019 under the influence of the above factors. As there are no GDP data for the whole of last year and in high sectoral analysis, the trend in sectoral activity is approached on a case-by-case basis with the relevant short-term indicators. With regard to changes in labour costs, they are approached by the wage compression index. Sectoral employment data (one-digit NACE Rev.2 sectors) relate to salaried employment in order to be relevant to the labour market features that have changed and mostly concern employees.

Starting the analysis with the year-on-year employment trends in January-September 2019, the highest average increase in the number of salaried employees took place in Accommodation - Food Services (by 24.8k, to 276.1k from 251.3k in the nine months of 2018) and Education (by 18.9k, from 272.1k to 291.1k, columns 2-3, Table 3.12). Next in growth terms came Manufacturing (by 17.5k employees, 301,2k in the first nine months of 2019), Transportation - Storage (by 16.5k, to 142.9k) and Wholesale-Retail Trade (by 13.7k, from 426.0k to 439.7k) and Public administration (by 11,4k, from 333.0k to 344.4k). The only sectors with a reduction in salaried employees were those of Financial - Insurance Activities (-3.2k, at 73.4k), Supply of Electricity-Natural gas-Steam-Air Conditioning (-1.9k, at 28.3k), Arts-Recreation-Entertainment (-0.8k, at 40.5k in the first nine months of last year) and Other services (-0.5k, to 5.51k).

After the presentation of trends in salaried employment, the analysis of wage costs, at the same level of sectoral activity, follows. The wage compression index is derived from the ratio of the minimum wage to the average salary for full-time employment. The calculation of the average wage for full-time employment by industry was based on data from ELSTAT and from the IT system ERGANI. In particular, from the ERGANI system we extracted data on the average salary of full-time employees, by sector of activity, in 2017. From ELSTAT, we received data on the wage cost index, by sector of activity, quarterly, for the years 2017, 2018 and the first three quarters of 2019. With these data, we estimated the percentage change in wage costs for the periods 2017-2018 and the first nine months of 2018-2019.

With these estimates and the wage data from the ERGANI system, we calculated the average wage of full-time employees, by sector, in the first nine months of 2019. With the specific estimates and the new minimum wage, as of 01/02/2019, we calculated the average wage compression index for the first three quarters of 2019, at the level of the one-digit NACE Rev.2 sector (column 6, Table 3.12).

The highest ratio of minimum-to-average wage for full-time employment in the first three quarters of 2019 was estimated in Construction sectors (76.1%), Accommodation - Food Services (69.4%), Administrative-Support Activities (65.6%), Other Services (64.7%), and Wholesale-Retail Trade (59.8%). By contrast, the lowest ratio of minimum-to-average wage for full-time employment was observed in Electricity - Gas (27.6%), Financial - Insurance Activities (33.1%), Transport-Storage (35.0%), Information-Communication (37.2%) and Public Administration-Defence (40.0%).

Following the calculation of the wage compression index, we examine recent developments in employment in the light of this feature and the trends in current activity per sector.

In detail, sectors with the highest absolute increase in employment of salaried employees in January-September 2019 include sectors with a high value in the wage compression index, such as Accommodation - Food Services (Tourism) and Wholesale-Retail Trade, and a level close to its median (Manufacturing, columns 4-6, Table 3.12). However, it is quite likely that most of the jobs in Tourism came from the expansion, for another year, of the industry's activity, since in that period international travel receipts were higher year on year by €2.0 billion or 14.1%, at €16.1 billion. This sector is at the same time one of the most open sectors of the Greek economy, which highlights the importance of demand from abroad. In Manufacturing too, activity was slightly higher over the first nine months of last year, thanks to a significant increase in demand from abroad (up by 2.0% in the production index and by 9.3% in the exports of industrial products). In Wholesale-Retail Trade, the employment of salaried employees increased, although activity slightly declined or stagnated. The seasonally adjusted turnover in Wholesale Trade fell in the first nine months of 1.6% and in Retail trade increased by 0.5%.

However, there are also sectors with significant employment growth last year and a low or moderate wage compression rate, such as Transportation-Storage, Public Administration-Defence and Education. The increase in employment in Transportation–Storage is probably due to the increase in turnover over the first nine months of last year in all individual activities (water transport, air transport, storage), from 1.3% to 5.9%, with the exception of Land Transport – Transportation by Pipeline (-2.2%). This sector is also among the export-oriented sectors, with a significant increase in international revenues in January-September of last year (by 5.5%). In Public Administration-Defence-Compulsory social security, output (gross value added of production) declined marginally (-0.6%). However, the characteristics of this sector's services (non-marketable) and its employment relationships limit the correlation of employment with the trend in its activity.

Table 3.11

Absolute and percentage change in the sectoral employment of salaried employees and full-time wage compression index

Sector of activity (NACE Rev.2)	Jan. - Sep. 2018 (thous.)	Jan. - Sep. 2019 (thous.)	Absolute change (thous.)	Percentage change (%)	Wage compression index
A. Agriculture-Forestry-Fishing	45.0	50.8	5.8	12.8%	61.9%*
B. Mining-Quarrying	10.8	12.1	1.3	12.1%	41.2%
C. Manufacturing	283.7	301.2	17.5	6.2%	51.1%
D. Electricity, Gas, Steam and Air Conditioning Supply	30.1	28.3	-1.9	-6.2%	27.6%
E. Water Supply; Sewerage, Waste Management - Remediation Activities	31.4	32.1	0.8	2.4%	52.5%
F. Construction	86.5	89.4	3.0	3.4%	76.1%
G. Wholesale - Retail Trade	426.0	439.7	13.7	3.2%	59.8%
H. Transportation - Storage	126.3	142.9	16.5	13.1%	35.0%
I. Accommodation - Food Service Activities	251.3	276.1	24.8	9.9%	69.4%
J. Information - Communication	85.9	91.3	5.4	6.3%	37.2%
K. Financial - Insurance Activities	76.6	73.4	-3.2	-4.2%	33.1%
L. Real Estate Activities	2.5	2.8	0.3	10.5%	47.8%
M. Professional - Scientific - Technical Activities	93.0	97.4	4.4	4.7%	48.5%
N. Administrative - Support Service Activities	70.4	75.0	4.6	6.5%	65.6%
O. Public Administration - Defence; Compulsory Social Security	333.0	344.4	11.4	3.4%	40.0%
P. Education	272.1	291.1	18.9	7.0%	49.9%
Q. Human Health - Social Work Activities	196.4	198.5	2.0	1.0%	55.4%
R. Arts - Entertainment - Recreation	41.3	40.5	-0.8	-1.9%	53.7%
S. Other Service Activities	52.0	51.5	-0.5	-1.0%	64.7%

* Index values for 2017, due to lack of wage cost data on the 2017 - 2019 trend

Sources: ELSTAT, ERGANI, Data processing: IOBE

The sectors with a fall in employment include a number of activities with high wage compression, such as Other Service Activities and Arts-Entertainment-Recreation (columns 4-6, Table 3.12). In the second of these sectors, the value added of production was 2.4% higher than the year before. However, the other two sectors with a fall in employment in 2019 (Financial-Insurance Activities, Electricity-Natural Gas) have the lowest wage compression index prices. However, in the first of these, value added decreased by 8.7% in January-September last year, while in the second the production index dropped by 2.0%, so it is likely that developments in their employment are mainly due to the trend in their activity.

Therefore, the data on sectoral employment in January-September last year show a variety of trends and effects. Its expansion is mainly in sectors with an increase in activity and vice versa.

In addition, some of the most export-oriented sectors of the Greek economy or those with strong export growth in recent years are among the sectors with an increase in jobs. This feature highlights the importance of developments in the international environment not only for the recovery of the Greek economy, but also for the rapid decline of unemployment. More broadly, it highlights the importance of a rapid transition to a new model of development, which will be based more on exports. Wage costs do not appear to be as important a factor in employment developments at sectoral level as the trend in production and exports. However, obviously it defines it to some extent, not only directly, but also indirectly, as it affects the international, structural competitiveness of the sectors.

Medium-term outlook

The year-on-year decline in unemployment in the third quarter of 2019 came, as in the previous quarters, mainly from the sectors of Tourism, Transportation - Storage, Manufacturing and Education. The only difference compared to the previous quarters is the ranking in terms of the sectors with the strongest employment expansion, with Education descending from first to fourth place and Tourism from second to third. These sectors are estimated to have made the greatest contribution to the expansion of employment and subsequently to the decline in unemployment at the end of last year too. By contrast, despite the steady significant growth in activity in the construction industry, its employment trend remained negative throughout the past year. Most of these trends will probably determine the trend of unemployment in 2020 as well. Possibly the impact of Construction will turn from negative to positive. Also, employment in education will not continue to expand, at least not to the same extent as last year.

Regarding Tourism, the international tourism receipts increased strongly year on year in October-November 2019, by 41.8% or €476.8 million, faster than in the corresponding period of the previous year. The data on international airport arrivals for the final quarter also point to growth of activity, up by 8.4% or 2.6 million people (source SETE). Therefore, a significant part of the expansion of employment in the sector in the first three quarters of 2019 will be maintained in this period. For 2020, there is currently no information and indications in order to make confident predictions regarding the course of international tourism and its revenues. Probably, the trend will be positive in both, due to ongoing geopolitical and military tensions in competing tourist destinations (e.g. Turkey, Syria, Libya).

Revenues from international transportation slightly increased in October - November, by 2.0%, considerably weaker than in the previous nine months of last year. Therefore, perhaps part of the strong growth in employment in the sector earlier in 2019 will carry over to its final quarter. The projected strengthening of world trade growth this year, according to the latest reports of international organisations (IMF) and the investments made in recent years in the Piraeus Port Authority, boosting its capacity and upgrading the services provided, is expected to stimulate commercial traffic in 2020, with positive effects on the employment of the Transportation - Storage sector.

In Manufacturing, although the industrial production index (with seasonal adjustment) declined in the first eleven months of 2019 by around 1.0% year on year, the exports of industrial products increased at the same time by 8.1% or €1.02 billion, reaching €13.66 billion. Therefore, there was a restructuring of sales in terms of their destinations, since they were absorbed to a greater extent by the foreign markets, a development that probably contributed to the increase in jobs. The increase in foreign demand is likely to continue this year, due to the acceleration of the growth in international trade mentioned above.

Regarding the contribution of the State to employment this year, this will come from recruitment in education, health, public security, national defence, local government and Ministry of Finance services, as well as temporary employment in the public sector through OAED, e.g. in community-benefit projects. With regard to the public-benefit programmes, four new programmes concerning municipalities (36,500 beneficiaries), public sector agencies (2,000 beneficiaries), fire protection (5.000 beneficiaries) and unemployed graduates (5.500 beneficiaries) are expected to be launched in 2020. With regard to education, the recruitment of 2,266 substitute teachers was recently announced, to fill vacancies in Primary and Secondary education, both for special-needs and general education. Also, a tender was launched in January for the recruitment of 400 permanent border guards to strengthen security in Evros, while in the coming period a new tender for the recruitment of further 800 guards will be launched, with fixed-term contracts to be renewed annually, to guard the islands of the North and South Aegean. Meanwhile, the recruitment of 2 000 professional soldiers in the armed forces in the first quarter of this year will be announced, while the Joint Ministerial Decision on the recruitment of 2,000 short-range soldiers has already been signed. Finally, within the coming period, the Ministry of Internal Affairs is expected to announce the recruitment of 2,900 permanent employees in municipalities and regional bodies, under the program “Help at home”, and the Ministry of Finance for 270 customs officials who will staff the Independent Authority for Public Revenue.

Unlike last year, the Construction sector is expected to have a positive contribution to employment this year. The recent reduction of ENFIA and the suspension of VAT on new buildings for three years from the beginning of 2020 will boost construction projects. However, the biggest stimulus to Construction in 2020 will come from works in concessions and privatisations (Hellinikon, Piraeus Port Authority, Athens International Airport, regional airports, etc.), boosting job creation.

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

A forthcoming development, which concerns the vast majority of sectors and will favour employment, is the reduction from 1 July of the social security contributions of full-time workers by 0.9 percentage points. It will concern contributions to OAED-OEE-OEK and will be distributed almost equally among employers and employees. Employers' contributions will be reduced by about 0.5 p.p., while labour contributions will decline by 0.4 p.p.

In view of the above current and expected trend, the IOBE estimate for the annual unemployment rate for 2019 is revised marginally up from the previous report to 17.4%, from 17.2%. The negative trend in unemployment will carry over to this year, resulting in an average rate of 15.5%, or perhaps slightly lower than that.

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

In Industry, the average balance of -4 points of the previous quarter increased by 6 points in the final quarter of 2019. Compared to the preceding year, the average quarterly index increased marginally by 1 point. In the examined quarter, the percentage of industrial firms that expected a drop in employment in the coming months stood at 17%, while the percentage of those expecting employment growth increased to 20% (from 11%). The vast majority of businesses in the sector (63% from 75%) were expecting employment to remain unchanged.

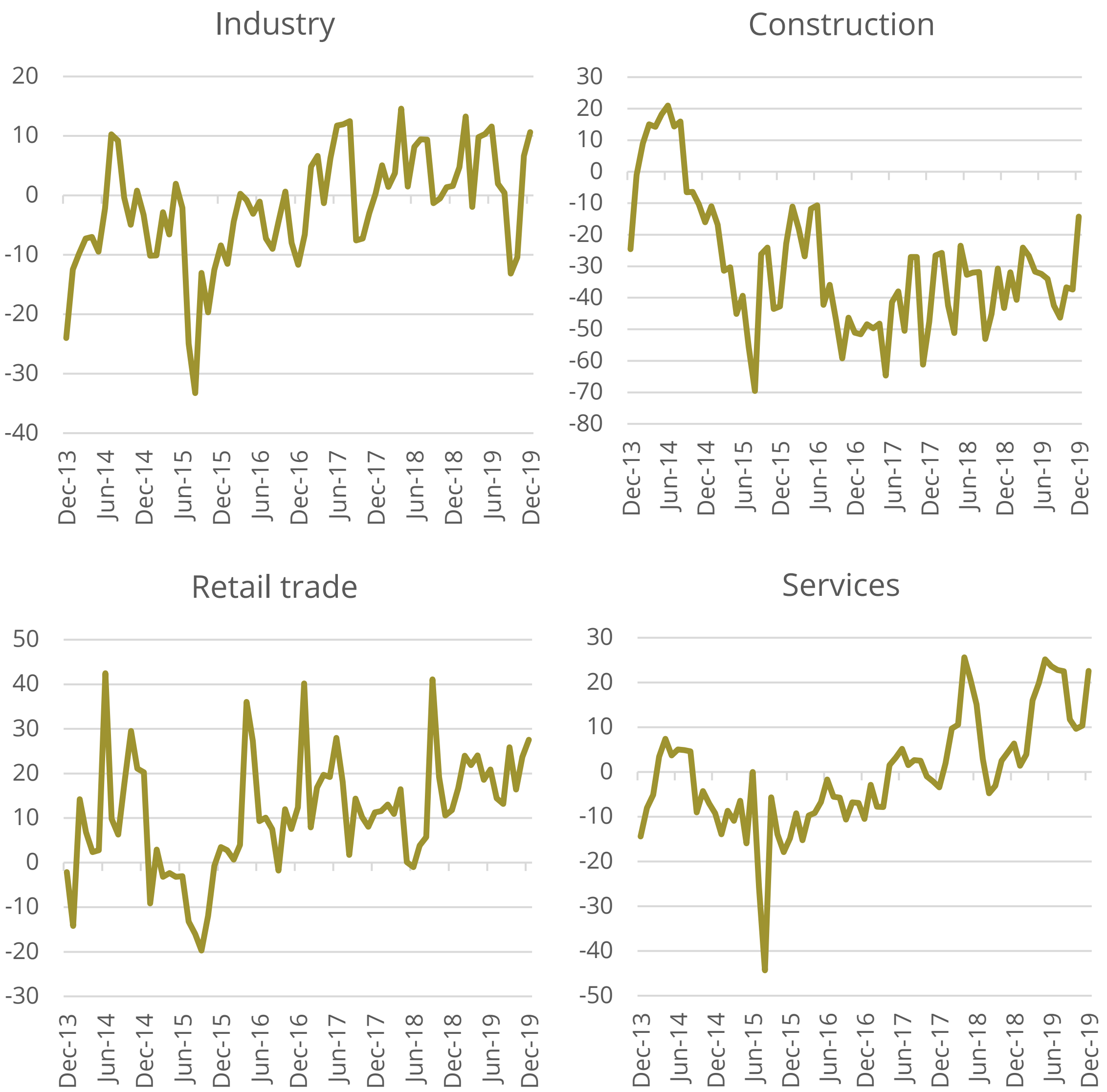
In Construction, the balance of employment expectations strengthened from an already low level, to -29 (from -41) points, at a slightly higher level compared to the same period of 2018 (-40 points). In the final quarter of 2019, 49% (from 51%) of the businesses in the sector were anticipating further job losses, while 20% (from 10%) of the respondents were expecting employment growth. At the sub-sector level, the notable increase of the index in Private Construction (-16 from -36 points) was accompanied by a weaker growth, from a much lower level, of the index in Public Works (to -41 from -44).

