

Main figures of the Draft Budget 2020 (Ministry of Finance, Oct. 2019)

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MACROECONOMIC ANALYSIS AND EUROPEAN POLICY

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SUPPORTED BY:



(€ mil., including fiscal measures)	2019 Estimate	2020 Projection
Ordinary budget balance	430	-273
Net revenue	50,582	50,029
Expenditure	50,152	50,302
Public investment budget balance	-2,426	-2,650
Revenue	3,724	4,100
Expenditure	6,150	6,750
State budget balance	-1,996	-2,923
General Government balance	2,481	1,946
Interest payments	5,665	5,232
General Government primary balance (ESA 2010)	8,146	7,178
Enhanced surveillance definition adjustments	-1,151	-151
SMP and ANFA revenue	-936	-251
Privatization revenue	-357	-39
Migration flows expenditure	142	138
Primary balance (Enhanced surveillance definition)	6,996	7,026
% of GDP	3,68%	3,56%
Enhanced surveillance target	6,650	6,906
% of GDP	3,5%	3,5%
Over performance	346	120
GDP	190,004	197,315

Tax relief made possible through efforts to arrest tax evasion and to rationalize spending...

At present, the Greek economy is supported by a new policy mix, reversing overtaxation and establishing a friendlier business environment, amidst improved confidence about Greece's prospects, both at home and in the international markets. However, tax relief measures and reducing red tape, though necessary, may not be sufficient for the economy's takeoff. In the Draft Budget for 2020, key interventions that could enhance its growth dimension are limited. The tax system remains focused on measures to support disposable income of lower income strata of the population (income and property taxation), without measures for the effective broadening of the tax base and the reduction of non-wage costs of the heavily taxed higher pay grades which, hence, opt to join the brain drain exodus. Moreover, public sector consumption spending, figures keep on rising despite plans for spending reviews, performance budgeting and spending controls. Finally, the Public Investment Budget remains limited as a growth engine.

More specifically, the Draft Budget 2020 foresees a primary surplus (as per the enhanced surveillance definition) of 3.6% of GDP in 2020 from 3.7% in 2019. In this regard, there have been tax cuts (in particular changes in the corporate tax rate from 28% to 24% and a new tax rate of 9% on personal income of up to €10,000) and social protection interventions, totaling €1.2 bn. The cost of these interventions is planned to be offset (while also maintaining a buffer) by additional revenue from widening the tax base, such as the promotion of electronic transactions and the improvement of revenue collectability from real estate taxes, and the streamlining of expenditure, including the shift of investment expenditure in EU co-financed projects. These measures are not itemized by concrete source, increasing the risk of slippages in budget implementation.

It is noted that total revenue from value added tax, excise duty, real estate taxes and personal and corporate income tax is expected to increase in 2020 by €111 mil. in comparison to 2019. This is partly justified by the higher growth rate. Also, the target of the Public Investment Plan is set at €6.75 bn., at the same level with the 2019 target which is already underimplemented, as spending is expected to reach only €6.15 bn. There is also a



primary surplus over-performance on top of the target of 3.5% of GDP to be spent for benefits and tax relief, estimated at €346 mil. for 2019 and €120 mil. for 2020, markedly lower than the overperformance of €1.5 bn. in 2018. Finally, government arrears to the private sector reached €1.6 bn. in July 2019 and pending tax returns €0,7 bn., yet there isn't a timeline for the arrears drawdown, while no estimates are provided for the outstanding pension claims.

Additionally, the personal income tax brackets have not been announced yet, although budget figures show a reduction of €46 mil. in revenue. Non-official information indicates relatively larger tax cuts in lower incomes rather than for those earning more than € 20.000, and much greater tax relief to the self-employed than to waged labour. If this information is confirmed, then changes in personal income taxation are in the wrong direction, as they limit the growth dimension of taxation: On the one hand, there won't be any incentives of non-wage cost cuts for the most productive employees (apart from the general cut in social security contributions by 1 p.p. from July 2020). On the other hand, there will be disincentives for the rebalancing of the workforce towards the increase of wage earners, which is linked to higher growth rates worldwide. Finally, if the reduction of the tax free limit is restricted, to amounts less than €1,000 per child, then families may not be protected as expected.

D01: Key indicators for the Greek economy
(Ministry of Finance, *Draft Budget 2020, Oct. 2019*)

(annual % change, constant prices)	2018	2019	2020
GDP	1.9	2.0	2.8
Private consumption	1.1	0.6	1.8
Public consumption	-2.5	1.6	0.6
Gross fixed capital formation	-12.2	8.8	13.4
Exports of goods and services	8.7	4.9	5.1
Imports of goods and services	4.2	4.1	5.2
GDP deflator	0.6	0.9	1.0
Harmonized Index of Consumer Prices	0.8	0.6	0.7
Employment (National Accounts)	1.7	2.0	1.8
Unemployment rate (National Accounts)	17.8	15.9	14.0
Unemployment rate (Labor Force Survey)	19.3	17.4	15.6

In conclusion, the Draft Budget 2020 is based on relatively sound macroeconomic assumptions (GDP growth 2.8%, private consumption increase by 1.8% and investment growth close to 15%, **D01**). Nevertheless, fiscal interventions, though in the right direction, are rather doubtful. Perhaps, they should be complemented with specific measures in case efforts to reduce tax evasion will not pay off or there will be slippages if economic activity turns lower than expected, due to the global economic conjuncture.

