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The Foundation for 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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FOREWORD

This is the fourth IOBE bulletin on the Greek economy for 2015. It was prepared amidst the first review of the new programme, with critical reforms (e.g. of the social security system) still pending and before the much-anticipated negotiations over a new round of public debt restructuring after the completion of the first review. As all IOBE quarterly bulletins, this report contains **four chapters** and an **appendix** with key structural indicators. The bulletin starts with a position paper on the challenges and prospects for economic policy in the current year. The rest of the report is structured as follows:

The **first chapter** presents a **brief overview** of the report. **Chapter two** examines the general economic conditions, including a) an analysis of the **global economic environment** in the third quarter and the rest of 2015, together with early 2016, based mostly on the latest IMF report and data from other international organisations; b) an outline of the **economic climate** in Greece in the final quarter of 2015 and the year overall, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in 2015 and of the national accounting data for the General Government in the first nine months of the year.

Chapter three focuses on the performance of the Greek economy in the third quarter of 2015 and the first few months of the following quarter and presents the outlook for 2016. It includes an analysis of the current **macroeconomic environment** and its trends in the current year; the **developments in key production sectors** in the third quarter of 2015 and in the following months, depending on data availability; the **export performance** of the Greek economy in the first ten months of 2015; the developments in the **labour market** in the third quarter; the trends of **inflation** in 2015 overall; and, finally, the trends in the **balance of payments** from January through October 2015.

Chapter 4 presents a study of IOBE on digital payments and their potential contribution to the effort to boost tax revenues in Greece.

The report is based on data that were available up to 15/1/2016. IOBE's next quarterly bulletin on the Greek economy will be published in mid-April of 2016.

CHALLENGES AND EXPECTATIONS

According to the latest available data, a recession of about 0.5% is expected in 2015. Regardless of its exact rate, the recession is significantly weaker than originally anticipated with the introduction of the capital controls. That said, the recession returned after a year of, albeit weak, growth in 2014, refuting the predictions of stronger growth in 2015. It is worth mentioning the main contributing factors that brought about this result.

One of the central elements of this result was the fact that the economy had already developed a significant momentum from 2014 which gradually weakened, to be depleted during the dramatic events of the previous year. Meanwhile, we experienced the positive effect of certain market reforms implemented in the preceding three years, which seem to be contributing to a slight decrease in the unemployment rate as well as to the growth of exports, which is notable albeit insufficient in itself to create an overall output growth dynamic. Positive developments in tourism, energy costs and exchange rates also contributed constructively to a containment of the recession, primarily through an improvement in the external balance.

However, the most important point to make is that the bank holiday and the imposition of capital controls had been anticipated, to an extent, as the result of months of intense uncertainty. During that period, households and firms gradually prepared for possible negative consequences and, as a result, the impact of the restriction that was later placed on their ability to finance their spending and production activities was limited. In particular, whilst uncertainty and bank closures deterred investment during the previous year, the liquidity to which households had access, due to their preventative withdrawals and, to a lesser extent, the belated collection of certain taxes, kept consumption levels relatively high.

Undoubtedly, the importance of the dramatic political and economic developments which took place during the year should not be underestimated. After a brief period of recovery, the economy fell back in recession, while the banking system was destabilised, as the uncertainty regarding the uninterrupted funding of the economy and its outlook reached extreme levels. The capital controls had, and will continue to have, a significant and negative impact on the economy as a whole during the current year and in the medium term. The lifting of these controls is yet another difficult aspect of the desired exit from the crisis though it should be clear by now that such an exit is only feasible through an overall transition of the Greek economy to a new state of equilibrium and credibility.

The year 2016 will most probably be characterised by an array of effects, most of which have already begun since 2015. The first of these is that the economy entered 2016 with a renewed depth of the recession; its momentum is expected to carry over to the first half of the year. The speed with which the pending negotiations with the lenders will be resolved is a pivotal point - it is vital that this takes place as soon as possible. The second effect will be created by the pressure on household disposable income and the restriction on their consumption possibilities as a result of increases in taxation, social security contributions and loan repayments. Meanwhile, the savings which were withdrawn from the banks prior to the implementation of the controls are gradually being depleted. Overall, it is reasonable to anticipate a small reduction in consumption.

External effects are expected to slightly improve the trade balance during the year. The low cost of energy is expected to have a positive impact and there is a dynamic of relative improvement in tourism. The improvement which has been observed in the exports of goods may well continue, as part of the production will inevitably be directed to markets outside of Greece in search of profitability. However, the instability on a European and international level is heightened and the relevant risks are growing. For the current year, investment is expected to be the weakest link in the GDP equation, yet again. It has been repeatedly stated that there can be no growth without establishing the conditions for a strong wave of investment. The prolonged uncertainty with regards to the medium-term course of the economy, the banks' inability to contribute with significant funding and the economy being under supervision, without an exit plan that can be followed reliably and with cohesion, do not create fertile ground for investment. The faster and more comprehensively these obstacles are removed, the likelier it will be that the economy may enter a period of growth. At the moment, and if no positive or negative shocks are experienced, the combination of factors which impact output is going to produce a recession during the current year, which may well last the entire year and be slightly worse than in the previous year.

In any case, since the recession has returned, the questions of if, when and how the economy will reach a steady state that would allow for the recovery of the income lost cumulatively since 2008, as well as for the creation of jobs, become all the more pertinent. For yet another year, the economy is in search of a direction. The lack of a reliable plan is deterring medium- and long-term investment and innovation as well as complicating the reform efforts and productivity growth, which are the only way to a viable and sustainable increase in income. In every economy, the current decisions are strongly based on expectations concerning a future steady state. The economic policy should prioritise the alignment and strengthening of these expectations towards a clear path of growth and should avoid handling individual issues in a way that may generate confusion as per the ultimate objective.

Overall for the Greek economy, issues such as growth through investment, the decisive reallocation of resources to export-oriented production activities and the easing of limitations that keep the economy excessively regulated, are as vital today as they were at the beginning of the crisis. However, it is evident that during the dramatic developments of last year, a gradual but critically important awareness was born in society as a whole, of the fact that an increase in income levels is closely intertwined with the convergence of our economy's production structure with the economies of the more developed European countries. It was proven in practice that there are no alternative solutions which promise prosperity and an exit from the crisis through short-term, tactical moves, without a decisive transformation of the economy.

The available options are finally becoming clear. Only when the characteristics the economy should have in a decade from now become evident, and when the relevant growth plan has widespread and stable political and social support, will there be an exit from the crisis. All individual decisions should, therefore, contribute to this effort. Regarding the social security reforms, indicatively, the dependency of pensions on the contributions of each insured individual during their working years, beyond a state-guaranteed level for all, is a step on the right path. However, it is wrong to postpone the solution to the problem and to further burden the new generations and the currently employed. As far as taxation is concerned, the good use of digital payments and the widening of the tax base to include those who hitherto did not pay that which was attributable to them are smart moves. On the other hand, not having stability, simplicity and transparency of the tax system as well as to burden those who consistently pay their taxes, are grave mistakes. The significant improvement of the institutional framework, with a reinforced independence and increased efficiency of public administration, the justice system and the regulatory agencies, is a pivotal point for which there should be no backtracking since its impact on investment and the rest of the economy is immediate. As far as human capital and innovation are concerned, two indispensable factors for competitiveness and income growth, any proposals that condemn the system of education to further decline and permanent underdevelopment should not even be discussed. With reference to public debt, the need for low servicing cost over a longer than the current period should be emphasised, since the nominal value of payments which will be made in the future is of a lesser significance. On the whole, a shift of the expectations to a credible positive path will find an immediate effect in the appraisal of values in the country, including government bonds, shares, businesses and real estate, which is a necessary intermediary condition for strong growth.

Therefore, whether the economy will remain in a prolonged period of stagnation, being at the same time vulnerable to external disruptions and threats, or take a growth path, critically depends on the reliability of economic policy and the decisiveness of the growth turn. Choices concerning individual economic policy areas should not deviate from or doubt the central policy target.

1. BRIEF OVERVIEW - CONCLUSIONS

Growth slowdown of the world economy in 2015

The growth rate of the world economic activity marginally declined in the third quarter of 2015. This development confirms the revision of the global output growth rate in early autumn when the forecasts were reduced slightly from the spring of 2015 to about 3.0%. In the Euro area, the GDP growth rate did not strengthen in the third quarter, for the first time since the second quarter of 2014 (1.9%). A slight slowdown was recorded in the US economy; nevertheless, the growth rate remained above 2.0%. In contrast, the Japanese economy accelerated notably. Regarding the developing economies, the Chinese economy slowed down stronger than anticipated. The contraction deepened sharply in Brazil and Russia, reaching 5.0% in both countries.

In the final quarter of 2015, the major economies are anticipated to have kept the momentum gained in the preceding quarters while the growth of the developing economies weakened further. The lack of prospects for oil production cuts in the near future, mainly by OPEC, led to a new phase of oil price decline, exerting sharp pressures on the public finances and trade balances of oil producing countries. As these countries were not prepared for such losses in their exports, their domestic demand also declined sharply, with a negative impact on the financial results of the companies active in these countries. In contrast, the developed economies continued to benefit from the fall in the oil price. Still, the growth of their demand is not equivalent to the price decline, perhaps reflecting the impact of the recent crisis on the available liquidity for companies and households. The expansionary monetary policy, particularly in the Euro area and in Japan, is boosting their growth. Taking the above trends into account, **the estimate of the previous quarterly report for GDP growth in the developed economies by 2.0% in 2015, slightly stronger than in 2014 (+1.8%), remains unchanged. In contrast, the corresponding forecast for the developing economies is revised slightly down to 4.2% (from 4.6% in 2014). Subsequently, the growth of world economic activity in 2015 did not exceed 3.0%, a possibility that was not precluded three months ago, compared with 3.4% growth in 2014.**

Relapse of the Greek economy to recession in the third quarter of 2015

The GDP of the Greek economy contracted, year on year, in the third quarter, for the first time since the start of 2014, by 1.1%, according to the latest data from ELSTAT. GDP had grown by 1.2% in the corresponding quarter of the previous year. Nevertheless, **output did not decline in the first nine months of the year overall, recording a marginal increase (+0.1%), compared with a growth of 0.6% in the same period of 2014.**

The culmination of anxiety following the referendum announcement on the outcome of the negotiations with the lenders and more broadly on the future of Greece and the impact of the capital controls led to a comeback of the recession in the Greek economy, coming from the negative effects of these developments on investment and the exports of services and primarily transport. The acute uncertainty prevented the reduction of household consumption expenditure, while the impact of the capital controls was more pronounced on the import side of the trade balance, limiting the deterioration of the external sector account. Nevertheless, the GDP decline in the third quarter was much weaker than anticipated, which most likely comes from the possibility that a significant part of the households and the enterprises had anticipated the imposition of capital controls and thus had partly prepared for such a likelihood (e.g. with the extensive withdrawal of deposits from the banks). Moreover, there were no knee-jerk social reactions.

In greater detail, regarding the trends in the GDP components in the first nine months of 2015, **domestic consumption increased by 0.6%** compared with the same period of 2014, when it had grown by just 0.2%. The rise of consumption expenditure came mainly from a steady growth in **household consumption**, slightly higher than in the previous year (+0.9% on average, against +0.6%). **Public consumption** also increased in two of the first three quarters of 2014, but its decline in the second quarter brought an overall marginal reduction in the first nine months of the year (-0.2%).

Regarding investment, the inversion of the trend from positive to negative in the second quarter, after continuous growth for a year, consolidated and intensified in the following quarter. As a result of the sharp decline in two of the first three quarters, **investment contracted by 11.6% in the first nine months of 2015, overcompensating for their growth by 2.2% in the same period of 2014.** The new significant decline of investment during the first nine months came mostly from a reduction in inventories (-€967 million) and to a lesser degree from lower fixed capital formation (-€212 million or -1.4%). Note that **despite the intense political uncertainty during the first half of the year, the enterprises did not reduce their fixed capital investment**. The unprecedented political developments that followed, however, harmed vitally their investment disposition (-€991 million in the third quarter).

In the external sector of the economy, **exports decreased in the first nine months of the year, for the first time in six years, by 2.5%, following their strong growth in the same period of 2014, by 6.4%.** Despite the growth of the exports of goods throughout this period (albeit at a weakening rate) and the marginal increase in the exports of services during the first half of 2015, the sharp drop in the exports of services during the summer months (-25%), coming from the slump in export of transport services, led to an overall decline in exports in the first nine months.

Both the **imports** of goods and the imports of services had declined in the second quarter, but their contraction intensified sharply in the third (-20%). Subsequently, imports were lower by 5.0% in the first nine months, offsetting their growth by a similar margin in the preceding year (+5.1%). **As a result of the above trends in exports and imports, the deficit of the external balance (in national accounting terms) decreased by 37.3%, to €2.0 billion (1.4% of GDP), compared with a deficit of €3.2 billion (3.6%) in the same period of 2014.**

Stronger recession in the final quarter of 2015 – Small GDP decline overall in 2015

The 11th August 2015 agreement with the official lenders on a new programme and the re-election of the coalition that signed the agreement in the elections that followed have shaped the politico-economic developments ever since. The negotiations with the official lenders of the Greek state and the policy actions to implement the new programme dominated the scene. While some of the prior actions for the review were implemented, some are still pending, with the most important concerning the new reform of the social security system.

The implementation of the new programme, initially with the adoption of implementation measures and reforms considered prior actions, facilitated the regular financing of the Greek state and the servicing of public debt, pushing away the threat of debt moratorium and easing the intense uncertainty of the past spring on the outlook of Greece. On the other hand, the adoption of further fiscal measures (reduction of auxiliary pensions, VAT hike) affects to a greater degree, for the time-being, the real disposable income of the households. The recent changes in the regime of borrower protection (included as prior actions) had most likely an impact on the relevant households in the last two months of the year and will affect their decisions in 2016.

Regarding the level of liquidity in the Greek economy, the unimpeded recapitalisation of the banks (with capital needs determined by the ECB stress test in past October at a level notably below the maximum envisaged in the Euro Summit of July) eliminates the concern over their capital adequacy. However, according to the latest data from the Bank of Greece, no return of deposits was observed between July and November, as the total deposits of the private sector increased by only €70 million during that period. With the deposits stabilised at very low levels, the banking institutions limited further the supply of credit to the private sector of the economy during the evaluation of their capital needs and the subsequent recapitalisation. The rate of credit contraction to non-financial corporations increased notably to 6.3% on average between August and November, from 2.0% in the second quarter. Meanwhile, the contraction rate of the credit to individuals and non-profit institutions remained relatively unchanged at slightly above 3.0% during that period. Evidently, the low rate of new corporate lending will have an impact on business investment in late 2015.

The deepening contraction of building activity will also limit investment. Building works declined notably, both in terms of volume (-25.3%) and surface (-21.7%) in August through October. Apart from the credit scarcity, the announced adjustment of the fair market values of real estate properties dampened building activity.

The strong acceleration of the Public Investment Programme (PIP) will limit the fall of investment during that period. About 66% of the payments for 2015 (or €4.24 billion) were disbursed in the final quarter of the year. The back-loaded implementation of the PIP will have an impact on investment in the current year.

Primary expenditure overall in the public sector increased year on year by 7.8% since the normalisation of the financing of the state from September through November, in contrast to the strong year-on-year contraction recorded in the preceding months. The increase came, inter alia, from expenditure categorised as public consumption, which is expected to affect its trend in the final quarter of 2015.

In the external sector of the economy, the decisive influence of the capital controls during the third quarter of 2015 on both imports and exports is expected to have remained strong until the end of the year. According to the latest data from the Bank of Greece, the reduction of the exports of goods and services strengthened in October. A contraction was observed in all key categories of goods, even in the exports excluding ships and fuel. The downward trend in the exports of goods except ships – fuels carried over to November, based on the preliminary data on foreign trade of ELSTAT. The contraction was stronger among the exports of services, due to the sharp drop in transport services, while tourism receipts slightly declined as well. Regarding **imports,** the contraction slightly weakened due to the slight relaxation of the capital controls (e.g. up to €500 per month can be transferred abroad without any justification), remaining, however, stronger than the decline in exports.

Taking into account the above politico-economic developments and the trends in the short-term indicators in the forecasts for the final quarter of 2015 and the year overall, the fiscal measures taken as part of the new programme (VAT increase, pension cuts), together with the steady deterioration of consumer confidence (due to other planned or executed policy measures, such as the social security reform, the borrower protection regime, etc.) **are estimated to have led to a reduction in the consumption expenditure of the private sector in the final quarter of 2015. However, due to its growth in the preceding quarters, the consumption expenditure of the**

households for 2015 overall marginally increased, by about 0.4%, less than in the preceding year (0.7%).

On the side of domestic consumption expenditure by the public sector, the increase in the consumption expenses (e.g. remuneration), as part of an overall growth in primary public spending since September, most likely boosted the growth of **public consumption** in the final quarter of the year. Their low level in the last quarter of 2014 would boost their year-on-year growth as well. **The high public consumption in late 2015 will offset its decrease from the second quarter, resulting in a slight increase by 0.5% (or a bit more) year on year.**

The liquidity crunch due to the capital controls and the bank recapitalisation process (eased somewhat by acceleration of the Public Investment Programme), and mainly the anticipation for political decisions on issues with direct impact on investment returns (e.g. employer contribution rates to the social security system) and more broadly the progress in the implementation of the new programme, inhibited **investment** in the final months of the previous year, boosting their strong contraction already from the second quarter. **Overall in the previous year, investment is expected to have reached about €20 billion (in constant prices), recording a decline by about 12.5%, following their growth by 9.8% in the preceding year.**

In the **external sector of the economy**, the fall of the exports of goods intensified in the final quarter from the decline of the exports of goods other than petroleum products and ships, for the first time in that year. The sharp fall in transport services reduced the exports of services, despite the extended tourist period. A base effect from high levels in the preceding year will exacerbate the contraction in both components of exports in the final quarter of 2015. **In the aftermath of a strong contraction in the third quarter, exports declined in 2015, for the first time since 2010, by 4.5-5%, compared with a growth by 7.5% in 2014.**

Regarding **imports,** the sharp drop after the imposition of capital controls eased in the final quarter of 2015 with the relaxation of the capital controls. Nevertheless, the fall of consumption demand and mainly of investment in late 2015, together with a negative base effect from their strong growth in the same period of the preceding year, will keep the contraction rate of imports high. **In 2015 overall, imports are anticipated to have declined by 7-7.5%, at a similar rate with their growth in 2014 (+7.8%).**

Regardless of the trends in the GDP components in the final quarter of 2015, the significantly milder than anticipated GDP decline after the imposition of the capital controls (reflecting the fact that it was largely anticipated by a significant part of the enterprises and the households) eased their contractionary impact on the Greek economy. **Taking into account the relatively small reduction of GDP in the third quarter of 2015, the contraction**

of the Greek economy will be notably less pronounced than initially anticipated after the imposition of the capital controls. In particular, GDP is expected to have declined by 0.5% in 2015.

Deeper recession in 2016, due to further fiscal consolidation and uncertainty about the negotiation rounds

As already anticipated, the implementation of the third Economic Adjustment Programme will take the centre stage of the domestic politico-economic events in the current year. The reforms (social security, tax system, markets) are considered the most critical and decisive aspect of the programme with respect to the developments that will take place in the country. The breadth of the forthcoming and announced interventions will affect the large majority of economic units, both households and enterprises.

Despite the fact that certain features of the new public debt intervention after the completion of the current review have been set in the Euro Summit statement of 12 July 2015 (extension of the grace and maturity periods), the negotiations that will ensue will have a fundamental effect on the implementation of the Programme in the current year. Different approaches to securing public debt sustainability are expected to emerge once more, causing delays and heightening the uncertainty in Greece and abroad on the outcome of the negotiations.

The activity of the banking system after the new recapitalisation will be one of the key parameters that will determine the trends in the Greek economy in 2016. In early 2016, the capital controls remained significant, while the new measures will limit further the household disposable income and the business capital, making the need for drawing liquidity, which after five and a half years of fiscal consolidation is already quite pressing, even more acute.

International developments, such as the geopolitical turmoil in the Middle East, will have a stronger impact on the domestic economic outlook, compared with the past.

In greater detail, apart from the fiscal measures adopted in the second half of 2015, the decisions of the households will be affected by forthcoming changes in the social security system and income taxation, recent changes in the borrower protection regime and potential revisions of property taxation (real estate and vehicles). Since July and until the end of 2015, the household expectations, as revealed in the consumer confidence indicator of the European Commission, reached their lowest level in two years, reflecting their concern and standby stance with respect to the measures and the reforms.

Following its recapitalisation, the banking system can gradually contribute to the revival of the economy. Its actions will depend on the implementation progress of the programme, which will steady the financing of the Greek state, lifting the unprecedented liquidity crunch experienced in 2015. A relatively unimpeded implementation of the new programme, together with the new public debt intervention, could reinstate the acceptability of the Greek sovereign bonds held by the banks as collateral by the European Central Bank (ECB) for the provision of liquidity. It could also lead to a return of the deposits withdrawn from the banking system since December 2014 and at a later stage to make the access to the quantitative easing programme of ECB feasible. These developments would strengthen the ability of the banking system to provide credit and will speed the lifting of the capital controls.

Provided that the third programme is implemented without major setbacks, the execution of the slightly expanded (year on year) Public Investment Programme (+€350 million, to €6.75 billion) will most probably be more front-loaded than in the previous year, boosting investment. The liquidity of businesses in 2016 will also improve, albeit to a lesser degree, by the halt of the growth of arrears and acceleration of their repayment.

The restart of the programme of privatisation – utilisation of state-owned private property could provide a further boost to investment activity. However, the planned for this year activities of the Hellenic Republic Asset Development Fund (HRADF), even if fully executed, will lead to the implementation of investment projects mostly from 2017. In addition, the establishment of a new, independent fund for the development of state-owned assets might lead to a temporary interruption of the privatisation programme.

However, the potential investors will discount in their decisions not only the increased resources and the investment possibilities coming from the concessions and the privatisations but other factors as well that affect the return on their investment. Indicatively, these factors include: i) the stability of the Greek economy in the medium and long term, which depends on the prospects for further fiscal consolidation, ii) the characteristics and the stability of the tax system, after its forthcoming restructuring, iii) the emphasis in the implementation of the programme of structural changes in sectors and professions, and iv) exogenous factors, such as the energy cost, the geopolitical conditions in the wider area and the economic recovery in the Euro area.

To sum up the expected trends in key GDP components for the current year, the contraction of **private consumption** that started in late 2015 will carry over and intensify in the current year, from the full-year impact of the measures adopted in the past autumn and from likely new measures that will reduce disposable income (pension cuts, changes in income taxation). The restart of the fiscal consolidation process will curb **public consumption**. Regarding **investment**, the possibilities of drawing liquidity will improve after the recapitalisation of the banks and the normalisation of the PIP execution. Nevertheless, the revitalisation of the investment climate will depend on the effective implementation of the new agreement, and mainly of the structural changes that it contains, together with the coming changes in the social security system and the direct taxation. The forthcoming amendments in the fair market values of property and the changes in property taxation will inhibit economic activity, at least until the draft legislation is finalised. **Exports** will grow at a low rate, due to the likely gradual relaxation of the capital controls, the ease of the contractionary pressures from the petroleum products and the strengthening of growth in significant export destinations for Greece. As private consumption and investment will weaken further, **imports** will decline, despite the fact that their extensive contraction in the second half of 2015 was due to the capital controls, implying that the demand for imports has rolled over to the future after the capital controls are largely lifted. **Taking into account the above trends in the GDP components in 2016, output is expected to decline by 1.5%.**

The execution of the State Budget is on track to meet its targets, partly due to growth in arrears

As stressed in the previous report on the Greek economy, the achievement of the revised targets of the Draft 2016 Budget required significant effort, both on the revenue and on the expenditure sides. According to the **preliminary data on the execution of the State Budget** for 2015, **the revenues were short of the target** set in the preamble of the 2016 Budget **by €1.67 billion.** However, expenditure overshot its target by **€713 million.** As a result, **the primary balance of the State Budget** was positive at €2.27 billion, against an estimate of €3.26 billion in the preamble of the budget, **performing worse than expected by €990 million. The State Budget deficit was similarly short of the target**, as it reached €3.53 billion.

As the first review of the new programme lasts longer than initially anticipated, the budget revenues declined from **failure to collect proceedings from holdings of Hellenic Republic bonds** in the portfolios of the central banks of the Eurosystem (ANFA's and SMP's) of about €3.59 billion, which were taken into account when the revenue target was set in the Draft 2016 Budget, without being taken initially into account in the 2015 Budget. On the other hand, the achieved expenditure restraint was largely due to **significant growth in arrears of the public sector**, which increased by €1.97 billion in the first eleven months of the year, to €5.01 billion.

According to the preliminary data for 2015, the **Ordinary Budget revenues before tax refunds also fell short of the target**, by €2.47 billion, despite the additional tax measures adopted in July and August (VAT hike, higher tax down-payment by companies, freelancers and farmers, higher luxury tax, etc.). The detailed data available until November and presented in this report reveal the sources of this shortfall.

Reduction of unemployment for a second consecutive year in 2015 – Higher unemployment in 2016

The hike in political uncertainty in the third quarter of 2015 and the capital controls did not have a negative impact on the labour market, at least in the short-term. Nevertheless, the developments in the labour market come after those in output with a time lag of 2-3 quarters. **Unemployment reached 24.0% during the third quarter of 2015, 1.5 percentage down year on year.** As a result of its steady decline throughout the first nine months, unemployment stood at 25.1% on average for that period, compared to 26.6% in the same period of 2014. The additional decline of unemployment during the summer came, as in the preceding quarters, from year-on-year growth of employment in Wholesale-Retail Trade-Repair of Motor Vehicles and Motorcycles (+46,500 people) and Tourism (+28,000), but also – for the first time – from Manufacturing (+31,100).

The contractionary impact of employment in Tourism will continue for most of the final quarter of 2015. Its decline due to the fall of activity in this sector is likely to be notably weaker compared with the same period of 2014, as the tourist flows remained relatively strong until the final months of the year in the previous year as well. In addition, only a part of the job creation in Industry and Retail – Wholesale Trade will remain, as the boost of industrial production seems only transitory while the volume index of retail trade kept decreasing slightly during the same period. The new strong decline in construction activity will affect employment in Construction. Therefore, **unemployment is expected to have increased in the final quarter of 2015, slightly weaker than in the past, to reach about 25% for the year total, one and a half percentage points lower than in 2014.**

The contraction of the Greek economy in the current year, mainly from the weakening of the domestic consumption demand, will interrupt the fall of unemployment. Employment in sectors and activities producing products and services for the final consumers, such as Retail Trade and Food Services and in other branches of services with a decisive impact on employment growth in 2014-2015, will decline in the current year. Particularly in Tourism, given that a new significant increase of output is not anticipated in 2016, the strong job creation observed in the past few years is not expected to carry over to the current year. Nevertheless, the significant increase from these years will be absorbed. In Construction, a boost is expected in employment in public works, which will moderate the further decline in building activity. **Taking into account the above effects on employment during the current year, their overall negative impact is expected to bring a further increase in unemployment in 2016 to about 25.5%.**

Easing of deflation in late 2015 from the hike in VAT – Slight inflation in the current year

The deflation eased in the final quarter of 2015 to 0.6%. The slowdown in deflation reflects the impact of the VAT hike on prices. Besides, the largest price increase was recorded in the categories of goods and services most affected by this measure – Food - Non-Alcoholic Beverages, Tobacco - Alcoholic Beverages and Hotels-Cafes-Restaurants. In contrast, the new drop in the global oil price since the autumn preserved the strong price deflation in Housing and Transport, preventing further easing of the deflation. **Overall in 2015, the rate of price reduction reached 1.7%, from 1.3% in 2014, an unprecedented deflation rate at least since 1960.**

The limiting impact of the VAT hike on deflation from the second half of 2015 is expected to carry over to 2016, at least until the completion of a full year since the start of the measure's implementation. On the other hand, the decline in disposable income due to the fiscal measures already included in the new Economic Adjustment Programme and any new such measures (e.g. further pension cuts, a hike in social security contributions, changes in income taxation), will limit any inflationary pressures. The new decline in the oil price will also prevent a significant price increase; nevertheless, as the price decline will be less pronounced due also to the high taxation on fuels, its impact will not be as strong as in 2015. Therefore, **prices are expected to increase in the current year, after three years of uninterrupted deflation, with the inflation rate expected in the range of 0.5%-1%.**

Special Study: «Digital payments and boosting tax revenues in Greece»

The objective to increase tax revenues by curbing tax evasion and by reducing the size of the shadow economy plays a key role in the effort to rationalise public finances and to bring the Greek economy back on a growth path. One of the available instruments for limiting the shadow economy is the use of electronic means for carrying out payments. The use of Electronic Means of Payment (EMP) in a transaction implies that the transaction is recorded in the information systems of the banks, facilitating the tax audit of both transactions and incomes. Therefore, a wider use of these payments could contribute substantially to the reduction of the shadow economy, the growth of tax revenues and ultimately to the genuine and sustainable recovery of the Greek economy. The aim of the study is to investigate the role of digital payments in curbing the shadow economy and boosting tax revenues in Greece. The study also attempts to quantify the impact on tax revenues from adopting incentives for the use of digital payments.

2. ECONOMIC ENVIRONMENT

2.1 Trends and prospects of the global economy

The global environment

World economic activity increased by 2.1% year on year in the third quarter of 2015 (based on data for all OECD member countries) against 2.2% in the second quarter. Recent IMF estimates of global growth in 2015 overall place it at 3.1%. This forecast is less favourable than the one made for the same year in July, by 0.2 percentage points, primarily as a result of predictions of reduced growth in emerging and developing economies and of a weaker recovery of the developed economies. Indicatively, note that the economies of the G7 countries grew year on year by 1.7% in the third quarter of 2015, against a greater increase (2.0%) in the second quarter of the year.

Regarding 2016, an acceleration of world trade growth to 3.6% is expected. This favourable prospect is due, in part, to the continued recovery of developed economies, in combination with the further strengthening of emerging and developing economies. In greater detail, the growth of countries that experienced pressure on their economic activity last year, such as Brazil and Russia which experienced recessions and economies in Latin America and the Middle East whose GDP increased only marginally, is expected to strengthen. Their recovery will counterbalance the slowdown in China's growth, to an extent.

The increased volatility of the financial markets, which occurred during the summer, continues to hinder the growth of the global economy, as do the reduction in the price of basic commodities and the downward pressure on the exchange rates of emerging economies. The influx of investment capital to emerging economies is declining whilst the increase in US interest rates above 0% will most probably deter further the external funding. Even though the slowdown of the Chinese economy is within the anticipated range, its consequences are greater than expected (reduction in the price of basic commodities, particularly of metals, and weak exports from emerging or developing economies linked with China).

In the Eurozone, the combined efforts of the ECB for quantitative easing and credit relief kept both the lending costs and yields low, eased the countries' credit constraints and limited the divergence amongst them. The lending to enterprises (excluding financial institutions) returned to positive growth rates. Apart from a return to a credit extension, domestic demand increased in most Eurozone countries as a result of the nominal increase of income and the positive impact of the reduced energy costs. In greater detail, regarding the economic activity of the world's major economies during the third quarter of 2015 and overall in 2015:

The GDP of the **US** economy increased by 2.2% year on year in the third quarter, against a growth of 2.7% in the second quarter of 2015. For 2015 as a whole, the growth rate is estimated at 2.6%, with further acceleration to 2.8% expected in 2016. The US economy's recovery is expected to continue, mainly supported by private consumption, investment and an increase in public spending. On the contrary, net exports will likely be negative since the dollar is appreciating and the external environment is worsening.

In **Japan**, the GDP increased year on year by 1.7% in the third quarter. A marginal increase of 0.6% is expected in 2015 and a slight acceleration to 1% in 2016. The moderate recovery of domestic demand and the worsening global economic climate restricted recovery last year to weak levels whilst it is estimated that growth in 2016 will depend on the achieved fiscal consolidation.

The GDP of **China** increased year on year by 6.9% during the third quarter of 2015. In 2015, China's GDP is expected to increase by 6.8% while its growth rate is expected to decline once again in 2016, down to 6.3%. The structural changes to the economy, with the aim of further development of services and an increase in consumption, are gradually taking place, supporting the continuation of growth at a fast, albeit milder than in the past, pace.

In the second quarter of 2015, **Russia's** recession deepened further as GDP shrunk by 4.5% year on year while data from the third quarter have not been published. Overall, it is estimated that in 2015 GDP will fall by 3.7%, greatly offsetting the mild recovery that took place the year before, while in 2016 the recession is expected to slow down to 0.5%. The deep recession in which Russia found itself is a result of the low cost of energy as well as of geopolitical tensions that have isolated the Russian economy. If structural issues of the economy, such as the exaggerated emphasis on the energy sector as a growth driver and the low investment rate, are resolved efficiently, economic activity should start growing again from 2017 onwards.

IFO's World Economic Climate index deteriorated significantly in the fourth quarter of 2015, as it reached only 89.6 units against 95.9 units in the previous quarter.

Table 2.1

Global Environment – IMF, World Economic Outlook

(Annual % change, in real values)

	2014	2015	2016
GDP			
U.S.A.	2.4	2.6	2.8
Japan	-0.1	0.6	1.0
Emerging Asia	6.8	6.5	6.4
of which China	7.3	6.8	6.3
India	7.3	7.3	7.5
AESEAN-5	4.6	4.6	4.9
Eurozone	0.9	1.5	1.6
Emerging and developing Europe	2.8	3.0	3.0
Commonwealth of Independent States (CIS)	1.0	-2.7	0.5
of which Russia	0.6	-3.8	-0.6
Middle East and North Africa	2.7	2.5	3.9
Latin America	1.3	-0.3	0.8
of which Brazil	0.1	-3.0	-1.0
Sub-saharan Africa	5.0	3.8	4.3
World economy	3.4	3.1	3.6
World Trade			
Volume of World Trade (goods and services)	3.3	3.3	4.1
Imports: Advanced Economies	3.4	4.0	4.2
Imports: Emerging and Developing Economies	3.6	1.3	4.4

Emerging 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, Mauritius, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia
Sub-Saharan Africa: Angola, Ethiopia, Ivory Coast, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Maurice, Botswana, Namibia, Nigeria, North Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad, etc.
Source: World Economic Outlook, IMF, October 2015

The index had not been so low since the fourth quarter of 2012. The assessment of the current economic situation worsened slightly whilst the expectations for the next 6 months fell drastically. The IFO's Index has, so far, not supported the stronger growth predicted by the IMF for 2016. The index indicates that a similar deterioration is occurring across the major economic regions globally, with the strongest decline taking place in Asia. Analytically, in **Europe**, the Economic Climate index reached 113.6 points in the fourth quarter of 2015, lower by 2.8 points compared to the previous quarter, albeit remaining higher than the average of the last 15 years. In **North America**, the index showed a decline of 5 points in the fourth quarter of 2015, down to 91.2 points, converging to the 15-year average of 90.7. In **Asia**, the index fell to 75.4 points, a value that is significantly lower than the 15-year average, recording a strong decline of 12.3 points.

Table 2.2

IFO – World economic climate index (Indexes, 2005=100)

Quarter/Year	IV/13	I/14	II/14	III/14	IV/14	I/15	II/15	III/15	IV/15
Economic climate	98.6	103.2	102.3	105.0	95.0	95.9	99.5	95.9	89.6
Assessment of current sit-	84.1	91.6	91.6	95.3	91.6	91.6	95.3	87.9	86.0
Expectations	112.3	114.0	112.3	114.0	98.2	100.0	103.5	103.5	93.0

Source: IFO, World Economic Survey, WES No. 04/ November 2015

Table 2.3

IFO – Economic climate index per economic region (Index, 2005=100)

Quarter/Year	III/13	IV/13	I/ 14	II/14	III/14	IV/14	I/15	II/15	III/15	IV/15
North America	93.7	88.7	102.1	107.1	110.5	101.3	107.1	97.9	96.2	91.2
Europe	99.0	109.7	116.5	118.4	117.5	101.0	108.7	120.4	116.4	113.6
Asia	89.5	98.2	97.4	89.5	99.1	93.9	90.4	93.0	87.7	75.4

Source: IFO, World Economic Survey, WES No. 04/ November 2015

The EU and Eurozone Economies

The gradual recovery of the Eurozone continued during the third quarter of 2015, as GDP increased by 1.6% year on year, against a growth of 1.5% in the second quarter. Similar trends are taking place in the European Union, with GDP increasing year on year by 1.9% in the third quarter of 2015, as much as in the previous quarter. Overall, the recent estimates for 2015 by the European Commission and the IMF agree on growth in the economy of the Eurozone by 1.6%. The output growth for 2015 is expected to be slightly greater in the EU (1.9%).

Even though the factors that aid the recovery of the economy, such as low energy costs, competitive exchange rates and beneficial fiscal policy, maintained their influence for a third year, the growth rate is still weak, while the influence of these factors is expected to gradually wear out. In the future, growth is expected, in part, to come about as a result of structural changes which will be implemented by the individual economies. Furthermore, public spending is expected to increase in an effort to deal with the refugee crisis, which has already become a major issue.

Of the 26 member countries of the EU for which there is available data, the majority (24 countries) had positive GDP growth rates in the third quarter of 2015. Analytically, the countries that had the highest growth rates were Malta (5.6%), the Czech Republic (4.5%), Sweden (3.9%), Poland (3.7%), Romania (3.6%) and Slovakia (3.6%). On the other hand, the only countries that had a recession in the same time period were Greece (-1.1%) and Finland (-0.2%).

A more detailed analysis of the recent trajectory of the basic GDP components of the Eurozone and the EU, unemployment and public finance, as well as of their trend in the foreseeable future, is provided next.

In particular, according to data from Eurostat, the exports of goods and services increased by 4.4% in the third quarter of 2015, both in the Eurozone and in the EU. On the other end of the trade balance, imports increased by a slightly larger rate (4.9%) in both regions. Generally, net exports continue to play a minor role in the growth of the European economy in the third quarter of 2015. For 2015 overall, the latest predictions by the European Commission estimate an increase of exports by 5.2% and 4.8% in the Eurozone and EU, respectively, while in 2016 exports are expected to slow down to 4.3% in both European regions. This development will come about as a result of the currency depreciation in emerging economies that export basic commodities, which will boost competitiveness in those countries and thus hurt exports from firms within the Eurozone. Imports are expected to experience a similar direction of change in 2016, albeit to a lesser extent, since their momentum continues to be supported by the reinforcement of domestic demand in the European economy.

Investment, in the third quarter of 2015, increased by 2.2% in the Eurozone and by 2.7% in the EU. The slight reinforcement of investment constitutes a key driver of the steady recovery that we are witnessing. Overall in 2015, it is estimated that investment increased by 2.3% in the Eurozone and 2.9% in the EU. The weak investment growth reflects, to an extent, the high capital leverage, the limited access to cheap, external funding and the restriction of external funding in the effort of companies to improve their financial ratios. However, it is expected that investment will increase further in 2016 by 3.0 and 3.5 percentage points in the Eurozone and the EU, respectively. The anticipated increase in investment in the construction sector over the next few years is expected to boost investment on the whole.

