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IOBE

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Foreword

IOBE publishes its fourth bulletin for 2020 as part of its series overviewing the Greek economy. Its publication takes place during a significant period for the Greek and the global economy, as for the first time, the prospect of dealing with the COVID-19 pandemic looks feasible - with the vaccination that was launched internationally by the end of 2020 - following the pandemic's strong recessional effects in the second and third quarter of last year (2020), and the re-imposition in many countries of severe restrictive measures on the operation of businesses and travel last November. The dynamics of the health crisis will be the key factor in determining economic developments in 2021, with the most important challenges related to the health protection of the population, the treatment of the virus mutations and the implementation of multifaceted interventions for economic recovery, internationally and at country level. As every IOBE quarterly bulletin, this report includes four chapters and an appendix with key structural indicators. The bulletin starts with a text analysing prospects for exiting the crisis but also the remaining challenges. The rest of the report is structured as follows:

The first section is a brief overview of the report, which presents its key points, which are analysed in detail in the following sections. The second section focuses on the general economic conditions, including: i) an analysis of the global economic environment in the third quarter of 2020, and the outlook for the last quarter of 2020 and in 2021, based on the most recent report of the OECD, ii) an outline of the economic climate in Greece in the fourth quarter of 2020, based on data from the latest IOBE business and consumer surveys, iii) an assessment of the execution of the General Government Budget in the first eleven months of 2020, iv) an outline of the developments in the domestic financial system in September-November 2020.

The third section focuses on the performance of the Greek economy mainly in the third quarter of 2020. First, it maps the macroeconomic environment in the same quarter and presents forecasts for the whole of 2020, as well as for 2021, taking into account all the available data on the effects of the pandemic, both domestically and internationally. Developments in key production sectors are also recorded in the first nine to eleven months of 2020, depending on the data availability, while the export performance of the Greek economy is presented from the beginning of 2020 to October. Next, it outlines the developments in the labour market in the July-September quarter. Then, it analyses the trends in inflation for the whole of 2020, and finally the section concludes with an assessment of the balance of payments for the period January-November. The fourth section of the report includes a presentation of a study on the contribution of inputs to agricultural production and the future of the agricultural sector in Greece.

At a methodological level, this report refers to and is based on data available until 21/01/2021. IOBE's next quarterly bulletin on the Greek economy will be published in late April 2021.

PROSPECTS FOR EXIT FROM THE CRISIS, YET CHALLENGES REMAIN

The pandemic, which has been in full swing for almost a year, has caused the biggest global economic downturn in decades, most likely since the 1929 crash. It is now clear that the pandemic is causing the world economy not just a very severe disturbance, but a deep crisis. A crisis does not mean a disaster, after all, the pandemic can be expected to come under control in the coming months. Crisis means, however, that the economy is unable to continue to develop smoothly with its previous structure and dynamics.

The pandemic has caused a deep crisis

After all, the fact that the end of the crisis is beginning to transpire does not mean that it is near. Nor that the path towards it is predetermined. For the pandemic itself, there is no room to underestimate the magnitude of the challenges, globally and nationally, in the coming months. For the economic recession that is caused, the deeper it becomes, the more difficult it will become to manage its imbalances.

There is no room to underestimate the scale of the challenges

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Despite generally positive developments on the vaccine front, strong uncertainties remain about the course of the health crisis. Even without some negative surprise on the primary features of the pandemic, tackling the problem will remain difficult. There is a threat for a new outbreak of cases in the first few months of the year, while towards the spring, managing the different dynamics created by gradual vaccination of only part of the population, but also the reasonable impatience to return to normality, could be a challenge. Gradually, however, in the new year the economy and society will leave their defence positions and will get ready for the next day.

As the health problem approaches its end, demand is expected to surge in most parts of the world, but its effect will be anything but uniform. Entire sectors of activity and sub-sectors will decline abruptly and others will grow sharply. The international division of labour is changing and the economies of some countries will flourish, while others will come under great pressure. States, businesses and households will be called upon to manage very high levels of debt, maintaining as much as possible their creditworthiness, by increasing their incomes faster than their debt servicing requirements.

Although the trends affecting the global economy will be mixed, their common component is expected to be positive. This is also supported by experience from previous crises, followed by periods of strong growth. On the basis of dynamics in such circumstances, two factors always play a central role, the course of productivity and job creation. Although the recession is deep, the relevant developments leave considerable room for optimism. The crisis acted as an accelerator for developments in technology and the management of businesses and public agencies. Despite the worrying accumulation of high debt, the interventions of states and central banks appear credible, aiming at protecting the productive fabric of society and the workforce. The interconnection of economic units in the world economy is changing, but not in a way that reveals, at least for the time being, a substantial damage to the production system.

Developments leave considerable room for optimism

In particular, the response to the crisis so far with monetary and fiscal policy has been very strong and now appears to be quite well coordinated. This response has significantly mitigated the recession and the impact on directly or indirectly affected households and businesses. The recession would otherwise have been even deeper, with very painful consequences for many more households that would have reached a state of abject poverty, with massive business bankruptcies and much less ability to defend against the pandemic by providing appropriate health and protection services. Another important effect of the policy measures is that, in combination, they have alleviated concerns about a possible collapse of economies in the aftermath of the crisis, which would have had uncontrollable consequences and would, secondarily, have created an additional very high cost. This effect is very important in terms of shaping relatively positive post-crisis expectations, so that the economic climate is not completely derailed, with a feedback effect on the real economic activity.

Relatively positive expectations have formed

In this context, 2021 will be particularly critical for the Greek economy. Initially, it will be crucial whether the health problem in Europe is brought under control early enough in the spring. If this does not happen, then this year's tourist season will be very weak, an element that will keep the whole economy fragile, but will be particularly burdensome for specific regions of the country. In any case, the expectation for tourism revenues exceeding half of their level from before the crisis is rather optimistic. In general, for businesses, the most critical parameter will be the management of debt and deferred liabilities. For employees, the main issue will concern the rate of job creation to replace lost jobs in large sectors such as retail trade, tourism and transport. In particular, the key issues are as follows:

Recovery will not be uniform

First, even under the central scenario, where the recovery begins in late spring, this will not be uniform. In sectors and industries, demand may recover slowly, including in many sectors that systematically create many jobs, such as tourism, food services, retail trade, travel, culture and recreation. But also regardless of sectors, a significant part of companies will be under considerable pressure, as their financial characteristics and falling demand, due to technological developments and other factors, will make it difficult for them to obtain finance. By contrast, for companies that will adapt to technological developments and demand trends, growth will be particularly strong.

Budget deficits should decline

Second, as the immediate health problem ends and the economy recovers, the fiscal deficits that have supported businesses and households will have to be eliminated. This development will be necessary to protect the credibility of the overall economic policy in the country, given the high public debt and the history of systematic deficits in the past. It will, of course, also be linked to decisions within the European framework. The positive impact of the protection umbrella offered to the Greek economy by the combined European measures, in monetary and fiscal policy, is already reflected in lower financing rates and less overall uncertainty, but in the near future the domestic economic policy will have to be very prudent and within the limits.

Third, the planning for the use of the recovery fund should be appropriately targeted to have a high growth multiplier. The relevant programming creates valuable short-term fiscal space - it is crucial to use it efficiently. In particular, resources should be used mainly to support necessary infrastructure, where there is a significant insufficiency, and for structural changes that will express a new model of a more open economy, with a stronger role for investment and exports. It will be of particular importance that the resources mobilise additional private investment and human capital. In any case, the resources available are very significant, but on their own they do not fill the large investment gap in the country, nor will they correct chronic institutional weaknesses. Either through pure public investment, or by facilitating private investment, they should mobilise additional resources and create new incentives in the economy so that the recovery is not short-lived. The difficulties in managing the projects concerned cannot be downplayed. The efficient use of these resources, and the private resources that must be leveraged, presupposes a very different operation of the state, businesses and many organisations than has been the case so far. Essentially, it requires a shift towards the preparation and realisation of investments of any kind, which is foreign to the structure and mentality of a large part of the Greek economy.

The project management difficulties cannot be downplayed

Fourth, a related key issue concerns the economic policy priorities, especially in an environment where fiscal deficits will have to be reduced, as early as next year, and how this will affect output and the market. Civil servants and

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pensioners may consider their incomes guaranteed, while workers responding to new developments in technology can expect good pay. For a large part of the population, however, well-paid jobs will be in short supply. Three trends contribute to the problem, all worrying. The Greek economy is not structured according to the international division of labour in order to systematically create high-value jobs. The current crisis is affecting to a greater extent the jobs of young people and especially of those who are not highly skilled - young people bore the greatest cost of the crisis in the last decade. The mechanisms linking the labour market with technological developments are very weak. As a result, there is a risk of perpetuating or widening the gap between groups receiving good income and others without access to opportunities. The immediate implementation of appropriate policies that cannot be mainly of a passive kind based on benefits, is crucial.

Fifth, the role of the central government will be even more important in the coming period as companies, sectors and employees will turn to it for support. In an economy with the characteristics and history of our own, this trend could lead on a wrong path, while high accumulated private debt and market pressure on incomes through benefits and special arrangements will push strongly in this direction. As a result, the choice of a central course of economic policy will be absolutely crucial. Next year there is an excellent opportunity to make a fresh start in the Greek economy. Through urgent and systematic simplification of rules and procedures, new momentum can be created by boosting work and entrepreneurship.

A pole of attraction rather than a source of centrifugal forces

Sixth, the next day of the pandemic will find economies competing internationally to attract investment and people. Both physical and human capital, however, tend to go where their net return is higher. This mainly implies high productivity, a reasonable tax burden and a stable institutional framework. The sooner progress is made in these areas, the more likely the Greek economy will become a pole of attraction rather than a source of centrifugal forces in the years immediately following the pandemic.

Education and health will not be as before

Seventh, changes that are already underway in central areas that primarily fall into the public sector are of special importance. In particular, after the pandemic, education and health will not be the same as before. The speed of the problems acts as an accelerator for changes in these two areas, which directly affect the well-being of households. A common element is the need for urgent technological upgrades, mainly with the integration of digital processes. But in both of these areas, there is a huge deficit today in health and education systems. Policy interventions, which should concern not only investments in technology and interconnection systems, but also organisational changes, will determine the course of a large and crucial part of the economy as early as in 2021.

Overall, the course of the Greek economy after the pandemic is expected to be determined by various counteracting trends, positive and negative. Growth rates can be expected to be very positive at the beginning of the exit, from the middle of the year, but to slow down quickly if economic policy does not react in time. In such an environment, the role of policy in shaping expectations can be crucial. Its clarity and consistent targeting are seen as signalling by companies and employees and can start a strong growth cycle.

1 BRIEF OVERVIEW

Milder than the initially estimated recession in the global economy in 2020. Recovery in 2021 that could potentially make up for losses.

The pressure from the COVID-19 pandemic on global economic activity eased considerably in the third quarter of last year, as the lockdown of a significant part of the economies that had been implemented in the previous quarter ended. According to the available data on economic activity worldwide, in the period July-September 2020 in the OECD countries, GDP fell by 3.9%, from 11.6% in the preceding quarter, while in the third quarter of 2019 it was growing by 1.7%. The rate of change of GDP in the most developed economies (G7) stood at -4.1%, compared to -11.9% in the previous quarter and 1.6% in the corresponding quarter of 2019. In the OECD's 20 largest economies, the recession weakened, from 8.9% to 2.0%. Among developed countries, the strongest recession was recorded in the United Kingdom, at 8.6%. It was followed by Japan, with 5.7%, and Canada, with 5.2%. By contrast, the recession in the US did not exceed 2.8% and was the mildest in this group, as in the second quarter of last year. The sharpest slowdown in GDP in the third quarter was recorded in France, from 18.9% to 4.3%, with Italy coming next (at 4.7% from 17.9%). In the major Asian emerging economies, China's was the only one to grow in the third quarter of 2020, at a rate of 4.9%, faster than in the previous quarter (3.2%). India saw the sharpest slowdown in the recession among the OECD countries, from 23.5% to 7.5%. In Latin America, Argentina's economy shrank by 10.1% (from 19.6% a quarter ago), while Brazil's GDP shrank by 3.9% (from 10.9%).

The easing of the GDP decline in the third quarter of 2020, especially in the most developed countries, reflects unprecedented fiscal, monetary and regulatory interventions. However, these economic policy interventions have a strong negative impact on the fiscal balance. The global primary deficit is estimated at 4.2% of GDP in 2020, compared to a primary surplus of 2.7% in 2019. The resulting increase in public debt in many countries is quite likely to create uncertainty as to its viability once the pandemic is over and fiscal rules are restored. The slowdown in the recession also stemmed from stronger-than-expected growth in private consumption, following the retail trade restrictions. However, this effect is cyclical and probably will not endure, as shown by the short-term indicators for the fourth quarter.

That said, the prospects of some developing economies have deteriorated significantly. In many of them this happened for the opposite reason from the one that restrained the decline of economic activity in the most developed economies, namely their inability to take income support and liquidity stimulus measures, due to accumulated high debt. In some such cases, further assistance or facilities will be required from the countries' creditors. In any case, product losses in these countries will be greater than in developed economies and their recovery will be more gradual.

The outbreak of the pandemic in many countries since September, in most of them with much stronger intensity than during the first wave, has led to a reimposition of public health measures in November. Many of these measures have been taken since December, so their impact on the economy will be reflected mainly in 2021. Extensive fiscal interventions have taken place again in some of the largest economies (USA, Japan), also with an impact on 2021.

Understandably, pandemic developments will be the most decisive driver of global economic activity in 2021. Among these developments, the progress in vaccinating the population and its effectiveness in relieving the pandemic will play a dominant role. These trends are expected to differ across countries. Despite these differences, the IMF estimates in its recent report that, thanks to the faster-than-expected spread of COVID-19 response instruments, the spread will be limited to a low level internationally towards the end of 2022. One factor of uncertainty recently and in the coming period stems from the possible effects of virus mutations.

In this context, health developments reinforce the need for more medium-term policy interventions. In the most developed economies, some of the planned instruments have this character, such as the Next Generation EU initiative (NGEU). More broadly, this will require a transition from revenue transfers to policies that seek to stem the effects of the financial crisis. These may be related to the digital transition and green growth, the strengthening of the public health system, and the securing of the access to high-quality raw materials. These and other objectives are included in the multiannual financial framework and the NGEU. In terms of monetary policy, no changes are expected from the major central banks this year and for most of 2022.

Regarding the trend of economic activity in the global economy in the medium term, due to the effects of strong policy interventions taken in the second quarter of 2020, but also the relatively mild escalation of the contraction in the fourth quarter, the recession now estimated for last year is less than in the previous report, slightly lower than 4.0%. A slightly stronger recovery is forecast for 2021, in the region of 5.0%, with the most developed economies, as well as those of China and India, leading the way.

Continued strong recession in the third quarter of 2020, due to the pandemic

The effects of the new coronavirus pandemic on economic activity in Greece continued to be particularly strong in the third quarter of last year. Domestic output shrank in this period by 11.7%, from 14.2% in the previous quarter, while a year earlier it was expanding by 1.2%. Overall in the first nine months of 2020 GDP was 8.5% lower than a year earlier, when it was growing by 1.8%.

In terms of trends in GDP components in January-September last year, domestic consumption shrank by 2.8%, while a year earlier it was expanding by 1.2%. The decline is due solely to the sharp fall in private consumption by 3.6%, in contrast to its increase by 1.4% in the first nine months of 2019. As it increased in both the first (+0.2%) and the third quarter (+1.0%), its decline came exclusively from the second quarter (-12.0%). By contrast, after expansion in the summer months by 4.4%, due to extraordinary expenditures in response to the pandemic, public consumption increased by 0.9% in the first nine months, milder compared to the same period of 2019 (+1.9%) .

Investment expanded by 12.0% in the first nine months of 2020, more than offsetting their decline by 1.3% the year before. The increase came mainly from the third quarter, when it expanded strongly, by 31.5%. However, the strong increase came exclusively from the expansion of stocks, to €2.2 billion, from €1.1 billion in 2019, as the formation of fixed capital was essentially unchanged (-0.3%). Although according to the Eurostat National Accounts methodology, stocks balance the GDP estimates from the supply-side with that of the demand-side approaches, the fact that in the third quarter of last year they accounted for 5.5% of GDP domestically, exceeding the exports of services, highlights their excessive impact on GDP in certain quarters and raises questions about their actual size.

Among the fixed capital categories, those related to constructions strengthened the most in absolute terms in the period January-September of the previous year. Specifically, investment in Housing increased by €203 million or 20.2%, an increase which was the strongest at this time of year since 2007. This was followed, with an increase of €142 million or 4.1%, by 'Other Constructions', which includes the expenses of the Public Investment Programme (PIP). This expansion is due to their rise in the second (+19.1%) and third quarter (+3.3%), which highlights its correlation with the sharp expansion of PIP spending over the same period for the reinforcement of businesses and the self-employed against the effects of COVID-19. Categories such as 'Other Machinery and Equipment' (+3.6%) and ICT Equipment (+ 6.8%) came next. The rise in the above fixed capital categories was offset by the particularly strong decline of investment in Transport Equipment since the beginning of last year, falling to €791 million in September (-49.1%).

In terms of developments in the external balance of the economy, as expected for the summer period due to the deterrent effect of the lockdown and public health measures on the planning and implementation of international travel, the sharp decline in exports is due solely to exports of services, which were limited to 20.0% of their level from just one year earlier. Following this development, the exports of services in January-September were 48.4% lower than in 2019, when they had increased significantly (+9.3%). Meanwhile, the exports of goods slightly increased in the first nine months of the year, by 1.0% compared to a year earlier, when they had expanded by 3.6%. In addition, at a quarterly level, they declined only in the second quarter (-3.2%).

Much milder pressures were exerted by the pandemic on imports, as they declined by 6.2% in the first nine months of 2020, a decrease similar to that in the third quarter (6.4%), in contrast to their expansion by 3.8% a year earlier. In absolute terms, the decrease in January-September was stronger in the imports of goods (-€1.9 billion) or 4.9%, compared to an increase of 3.6% a year earlier. The imports of services shrank by €1.46 billion or 10.4%, following an expansion of the same rate of the imports of goods a year earlier. The much larger decline in exports compared to imports worsened the external balance, as the deficit reached €11.1 billion (8.9% of GDP), from marginally negative in the same period of the previous year (€868 million).

Strong recession in Greece in 2020. Prospects for a significant recovery in 2021.

Developments related to the health crisis are expected to continue to be the main determinants of political and economic trends over most of 2021, domestically and internationally. In the current period, these developments are related to the second wave of the health crisis and the vaccination rollout. Despite the start of the vaccination process, as we are almost in the middle of winter, the next period will be particularly critical for the dynamics of the pandemic. A recent challenge in this regard comes from the COVID-19 mutations, the effects of which cannot be estimated at present. Discovering other means to deal with the pandemic (e.g. treatment drugs) may contribute to the weakening of the relevant uncertainty.

In the third quarter of last year, when the pandemic had weakened and public health measures were either lifted or relaxed, the recession slowed in the largest economies and economic regions: in the OECD countries the contraction eased to 3.9% from 11.7% in the second quarter, in the EU to 4.2% from 13.9% and in the US to 2.8% from 9.0%.

However, since September there has been a new COVID-19 wave in many European countries (France, Italy, Belgium, Portugal, the Netherlands, the United Kingdom, Poland, Romania, the Czech Republic, etc.), in the US and Russia, gradually with more daily cases than in the previous wave. In Brazil, the new outbreak started later (November) and has carried on, while in India it escalated rapidly and now the cases have reached the levels of last June. Following these developments, public health protection measures have been reinstated, which, as in the first phase of the health crisis, have a negative economic impact. In some Central and Northern European countries, the policy interventions escalated towards the end of 2020 and the beginning of 2021 (e.g. Germany, the Netherlands, the United Kingdom, Belgium), so the economic implications of the second phase are quite likely to become stronger felt this year.

The effects of the new coronavirus pandemic extend to other important variables of economic activity worldwide, such as the price of oil, which fluctuates sharply. In the period since the previous IOBE quarterly bulletin, the price of Brent oil is constantly on the rise, probably due to the strong recovery of China's economy and of the supplies for the winter season, gradually closing the year-on-year gap.

Since the first IOBE bulletin on the Greek economy after the outbreak of the COVID-19 pandemic, the macroeconomic forecasts are based on alternative assumptions about factors that are expected to affect key macroeconomic variables in the medium term. Sets of such assumptions make up the macroeconomic scenarios. In the current period, the most important determinants remain, as in 2020, the duration of the high-intensity health crisis, in Greece and internationally, especially in the Eurozone, as well as the magnitude of the policy interventions to halt its effects. As the dynamics of the health crisis strongly affect the tourism sector, whose contribution to Greece's GDP is much higher compared to other countries, the alternative forecast scenarios incorporate assumptions about activity (turnover) in this sector. Regarding the policy interventions, their impact this year will depend, in addition to the pandemic trend, on the raising of capital from the Resilience and Recovery Fund (NextGenerationEU). Three macroeconomic scenarios have been developed in the current bulletin. Their assumptions differ with respect to possible developments in 2021, while the assumptions for the last quarter of 2020 are the same across the scenarios.

In particular, the assumptions of the baseline forecast scenario are as follows: in the last quarter of 2020, the reintroduction of extensive public health protection measures, both domestically and internationally, put further pressure on the economy. However, in contrast to the first lockdown, the efforts to adapt operations to the health rules prevailed in a large part of the companies in Greece, while the mobility of the citizens was notably greater. Due to the resurgence of the health crisis at the end of last year, the relaxation of public health protection measures in the early months of 2021 will be quite gradual, while their extensive lifting will probably take place within the second quarter. No new strong wave of COVID-19 is expected, without excluding smaller, fleeting flare-ups. The duration of the summer tourist season will not be substantially different from the one before the health crisis, with the international demand for holidays in Greece boosted by the easing of the pandemic and the vaccination campaign, but also with restrictions on the countries of origin of tourists based on epidemiological data. Subsequently, revenues from international tourism services will increase from last year, reaching 45-50% of their level in 2019, from 24% in 2020. The effects of the health crisis will be mitigated by the operation of the Next Generation EU, whose resources will flow mainly from the second half of the year, with the target in the 2021 Budget (€5.5 billion) achieved or approached.

In the first alternative macroeconomic scenario, which is more optimistic than the baseline, the pandemic in Greece will ease significantly from the first quarter, allowing for the widespread removal of public health restrictions. The vast majority of measures will be lifted early in the second quarter and there will be no strong outbreak of the virus this year. The rapid weakening of the pandemic will allow the Tourism sector also to start its operation early in the second quarter and then the international tourist traffic in Greece will be higher than in the baseline scenario, with revenues from international tourism services also increasing further (50 -55% of their level in 2019). Regarding the absorption of NGEU resources, the assumption is the same as in the baseline scenario.

The second alternative, more unfavourable than the baseline, scenario is based on the assumption that the health crisis will not ease further domestically and internationally for much of 2021. The pandemic may experience a new, strong wave, e.g. in spring or autumn. That said, more interventions to support businesses and households will be implemented than those foreseen in the 2021 Budget. As a result of these trends in the pandemic, the duration of the tourist season will be similar to that in 2020. However, vaccinating part of the population by the summer will stimulate international tourism in these unfavourable travel conditions, bringing the relevant receipts to 35-40% of their level in 2019. In addition, NGEU inflows will fall well short of the target in the 2021 Budget, e.g. due to procedural problems related to the National Recovery and Resilience Plan, disbursement of funds, etc.

In detail, with regard to recent developments in the pandemic domestically, its spread appears to have been partially controlled in the current period, with the daily number of new cases of COViD-19 having fallen significantly since the beginning of the second lockdown at the beginning of last November. The current spread of the pandemic in Greece is less expansive compared to other Eurozone countries with the same or similar population (e.g. Belgium, Portugal, Austria). Under these trends, the Greek government has been relaxing some restrictive measures to protect public health since the beginning of January this year, starting with the opening of kindergartens and primary schools and retail stores, as well as hairdressers and personal hygiene services. In addition, the opening of lower and upper secondary education schools has been announced from 1 February. Regardless of the expected positive effects of the easing of measures affecting businesses, which is premature to assess, the start of the lockdown lifting is expected to be mainly reflected in the improvement of business and household expectations, forming, in combination with the ongoing vaccination campaign, prospects of overcoming the health crisis. However, in mid-winter, the weather favours the spread of COVID-19, as it did about a year earlier, at the beginning of the pandemic. Mutations of the new coronavirus may contribute to such a development. Therefore, the relaxation or lifting of public health protection measures should be gradual and careful, depending on the trend of cases, in order to avoid a new strong outbreak of COVID-19, which will lead to reimposition of the lockdown, with negative consequences that may be stronger than in the past for businesses and households, given the intense pressure they have already suffered from previous lockdowns.

The imposition of the second lockdown led the Greek government to extend or restore interventions to support businesses and households. As mentioned in previous IOBE bulletins on the Greek economy, the support measures prevent the further weakening of consumer demand and thus of business activity and employment. In addition, a significant part of the liquidity that companies need in order to maintain their jobs and meet their current obligations (in the public sector, banks, their suppliers), is provided by extraordinary financial tools. However, these have a much smaller positive impact on investment than on liquidity. Nevertheless, most likely quite a few companies did make investments in 2020 to adapt their way of working, production or sales to the conditions of the health crisis (e.g. teleworking, electronic sales). Indicatively, this trend is reflected in the increase in investment in ICT equipment. Funding from the Next Generation EU is expected to increase the availability of investment resources from the public sector to businesses compared to last year, mainly in the second half of 2021.

While policy interventions mitigate the economic impact of restrictive measures, they have a particularly strong negative impact on the fiscal balance. According to the Explanatory Report of the 2021 Budget, their cost in cash-terms last year, including the recent ones for the second lockdown, was estimated at €18.2 billion. Most of these (€11.6 billion) incurred direct fiscal cost, €5.0 billion were related to liquidity interventions and €1.57 billion took the form of tax and social security relief. Mainly due to these measures, the General Government deficit is estimated at 9.9% of GDP, which combined with the revision of GDP led to a sharp expansion of public debt last year, to 208.9% of GDP, from 180.5% in 2019.

Actions to mitigate the effects of the health crisis are also planned for 2021. According to the Explanatory Report in the 2021 Budget, their total cost reach €7.32 billion in cash-terms. The most significant actions are the new, fifth round of "repayable advances", with a budget of €1.5 billion, the reduction by three percentage points of the social security contributions of the employees of the private sector and the suspension of the payment of the special solidarity levy. In addition, the "BRIDGE" programme will be extended and most of the action to cover social security contributions for six months, aiming to create 100,000 new jobs, will be implemented. If necessary due to the evolution of the pandemic, other measures might also be taken.

In terms of developments and trends in the financial system, in particular those that support investment, banks are increasingly using the ECB's "unconventional" liquidity-raising capabilities, which have emerged in response to the current extraordinary circumstances. The main of these financial instruments is the Pandemic Emergency Purchase Programme (PEPP), with a budget of €1.85 trillion, following its new expansion last December until March 2022. At the same time, a new liquidity facility has been set up, consisting of non-targeted longer-term pandemic emergency longer-term refinancing operations (PELTRO), with an interest rate 25 points lower than the average main refinancing rate (MRO). In this context of financial facilities, the drawing of liquidity of Greek banks from the Eurosystem with low-cost loans through long-term refinancing operations reached €24.4 billion in April - September last year and totalled €38.96 billion in the end. In October-November these funds slightly declined (-€950 million). Through the PEPP, the Greek government bond purchases exceeded €16 billion in March-November 2020. The positive effects of the extraordinary, "non-conventional" liquidity interventions of the ECB for the banks in Greece are highlighted in section 2.2C of this bulletin.

Although these developments favour credit expansion, continued caution over the duration and severity of the health crisis, as well as its impact on debt service, will continue to deter bank lending, at least for most of the first half of 2021. The strong expansion of lending to non-financial corporations (average rate of 8.0% in August-October, from 4.0% in the previous seven months) stems largely from emergency liquidity programmes to address the effects of the pandemic (Entrepreneurship Fund II, Guarantee Fund for COVID 19) and is not due to a change in the lending policy of banking institutions.

The new suspension of activity in many sectors since last November puts additional pressure on business turnover and household income, affecting their ability to service their debt. Besides, the further suspension of bank loan instalments until the end of 2020, as part of the support measures for the second lockdown, conceals the trend in non-performing loans (NPLs) in the current period, which will crystalise in the coming months when the measure expires. That said, the mild decline in exports of goods excluding petroleum products – ships in 2020 highlighted the high competitiveness of certain industrial sectors and parts of the primary sector and their good medium-term prospects, which facilitates their financing. More broadly, significant vaccination progress and a steady decline in new cases of COVID-19 in Greece could be factors in substantially reducing uncertainty, allowing both supply and demand for bank credit to recover.

The possibility of an increase in non-performing loans due to the health crisis and the revised targets for reducing NPLs by the end of 2021 highlight the need for immediate, greater use of the firepower of the Hercules programme and possible other systemic solutions, such as the creation of an Asset Management Company ('bad bank'), which will be linked to addressing the deferred tax claims (DTC) issue. A relevant plan was submitted in mid-September by the BoG to the government and the institutions and was presented at the end of December to the bank administrations. Three of the four systemic banks are currently in the process of securitising part of their portfolio. As the possibility of guarantees from the Greek State under this programme is nearing its end (10/04/2021, 18 months after the publication of the relevant Decision of the European Commission), the option of extending the programme will be activated, with an expansion of the maximum guarantee amount.

Turning to financing opportunities of businesses from the public sector, the Next Generation EU resources will be major additional source of investment capital across Europe in the coming years. Of the total resources of the fund, amounting to €750 billion, of which €390 billion will be provided through grants and €310 billion through loans, Greece can receive up to €19.3 billion in grants and up to €12.7 billion in loans. All Member States must submit to the European Commission plans on how the aid from the new European fund will be used by 30 April 2021. As mentioned in the assumptions of the alternative macroeconomic scenarios, a decisive factor for the impact of the NGEU on the domestic economy this year will be the rate of absorption of its funds. This will also determine the extent to which the base effects of the extraordinary liquidity programmes of 2020 on business investment, which transpired through the Public Investment Programme (PIP), will be felt in the current year. The Explanatory Report of the 2021 Budget predicts that the resources to be raised from the PIP this year will be around €5.5 billion. The basic scenario of the Bank of Greece for the examination of the effect of the NGEU support measures on the domestic economy assumes that only those planned through the

Recovery and Resilience Facility, amounting to €3.9 billion, and not from other financial instruments (e.g. REACT-EU) will be used in 2021.

In terms of regular financing through the Public Investment Programme its expenditures reached €8.42 billion in January-November, a level higher than the relevant target in the 2020 Budget by €2.78 billion and more than double their level in the same period of 2019 (€3.17 billion). However, the excess is due to exceptional transfer payments to businesses and self-employed or sole proprietors, related to the health crisis, totalling €4.25 billion. Excluding this support measure, the PIP expenditure reached €4.17 billion, higher from last year by €1.0 billion, yet it lags behind the target by €1.47 billion. In the Explanatory Report of the State Budget for 2021, the estimate for the PIP expenditure in 2020 overall is €10.42 billion. Taking into account the new measures to support businesses due to the second lockdown, the expenses of the PIP last December are considered to have mainly concerned those measures. Given this, it is now possible that the remaining payments of the PIP last year fell short of both the relevant target and the payments of 2019 (€5.64 billion).

With regard to the financing of investments by the PIP in 2021, the relevant target set in the Draft State Budget is €6.75 billion, excluding possible transfers due to COVID-19. Given the new decline in financial support-measures last year, well below the one-year target, and the fact that the 2014-2020 programming period is nearing completion, support for investment projects through the PIP may be higher this year than in 2020.

As predicted in previous IOBE bulletins on the Greek economy, export pressures from restrictions or bans on cross-border passenger traffic had a strong negative effect on domestic output since the pandemic began and were the strongest among the components of GDP in the first two quarters of the year. Imports are also weakening, with a clearly milder trend, which is considered to be largely due to the fact that the elasticity of imports of goods to domestic demand is low. The available data on international tourist flows in the fourth quarter show signs of a strengthening contraction over the course of the year. If the current pandemic wave intensifies in 2021, or new outbreaks occur, such effects are likely to continue. Conversely, in the event that the vaccination campaign proceeds swiftly and there is a significant weakening of the pandemic, passenger traffic will escalate rapidly, favouring tourism, while significant relaxation or lifting of public health protection measures in export destinations will stimulate their import demand.

Taking into account recent and possible developments in the COVID-19 pandemic, in particular its second wave that began in the last two months of 2020, but also the start of the vaccination campaign last December, the budgetary and monetary policy measures to address the health crisis, and the trends in GDP and its components in the first nine months of the previous year, household consumption is expected to shift its trend from positive in July-September to negative in the final quarter of the year. The pressures on private-sector consumption spending will be exerted primarily by measures to suspend the operation of companies as part of the second lockdown. The sharp decline in activity in sectors with a significant share of GDP due to this suspension (e.g. Food Services, Retail Trade, Tourism) will significantly reduce the income of employees and jobs in these sectors.

Measures to support household income will act to curb these effects. In addition, the emergency needs that have arisen since the beginning of the health crisis, e.g. for health services, internet services, land couriers, will continue to have a positive impact on employment and income. The 100% subsidy programme for employer contributions for six months that began in the final quarter of last year is also estimated to have contributed to job creation. In view of the above developments, private consumption is estimated to have declined by 4.5% to 5.5% in 2020.

Regarding the trend of private consumption in 2021, the tax cuts planned in the budget (social security contributions, social solidarity levy) will increase disposable income and thus consumption expenditure. Under the baseline and favourable scenarios, these interventions, combined with the continuation of household support measures against COVID-19 at least for the first quarter of 2021, will replace, to some extent, but not fully, the emergency transfers to households given due to COVID-19 last year. The biggest boost to consumption will come from the expansion of employment, following the lifting of the vast majority of domestic restrictions in the second quarter and the lack of a new strong rise in COVID-19 cases. These developments will allow the operation of the tourism sector and related activities (Arts – Entertainment, Transport) in the summer season for its almost full (basic scenario) or full pre-health-crisis duration (favourable scenario). Employment stimulus is also anticipated to come from significant escalation of investment activity. Taking this into account, under the basic macroeconomic forecast scenario, private consumption is projected to strengthen by 2.5-3.5%, while in the case of the favourable scenario its increase may reach 4.0-4.5%.

In the event of adverse developments in the new coronavirus, such as the continuation of its recent outbreak, throughout the first quarter and part of the duration of the following quarter, or the onset of a new strong wave later in the year, the consumption trend will remain negative in 2021. The prolonged suspension of business activity will affect consumption spending directly, but also indirectly, through sustained pressures on employment. The short duration of the tourism season, similar to that of the previous year, together with the weak investment interest, despite the availability of funds, will also contribute to this development. In this context, private consumption is projected to contract further, by between 1.0% and 1.5%.

As regards developments in public consumption, the continuation of exceptional expenditure due to the pandemic, as well as the payment of €1.4 billion retroactively to pensioners, boosted its growth in the final quarter of 2020, which may have reached about 6.5%. Moreover, the decline in the second quarter of 2020 was largely due to the negative "base result" due to the high level recorded a year earlier during the elections. Subsequently, it is estimated that public consumption was higher in 2020 overall by 2.5% to 3.5% compared to the previous year.

According to the State Budget of 2021, some of the interventions due to COVID-19 will remain in place (e.g. special purpose compensation for suspended employees, non-repayable advance), while new ones will also be implemented. In total, these measures are projected to have a notably lower budget than in 2020. In addition, the pensioners will not receive retroactive payments again. Therefore, there is a possibility of public consumption decrease compared to last year. However, if the current wave of the pandemic in Greece persists for a long time or new ones follow, the implementation of fiscal interventions will be needed again to deal with this. As a result of such a development, the reduction in public consumption will be small. In particular, public consumption expenditure is foreseen to decline in 2021 by 3-5% in the basic scenario and by 5-7% in the favourable scenario, while if the health conditions do not improve significantly compared to 2020, its reduction will be small, by 1.5-2.5%.

On the investment side, the significantly higher liquidity from the banking system, compared to a few years ago, has created new financial opportunities for banks and businesses, which did not exist in the past. However, unless there is a steady abatement of the health crisis, the banking institutions are expected to be cautious about lending, as there is a risk of a new escalation of NPLs.

The significant credit expansion to businesses in 2020 was due in part to the extraordinary liquidity programmes provided by the Greek State (Entrepreneurship Fund II, Guarantee Fund). In addition, funding from these and other emergency actions to address the effects of the pandemic (e.g. repayable advance), although not investment-related, was partly reflected in investment expenditure on GDP, as it was made available under the Public Investment Programme. At the moment, no financial interventions of this kind have been planned or implemented for 2021, except for the repayable advance 5 programme. However, it is now possible that if there is a need for such a thing, similar interventions will be implemented as last year. The use of the resources of the Next Generation EU initiative will be a decisive factor for the impact of the public sector on investment activity this year, but also in the coming years. Based on the assumptions of the macroeconomic scenarios for the absorption of NGEU funds, the effect of the PIP on investments is expected to strengthen in the basic and favourable scenarios, while in the unfavourable one it will fluctuate around last year's level.

The impact of the current, high uncertainty due to COVID-19 on investment highlights the importance of public works and investment in completed privatisations, for a relatively stable investment activity, with long-term growth prospects. In 2021, the most important ongoing or upcoming investments of this kind concerns Hellinikon, the PPA, the Athens International Airport and the regional airports. If the privatisations had been implemented at a faster rate in previous years, more investment in infrastructure would now be under way, mitigating the impact of cyclical factors on investment activity. The impact of the extensive delay in the implementation of the privatisation programme in 2020, with revenues not exceeding €57.5 million, against a target of €2.45 billion, due to the pandemic, will be reflected in current and future investments over the coming years.

Construction projects eased the decline in fixed capital formation in 2020, as they showed a particularly strong growth from the beginning of the year, which continued weakened until last September. However, as this came largely from investments in Tourism, hotel construction and property renovation, for use via Airbnb, it is now likely that it will come under pressure this year.

Therefore, the level of investment is determined by a large number of factors, with effects varying in direction and intensity. Taking into account these effects for 2020, it is estimated that investment has increased by 10.0-11.0%. The trend of investment activity this year will depend mainly on the course of the pandemic, the absorption of resources from the NGEU, as well as the dynamics of exports of goods, which will determine the investment decisions in Industry. In the baseline scenario of macroeconomic developments, in which the pandemic will gradually subside, without a new strong flare-up and the NGEU absorption targets will be achieved, investment will recover by 15-18%. In the favourable scenario, the investment activity will be stimulated mainly by the appetite of tourism companies to make new investments (+20-22%). If the pandemic does not show a steady weakening trend and the fluctuations continue, the decline in investment activity will be restrained by NGEU resources and investments in export-oriented sectors (-3% to -6%).

The impact of the second outbreak of the pandemic may be greater in tourism this year than last year, if it does not weaken soon, as it will affect bookings. That said, a steady de-escalation of the health crisis domestically from the first quarter will significantly reignite tourism interest, especially if there are no similar developments in competitive travel destinations. In any case, the manifestation of demand will be more gradual than before the health crisis, due to the uncertainty about its development over the winter. After all, older people, who have an increased share of international arrivals domestically, will be more cautious about traveling.

In terms of the provision of international transport services, the decline towards the end of 2020 was milder than in tourism. However, it escalated from the beginning of last autumn, before the re-imposition of restrictive measures across Europe. Nevertheless, if China's economy continues to recover rapidly this year, as in the second half of last year, as expected in recent forecasts by international organisations (IMF), international trade will strengthen. The aid of transport services will be necessary for its growth. The evolution of the pandemic, of course, can reverse the above predicted dynamics in the international trade in goods. In any case, following the extensive contraction of activity in both sectors last year, after being at the centre of restrictive measures, similar development is not expected in 2021, even if the health crisis resurges.

The exports of goods excluding fuel - ships continued to counteract the impact of the exports of services on total exports until the end of 2020, as they kept growing in the fourth quarter. The positive revision of the 2020 recession forecasts in the Euro area (European Commission: 7.8%, from 8.7%), which is the main export destination of the Greek products, explains part of this trend. However, the Euro area's growth forecast for 2021 has deteriorated (EC: 4.2% instead of 6.1%), highlighting the major challenges facing the European economy, many of which existed before the health crisis. The vaccination from the end of 2020 across Europe, as well as in other regions, strengthens the possibility of a gradual weakening of the transmission of the new virus from the first half of this year, allowing the operation of economies without new interruptions in some of their parts and with fewer restrictions.

Under these circumstances, the new lockdown in late 2020 escalated anew the pressures on both sides of exports, but probably to a lesser extent than in the second quarter. Therefore, exports last year fell in the range of 25.5-26.5%. Under the baseline scenario, exports will rise by 15-18% this year, while in the favourable scenario, the longer tourist season and a faster recovery internationally and in Europe will boost their growth (19-22%). In the unfavourable scenario, the rise will be much milder (5-7%).

The imposition of a second lockdown is estimated to have put pressure on the economy in the last quarter of 2020, through a decline in private consumption, exports, and imports, with stronger intensity for another quarter on the domestic demand for services. By contrast, the significant boost of domestic demand and exports this year, under the basic and favourable macroeconomic scenario of developments, will have a strong positive impact on imports. In the unfavourable scenario, the decline in imports will be restrained by the expected increase in exports. Under these effects, imports are expected to decline by 6.5-7.5% in the previous year. For this year, they are expected to rise, in the area of 11% to 15%, under the basic and favourable scenario respectively. By contrast, under the unfavourable scenario, imports will decline again, mildly (-2% to -4%).

The estimation of the GDP components in 2020 and this year, based on different scenarios for developments in the COVID-19 pandemic in Greece and internationally, as well as for their main drivers, have produced corresponding forecasts for the change in domestic output. On this basis, the recession in the Greek economy in 2020 is estimated to have been in the range of 9.0-9.5%. In 2021, if the health crisis gradually subsides from the first quarter, without further flare-ups, and at the same time the target of absorbing funds from the Next Generation EU is reached, a recovery is expected in the range of 4.0-4.3%. In the event of a faster waning of the pandemic and a recovery in economic activity internationally, the rebound will be in the range of 5.0-5.3%. However, if this year's health developments are largely repeated and there is a lag in the absorption of the European emergency funds, GDP will be only slightly higher than in 2020 (by 0.5-1%).

State Budget: continues to deviate from the targets due to the effects of the pandemic and related policy interventions

According to the state budget execution data for January-November of 2020, its deficit reached €18.3 billion, against a target for a deficit of €2.1 billion and a surplus of €1.9 billion a year before (2019). The primary balance of the State Budget was for the same period in a deficit, by €13.7 billion, compared to a surplus of €6.9 billion a year earlier and against a target for a surplus of €2.3 billion in the first eleven months of last year. The deviation against the target in January-November 2020 was larger on the expenditure side of the State Budget, highlighting the impact of emergency interventions to support businesses, self-employed and households. The target for the State Budget expenditures was overshot by €9.9 billion, coming mainly from transfers higher by €8.3 billion, which mostly concern the special purpose compensation expenditure for employees and scientists. Next rank the expenditures of the Public Investment Programme (+€2.8 billion), for the repayable advance, the special purpose compensation for companies and the self-employed, the subsidy of interest on loans to SMEs and the Entrepreneurship Fund II which provides business guarantees in response to the COVID-19 pandemic. Therefore, on the expenditure side, the deviation from the target is due to the conditions created by the health crisis.

On the side of the State Budget revenues, the deviation comes from the decline of activity, alongside the interventions to facilitate businesses and households. Before tax refunds, revenues are short by €6.3 billion, reaching €42.1 billion. Tax revenues fell short of the target in the 2020 Budget by the same amount (€6.3 billion) and after transfers by €1.7 billion.

Unemployment decline in 2020, from job support measures and workforce reduction. Prospect of a mild retreat in 2021.

The sharp change in the GDP trend so far has been mildly reflected in the trend of unemployment. As pointed out in previous bulletins on the Greek economy, a number of factors are considered to have contributed to this development. In particular, the measures to protect jobs from the effects of the pandemic, combined with the fact that the strong decline in the number of employees in the second quarter was primarily attributed to their exit from the workforce, due to subdued job search, resulted in no increase in the number of unemployed. In the third quarter, the unemployment rate stood at 16.2%, 0.2 percentage points lower than in the corresponding quarter of 2019. In the first three quarters of 2020 the average unemployment rate stood at 16.4%, 1.1 percentage points lower than a year earlier. In addition, it was the lowest for this period since 2011.

Most jobs were lost year on year, as in the second quarter, primarily in the Primary sector (-44.9k or -10.0%), Tourism (-33.2k or -7.7%) and in Manufacturing (-12.0k or -3.1%). By contrast, employment increased mainly in Human Health Activities (+29.6k or +11.9%), Wholesale-Retail Trade (+21.3k or +3.0%) and Public Administration-Defence-Compulsory Social Security, with the trends in the first and third sectors considered to reflect the emergencies in services created by the health crisis.

The strong negative effects of the suspension of operations in March-May last year on the employment of many sectors, with a significant share in domestic employment, such as

Tourism, Food Services, Arts and Entertainment, are estimated to be largely repeated in the final quarter of 2020. Due to the prolonged negative pressures on companies from the pandemic, the negative effects may have expanded to more companies in these sectors, as well as to other sectors (e.g. Education). For this reason, job protection measures are considered to have contributed less to job retention than during the first lockdown.

That said, these developments create the need to provide specific services (courier, creation of ICT applications). These additional needs are considered to have been largely met by job creation during the first lockdown. In addition, the decline in the workforce, from workers who have lost their jobs and are discouraged by the current conditions, may have escalated again in October-December, with a deterrent effect on the increase in the number of unemployed.

As expected, the developments related to the health crisis will be the main driver of the trend in employment and thus the unemployment rate in the new year. A steady, albeit slight, improvement in the epidemiological conditions from the first quarter, without a new strong outbreak of COVID-19, with the aid of the vaccinations, as assumed in the basic macroeconomic forecast scenario of IOBE, will allow the reopening within the current half of the year of quite a few companies, affected since last November. The duration of the summer tourist season, which under these health conditions will not differ substantially compared to before the epidemiological crisis will be central to employment dynamics. If a faster weakening of COVID-19 is achieved, according to the optimistic scenario of IOBE, domestic tourism will be possible relatively early from the second quarter, as well as in the autumn, with corresponding, stimulating effects on employment. However, if the health conditions do not change from current levels, the viability of many businesses is likely to be threatened, putting their jobs at risk (adverse scenario).

The public sector will boost domestic employment next year, both directly and indirectly. In the first case, the effect will come from the support programme for the creation of 100k jobs, the recruitments in the health system and the employment programmes of OAED. In the second case, the indirect effect will come from the contribution of the public sector to investment activity, with stronger fiscal support measures from the PIP and resources from the Next Generation EU. More broadly, investment will benefit mainly from the continued expansion of credit from the financial sector. The stimulating effects of investment will be reflected in employment in Construction. However, building activity is not expected to continue to be supported by the development of Airbnb and the Tourism sector, as has been the case in previous years.

Job creation this year will be supported by stronger exports in specific manufacturing sectors last year. The exports of goods are expected to continue to grow, speeding up this year from the recovery in the Eurozone, but also the resurgence of world trade volume, especially due to the rapid acceleration of China's economy.

Taking into account the above effects on employment, it is estimated that the unemployment rate last year was in the region of 16.5%, 0.8 percentage points lower than in 2019. In relation to the three scenarios of macroeconomic developments in 2021, in the basic scenario the unemployment rate is expected to fall in the region of 15.5-16.0%, in the favourable scenario to 15.0%, while in the unfavourable scenario it will increase significantly (18.0-18.5%).

Falling prices in 2020, due to the effects of indirect taxes and energy prices. Changing trend this year, due to escalating domestic demand and rising energy costs.

The domestic Consumer Price Index (CPI) recorded a decline last year compared to 2019 by 1.2%, from an increase of 0.3% in 2019. Note that IOBE's latest forecast for the change in the CPI last year was between 1.2-1.4%. The deflation came from energy goods and indirect taxes, as the change in the index with fixed taxes and excluding energy goods was positive, by 0.6%. The contribution of taxation to the change in consumer prices was negative, namely -1.1 percentage points, mainly due to the decrease in indirect tax rates since last June. The decline in the price of oil during the pandemic, which shaped its average level in euro last year 36.0% lower than in 2019, is the main cause of the negative average contribution of energy commodity prices to the rate of domestic price change, by 0.8% in 2019.

This year, the impact of demand will depend, as expected, on developments related to the pandemic and its impact on employment and subsequently on disposable income and consumption. Under the basic macroeconomic scenario, the gradual relaxation of public health protection measures from the first quarter of this year and their extended lifting in the next quarter will lead to a recovery in activity and employment in the sectors affected by the lockdown. Combined with the creation of jobs in export-oriented activities in industry, and stronger investment, domestic disposable income will increase, boosting consumer demand and then prices. These developments and their effects on prices will be faster and stronger respectively under the positive scenario, with the activity in the tourism sector starting earlier and the volume of international trade recovering further. If the health crisis does not ease significantly beyond current levels and continues to fluctuate sharply, as it did last year, public health protection measures will continue for much of the year. Subsequently, the rise of economic activity and employment will be subdued, while concerns about the development of the health crisis will persist. Under these adverse developments, the restrictive pressures on consumer demand will escalate. The reduction of direct income tax is expected to have a positive effect on CPI in 2021, from the suspension of the solidarity contribution levy and the reduction of the social security contributions.

On the expected impact of indirect taxes on the formation of CPI in 2021, extending the reduction for specific goods and services until 30 April 2021 will maintain their deflationary effect on prices over the same period. For the remainder of the year, if these measures are not extended, the price trend in the concerned product and service categories will turn positive.

The dynamics of the pandemic through its impact on global demand will also determine developments on the energy cost side. After all, on the supply side, the reduction in daily production by OPEC + member countries, which began in April 2020, has counteracted only slightly the previous sharp drop in the price of Brent oil. The rise in oil prices since then and until the end of last year is thought to be more related to China's rapid economic recovery and winter supplies. The start of vaccination in many countries worldwide since the end of last December and its acceleration since then, are shaping the prospect of exiting the health crisis, phasing out measures to protect public health and boost demand. Nevertheless, significant challenges remain regarding the treatment of the pandemic mentioned above (effects of virus mutations, vaccine efficacy, drug discovery, etc.). The latest forecasts from international organisations point to a significant recovery in economic activity worldwide, with China's economy, which is the world's second largest oil consumer, leading the way.

Taking into account the above possible trends in the key components of the domestic Consumer Price Index, as well as their effects on it in the past, the baseline scenario of macroeconomic developments predicts a mild inflation rate of 0.2-0.5%, which in the favourable scenario will accelerated to 0.6-1.0%, from the stronger recovery of domestic demand and energy costs. Under the adverse macroeconomic scenario, weakening consumer demand, combined with a mild increase in energy costs, will lead to a further decline in consumer prices (-0.5 to -0.7%).

Special study: The contribution of inputs to agricultural production and the future of the agricultural sector in Greece

The agricultural sector contributes substantially to the Greek economy in terms of production and employment, while supporting the food industry and the country's export performance. The basic agricultural supplies - Fertilizers, Plant Protection Products and Propagation Material - support the domestic agri-food sector in many ways, while their production and distribution is an important economic activity for the Greek economy. The share of expenditure on agricultural supplies in the cost of production in Greece is much lower than the European Union average, while the effects on prices or income of farmers from possible increases in the prices of agricultural supplies are controlled. A new model for the development of the agricultural sector in Greece, with emphasis on technological and organisational modernisation, development of human resources, close cooperation with research agencies, and the repositioning of Greek agri-food products, will have positive effects on the Greek economy and income, making them less vulnerable to exogenous fluctuations in production costs.

2 ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the Global Economy

A. The global Environment

- The global economy is projected to shrink by 4.2% in 2020, less than previously estimated this year (7.6%). It is expected to recover at the same rate in 2021.
- The COVID-19 pandemic continues to severely disrupt economic activity, as most countries face a new outbreak of the virus by the end of 2020
- Developments around the administration of the vaccine and the discovery of medicines against the new coronavirus improve the outlook for the global economy. But there are also new sources of uncertainty and challenges, such as the COVID-19 mutations.

The COVID-19 pandemic continued to put pressure on economic activity worldwide in the third quarter of last year, but significantly less than in the previous quarter, as the lockdown of a significant part of the economies was lifted. The contraction rate in the OECD countries has eased to 3.9%, from 11.6% in the previous quarter. The GDP growth rate in the major developed economies (G7) stood at -4.1%, compared with -11.9% in the previous quarter and 1.6% in the same quarter of 2019. In the 20 major developed OECD countries, the recession weakened, from 8.9% to 2.0%. The trends at the country level point to further acceleration of China's economic recovery, from 3.2% to 4.9%. In the major developed economies, the sharpest slowdown in the third quarter was recorded in France, from 18.9% to 4.3%, followed by Italy (to 4.7% from 17.9%). In contrast, the weakest decline in the recession was recorded in Japan, from 10.3% to 5.9%.

The recovery of global economic activity is constantly hampered by the steady, high rise in coronavirus cases in many economies since the fourth quarter of 2020, which has led to the imposition of new restrictive measures. Economic activity declined again in the fourth quarter of 2020, while the first quarter of 2021 is expected to be weak, especially in European countries.

However, the outlook for the global economy has improved in early 2021, due to developments around vaccination and the discovery of medicines against the new coronavirus. Faster vaccine production, combined with better coordination between producers and governments for their distribution, will boost confidence and recovery rates. However, uncertainty about the immediate future remains, mainly due to the virus mutations that have emerged recently. As long as the current outbreaks of the virus remain under control, progress in the vaccination process is expected to gradually improve the climate.

According to OECD estimates, the rate of change in world GDP in 2020 will be -4.2%, better than the forecast of last June (-7.6%), reflecting the smaller-than-expected decline in economic activity in the second quarter and the stronger recovery in the third quarter of the year. However, the growth forecast for 2021 was adjusted downwards, to 4.2%, compared to 5.2% in the previous report.

Policymakers have taken strong measures in many countries, supporting the labour market and providing liquidity to businesses to prevent medium-to-long-term effects of the health crisis on their economies. However, these policy interventions have a strong negative impact on the fiscal balance. The level of the world's primary budget deficit is estimated at 4.2% of GDP in 2020 (from a primary surplus of 2.7% in 2019). This development has resulted in the expansion of public debt in many countries and creates uncertainty about its viability once the pandemic and the relaxation of fiscal rules are over. In particular, emerging economies hit hard by the pandemic are likely to need to restructure their public debt in the coming years.

