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

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Sponsor of the issue:

Foundation for Economic and Industrial Research (IOBE)
11, Tsami Karatassou St, 117 42 Athens, Tel. (+30210 9211200-10), Fax:(+30210 9233977)
http://www.iobe.gr

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FOREWORD

This is the second report that IOBE is publishing for 2014 as part of its periodic surveys of the Greek economy. The publication takes place just before the next evaluation of the Economic Adjustment Programme by the troika, which is critical both because the final steps of the fiscal adjustment will be determined and because of the negotiation regarding debt relief measures, following last year's primary surplus. As all IOBE quarterly bulletins, the report contains **four sections** and an **appendix** with key structural indicators. It starts with an introductory text on the clearly positive prospects of the Greek economy, but also the dangers that are looming due to a possible complacency of the economic policy because of the better-than-expected fiscal performance in 2013. The remaining sections of the report are structured as follows:

The first section presents a **brief overview** of the report's main points. **Section two** examines the general economic conditions, containing: a) an analysis of the **global economic environment** in the first quarter of 2014, based on the latest reports and data from the IMF, the European Commission and other international organisations; b) an outline of the **economic climate** in Greece in the second quarter of 2014, as compiled in the latest IOBE business surveys; c) an analysis of the **execution of the State Budget** in the first five months of the current year.

Section three focuses on the performance of the Greek economy in the second quarter of 2014. It includes an analysis of: the current **macroeconomic environment** and its outlook for 2014; the **developments** in **key production sectors** in the first three or four months of 2014, depending on data availability; the **export performance** of the Greek economy in the first quarter of 2014; the developments in the **labour market** in the same quarter; the course of **inflation** in the first five months of 2014; and, finally, the course of the **balance of payments** from January through April.

Section four presents a study from IOBE on the economic impact of the oil refining industry in Greece and its prospects.

The report refers to and is supported by data, which were available up to 18/07/2014. IOBE's next quarterly report on the Greek economy will be published in October 2014.

THE PROMISING PROSPECTS AND THE THREAT OF LANGUOR AND COMPROMISE

The recent fiscal and macroeconomic figures confirm that the Greek economy has entered a stage of stability. There is justified hope that we have left behind the **biggest part of the crisis and that the central prediction of the economic policy about a positive growth rate during the current year is attainable**. It would be a serious omission, though, not to stress that the adjustment the economy has achieved, as reflected on the fiscal balance and the current account balance, is very significant and that this success was far from obvious when the crisis began. This success reflects to a great extent the fact that **the Greek people have been willing to pay the necessary cost, hoping that being in the common European currency would yield benefits in the medium run.**

However, the developments in the macroeconomic and fiscal level are the result of the combination of several different economic forces. As the main objective is to return to high growth rates that are sustainable in the medium run (or else the stabilisation itself would be undermined), it is crucial to examine the momentum of the different components of the economy. Compared to the recent past experience, the positive momentum stems mainly from the significant increase of foreign demand for services, as well as from the weakening of the fall of private consumption. On the other hand, future higher growth rates won't be realised unless easier access to funding is restored and, most importantly, unless the implementation of the necessary structural reforms moves forward, so that resources are directed towards export-oriented businesses. Overall, the positive boost on the economy during these past few months is coming primarily from the demand side, whereas, **on the supply side, the transformation to a productive economy is sluggish. After all, this is the reason why the recession of the Greek economy has been so deep for the past six years and the adjustment has been achieved precisely through that recession.** This remark implies that the next steps of the economic policy should aim at maintaining the momentum of the adjustment through an increase in productivity, something that can be achieved with structural reforms and by breaking free of the failings of the past economic paradigm. Without these steps, investment and exports will remain at low levels and the rate of job creation will not be sufficient to battle the high unemployment, which is the imperative need of the economy.

It would be useful to elaborate on the main forces that drive the economy today and the relative prospects. On the demand side, **foreign demand for services is on the rise**. It is directed mostly towards tourism, but also to the shipping industry and other services. Regarding the international tourism, all the relevant measures reveal an increase, which can be attributed to three reasons: progressive improvement of international economic conditions, gradual improvement of the image of Greece abroad as a safe destination to visit and for business transactions, leading to a decline in uncertainty, and improvement of the relative prices. The future prospects of tourism (and service exports in general) are generally positive; still they depend on the different issues that were raised. Meanwhile, the recovery of domestic consumption, the second of the forces expected to lead to positive growth rate in 2014, should be attributed to the restored positive expectations about the future of the economy, as recorded in the monthly estimates of the IOBE business surveys. Despite the continued pressures on household disposable income, **the expectations for stabilisation seem to lead to less reluctant consumption decisions than in previous years.** It should be noted, though, that private domestic consumption will grow only if heightening of the political and macroeconomic uncertainty is avoided and the disposable income of the average household gradually increases.

Naturally, a necessary prerequisite for the economy's growth rates to be steadily high is the improvement of the terms of funding for its different components. Obviously, the problem of financing the economy is not as dramatic as it was during the first years of the crisis, as the conditions have stabilised. However, the challenges are still important. From a microeconomic perspective, **the attempts should be focused on making funds available for new productive investments, which requires decisiveness in the administration of older loans** that are no longer profitably performing. Moreover, funding new businesses is connected with the progress in the financing of the country, and specifically with any positive developments with respect to the public debt relief.

Undoubtedly, the most important prerequisite for entering into the path to recovery is the determined support of the reforms, and especially giving a clean slate in the relationship between the public sector and businesses. During the years of the crisis, economic policy has not shown clarity on the goal to relieve the country of its problems by transforming the economy and its rules. However, this is exactly what is required for the substantial convergence to the more developed Eurozone economies. The necessary reforms have been at the heart of the problem for decades, even though the externally-driven high growth rates were hiding the magnitude of the increasing problem of falling competitiveness. Despite some individual positive steps that have been taken, it would be wrong to assume that the reforms regarding public administration, tax policy and tax collecting mechanisms, justice, education and health are complete. Decisive progress in all these aspects is required, so that a sizeable investment wave will occur and turn Greece into a robust, equitable economy in the European Union.

In particular, the formation of a **safe environment to attract foreign direct investment** is crucial in order to achieve the level of investment demand that is required to support the desirable GDP growth rates and unemployment reduction. The incoming funds would, on the one hand, compensate for the lack of domestic saving capabilities and would help with the co-financing by the domestic banking sector, and on the other with the technology transfer that they would bring, they would spark endogenous growth processes, by boosting total factor productivity, contributing further in the sustainability of the GDP growth rates.

In this context, two special remarks should be made regarding two of the sectors that are crucial for the economy’s growth. As far as **energy** is concerned, it should be clear that the cost rationalisation, which is necessary for the whole economy, could not be achieved unless the total efficiency of production is seriously improved. The degree of competition, within the appropriate regulatory framework, is the key in this issue. The prospect breaking the Public Power Corporation into two independent competing units can serve as a catalyst for other developments, still under the condition that sizeable investment will be directed towards efficient energy sources and that the competition between producers will be strong. **Education** is another sector that requires special attention and effort, so that our country can become a more developed country in the medium run. Although investment in human capital and innovation are central conditions for competitiveness and growth, Greece has a big and systematic lag with respect to these aspects. Regarding the universities, despite the existing but only partially implemented legislation, the delay in their transformation from state agencies to independent institutions, which choose their strategies and are rigorously evaluated by the State for their performance, has led to the accumulation of several problems. Overall, decisive actions in fields such as energy or education are a major requirement in order to set the Greek economy on a steady growth path.

The issues of reforms and growth are at the heart of economic policy at the European level as well. Sometimes these issues are discussed as a substitute of fiscal discipline but other times they are presented (more accurately) as complements. The dilemma that the Greek economy is facing has never been clearer. From its current point of stability, the two paths ahead for the economy are obvious, yet it cannot afford to waste time or be indecisive. **The first path is the one with the reforms that will lead, without a doubt, away from the crisis. The second path is the path of retreat and compromise with the inefficient productive paradigm of the last decades, a path that sooner or later will lead once again to a crisis**, as the fundamentals of the economy will deviate from that of our partners in the monetary union.

After six years of recession and unemployment, one has the right to emphasise that the economic policy should undeniably continue and intensify the reforms aiming to a new growth path. This should be manifested by the transfer of resources towards the production of internationally traded goods and services, the growth of export-oriented and competitive entrepreneurship instead of the old state-dependent one and by the progressive turn to innovation and knowledge. There are, of course, some interest groups that are harmed from such a transformation, at least in the short run. Whether groups of workers, businessmen, policy-makers or trade partners of the country, they act and will continue to act as impediments in any reform. But they should be confronted, not only by a sense of social justice, especially from the younger generation, but also by common sense. Anyone can keep on hoping that he can benefit by harming others, but the economy is the summation of all its components. Different groups can hold on to the naïve perception that they can retain their purported achievements and keep on being rewarded, no matter what their real contribution to the economy is. All those who contend that the consumption level of the past can be reached again without a transformation of the economy, fail to understand that the external borrowing of the past cannot be repeated, especially without a link to productivity. **Therefore, instead of having different interest groups unilaterally maintaining naïve hopes that the old equilibrium is overall sustainable, it would be much more beneficial to realise that the Greek economy has high production potentials, under the condition of a transformation through reforms, which should be strongly supported.**

1. BRIEF OVERVIEW – MAIN CONCLUSIONS

The growth of the global economy strengthened in early 2014

The global GDP growth rate kept on accelerating in the first quarter of 2014, though less in comparison to the previous quarters. The GDP of the OECD member-states increased by 2.1%, considerably more than the increase one year before (+0.6%) and only slightly higher than in the last quarter of 2013 (+2.0%). The same growth rate was achieved two years ago, in the first quarter of 2012. The acceleration of growth was more evident in the more developed economies, as the rate for the G-7 countries increased from 0.5% in the first quarter last year to 2.1% in the corresponding quarter of this year. Among them, the bigger changes were recorded in Japan (+2.7% from -0.1%), in Germany (+2.3% from -0.3%) and in the United Kingdom (+0.5% from +3.1%). The deceleration of fiscal adjustment and the more expansionary monetary policy adopted by the United States, the Eurozone, but also by Japan, combined with the low rates of inflation gave a boost to the economic activity. On the other hand, the slowdown of the demand for exports from the developing economies had an adverse effect on the improvement of the economic climate, which has been a major growth driver of developed countries in the past years.

This policy mix in the developed economies also includes the decision by the President of the European Central Bank, Mario Draghi, to set for the first time a negative rate for bank deposits in June, reinforcing the incentives to provide the necessary liquidity to businesses and households and, thus, stimulating the investment of the former and the demand of the latter for the rest of 2014 and onwards. The completion of fiscal adjustment programmes in the Eurozone periphery (Ireland, Portugal) and the results of the implemented programmes in other countries, as reflected by the reduction of the budget deficits in 2013, call for a less intense fiscal adjustment in most countries. In the United States, the boost from the better financial conditions has affected not only investment and production, but also private consumption, thus increasing the GDP through household demand. The expansionary monetary policy is still the driving force behind the economy in Japan, along with new tax incentives for investment, as well as a significant increase in exports. Under these circumstances, **the GDP of the developed economies will increase by 2.2% in 2014, compared with 1.3% in the previous year.**

In the developing economies, high rates of inflation lead the central banks to adopt contractionary monetary policies, thus limiting the impact of the financial sector on growth and revealing the existing weaknesses of the economies (delays in implementing structural changes in the financial system and in the product markets). In China, the attempt to move from a growth model depending exclusively on investment and the excessive credit expansion to a structure that relies on all the components of GDP, may result in a slowdown of the growth rate in the short term. The prospects of the Russian economy are seriously threatened by a negative turn of the clash with Ukraine. In this context, **the developing economies will have a growth rate of 4.9% this year, essentially the same as in 2012 (5.0%) and marginally higher than last year (4.7%). Under the influences of the above conditions in the global economic activity**, **the world GDP growth for 2014 is estimated to stand slightly above 3.5%,** as forecasted in the previous IOBE bulletin as well.

Further slowdown of the recession in the first quarter of this year, almost at its weakest level since its beginning

The decline of GDP weakened during the first three months of the year, standing at 0.9% from 2.3% in the preceding quarter and 6.0% a year ago. This rate was the second lowest since Greece went into recession during the third quarter of 2008. The smaller GDP decline is mainly due to the mild expansion of household spending, for the first time after exactly four years, and secondarily because of the significant increase of service exports from the strengthening since last year tourist inflow, as well as due to the marginal increase in government spending.

Specifically, household consumption increased by 0.7% year on year in the fourth quarter of 2013, while its contraction had stood at 8.7% in the corresponding period of 2013. This increase was the result of improved consumer expectations due to the lack of new fiscal measures this year, the strong indications pointing to a primary surplus and the announcement that a part of it will be distributed to certain social groups. A small increase by 1.2% in public consumption was mainly due to the large decline one year earlier (-10%), which formed a low base for comparisons for this year. Subsequently, domestic consumption increased by 0.8%, in contrast to the shrinking by 8.9% in the start of 2013. Contrary to consumption, there was a decline in investment by 16.7% in the first quarter this year, whereas one year ago there was an increase by 8.4%. A 7.9% decrease in fixed capital formation, after an 11.4% decrease in the beginning of 2013, contributed to this, however the investment contraction was primarily due to a reduction in inventories, which were increasing one year before.

Regarding the external sector of the Greek economy, exports increased by 5.4% in the first quarter of 2014, the largest increase since the beginning of 2011 (-2.2% last year). As a result of this increase, exports reached their highest point for this time of the year since 2009 (€8.9 bn.). The improvement in exports stemmed from the significant increase in service exports by 13.1%, while goods exports increased only marginally (+0.5%). A modest increase was recorded in imports (+2.2%), for the second out of the three most recent quarters, while in the corresponding quarter of 2013 they had declined by 7.0%. Under the influences of the above forces in the two components of the external sector in the first quarter of 2014, the deficit was reduced by 7.2% (-€206 mil.), compared to a reduction by 18.9% in the corresponding period of last year (-€650 mil.).

The Greek economy is on the road to recovery after six years of recession

The completion of the elections without any major political developments or twists allows for the continuation of the fiscal adjustment process and the reforms in the structure and the functions of the state, along with the structural changes in product and service markets, whose implementation significantly decelerated during the elections. Besides, the next evaluation by the troika is not far, which means that the relevant preparation should be made in a timely manner. The preparation includes the completion of prerequisites that mostly involve policies with content and targets referring to the above reforms.

Naturally, the negotiations during the next evaluation of the Economic Adjustment Programme will be focused on finalizing the fiscal measures for the 2015-2017 period, as well as on the presence of a "financing gap" and on alternative solutions to cover it. Regardless of the fiscal measures that will be determined for the next years, additional fiscal pressure is expected in the second quarter this year in comparison to last year, due to the new cuts in auxiliary pensions and the increased tax withholding for pensioners, the accumulation of tax payments (Unified Property Tax, Income Tax) and the changes in the tax system (eg. taxing as legal entities taxpayers that were previously taxed as individuals, elimination of tax exemptions). On the other hand, the primary surplus that was recorded last year and the absence of new measures this year have cancelled the pessimism and the reluctance of households, leading them to make some delayed purchases and, in general, increase slightly their consumption spending, as recorded in the relevant figures of the Consumer Confidence Indicator, which is measured by IOBE in Greece for the European Commission. After all, returning part of the budget surplus to vulnerable social groups and to certain categories of civil servants will mitigate the effects of fiscal adjustment on their income.

As far as the possibility of needing additional funds to cover a financing gap in the medium run and how these will be financed, last year's fiscal performance reinforces the country's bargaining power with respect to measures to relieve the debt, as envisaged in the Eurogroup decision of 26/11/2012 (eg. extension of maturities, lower interest rates).

Last year's fiscal performance also allowed the Greek state to return to the international capital markets, as it managed to cover a part of the "financing gap" by issuing new bonds. The small or even zero extra capital requirements of the banking system, something that could quite possibly be revealed by the ECB's stress tests at the end of 2014, will give the opportunity to use the rest of the ESM bonds that the Hellenic Financial Stability Fund holds for the government's financing needs.

Obviously, the stress tests run by ECB will affect first and foremost the banking sector. The profits that were realized by the majority of the four biggest banks in 2013 and the better-than-expected fiscal results were crucial in allowing the banks to return after four years to the international capital markets, the most important liquidity source. The considerable participation of foreign funds in the banks' issues of equity capital, following the announcement of the stress tests results run by the Bank of Greece back in March 2013, was an important milestone reflecting the restoration of the investors' confidence, especially in the international market, with respect to the sustainability and the prospects of the Greek banking system. Apart from meeting the banks' capital needs at the time, the strong interest from foreign investors marks the possibility of further support for ensuring the capital adequacy of the banking system, if that need presents itself. In order to restrict or eliminate completely factors that could potentially threaten the robustness of the banks, strict loan approval towards households and businesses will continue to be implemented, as it has been for the last few years, until the announcement of the ECB stress test results.

The possible easing in raising the necessary funds after the ECB stress tests does not cancel the other factors – current and older – that hinder the realisation of investments in Greece. Current factors include the demand that is still low, especially foreign demand, while the rebounding domestic demand is directed primarily to imported goods. Older factors that impede the undertaking of business initiatives include the high cost of energy, despite the recent reduction in gas prices, the unpredictable and frequently changing tax system as well as the existence of barriers to entry and distortions regarding the competitive function of certain sectors and professions, making the aforementioned reforms all the more necessary.

As pointed out in previous IOBE bulletins, among the factors that will determine the trend of the economic activity in Greece this year, the dynamics of international tourist flows have a prominent position. According to data on the Balance of Travel Services, a continued and significant increase in travel receipts was recorded in the first quarter of 2014, by 27.8% y-o-y. The increase in travel receipts was mainly driven by an increase in international arrivals (+21.1%) and also by the increase in the average expenditure per trip (+6.2% or +€26). The positive impact on the Greek economy coming from international tourism in the first four months of 2014, which is also reflected on the employment rates, is expected to continue and further accelerate in May, when the summer season begins.

Given the most recent developments in politics and the economy, as well as those expected for the rest of 2014, especially due to the upcoming evaluation by the troika, and taking into account the most recent statistical data, the slight increase of **household consumption**, that was recorded in the first quarter this year, is expected to continue at least for the next two quarters. Maintaining household consumption in an upward trend is the result of many factors, such as the mild increase of employment rates, especially during the summer in seasonal activities in the tourism industry, the further decline of the uncertainty after the completion of the elections along with the continued decline of prices, though with a decelerated rate during the second quarter of this year. On the other hand, the greater accumulation of taxes than last year starting at the middle of the third quarter, and the changes with respect to taxing individuals, combined with the aforementioned adjustments in pensions will mitigate the increase in expenditure. **As a consequence of these effects, household consumption will increase only marginally by 1.0% this year.**

Regarding the other component of domestic consumption, i.e. **public consumption**, the acceleration of the reforms in the public sector, which slowed down during the elections, will inhibit the increase in public consumption that was recorded from January through March. **Subsequently, the decline of public consumption will be lower than in 2013, reaching 2%.**

Concerning the **public expenses for investment**, a stable and large increase is recorded in the first six months of 2014 (+33%), following the extremely low levels at the start of 2013. Although the estimates about the Public Investment Programme for the whole year are only slightly elevated compared to last year (€6.8 bn. from €6.65 bn.), its frontloaded implementation allows for a larger effect of the relative multipliers. In contrast, the downward revision concerning the revenue of the Hellenic Republic Asset Development Fund in the Medium Term Fiscal Framework 2015-2018 as compared to the 2014 Budget, from €3.6 bn. to €1.5 bn., will have an adverse effect.

The completion of the elections will have a crucial impact on the implementation of private investment plans as well, especially for foreign investors, who avoid making business moves during political turmoil. It should be noted that the international investment interest was clearly sluggish up to April, as compared to last year (-39.9% net foreign direct investment), despite the better-than-expected fiscal results. Since then, the fact that Fitch upgraded the credit rating of the Greek state from B- to B, in addition to the country ceiling from B+ to BB, in combination with the recent comment by Moody's mentioning the better than previously anticipated performance of the Greek economy, have reinforced the country's credibility, something that is bound to be reflected on the foreign direct investments in the second half of the current year.

The impediments in the investment activity that were mentioned and affect mostly enterprises which are in Greece, will lead to sluggish investment performance for yet another year. However, the resolution of the property surplus tax problems in April will boost investment in the construction of houses, the category that recorded the biggest drop during the first quarter this year, which is also the category of fixed capital with the highest returns. **The**

above trends in the determining factors of investment will lead to a small decline of about 2-3%.

Regarding the external sector of the economy, the increase in international tourist flows will be the most critical factor to determine the extent of the increase in total exports, as the exports of goods will be around the same level as they were last year. **Primarily because of the strong upward trend of the exports of services, total exports will grow more than last year, at a rate of 4-4.5%.** The boost in private consumption will increase the imports of goods, as well as the imports services, especially of those relative to tourism.

Given these trends regarding the key components of GDP, IOBE anticipates that the Greek economy will grow at a rate of 0.7% this year.

The primary surplus of the government budget continued its steady increase in the first five months of 2014

A primary surplus of €707 mil. was achieved in the government budget in the first five months of this year, €72 mil. more compared to the target for this period, while last year a deficit of €1.5 bn. was recorded for the same five months. The significant improvement of the primary surplus came mainly from government spending, which was reduced by €1.35 bn. Specifically, social expenditures were cut by €919 mil. through a cut in the subsidy towards the social security funds by €1.27 bn. Revenues recorded a slight increase by €1.04 bn., €240 mil. more than the relative target. Still, tax revenues are €54 mil. less than last year due to lower indirect taxes. The increase in non-tax revenues by €880 mil. (+75.7%) outweighs the drop in tax revenues, leading to an increase in the total revenues. However, the tax clearance for 2013 and the tax payments that will follow, as well as the Unified Property Tax payments at the end of July, are expected to exceed any shortfalls in tax revenues that took place in the first five months of 2014.

The decline of unemployment was interrupted in the last quarter of 2013 - Back to modest reduction in the current year

The new weakening of the GDP contraction in the beginning of 2014 did not have an effect on unemployment, which remained at the record-high levels of the last quarter (27.8%). Yet, compared to the corresponding quarter of 2013, the unemployment rate was only 0.2 percentage points higher, the smallest percentage change since unemployment began to increase in 2009. This can be explained mainly by incidental factors, like programmes for the unemployed implemented by the Manpower Employment Organisation, which is reflected on the sectors that recorded the largest increase in the employment rates, such as Education (+20.9 thousands) and Administrative – Support Activities (+14.4 thousands). The increased international tourist flows that gave a boost to the turnover of the Accommodation – Food Services sector led to

12,600 new jobs, the third highest job creation rate among the basic sectors of the Greek economy. In contrast, the biggest decline in employment rates was recorded in Construction (-21,400) and Manufacturing (-14,000).

The transition of the Greek economy to positive growth rates later this year will lead to a modest decline of the unemployment rate for the first time since 2008. Still, since any changes in the labour market happen with a lag of 2-3 quarters in comparison to production, the fall of the unemployment rate will not be seen until the third quarter, when the significant increase in the employment rate in the tourism industry will start having an effect. The structural changes that took place in the labour market during the past few years, to which we should add the reduction of social security contributions for policyholders of Social Insurance Institute (IKA) by 3.9%, will also contribute in the increase in employment rates. In contrast, the scheduled layoffs in the public sector for the period 2013-2014, which will take place this year, are expected to hamper the decline in unemployment, but only to a small extent. Taking into account the high unemployment rates in the beginning of 2014, the projection for **the average unemployment rate this year is revised up to 26.7%**, a rate that is slightly lower than the one recorded last year (27.5%).

Deflation will strengthen in the second quarter of 2014 – deceleration later in the year

The Consumer Price Index fell by 1.5% during the second quarter of 2014, when in the corresponding quarter of 2013 it had increased by 0.5%. The deflation was stronger than in the previous months of the year (-1.3%). However, the modest increase in private consumption that will continue to take place in the next quarters is expected to slow down the decline of prices during the second half of 2014, without causing an increase either. The weakening of deflation will also come from the imminent price increase in the lower consumption scale of the household bills of the Public Power Corporation. **Taking into account the large decline of prices during the first quarter this year, it is anticipated that the rate of change of CPI will remain negative in 2014, at -0.7%,** slightly lower than the -0.9% observed in 2013.

Special IOBE Study: "The oil refining industry in Greece: Economic impact and prospects"

The crisis of the Greek economy, together with the recession in Europe, has had catalytic effects on the refinery sector in Greece, changing significantly the environment in which the Greek refineries operate. In this regard, the present study analysed the market environment of the Greek refineries, examined the sector's contribution to the Greek economy and assessed its outlook. In addition, the study evaluated the impact of the regulatory framework on the sector's competitiveness and outlined policy proposals to ensure the viability of the enterprises in the sector in the intensely competitive environment of the global energy markets.

Just to illustrate the importance of this sector, it should be mentioned that the oil refining industry is ranked third among the Manufacturing industries with respect to its contribution to GDP (€1 bn. or 5% in 2011), while its share has grown a lot during the last few years. A total of 4,100 people are employed in the enterprises of the industry. By extending the impact of the industry to include any indirect effects, it is estimated that, through its activities in 2012, it contributed €3.8 bn. to GDP (2% of the Greek GDP) and more than 40,000 jobs in the national economy.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The Global Economic Environment

The global economic activity kept on strengthening in the beginning of 2014. The GDP in the member-states of OECD grew by 2.1% in the first quarter of this year compared to the corresponding quarter of last year, when the growth rate was only 0.6%, while in the last quarter of 2013 it grew by 2% y-o-y. The IMF estimates published in its latest report also point towards the acceleration of the global economy growth, as the growth rate of global GDP is estimated to reach 3.6% in 2014, compared to 3% last year. It should be noted though that the latest estimate is slightly revised down relatively to the previous one (3.7%).

Although during the last few years the emerging economies were leading the world economic growth, while developed economies were showing signs of economic "weariness", there seems to be a radical reversal in this trend, as growth rates in the US and Europe have become stronger, while the rates in the majority of the larger emerging economies are weakening. Specifically, the inflation rate in the economies of the US and the European Union remains so low that deflation is looming, allowing though for the implementation of a more aggressive monetary policy that can support a stronger recovery for these countries and the economic regions in general. For instance, the new, historic decision of the President of the European Central Bank in June 2014 to set a negative interest rate for bank deposits for the first time ever is expected to give a serious boost to liquidity in the real economy, thus helping towards a stronger recovery in the Eurozone.

In contrast, the inflation rates are high in the emerging economies, leading some central banks to adopt contractionary monetary policies and, at the same time, revealing the existing weaknesses of the economies (delays in implementing structural changes in the financial system and in the product markets), which are weakening their growth rates. In more detail, concerning the macroeconomic developments in the major world economies at the beginning of 2014 and their outlook for the whole year:

In the **USA,** GDP increased by 2.3% year-on-year during the first quarter of 2014. The growth rate of the US economy is expected to be 2.8% overall for 2014, compared to 1.9% last year. The smooth implementation of fiscal measures combined with the favourable monetary policy constitutes the foundation upon which the economy of the US grows without fluctuations. In this context, private consumption, supported by the significant improvement in the labour market, is anticipated to lead to a transition towards a strong recovery. Apart from private consumption, business and construction investment are expected to be pillars of growth too, as the improved financial conditions and the enhanced trust play a crucial role towards this direction.

In **Japan**, GDP grew by 2.8% in the first quarter of 2014 year-on-year, still remaining high. The estimates for 2014 overall predict that the growth rate will be close to the levels of last year, or modestly lower than that, at 1.4%. The continued expansionary monetary policy is the driving force behind the growth of the Japanese economy. The negative impact on GDP stemming from the increase in the consumption tax seems to be outweighed to some extent by the new tax incentives that were implemented and are aimed primarily towards investment initiatives, but also by exports that strengthened. Business investments and the performance of GDP in Japan could be put in danger by a possible delay in the implementation of institutional reforms during the summer.

Table 2.1

IMF, World Economic Outlook
(annual % change, in real prices)

	2013	2014	2015
GDP			
USA	1,9	2,8	3,0
Japan	1,5	1,4	1,0
Growing Asia	6,5	6,7	6,8
of which China	7,7	7,5	7,3
India	4,4	5,4	6,4
AESEAN-5	5,2	4,9	5,4
Euro zone	-0,5	1,2	1,5
UE-28	0,2	1,6	1,8
Central and East Europe	2,8	2,4	2,9
CIS	2,1	2,3	3,1
of which Russia	1,3	1,3	2,3
Middle East and North Africa	2,4	3,2	4,4
Latin America	2,7	2,5	3,0
of which Brazil	2,3	1,8	2,7
Sub-Saharan Africa	4,9	5,4	5,5
Global economy	3,0	3,6	3,9
Global Trade			
World Trade Volume (goods and services)	3,0	4,3	5,3
Imports: Advanced Economies	1,4	3,5	4,5
Imports: Upcoming and Developing Economies	5,6	5,2	6,3
Exports: : Advanced Economies	2,3	4,2	4,8
Imports: Upcoming and Developing Economies	4,4	5,0	6,2

Developing Asia: Vietnam, India, Indonesia, China, Malaysia, Thailand, Philippines
AESEAN-5: Vietnam, Indonesia, Malaysia, Thailand, Philippines
Middle East and North Africa: Egypt, Algeria, Morocco, United Arab Emirates, Jordan, Iraq, Iran, Qatar, Kuwait, Lebanon, Libya, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia.
Sub-Saharan Africa: Angola, Ethiopia, Côte d'Ivoire, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Mauritius, Botswana, Namibia, Nigeria, South Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad etc.
Source: World Economic Outlook, IMF, April 2014

Table 2.2

IFO – Expectations for global economy (Indexes, base year:2005=100)

Quarter/ Year	II/12	III/12	IV/12	I/13	II/13	III/13	IV/13	I/14	II/14
Economic sentiment	95,0	85,1	82,4	94,1	96,8	94,1	98,6	103,2	102,3
Current situation	87,9	78,5	76,6	80,4	84,1	82,2	84,1	91,6	91,6
Expectations	101,8	91,2	87,7	107,0	108,8	105,3	112,3	114,0	112,3

Source: IFO, World Economic Survey, WES Vol.13, No. 02/ May 2014

The growth rate in **China** slightly weakened in the first quarter of 2014 at 7.4%, while the estimates for the whole year converge to a rate close to this (7.5%). The gradual transition of the Chinese economy from a growth model depending exclusively on investment and the fragile excessive credit expansion to a structure that relies on all the components of GDP may result in a further slowdown of the growth rate in the short term, but also in a sustainable growth path for the economy in the long run. However, the need for implementing more reforms, liberalising the financial system and ensuring transparency in the monetary policy is imperative for China.

The growth of the **Russian** economy further decelerated in the first quarter of 2014, standing at 0.9% y-o-y. This slowdown stems from the extreme dependence of the economy on the exports of goods, whose upward trend has weakened significantly, the decline of investment and the overall shortfall in terms of competitiveness. The IMF estimates that the Russian GDP will grow by 1.3% overall this year. Still, the possibility for a negative revision is high, mainly due to the continued geopolitical dispute between Russia and Ukraine.

Regarding the economic climate indicator published by IFO, the world economic sentiment deteriorated during the second quarter of 2014, standing at 102.3 points, compared to 103.2 points in the previous quarter. Still, it should be noted that it remains high. The assessment of the current financial situation remained unchanged, as the relevant indicator stood at 91.6 points. The expectations for the economic outlook over the next six months recorded a decline, still they remained favourable, as the indicator was at 112.3 points, only 1.7 points lower than in the first quarter of 2014. Consequently, the global economy is still on a growth path, yet its momentum has suffered a small loss.

The IFO economic sentiment data reveals some opposite forces among the geographic areas, as in Asia the indicator fell significantly due to the weakened growth rates in several emerging economies, while in Europe and in North America, the risk of deterioration in the economic environment seems to have been weakening.

Table 2.3

IFO - Economic sentiment indicator in economic zones (base year:2005=100)

Quarter /Year	II/12	III/12	IV/12	I/13	II/13	III/13	IV/13	I/14	II/14
North America	95,4	81,2	80,3	86,2	87,0	93,7	88,7	102,1	107,1
Europe	96,1	86,4	80,6	90,3	93,2	99,0	109,7	116,5	118,4
Asia	90,4	83,3	81,6	97,4	106,1	89,5	98,2	97,4	89,5

Source: IFO, World Economic Survey, WES Vol.13, No. 02/ May 2014

In greater detail, in **Europe** the economic sentiment indicator reached 118.4 points, with a modest increase of 1.9 points compared to the previous quarter. Thus, the upward trend of the indicator continued for a sixth consecutive quarter. The modest increase was due to the more optimistic assessment for the current economic activity, while the expectations for the next six months slightly worsened.

In **North America**, the economic sentiment indicator recorded a significant increase in the second quarter of this year by 5 points, reaching 107.1 points. This sizeable improvement is primarily attributed to the very optimistic outlook for the next six months.

In contrast, the economic sentiment indicator in **Asia** took a big fall in the second quarter of 2014, by 7.9 points quarter on quarter, falling from 97.4 to 89.5 points. The main reason is the decline in both its components, namely estimates for weaker current economic performance and further pessimism regarding the economic outlook in Asia over the next six months.

The Economies of the EU and the Euro area

The recovery of the Eurozone is getting stronger, as in the first quarter of 2014 its GDP grew by 0.9% year-on-year. Compared to the previous quarter, the Eurozone GDP increased by 0.2%. The same forces shaped the GDP of the European Union as well, leading to an increase by 1.4% y-o-y, while the increase in comparison to the previous quarter reached 0.3%. According to the recent estimates of the European Commission, the Eurozone economy will grow by 1.2% overall in 2014, after two consecutive years of recession. As for the EU-28, GDP is expected to increase by 1.6%.

There are now strong indications that the European economy is finally out of the recession period of the last few years (3 years of recession out of the last 5). Consumer confidence has improved significantly, there has been a reversal in the economic climate, the indicators of the real economy are higher than the long-run averages and the intense fiscal adjustment has relaxed, thus leading to a gradual recovery of the European economy, whose foundation is getting solid and its dynamic prospects seem to be strengthening. Still, this recovery is not supported by credit (credit-less recovery), as businesses turn to internal solutions for extra funds. The recent initiative of the European Central Bank to set a negative interest rate for bank deposits is expected to serve as a strong incentive for more loans from the banks to businesses and households. However, the adverse geopolitical developments concerning the dispute between Ukraine and Russia pose a threat, as a possible involvement of the European Union might disrupt the anticipated recovery of the European economy.