The employment outlook indicator in Retail Trade strengthened slightly quarter on quarter in the final quarter of the year, to 23 points. In addition, the index was quite higher year on year (by 9 points). About 2% (from 3%) of the firms in the sector were expecting job cuts, while 25% (from 21%) were anticipating employment growth, with those expecting job stability taking up 73% (from 75%) of the total. In the constituent branches, the employment expectations indicator strengthened in all branches except for Department Stores, where it declined.

Services are the only sector where employment expectations lost ground compared to the previous quarter, even though year on year they recorded strong gains. In particular, the balance of 19 points from the previous quarter declined in the quarter under examination to 14 points, while year on year it increased by 10 points. About 9% of the companies in the sector were expecting a drop in employment, while the percentage predicting an increase stood at 24% (from 23% in the previous quarter). At the subsector level, the trend was positive in IT Services and Various Business Activities and negative in all the other examined branches of services.

Figure 3.12

Employment expectations (difference between positive and negative responses)



Source: IOBE

In the final quarter of 2019, the short-term employment expectations strengthened quarter on quarter in all sectors except for Services.

3.5 Consumer and Producer Prices

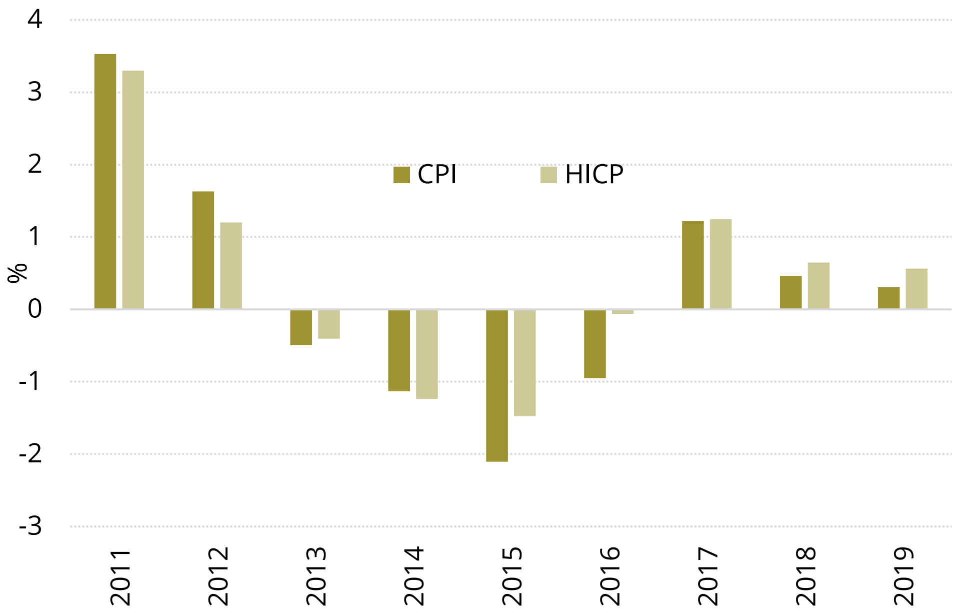
- Inflation of 0,3% in 2019, against slightly stronger price increase in 2018 (0.6%)
- Negative impact from indirect taxes and energy products on prices in 2019
- The rate of change of CPI with constant taxes and excluding energy reached 1.3% in 2019, from 0.5% in 2018, reflecting a boost from rising domestic demand
- For 2020, expected inflation rate in the region of 0.3-0.6%, mostly due to stronger demand

Recent Developments

In 2019, the rate of change of the domestic Consumer Price Index (CPI) strengthened for the third year in a row. In particular, CPI increased year on year by 0.3% in 2019, compared to a slightly stronger change, by 0.6%, in 2018. Furthermore, the Harmonised Index of Consumer Prices (HICP) increased by 0.5% in 2019, against an increase by 0.8% in 2018 (Figure 3.13). In December 2019, the annualised price change based on the domestic CPI stood at 0.8%, against a slightly lower positive change, by 0.6%, in the same month of the preceding year.

Figure 3.13

Annual change in the domestic CPI and the HICP in Greece



The growth of the CPI continued to weaken in 2019. Up by 0.3%, against an increase by 0.6% in the previous year και 1,1% το 2017

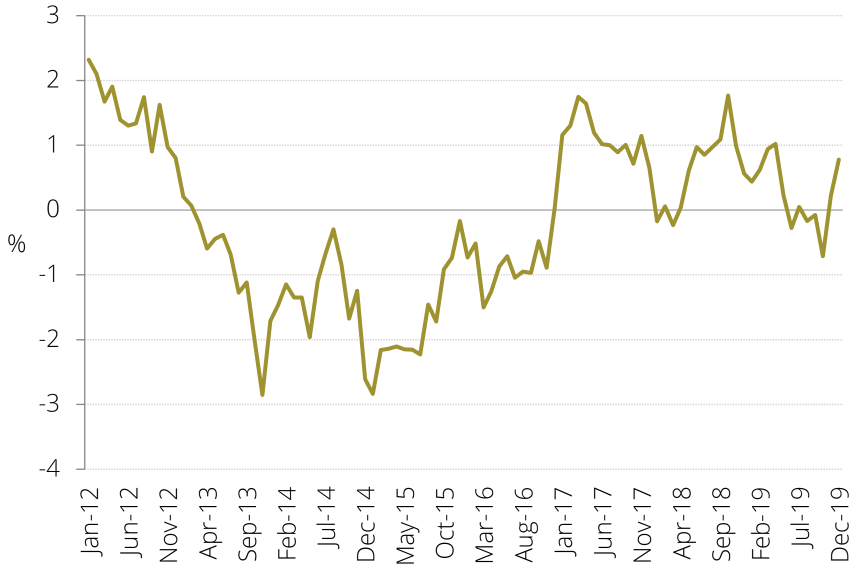
Source: ELSTAT, Data processing IOBE

Examining the factors that impact CPI, it seems that its small increase in 2019 largely stemmed from a domestic demand, as the change of the general index with constant taxes and excluding energy goods stood at 1.3%, much higher than the change of the overall index. Note that in 2018, this indicator had increased at a notably weaker rate, by 0.5%, while prices excluding energy and taxes increased for the second year in a row, after six consecutive years of decline (Figure 3.15).

Figure 3.14

CPI in Greece (annual percentage change per month)

Positive and growing change in prices in December 2019, at the highest level in the last eight months (+0.8%).



Source: ELSTAT, Data processing IOBE

Taxation seems to have had a negative impact on price changes in 2019. In particular, the impact of indirect taxes on the annual changes of the HICP in 2019 stood at -0.8 percentage points, compared to marginally positive impact, by 0.1 p.p., in 2018 (Figure 3.15).

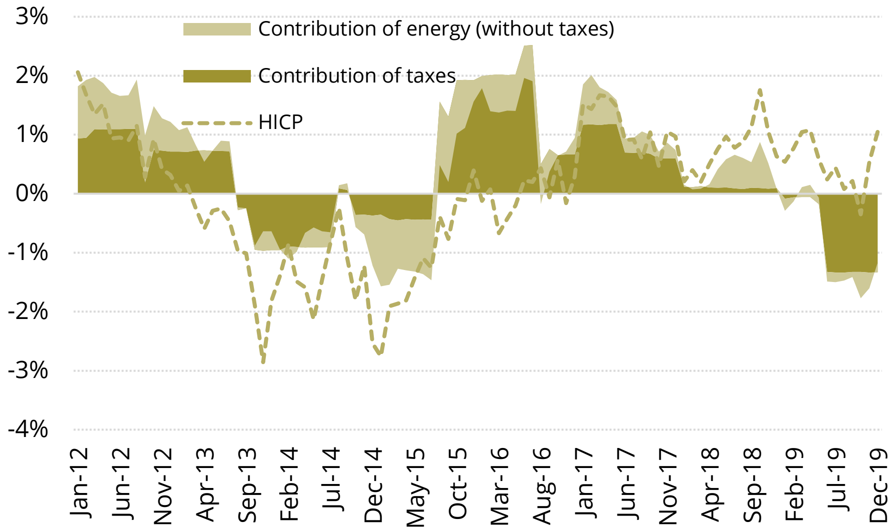
As to the impact from energy goods on CPI, international oil prices declined year on year in 2019. However, the continuous weakening of the euro-dollar exchange rate between early July and October partly offset the fall in international oil prices. In particular, the average Brent oil price stood at $64.3/barrel in 2019, from $71.2/barrel a year earlier, down by 9.6%.[39] However, the lower rate of the euro against the dollar over the same period, by 5.2%, at 1.12, from 1.18 in 2018, moderated the decrease in oil prices. As a result, the international oil price in Euros averaged €57.4/barrel, 4.8% down year on year. The fall in the oil price, which is a key driver of the energy cost, explains the marginally negative impact of the prices of energy goods on the rate of price change domestically in 2019 (-0.1%).

The HICP percentage change in Greece in 2019 was lower than the Eurozone average, at 0.5% against 1.2%, the second lowest rate in the Eurozone, slightly higher compared only to Portugal (0.3%). The price rise was slightly higher in Cyprus and Italy (0.6% in both), while in Denmark it reached 0.7%. Domestic demand was the key inflation driver in the Euro area as well, as the price index excluding taxes and energy goods increased by 1.1%, same as a year earlier.

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

Figure 3.15

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



Negative impact of taxes on prices in 2019, by 0.8 p.p., compared with marginally positive effects a year earlier

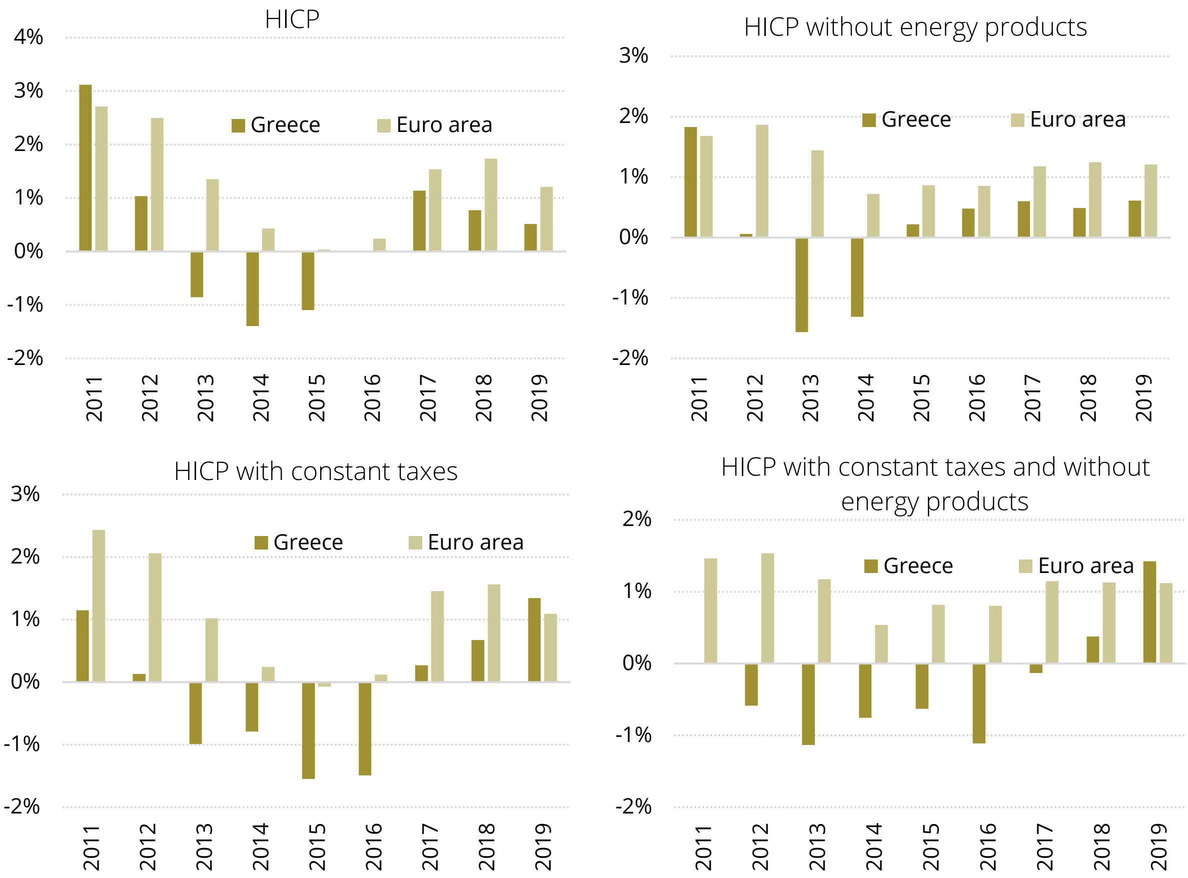
Source: Eurostat, Data processing IOBE

Regarding the trends in the individual categories of goods and services that comprise the Consumer Price Index, the largest increase in prices in 2019 was recorded in Communications, by 3.6%, against a milder increase by 2.9% in 2018. Transport and Healthcare came next, with notably lower price growth, by 1.4% in both categories, against 2.7% and 0.5% respectively in 2018. Prices in Alcoholic Beverages-Tobacco and Hotels also increased, by 0.7% and 0.5% respectively, compared with an increase of 2.6% and 1.2% in 2018. By contrast, the greatest price reduction took place in Durable goods, household equipment - miscellaneous goods and services and Recreation, by 1.7% in both, against deflation of 1.6% and 1.1% respectively in the previous year. There was a downward trend in Clothing - Footwear and Education by 0.6% and 0.4% respectively, following a decline of 0.8% and 0.1% respectively in 2018. In Other goods and services, prices recorded a 0.7% decrease from a fall of 1.2% the year before. Prices in Housing and Food Products declined marginally, by 0.1% in both categories, compared with a positive price change by 0.4% and 0.1% a year earlier.

Regarding the price trends on the production side, the Producer Price Index (PPI) of the domestic and foreign markets as a whole remained almost unchanged year on year in the first eleven months of 2019, after two years of continuous growth. In particular, the PPI excluding energy increased marginally again, by 0.1%, by a similar rate as a year earlier (0.2%). In terms of the trends in the categories of industrial products, the strongest inflation was recorded in Electricity – Natural Gas – Steam and Electrical Equipment, by 4.6% and 3.9%, respectively, against stability and reduction by 0.8% respectively in the first eleven months of 2018. Milder price rise was recorded in Tobacco Products (1.9%), against 0.7% decline a year earlier. By contrast, producer prices declined strongly in Coal and Lignite, following their slightly weaker reduction a year earlier (-5.2% from -4.7%).