Table 2.1 presents the latest OECD estimates and forecasts of annual GDP changes in the global economy and in selected developed and developing countries for the years 2020 and 2021.

Next, we analyse the latest and expected trends in the economies of major states and regions, up until the end of 2020 and for 2021. In particular, among the major developed countries, the US economy seems to be gradually recovering after the sharp decline in economic activity in the second quarter of 2020. The annual rate of GDP change for the third quarter was -2.8%, from -9.0% in the previous quarter and 2.1% in the same quarter of 2019. For 2020, GDP is estimated to decrease by 3.7% compared to 2019, while for 2021 it is projected to recover in part (3.2%). As a result of the fiscal measures against the pandemic, the deficit of the US federal government for 2020 is estimated at $3.8 trillion (18.3% of GDP). An additional $900 billion budget support package (4.3% of GDP) was recently decided. At the same time, the Fed raised its balance sheet by $3.19 trillion (15.3% of GDP) last year, supporting the domestic economy.

In the Eurozone, the decline in GDP slowed sharply in the third quarter of 2020, to 4.3% from 14.7% in the previous quarter, in contrast to growth by 1.4% in the same quarter of 2019. For the whole of 2020, GDP is estimated to fall by 7.5%, which implies a new escalation of the recession in its last quarter. In 2021, partial replacement of last year's losses is expected, with a recovery of 3.6%. In Germany, GDP fell by 4.0% in the third quarter of 2020, compared to a decline of 11.2% in the previous quarter, while in France and Italy, as mentioned above, there was a decline of 4.3% and 4.7% respectively, from a decrease of 18.9% and 17.9% in the previous quarter. Last December, the EU leaders approved a €1.8 trillion budget package for the years 2021-2027, including the funds of Next Generation EU amounting to €750 billion.

Table 2.1

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

Economy	2019	2020		2021
		Forecast	Difference from June forecast*	Forecast
World	2.7	-4.2	3.4	4.2
USA	2.2	-3.7	4.8	3.2
Japan	0.7	-5.3	2.0	2.3
Canada	1.7	-5.4	4.0	3.5
United Kingdom	1.3	-11.2	2.8	4.2
Eurozone	1.3	-7.5	4.0	3.6
Germany	0.6	-5.5	3.3	2.8
France	1.5	-9.1	5.0	6.0
Italy	0.3	-9.1	4.9	4.3
Russia	1.3	-4.3	5.7	2.8
Turkey	0.9	-1.3	6.8	2.9
China	6.1	1.8	5.5	8.0
India	4.2	-9.9	-2.6	7.9
Brazil	1.1	-6.0	3.1	2.6
World Trade	1.0	-10.3	1.1	3.9

* Difference in percentage points from the OECD estimates in June 2020 (double-hit scenario)

Source: OECD Economic Outlook, December 2020

In the UK, GDP fell 8.6% in the summer quarter, down from 20.8% in the previous quarter and growth of 1.4% a year earlier. For the whole of 2020, the economy is estimated to have contracted by 11.2%, while in 2021 it is forecast to recover at 4.2%. The United Kingdom recently reached an agreement with the European Commission on the terms of its future cooperation with the European Union, following Brexit.

In Japan, GDP shrank by 5.9% in the third quarter last year, following a decline of 10.3% in the previous quarter. A contraction of 5.3% is estimated for the whole of last year, while for the next the economy is expected to recover by 2.3%. The Bank of Japan raised its balance sheet by ¥129 trillion (24% of GDP) in 2020. At the same time, the government deficit for 2020 is estimated at 20% of GDP, further deteriorating its already staggering level (225.3% of GDP in 2019).

Recent economic trends and economic policy challenges in five developing countries and economic regions, which together account for almost 1/3 of the world GDP, are presented next in the current subsection.

In detail, China's economy recorded a positive annual growth rate of 4.9% in the third quarter of 2020, up from 3.2% in the previous quarter and 6.0% a year earlier. China is the first country to release GDP figures for the fourth quarter, in which the growth rate reached 6.5%, exceeding its level from the previous year. As a result, for the whole of 2020, the rate of change stood at 1.9%, with China being the only country among the major economies to record a positive rate of GDP change in the previous year. A strong acceleration is currently forecast for 2021, at 8.2%.

India's economy shrank 7.5% year-on-year in the third quarter of 2020, from a 23.5% decline in the previous quarter and a 4.4% increase a year earlier. GDP for the whole of

2020 is estimated to have shrunk by 9.9%, while a strong recovery of 7.9% is forecast for 2021.

Russia's gross domestic product decreased by 3.3% on an annual basis in the third quarter of 2020, from a decrease of 5.6% in the previous quarter and an increase of 1.4% in the corresponding quarter of 2019. For the whole of 2020, GDP is estimated to have contracted by 4.3% and is anticipated to partly recover in 2021 (2.8%).

The Turkish economy recorded a growth rate of 5.4% on an annual basis in the third quarter of 2021, from a recession of 8.5% in the previous quarter and growth by 1.1% a year earlier. The GDP for the whole of 2020 is estimated to have shrunk by 1.3%, while a recovery of 2.9% is projected for 2021. According to Turkish government estimates, the total fiscal support measures for 2020 amount to TL573.7 billion (13.4% of GDP), of which only TL123 billion (2.9% of GDP) have an impact on the state budget. Much of the support for the economy was sought through significant credit expansion from the domestic banking system. From the beginning of 2020 until last November, the financial flows of Turkish banks to the private sector reached TL773 billion ($104 billion, 18% of GDP), recording an annual increase of 41%. The consequence of these interventions was the acceleration of inflation, which rose sharply to 14.6% at the end of 2020. Also, the exchange rate of the Turkish pound has fallen significantly since the beginning of 2020 (-20% and -28% in relation to dollars and euros respectively). The central bank gradually raised its key interest rate to 17% by December 2020 from the level of 8.25% in May last year, thus restoring the real interest rate to positive ground.

Among the Latin American countries, Brazil's economy shrank at an annual rate of 3.9% in the third quarter of 2020, down from 10.9% in the previous quarter. For 2020, the country's economy is estimated to have shrunk by 6.0%, while for 2021 it is expected to recover in part, by 2.6%.

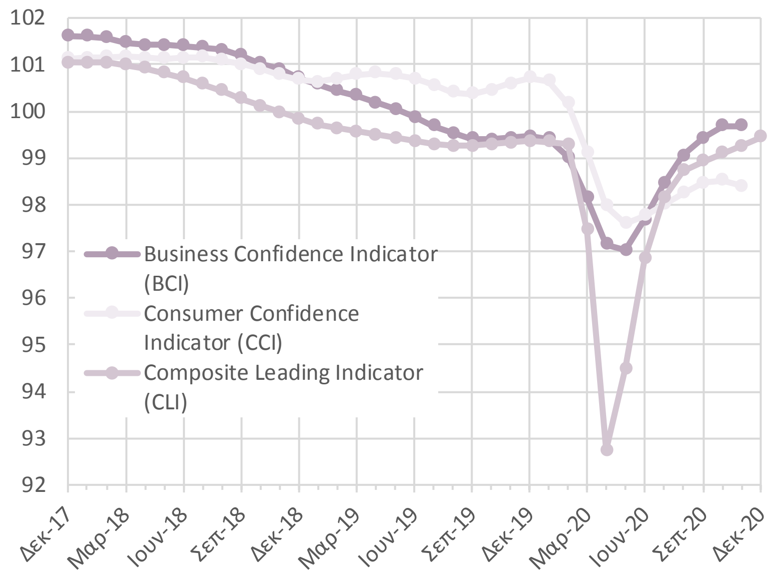
The OECD Composite Leading Indicator for its member countries continues to recover in the fourth quarter, rising to 99.5 points in December (+0.6% since September), and is now marginally higher than the pre-pandemic levels (99.4 points in February). The business confidence index reached 99.7 points in November (+0.3% since September), showing a stabilisation trend. The consumer confidence index is still weak, lagging significantly behind pre-pandemic levels, standing at 98.4 points in November (-0.1% since September).

Inflation has resurged in developed economies from its low levels in early/mid-2020, especially in the US. However, it generally remains lower than pre-pandemic levels. This trend is expected to continue in 2021, while price levels are expected to gradually converge to pre-crisis levels by the end of 2022 for most countries. Also, in most developing economies, inflation is expected to be moderate or even to slow down over the next two years. However, inflation could rise if the domestic currencies of this group of countries depreciate again.

With the health crisis in full swing, global monetary policy continues to be supportive in reducing the impact of the pandemic on the banking system and financial markets. By comparison, the FED has pledged to keep its key interest rate in the range of 0-0.25% until 2023, while continuing its supportive stance, buying assets at the same rate, with the aim of maximising employment and achieving inflation close to the long-term target of 2%. And the ECB maintains its supportive policy for the Eurozone, inter alia, by raising the market cap under the PEPP programme by €500 billion to €1.85 billion, and extending it until March 2022.

Figure 2.1

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



The OECD CLI is continuing to recover for the eighth month in November. Business confidence steadied, while consumer confidence declined after a 5-month rise.

Source: OECD

B. The Economies of the EU and the Euro area

- New wave of COVID-19 in Europe in the fourth quarter last year, of different intensity between countries. Re-imposition of administrative restrictive measures.
- Multiple support programmes for the European economy, most notably NextGenerationEU, the augmented EU budget for 2021-2027 (Multiannual Enhanced Framework) and the ECB's PEPP programme, raised by €500 billion, to €1.85 trillion.
- Stronger Economic Climate Index in both regions in the fourth quarter, mainly due to the expected approval of the first vaccines
- Negative GDP growth rate in the EU and the Euro area in the third quarter of 2020, at exceptionally low levels, -4.2% in both
- Negative contribution of net exports to growth in July - September 2020 in the Euro area and the European Union
- European Commission mid-crisis forecasts (November 2020) point to a recession in the Eurozone of 7.8% in 2020 and a recovery of 4.2% in the following year 2021

The COVID-19 pandemic and restrictive measures taken to protect public health across Europe in March-May last year have disrupted the functioning of the EU economy. At the same time, monetary and fiscal policy interventions were carried out to mitigate the impact of protection measures. The contraction began to weaken in May, with the easing of measures, the opening of businesses and the liberalisation of travel, both within and across borders. Then, during the summer, a relative sense of normality returned temporarily to Europe. However, since the end of the third and fourth quarter of 2020, a sharp increase in cases across Europe, more pronounced than at the time of the first wave of the pandemic, has led to the reintroduction (or extension) of containment measures, causing strong concern about their economic effects. These effects depend to a large extent on the progress in vaccination by the end of 2020 and in 2021 and its effectiveness, in combination with medical treatments, in the fight against the COVID-19 pandemic.

The impact of the pandemic in 2020 was strong on demand, supply chains, labour supply, industrial production, prices, trade and capital flows. The effects of the health crisis were also determined by the fact that the European economy at this time was relatively vulnerable to shocks, as it had already experienced a significant slowdown in 2019, mainly due to some structural problems in branches of its Industry.

To mitigate the effects of the health crisis, the European Commission has implemented - from the outset - monetary and fiscal policy interventions. The most significant of these are NextGenerationEU, with a budget of €750 billion and the augmented EU budget for the period 2021-2027, close to €1.05 trillion. On the ECB side, COVID-19-related policy actions include the Pandemic Emergency Purchase Programme (PEPP), whose budget was strengthened in December 2020 by €500 billion to €1.85 trillion while extending its implementation until March 2022. At the same time, a new liquidity facility was created, which is aimed at non-targeted longer-term refinancing operations due to the pandemic (PELTRO), with an interest rate 25 points lower than the average main refinancing rate (MRO) for the duration of such an operation.

In particular with regard to economic developments in the third quarter of 2020, the European Union and the Eurozone experienced a recession of 4.2% both, compared to growth of 1.6% in the EU and 1.4% in the Eurozone a year earlier. According to the European Commission's recent forecast[1], after growth of 1.3% last year, the recession in the euro area is expected to reach 7.8% for 2020, while a recovery of 4.2% is forecast for 2021. The European Union, after growth of 1.5% in 2019, is projected to experience a recession of 7.4% in 2020 and a partial GDP recovery of 4.1% in 2021.

The recession in the European Union's economies in July-September last year was due to the decline in domestic demand, with the contribution of investment maintaining its negative sign (-2.0% of GDP), albeit from significantly more negative in the previous quarter (-4.4%). The weakening of the negative contribution of consumption was more intense, 2.3 p.p. of GDP from 8.1 p.p. in the second quarter of 2020. The contribution of net exports to GDP change in the third quarter of 2020 was negative for the third consecutive quarter, by 0.3%, compared to a stronger negative impact of 1.0% in the previous quarter. Similar trends were observed in the structure of the recession in the euro area economies, with domestic demand the key recessionary factor (-3.9 p.p., from -13.8 p.p. in the second quarter of the year). Also, the contribution of investment to the year-on-year GDP change in the third quarter was negative (-1.9% of GDP), compared to a stronger negative impact in the previous quarter (-4.7% of GDP), while the contribution of consumption remained negative but weakened, from -8.6 p.p. in the second quarter to -2.5 p.p. in the next quarter. In addition, in the same quarter, the contribution of net exports in the Eurozone was negative, at 0.3%, milder than a quarter earlier (-0.9%).

The structure of GDP components on the expenditure side remains similar in the EU-27 and the Eurozone, with consumption accounting for 75.7% and 75.8%, investment for 20.8% and 20.5%, exports for 49.4% and 47.8% and imports for 45.9% and 44.1% of GDP respectively.

Ireland and Luxembourg are the only countries to post growth in the EU-27 in the third quarter of 2020 (annual changes in seasonally adjusted figures), at 8.1% and 0.5%

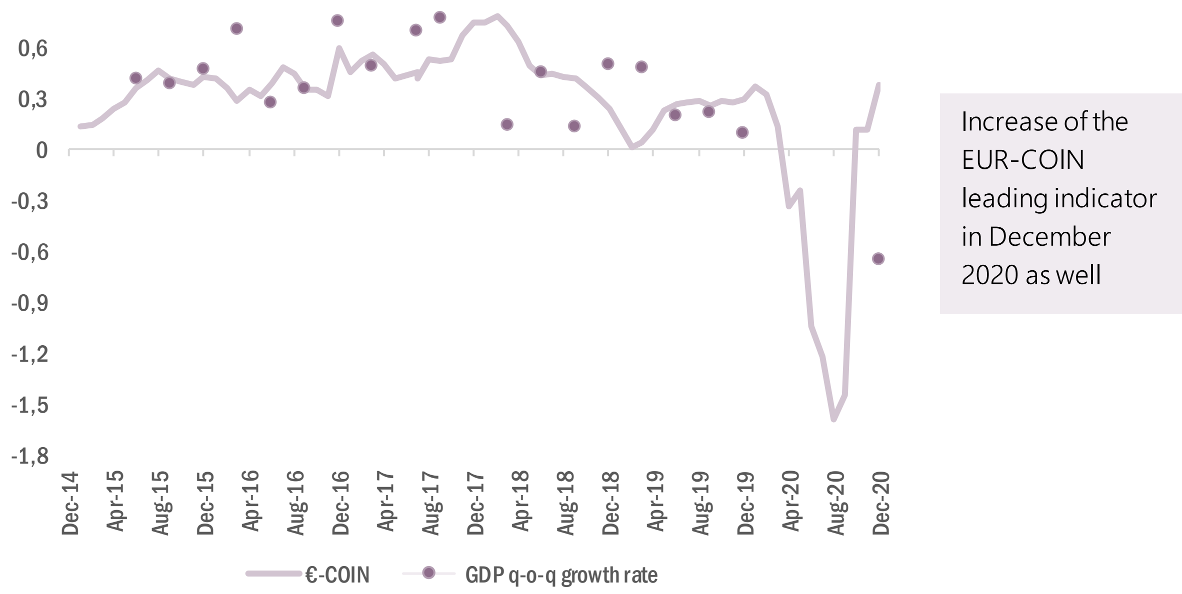
[1] European Economic Forecasts Autumn 2020, European Commission, November 2020

respectively. The recession was milder in Lithuania (1.6%), Poland (1.8%) and the Netherlands (2.5%). In Greece, the recession (11.7%) was the highest among the EU-27 countries (4.2%). The remaining countries with a deep recession were Croatia (10.0%), Malta (9.2%) and Spain (9.0%). In terms of a rolling 12-month average, Greece had a negative growth rate of 6.1%, stronger than the averages of the EU (4.9%) and the Euro area (5.3%). The country with the deepest economic contraction, on a rolling twelve-month basis, was Spain (8.3%), followed by Italy (7.1%) and France (6.9%). In contrast, the only country with a positive growth rate in the EU-27 was Ireland (4.3%), while the Lithuanian economy was stagnant.

Regarding the trends in the economic climate and in key leading indicators of economic activity in the Eurozone and the European Union, the €-COIN index increased in the fourth quarter of 2020 to -0.20 points, from -1.42 points in the previous quarter, yet it remained lower compared to the fourth quarter of the previous year (0.28). That said, in December 2020, the monthly indicator reached 0.38 points, about the same level as in January 2020, indicating an increase in GDP in the coming quarter compared to the previous quarter.

Figure 2.2

Monthly €-COIN Index & Eurozone GDP*



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

Source: CEPR και Bank of Italy

The European Commission's Economic Sentiment Indicator for the EU-27 and the Eurozone increased quarter on quarter in October-December last year by 2.6 and 2.8 points, while year on year it was 12.0 and 10.9 points lower respectively. In particular, it stood at 88.8 and 89.7 points respectively. In December 2020, the Economic Sentiment Indicator rose to 89.5 points in the EU-27 and stood at 90.4 points in the Eurozone, 2.8 and 2.7 points higher than the previous month. Yet, it stood 11.5 and 10.5 points lower than a year earlier.

Among the largest EU economies, the index remained stable quarter on quarter in France in the fourth quarter of last year, while compared to the fourth quarter of 2019 the index was 12.6 points lower. Expansion compared to the third quarter was observed in Germany, by 2.4 points, but the index was 3.5 points lower than in the fourth quarter of 2019. In Italy, the index increased by 4.2 points compared to the previous quarter and decreased by 13.7 points year on year. Finally, in October - December 2020, the Economic Sentiment Indicator in Greece increased much less compared to other European countries. Compared to the previous quarter, it strengthened by 1.3 points to 91.6, but this level was about 17.2 points lower than a year earlier (108.8 points).

Table 2.2

Economic Sentiment Indicator, EU-27 & Euro Area (av. 2000-2020=100)

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
EE-27 (2020)	106.2	105.4	105.2	104	105	103.1	102.4	102.7	101.3	100.4	100.9	101
Euro area	106.3	106.2	105.6	103.6	105	102.9	102.3	102.6	101.1	100.2	100.7	100.9

Month	Jan-20	Feb - 20	Mar - 20	Apr - 20	May - 20	Jun - 20	Jul - 20	Aug - 20	Sep - 20	Oct - 20	Nov - 20	Dec - 20
EE-27 (2020)	102.5	103	94.5	63.8	66.7	74.9	81.8	86.8	90	90.2	86.7	89.5
Euro area	102.6	103.4	94.1	64.9	67.5	75.8	82.4	87.5	90.9	91.1	87.7	90.4

*27 countries after 2020

Source: European Commission (DG ECFIN), December 2020

Fuller information on trends in the aggregates of Euro area and EU GDP in the third quarter of 2020 and other macroeconomic variables, as well as on the relevant estimated trends in the coming period is provided next in this sub-section. The forecasts for the period 2020-2021 are also presented, as they appear for the EU and the Eurozone in the latest report of the European Commission.

In detail, according to Eurostat data for the third quarter of 2020 (annual changes in seasonally adjusted data), private consumption in the European Union decreased by 4.3%, against a fall by 15.1% in the previous quarter, while in the same period of 2019 its trend was positive (1.8%). In the Eurozone, household consumption fell by 4.6%, from a decrease of 16.0% in the previous quarter, while a year earlier it had increased by 1.6%. The European Commission last November predicted a reduction of household consumption overall in 2020 in the EU by 8.2% and a recovery in 2021 by 4.2%. For the Eurozone, it forecast a weakening of private consumption by 8.7% last year and an expansion of 4.3% this year (Table 2.3). At a country level, private consumption in Germany was 3.7% lower in the third quarter, while in the previous quarter it fell by 12.9% and in France it decreased slightly (1.4%). In Italy it decreased by 7.4%, from a decrease of 17.5% a quarter earlier, while in Spain it shrank by 10.4%, from a decrease of 24.9% in the second quarter of 2020. In Greece, private consumption increased slightly by 1.0%, following a decrease of 12.0% in the second quarter of the year.

Table 2.3

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

	EU-27			Eurozone		
	2019	2020	2021	2019	2020	2021
GDP*	1.5	-7.4	4.1	1.3	-7.8	4.2
Private Consumption	1.6	-8.2	4.2	1.3	-8.7	4.3
Public Consumption	2.0	2.1	2.3	1.9	1.9	2.3
Gross Investment	5.7	-10.3	5.6	5.8	-11.2	6.1
Exports of Goods and Services	2.7	-11.3	6.2	2.5	-11.5	6.2
Imports of Goods and Services	3.8	-10.0	6.1	3.9	-10.1	6.0
Employment	0.9	-4.5	1.8	1.1	-5.3	2.5
Unemployment (% labour force)	6.7	7.7	8.6	7.5	8.3	9.4
Inflation*	1.4	0.7	1.3	1.2	0.3	1.1
Balance of General Government (% GDP)	-0.5	-8.4	-6.1	-0.6	-8.8	-6.4
Debt of General Government (% GDP)	79.2	93.9	94.6	85.9	101.7	102.3
Current Account Balance (% GDP)	2.9	2.5	2.5	3.1	2.6	2.6

Source: European Economic Forecasts, Autumn 2020, European Commission, November 2020

Public consumption increased in the EU and the Eurozone in the third quarter of 2020 by 2.0% and 2.2% respectively, from a decrease by 1.6% and 1.9% in the previous quarter. In the same quarter of 2019 public consumption had risen by 2.2% in both the EU and the Eurozone. For 2020, the European Commission expected a marginally stronger growth of public consumption in the EU-27, mainly due to the measures to deal with the effects of the health crisis, to 2.1% from 2.0%, while for the Eurozone it estimated the same expansion of public consumption as in 2019 (1.9%). This year, its growth will escalate to 2.3% in both economic regions. In the third quarter of 2020, public consumption in Greece increased by 4.4% compared to a year earlier (-1.2%), after a fall by 2.7% in the preceding quarter.

Investment fell sharply between July and September 2020 in the EU, by 8.9%, but less compared to the previous quarter (-19.2%). Similarly in the Eurozone, the decline was of the order of 8.8%, compared to a larger decrease by 20.6% in the second quarter. In the same quarter of 2019, investments had expanded by 0.4% in the EU and 0.3% in the Eurozone. The European Commission forecasts a 10.3% contraction in 2020 and a 5.6% increase in 2021 in the EU, while it expects a 11.2% decline and a 6.1% recovery in the Eurozone, respectively. In the third quarter of 2020, investment in Germany shrank by 11.9%, after an equally significant decrease of 10.0% in the previous quarter, while in Italy the investment contraction eased swiftly to 5.8% from 23.5% in April - June 2020. The investment decline in France was at 5.7%, from 18.0% in the previous quarter. In Greece, investment increased significantly, by 31.5%, compared to a positive change of 6.3% in the second quarter of 2020, due mainly to the large expansion of stocks.

Strong decline was recorded in the exports of goods and services in the third quarter of 2020, both in the EU (8.2%) and in the Eurozone (8.9%), against a much stronger decline by 21.0% and 21.5% respectively in the previous quarter of 2020 and growth by 3.2% and 2.8% in the third quarter of 2019. For 2020, the European Commission forecasts a decrease in exports in the EU-27 by 11.3% and an increase in the following year by 6.2%.

For the Eurozone, it expects a contraction by 11.5% for the whole of 2020 and an increase in 2021 by 6.2%, as well. At country level, exports in Germany in the third quarter of 2020 were down 9.4%, down from 22.3% in the second quarter. The decline in exports in France and Italy in the third quarter this year was 15.3% and 9.1% respectively, from a vertical drop of 30.9% and 31.5% in the previous quarter. In Greece there was an extremely strong decline in the third quarter, by 44.9%, after a significant decrease of 33.1% in the second quarter. Exports in Spain fell by 19.3%, from a sharp drop of 37.8% in the second quarter, as well as in Cyprus (29.1%), following a decrease of 19.7% in the second quarter of the year.

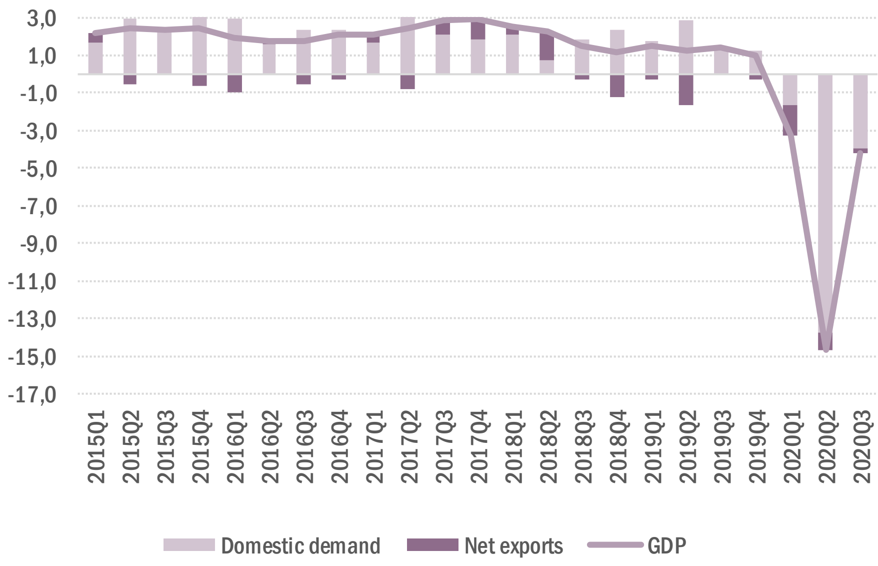
The contraction of imports into the EU slowed down in the third quarter of 2020 compared to the previous quarter, to 8.2% from a negative change of 20.0%. A similar change was observed in the Euro area, decrease by 8.9% from a fall by 20.6% in the second quarter of 2020. A year earlier imports were growing by 3.1% and 2.9% respectively. For the years 2020 and 2021, the European Commission has forecast for the EU-27 a fall of 10.0% and an increase of 6.1% respectively. For the Eurozone, it expects a reduction of 10.1% in 2020 and growth of 6.0% in 2021. At country level, imports in Spain decreased by 15.4% in the third quarter of 2020, compared to a larger drop of 32.5% in the previous quarter. Similarly, imports declined in France, after a decrease of 5.7% a quarter earlier, and in Italy, by -11.9% from -24.3%. A negative rate of change was recorded in Germany (9.7%), from a fall of 17.2% in the second quarter of 2020. In Greece, imports decreased by 6.4%, while in the previous quarter they had fallen by 12.9%.

Based on developments in the components of GDP in the euro area, the contribution of net exports to its change was negative in the first three quarters of 2020 (1.7%, 0.9% and 0.3% respectively), compared with zero contribution a year before. The less negative contribution of net exports in the third quarter came from the simultaneous weakening of the negative contribution of exports, from 10.7% in the second quarter to 4.4% in July-September 2020, as well as the lesser negative impact of imports , from 9.8% in the second quarter to 4.1% in the following one. As already mentioned, the negative contribution of domestic demand was around 3.9% of GDP, from a significantly higher impact in the previous quarter (-13.8%). The lesser decrease came mainly from private consumption, which had a negative effect of 8.6% of GDP in the second quarter of 2020, while in the third quarter its contribution fell to 2.5 p.p.

Harmonised inflation Index slowed in the third quarter of 2020 in the EU and the Eurozone, recording rates of 0.5% and 0% from 0.6% and 0.2% respectively in the previous quarter. In the third quarter of 2019, harmonized inflation stood at 1.2% in the EU and 1.0% in the Eurozone respectively. Overall for 2020, the European Commission recently predicted that inflation would slow in the Euro area to 0.7%, but also in the EU to 0.3%, well below the ECB target of 2.0%, while in 2021 it will return close to previous levels, to 1.3% and 1.1% respectively.

Figure 2.3

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



Negative contribution of net exports to the change in the GDP of the Euro area in the third quarter of 2020. Negative impact of domestic demand due to a year-on-year decrease in private consumption.

Source: Eurostat

Employment declined less in the third quarter of 2020 compared to the second quarter, by 2.1% in the EU and 2.3% in the Euro area, against -2.9% and -3.1% respectively, against employment expansion by 0.8% and 1.1% respectively in the same period of 2019. The European Commission forecasts a reduction in job creation in the EU for 2020 and an increase in 2021, by 4.5% and 1.8% respectively, following a rise of 0.9% in 2019. For the Eurozone, it also estimates a drop in employment in 2020, by 4.7%, and an increase equal to 2.5% in 2021, from an expansion of 1.1% in 2019. Employment growth in the third quarter of 2020 was recorded in Malta (2.4%) and Luxembourg (1.9%). In Greece the reduction reached 1.8%. The largest decline in employment was recorded in Spain (5.0%), Estonia (4.7%), Romania (2.8%), Lithuania (2.7%) and Latvia (2.7%).

Unemployment increased in the third quarter of 2020, to 7.5% in the EU and 8.4% in the Eurozone from 6.7% and 7.3% respectively, in the second quarter of 2020. In the third quarter of last year it stood at 6.5% in the EU and 7.3% in the Eurozone. For 2020 the European Commission has estimated an increase in unemployment rates in the EU-27 and the Eurozone, to 7.7% and 8.3% respectively, from 6.7% and 7.5% respectively in 2019, while for 2021 it expects unemployment rates of 8.6% and 9.4%. In July - September 2020, the highest unemployment rate was recorded in Spain (16.3%), with Greece (16.2%) and Italy (10.0%) following, while in France unemployment was in the order of 8.9%.

In the field of fiscal performance, the general government balance deficit in the EU-27 in the second quarter of 2020 was 11.0% of GDP, while in the first quarter of 2020 it was 3.9%. The European Commission predicts that it will change in 2020 and 2021, to 8.4% and 6.1% of GDP respectively. The average budget deficit in the Eurozone is expected to reach 8.8% of GDP in 2020 and 6.4% in 2021, from 0.6% in 2019. Public debt stood at 95.1% of GDP in the Euro area in the second quarter of this year. It is estimated that on average in 2020, it will increase to 101.7% and next year will be further strengthened to 102.3% of GDP respectively. Government debt, as a percentage of GDP, increased significantly in the second quarter of 2020 in many members, with its highest level being recorded in Greece (187.4%), Italy (149.4%), Portugal (126.1%), Belgium (115.3%) and France (114.1%).

Regarding the monetary policy framework, due to the COVID-19 epidemic and the related adverse economic effects, recall that the ECB started in mid-March a series of monetary and credit policy measures aimed at stimulating liquidity. According to a recent ECB communication, the interest rate on the main refinancing operations as well as the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The budget of the Pandemic Emergency Purchase Programme (PEPP) was extended in December 2020 by €500 billion, reaching €1.850 trillion. The purchases will continue at least until the end of March 2022 and, in any case, until the COVID-19 crisis is over. ECB also decided to offer four additional longer-term emergency refinancing operations (PELTRO) in 2021, which will continue to be an effective liquidity-enhancement mechanism. Net purchases under the asset purchase programme (APP) will continue at a pace of €20 billion per month. An important fact for Greece is the ECB's waiver to the eligibility of PEPP securities in order to enable the country to participate in it. These measures collectively support the provision of bank loans, in particular by facilitating the conditions under which credit claims are accepted as collateral.

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

- The new wave of the pandemic in the fourth quarter of 2020 and the adoption of new administrative measures to limit its spread, which makes its economic consequences more severe
- Treatment of COVID-19 mutations
- Possible need for additional fiscal and monetary measures at collective level, in addition to those taken to deal with the second phase
- Sectoral disturbances, with the tourism and transport sectors most affected by the health crisis
- The challenge of significant regional disparities due to the health crisis, which will be felt when it is completed
- Fiscal imbalances resulting from the emergency programmes to tackle the pandemic
- EU implementation of consensual Brexit, the terms of which were agreed at the end of 2020
- Geopolitical tensions in the Middle East and migration flows

2.2 The Economic Environment in Greece

A. Economic Sentiment

- Small strengthening of the Economic Climate Index in Greece in the last quarter of 2020 compared to the immediately preceding quarter (91.6 from 90.3 points). Sharp deterioration year on year (108.8 points). The recent level is the same as the 2015 average.
- Business expectations strengthened in the recent quarter compared to the previous quarter in all sectors, particularly Retail Trade and Industry, while they improved less in Construction and Services
- The Consumer Confidence Index declined in October-December than in the third quarter of 2020, to -46.2 from –36.9 points. In addition, it fell significantly year on year (from -7.1 points).

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

In the last quarter of 2020, the Economic Sentiment Indicator increased compared to the immediately preceding quarter (+1.3 pp), almost as much as it fell between the second and third quarter (-1.5 pp). It appears that, at least on the business side, the reintroduction of the measures to suspend part of them has had a much milder effect at least on their expectations than in the second quarter of 2020. Perhaps a large part of businesses have been prepared for these conditions since the first cessation of activity in March-April last year. In addition, unlike at that time, measures to support enterprises were expected, while some were under way (e.g. special purpose compensation for employees, rent reduction in commercial real estate, interest subsidy on performing business loans - "BRIDGE" programme). However, business support measures partially offset their losses due to the COVID-19 pandemic, and as their implementation is extended, the degree of substitution for normal market operation declines. During the last quarter of 2020, the wider time horizon of the second lockdown, which has exceeded that of the previous one, may not have been visible, strengthening its impact on sales. For their part, households appear to be more concerned about the impact of the health crisis on the country's economic situation next year, following the sharp deterioration over a number of years of successive economic adjustment programmes. In the next period, the expectations of businesses and households will be mainly affected by the dynamics of the second outbreak of the health crisis, as well as by advances in vaccination and its effectiveness in containing the virus. A new challenge is the treatment of COVID-19 mutations. The policy interventions to be carried out in the near future are critical to the viability of enterprises and should relate to active actions to help them adapt to the

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

new conditions and less to strengthen them in their current situation. In detail, the Economic Sentiment Indicator in Greece in the October-December 2020 quarter was slightly strengthened compared to the third quarter of 2020, at 91.6 from 90.3 points, while it was significantly lower than last year's average (108.8 points). Its recent level is equivalent to the 2015 average (91.5 points).

In Europe, the respective average index was slightly higher during the quarter compared to the previous one, both in the EU and in the Eurozone. Specifically, the economic climate index stood at 88.8 (from 86.2) points in the fourth quarter of this year (2020) in the EU, and at 89.7 (from 86.9) points in the Eurozone.

At sector level, business expectations in Greece strengthened in all sectors in the recent quarter compared to the previous quarter, particularly in Industry and Retail Trade. At the same time, they slightly improved in Services and Construction. On the consumer side, there was a deterioration in the consumer confidence index. Compared to the same quarter of last year, the average indicators deteriorated in all sectors except Construction. In more detail:

The Consumer Confidence Index in Greece in the October-December quarter this year was lower on average than in the third quarter of 2020, at -46.2 from -36.9 points, slightly lower than a year earlier (-7.1 points). The corresponding average index fell slightly in the EU, to -16.8 (from -15.4) points, as well as in the Eurozone (-15.7 from -14.5 points). These levels are significantly lower than a year earlier (-6.8 and -7.6 points respectively).

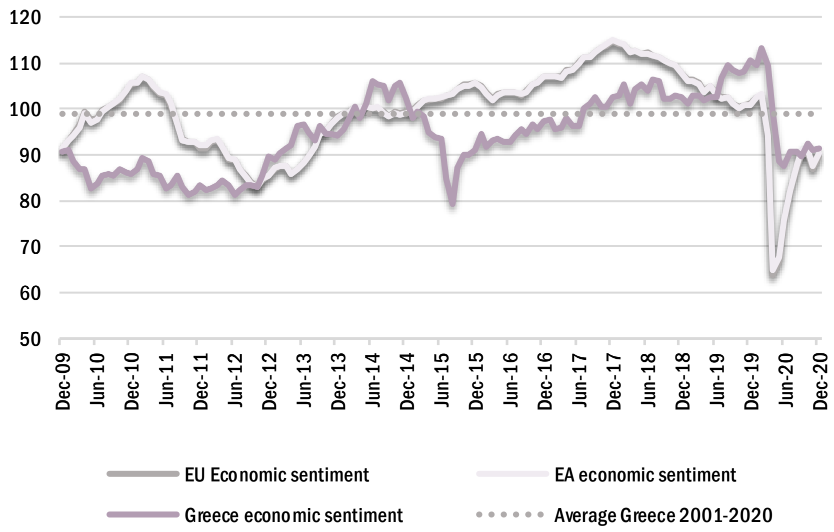
The trends in the individual key elements that make up the overall index were declining in the last quarter of 2020 compared to the third one. Thus, the pessimistic expectations of consumers in Greece for the financial situation of their households in the next 12 months, strengthened marginally, those for the economic situation of the country strengthened mildly, meanwhile the households' assessment for their current situation fell slightly, as did their intention to do major purchases in the near future.

More specifically, the percentage of those who were pessimistic about the financial situation of their household in the next 12 months increased marginally, to 46% (from 45% in the previous quarter), while the percentage of those who stated the opposite fell to 6% (from 9%). At the same time, the percentage of consumers in Greece with negative expectations regarding the economic situation of the country increased to 66% (from 61%), with 12% (from 15%) expecting an improvement. As for the intention to save, the percentage of households that do not consider saving as possible in the next 12 months decreased slightly, to 79% (from 81%), while in contrast, the percentage of those who they consider it possible increased to 20% (from 18%). In the expectations for unemployment, the percentage of those who anticipated that the situation would worsen slightly decreased to 80% (from 82%), with an average of 7% expressing the opposite view. The proportion of consumers reporting "running into debt" in the fourth quarter of 2020 fell marginally, to 7% (from 9%), marginally lower than the corresponding quarter the previous year. Also, the percentage of respondents who state that they save a little slightly increased to 22% (from 20% and 18% in the corresponding quarter of 2019). Finally, the percentage of those who reported that they were "just making ends meet" decreased further to 60% (from 62%) and the percentage of households that reported that they were "drawing from their savings" increased marginally, to 10% (from 9%), with the respective percentage in 2019 standing at 11%.

The business expectations index in Industry stood at 92.7 in the last quarter of 2020 (from 86.7 in the third quarter) points, well below the respective performance in 2019 (104.1 points). In the key activity data, the index for the short-term production growth expectations fell slightly in the quarter considered from +8.8 points to +3.8 points on average, while the negative assessment of the level of orders and demand eased significantly (at -21.2 from -40.6 points in the relevant index). The assessment for stocks of finished goods indicate a slight de-escalation (at +13.8 from +16.6 points), while the trends in export variables are positive: the expectations for export dynamics for the next quarter have improved significantly (+18.6 from +14.4 points), while at the same time the current assessment for the exports of the sector changed sharply upwards (to +13.3 from -16.4 points), as well as the assessment for orders and foreign demand (-4.6 from -29.7 points). In the employment expectations, the relative average quarterly balance improved, to +0.2 (from -8.2) points on average. The factory capacity utilisation rate also improved, to 73.6% (from 70.6%), while the companies' months of secured production were limited to 4.2 (from 5.3) months on average.

Figure 2.4

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



The Economic Sentiment Indicator in the fourth quarter of this year was slightly stronger compared to the previous quarter, but well below the corresponding quarter of 2019

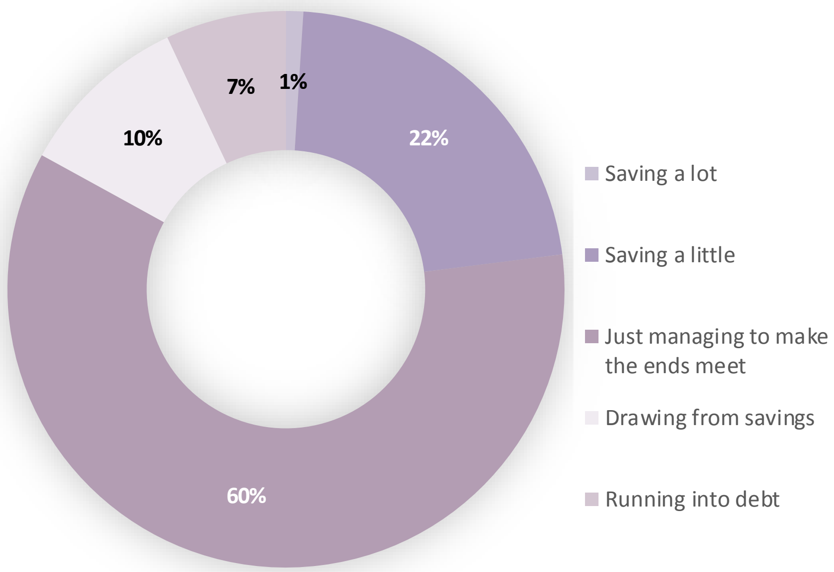
Source: European Commission, DG ECFIN

The index of business expectations in Retail Trade in the quarter under consideration was significantly higher than the previous one, at 83.0 points (from 73.5), however it was much lower compared to the corresponding quarter of last year (119.1 points). Of the key variables in the index, the average balance for current sales assessment was significantly strengthened to -9 (from -25) points. Of the companies in the sector, 44% stated that their sales had fallen, with 35% (from 33%) reporting the opposite. In terms of sales expectations, the relevant index fell further from -12 points, to -18, with stocks declining (at +8 from +28 points the index). From the rest of the activity data, the expectations balance for orders to suppliers decreased significantly (at -16 from -9 points the average quarterly price), while at the same time, for the employment of the sector, the average balance of expectations weakened slightly to +23 (from +31) points. Finally, in terms of prices, the relevant balance strengthened marginally (+4 from +3) points, with 4% (from 3%) of companies expressing expectations of de-escalation of prices and 89% (from 91%) predicting stability. A strengthening of business expectations was recorded in the last quarter of 2020 in all the examined individual sectors of Retail Trade, except for Textiles-Clothing-Footwear, where there was a marked decline.

Business expectations in Construction strengthened slightly in the last quarter of 2020, with the relevant balance reaching 70.7 (from 67.0) points on average, a change that was the smallest among the key sectors of activity, along with that of Services. This performance is at a slightly higher level compared to that in the same quarter of 2019 (68.1 points). In the key variables, the employment expectations for the sector improved significantly, with the relevant balance reaching -13 (out of -30) points, with 16% (out of 11%) of companies expecting more jobs when 29% (from 41%) expect their reduction. Business expectations for the scheduled work weakened slightly (at -64 from -54 points the index), while on the contrary the assessment for the current level of the work programme strengthened slightly (at -39 from -50 points the relevant balance).

Figure 2.5

Consumer survey data on the financial situation of households (October - December 2020)



The share of respondents stating that they were just managing to make ends meet decreased quarter on quarter (60%). Mild decline in the share of those reporting that they were running into debt

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T d activity of the companies in the sector strengthened significantly t ame time the negative balance in price expectations fell (-12 from -16 points), with 18% (from 26%) of the companies expecting a reduction in the short term and a 6% increase. Finally, the percentage of companies reporting no obstacles in their operation was 15% (from 19%), while among the other companies, 29% (from 45%) considered low demand as the most important obstacle, 18% insufficient funding and a 32% (from 2%) factors such as the general economic situation of the country, capital controls, high taxation, lack of projects, late payment by the state, etc. At the sectoral level, business expectations moved strongly upward in Public Works, as opposed to Private Construction, where there was a slight decrease.

Table 2.4

Economic Sentiment Indicators

Time Period	Economic Sentiment Indicator			Business Confidence Indicators (Greece)				Consumer Confidence Indicator (Greece)
	EU-27	Eurozone	Greece	Industry	Construction	Retail Trade	Services	
2010	99.3	99.1	86.3	79.9	52.2	61.3	68.1	-56.9
2011	99.8	99.9	84.8	81.1	37.7	60.9	66.1	-70.5
2012	88.0	88.1	83.7	81.4	47.5	59.1	58.8	-73.9
2013	90.8	90.8	93.6	92.6	71.5	72.6	75.3	-69.3
2014	99.6	99.4	102.0	99.7	88.4	92.3	93.3	-52.8
2015	102.9	102.9	91.7	86.3	62.0	83.9	78.2	-50.3
2016	104.2	104.0	94.4	96.1	61.3	101.4	79.3	-62.9
2017	110.4	110.4	98.9	98.1	55.4	94.6	92.7	-58.9
2018	111.5	111.5	103.8	102.8	58.1	104.5	97.0	-44.0
Q1 2018	113.6	113.6	103.2	105.1	60.3	97.1	91.4	-49.8
Q2 2018	112.2	112.2	104.5	102.7	60.5	104.7	104.4	-48.7
Q3 2018	111.2	111.2	104.8	105.7	55.0	108.3	97.6	-44.7
Q4 2018	109.0	109.0	102.6	97.7	56.6	108.2	94.6	-32.6
Q1 2019	106.0	105.8	102.4	101.8	56.7	105.8	85.7	-31.1
Q2 2019	104.0	103.8	102.4	103.8	54.8	97.8	92.6	-29.4
Q3 2019	102.1	102.0	108.1	104.8	52.7	115.5	108.2	-11.7
Q4 2019	100.8	100.6	108.8	104.1	68.1	119.1	104.4	-7.1
Q1 2020	100.0	100.1	110.7	108.6	84.9	115.1	106.5	-10.4
Q2 2020	68.4	69.3	91.8	87.6	28.1	80.3	58.6	-31.1
Q3 2020	86.2	86.9	90.3	86.7	67.0	73.5	68.8	-36.9
Q4 2020	88.8	89.7	91.6	92.6	70.7	83.0	70.0	-46.2

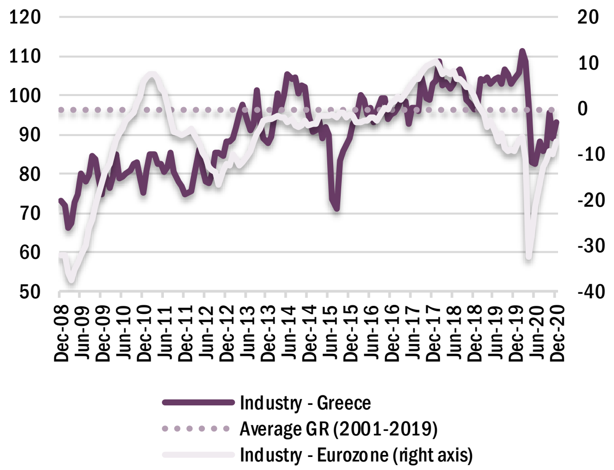
Sources: European Commission, DG ECFIN, IOBE

In Services, the business expectations index was slightly higher in the quarter under consideration than the previous quarter, at 70.0 points (from 68.8). However, this performance was much lower compared to that in the same quarter of 2019 (104.4 points). Of the key variables, the assessment for current demand improved significantly, with the relevant index gaining 10 points on average and reaching -18 points. The assessment for the current situation of the company moved slightly upwards (-26 from -32 points the average balance), with the balance in the expectations for the short-term demand of the companies in the sector declining sharply and the expectations declining by 12 points from what is considered normal for the season.

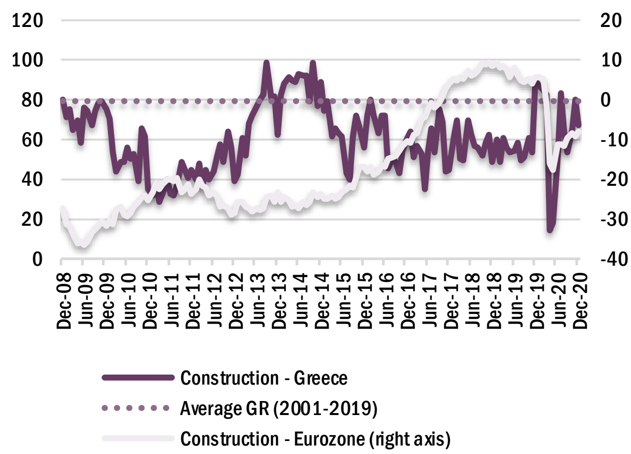
Figure 2.6

Business Confidence Indicators

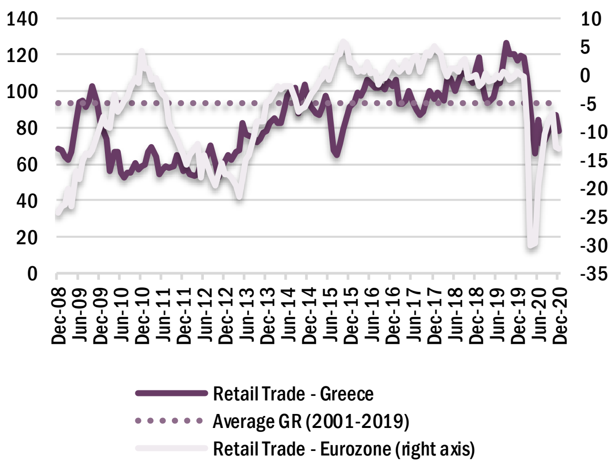
Industry



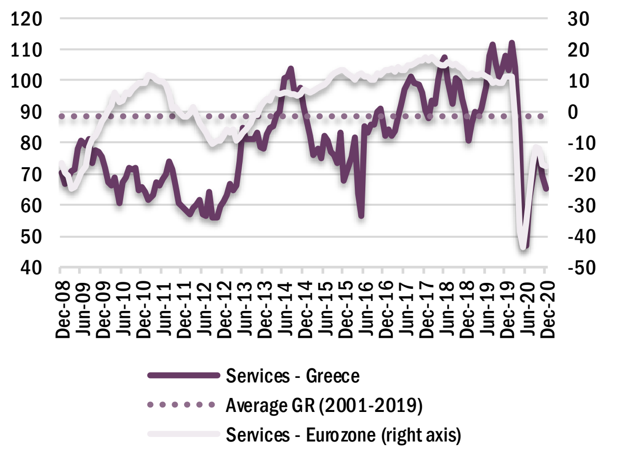
Construction



Retail Trade



Services



Source: IOBE

> Business expectations strengthened in the fourth quarter of 2020 compared to the previous one across all sectors

From the rest of the activity data, the balance of employment expectations of the respondents showed a marginal improvement (normal for the period, from -2 points on average), while in prices the balance of expectations of the enterprises weakened slightly and stood at -18 (from -13) points. Finally, the percentage of respondents reporting smooth business operation increased marginally, to 15% (from 14%) on average, with 35% declaring insufficient demand as the main obstacle to operation, 9% the lack of working capital and 31% other factors, related to the general financial situation, obstacles to borrowing, high taxation, late payments, etc. Among the examined Services sectors, the sub-indices declined slightly in the last quarter of 2020 in all sectors, with the exception of Various business activities, where there was a slight improvement and Hotels-Restaurants where the index remained unchanged.

B. Fiscal Developments and Outlook

- General Government (GG) 2019 Data (second notification): surplus of 1.5% of GDP and debt of 180.5%, from 1.4% and 176.6% of GDP in the first notification. Deterioration solely from a GDP revision. Estimates for 2020 (Budget 2021): deficit of 9.9% of GDP and debt of 208.9% of GDP.
- The State Budget (SB) Deficit in January-November 2020 amounted to €18,252 million, compared with a surplus of €1,922 million in the same period of 2019. Primary SB deficit of €13,747 million, against a primary surplus of €6,945 million in 2019.
- 80.4% of the deficit comes from the Ordinary Budget (OB) and 19.6% from the Public Investment Programme (PIP). Significant impact on the deficit of the increase in PIP expenditures from last year, by €5,245 million, to support businesses and the self-employed (28.7% of the deficit).
- State Budget 2021: Slight improvement of the State Budget balance compared to 2020. A deficit of €14.7 billion is expected, from €20.2 billion last year. Primary deficit of €9.0 billion (5.2% of GDP) from an estimate of €14.4 billion (8.8% of GDP) for 2020.
- Key to the implementation of the State Budget this year is the achievement of the projected nominal GDP growth by 5.6% compared to 2020 (4.8% in real terms).

According to the recent[3] fiscal data, compiled using the National Accounts methodology (ESA 2010), in 2019 the General Government (GG) recorded a surplus of €2,797 million or 1.5% of GDP[4]. In addition, the primary surplus of the GG for the same year reached €8,304 million or 4.5% of GDP, much higher than the relevant target of the EU Enhanced Surveillance, i.e. 3.5% of GDP (Table 2.5).

The widening of the surplus in 2019 is mainly due to the balance of other legal entities and the reclassified state-owned enterprises (within central government) which, while budgeted at €2,270 million, was ultimately much higher, at €3,521 million. There was a significant overperformance in the balance of the State Budget, which was in deficit of €2,367 million, against an initial provision for a deficit of €3,150 million; while the overperformance was weaker in the balance of Social Security Funds (SSF) which was positive at €1,813 million, from €1,673 million expected in the 2019 budget. In contrast, the result of the hospitals was a deficit of €258 million, against a surplus target of €96 million.

[3] ELSTAT press release, 21 October 2019.

[4] Excluding the impact for the banking sector support, which in 2018 reached €97m.

Table 2.5

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

	2016	2017	2018	2019	2020[1]		2021
					Initial	Estimate	
GG Balance	0,5	0,7	1,0	1,5	1,2	-9,9	-6,7
GG Primary Balance	3,8	3,9	4,4	4,5	3,8	-6,8	-3,8
GG Primary Balance (Financial Facility Agreement / Enhanced Surveillance)	3,6	4,1	4,2	3,6[2]	3,6[2]	-7,2[2]	-3,9[2]
FFA Target	0,50	1,75	3,5	-	-	-	-
Enhanced Surveillance Target	-	-	3,5	3,5	3,5	-	-
GDP (million €)	174.237	177.152	179.727	183.413	197.315	162.776	171.934

* Excluding the net financing to financial institutions

Sources: Press Release EL.STAT, 22 October 2020 and Explanatory Budget Reports 2020 and 2021, Ministry of Finance, November 2019 and 2020. 1.Provisional data and estimates 2. EU Enhanced Surveillance Methodology

Estimates for 2020

According to the Explanatory Report of the 2021 Budget, the 2020 balance is expected to be deep in deficit, under the influence of the COVID-19 pandemic, at €16.1 billion or 9.9% of GDP, in contrast to the initial forecast for surplus by €2,308 million or 1.2% of GDP (Table 2.5). This result will be the worst since 2009 (excluding support measures to banking institutions). The biggest deterioration is estimated in the State Budget, as its balance will be negative by €20.2 billion, against a deficit target of €2,453 million. Next ranks the balance of Social Security Funds (SSF), with an estimated surplus of €176 million, from €1,799 million in the 2020 Budget. However, the balance of legal entities will exceed the target by €1,146 million, at €3,931 million.

