

1. Recent (macro-)economic developments

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1.1. The evolution of the main components of demand during the Covid-19 pandemic

1.1.1. Introduction – Domestic and external demand for 2020

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This section records the general trends concerning the main components of demand until the end of 2020. By extension, the analysis of the macroeconomic data

mainly incorporates the negative effects of the Covid-19 pandemic, since its outbreak in March 2020 and for the whole year.

Based on the annual data of the *National Accounts* (ELSTAT), as shown in Table 1.1.1, we observe the serious negative change in the growth rate of the Greek economy compared to 2019. More specifically, in contrast to the growth of 2019, the recession of the economy in 2020 was 8.25%. We could even briefly point out that the main macroeconomic factors for the 2020 recession, compared to 2019, were the negative percentage in total exports (from 4.84% to -21.67%) and in private consumption (from 1.89% to -5.15%). On the other hand, we had a positive percentage, compared

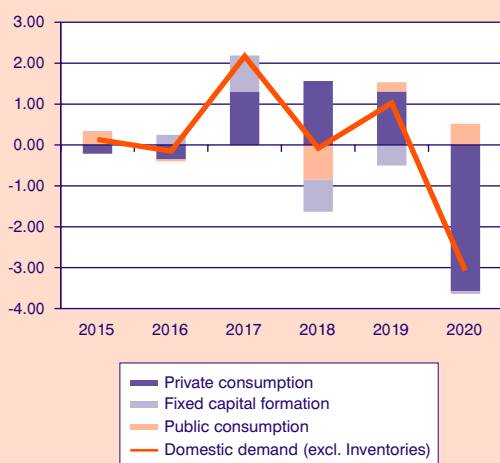
TABLE 1.1.1 Basic macroeconomic variables (*non-seasonally adjusted data*)

	In million euros (current prices)		Annual % change (constant prices)	
	2020	2019	2019	2020
Private consumption	118,935	1.89		-5.15
Public consumption	37,113	1.19		2.74
Fixed capital investment	18,433	-4.63		-0.65
Domestic demand*	161,959	1.09		-3.12
Exports of goods and services	52,880	4.84		-21.67
Exports of goods	30,020	1.99		4.31
Exports of services	22,859	7.34		-42.95
Imports of goods and services	65,402	2.95		-6.81
Imports of goods	49,199	2.30		-3.67
Imports of services	16,204	4.90		-16.02
Balance of goods and services (% GDP)	-7.55			
GDP	165,830	1.86		-8.25
Contribution to the GDP				
Domestic demand*		1.03		-3.07
Balance of goods and services		0.66		-5.62
Change of inventories		0.16		0.67

Source: *National Accounts*, ELSTAT.

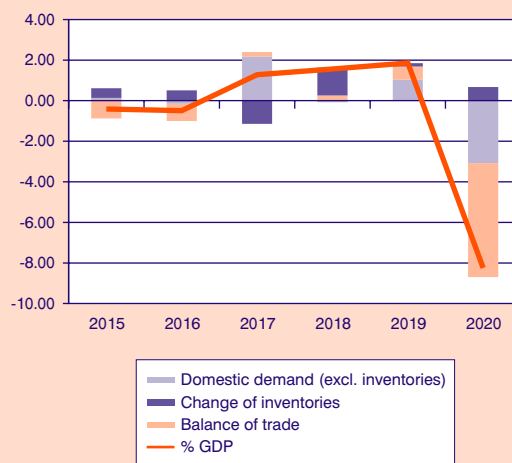
* Without change of inventories.

FIGURE 1.1.a
Sub-components of domestic demand



Source: National Accounts, ELSTAT, data processing by the author.

FIGURE 1.1.b
Domestic and net external demand



Source: National Accounts, ELSTAT, data processing by the author.

