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Editorial Policy

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IOBE

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

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Table of Contents

FOREWORD

This is the first report that IOBE is publishing for 2014 as part of its periodic surveys of the Greek economy. The publication takes place at a time when the fiscal consolidation efforts of the past few years are coming to fruition, while the economy is approaching recovery, for the first time in six years. Nevertheless, the challenge of implementing structural reforms to stabilise the economy and accelerate growth has become critical. As all IOBE quarterly bulletins, the report contains **four sections** and an **appendix** with key structural indicators. It starts with an introductory text on the growth prerequisites of the Greek economy under the current conditions – achieved fiscal consolidation widely recognised beyond the Greek borders and ongoing structural reforms. The remaining sections of the report are structured as follows:

The first section presents a **brief overview** of the report's main points. **Section two** examines the general economic conditions, containing: a) an analysis of the **global economic environment** in late 2013 and in 2014, based on the latest reports and data from the IMF, the European Commission and other international organisations; b) an outline of the **economic climate** in Greece in the first quarter of 2014, as compiled in the latest IOBE business surveys; c) an analysis of the **execution of the State Budget** in 2013 and in early 2014.

Section three focuses on the performance of the Greek economy in the first quarter of 2014. It includes an analysis of: the current **macroeconomic environment** and its outlook for 2014; the **developments** in **key production sectors** in the first two months of 2014 or the last quarter of 2013, depending on data availability; the **export performance** of the Greek economy in 2013; the developments in the **labour market** in the past year; the course of **inflation** in the first two months of 2014; and, finally, the course of the **balance of payments** in 2013.

Section four presents a series of IOBE studies on the economic impact of structural reforms in Greece.

The report refers to and is supported by data, which were available up to 11/04/2014. IOBE's next quarterly report on the Greek economy will be published in July 2014.

THE CONDITIONS FOR GROWTH

The developments in the Greek economy in the quarter that has elapsed since the last report of IOBE were favourable, in general. In the fiscal sector, the primary surplus came earlier and at a higher level, implying that the programme exceeded its goals and that the consolidation was stronger than expected. These developments indicate, at least, that the economic policy has a resolve, exerting a substantive effort to restore soon the economy to a fiscal balance.

There are also positive signs regarding the reforms, as legislative and other interventions were adopted to enhance competition. The substantial - in action and not in words - deregulation of markets and economic activity in general is a non-negotiable condition in order to boost production and enhance the competitiveness of the Greek economy. The essence of the deregulation refers to the mesh of rules and behaviours that favoured the state-depending entrepreneurship, and artificially distorted the conditions to the benefit of existing producers at the expense of potential new production activity and entrepreneurship.

The positive developments on the fiscal front and in the field of reforms facilitated the completion of a particularly prolonged round of negotiations with the troika, which lifted the near-term uncertainty to a great extent. Accordingly, the recent successful return to the international markets, for small-scale public borrowing, validates the observation that private investors are ready to provide support to the course that has been agreed and executed by the Greek government and its partners. This has a double positive impact, both in terms of providing signals in every direction, and also, in bringing closer the mitigation of the very significant problem of financing the economy, which is necessary for the survival of healthy firms, for new investment and for job creation. Besides, either in one or the other direction, the markets played a very vital, catalytic sometimes, role, even for the creation of new institutions and mechanisms, throughout the course of the Greek and the European crisis in general. It is therefore important that there is, at this juncture, a positive external evaluation of the achievements so for and of what can be expected in the future.

A positive sign can also be given to the developments in the immediate environment of the Greek economy, i.e. in the Euro area. The risk of breakdown of the common currency union was alleviated, as the determination of the fiscal and monetary authorities to prevent this was confirmed. The significant mitigation of the uncertainty regarding the monetary union is essential, as this uncertainty was a major aggravating factor in all kinds of economic decisions of businesses and households during the crisis.

The significantly positive developments that were described above, together with other positive developments, should not lead to the conclusion that the underlying problems of the Greek economy have been definitively solved. On the contrary, it would be unacceptable, at least in economic terms, but almost certainly in social terms as well (particularly with the current unemployment rate and the very low incomes for a large part of the population), to consider that as the economy is stabilising the effort for substantial restructuring can be abandoned. There are, of course, now conditions to enter a growth path, but without deepening the real changes in key areas, that growth will be anaemic, putting into question the fiscal consolidation in the medium term as well.

Developments in key economic indicators, but, also, the careful reading of their individual components, as done in the report, provide support to the above observations. The impressive rebalance of the twin deficits, in the fiscal and external balances, took place primarily by "transferring" the imbalance to the production side and the labour market. Now, the challenge is to have, as soon as possible, significant growth rates and reduction of unemployment, without derailment of the deficits. To achieve this, the key is to improve the structural competitiveness, which would allow for growth in investment and exports, and for the necessary transfer of significant financial resources towards tradable goods and services, while achieving import substitution as well.

The incorrect assessment that reforms are no longer necessary could potentially be adopted either from those who oppose the Greek adjustment programme in total and in principle or from those who perceive it as a programme that could be achieved without changing the structure of the economy. The reading of the data, however, leads to a clear conclusion. Despite the doubts of many people, the Greek economy has avoided an uncontrolled bankruptcy that threatened to put it out of orbit for a very long time – the importance of this fact cannot and should not be underestimated. But at the same time, the dilemma that had essentially arisen was how the imbalance between the high consumption level and the low competitiveness of the economy would be resolved. As long as the enhancement of competitiveness is delayed, production, employment and consumption will necessarily remain locked at their current levels.

Therefore, the key issue of structural reforms not only has not become obsolete or secondary, but is absolutely urgent and now provides the only way to generate income in a sustainable way, to reduce unemployment and to improve comprehensively the quality of life of the Greek population.

Besides, the low level of both investment and exports in the past two years must raise concerns. Of course, investment (and exports, to the extent at least that they require investment) are not favoured in an environment of acute and prolonged uncertainty. Therefore, the effective mitigation of this uncertainty is expected to have a positive and direct impact. But it must be clear that the transition to a new model of production is still pending, in general. The significant reduction of the unit labour cost has had until now only a limited positive effect on investment decisions. The main reason is, apart from the uncertainty and the climate of instability, that significant structural reforms have not been implemented to the required extent, at least not in a way that the participants in the economy and Greek society would consider as an irreversible and a reliable signal for the transition to a new equilibrium.

The above conditions create a positive momentum and show that 2013 may actually be the last year of recession in the current crisis. The return to growth in the current year is now an attainable goal, but steady, high-level growth cannot be achieved in the medium term without creating the conditions that would attract investors and without substantial changes in the way the Greek economy operates.

The required individual reforms have been reported occasionally by IOBE. Indeed, the key findings from relevant special studies coordinated by the Foundation were presented in an event organised by the European Commission in early April. The studies examined in greater detail the reforms in four specific areas: investment procedures, facilitation of exports, intensity of competition and public procurement procedures and supplies. In each of these areas, the studies presented indicators for monitoring the progress that has been or will be made, and assessed the positive effects of the reforms at microeconomic and macroeconomic level.

As IOBE noticed in the recent past, without a substantial break with established practices, the Greek economy is transforming too slowly, mostly shrinking in the process. If we consider that a cycle closes and a new one begins, with lower uncertainty and overall better prospects, it might be useful to popularise the notion that the achievement of consistently positive and significant growth rates and certainly the reduction of unemployment would not be achieved automatically, but it depends on the transformation of the economy, both regarding its productive base and the role played by the public sector in the economy.

The Greek economy has great potential and offers opportunities both in the short and the long term – they should no longer remain untapped. The achieved fiscal consolidation, together with the deepening of the structural reforms, should form an essential basis for the new growth model of the country, also a subject of a specialised study by IOBE. Of course, this model will be based on export-oriented and innovative entrepreneurship, rather than on the entrepreneurship that turns, directly or indirectly, to the public sector for its profits. The new model should also be a guide for the renewal of the country's relationship with its partners in the monetary union, as the need for shifting to sustained high rates of growth is urgent.

In any case, regarding the reforms, the issue for the Greek economy now is their implementation. This requires, in practice, a combination of features. First, a determination for ruptures with many groups that gain in the short term from privileged arrangements or from the presence of artificial barriers to third parties, seeking prolonged protection from those who make policy decisions and shifting the cost to the community. Second, the creation of the broadest possible political and social consensus is essential not only because the reforms are ultimately implemented for the common good, but also for the long-term credibility of the programme. Third, specific knowledge of the individual problems, apart from the overall strategic direction, is needed in order to succeed in practice. In general, the economic policy at this point should be endowed with greater credibility, while the substantial "ownership" of the reform programme should be clearly demonstrated.

1. BRIEF OVERVIEW – MAIN CONCLUSIONS

The acceleration of global economy growth is gradually consolidating

The global economic activity remained on upward trend, at an accelerating rate, in the last quarter of 2013. The GDP of the OECD member-states increased by 2.2% y-o-y, from 1.5% in the preceding quarter. According to the recent IMF forecasts, the growth rate of global economy stood at 3% in the previous year, about the same as in 2012 (3.1%). Confirming the estimates from mid 2013, the strengthening of the world economy came from recovery in the key developed economies, mainly due to the deceleration of fiscal adjustment in the Eurozone countries and the strong domestic demand in the USA. Subsequently, in the fourth quarter of the previous year, the economies of the Eurozone countries grew on average by 0.5%, compared with -0.3% recession in the preceding quarter. In the same time period, the US and the Japanese economies grew both by 2.7%, from 2.0% and 2.4%, respectively, in the previous quarter.

The same conditions as those of the last quarter of 2013 will boost the global economic and commercial activity in 2014. The fiscal adjustment in Europe is completed in most countries that implemented relevant programs. Furthermore, the banking system of the Euro Area is strengthened through the advancing banking consolidation process, which shields it against the potential systemic crises, improving, thereby, its credibility to international investors. In the US, the agreements between the government and the opposition in late 2013 for the budget and the debt ceiling have lifted the concerns related to the functioning of the public sector, enhancing the confidence of enterprises and households, despite the recent announcement to limit the expansionary monetary policy. In Japan, the combination of loose fiscal policy and expansionary monetary policy will continue to contribute significantly to the development of its economy. These developments are likely to have a positive impact on emerging and developing economies, as the high demand in developed economies stimulates their exports. **Subsequently, the GDP of developed economies increased by 2.2% in 2014, compared with 1.3% in the previous year. In the developing countries, the GDP growth will stand at 4.9% this year, from 4.7% in 2013.**

On the other hand, there are some potential disturbances in the global economy, like the effects of very low inflation in Europe. In Japan, the implementation of the «Abenomics» programme may have an adverse impact mainly on inflation. In China there are some concerns about the robustness of the financial system. The recent geopolitical developments in Ukraine will cause disturbances in the economic environment, related to the production of natural gas and oil in the region of the Commonwealth of Independent States and their distribution to the EU countries, and to the flow of EU exports to Russia.

Under the influences of the above conditions in the global economic activity, the GDP growth for 2014 is estimated to stand slightly above 3.5%, as forecasted in the previous IOBE bulletin as well.

The recession in late 2013 was at its weakest level since the beginning of the Economic Adjustment Programme

The recession of the Greek economy slowed down again - according to the data from the Hellenic Statistical Authority - in the fourth quarter of 2013, standing at 2.3% from 3.2% in the preceding quarter and from 5.2% in the corresponding quarter of 2012. This is the weakest GDP decline since the beginning of the Economic Adjustment Programme in mid-2010. The weakened recession came from the marginal reduction of household consumption and from the decline of imports, after an upward trend in the third quarter. So, **the GDP growth in the previous year stood at -3.9% from -7.0% in 2012**, according to the recently revised National Accounts data. **Also, we should note that the review of the contraction of GDP in 2012 from 6.4% to 7.0% confirmed the estimates of IOBE during that year for a recession between -6.6% and -6.9%.**

Specifically, household consumption decreased by 0.2% year on year in the fourth quarter of 2013, while its contraction stood at 10% in the corresponding time period of 2012, despite the new escalation of unemployment and the accumulation of tax payments. As a result, in 2013 private consumption declined by 6.0%, compared with 2012. The reduction of public consumption was slightly weaker, not exceeding 2.6%, from 3.3% contraction one year earlier. On the other hand, the savings in domestic consumption reached 4.1% in 2013, from 6.9% in 2012. Trend inversion was observed in capital formation, which contracted by 15.7%, after increasing by 9.1% in the third quarter, despite the particularly high change in inventories (€2.1 billion or 5.5% of the quarterly GDP). During 2013, investment fluctuated between successive quarters, contracting, growing and then contracting again, due exclusively from significant year-on-year difference in inventories accumulation. Excluding the impact of inventories, fixed capital formation was falling steadily, by 11-12%, throughout 2013, stronger than in the previous year. Taking into account the effect of inventories as well, the decline of investment in 2013 weakened to 6.7%, from 17.8% in 2012.

Regarding the external sector of the Greek economy, the exports increased by 3.7% in the period from April to September, while they slowed down significantly in the fourth quarter, with their growth rate reaching 0.5%. Their slowdown came exclusively from the fall of the exports of goods (-1.7%), for the first time in eighteen months, as the exports of services recorded positive growth rates (+3.4%). However, the export growth of 1.8% in 2013 overall (compared with 1.7% decline in the previous year)came primarily from an increase of the exports of goods (+2.7%) and to a lesser extent from an increase of the exports of services (+0.8%). Thus, exports returned to their level of 2011 (€43.3 billion), indicating low variation since 2010. Imports declined by 5.6% in the last quarter of 2013, after an expansion in the preceding quarter for the first time in five years. Subsequently, in 2013 the imports decreased by 5.3% y-o-y compared with 13.8% reduction in 2012, while last year's decline was the weakest since 2009. Under the influences of the above forces in the two constituents of the external sector in 2013, the deficit did not exceed €2.3 billion in national accounting terms or 1.4% of GDP, which is 59.1% lower than in 2012.

The signs of stabilisation in Greece are strengthening - a modest recovery is likely

The implementation of the decisions resulting from the recent negotiation with the troika, combined with the upcoming developments regarding the Greek debt, after the announcement of the fiscal results of 2013 and the return of Greece to the international markets, influences the political and economic environment in 2014. The elections for the European parliament and for the local authorities will disturb the relative stability, increasing the concerns and the uncertainty of households and enterprises about the upcoming developments in the socioeconomic environment over the future.

In greater detail, additional financial measures for the current year are, probably, avoided, due to the better than expected fiscal results in 2013, according to the recent data of EL.STAT. The fiscal measures that were decided in the previous evaluation of the program will be implemented (i.e. elimination of tax exemptions, increased withholding tax on pensioners, broadening the property tax base), with negative effects, especially on household disposable income. However, they will be offset by the distribution of last year's surplus to vulnerable social groups and public servants.

The medium-term bond issue by the Greek public sector, at a very satisfactory interest rate, encourages and facilitates similar initiatives in the banking system, in order to improve, significantly, its liquidity and expand its corporate lending, at terms sustainable for the enterprises. The ongoing or upcoming issues of equity capital, in order to meet the banks' capital needs based on recent stress test results, will play a key role to enhance the capital adequacy and the liquidity of the banks. The strong interest of foreign investors in these procedures is considered as indications of the growing trust of the international community in the sustainability of the domestic banking system. Therefore, after the completion of the stress tests by the European Central Bank, one of the major obstacles to the functioning of the enterprises, that is the raising of the necessary funds, is expected to be lifted in a relatively short time.

On the other hand, there are still significant obstacles to investment activity, such as low demand, changing taxation, entry barriers and distortions in the competition of markets and professions. Regarding the latter issue, relevant decisions were taken at the recent evaluation of the Economic Adjustment Programme. However, the emphasis on fiscal consolidation by the troika during the period 2010-2012 and the delay of the Greek side to adopt policies to restructure the Greek economy have resulted in the accumulation of unfinished structural reforms, as it mentioned by IOBE in previous quarterly bulletins (e.g. 02/13). The potential relaxation of the fiscal measures was not an option, as the conditions for greater flexibility in domestic production within a broad spectrum of industries and professions were not achieved through structural changes. Given the need for high growth rates, great importance will be given by the troika to the implementation of the government commitments for structural changes in the subsequent evaluations.

As the Greek economy is at a turning point, one of the forces that will determine whether and how this year's GDP growth rate will increase is the tourism industry, which traditionally has had a significant contribution to domestic output. Significant driver for the trend of tourism is the international tourist flow, but the available data are insufficient for the time being. Nevertheless, the international arrivals at major airports in the first two months of 2014 increased by 28.8%, significantly more than in the previous year. However, even if an exact forecast is not possible, international tourist arrivals are expected to continue to grow in 2014.

Given the recent events and the forthcoming developments in the political and economic field, new cuts in the wages and pensions are expected from fiscal measures adopted in 2013 for the current year, albeit not as significant as in 2013. The forecasted modest increase of employment, due to the extensive structural changes in the labour market, which carry over to this year, and the high seasonal employment in tourism, as well as the programmes for unemployed of the Manpower Employment Organisation will limit the losses in domestic income. But the gradual recovery of the lost jobs will at a lower average wage than before, so the induced boost of consumption will be low. An immediate stimulus to purchasing power will come from the distribution of last year's surplus. **Subsequently, this year private consumption will decrease by 1.5-2.0% compared with 6.0% decline in the previous year.**

There is no need for additional fiscal measures in 2014 implying that there will not be additional, to those already planned, cuts in **public consumption**. However, the continuation of the restructuring of the public sector will reduce the consumption expenditure. **Thus, the cuts of consumption spending of public sector are estimated to be weaker than in 2013, at about 3%**

Concerning the **public expenses for investment**, the available data of the Public Investment Program show significant acceleration of the program's implementation compared with last year, by 80% in the first two months of 2014. The contribution of the public sector to investment will also be enhanced from the stronger activity of the Hellenic Republic Asset Development Fund. However, given the range of tasks planned for 2014, the degree of implementation is low, creating doubts about the achievement of all the targets for 2014.

The election period affects negatively investment. But until the end of the elections, the fiscal results of 2013 and the return of Greece to the capital markets would have strengthened significantly the investors' confidence, especially of the international investors, regarding the sustainability of Greece's public finances. Thus, it is expected, the interest from international investors is expected to strengthen in the second half of this year, not only for the tenders of the Hellenic Republic Asset Development Fund, but also for foreign direct investment.

Considering the domestic enterprises, they still face obstacles to the implementation of investment projects. Some of the impediments (for instance the lack of liquidity, low demand) are expected to attenuate gradually this year, but there are some structural inadequacies (complexity of the tax system, energy costs) that will continue to impede particular branches, for instances branches with high energy needs. Specifically regarding the construction activity, although the property surplus value tax lifted the restrictive effects on housing construction from lack of regulation experienced during the initial quarter of this year, construction activity is expected to decline marginally in 2014. **Taking into account the trends in the investment environment, investments are expected to increase by about 5-8% in 2014.**

In 2014, **exports** will continue to grow. But unlike last year, the growth of exports will come primarily - if not exclusively - from the increase in the exports of services, due to stronger international tourism and transport activities. Concerning the exports of goods, the recovering Euro Area does not seem to create the conditions for high demand for Greek products. **Taking into account the trends in their two constituents, exports are expected to increase this year by 3-4%.** The modest decrease of imports, mainly due to the fall of the imports of goods, will result in further improvement of the external trade balance, which may record a surplus.

Given the above estimates of the key components of GDP this year, IOBE anticipates that the output of the Greek economy will remain unchanged this year, without ruling out the possibility of a slight increase.

The primary surplus of the State Budget will increase in 2014

According to the data of EL.STAT, the primary surplus of the General Government budget in 2013 reached €3.39 billion, compared with €3.92 billion surplus in the Recital of the 2014 Budget and €748 million target in the Budget of 2013. The better than initially anticipated performance in the implementation of the budget had been reflected earlier in the cash-flow data for the execution of the State Budget for last year, where there was a primary surplus of €600 million or 0.3% of GDP, instead of 1.3% deficit as anticipated in the 2013 Budget.

Regarding the implementation of the State Budget of 2014, although the available data are insufficient to infer the accomplishment of the objectives for 2014 overall, there are encouraging signs in the data for the first two months, as a primary surplus of €2 billion has been achieved. The revenues increased by 9.6%, against an annual target of 3.2%, due to high inflow of non-tax revenues (including those of the Public Investment Programme). But the tax revenues before refunds decreased by 1.1%, compared with 2.3% increase envisaged in this year's Budget. Regarding expenses, the primary Ordinary Budget expenditures fell by 13.7% in the first two months, much stronger than the objective for this year (-5.4%), mainly due to cuts in the salaries of employees in central government and in the costs for insurance, health care and social protection.

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

Despite the further weakening of the recession **in the last quarter of October-December, the unemployment rate returned to an upward trend after half a year of slow decline,** as anticipated in the previous quarterly report of IOBE. This outcome is estimated to have came from the fact that the seasonal employment in the public sector, which reduced unemployment during the summer, ended in the fall. In addition, the extended tourist period did not boost employment, as jobs in Accommodation – Food Services declined in the fourth quarter, at a higher rate than in the overall economy. As a result, **unemployment increased in the fourth quarter of last year to 27.5%, at a record-high level, while in 2013 overall, the unemployment rate stood on average at 27.3%**, three percentage points higher than in 2012.

Nevertheless, the increase of unemployment in the last quarter of 2013 is considered temporary, while unemployment is expected to decline this year, for the first time since 2008. This outcome will come from the revival of productive activity, which is facilitated by the structural changes in the labour market in the last two years, including the reforms that were decided during the latest round of negotiations with the troika (i.e. a reduction of social security contributions by 3.9%). Moreover, since the beginning of the second quarter, the seasonal employment in tourism enterprises will strengthen, as the uncertainty of last year regarding international tourism receipts is lifted, with the 2014 outlook for international tourism being more optimistic compared with last year. Employment will increase in the current half due to the programmes for unemployed, implemented by the Manpower Employment Organisation. In contrast, the continuation of the structural reforms related to public sector employment will restrain the increase of employment. **As a result, in 2014 the unemployment rate is estimated to stand one percentage point lower than last year, at 26.0%**.

The fall of prices carries over to 2014, albeit at a weaker pace

The Consumer Price Index fell by 1.3% in the first quarter of this year, when in the corresponding period of 2013 it had remained unchanged. But the decline of CPI slowed down, compared with the 2.2% deflation in the last quarter of last year. However, the deflationary trend will continue for the rest of 2014, albeit weaker than in the previous year. The reduction of the CPI was reinforced by the fact that, following the recent negotiations with the troika, the government will not impose new indirect taxes or increase the existing ones, with the exception of a 5 cents increase in the excise tax on cigarettes. Ongoing structural interventions to the functioning of markets will gradually contribute to a further fall of prices. On the other hand, the milder reduction in consumption spending will slow down the drop of prices. **Subsequently, the decline of CPI this year will be weaker, standing at 0.6%**.

Special IOBE Study: "The economic effects of structural changes"

IOBE conducted a study aiming to identify and evaluate the reforms that have been implemented in four areas relating to the business environment. Specifically, we examined the reforms related to the implementation of investment plans, the enhancement of competition in markets for goods and services, the facilitation of exports, and the improvement of the public procurement process with the private sector. The study consists of three parts. In the first, we evaluated the reforms that were implemented in these areas in the last three years. Using various econometric techniques, we also estimated the effects of these changes in the regulatory framework on economic fundamentals in these areas. The second part presented indicators for monitoring the effectiveness of reforms in the regulatory framework. Finally, the third part of the study analyses the wider macroeconomic effects of the adoption of the reforms.

The econometric results confirm the positive effects of the reforms in each of the examined areas. The positive effects are expressed in terms of increased investment activity, through simplification of procedures, reduced prices and stronger employment due to advanced competition in the markets, higher exports and reduced cost of public procurement.

In the macroeconomic analysis, the empirical results indicate that the implementation of structural reforms will boost the international competitiveness of the Greek economy, through market flexibility, gradually bringing higher levels of output and employment.

2. ECONOMIC ENVIRONMENT

2.1 Trends and Prospects of the World Economy

The Global Economic Environment

The global economic activity strengthened in late 2013, as it grew by 2.2% in the member-states of OECD in the last quarter of the year. According to the latest IMF repost, global economic growth in 2013 stood at 3% and is expected to accelerate in 2014 to 3.6%. The growth boost will mainly come from the fact that the recovery in the advanced economies is gradually strengthening, the intensity of fiscal consolidation is easing and the investors gradually are becoming less concerned about the sustainability of the debt in the European countries. At the same time, the banking system in Europe appears stronger, as the planned banking union lays the foundations for more stability and lower susceptibility to future systemic crisis. These changes will most probably influence to some positive extent the emerging and the developing economies, as the stronger growth of the advanced economies is expected to boost the exports of the emerging economies.

In greater detail, in the USA the agreements between the government and the opposition in late 2013 for the budget and the debt ceiling have lifted the concerns about the sustainability of public finances and the smooth functioning of the public sector, greatly boosting the confidence of businesses and households. In Japan, the combination of a loose fiscal policy and expansionary monetary policy support to a great extent economic growth, whereas China still maintains high growth rates. However, apart from these uplifting effects on the global economy, there are also potential sources of disturbance. These sources include the very low inflation in Europe, as well as a possible delay in the implementation of structural reforms, which could prevent the fortification of a dynamic recovery of the European economy. In Japan, the application of the economic program of "Abenomics"[1] could have negative effects, mainly through inflation. In China, the vulnerable financial system is the most significant risk for the growth momentum of the country. Finally, the recent geopolitical developments in Ukraine and Russia might have important economic effects, related mainly to the production of natural gas and oil in the wider region of the Commonwealth of Independent States and their supply to its member-states and to the EU. In more detail concerning the macroeconomic developments in the major world economies in late 2013 and their outlook for 2014:

In the **USA**, GDP grew by 2.7% year-on-year in the last quarter of 2013. The key growth drivers in the US economy in the second quarter of 2013 were private consumption, investment and net exports. As a result, the US economy grew by 1.9% in 2013 overall. In the current year its

[1] The economic policy mix pursued from December 2012, which takes its name from the Japanese Prime Minister Shinzō Abe who formed it.

growth rate is expected to reach 2.8%. The recent agreements on the budget and the debt ceiling appear to lift the concerns about the sustainability of public finance and to greatly boost the confidence of businesses and households. The estimates for a significant GDP growth reflect the favourable effects of the moderate fiscal consolidation, the implementation of business investment plans and the steady recovery of the housing market. As regards the labour market, positive developments, such as unemployment falling again in January 2014, to 6.6% to reach its lowest rate since October 2008, just after the outburst of the financial crisis, persist. In any case, the new fall in the unemployment rate came mainly from a reduction of the participation in the workforce, which is related to demographic factors.

In **Japan**, GDP increased significantly in the fourth quarter of 2013, by 2.7% year-on-year, with the average annual growth rate reaching 1.5%. This year, the growth rate is expected to stabilise at the previous year levels or perhaps, marginally lower. The growth momentum came primarily from the economic policy of «Abenomics», which combines an expansionary monetary policy and a loose fiscal policy, together with structural reforms. The adopted fiscal policy continues to offset the negative impact of the recent increase in the consumption tax of the decrease of construction activity. On the other hand, the loose monetary policy ensures favourable financial conditions and liquidity support, with the average lending rate approaching 1% or so. However, uncertainty about the implementation of structural reforms and additional measures of fiscal adjustment that are considered necessary are expected to lead to a slight slowdown in growth next year.

In China, the GDP growth stood at 7.7% in the last quarter of 2013 and at 7.5% in 2013 as a whole. The stability of the change of GDP is also reflected in the very small change recorded in the second half of 2013 in key economic indicators of the real economy, such as PMI, the volume of retail trade index and the index of industrial production. Despite the stability that characterises growth rates, it appears that in 2013 a shift in the growth model of the Chinese economy has begun, driven more by investment and less by consumption growth, which is the inverse of what prevailed in 2012. The growth rate of China's GDP is projected to stay at around 7.5% this year. However, there are some potential disruptive factors associated with the overly rapid credit expansion and the delay in implementing structural changes (e.g. privatization of public enterprises).

The GDP of Russia in the final quarter of 2013 grew by 1.2% year-on-year, at almost the same rate as in 2013 overall. The growth slowdown came mainly from weakening in private consumption and a small decline in investment from the completion of major investment projects for the construction of the necessary infrastructure for the Winter Olympics. For 2014, IMF revised down the growth rates of the Russian economy to their last year level, from 2% in the previous forecast.

The main reason for this significant revision is the latest geopolitical developments in Ukraine, which not only affect negatively the economy of the country, but is expected to lead to diffusion of the economic impacts in the region, especially in Russia, for example through significant capital outflows and the decline of foreign direct investment.

Regarding the leading indicators published by IFO, the world economic sentiment is improving once more in the first quarter of 2014, with the relevant indicator standing at 103.2 points, having increased by 4.6 points.

Thus, the IFO economic climate indicator seems to be consolidating above the long-term average of 95.5 units for the period 1998-2013. The assessment of the current financial situation appears to be more positive compared with the previous quarter, while the expectations for the economic outlook over the next six months are optimistic.

Table 2.1

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

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

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

This validates the observation that the global economy grew slightly stronger in the second half of 2013, while world trade has improved notably since early 2013. It is noteworthy that for the first time in four years, the advanced economies, as discussed below, are the key growth drivers of the global economy.

According to the IFO economic sentiment data at the level of geographic areas that are shown in Table 2.3, Europe and North America are the main pillars of the improvement of the economic climate indicator, while in Asia the sentiment marginally weakened. However, the interpretation of these findings should be particularly careful, as the recent (late January) exchange rate fluctuations in the emerging economies are not reflected in the current survey.

In greater detail, in **Europe** the economic sentiment indicator reached 116.5 points in the first quarter of 2014, recording a significant increase of 6.8 points quarter-on-quarter. Thus, the index has remained on an upward trend for the fifth consecutive quarter. The marked improvement in the beginning of this year is primarily due to less negative assessment of the economic situation compared with the previous quarter, while the expectations for the next six months remain firmly optimistic. Among European countries, Germany had the most positive assessment regarding the current economic situation. Also, the expectations for the next six months remain optimistic and at high levels in all European countries, even in those that had been hit by fiscal adjustment such as Greece, Spain, Italy, Portugal and Cyprus.

In North America, the economic sentiment indicator increased sharply in the first quarter of 2014, which stems both from the very positive assessment of the current economic situation and the quite optimistic economic expectations. In particular, the index reached 102.1 from 88.7 in the final quarter of 2013. The experts from the US and Canada who participated in the survey stated that they expected an improvement of the economic situation in their countries, despite the recent announcement by the Federal Reserve to limit the expansionary monetary policy.

On the other hand, in **Asia** the economic climate indicator deteriorated slightly in the first quarter of 2014, by 0.8 points compared with the previous quarter. A key factor to the limited drop of the indicator is the decline of the economic outlook, but who continue to move into positive territory. Referring to the estimates for the current economic situation, they remain satisfactory and slightly improved. Similar trends seem to prevail in China and especially in Japan, where there is a weakening of optimism about economic prospects. This development in Japan probably reflects to some extent the concern of experts on how long the effectiveness of the economic program that is followed will continue, as it combines an expansive fiscal policy and a loose monetary policy.

Table 2.2

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

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

Source: IFO, World Economic Survey, WES Vol.13, No. 01/ February 2014

Table 2.3

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

Quarter/ Year	I/12	II/12	III/12	IV/12	I/13	II/13	III/13	IV/13	I/14
North America	87,9	95,4	81,2	80,3	86,2	87,0	93,7	88,7	102,1
Europe	81,6	96,1	86,4	80,6	90,3	93,2	99,0	109,7	116,5
Asia	74,6	90,4	83,3	81,6	97,4	106,1	89,5	98,2	97,4

Source: IFO, World Economic Survey, WES Vol.13, No. 01/ February 2014

The Economies of the EU and the Euro area

The signs of recovery in the Eurozone continued in the last quarter of 2013, with GDP growing by 0.5% year-on-year, while compared with the preceding quarter it increased by 0.3%. Similarly, the EU-28 recorded growth of 1.1% year-on-year in the fourth quarter of 2013, while quarter-on-quarter its GDP grew by 0.4%. For 2013 overall, GDP fell marginally in the Euro area (-0.4%) and stabilised in the European Union (0.1%). Regarding the current year, according to recent projections by the European Commission and the IMF, the Eurozone will return to growth after two years, with GDP growing by 1.2%. Similar trends have been foreseen for this year in the European Union, with its economic growth estimated at between 1.5% and 1.6%. The return to positive growth rates in both areas, albeit quite weaker compared to the years before the crisis, is undoubtedly a very positive development after the two-year recession. However, the economic recovery remains fragile as the embarkation on a dynamic growth path in the long term horizon has not yet been secured.

A significant progress has been made in the restructuring and the consolidation of the balance sheets of banks, which had been hit by the international financial crisis and whose support was the main cause of the fiscal imbalances in many countries in the EU. However, the deleveraging continued, with the lending to the private sector remaining sluggish. The recapitalisation that took place primarily in banks of the European periphery, contributes to the restructuring of the banks' balance sheets, helps significantly to ameliorate the uncertainty about the soundness of the banking system and can potentially support credit recovery and therefore to boost liquidity in the real economy. In this context, the completion of the banking union in Europe is particularly critical for the elimination of the feedback between the financial and the public debt crises. In this regard, the recent agreement on March 20th between the European Parliament and the European Commission was an important step towards the completion of the banking union. However, the decision-making process seems to remain quite complex.

Regardless of the shielding of the banking system in the EU and its positive effects on economic activity, the implementation of structural reforms at national level is a critical factor for improving productivity and boosting investment, which are essential ingredients for ensuring a sustainable, long-term growth model of the European economy. The basic structural changes that need to be carried out, primarily by the countries that face serious fiscal problems, indicatively concern the reallocation of resources from non-tradable sectors of the economy towards the tradable sectors, the continuation of reforms in the labour market at a national level, the opening of product and service markets - to increase competition and create new jobs - and the reduction of the institutional barriers to the entry and exit of firms.

In the European Union, the most recent data on GDP in 25 countries show that 18 out of 25 economies experienced positive year-on-year growth in the fourth quarter of 2013. The countries with the highest growth rates were Romania (5.1%), Latvia (3.6%), Lithuania (3.3%), Sweden (3.1%), Hungary (2.8%) and the UK (2.7%). The countries that had the highest contraction rates for the same period were Cyprus (-5.3%), Greece (-2.3%), Croatia (-1.2%) and Italy (-0.8%).

The analysis below provides more information on the GDP components of the Eurozone and the European Union (Table 2.4). In particular, the **exports** of goods and services in the last quarter of 2014 grew by 2.6% in the Eurozone and by 2.8% in EU-28. Their growth is significantly higher compared to the previous quarters of 2013. On the other side of the trade balance, **imports**, according to Eurostat, also increased in the last quarter of 2013, growing at between 1.9% and 2% in the two European economy regions. As a result, net exports continued to be the engine of growth in 2013. Export growth is expected to accelerate in 2014, to 4.1% in the EU-28 and 4.2% in the Eurozone, which however will be accompanied by a similar boost in imports. The prediction for a massive increase in imports is mainly associated with the expected increase in domestic demand. These projections suggest that the recovery of the European economy this year is not expected to come from net exports, but, as discussed below, it will rely on investment and consumption.

Investment increased in the last quarter of 2013 by 1.2% in EU-28 and 0.1% in the Eurozone, for the first time in 2013.

This upward trend is expected to continue to strengthen also in 2014, and according to the forecasts of the European Commission, in the current year investment will rise by 3% in the EU and by 2.3% in the Eurozone. The significant acceleration of the investment growth rate is expected to come primarily from improvement of the financial conditions, which will support credit in countries where the real economy in the recent past faced severe liquidity problems. Moreover, the improvement of profitability in businesses, due to the recovery, will likely lead to increased investment in equipment. Subsequently, investment is expected to be one of the two main pillars of recovery for the European economy.