Out of the 21 member-states of the European Union for which data on GDP are available for the first quarter of 2014 in comparison to the corresponding quarter of 2013, the majority (15) recorded positive growth rates. In more detail, the countries with the highest GDP growth rates were Romania (3.8%), Poland (3.5%), Hungary (3.2%), Lithuania (2.9%), Latvia (2.4%) and Germany (2.3%). In contrast, the largest recession was recorded in Cyprus (-4.1%), Estonia (-1.5%) and Greece (-0.9%).

The analysis below provides more information on the GDP components of the Eurozone and the European Union, as well as on their outlook for the near future, based on the relevant predictions of the European Commission (Table 2.4), emphasizing the year-on-year percentage changes.

In greater detail, according to Eurostat data, the total **exports** of goods and services recorded a large increase by 4.1% in the Eurozone and 4.2% in the European Union. However, the other component of the trade balance, **imports**, also recorded a similar increase in both zones, which means that net exports are no longer the main driving force of European growth. The significant increase of imports is mainly attributed to the increase of domestic demand. The recent estimates by the European Commission are similar for the whole year, as an increase of exports by 4% is anticipated for both zones, while imports are expected to grow even more, by 5%. Therefore, it is evident that the European recovery should be based not only on net exports, but also on domestic demand, as evident by the analysis that follows.

As far as **investment** is concerned, the growth rate strengthened in the first quarter of the year, standing at 1.9% for the Eurozone and 3.2% for the EU-28. The increase in investment is anticipated to grow even stronger in the rest of the year, leading to estimates of 2.3% and 3.1% for the Eurozone and the EU-28, respectively. This is because the improvement of the financial conditions and the ease of uncertainty are expected to stimulate investment, particularly in equipment. However, in several European countries, the high levels of debt held by many enterprises and the need to consolidate their balances may serve as an impediment for the undertaking of new investment plans.

Private Consumption increased by 0.4% and 0.8% in the Eurozone and the

European Union respectively during the first quarter of 2014. The modest increase in private consumption is expected to get stronger, reaching 0.8% and 1.2% on average for the two regions this year, mainly due to the improvement in consumer confidence and disposable income, as a result of small improvements in the labour market, low inflation rates and the easing of the fiscal consolidation effort. Same trends characterised **public consumption** as well in the first quarter of this year, as there was an increase by 0.2% in the Eurozone and 0.7% in the European Union. Public consumption is anticipated to contribute to GDP only by 0.7% overall this year for both regions.

The conditions in the **labour market** eased somewhat in comparison to the previous year and, given the gradual acceleration of the GDP growth and the lag between the changes in employment and those in output, the rate of job creation is anticipated to be modestly higher than the rate of job losses in the short term. Specifically, according to the estimates of the European Commission, the annual change of the employment rate will be positive (0.6% in the Eurozone and 0.4% in EU-28). The unemployment rate is expected to be slightly lower in 2014, reflecting partly the benefits from the recovery of GDP, standing at 11.8% for EU-28 and at 10.5% for the Eurozone.

Concerning **inflation**, a further deceleration is expected in 2014 overall, reaching 1% for the Eurozone (from 1.4% last year) and 1.2% for EU-28 (from 1.5% in 2013). The low inflation rates in the European periphery are attributed both to external factors such as the appreciation of the Euro, and to internal factors, such as the weak economic environment.

Table 2.4

Macroeconomic fundamentals, EU-28, Eurozone (annual % changes)

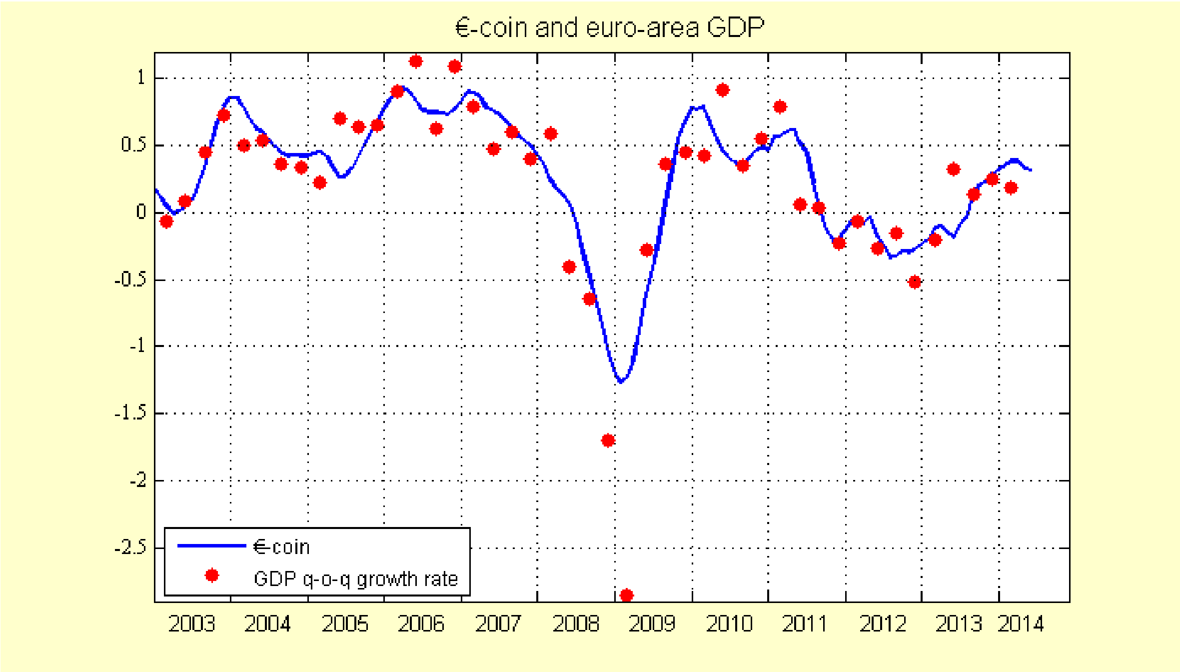
	ΕΕ-28			**Ευρωζώνη**		
	2013	2014	2015	2013	2014	2015
GDP	0,1	1,6	2,0	-0,4	1,2	1,7
Private consumption	0,0	1,2	1,6	-0,7	0,8	1,3
Public consumption	0,4	0,7	0,6	0,2	0,7	0,5
Investments	-2,3	3,1	4,7	-2,9	2,3	4.3
Employment	-0,4	0,6	0,7	-0,9	0,4	0,7
Unemployment (% workforce)	10,8	10,5	10,1	12,0	11,8	11,4
Inflation	1,5	1,2	1,5	1,4	1,0	1,3
Exports of goods-services	1,6	4,0	5,1	1,4	4,0	5,3
Imports of goods-services	0,4	3,7	5,2	0.2	3,8	5,5
General Government Balance (% of GDP)	-3,3	-2,6	-2,5	-3,0	-2,5	-2,3
General government Debt (% of GDP)	88,9	89,5	89,2	95,0	96,0	95,4
Current Account Balance (% of GDP)	1,6	1,8	1,8	2,6	2,9	2,9

Source: European Economic Forecast, Spring 2014, European Commission, May 2014

Regarding the **fiscal performance**, the General Government deficit is expected to decline again, standing at 2.5% for both European regions. This positive development reflects primarily the benefits from the implementation of fiscal measures aiming to reduce the large deficits in several countries of the European periphery. The debt-to-GDP ratio is anticipated to increase marginally in 2014 both in the Eurozone (96%) and in the EU (89.5%), probably reaching its peak, since the expectations for next year predict a decrease, as a consequence of the continuing primary surpluses in several European countries and the acceleration of growth.

Figure 2.1

Monthly Index €-COIN of CEPR



Source: CEPR και Bank of Italy

Table 2.5

European Commission - Economic Sentiment Indicator EU-28 & Eurozone (1990-2013=100)*

Month	Jan-13	Feb-13	Mar-13	Apr-13	Ma-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
EU-28	91,0	91,5	91,5	89,9	91,0	92,8	95,3	98,4	100,9	101,9	102,4	103,8
Eurozone	89,7	90,5	90,1	89,0	89,8	91,7	92,9	95,7	97,3	98,1	98,8	100,4

Month	Jan -14	Feb-14	Mar-14	Apr-14	Ma-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
EU-28	104,8	105,0	105,3	106,3	106,5	106,4						
Eurozone	101,0	101,2	102,5	102,0	102,6	102,0						

* The weights of the countries and the time series of the index in the EU were revised after the entry of Croatia since July 1st , 2013

Source: European Commission (DG ECFIN), June 2014

The main leading indicators of economic climate and activity are rather stable both in the Eurozone and the European Union. In particular, Figure 2.1 depicts the €-COIN[1] indicator on a monthly basis, a leading indicator for the economic activity in the Eurozone. The indicator remained unchanged in June 2014, compared to the previous month, standing at 0.31 points. This stabilisation came after a large fall between April and May (falling from 0.38 to 0.31 points). The deterioration of business confidence was cancelled by the positive impact of the stronger financial markets and industrial activity.

According to the European Commission, the leading indicator of economic climate for both the Eurozone and the European Union can be characterised as stable as well. Specifically, the indicator for EU-28 remained relatively stable, as in June it stood at 106.4 points, from 106.5 points in May and 106.3 points in April 2014. For the Eurozone, the same indicator in June was at the same level as in April (102 points), after a small decrease by 0.6 points in comparison to May 2014.

2.2 The economic environment in Greece

A) Economic Sentiment

The IOBE-FEIR economic sentiment studies offer significant indications on the developments in the economy in the last few months, from the perspective of both the enterprises and the consumers. Besides, the key statistics constitute leading indicators for various economic magnitudes and can be used to predict near-term development and even the course of GDP. Specifically:

The better-than-expected fiscal results in 2013 that allowed for distributing some of the surplus as a "social dividend" to certain social groups, the positive news from the economy and the various developments connected to the continuous slowdown of the recession have given a constant boost to the expectations of consumers and businesses, which however have remained low. As a result, consumer confidence has been improving since March, while during the months under review, it stood at its least negative levels in the last 4½ years, reflecting less pessimistic expectations for the economic situation of the Greek households. Naturally, a part of this improvement near the end of this quarter should be attributed to the sharp increase in tourism, which in turn affects several other sectors of the economy and supports the income of a large number of households, especially in the country's periphery. Despite these improvements though, the problems of the economy are persisting, while battling the high unemployment consists the biggest current challenge for the Greek economy. In greater detail:

The Economic Sentiment Indicator for Greece reached 99.4 points in the second quarter of 2014 (95.0 points in the first quarter), higher than the corresponding level of last year (92.6

[1] The Centre of Economic Policy Research (CEPR) in cooperation with the Bank of Italy each month calculates the €-COIN leading indicator of economic activity for the Euro Area. The indicator provides a 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.

points). Thus, the economic sentiment indicator was at its highest level since the summer of 2008.

At the European level, the corresponding indicator increased quarter-on-quarter, both in the Eurozone and in the EU. Specifically, the sentiment indicator reached 102.2 and 106.4 points in the Eurozone and the EU respectively (from 101.6 and 105.0), and this is higher compared with the same period of last year (90.2 and 91.2 points respectively in both zones).

At the sector level, business expectations in Greece improved quarter-on-quarter in the second quarter in all sectors, and especially in Services (+8 points). The index increased by 6 points in Industry, same as in Retail Trade, while in Construction the relative index grew by 3 points. Finally, regarding Consumer Confidence, the negative index increased sharply in the quarter under review, gaining 11 points, though remaining still at low levels.

Compared with the corresponding period of last year, the average indicators have increased in all sectors, in most of them significantly. The indicator in Industry increased by 5 points, in Construction and Services by 17 points and in Retail Trade by 14 points. The consumer confidence indicator also increased year-on-year, by 15 points. In greater detail:

The **Consumer Confidence Indicator** in Greece in the second quarter increased quarter-on-quarter by 11 units, to reach -52.4 points (from -63.1 points), much higher compared to the corresponding period of last year (-67.2 points). Public confidence has stabilised since late 2013, with signs of improvement in some constituent indicators. Nevertheless, the Greek consumers have steadily remained the most pessimistic Europeans over the last four years. The corresponding average European indicators in the first quarter improved quarter-on-quarter by about 4 points in both the Eurozone and the EU, reaching -7.7 and -4.7 points respectively, higher year on year as well (from -20.8 and -19.3 points respectively on average).

The average quarterly change in the individual elements that make up the overall index is positive in the current quarter. Specifically, the negative predictions of the Greek consumers about the financial situation of their households and the economic situation of the country in the next 12 months eased considerably, while the indicator for the course of unemployment showed an improvement, with the corresponding predictions being at a less negative level. In contrast, the already very adverse intent to save has slightly deteriorated, approaching the historical lows for the quarter under review.

In particular, the percentage of those who were pessimistic about the economic situation of their household fell to 56% (from 64%) in the quarter under review, with 19% (from 14%) declaring that the economic situation of their household will remain unchanged. Also, 56% (from 69%) of the Greek consumers made gloomy predictions about the economic situation of the country, with 11% of them believing that it will remain the same. As far as the intention to save is concerned, 9 out of 10 households considered as unlikely or highly unlikely to save any money over the next 12 months. Regarding the unemployment expectations, despite the continued yet modest improvement recorded since the beginning of the year, the vast majority of those questioned (66% from 79%) continue to believe that the situation will deteriorate slightly or significantly, while the percentage of those who believe the opposite increased to 13% (from 7%). Finally, the percentage of consumers reporting that they were "in debt" fell slightly to 15% (from 18% in the previous quarter and 16% in the same quarter of last year). About 8% of the respondents said that they were saving little or very little during the second quarter of the year (from 11% in the previous quarter), and finally, the percentage of consumers reporting that they were "just making ends meet" increased to 65% on average (from 62%), while the percentage of those who said they were "dipping into their savings" remained at the same level, about 11-12%.

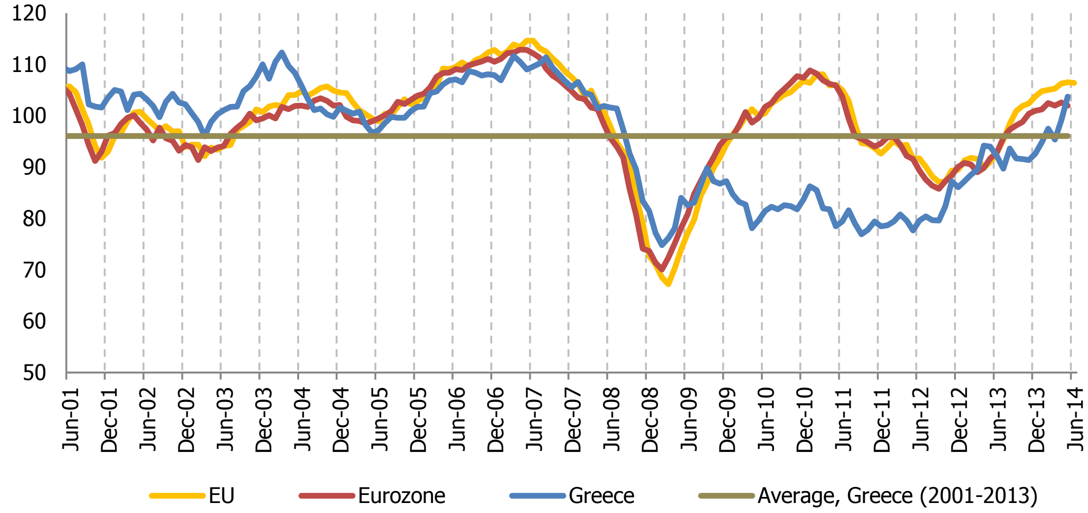
The Business Climate Indicator in **Industry** increased quarter-on-quarter to 95.6 (from 90.0) during the second quarter of 2014, higher in relation to last year as well (90.6 points). Regarding the key activity indicators, the short-term expectations on production levels improved, with the relevant indicator reaching +23 points on average (from +12). The assessment of order-book levels and demand were less pessimistic (-26 from -29 units), while the assessment of the stocks of finished products indicated relatively low levels for the season, with the indicator reduced in half quarter-on-quarter to reach +4 points. Among the remaining activity indicators, the trends in the export variables were mixed: the assessment of current export activity was weaker in the second quarter, while the orders and foreign demand as well as the expectations on export dynamics over the next quarter improved slightly. The negative balance of employment expectations eased to reach -6 on average (from -10), an improved performance compared with the average of the second quarter of 2013 as well (-12). The utilisation rate of the production factors marginally improved, remaining relatively low at 68.5% (from 66.3%), a level higher than in the corresponding period of 2013 (64.7%). Finally, the number of months of assured production reached 4.6 on average (from 4.8 months in the previous quarter and 4.2 in the same quarter of the previous year).

The Confidence Indicator in **Retail Trade** in the period under review increased to 86.9 points (from 80.6 in the previous quarter and 72.9 units in the corresponding quarter of last year). This development stems from an improvement in the projected sales indicator, which recorded a positive value during the second quarter of the year, reaching +4 points (from -21). From the companies in the sector, 31% (from 41%) stated that sales would decline in the near future, while 35% (from 20%) were expecting growth. Regarding the expectations of current sales, however, the relative indicator fell slightly by 2 points, reaching -18. The negative inventories indicator eased to -2 points on average, higher year-on-year as well (from -8), while among the remaining activities, the expectations on orders to suppliers increased significantly (-2 on average in the second quarter from -18). Regarding the employment in the sector, the balance of expectations improved by 14 points, reaching +16, higher against the corresponding low level of last year as well (-14 units). Finally, in terms of prices, deflationary expectations dominated consistently, though slightly eased in relation to the levels of the previous quarter (-10 points on average from -18). About 17% (from 20%) of the businesses were expecting prices to fall, while an overwhelming 76% majority were anticipating price stability. Among the constituent branches of the sector, expectations improved in Textile-Clothing-Footwear, Vehicles & Parts, Household Appliances and Department Stores. In contrast, the expectations deteriorated slightly in Food-Beverages-Tobacco.

The business expectations in **Construction** improved modestly quarter-on-quarter in the second quarter of 2014, with the indicator increasing by 2 points to reach 82, significantly higher year-on-year as well (from 65.6). Regarding the basic components of the index, the employment expectations in the sector improved, growing by 10 points during the quarter under review (reaching +18). In contrast, the strongly negative expectations of the businesses on the level of planned activities, stemming mainly from the delayed construction works on main highways, environment-oriented works and the operation of domestic firms abroad, partly cancelled out the previous positive result (dropping to -61 from -56 points). Among the companies in the sector, 18% (from 28%) were expecting job cuts and 36% job creation (same as in the previous quarter). Regarding the assessment of the companies on their current business activity, the indicator is increasing, though still negative, standing at -23 (from -27), while the number of months of assured activity has remained unchanged at 11 months for nine months. The negative balance of price expectations also dropped by 2 points, reaching -29 points. Finally, the percentage of firms reporting that their business activity was being conducted without obstacles fell marginally to 11% (from 15%), with the remaining businesses reporting as major obstacles low demand (37%), inadequate funding (27%) and factors such as the general economic situation, the recession, high taxes, lack of projects, late payments from the state, large discounts, etc. Among the constituent branches, the sentiment improved significantly in Private Construction (54.9 from 42.5 points). In contrast, the indicator in Construction of Public Works fell slightly to 94.5 points (from 95.8 in the last quarter), though recording one of its highest levels in the past five years.

Figure 2.2

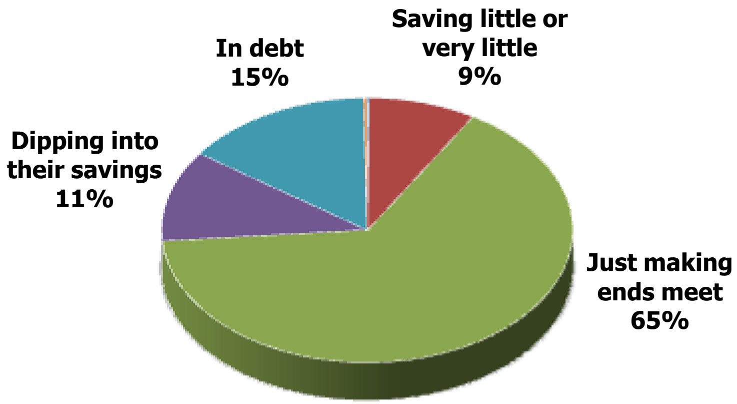
Economic Sentiment Indicators: EU28, Euro Area and Greece
(1990-2013=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.3

Consumers' Survey data on their household's financial situation
(April – June 2014 average)



Source: IOBE

In **Services**, the Business Climate Indicator increased slightly quarter-on-quarter in the second quarter of 2014, to 87.1 (from 78.8), higher by 17 points in comparison with the same period of last year. All the key components of the indicator improved this quarter: the short-term demand expectations reached +18 points (from +11) and the assessment of the enterprises of their current demand stood at +4 points (from -2). The assessment of the enterprises on their current activity recorded a significant improvement (+4 from -14 points on average), while among the remaining activity indicators, the employment expectations gained strength, with the relative indicator reaching +5 (from -3) on average. Regarding prices, the deflationary expectations eased, with the corresponding index gaining 10 points to reach -5. About 1/10 (from 17%) of the firms were expecting prices to fall and 85% of them to remain unchanged. Finally, the percentage of those who were reporting unimpeded business operation increased to 20% (from 12%) this quarter, with 37% of the respondents declaring as a key obstacle to their operation insufficient demand, 27% lack of working capital, 3% inadequate labour supply and 12% factors associated with the general economic situation and the crisis, the global current affairs, borrowing difficulties, high taxes, late payments etc. All the constituent branches of the Services sector, except for Financial Intermediaries, recorded a small or big quarter-on-quarter rise in the business climate indicator. The most significant improvement was recorded in Hotels - Restaurants - Travel Agencies and IT Services.

Table 2.6

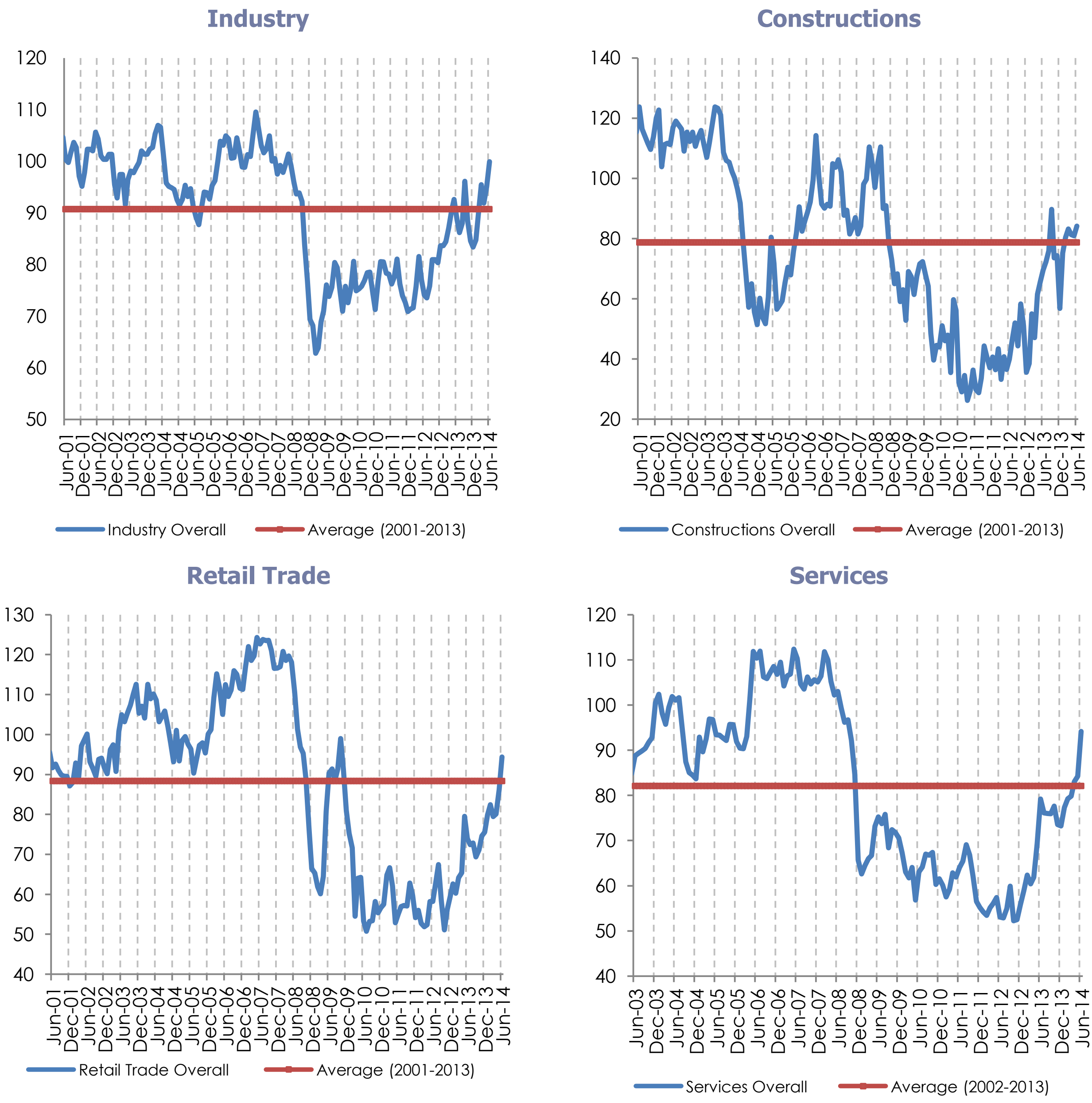
Short-term economic indicators

Month/ year	Economic Sentiment Indicators[1]		Business confidence indicators[2] (Greece)				Consumer Confidence indicator [1] (Greece)
	E.U-27	Greece	Industry	Constructions	Retail Trade	Services	
2002	97,3	102,0	101,2	114,0	93,3	82,8	-27,5
2003	95,4	100,1	97,9	115,0	102,0	85,5	-39,4
2004	103,3	104,8	99,1	81,5	104,8	94,6	-25,8
2005	100,8	98,1	92,6	63,0	96,8	93,6	-33,8
2006	108,3	104,9	101,5	91,1	110,8	103,7	-33,3
2007	111,0	108,4	102,8	92,5	120,8	106,6	-28,5
2008	93,3	97,4	91,9	95,2	102,5	97,8	-46,0
2009	79,3	79,7	72,1	65,5	80,4	70,1	-45,7
2010	101,2	79,3	76,2	45,2	59,5	62,9	-63,4
2011	100,3	77,6	76,9	34,2	58,9	61,7	-74,1
2012	90,9	80,0	77,2	43,2	57,1	54,8	-74,8
2013	95,7	90,4	87,8	65,0	70,2	70,4	-69,3
Jan–13	91,3	86,1	83,7	38,5	62,6	58,9	-71,9
Feb-13	91,8	87,3	84,4	55,0	60,3	62,3	-71,4
Mar-13	91,6	88,5	87,1	47,1	64,2	60,4	-71,2
Apr-13	89,9	89,5	90,3	61,5	65,4	61,9	-71,8
May-13	91,0	94,2	92,6	65,7	79,5	69,3	-63,4
Jun-13	92,8	94,0	88,8	69,5	73,9	79,2	-66,5
Jul-13	95,3	92,1	86,2	72,3	72,43	76,1	-70,9
Aug-13	98,4	89,7	88,0	75,9	72,9	76,0	-76,6
Sep-13	100,9	93,6	96,1	89,7	69,4	75,9	-72,2
Oct-13	101,9	91,7	88,4	73,6	71,2	77,6	-66,2
Nov-13	102,4	91,6	84,6	74,4	74,6	73,6	-66,7
Dec-13	103,8	91,4	83,4	56,9	75,5	73,2	-63,3
Jan–14	104,8	92,6	84,7	75,2	79,9	77,3	-64,5
Feb-14	105,0	94,8	89,9	80,4	82,4	79,3	-65,2
Mar-14	105,3	97,5	95,5	83,2	79,5	79,8	-59,7
Apr-14	106,3	95,4	91,9	81,3	80,1	83,0	-55,0
May-14	106,5	99,1	95,1	80,9	86,2	84,2	-52,5
Jun-14	106,4	103,7	99,9	84,2	94,4	94,2	-49,8

Sources: [1]European Commission, DG ECFIN, IOBE

Figure 2.4

Business Sentiment Indicators



Source: IOBE

B) Fiscal developments and outlook

Execution of the State Budget (January – May)

During the first five months of 2014, the State Budget recorded a deficit of €1.99 bn., compared to €3.84 bn. in the corresponding period of 2013. The improvement by €1.85 bn. can be explained by the large cut in primary spending by €1.52 bn. As a consequence, a primary surplus of €707 mil. was recorded from January to May, from a deficit of €907 mil. in the previous year, which in fact exceeded the target set for this period by €500 mil.

Spending

The reduction of €1.52 bn. in the primary spending (Table 2.7) came mainly from the following changes:

a) A €993 mil. cut in social spending. This is the result of a 20.7% year-on-year cut in the grants to the social security sector (23.2% cut last year), leaving these grants at about €4.3 bn.
b) A €863 mil. cut in operating and other expenses (-26.5% year-on-year).

Table 2.7

State budget expenditure, January - May

€ mill.	**2013**	**2014**	**Change**	**% Change 2014/13**
TOTAL STATE BUDGET	**23.009**	**21.590**	**-1.419**	**-6,2%**
INTERESTS	**2.873**	**2.697**	**-176**	**-6,1%**
TOTAL REGULAR BUDGET	**20.136**	**18.893**	**-1.243**	**-6,2%**
TOTAL PRIMARY COSTS	**18.995**	**17.113**	**-1.882**	**-9,9%**
REMUNERATION AND PENSIONS	**7.692**	**7.630**	**-62**	**-0,8%**
Remunerations	4.800	4.655	-145	-3,0%
Other Benefits	470	456	-14	-3,0%
Pensions	2.422	2.519	97	4,0%
INSURANCE, CARE, SOCIAL PROTECTION	**6.528**	**5.535**	**-993**	**-15,2%**
Grants of insurance funds	5.468	4.337	-1.131	-20,7%
Grants of the Employment	237	202	-35	-14,8%
Social Protection	100	348	248	248,0%
Grants of hospitals	723	648	-75	-10,4%
OPERATING AND OTHER EXPENSES	**3.258**	**2.395**	**-863**	**-26,5%**
Grants	735	571	-164	-22,3%
Consumer spending	345	322	-23	-6,7%
Mirror expenditure	1.356	1.032	-324	-23,9%
Other Spending	822	470	-352	-42,8%
EARMARKED REVENUE	**1.517**	**1.553**	36	2,4%
PIP	**1.141**	**1.780**	**639**	**56,0%**

Source: Bull Run State Budget in May 2014, MoF., June 2014

c) Small reduction in salaries and pensions spending by 0.8%, much less than the corresponding period of last year (-7.8%).

In contrast, the funds towards Municipalities and Prefectures (OTA) recorded a modest increase by €36 mil., as did the Public Investment Program, whose spending increased by €639 mil. (+56%).

Revenues

According to the data from the State Treasury, during the first five months of 2014 the State Budget revenues increased by €435 mil. year-on-year, while they exceeded the target set for this period by €40 mil. (Table 2.8). This performance is attributed mainly to the income tax payments by legal entities (+€748 mil.), a figure that is seven times higher compared to the corresponding period of the previous year and two times higher than the relevant target. This fact reflects the changes in the way some individuals are taxed, since they are taxed as legal entities starting from this year. The revenues of the Public Investment Programme also increased, by €578 mil. year-on-year.

Table 2.8

State Budget Revenue, January-May

€ mill.	2013	2014	Change	Δ% 2014/13
REVENUES OF STATE BUDGET	**19.165**	**19.600**	**435**	**2,3%**
NET REVENUES OF REGULAR BUDGET	**17.444**	**17.300**	**-144**	**-0,8%**
TAX REFUNDS OF REGULAR BUDGET	**483**	**1.268**	**785**	**162,5%**
TOTAL REVENUES OF REGULAR BUDGET	**17.927**	**18.568**	**641**	**3,6%**
TAX REVENUES	**16.205**	**16.060**	**-145**	**-0,9%**
DIRECT TAXES	**6.663**	**6.947**	**284**	**4,3%**
Income taxes	3.406	3.724	318	9,3%
Property taxes	1.158	1.165	7	0,6%
Direct taxes PIP	1.386	1.172	-214	-15,4%
Other direct taxes	714	886	172	24,1%
INDIRECT TAXES	**9.542**	**9.113**	**-429**	**-4,5%**
Transaction taxes	5.975	5.790	-185	-3,1%
Consumption taxes	3.122	2.900	-222	-7,1%
Indirect taxes PIP	306	265	-41	-13,4%
Other indirect taxes	139	158	19	13,7%
NON-TAX REVENUES	**1.721**	**2.508**	**787**	**45,7%**
DRAWINGS FROM EU	35	75	40	114,3%
NON REGULAR REVENUES	755	796	41	5,4%
PERMITS AND RIGHTS	62	0	-62	-100,0%
OTHER	869	1.637	768	88,4%
PIP	**1.722**	**2.300**	**578**	**33,6%**

Source: Bull Run State Budget in May 2014, MoF., June 2014

The positive change in the direct tax revenues is cancelled out by the drop in the indirect tax revenues by about €430 mil. (or -4.5%) year-on-year. Consequently, the total tax revenues record a small decrease by 0.9% (or €145 mil.), which is much smaller, though, compared to the corresponding period of last year (-9.6%).

Overall, it seems that the targets set for revenues for 2014, including those regarding indirect taxes, are attainable, given the new increase in international tourist flows. The tax clearance for 2013 will give a substantial boost to income tax revenues, exceeding the shortfall during the first five months of 2014 by €275 mil. (or 11%) year-on-year or by 4% relative to the target that was set for the particular period in the Medium-term Fiscal Framework 2015-2018.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Recent macroeconomic developments

The recession in Greece eased further in the first quarter of 2014 (-0.9% against -6% in the corresponding quarter of last year and -2.3% in the final quarter of 2013) according to the provisional data of ELSTAT. This is the second lower contraction rate since the third quarter of 2008. The absence of additional fiscal measures and the achievement of better than initially anticipated primary surplus, along with its partial distribution to certain social groups - as stipulated in the revision of the second Memorandum - contributed to the increase of consumer spending - a main GDP component - for the first time since 2010.

In addition, the substantial increase in the exports of services due to the increased international tourist arrivals last year and the marginal increase of public spending contributed to the substantial weakening of the contraction. In contrast, the GDP was negatively affected by the further drop in investments, mainly in the Housing sector (-42.3%), as the lack of clarity on the calculation of the "incremental value tax" was impeding property transactions. The growth of imports, which is associated with the increase in private consumption, contributed also in this direction, reducing at the same time the improvement observed in the balance of the external sector.