On 08/10/2019, Greece issued €1.5 bn. of 10-year bonds at a record low yield of 1.5 %. In addition, on 09/10/2019, Greece raised €478.5 mil. through a 3-month paper at a negative yield of -0.02%. These developments show that investors have grown more confident about the prospects of the Greek economy.

On the other hand, on 27/09/2019, following consultation with Greek authorities, the IMF issued a preliminary concluding statement of its official staff mission to Athens. For the IMF, the reversal of measures and reforms after exiting the financial assistance program has had a negative impact on the economy's growth prospects. According to the IMF, growth in 2019 and 2020 will remain at around 2%. Debt sustainability is not ensured in the long run as potential growth remains at very low levels (0.9%), requiring ambitious policy measures if it is to be raised Bank credit, as well as a strong debt payment culture, must be restored as a matter of priority. There must be a consensus from all parties involved to adopt primary surplus targets below 3.5% of GDP from 2020 onwards, in order to meet investment and social spending needs. The structural transformation of the Greek economy remains an open question, despite the promising start of the new government to unblock

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privatization and push through business deregulation and digitalization. Finally, labor market reform remains incomplete. Further steps are needed to reduce non-wage costs, link wages to productivity, implement active labor market policies and remove barriers to women's participation in the workforce.

Regarding developments in the short-term indicators, a further improvement in consumer confidence was recorded in September 2019, with the economic climate remaining at the highest level since December 2007. Moreover, exports and manufacturing production kept on increasing, yet at a slower pace. At the same time, tourism continued growing in 2019, contributing to the gradual decline in unemployment.

More specifically:

- The **economic climate indicator** stood at 107.2 points in September 2019, from 108.4 points in the previous month and 100.6 points in September 2018. A slight increase in expectations in industry, despite the downward trends in Europe and internationally, and a significant improvement of the climate in retail trade for the 4th consecutive month, was followed by a deterioration in services and construction. The **improvement of the climate in industry** was mainly driven by the positive outlook for production over the next quarter, while estimates on new orders, both from the domestic market and exports, marginally improved. At the same time, **business expectations in retail trade rose** mainly due to positive estimates for current sales and their evolution in the next quarter. On the contrary, **business climate declined slightly in services**, as a result of modest forecasts on current demand, while **business expectations in construction remain significantly low**.
- **Consumer confidence** improved to -6.8 points in September 2019, from -8.2 points in the previous month and -42.7 points in September 2018. This is the highest level since September 2000, when it was at -6 points. The optimism of households is reflected in all sub-indicators, particularly in their estimates on the general situation of the country, while in most indicators there were no significant changes compared to August 2019.
- **Business expectations in manufacturing, according to the PMI Index, remained positive in September 2019**. Despite a slight drop to 53.6 points from 54.9 points in the previous month, estimates on production and new orders were still high. However, employment growth slowed down amid a decrease in backlogs of work. In any case, Greek manufacturing seems to be defying the negative trends observed in other European countries.
- **Non-oil manufacturing production returned to a positive territory in August 2019**, following a marginal decline in July 2019 after increasing for 10 consecutive months. More specifically, non-oil manufacturing production rose by +0.5% in August 2019 (vs -2% in August 2018) and by +3.4% in the period Jan – Aug 2019 (on top of +2.5% in Jan – Aug 2018). Yet, there are mixed trends among the key sectors, as production of tobacco (+30.8%), pharmaceuticals (+26.7%) and electronics (+27.1%) increased sharply, while production declined in clothing (-6.1%), textiles (-3.3%), paper (-4.6%), non-metallic minerals (-4.9%), basic metals (-1.6%), metallic products (-1.6%), cars (-5.6%), other transport equipment (-6.6%) and furniture (-1.2%).
- **Exports of goods kept on rising in August 2019**, despite tensions in international trade. Specifically, exports of goods excluding oil and ships increased by +3.3% in August 2019 (+3.9% at constant prices), while imports excluding oil and ships decreased by -3.4% (-3.8 at constant prices). Overall, in the period Jan - Aug 2019 exports of goods excluding oil and ships rose by +5.1% (+5.3 at constant prices). This was mainly due to the strong export performance of industrial products (+16.5%), particularly miscellaneous manufactured articles (+26.3%) and chemicals (+16.5%). Exports of raw materials also rose significantly (+10.4%), while olive oil (-46.2%) and fuel exports (-3.4%) dropped. At the same time, imports excluding oil

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and ships increased faster (+5.6%), widening the trade deficit (excluding oil and ships) by €673 mil. (€11.3 bn. from €10.6 bn. in Jan - Aug 2018).