Private consumption in the fourth quarter of 2013 grew year-on-year by 0.3% and 0.8% in the Eurozone and the European Union respectively. The small boost of private consumption came from the halt of the downward trend recorded in disposable income in previous years. However this year, private consumption is projected to become the second main pillar that will support the economic recovery in Europe, with growth rates of 1.1% in the EU-28 and 0.7% in the Eurozone, provided, however, that the conditions in the labour market will start to improve.

Regarding the other arm of consumption spending, **public consumption** strengthened in the fourth quarter of 2013, by 0.3% in the Eurozone and by 0.8% in the EU-28, due to a slight easing of the strict fiscal adjustment process. For the whole of 2014, government consumption is expected to grow by 0.6% and 0.5% in the EU and the Euro area respectively, as the salary cost of public employees are expected to rise, after a series of successive reductions, as a result of grandfathered collective agreements in the public sector. However, in Greece, Cyprus, Spain, Portugal and Ireland government consumption will continue to contract in the next two years.

In the **labour market**, there have been indications of normalisation since the second half of 2013, after the adjustments made in several European countries, where the employment and unemployment rates have started to stabilise. In particular, in December 2013 unemployment fell marginally in the EU-28 to 10.7%, from 10.8% in the immediately preceding month. In the Eurozone the unemployment rate in December remained unchanged at 12%, which indicates that it remains high. The youth unemployment rates, despite a slight decline since the summer, have been on the rise to reach 23.2% in the EU and 23.9% in the Eurozone. The modest recovery in economic activity in 2014 is expected to result in a slight increase of employment by 0.5% and 0.3% in the Eurozone and the EU respectively, while the unemployment rate is estimated to decline marginally in both zones, approaching 10.7% in the EU and 12% in the Eurozone.

Table 2.4

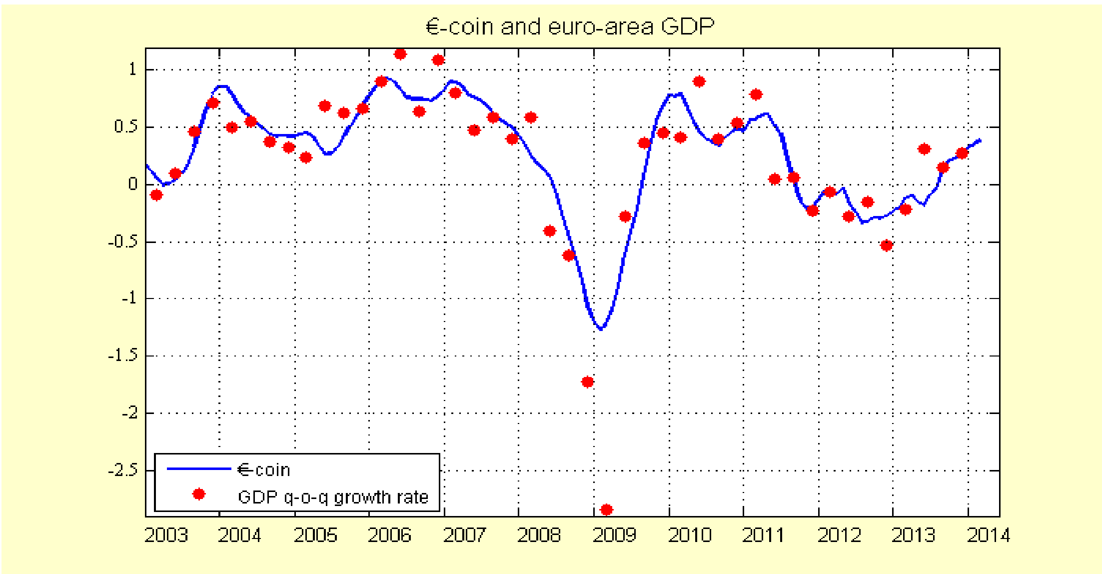
Macroeconomic fundamentals, EU-28, Eurozone (annual % changes)

	EE-28			Euro area		
	2013	2014	2015	2013	2014	2015
GDP	0.1	1.5	2.0	-0.4	1.2	1.8
Private consumption	0.0	1.1	1.7	-0.7	0.7	1.4
Public consumption	0.4	0.6	0.7	0.3	0.5	0.7
Investments	-2.5	3.0	4.2	-3.0	2.3	3.6
Employment	-0.4	0.5	0.7	-0.9	0.3	0.7
Unemployment (% workforce)	10.9	10.7	10.4	12.1	12.0	11.7
Inflation	1.5	1.2	1.5	1.4	1.0	1.3
Exports of goods-services	1.4	4.1	5.5	1.3	4.2	5.7
Imports of goods-services	0.5	4.0	5.6	-0.2	4.1	5.9
General Government Balance (% of GDP)	-3.5	-2.7	-2.7	-3.1	-2.6	-2.5
General government Debt (% of GDP)	89.4	89.7	89.5	95.5	95.9	95.4
Current Account Balance (% of GDP)	1.3	1.4	1.4	2.2	2.3	2.3

Source: European Economic Forecast, Winter 2014, European Commission, February 2014

Figure 2.1

Monthly Index €-COIN of CEPR



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

Regarding **inflation**, a significant slowdown was recorded throughout 2013, as it stood on average at 1.5% in the Eurozone and 1.4% in European Union, while in 2012 the increase of prices was around 2.6% and 2.5% respectively. The slowdown was mainly due to lower energy prices and the appreciation of the European currency. For 2014, a further slowdown in inflation is predicted, albeit at a weaker rate than in the previous year, to 1.2% in EU-28 and 1% in the Eurozone, due to the lack of significant economic recovery momentum.

Table 2.5

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

Month	Jan-13	Feb-13	Mar-13	Apr-13	Ma-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
EU-28	91.0	91.5	91.5	89.9	91.0	92.8	95.3	98.4	100.9	101.9	102.4	103.8
Eurozone	89.7	90.5	90.1	89.0	89.8	91.7	92.9	95.7	97.3	98.1	98.8	100.4
Month	Jan -14	Feb-14	Mar-14	Apr-14	Ma-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
EU-28	104.8	105.0	105.3									
Eurozone	101.0	101.2	102.4									

* The weights of the countries and the time series of the index in the EU have been revised due to the inclusion in this of Croatia from July 1st , 2013

Source: European Commission (DG ECFIN), March 2014

Regarding the **fiscal performance**, the general government deficit as a percentage of GDP declined in 2013 to 3.1% in the Eurozone and 3.5% in the EU, while it is expected to decrease further in 2014, reaching between 2.6% and 2.7% in both zones. Its downward trend captures the benefits from the implementation of strict fiscal consolidation in the European periphery, in countries with very high deficits in the recent past. The general government debt in 2013 increased significantly in both European economy regions, reaching 89.4% in the EU-28 and 95.5% in the Eurozone. In the current year, the debt is estimated to grow to a small extent, because of the high interest costs that should be paid (89.7% in EU-28 and 95.9% in EA-17). However, it is predicted that the debt as a percentage of the GDP will start to decline from 2015, due to positive GDP growth rate and high primary surplus in many countries of the European region. The continuous improvement of the economic climate and the return to positive growth in 2014 in the Eurozone and the EU are reflected in leading indicators, such as the indicator of economic activity €-COIN[2] published by CEPR in cooperation with the Bank of Italy, and the economic sentiment indicator published by the European Commission (DG ECFIN). In particular, as shown in Figure 2.1, €-COIN rose in March to reach 0.38, compared to 0.35 points in the previous month, returning thus to the levels recorded in the summer of 2011.

Finally, according to the economic sentiment indicator of DG ECFIN, the trend of improving expectations that had started in May 2013 continued on course in March 2014. The indicator increased by 1.2 and 0.3 points compared to the previous month in the Eurozone and the EU respectively, reaching 102.4 and 105.3 points.

2.2 The economic environment in Greece

A) Economic Sentiment

The IOBE-FEIR economic sentiment studies offer significant indications on the de-

[2] The Centre of Economic Policy Research (CEPR) in cooperation with the Bank of Italy each month calculates the €-COIN leading indicator of economic activity for the Euro Area. The indicator provides a forecast of GDP growth and is constructed from a range of different data, such as the course of industrial production and of prices, as well as labour market and financial data.

velopments in the economy in the last few months, from the perspective of both the enterprises and the consumers. Besides, the key statistics constitute leading indicators for various economic magnitudes and can be used to predict near-term development and even the course of GDP. Specifically:

The positive economic announcements since the beginning of the year, primarily in the fiscal field, with the overshot of the primary surplus target for last year and its partial distribution to categories of public sector employees and social groups, has led the consumers and the business to adjust their expectations, as the degree of pessimism has weakened. Besides, the upward trend of the index is compatible with the weakening of the recession and the course of the economic activity components and the short-term indicators in individual sectors of the economy, which leaves open the possibility that GDP will steady this year or even recover slightly, after six years of decline. The expectations adapt to new, much more favourable than, for example, two years ago outlook, but are still weaker than before the crisis. Besides, it has been observed that in the months before the elections the economic climate tends to improve, as it creates expectations that the outcome of the elections will spur positive politic-economic developments in. Of course, this does not mean that the consumers and the businesses believe that the financial difficulties have eased, which still largely remain, as the cumulative effect of the crisis. In greater detail:

The Economic Sentiment Indicator for Greece reached to 95 points in the first quarter of 2014 (from 91.1 points in the last quarter of 2013), at significantly higher levels compared with the corresponding period of the previous year (87.3 points). Thus, the economic sentiment indicator was at its highest level since the summer of 2008. **At European level, the corresponding indicator increased quarter-on-quarter, both in the Eurozone and in the EU.** Specifically, the sentiment indicator reached 101.5 and 105.0 points in the Eurozone and the EU respectively (from 102.7 and 99.1), and this is higher compared with the same period of last year (90.5 and 91.6 points respectively in both zones).

At sector level, business expectations in Greece improved quarter-on-quarter in the first quarter in all sectors. The strongest boost was observed in Construction (by 9 points). The index increased by 5 points in Industry, 4 points in Services and 7 points in Retail Trade. Finally, regarding Consumer Confidence, the negative index gained 2 points in the quarter under review, mainly due to a boost recorded in March, yet it still remains at very low level.

Compared with the corresponding period of last year, the average indicators have increased in all sectors, in the most of them significantly. The indicator recovered by 5 points in Industry, by 33 in construction, and by 18 in services and retail trade. The consumer confidence indicator also increased year-on-year, by 8 points. In greater detail:

The **Consumer Confidence Indicator** in Greece in the first quarter increased quarter-on-quarter by 2.3 units, to reach -61.3 points, higher compared to the corresponding last year's performance (-71, 5 units). Public confidence has stabilised since last year's autumn, with signs of improvement in some constituent indicators. Nevertheless, the Greek consumers have steadily remained the most pessimistic Europeans over the last four years. The corresponding average European indicators in the first quarter improved quarter-on-quarter by about 3 points in both the Eurozone and the EU, reaching -11.2 and -8.2 points respectively, higher than last year's levels (-21.6 and -23.5 points respectively on average).

The average quarterly change in the individual elements that make up the overall index is positive in the current quarter. Specifically, the negative predictions of Greek consumers about the financial situation of their households and the economic situation of the country in the next 12 months eased considerably, while the indicator for the course of unemployment shows an improvement, the employment expectations became less pessimistic. In contrast, the already very adverse intent to save reached new historical lows.

In particular, the percentage of those who were pessimistic about the economic situation of their household fell to 64% (from 71%) in the quarter under review, with 14% (from 20%) declaring that the economic situation of their household will remain unchanged. Also, 69% (from 76%) of the Greek consumers made gloomy predictions about the economic situation of the country, with 15% of them (from 12%) believing that it will remain the same. As far as the intention to save is concerned, 9 out of 10 households consider as unlikely or highly unlikely to save any money over the next 12 months. Regarding the unemployment expectations, despite the improvement recorded in the quarter under review, 79% (from 85%) continue to believe that the situation will deteriorate slightly or significantly (from 89% in the same period of last year). Finally, the percentage of consumers reporting that they were "in debt" increased slightly to 18% (from 16% in the previous quarter and 22% in the same quarter last year). About 8% of the respondents said that they were saving little or very little (from 11% in the previous quarter), and finally, the percentage of consumers reporting that they were "just making ends meet" increased to 62% on average (from 59%), while the percentage of those who said they were "dipping into their savings" fell slightly to 12% (from 15% in the preceding quarter).

The Business Climate Indicator in **Industry** increased quarter-on-quarter to 90.0 (from 85.4), higher in relation to last year's performance as well (85.1 points). Regarding the key activity indicators, the short-term expectations on production levels improved, with the relevant indicator reaching 12 on average (from 0). The assessment of order-book levels and demand were less pessimistic (-29 from -32 units), while the assessment of the stocks of finished products indicated slightly high levels for the season, while the relevant indicator remained at +8. Among the remaining activity indicators, the trends in the export variables were mixed: the assessment of current export activity and the expectations on export dynamics over the next quarter improved, while orders and foreign demand deteriorated slightly. The negative balance of employment expectations eased to reach -10 on average (from -16), improved performance compared with the average of the first quarter of 2013 as well (-20). The utilisation rate of the production factors marginally improved, remaining relatively low at 66.3%, a level slightly higher than in the corresponding period of 2013 (64.5%). Finally, the number of months of assured production reached 4.8 on average (from 4.3 months in the previous quarter and 4.0 in the corresponding quarter of the previous year).

The Confidence Indicator in **Retail Trade** in the period under review increased slightly to 80.6 points (from 73.8 in the previous quarter and 62.4 units in the corresponding quarter of last year). This development stems from an improvement in the current and projected sales, with the indicators reaching respectively -16 (from -38) and -21 (from -27). From the companies in the sector, 41% (from 44%) stated that sales would decline in the near future, while 20% (from 17%) were expecting growth. The negative inventories indicator eased to -4 (from -9) points on average, higher year-on-year as well (from -13). The expectations on orders to suppliers remained almost unchanged (-18 on average in the first quarter), while the employment expectations in the sector improved by 12 points, reaching +2, higher against the corresponding very low level of last year as well (-40 units). Finally, in terms of prices, deflationary expectations have dominated consistently, not altered significantly in relation to the levels of the previous quarter (-18 points on average). About 20% of the businesses were expecting prices to fall , while an overwhelming 76% majority were anticipating price stability. In individual business expectations improved in Food-Beverages-Tobacco, Textile-Clothing-Footwear, Vehicles & Parts and Department Stores. In contrast, the expectations deteriorated slightly in Household Appliances.

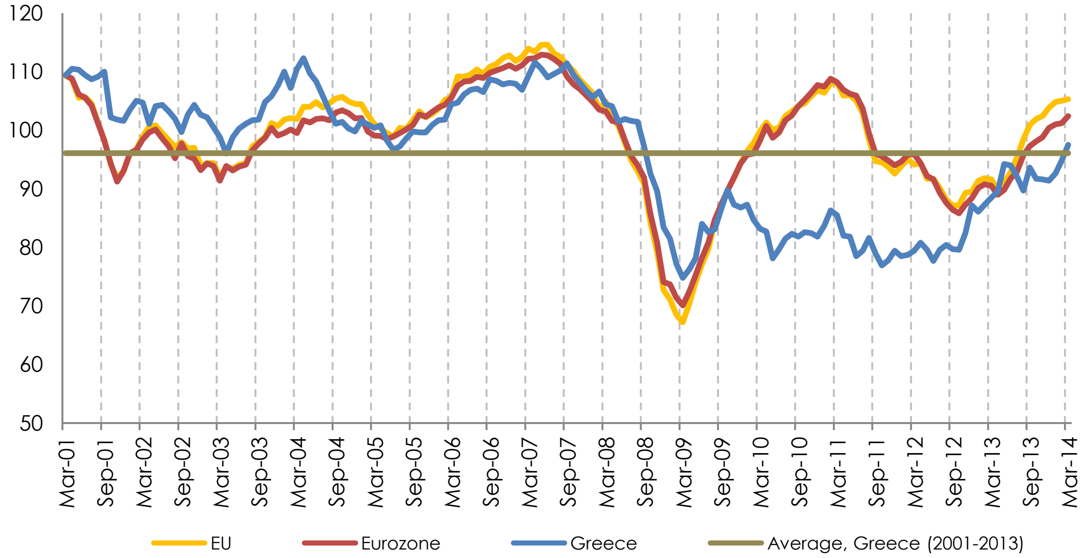
Business expectations in **Construction** gained ground considerably in the first quarter of 2014 compared with the previous quarter, with the indicator increasing to 80 (from 68.3), significantly higher year-on-year as well (from 47). Regarding the basic components of the index, both strongly negative expectations of the businesses on the level of planned activities and the employment expectations in the sector improved, increasing respectively by 6 and 15 points quarter-on-quarter, to reach -56 and 8 points accordingly. Thus, the employment indicator returned to positive levels, higher than in any quarter over the past five years.

Among the companies in the sector, 28% (from 37%) were expecting job cuts and 36% (from 30%) job creation. In contrast, the assessment of the companies on their current business activity lost ground, with the relevant indicator falling to -27 (from -23), while the number of months of assured activity has remained unchanged at 11 months for a year and a half. The negative balance of price expectations also remained unchanged, at -27 points. Finally, the percentage of firms reporting that their business activity was being conducted without obstacles increased to 15% (from 9%), with the remaining businesses reporting as major obstacles low demand (31%), inadequate funding (26%) and factors such as the general economic situation, the recession, high taxes, lack of projects, late payments from the state, large discounts, etc. Among the constituent branches, the sentiment improved slightly in Private Construction (42.5 from 40.1 points), and stronger in Construction of Public Works, where the relevant index in the first quarter of 2014 stood at 95.8 (from 83.4 in the previous quarter), recording one of its highest levels in the past five years.

In **Services**, the Business Climate Indicator increased slightly quarter-on-quarter in the first quarter of 2014, to 78.8 (from 74.8), higher in comparison with the same period of last year as well (60.6 points). Among the key components of the indicator, the strongest gains were observed in the short-term demand expectations (+11 points in the first quarter of 2014, from -10 in the preceding quarter). The assessment of the enterprises of their current demand also improved, but to a lesser extent (-2 points, from -6 points in the preceding quarter), while conversely, the worsening assessment of the enterprises on their current activity partly offset these positive changes (to -14 from -4 on average). Among the remaining activity indicators, employment expectations gained strength, with the relative indicator reaching -3 (from -18) on average. Regarding prices, the expectations remained deflationary, with the corresponding index gaining just 2 points to reach -15. About 17% of the firms were expecting prices to fall and 4/5 of them to remain unchanged. Finally, the percentage of those who were reporting unimpeded business operation fell marginally to 12% (from 14%), with 37% of the respondents declaring as a key obstacle to their operation insufficient demand, 31% lack of working capital, 3% inadequate labour supply and 16% factors associated with the general economic situation and the crisis, the global current affairs, borrowing difficulties, high taxes, late payments etc. In all constituent branches of the Services sector, the business climate indicator recorded small or big rise in the first quarter of 2014. The most significant improvement was recorded in IT Services and Financial Intermediaries, while remarkable recovery was also observed in Hotels - Restaurants - Travel Agencies. Finally, the expectations in Land Transport and Various Business Activities improved marginally in the quarter under review.

Figure 2.2

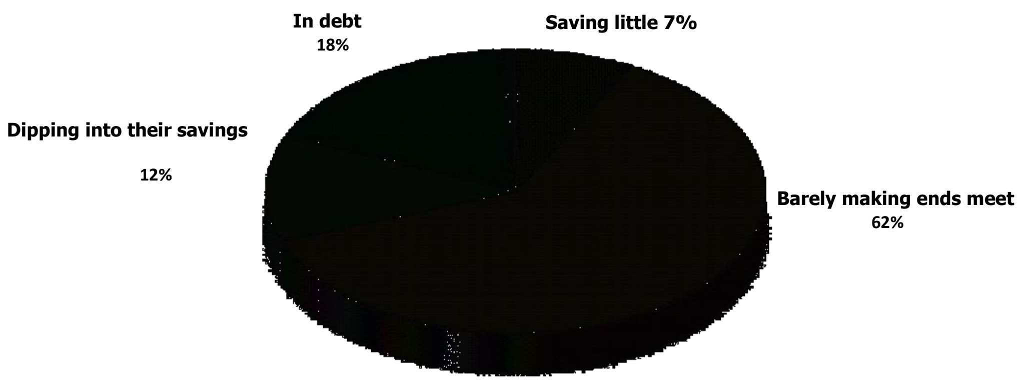
Economic Sentiment Indicators: EU28, Euro Area and Greece
(1990-2013=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.3

Consumers' Survey data on their household's financial situation
(January-March 2014 average)



Source: IOBE

Table 2.6

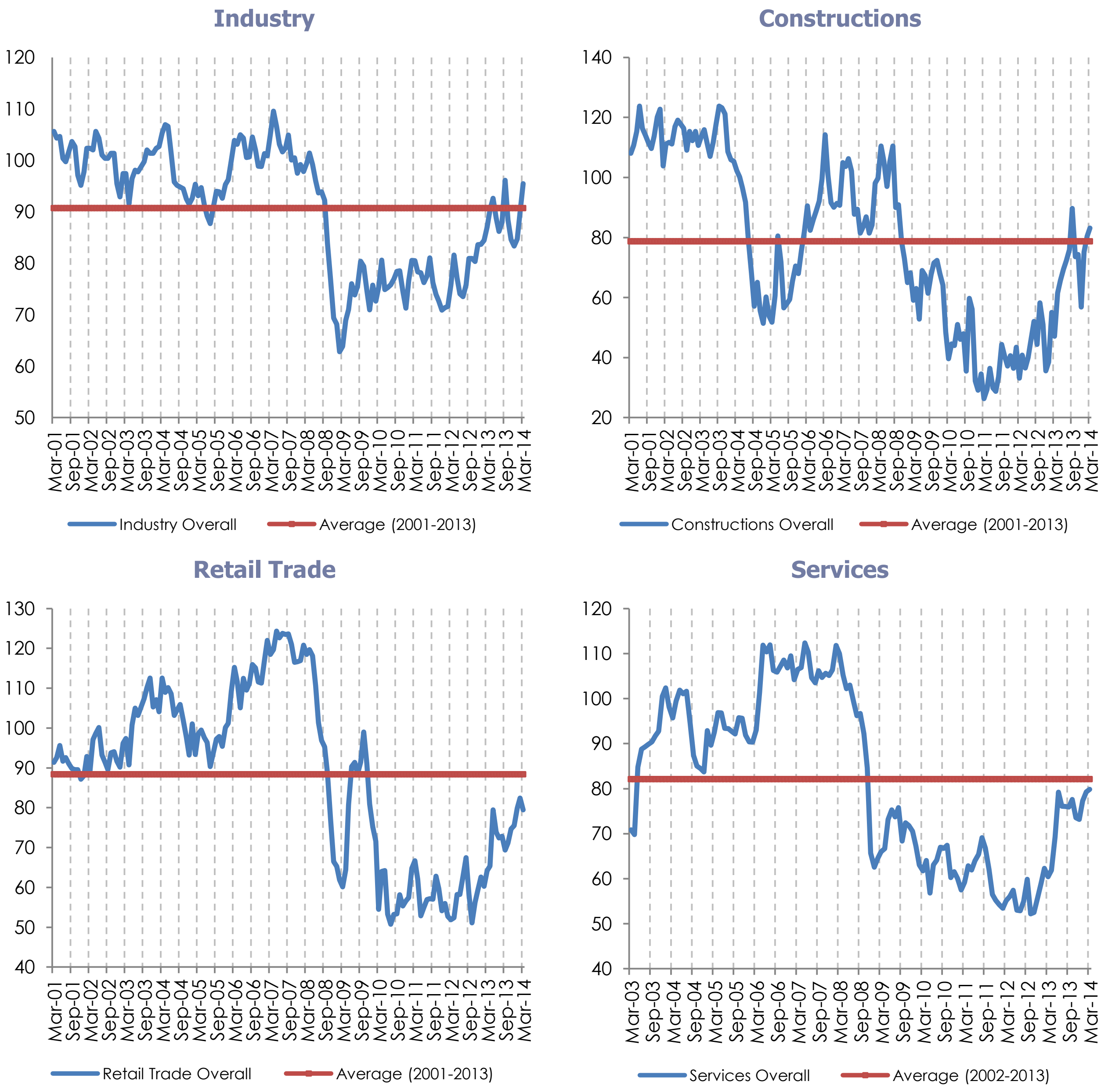
Short-term economic indicators

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

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

Figure 2.4

Business Sentiment Indicators



Source: FEIR

B) Fiscal developments and outlook

Execution of the 2013 State Budget

The gradual finalisation of the fiscal results shows that, at least regarding the State Budget, the improvement is greater than expected (compare with Bulletin 4/2013). In particular, as shown in Table 2.7, the net deficit reached 3%, compared with 3.3% in the initial estimate. This improvement was entirely due to better performance in the primary balance, which seems to "close" with a surplus of € 600 million, instead of achieving almost zero balance, as anticipated with the submission of the 2014 Budget.

Table 2.7

Balances of the State Budget

	€ mill.	**2012**	**2013**	**2014**
Primary balance		**-3,465**	**603**	**4,597**
	(% of GDP)	***-1.8%***	***0.3%***	***2.5%***
Regular budget		-951	2,658	6,395
	(% of GDP)	*-0.5%*	*1.5%*	*3.5%*
PIP		-2,513	-2,055	-1,798
	(% of GDP)	*-1.3%*	*-1.1%*	*-1.0%*
Interests		**12,224**	**6,044**	**6,150**
	(%of GDP)	***6.3%***	***3.3%***	***3.4%***
Net balance		**-15,688**	**-5,441**	**-1,553**
	(% of GDP)	***-8.1%***	***-3.0%***	***-0.8%***

Sources: Bull of Run of the State Budget-December 2013 Government Budget 2014, MoF.

Regarding the course of the net balance of the state budget in 2014, it is worth mentioning that the expected improvement in comparison with 2012 derives by 80% from the primary balance and 20% from interest, while the improvement in the primary balance relies by 2/3 on reduction of expenditure and by one third on revenue growth (Tables 2.8-2.9).

Table 2.8

State budget revenue, 2012-2014

€ mill.	**2012**	**2013**	**2014**
REVENUES OF STATE BUDGET	**51,925**	**53,018**	**54,695**
NET REVENUES OF ORDINARY BUDGET	**48,325**	**48,423**	**49,693**
TAX REFUNDS OF ORDINARY BUDGET	**3,172**	**3,105**	**2,789**
TOTAL REVENUES OF REGULAR BUDGET	**51,497**	**51,528**	**52,482**
TAX REVENUES	***47,179***	***44,614***	***45,661***
DIRECT TAXES	21,097	20,065	21,574
Income taxes	*13,311*	*11,497*	*12,908*
Property taxes	*2,857*	*2,991*	*3,937*
Direct taxes PIP	*1,812*	*2,826*	*1,967*
Other direct taxes	*3,116*	*2,752*	*2,762*
Indirect taxes	26,082	24,548	24,087
Transaction taxes	*15,686*	*14,665*	*14,040*
Consumption taxes	*9,627*	*8,994*	*9,134*
Indirect taxes PIP	*452*	*533*	*632*
Other indirect taxes	*318*	*355*	*281*
NON-TAX REVENUES	***4,318***	***6,914***	***6,821***
DRAWINGS FROM EU	246	183	279
NON REGULAR REVENUES	1,821	4,272	3,547
PERMITS AND RIGHTS	15	86	230
OTHER	2,237	2,374	2,765
PIP	**3,601**	**4,595**	**5,002**

Sources: Bull of Run of State Budget-December 2013 Government Budget 2014, MoF.

Table 2.9

State budget expenditure, 2012-2014

€ mill.	2012	2013	2014
TOTAL STATE BUDGET	**67,614**	**58,459**	**56,248**
TOTAL ORDINARY BUDGET	**61,499**	**51,809**	**49,448**
INTERESTS	**12,224**	**6,044**	**6,150**
TOTAL PRIMARY EXPENDITURE	**49,276**	**45,765**	**43,298**
REMUNERATION AND PENSIONS	**20,511**	**18,422**	**18,412**
Remunerations	13,561	12,067	11,860
Other Benefits	386	506	512
Pensions	6,564	5,850	6,040
INSURANCE, CARE, SOCIAL PROTECTION	**17,134**	**15,922**	**13,269**
Grants of insurance funds	13,967	12,262	10,116
Grants of the Employment	499	477	505
Social Protection	1,267	1,529	1,538
Grants of hospitals	1,401	1,654	1,111
OPERATING AND OTHER EXPENSES	**8,157**	**7,872**	**6,722**
Grants	1,882	1,936	1,534
Consumer spending	2,066	1,732	1,754
Mirror expenditure	2,462	2,669	2,082
Other Spending *	1,747	1,535	1,352
EARMARKED REVENUE	**3,474**	**3,549**	**3,774**
RESERVE	**0**	**0**	**1,120**
PIP	**6,114**	**6,650**	**6,800**

** Includes EFSF costs, armaments expenditure and payment of guarantees.*

Sources: Bull of Run of State Budget-December 2013 Government Budget 2014, MoF.

In particular regarding revenue, it is noted that their increase last year is mainly attributed to revenues from ANFAs and SMPs (shown in the non-regular income), as well as on increased revenues of PIP, which offset the reduction in tax revenue. This means that in future, when non-regular income will be limited, the difference should be covered by the recovery of tax revenue, which in turn should be the result of tax reforms and the return to economic growth.

As far as primary expenditure is concerned, the reduction is based primarily on limiting grants to social security funds, owing mainly to policy measures in the insurance system and the healthcare system, secondarily, to salary curbs and much less to lower expenditure for pensions.

Execution of the 2014 State Budget (January-February)

Although the available data on the State Budget of 2014 is not sufficient to assess its performance, the early signs are encouraging, with the formation of a primary surplus of around €2 billion in this period. In particular, revenues have increased by 9.6% (versus budgeted annual increase of 3.2%). This development is mainly based on very high influx of non-tax revenues (including those of PIP). At this point it should be noted that tax revenues before tax refunds decreased by 1.1%, compared with 2.3% increase envisaged in the budget for the current year. Nevertheless, it is estimated that this is a result of the timing of collection of tax revenues, which are expected to return to stronger levels in the second half of the year (Table 2.10). On the expenditure side, the primary expenditure of the Ordinary budget contracted much stronger than envisaged in the budget (-13.7% vs. -5.4%). This was mainly observed in the categories "Salaries and pensions" and "Grants to the Social Security Sector", while the opposite happened in the other categories (Table 2.11). Generally, there is currently no clear picture of whether the expenditure consolidation beyond the Budget targets will continue throughout the current year.

Table 2.10

State Budget Revenue, January-February

€ mill.	**2013**	**2014**	**Change**
REVENUES OF STATE BUDGET	**8,634**	**9,463**	**9.6%**
NET REVENUES OF REGULAR BUDGET	**7,750**	**7,869**	**1.5%**
TAX REFUNDS OF REGULAR BUDGET	**96**	**497**	**417.5%**
TOTAL REVENUES OF REGULAR BUDGET	**7,846**	**8,366**	**6.6%**
TAX REVENUES	***6,954***	***6,879***	***-1.1%***
DIRECT TAXES	2,988	2,918	-2.3%
Income taxes	*1,377*	*1,313*	*-4.6%*
Property taxes	*490*	*553*	*12.9%*
Direct taxes PIP	*842*	*682*	*-19.0%*
Other direct taxes	*278*	*369*	*32.7%*
Indirect taxes	3,966	3,961	-0.1%
Transaction taxes	*2,513*	*2,568*	*2.2%*
Consumption taxes	*1,237*	*1,191*	*-3.7%*
Indirect taxes PIP	*170*	*149*	*-12.3%*
Other indirect taxes	*47*	*53*	*13.1%*
NON-TAX REVENUES	***892***	***1,487***	***66.7%***
DRAWINGS FROM EU	6	7	7.3%
NON REGULAR REVENUES	488	554	13.5%
PERMITS AND RIGHTS	62	0	
OTHER	336	926	176.0%
PIP	**884**	**1,594**	**80.4%**

Source: State Budget Execution Bull-February 2014, MoF, March 2014

Table 2.11

State Budget Expenditure, January-February

€million	2013	2014	Change
TOTAL STATE BUDGET	**9,422**	**8,976**	**-4.7%**
TOTAL REGULAR BUDGET	**9,143**	**8,369**	**-8.5%**
INTERESTS	**1,275**	**1,576**	**23.6%**
TOTAL PRIMARY COSTS	**7,868**	**6,793**	**-13.7%**
REMUNERATION AND PENSIONS	**3,080**	**2,953**	**-4.1%**
Remunerations	1,998	1,917	-4.1%
Other Benefits	83	32	-61.2%
Pensions	998	1,004	0.6%
INSURANCE, CARE, SOCIAL PROTECTION	**2,985**	**2,133**	**-28.5%**
Grants of insurance funds	2,582	1,674	-35.2%
Grants of the Employment	85	95	12.0%
Social Protection	35	64	81.0%
Grants of hospitals	283	300	6.1%
OPERATING AND OTHER EXPENSES	**1,215**	**1,118**	**-8.0%**
Grants	201	176	-12.6%
Consumer spending	58	32	-45.3%
Mirror expenditure	827	536	-35.2%
Other Spending *	130	375	188.9%
EARMARKED REVENUE	**588**	**588**	**0.0%**
RESERVE	**0**	**0**	
PIP	**279**	**606**	**117.1%**

** Includes costs EFSF, armaments expenditure and payment guarantees.*

Source: Bull Run State Budget in February 2014, MoF., March 2014

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Recent macroeconomic developments

The recession in Greece eased further (-2.3%) during the last quarter of 2013, according to the provisional data of ELSTAT. This is the lowest contraction rate since the beginning of the fiscal consolidation process in early 2010. Overall, in 2013 the GDP of Greece was down by 3.9%, the weakest contraction since 2010. It should be also noted that the contraction of GDP in 2012 was revised from 6.4% to 7% (according to the revised National Accounts data), which is in line with IOBE predictions for recession in the range of 6.6-6.9% that year. Although unemployment increased and tax obligations built up at the end of 2013, the easing of the GDP contraction was mainly due to the marginal reduction, compared with the previous quarters, in household expenditure as well as the weakening of contraction in public expenditure. In contrast, investment dropped significantly, despite the accumulation of inventories (2.1 billion euro or 5.5% of quarterly GDP), whereas exports increased with a mild rate.

At a socioeconomic level, the negotiations with the troika, in the context of the Economic Policy Programme review, intensified at the end of 2013. These were mainly focused on the determination of additional fiscal measures until 2016, along with possible alternatives for covering the financing gap during the same period. High priority was also given to the restructuring of the public sector, mainly in companies under state control. Additionally, the employment streamlining in public entities and organisations continued, mainly in the administrative staff of universities. Meanwhile, the growth in tourist arrivals in the final quarter of 2013 exceeded the rate recorded in the summer period, with international arrivals in the major airports growing by 15%, from 10.7% in the summer. This trend indicates the prolongation of the tourism period, with the benefits that this could bring for the Greek economy.

Regarding the performance of key GDP components in 2013 overall, the reduction of household consumption was the main driver of the recession in the Greek economy, despite the stabilisation observed during the last quarter. In contrast, the negative impact on the contraction from the reduction in public expenditure and investment was weaker. Additionally, the growth in investment coupled with the contraction in imports for a fifth year in a row (albeit at a slower pace compared to the past) reduced further the external sector deficit of the Greek economy.

