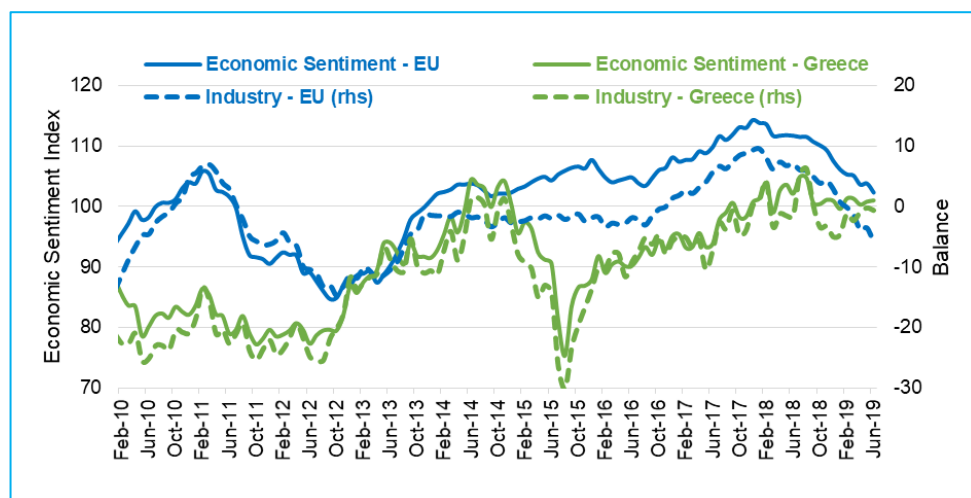


Economic sentiment and business expectations in Industry: Greece and EU

(European Commission, DG ECFIN, June 2019)

INDEX

Main indicators	5
Economic climate	6
Employment, prices, wages	7
Industry, trade, services	8
Exports, tourism	9



MACROECONOMIC ANALYSIS AND EUROPEAN POLICY

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Tax relief and industrial restructuring policies are needed for a strong pick up in growth

The elections of 7 July 2019 mark an expected shift towards a different economic policy mix, focused on private investment and productivity in order to stimulate growth, wages and employment on a sustainable basis. Such a shift will necessarily be based on a tax environment more friendly for business and working people, as well as on the widening and deepening of structural reforms for a more competitive economy, especially in markets where there has been little progress or the reform effort has suffered setback.

The new government has a coherent and well-targeted plan for tax cuts and structural reforms (as already announced in the first cabinet meeting) and the necessary technocratic team (as judged by the participation of experts from the private sector in the new government scheme). What is moreover necessary is to adopt a synchronized and well balanced approach between tax cuts and structural reforms. Just like in the past, when the growth footprint of structural reforms had been poor due to over-taxation, accordingly in the future, a strong growth footprint through tax cuts should be supported by structural reforms. In any case, what must be ensured is that tax cuts lead to increased investment activity. It is therefore necessary to immediately and massively activate the productive mechanism of the country to achieve high growth rates.

The opportunities for a stronger growth, as they emerge after the country's exit from the adjustment programs in August 2018, need to be exploited without delay. The gradual recovery of investors' confidence and the decline in Greek bond yields are taking place in a worsening international environment. In this context, on 16 July 2019 the Greek government raised €2.5 billion through a 7-year bond with a low interest rate of 1.9%, compared with an interest rate of 3.9% of the 10-year bond issued on 5 March 2019. The orders exceeded the amount of €13 billion, overperforming by five times the final size of the transaction, while priced at the lowest yield end that the Hellenic Republic has ever achieved. The improved climate in markets vis-à-vis the new Greek government reflects the increasing investors' confidence on the prospects of the Greek economy, as supported by the expected implementation of a growth-friendly program under fiscal and monetary stability.

The views expressed in this report are those of the authors and not necessarily of SEV. SEV may not be held responsible for the accuracy or the completeness of the data contained in this report.

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What is necessary is to adopt a synchronized and well balanced approach between tax cuts and structural reforms. Just like in the past, when the growth footprint of structural reforms had been poor due to over-taxation, accordingly in the future, a strong growth footprint through tax cuts should be supported by structural reforms.

In European Commission's [Summer 2019 Economic Forecasts](#), it is stressed that the increasing global trade tensions and the political uncertainty continue to weigh on confidence in the manufacturing sector, which is the most exposed to international trade. These factors are expected to weaken the growth outlook for the remainder of the year. The changes expected through the 4th industrial revolution (Industry 4.0) along with the need of an industrial revitalization throughout the regions of Greece should be key priorities for the new government. Addressing these challenges requires the development of a coherent industrial policy (at national and regional level), focusing on the following key pillars:

1. Facilitating access to finance (Non-performing loans, Second business opportunity, Co-funded programs, Bank credit and alternative financing).
2. Reducing drastically red tape and tax disincentives related with investment (barriers for investment permits, Justice, Taxation and investment incentives).
3. Improving export dynamism (Cross-border processes, Enhancing international competitiveness, Export policies governance).
4. Upgrading infrastructure in industrial concentration areas, especially at regional level (Energy networks, Transport, Business parks).
5. Integration of technology and innovation in production (Digital infrastructure, Skills, Investment in the digital economy, Use of intellectual property).
6. Developing human resources (Skills and knowledge for industry needs, Modern business performance management systems).
7. Promoting circular economy and industrial cohabitation.