Public debt

The amount and evolution of GG debt incorporate and reflect more adequately than any other variable the fiscal performance. This is because some transactions of public entities, inside or outside the GG, are not recorded - for various reasons - in the annual balance, but are directly recorded in public debt (deficit-debt adjustments). This is why monitoring the development of GG debt is necessary to provide a comprehensive picture of the state of public finances. Moreover, the amount and changes in a country's debt are closely monitored by the investment community and international rating agencies. Any negative developments usually adversely affect the country's rating and cause its borrowing rates to rise.

General Government debt declined in 2019, in absolute terms and as a percentage of GDP, for the first time since 2015 (Table 2.6). The debt reduction stemmed partly from the surplus in the General Government balance by €2.797 million (1.5% of GDP) mentioned above. Yet, it is mainly due to the decline of the long-term borrowing of the General Government, by €8,979 million (4.9% of GDP), because of the early repayment of part of the debt to the IMF, which had a high interest rate. The downward revision of GDP counterbalanced the aforementioned decline. Of course, despite its downward revision, the amount of debt, at 180.5% of GDP, remained staggering.

In early 2020, the continued decline in Greek government borrowing rates[5], combined with the re-achievement of a budget surplus and the acceleration of the growth rate of the economy foreseen in this year's Budget (3.9% at current prices), created the conditions for a significant de-escalation of the debt-to-GDP ratio. In turn, this development could have triggered a further upgrade of the country's credit rating agencies and a further reduction in interest rates. However, the rapid spread of the COVID-19 pandemic since last February has significantly altered the dynamics in the latter two of the above three factors, affecting the General Government's debt.

Table 2.6

Consolidated General Government Debt (€million)

	2015	2016	2017	2018	2019	2020*
Debt	311.729	315.012	317.481	334.721	331.072	340.000
% GDP	*177,0*	*180,8*	*179,2*	*186,2*	*180,5*	*208,9*

*Estimate

Sources: Eurostat, ELSTAT, data disclosure under the EU Excessive Deficit Procedure (EDP), October 2020 and Explanatory Report 2021 Budget, Ministry of Finance, November 2020.

In detail, the extensive, unprecedented interventions to support households and businesses against the impact of public health protection measures, in particular those related to business suspension, had a negative budgetary impact of €18.2 billion in the previous year.[6] and are the main reason for the deterioration of the estimate of the primary result of the General Government by €18.6 billion in the 2021 Budget, compared to the initial forecast in the 2020 Budget. As a result, a primary deficit of 6.8% of GDP and an overall negative balance of 9.9% of GDP are projected for last year.

The implementation of the above measures mitigated the recession in 2020, yet it did not prevent its strong intensity, which, at current prices, is expected to reach 11.3% (Budget 2021). The effects of both factors on public debt are the causes of its estimated strong escalation in 2020, to 208.9% of GDP (Table 2.6).

Along with these particularly unfavourable developments for public debt due to the health crisis, a very positive one took place, which is also due to COVID-19. This is Greece's access from the beginning of April to the ECB's Pandemic Emergency Purchase Programme, with a budget of €1.35 trillion so far, as this is the first time the country has been accepted by the ECB in a securities purchase programme, which has been sought since 2014. Accession to the programme was achieved with the exception of Greece (waiver) from the securities eligibility rules issued by the central governments of the euro area countries and are the same as those applicable to the ECB Asset Purchase Programme. The Greek Government's compliance with its commitments under the enhanced surveillance process contributed to this decision. According to the latest ECB announcements, the PEPP will last as long as the pandemic conditions require and at least until the middle of 2021. In addition, the funds repaid as the securities purchased through the PEPP mature will be reinvested at least until the end of 2022. Greece's accession to

[5] In February 2020, the average yield on the Greek 10-year bond stood at 1.07%, the second lowest level over time until October 2020, the month in which it was at its lowest price (0.9%).

[6] Source: Explanatory Budget Report 2021, p. 139

PEPP ensures the liquidity of the Greek public and banking system in an unprecedented situation worldwide.

As noted in previous IOBE bulletins there are still other sources of macroeconomic imbalances in the Greek economy in addition to the extremely high public debt, which make it particularly vulnerable to external disturbances. These include taxpayers' arrears to the tax office and social security funds[7], non-performing loans, the trend of which is difficult to determine due to the suspension of payments because of COVID-19, which includes loans with a total balance of more than €20 billion, high unemployment, extremely low levels of investment, etc.

State Budget Execution 2020 (January-November)

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

In Greece the pandemic found the economy in an extremely critical phase, as it was coming out of a ten-year economic crisis and 2020 would have been the first year of significant growth acceleration. However, since the beginning of the pandemic there have been significant negative consequences in most sectors of economic activity, especially in trade, tourism, food services, transport, etc. As the pandemic has entered a second wave since August, lasting at least five months, its economic impact is growing. Subsequently, the estimates for the GDP rate of change this year have been repeatedly revised down, with the latest estimates for the recession ranging between 9.0% and 10.5%.

The interruption of economic activity last spring (2020) and the recession have also had a major impact on fiscal developments. Since March, fiscal policy has become intensively expansionary, to support businesses and households and contain the recession. The mandatory suspension of the economic activity in many sectors of the economy both in last spring and last November, created the need to support both companies and their employees. At the same time, a large number of other economic activities were indirectly affected. In this context, since March, successive packages have been announced and continue to be announced, at a huge cost to the budget. According to the Explanatory Report of the 2021 State Budget, the total cost of the fiscal measures amounts to €18.2 billion

In March 2020, it was decided to relax fiscal rules in the EU, based on the provision of the Stability and Growth Pact for exceptional circumstances. As the pandemic continued, in July it was decided to extend the easing of fiscal rules to 2021. At the same time, it was decided to set up the European recovery fund NextGenerationEU and to implement additional interventions immediately, such as the support initiative to mitigate the risks of unemployment in an emergency (SURE).

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[7] In October 2020, arrears to the tax authorities alone amounted to €106.7 billion, from €105.6 billion in 2019, despite their servicing facilities under the fiscal support measures for the pandemic.

Under the above developments, the 2020 budget was overturned domestically and fiscal developments were largely determined by the course of the health crisis and policy interventions to address it. Since the beginning of the spread of COVID-19 so far, measures to address the economic consequences of the pandemic are primarily aimed at directly supporting affected households and businesses and protecting existing jobs. They do not concern, for example, the implementation of investments to adapt businesses to operating conditions due to the pandemic. Income stimulus prevented further consumption contraction and business support restrained the rise of unemployment.

However, in order to deal with the medium and long-term economic effects of the health crisis, a different economic policy is appropriate, with a substantial increase in investment. With regard to the public sector, it is appropriate to significantly accelerate investment in infrastructure. Something similar to the "big projects" of the 90's. In any case, during the Economic Adjustment Programmes, public investment was very low. In this context, the forecast in the Explanatory Report for public investment amounting to €6,750 million both in 2020 and 2021 is considered insufficient. After all, every year since 2016 the amount of investment in the budget is constant at €6,750 million, while in the end payments are ultimately lower than the forecasts. A typical example of the economic policy is that overall in the four years 2016-2019 public investment cuts against the target amounted to €2.9 billion (10.7% of the target).

State Budget deficit and primary deficit

According to the available data, the State Budget (SB) deficit in January-November amounted to €18,252 million or 11.2% of GDP. In addition, the primary deficit of the SB amounted to €13,747 million or 8.4% of GDP.

About 80.4% of the deficit comes from the Ordinary Budget (OB) and 19.6% from the Public Investment Programme (PIP, Table 2.7). Note the significant impact on the deficit of the increase in expenditure of the PIP since last year, by €5.245 million, to support businesses and the self-employed (28.7% of the deficit). Therefore, from the budget point of view, there was a very significant boost to the economy, but with a strong negative fiscal impact.

This expansive policy began with the onset of the pandemic and continued throughout the year, as the pandemic has unfortunately not ended. The primary deficit has already exceeded the level expected to reach in the previous quarter. These deficits, combined with the estimated decrease in nominal GDP to €163 billion (Table 2.5), strongly affected the debt-to-GDP ratio, which was already extremely high, as mentioned in the previous subsection.

Note that, to date, Greece has received only small support measures from the EU to deal with the consequences of the pandemic, as most of the funds seem to be disbursed in 2021. Specifically, it is estimated that Greece received until November €3.9 billion, which have been recorded in the revenues of the PIP. For this reason, the respective figure increased by 118.1% (Table 2.7).

Table 2.7 Revenue, expenditure and balance of the State Budget

	January-November 2019	January-November 2020	% Change 20/19	2019	Budget 2020	2020 Estimates	% Change 20E/19
I. SB NET REVENUE (1+2)	48,429	42,126	-13.0	55,097	54,710	46,454	-15.7
1. Net OB revenue	46,504	37,276	-19.8	52,240	50,610	40,988	-21.5
OB revenue before tax refunds[1]	50,774	42,341	-16.6	57,284	55,536	46,348	-19.1
Less Tax refunds	4,270	5,065	18.6	5,044	4,926	5,360	6.3
2. PIP revenue	1,924	4,850	152.1	2,857	4,100	5,466	91.3
of which: revenue from EU	1,830	3,991	118.1	2,383	3,479	4,486	88.3
II. SB EXPENDITURE (3+4)	46,508	60,378	29.8	55,265	57,163	70,774	28.1
3. OB expenditure	43,332	51,959	19.9	49,623	50,413	60,353	21.6
Primary expenditure [2,3]	38,269	47,410	23.9	44,398	44,413	55,658	25.4
Interest	5,063	4,549	-10.2	5,225	6,000	4,695	-10.1
4. PIP expenditure	3,174	8,419	165.2	5,642	6,750	10,421	84.7
III. SB Deficit (-)/Surplus (+) (I-II)	1,922	-18,252		-168	-2.453	-24.319	
% of GDP	1.0	-11.2		-0.001	-1.2	-14.9	
OB deficit/surplus	3,172	-14,683		2,617	197	-19,365	
PIP deficit/surplus	-1,250	-3,569		-2,785	-2,650	-4,955	
IV. SB Primary Balance	6,945	-13,747		5,017	3,547	-19,624	
% of GDP	3.7	-8.4		2.7	1.8	-12.1	
GDP (at current prices)	183,413	162,776		183,413	197,315	162,776	

Sources: Monthly SB Execution Bulletin November 2020, Ministry of Finance, December 2020; Explanatory SB Report 2020, November 2019.
Note: All amounts are in million €

Ordinary Budget Revenue

In the eleven months of January-November, the Ordinary Budget (OB) revenues, before tax refunds, decreased compared to 2019 by 16.6%, to €42.341 billion. Understandably, this negative development is due to the significant decline in economic activity and travel in March-April, as well as the resumption of the lockdown in early November. However, it is also due to the measures taken to suspend the payment of taxes, confirmed and overdue debts by companies affected by public health protection measures, which resumed in November, as well as - to a lesser extent - the 25% discount for those companies paying their debts on time. It is also noted that the revenues of 2019 were augmented by €1.1 billion from the extension of the Athens International Airport contract. If the necessary adjustments are made for the AIA revenues, the reduction in the first eleven months is limited to 14.7%. Note that due to the acceleration of tax refunds, net income shows an even greater decrease compared to 2019, by 19.8% (Table 2.8).

More specifically, revenues from income tax decreased in January - November by 18.1%, compared to 2019, with the decline coming mainly from the tax revenues of legal entities (-46.0%).

A smaller decrease, 8.5%, is shown by the revenues from the taxation of natural persons, as part of the receipts comes from the settlement of 2019 tax returns. Significant decrease, by 12.7%, was also recorded in the revenues from real estate taxes, essentially from ENFIA. However, this is not considered to be related to the pandemic, but mainly to the reduction of the tax rate in 2019.

As expected, the largest revenue losses were recorded in indirect taxation, as much of the retail trade in physical stores and in general economic activity, as well as travel, had ceased, at least in March-April and again from November. VAT revenues fell by 16.0% compared to the previous year. Note that the VAT revenues in 2019 were increased by €272 million from the extension of the concession contract of the Athens International Airport. Excluding these extraordinary revenues, the reduction compared to 2019 is slightly reduced to 14.5%.

Receipts from excise duties were 9.0% lower compared to 2019, with the decrease found mainly in fuel taxes (-9.2%), due to reduced economic activity and travel restrictions. A smaller decrease of 5.0% was recorded in the revenues from the excise duty of tobacco products.

Revenues from "other production taxes", which consist mainly of revenues (dividends) from the Bank of Greece, increased by 9.2%. The largest decrease (71.8%) was recorded in revenues from the sale of goods and services because - as mentioned above - it was the year before last, that the AIA contract was renewed. Excluding the revenue from the airport expansion, the reduction in this revenue category is significantly lowered to just 15.0%.

Finally, after the positive 6th Enhanced Surveillance Report for Greece of the European Commission, revenues increased by €747 million in July, from the profits of European central banks from holding Greek bonds (ANFA's and SMP's), amount same as in the previous year. In general, the development of revenues in the first eleven months reflects the limitation of economic activity, as well as measures to defer the payment of taxes, certified or arrears, by compagnies.

Table 2.8

State Budget Revenue* (million €)

	Jan. – November 2019*	Jan. – November 2020*	% change 20/19	2019*	2020* Προϋπ.	2020 Εκτιμ.	% change 20E/19
Net SB revenue	48,429	42,126	-13.0	55,097	54,710	46,454	-15.7
Net OB revenue	46,504	37,276	-19.8	52,240	50,610	40,988	-21.5
Tax refunds	*4,270*	*5,065*	*18.6*	*5,044*	*4,926*	*5,360*	*6.3*
OB revenue	50,774	42,341	-16.6	57,284	55,536	46,348	-19.1
Income tax, of which:	15,062	12,332	-18.1	16,716	16,613	12,923	-22.7
--Personal	10,148	9,287	-8.5	11,029	11,415	9,788	*-11.3*
--Corporate	*3,859*	*2,085*	-46.0	4,512	4,017	2,074	*-54.0*
Property tax	2,442	2,133	-12.7	2,786	2,829	2,496	-10.4
Taxes on donations, inheritance etc.	220	161	-26.8	245	273	175	-28.6
Tariffs	275	226	-17.8	298	322	240	-19.5
Taxes on goods and services, of which:	25,791	22,033	-14.6	28,014	28,557	23,478	-16.2
--VAT	*16,526*	*13,889*	*-16.0*	*17,792*	*18,276*	*14,505*	*-18.5*
--Excise duties	*6,489*	*5,905*	*-9.0*	*7,125*	*7,214*	*6,463*	*-9.3*
Other production taxes	874	954	9.2	991	1,130	1,110	12.0
Other current taxes	1,277	1,296	1.5	2,365	2,391	2,359	-0.3
Social contributions	50	50	0.0	55	55	54	-1.8
Transfers, of which:	1,347	1,210	-10.1	2,001	1,139	...	...
--ANFA's and SMP's	*1,035*	*999*	*-3.6*	*1,035*	*251*	*999*	*-3.6*
Sales of goods and services, of which:	1,674	472	-71.8	1,728	687	547	-68.3
Concession extension of the Athens Airport	*1,119*	-	-	*1,119*	-	-	-
Other current revenue	*1,826*	*1,467*	*-19.7*	*2,527*	*1,806*	*2,663*	*5.4*
Sales of fixed assets	8	7	-12.5	10	332	25	150.0
PIP Revenue	1,924	4,850	152.1	2,857	4,100	5,466	91.3

Sources: Monthly SB Execution Bulletin November 2020, Ministry of Finance, December 2020; Explanatory SB Report 2020 and 2021, Ministry of Finance November 2019 and 2020.

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

In order to show separately 2019 investment revenue, €2.406 million were deducted from the category "Transfers" and €451 million from the category "Other current revenue". In order to show separately 2020 investment revenue €3453 million were deducted from the category "Transfers" and €647 million from the category "Other current revenue".

Ordinary Budget Expenditure

In the period January-November, OB payments increased by 19.9% compared to 2019 and reached €52.0 billion. This amount includes the extraordinary costs related to the pandemic, except for an amount paid through the PIP (see below). Extraordinary expenditures due to COVID-19 other than those through PIP fall into the category of primary expenditures, which increased by 23.9% compared to the previous year (Table 2.9).

From the sub-categories of primary expenditures, the payments for "employee benefits" show a small increase, by 0.5% compared to 2019, because the 2019 budget includes the payment of a retroactive amount of €324 million in special salaries. It is noted that in the last five years, staff costs show a small but continuous increase every year (Table 2.9).

Table 2.9

State Budget Expenditure* (million €)

	January- November		% change 20/19	2019*	2020* Budget	2020* Estimate	% change 20E/19
	2019*	2020*					
SB Expenditure (1+2+3)	46,508	60,378	29.8	55,265	57,163	70,774	28.1
OB Expenditure (1+2)	43,332	51,959	19.9	49,623	50,413	60,353	21.6
1.Primary OB Expenditure	38,269	47,410	23.9	44,398	44,413	55,658	25.4
Compensation of employees	12,135	12,199	0.5	13,247	13,390	13,415	1.3
Social benefits	367	116	-68.4	653	134	241	-63.1
Transfers	24,241	33,566	38.5	28,205	27,844	38,997	38.3
(of which SSFs)	*17,394*	*19,153*	*10.1*	*19,243*	*18,700*	*21,867*	*13.6*
Purchase of goods and services	1,091	1,146	5.0	1,458	968	1,802	23.6
Subsidies	140	68	-51.4	224	89	102	-54.5
Other current expenditure	42	28	-33.3	50	71	72	44.0
Non allocated expenditure	0	0	0	0	1,495	362	-
Purchase of fixed assets	253	288	13.8	562	421	668	18.9
2. Interest[1] (gross basis)	5,063	4,549	-10.2	5,225	6,000	4,695	-10.1
3. PIP Expenditure	3,174	8,419	165.2	5,642	6,750	10,421	84.7

Sources: Monthly SB Execution Bulletin November 2020, Ministry of Finance, December 2020; Explanatory SB Report 2020 and 2021, Ministry of Finance November 2019 and 2020.

* In adjusted cash-based accounting. According to the new expenditure classification 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).

Payments for social benefits decreased compared to 2019 by 68.4%, as the expenses for family allowances have been transferred from this year to the category "transfers".

The increase in primary expenditure in the first eleven months is mainly found in the "transfers" category, which increased by 38.5% compared to the previous year. This development is due to the fact that transfers also include extraordinary payments amounting to approximately €2.2 billion, concerning the "repayable advance" of employees and scientists, as well as the "special purpose compensation" and the subsidy of social security contributions of up to 100k new recruits in the private sector. The increased costs of transfers due to COVID-19 are estimated to have continued and escalated in December, due to the resumption of strong restrictive measures from the beginning of November (e.g. "repayable advance", "special purpose compensation"), while some additional measures were also taken. Also, from the end of October, €1.4 billion were given retroactively to retirees, which appear in Social Security Funds (SSF), the largest subcategory of "transfers" (Table 2.9).

In contrast to primary expenditure, interest payments are reduced by 10.2%, compared to 2019. In the first eleven months, many categories of expenditure have been retained in order to deal with emergencies due to the health crisis. However, this restraint has not been enough and there is a lot of pressure on spending.

Also, in the examined period, the loans guaranteed by the State have increased by €4.2 billion, to €15.8 billion. The €2.4 billion concerns guarantees in securitisations of credit institutions (Hercules program), €1.6 billion in business loans, approximately €0.7 billion in the COVID-19 Guarantee Fund and approximately €1.6 billion in guarantees of the Hellenic Development Bank.

Finally, it is noted that in November the arrears of the State to its suppliers (including outstanding tax refunds) amounted to €2,183 million, higher compared to December 2019 by €190 million.

Public Investment Programme (PIP)

The implementation of the PIP in January-November of 2020 has been significantly affected by the ongoing pandemic, as some of the support interventions for businesses and the self-employed have been implemented through the investment budget. That said, the expansion of expenditure was supported by exceptional revenues from the EU due to the health crisis.

In particular, revenues of the PIP increased sharply, by 152.1%, compared to the low revenues of 2019. However, as mentioned above, this includes revenues from the EU of at least €1.3 billion, linked to the health crisis and not to investments (Table 2.7).

PIP expenditure also increased rapidly compared to 2019 (+165.2%) and reached €8,419 million. This amount also includes payments of approximately €997 million related to the "refundable advance", the Entrepreneurship Fund II action of €768 million and the establishment of a corporate guarantee fund due to the COVID-19 pandemic of €1,780 million.

The 2021 Budget

The 2021 Budget comes at a time when societies and the global economy continue to suffer from the worst health crisis of the last hundred years and the consequent worst annual global recession of recent decades.

The adverse economic environment, due to the outbreaks of COVID-19 and public health protection measures, which restrict the activity of businesses and households, combined with the unpredictability of the outbreaks, as well as the remaining uncertainty about when the health crisis will be adequately addressed with significant progress in vaccination and its effectiveness, discovery of drugs and treatments, etc., maintain high levels of uncertainty in the new year. Subsequently, it becomes difficult to make forecasts for macroeconomic variables, but also for fiscal variables, while at the same time it is increasing the likelihood that those forecasts will not be verified and will show significant deviations from the relevant targets.

Of course, the easing of fiscal rules in the EU, as defined in the Stability and Growth Pact, for 2021 significantly widens the scope for fiscal manoeuvres to tackle the pandemic, allowing deviations from fiscal targets. At the same time, the supportive monetary policy of central banks, including the ECB, in addition to extensive, unprecedented liquidity support, has kept public sector lending costs in the EU countries at or near minimum levels, facilitating the refinancing of public debt. However, when COVID-19 weakens significantly, and emergency business and household support interventions are completed, following their strong impact on government deficit and debt, it is likely that international financial conditions will change and worsen, making it difficult to service government debt, especially for countries such as Greece, where its level as a percentage of GDP is high. For these reasons, any domestic complacency must be avoided as to the relevance of policy interventions, even emergency ones, to the sustainability of public finances. In this regard, it is appropriate for them to relate to active actions to help companies adapt to the new conditions and less to strengthen them in their current situation.

The 2021 budget is based on a macroeconomic recovery scenario with a strong GDP growth rate (4.8%). In order to support its achievement as far as possible on the part of the State, it is considered necessary to complete as soon as possible the necessary procedures concerning the European recovery fund (NextGenerationEU) in order to achieve the inflow of the funds (€5.5 billion) expected from this relatively front-loaded programme.[8] Such a development will also contribute to the smooth flow of NGEU resources in the coming years.

Balance and Primary Balance of the State Budget

In 2021, a slight improvement of the State Budget balance is foreseen compared to 2020. It will come from an increase of the revenues of the SB by 6.9% and a reduction of its expenditure by 3.1%. Subsequently, the deficit will stand at €14,715 million or 8.6% of GDP this year (Table 2.10) from €20,228 million last year.

Table 2.10

Revenue, expenditure and balance of the State Budget 2021

	2020 Estimates	2021 Budget	% Change 21B/20
I. SB NET REVENUE (1+2)	49,103	52,469	6.9
1. Net OB revenue	37,513	43,121	14.9
OB revenue before tax refunds[1]	5,360	*5,256*	*-1.9*
Less Tax refunds	42,873	48,377	12.8
2. PIP revenue	6,230	4,092	-34.3
of which: revenue from EU	...	...	-
II. SB EXPENDITURE (3+4)	69,332	67,184	-3.1
3. OB expenditure	58,911	60,434	2.6
Primary expenditure [2,3]	53,061	54,734	3.2
Interest	5,850	5,700	-2.6
4. PIP expenditure	10,421	6,750	-35.2
III. SB Deficit (-)/Surplus (+) (I-II)	-20,228	-14,715	
% of GDP	*-12,4*	*-8,6*	
OB deficit/surplus	-21,398	-17,313	
PIP deficit/surplus	-4,191	-2,658	
IV. SB Primary Balance	-14,393	-9,015	
% of GDP	*-8.8*	*-5.2*	
GDP (at current prices)	162,776	171,934	5.6

* On a national accounting basis (ESA 2010)

Source: Explanatory Report 2021 State Budget, Ministry of Finance, November 2020, Table 3.2. Note: All amounts are in €million.

The primary deficit is expected to reach €9,015 million or 5.2% of GDP from 8.8% in 2020. The moderation of expenditure is due to the restriction of payments of the Public Investment Programme and for interest, since primary expenditure will increase again in

[8] State Budget 2021, Ministry of Finance, November 2021, p. 141

2021. The projected increase in nominal GDP by 5.6% compared to 2020 is considered crucial for the implementation of the State Budget this year.

Ordinary Budget Revenue

OB revenue (before tax refunds) are expected to increase by 12.8% in 2021, to €48,377 million. As a percentage of GDP, last year it was 26.3% and this year it is estimated to be 28.1%. Net OB revenues are projected to increase by 14.9%, to €43,121 million, due to a small reduction in tax refunds (Table 2.11), while as a percentage of GDP it will be 25.1% (from 23.0% last year) .

Table 2.11

State Budget Revenue 2021* (million €)

	2020 Estimate	2021 Budget	% Change 21B/20
Net SB revenue	49,103	52,469	6.9
Net OB revenue	37,513	43,121	14.9
Tax refunds	5,360	*5,256*	*-1.9*
OB revenue	42,873	48,377	12.8
Income tax, of which:	13,676	14,741	7.8
--Personal	*10,030*	*10,193*	*1.6*
--Corporate	*2,586*	*3,416*	*32.1*
Property tax	2,676	2,667	-0.3
Taxes on donations, inheritance etc.	175	214	22.3
Tariffs	240	286	19.2
Taxes on goods and services, of which:	23,971	26,401	10.1
--VAT	*15,001*	*17,466*	*16.4*
--Excise duties	6,463	6,601	*2.1*
Other production taxes	1,168	1,109	-5.1
Other current taxes	2,359	2,419	2.5
Social contributions	54	54	0
Transfers, of which:	...	...	-
--ANFA's and SMP's	...	...	-
Sales of goods and services, of which:	569	656	15.3
Other current revenue	2,719	2,007	-26.2
Sales of fixed assets	25	330	1220.0
PIP Revenue	6,230	4,092	-34.3

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

Source: Explanatory Report 2021 State Budget, Ministry of Finance, November 2020, Table 3.2.

Among the sub-categories, personal income tax receipts are expected to increase slightly, by 1.6%, to €10,193 million, while corporate income tax receipts are expected to rise much further, by 32.1%, to €3,416 million, due to the increase in economic activity. Also, a significant increase in inheritance tax revenues by 22.3% is also expected, resulting in €214 million tax revenues in total. Revenues from real estate taxation, essentially from ENFIA, are not expected to change, despite the forthcoming changes in the fair values of real estate as well as the inclusion of new areas in the system of fair-value evaluation of real estate.

With regard to indirect taxation, revenues from customs duties and import taxes are projected to increase by 19.2% respectively. Taxes on goods and services are expected to generate revenues of €26,401million, 10.1% more than in 2020. In particular, VAT receipts are projected to increase by 16.4% to €17,446 million, also due to increased economic activity, while those from excise duties are projected to be higher by 2.1%, to €6,601 million. The data available from the Budget do not provide information on trends in sub-categories (tobacco, spirits and fuel). But other current taxes, which include traffic charges, are projected to rise 2.5%, to €2.419 million.

Revenue increase by 15.3% is estimated to come from sales of goods and services, which will be close to 2019 levels. In addition, a significant increase in fixed asset sales is expected. A similar increase in asset sales was projected in 2020, due to the expected receipts from the concession of the area of the former Hellinikon airport. This was not completed last year, which is expected to happen this year.

Ordinary Budget Expenditure

There is a slight reduction in the expenditure of the 2021 SB by 3.1%, to €67,184 million or 39.1% of GDP, up from €69.332 million or 42.6% of GDP last year. Despite the expected decline in the pandemic, which boosted primary OB spending last year, it is expected to rise again this year, by 3.2%, to €54.734 million, leading to a softer rise in overall spending (+2.6%), as interest payments will decline slightly (Table 2.12).

Table 2.12

State Budget Expenditure* (million €)

	2020 Estimate	2021 Budget	% Change 21B/20
SB Expenditure (1+2+3)	69,332	67,184	-3.1
OB Expenditure (1+2)	58,911	60,434	2.6
1.Primary OB Expenditure	53,061	54,734	3.2
Compensation of employees	13,411	13,531	0.9
Social benefits	241	199	-17.4
Transfers	36,560	30,804	-15.7
(of which SSFs)	*21,867*	*20,610*	*-5.8*
Purchase of goods and services	1,702	1,084	-36.3
Subsidies	102	80	-21.6
Other current expenditure	72	91	26.4
Non allocated expenditure	362	7,344	1928.7
Purchase of fixed assets	612	1,599	161.3
2. Interest[1] (gross basis)	5,850	5,700	-2.6
3. PIP Expenditure	10,421	6,750	-35.2

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

Source: Explanatory Report 2021 State Budget, Ministry of Finance, November 2020, Table 3.2

In more detail, expenditure on employee benefits, relating to salaries and employer contributions for civil servants, is estimated to increase by 0.9% this year to €13,531 million, continuing their upward trend in recent years. Their expansion is due to both the increase in regular salaries and employer contributions. Expenditure on social benefits is projected to decrease by 17.4% and be reduced to €199 million.

Payments for transfers are expected to fall by 15.7% compared to 2020 and be limited to €30,804 million, following their large increase last year due to emergency measures against the pandemic. The decrease is partly due to a 5.8% fall in payments to the SSFs to €20,610 million (Table 2.12).

Also, expenditures for purchases of goods and services are projected to decrease by 36.3%, or by €618 million. The large decrease is partly due to the fact that in 2020 these expenditures increased due to the pandemic. In addition, in 2020 they included reallocated appropriations. Payments for subsidies (-21.6%) are also expected to decrease, mainly due to the fact that the total cost of public service obligations of transport lines will be serviced from 2021 through the PIP.

Other expenditures are expected to increase significantly due to the delay in clearing out the outstanding programmes from the EU. The category 'credits to be allocated' does not include the expenditure of the PIP, as shown in the Explanatory Report of the State Budget[9], as they appear as a distinct category of expenditure in Table 2.12. The large projected increase for the current year compared to 2020, by 1928.7%, is due to the special reserve for dealing with any expenditure overruns, as well as for new recruitment. Finally, a rise by 63.2% is projected to occur in 2021 and the category 'fixed asset purchases', which essentially includes payments for the purchase of defence equipment, as these expenditures in 2020 were at a very low level.

Public Investment Programme (PIP)

Due to the emergency measures taken to tackle the pandemic in 2020, there has been an unprecedented increase in both the revenue and expenditure of the PIP. Subsequently, for 2021 a 34.3% decrease in revenues is forecast, to €4,092 million, and 35.2% in expenditure, which is estimated for the sixth consecutive year to reach €6,750 million. (Table 2.10). The main source of revenue for the PIP is inflows from the European Union.

It is noted that €6,750 million does not include the expected appropriations from the resources of the Resilience and Recovery Facility, amounting to €2,635 million, under the NextGenerationEU, allocated to the domestic segment of the Ministry of Development and Investment budget. Another €1,272 million is expected to come from borrowing through the Resilience and Recovery Fund. In total, the funds foreseen in the 2021 budget from the NextGenerationEU reach €5.5 billion. In combination with the (regular) expenditures of the PIP mentioned above, the total investment capital that the public sector intends to allocate this year reaches €12,250 billion. The rate of absorption of NGEU resources will be the crucial factor in the amount of support measures for investment purposes.

[9] In the 2020 Explanatory Budget Report, these expenditure is included in the category 'credits to be allocated'.

Conclusions

The 2021 Budget is based on a macroeconomic scenario that foresees a partial significant economic recovery compared to 2020. However, compared to the estimated recession for last year, the recovery will be partial, covering less than half the losses in terms of GDP last year. Furthermore, the forecast for this year reflects rather the assumption that the return to normalcy will not be quick, nor will it be completed this year, despite the vaccination of the population from the beginning of 2021. Subsequently, it is estimated that in the Budget, there will be only a slight improvement in the State's fiscal performance compared to 2020.

The intensity of the health crisis and the consequent pressure on the state budget was greater in 2020 than originally projected. The total amount of measures to address the economic consequences of the pandemic is estimated to have reached €23.9 billion last year. An impact of €7.5 billion is projected for 2021.

State budget revenues are expected to increase in 2021, mainly due to the resumption of economic activity. European funds will also start flowing into the funds under the NextGenerationEU.

Government spending is projected to decline slightly compared to 2020, as circumstances call for the expansionary fiscal policy to continue in 2021. Regarding the PIP, a significant reduction in both revenues and expenditures is projected, which had increased in 2021 due to the pandemic. For 2021, EU funds are expected to be used mainly to support development policy and structural change.

C. Financial Developments

- The yield on the 10-year government bond is at historic low levels.
- Low cost of new lending for businesses, but higher than other countries
- The role of the ECB's liquidity support measures and the strengthening of business financing by domestic authorities is crucial
- The decline in NPLs continued in the third quarter of 2020. However, their recording underestimates the real difficulty of repayment by borrowers.
- The prospects for credit expansion depend on the speed with which banks' assets improve in quality and on the recovery in demand for productive investment.
- Private deposit stock recovered to 2014 levels

Despite the extension of restrictive measures to address the pandemic beyond the beginning of January, when they were expected to ease, the second wave of the health crisis has not had a significant negative impact on the fundamental indicators of the domestic financial system. As in the case of the first wave of COVID-19, the policy measures, implemented by both the ECB to stimulate low-cost bank financing and the domestic authorities, made a decisive contribution to this development, strengthening the liquidity supply channels to the affected companies.

Uncertainty over the duration of the effects of the second outbreak of the health crisis remains, despite the positive development from the vaccine development front. At present, it is mainly related to the mutations of COVID-19 and the effectiveness of vaccines in the treatment of the virus, which may determine the possibility of new outbreaks, and undoubtedly intensifies the challenges for the domestic banking system. Following the sharp drop in bank valuations by 60% in March 2020, the positive news of the start of the vaccination programme led to a recovery of some of the losses in the final two months of last year, to levels about 40% lower than in the onset of the COVID-19 pandemic.

At the level of the common European monetary policy, the ECB continued to facilitate the provision of liquidity to Greek banks, as well as to stimulate demand for Greek government bonds through the PEPP securities purchase programme (see Box 2.1). Bank securities remained eligible as collateral, while the valuation haircuts were reduced. The possibility of long-term low-cost refinancing for banks turned out to be particularly important, averaging €38 billion in the second half of 2020, from €21.3 billion in the previous quarter. Respectively, government bond acquisitions under the PEPP programme averaged €1.8 billion per month in March-November 2020.

At the national level, extraordinary fiscal measures were taken to support borrowers, such as the temporary interest-rate subsidy for performing business loans and loans to individuals with a primary residence mortgage ("BRIDGE" programme), as well as the temporary suspension of instalments on selected loans by banks, with a maximum duration of up to 9 months from the date of suspension, in accordance with the instructions of the European Banking Authority. After the suspension expires, banks often offer borrowers reduced instalment and cash facilities programmes, with a horizon of mid-2022.

Among the positive trends in the bank fundamentals, despite the decline in economic activity, the rate of return on private deposits increased, under the influence of increased savings, the liquidity of the banking system improved, while the non-operational decline in NPLs continued. The cost of money continued to decline, to historic lows, while credit expansion to businesses accelerated, largely under the influence of liquidity support policy measures.

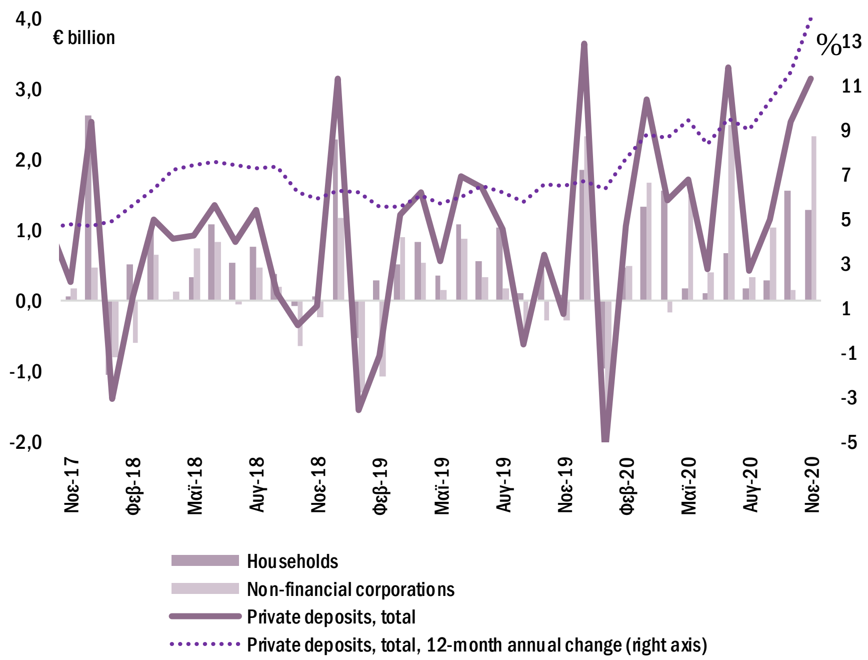
At the same time, the long-standing weaknesses of the Greek banking system persist. The weak quality of equity and assets, including the high stock of Non-Performing Loans (NPLs), stands out, which acts as a deterrent to banks' lending capacity. According to recent data from the European Banking Authority, it is estimated that up to half of all loans suspended by the third quarter of 2020 (around €11 billion out of €22 billion) are likely to be considered non-performing in the near future, while their rate of coverage with provisions is low, around 25%. Respective forecasts of the banks themselves and the Bank of Greece point to an increase in NPLs due to the pandemic of between €5 billion and €10 billion respectively. In terms of the impact of banks on the real economy, credit shrinkage to households continues unabated and the cost of private sector bank financing, although at historically low levels, remains higher compared to European partners.

On the liabilities side of the banks, deposits increased at the fastest rate in September-November 2020. Indicatively, the rolling 12-month rate of change recorded a 12-year high of 14% in November. Similarly in the same month, on a rolling 12-month basis, the average monthly trend for the return of private deposits stood at €1.63 billion, the highest since April 2009. Subsequently, in September-November, a net inflow of €6.8 billion was recorded, due to an inflow of €3.5 billion from Non-Financial Corporations (NFCs) and €3.1 billion from households (Figure 2.7). In the same period of 2019, the net inflow of private deposits was marginally negative.

From August 2015 to November 2020, private sector deposits increased by €45.2 billion, of which €24.6 billion came from households and €20.6 billion from businesses. Six years later, in November 2020, the stock of total private deposits exceeded the level it had reached in the same month of 2014, by €0.8 billion, excluding the reclassification of the Deposits and Loans Fund. An increase of €10.1 billion compared to their level at the end of 2014 is presented by corporate deposits, while a deficit compared to that level by €9.3 billion is still recorded by households.

Figure 2.7

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



The high positive net deposit flows of the private sector strengthen, with the 12-month rate of change peaking in November 2020

Source: Bank of Greece

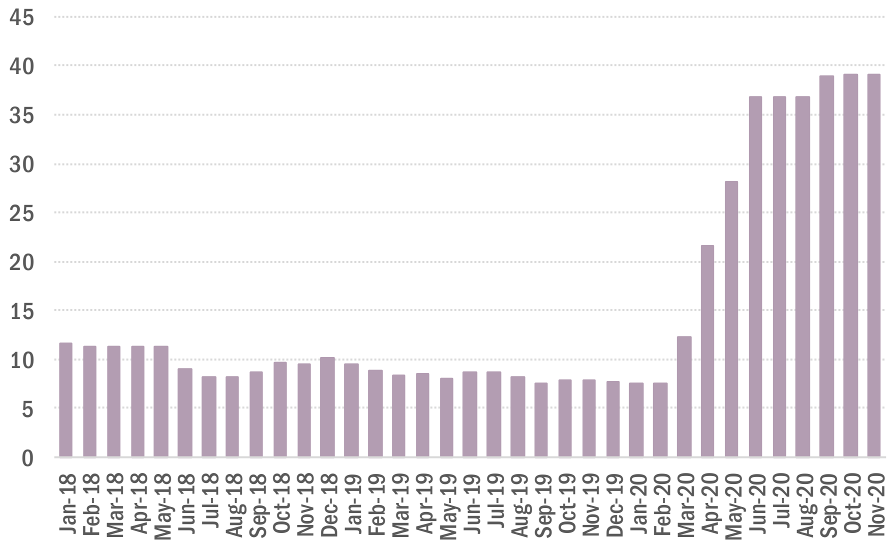
A slowdown in the positive trend in private deposits is expected for 2021, as households and businesses cope with the accumulated effects of the pandemic, which means a reduction in domestic disposable income. In addition, a gradual reduction in uncertainty is expected to lead to a recovery in consumption and a relative slowdown in savings, with a deterrent effect on deposit growth.

The second part of the banks' liabilities, which continued to be positively affected, concerns the financing by the Eurosystem. The ECB's emergency package to strengthen banks' liquidity, as detailed in Box 2.1, continues to offer the Greek banks low-cost liquidity-raising capabilities. The Eurosystem bank financing in 2020 increased by at least €31 billion, including low-cost long-term monetary policy loans (TLTRO III - Figure 2.8). At the same time, the assets of the domestic banking system that are accepted by the Eurosystem as collateral for monetary policy operations, as reflected in the financial statements of the Bank of Greece, increased by at least €37 billion last year.

Figure 2.8

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

The drawing of Eurosystem's low-cost liquidity remained high in September-November 2020



Source: Bank of Greece

On the assets side, the recovery of loans to non-financial corporations (NFCs), recorded since the beginning of 2019, further accelerated in October-November, an increase in loans to freelancers and sole proprietors was recorded for the first time in four years, while the credit contraction to households continued unabated, now in its tenth year. Both supply and demand for loans under the influence of the pandemic contribute to these trends. On the demand side, the needs for liquidity and working capital of companies are increasing, but at the same time uncertainty is holding back new investments, while the structural transformation of the economy is gradually being sought. On the supply side, despite the high stock of Non-Performing Loans (NPLs) which has a deterrent effect on the banks' lending activity, the activation of emergency liquidity stimulus measures through guarantee programmes (Hellenic Development Bank, Entrepreneurship Fund II and III) was particularly positive for the SMEs as it was aiming at the total disbursement of loans of over €8 billion.

Private sector financing, excluding loan write-offs, recovered in October-November 2020 by 2.6% in terms of annual change, driven by loans to SMEs that increased by 8.6% over the same period (Table 2.13). During the same period, there was a credit recovery to the self-employed by 0.9%, for the first time since 2017, while the annual credit contraction to households continued (Table 2.13). The largest credit expansion to SMEs was recorded in the sectors of economic activity of Transport, Real Estate Management, Tourism, Industry, Energy, Shipping, Trade and Agriculture. By contrast, there was a contraction in Construction and Sole Proprietors.

On the demand side, the Bank of Greece survey on bank lending recorded an increase in demand for loans in the third quarter of 2020, both for short-term and long-term loans. Credit criteria remained stagnant, also not expected to change in the short term. The driving force behind the increased demand is loans to meet liquidity needs, both from small and medium-sized enterprises.

Table 2.13

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

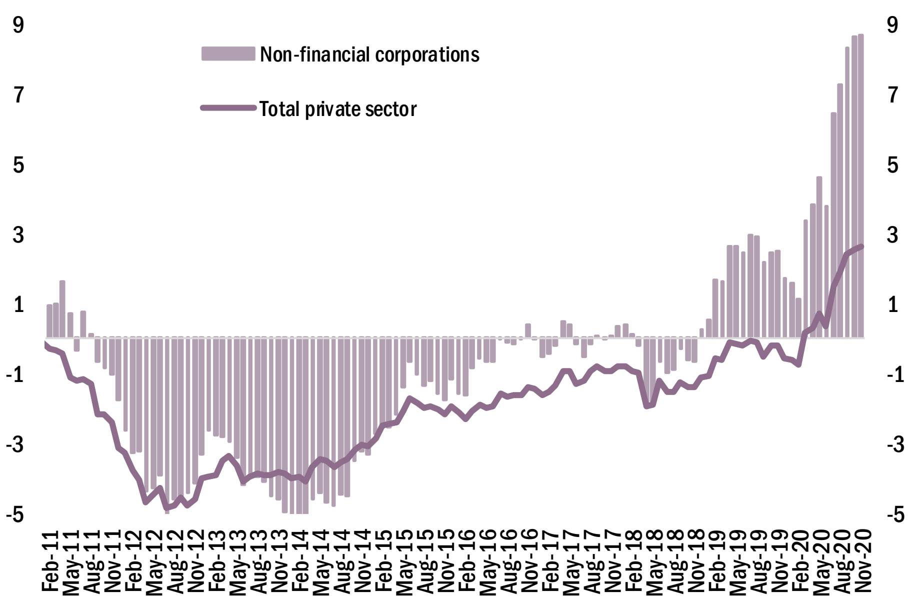
Quarter / Year	4/19	1/20	2/20	3/20	Oct.20	Nov.20
Total private sector	-0.3	-0.4	0.5	1.9	2.5	2.6
Households & NPIs	-2.9	-2.9	-2.8	-2.5	-2.4	-2.5
Sole proprietors and unincorporated partnerships	-2.0	-2.4	-2.2	-0.1	0.5	1.3
Non-financial corporations	2.2	2.0	4.1	7.3	8.6	8.7
Agriculture	2.2	-0.5	1.9	3.2	1.4	1.2
Industry	0.7	1.7	7.1	9.0	10.5	10.4
Trade	-0.1	0.8	3.1	8.3	9.2	8.7
Tourism	3.8	3.6	2.2	9.5	13.0	13.3
Shipping	1.1	-1.0	-6.2	0.6	7.4	8.5
Construction	-1.7	-4.4	-3.4	-3.8	-3.7	-3.4
Electricity-gas-water supply	11.5	8.0	4.5	5.4	9.2	10.5
Transport and logistics	50.4	19.5	3.0	16.2	24.2	23.5
Interest rates on new loans (period average, %)						
Consumer credit	9.59	9.70	9.86	9.71	9.69	9.36
Mortgage credit	2.93	2.84	2.83	2.95	2.86	2.75
Loans to non-financial corporations/institutions	3.62	3.43	3.15	3.08	3.15	3.33

Source: Bank of Greece

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

Figure 2.9

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



Bank financing to businesses has accelerated to 11-year high, under the influence of emergency liquidity support measures by the public sector

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) continued to decline in the third quarter of 2020 by 1.6% or €1.0 billion[10], slightly slower than in the immediately preceding quarter (2.0% or €1.2 billion) and significantly slower than in the first quarter of 2020, when

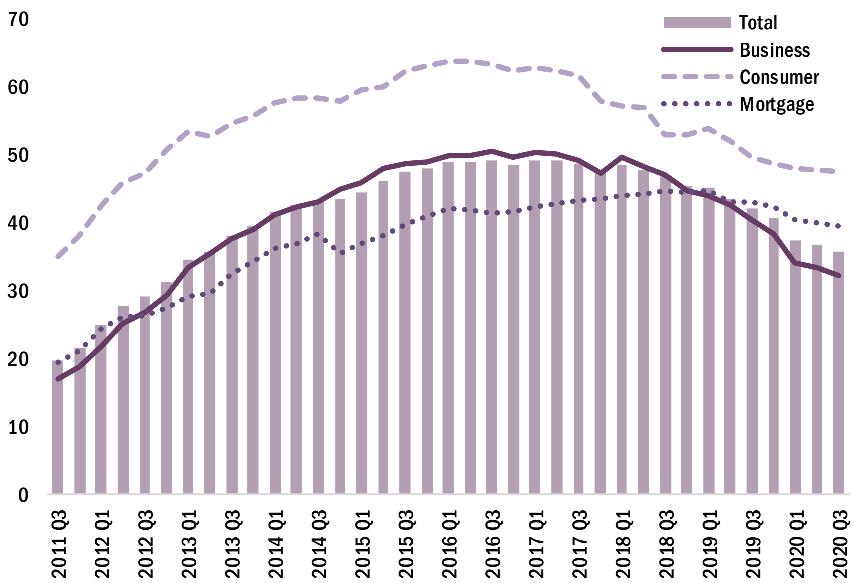
[10] Data are presented for NPLs that include only the items in the balance sheet, on an individual basis

securitisations of €6.7 billion were recorded by a systemic bank. The total amount of NPLs in September 2020 was €58.7 billion or 35.8% of total loans, approximately €48.5 billion or 45.2% lower than the maximum level of March 2016. In business credit, the percentages of NPLs decreased to 32.2% of loans in the third quarter of 2020, from 33.3% in the second quarter (40.4% in the same quarter of 2019), while a smaller decrease, from 47.8% to 47.4%, was recorded in consumer (49.7% in the same quarter of 2019) and in mortgage portfolios, from 40.0% to 39.5% (43.0% in the same quarter of 2019). In business credit, NPL rates in September 2020 were significantly lower among freelancers and micro-enterprises, but remained very high (55.4% of loans, up from 64.2% in the same quarter a year earlier), while they declined in large and small enterprises, to 16.6% and 47.0% respectively, from 22.4% and 55.3% in September 2019.

Figure 2.10

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

NPLs continued to decline in the third quarter of 2020, but their recording underestimates the real difficulty of repayment by borrowers



Source: Bank of Greece

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

Overall in January-September 2020, the reduction of NPLs by approximately €10 billion came by 68% from the first implementation of the Greek State guarantee programme in securitised NPL portfolios ("Hercules Plan", law 4649/2019) from one systemic bank, by 17% from write-offs, while the remaining 15% came from active management, liquidations and other sales. As a result of the new economic crisis due to the pandemic, banks are in the process of reviewing their business plans and strategic targets for reducing NPLs by the end of 2023. It is particularly important to speed up the implementation of the Hercules Plan, as well as other solutions to reduce NPLs, as some tools to reduce them are still under-utilised, such as collection from auctions and collateral liquidation. It is also advisable to consider additional proposals, such as that of the Bank of Greece for the securitisation of part of the banks' deferred tax credits, as well as the possible creation of a troubled-asset management company.

In the short term, the temporary relaxation of supervisory rules by the European Banking Authority, as well as measures to support affected borrowers, have a positive impact on recorded NPLs, which to some extent underestimated the real fundamental trends in relation to the difficulties of repaying loans. Relevant estimates of the banks themselves and the Bank of Greece conclude a possible increase in NPLs after the cessation of the temporary easing of the supervisory rules by the European Banking Authority, amounting to between €5 billion and €10 billion respectively.

In the medium term, a further decline in NPLs is possible, especially through the more extensive implementation of the "Hercules" programme, which is expected to be renewed beyond its expiration in April 2021. The decline in NPLs may continue, perhaps not at a linear rate, due to the effects of the pandemic crisis but also from the new NPLs that will arise after the cessation of temporary borrower-support measures. Credit contraction in consumer and mortgage portfolios is expected to continue, while unprecedented liquidity enhancement measures and expected demand to meet liquidity and investment needs will act as a boost to credit expansion to businesses. Decisive and systematic reduction of NPLs is crucial for banks' lending capacity.

Interest rates on new deposits fell further to historic lows in October-November 2020 for Non-Financial Corporations (NFCs) and households, to 0.07% and 0.09%, from 0.12% and 0.13% respectively in the first nine months of 2020. In the same two months last year, new lending rates remained at the level of 4.1%, mainly due to the small reduction in lending costs to individuals, which was offset by a marginal increase in lending rates to SMEs.

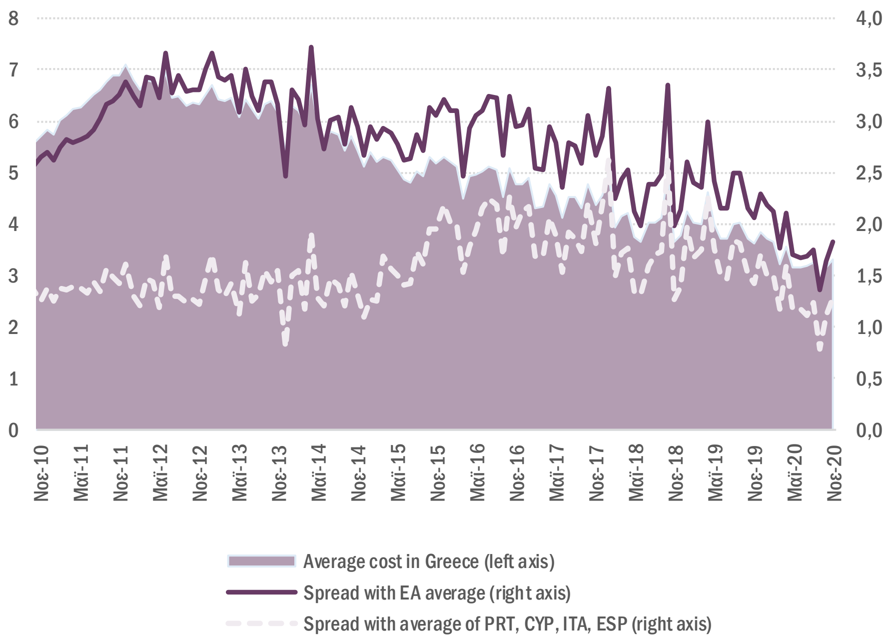
The average cost of private sector bank financing to NFCs increased marginally to 3.3% in November 2020, after 2.9% in September 2020, a level which was the lowest cost of new borrowing since the country joined the Eurozone. Nevertheless, costs still remain significantly higher than in other Eurozone countries. Indicatively, according to the ECB's composite cost of borrowing indicator, the cost to non-financial enterprises in November 2020 was 1.5% in the Euro area, 1.6% in Germany, and 2.0% in the countries of the Euro area's "south" (Portugal, Italy, Cyprus, Spain). Subsequently, the spread of borrowing costs for Greek companies in relation to the averages of the Euro area average and the "south" increased slightly, at 182 bps and 129 bps respectively. Compared to the pre-crisis level, the spread of borrowing costs for Greek companies compared to the average of other countries in the Eurozone "south" remains significantly higher.