- **Tourism continues to perform well in 2019.** Tourism receipts were up by +13.6% in Jan - Jul 2019, mainly due to higher average expenditure per trip (+13.1%), as arrivals increased only marginally (+ 0.6%).
- **Seasonally adjusted unemployment fell at 16.9% in July 2019**, from 17.1% in the previous month and 19.1% in July 2018. At the same time, registered unemployed job seekers declined by 5.2 thousand in August 2019 compared to the previous month (vs +13.6 thousand in August 2018) and by 47.4 thousand compared to December 2018, mainly due to the good performance of tourism.
- **Bank credit expansion to businesses reached +2.92% in August 2019**, remaining for the 9th consecutive month in positive territory. At the same time, **households' deposits** increased by €1.46 bn., recording constantly positive flows since February 2019. Additionally, households' deposits stock reached €114.3 bn. in August 2019, vs €110 bn. in December 2018 and €107.2 bn. in August 2018.
- **The volume of retail sales excluding fuel declined by -3.5% in July 2019**, despite positive expectations in retail trade. This raises concern about the evolution of private consumption in the 3rd quarter of 2019. The decline in the overall index was mainly due to the drop in department stores (-20%), food, beverage and tobacco stores (-14.3%) and pharmaceuticals and cosmetics stores (-8%). However, the improvement of business expectations in retail trade, indicates possibly a reverse in the downward trend since the beginning of 2019. Overall, during the period Jan - July 2019 the volume of retail sales excluding fuel fell by -1.6% (vs +1.9% in Jan – July 2018), after a significant drop in department stores (-16.6%, vs + 2.1% in Jan – July 2018) and food, beverages and tobacco stores (-5.7% on top of -6.2% in Jan – July 2018).

The structural transformation of the Greek economy remains an open question, despite the promising start of the new government to unblock privatization and push through business deregulation and digitalization.



Main indicators

Economic sentiment

	2016	2017	2018	2019		
	Average	Average	Average	July	Aug	Sep
Economic climate	91.8	96.6	102.1	105.3	108.4	107.2
Consumer confidence	-62.9	-58.9	-44.0	-20.2	-8.2	-6.8
% stating that their own economic situation will get worse	72%	67%	55%	32%	16%	19%
% stating that the country's economic situation will get worse	79%	74%	59%	29%	16%	16%
% stating that unemployment will rise	77%	68%	50%	35%	22%	23%
% stating that they are unlikely to save	90%	91%	87%	81%	76%	79%

Employment, Unemployment, prices, wages

	2017	2018	2019	Period
Employment (persons, change year-to-date, seasonally adjusted)	+121,600	+97,200	+66,700	Jan – Jul
Employment (persons, change during month, seasonally adjusted)	+6,800	+2,200	-10,100	Jul
Registered unemployed seeking job (change year-to-date)	-82,978	-38,400	-47,360	Jan – Aug
Registered unemployed seeking job (change during month)	-2,975	+13,627	-5,221	Aug
Net hirings (year-to-date)	+248,743	+281,813	+284,886	Jan – Aug
Net hirings (current month)	-14,402	-7,748	+3,111	Aug
Unemployment rate (seasonally adjusted)	21.0%	19.1%	16.9%	Jul
Year to date average rate (seasonally adjusted)	21.9%	19.8%	17.7%	Jan – Jul
Consumer Price Index	1.0%	1.1%	-0.1%	Sep
Change Year to date	1.2%	0.5%	0.3%	Jan – Sep
Labour productivity per hour (2010 = 100)	92.4	92.6	92.9	Q2
Year to date average	92.6	93.2	93.0	Jan – Jun
Competitiveness (real effective exchange rate, 2010 = 100)*	81.7	83.2	82.6	Q2
Year to date average	81.6	83.2	82.6	Jan – Jun

GDP

(seasonally adjusted, at constant prices, yoy % change)

	2017	2018	2019		
			Q1	Q2	Jan - Jun
GDP	1.5%	1.9%	1.1%	1.9%	1.5%
Domestic demand	1.6%	0.4%	1.7%	0.7%	1.2%
Private consumption	0.9%	1.1%	0.5%	-0.7%	-0.1%
Public consumption	-0.4%	-2.5%	-1.4%	5.3%	1.9%
Investment (including inventory change)	10.0%	1.8%	14.5%	1.1%	7.6%
Fixed investment	9.1%	-12.2%	8.3%	-5.8%	0.7%
Residential construction	-5.5%	17.2%	6.7%	19.5%	13.1%
Non – residential construction	1.2%	-22.9%	-2.5%	-45.5%	-26.9%
Machinery and equipment (incl. weapons)	6.2%	15.9%	3.3%	3.0%	3.1%
Transport equipment (incl. weapons)	50.9%	-43.5%	20.3%	73.6%	43.6%
Exports of goods and services	6.8%	8.7%	4.3%	5.4%	4.8%
Exports of goods	5.7%	8.4%	-0.4%	4.0%	1.8%
Exports of services	8.0%	9.0%	9.1%	6.9%	8.0%
Imports of goods and services	7.1%	4.2%	9.8%	3.7%	6.7%
Imports of goods	6.7%	2.0%	10.1%	3.9%	6.9%
Imports of services	9.0%	14.4%	6.3%	2.8%	4.5%