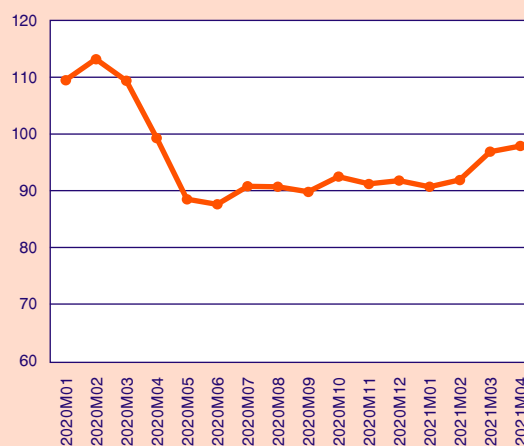
to 2019, for public consumption (from 1.19% to 2.74%), fixed capital investment (from -4.63% to 0.6%) and, mainly, for exports of goods (from 1.99% to 4.31%).

As regards to the existing components of domestic demand, which are also recorded in Figure 1.1.a, we observe the negative contribution of private consumption, with -3.58, as the dominant one. In addition, fixed capital investment, with -0.07, contributed negatively to the domestic demand for 2020. Only public consumption contributed positively, with 0.52. In conclusion, as shown in Table 1.1.1 and in Figure 1.1.a, in contrast to the 2019 data, the overall contributing factor of domestic demand to GDP growth is considered as strongly negative (-3.07) for 2020.

In line with the above analysis, Figure 1.1.1.b also shows the participation of the domestic and external demand sectors (i.e., the balance of goods and services) in GDP growth for 2020. Except for the small positive contribution of the change in inventories (0.67), the overall picture was negative. Actually, both the balance of goods and services (-5.62) and the domestic demand (-3.07) factors shared almost the total contribution to the 2020 GDP recession.

Regarding the trend of the Economic Sentiment Index (ESI), as a proxy of future demand, it is known that, like some other leading indices, it offers valuable information from both business and household perspectives. It is also an important indicator for the economy and can be used for predictions relating to the future of GDP

FIGURE 1.1.2
Economic Sentiment Index (2020-21)



Source: Eurostat.

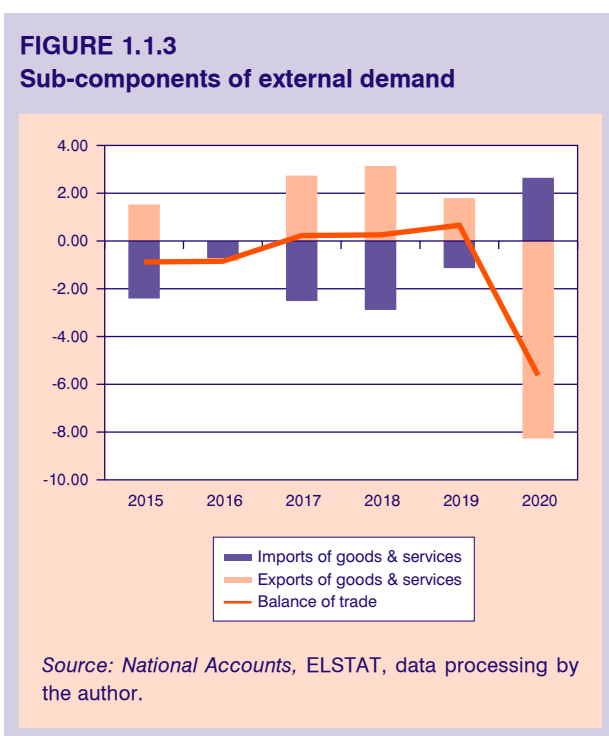
growth. As demonstrated by Figure 1.1.2, the ESI presents a period of more than one year (1/2020-4/2021). More specifically, it is relatively stagnant, around 90 points, from May to December 2020. The Index, from the beginning of 2021, gradually changed upwards and, until April 2021 reached 97.9 points. With the end of the official lockdown and with the progress in vaccinating of the total population, it is expected that the ESI will make an impressive increase.

Next, a more detailed discussion follows on the contribution of the trade balance of goods and services (external sector) with respect to the GDP recession, for 2020.