In any case, the election of a new one-party government is expected to further improve the economic climate, building on the positive developments so far, in particular regarding the dynamism of exports of goods, the resilience of manufacturing production, the good performance of tourism and the declining unemployment.

More specifically, according to the latest data:

- **The economic climate indicator continued to improve in June 2019** and stood at 101 points from 100.8 in the previous month and 102.1 in June 2018. This improvement was mainly driven by a rebound in business expectations in retail sales, while in the other sectors there have been no significant changes. More specifically, in **industry** the balance of positive - negative estimates was -0.6 points, from -0.2 in the previous month and -1.6 in June 2018, yet business expectations for the evolution of production in the coming months improved. In **retail trade**, business expectations rebounded considerably, mainly as a result of positive estimates of current sales and their short-term growth. In **services**, the balance of positive - negative estimates improved slightly, as businesses remained optimistic on the current demand and its short-term development. Finally, in **construction**, the climate remained at a very low level, with the downward trend, however, showing signs of improvement in both private and public constructions.
- **Consumer confidence improved further in June 2019**, at -27.8 points, from -29.5 in the previous month and -48.9 in June 2018. Households' optimism is mainly reflected in their estimates on the evolution of their financial situation and the general economic situation of the country, which can be attributed on the one hand to the anticipated government change after the outcome of the European elections and on the other hand to the implementation of the pre-election measures supporting the disposable income of households (permanent benefit for pensioners, VAT reduction on food products and services, reduction of special solidarity



contribution rates, etc.). On the other hand, households' estimates for unemployment worsened slightly, as the percentage of those expecting that unemployment will rise reached 42.5% in June 2019, from 41.3% in the previous month and 54.6% in June of 2018. At the same time, consumers' intention for major purchases over the next 12 months (furniture, electrical equipment, etc.) and their intention to save declined.

The changes expected through the 4th industrial revolution (Industry 4.0) along with the need of an industrial revitalization throughout the regions of Greece should be key priorities for the new government.

- **Expectations in manufacturing, as measured by the Purchasing Managers' Index (PMI) fell notably in June 2019, yet the index remained at a level that indicates growth in the sector (over the 50 units threshold) for 25 consecutive months.** More specifically, PMI stood at 52.4 points from 54.2 in the previous month and 53.5 in June 2018. Despite the solid rates of production and employment growth, the effects of declining external demand seem to be beginning to seep into the Greek manufacturing sector, as new orders, both from the domestic and external markets, grew at a marginal rate.
- **Non-oil manufacturing production kept on rising in May 2019 (+3.8% on top of +1.4% in May 2017), while the overall index of industrial production fell by -1.2% as a result of the drop in the output in mining (-10%), electricity (-13.1%) and water supply (-2.7%).** In the period Jan - May 2019, non-oil manufacturing production rose by +4.3%, on top of +2.6% in the same period in 2018, showing resilience to the declining trends in Europe and globally. This rise is mainly attributed to tobacco products (+33.9%), pharmaceuticals (+28.6%) and computers (29.1%).
- **Exports of goods excluding oil and ships retain their dynamism, although the growth rate has slowed down.** More specifically, in May 2019 they rose by +7.3% (+7.6% at constant prices), while in the period Jan - May 2019 they recorded an increase of +6.8% (+6.4% at constant prices), on top of +11.6% in the same period in 2018, mainly on the back of exports of industrial products (+11%). However, the trade deficit widened further as imports grew faster. In particular, imports of goods excluding oil and ships increased by +17.6% (+15.3% at constant prices) in May 2019 and +9.4% (+6.1% at constant prices) in the period Jan - May 2019, with the trade deficit reaching -€6.8 billion, from -€6.0 billion in the same period in 2018.
- **The volume of retail sales excluding fuel dropped again in April 2019 (-2.7%), after a recovery in March 2019 (+3.6%),** raising concern about the evolution of private consumption in the second quarter of the year, which is growing at a slowing pace (+0.8% in the first quarter of 2019). Overall, in the period Jan - April 2019, non-fuel retail sales volume declined by -1.7%, vs +1.3% in the same period in 2018. The decline in retail sales volume may be linked to the slowing down growth of compensation per employee (+0.4% in Q1 2019, compared with +1.3% in 2018 as a whole). However, the increase of the minimum wage in February 2019, the new measures that support households' disposable income (permanent benefit for pensioners, VAT reduction on food products and services, reduction of special solidarity contribution rates, etc.) and the start of the tourist season are expected to reverse the downward trend in retail sales in the coming months. This is also reflected in business expectations in retail trade, which improved markedly in June 2019.
- **Tourism receipts increased by +22.8% in the period Jan - Apr 2019** (on top of +8.4% in Jan- Apr 2018), mainly due to the rise of the average expenditure per trip by +22.6%, as arrivals remained at about the same level as during the same period in 2018 (+0.5% in Jan - Apr 2019 vs +11.5% in Jan - Apr 2018). Although these data refer to a period of low tourist traffic, they create moderate expectations for tourism in 2019. At



the same time, in the period Jan - Apr 2019 transport receipts increased by +9.8% and receipts from other services by +7.1%.