In particular, **the reduction of total domestic consumption in 2013 was notably weaker compared with 2012 (-5.5% against -8.9%).** The contraction of private consumption expenditure eased to 6% in 2013, compared with 9% during the previous year. However, the decline in household consumption was stronger compared with public consumption for a third year in the row (-4.1% compared with -6.9% in 2012). **In general, during 2008-2013 the decrease in private expenditure is slightly stronger compared with the corresponding reduction in the public sector (-24.3% against -21%).**

Investment dropped further in 2013 (-6.7%), even though the recorded contraction rate was the lowest since 2008, notably weaker compared with 2012 (-17.8%). On a quarterly basis, investment varied significantly throughout 2013. The variation came exclusively from changes in inventories compared with 2012 (e.g. accumulation instead of a rundown of inventories). Meanwhile, the contraction in gross fixed capital formation intensified during the last quarter of 2013 (15.7%). Undoubtedly, the contraction of fixed capital investment by 60.4% during 2008-2013 is among the key factors that have set back the Greek economy and the urgently needed shift to a new sustainable growth model. Besides, capital formation in 2013 did not exceed 2.7% of the capital stock (€745 billion).[3] This level is lower than needed in order to cover the inevitable asset depreciation, which reveals the lack of investments for an extensive restructuring of the domestic production, with a transition to new markets for products and services. This view is also confirmed by the fact that since 2011 the fixed capital stock in Greece has been falling, an unprecedented development since at least 1960.

Among the basic fixed capital categories in 2013, **Housing Construction has remained the category with the deepest contraction, stronger compared with the previous year as well** (-37.8% against -32.9%). As a result, the cumulative reduction in this category exceeded 85% since 2008. The second deepest contraction was observed in Metal Products and Other Products, which also intensified compared with 2012 (by 13.5% and 10.2% respectively). In contrast, Transport equipment and Other Constructions increased slightly by 2% and 3.3% respectively, whereas the biggest increase was observed in Agricultural Equipment (+5.7%), following its stabilisation in 2012.

The deficit in the external sector narrowed further during the last quarter of 2013. In contrast to 2012, however, this was accomplished by the weakening demand for imports along with an increase in exports. The growth in exports, which was marginal during the 4th quarter, was driven by stronger exports of services (+3.4%) contrarily to the exports of goods which dropped for the first time since mid 2012 (-1.7%). Therefore, the improvement observed in the balance of the external sector in the final quarter of 2013 was mainly due to the drop in imports (-5.6%), after their short-lived growth in the third quarter. **Moreover, the growth of exports by 1.8% in 2013 came mainly from the exports of goods and to a**

[3] Ameco web-database, DG ECFIN, European Commission

smaller extent from the exports of services (+0.8%). As a result, the level of exports overall in 2013 was approximately equal to the level of 2011 (43.3 billion euro).

The contraction in imports on the other hand, eased compared to the previous years (-5.3%). The weakening of the domestic demand for services from abroad was almost four times as high compared with the imports of goods (-17% against -4.5%), which reversed the trend from 2012 (-9.6% and -14.8% respectively). Meanwhile, since 2008 the imports of goods have dropped by approximately 46%, whereas the decline in the imports of services has been less intensive, yet still significant (-28%). **The contraction in imports as well as the small growth of exports improved the external sector deficit, in national accounting terms, to €2.3 billion in 2013 (or 1.4% of GDP) from €5.6 billion in 2012.**

In production terms, **the contraction in domestic gross value added eased in 2013 compared with the previous year (-3.7% against -7%). The substantial drop in fixed capital investment is reflected in the Construction sector's activity which fell most among the key sectors of the Greek economy (-18.2%),** albeit slightly weaker than a year before (-20.7%).The second deepest contraction by 9% was observed in Professional – Scientific – Technical – Administrative Activities and Information – Communications, followed by Financial – Insurance Activities (-6.1%), Wholesale – Retail trade, Repair of Motor Vehicles – Motorcycles and Accommodation – Food Services (-6.8%), categories with significant pressures during the past two years. In contrast, the contraction in Industry was substantially lower (-3.9% against -5.3% in 2012), whereas in the Public sector it came to a halt, as output decreased by only 0.3%. Additionally, output consolidated in Agriculture (+0.1%) and Real Estate Activities (+0.3).

Despite the fact that the recession eased further **during the final quarter of 2013, unemployment increased after a small drop during the third quarter.** As already noted in the previous quarterly bulletin of IOBE, this development was anticipated given the small impact on jobs from the seasonal employment programme in the public sector, as well as the drop of employment in the Accommodation – Food Services, despite the prolonged tourism period. As a result, **unemployment increased slightly in the last quarter of 2013, with the unemployment rate rising to a new record of 27.5%, while for the entire 2013 it stood at 27.3%.** Nevertheless, unemployment growth in late 2013 was notably weaker compared with the corresponding quarter of 2012. Overall, in 2013 unemployment was higher by 3.1 percentage points compared with the previous year (+6.5 p.p.).

The boost in household consumer spending towards the end of the previous year is partially due to the acceleration of deflation to 2.2%, compared with a year-on-year inflation of 1.1% in the last quarter of 2012. The decline of the Consumer Price Index is mainly due to the deflationary trends in basic consumer goods, such as Leather-Footwear and Transportation, which have a significant weight in the determination of the CPI. Additionally, the drop in the price level of Hotels–Restaurants (which outpaced other sectors) relates to the reduction in the VAT for food services, yet it is weaker than expected. **The escalation of deflation in the last quarter of 2013 resulted in an average drop of prices by 0.9%, in contrast to 1.5% inflation in the previous year.**

In summary, the new round of negotiations with the troika and the reforms in the public sector were the main issues in the socio-economic environment in late 2013. These should be considered as inter-related given that the level of implementation along with the scheduling of further reforms form a key part of the negotiations. Taking into consideration relevant reforms in other economic sectors, mainly in the labour market of the private sector, the significant delays observed in the restructuring of the public sector set back the joint, multiplicative benefits from simultaneous reforms in both the public and the private sector.

In addition, the significant delays observed in the restructuring of the state reduce the impact of completed reforms in the private sector, hence, there is an under-utilization of organisational, productive and other opportunities arising from the reforms.

This creates significant impediments to the growth of the Greek economy. Moreover, if a programme of structural reforms in the public sector is not immediately scheduled and subsequently implemented as planned, the negative repercussions on the level of production and employment will jeopardise the sustainability of the - better than expected – fiscal results of 2013. In turn, this will put at risk the fiscal consolidation process in the following years.

Table 3.1

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

Quar-ter/Year	GDP		Final Consumption		Investment		Exports		Imports	
	mil. €	Annual rate of change	mil. €	Annual rate of change	mil. €		mil. €	Annual rate of change	mil. €	Annual rate of change
2001	**165.023**	**4,2%**	**146.095**	**4,1%**	**38.908**	**-3,9%**	**39.522**	**0,0%**	**59.274**	**4,2%**
2002	**170.700**	**5,2%**	**153.724**	**5,2%**	**39.399**	**1,3%**	**36.205**	**-8,4%**	**58.532**	**-1,3%**
2003	**180.847**	**2,4%**	**157.479**	**2,4%**	**46.687**	**18,5%**	**37.262**	**2,9%**	**60.267**	**3,0%**
2004	**188.746**	**3,8%**	**163.422**	**3,8%**	**45.578**	**-2,4%**	**43.712**	**17,3%**	**63.682**	**5,7%**
2005	**193.049**	**3,8%**	**169.662**	**3,8%**	**41.321**	**-9,3%**	**44.807**	**2,5%**	**62.741**	**-1,5%**
2006	**203.688**	**4,1%**	**176.612**	**4,1%**	**50.048**	**21,1%**	**46.739**	**4,3%**	**69.711**	**11,1%**
2007	**210.895**	**4,3%**	**184.176**	**4,3%**	**56.524**	**12,9%**	**50.066**	**7,1%**	**79.820**	**14,5%**
Q1 2008	49.525	0,1%	47.982	3,1%	11.243	-11,4%	10.170	5,7%	19.863	2,6%
Q2 2008	53.148	0,1%	48.142	3,3%	12.864	-0,6%	12.955	4,6%	20.806	10,5%
Q3 2008	55.247	-0,1%	47.219	2,9%	11.894	-9,5%	16.902	5,2%	20.771	4,8%
Q4 2008	52.522	-0,9%	46.091	2,2%	14.671	-17,4%	10.871	-9,3%	19.095	-12,4%
2008*	**210.443**	**-0,2%**	**189.436**	**2,9%**	**50.672**	**-10,4%**	**50.899**	**1,7%**	**80.535**	**0,9%**
Q1 2009	47.439	-4,2%	45.860	-4,4%	9.258	-17,7%	8.296	-18,4%	16.017	-19,4%
Q2 2009	51.254	-3,6%	47.727	-0,9%	9.072	-29,5%	10.368	-20,0%	15.961	-23,3%
Q3 2009	53.607	-3,0%	47.941	1,5%	8.526	-28,3%	13.378	-20,9%	16.279	-21,6%
Q4 2009	51.543	-1,9%	47.396	2,8%	11.135	-24,1%	8.973	-17,5%	16.004	-16,2%
2009*	**203.843**	**-3,1%**	**188.924**	**-0,3%**	**37.992**	**-25,0%**	**41.014**	**-19,4%**	**64.261**	**-20,2%**
Q1 2010	46.972	-1,0%	46.939	2,4%	7.305	-21,1%	8.310	0,2%	15.707	-1,9%
Q2 2010	49.816	-2,8%	44.856	-6,0%	8.979	-1,0%	10.826	4,4%	14.828	-7,1%
Q3 2010	50.064	-6,6%	43.437	-9,4%	7.916	-7,2%	13.677	2,2%	14.829	-8,9%
Q4 2010	46.916	-9,0%	40.884	-13,7%	10642	-4,4%	10328	15,1%	14932	-6,7%
2010*	**193.768**	**-4,9%**	**176.116**	**-6,8%**	**34.842**	**-8,3%**	**43.142**	**5,2%**	**60.297**	**-6,2%**
Q1 2011	42.840	-8,8%	41.632	-11,3%	7.180	-1,7%	8.282	-0,3%	14.274	-9,1%
Q22011	45.889	-7,9%	41.433	-7,6%	7.576	-15,6%	10.922	0,9%	14.051	-5,2%
Q3 2011	48.072	-4,0%	41.932	-3,5%	6.229	-21,3%	14.278	4,4%	14.406	-2,9%
Q4 2011	43.201	-7,9%	38.424	-6,0%	8.138	-23,5%	9.801	-5,1%	13.141	-12,0%
2011*	**180.001**	**-7,1%**	**163.421**	**-7,2%**	**29.124**	**-16,4%**	**43.282**	**0,3%**	**55.871**	**-7,3%**
Q1 2012	39.954	-6,7%	38.512	-7,5%	4.947	-31,1%	8.626	4,1%	12.152	-14,9%
Q2 2012	42.951	-6,4%	38.406	-7,3%	6.092	-19,6%	10.594	-3,0%	12.234	-12,9%
Q3 2012	44.873	-6,7%	38.227	-8,8%	4.429	-28,9%	13.674	-4,2%	11.718	-18,7%
Q42012	40.737	-5,7%	34.947	-9,0%	8.535	4,9%	9.334	-4,8%	12.074	-8,1%
2012*	**167,436**	**-7.0%**	**148,950**	**-8.9%**	**23,934**	**-17.8%**	**42,536**	**-1.7%**	**48,176**	**-13.8%**
Q1 2013	37,281	-6.0%	34,885	-8.9%	5,309	8.4%	8,444	-2.2%	11,301	-7.0%
Q2 2013	40,788	-4.0%	35,631	-6.4%	4,994	-18.0%	10,844	1.6%	10,881	-11.1%
Q3 2013	42,905	-3.2%	35,159	-6.1%	4,887	9.1%	14,556	5.2%	12,031	2.7%
Q42013	40,008	-2.3%	34,876	-0.8%	7,138	-15.7%	9,456	0.5%	11,392	-5.6%
2013	**160,981**	**-3.9%**	**140,552**	**-5.6%**	**22,329**	**-6.7%**	**43,300**	**1.8%**	**45,606**	**-5.3%**

* provisional data

Source: ELSTAT, Quarterly National Accounts, December 2013

Medium-term outlook

The resumption of the negotiations between the government and the troika was the main politico–economic development in the first quarter of 2014. The substantial delay in the recent review of the Economic Adjustment Programme (almost six months of negotiations) had a negative impact on the implementation process, particularly with regard to the public sector and the structural reforms in product markets and professions. Meanwhile, substantial impediments to the smooth and efficient operation of the state apparatus emerge from the fact that manpower from the public administration has been devoted to the negotiations. Even though, the distance on a number of issues during the last review was smaller than in past evaluations, the prolonged duration gave rise to uncertainty pertaining to certain social groups potentially affected by the reforms (mainly associations of professionals). Additionally, the fact that some critical issues (e.g. offsetting between state arrears and taxpayer debt to the state, taxes on real estates, social security contributions, labour market flexibilities, etc.) remained open during the six-month review had a procrastination effect on business plans.

At the heart of the negotiations with the troika - initiated at the beginning of March 2013 - were the determination of the primary surplus in 2013 and the distribution of a portion of this surplus to specific groups and employees in the public sector. The primary General government surplus – according to the latest published data by ELSTAT – of 3.3 billion euro, instead of 748 million euro projected in the State Budget, is considered a crucial step in the fiscal adjustment process and an opportunity for Greece to restore its international credibility. Moreover, the achieved surplus implies that further fiscal measures are not necessary in 2014, when the primary surplus is expected - according to the recent programme reviews by the EU and the IMF – to be approximately at the same level with 2013. Still, the fiscal measures agreed in the past summer review of the programme, such as taxation as legal entities of some taxpayer categories that until 2013 were taxed as individuals, abolishment of tax exemptions for individuals, and an increase of withheld tax of pensioners, will be enforced as agreed.

Moreover, the target of primary surplus of 4.5% of GDP in 2016 and its retention in the following years implies that the fiscal adjustment process should be continued. For that purpose, the fiscal policy during 2015-2016 should identify public expenses that can be further reduced and at the same time avoid the imposition of new tax burden. Besides, the fiscal measures to be adopted in the following two years are expected to be among the main issues in the forthcoming review of the economic adjustment program. For that reason, the persistent emphasis given on the fiscal achievements thus far – partially also due to the forthcoming European and local elections – may have a counteractive effect, especially if the reform implementation and the fiscal planning stagnate.

The disagreement on the capital needs of the banking institutions was another key sticking point in the negotiations with the troika. Apart from the determination of the required amount of capital, emphasis was also given to the conditions related to the reprivatisation of the banking institutions, taking into consideration the EU regulations for bank recapitalisation by the official sector. The stress tests of the Bank of Greece and BlackRock indicated that €6.4 billion of capital will be required in the basic macroeconomic scenario. Meanwhile, the strong foreign investment interest during the capital increase of Piraeus Bank and Alpha Bank soon after the disclosure of the stress tests is considered an indication of the rising trust in the sustainability of the Greek banking sector, as any uncertainties with regard to the economic viability of the systemic Greek banks would deter both foreign and domestic investors from participating in the banks' share capital.

However, the return of the Greek banks to the international capital markets is considered the turning point that will ensure capital adequacy, ease the liquidity shortage and allow for the extension of credit in better terms. The first public sale of mid-term debt by a Greek banking institution already took place in March, while the return of the Greek state to the capital markets is expected to motivate other institutions to raise capital in the foreign markets. However, given that these processes are either ongoing or have not yet started, any positive effects with regard to the Greek economy's liquidity should not transpire earlier than the second half of 2014, following also the completion of the stress tests by the ECB.

Capital injections to the banking institutions from the private sector will also reduce the financing needs of the Greek state over the following years. In this way, the amount of capital withheld from the Hellenic Financial Stability Fund can be used for the government's debt needs. This development along with the 5-year bond issue by the Greek government is expected to cover the total capital amount required for debt servicing this year.

In addition, the financing gap is expected to narrow further in the following years as a result of the negotiations on the Greek public debt with the EU partners after the elections (most probably in early autumn). The announcement of the 2013 fiscal outcome by Eurostat in accordance with the decisions made by the Eurogroup on 26/11/2012 is expected to form the basis that will further facilitate the servicing of debt held by the Eurozone countries and the ESM (extension of maturities, lower interest rates). The possibility of a new "haircut", however, is not anticipated. Given the target for 113.6% debt over GDP until 2022, an expansive debt issuance by the Greek government in the near future – to refinance its debt, held by the official sector, from the capital markets - will increase the servicing cost to a level that will push the amount of debt above the set target.

Moreover, the structural reforms in the public sector and the liberal professions, which raised strong objections by affected groups during the review, have also attracted the strong interest of the troika. The public consultations and the adopted decisions took into account the findings of a report by the OECD and the Hellenic Competition Commission for the Ministry of Development, which was published on 27 November 2013 during the visit of the OECD General Secretary Angel Gurria in Greece.[4] The benefits from implementing such structural reforms, along with or even before the fiscal consolidation process, have been repeatedly highlighted by IOBE since the beginning of the Economic Adjustment Programme. Besides, IOBE has underlined several times in the past (long before the outburst of the fiscal crisis) the necessity of reforms in the public sector and in the markets for products and services. At that time the attention paid to these structural measures in Greece was very limited.

The almost exclusive emphasis of the troika on the fiscal adjustment process in 2010-2012 as well as the delays in reform implementation on the Greek side, led to the accumulation of unrealized or unfinished structural measures, as already mentioned by IOBE in previous quarterly bulletins. The different emphasis placed on the structural reforms and the fiscal consolidation process constitutes one of the reasons why the length and the severity of the recession surpassed the initial projections. The inflexibility in many branches and professions with good growth potential did not allow the entrepreneurs to adjust to the impact from the fiscal measures on household income and company profitability. The enterprises and the professionals would have had more room to manoeuvre if the structural reforms had been timely implemented.

The need for immediate return to substantial growth is necessary in order to avoid the potential negative impact on the socioeconomic environment from the perseverance of unemployment and income per capita at the dismal crisis levels. At the same time, the return to substantial growth will facilitate the achievement of the fiscal targets and the structural reform implementation in the public sector and the markets for products and services. Given the above, it is expected that the troika will insist strongly on these measures in the future reviews of the programme.

Additionally, investment is essential to stimulate growth. As mentioned earlier, investment had the largest drop – cumulatively by 60% during 2008-2013 - among the key components of GDP. IOBE has underlined the crucial role of privatisations and the development of the state-owned real estate for the investment activity in Greece. The development of the old international airport area at Hellinikon is expected to contribute substantially towards this direction. An IOBE study on the macroeconomic impact of this investment in the Greek economy indicates that the project will contribute to the growth of the economy from the first year of investment, reaching 1.2 percentage

[4] http://www.oecd.org/greece/greececompetitionassessment.htm

points of GDP[5] in 2025. With regard to employment, the investment is expected to create about 35,000 jobs during the construction period, without counting the employment that will be needed to operate the facilities once the construction is completed.

However, except the investment at Hellinikon, the implementation of the privatisation program is behind schedule during the first four months of 2014. Taking into consideration the tranche expected to be paid for Hellinikon this year, the target of €3.56 billion revenue from privatisations, according to the 2014 State budget, is hard to achieve. The forthcoming elections might be having a negative effect on the implementation of the privatisation programme given that during such periods the investors often adopt a wait-and-see attitude. On the other hand, the better than initially anticipated fiscal outcome announced by Eurostat, is expected to strengthen the confidence of the foreign international community towards Greece. This fact, consequently, can reinforce the implementation of the privatisation programme.

In addition to the disruption from potential postponement of investment projects due to the electoral cycle, the lack of clarity on the implementation of the "incremental value" property tax has had substantial, albeit short-lived impact, especially in the real estate market. The omnibus law that was recently passed through parliament in order to cover the requirements for the last tranche of the loan contained an article that facilitated its implementation. In particular, the article finalised the key parameters of this tax by taking into consideration the real estate market characteristics, e.g. the age of the premise, differences between acquisition and selling values, and by excluding properties acquired before 1995 or with excess value above €25,000. This development is expected to put an end to the stalemate in the real estate market and the housing construction activity, experienced in the past few months.

As mentioned in the previous quarterly bulletin of IOBE, international tourist flows is a crucial determinant of whether the contraction will continue in the current year, substantially weakened, or Greece will finally achieved a positive growth rate. Early provisional data from the Balance of Travel Services in 2014[6] - which cannot, however, be considered as a good indication for the entire year – show that travel receipts in January were higher year-on-year by 22.4%, with the surplus in the travel balance having increased by 20.7%. In addition, the number of international arrivals at the major Greek airports increased year-on-year by 28.8% in the first two months of 2014. Even though, a forecast is not yet safe to be made, international arrivals are expected to continue to grow.

Regarding the remaining indicators on key segments of the Greek economy, most of which refer to the first two months of 2014, in most branches the

[5] For more information see http://www.iobe.gr/research_dtl.asp?RID=67

[6] Bank of Greece. Cruise receipts not included.

contraction has eased, whereas in some cases a small increase is observed. Still, there are cases where the contraction has regained strength. In particular, industrial production grew slightly by 1.4% in January and February, against a decrease by 4.6% during the same period of last year. In all major industrial sectors, production increased, with the exception of Water Supply (-1.8%). The growth rate is approximately equal among the main industrial sectors, with production in Electricity Generation having increased by 1.9%, followed by Manufacturing (1.5%) and Mining-Quarrying (1.3%). The improvement of business sentiment in Industry during the first quarter of 2014 - according to the Business Surveys compiled by IOBE - mainly due to stronger optimism with regard to production in the following months, is perceived as an indication for the continuation of output growth during the second quarter of 2014. In contrast, construction activity in late 2013 and early 2014 dropped, following the growth recorded during the preceding period. However, the decrease in new constructions in January by 38% in terms of surface and by 40% in terms of volume is approximately equal compared with the same period in 2013 (-42% approximately in both categories). Besides, the improved economic sentiment in Construction during the first quarter of 2014 came mostly from Public Works, while the expectations in Private Construction were more modest.

Regarding the indicators associated with the trends on the demand side of the economy, the volume index of Retail Trade dropped by 1.9% in January compared with the previous year, when a sharp decline by 17% was observed. The drop in January is equivalent with that during the last quarter of 2013. This development is mainly due to the low base of comparison of the volume index a year before when a substantial decline was recorded. Given that in the remaining months of 2013 the index increased, it is possible enough that the contraction will strengthen in the following quarters. This view is also supported by the course of the business economic sentiment in the sector, according to which the growth observed from September 2013 until February 2014 halted in March when the level of the index was slightly lower compared with January. In Wholesale Trade, the contraction in the turnover in the last quarter of 2013 was similar to the previous quarter (-11%).

With regard to the level of prices, the Consumer Price Index dropped further in January and February of 2014, completing thus a steady decline for an entire year. However, deflation eased compared with the last quarter of 2013 from 2.2% to 1.3%.

In the external market, the exports of goods and services (including petroleum products) in January 2014 were lower year-on-year by 2.3%, according to data from the Bank of Greece. This came exclusively from the contraction in the exports of goods (-7.2%), since the exports of services increased by 4.6%. Along with the marginal increase of imports (+0.7%), the deficit increased by 10.2%

or €116 million. Meanwhile, the deficit increased substantially in December 2013 as well, by 32.2% or 167 million euro, after the decline observed in the previous months of 2013.

Taking into consideration the politico–economic developments since the beginning of 2014, further pressures – even though less intense compared with the previous year - are expected on wages and pensions due to incremental fiscal measures, such as the taxation as legal entities of taxpayer categories that were previously taxed as individuals, abolishment of tax exemptions and increase of withheld tax in pensioners. These pressures, however, might be moderated by the expected, albeit small, increase in employment, as a result of the recovery of investment in the aftermath of six years of continuous decline and the increased business activity in the tourism sector. Employment could receive a further boost from the extensive reforms in the labour market during the past two years, along with the decrease in social contributions by 3.9%.[7] Therefore, **household consumption spending is expected to decline in 2014, albeit at a slower pace, by 2% instead of 6% in 2013.**

The absence of additional measures, due to the better than expected fiscal results in 2013, obviated the need for extensive cuts in **public consumption** for a fifth year in a row. Besides, the 2014 State Budget does not include horizontal cuts in consumption expenditure across spending categories. In some categories the spending remains more or less unchanged, while in others the reduction is slightly deeper than in the previous year. Still, the on-going restructuring in the public sector will have a contractionary impact on consumption expenditure. Therefore, **slight weakening of the contraction of public consumption is expected in 2014 by approximately 2-3%.**

With regard to **public expenditure for investment,** the target of €6.8 billion in the Public Investment Program (PIP), is almost unchanged from the 2013 budget (€6.85 billion) and slightly higher from the actual level of last year (€6.65 billion). The latest available data with regard to January and February indicate that the PIP expenditure accelerated in comparison with the previous year, as disbursements during that period were higher year-on-year by 80% (€1.59 billion). As it has been mentioned in the past, the economic impact of investment on the annual economic results, through its multiplier effect, is closely related to the front-loaded execution of the PIP during the year. In addition, the increased activity of the Hellenic Republic Asset Development Fund will further boost the public sector's contribution in investment, given that the fund's 2014 schedule involves more privatisation projects compared with 2013. However, delays are evident in the implementation of the relevant procedures, which are mainly associated with the forthcoming elections. The latter, implies that despite the increased activity expected during this year, the

[7] 2.9% in enterprises and 1% in employees.

achievement of the target remains uncertain.

Meanwhile, the sense of postponement due to the forthcoming elections spreads also to **private investment plans**. The announcement of the fiscal surplus in 2013 from Eurostat as well as the completion of the elections (without the results giving rise to major changes in the current politico-economic conditions) are expected to reinforce the international confidence towards the ability of Greece to continue and achieve consolidation of its public finances. Subsequently, an increasing investment interest is expected with regard both to privatisation projects and direct foreign investments from multinational enterprises.

On the other hand, domestic firms continue to face obstacles with regard to investment. Some of these can be surpassed in the near future (i.e. within the following year), yet many of the obstacles are structural. Regarding the most significant cyclical obstacle in the recent years, both domestic and international demand is expected to remain weak in 2014. Additionally, raising investment capital remains a difficult issue. This is reflected in the course of credit from banking institutions towards enterprises, where the credit contraction strengthened anew in late 2013 (over 5% during December-February, against 3% contraction during the same period a year before). However, as mentioned earlier, the forthcoming boost in the capital adequacy of banking institutions through increase of share capital and (sparse) bond issuance, along with the gradual decrease in lending business interest rates, observed by the mid-2013, are expected to increase the capital flow for investments.

On the other hand, factors such as the frequent changes in the tax system, and the high energy cost compared with neighbouring countries (e.g. Bulgaria) increase the risk of investment in the country.

The recent agreement between DEPA and Gazprom for a 15% cut in the gas import price, which will subsequently bring a 10% reduction in the gas tariffs for industries retrospectively from 1 July 2013, is expected to have a small impact on production costs.

Table 3.2

Domestic Expense & Gross Domestic Product – European Commission Forecasts
(Constant prices, year=2005)

	2012	2013	2014	2015
Annual rate of change				
Gross Domestic Product	-6.4	-4.0	0.6	2.9
Private Consumption	-9.1	-6.7	-1.6	1.4
Public Consumption	-4.2	-4.9	-4.0	-1.2
Gross Fixed Capital Formation	-19.2	-5.9	5.3	11.3
Exports of goods and services	-2.4	2.5	4.6	5.5
Imports of goods and services	-13.8	-7.1	-1.3	2.7
Employment	-8.3	-3.5	0.6	2.6
Compensation of employees per capita	-4.2	-7.0	-1.5	0.0
Real unit cost of Labour	-6.2	-6.5	-1.5	-0.7
Harmonized Index of consumer prices	1.0	-0.8	-0.6	0.3
Contribution to real GDP rate of change				
Final Domestic Demand	-10.4	-6.5	-1.2	2.3
Net exports	4.0	2.6	1.6	0.8
Inventories	0.1	0.3	0.0	-0.2
GDP percentage				
General Government Balance	-9.0	-13.1	-2.2	-1.0
Current Account Balance	-5.3	-2.3	-1.8	-1.6
Gross net government debt	156.9	177.3	177.0	171.9
Percentage				
Unemployment (% of labour force)	24.3	27.3	26.0	24.0

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

Table 3.3

Comparison of forecasts on selected Economic Indices for years 2013-2015
(Constant 2005 market prices, annual % changes and levels)

	Ministry of Finance			EU			OECD			IMF		
	2012	*2013*	*2014*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*	*2013*	*2014*	*2015*
GDP	-6.4	-4.0	0.6	-3.7	0.6	2.9	-3.5	-0.4	1.8	-4.2	0.6	2.9
Final Demand	:	:	:	-4.2	0.1	2.4	:	:	:	:	:	:
Private Consumption	-9.1	-6.7	-1.6	-7.2	-1.6	1.4	-6.4	-4.5	0.5	-6.9	-1.6	1.4
Harmonized Consumer price Index (%)	1.0	-0.8	-0.4	-0.9	-0.6	0.3	-0.7	-1.7	-1.4	:	:	:
Gross Fixed capital formation	:	:	:	-8.7	5.3	11.3	-9.6	-1.2	2.0	-4.0	8.4	11.3
Unemployment (%)	22.8*	25.5*	24.5*	27.3	26.0	24.0	27.2	27.1	26.6	27.0	26.0	24.0
General Government Balance (% GDP)	-6.1	-2.2	-2.3	-13.1	-2.2	-1.1	-2.4	-2.2	-1.4	-4.1	-3.2	-2.1
Current Account Balance (% GDP)	:	:	:	-2.3	-1.8	-1.6	-0.4	1.3	2.3	-0.8	-0.3	0.1
General Government Debt (% GDP)	157.7	178.2	177.8	177.3	177.0	171.9	176.6	181.3	183	175.7	174.0	168.1

*On a national accounts basis

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

Still, the contractionary effect caused by the extension of the tax basis in the real estate market, through the Uniform Property Tax, continues to exist. Based on the above, a weakening of the contraction in the housing sector is expected, yet the activity in the sector will not, by all means, recover. Taking into consideration the outlook of the investment activity components, **investment is expected to grow by 5-8% in 2014, for the first time after six years of consecutive decline.**

In the external sector, **exports** are expected to grow in 2014. In contrast, however, to 2013, the growth will mainly come from the exports of services due to a boost in international tourist arrivals and transportation activity. With regard to the exports of goods, the demand from the Euro-area countries – despite the economic recovery – is expected to weaken compared with the previous year. In contrast, other significant markets for the Greek products, such as the Balkans, North Africa and the Middle East, show signs of recovery. In any case, **the strong growth in exports of services will outpace any potential contraction in the exports of goods. As a result, exports are expected to grow by 3-4% compared with the previous year.**

In the case of **imports**, however, opposite trends are expected to prevail. The contraction in the imports of goods will continue further as a result of the reduced household consumption, albeit at a slower pace compared with 2013. Instead, demand for services from abroad, mainly in the tourism sector, is expected to grow following the abrupt decline last year. **Given that the overall impact of goods is substantially higher than of services, imports are expected to decrease slightly, by approximately 3%, in 2014, at their lowest rate since 2009.** The weakening of demand for imports in accordance with the increase in exports will result in a further improvement of the balance of the external sector, which is very possible to be in surplus.

Summarising the forecasts on the trends in key GDP components in 2014, the fiscal adjustment process, mainly due to the increased tax burden on income and to a smaller extent from direct spending cuts, is expected to have a contractionary impact on consumption, albeit weaker compared with 2013. However, a positive impact on domestic income is expected by the increase of employment. Additionally, public expenditure will decline slightly in comparison to 2013 following the restructuring in the public sector.

With respect to investment, positive developments are expected this year mainly due to the acceleration of PIP and the privatisation-concessions programme, coupled with the stronger international interest as a result of regained credibility (mainly associated with the fiscal results in 2013 and the return of Greece to the international debt markets). However, the current election cycle comprises a source of uncertainty, postponing business and investment decisions.

In any case, factors such as the weak demand, the credit crunch and the lack of a stable tax system inhibit the implementation of investment plans in Greece. With regard to the external sector, exports are expected to grow mainly due to the stronger flow of international tourism arrivals and the increase of transportation activity. Meanwhile, the weakening of consumption demand will have a negative impact on the imports of goods, leading in this way to a slight, compared with the last years, reduction. **Taking into account the above data and trends on key GDP components, IOBE is predicting that the Greek economy will stabilise in 2014, with a possible slight increase of GDP**.

Despite the weakening of the recession in the last quarter of 2013, the non-seasonally adjusted **unemployment** increased, as predicted in the previous quarterly report of IOBE, to 27.5% from 27% in the previous quarter. Although, this trend is expected to reverse in 2014, this does not imply that a stable and constant employment growth will emerge. Initially, this development will be mainly associated with the wait-and-see attitude that businesses take towards the negotiations with the troika with regard to the new regulations in the labour market (social contributions, collective redundancies). The decisions made, mainly with regard to the reduction of social contributions, along with the broad reforms that took place in the past years, will favour job creation in the economy. In addition, seasonal employment in the tourism sector is expected to increase – this should be evident from the second quarter of this year – given the favourable prospects in international tourism arrivals. A positive, but temporary, effect is expected from the programmes of the Manpower Employment Organization (OAED) for the unemployed during the first half of 2014. In contrast, employment in 2014 will be negatively affected by the 10,000 redundancies in the public sector in the context of the restructuring envisaged in the Economic Adjustment Programme. **Taking into consideration the above trends in the labour market, unemployment will stand at 26% of the total labour force in 2014, slightly lower compared with 2013.**

With regard to **prices,** the deflationary trend will continue in 2014, although at a slower pace. This trend is related also to the fact that – based on the outcome of the negotiations with the Troika – the government will not impose new taxes, or increase the current, other than the scheduled 5 cents increase in the Special Excise Duty on cigarettes. In addition, the structural reforms implemented thus far in the markets for products and services, coupled with the reduction of consumer spending, exert decreasing pressures on prices. **Hence, CPI is expected to decrease slightly this year, by around 0.6%.**

The anticipated politico-economic developments in the remaining months of 2014, as well as the current trends in short-term indices and the above macroeconomic forecasts confirm the view expressed in previous IOBE bulletins, according to which 2014 could be a turning point for the Greek economy and society on many levels:

1) With regard to the successful fruition of the painful fiscal consolidation efforts, through the return to the capital markets after four years of absence and through securing additional help by the official lenders with regard to debt servicing.
2) The completion of the largest recession cycle in Greece after the second World War, even with GDP stabilisation, rather than substantial growth
3) A halt in the continuous unemployment growth since 2009, which pushed the jobless rate to exceptionally high levels, with substantial negative impact on social cohesion and living standards.

In this critical junction, all available opportunities to achieve the best possible outcome at all levels should be exhausted. In this context, given the necessary fiscal consolidation process, albeit with lower pressure due to its front-loaded design, the available measures are limited (e.g. PIP, proactive employment actions). Monetary mechanisms on a national basis are not available, since Greece is a member of the Euro area. The policy field that still leaves some room for manoeuvre is structural reforms, as many of the measures implemented in other countries have not yet been done in Greece. This is an area with substantial, if not the strongest, economic impact. Given also the magnitude of the recession in the Greek economy, the unprecedented level of unemployment, and the need for economic growth as a crucial step for achieving the fiscal targets that now depend mostly on public revenue, reforms are considered the most appropriate lever in this direction. However, as it has been mentioned in previous quarterly reports, there are interest groups that resist vigorously the implementation of the needed reforms. In case the reform process is hindered, there is a high risk of losing the current prospects of recovery.

3.2 Development and outlook in key sectors of the economy

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

Industry

The negative trend of the industrial production index was overturned during the first two months of 2014, when industrial output increased by 1.4% against the corresponding period of 2013 (-4.6%).

At branch level, the largest increase was observed in Electricity, where the production index grew by 1.9%, against losses of 11.9% during the corresponding period of 2013, followed by the Manufacturing sector - which had contracted significantly in the preceding quarters – whose output fell by 1.5% (compared with -1.7% during the same period of 2013). Output of the Mining and Quarrying sector increased by 1.3%, against losses of 7.9% during the corresponding period of 2013. In contrary, the contraction in the Water supply sector continued unchanged to the past period (-1.8% in the current year from -1.6% in 2013). Overall, industrial production increases in most sectors and branches. However, the growth rate is not strong enough to secure the continuation of the upward trend throughout 2014.