Balance of goods and services

The contribution of the external sector (exports less imports) to GDP growth for 2020, as already mentioned above, is generally negative as it mainly reflects the importance of international demand.

Next, in more detail, we will analyze the rate of change in goods and, separately, the rate of change in services. Starting with exports, it should be initially stressed that services constitute the relatively smallest part of total exports and, as shown in Table 1.1.1, appear with a very large annual decrease of 44.9% for 2020 while, in contrast, goods, which are the largest part of total exports, appear with an annual increase of 4.3%. On the other hand, it was fortunate that the imported services had an annual decrease of 16.0%, while the imported goods had a much smaller annual decrease of 3.6%.



With regard now to the total contribution of the balance of goods and services to the rate of change in GDP, we should reiterate that it stood at -5.6 points for 2020, as opposed to 0.66 points in 2019. In more detail, we observe the significant negative contribution of exports to GDP, estimated at 8.27 points, while, on the other hand, the (positive) contribution of imports to GDP was at 2.65 points. This unusual record of a negative contribution of exports and a positive contribution of imports to GDP is also demonstrated in Figure 1.1.3, which shows the awkward change in the respective import and export histograms compared to those presented from 2017 to 2019.

1.1.2. Private consumption and investment

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1.1.2.1. Private consumption

Components of private consumption fell due to the new wave of the pandemic

According to the quarterly seasonally adjusted *National Accounts*,¹ private consumption decreased to 29,749 million euros in current prices during the fourth quarter of 2020, lower than 30,803 million euros recorded in the third quarter of the same year. At the same time, in terms of chain-linked volumes (year of reference 2015), private consumption fell to 30,548 million euros in the fourth quarter of 2020 with respect to a value of 31,237 million euros during the third quarter in that year. Consequently, there was a decline in private consumption expenditure in the fourth quarter compared to the third quarter. This reduction manifests itself also in the relevant percentage changes² of seasonally adjusted chain-linked volumes. Hence, private consumption reduced at a rate of -4.7% in the fourth quarter of 2020 with respect to the fourth quarter of 2019, and at -2.2% with respect to the immediately preceding quarter.

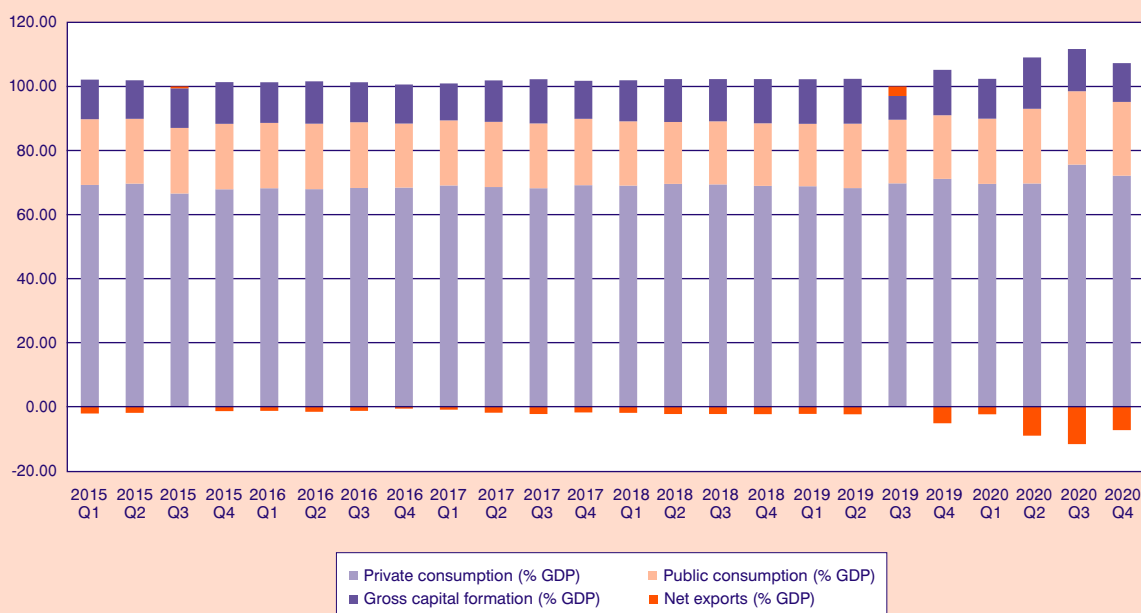
In addition, private consumption as a percentage of GDP decreased in the fourth quarter to 72.16%, from 75.59% of GDP in the third quarter of 2020 (Figure 1.1.4). On the contrary, public consumption increased from 22.93% in the third quarter to 23.03% of GDP in the fourth quarter of 2020. A reduction has also been