- **Unemployment fell to 17.6% in April 2019**, from 18.2% in the previous month and 19.8% in April 2018. This decrease is attributed mainly to the start of the tourist season and is also reflected in ERGANI data, according to which in the period Jan – June 2019 net hirings reached 296.5 thousand (compared to 298.2 thousand in the period Jan - June 2018), of which 235.5 thousand in tourism (compared to 228.3 thousand in Jan – June 2018). At the same time, the share of full-time recruitment remained at the same level as in Jan - June 2018 (48.3%). Moreover, according to OAED data, in May 2019 the number of the registered unemployed jobseekers decreased by -27.1 thousand compared to the previous month, but remained higher compared to May 2018 (842.3 thousand in May 2019 vs 804.6 thousand in May 2018).
- **Inflation according to the National Consumer Price Index decelerated in May 2019 (+0.2%), while in June became negative (-0.3%)**. This decline is attributed on the one hand to the drop in oil prices (from US \$ 79.4 per barrel at the end of June 2018 to US \$ 66.5 per barrel at the end of June 2019) and, on the other hand, to the reduction of VAT on food products applied in June 2019. It is noted that in June 2019 inflation according to the Harmonized Index of Consumer Prices was +0.2%, while the same index at constant taxes reached +1.6%. Overall, during the 1st half of 2019 the average inflation was +0.5% (vs. +0.2% in the 1st half of 2018).
- **Households' deposits increased by €345 million in May 2019**, when their stock reached €111.5 billion, compared with €110 billion at the end of 2018. The steady rise in households' deposits (+€11.4 billion since July 2015, when capital controls were imposed) coupled with the fully repayment of European Emergency Liquidity Assistance (ELA) and the enhanced Greek banks' access to the interbank lending market improved banks' liquidity, leading to increased bank credit to businesses. More specifically, **bank credit expansion to businesses remained in positive territory for the 6th consecutive month in May 2019** (+2.6%), while credit expansion to households kept on declining (-2.5%).

The recovery of the Greek economy has not yet the dynamism needed so as to restore income and employment after 10 years of significant losses. Additionally, the slowdown in global trade and the mixed trends in business expectations in Europe may affect manufacturing and exports in the coming period. In any case, investment and the level of outward economic orientation remain inadequate, while Greece has already taken remarkable steps to adapt to the impacts of the crisis. The opportunities created by this process must be exploited without delays, in order for the economy to enter a path of strong growth.

Investment and the level of outward economic orientation remain inadequate, while Greece has already taken remarkable steps to adapt to the impacts of the crisis. The opportunities created by this process must be exploited without delays, in order for the economy to enter a path of strong growth.



Main indicators

Economic sentiment	2016	2017	2018	2019		
	Average	Average	Average	Apr	May	Jun
😊 Economic climate	91.8	96.6	102.1	100.3	100.8	101.0
😊 Consumer confidence	-62.9	-58.9	-44.0	-30.9	-29.5	-27.8
😊 % stating that their own economic situation will get worse	72%	67%	55%	42%	40%	38%
😊 % stating that the country's economic situation will get worse	79%	74%	59%	46%	45%	41%
😊 % stating that unemployment will rise	77%	68%	50%	45%	41%	42%
😊 % stating that they are unlikely to save	90%	91%	87%	87%	81%	83%

Employment, Unemployment, prices, wages	2017	2018	2019	Period
😊 Employment (persons, change year-to-date, seasonally adjusted)	+48,600	+46,100	+26,900	Jan – Apr
😊 Employment (persons, change during month, seasonally adjusted)	+104,000	+71,100	+50,600	Apr
😊 Registered unemployed seeking job (change year-to-date)	-80,235	-75,280	-93,175	Jan – Apr
😊 Registered unemployed seeking job (change during month)	-34,976	-32,669	-27,060	Apr
😊 Net hirings (year-to-date)	+215,304	+264,551	+265,059	Jan – May
😊 Net hirings (current month)	+89,534	+108,725	+105,284	May
😊 Unemployment rate (seasonally adjusted)	21.7%	19.8%	17.6%	Apr
😊 Year to date average rate (seasonally adjusted)	22.4%	20.3%	18.2%	Jan – Apr
😊 Consumer Price Index	1.0%	1.0%	-0.3%	Jun
😊 Change Year to date	1.3%	0.2%	0.5%	Jan – Jun
😊 Labour productivity per hour (2010 = 100)	92.7	93.7	93.4	Q1
😊 Year to date average	92.8	93.1	...	Jan – Dec
😊 Competitiveness (real effective exchange rate, 2010 = 100)*	81.5	83.3	82.4	Q1
😊 Year to date average	82.1	83.4	...	Jan – Dec