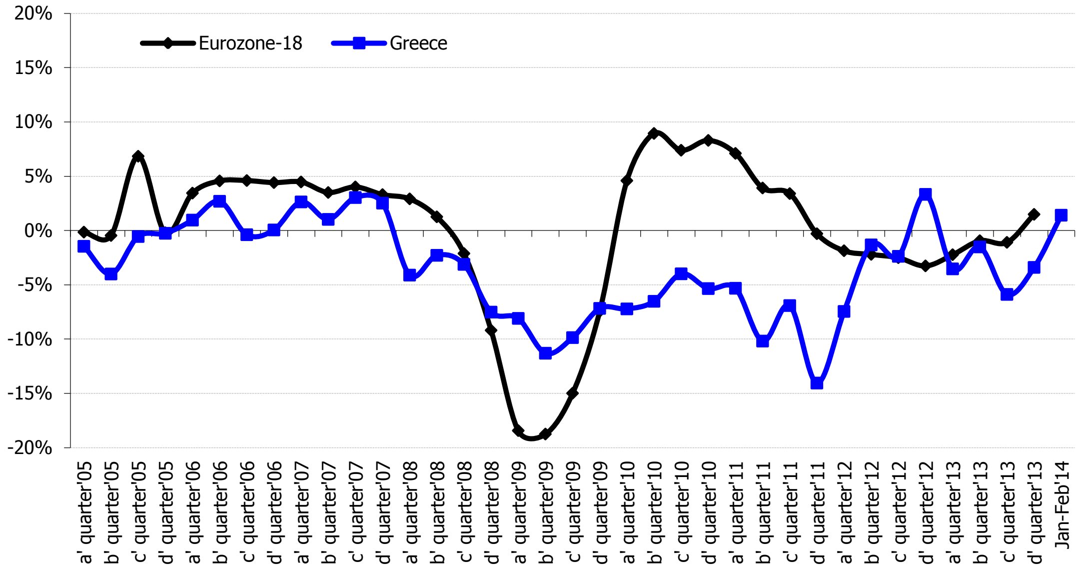
More branches among the Manufacturing sector experienced a positive change during the first two months of 2014, compared to the same period of 2013. During the January-February period of 2014, production grew in 11 of the 24 subsectors, while production declined among the remaining 13, at rates significantly weaker than in the same period of 2013.

In greater detail, among the subsectors with high significance for the Greek economy, the production of Basic Metals grew by 4.8%, against 13.2% contraction during the corresponding period of 2013. Output in the Food sector increased marginally by 1.2% (from -1.0%). In contrast, the strongest contraction among the Manufacturing subsectors were recorded in the output of Wood-Cork that reached 32.7% (from +9.7% in 2013). Output of Tobacco products contracted by 16.8% (from +4.0% in the previous year). Finally, weaker contraction was recorded in the Basic pharmaceutical products, since their output contracted by 0.4%, when during the first two months of 2013, it grew by 9.9%.

Various trends were recorded in the rest of the Manufacturing subsectors during the first two months of 2014. The highest growth was recorded in Computers, Electronic and Optical Products, (+107.3% instead of +0.5% in the previous year), Motor Vehicles (+74.0% from -29.8%), Repair and Installation of Machinery (+15.2% from -19.1%) and Machinery and Equipment (14.3% from -20.6%).

Figure 3.1

Production Index in Manufacturing, Greece and Euro Area – 18, % change w.r.t. the same quarter of the previous year (2005=100).



Source: ELSTAT/Eurostat

Furniture production grew by 9.3%, following an extensive contraction last year by 30.8%, while production in the Plastic industry increased by 7.3%, offsetting the last year's reduction (-3.2%). Moreover, production expanded in Chemical Products (+5.1% from -4.1%), Coke and Refined Petroleum Products (+3.5% from +3.3%) and Paper Products (2.5% from 4.0%).

In contrast, the Textile industry was among the branches with the strongest output contraction, whose production shrank faster compared to the same period of 2013 (-17.6% from -6.8%). Output of Electrical equipment also declined with sharper rates compared to those in early 2013 (-16.7% from -13.8%), while significant contraction was recorded in Footwear – Leather (-13.0% from +10.7%). Production in Other Manufacturing fell by 9.1% (from 19.2% in the previous year), followed by Clothing (-7.7% from 19.2%) and Other Transport Equipment where the contraction eased, reaching one third of the 2013 rate (-6.3% from -17.6%). Production of Beverages fell by 4.2% (+3.7% during 2013). Finally, the production of Non-Metallic Minerals decreased by 3.0%, while during the same period of 2013 it had recorded a rapid increase of 34.3%.

In general, the branches providing Durable Consumer Goods recorded significantly weaker contraction during the first two months of 2014 (-6.4%) compared to the same period of 2013 (-16.6%). However, the production of Non-Durable Consumer Goods contracted by 1.7% despite the marginal increase of 2.0% in the beginning of 2013. In contrast, during the first two months of 2014, output of Capital Goods increased by 17.9% (against losses of 22.5% in the past year), while the Intermediate Goods recorded a marginal increase of +2.5% (from -3.0%). Finally, in the wider industrial branch of Energy, output increased by 1.6%. However, during the first two months of 2013, the production had fallen by 7.0%.

Construction

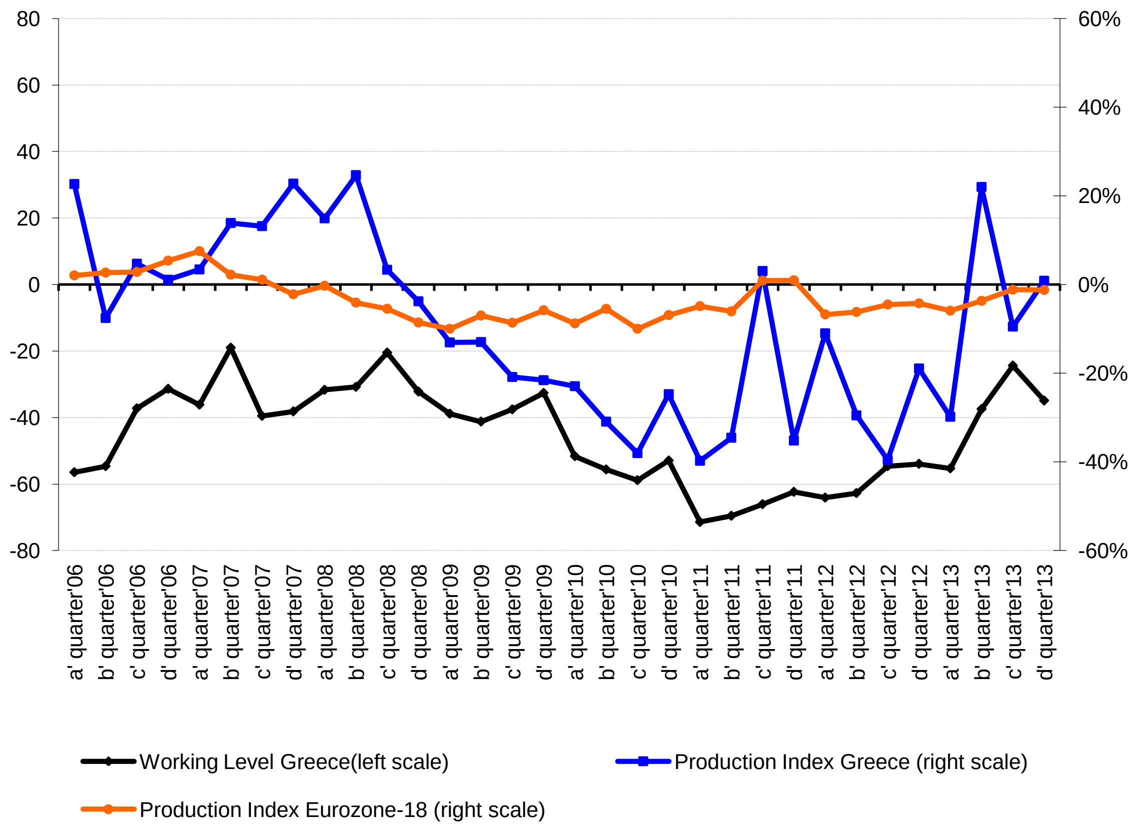
During the last quarter of 2013, the production index in construction recorded a marginal increase of 0.8%, compared to losses of 19.0% in the same period of 2012. In total during 2013, the production index declined by 4.1%, a rate significantly weaker compared to 2012 (-26.1%). Nonetheless, production has faced a sharp decrease over the past years and remains extremely low, almost 62% down compared to 2005.

In the index's constituent indicators, the production index of Building Construction fell in 2013, albeit with a slower pace compared to 2012 (-10.1% from -32.2%). The production index of Civil Engineering moved similarly as well, since it contracted by 2.3% significantly slower than in 2012 (-24.3%).

In the Euro area (EA18), building activity during 2013 contracted with a slower pace (-2.9%) against the previous year (-5.4%).

Figure 3.2

Production Index & Business Level Index in Constructions



Source: ELSTAT/Eurostat

Nevertheless, judging from the latest available data, which is not sufficient to draw conclusions for the whole year, there are no signs of a further attenuation of the recession or a slight recovery of the sector during 2014.

Building activity (private and public) weakened significantly in January 2014. Just 917 building permits[8] were issued nationwide, reduced by 35.3% year-on-year (from 1,418 permits). Meanwhile, both Building Volume and Surface of Newly-Built Property contracted considerably by 40.0% and 38.2% respectively.

The reduction of construction activity is evident across all regions of the country. The sharpest fall in building permits was recorded in the North Aegean region (-68.9%), followed by West Macedonia (-62.5%) and Central Macedonia (-47.8%). The weakest contraction was observed in the South Aegean region where the number of building permits was lower by 15.1% year-on-year. Permits in East Macedonia-Thrace remained unchanged.

Finally, according to the latest data published by the Bank of Greece, during the last quarter of 2013 the residential property transactions contracted by 11.1% year-on-year. Residential transactions fell further by 23.1%, resulting in almost 23,800 transactions with the mediation of the financial institutions, against 148,000 transactions in 2007.

The sharp fall in the value of appraisals – transactions of 36.0% in 2012, continued in 2013, as the index decreased again by 29.8%. It is noted that according to the official data, the index has fallen by 88% since 2007 (base year).

Retail Trade

The recession in the Retail Trade sector eased during 2013, when the volume index contracted with a slower pace compared to 2012 (-8.1% over -12.2%). This trend appears to continue during the first months of 2014. During January 2014, of the contraction of the volume index is significantly weaker than in the past year (-1.9% from -16.6%).

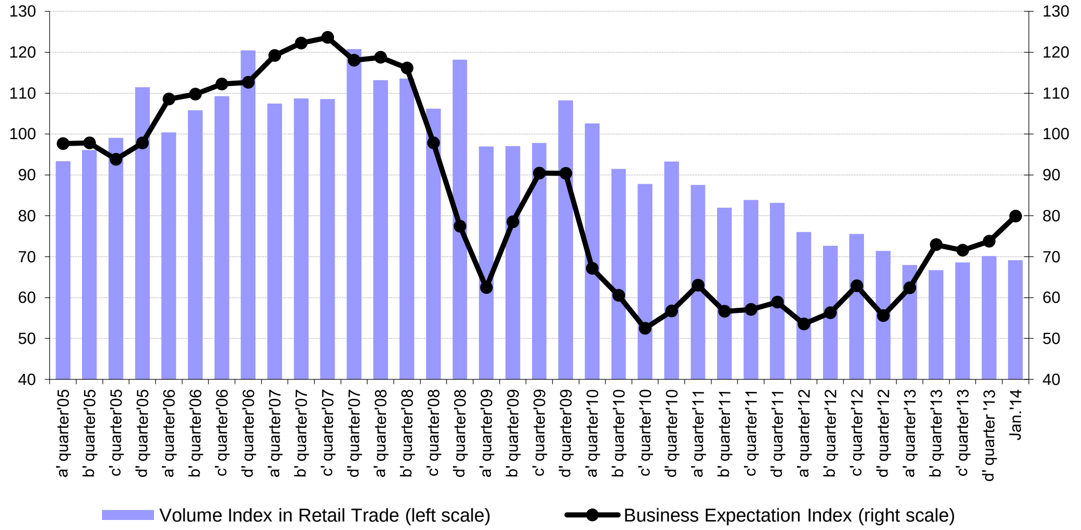
In January 2014, the trade volume decreased in five of the constituent branches of Retail Trade. However, in three of them the contraction was weaker than in the previous year.

Specifically, the largest reduction of the volume index in January was observed in Department Stores (-15.6% from -4.0% in January 2013) and in Furniture - Household Appliances (-11.7% from -7.3%). Milder year-on-year contraction was recorded in Food – Beverages – Tobacco (-0.9% from 2.6%) and in Pharmaceutical – Cosmetics whose turnover contracted by 2.6% against losses of -26.1% during January 2013. In contrast, turnover increased in Books – Stationery (+8.5% from +17.2%), Clothing – Footwear (+5.8% from -6.0%) and Automotive Fuels and Lubricants (+5.3% against marginal decline of 0.7% in January 2013).

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

Figure 3.3

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



Source: IOBE

Table 3.4

Annual Changes in the Index of Retail Trade Volume

Store Categories of Retail Trade	Volume Index (2005=100)				
	Jan. 2012	**Jan. 2013**	**Jan. 2014**	**P.C. 2012/2013**	**P.C. 2014/2013**
Overall Index	79.40	70.40	69.10	-11.3%	-1.8%
Overall Index (excluding car fuels and lubricants)	78.00	71.00	67.20	-9.0%	-5.4%
Store Subcategories					
Large Food Stores	91.00	75.60	69.80	-16.9%	-7.7%
Department Stores	84.60	81.20	68.50	-4.0%	-15.6%
Car Fuels and Lubricants	68.70	68.20	71.80	-0.7%	5.3%
Food-Drink-Tobacco	65.40	63.70	63.10	-2.6%	-0.9%
Medicare-Cosmetics	94.70	70.00	68.20	-26.1%	-2.6%
Clothing-Footwear	72.00	67.70	71.60	-6.0%	5.8%
Furniture-Electric Household appli-ances - Household goods	64.70	60.00	53.00	-7.3%	-11.7%
Books - Stationery - Other gift items	68.20	79.90	86.70	17.2%	8.5%

Source: ELSTAT

Table 3.5

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

	1st quarter 2012	**1st quarter 2013**	**1st quarter 2014**	**P.C.% '14/'13**	**P.C.% '13/'12**
Food-Drinks-Tobacco	77.6	59.4	83.4	40.4%	-23.5%
Textile-Clothing-Footwear	43.8	65.7	95.0	44.6%	50.0%
Household Equipment	54.1	71.8	63.5	-11.6%	32.7%
Vehicles-Spare Parts	52.5	63.3	102.8	62.4%	20.6%
Department Stores	54	52	60.1	15.6%	-3.7%
Retail Trade Total	53.5	62.4	80.6	29.2%	16.6%

Source: IOBE

The general trend of stabilisation and perhaps increase of the activity in the retail trade sector is reflected in the leading indicators of the first quarter of 2014, from the Business Surveys compiled by IOBE.

In the first quarter of 2014, the overall business sentiment indicator grew significantly by 29.2% year-on-year, evincing improved expectations in the sector. Among the constituent activities, expectations strengthened in Vehicles-Spare Parts (+62.4% from +20.6%), in Textiles – Clothing – Footwear (+44.6% over +50.0%) and in Food – Beverages (+40.4% from -23.5%). More modest improvement is observed in Department Stores (15.6%) offsetting last year's losses. On the contrary, expectations deteriorated in Household Appliances (-11.6%), compared with the corresponding period of 2013, when the relevant index increased significantly by 32.7%.

In Motor Vehicles, the positive trends that emerged in 2013 carried over to the first quarter of 2014. The business expectation index reached 102.8 from 63.3 units in 2013. The apparent stabilisation of the Greek economy after six years of recession, the continuation of the vehicle scrappage scheme, the forecasts for further tourism boost as well as other developments regarding the automotive market, signal that the market moves away from the exceptionally low levels of 2012-2013. However, in the medium run, sales are not expected to return to the pre-crisis levels. In the index's constituents during the first quarter of 2014, the assessment of current sales is positive (first time since November 2009). Positive developments emerge in stock management as well, where the inventories indicator is negative, meaning that stocks are below their usual levels. More than 70% of the businesses estimate that inventories have returned to normal levels. The new orders expectations have almost balanced out for the first time since October 2009. Significant improvement is observed in the balance of employment expectations, where the majority of the businesses estimate stabilisation.

Regarding the market data, the sales of passenger cars in 2013 remained close to their 2012 level, (58.700 vehicles), while turnover also stabilised, according to the relevant index published by ELSTAT. During the first quarter of 2014, the sales of passenger cars increased by 17.6% year-on-year. It must be noted that a large share of the sales are now corporate deals, while individual sales have fallen behind.

Wholesale Trade

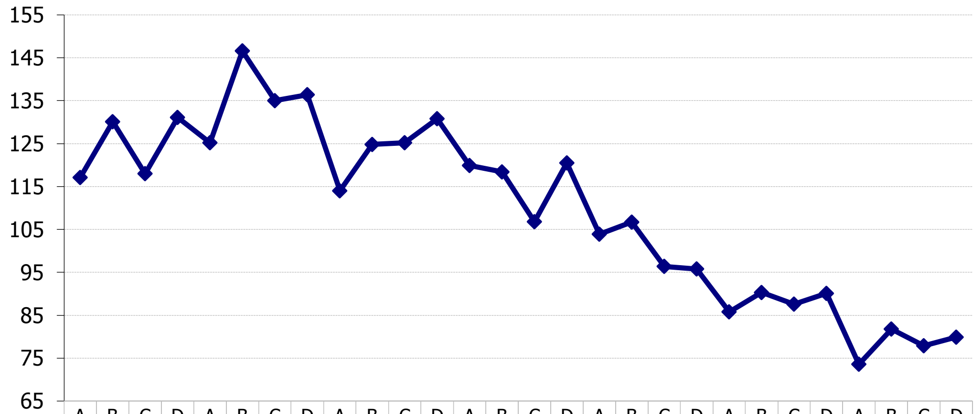
The continuous contraction of Retail Trade during the past years is dragging down the turnover of Wholesale Trade as well. The volume index of wholesale trade contracted by 11.4% in 2013, following a relatively milder decrease of 5.9% in 2012. The annual average index of wholesale is now at 78 units, almost 22% down compared to 2005 (base year).

Services

The decline in the demand in Services that began in 2009 escalated in 2013, when turnover contracted significantly in most of the sector's branches. More specifically, contraction was observed in eleven from the thirteen branches of the Services' sector. In most cases, the output contraction was stronger compared to 2012.

Figure 3.4

Turnover Index in Wholesale Trade (2005=100)

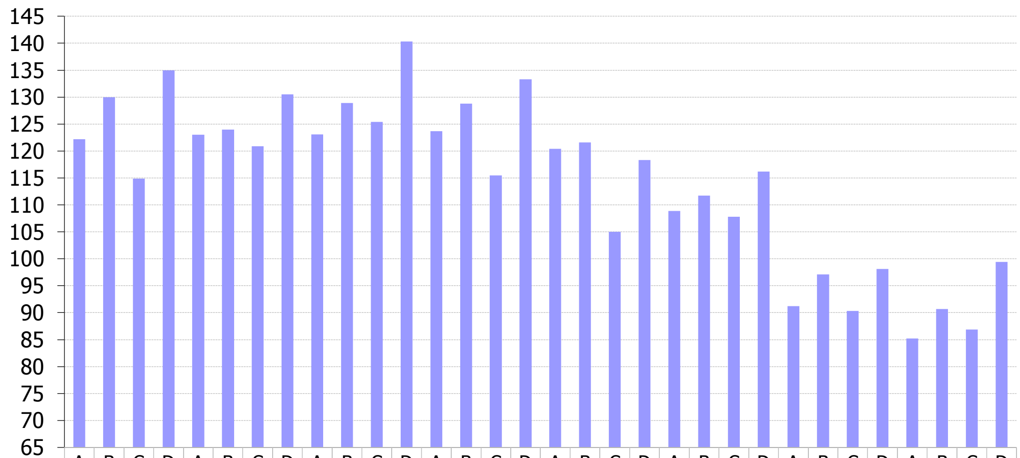


	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
	2007				2008				2009				2010				2011				2012				2013			
Indicator	117	130	118	131	125	147	135	136	114	125	125	131	120	118	107	121	104	107	96	96	86	90	88	90	74	82	78	80

Source: ELSTAT

Figure 3.5

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

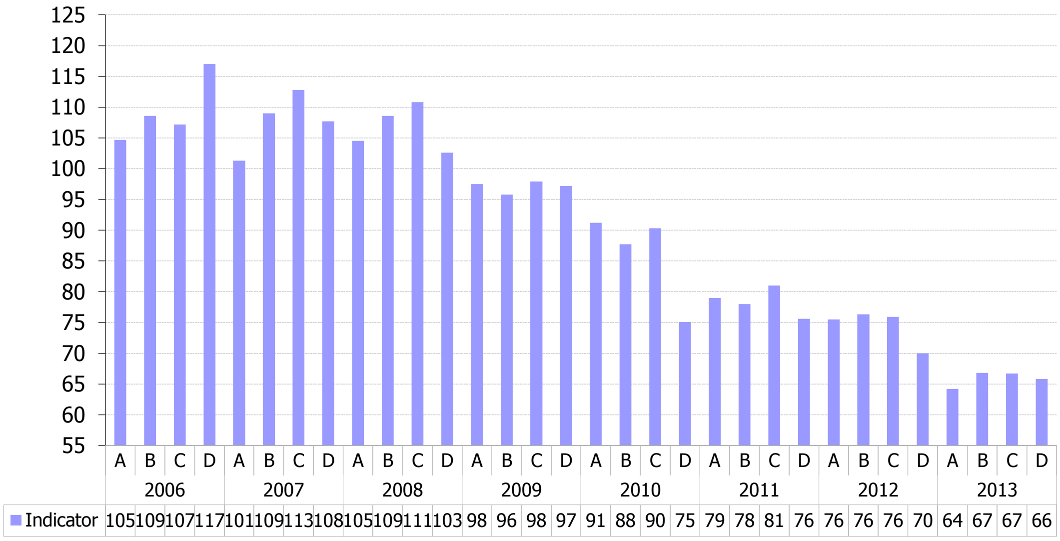


	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
	2006				2007				2008				2009				2010				2011				2012				2013			
Indicator	122	130	115	135	123	124	121	131	123	129	125	140	124	129	116	133	120	122	105	118	109	112	108	116	91	97	90	98	85	91	87	99

Source: ELSTAT

Figure 3.6

Turnover Index in telecommunication services (sector 61)



Source: ELSTAT

The strongest contraction in 2013 was observed in Information Service Activities (branch 63) since turnover fell by 20.2% following a milder decrease by 5.1% in 2012. Next came Other Professional, Scientific and Technical Activities (branch 74), where turnover decreased by 19.2% against -25.2% in 2012, followed by Advertising and Market Research (branch 73) with a significant year-on-year contraction of -18.9%, reaching its lowest level since 2005. Turnover in Office, Administrative, Office Support and Other Businesses Support Activities (branch 82) contracted further by 15.9%, from -8.6% in 2012. Turnover reduction of 13.2% was recorded in Cleaning Activities (branch 81.2), a rate similar to that of 2012 (-12.2%). Recession in the construction industry drives the contraction in Architectural and Engineering Activities (branch 71), where turnover exhibited a fall of 12.3%, similar to the 2012 rate.

Equally significant decrease of 11.7% was recorded in Telecommunication Services (branch 61) on an annual basis (from -5.1% in 2012). Milder reduction of 4.8% was reported in Computer Programming, Consultancy and Related Activities (branch 62), against an almost threefold fall of 15.0% in 2012. Finally, turnover of Postal and Courier Activities (Branch 53) contracted by 4.1% (from -15.4% in 2012), while Protection and Investigation Services (Branch 80) recorded the smallest decline among the Services subsectors (-2.3% from -5.5%).

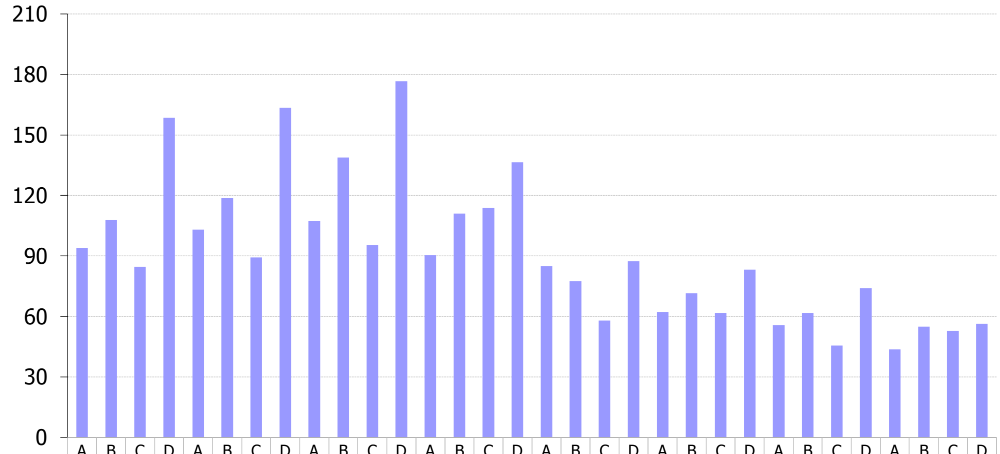
In contract, increased turnover in 2013 was observed in Employment Services (branch 78), where output grew by 4.5% (from -3.4% in 2012). The Legal, Accounting and Consulting Services turnover (branch 69 & 70.2) recorded a marginal increase of 0.8%, when in 2012 the increase exceeded 4.5%.

Turnover of Accommodation and Food Services (branch 55 & 56), a sector that traditionally plays a significant role in domestic economic activity, has clearly improved, compared with the levels recorded in the preceding years. Turnover increased by 4.8% in 2013, after a considerable contraction of 12.9% in 2012.

The expectations in Services in the first quarter of 2014, as reflected in the Business Surveys of IOBE, have clearly improved compared to the same period of 2013.

Figure 3.7

Turnover index in informatics (sector 62)



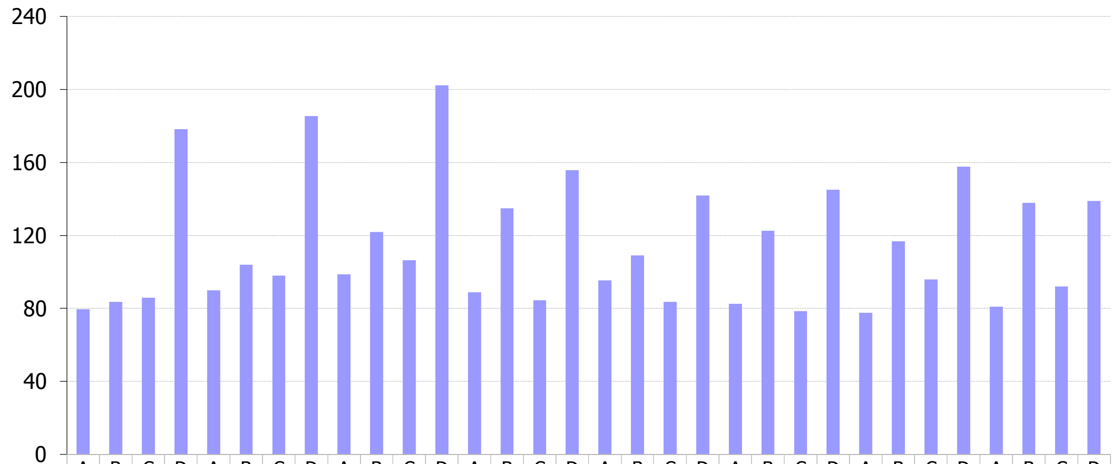
	2006				2007				2008				2009			
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
Indicator	94	108	85	159	103	119	89	164	107	139	96	177	90	111	114	137

	2010				2011				2012				2013			
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
Indicator	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56

Source: ELSTAT

Figure 3.8

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



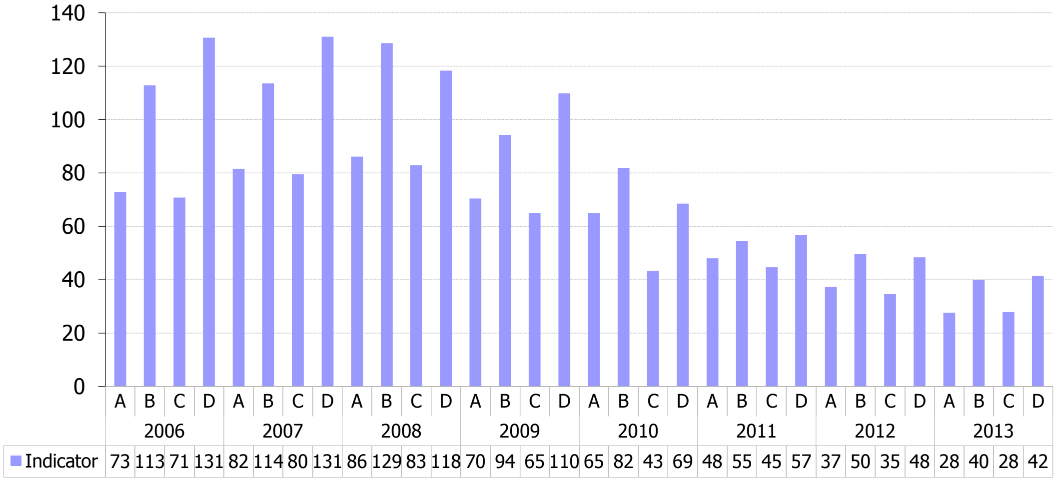
	2006				2007				2008				2009			
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D
Indicator	80	84	86	178	90	104	98	186	99	122	106	202	89	135	84	156

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

Source: ELSTAT

Figure 3.9

Turnover index in advertising, market research and opinion polling services (sector 73)



Source: ELSTAT

The overall index grew by 30.0% (from +11.6% during the first quarter of 2013). Expectations are significantly stronger in all the Services branches, compared to those of the first quarter of 2013. The biggest change in expectations was recorded in Travel agencies (+74.2% from 39.8%) and in Hotels – Restaurants (+43.3% from 9.9%). Next came IT Services (+36.2% over+26.4%) and Banks (+33.0% compared to +6.1%). Expectations also improved in Other Services (+20.2%) against a moderate fall by -3.3% during the previous period.

Table 3.6

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

	2011	2012	2013	P.C.% '12/'11	P.C.% '13/'12
Car Trade	39.4	27.9	27.1	**-29.3%**	**-2.8%**
Overland transports & via pipelines	84.9	95.1	91.0	**12.1%**	**-4.3%**
Water Transports	80.9	68.5	76.3	**-15.3%**	**11.4%**
Air Transports	98.5	98.8	112.0	**0.4%**	**13.4%**
Auxiliary to transport services & warehouse activities	64.6	65.9	81.6	**2.0%**	**23.8%**
Travel agencies	61.9	45.2	53.5	**-26.9%**	**18.3%**
Postal and express delivery services	111.2	97.1	90.1	**-12.6%**	**-7.2%**
Publishing services	55.9	48.6	42.9	**-13.0%**	**-11.7%**
Telecommunications	78.4	76.3	65.8	**-2.7%**	**-13.8%**
Informatics	69.7	59.3	56.4	**-15.0%**	**-4.8%**
Data processing	174.9	165.9	132.4	**-5.1%**	**-20.2%**
Legal, accounting, consulting services	107.2	112.0	112.8	**4.5%**	**0.8%**
Architect, Engineering	69.9	61.3	53.5	**-12.3%**	**-12.7%**
Advertising, market research polls	43.7	32.7	26.4	**-25.2%**	**-19.2%**
Administrative office works	58.3	53.3	44.8	**-8.6%**	**-15.9%**
Tourist services	88.1	76.7	80.4	**-12.9%**	**4.8%**

Source: ELSTAT

Table 3.7

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

	1st quarter 2012	1st quarter 2013	1st quarter 2014	P.C. % '13-'12	P.C. % '14-'13
Hotels - Restaurants	56.7	62.3	89.3	9.9%	43.3%
Travel agencies and tour operators, tourist business activities	45.2	63.2	110.1	39.8%	74.2%
Other Services to Businesses	54.9	53.1	63.8	-3.3%	20.2%
Intermediate Financial Organisations	64.3	68.2	90.7	6.1%	33.0%
Informatics	45.9	58	79	26.4%	36.2%
Total Services	**54.3**	**60.6**	**78.8**	**11.6%**	**30.0%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The exports of Greek goods in 2013 approached €27.3 billion, recording a slight decline year-on-year by 0.2%. Excluding fuels, the exports contracted year-on-year by 2.1%. A sharp decrease was observed in imports, (-5.2%), with their value reaching €46.1 billion. As a result, the trade deficit fell by €2.5 billion (-11.5%), to reach €18.8 billion. Consequently, the value of Greek exports of goods reached 60% of the value of imports of goods, almost twice the ratio observed only three years ago. In the first two months of 2014, the value of exports decreased by 4% year-on-year (3.8% excluding Fuels), with their value approaching €4.1 million, while imports weakened by 5.6%, (to €7.7 million). So, the trade deficit declined by 2.2%, in January-February to reach €3.6 billion.

In greater detail, in 2013 an upward trend was observed in Fuels, up by 2.2% on 2012, with their value reaching €10.9 billion (from €10.6 billion in 2012), and in Agriculture Products, up by 3.5%, with their value exceeding €4.7 billion (from €4.6 billion). As a result, the overall share of these two product categories reached 3/5 of Greek exports (table 3.8). Given that the exports of other categories declined, the overall fall of exports was limited due to the upward trend of exports in these two categories. Concerning the Agriculture Products, strong growth of exports was observed in the exports of Animal Oils and Fats (+44.4%), the value of which reached €576 million, with their share remaining relatively low. Meanwhile, slight growth was recorded in the exports of Food-Live Animals, the main category of exportable agriculture products, with their value increasing by 0.9% (+€30 million) without exceeding €3.6 billion. In contrast, the exports of Beverages-Tobacco declined by 7.5%, with their value reaching €583 million, while the exports of Raw Materials fell by 9.2% with their value approaching €1.14 billion in 2013.

The exports of Industrial Products declined by 3.1%, with their value reaching €9.9 billion, while their share in the Greek exports of goods remained relatively high (36.4%). The contraction largely came from the decline of exports of Vehicles – Transport Equipment (-12.8% or €292 million), whose share is 1/5 of total industrial products, and of exports of 'Industrial goods classified by raw material', whose value stood at €3.7 billion, down by 4.4% year-on-year. Slight growth was also observed in the exports of Various Industrial Products (+1.7% or €117 million), while an upward trend was recorded in Chemicals and related products (+4.8%), whose value reached €2.5 billion. In contrast, the exports of Commodities Not Classified Elsewhere weakened by 4.1% with their value reaching €580 million.

Regarding the destination of Greek exports, an upward trend was observed in 2013 in the exports to the remaining EA-15 countries (+6.4%), to reach €8 billion, while slight growth was recorded in the remaining European Union countries (+1.4%), with their value reaching €12 billion. The exports to Germany, which absorbed large amount of Greek products, marginally increased by 1.1%, to exceed €1.7 billion, while higher growth of exports was recorded in Spain, up by 6.5%, to reach €575 million. Italy, the second largest trading partner of Greece, followed a significantly upward trend (+15.5%), with the value of Greek exports exceeding €2.4 billion (+15.5%). The same trend was recorded in Austria as well (+20%). In contrast, the exports fell significantly in Cyprus, by 14.4%, reflecting the restructuring of the banking system as well as the fiscal adjustment program, with their value reaching €1.14 billion from €1.32 billion in 2012. Nevertheless, Cyprus kept the 5th place among Greece's major trading partners. Also, the exports to France weakened by 4.2%, with their value reaching €640 million.

In contrast, the exports grew significantly to Turkey, the major trading partner of Greece, by 8.6% (+€252 million) with their value exceeding €3.2 billion. A sharp rise was observed in the exports to the United Kingdom (+13.5%), whose value stood at €967 million, while the exports to the USA weakened by 9.2% and as a result their value reached €935 million from €1 billion in 2012.