In terms of socio-economic developments in the first quarter of 2014, the evaluation of the Economic Policy Programme, which had been interrupted at the end of the previous year, was finalized, whereas the Bank of Greece concluded the stress tests conducted with the assistance of Black-Rock. Following the disclosure of the results, investors, among which international companies as well, expressed their interest in the new equity issues of Greek banking institutions. Setting the capital requirements of the four largest Greek banks under control and achieving primary surplus allowed Greece to return to the foreign capital markets after 4 years with a bond issue in mid-April.

Concerning the key components of GDP from January to March, **a slight increase in the domestic consumption was observed for the first time after four consecutive years** (0.8% against -8.9% a year before). This was due to the increase of both household and public expenditure by 0.7% and 1.2% respectively, against the substantial contraction (-8.7% and -9.7% respectively) in the previous year. In contrast, **investments dropped by 16.7% in the first quarter of 2014 against an increase by 8.4% at the beginning of the previous year.** This was primarily due to the decline of inventories – in contrast to the substantial increase last year which also led to the increase of investments– along with the contraction of capital formation by 7.9%, following the drop by 11.4% in the first quarter of 2013. The continued, for seven years in a row, decline of capital formation led to an accumulated decline of 27.3% since the first quarter of 2007.

With regard to the basic categories of capital formation, **Housing Construction dropped by 42.3%,** the largest contraction compared with the corresponding quarters in the past two years (-34.6% in 2013 and -31.2% in 2012). Investments in residencies at the beginning of 2014 were equal to approximately 8.4% of the respective level in 2007 as a result of the prolonged contraction. In Metal Products – Machinery (which is the second largest category in the investments of fixed capital) investments contracted by 14.7%, followed by Agricultural products (-4.8%). Slightly lower were the investments in Other Constructions (-0.5%) counterbalancing an increase of the same magnitude a year before. In contrast, investments in Transportation Equipment accelerated (23.8%), maintaining the small increase during 2013 (+2%) and exceeding the losses over the period 2012-2013.

The deficit of the external sector reduced further due to the stronger, since the beginning of 2011, increase of exports in the first quarter of 2014 (+5.4%). This development was almost entirely due to the increase in the exports of services (+13.1%), since the growth in the exports of goods was marginal (+0.5%). However, despite the growth as a result of the increased demand for tourism and other services compared with 2013,[2] the exports of services were still marginally lower compared with 2012. Respectively, the slight increase in the exports of goods in constant 2005 prices came from a decline in their price deflator by about 3%, while in nominal terms they declined by 2.6%. **Nevertheless, exports reached their highest level for this particular quarter since 2009 (€ 8.9 billion).**

Respectively, a slight increase in imports was observed for a second quarter in a row (+2.2%), when in the respective time period of 2013 the demand for imports had dropped by 7%. The growth rate was almost identical in the imports of goods and services (2.3% and 1.9% respectively). The changing trend in imports in the past quarters, when the recession contracted substantially, is an indication that imports were not substituted by domestic production, particularly in the case of expensive imported goods. **The small growth of imports weakened the improvement in the balance of the external sector, resulting in a reduction of the deficit by 7.2% in the first quarter of 2014 (-206 million euro) against the drop by 18.9% in the same period of last year (-€650 million).**

In production terms, **the domestic gross value added of production was lower by 0.8% at the beginning of 2014 against the drop by 6% last year.** Similarly to the previous quarters,

[2] According to the Balance of Payments by the Bank of Greece

the sharp decline in Housing Construction had a negative impact on the output of the Construction sector, which dropped by 22.7%, similar to the previous year (-21.9%). Similarly to Housing, the construction output has cumulatively dropped by 83.3% since the first quarter of 2007. The second stronger contraction was observed in the Professional – Scientific – Technical – Administrative Activities (-9.7% against 12.5%), followed by Financial-Insurance activities (-5.6%) and Arts-Recreation-Entertainment (-5% against a decline by 9.9%). In contrast, the smallest contraction was observed in Information-Communication (1%). On the other hand, the output in Wholesale-Retail trade, Repair of Motor Vehicles – Motorcycles and Accommodation – Food Services increased, albeit slightly, by approximately 2.4%, followed by the Agriculture sector (+2% against -2.9%). A slight increase was also observed in the Public sector (+0.7%), against the decline by 4.4% during the first quarter of last year, whereas the output in Industry and Real estate consolidated at its last year level.

Despite the substantial contraction of the recession, **the level of unemployment remained unchanged at the high rate of the previous quarter (27.8%).** However, in comparison with the same quarter of last year, the unemployment rate was marginally higher by 0.2 percentage points, its smallest change since 2009. However, this development was mostly temporary. According to the Labour Force survey, employment in the Education sector increased by about 20,900 – due to the employment programmes of the Manpower Employment Organization - followed by the Support-Administration activities (+14,400) – where similar projects were enacted – and the Accommodation-Food Services (+12,600) as a result of the increased tourism activity, which was also reflected in the sectors' turnover (up by 44.9%). In contrast, the largest decline in employment was observed in Constructions (-21,400) and Manufacturing (-14,000).

Despite the slight increase in household consumer spending in the first quarter of 2014, the decline of the Consumer Price Index continued. This resulted in deflation of 1.3%, which though is lower compared with the drop of the CPI at the beginning of 2013 (-2.2%), when it had reached its highest rate for the past 55 years in Greece. The deflationary trends in major categories, such as "Food-Non alcoholic beverages", "Housing" and "Transportation", which have a significant weight in the determination of the CPI (47%), counterbalanced the small increase in the prices of "Alcoholic beverages" and "Health".

Table 3.1

Main Economic Volumes-Quarterly National Accounts (constant 2005 prices)

Quar-ter/Year	GDP		Final Consumption		Investment		Exports		Imports	
	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €		mil. €	Annual rate of change	mil. €	Annual rate of change
2001	**165,023**	**4.2%**	**146,095**	**4.1%**	**38,908**	**-3.9%**	**39,522**	**0.0%**	**59,274**	**4.2%**
2002	**170,700**	**5.2%**	**153,724**	**5.2%**	**39,399**	**1.3%**	**36,205**	**-8.4%**	**58,532**	**-1.3%**
2003	**180,847**	**2.4%**	**157,479**	**2.4%**	**46,687**	**18.5%**	**37,262**	**2.9%**	**60,267**	**3.0%**
2004	**188,746**	**3.8%**	**163,422**	**3.8%**	**45,578**	**-2.4%**	**43,712**	**17.3%**	**63,682**	**5.7%**
2005	**193,049**	**3.8%**	**169,662**	**3.8%**	**41,321**	**-9.3%**	**44,807**	**2.5%**	**62,741**	**-1.5%**
2006	**203,688**	**4.1%**	**176,612**	**4.1%**	**50,048**	**21.1%**	**46,739**	**4.3%**	**69,711**	**11.1%**
2007	**210,895**	**4.3%**	**184,176**	**4.3%**	**56,524**	**12.9%**	**50,066**	**7.1%**	**79,820**	**14.5%**
2008*	**210,443**	**-0.2%**	**189,436**	**2.9%**	**50,672**	**-10.4%**	**50,899**	**1.7%**	**80,535**	**0.9%**
Q1 2009	47,439	-4.2%	45,860	-4.4%	9,258	-17.7%	8,296	-18.4%	16,017	-19.4%
Q2 2009	51,254	-3.6%	47,727	-0.9%	9,072	-29.5%	10,368	-20.0%	15,961	-23.3%
Q3 2009	53,607	-3.0%	47,941	1.5%	8,526	-28.3%	13,378	-20.9%	16,279	-21.6%
Q4 2009	51,543	-1.9%	47,396	2.8%	11,135	-24.1%	8,973	-17.5%	16,004	-16.2%
2009*	**203,843**	**-3.1%**	**188,924**	**-0.3%**	**37,992**	**-25.0%**	**41,014**	**-19.4%**	**64,261**	**-20.2%**
Q1 2010	46,972	-1.0%	46,939	2.4%	7,305	-21.1%	8,310	0.2%	15,707	-1.9%
Q2 2010	49,816	-2.8%	44,856	-6.0%	8,979	-1.0%	10,826	4.4%	14,828	-7.1%
Q3 2010	50,064	-6.6%	43,437	-9.4%	7,916	-7.2%	13,677	2.2%	14,829	-8.9%
Q4 2010	46,916	-9.0%	40,884	-13.7%	10642	-4.4%	10328	15.1%	14932	-6.7%
2010*	**193,768**	**-4.9%**	**176,116**	**-6.8%**	**34,842**	**-8.3%**	**43,142**	**5.2%**	**60,297**	**-6.2%**
Q1 2011	42,840	-8.8%	41,632	-11.3%	7,180	-1.7%	8,282	-0.3%	14,274	-9.1%
Q22011	45,889	-7.9%	41,433	-7.6%	7,576	-15.6%	10,922	0.9%	14,051	-5.2%
Q3 2011	48,072	-4.0%	41,932	-3.5%	6,229	-21.3%	14,278	4.4%	14,406	-2.9%
Q4 2011	43,201	-7.9%	38,424	-6.0%	8,138	-23.5%	9,801	-5.1%	13,141	-12.0%
2011*	**180,001**	**-7.1%**	**163,421**	**-7.2%**	**29,124**	**-16.4%**	**43,282**	**0.3%**	**55,871**	**-7.3%**
Q1 2012	39,954	-6.7%	38,512	-7.5%	4,947	-31.1%	8,626	4.1%	12,152	-14.9%
Q2 2012	42,951	-6.4%	38,406	-7.3%	6,092	-19.6%	10,594	-3.0%	12,234	-12.9%
Q3 2012	44,873	-6.7%	38,227	-8.8%	4,429	-28.9%	13,674	-4.2%	11,718	-18.7%
Q42012	40,737	-5.7%	34,947	-9.0%	8,535	4.9%	9,334	-4.8%	12,074	-8.1%
2012*	**167.436**	**-7,0%**	**148.950**	**-8,9%**	**23.934**	**-17,8%**	**42.536**	**-1,7%**	**48.176**	**-13,8%**
Q1 2013	37,281	-6,0%	34,885	-8,9%	5,309	8,4%	8,444	-2,2%	11,301	-7,0%
Q2 2013	40,788	-4,0%	35,631	-6,4%	4,994	-18,0%	10,844	1,6%	10,881	-11,1%
Q3 2013	42,905	-3,2%	35,159	-6,1%	4,887	9,1%	14,556	5,2%	12,031	2,7%
Q42013	40,008	-2,3%	34,876	-0,8%	7,138	-15,7%	9,456	0,5%	11,392	-5,6%
2013	**160.981**	**-3,9%**	**140.552**	**-5,6%**	**22.329**	**-6,7%**	**43.300**	**1,8%**	**45.606**	**-5,3%**
Q12014	36,934	-0.9%	35,167	0.8%	4,420	-16,7%	8,897	5.4%	11,548	-2,2%

* provisional data

Source: ELSTAT, Quarterly National Accounts, December 2013

In summary, the strong indications for primary surplus in 2013, for the first time since 2002, the contraction of the economy at rates close to those anticipated at the start of the year and the absence of additional fiscal measures in 2014, weakened substantially the reservations, both domestically and abroad, about the effectiveness of the adopted fiscal policy, the ability of the Greek government to fulfil the fiscal consolidation process and the prospects of recovery. Moreover, in spite of the high unemployment rate, the reduced level of uncertainty had a positive effect on household expenditure and the economic sentiment index, which approached its long-term average for the first time since the third quarter of 2008.

Meanwhile, the decline in the interest rate of Greek bonds and the successful bond issue from a Greek banking institution - for the first time over the past four years – is associated with the strengthening international confidence towards the Greek economy. However, the implementation of the reforms in the public sector and the structural changes in product / service markets were negatively affected by the overachievement of the fiscal targets and the EU parliamentary / municipal elections. Nevertheless, as shown below, these policy areas remain of high priority for the recovery of the Greek economy and the sustainability of its public finances in the following years.

Medium-term outlook

As mentioned in the final quarterly bulletin for 2013, the forthcoming then elections were anticipated to undermine the implementation of the fiscal policy and postpone the required structural reforms, despite the adverse conditions in the Greek economy that leave no room for delays in the scheduled reform programme and the required fiscal consolidation process.

The elections' outcome did not result in any major political or government developments that would exacerbate the uncertainty over the implementation of the Economic Adjustment Programme. However, the extensive cabinet reshuffle is closely related to the elections' outcome. Regardless of these developments, the government should take the necessary preparation steps, including the implementation of the pre-determined actions, for the forthcoming review by the troika. The majority of these actions relate to the reforms in the public sector, the privatisations - concessions programme and the structural reforms in markets and professions. However, the relative reform inaction during the election cycle is also due to the lack of willingness by some authorities and officials to take the necessary steps for the implementation of the planned policies. The pre-election view - especially when the size of the primary surplus was confirmed - that further significant and systemic effort to complete the fiscal adjustment process is not needed, continues to exist, although at a small scale, extending to the area of reforms.

However, the growth rate required until the end of the decade – slightly above

3% - in order to ensure the sustainability of the public finances and to address the consequences of the prolonged recession requires: i) the immediate mobilisation of all productive forces in Greece, with the abolishment of any existing entry barriers in professions and markets, and the unencumbered operation of professions and enterprises ii) the adoption of measures that will attract and facilitate foreign investment and iii) the acceleration of the necessary steps for the modernisation of the State. In case these actions are not rapidly implemented – according to a specific timetable – the necessary transition of the Greek economy (from the deep recession of 4% in 2013 to a growth rate of approximately 3% in 2015) might not materialise. In this occasion, the economy will be trapped in a situation of a weak recovery or GDP swings (slight growth accompanied by small contractions), which besides the growth perspectives will also undermine the outcome of the fiscal consolidation effort achieved over the period 2010-2013. Nevertheless, despite the objections on the necessity of the reforms, the pre-determined actions are expected to be finalised by the end of the forthcoming evaluation.

As mentioned in previous IOBE bulletins, apart from these actions, the negotiations with regard to the Economic Policy Programme will mainly focus on the finalisation of the fiscal measures over the period 2015-2017, while the likelihood of a financing gap – along with possible alternatives to cover it – will also be examined. According to the IMF report on the previous evaluation, the financing gap over the specific time period is estimated at €7.5 billion, while the European Commission expects that the required measures would be equal to 1% of the GDP (1.1% in the IMF report). This gap will be partially covered by the prolongation of existing measures that were initially expected to end in 2014-2015 (such as the solidarity tax). In addition, the restructuring of VAT in 2015 is expected to be a substantial source of tax revenues. With regard to expenditure, some further savings can be achieved from the restructuring of the public sector and the rationalization of its operating costs. In addition, the sustainability of the Social Security System will be evaluated on the grounds that the share of pensioners over employees will deteriorate in the following decades.

Irrespective of the fiscal measures that will be adopted in the next years, some further pressures on income are expected in the second half of 2014. These are mainly related to the reductions in auxiliary pensions, the built-up of tax obligations (unified property tax, income tax) along with the changes in the tax system (e.g. taxation as legal entities of some taxpayer categories that were taxed as individuals, abolishment of tax exemptions).

Respectively, the financing needs of the State in the short-term are closely related to the results of the ECB stress tests in the 4 biggest Greek banking institutions by the end of 2014 – in the context of the EU banking union – and the progress of the privatisation programme. The IMF estimates the existing financing gap at €12.6 billion due to the discrepancy between the financing needs of the Greek state and the reduced sources of financing in the next year. However, approximately €3 billion (from €5.5 billion in total) are expected to accrue from the centralised management of dormant liquid assets that belong to a number of general government entities. For that purpose, a specific mechanism was established that could issue repos using fixed assets of the central administration as collateral to raise funds from general government bodies. At the same time, a plan for reducing the dispersion of cash in several accounts of the central government is expected to be put in place until the beginning of 2015. In its first phase, the evaluation of the bank accounts of the State along with central government entities will take place with the amount saved deposited in a Treasury Single Account of the Ministry of Finance. According to the latest evaluation report of the European Commission these actions are expected to cover the unscheduled financing needs – until the completion of the evaluation – in the following twelve months.

Additional funds for the financing gap until the end of 2015 are expected from undistributed capital – approximately €11 billion - from the Financial Stability Fund. In case the ECB stress tests indicate that the capital requirements are lower compared with the funds withheld by HFSF (remaining after the recapitalisation of the banks with ESM bonds), then part of this amount can be used to meet the financing gap.

In addition, the servicing of the debt held by the Eurozone countries and the ESM will be facilitated further according to the 26/11/2012 Eurogroup decision (e.g. with lower interest rates). Meanwhile, an additional bond issue, yet of lower value compared with April, is expected to cover the remaining financing needs in 2015.

Respectively, the downward revision by the troika of the revenues from the Hellenic Republic Asset Management until 2020 (estimated at €22.4 billion) contributed to the expansion of the financing needs for the next year to €12.6 billion. Therefore, any further revision of the revenues from the privatisation process is expected to have a negative impact on the financing needs. In this context, the adjustment of the privatisation revenues to €1.5 billion in the MFTS (from €3.6 billion in the State Budget of 2014) should also be addressed. This development reduces further the anticipated boost in investment and production activity, associated with the utilisation of state-owned assets.

The contribution of the banking sector to the financing of investments is expected to remain weak, albeit stronger compared with the previous year. It is evident that lending to the non-financial sectors has declined by 5% until April, despite the return of the three main banking institutions (National Bank, Piraeus Bank and Eurobank) in the bond markets and the strong interest in the new issues of equity. Meanwhile, the average interest rate for business loans increased in April, ending the downward trend observed in the previous month.

Despite the positive developments, it is very unlikely that the banking institutions will adjust their credit policy in the short-term. This policy is not expected to change substantially until the evaluation by the troika and the ECB stress tests are completed. The tests will examine the quality of the loan portfolio and the capital adequacy of the banking institutions, after the recent new equity and bond issues and the implementation of the new conditions for the protection of the primary residence of borrowers and for the restructuring of their loans.

Moreover, the data with regard to foreign direct investment reveal the weakening interest for investment in Greece. Between January and April of 2014 the net inflows has dropped by approximately 40% compared with the same period of last year (€228.6 million). At the same time, the net outflow of investment by Greek residents is twice as high compared with the previous year (€219.7 million). The FDI decline is probably associated with the elections cycle. However, investment plans, mainly from multinational companies, are expected to accelerate after the end of the elections.

Additionally, the investment in the Housing sector is expected to recover after the amendment in the legislation with regard to the incremental value property tax that took place on April, removing in this way the ambiguity in the legislation that was present since the beginning of the year. However, Housing investment will contract for a seventh year in a row, albeit at a slower pace compared with 2013.

As expected in late 2013, a major determinant of whether the domestic economic activity will experience a significant weakening of the contraction or slight growth is the level of international tourist flows. According to data from the Balance of Travel Services, travel receipts increased by 27.8% (or €196 million) in the first four months of 2014 compared with the previous year. At the same time, however, travel payments increased proportionately (26.9% or €138 million). As a result, the surplus in the Balance of Travel Services increased by 30% (or €58 million). According to the Bank of Greece, the growth in travel receipts is mainly due to increased arrivals by 21.1% and to a smaller extent from the average spending per trip (by 6.2% or 26 euro). However, the difference among travel receipts and payments at the beginning of each year is small, whereas it expands in the following months, mainly in the third quarter of each year. Therefore, the positive effect in the economy from the increased international tourism arrivals will be reflected from May onwards.

Regarding the remaining indicators on key segments of the Greek economy, in most branches the contraction has eased, whereas in some cases a small increase is observed. Still, there are cases where the contraction has regained strength. In particular, Industrial production dropped by 2.5% in March and April following the slight increase by 1.4% in the first two months of the year, with the trend observed in all major industrial sectors. From March to April the contraction was slower in Mining-Quarrying (-2.9% against +2.8% in the first two months of 2014) followed by Manufacturing (-2.1% against 2%). With regard to the other industrial sectors, Electricity Generation-Distribution dropped by 3.1% (against +1.9%), while the contraction was stronger in Water Supply (-4.5% against -1.8%). In contrast, the contraction in construction activity eased during the first quarter of the year as a result of the low base of comparison in 2013, when a vertical drop by 60% was observed. Moreover, the growth in Construction by 2.9% in the first quarter of 2014 - following three years in a row of contraction – came mostly from Public works**.**

Regarding the indicators on the demand side of the economy, the volume index of Retail Trade consolidated in the first quarter of 2014, following a decline by 12.3% at the same period of last year. In addition, the growth by 7.3% in April was primarily due the strong growth in Leather-Footwear (+16.2%). However, without the impact from the sales of fuels and lubricants, the volume index declined by 1% in the first four months of 2014. This trend might continue until the end of 2014 due to the higher base of comparison a year before. In Wholesale Trade the turnover remained unchanged in the first quarter of 2014 following a decline by 14.2% a year ago.

With regard to the level of prices, deflation has strengthened since March, reaching 2% in May. The Consumer Price Index dropped by approximately 1.7% in April and May of 2014 (against a decline by 0.5% last year and by 1.3% in the first quarter of 2014). This was mainly due to the decline by 7% in Leather-Footwear, which also explains the growth in sales volume mentioned earlier.

In the external market, the exports of goods and services (including oil products) increased by 8.7% in March and April of 2014, according to data from the Bank of Greece. This is mainly due to the strengthening of international demand for services (+18.8%), (e.g. tourism and other services), in contrast to the slight growth in products (+0.6%). Meanwhile, imports increased by 1.1% due to the growth in the imports of goods, which outpaced the imports of services (+1.7% against contraction by 1.1%). This development indicates that household expenditure has been partially channelled to the demand for imported goods. Overall, the deficit of the external sector contracted by 25.3% (in current prices) in the first two months of 2014 compared with the same period of last year.

Taking into consideration the politico-economic developments associated with the elections and the forthcoming evaluation of the Economic Policy Programme, the slight increase of household expenditure in the first quarter of 2014 is expected to continue, at least in the next two quarters. The small increase of employment, mainly in tourism activities during the summer, the elimination of any source of uncertainty from the elections outcome and the declining trend in prices, albeit at a slower pace from August onwards, will also contribute in this direction. A positive effect on employment along with a slight increase in wages is expected from the reduction in social contributions by 3.9%, in force from the 1st of July. However, the stronger build-up of tax obligations in 2014, mainly in the second half, the changes with regard to the taxation of individuals, along with further cuts in auxiliary pensions, are expected to restrain consumption expenditure. Therefore, **household consumption spending is expected to increase marginally, by 1%, in 2014.**

With regard to public expenditure, the marginal increase in the first quarter of 2014 is expected to halt in the following quarters, due to the restructuring in the public sector, which was set back during the pre-election period. This process involves also the redundancies following the completion of the suspension period (e.g. of teachers, school security personnel and municipal police). The contraction of public expenditure might slowdown at the end of 2014, partially due to the enforcement of court decisions, which deemed as unconstitutional the wage cuts in certain categories of public servants. However, the State Budget report of 2014 did not incorporate the wage cut associated with the extension of the new unified remuneration scheme to the armed forces (€144 million in wages and €192 million in pensions in gross terms).[3] Hence, no divergence is expected in public expenditure from the implementation of the specific court decision. **Therefore, the contraction of public consumption will ease compared with the previous year, approximately at 2%.**

With regard to **public expenditure for investment**, the acceleration observed at the beginning of 2014 continued until May. During that period disbursements of the Public Investment Program were higher year-on-year by 56% at 1.8 billion euro (above the target set in MTFS 2015-2018 at 1.67 billion euro). Considering the 6.8 billion euro target in the State Budget of 2014 along with the scheduled disbursements until the end of May, the largest share – approximately 2/3 – is expected to be disbursed in the second half of the year. However, the downward revision of the Hellenic Republic Asset Development Fund activities in MTFS 2015-2018 – without excluding further adjustments – counteracts the front-loaded (in comparison with 2013) execution of the PIP. Considering the positive effect of the privatisation-concession programme on investments and employment, along with the implementation time these investments involve, the slow progress observed hinders the growth perspectives for 2015, when the growth rate should reach 3%.

Respectively, the completion of the elections, without repercussions on the gov-

[3] 2014 State Budget Recital, Ministry of Finance, November 2013, p. 94.

ernment's coherence removes any wait-and-see attitudes towards private investments, mainly foreign. Despite, however, the absence of negative developments in Greece, the foreign investment interest until April remained weak. Meanwhile, the credibility of the Greek economy has further improved following the upgrade by Fitch of the sovereign debt rating (from B- to B with stable outlook), the country ceiling from B+ to BB associated with the announcement by Eurostat of fiscal surplus in 2013 and the upgrade from Moody's of the economic outlook for Greece. The improved perspectives along with the relatively stable socio-economic environment in Greece are expected to contribute to the acceleration of direct investments from multinational firms during the third quarter of 2014.

However, most of the impediments associated with the implementation of investments, and in particular the lack of investment finance, still exist, as the banking institutions prepare for the ECB stress tests. Domestic demand has partially recovered, though the same can be said for the demand for imported goods, whereas the international demand for the Greek products will be approximately at the same level with the previous year. With regard to the factors that negatively affect investments over the course of the years, the recent agreement between DEPA and Gazprom (for a 15% cut in the gas import price, which will subsequently bring a 10% reduction in the gas tariffs for industries retrospectively from 1 July 2013) reduces slightly the burden on total production cost. Additionally, the construction activity is expected to accelerate after the finalisation of the "incremental value tax" on properties. Given the low base of comparison with the previous quarters, Housing investment is expected to grow. Taking into consideration the outlook of the investment activity components, **investment is expected to drop slightly by 2-3% in 2014.**

In the external sector, the growth of exports in the first quarter is expected to continue. As it has been mentioned in previous economic bulletins, this trend will be mainly due to the growth in the exports of services, as a result of increasing tourist arrivals and strengthening transportation activities. The data on the exports of goods between January and April indicate contraction of demand from the EU countries (-2.9%), the main export partner of Greece, despite the marginal increase of GDP by 0.3%. In addition, the trends of Greek exports to destinations with substantial increase of demand vary significantly. In particular, exports have increased to the countries of South-East Asia and to the Commonwealth of Independent States, whereas they have dropped substantially in China, India and Latin American countries. Yet, the recovery continues in major markets for the Greek exports, such as the Balkans, North Africa and the Middle East. According to these developments **the strong growth in the exports of services will outpace the marginal contraction expected in the exports of goods. As a result, exports are expected to grow by 4% compared with the previous year.**

The **imports of goods** will increase further due to the increased household consumption mainly at the last quarter of 2014. Still, in the third quarter imports will most probably decline due to the relatively high base of comparison a year before. In the **imports of services**, the increased travel payments observed since the beginning of the year are expected to continue at the same pace. As a result, **imports are expected to increase by 3% compared with the previous year as a result of the fluctuations of the imports of goods around their last year level and the growth of the imports of services.** However, the balance of the external sector will further improve due to the larger increase of exports. As a result, the deficit is expected to be lower than 1% of GDP in National Accounting terms.

Summarising the forecasts on the trends in key GDP components, the small increase of employment - mainly due to the seasonal jobs and programmes of the Manpower Employment Organization (OAED) - the removal of any source of political uncertainty due to the elections and the declining trend in prices are expected to offset the contractionary impact of consumption due to the build-up of tax obligations (changes in the taxation of individuals and the implementation of fiscal measures, such as cuts in auxiliary pensions and the new wage grid in the public sector). In addition, savings in public expenditure are expected due to the restructuring of the public sector. Concerning the contribution of the public sector to investment, the acceleration of the PIP is counterbalanced from the reduced – compared to the set targets – actions of the Hellenic Republic Asset Development Fund, hindering in this way the growth perspectives over the period 2014-2015. In private investment, the completion of the elections is expected to stimulate the foreign investment interest. This will be also assisted by the fiscal achievements from the previous year and the return of Greece to the debt market. However, the difficulty in raising funds and the slight increase of demand (almost entirely from the domestic market) along with the frequently changes in the tax system do not encourage the implementation of investment plans from enterprises operating in Greece. In the external sector of the Greek economy, the level of international tourist arrivals will determine, to a large extent, the increase in the exports of services, since the exports of goods will be approximately at the same level as in the previous year.

The increased household consumption is expected to stimulate the imports of goods, while the imports of services are also expected to grow mainly due to increased tourist outflows. Taking into account the above data and trends on key GDP components, IOBE is predicting that the Greek economy will grow by 0.7% in 2014 **(Table 3.3)**

The small growth of the Greek economy in 2014 will further weaken the growth of unemployment, which is expected to begin falling in the second half of the year, resulting in a slight drop recorded for 2014 overall. However, given that the developments in the labour market lag these in production (by approximately 2-3 quarters), the decline in unemployment will become evident from the third quarter onwards, due to the effect of seasonal employment in tourism.

Meanwhile, the structural reforms in the labour market during the past few years, along with a reduction by 3.9 percentage points in the social security contributions of the main security fund (IKA) are expected to foster employment. The programmes implemented by the Manpower Employment Organization (OAED) also contribute in this direction. However, a negative impact on the declining trend of unemployment is expected from the implementation of the 6500 redundancies (from the envisaged 15000 in total) in the public sector over the period 2013-2014. Considering the level of unemployment at the beginning of 2014, **the unemployment will stand at 26.7% of the total labour force,** slightly lower compared with the previous year (27.5%).

The slight increase in household consumption will gradually weaken the drop in the price level, yet an increase is not expected in 2014. The deflationary trend will also be affected by the increase in the household electricity tariffs of PPC. On the other hand, a downward pressure on the Consumer Price Index comes from the reduction in the public transportation fares. **Taking into consideration the substantial drop in prices in the first half of 2014 the percentage change of CPI will remain negative, albeit slightly lower compared with the previous year (-0.7%,** against -0.9% in 2013).

In summary, the achievement of primary fiscal surplus along with the existing trends and the prospects of the Greek economy, as described in the previous sections, are early signs of recovery of the Greek economy after six years of recession. These indications reduce the uncertainty and the pessimism of the previous years, yet the view that the fiscal consolidation process has been completed and the Greek economy is recovering from the recession is falsely perceived. As IOBE has systematically underlined, the fiscal results in 2013 and the expected return to growth in 2014 – which are among the crucial steps for the fiscal consolidation and the proper implementation of the reforms – should not be considered as the conclusion of the necessary efforts to ensure the sustainability of public finances and the growth of the economy in the long term.

Utilising the notable improvement of the international credibility of Greece and the improved effectiveness of structural reforms in a recovering economy, the implementation of additional structural reforms in sectors and activities, along with the reforms in the public sector are necessary, in order for the Greek State to become efficient and operational and the Greek economy to adjust in the rapidly changing global economic environment.

Table 3.2

Domestic Expense & Gross Domestic Product – European Commission Forecasts

(Constant prices, year=2005)

	2012	2013	2014	2015
Annual rate of change				
Gross Domestic Product	-7.0	-3.9	0.6	2.9
Private Consumption	-9.3	-6.0	-1.8	1.6
Public Consumption	-6.9	-4.1	-1.8	-2.0
Gross Fixed Capital Formation	-19.2	-12.8	5.3	11.7
Exports of goods and services	-1.7	1.8	4.1	5.2
Imports of goods and services	-13.8	-5.3	-1.2	2.2
Employment	-8.3	-4.1	0.6	2.6
Compensation of employees per capita	-3.7	-6.6	-2.7	0.0
Real unit cost of Labour	-4.8	-4.9	-2.0	-0.7
Harmonized Index of consumer prices	1.0	-0.9	-0.8	0.3
Contribution to real GDP rate of change				
Final Domestic Demand	-11.1	-6.8	-1.9	2.3
Net exports	4.1	2.2	1.6	0.8
Inventories	0.0	0.8	0.0	-0.2
GDP percentage				
General Government Balance	-8.9	-12.7	-1.6	-1.0
Current Account Balance	-4.6	-2.4	-2.3	-2.2
Gross net government debt	157.2	175.1	177.2	172.4
Percentage				
Unemployment (% of labour force)	24.3	27.3	26.0	24.0

Source: European Economic Forecast, Autumn 2013, European Commission, November 2013

Table 3.3

Comparison of forecasts on selected Economic Indices for years 2013-2015

(Constant 2005 market prices, annual % changes and levels)

	MFIN			EU			OECD			IMF		
	2012	*2013*	*2014*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*
GDP	-6.4	-4.0	0.6	-3.9	0.6	2.9	-3.5	-0.3	1.9	-3.9	0.6	2.9
Final Demand	:	:	:	-4.2	0.2	2.6	:	:	:	:	:	:
Private Consumption	-9.1	-6.7	-1.6	-6.0	-1.8	1.6	-6.0	-1.9	0.3	-6.0	-1.8	1.7
Harmonized Consumer price Index (%)	1.0	-0.8	-0.4	-0.9	-0.8	0.3	-0.9	-1.1	-1.0	-0.9	:	:
Gross Fixed capital formation	:	:	:	-12.8	5.3	11.7	-12.7	-2.7	4.4	-12.8	5.9	9.7
Unemployment (%)	22.8*	25.5*	24.5*	27.3	26.0	24.0	27.3	27.1	26.7	27.3	25.8	23.8
General Government Balance (% GDP)	-6.1	-2.2	-2.3	-12.7	-1.6	-1.0	-12.7	-2.5	-1.4	-3.2	-2.7	-1.9
Current Account Balance (% GDP)	:	:	:	-2.4	-2.3	-2.2	0.7	0.2	0.8	0.7	0.7	0.2
General Government Debt (% GDP)	157.7	178.2	177.8	175.1	177.2	172.4	175.1	177.7	177.2	175.1	174.2	171.0

*On a national accounts basis

Source: 2014 Budget, Ministry of Finance, November 2013 — European Economic Forecast, Autumn 2013, European Commission, November 2013 - OECD Economic Outlook No. 94, November 2013 – Greece, Fourth Review Under the Extended Arrangement Under the Extended Facility, IMF, July 2013

After four years of systematic effort, the prospects of the Greek economy, with the support of the international partners, are finally favourable. Currently, the results from these efforts are bearing fruit, implying that, if continued, they will enable the transition to a sustainable growth model, along with the effective elimination of any potential sources of financial derailment.

3.2 Developments and outlook in key sectors of the economy

This section presents the quarterly indices of activity complied by the Hellenic Statistical Authority (ELSTAT), which track the course of production in Industry and the turnover of businesses in the sectors of Construction, Trade and Services. In addition it presents the corresponding branch indices compiled by IOBE on the basis of the business surveys that have been conducted in Greece since 1981.

Industry

The industrial production index took a new fall in the first quarter of 2014 by 0.3%, much less than in the corresponding quarter of 2013 (-2.6%). It seems that Greek industry is showing signs of stabilisation, after a cumulative drop by about 30% relative to 2005.

During the same period of this year in the Eurozone, industrial production improved by 2.0% relative to the first quarter of last year, when it had decreased by 1.8%.