In the third quarter of 2015, private consumption increased by 1.7% and 2.1% in the Eurozone and the European Union, respectively. A recovery of similar amplitude is estimated to have occurred overall in 2015, by 1.7 percentage points in the Eurozone and 2.1 in the EU, while private consumption is expected to increase by similar rates in 2016 (1.7% and 2.0% in the EZ and the EU respectively). The mild and gradual increase in private consumption is steadily a key growth driver in the Eurozone, as a result primarily of improvements to the real disposable income, of the slight improvements in the labour market and of the reduced inflation.

Private consumption overall in 2015 had a stronger contribution to GDP growth, by about 1.0 percentage points in the Eurozone and 1.2 p.p. in the EU, while a marginally weaker contribution to GDP growth is expected in 2016 (0.9 and 1.2 p.p. respectively).

Similar trends dominated in the third quarter in **public consumption**, which increased by 1.6% in the Eurozone and 1.8% in the EU. Overall in 2015, however, public consumption had a small positive contribution to GDP growth, by about 0.2 percentage points in the Eurozone and 0.3 p.p. in the EU. The contribution to GDP growth in 2016 is expected to be similarly small (0.2 p.p. in both regions).

The conditions prevailing in **the labour market** continued to improve, slowly but steadily, as a result of the gradual acceleration of output growth. In particular, according to the forecasts of the European Commission for 2015 and 2016, employment is expected to grow by about 0.9%-1.0% in both European regions. As a result, unemployment is expected to have reached 11% in the Eurozone and 9.5% in the EU, falling slightly in 2016 to 10.6% and 9.2% in the Eurozone and the EU respectively.

Inflation is expected to have stood very close to zero overall in 2015 (at 0.1% in the Eurozone and 0.0% in the EU). The inflation rate is expected to slightly accelerate in 2016, to reach 1.0% in the Eurozone and 1.1% in the EU. The low oil price and the low producer prices internationally maintained to an extent the deflationary pressures. While the revitalisation of domestic demand creates the conditions for a price increase, the slowdown of growth in China and other emerging economies might lead to a growth of inventories of basic commodities, pushing further down producer prices and by extension retail prices.

Concerning public finances, the General Government deficit is expected to have reached 2.5% in the EU and 2.0% in the Eurozone in 2015, while for 2016 it is expected to decline further to 2.0% and 1.8%. This positive development reflects mainly the implementation of fiscal consolidation programmes, aimed to curb high deficits in quite a few member states of the EU periphery. The debt-to-GDP ratio is anticipated to have decreased in 2015, signalling the start of a steady decline in the coming years. In particular, it is estimated to have reached 94.0% and 87.8% of GDP in the Eurozone and the EU, while for 2016 the ratio is expected to reach 92.9% in the Eurozone and 87.1% in the EU.

The key leading indicators of economic climate and activity in the Eurozone and the EU improved in the past few months, in congruence with the slight strengthening of output growth and with the forecasts for acceleration of growth in 2016. Figure 2.1 shows the monthly variations of the €-COIN[1] index, a leading indicator of economic activity in the Euro area. In December 2015, the index reached its highest level since July 2011, at 0.45 points, recording an uninterrupted growth for the past three months. The recovery of the index, which implies that there would be a positive quarter-on-quarter growth in the following quarter, primarily came from stronger household consumption, better labour market conditions and growth of industrial production.

According to the European Commission, the Economic Sentiment Indicator followed a path of slight improvement in both the EU and the EA. In particular, the index increased by 0.7 points in the Euro area, to reach 106.8 points, while in the EU the index increased 1.4 points to 108.9 points. At branch level, the improvement of sentiment in Industry was only partly offset by a deterioration of expectations in Retail Trade, while the sentiment in Services, Construction and consumer confidence remained largely unchanged.

Table 2.4

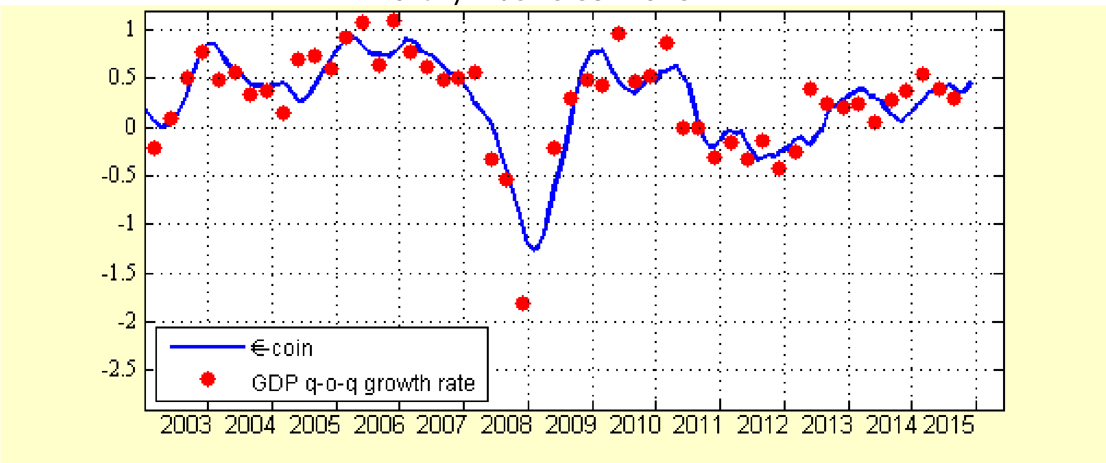
Key economic figures, EU, Euro area (annual % change unless otherwise noted)

	EU			Euro area		
	2015	2016	2017	2015	2016	2017
GDP	1.9	2.0	1.9	1.6	1.8	2.1
Private Consumption	2.1	2.0	1.8	1.7	1.7	1.5
Public Consumption	1.3	0.8	1.0	1.0	0.8	1.1
Investment	2.9	3.5	4.4	2.3	3.0	4.4
Employment	1.0	0.9	0.9	0.9	0.9	1.0
Unemployment (% labor force)	9.5	9.2	8.9	11.0	10.6	10.3
Inflation	0.0	1.1	1.6	0.1	1.0	1.6
Exports of goods and services	4.8	4.3	5.0	5.2	4.3	5.0
Imports of goods and services	5.0	4.9	5.5	5.4	4.8	5.7
Balance of General Government (% GDP)	-2.5	-2.0	-1.6	-2.0	-1.8	-1.5
Debt of General Government (% GDP)	87.8	87.1	85.8	94.0	92.9	91.3
Current Account (% GDP)	-0.1	0.2	0.5	0.4	0.5	0.8

Source: European Economic Forecast, autumn 2015, European Commission, November 2015

[1] The Centre of Economic Policy Research (CEPR) in co-operation 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.

Figure 2.1
Monthly Index €-COIN of CEPR



Πηγή: CEPR (www.cepr.org) and Bank of Italy

Table 2.5
European Commission – Economic Sentiment Indicator EU & Euro Area (1990-2015=100)*

Month	Jan-14	Feb-14	Mar-14	Apr-14	May-14	June-14	July-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
EU	105.0	105.0	105.6	106.4	106.6	106.6	106.0	104.8	103.7	104.2	104.1	104.2
Euro area	101.4	101.3	102.8	102.3	102.8	102.4	102.5	100.8	100.2	100.8	100.8	100.9

Month	Jan-15	Feb-15	Mar-15	Apr-15	May-15	June-15	July-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
EU	104.8	105.2	106.0	106.4	106.4	105.5	106.6	107.0	107.6	107.7	107.6	108.9
Euro area	101.5	102.3	103.9	103.8	103.8	103.5	104.0	104.1	105.6	106.1	106.1	106.8

* The country weights and the index time series of the EU were revised due to the entry of Croatia into the EU from 1 July 2013
Source: European Commission (DG ECFIN), December 2015

2.2 The Economic Environment in Greece

A) Economic Sentiment

The IOBE economic sentiment surveys offer significant indications on the developments of the economy in the past few months, from the perspective of both the enterprises and the consumers. In addition, the results of the surveys constitute leading indicators for various economic magnitudes and can be used to predict near-term developments and even the course of GDP. In greater detail:

The economic sentiment indicator improved quarter on quarter in the fourth quarter of 2015. The businesses and the consumers faced a post-election environment after September, determined at economic level by the new programme and agreement with the lenders, easing the uncertainty on the outlook of Greece that had peaked in June and July. The presence of capital controls seems to have been incorporated in the daily practice of households and businesses while the liquidity stocked by those who had the foresight to include the likelihood of capital controls in their expectations contained the contraction of economic activity. As the parameters of the programme are gradually clarified and as long as its implementation rolls on, we are in a process of adapting to the new circumstances. The new fiscal measures and mainly the recent and forthcoming changes (e.g. in social security, borrower protection regime, income taxation), which were not anticipated before the new programme, have intensified the concern of the economic agents (mainly of the households) regarding the changes that came or are expected to come soon. Meanwhile, the increased tax obligations during that period are largely discounted as, despite their height, they come repeatedly during the same period each year. Despite the improvement in the sentiment in the final quarter of the year, the expectations have stabilised at a level notably lower year on year. Overall in 2015, the sentiment in the country deteriorated significantly compared with 2014. In greater detail:

The economic sentiment indicator in Greece increased from October through December 2015 compared with the preceding quarter, as it fluctuated on average at 86.7 points (from 79.9 points). These values are substantially lower than the corresponding value of the preceding year (101.4 points on average). Overall in 2015, the sentiment in Greece deteriorated compared with 2014, with the annual average of the indicator falling to 88.7 (from 99.3) points.

In Europe, the corresponding index also reached slightly higher levels during the period under examination compared with the previous quarter in both the European Union and the Euro Area. In particular, the economic sentiment indicator totalled 106.3 points (from 104.6) in the Eurozone and 108 (from 107.1) points in the European Union, higher year on year as well in both regions. Overall in 2015, the European indicators increased by 2.7 and 1.4 points in the Euro area and the EU respectively (from 104.3 and 106.7 points in 2014).

At a sector level, the business expectations in Greece strengthened quarter on quarter in the final quarter of 2015 in all sectors, while consumer confidence declined marginally from an already low level recorded in the third quarter. Overall in 2015, business sentiment deteriorated notably in all sectors. Consumer confidence strengthened slightly, mainly due to the sharp drop of pessimism after the January elections. On a quarterly basis, the increase of the indicator in the final quarter of the year reached 11 points in Industry, 15 points in Construction, 8 points in Services and 17 points in Retail Trade.

Year on year, the indicator deteriorated notably across the board. In particular, the index for Industry and Retail Trade decreased by 12 and 13 points respectively, while the index for Services fell by 18 points. The largest slump in the value of the index was recorded in Construction, where the index fell by 21 points year on year. Regarding consumer confidence, the index fell year on year by 10 points. In greater detail:

The **consumer confidence** indicator in Greece totalled -61.6 points in the final quarter (from -60.6 points in the preceding quarter). The index was lower year on year (from -51.6 points). Overall in 2015, the index averaged -50.7 points, higher than in 2014 (-54 points). At the country level, the Greek consumers remained by far the most pessimistic in Europe. The corresponding values of the European indexes strengthened during the quarter under examination in both the Eurozone and the European Union. In particular, the index for the Eurozone totalled -6.4 (from -6.9 points), while the index for the European Union totalled -4.6 (from -4.9 points). These values were higher year on year as well (from -11.2 for the Eurozone and -7.6 for the European Union). Overall for 2015, the European indicators increased to -6.1 (from -10) and -4.1 (from -6.8) points in the Euro area and the EU respectively.

All the components of the index deteriorated quarter on quarter, except for the expectations of the Greek consumers on the financial situation of their household over the next 12 months, which marginally improved. The remaining components of the index - expectations about the economic situation in the country, unemployment expectations and the intent to save - deteriorated.

More specifically, the percentage of those who were pessimistic over their household's financial situation in the next 12 months increased on average during the quarter under investigation to 68% (from 66%), while 22% (from 17%) expressed optimism. Furthermore, the percentage of Greek consumers who held negative expectations over the economic situation of Greece surged to 77% (from 69%), whereas 7% (from 10%) projected a slight or considerable improvement in the situation. The percentage of households that declared being unlikely or not at all likely to save in the next 12 months increased to 85% on average (from 79%). Concerning the unemployment expectations, the share of those foreseeing a deterioration of unemployment increased slightly to 76% (from 74%) while once more 7% on average expressed the opposite opinion. The percentage of consumers who declared themselves to be "running into debt" increased to 15% (from 11% in the previous quarter and 15% in the same quarter of the previous year), while the percentage of respondents who declared to be saving little or a lot reached 9% (from 8%). Finally, the percentage of those declaring that "they were just managing to make ends meet on their income" declined to 63% (from 69%) while the share of households reporting that they were "drawing on their savings" remained unchanged at 12%.

The Business Climate Indicator in **Industry** totalled 85.6 points in the final quarter (from 71.9 in the third), lower year on year (from 94.9). Overall in 2015, the indicator declined to 81.9 points (from 94.6 points in 2014). Concerning the key figures on economic activity, the negative short-term production forecasts eased significantly quarter on quarter, with the corresponding index growing to +1 (from -22) points. The assessment for the number of orders and the level of demand improved, with the indicator increasing to -34 (from -44) points. The expectations concerning the stocks of finished goods remained stable, indicating relatively bloated inventories for the given time period (at +14 points). In the remaining economic activity components, the trends for export-related variables were mainly positive, as the expectations for exports in the next quarter and the assessments for the number of orders from abroad improved, while the current assessments on the exports of the Industry sector remained unchanged. The employment expectations in this sector improved, as the index increased by 10 points to -14, albeit lower year on year (from -2). The percentage of used capacity increased to 65.2% (from 62%), albeit lower year on year (from 68.9%). Finally, the months of production accounted for by the order book of the companies remained unchanged at 3.7.

The Business Climate Indicator in **Retail Trade** recovered to 82.4 (from 65.8) points during the quarter under investigation, a relatively low level compared with the same quarter of the preceding year (95.6). Overall in 2015, the indicator declined to 81 points (from 89.1 points in 2014). Concerning the key components of the indicator, the average assessment of current sales increased during the current quarter to -24 (from -31) points. About 26% (from 23%) of the companies in the retail trade sector reported that their sales had increased while 50% (from 54%) stated the opposite. The index for expected sales recovered to -20 (from -56), while the index for inventories fell to -16 on average. Regarding the remaining activity indicators, the balance of expected orders from suppliers increased (the average quarterly value went from -61 points to -13 points) while the negative short-term employment expectations in the sector eased to -3 (from -16) points on average. Finally, the balance of price expectations was even in the current quarter (from +3 points), with 8% of the businesses expecting a price reduction and 84% (from 75%) expecting price stability. Business expectations improved significantly in all constituent branches in the final quarter of the year, in the aftermath of a deterioration in all branches in the preceding quarter. Overall in

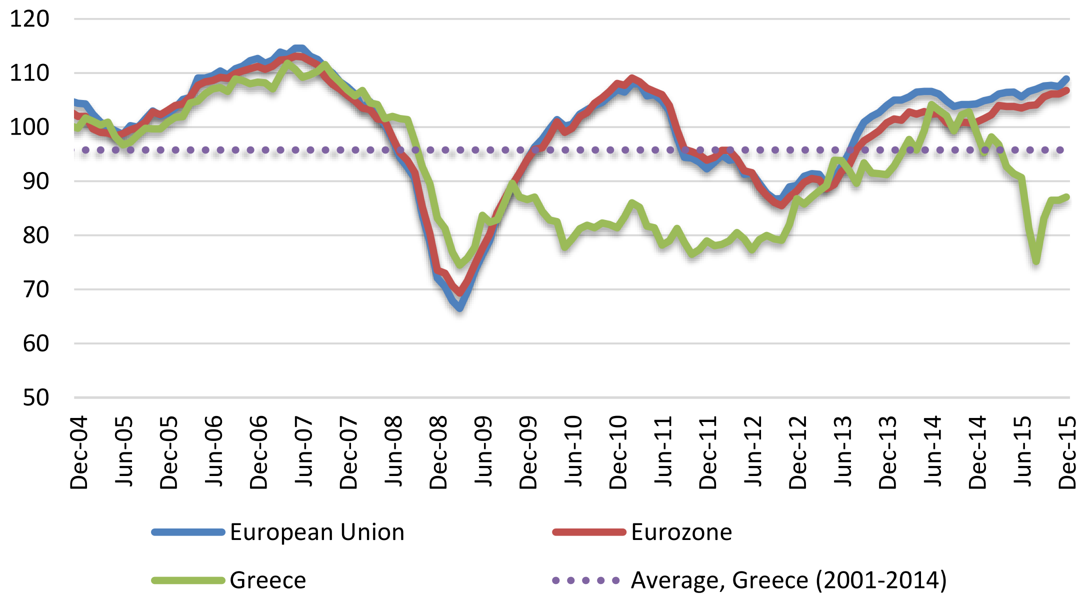
2015, however, the expectations weakened in all constituent branches compared with 2014.

The business sentiment in the **Construction** sector improved significantly quarter on quarter in the final quarter of 2015, as the corresponding index totalled 58.8 points on average (down from 44 points). This value was lower year on year (from 79.9 points on average). Overall in 2015, the indicator fell notably to 56.4 points (from 80.4 points in 2014). Concerning the basic components of the index, the easing of the unfavourable employment expectations in the Construction sector (from -50 to -37 points), combined with the less pessimistic assessment of the businesses on their order book (from -66 to -52 points), pushed up the total value of the index. About 62% of the businesses in the sector (up from 51%) were expecting a reduction in the number of jobs, whereas 11% (down from 13%) were foreseeing an increase. The negative assessment of the businesses for their current level of activity remained unchanged, as the index stood at -36 points while the months of activity accounted for by work in hand totalled 9.8 months (from 8.6). The negative price forecast index eased slightly during this quarter, quarter on quarter, by 5 points, reaching -24, with 1/3 of the enterprises expecting once more a price decline in the short term and 8% (from 4%) foreseeing a price increase. Lastly, the percentage of businesses declaring that they were not facing obstacles to the proper functioning of their business increased to 11% (from 5%). Among the remaining businesses, 31% reported that the biggest obstacle was low demand, 41% cited inadequate financing, and 15% declared other factors such as the general economic situation of the country, the bank holiday and capital controls, high taxation, lack of projects and payment delays. At branch level, the decline of the business climate in the sector in the quarter under examination came from positive developments in Public Works (to 64.4 from 43.3 points on average) while the indicator in Private Construction remained unchanged (at 46.1 on average). Overall in 2015, the expectations deteriorated in both Private Consumption and Public Works, with the index in the latter category falling sharply.

In **Services**, the Business Climate Indicator increased quarter on quarter in the final quarter of 2015, totalling 70.5 points (from 62.4). This value was higher year on year as well (from 60.2). However, overall in 2015, the business sentiment in the sector weakened, with the indicator falling to 70.6 (from 79.3 points in 2014). Concerning the basic components of the index, the assessment for current demand gained ground, with the index increasing by 10 points (at -10 on average). The assessment of the current level of business slightly improved (from -22 to -19 points on average) while the forecasts for the short-term demand of the businesses in the sector recovered significantly (from -28 to -7 points). Regarding the remaining activity indicators, the employment expectations improved, with the average index reaching -16 points (from -25 points in the previous quarter and -12 points in the same quarter of the previous year). The deflationary price expectations slightly eased, with the average index reaching -8 (from -13) points on average. About 13% (from 22%) of the businesses were foreseeing a price decline while 81% (from 69%) were expecting price stability. Lastly, the percentage of respondents, declaring that there were no significant obstacles to their business operation remained at 15%, while 31% reported a lack of demand as the basic obstacle to the proper functioning of their business, 23% cited a lack of working capital, 4% stated a deficiency in labour and 2% deficiency in equipment. The remaining 25% reported other factors, such as the general economic situation and the crisis, the capital controls, the bank holiday, the inability to borrow, high taxation and delayed payments. The expectations improved quarter on quarter in all constituent branches, with a stronger growth in Various Business Activities and Information Services. Nevertheless, overall in 2015, the business sentiment deteriorated notably in all constituent branches of the sector.

Figure 2.2

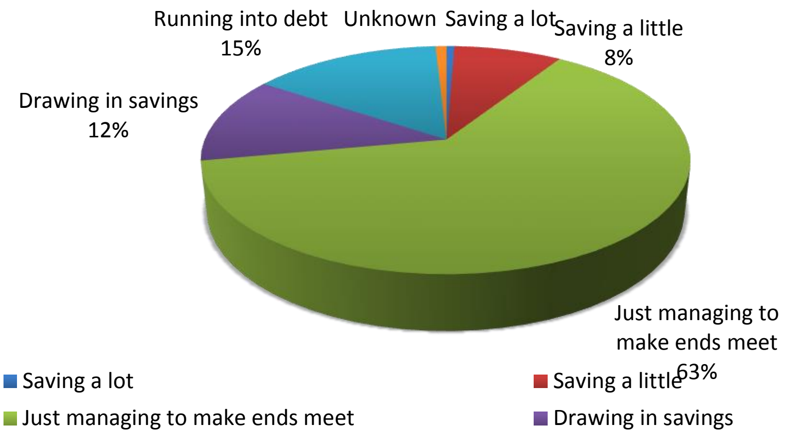
Economic Sentiment Indicators: EU, Eurozone and Greece, (1990-2013=100, seasonally adjusted data)



Source: DG ECFIN, European Commission

Figure 2.3

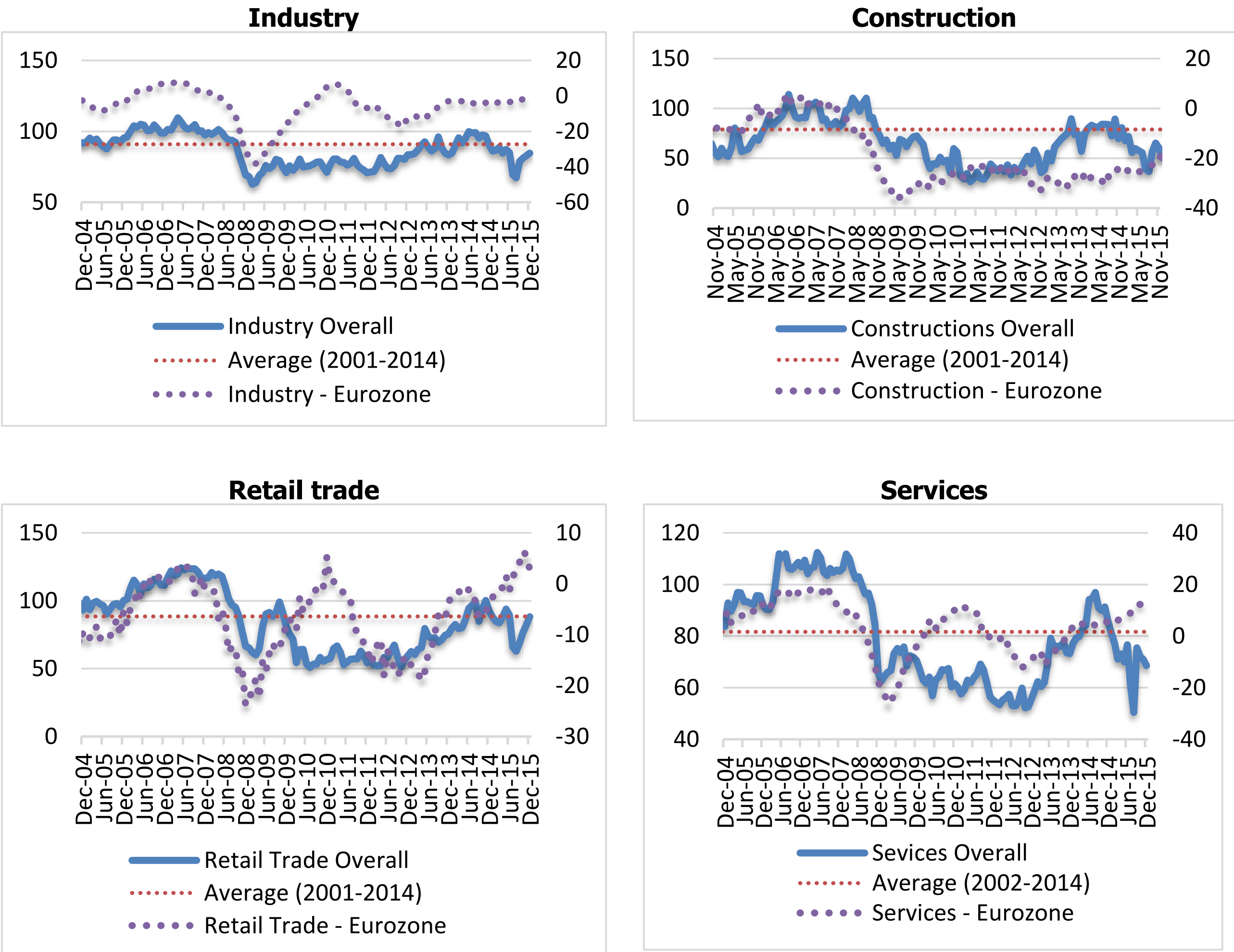
Consumer Survey data on their household's financial situation
(average of October – December 2015)



Source: IOBE

Figure 2.4

Business Climate Index



Source:IOBE

Table 2.6

Economic sentiment indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2002	97.3	96.8	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	101.6	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	100.5	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	90.6	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	93.8	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	101.6	99.3	94.6	81.5	89.1	87.2	-55.0
2015	106.7	104.3	88.7	81.9	56.4	81.0	70.6	-50.7
Q1 2014	105.0	101.9	95.2	90.0	79.6	80.6	78.8	-63.1
Q2 2014	106.4	102.6	99.8	95.6	82.1	86.9	87.1	-52.4
Q3 2014	104.7	101.2	101.5	97.8	80.1	93.5	94.1	-52.7
Q4 2014	104.2	100.9	101.4	95.0	84.2	95.6	88.8	-51.6
Q1 2015	105.4	102.6	96.8	87.2	65.0	85.5	76.4	-37.0
Q2 2015	106.1	103.7	91.6	85.7	57.6	90.4	73.2	-43.6
Q3 2015	107.1	104.6	79.9	71.9	44.0	65.8	62.4	-60.6
Q4 2015	108.0	106.3	86.7	82.9	58.8	82.4	70.5	-61.6

Sources: [1]European Commission, DG ECFIN, [2]IOBE

B) Fiscal developments and outlook

General Government Deficit – National accounting data

The endless, ineffectual negotiations during the first half of 2015, their sudden interruption in June and the expiration of the second Economic Adjustment Programme (June 30) without the completion of the fifth and final review, exacerbated further the uncertainty and concern over the economic developments and outlook, which had re-emerged in late 2014. The pervasive uncertainty, together with the closure of the banks and the imposition of capital controls had catalytic effects on the whole economy, which reflected on all economic indicators, including public finances.

In particular, according to the data that ELSTAT dispatched to Eurostat in October and the data included in the preamble of the 2016 State Budget, **public finances deteriorated since the end of 2014, reversing the progress achieved in fiscal consolidation.** The deficit of the General Government (GG) in 2014, on national accounting basis, stood at 3.6% of GDP, against the target of 1.3% deficit in the preamble of the 2015 State Budget, while in 2015 the deficit is expected to have reached 3.2% of GDP, compared with an initial forecast for 0.2% deficit. Correspondingly, the primary surplus for 2014 fell short of the initial target of 2.9% of GDP to 0.4%, while for 2015 it is expected to have reached 0.7% of GDP, from an initial target of 4.0% of GDP (Table 2.7).

Lastly, the primary surplus, as measured by the Economic Adjustment Programme,[2] did not exceed 0.3% of GDP in 2014, compared with an initial target of 1.8% of GDP. The deterioration is even more pronounced in 2015, where the primary balance was negative for the first time since 2012, with a deficit of 0.2% of GDP, against an initial forecast for a primary surplus of 3.0% of GDP (Table 2.7). The sharp deterioration of the public finances in 2014 began in October and peaked in December of that year[3] with the indications for snap elections becoming more pertinent. The deterioration came primarily from a large shortfall in the Ordinary Budget (OB) revenues by €3.3 billion and to a lesser degree from the Public Investment Programme (PIP) revenues by €0.4 billion. About 58% of the shortfall came from the loss of €1.9 billion revenues from the allocation of part of the earnings of the Eurosystem from holdings of Greek sovereign bonds to the Hellenic Republic (known as ANFA and SMP), which were supposed to be collected in December under the condition of a successful completion of the Greek programme review, which was never completed.

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[2] In the Economic Adjustment Programme, certain extraordinary budget revenues are not taken into account.

[3] Note that the overall revenue shortfall in the first nine months of the year did not exceed €300 million.

Table 2.7

General Government results on national accounting basis (ESA 2010 - % of GDP)

	2011	2012	2013	2014	2015*	2016**
General Government Balance (without net financial transactions)	-10.5	-6.1	-1.8	-3.6	-3.2	-2.1
GG Primary Balance (without net financial transactions)	-3.8	-1.0	2.2	0.4	0.7	1.8
GG Primary Balance (Economic Adjustment Programme)	...	-1.3	1.2	0.3	-0.2	0.5

Source: (a) ELSTAT, Excessive Deficit Procedure Notification (October 2015), (b) Preamble of 2016 Budget, November 2015. *Preliminary data ** 2016 Budget

The remaining shortfall came from the **generation of expectations for tax moratorium** and more favourable arrears settlement terms (as only 168,000 taxpayers had entered the 100-installment settlement until February 2015). However, shortfall also resulted from the increase in the number of instalments for paying the property tax in 2014 (to six instalments), the delays in the finalisation of the 100-installment arrears settlement and the overall loosening of the tax collection mechanism, together with more pervasive tax evasion, which are common traits of each election period.

Regarding 2015, the uncertainty that prevailed until September led, inter alia, to a total derailment of the Budget. The fiscal developments of 2015 are examined in detail in the next section. Here, we can mention that due to the large revenue shortfall, the SB revenue targets were revised down in October by €4.7 billion [4] while the new targets included the €1.9 billion from ANFA and SMP that had not been collected in 2014.

The negative developments of 2015 are expected to have a carry-over effect in 2016. Despite the fiscal measures included in the third programme, the targets for the deficit and the primary surplus are not ambitious and will not set the programme back on the path of low deficits that was followed until the autumn of 2014. In particular, the General Government deficit is predicted to decline slightly compared with 2015 to 2.1% of GDP. Correspondingly, the primary surplus will increase to 1.8% of GDP (Table 2.7). Overall, the forecasts for 2016 are worse than the fiscal outcome of 2013. These forecasts are examined in detail in the third sub-section. Let's note here that meeting these targets would not be easy, given that the 2016 Budget was drafted under the assumption that the contraction in the third quarter of 2015 stood at 0.4%,

[4] Out of which €4.3 billion concern the OB and €0.4 billion the PIP.

compared with the latest estimate of 1.1%.

Note, lastly, that the expiration of the second programme deprived the country of precious resources of €1.9 billion from the ANFA and SMP programmes and from the participation (since March 2015) in the quantitative easing programme of the ECB, which would have decreased drastically the borrowing interest rate of the Hellenic Republic.[5] The first review of the third programme is also delayed, as it was scheduled for October and then was postponed initially for December and then for the first two months of 2016.

Execution of the State Budget from January to November 2015

The analysis and assessment of the fiscal developments in 2015 are particularly difficult, due to the extraordinary circumstances and conditions under which the budget was executed until September. However, despite the difficulties, two clear trends can be discerned in the data: first, the large revenue shortfall and second, the very large SB expenditure restraint. However, the restraint of expenditure was largely **artificial**, as it was accompanied by a large increase in arrears of the State to its suppliers.[6] Essentially, the State is borrowing from its suppliers.

As a result of the extensive revision of the budget targets (e.g. the initial target for the SB deficit in the first eleven months was only €175 million, revised to €3,001 million in October) and the (artificially) large expenditure restraint, the execution of the budget in the first eleven months of the year appears significantly better both from the revised monthly targets and the corresponding figures for 2014. In particular, the SB budget deficit in the first eleven months fell to €1,245 million or 0.7% of GDP, from a deficit of €1,827 million in the corresponding period of 2014. Correspondingly, the SB primary surplus increased from €3,566 million in 2014 to €4,339 million (or 2.5% of GDP) in 2015 (Table 2.8). However, if we take into account the arrears of the State that were generated within 2015, of about €2.0 billion, the outcome for the first eleven months is worse both compared with the monthly targets and the 2014 figures.

Note also that the SB 2015 and 2014 figures are not directly comparable for two main reasons: a) on the one hand, there were significant extraordinary (ad hoc) revenues in March and April of 2015[7] that were not present in 2014

[5] Portugal has already borrowed with negative interest rates.

[6] Besides, the monthly Budget Execution Bulletin (GAO) contained each month a warning that expenditure will revert to the budget targets when the liquidity conditions return to normal (see for example the State Budget Execution Bulletins of 13 August and 17 September 2015).

[7] For example, revenues of about €555 million were transferred to the budget from the Financial Stability Fund alone. This transfer does not affect the General Government budget, however it does improve the SB figures.

and b) arrears of the State (outstanding from 2013) of about €1,243 million were repaid in 2014, while new arrears were not generated.

Ordinary Budget Revenue

Since the start of the year, the revenues were falling well short of both the monthly targets and the corresponding figures for 2014. Apart from the overall negative sentiment regarding tax payments from uncertainty regarding future tax policy, which emerged in late 2015 and remained until the autumn of 2015, **certain decisions that did not contribute to the timely revenue collection** were made, with likely loosening side-effects on tax compliance, such as the extension of the deadline for paying VAT of January until the end of February, the delays in the finalisation of the (new) 100-installment settlement of arrears, the successive extension of the deadline for filing income tax returns (individuals and legal entities), the unjustified delay in the certification and collection of property taxation and the suspension of the measure of automatic seizure of deposits from taxpayers with arrears to the State in July.[8] As already mentioned, due to the large revenue shortfall until the end of September, the OB revenue targets were revised down by €4.3 billion in October. The new targets included the €1.9 billion from ANFA and SMP that had not been collected in 2014.

Since October, with the collection of the first instalment of the real estate tax (one month later than in 2014) and of the second instalment of the income tax, the situation started to return to normal. Meanwhile, the tax measures taken in July and August, such as a transfer of many goods from the low to the standard VAT rate of 23%, higher tax down-payment by enterprises, freelancers and farmers, higher luxury tax and higher coefficients of the special solidarity levy, began to bear fruits. As a result, the revenues increased significantly year-on-year, by 11.8%, in October. For the same reasons, the revenues in November recorded the same year-on-year growth of 11.8%. Note, lastly, that these high growth rates incorporate a "base effect", as the revenue shortfall had started in October 2014.

Following these developments, the total OB receipts (tax[9] and non-tax revenues, before tax refunds) reached €43,615 million in the first eleven months of 2015, against a revised target of €45,080 million (Tables 2.8 and 2.9). The shortfall reached €1,464 million, as the revenues from ANFA and SMP of 2014, which were included in the target with the October revision (not envisaged until then in the 2015 budget), were not collected. In addition, the receipts in the first eleven months of 2015 declined year on year by 2.7%, compared with a growth of

[8] The measure was reinstated in early December 2015.

[9] Includes revenues from licencing fees.

7.5% in the initial target of the 2015 Budget (Table 2.9).

The year-on-year decline mainly came from direct tax revenue (-4.8%) and particularly from property taxation (-13.1%), due to the collection of two tax instalments in 2015, compared with three in the same period of 2014. The receipts from overdue direct taxes of preceding financial years also declined (-13.0%), despite the implementation of the settlement with 100 instalments (Table 2.9).

Table 2.8
State Budget Execution 2013 - 2015

	January - November (€ million)			% Change	
	2013	2014	2015	2014/2013	2015/2014
I. SB Revenue (1+2)	**47,231**	**45,928**	**44,936**	**-2.8%**	**-2.2%**
1. OB net revenue	42,808	41,773	41,030	-2.4%	-1.8%
Revenue before Tax Refunds[1]	45,279	44,847	43,615	-1.0%	-2.7%
Tax refunds	*2,471*	*3,074*	*2,585*	*24.4%*	*-15.9%*
2. PIP Revenues	4,424	4,154	3,906	-6.1%	-6.0%
EU Funds	*4,348*	*4,093*	*3,502*	*-5.9%*	*-14.4%*
II. SB Expenditure (3+4)	**50,385**	**47,755**	**46,181**	**-5.2%**	**-3.3%**
3. OB expenditure	46,435	43,207	42,485	-7.0%	-1.7%
Primary expenditure[2]	40,502	37,814	36,901	-6.6%	-2.4%
Net interest payments	5,933	5,393	5,584	-9.1%	3.5%
4. PIP expenditure	**3,950**	**4,548**	**3,696**	**15.1%**	**-18.7%**
III. SB Deficit (I-II)	**-3,155**	**-1,827**	**-1,245**		
% of GDP	*-1.7%*	*-1.0%*	*-0.7%*		
OB deficit/surplus	-3,628	-1,434	-1,455		
PIP deficit/surplus	474	-394	210		
IV. SB Primary Surplus	**2,778**	**3,566**	**4,339**		
% of GDP	*1,5%*	*2.0%*	*2.5%*		
GDP (in current prices)	182,438	179,081	173,737		

Source: State Budget Execution Monthly Bulletin November 2015, GAO, December 2015

[1] Includes revenues from concession of licences
[2] Includes military procurement, called guarantees and disbursement fee to EFSF

The year-on-year decline in indirect taxes was less pronounced (-1.2%). This result came in part from improved VAT collections, which had declined year on year by 3.4% in the first half of 2015, despite the fact that GDP increased during the same period by 1.1% (mainly from growth in consumption).

However, in the first eleven months, despite the recession in the third quarter and the decline in the prices of fuel, the contraction of VAT revenues decreased to 1.1%, perhaps due to the changes in taxation implemented in July. It was also due to receipts from excise duties and other consumption taxes, which increased slightly by 0.1%, coming from revenue from car registration and road taxes, due to the recovery of the car market in the first half of 2015. Meanwhile, the excise duty on fuels increased by 4.0%.

In order to achieve the revised revenue target for 2015 (€51,988 million), the State should collect €8,373 million in December, out of which €3,882 million come from ANFA and SMP of 2014 and 2015. **Without the ANFA and SMP revenues, it would be impossible to achieve the annual target. However, the completion of the first review of the third programme by the end of February at the latest is a necessary condition for the receipt of the ANFA and SMP revenues.**

Ordinary Budget Expenditure

As already noted, the restraint in the OB expenditure was one of the key features of the execution of the 2015 budget. However, this result did not come from actual expenditure cuts. Instead, it was due to delay in payments, which inter alia led to a large increase in the arrears of the State to its suppliers.

In this regard, the OB expenditure in the first eleven months of the year declined year on year by 1.7%, against a projection in the 2015 Budget for a marginal growth by 0.1%. The reduction concerned primary OB expenditure (-2.4%), as the interest payments, increased year on year by 3.5% (Table 2.10).