Short term conjunctural indicators

(yoy % change)

	2017 (full-year)	2018 (full-year)	2019	Period	2019	Period
Industrial production	3.9%	1.6%	0.7%	Jan – Aug	-0.6%	Aug
Manufacturing (excluding oil)	2.6%	2.6%	3.4%	Jan – Aug	0.5%	Aug
Production in construction	-14.6%	0.8%	-11.9%	Jan – Jun	-5.8%	Q2
Building	-10.2%	17.7%	-12.0%	Jan – Jun	-9.3%	Q2
Non – building	-17.9%	-13.1%	-11.7%	Jan – Jun	-1.7%	Q2
Private building activity – building permits (volume in m³)	19.4%	21.3%	-1.4%	Jan – Jul	21.7%	Jul
Retail sales (volume)	1.2%	1.5%	-1.0%	Jan – Jul	-3.0%	Jul
Excluding automotive fuel	1.3%	1.7%	-1.6%	Jan – Jul	-3.5%	Jul
New vehicle licenses	20.8%	22.6%	12.9%	Jan – Sep	22.9%	Sep
Exports of goods excl. Oil & ships (ELSTAT, current prices)	7.2%	10.5%	5.1%	Jan – Aug	3.3%	Aug
Exports of goods excl. Oil & ships, volume***	3.7%	9.1%	5.3%	Jan – Aug	3.9%	Aug
Imports of goods excl. oil & ships (ELSTAT, current prices)	7.8%	8.4%	5.6%	Jan – Aug	-3.4%	Aug
Imports of goods excl. oil & ships, volume***	7.9%	8.7%	2.4%	Jan – Aug	-2.8%	Aug
Tourism – receipts	10.8%	10.1%	13.6%	Jan – Jul	11.1%	Jul
Transportation – receipts	16.9%	14.9%	6.9%	Jan – Jul	5.0%	Jul
Other services* – receipts	13.8%	-2.5%	0.4%	Jan – Jul	-0.9%	Jul
Inbound travelers (excl. cruises)	9.7%	10.8%	0.6%	Jan – Jul	2.4%	Jul

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

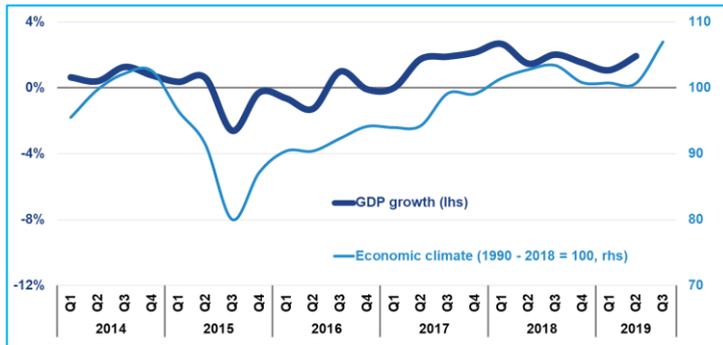
** includes construction business activity abroad, software and technology exports, etc