At the sector level, the largest decline in production during the first four months was recorded in the Water Supply sector (-3.2% from -0.7% a year before). The Electricity sector follows, whose production is still shrinking, albeit at a lower rate compared to the corresponding period in 2013 (-0.6% from -8.4%). In Mining and Quarrying the fall eased and the relative index decreased only by 0.3%, from a fall of 2.6% during the first quarter of 2013. Finally, Manufacturing remained relatively unchanged from last year (-0.1%), when it had also remained stable with respect to 2012.

In greater detail, output declined in two out of the four subsectors of Mining and Quarrying. The largest drop was recorded in Mining of Coal – Lignite, where the index fell by 5.6% y-o-y, while the drop a year before was more than two times bigger (-13.9%). The Mining of Minerals shrank by 4.0%, in contrast to a 7.2% growth last year. On the other hand, Various Mining and Quarrying activities showed an increase by 20.7%, following an increase by 2.5% in the same period of 2013. Finally, the subsector of Oil and Gas Extraction grew by 2.9%, in contrast to a marginal fall by 0.1% last year.

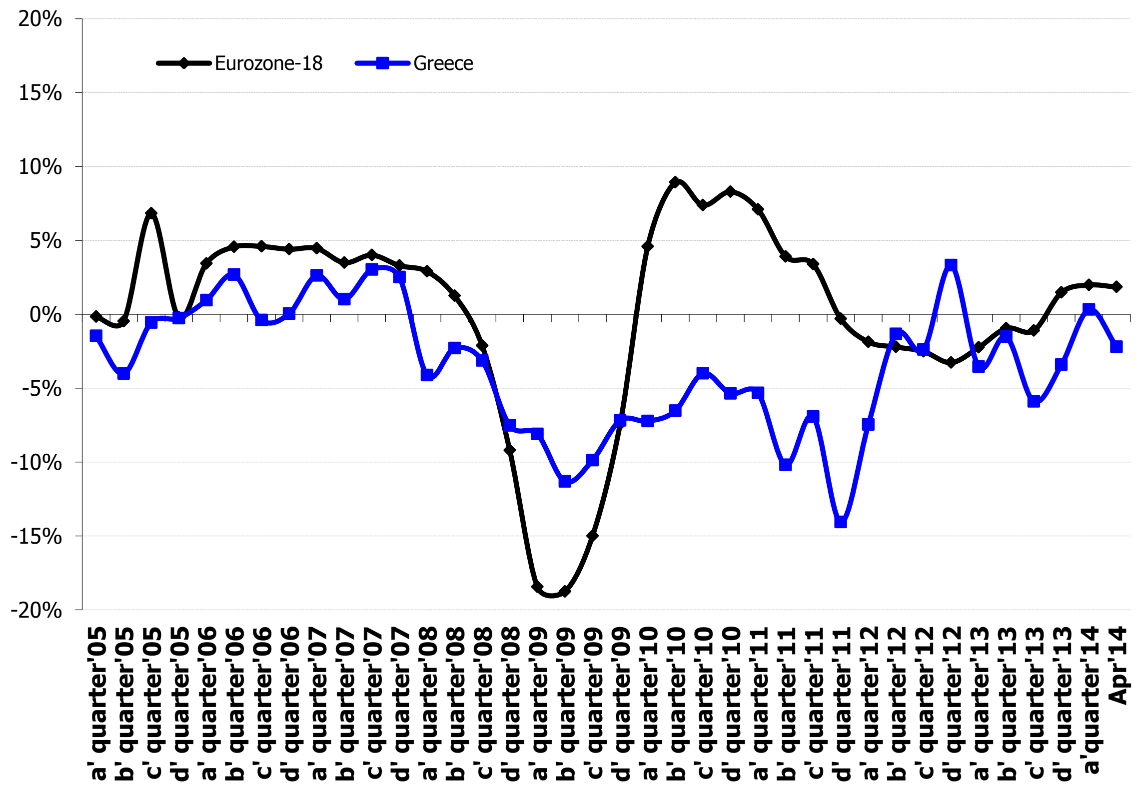
The weakening of demand led to fall of output in 12 out of the 24 subsectors of Manufacturing in the first quarter of 2014. However, stronger performance (higher growth or lower contraction) relative to the first four months of 2013 was recorded in 14 subsectors.

Among the Manufacturing subsectors with high direct contribution to the Greek economy, the production of Basic Metals increased by 7.7%, in contrast to a drop by 7.6% last year, while in Pharmaceuticals the index dropped by 2.0%, in contrast to a significant increase in the first quarter a year ago (12.1%). Output in Food Manufacturing kept on declining, by 1.1% from 0.6% last year.

The largest output drop was recorded in Wood-Cork Products (-36.0% from +2.9% a year before), Tobacco (-17.0% from +3.8%) and Electrical Equipment, whose output contracted by 15.8%, following a 10.7% drop in the same period in 2013. Next came Textiles, with bigger losses than in 2013 (-11.1% from -8.4%), Clothing (-6.2% from -4.5%) and Leather-Footwear (-5.0% from -11.5%). Refined Petroleum Products declined (-3.0% from +7.3%), as did Other Manufacturing, whose output was shrinking at a much slower rate than last year (-1.8% from -7.3%). Finally, Other Transport Equipment experienced a smaller decline than in 2013 (-0.4% from -19.5%).

Figure 3.1

Production Index in Manufacturing, Greece and Euro Area – 18, % change w.r.t. the same quarter of the previous year



Source: ELSTAT

In contrast, among the subsectors of Manufacturing that had a better performance in the first four months of 2014 than in 2013, one can find Computers, Electronic and Optical Products, that increased by 70%, much more than their last year's improvement by 7.3%. Motor Vehicles followed, improving by 11.4%, after a marginal loss of 1.9%. The subsector of Paper Products grew at a rate two times higher than last year (6.7% from 3.4%), while Furniture came on a recovery path, increasing by 6.7% when in the same period of 2013 it had shrunk by 27%. Beverages kept on growing at a rate of 5.7% (from 4.4% last year), while production in Plastic Products increased by 3.6%, offsetting last year's decline by 1.7%. Smaller increases were recorded in Non-Metallic Minerals, at a rate of 2.0% from 10% last year, as well as in Printing – Reproduction of Recorded Media (1.3% from -12.5%). Finally, a marginal increase at a similar rate with last year was recorded in Chemical Products (0.9%).

In general, the branches providing Capital and Intermediate Goods recorded increase of their output by 11.1% (from a decline by 18.4% last year) and by 2.8% (from -2.1% in 2013), respectively. In contrast, there was a drop in the production of Durable consumer goods (-9.0% from -14.0% in 2013) and in the Non-Durable consumer goods, whose production contracted by 1.4%, from an increase by 2.3% in the previous year.

Construction

The production index in Construction showed signs of a modest recovery, as it improved during the first quarter of 2014 by 2.4%, when during the same quarter of 2013 it had dropped by 29.9%. Regarding the trends in Building activity, the number of building permits[4] decreased by 24.6% in the first quarter of 2014, following a drop by 22.1% last year. It is worth noting that among all the geographic regions, the number of building permits increased only in East Macedonia - Thrace (3.5%). In the remaining regions, the number of permits took a significant fall. In more detail, the biggest reduction in building permits for the first quarter of 2014 was recorded in Thessaly (-42.1%), followed by North Aegean (-38.5%), Attica (-34.2%) and Central Macedonia (-31.4%). Small declines were recorded in the regions of West Greece (-3.6%) and South Aegean (-3.0%).

Finally, according to the latest data published by the Bank of Greece, during the first quarter of 2014, the residential property transactions contracted by 63.3% year-on-year, at the same rate as in the same period last year. That is, only about 3,900 transactions took place during this quarter, in contrast to the same period in 2013 when 10,600 transactions were recorded. The value of appraisals – transactions took a similar drop, as it fell by 66.7%, reaching 7.5 points, with a cumulative decline of 92.5% in comparison to 2007 (base year). However, this year's sharp decline can be attributed to the lack

[4] ELSTAT refers to all types of building permits, including permits for new construction, addition, restoration, demolition, enclosure, legalisation, renewal and amendment of a construction

of guidance regarding the implementation of the property surplus tax during that period. The resolution of the issue in April is anticipated to warm up the Real Estate market later in the year.

Finally, as far as the funding of building activity is concerned, according to the latest data for April 2014, the interest rate in mortgage loans with duration of over 5 years reached 3.01%, essentially the same as in the two previous months.

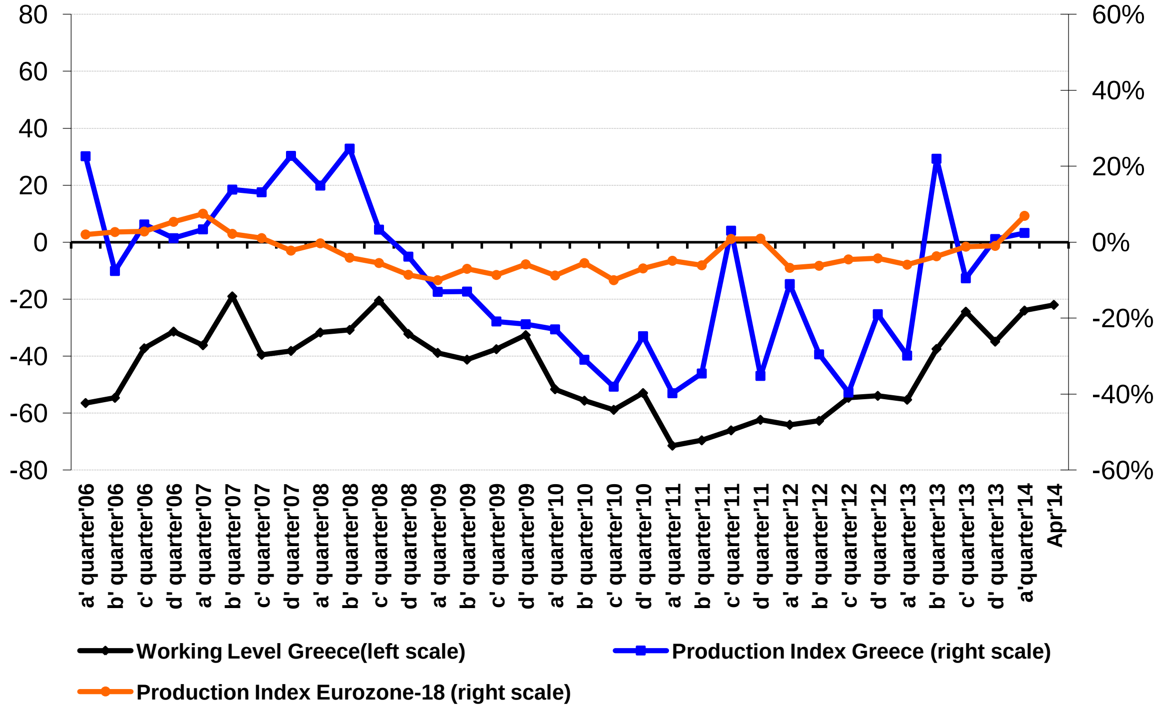
Retail Trade

The contraction in the Retail Trade sector ceased in the first quarter of 2014, as the volume index improved for the first time after 4 years by 1.6%, compared to the large decline by 13.1% in the same period of last year. It seems that the general stabilising trends in the Greek economy lately gave a boost to the demand for goods, which albeit limited could still be the first sign of a recovery.

In greater detail, during the first four months of 2014 the volume index increased y-o-y in 8 subsectors. The biggest increase was recorded in Books – Stationery (8.0% from 17.2% last year), followed by Clothing – Footwear (5.5% from 1.8%).

Figure 3.2

Production Index in Construction – y-o-y % change – in Greece and in Eurozone -18 and Business Level Index in Greece (Greece: 1996-2006=100, Eurozone 18: 2010=100)



Source: ELSTAT/Eurostat/IOBE

Positive changes were also recorded in Automotive Fuels and Lubricants, where the relative index improved by 4.1%, slightly less than last year (5.4%). Finally, Supermarkets experienced a mild improvement (1.0%), compared with a significant drop by 14.1% in the previous year. In contrast, Department Stores contracted by 0.7% (from 0.4%). The decline in the turnover of Pharmaceutical – Cosmetics eased a lot, standing at -7.7%, from -21.6% last year. Finally, the stabilisation in Furniture - Household Appliances in the early 2013 proved to be short-lived, as its change turned negative (-7.2%) in the current year.

The overall business sentiment indicator in Retail Trade, from the Business Surveys compiled by IOBE, improved in the first half of 2014 by 23.8% y-o-y (23.1% last year). It is worth stressing that optimism was registered in every single Retail Trade subsector.

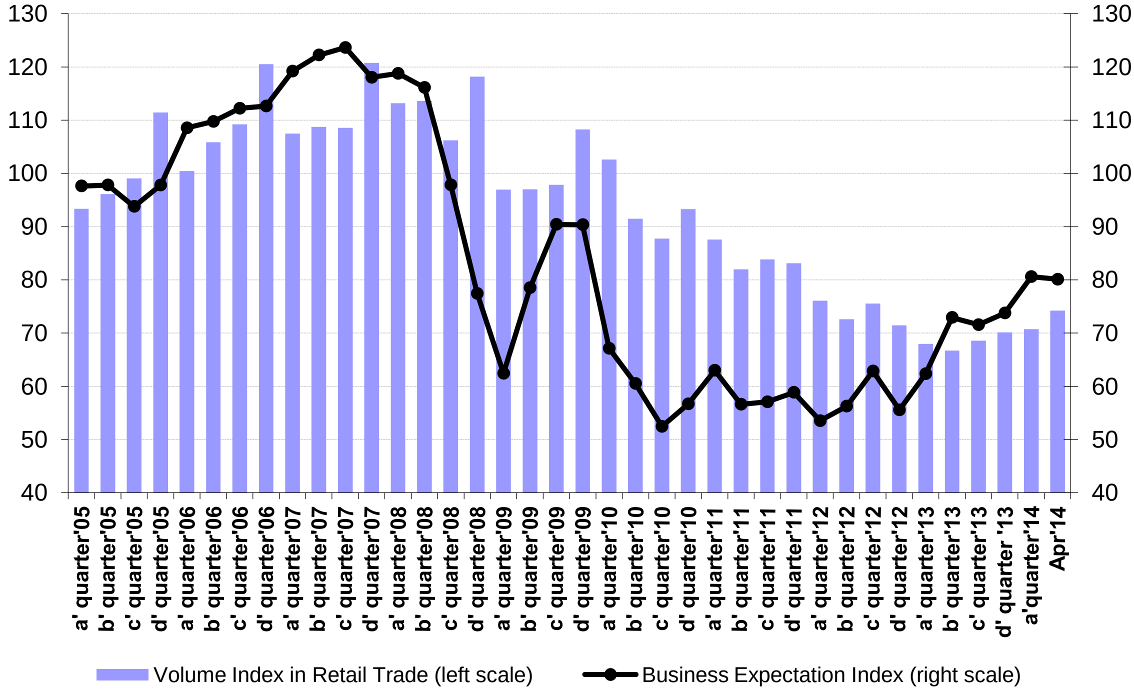
The biggest change in the business expectations index was in Vehicles-Spare Parts (42.7% from 39.1% last year), with the relative index reaching 114.5 points in June, a record level since October 2009. In the first half of 2014, the index was at 107.6 points on average, from 75.4 during the first half of 2013, its highest level since 2008 (113.6). During the first six months, an impressive improvement was recorded in all the constituent indicators, such as the assessment of current sales, which is now positive, at 5.7 points from -48.2 in 2013. During the same period, one out of three firms assessed their sales as higher than usual, something that is also reflected in the inventories indicator, which is negative at -13.5 points, meaning that more firms assessed their stock as lower than usual. New orders also gave a boost to the business expectations index through its positive sign (+6.6 points), compared to the negative levels in 2013 (-38.2), as did expected future sales, standing at 14.7 points from -247 in 2013. All this positive news did not have an impact on the employment indicator, which remained negative (-4.9), though much improved compared to previous years (2013: -31.7, 2012: -67.7). The improvement of these indicators has also reflected on market data, as the sales of passenger cars increased by 19.2% in the first 5 months of 2014 y-o-y, when the previous increase was recorded in 2008. Light Trucks also improved, by 28.9% in the first five months of the year. In Clothing – Footwear, the index increased by 38.6%, at about the same rate as in 2013 (39.3%). In Food – Beverages – Tobacco the trend was reversed in the first half of the year, as the expectations improved by 26.6%, compared to a drop of 15.4% last year. Finally, Department Stores increased by 7.3%, following a positive first half in 2013 (11.6%).

Wholesale Trade

The stabilisation in the Retail Trade sector seems to be affecting the previous link in the supply chain, i.e. Wholesale Trade. In fact, the turnover index for the first quarter of 2014 was still declining (-0.4%), but at a much slower rate than in the same period of last year (-14.2%).

Figure 3.3

Volume Index in Retail Trade (2005=100) and Business Expectations Index in Retail Trade (1996-2006=100)



Source: IOBE, ELSTAT

Table 3.4

Annual Changes in the Index of Retail Trade Volume

Store Categories of Retail Trade	Volume Index (2005=100)				
	Jan. - Apr. 2012	**Jan. - Apr. 2013**	**Jan. - Apr. 2014**	**P.C. 2012/2013**	**P.C. 2014/2013**
Overall Index	81.10	70.50	71.60	-13.1%	1.6%
Overall Index (excluding car fuels and lubricants)	82.10	71.70	71.00	-12.7%	-1.0%
Store Subcategories					
Large Food Stores	90.15	77.40	78.20	-14.1%	1.0%
Department Stores	82.50	82.20	73.40	-0.4%	-10.7%
Car Fuels and Lubricants	62.05	65.40	68.10	5.4%	4.1%
Food-Drink-Tobacco	65.03	66.30	66.30	2.0%	0.0%
Medicare-Cosmetics	92.33	72.40	66.80	-21.6%	-7.7%
Clothing-Footwear	61.20	62.30	65.70	1.8%	5.5%
Furniture-Electric Household appli-ances - Household goods	59.70	59.70	55.40	0.0%	-7.2%
Books - Stationery - Other gift items	68.25	80.00	86.40	17.2%	8.0%

Source: IOBE

Table 3.5

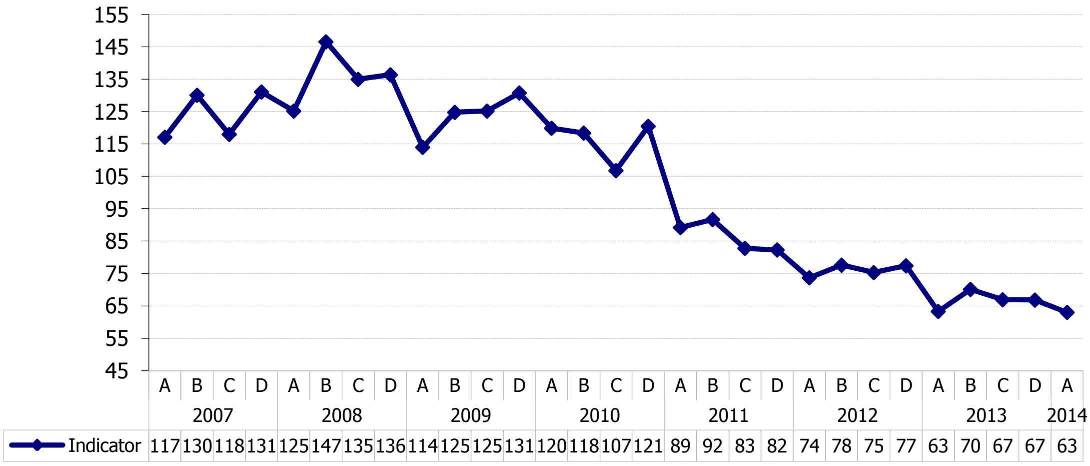
Business Expectation Indexes in Retail Trade (1996-2006=100)

	Jan. - Jun. 2012	**Jan. - Jun. 2013**	**Jan. - Jun. 2014**	**P.C. '13/'12**	**P.C. '14/'13**
Food-Drinks-Tobacco	77.3	65.4	82.8	-15.4%	26.6%
Textile-Clothing-Footwear	51.2	71.3	98.8	39.3%	38.6%
Household Equipment	56.3	63.4	70.1	12.6%	10.6%
Vehicles-Spare Parts	54.2	75.4	107.6	39.1%	42.7%
Department Stores	51.9	57.9	62.1	11.6%	7.3%
Retail Trade Total	**54.9**	**67.6**	**83.7**	**23.1%**	**23.8%**

Source: IOBE

Figure 3.4

Turnover Index in Wholesale Trade (2005=100)



Source: ELSTAT

Services

The decline in the demand in Services that began in 2009 is continuing in the first quarter of 2014, as the turnover is contracting in the majority of the subsectors. Specifically, 8 out of the 13 subsectors record a decline, though smaller than in 2013.

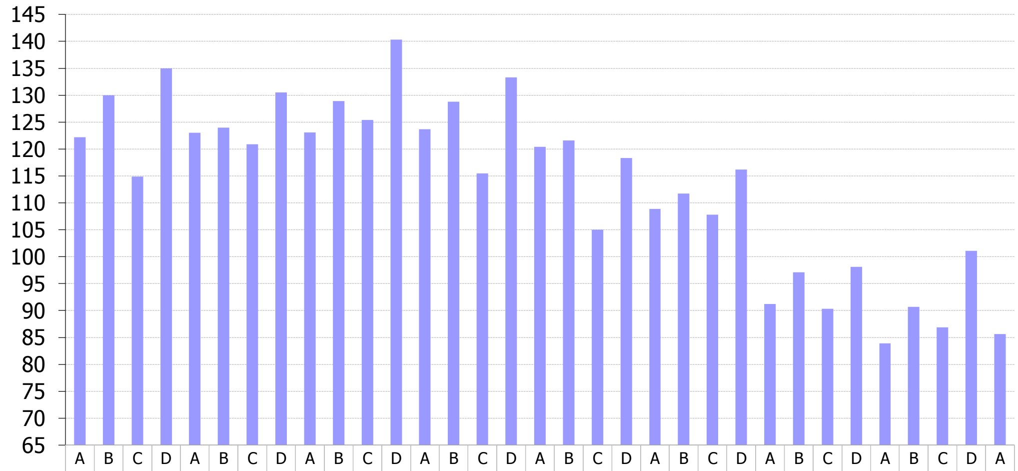
The strongest contraction was observed in Architectural and Engineering Activities (branch 71), where the huge drop in the Construction activity led to a fall of the turnover by 27.1%, following an equally large fall in 2013 (-26.8%). Cleaning Activities (branch 81.2) follow, where the contraction this year was more intense (-17.7% from -13.9%), along with Employment Services (branch 78), where the drop rate also accelerated (-6.0% from -0.4%). The turnover in Publishing services (branch 58) declined by 4.6%, despite last year's significant improvement (+12.2%). Similar losses were observed in Protection and Investigation Services (branch 80), though less than in 2013 (-4.3% from -8.1%). Finally, turnover in Legal, Accounting and Consulting Services (branch 69 & 70.2) fell marginally by 0.2% (from +5.5%).

In contrast, turnover improved strongly, by 44.9%, in Tourist services (branches 55 & 56), compared to last year, when the relative index was in record low levels. Computer Programming, Consultancy and Related Activities (branch 62) showed a better performance this year, with an increased turnover by 18.7% (-18.6% last year). A 12.3% increase was recorded in Other Professional, Scientific and Technical Activities (branch 74), partly offsetting the sharp fall by 42.6% in the first quarter of 2013. Information Service Activities (branch 63) showed some recovery signs with a 5.2% increase following an equal (-5.3%) decline last year. Turnover in Office, Administrative, Office Support and Other Businesses Support Activities (branch 82) is increasing at a more modest rate (3.0% from -15.7%), similar to Postal and Courier Activities, whose turnover increased by 2.0%, following a fall by 8.0% last year.

The expectations in Services in the first half of 2014, as reflected in the Business Surveys of IOBE, have clearly improved compared to the same period of 2013. The overall index grew by 27.1% (from +18.9% during the first half of 2013). Expectations were significantly stronger in all the Services branches, with the relative indices reaching higher levels than last year. In more detail, the expectations index of Travel Agencies improved by 55.3% (from 37.9% last year), followed by IT Services (38.6% from 49.6%) and Hotels – Restaurants (31.4% from 17.3%). Expectations in Financial Intermediaries were still improving this year, though at a lower rate (+15.2% from +36.7% at the same period last year).

Figure 3.5

Turnover Index in Postal and express delivery services **(sector 53)**

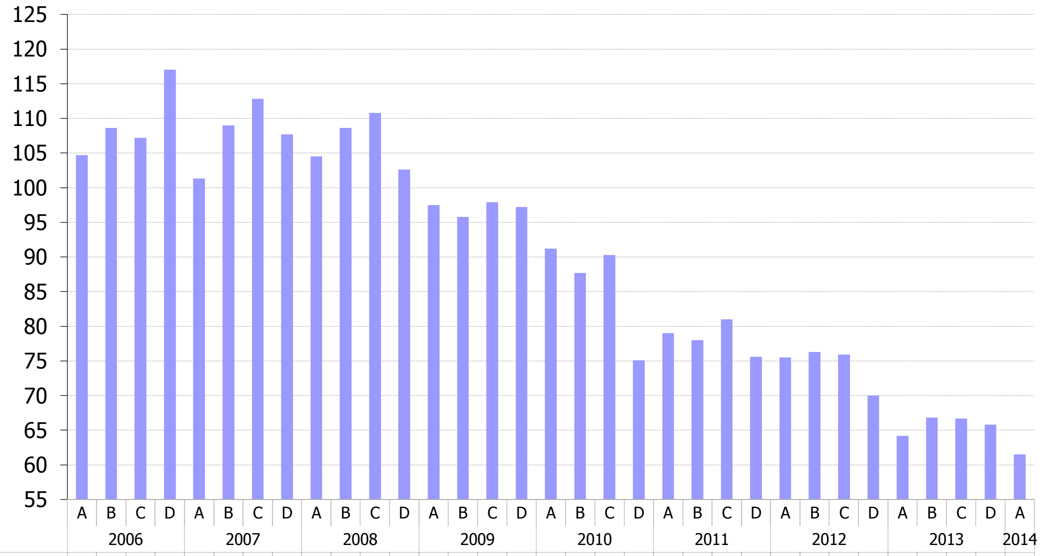


	2006 A	2006 B	2006 C	2006 D	2007 A	2007 B	2007 C	2007 D	2008 A	2008 B	2008 C	2008 D	2009 A	2009 B	2009 C	2009 D	2010 A	2010 B	2010 C	2010 D	2011 A	2011 B	2011 C	2011 D	2012 A	2012 B	2012 C	2012 D	2013 A	2013 B	2013 C	2013 D	2014 A
Indicator	122	130	115	135	123	124	121	131	123	129	125	140	124	129	116	133	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86

Source: ELSTAT

Figure 3.6

Turnover Index in telecommunication services **(sector 61)**

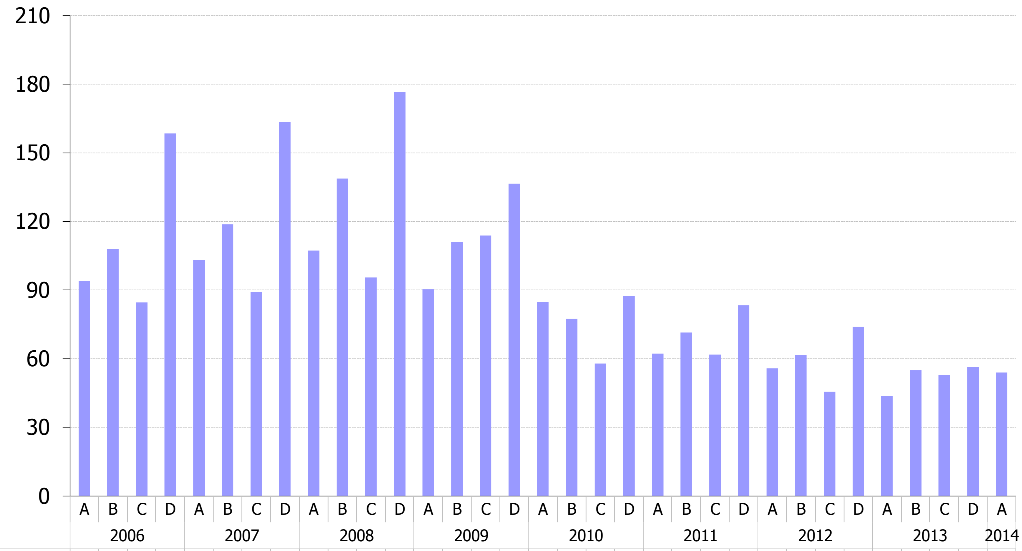


	2006 A	2006 B	2006 C	2006 D	2007 A	2007 B	2007 C	2007 D	2008 A	2008 B	2008 C	2008 D	2009 A	2009 B	2009 C	2009 D	2010 A	2010 B	2010 C	2010 D	2011 A	2011 B	2011 C	2011 D	2012 A	2012 B	2012 C	2012 D	2013 A	2013 B	2013 C	2013 D	2014 A
Indicator	105	109	107	117	101	109	113	108	105	109	111	103	98	96	98	97	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62

Source: ELSTAT

Figure 3.7

Turnover index in informatics **(sector 62)**

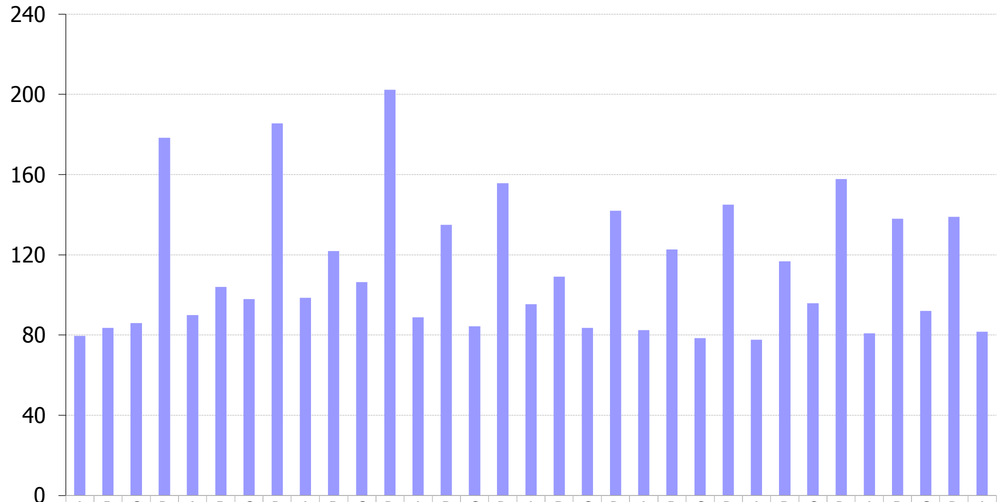


	2006 A	2006 B	2006 C	2006 D	2007 A	2007 B	2007 C	2007 D	2008 A	2008 B	2008 C	2008 D	2009 A	2009 B	2009 C	2009 D	2010 A	2010 B	2010 C	2010 D	2011 A	2011 B	2011 C	2011 D	2012 A	2012 B	2012 C	2012 D	2013 A	2013 B	2013 C	2013 D	2014 A
Indicator	94	108	85	159	103	119	89	164	107	139	96	177	90	111	114	137	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54

Source: ELSTAT

Figure 3.8

Turnover index in legal, accounting, consulting services **(sectors 69 & 70.2)**



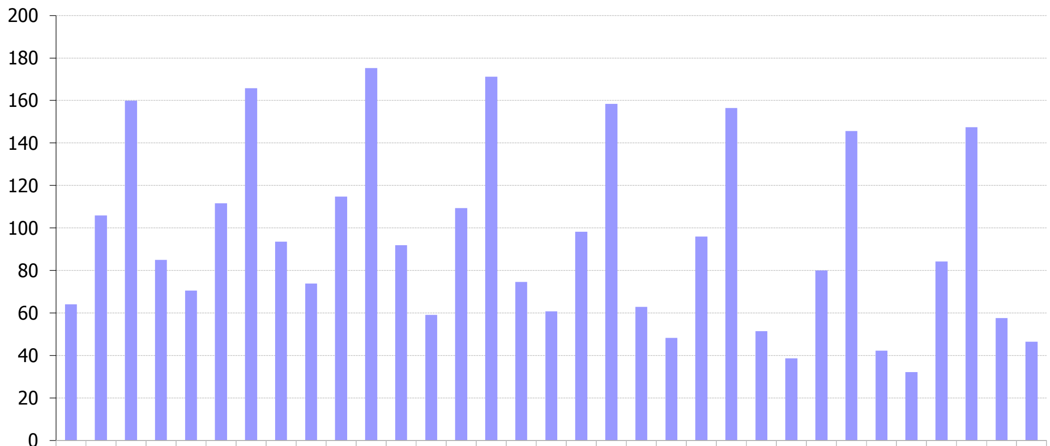
	2006 A	2006 B	2006 C	2006 D	2007 A	2007 B	2007 C	2007 D	2008 A	2008 B	2008 C	2008 D	2009 A	2009 B	2009 C	2009 D
Indicator	80	84	86	178	90	104	98	186	99	122	106	202	89	135	84	156

	2010 A	2010 B	2010 C	2010 D	2011 A	2011 B	2011 C	2011 D	2012 A	2012 B	2012 C	2012 D	2013 A	2013 B	2013 C	2013 D	2014 A
Indicator	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82

Source: ELSTAT

Figure 3.9

Turnover Index in Tourism **(Sectors 55 & 56)**



	2006 A	2006 B	2006 C	2006 D	2007 A	2007 B	2007 C	2007 D	2008 A	2008 B	2008 C	2008 D	2009 A	2009 B	2009 C	2009 D
Indicator	64	106	160	85	71	112	166	94	74	115	175	92	59	109	171	75

	2010 A	2010 B	2010 C	2010 D	2011 A	2011 B	2011 C	2011 D	2012 A	2012 B	2012 C	2012 D	2013 A	2013 B	2013 C	2013 D	2014 A
Indicator	61	98	158	63	48	96	157	51	39	80	146	42	32	84	148	58	47

Source: ELSTAT

Table 3.6

Turnover Indices in Services (Annual Change-2005=100)

	Jan. - Mar. 2012	Jan. - Mar. 2013	Jan. - Mar. 2014	P.C. '13/'12	P.C. '14/'13
Car Trade	49.4	43.6	51.3	**-11.7%**	**17.7%**
Overland transports & via pipelines	87.3	83.2	51.3	**-4.7%**	**-38.3%**
Water Transports	50.8	54.8	44.3	**7.9%**	**-19.2%**
Air Transports	65.1	64.8	70.4	**-0.5%**	**8.6%**
Auxiliary to transport services & warehouse activities	50.1	70.0	73.8	**39.7%**	**5.4%**
Travel agencies	19.4	19.5	22.3	**0.5%**	**14.4%**
Postal and express delivery services	91.2	83.9	85.6	**-8.0%**	**2.0%**
Publishing services	40.9	45.9	43.8	**12.2%**	**-4.6%**
Telecommunications	75.5	64.2	64.2	**-15.0%**	**0.0%**
Informatics	55.8	45.4	53.9	**-18.6%**	**18.7%**
Data processing	151.2	143.3	150.7	**-5.2%**	**5.2%**
Legal, accounting, consulting services	77.6	81.9	81.7	**5.5%**	**-0.2%**
Architect, Engineering	50.4	36.9	26.9	**-26.8%**	**-27.1%**
Advertising, market research polls	37.3	28.4	24.6	**-23.9%**	**-13.4%**
Administrative office works	80.3	67.7	69.7	**-15.7%**	**3.0%**
Tourist services	38.6	32.1	46.5	**-16.8%**	**44.9%**

Source: ELSTAT

Table 3.7

Sector Indices of Business Sentiment in Services (1996-2006=100)

	Jan. - Jun. 2012	Jan. - Jun. 2013	Jan. - Jun. 2014	P.C. '13-'12	P.C. '14-'13
Hotels - Restaurants	61.7	72.4	95.1	17.3%	31.4%
Travel agencies and tour operators, tourist business activities	58.3	80.4	124.9	37.9%	55.3%
Other Services to Businesses	56.3	57.3	66.2	1.8%	15.5%
Intermediate Financial Organisations	52.6	71.9	82.8	36.7%	15.2%
Informatics	40.5	60.6	84	49.6%	38.6%
Total Services	**54.9**	**65.3**	**83**	**18.9%**	**27.1%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The exports of Greek goods in the first three months of 2014 approached €6.3 billion, recording a decline year-on-year by 3.2%. **Excluding fuels, exports contracted year-on-year by 4.7%.** A smaller decrease was observed in the imports of goods, which contracted by 1.1%, reaching €11.5 bn. Consequently, the trade deficit increased by €84.4 mil. (+16%), reaching €5.3 bn. Thus, the value of Greek exports of goods reached 54% of the value of imports of goods, almost twice the ratio observed only three years ago. Regarding April, for which data availability is limited, the exports of goods fell by 20.8% y-o-y (-12.4% excluding fuels), approaching €2 billion in value, while the imports of goods contracted by

7.5%, reaching €3.6 bn. Therefore, the trade deficit increased in April by 17.2%, standing at €1.6 bn.