Regarding primary expenditure, a significant year-on-year reduction was recorded in social protection payments (-33.3%), earmarked funds (-23.6%), grants to institutions and particularly to local authorities and international organisations (-20.0%) and consumption expenditure by 10.2% (Table 2.10).

The grants to the Manpower Employment Organization OAED (-4.5%), the National Organization for Health Care Services EOPYY (-18.4%), the Seamen's Pension Fund NAT (-13.6%) and the Insurance Fund of the Self Employed OAEE (-12.5%) were also lower year on year.

In contrast, the spending on pensions of civil servants (4.2%), wages (0.4%)

and other allowances (3.9%) increased (Table 2.10). Significant growth was recorded in the grants to the Insurance Fund for the Agricultural Sector OGA (15.4%), to reach €3,120 million in the first eleven months, and for the Complementary Pension Allowance EKAS (19.3%), which reached €828 million, while the grants to the Wage Earners' Fund IKA increased only by 2.9%.

Note that **in November the (monthly) OB primary expenditure increased by a very large margin**, both year on year (37.8%), and month on month (34.1%). In addition, significant growth was also observed in September, by 6.1%. This trend is particularly alarming and if it carries over to December, it would lead to a significant overrun (or "transfer" of expenditure to 2016).

Table 2.9

State Budget Revenues (million €)

Revenue categories	January-November		% Change
	2014	**2015**	**2015/2014**
1. Net SB revenue (2+4)	**45.928**	**44.936**	**-2,2**
2. OB net revenue	**41.773**	**41.030**	**-1,8**
Tax refunds	3.074	2.585	-15,9
3. OB revenue	**44.848**	**43.615**	**-2,7**
Direct taxes	18.641	17.741	-4,8
--Income tax	11.123	10.931	-1,7
--Property tax	3.042	2.644	-13,1
--Direct taxes of previous years	1.841	1.601	-13,0
--Other direct taxes	2.634	2.565	-2,6
Indirect taxes	20.911	20.658	-1,2
--Transaction taxes	13.172	13.000	-1,3
(of which VAT)	(12.621)	(12.488)	(-1,1)
--Consumption taxes	6.944	6.949	0,1
--Indirect taxes of previous years	447	429	-4,0
--Other indirect taxes	348	280	-19,5
Non-tax revenues	5.296	5.217	-1,5
--Receipts from the EU	103	90	-12,6
--Non-ordinary revenue	1.653	1.751	-5,9
--Permits and rights	382	214	-44,0
--Other	3.158	3.162	0,1
4. PIP revenues	**4.154**	**3.906**	**-6,0**

Source: Preamble of the 2016 State Budget, Ministry of Finance, November 2015

Table 2.10

State Budget Expenditure (million €)

Expenditure category	January-November		% Change 2015/2014
	2014	**2015**	
1. State Budget Expenditure	**47,755**	**46,181**	**-3.3**
2. Ordinary Budget Expenditure	**43,207**	**42,485**	**-1.7**
Interest	5,393	5,584	3.5
Primary expenditure	37,815	36,902	-2.4
--Salaries & pensions	16,828	17,116	1.7
Wages	10,936	10,975	0.4
Other allowances	310	322	3.9
Pensions	5,583	5,819	4.2
--Social expenditure	11,397	11,256	-1.2
Grants to Social Security Funds	9,810	10,077	2.7
Social protection	1,166	778	-33.3
Grants to OAED	377	360	-4.5
Other	44	41	-6.8
--Operational and other	6,512	6,178	-5.1
Transfers	1,293	1,035	-20.0
Consumption	1,172	1,052	-10.2
Conditional	1,883	2,058	9.3
Other*	2,164	2,033	-6.1
--Earmarked revenue	3,079	2,352	-23.6
3. PIP expenditures	**4,548**	**3,696**	**-18.7**

Source: State Budget Execution Monthly Bulletin November 2015, GAO, December 2015.
*Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees.

Note also that the expenditure for the first eleven months of 2014 included social dividend payments of €490 million, which was not the case in 2015. In addition, arrears of the state (outstanding from 2013) of about €1,243 million were repaid in 2014, while in 2015 arrears of €1,968 million were amassed anew. If all this is also taken into account, then the expenditure trend in the first eleven months of 2015 is alarming.

Public Investment Programme (PIP)

The investment expenditure strengthened for a third consecutive month in November (€875 million) and, as a result, the expenditure for the first eleven months reached €3,696 million, compared with only €1,563 million by the end of August. Despite the acceleration, the investment expenditure is still short of the target (€4,430 million) by €734 million (Table 2.8). To avoid a shortfall against the annual target (which totals €6,400 million, according to the 2016 Budget), at least €2,704 million should be disbursed for investment in December alone.

Regarding the PIP revenues, the acceleration of the revenue collection that started in October carried over to November (€811 million). As a result, the PIP revenues in the first eleven months reached €3,906 million, exceeding the revised target by €45 million. Recall that the PIP revenue target was revised down by about €300 million in October. As a result, the PIP had a surplus of €210 million in the first eleven months.

2016 Budget

The drafting of the 2016 budget and the 2015 estimates contained in its preamble were based on the optimistic assumption that the recession in the third quarter of 2015 stood at only 0.4%, forecasting no change in GDP overall in 2015 and a limited contraction (-0.7%) in 2016.[10] However, the size of the recession in the third quarter was subsequently revised to 1.1%. Moreover, an assessment was made that the completion of the first review was «very near» (Preamble of the 2016 Budget, Foreword). The refutation of these assumptions, together with other developments, introduce uncertainty both with respect to the final figures for 2015 and for the forecasts for 2016.

Final figures for 2015

The anticipated collection of €8.4 billion revenues in December, to achieve the revised annual target, the strong acceleration of expenditure in November, the large amount of investment that should be disbursed in December, the delays in the first review of the third programme and the uncertainty regarding the contraction rate in 2015 do not allow for making credible estimates on the final outcome of the fiscal figures for 2015. However, any deviation in the 2015 figures would have a significant impact on the 2016 budget.

The 2016 Budget

The general direction of fiscal policy in 2016 is envisaged to be restrictive, as while the economy will be in a recession (0.7% according to the Preamble of the 2016 Budget or higher), the deficit of the General Government is projected to decline (with a corresponding increase in the primary surplus) by 1.1% of GDP (2015: 3.2%, 2016: 2.1%). This consolidation is achieved with the fiscal interventions of the third programme, with a total value of €6,379 million, out of which €2,033 million concern 2015 and €4,346 million 2016. From the total interventions, about 62.5% concern tax measures to increase primarily the OB revenues, with 37.5% concerning expenditure cuts.[11] To achieve a sustainable fiscal consolidation and accelerated recovery of the economy, the international experience shows that more than 70% of the interventions should concern permanent expenditure cuts, rather than tax hikes.

[10] Preamble to the 2016 Budget, p. 27, Table 1.3.

[11] Draft 2016 Budget, pp. 44-45, Table 2.8.

Table 2.11

Revenues, Expenditure and State Budget Deficit (in million €)

	2013	2014	2015 Estimates	2015 Budget	2016 Budget	% change		
						14/13	15E/14	16B/15
I. SB Revenues (1+2)	**53,079**	**51,353**	**53,091**	**55,603**	**53,527**	**-3.2**	**3.4**	**0.8**
1. OB net revenues	48,414	46,638	48,618	50,871	49,107	-3.7	4.2	1.0
Revenues before tax refunds[12]	51,520	50,219	51,988	53,748	52,375	-2.5	3.5	0.7
Minus Tax refunds	*3,105*	*3,581*	*3,370*	*2,877*	*3,268*	*15.3*	*-5.9*	*-3.0*
2. PIP Revenues	4,665	4,715	4,473	4,732	4,420	1.1	-5.1	-1.1
Of which: revenues from EU	*4,511*	*4,649*	*3,943*	*3,982*	*4,170*	*3.1*	*-15.2*	*5.8*
II. SB Expenditure (3+4)	**58,456**	**55,053**	**55,664**	**55,705**	**55,751**	**-5.8**	**1.1**	**0.2**
3. OB expenses	51,806	48,461	49,264	49,305	49,001	-6.5	1.7	-0.5
Primary expenses[13]	45,762	42,933	43,435	43,405	43,071	-6.2	1.2	-0.8
Interest rates	6,044	5,528	5,830	5,900	5,930	-8.5	5.5	1.7
4. PIP Expenses	6,650	6,592	6,400	6,400	6,750	-0.9	-2.9	5.5
III. SB Deficit (I-II)	**-5,377**	**-3,700**	**-2,573**	**-102**	**-2,224**			
% of GDP	*-3.0*	*-2.1*	*-1.5*	*-0.1*	*-1.3*			
OB Deficit/Surplus	-3,392	-1,823	-646	1,566	106			
PIP Deficit	-1,985	-1,877	-1,927	-1668	-2,330			
IV. SB Primary Surplus	**667**	**1,828**	**3,257**	**5,798**	3,706			
% of GDP	*0.4*	*1.0*	*1.9*	*3.1*	2.1			
GDP (current prices)	180,389	177,559	175,658	184,870	174,438	-1.6	-1.1	-0.7

Source: Preamble to 2016 State Budget, Ministry of Finance, November 2015

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12 Includes proceeds from concessions of licences

13 Includes military procurement, called guarantees and disbursement fee to EFSF. Expenditure for arrears of the public sector of €5,514 million in 2013 and €1,152 million in 2014 are not included.

The successful implementation of these measures is expected to reduce the SB deficit to €2,224 million (or 1.3% of GDP) in 2016, from a deficit of €2,573 million in 2015 (Table 2.11). The marginal reduction at SB level (€349 million) comes from the fact that, as analysed in greater detail in the following section, the revenues from the new measures will cover to a large extent extraordinary ad-hoc OB revenues collected in 2015, but are not available in 2016. It also comes from the fact that a large part of the consolidation will take place in other entities (constituents) of the General Government that are not part of the SB.

OB Revenues

The OB revenues (before tax refunds) are projected to increase by 0.7% in 2016 to reach €52,375 million (from €51,988 million in 2015). However, this small increase (only €387 million) conceals **significant changes in the composition** of OB revenues, compared with 2015. In general terms, the extraordinary, ad-hoc revenues decline by €3.1 billion year on year. This loss is fully offset by an increase in tax revenue by €2.0 billion and from licencing fees by €1.5 billion (Table 2.12).

The increase in tax revenue will come both from the tax measures in force since the summer of 2015 and the remaining measures of the third programme in force since 1 January 2016. The 2016 measures include increase in the corporate tax coefficients, lifting of the discount on one-off payment of the income tax, higher taxation on income from rent, higher income tax coefficients for farmers, the levy of a special tax on the gambling games of OPAP, increase of the share of the State in the gains of OPAP from gambling machines, gradual lifting of the tax deduction for light fuel oil for agricultural use, etc.

The revenues from direct taxes are expected to increase by 4.5% to reach €20,028 million, mainly from the aforementioned measures (Table 2.12). The receipts from indirect taxation are projected to increase by 4.8% to reach €24,738 million, with the largest part of the increase coming from VAT, as the tax changes of July 2015 will generate revenues for the whole year in 2016 (Table 2.12). In contrast, the non-tax revenues will decline sharply, by about 17.5%, due to the fall in the revenues from the ANFA and SMP programmes by €2,191 million (or by 56.4%). Lastly, the revenues from licencing fees are expected to shoot up to €1,802 million in 2016, from €268 million in 2015, coming from revenues from the concession of the regional airports.

Table 2.12
Annual State Budget Revenues (million €)

Revenue categories	2013	2014	2015 Estimates	2016 Budget	% 14/13	% 15/14	% 16/15
1. SB net revenues	**53.079**	**51.353**	**53.091**	**53.527**	**-3,3**	**3,4**	**0,8**
2. OB net revenues	**48.415**	**46.638**	**48.618**	**49.107**	**-3,7**	**4,2**	**1,0**
Tax refunds	3.105	3.581	3.370	3.268	15,3	-5,9	-3,0
3. OB revenues	**51.520**	**50.219**	**51.988**	**52.375**	**-2,5**	**3,5**	**0,7**
Direct taxes	20.058	20.664	19.165	20.028	3,0	-7,3	4,5
--Income taxes	11.489	12.284	11.842	12.025	6.9	-3,6	1,5
--Property taxes	2.991	3.474	2.868	3.788	16,1	-17,4	32,1
--Direct taxes of previous years	2.826	1.928	1.675	1.379	-31,8	-13,1	-17,7
--Other direct taxes	2.752	2.978	2.780	2.836	8,2	-6,6	2,0
Indirect taxes	24.556	23.784	23.597	24.738	-3,1	-0,8	4,8
--Transaction taxes	14.673	14.233	14.019	14.875	-3,0	-1,5	6,1
(of which: VAT)	(13.856)	(13.618)	(13.519)	(14.376)	(-1,7)	(-0,7)	(6,3)
--Consumption taxes	8.995	8.702	8.798	9.102	-3,3	1,1	3,5
--Indirect taxes of previous years	533	470	465	385	-11,8	-1,0	-17,2
--Other indirect taxes	355	380	315	376	7,0	-17,1	19,4
Non-tax revenues	6.905	5.771	9.226	7.610	-16,4	59,9	-17,5
--EU transfers	183	196	172	325	7,1	-12,2	89,0
--Extraordinary revenue	3.626	1.817	5.408	2.269	-49,9	197,6	-58,0
(of which: ANFA's, SMP')	(2.715)	(580)	(3.882)	(1.691)	(-78,6	-569,	-56,4
--Licences and rights	86	384	268	1.802	346,5	-30,2	572,4
--Other	3.010	3.373	3.378	3.214	12,1	0,1	-4,9
4. PIP revenues	**4.665**	**4.715**	**4.473**	**4.420**	**1,1**	**-5,1**	**-1,2**

Source: Preamble to 2016 State Budget, Ministry of Finance, November 2015

OB Expenditure

The OB expenditure is projected to decrease by only a little (0.5%) to €49,001 million. The reduction comes exclusively from OB primary expenditure, which is expected to fall by 0.8% to €43,071 million, from €43,435 million in 2015 (Table 2.13). In contrast, interest payments will increase slightly to €5,930 million as Greece has not yet taken advantage of the ECB quantitative easing programme and the accompanying fall in interest rates since March 2015.

All categories of primary expenditure, except earmarked revenues, are expected to decline compared with 2015. The largest cuts can be found in social security expenditure (reduction of €730 million or 4.5%), salaries and pensions (-€361 million or -2.0%) and consumption expenditure, which falls by €287 million or 14.2% (Table 2.13). The reduction in social security expenditure (mostly grants to social security funds) and salaries and pensions reflect the commitment of Greece for a significant reduction of the spending on pensions.

Public Investment Programme (PIP)

In 2016, the PIP deficit is expected to increase to €2,330 million (or 1.3% of GDP), compared with a deficit of €1,927 million or 1.1% of GDP in 2015. This change comes mainly from growth in investment expenditure by 5.5%, but also from a small fall in revenues (-1.1%), due to a fall in the receipts from own resources.[14] In contrast, the revenues from various EU funds are projected to increase by 5.8% (Table 2.11). The increase is not large, given that the receipts from EU funds in 2015 were at their lowest level in a number of years.

Nevertheless, even if the PIP is executed as planned, the stimulus that it would provide to the Greek economy will be insufficient, given the current economic conditions

Table 2.13

Annual State Budget Expenditure (million €)

Expenditure category	**2013**	**2014**	**2015 Estimates**	**2016 Budget**	**%**		
					14/13	**15/14**	**16/15**
1. SB expenditure	**58,456**	**55,053**	**55,664**	**55,751**	**-5.8**	**1.1**	**0.2**
2. OB expenditure	**51,806**	**48,461**	**49,264**	**49,001**	**-6.5**	**1.7**	**-0.5**
Interest payments	6,044	5,528	5,830	5,930	-8.5	5.5	1.7
Primary expenditure	45,762	42,933	43,435	43,071	-6.2	1.2	-0.8
--Salaries and pensions	18,379	18,435	18,455	18,094	0.3	0.1	-2.0
--Social protection	17,042	15,176	16,067	15,337	-10.9	5.9	-4.5
--Consumption expenditure	1,932	1,876	2,020	1,733	-2.9	7.7	-14.2
--Other spending*	2,462	1,882	2,347	2,042	-23.6	24.7	-13.0
--Earmarked revenues	5,947	5,516	4,420	4,866	-7.2	-19.9	10.0
--Reserves	-	-	126	1,000	-	-	-
3. PIP expenditure	**6,650**	**6,592**	**6,400**	**6,750**	**-0.9**	**-2.9**	**5.5**

Source: Preamble to 2016 State Budget, Ministry of Finance, November 2015
* Includes transfers to cover deficits and arrears of hospitals, military procurement, called guarantees, etc. Expenditure for arrears of the public sector of €5,514 million in 2013 and €1,152 million in 2014 are not included.

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[14] Significant ad-hoc revenues from own resources were collected in 2015, which will not take place in 2016. In effect, the revenues from own resources return to their ordinary level in 2016.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

Recent macroeconomic developments in Greece

The GDP of the Greek economy contracted, year on year, **in the third quarter for the first time since the final quarter of 2013,** according to the latest data from the national accounts of EL-STAT. The year-on-year GDP contraction from July through September reached 1.1%, in the aftermath of a slight growth in the preceding quarter (0.9%).[15] GDP had grown by 1.2% in the corresponding quarter of the previous year. Despite the return of the contraction in the third quarter, **output did not decline for the first nine months of the year overall, recording a marginal increase (+0.1%), compared with a growth of 0.6% in the same period of 2014.**

Regarding the domestic socioeconomic environment, the interruption of the negotiations with the official creditors in June (at the end of the extension period of the second bailout programme by the European Committee), the bank holiday and the capital controls that followed, the referendum and the subsequent political developments (mainly with respect to the relations with our Eurozone partners), were unprecedented events for the Greek economy and society. Their long-term impact on the perceptions and expectations of households and enterprises has not yet transpired. Certain reactions reveal that the likelihood of capital controls was not precluded by many households and enterprises, which had prepared for it, to some extent at least. Nevertheless, the fall in expectations after the capital controls was extensive. In particular, the continuous deposit flight since December 2014 and the lack of strong variations in private consumption despite the capital controls (with a slight boost in the third quarter, which prevented a deeper GDP contraction) reveal that the households had incorporated such a development in their expectation and were not taken by surprise. On the other hand, the fall of fixed capital formation, which had emerged at marginal rates in the second quarter, intensified sharply in the following quarter, becoming the key driver for the return of the recession. It reflected the sharp deterioration of business sentiment, due to the intense political uncertainty and the effects of the developments in the banking system.

As anticipated, the capital controls had a significant impact on international transactions. Nevertheless, their impact was notably stronger on the import rather than export side, at least during the period immediately after the imposition of the capital controls. As a result, the external balance improved, easing the GDP contraction. Public consumption also had a stabilising effect on GDP, as a result of the delay in

[15] All variations in the current subsection are expressed in terms of year-on-year changes. The National Accounts data refer to seasonally adjusted data at constant 2010 prices.

the implementation of planned public sector reforms and the recall in early 2015 of about 7,500 redundancies made in the preceding years (employees of ERT, school guards, maintenance staff of the Ministry of Finance).

Regarding the trends in the GDP components in the first nine months of 2015, **domestic consumption increased by 0.6%** compared with the same period of 2014, when it had grown by 0.2%. The rise of consumption expenditure throughout the first nine months mainly came from a steady growth in household consumption, by 0.9% on average, slightly higher than in the previous year (+0.6%). However, a further increase in the final quarter is not anticipated, based on the short-term data on indicators that reflect the trends in household consumption expenditure, available so far from ELSTAT (such as the seasonally adjusted volume of retail trade and the turnover in services indices).

The inversion of the trend in investment from positive to negative in the second quarter, after continuous growth for a year, consolidated and intensified in the following quarter. Subsequently, **investment contracted by 11.6% in the first nine months of 2015, overcompensating for their growth by 2.2% in the same period of 2014.** The new significant decline of investment during the first nine months came mostly from a reduction in inventories (-€967 million) and to a lesser degree from lower fixed capital formation (-€212 million or -1.4%). Note that the slight reduction of fixed capital formation came exclusively from a sharp fall in the third quarter, by €991 million. Despite the intense political uncertainty during the first half of the year, the enterprises did not reduce their fixed capital investment, carrying over the recovery of investment from 2014 to the first half of 2015. The unprecedented political developments that followed, however, harmed their propensity to invest.

The contraction of investment activity from January through September came mostly from a decline in non-residential construction (stronger than the growth recorded in 2014, -13.1% against +5.1%) and from a further fall of residential constructions, which albeit very large was weaker than in 2014 (-25.1%, against -52.3%). The strongest contraction among the key categories of fixed capital formation was recorded in Agriculture Products (-30.6%), which have a very small share of total investment (0.35%) and, therefore, are not shaping the overall trend. In contrast, investment activity received its strongest boost in transport equipment, similarly to 2014 (+26.4%, against +21.1%). ITC equipment and machinery came next, with significantly weaker growth (+4.6% and +4.1%).

In the external sector of the economy, **exports decreased in the first nine months of the year, for the first time in six years, by 2.5%, following their strong growth in the same period of 2014, by 6.4%.** In the third quarter, the contraction of exports (-11.4%) was the deepest since 2009, during the global economic downturn. Despite the growth of the exports of goods from the first through to the third quarter (albeit at a weakening rate) and the marginal increase in the exports of services during the first half of 2015, the sharp drop in the exports of services during the summer months (-25%) led to an overall decline in exports in the first nine months. Apart from the impact of the dramatic events during that period, this development partly came from a base effect from the relatively high level of the exports of services in the preceding year, as predicted in the previous bulletins on the Greek economy.

As already noted, the sharper reduction of imports, compared with exports, prevented the deficit in the external sector from deteriorating. Both the imports of goods and the imports of services had declined in the second quarter, but their contraction intensified sharply in the third. The imports of goods fell by 16.3% while the imports of services dropped by 34.5% year on year. The overall reduction of imports by 20% in the third quarter most probably intensified from the fall in inventories, as both the marginal increase of consumption demand and the significantly weaker decline in fixed capital investment were sufficient to maintain the import flows at a higher level. Subsequently, imports were lower by 5.0% in the first nine months, offsetting their growth by a similar margin in the preceding year (+5.1%). **As a result of the above trends in exports and imports, the deficit of the external balance (in national accounting terms) decreased by 37.3%, to €2.0 billion, which corresponds to 1.4% of GDP, compared with a deficit of €3.2 billion (3.6%) in the same period of 2014.**

On the supply side, gross value added increased by 0.6% in the first nine months of 2015, stronger than the growth of output on the expenditure side by half a percentage point and slightly above its growth rate in the preceding year (+0.3%). The observed significant divergence of output growth on the demand and supply sides came from a reduction in taxes on products, which reached 2.3% in the first nine months (-€360 million), with the subsidies remaining unchanged. The stronger, year on year, recovery of production came from a higher output in only three key sectors, with the production activity in most sectors contracting. **In particular, the strongest output growth was once more recorded in Professional – Scientific – Technical – Administrative – Support Service Activities (+7.5%), compared with a decline in the preceding year (-3.0%). Wholesale-Retail Trade, Repair of Motor Vehicles-Motorcycles and Accommodation and Food Service Activities came next, at a growth rate that was significantly lower than in the preceding year (+2.6%, against +7.1%).** Economic activity in Public administration – Defence – Compulsory social security – Education also increased year on year (2.2%), after consolidation in the same period of 2014.

Marginal growth was recorded in Real estate services (0.2%).

The new, strong decline in the two key components of investment in construction in the first nine months of 2015 is reflected in the strong contraction of activity in the Construction sector, which reached 18.6%, exceeding several times its fall in the same period of 2014 (-2.4%). The contraction in Information-Communication was significantly milder (at -4.1% in both 2015 and 2014), which was the only sector that remained for a third year in the top three of sectors with the largest contraction. Arts-Entertainment-Recreation came next (-1.8%), followed by Financial-Insurance Activities (-1.6%), after mild growth (+1.0%) and quite stronger contraction (-4.9%, the second largest contraction at the time) in 2014, respectively. Small losses were observed in Agriculture (-0.4%), following its strongest growth among all sectors in the preceding year (+10.4%). In contrast, output in Industry, which had contracted stronger than in any other sector in 2014 (-10.2%), essentially remained stable in the current year (-0.2%).

The hike in political uncertainty in the third quarter of 2015 and the capital controls did not have a negative impact on the labour market, at least in the short-term. Nevertheless, as noted in the past, the developments in the labour market come after those in output with a time lag of 2-3 quarters. Taking this into account, together with the fact that unemployment traditionally falls during the summer months in Greece, **its continued decline in the third quarter, at a slightly slower pace than in the previous quarter, could not be considered a surprise. In particular, unemployment reached 24.0% during that period, 0.6 percentage points lower quarter on quarter and 1.5 percentage down year on year.** As a result of its steady decline throughout the first nine months, unemployment stood at 25.1% on average for that period, compared to 26.6% in the same period of 2014. The additional decline of unemployment during the summer came, as in the preceding quarters, from year-on-year growth of employment in Wholesale-Retail Trade-Repair of Motor Vehicles and Motorcycles (+46,500 people or +7.4%), Tourism (+28,000 or +8.4%) and Manufacturing (+31,100 or +9.9%). The steady and significant employment growth is hard to explain, given the decline in the seasonally adjusted turnover index in both Retail and Wholesale Trade in the third quarter. In Manufacturing, the short-term indicators were recording similar levels with the preceding year, while only in Tourism turnover was growing steadily. Among the sectors with employment decline, Agriculture - Forestry – Fisheries came first (-22,300 or -4.6%), followed by Construction (-11,000 or -7.0%), extending the employment contraction from the preceding years.

Despite the VAT hike in July, the weakening of the growth of private consumption in the third quarter, together with the base effect from the relatively high level of the Consumer Price Index in the same period of 2014, **preserved the high rate of deflation, at 1.7%, almost one percentage points higher than in the previous year (0.8%).** However, the increase in the VAT rates slightly contained the fall in prices, which had reached 2.3% in the first half of the year, the deepest price reduction for at least 55 years. The fact that prices increased, significantly at that, only in "Food – Non-alcoholic Beverages", "Tobacco – Alcoholic Beverages" and "Hotels – Cafes – Restaurants", the three categories that were primarily affected by the changes in VAT, reveals the limiting impact of the VAT hike on deflation. **Overall in the first nine months, deflation reached 2.1%, up by half a percentage point year on year.**

To sum up, the previous IOBE bulletin on the Greek economy had stressed that "the recovery of growth in the second quarter of the current year […] came exclusively from an increase in both components of domestic consumption spending. These trends were driven by certain factors that are considered temporary, such as the lack of implementation of planned reforms in the public sector, the lack of new fiscal measures […] and the strong concern of the households about the likelihood of failure of the negotiations with the official creditors of the Greek state […]. However, after reaching an agreement on a new (third) Economic Adjustment Programme, which has already lifted the uncertainty from the previous months, the fiscal measures contained in the programme and those adopted as prior actions to start the negotiations eliminate in the current half of the year at least the first two factors that were previously stimulating consumption. […] Therefore, the support of the growth momentum from the first half of 2015 is dwindling, without any other factor in sight that could replace it […]."

The stabilisation of total domestic consumption expenditure and the return to recession in the third quarter confirm the above predictions. The external sector had a positive contribution to GDP growth during the same period (+3.0%) due to the sharp drop in imports, which were hit harder than exports by the capital controls. However, this was offset by the impact of the significant decline in investment, both in terms of fixed capital formation and in inventories.

The gradual easing of the capital controls would most probably lead to the opposite developments from those that were caused by their imposition, with a faster easing of the contraction in imports. Therefore, the positive impact of the external sector on GDP during the third quarter will weaken towards the end of 2015 and during the first half of 2016. As no factors that could invert the trends in the components of domestic demand are currently in sight, both on the consumption and the investment side, the recession is most likely to carry over to the current year, as analysed in the section that follows.

Table 3.1

Trends in key macroeconomic figures – National Accounts

(seasonally adjusted data, constant 2010 prices)

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million		€ million	Annual rate of change	€ million	Annual rate of change
2000	189,911	4.1%	165,174	2.8%	43,060	12.4%	43,517	23.3%	62,977	22.6%
2001	197,889	4.2%	171,593	3.9%	44,976	4.4%	42,922	-1.4%	62,110	-1.4%
2002	205,815	4.0%	179,616	4.7%	45,975	2.2%	39,837	-7.2%	59,972	-3.4%
2003	217,782	5.8%	187,069	4.1%	54,527	18.6%	39,532	-0.8%	64,424	7.4%
2004	228,006	4.7%	193,958	3.7%	54,170	-0.7%	46,641	18.0%	67,031	4.0%
2005	229,951	0.9%	200,664	3.5%	48,414	-10.6%	48,701	4.4%	68,716	2.5%
2006	242,752	5.6%	207,988	**3.7%**	59,936	23.8%	51,208	5.1%	77,776	13.2%
2007	250,422	3.2%	216,957	4.3%	65,029	8.5%	56,309	10.0%	88,872	14.3%
2008	249,888	-0.2%	221,515	2.1%	59,042	-9.2%	58,340	3.6%	89,803	1.0%
2009	239,143	-4.3%	219,942	-0.7%	43,182	-26.9%	47,743	-18.2%	71,680	-20.2%
Q1 2010	59,008	0.4%	54,373	-0.1%	9,664	-2.3%	12,426	-0.8%	18,408	2.7%
Q2 2010	57,227	-5.3%	52,753	-4.0%	9,996	-8.1%	12,582	4.3%	17,349	-2.5%
Q3 2010	55,265	-7.9%	50,497	-9.4%	9,218	-13.3%	12,000	2.2%	16,469	-9.9%
Q4 2010	54,510	-9.1%	49,477	-9.7%	9,685	-17.7%	12,818	12.3%	16,986	-4.0%
2010	**226,009**	**-5.5%**	**207,100**	**-5.8%**	**38,564**	**-10.7%**	**49,826**	**4.4%**	**69,212**	**-3.4%**
Q1 2011	52,989	-10.2%	47,828	-12.0%	9,213	-4.7%	12,441	0.1%	16,154	-12.2%
Q2 2011	52,071	-9.0%	47,566	-9.8%	8,246	-17.5%	12,563	-0.1%	16,283	-6.1%
Q3 2011	51,071	-7.6%	47,212	-6.5%	7,052	-23.5%	12,607	5.1%	16,128	-2.1%
Q4 2011	49,138	-9.9%	45,492	-8.1%	5,638	-41.8%	12,634	-1.4%	14,947	-12.0%
2011	**205,269**	**-9.2%**	**188,098**	**-9.2%**	**30,150**	**-21.8%**	**50,246**	**0.8%**	**63,513**	**-8.2%**
Q1 2012	48,558	-8.4%	45,233	-5.4%	5,736	-37.7%	12,705	2.1%	14,655	-9.3%
Q2 2012	47,728	-8.3%	43,672	-8.2%	5,956	-27.8%	12,384	-1.4%	14,232	-12.6%
Q3 2012	47,009	-8.0%	42,759	-9.4%	4,965	-29.6%	12,652	0.4%	14,275	-11.5%
Q4 2012	46,935	-4.5%	42,288	-7.0%	6,251	10.9%	13,035	3.2%	14,383	-3.8%
2012	**190,230**	**-7.3%**	**173,952**	**-7.5%**	**22,907**	**-24.0%**	**50,776**	**1.1%**	**57,545**	**-9.4%**
Q1 2013	46,081	-5.1%	41,710	-7.8%	6,000	4.6%	12,749	0.3%	14,265	-2.7%
Q2 2013	46,068	-3.5%	41,803	-4.3%	5,043	-15.3%	12,962	4.7%	13,830	-2.8%
Q3 2013	46,145	-1.8%	42,217	-1.3%	4,928	-0.7%	13,186	4.2%	14,350	0.5%
Q4 2013	46,018	-2.0%	42,343	0.1%	4,456	-28.7%	12,724	-2.4%	13,424	-6.7%
2013	**184,311**	**-3.1%**	**168,074**	**-3.5%**	**20,427**	**-10.8%**	**51,620**	**1.7%**	**55,869**	**-2.9%**
Q1 2014	46,287	0.4%	42,081	0.9%	5,025	-16.3%	13,402	5.1%	14,241	-0.2%
Q2 2014	46,169	0.2%	41,920	0.3%	5,594	10.9%	13,568	4.7%	15,171	9.7%
Q3 2014	46,710	1.2%	41,989	-0.5%	5,706	15.8%	14,429	9.4%	15,204	6.0%
Q4 2014	46,460	1.0%	42,039	-0.7%	6,113	4.0%	14,035	10.3%	15,592	16.2%
2014*	**185,625**	**0.7%**	**168,029**	**0.1%**	**22,439**	**9.8%**	**55,434**	**7.4%**	**60,208**	**7.8%**
Q1 2015	46,460	0.4%	42,223	0.3%	5,663	12.7%	13,826	3.2%	15,562	9.3%
Q2 2015	46,607	0.9%	42,444	1.2%	4,600	-17.8%	13,762	1.4%	14,647	-3.5%
Q3 2015	46,191	-1.1%	42,019	0.1%	4,164	-27.0%	12,779	-11.4%	12,175	-19.9%

provisional data

Source: National Accounts, September 2015, EL.STAT.

Medium-term outlook

The 11th August 2015 agreement with the official lenders on a new programme and the re-election of the coalition that signed the agreement in the elections that followed have shaped the politico-economic developments since. The negotiations with the official lenders of the Greek state and the policy actions to implement the new programme dominated the scene. The past September elections delayed the first review of the programme. While some of the prior actions for the review were implemented, some are still pending, with the most important concerning the new reform of the social security system. The completion of the first review should initiate negotiations on a public debt intervention, according to the Euro Summit statement of 12 July 2015, which extends the period of waiting for political developments regarding the sustainability of the public finances of Greece beyond the current programme review.

In greater detail, the restart of the fiscal consolidation and reform process (initially with the adoption of implementation measures of the new programme and the completion of the concession agreement on regional airports) facilitates the regular financing of the Greek state and the servicing of public debt, pushing away the threat of debt moratorium and easing the intense uncertainty of the past spring on the outlook of Greece, domestically and abroad. On the other hand, the adoption of further fiscal measures affects to a greater degree, for the time-being, the real disposable income of the households (reduction of auxiliary pensions, VAT hike), with an impact on expectations, especially of those households that considered likely the end of the fiscal consolidation with the expiry of the second Economic Adjustment Programme. The changes in the regime of borrower protection that came with the recent legislation had most likely an impact on the relevant households in the last two months of the year and will affect their decisions in 2016. The decisions in the current year will also depend on announced changes in income taxation and the social security system (retirement age limits, social security contributions, cuts in current and future pensions), and on possible revisions of the taxation of vehicles and real estate.

Regarding the level of liquidity in the Greek economy, the unimpeded recapitalisation of the banks (with capital needs determined by the ECB stress test in past October at a level notably below the maximum envisaged in the Euro Summit of July) eliminates the concern over their capital adequacy.[16] A relatively unhindered implementation of the new programme, together with a further public debt restructuring, could lead to a gradual return of the deposits (withdrawn from the banking system since December 2014) and might facilitate the access of the banks to the quantitative easing programme of the ECB, developments that will boost the ability of the banks to provide credit. In addition,

[16] €14.4 billion in the adverse scenario and €4.4 billion in the baseline scenario

the lifting of the capital controls will accelerate its pace.

However, according to the latest data from the Bank of Greece, no return of deposits was observed between July and November. The deposits of non-financial corporations increased by €1.95 billion, from August to November, to reach €14.6 billion. In contrast, the households continued withdrawing their savings from the banks even after the signing of the agreement on new Economic Adjustment Programme and after the second parliamentary elections. As a result, the household deposits were lower in November by €2.05 billion, compared with July, standing at €100.9 billion. The total deposits of the private sector increased by only €70 million during that period. Hence, there are no indications that the concern of the households over the robustness of the banking system has eased, at least until the start of the bank recapitalisation, as the households have maintained their cash holdings high or have transferred capital to other financial products. Perhaps, the recent changes in the borrower protection regime have also contributed to the deposit flight. On the other hand, the trust of the corporations in the banking system has begun to recover. However, the stabilisation of the deposits at a very low level, together with the bank recapitalisation process, did not facilitate a more conclusive easing of the capital controls in the final quarter of 2015, preserving their contractionary impact on the domestic economic activity and mainly on the foreign trade transactions.

The persistent concern of the households and the easing uncertainty of the enterprises is reflected in the respective sentiment indicators. The economic sentiment indicator of the European Commission for Greece has been constantly rising since August when it stood close to its all-time low, but this trend comes from an improvement of the business expectations (mainly in Industry and Retail Trade, and to a lesser extent in Services). In addition, the Purchasing Managers Index in Manufacturing, compiled by Markit, has increased since August, exceeding 50 units in December, for the first time in 15 months, which implies that the sector has returned, if only temporarily, to a growth phase. The consumer confidence index has remained at its lowest level in two years since August, reflecting the persistent concern of the households and their waiting stance with respect to the fiscal measures and the reforms, planned and under implementation. This attitude is also partly reflected in their consumer behaviour, as the seasonally adjusted volume index in retail trade declined by 3.0% since the start of the third programme in September and October (at a similar rate as in the preceding quarter). The largest decline among the store categories was recorded in Automotive Fuel and Furniture-Electrical Equipment-Household Appliances, which forebodes a continuing fall in imports in the final quarter of 2015 and in early 2016, given that the products of these sectors are largely imported.

With the deposits stabilised at very low levels, the banking institutions limited further the supply of credit to the private sector of the economy during the evaluation of their capital needs and the subsequent recapitalisation. The rate of credit contraction to non-financial corporations increased notably to 6.3% on average between August and November, from 2.0% in the second quarter. Meanwhile, the contraction rate of the credit to individuals and non-profit institutions remained relatively unchanged at 3.1% since August, from 3.6% in the second quarter. Evidently, the low rate of new corporate lending will have an impact on business investment in late 2015.

The strong acceleration of the Public Investment Programme (PIP) will limit the fall of investment during that period. About 66% of the payments for 2015 (or €4.24 billion) were disbursed in the final quarter of the year and in December in particular (€2.7 billion). Understandably, the back-loaded implementation of the PIP will have an impact on investment in the current year. Following the unprecedented PIP spending in the last quarter, the annual target set in the 2015 budget was met (€6.4 billion).

Apart from the PIP, the liquidity of the enterprises will receive an indirect boost from the interruption of the growth of arrears of the state and the acceleration of their repayment. Since the end of 2014 and until September 2015, the arrears increased by 70.5% or €2.15 billion, reaching €5.2 billion. In October and November, they declined slightly, by about €180 million.[17] The preamble of the 2016 budget states that with the financing from the new bailout loan, the rate of arrears repayment will improve, as part of a new programme for their settlement, following the programme implemented between December 2012 – late 2014, without, however, setting concrete targets for the current year.