Figure 3.16

Annual HICP change in Greece and the Euro area



Source: Eurostat, Data processing IOBE

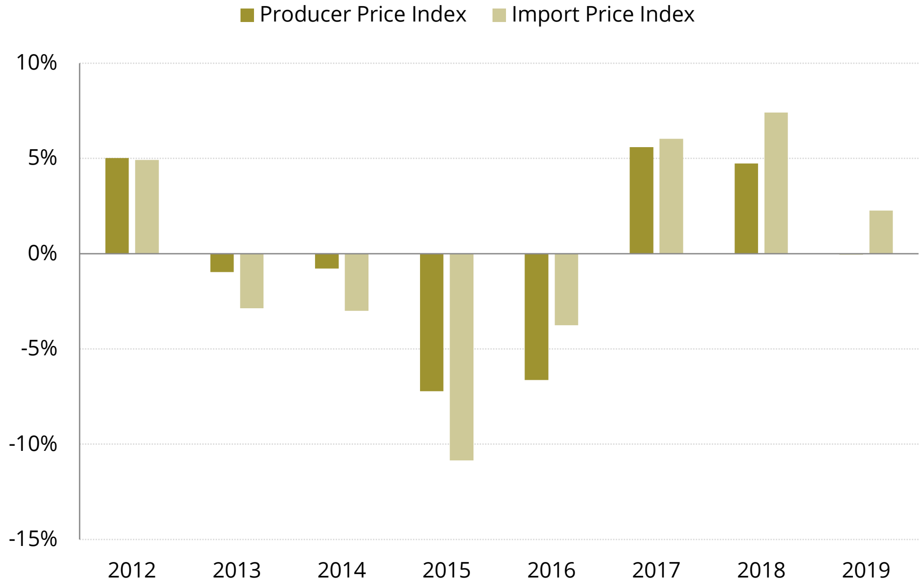
Higher domestic prices in 2019, solely due to stronger demand, with positive contribution 1.3% from 0.5% in the previous year.

Regarding imports used as inputs for production, the overall Import Price Index (IPI) posted notably weaker growth year on year in the first eleven months of 2019, at 2.3%, against 7.4% a year earlier. The corresponding indicator in the Euro area remaining unchanged, against an increase by 2.7% in the corresponding period of 2018. As a result, Greece topped the ranking of the countries with the largest increase amongst the ten Eurozone countries with available data for this period, followed at a distance by Spain (0.3%). On the other end of the spectrum is Slovakia, with a retreat of 2.4% and at slightly weaker levels of retreat in Lithuania and the Netherlands, with a change of -1.6% and -1.4%, respectively in the first 11 months of 2019. Note that in January - November 2019, the changes in import prices in the Euro area countries, either positive or negative, were weaker than in the same period of the previous year. The slight differences in IPI inflation between countries reflect the varying degrees of use of energy products, as well as the size of trade with countries outside the Euro area.

Looking at the trends in individual categories of imported goods, the largest increase in January–November 2019 was recorded in Electricity Supply, by 11.6%, against 14.5% a year earlier, while the price growth was notably weaker in Refined Petroleum Products, by 2.1%, against much stronger rise a year earlier (25.9%). Prices also increased in Clothing and Metal Products, by 1.4% and 1.1% respectively, against an increase by 0.9% and 0.2% in the same period of 2018. By contrast, the largest drop in import prices was recorded in Basic Metals, by 1.8%, against an increase in the first eleven months of 2018 (3.2%), and in Mining of Coal-Lignite, by 1.0%, against 1.4% decline a year earlier.

Figure 3.17

Annual change of PPI and IPI in Greece (January – November)



Rising import prices, for a third consecutive year, mainly due to impact from the prices of energy commodities. Constant producer prices in 2019

Source: ELSTAT, Data processing IOBE

Medium-term outlook

As evident from the analysis of the trends in the key components of CPI in 2019, the increase of CPI came solely from a boost of domestic demand. Indirect taxation and energy goods had negative effects last year. Inflationary pressures from indirect taxation and energy products are not expected for 2020, while domestic demand is anticipated to continue to boost prices.

In greater detail, the May 2019 fiscal interventions (reduction of VAT in Food Services from 24% to 13%, transfer of foodstuffs from the 24% rate to the low rate of 13%, and reduction of VAT on electricity and natural gas from 13% to the super-reduced rate of 6%, for businesses and households) will have a deflationary effect until a year has been completed since their imposition that is almost throughout the first half of 2020. These effects, as in the second half of last year, will be exercised in the CPI categories of Food, Housing, and Hotels – Cafes – Restaurants, which include the goods and services affected by the reductions in indirect taxes. The three-year suspension of VAT on buildings constructed after 01/01/2006 is expected to have a secondary effect on the prices of products and services related to construction activity. In addition, following the rise in migration flows from Turkey, the VAT discount for five islands in the North-East Aegean, was re-extended until the end of 2020. The 2020 budget included a reduction in indirect taxation on specific products (reduction of VAT from 24% to 13% on childcare products, child seats and motorcycle helmets), which do not have a significant impact on the CPI and therefore on inflation. Hence, for the time being, indirect taxation has no inflationary effects in the current year.

The new measures of lower direct taxation and contributions of households in the 2020 budget (reduction of the entry tax rate from 22% to 9%, a reduction by one percentage point in the coefficients of the remaining brackets, reduction of social security contributions by 0.9 percentage points from 01/07/2020, tax relief for the self-employed) will strengthen to some extent real incomes and thus consumption demand, resulting in a positive impact on the consumer price index. Other interventions announced for this year that are to be carried out during the year (reduction of ENFIA by 10% to 30%, reduction of the solidarity levy) will also provide a boost to demand in 2020. The further decline of unemployment in 2020, at a similar rate as in 2019, will also boost household demand and thus prices.

As to the trends in energy cost, last December OPEC and its partner countries, most notably Russia, agreed to continue to limit the daily oil production until March 2020. [40] However, as mentioned in the previous subsection, the limitation of production throughout the previous year did not result in a higher year-on-year oil price on average. Recently, oil prices (Brent) reached $67.1/barrel in December 2019, up year on year by 17.7% (from $57.0/barrel), while in November 2019 they rose by 6.2% ($63.2/barrel). The price increases in December partly reflect market expectations that world economic conditions in 2020 will be better than initially anticipated and that a possible trade agreement between the United States and China will be signed in January this year, which eventually took place in mid-month. Events in Iran in December, which increased uncertainty about possible disruptions of oil production in the Middle East, as well as internal instability and geopolitical disturbances in the region of Libya, with the stability of oil production in that country uncertain, exerted positive pressure on prices.

Strong growth of the US oil production since last year will continue to counteract the rise in oil prices. The oil-producing companies in the Gulf of Mexico are pumping large quantities of oil and do not intend to limit their production, even if oil prices fluctuate at low levels.

However, in the Eurozone, the deflationary impact of lower oil prices will be moderated by lower year on year euro/dollar exchange rate. This effect will probably carry over much weaker in 2020, as the exchange rate is expected to decline only slightly.[41] According to the European Central Bank, the euro/dollar exchange rate for 2020 is expected to stand at 1.10, from 1.12 last year.[42]

In addition to the factors that mostly shape oil production, the price trend will depend on the course of the world economic activity and global trade. According to the latest projections by international organisations, the growth rate of the world economy will reach 3.3% in 2020, against 2.9% in 2019, its lowest rate since 2008-2009.[43] The slight uptick reflect the lingering uncertainty regarding the robustness of the recovery of the world economy, mainly due to developments in the most developed economies, with growth in the US slowing down, the growth dynamics in the Eurozone being anaemic and the UK entering the unprecedented process of exiting the EU.

[40] *www.eia.gov*
[41] *https://www.ecb.europa.eu/pub/projections/html/index.en.html*
[42] *ibid.*
[43] *Source: World Economic Outlook, IMF, January 2020*

Conversely, the slowdown in the manufacturing sector in the Eurozone will have an effect on economic activity, as the disruptive effects of the automotive industry weaken, and world trade growth strengthens. In addition, the recent US-China agreement is expected to boost expectations and reduce the negative impact of trade tensions on world GDP by the end of 2020, from 0.8% to 0.5%.[44] Finally, the return to accommodative monetary policy by the largest central banks, albeit milder than prior to 2018, is expected to have a positive impact on investment and consumption.

Given the above, the price of oil for 2020 is projected to reach $65/barrel, marginally up by 1.1% from the previous year. The euro/dollar exchange rate will average 1.10 in 2020, marginally lower than in 2019. [45] As a result, the average price of oil in euro this year is expected to be €59.1/barrel, up by 2.9% compared to 2019, a development that entails mild inflationary pressures from the energy cost.

Taking into account all the above observations and trends, the rise in the domestic Consumer Price Index is expected to strengthen to 0.5%-0.8%, mainly due to a boost in domestic demand and a likely increase in energy prices. The effects of indirect taxes will be negative throughout the current year.

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

The quarter-on-quarter trends in price change expectations were mixed in the fourth quarter of 2019, as the balance of expectations declined in three sectors (Retail Trade, Services and Construction), marginally growing in Industry. Year on year, the price expectations indicator decreased marginally in Industry and increased in the remaining sectors. In greater detail:

In Industry, the price expectations indicator strengthened marginally quarter on quarter in the fourth quarter. In particular, the indicator increased by 1 point, to 0 points, 4 points lower than in the same quarter of the previous year. About 7% (from 6%) of the companies in the sector predicted a fall in prices in the upcoming period, while the percentage of those anticipating price growth increased to 7% (from 5%), with the remaining 87% (from 88%) expecting price stability. Overall in 2019 compared to 2018, the relevant index averaged 1 point (from 3).

In Retail Trade, the balance of price expectations of 8 points in the preceding quarter, declined by 1 point, yet remaining 7 points higher year on year. About 3% (from 4%) of the companies in the sector were expecting a fall in prices in the short term, while the percentage of those forecasting price growth decreased marginally to 10%, with the remaining 86% (from 85%) of the businesses expecting price stability. At the branch level, the price expectations declined strongly quarter on quarter in Food-Beverages-Tobacco, and to a lesser degree in Motor Vehicles – Spare Parts and Household Appliances, increasing in the remaining branches.

In Services, the average price expectations indicator slightly decreased quarter on quarter in the examined quarter, from 0 to -4 points, to slightly lower levels year on year (from -3 points). In the

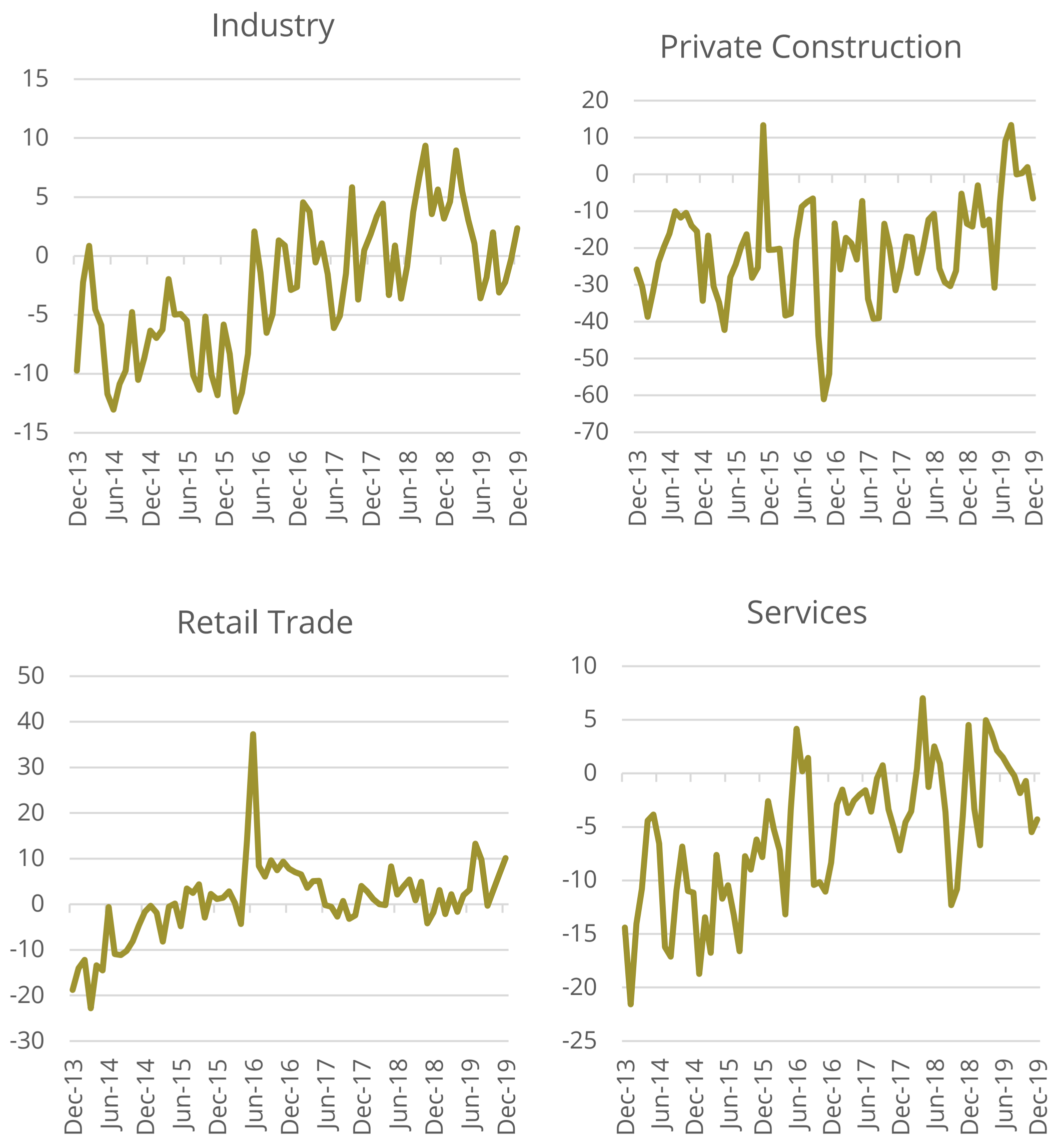
[44] *Ό.π.*

[45] *https://www.ecb.europa.eu/pub/projections/html/index.en.html*

current quarter, 10% (from 5%) of the companies in the sector were expecting a fall in prices, while 6% (from 5%) were expecting an increase. At the branch level, the indicator declined in Hotels – Restaurants - Travel Agencies and Land Transport, remained unchanged in Financial Intermediaries and in Various Business Activities, and strengthened in IT Services.

Figure 3.18

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



Source: IOBE

The trends in price change expectations were mostly negative in the final quarter of 2019, as the balance of expectations declined quarter on quarter in three sectors (Retail Trade, Services and Construction) and strengthened marginally in Industry.

Finally, in Private Construction, the positive balance of 7 points from the previous quarter declined notably to -1 points, while rising compared to the same period of the preceding year (from -15 points). Only 3% (from 1%) of the businesses in the sector were anticipating prices to decline, while the percentage of those expecting inflation fell by 6 points (from 8% to 2%), with 95% (from 92%) predicting price stability.

3.6 Balance of Payments

- Reduction of the Current Account deficit in January – November 2019, to €2.0 billion from €3.7 billion in 2018, due to stronger growth of exports than imports
- The increase of the surplus of the Services Account and the decline in the deficit of the and Incomes Account more than offset the increase in the trade deficit

Current account

In the first eleven months of 2020, the Current Account had a deficit totalling €2.0 billion, against a deficit of €3.7 billion in the same period of 2018. The deficit declined, as the increase of the surplus of the Services Account and the decline in the Incomes Account offset the increase in the trade deficit.

Regarding the trends in the individual components, the deficit of the Goods Account reached €21.2 billion, expanding by €538.8 million year on year. Exports totalled €29.7 billion, slightly down by 0.8% (€226.9 million),[46] against a strong increase by 17.4% in 2018. The exports of other goods increased (4.3%), while the exports of fuels declined (-11.3%). Imports also expanded marginally, by 0.6% (€311.9 million) to reach €50.9 billion, compared with an increase of 15.8% in 2018, which is an indication of the slowdown in the growth of both exports and imports in 2019. The deficit of the Goods Account excluding fuels and ships approached €16.2 billion, higher year on year by 1.8%, against growth by 7.0% in 2018. The deficit of the Fuels Account remained almost unchanged in the first eleven months of 2019, at €4.7 billion.

The surplus in the Services Account increased further, by €1.8 billion year on year, to reach €20.6 billion in the first eleven months of 2019, with an increase of both receipts and payments. In particular, total receipts from services amounted to €37.9 billion, up by 8.0% compared to 2018. At the constituent categories, the receipts from travel services reached €17.9 billion, up by 13.0%, against growth by 9.5% in 2018. Note that travel receipts are at their highest level for the 2002-2019 period, with a significant growth last year. In addition, the receipts from transport services increased by 4.3% to €15.9 billion, while the receipts from other services expanded by 2.7% to €4.1 billion. Total payments for services reached €17.3 billion in 2019, from €16.3 billion in 2018. Payments for travel services increased by 28.2% to €2.5 billion, payments for transport services increased slightly, by 2.7% to €10.4 billion, while payments for other services increased by 4.9%, to €4.4 billion.