*** SEV estimation

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

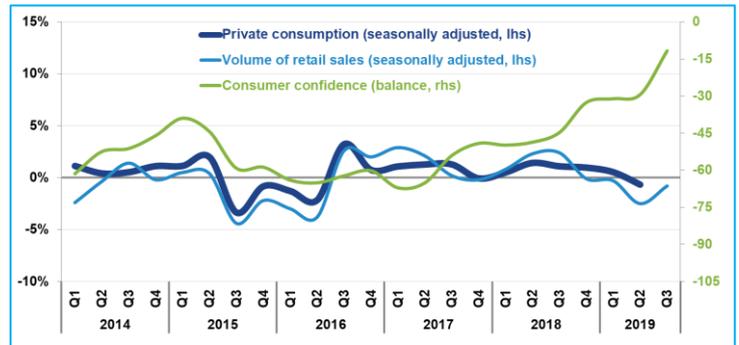


Economic climate



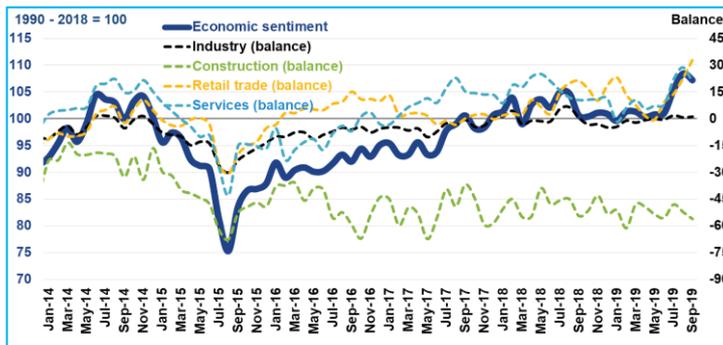
GDP AND ECONOMIC CLIMATE

(ELSTAT, Q2 2019, IOBE-DG ECFIN, Sep. 2019)



PRIVATE CONSUMPTION, RETAIL SALES, CONSUMER CONFIDENCE

(ELSTAT, Q2 2019, IOBE-DG ECFIN, Sep. 2019)



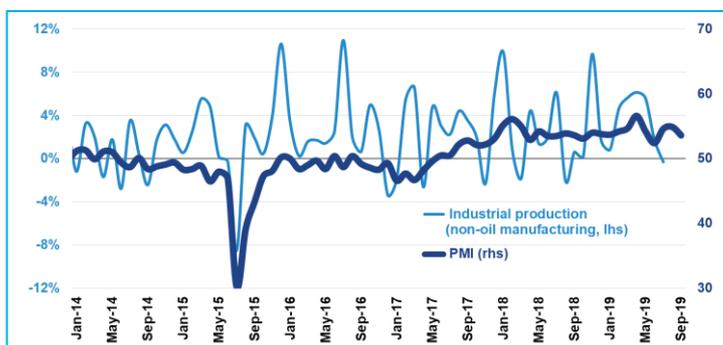
ECONOMIC CLIMATE AND BUSINESS EXPECTATIONS

(IOBE-DG ECFIN, Sep. 2019)



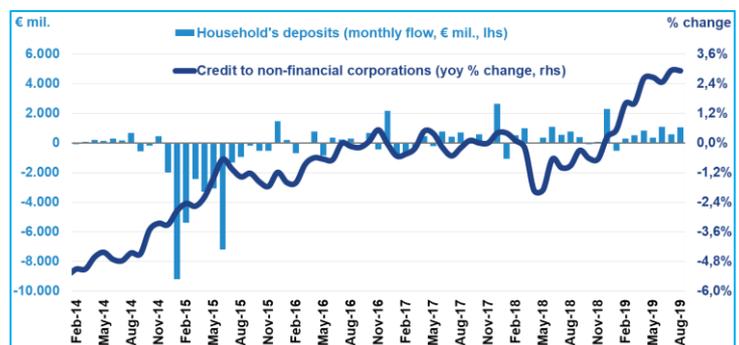
CONSUMER CONFIDENCE

(IOBE-DG ECFIN, Sep. 2019)



PURCHASING MANAGERS' INDEX (PMI)

(Markit, Sep. 2019)

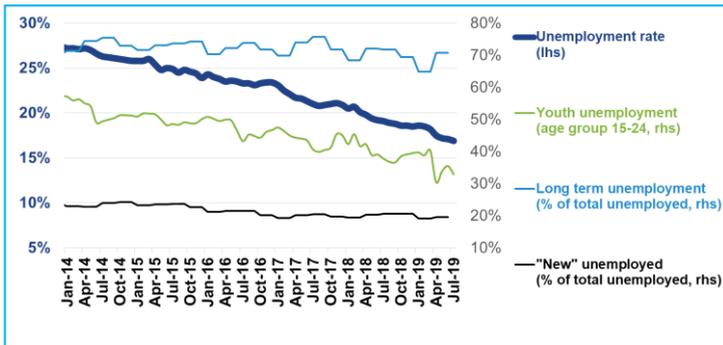


CREDIT TO BUSINESSES AND HOUSEHOLDS DEPOSITS

(Bank of Greece, Aug. 2019)