The relatively effective response to the health crisis, as well as the ECB's unconventional liquidity stimulus policies, in which Greece is now partially involved, have enforced the trend towards de-escalation in government bond yields. Thus, for the 10-year bond, the average yield decreased in December 2020 to 0.63%, which is a historic low level of borrowing costs from the markets for the Hellenic Republic. Respectively, the average yield of the 5-year bond in the secondary markets moved for the first time in a negative territory in December, while the average yield of the 20-year bond fell marginally below 1%. At the same time, the spread on the new borrowing costs of the Greek State fell in relation to the German ten-year bond, to 125 bps in December from 250 bps in the middle of the first lockdown in April 2020, while it converged in relation to the average of the countries in the "south" of the Eurozone (to 42 basis points in December from 69 points in April of the same year). Despite the improvement, spreads remain significantly higher than their average values in the first decade of the Eurozone.

Figure 2.11

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

The cost of new borrowing for businesses remained close to the historically low level in late 2020, yet it remained 129 b.p. higher than the average for the Eurozone "south".

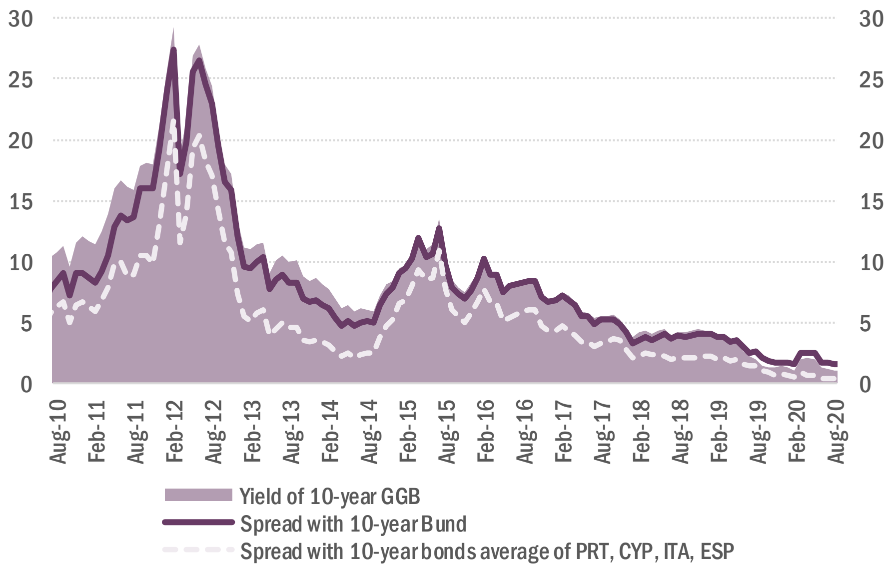


Source: ECB

Figure 2.12

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

Greek bond yields moved in December to a new all-time low of below 0.7%, converging with the countries of the European south



Source: ECB

The ECB policy, as described in Box 2.1, also contributed to the improvement of the investment climate in relation to Greek government bonds. As a result, throughout 2020, the Greek State conducted five separate debt auctions, three new issues (debt maturity 7, 10 and 15 years) and two reissues (maturity 10 and 15 years), where a total of €12 billion was raised, characterised by very high demand and very low market interest rates, between 1.2% and 1.6%. Amid the qualitative characteristics of these issues, the vast majority of buyers were foreign institutional investors. In this context, Moody's upgraded the country's credit rating by one tier in November, although the country's rating still falls short of the investment grade between 2 and 3 notches, according to the rating agency. The level of Greek public debt remains one of the highest internationally, with the risk that the current economic crisis will clearly worsen its dynamics, however some of its quality characteristics remain encouraging. It is indicative that the average repayment period was 20 years at the end of 2020, compared to about 7 years average repayment period for the average of the southern countries of the Eurozone (Portugal, Cyprus, Italy and Spain).

Box 2.1

ECB's extraordinary 'unconventional' liquidity measures in 2020: Greece participates for the first time

The European Central Bank (ECB) is completing this year a decade since its last decision to raise interest rates, by systematically pursuing an expansionary monetary policy. The 2008 international financial crisis, the Eurozone debt crisis in 2010, and persistently low inflation expectations led the ECB to use a range of "non-conventional tools" to stimulate economic activity in addition to interest rate cuts, which is currently at historically low, negative levels. The purpose of the "non-conventional monetary policy instruments" was to increase market liquidity, reduce the cost of money for businesses and households and increase inflation close to the 2% target in the medium term. Indicative tools used were the Securities Markets Programme (SMP, 2010-2014), the Covered Bond Purchase Programmes (CBPP1, CBPP2, 2009-2012), the Outright Monetary Transactions (OMT) framework and the expanded Asset Purchase Programme (APP), which included the purchase of government securities through secondary markets and banks. Due to the continued weak credit rating of Greece by the international rating agencies, as a result of the debt crisis, the Greek securities were and remain ineligible for these programmes, with the result that the Greek economy cannot use the "unconventional tools" to stimulate domestic liquidity to date.

Following the global economic crisis caused by the spread of the COVID-19 pandemic in early 2020, the European Central Bank launched a complementary Pandemic Emergency Purchase Programme (PEPP) in March 2020, targeting both private securities but mainly government debt securities of Euro area member countries. For the purposes of the programme, Greek debt securities became eligible for the first time, despite their continuing low credit rating.

The PEPP was originally intended to cover security purchases totalling €750 billion (approximately 6% of the Eurozone annual GDP) over a two-year period. The total amount was revised to €1.35 trillion in June 2020 (11% of the annual GDP of the Eurozone), and at €1.85 trillion in December 2020 (15% of the Eurozone annual GDP). By the end of 2020, cumulative net purchases of €757 billion worth of securities had taken place, i.e. around 40% of the total projected amount, of which around 90% relate to the purchase of government securities and the rest are private securities.

In the case of Greece, the PEPP led to purchases of Greek government bonds which cumulatively exceeded €16 billion in March-November 2020, equivalent to 8.5% of the country's GDP in 2019 [Chart 2.13.A]. Subsequently, Greece's accession to the ECB PEPP increased the average monthly demand for Greek government bonds by €1.8 billion or 1% of GDP. Among other factors influencing the demand for Greek government bonds, the PEPP has helped to increase their price and attractiveness. Indicatively, in March-December 2020, the average yield of 10-year bonds fell from 2% to 0.63%, while the trading volume in the secondary market HDAT almost tripled compared to the corresponding period of 2019, with an increase of 290% [Chart 2.13.B].

In parallel with PEPP, the ECB has decided to facilitate the financing framework for banking institutions. Thus, in early April 2020, the eligibility criteria on the basis of which assets were accepted as collateral for monetary policy operations were eased and the valuation haircuts were reduced. This resulted in allowing Greek banks to utilise long-term refinancing tools at very low cost.

Thus, the assets of the domestic banking system accepted by the Eurosystem as collateral for monetary policy operations, as reflected in Bank of Greece data, reached €52.7 billion in November 2020, compared to just €21.5 billion in March before the emergency support measures from the ECB [Chart 2.13.C]. Similarly, there was a significant increase in Eurosystem bank financing of low-cost loans through long-term monetary policy operations, such as the TLTRO III programme, which rose from €12.3 billion in March to €39.0 billion in November.

Undoubtedly, both the attractiveness of Greek government bonds and the stimulation of the liquidity of households, businesses and banks affected by the crisis are influenced by a variety of factors. For example, domestic policies to address the crisis and promote structural reforms play a key role. However, in addition to these factors, there is strong evidence that the emergency liquidity support measures implemented by the ECB in 2020, which included Greece for the first time since the debt crisis, have a positive effect on at least three levels:

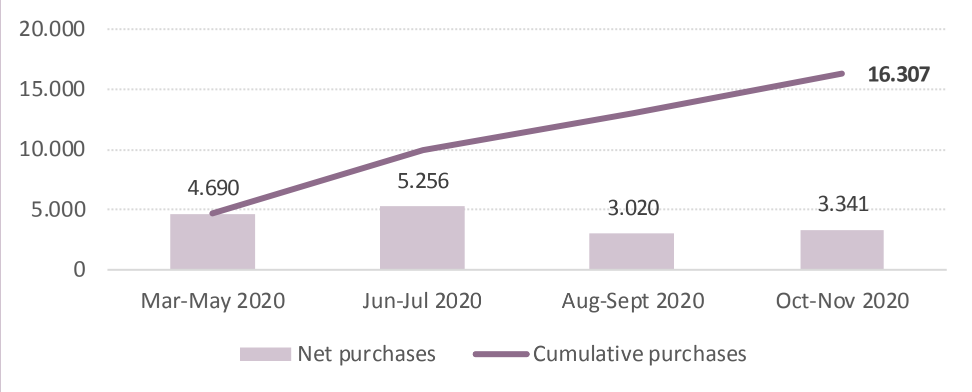
(a) significantly stimulate demand for government bonds, further reducing yields to historically low levels, increasing Greek bond liquidity and facilitating refinancing of government debt
(b) reduce the financing costs of Greek banks, improving their profitability. Subsequently, this creates room for a reduction in the cost of borrowing of the domestic private sector, which reached historic lows at the end of 2020, albeit remaining higher than in other Eurozone countries (see section 2.2 C),
(c) higher liquidity in government and banks increases the ability to finance the real economy in order to accelerate recovery.

Therefore, the ECB's "unconventional" liquidity enhancement policies, which began last year, to which Greece gained access for the first time (PEPP, easing of eligibility criteria for collateral in bank refinancing operations, etc.), may positively and significantly affect the prospects of recovery of the Greek economy in the coming years. These opportunities, which have been pursued since 2014, arose at a time when a strong recovery for a number of years is a key issue in ensuring the sustainability of public finances after a multi-year process of economic adjustment and replenishment of lost domestic output.

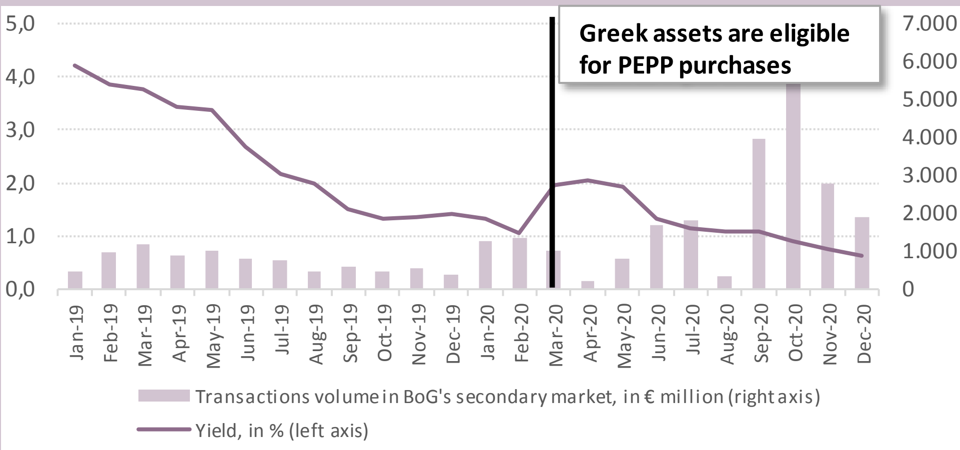
Figure 2.13

ECB exceptional liquidity measures in 2020 and their effects

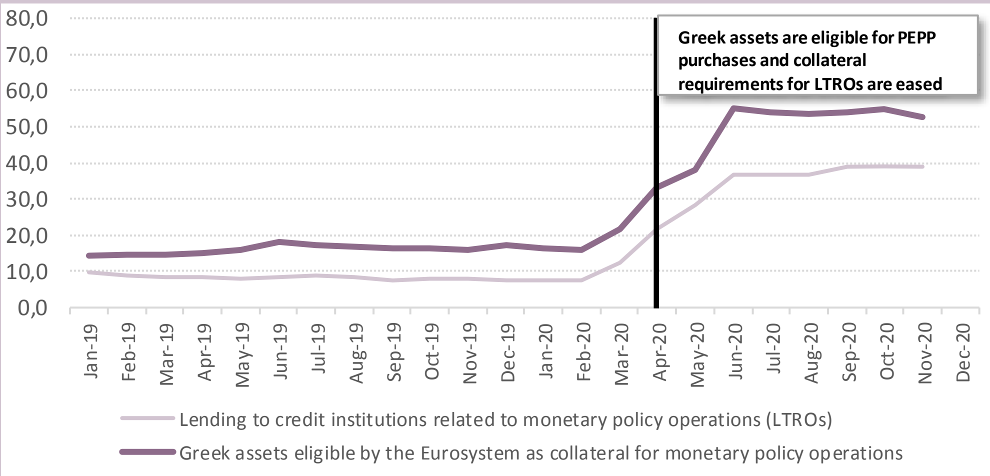
A. Purchases of Greek government bonds from PEPP (placements in EUR million)



B. Yield and trading volume of the 10-year Greek government bond



C. Financial facilities to the Greek banking system by the Eurosystem (EUR billion)



Sources: European Central Bank, Bank of Greece, Data Processing IOBE

3 PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

- Intense recession by 11.7% in the third quarter of 2020 in Greece, due to the effects of the health crisis, compared to GDP growth by 1.2% in the respective quarter of the previous year. Overall in the first nine months of last year, a decline of 8.5%, instead of growth of 1.8% a year earlier.
- GDP contraction in the third quarter exclusively from the sharp decline in exports (-44.9%), because of the decline in exports of services (-80.0%) compared to their significant increase a year earlier (+9.9%). Deterioration of the external sector balance, as imports were much less restricted than exports (-6.4%, compared to +3.3% in the third quarter of 2019)
- Among the components of domestic demand, investments increased (+31.5%), exclusively from accumulation of stocks, as the formation of fixed capital declined (-0.3%)
- Significant expansion of public sector consumption spending (+4.4%), in contrast to their reduction a year earlier (-1.2%)
- Household consumption strengthened (+1.0%), less than in the third quarter of 2019 (+1.5%)

Recent Macroeconomic Developments in Greece

The effects of the new coronavirus pandemic on economic activity in Greece continued to be particularly strong in the third quarter of last year. Domestic output shrank in this period by 11.7%, from 14.2% in the previous quarter[11], whereas a year earlier it was increasing by 1.2%. Overall in the nine months of 2020 GDP was 8.5% lower than in the previous year, when it was growing by 1.8%. As private and public consumption, as well as investment – due to stocks and support actions due to COVID-19 – increased, the

[11] The initial GDP change forecast for the second quarter in September 2020 was -15.2%

continuation of the strong recession in the third quarter came solely from the sharp but largely expected decline in exports, due to the shrinking tourism. However, the intensity of the recession comes largely from the import side, as they declined much more mildly than expected.

Analysing the developments in the components of GDP in January-September last year, domestic consumption contracted by 2.8%, while in the preceding year it had expanded by 1.2%. The decline is due solely to the sharp decline in private consumption by 3.6%, in contrast to its increase, by 1.4%, in the first nine months of 2019. As it rose in both the first (+0.2%) and the third quarter (+1.0%), its retreat came exclusively from the second quarter (-12.0%). That said, following the expansion of public consumption in the summer months by 4.4%, because of the exceptional costs due to pandemics, domestic consumption increased by 0.9% in the first nine months, milder than in the same period the year before last (+1.9%). The increase in July-September would have been greater if the interventions to support businesses were recorded in the state consumption expenditures and not in investment, as shown below.

Investment expanded by 12.0% in the first nine months of 2020, offsetting its decline by 1.3% a year earlier. As in the first quarter of last year, it was essentially unchanged and in the next quarter it rose by 6.3%, the above increase came mainly from the third quarter, when they expanded strongly, by 31.5%. That said, the strong increase came exclusively from the expansion of stocks, which reached €2.2 billion, from €1.1 billion in 2019, as fixed capital formation was virtually unchanged (-0.3%). Although according to the Eurostat National Accounts methodology, stocks balance the GDP estimates from the supply-side and the demand-side approaches, the fact that in the third quarter of last year they accounted for 5.5% of GDP domestically, exceeding exports of services, highlights the excessive impact they have on domestic output in certain quarters and raises questions about their actual extent.

In terms of investment in fixed assets, in the first nine months of 2020 it was essentially unchanged from the previous year (+0.3%), when it had fallen by 9.0%. The decline in investment spending was curbed, as mentioned above, by the recording in investment of business support interventions against the effects of the pandemic. As of September, the outflows from the Public Investment Programme (PIP) were higher by €2,416 million against the target for the same period, mainly due to special purpose reimbursement costs for businesses and the self-employed, to subsidize interest on loans to small and medium-sized enterprises, on the repayable business advance measure and the establishment of a business guarantee fund due to the COVID-19 pandemic[12]. This fact is reflected in the development of a specific category of investments, which is presented immediately below.

Among the fixed capital categories, those related to constructions strengthened most in absolute terms in January-September of last year. In particular, investment in Housing increased by €203 million or 20.2%, which was the strongest in this period of the year since 2007, more than offsetting the corresponding, slight decrease in 2019 (-1.1%). This was followed by an increase of €142 million or 4.1%, by Other Constructions, which include the expenses of the PIP, in contrast to their strong decrease the previous year by 26.8%. This increase is due to their rise in the second (+19.1%) and the third quarter (+3.3%), which highlights its correlation with the sharp expansion of PIP expenditure over the same period to support businesses and the self-employed against the impact of COVID-19. Other Machinery and Equipment (+€128 million or +3.6%) and ICT Equipment (+€104 million or +6.8%) came next to strengthen and contribute to the stability of fixed capital

[12] Source: State Budget Implementation Bulletin September 2020, Ministry of Finance, October 2020

formation, continuing their growth from the year before last, by 2.0% and 3.4% respectively. The rise in the above categories of fixed capital was offset by the particularly strong decline of investment in Transport Equipment since the beginning of last year, to reach €791 million (-49.1%) in September. Investment in Agricultural Products (-€1 million or -1.8%) recorded a much milder decline, yet they have the smallest share in fixed assets formation.

In terms of developments in the external balance of the economy, as expected for the summer period due to the deterrent effect of the lockdown and the public health measures on international travel, the sharp decline in exports is due solely to exports of services, which were limited to 20.0% of their level just one year earlier. Following this development, the exports of services in January-September were 48.4% lower than in 2019, in which they had increased significantly (+9.3%). At the same time, the exports of goods followed last year in the nine-month period generally a slight upward trend, 1.0% higher than a year earlier, when they had risen by 3.6%. In addition, at the quarterly level, they declined only in the second quarter (-3.2%).

Much milder pressures than on exports were exerted by the pandemic on imports, as they were reduced by 6.2% in the first nine months of 2020, a decrease similar to that in the third quarter (6.4%), in contrast to their expansion by 3.8% a year earlier. In absolute terms, the decrease in January-September was stronger in the imports of goods (-€1.9 billion) or 4.9%, compared to an increase of 3.6% a year earlier. The imports of services shrank by €1.46 billion or 10.4%, following the same enlargement as the imports' enlargement in goods a year earlier. The much larger decline in exports compared to imports worsened the external balance, forming a deficit of €11.1 billion (8.9% of GDP), from marginally negative balance in the same period of 2019 (€868 million) .

Approaching GDP in terms of production, domestic gross value added fell by 10.7% in July-September and by 8.6% in the first nine months. The milder decline in the third quarter compared to the decline in GDP in terms of demand mentioned above is mainly due to the significant decline in revenues from taxes on products in the second quarter, by 11.7%, which are part of the GDP paid to the state. Subsidies on products, constituting exogenous contribution to the GDP, decreased over the same period by 16.5%. In eight of the ten main sectors of the Greek economy, activity weakened in the third quarter of 2020. The exception was the construction sector, which saw an expansion of activity by 12.3% and overall in the nine months last year by 16.6% and that of the Public Administration – Defence – Social Security, with increases of 3.0% and 1.8% respectively. The increase in Construction is related to the increase in investment in housing and other construction mentioned above. In addition, the sector continued its recovery in the first nine months of 2019, by 4.2%, which was then the second strongest among the sectors, when in the Public Administration there was a slight decline (-0.5%).

By contrast, the largest decline in activity was recorded in the third quarter in Wholesale - retail trade, transport - storage, hotels - restaurants, by 30.3%, leading to a decrease of 21.8% in the whole period January-September of last year, in contrast to an increase of 2.2% a year earlier. However, the sharpest decline in January-September was in the sector of Arts - recreation - entertainment, by 23.8%, compared to an increase by 6.8% the previous year (the strongest among the sectors) and a decline by 16.4% in the third quarter. Next, in terms of output contraction in the nine months of 2020, came the Professional - scientific - technical - administrative activities (-13.2% and -19.3% in the third quarter) and the Financial - insurance activities (-8.6% and -10.1%), compared to essentially marginal decline in both sectors one year earlier (-0.2% and -0.1% respectively). The decline in Industry was milder (-5.0% and -2.4%), in contrast to the increase of 2.1% a year earlier. The smallest decline was recorded in Information-communication and Real Estate Management, by 2.7% and 0.4%, while last year in the first sector activity strengthened (+ 1.3%) and in the second it was stationary (+0.3%). The Primary sector was the only one with unchanged production compared to 2019, both in the third quarter and on average in the first nine months, but a year earlier its output was growing (+3.7%).

The sharp change in the GDP trend so far has reflected only slightly in the unemployment trend. As mentioned in previous reports on the Greek economy, a number of factors have contributed to this development. In particular, the measures to protect jobs from the effects of the pandemic taken by the government, as well as the fact that the sharp decline in the number of employees is primarily due to their exit from the workforce, resulted in no increase in the number of unemployed. According to the press release of EL.STAT. for the labour force survey of the second quarter of this year, "part of this increase (note: of the economically inactive), comes from the flow of unemployed to the economically inactive as, according to the definition of the unemployed and the economically inactive active population, if a person is not working, is not actively looking for work and is not available to take up work immediately, is not classified as unemployed but in the economically inactive population". Indicatively, if these people had been counted among the unemployed and there was no decrease in the labour force, the unemployment rate would have been 18.6% in April-June 2020 and 17.0% in the following quarter, instead of 16.7% and 16.2%. That said, both percentages this year are 0.2 percentage points lower than in the corresponding period of 2019, a difference which represents a significant slowdown in the decline of unemployment compared to the previous year, which in the first quarter of 2020 reached 3 percentage points. At the sectoral level, most of the trends are not related to those in productive activity, resulting in some significant contradictions, such as in the Primary sector, Arts-recreation-entertainment, Professional-scientific-technical-administrative activities and Construction.

In particular, employment fell in the third quarter of this year by 1.1% or 45.1k people compared to the same quarter last year, when it had fallen by 2.0%. However, this decline did not lead to an increase in the same period in the number of unemployed, which decreased by 20.8k, but to an increase in the inactive population (+44.1k). The unemployment rate in July-September, combined with that of the first half of last year, set unemployment in the first nine months of 2020 at 16.4%, 1.1 percentage points lower than a year earlier. It was also the lowest for this period since 2011. Most jobs were lost compared to the third quarter of last year, as in the second quarter, primarily in the Primary sector (-44.9k or -10.0%), Tourism (-33.2k or -7.7%) and Manufacturing (-12.0k or -3.1%). Next in terms of job reduction came Administrative - support activities (-10.0k or -10.4%) and Water supply - wastewater treatment (-9.2k or -26.1%). By contrast, jobs expanded mainly in Human Health Activities (+29.6k or + 11.9%), Wholesale - Retail Trade (+21.3k or + 3.0%) and Public Administration - Defence - Compulsory Social Security, with the trends in the first and third sectors considered to reflect emergencies in services created by the health crisis.

The disinflationary pressures in the third quarter, mainly due to the decline in energy prices, as well as the lower indirect taxation, following the reduction of VAT from June 1 on certain products and services (means of transport, tourist packages, non-alcoholic beverages - coffee, soft drinks, etc.), led to a decline in the Consumer Price Index by 1.9%, which is the highest for this period of the year over time, while a year earlier price stability dominated the trend (-0.1%). Only in four of the 12 categories of products and services that enter the domestic CPI prices increased. The inflationary effects of energy prices are reflected in the fall in prices in Transport by 8.5% and in Housing by 5.0%, which were the largest in the third quarter, with the first trend coming partly from the decline of VAT. Also, prices in Hotels - Cafes - Restaurants were 0.8% lower than last year, in contrast to their increase of 0.7% in the first quarter of this year. However, there is no downward trend in the prices of food and non-alcoholic beverages, as they rose by 2.0% in the third quarter, the second-largest increase in product and service categories. Strong was the decline of prices in Communications (-2.1%), Cultural Activities - Recreation Services (-1.2%) and Durables – household goods (-1.1%). By contrast, Clothing-Footwear showed the largest increase in prices (+2.1%), followed by the Food-non-alcoholic beverage products mentioned above and Education services (+0.6%).

Summing up, as expected, domestic economic activity was particularly hard hit in the third quarter by the new coronavirus pandemic, mainly through its deterrent effect on international tourism, as domestic demand components (private consumption, public consumption, investment) strengthened. However, these trends are largely due to the impact of measures taken to halt the effects of the health crisis. In order to understand the effect of the relevant expenditures on gross fixed capital formation, note that according to the State Budget Implementation Bulletin for September 2020, the outflows of the Public Investment Programme (PIP) from the beginning of this year were higher by €4,018 million compared to 2019, mainly due to the expenses for the support of businesses and the self-employed. It is also apparent from the State Budget execution bulletins that in July-September last year the increase in fiscal support measures from the PIP, compared to the previous year, widened by €1,513 million. As the majority of PIP expenditures are recorded in Other Constructions in the National Accounts system, they are probably due to the second largest increase in the third quarter in this category among the fixed capital formation categories, which was recorded above. Of course, since these PIP support measures are transfers for the viability and current operation of businesses, they do not have a medium-to-long-term investment character and do not improve business productivity. In addition, their high-level in the second and third quarters of last year makes it difficult to continue at the same rate in 2021, although the COVID-19 pandemic goes on. Therefore, a negative impact on investment this year from their decline is quite possible.

Taking into account the possible difficulties in the near future in the financing of investments by the banking system, which are not currently reflected in the relevant data, e.g. due to an eventual significant increase in non-performing loans from deferred loans, it is considered necessary to allocate more funds from the PIP for investment and wider development purposes, along with actions designed for the needs and challenges created by the pandemic. As has been pointed out in previous IOBE bulletins on the Greek economy, given the "horizontal" (concerning all sectors) implementation of most of the investment support measures, taken before the outbreak of the new coronavirus, possibly the necessary additional interventions need to have a sectoral orientation or relate to value chains in which specific industries participate. The potential of the European Commission's NextGenerationEU funding mechanism should be harnessed to boost investment.

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
2010	216,447	-5.4%	191,901	-5.9%	37,564	-10.6%	47,699	4.5%	61,385	-3.4%

2011	194,687	-10.1%	176,069	-8.3%	25,783	-31.4%	47,972	0.6%	55,610	-9.4%
2012	180,593	-7.2%	163,348	-7.2%	20,445	-20.7%	48,913	2.0%	52,554	-5.5%
2013	176,111	-2.5%	156,607	-4.1%	19,699	-3.6%	49,856	1.9%	50,816	-3.3%
2014	177,447	0.8%	156,799	0.1%	20,494	4.0%	53,892	8.1%	54,270	6.8%
2015*	176,106	-0.8%	156,335	-0.3%	21,441	4.6%	56,588	5.0%	58,454	7.7%
Q1 2016	43,778	-1.2%	38,674	-2.0%	6,055	10.0%	13,965	-0.8%	14,959	0.4%
Q2 2016	43,597	-1.5%	38,814	-1.2%	5,920	17.2%	13,691	-3.7%	14,773	1.0%
Q3 2016	43,839	0.6%	39,194	1.4%	5,448	6.3%	14,280	1.8%	15,112	7.0%
Q4 2016	44,016	0.1%	39,091	0.3%	5,199	-9.7%	14,506	1.6%	14,853	0.3%
2016*	175,230	-0.5%	155,773	-0.4%	22,621	5.5%	56,442	-0.3%	59,698	2.1%
Q1 2017	43,958	0.4%	39,217	1.4%	5,129	-15.3%	14,944	7.0%	15,127	1.1%
Q2 2017	44,336	1.7%	39,477	1.7%	5,582	-5.7%	15,267	11.5%	16,008	8.4%
Q3 2017	44,654	1.9%	39,671	1.2%	5,979	9.7%	15,531	8.8%	16,378	8.4%
Q4 2017	44,550	1.2%	39,952	2.2%	5,445	4.7%	15,452	6.5%	16,617	11.9%
2017*	177,498	1.3%	158,316	1.6%	22,135	-2.2%	61,193	8.4%	64,130	7.4%
Q1 2018	44,839	2.0%	40,125	2.3%	5,414	5.6%	16,202	8.4%	16,801	11.1%
Q2 2018	44,948	1.4%	39,736	0.7%	5,992	7.4%	16,445	7.7%	17,209	7.5%
Q3 2018	45,052	0.9%	39,869	0.5%	5,751	-3.8%	16,765	7.9%	17,449	6.5%
Q4 2018	45,274	1.6%	39,803	-0.4%	6,103	12.1%	17,294	11.9%	17,725	6.7%
2018	180,113	1.5%	159,532	0.8%	23,261	5.1%	66,706	9.0%	69,183	7.9%
Q1 2019	45,690	1.9%	40,176	0.1%	6,055	11.8%	17,185	6.1%	17,685	5.3%
Q2 2019	45,924	2.2%	40,467	1.8%	5,637	-5.9%	16,926	2.9%	17,687	2.8%
Q3 2019	45,611	1.2%	40,481	1.5%	5,244	-8.8%	18,420	9.9%	18,029	3.3%
Q4 2019	45,827	1.2%	40,606	2.0%	5,723	-6.2%	17,501	1.2%	17,893	0.9%
2019	183,052	1.6%	161,730	1.4%	22,659	-2.6%	70,033	5.0%	71,293	3.0%
Q1 2020	45,886	0.4%	40,481	0.8%	6,071	0.3%	17,456	1.6%	17,798	0.6%
Q2 2020	39,395	-14.2%	36,081	-10.8%	5,992	6.3%	11,328	-33.1%	15,399	-12.9%
Q3 2020	40,297	-11.7%	41,146	1.6%	6,898	31.5%	10,147	-44.9%	16,880	-6.4%

* provisional data

Source: Quarterly National Accounts, ELSTAT, December 2020

Regarding the evolution of demand from abroad in the third quarter, as in the previous one, it is mainly reflected in the sharp decline in the exports of services. At current prices, the contraction in exports of services for another quarter was mainly (85.0%) due to the decline in tourist revenues by 72.6% or €7.77 billion, due to restrictions on passenger travel abroad, but also concern about the risks from the pandemic. Exports of goods increased by 3.5%, in national accounting terms and constant prices. It should be noted that between the core countries (Germany, France, the Netherlands, Italy) and the Eurozone periphery (Ireland, Spain, Cyprus, Portugal), Greece (3.5%), Ireland (15.3%) and Portugal were the only countries to see an increase in exports of goods in July-September 2020. In addition, among the countries with a decline in exports in the second quarter of last year, Greece recorded the smallest decline (-3.2%), with Cyprus (+14.5%) and Ireland (+9.7%) the only ones that posted strong expansion. Therefore, exports of goods have shown significant resilience during the COVID-19 pandemic. For this reason, as mentioned in previous IOBE bulletins, policy interventions to facilitate export procedures and, more broadly, to promote exports, could mitigate the effects of the health crisis on economic activity domestically. In any case, because the share in total exports of the exports of services, which were subject to stronger restrictive measures than the exports of goods, is lower over time in the fourth quarter than in the third, there are clearly milder pressures on Greek exports at the end of 2020, which will mitigate their negative impact on GDP. All medium-term macroeconomic forecasts are presented in the section that follows.

Medium-term outlook

- Developments in the COVID-19 pandemic in Greece and abroad, notably in the EU, measures to address its impact (lockdown, stimulus of businesses and households) and progress towards the European recovery fund NGEU are the main drivers of GDP growth in late 2020 and in 2021.
- The forecasts for macroeconomic variables are based on alternative assumption sets (scenarios) for the above and other determinants.
- Recession 9.0-9.5% in 2020. This year, growth of 4.0-4.3%, if the pandemic gradually weakens and does not resurge again, with a summer tourist season similar to 2019 and the goal of NGEU funds absorption (baseline scenario) met.
- Two alternative scenarios: 1) Favourable (faster de-escalation of the health crisis, extended tourist season (spring-autumn), faster global recovery): growth 5.0-5.3%. 2) Adverse (no further easing of the pandemic, sharp fluctuations as in 2020, low absorption of NGEU resources): GDP change 0.5-1%.
- GDP decline in 2020 mainly due to exports (-25 to -27%) and private consumption (-4.5 to -5.5%)
- Increase in public consumption (2.5-3.5%) and investment (10-11%) from extraordinary expenditure on health and public administration, and to support businesses and self-employed.
- Recovery in the basic and favourable scenario, primarily from an increase in exports (16% and 20% respectively), but also private consumption (3.0% and 4.5%) and investment (16% and 19%).
- Stagnation or slight increase in the adverse scenario, from a decline in private consumption (-1 to -1.5%) and investment (-5%), but also export growth (5-7%).

Developments related to the health crisis are expected to continue to be the main determinants of political and economic trends over most of 2021, domestically and internationally. In the current period, these developments are related to the second wave of the health crisis and the vaccination rollout. Despite the start of the vaccination process, as we are almost in the middle of winter, the next period will be particularly critical for the dynamics of the pandemic. Besides, the first wave started a year before the coming period. A recent challenge in this regard comes from the COVID-19 mutations, the effects of which cannot be estimated at present. Discovering other means to deal with the pandemic (e.g. treatment drugs) may contribute to the weakening of the relevant uncertainty.

In the third quarter of last year, when the pandemic had weakened and public health measures were either lifted or relaxed, the recession slowed in the largest economies and economic regions: it stood at 3.9% in the OECD countries from 11.7% in the second quarter, 4.2% from 13.9% in the EU and 2.8% from 9.0% in the US. In the Chinese economy, the growth rate of the second quarter accelerated, from 3.2% to 4.9% in the next. However, since September there has been a new surge of COVID-19 in many European countries (France, Italy, Belgium, Portugal, the Netherlands, the United Kingdom, Poland, Romania, the Czech Republic, etc.), in the US and Russia, with more cases per day than in the previous wave. In Brazil, the new outbreak started later (November) and continues, while in India it escalated rapidly and now the cases are at the levels of last June. Following these developments, public health protection measures have resumed, which, as in the first phase of the health crisis, have a negative economic impact. In some central and northern European countries, policy interventions have escalated towards the end of 2020 and the beginning of 2021 (e.g. Germany, the Netherlands, the United Kingdom, Belgium), so it is quite possible that the economic impact of the second phase of the health crisis will be felt stronger this year.

Despite the resurgence of the new coronavirus, there have generally been no new initiatives to support economies and societies, by national governments and multilateral organisations. The exception is the US, where an additional $877 billion in interventions were announced at the end of December (approximately 4% of GDP), relating to augmented unemployment benefits until 14 March, direct payments at personal level, a new cycle of PPP loans, resources for vaccines, testing and detection of COVID-19, etc. In the European Union, following protracted negotiations, a finalisation of the EU budget and the European recovery fund NextGenerationEU for exit from the health crisis was reached on 11 December. With regard to trends in expectations, under these developments, the OECD Composite Leading Indicator (CLI) continued to rise in the fourth quarter of last year, marginally reaching its levels from early 2020, before the health crisis (99.5 points). At the same time, the trend in the European Commission's Economic Sentiment Indicator in the EU and the Eurozone was stabilizing. As a result, in December it was far from its level from last February (89.5 against 102.5 points in the EU, 90.4 against 102.6 points in the Eurozone).

Domestically, the evolution of the pandemic seems to have been partially controlled in the current period, with the daily number of new COViD-19 cases declining significantly compared to the beginning of the second lockdown in early November, when it reached its peak since the beginning of the health crisis (3,316 on November 12). In mid-January, the cases ranged from about 440 to 900. Less was the decline in new deaths, as their trend lags that of cases, growing until the end of November (121 on 28/11). In early 2021, they ranged between 32 and 54. Following these developments, the current spread of the pandemic in Greece is slower than in other Euro area countries with similar population size (e.g. Belgium, Portugal, Austria). The vaccination of the population may help to further reduce the spread of COVID-19 domestically in the coming months.

The strong resurgence of the health crisis and the imposition of a new lockdown led the Greek government to extend interventions to support businesses and households (special purpose compensation for employees on suspension of work, coverage of social security contributions based on nominal salary, reduction of rent in business and residential real estate, suspended employees, new (fourth) repayable advance plan, with expansion of beneficiaries) or reinstate measures (suspension of payment of restructured tax and social security debts of companies in suspension of operation, suspension of VAT payment, suspension of payment of instalments of restructured tax debts of suspended employees, bank loans, extension of unemployment benefits by 2 months, one-time aid to non-supported long-term unemployed). The budget of the above measures is €3.3 billion. In addition, during the discussion of the 2021 budget, additional interventions were announced for the new year (80% rent reduction for January-February, repayable advance No5). At the same time, the BRIDGE programme is underway, to subsidize instalments of mortgages for individuals and the programme to cover 100% of social security contributions for six months for 100k new jobs in the private sector.

While the above policy interventions mitigate the financial impact of the second lockdown, they further burden the fiscal balance. According to the Explanatory Report of the 2021 State Budget, its expenditure in 2020 is estimated to be €12.17 billion higher than the relevant target in the 2020 Budget (+21.3%). In addition, tax revenues fell far short of the target (-€7.9 billion or -15.1%). State Budget expenditure is projected to remain significantly higher this year than in 2019 (+€10.2 billion), while tax revenues (-€4.35

billion) and revenues from social security contributions (-€1.21 billion) are lower due to the new support and tax relief interventions for businesses and households just mentioned, as well as some others, which have been announced with the 2021 Draft State Budget.

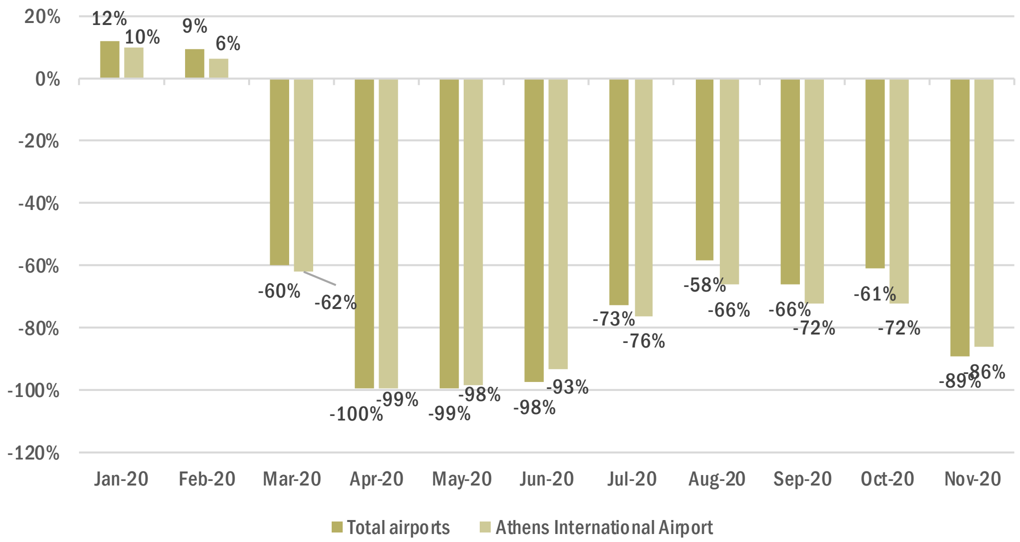
Pandemic pressures on the tourism sector continued in the last quarter of 2020. According to the latest data, international arrivals at the country's airports declined sharply in October-November, by 60.9% in the first month and by 89.4 % in the next, with the rise in the recent month reflecting the escalation of the spread of the new coronavirus and the tightening of travel conditions not only in Greece but also in the rest of Europe. Although strong, this decline is milder than in the second quarter of last year, in most of which flights were suspended (-98.8%). Moreover, over time in the last two months of each year the importance of international tourism receipts for service export revenues is much lower than in the third quarter, in the range of 10-15%. At the same time, the importance of international transport is growing, which was also hit during the lockdown last spring, but much less than tourism (-13.3% in revenue in March-May 2020).

The effects of the new coronavirus pandemic extend to other important variables for economic activity worldwide, such as the price of oil, which fluctuates sharply due to the decisions of OPEC and its partner countries (Russia) on its evolution of daily production. In the period since the previous quarterly report of IOBE, the price of Brent oil is constantly on a rising trajectory, gradually reducing the lag from the respective levels a year earlier.

The health crisis has overshadowed other developments in the international environment, which can affect the Greek and European economy in the medium to long term. These include geopolitical issues in the south-eastern Mediterranean and the implementation of consensual Brexit, the terms of which were agreed at the end of 2020. As these terms were finalised only recently, it is too early to assess their economic impact. In addition, in mid-November, the Regional Comprehensive Economic Partnership (RCEP) was concluded by 10 countries in Southeast Asia, together with South Korea, China, Japan, Australia and New Zealand. This agreement achieved the largest trade union in the world. The United States, which withdrew from a competitive Asia-Pacific trade pact in 2017, was excluded from the deal. The new deal is seen as further strengthening of China's influence in the area.

Figure 3.1

International arrivals at airports (annual % change)



Sources: Civil Aviation Authority, Athens International Airport

From the first IOBE bulletin on the Greek economy following the outbreak of the COVID-19 pandemic, macroeconomic forecasts are based on alternative assumptions for factors considered to affect the key macroeconomic variables over the medium term. In the current period, the most important factors for the new year remain, as in 2020, the duration of the high-intensity health crisis, in Greece and internationally, especially in the Eurozone, as well as the size of policy interventions to halt its effects. In more detail, the evolution of the COVID-19 pandemic in 2021 will depend to a large extent on the vaccination progress, but also on virus mutations. Therefore, macroeconomic scenarios should take into account, in the form of relevant assumptions, possible developments in these parameters. The current coronavirus wave is expected to have a deterrent effect on economic activity for most of the first quarter of this year, at least. In addition, the dynamics of the health crisis have a significant impact on the activity of the tourism sector, whose contribution to Greece's GDP is much higher than in other countries. For this reason, alternative forecasting scenarios should incorporate assumptions about turnover in this sector. As for policy interventions, their intensity this year will depend, in addition to the pandemic trend, on raising funds from the NextGenerationEU.

A factor not primarily related to COVID-19, whose potential trends were taken into account in the macroeconomic forecasts, is energy costs, which was approached by oil price forecasts. The forecasts resulting from the different assumptions about the factors will form a forecast period for GDP, its components and other macroeconomic variables.

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

Box 3.1

Factors affecting the macroeconomic forecasts

- Duration of the COVID-19 pandemic domestically and in the Eurozone, taking into account the vaccination progress
- Policy interventions in Greece and the Eurozone to deal with the effects of the crisis
- Absorption of NextGenerationEU resources
- Activity in Tourism
- Oil price fluctuation

In detail, with regard to recent and expected developments in the pandemic domestically, as mentioned above, in response to the rapid escalation in the number of new cases and deaths last October, the government has taken strict public health protection measures since 7 November. These include: 1) closing of schools at all levels and universities (kindergartens and primary schools from 16/11) and implementation of distance learning. From 9/1/2021, kindergartens and primary schools were opened, 2) suspension of physical retail stores and food-service enterprises (excluding supermarkets, kiosks, take away, delivery). E-commerce or telephone commerce is permitted. During the period 13/12/20-3/1/21 electronic-telephone orders were allowed to be received from the entrance of the shops. From 18/1 physical Retail stores are reopened, under the conditions that were in place before 7 November, 3) suspension of hairdressing salons and personal hygiene services, gyms, archaeological sites and museums, playgrounds, cinemas, concert halls, theatres. For hairdressers and personal care services the suspension ended on 18/1, 4) travel restrictions. Travel is permitted for specific reasons and after sending SMS or with a certificate handwritten by the traveling person. During the evening hours 9 p.m. to 5 a.m., travel is allowed only for work, emergency reasons and for a pet walk (except for the period 13/12/20-3/1/21, when these movements were allowed between 10 p.m. to 5 a.m.) and 5) mandatory use of masks in all outdoor and indoor areas. Despite the large number of restrictive measures that have been taken, there is a sense that citizens' mobility is quite increased compared to the previous lockdown in spring 2020. This fact is estimated to be related to and has affected the level of economic activity at the end of last year and at the beginning of this year.

Especially with regard to the measures for international passenger transportation in Greece, the ban on entry of non-European citizens by air continued. Citizens and permanent residents of the following nine countries are excluded: Australia, Japan, New Zealand, Rwanda, South Korea, Thailand, the United Arab Emirates, Singapore and, following Brexit, the United Kingdom. The countries for which there is an exception are fewer than those for which it was applied in the previous bulletin (11). All overseas travellers must have a negative PCR test no later than 72 hours prior to arrival. Those traveling to Greece from abroad were subject to mandatory precautionary restrictions at home or in their place of temporary residence for three days. A ten-day lockdown has been in force for the United Kingdom since the beginning of January, while from 8/1/2021 the preventive lockdown has been extended for all countries to seven days. As for land travel, only the Promachonas border station remains open, the entrance of which requires a negative COVID-19 PCR test up to 72 hours before arrival. The border stations of Krystallopigi, Kakavia, Evzoni, Ormeni. Nymfaia and Kipon are open only for trucks, with the same entry conditions as the Promachonas. Therefore, the ban on visitors from the USA, Russia, Turkey, Qatar and Saudi Arabia, countries that include some with a high contribution to international tourism in 2017-2019, such as the USA (3rd place)) and

Russia (10th), is still in place. As long as the restrictions on international arrivals remain, they imply the non-realization of tourist receipts from countries with a significant contribution in previous years.

As for the interventions to support businesses and households, including the recent ones for the second lockdown, their monetary costs last year are estimated at €18.2 billion. Most of these (€11.6 billion) incurred direct budgetary costs, with €5.0 billion related to liquidity interventions and €1.57 billion in suspensions of tax and social security contributions. As mentioned in previous IOBE reports on the Greek economy, their degree of implementation varies. However, on average, it is quite high. Indicatively for the recent actions, in the third cycle of the of "repayable advance" financial instrument, 71.2k beneficiaries were given €625.3 million, against a budget of €1.1 billion (average €8.782k). Considering that a total of 83.2k companies applied for aid under the third cycle through the relevant electronic platform, it is estimated that the degree of implementation was in the range of 65-67%. For the fourth cycle of the measure, applications exceeded 328.0k and the aid provided was €1.5 billion, against a target of €1.2 billion. An additional, strong incentive for companies and professionals to participate in this cycle was the fact that 50% of the aid they received will not be repaid. In the "BRIDGE" programme, through which a grant of mortgage instalments is provided, more than 160.5k applications were submitted from the end of July until the end of the relevant deadline (31/10). Until the beginning of January of the new year, the loans of 64.1k beneficiaries were subsidised, with grants of €23.2 million, while the budget of this action for 2020 was €108 million. The payment of grants will continue in the near future. In addition to public sector support interventions, the payment of bank loan instalments has been suspended until the end of 2020.

Actions to mitigate the effects of the health crisis are also planned for 2021. According to the Explanatory Report of the 2021 Budget, their total monetary cost reaches €7.32 billion. The most important of these are the new, fifth round of "repayable advance", with a budget of €1.5 billion, the applications for which will be made in January, the reduction by three percentage points of the social security contributions of private sector employees and the suspension of payment of the special solidarity levy. In addition, the effects of the "BRIDGE" programme will continue and most of the action to cover social security contributions will be implemented for six months to create 100,000 new jobs. Special-purpose compensation is also planned for this year for workers with suspended work, to a lesser extent than last year (expenditure forecast of €439 million, compared with an estimate of €1.62 billion for 2020). If the evolution of the pandemic so requires, it is expected that further measures will be taken, most of which will be based on what has already been implemented.

As mentioned in the previous IOBE bulletins on the Greek economy, the implemented and planned fiscal measures for households have had and will continue to have a deterrent effect on the weakening of consumer demand and subsequently on the reduction of business activity and employment. Part of the liquidity that companies need in order to maintain their jobs and meet their current obligations (to the public sector, banks, their suppliers), is provided by the extraordinary financial tools for those mentioned above. However, business support measures partially offset the business losses due to the COVID-19 pandemic and cannot replace the normal functioning of the market in the medium term. Moreover, they have a much less positive impact on investment implementation than on liquidity. The provision of funds from NextGenerationEU, mainly from the Resilience and Recovery Facility included in it, is expected to enhance the availability of investment resources from the public sector to businesses compared to last year, at least in the second half of 2021. However, the remaining uncertainty regarding the evolution of the pandemic, under the influence of the second, prolonged lockdown, will have a strong deterrent effect on investment risk, at least in the first half of this year.

Nevertheless, it is likely that quite a few companies invested in 2020 to adapt their way of working / production / sales to the health crisis conditions (e.g. teleworking, e-sales, click-and-collect). Indicatively, this trend is reflected in the increase in investments in ICT equipment. However, for the most part these changes do not constitute the creation of new products and services, as well as new production processes and facilities. In response to these downward trends, investments relating to health, from the public and private sectors, e.g. to create appropriate infrastructures to tackle the pandemic, to manufacture medicines and consumables for health protection, transport safety, etc., have an impact. But also investments in public works, as well as in completed privatisations.

Taking into account the current, strong dynamics of the new coronavirus pandemic, in Greece and internationally, mainly in major trading partners of the country, the start of vaccination internationally, but also the limited progress in the discovery of effective medication, the data on the fiscal-financial interventions domestically and in the EU, and the latest forecasts for the recession in the Eurozone (IMF) this year, the assumptions of the baseline scenario are as follows: in the last quarter of 2020, the resumption of extensive public health measures, domestically and internationally (suspension of operations in specific sectors, restrictions on the movement of citizens, etc.), escalated pressures on consumption, investment and economic activity. The impact of the lockdown was mitigated, as in March-April last year, by business and household support measures. However, unlike the first lockdown, many companies in Greece have had attempts to adapt their activity to health rules, rather than suspend their operations, while the mobility of citizens is much greater. With regard to the recession in the euro area in 2020, it is considered that it would be close to recent forecasts (EC: -7.8%).[13] Given the strong, unprecedented resurgence of the health crisis in the final quarter of last year, the relaxation of public health protection measures in the early months of 2021 will be quite gradual. Their complete or even extensive removal is not expected during the first quarter and will probably occur within the next, depending on the progress in vaccination and the developments in the pandemic mutations. No new strong resurgence of COVID-19 is expected, like the one that started in the third quarter of last year, without excluding smaller, temporary escalations. The mild downward trends in the pandemic will not allow the operation of Tourism in January-March and for a part of the following quarter. However, the duration of the summer tourist season will not be significantly different from before the health crisis, with the international demand for holidays in Greece being stimulated by the easing of the pandemic and the vaccination campaign, but also with restrictions on the countries of origin of tourists based on epidemiological data, including some with a significant contribution over time to tourism receipts (e.g. US). Subsequently, revenues from international tourism services will increase from last year, reaching 45-50% of their level in 2019, from 24% in 2020, an increase corresponding to an increase from €3.8 to €4.7 billion. The effects of the health crisis will be mitigated by the operation of NextGenerationEU, whose resources will flow mainly from the second half of the year, with the relevant target in the 2021 Budget (€5.5 billion) being met or approached. Regarding the GDP trend in the Eurozone, it is assumed that it will be formed in the area of the current relevant forecasts (European Commission: 4.2%).

The first alternative macroeconomic scenario is more optimistic than the basic one in terms of developments in the new year. On this basis, the pandemic in Greece will show a significant de-escalation from the initial quarter, allowing the extensive removal of the

[13] European Economic Forecasts, autumn 2020, European Commission, Nov. 2020

relevant public health protection interventions. Combined with rapid vaccination, especially on high-risk social groups, and with mild, non-aggressive "mutations" of the virus, most measures will be lifted early in the second quarter and there will be no strong "resurgence" this year. The rapid weakening of the pandemic will allow the tourism sector to function also early in the second quarter, with the summer tourist season in full duration. In this context of developments regarding the health crisis domestically, international tourism flows in Greece will be higher than in the baseline scenario, matching to trends in epidemiological data. Subsequently, revenues from international tourism services will increase more than last year compared to the baseline scenario, reaching 50-55% of their level in 2019, an increase corresponding to an increase in revenues from €4.7 billion to €5.6 billion. Regarding the absorption of NGEU resources, the assumption is the same as in the baseline scenario. Regarding the trend of GDP in the Eurozone, the assumption is that it will be slightly higher than the range of the current relevant forecasts (European Commission: 4.2%).

The second alternative, more unfavourable than the baseline scenario, is based on the assumption that the health crisis will not de-escalate further domestically in the first quarter of 2021 and for much of the next quarter. It may experience a new, intense flare-up, e.g. in spring or autumn. Similar developments are expected internationally. These developments will necessitate more business and household support interventions than provided for in the 2021 Budget. As a result of these pandemic trends, the duration of the tourist season will be similar to that of 2020. However, the vaccination of part of the population until the summer will stimulate international tourism in these unfavourable travel conditions, with the result that the relevant receipts will reach 35-40% of those in 2019, an increase corresponding to a rise in revenues from €2.0 to €2.9 billion. Adverse health developments internationally will also mitigate the recovery in the Eurozone, the rate of which is supposed to be lower than the most recent relevant forecasts, in the region of 3.0%. In addition, the NGEU inflows will be well below the target in the 2021 Budget, e.g. due to procedural problems related to the National Recovery and Resilience Plan, the disbursement of funds, etc.

Moving on to financing developments, which can play a key role in halting the effects of the pandemic, especially on investment, banks in Greece are increasingly making use of the ECB's liquidity facilities that have emerged in response to exceptional circumstances. The most important financial instrument of these is the Pandemic Emergency Purchase Programme (PEPP), with a budget of €1.35 trillion. At the same time, a new liquidity facility has been set up, consisting of non-targeted longer-term pandemic refinancing operations (PELTRO), with an interest rate 25 points lower than the average main refinancing rate (MRO) during such an operation. In addition, the terms of the targeted longer-term refinancing operations (TLTRO III) gradually eased, with the result that the eligible loans of Greek banks from the programme reach €92 billion and 50% of them can be accepted, according to the relevant rules. Funds through TLTRO III are now raised at a negative interest rate of 1% for the first year and 0.50% for the next. The duration of the PEPP has been extended until June 2021, with the ECB reinvesting the proceeds from maturing securities until the end of 2022. In this context of financial capabilities, the liquidity raised by Greek banks from the Eurosystem reached €24.4 billion in April-September 2020 and totalled €38.96 billion at the end. During the two months of October-November, these funds slightly decreased (-€950 million). This development does not include the activity of banks under the PEPP. However, it is indicative of the availability of funds and the possibilities they have in order, among other objectives, to provide financing to companies not only in the short term, but also in the medium term.