Primary expenditure overall in the public sector increased year on year since the ratification of the new programme and the normalisation of the financing of the state from September through November by 7.8%, in contrast with the strong year-on-year contraction recorded in the preceding months. The increase came largely from growth in the transfers to local authorities (+€176 million or +107.9%), purchases of goods and services (+€157 million or +24.0%) and remuneration expenditure (€121 million or +4.6%).[18] The increase in public expenditure, particularly in wages, is expected to reflect on the public consumption figures for the final quarter of 2015. In the current year, the implementation of a single remuneration scheme is not expected to change the wage bill in the public sector, as a key parameter of its design, according to the new programme, is its neutral fiscal impact. Furthermore, the return of the rule "5 departures for 1 hiring" in 2016, with certain exceptions, as part of the fiscal consolidation programme, will prevent the expansion of employment in the public sector.

In the external sector of the economy, the decisive influence of the capital controls during the third quarter of 2015 on both

[17] General Government Monthly Bulletin – November 2015, GAO, January 2016

[18] ibid.

imports and exports remained strong until the end of the year, but it is expected to weaken in 2016. The high level of exports (goods and services) in the final quarter of 2014 will boost their year-on-year contraction in late 2015. However, a similar base effect will also be observed in imports, which had reached their highest level in 4 years in the final quarter of 2014. According to the latest data from the Bank of Greece, the reduction of the exports of goods and services strengthened in October to 19.6%, from 13.7% in the third quarter, while the contraction of imports slightly weakened (-25.3%, from -28.4%). In exports, the contraction is stronger in services (-25.9%, against -13.1% in products), coming from the strong contraction in transport services (-44.4%). Note that contraction was observed in all key categories of goods, even in the exports excluding ships and fuel (-3.5%, from +0.2% in the third quarter). The downward trend in the exports of goods except ships – fuels carried over to November, based on the preliminary data on foreign trade of ELSTAT. In addition, the exports of ships have essentially frozen since July. In imports, the contraction trend is still driven by the fall in the imports of goods (-23.2%) and mainly of fuels (-50.5%). As the contraction is stronger for imports than for exports, the external balance improved for one more month in October, with its deficit falling below €136.7 million (75.7% down year on year).

Regarding the latest trends in the components of economic activity and in the short-term economic indicators, the slight decline or stability until July was superceded by an extensive retreat (of a smaller or larger extent), at least in the 2-3 months following the political developments of July and the imposition of the capital controls.

In greater detail, industrial production stagnated in October and November (-0.1%), following its growth by 1.6% both in the preceding quarter and in the same quarter of the preceding year.[19] The loss of growth momentum came mostly from the significant slowdown in output growth in Electricity Generation, from 9.8% on average in the third quarter to 2.2% in the subsequent two months. In addition, the contraction in Mining-Quarrying intensified to 6.8%, from 4.9%. In Manufacturing, the major industry sector, the output stabilisation from the third quarter carried over to the final months of the year (≈-0.2%), while the decline in Water Supply slightly increased to 0.7%, from 0.3%. Regarding construction activity, the latest data is on October, yet the contraction in the sector seems to return to high and growing negative rates, compared with a mild decrease earlier in 2015. Following the transitory hike of last July, construction permits declined at a double-digit rate, both in terms of volume (-25.3%) and surface (-21.7%) in August through October, compared with

[19] The data for early 2015 come either from ELSTAT or the Bank of Greece. The indicated rates of change refer to year-on-year variations.

single-digit contraction in the second quarter (-4.5% and -6.1%).

Regarding the trends in the short-term indicators that concern the demand side of the economy, the contraction of the (seasonally adjusted) turnover in wholesale trade since the beginning of the year intensified sharply in the third quarter, reaching 10.7%, from 3.8% in the preceding quarter. The deflation eased in the final quarter of 2015 to 0.6%, its lowest rate since the same quarter of 2014. The slowdown in deflation reflects the impact of the VAT hike on prices as the largest price increase was recorded in the categories of goods and services mostly affected by this measure, that is Food - Non-Alcoholic Beverages, Tobacco - Alcoholic Beverages and Hotels-Cafes-Restaurants. Nevertheless, the new drop in the global oil price since the autumn preserved the strong price deflation in Housing and Transport, preventing further easing of the deflation.

Despite the fall of activity in significant branches and sectors after the imposition of capital controls, the conditions in the labour market did not deteriorate during the same period. The (non-seasonally adjusted) unemployment rate stood at 24.4% in October, slightly higher than in the third quarter, as was the case during the same period of 2014. However, this development is consistent with the assessment that the labour market does not react immediately to changes in production activity. Therefore, if production keeps falling throughout the second half of the year, unemployment would cease to decline from the start of 2016.

Taking into account the recent politico-economic developments and the trends in the short-term indicators for the medium-term forecast of GDP components and key macroeconomic indicators, the fiscal measures taken as part of the new programme and implemented in the fourth quarter (VAT increase, pension cuts), together with the steady (since the second quarter) deterioration of consumer confidence (mainly due to the continuing fiscal consolidation and the imposition of capital controls) **are estimated to have led to a reduction in the consumption expenditure of the private sector in the final quarter of 2015. As a result, the consumption expenditure of the households for 2015 overall marginally increased, by about 0.4%, less than in the preceding year (0.7%).**

In the current year, the implementation of the fiscal measures (adopted in the past autumn) for the duration of all of 2016 and elements of the forthcoming reform of the pension system (cuts in existing/new pensions, increase of contributions for certain categories) will exert pressure on the real disposable income of the households and their consumption. The changes in income taxation and possible amendments to the taxation of vehicles and real estate will also have a negative impact on consumption. **Hence, the trend in private consumption is expected to turn negative, following two years of weak growth, and to decline at the rate of 1.5% to 2.5%.**

On the other side of domestic consumption expenditure, the increase in the primary public spending recorded since September in the official data on the budget execution (due to the increase in consumption expenditure, such as remuneration) most likely boosted the growth of **public consumption** in the final quarter of the year. Their low level in the last quarter of 2014 would boost their year-on-year growth as well. **The high public consumption in late 2015 will offset its decrease from the second quarter, resulting in a slight increase by 0.5% (or a bit more) year on year. In the current year, policy measures of the new programme, such as the fiscally neutral, public sector remuneration scheme and the return of the 5-to-1 recruitment rule, will lead to a decline in public consumption, by about 2.5%-3.5%.**

The anticipation for the completion of the first review of the new programme (particularly with respect to the pension system reform, with likely changes in the contribution rates) and the liquidity crunch (due to the capital controls and the bank recapitalisation process), together with the difficulties that the capital controls have brought for imports, inhibited the implementation of investment plans in the final quarter of the previous year, boosting their strong contraction. Base effects from their high level in the final quarter of 2014 would also have contributed to their year-on-year decline. On the other hand, the sudden acceleration of the execution of the Public Investment Programme would have limited the fall of investment. **Overall in the previous year, investment is expected to have reached about €20 billion in constant prices, recording a decline by about 12.5%, following their growth by 9.8% in the preceding year.**

Provided that the third programme is implemented without major setbacks, albeit with the usual delays observed in the previous two programmes, the possibilities for investment funding will increase significantly in 2016. The recent recapitalisation of the banks strengthens notably their lending capacity, which in turn also depends on the pace of return of deposits. In addition, given the execution of more than 1/3 of the 2015 payments of the Public Investment Programme in December alone and the fact that its budget for 2016 is higher by €350 million (€6.75 billion), with a more front-loaded schedule than in the previous year, there are conditions for a very large boost of investment activity coming from the PIP.

The restart of the programme of privatisation – utilisation of state-owned private property will provide a further boost to investment activity. However, the planned for this year activities of the Hellenic Republic Asset Development Fund (HRADF), set in the preamble of the 2016 Budget, even if fully executed, will lead to the implementation of investment projects mostly from 2017. In addition, the envisaged in the statement of the Euro Summit of 12th July 2015 establishment of a new, independent fund for state-owned assets, will lead to a temporary interruption of the privatisation programme if the mandate of

HRADF is amended or the fund is merged with the new agency. Subsequently, the relevant actions that will be carried out in the current year will fall short of the targets.

The improved financing possibilities and an adequately capitalised banking system undoubtedly will improve the investment climate, compared with the preceding year. However, the potential investors will discount in their decisions not only the increased resources and the investment possibilities coming from the concessions and the privatisations but other factors as well that affect the return on their investment. Indicatively, the factors that will affect the investment decisions in the current and the coming year include: i) the sustainability of the public finances after the turmoil of the events in 2015, which will be affected by the negotiations on a new public debt intervention by the official lenders, expected to start soon, ii) the characteristics and the stability of the tax system, after its forthcoming restructuring, iii) the emphasis in the implementation of the programme of structural changes in sectors and professions, and iv) exogenous factors, such as the energy cost, the geopolitical conditions in the wider area and in countries linked more or less tightly with the Greece economy, the economic recovery in the Euro area, etc.

The – once again – protracted negotiations do not facilitate the normal operation of the economy, despite the lack of intense disagreement or standoffs, as they keep decisions on major issues on hold (pension system, income taxation, property-vehicle taxation etc.). The completion of the current review does not imply a full implementation of all agreed policies with the official lenders. The consistency in their implementation and any impact from them will be evaluated by the enterprises and the other economic agents more strictly than in the past, as the margins for actions with a limited return are by now exhausted. The dramatic events in the wider geographical region of Greece (armed conflicts, large migration flows, etc.) discourage investment, particularly of foreign investors.

In particular regarding construction activity, the forthcoming amendment in the fair market property values, the expected changes in property taxation and the tightening of the conditions for the protection of primary residence borrowers with overdue payments to the banking system will hinder the construction activity, at least until what will hold about these issues becomes clear.

Therefore, a substantial improvement of the investment climate in the current year could come mainly from the effective implementation of the new agreement, with an emphasis on the structural changes that it contains, together with the as fast as possible, clear and fair settlement of outstanding issues regarding the social security system and the direct taxation. If a progress on these issues is achieved soon, the improved year on year financing terms will be utilised faster and more effectively. However, as most of these issues are not scheduled in the new programme to be resolved during the current review, investment will be hindered until the final decisions are made. Taking into account the impact of anticipated relevant developments, **investment is expected to continue to decline in 2016, albeit at a significantly lower rate than in the previous year, by about 4.0%.**

Regarding **exports,** the emergence of a downward trend even in products other than fuel and ships since the start of the third quarter, as presented earlier, will bring a decline in the exports of goods for the first time during the previous year. This development, apart from the impact of the capital controls, comes from demand contraction in specific geographical regions, such as North Africa and the Middle East, an area with raging armed conflicts, and in the developing Asian economies, where growth slowed down in 2015. In the exports of services, with international transport collapsing and the extended for a second year tourist period failing to record better results than in 2014, the strong contraction from the third quarter is expected to have carried over to the final quarter, a result exacerbated by the base effect from their high level in the final quarter of 2014. **As the exports of goods returned to contraction and with the exports of services declining at a similar rate as in the third quarter, the reduction of exports overall will most likely strengthen in the final quarter of 2015. As a result, the export contraction for 2015 is estimated at around 4.5-5%.**

Regarding the course of exports in the current year, the intense reduction of the exports of petroleum products in the previous year is not expected to carry over to the current year, which will create a strong positive base effect on total exports. In addition, the impact of the capital controls will weaken. On the other hand, the fall in the exports of goods other than petroleum products and ships will most likely carry over to the current half of the year, albeit at a lower rate, as the tension in the Middle East does not seem to subside in the coming period, while the developing Asian economies are likely to experience a further slowdown. Nevertheless, the strengthening growth in 2016 in the Euro area and the US, which already absorb more than 1/3 of the Greek exports of goods, will gradually weaken their small contraction. The prevailing strained conditions in the countries of the Middle East and North Africa strengthen the attractiveness of Greece as a tourist destination, however these conditions were present in 2015 as well, therefore, they will not bring a further significant boost to tourism. **In short, the outlook for exports in the current year is positive, but the expected growth is weak (1.0-2.0%).**

Regarding **imports,** the capital controls continued to exert pressure in the final quarter of 2015, weaker than in the period immediately after their imposition, due to the adjustment of the operation of the businesses and banks and their slight relaxation after the September elections (e.g. up to €500 per month can be transferred abroad without any justification).

Nevertheless, the fall of consumption demand and mainly of investment in late 2015, together with a negative base effect from their strong growth in the same period of the preceding year (+16.2%) will keep the contraction rate of imports high. **In 2015 overall, imports are anticipated to have declined by 7-7.5%. As the fall in imports will exceed that of exports, the deficit of the external account (in national accounting terms) will fall, year on year, below 2% of GDP, from 2.6% in the preceding year.**

The contractionary impact of recent and suspected new fiscal measures on the real disposable income of the households in the current year and the sluggish economic activity, at least for the duration of the negotiations, will maintain the imports on a downward trend in the first half of the current year. During that period, the households and the enterprises will not make the emergency purchases that they did in the same period of 2015 that pushed imports growth to 9.3% in the first quarter of 2015. In the second half of 2016, imports will most likely cease to decline, with the base effect from their very low level after the imposition of the capital controls and until the end of 2015 contributing to this development. **The increase in imports in the second half of the current year is not expected to exceed their reduction in the first half and as a result, they are expected to decline by 3% overall in 2016.**

To sum up the forecasts of the key GDP components for the final quarter of 2015 and for the whole year, the fiscal measures of the new programme (fully implemented since October) and the deterioration of the expectations of the households from other current and forthcoming policy measures (such as the social security system and the protection of borrowers) will lead to a reduction of consumption expenditure in the final quarter, limited their growth overall in 2015. The restart of the ordinary financing of the Greek state after the ratification of the new programme (without significant delays) allowed for a gradual normalisation of the payments by the public sector, while some of the obligations from the first half of the year were also covered. As a result, public consumption increased and is estimated to have reached slightly higher levels than in 2014, due to the rehiring of redundancies in the first half of the preceding year. The credit crunch due to the capital controls and the process of bank recapitalisation, which was moderated by the acceleration of the Public Investment Programme, but mainly the anticipation of the businesses of the political decisions on issues of direct impact to their operation (e.g. social insurance contribution) and more generally on the implementation progress of the new programme, had a strong negative impact on investment in late 2015, boosting their strong contraction already from the second quarter of the year.

In the external sector of the economy, the fall of the exports of goods intensified in the final quarter from the decline of the exports of goods other than petroleum products and ships, for the first time in that year. The sharp fall in transport services reduced the exports of services, despite the extended tourist period. As a result, exports declined in the previous year, for the first time since 2010. The sharp contraction of imports after the imposition of the capital controls slightly eased in the final quarter, after the slight relaxation of the controls.

Regardless of the trends in the GDP components in the final quarter of 2015, the significantly milder GDP decline after the imposition of the capital controls (reflecting the fact that it was largely anticipated by a significant part of the enterprises and the households, which had in part prepared for this) eased their contractionary impact on the Greek economy. The likely acceleration of the contraction in the final quarter will not exceed by much the rate observed in the preceding quarter. **Taking into account the small reduction of GDP in the third quarter of 2015, and the expected trends in key GDP components in the subsequent quarter, the contraction of the Greek economy is anticipated to be notably less pronounced than initially expected after the imposition of the capital controls. In particular, GDP is expected to have declined by 0.5% in 2015.**

Attempting a first approximation of the trends in key GDP components in the current year, given that the implementation of the new programme in 2016 includes certain major reforms and stages (with a significant likely impact on the socioeconomic environment and the economic activity), the contraction of private consumption that started in 2015 will carry over and intensify in the current year, from the full-year impact of the measures adopted in the past autumn and from likely new measures that will reduce disposable income (pension cuts, changes in income taxation). The restart of the fiscal consolidation process will curb public consumption. Regarding investment, the possibilities of drawing liquidity will improve after the recapitalisation of the banks and the normalisation of the PIP execution. Nevertheless, the revitalisation of the investment climate will depend on the effective implementation of the new agreement, and mainly of the structural changes that it contains, together with the coming changes in the social security system and the direct taxation. The forthcoming amendments in the fair market values of property and the changes in property taxation will inhibit economic activity, at least until the draft legislation is finalised. Exports will grow at a low rate, due to the gradual relaxation of the capital controls and the strengthening of growth in significant export destinations for Greece. As private consumption and investment will weaken further, imports will decline, despite the fact that their extensive contraction in the second half of 2015 was due to the capital controls, implying that the demand for imports has rolled over to the future after the capital controls are largely lifted. **Taking into account the above trends in the GDP components in 2016, output is expected to decline by 1.5%.**

Regarding the trends in unemployment, **the contractionary impact of employment in Tourism will continue for most of the final quarter of 2015. Its decline due to the fall of activity in this sector is likely to be notably weaker compared with the same period of 2014, as the tourist flows remained relatively strong until the final months of the year in the previous year as well. In addition, only a part of the job creation in Industry and Retail – Wholesale Trade, recorded during the summer months in the Labour Force Survey, will remain, as the boost of industrial production seems only transitory, based on the latest data from the corresponding short-term indicators, while the volume index of retail trade kept decreasing slightly during the same period. The new strong decline in construction activity will affect employment in Construction. Therefore,** unemployment is expected to have increased in the final quarter of 2015, slightly weaker than in the past, to reach about 25% for the year total.

The contraction of the Greek economy in the current year, mainly from a weakening of the domestic consumption demand, will interrupt the fall of unemployment of the last two years. Employment in sectors and activities producing products and services for the final consumers, such as Retail Trade and Food Services and in other branches of services with a decisive impact on employment growth in 2014-2015, will decline in the current year. Particularly in Tourism, given that a new significant increase of output is not anticipated in 2016, the strong job creation observed in the past few years is not expected to carry over to the current year. Nevertheless, the significant increase from these years will be absorbed. In Construction, a boost is expected in employment in public works, which will moderate the further decline in building activity. More broadly regarding investment, the potential investors will maintain a waiting stance with respect to the political developments (current review, negotiations on the public debt), until the political decisions on issues and parameters with an impact on the return on their investment are made (social security system, fair market values of property, income taxations etc.), postponing thus job creation. **Taking into account the above effects on employment during the current year, their overall negative impact is expected to bring a further increase in unemployment in 2016 to about 25.5%.**

The decline in disposable income and the weakening of consumption demand favours the preservation of deflation, which reached its highest level on record. The new phase of oil price decline will inhibit any significant price rise. However, as the oil price decline will not be as strong as in the previous year, due also to the high taxation on fuels, its impact will not be as notable as in 2015.

Table 3.2

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

	2014	2015	2016	2017
Annual Percentage Changes				
GDP	0.7	-1.4	-1.3	2.7
Private Consumption	0.5	-1.3	-1.7	1.7
Public Consumption	-2.6	-0.2	-1.0	-0.9
Gross Fixed Capital Formation	-2.8	-10.2	-2.0	14.7
Exports of Goods and Services	7.5	0.1	1.2	4.1
Imports of Goods and Services	7.7	-4.0	0.0	3.7
Employment	0.1	0.4	-0.6	2.0
Compensation of Employees per capita	-2.1	-2.0	0.1	0.8
Real Unit Labor Cost	0.4	0.9	0.2	-0.6
Harmonised Index of Consumer Prices	-1.4	-1.0	1.0	0.9
Contribution to real GDP growth				
Final Domestic Demand	-0.6	-2.1	-1.6	2.5
Net Exports	-0.3	1.4	0.4	0.1
Inventories	1.5	-0.7	-0.1	0.1
As a percentage of GDP				
General Government Balance	-3.6	-4.6	-3.6	-2.2
Current Account Balance	-2.9	-1.0	-0.3	0.1
General Government Gross Debt	178.6	194.8	199.7	195.6
In percentage terms				
Unemployment (% of labor force)	26.5	25.7	25.8	24.4

Source: European Economic Forecast, autumn 2015, European Commission, November 2015

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2014 - 2017 (at constant 2010 prices, annual % changes)

	MinFin			EC			OECD			IMF		
	2014	*2015*	*2016*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*	*2014*	*2015*	*2016*
GDP	0.7	0.0	-0.7	-1.4	-1.3	2.7	-1.4	-1.2	2.1	0.8	-2.3	-1.3
Final Demand	:	:	:	-2.7	-1.6	2.5	-1.3	-2.4	1.3	:	:	:
Private Consumption	0.5	0.5	-0.7	-1.3	-1.7	1.7	0.5	-0.8	1.1	:	:	:
Harmonised Index of Consumer Prices (%)	-1.4	-1.0	0.5	-1.0	1.0	0.9	-0.9	0.7	0.5	-1.5	-0.4	0.0
Gross Fixed Capital Formation	-2.8	-8.4	-3.7	-10.2	-2.0	14.7	-16.0	-17.0	8.1	:	:	:
Unemployment (%)	26.5*	25.4*	25.4*	25.7	25.8	24.4	25.2	24.8	23.4	26.5	26.8	27.1
General Government Balance (% GDP)	-1.2**	0.05**	0.03**	-4.6	-3.6	-2.2	-4.3	-7.7	-1.5	-3.9**	-4.2**	-3.6**
Current Account Balance (% GDP)	:	:	:	-1.0	-0.3	0.1	-0.3	1.2	1.9	0.9	0.7	0.5
Gross Public Debt (% GDP)***	178.6	180.2	187.8	194.8	199.7	195.6	190.0	200.0	197.4	177.1	196.9	206.6

* On a national accounts basis

** According to the methodology of the third Economic Adjustment Programme

*** The forecasts on Groo Public Debt include estimates on the expenditure to recapitalise the banks

Sources: Preamble of the State Budget 2016, Ministry of Finance, November 2015 – European Economic Forecast, autumn 2015, European Commission, November 2015 - OECD Economic Outlook No. 98, December 2015 – World Economic Outlook, IMF, October 2015 – Fiscal Monitor, IMF, October 2015

Besides, the inflationary impact of the VAT hike on the Consumer Price Index, through particular categories of goods and services, offsets the effects from declining demand and falling oil prices in the final quarter of 2015, with the deflation weakening notably. The inflationary impact of VAT will continue until the third quarter, when a full year since its increase will be completed, with a reduction of inflation likely in the final quarter of the year. Therefore, **prices are expected to increase in the current year, after three years of uninterrupted deflation, with the inflation rate expected in the range 0.5%-1%.**

3.2 Developments and outlook in key sectors of the economy

Industry

Industrial production increased marginally, by 0.1%, year on year in the first eleven months of 2015, compared to losses of 1.9% during the corresponding period of 2014.

Meanwhile, industrial production in the Euro area, according to the latest data on the first ten months of the year, recorded slightly faster growth rates than in 2014. In particular, the industrial production index increased by 1.5%, compared with 0.9% growth in the corresponding period of 2014.

At sector level in Greece, the strongest contraction in the first eleven months of 2015 was recorded in Mining, where output declined by 8.0%, compared with a marginal growth in the preceding year (+0.8%). Electricity Generation came next, with a significant reduction of the contraction rate (-0.7% from -13.0% in the previous year). In contrast, output in Water Supply increased by 1.9%, compared with a reduction by 0.9% in 2014. Output in Manufacturing also increased, albeit at a lower rate than in 2014 (+1.0%, against +1.6%).

Output decreased in 10 of the 24 branches of **Manufacturing** in the first eleven months of 2015. Among the branches of particular importance for the Greek economy, the contraction returned in the Manufacture of Food Products (-0.3% against +2.8% in 2014), while output in Basic Metals increased for the second year in a row (+5.1%, against +5.8%). Output in Basic Pharmaceutical Products also increased, offsetting the losses recorded one year earlier (+4.7%, against a contraction of 4.2%).

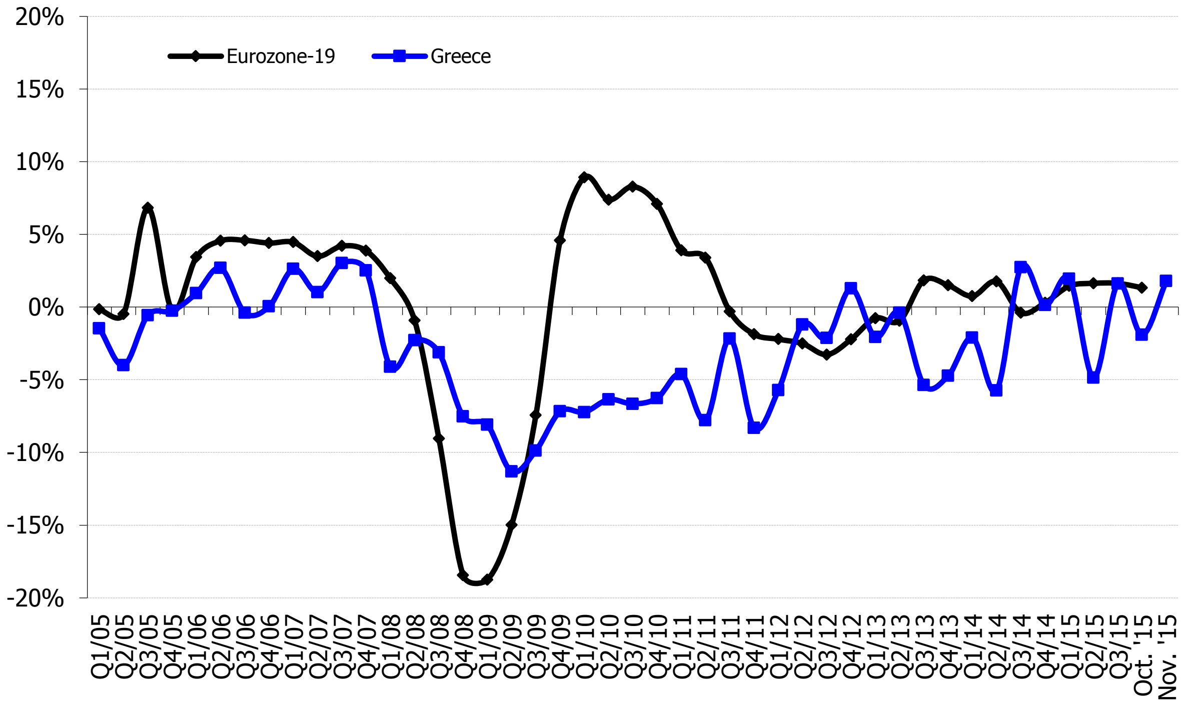
In the remaining branches of Manufacturing, the largest output decline was observed in Repair and Installation of Machinery and Equipment (-18.3% from no change in 2014), Leather Products - Footwear (-15.8% against -12.9%) and Wearing Apparel (-15.6% from -5.3%). Output contraction was also recorded in Motor Vehicles, with the activity indicator declining by 12.6%, compared with a growth by 5.7% in the corresponding period of 2014. Output in Wood – Cork Products contracted further, albeit at a lower rate than in the previous year (-7.5% from -9.3%). In contrast, the output contraction strengthened in Printing and Reproduction of Recorded Media (-5.8%, against -2.3%).

Among the branches with positive growth rates, the highest rate was registered in Computers, Electronic and Optical Products, where output kept growing at a particularly high rate (+27% from +7.7%). The output of Tobacco Products increased by 21.6%, compared to a contraction of 6.9% in the same period of the previous year. The output growth was less pronounced in Other Transport Equipment and Other Manufacturing, with the industrial production index increasing by 7.3% in both sectors. Electrical Equipment (+6.5%, against -12.5% in 2014), Rubber and Plastic Products (+3.2%, against +1.6%) and Chemicals and Chemical Products (+1.7%, against +1.5%) came next, while positive growth was also recorded in Textiles, with output growing by 1.6%, compared with a contraction by 11.0% in the corresponding period of 2014.

Regarding the main groups of industrial products, production contracted by 6.6% in Capital Goods (against a weaker contraction by 1.8% in the preceding year) and by 0.7% in Energy (against 5.4%). In contrast, output increased in Non-durable Consumer Goods (+1.7%, against +0.2% in the first eleven months of 2014), in Durable Consumer Goods (+1.5% from -8.3%) and in Intermediate Goods, where output growth slowed down compared with the corresponding period of 2014 (+0.9%, against +2.6%).

Figure 3.1

Industrial Production Index in Greece and in the Euro Area-18 (year-on-year % change)



Sources: ELSTAT, Eurostat

Construction

The recovery of the Construction sector since 2014 seems to halt in the third quarter of 2015. The production index remained essentially unchanged in the first nine months of the year (+0.3%), against a strong growth in the corresponding period of 2014 (+14.5%). The trend in the index during the first six months of the current year, when it increased by 26.5% on average, was offset by the significant year-on-year drop (by 29.5%) in the third quarter.

Regarding its constituent categories, volume index of production in Buildings increased by 8.7% compared to the corresponding period of 2014, when the index had decreased by 5.5%. Meanwhile, the strong output growth in Civil Engineering Works from the first nine months of 2014 (+34.3%) was interrupted in 2015, with the index falling by 5.5% in 2015.

The index in the Euro area also declined during the same period, by 1.2%, compared with 3.7% growth in the first nine months of 2014.

During the first nine months of 2015, the number of building permits in Greece decreased year on year by 2.1% to reach about 9,700 permits. Note that even though the actual number of issued permits declined, the surface area and volume indicators increased by 10.4% and 40.7%, respectively. Here too, the positive results of the two indicators came from their strong performance in the first six months of 2015. Between August and October, the surface area indicator was down year on year by 22.2%, compared with 11.8% contraction in the same period of 2014, while the volume indicator shrank by 48.5%, compared with a marginal reduction by 2.8% in 2014.

Lastly, according to the latest data published by the Bank of Greece, the residential property transactions with financial intermediation contracted anew in the third quarter of 2015, by 6.1% year on year. Meanwhile, the interest rate on mortgage loans declined quarter on quarter in the third quarter (from 2.89% to 2.43%).

Retail trade

During the first ten months of 2015, the index of retail trade volume kept falling, at a faster pace than in the corresponding period of 2014 (-1.4% from -0.3%).

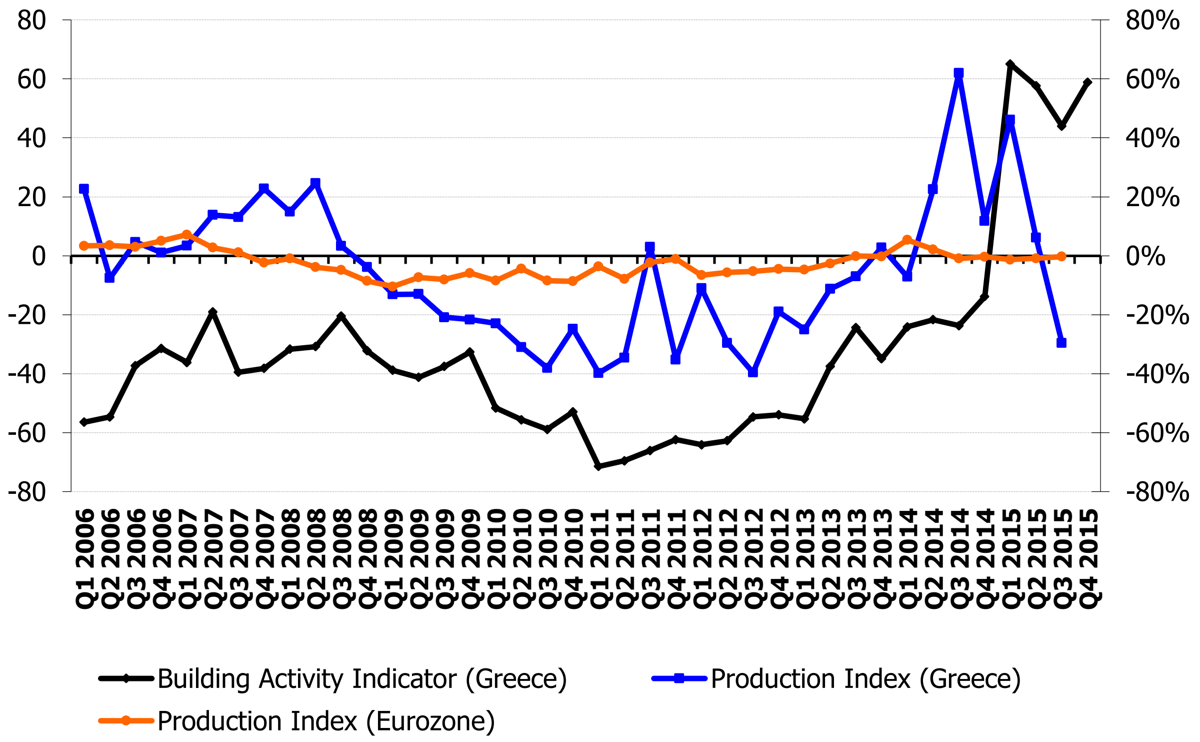
Turnover decreased in 6 out of the 8 sub-sectors of Retail Trade, at an accelerating pace in most of them. In particular, the sub-sectors with the strongest contraction include Department Stores (-4.2%, against -4.5% in 2014), Furniture and Electrical Appliances (-4.2%, against -1.2%) and Food – Beverages – Tobacco (-4.1%, against -3.6%). Automotive fuels (-1.8%, against +1.9%) and Pharmaceutical Products – Cosmetics (-1.2%, against -1.9%) came next. Meanwhile, the turnover in Supermarkets declined by 0.9%, compared with a marginal growth in the same period of 2014 (+0.5%). Turnover increased only in Clothing – Footwear (+7.3% in both periods) and Books – Stationery – Other Goods (+6.3%, against +8.2% in 2014)

The contraction of the retail trade sector in 2015 was reflected in the leading indicators of the **Business Surveys conducted by IOBE**. The business sentiment indicator for Retail Trade contracted by about 8 units year on year. Note that in 2014 the climate of optimism had a strong impact on the business sentiment in Retail Trade, with the indicator growing by almost 20 units, which formed a high base of comparison for 2015. In the constituent branches, the sentiment deteriorated in Textiles-Clothing-Footwear (-21 units, against an increase of 23 units in 2014), Motor Vehicles (-17 units, against an increase of 32 units in 2014) and Household Appliances (-13 units, against +32). In contrast, the sentiment improved only in Department Stores, where the index grew by about 13 units, after a weaker growth by 11 units in 2014.

The business sentiment indicator for Motor Vehicles reached 97.3 units in 2015, lower by 15% year on year, with the indicator recording year-on-year losses in most months of the year. The total sales of passenger cars increased by 6.4% in 2015, compared, however, with a growth by 15% until the first half of the year, which is an indication of the impact that the economic developments had in halting the growth momentum of the car market..

Figure 3.2

Production Index in Construction και Building Activity Index

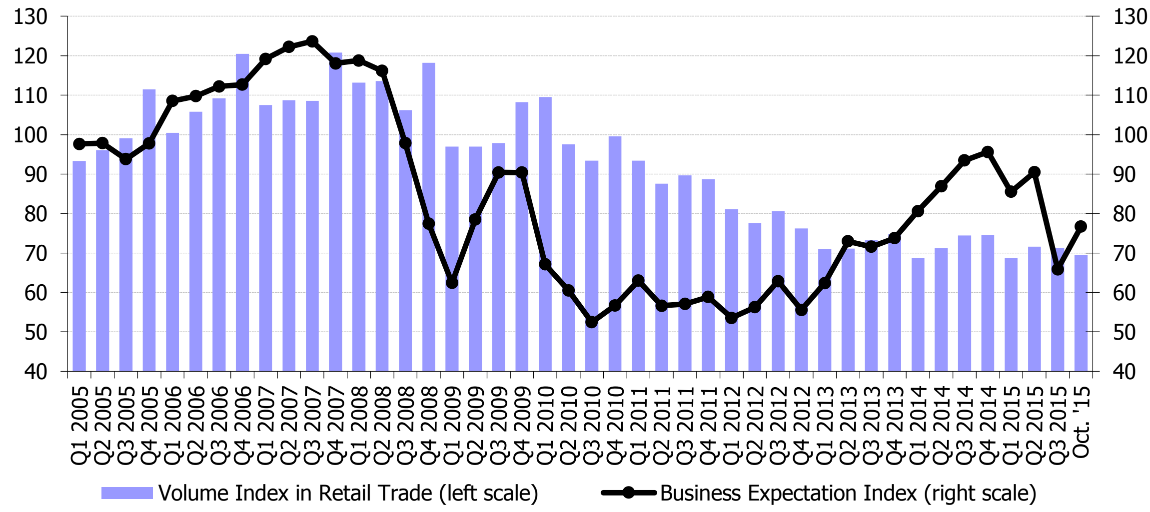


Sources: ELSTAT, Eurostat

Besides, it has been observed that economic developments affect strongly the sales of cars due to the nature of this product (durable good). Regarding the constituent elements of the indicator, the current sales balance returned to negative levels, at -6 from +13 in 2014, having significantly deteriorated during the third quarter of 2015. Meanwhile, about 70% of the enterprises perceived stocks to be at normal levels.

Figure 3.3

Volume Index in Retail Trade (2010=100) και Business Sentiment Indicator in Retail Trade (1996-2006=100)



Source: IOBE

Table 3.4

Annual Changes in the Volume Index in Retail Trade

Category of Retail Trade Stores	Volume Index (2010=100)				
	Jan. – Oct. 2013	Jan. – Oct. 2014	Jan. – Oct. 2015	Change 2014/2013	Change 2015/2014
Overall Index	71,6	71,4	70,4	-0,2%	-1,4%
Overall Index (excluding automotive fuels)	72,8	72,2	72,0	-0,8%	-0,3%
Store Categories					
Supermarkets	80.1	80.5	79.8	0.5%	-0.9%
Department Stores	85.5	81.6	78.2	-4.5%	-4.2%
Automotive Fuels	66.5	67.8	66.5	1.9%	-1.8%
Food – Drink – Tobacco	69.9	67.4	64.6	-3.6%	-4.1%
Pharmaceuticals – Cosmetics	69.0	67.7	66.9	-1.9%	-1.2%
Clothing – Footwear	60.8	65.2	70.0	7.2%	7.3%
Furniture – Electric Equipment - Household Appliances	64.5	63.7	61.0	-1.2%	-4.2%
Books – Stationary	78.3	84.7	90.0	8.2%	6.3%

Source: ELSTAT

Table 3.5

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

	2013	2014	2015	%Δ '14/'13	%Δ '15/'14
Food-Drinks-Tobacco	68.5	87.6	82.0	27.9%	-6.4%
Textiles - Clothing – Footwear	77.3	100.9	79.2	30.5%	-21.5%
Household Appliances	63.8	79.1	66.4	24.0%	-16.1%
Vehicles-Spare Parts	81.9	114.4	97.3	39.7%	-14.9%
Department Stores	55.7	66.7	79.5	19.7%	19.2%
Total Retail Trade	**70.2**	**89.1**	**81.0**	**26.9%**	**-9.1%**

Source: IOBE

The view that stocks would remain at regular levels has dominated over time among the enterprises in the sector (>75%). The sales expectations and the order book sub-indices turned negative in 2015, once more due to the summer events. Lastly, regarding employment, the signs of stabilisation observed previously were replaced by negative trends.

Wholesale trade

The effects from the fall of demand in retail trade spilt over to the wholesale trade as well, where the turnover index declined by 5.2% in the first nine months of 2015, following a marginal increase of 0.5% in the corresponding period of 2014.