1. *Quarterly National Accounts*, Press release, ELSTAT, March 5, 2021.

2. Percentage changes are calculated by the formula $\frac{(X_t - X_{t-1})}{X_{t-1}}$.

FIGURE 1.1.4

Evolution of private consumption and other components of demand as a percentage of GDP
(expenditure approach) (seasonally adjusted data in current prices)



Source: ELSTAT, data processing by the author.

observed in gross capital formation (fixed capital and changes in inventories) as a percentage of GDP between the third and fourth quarters, from 13.17% to 12.13%, whilst the negative value for net exports decreased from -11.70% in the third quarter to -7.31% in the fourth quarter of 2020. In short, the rebound of the Covid-19 pandemic during the last quarter of 2020 had a significant impact on the components of private demand, which was only partially offset by the higher levels of public consumption.

Adverse effects on retail trade, except for food items, due to the second wave of the Covid-19 pandemic

Figure 1.1.5 depicts the evolution of retail trade according to the monthly data provided by ELSTAT. Despite a short-lived recovery in October, the overall volume index in retail trade followed a falling trend during the subsequent period until February 2021. The relevant percentage changes varied between -1.78% (in February 2021) and -11.39% (in December 2020). Also, the average percentage change was negative (-3.83%) for the semester starting in September 2020. There was a similar negative trend during this semester, which

includes the first two months of 2021, for automotive fuel, with an average percentage change of -16.62%. Other items except food and automotive fuel also manifest a negative average percentage change, though of a much smaller magnitude (-1.55%) since, in this case, the profound negative trend in November and December of 2020 was offset by positive percentage changes in the rest of that period. Finally, there is a completely different situation in food items, with persistent positive percentage changes from October 2020 onwards and an average percentage change of 5.32% during the whole semester. Hence, developments in retail trade during the second wave of the pandemic, with respect to the same bout of the previous year, were negative, with the only exception being the food items.

Despite fluctuations, expectations in retail trade significantly recovered in March and April 2021

Confidence indicators published by EUROSTAT (Figure 1.1.6) show two distinct patterns during the period starting in September 2020 and lasting until April 2021. During the first sub-period ending in February 2021, both retail and consumer confidence indicators fluctuated without exhibiting any clear trend. On the contrary, in

FIGURE 1.1.5
Percentage changes in the seasonally adjusted overall volume index and the main sector indices in retail trade