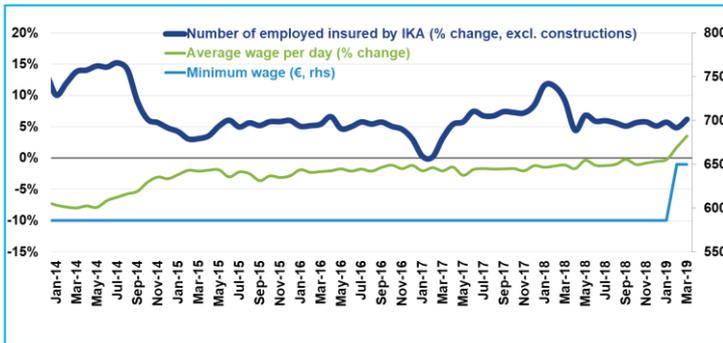
Employment, prices, wages



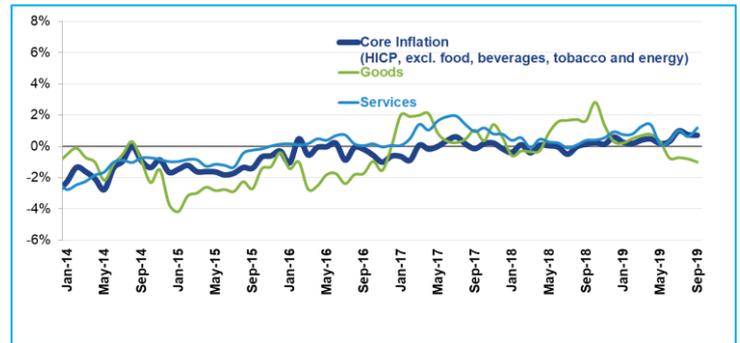
UNEMPLOYMENT RATE (SEASONALLY ADJUSTED)
(ELSTAT, July 2019)



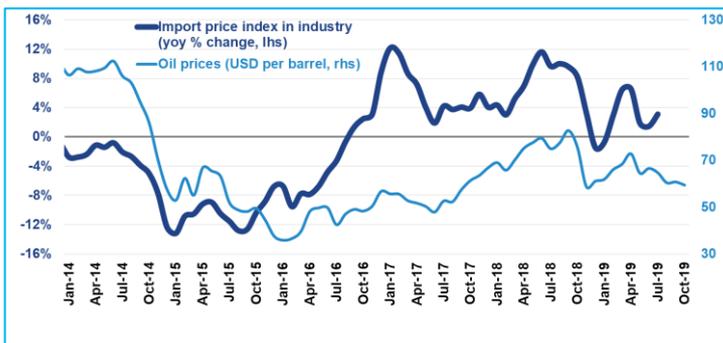
NET HIRINGS
(ERGANI, Aug. 2019)



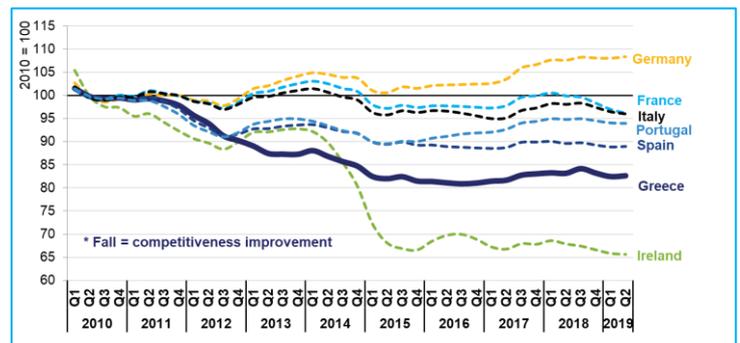
NUMBER OF EMPLOYED INSURED BY IKA AND AVERAGE WAGE
(Yoy % change, EFKA, Mar. 2019)



GOODS AND SERVICES INFLATION, CORE INFLATION
(ELSTAT, Sep. 2019)



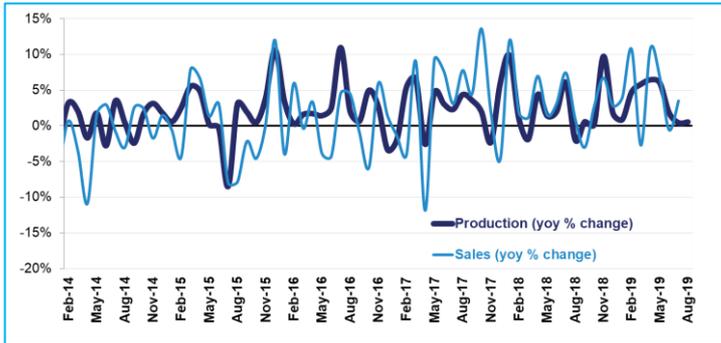
IMPORT PRICE INDEX IN INDUSTRY AND OIL PRICES
(ELSTAT, July 2019, Bloomberg, 11 Oct. 2019)



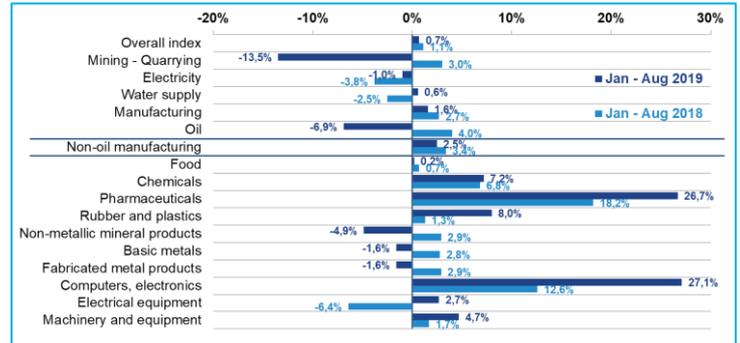
PRICE AND COST COMPETITIVENESS: REAL EFFECTIVE EXCHANGE RATE
(Eurostat, Q2 2019)