Table 3.8

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

January-December					
	Value (mil. €)		**P.Ch.**	**Structure (%)**	
	2013	**2012**	**'13/'12**	**2013**	**2012**
Agricultural Products	**4,754.6**	**4,594.4**	**3.5%**	**17.4%**	**16.8%**
Food and living animals	3,595.5	3,565.0	0.9%	13.2%	13.0%
Beverages and tobacco	583.3	630.6	-7.5%	2.1%	2.3%
Animal or natural oils and fats	575.8	398.8	44.4%	2.1%	1.5%
Raw materials	**1,133.1**	**1,247.9**	**-9.2%**	**4.2%**	**4.6%**
Crude materials inedible, except fuel	1133.1	1247.9	-9.2%	4.2%	4.6%
Fuel	**10,884.9**	**10,649.3**	**2.2%**	**39.9%**	**38.9%**
Minerals, fuel, lubricants	10,884.9	10,649.3	2.2%	39.9%	38.9%
Industrial products	**9,927.8**	**10,245.4**	**-3.1%**	**36.4%**	**37.5%**
Chemicals and related products	2,560.5	2,443.7	4.8%	9.4%	8.9%
Manufactured goods classified by raw materials	3,696.4	3,866.7	-4.4%	13.5%	14.1%
Machinery and transport equipment	1,994.0	2,286.7	-12.8%	7.3%	8.4%
Miscellaneous manufactured products	1,676.9	1,648.4	1.7%	6.1%	6.0%
Others	**580.7**	**605.6**	**-4.1%**	**2.1%**	**2.2%**
Commodities and transactions not classified by category	580.7	605.6	-4.1%	2.1%	2.2%
Total exports	**27,281.2**	**27,342.7**	**-0.2%**	**100.0%**	**100.0%**

* Provisional Data
Sources: PEA-ERC-ELSTAT

Regarding the exports to the Balkan countries, the export performance of Greece weakened by 7%, with their share in total exports falling by 1.5 percentage points. The decline came mostly from a significant fall of the exports to Bulgaria (-8%), which absorbed the largest share of Greek exports in the region, with their value reaching €1.4 billion. A significant decline was observed in the exports to Albania and FYROM, by 17.2% and 10.1%, respectively, with their total value reaching €1 billion. A downward trend was recorded in the exports to Bosnia-Herzegovina and Serbia (-4.5% and -16.3%, respectively), whose value approached €78 million and €197 million, correspondingly. In contrast, the exports to Kosovo increased significantly by 8.5% year-on-year in 2013, yet their value approached €77 million, while weaker growth of exports was observed to Romania by 4.4% (to €600 million). Croatia emerged as a significant export partner, with the growth of exports reaching 35.6% and the overall value exceeding €53 million in 2013.

In non-US North America, exports increased in Mexico by 30%, with their value reaching €120 million, while the exports to Canada declined by 12.4% (to €88 million).

The exports of Greek products to North Africa and the Middle East remained unchanged with their value standing at €3.8 billion in 2013. Libya emerged as the major trading partner of Greece in the area, with the value of exports reaching €745 million, down, however, by 4.9%, while the exports to Saudi Arabia increased by 4.7%, with their value approaching €404 million. Meanwhile, significant growth was recorded in exports to Egypt (+71.8%), a long-standing major trading partner of Greece, with their value approaching €594 million, while the exports to Morocco exceeded €190 million, almost three times up year-on-year. On the contrary, the exports to Israel and Algeria weakened by 33.6% and 10.7%, respectively (to €396 million and €352 million, correspondingly). Similar decline was recorded in the exports to Lebanon and the United Arab Emirates, by 32.5% and 19.3%, respectively.

The exports to the countries of the Commonwealth of Independent States increased by 3.8%, to reach €663 million. The export growth came from the upward trend of exports to Ukraine and Georgia (28.3% and 23%, respectively), with their value approaching €190 million and 153 million, correspondingly. In contrast, the exports to Russia weakened by 12.3% or €55 million, with their value reaching €406 million. A significant boost was observed in the exports to Latin American countries, with their value approaching €151 million (+23.3%). The high export performance came from the demand boost of Greek products in Brazil, where the value of exports was up by 65%, to €123 million, as well as to Argentina (+61.2%), with, however, low share among the Latin America countries.

On the contrary, it seems that the penetration of Greek products in the emerging countries of S.E. Asia that appeared in previous years, has changed significantly, since the exports to the region weakened by 38% with their value not exceeding €587 million. However, the weak export performance was offset by stronger demand of Greek products in China (+10%), with their value reaching €421 million.

Table 3.9

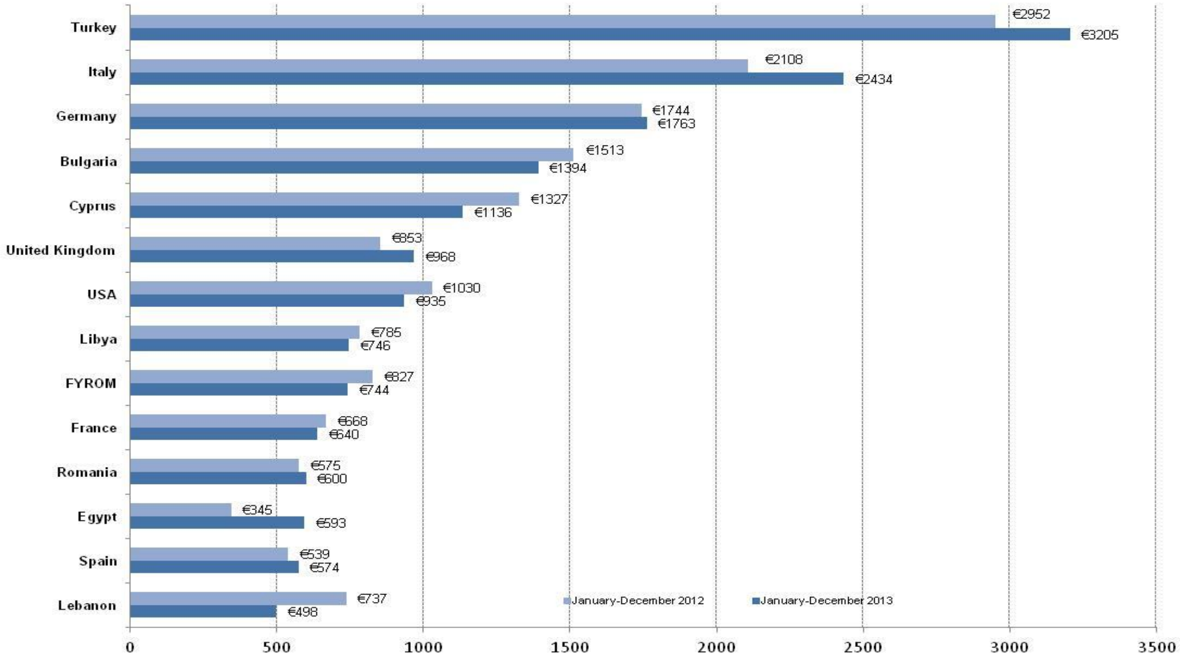
Exports per destination, January-December 2013 and 2012

	Value (mil. €)			**Structure**	
	2013*	**2012***	**P.Ch. '13/'12**	**2013**	**2012**
OECD (29 countries)	13,381.4	12,657.8	5.7%	49.0%	46.3%
EU-27	11,924.7	11,762.0	1.4%	43.7%	43.0%
Eurozone-15	7,901.2	7,429.1	6.4%	29.0%	27.2%
N. America	1,143.0	1,223.1	-6.5%	4.2%	4.5%
Other Developed countries	184.4	191.4	-3.7%	0.7%	0.7%
Rest OECD (excl. S. Korea)	3,367.0	3,112.0	8.2%	12.3%	11.4%
Balkans	3,649.4	3,922.2	-7.0%	13.4%	14.3%
Commonwealth of Independent States (CIS)	842.8	811.7	3.8%	3.1%	3.0%
N. Africa and Middle East	3,808.3	4,116.2	-7.5%	14.0%	15.1%
African countries (excl. S. Africa)	130.8	179.9	-27.3%	0.5%	0.7%
SE Asia	587.4	945.7	-37.9%	2.2%	3.5%
Latin America	151.0	122.5	23.3%	0.6%	0.4%
Rest Countries	3,486.3	3,044.0	14.5%	12.8%	11.1%
Total	**27,281.2**	**27,342.7**	**-0.2%**	**100.0%**	**100.0%**

* Provisional Data
Source: ELSTAT-ERC

Figure 3.10

Countries with the biggest share of Greek exports (mil. €), January- December 2013 and 2012



Source: PEA **Data Processing:** IOBE

In summary, as already assessed in the previous Quarterly Bulletin for Greek Economy, the fact that the exports remained unchanged in 2013 came from the upward trend observed in the exports of Fuels and Agriculture Products, which offset the decline in other categories of products. It should be noted that excluding Fuels from the trade balance, exports weakened by 2.1% in 2013.

Regarding the destination of exports in 2013, the weakened export performance came from the significant decline of exports to Balkans, North America and Cyprus, which probably will continue in 2014. However, the recovery of the Eurozone economy in 2014 after 2 years of recession may offset significantly the losses from these markets. The demand of Greek products in Turkey is expected to boost Greek exports, to some extent. In any case, the need for further expansion of Greek export flows to new destinations remains strong. **Under the influence of the above forces, the exports of goods, including fuels, are expected to reach €26.6 billion in 2014, from €27.2 billion in 2013, declining by 2%.** Similarly, the value of exports excluding fuels is expected to fall to €16.2 billion in 2014, from €16.8 billion in the previous year, contracting by 3.5%.

3.4 Employment-Unemployment

Unemployment in Greece in the last quarter of 2013 rose to 27.5% from 27% in the previous quarter, according to ELSTAT's Labour Force Survey. In 2013 overall unemployment stood at 27.3% on average, which is 3 percentage points higher than in 2012 (24.3%). As a result, the number of unemployed reached 1,353,500 people, higher by 149,700 year-on-year. However, in the beginning of 2014 there were some signs of reversal of the upward trend in unemployment. In January, the seasonally unadjusted unemployment rate fell to 26.8% from 27.3% in the immediately preceding month, while compared with the same month of 2013 the unemployment rate was 0.8 percentage points lower.

As a result, Greece has the highest unemployment rate in Europe since the fourth quarter of 2012, followed by Spain (26.1%). Far behind come two other countries that have received EFSF/ESM financial assistance, namely Cyprus where unemployment reached 16.8% and Portugal (15.4%). In Ireland, which no longer receives EFSF/ESM financial assistance, unemployment reached 12.2%. It should be stressed that unemployment in Portugal, Spain and Ireland remains stable/or has slightly decreased since the second quarter of 2012. The lowest unemployment rate in the Euro Area in the third quarter of 2013, according to the latest available data, was recorded in Austria (5%), Germany (5.2%), Luxembourg (6%) and Malta (6.7%).

The growth of unemployment came from the **sharp fall of employment** by 4% or 149,600 people (from 3,763,000 in 2012 to 3,613,900 in 2013), while the size of the labour force remained stable (from 4,966,800 employed in 2012 to 4,967,000 in 2013). It's worth noting that the employment level is lower than that of 1998.

Regarding the labour force characteristics, **unemployment is higher among women.** Unemployment among men grew by 2.9% year-on-year and stood at 24.4% in 2013 from 21.5% in 2012. Unemployment among women reached 31.3% in 2013, from 28.2% in 2012. In Eurozone-17, the difference of unemployment between women and men in 2013 was negligible, with unemployment among women higher by 0.2 percentage points (12.1%) than unemployment among men (11.9%). Compared with the previous year, unemployment among women was 0.6 percentage points higher (from 11.5%) while the rate among men increased by 0.7 percentage points (11.2% in 2012).

Regarding **age,** the problem of unemployment is greater among young people. In 2013, 62.7% of those people aged 15-24 that were willing to work could not find a job (59.7% in 2012, higher by 4.3 percentage points). In the age group of 25-29 years old, the unemployment rate reached 43.5% in 2013, from 37.5% in 2012. Unemployment has had a lesser impact on the age group 30-44, where the unemployment rate reached 25.9% in 2013 from 23% in 2012.

Among those aged 45-64, the unemployment rate was lower than in the previous group ages. In particular, it reached 19.3% from 16.6% in 2012. Indicative of the trends in the age composition of unemployment is the fact that almost 70%

in 2013 and 2012 (67.2% and 68.7% respectively) of all unemployed in Greece were aged 30 or more, from 56.9% in 2008. Taking into consideration that most persons at this age are responsible for the economic obligations of their family or household, the negative consequences in the social cohesion are obvious.

The incapacity of the Greek economy to create new jobs is reflected in the number of unemployed that are out of the job market for a time period that exceeds twelve months. In particular, the **long-term unemployment rate** reached 69% (932,200 people) in 2013, 8 percentage points higher than the 2012 rate (or an increase by 197,400). The percentage of "newly unemployed" fell to 23.1% (312,400 persons) from 24% (288,400) in 2012.

The increase of the unemployment rate among **foreigners** in 2013 far exceeded the country average, reaching 37.9% from 33.3% in 2012 (increase by 4.6 percentage points). The unemployment rate was lower among **Greek nationals** reaching 26.3% in 2013, from 23.4% in 2012.

Regarding the **educational level**, the highest unemployment rate was recorded among people that have not attended school at all (40.2% in 2013 from 38.3% in 2012), followed by people that have attended primary education (38.3% from 28% in 2102). Next came individuals that have completed lower secondary education (ISCED 2) with unemployment rate at 32.4% (from 27.4%) and graduates of technical/professional education (ISCED 5B) with a slight increase (from 27%). Unemployment in the category of people that have completed upper secondary education (ISCED 3) reached 29.6% in 2013 from 26.5% in 2012. Unemployment among people that have completed primary education was lower than the country average (ISCED 1 - from 24.6% in 2012 to 26.9% in 2013). Finally, university graduates and people with post-graduate and/or doctorate degrees exhibited the lowest unemployment rates (18.3% from 16.4% in 2012 and 15.1% from 13%, respectively).

Unemployment increased in all **regions,** but in Central Greece and the North Aegean the grow was negligible (+0.2 and +0.1 percentage points y-o-y respectively). The regions with the greatest increase in unemployment are North Aegean, Epirus, Eastern Macedonia-Thrace and Central Macedonia (+5.7%, +4.9% and +4% for the last two). On the other hand, in only three regions (the South Aegean, the Ionian Islands and Eastern Macedonia-Thrace) the year-on-year increase was stronger in 2013 than in 2012. Meanwhile, only the Ionian Islands had lower unemployment rate than 20%, while the unemployment rate was greater than the country average in six regions (Central and Western Macedonia, Western and Central Greece, Attica, Epirus).

In greater detail, the highest unemployment rate was recorded in Western Macedonia (31.8% in 2013 from 29.9% in 2012), followed by Central Macedonia (30% from 26%), Western Greece

(28.3% from 25.5%), Central Greece (28.2% from 25.3%) and Attica (28% from 25.5%). Unemployment in Epirus reached 27.8% from 22.9%.

In Eastern Macedonia-Thrace and Thessaly, the unemployment rate was lower than the country average, reaching 26.4% (from 22.5%) and 25.4% (from 22.6%) respectively. The lowest rates of unemployment were registered in the Ionian Islands (18.3% from 14.7%), the South Aegean (20.8% from 15.1%), the North Aegean (21.3% from 21.2%) and Peloponnese (22.5% from 19.9%).

The highest increase in the number of unemployed was reported in the Southern Aegean, reaching 39.2% (from 20,200 in 2012, to 28,100 in 2013), followed by the Ionian Islands reaching 21.9% (from 15,600 in 2012 to 19,000 in 2013). Epirus and Eastern Macedonia-Trace followed with an increase by 20.7% (+7,300 unemployed), and 17.8% (+10,200 unemployed). The lowest increase in unemployment was recorded in the South Aegean, where unemployment increased by 0.6% or about 100 people (17,700 from 17,600). Central Greece, which hosts many industrial units in the industrial zone of Inofita, came next with an increase of 1.7% (1,100 persons), followed by Western Macedonia (+5.8% or +2,100 unemployed), Attica (+10.9% or +51,900 unemployed), Western Greece (+11.6% or +9,400 unemployed) and Thessaly (+11.7% or +8.4% unemployed).

Regarding the **main economic sectors,** the largest percentage drop of employment in 2013 was observed in the **secondary sector**, a result that indicates the continuous deindustrialisation of the Greek economy. The employment rate dropped further by 9.5%, following a reduction of 14% in 2012 and 15.7% in 2011. In particular, the number of employed fell by 59,600, i.e. from 627,000 in 2012 to 567,400 in 2013. In the **tertiary sector** which employs 70% of the total workforce, employment dropped but at a lower rate (-3.6%) compared to the reduction in 2012 (-7.3%). As a result, the number of employed declined to 2,551,400 persons from 2,646,000 in 2012. In contrast, employment in the **Primary Sector** increased by 4,600, and the number of employees reached 494,600 (+0.9% from 3.4% the previous year).

In six of the **branches of economic activity** we observe increase in the number of employees. It is worth noting that among them are sectors that have been seriously affected by the fiscal adjustment process and the prolonged recession. The largest employment increase was recorded in **Electricity, Gas, Steam Supply-Air Conditioning,** with employment growth rates reaching 8.3% or 2,200 employees (7.5% or 1,900 new employees in 2012).

In the **Information and Communication** sector, employment increased by 7.4% or 5,400 outweighing the drop by 3.2% or 2,400 in 2012. Next came **Art-Entertainment-Recreation** with an increase of employment by 6.6% (or 2,700), and **Water Supply-Sewerage-**

Waste Management-Remediation Activities (+2.7% or +600 employees) despite the fact that in the previous year there was a drop by 16.6% (or 4,500 employees). In **Agriculture-Forestry-Fisheries** employment grew by less than 1% (+0.9% or +4,600), while a similar development was observed in **Public Administration-Defence-Compulsory Social Security,** where employment increased by 0.3% or 900 employees in 2013 (from a decrease of 3.4% or 17,400 people).

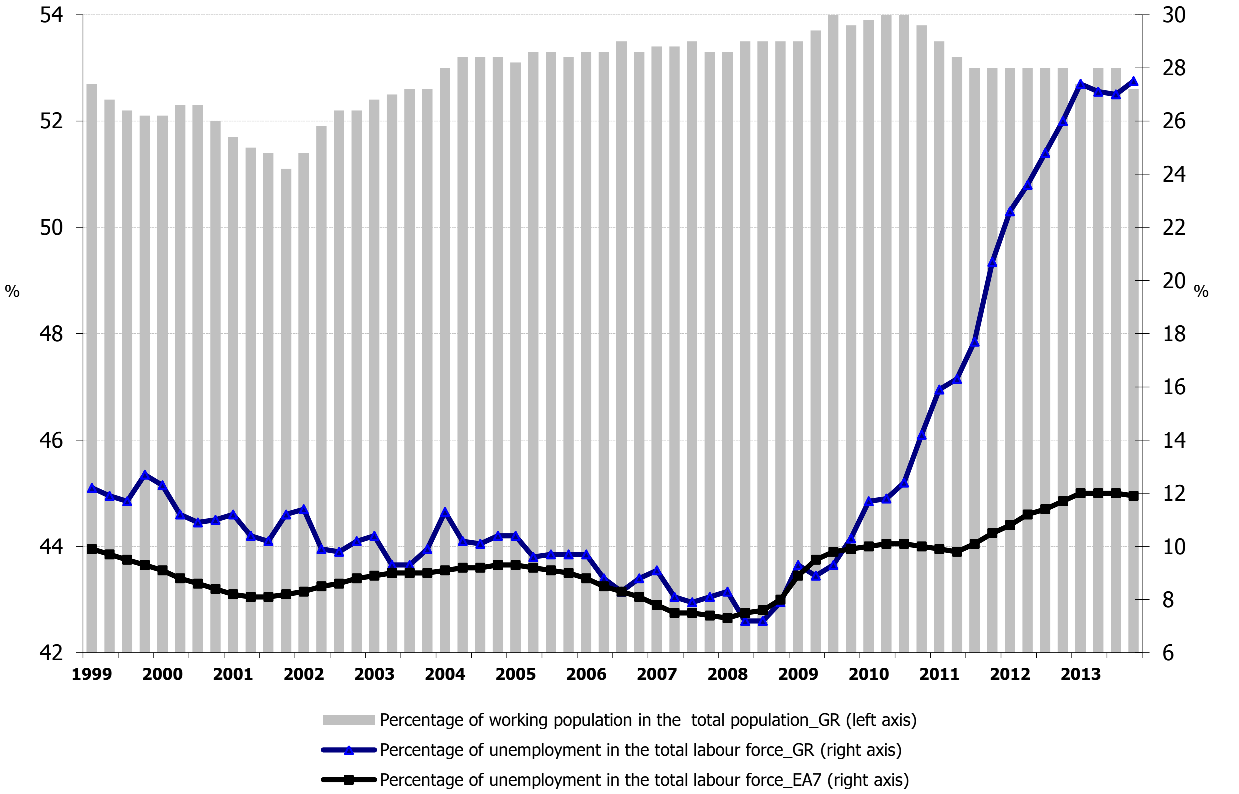
In the other sectors of the Greek economy, the largest decrease in employment was reported in **Real Estate** (-49.2% or -2,900 employees in 2013, from an increase by 5.3% or 300 employees in 2012), which is indicative of the impact of the prolonged recession on the sector. The second largest reduction in employment was observed in **Construction**, where the employment decline rate reached 17.9% (-36,900 employees) following a reduction of 17.4% (-43,400) in 2012. Mines and Quarries had a decrease by 11.6% (or 1,300 employees). Finally, similar single-digit employment contraction rates were registered in **Professional, Scientific and Technical Activities** (-8.3% or 18,300 employees), **Administrative and Support Service Activities Sectors** (-7% or 4,700 employees), and in **Manufacturing** (-6.7% or 24,100 employees), following an increase by 3% and a reduction of 11.7% and 13.4%, respectively, in 2012.

The weakest decrease in employment was registered in Transport and Storage, with a drop by 1.6% (-2,900), followed by Financial and Insurance Services (-2.4% or 2,700 employees). The reduction of employment in 2013 in **Wholesale-Retail Trade,** which has the vast majority of businesses in Greece, amounted to 2.8% (or 25,300 employees) following a decline by 10.9% (or 82,300 employees) in 2012. Despite the considerable increase in international tourism and the improvement in the balance of tourist payments, employment in **Tourism** dropped by 4.3% or 11,900 people.

The **labour cost** in both the private and the public sector continued the downward trend in the third semester. In greater detail, the labour cost decreased year-on-year by 5.2%, while quarter-on-quarter the decline reached 10%. The contraction in the private sector reached 1.2% in the third quarter with respect to the second quarter of 2013. Similar is the trend in the public sector, where in the third quarter the labour cost contracted by 5.7%, following the reduction of 7.2% quarter-on-quarter in the second quarter.

Figure 3.11

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



Sources: ELSTAT-Labour Force Survey, Eurostat

Table 3.10

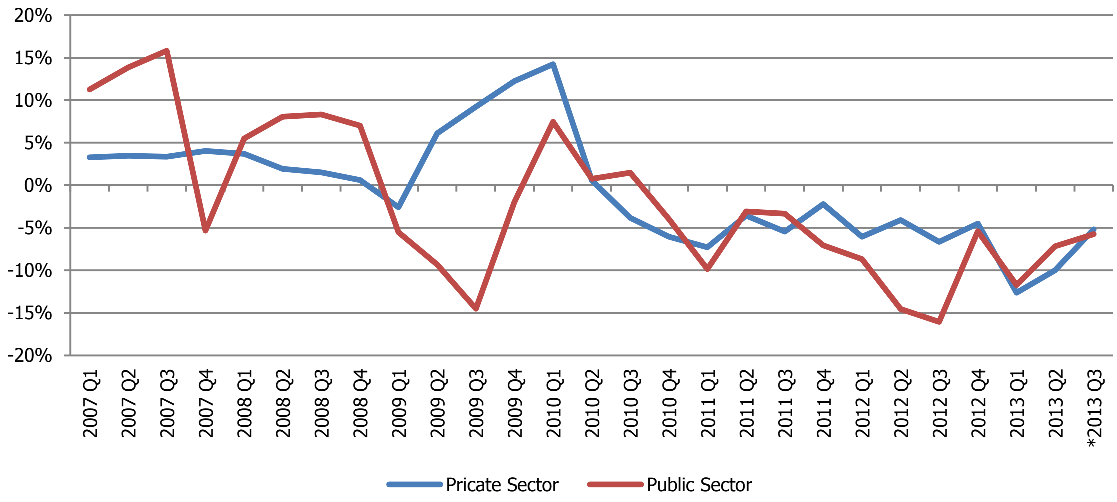
Population of 15 years old and over by employment status (in thousands)

Quarter/Year	Grand Total	Labour Force				
		% of population	Employed	% of labour force	Unemployed	% of labour force
1998	**8,680.4**	**52.1**	**4,017.9**	**88.8**	**507.9**	**11.2**
1999	**8,764.5**	**52.3**	**4,031.4**	**87.9**	**554.7**	**12.1**
2000	**8,839.8**	**52.2**	**4,088.5**	**88.6**	**523.5**	**11.4**
2001	**8,906.4**	**51.4**	**4,086.3**	**89.2**	**493.9**	**10.8**
2002	**8,964.3**	**51.9**	**4,175.8**	**89.7**	**480.2**	**10.3**
2003	**9,014.9**	**52.5**	**4,274.5**	**90.3**	**460.0**	**9.7**
2004	**9,063.5**	**53.2**	**4,313.2**	**89.5**	**505.7**	**10.5**
2005	**9,108.1**	**53.2**	**4,369.0**	**90.1**	**477.5**	**9.9**
2006	**9,157.4**	**53.4**	**4,452.3**	**91.1**	**434.5**	**8.9**
2007	**9,207.4**	**53.4**	**4,509.9**	**91.7**	**406.9**	**8.3**
2008	**9,234.1**	**53.5**	**4,559.4**	**92.4**	**377.9**	**7.6**
2009	**9,267.5**	**53.8**	**4,508.7**	**90.6**	**471.1**	**9.5**
2010	**9,306.3**	**53.9**	**4,388.6**	**87.5**	**628.7**	**12.5**
Q1 2011	9,329.4	53.5	4,194.4	84.1	792.6	15.9
Q2 2011	9,337.6	53.2	4,156.3	83.7	810.8	16.3
Q3 2011	9,346.0	53.0	4,079.3	82.3	878.3	17.7
Q4 2011	9,354.5	53.0	3,932.8	79.3	1,025.9	20.7
2011	**9,341.9**	**53.2**	**4,090.7**	**82.4**	**876.9**	**17.7**
Q1 2012	9,362.3	53.0	3,837.9	77.4	1,120.1	22.6
Q2 2012	9,369.7	53.0	3,793.1	76.4	1,168.8	23.6
Q3 2012	9,377.2	53.0	3,739.0	75.2	1,230.9	24.8
Q4 2012	9,384.9	53.0	3,681.9	74.0	1,295.5	26.0
2012	**9,373.5**	**53.0**	**3,763.0**	**75.8**	**1,203.8**	**24.3**
Q1 2013	9,391.8	52.7	3,595.9	72.6	1,355.2	27.4
Q2 2013	9,397.8	53.0	3,632.2	72.9	1,350.4	27.1
Q3 2013	9,404.1	53.0	3,635.9	73.0	1,345.4	27.0
Q4 2013	9,410.4	52.6	3,589.7	72.5	1,363.1	27.5
2013	**9,401.0**	**52.8**	**3,613.4**	**72.8**	**1,353.5**	**27.3**

Source: ELSTAT, Labour Force Survey

Figure 3.12

Labour cost in the public and private sector in Greece (2007 Q1-2013 Q3)*



Source: Eurostat, ELSTAT
(*) The data are preliminary. The labour cost indicator of ELSTAT was used, which is seasonally adjusted, but does not take into account the number of working days in a quarter, as is the case with the Eurostat data.

Medium-term Outlook

The ongoing economic crisis has clearly had negative impact on the course of unemployment in Greece. However, the recession slowdown during the previous year eased the growth of unemployment, which fell to 3% from 6.6% in 2012 and 5.2% in 2011, while in the second and third quarter of 2013 unemployment actually decreased.

The decline in unemployment will carry over to 2014 overall, halting the rise for the first time since 2008. This development will initially come from the structural changes in the labour market that were adopted in the past two years, and the reduction of social security contributions by 3.9%[9] which was added after the recent negotiations with the troika.

Moreover, the seasonal employment in tourism is expected to increase (from the beginning of the second quarter), since the outlook for international tourism is better this year than in 2013. The employment will be boosted in the first half of the year from the programmes of the Manpower Employment Organisation. On the other hand, the continued restructuring in the public sector through the dismissal of those who had been suspended the previous year of the redundancies that have been decided for the current year will inhibit employment growth. **As a result of these effects on the labour market, unemployment is estimated to reach 26.0% in 2014, which is about one percentage point lower than in the previous year.**

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

In greater detail, **the short-term employment expectations for the next quarter improved quarter-on-quarter**

[9] 2.9% for businesses, 1% for employees

in Construction, in Services, in Retail Trade and, to a lesser extent, in Industry. Year-on-year, the expectations improved too in all sectors, but to a lesser degree in Industry and to a greater degree in Construction and Retail Trade.

In Industry, the negative balance of employment expectations eased in the first quarter of 2014 to reach -10 from -16 in the preceding quarter. This performance was stronger compared with the corresponding period of the previous year (-20). The share of enterprises in Industry that were expecting an increase of employment in the coming months remained at 5%, whereas the share of enterprises that were expecting a decrease of employment fell to 15% (from 21%). The vast majority of the respondents (80% from 74%) were expecting no change in employment in the short term.

In Construction, the employment expectations improved quarter-on-quarter. The indicator increased by 15 points, reaching +8, significantly higher than the corresponding period of 2013 (-33 points, on average). The percentage of enterprises expecting fewer jobs in the sector decreased to 28% (from 37%), while the share of those expecting employment growth increased to 36% (from 30%). At sector level, the drop of the indicator came from Public Building Activity, where the quarter-on-quarter fall reached +27 points (+10 points), and from Private Building Activity where the indicator fell to -45 points on average.

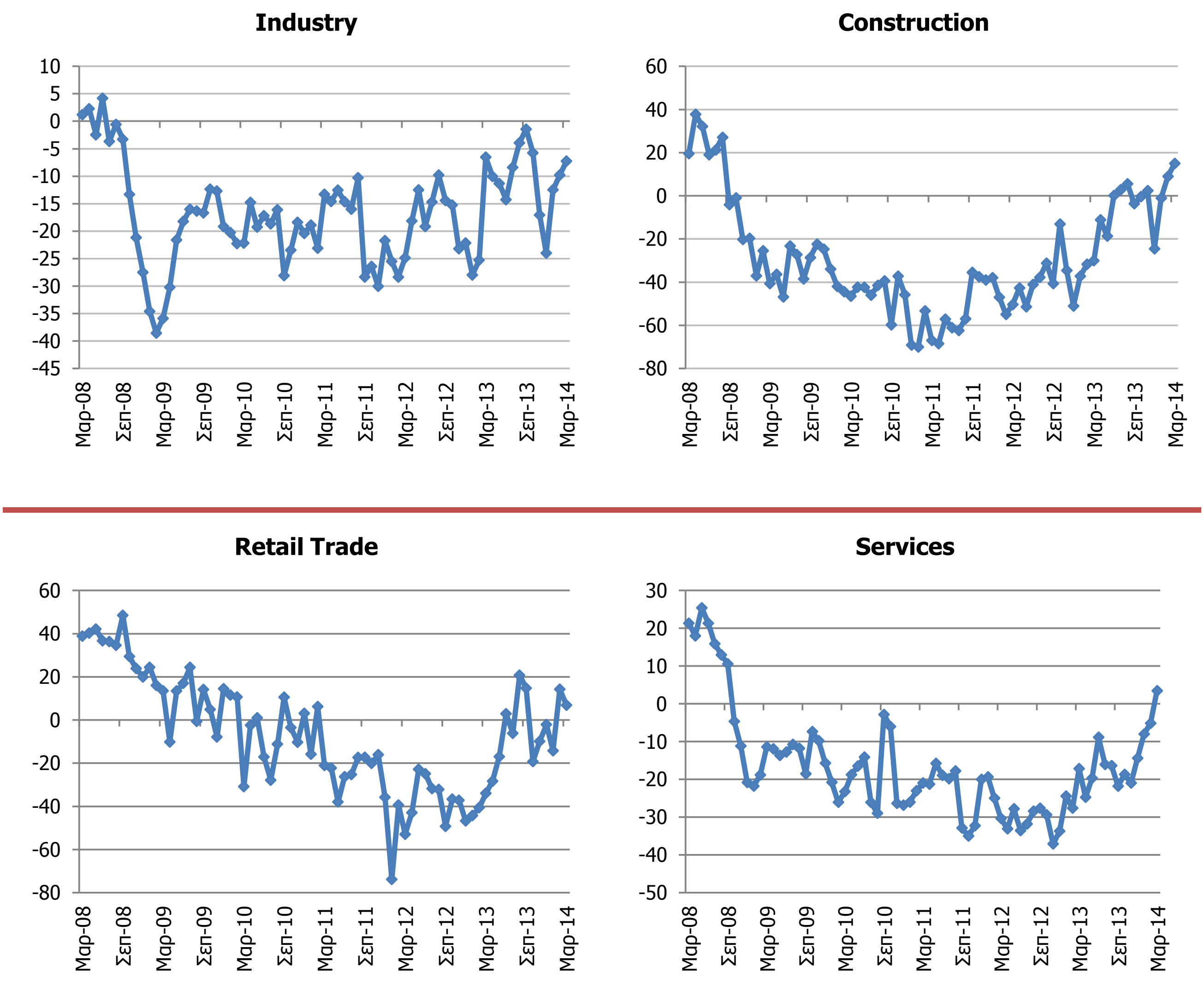
In Services, the negative employment expectations narrowed both quarter-on-quarter and year-on-year. The balance stood at -3 points (from -28 in 4Q/2013). Among the enterprises in the sector, 26% were anticipating a drop in employment in the coming months (from 28%), while the share of enterprises expecting employment growth almost doubled to 17%. The employment expectations improved in all the constituent branches apart from Financial Intermediaries, where the indicator slightly fell. Still, the most positive average quarterly indicators were observed in Various Business Activities, Financial Intermediaries and IT Services.

Employment expectations improved in Retail Trade quarter-on quarter, where the indicator stood at +2 points (from -10). This performance is significantly higher compared with the corresponding period of the previous year (-40 points).

The percentage of firms expecting a reduction in employment decreased from 17% to 15%, whereas the share of the firms anticipating employment growth increased to 18% (from 7%). Meanwhile, there is a downward trend in the percentage of the firms anticipating stability in employment (67% from 76%). Among the constituent branches, the employment expectations improved in Food-Beverages-Tobacco, where the indicator was positive on average, and to a lesser extent in Vehicles-Spare Parts and Department Stores, where the indicator also recorded a positive balance. In contrast, the indicator declined during this period in Household Appliances and Textile - Clothing - Footwear.