The Primary Income Account deficit fell to €1.4 billion, from €1.6 billion in 2018. Revenues totalled €5.4 billion, lower year on year by 1.7%, while payments declined by 4.5%, to €6.8 billion. In greater detail, receipts from labour increased by 11.4% to €225 million, receipts from investments

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

strengthened by 3.7%, to €2.5 billion, while other primary income (subsidies and taxes on production) decreased by 7.2%, to €2.7 billion. Payments for labour increased by 4.1% to €1.3 billion, payments for investment decreased by 7.0%, to €5.1 billion, while those for other primary income increased by 3.4%, to reach €385 million.

The Secondary Income Account had a deficit of €54 million in the first eleven months of 2019, against a surplus of €271 million a year earlier, with receipts standing at €3.0 billion, from €2.0 billion in 2018, while payments totalled €3.0 billion, from €2.2 billion last year.

Capital Account

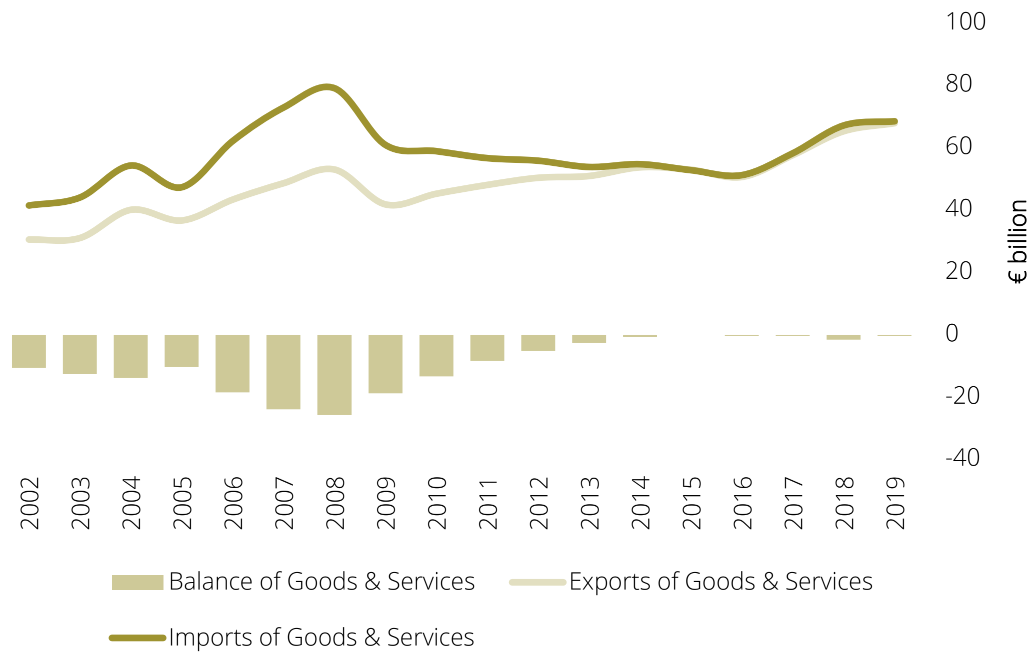
The Capital Account[47] was in a surplus in the first eleven months of 2019, at €464 million, against €387 million the year before, as receipts increased to €930 million, while payments rose to €467 million.

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 €1.6 billion, against €3.3 billion deficit in 2018.

Figure 3.19

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

Fall of the Goods and Services Account deficit, to €618 million, from €1.9 billion a year earlier

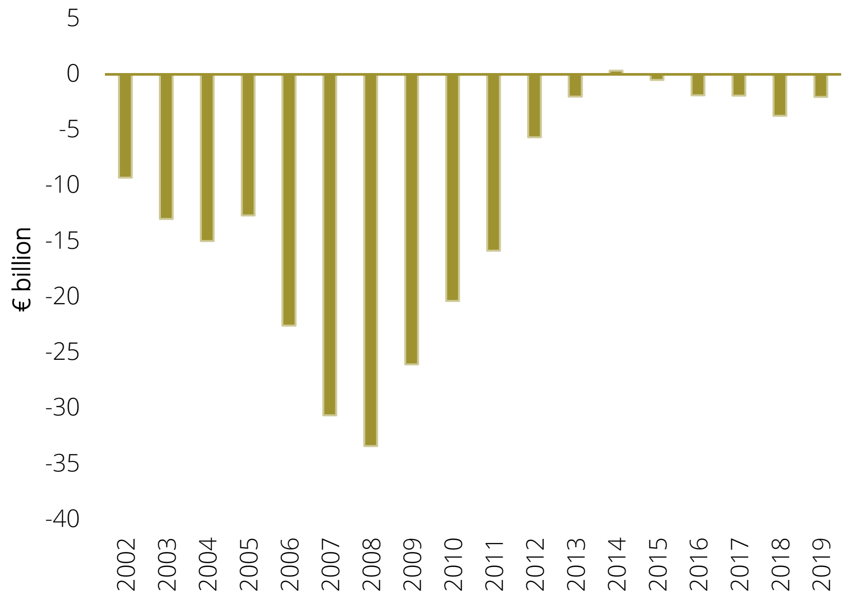


Source: Bank of Greece, Data processing IOBE

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

Figure 3.20

Current Account (January – November), 2002-2019

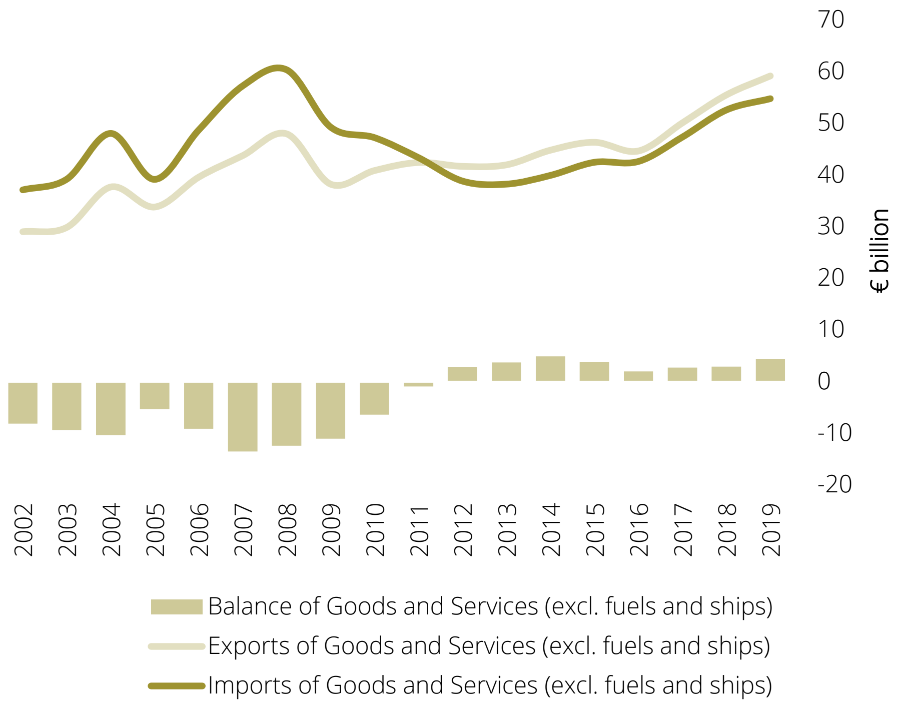


Decline of the current account deficit in the first eleven months of this year, by €1.7 billion, to €2.0 billion

Source: Bank of Greece, Data processing IOBE

Figure 3.21

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



Higher surplus of the Goods and Services Account excluding fuels and ships, by €1.5 billion, to €4.4

Source: Bank of Greece, Data processing IOBE

Financial Account

The Financial Account was in a deficit of €378 million in the first eleven months of 2019, compared to a much larger deficit of €2.3 billion in 2018.

In greater detail, the investments of residents abroad (net receivables of residents from direct investment abroad) increased by €469 million, while the investments of non-residents in the country (net liabilities to non-residents) strengthened by €3.4 billion.

In the category of portfolio investments, the claims of the residents to non-residents increased by €26.4 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills abroad increased. The liabilities to non-residents increased by €2.3 billion, due to higher placements of non-residents in domestic bonds and treasury bills.

In the category of other investments, the claims of residents to non-residents increased by €1.6 billion, with a net decrease of €5.5 billion in the deposits and repos of residents abroad. The liabilities increased by €19.8 billion, reflecting the reduction of the public and private sector debt to non-residents by €5.7 billion, which was offset by the increase in deposits and repos of non-residents in Greece by €25.5 billion (Including the TARGET account).

Finally, the Reserve Assets of the country totalled €7.3 billion at the end of November 2019, against €6.5 billion in November 2018.

Table 3.12

Balance of payments (€ million)

		January – November			November		
		2017	**2018**	**2019**	**2017**	**2018**	**2019**
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	**-1,912.7**	**-3,718.0**	**-2,032.0**	**-1,145.8**	**-1,446.0**	**-1,392.1**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-604.2**	**-1,863.3**	**-618.0**	**-969.3**	**-1,039.4**	**-1,144.2**
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	**-18,199.2**	**-20,666.0**	**-21,204.8**	**-1,456.1**	**-1,691.9**	**-1,683.2**
	Oil balance	-3,334.2	-4,716.5	-4,751.9	39.3	-294.7	-338.5
	Trade balance excluding oil	-14,865.0	-15,949.5	-16,452.9	-1,495.4	-1,397.3	-1,344.7
	Ships balance	-17.0	-55.3	-269.1	-3.9	-0.4	12.1
	Trade balance excluding ships	-18,182.3	-20,610.7	-20,935.7	-1,452.2	-1,691.5	-1,695.3
	Trade balance excluding oil and ships	-14,848.0	-15,894.2	-16,183.8	-1,491.5	-1,396.9	-1,356.9
I.A.1	Exports	**25,480.3**	**29,908.7**	**29,681.8**	**2,535.4**	**2,975.7**	**2,636.8**
	Oil	7,087.2	9,308.4	8,254.1	749.8	985.9	657.0
	Ships (sales)	94.0	129.7	83.7	12.7	3.3	21.3
	Goods excluding oil and ships	18,299.2	20,470.6	21,344.1	1,772.9	1,986.5	1,958.5
I.A.2	Imports	**43,679.5**	**50,574.7**	**50,886.6**	**3,991.4**	**4,667.6**	**4,320.0**
	Oil	10,421.4	14,024.9	13,005.9	710.5	1,280.6	995.5
	Ships (buying)	111.0	185.1	352.8	16.6	3.7	9.2
	Goods excluding oil and ships	33,147.2	36,364.7	37,527.8	3,264.4	3,383.4	3,315.3
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	**17,595.0**	**18,802.7**	**20,586.8**	**486.8**	**652.6**	**539.0**
I.B.1	Receipts	**31,822.6**	**35,062.1**	**37,876.0**	**1,812.8**	**2,176.6**	**2,162.9**
	Travel	14,440.2	15,813.4	17,862.7	228.7	316.3	313.8
	Transportation	13,258.9	15,210.2	15,867.4	1,223.1	1,466.6	1,430.5
	Other services	4,123.4	4,038.5	4,146.0	361.0	393.7	418.5
I.B.2	Payments	**14,227.6**	**16,259.4**	**17,289.2**	**1,326.0**	**1,524.0**	**1,623.9**
	Travel	1,740.2	1,941.7	2,489.3	128.0	163.0	226.4
	Transportation	8,669.3	10,095.7	10,371.9	823.8	996.4	972.9
	Other services	3,818.0	4,221.9	4,428.0	374.1	364.6	424.6
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	**-852.0**	**-1,584.1**	**-1,359.6**	**-104.1**	**-295.0**	**-200.2**
I.C.1	Receipts	**5,594.3**	**5,528.6**	**5,434.2**	**283.1**	**385.9**	**332.3**
	From work (wages, compensation)	200.2	201.6	224.5	16.7	20.8	19.3
	From investments (interest, dividends, profit)	2,891.7	2,449.3	2,538.9	193.6	276.7	224.3
	Other primary income	2,502.4	2,877.6	2,670.8	72.9	88.4	88.7
I.C.2	Payments	**6,446.4**	**7,112.7**	**6,793.8**	**387.2**	**680.9**	**532.5**
	From work (wages, compensation)	1,232.3	1,243.4	1,294.4	107.9	117.4	113.8
	From investments (interest, dividends, profit)	4,846.8	5,496.4	5,113.9	255.5	536.2	402.4
	Other primary income	367.3	372.9	385.5	23.8	27.3	16.2
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	**-456.5**	**-270.5**	**-54.5**	**-72.4**	**-111.7**	**-47.7**
I.D.1	Receipts	**1,754.5**	**1,975.0**	**2,953.0**	**106.8**	**132.8**	**164.7**
	General government	834.1	959.2	1,637.3	24.3	29.5	29.6
	Other sectors	920.4	1,015.8	1,315.7	82.5	103.3	135.1
I.D.2	Payments	**2,211.0**	**2,245.5**	**3,007.5**	**179.2**	**244.4**	**212.4**
	General government	1,577.0	1,537.4	1,708.3	134.9	154.9	91.9
	Other sectors	634.0	708.1	1,299.2	44.3	89.5	120.5
II	CAPITAL ACCOUNT (II.1-II.2)	**445.0**	**387.4**	**463.6**	**83.2**	**282.4**	**257.8**
II.1	Receipts	**606.0**	**860.4**	**930.1**	**92.9**	**314.3**	**276.9**
	General government	520.6	555.3	780.3	85.6	230.6	271.3
	Other sectors	85.3	305.1	149.8	7.3	83.6	5.5
II.2	Payments	**161.0**	**473.0**	**466.5**	**9.7**	**31.8**	**19.1**
	General government	2.8	3.9	4.4	0.4	1.5	1.0
	Other sectors	158.2	469.1	462.1	9.3	30.3	18.0
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-1,467.7***	***-3,330.6***	***-1,568.5***	***-1,062.6***	***-1,163.6***	***-1,134.3***
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	**-995.0**	**-2,326.4**	**-377.5**	**-946.7**	**-618.3**	**-781.8**
III.A	DIRECT INVESTMENT*	**-2,623.0**	**-2,770.1**	**-2,977.9**	**-137.1**	**-309.9**	**-131.6**
	Assets	150.2	361.9	469.5	72.3	51.6	129.5
	Liabilities	2,773.3	3,131.9	3,447.4	209.5	361.6	261.1
III.B	PORTFOLIO INVESTMENT*	**-9,741.8**	**-824.7**	**24,138.2**	**712.8**	**946.2**	**1,550.3**
	Assets	-9,930.4	659.2	26,420.1	1,627.8	133.7	695.9
	Liabilities	-188.6	1,484.0	2,282.0	915.0	-812.5	-854.4
III.C	OTHER INVESTMENT*	**11,300.8**	**1,298.4**	**-21,435.2**	**-1,478.3**	**-1,243.6**	**-2,181.5**
	Assets	-11,142.3	-5,926.9	-1,649.0	-1,820.9	-700.0	-687.4
	Liabilities	-22,443.1	-7,225.3	19,786.1	-342.5	543.6	1,494.1
	(Loans of general government)	5,511.7	19,976.7	-4,740.9	1.8	-15.2	-2,755.6
III.D	CHANGE IN RESERVE ASSETS**	**69.0**	**-30.0**	**-102.6**	**-44.0**	**-11.0**	**-19.0**
IV	BALANCE ITEMS (I +II +IV +V = 0)	**472.7**	**1,004.2**	**1,191.0**	**116.0**	**545.3**	**352.5**
	RESERVE ASSETS (STOCK)***				**6,471**	**6,507**	**7,295**

Source: Bank of Greece

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

4. Boosting savings and growth through the capital markets

- The Greek households record negative savings over a number of years
- Household savings can recover through social security reform and targeted tax incentives based on EU best practices
- Significant economic benefits are generated
  - New reserves of up to €99 billion to be invested in 40 years
  - Higher real GDP by €6.9 billion per year for the next 40 years
  - More full-time equivalent jobs, by 81k, and higher labour market participation by 1.5 p.p.
  - Higher liquidity in the capital market, which makes it more attractive to foreign savings

The definitive exit from the crisis and the recovery of the standard of living in Greece require significant new investments. In 2018, investments in fixed capital formation in Greece declined to just 11.1% of GDP, from 21%-26% before 2009 and compared to 21.0% on average in the Eurozone.