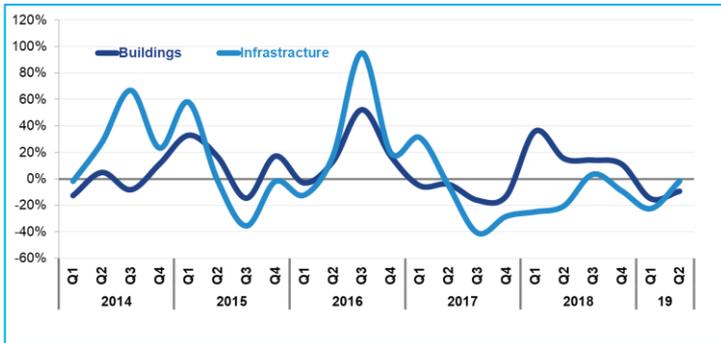
Industry, trade, services



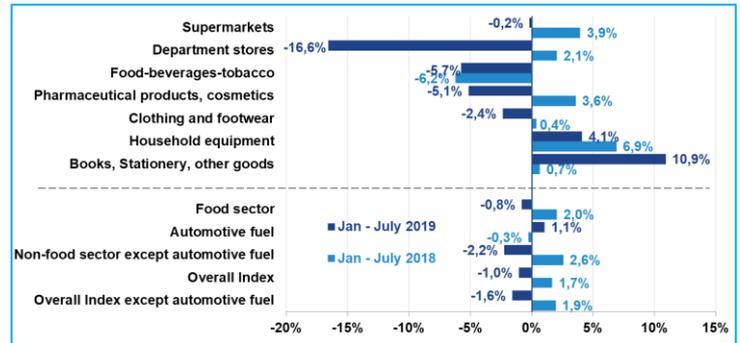
PRODUCTION AND TURNOVER IN NON-OIL MANUFACTURING
(ELSTAT, Aug. 2019)



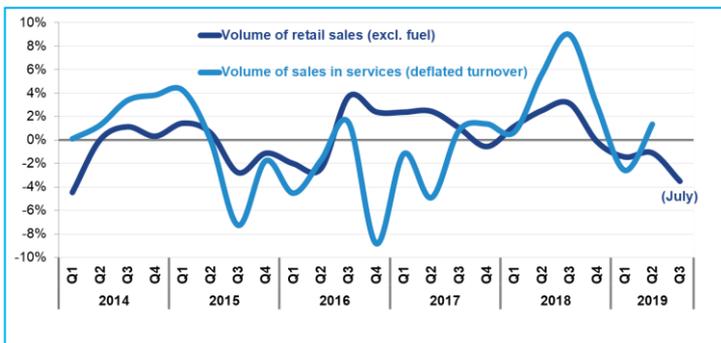
INDUSTRIAL PRODUCTION BY SECTOR
(ELSTAT, Aug. 2019)



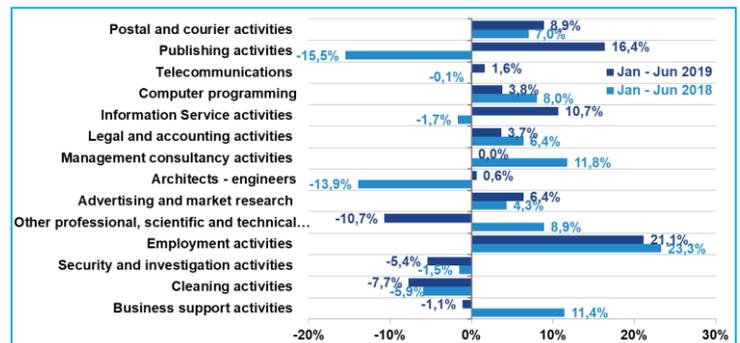
VOLUME OF PRODUCTION IN CONSTRUCTION
(Yoy % change, ELSTAT, Q2 2019)



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



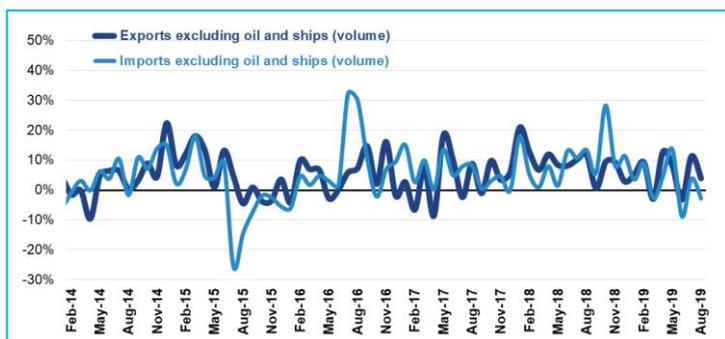
VOLUME OF RETAIL AND SERVICES SALES
(ELSTAT, Eurostat, Q2 2019, ELSTAT, July 2019)