While these developments favour credit growth, continued reticence about the duration and intensity of the health crisis, as well as its impact on loan servicing, will continue to have an impact on the granting of bank credit, at least for most of the first half of 2021. The new suspension of activity in many sectors since last November, which continues, puts additional pressures on business turnover and household incomes, also affecting the ability to service their borrowing. After all, the further suspension of bank loan instalments until the end of 2020, which was included in the measures for the second lockdown, does not allow the current period to reflect the trend in non-performing loans (NPLs), which will be clarified in the coming months, if no new payment suspension is applied. The most likely component of the above is the resurgence of defaults on bank loans. Uncertainty in the current period due to the pandemic will be the reason that the demand for capital from businesses, but also households, will be sluggish, also at least in the first half of the new year. By contrast, the mild decline in the exports of products excluding petroleum products – ships in 2020 has highlighted the high competitiveness of certain industrial sectors and parts of the primary sector and their good medium-term prospects, and facilitates their financing. Significant progress in vaccination in Greece and a steady decline in new cases of COVID-19 will be the main factors in substantially easing uncertainty, allowing the recovery of both supply and demand for bank credit.

As for the evolution of NPLs, they continued to decline until the end of last September. Specifically, they amounted to €58.7 billion (35.48% of total loans), €9.8 billion lower than in December 2019 and approximately €48.5 billion below their maximum level in March 2016.[14] However, note the slowdown in their decline in April-September last year, when they decreased by only €2.2 billion. Their decline in the first nine months of this year is mostly due to loan sales of €6.8 billion and write-offs of €1.7 billion and less to collection through active management (loan restructuring, collection of arrears, etc.). The sales include the intra-group transfer of NPLs by Eurobank, in the context of the sale of loans through securitization, for €2.4 billion. Last year, no other transactions were carried out by banking institutions, which would take advantage of the possibility provided by the "Hercules" programme. Therefore, for another year, the reduction of non-performing loans was not based on active management actions.

The revised targets for the reduction of NPLs set by the banks for the period until the end of 2021, for reduction of the NPL rate below 20% of total loans, combined with the strong likelihood of an increase in non-performing loans due to of the health crisis, highlight the need for immediate, greater use of the potential of the "Hercules" programme. After all, three of the four systemic banks are currently in the process of securitising part of their portfolio. The possibility of providing guarantees by the Greek state under this programme is nearing its end (10/04/2021, 18 months from the publication of the relevant decision of the European Commission). However, according to the law relating to the programme (Law 4649/2019), by decision of the Minister of Finance, after an approval of the European Commission, the maximum amount and period of guarantees may be extended. Given, firstly, the significant distance in the amount of NPLs as a percentage of loans from the target for the end of 2021, secondly, their possible increase due to the health crisis the option of extending the programme is expected to be activated, expanding also the maximum amount of guarantees. In addition, as the Bank of Greece argues, other systemic solutions should be implemented to reduce NPLs, such as the creation of a troubled-asset management company (or "bad bank"), which will be also linked to addressing the issue of deferred tax claims (DTC). The relevant plan was submitted in mid-September by the BoG to the government and the institutions and was presented at the end of December to the bank administrations. This approach seeks to gradually record the relevant losses, so

[14] Interim Monetary Policy Report 2020, Bank of Greece, December 2020.

that the capital adequacy of banking institutions does not fall below the minimum supervisory threshold. The rapid settlement of NPLs, combined with the utilisation of ECB financial instruments, will make a decisive contribution, when the spread of COVID-19 weakens significantly and for a long period of time, to credit expansion, mainly to businesses, but also to households.

Despite the significant difficulties in the smooth functioning of the economy from the new, particularly strong outbreak of the health crisis, in Greece and internationally, as well as the high uncertainty for the development of the health crisis in the near future, the domestic banking system has significantly escalated lending to the private sector as a whole. In September-October last year, the growth rate of loans to non-financial corporations escalated further, to 8.4% on average, from 7.2% in August and 4.0% in the first eight months of 2020. This rate of credit expansion is the highest in the last eleven years. The high boost in corporate lending was largely due to emergency liquidity programmes to address the effects of the pandemic, such as Entrepreneurship Fund II and the COVID-19 Business Guarantee Fund, both of which were implemented by the Hellenic Development Bank. Extensive liquidity from the ECB allows credit expansion to businesses to continue in 2021, but, as previously estimated, will largely depend on the dynamics of the pandemic, which will affect both supply and demand for loans, but also the trend of NPLs. On the household side, the credit contraction continued in the recent quarter, with a similar intensity compared to the previous eight months of last year (2.5% vs. 2.8%). In September-November 2019, credit contraction had reached 2.9%. In the private sector as a whole, lending from the banking system expanded at the end of 2020 at an average rate of 2.5%, which is the highest since the third quarter of 2010, compared to a marginal increase in the previous eight months (0.4%) and a small credit contraction in the same quarter of the previous year (-0.3%).

The provision of liquidity to businesses continues to be done on very favourable terms: in September-November of last year the average interest rate on new loans to non-financial corporations stood at 2.93%, from 3.13% in January-August and 3.78% on average in 2019. The recent level has been a new minimum since at least 2010. The average interest rate on the same category of new loans to the self-employed moved clearly upward in the recent quarter to 6.12%, from 5.26% in the first eight months of 2020 and 5.52% on average the year before. The eight-month interest rate is also the lowest since at least 2010. For all new loans to households, the corresponding average interest rate was 4.79%, lower than earlier in 2020 (4.89%) and compared to the year before last (4.94%). And the interest rates on new loans to households are not the lowest in the last decade, with their lowest level in this period being recorded in the first quarter of 2015 (4.5%).

The lower bank lending rates for businesses and self-employed in 2020 are also related to the sharp de-escalation of Greek government lending rates. As mentioned in previous IOBE bulletins on the Greek economy, following the upgrade in February 2020 by the Fitch rating agency of Greece's credit rating from BB- to BB, as well as the issuance in the same month of a 15-year bond, with a particularly high demand and an interest rate of 1.875%, the average interest rate of the ten-year Greek government bond stood at 1.07%, a level that was then the lowest at least since 1993. Despite the severe outbreak in October-November of the pandemic and the then strong concern about the possibilities to control it, as well as the strong effects of dealing with it on public finances, the capital markets for the public sector of Greece and the rest of the EU remained very affordable, also thanks to the ECB monetary policy measures mentioned above. Thus, the average interest rate on the ten-year bond fell further in the final quarter of last year and stood at 0.76%, which is the lowest level over time. In mid-October, the Greek government was quick to take advantage of these favourable conditions and reissued a €2.5bn 15-year bond, as in last February, at an interest rate of 1.152%, which is a new minimum level over time, compared with an interest rate of 1.875% in the previous issue. Demand was once again particularly strong at €16.8 billion, with 84% of the issue covered by foreign investors. This was the fifth issue of a government bond in the previous year, after the 15-year bond in February, the seven-year bond in April, the 10-year bond in June and the 10-year bond in September. However, it is reiterated that the very good climate in the financial markets is not compatible with the uncertain medium-term economic outlook from the impact of the new coronavirus and the strong impact of its treatment on public deficit and debt. As a result, international financial conditions are likely to change and deteriorate, especially when COVID-19 declines steadily and emergency liquidity support interventions by the world's largest central banks are completed. Therefore, the favourable access to capital in the medium term by the Greek government, banks and large companies should not be taken for granted. In any case, the borrowing costs remain higher than in other Eurozone countries, with the spread higher than in the first decade of the common currency (for more information, section 2.2 C of the bulletin).

Especially for the larger non-financial corporations, the effects of the health crisis on the assessment of their prospects and the difficulties of accessing financing outside the ban king system, i.e. from the capital markets, are reflected in the fact that the Composite Index (CI) of the Athens Stock Exchange was at the end October significantly lower than its level on 20 February, when it began to fall, to 569.5 points (-348.2 points or -38.1%). Previously, by mid-March, the CI had shown a stronger weakening, by 429 points (-47.0%, to 484.4 points). It then strengthened by 200 points by 5 June (683.5 points). From then until mid-October it ranged between 615 and 677 points, before declining again by the end of the same month. Therefore, the initial, strong decline of the CI was inconsistent with the medium-term assessments of the future dynamics of listed companies in the Athens Stock Exchange following the pandemic. This interpretation is supported by the rapid rise of the index that followed, until the beginning of January this year (+257.3 points till Jan. 4, to 822.2 points), and has brought it a short distance from the level of a year earlier. If these trends in the domestic capital market continue, they will signal confidence in the prospects of listed companies, despite the health crisis.

Investor confidence in the prospects of larger companies is reflected in the upward trend in corporate bond issues after the last election cycle, starting in September 2019. At the beginning of the pandemic, in March-May 2020, there were no such issues. This activity restarted in June, with GEK TERNA issuing a seven-year bond loan, amounting to €500 million. In mid-July, Lamda Development completed the issuance of a common bond loan through a public offering of €320 million, oversubscribed 1.93 times, while in September the National Bank placed the first Green High-Guarantee Bond in the Greek market, with six-year maturity, amounting to €500 million and with a yield of 2.875%. At the end of October, OPAP completed the issuance of a seven-year syndicated bond loan, amounting to €200 million. The absence of activity in bond issuance in the two months of November-December, as in March-May, is considered to be largely related to the second lockdown. However, Piraeus Bank is currently preparing a €650 million Tier I bond. In any case, the above actions highlight the resurgence of corporate bond issues and the significant investment interest, despite the uncertainty due to the pandemic. If there are no developments that will upset the international capital markets, the relevant activity is estimated to escalate this year, stimulating investment.

Moving on to the public sector financing opportunities for enterprises, the resources of NextGenerationEU will be the most important additional source of investment funds in the coming years. Recall that out of the total resources of the fund, amounting to €750 billion, of which €390 billion will be given through grants and €310 billion through loans, Greece can receive up to €19.4 billion in grants and up to €12.7 billion in loans. All Member States must submit to the European Commission a plan for the utilisation of aid from the new European fund by 30 April 2021. At the end of November last year, the Greek government presented the guidelines for the National Recovery and Sustainability Plan, which were put to consultation by December 25th. As mentioned in the assumptions of the alternative macroeconomic scenarios, a key factor for the impact of the NGEU on the domestic economy this year will be the rate of absorption of its funds. This will also determine the extent to which the base effects of the extraordinary liquidity programmes of 2020 on business investment, which transpired through the Public Investment Programme (PIP), will be felt in the current year. The State Budget Explanatory Report for 2021 predicts that the resources to be raised from the NGEU this year will be around €5.5 billion. The basic scenario of the Bank of Greece for the examination of the effect of the NGEU support measures in the domestic economy assumes the utilisation in 2021 of the ones planned only through the Recovery and Resilience Facility, amounting to €3.9 billion, and not from other financial instruments (e.g. REACT-EU).[15]

As regards the regular State financing of investments, through the Public Investment Programme, for the previous year, the state budget implementation figures show a significant increase of the aforementioned financing. In January-November, the programme's expenditures reached €8.42 billion, a level higher than the relevant target in the 2020 Budget by €2.78 billion. In addition, they were more than double their level in the same period of 2019 (€3.17bn). However, the press release on the performance figures for the first eleven months shows that, as in previous months, the overrun was due to extraordinary transfer payments to businesses and self-employed persons due to the health crisis (special purpose compensation for businesses and self-employed, repayable advance, Entrepreneurship Fund II action, corporate guarantee fund due to COVID-19), totalling €4.25 billion. Excluding this aid, PIP expenditure reached €4.17 billion, therefore up by €1.0 billion from the previous year, but lagging behind the target by €1.47 billion. In the Explanatory Report of the State Budget for 2021, the estimate for the expenditures of the PIP in the whole of 2020 is €10.42 billion. Considering the new measures to support businesses due to the second lockdown (4th phase of repayable advance, special purpose compensation), it is considered that the expenses of the PIP last December were mainly related with them. Given this, it is now likely that the remaining payments of the PIP last year fell short of both the relevant target and those in 2019 (€5.64 billion).

In terms of investment financing from the PIP in 2021, the relevant target set in the draft is €6.75 billion, excluding possible transfers due to COVID-19. This target is set for the sixth consecutive year. Given the new aid decline last year, well below the target for this year, and the fact that the 2014-2020 Programming Period is nearing completion, investment project support through the PIP may be higher than in 2020.

The exceptional measures of last March included the immediate payment of all outstanding public liabilities to citizens and businesses for cases amounting up to €30k. At the end of last February, the outstanding liabilities (excluding tax refunds) amounted to €1.56 billion. Although €218 million were paid in such cases from the end of the same month to mid-March, at the end of March the overdue liabilities reached €1.79 billion. According to the most recent figures, at the end of last November they were limited to €1.48 billion.[16] No information is provided on the amount of overdue debt payments made during this period. The 2021 Explanatory Budget Report states that the implementation of the action plan to

[15] Interim Monetary Policy Report 2020, Bank of Greece, December 2020

[16] Source: General Government Monthly Data Bulletin – November 2020, General Accounting Office of the State, December 2020

clear overdue liabilities adopted in October 2019 has been adversely affected by the health crisis and the measures adopted to halt the pandemic. In addition, it is stated that, in order to restore the pace of implementation of the action plan and to achieve the relevant objectives, the institutions have adopted measures on a case-by-case basis to reduce their accumulated arrears. Therefore, there is no central planning to reduce overdue debts. In addition, no targets have been set for their level at the end of 2020 and the new year. In view of the above, no substantial de-escalation of arrears is expected until the end of 2021.

As mentioned in previous IOBE reports on the Greek economy, the HRADF's budget target for 2020 was €2.45 billion, of which €2.07 billion was expected to come from tenders to be completed in last year and €376 million either from tenders for which binding offers have been submitted and the expected first disbursement would be made last year, or from instalments of completed transactions of previous years. The 2020 Budget specified the sources of only €376 million, with the most important being the first instalment from the sale of Hellinikon SA (€300 million), with the relevant transaction remaining incomplete. The remaining €2.07 billion was reported to come from operations that are in the process of being prepared or matured, without specifying the expected revenue from each.

As the revenue target for last year was 77.4% higher than the Fund's maximum revenue in a year so far (€1.38 billion in 2017), it was considered ambitious from the beginning. Under the unfavourable conditions created by the pandemic, it was estimated in the first IOBE bulletin for 2020 last April as the most probable possibility that it will not be achieved. This forecast was verified by the activity of HRADF in the whole of the previous year. By March, the investment schemes for the acquisition of 30% of the share capital of AIA SA were pre-selected for the second phase of the tender (binding offers), the concession of the marina of Chios was completed, with an upfront payment of €600k, and an investment group submitted an expression of interest for the marina of Itea. In June, six investment schemes passed the second phase of the tender for the acquisition of 100% of DEPA Infrastructure SA and seven investment schemes were in the second phase of the tender for 65% of DEPA Marketing SA, while the concession contract of Alimos Marina was signed for 40 years for a price of €57.5 million (in terms of net present value). During the same period, the international tender for the concession of the underground gas field "South Kavala" as a natural gas storage area was launched. In July, the tender procedures for the development of the ports of Alexandroupolis, Igoumenitsa and Kavala began, and in October, expressions of interest were submitted for all three, as well as for the area of the "South Kavala" gas field. Finally, towards the end of the year, a binding offer was submitted for Egnatia Odos. Therefore, revenues from tenders in 2020 reached approximately €58.5 million, which corresponds to only 2.4% of the relevant target.

In the State Budget Explanatory Report for 2021, the privatisation revenue target is €1.79 billion, of which €1.47 billion is expected to come from tenders to be completed this year and €321 million either from tenders with submitted binding bids and expected first disbursement this year, or by payment of instalments of completed transactions of previous years. Most of the second amount is, for yet another year, from the first instalment for the sale of Hellinikon SA (€300 million). The level of the target, which is well below that in 2020 and not far from their peak level in 2017, combined with the fact that last year several tenders were launched, mentioned above, makes it possible to achieve or approximate the expected revenues, provided that the economic climate domestically shows a trend of continuous improvement, a prospect linked to the evolution of COVID-19. If uncertainty about the dynamics of the pandemic continues, it will have a negative impact on investment interest.

As predicted in previous IOBE bulletins on the Greek economy, export pressures from restrictions or bans on cross-border passenger travel have put intense pressure on domestic output since the pandemic began in the first two quarters of the year. Imports are also weakening, at a notably milder pace, which is considered to be largely due to the fact that the elasticity of the imports of goods, which is their main component, with respect to domestic demand is low. Previously in the current section, available data on international tourism flows were presented, showing signs of an escalation of its strong retreat in the fourth quarter. If the current pandemic cycle is intensified in 2021, or new outbreaks occur, it is now possible for such effects to continue. Conversely, in the event that vaccination proceeds rapidly and there is a significant weakening of the pandemic, passenger traffic will escalate rapidly, favouring tourism, while significant relaxation or lifting of public health protection measures in export destinations will stimulate their demand for imports.

In detail regarding recent developments in export and import flows of key products and services - and according to the latest available balance of payments data of the Bank of Greece - exports of goods at current prices fell by 10.5% (-€571.7 million) in September-October, milder than in the previous summer quarter (-12.0%). The contraction came almost exclusively from lower fuel exports, by 36.4% (- €523.9 million), which were the main contraction factor in June-August (-31.1%). Exports of goods – excluding fuel products and ships recorded a slight decline in early autumn, by 1.5% (-€62.2 million), compared to a decline of 4.9% last summer. Ship exports, whose share in total exports is very small, amounted to €14.4 billion, a particularly strong change for their absolute level (+258.4%), following their previous increase (+66, 4%). The strongest decline in imports from that in exports of products in early autumn (-17.7% or -€1.68 billion), as in the summer months (-13.7%), mainly due to lower fuel imports (-56.4% or -€1.3 billion) and goods excluding fuel-ships (-5.3% or -€378 million), led to a reduction of the deficit in the goods account by 27.5% or €1.11 billion, at €2.29 billion.

The decline in the deficit of the goods account in September-October was offset by the sharp contraction of the surplus of services. Their exports were 48.1% less than last year (-€2.84 billion), declining less than in the summer quarter (-58.4%). The decline came mainly (73.9%) from travel receipts, which were sharply lower (-67.9% or -€2.95 billion), however less than in the previous quarter (-79.3%). The rest of the decrease in revenues came almost exclusively from the provision of transport services abroad (-32.2% or - €1.0 billion), which were limited more than in the summer quarter (-24.7%). The smallest proportional and absolute decline was recorded in the provision of other services (-4.3% or -€36.3 million), in contrast to the small increase they showed during the previous three months (+1.6%). Demand for imported services also weakened in September-October, yet its intensity was lower than that in their exports, -32.9% (-€1.16 billion), albeit strengthened compared to the previous quarter (-17.6%). The decline is mainly due to weakened domestic demand for transport (-27.3% or -€574 million), following a milder decline a quarter earlier (-12.9%). Domestic demand for tourism services was again sharply reduced, by 77.6% or €366.9 million (-73.5% in the summer months). The trend in other services was reversed compared to the summer, from slightly upward (+ 3.3%) to sharply declining (-22.9% or -€216.5 million). As a result of the changes in its two main components, the surplus in the services account contracted further in September-October last year, by 59.2% or €2.84 billion, to €1.96 billion. Despite its large size, this reduction was proportionally smaller than in the lockdown period (-75.2%). As a consequence of this development, the total balance of goods and services evolved from a surplus in September-October 2019 (+€755.3 million) to a deficit a year later (-€1.73 billion).

Pressures on production activity worldwide due to the health crisis, as well as restrictions on international transport, have significantly reduced the demand for oil and other energy goods. On 12 April 2020, OPEC and its partner countries, together with Russia, agreed to gradually reduce production by April 2022, starting with the reduction of 10 million barrels per day until last May, to contain the fall in prices. Nevertheless, the price of Brent oil last April stood at $18.4 / barrel, 74.2% lower than a year earlier, while in May it reached $29.4 / barrel, falling by 58.8% compared to the year before last. OPEC+'s decision to extend the above production restriction in July, coupled with the lifting of the spring lockdown internationally, boosted oil demand and prices. Despite these trends, the average price of Brent oil in that period was 34.8% (or $22.3) lower than a year earlier, at $41.8, reflecting the fairly weakened economic activity from last year. As these oil-producing countries gradually adjusted their production upwards since the beginning of August in order to meet the reduction target by the end of 2020 (-7.7 million barrels per day), this adjustment was reflected in its price. After a mild increase this month in the region of $45, the price showed a trend of retreat in September to around $40, with the difference from a year earlier widening, though the price stabilised the following month at these levels.

As mentioned in this subsection, the Brent price trend has been steadily rising since the beginning of last November. This development took place despite the new, strong outbreak of the pandemic since the beginning of autumn in Europe, which gradually from mid-October led the governments of their countries to take strong measures to protect public health and prevent the spread of the new coronavirus, a fact which again escalated pressures on travel and economic activity. However, in China, the world's second largest oil-consumer country, growth accelerated significantly in the second half of last year, reaching a rate higher than it was a year before (6.5%, compared with 6.0% in the fourth quarter of 2019 and 3.2% in the second quarter of 2020). The outlook for its economy in the new year is further positive, a development that is also expected to be reflected in its demand for energy. Given the small impact of OPEC+ decisions on oil prices until October, part of its escalation in the last two months of last year may be due to seasonal demand growth in the run-up to winter. Under the aforementioned effects, the price of oil stood last year at $42.2, 34.5% lower than in 2019.

Brent oil price fluctuations show that the OPEC+ cut in oil supply has partially halted its price escalation due to the effects of the COVID-19 pandemic in the second quarter of 2020. However, this also came from the other factors already mentioned. Therefore, the decision of the above organisation for a new cut of the reduction of the production of its members and its collaborating countries from January 2021, to 7.2 million barrels per day, which will continue in February (-7.125 million) and March, is anticipated to ease slightly the observed rise in prices and their general trend. In the last of these months OPEC+ will decide further on its production. Given this, developments in global economic activity are projected to have a greater impact on the price of oil. In turn, these will depend on the dynamics of the pandemic. If the current outbreak weakens and no further ones occur, with the contribution of the significant pre-vaccination, a strong recovery of the world economy will be possible, for which the energy needs will be increased. In turn, these will depend on the dynamics of the pandemic. If the current outbreak weakens and no further ones occur, with the contribution of the significant pre-vaccination, a strong recovery of the world economy will be possible, for which the energy needs will be increased. In the case of positive developments in the world economy, the price of oil will be on average 19.5% higher than last year, while under adverse developments the rise will be milder, in the range of 10%.

Successive monetary policy interventions by major central banks have prevented large exchange rate fluctuations due to the effects of the pandemic on economic activity and expectations. In addition, in combination with the fiscal measures taken in each economic region, they enhance the credibility of economic policy in terms of its ability to respond to a difficult situation, such as the current one. In particular, the euro/dollar exchange rate fluctuated between 1.07 and 1.14 from the start of the spread of COVID-19 in Europe and the USA until the middle of last July. As highlighted in previous IOBE bulletins on the Greek economy, the trends in particular segments of this period were related to the announcement of new policy interventions, from both sides. From mid-July to mid-August the exchange rate showed a clear upward trend compared to the previous COVID-19 period, reaching 1.19, which is the highest level since May 2018. This development is considered to be mainly linked to the decision of the EU Summit on NextGenerationEU, but also to the volatility in the US in the assessment of the virus by the Trump administration and actions to address it, as well as to the weakening of COVID-19. The euro / dollar exchange rate does not seem to have been affected by the US elections either, which over time have boosted investors' expectations, as it remained in the pre-election range of 1.16-1.18. After the elections, the upward trend resumed, at least until mid-January, with the euro-dollar exchange rate reaching 1.23, a level which is the highest since April 2018. Following the above developments, the average exchange rate during the previous year was 1.14, as predicted in the previous IOBE report on the Greek economy, 1.8% higher than in the previous year. This change contributed slightly to the reduction of energy costs.

Apart from the recent political and social upheavals in the US, which began on the occasion of the ratification by Congress of the election of the new president of the country and cause uncertainty for social cohesion at least in the short term, its course in the current and coming years will depend mainly on the axes and policy interventions of the new government. Investors will be on standby until they are clarified. In the European Union, the continued development of a strategy to tackle the pandemic, with an emphasis on vaccinating its inhabitants and the availability of funds for investment (NextGenerationEU) and current liquidity (ECB interventions), maintains confidence in the prospect of its exit from the health crisis. Next, the forecast for the euro / dollar exchange rate this year is that it will strengthen further, to 1.18, slightly mitigating the increase in energy costs from the higher oil price and its impact on the competitiveness of Eurozone products and services.

Regarding the latest trends in parts of domestic economic activity, as well as in short-term economic indicators during the fourth quarter, they reflect various, opposite developments, e.g. from contraction to recovery and vice versa. In particular, on the supply side of the economy, industrial production increased in October-November 2020 by 2.4%, exclusively from its rise of 8.6% in November, while a year earlier it had fallen in these two months by 5.2%. The rise came after a slight decline in the third quarter last year, by 2.0%, and the stronger decline in the first nine months of last year, by 3.7%. At the level of key industrial sectors, the increase was mainly due to Manufacturing, whose output increased by 1.9%, in contrast to its decrease by 2.6% in the previous nine months. Electricity Supply followed, with an increase of 4.9% towards the end of 2020, compared to a decline of 8.1% in January-September. The trend was positive in Water Supply in October-November, with a rate of 1.2%, following a milder increase in the previous nine months (+0.8%). Mining-Quarries was the only sector of Industry with a decline in both periods, by 1.2% and 4.8% respectively. In terms of recent trends in construction activity, it showed a slight decrease in October, by 4.9% in number, 3.5% in surface and 3.6% in volume of building permits. These changes are in contrast to the increase in July-September, by 12.6% in the number of permits, 2.8% in the area of new buildings, but a decline of 5.8% in their volume.

In terms of measures that reflect the climate and the demand side of the domestic economy, the volume index in Retail Trade (seasonally adjusted) strengthened in October, for the first time in 2020, by 2.8%. The increase was preceded by an average decrease of 2.2% in the third quarter and 5.4% since the beginning of the pandemic in March last year.

Taking into account the macroeconomic forecasts, mainly the recent and possible developments regarding the COVID-19 pandemic, in particular its second wave in the last two months of 2020, but also the start of vaccination last December, and monetary policy, both inside and outside the country to address the health crisis, as well as trends in GDP and its components in the first nine months of last year, the trend in household consumption is expected to change in the last quarter, compared to July - September, to mild decline. The pressures on private sector consumption spending will be exerted primarily by measures to suspend business operations under the second lockdown. The sharp decline in activity in sectors with a significant share of GDP due to this development, such as Food Services, Retail Trade, Tourism and Professional, Scientific - Technical Activities, will significantly reduce their employment and labour income.

Measures to support household income will act to curb these effects. In addition, the emergency service needs that have arisen since the beginning of the health crisis, e.g. health services, the creation of internet services, land couriers, will continue to have a positive impact on the employment of related activities and on their income. Job creation in the final quarter of last year is estimated to have come from the subsidy programme of 100% of employer contributions for six months that began in the same period. Taking into account the above developments, private consumption is estimated to have decreased in 2020 by 4.5% to 5.5%.

Regarding the trend of private consumption in 2021, the tax reliefs planned in the budget (social security contributions, social solidarity levy) will increase disposable income and thus consumption spending. These interventions, combined with the continuation of household support measures against COVID-19 at least in the initial quarter, in the baseline and the favourable scenario, will to some extent, but not completely, match the emergency transfers to households due to COVID-19 given last year. The biggest boost to consumption will come from the expansion of employment, after the removal of the vast majority of domestic protection measures in the second quarter and the fact that there will be no new strong resurgence of COVID-19, as in the fourth quarter of last year. These developments will allow the operation of the Tourism sector for the summer season and related activities (Arts - Entertainment, Transport) almost as before the health crisis (baseline scenario) or for its entire duration (favourable scenario). Stimulation of jobs is also estimated by the significant escalation of investment activity, mainly due to the rather increased liquidity of banking institutions and the activation of NextGenerationEU. Under the baseline macroeconomic forecast scenario, it is predicted that the increase in private consumption will be in the range of 2.5-3.5%, while in the case of the favourable scenario the increase may reach 4.0% - 4.5%.

In case of unfavourable developments regarding the new coronavirus, such as the continuation of its recent outbreak throughout the first quarter and for part of the next, or the occurrence of a new strong outbreak, in spring or autumn, the consumption trend will remain negative in 2021. The prolonged suspension of business activity will directly affect consumption spending, but also indirectly, through continued employment pressures. These will contribute to the similar duration of the tourist season to that of the previous year, but also to reduced investment interest, despite the availability of funds. In this context of developments, the new contraction in private consumption is projected to be between 1.0% and 1.5%.

As for the developments in public consumption, the continuation of the extraordinary expenses due to the pandemic, but also the retroactive payment to pensioners, amounting to €1.4 billion, will escalate the increase of public consumption in October-December, which may rise in the range of 6.5%. After all, their decline in the second quarter of 2020 came largely from the negative "base effect" due to their high level a year earlier, due to the elections. Subsequently, it is estimated that public consumption was higher in the whole of 2020 by 2.5% to 3.5% compared to the previous year.

According to the State Budget of 2021, some of the interventions due to COVID-19 will continue in the next year (e.g. special purpose compensation for suspended employees, non-repayable advance), while new ones will arise (e.g. supply of vaccines, new drugs). In total, these are projected to be significantly lower than in 2020. In addition, no retrospective payments to pensioners are envisaged for this year. Therefore, public consumption may decline compared to last year. However, if the current wave of the pandemic in Greece continues for a long time or new ones follow, the implementation of budgetary interventions will be needed again to deal with it. As a result of such a development, the reduction in public consumption will be small. In particular, public consumption expenditures are foreseen to fall in 2021 by 3-5% in the basic scenario and by 5-7% in the favourable scenario, while if the health conditions do not improve significantly compared to 2020, their reduction will be small, between 1.5%-2.5%.

On the investment side, the clearly more liquidity available than a few years ago from the banking system, due to the reduction of non-performing loans, the repayment of deposits, but also thanks to the possibility of accessing for the first time an ECB bond purchase programme, has created new financial opportunities for banks and businesses respectively, which did not exist in the past. However, unless there is a steady decline in the health crisis, banking institutions are expected to be wary of lending, as there is a risk of a new escalation of non-performing loans. After all, the effect of the suspension of instalments from March to December 2020 has not yet been reflected in the NPLs. A recent estimate of the Bank of Greece for the new NPLs in 2021 is reported, between €8–10 billion, without being possible to estimate the number that will come from the currently performing borrowers in a deferred payment regime.[17]

The significant credit expansion to businesses in 2020 was due in part to the extraordinary liquidity programmes provided by the Greek State (Entrepreneurship Fund II, Guarantee Fund). In addition, as mentioned earlier in this section, funding from these and other extraordinary actions to address the effects of the pandemic (e.g. repayable advance), although not investment-related, was partly reflected in investment expenditures, as a component of GDP, as they were allocated under the Public Investment Programme. There are currently no planned or implemented financial interventions of this kind for 2021 other than the repayable advance No5. However, it is now possible that if there is a need for this, similar programmes will be implemented as last year. A decisive factor for the impact of the PIP on investment activity this year, but also in the coming years, will be the resources of NextGenerationEU. The degree of absorption of the liquidity stimulus programmes last year in investments will also depend on the rate of absorption of its funds. Based on the assumptions of the macroeconomic scenarios for absorption, in the basic and favourable scenario the last year's effect of the PIP on investments is expected to be exceeded, while in the adverse scenario it will fluctuate around last year's levels.

The impact of the current, high uncertainty due to COVID-19 on investments highlights the importance of public works and investment in completed privatisations, for a relatively

[17] Financial Stability Report, Bank of Greece, January 2021

stable investment activity, with long-term growth prospects. In 2021 the most important ongoing or upcoming investments of this kind concern Hellinikon, the PPA, the Athens International Airport and the regional airports. The specific investments will be reflected in Constructions. If the privatisations had been carried out more rapidly in previous years, there would now be more investment in infrastructure and large companies that they are usually concerned with, mitigating the impact of cyclical factors on investment activity. The impact of the significant lag in 2020 on the implementation of the privatisation programme, which is also due to the pandemic, will be reflected in investments this year and in the coming years. At the same time, the importance of the implementation of the privatisation programme this year is highlighted.

A halt to the decline in fixed capital formation in 2020 was brought about by building projects, as they showed a particularly strong rise at the beginning of the year, but after that, they kept weakening till last September. But as the halt to the decline in fixed capital formation came largely from investment in Tourism, hotel construction and property renovation, for Airbnb use, it is now quite likely investment will be affected this year. The downturn will depend on the dynamics of the health crisis.

Therefore, the level of investment is determined by a large number of factors, with different effects, in direction and scope. Taking into account these effects in 2020, especially that of the extraordinary financial instruments for the pandemic, in combination with the trend of investments in the first nine months, their increase is estimated last year at 10.0-11.0%. The trend in investment activity this year will depend primarily on whether the pandemic resurges, the absorption of resources from the NGEU, and the dynamics of exports of goods, which will determine investment decisions in Industry. In the baseline scenario of macroeconomic developments, in which the pandemic will gradually subside, without a new strong flare-up and the NGEU capital absorption targets will be achieved, investment will recover by 15-18%. In the favourable scenario, investment activity will be mainly encouraged by the ability of tourism companies to invest (+20-22%). As long as the pandemic does not show a trend of steady decline and fluctuations continue, the decline in investment activity will be moderated by NGEU resources and investments in export-oriented sectors (-3 to -6%).

The latest trends in short-term indicators highlight the renewal of the strong decline in international tourism flows since November, due to the new outbreak of the pandemic. However, as the tourist season is over during this period, the impact on annual tourist receipts and exports of services is much weaker than in the summer. The impact of the second outbreak of the pandemic may be greater in tourism this year, as long as it does not weaken soon, mainly in Greece, but also internationally, as it will affect bookings. That said, a steady de-escalation of the health crisis domestically from the first quarter will significantly reignite tourism interest, especially in the face of contrary developments in competitive travel destinations. In any case, the manifestation of demand will be more gradual than before the health crisis, due to the uncertainty about its evolution over the rest of the winter. After all, older people, who have an increased share of international arrivals domestically, will be more cautious about traveling. Understandably, any pandemic resilience, despite vaccination of the population in progress worldwide, will put strong pressure on tourism for a second year.

In terms of the provision of international transport services, the decline towards the end of 2020 was milder than in tourism, however, it escalated from the beginning of last autumn, before the re-imposition of restrictive measures across Europe. Therefore the intensity of the fall was probably reinforced after that. However, if the continued rapid recovery of China's economy continues this year in the second half of last year, as expected in recent forecasts by international multilateral organisations (IMF), it will reignite international trade. In the most recent international forecasts, a significant recovery of the volume of international trade of products is expected this year, by 7.2%, which, however, will not fully offset the estimated losses for 2020 (-9.2%)[18]. For this increase the assistance of transport services will be necessary. Certainly, the evolution of the pandemic can reverse the above predicted dynamics in international trade in goods. In any case, following the extensive contraction of activity in both sectors last year, after being at the centre of restrictive measures, no similar development is expected in 2021, even if the health crisis re-emerges. Therefore, if this happens, their decline will be much smaller than in 2020.

Contrary to the impact of exports of services on total exports, exports of goods excluding fuel-ship products continued to have an effect till the end of 2020, and kept increasing into the fourth quarter of 2020. Downward revision of the 2020 recession forecasts in the Eurozone (European Commission: 7.8%, from 8.7%)[19], which is the main export destination of Greek products, explains part of this trend. However, the growth forecast of the Eurozone for 2021 deteriorated (European Commission: 4.2% instead of 6.1%), highlighting the significant challenges facing the European economy, many of which existed before the health crisis, such as the need to adapt its industry to new standards and specifications. Vaccination since the end of 2020 across Europe, as well as in other regions, strengthens the possibility of a gradual weakening of the transmission of the new virus from the first half of this year, reducing the possibility of a new strong outbreak of COVID-19 and allowing economies to operate without further interruption in some parts and with fewer restrictions. However, the dynamics of mutations are currently unexplored. Under these circumstances, the new lockdown towards the end of 2020 again escalated the pressures on both sides of exports, but probably to a lesser extent than in the second quarter. Subsequently, the decline in exports last year was in the range of 25.5-26.5%. Under the baseline scenario, exports will rise by 15-18% this year, while in the favourable scenario, the longer tourist season and a faster recovery internationally and in Europe will boost growth (19-22%). In the unfavourable scenario, the rise will be much milder (5-7%).

Table 3.2

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

	2018	2019	2020	2021
Annual Percentage Change				
Gross Domestic Product	1.9	1.9	-9.0	5.0
Private Consumption	1.1	1.9	-5.5	4.0
Public Consumption	-2.5	1.2	-0.1	2.2
Gross Fixed Capital Formation	-12.2	-4.6	-8.0	5.5
Exports of Goods and Services	8.7	4.8	-21.6	10.7
Imports of Goods and Services	4.2	3.0	-9.8	6.7
Employment	1.7	1.2	-3.6	1.7
Compensation of Employees per capita	1.3	1.0	-1.0	0.3
Real Unit Labour Cost	0.5	0.2	6.2	-3.3
Harmonised Index of Consumer Prices	0.8	0.5	-1.3	0.9
Contribution to real GDP growth				
Final Domestic Demand	-1.3	1.7	-4.6	3.9
Net Exports	1.5	0.7	-4.6	0.8
Inventories	1.8	-0.5	0.0	0.0

[18] World Trade Organisation, Press Release No 862, 06/10/2020

[19] Sources: European Economic Forecast, Autumn 2020, Eur. Commission and European Economic Forecast, Summer 2020, European Commission

As a percentage of GDP				
General Government Balance	1.0	1.5	-6.9	-6.3
Current Account Balance	-1.1	-1.7	-6.2	-6.4
General Government Gross Debt	181.2	180.5	207.1	200.7
In percentage terms				
Unemployment (% of the labour force)	19.3	17.3	18.0	17.5

Source: European Economic Forecast, autumn 2020, European Commission, Nov. 2020

The imposition of the second lockdown, in Greece and across Europe, will put pressure on the final quarter of 2020 through the decline of private consumption and exports and imports, with their intensity being higher for another quarter on the side of domestic demand for services. By contrast, the significant strengthening of domestic demand, but also of exports during the current year, under the basic and favourable macroeconomic development scenario, will have a strong positive imprint on imports. In the event of an unfavourable scenario, the decline in imports will be restrained by the expected increase in exports. Under these effects, imports are expected to decline by 6.5-7.5% in the previous year. For this year, they are expected to rise, in the area of 11% and 15%, under the basic and favourable scenario respectively. By contrast, under the unfavourable scenario, imports will be reduced again, mildly (-2 to -4%).

From the process of estimating the trends in the components of GDP in 2020 and this year, based on different scenarios for the developments regarding the COVID-19 pandemic in Greece and internationally, as well as of other determinant factors, as described above, corresponding forecasts emerged for the change of domestic output. On this basis, the recession in the Greek economy in 2020 is estimated to have reached a range of 9.0-9.5%. In 2021, if the health crisis gradually declines from the first quarter, without further flare-ups, and at the same time the target of absorbing funds from NextGenerationEU is reached, a recovery is expected in the range of 4.0-4.3%. In case of a faster decline of the pandemic and recovery of economic activity internationally, the recovery will be in the range of 5.0-5.3%. However, if this year's health developments are largely repeated and there is a lag in the absorption of emergency funds by the EU, GDP will be only slightly higher (0.5-1%).

Table 3.3

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

	MinFin		EU		IOBE				IMF		OECD	
	2020	2021	2020	2021	2020	2021*	2021**	2021***	2020	2021	2020	2021
GDP	-10.5	4.8	-9.0	5.0	-9.0 to -9.5	5.0 to 5.3	4.0 to 4.3	0.5 to 1.0	-9.5	5.7	-10.1	0.9
Private Consumption	-7.6	3.0	-5.5	4.0	-4.5 to – 5.5	4.0 to 4.5	2.5 to 3.5	-1 to - 1.5	-4.5	3.1	-7.0	1.3
Public Consumption	2.1	-1.9	-0.1	2.2	2.5 to 3.5	-5.0 to - 7.0	-3.0 to - 5.0	-1.5 to - 2.5	-5.8	2.5	1.3	0.5
Gross Fixed Capital Formation	-14.3	23.2	-8.0	5.5	10 to 11.0	20 to 22	15 to 18	-3 to -6	-15.1	18.3	-11.5	4.6
Exports	-30.3	22.5	-21.6	10.7	-25.5 to - 26.5	19 to 22	15 to 18	5 to 7	-22.5	16.3	-23.8	-5.2
Imports	-17.4	16.4	-9.8	6.7	-6.5 to -7.5	15	11	-2 to -4	-8.7	6.9	-12.1	-3.1
Harmonised Index of Consumer Prices (%)	-1.1	0.6	-1.3	0.9	-1.3	0.6 to 1.0	0.2 to 0.5	-0.5 to - 0.7	-1.1	0.6	-1.2	-0.2
Unemployment (% of labour force)	18.9	17.9	18.0	17.5	16.5	15.0	15.5 – 16.0	18.0-18.5	18.9	17.5	16.9	17.8
General Government Balance (% GDP)	-9.9	-6.7	-6.9	-6.3	:	:	:	:	-9.8	-4.3	-9.4	-7.0

Current Account Balance (% GDP)	:	:	-6.2	-6.4	:	:	:	:	-7.5	-4.1	-5.2	-5.7

*Favourable IOBE scenario, **Basic IOBE scenario, ***Adverse IOBE scenario

Sources: Explanatory Report of the State Budget, Ministry of Finance, November 2020 – Second Post-Programme Monitoring Report (No. 20/308), IMF, Nov. 2020 - European Economic Forecast, autumn 2020, European Commission, Nov. 2020 - The Greek Economy 04/20, IOBE, January 2021 –- Economic Outlook 107, OECD, December 2020

The strong negative effects of the suspension of operations in March-April last year on the employment of many sectors, with a significant share in domestic employment, such as Tourism, Food Services, Arts-Entertainment and Retail Trade, are estimated to have been largely repeated during the second lockdown in the final quarter of 2020. Following the prolonged negative pressures on businesses from the pandemic, they may have been extended to more companies in these sectors, as well as in other sectors (e.g. Education). For this reason, it is considered that job protection measures have contributed to a lesser extent to the maintenance of jobs than during the first lockdown.

Nevertheless, these developments create a need for the provision of specific services (land courier, health services, ICT application creation). These additional needs are considered to have been largely met by job creation during the first lockdown. In addition, the decline in the workforce, from workers who lost their jobs and are discouraged by the current conditions, may have escalated again in October-December, having a deterrent effect on the increase in the number of unemployed. In these conditions of suspension of the operation of many sectors, it is considered that the effectiveness of the current programme, to cover social security contributions of 100k new jobs, was limited.

As expected, the developments related to the health crisis will be the most decisive for the employment trend and thus the unemployment rate in the new year. A steady, slight improvement in epidemiological data from the first quarter, without any new strong outbreaks of COVID-19, with the assistance of the vaccination, will allow during the first half the restart of operation of several of the companies affected since last November. Crucial for employment dynamics will be the duration of the summer tourist season, which under these health conditions will not differ compared to before the epidemiological crisis. If a rapid weakening of COVID-19 is achieved, domestic tourism will be available relatively early from the second quarter, as well as in the autumn. But if health conditions do not change, it is quite possible that the viability of many businesses will be threatened, putting their jobs at risk.

The public sector will have a stimulating effect on domestic employment this year, both directly and indirectly. In the first case, the impact will come from the support programme for the creation of 100k jobs mentioned above, the recruitments in the health system and the employment programmes of OAED. In the second case, through the contribution to the escalation of investment activity, with the increase of the aid of the PIP and the resources from NextGenerationEU. More broadly, investments will benefit mainly from credit expansion from the financial sector.

Job creation will be supported by the strengthening of exports to specific manufacturing sectors last year.

In view of the above effects on employment, it is estimated that the unemployment rate last year stood at 16.5%. In line with the three macroeconomic developments scenarios for 2021, in the baseline the unemployment rate is expected to fall in the range of 15.5-16.0%, in the favourable scenario to 15.0%, while in the adverse scenario it will be significantly strengthened (18.0-18.5%).

With regard to expected trends in consumer prices, the weakening of the positive effect on demand, combined with the continued negative impact of energy goods and taxes, has scaled back the decline of the Consumer Price Index (CPI) in the final quarter of the previous year, resulting in deflation at 2.3% last December, which is the lowest rate in six years. Overall in 2020, the CPI fell for the first time since 2017 by 1.2%, compared with a rise of 0.3% the year before last. It should be noted that the last IOBE forecast for the change in the CPI last year was between 1.2%-1.4%.

This year, the impact of demand will depend, as expected, on developments related to the pandemic and its impact on employment and subsequently on disposable income and consumption. Under the basic macroeconomic scenario, the gradual relaxation of public health protection measures from the first quarter of this year and their extended lifting in the next quarter will lead to a recovery in activity and employment in the sectors affected by the lockdown, as well as a decline in uncertainty. Combined with the creation of jobs in export-oriented activities in industry, and more investment, domestic disposable income will increase, boosting consumer demand and then prices. These developments and then their effects on prices will be faster and stronger respectively under the positive scenario of developments, with activity in the tourism sector starting earlier and the volume of international trade recovering further. As long as the health crisis does not recede significantly further domestically and internationally from current levels and continues to fluctuate sharply, as it did last year, public health protection measures will continue for much of the year. Subsequently, the rise of economic activity and employment will be prevented, while concerns about the development of the health crisis will continue. Under these adverse developments, restrictive pressures on consumer demand will escalate. A positive impact on CPI in 2021 is expected to be exerted by the reduction in direct taxation, the suspension of the solidarity levy and the reduction of social security contributions.

In terms of the expected effects of indirect tax reductions on the level of CPI in 2021, the extension of these reductions for specific goods and services until April 30, 2021, will maintain their anti-inflationary effect on prices over the same period. For the rest of this year, if these measures are not extended, the price trend in the product and service categories will be reversed, as they were applied from June last year.

The dynamics of the pandemic through its impact on global demand will determine developments in terms of energy costs. After all, on the supply side, the reduction in daily production by OPEC+ member countries, which started in April 2020, has slightly halted the sharp drop in the price of Brent oil in the first four months of 2020. The rise in oil prices since then and until the end of last year is considered to be related rather to China's rapid economic recovery and winter supplies. Both developments took place in the final quarter of 2020, when a significant part of the increase took place, although in the same period the decrease in production by OPEC+ was restrained. The start of vaccination of the population in many countries worldwide since the end of last December and its acceleration since then, form a prospect of overcoming the health crisis, gradual lifting of measures to protect public health and reviving demand. Nevertheless, significant challenges remain in tackling the pandemic, such as the potential effects of virus mutations, the effectiveness of vaccines in securing immunity, the discovery of drugs, and so on. The latest forecasts from international organisations point to a significant recovery in global economic activity, with China's economy, the world's second largest oil consumer, leading the way.

Taking into account the above possible trends in the key components of the Consumer Price Index, as well as their effects on it in the past, the baseline scenario of macroeconomic developments predicts a mild inflation rate of 0.2-0.5%, which in the favourable scenario will accelerate to 0.6-1.0%, due to the larger recovery of domestic demand and energy costs. Under the adverse macroeconomic scenario, weakening consumer demand, combined with a mild increase in energy costs, will lead to a new, mild decline in consumer prices (-0.5% to -0.7%).

3.2 Developments and Prospects in Key Sectors of the Economy

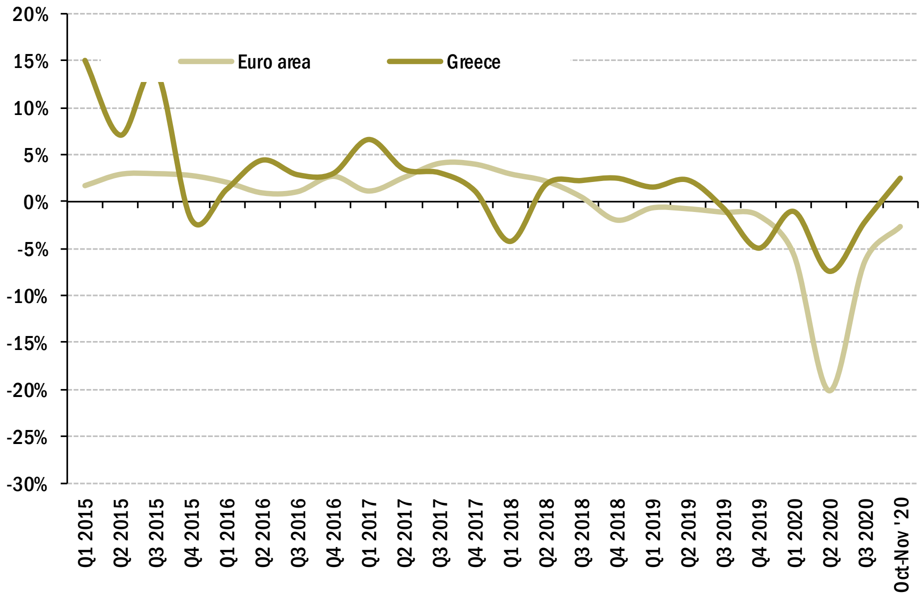
- Industrial production decline in the first 11 months of 2020 by 2.2%, against a marginal decline of 0.5% in 2019
- Decline in Construction in the third quarter by 3.0%, following a sharper decline of 8.5% the year before
- Decline by 2.8% in the first ten months of 2020 in Retail Trade, against a marginal decline by 0.8% in 2019
- Higher turnover in four of the thirteen sub-sectors of Services in the first nine months of 2020.

Industry

In the third quarter of 2020, the industrial production index decreased by 2.2%, while in January-November, it decreased by 2.5%, against a smaller decrease by 0.5% in the same period of 2019.

Figure 3.2

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



Industrial production down by 2.5% in Greece in the first eleven months of 2020, against -0.5 % in 2019. Stronger retreat in the Euro area over the same period: -9.3%, after -1.4 % the year before.

Sources: ELSTAT, Eurostat

The prices of industrial products in the first eleven months of 2020 declined by 7.2%, while in 2019 they had stood unchanged. Prices fell more in exported products (-15.7% instead of -0.6% in 2019) and less in those sold in the Greek market (-4.6% instead of + 0.6% in 2019). Respectively, the turnover of Industry decreased by 13.2%, when in the first eleven months of 2019 it had fallen by only 1.4%.

In the Eurozone in the third quarter, industrial production continued to decline at a rate of 6.4%, when the third quarter of 2019 showed losses of 1.1%. As mentioned in previous IOBE bulletins, from the fourth quarter of 2018 industrial production in the Eurozone was moving at a downward pace, which had accelerated shortly before the outbreak of the pandemic. Overall in the first 11 months last year, production was reduced by 9.3% compared to losses by 1.4% in 2019.

At the level of key sectors of Greek industry, in the first eleven months of 2020, an improvement was recorded only in Water Supply (+0.9% against +1.6% the year before). In the other sectors, electricity supply was reduced by 6.0% (after -4.4% in 2019), Mining-Quarrying by 4.1%, after -7.4% in 2019 and Manufacturing by 1.8%, against +0.9% in the same period a year earlier.

Among the sub-sectors of Mining, production increased only in Mining of metal ores (21.6% instead of -11.3%). The production of Coal-Lignite Mining and Oil - Gas Extraction was sharply reduced, to one third of 2019 (down by 64.5%), after a significant decrease of 28.0% a year earlier. Production also decreased in Other Mining - Quarrying (-9.6% instead of -3.2%).

In Manufacturing, production increased in 9 of the 24 branches. In sectors with increased weight for the Greek economy, there was an increase in the output of Basic Pharmaceuticals (+16.2%, after +19.3% a year earlier). By contrast, the production of Basic Metals was down by 3.6%, after losses of 2.1% in 2019. Food production shrank by 2.6%, instead of an increase of 1.7% in the same period of 2019.

In the other manufacturing sectors, the largest decline was recorded in Leather - Leather Products (-40.2% from -1.4% the year before last), Clothing (-30.1% after -7.0%) and Refined Petroleum Products (-12.3 instead of -0.1%). Next came Wood - Cork (-11.8% instead of +4.1%), and Machinery-Equipment (-5.3% instead of +2.4%). Production strengthened in Motor Vehicles (+21.8% instead of -4.6%), in Paper (+4.0% instead of -1.4%) and Tobacco Products (+10.2% then +6.6%).

During the same period, output fell to four of the five major industrial product groups. In particular, the production of durable consumer goods decreased by 9.6% (instead of +1.9% the year before). Energy production shrank by 5.7%, similar to 2019 (-5.3%). Production of Intermediate Goods is lower by 1.5% (after -0.9% in 2019), while in non-durable consumer goods there was a decrease of 0.6% instead of an increase of 4.5% in the corresponding period of 2019. Production of capital goods increased marginally, by 0.3%, instead of an increase of 5.5% the year before.