To cover the country's investment gap, it is necessary to mobilise more fully the domestic savings. Domestic savings create a necessary space for investment and a sustainable external balance.

Capital markets and banks link savings, investment, and growth. However, given the high rate of non-performing loans in Greece (41.2% at the end of 2018, compared to 3.8% on average in the Eurozone and 3.2% in the European Union), bank financing faces significant constraints. By contrast, there is considerable scope for increasing funding from the capital markets, as compared to other countries in Europe, but even more so, with other OECD countries, as capital markets are not being sufficiently utilised in Greece. In particular, the ratio of the market capitalisation to the value of bank lending in the private sector in 2016 was only 17.8% in Greece, compared with 72.1% on average in the Eurozone, 135 % in the OECD and 279 % in the US.

The aim of the study presented here was to highlight the prospects created for financing domestic investments through initiatives to strengthen the domestic capital market. In particular, the study examines the European experience in providing tax incentives for domestic private investment, develops a proposal to provide similar incentives in Greece, both through a reform of the social security system and through incentives for long-term investments in financial instruments with specific characteristics and assessing the benefits for the Greek economy from the implementation of the proposal.[48]

4.1 Characteristics of savings in Greece

Household savings declined sharply during the Economic Adjustment Programmes, from €16 billion or 9.0% of disposable income in 2009 to negative savings of €4 billion or 3.1% of disposable income in 2017. By contrast, household savings in the EU, which had increased with the global financial crisis in 2009 to 11.1% of disposable income, have steadied at around 9.0% of disposable income since 2011.

As a result of these trends, Greek households recorded the second lowest performance in the EU in 2017, higher only compared with Romania (Figure 4.1). The comparison with the EU average shows that Greek households have a systematic 'savings gap'. In the decade 2008-2017 the savings gap fluctuated at around 7.3 p.p. of annual disposable income on average (from 2 p.p. divergence in 2009 to 13 p.p. gap in 2017) and cumulatively reached €94 billion over this period.

The Greek households traditionally invested a large part of their savings in the real estate market and a very small part in capital market products. As a result, the size of Greek investments in transferable securities through institutional investors is among the lowest in the EU. In particular, the total assets of fund managers in Greece do not exceed 4.2% of GDP and the country occupies the penultimate position in the ranking, higher only than Bulgaria (1.4% of GDP). In contrast, in the

[48] *The study is available at the website of IOBE*

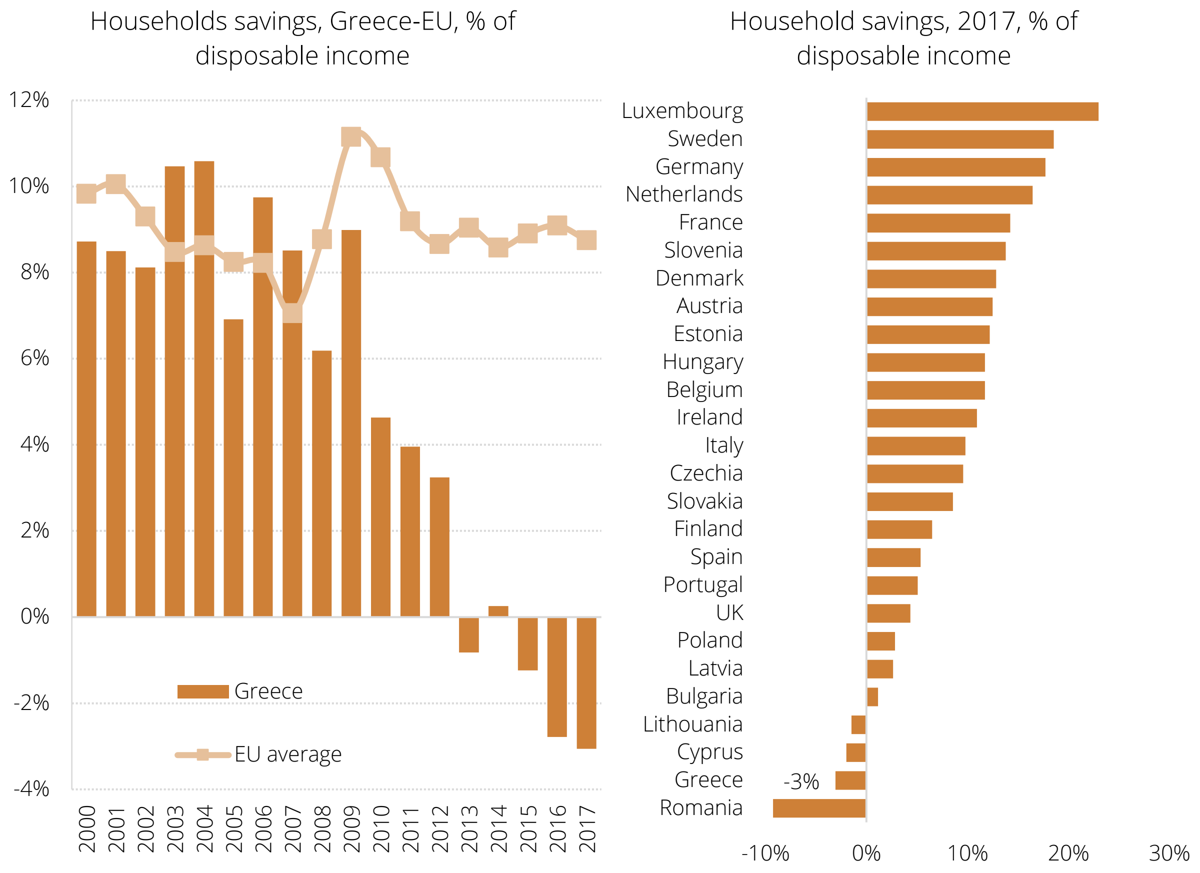
Netherlands and Malta, the assets of institutional investors exceed in size the GDP of the respective economies.

The small stock of assets of institutional investors in the country is also due to the distortions of the social security system. Greece remains near the bottom in terms of the size of the fully funded pillars of the social security system. In particular, the reserves of pension funds and insurance companies invested in the capital market account for only 8.0% of GDP, compared with 81.9% on average in the EU. In the relative ranking of EU member countries, Greece is in the penultimate position, slightly higher than Romania (6.2% of GDP).

Therefore, Greece faces a significant investment and savings gap. Sustainable economic recovery requires that these gaps are filled. In this context, it is particularly useful to examine international experience in the effort to strengthen savings and the capital market.

Figure 4.1

Household savings in EU countries



Source: Eurostat

4.2 Savings and capital market enhancement practices in Europe

The strengthening of the capital market, whether organised or not, has been recognised at European level as a crucial factor in mobilising savings and investments. In particular, General Block Exemption Regulation EU 651/2014 enables Member States to introduce measures to strengthen the financing of domestic investment by individuals in small and medium-sized enterprises (SMEs), without infringing the state aid ban within the EU single market.

Several Member States, such as the United Kingdom, France, Italy, Spain, Belgium, Luxembourg and Portugal, have already taken advantage of the possibilities offered by the exemption regulation by adopting measures to strengthen their capital markets. In particular, tax exemptions are granted to individuals investing, either directly or indirectly, through collective investment schemes, in transferable securities (shares or bonds) of domestic SMEs or start-ups.

For example, in Italy tax exemptions for the issue of bonds by listed companies were extended to bonds of non-listed companies in 2012, while in 2016 individual savings plans (PIRs) were introduced with tax benefits to individuals investing in long-term domestic securities. The tax benefits in Italy, as in France and Poland, include a reduction or exemption from taxation of dividends, interest and capital gains on eligible holdings, while in the United Kingdom the incentives take the form of a deduction of household income tax.

In order to provide incentives, specific eligibility criteria apply, such as the requirement for a long-term horizon of holdings, ranging from three (Poland) to five years (Italy, France and the United Kingdom). In some countries, such as Italy and France, the incentives are targeted at start-ups and SMEs. Eligible are placements both in the primary market and indirect investments through collective schemes (such as Mutual Funds).

4.3 Factors affecting household participation in the capital market

The effectiveness of tax incentives depends on the response of households. An econometric approach assessed the impact of tax treatment on household participation in investment, controlling for demographic and other factors. The data on the savings behaviour of households came from the SHARE database for health, ageing and retirement data in Europe. They cover a sample of 46,492 households from 17 European countries and Israel for the year 2016. Individuals over the age of 50 are included in the sample.

In the econometric analysis, a Probit model was estimated for the probability of a household participating in the capital market, as well as a Tobit model for its participation amount (Table 4.1). The results of the econometric analysis show that both the likelihood of a household's participation in the capital market and the level of participation increase with age, level of education, income and wealth, while they are reduced among people with health problems and the unemployed. The probability and level of participation are higher for households resident in countries with a developed capital market and higher average disposable income. As far as the impact of the tax burden is concerned, it is negative on both the likelihood of participation and the level of investment in the capital market. In particular, a 10% reduction in the tax burden for the average European household of the sample increases the likelihood of household participation in the domestic capital market by 0.937% and increases the level of holdings in the capital market by €15.900.

It is therefore appropriate to provide targeted tax incentives in order to stimulate savings on capital market products, combined with measures to promote financial literacy, as the level of education significantly affects household participation.

Table 4.1

Econometric estimates for household participation in the capital market

Variable	Probit	Tobit
Share tax (OECD)	-0.0937 ***	-1.5900 ***
Age	0.0104 ***	0.2157 ***
Age^2	-0.0001 ***	-0.0010 ***
Secondary education	0.0652 ***	0.9081 ***
Tertiary education	0.1149 ***	1.5805 ***
Health problems	-0.0335 ***	-0.4940 ***
Working	0.0139 **	0.1887 **
Retired	0.0236 ***	0.1306 ***
Low wealth (Q1)	-0.1246 ***	-2.5410 ***
Low net income (Q1)	-0.0579 ***	-0.7700 ***
Market capitalisation (% GDP)	0.0011 ***	0.0209 ***
Transactions-to-capitalisation ratio	-0.0007 ***	-0.0130 ***
Average disposable income (€ thousand)	0.0005 ***	0.0076 ***

Note: Other control variables examined include other income and wealth quartiles, marital status. ***, **, * indicate statistical significance at a level of 1%, 5% and 10% respectively.

Source: IOBE estimates

4.4 Proposed policy measures to boost savings in Greece

In order to cover the significant gap in savings and investments, tax incentives should be provided for private placements in domestic securities. The study assessed the impact of an indicative proposal to introduce incentives for private placement in mutual funds.

In the indicative proposal, the taxable income is reduced at a rate corresponding to a percentage of the cost of purchasing eligible domestic securities held for at least three years, (a) by 24% in the third year and by 8% for each additional year beyond the third year, for up to 12 years of holding for equity mutual funds and (b) by 12% in the third year and by 4% for each additional year beyond the third, for up to 25 years, for corporate bond and mixed mutual funds. A combined ceiling of maximum tax reduction of €6.000 per family per year and a maximum eligible investment of up to 40% of the total annual taxable income is set to limit the budgetary costs. The cap on the tax reduction for a person who is taxed at a marginal rate of 50% corresponds to (a) a placement in shares of €50k and declared income of €125k or (b) placement in corporate bonds or mixed mutual funds of €100k and declared income of €250k.

The indicative proposal creates reserves of up to €8 billion over a 40-year period (at constant 2016 prices). This result depends critically on the coefficient of foreign investment attraction and the long-term average real return on investments. If enhanced liquidity on the domestic capital market attracts more foreign capital than in the baseline scenario (e.g. 80% instead of 50%), new investments in the country may reach €10 billion cumulatively over 40 years. Similarly, if the average real return on investments reaches 3% instead of 2% in the base case scenario, the accumulation of new investments could exceed €10.5 billion.

The accumulation of investments has a positive effect on GDP. Using a dynamic stochastic general equilibrium macroeconomic model (GIMF), we estimated that the impact on GDP ranged from €900 million to €1.5 bn annually, over a 40-year horizon, depending on the average return on investments and the extent to which capital will enter from abroad. As a percentage of GDP, the annual impact in the baseline scenario totals 0.6 percentage points in the long term. In terms of employment, the proposed measures lead to a permanent increase in full-time equivalent jobs by 3.6k people.

As the proposal involves tax incentives, there are fiscal costs in terms of income tax revenues. The budgetary costs are rather small, estimated at 0.04% of GDP after the end of the third year of implementation, gradually falling to less than 0.02% of GDP. It is offset by fiscal benefits due to GDP growth from the first year of implementation.

The impact of the measures to strengthen the capital market will be much stronger if these measures are combined with a substantial reform of the social security system. A recent IOBE study on the pension system[49] describes a proposal for a reform that envisages the establishment of a new fully-funded supplementary pension and measures to strengthen voluntary fully-funded social security.

Together with the previously analysed tax incentives for investment in mutual funds, the effect of the reform amounts to higher real GDP by €9.6 billion in real terms, or 5.5%, compared with the reference scenario in the long term, with conservative assumptions about the foreign investment multiplier, the average real return and the domestic investment rate from the new savings of the social security system. The measures also significantly stimulate employment on a long-term basis, as it is estimated to lead to a permanent increase by the 81k full-time equivalent jobs (period average).

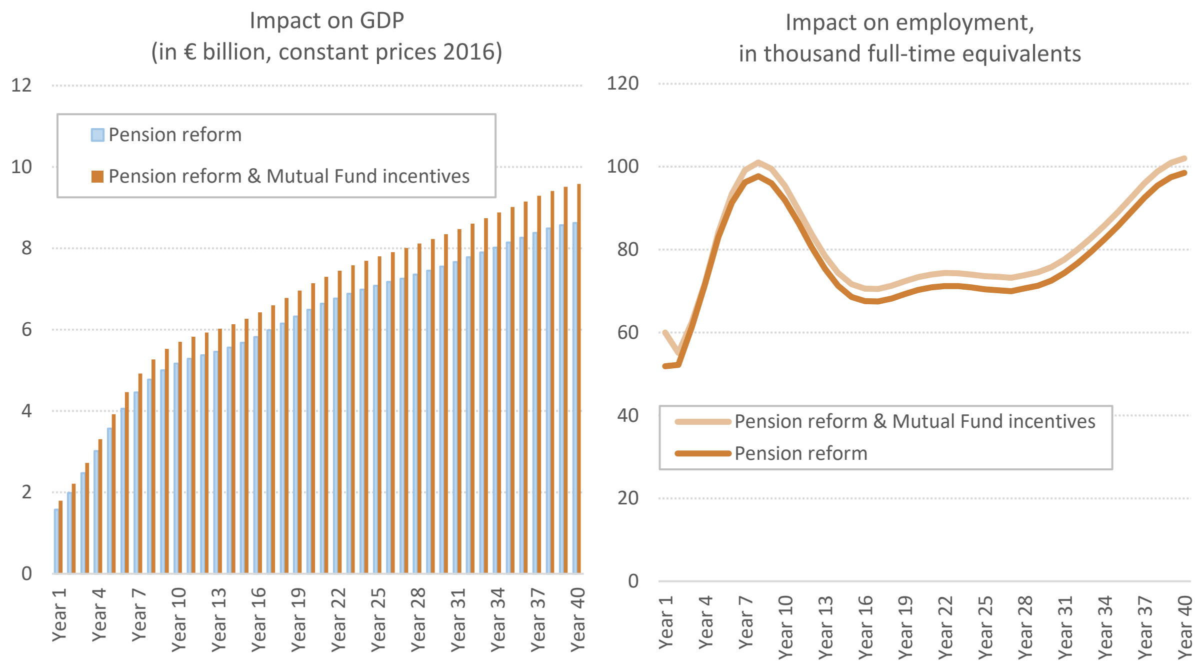
The reform of the social security system is accompanied by budgetary transition costs resulting from the abolition of contributions to the existing supplementary pension fund ETEA, while the obligation to pay the old supplementary pensions remains. The average annual loss of revenue for the social security system is estimated at 1.8% of GDP over the first five years and is decreasing

[49] *IOBE (2019), Pension reform and economic growth.*

over time. Without other fiscal measures, the loss is fully offset by budgetary gains due to GDP growth after 25 years.