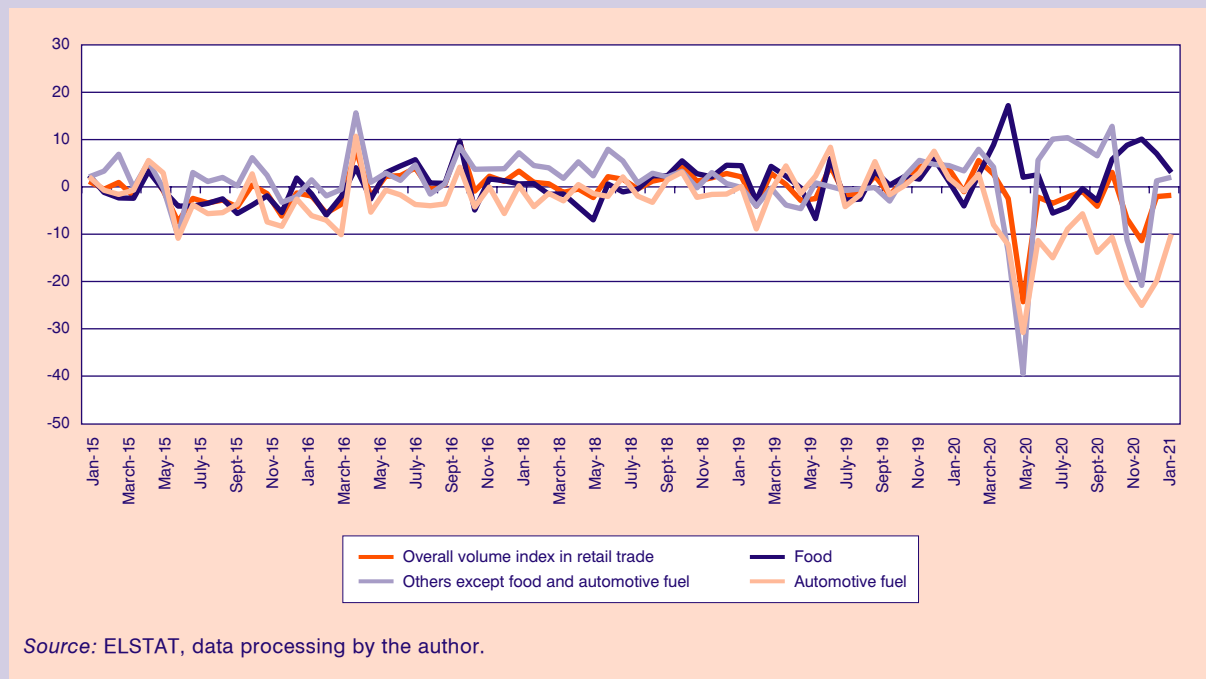
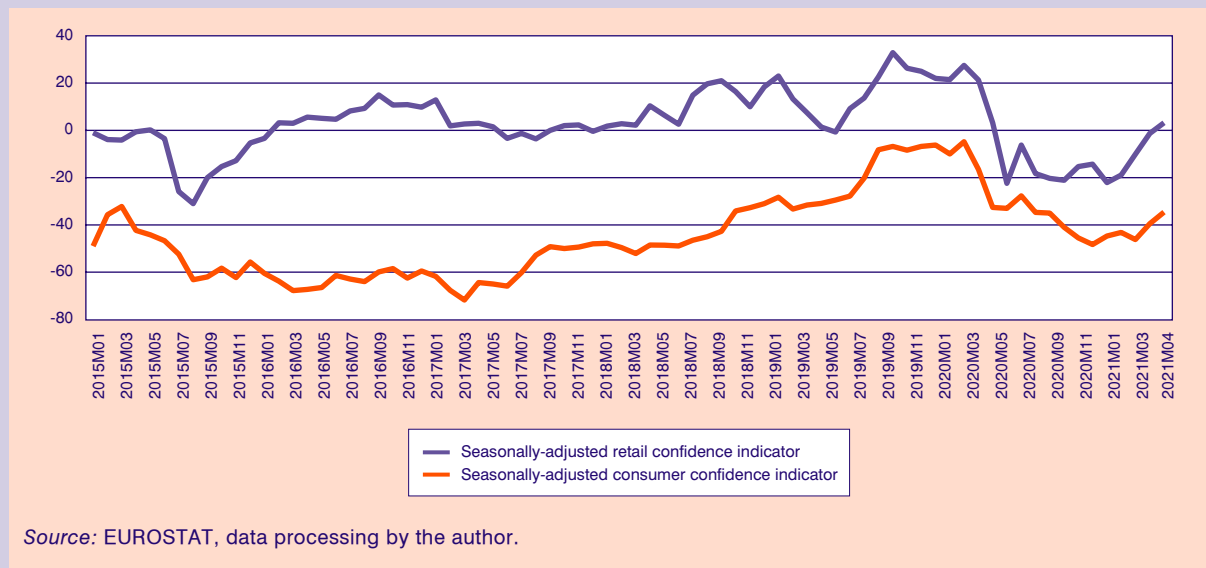