Services

Activity in Services declined year on year during the first nine months of 2015, with turnover contracting in six of its ten sub-sectors.

The largest contraction was recorded in Publishing Activities (branch 58), where turnover declined by 13.0%, against a small increase of 1.3% during the first nine months of 2014. Weaker contraction than in the previous year was recorded in Advertising and Market Research (branch 73), where the indicator fell by 8.0%, compared with 11.4% during the first nine months of 2014. Management Consultancy – Legal and Accounting Activities came next, with the turnover index contracting by 6.4%, compared with a marginal growth in the corresponding period of 2014 (+0.2%). The demand for Business Support Activities (branch 82) declined by 4.4%, against growth by 7.1% in the first nine months of 2014. Lastly, the turnover in Postal and Courier Activities (branch 53) declined by 4.3%, after a small contraction by 0.3% in 2014.

In contrast, the largest growth in turnover was recorded in Employment Activities (branch 78), where the indicator increased by 22.0%, compared with no year-on-year change in the first nine months of 2014. Other Professional, Scientific and Technical Activities (branch 74) came next, where the growth rate remained unchanged from the first nine months of 2014, at 16.7%.

Turnover in Security and Investigation Activities (branch 80) increased by 12.2%, compared with a 4.1% decrease in the corresponding period of 2014. Computer Programming (branch 62) strengthened by 8.9% (against a 5.4% contraction in the preceding year), with a similar growth, by 8.7%, recorded in Information Service Activities (branch 63), compared with a 3.0% decline in the corresponding period of 2014.

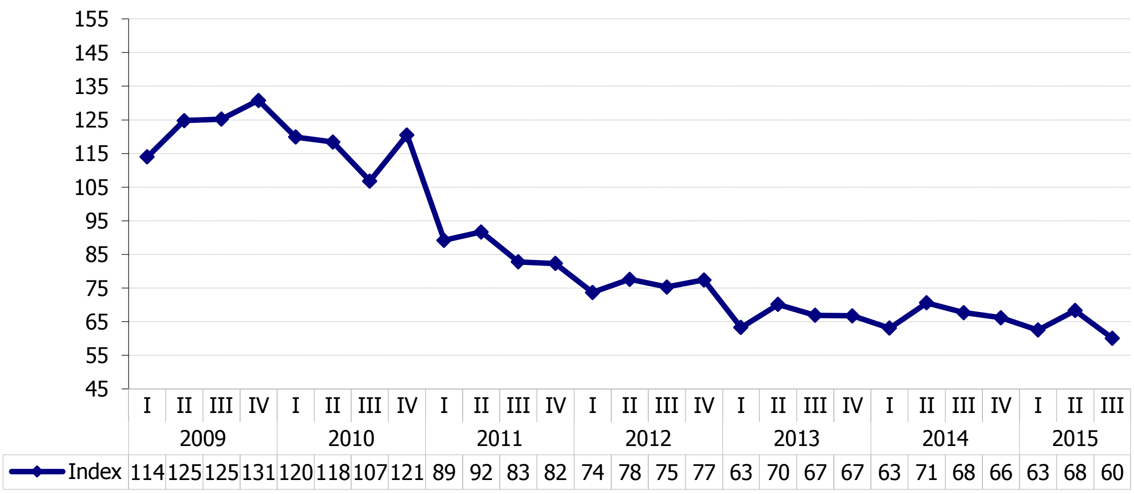
Lastly, turnover in Accommodation and Food Service Activities (branches 55 & 56) increased by 9.9% year on year in the third quarter of 2015. During the first nine months of 2015, turnover strengthened by 10.3%, a rate that is slightly lower than in the corresponding period of 2014 (11.9%).

The turnover contraction in services in 2015 can be gauged by the course of the **leading indicators of the Business Surveys conducted by IOBE.** It is quite indicative that the widespread optimistic sentiment of 2014 was succeeded in 2015 by an intense escalation of pessimism in all subsectors of Services, without any exception. The constituent indicators lost most or all of the gains from 2014, even in activities related to Tourism, where turnover did not weaken in 2015, even after the imposition of the capital controls.

In more detail, the respondents in the Computer Programming sector were particularly pessimistic, with the relevant indicator losing 22.3 units, following an increase of 16 units in the preceding year. Financial Intermediaries (-21.9 units from +3.3 in 2014) and Various Business Services (-16.6 units, against an increase of 3.2 units in the preceding year) came next. The sentiment deteriorated significantly in Travel Agencies (-13.5 units, compared with an increase by 32 units in 2014) and in Hotels – Restaurants (-12 units, compared with an increase by 21.5 units in 2014.

Figure 3.4

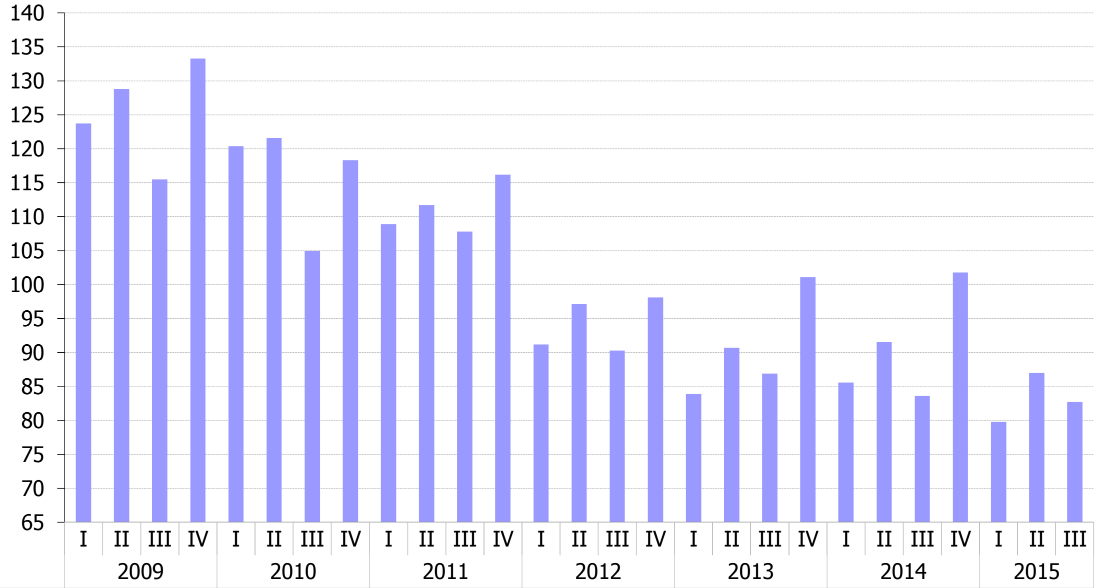
Turnover Index in Wholesale Trade



Source: EL.STAT

Figure 3.5

Turnover Index in Postal and Courier Services **(branch 53)**

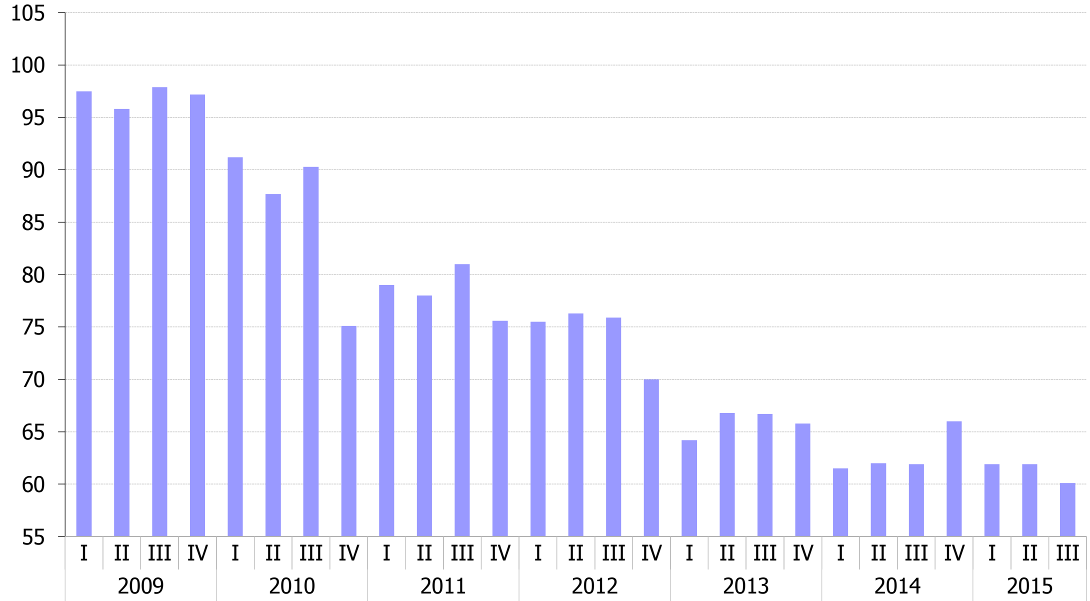


	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II	2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III
Index	124	129	116	133	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86	92	84	102	80	87	83

Source: ELSTAT

Figure 3.6

Turnover Index in Telecommunication Services **(branch 61)**

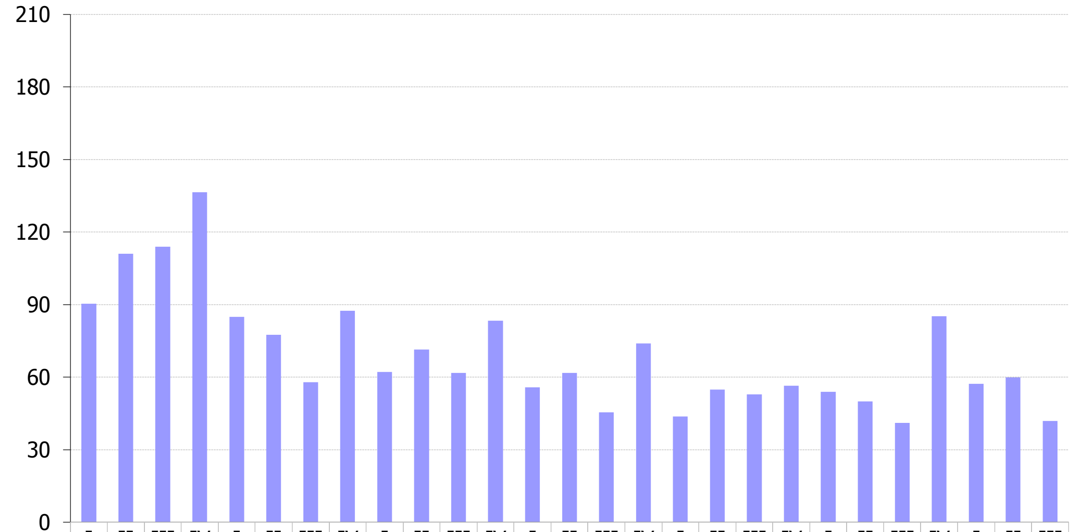


	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II	2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I	2015 II	2015 III
Index	98	96	98	97	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62	62	66	62	62	60

Source: ELSTAT

Figure 3.7

Turnover Index in Information Services **(branch 62)**

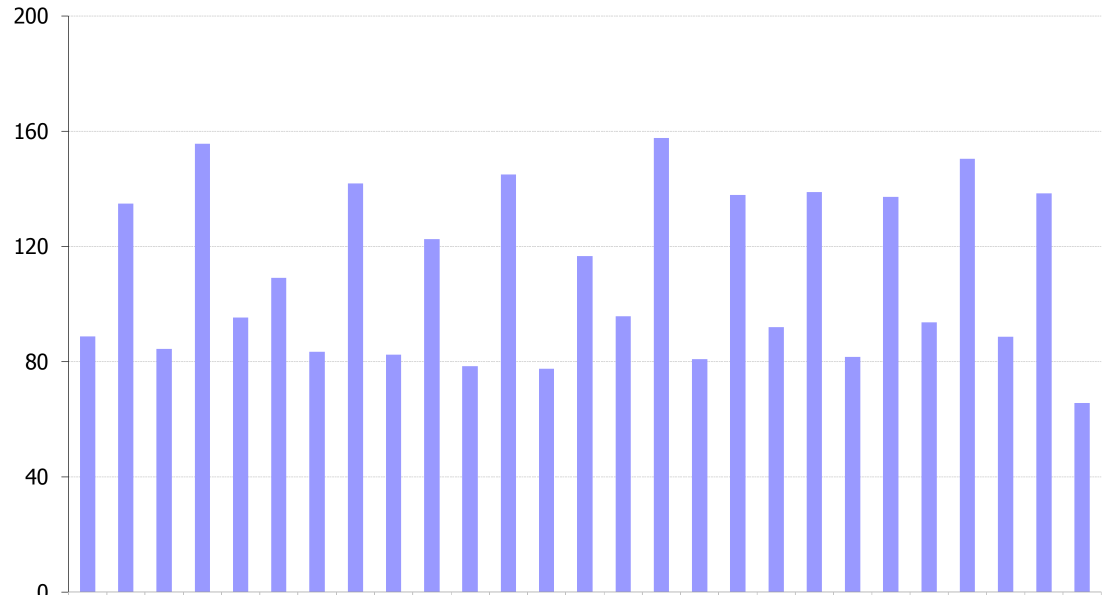


	2009				2010				2011				2012				2013				2014				2015		
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Index	90	111	114	137	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41	85	57	60	42

Source: ELSTAT

Figure 3.8

Turnover Index in Legal, Accounting and Management Consultancy Services **(sectors 69 + 70.2)**

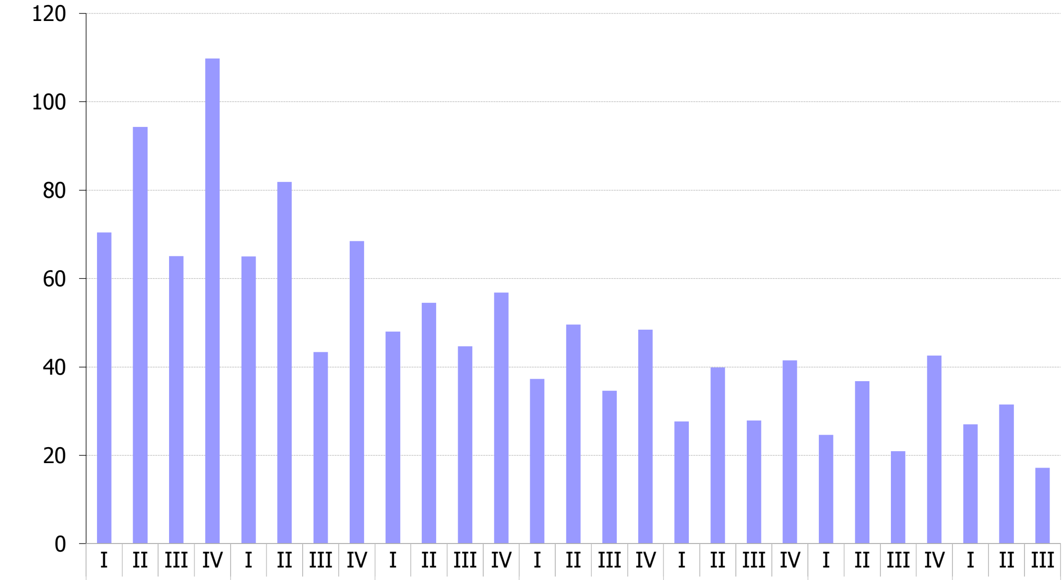


	2009				2010				2011				2012				2013				2014				2015		
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Index	89	135	84	156	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94	150	89	139	66

Source: ELSTAT

Figure 3.9

Turnover Index in Advertising and Market Research **(branch 73)**

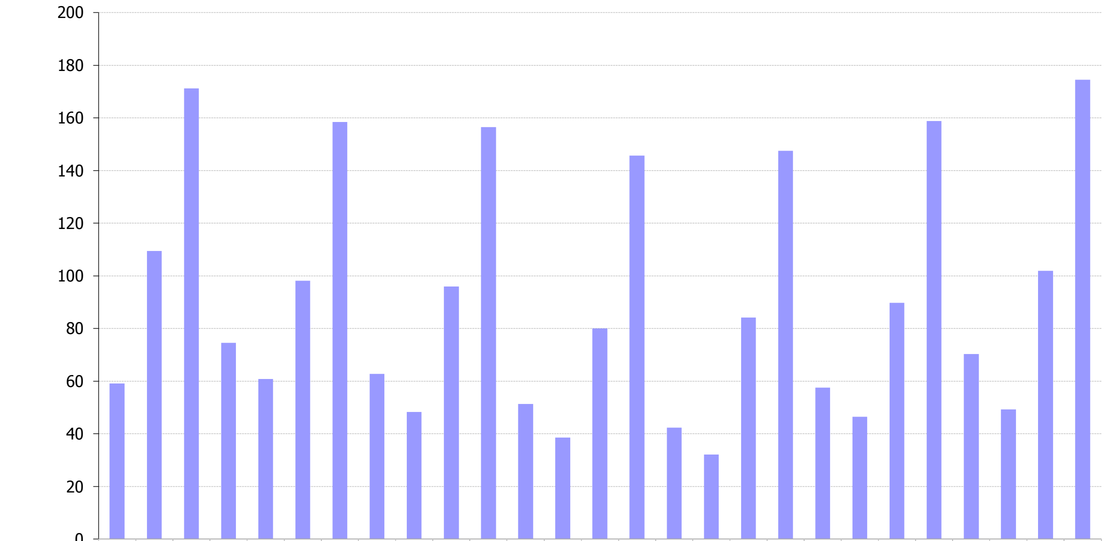


	2009				2010				2011				2012				2013				2014				2015		
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III
Index	70	94	65	110	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21	43	27	32	17

Source: ELSTAT

Figure 3.10

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



	2009				2010				2011				2012				2013				2014				2015		
	I	II	C	D	I	II	C	D	I	II	C	D	I	II	C	D	I	II	C	D	I	II	C	D	I	II	C
Indicator	59	109	171	75	61	98	158	63	48	96	157	51	39	80	146	42	32	84	148	58	47	90	159	70	49	102	175

Source: ELSTAT

Table 3.6

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

	Jan.-Sep. 2013	Jan.-Sep. 2014	Jan.-Sep. 2015	%Δ '14/'13	%Δ '15/'14
Trade of motor vehicles	48.7	58.3	62.5	**19.6%**	**7.3%**
Land transport and transport via pipelines	88.4	85.2	80.4	**-3.7%**	**-5.6%**
Water transport	82.7	74.2	71.4	**-10.2%**	**-3.9%**
Air transport	120.0	123.8	126.5	**3.2%**	**2.1%**
Warehousing and support activities for transportation	80.3	83.3	85.9	**3.8%**	**3.0%**
Postal and courier activities	87.2	86.9	83.2	**-0.3%**	**-4.3%**
Publishing activities	44.1	44.7	38.9	**1.3%**	**-13.0%**
Telecommunications	65.9	61.8	61.3	**-6.2%**	**-0.8%**
Computer programming. consultancy and related activities	51.5	48.7	53.0	**-5.4%**	**8.9%**
Information service activities	128.5	124.6	135.5	**-3.0%**	**8.7%**
Legal. accounting and management consultancy activities	104.1	104.3	97.6	**0.2%**	**-6.4%**
Architectural and engineering activities	48.6	37.4	41.9	**-23.1%**	**12.1%**
Advertising and market research	31.0	27.4	25.2	**-11.4%**	**-8.0%**
Office administrative activities	47.5	50.9	48.6	**7.1%**	**-4.4%**
Tourism	87.9	98.4	108.6	**11.9%**	**10.3%**

Source: ELSTAT

Table 3.7

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

	2013	2014	2015	%Δ '14-'13	%Δ '15-'14
Hotels - Restaurants	79.8	101.3	89.3	26.9%	-11.8%
Travel Agencies - Tour Operators	89.2	122	108.5	36.8%	-11.1%
Other Business Services	63.0	66.2	49.6	5.1%	-25.1%
Financial Intermediation	76.0	79.3	57.4	4.3%	-27.6%
Information Services	62.0	78	55.7	25.8%	-28.6%
Total Services	**70.4**	**87.2**	**70.6**	**23.9%**	**-19.0%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The **exports of goods** in the first ten months of 2015 reached €21.2 billion, from €22.4 billion in the corresponding period of 2014, recording a **contraction by 5.5%**. Not taking into account the **exports of petroleum products, the exports of the remaining goods increased by 9.2% during the same period** to reach €14.8 billion in 2015, from €13.5 billion in the previous year. Note that the much lower exports of petroleum products came from the sharp drop in the oil prices globally; hence, the reduction in value is not reflected in a reduction in volume terms. Meanwhile, imports decreased by 10.1% during the same period, reaching €35.4 billion, from €39.4 billion in 2014. As a result, the **trade deficit** declined by €2.8 billion (-16.4%) to €14.2 billion, from €16.9 billion. Consequently, the **value of the ex-**

ports of goods produced in Greece **corresponded to 60% of its imports**, from 57% in the first ten months of the previous year.

In greater detail, the exports of Agriculture Products increased by 14.8% in the first ten months of 2015 (Table 3.7), to reach €4.3 billion, from €3.7 billion in the previous year. Meanwhile, the exports of Mineral Fuels declined by 27.8%, falling below €6.4 billion in 2015, from €8.9 billion in 2014. Note that these two product categories represented about 50.5% of the Greek exports (from 56.3% in 2014). The growth in Agriculture Products came mostly from the large increase, by 197.2%, in the demand for Animal and Vegetable Oils and Fats, the value of which exceeded €591.7 million (from €199.1 million in 2014). As a result, their share in total exports increased from 0.9% in 2014 to 2.8% in 2015. The exports of Food – Live Animals, which represented about 73.7% of the exports of Agriculture Products, increased by 2.7%, from €3.0 billion in 2014 to €3.1 billion in 2015. The foreign demand for Beverages and Tobacco, which represented 12.6% of the exports of Agriculture Products, totalled €540.3 million, higher by 16.7% compared with the first ten months of 2014 (€462.9 million).

The exports of Manufactured Goods increased by 7.9% in the first ten months of 2015, with their value reaching €9.2 billion, from €8.5 billion in the previous year. The increase is largely explained by the growth of foreign demand for Machinery and Transport Equipment, by 16.7%, with their value reaching €2 billion from €1.7 billion in the preceding year. The exports of Manufactured Goods Classified Chiefly by Raw Material also increased significantly, by 11.8% (from €3 million in 2014 to €3.5 million in 2015). The export performance in Miscellaneous Manufactured Articles remained stable (+0.1%) while the exports of Chemicals and Related Products increased as well, by 0.6% (from €2.22 billion in the first ten months of 2014 to €2.24 in the current year).

Lastly, the exports of Raw Materials also increased, by 0.8% (from €776.3 million in 2014 to €782.4 million in 2015), while the exports of Commodities and Transactions Not Classified by Category rose by 2.2% (from €497.6 million in 2014 to €508.7 million in 2015).

Regarding the export trends per geographical area, the exports to the Euro area countries, which absorbed more than 1/3 of the Greek exports in the first ten months of 2015, increased by 15.2% to reach €8 billion, from €6.9 billion in the same period of 2014. The overall exports to the EU increased by 12.4% or +€1,257.4 million, reaching €11.4 billion, from €10.1 billion in the preceding year. Among the countries in the EU with the largest share of Greek products, exports increased in Italy by 23.1% (from €1.9 billion to €2.4 billion), the Netherlands by 18.1% (from €352.9 million to €416.8 million) and Belgium by 12% (from €264.4 million to €296 million). Note that Estonia was the only export destination in the Euro area with contraction of Greek exports in the first ten months of

2015, by 11.6% (from about €7.3 million in the preceding year, to €6.5 million in 2015). In contrast, the highest percentage growth was recorded in Luxembourg (+487.7% or €17.3 million).

Among the remaining countries of the European Union, where total exports grew by 6.2% or €197.3 million (from €3.2 billion in 2014 to €3.4 billion in 2015), Bulgaria remained the main destination for Greek products, despite a year-on-year decline by 5.1% or €56 million. Exports increased in two other countries that absorb a large share of exports in this category of countries, the United Kingdom and Romania, where they grew by 13.7% or €109.2 million (to reach €906.9 million), and by 14.4% or €73.3 million (amounting to €583.5 million) respectively. The largest percentage growth, by 27%, was recorded in Denmark, where Greek exports increased by €21.5 million (from €79.6 million to €101.1 million).

Regarding the remaining countries in Europe, Greek exports declined by 35.5% (from €5.4 billion in 2014 to €3.5 billion in the current year). The exports to Turkey, one of the major export destinations for Greek products, fell abruptly, by 46.8% (€1,264.9 million), from €2.7 billion in the preceding year to €1.4 billion in 2015.

In the countries of North America, exports increased by 49.8% (from €833.7 million in 2014 to €1,248.6 million in the current year), mainly due to the growth of exports to the US market, from €646.3 million to about €997.3 million (+54.3%), and to a lesser extent from the growth of Greek exports to Mexico and Canada by 26.3% (€28.2 million) and 44.5% (€35.7 million) respectively.

The exports to the countries of the Middle East and North Africa decreased slightly by 0.3% (from €3.09 billion in the previous year, to €3.08 billion in 2015), mainly due to a decline in the exports to Tunisia (-41.6%, from €244.2 million to €142.5 million), Algeria (-27.9%, from €226.5 million to €163.3 million) and Libya (-20.9%, from €162.7 million to €128.6 million). The decline of exports was restrained by the significant growth in Egypt (+24.9%), reaching €829.6 million from €664 million in the preceding year, and Lebanon (+37.4%), where they totalled €655.9 million, from €477.3 million in 2014. The exports to two other significant destinations in the Middle East - Saudi Arabia and the United Arab Emirates - declined by 5.4% to €370.6 million, and by 44.8% to €225 million respectively.

The flow of exports to Oceania strengthened, with their value reaching €125.6 million in the first ten months of 2015, from €118.1 million in the same period of 2014. The growth of exports to Australia totalled 7.7% (from €107.5 million in 2014 to €115.8 million in 2015) while in contrast in New Zealand exports declined by 8% (from €10.6 million in 2014 to €9.7 million in 2015).

Table 3.8

Exports per category in current prices, January – October 2015, (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2015*	2014*	2015*/2014*	2015*	2014*
AGRICULTURAL PRODUCTS	4,303.0	3,748.6	14.8%	20.3%	16.7%
Food and Live Animals	3,171.0	3,086.6	2.7%	14.9%	13.8%
Drinks and Tobacco	540.3	462.9	16.7%	2.5%	2.1%
Oils and Fats of animal or plant origin	591.7	199.1	197.2%	2.8%	0.9%
RAW MATERIALS	782.4	776.3	0.8%	3.7%	3.5%
Non-edible Raw Materials excluding Fuels	782.4	776.3	0.8%	3.7%	3.5%
FUELS	6,417.4	8,890.2	-27.8%	30.3%	39.6%
Minerals, Fuels, Lubricants etc.	6,417.4	8,890.2	-27.8%	30.3%	39.6%
INDUSTRIAL PRODUCTS	9,202.2	8,526.1	7.9%	43.4%	38.0%
Chemicals and Related Products	2,242.5	2,228.2	0.6%	10.6%	9.9%
Industrial Products Sorted by Raw Material	3,463.1	3,098.9	11.8%	16.3%	13.8%
Transport Equipment	2,062.0	1,766.5	16.7%	9.7%	7.9%
Various Manufactured Goods	1,434.6	1,432.6	0.1%	6.8%	6.4%
OTHER	508.7	497.6	2.2%	2.4%	2.2%
Goods and Transactions not sorted by Category	508.7	497.6	2.2%	2.4%	2.2%
TOTAL EXPORTS	21,213.6	22,438.9	-5.5%	100.0%	100.0%

* Provisional data
Sources: ELSTAT, PSE-KEEM

The exports to the Latin American countries increased significantly in the first ten months of 2015, by 141.6%, with their value reaching €177.5 million, from €73.5 million a year before. The growth of exports to these countries mainly came from stronger demand for Greek products in Panama, by 428.9%, where their value reached €81.6 million in 2015 from €15.4 million in 2014.

In contrast, the demand for Greek products in Asia weakened, as exports fell by 8.8% year on year, to €1.0 billion in the first ten months of 2015, from €1.1 billion in the preceding year. This development came mostly from export contraction in Singapore (-54.5%, from €253.3 million to €115.2 million) and China (-18.5%, from €229.3 million to €186.9 million). In contrast, the exports of Greek products increased significantly in South Korea, by 37.7%, (€262.8 million in 2015, from €190.9 million in 2014) and in Hong Kong, by 84.3% (€80.3 million in 2015, from €43.6 million in 2014).

Table 3.9

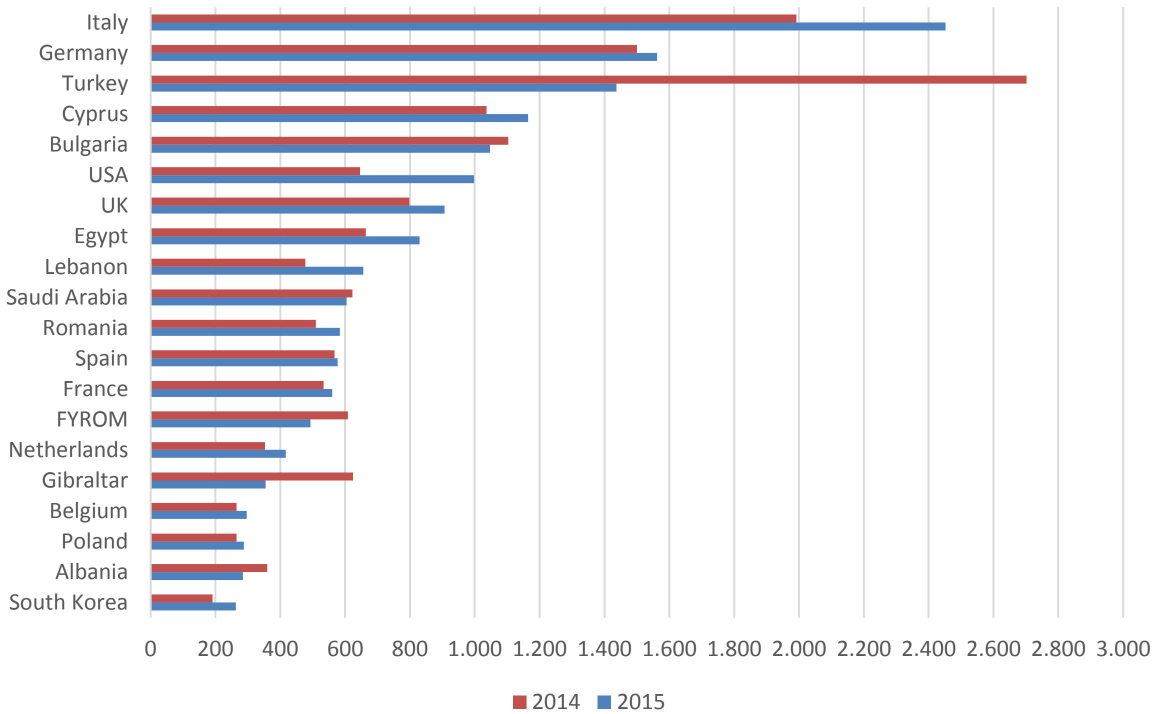
Exports by destination January –October*

REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2015	2014	2015/2014	2015	2014
World	**21,213.6**	**22,438.9**	**-5.5%**	**100.0%**	**100.0%**
OECD	11,869.3	11,473.7	3.4%	56.0%	51.1%
EU (28)	11,408.3	10,150.9	12.4%	53.8%	45.2%
Euro Area	8,014.5	6,954.6	15.2%	37.8%	31.0%
G7	6,641.5	5,587.9	18.9%	31.3%	24.9%
North America	1,248.6	833.7	49.8%	5.9%	3.7%
BRICS	488.8	650.5	-24.9%	2.3%	2.9%
Middle East & North Africa	3,083.6	3,091.5	-0.3%	14.5%	13.8%
Rest of Africa	1,298.0	1,347.5	-3.7%	6.1%	6.0%
Oceania	125.6	118.1	6.3%	0.6%	0.5%
Latin America	177.5	73.5	141.6%	0.8%	0.3%
Rest of Asia	1,019.5	1,118.1	-8.8%	4.8%	5.0%
OPEC	1,268.5	1,491.7	-15.0%	6.0%	6.6%

* Provisional data for 2014 and for 2015
Source: ELSTAT, KEEM

Figure 3.11

Countries with the largest share in the exports of Greek products (in million €), January – October 2015 and 2014



Source: PSE-KEEM. **Data Processing**: IOBE

To sum up, the contraction of exports in the first ten months of 2015 came exclusively from the significant reduction of the exports of Fuels (-€2,472 million or -27.8%), due to the fall of the global oil prices. The growth in the exports of Agriculture Products (+€554 million or +14.8%) and Manufactured Goods (+€676 million or +7.9%) was not strong enough to offset the overall contraction of exports. Note, however, that the growth of exports other than petroleum products gradually weakened throughout the past year, turning to a contraction in October.

Regarding the geographic distribution of exports, growth momentum was observed in two of the major geographical destination for Greece, namely in the Euro Area (+€1 billion or +15.2%) and the countries of North America (+€415 million or +49.8%). In contrast, the largest contraction was observed in the exports to the OPEC countries (-€223 million or -15%).

The very good export performance in the first ten months of the year (except for petroleum products) is expected to have weakened in the final quarter of 2015, with the exports of fuels falling year-on-year, not only due to the imposition of the capital controls but also from falling demand. Regarding the exports of petroleum products, the negative impact of the low price of oil will have eased by the end of the year, given that the low oil price regime has remained for more than a year. Therefore, the decline of exports other than fuels in the final quarter of 2015 will partly offset the easing contraction of the exports of fuels. Overall for 2015, the exports of goods contracted by about 6%.

The contraction of the exports of goods other than fuels that started in the final quarter of 2015 will carry over to 2016, at least for the duration of the first half of the year, due also to the base effect from their high levels in the corresponding period of 2015. The contraction in the exports of fuels will most probably end in early 2016, as the negative impact from the fall of the oil price on the value of exports, observed throughout 2015, will no longer be present. Therefore, the most likely outcome is for the export of goods to decline slightly in the current year, by about 2-3%.

3.4 Employment - Unemployment

According to data from the Labour Force Survey of ELSAT, **unemployment in Greece decreased further in the third quarter of 2015, to 24%, from 25.5% in the corresponding quarter of 2014** and 24.6% in the preceding quarter of 2015. Note that the unemployment rate declined year on year for a sixth consecutive quarter. The number of unemployed declined in the third quarter to 1,160,500 people, from 1,229,400 in the same quarter of 2014 (decline by 5.6% or 68,900 people), while the number of employed increased by 84,200, from 3,586,900 to 3,671,100 (+2.3%). **According to the latest unemployment data for October, the non-seasonally adjusted unemployment rate declined to 24.4%, from 25.3% in the same month of 2014 and 24.6% in September 2015.**

The steady decline in unemployment in the first three quarters of 2015, despite the gradual weakening of the growth momentum of the Greek economy during that period, can be explained with the employment growth dynamic in certain branches and the impact of the labour market reforms that took place in the past few years (reduction of the minimum wage, reduction of the employer social security contributions, predominance of firm-level contracts over sector bargaining agreements, strengthening part-time employment, sector agreements in force only for signatories, freeze on the three-year wage maturation, etc.).

Despite the fall of unemployment for a sixth consecutive quarter, the unemployment rate in Greece has remained the highest in the Euro area in the past four years. Spain came after Greece in this ranking, with a steadily falling unemployment rate since the third quarter of 2013, to reach 21.8% in the third quarter of 2015, from 24.2% in the preceding year.

Unemployment was also falling in all the remaining countries that had entered support mechanisms in the recent past. In particular, in Ireland, where unemployment has been falling since the second quarter of 2012, the unemployment rate fell to 9.1% in the third quarter of 2015, from 11.1% in the same period of 2014. A similar trend was recorded in Portugal and in Cyprus, from 13.6% and 16.4% respectively in the third quarter of 2014, to 12.3% and 15.2% one year later.

The lowest unemployment rate in the Euro area during the third quarter of 2015 was recorded in Germany (4.6%, from 5% in the same quarter of 2014), Malta (5.2% from 5.8%), Austria (5.7% in both 2015 and 2014) and Luxembourg (6.1% from 6%).

In the other two large economies of the Euro area, France and Italy, unemployment remained relatively stable year on year in the first nine months of 2015. The unemployment rate reached 10.4% in France, from 10.2% in the same period of 2014, and 12.1% in Italy, from 12.7% in the preceding year.

The domestic unemployment **has persistently been affecting women more than men.** According to data from Eurostat, the unemployment rate among women in Greece was higher by about 7.2 percentage points (28.7% in the third quarter of 2015, from 29.8% in the third quarter of 2014) than among men (21.5%, from 23.3%). The corresponding unemployment gap between men and women in the Euro area did not exceed 0.3 percentage points (10.6% among men and 10.9% among women, from 11.4% and 11.8% correspondingly in the third quarter of 2014).

Regarding the **age structure of unemployment**, the rate decreased year-on-year in the third quarter in all age groups, except for those aged above 65 years, with the largest decline observed in the lowest age categories. In greater detail, unemployment declined by 5.4 percentage points in the age group 25-29 years (from

39.7% to 34.3%). The reduction of unemployment in the age group of 30-44 years old by 1.3 percentage points followed at a distance (from 24.7% to 23.4%). In the age group of those above 65 years old, unemployment increased from 9.3% to 10.8% in the third quarter. Unemployment remained highest and unchanged among those aged 15-19 years old (58.3%). The year-on-year decline in unemployment for an eighth, sixth and fifth consecutive quarter in the age groups of 20-24, 25-29 and 39-44 years respectively, is indicative of the fall of unemployment among the young, with the exception of the 15-19 years old category.

Despite the gradual reduction of unemployment since early 2014, the percentage of **long-term unemployed** does not show signs of abatement, as since the final quarter of 2013 it has hovered above 70%. In the third quarter of 2015, it reached 73.7% (855,000 unemployed), 0.6 percentage points higher quarter on quarter (from 73.1% or 863,200 unemployed), albeit lower by 1.7 percentage points year on year (from 75.4% or 927,100 unemployed).

Concerning the **education level**, the overall trend is similar with that observed with respect to the age structure of unemployment, as the unemployment rate decreased year on year in all educational attainment levels, except for those that did not receive any education and the holders of postgraduate or doctoral degrees. The largest reduction, by 2.5 percentage points, was recorded among secondary education graduates (from 28% in the third quarter of 2014 to 25.5% in the corresponding period of 2015), followed by graduates of post-secondary technical-vocational education (-1.7 percentage points, from 26.9% to 25.2%). In the category with the highest unemployment rate (individuals that did not receive any education), unemployment increased by 13.9 percentage points, from 33% to 46.9%, while in the category with the lowest unemployment rate (holders of postgraduate or doctoral degree), unemployment increased from 12.7% in the third quarter of 2014 to 13.2% in the corresponding period of 2015. Note that unemployment declined year on year for a seventh consecutive quarter among graduates of post-secondary technical-vocational education, lower secondary education and primary education while the unemployment rate among graduates of upper secondary education declined for the sixth quarter in a row.