Figure 4.2

Economic effects from the introduction of tax incentives for investment in mutual funds in conjunction with social security reform



Note. In the baseline scenario, 50% of the new savings in the social security system are placed in domestic investments

Source: IOBE estimates using a DSGE macroeconomic model

Considering that this is a very substantial reform of a structural problem that has plagued the Greek economy for decades and has contributed substantially to the recent collapse of the Greek production model, the budgetary costs of the reform are considered manageable, especially in comparison with the expected benefits, as well as in relation to other measures recently taken, such as the exceptional pension allowance granted in May 2019, or interventions planned for the coming period, such as VAT reduction, which do not have the corresponding structural and development benefits.

4.5 Conclusions

Significant new investments are needed for the recovery of the standard of living in Greece. Investment financing was "bank-centred" in Greece, but the high rate of non-performing loans restricts new lending. It is, hence, crucial to strengthen the domestic capital market.

A substantial pension reform, strengthening the fully-funded pillars of the pension system, will lead to a significant recovery in household savings. In addition, targeted tax incentives for long-term private investment in domestic placements, based on EU best practices, will help to fill the investment gap.

Boosting savings and investment through the capital market generates significant economic benefits. It generates national savings, makes the households "participants" in the recovery of the Greek economy, the capital market is strengthened by financing productive investments, the long-term fiscal burden of financing pensions is reduced, and non-wage labour costs are also lowered, with significant effects on the competitiveness of domestic enterprises.

The pension reform has a transition cost and therefore requires budgetary resources, which should be used as a priority. Furthermore, a prerequisite for the performance of the proposed measures is the establishment of an effective and transparent regulatory framework. There is a need for rules for the effective provision of the new supplementary pension by pension funds, as well as investment rules that promote the differentiation of securities and limit the market risk for the fully-funded pillars of the pension system. Finally, a strict single supervisory framework is required, in which the Bank of Greece and the Securities and Exchange Commission will have stronger powers to supervise the management of the reserves from the new savings of the pension funds and institutional investors respectively.

APPENDIX

Table 1: GDP Rate of Change

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-3.8	1.8	2.9	0.7	0.0	0.7	1.0	2.1	2.5	2.4
Belgium	-2.0	2.9	1.7	0.7	0.5	1.6	2.0	1.5	2.0	1.5
Bulgaria	-3.4	0.6	2.4	0.4	0.3	1.9	4.0	3.8	3.5	3.1
France	-2.9	1.9	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.7
Germany	-5.7	4.2	3.9	0.4	0.4	2.2	1.7	2.2	2.5	1.5
Denmark	-4.9	1.9	1.3	0.2	0.9	1.6	2.3	3.2	2.0	2.4
Czech Republic	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.5	4.4	2.8
EU	-4.3	2.2	1.8	-0.4	0.3	1.7	2.3	2.0	2.6	2.0
Greece	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.4	-0.2	1.5	1.9
Estonia	-14.4	2.7	7.4	3.1	1.3	3.0	1.8	2.6	5.7	4.8
Euro area	-4.5	2.1	1.7	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9
United Kingdom	-4.2	1.9	1.5	1.5	2.1	2.6	2.4	1.9	1.9	1.3
Ireland	-5.1	1.8	0.3	0.2	1.4	8.6	25.2	3.7	8.1	8.2
Spain	-3.8	0.2	-0.8	-3.0	-1.4	1.4	3.8	3.0	2.9	2.4
Italy	-5.3	1.7	0.7	-3.0	-1.8	0.0	0.8	1.3	1.7	0.8
Croatia	-7.4	-1.5	-0.3	-2.2	-0.5	-0.1	2.4	3.5	3.1	2.7
Cyprus	-2.0	2.0	0.4	-3.4	-6.6	-1.9	3.4	6.7	4.4	4.1
Latvia	-14.2	-4.5	6.3	4.1	2.3	1.9	3.3	1.8	3.8	4.6
Lithuania	-14.8	1.5	6.0	3.8	3.6	3.5	2.0	2.6	4.2	3.6
Luxembourg	-4.4	4.9	2.5	-0.4	3.7	4.3	4.3	4.6	1.8	3.1
Malta	-2.5	3.5	1.3	2.8	4.8	8.8	10.9	5.8	6.7	7.0
Netherlands	-3.7	1.3	1.6	-1.0	-0.1	1.4	2.0	2.2	2.9	2.6
Hungary	-6.7	0.7	1.8	-1.5	2.0	4.2	3.8	2.2	4.3	5.1
Poland	2.8	3.6	5.0	1.6	1.4	3.3	3.8	3.1	4.9	5.1
Portugal	-3.1	1.7	-1.7	-4.1	-0.9	0.8	1.8	2.0	3.5	2.4
Romania	-5.5	-3.9	2.0	2.1	3.5	3.4	3.9	4.8	7.1	4.4
Slovakia	-5.5	5.7	2.9	1.9	0.7	2.8	4.8	2.1	3.0	4.0
Slovenia	-7.5	1.3	0.9	-2.6	-1.0	2.8	2.2	3.1	4.8	4.1
Sweden	-4.2	6.2	3.1	-0.6	1.1	2.7	4.4	2.4	2.4	2.2
Finland	-8.1	3.2	2.5	-1.4	-0.9	-0.4	0.6	2.6	3.1	1.7

Table 2: General Government Debt as % of GDP

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	79.9	82.7	82.4	81.9	81.3	84.0	84.9	82.9	78.3	74.0
Belgium	100.2	100.3	103.5	104.8	105.5	107.0	105.2	104.9	101.8	100.0
Bulgaria	13.7	15.4	15.2	16.7	17.1	27.1	26.0	29.3	25.3	22.3
France	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.4	98.4
Germany	73.0	82.4	79.8	81.1	78.7	75.7	72.1	69.2	65.3	61.9
Denmark	40.2	42.6	46.1	44.9	44.0	44.3	39.8	37.2	35.5	34.2
Czech Republic	33.6	37.4	39.8	44.5	44.9	42.2	40.0	36.8	34.7	32.6
EU	74.0	79.6	82.0	84.4	86.3	87.0	84.9	83.8	82.1	80.4
Greece	126.7	146.2	172.1	159.6	177.4	178.9	175.9	178.5	176.2	181.2
Estonia	7.2	6.6	6.1	9.8	10.2	10.6	10.0	10.2	9.3	8.4
Euro area	80.2	85.8	87.6	90.7	92.6	92.8	90.8	90.0	87.8	85.9
United Kingdom	63.3	74.6	80.1	83.2	84.2	86.2	86.9	86.8	86.2	85.9
Ireland	61.5	86.0	111.1	119.9	119.9	104.4	76.7	73.9	67.8	63.6
Spain	53.3	60.5	69.9	86.3	95.8	100.7	99.3	99.2	98.6	97.6
Italy	116.6	119.2	119.7	126.5	132.4	135.4	135.3	134.8	134.1	134.8
Croatia	48.7	57.8	64.4	70.1	81.2	84.7	84.4	81.0	78.0	74.8
Cyprus	54.3	56.4	65.9	80.3	104.0	109.2	107.5	103.4	93.9	100.6
Latvia	36.2	47.3	43.1	41.6	39.4	40.9	36.7	40.2	38.6	36.4
Lithuania	28.0	36.3	37.2	39.8	38.7	40.6	42.7	39.9	39.3	34.1
Luxembourg	15.7	19.8	18.7	22.0	23.7	22.7	22.0	20.1	22.3	21.0
Malta	67.6	67.5	70.2	67.7	68.4	63.4	57.8	55.5	50.3	45.8
Netherlands	56.8	59.2	61.7	66.2	67.7	67.8	64.6	61.9	56.9	52.4
Hungary	78.2	80.6	80.8	78.5	77.3	76.8	76.1	75.5	72.9	70.2
Poland	49.4	53.1	54.1	53.7	55.7	50.4	51.3	54.2	50.6	48.9
Portugal	87.8	100.2	114.4	129	131.4	132.9	131.2	131.5	126.0	122.2
Romania	21.8	29.6	34.0	37.0	37.6	39.2	37.8	37.3	35.1	35.0
Slovakia	36.4	41.0	43.5	51.8	54.7	53.5	51.9	52.0	51.3	49.4
Slovenia	34.5	38.3	46.5	53.6	70.0	80.3	82.6	78.7	74.1	70.4
Sweden	40.9	38.2	37.3	37.7	40.5	45.2	43.9	42.3	40.7	38.8
Finland	41.5	46.9	48.3	53.6	56.2	59.8	63.0	62.6	60.9	59.0

Table 3: General Government Balance as % of GDP

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	-5.3	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.5	-0.7	0.2
Belgium	-5.4	-4.1	-4.3	-4.3	-3.1	-3.1	-2.4	-2.4	-0.7	-0.7
Bulgaria	-4.0	-3.1	-2.0	-0.3	-0.4	-5.4	-1.7	0.1	1.1	1.8
France	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.5	-2.8	-2.5
Germany	-3.2	-4.4	-0.9	0.0	0.0	0.6	0.9	1.2	1.2	1.9
Denmark	-2.8	-2.7	-2.1	-3.5	-1.2	1.1	-1.2	0.2	1.7	0.8
Czech Republic	-5.5	-4.2	-2.7	-3.9	-1.2	-2.1	-0.6	0.7	1.6	1.1
EU	-6.6	-6.4	-4.6	-4.3	-3.3	-2.9	-2.4	-1.7	-1.0	-0.7
Greece	-15.1	-11.2	-10.3	-8.9	-13.2	-3.6	-5.6	0.5	0.7	1.0
Estonia	-2.2	0.2	1.1	-0.3	0.2	0.7	0.1	-0.5	-0.8	-0.6
Euro area	-6.2	-6.3	-4.2	-3.7	-3.0	-2.5	-2.0	-1.4	-0.9	-0.5
United Kingdom	-10.1	-9.3	-7.5	-8.2	-5.5	-5.6	-4.6	-3.4	-2.4	-2.3
Ireland	-13.8	-32.1	-12.8	-8.1	-6.2	-3.6	-1.9	-0.7	-0.3	0.1
Spain	-11.3	-9.5	-9.7	-10.7	-7.0	-5.9	-5.2	-4.3	-3.0	-2.5
Italy	-5.1	-4.2	-3.6	-2.9	-2.9	-3.0	-2.6	-2.4	-2.4	-2.2
Croatia	-6.0	-6.5	-7.9	-5.4	-5.3	-5.3	-3.3	-1.1	0.8	0.3
Cyprus	-5.4	-4.7	-5.7	-5.6	-5.8	-8.7	-1.0	0.1	1.7	-4.4
Latvia	-9.5	-8.6	-4.2	-1.2	-1.2	-1.4	-1.4	0.1	-0.5	-0.7
Lithuania	-9.1	-6.9	-9.0	-3.1	-2.6	-0.6	-0.3	0.2	0.5	0.6
Luxembourg	-0.7	-0.7	0.5	0.3	1.0	1.3	1.4	1.8	1.4	2.7
Malta	-3.2	-2.4	-2.4	-3.5	-2.4	-1.7	-1.0	0.9	3.4	1.9
Netherlands	-5.1	-5.2	-4.4	-3.9	-2.9	-2.2	-2.0	0.0	1.3	1.5
Hungary	-4.7	-4.4	-5.2	-2.3	-2.5	-2.8	-2.0	-1.8	-2.4	-2.3
Poland	-7.3	-7.4	-4.9	-3.7	-4.2	-3.6	-2.6	-2.4	-1.5	-0.2
Portugal	-9.9	-11.4	-7.7	-6.2	-5.1	-7.4	-4.4	-1.9	-3.0	-0.4
Romania	-9.1	-6.9	-5.4	-3.7	-2.1	-1.2	-0.6	-2.6	-2.6	-3.0
Slovakia	-8.1	-7.5	-4.5	-4.4	-2.9	-3.1	-2.7	-2.5	-1.0	-1.1
Slovenia	-5.8	-5.6	-6.6	-4.0	-14.6	-5.5	-2.8	-1.9	0.0	0.8
Sweden	-0.7	0.0	-0.2	-1.0	-1.4	-1.5	0.0	1.0	1.4	0.8
Finland	-2.5	-2.5	-1.0	-2.2	-2.5	-3.0	-2.4	-1.7	-0.7	-0.8

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

	Annual Data (%)									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	19.1	18.9	19.2	18.5	18.8	19.2	18.3	18.0	18.1	17.5
Belgium	20.2	20.8	21.0	21.6	20.8	21.2	21.1	20.7	20.3	19.8
Bulgaria	46.2	49.2	49.1	49.3	48.0	40.1	41.3	40.4	38.9	32.8
France	18.5	19.2	19.3	19.1	18.1	18.5	17.7	18.2	17.0	17.4
Germany	20.0	19.7	19.9	19.6	20.3	20.6	20.0	19.7	19.0	18.7
Denmark	17.6	18.3	17.6	17.5	18.3	17.9	17.7	16.8	17.2	17.4
Czech Republic	14.0	14.4	15.3	15.4	14.6	14.8	14.0	13.3	12.2	12.2
EU	23.3	23.8	24.3	24.8	24.6	24.4	23.8	23.5	22.4	21.9
Greece	27.6	27.7	31.0	34.6	35.7	36.0	35.7	35.6	34.8	31.8
Estonia	23.4	21.7	23.1	23.4	23.5	26.0	24.2	24.4	23.4	24.4
Euro area	21.6	22.0	22.9	23.3	23.1	23.5	23.1	23.1	22.1	21.5
United Kingdom	22.0	23.2	22.7	24.1	24.8	24.1	23.5	22.2	22.0	23.6
Ireland	25.7	27.3	29.4	30.1	29.9	27.7	26.2	24.4	22.7	21.1
Spain	24.7	26.1	26.7	27.2	27.3	29.2	28.6	27.9	26.6	26.1
Italy	24.9	25.0	28.1	29.9	28.5	28.3	28.7	30.0	28.9	27.3
Croatia	:	31.1	32.6	32.6	29.9	29.3	29.1	27.9	26.4	24.8
Cyprus	23.5	24.6	24.6	27.1	27.8	27.4	28.9	27.7	25.2	23.9
Latvia	37.9	38.2	40.1	36.2	35.1	32.7	30.9	28.5	28.2	28.4
Lithuania	29.6	34.0	33.1	32.5	30.8	27.3	29.3	30.1	29.6	28.3
Luxembourg	17.8	17.1	16.8	18.4	19.0	19.0	18.5	19.8	21.5	21.9
Malta	20.3	21.2	22.1	23.1	24.6	23.9	23.0	20.3	19.3	19.0
Netherlands	15.1	15.1	15.7	15.0	15.9	16.5	16.4	16.7	17.0	16.7
Hungary	29.6	29.9	31.5	33.5	34.8	31.8	28.2	26.3	25.6	19.6
Poland	27.8	27.8	27.2	26.7	25.8	24.7	23.4	21.9	19.5	18.9
Portugal	24.9	25.3	24.4	25.3	27.5	27.5	26.6	25.1	23.3	21.6
Romania	43.0	41.5	40.9	43.2	41.9	40.3	37.4	38.8	35.7	32.5
Slovakia	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1	16.3	16.3
Slovenia	17.1	18.3	19.3	19.6	20.4	20.4	19.2	18.4	17.1	16.2
Sweden	17.8	17.7	18.5	17.7	18.3	18.2	18.6	18.3	17.7	18.0
Finland	16.9	16.9	17.9	17.2	16.0	17.3	16.8	16.6	15.7	16.5