FIGURE 1.1.6
Confidence indicators in retail trade



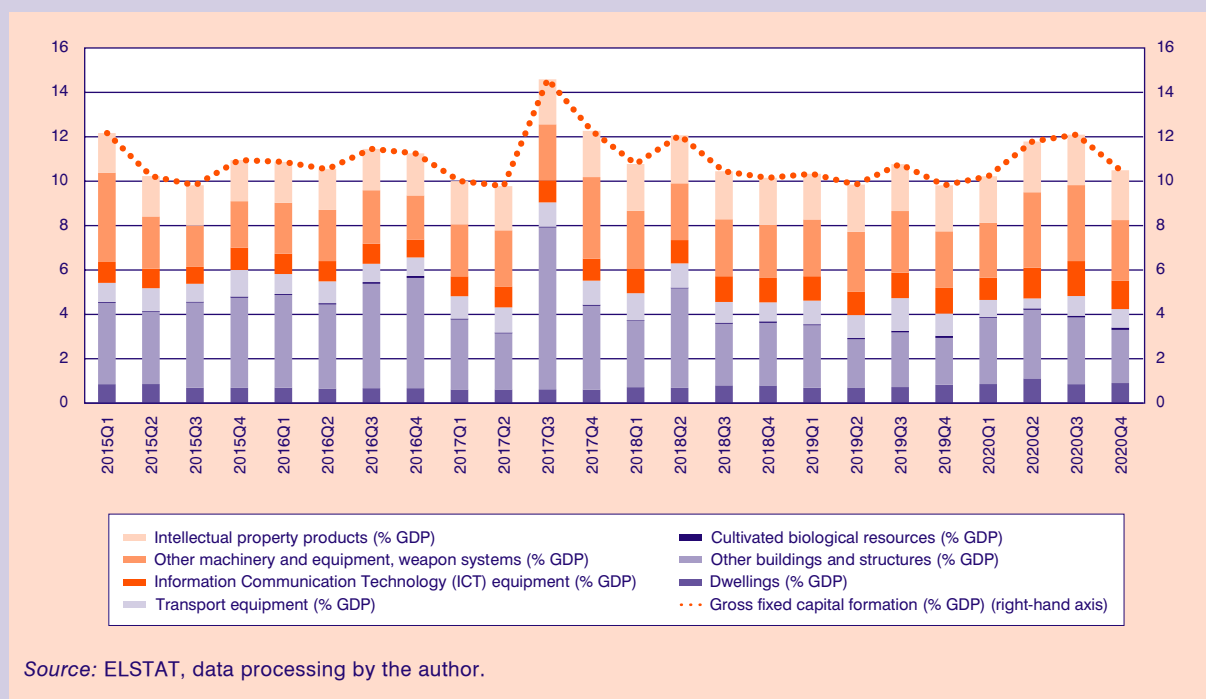
March and April 2021, there was a definite and steep upward trend in both indices that might be justified as a precursor of positive developments in retail trade. Such optimism is probably based on the perceived progress in vaccinations and the imminent opening of the economy at a greater scale.

1.1.2.2. Investment

Ambiguous developments in investment during the fourth quarter

Gross fixed capital formation reduced to 4,327 million euros in current prices in the fourth quarter of 2020,

FIGURE 1.1.7
Gross fixed capital formation as a percentage of GDP (overall and by asset)
(seasonally adjusted data in current prices)



down from 4,929 million euros in the third quarter of that year. However, in terms of chain-linked volumes, there was a rise in gross fixed capital formation to 4,744 million euros in the fourth quarter of 2020 from 4,696 million euros in the third quarter. This rising trend in the last quarter of 2020 is also confirmed in terms of percentage changes with respect to both the preceding quarter (1.0%) and the corresponding quarter in the previous year (1.6%), based on the seasonally adjusted chain-linked volumes.