Figure 3.13

Employment Expectations (% difference between positive – negative answers)



Source: IOBE

3.5 Consumer Prices

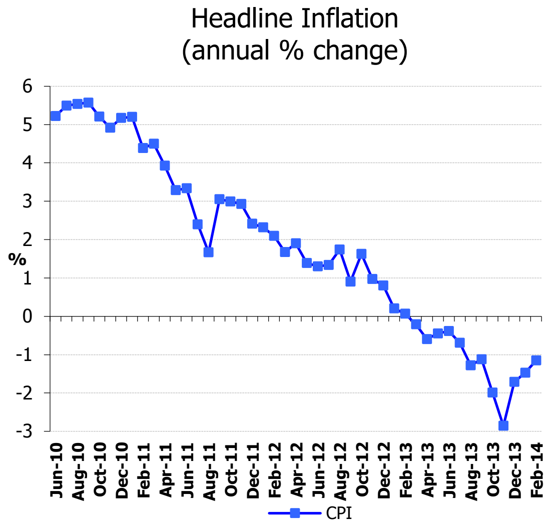
Recent Developments

The continued sharp drop in disposable income in 2014, to a lesser extent than in the previous year, due to high taxation (reductions in public sector wages, pensions) and unemployment in the context of fiscal consolidation, have brought the decline of consumer demand and the deflationary trends, which were observed for the first time in 2013. As a result, in January-February of 2014, prices declined, with the CPI falling by 1.3%, when in the same time period of previous year, the index was increasing by 0.1%. So, the deflation in Greece has lasted for a whole year.

In greater detail, at branch level, in January – February of 2014, the prices in Transport declined by 3.2%, from price stability in the first two months of 2013.[10] The same trend was observed in Hotels – Restaurants and Recreation, with both corresponding indices approaching 3%. Stronger deflationary trends were recorded in Education (-3.9%) and Other Goods (-4.2%), while for the first time fall of prices was recorded in Clothing – Footwear, with the deflation rate standing at -2.9% from 2.1% inflation in the same period of the previous year. Marginal fall of prices was observed in Food, down by -0.1%, compared with 0.1% inflation in the same time period of 2013, while slightly weaker deflationary trends appeared in Durable Goods (-0.8% from -3.3%). Significant decrease of prices was recorded in Housing by 1.9%, for first time after many years, given that in the same period of the previous year the corresponding index was 9.2%.

In contrast, in January – February of 2014 inflationary trends were observed in Tobacco - Alcoholic Beverages, with the inflation rate approaching 2% from 0.7% in the corresponding period in 2013. Inflationary pressures dominated in Health, with the corresponding indicator standing at 1.5% from 4.2% deflation in the first two months of 2013. Slightly weaker inflationary trends were recorded in Telecommunications, with the price index growing at 0.1% in 2013, from 5.1% deflation one year ago. Lastly, prices in Food and Non-Alcoholic Beverages remained unchanged compared to 2013, when the average rate of price inflation reached 1.5%.

Figure 3.14



Source: ELSTAT **Data Processing:** IOBE

The harmonised index of consumer prices (HICP) in Greece decreased by 1.1% in January – February of 2014, from a marginal inflation by 0.1% in the same time period of the previous year. In particular, in February the corresponding indicator decreased by 0.9%, remaining for 12 consecutive months in negative territory. The fall of the index made Greece one of the three member-countries of the Eurozone (including Slovakia, -0.1% and Cyprus, -1.4%), with deflationary trends, when the average rate of change of HICP in the Eurozone was 0.7%, from 1.9% in the same period of 2013. Apart from the above countries, lower inflation than the average rate of HICP in the Eurozone was observed in Portugal (0.4%) and in Ireland (0.5%), while higher inflationary pressures were recorded in Austria (1.5%) and Belgium (1.1%). Also, in EU-28, where the average rate of HICP was 0.8% in the first two months of 2014, the lowest inflation was observed in Bulgaria (-1.7%), while the highest average rates, despite the signifi-

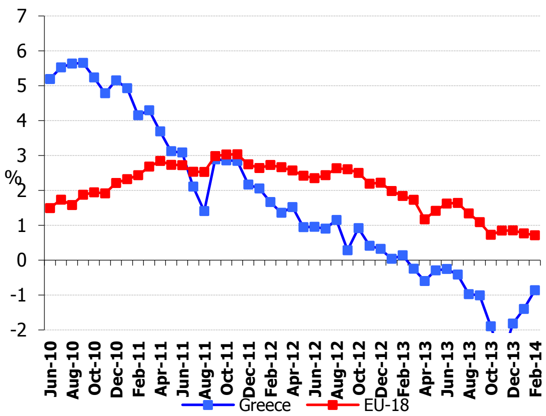
[10] The interpretation of the evolution of the CPI at the beginning of 2014 versus the same period of the previous year on the basis of individual indicators in key categories of goods and services is no longer feasible due to the revision in the methodology of calculation by EL.STAT. from January 2014,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

cant year-on-year deceleration, were recorded in Estonia and Romania (1.4% and 1.2% respectively from 4% and 5% in the same time period of 2013).

Producer prices stood at significantly lower levels compared to 2013, with the general index of the domestic market in Greece declining by 2% in the first two months of 2014, from 0.5% inflation in the corresponding period of 2013. The same trend was observed in EA-18, with Cyprus and Belgium experiencing the strongest decrease in the cost of production (-4.4% both), followed by Lithuania with -4%. In contrast, the cost production increased in Malta by 3.8% and in Ireland by 3.3%, when in the first two months of the previous year, slightly stronger increase was observed - 0.9% and 1.4%, respectively.

Figure 3.15

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



Source: ELSTAT Data Processing: IOBE

At branch level, the largest growth in the first two months of 2014 was observed in Electricity - Natural Gas, where the index increased by 6.5% (from 3.4% in the previous year), followed by Minerals, where the index grew by 1.5%, significantly slower than in the same period of 2013 (+5%). Upward trends were observed in the prices of Tobacco products, up by 1.4%, from 8% deflation in the corresponding period of 2013.

However, in most branches, the producer prices declined in the first two months of 2014. The producer price index declined by 6.1% in Electrical Equipment (from -2.4% in the corresponding period of the previous year) and by 4.2% in Basic Metals (from +2.2%). Stronger downward trends were observed in Energy Goods, where the producer price index decreased by 10.2% (from -2.2% in 2013) and in Coke and refined petroleum products, with the corresponding indicator approaching -9.9% (from -2%). Similarly, downward trends were recorded in the prices of Coal – Lignite products (-14% from -4.6% in the first two months of 2013), and in the prices of Crude Oil - Natural Gas (down by 7.7%, from 3.5% inflation in the first two months of 2013).

The prices of imported raw materials also received deflationary pressures, with the index falling by 2.8% in January of 2014, from -2.1% in the first month of 2013. Downward trend was recorded in the prices of imported raw materials in EA-18 (-2.6%), benefitting significantly the production process in the region, with the strongest reduction observed in Germany (-4% from -1.4%) and Slovakia (-3.8% from -2%). In Spain the prices of imported raw materials fell by 2.5%, when the same month one year ago, the corresponding index increased by 6.6%.

Medium-Term Outlook

It seems that the deflationary pressures will carry over to 2014, with slightly weaker fall of prices. The weaker deflationary trends are a result of having no new indirect taxes or hikes in existing taxes (apart from the recent increase of the tax on tobacco) and the further contraction of disposable income, due to higher direct taxation, albeit weaker than in 2013. Also, the structural changes in the operation of markets, which were decided recently, will lead gradually to decrease of prices. However, the weaker decline of consumption expenditure will decelerate the fall of prices. **Taking into account the influence of the above factors, the rate of change of CPI will be marginally negative in 2014, standing at around -0.6% from -0.9% in 2013.**

In the Euro area, the inflation rate is expected to stand at around 1.1% (from 1.4%). Despite the fact that the Euro area is experiencing economic growth, after two years of recession, growth is mainly expected to come from investment, with consumption demand increasing slightly, as the unemployment rate stands at historically high levels, easing thus the inflationary pressures.

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

Deflationary expectations, albeit weakened quarter on quarter in almost all sectors in the past quarter, have continued to dominate, to a lesser or greater extent, for almost four years. At sector level in the first quarter of 2014, the deflationary expectations weakened quarter on quarter in Industry and to a lesser extent in Retail Trade, while they strengthened in Private Construction. Deflationary expectations intensified mildly year on year only in Industry, while they weakened significantly in Private Construction and to a lesser extent in Services and in Retail Trade. In greater detail:

In Industry, the deflationary expectations weakened quarter on quarter in the first quarter of 2014, with the negative indicator increasing by 6 points to -2 points, (from 0 on average in the same period of 2013). Among the enterprises of the sector, 1/10 (from 13% in the fourth quarter of 2013) were expecting prices to decline in the next quarter, with 83% (from 81%) of the enterprises expecting prices to remain stable and 8% (from 5%) to increase over the near term.

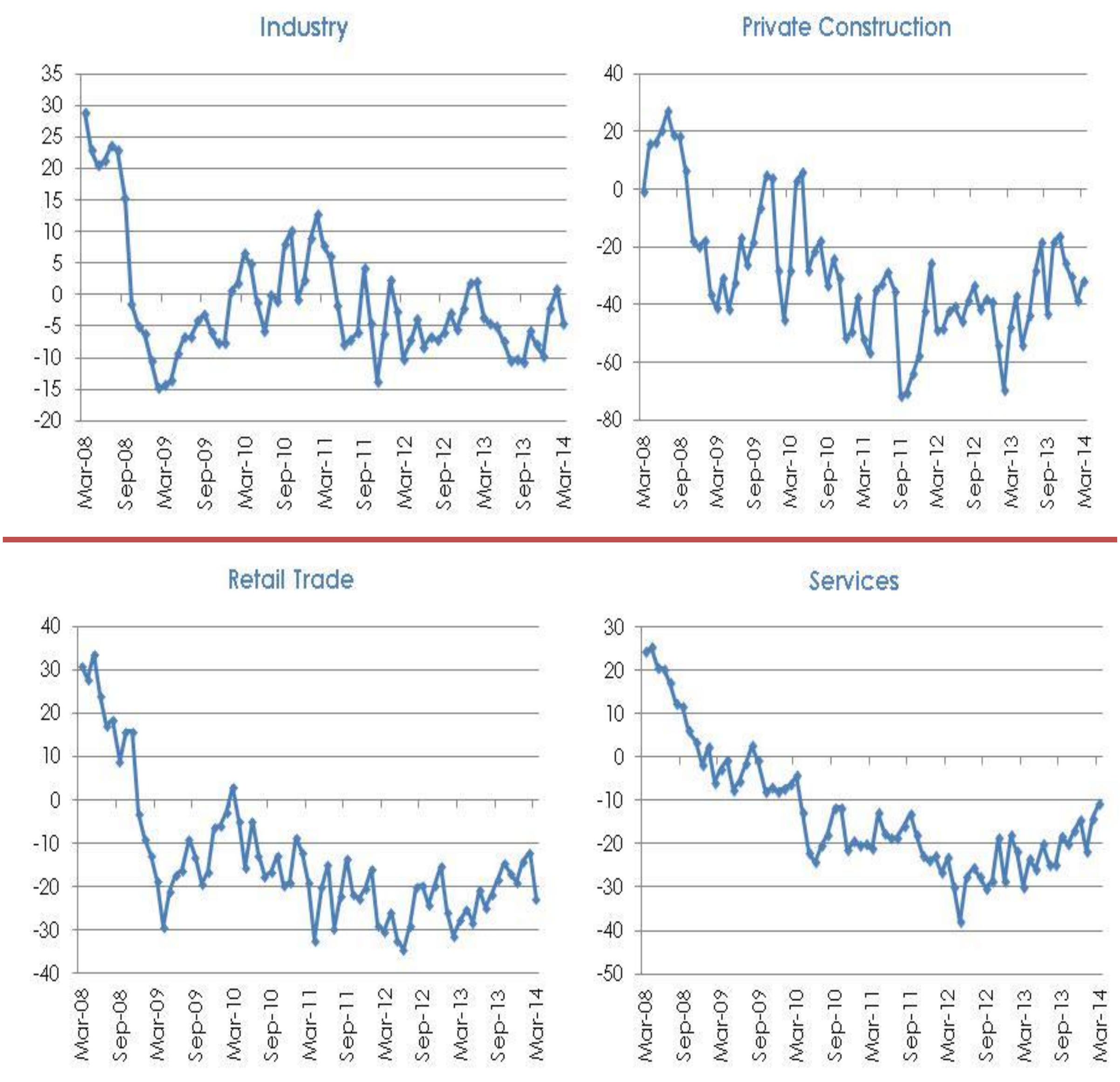
In Retail Trade, the deflationary expectations eased slightly in the first quarter of 2014, with the negative balance of expectations reaching -13 points (from -17 in the previous quarter, and -27 the same quarter of the previous year). About 18% (from 22%) of the sector's enterprises were holding expectations that prices would fall in the next quarter, with only 5% anticipating inflationary pressures and 77% (from 73%) expecting prices to remain stable. Among the constituent branches of Retail Trade, the deflationary expectations eased quarter on quarter in Department Stores and in Food-Beverages-Tobacco. In Vehicles - Spare Parts and in Textiles–Clothing-Footwear, the indicators remained unchanged, while the negative balance in Household Appliances strengthened slightly.

In Services, the price expectations indicator increased by 2 points quarter-on-quarter, at -15 points, higher by 8 points compared with the corresponding time of previous year. About 17% (from 19%) of the sector's enterprises were anticipating deflationary trends in the next quarter, while 2% were expecting further inflationary pressures. Among the constituent branches, in the first quarter of 2014, the negative indicator eased quarter-on-quarter in all sectors, except from the indicator in Land Transport, which remained unchanged. Positive balance was observed only in Hotels – Restaurants – Travel Agencies in the quarter under examination.

Lastly, the negative price expectations strengthened in Private Construction quarter on quarter to -34 points, lower by 14 points, (-57 points in the corresponding period of the previous year). In the quarter under examination, 34% of the sector's enterprises (from 20%) were expecting fall of the prices in the short term. Not a single enterprise, as has been the case in the past two years, was expecting prices to increase, with 2/3 (from 4/5) of the enterprises expecting the prices to remain stable in the near term.

Figure 3.16

Price Expectations (% difference between positive – negative answers)



Source IOBE

3.6 Balance of Payments

Current Account

The **current account** was positive in 2013, for the first time since at least 1980, the first year with such data on record. The surplus amounted to €1.2 billion, against a deficit of €4.6 billion in 2012, while the cumulative "correction" since 2008, starting from a deficit of €34.8 billion, has reached almost €36.0 billion. As a result, the current account stood at 0.7% of GDP in 2013, compared with -2.4% in 2012 and -14.9% in 2008, when the deficit had peaked. Regarding the constituent elements of the balance, the trade deficit narrowed in 2013, although to a lesser degree than in 2012, yet the improvement in the current account stemmed largely from the expansion of the services surplus and current transfers. The income account deficit increased in 2013, with a negative impact on the current account.

The January 2014 data reflected further improvement in the deficit, despite the minor deterioration of the trade deficit, as the income balance achieved a surplus.

In greater detail, the **trade deficit** last year stood at €17.2 billion, lower by 12.2% (-€2.4 billion),[11] while compared with 2008 it has declined by € 26.8 billion. However, about 30% of the adjustment since 2008 took place in 2012, while around 9% of the total adjustment occurred in 2013. Meanwhile, almost all of the improvement in the deficit last year came from fuel trade, in contrast to 2012 when the adjustment came from the ships and other goods account. The trade deficit of goods excluding oil and ships shrank by 3.7% to reach €8.1 billion, as exports of goods amounted to €14.1 billion (+€294 million), compared with imports of €22.2 billion (-€13.7 million). The exports of goods approached the 2008 peak (€14 billion), while the imports of goods remained at the 2012 minimum. As far as fuels are concerned, exports expanded further, rising by 6.9%, compared with 20% in 2012, to reach their highest level in the past 13 years, close to €8.0 billion. Also, the imports of fuels declined by 11.4% in 2013 to reach €15.6 billion. Thus, the balance of the fuel deficit declined in 2013 by 24.7% to €7.6 billion, compared to €12.2 billion in 2008.

The **services surplus** significantly strengthened in 2013 to €16.8 billion, with an increase in receipts to €27.8 billion (+€275.7 million) and a decline in payments by 11.3% to €10.9 billion. Regarding the receipts in particular, the tourist receipts reached €11.9 billion, €1.5 billion higher than the year before, which is the best performance of the period 2001-2013. In contrast, revenue from transport and other services fell by 9.0% and 2.1% respectively, to €12.1 billion and €3.7 billion respectively. It should be noted that receipts from transport lag compared with 2008 by €7.1 billion. The travel service payments remained almost unchanged in 2013, at €1.8 billion, while payments for transportation and other services decreased to €5.5 billion and €3.6 billion, respectively, lower by 12.2% and 14.8%.

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

The **income deficit** almost doubled in 2013, after the strong decline by 80% in 2012, amounting to -€2.8 billion, from -€1.6 billion. Firstly, the rise in payments in fees, salaries, interest and dividends by 17.8% (+€962.8 million), and secondly, the reduction of revenues by 7.6% (-€289.8 million), caused the significant expansion in the income deficit.

The surplus of **current transfers** reached new historic heights in 2013, reaching €4.5 billion, breaking the record observed in 2004 (€3.6 billion). However, this performance came from the increase in net transfers from the EU to the General Government, due to the return of revenues from Greek government bonds purchased by the Eurosystem, as part of the Securities Markets Programme (SMP). Total revenues[12] increased by 50% (€2.6 billion) and amounted to €7.7 billion, while payments[13] recorded a decrease of 13% (-€482 million).

Capital Account

The surplus of the **capital transfers** widened in 2013 to €3.0 billion, compared to €2.3 billion in 2012, while revenues[14] recorded an increase by 31.8% (€816 million), and payments, which are small portion of the balance, increased by 43.3% to €339.8 million.

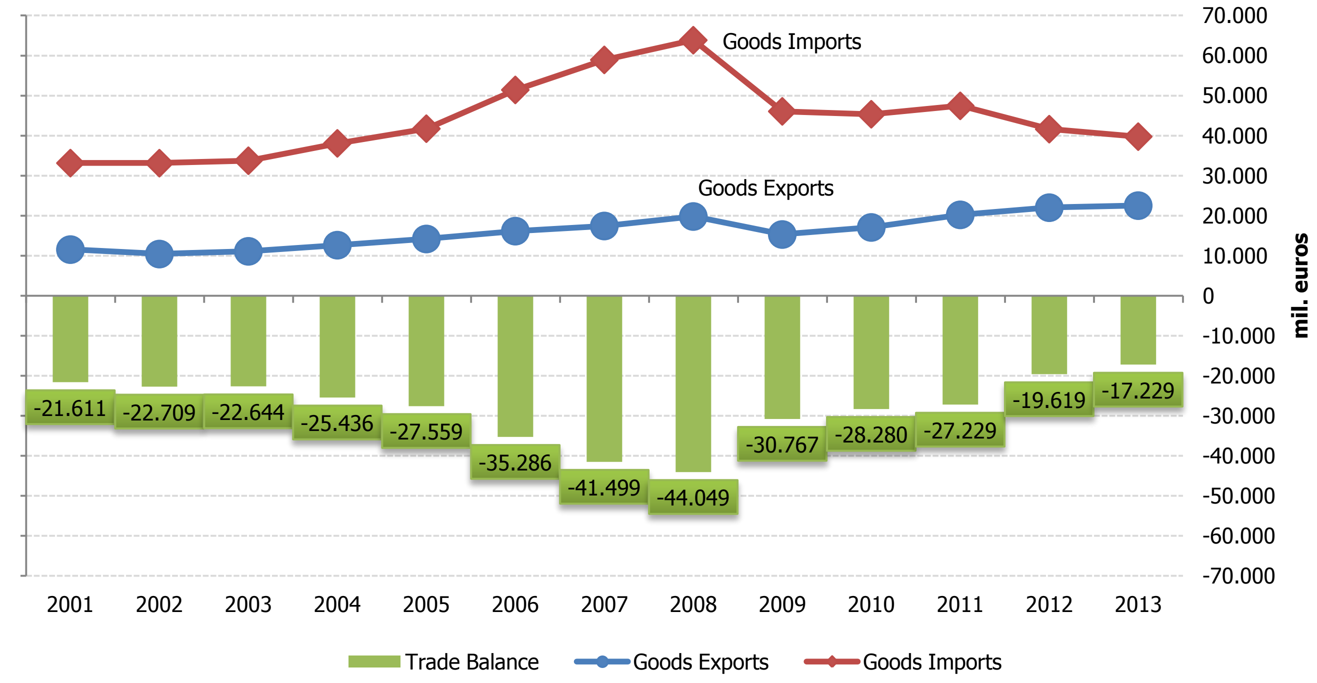
Finally, the sign of the **current and capital transfers account,** which roughly reflects an economy's external borrowing requirements or external lending potential, was positive at €4.3 billion, against a deficit of €30.7 billion in 2008. In effect, Greece in 2013 was transformed from a borrower country to potentially a lender.

[12] Gross current receipts from the EU mainly include receipts from the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF).
[13] Current payments to EU mainly include contributions of Greece to the Community Budget.

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

Figure 3.17

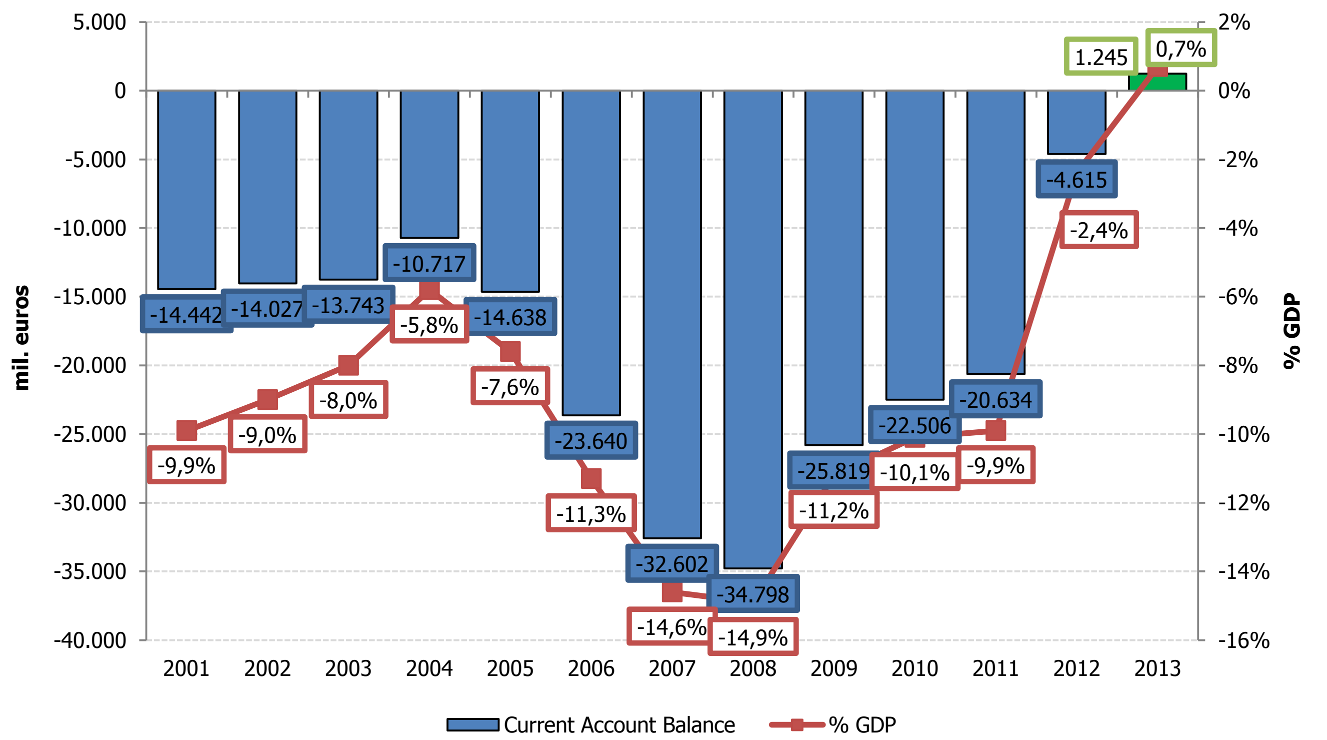
Imports-Exports of Goods, 2001-2013 (January - December)



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

Figure 3.18

Current Account Balance 2001-2013 (January-December)



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

Financial Account

The **financial account** recorded a net outflow of €3.6 billion in 2013, compared with a net inflow of €2.7 billion in 2012.

In particular, **direct investment** had a net inflow of €2.4 billion. Direct investment to Greece recorded a net inflow of €1.9 billion, compared with €1.4 billion in 2012, while Greek investments abroad formed a net inflow of €469 million, against an outflow of €527 million in 2012. Notable transactions were recorded in only 7 out of the 12 months:

→ Inflow of €**700** million due to intra-group lending of OTE SA by its subsidiary OTE PLC (United Kingdom, February)
→ Inflow of €**640** million from the sale of two subsidiaries of COSMOTE Bulgaria, the Cosmo Bulgaria Mobile EAD (Globul) and Germanos Telecom Bulgaria (July)
→ Inflow of €**622** million from the sale of shares of OPAP from HRADF to Emma Delta Ltd (Cyprus, October)
→ Inflow of €**616** million from the sale of National Pangaea REIC (a subsidiary of National Bank) to Invel Real Estate Partners (Netherlands, December)
→ Inflow of €**585** million to increase the share capital of Emporiki Bank, covered by the parent company Crédit Agricole (France, January)
→ Inflow of €**328** million from the sale of the remaining 49% of Hellenic Duty-Free Shops (property of Folli Follie) to Dufry International (Switzerland, December)
→ Outflow of €**65** million from Alpha Bank's participation in the capital increase of Alpha Bank Cyprus (Cyprus, November)

The net outflow in **portfolio investment** of approximately €100.5 billion in 2012 contracted to €6.6 billion in 2013. According to data from the Bank of Greece, non-residents' placements in Greek bonds and treasury bills fell to €7.6 billion, from €41.8 billion in 2012. Receivables had a net inflow of €1.0 billion in 2013, compared with €58.1 billion net outflow in 2012, as the residents' placements in foreign bonds, treasury bills and shares fell.

Other investment recorded a net inflow of €675.9 million, compared to inflows of €101.7 billion in 2012. Receivables amounted to €17.5 billion, as the placements of domestic investors in deposits and repos abroad fell by €18.9 billion. As for the liabilities, the public borrowing fell to €30.1 billion, while the increase of debt obligations of the private and public sector by €27.2 billion and the decline in non-residents' placements in deposits and repos in Greece by €43.8 billion, formed a net outflow of €16.8 billion. Finally, **foreign reserves** stood at €4.2 billion by the end of December 2013, from €5.5 billion in December 2012.

Assessment

The trade balance in 2008 had a deficit of 18.6% of GDP, mainly due to a peak of imports, fuelled by the very high share of household consumption in GDP and the rapid expansion of credit for consumption purposes to the households. Since then, there were significant changes on both sides of the trade balance, and as a result the deficit as a percentage of GDP decreased to 10.6% of GDP in 2013. Exports fell sharply in 2009 and 2010 due to the impact of the international financial crisis on global growth, but they recovered the lost ground over the period 2011-2013, when the enterprises were trying to offset the rapidly decreasing domestic consumption with sales abroad. However, it is clear that during 2008-2013 the major part of the adjustment in the trade balance came from the side of imports, with 3/4 of the deficit reduction coming from decline in imports.

The extensive contraction of imports during 2008-2013 could be seen as an opportunity for restructuring of an economy that was in a recession throughout this period, for example, through gradual substitution of imported consumer products with domestic production. However, the 'correction' in imports perhaps did not happen entirely or largely from substitutable consumer goods. It is possible that the correction derived primarily from decline of the purchases of capital goods and raw materials from abroad, which are not manufactured or available in Greece, and therefore are necessary particularly in the manufacturing sector. Without such imports, the Greek economy would not be able to regroup and recover strongly.

The available data for the main categories of imported products point in the direction of the second possibility. The share of imports of capital goods and industrial supplies reached 37% in 2008. Within this category, capital goods accounted for 14% and industrial supplies for 23%. Consumer goods (incl. food and beverages) accounted for 28.4% and fuels for 21.3% of total imports. Finally, imports of transport equipment (cars, trains, ships, etc.) accounted for 13.3% of imports.

During the period 2008-2013, when the Greek economy lost around 22% of GDP (at current prices), imports decreased by 27.8%. However, at the same time the imports of capital goods and industrial supplies shrank by 42.8%. The reduction in the imports of consumer goods was less extensive (-30.2%), while the strongest contraction (-65.8%) was observed in the imports of transport equipment (passenger and commercial).[15] Subsequently, the contribution of capital goods-industrial supplies and transport equipment to the overall contraction of the imports of goods was almost 48% and 26.5% respectively, both much larger than their participation in imports in 2008 (Chart 3.20).[16] Thus, their share in the total imports in 2013 was significantly reduced compared to 2008, in contrast to those of the imports of consumer goods and fuel.

The relatively strong contribution, given their share of imports in 2008, of capital goods - industrial supplies to the decline in total imports, despite the relief offered to the trade balance, is considered as an obstacle to the improvement of the long-term prospects of the Greek economy. The restructuring of the production base, a pre-

[15] This is reflected in the sharp decline in sales, which in the case of passenger vehicles approached 78% in the period 2008-2013

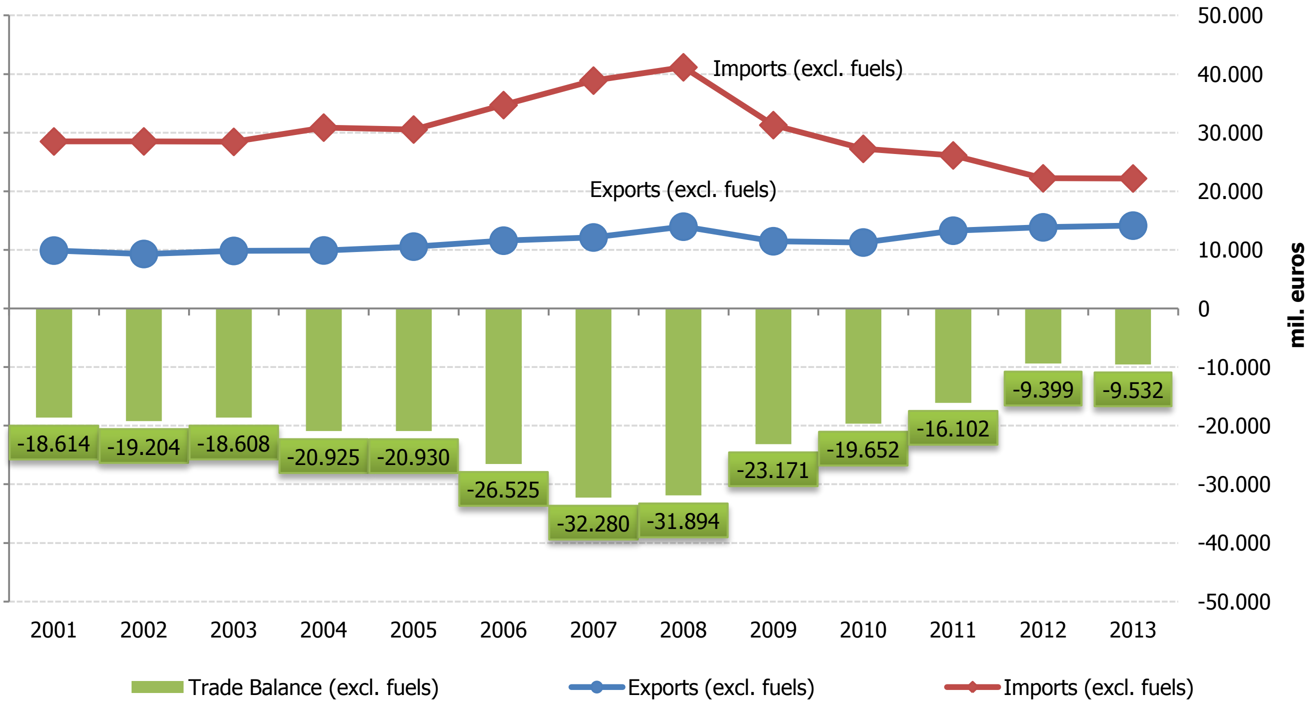
[16] At the same time, imports of fuel increased, thus the reduction by 47.7% of capital goods deals with the total contraction of imports in the three categories that fell and not with the total change in imports across all categories.

requisite for the exit of the Greek economy from the crisis and its launch on a new growth trajectory, would certainly rely on imports of production inputs (machinery, equipment, raw materials) that are not produced or available domestically. Besides, there is no economy, even among the most developed, which is fully autonomous in terms of manufacturing the capital goods and extracting the raw materials required for the production process. Therefore, all economies depend to some extent on imports of this kind. Their proper use increases the value added of the produced goods, enhancing the international competitiveness of the produced goods in terms of quality and / or cost.

Summing up, while the decline of the imports of consumer goods is likely to promote the development of domestic activity for their production, enhancing the self-sufficiency of an economy and its growth momentum, and improving its internationalisation capabilities, the extensive decline in the imports of capital goods and raw materials undermines these prospects. If the decline in import demand in Greece continues to focus primarily on limiting the purchases of machinery and raw materials and less on consumer goods, this would create a great uncertainty about the possibilities of quick and steady recovery of the domestic production system.