Table 5: Inflation

	Annual Data (%)					Change (%)	
	2015	2016	2017	2018	2019	2019/18	2018/17
Austria	0.8	1.0	2.2	2.1	1.5	-0.6	-0.1
Belgium	0.6	1.8	2.2	2.3	1.2	-1.1	0.1
Bulgaria	-1.1	-1.3	1.2	2.6	2.5	-0.1	1.4
France	0.1	0.3	1.2	2.1	1.3	-0.8	0.9
Germany	0.7	0.4	1.7	1.9	1.4	-0.5	0.2
Denmark	0.2	0.0	1.1	0.7	0.7	0.0	-0.4
Czech Republic	0.3	0.6	2.4	2.0	2.6	0.6	-0.4
EU	0.1	0.2	1.7	1.9	1.5	-0.4	0.2
Greece	-1.1	0.0	1.1	0.8	0.5	-0.3	-0.3
Estonia	0.1	0.8	3.7	3.4	2.3	-1.1	-0.3
Euro area	0.2	0.2	1.5	1.8	1.2	-0.6	0.3
United Kingdom	0.0	0.7	2.7	2.5	1.8	-0.7	-0.2
Ireland	0.0	-0.2	0.3	0.7	0.9	0.2	0.4
Spain	-0.6	-0.3	2.0	1.7	0.8	-0.9	-0.3
Italy	0.1	-0.1	1.3	1.2	0.6	-0.6	-0.1
Croatia	-0.3	-0.6	1.3	1.6	0.8	-0.8	0.3
Cyprus	-1.5	-1.2	0.7	0.8	0.5	-0.3	0.1
Latvia	0.2	0.1	2.9	2.6	2.7	0.1	-0.3
Lithuania	-0.7	0.7	3.7	2.5	2.2	-0.3	-1.2
Luxembourg	0.1	0.0	2.1	2.0	1.6	-0.4	-0.1
Malta	1.2	0.9	1.3	1.7	1.5	-0.2	0.4
Netherlands	0.2	0.1	1.3	1.6	2.7	1.1	0.3
Hungary	0.1	0.4	2.4	2.9	3.4	0.5	0.5
Poland	-0.7	-0.2	1.6	1.2	2.1	0.9	-0.4
Portugal	0.5	0.6	1.6	1.2	0.3	-0.9	-0.4
Romania	-0.4	-1.1	1.1	4.1	3.9	-0.2	3.0
Slovakia	-0.3	-0.5	1.4	2.5	2.8	0.3	1.1
Slovenia	-0.8	-0.2	1.6	1.9	1.7	-0.2	0.3
Sweden	0.7	1.1	1.9	2.0	1.7	-0.3	0.1
Finland	-0.2	0.4	0.8	1.2	1.1	-0.1	0.4

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

	Annual Data (%)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	126	128	132	131	130	129	128	127	127
Belgium	120	118	120	120	120	120	119	118	117
Bulgaria	44	45	46	45	47	47	49	50	51
France	108	108	107	108	107	105	105	103	104
Germany	119	122	123	123	125	123	123	123	122
Denmark	129	128	127	128	127	127	127	127	128
Czech Republic	83	83	82	83	86	87	87	89	91
EU	100	100	100	100	100	100	100	100	100
Greece	84	75	72	71	71	69	68	67	68
Estonia	65	71	74	76	77	76	76	78	82
Euro area	108	108	107	107	106	106	106	106	106
United Kingdom	109	107	109	109	110	110	108	106	105
Ireland	130	129	131	131	136	178	176	181	189
Spain	95	92	90	89	89	90	91	92	91
Italy	105	104	102	99	96	95	97	97	96
Croatia	59	60	60	59	59	59	60	61	63
Cyprus	100	96	90	83	80	82	87	88	89
Latvia	53	57	60	62	63	64	64	66	69
Lithuania	60	66	70	73	75	74	75	78	80
Luxembourg	257	264	259	261	268	268	269	261	261
Malta	83	82	83	85	89	93	95	97	98
Netherlands	135	134	134	135	131	130	127	128	129
Hungary	65	66	66	67	68	69	68	68	71
Poland	62	65	67	67	67	68	68	69	70
Portugal	82	77	75	76	76	77	77	77	77
Romania	51	52	54	54	55	56	59	63	65
Slovakia	75	75	76	77	77	77	72	72	73
Slovenia	84	83	82	82	82	82	83	85	87
Sweden	127	128	128	126	125	126	123	122	120
Finland	117	118	116	114	111	110	110	110	111

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

	Annual Data								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Austria	114.5	114.4	117.3	117.3	117.6	119.2	119.2	118.1	118.1
Belgium	136.7	133.2	134.3	134.0	135.6	136.3	136.4	134.4	133.3
Bulgaria	41.3	42.4	43.6	42.5	43.8	44.2	45.6	45.7	46.8
France	125.7	124.8	122.8	124.9	125.0	124.3	124.2	124.9	125.5
Germany	121.1	122.9	122.3	122.0	124.0	122.7	124.6	124.1	123.2
Denmark	133.9	131.8	132.0	132.2	133.5	133.3	133.5	134.9	137.7
Czech Republic	70.9	70.8	70.5	71.1	72.9	74.3	73.8	74.6	75.4
EU	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Greece	73.3	69.4	68.7	69.1	69.9	67.1	65.9	64.4	64.3
Estonia	62.9	62.6	64.2	64.6	66.3	63.8	64.6	65.3	69.5
Euro area	110.7	110.7	110.7	111.1	111.4	110.9	111.3	110.9	110.4
United Kingdom	106.6	103.9	102.9	101.7	100.9	101.6	99.4	98.9	98.3
Ireland	135.6	137.0	138.7	133.9	136.2	173.9	169.8	172.2	177.1
Spain	98.7	97.7	99.5	99.9	99.9	98.5	98.2	98.2	95.9
Italy	105.3	105.3	105.0	103.9	102.6	101.3	103.0	102.1	100.7
Croatia	57.2	59.7	61.8	62.9	61.2	63.2	64.4	64.5	64.9
Cyprus	82.3	80.4	78.8	77.5	75.6	76.0	77.7	76.7	77.0
Latvia	50.3	52.0	53.5	53.0	54.5	55.3	55.9	57.7	58.9
Lithuania	57.6	62.0	63.1	64.5	65.1	62.7	61.4	65.3	65.6
Luxembourg	177.2	181.4	176.6	178.0	184.1	182.9	185.4	180.1	178.7
Malta	74.2	73.6	73.6	73.6	76.8	80.3	79.3	81.0	80.4
Netherlands	133.7	132.0	131.9	133.1	130.1	129.1	126.2	126.1	125.8
Hungary	68.8	70.3	68.8	68.9	66.7	66.3	62.9	63.3	65.1
Poland	56.6	58.7	59.7	59.4	59.1	59.3	59.2	60.3	62.5
Portugal	69.6	67.5	68.0	70.0	69.0	68.0	67.8	66.1	65.3
Romania	47.6	48.8	50.3	50.8	51.7	53.6	57.2	60.5	62.8
Slovakia	77.1	75.8	76.5	77.5	78.3	77.7	72.6	72.1	73.3
Slovenia	78.4	80.4	80.4	79.6	79.1	78.0	80.1	82.3	83.8
Sweden	119.5	119.0	118.9	116.5	115.9	117.2	113.9	113.6	112.8
Finland	113.8	113.8	110.9	109.7	109.3	109.3	110.4	111.2	110.6

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

	Annual Data (%)					Q3 (%)			Change (%)	
	2014	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	74.2	74.3	74.8	75.4	76.2	75.9	76.7	77.4	0.7	0.8
Belgium	67.3	67.2	67.7	68.5	69.7	68.5	70.1	70.7	0.6	1.6
Bulgaria	65.1	67.1	67.7	71.3	72.4	73.0	73.5	76.3	2.8	0.5
France	69.2	69.5	70.0	70.6	71.3	70.8	71.6	71.4	-0.2	0.8
Germany	77.7	78.0	78.6	79.2	79.9	79.5	80.2	81.0	0.8	0.7
Denmark	74.7	75.4	76.0	76.6	77.5	76.9	77.7	78.5	0.8	0.8
Czech Republic	73.5	74.8	76.7	78.5	79.9	79.0	80.1	80.4	0.3	1.1
EU	69.1	70.0	71.0	72.1	73.1	72.6	73.5	74.1	0.6	0.9
Greece	53.3	54.9	56.2	57.8	59.5	58.9	60.6	62.1	1.5	1.7
Estonia	74.3	76.5	76.6	78.7	79.5	79.3	79.4	80.7	1.3	0.1
Euro area	68.1	68.9	69.9	70.9	71.9	71.3	72.3	72.8	0.5	1.0
United Kingdom	76.2	76.8	77.5	78.2	78.7	78.3	78.7	79.2	0.5	0.4
Ireland	68.1	69.9	71.4	73.0	74.1	73.3	74.4	74.9	0.5	1.1
Spain	59.9	62.0	63.9	65.5	67.0	66.2	67.6	68.2	0.6	1.4
Italy	59.9	60.5	61.6	62.3	63.0	62.7	63.3	63.8	0.5	0.6
Croatia	59.2	60.6	61.4	63.6	65.2	65.6	66.3	67.6	1.3	0.7
Cyprus	67.6	67.9	68.7	70.8	73.9	71.9	74.6	75.7	1.1	2.7
Latvia	70.7	72.5	73.2	74.8	76.8	75.5	77.7	77.9	0.2	2.2
Lithuania	71.8	73.3	75.2	76.0	77.8	76.3	79.3	78.1	-1.2	3.0
Luxembourg	72.1	70.9	70.7	71.5	72.1	71.8	71.6	72.4	0.8	-0.2
Malta	67.9	69.0	71.1	73.0	75.5	73.6	76.7	77.0	0.3	3.1
Netherlands	75.4	76.4	77.1	78.0	79.2	78.3	79.6	80.3	0.7	1.3
Hungary	66.7	68.9	71.5	73.3	74.4	73.8	74.6	75.4	0.8	0.8
Poland	66.5	67.8	69.3	70.9	72.2	71.3	72.8	73.6	0.8	1.5
Portugal	67.6	69.1	70.6	73.4	75.4	74.1	75.7	76.6	0.9	1.6
Romania	65.7	66.0	66.3	68.8	69.9	70.3	71.3	71.8	0.5	1.0
Slovakia	65.9	67.7	69.8	71.1	72.4	71.3	72.7	73.4	0.7	1.4
Slovenia	67.7	69.1	70.1	73.4	75.4	74.1	75.9	76.5	0.6	1.8
Sweden	80.0	80.5	81.2	81.8	82.4	82.7	83.1	82.7	-0.4	0.4
Finland	73.1	72.9	73.4	74.2	76.3	74.8	77.2	78.1	0.9	2.4

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

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

	Annual Data (%)					Q3 (%)			Change (%)	
	2014	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	45.1	46.3	49.2	51.3	54.0	51.8	54.2	54.3	0.1	2.4
Belgium	42.7	44.0	45.4	48.3	50.3	49.2	50.4	52.9	2.5	1.2
Bulgaria	50.0	53.0	54.5	58.2	60.7	60.4	61.7	65.1	3.4	1.3
France	46.9	48.7	49.8	51.3	52.1	51.1	52.3	52.7	0.4	1.2
Germany	65.6	66.2	68.6	70.1	71.4	70.5	71.7	73.1	1.4	1.2
Denmark	60.7	63.0	65.8	68.2	69.2	69.0	69.7	72.3	2.6	0.7
Czech Republic	54.0	55.5	58.5	62.1	65.1	62.6	65.4	67.0	1.6	2.8
EU	51.7	53.3	55.2	57.0	58.7	57.5	59.2	60.2	1.0	1.7
Greece	34.0	34.3	36.3	38.3	41.1	38.8	41.7	43.4	1.7	2.9
Estonia	64.0	64.5	65.2	68.1	68.9	67.7	70.6	74.4	3.8	2.9
Euro area	51.7	53.3	55.3	57.1	58.8	57.4	59.1	60.1	1.0	1.7
United Kingdom	61.0	62.2	63.4	64.1	65.3	63.9	65.6	66.3	0.7	1.7
Ireland	52.6	55.4	56.8	58.4	60.4	58.7	60.4	61.3	0.9	1.7
Spain	44.3	46.9	49.1	50.5	52.2	50.8	52.7	53.6	0.9	1.9
Italy	46.2	48.2	50.3	52.2	53.7	52.4	53.9	54.4	0.5	1.5
Croatia	36.2	39.2	38.1	40.3	42.8	43.2	45.2	44.7	-0.5	2.0
Cyprus	46.9	48.5	52.2	55.3	60.9	57.8	62.2	61.7	-0.5	4.4
Latvia	56.4	59.4	61.4	62.3	65.4	62.9	66.5	68.4	1.9	3.6
Lithuania	56.2	60.4	64.6	66.1	68.5	65.5	69.1	67.3	-1.8	3.6
Luxembourg	42.5	38.4	39.6	39.8	40.5	39.8	40.8	42.5	1.7	1.0
Malta	39.5	42.3	45.8	47.2	50.2	48.8	49.3	49.4	0.1	0.5
Netherlands	59.9	61.7	63.5	65.7	67.7	66.0	68.3	69.7	1.4	2.3
Hungary	41.7	45.3	49.8	51.7	54.4	52.4	54.9	56.9	2.0	2.5
Poland	42.5	44.3	46.2	48.3	48.9	49.4	49.8	50.5	0.7	0.4
Portugal	47.8	49.9	52.1	56.2	59.2	57.1	59.6	61.2	1.6	2.5
Romania	43.1	41.1	42.8	44.5	46.3	45.7	47.9	48.9	1.0	2.2
Slovakia	44.8	47.0	49.0	53.0	54.2	53.3	54.4	56.8	2.4	1.1
Slovenia	35.4	36.6	38.5	42.7	47.0	42.8	47.3	48.9	1.6	4.5
Sweden	74.0	74.5	75.5	76.4	78.0	76.8	78.5	77.4	-1.1	1.7
Finland	59.1	60.0	61.4	62.5	65.4	62.4	65.5	67.7	2.2	3.1

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

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

	Annual Data (%)							Q3 (%)	
	2012	2013	2014	2015	2016	2017	2018	2019/18	2018/17
Austria	0.8	0.4	0.1	0.8	1.8	1.0	1.3	0.6	1.4
Belgium	0.2	0.1	0.3	0.0	0.9	1.0	2.4	1.4	2.9
Bulgaria	-1.1	-0.2	1.3	1.6	-0.6	4.0	-0.1	2.5	-0.9
France	0.0	-0.1	2.2	0.0	0.5	1.0	0.9	-0.5	1.0
Germany	0.7	0.8	0.7	0.7	2.5	0.8	0.4	0.6	0.1
Denmark	-0.9	-0.3	0.8	1.7	1.7	1.1	1.5	1.4	1.5
Czech Republic	0.3	0.7	0.8	1.0	1.7	1.6	1.0	0.0	0.6
EU	-0.3	-0.3	1.3	1.1	1.5	1.4	1.1	0.6	1.0
Greece	-8.6	-4.9	0.6	2.0	1.8	2.0	1.9	1.7	1.7
Estonia	1.6	0.9	0.5	2.3	-0.1	2.2	0.7	1.6	-0.1
Euro area	-0.7	-0.6	0.9	1.0	1.7	1.3	1.2	0.6	1.1
United Kingdom	0.9	0.9	2.2	1.6	1.4	1.1	1.1	0.8	0.9
Ireland	-0.5	3.0	2.5	3.2	3.6	2.8	2.6	2.0	2.8
Spain	-4.3	-2.7	1.2	2.9	2.6	2.6	2.6	1.7	2.5
Italy	-0.3	-1.8	0.2	0.7	1.2	0.9	0.6	0.4	0.5
Croatia	-3.5	-2.3	3.2	1.1	0.5	2.3	1.7	0.7	0.3
Cyprus	-2.9	-4.9	-0.4	-1.4	1.1	4.5	5.4	2.3	5.1
Latvia	1.3	1.7	-0.9	1.1	-0.6	0.0	1.3	-0.7	1.8
Lithuania	1.5	1.6	1.9	1.0	1.3	-0.9	1.4	-1.8	3.1
Luxembourg	5.1	1.0	2.8	5.1	1.6	4.0	3.1	3.4	1.8
Malta	3.8	4.6	4.6	4.1	5.2	6.0	8.1	3.9	9.2
Netherlands	0.3	-0.9	-0.9	1.1	1.3	1.9	2.0	1.5	2.1
Hungary	1.8	1.8	5.4	2.6	3.2	1.5	0.9	0.4	0.5
Poland	0.2	-0.2	1.8	1.4	0.6	1.1	0.3	-0.2	0.7
Portugal	-4.4	-2.3	2.3	1.3	1.4	3.3	2.2	0.9	1.9
Romania	1.0	-0.5	0.9	-0.2	-0.8	2.4	0.2	-0.5	0.1
Slovakia	0.6	0.0	1.4	2.4	2.8	1.2	1.2	0.0	1.4
Slovenia	-0.9	-2.0	0.5	1.0	0.1	4.5	2.0	0.1	1.2
Sweden	0.3	1.0	0.9	1.4	1.6	2.1	1.6	0.4	1.5
Finland	0.1	-1.1	-0.7	-0.8	0.5	1.0	2.6	0.9	2.6