Construction

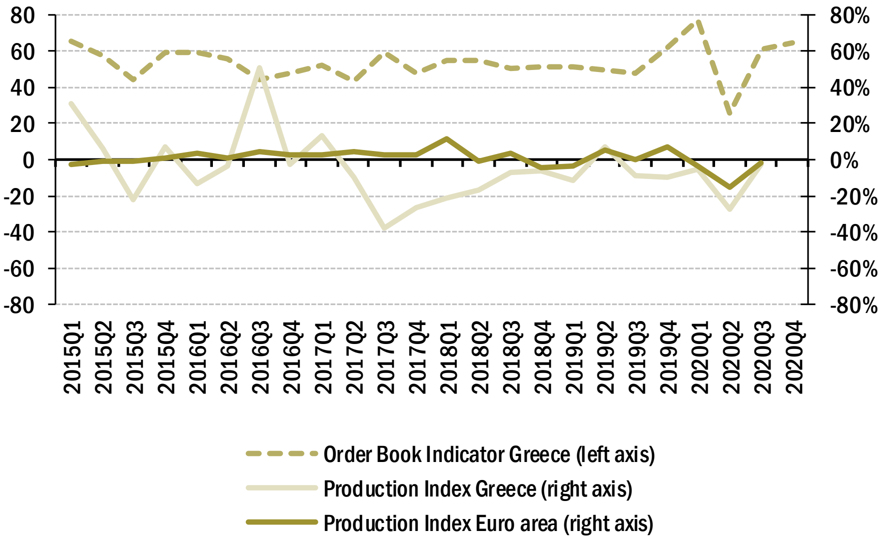
In the third quarter of 2020, the production index in the Construction sector decreased by 3.0%, after losses of 8.5% in the same period of 2019. In the sub-indices, the production of Building Construction was reduced by 19.5% compared to 2019 (-3.4% a year earlier). The index of Civil Engineering decreased by 1.3%, instead of a slightly sharper decrease by 4.0% in the third quarter of 2019.

Monthly building activity data for the first ten months of 2020 show a 0.4% decrease in terms of the number of permits, against a 10.1% improvement the year before last. In terms of volume, the decrease amounted to 1.9%, while in 2019 the volume of buildings had increased by 5.6%. There was a decrease in surface terms as well (-3.8% instead of + 6.6%).

In the Eurozone, the construction output index in the third quarter of 2020 fell by 2.1%, when in the same period of 2019 it was virtually unchanged (+0.1%).

Figure 3.3

Production Index in Construction and Building Activity Index



Decline in the production index in Greece in the third quarter of 2020 by 3.0%. Fall of 2.1% of Construction in the Eurozone

Source: ELSTAT

Retail Trade

The volume index of Retail Trade decreased by 2.8% in the first ten months of 2020, instead of a slight increase of 0.8% in the corresponding period of 2019. The decline is due to the trend of the index from March to September, when it recorded losses close to 3.0%, while in April, it fell by 24.6%. In October, the overall index rose by 4.7%.

During the same period, trade volume increased in just 3 of the 8 sub-sectors. Specifically, in Pharmaceuticals - Cosmetics turnover increased by 15.9%, instead of marginal losses of 0.2% the previous year, while in the Supermarkets sales increased by 4.2% instead of an improvement of 1.4% in 2019. Sales expanded marginally in Books-Stationery (+0.7%), a rate significantly lower than that of 2019 (+10.5%).

By contrast, the largest decline was recorded in Clothing - Footwear (-14.2% instead of -1.0%), Fuels-Lubricants (-10.9% instead of +2.1%), Food-Drink-Tobacco (-9.9% instead of -5.0%), and Department Stores (-6.6% compared to -12.4%). Marginal losses were recorded in Furniture - Home Appliances (-0.6% instead of +6.9%).

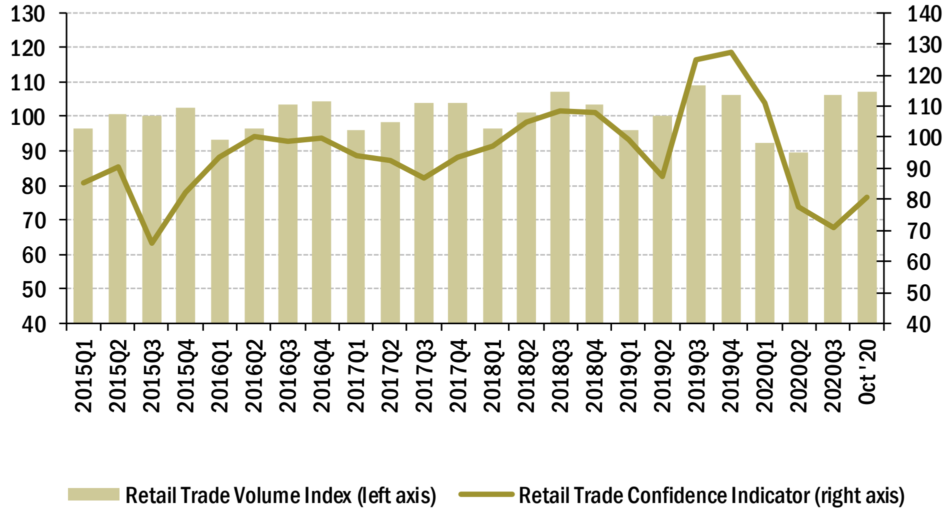
Expectations in the retail sector for the whole of 2020, as reflected in the leading indicators of the IOBE Business and Consumer Surveys, have weakened sharply compared to 2019. The index fell 20.8 points, instead of an increase of 4.8 points the year before.

At branch level, expectations in 2020 deteriorated mainly in Vehicles-Spare Parts (-39.5 points, instead of a decrease of 2.4 points in 2019), Textiles-Clothing-Footwear (-25.5 points, following a fall of 13.8 points), Home Appliances (-13.9 points instead of -17.0 points) and Department Stores (-15.7 points instead of an increase of 14.1 points). By contrast, some optimism is recorded only in Food - Drink - Tobacco (+3.9 points instead of an increase of 17.2 points in 2019).

Figure 3.4

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

Decline of 2.8% in the first ten months of 2020 in Retail Trade. Weak sales expectations overall in 2020



Source: IOBE

Table 3.4

Volume Index in Retail Trade, annual changes

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan. - Oct. 2018	Jan. - Oct. 2019	Jan. - Oct. 2020	Change 2019/2018	Change 2020/2019
Overall Index	101.0	101.8	98.9	0.8%	-2.8%
Overall Index (excluding automotive fuels and lubricants)	102.2	102.7	102.3	0.5%	-0.4%
Store Categories					
Supermarkets	104.9	106.4	110.8	1.4%	4.2%
Department Stores	107.3	94.0	87.8	-12.4%	-6.6%
Automotive Fuels	92.6	94.6	84.3	2.1%	-10.9%
Food – Drink – Tobacco	91.2	86.7	78.1	-5.0%	-9.9%
Pharmaceuticals – Cosmetics	100.0	99.8	115.7	-0.2%	15.9%
Clothing – Footwear	108.0	107.0	91.8	-1.0%	-14.2%
Furniture – Electric Equipment – H. Appliances	105.3	112.5	111.8	6.9%	-0.6%
Books – Stationary	107.9	119.3	120.1	10.5%	0.7%

Source: ELSTAT

Particularly in Vehicles, the decrease of 29.5 points last year (-33%) due to the effects of the pandemic on the sector. In the last quarter of last year the index fell with the same intensity as in the third quarter (approximately -33%). Amid the constituent indicators, the balance of current sales for the whole year stood at -29 points, compared with +42 points in 2019, an indication of the particularly unfavourable situation on the market. Half of the companies estimate that sales declined, with a significant deterioration in December, following the improvement in October and November. There has been no significant change in stocks, as stabilising trends continue to prevail. The balance of orders fell to -12 points, compared with 27 points last year, with deterioration in November and December. A similar trend with orders is reflected in sales expectations, with the balance falling to -8 points, compared to 39 points in 2019, and 37% of the companies anticipating sales to decline. On the consumer side, the (strong) intention to buy a car over the next 12 months improved in the last October measurement (1.2% of the sample), compared to the July estimates (0.5% of the sample). Finally, on the issue of employment, almost all enterprises maintain expectations of no change.

Table 3.5

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

	2018	2019	2020	Change 2019/2018	Change 2020/2019
Food-Drinks-Tobacco	85.9	103.1	107.0	17.2	3.9
Textiles - Clothing – Footwear	95.2	81.4	55.9	-13.8	-25.5
Household Appliances	95.2	78.2	64.3	-17.0	-13.9
Vehicles-Spare Parts	123.7	121.0	81.5	-2.7	-39.5
Department Stores	98.5	112.6	96.9	14.1	-15.7
Total Retail Trade	101.0	105.8	85.0	4.8	-20.8

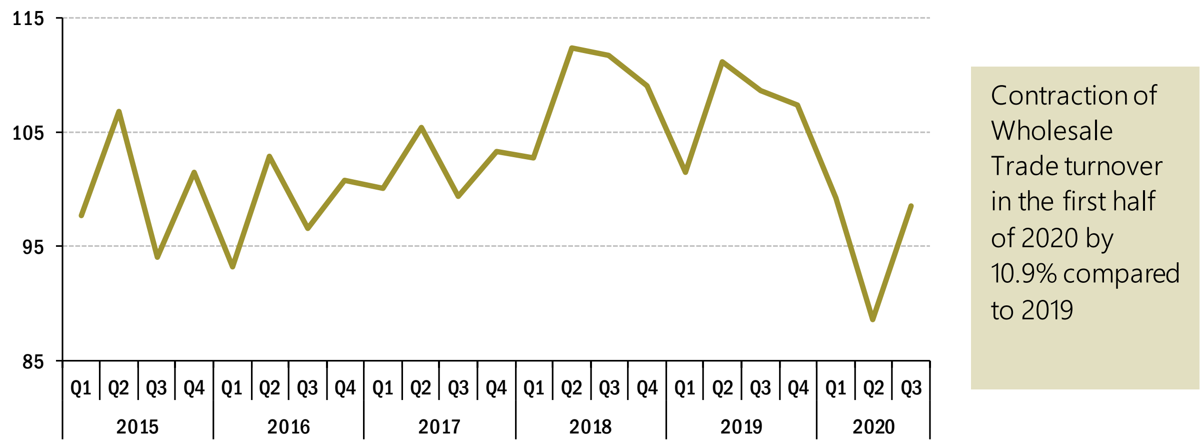
Source: IOBE

Wholesale Trade

In the first nine months of 2020, the Wholesale Turnover Index moved sharply downwards and recorded losses of 10.9%, compared with a milder decrease by 1.7% in 2019.

Figure 3.5

Turnover Index in Wholesale Trade



Source: ELSTAT

Services

In the first nine months of 2020, turnover decreased in 9 of the 13 branches of Services compared to the same period of 2019.

The largest decline occurred in Other Professional, Scientific and Technical Activities (-15.8% after -7.7% in 2019) and in Advertising - Market Research (-12.7% instead of +8.3%). This was followed by a decline in Publishing Activities (-9.7% instead of +6.3%), Security - Investigation Activities (-7.7% then -2.8%) and the cumulative index for Legal - Accounting - Management Consultancy Activities (-3.7% instead of +4.2%). Both Telecommunications and Computer Programming showed a decrease in turnover by 2.6%, compared to an increase of 1.7% and 7.6% respectively, in 2019.

In contrast, services related to Cleaning activities (+16.0% instead of -3.9%), Data Processing - Information Activities (+7.1%, followed by +6.1%) and Engineering - Architectural Activities (+0.8%, as the year before last) strengthened year on year.

Table 3.6

Turnover Indexes (2010=100)

Services branch	% Change nine months 2019	% Change nine months 2020
Publishing activities	6.3%	-9.7%
Architects and Engineers	0.8%	0.8%
Data and Information service activities	6.1%	7.1%
Security and investigation activities	-2.8%	-7.7%
Telecommunications	1.7%	-2.6%
Advertising and market research	8.3%	-12.7%
Postal and courier activities	6.9%	-0.2%
Computer programming, consultancy and related activities	7.6%	-2.6%
Other professional, scientific and technical activities	-7.7%	-15.8%
Legal, accounting and management consultancy activities	4.2%	-3.7%
Office administrative, office support and other business support activities	0.7%	-9.0%
Employment activities	20.5%	3.0%

Source: ELSTAT

In line with trends in the IOBE's leading economic indicators, which cover the whole of 2020, expectations deteriorated in all four sub-sectors of Services, while the overall indicator for Services fell by 20.3 points, after a decrease of 5.7 points in 2019.

The indicator fell most, as expected, in Hotels – Restaurants, by 23.6 points, after a decline of 24.8 points in 2019, followed by Other Business Services (-23.4 points instead of an improvement of 20.6 points in 2019) and Banks, where expectations fell by 12.4 points, instead of strengthening 4.6 points the year before. Information services lost 8.0 points instead of an 11.0 point increase in 2019.

Table 3.7

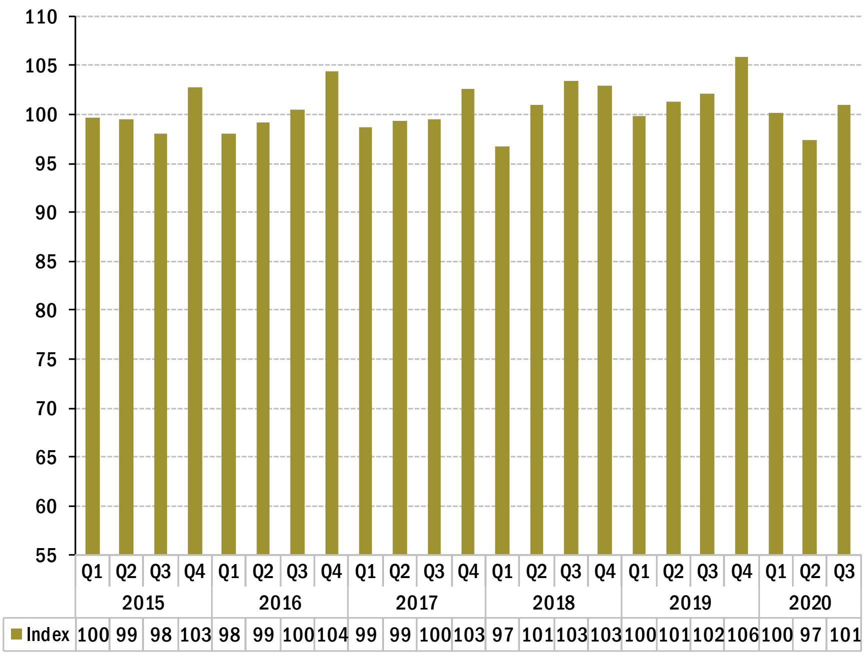
Business Confidence Indicators in Services (1998-2006=100)

	2018	2019	2020	Change 2019/2018	Change 2020/2019

Hotels – Restaurants – Travel Agencies	107.1	82.3	58.7	-24.8	-23.6
Other Business Services	87.7	92.3	79.9	4.6	-12.4
Financial Intermediation	68	88.6	65.2	20.6	-23.4
Information Services	70.2	81.2	73.2	11.0	-8.0
Total Services	97.0	91.3	71.0	-5.7	-20.3

Figure 3.6

Turnover Index in Telecommunications (branch 61)



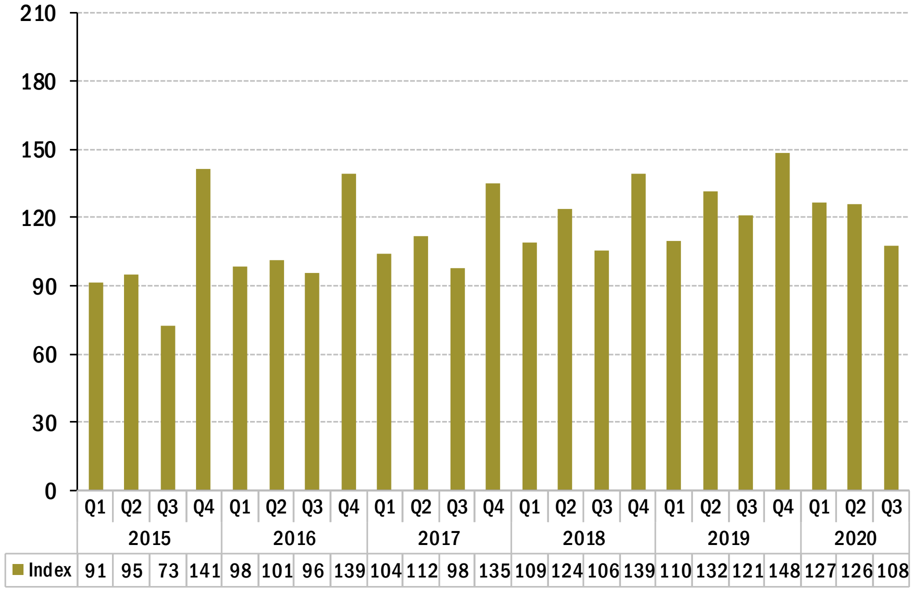
Contraction of 2.6% in Telecommunications in the first nine months of 2020, against slight increase of 1.7% a year earlier

Source: ELSTAT

Figure 3.7

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

Turnover contraction of 2.6% in the first eleven months in IT Services, after an increase of 7.6% in 2019

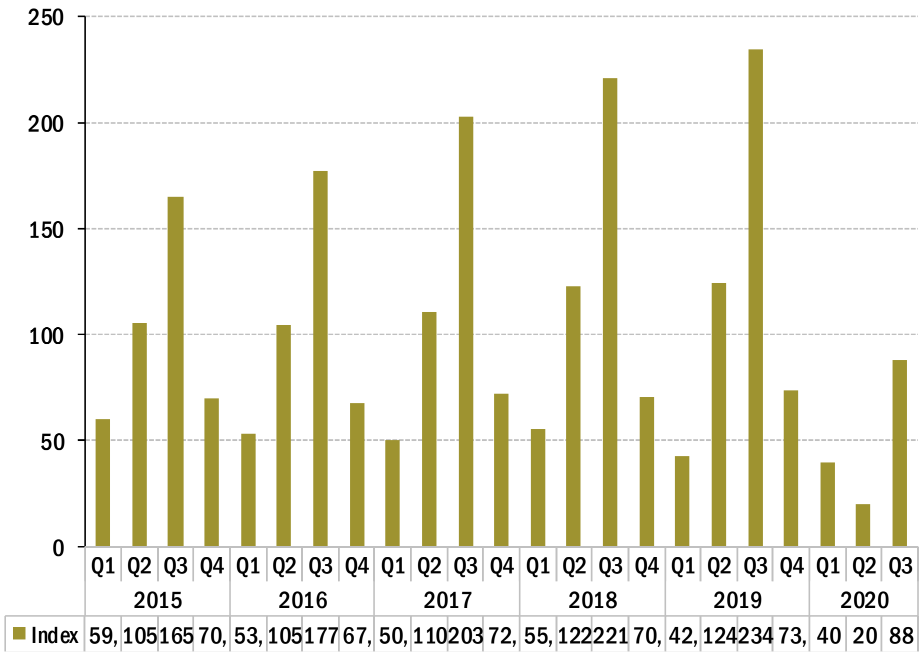


Source: ELSTAT

Figure 3.8

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

Vertical drop of activity in tourism. Contraction by 63.3% in the first nine months of 2020, after a marginal increase in 2019 (+0.7%)



Source: ELSTAT

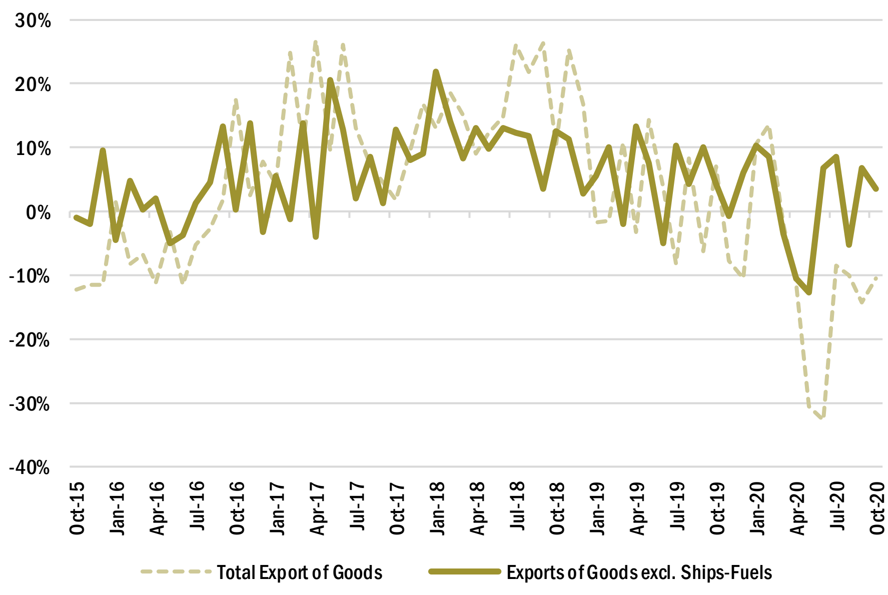
3.3 Export Performance of the Greek Economy

- Decrease in the exports of goods in the first ten months of 2020, at a rate of 11.3%, and -by contrast- increase in exports excluding petroleum products (+1.3%)
- Decrease in trade deficit by 19.9% compared to the ten months of 2019, to €14.3 billion.
- Among the product categories, there was a decrease mainly in exports of Fuels, Raw Materials and commodities and transactions not classified elsewhere.
- Decline in demand mainly from the countries of the Middle East and North Africa (-35.4% or -€1.4 billion) and the EU (-3.8% or +€423.9 million).

The exports of goods stood at €24.7 billion in the first ten months of 2020, compared with €27.9 billion in the same period of 2019, recording a decrease by 11.3%. Excluding oil and ship exports, other exports increased by 1.3% to €19.5 billion, from €19.3 billion in the first ten months of 2019. Imports in the period January-October 2020 decreased by 14.7% and amounted to €39.0 billion, from €45.7 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit was €3.6 billion lower year on year (-19.9%), at €14.3 billion, from €17.9 billion in the same period of 2019. As a result, the value of exports of goods from the Greek economy in the first ten months of 2020 accounted for 63.4% of its imports, while a year earlier it had reached 61.0%.

Figure 3.9

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



Exports excluding petroleum products – ships totalled €19.5 billion in January-October 2020, 1.3% higher than a year earlier

Source: Eurostat, Processing: IOBE

In greater detail, the exports of Agricultural Products increased by 12.4% in January-October last year, to €5.4 billion, from €4.8 billion in the same period a year earlier, while fuel exports fell sharply, by 40.0%, mainly as a result of the fall in the price of oil, totalling €5.4 billion, from €9.0 billion in 2019. Exports of these two categories accounted for 43.8% of domestic exports of goods in 2020, from 49.6% a year earlier. The increase in Agricultural Products stemmed mainly from a 37.5% increase in demand for Oils-Fats of

Animal or Plant Origin, the value of which was €434.1 million, from €315.6 million in 2019, increasing their share of total exports from 1.1% in the first ten months of 2019 to 1.8% in the corresponding period of 2020. In Food-Livestock, which represents approximately 79.7% of the exports of Agricultural Products, exports increased by 11.1%, to €4.3 billion from €3.9 billion. In Drinks - Tobacco Products, which account for 12.3% of the exports of Agricultural Products, demand totalled €666.4 million, 8.0% higher than in the same period of 2019 (€617.0 million).

Exports of Industrial Products were slightly stronger in the first ten months of last year (+0.6%), with their value reaching €12.6 billion, from €12.5 billion in 2019. This development was mainly due to the significant increase in exports of Chemicals, by 21.6%, from €3.4 billion to €4.1 billion. By contrast, there was a decrease in international demand for various industrial goods, by 16.6%, with their value reaching €1.9 billion. Exports of Manufactured goods classified chiefly by raw material also fell, by 6.3% (€4.0 billion from €4.2 billion), while exports of Transport Machinery and Materials fell marginally (-0.3% to €2.6 billion).

Finally, exports of Raw Materials decreased by 12.2%, falling to €992.1 million, from €1.1 billion in the first ten months of 2019, while exports of Goods and transactions not classified by categories also declined, by 14.4%, from €433.5 million in the first ten months of 2019 to €371.1 million in the same period a year later.

In terms of export trends by geographical area, exports fell to the Euro area countries by 3.8%, approaching €10.6 billion in 2020 from €11.1 billion in the same ten months of 2019, with their share reaching almost 43.0% of Greek exports last year. Similarly, to the EU-27 there was a decrease of 2.3% or €328 million, with exports reaching €14.1 billion, from €14.4 billion a year earlier. Among the Eurozone countries that absorb the largest share of Greek exports, there was a significant expansion to France, by 42.5%, from €1.0 billion to €1.4 billion, and then, at a distance, to Germany, by 4.2%, from €1.87 billion to €1.94 billion. Exports to the major trading partner, Italy, decreased by 13.8%, to €2.6 billion from €3.0 billion the year before.

Among the rest of the European Union, where total exports increased by 2.8% or €95.9 million, to €3.5 billion, Bulgaria remains the main export destination, despite a year-on-year reduction by 3.9% or €79.1 million. Positive developments were noted to two other countries in this group which absorb a significant share of Greek exports, Romania and Poland, where exports increased by 8.1% or €67.4 million, to €899.6 million, and by 15.6% or €64.1 million, to €475.9 million respectively.

The rest of Europe recorded a decrease in demand for Greek exports by 19.8%, from €5.2 billion in 2019 to €4.2 billion in the first ten months of 2020. This was manifested primarily in Turkey, by 29.7%, from €1.5 billion to €1.1 billion, and secondarily in the United Kingdom, by 10.5%, falling from €1.080 million in January - June 2019 to €967.5 million in the same period of 2020.

Exports to North American countries fell by 14.7%, from €1.4 billion in 2019 to €1.2 billion a year later, mainly due to the decline in exports to the US by 16.2% , from €1.1 billion the year before to €934.5 million in 2020 and to Mexico by 20.1% or 28.6 million. By contrast, exports to Canada increased (+ 4.6%).

Table 3.8

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

Product	Value		% Change	% Share	
	2020	2019	20/19	2020	2019
AGRICULTURAL PRODUCTS	5,411.0	4,813.5	12.4%	21.9%	17.3%
Food and Live Animals	4,310.6	3,880.9	11.1%	17.4%	13.9%
Beverages and Tobacco	666.4	617.0	8.0%	2.7%	2.2%
Animal and vegetable oils and fats	434.1	315.6	37.5%	1.8%	1.1%
RAW MATERIALS	960.2	1,128.3	-14.9%	3.9%	4.0%
Non-edible Raw Materials excluding Fuels	960.2	1,128.3	-14.9%	3.9%	4.0%
FUELS	5,406.2	9,007.0	-40.0%	21.9%	32.3%
Mineral fuels, lubricants, etc	5,406.2	9,007.0	-40.0%	21.9%	32.3%
INDUSTRIAL PRODUCTS	12,567.5	12,496.2	0.6%	50.8%	44.8%
Chemicals and Related Products	4,102.5	3,373.3	21.6%	16.6%	12.1%
Manufactured goods classified chiefly by raw material	3,977.2	4,244.4	-6.3%	16.1%	15.2%
Machinery and transport equipment	2,560.5	2,567.3	-0.3%	10.4%	9.2%
Miscellaneous manufactured articles	1,927.3	2,311.2	-16.6%	7.8%	8.3%
OTHER	371.1	433.5	-14.4%	1.5%	1.6%
Commodities and transactions not classified by category	371.1	433.5	-14.4%	1.5%	1.6%
TOTAL EXPORTS	24,716.1	27,878.4	-11.3%	100.0%	100.0%

* Provisional Data

Source: Eurostat

Exports to the Middle East and North Africa fell sharply, by 35.4%, to €2.6 billion from €4.0 billion, mainly due to the decline in exports to Egypt (-49.1%), where exports in the first ten months of 2020 amounted to €399.1 million, compared to €784.6 billion a year earlier, but also to Lebanon (-46.8%), declining by €474.7 million in 2020 compared to 2019. Similarly, exports fell sharply to another major export destination in the Middle East, Saudi Arabia, by 64.7%, to €239.6 million, while to the United Arab Emirates, they fell less, by 9.6%, to €182.7 million and to Israel they declined by 28.7%, to €298.4 million.

The flow of Greek exports to Oceania increased by 4.0%, with their value in January-October 2020 amounting to €181.9 million from €174.8 million a year earlier. The rise came from a similar trend in Australia, where exports rose 5.8% to €165.1 million last year. By contrast, there was a decrease towards New Zealand (-10.6%).

Exports to the markets of the Central-Latin American countries showed a strong decline, by 51.3%, in the first ten months of 2020, with their value reaching €167.8 million from €337.2 million in 2019. Exports to the markets of the Central-Latin American countries recorded a strong decline, by 51.3%, in the first ten months of 2020, with their value reaching €167.8 million from €337.2 million in 2019.

The international demand for Greek goods increased in Asian countries, where exports increased by 5.0% in the first ten months, to €1.7 billion from €1.6 billion in 2019. This development is mainly due to the extended growth, by 84.9%, to Japan, from €168.6 million in the first ten months of 2019 to €311.8 million a year later, as well as by 76.7% to South Korea, from €131.0 million in 2019 to €231.5 million in 2020. By contrast, there was a decline in demand from China (-6.0%, to €677.8 million from €721.2 million in 2019) and Singapore (-32.6%, to €81.1 million. from €120.3 million in 2019).

Table 3.9

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

ECONOMIC UNIONS – GEOGRAPHIC REGION	EXPORTS		% CHANGE
	2020	2019	20/19

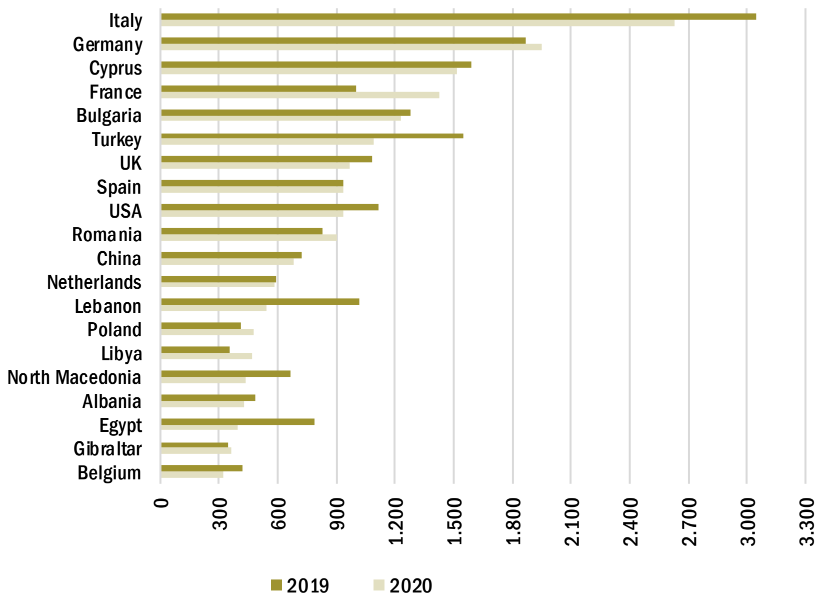
EU (27)	14,119.8	14,447.7	-2.3%
Euro Area	10,635.8	11,059.7	-3.8%
G7	8,350.1	8,412.8	-0.7%
North America	1,183.5	1,387.1	-14.7%
BRICS	934.1	1,135.1	-17.7%
Middle East & North Africa	2,619.3	4,052.4	-35.4%
Oceania	181.9	174.8	4.0%
Central-Latin America	167.8	337.2	-50.2%
Asia	1,728.9	1,645.9	5.0%
OPEC countries	1,171.9	1,589.5	-26.3%

* Provisional Data.

Source: Eurostat

Figure 3.10

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



The greatest increase in exports of products in Jan. - Oct. in absolute terms to France (+424.8 million). The largest fall to Lebanon (-474.7 million). Italy remains the country with the largest share.

Source: Eurostat, Processing: IOBE

To sum up, exports of products in January-October 2020 decreased by 11.3% compared to the previous year, but this decline is solely due to the petroleum products sector, as without them exports increased by 1.3% to €19.5 billion. Consequently, Greek exports excluding petroleum products maintained a positive sign of change for most of 2020, showing particular resilience and momentum under the extremely adverse conditions for international trade resulting from the COVID-19 pandemic, which created several problems both in the Greek economy (lockdown) and globally. The second wave of the pandemic and the re-imposition of a lockdown on specific activities, as well as strict restrictions on movements throughout Europe, where the largest volume of Greek exports is directed, is expected to put additional pressure on the international trade of Greek companies. Given this, it is estimated that the decline in total exports escalated in November-December, while in goods excluding petroleum products, the increase will probably be marginal in 2020.

In the new year, the pandemic will once again be the most important factor in the dynamics of the exports of goods. The start of vaccination at the end of last December raises expectations of a continuous, albeit slight, remission of the health crisis from the first half of 2021. If a new outbreak is avoided this year, e.g. in the spring or autumn, the "opening" of economies across Europe will also fuel the demand for Greek products. The use of the resources of NextGenerationEU will also contribute to such a development, by stimulating investment. In the event of significant deviations from the above developments, i.e. under an unfavourable scenario, the rather low level of exports in 2020 forms a base that can be overcome in the new year or at least can prevent a significant decline.

3.4 Employment - Unemployment

According to the Labour Force Survey of ELSTAT, the unemployment rate in the third quarter of 2020 amounted to 16.2% from 16.4% in the corresponding quarter of 2019, showing a decrease of 0.2 percentage points, while compared to the second quarter of 2020 the decline reached 0.5 percentage points (16.7% unemployment in the second quarter of 2020). The number of unemployed in the third quarter of 2020 was reduced by 20.6k people or by 2.7%, i.e. to 756.4k from 777.0k in the same quarter of 2019. Respectively, the number of employees was reduced by 45.1k people or by 1.1%, from 3,971.9k to 3,926.8k. The decrease in the number of unemployed by 20.6k people came exclusively from the reduction of the labour force (by 65.7k people). Last October, the non-seasonally adjusted unemployment rate was 0.5 percentage points lower than the corresponding rate a year earlier, at 15.8%.

Regarding the evolution of unemployment in the Eurozone in the third quarter of 2020, in all countries except Greece unemployment increased. The highest unemployment rate was recorded in Spain, where it rose to 16.3% from 13.9% in the same quarter of 2019 (+2.4 percentage points). The strongest rise in unemployment, by 3.8 percentage points, occurred in Estonia, where the unemployment rate stood at 7.7%, from 3.9% in the third quarter of 2019. After Spain and Greece, the highest unemployment rate was in Italy, where it rose to 10%, from 9.1% in the third quarter of 2019. In contrast, Germany had the lowest unemployment rate in the Eurozone and the third quarter last year it stood at 3.7% from 3.1% the year before. It is followed by the Netherlands, where unemployment rose by 1.1 percentage points to 4.3%, and Malta, where it rose to 4.8% from 3.7% a year earlier. In the Eurozone as a whole, unemployment rose by 1.1 percentage points, from 7.2% in the third quarter of 2019 to 8.3% in the third quarter of 2020.

Regarding the evolution of gender-based unemployment in Greece, in the third quarter of 2020, the unemployment rate for men (13.1%) was 7.0 percentage points lower than for women (20.1%), but remained the same as in the third quarter of 2019, in contrast to the unemployment rate of women which was reduced by 0.4 percentage points compared to a year earlier (20.5% in the third quarter of 2019). In the Eurozone as a whole, the unemployment rate for men increased by 1.0 percentage point, i.e. from 6.9% to 7.9%, while for women it increased by 1.2 percentage points (from 7.6% to 8.8%) and was 0.9% higher than that of men.

Unemployment decreases as age increases, and in the third quarter of 2020 in all age groups except people aged 45-64 and over 65 it was higher compared to a year earlier. The largest increase in the unemployment rate is found in people aged 25-29, where it increased by 2.8 percentage points, reaching 26.7% in the third quarter of 2020 and the lowest increase in people aged 30-44 years, in which it rose marginally, by 0.1 percentage points, to 16.0%. Young people have the highest and rising unemployment rates. Among people aged 15-19, unemployment rose to 40.0% in the third quarter of 2020, from 39.4% a year earlier and for people aged 20-24 to 33.4% from 31.7% in the third quarter of 2019. The decrease in the unemployment rate was stronger in people aged 46-64 (-1.1

percentage points, at 12.4%) compared to people over 65 (-0.2 percentage points, at 8.6% in the third quarter of 2020).

As for the duration of unemployment, in the third quarter of 2020 the number of long-term unemployed decreased significantly compared to a year earlier, by 95.6k people or 16.7%, falling to 476.4k. Similarly, the percentage of the long-term unemployed in the total unemployed decreased by 10.6 percentage points, falling to 63.0%.

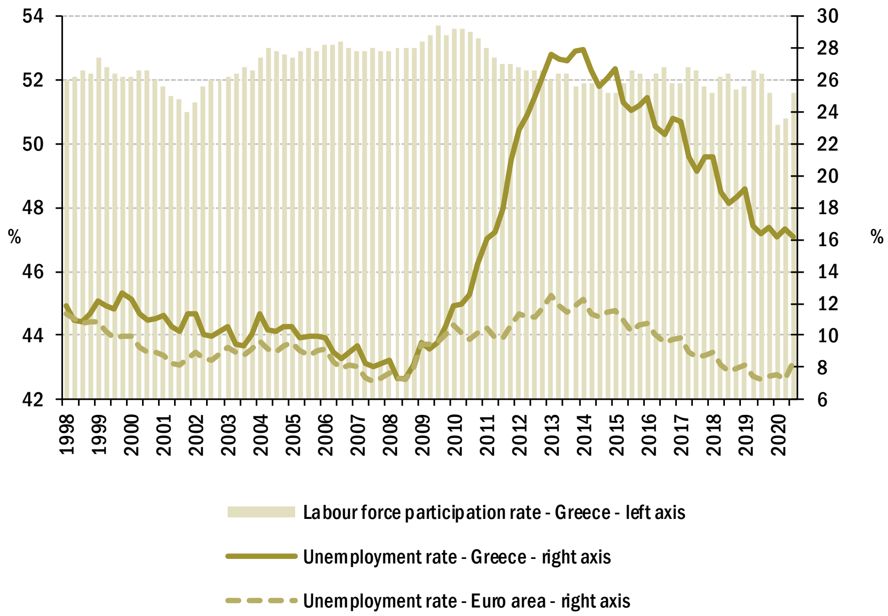
In relation to the evolution of unemployment based on the level of education, in most categories (five) the unemployment rate decreased and in three it increased. The strongest reduction in the unemployment rate in the third quarter last year occurred in people who attended some classes of elementary school, as it was reduced by 18.0 percentage points, to 17.5% from 35.5%. The decrease in the unemployment rate among people who did not go to school at all was strong, as it reached 9.5 percentage points, with the result that their unemployment rate was reduced to 43.5%, from 53.0% a year earlier. The smallest decrease in the unemployment rate, by 0.3 percentage points, was observed among those with a lower secondary school diploma, to reach 17.7%. By contrast, the largest increase in the unemployment rate occurred in those with a tertiary education degree, which rose to 13.5% from 12.3% (+1.2 percentage points). For people with a high school diploma and a doctorate or postgraduate degree, the rise in unemployment was marginal, as it rose by 0.4 (from 17.4% to 17.8%) and by 0.1 (from 10.1% to 10.2%) percentage points, respectively.

Regarding the regional dimension of unemployment, in five regions its rate decreased and in eight regions it increased. The largest decrease, by 3.1 percentage points, is found in the region of Western Macedonia, where unemployment stood at 20.7% in the third quarter of 2020 from 23.8% a year earlier. The region of Central Macedonia shows the lowest decrease in the unemployment rate, by 1.1 percentage points, as a result of which it is reduced from 19.2% to 18.1%. In the region with the highest unemployment rate in the third quarter of 2020 in the country, i.e. in the region of Western Greece, the unemployment rate fell to 22.2% from 23.7% a year earlier. By contrast, the strongest rise in unemployment is found in the Ionian Islands region, where it rose by 8.3 percentage points, reaching 14.5%, followed by a similar rise in Crete where unemployment rose from 8.4% to 16.0% (+7.6 percentage points). In the region with the lowest unemployment rate in the third quarter of 2020, i.e. in the South Aegean, unemployment increased to 9.1% from 7.2% in the third quarter of 2019.

As for employment based on occupational status, the number of self-employed (with or without staff), increased marginally, by 0.2%, in the third quarter of 2020 or by 2.1k people and amounted to 1,114.3k. In employees, employment fell by 1.7% or 46.9k people, i.e. from 2,470.5k to 2,693.6k. Finally, among family business helpers, employment decreased marginally in the third quarter of 2020, by 0.2% or by 0.2k people, to 118.9k.

Figure 3.11

Labour force participation and unemployment rates

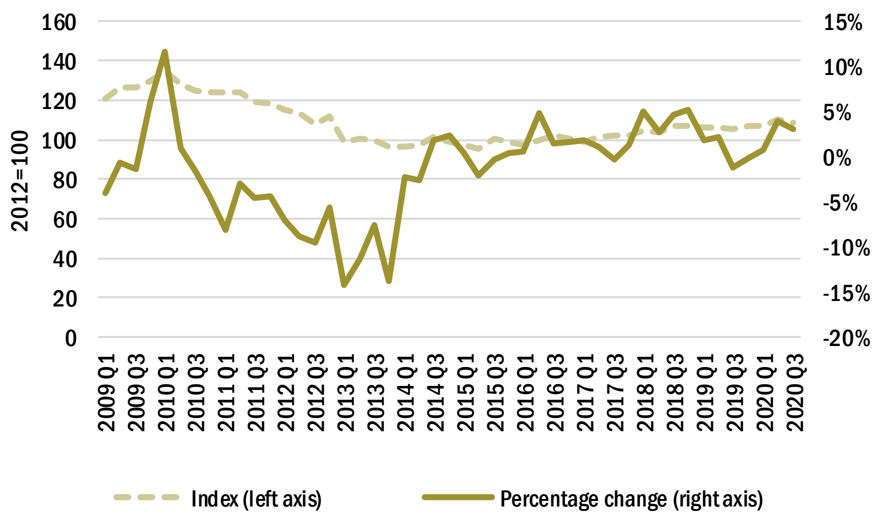


Decrease in the unemployment rate in Q3 2020 to 16.2%, from 16.4% in Q2 2019. Lower by 0.5 percentage points compared to Q2 2020 (16.7%)

Sources: ELSTAT - Labour Force Survey, Eurostat

Figure 3.12

Seasonally adjusted wage cost index and percentage point change



Increase in the seasonally adjusted wage cost indicator by 3.0% year on year in Q3 2020

In terms of the employment trend at the level of key sectors, there is a decrease in two of them and an increase in one. The largest reduction in absolute terms in the third quarter of 2020, by 44.9k people, was recorded in the Primary sector where the number of employees fell from 447.8k to 402.9k (-10.0%). In the Secondary sector, employment decreased by 4.4% or by 27.2k people, to 584.5k. Finally, in the Tertiary sector, employment increased by 0.9% or by 27.1k people, reaching 2,939.5k employees in the third quarter of 2020.

In the branches of economic activity, employment decreased in 12, increased in 8 and in one branch the employment did not change. The branches with the largest decrease in employment were the Primary sector and Tourism. In the first, employment fell by 44.9k people (-10.0%, to 402.9k) and in the second by 33.2k people (-7.7%, to 396.0k) . In Manufacturing, the decline was 12.0k people (or -3.1%, at 33.1k). By contrast, the largest increase in employment in the third quarter of 2020 was recorded in Human Health and Social Welfare Activities, where it strengthened by 29.6k people (+11.9%, to 278.0k). This is followed by the rise of employment in the most populous sector of the Greek economy, Wholesale-Retail Trade, where it increased by 21.3k people in the third quarter of 2020, to reach 721.2k. The increase of employment in Public Administration by 17.4k employees was also significant, from 340.6k to 358.0k. Finally, in Real Estate Management employment was unchanged (5.1k people) .

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
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	9,372.9	52.7	4,054.4	82.2	881.8	17.9
2012	9,344.8	52.3	3,695.0	75.6	1,195.1	24.4
2013	9,309.5	52.1	3,513.2	72.5	1,330.4	27.5
2014	9,282.1	51.8	3,536.3	73.5	1,274.4	26.5
2015	9,246.6	52.0	3,610.7	75.1	1,197.0	24.9
2016	9,212.8	52.1	3,673.6	76.5	1,130.9	23.5
Q1 2017	9,190.7	51.9	3,659.3	76.7	1,114.7	23.3
Q2 2017	9,181.4	52.4	3,791.4	78.9	1,016.6	21.1
Q3 2017	9,172.3	52.3	3,823.7	79.8	970.1	20.2
Q4 2017	9,163.3	51.8	3,736.3	78.8	1,006.8	21.2
2017	9,176.9	52.1	3,752.7	78.6	1,027.1	21.5
Q1 2018	9,154.0	51.6	3,723.8	78.8	1,001.2	21.2
Q2 2018	9,144.7	52.1	3,860.4	81.0	906.0	19.0
Q3 2018	9,135.5	52.2	3,894.2	81.7	871.8	18.3
Q4 2018	9,126.4	51.7	3,833.7	81.3	881.1	18.7
2018	9,140.2	51.9	3,828.0	80.7	915.0	19.3
Q1 2019	9,117.3	51.8	3,814.0	80.8	907.1	19.2
Q2 2019	9,108.0	52.3	3,956.4	83.1	805.0	16.9
Q3 2019	9,089.9	52.2	3,971.9	83.6	777.0	16.4
Q4 2019	9,089.9	51.6	3,901.8	83.2	786.4	16.8
2019	9,103.5	52.0	3,911.0	82.7	818.9	17.3
Q1 2020	9,083.8	50.6	3,852.6	83.8	745.1	16.2
Q2 2020	9,080.5	50.8	3,844.0	83.3	768.3	16.7
Q3 2020	9,077.3	51.6	3,926.8	83.8	756.4	16.2

Source: ELSTAT, Labour Force Survey

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

- Primary sector (-44.9k employees),
- Tourism (-33.2k employees), in line with the reduction of international travel receipts by 72.6% or by €7,767.0 billion compared to the same quarter of 2019, and
- Manufacturing (-12.0k employees), in line with the reduction of the seasonally adjusted industrial production index by 1.9% (from 108.1 to 106.0 points),

despite the rise in employment in:

- Human health and social welfare activities (+29.6k employees),
- Wholesale-Retail Trade (+21.3k employees), despite the decrease of the seasonally adjusted turnover ratios in Wholesale Trade (-10.0%, from 106.6 to 96.0 points), as well as the seasonally adjusted trade volume index in Wholesale Trade (-2.2%, from 104.5 to 102.2 points), and
- in Public Administration (+17.4k people).

As for the trend of the seasonally adjusted wage cost index for the Greek economy as a whole, it showed an increase for the third consecutive quarter in the third quarter of 2020 and stood at 108.4 points from 105.2 points in the third quarter of 2019 (+3.0%).

Medium-term outlook

Following the new outbreak of the COVID-19 pandemic since the beginning of last autumn, in Greece, but also internationally, with an increase in the number of cases and victims to levels much higher than its first wave in March-April, suspension of activities and restrictive measures on the movement of citizens, inside and outside the country were imposed domestically for the second time in early November. This development is considered the most decisive driver of employment and thus unemployment in the final quarter of last year. In 2021, the trend in employment will depend, as last year, mainly on the development of the health crisis, domestically and internationally. Other factors that will affect it are the progress in the implementation of NextGenerationEU, the pace of recovery in the Eurozone and the use of liquidity available to banks by the extraordinary, "unconventional" mechanisms of the ECB implemented due to the pandemic.

In particular, the strong negative effects of the suspension of operations in March-April last year on the employment of many sectors, with a significant share in domestic employment, such as Tourism, Food Services, Arts-Entertainment and Retail Trade, are estimated to have been repeated due to the second lockdown in the final quarter of 2020 as well. Also as in the second quarter of last year, these negative effects were mitigated by measures to support existing employment (special purpose compensation for employees on work suspension, social security contributions) and business support in general (e.g. 4th repayable advance plan).

The collection of electronic-telephone orders from the entrance of the stores during the Christmas holidays, for about twenty days (13/12/2020-3/1/2021), is considered to have had relatively little impact on the decline in employment in Wholesale-Retail Trade.

However, following the prolonged negative pressures on companies from the pandemic, the negative effects may have expanded, due to the "lockdown", to more companies in the above affected sectors, as well as to other sectors (e.g. Education). For this reason, job protection measures are considered to have contributed less to job retention than during the first "lockdown". In conditions of suspension of operation in many sectors, it is considered that the effectiveness of the current programme, to cover social security contributions of 100k new jobs, was narrow.

That said, the above developments created, as last spring, the need to provide specific services (land courier, creation of ICT applications). These additional needs are considered to have been largely met by job creation during the initial lockdown. In addition, the decline in the workforce, from workers who have lost their jobs and are discouraged by the current conditions, may have escalated again in October-December, having a deterrent effect on the increase in the number of unemployed.

This year, a steady, albeit slight, improvement in the epidemiological conditions from the first quarter, without any new strong outbreaks of COVID-19, with the aid of the vaccination, as assumed in the IOBE baseline macroeconomic forecast scenario, will allow the reoperation during the current half of the year of many companies affected since last November. Crucial to employment dynamics will be the duration of the summer tourist season, which under these health conditions will not differ compared to before the epidemiological crisis. If a faster weakening of COVID-19 is achieved, according to the optimistic scenario of IOBE, domestic tourism will be possible relatively early from the second quarter, as well as in autumn, with corresponding, stimulating effects on employment. But if health conditions do not change from current levels, it is quite possible that the viability of many companies will be threatened, endangering their jobs (unfavourable scenario).

The public sector will have a stimulating effect on domestic employment this year, both directly and indirectly. In the first case, the impact will come from the support programme for the creation of 100k jobs mentioned above, the recruitments in the health system and the employment programmes of OAED. Especially in terms of OAED actions, in addition to the current programme of public-benefit work in local government, aimed at 36,500 beneficiaries, the recruitments for which were completed in December and will stimulate employment throughout the first half of 2021, seven programmes for a total of 38,600 subsidised new jobs are already being implemented. In addition, two more will be announced soon: the first, lasting six months, will involve 5,000 unemployed gaining work experience, and the second for 2,500 unemployed, with the aim of developing new entrepreneurship.

In the second case, the impact will come through the contribution of the public sector to the escalation of investment activity, with the increase of PIP grants and the resources from NextGenerationEU. The positive effects of NGEU this year will depend on when the flow of resources in the Greek economy will begin and the rate of their absorption. The basic and favourable macroeconomic scenarios envisage the achievement of the 2021 Budget target, under the assumption of inflows of €5.5 billion from the NGEU. However, it is possible that there will be delays in the start of flows and their rate will initially be low, e.g. for procedural reasons, with the result that the inflow of funds will be less than the target and the positive effects will be milder. More broadly, investment will benefit mainly from the continued expansion of credit from the financial sector. The stimulating effects of investments will be reflected mainly in employment in Construction. However, building activity from the development of Airbnb and the Tourism sector is not expected to continue for this sector, as in previous years.

Job creation this year will be supported by the strengthening of exports of specific manufacturing sectors last year. The growth of exports of goods is expected to continue and escalate under the baseline scenario, from the recovery in the Eurozone, which according to the latest forecasts will move in the region of 4.2%, but also the revival of the volume of world trade in general, especially due to the rapid acceleration of China's economy. Obviously, a faster-than-expected improvement in international epidemiological conditions will accelerate economic recovery and international trade (favourable scenario).

Taking into account the above effects on employment, it is estimated that the unemployment rate last year was in the region of 16.5%. In relation to the three scenarios of macroeconomic developments in 2021, the unemployment rate is expected to fall in the region of 15.5%-16.0% in the basic scenario, to 15.0% in the favourable scenario, while in the unfavourable scenario it will increase significantly (18.0-18.5%).

According to the latest IOBE Business and Consumer Surveys, in October-December 2020 in relation to the third quarter of last year, there is an improvement in the expectations for the short-term employment prospects in all sectors except Retail trade. Compared to the same period of 2019, there was a slight decline in Industry, more intense in Services, while in Construction there was a significant improvement, with Retail trade remaining unchanged. In more detail:

In Industry, the average balance of -8 points of the previous quarter changed by 8 points in the fourth quarter of 2020 and thus reached a balance of 0 points. Compared to the previous year, the average quarterly index is lower by about 2 points. In the examined quarter, the percentage of industrial enterprises that predict a drop in their employment in the near future is at 12% (from 20%), while the percentage of those who expect an increase in the number of their jobs remains at 12%. However, the vast majority of companies in the sector (77% to 68%) anticipate stability in terms of employment.

In Construction, the relevant expectations indicate a sharp improvement in the low employment balance of the sector, which stood at -13 points (from -30 points), at a much higher level compared to the same period in 2019 (-29 points). In the quarter under review, 29% (from 41%) of the companies in the sector predict job losses, while the percentage of respondents who expect an increase in employment reached 16% (from 11%). At the level of sub-sectors, the significant improvement of the relevant index in Public Works (-18 from -43 points) is accompanied by a corresponding strengthening of the index in Private Constructions (-11 from -23 points).

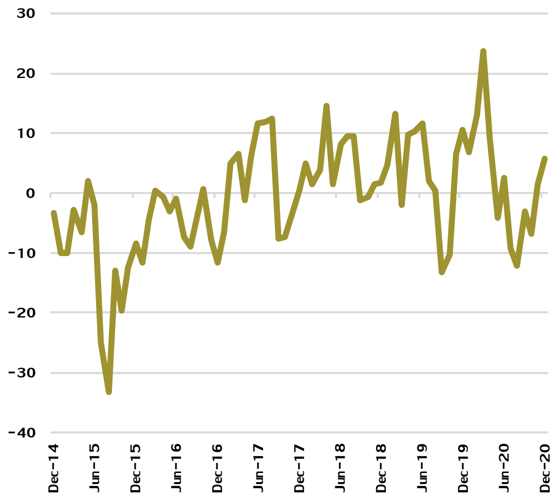
The index of expectations for employment in Retail Trade fell slightly in the final quarter of last year compared to the previous quarter, to +23 points (from +31), a performance at the same levels compared to the same period of the previous year. Only 3% of the companies in the sector expect job cuts, while 26% (from 35%) predict employment growth, with those expecting stability moving to 70% (from 61%) of the total. In the individual examined sectors there is a significant increase of the relevant balance in Department Stores, milder in the Motor Vehicles and Household Equipment, while a significant decrease is observed in the other examined sectors.

In Services, the relevant expectations in the examined quarter indicate a slight improvement in relation to the previous quarter, in contrast to the corresponding period of the previous year. Thus, the relative balance of -2 points of the third quarter of 2020, strengthened by 2 points in the examined quarter and reached a balance of zero points, while in relation to the corresponding period of 2019 it decreased by 14 points. Of the companies in the sector, 15% (from 17% in the previous quarter) expect a decrease in employment, with the percentage of those expecting an increase reaching 15% (from 14% in the previous quarter). At sectoral level, the trend is slightly upward in Financial Intermediaries and in the Various Business Activities, while in the other examined sectors it is negative.