On the other hand, developments in the contribution of investment and its components to GDP (Figure 1.1.7) were negative during the last quarter of 2020 which coincides with the second wave of the pandemic. Specifically, gross fixed capital formation and most of its components reduced their share in GDP in the fourth quarter with respect to the third quarter of 2020. In particular, there is a reduction in machinery and transport equipment, in terms of percentage changes, in both its total (-17.70%) and its individual components. At the same time, buildings in total manifested a negative percentage change in the last quarter of 2020 (-14.48%), despite a small positive percentage change in dwellings (5.90%).

Machinery and transport equipment predominates over buildings

Regarding the two main components of gross investment, machinery and transport equipment still predominates over buildings. Therefore, in the fourth quarter of 2020, the share of machinery and transport equipment in total gross fixed capital formation remained higher (46.14%) than that of buildings (31.46%), despite the fact that it fell compared to its share during the third quarter of 2020 (48.65%). Since this is a persistent feature of the data about the main components of investment (as of the third quarter of 2018), it is an interesting finding that invites further research concerning the possible impact on the structure of gross investment in the Greek economy during the last few years.

Persistently favourable expectations in the construction sector as of January 2021

The evolution of business expectations in the construction sector is depicted in Figure 1.1.9. The main result is a positive trend in the construction confidence index during the first four months of 2021, despite its

FIGURE 1.1.8
Machinery and transport equipment and buildings as a percentage of gross fixed capital formation