Table 11: Unemployment Rate – Total Population

	Annual Data (%)				Q3 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	5.7	6.0	5.5	4.9	5.5	4.9	4.4	-0.5	-0.6
Belgium	8.5	7.8	7.1	6.0	7.2	5.9	5.3	-0.6	-1.3
Bulgaria	9.2	7.6	6.2	5.2	5.9	5.0	3.7	-1.3	-0.9
France	10.4	10.1	9.4	9.1	9.3	8.8	8.3	-0.5	-0.5
Germany	4.6	4.1	3.8	3.4	3.6	3.3	3.1	-0.2	-0.3
Denmark	6.3	6.0	5.8	5.1	6.0	5.0	5.0	0.0	-1.0
Czech Republic	5.1	4.0	2.9	2.2	2.8	2.3	2.1	-0.2	-0.5
EU	9.4	8.6	7.6	6.8	7.3	6.5	6.1	-0.4	-0.8
Greece	24.9	23.6	21.5	19.3	20.3	18.3	16.4	-1.9	-2.0
Estonia	6.2	6.8	5.8	5.4	5.2	5.3	3.9	-1.4	0.1
Euro area	10.9	10.0	9.1	8.2	8.7	7.8	7.3	-0.5	-0.9
United Kingdom	5.3	4.8	4.3	4.0	4.4	4.2	3.9	-0.3	-0.2
Ireland	10.0	8.4	6.7	5.8	6.9	6.0	5.2	-0.8	-0.9
Spain	22.1	19.6	17.2	15.3	16.4	14.6	13.9	-0.7	-1.8
Italy	11.9	11.7	11.2	10.6	10.6	9.3	9.1	-0.2	-1.3
Croatia	16.1	13.4	11.0	8.4	9.5	7.2	6.0	-1.2	-2.3
Cyprus	15.0	13.0	11.1	8.4	10.0	7.9	6.8	-1.1	-2.1
Latvia	9.9	9.6	8.7	7.4	8.5	7.0	6.0	-1.0	-1.5
Lithuania	9.1	7.9	7.1	6.2	6.6	5.6	6.1	0.5	-1.0
Luxembourg	6.5	6.3	5.6	5.5	5.4	5.5	5.4	-0.1	0.1
Malta	5.4	4.7	4.0	3.7	4.0	3.6	3.4	-0.2	-0.4
Netherlands	6.9	6.0	4.9	3.8	4.5	3.6	3.2	-0.4	-0.9
Hungary	6.8	5.1	4.2	3.7	4.1	3.8	3.5	-0.3	-0.3
Poland	7.5	6.2	4.9	3.9	4.7	3.8	3.1	-0.7	-0.9
Portugal	12.6	11.2	9.0	7.0	8.6	6.8	6.2	-0.6	-1.8
Romania	6.8	5.9	4.9	4.2	4.7	3.9	3.8	-0.1	-0.8
Slovakia	11.5	9.7	8.1	6.5	8.0	6.4	5.9	-0.5	-1.6
Slovenia	9.0	8.0	6.6	5.1	6.3	5.0	4.8	-0.2	-1.3
Sweden	7.4	6.9	6.7	6.3	6.2	6.0	6.5	0.5	-0.2
Finland	9.4	8.8	8.6	7.4	7.7	6.5	6.0	-0.5	-1.2

Table 12: Unemployment Rate among Men

	Annual Data (%)				Q3 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	6.1	6.5	5.9	5.0	5.8	4.7	4.5	-0.2	-1.1
Belgium	9.1	8.1	7.1	6.3	7.5	6.3	5.5	-0.8	-1.2
Bulgaria	9.8	8.1	6.4	5.7	6.1	5.4	3.9	-1.5	-0.7
France	10.8	10.3	9.5	9.0	9.2	8.9	8.4	-0.5	-0.3
Germany	5.0	4.5	4.1	3.8	3.9	3.7	3.5	-0.2	-0.2
Denmark	6.1	5.6	5.6	4.9	5.7	4.7	4.7	0.0	-1.0
Czech Republic	4.2	3.4	2.3	1.8	2.2	1.9	1.7	-0.2	-0.3
EU	9.3	8.4	7.4	6.6	7.1	6.3	5.9	-0.4	-0.8
Greece	21.8	19.9	17.8	15.4	16.5	14.3	13.1	-1.2	-2.2
Estonia	6.2	7.4	6.2	5.4	5.8	5.1	3.3	-1.8	-0.7
Euro area	10.7	9.7	8.7	7.9	8.3	7.4	7.0	-0.4	-0.9
United Kingdom	5.5	5.0	4.5	4.1	4.4	4.2	4.1	-0.1	-0.2
Ireland	10.8	9.1	7.1	5.8	7.1	5.9	5.5	-0.4	-1.2
Spain	20.8	18.1	15.7	13.7	14.8	13.1	12.2	-0.9	-1.7
Italy	11.3	10.9	10.3	9.7	9.6	8.6	8.3	-0.3	-1.0
Croatia	15.6	12.7	10.3	7.6	8.8	6.4	5.4	-1.0	-2.4
Cyprus	15.1	12.7	10.9	8.1	9.5	7.2	5.3	-1.9	-2.3
Latvia	11.1	10.9	9.8	8.4	9.1	8.0	6.6	-1.4	-1.1
Lithuania	10.1	9.1	8.6	6.9	7.7	6.0	7.0	1.0	-1.7
Luxembourg	5.9	6.1	5.6	5.3	5.3	5.4	5.3	-0.1	0.1
Malta	5.4	4.4	3.8	3.8	3.9	3.8	3.2	-0.6	-0.1
Netherlands	6.5	5.6	4.5	3.7	4.2	3.6	3.3	-0.3	-0.6
Hungary	6.6	5.1	3.8	3.5	3.6	3.4	3.3	-0.1	-0.2
Poland	7.3	6.1	4.9	3.9	4.6	4.0	2.9	-1.1	-0.6
Portugal	12.4	11.1	8.6	6.6	7.9	6.3	5.5	-0.8	-1.6
Romania	7.5	6.6	5.6	4.7	5.3	4.3	4.1	-0.2	-1.0
Slovakia	10.3	8.8	7.9	6.1	7.8	6.0	5.7	-0.3	-1.8
Slovenia	8.1	7.5	5.8	4.6	5.1	4.3	4.5	0.2	-0.8
Sweden	7.5	7.3	6.9	6.4	6.3	5.9	6.3	0.4	-0.4
Finland	9.9	9.0	8.9	7.4	7.4	6.2	6.2	0.0	-1.2

Table 13: Unemployment Rate among Women

	Annual Data (%)				Q3 (%)			Change (%)	
	2015	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	5.3	5.6	5.0	4.7	5.0	5.2	4.4	-0.8	0.2
Belgium	7.8	7.6	7.1	5.6	6.9	5.4	5.2	-0.2	-1.5
Bulgaria	8.4	7.0	6.0	4.7	5.5	4.6	3.4	-1.2	-0.9
France	9.9	9.9	9.3	9.1	9.3	8.8	8.2	-0.6	-0.5
Germany	4.2	3.8	3.3	2.9	3.3	2.9	2.6	-0.3	-0.4
Denmark	6.5	6.4	6.1	5.4	6.4	5.3	5.3	0.0	-1.1
Czech Republic	6.1	4.7	3.6	2.8	3.5	2.9	2.6	-0.3	-0.6
EU	9.5	8.8	7.9	7.1	7.7	6.8	6.4	-0.4	-0.9
Greece	28.9	28.1	26.1	24.2	25.0	23.3	20.5	-2.8	-1.7
Estonia	6.1	6.1	5.3	5.3	4.5	5.4	4.6	-0.8	0.9
Euro area	11.0	10.4	9.5	8.6	9.1	8.1	7.7	-0.4	-1.0
United Kingdom	5.1	4.7	4.2	4.0	4.4	4.1	3.7	-0.4	-0.3
Ireland	8.9	7.6	6.3	5.7	6.7	6.1	5.0	-1.1	-0.6
Spain	23.6	21.4	19.0	17.0	18.2	16.2	15.9	-0.3	-2.0
Italy	12.7	12.8	12.4	11.8	11.8	10.4	10.2	-0.2	-1.4
Croatia	16.7	14.2	11.9	9.3	10.3	8.1	6.6	-1.5	-2.2
Cyprus	14.8	13.4	11.3	8.8	10.5	8.7	8.4	-0.3	-1.8
Latvia	8.6	8.4	7.7	6.4	7.9	5.9	5.5	-0.4	-2.0
Lithuania	8.2	6.7	5.7	5.4	5.6	5.2	5.2	0.0	-0.4
Luxembourg	7.1	6.5	5.6	5.7	5.5	5.6	5.5	-0.1	0.1
Malta	5.4	5.2	4.3	3.5	4.2	3.3	3.6	0.3	-0.9
Netherlands	7.3	6.5	5.3	4.0	4.9	3.6	3.2	-0.4	-1.3
Hungary	7.0	5.1	4.6	4.0	4.6	4.4	3.7	-0.7	-0.2
Poland	7.7	6.2	4.9	3.9	4.9	3.7	3.4	-0.3	-1.2
Portugal	12.9	11.3	9.5	7.4	9.3	7.3	7.0	-0.3	-2.0
Romania	5.8	5.0	4.0	3.5	4.0	3.3	3.5	0.2	-0.7
Slovakia	12.9	10.8	8.4	7.0	8.2	6.8	6.1	-0.7	-1.4
Slovenia	10.1	8.6	7.5	5.7	7.7	5.9	5.1	-0.8	-1.8
Sweden	7.3	6.5	6.4	6.2	6.1	6.1	6.9	0.8	0.0
Finland	8.8	8.6	8.4	7.3	7.9	6.9	5.9	-1.0	-1.0

Table 14: Long-Term Unemployment Rate (*)

	Annual Data (%)			Q3 (%)			Change (%)	
	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	32.3	33.4	28.9	34.1	26.8	24.7	-2.1	-7.3
Belgium	51.6	48.6	48.7	42.8	45.0	42.1	-2.9	2.2
Bulgaria	59.1	55.0	58.4	54.7	62.0	62.3	0.3	7.3
France	45.4	45.1	41.6	46.7	41.5	40.7	-0.8	-5.2
Germany	40.8	41.7	40.9	41.5	41.2	38.3	-2.9	-0.3
Denmark	20.4	20.5	19.1	18.5	17.0	15.6	-1.4	-1.5
Czech Republic	42.1	35.0	30.5	32.9	28.8	27.0	-1.8	-4.1
EU	46.4	44.7	42.9	45.2	43.1	40.3	-2.8	-2.1
Greece	72.0	72.8	70.3	75.7	71.8	73.6	1.8	-3.9
Estonia	31.6	33.5	24.9	38.6	21.4	15.5	-5.9	-17.2
Euro area	49.7	48.5	46.3	49.0	46.8	44.3	-2.5	-2.2
United Kingdom	27.1	25.9	26.2	26.4	26.0	23.1	-2.9	-0.4
Ireland	50.5	44.9	36.3	40.9	36.0	28.6	-7.4	-4.9
Spain	48.4	44.5	41.7	43.6	41.9	37.2	-4.7	-1.7
Italy	57.4	57.8	58.1	59.3	60.7	58.4	-2.3	1.4
Croatia	50.7	41.0	40.2	42.9	42.2	36.8	-5.4	-0.7
Cyprus	44.4	40.6	31.7	43.5	32.1	30.9	-1.2	-11.4
Latvia	41.4	37.6	41.6	40.1	43.1	37.0	-6.1	3.0
Lithuania	38.3	37.6	32.2	37.7	31.1	31.9	0.8	-6.6
Luxembourg	34.8	38.1	24.7	36.2	27.0	21.0	-6.0	-9.2
Malta	39.7	40.1	31.0	43.6	33.8	22.4	-11.4	-9.8
Netherlands	41.5	39.5	36.6	39.9	37.1	30.8	-6.3	-2.8
Hungary	46.5	40.4	38.5	37.9	37.1	31.6	-5.5	-0.8
Poland	35.0	31.0	26.9	32.6	25.9	19.6	-6.3	-6.7
Portugal	55.4	49.9	43.7	49.4	42.5	44.9	2.4	-6.9
Romania	50.0	41.4	44.1	40.9	45.5	39.2	-6.3	4.6
Slovakia	60.2	62.4	61.8	61.7	61.5	55.4	-6.1	-0.2
Slovenia	53.3	47.5	42.9	47.4	42.4	43.8	1.4	-5.0
Sweden	18.3	18.5	17.2	20.1	18.1	13.0	-5.1	-2.0
Finland	25.7	24.2	21.8	27.6	21.3	19.8	-1.5	-6.3

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

Table 15: Unemployment Rate among Youth 15-24

	Annual Data (%)			Q3 (%)			Change (%)	
	2016	2017	2018	2017	2018	2019	2019/18	2018/17
Austria	11.2	9.8	9.4	10.5	9.6	9.7	0.1	-0.9
Belgium	20.1	19.3	15.8	19.1	16.3	13.2	-3.1	-2.8
Bulgaria	17.2	12.9	12.7	13.9	13.4	7.5	-5.9	-0.5
France	24.6	22.3	20.8	22.2	21.5	19.3	-2.2	-0.7
Germany	7.1	6.8	6.2	7.0	6.6	6.7	0.1	-0.4
Denmark	12.2	12.4	10.5	14.1	11.9	11.0	-0.9	-2.2
Czech Republic	10.5	7.9	6.7	8.7	7.6	6.1	-1.5	-1.1
EU	18.7	16.9	15.2	16.6	15.2	14.5	-0.7	-1.4
Greece	47.3	43.6	39.9	40.1	36.3	32.4	-3.9	-3.8
Estonia	13.4	12.1	11.9	10.9	16.6	13.5	-3.1	5.7
Euro area	20.9	18.8	16.9	18.3	16.7	15.5	-1.2	-1.6
United Kingdom	13.0	12.1	11.3	13.0	12.0	12.8	0.8	-1.0
Ireland	16.8	14.4	13.8	16.1	14.9	13.5	-1.4	-1.2
Spain	44.4	38.6	34.3	36.0	33.0	31.7	-1.3	-3.0
Italy	37.8	34.7	32.2	32.3	29.2	25.7	-3.5	-3.1
Croatia	31.8	27.2	23.3	21.6	18.9	14.0	-4.9	-2.7
Cyprus	29.1	24.7	20.2	24.0	17.0	15.6	-1.4	-7.0
Latvia	17.3	17.0	12.2	17.6	11.0	11.3	0.3	-6.6
Lithuania	14.5	13.3	11.1	12.0	8.9	10.5	1.6	-3.1
Luxembourg	19.1	15.5	14.1	13.2	13.3	15.1	1.8	0.1
Malta	10.7	10.6	9.1	10.1	10.4	9.2	-1.2	0.3
Netherlands	10.8	8.9	7.2	8.4	7.3	6.8	-0.5	-1.1
Hungary	12.9	10.7	10.2	11.3	10.7	11.4	0.7	-0.6
Poland	17.7	14.8	11.7	14.7	12.7	10.8	-1.9	-2.0
Portugal	28.2	23.8	20.3	24.2	20.0	17.9	-2.1	-4.2
Romania	20.6	18.3	16.2	16.9	16.4	17.9	1.5	-0.5
Slovakia	22.2	18.9	14.9	19.7	15.3	18.4	3.1	-4.4
Slovenia	15.2	11.2	8.8	10.8	9.1	7.6	-1.5	-1.7
Sweden	18.9	17.8	17.4	14.6	14.9	16.6	1.7	0.3
Finland	20.1	20.1	17.0	14.1	12.1	12.3	0.2	-2.0

(*) 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