Concerning the **regional trends**, unemployment declined year on year in 10 out of the country's 13 regions. In the remaining three regions, the increase of unemployment ranged from 0.6 (Western Greece) to 4.8 percentage points (Western Macedonia). Unemployment declined year on year for the seventh consecutive quarter in Eastern Macedonia – Thrace, Central Greece and Attica and for the sixth quarter in a row in Central Macedonia and the South Aegean. The highest unemployment rate was observed in Western Macedonia, traditionally placed among the regions with the highest unemployment rates in the country, where unemployment increased to 31.5% from 26.7% in the preceding year. Western Greece came next, with an unemployment rate of 28.1%, from 27.5% in the first nine months of 2014. Meanwhile, in Attica, which concentrates the largest section of the country's population, and in Central Greece, a region with significant manufacturing activity, unemployment declined to 24.8% (from 27.1%) and 25.5% (from 26%) respectively. Lastly, the lowest unemployment rate was observed in the South Aegean (10.4% from 15.2%), a region with strong tourism activity during that particular quarter.

In terms of **key economic sectors**, despite the long-standing peaking of economy activity in the primary sector during the summer months, employment in this sector declined year on year for the third quarter in a row. In particular, employment fell to 461,300 people in the third quarter of 2015, from 483,600 people a year earlier (-4.6%). Employment in the secondary and tertiary sectors increased for a third and seventh consecutive quarter respectively. In both sectors, employment increased by 3.4%. As a result, the number of employed reached 551,200 people in the secondary sector (from 533,100 in the first nine months of 2014) and 2,658,600 people in the tertiary sector (from 2,570,200 people).

Employment increased in 10 of the 21 **branches of economic activity**, falling in the remaining 11 branches. In branches with a significant weight in the Greek economy, such as Manufacturing and Retail - Wholesale Trade, employment increased year on year for a third and fourth consecutive quarter respectively. Employment increased by 9.9% or 31,100 people in Manufacturing (from 314,200 to 345,300) and by 7.4% or 46,500 people in Retail - Wholesale Trade (from 630,300 to 676,800). Employment increased for a seventh consecutive quarter in another important for the Greek economy sector - Accommodation-Food Services - by 8.4% or 28,400 people (from 336,600 to 365,000). The largest percentage growth in employment was recorded in Real Estate Services, by 17% or about 900 people (from 5,300 to 6,200). In contrast, the largest employment contraction was observed in Mining-Quarrying, where employment declined by 14.9% or 1,700 people (from 11,400 to 9,700 people). Employment in Construction has been falling steadily since the first quarter of 2009, with the exception of the second quarter of 2015, with the number of employed falling to 145,900 people in the third quarter, from 156,900 in the same period of 2014 (decline by 7% or 11,000 people) and 400,900 in 2008 (cumulative decline by 63.6% or 255,000 people).

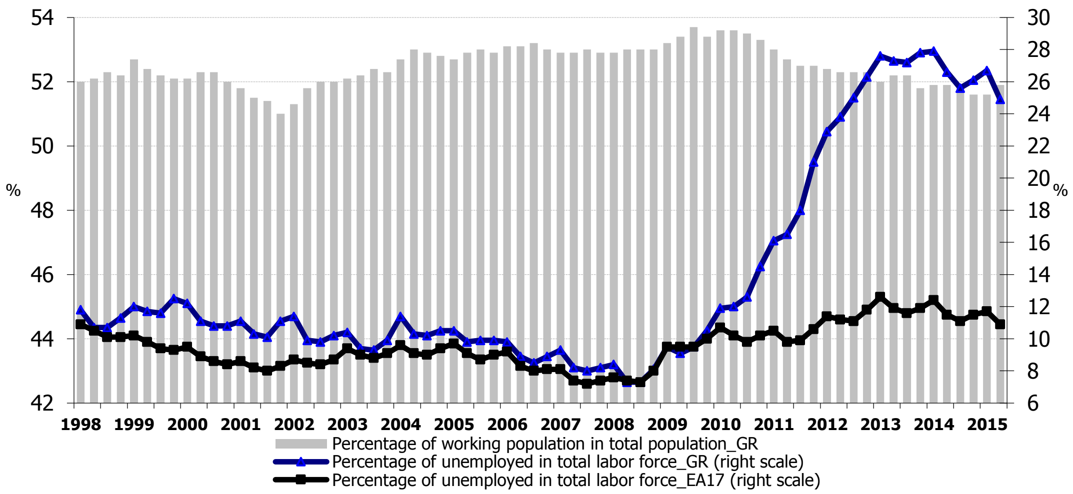
In conclusion, the employment data at branch level indicate that the year-on-year increase in employment in the third quarter of 2015 primarily came from:

- Wholesale - Retail Trade (+46,500 people), despite the deteriorating trends in the sector in the first nine months of the year, as evident from the course of the volume of Retail Trade (+0.3% in the first, no change in the second and -3.8% in the third quarter) and the steady decline of the turnover in Wholesale Trade.

- Employment growth in Manufacturing (+31,100 people), despite the stagnation of industrial production overall in the first nine months of the year, as evident from the course of the corresponding indicator.
- Tourism (+28,400 people), in alignment with the year-on-year growth in turnover since the start of 2015.

Figure 3.12

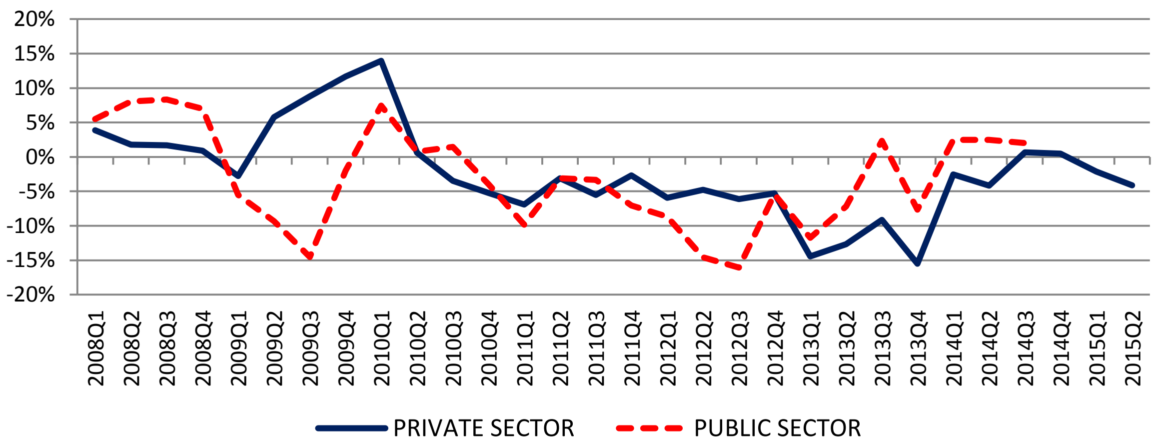
Labour participation and unemployment rates



Source: ELSTAT –Labour Force Survey, Eurostat

Figure 3.13

Labour cost in the Public and Private sectors in Greece (2008/Q1 – 2014/Q3)



Source: Eurostat, ELSTAT

Table 3.10

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

Quarter/Year	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the 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
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
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
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
Q1 2014	9,295.8	51.9	3,483.7	72.2	1,342.3	27.8
Q2 2014	9,286.6	51.9	3,539.1	73.4	1,280.1	26.6
Q3 2014	9,277.5	51.9	3,586.9	74.5	1,229.4	25.5
Q4 2014	9,268.5	51.6	3,535.3	73.9	1,245.9	26.1
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0

Source: EL.STAT, Labour Force Survey

The significant employment increase was not offset by the decline in the Primary Sector (-22,300 people) and Construction (-11,000 people).

The labour cost in the private sector, according to the latest data, declined year on year by 4.1% in the second quarter of 2015, in the aftermath of a 2.1% reduction in the previous quarter.

Medium-term Outlook

The restrictive impact of employment in Tourism on unemployment would have carried over to at least part of the final quarter of 2015, as a result of the extended tourist period for the second year in a row. However, this impact is expected to have been notably weaker both quarter on quarter and year on year, precisely because the tourist flows remained relatively high in the previous year as well. In addition, part of the job creation in Industry and Retail – Wholesale Trade from the summer months would have been preserved, but not all of it, as the boost in industrial production proved to be transient, based on the latest data from the short-term indicators on October and November, while the seasonally adjusted volume of retail trade index slightly declined during that period. Therefore, **unemployment is expected to have increased in the final quarter of 2015, but less than in the past, with the year average standing at around 25%.**

The continuing contraction of the Greek economy in the current year, mainly from a weakening of domestic consumption demand, will interrupt the fall of unemployment, observed in the past two years. Employment in branches and activities producing products and services for the final consumers, such as Retail Trade and Food Services and in other branches of services, will understandably receive a hit. Particularly in Tourism, the continuous and perhaps even rising geopolitical tension in the Middle East favours the attractiveness of Greece as a tourist destination. However, these conditions were largely present in the previous year as well, hence, output in the Tourism sector will either increase by a small margin or remain unchanged, with the growth momentum from the past two years dissipating, a trend that implies similar employment developments in activities linked to tourism. The prolonged turbulence in the Greek economy during the previous year, in the aftermath of a six-year recession, has damaged business expectations, as recorded in the relevant indicators, at least in the short-term, mainly in sectors with a decisive impact on employment growth, such as Constructions and Services. The liquidity crunch due to the capital controls, the persistent political uncertainty even after the first review of the new programme (about the outcome of the public debt negotiations and after that from the second review) and the transition process to the new privatisation agency (which has not been yet completed) will make the potential investors to maintain a waiting stance until the relevant processes come to an end, postponing job creation. **Taking into account the above effects on employment during the current year, their overall impact is expected to be negative, bringing a slight increase in unemployment in 2016, to about 25.5%.**

According to the latest IOBE business surveys, **the short-term employment outlook improved quarter on quarter in the final quarter of 2015 in all sectors of the Greek economy.** In greater detail:

The employment expectations strengthened quarter on quarter in the final quarter of 2015 in all sectors, with a slightly stronger boost in Construction and Retail Trade. Despite all this, the expectations deteriorated sharply year on year in all sectors, with the strongest decline recorded in Construction and Retail Trade. Note that the balance of employment expectations in Retail Trade, which was positive in the corresponding period of 2014, lost most of its momentum after the imposition of capital controls in July. **Overall in 2015, the balance of employment expectations deteriorated year on year in all sectors, with a vertical drop in Construction and a significant contraction in Retail Trade.** In particular:

In Industry, the negative balance of employment expectations improved by 10 points quarter on quarter in the final quarter of 2015, totalling -14 points on average. Year on year, the average quarterly index was lower by 11 points. Overall for 2015, the employment indicator stood on average at -12 (from -3 in 2014). In the quarter under investigation, the percentage of industrial enterprises that were foreseeing growth in employment in the near term remained at 5% while the percentage of businesses expecting a contraction in the number of jobs decreased to 18% (from 28%). The majority of businesses in the sector (77% from 68%) were expecting employment to remain unchanged.

In Construction, the expectations also improved in the quarter under examination, with the quarterly average of the index growing by 14 points to reach -37. However, the index declined by 26 points year on year. Overall in 2015, the employment indicator of the sector averaged -36 points (from +6 in 2014). In the final quarter of 2015, 52% of the companies in the sector were foreseeing fewer jobs while the share of companies expecting an increase of employment increased to 16% (from 11%). With respect to individual sectors, the growth in the overall index stems from an improvement in Public Works (-34 points on average from -54), as the expectations in Private Construction declined (to -45 from -39). Overall in 2015, the employment expectations weakened significantly year-on-year in both sub-sectors.

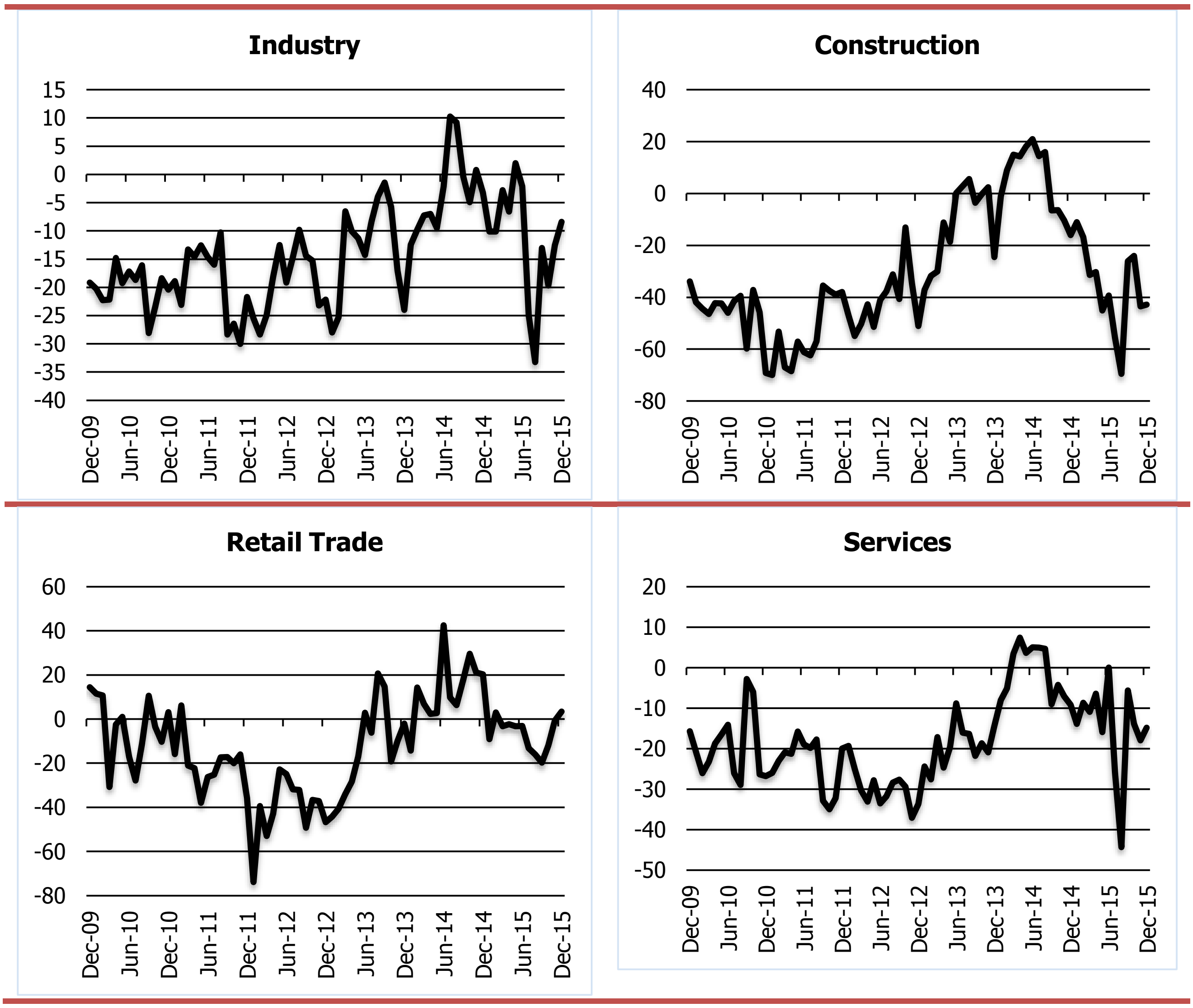
In Services, the employment expectations in the final quarter of 2015 gained ground quarter on quarter as well, but year on year they recorded a significant decline. As a result, the index reached -16 from -25 points in the preceding quarter (compared with -7 points in the final quarter of 2014). Overall in 2015, the employment indicator of the sector stood on average at -15 (from -1 in 2014). About 29% of the companies in the sector (from 33%) were expecting a further decrease in employment in the near term while the percentage of companies that were foreseeing an increase in employment reached 13% (from 8%). An upward trend dominated across most subsectors, with the exception of land transport with pipelines, where the employment expectations deteriorated quarter on quarter. Overall in 2015, the employment expectations declined in all examined subsectors of Services.

The index of employment expectations in Retail Trade increased quarter on quarter in the final quarter of 2015, at

-3 (from -16 points in the third quarter). Nevertheless, this level is considerably lower than the notably positive value recorded in the corresponding period of the preceding year (+24 points). Overall in 2015, the employment indicator of the sector stood at -6 points on average (from +13 in 2014). About 9% (from 17%) of the enterprises in the sector were foreseeing a job contraction, with 6% (from 1%) expecting employment growth and 84% (from 82%) foreseeing employment to remain stable. With respect to subsectors, employment expectations remained once more unchanged in Department Stores, growing in the remaining sectors, significantly in most of them, correcting for the large drop in the preceding months. Overall in 2015, the employment expectations deteriorated in all subsectors.

Figure 3.14

Employment expectations (difference of positive – negative responses)



Source: IOBE

3.5 Consumer Prices

Recent developments

The deflation in the Greek economy endured in 2015 for the third year in a row, strengthening over time. In particular, the Consumer Price Index (CPI) was lower year on year by 1.7% on average, compared with a 1.3% decrease in 2014. As a result, deflation reached its highest rate in at least 55 years, according to the historic CPI data of ELSAT. Nevertheless, note the significant easing of the deflation in the final quarter of 2015 due to the VAT hike, to 0.6%, compared with a deflation rate of 2.1% in the first nine months of the same year, lower compared with the deflation rate recorded in the same quarter of the previous year (-1.8%).

Regarding the trends at sector level in 2015, the prices of alcoholic drinks and tobacco products continued their growth (+2.0%, as in 2014). In Health Services prices declined slightly (-0.7%), in contrast with 2014 (growth by 1.5%). The price index for Food Products and Non-Alcoholic Beverages rebounded to positive rates of change (+1.8%, from -1.7% in 2014) while a less pronounced change in the same direction was recorded in Hotels (+0.5%, against -1.5%). In both categories, the growth rate recorded in the previous year was in part due to the VAT hike, as revealed in the analysis of the final quarter below. The prices in Communications remained unchanged for a second year. In contrast, the price growth of Durables from 2014 gave way to deflation in 2015 (-1.7%, against +1.1% in 2014).

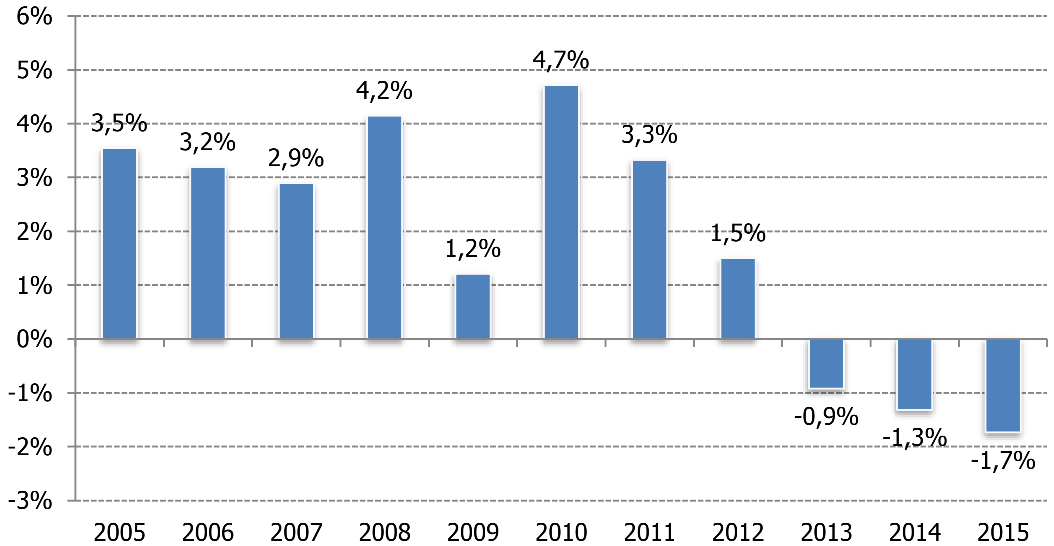
In all other categories of goods and services, the year-on-year deflation carried over to this year. Note the large and sustained price drop in Housing (-6.5%, as in 2014) and Transport (-4.4%, against -1.2% in 2014), due to the extensive decline in the crude oil prices. The prices declined further in Clothing – Footwear (-3.0%, against -2.5% in 2014), Education (-2.4%, against -3.7% in 2014), Recreation – Culture (-1.5%, against -2.4% in 2014) and the broader Durables category (-2.1%, against -1.2% in 2014).

Particularly in the final quarter of 2015, the significant easing of deflation came from price growth in categories of goods and services, such as Food – Non-Alcoholic Beverages, Hotels – Cafes – Restaurants and Tobacco – Alcoholic Beverages, that were mainly affected by the July changes in VAT. In fact, the new decline in the global oil prices since the start of the autumn maintained the price decline high in Housing and Transport, limiting the fall in deflation.

The Harmonised Index of Consumer Prices (HICP) declined in the first eleven months of the year by 1.2%, almost at the same rate as in the corresponding period of 2014 (+1.3%). At Eurozone level, Greece belonged to the group of eight countries with a negative price change in the first eleven months of 2015, with the second highest deflation rate. The largest negative HICP change was observed in Cyprus (-1.6%). Deflation was also observed in Slovenia (-0.8%), Lithuania (-0.7%), Spain (-0.7%), Slovakia (-0.3%), Finland (-0.2%) and Ireland (-0.1%).

Figure 3.15

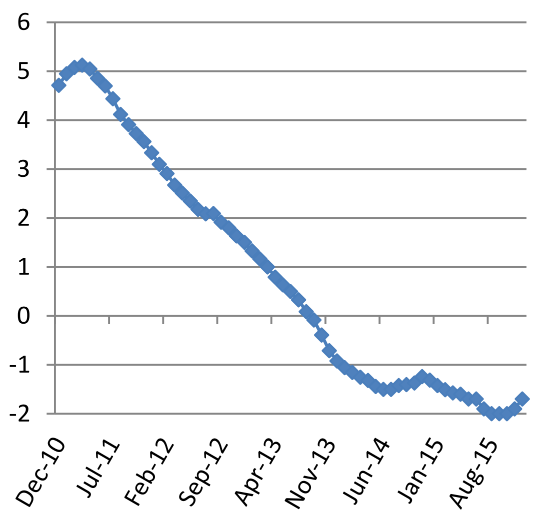
Average annual CPI changes in Greece (2005-2015)



Source: ELSTAT, data processing IOBE

Figure 3.16

CPI in Greece (annual percentage change)



Source: ELSTAT, data processing IOBE

A small positive change was recorded in France, Estonia, Germany and Italy (+0.1%), the Netherlands and Latvia (+0.2%), Portugal and Belgium (+0.5%) and Austria (+0.8%). The largest growth of prices was observed in Malta (+1.2%). The deflation in most EU countries in 2015, and particularly in the strongest and most industrialised economies and the disinflation in the remaining countries was mainly due to the impact of the significant year-on-year decline in crude oil prices throughout 2015, which pushed down the energy cost for households and businesses.

According to the latest available data (November 2015), the Producer Price Index (domestic and foreign markets) decreased by 7.2% in the first eleven months of the year. This was the largest contraction for this time period in at least a decade. The second-largest drop was recorded in 2009 (-6.7%).

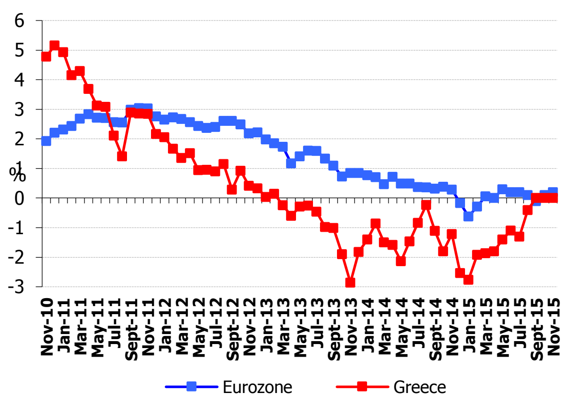
In greater detail on the individual sectors of economic activity, the largest contraction in the first eleven months of 2015 was recorded in Coke - Refined Petroleum Products (-29.2%), obviously due to the sharp drop in the international oil prices. Less pronounced prices changes were recorded, inter alia, in Wood Products (-5%), Extraction of Crude Petroleum – Natural Gas (-4.5%), Machinery

– Equipment (-4.2%), Electrical Equipment (-4.0%), Furniture (-1.6%) and Paper (-1.3%).

The largest positive change was observed in Electricity – Gas – Air Conditioning Supply (+45.67%), Other Mining – Quarrying (+13.4%), Lignite (+11.8%) and Tobacco Products (+11.3%). Other Transport Equipment (+7.5%), Fabricated Metal Products (+6.9%), Motor Vehicles (+5.3%) and Leather Products (+5%) came next with a more limited price increase.

Figure 3.17

HICP in Greece and the Euro area
(annual percentage change)



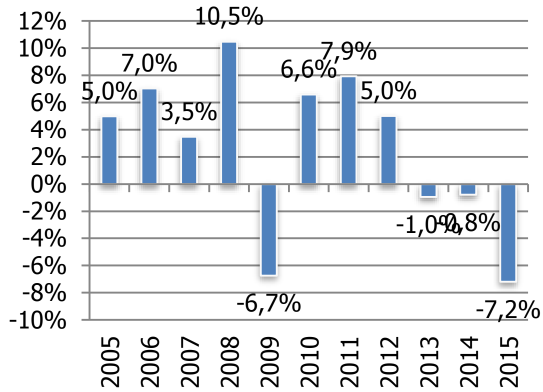
Source: ELSTAT, data processing IOBE

The growth in the Import Price Index was interrupted with the imposition of capital controls. Based on the latest available data (November 2015), the index has declined by 10.9% since the start of the year (compared with -3.0% in 2014). Greece reported the highest price decline of imported products among the Eurozone member states.

In the Euro area, the import price index declined in all countries with available data, mostly reflecting the effects of the falling oil price. The largest decline was recorded in Lithuania (-7.4%), Finland (-6.7%), France (-4.8%), Italy (-4.7%) and Spain (-4.6%), followed by Estonia (-3.8%), Germany (-2.8%), Latvia (-1.8%) and Slovenia (-0.6%).

Figure 3.18

Annualised change of CPI in Greece during Q3 during the last decade



Source: Eurostat, data processing IOBE

Medium-term Outlook

In 2015, the extensive and unprecedented price decline, particularly in the first half of the year and despite the growth of private consumption, came from the deflationary impact of the sharp drop in the global oil prices, which reduced notably the prices in Transport and Housing, two of the three categories of goods and services with particularly large weight in the formation of the Consumer Price Index. The persistently strong deflation in the first seven months of 2015, by about 2.2%, started to weaken after the hike of VAT in July, which was fully implemented (in all six major islands) since October.

The limiting impact of the VAT hike on deflation from the second half of 2015 is expected to carry over to 2016, at least until the completion of a full year since the start of the measure's implementation. On the other hand, the decline in disposable income due to the fiscal measures already included in the new Economic Adjustment Programme and any new such measures (e.g. further pension cuts, a hike in social security contributions, changes in income taxation), will limit any inflationary pressures. The new decline in the oil price will also prevent a significant price increase, nevertheless, as the price decline will be less pronounced due also to the high taxation on fuels, its impact will not be as strong as in 2015. Therefore, **prices are expected to increase in the current year, after three years of uninterrupted deflation, with the inflation rate expected in the range of 0.5%-1%.**

Important information on the trends 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.

The changes in inflation expectations once more were not uniform in the final quarter of 2015. The balance of expectations remained negative for most sectors, indicating consistently deflationary expectations for yet another quarter, as has been common for almost six years. In particular, the deflationary expectations in the final quarter weakened quarter on quarter in Private Construction and Services, remaining unchanged in Industry. Retail Trade was the only sector with a positive balance in the previous quarter, with a downward trend recorded so far in the current quarter. Year on year, the deflationary expectations remained unchanged in Industry and weakened in Private Construction, Services and Retail Trade. In greater detail:

In Industry, the deflationary expectations in the final quarter of the year remained unchanged quarter on quarter, with the indicator fixed at -9 points, at the same level as in the same quarter of 2014. Among the enterprises in this sector, 13% on average were expecting a further reduction of prices in the near future, 84% were expecting price stability and 4% were expecting prices to increase. Overall in 2015, the average price indicator stood at -7, unchanged in comparison with 2014.

In Retail Trade, the positive indicator of price expectations of the companies in the sector during the third quarter (+3 point) gave way to a zero balance of expectations in the final quarter (from -5 points in the corresponding quarter of 2014). Overall in 2015, the indicator was balanced on average at zero, recording an increase from its 2014 level (-10 points). In the quarter under examination, about 8% (from 11%) of the sector's enterprises were expecting prices to fall in the short term, with 8% (from 14%) anticipating inflationary pressures and the remaining 84% (from 75%) expecting prices to remain stable. Among the subsectors of Retail Trade, the price expectations indicator increased quarter on quarter in Motor Vehicles – Spare Parts and Textiles–Clothing-Footwear, declining in the remaining subsectors. Overall for 2015, the indicator increased compared with 2014 in all subsectors.

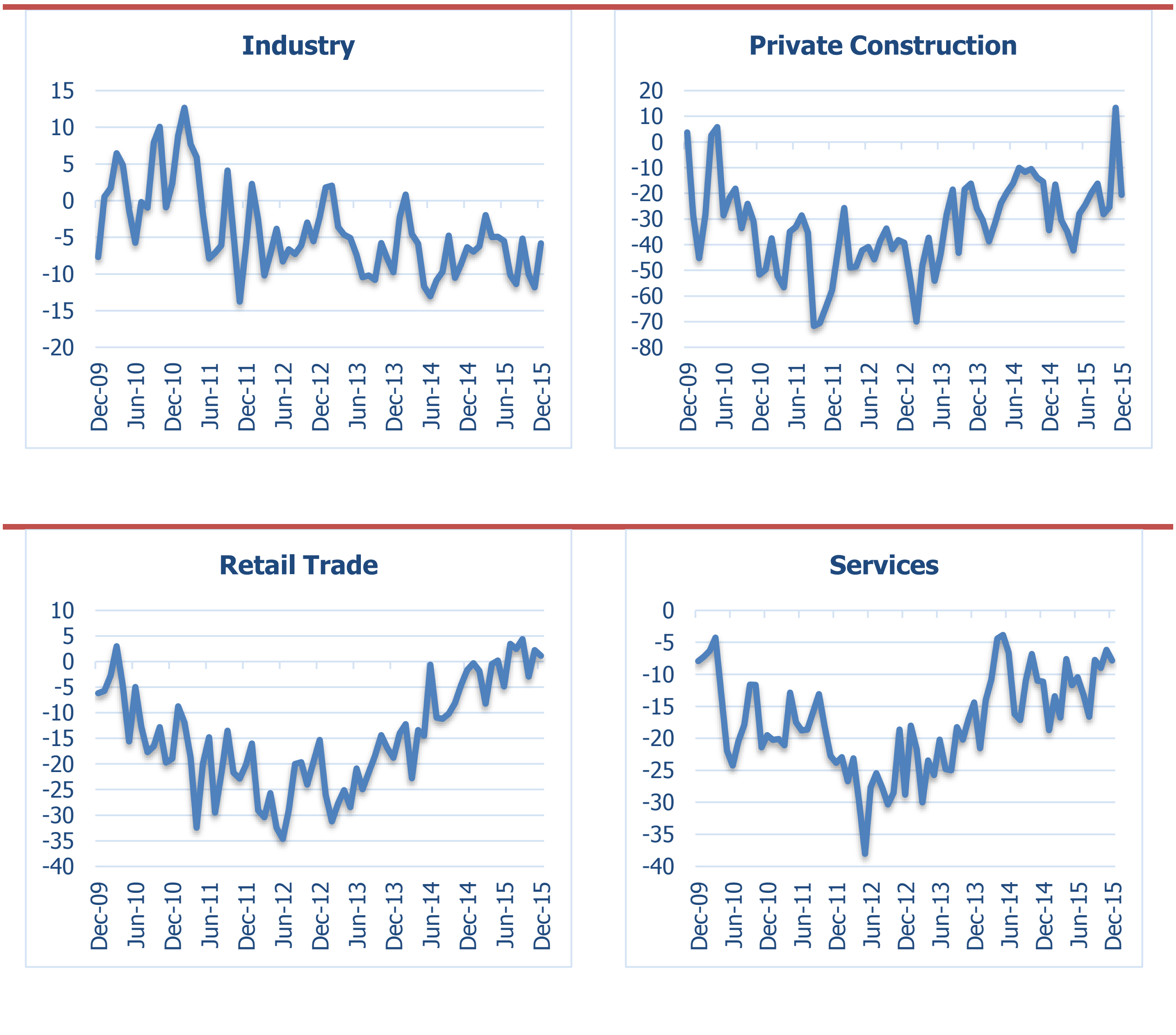
In Services, the average price expectations indicator increased by 5 points quarter on quarter in the final quarter of 2015, reaching -8 points, slightly higher year on year. Overall in 2015, the indicator remained unchanged at its 2014 level (-12 points on average). In the quarter under examination, about 13% (from 22%) of the sector's enterprises were expecting prices to drop in the following three months while 6%

(from 9%) were expecting inflationary pressures. The indicator increased in the final quarter of 2015 in all subsectors of Services, except for Land Transport – Pipelines, where it declined. Overall in 2015, the indicator declined in Various Business Activities and Financial Intermediaries, increasing in the remaining subsectors.

Finally, the deflationary expectations in Private Construction weakened further quarter on quarter in the final quarter of 2015, by 10 points, to reach -11 points, 10 points lower year on year as well. Overall in 2015, the expectation remained relatively unchanged on average, with the indicator falling to -23 from -21 in 2014. In the final quarter of 2015, about 20% of the sector's enterprises were expecting prices to fall further, with 9% (from 0%) holding inflationary expectations.

Figure 3.19

Price Expectations (% difference between positive and negative answers)



Source: IOBE

3.6 Balance of payments

Current account

The **Current Account** (CA)[20] recorded a surplus in the first ten months of 2015, totalling €2.3 billion, from €403 million deficit in the same period of 2014. The sign change came from a significant improvement in the Goods Account, as the remaining accounts deteriorated during this period. The significant decline in the deficit of the Goods Account came from a sharp fall in imports by €6.1 billion, mostly since July, as in the first six months of the year, imports were lower year on year by €1.9 billion.

Regarding the CA components, the deficit of the **Goods Account** reached €14.2 billion in the first ten months of 2015, decreasing by 23.6%, or -€4.4 billion. Exports reached €20.7 billion, lower by 7.5% (-€1.7 billion)[21] with the reduction coming primarily from the fall in the exports of fuels by €2.1 billion. The contraction of exports totalled €554 million in the first six months of the year, escalating rapidly after the imposition of capital controls. Imports totalled €34.8 billion, falling by 14.8% (-€6.1 billion). Similarly to exports, the imports of fuels fell significantly in the first ten months, by 30.2% (-€3.9 billion). The deficit in the Goods Account without fuel and ships declined at a notably lower rate, by 8.9%, to reach €10.3 billion, as the exports of goods increased by €790 million, compared with a fall of imports by €217 million.

The surplus in the **Services Account** fell in the first ten months of 2015 to €16.3 billion, from €17.2 billion in 2014, mainly due to a stronger reduction of receipts, compared with payments. Total receipts reached €25.6 billion, lower by 7.7% (-€2.1 billion), while payments totalled €9.3 billion, falling by 11.7% (-€1.2 billion). The revenues from tourism reached €13.7 billion, growing by 5.7%, compared with a double growth rate of 10.5% in 2014, while transport receipts declined by 20.3% (-€2.2 billion) and other receipts decreased by 17.4% (-€666 million). Travel payments remained almost unchanged, at about €1.7 billion, while the payments for transport services decreased by 9.2% to €4.7 billion. The payments for other services fell by 20.3% to €2.9 billion.

The **Primary Income Account** recorded a surplus of €389 million in the first ten months of 2015, compared with a surplus of €890 million in 2014. Receipts fell by 17.6% to €4.9 billion, while payments decreased by 10.9% to €4.6 billion. In greater detail, receipts from employment dropped by 23.6% to €133 million, from investment declined by 20% to €2.2 billion, while other primary income (subsidies and taxes on production) declined by 15.2% to €2.6 billion. Payments for compensation of employees fell by 11% to €348 million, while payments for income from investment decreased by 11.4% to €3.9

[20] Since January 2013, the balance of goods is based on foreign trade data from ELSTAT, instead of settlements data on bank transactions that were used until December 2012. In addition, since January 2015, the balance of payments for Greece has been compiled using the methodology of the International Monetary Fund's sixth edition of the Balance of Payments Manual (BPM6). As a result of this change, the new available time series presently span 2009-2014. More details are available from the **Bank of Greece** at: http://www.bankofgreece.gr/Pages/el/Bank/News/PressReleases/DispItem.aspx?Item_ID=4930&List_ID=1af869f3-57fb-4de6-b9ae-bdfd83c66c95&Filter_by=DT

[21] Unless otherwise noted, the figures in parenthesis capture the absolute change compared to 2013.

billion. Payments for other primary income, such as subsidies and taxes on production, declined by 3% to reach €261 million.

The **Secondary Income Account** recorded a deficit of €251 million, from a €59 million surplus in 2014. Revenues totalled €1.9 billion, compared with €2.3 billion in 2014, while payments decreased to €2.1 billion, from €2.2 billion in 2014.

Capital Account

The balance of the **Capital Account**[22] stood at €1.6 billion, compared with €1.8 billion in 2014, with small deviations in receipts and payments.

Finally, the deficit in the combined **balance of the current and capital accounts**, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, reached a surplus of €3.9 billion, compared with €1.4 billion in 2014.