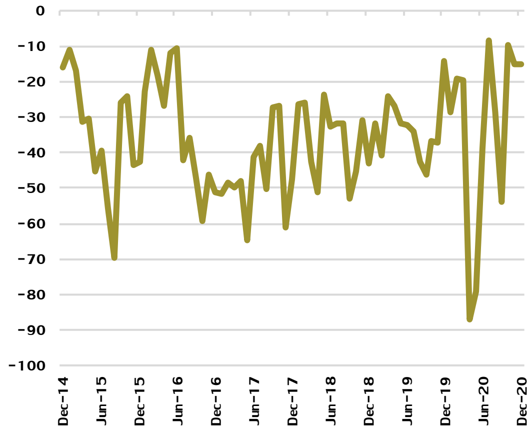
Figure 3.13

Employment expectations (difference between positive and negative responses)

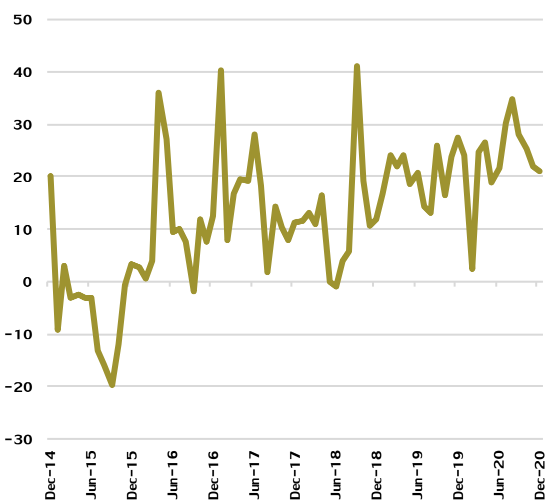
Industry



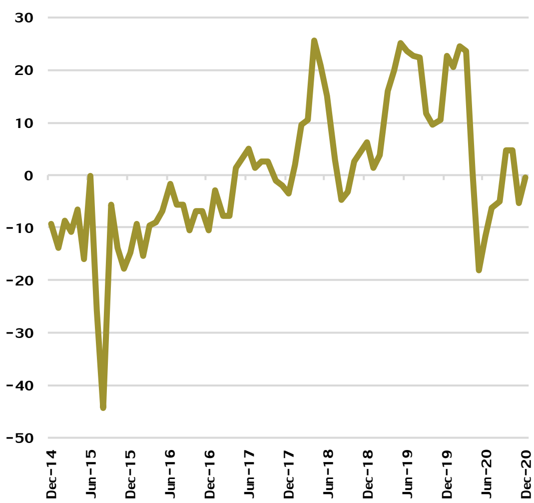
Construction



Retail Trade



Services



Source: IOBE

In the quarter October-December 2020, compared to the previous quarter, there was an improvement in short-term employment expectations in all sectors except Retail trade.

3.5 Consumer and Producer Prices

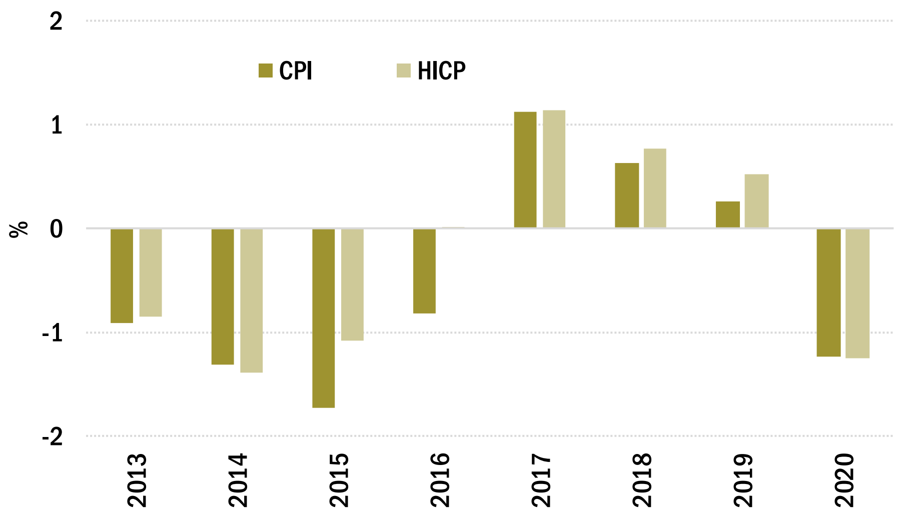
- Deflation 1.2% in 2020, from inflation of 0.3% in 2019
- Negative impact on prices from indirect taxes and energy goods
- Rate of change in CPI with fixed taxes and without energy at 0.6% in 2020, from 1.3% in 2019. Enhanced positive effect of domestic demand on prices.
- In 2021, the CPI is expected to strengthen by 0.6-1.0% in the event of a significant de-escalation of the pandemic from the first quarter, or by 0.2-0.5% in the event of a gradual relaxation of measures by the second quarter and without a new strong flare-up. With health developments similar to last year, a deflation is forecast in the region of 0.5-0.7%.

Recent developments

In 2020, there was a reversal of the price trend compared to a year earlier, with the average rate of change of the domestic Consumer Price Index (CPI) in negative territory, for the first time after three consecutive years of rise. Specifically, the CPI recorded a decline last year compared to 2019 by 1.2%, from an increase of 0.3% in 2019 compared to 2018. It should be noted that the last IOBE forecast for the change in the CPI last year ranged between 1.2%-1.4%. The Harmonised Index of Consumer Prices (HICP) also declined, after four years of increase, recording a weakening of 1.3% in 2020, from an increase of 0.5% the year before last. In December 2020, the domestic CPI weakened by 2.3% compared to the same month of 2019, when it had recorded a slight increase of 0.8%, a decline that was the strongest in six years.

Figure 3.14

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



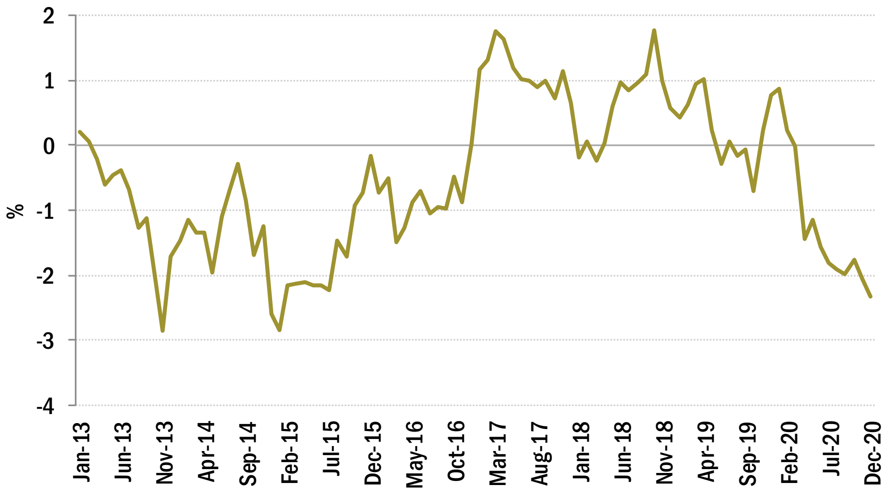
Average CPI fall by 1.2% year on year in 2020, from 0.3% inflation in 2019

Source: ELSTAT, processing IOBE

Figure 3.15

CPI in Greece (annual percentage change per month)

Domestic CPI fell sharply in December 2020 (-2.3%), compared with an inflation of 0.8% in the corresponding month of 2019



Source: ELSTAT, processing IOBE

Regarding the effects of HICP components on its trend, its weakening is due to energy goods and indirect taxes, as the change in the index with fixed taxes and without energy goods was positive, by 0.6%, much higher than the overall change in the HICP. Therefore, domestic demand had a positive effect on price changes. In contrast, the impact of taxation on prices was negative in the previous year, by 1.1 percentage points, from 0.8 percentage points in 2019.

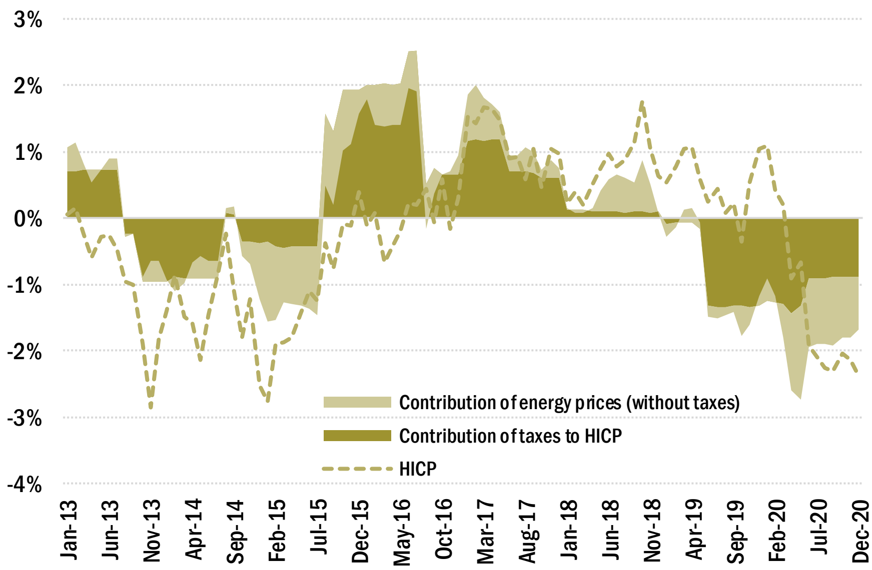
Regarding the developments in the prices of energy goods and their impact on the HICP, the average international oil price fell sharply last year compared to 2019. Specifically, the average price of Brent oil stood at $42/barrel in 2020, from $64.3/barrel a year earlier, weakening by 34.7%[20]. The marginal strengthening of the average exchange rate of the euro against the dollar last year compared to the previous year, by 1.3%, to 1.14 against 1.12, did not have a significant effect on the change in the price of oil in euros, with the average price at €36.8 / barrel, 36% lower than in 2019. The weakening of the oil price, which is a key component of energy costs, explains the negative average effect of energy prices on the rate of change of prices domestically in 2020, by 0.8% (from a marginally negative effect of 0.1% in 2019).

The decline in the price level in Greece based on the HICP last year, in contrast to its average in the Eurozone, ranks the country last among the Eurozone countries in terms of the rate of change of the HICP. The average rate of change of the HICP in the Eurozone was slightly positive (0.3%). Deflation in Cyprus (-1.1%), Estonia (-0.6%) and Ireland (-0.5%) was slightly lower than in Greece. Domestic demand seems to have been the main factor in the rise in prices in the Eurozone, as the price index with fixed taxes and without energy goods increased by 1.3% compared to 2019, when it was 1.0%.

Figure 3.16

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

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



Significant negative contribution of taxes on price change in 2020, at 1.2 p.p., compared with a milder effect a year earlier (-0.8 p.p.)

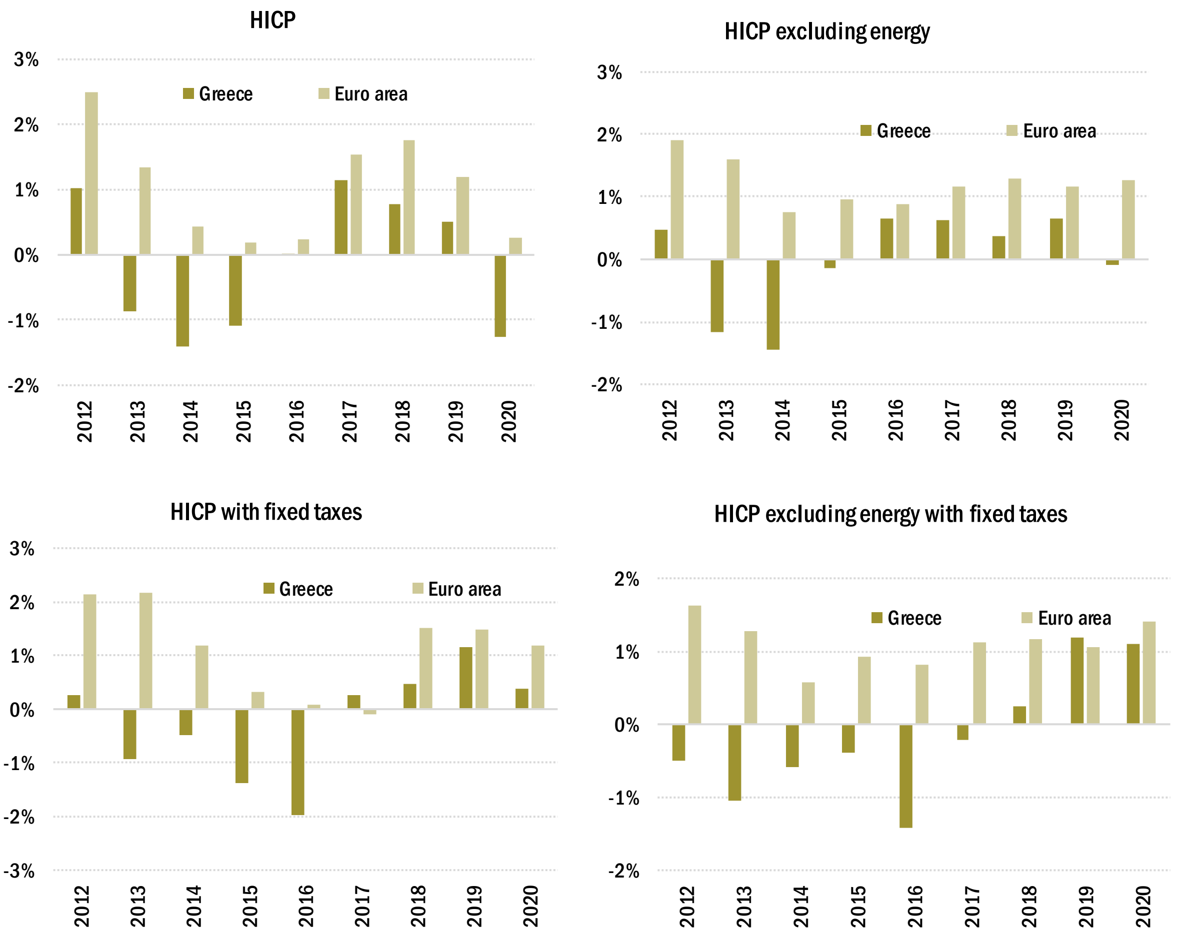
Source: Eurostat, processing IOBE

Regarding the trends in the categories of products and services included in the CPI, Food recorded the highest increase in 2020, i.e. by 1.4%, after a marginal decline by 0.1% the year before last. Smaller positive changes were presented by the categories Clothing - Footwear and Education, by 0.9% and 0.4% respectively, from a decline of 0.6% and 0.4% a year earlier. The increase in Health and Alcoholic Beverages - Tobacco was marginal, by 0.2% and 0.1% respectively, compared to an increase of 1.4% and an increase of 0.5% in 2019. By contrast, the largest decline in prices in the previous year occurred in Transport, by 5.3%, under the influence of falling oil prices and restrictions on transport, instead of rising prices by 1.4% in 2019, but also in Housing, by 3.8%, a category which is also affected by energy goods, after a marginal decline of 0.1%. Price weakening trends prevailed in Communications, by 1.8%, from a significant increase of 3.6% in 2019. A milder price decline occurred in Durables and Other Goods, by 1.3% in both, following a decrease of 1.7% and 0.7% respectively in 2019. Finally, prices in the categories of Recreation and Hotels fell by 1.1% and 0.2%, respectively, from changes of -1.7% and 0.5% last year, a development which in the second category is related with the reduction of indirect taxation in the tourism package from June 2020.

As for the price trends on the production side, in the period January - November 2020, the Producer Price Index (PPI), in the domestic and foreign market as a whole, weakened by 7.2% compared to its level in the same period a year earlier (Figure 3.18). In greater detail, the PPI without energy moved marginally down in the first 11 months of 2020, by 0.2 %, compared with a marginal rise of 0.1% in the corresponding period of 2019. Regarding the trends in the prices of industrial products, the largest increase was recorded by Electricity - natural gas, by 4.2%, after a similar increase of 4.5% in the corresponding period of 2019, followed closely by Wood products, with 3.1%, against a milder increase by 0.8% the year before last. By contrast, the trend in producer prices in coke and refined petroleum products was sharply negative, under the influence of the strong decline in oil prices, compared to a clearly milder decline in 2019 (-34.1% from -2.6%). Milder but significant was the decline in Mining-Quarrying, by 10.2%, following a marginal weakening in 2019 (-0.9%). Decline in producer prices was recorded in Computers, by 3.7%, after a marginal increase of 0.4% in the first eleven months of 2019. Producer prices also decreased in Metal Ores, by 2.8%, and Electrical Equipment (-2.2%), compared to a decrease of 1.0% and an increase of 3.9% respectively in 2019.

Figure 3.17

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



Domestic price growth in 2020, solely due to a strengthening of demand, which increased by 0.6 p.p., from a stronger effect of 1.3 p.p. in 2019

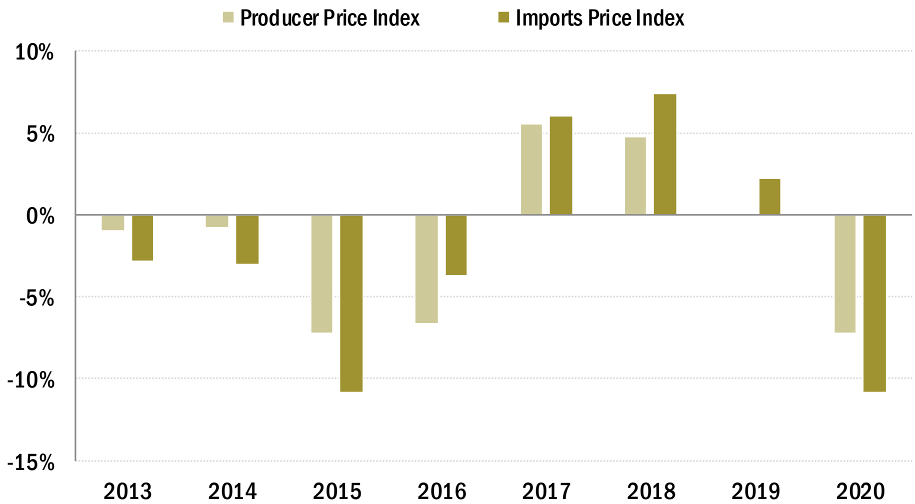
Source: Eurostat, processing IOBE

Regarding the evolution of the Import Price Index (IPI) in January - November 2020, it showed a significant weakening of 10.8%, compared to an increase of 2.3% a year earlier. Strong, but milder than in Greece, was the decline of the same index at the level of the Eurozone (-5.4%), compared to a milder decline in the corresponding period of 2019. The strong decline in import prices ranks Greece first in terms of their reduction among ten Eurozone countries for which data are available for this period, with Lithuania coming next (-7.3%). It should be noted that in all Eurozone countries for which data are available, import prices are falling in the period under review compared to a year earlier, a trend which largely reflects the deterrent effect of the health crisis on international trade, mainly in petroleum products.

Among the sub-categories of imported products, the largest decrease in the first eleven months of 2020 was recorded in the prices of Refined Petroleum Products, by 33.9%, compared to an increase of 2.1% in the corresponding period of 2019. Much lower was the reduction in Basic Metals, by 4.8%, from a milder weakening of 1.8% in the same period of 2019. The prices of Paper Products weakened by 2.8%, and Tobacco Products, by 2.5%, from an increase of 0.4% and 0.8%, respectively, in January-November 2019. By contrast, a slight increase in prices was recorded in January - November last year in Other manufacturing activities, by 1.5%, and in Other mining and quarrying products, by 1.4%, followed by an increase of 0.6% and 1.4% respectively in 2019.

Figure 3.18

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



Sharp drop in import prices (-10.8%) in January-November, mainly due to the negative impact of prices of energy goods. Milder decline in producer prices (-7.2%).

Source: Eurostat, processing IOBE

Medium-term outlook

Examining the trends in the key components of the domestic Consumer Price Index in 2020, it emerged that its decline is a result of the negative impact of energy goods, as well as indirect taxes. Despite the unexpected, unfavourable health developments, which greatly escalated household uncertainty, the effect of demand was positive for the third year. The evolution of the health crisis in the new year will be the most important factor in prices, through its effects on domestic demand and energy goods.

In detail, on the expected impact of indirect taxes on the formation of the CPI in 2021, extending the reduction for specific goods and services until 30 April 2021 (VAT reduction on non-alcoholic beverages, tickets for shows, food services, etc.) will maintain their deflationary effect on prices over the same period. For the rest of this year, unless these measures are extended, the price trend in the product and service categories will be reversed, as they were imposed from June last year. The reduction of direct taxation, i.e. the suspension of the solidarity contribution levy and the reduction of social security contributions, is expected to have a positive effect on GPI in 2021, through the increase of disposable income and thus consumer demand.

With regard to the expected developments in energy costs, mainly related to the trend in the price of oil, OPEC+ (including Russia), under the agreement to limit daily oil production since last April, applied a reduction of EUR 7.7 million barrels in August-December 2020, less than that until July (-9.8 million barrels)[21]. Following these developments, the international price of Brent crude oil in December reached \$49.9 / barrel from \$42.7 / barrel in November and \$40.2 / barrel in October. From these fluctuations in the price of oil it appears that the restriction of its supply by OPEC+ resulted in a partial halt to the fall in its price, which following the COVID-19 pandemic fell from \$55.6 last February to \$18.4 the following April. The impact of the health crisis on energy demand is reflected in the contraction of world oil consumption by 9.0 million barrels or about 9% per day in 2020, compared to 2019[22].

At the beginning of December 2020, OPEC+ members decided to further reduce production cuts from January 2021, adding 500,000 barrels of oil per day to the global production[23]. The revised oil production plan was made to protect the unity of the organisation, as there are strong disagreements between Saudi Arabia and the United Arab Emirates. However, at a new OPEC+ meeting in January, Saudi Arabia and the majority of oil producing[24] countries opposed to the increase in oil production in February, with Russia on the other hand sticking to last December's agreement. Under these developments, the daily oil production for most member countries will be unchanged in February and March this year compared to the initial agreement of April 2020, while Saudi Arabia, for fear of a possible collapse in demand due to lockdown application in countries with the highest share in consumption, will proceed with a wider cut of its production by 1 million barrels per day for both February and March. Russia and Kazakhstan, by contrast, will increase production by 500,000 barrels a day in February and March.

On the oil demand side, the significant uncertainty over economic developments due to the COVID-19 pandemic, which was the main cause of the fall in the international oil price in the previous year, continues, slightly weakened, at least in the first quarter of 2021. Uncertainty is expected to be exacerbated by the fact that population vaccination has begun in many countries around the world since the end of last December and is accelerating, creating a prospect of overcoming the health crisis and allowing the phasing out of public health protection measures (suspension of economic activity, restrictions on passenger travel, within countries and across borders, in tourism, etc.) and the resurgence of demand. Nevertheless, significant challenges remain in the fight against the pandemic, such as the possible effects of virus mutations, the effectiveness of vaccines in ensuring immunity, etc.

The chances of a recovery in global demand in 2021 are also evident in recent macroeconomic forecasts. According to OECD macroeconomic forecasts[25], for 2021 a rise in global GDP is expected by about 4.2% in 2021, which will offset the estimated decline for 2020 (-4.2%). In addition, global GDP is projected to reach pre-crisis levels by the end of this year, largely due to China's strong recovery. In other economies, various trends are expected, as there is a strong variation in the extent and intensity of the effects of the pandemic, which is associated with various factors (effectiveness of protection measures against COVID-19, evolution of vaccinations, but also structural features of each economy). Financial support measures, the start of vaccinations, and the completion of the vaccination

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

[22] World oil consumption in 2019 reached almost 100 million barrels per day, while last year it reached 92.2 million barrels per day.

[23] The original plan was to cut an additional 2 million barrels per day from the beginning of January 2021.

[24] Among them Mexico, Algeria, Nigeria, Oman and the United Arab Emirates

[25] Macroeconomic Projections, ECB, Dec. 2020

programme by the end of 2021 significantly alleviate uncertainties and concerns about the evolution of the pandemic, creating a climate of confidence, with the global economy recovering in the next two years gradually.

Under the basic macroeconomic scenario of the current report, in which the pandemic will decline slightly from the first quarter, allowing the phasing out of the majority of protection measures by the middle of the second quarter, as well as in the favourable scenario, in which the de-escalation of the health crisis will be faster, and taking into account the most recent forecasts of international organisations[26], the average price of oil in 2021 is projected to be $51/barrel from $42/barrel in 2020, a 20% increase. World oil consumption is expected to increase by an average of 5.6 million barrels per day in 2021, reaching 98 million barrels. Indicatively in terms of the effect of such a change in prices, the same amount of support as estimated for this year was recorded in 2017 and the effect of energy goods on GCPI domestically that year was positive, at about 0.4 percentage points of the index.

In the event of a new severe outbreak of the pandemic internationally, e.g. in spring or autumn (unfavourable macroeconomic scenario of the current report), which will lead to the reinstatement of extensive, strong public health measures, domestically and across countries, the recovery in fuel demand will be much milder, as many companies have adapted their production to the new conditions. As a result, the average price in 2021 will be $46 / barrel, recording an annual increase of about 9%. Indicatively in terms of the effect on prices, a similar strengthening of the oil price had a positive effect on the CPI, by approximately 0.2 percentage points.

The euro/dollar exchange rate on average this year is expected to stand at 1.18, 3.5% higher than in 2020[27]. A key role this year for the economic developments of the two economies will be the possible adoption of new support measures, both in the US and the EU, as well as the development of vaccinations. Therefore, under the baseline and favourable scenario, the average price of oil in euros this year is expected to reach €43.2 / barrel, marking an increase of 17% compared to last year, a development which implies inflationary pressures from energy costs. In the event of a new strong outbreak of the pandemic internationally, the average price in 2021 will be €39 / barrel, recording an annual increase of about 6%.

Clearly, the dynamics of the current health crisis domestically, in particular its intensity and duration, will be decisive for the trend in domestic demand and its effect on prices. Unless there is a new strong outbreak of COVID-19 during the year in Greece, without excluding temporary escalations, with a gradual easing of public health protection measures from the first quarter of 2021 and escalation within the next quarter, household consumption is expected to increase from 2.5% to 3.5% in 2021 compared to the previous year (baseline scenario of this report). The increase in consumption will come from the resurgence of activity and employment in the sectors that have been hit hardest by the outbreak of the pandemic, such as Food Services, Arts-Entertainment and Retail Trade, with Tourism still in lockdown throughout the first quarter and in a part of the next. In this case, taking into account the expected trends in demand and other key components of the domestic Consumer Price Index, as well as the deflation in 2020 (1.2%), it is predicted that the Consumer Price Index will strengthen in 2021 by 0.2% to 0.5% compared to 2020, due to the strengthening of demand and prices of energy products.

[26] Short-Term Energy Outlook, US Energy Information Administration, January 2021

[27] Macroeconomic projections, EKT, December 2020

In case of significant de-escalation of the COVID-19 pandemic in Greece from the first quarter, simultaneously with the rapid vaccination and the mild, "non-aggressive" mutations of the virus, developments that will allow the removal of the vast majority of domestic protection measures early in the second quarter, private consumption is expected to increase by 4.0% to 4.5% this year compared to 2020. The recovery of activity and employment, mainly from sectors that suffered the most during the pandemic outbreaks, with Tourism starting early in the second quarter, is expected to significantly boost disposable income and consumption. Under this scenario of macroeconomic developments (favourable) for the current year, the Consumer Price Index is expected to strengthen by 0.6% to 1.0% compared to 2020, due to the significant stimulus of demand and inflationary pressures from energy goods.

Finally, in the case of a new, severe outbreak of COVID-19, e.g. in the spring or autumn, and with similar health developments worldwide, private consumption will shrink by 1.0% to 1.5% in 2021 compared to 2020, despite the re-implementation of business and household support measures at the same time with public health protection measures, which will mitigate the economic impact of the latter. As a result of these trends in the pandemic, the duration of the tourist season will be similar to that in 2020. However, vaccinating a significant part of the population by summer will stimulate international tourism in these unfavourable travel conditions. Still, the rise in oil prices will be milder under these health conditions. In case of resurgence of the health crisis, the Consumer Price Index is projected to decrease in the range of 0.5 -0.7%, higher than in the previous year due to the positive effect on energy prices.

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

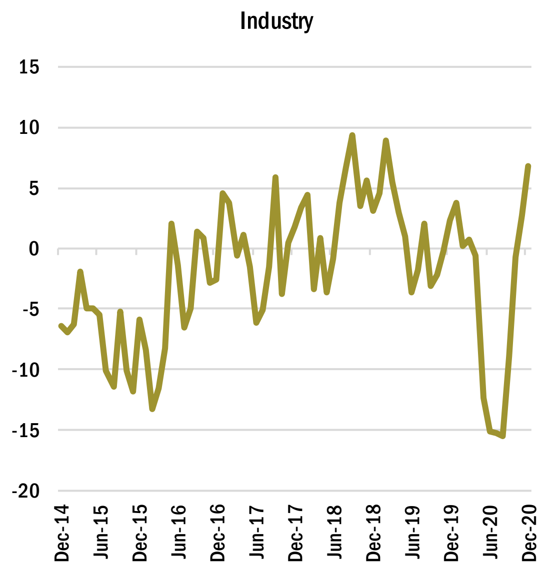
The trends in the expectations of price changes are mainly upward in the fourth quarter of 2020 compared to the third quarter, with the relative balance increasing slightly in Retail Trade and Construction, significantly in Industry, while falling only in Services. Year on year, expectations for price developments recorded a negative change in all sectors, with a stronger one in Construction and Services. In greater detail:

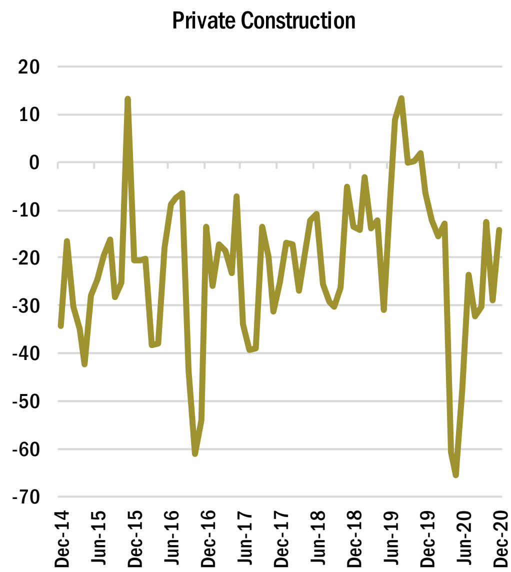
In Industry, price expectations for the fourth quarter of the year were slightly higher than in the previous quarter. Specifically, the index strengthened by 16 points in the quarter under review and stood at +3 points, while it moved 3 points higher than in the corresponding quarter of 2019. Of the companies in the sector, 6% expect a fall in prices in the short term, while the percentage of those who predict their rise is around 9% (from 2%), with the remaining 85% expecting stability.

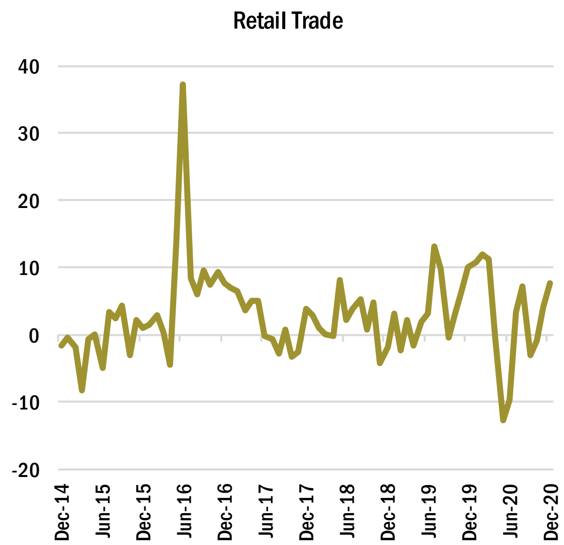
In Retail Trade, the balance of +3 points in the prices of companies in the sector during the previous quarter increased by one point, while at the same time it was 3 points lower compared to the corresponding period of 2019. Of the companies in the sector, 4% (from 3%) expect a fall in prices in the short term, while the percentage of those who predict their rise increased marginally to 7% (from 6%), with the remaining 89% (from 91%) expecting stability. In the branches of Retail Trade, price expectations declined in the fourth quarter of 2020 compared to the previous quarter in all examined sectors, except Food-Beverages-Tobacco.

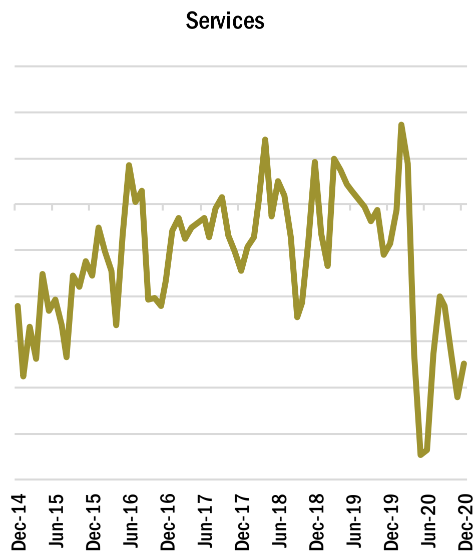
Figure 3.19

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









Source: IOBE

The quarter-on-quarter trends in price change expectations were mainly positive in the fourth quarter of 2020, with the balance increasing slightly in Retail Trade and Construction, significantly in industry, decreasing in Services.

The average index of the price change expectations in Services in the examined quarter fell slightly compared to the previous quarter and stood at -18 (from -13) points, while moving at a much lower level compared to the corresponding average performance of Q4 2019 (-4 points). In the current quarter, 19% (from 17%) of companies in the sector expect price reductions and only 1% an increase. The relevant index declined sharply in most of the examined branches of Services, with the exception of Information Services where it remained unchanged.

Finally, in Private Construction, the negative balance of -29 points of the previous quarter fell significantly, to -18 points, having at the same time decreased compared to the corresponding level of 2019 (-17 points). In addition, 18% (from 29%) of the companies in the sector expected a decline in industry prices, while the percentage of those expecting an increase remained unchanged, with 82% (from 71%) predicting price stability.

3.6 Balance of Payments

- Sharp rise in the current account deficit in the first 11 months of 2020, to €10.5 billion from €2.1 billion, with a double percentage drop in exports-receipts compared to imports-payments
- Strong deterioration in the surplus of the services account, only partially compensated from the improvement in other accounts

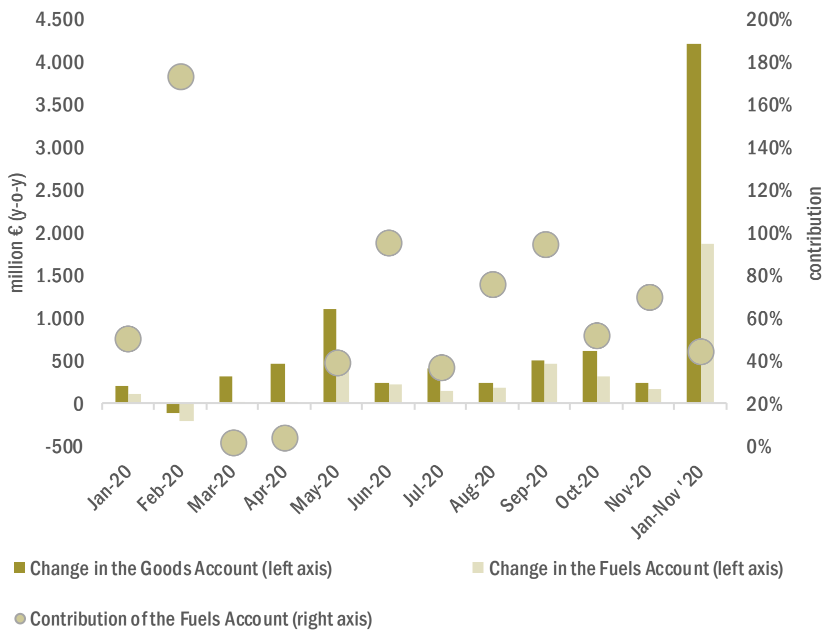
Current Account

In the first eleven months of 2020, the Current Account (CA) recorded a deficit of €10.5 billion, compared to a deficit of €2.1 billion in the same period of 2019. The deficit widened mainly due to the sharp decline in the surplus of Services, due to the reduction of tourist traffic, while the decrease was offset in part by improvement of the Goods and Primary Income accounts.

Figure 3.20

Change in the Goods and Fuels accounts, 2020

Significant contribution of the Fuels account to the decline of the Goods account deficit in January-November, at almost 45% (EUR 1.9 bn of EUR 4.2 bn).



Source: Bank of Greece, Data processing IOBE

In greater detail, the deficit of the Goods account fell to €17.0 billion, down €4.2 billion from the previous year, due to a more than double drop in imports against exports. Exports amounted to €26.1 billion, down by €3.6 billion, primarily from lower oil exports by €2.9 billion, while other goods fell by €708.9 million, returning to 2018 levels. Imports of goods fell to €43.1 billion (-€7.8 billion)[28], with fuel imports limited by €4.8 billion, and those of

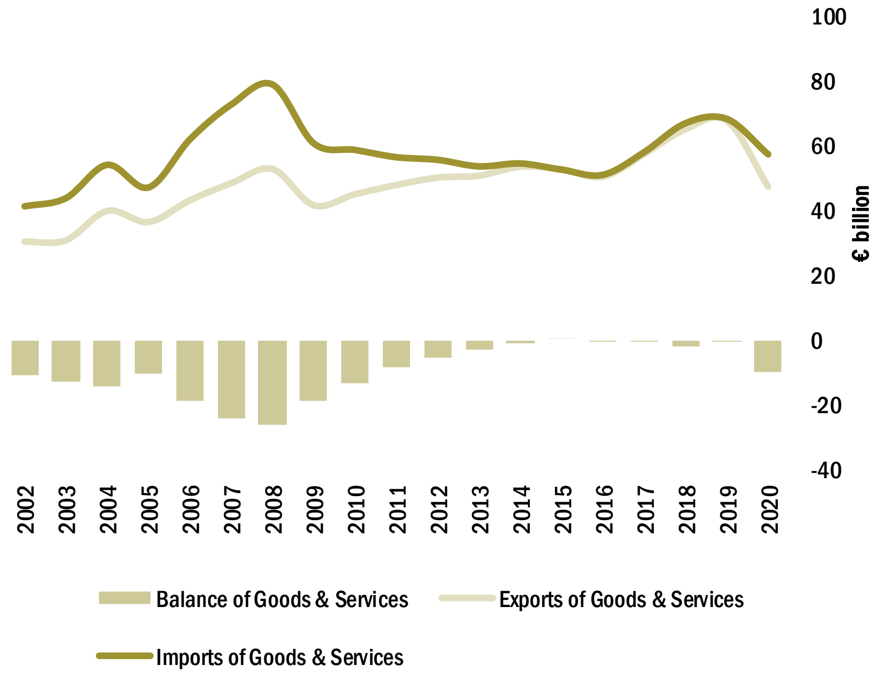
[28] The amounts in parentheses represent the absolute change from the corresponding period of the previous year, unless otherwise stated.

other goods by €2.8 billion. The deficit of the Goods account excluding fuel and ships amounted to €14.0 billion, reduced by €2.1 billion.

Specifically in fuels, the significant fall in both quantities and prices in 2020 has shrunk the value of exports and imports. Note that in January-November, international oil prices fell by 33% on average, falling sharply in April (-73.9%) and May (-53.1%), when global demand due to restraint of travel decreased rapidly. Strong restrictions on movements in and out of countries combined with falling international prices have severely reduced imports and exports of fuel, with a slightly higher intensity in imports volume, resulting in a negative Fuel account shrinking during 2020, and helping to improve the overall Goods account. Fuel exports fell by 34.8% between January and November, compared to a 36.4% fall in imports. The contraction of the Fuel account deficit (-€1.9 billion) caused almost half (44.7%) of the contraction of the overall Goods account (-€4.2 billion). This contribution was most pronounced in June, September and August, when almost the entire Goods account adjustment came from fuel.

Figure 3.21

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



Increase in the deficit of the goods and services account in January-November, to €9.6 billion, compared with €585.0 million in 2019

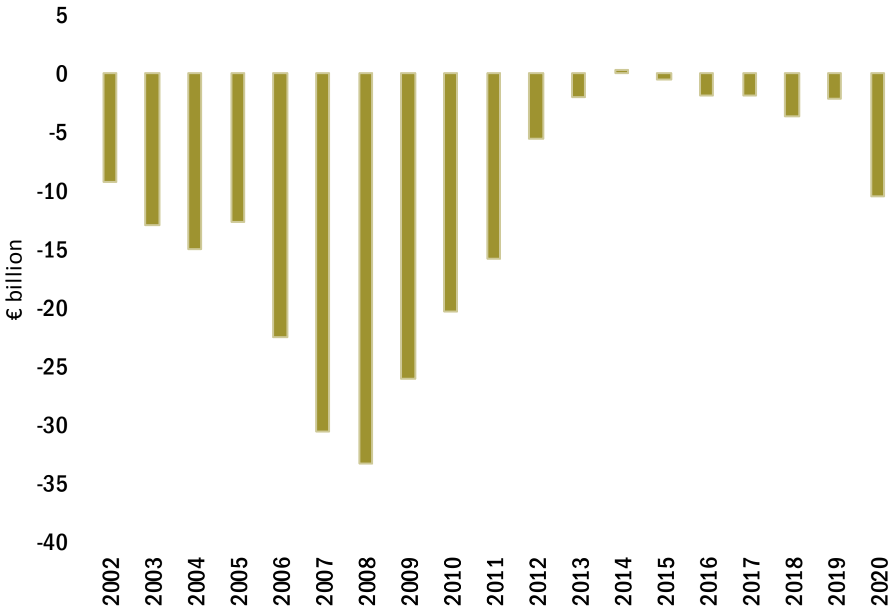
Source: Bank of Greece, Data processing IOBE

The surplus of the Services account amounted to €7.0 billion in the first eleven months, compared to €20.6 billion in 2019, due to the widespread decline in receipts. Specifically, total receipts from services amounted to €21.2 billion, compared to €37.9 billion the year before, while receipts from travel services in particular amounted to €4.2 billion, lower by 76.3% from 2019 , due to the effects of the pandemic. The trends in structural figures of tourist receipts are presented in detail in a special textbox (Box 3.2). Revenues from transport services decreased by 19.2%, to €18.8 billion, while revenues from other services decreased slightly, by 1.2%, to €4.1 billion. Total service payments amounted to €14.1 billion, reduced by €3.2 billion compared to 2019. Payments for travel services fell 70.4% to €733.4 million and payments for transport services fell 11.9% to €9.1 billion.

Figure 3.22

Current Account (January - November), 2002-2020

A strong deterioration in the current account deficit to €10.5 billion, compared with €2.2 billion in 2019



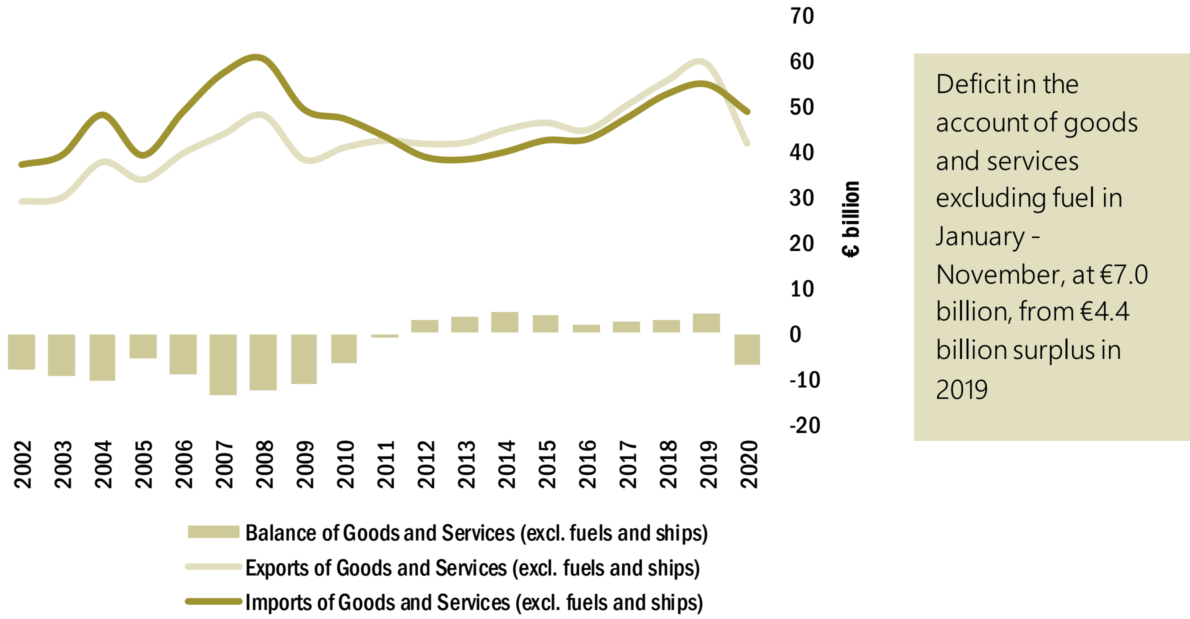
Source: Bank of Greece, Data processing IOBE

In the Primary Income account, the deficit shrank in the first eleven months of 2020 by €945.8 million compared to 2019, and amounted to €564.9 million. Receipts increased by 5.2% to €5.9 billion, while a decrease of 9.2% was recorded in payments to €6.5 billion. In detail, receipts from labour decreased by 18.2%, to €183.7 million, from investments remained almost stable, to €2.7 billion, while by contrast, from other primary income (subsidies and taxes on production) they expanded by 13.3%, to €3.0 billion. Payments from labour income decreased to €1.2 billion (-4.4%), from investments decreased by 11.2% to €4.8 billion, while other primary incomes increased by 2.5% and reached €395.0 million.

The Secondary Income account recorded a marginal surplus of €4.5 million, with receipts amounting to €3.2 billion, from €2.9 billion the year before last, and payments at €3.2 billion, compared to €3.0 billion in 2019.

Figure 3.23

Imports-Exports of Goods excluding fuel and ships (January - November), 2002-2020



Source: Bank of Greece, Data processing IOBE

Capital Account

The surplus of the Capital Account[29] strengthened to €2.1 billion., against €463.6 million in 2019, due to an increase in transfers from the EU to the General Government by €1.6 billion.

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 €8.3 billion, in January-November, against €1.7 billion in 2019.

Financial Account

The Financial account was in deficit in the first eleven months of 2020, by €7.6 billion, compared to €2.0 billion in 2019.

In the constituent accounts, the net receivables of residents from direct investment abroad increased by €588.9 million, while the net liabilities to non-residents (investments in Greece by non-residents) increased by €2.8 billion, even though no significant transactions took place in November.

In the portfolio investment category, the foreign claims of residents increased significantly, by €33.1 billion, as according to the BoG there was an increase in the holdings of residents in foreign bonds and treasury bills (€32.0 billion). Liabilities to non-residents decreased by

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

€10.9 billion in January-November, mainly due to the reduction of non-resident holdings in Greek government bonds and interest-bearing bills.

In the category of other investments, the claims of residents to non-residents increased by €2.7 billion. Liabilities increased by €53.2 billion, reflecting the increase in deposits and repos of non-residents in Greece by €41.7 billion (including the TARGET account). Also, according to the BoG, there was an increase in debt obligations of residents to non-residents by €8.5 billion. The large changes in the categories of portfolio investments and other investments are largely due to securitisations of loans of systemic credit institutions.

Finally, the country's reserve assets stood at €9.2 billion at the end of November 2020, compared to €7.3 billion in November 2019.

Box 3.2

Trends in Greece's international tourism revenue amid the COVID-19 pandemic

The tourism sector was expected to be particularly affected by the COVID-19 pandemic, mainly by the suspension of its businesses and passenger transport between countries, which for the vast majority of those outside the EU has continued since the onset of the health crisis. Following the first "wave" of bans in March-April last year, the tourist season began on 1 July with significant restrictions, as visitors from certain countries with high rate of COVID-19 cases were barred and some countries issued bans for their citizens to travel in Greece. Also, from time to time Greece applied specific quarantine periods for incoming travelers, while respectively other countries activated a quarantine period for travelers returning from Greece, which discouraged travel. In short, from 9 March 2020, a gradual suspension of international flights was imposed, and from 16 March, there was a 14-day restriction on anyone entering Greek territory. From 1 June, the suspension for the all-year hotels was lifted, on 15 June the flights to the airports "Eleftherios Venizelos" and "Macedonia" started gradually and from 1 July there was the possibility of entering Greece for all permanent residents of EU+ (Schengen Convention countries, with a few more countries), with the exception of direct flights from the United Kingdom. Major tourist countries of origin were left out of the list, such as the United States, Russia, Turkey and Brazil. Since then, the list has been updated according to the epidemiological data of the countries of origin. Also from the 1 July, the ports of Patras and Igoumenitsa receive ships from Italy. Cruises were allowed from 1 August, but the first one took place in late September. As for international land travel, only the Promachonas border station remained open.

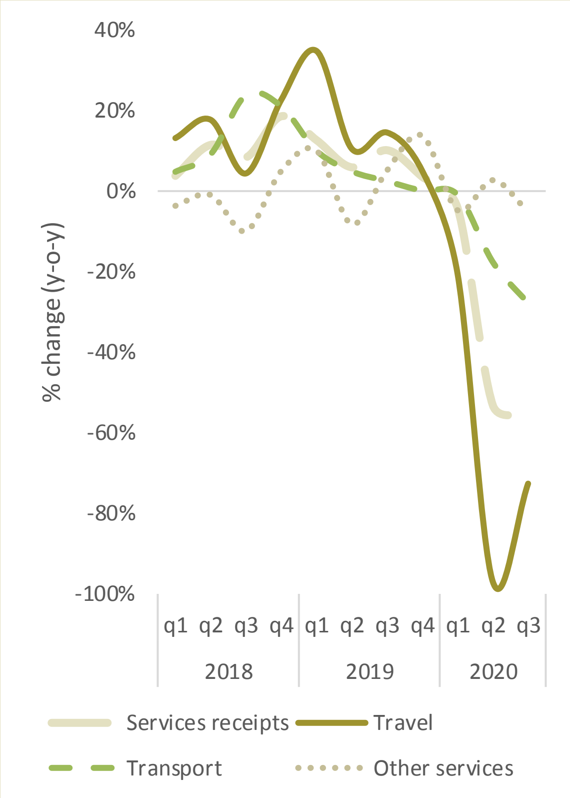
All the above restrictions affected the flows of travelers and the receipts from Tourism. In January-September 2020, the number of travelers entering the country reached 6.2 million, compared to 28.8 million in 2019, a decrease of 78.6%. That is, about 1/5 of the 2019 travelers visited Greece. Respectively strong was the decline in tourism revenues, with a change of -77.3% in the first nine months, as they were limited to €3.6 billion, compared to €16.1 billion in the first 9 months of 2019.

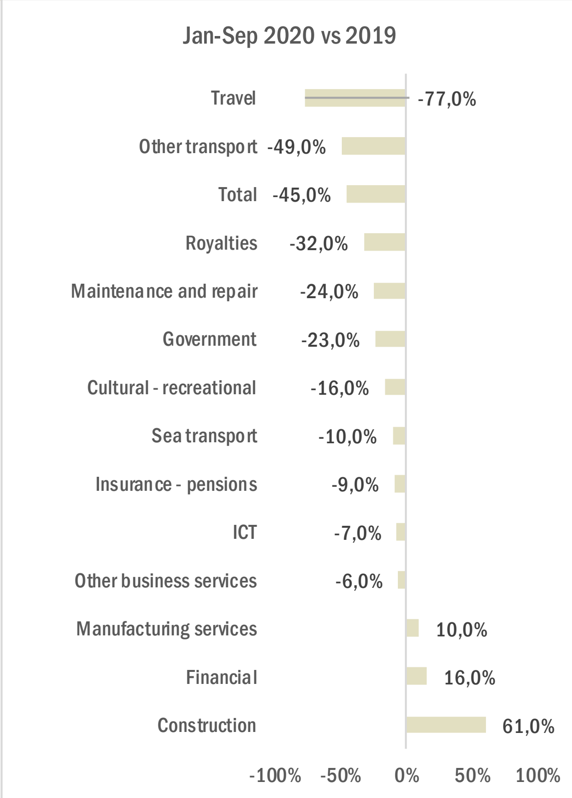
In terms of trends per quarter of the health crisis, tourism revenues were almost zero in the second quarter of 2020, when the strictest passenger restraint measures were implemented, while in the third quarter, which is the most important for revenue from Tourism and their effect on GDP, despite the lifting or easing of the aforementioned restrictive measures, the decrease was slightly mitigated (-72.6%). Travel receipts fell much more in the third quarter of the year than revenues from international transport and other services, which fell by 27.8% and 5.1% respectively. International tourism receipts recorded the largest decline in January-September 2020, compared to the corresponding period of 2019, among all service categories (Figure 3.24).

There was a significant decline in other transport services (-49.0%), while by contrast a strong increase was recorded in construction (+61.0%) and financial services (+16.0%).