Figure 3.19

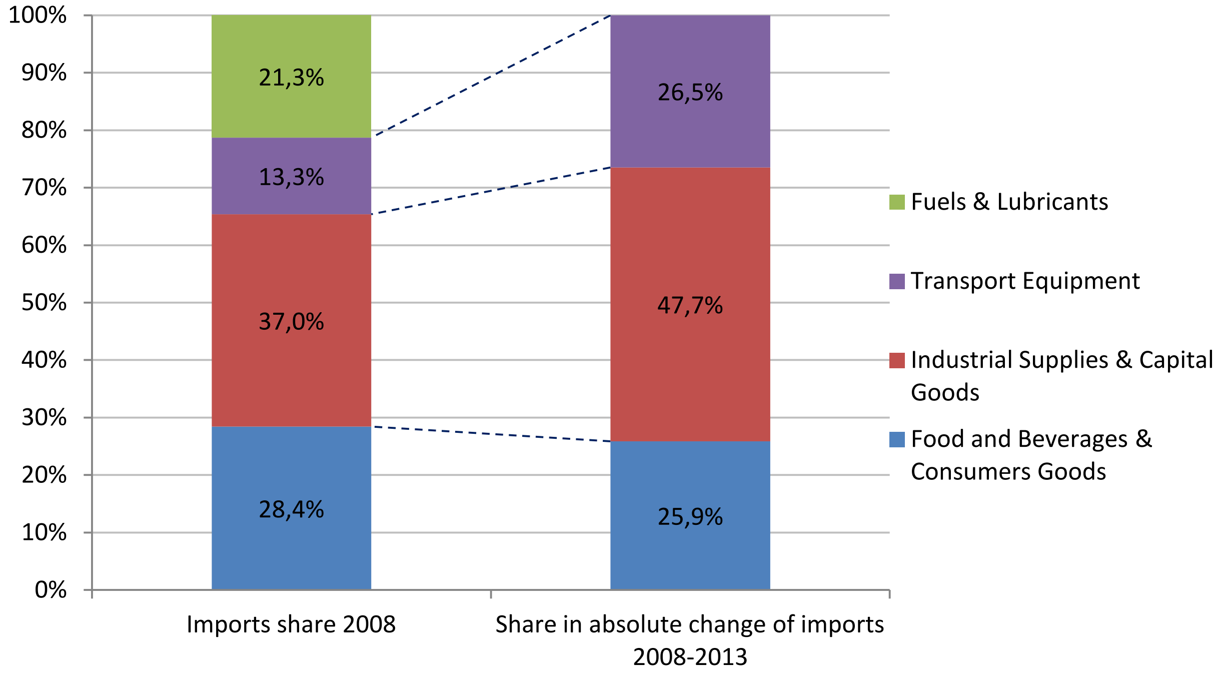
Imports-Exports (excl. fuels) 2001-2013 (January-December)



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

Figure 3.20

Goods Imports by category
(Imports share 2008 & Share in absolute change of imports 2008-2013)



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

Table 3.11

Provisional Balance of External Payments in mil. €

		January-December			December		
		2011	2012	2013	2011	2012	2013
I	**CURRENT ACCOUNT BALANCE (I.A +I .B+ I.C + I.D)**	**-20.633,5**	**-4.615,0**	**1.244,7**	**-2.142,8**	**-479,3**	**-215,4**
I.A	**GOODS (I.A.1 - I.A.2)**	**-27.229,1**	**-19.619,0**	**-17.229,4**	**-1.961,6**	**-978,1**	**-1.316,5**
	Oil Balance	-11.126,9	-10.220,0	-7.697,5	-670,3	-455,9	-348,9
	Trade Balance excluding oil	-16.102,1	-9.399,1	-9.531,9	-1.291,2	-522,2	-967,7
	Ships Balance	-3.261,2	-1.042,6	-1.483,3	-250,7	-21,9	-91,7
	Trade Balance excluding oil and ships	-12.840,9	-8.356,4	-8.048,7	-1.040,5	-500,3	-875,9
I.A.1	**Exports**	**20.230,6**	**22.020,6**	**22.534,8**	**1.639,4**	**2.010,6**	**1.864,7**
	Oil	6.187,7	7.426,4	7.941,2	536,4	667,6	547,5
	Ships	754,7	737,8	443,0	49,5	55,0	40,9
	Other goods	13.288,2	13.856,5	14.150,7	1.053,5	1.288,0	1.276,4
I.A.2	**Imports**	**47.459,6**	**41.639,7**	**39.764,2**	**3.600,9**	**2.988,7**	**3.181,3**
	Oil	17.314,6	17.646,3	15.638,7	1.206,7	1.123,5	896,4
	Ships	4.015,9	1.780,4	1.926,2	300,2	76,9	132,6
	Other goods	26.129,1	22.213,0	22.199,3	2.094,0	1.788,3	2.152,3
I.B	**SERVICES (I.B.1 - I.B.2)**	**14.629,6**	**15.138,9**	**16.817,4**	**611,9**	**459,1**	**628,2**
I.B.1	**Receipts**	**28.609,2**	**27.526,4**	**27.802,1**	**1.764,3**	**1.580,3**	**1.579,5**
	Travel*	10.504,7	10.442,5	11.994,8	144,7	145,8	168,5
	Transportation	14.096,6	13.287,4	12.089,9	1.212,9	1.015,2	1.057,6
	Other services	4.007,9	3.796,5	3.717,4	406,7	419,3	353,3
I.B.2	**Payments**	**13.979,6**	**12.387,4**	**10.984,8**	**1.152,4**	**1.121,2**	**951,3**
	Travel	2.266,5	1.843,9	1.839,3	180,9	161,0	149,9
	Transportation	7.234,4	6.328,0	5.553,0	573,7	512,5	453,0
	Other services	4.478,7	4.215,5	3.592,4	397,8	447,7	348,3
I.C	**INCOME (I.C.1 - I.C.2)**	**-8.594,8**	**-1.566,4**	**-2.819,0**	**-1.016,5**	**18,0**	**-129,1**
I.C.1	**Receipts**	**3.322,1**	**3.832,2**	**3.542,4**	**328,6**	**338,9**	**297,5**
	Compensation of employees	188,0	200,8	209,3	19,2	25,2	21,1
	Investment income	3.134,1	3.631,4	3.333,1	309,4	313,7	276,4
I.C.2	**Payments**	**11.916,9**	**5.398,6**	**6.361,4**	**1.345,1**	**320,9**	**426,5**
	Compensation of employees	470,0	468,0	453,0	48,2	39,0	39,2
	Investment income	11.447,0	4.930,7	5.908,4	1.296,8	282,0	387,4
I.D	**CURRENT TRANSFERS (I.D.1 - I.D.2)**	**560,8**	**1.431,5**	**4.475,8**	**223,3**	**21,7**	**602,0**
I.D.1	**Receipts**	**4.435,0**	**5.125,6**	**7.687,8**	**409,4**	**338,8**	**780,9**
	General Government (mainly transfers from EU)	3.254,9	4.060,2	6.410,6	308,2	260,8	687,0
	Other sectors	1.180,1	1.065,4	1.277,3	101,2	78,0	93,8
I.D.2	**Payments**	**3.874,2**	**3.694,1**	**3.212,1**	**186,1**	**317,1**	**178,9**
	General Government (mainly transfers from EU)	2.485,4	2.647,9	2.433,0	106,1	245,8	118,4
	Other sectors	1.388,8	1.046,2	779,0	80,0	71,3	60,5
II	**CAPITAL TRANSFERS (II.1 - II.2)**	**2.671,8**	**2.327,6**	**3.040,8**	**794,7**	**497,7**	**35,3**
II.1	**Receipts**	**2.932,7**	**2.564,6**	**3.380,6**	**820,8**	**528,5**	**86,6**
	General Government (mainly transfers from EU)	2.798,5	2.486,0	3.298,9	809,0	521,8	79,4
	Other sectors	134,2	78,6	81,7	11,7	6,7	7,2
II.2	**Payments**	**260,8**	**237,1**	**339,8**	**26,1**	**30,8**	**51,4**
	General Government (mainly transfers from EU)	12,7	13,7	9,7	0,5	0,3	5,2
	Other sectors	248,1	223,3	330,1	25,6	30,5	46,2
III	**CURRENT ACCOUNT AND CAPITAL TRANSFERS (I + II)**	**-17.961,7**	**-2.287,5**	**4.285,5**	**-1.348,1**	**18,4**	**-180,2**
IV	**FINANCIAL ACCOUNT (IV.A + IV.B + IV.C + IV.D)**	**17.838,1**	**2.658,2**	**-3.608,9**	**828,3**	**-676,1**	**274,2**
IV.A	**DIRECT INVESTMENT****	**-452,6**	**827,1**	**2.405,5**	**1.856,1**	**486,8**	**1.080,1**
	Abroad	-1.274,9	-527,3	469,0	16,1	-68,5	-109,4
	Home	822,3	1.354,3	1.936,5	1.840,0	555,2	1.189,5
IV.B	**PORTFOLIO INVESTMENT****	**-19.778,3**	**-99.903,9**	**-6.583,1**	**-322,8**	**-25.644,1**	**-932,3**
	Assets	4.139,0	-58.086,1	1.023,6	1.461,2	-18.990,4	-1.295,1
	Liabilities	-23.917,3	-41.817,8	-7.606,7	-1.784,0	-6.653,6	362,8
IV.C	**OTHER INVESTMENT****	**38.050,0**	**101.744,1**	**675,8**	**-701,0**	**24.451,2**	**144,3**
	Assets	7.638,7	13.863,4	17.491,9	2.023,6	164,0	1.742,5
	Liabilities	30.411,3	87.880,7	-16.816,1	-2.724,5	24.287,2	-1.598,2
	(Loans of general government))	39.873,9	109.093,9	30.061,2	7.950,1	33.972,0	112,2
IV.D	**CHANGE IN RESERVE ASSETS*****	**19,0**	**-9,0**	**-107,0**	**-4,0**	**30,0**	**-18,0**
V	**BALANCE ITEMS (I + II + IV + V = 0)**	**123,6**	**-370,8**	**-676,7**	**519,8**	**657,7**	**-94,0**
	RESERVE ASSETS (STOCK) (end period)******				**5.332**	**5.500**	**4.172**

Source: Bank of Greece

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

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

* * * (+) decrease (-) increase

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

4. THE ECONOMIC EFFECTS OF STRUCTURAL REFORMS[17]

4.1 Introduction

The Greek economy, after an extensive, unprecedented, six-year recession, has shown signs of stabilisation since the beginning of this year. However, the accumulated decline in GDP, which resulted in the loss of nearly a quarter of the disposable income in the Greek economy, has critically affected the production system of the country. Today, the need for policies that will lead to immediate and sustained recovery of the economy is more urgent than ever. In the medium term this could be achieved mainly through the enhancement of the credibility of institutions, and the promotion of competitiveness and innovation. The adoption of structural reforms that will improve the business environment, encourage investment and exports and enhance competition in markets for goods and services could help towards this goal. The implementation of such reforms are expected to have multiple benefits to the economy (e.g. boost of production activity and exports, consolidation of public finances, job creation), but also to society at large.

4.2 Reform progress and microeconomic effects

The aim of the study is to record the reforms that have taken place in four areas of the regulatory framework relating to key business aspects, such as investment, competition in the markets for goods and services, exports and public procurement. The study consists of three parts. The first part identifies in detail the relevant reforms in these areas in the last three years. Also it attempts to quantify, through econometric models, the impact of reforms in the regulatory framework on key economic indicators. The second part presents indicators for monitoring the effectiveness of changes to the regulatory framework, in terms of their impact on market operation. Finally, third part of the study examines the macroeconomic effects of the adoption of these reforms.

4.2.1 Public Procurement System

Improving the functioning of public procurement is a priority goal on the European agenda, given the fact that public procurement entails considerable government expenditure in the European Union (EU), accounting for almost 16-20% of EU GDP per year. The speedy and efficient operation of the public procurement system has received a great deal of attention, since it could lead to significant cost savings, particularly in countries such as Greece, where a fiscal adjustment programme is under implementation.

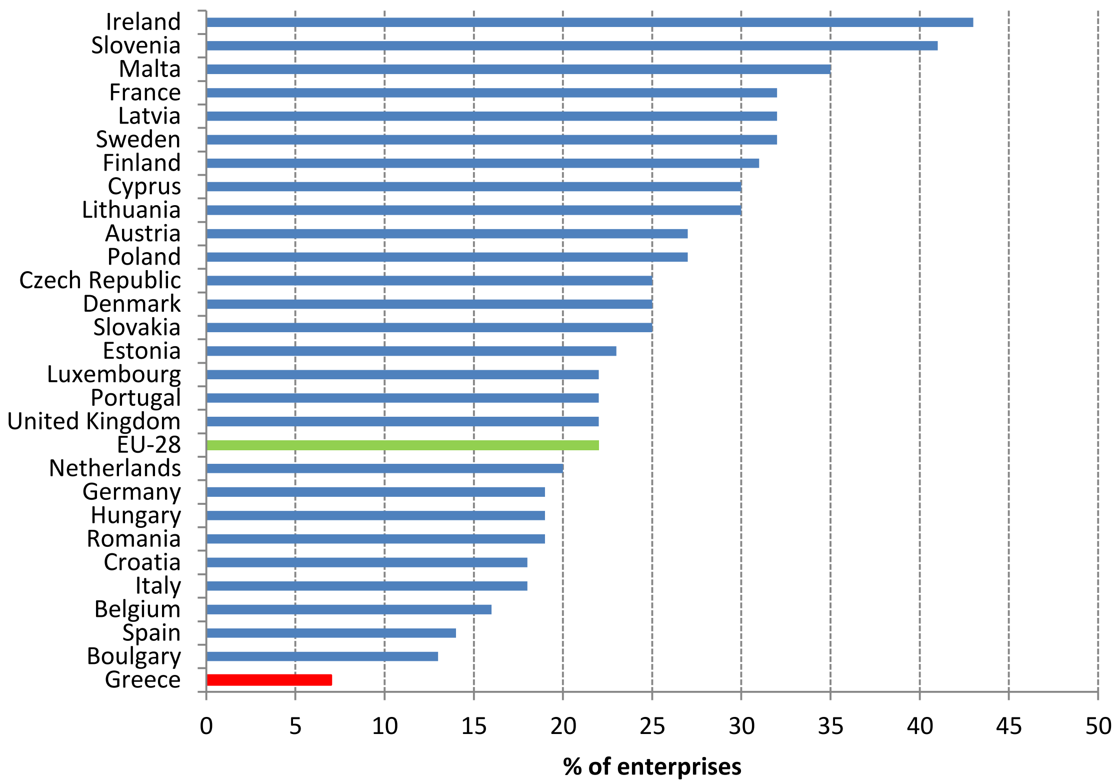
[17] This abstract is based on a series of studies that were conducted under the coordination of IOBE in collaboration with the Task Force. The full texts are available in the section «Documentation and Analysis» in http://ec.europa.eu/commission_2010-2014/president/taskforce-greece/index_en.htm

According to the relevant literature, public procurement reforms should follow the fundamental principles of efficiency, transparency, competition, innovation and the adoption of ICT solutions (e-procurement). However, obstacles to achieving the best possible economic results, related to lack of strategy and procedural complexity, have been observed in some countries.

The main barriers to the efficiency of reforms in Greece refer to the complexity of the regulation framework, the low degree of transparency and competition, the time-consuming procedures and the shortages in specified skills.

Meanwhile, the introduction of e-procurement for public contracts is at an early stage, as only 7% of the enterprises in Greece were using digital platforms for public procurement in 2012, compared with more than 20% in the EU (Figure 4.1).

Figure 4.1
Use of electronic public tendering systems by the enterprises (2012)



Source: Eurostat

The key reforms to overcome these policy failures in Greece include the establishment of the Single Public Procurement Authority (SPPA) in 2011. The aim of the authority is to ensure transparency and efficiency of the procurement process and the execution of contracts. In addition, since the beginning of 2014 the central government agencies are required to conduct the competitions (for projects with a budget of over € 60 thousand) through the National Electronic System of Public Procurement. Further reforms include increasing the share of assignments conducted through central procurement bodies and simplification of the institutional framework of public procurement.

The empirical analysis in the procurement section explores the effect of an improved transparency in the cost of public procurement, using data for 2,218 public procurement contracts. The results show that improved transparency, through the establishment of SPPA, reduce public procurement cost by about 3.5%.

4.2.2 Investment

Investment in Greece has fallen significantly during the last six years, more than any other key GDP component, mainly due to the intense uncertainty at the macroeconomic level, and the lack of liquidity, as a consequence of the exit of the Greek state from the capital markets. This led to a decline in investment (excluding property investment) to 10% of GDP (from 15% in 2008), which is one of the lowest rate in the EU (Figure 4.2).

This development indicates that the basic conditions for economic recovery include a significant boost of investment, from the domestic private sector and by attracting investment capital from abroad (foreign direct investment). In order to encourage investment, recovery of both domestic and international demand is not sufficient - changes to the regulatory framework are also necessary. Reforms, such as simplification of the licensing of new businesses, and of business expansion, and completion of the regional land-use plans can significantly stimulate investment activity.

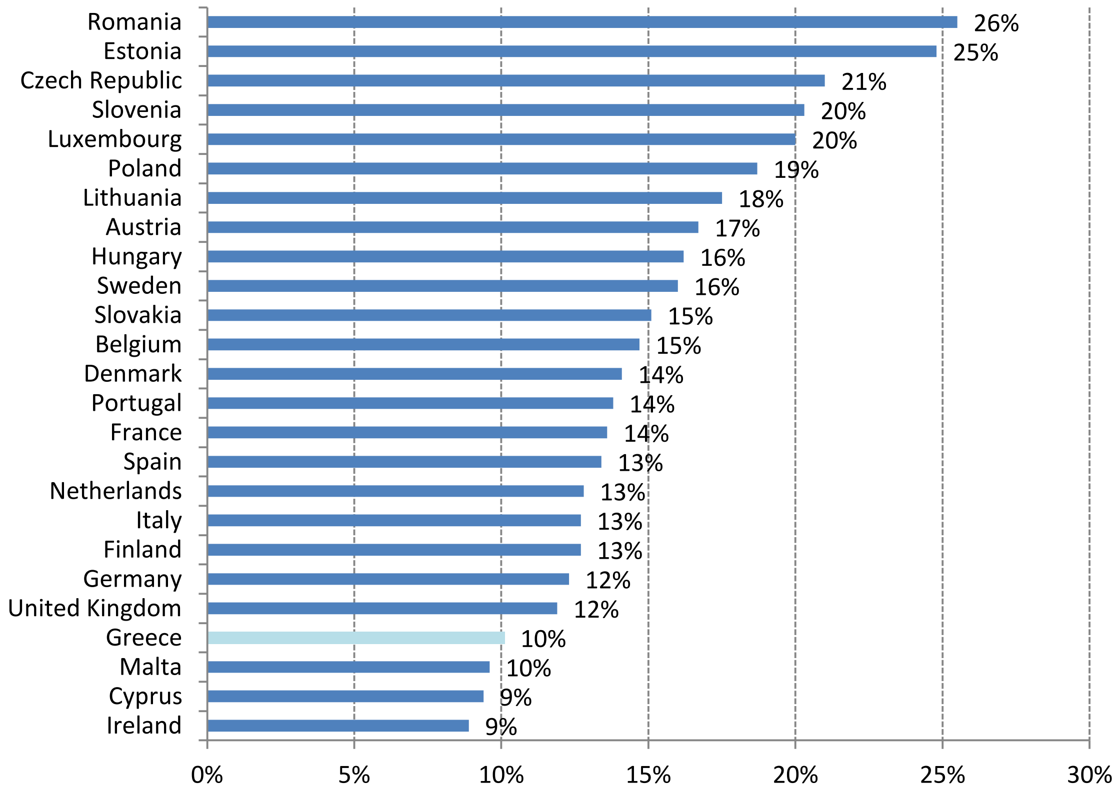
In this context, the key investment reforms include the simplification of the licensing procedures for new enterprises. With the newly established "one-stop-shops", the cost to start a business was reduced significantly. In addition, in early 2012 the Greek parliament adopted a package of reforms with Law No. 4072/2012,which established measures to further improve the business environment and to facilitate large-scale strategic investment projects (strengthening the provisions of Law No. 3894/2010).

The progress that has been made through changes in the legal framework for licensing new businesses is captured in the reduction of the number of procedures (from 15 in 2010 to 5 in 2013) and the time duration, which decreased by five days in 2013 (14 days). At the same time, the relative cost has been reduced by about 4/5 compared to three years ago (about 5% of income per capita), while the minimum capital requirement has ceased to exist.[18]

[18] At least for the type of businesses being evaluated under the Doing Business Indicator, of the World Bank.

Figure 4.2

Investment (except housing) as % of GDP the EU member-states (2012)



Source: Eurostat

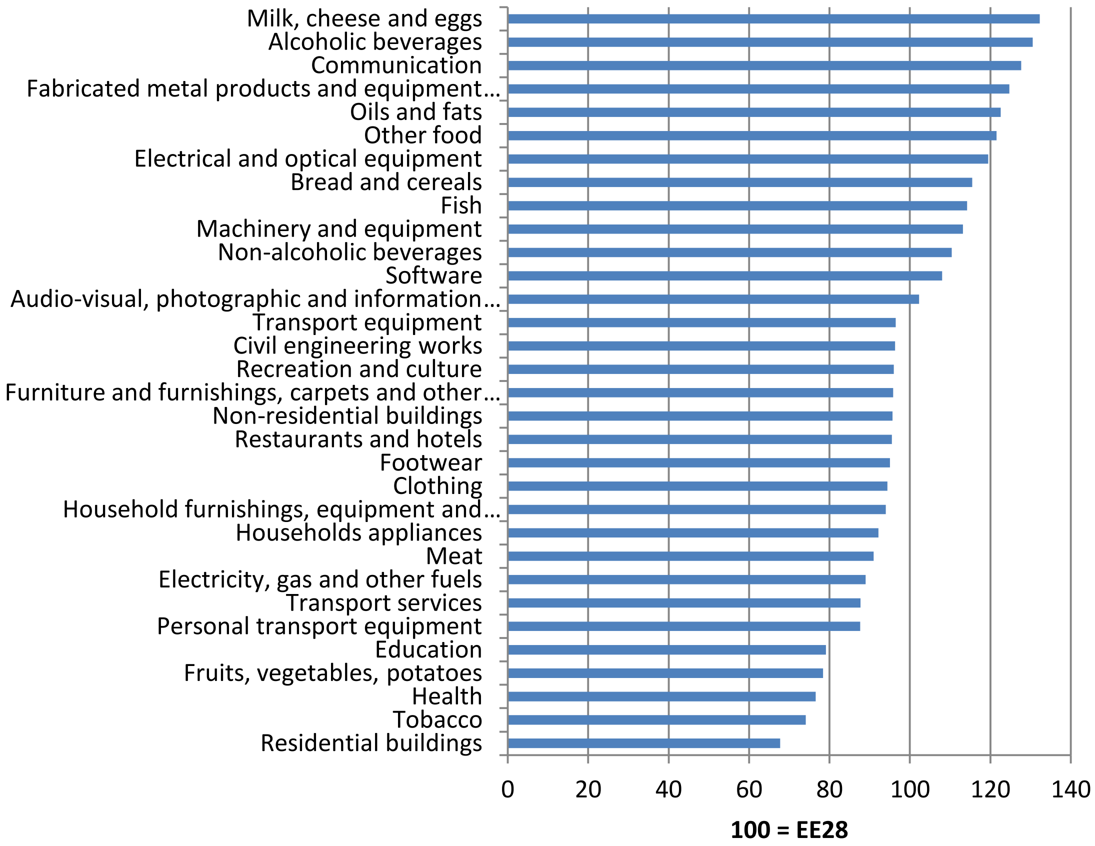
The reduction of the administrative burden has quantifiable impact on business investment. The results of the econometric analysis which was based on cross-sectional and longitudinal data (panel) for 26 member countries of the EU in the period 2005-2011, show that the potential benefit from the reforms in the business environment in Greece during the period 2010-2013 amounts to 0.9% of GDP (€ 1.6 billion). The empirical assessment indicates that further simplification of the procedures for establishing businesses could further boost investment by 0.4% of GDP or € 730 million annually.

4.2.3 Competition in the markets for products and services

In the context of the Economic Adjustment Programme, a number of market liberalisation reforms were implemented in various sectors of economic activity. In greater detail, with no.3959/2011 on free competition, the enforcement of this legislation fell under the competence of the Hellenic Competition Commission (HCC). At the same time, specific legislative interventions were carried out in specific markets. Indicatively, Law no.3872/2010 provided the right to cruise ships with a third-country flag to operate in Greek seaports, while law no.3887/2010 provided for the gradual liberalisation of road freight transportation.

Figure 4.3

Price level indices of Greece comparative to EU-28, 2012



Source: Eurostat

In late 2013, the OECD and the Ministry of Development and Competitiveness completed the assessment of the institutional framework in four economic sectors: food processing, retail trade, building materials and tourism. The purpose of the project was to review the legal framework governing these sectors, using the OECD toolkit, and to identify constraints and obstacles to competition. The study revealed that the adoption of the recommended reforms could lead to a GDP growth by about €5 billion.

However, despite the recent interventions, there are still barriers to the competition among enterprises (including legal barriers of entry for new firms) in several markets for goods and services. As a consequence, the price of commodities such as milk and alcoholic beverages, and services such as telecommunications is higher, compared with the EU average (Figure 4.3).[19]

The econometric assessment of the effects from increased competition indicates that this could lead to a fall in prices and employment growth. In greater detail, based on a panel data of 24 OECD countries for the years 1998, 2003, 2008 and 2013 respectively, we found

[19] The analysis was performed prior to the adoption of the structural changes legislated under Law No. 4254/2014, implementing some of the OECD proposals for promoting competition in selected markets.

that if the Greek performance in the index "Barriers in Services" converges to the EU[20] average the price level index on services would fall by 4.4%. Similarly, in case that Greece converges to the EU average in the indicators "Legal barriers to entry business" and "Obstacles to entrepreneurship", we could expect a boost of employment by 52,000 and 88,000 jobs respectively.

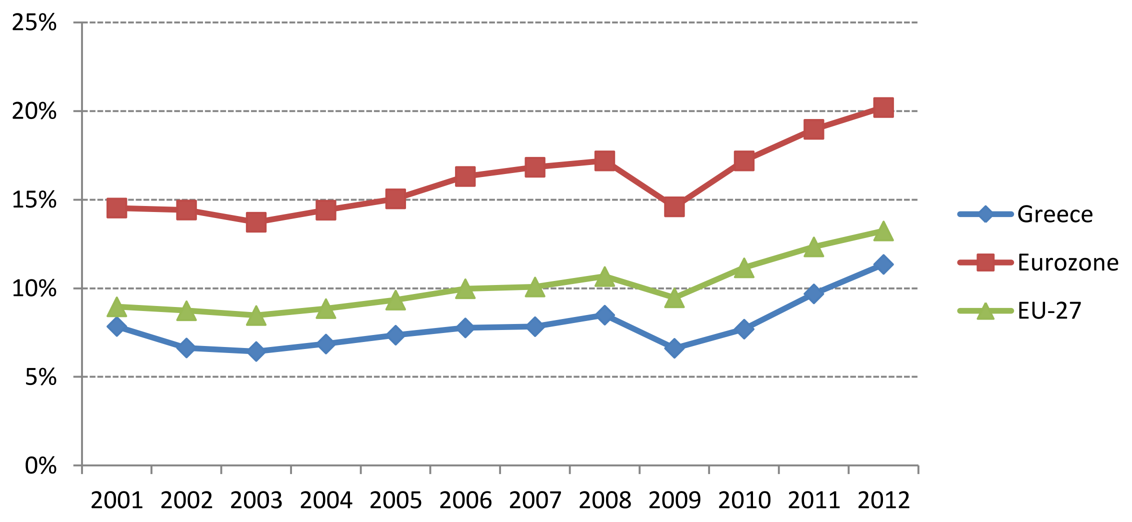
4.2.4 Exports

The strengthening of exports, together with the facilitation of investment, is a prerequisite for the recovery of the Greek economy and a pillar of the new growth model for Greece. It should be noted that the percentage of exports of goods to the country's GDP is almost half compared with the corresponding Euro area average (Figure 4.4).

To overcome this underperformance, the Greek government adopted a National Export Strategy in Greece, aims to boost exports through structural reforms to facilitate trade by simplifying the pre-customs and customs procedures.

Besides, the need to change the rules and procedures for exports can be seen by the fact that Greece still lags behind several economies in the European Union in terms of time and cost required to export goods. According to the Doing Business report for 2013, Spain and Portugal are ranked 32nd and 25th in the subindex on the ease of exports, while Greece takes up the 55th position.

Figure 4.4
Exports of goods as % of GDP in Greece, the Euro area and EU-27, 2001-2012



Source: Eurostat

In the context of the planned structural interventions for exports, the action plan of the strategy includes actions aiming to reduce the time to export by 50% and the administrative

[20] EU countries that are members of the OECD

costs to export by 20% until 2015 and to establish the National Single Window to interconnect the customs of the country.

The changes that have been adopted so far contribute to achieve these goals. Indicatively, since April 2012 the export declarations can be submitted electronically via the ICISnet system. Moreover, further reforms to facilitate exports (electronic submission, extended office hours) were implemented in several select customs (the 5th and 6th custom offices of the Port of Piraeus and the custom office of the Athens airport), .

In the present study, the positive effect on exports from speedier export procedures is confirmed through empirical analysis. In particular, based on data from the EU member-states for the period 2005-2012 (panel data analysis), one day reduction in the time required to export goods would lead to increased exports by almost 1% of GDP.

4.3 Summary of Results

The implementation of structural reforms is crucial for the more efficient operation of the production system in the country and for job creation. Removing obstacles to the functioning of markets for goods and services can help to improve drastically the level of competition in these markets. Given also that the reform areas are significantly interrelated, as in market liberalisation investment, the multiplier benefit to the economy and society could potentially be very high.

These arguments are confirmed not only by the estimates presented above for the direct impact of reforms in the four areas of the regulatory framework, but also by the analysis of the effects on the macroeconomic level. The empirical results from the macroeconomic study indicate that the implementation of structural reforms in a reliable way can gradually lead the economy, through increased flexibility in the markets and in the price system, to higher levels of output and employment,. Furthermore, the results show that the systematic implementation of reforms in a wide range of sectors of the economy can significantly improve its international competitiveness.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: Real GDP growth rate

	Annual data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	2.4	3.7	3.7	1.4	-3.8	1.8	2.8	0.9	:
Belgium	1.8	2.7	2.9	1	-2.8	2.3	1.8	-0.1	0.2
Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.4	1.8	0.6	0.9
France	1.8	2.5	2.3	-0.1	-3.1	1.7	2	0	0.2
Germany	0.7	3.7	3.3	1.1	-5.1	4	3.3	0.7	0.4
Denmark	2.4	3.4	1.6	-0.8	-5.7	1.4	1.1	-0.4	0.4
EU-28	2.2	3.4	3.2	0.4	-4.5	2	1.7	-0.4	0.1
EA-17	1.7	3.3	3	0.4	-4.4	2	1.6	-0.7	-0.5
Greece	2.3	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-7	-3.9
Estonia	8.9	10.1	7.5	-4.2	-14.1	2.6	9.6	3.9	0.8
United Kingdom	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Ireland	6.1	5.5	5	-2.2	-6.4	-1.1	2.2	0.2	:
Spain	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Italy	0.9	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.9
Cyprus	3.9	4.1	5.1	3.6	-1.9	1.3	0.4	-2.4	-5.4
Latvia	10.1	11	10	-2.8	-17.7	-1.3	5.3	5.2	4.1
Lithuania	7.8	7.8	9.8	2.9	-14.8	1.6	6	3.7	3.3
Luxembourg	5.3	4.9	6.6	-0.7	-5.6	3.1	1.9	-0.2	:
Malta	3.6	2.6	4.1	3.9	-2.8	4.1	1.6	0.6	2.4
Netherlands	2	3.4	3.9	1.8	-3.7	1.5	0.9	-1.2	-0.8
Hungary	4	3.9	0.1	0.9	-6.8	1.1	1.6	-1.7	1.1
Poland	3.6	6.2	6.8	5.1	1.6	3.9	4.5	1.9	1.6
Portugal	0.8	1.4	2.4	0	-2.9	1.9	-1.3	-3.2	-1.4
Romania	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Slovakia	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Slovenia	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Sweden	4.2	7.9	6.3	7.3	-6.6	-1.1	2.3	0.6	3.5
Czech Republic	6.8	7	5.7	3.1	-4.5	2.5	1.8	-1	-0.9
Finland	2.9	4.4	5.3	0.3	-8.5	3.4	2.8	-1	-1.4
Croatia	4.3	4.9	5.1	2.1	-6.9	-2.3	-0.2	-1.9	-1

Table 2: General government debt (% GDP)

	Annual data (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Austria	64.7	64.2	62.3	60.2	63.8	69.2	72.3	72.8	74
Belgium	94	92	87.9	84	89.2	95.7	95.7	98	99.8
Bulgaria	37	27.5	21.6	17.2	13.7	14.6	16.2	16.3	18.5
France	65	66.7	64	64.2	68.2	79.2	82.4	85.8	90.2
Germany	66.2	68.6	68	65.2	66.8	74.5	82.5	80	81
Denmark	45.1	37.8	32.1	27.1	33.4	40.7	42.7	46.4	45.4
EU-28	:	:	:	:	:	:	:	:	:
EA-17	:	:	:	:	:	:	:	:	:
Greece	98.9	101.2	107.5	107.2	112.9	129.7	148.3	170.3	156.9
Estonia	5	4.6	4.4	3.7	4.5	7.1	6.7	6.1	9.8
United Kingdom	40.3	41.7	42.7	43.7	51.9	67.1	78.4	84.3	88.7
Ireland	29.4	27.2	24.6	24.9	44.2	64.4	91.2	104.1	117.4
Spain	46.3	43.2	39.7	36.3	40.2	54	61.7	70.5	86
Italy	103.7	105.7	106.3	103.3	106.1	116.4	119.3	120.7	127
Cyprus	70.9	69.4	64.7	58.8	48.9	58.5	61.3	71.5	86.6
Latvia	15	12.5	10.7	9	19.8	36.9	44.4	41.9	40.6
Lithuania	19.3	18.3	17.9	16.8	15.5	29.3	37.8	38.3	40.5
Luxembourg	6.4	6.1	6.7	6.7	14.4	15.5	19.5	18.7	21.7
Malta	69.8	68	62.5	60.7	60.9	66.5	66.8	69.5	71.3
Netherlands	52.4	51.8	47.4	45.3	58.5	60.8	63.4	65.7	71.3
Hungary	59.5	61.7	65.9	67	73	79.8	82.2	82.1	79.8
Poland	45.7	47.1	47.7	45	47.1	50.9	54.9	56.2	55.6
Portugal	61.9	67.7	69.4	68.4	71.7	83.7	94	108.2	124.1
Romania	18.7	15.8	12.4	12.8	13.4	23.6	30.5	34.7	37.9
Slovakia	41.5	34.2	30.5	29.6	27.9	35.6	41	43.4	52.4
Slovenia	27.3	26.7	26.4	23.1	22	35.2	38.7	47.1	54.4
Sweden	50.3	50.4	45.3	40.2	38.8	42.6	39.4	38.6	38.2
Czech Republic	28.9	28.4	28.3	27.9	28.7	34.6	38.4	41.4	46.2
Finland	44.4	41.7	39.6	35.2	33.9	43.5	48.7	49.2	53.6
Croatia	:	:	:	:	:	36.6	44.9	51.6	55.5

Table 3: General government balance (% GDP)

	Annual data (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Austria	-4.4	-1.7	-1.5	-0.9	-0.9	-4.1	-4.5	-2.5	-2.5
Belgium	-0.1	-2.5	0.4	-0.1	-1	-5.6	-3.7	-3.7	-4
Bulgaria	1.9	1	1.9	1.2	1.7	-4.3	-3.1	-2	-0.8
France	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.1	-5.3	-4.8
Germany	-3.8	-3.3	-1.6	0.2	-0.1	-3.1	-4.2	-0.8	0.1
Denmark	2.1	5.2	5.2	4.8	3.2	-2.7	-2.5	-1.8	-4.1
EU-28	:	:	:	:	:	-6.9	-6.5	-4.4	-3.9
EA-17	-2.9	-2.5	-1.3	-0.7	-2.1	-6.4	-6.2	-4.2	-3.7
Greece	-7.5	-5.2	-5.7	-6.5	-9.8	-15.7	-10.7	-9.5	-9
Estonia	1.6	1.6	2.5	2.4	-2.9	-2	0.2	1.1	-0.2
United Kingdom	-3.5	-3.4	-2.8	-2.8	-5	-11.4	-10.1	-7.7	-6.1
Ireland	1.4	1.6	2.9	0.2	-7.4	-13.7	-30.6	-13.1	-8.2
Spain	-0.1	1.3	2.4	2	-4.5	-11.1	-9.6	-9.6	-10.6
Italy	-3.5	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.8	-3
Cyprus	-4.1	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3	-6.4
Latvia	-1	-0.4	-0.5	-0.4	-4.2	-9.8	-8.1	-3.6	-1.3
Lithuania	-1.5	-0.5	-0.4	-1	-3.3	-9.4	-7.2	-5.5	-3.2
Luxembourg	-1.1	0	1.4	3.7	3.2	-0.7	-0.8	0.1	-0.6
Malta	-4.6	-2.9	-2.7	-2.3	-4.6	-3.7	-3.5	-2.8	-3.3
Netherlands	-1.7	-0.3	0.5	0.2	0.5	-5.6	-5.1	-4.3	-4.1
Hungary	-6.5	-7.9	-9.4	-5.1	-3.7	-4.6	-4.3	4.3	-2
Poland	-5.4	-4.1	-3.6	-1.9	-3.7	-7.5	-7.9	-5	-3.9
Portugal	-4	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.3	-6.4
Romania	-1.2	-1.2	-2.2	-2.9	-5.7	-9	-6.8	-5.6	-3
Slovakia	-2.4	-2.8	-3.2	-1.8	-2.1	-8	-7.7	-5.1	-4.5
Slovenia	-2.3	-1.5	-1.4	0	-1.9	-6.3	-5.9	-6.3	-3.8
Sweden	0.6	2.2	2.3	3.6	2.2	-0.7	0.3	0.2	-0.2
Czech Republic	-2.8	-3.2	-2.4	-0.7	-2.2	-5.8	-4.7	-3.2	-4.4
Finland	2.5	2.9	4.2	5.3	4.4	-2.5	-2.5	-0.7	-1.8
Croatia	:	:	:	:	:	-5.3	-6.4	-7.8	-5

Table 4: Proportion of the population below the at-risk-of-poverty thresholds(*)