GDP (seasonally adjusted, at constant prices, yoy % change)	2016	2017	2018	2018	2019
				Q1	Q1
😊 GDP	-0.2%	1.5%	1.9%	2.6%	1.3%
😊 Domestic demand	0.5%	1.6%	0.4%	-2.9%	2.0%
😊 Private consumption	0.0%	0.9%	1.1%	0.5%	0.8%
😊 Public consumption	-0.7%	-0.4%	-2.5%	-0.3%	-4.1%
😊 Investment (including inventory change)	6.1%	10.0%	1.8%	-23.2%	21.2%
😊 Fixed investment	4.7%	9.1%	-12.2%	-9.0%	7.9%
😊 Residential construction	-12.6%	-5.5%	17.2%	11.3%	6.4%
😊 Non – residential construction	37.9%	1.2%	-22.9%	-2.3%	10.9%
😊 Machinery and equipment (incl. weapons)	-7.2%	6.2%	15.9%	22.7%	2.6%
😊 Transport equipment (incl. weapons)	-5.6%	50.9%	-43.5%	-56.0%	19.0%
😊 Exports of goods and services	-1.8%	6.8%	8.7%	8.6%	4.0%
😊 Exports of goods	3.7%	5.7%	8.4%	11.1%	-0.7%
😊 Exports of services	-7.7%	8.0%	9.0%	5.1%	8.7%
😊 Imports of goods and services	0.3%	7.1%	4.2%	-7.5%	9.5%
😊 Imports of goods	2.9%	6.7%	2.0%	-11.3%	9.9%
😊 Imports of services	-10.8%	9.0%	14.4%	11.8%	5.5%

Short term conjunctural indicators (yoy % change)	2017	2018	2019	Period	2019	Period
	(full-year)	(full-year)				
😊 Industrial production	3.9%	1.6%	1.2%	Jan – May	-1.2%	May
😊 Manufacturing (excluding oil)	2.6%	2.6%	4.3%	Jan – May	3.8%	May
😊 Production in construction	-14.6%	0.8%	...	...	-18.5%	Q1
😊 Building	-10.2%	17.7%	...	...	-15.3%	Q1
😊 Non – building	-18.0%	-13.1%	...	...	-22.3%	Q1
😊 Private building activity – building permits (volume in m³)	19.4%	21.3%	-13.0%	Jan – Apr	0.8%	Apr
😊 Retail sales (volume)	1.2%	1.5%	-1.1%	Jan – Apr	-2.7%	Apr
😊 Excluding automotive fuel	1.3%	1.7%	-1.7%	Jan – Apr	-2.7%	Apr
😊 New vehicle licenses	20.8%	22.6%	8.8%	Jan – Jun	4.9%	Jun
😊 Exports of goods excl. Oil & ships (ELSTAT, current prices)	7.2%	10.5%	6.8%	Jan – May	7.3%	May
😊 Exports of goods excl. Oil & ships, volume***	3.7%	9.1%	6.4%	Jan – May	7.6%	May
😊 Imports of goods excl. oil & ships (ELSTAT, current prices)	7.8%	8.4%	9.4%	Jan – May	17.6%	May
😊 Imports of goods excl. oil & ships, volume***	7.9%	8.7%	6.1%	Jan – May	15.3%	May
😊 Tourism – receipts	10.8%	10.1%	22.8%	Jan – Apr	6.9%	Apr
😊 Transportation – receipts	16.9%	14.9%	9.8%	Jan – Apr	9.0%	Apr
😊 Other services* – receipts	13.8%	-2.5%	7.1%	Jan – Apr	-2.1%	Apr
😊 Inbound travelers (excl. cruises)	9.7%	10.8%	0.5%	Jan – Apr	11.3%	Apr

* deflator: unit labour costs in the total economy - 37 trading partners - industrial countries, fall = competitiveness improvement

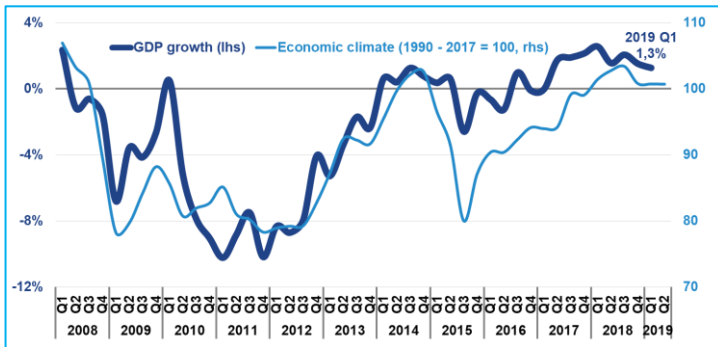
** includes construction business activity abroad, software and technology exports, etc

*** SEV estimation

Source: IOBE, ELSTAT, Bank of Greece, Ministry of Labour and Social Solidarity, DG ECFIN, European Commission

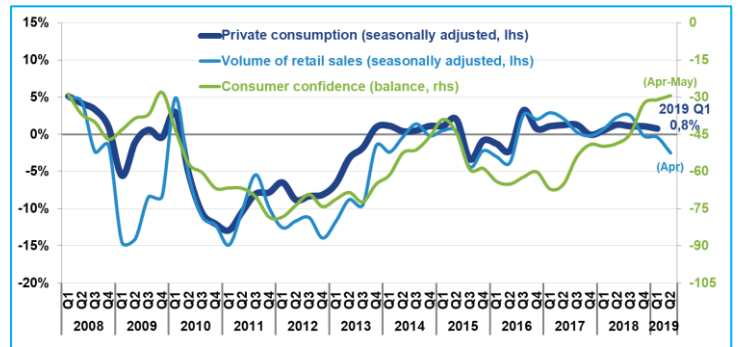


Economic climate



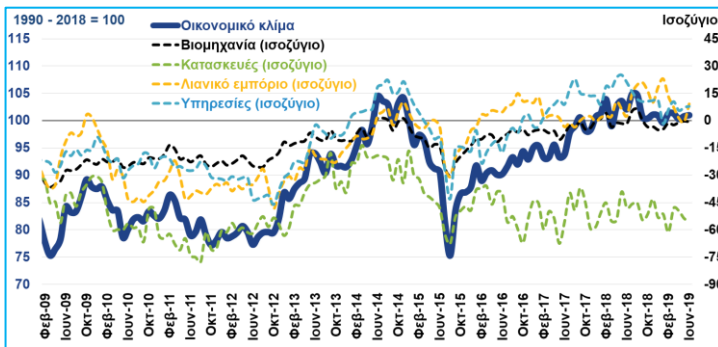
GDP AND ECONOMIC CLIMATE

(ELSTAT, Q1 2019, IOBE-DG ECFIN, June 2019)