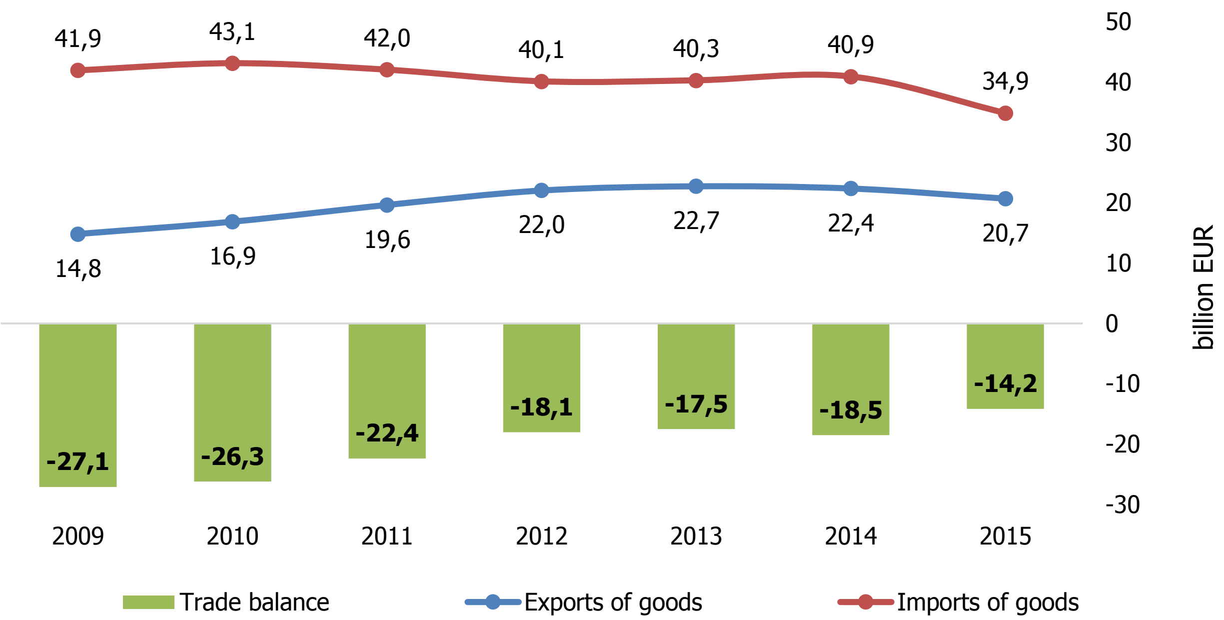
Financial Account

The **Financial Account** (FA) had a surplus of €4.1 billion in the first ten months of 2015, compared to €3.6 billion in 2014.

Regarding the FA components, the net receivables of **Direct Investment** made by residents abroad increased by €303 million, while the liabilities to non-residents decreased by €372 million.

Figure 3.20

Imports-Exports (January – October 2009-2015)

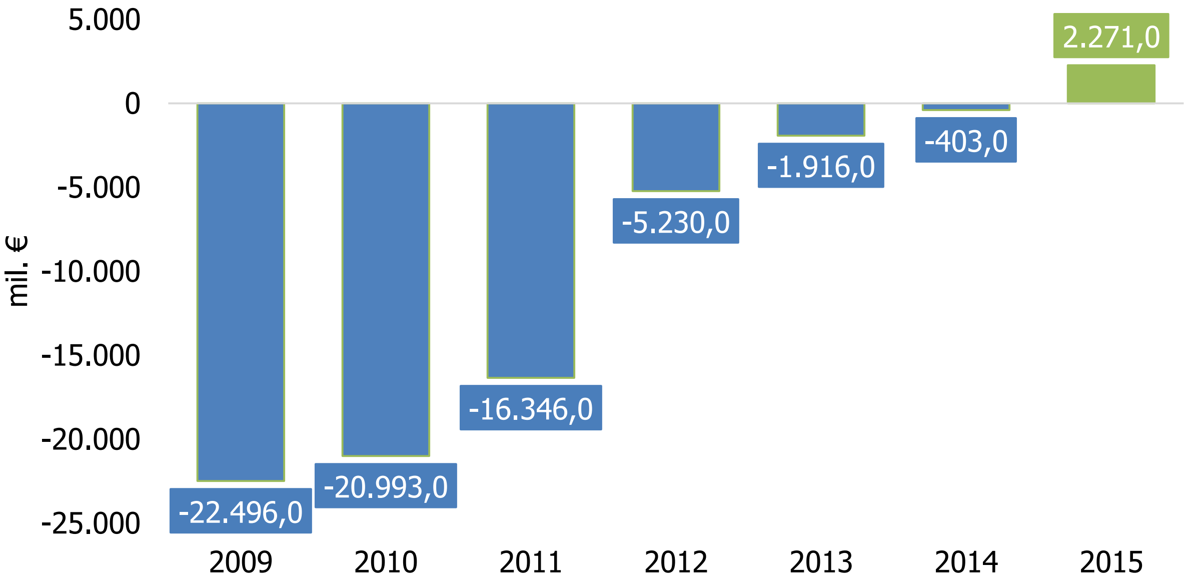


Source: Bank of Greece – Data processing IOBE

[22] The capital account reflects capital transfers, i.e. ad-hoc receipts and payments between residents and non-residents related to fixed capital formation. Capital transfers include mainly some of the transfers (receipts) from the budget of the EU budget to the General Government (receipts from the Structural Funds – excluding the European Social Fund - and the Cohesion Fund under the Community Support Framework).

Figure 3.21

Current Account (January – October 2009-2015)



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

In **Portfolio Investment**, the claims by residents towards non-residents increased by €1.1 billion, as according to the Bank of Greece the holdings of residents in foreign stocks increased by €7.0 billion while their holdings of foreign bonds and treasury bills decreased by €6.1 billion. The liabilities to non-residents decreased by €10.1 billion, as the holdings of non-residents in Greek sovereign bonds, treasury bills and stocks declined.

In the category of **other investments**, the receivables of residents from non-residents increased by €20.0 billion in 2015, as the deposits and repos of Greek residents abroad recorded a net increase by €2.7 billion. The liabilities also increased, by €27.6 billion, as the deposits and repos of non-residents in Greece increased by €15.9 billion.

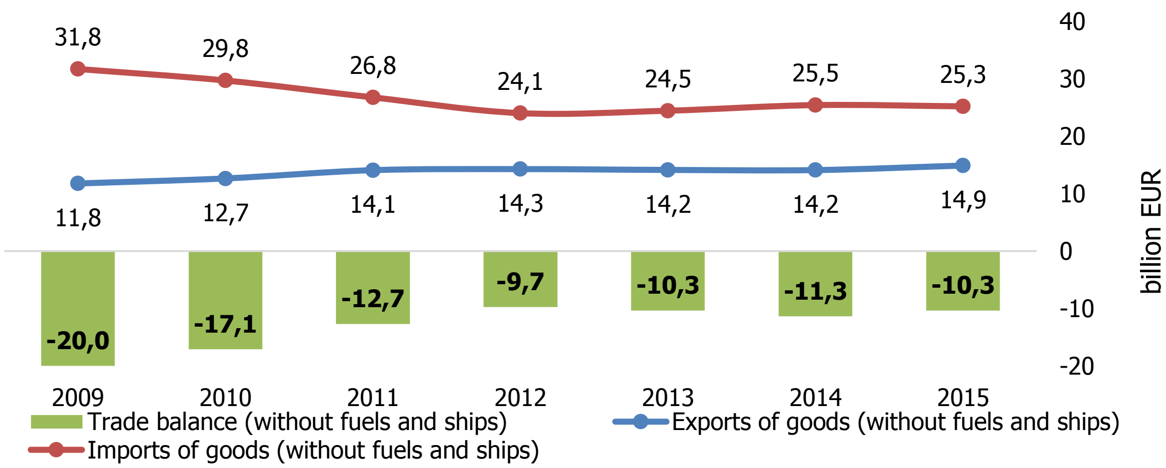
Finally**,** the **Reserve Assets** of the country at the end of October 2015 totalled €5.4 billion, from €4.9 billion in October 2014.

Assessment

Capital controls were imposed with the Legislative Act (Government Gazette 65A) of 28 June 2015 that introduced a short-duration bank holiday. They had a multifaceted impact on economic activity, affecting both businesses and households. Besides the domestic economic activity, the analysis of the impact of the imposition of capital controls on the external trade is also of particular interest. Initially, the imposition of the capital controls had an impact on the imports of goods, as the transactions with foreign banks were precluded. Exports were also affected, mainly due to the impeded supply of raw materials and other products from abroad. As quite a few months have passed and with statistical data already available on exports and imports,[23] we can make an initial assessment of the impact of the capital controls on the country's foreign trade at the sector level. No clear trend emerges if we examine the total data on exports and imports for the period from July through November, as exports increased by 2.5% year on year while imports remained almost unchanged (-0.1%). Nevertheless, the analysis at sector level can provide a better illustration of the real impact on foreign trade since July as different signs across sectors might offset each other. With the available data on imports and exports for July through November 2015, we can estimate the share of each sector in total imports and exports, together with its year-on-year change.[24] Figure 3.20 shows the top 10 subsectors with the largest reduction in their share in total imports. The subsectors with the highest year-on-year contraction of the share in total imports in the period between July and November of 2015 were Manufacture of Food Products (branch 10 in NACE Rev 2), Basic Metals (branch 24), Motor Vehicles (branch 29), Chemicals – Chemical Products (branch 20) and Electrical Equipment (branch 27). We cannot confirm that the reduction is exclusively due to the imposition of capital controls or transient factors. Nevertheless, the imports of these subsectors until June 2015 followed an upward trend. On the side of exports, among the sectors with the strongest fall in imports, the share increased year on year in the Manufacture of Food Products, with a significantly weaker growth in Electrical Equipment. Correspondingly, the sectors with the largest contraction in terms of their share in total imports were Crop – Animal Production (branch 01), Wearing Apparel (branch 14), Chemicals – Chemical Products (branch 20) and Pharmaceutical Products (branch 21).

Figure 3.22

Imports – Exports without fuels and ships (January – October 2009-2015)



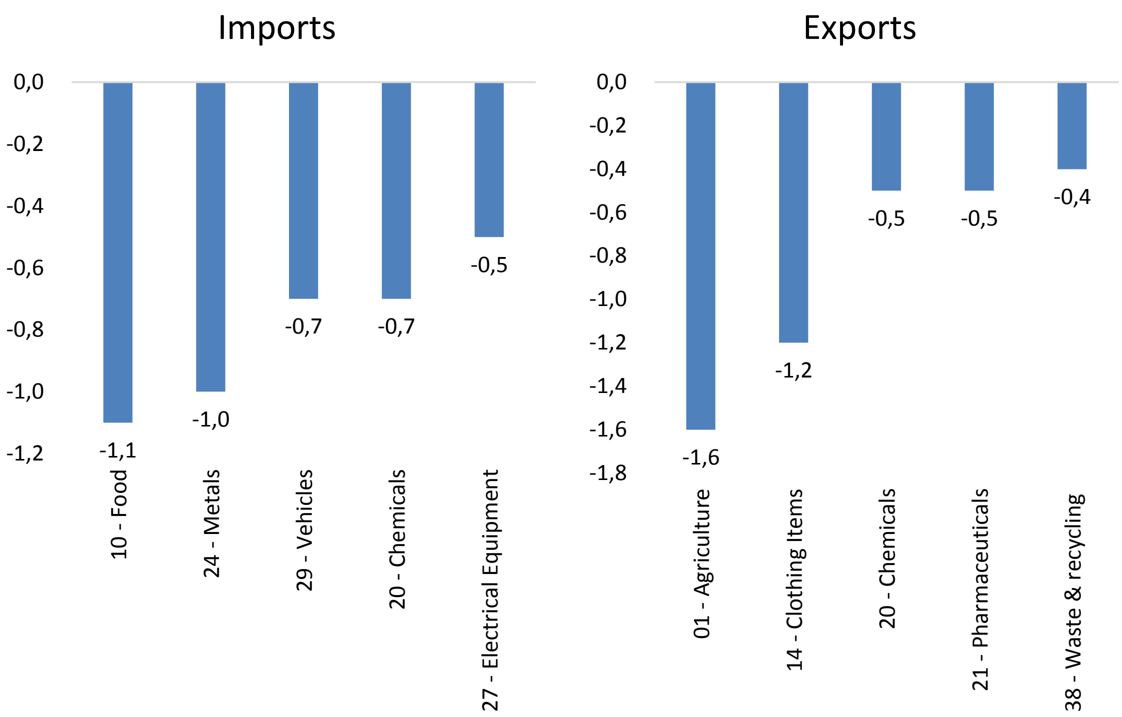
Source: Bank of Greece – Data processing IOBE

[23] Imports and exports include goods and services of all sectors of the Greek economy.

[24] The energy sectors in extraction (crude oil, natural gas, lignite) and manufacturing (petroleum products) were excluded from the analysis.

Figure 3.20

Year-on-year change in the share per sector (imports-exports) for 2015 (July-November)



Source: Eurostat - Data processing IOBE

Table 3.11 Balance of Payments in € million

		January – October			October		
		2013	**2014**	**2015**	**2013**	**2014**	**2015**
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	-1,915.6	-402.9	2,087.9	-1,008.4	-456.1	314.2
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	-2,843.1	-1,352.1	1,938.0	-956.6	-562.6	-136.7
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	-17,535.8	-18,536.2	-14,157.4	-2,224.3	-2,031.5	-1,311.0
	Oil balance	-5,954.7	-5,288.1	-3,447.0	-826.8	-696.2	-168.3
	Trade balance excluding oil	-11,581.2	-13,248.1	-10,710.4	-1,397.5	-1,335.3	-1,142.7
	Ships balance	-1,266.7	-1,981.9	-392.3	-334.1	-154.8	-13.3
	Trade balance excluding ships	-16,269.1	-16,554.3	-13,765.0	-1,890.2	-1,876.8	-1,297.7
	Trade balance excluding oil and ships	-10,314.4	-11,266.2	-10,318.0	-1,063.4	-1,180.6	-1,129.4
I.A.1	**Exports**	22,742.4	22,373.9	20,695.9	2,267.0	2,462.3	2,139.0
	Oil	8,177.7	7,716.0	5,589.5	684.9	807.0	575.2
	Ships (sales)	379.6	503.7	162.4	29.2	38.2	2.6
	Goods excluding oil and ships	14,185.2	14,154.1	14,944.0	1,552.9	1,617.1	1,561.2
I.A.2	**Imports**	40,278.3	40,910.1	34,853.3	4,491.3	4,493.8	3,450.0
	Oil	14,132.4	13,004.1	9,036.5	1,511.7	1,503.2	743.5
	Ships (buying)	1,646.3	2,485.7	554.7	363.3	193.0	15.9
	Goods excluding oil and ships	24,499.6	25,420.3	25,262.1	2,616.3	2,797.7	2,690.5
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	14,692.7	17,184.1	16,095.3	1,267.8	1,468.9	1,174.3
I.B.1	**Receipts**	24,969.2	27,742.4	25,391.1	2,305.6	2,525.9	1,872.7
	Travel	11,769.0	13,002.8	13,530.4	950.0	1,001.4	960.8
	Transportation	10,037.0	10,912.4	8,699.5	1,003.2	1,143.1	635.2
	Other services	3,163.1	3,827.3	3,161.2	352.5	381.4	276.8
I.B.2	**Payments**	10,276.5	10,558.3	9,295.8	1,037.8	1,057.0	698.5
	Travel	1,541.5	1,709.3	1,672.4	129.3	172.0	176.5
	Transportation	5,437.1	5,157.3	4,680.5	566.4	543.6	337.2
	Other services	3,297.9	3,691.7	2,942.9	342.2	341.4	184.8
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	-358.7	889.9	388.8	2.0	134.6	429.8
I.C.1	**Receipts**	5,525.3	6,008.1	4,949.1	326.9	420.4	576.2
	From work(wages, compensation)	172.5	174.2	133.4	17.1	17.5	9.1
	From investments (interest, dividends, profit)	2,676.8	2,744.1	2,195.9	250.4	247.5	210.6
	Other primary income	2,676.0	3,089.8	2,619.8	59.5	155.4	356.6
I.C.2	**Payments**	5,884.0	5,118.2	4,560.2	325.0	285.8	146.5
	From work(wages, compensation)	382.5	390.8	348.5	37.7	48.9	14.7
	From investments (interest, dividends, profit)	5,172.1	4,458.7	3,951.0	269.7	222.1	108.5
	Other primary income	329.4	268.6	260.8	17.5	14.8	23.3
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	1,286.3	59.2	-238.9	-53.9	-28.1	21.1
I.D.1	**Receipts**	3,818.7	2,268.0	1,876.3	111.4	134.6	184.0
	General government	2,722.1	1,332.9	1,154.6	19.8	51.8	118.9
	Other sectors	1,096.6	935.1	721.8	91.5	82.8	65.1
I.D.2	**Payments**	2,532.5	2,208.8	2,115.2	165.2	162.7	162.9
	General government	1,866.4	1,522.3	1,477.8	99.2	84.0	131.9
	Other sectors	666.1	686.5	637.5	66.0	78.7	31.0
II	**CAPITAL ACCOUNT (II.1-II.2)**	2,774.6	1,779.6	1,661.7	-7.7	-9.7	1,108.6
II.1	**Receipts**	3,046.6	2,049.4	1,951.9	7.1	6.7	1,120.1
	General government	2,978.4	1,988.9	1,908.5	0.6	0.8	1,116.2
	Other sectors	68.2	60.5	43.3	6.5	5.9	3.9
II.2	**Payments**	272.0	269.9	290.1	14.9	16.3	11.5
	General government	4.2	8.0	3.9	0.4	0.4	0.1
	Other sectors	267.8	261.8	286.2	14.4	16.0	11.4
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	859.0	1,376.7	3,749.6	-1,016.2	-465.8	1,422.7
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	3,142.1	3,664.5	4,146.8	-616.2	-42.0	1,903.7
III.A	**DIRECT INVESTMENT***	-1,754.4	-480.9	675.0	-580.2	-48.6	103.1
	Assets	-731.6	494.9	303.4	24.1	42.7	10.9
	Liabilities	1,022.8	975.8	-371.6	604.3	91.3	-92.1
III.B	**PORTFOLIO INVESTMENT****	6,449.8	3,475.0	11,174.1	-1,047.9	2,681.7	1,968.7
	Assets	-1,983.6	6,792.1	1,109.2	-827.6	1,029.6	1,648.6
	Liabilities	-8,433.4	3,317.0	-10,064.8	220.3	-1,652.2	-320.1
III.C	**OTHER INVESTMENT***	-1,635.3	250.4	-7,602.6	987.9	-2,632.1	-305.5
	Assets	-20,205.8	-8,406.3	19,961.1	-1,206.6	-400.1	-734.4
	Liabilities	-18,570.6	-8,656.6	27,563.8	-2,194.5	2,232.0	-428.9
	(Loans of general government)	30,583.9	5,549.9	4,767.4	-40.4	-448.0	-214.8
III.D	**CHANGE IN RESERVE ASSETS*****	82.0	420.0	-99.6	24.0	-43.0	137.4
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	2,283.2	2,287.8	397.2	400.0	423.8	481.0
	RESERVE ASSETS (STOCK)***				**4,537**	**4,884**	**5,375**

Source: Bank of Greece

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

** (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchange reserves with a negative sign.* * * Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" with the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outside the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB

4. Digital payments and boosting tax revenues in Greece[25]

4.1 Introduction

The objective to increase tax revenues by curbing tax evasion and by reducing the size of the shadow economy plays a key role in the effort to rationalise public finances and to bring the Greek economy back on a growth path. The shadow economy thrives on the underreporting of sales and undeclared labour.

One of the available instruments for limiting the shadow economy is the use of electronic means for carrying out payments. The use of Electronic Means of Payment (EMP) in a transaction implies that the transaction is recorded in the information systems of the banks, facilitating the tax audit of both transactions and incomes. Therefore, a wider use of these payments could contribute substantially to the reduction of the shadow economy, the growth of tax revenues and ultimately to the genuine and sustainable recovery of the Greek economy. The aim of the study is to investigate the role of digital payments in curbing the shadow economy and boosting tax revenues in Greece. The study also attempts to quantify the impact on tax revenues from adopting incentives for the use of digital payments.

4.2 The EMP use in Greece

The level of EMP use in Greece today is significantly higher than in 2000. Nevertheless, the negative impact of the crisis on the diffusion of EMP is notable. In particular, if we examine the course of EMP use without taking into account credit transfers, which also include business-to-business transactions and transfers that are not necessarily related to the purchase of goods and services, the impact of the economic crisis transpires both in a slowdown of the growth rate of the number of transactions and in a reduction of their value.

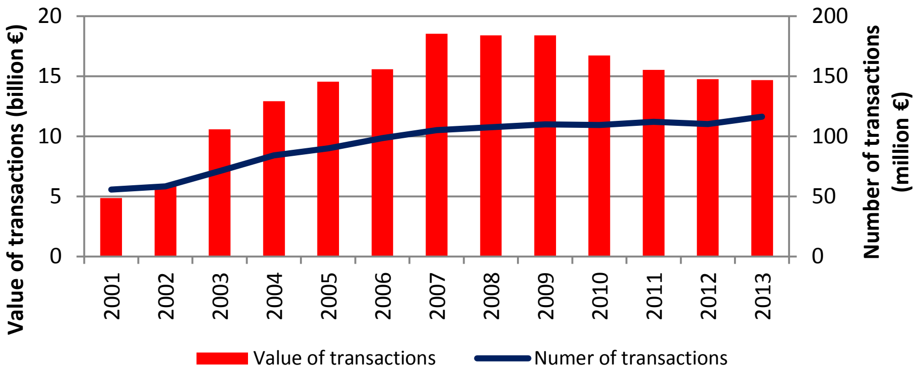
In particular, the number of transactions increased annually by only 1.6% on average between 2008 and 2013, with the largest growth rate recorded in 2013 (+5.5%). During the same period, the value of transactions fell notably, reaching towards the end of this period its 2005 level. Note that before the crisis, the value of digital payments (except credit transfers) was growing at fast pace, almost doubling in 2007, compared with 2001 (Figure 4.1).

The use of EMP in Greece lags considerably behind the rest of the EU. Despite the growth recorded since 2001, Greece continues to occupy very low positions in the relevant rankings. Based on the value of transactions with EMP per inhabitant in 2013, Greece ranked higher only compared to Croatia and Bulgaria, while in terms of the number of transactions per inhabitant Greece occupied the last position in the ranking (Figure 4.2).

[25] The study was completed in October 2015. The full text of the study is available on the IOBE website (http://iobe.gr/research_dtl_en.asp?RID=119).

Figure 4.1

Number and value of digital payments in Greece (2001-2013)



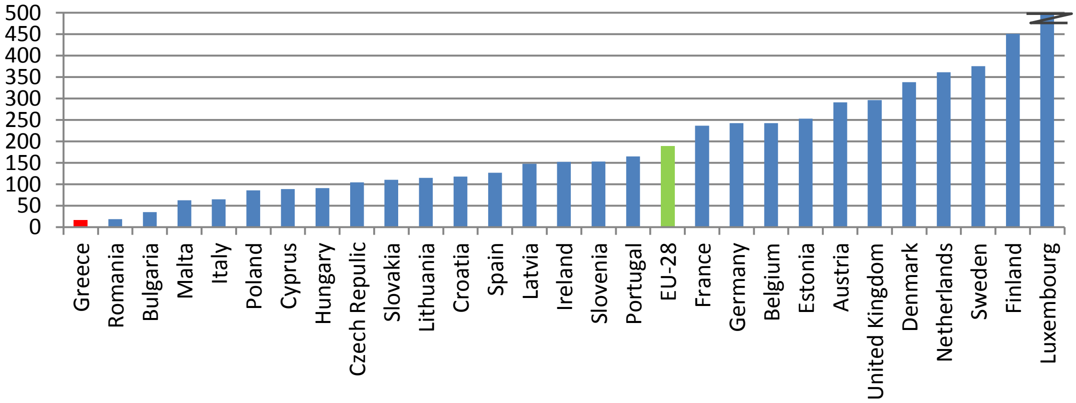
Source: European Central Bank. **Note:** Credit transfers are not included.

During the summer of 2015, the bank holiday, the compulsory acceptance of payment cards and the daily limit on ATM withdrawals gave a significant boost to the diffusion of digital payments. In July, the use of payment cards for purchases through POS terminals more than doubled, compared with June. As the branches of the banks finally opened towards the end of July, the use of cards declined, remaining however much higher compared with the period before the imposition of capital controls (Figure 4.3).

Despite the formidable percentage growth in digital payments over the summer, their use in Greece remains significantly behind the other EU member states. The doubling of the EMP use in the best of cases leads to a gain of one place for Greece in the ranking based on the number of EMP transactions per inhabitant. In order to reach the EU average for this ranking, the number of EMP transactions per inhabitant in Greece should increase by about 11 times from their 2013 level, thus, the potential for further growth is significant.

Figure 4.2

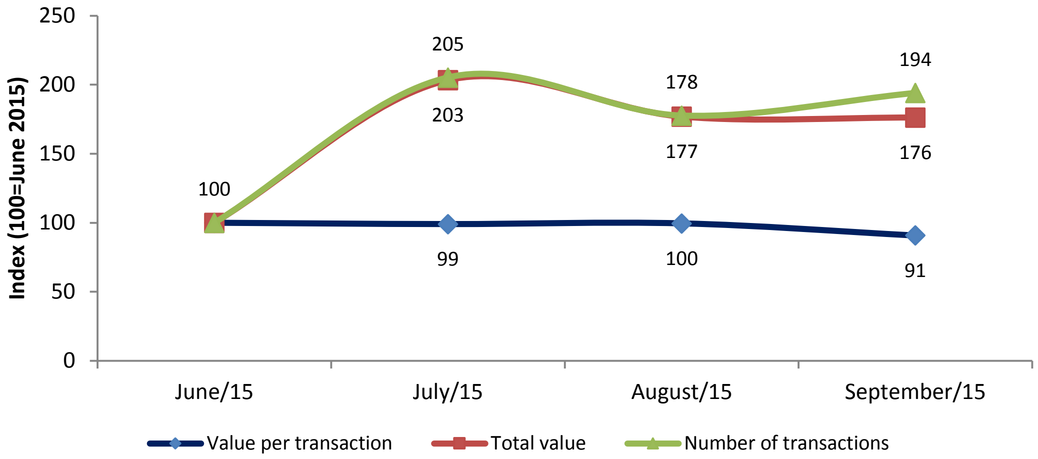
Number of digital payments per inhabitant (2013)



Source: European Central Bank, Data processing: IOBE

Figure 4.3

Domestic transactions with payment cards over the summer of 2015



Source: Banks members of the HBA. Data processing: IOBE

4.3 Obstacles to further EMP diffusion

In order to boost the use of EMP, we should first examine the main reasons why Greece lags behind. The current regulatory framework does not seem to raise particular obstacles to the use of EMP, as counter-incentives introduced in the past are no longer in force (e.g. the expenditure made with cards, but not with cash, was taken into account in the calculation of the imputed income of individuals for taxation purposes). Nevertheless, there is room for a further boost of the role of the state as a catalyst for the diffusion of digital payments.

On the consumer side, a significant number of individuals do not trust the safety of the transactions and of the electronic systems in general. This distrust is not supported by objective observations, as the number of fraud cases with payment cards in Greece is quite low compared with the EU average. Meanwhile, the economic crisis has also had a negative impact, as it has led to a significant reduction of the disposable income of many households in the country and has created insecurity regarding the robustness of the Greek banking system. On the business side, the significant number of self-employed in the country and the high share of very small enterprises in retail trade contribute to the low diffusion of digital payments.

While the above factors contribute to the limited EMP use, none of them seems strong enough to fully and convincingly explain on its own the observed lag. Nevertheless, the combined effect of these obstacles prevents the accumulation of a sufficient mass of transactions that could unleash the positive impact of the network effects, characteristic of goods such as EMP. When the EMP use is limited and when paying with EMP is not a daily habit of the consumers, the utility of the digital payments is low both for the consumers and the smaller enterprises. In addition, when the EMP diffusion is limited, the fixed costs of installing, maintaining and operating the relevant infrastructure is spread over fewer transactions, increasing thus the cost of EMP use per transaction.

4.4 Incentives for the use of EMP

Recognising the significance of EMP for curbing the shadow economy and the need for intervention due to network effects, particularly in the early stages of EMP penetration, a number of countries have adopted incentives and/or administrative measures to strengthen the use of EMP. The incentives include partial refunds when a transaction is carried out with EMP, income tax discounts when households, as well as enterprises, achieve targets for EMP use in their transactions, an obligation of accepting EMP in certain sectors, lotteries and a prohibition of cash use for higher value transactions. Implementing a series of such measures in South Korea led to an increase in the share of card transactions in private consumption to over 65% in 2010, from 14.7% in 1999. In the same period, the total receipts deriving from income tax in the country were growing by 13.6% annually, significantly surpassing the pace of GDP growth (6.5% on average from 2000 to 2009).

Apart from the state, the use of EMP has also been incentivised by financial institutions. In Greece, the banks implement loyalty programmes that provide rewards for the use of credit and debit cards. The programmes usually entail the collection of reward points for each transaction and exchange of the points for discounts in participating stores.

We examined the effectiveness of the incentives that the Greek banks offer, using transaction data for a random anonymised sample of 40,000 consumers, covering the period from 2010 to 2014. The econometric analysis revealed a positive relationship between the incentives offered by the domestic banking institutions and the use of payment cards, both in terms of frequency of use and value per transaction. In addition, it seems that the number and the value of transactions are higher among younger consumers, men, the employed and university graduates. Therefore, the provision of incentives in the form of discounts or cash refunds seems to be an effective method for boosting digital payments in Greece.

4.5 Digital payments, shadow economy and economic growth

A starting point for the implementation of the suitable policy measures in the direction of expanding the use of electronic payment instruments is to highlight its impact on the informal or shadow economy and tax evasion. A wider use of EMP and the reduction of the use of cash in payments could act as a policy measure against tax evasion and the shadow economy, particularly in areas where the conditions favour the intense presence of these phenomena.

In addition, the electronic transactions have a direct link to economic growth. According to recent studies, the large-scale adoption of digital payments lowers the cost of intermediation services, promotes the creation of new markets, improves the efficiency of the trade system, intensifies the competition in the markets for products and services and ultimately boosts consumption and economic activity. It is estimated about 0.2 percentage of the growth rate of the world GDP each year can be attributed to the diffusion of card payments.[26]

The positive impact of the EMP diffusion on tax revenues is also revealed by an empirical analysis with data on the Greek economy. In particular, using annual time series for the value of transactions with payment cards, tax revenues and GDP for the last 15 years, we estimated that the tax revenues increase by 0.24 percentage points for every percentage point growth of the use of payment cards.

4.6 Policy suggestions

The implementation of appropriate measure for strengthening the EMP use, taking into account the current obstacles to their further diffusion, would offer the chance to limit the shadow economy and significantly increase the state tax revenues. Both economic theory and the international experience show that the effectiveness of the measures differs significantly depending on their implementation scope. Meanwhile, the incentives come at a cost in terms of public expenditure. Therefore, the measures should be appropriately targeted in order to be efficient.

The study concludes with the following policy suggestions:

- A refund by 1% of the transaction value for digital payments through POS terminals (payment cards and e-money) for the purchase of goods and services by individuals from sectors with low risk of tax evasion
- A refund by 5% of the transaction value for digital payments through POS terminals for the purchase of goods and services by individuals from sectors with intermediate risk of tax evasion
- A refund by 10% of the transaction value for digital payments through POS terminals for the purchase of goods and services by individuals from sectors with high risk of tax evasion
- Lottery for consumers that use digital payments in sectors with high risk of tax evasion
- Placement of POS terminals in all public utility branches
- Mandatory acceptance of digital payments, with a subsidy for the installation of POS terminals in enterprises with an annual turnover of less than €150,000 operating in sectors with intermediate or high risk of tax evasion

[26] Zandi, M. and Singh, V. (2013). The Impact of Electronic Payments on Economic Growth. Moody's analytics.

- Mandatory use of digital payments for transaction with a value above €30 in sectors with a high risk of tax evasion

We also propose that the likely fiscal and social impact of the following measures should be examined in depth:

- Replacement of the mandatory collection of paper receipts with the obligation to make digital payments to the same amount
- Mandatory use of digital payments equal to 10% of the income for households that receive a tax reduction due to low income (a measure that relatively recently replaced the universal tax allowance)
- Reduction of the corporate income tax for companies that achieve EMP diffusion targets in their transactions with final consumers
- Participation in the lottery of companies that accept digital payments
- Boost of the catalytic role of the state in the diffusion of EMP
    - Mandatory use of credit transfers in the customs (ICISnet)
    - Universal use of EMP in the tax offices
    - Completion of the electronic invoice system
- Information and education actions, along the lines of the Banks in Action programme of the Hellenic Banking Association, which teaches finance in secondary education classes.

Table 4.1

Anticipated net fiscal outcome (€ million) per scenario and policy measure

Policy measure	Break-even*	Pessimistic	Central	Optimistic
1% refund	25%	47	248	610
5% refund	105%	-1	79	182
10% refund	165%	-10	90	183
Lottery	1%	6	72	153
POS in utilities	0,1%	0	2	5
POS in small stores	1%	-14	124	297
Mandatory use of EMP	0%	16	82	163
Total	**-**	**46**	**696**	**1594**

Source: IOBE
Note: *The lowest rate of growth of EMP transactions through POS terminals in the corresponding tax evasion risk category that can lead to a net positive fiscal impact, based on the assumptions of the central scenario.

It is estimated that the adoption of the examined measures will have a significant positive impact on the state tax revenues, provided that feasible targets for EMP transaction growth are met. The net fiscal benefit in the central scenario of the simulations is estimated to approach €700 million in the first year of implementation (Table 4.1). Subsequently, as the EMP diffusion targets are met and the use of digital payments consolidates as part of the consumer habits, the incentives can be gradually withdrawn, resulting in a reduction of their gross fiscal cost and a corresponding increase in their net fiscal benefit.

The additional tax revenues grow much faster than the fiscal cost of the measures, with the growth of EMP use. On the other hand, an ineffective implementation of the measures that leads to a small increase in the value of EMP transactions might result in a net negative outcome for the state. This result highlights the importance of an appropriate design and communication of the measures to the consumers and the enterprises and stresses the need for mobilisation of the tax audit authorities in the utilisation of the increased transparency provided by the wider EMP diffusion. A further prerequisite to achieving the targets for tax revenue growth by boosting EMP use is to restore the trust of the Greek public in the domestic banking system.