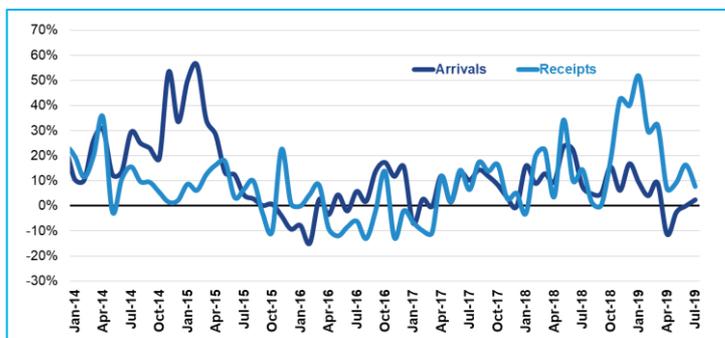
TURNOVER INDICES IN SERVICES
(ELSTAT, Q2 2019)



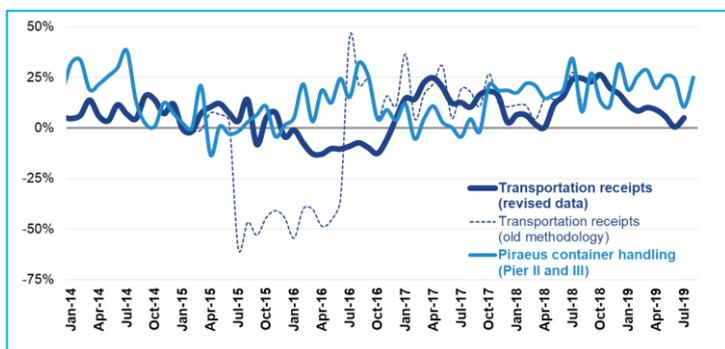
Exports, tourism



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



TOURIST ARRIVALS AND RECEIPTS
(Bank of Greece, July 2019)

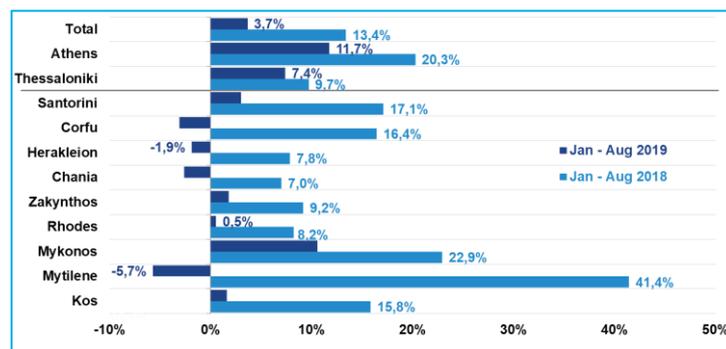


TRANSPORTATION RECEIPTS
(BoG, July 2019, Piraeus container handling: COSCO, Aug 2019)

Group of products	Jan – Aug		%Δ
	(€ mil.)		
	2018	2019	
Agricultural products	4.071,9	3.904,3	-4,1%
Food	3.109,9	3.142,3	1,0%
Beverages / Tobacco	468,9	496,7	5,9%
Animal and vegetable oil	493,1	265,3	-46,2%
Crude Materials	827,0	913,3	10,4%
Mineral Fuels	7.523,0	7.270,7	-3,4%
Industrial products	9.187,7	9.990,3	8,7%
Chemicals	2.271,2	2.646,1	16,5%
Goods classified by material	3.498,3	3.450,4	-1,4%
Machinery & transport equipment	1.955,1	2.045,5	4,6%
Misc. manufactured articles	1.463,1	1.848,3	26,3%
Not classified commodities	384,7	333,1	-13,4%
Total	21.994,3	22.411,7	1,9%
Total excl. Oil	14.471,3	15.141,0	4,6%

Memo item:	Jan – July		%Δ
	2018	2019	
Manufactured products	23.712,0	23.982,8	1,1%
of which: Food / Beverages	2.165,6	1.977,5	-8,7%
Crude materials & primary products	1.941,5	2.015,3	3,8%
of which: Agricultural products	1.161,9	1.177,4	1,3%
Total excl. Oil	25.653,5	25.998,1	1,3%
Oil	6.280,1	6.168,8	-1,8%
Total	31.933,6	32.166,9	0,7%

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



INTERNATIONAL ARRIVALS AT MAIN AIRPORTS
(SETE, Aug 2019)



SEV Members Financial Data

ASSETS
€325 bn
69% of total*



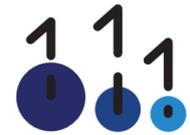
EQUITY
€61 bn
51% of total*



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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