Figure 3.24

Change in receipts from the provision of services to non-residents





Source: Bank of Greece

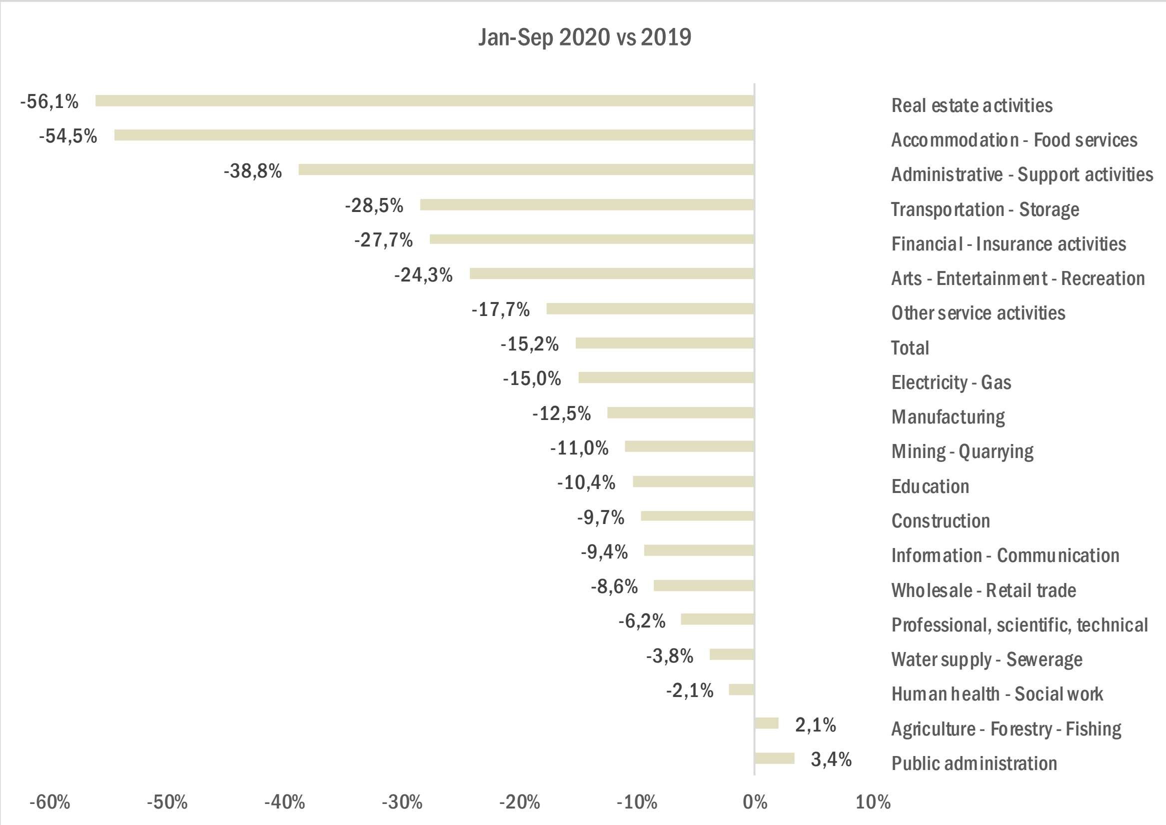
Among the sectors of the Greek economy, the sectors of Tourism and Real Estate Management received the strongest blow to their turnover in the first nine months of 2020 compared to a year earlier, with a decrease of approximately 55% (Figure 3.25). Declining turnover was observed in almost all sectors of the Greek economy. The only sectors with increased turnover were the core public sector, i.e. Public Administration-Defence-Social Security (+3.4%) and the Primary sector (Agriculture etc., +2.1%), while the lowest decline was recorded in the sector that was at the heart of dealing with the health crisis, i.e. Human Health-Social Care Activities (-2.1%). Although a drop in turnover was recorded in almost all sectors, its intensity in Tourism was three times higher than the average.

From the analysis of the characteristics of the tourist flows, it appears that the average expenditure per night decreased in January-September last year compared to the corresponding period of 2019 by 13.6%, to €63 from €73. This decrease was partially offset by the extension of the average length of stay by 17.5%, to 8.1 days compared to 6.9 days the year before last.

As a result, the revenue per trip was reduced by 4.2%. Therefore, the vertical decline in total receipts from tourist services, by 77.3%, is due almost exclusively to the 78.6% fewer travellers who came in Greece.

Figure 3.25

Change in turnover by branch of economic activity



Source: ELSTAT

Non-EU countries showed larger percentage reductions in travellers to Greece as well as in receipts compared to EU countries, an expected trend due to the travel restrictions. Travelers and receipts from non-EU countries decreased in the first nine months by 81% and 82% respectively (Figure 3.26). In the EU countries the trends were milder, with a 75% drop in travellers and a 72% drop in receipts.

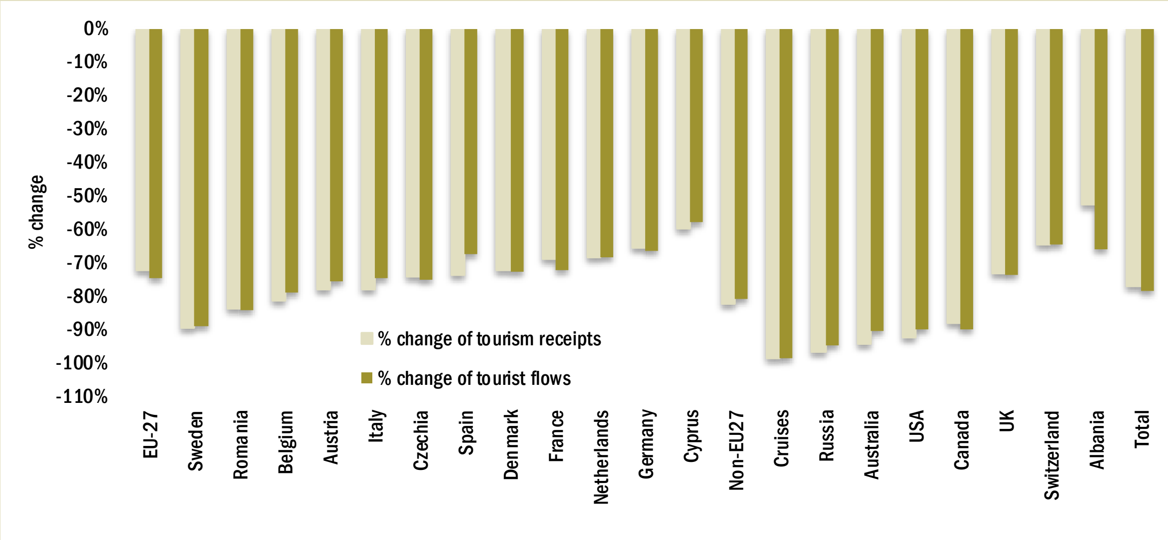
Of the non-EU countries, the largest decline in travellers and receipts was recorded by Russia (-95% and -97%) and Australia (-92% and -94%), with Albania (-66% and -53%) and Switzerland (-65% in both) showing the smallest decrease. Close to the EU average (-75% and -72%) was the United Kingdom (-73% in both), which is no longer a member.

In the EU countries, a strong drop in travellers and receipts came from Sweden (-89% in both) and Romania (-84% in both), while Belgium also fell stronger than the EU average (-79% and -81%). In contrast, the countries with a relatively milder decline in travellers and revenues in the first nine months of 2020 were Cyprus, Germany and the Netherlands, with the decline in travellers and revenues being less than 70%.

Among the regions of Greece, tourist revenues decreased mainly in the island regions, by more than 80% (Figure 3.27). The largest percentage drop was recorded in the North Aegean (-87.4%), Crete (-82.4%), the Ionian Islands (-81.6%) and the South Aegean (-81.5%).

Figure 3.26

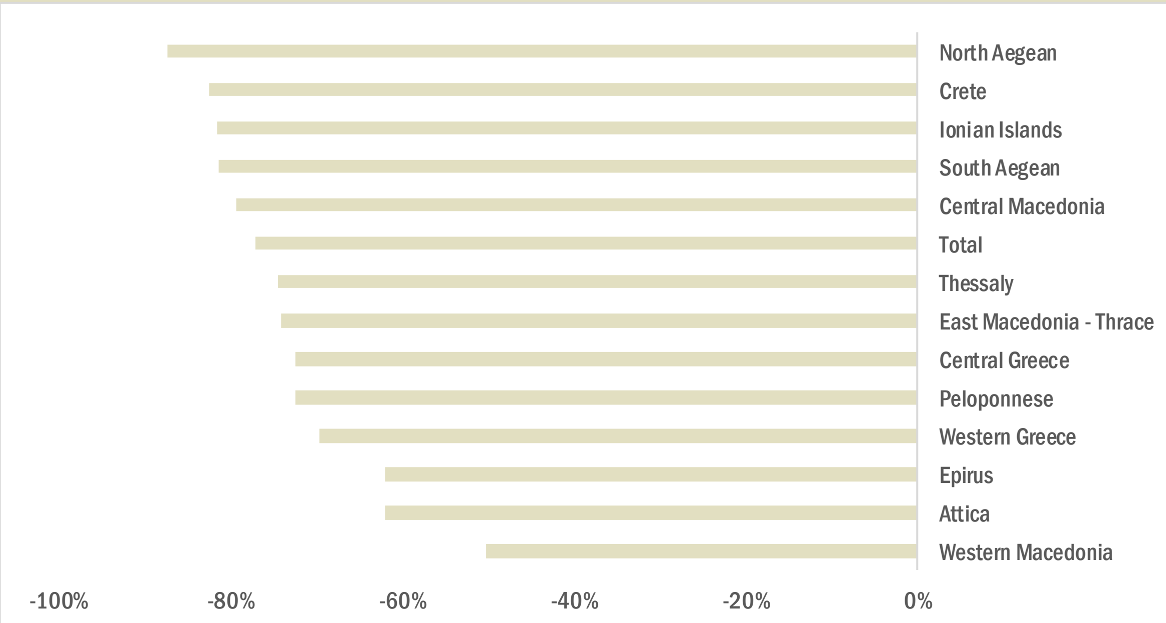
% Change in tourist receipts and travellers by country (Jan.-Sep. 2020/2019



Source: Bank of Greece

Figure 3.27

% Change in tourism receipts by region (Jan.-Sep. 2020/2019)



Source: Bank of Greece

By contrast, a relatively small decrease was recorded in Western Macedonia (-50.2%), which has a small share in domestic receipts (0.9%), while Attica also showed a decrease below the average (-61.9%). Combined with the significant drop in revenues in purely tourist areas, Attica's share in domestic tourism revenues rose from 16.2% in the first nine months of 2019 to 26.9% in 2020. In the regions with significant shares in 2019, that of the South Aegean fell to 22.6% (from 28% in 2019) and that of Crete to 15.2% (from 19.8%).

Table 3.11 Balance of payments (€million).

		January – November			November		
		2018	2019	2020	2018	2019	2020
I	CURRENT ACCOUNT (I.A + I.B + I.C + I.D)	-3,718.0	-2,153.2	-10,511.4	-1,446.0	-1,385.3	-1,258.8
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-1,863.3	-585.0	-9,951.0	-1,039.4	-1,122.8	-1,012.6
I.A	GOODS ACCOUNT (I.A.1 - I.A.2)	-20,666.0	-21,204.8	-17,001.7	-1,691.9	-1,683.2	-1,438.3
	Oil balance	-4,716.5	-4,751.9	-2,891.6	-294.7	-338.5	-168.8
	Trade balance excluding oil	-15,949.5	-16,452.9	-14,110.1	-1,397.3	-1,344.7	-1,269.5
	Ships balance	-55.3	-269.1	-66.2	-0.4	12.1	0.0
	Trade balance excluding ships	-20,610.7	-20,935.7	-16,935.5	-1,691.5	-1,695.3	-1,438.2
	Trade balance excluding oil and ships	-15,894.2	-16,183.8	-14,043.9	-1,396.9	-1,356.9	-1,269.5
I.A.1	Exports of Goods	29,908.7	29,681.8	26,098.3	2,975.7	2,636.8	2,487.2
	Oil	9,308.4	8,254.1	5,385.0	985.9	657.0	508.4
	Ships (sales)	129.7	83.7	78.1	3.3	21.3	3.6
	Goods excluding oil and ships	20,470.6	21,344.1	20,635.2	1,986.5	1,958.5	1,975.3
I.A.2	Imports of Goods	50,574.7	50,886.6	43,100.0	4,667.6	4,320.0	3,925.5
	Oil	14,024.9	13,005.9	8,276.6	1,280.6	995.5	677.2
	Ships (buying)	185.1	352.8	144.3	3.7	9.2	3.6
	Goods excluding oil and ships	36,364.7	37,527.8	34,679.1	3,383.4	3,315.3	3,244.8
I.B	SERVICES ACCOUNT (I.B.1-I.B.2)	18,802.7	20,619.8	7,050.7	652.6	560.4	425.6
I.B.1	Receipts	35,062.1	37,897.8	21,163.1	2,176.6	2,164.5	1,533.7
	Travel	15,813.4	17,884.4	4,246.9	316.3	315.4	60.7
	Transportation	15,210.2	15,867.4	12,822.0	1,466.6	1,430.5	1,029.6
	Other services	4,038.5	4,146.0	4,094.3	393.7	418.5	443.3
I.B.2	Payments	16,259.4	17,278.0	14,112.5	1,524.0	1,604.1	1,108.0
	Travel	1,941.7	2,478.1	733.4	163.0	206.6	20.3
	Transportation	10,095.7	10,371.9	9,138.6	996.4	972.9	720.0
	Other services	4,221.9	4,428.0	4,240.5	364.6	424.6	367.7
I.C	PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)	-1,584.1	-1,510.6	-564.9	-295.0	-213.9	-87.9
I.C.1	Receipts	5,528.6	5,600.8	5,889.4	385.9	347.4	348.0
	From work (wages, compensation)	201.6	224.5	183.7	20.8	19.3	14.8
	From investments (interest, dividends, profit)	2,449.3	2,705.5	2,680.0	276.7	239.4	257.8
	Other primary income	2,877.6	2,670.8	3,025.7	88.4	88.7	75.3
I.C.2	Payments	7,112.7	7,111.5	6,454.3	680.9	561.3	435.9
	From work (wages, compensation)	1,243.4	1,294.4	1,237.3	117.4	113.8	102.5
	From investments (interest, dividends, profit)	5,496.4	5,431.6	4,821.9	536.2	431.3	297.8
	Other primary income	372.9	385.5	395.0	27.3	16.2	35.6
I.D	SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)	-270.5	-57.5	4.5	-111.7	-48.6	-158.3
I.D.1	Receipts	1,975.0	2,953.0	3,207.1	132.8	164.7	152.8
	General government	959.2	1,637.3	1,756.6	29.5	29.6	25.1
	Other sectors	1,015.8	1,315.7	1,450.5	103.3	135.1	127.7
I.D.2	Payments	2,245.5	3,010.5	3,202.6	244.4	213.2	311.1
	General government	1,537.4	1,708.3	1,746.6	154.9	91.9	201.6
	Other sectors	708.1	1,302.2	1,456.0	89.5	121.3	109.5
II	CAPITAL ACCOUNT (II.1-II.2)	387.4	463.6	2,183.0	282.4	257.8	344.7
II.1	Receipts	860.4	930.1	2,561.8	314.3	276.9	356.4
	General government	555.3	780.3	2,405.5	230.6	271.3	350.2
	Other sectors	305.1	149.8	156.3	83.6	5.5	6.2
II.2	Payments	473.0	466.5	378.8	31.8	19.1	11.7
	General government	3.9	4.4	4.0	1.5	1.0	0.4
	Other sectors	469.1	462.1	374.8	30.3	18.0	11.4
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	*-3,330.6*	*-1,689.6*	*-8,328.4*	*-1,163.6*	*-1,127.5*	*-914.1*
III	FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)	-2,326.4	-2,055.9	-7,612.4	-618.3	-995.6	-986.2
III.A	DIRECT INVESTMENT*	-2,770.1	-3,128.9	-2,256.1	-309.9	-145.3	-175.9
	Assets	361.9	636.1	588.9	51.6	144.7	48.4
	Liabilities	3,131.9	3,765.1	2,845.0	361.6	290.0	224.3
III.B	PORTFOLIO INVESTMENT*	-824.7	24,138.2	43,988.5	946.2	1,550.3	4,079.2
	Assets	659.2	26,420.1	33,104.0	133.7	695.9	1,912.8
	Liabilities	1,484.0	2,282.0	-10,884.5	-812.5	-854.4	-2,166.4
III.C	OTHER INVESTMENT*	1,298.4	-22,962.2	-50,513.8	-1,243.6	-2,381.5	-4,913.9
	Assets	-3,530.9	-1,581.0	2,704.6	-26.0	200.6	-62.1
	Liabilities	-4,829.3	21,381.1	53,218.4	1,217.6	2,582.1	4,851.7
	(Loans of general government)	19,976.7	-4,740.9	1,482.9	-15.2	-2,755.6	1990.7
III.D	CHANGE IN RESERVE ASSETS**	-30.0	-103.0	1,169.0	-11.0	-19.0	24.4
IV	BALANCE ITEMS (I +II +IV +V = 0)	1,004.2	-366.3	716.0	545.3	132.0	-72.0
	RESERVE ASSETS (STOCK)***				6,507	7,295	9,174

Source: Bank of Greece

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

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

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

4 THE CONTRIBUTION OF INPUTS TO AGRICULTURAL PRODUCTION AND THE FUTURE OF THE AGRICULTURAL SECTOR IN GREECE[30]

- The agricultural sector contributes substantially to the Greek economy in terms of production and employment, while supporting the food industry and the country's export performance.
- The basic agricultural supplies - Fertilisers, Plant Protection Products and Propagating Material - support the domestic agri-food sector in many ways, while their production and distribution is an important economic activity for the Greek economy.
- The contribution of expenditure on agricultural supplies to the cost of production in Greece is well below the European Union average, while the impact on farmers' prices or income from possible increases in the prices of agricultural supplies is moderate
- A new model for the development of the agricultural sector in Greece, with emphasis on technological and organisational modernisation, development of human resources, close cooperation with research agencies, and the repositioning of Greek agri-food products, both in domestic and international markets, will have positive effects on the Greek economy and on the income of producers, making them less vulnerable to external fluctuations in production costs.

[30] This chapter is based on a recent IOBE study on the contribution of inputs to agricultural production and the future of the agricultural sector in Greece. The full text as well as a presentation of the study are available (in Greek) on the IOBE website: http://iobe.gr/research_dtl.asp?RID=205

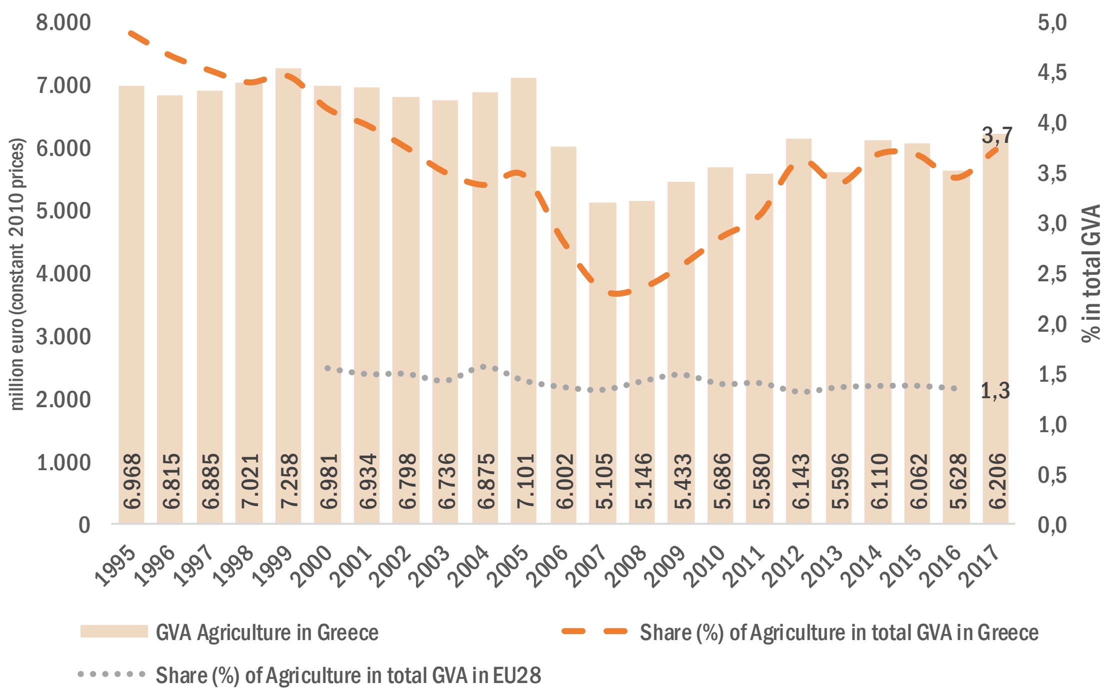
4.1 Key figures and trends in the agricultural sector in Greece

The agricultural sector contributes to the population's nutrition, food security and food security, factors that make it a strategically important sector for economic and social well-being.

The gross value added of the Agricultural sector in Greece (at chained constant prices of 2010) amounted to €6.2 billion in 2017 - the highest level recorded after 2005 (Figure 4.1). Thus, the agricultural sector continues to play an important role in shaping domestic output. The share of the Agricultural sector in the gross value added of the economy is consistently higher than the average of the EU27 countries, confirming the important role of agriculture and livestock in the domestic economy.

Figure 4.1

Gross Value Added (GVA) Agriculture (Crop and Animal Production), 1995-2017



Source: Eurostat

In the Agricultural sector in Greece, 438k people worked in 2017[31]. The share of those employed in the sector in the total number of employees in the economy decreased from 15.2% in 2000 to 10.6% in 2017, but remains significantly higher than the European Union average (4.4% in 2017).

The investment intensity in the Agricultural sector (defined as the percentage of investments in gross value added) in Greece is in the range of 20%, far from its average

[31] This amount is calculated in terms of annual equivalent employment. As a result, the actual number of people employed in the agricultural sector is higher.

value in the EU28 (31% in 2018). In the medium term, maintaining this level of investment will create obstacles to the competitiveness and growth dynamics of the agricultural sector in our country. Enhancing its productivity is an urgent need in order to improve farmers' incomes and the sector to contribute more to the development of the Greek economy.

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

4.2 Overview of the agricultural supplies sector and its contribution to the Greek economy

Basic agricultural supplies, which include fertilisers, plant protection products and propagating material, are an integral part of the inputs used in agricultural production.

The rational and well-informed use of certified agricultural supplies offers significant benefits to the agricultural sector and to its consumers (food & beverage manufacturing and final consumers), as it is linked to increasing efficiency and improving the quality of agricultural production - something that leads to safety and food adequacy - as well as in ensuring and strengthening the competitiveness of producers. In addition, it ensures the protection of producers and consumers and contributes to the protection of the environment.

The production, import and disposal of agricultural supplies on the Greek market is carried out by producers and importers/traders (manufacturers, subsidiaries of foreign companies, exclusive dealers, wholesalers, shops and agricultural cooperatives), which may specialise in one or more categories of agricultural supplies. The companies for production, marketing and distribution of agricultural supplies are active throughout Greece, offering, in addition to high quality agricultural supplies, valuable consulting services to farmers.

In total, the impact of the agricultural supplies production, marketing and distribution sector on the Greek economy is estimated at €1,459 million, equivalent to 0.8% of Greece's GDP in 2018, of which €827 million (57%) comes from manufacturing and €632 million (43%) from wholesale and retail trade of agricultural supplies.

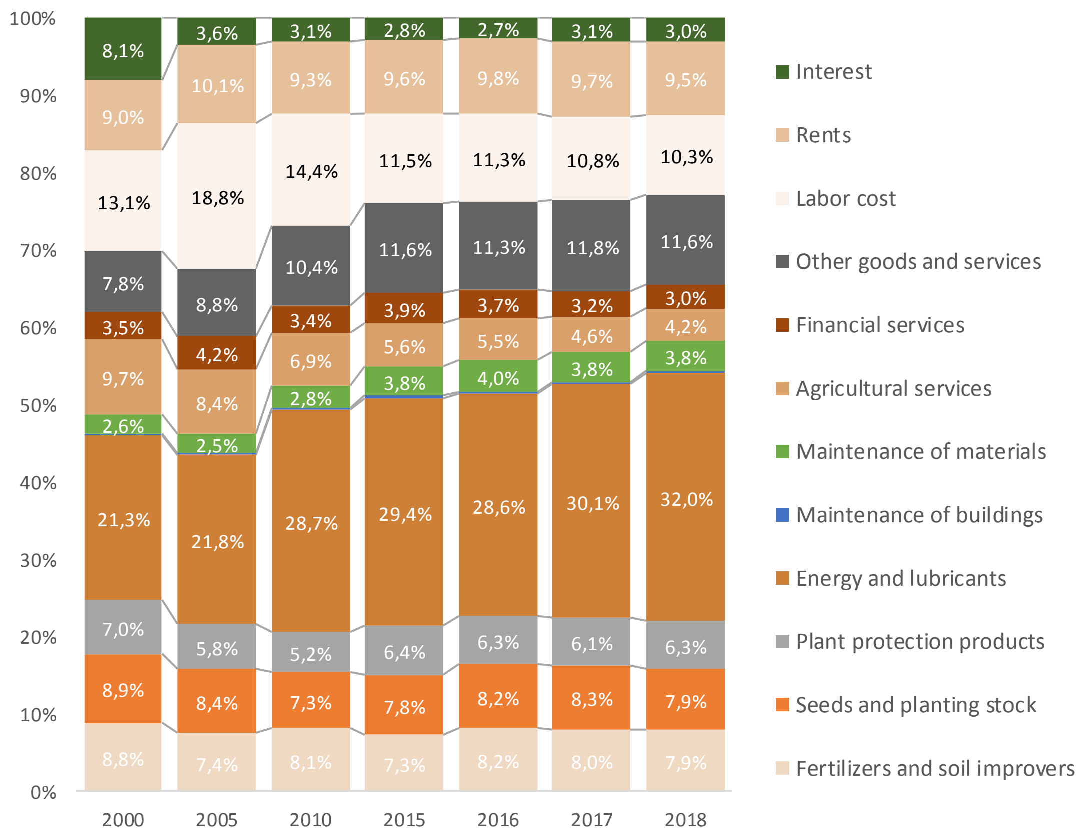
The impact of this sector on employment is estimated at 43,544 jobs, which is equivalent to approximately 1.1% of total employment in Greece in 2018. Of the total jobs, 22,438 (52%) are due directly or indirectly to manufacturing and the remaining 21,106 (48%) to wholesale and retail trade of agricultural supplies.

4.3 The role of inputs in shaping the cost of agricultural production in Greece

The final configuration of expenditure on agricultural inputs (production costs) depends on the intensity of input use, which is linked to the size of production, and the level of their prices. Total expenditures for agricultural inputs in domestic crop production amounted to €3.9 billion in 2018, slightly higher compared to the previous year, but also higher than the average for the periods 2000-2008 and 2009-2018 (€3.53 and €3.79 billion respectively).

Figure 4.2

Breakdown of agricultural production costs by input category



Source: Eurostat. Economic Accounts of Agriculture, Processing IOBE

The share of expenditures for agricultural inputs in the total production value of the domestic agricultural sector reached 50.4% in 2018, having fallen significantly compared to their peak (57.6%) in 2011. The available data for 2018 show that the share of intermediate consumption in the total value of production in Greece is one of the lowest among the Member States of the European Union.

The input categories with the largest share in expenditure in 2018 were Energy-Lubricants (32% of total production costs), Other Goods and Services (11.6%) which includes the cost of irrigation, Labour (10.3 %) and Rents (9.5%, Figure 4.2).

Agricultural supplies had a much smaller share in production costs. In particular, Fertilisers and Soil Improvements participated with 7.9%, Seeds and the remaining Propagating Materials had a similar share, while Plant Protection Products participated with 6.3%. In total, that is, the specific agricultural supplies participated with 22% in the cost of agricultural production (excluding animal production).

All cost categories are of particular importance to producers, but these data indicate that developments in energy costs and secondarily in labour costs, irrigation, and rent are of greater interest to the agricultural sector, as these categories cover almost 2/3 of the production costs.

The share of agricultural supplies in the value of crop production in Greece is the second lowest in the European Union and by 8 percentage points lower than the EU average, according to data and estimates for 2018.

4.4 The prospects of the Agricultural Sector in Greece

In Greece there are quite a few agricultural companies and cooperatives that operate effectively, offer high quality products through distribution networks in Greece and in foreign markets and effectively utilise the subsidies they receive.

However, persistent and systematic efforts are still needed to strengthen the competitiveness of the agricultural sector and to promote its further development in the future. The domestic agricultural sector is characterised by stagnation, low productivity and a declining trend in employment, as well as by a level of investment that is not able to fuel a strong growth in production and improved agricultural income in the coming years.

Addressing or mitigating the consequences of its structural weaknesses is necessary in order to "unlock" the dynamics of the sector in an international environment in which the outlook for agricultural products appears positive - given the trend of global population growth - and consequently food demand.

The sustainable improvement of productivity and income in the agricultural sector requires utilisation of all material and intangible resources and comparative advantages of Greek agriculture, in an environment that will be friendly to the transformation of the production process, with gradual integration of new technologies, people and production methods.

The direction that the domestic agricultural sector will follow will inevitably determine the prospects of the agricultural supply sector. At the same time, however, the rational use of approved agricultural supplies is an enhancer of crop efficiency and a necessary component of the effort to stimulate production and agricultural income.

The main structural features and weaknesses of Greek agriculture include the fragmentation of agricultural holdings, inefficient organization, low integration of new technologies and equipment, the unfavourable age and educational structure of human resources and limited research & development (R&D). Also, the great dependence on subsidies and the lack of strategic planning for the effective promotion of Greek agri-food products.

The CAP for the period 2021-2027 is under development. The European Commission's proposal for the post-2020 CAP aims to improve its ability to respond to current and future challenges, such as climate change and generational renewal, while continuing to support European farmers to ensure a sustainable and competitive Farming sector.

The need to draft and implement a strategic development plan for the agricultural sector in Greece stems both from the weaknesses of domestic agriculture and as an obligation under the new CAP and the strategies of the European Green Deal. It is important when formulating such a plan to take into account good practices and elements from rural development models in other countries, which help to improve the efficiency of the agricultural sector. The new model should include substantial actions aimed at increasing the size and modernisation of farms, the cooperation of universities, research centres and agricultural producers, as well as strategic planning to enhance openness, productivity and attracting investment in the sector.

APPENDIX

Table 1: GDP Rate of Change

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

Table 2: General Government Debt as % of GDP

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

Table 3: General Government Balance as % of GDP

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

Table 4: Percentage of Population in Poverty or Social Exclusion * (see p. 157)

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

Table 5: Inflation

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

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

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

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

	Annual Data (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
Austria	117.9	117.3	116.8	117.3	117.5	116.3	116.5	115.5
Belgium	130.1	130.2	131.2	131.6	130.7	129.7	129.2	129.1
Bulgaria	43.7	42.9	44	44.5	45.7	46	47.1	48.6
France	115.4	116.8	116.1	115.7	115.3	114.9	115.3	116.7
Germany	105.1	104.3	106.3	105.3	105.9	105.7	105.1	103.6
Denmark	114.7	115.5	115.5	114.9	114.8	116	116.7	116.9
Czech Republic	76.3	76.8	79.3	79.9	79.9	81.4	83.8	85.3
EU 27	100	100	100	100	100	100	100	100
Greece	86.1	87.2	86.4	83.5	81.5	80.6	80.5	78.5
Estonia	73.9	73.8	75.4	72.4	73	74.2	76.7	78.7
Euro area	107.5	107.5	107.6	107.3	107.2	106.9	106.4	105.7
Ireland	147.1	143	146.5	188.6	182.3	187	195.1	196.9
Spain	103	103.4	103.3	102.2	101.8	101.5	99.6	98.2
Italy	111	109.4	107.7	106.6	108.1	107.4	106.4	104.9
Croatia	72.5	73.5	70.8	70.7	72	71.9	72.7	72.1
Cyprus	88.7	86	84	84.9	87.1	85.5	85.3	83.7
Latvia	63.1	62.6	64.7	64.4	64.8	66.7	68.6	68.7
Lithuania	72.9	74.1	74.4	72.8	71.8	75	76	77.5
Luxembourg	162.5	163.8	169.7	169.6	170.8	166	164.6	162
Malta	90.4	89.7	91.5	95.2	95.9	94.1	94.4	93.5
Netherlands	113.5	115.4	113.5	112.8	110.5	110.5	109.8	108
Hungary	73	73.1	71.4	70.9	67.4	67.7	70	71.6
Poland	74.2	74.1	73.8	74.5	74	74.9	76.7	80.1
Portugal	76.8	79.9	79	78.3	77.9	75.8	75.1	76.1
Romania	55.6	56.2	56.7	58.6	63.1	66.1	68.7	72.6
Slovakia	83.5	84.1	84.3	83.5	77	75.7	76.2	76.2
Slovenia	80.6	81.1	81.5	80.6	80.8	81.7	82.1	81.9
Sweden	118.4	115.9	115.2	116.7	113.4	112.9	111.6	112.2
Finland	109.6	108.3	107.7	107.6	108.1	109	107.9	106.6

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

	Annual Data (%)			Q3			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	75.4	76.2	76.8	76.7	77.4	76.3	-1.1	0.7
Belgium	68.5	69.7	70.5	70.1	70.7	70.2	-0.5	0.6
Bulgaria	71.3	72.4	75.0	73.5	76.3	74.6	-1.7	2.8
France	70.6	71.3	71.6	71.5	71.4	71.2	-0.2	-0.1
Germany	79.2	79.9	80.7	80.2	81.0			0.8
Denmark	76.6	77.5	78.3	77.7	78.5	77.6	-0.9	0.8
Czech Republic	78.5	79.9	80.3	80.1	80.4	79.7	-0.7	0.3
EU 27	71.3	72.3	73.1	72.8	73.4	72.5	-0.9	0.6
Greece	57.8	59.5	61.2	60.6	62.1	62.0	-0.1	1.5
Estonia	78.7	79.5	80.2	79.4	80.7	78.4	-2.3	1.3
Euro area	70.9	71.9	72.6	72.3	72.8	71.7	-1.1	0.5
Ireland	73	74.1	75.1	74.4	74.9	73.1	-1.8	0.5
Spain	65.5	67	68.1	67.6	68.2	65.6	-2.6	0.6
Italy	62.3	63	63.5	63.3	63.8	62.4	-1.4	0.5
Croatia	63.6	65.2	66.7	66.3	67.6	67.8	0.2	1.3
Cyprus	70.8	73.9	75.7	74.6	75.7	74.5	-1.2	1.1
Latvia	74.8	76.8	77.4	77.7	77.9	77.0	-0.9	0.2
Lithuania	76	77.8	78.2	79.3	78.1	75.5	-2.6	-1.2
Luxembourg	71.5	72.1	72.8	71.6	72.4	71.4	-1.0	0.8
Malta	73	75.5	77.2	76.7	76.3	76.8	0.5	-0.4
Netherlands	78	79.2	80.2	79.6	80.3	79.8	-0.5	0.7
Hungary	73.3	74.4	75.3	74.6	75.4	75.5	0.1	0.8
Poland	70.9	72.2	73.0	72.8	73.6	74.0	0.4	0.8
Portugal	73.4	75.4	76.2	75.7	76.6	74.4	-2.2	0.9
Romania	68.8	69.9	70.9	71.3	71.8	71.2	-0.6	0.5
Slovakia	71.1	72.4	73.4	72.7	73.4	72.4	-1.0	0.7
Slovenia	73.4	75.4	76.5	75.9	76.5	75.4	-1.1	0.6
Sweden	81.8	82.4	82.1	83.1	82.7	81.1	-1.6	-0.4
Finland	74.2	76.3	77.2	77.2	78.1	76.8	-1.3	0.9

(*) % 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 (%)	
	2017	2018	2019	2018	2019	2020		
Austria	51.3	54.0	54.5	54.2	54.3	55.0	0.7	0.1
Belgium	48.3	50.3	52.1	50.4	52.9	53.4	0.5	2.5
Bulgaria	58.2	60.7	64.4	61.7	65.1	65.0	-0.1	3.4
France	51.3	52.3	53.0	52.4	52.7	53.4	0.7	0.3
Germany	70.1	71.4	72.7	71.7	73.1			1.4

Denmark	68.2	69.2	71.3	69.7	72.3	71.8	-0.5	2.6
Czech Republic	62.1	65.1	66.7	65.4	67.0	68.3	1.3	1.6
EU 27	56.1	57.8	59.1	58.3	59.3	59.8	0.5	1.0
Greece	38.3	41.1	43.2	41.7	43.4	45.5	2.1	1.7
Estonia	68.1	68.9	72.5	70.6	74.4	72.8	-1.6	3.8
Euro area	57.1	58.8	60.0	59.1	60.1	60.2	0.1	1.0
Ireland	58.4	60.4	61.8	60.4	61.3	61.5	0.2	0.9
Spain	50.5	52.2	53.8	52.7	53.6	54.7	1.1	0.9
Italy	52.2	53.7	54.3	53.9	54.4	53.9	-0.5	0.5
Croatia	40.3	42.8	44.0	45.2	44.7	47.9	3.2	-0.5
Cyprus	55.3	60.9	61.1	62.2	61.7	61.9	0.2	-0.5
Latvia	62.3	65.4	67.3	66.5	68.4	68.6	0.2	1.9
Lithuania	66.1	68.5	68.4	69.1	67.3	67.7	0.4	-1.8
Luxembourg	39.8	40.5	43.1	40.8	42.6	43.8	1.2	1.8
Malta	47.2	50.2	51.6	49.3	48.5	52.4	3.9	-0.8
Netherlands	65.7	67.7	69.7	68.3	69.7	71.0	1.3	1.4
Hungary	51.7	54.4	56.7	54.9	56.9	60.3	3.4	2.0
Poland	48.3	48.9	49.6	49.8	50.5	53.0	2.5	0.7
Portugal	56.2	59.2	60.4	59.6	61.2	61.4	0.2	1.6
Romania	44.5	46.3	47.8	47.9	48.9	49.6	0.7	1.0
Slovakia	53.0	54.2	57.0	54.4	56.8	59.0	2.2	2.4
Slovenia	42.7	47.0	48.6	47.3	48.9	49.6	0.7	1.6
Sweden	76.4	78.0	77.7	78.5	77.4	78.1	0.7	-1.1
Finland	62.5	65.4	66.8	65.5	67.7	67.5	-0.2	2.2

(*) % 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		
	2015	2016	2017	2018	2019	2018	2019	2020
Austria	0.8	1.8	1.0	1.3	0.9	1.4	0.6	-0.8
Belgium	0.0	0.9	1.0	2.4	1.5	2.9	1.4	-0.9
Bulgaria	1.6	-0.6	4.0	-0.1	2.2	-0.9	2.5	-3.8
France	0.1	0.5	0.8	0.8	0.2	0.9	-0.3	-0.7
Germany	0.7	2.5	0.8	0.4	1.0	0.1	0.6	
Denmark	1.7	1.7	1.1	1.5	1.5	1.5	1.4	-1.7
Czech Republic	1.0	1.7	1.6	1.0	0.1	0.6	0.0	-1.3
EU 27	1.0	1.5	1.4	1.1	0.9	1.0	0.6	-1.8
Greece	2.0	1.8	2.0	1.9	2.0	1.7	1.7	-1.4
Estonia	2.3	-0.1	2.2	0.7	0.6	-0.1	1.6	-3.5
Euro area	1.0	1.7	1.3	1.2	1.0	1.1	0.7	-1.8
Ireland	3.2	3.6	2.8	2.6	2.7	2.8	2.0	-1.7
Spain	2.9	2.6	2.6	2.6	2.3	2.5	1.7	-3.7
Italy	0.7	1.2	0.9	0.6	0.4	0.5	0.4	-2.7
Croatia	1.1	0.5	2.3	1.7	1.2	0.3	0.7	-1.2
Cyprus	-1.4	1.1	4.5	5.4	3.5	5.1	2.3	-0.6
Latvia	1.1	-0.6	0.0	1.3	-0.3	1.8	-0.7	-3.1
Lithuania	1.0	1.3	-0.9	1.4	0.0	3.1	-1.8	-3.6
Luxembourg	5.1	1.6	4.0	3.1	3.2	1.8	3.4	0.5
Malta	4.1	5.2	6.0	8.1	5.5	9.2	4.6	1.2
Netherlands	1.1	1.3	1.9	2.0	1.7	2.1	1.5	-0.8
Hungary	2.6	3.2	1.5	0.9	0.6	0.5	0.4	-0.9
Poland	1.4	0.6	1.1	0.3	-0.2	0.7	-0.2	-0.7
Portugal	1.3	1.4	3.3	2.2	0.8	1.9	0.9	-3.0
Romania	-0.2	-0.8	2.4	0.2	0.3	0.1	-0.5	-2.2
Slovakia	2.4	2.8	1.2	1.2	0.4	1.4	0.0	-2.2
Slovenia	1.0	0.1	4.5	2.0	0.8	1.2	0.1	-0.6
Sweden	1.4	1.6	2.1	1.6	0.6	1.5	0.4	-2.2
Finland	-0.8	0.5	1.0	2.6	0.9	2.6	0.9	-2.0

Table 11: Unemployment Rate – Total Population

	Annual Data (%)			Q3			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	5.5	4.9	4.5	4.9	4.4	5.7	1.3	-0.5
Belgium	7.1	6	5.4	5.9	5.3	6.5	1.2	-0.6
Bulgaria	6.2	5.2	4.2	5.0	3.7	4.8	1.1	-1.3
France	9.4	9	8.5	8.8	8.3	8.9	0.6	-0.5
Germany	3.8	3.4	3.2	3.3	3.1	3.7	0.6	-0.2
Denmark	5.8	5.1	5	5.0	5.0	6.4	1.4	0.0
Czech Republic	2.9	2.2	2	2.3	2.1	2.9	0.8	-0.2
EU 27	8.2	7.3	6.7	6.9	6.4	7.5	1.1	-0.5
Greece	21.5	19.3	17.3	18.3	16.4	16.2	-0.2	-1.9
Estonia	5.8	5.4	4.5	5.2	3.9	7.7	3.8	-1.3
Euro area	9.1	8.2	7.6	7.7	7.2	8.3	1.1	-0.5
Ireland	6.7	5.8	5	6.0	5.2	7.1	1.9	-0.8
Spain	17.2	15.3	14.1	14.6	13.9	16.3	2.4	-0.7

Italy	11.2	10.6	:	9.4	9.1	10.0	0.9	-0.3
Croatia	11	8.4	6.7	7.3	5.7	7.5	1.8	-1.6
Cyprus	11.1	8.4	7.1	7.9	6.8	8.3	1.5	-1.1
Latvia	8.7	7.4	6.3	7.0	6.0	8.4	2.4	-1.0
Lithuania	7.1	6.2	6.3	5.6	6.1	9.3	3.2	0.5
Luxembourg	5.6	5.5	5.6	6.1	5.9	7.9	2.0	-0.2
Malta	4	3.7	3.4	3.6	3.7	4.8	1.1	0.1
Netherlands	4.9	3.8	3.4	3.6	3.2	4.3	1.1	-0.4
Hungary	4.2	3.7	3.4	3.8	3.5	4.4	0.9	-0.3
Poland	4.9	3.9	3.3	3.8	3.1	3.3	0.2	-0.7
Portugal	9	7	6.5	6.8	6.2	7.9	1.7	-0.6
Romania	4.9	4.2	3.9	3.9	3.8	5.2	1.4	-0.1
Slovakia	8.1	6.5	5.8	6.4	5.9	7.2	1.3	-0.5
Slovenia	6.6	5.1	4.5	5.0	4.8	5.1	0.3	-0.2
Sweden	6.7	6.3	6.8	6.0	6.6	8.6	2.0	0.6
Finland	8.6	7.4	6.7	6.5	6.0	7.7	1.7	-0.5

Table 12: Unemployment Rate among Men

	Annual Data (%)			Q3			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	5.9	5.0	4.6	4.7	4.5	5.7	1.2	-0.2
Belgium	7.1	6.3	5.7	6.3	5.5	6.6	1.1	-0.8
Bulgaria	6.4	5.7	4.5	5.4	3.9	5.3	1.4	-1.5
France	9.5	9.0	8.5	8.9	8.4	8.9	0.5	-0.5
Germany	4.1	3.8	3.5	3.7	3.5	3.9	0.4	-0.2
Denmark	5.6	4.9	4.8	4.7	4.7	6.1	1.4	0.0
Czech Republic	2.3	1.8	1.7	1.9	1.7	2.4	0.7	-0.2
EU 27	7.9	7.0	6.4	6.6	6.1	7.1	1.0	-0.5
Greece	17.8	15.4	14.0	14.3	13.1	13.1	0.0	-1.2
Estonia	6.2	5.4	4.1	5.1	3.3	7.6	4.3	-1.8
Euro area	8.7	7.9	7.2	7.4	6.9	7.9	1.0	-0.5
Ireland	7.1	5.8	5.2	5.9	5.5	6.7	1.2	-0.4
Spain	15.7	13.7	12.5	13.1	12.2	14.4	2.2	-0.9
Italy	10.3	9.7	:	8.6	8.3	9.0	0.7	-0.3
Croatia	10.3	7.6	6.2	6.6	5.9	7.6	1.7	-0.7
Cyprus	10.9	8.1	6.3	7.2	5.3	7.9	2.6	-1.9
Latvia	9.8	8.4	7.2	8.0	6.6	9.0	2.4	-1.4
Lithuania	8.6	6.9	7.1	6.0	7.0	9.8	2.8	1.0
Luxembourg	5.6	5.3	5.6	6.0	6.0	7.4	1.4	0.0
Malta	3.8	3.8	3.3	3.8	3.3	4.5	1.2	-0.5
Netherlands	4.5	3.7	3.4	3.6	3.3	4.0	0.7	-0.3
Hungary	3.8	3.5	3.4	3.4	3.3	4.3	1.0	-0.1
Poland	4.9	3.9	3.0	4.0	2.9	3.0	0.1	-1.1
Portugal	8.6	6.6	5.9	6.3	5.5	7.7	2.2	-0.8
Romania	5.6	4.7	4.3	4.3	4.1	5.4	1.3	-0.2
Slovakia	7.9	6.1	5.6	6.0	5.7	6.8	1.1	-0.3
Slovenia	5.8	4.6	4.0	4.3	4.5	4.4	-0.1	0.2
Sweden	6.9	6.4	6.7	5.9	6.3	8.6	2.3	0.4
Finland	8.9	7.4	7.2	6.2	6.2	7.7	1.5	0.0

Table 13: Unemployment Rate among Women

	Annual Data (%)			Q3			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	5.0	4.7	4.4	5.2	4.4	5.7	1.3	-0.8
Belgium	7.1	5.6	4.9	5.4	5.2	6.3	1.1	-0.2
Bulgaria	6.0	4.7	3.9	4.6	3.4	4.2	0.8	-1.2
France	9.4	9.1	8.4	8.8	8.2	9.0	0.8	-0.6
Germany	3.3	2.9	2.7	2.9	2.6	3.4	0.8	-0.3
Denmark	6.1	5.4	5.3	5.3	5.3	6.7	1.4	0.0
Czech Republic	3.6	2.8	2.4	2.9	2.6	3.4	0.8	-0.3
EU 27	8.5	7.6	7.1	7.2	6.8	7.9	1.1	-0.4
Greece	26.1	24.2	21.5	23.3	20.5	20.1	-0.4	-2.8
Estonia	5.3	5.3	4.8	5.4	4.6	7.7	3.1	-0.8
Euro area	9.5	8.6	7.9	8.1	7.6	8.8	1.2	-0.5
Ireland	6.3	5.7	4.7	6.1	5.0	7.6	2.6	-1.1
Spain	19.0	17.0	16.0	16.2	15.9	18.4	2.5	-0.3
Italy	12.4	11.8	:	10.4	10.2	11.4	1.2	-0.2
Croatia	11.9	9.3	7.4	8.2	5.5	7.4	1.9	-2.7
Cyprus	11.3	8.8	8.0	8.7	8.4	8.6	0.2	-0.3
Latvia	7.7	6.4	5.4	5.9	5.5	7.7	2.2	-0.4
Lithuania	5.7	5.4	5.5	5.2	5.2	8.9	3.7	0.0
Luxembourg	5.6	5.7	5.5	6.2	5.7	8.4	2.7	-0.5
Malta	4.3	3.5	3.6	3.3	4.3	5.2	0.9	1.0
Netherlands	5.3	4.0	3.4	3.6	3.2	4.6	1.4	-0.4
Hungary	4.6	4.0	3.5	4.4	3.7	4.7	1.0	-0.7
Poland	4.9	3.9	3.6	3.7	3.4	3.6	0.2	-0.3
Portugal	9.5	7.4	7.2	7.3	7.0	8.0	1.0	-0.3
Romania	4.0	3.5	3.4	3.3	3.5	5.0	1.5	0.2
Slovakia	8.4	7.0	6.0	6.8	6.1	7.7	1.6	-0.7
Slovenia	7.5	5.7	5.0	5.9	5.1	5.9	0.8	-0.8
Sweden	6.4	6.2	6.9	6.1	6.9	8.7	1.8	0.8
Finland	8.4	7.3	6.2	6.9	5.9	7.6	1.7	-1.0

Table 14: Long-Term Unemployment Rate (*)

	Annual Data (%)					Q3			Change (%)	
	2015	2016	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	29.2	32.2	33.3	28.9	25.2	26.8	24.7	24.4	-0.3	-2.1
Belgium	51.7	51.6	48.8	48.7	43.5	45.0	42.1	35.4	-6.7	-2.9
Bulgaria	61.1	58.9	54.9	58.3	56.9	62.0	62.3	44.7	-17.6	0.3
France	44.2	45.7	45.4	42.0	40.2	41.0	39.9	36.3	-3.6	-1.1
Germany	44.0	41.1	41.9	41.3	37.8	40.7	37.9	:		-2.8
Denmark	25.7	20.4	20.5	19.1	16.4	17.0	15.6	15.8	0.2	-1.4
Czech Republic	47.4	42.1	35.0	30.6	30.0	28.8	27.0	20.0	-7.0	-1.8
EU 27	49.9	48.5	46.7	44.9	41.5	44.2	41.3	32.6	-8.7	-2.9
Greece	73.0	71.8	72.6	70.1	70.3	71.8	73.6	63.0	-10.6	1.8
Estonia	38.8	31.6	33.2	23.7	19.7	21.4	15.5	17.3	1.8	-5.9
Euro area	51.5	50.1	48.9	46.9	43.6	46.1	43.6	34.3	-9.3	-2.5
Ireland	55.0	52.2	46.4	37.1	32.3	34.9	27.3	19.8	-7.5	-7.6
Spain	51.6	48.3	44.4	41.7	37.8	41.9	37.2	30.6	-6.6	-4.7
Italy	58.9	58.3	58.7	59.0	56.1	59.6	57.6	51.1	-6.5	-2.0
Croatia	63.1	50.6	41.0	40.2	35.6	42.2	36.8	27.0	-9.8	-5.4
Cyprus	45.6	44.5	40.7	31.6	29.5	32.1	30.9	27.1	-3.8	-1.2
Latvia	45.5	41.5	37.4	42.0	37.8	42.8	37.0	26.4	-10.6	-5.8
Lithuania	42.8	38.2	37.7	32.2	30.7	31.1	31.9	28.2	-3.7	0.8
Luxembourg	28.4	34.9	38.1	24.7	22.9	27.0	20.9	23.6	2.7	-6.1
Malta	50.2	50.0	50.8	48.1	33.3	46.5	20.9	27.5	6.6	-25.6
Netherlands	43.2	42.4	40.0	36.8	30.3	35.2	29.7	22.0	-7.7	-5.5
Hungary	45.5	46.5	40.4	38.6	31.9	37.1	31.6	28.0	-3.6	-5.5
Poland	39.3	34.9	31.0	26.9	21.5	25.9	19.6	17.9	-1.7	-6.3
Portugal	57.2	55.2	49.6	43.4	42.7	42.5	44.9	31.0	-13.9	2.4
Romania	43.9	50.0	41.5	44.1	42.4	45.5	39.2	30.5	-8.7	-6.3
Slovakia	65.8	60.2	62.4	61.7	58.2	61.5	55.4	39.8	-15.6	-6.1
Slovenia	52.3	53.3	47.5	42.9	43.0	42.4	43.8	33.1	-10.7	1.4
Sweden	20.8	19.4	19.6	18.3	13.7	17.3	12.6	13.7	1.1	-4.7
Finland	24.6	25.9	24.4	21.9	17.9	21.2	19.8	16.6	-3.2	-1.4

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

Table 15: Unemployment Rate among 15-24 years old

	Annual Data (%)			Q3			Change (%)	
	2017	2018	2019	2018	2019	2020	2020/19	2019/18
Austria	9.8	9.4	8.5	9.6	9.7	11.0	1.3	0.1
Belgium	19.3	15.8	14.2	16.3	13.2	17.7	4.5	-3.1
Bulgaria	12.9	12.7	8.9	13.4	7.5	13.2	5.7	-5.9
France	22.1	20.8	19.6	21.5	19.3	22.1	2.8	-2.2
Germany	6.8	6.2	5.8	6.6	6.8	7.7	0.9	0.2

Denmark	12.4	10.5	10.0	11.9	11.0	13.3	2.3	-0.9
Czech Republic	7.9	6.7	5.6	7.6	6.1	9.6	3.5	-1.5
EU 27	18.0	16.1	15.1	15.8	14.8	18.3	3.5	-1.0
Greece	43.6	39.9	35.5	36.3	32.4	34.2	1.8	-3.9
Estonia	12.1	11.9	11.0	16.4	13.5	21.7	8.2	-2.9
Euro area	18.8	16.9	15.7	16.5	15.4	18.9	3.5	-1.1
Ireland	14.4	13.8	12.5	14.9	13.5	20.0	6.5	-1.4
Spain	38.6	34.3	32.5	33.0	31.7	40.4	8.7	-1.3
Italy	34.7	32.2	:	29.2	25.7	30.9	5.2	-3.5
Croatia	27.2	23.3	17.0	20.9	14.1	23.0	8.9	-6.8
Cyprus	24.7	20.2	16.6	17.0	15.6	20.4	4.8	-1.4
Latvia	17.0	12.2	12.4	11.0	11.3	14.8	3.5	0.3
Lithuania	13.3	11.1	11.9	8.9	10.5	23.1	12.6	1.6
Luxembourg	15.5	14.1	16.9	15.7	20.5	26.0	5.5	4.8
Malta	10.6	9.1	9.2	10.4	9.4	11.1	1.7	-1.0
Netherlands	8.9	7.2	6.7	7.3	6.8	10.8	4.0	-0.5
Hungary	10.7	10.2	11.4	10.7	11.4	13.4	2.0	0.7
Poland	14.8	11.7	9.9	12.7	10.8	12.5	1.7	-1.9
Portugal	23.8	20.3	18.2	20.0	17.9	26.4	8.5	-2.1
Romania	18.3	16.2	16.8	16.4	17.9	19.2	1.3	1.5
Slovakia	18.9	14.9	16.1	15.3	18.4	22.0	3.6	3.1
Slovenia	11.2	8.8	8.1	9.1	7.6	14.9	7.3	-1.5
Sweden	17.8	17.4	20.0	14.9	16.6	22.3	5.7	1.7
Finland	20.1	17.0	17.2	12.1	12.3	16.1	3.8	0.2

(*) 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