In greater detail, the exports of Agriculture Products fell in the first quarter of 2014 by 15.5%, standing barely above €1 bn. (from €1.2 bn. in 2013), and so did the exports of Fuels, where a contraction of 2% was observed, to reach €2.4 bn. (from €2.5 bn.). As a result, the overall share of these two product categories reached 5/9 of the total Greek exports (Table 3.8). Concerning the Agriculture Products, a considerable decline was recorded in Animal Oils and Fats (-74.2%), whose value did not exceed €70 mil. and the share of this category dropped as a result (from 2/9 to 1/15). Meanwhile, slight growth (1.1% or + €9 mil.) was recorded in the exports of Food-Live Animals, which is the main category of exportable agriculture products, with their total value not exceeding €850 mil. A marginal improvement was observed in the exports of Beverages-Tobacco, by 0.2%, thus exceeding €104 mil., while at the same time the exports of Raw Materials decreased by 0.4%, standing at €257 mil. Thus, given these trends in the Greek exports of goods, the decline of the Agriculture Products category is mainly due to the significant drop in Animal Oils and Fats.

An upward trend characterised the change in the exports of Industrial Products in the first quarter of 2014 (+0.9%), as their value reached €2.4 bn., with their share of total exports remaining high (38%). The marginal improvement in this category came mainly from the increase in the exports of Chemical Products (+9% or €54 mil.) and Various Industrial Products (+5.7% or €22 mil.). The exports of Vehicles – Transport Equipment, whose value was 1/5 of the total exports of Industrial Products, declined (-4.1% or -€20 mil.) and so did the exports of 'Industrial goods classified by raw material', whose value fell by 3.5%, at €877 mil. The exports of Commodities Not Classified Elsewhere by 8.1% strengthened, with their value standing at €138 mil. As for the destination of Greek exports, the exports to the Eurozone countries took a fall in the first quarter of 2014 by 2.3%, approaching €1.9 bn., while the contraction was more modest in the exports to the EU countries (-0.7%), whose value reached €2.8 bn. In the country level, a small improvement was recorded in the exports to Germany (3.5%), which absorbs a large part of the Greek exports, with the value standing at €438 mil., while the exports to Cyprus also increased by 18.2%, reaching €304 mil., a figure that made Cyprus again the fifth most important trade partner of Greece. Sizeable improvements were observed also in the exports to France (+7%) and Belgium (+24.3%), reaching €175 mil and €67 mil. respectively. In contrast, the exports to Italy, the second most important destination, shrank significantly by 16.2%, dropping to €575 mil., as well as to Spain (-7.4%), whose value reached €148 mil.

The export flows to Turkey were relatively stable in the first quarter of 2014, with their value exceeding €702 mil., which maintained Turkey as the most important trade partner of Greece. Strong increase was recorded in the exports to the United Kingdom by 15.6%, reaching €215 mil., while a decline by 18% was observed in the exports to the USA, with their value falling below €202 mil.

The demand for Greek products in the Balkan countries increased by 9.4%, leading to an increase in their share by 2% (to €830 mil). This is mainly due to an increase of the exports to Bulgaria (+8%), which had the biggest share among the countries in the area with a value of over €315 mil. At the same time, the exports to Albania and FYROM also increased (+41.7% and +23.8% respectively), at a total value of over €264 mil. Strong improvement was recorded in the exports to Bosnia-Herzegovina (+22.6%) and to Croatia (+57.6%) too, leading to values of €18 mil. and €17 mil. respectively, while the increase towards Romania was slightly smaller (+18.5% at €151 mil.). In contrast, a significant drop was observed in the export to Serbia and Kosovo (-10.6% and -56%), with a total value of €55 mil.

As for North America, besides the US, the export demand from Mexico increased (+21%) to €31 mil., while a contraction was observed in the exports to Canada by 3% (€21 mil.).

During the first quarter of 2014, the Greek exports to countries in North Africa and the Middle East increased, with their total value approaching €980 mil. Egypt is the most important trade partner in the region, with exports of €202 mil., 31% higher than in 2013. A remarkable increase occurred in the exports to Saudi Arabia as well, as exports to this country were 6 times higher than last year, at €177 mil. The exports to Tunisia increased significantly by 77% (€28 mil.), and so did the exports to the United Arab Emirates, reaching €158 mil., almost three times higher than in the previous year. A 23% increase was recorded in the exports to Lebanon (€149 mil.), whereas the exports to Israel, Algeria and Libya dropped by 65%, 55% and 39.3% respectively (€38, €64 and €95 mil. respectively).

The exports to the countries of the Commonwealth of Independent States increased by 5.5%, to reach €151 million, a change driven mainly by the strong upward trend of the exports to Ukraine (+156%), reaching €33 mil. In contrast, a 24% decrease in the exports to Russia led the value to reach €63 mil., while the exports to Georgia were relatively stable at €31 mil. A significant fall was observed in the exports to the Latin American countries, with their value approaching €20 million (-70.4%). The disappointing export performance came from a sharp decline in the demand for Greek products in Brazil, where the value of exports was down by 85%, to €9 million, offsetting the stabilising trend of the exports to the remaining Latin American countries.

Table 3.8

Exports per 1-digit product classification in current prices (mil. €)

January - March					
	Value (mil. €)		**P.Ch.**	**Structure (%)**	
	2014	**2013**	**'14/'13**	**2014**	**2013**
Agricultural Products	**1.020,5**	**1.207,4**	**-15,5%**	**16,2%**	**18,6%**
Food and living animals	848,1	839,2	1,1%	13,5%	12,9%
Beverages and tobacco	104,1	103,9	0,2%	1,7%	1,6%
Animal or natural oils and fats	68,2	264,3	-74,2%	1,1%	4,1%
Raw materials	**257,1**	**258,1**	**-0,4%**	**4,1%**	**4,0%**
Crude materials inedible, except fuel	257,1	258,1	-0,4%	4,1%	4,0%
Fuel	**2.471,0**	**2.521,1**	**-2,0%**	**39,3%**	**38,8%**
Minerals, fuel, lubricants	2.471,0	2.521,1	-2,0%	39,3%	38,8%
Industrial products	**2.395,4**	**2.375,0**	**0,9%**	**38,1%**	**36,6%**
Chemicals and related products	643,4	590,0	9,0%	10,2%	9,1%
Manufactured goods classified by raw materials	876,7	911,7	-3,8%	14,0%	14,0%
Machinery and transport equipment	467,7	487,5	-4,1%	7,4%	7,5%
Miscellaneous manufactured products	407,7	385,8	5,7%	6,5%	5,9%
Others	**138,7**	**128,4**	**8,1%**	**2,2%**	**2,0%**
Commodities and transactions not classified by category	138,7	128,4	8,1%	2,2%	2,0%
Total exports	**6.282,7**	**6.490,0**	**-3,2%**	**100,0%**	**100,0%**

* Provisional Data
Sources: PEA-ERC-ELSTAT

In contrast, it seems that the penetration of Greek products in the emerging countries of S.E. Asia that appeared in previous years, has continued, as during the first quarter of 2014 the Greek exports to this region increased by 6%, to reach €270 mil. This cancels out to a great extent the strong decline in the demand for Greek products from China, which fell by 48% in the beginning of 2014, to reach €53 mil.

In summary, the decline of Greek exports that was observed in the first quarter of 2014 is primarily attributed to Fuels and Agricultural products, which exceeded the improvement in the remaining categories. The interruption of the growth of Greek exports, that started in the previous years, in the first quarter of this year stems from the falling demand for Greek products in the countries of North and Latin America, as well as in Italy (the second most important destination) and China. These trends will continue most probably throughout the year. Despite the recovery of the Eurozone's economy this year, after two consecutive years of recession, the Greek exports to the Eurozone countries took a fall. However, the demand from the Balkan countries, Cyprus and the Commonwealth of Independent States is expected to have a positive impact on exports.

In general, the Greek exports to countries with strong demand growth, like the emerging economies in S.E. Asia, China, India, the Commonwealth of Independent States and the countries in Latin America, showed mixed signs in the first quarter of 2014. The increase to S.E. Asia and the Commonwealth of Independent States was outweighed, at least for the time being, by the decline of exports to China, India and Latin America. Last year, the exports to China and India recorded a much smaller decrease, while an improvement, albeit marginal, was observed in the exports to Latin America (+1%) and a strong growth to the Commonwealth of Independent States (+24%). Based on these data, it is obvious that the Greek products don't have a fully shaped profile in these very promising markets and that the export performance is affected by a multitude of factors, and is fluctuating strongly within a small period of time. Taking all these into account, the value of Greek exports in 2014, fuels included, is estimated to reach €26.5 bn. from €27.2 bn in 2013, recording a drop by 2.5%. Excluding fuels, exports will approach €16.2 bn. from €16.8 bn. in 2013, after a decline by 3.5%.

Table 3.9

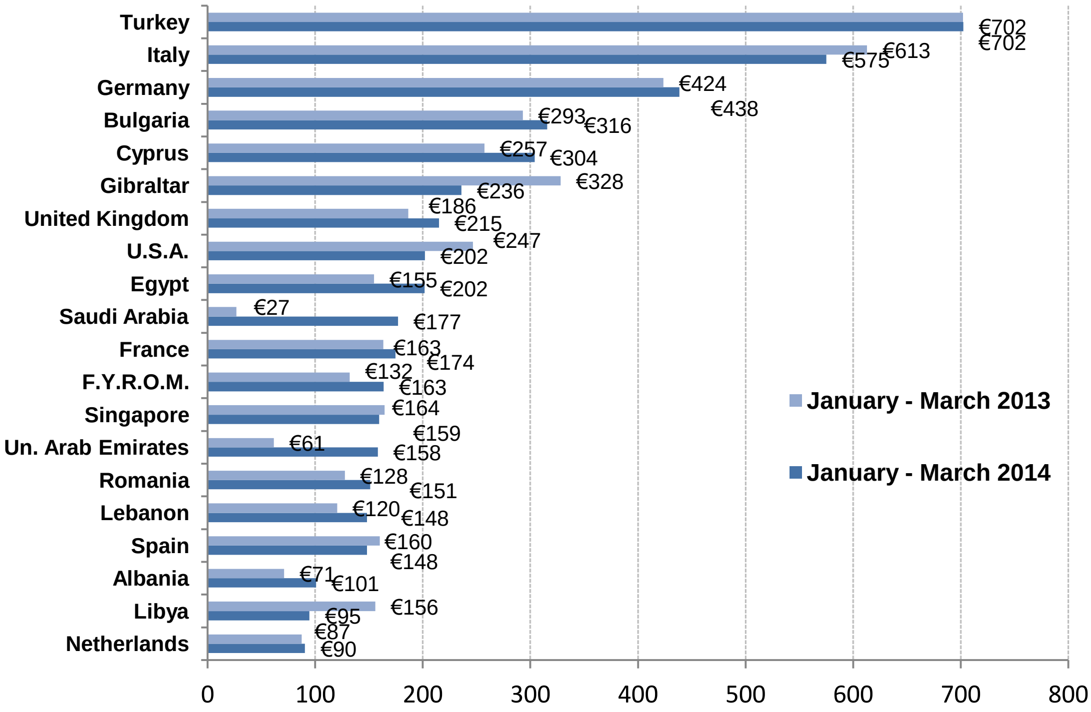
Exports per destination, January - March 2014 and 2013

	Value (mil. €)			Structure	
	2014*	**2013***	**P.Ch. '14/'13**	**2014**	**2013**
OECD (29 countries)	3.122,8	3.179,2	-1,8%	49,7%	49,0%
EU-27	2.795,6	2.816,5	-0,7%	44,5%	43,4%
Eurozone-15	1.874,8	1.918,1	-2,3%	29,8%	29,6%
N. America	253,6	298,4	-15,0%	4,0%	4,6%
Other Developed countries	45,1	46,6	-3,2%	0,7%	0,7%
Rest OECD (excl. S. Korea)	713,7	731,2	-2,4%	11,4%	11,3%
Balkans	829,4	758,0	9,4%	13,2%	11,7%
Commonwealth of Independent States (CIS)	150,9	143,0	5,5%	2,4%	2,2%
N. Africa and Middle East	979,6	923,2	6,1%	15,6%	14,2%
African countries (excl. S. Africa)	31,5	22,9	37,6%	0,5%	0,4%
SE Asia	268,9	253,8	5,9%	4,3%	3,9%
Latin America	19,8	67,0	-70,4%	0,3%	1,0%
Rest Countries	639,4	855,6	-25,3%	10,2%	13,2%
Total	**6.282,7**	**6.490,0**	**-3,2%**	**100,0%**	**100,0%**

* Provisional Data
Source: ELSTAT-ERC

Figure 3.10

Countries with the biggest share of Greek exports (mil. €), January - March 2014 and 2013



Source: PEA, **Data Processing:** IOBE

3.4 Employment-Unemployment

Unemployment remained unchanged quarter on quarter in the first quarter of 2014 at 27.8%, its highest level on record, according to ELSTAT's Labour Force Survey. On the other hand, unemployment increased year on year by only 0.2%, its lowest growth margin since it started growing in 2009. As a result, the number of unemployed increased in a year by about 6,300 people, to reach 1,342,300, from 1,336,000 in the previous year.

Greece has remained the country with the highest unemployment rate in EA-18 since the third quarter of 2012.[5] The second highest unemployment rate was recorded in Spain (25.3%), where unemployment has been falling for a fourth consecutive quarter. Two other countries that have received EFSF/ESM financial assistance, namely Cyprus and Portugal came next at a distance, with 16.5% and 14.9% respectively. However, in Portugal, which recently exited the financial assistance mechanism, unemployment has also been falling for a fourth quarter in a row, while in Cyprus unemployment declined for the first time since the fourth quarter of 2010. A similar unemployment trend was also observed in Ireland (which does not receive financial assistance since the end of the previous year), where unemployment has been falling since the first quarter of 2012 and now does not exceed 12%. The lowest unemployment rate in the Euro Area in the first quarter

[5] Since 1st January 2014, when Latvia become a member, the Euro area comprises of 18 member-states. Hence, depending on data availability, the unemployment comparison with the Euro area refer to EA-18.

of 2014 was recorded in Germany (5.2%), followed by Luxembourg (6.1%), the Czech Republic (6.6%) and Malta (6.9%).

As mentioned repeatedly in previous IOBE reports, **the growth of unemployment came exclusively from employment reduction,** by 0.6% or 20,500 people (from 3,504,200 in the first quarter of 2013 to 3,483,700 in the same period of the current year), while **the size of the labour force marginally declined** during the same period, by 0.3% or 14,200 (from 4,840,200 to 4,826,000). It's worth noting again that employment was at its lower level since 1998.

Regarding the labour force characteristics, **unemployment continues to be higher among women**, which was higher by 6.4 percentage points in the first quarter of the year, compared with the unemployment rate among men. Furthermore, the unemployment among men remained essentially unchanged year on year (25% from 24.9% in the previous year), while unemployment among women marginally increased, to 31.4% from 31.1%. In the Euro area, the difference of unemployment between women and men in 2013 was negligible, with the unemployment rate standing at 11.7% and 11.9% respectively. Year on year, the unemployment among men declined marginally (by 0.2 percentage points) in the first quarter in EA-18 (to 11.7%), with a similar development observed in the unemployment among women (from 12% to 11.9%).

Regarding **age,** the problem of unemployment has remained for several years greater among young people. Nevertheless, in the first quarter of 2014 the unemployment among people aged 15-24 declined to 56.7%, from 60% in the same period of 2013, while in all other age groups unemployment increased. In the age group of 25-29 years old, the unemployment rate reached 42.3%, from 41.1% in the previous year. Unemployment has had a lesser impact on the age group 30-44, where the unemployment rate reached 26.7%, higher year on year by 0.6 percentage points (from 26.1%). A similar trend was observed among those aged 45-64, where unemployment increased by 0.7 percentage points, to 20.3% from 19.6%. Overall, about 70% of the unemployed in early 2014 were aged 30 or more (from 68% in the same period of 2013), while in 2008 the corresponding share was not exceeding 56%. Taking into consideration that most persons at this age are responsible for the economic obligations of their family or household, the negative impact on social cohesion are obvious.

The longstanding weakness of the Greek economy to create new jobs is reflected in the growing number of unemployed that are out of the job market for a time period that exceeds twelve months. It is indicative that since the first quarter of 2009, the **long-term unemployment** rate has increased by 32.3 percentage points, reaching 71.4% (958,700 people) in the first quarter of 2014, 7.8 percentage points higher year on year (from

63.6% or 849,500 people). On the other hand, the percentage of **"newly unemployed"** fell to 23%, from 23.7% and 23.8% in the two preceding quarters and 23.4% in the first quarter of 2013.

Unemployment continues to be more acute among people with low **education level**. The highest unemployment rate was recorded among those that have attended without completing primary education (44.8% in the first quarter of 2014 from 32.6% in the previous year) or have not attended school at all (38.7% in the current year, from 42.9% in early 2013). Unemployment was also high among individuals that have completed lower secondary education (ISCED 2), with about one third (33.1%) being out of job, marginally lower year on year (33.7%). Slightly lower unemployment (31.1% from 30.1%) was observed among people that have completed upper secondary education (ISCED 3), followed by graduates of technical/professional education (ISCED 5B) with 29.2% in the first quarter, from 30% in the corresponding quarter of 2013. Unemployment among people that have completed primary education (ISCED 1) was at similar rates with the country average (27.6% from 27.9%). The unemployment rate was lower than the country average among university graduates and people with postgraduate and/or doctorate degrees (18.7% and 15.3%, from 17.8% and 15.6% in the same quarter of 2013, respectively).

Unemployment declined in the first quarter of 2014 in five **regions** (Thessaly, Central Greece, Attica, East Macedonia – Thrace and West Macedonia), for the first time since 2008, with the reduction ranging from 0.4 percentage points (Thessaly) to 3.5 percentage points (Western Macedonia). In contrast, unemployment marginally increased in Crete, Central Macedonia and the North Aegean (0.1-0.2 percentage points). Among the remaining five regions, the increase of unemployment ranged between 1.8 (Epirus) and 5.4 (South Aegean) percentage points, weaker year on year in all regions except Peloponnese. The highest unemployment rate in the first quarter of the year was recorded in the South Aegean, with the unemployment growing to 30.3%, from 24.9% in the same period of 2013, when it was one of the lowest rates in the country. Next came Central Macedonia and West Greece, where unemployment stood at 29.9% and 29.7% respectively (from 29.7% and 27% in the same quarter of 2013), followed by West Macedonia and Epirus with the same rate (28.5%, from 32% and 26.7% respectively). The unemployment rate in Attica, which concentrates about 40% of the country labour force, was close to the country average (28.1% from 28.6%), followed by Central Greece (27.6% from 28.2%). The lowest unemployment rate was recorded in Peloponnese, where despite the fact that unemployment increased stronger than in the previous year, it did not exceed 23.4%, from 20.7% in the first quarter of 2013. Finally, unemployment in the North Aegean remained almost unchanged year on year to stand at 24.4% (from 24.3% in the previous year).

The highest growth rate of the number of unemployed was reported in the South Aegean, reaching 24% (from 37,900 in the first quarter of 2013, to 47,000 in the same period of 2014), followed by the Ionian Islands with 19.2% (from 20,800 to 24,800). Peloponnese and West Greece came next with an increase by 13.4% (+6,800 unemployed), and 10.6% (+8,000 unemployed). The largest unemployment contraction rate was recorded in West Macedonia (-10.5% or 3,800 people), followed by East Macedonia-Thrace with 4.3% reduction (from 68,000 unemployed in the first quarter of 2013 to 65,100 unemployed in the first quarter of the current year), and the North Aegean with 3.4% or 700 people (from 20,700 to 20,000). Lastly, in Attica, which draws 38% of the country's labour force, unemployment fell by 1.6% or 8,500 people (from 526,300 to 517,800).

Indicative of the major unemployment problem in Greece is the fact that according to recent data on unemployment in **the 272 NUTS 2 regions in the EU-28 in 2013** published by Eurostat,[6] **a number of Greek regions feature in the top 10 of the unemployment rankings.** In particular, the regions of West and Central Macedonia had the sixth and eighth highest unemployment rate in the EU-28 respectively (31.8% and 30% respectively). Regarding unemployment among those aged 15-24, four Greek regions feature in the top 10 with the highest rates (West Macedonia is second with 70.6%, Epirus third with 67%, Central Macedonia seventh with 61.8% and Attica tenth with 60.6%). Lastly, five Greek regions reached the top 10 of regions with highest long-term unemployment (West Greece was fourth with 72.9%, Central Greece sixth with 71%, Peloponnese eighth with 70.8%, Attica ninth with 69.3% and Central Macedonia tenth with 69%).

Regarding the **main economic sectors,** employment declined further in the **secondary sector**, a result that indicates the continuous deindustrialisation of the Greek economy. Employment in this sector dropped further by 5.6% in the first quarter, following a reduction of 12.9% in the first quarter of 2013. As a result, the number of employed fell by 31,300, i.e. from 558,300 to 527,000 in the same quarter of 2014. In the **primary and tertiary sector**, employment increased, albeit marginally, by 0.9% and 0.3% respectively, compared to 1.1% and 7.2% contraction in the first quarter of 2013. The number of employed increased by 4,200 (from 475,400 to 479,600) in the primary sector and by 6,700 (from 2,470,400 to 2,477,100) in the tertiary sector.

Employment increased in early 2014 in eleven **branches of economic activity** (Agriculture-Forestry-Fisheries, Mining-Quarrying, Water Supply, Transport-Storage, Tourism, Financial-Insurance Activities, Real Estate Services, Administrative-Support Services, Education, Arts-

[6] Την 15/04/2014 (Eurostat News Release, No.60/2014, 15 April 2014)

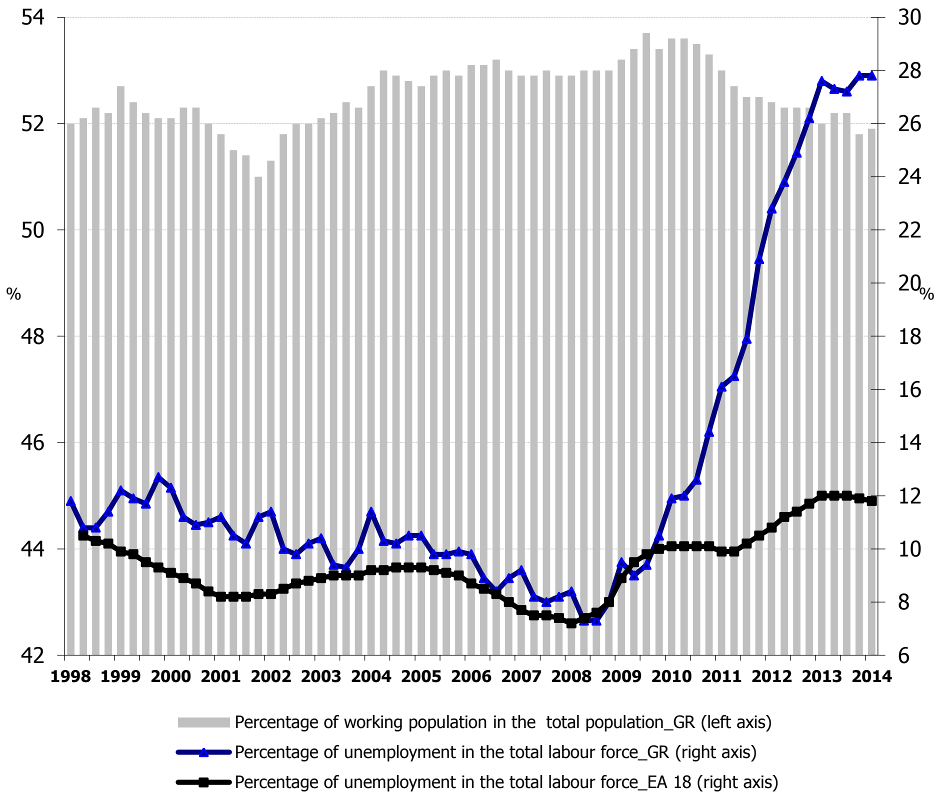
Recreation-Entertainment, and Extraterritorial Organisations). In particular, the largest employment increase was recorded in Administrative-Support Services, reaching 24.6% (or +14,400 employees), compared with 17.6% (-12,500 employees) reduction in the first quarter of 2013. Next came Water Supply, with employment growing by 19.2% (or +3,700 employees), from 13.8% contraction in the same period of 2013 (-3,100 people). Employment in Real Estate Activities, a branch that has been very seriously affected by the economic crisis in the past few years, increased by 15.4% (or about 400 employees), compared with the sharp drop by 54.4% (-3,100 people) in the first quarter of 2013. Meanwhile, the related branch of Construction recorded the largest absolute employment contraction in the first quarter of 2014, by 12.5% (or 21,400 people), in the aftermath of 20.3% reduction (or -43,500 people) in the previous year. Notable employment growth, by 7.8% (+20,900 people), took place in Education, despite the fact that in the corresponding period of the previous year employment was falling by 11.2% (-34,000). Employment in Transport-Storage and Financial-Insurance Activities increased marginally by 0.2% (+400 employees) and 0.6% (600 employees) respectively. In Tourism, a branch with particular significance for Greece, employment increased in the first quarter of 2014 by 12,600 people, or 5.3%, compared with a 8.4% contraction in the same period of the previous year (-21,800 people).

Among the branches of the Greek economy with employment contraction, apart from Construction, which was presented previously, the largest reduction was recorded in Activities of Households as Employers, reaching 6.9% (or -3,600 employees). Employment contracted by 6% (-13,100 individuals) in Human Health-Social Work Activities, while a smaller employment reduction, by only 0.8% (-2,500 people) was observed in Public Administration - Defence - Compulsory Social Insurance. Lastly, employment remained unchanged in Electricity Supply (28,700 individuals).

In conclusion, the branch employment statistics show that the growth of employment, which mainly came from a) Education (+20,900 people), also due to temporary employment as part of the public benefit employment programme of the Manpower Employment Organization, b) Administrative – Support Activities (+14,400), where such a programme commenced as well and c) Accommodation – Food Services (+12,600), as a result of the particularly strong turnover growth in the branch (+44.9%), was neutralised by the employment contraction in Construction (-21,400), Manufacturing (-14,000) and Wholesale-Retail Trade.

Figure 3.11

Labour force (% proportion as to population of 15 years old and over) and unemployed (% proportion as to labour force)



Sources: ELSTAT-Labour Force Survey, Eurostat

Table 3.10

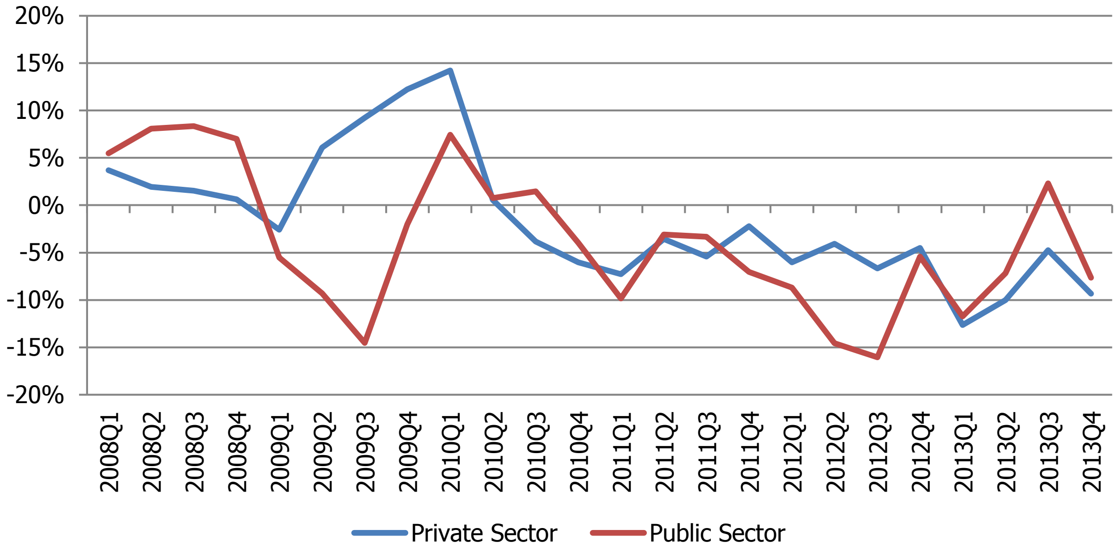
Population of 15 years old and over by employment status (in thousands)

Quarter/Year	Grand Total	Labour Force				
		% of population	Employed	% of labour force	Unemployed	% of labour force
1998	**8.680,4**	**52,1**	**4.017,9**	**88,8**	**507,9**	**11,2**
1999	**8.764,5**	**52,3**	**4.031,4**	**87,9**	**554,7**	**12,1**
2000	**8.839,8**	**52,2**	**4.088,5**	**88,6**	**523,5**	**11,4**
2001	**9.156,0**	**51,4**	**4.202,1**	**89,2**	**508,4**	**10,8**
2002	**9.188,3**	**51,8**	**4.265,0**	**89,7**	**492,7**	**10,4**
2003	**9.234,9**	**52,3**	**4.353,2**	**90,2**	**472,7**	**9,8**
2004	**9.285,3**	**52,9**	**4.389,5**	**89,4**	**520,0**	**10,6**
2005	**9.332,4**	**52,9**	**4.443,6**	**90,0**	**493,6**	**10,0**
2006	**9.374,1**	**53,1**	**4.527,5**	**91,0**	**448,2**	**9,0**
2007	**9.412,3**	**52,9**	**4.564,1**	**91,6**	**418,4**	**8,4**
2008	**9.435,1**	**53,0**	**4.610,5**	**92,3**	**387,9**	**7,8**
2009	**9.431,1**	**53,4**	**4.556,0**	**90,4**	**484,7**	**9,6**
Q1 2010	9.418,1	53,6	4.446,0	88,1	600,2	11,9
Q2 2010	9.405,4	53,6	4.436,5	88,0	604,6	12,0
Q3 2010	9.393,1	53,5	4.398,0	87,4	631,9	12,6
Q4 2010	9.381,0	53,3	4.278,5	85,6	720,8	14,4
2010	**9.399,4**	**53,5**	**4.389,8**	**87,3**	**639,4**	**12,7**
Q1 2011	9.374,4	53,0	4.165,5	83,9	799,6	16,1
Q2 2011	9.373,1	52,7	4.124,2	83,5	815,6	16,5
Q3 2011	9.372,2	52,5	4.040,8	82,1	883,5	17,9
Q4 2011	9.371,7	52,5	3.886,9	79,1	1.028,6	20,9
2011	**9.372,9**	**52,7**	**4.054,4**	**82,2**	**881,8**	**17,9**
Q1 2012	9.364,7	52,4	3.785,0	77,2	1.119,1	22,8
Q2 2012	9.351,2	52,3	3.729,9	76,2	1.163,0	23,8
Q3 2012	9.338,0	52,3	3.668,0	75,1	1.218,4	24,9
Q4 2012	9.325,3	52,3	3.597,0	73,8	1.279,9	26,2
2012	**9.344,8**	**52,3**	**3.695,0**	**75,6**	**1.195,1**	**24,4**
Q1 2013	9.316,5	52,0	3.504,2	72,4	1.336,0	27,6
Q2 2013	9.311,7	52,2	3.535,0	72,7	1.327,9	27,3
Q3 2013	9.307,1	52,2	3.533,7	72,8	1.320,3	27,2
Q4 2013	9.302,7	51,8	3.479,9	72,2	1.337,2	27,8
2013	**9.309,5**	**52,1**	**3.513,2**	**72,5**	**1.330,4**	**27,5**
Q1 2014	9.295,8	51,9	3.483,7	72,2	1.342,3	27,8

Source: ELSTAT, Labour Force Survey

Figure 3.12

Labour cost in the public and private sector in Greece (2008 Q1 - 2013 Q4)



Source: Eurostat, ELSTAT

The **labour cost in the private sector** fell further in the fourth quarter of 2013, by 9.3%, following the 4.8% contraction in the previous quarter and 4.5% fall in the corresponding quarter of 2012. Overall in 2013, the labour cost fell by 9.2%, in the aftermath of a fall by 5.3% in 2012 and 4.6% in 2011. In the **public sector**, the labour cost fell by 7.6% in the last quarter of 2013, in contrast with the temporary increase by 2.3% in the preceding quarter. Annually, the contraction of the labour cost eased year on year in 2013 (6.1% from 11.2%), while in 2011 it had reached 5.8%. Since the first quarter of 2013, the contraction of the labour cost was stronger in the private sector, in contrast with the period from the fourth quarter of 2011 to the fourth quarter of 2012 when the public sector had a stronger labour cost contraction. The stronger contraction is of course also due to the higher level observed in the public sector before the fall. Since early 2010, when the labour cost started falling, until the end of 2013, the cumulative contraction reached 21.5% in the private sector and 27.1% in the public sector.