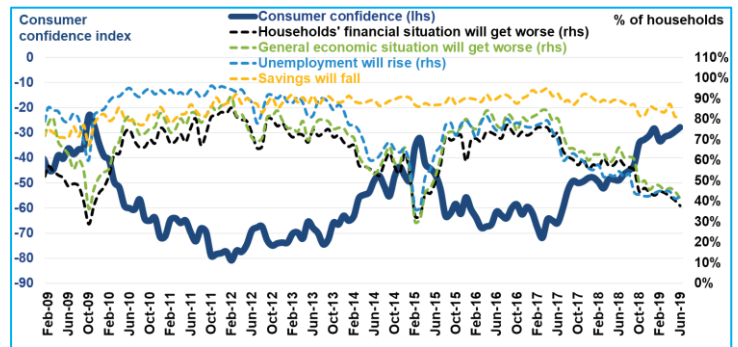
PRIVATE CONSUMPTION, RETAIL SALES, CONSUMER CONFIDENCE

(ELSTAT, Q1 2019, IOBE-DG ECFIN, June 2019)



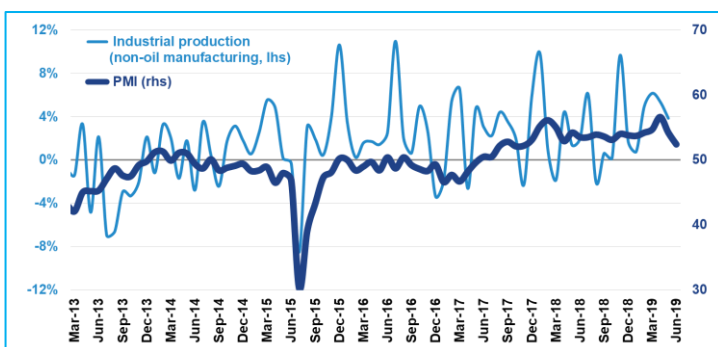
ECONOMIC CLIMATE AND BUSINESS EXPECTATIONS

(IOBE-DG ECFIN, June 2019)



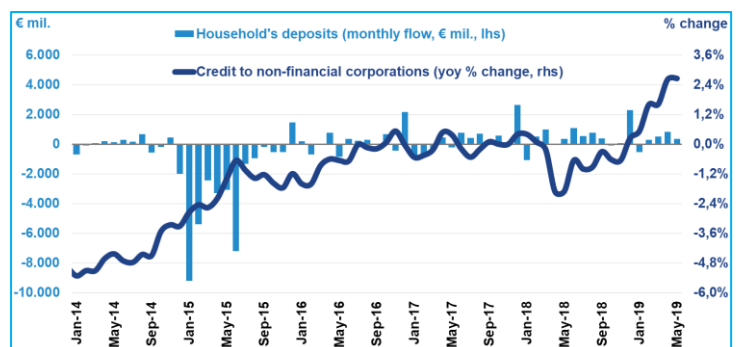
CONSUMER CONFIDENCE

(IOBE-DG ECFIN, June 2019)



PURCHASING MANAGERS' INDEX (PMI)

(Markit, June 2019)

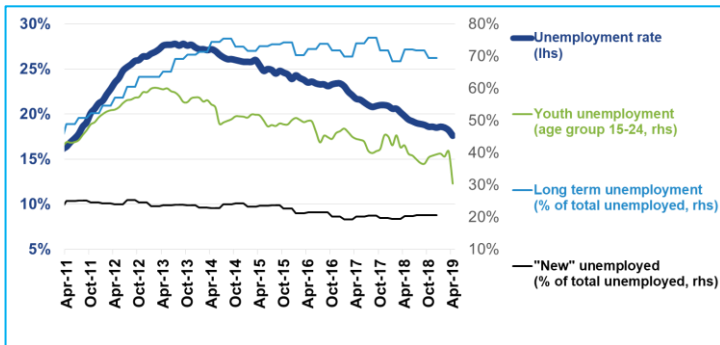


CREDIT TO BUSINESSES AND HOUSEHOLDS DEPOSITS

(Bank of Greece, May 2019)