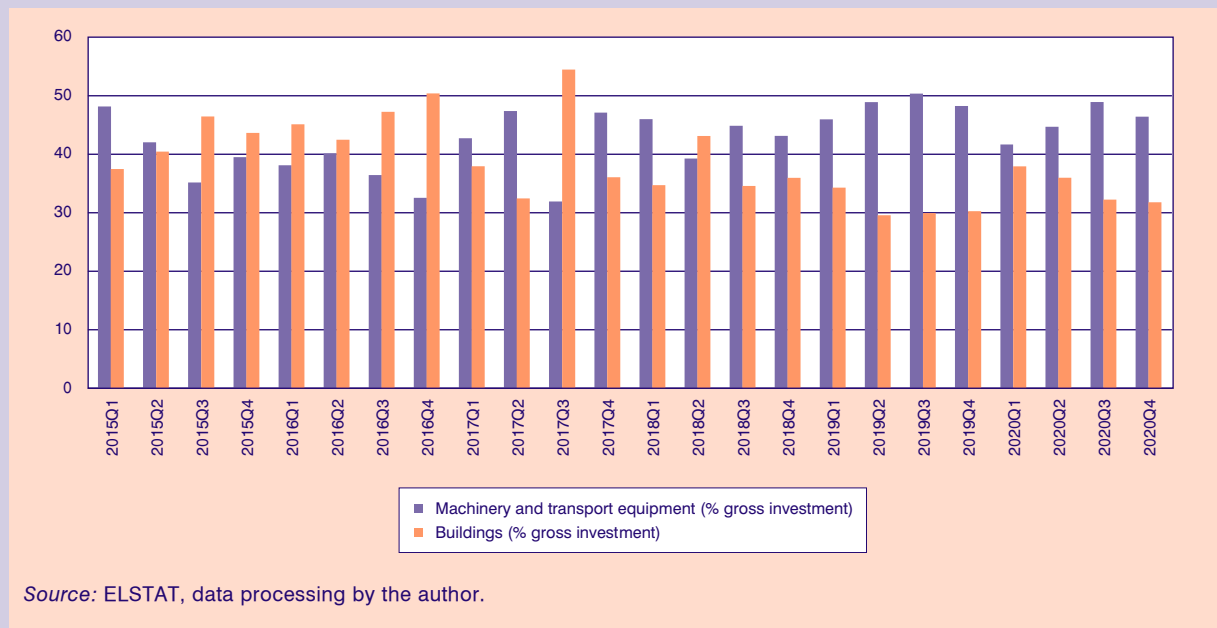
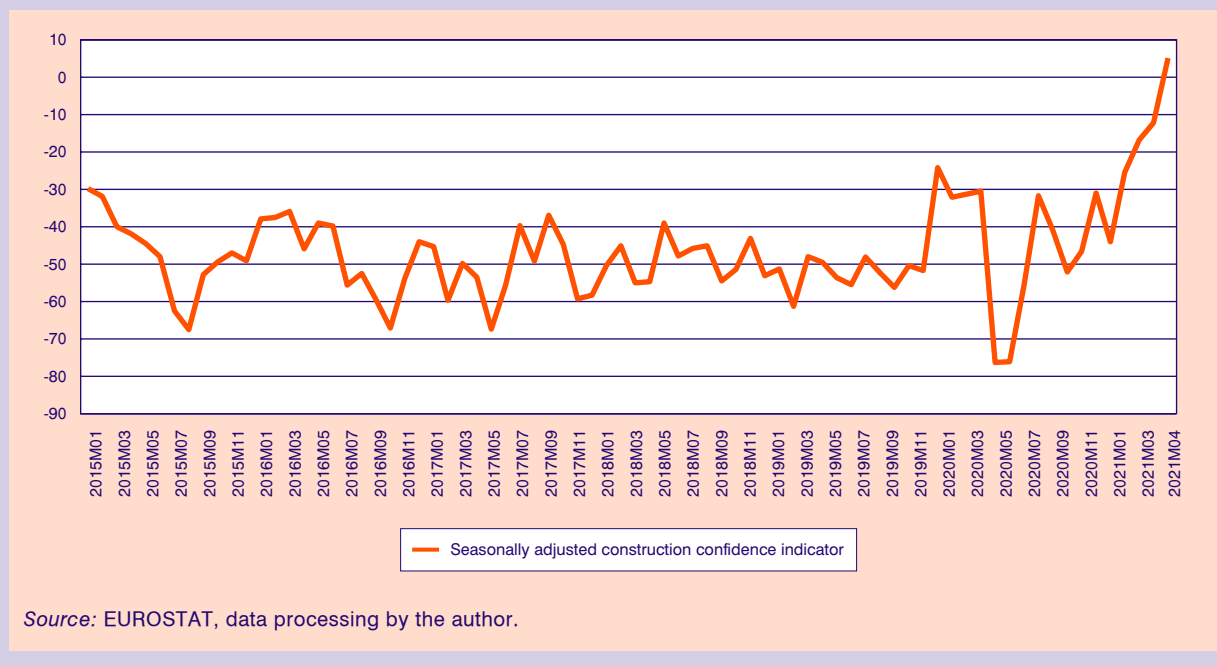


FIGURE 1.1.9
Construction confidence indicator



fluctuation until the end of 2020. This finding could be explained as reflecting a favourable business sentiment in this sector. Moreover, for the first time in the last five years, this index recorded a positive value

(5.1) in April 2021, possibly because economic agents discount a recovery in building activity in the context of the imminent opening of the economy as vaccinations gather pace.

1.1.2.3. Conclusions

The above analysis showed that the Greek economy manifested two major trends during the second wave of the pandemic. On the one hand, it suffered from negative effects in most components of demand and especially in private consumption, except food items. At the same time, positive developments in public consumption and ambiguous effects in investment were

not able to reverse the overall negative trend in most components of demand expressed as percentages of GDP. On the other hand, there is a clear increase in confidence both in retail trade and in construction as precursors of an expected economic recovery, as the country is now going through the phase of gradually building immunity in the population through vaccinations, and it is hoped that tourism will provide significant support for Greece's economy.