Medium-term Outlook

The stabilising trends that are expected to characterise the performance of the Greek economy during 2014 will preserve the weakening of the unemployment growth that commenced in 2013. In fact, unemployment is anticipated to start declining slightly in the next quarters of 2014, for the first time since 2008. Still, since any changes in the labour market happen with a lag of 2-3 quarters in comparison to output, the fall of the unemployment rate will not be seen until the third quarter, when seasonal employment in tourism-related activities will increase, as last year's improvement of the tourist inflows is expected to strengthen further this year. Apart from the weakening of the recession, employment will also get a boost from the structural changes in the labour market that took place the last few years, to which we should add the reduction of the social security contributions for the policyholders of the Social Insurance Institute (IKA) by 3.9%, a measure that was implemented on 1 July 2014. The ongoing programmes for the unemployed implemented by the Manpower Employment Organisation, and some more that are going to take place until the end of the year, will provide further stimulus to employment. The 6,500 layoffs in the public sector (from a total of 15,000 scheduled layoffs for the period 2013-2014), which will take place this year, are expected to hamper the decline in unemployment, but only to a small extent. Under these forces, and taking into account the particularly high levels of the unemployment rate at the beginning of 2014**, the estimate for the average rate this year is revised up to 26.7%**, which is slightly less than in 2013 (27.5%).

The short-term employment expectations improved in all sectors in the second quarter of 2014 compared with the previous one, according to the Business Surveys compiled by IOBE.

In greater detail, the short-term employment expectations for the next quarter improved quarter-on-quarter in Retail Trade, in Construction, and, to a lesser extent, in Services and in Industry. Year-on-year, the expectations improved too in all sectors, but to a lesser degree in Industry and to a greater degree in Services, Construction and Retail Trade.

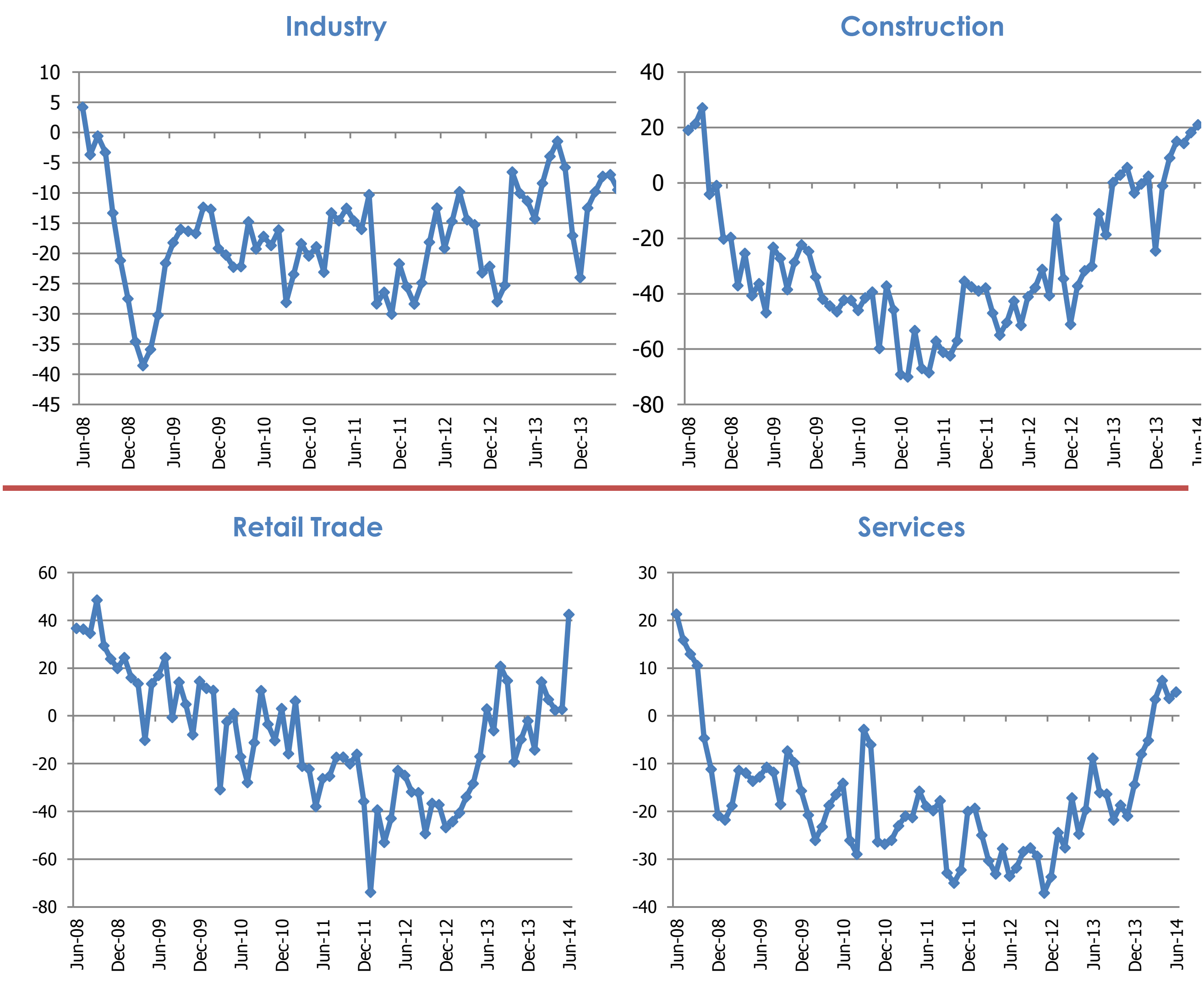
In greater detail, in Industry, the negative balance of employment expectations eased in the January – April period compared to the first quarter of the year, reaching -6 (from -10) points. Compared to the corresponding period of last year, the average quarterly index is higher by 6 points. The share of enterprises in Industry that were expecting an increase of employment in the coming months reached 8% (from 5%), whereas the share of enterprises that were expecting a decrease of employment remained at 15%. The vast majority of the respondents (78%) were expecting no change in employment in the short term.

In Construction, the employment expectations improved quarter-on-quarter, remaining positive since the beginning of the year. The indicator increased by 10 points, reaching +18, significantly higher than the corresponding period of 2013 (18 points higher, on average). The percentage of enterprises expecting fewer jobs in the sector decreased to 18% (from 28%), while the share of those expecting employment growth was steady at 36% (from 30%). At sector level, the increase of the indicator came mainly from the strong positive change in Private Building Activity, where the average index reached -12 points (from -45), and to a lesser degree from Public Building Activity (+29 from +27 on average).

In Services, the employment expectations were positive, contrary to the negative average index in the first quarter of 2014, while there is also a significant improvement year-on-year. The balance stood at +5 points (from -3 in Q1/2014 and -18 in Q2/2013). Among the enterprises in the sector, 13% were anticipating a drop in employment in the coming months (from 26%), while the share of enterprises expecting employment growth remained at 17-18%. The employment expectations showed mixed signs in the constituent branches: an improvement was recorded in Hotels – Restaurants – Travel Agencies and Land Transport, no change was observed in IT Services, while in Financial Intermediaries and in Various Business Activities the index declined. Finally, the indices in IT Services and in Hotels – Restaurants – Travel Agencies had a positive sign.

Figure 3.13

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

Employment expectations improved again in Retail Trade quarter-on quarter, where the indicator stood much higher, at +16 points (from +2). This performance is significantly higher compared with the corresponding period of the previous year (-14 points).

The percentage of firms expecting a reduction in employment decreased from 15% to 12%, whereas the share of the firms anticipating employment growth increased to 28% (from 18%). Meanwhile, the percentage of the firms anticipating stability in employment declined (61% from 67%). Among the constituent branches, the employment expectations improved in Food-Beverages-Tobacco, where the indicator stood at +45 points (from +32), and to a lesser extent in Vehicles-Spare Parts and Textile - Clothing – Footwear. In Household Appliances and Department Stores, the indices remained essentially unchanged from the previous quarter. Apart from Food-Beverages-Tobacco, positive signs were also recorded in Department Stores and (marginally) in Vehicles-Spare Parts.

3.5 Consumer Prices

Recent Developments

The deflationary trends that appeared in the second quarter of 2013 carried over to the second quarter of 2014, stronger than in the same period of the previous year. The fall of disposable income, due to the fiscal measures, and hence of consumption demand, albeit to a lesser extent than in the previous year, together with the wider implementation of structural reforms in the labour market and the perseverance of high unemployment, primarily contributed to the fall of prices. As a result, in the first five months of 2014, prices declined, with the CPI falling by 1.5%, when in the same time period of the previous year, the index was falling marginally by 0.2%. So, the deflation in Greece has lasted for a whole year.

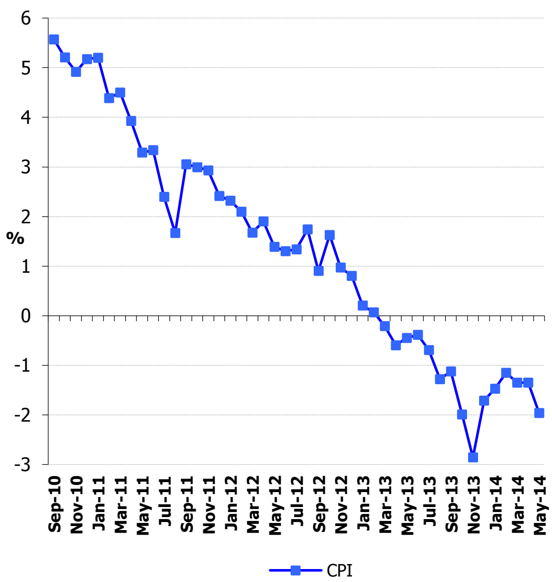
In greater detail at branch level, in the first five months of 2014, prices continued to fall at the same rate with the previous year in Transport and Recreation, by 1.8% and 2.8% respectively.[7] The deflation strengthened in Hotels – Restaurants and Recreation, approaching 2.5%, from 1.4% in the same period of 2013. Stronger deflationary trends were also recorded in Education (-3.9%) and Other Goods (-4.7%), while for the first time fall of prices was recorded in Clothing – Footwear, with the deflation rate standing at 3.4% from 1.7% inflation in the same period of the previous year. Prices were also falling in Food and Non-Alcoholic Beverages (-1.6%), compared with 0.3% inflation in the same period of 2013, while slightly weaker deflationary trends were recorded in Durable Goods (-1.5% from -3.5%). A significant decrease of prices was recorded in Housing, by 1.3%, for the first time after many years, given that in the same period of the previous year pricing were rising by 8%.

[7] The interpretation of the evolution of the CPI at the beginning of 2014 versus the same period of the previous year on the basis of individual indicators in key categories of goods and services is no longer feasible due to the revision in the methodology of calculation by EL.STAT. from January 2014, which does not allow for a comparison with previous years.

In contrast, inflationary trends were observed in Tobacco - Alcoholic Beverages, with the inflation rate approaching 1.6%, from 3.2% in the corresponding period in 2013. Inflationary pressures were also observed in Health, with the corresponding indicator reaching 2%, from 4% deflation in the first five months of 2013. Lastly, prices stabilised in Telecommunications, with the price index growing marginally (0.1%), in the aftermath of 5.1% deflation in the previous year.

Figure 3.14

Headline Inflation -(annual % change)



Source: ELSTAT **Data Processing:** IOBE

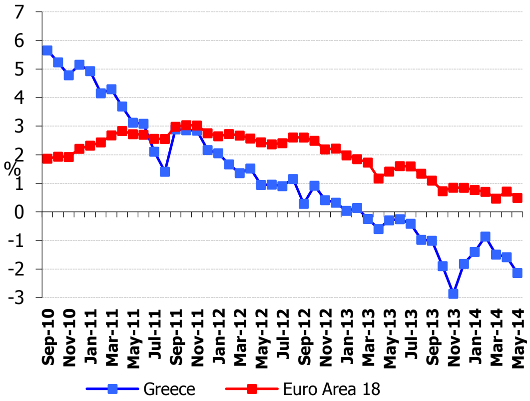
The harmonised index of consumer prices (HICP) in Greece decreased by 1.5% in the first five months of 2014, from a marginal deflation by 0.2% in the same time period of the previous year. In particular, in May the corresponding indicator decreased by 2.1%, remaining in negative territory for 15 consecutive months. As a result, Greece was one of the four member-states of the Eurozone (together with Slovakia -0.1%, Portugal -0.2% and Cyprus -0.8%) with HICP deflation. Overall, the average rate of change of HICP in the Eurozone was 0.6%, one percentage point down year-on-year, its lowest level since late 2009. Apart from the above countries, lower inflation than the Eurozone average was observed in Portugal (0.4%) and Spain (0.1%), while higher inflationary pressures were recorded in Austria (1.5%) and Finland (1.4%). Correspondingly in EU-28, where the average rate of HICP was 0.7% in the first five months of 2014, from 1.8% in the same period of 2013, the strongest deflation was observed in Bulgaria (-1.7%), while the strongest price growth, despite the significant year-on-year deceleration, was recorded in Estonia and Romania (1.0% and 1.3% respectively, from 3.7% and 4.6% in the same time period of 2013).

Regarding the cost of production, the deflationary trends from the first four months of 2013 strengthened in the current year, as the general index of the domestic market in Greece declined by about 1.2%, from 0.7% deflation in the corresponding period of 2013.

A similar trend was observed in EA-18, with Cyprus and Belgium experiencing the strongest decrease in the cost of production (-5.1% and -4.5% respectively), followed by Lithuania with -4%. In contrast, the cost production increased in Ireland by 0.5% and in Latvia by 0.4%, when in the first four months of the previous year, the producer prices were increasing by 1.3% and 1.6% respectively.

Figure 3.15

Harmonized Index of Consumer Prices – Greece & Euro Area-18 (annual % change)



Source: Eurostat, **Data Processing:** IOBE

At branch level, the largest growth of the producer prices in the first four months of 2014 was observed in Electricity - Natural Gas, where the index increased by 5.8% (from 6.7% in the previous year), followed by Minerals, where the index grew by 1.1%, significantly slower than in the same period of 2013 (+5.4%). The producer prices of Tobacco products stabilised (+0.2%), in the aftermath of 6% deflation in the corresponding period of 2013.

However, in most branches, the producer prices declined year-on-year in the first four months of 2014. The producer price index declined by 6.6% in Electrical Equipment (from -2.1% in the corresponding period of the previous year) and by 4.0% in Basic Metals (from -3%). Similarly strong with the previous year deflationary trend was observed in Energy Goods, where the producer price index decreased by 7%, and in Coke and refined petroleum products (-6.8% from -7.3%). The downward trend intensified in the prices of Coal – Lignite products (-10.1% from -4.8% in the first four months of 2013), and in the prices of Crude Oil - Natural Gas (-7.6%, from marginal deflation of 0.5%).

The prices of imported raw materials declined by 2.3% in the first four months of 2014, slightly less than in the same period of 2013 (-3.2%). Downward trend was recorded in the prices of imported raw materials in EA-18 as well (-2.9%), reducing the production cost of the enterprises, with the strongest reduction observed in Slovakia (-3.8% from -2.2% in early 2013) and Finland (-3.2% from -1.3%). The prices of imported raw materials also fell in Spain, by 2.9%, from -1.3% in the first four months of 2013.

Medium-Term Outlook

It seems that the deflationary pressures will carry over to 2014, with slightly weaker fall of prices. This development would come from having no new indirect taxes, while the fall of prices would also be facilitated by the fall of public transport prices. On the other hand, the further, albeit weaker, reduction of household disposable income, together with the upcoming increase of the electricity tariffs for households at the lowest consumption scale will decelerate the fall of prices. **Taking into account the influence of the above factors, the rate of change of CPI will remain negative in 2014, standing at -0.7% from -0.9% in 2013.**

In the Euro area, the inflation rate is expected to be lower year-on-year, standing at around 1% (from 1.4%). Despite the fact that the Euro area is experiencing economic growth, after two years of recession, inflationary pressures are mainly expected to come from investment and the slight acceleration of consumption demand, as the unemployment rate stands at historically high levels, easing thus the inflationary pressures.

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

Expectations of prices to fall quarter on quarter dominated in the second quarter of 2014, as has been the case, to a lesser or greater extent, in the past four years. Nevertheless, the deflationary expectations have weakened in all sectors except Industry. In particular, the deflationary expectations **weakened quarter on quarter to a greater extent in Private Construction and Services and to a lesser extent in Retail Trade, while they strengthened slightly in Industry**. Year on year, the deflationary expectations intensified mildly only in Industry, while they weakened significantly in Private Construction and Services and to a lesser extent in Retail Trade. In greater detail:

In Industry, the deflationary expectations strengthened quarter on quarter in the second quarter of 2014, with the negative indicator loosing 6 points to reach -10 (from -6 on average in the same period of 2013). Among the enterprises of the sector, about 13% (from 1/10 in the first quarter of 2014) were expecting the prices to decline in the next quarter, with 85% (from 83%) of the enterprises expecting the prices to remain stable and 2% (from 8%) to increase over the near term.

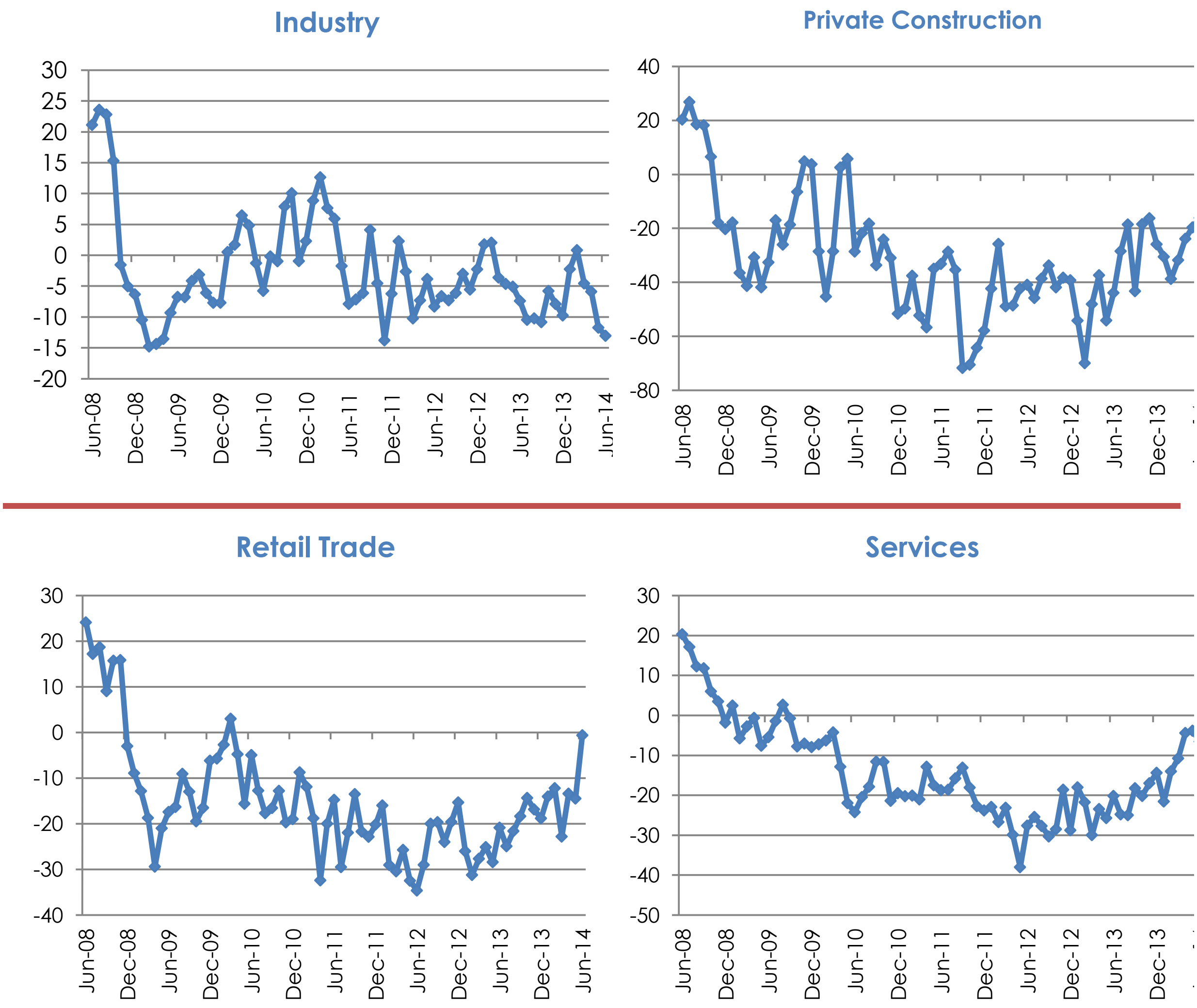
In Retail Trade, the deflationary expectations eased slightly in the second quarter of 2014, with the negative balance of expectations reaching -10 points (from -16 in the previous quarter, and -25 the same quarter of the previous year). About 17% (from 20%) of the sector's enterprises were holding expectations that the prices would fall in the next quarter, with only 7% (from 4%) anticipating inflationary pressures and 76% expecting the prices to remain stable. The deflationary expectations eased quarter on quarter in all constituent branches of Retail Trade, except Textiles–Clothing-Footwear, with the strongest increase recorded in Food-Beverages-Tobacco.

In Services, the price expectations indicator increased on average by 10 points quarter on quarter, to reach -5 points, higher by 18 points compared with the corresponding time of the previous year. About 10% (from 17%) of the sector's enterprises were anticipating deflationary trends in the next quarter, while 5% (from 2%) were expecting further inflationary pressures. Among the constituent branches, the negative indicator eased quarter on quarter in all sectors, except from Financial Intermediaries, where the negative balance increased. Positive balance was observed only in Hotels – Restaurants – Travel Agencies, already from the first quarter of the year.

Lastly, the negative price expectations weakened quarter on quarter in Private Construction by 14 points on average to -20, less negative year on year as well (from -45 on average). In the quarter under examination, about 1/5 of the sector's enterprises (from 34%) were expecting fall of the prices in the short term, while not a single enterprise, as has been the case in the past two years, was expecting the prices to increase.

Figure 3.16

Price Expectations (% difference between positive – negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **current account deficit** fell by 34.7% (almost €1.2 billion) in the first four months of 2014, due to improvement in the services, income and current transfer accounts, while the trade deficit slightly increased. In particular, the current account deficit reached €2.2 billion, from €3.4 billion in the first four months of 2013. The trade deficit increased by €219.9 million, while in contrast the surplus in the services and current transfer accounts increased by €660.9 million and €485 million respectively. Lastly, the income deficit decreased by €249.5 million.

The **trade deficit** increased by 3.6% (€219.9 million)[8] in the first four months of 2014 to reach €6.3 billion, in the aftermath of its continuous contraction since 2010. Exports declined and imports increased, reaching €7.3 billion and €13.6 billion accordingly. However, this development mostly reflects changes in the trade balance of ships, as the **trade deficit of goods excluding oil and ships** contracted further by 5.1% (€137.5 million) to reach €2.6 billion, its lowest level in history. The exports in this category of goods weakened by 0.8% to €4.6 billion, compared with 7.2% growth in 2013, while imports reached €7.1 billion, lower by 2.4%, compared with a milder fall in 2013. The contraction of the fuel deficit eased to 6.5%, from 24.4% in the same period of 2013, with the exports reaching €2.5 billion and imports €5.3 billion, implying that the fuel exports-imports ratio is about ½.

The **services surplus** recovered its losses from 2013 to reach €2.8 billion, stronger by 31.6% (€660.9 million) year-on-year. Receipts equaled €6.5 billion, stronger by 13% (€741.9 million), while payments increased slightly by 2.2% to reach €3.7 billion. Regarding particular categories of receipts, tourist receipts increased by 27.8% to €900.2 million, while the revenues from transport and other services increased by 7.8% (to €4,152 million) and 21.5% respectively. It should be noted that in the first four months of 2013 all these three categories were falling significantly. Regarding payments, travel service payments reached €648.2 million, higher by 26.9%, while transport payments declined by 9% to €1.7 billion. In contrast, the payments for other services increased by 9.7% (€115.9 million).

The **income deficit** fell by 24.7% to €762 million, from €1.0 billion in the first four months of 2013. The payments in fees, salaries, interest and dividends equaled €1.9 billion, lower by 9.9%, while receipts increased by 3% to reach €1.2 billion.

The surplus of **current transfers** increased significantly in the first four months of 2014 to reach €2.1 billion. Total revenues[9] increased by 13.2% (€388.2 million) to reach €3.3 billion,

[8] The amounts in brackets express year-on-year change, unless otherwise indicated.

[9] The revenues refer to receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF).

while payments[10] declined by 7.2% (€96.9 million).

Capital Account

The surplus of **capital transfers** increased in the first four months of 2014 to €1.5 billion, from €1.1 billion in 2013, as revenues[11] increased by 21.8% (€276.3 million), while payments, which form a small part of the balance, fell by 28.8% to €95.6 million.

Finally, the sign of the **current and capital transfers account,** which roughly reflects an economy's external borrowing requirements or external lending potential, was negative at €768.2 million, against a deficit of €2.3 billion in the same period of the previous year.

Financial Account

The **financial account** recorded a net inflow of €557.7 million in early 2014, compared with a net inflow of €2.1 billion in the previous year.

In particular, **direct investment** had a net inflow of €8.9 million. Direct investment to Greece recorded a net inflow of €228.7 million, compared with €380 million in 2013, while Greek investments abroad formed a net outflow of €219.7 million, against an inflow of €112.9 million in 2013.

The net inflow in **portfolio investment** doubled to €5.6 billion. According to data from the Bank of Greece, non-residents' placements in Greek bonds and treasury bills increased in the first four months of 2014 to reach €6.3 billion. Meanwhile, the residents' placements in foreign bonds, treasury bills and shares also increased (691.4 million), partly offsetting the inflow.

Other investment recorded a net outflow of €4.3 billion, compared to inflows of €990.5 million in 2013. The receivables increased by €519.9 million, while the liabilities recorded a net outflow of €4.8 billion. The non-residents' placements in deposits and repos in Greece increased, with a corresponding growth in the foreign debt obligations of the private and public sector. Finally, **foreign reserves** stood at €5.2 billion by the end of April 2014, from €5.0 billion in April 2013.

Assessment

The Greek economy passed through a sixth consecutive year of GDP contraction in 2013 (23.5% cumulative contraction), with unprecedented consequences for its production base and employment. The year 2013 was also the fourth year in a row with a programme of structural reforms, accompanied with fiscal consolidation, stemming from the entry of Greece in the support mechanism of EU-ECB-IMF. The process of correcting long-standing and stubborn distortions in the markets of products, services and labour has achieved some progress in the past few years, nevertheless these changes have an impact on the economic indicators only with a significant time lag. Exports, which are intended to become a key driver of restructuring of the production model of the economy, with a significant contribution to GDP growth in the coming years, have not acquired the necessary momentum. While certain significant

[10] The payments include contributions of Greece to the Community Budget.

[11] The capital transfer receipts refer to incoming payments from structural and cohesion funds.

necessary conditions for increasing competitiveness through cost reductions, following significant reforms primarily in the labour market and secondarily in the markets for goods and services, have been created, this improvement has not yet passed on to the terms of trade. Examining the data on real effective exchange rate (REER) of Greece and other EU countries, we can see that the necessary and sufficient conditions to boost competitiveness differ. The real effective exchange rate is a measure of the change of the competitiveness of a country, taking into account the change in the labour cost or product prices of a country in relation to its main competitors in the global markets. Increase of the indicator signifies loss of competitiveness. The REER can be expressed in terms of the **unit labour cost** and the **consumer price index**. Improvement of the REER in terms of the former can be considered as a necessary condition, while in terms of the latter a sufficient condition, for a competitiveness boost.

In Greece, REER in terms of the unit labour cost has fallen significantly between 2009 and 2013, by about 19.6%. In contrast, when measured in terms of the consumer price index, the reduction during this period is only 2.8%. Hence, in labour cost terms the competitiveness has improved significantly, yet in CPI terms the improvement has been rather limited. The significant distance in the trends between the two indicators is considered to reflect the persistence of constraints and distortions in the markets for products and services. In the EU-28 on average, the trend of the REER does not differ depending on whether it is expressed in terms of labour cost or consumer prices. Such differences are observed in few countries, such as Lithuania, Hungary, Portugal and Slovakia. However, even in these countries, the difference is relatively stable, while in Greece it has been growing since 2010. The correction of the current imbalances with the implementation of adopted measures and the acceleration of the execution of additional necessary structural reforms will allow for a significant improvement of the price competitiveness, with a strong positive impact on exports.

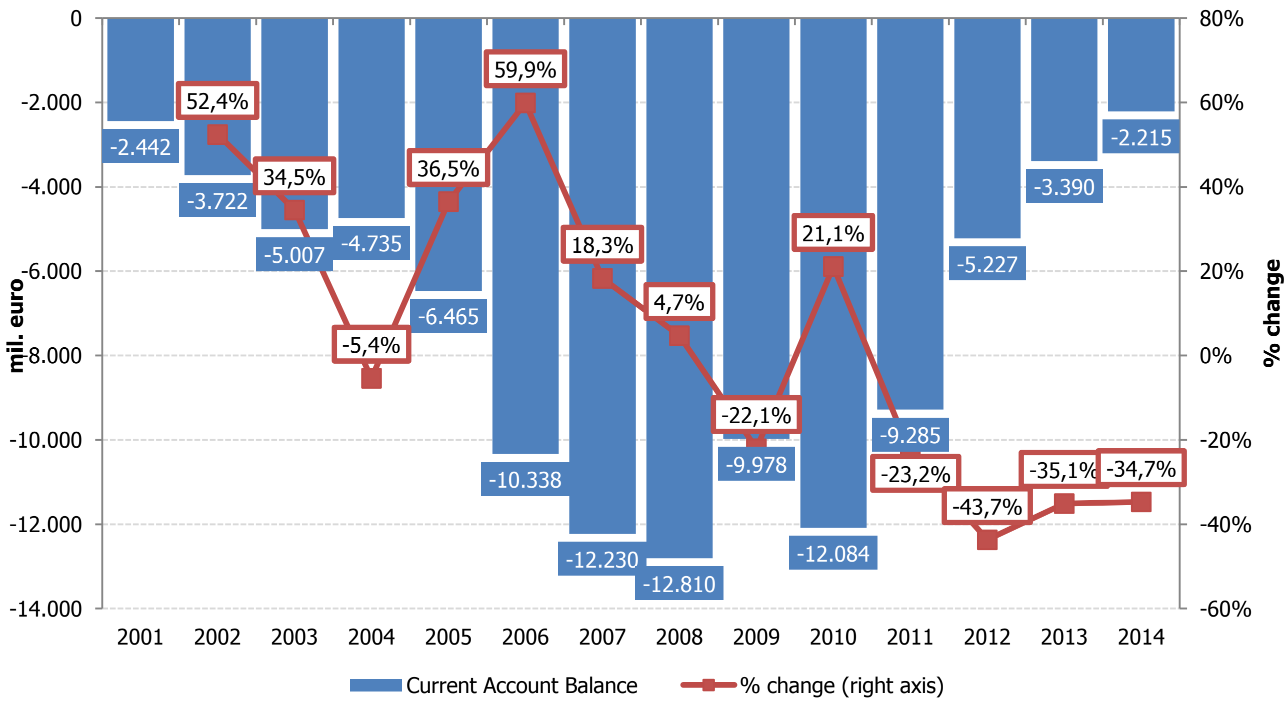
Figure 3.17

Imports-Exports of Goods, 2001-2014 (January - April)

Source: Bank of Greece – **Data Processing:** IOBE

Figure 3.18

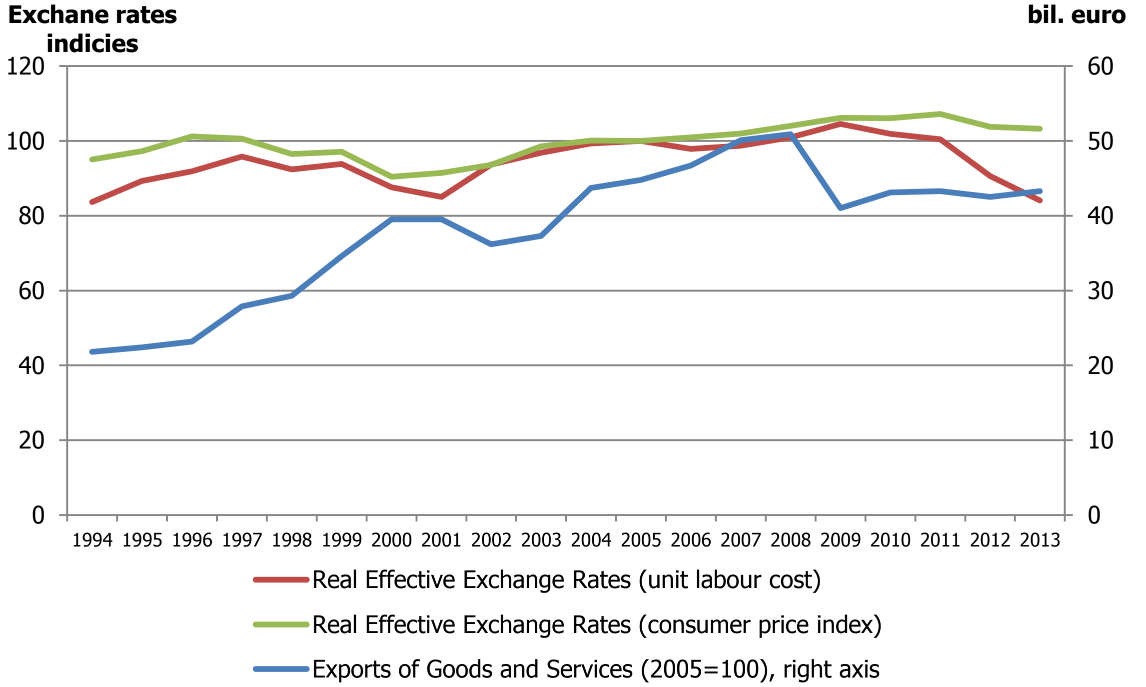
Current Account Balance, 2001-2014 (January - April)