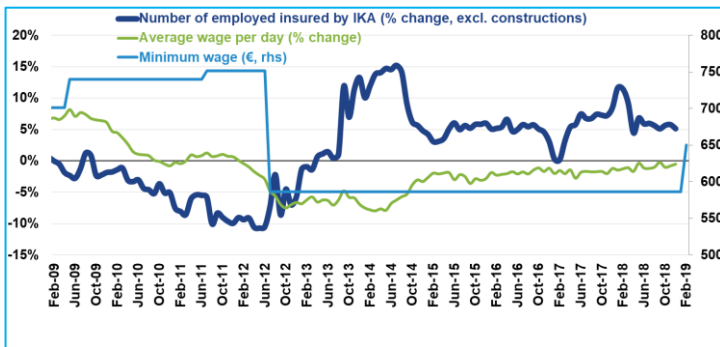
Employment, prices, wages



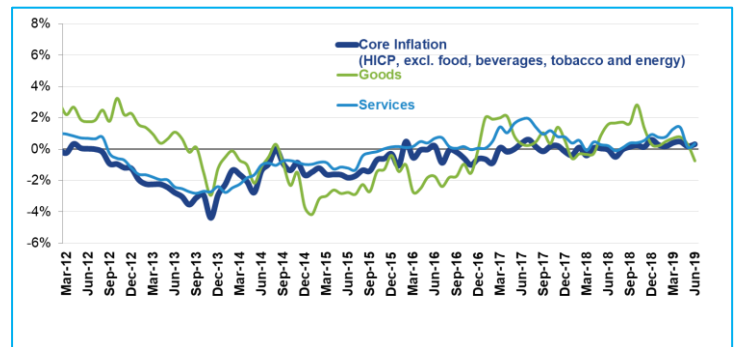
UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)
 (ELSTAT, Apr. 2019)



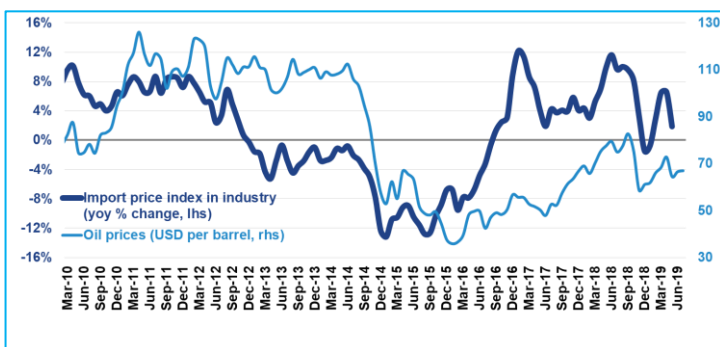
NET HIRINGS
 (ERGANI, June 2019)



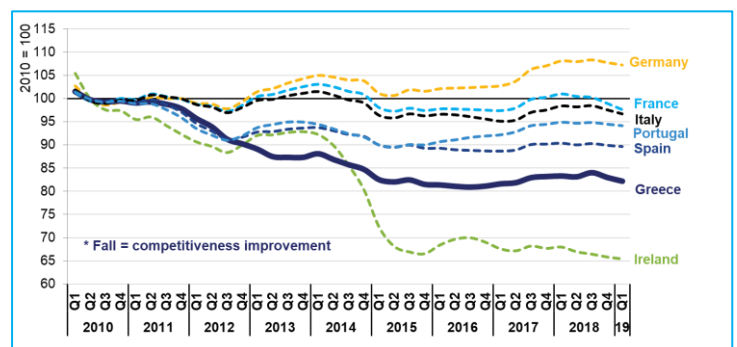
NUMBER OF EMPLOYED INSURED BY IKA AND AVERAGE WAGE
 (Yoy % change, EFKA, Dec. 2018)



GOODS AND SERVICES INFLATION, CORE INFLATION
 (ELSTAT, June 2019)



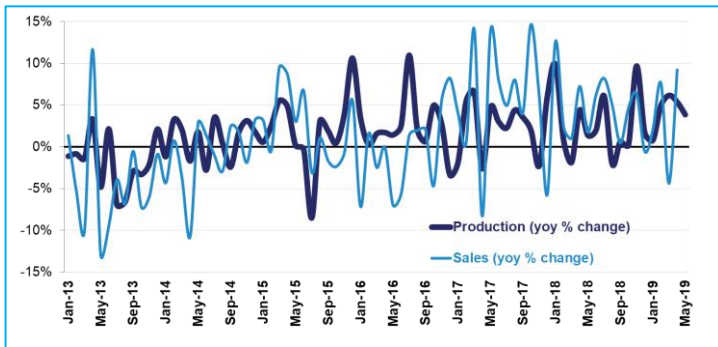
IMPORT PRICE INDEX IN INDUSTRY AND OIL PRICES
 (ELSTAT, May 2019, Bloomberg, 16 July 2019)



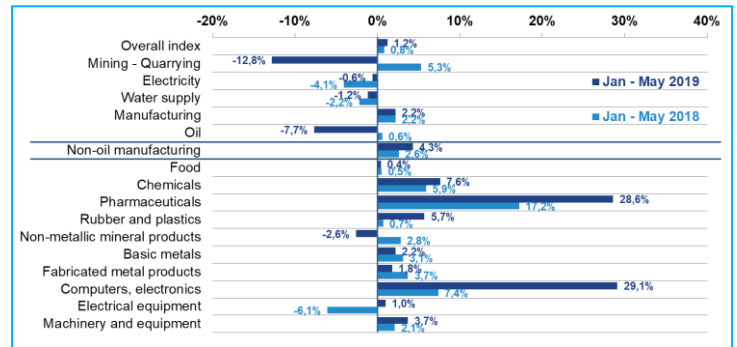
PRICE AND COST COMPETITIVENESS: REAL EFFECTIVE EXCHANGE RATE
 (Eurostat, Q1 2019)