	Annual Data(%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	16.8	17.8	16.7	18.6	17	16.6	16.9	18.5(b)	:
Belgium	22.6	21.5	21.6	20.8	20.2	20.8	21	21.6	:
Bulgaria	:	61.3	60.7	44.8(b)	46.2	49.2	49.1	49.3	:
France	18.9	18.8	19	18.5(b)	18.5	19.2	19.3	19.1	:
Germany	18.4	20.2	20.6	20.1	20	19.7	19.9	19.6	:
Denmark	17.2	16.7	16.8	16.3	17.6	18.3	18.9	19	:
EU-28	:	:	:	:	:	23.7	24.3	24.8(e)	:
EA-17	21.5	21.8	21.7	21.6	21.3	21.8	22.8	23.2(e)	:
Greece	29.4	29.3	28.3	28.1	27.6	27.7	31	34.6	:
Estonia	25.9	22	22	21.8	23.4	21.7	23.1	23.4	:
United Kingdom	:	72.4	:	:	:	:	:	:	:
Ireland	25	23.3	23.1	23.7	25.7	27.3	29.4	:	:
Spain	24.3	24	23.3	24.5	24.5	26.7	27.7	28.2	:
Italy	25	25.9	26	25.3	24.7	24.5	28.2	29.9	:
Cyprus	25.3	25.4	25.2	23.3(b)	23.5	24.6	24.6	27.1	:
Latvia	46.3	42.2	35.1	34.2(b)	37.9	38.2	40.1	36.2	35.1
Lithuania	41	35.9	28.7	27.6	29.6	34	33.1	32.5	:
Luxembourg	17.3	16.5	15.9	15.5	17.8	17.1	16.8	18.4	:
Malta	20.5	19.5	19.7	20.1	20.3	21.2	22.1	23.1	:
Netherlands	16.7	16	15.7	14.9	15.1	15.1	15.7	15	:
Hungary	32.1	31.4	29.4	28.2	29.6	29.9	31	32.4	33.5
Poland	45.3	39.5	34.4	30.5(b)	27.8	27.8	27.2	26.7	:
Portugal	26.1	25	25	26	24.9	25.3	24.4	25.3	:
Romania	:	:	45.9	44.2	43.1	41.4	40.3	41.7	:
Slovakia	32	26.7	21.3	20.6	19.6	20.6	20.6	20.5	:
Slovenia	18.5	17.1	17.1	18.5	17.1	18.3	19.3	19.6	:
Sweden	14.4	16.3	13.9	14.9	15.9	15	16.1	15.6	:
Czech Republic	19.6	18	15.8	15.3	14	14.4	15.3	15.4	:
Finland	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2	:
Croatia	:	:	:	:	:	30.7	32.3	32.3	:

b=break in time series, e=estimated
(*)%population with disposable income below 60% of the national median income

Table 5: Inflation

	Annual data (%)				January-February(%)			Change (%)	
	2010	2011	2012	2013	2012	2013	2014	2013/12	2014/13
Austria	1.7	3.6	2.6	2.1	2.8	2.7	1.5	-0.1	-1.2
Belgium	2.3	3.5	2.6	1.1	3.3	1.3	1.1	-2.0	-0.2
Bulgaria	3.0	3.4	2.4	0.4	1.9	2.4	-1.7	0.5	-4.2
France	1.7	2.3	2.2	1.0	2.6	1.3	0.9	-1.3	-0.4
Germany	1.2	2.5	2.1	1.6	2.4	1.8	1.1	-0.6	-0.7
Denmark	2.2	2.7	2.4	0.5	2.8	1.0	0.5	-1.8	-0.5
EU-28	2.1	3.1	2.6	1.5	2.9	2.1	0.8	-0.8	-1.2
EA-17	1.6	2.7	2.5	1.4	2.7	1.9	0.7	-0.8	-1.2
Greece	4.7	3.1	1.0	-0.9	1.9	0.1	-1.1	-1.8	-1.2
Estonia	2.7	5.1	4.2	3.3	4.6	3.9	1.4	-0.7	-2.5
United Kingdom	3.3	4.5	2.8	2.6	3.5	2.8	:	-0.7	:
Ireland	-1.6	1.2	1.9	0.5	1.5	1.4	0.2	-0.1	-1.2
Spain	1.8	3.3	2.4	1.5	1.9	2.9	0.2	0.9	-2.7
Italy	1.6	2.9	3.3	1.3	3.4	2.2	0.5	-1.3	-1.7
Cyprus	1.1	2.2	3.3	2.3	1.5	4.5	0.1	3.0	-4.4
Latvia	2.6	3.5	3.1	0.4	3.1	1.9	-1.4	-1.2	-3.3
Lithuania	-1.2	4.2	2.3	0.0	3.3	0.5	0.5	-2.9	0.0
Luxembourg	1.2	4.1	3.2	1.2	3.6	2.5	0.3	-1.1	-2.2
Malta	2.8	3.7	2.9	1.7	3.2	2.3	1.1	-1.0	-1.2
Netherlands	2.0	2.4	3.3	1.0	2.1	2.2	1.3	0.1	-0.9
Hungary	0.9	2.5	2.8	2.6	2.8	3.2	0.6	0.5	-2.6
Poland	4.7	3.9	5.7	1.7	5.7	2.8	0.5	-2.9	-2.3
Portugal	2.7	3.9	3.7	0.8	4.3	1.4	0.6	-2.9	-0.8
Romania	1.4	3.6	2.8	0.4	3.5	0.3	0.0	-3.1	-0.3
Slovakia	6.1	5.9	3.4	3.2	2.7	5.0	1.2	2.2	-3.7
Slovenia	0.7	4.1	3.7	1.5	4.0	2.4	-0.1	-1.6	-2.5
Sweden	2.1	2.1	2.8	1.9	2.5	2.9	0.5	0.4	-2.4
Czech Republic	1.9	1.4	0.9	0.4	0.9	0.6	0.1	-0.3	-0.4
Finland	1.2	2.1	3.5	1.4	3.9	1.8	0.3	-2.1	-1.5
Croatia	1.7	3.3	3.2	2.2	3.0	2.5	1.7	-0.5	-0.8

Table 6: GDP per capita (in PPS, EU-27=100)

	Annual data(%)								
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Austria	128	125[(b)]	126	124	125	126	127	129	130
Belgium	122	120[(b)]	118	116	116	118	121	120	120
Bulgaria	35	37[(b)]	38	40	44	44	44	47	47
France	110	110[(b)]	108	108	107	109	109	109	109
Germany	116	116[(b)]	116	116	116	115	120	123	123
Denmark	126	124[(b)]	124	123	125	124	128	126	126
EU-28	100	100[(b)]	100	100	100	100	100	100	100
EA-17	109	109[(b)]	109	109	109	109	109	109	108
Greece	94	91[(b)]	92	90	93	94	88	80	75
Estonia	58	62[(b)]	66	70	69	64	64	69	71
United Kingdom	125	124[(b)]	122	118	114	112	108	105	106
Ireland	143	144[(b)]	146	146	132	129	129	129	129
Spain	101	102[(b)]	105	105	104	103	99	96	96
Italy	107	105[(b)]	105	104	104	104	103	102	101
Cyprus	91	93[(b)]	93	94	100	100	97	94	92
Latvia	47	50[(b)]	53	57	59	54	55	60	64
Lithuania	52	55[(b)]	58	62	64	58	62	68	72
Luxembourg	253	254[(b)]	270	275	264	253	263	266	263
Malta	80	80[(b)]	79	78	81	84	87	86	86
Netherlands	129	131[(b)]	131	132	134	132	130	129	128
Hungary	63	63[(b)]	63	62	64	65	66	67	67
Poland	51	51[(b)]	52	55	56	61	63	65	67
Portugal	77	80[(b)]	79	79	78	80	80	77	76
Romania	34	35[(b)]	38	42	47	47	48	48	50
Slovakia	57	60[(b)]	63	68	73	73	74	75	76
Slovenia	87	87[(b)]	88	89	91	86	84	84	84
Sweden	127	122[(b)]	123	125	124	120	124	125	126
Czech Republic	78	79[(b)]	80	83	81	83	81	81	81
Finland	116	114[(b)]	114	118	119	115	114	116	115
Croatia	56	57[(b)]	58	61	63	62	59	61	62

b=break in the time series

Table 7: Real labour productivity per person employed (EU-27=100)

	Annual data (%)								
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Austria	120.8	118.3(b)	119	116.9	116.3	116.1	114.9	115.4	114.7
Belgium	132.4	130.3(b)	129	127.5	126.8	127.7	129.9	128.8	128.3
Bulgaria	34.7	35.8(b)	36.4	37.4	39.7	39.7	40.8	42.9	44.5
France	115.3	116.3(b)	115.2	115.4	115.1	117.1	116.5	116.6	116.1
Germany	107.5	108.5(b)	108.6	108.2	107.8	104.1	106.9	108.3	106.9
Denmark	109.1	107.1(b)	106.9	104.6	105.7	106.8	113	111.6	111.9
EU-28	99.8	99.8(b)	99.8	99.8	99.8	99.8	99.8	99.8	99.9
EA-17	108.6	108.6(b)	108.5	108.7	108.8	108.8	108.8	108.8	108.7
Greece	101.1	95.8(b)	97	95.3	97.5(p)	98.1(p)	92.8(p)	89.7	91.6
Estonia	57.7	60.7(b)	62.3	66.6	65.6	66	69	69.8	69.9
United Kingdom	115.4	114.9(b)	114.3	111.7	108.8	106.9	102.3	100.1	99.7
Ireland	136.6	135.4(b)	135.4	136.2	126.9	132.8	137.6	141	141.6
Spain	102.3	101.3(b)	102.7	103	104.1	109.2	106.5	106	109.5
Italy	113.1	111.9(b)	111	111.5	112.8	112.5	111.7	110.5	109.2
Cyprus	82.3	82.9(b)	84	85.2	90.8	92.2	90.8	89.8	92.5
Latvia	45.8	47.8(b)	48.8	53.9(b)	55(b)	57.2(b)	60.7(b)	63.7	66.1
Lithuania	53.8	54.9(b)	56.7	59.5	61.9	57.9	68.3	72.4	73.9
Luxembourg	170.4	170(b)	179.2	179.7	168.2	159.2	163.9	165.2	162.4
Malta	94.3	94.5(b)	93	92.2	94.3	97	97.4	94.6	92.3
Netherlands	112.7	114.4(b)	114.2	114.3	115.2	112.5	110.5	109.8	108.3
Hungary	67	67.6(b)	67.7	66.5	70.5	72.3	71.6	72.5	71.1
Poland	61.8	61.7(b)	61.1	62.1	62.3	65.4	70(b)	71.9	73.5
Portugal	69.8	72.8(b)	73	73.9	73.4	76	76.5	74.4	75.9
Romania	34.6	36.1(b)	39.7	43.3	49.1	49.3	49.7	50.4	51
Slovakia	65.7	68.7(b)	71.6	76.3	79.6	79.9	82.3	81.5	81.9
Slovenia	81.5	83.1(b)	83.2	83.1	83.6	80	79.6	81.2	80.8
Sweden	115.4	111.9(b)	112.9	114.7	114.1	112	114	114	114.2
Czech Republic	72.9	73(b)	73.9	76.2	73.9(b)	75.8	74.2	74.5	73.8
Finland	113.5	111.1(b)	110.5	113.5	113.2	110.1	109.5	109.8	108.9
Croatia	73.5	74.5(b)	73.5	75.6	78.2	76.1	75	77.1	80.6

b=break in the time series, p=provisional

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

	Annual data (%)				4th quarter(%)			Change (%)	
	2009	**2010**	**2011**	**2012**	**2011**	**2012**	**2013**	**12/11**	**13/12**
Austria	74.7	74.9	75.2	75.6	75.3	75.5	75.6	0.2	0.1
Belgium	67.1	67.6	67.3	67.2	67.6	67.2	66.9	-0.4	-0.3
Bulgaria	68.8	65.4	63.9	63.0	63.1	63.4	63.6	0.3	0.2
France	69.4	69.2	69.2	69.3	69	69.3	:	0.3	:
Germany	74.2	74.9	76.3	76.7	77	77.1	77.5	0.1	0.4
Denmark	77.5	75.8	75.7	75.4	75.8	75.3	75.3	-0.5	0
EU-28	69.0	68.6	68.6	68.4	68.4	68.4	:	0	:
EA-17	68.8	68.4	68.5	69.4	69.6	69.3	:	-0.3	:
Greece	65.8	64.0	59.9	55.3	57.6	54.1	52.8	-3.5	-1.3
Estonia	69.9	66.7	70.4	72.1	71.2	72.1	73.3	0.9	1.2
United Kingdom	73.9	73.6	73.6	74.2	73.5	74.8	75.5	1.3	0.7
Ireland	67.1	65.0	63.8	63.7	63.9	64.1	66.6	0.2	2.5
Spain	63.7	62.5	61.6	59.3	60.7	58.5	58.5	-2.2	0
Italy	61.7	61.1	61.2	61.0	61.1	60.8	59.9	-0.3	-0.9
Cyprus	75.7	75.4	73.4	70.2	72.1	69.8	67	-2.3	-2.8
Latvia	67.1	65.0	66.3	68.2	67.5	69.3	70.1	1.8	0.8
Lithuania	67.2	64.4	67.2	68.7	67.8	68.6	70.4	0.8	1.8
Luxembourg	70.4	70.7	70.1	71.4	69.6	71.7	71.3	2.1	-0.4
Malta	58.8	60.1	61.5	63.1	61.3	63.9	65.7	2.6	1.8
Netherlands	78.8	76.8	77.0	77.2	77.5	77.2	76.4	-0.3	-0.8
Hungary	60.5	60.4	60.7	62.1	61.4	62.7	64.5	1.3	1.8
Poland	64.9	64.6	64.8	64.7	64.7	65	65.6	0.3	0.6
Portugal	71.2	70.5	69.1	66.5	67.7	65.1	66.7	-2.6	1.6
Romania	63.5	63.3	62.8	63.8	62.3	63.6	63.7	1.3	0.1
Slovakia	66.4	64.6	65.1	65.1	65	64.6	65	-0.4	0.4
Slovenia	71.9	70.3	68.4	68.3	68.5	68.5	67.1	0	-1.4
Sweden	78.3	78.7	80.0	79.4	79.3	79.2	79.7	-0.1	0.5
Czech Republic	70.9	70.4	70.9	71.5	71.1	71.9	73	0.8	1.1
Finland	73.5	73.0	73.8	74.0	73.8	73.3	72.5	-0.5	-0.8
Croatia	61.7	58.7	57.0	55.4	56.4	53.5	:	-2.9	:

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

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

	Annual data (%)				4th quarter (%)			Change (%)	
	2009	2010	2011	2012	2011	2012	2013	12/11	13/12
Austria	41.1	42.4	41.5	43.1	41.4	43.7	46.2	2.3	2.5
Belgium	35.3	37.3	38.7	39.5	38.9	39	41.9	0.1	2.9
Bulgaria	46.1	43.5	43.9	45.7	44.5	46.1	48	1.6	1.9
France	39.0	39.8	41.5	44.5	42.6	45.7	:	3.1	:
Germany	56.1	57.7	59.9	61.5	60.8	62.2	64.6	1.4	2.4
Denmark	58.2	58.4	59.5	60.8	60.4	61.6	62.2	1.2	0.6
EU-28	46.0	46.3	47.4	48.8	47.7	49.3	:	1.6	:
EA-17	45.1	45.8	47.1	50.9	50	51.5	:	1.5	:
Greece	42.2	42.3	39.4	36.4	37.5	36.2	35	-1.3	-1.2
Estonia	60.4	53.8	57.2	60.6	59	59.5	60.5	0.5	1
United Kingdom	57.5	57.1	56.7	58.1	56.6	58.7	60.7	2.1	2
Ireland	51.3	50.2	50.0	49.3	49.7	49.8	52.9	0.1	3.1
Spain	44.1	43.6	44.5	43.9	44.2	43.5	43.8	-0.7	0.3
Italy	35.7	36.6	37.9	40.4	39	41.1	44.2	2.1	3.1
Cyprus	56.0	56.8	54.8	50.7	52.4	51.4	48.4	-1	-3
Latvia	53.2	48.2	50.5	52.8	52.5	53.2	54.2	0.7	1
Lithuania	51.6	48.6	50.5	51.8	50.5	51.4	54.6	0.9	3.2
Luxembourg	38.2	39.6	39.3	41.0	37.9	40.3	37.7	2.4	-2.6
Malta	27.8	30.2	31.7	33.6	31.8	35.8	36	4	0.2
Netherlands	55.1	53.7	56.1	58.6	57.4	59.3	60.8	1.9	1.5
Hungary	32.8	34.4	35.8	36.9	36.2	37.2	39.4	1	2.2
Poland	32.3	34.0	36.9	38.7	37.7	39.8	42	2.1	2.2
Portugal	49.7	49.2	47.9	46.5	46.7	45.5	47.5	-1.2	2
Romania	42.6	41.1	40.0	41.4	39	41	41.7	2	0.7
Slovakia	39.5	40.5	41.4	43.1	41.8	43.8	43.7	2	-0.1
Slovenia	35.6	35.0	31.2	32.9	31.7	34.3	33.6	2.6	-0.7
Sweden	70.0	70.5	72.3	73.0	72.6	73.5	74.4	0.9	0.9
Czech Republic	46.8	46.5	47.6	49.3	47.4	50.3	52.6	2.9	2.3
Finland	55.5	56.2	57.0	58.2	57.2	58.2	58.4	1	0.2
Croatia	38.5	37.6	37.1	36.7	37.4	36.9	:	-0.5	:

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

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

	Annual data (%)						4th quarter(%)		
	2007	2008	2009	2010	2011	2012	2011/10	2012/11	2013/12
Austria	1.8	2	-0.7	0.8	1.7	1.0	0.7	0.5	0.2
Belgium	1.7	1.8	-0.2	0.7	1.4	0.3	-0.1	-0.4	-0.1
Bulgaria	3.2	2.6	-2.6	-4.7	-4.2	-1.1	-1.7	-0.7	-0.7
France	1.4	0.5	-1.3	-0.1	0.5	0.1	0.3	0.2	:
Germany	1.7	1.2	0.1	0.6	1.4	0.8	2.9	0.4	0.8
Denmark	2.8	1.7	-2.4	-2.3	-0.4	-0.5	-0.2	-0.1	-0.2
EU-28	1.8	1	-1.8	-0.5	0.3	-0.5	0.0	-0.2	:
EA-17	1.8	0.8	-1.8	-0.5	0.2	-0.3	0.1	-0.3	:
Greece	1.6	0.8	-0.2	-1.9	-6.7	-8.0	-8.5	-6.4	-2.5
Estonia	0.7	0.2	-9.9	-4.8	7	2.5	3.6	1.7	-1.4
UK	0.7	0.3	-1.7	-0.7	0.5	1.2	0.0	2.1	1.5
Ireland	3.6	-1.1	-8.1	-4.2	-2.1	-0.6	-0.5	0.1	3.3
Spain	3	-0.1	-6.5	-2.5	-1.5	-4.5	-3.3	-4.8	-1.2
Italy	1.3	0.3	-1.6	-0.7	0.3	-0.3	0.1	-0.6	-1.7
Cyprus	3.2	2.1	-0.5	0.1	0.5	-2.4	-1.6	-1.5	-3.2
Latvia	3.6	0.9	-13.2	-4.8	-8.1	2.8	-7.8	1.8	0.8
Lithuania	2.8	-0.7	-6.8	-5.1	2	1.8	-1.4	0.9	2.3
Luxembourg	:	:	:	:	:	5.0	0.9	6.1	0.3
Malta	3.2	2.6	-0.3	2.4	2.5	2.4	1.9	3.5	2.7
Netherlands	2.5	1.5	-0.7	-0.4	0.7	0.7	0.3	0.3	-1.0
Hungary	0	-1.4	-2.8	0.3	0.3	1.7	1.2	1.5	2.7
Poland	4.5	3.9	0.4	0.5	1	-3.3	0.4	0.1	0.5
Portugal	0	0.5	-2.6	-1.5	-1.5	-4.2	-4.3	-4.3	0.7
Romania	:	:	-2	-1.4	0.4	1.4	-0.1	1.9	-0.2
Slovakia	2.1	3.2	-2	-1.5	1.8	-1.0	-1.0	-0.1	0.6
Slovenia	3.3	2.6	-1.8	-2.2	-1.6	-1.3	-3.1	-1.2	-1.4
Sweden	2.3	0.9	-2.4	1.2	2.2	0.7	1.8	0.6	1.4
Czech Republic	2.1	2.3	-1.2	-1.7	0.2	-0.3	-0.7	0.6	0.8
Finland	2.2	2.6	-2.6	-0.1	1.1	0.4	1.3	-0.4	-1.0
Croatia	:	:	:	:	:	-3.1	-3.2	-5.2	:

Table 11: Unemployment rate (total)

	Annual data (%)				4th quarter(%)			Change (%)	
	2010	2011	2012	2013	2011	2012	2013	2012/11	2013/12
Austria	4.4	4.2	4.3	4.9	4.2	4.6	5	0.4	0.4
Belgium	8.3	7.2	7.6	8.4	7.3	8.2	8.4	0.9	0.2
Bulgaria	10.2	11.2	12.3	13	11.5	12.5	13.1	1	0.6
France	9.3	9.2	10.3	10.3	9.4	10.2	10.2	0.8	0
Germany	7.1	5.9	5.5	5.3	5.6	5.4	5.2	-0.2	-0.2
Denmark	7.5	7.6	7.5	7	7.7	7.2	6.8	-0.5	-0.4
EU-28	9.6	9.6	10.5	10.8	10	10.7	10.7	0.7	0
EA-17	10.0	10.1	0	11	10	10.9	10.9	0.9	0
Greece	12.6	17.7	24.3	27.3	20.6	26.2	27.6	5.6	1.4
Estonia	16.9	12.5	10.2	8.6	11.5	9.4	8.8	-2.1	-0.6
United Kingdom	7.8	8.0	7.9	7.5	8.3	7.7	7.1	-0.6	-0.6
Ireland	13.7	14.7	14.7	13.1	15	14.3	12.2	-0.7	-2.1
Spain	20.1	21.7	25	26.4	23	26.1	26.1	3.1	0
Italy	8.4	8.4	10.7	12.2	9.2	11.4	12.6	2.2	1.2
Cyprus	6.2	7.9	11.9	15.9	9.5	13.4	16.8	3.9	3.4
Latvia	18.7	16.2	14.9	11.9	15.5	13.8	11.6	-1.7	-2.2
Lithuania	17.8	15.4	13.3	11.8	13.7	13	11	-0.7	-2
Luxembourg	4.4	4.9	5.1	5.8	4.8	5.3	6	0.5	0.7
Malta	6.9	6.5	6.4	6.5	6.5	6.5	6.7	0	0.2
Netherlands	4.5	4.4	5.3	6.7	4.9	5.6	7	0.7	1.4
Hungary	11.2	10.9	10.9	10.2	10.8	10.9	9.2	0.1	-1.7
Poland	9.6	9.7	10.1	10.3	9.9	10.4	10	0.5	-0.4
Portugal	11.0	12.9	15.9	16.5	14.1	17.1	15.4	3	-1.7
Romania	7.3	7.4	7	7.3	7.4	7	7.3	-0.4	0.3
Slovakia	14.4	13.5	14	14.2	14	14.3	14.1	0.3	-0.2
Slovenia	7.3	8.2	8.9	10.1	8.6	9.5	9.7	0.9	0.2
Sweden	8.4	7.5	8	8	7.8	8.2	8	0.4	-0.2
Czech Republic	7.3	6.7	7	7	6.5	7.2	6.8	0.7	-0.4
Finland	8.4	7.8	7.7	8.2	7.6	7.9	8.3	0.3	0.4
Croatia	11.8	13.5	15.9	17.2	14	17.8	17.5	3.8	-0.3

Table 12: Unemployment rate among men

	Annual data (%)				4th quarter(%)			Change (%)	
	2010	2011	2012	2013	2011	2012	2013	2012/11	2013/12
Austria	4.6	4.0	4.4	4.9	3.9	4.9	4.8	1	-0.1
Belgium	8.1	7.1	7.7	8.7	7	8.8	8.7	1.8	-0.1
Bulgaria	10.9	12.3	13.5	13.9	12.8	13.5	14.1	0.7	0.6
France	6.0	8.1	10.1	10.4	9.2	10.2	10.2	1	0
Germany	6.4	5.8	5.7	5.6	5.9	5.6	5.5	-0.3	-0.1
Denmark	8.4	7.7	7.5	6.7	7.7	7.2	6.3	-0.5	-0.9
EU-28	19.5	13.1	10.4	10.8	9.9	10.7	10.6	0.8	-0.1
EA-17	9.9	9.9	0	11	10	10.9	10.9	0.9	0
Greece	9.6	9.5	21.4	24.3	17.8	23.4	24.5	5.6	1.1
Estonia	9.1	8.4	11	9.1	12.5	10.1	9.3	-2.4	-0.8
United Kingdom	9.0	8.8	8.3	8	9	8.1	7.5	-0.9	-0.6
Ireland	7.5	6.2	17.7	15	18.1	17	13.7	-1.1	-3.3
Spain	9.9	15.0	24.7	25.8	22.6	25.7	25.4	3.1	-0.3
Italy	11.6	11.0	9.9	11.5	8.4	10.5	12	2.1	1.5
Cyprus	16.9	17.8	12.6	16.6	10.2	13.8	17.9	3.6	4.1
Latvia	7.6	7.6	16	12.6	17.4	15.1	12.2	-2.3	-2.9
Lithuania	21.7	18.6	15.1	13.1	15.9	14.5	12.2	-1.4	-2.3
Luxembourg	21.2	17.8	4.5	5.4	4.3	4.7	5.6	0.4	0.9
Malta	3.8	3.8	5.9	6.6	6.1	6.2	6.7	0.1	0.5
Netherlands	6.8	6.1	5.3	7.1	4.8	5.8	7.3	1	1.5
Hungary	4.4	4.5	11.2	10.2	10.8	11.1	9	0.3	-2.1
Poland	9.3	9.0	9.4	9.7	9.2	9.7	9.4	0.5	-0.3
Portugal	10.0	12.7	16	16.4	14.1	17	15.1	2.9	-1.9
Romania	7.9	7.9	7.6	7.9	8	7.4	8	-0.6	0.6
Slovakia	14.2	13.5	13.5	14	13.8	13.9	14.2	0.1	0.3
Slovenia	7.5	8.2	8.4	9.5	8.3	9.2	9	0.9	-0.2
Sweden	19.7	21.2	8.2	8.2	7.9	8.4	8.1	0.5	-0.3
Czech Republic	8.5	7.6	6	5.9	5.6	6.2	5.7	0.6	-0.5
Finland	8.6	8.7	8.3	8.8	8.3	8.6	8.9	0.3	0.3
Croatia	11.4	13.8	16.2	17.8	14.3	17.9	17.6	3.6	-0.3

Table 13: Unemployment rate among women

	Annual data (%)				4th quarter(%)			Change (%)	
	2010	2011	2012	2013	2011	2012	2013	2012/11	2013/12
Austria	4.2	4.3	4.3	4.9	4.6	4.2	5.2	-0.4	1
Belgium	8.5	7.2	7.4	8.2	7.6	7.5	8.2	-0.1	0.7
Bulgaria	9.5	10.0	10.8	11.8	10	11.4	12.1	1.4	0.7
France	9.7	9.7	10.5	10.2	9.5	10.1	10.2	0.6	0.1
Germany	6.6	5.6	5.2	5	5.4	5.1	4.8	-0.3	-0.3
Denmark	6.5	7.5	7.5	7.3	7.7	7.3	7.4	-0.4	0.1
EU-28	9.6	9.7	10.6	10.9	10	10.8	10.8	0.8	0
EA-17	10.2	10.4	0	11	10	10.9	11	0.9	0.1
Greece	16.2	21.4	28.1	31.3	24.4	30	31.7	5.6	1.7
Estonia	14.3	11.8	9.3	8.2	10.5	8.6	8.2	-1.9	-0.4
United Kingdom	6.8	7.3	7.4	7	7.6	7.3	6.7	-0.3	-0.6
Ireland	9.7	10.8	11	10.7	11.3	10.9	10.4	-0.4	-0.5
Spain	20.5	22.2	25.4	27	23.4	26.6	26.9	3.2	0.3
Italy	9.7	9.6	11.9	13.1	10.3	12.5	13.5	2.2	1
Cyprus	6.4	7.7	11.1	15.2	8.6	13	15.6	4.4	2.6
Latvia	15.7	13.8	13.9	11.1	13.6	12.6	11	-1	-1.6
Lithuania	14.5	13.0	11.5	10.5	11.6	11.6	9.9	0	-1.7
Luxembourg	5.1	6.3	5.8	6.4	5.5	5.9	6.6	0.4	0.7
Malta	7.1	7.1	7.3	6.4	7.3	7	6.6	-0.3	-0.4
Netherlands	4.5	4.4	5.2	6.3	4.9	5.5	6.6	0.6	1.1
Hungary	10.7	10.9	10.6	10.2	10.9	10.7	9.4	-0.2	-1.3
Poland	10.0	10.5	10.9	11.1	10.8	11.2	10.7	0.4	-0.5
Portugal	12.1	13.2	15.8	16.6	14.1	17.1	15.9	3	-1.2
Romania	6.5	6.8	6.4	6.6	6.7	6.4	6.6	-0.3	0.2
Slovakia	14.6	13.6	14.5	14.5	14.2	14.9	14	0.7	-0.9
Slovenia	7.1	8.2	9.4	10.9	8.9	9.9	10.6	1	0.7
Sweden	8.3	7.5	7.7	7.8	7.6	7.9	7.8	0.3	-0.1
Czech Republic	8.5	7.9	8.2	8.3	7.6	8.4	8.1	0.8	-0.3
Finland	7.6	7.1	7.1	7.5	6.9	7.2	7.7	0.3	0.5
Croatia	12.3	13.2	15.6	16.6	13.6	17.7	17.4	4.1	-0.3

Table 14: Long-term unemployment rate (*)

	Annual data (%)				3rd quarter(%)			Change (%)	
	2009	2010	2011	2012	2011	2012	2013	2012/11	2013/12
Austria	33.1	39.9	42.9	24.8	24.6	26.7	26.9	2.1	0.2
Belgium	35.6	42.5	45.2	44.7	48.7	43.3	45.4	-5.4	2.1
Bulgaria	44.2	48.8	48.4	55.2	60	56.4	58.9	-3.6	2.5
France	43.1	46.4	56.1	40.3	42.4	41.1	41	-1.3	-0.1
Germany	30.1	41.0	40.6	45.5	48.4	46.2	44.4	-2.2	-1.8
Denmark	9.5	20.2	24.4	28	23.1	27.7	23.8	4.6	-3.9
EU-28	45.5	47.4	48.0	44.6	43.2	45	48.1	1.8	3.1
EA-17	27.4	45.3	56.8	44	45.5	47	50.6	1.5	3.6
Greece	29.2	49.3	59.3	59.3	51	60.7	69.6	9.7	8.9
Estonia	40.8	45.0	49.6	54.1	57.3	52.8	42.6	-4.5	-10.2
United Kingdom	23.7	36.6	41.6	34.8	32.4	34.6	35.2	2.2	0.6
Ireland	35.2	40.2	41.5	61.7	59	60	59.2	1	-0.8
Spain	44.4	48.4	51.9	44.5	41.5	44.6	50.5	3.1	5.9
Italy	10.3	20.3	20.8	53	53.2	54.2	57.6	1	3.4
Cyprus	26.7	45.1	54.5	30.1	23.6	32.1	39.3	8.5	7.2
Latvia	23.2	41.4	51.9	51.9	55.1	47.4	44.5	-7.7	-2.9
Lithuania	23.2	29.3	28.6	49	53.9	50.9	42.6	-3	-8.3
Luxembourg	41.6	49.3	47.9	30.3	29	21.6	34.8	-7.4	13.2
Malta	43.5	46.3	46.2	47.4	43.9	49.1	44.5	5.2	-4.6
Netherlands	24.2	27.5	33.5	34	32.9	33.6	36.3	0.7	2.7
Hungary	21.3	25.2	25.9	45	48	45.1	52.2	-2.9	7.1
Poland	30.3	31.1	37.2	40.3	38.3	40.4	43.8	2.1	3.4
Portugal	44.2	52.3	48.1	48.7	46.6	50	58.9	3.4	8.9
Romania	31.6	34.9	41.9	45.3	41.4	47	50.4	5.6	3.4
Slovakia	30.1	43.3	44.2	67.3	66	67.5	70.4	1.5	2.9
Slovenia	54.0	64.0	67.8	47.9	42.5	49.9	52.1	7.4	2.2
Sweden	16.7	24.0	22.2	18.9	20.1	19.2	18.2	-0.9	-1
Czech Republic	13.2	17.8	18.6	43.4	40.4	43.3	43.7	2.9	0.4
Finland	24.5	32.6	33.4	21.4	24.6	21.6	23.8	-3	2.2
Croatia	56.1	56.9	63.9	64.6	64.3	67.5	65.5	3.2	-2

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

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

	Annual data (%)				4th quarter(%)			Change (%)	
	2010	2011	2012	2013	2011	2012	2013	2012/11	2013/12
Austria	8.8	8.3	8.7	9.2	8	8.5	8.6	9.8	0.1
Belgium	22.4	18.7	19.8	23.7	21.3	19.1	22.4	23.6	3.3
Bulgaria	23.2	26.6	28.1	28.4	23.2	26.2	28.4	28.2	2.2
France	22.8	22.0	24.6	24.8	22.4	22.6	26	23.7	3.4
Germany	9.9	8.6	8.1	7.9	9.2	8.2	7.9	7.8	-0.3
Denmark	14.0	14.2	14.1	13	14.4	14.2	13.4	12.9	-0.8
EU-28	20.9	21.3	23	23.4	21	22.1	23.4	23.1	1.3
EA-17	20.6	20.7	22.3	23.9	20.6	21.5	23.8	23.7	2.3
Greece	32.9	44.4	55.3	58.6	36.2	49.7	58.1	58.3	8.4
Estonia	32.9	22.3	20.9	18.7	26	24.6	18.3	19.6	-6.3
United Kingdom	19.6	21.1	21	20.5	20.2	22.1	20.7	19.8	-1.4
Ireland	27.8	29.1	30.4	26.8	30.1	30.4	29.1	25.5	-1.3
Spain	41.6	46.4	53.2	55.7	43.2	48.9	55.3	55	6.4
Italy	27.8	29.1	35.3	40	28.2	31.4	37.1	41.6	5.7
Cyprus	16.7	22.4	27.8	38.9	14.4	25.9	32.3	40.5	6.4
Latvia	34.5	31.0	28.4	23.2	33.3	29.2	23.9	23.8	-5.3
Lithuania	35.1	32.9	26.4	21.9	35.3	30.7	24.6	20.6	-6.1
Luxembourg	14.2	16.8	18	17.4	14.8	18	18.4	17.2	0.4
Malta	13.0	13.7	14.2	13.5	13.5	13.8	13.9	13.6	0.1
Netherlands	8.7	7.6	9.5	11	8.3	8.5	9.8	11.4	1.3
Hungary	26.6	26.1	28.1	27.2	25.6	26.6	28.5	25	1.9
Poland	23.7	25.8	26.5	27.3	23.7	26.5	27.3	27.2	0.8
Portugal	22.4	30.1	37.7	37.7	27.5	34.2	38.9	34.8	4.7
Romania	22.1	23.7	22.7	23.6	22.6	23.6	22.4	24.1	-1.2
Slovakia	33.6	33.2	34	33.7	33.8	33.7	35.1	33.4	1.4
Slovenia	14.7	15.7	20.6	21.6	14.3	15.6	23.3	20	7.7
Sweden	25.2	22.9	23.7	23.4	23.3	22.7	24.3	22.6	1.6
Czech Republic	18.3	18.0	19.5	18.9	17.2	18.1	19.6	18.9	1.5
Finland	21.4	20.1	19	19.9	20.7	19.8	19.4	19.9	-0.4
Croatia	32.6	36.1	43	49.8	35.5	36.6	50.5	48.8	13.9