Source: Bank of Greece – **Data Processing:** IOBE

Figure 3.19a

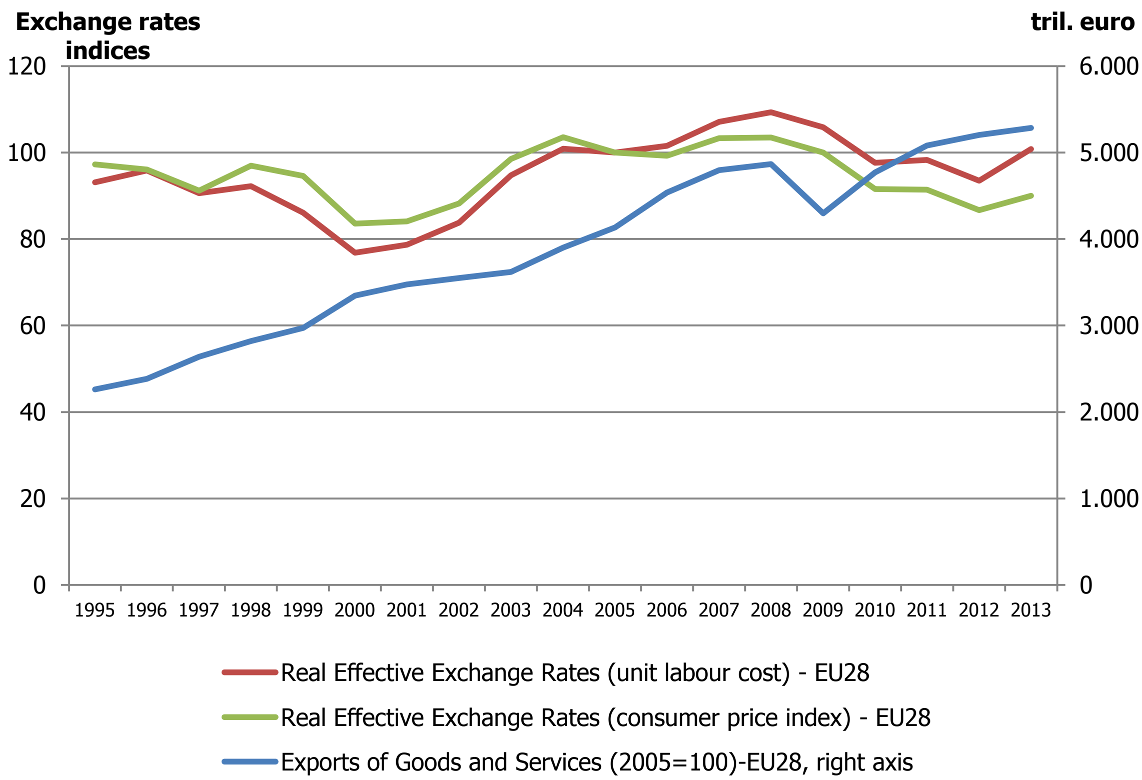
Real Effective Exchange Rates & Exports – EU28



Source: Eurostat – **Data Processing:** IOBE

Figure 3.19b

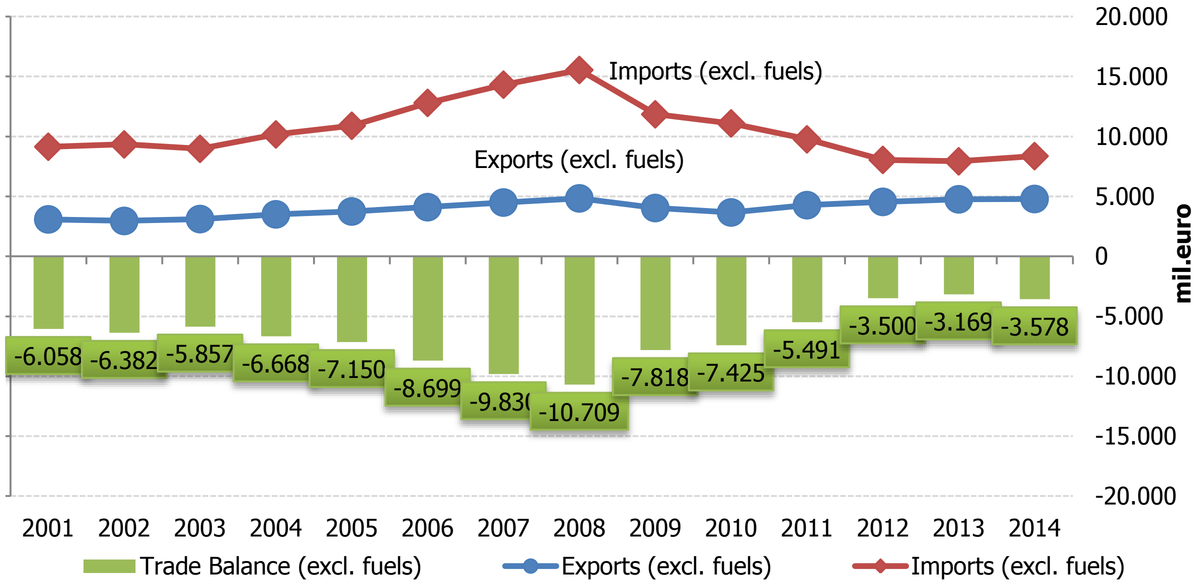
Real Effective Exchange Rates & Exports – EU28



Source: Eurostat

Figure 3.20

Imports-Exports (excl. fuels) 2001-2014 (January-April)



Source: Bank of Greece – **Data Processing:** IOBE

Table 3.11

Provisional Balance of External Payments (January – April) in mil. €

		January - April			April		
		2012	2013	2014	2012	2013	2014
I	**CURRENT ACCOUNT BALANCE (I.A +I .B+ I.C + I.D)**	**-5.226,5**	**-3.390,4**	**-2.215,2**	**-794,7**	**-1.151,5**	**-1.166,5**
I.A	**GOODS (I.A.1 - I.A.2)**	**-7.326,9**	**-6.062,1**	**-6.282,1**	**-1.454,7**	**-1.539,7**	**-1.723,2**
	Oil Balance	-3.826,6	-2.892,9	-2.704,7	-683,7	-593,8	-517,4
	Trade Balance excluding oil	-3.500,3	-3.169,3	-3.577,4	-771,0	-945,9	-1.205,8
	Ships Balance	-417,4	-468,2	-1.013,9	-60,6	-168,2	-501,5
	Trade Balance excluding oil and ships	-3.083,0	-2.701,0	-2.563,5	-710,4	-777,7	-704,3
I.A.1	**Exports**	**6.716,2**	**7.409,9**	**7.349,1**	**1.785,2**	**1.963,3**	**1.901,5**
	Oil	2.169,1	2.648,7	2.562,8	698,4	728,1	593,3
	Ships	252,1	155,0	216,8	74,1	45,6	131,2
	Other goods	4.295,0	4.606,2	4.569,5	1.012,8	1.189,6	1.177,0
I.A.2	**Imports**	**14.043,1**	**13.472,0**	**13.631,2**	**3.240,0**	**3.503,0**	**3.624,7**
	Oil	5.995,7	5.541,5	5.267,4	1.382,0	1.321,9	1.110,7
	Ships	669,5	623,2	1.230,7	134,7	213,8	632,7
	Other goods	7.377,9	7.307,3	7.133,0	1.723,2	1.967,4	1.881,4
I.B	**SERVICES (I.B.1 - I.B.2)**	**2.303,0**	**2.093,6**	**2.754,4**	**782,0**	**616,6**	**813,6**
I.B.1	**Receipts**	**6.465,7**	**5.707,0**	**6.449,0**	**1.747,9**	**1.560,8**	**1.812,0**
	Travel*	771,6	704,6	900,2	359,0	302,7	411,1
	Transportation	4.458,9	3.853,2	4.152,3	1.091,2	970,1	1.027,3
	Other services	1.235,2	1.149,2	1.396,4	297,7	288,0	373,5
I.B.2	**Payments**	**4.162,7**	**3.613,4**	**3.694,6**	**965,9**	**944,2**	**998,4**
	Travel	555,3	510,7	648,2	140,8	151,7	232,2
	Transportation	2.137,4	1.906,5	1.734,4	497,6	500,7	406,9
	Other services	1.470,1	1.196,2	1.312,0	327,4	291,8	359,3
I.C	**INCOME (I.C.1 - I.C.2)**	**-1.460,1**	**-1.011,4**	**-762,1**	**-0,5**	**-127,0**	**-122,1**
I.C.1	**Receipts**	**1.259,9**	**1.153,2**	**1.187,4**	**294,0**	**275,7**	**290,3**
	Compensation of employees	64,1	71,9	64,7	15,1	17,7	16,3
	Investment income	1.195,8	1.081,3	1.122,7	278,8	257,9	274,0
I.C.2	**Payments**	**2.720,0**	**2.164,6**	**1.949,5**	**294,4**	**402,7**	**412,4**
	Compensation of employees	156,8	155,1	140,3	37,1	47,4	36,0
	Investment income	2.563,2	2.009,6	1.809,2	257,3	355,3	376,4
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**1.257,5**	**1.589,6**	**2.074,6**	**-121,5**	**-101,4**	**-134,7**
I.D.1	**Receipts**	**2.782,5**	**2.943,5**	**3.331,7**	**151,3**	**164,8**	**152,8**
	General Government (mainly transfers from EU)	2.412,2	2.444,8	2.932,8	55,8	68,1	63,4
	Other sectors	370,3	498,7	398,9	95,5	96,7	89,4
I.D.2	**Payments**	**1.525,0**	**1.353,9**	**1.257,1**	**272,8**	**266,2**	**287,5**
	General Government (mainly transfers from EU)	1.127,1	1.107,6	1.048,6	200,4	189,7	232,6
	Other sectors	397,9	246,3	208,4	72,4	76,5	54,9
II	**CAPITAL TRANSFERS (II.1 - II.2)**	**1.078,9**	**1.133,0**	**1.447,0**	**25,5**	**40,6**	**-14,2**
II.1	**Receipts**	**1.154,7**	**1.266,2**	**1.542,6**	**36,1**	**71,7**	**6,1**
	General Government (mainly transfers from EU)	1.130,1	1.238,2	1.520,6	28,6	65,2	0,5
	Other sectors	24,7	28,0	22,0	7,5	6,5	5,6
II.2	**Payments**	**75,8**	**133,2**	**95,5**	**10,6**	**31,1**	**20,3**
	General Government (mainly transfers from EU)	2,6	1,3	5,5	0,6	0,5	0,4
	Other sectors	73,3	131,8	90,1	10,0	30,7	19,8
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS (I + II)**	**-4.147,6**	**-2.257,4**	**-768,2**	**-769,2**	**-1.110,9**	**-1.180,7**
IV	**FINANCIAL ACCOUNT (IV.A + IV.B + IV.C + IV.D)**	**4.701,5**	**2.078,6**	**557,7**	**117,2**	**1.716,7**	**1.777,0**
IV.A	**DIRECT INVESTMENT****	**-579,1**	**493,4**	**8,9**	**313,1**	**523,0**	**-84,5**
	Abroad	159,2	113,0	-219,7	405,2	187,5	-24,8
	Home	-738,3	380,5	228,6	-92,1	335,5	-59,6
IV.B	**PORTFOLIO INVESTMENT****	**-64.835,5**	**2.592,5**	**5.631,5**	**-27.801,8**	**121,7**	**5.321,6**
	Assets	-37.320,0	3.965,3	-691,3	-25.512,6	161,0	-683,4
	Liabilities	-27.515,4	-1.372,8	6.322,8	-2.289,2	-39,2	6.005,0
IV.C	**OTHER INVESTMENT****	**70.114,1**	**-990,4**	**-4.264,7**	**27.583,9**	**1.096,9**	**-3.681,1**
	Assets	11.565,4	15.544,5	519,9	1.317,6	-306,0	-159,5
	Liabilities	58.548,6	-16.535,0	-4.784,6	26.266,3	1.402,9	-3.521,6
	(Loans of general government))	70.325,4	7.937,9	4.553,9	31.594,3	-2,9	6.279,6
IV.D	**CHANGE IN RESERVE ASSETS*****	**2,0**	**-17,0**	**-818,0**	**22,0**	**-25,0**	**221,0**
V	**BALANCE ITEMS (I + II + IV + V = 0)**	**-553,9**	**178,8**	**210,4**	**652,0**	**-605,8**	**-596,3**
	RESERVE ASSETS (STOCK) (end period)******				**5.422,0**	**5.026,0**	**5.215,0**

Source: Bank of Greece

* Travel receipts include data on cruises, other than those recorded in the Border Survey.

** (+) net inflow (-) net outflow

* * * (+) decrease (-) increase

**** Reserve assets, as defined by the ECB, only include monetary gold, the reserve position at the IMF, Special Drawing Rights, and the Bank of Greece's claims in foreign currency on residents of countries outside the euro area. Conversely, reserve assets do not include claims in euro on residents of countries outside the euro area, claims in foreign currency and in euro on residents of euro area countries, and the Bank of Greece's participation in the capital and the reserve assets of the ECB.

4. THE REFINING SECTOR IN GREECE: CONTRIBUTION TO THE ECONOMY AND PROSPECTS

4.1 Introduction – study scope

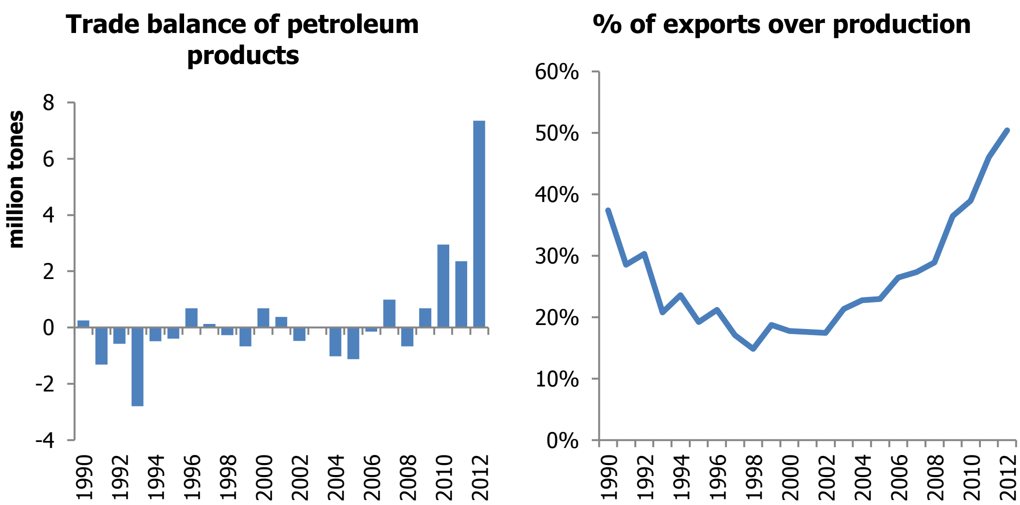
The crisis of the Greek economy, together with the recession in Europe, has had catalytic effects on the refinery sector in Greece, changing significantly the environment in which the Greek refineries operate. In this regard, the present study analysed the market environment of the Greek refineries, examined the sector's contribution to the Greek economy and assessed its outlook. In addition, the study evaluated the impact of the regulatory framework on the sector's competitiveness and outlined policy proposals to ensure the viability of the enterprises in the sector in the intensely competitive environment of the global energy markets.

4.2 The market environment of the Greek refineries

Due to the conditions prevailing in the domestic and global environment in the past few years, the refinery sector is facing high cost of crude oil supply, thin refining margins, sharp drop in the domestic demand and high financing and energy cost. The turn to exports provided an outlet for the Greek refineries, which following the contraction in the domestic market faced the risk of low capacity utilisation, falling below the minimum efficient scale of production threshold that would have worsened further their financial results.

Figure 4.1

Trade balance (in volume) and extroversion of refining sector in Greece, 1990-2012



Source: Eurostat, Data processing IOBE.

The choice for stronger export orientation should overcome several challenges and considerable commercial risks in order to prove its viability. The competitive pressures faced by the Greek refineries today are particularly strong and are expected to intensify further, driven by the excess capacity at global level and the development and modernisation of refining capacity in the Middle East and South-East Asia.

In addition, the non-EU refineries are not burdened with the cost to comply with the product quality requirements and the environmental standards of production that are applied in the EU. Meanwhile, the EU policy to tackle climate change levies additional costs on the sector, through the EU Emissions Trading System (ETS) from: a) the CO_2 emissions of the sector itself (direct emission costs) and b) an increase of the prices of electricity consumed by the sector, which incorporate the cost of CO_2 emissions in electricity generation (indirect emission cost). Furthermore, the protection of the sector from the risk of "carbon leakage" in the medium and long term is clouded with uncertainty. The carbon leakage can lead to reduced economic activity, lower income and fewer jobs, not only in the sector, but in the wider economy as well.

4.3 The contribution of the refinery sector to the Greek economy

The contribution of the Greek refineries to the domestic economy, albeit particularly significant, is not widely recognised. In particular:

- With more than €1 billion gross value added in 2011, which corresponds to 0.5% of Greek GDP, the refinery sector ranks third among the manufacturing branches, with its share increasing significantly over the past few years.
- The human capital in the sector is highly skilled, maintaining better-paid jobs compared with other industrial branches. About 4,100 people are employed in the sector.
- The sector has a strong investment activity, with investment totalling €2.7 billion in 2009-2012, when GDP contracted by more than 20%.
- The tightly linked with the refinery industry sectors of wholesale and retail trade of petroleum products (including third-party fuel transportation) contributed directly to the Greek economy €500 million value added and at least 23,000 jobs.

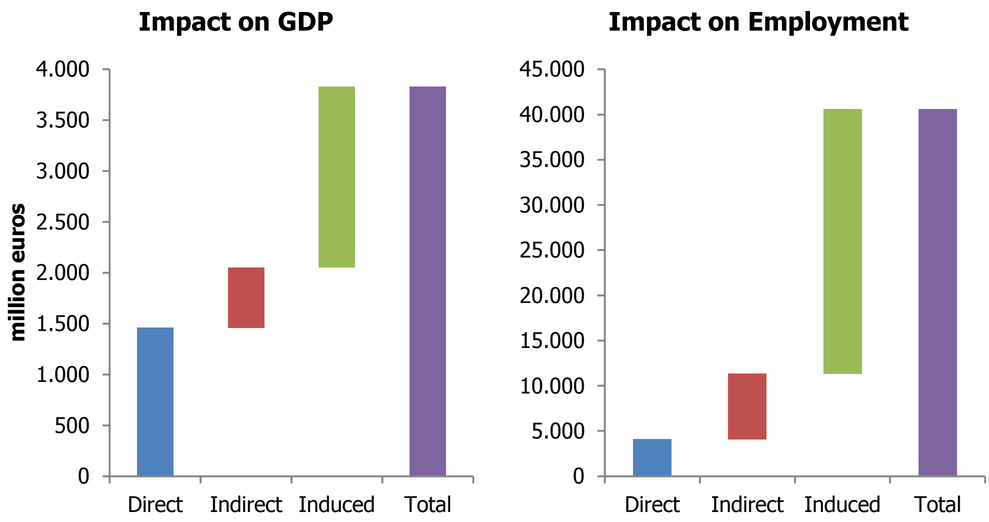
If we also take into consideration the indirect and induced effects, alongside the direct impact of the sector, it is estimated that the refining activity contributed about €3.8 billion (2% of GDP) and more than 40,000 jobs to the domestic economy. The contribution of the sector to tax and social security revenues is also significant.

A less obvious impact from the activity of the Greek refineries comes from their contribution to the reduction of the trade deficit. With the exports of petroleum products reaching €10.3 billion in 2012, most of which (86%) going to non-EU countries, the Greek refineries contributed 37.5% of the total exports of the country, from 8.4% a decade earlier, while a corresponding trend on the import side was not observed. As a result, according to Bank of

Greece data, the import coverage ratio of crude oil and petroleum products with exports increased from 25% in 2005 to 42% in 2012.

Figure 4.1

Direct, Indirect and Induced impact of refining sector on GDP and Employment, 2012 (in million Euros)



Source: IOBE

A number of European directives and guidelines regulate every aspect of the refining activity. Currently formulated decisions and policy changes that could have an impact on the sector's competitiveness:

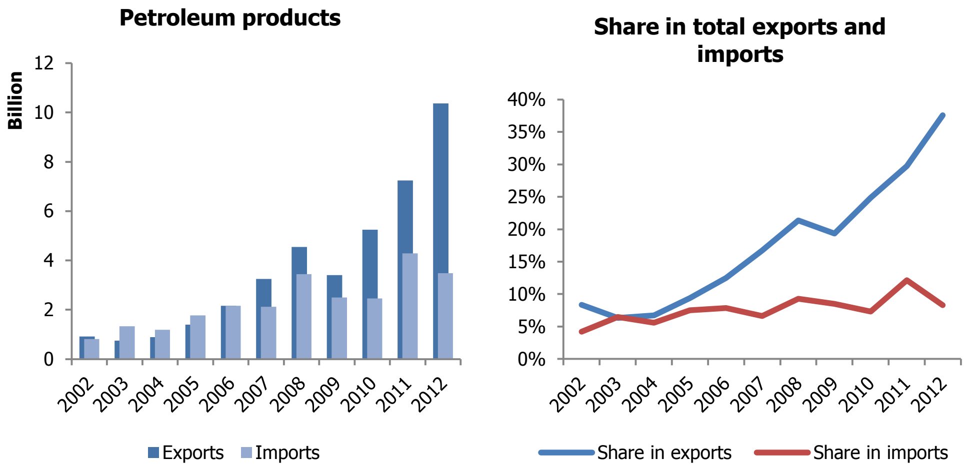
- In the short term, within 2014, the formulation of the new carbon leakage list (2015-2019) and the recognition that the sector continues to be exposed to the risk of carbon leakage, i.e. that it has high direct and indirect CO_2 emission costs and high intensity of trade with third countries, are of paramount importance.

- The finalisation of the emission levels linked to the Best Available Techniques (BAT) as part of the Industrial Emissions Directive, with which the refineries are obliged to comply, will also have a significant effect on the sector.

- The Fuel Quality Directive, which enforces the reduction of the carbon footprint of fuels used in transport, also comes with a compliance cost.

Figure 4.3

Exports and imports of petroleum products and their share in total trade of goods, 2002-2012 (in billion euros)



Source: Eurostat, Data processing IOBE

4.4 European policies and impact on the competitiveness of the sector

The existing EU legislative framework takes into account the **risk of carbon leakage** and protects the branches that are exposed to it, such as the refinery sector, with free emission allowances. Nevertheless, for a number of reasons the European refineries are not receiving all of the required allowances and as a consequence the protection is only partial and in fact falling over time.

At the same time, due to geographic particularities, the carbon leakage risk for the Greek refineries is significantly higher compared with the refineries in other member-states. The intensity of trade with third countries – one of the criteria for being on the carbon leakage list – reached 52% in Greece in 2012 (38% in EU27) from 24% in 2005 (18% in EU27). Hence, dropping from the carbon leakage list would have a significant impact on the Greek refineries. The likelihood of this, following the recent announcements by the European Commission, seems rather distant for the time being. However, this uncertainty is reduced only temporarily, as the new list is in force for five years, while it is not clear whether the sector will continue to receive after 2020 even the partial protection that it enjoys today. The carbon leakage list that will be in force after 2020 should be clarified by the EC well in advance, as it constitutes a crucial parameter in the investment planning of the refineries.

The compulsory compliance with the Best Available Techniques (BAT) as part of the **Industrial Emissions Directive** brings about a high cost of emission reduction for the refineries. If no flexibility is provided for meeting the emission targets, the compliance cost will multiply, deteriorating significantly the competitiveness of the sector.

The **Air quality directive** imposes a reduction of the carbon footprint of fuels used in the transport sector. The changes in the acceptable fuel quality introduce additional processing requirements and/or changes in the choice of crude petroleum, which raises the required investment and the operating cost of the refineries, potentially leading to higher CO_2 emissions during the fuel production process and thus the need for more emission allowances.

4.5 Policy implications

The competitiveness of the Greek refineries, which constitutes a necessary condition for their viability in order to preserve their significant contribution to the Greek economy, is not secured, as it is affected by a multitude of exogenous (for the companies in the sector) factors. The current EU legislation and the planned EU policies create an additional burden and uncertainty for the refining industry, while at national level a number of factors increase the production cost through the electricity tariffs. Therefore, the preservation of the viability prospects of the sector indicatively requires the following:

- Balanced approach in the implementation of policy measures in the fields of Energy and Environment, so that the impact on the industry competitiveness is taken into account alongside the impact on the environment. This constitutes a key requirement for the sustainable development and the preservation of thousands of jobs in the economy. In this regard, it is important to secure the protection of the refining sector against the risk of carbon leakage before and after 2020, particularly taking into account the geographical differences between Greece and the other EU countries, and their implication on the risk of carbon leakage for the refineries.

- Change of focus of the EU climate policy, from unilateral measures to the achievement of a global agreement on the reduction of greenhouse gasses.

- Completion of the fitness check by the European Commission, regarding the regulatory framework of the refinery industry, particularly in relation to its impact on the competitiveness of the refineries, prior to making any further significant decisions for the implementation of current legislation or the passing of new measures. It is also very important to stress that the fitness checks should include planned revisions of the current European legislation as well.

- Interventions in relation to the national industrial policy that will reduce the energy costs, on top of the already announced measures, such as for example reduction of the excise duty of electricity and natural gas, of the surcharges in the electricity tariffs for public benefit services and of the special levy for the reduction of greenhouse gas emissions for industrial enterprises.

- Interventions in the tightly linked trade of petroleum products sector, such as allowing for a credit period for collecting the excise tax on liquid fuels and implementation of the adopted measures for the elimination of the illicit fuel trade, in order to boost the liquidity in the sector and its competitiveness in the domestic market.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: Real GDP growth rate

	Annual data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	2.4	3.7	3.7	1.4	-3.8	1.8	2.8	0.9	0.3
Belgium	1.8	2.7	2.9	1	-2.8	2.3	1.8	-0.1	0.2
Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.6	0.9
France	1.8	2.5	2.3	-0.1	-3.1	1.7	2	0	0.2
Germany	0.7	3.7	3.3	1.1	-5.1	4	3.3	0.7	0.4
Denmark	2.4	3.4	1.6	-0.8	-5.7	1.4	1.1	-0.4	0.4
EU-28	2.2	3.4	3.2	0.4	-4.5	2	1.6	-0.4	0.1
EA-17	1.7	3.3	3	0.4	-4.4	2	1.6	-0.7	-0.4
Greece	2.3	5.5	3.5	-0.2(p)	-3.1(p)	-4.9(p)	-7.1(p)	-7(p)	-3.9(p)
Estonia	8.9	10.1	7.5	-4.2	-14.1	2.6	9.6	3.9	0.8
United Kingdom	7.8	7.8	9.8	2.9	-14.8	1.6	6	3.7	3.3
Ireland	6.1	5.5	5	-2.2	-6.4	-1.1	2.2	0.2	-0.3
Spain	7.8	7.8	9.8	2.9	-14.8	1.6	6	3.7	3.3
Italy	0.9	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.9
Cyprus	3.9	4.1	5.1	3.6	-1.9	1.3	0.4	-2.4	-5.4
Latvia	10.1	11	10	-2.8	-17.7	-1.3	5.3	5.2	4.1
Lithuania	7.8	7.8	9.8	2.9	-14.8	1.6	6	3.7	3.3
Luxembourg	5.3	4.9	6.6	-0.7	-5.6	3.1	1.9	-0.2	2.1
Malta	3.6	2.6	4.1	3.9	-2.8	4.2	1.5	0.8	2.6
Netherlands	2.0	3.4	3.9	1.8	-3.7	1.5	0.9	-1.2	-0.8
Hungary	4	3.9	0.1	0.9	-6.8	1.1	1.6	-1.7	1.1
Poland	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2.0	1.6
Portugal	0.8	1.4	2.4	0.0	-2.9	1.9	-1.3	-3.2	-1.4
Romania	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Slovakia	6.7	8.3	10.5	5.8	-4.9	4.4	3.0	1.8	0.9
Slovenia	4.0	5.8	7.0	3.4	-7.9	1.3	0.7	-2.5	-1.1
Sweden	3.2	4.3	3.3	-0.6	-5	6.6	2.9	0.9	1.6
Czech Republic	6.8	7	5.7	3.1	-4.5	2.5	1.8	-1	-0.9
Finland	2.9	4.4	5.3	0.3	-8.5	3.4	2.8	-1	-1.4
Croatia	4.3	4.9	5.1	2.1	-6.9	-2.3	-0.2	-2.2	-0.9

b=break in time series, p=provisional, f=forecast

Table 2: General government debt (% GDP)

	Annual data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	64.2	62.3	60.2	63.8	69.2	72.5	73.1	74.4	74.5
Belgium	92	87.9	84	89.2	96.6	96.6	99.2	101.1	101.2
Bulgaria	27.5	21.6	17.2	13.7	14.6	16.2	16.3	18.4	18.9
France	66.7	64	64.2	68.2	79.2	82.7	86.2	90.6	93.5
Germany	68.6	68	65.2	66.8	74.6	82.5	80	81	78.4
Denmark	37.8	32.1	27.1	33.4	40.7	42.8	46.4	45.4	44.5
EU-28	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8	10
EA-17	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8	10
Greece	101.2	107.5	107.2	112.9	129.7	148.3	170.3	157.2	175.1
Estonia	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8	10
United Kingdom	41.7	42.7	43.7	51.9	67.1	78.4	84.3	89.1	90.6
Ireland	27.2	24.6	24.9	44.2	64.4	91.2	104.1	117.4	123.7
Spain	43.2	39.7	36.3	40.2	54	61.7	70.5	86	93.9
Italy	105.7	106.3	103.3	106.1	116.4	119.3	120.7	127	132.6
Cyprus	69.4	64.7	58.8	48.9	58.5	61.3	71.5	86.6	111.7
Latvia	12.5	10.7	9	19.8	36.9	44.5	42	40.8	38.1
Lithuania	18.3	17.9	16.8	15.5	29.3	37.8	38.3	40.5	39.4
Luxembourg	6.1	6.7	6.7	14.4	15.5	19.5	18.7	21.7	23.1
Malta	68	62.5	60.7	60.9	66.5	66	68.9	70.7	72.6
Netherlands	51.8	47.4	45.3	58.5	60.8	63.4	65.7	71.3	73.5
Hungary	61.7	65.9	67	73	79.8	82.2	82.1	79.8	79.3
Poland	47.1	47.7	45	47.1	50.9	54.9	56.2	55.6	57
Portugal	67.7	69.4	68.4	71.7	83.7	94	108.2	124.1	128.9
Romania	15.8	12.4	12.8	13.4	23.6	30.5	34.7	38	38.4
Slovakia	34.2	30.5	29.6	27.9	35.6	41	43.6	52.7	55.4
Slovenia	26.7	26.4	23.1	22	35.2	38.7	47.1	54.4	71.7
Sweden	50.4	45.2	40.2	38.8	42.6	39.4	38.6	38.3	40.5
Czech Republic	28.4	28.3	27.9	28.7	34.6	38.4	41.4	46.2	46
Finland	41.7	39.6	35.2	33.9	43.5	48.8	49.3	53.6	57
Croatia	:	:	:	:	36.6	45	52	56.2	67.4

Table 3: General government balance (% GDP)

	Annual data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5	-2.6	-1.5
Belgium	-2.5	0.4	-0.1	-1	-5.6	-3.8	-3.8	-4.1	-2.6
Bulgaria	1	1.9	1.2	1.7	-4.3	-3.1	-2	-0.8	-1.5
France	-2.9	-2.3	-2.7	-3.3	-7.5	-7	-5.2	-4.9	-4.3
Germany	-3.3	-1.6	0.2	-0.1	-3.1	-4.2	-0.8	0.1	0
Denmark	5.2	5.2	4.8	3.2	-2.7	-2.5	-1.9	-3.8	-0.8
EU-28	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-3.9	-3.3
EA-17	-2.5	-1.3	-0.7	-2.1	-6.4	-6.2	-4.1	-3.7	-3.1
Greece	-5.2	-5.7	-6.5	-9.8	-15.7	-10.9	-9.6	-8.9	-12.7
Estonia	1.6	2.5	2.4	-3	-2	0.2	1.1	-0.2	-0.2
United Kingdom	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.3	-4.1	-2.5
Ireland	1.6	2.9	0.2	-7.4	-13.7	-30.6	-13.1	-8.2	-7.2
Spain	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.3	-4.1	-2.5
Italy	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.7	-3	-3
Cyprus	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3	-6.4	-5.4
Latvia	-0.4	-0.6	-0.7	-4.4	-9.2	-8.2	-3.5	-1.3	-1
Lithuania	-0.5	-0.4	-1	-3.3	-9.4	-7.2	-5.5	-3.2	-2.2
Luxembourg	0	1.4	3.7	3.2	-0.7	-0.8	0.2	0	0.1
Malta	-2.9	-2.7	-2.3	-4.6	-3.7	-3.5	-2.7	-3.3	-2.8
Netherlands	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.3	-4.1	-2.5
Hungary	-7.9	-9.4	-5.1	-3.7	-4.6	-4.3	4.3	-2.1	-2.2
Poland	-4.1	-3.6	-1.9	-3.7	-7.5	-7.8	-5.1	-3.9	-4.3
Portugal	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.3	-6.4	-4.9
Romania	-1.2	-2.2	-2.9	-5.7	-9	-6.8	-5.5	-3	-2.3
Slovakia	-2.8	-3.2	-1.8	-2.1	-8	-7.5	-4.8	-4.5	-2.8
Slovenia	-1.5	-1.4	0	-1.9	-6.3	-5.9	-6.4	-4	-14.7
Sweden	2.2	2.3	3.6	2.2	-0.7	0.3	-0.2	-0.6	-1.1
Czech Republic	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.2	-1.5
Finland	2.9	4.2	5.3	4.4	-2.5	-2.5	-0.7	-1.8	-2.1
Croatia	-2.8	-2.8	-1.9	-1.9	-5.4	-6.4	-7.8	-5	-4.9

Table 4: People at risk of poverty or social exclusion (*)