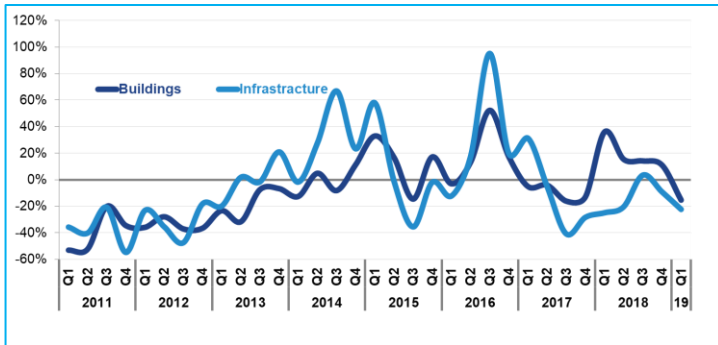
Industry, trade, services



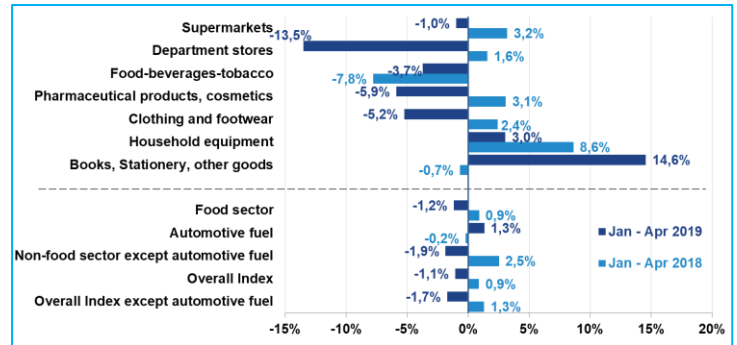
PRODUCTION AND TURNOVER IN NON-OIL MANUFACTURING
(ELSTAT, May 2019)



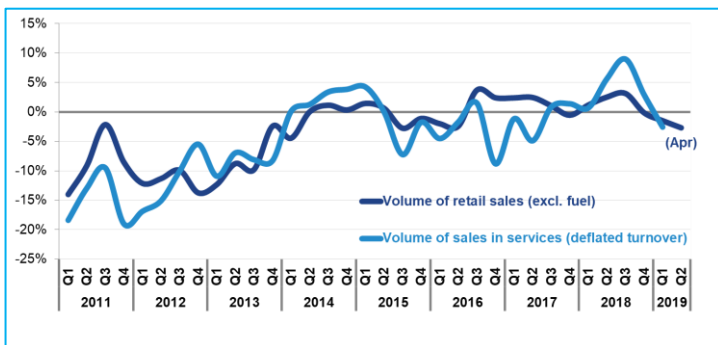
INDUSTRIAL PRODUCTION BY SECTOR
(ELSTAT, May 2019)



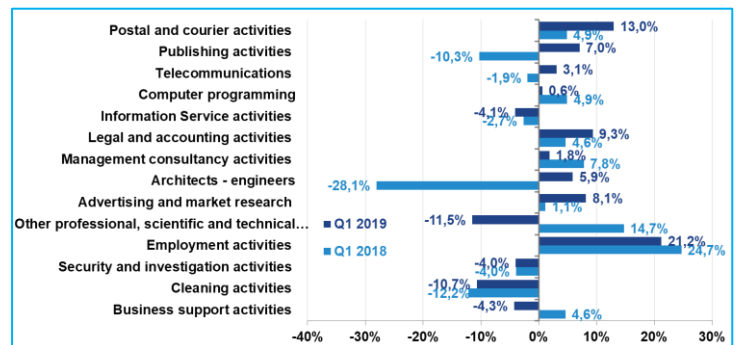
VOLUME OF PRODUCTION IN CONSTRUCTION
(Yoy % change, ELSTAT, Q1 2019)



VOLUME OF RETAIL SALES
(% change by store category, ELSTAT, Apr. 2019)



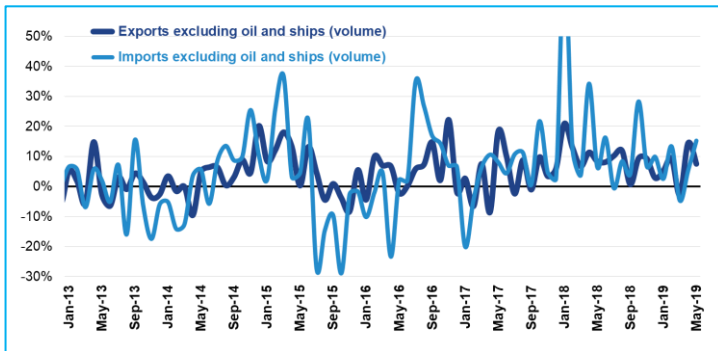
VOLUME OF RETAIL AND SERVICES SALES
(ELSTAT, Eurostat, Q1 2019, ELSTAT, Apr. 2019)



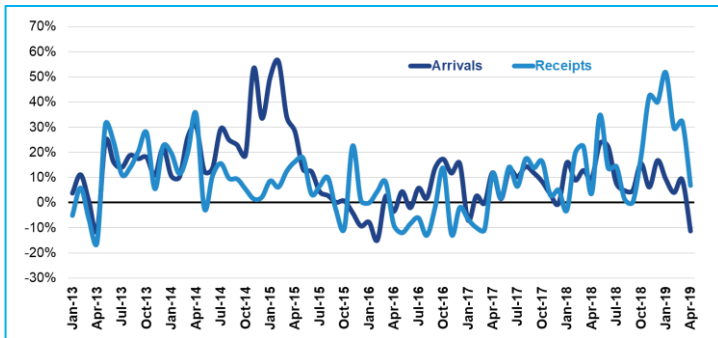
TURNOVER INDICES IN SERVICES
(ELSTAT, Q1 2019)



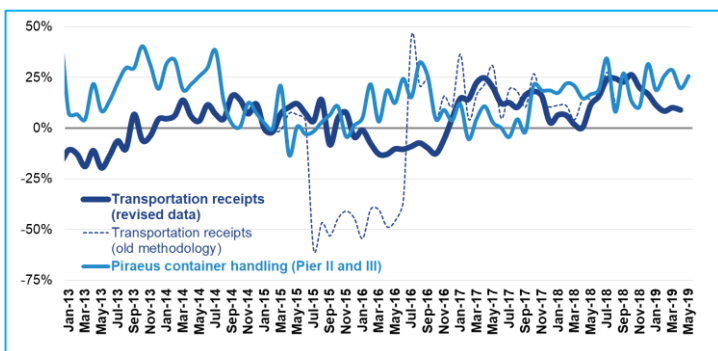
Exports, tourism



VOLUME OF NON-OIL EXPORTS AND NON-OIL IMPORTS OF GOODS
(ELSTAT, May 2019)



TOURIST ARRIVALS AND RECEIPTS
(Bank of Greece, Apr. 2019)

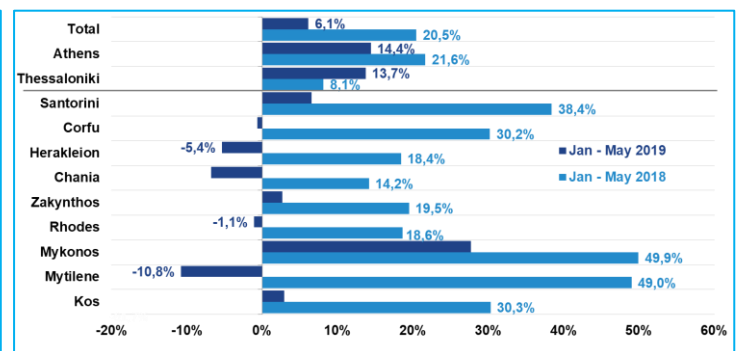


TRANSPORTATION RECEIPTS
(BoG, Apr. 2019, Piraeus container handling: COSCO, May 2019)

Group of products	Jan – May		%Δ
	(€ mil.)		
	2018	2019	
Agricultural products	2,546.7	2,413.9	-5.2%
Food	1,898.4	1,920.9	1.2%
Beverages / Tobacco	277.7	311.6	12.2%
Animal and vegetable oil	370.6	181.4	-51.1%
Crude Materials	543.5	667.2	22.8%
Mineral Fuels	4,458.7	4,467.9	0.2%
Industrial products	5,649.3	6,271.5	11.0%
Chemicals	1,408.3	1,668.7	18.5%
Goods classified by material	2,142.4	2,236.9	4.4%
Machinery & transport equipment	1,208.4	1,253.7	3.7%
Misc. manufactured articles	890.1	1,112.2	24.9%
Not classified commodities	231.2	198.7	-14.0%
Total	13,429.4	14,019.2	4.4%
Total excl. Oil	8,970.7	9,551.3	6.5%

Memo item:	Jan – Apr		%Δ
	2018	2019	
Manufactured products	4,949.5	5,323.4	7.6%
of which: Food / Beverages	1,229.7	1,093.4	-11.1%
Crude materials & primary products	1,073.7	1,151.4	7.2%
of which: Agricultural products	639.6	625.2	-2.2%
Total excl. Oil	6,023.2	6,474.8	7.5%
Oil	4,458.7	4,467.9	0.2%
Total	10,481.9	10,942.7	4.4%

EXPORTS BY PRODUCT
(ELSTAT, Eurostat, May. 2019)



INTERNATIONAL ARRIVALS AT MAIN AIRPORTS
(SETE, May 2019)



SEV Members Financial Data

ASSETS
€325 bn
69% of total*



EQUITY
€61 bn
51% of total*



TURNOVER
€66 bn
46% of total*



PROFITS BEFORE TAXES
€4.0 bn**
41% of total**



EMPLOYEES
197,000
10% employees insured by EFKA



WAGES
€4.9 bn
18% of total***



SOCIAL SECURITY CONTRIBUTIONS
€2.1 bn
23% of total***



TAXES ON PROFITS
€1.1 bn
27% of total****



* 21,075 financial statements for fiscal year 2017 included in ICAP database

** sum of reported profits

*** % of total regular earnings (excluding bonuses and overtime)/social security contributions of employees insured by EFKA

**** % of total revenues from corporate income tax

Source: ICAP, Hellastat, Ministry of Finance, EFKA, ELSTAT



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