5. APPENDIX: STRUCTURAL INDICATORS

Table 1: GDP growth

	Annual data (%)									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	2.1	3.4	3.6	1.5	-3.8	1.9	2.8	0.8	0.3	0.4
Belgium	2.1	2.5	3.4	0.7	-2.3	2.7	1.8	0.2	0	1.3
Bulgaria	7.2	6.8	7.7	5.6	-4.2	0.1	1.6	0.2	1.3	1.5
France	1.6	2.4	2.4	0.2	-2.9	2	2.1	0.2	0.7	0.2
Germany	0.7	3.7	3.3	1.1	-5.6	4.1	3.7	0.4	0.3	1.6
Denmark	2.4	3.8	0.8	-0.7	-5.1	1.6	1.2	-0.7	-0.5	1.1
Czech Republic	6.4	6.9	5.5	2.7	-4.8	2.3	2	-0.9	-0.5	2
EU	2	3.4	3.1	0.5	-4.4	2.1	1.7	-0.5	0.2	1.4
Greece	0.9	5.8	3.5	-0.4	-4.4	-5.4	-8.9(p)	-6.6(p)	-3.9(p)	0.8(p)
Estonia	9.4	10.3	7.7	-5.4	-14.7	2.5	7.6	5.2	1.6	2.9
Euro area	1.7	3.2	3	0.5	-4.5	2	1.6	-0.8	-0.3	0.9
United Kingdom	2.8	3	2.6	-0.3	-4.3	1.9	1.6	0.7	1.7	3
Ireland	6.3	6.3	5.5	-2.2	-5.6	0.4	2.6	0.2	1.4	5.2
Spain	3.7(p)	4.2(p)	3.8(p)	1.1(p)	-3.6(p)	0(p)	-0.6(p)	-2.1(p)	-1.2(p)	1.4)p)
Italy	0.9	2	1.5	-1	-5.5	1.7	0.6	-2.8	-1.7	-0.4
Croatia	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-0.9	-0.4
Cyprus	3.9	4.5	4.9	3.6	-2	1.4	0.3	-2.4	-5.4(p)	-2.3(p)
Latvia	10.7	11.9	10	-3.6	-14.3	-3.8	6.2	4	3	2.8
Lithuania	7.7	7.4	11.1	2.6	-14.8	1.6	6	3.8	3.5	3
Luxemburg	3.2	5.1	8.4	-0.8	-5.4	5.7	2.6	-0.7	4.4	5.6
Malta	3.8	1.8	4	3.3	-2.5	3.5	2.1	2.5	2.6	3.5
Netherlands	2.2	3.5	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.5(p)	1(p)
Hungary	4.4	3.8	0.4	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7
Poland	3.5	6.2	7.2	3.9	2.6	3.7	4.8	1.8	1.7	3.4
Portugal	0.8	1.6	2.5	0.2	-3	1.9	-1.8	-4	-1.1	0.9(e)
Romania	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.4	2.8(p)
Slovakia	6.5	8.3	10.7	5.4	-5.3	4.8	2.7	1.6	1.4	2.4
Slovenia	4	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3
Sweden	2.8	4.7	3.4	-0.6	-5.2	6	2.7	-0.3	1.2	2.3
Finland	2.8	4.1	5.2	0.7	-8.3	3	2.6	-1.4	-1.1	-0.4

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

Table 2: General Government Debt as %GDP

	Annual data (%)								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	67	64.8	68.5	79.7	82,4	82.2	81.6	80.8	84.2
Belgium	90.9	86.9	92.4	99.5	99.6	102.2	104.1	105.1	106.7
Bulgaria	20.9	16.2	13	13.7	15.5	15.3	17.6	18	27
France	64.4	64.4	68.1	79	81.7	85.2	89.6	92.3	95.6
Germany	66.4	63.6	65	72.5	81	78.4	79.7	77.4	74.9
Denmark	31.5	27.3	33.4	40.4	42.9	46.4	45.6	45	45.1
Czech Republic	27.9	27.8	28.7	34.1	38.2	39.9	44.7	45.2	42.7
EU	67.4	65.1	68.7	78.5	84	86.1	89.5	91.3	92.3
Greece	103.5	103.1	109.4	126.7	146.2	172	159.4	177	178.6
Estonia	4.4	3.7	4.5	7	6.6	5.9	9.5	9.9	10.4
Euro area	60.4	57.8	61	73	78.4	81	83.8	85.5	86.8
United Kingdom	42.4	43.5	51.7	65.7	76.6	81.8	85.3	86.2	88.2
Ireland	23.6	23.9	42.4	61.8	86.8	109.3	120.2	120	107.5
Spain	38.9	35.5	39.4	52.7	60.1	69.5	85.4	93.7	99.3
Italy	102.5	99.7	102.3	112.5	115.3	116.4	123.2	128.8	132.3
Croatia	38.3	37.1	38.9	48	57	63.7	69.2	80.8	85.1
Cyprus	59.1	53.9	45.1	53.9	56.3	65.8	79.3	102.5	108.2
Latvia	9.9	8.4	18.7	36.6	47.5	42.8	41.4	39.1	40.6
Lithuania	17.2	15.9	14.6	29	36.2	37.2	39.8	38.8	40.7
Luxemburg	7	7.2	14.4	15.5	19.6	19.2	22.1	23.4	23
Malta	64.6	62.4	62.7	67.8	67.6	69.8	67.6	69.6	68.3
Netherlands	44.5	42.4	54.5	56.5	59	61.7	66.4	67.9	68.2
Hungary	64.7	65.6	71.6	78	80.6	80.8	78.3	76.8	76.2
Poland	47.1	44.2	46.6	49.8	53.3	54.4	54	55.9	50.4
Portugal	69.2	68.4	71.7	83.6	96.2	111.4	126.2	129	130.2
Romania	12.3	12.7	13.2	23.2	29.9	34.2	37.4	38	39.9
Slovakia	30.8	29.9	28.2	36	40.8	43.3	51.9	54.6	53.5
Slovenia	26	22.7	21.6	34.5	38.2	46.4	53.7	70.8	80.8
Sweden	43.2	38.3	36.8	40.4	37.6	36.9	37.2	39.8	44.9
Finland	38.2	34	32.7	41.7	47.1	48.5	52.9	55.6	59.3

Table 3: General Government Balance as %GDP

	Annual data (%)								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	-2.5	-1.3	-1.4	-5.3	-4.4	-2.6	-2.2	-1.3	-2.7
Belgium	0.3	0.1	-1.1	-5.4	-4.0	-4.1	-4.1	-2.9	-3.1
Bulgaria	1.8	1.1	1.6	-4.1	-3.2	-2.0	-0.6	-0.8	-5.8
France	-2.3	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.1	-3.9
Germany	-1.7	0.2	-0.2	-3.2	-4.2	-1.0	-0.1	-0.1	0.3
Denmark	5.0	5.0	3.2	-2.8	-2.7	-2.1	-3.6	-1.3	1.5
Czech Republic	-2.3	-0.7	-2.1	-5.5	-4.4	-2.7	-4.0	-1.3	-1.9
EU	-1.6	-0.9	-2.5	-6.7	-6.4	-4.5	-4.3	-3.3	-3.0
Greece	-5.9	-6.7	-10.2	-15.2	-11.2	-10.2	-8.8	-12.4	-3.6
Estonia	2.9	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.1	0.7
Euro area	-1.5	-0.6	-2.2	-6.3	-6.2	-4.1	-3.7	-3.0	-2.6
United Kingdom	-2.9	-3.0	-5.1	-10.8	-9.7	-7.7	-8.3	-5.7	-5.7
Ireland	2.8	0.3	-7.0	-13.8	-32.3	-12.5	-8.0	-5.7	-3.9
Spain	2.2	2.0	-4.4	-11.0	-9.4	-9.5	-10.4	-6.9	-5.9
Italy	-3.6	-1.5	-2.7	-5.3	-4.2	-3.5	-3.0	-2.9	-3.0
Croatia	-3.2	-2.4	-2.7	-5.8	-5.9	-7.8	-5.3	-5.4	-5.6
Cyprus	-1.0	3.2	0.9	-5.5	-4.8	-5.7	-5.8	-4.9	-8.9
Latvia	-0.6	-0.7	-4.1	-9.1	-8.5	-3.4	-0.8	-0.9	-1.5
Lithuania	-0.3	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.7
Luxemburg	1.4	4.2	3.3	-0.5	-0.5	0.5	0.2	0.7	1.4
Malta	-2.6	-2.3	-4.2	-3.3	-3.2	-2.6	-3.6	-2.6	-2.1
Netherlands	0.2	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.4
Hungary	-9.3	-5.1	-3.6	-4.6	-4.5	-5.5	-2.3	-2.5	-2.5
Poland	-3.6	-1.9	-3.6	-7.3	-7.5	-4.9	-3.7	-4.0	-3.3
Portugal	-4.3	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2
Romania	-2.2	-2.9	-5.6	-9.1	-6.9	-5.4	-3.2	-2.2	-1.4
Slovakia	-3.6	-1.9	-2.3	-7.9	-7.5	-4.1	-4.2	-2.6	-2.8
Slovenia	-1.2	-0.1	-1.4	-5.9	-5.6	-6.6	-4.1	-15.0	-5.0
Sweden	2.2	3.3	2.0	-0.7	0.0	-0.1	-0.9	-1.4	-1.7
Finland	3.9	5.1	4.2	-2.5	-2.6	-1.0	-2.1	-2.5	-3.3

Πίνακας 4: Share of persons at risk of poverty(*)

	Annual data (%)									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	17.4	17.8	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2
Belgium	22.6	21.5	21.6	20.8	20.2	20.8	21	21.6	20.8	21.2
Bulgaria	:	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48	40.1
France	18.9	18.8	19	18.5	18.5	19.2	19.3	19.1	18.1	:
Germany	18.4	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3	:
Denmark	17.2	16.7	16.8	16.3	17.6	18.3	18.9	19	18.9	17.8
Czech Republic	19.6	18	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8
EU	21.7	22	21.8	21.7	21.5	21.8	22.9	23.2	23.1	:
Greece	29.4	29.3	28.3	28.1	27.6	27.7	31	34.6	35.7	36
Estonia	25.9	22	22	21.8	23.4	21.7	23.1	23.4	23.5	:
Euro area	:	:	:	:	:	23.7	24.3	24.7	24.5	:
United Kingdom	24.8	23.7	22.6	23.2	22	23.2	22.7	24.1	24.8	:
Ireland	25	23.3	23.1	23.7	25.7	27.3	29.4	30	29.5	:
Spain	24.3	24	23.3	24.5	24.7	26.1	26.7	27.2	27.3	29.2
Italy	25	25.9	26	25.3	24.7	24.5	28.2	29.9	28.4	28.1
Croatia	:	:	:	:	:	31.1	32.6	32.6	29.9	:
Cyprus	25.3	25.4	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4
Latvia	46.3	42.2	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7
Lithuania	41	35.9	28.7	28.3	29.6	34	33.1	32.5	30.8	27.3
Luxemburg	17.3	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19	:
Malta	20.5	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24	23.8
Netherlands	16.7	16	15.7	14.9	15.1	15.1	15.7	15	15.9	17.1
Hungary	32.1	31.4	29.4	28.2	29.6	29.9	31	32.4	33.5	31.1
Poland	45.3	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7
Portugal	26.1	25	25	26	24.9	25.3	24.4	25.3	27.5	:
Romania	:	:	45.9	44.2	43.1	41.4	40.3	41.7	40.4	:
Slovakia	32	26.7	21.3	20.6	19.6	20.6	20.6	20.5	19.8	18.4
Slovenia	18.5	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4
Sweden	14.4	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4	:
Finland	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16	17.3

Table 5: Harmonised Consumer Price Index

	Annual data (%)				Jan. – Nov. (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	3.6	2.6	2.1	1.5	2.1	1.5	0.8	-0.6	-0.7
Belgium	3.4	2.6	1.2	0.5	1.1	0.6	0.5	-0.4	-0.1
Bulgaria	3.4	2.4	0.4	-1.6	0.5	-1.6	-1.1	-2.1	0.5
France	2.3	2.2	1	0.6	1.0	0.7	0.1	-0.3	-0.6
Germany	2.5	2.1	1.6	0.8	1.6	0.8	0.1	-0.8	-0.7
Denmark	2.7	2.4	0.5	0.3	0.5	0.4	0.2	-0.2	-0.1
Czech Republic	2.1	3.5	1.4	0.4	1.4	0.5	0.3	-0.9	-0.2
EU	3.1	2.6	1.5	0.6	1.6	0.6	0.0	-0.9	-0.6
Greece	3.1	1	-0.9	-1.4	-0.8	-1.3	-1.2	-0.5	0.1
Estonia	5.1	4.2	3.2	0.5	3.4	0.5	0.1	-2.8	-0.4
Euro area	2.7	2.5	1.3	0.4	1.4	0.5	0.0	-0.9	-0.5
United Kingdom	4.5	2.8	2.6	1.5	2.6	1.5	:	-1.1	:
Ireland	1.2	1.9	0.5	0.3	0.5	0.4	-0.1	-0.2	-0.4
Spain	3.1	2.4	1.5	-0.2	1.7	-0.1	-0.7	-1.8	-0.6
Italy	2.9	3.3	1.3	0.2	1.3	0.2	0.1	-1.1	-0.1
Croatia	2.2	3.4	2.3	0.2	2.5	0.2	-0.3	-2.3	-0.5
Cyprus	3.5	3.1	0.4	-0.3	0.5	-0.2	-1.6	-0.7	-1.4
Latvia	4.2	2.3	0	0.7	0.0	0.7	0.2	0.7	-0.5
Lithuania	4.1	3.2	1.2	0.2	1.2	0.3	-0.7	-1.0	-1.0
Luxemburg	3.7	2.9	1.7	0.7	1.7	0.8	0.0	-0.9	-0.9
Malta	2.5	3.2	1	0.8	1.0	0.8	1.2	-0.2	0.4
Netherlands	2.5	2.8	2.6	0.3	2.7	0.4	0.2	-2.3	-0.2
Hungary	3.9	5.7	1.7	0	1.8	0.1	0.0	-1.7	-0.1
Poland	3.9	3.7	0.8	0.1	0.8	0.2	-0.7	-0.7	-0.9
Portugal	3.6	2.8	0.4	-0.2	0.5	-0.1	0.5	-0.6	0.7
Romania	5.8	3.4	3.2	1.4	3.4	1.4	-0.4	-2.0	-1.8
Slovakia	4.1	3.7	1.5	-0.1	1.6	-0.1	-0.3	-1.7	-0.2
Slovenia	2.1	2.8	1.9	0.4	2.0	0.4	-0.8	-1.6	-1.2
Sweden	1.4	0.9	0.4	0.2	0.5	0.2	0.7	-0.3	0.5
Finland	3.3	3.2	2.2	1.2	2.2	1.3	-0.1	-1.0	-1.4

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

	Annual Data (%)								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	125	123	124	126	126	128	129	128	128
Belgium	117	115	115	117	120	120	120	119	119
Bulgaria	37	40	43	44	43	44	45	45	45
France	108	107	106	108	108	108	107	107	107
Germany	115	116	116	115	119	122	123	122	124
Denmark	124	122	123	123	126	126	125	124	124
Czech Republic	81	84	82	83	81	83	82	82	84
EU	109	109	109	108	109	108	108	107	107
Greece	93	91	93	94	87	77	74	74	73
Estonia	64	69	68	62	63	68	71	73	73
Euro area	100	100	100	100	100	100	100	100	100
United Kingdom	123	118	114	112	108	106	107	109	108
Ireland	146	147	132	128	129	130	130	130	132
Spain	103	103	102	101	98	95	94	94	93
Italy	106	105	106	105	104	103	101	99	97
Croatia	58	61	64	62	59	60	61	61	59
Cyprus	99	100	105	105	102	96	94	89	85
Latvia	55	60	60	53	53	57	60	64	64
Lithuania	56	61	63	57	60	65	69	73	74
Luxemburg	257	254	256	247	254	265	264	258	263
Malta	79	78	81	84	86	84	85	86	85
Netherlands	135	136	139	137	135	135	133	131	130
Hungary	62	61	63	64	65	65	65	66	68
Poland	50	53	55	59	62	64	66	67	68
Portugal	80	79	79	81	81	78	76	78	78
Romania	38	42	48	49	50	51	53	54	54
Slovakia	63	67	71	71	73	73	74	75	76
Slovenia	86	87	89	85	83	83	82	82	83
Sweden	125	128	127	123	126	127	126	127	124
Finland	115	118	120	116	115	117	116	113	110

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

Table 7: Labour productivity per person employed (GDP in PPS per hour worked, EU=100)

	Annual data								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	118.4	116.6	116.3	116.1	114.9	114.7	116.4	116.1	115.3
Belgium	129	127.8	126.5	127.5	129.8	129.1	129.9	129.8	129.5
Bulgaria	36.6	38.8	40.8	41.2	41.6	42.1	43.4	43	43.7
France	115.5	115.8	115.7	116.9	116.7	116.4	114.6	116.2	115.3
Germany	108.2	107.9	107.3	103.7	106.3	107.2	105.7	104.8	106.3
Denmark	107.7	105.5	107.1	108.1	113.2	113.2	114.4	114.3	113.4
Czech Republic	75.1	77.6	75.2	77	75.4	77	75.6	76	77.6
EU	100	100	100	100	100	100	100	100	100
Greece	98.8	97.1	98.8	98.3	92.2	87.3	87.3	88.5	87.8
Estonia	60.7	65.4	65.1	65.2	69	70.4	73.2	72.8	73.8
Euro area	108.1	108.3	108.5	108.3	108.4	108.3	107.6	107.7	107.7
United Kingdom	115.5	112.5	109.5	108.3	103.6	101.9	102.1	102	102.2
Ireland	137.3	137.9	128.6	135	140.9	146.2	145.7	142.1	143.9
Spain	99.7	100.2	101	106.1	103.3	102.9	104.2	105.1	105.1
Italy	111.6	112	113.5	113	111.9	111	109.5	108.2	107
Croatia	72.4	70.4	70.9	67.8	66.4	69.7	72.2	72.8	70.4
Cyprus	90	90.5	96	97	94.7	90.3	89.8	87.6	85.4
Latvia	53.9	56.5	57	56.3	58.2	60.5	62.7	62.4	64.7
Lithuania	57.9	62	64.8	61.2	67.1	70.5	72.7	74.2	74.4
Luxemburg	171.6	171.4	165.2	157.9	160.5	165	161.2	165	167.3
Malta	93.7	92.9	94.5	97.2	97.3	92.6	91.2	89.8	87.1
Netherlands	117.5	117.2	118.3	115.8	114	113.1	111.6	112.5	112.5
Hungary	67.2	66.6	70.5	72.7	72.5	72.8	71.2	71.8	70.5
Poland	59.7	61.1	60.8	64.5	69.5	71.7	73.6	73.6	73.7
Portugal	74.5	75.5	75.4	78.2	78.7	77	78.9	80.2	80.1
Romania	38.9	42.5	48.7	48.9	49.3	50.6	55.6	55.8	56.7
Slovakia	71.1	76.1	79.3	79	81.9	79.6	80.9	82.7	83.4
Slovenia	82.5	82.3	83.1	79.6	79.1	80	79.2	79.3	81.5
Sweden	115.7	117.9	117.5	115.4	117.1	116.3	115.9	113.2	112
Finland	111	113.8	114.5	111.7	111.3	111.5	109.3	107.7	107.4

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

Table 8: Employment rate of workers aged 20-64$^{(*)}$

	Annual data (%)				Q3 (%)			Change (%)	
	2011	**2012**	**2013**	**2014**	**2013**	**2014**	**2015**	**2014/13**	**2015/14**
Austria	74.2	74.4	74.6	74.2	75.3	74.8	75.0	-0.5	0.2
Belgium	67.3	67.2	67.2	67.3	67.6	67.1	67.4	-0.5	0.3
Bulgaria	62.9	63.0	63.5	65.1	65.3	66.9	68.8	1.6	1.9
France	69.2	69.4	69.5	69.4	70.0	69.6	69.9	-0.4	0.3
Germany	76.5	76.9	77.3	77.7	77.6	78.1	78.2	0.5	0.1
Denmark	75.7	75.4	75.6	75.9	76.1	76.7	76.7	0.6	0.0
Czech Republic	70.9	71.5	72.5	73.5	72.8	73.9	75.1	1.1	1.2
EU	68.6	68.4	68.4	69.2	68.8	69.7	70.5	0.9	0.8
Greece	59.6	55.0	52.9	53.3	53.2	54.1	55.9	0.9	1.8
Estonia	70.6	72.2	73.3	74.3	73.7	74.8	78.8	1.1	4.0
Euro area	68.4	68.0	67.7	68.1	68.0	68.5	69.3	0.5	0.8
United Kingdom	73.5	74.1	74.8	76.2	75.0	76.5	77.0	1.5	0.5
Ireland	63.8	63.7	65.5	67.0	65.9	67.5	69.1	1.6	1.6
Spain	62.0	59.6	58.6	59.9	59.0	60.4	62.6	1.4	2.2
Italy	61.0	60.9	59.7	59.9	59.7	60.2	61.0	0.5	0.8
Croatia	59.8	58.1	57.2	59.2	58.3	61.6	62.1	3.3	0.5
Cyprus	73.4	70.2	67.2	67.6	67.0	67.9	67.6	0.9	-0.3
Latvia	66.3	68.1	69.7	70.7	70.5	70.6	72.8	0.1	2.2
Lithuania	66.9	68.5	69.9	71.8	70.6	73.4	74.0	2.8	0.6
Luxemburg	70.1	71.4	71.1	72.1	71.5	71.5	69.9	0.0	-1.6
Malta	61.6	63.1	64.8	66.4	65.0	67.3	69.2	2.3	1.9
Netherlands	76.4	76.6	75.9	75.4	75.9	75.7	76.5	-0.2	0.8
Hungary	60.4	61.6	63.0	66.7	63.8	67.5	69.7	3.7	2.2
Poland	64.5	64.7	64.9	66.5	65.6	67.3	68.4	1.7	1.1
Portugal	68.8	66.3	65.4	67.6	65.9	68.3	69.5	2.4	1.2
Romania	63.8	64.8	64.7	65.7	65.8	67.2	67.8	1.4	0.6
Slovakia	65.0	65.1	65.0	65.9	65.2	66.3	67.9	1.1	1.6
Slovenia	68.4	68.3	67.2	67.7	68.2	68.2	70.2	0.0	2.0
Sweden	79.4	79.4	79.8	80.0	80.7	81.1	81.4	0.4	0.3
Finland	73.8	74.0	73.3	73.1	74.1	73.9	74.0	-0.2	0.1

(*) % employed persons aged 20-64 as a share of the total population of the same age group

Table 9: Employment rate of workers aged 55-64(*)

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	39.9	41.6	43.8	45.1	44.1	45.5	46.7	1.4	1.2
Belgium	38.7	39.5	41.7	42.7	42.9	42.4	44.7	-0.5	2.3
Bulgaria	44.6	45.7	47.4	50.0	48.9	51.5	54.6	2.6	3.1
France	41.4	44.5	45.6	46.9	45.9	47.1	48.8	1.2	1.7
Germany	60.0	61.6	63.6	65.6	64.2	66.1	66.7	1.9	0.6
Denmark	59.5	60.8	61.7	63.2	62.5	64.0	64.4	1.5	0.4
Czech Republic	47.7	49.3	51.6	54.0	52.2	54.7	55.9	2.5	1.2
EU	47.2	48.7	50.1	51.8	50.7	52.2	53.7	1.5	1.5
Greece	39.5	36.5	35.6	34.0	36.0	34.0	34.9	-2.0	0.9
Estonia	57.5	60.5	62.6	64.0	61.7	66.5	68.6	4.8	2.1
Euro area	47.0	48.5	49.9	51.6	50.5	52.0	53.6	1.5	1.6
United Kingdom	56.7	58.1	59.8	61.0	60.2	61.0	62.4	0.8	1.4
Ireland	50.0	49.3	51.3	53.0	51.3	53.4	55.8	2.1	2.4
Spain	44.5	43.9	43.2	44.3	43.6	44.6	47.0	1.0	2.4
Italy	37.8	40.3	42.7	46.2	43.5	46.9	48.5	3.4	1.6
Croatia	38.2	37.5	37.8	36.2	38.4	37.5	39.5	-0.9	2.0
Cyprus	54.8	50.7	49.6	46.9	50.3	48.1	48.6	-2.2	0.5
Latvia	50.5	52.8	54.8	56.4	56.6	55.8	59.6	-0.8	3.8
Lithuania	50.2	51.7	53.4	56.2	53.9	57.9	61.2	4.0	3.3
Luxemburg	39.3	41.0	40.5	42.5	39.0	43.2	34.1	4.2	-9.1
Malta	33.2	34.7	36.3	37.8	37.0	39.5	42.1	2.5	2.6
Netherlands	55.2	57.6	59.2	59.9	59.6	60.2	61.9	0.6	1.7
Hungary	35.3	36.1	37.9	41.7	38.4	42.6	46.4	4.2	3.8
Poland	36.9	38.7	40.6	42.5	41.3	43.3	45.3	2.0	2.0
Portugal	47.8	46.5	46.9	47.8	47.2	48.4	50.2	1.2	1.8
Romania	39.9	41.6	41.8	43.1	42.8	44.2	42.4	1.4	-1.8
Slovakia	41.3	43.1	44.0	44.8	44.2	46.0	47.6	1.8	1.6
Slovenia	31.2	32.9	33.5	35.4	34.2	36.3	37.2	2.1	0.9
Sweden	72.0	73.0	73.6	74.0	73.9	74.0	74.4	0.1	0.4
Finland	57.0	58.2	58.5	59.1	59.2	58.9	60.8	-0.3	1.9

(*)% employed persons aged 55-64 as a share of the total population of the same age group

Table 10: Employment growth (persons aged at least 15)

	Annual data (%)			Q3 (%)			Change (%)	
	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	1.1	0.5	0.9	0.4	1.0	0.6	0.6	-0.4
Belgium	0.3	-0.3	0.4	-0.5	0.5	0.6	1.0	0.1
Bulgaria	-2.5	-0.4	0.4	0.7	0.3	0.2	-0.4	-0.1
France	0.3	0.0	0.4	-0.1	0.5	0.2	0.6	-0.3
Germany	1.2	0.6	0.9	0.6	1.0	0.4	0.4	-0.6
Denmark	-0.3	0.0	0.8	0.0	0.8	1.0	0.8	0.2
Czech Republic	0.4	0.3	0.6	0.7	0.0	1.4	-0.7	1.4
EU	-0.5	-0.7	0.6	-0.9	0.6	0.8	1.5	0.2
Greece	-7.8	-3.8	0.7	-4.0	-0.5	2.3	3.5	2.8
Estonia	1.7	1.2	0.8	2.6	-0.2	2.1	-2.8	2.3
Euro area	-0.4	-0.3	1.0	-0.5	1.0	0.9	1.5	-0.1
United Kingdom	1.1	1.2	2.3	0.9	2.5	1.1	1.6	-1.4
Ireland	-0.6	2.4	1.7	1.9	1.7	3.0	-0.2	1.3
Spain	-3.7	-2.6	1.3	-3.1	1.2	2.9	4.3	1.7
Italy	-0.3	-1.8	0.1	-2.3	0.0	0.3	2.3	0.3
Croatia	-3.6	-2.6	2.7	-2.8	1.6	2.2	4.4	0.6
Cyprus	-4.2	-5.2	-1.9	-6.1	-1.5	0.3	4.6	1.8
Latvia	1.4	2.3	-1.3	3.9	-1.3	0.6	-5.2	1.9
Lithuania	1.8	1.3	2.0	1.0	0.9	2.1	-0.1	1.2
Luxemburg	2.4	1.8	2.4	1.8	2.3	:	0.5	:
Malta	2.3	4.2	4.5	5.2	5.0	2.3	-0.2	-2.7
Netherlands	-0.2	-0.9	-0.2	-1.1	-0.3	0.8	0.8	1.1
Hungary	0.1	0.9	3.1	0.6	3.2	2.4	2.6	-0.8
Poland	0.1	-0.1	1.7	-0.5	1.6	1.4	2.1	-0.2
Portugal	-4.1	-2.9	1.4	-4.1	1.6	1.9	5.7	0.3
Romania	-4.8	-0.6	0.8	-0.8	0.4	-1.6	1.2	-2.0
Slovakia	0.1	-0.8	1.4	-1.3	1.4	2.0	2.7	0.6
Slovenia	-0.9	-1.4	0.6	-1.9	0.5	1.6	2.4	1.1
Sweden	0.7	0.9	1.4	0.8	1.3	1.3	0.5	0.0

Table 11: Unemployment rate – Total population

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	4.6	4.9	5.4	5.6	-0.7	-0.8	-0.7	-0.8	-0.7
Belgium	7.2	7.6	8.4	8.5	-0.5	-0.8	-0.5	-0.8	-0.5
Bulgaria	11.3	12.3	13.0	11.4	0.0	-0.5	0.0	-0.5	0.0
France	9.2	9.8	10.3	10.3	-1.2	-2.5	-1.2	-2.5	-1.2
Germany	5.8	5.4	5.2	5.0	-1.1	-1.1	-1.1	-1.1	-1.1
Denmark	7.6	7.5	7.0	6.6	-0.5	-0.3	-0.5	-0.3	-0.5
Czech Republic	6.7	7.0	7.0	6.1	-0.3	-0.4	-0.3	-0.4	-0.3
EU	9.7	10.5	10.9	10.2	-0.3	-2.3	-0.3	-2.3	-0.3
Greece	17.9	24.5	27.5	26.5	-1.7	-2.0	-1.7	-2.0	-1.7
Estonia	12.3	10.0	8.6	7.4	-1.6	-1.5	-1.6	-1.5	-1.6
Euro area	10.1	11.4	12.0	11.6	-2.0	-2.5	-2.0	-2.5	-2.0
United Kingdom	8.1	7.9	7.6	6.1	0.1	0.2	0.1	0.2	0.1
Ireland	14.7	14.7	13.1	11.3	-1.1	-0.2	-1.1	-0.2	-1.1
Spain	21.4	24.8	26.1	24.5	0.5	-1.1	0.5	-1.1	0.5
Italy	8.4	10.7	12.1	12.7	-0.2	-1.3	-0.2	-1.3	-0.2
Croatia	13.7	16.0	17.3	17.3	-1.2	-0.9	-1.2	-0.9	-1.2
Cyprus	7.9	11.9	15.9	16.1	-1.8	-0.8	-1.8	-0.8	-1.8
Latvia	16.2	15.0	11.9	10.8	0.2	0.0	0.2	0.0	0.2
Lithuania	15.4	13.4	11.8	10.7	-2.4	-1.0	-2.4	-1.0	-2.4
Luxemburg	4.8	5.1	5.9	6.0	-0.6	-0.6	-0.6	-0.6	-0.6
Malta	6.4	6.3	6.4	5.8	-0.3	-0.4	-0.3	-0.4	-0.3
Netherlands	5.0	5.8	7.3	7.4	0.3	0.0	0.3	0.0	0.3
Hungary	11.0	11.0	10.2	7.7	-1.6	-1.1	-1.6	-1.1	-1.6
Poland	9.7	10.1	10.3	9.0	-2.5	-1.2	-2.5	-1.2	-2.5
Portugal	12.9	15.8	16.4	14.1	-0.2	0.0	-0.2	0.0	-0.2
Romania	7.2	6.8	7.1	6.8	-0.1	-0.7	-0.1	-0.7	-0.1
Slovakia	13.7	14.0	14.2	13.2	-1.2	-1.6	-1.2	-1.6	-1.2
Slovenia	8.2	8.9	10.1	9.7	0.4	0.9	0.4	0.9	0.4
Sweden	7.8	8.0	8.0	7.9	-0.2	-0.7	-0.2	-0.7	-0.2
Finland	7.8	7.7	8.2	8.7	-1.7	-0.6	-1.7	-0.6	-1.7

Table 12: Unemployment rate among men

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	4.6	5.0	5.4	5.9	-0.9	-0.7	-0.9	-0.7	-0.9
Belgium	7.1	7.7	8.7	9.0	-0.7	-0.7	-0.7	-0.7	-0.7
Bulgaria	12.3	13.5	13.9	12.3	0.1	-0.5	0.1	-0.5	0.1
France	8.9	9.8	10.4	10.5	-1.2	-2.7	-1.2	-2.7	-1.2
Germany	6.1	5.6	5.5	5.3	-1.0	-0.9	-1.0	-0.9	-1.0
Denmark	7.7	7.5	6.7	6.4	-0.7	-0.7	-0.7	-0.7	-0.7
Czech Republic	5.8	6.0	5.9	5.1	-0.3	-0.2	-0.3	-0.2	-0.3
EU	9.6	10.4	10.8	10.1	0.0	-3.4	0.0	-3.4	0.0
Greece	15.2	21.6	24.5	23.7	-2.3	-2.0	-2.3	-2.0	-2.3
Estonia	13.1	10.9	9.1	7.9	-1.4	-2.0	-1.4	-2.0	-1.4
Euro area	9.9	11.2	11.9	11.5	-2.7	-2.6	-2.7	-2.6	-2.7
United Kingdom	8.7	8.4	8.0	6.4	0.2	0.5	0.2	0.5	0.2
Ireland	17.8	17.7	15.0	12.9	-2.0	-0.9	-2.0	-0.9	-2.0
Spain	21.1	24.6	25.6	23.6	0.2	-0.9	0.2	-0.9	0.2
Italy	7.5	9.8	11.5	11.9	0.3	-2.7	0.3	-2.7	0.3
Croatia	13.7	16.0	17.7	16.5	-1.0	0.1	-1.0	0.1	-1.0
Cyprus	8.1	12.6	16.6	17.1	-1.3	-1.4	-1.3	-1.4	-1.3
Latvia	18.6	16.2	12.6	11.8	0.1	-0.3	0.1	-0.3	0.1
Lithuania	17.9	15.2	13.1	12.2	-2.5	-1.0	-2.5	-1.0	-2.5
Luxemburg	3.9	4.5	5.6	5.8	-0.4	-0.5	-0.4	-0.5	-0.4
Malta	6.0	5.7	6.5	6.1	-0.5	-0.4	-0.5	-0.4	-0.5
Netherlands	4.6	5.5	7.2	7.2	0.5	0.3	0.5	0.3	0.5
Hungary	11.1	11.3	10.2	7.6	-1.5	-0.8	-1.5	-0.8	-1.5
Poland	9.0	9.4	9.7	8.5	-3.1	-0.8	-3.1	-0.8	-3.1
Portugal	12.6	15.9	16.3	13.8	-0.3	0.2	-0.3	0.2	-0.3
Romania	7.7	7.4	7.7	7.3	0.1	-1.2	0.1	-1.2	0.1
Slovakia	13.7	13.5	14.0	12.8	-1.4	-2.3	-1.4	-2.3	-1.4
Slovenia	8.2	8.4	9.5	9.0	0.5	0.6	0.5	0.6	0.5
Sweden	7.8	8.2	8.2	8.2	0.2	-0.7	0.2	-0.7	0.2
Finland	8.4	8.3	8.8	9.3	-1.8	-0.7	-1.8	-0.7	-1.8

Table 13: Unemployment rate among women

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	4.6	4.8	5.3	5.4	-0.7	-0.8	-0.7	-0.8	-0.7
Belgium	7.2	7.4	8.2	7.9	-0.3	-0.9	-0.3	-0.9	-0.3
Bulgaria	10.1	10.8	11.8	10.4	-0.2	-0.5	-0.2	-0.5	-0.2
France	9.6	9.8	10.2	10.0	-1.4	-2.3	-1.4	-2.3	-1.4
Germany	5.6	5.2	4.9	4.6	-1.1	-1.3	-1.1	-1.3	-1.1
Denmark	7.5	7.5	7.3	6.8	-0.4	0.1	-0.4	0.1	-0.4
Czech Republic	7.9	8.2	8.3	7.4	-0.2	-0.6	-0.2	-0.6	-0.2
EU	9.8	10.5	10.9	10.3	-0.8	-1.0	-0.8	-1.0	-0.8
Greece	21.5	28.2	31.4	30.2	-0.9	-2.0	-0.9	-2.0	-0.9
Estonia	11.6	9.1	8.2	6.8	-2.1	-1.0	-2.1	-1.0	-2.1
Euro area	10.4	11.5	12.1	11.8	-1.2	-2.3	-1.2	-2.3	-1.2
United Kingdom	7.4	7.4	7.1	5.8	0.1	-0.2	0.1	-0.2	0.1
Ireland	10.8	11.0	10.7	9.4	0.2	0.4	0.2	0.4	0.2
Spain	21.8	25.1	26.7	25.4	0.8	-1.4	0.8	-1.4	0.8
Italy	9.5	11.8	13.1	13.8	-0.8	0.3	-0.8	0.3	-0.8
Croatia	13.8	16.1	16.8	18.3	-1.5	-1.8	-1.5	-1.8	-1.5
Cyprus	7.7	11.1	15.2	15.1	-2.2	-0.2	-2.2	-0.2	-2.2
Latvia	13.8	14.0	11.1	9.8	0.2	0.6	0.2	0.6	0.2
Lithuania	12.9	11.6	10.5	9.2	-2.4	-1.0	-2.4	-1.0	-2.4
Luxemburg	6.0	5.8	6.2	6.4	-1.0	-0.7	-1.0	-0.7	-1.0
Malta	7.1	7.3	6.3	5.3	0.0	-0.4	0.0	-0.4	0.0
Netherlands	5.4	6.2	7.3	7.8	0.0	-0.2	0.0	-0.2	0.0
Hungary	11.0	10.6	10.1	7.9	-1.8	-1.5	-1.8	-1.5	-1.8
Poland	10.4	10.9	11.1	9.6	-1.8	-1.8	-1.8	-1.8	-1.8
Portugal	13.2	15.6	16.6	14.5	0.0	-0.3	0.0	-0.3	0.0
Romania	6.5	6.1	6.3	6.1	-0.5	-0.1	-0.5	-0.1	-0.5
Slovakia	13.7	14.5	14.5	13.6	-0.9	-0.7	-0.9	-0.7	-0.9
Slovenia	8.2	9.4	10.9	10.6	0.3	1.1	0.3	1.1	0.3
Sweden	7.7	7.7	7.9	7.7	-0.5	-0.7	-0.5	-0.7	-0.5
Finland	7.1	7.1	7.5	8.0	-1.5	-0.5	-1.5	-0.5	-1.5

Table 14: Long term unemployment rate(*)

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	26.3	24.9	24.6	27.2	24.7	28.4	29.2	3.7	0.8
Belgium	48.3	44.7	46.1	49.9	46.3	50.3	52.0	4.0	1.7
Bulgaria	55.7	55.2	57.3	60.4	55.7	58.2	63.1	2.5	4.9
France	41.1	40.0	40.5	42.8	40.8	44.1	43.9	3.3	-0.2
Germany	47.9	45.4	44.7	44.3	45.3	45.8	45.6	0.5	-0.2
Denmark	24.4	28.0	25.5	25.2	28.7	23.1	27.3	-5.6	4.2
Czech Republic	40.6	43.4	43.4	43.5	44.4	43.2	46.8	-1.2	3.6
EU	45.2	46.4	49.8	52.6	49.5	53.3	52.4	3.8	-0.9
Greece	49.3	59.1	67.1	73.5	65.1	74.4	73.1	9.3	-1.3
Estonia	57.3	54.7	44.5	45.3	48.4	51.0	43.2	2.6	-7.8
Euro area	43.0	44.5	47.3	49.5	47.0	50.0	49.3	3.0	-0.7
United Kingdom	33.5	34.7	36.2	35.8	37.2	36.8	32.2	-0.4	-4.6
Ireland	59.3	61.7	60.6	59.2	59.0	58.6	57.4	-0.4	-1.2
Spain	41.6	44.4	49.7	52.8	49.3	52.8	52.5	3.5	-0.3
Italy	52.0	53.2	56.9	61.4	56.4	62.5	60.3	6.1	-2.2
Croatia	61.3	63.7	63.6	58.4	63.3	58.0	62.9	-5.3	4.9
Cyprus	20.8	30.1	38.3	47.7	36.5	50.1	46.6	13.6	-3.5
Latvia	54.5	52.1	48.6	43.0	48.8	40.2	43.0	-8.6	2.8
Lithuania	52.1	49.2	42.9	44.7	42.2	44.3	45.5	2.1	1.2
Luxemburg	28.8	30.3	30.4	27.4	24.4	33.7	32.2	9.3	-1.5
Malta	47.3	48.5	45.7	46.9	40.7	46.4	44.9	5.7	-1.5
Netherlands	33.2	33.7	35.8	40.0	35.9	40.1	45.4	4.2	5.3
Hungary	47.6	45.3	48.6	47.5	47.1	47.7	46.1	0.6	-1.6
Poland	37.2	40.3	42.5	42.7	42.1	43.0	40.8	0.9	-2.2
Portugal	48.4	48.8	56.4	59.6	56.2	62.4	58.2	6.2	-4.2
Romania	41.0	44.2	45.2	41.1	41.7	42.6	43.6	0.9	1.0
Slovakia	67.9	67.3	70.2	70.2	70.7	71.5	68.4	0.8	-3.1
Slovenia	44.2	47.9	51.0	54.5	49.5	57.1	51.5	7.6	-5.6
Sweden	19.6	18.9	18.5	18.9	16.8	17.6	19.7	0.8	2.1
Finland	22.2	21.4	20.7	22.4	17.1	19.3	20.5	2.2	1.2

(*) % long term unemployed (12 months and more) as a percentage of the total unemployed

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	8.9	9.4	9.7	10.3	9.9	10.5	11.2	0.6	0.7
Belgium	18.7	19.8	23.7	23.2	24.5	21.3	22.2	-3.2	0.9
Bulgaria	25.0	28.1	28.4	23.8	26.8	21.4	19.2	-5.4	-2.2
France	22.7	24.4	24.9	24.2	23.2	23.8	24.5	0.6	0.7
Germany	8.5	8.0	7.8	7.7	8.6	8.4	8.3	-0.2	-0.1
Denmark	14.2	14.1	13.0	12.6	14.5	13.1	12.8	-1.4	-0.3
Czech Republic	18.1	19.5	18.9	15.9	19.6	16.3	12.9	-3.3	-3.4
EU	21.2	23.5	24.4	23.8	23.3	21.6	19.9	-1.7	-1.7
Greece	44.7	55.3	58.3	52.4	57.1	49.5	48.8	-7.6	-0.7
Estonia	22.4	20.9	18.7	15.0	14.6	13.4	11.6	-1.2	-1.8
Euro area	21.7	23.3	23.7	22.2	23.7	23.2	22.0	-0.5	-1.2
United Kingdom	21.3	21.2	20.7	16.9	21.9	17.2	15.2	-4.7	-2.0
Ireland	29.1	30.4	26.8	23.9	26.5	23.2	20.7	-3.3	-2.5
Spain	46.2	52.9	55.5	53.2	54.1	52.4	46.6	-1.7	-5.8
Italy	29.2	35.3	40.0	42.7	37.3	39.6	35.3	2.3	-4.3
Croatia	36.7	42.1	50.0	45.5	40.6	40.4	41.0	-0.2	0.6
Cyprus	22.4	27.7	38.9	36.0	38.5	33.4	32.3	-5.1	-1.1
Latvia	31.0	28.5	23.2	19.6	27.6	21.4	16.2	-6.2	-5.2
Lithuania	32.6	26.7	21.9	19.3	23.1	16.4	15.3	-6.7	-1.1
Luxemburg	16.4	18.0	16.9	22.3	14.7	36.6	17.4	21.9	-19.2
Malta	13.3	14.1	13.0	11.8	13.0	12.0	13.3	-1.0	1.3
Netherlands	10.0	11.7	13.2	12.7	13.3	12.0	11.0	-1.3	-1.0
Hungary	26.0	28.2	26.6	20.4	26.8	21.6	16.7	-5.2	-4.9
Poland	25.8	26.5	27.3	23.9	26.6	23.1	19.7	-3.5	-3.4
Portugal	30.2	38.0	38.1	34.7	36.4	32.2	30.8	-4.2	-1.4
Romania	23.9	22.6	23.7	24.0	23.2	22.5	19.9	-0.7	-2.6
Slovakia	33.7	34.0	33.7	29.7	33.7	30.0	27.9	-3.7	-2.1
Slovenia	15.7	20.6	21.6	20.2	18.8	18.4	12.9	-0.4	-5.5
Sweden	22.8	23.7	23.6	22.9	19.1	18.1	15.9	-1.0	-2.2
Finland	20.1	19.0	19.9	20.5	13.4	13.5	16.3	0.1	2.8