	Annual Data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	17.5	16.8	17.8	16.7	18.6	17	16.6	16.9	18.5(b)
Belgium	21.6	22.6	21.5	21.6	20.8	20.2	20.8	21	21.6
Bulgaria	:	:	61.3	60.7	44.8(b)	46.2	49.2	49.1	49.3
France	19.8	18.9	18.8	19	18.5(b)	18.5	19.2	19.3	19.1
Germany	:	18.4	20.2	20.6	20.1	20	19.7	19.9	19.6
Denmark	16.5	17.2	16.7	16.8	16.3	17.6	18.3	18.9	19
EU-28	:	:	:	:	:	:	23.7	24.3	24.8
EA-17	:	21.5	21.8	21.7	21.6	21.3	21.8	22.8	23.3
Greece	30.9	29.4	29.3	28.3	28.1	27.6	27.7	31	34.6
Estonia	26.3	25.9	22	22	21.8	23.4	21.7	23.1	23.4
United Kingdom	:	:	72.4	:	:	:	:	:	:
Ireland	24.8	25	23.3	23.1	23.7	25.7	27.3	29.4	30
Spain	25	24.3	24	23.3	24.5	24.5	26.7	27.7	28.2
Italy	26.4	25	25.9	26	25.3	24.7	24.5	28.2	29.9
Cyprus	:	25.3	25.4	25.2	23.3(b)	23.5	24.6	24.6	27.1
Latvia	:	46.3	42.2	35.1	34.2(b)	37.9	38.2	40.1	36.2
Lithuania	:	41	35.9	28.7	27.6	29.6	34	33.1	32.5
Luxembourg	16.1	17.3	16.5	15.9	15.5	17.8	17.1	16.8	18.4
Malta	:	20.5	19.5	19.7	20.1	20.3	21.2	22.1	23.1
Netherlands	:	16.7	16	15.7	14.9	15.1	15.1	15.7	15
Hungary	:	32.1	31.4	29.4	28.2	29.6	29.9	31	32.4
Poland	:	45.3	39.5	34.4	30.5(b)	27.8	27.8	27.2	26.7
Portugal	27.5	26.1	25	25	26	24.9	25.3	24.4	25.3
Romania	:	:	:	45.9	44.2	43.1	41.4	40.3	41.7
Slovakia	:	32	26.7	21.3	20.6	19.6	20.6	20.6	20.5
Slovenia	:	18.5	17.1	17.1	18.5	17.1	18.3	19.3	19.6
Sweden	16.9	14.4	16.3	13.9	14.9	15.9	15	16.1	15.6
Czech Republic	:	19.6	18	15.8	15.3	14	14.4	15.3	15.4
Finland	17.2	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2
Croatia	:	:	:	:	:	:	30.7	32.3	32.3

b=break in time series, e=estimated
(*) For the precise definition of the indicator, please see:
http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=T2020_50

Table 5: Inflation

	Annual data (%)				January - May (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	1.7	3.6	2.6	2.1	2.6	2.5	1.5	-0.1	-0.9
Belgium	2.3	3.5	2.6	1.1	3.0	1.1	1.0	-1.9	-0.2
Bulgaria	3.0	3.4	2.4	0.4	1.9	1.7	-1.7	-0.2	-3.4
France	1.7	2.3	2.2	1.0	2.5	1.1	0.8	-1.4	-0.2
Germany	1.2	2.5	2.1	1.6	2.3	1.6	1.0	-0.7	-0.7
Denmark	2.2	2.7	2.4	0.5	2.5	0.7	0.4	-1.8	-0.3
EU-28	2.1	3.1	2.6	1.5	2.8	1.8	0.7	-1.0	-1.0
EA-17	1.6	2.7	2.5	1.4	2.6	1.6	0.6	-1.0	-1.0
Greece	4.7	3.1	1.0	-0.9	1.5	-0.2	-1.5	-1.7	-1.3
Estonia	2.7	5.1	4.2	3.3	4.4	3.7	1.0	-0.7	-2.7
United Kingdom	3.3	4.5	2.8	2.6	3.2	2.7	1.8	-0.6	-0.9
Ireland	-1.6	1.2	1.9	0.5	1.8	0.8	0.3	-0.9	-0.6
Spain	1.8	3.3	2.4	1.5	1.9	2.3	0.1	0.4	-2.2
Italy	1.6	2.9	3.3	1.3	3.6	1.7	0.5	-1.8	-1.3
Croatia	1.1	2.2	3.3	2.3	2.2	3.5	0.1	1.2	-3.4
Cyprus	2.6	3.5	3.1	0.4	3.4	1.1	-0.8	-2.3	-1.9
Latvia	-1.2	4.2	2.3	0.0	3.0	0.1	0.6	-2.9	0.5
Lithuania	1.2	4.1	3.2	1.2	3.3	1.9	0.3	-1.4	-1.6
Luxembourg	2.8	3.7	2.9	1.7	3.0	1.9	1.1	-1.1	-0.9
Malta	2.0	2.4	3.3	1.0	2.8	1.5	1.0	-1.3	-0.5
Netherlands	0.9	2.5	2.8	2.6	2.7	3.1	0.4	0.4	-2.7
Hungary	4.7	3.9	5.7	1.7	5.6	2.3	0.2	-3.3	-2.1
Poland	2.7	3.9	3.7	0.8	4.0	1.0	0.5	-3.0	-0.5
Portugal	1.4	3.6	2.8	0.4	3.1	0.5	-0.2	-2.6	-0.7
Romania	6.1	5.9	3.4	3.2	2.4	4.6	1.3	2.3	-3.3
Slovakia	0.7	4.1	3.7	1.5	3.8	2.0	-0.1	-1.8	-2.2
Slovenia	2.1	2.1	2.8	1.9	2.6	2.2	0.6	-0.3	-1.6
Sweden	1.9	1.4	0.9	0.4	0.9	0.4	0.1	-0.5	-0.3
Czech Republic	1.2	2.1	3.5	1.4	3.9	1.6	0.3	-2.3	-1.3
Finland	1.7	3.3	3.2	2.2	3.0	2.5	1.4	-0.5	-1.1

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

	Annual data (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2012
Austria	125(b)	126	124	125	126	127	129	130	129
Belgium	120(b)	118	116	116	118	121	120	120	119
Bulgaria	37(b)	38	40	44	44	44	47	47	47
France	110(b)	108	108	107	109	109	109	109	108
Germany	116(b)	116	116	116	115	120	123	123	124
Denmark	124(b)	124	123	125	124	128	126	126	125
EU-28	100(b)	100	100	100	100	100	100	100	100
EA-17	109(b)	109	109	109	109	109	109	108	108
Greece	91(b)	92	90	93	94	88	80	75	75
Estonia	62(b)	66	70	69	64	64	69	71	72
United Kingdom	124(b)	122	118	114	112	108	105	106	106
Ireland	144(b)	146	146	132	129	129	129	129	126
Spain	102(b)	105	105	104	103	99	96	96	95
Italy	105(b)	105	104	104	104	103	102	101	98
Cyprus	93(b)	93	94	100	100	97	94	92	86
Latvia	50(b)	53	57	59	54	55	60	64	67
Lithuania	55(b)	58	62	64	58	62	68	72	74
Luxembourg	254(b)	270	275	264	253	263	266	263	264
Malta	80(b)	79	78	81	84	87	86	86	87
Netherlands	131(b)	131	132	134	132	130	129	128	127
Hungary	63(b)	63	62	64	65	66	67	67	67
Poland	51(b)	52	55	56	61	63	65	67	68
Portugal	80(b)	79	79	78	80	80	77	76	75
Romania	35(b)	38	42	47	47	48	48	50	54
Slovakia	60(b)	63	68	73	73	74	75	76	76
Slovenia	87(b)	88	89	91	86	84	84	84	83
Sweden	122(b)	123	125	124	120	124	125	126	127
Czech Republic	79(b)	80	83	81	83	81	81	81	80
Finland	114(b)	114	118	119	115	114	116	115	112
Croatia	57(b)	58	61	63	62	59	61	62	61

b=break in time series, p=provisional, f=forecast

Table 7: Real labour productivity per person employed (EU-28=100)

	Annual data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2012**
Austria	118.3[b]	119	116.9	116.3	116.1	114.9	115.4	114.8	113.3
Belgium	130.3[b]	129	127.5	126.7	127.7	129.6	128.4	128.4	127.3
Bulgaria	35.8[b]	36.4	37.4	39.7	39.7	40.8	42.9	44.5	43.4
France	116.3[b]	115.2	115.4	115.1	117.1	116.5	116.6	116.2	:
Germany	108.5[b]	108.6	108.2	107.7	104.1	106.6	108	107	107
Denmark	107.1[b]	106.9	104.6	105.7	106.7	112.7	111.4	112	110.8
EU-28	99.8[b]	99.8	99.8	99.8	99.8	99.8	99.8	99.9	99.9
EA-17	108.6[b]	108.5	108.7	108.8	108.8	108.8	108.8	108.8	108.8
Greece	95.8[b]	97	95.3	97.5	98.1	92.8	89.7	91.7	92.7
Estonia	60.7[b]	62.3	66.6	65.6	65.9	68.8	69.7	69.9	:
United Kingdom	114.9[b]	114.3[p]	111.7[p]	108.8[p]	106.9[p]	102.3[p]	100.2[p]	99.2[p]	99.4[p]
Ireland	135.4[b]	135.4(p)	136.2[p]	126.9[p]	132.8[p]	137.6[p]	141[p]	141.7[p]	135.5[p]
Spain	101.3[b]	102.7	103	104.1	109.2	106.5	106	109.6	111.2
Italy	111.9[b]	111	111.4	112.7	112.4	111.4	110.2	109.3	:
Cyprus	82.9[b]	84	85.2	90.8	92.2	90.8	89.7	92.5	:
Latvia	47.8[b]	48.8	53.9[b]	55[b]	57.2[b]	60.7[b]	63.7[b]	66.2[b]	66.9[b]
Lithuania	54.9[b]	56.7	59.5	61.9	57.9	68.1	72.2	74	:
Luxembourg	170[b]	179.2	179.7	168.2	159.2	163.9	165.2	162.6	163.9
Malta	94.5[b]	93	92.2	94.3	97	97.5	94.5	92.6	91.6
Netherlands	114.4[b]	114.2	114.3	115.2	112.5	110.5	109.9	108.4	108.8
Hungary	67.6[b]	67.7	66.5	70.5	72.3	71.6	72.5	71.2	70.6
Poland	61.7[b]	61.1	62.1	62.3	65.4	70(b)	71.9	73.6	:
Portugal	72.8[b]	73	73.9	73.4	76	76.5	74.4(p)	76	76.7
Romania	36.1[b]	39.7	43.3	49.1	49.3	49.7	50.4	51	51.7
Slovakia	68.7[b]	71.6	76.3	79.6	79.9	82.2	81.5	82	:
Slovenia	83.1[b]	83.2	83	83.6	80	79.4	81	80.8	81.1
Sweden	111.9[b]	112.9	114.7	114.1	112	114	114	114.3	114.5
Czech Republic	73[b]	73.9	76.2	73.9(b)	75.8	74.2	74.5	73.8	71.9
Finland	111.1[b]	110.5	113.5	113.1	110	109.2	109.6	109	107.1
Croatia	74.5[b]	73.5	77.1	78.2	76.1	75	77.1	80.3	80.1

b=break in time series, p=provisional, f=forecast, e=estimated

Table 8: Employment rate on persons aged 20-64 (*)

	Annual data (%)				Q1 (%)			Change (%)	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**	**2014**	**13/12**	**14/13**
Austria	74.9	75.2	75.6	75.5	74.6	74.4	74.6	-0.2	0.2
Belgium	67.6	67.3	67.2	67.2	67	66.7	67	-0.3	0.3
Bulgaria	65.4	63.9	63.0	63.5	61.1	61.7	:	0.6	:
France	69.2	69.2	69.3	69.5	68.8	68.9	:	0.1	:
Germany	74.9	76.3	76.7	77.1	75.9	76.4	:	0.5	:
Denmark	75.8	75.7	75.4	75.6	75.3	75	74.4	-0.3	-0.6
EU-28	68.6	68.6	68.4	68.4	67.9	67.6	:	-0.3	:
EA-17	68.4	68.5	69.4	69.3	69	68.7	:	-0.3	:
Greece	64.0	59.9	55.3	53.2	56.4	53	52.5	-3.4	-0.5
Estonia	66.7	70.4	72.1	73.3	71	72.2	72.4	1.2	0.2
United Kingdom	73.6	73.6	74.2	74.9	73.5	74.3	75.7	0.8	1.4
Ireland	65.0	63.8	63.7	65.5	63.2	64.3	66	1.1	1.7
Spain	62.5	61.6	59.3	58.6	59.9	58	58.5	-1.9	0.5
Italy	61.1	61.2	61.0	59.8	60.7	59.7	59.2	-1	-0.5
Cyprus	75.4	73.4	70.2	67.1	70.3	67.4	:	-2.9	:
Latvia	65.0	66.3	68.2	69.7	66.2	68.8	70.4	2.6	1.6
Lithuania	64.4	67.2	68.7	69.9	67.2	68.5	70.3	1.3	1.8
Luxembourg	70.7	70.1	71.4	71.1	70.3	70.7	:	0.4	:
Malta	60.1	61.5	63.1	64.8	62.7	64	65.2	1.3	1.2
Netherlands	76.8	77.0	77.2	76.5	77.2	76.5	75.5	-0.7	-1
Hungary	60.4	60.7	62.1	63.2	60.6	61.3	:	0.7	:
Poland	64.6	64.8	64.7	64.9	63.9	63.6	:	-0.3	:
Portugal	70.5	69.1	66.5	65.6	67	64.3	66.5	-2.7	2.2
Romania	63.3	62.8	63.8	63.9	62.3	62.3	:	0	:
Slovakia	64.6	65.1	65.1	65	64.9	64.9	:	0	:
Slovenia	70.3	68.4	68.3	67.2	68.3	66.4	66.4	-1.9	0
Sweden	78.7	80.0	79.4	79.8	78.4	78.7	:	0.3	:
Czech Republic	70.4	70.9	71.5	72.5	70.6	71.6	:	1	:
Finland	73.0	73.8	74.0	73.3	73.1	72.3	:	-0.8	:
Croatia	58.7	57.0	55.4	53.9	54.4	52.3	:	-2.1	:

(*) % of employed aged 20-64 to the total number of the corresponding population

Table 9: Employment rate in persons aged 55-64(*)

	Annual data (%)				Q1 (%)			Change (%)	
	2010	2012	2013	2014	2012	2013	2014	13/12	14/13
Austria	42.4	41.5	43.1	44.9	41.3	42.9	45.2	1.6	2.3
Belgium	37.3	38.7	39.5	41.7	38.5	40.5	41	2	0.5
Bulgaria	43.5	43.9	45.7	47.4	43.9	45.5	:	1.6	:
France	39.8	41.5	44.5	45.6	43.1	45.1	:	2	:
Germany	57.7	59.9	61.5	63.5	60.5	62.2	:	1.7	:
Denmark	58.4	59.5	60.8	61.7	60.4	60.4	61.5	0	1.1
EU-28	46.3	47.4	48.8	50.1	47.7	49	:	1.3	:
EA-17	45.8	47.1	50.9	52.3	50	51.2	:	1.2	:
Greece	42.3	39.4	36.4	35.6	36.9	35.3	34.7	-1.6	-0.6
Estonia	53.8	57.2	60.6	62.6	60.3	62.9	59.5	2.6	-3.4
United Kingdom	57.1	56.7	58.1	59.8	57.2	58.7	60.8	1.5	2.1
Ireland	50.2	50.0	49.3	51.3	48.9	50.2	52.4	1.3	2.2
Spain	43.6	44.5	43.9	43.2	43.6	42.6	43.3	-1	0.7
Italy	36.6	37.9	40.4	42.7	39	41	44.9	2	3.9
Cyprus	56.8	54.8	50.7	49.6	49.7	50.4	:	0.7	:
Latvia	48.2	50.5	52.8	54.8	50.9	53.2	56	2.3	2.8
Lithuania	48.6	50.5	51.8	53.4	50.8	52.4	55.1	1.6	2.7
Luxembourg	39.6	39.3	41.0	40.5	41.3	40.3	:	-1	:
Malta	30.2	31.7	33.6	36.2	33.1	35.6	37	2.5	1.4
Netherlands	53.7	56.1	58.6	60.1	57.6	59.2	59.9	1.6	0.7
Hungary	34.4	35.8	36.9	38.5	35.4	37.2	:	1.8	:
Poland	34.0	36.9	38.7	40.6	36.9	39	:	2.1	:
Portugal	49.2	47.9	46.5	46.7	46.9	45.4	47.6	-1.5	2.2
Romania	41.1	40.0	41.4	41.5	39.3	39.8	:	0.5	:
Slovakia	40.5	41.4	43.1	44	42.1	44.3	:	2.2	:
Slovenia	35.0	31.2	32.9	33.5	31.3	32	33	0.7	1
Sweden	70.5	72.3	73.0	73.6	72.1	72.7	:	0.6	:
Czech Republic	46.5	47.6	49.3	51.6	47.5	50.3	:	2.8	:
Finland	56.2	57.0	58.2	58.5	57.5	57.6	:	0.1	:
Croatia	37.6	37.1	36.7	36.5	35.6	36	:	0.4	:

(*) % of employed aged 55-64 to the total number of the corresponding population

Table 10: Total Employment growth (ages 15 years or over)

	Annual data (%)						Q1 (%)		
	2008	2009	2010	2011	2012	2013	2012/11	2013/12	2014/13
Austria	2	-0.7	0.8	1.7	1.0	-0.2	1.2	-0.3	0.7
Belgium	1.8	-0.2	0.7	1.4	0.3	0.1	1.1	-0.3	0.4
Bulgaria	2.6	-2.6	-4.7	-4.2	-1.1	0.0	-1.8	0.1	:
France	0.5	-1.3	-0.1	0.5	0.1	0.0	0.1	-0.2	:
Germany	1.2	0.1	0.6	1.4	0.8	0.9	1.2	0.9	:
Denmark	1.7	-2.4	-2.3	-0.4	-0.5	0.0	-0.2	-0.4	-0.4
EU-28	1	-1.8	-0.5	0.3	-0.5	-0.2	-0.3	-0.4	:
EA-17	0.8	-1.8	-0.5	0.2	-0.3	-0.3	-0.3	-0.5	:
Greece	0.8	-0.2	-1.9	-6.7	-8.0	-4.0	-8.5	-6.3	-3.1
Estonia	0.2	-9.9	-4.8	7	2.5	1.0	3.3	0.9	-0.7
UK	0.3	-1.7	-0.7	0.5	1.2	1.3	0.1	1.5	2.5
Ireland	-1.1	-8.1	-4.2	-2.1	-0.6	2.4	-0.9	1.1	2.3
Spain	-0.1	-6.5	-2.5	-1.5	-4.5	-2.8	-3.6	-4.1	-0.5
Italy	0.3	-1.6	-0.7	0.3	-0.3	-2.1	-0.4	-1.8	-0.9
Cyprus	2.1	-0.5	0.1	0.5	-2.4	-3.5	-3.4	-2.8	:
Latvia	0.9	-13.2	-4.8	-8.1	2.8	2.1	1.5	3.8	0.2
Lithuania	-0.7	-6.8	-5.1	2	1.8	1.3	1.5	1.3	2.2
Luxembourg	:	:	:	:	5.0	1.1	2.0	3.4	:
Malta	2.6	-0.3	2.4	2.5	2.4	3.0	2.1	2.3	1.9
Netherlands	1.5	-0.7	-0.4	0.7	0.7	-0.7	0.7	-0.3	-1.3
Hungary	-1.4	-2.8	0.3	0.3	1.7	1.6	1.6	0.7	:
Poland	3.9	0.4	0.5	1	-3.3	-0.1	0.3	-0.7	:
Portugal	0.5	-2.6	-1.5	-1.5	-4.2	-2.6	-4.2	-4.9	-0.1
Romania	:	-2	-1.4	0.4	1.4	-0.2	-0.6	-0.2	:
Slovakia	3.2	-2	-1.5	1.8	-1.0	0.0	1.2	0.1	:
Slovenia	2.6	-1.8	-2.2	-1.6	-1.3	-1.9	-0.2	-4.2	1.0
Sweden	0.9	-2.4	1.2	2.2	0.7	1.0	0.8	0.8	:
Czech Republic	2.3	-1.2	-1.7	0.2	-0.3	1.0	0.0	1.0	:
Finland	2.6	-2.6	-0.1	1.1	0.4	-1.1	1.0	-1.0	:
Croatia	:	:	:	:	-3.1	-3.9	-5.6	-3.6	:

Table 11: Unemployment rate (total)

	Annual data (%)				Q1 (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4.4	4.2	4.3	4.9	4.3	5.4	5.4	1.1	0
Belgium	8.3	7.2	7.6	8.4	7.2	8.5	8.7	1.3	0.2
Bulgaria	10.2	11.2	12.3	13	12.9	13.8	:	0.9	:
France	9.3	9.2	10.3	10.3	9.9	10.4	:	0.5	:
Germany	7.1	5.9	5.5	5.3	5.9	5.9	:	0	:
Denmark	7.5	7.6	7.5	7	8.1	7.7	7.4	-0.4	-0.3
EU-28	9.6	9.6	10.5	10.8	10.6	11.4	:	0.8	:
EA-17	10.0	10.1	0	11	10.7	11.5	:	0.8	:
Greece	12.6	17.7	24.3	27.3	22.6	27.4	27.9	4.8	0.5
Estonia	16.9	12.5	10.2	8.6	11.3	10	8.5	-1.3	-1.5
United Kingdom	7.8	8.0	7.9	7.5	8.2	7.8	6.7	-0.4	-1.1
Ireland	13.7	14.7	14.7	13.1	15	13.7	12.1	-1.3	-1.6
Spain	20.1	21.7	25	26.4	24.2	26.9	25.9	2.7	-1
Italy	8.4	8.4	10.7	12.2	11	12.8	13.6	1.8	0.8
Cyprus	6.2	7.9	11.9	15.9	11.1	15.9	:	4.8	:
Latvia	18.7	16.2	14.9	11.9	16.3	13	11.9	-3.3	-1.1
Lithuania	17.8	15.4	13.3	11.8	14.6	13.1	12.4	-1.5	-0.7
Luxembourg	4.4	4.9	5.1	5.8	5.9	5.4	:	-0.5	:
Malta	6.9	6.5	6.4	6.5	6.4	6	6	-0.4	0
Netherlands	4.5	4.4	5.3	6.7	5.3	6.5	7.5	1.2	1
Hungary	11.2	10.9	10.9	10.2	11.7	11.8	:	0.1	:
Poland	9.6	9.7	10.1	10.3	10.5	11.3	:	0.8	:
Portugal	11.0	12.9	15.9	16.5	15.2	17.9	15.3	2.7	-2.6
Romania	7.3	7.4	7	7.3	7.6	7.5	:	-0.1	:
Slovakia	14.4	13.5	14	14.2	14.1	14.5	:	0.4	:
Slovenia	7.3	8.2	8.9	10.1	8.6	11.1	10.8	2.5	-0.3
Sweden	8.4	7.5	8	8	8.2	8.6	:	0.4	:
Czech Republic	7.3	6.7	7	7	7.1	7.4	:	0.3	:
Finland	8.4	7.8	7.7	8.2	8	8.8	:	0.8	:
Croatia	11.8	13.5	15.9	17.2	16.5	18.1	:	1.1	0

Table 12: Unemployment rate among men

	Annual data (%)				Q1 (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4.6	4.0	4.4	4.9	4	5.6	5.4	1.6	-0.2
Belgium	8.1	7.1	7.7	8.7	7.2	8.8	9.3	1.6	0.5
Bulgaria	10.9	12.3	13.5	13.9	14.5	15.2	:	0.7	:
France	6.0	8.1	10.1	10.4	10	10.8	:	0.8	:
Germany	6.4	5.8	5.7	5.6	6.4	6.4	:	0	:
Denmark	8.4	7.7	7.5	6.7	8.2	7.7	7.1	-0.5	-0.6
EU-28	19.5	13.1	10.4	10.8	10.7	11.5	:	0.8	:
EA-17	9.9	9.9	0	11	10.7	11.7	:	1	:
Greece	9.6	9.5	21.4	24.3	19.7	24.7	25	5	0.3
Estonia	9.1	8.4	11	9.1	12.7	10.8	9.4	-1.9	-1.4
United Kingdom	9.0	8.8	8.3	8	8.8	8.3	7	-0.5	-1.3
Ireland	7.5	6.2	17.7	15	18.2	15.9	13.9	-2.3	-2
Spain	9.9	15.0	24.7	25.8	24	26.7	25.4	2.7	-1.3
Italy	11.6	11.0	9.9	11.5	10.1	12	13	1.9	1
Cyprus	16.9	17.8	12.6	16.6	12.3	16.3	:	4	:
Latvia	7.6	7.6	16	12.6	17.6	14.6	13.7	-3	-0.9
Lithuania	21.7	18.6	15.1	13.1	16.6	14.9	14	-1.7	-0.9
Luxembourg	21.2	17.8	4.5	5.4	5.8	5.5	:	-0.3	:
Malta	3.8	3.8	5.9	6.6	5.9	6.2	6.4	0.3	0.2
Netherlands	6.8	6.1	5.3	7.1	5.3	6.9	7.7	1.6	0.8
Hungary	4.4	4.5	11.2	10.2	12	12.4	:	0.4	:
Poland	9.3	9.0	9.4	9.7	10.2	10.8	:	0.6	:
Portugal	10.0	12.7	16	16.4	15.1	18.2	15.3	3.1	-2.9
Romania	7.9	7.9	7.6	7.9	8.4	8.2	:	-0.2	:
Slovakia	14.2	13.5	13.5	14	13.8	14.1	:	0.3	:
Slovenia	7.5	8.2	8.4	9.5	8.4	10.7	10.1	2.3	-0.6
Sweden	19.7	21.2	8.2	8.2	8.5	8.8	:	0.3	:
Czech Republic	8.5	7.6	6	5.9	6.3	6.6	:	0.3	:
Finland	8.6	8.7	8.3	8.8	8.8	9.7	:	0.9	:
Croatia	11.4	13.8	16.2	17.8	17.1	18.4	:	1.3	:

Table 13: Unemployment rate among women

	Annual data (%)				Q1 (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	4.2	4.3	4.3	4.9	4.6	5.1	5.3	0.5	0.2
Belgium	8.5	7.2	7.4	8.2	7.2	8.1	8.1	0.9	0
Bulgaria	9.5	10.0	10.8	11.8	11.1	12.2	:	1.1	:
France	9.7	9.7	10.5	10.2	9.9	10.1	:	0.2	:
Germany	6.6	5.6	5.2	5	5.4	5.3	:	-0.1	:
Denmark	6.5	7.5	7.5	7.3	7.9	7.7	7.8	-0.2	0.1
EU-28	9.6	9.7	10.6	10.9	10.5	11.2	:	0.7	:
EA-17	10.2	10.4	0	11	10.6	11.3	:	0.7	:
Greece	16.2	21.4	28.1	31.3	26.5	31	31.5	4.5	0.5
Estonia	14.3	11.8	9.3	8.2	10	9.1	7.7	-0.9	-1.4
United Kingdom	6.8	7.3	7.4	7	7.5	7.2	6.3	-0.3	-0.9
Ireland	9.7	10.8	11	10.7	11.1	11	9.9	-0.1	-1.1
Spain	20.5	22.2	25.4	27	24.5	27.3	26.6	2.8	-0.7
Italy	9.7	9.6	11.9	13.1	12.2	13.9	14.5	1.7	0.6
Cyprus	6.4	7.7	11.1	15.2	9.9	15.4	:	5.5	:
Latvia	15.7	13.8	13.9	11.1	15.1	11.4	10	-3.7	-1.4
Lithuania	14.5	13.0	11.5	10.5	12.5	11.4	10.9	-1.1	-0.5
Luxembourg	5.1	6.3	5.8	6.4	5.9	5.4	:	-0.5	:
Malta	7.1	7.1	7.3	6.4	7.3	5.7	5.5	-1.6	-0.2
Netherlands	4.5	4.4	5.2	6.3	5.3	6.1	7.2	0.8	1.1
Hungary	10.7	10.9	10.6	10.2	11.4	11	:	-0.4	:
Poland	10.0	10.5	10.9	11.1	11	11.9	:	0.9	:
Portugal	12.1	13.2	15.8	16.6	15.3	17.7	15.3	2.4	-2.4
Romania	6.5	6.8	6.4	6.6	6.6	6.6	:	0	:
Slovakia	14.6	13.6	14.5	14.5	14.5	15	:	0.5	:
Slovenia	7.1	8.2	9.4	10.9	8.8	11.7	11.6	2.9	-0.1
Sweden	8.3	7.5	7.7	7.8	7.8	8.4	:	0.6	:
Czech Republic	8.5	7.9	8.2	8.3	8.1	8.5	:	0.4	:
Finland	7.6	7.1	7.1	7.5	7.1	7.8	:	0.7	:
Croatia	12.3	13.2	15.6	16.6	15.7	17.8	:	2.1	:

Table 14: Long-term unemployment rate (*)

	Annual data (%)				Q1 (%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	39.9	42.9	24.8	17.8	23.4	21	25.7	-2.4	4.7
Belgium	42.5	45.2	44.7	44.7	44.5	45.5	47.2	1	1.7
Bulgaria	48.8	48.4	55.2	:	53.8	54.9	:	1.1	:
France	46.4	56.1	40.3	39.3	39.7	37.9	:	-1.8	:
Germany	41.0	40.6	45.5	36.8	45	42.7	:	-2.3	:
Denmark	20.2	24.4	28	26.9	27.3	24.7	28	-2.6	3.3
EU-28	47.4	48.0	44.6	39.3	42.8	45.4	:	2.6	:
EA-17	45.3	56.8	44	41.9	44.5	47.5	:	3	:
Greece	49.3	59.3	59.3	63.2	54.7	64	71.4	9.3	7.4
Estonia	45.0	49.6	54.1	:	59.1	45.9	43.7	-13.2	-2.2
United Kingdom	36.6	41.6	34.8	23.1	34	36.2	37.4	2.2	1.2
Ireland	40.2	41.5	61.7	57.8	64	62.4	61.4	-1.6	-1
Spain	48.4	51.9	44.5	39.9	42	47.1	52.3	5.1	5.2
Italy	20.3	20.8	53	47.8	48.9	55.2	59.1	6.3	3.9
Cyprus	45.1	54.5	30.1	28.7	24.5	34.7	:	10.2	:
Latvia	41.4	51.9	51.9	:	51.7	53.8	43.6	2.1	-10.2
Lithuania	29.3	28.6	49	:	50.6	45.3	41.6	-5.3	-3.7
Luxembourg	49.3	47.9	30.3	31.9	33.1	34.8	:	1.7	:
Malta	46.3	46.2	47.4	:	50.9	51.2	47.1	0.3	-4.1
Netherlands	27.5	33.5	34	32.2	34	33.3	37.9	-0.7	4.6
Hungary	25.2	25.9	45	:	42.6	42.9	:	0.3	:
Poland	31.1	37.2	40.3	:	38.9	39.8	:	0.9	:
Portugal	52.3	48.1	48.7	57.3	45.3	52.8	57	7.5	4.2
Romania	34.9	41.9	45.3	:	42.9	44.7	:	1.8	:
Slovakia	43.3	44.2	67.3	:	66.5	67.8	:	1.3	:
Slovenia	64.0	67.8	47.9	:	44.5	46.9	52.8	2.4	5.9
Sweden	24.0	22.2	18.9	23.9	19.5	18.7	:	-0.8	:
Czech Republic	17.8	18.6	43.4	45.2	43.1	43.3	:	0.2	:
Finland	32.6	33.4	21.4	:	22.4	20.6	:	-1.8	:
Croatia	56.9	63.9	64.6	:	63.2	61.7	:	-1.5	:

(*) % of unemployed for 12 months or higher to the total number of unemployed persons

Table 15: Youth unemployment rate (15 to 24 years old)

	Annual data (%)				Q1 (%)			Change (%)	
	2010	**2011**	**2012**	**2013**	**2012**	**2013**	**2014**	**2013/12**	**2014/13**
Austria	8.8	8.3	8.7	9.2	8.9	9.3	10.6	0.4	1.3
Belgium	22.4	18.7	19.8	23.7	18.8	23.3	26.3	4.5	3
Bulgaria	23.2	26.6	28.1	28.4	31.4	29.5	:	-1.9	:
France	22.8	22.0	24.6	24.8	23.1	25.4	:	2.3	:
Germany	9.9	8.6	8.1	7.9	8	7.8	:	-0.2	:
Denmark	14.0	14.2	14.1	13	15.5	13.5	14	-2	0.5
EU-28	20.9	21.3	23	23.4	23	24.2	:	1.2	:
EA-17	20.6	20.7	22.3	23.9	22.7	24.7	:	2	:
Greece	32.9	44.4	55.3	58.6	52.7	60	56.7	7.3	-3.3
Estonia	32.9	22.3	20.9	18.7	23.1	23	17.4	-0.1	-5.6
United Kingdom	19.6	21.1	21	20.5	21.4	20.1	18.2	-1.3	-1.9
Ireland	27.8	29.1	30.4	26.8	29.7	26.7	25.3	-3	-1.4
Spain	41.6	46.4	53.2	55.7	51.7	56.9	55.5	5.2	-1.4
Italy	27.8	29.1	35.3	40	35.9	41.9	46	6	4.1
Cyprus	16.7	22.4	27.8	38.9	26.7	37.5	:	10.8	:
Latvia	34.5	31.0	28.4	23.2	29.8	22.9	18.2	-6.9	-4.7
Lithuania	35.1	32.9	26.4	21.9	28.7	22.7	21.2	-6	-1.5
Luxembourg	14.2	16.8	18	17.4	22.7	19.6	:	-3.1	:
Malta	13.0	13.7	14.2	13.5	13.7	11.8	14.3	-1.9	2.5
Netherlands	8.7	7.6	9.5	11	9.9	11.1	12	1.2	0.9
Hungary	26.6	26.1	28.1	27.2	27.8	30.5	:	2.7	:
Poland	23.7	25.8	26.5	27.3	27.7	29.2	:	1.5	:
Portugal	22.4	30.1	37.7	37.7	36.2	42.1	37.5	5.9	-4.6
Romania	22.1	23.7	22.7	23.6	23.9	23.8	:	-0.1	:
Slovakia	33.6	33.2	34	33.7	33.7	34.4	:	0.7	:
Slovenia	14.7	15.7	20.6	21.6	18.9	23.3	23.9	4.4	0.6
Sweden	25.2	22.9	23.7	23.4	24.8	26.6	:	1.8	:
Czech Republic	18.3	18.0	19.5	18.9	19.4	19.2	:	-0.2	:
Finland	21.4	20.1	19	19.9	21.7	22.4	:	0.7	:
Croatia	32.6	36.1	43	49.8	45.1	59	:	13.9	: