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Editorial Policy

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

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FOREWORD

This is the first IOBE bulletin on the Greek economy for 2016. It was prepared at a crucial phase of the first review of the new programme, with critical policy issues (e.g. direct taxation, pensions, social security contributions, non-performing loans) still unresolved and before the much-anticipated negotiations over a new round of public debt restructuring after the completion of the first review. As all IOBE quarterly bulletins, this report contains **four chapters** and an **appendix** with key structural indicators. The bulletin starts with a position paper on the impact of the delay, in the current period and in the past, of the economic restructuring, outlining certain priorities for speeding up this process. The rest of the report is structured as follows:

The **first chapter** presents a **brief overview** of the report. **Chapter two** examines the general economic conditions, including a) an analysis of the **global economic environment** in the final quarter of 2015 and its outlook for 2016, based on the latest report of the European Commission and data from other international organisations; b) an outline of the **economic climate** in Greece in the first quarter of 2016, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in 2015 based on the finalised data, and in the first two months of the year, based on the latest available preliminary estimates.

Chapter three focuses on the performance of the Greek economy in 2015 and in early 2016. It includes an analysis of the **macroeconomic environment** (key macroeconomic figures in 2015) and its trends in the current year; the **developments in key production sectors** in 2015 and in the first few months of 2016, depending on data availability; the **export performance** of the Greek economy in 2015; the developments in the **labour market** in the same year; the trends of **inflation** in the first quarter of 2016; and, finally, the trends in the **balance of payments** in 2015.

Chapter four presents a sector analysis of IOBE on the contribution of the mining industry to the Greek economy.

The report is based on data that were available up to 08/04/2016. IOBE's next quarterly bulletin on the Greek economy will be published in mid-July of 2016.

THE PROGRAMME REVIEW AND WHAT FOLLOWS FROM IT

It is not the first time in the past years that the Economic Bulletin of IOBE is published at a time when there is a significant delay in the negotiations of the Greek government with its partners and creditors and when disastrous consequences will follow if an agreement is not reached. **However, the repetition of such developments and the possible habituation by those that are following these relatively dramatic events, do not diminish their negative significance.** In addition, for the first time the economy is in such an extreme situation, with capital controls and irregular functioning of the banks, since last summer. At the same time, it becomes evident that the course of the crisis of the Greek economy has gradually become autonomous from the remaining problems of the European economy, which is perhaps one of the biggest causes for concern. Possible further negative developments in our country, most likely, will not drag along our Eurozone partners with us. **In the aftermath of previous economic and political developments, Greece is not considered to be posing a significant systemic risk, and thus, the decision and the responsibility for the direction of the country lies almost exclusively on the country itself.**

Already since last year, and for half of the current year, the economy has been in recession. The sooner the ongoing programme review is completed, in the most reliable and comprehensive way possible, the quicker the conditions for the economy to grow again will emerge. **Assuming that there would not be a further significant delay, the output growth rate in the second half of the year is expected to be positive, offsetting to some extent the recession of the first months. Under these assumptions, the recession is expected to strengthen on the whole in the current year, moving towards 1%.** However, such a development will depend crucially on **the time and the characteristics with which the first review will close**. The successful conclusion of the first review is a necessary (if not in itself sufficient) step for the start of a cycle of positive events, as it could establish the foundations for growth throughout the following year. In contrast, if the negotiations break down and the programme is not orderly applied, the developments will be particularly dramatic and the immediate and long-term damage for the Greek economy will be completely irreversible. Thus, such a development should be considered unimaginable.

Of course, in an economy which has been looking for a direction for the past seven years, and where the recession is acquiring a set of permanent characteristics, the completion of the ongoing assessment cannot be anything but the beginning of a comprehensive, systematic, consistent and intense effort to exit the crisis and to enter a new cycle of growth. Regarding the macroeconomic prospects, we could outline the trends in the GDP components. The share of **consumption** in GDP remains very large, higher than the rate that would signify a turn to a new development model. In any case, with the economy lacking a positive momentum, the fluctuations of consumption drive the developments in domestic output in the short term. For instance, the stabilisation of consumer confidence was the key growth driver of the economy in 2014, and similarly a decrease in uncertainty will result in a positive turn today. In the medium term, however, there is no possibility for growth through an increase in consumption; the main growth factor would definitely be **investments**, which currently are under pressure, having a very low share in income. Only a positive development in this field can become a catalyst for potential positive growth in the future. A swift, comprehensive conclusion of the review will contribute decisively in this direction in many ways, easing the macroeconomic uncertainty, raising the prospects of demand growth and lowering the funding costs.

In particular, regarding funding, the conclusion of the review will allow for the disbursement of the next tranche of the programme, which will in turn allow the public sector to pay off a part of its obligations towards its supplies, lower the costs for banks, facilitate the gradual attraction of capital from abroad for direct and other investments and consecutively create conditions for the normalisation of the banking system, so that the capital controls can be lifted relatively soon thereafter. Lastly, regarding the **external balance**, the observed correction would not be sustainable unless there is a decisive and steady increase of exports, in both goods and services. Otherwise, the suppression of imports will end with the first signs of growth and the contribution of the external sector to growth will become negative.

With the prolonging of the period of severe uncertainty and for as long as a return to a normal economic path is not set forth, **the ability to focus on the structural problems that existed before and led to the crisis is being hampered**. Without tackling these problems, there is no chance of a sustainable, fast-paced growth in the coming period of time. **The increase in total productivity and the decisive shift of the production factors towards tradable sectors, rather than the recourse to labour and entrepreneurship that are parasitically based on the public sector, is the key to building the economy on new grounds.** Such a development of the economy does not happen without costs or difficulties. Hence, this should be the main, if not the only, concern of everyone that is involved with the economic policy of the country. However, instead of having a comprehensive and systematic effort in this direction, the economic policy seems to get exhausted in rear-guard brawling, focused on current demand and consumption in particular. This choice may temporarily prevent the recession from deepening and might have ephemeral political benefits for those responsible for the applied policy, nevertheless, it moves the country away from a feasible positive path.

The misunderstanding that the economy can grow without reforms, while protecting the income of interest groups acquired in the past, and in some cases maintained until today, through political pressure and not through actual contribution to the economy, prolongs the expiry date of the Greek crisis. **In such a way, instead of launching, with all the**

necessary actions, the essential transition to a new balance of the economic system, inaction settles in. Given the size of the challenge that the country if facing, one would expect a genuine problem-solving attitude. How can we mobilise the creation of new and the strengthening of existing competitive international businesses? How can we support innovation and participation in international high value export networks? How can human capital grow and get utilised? How can the transfer of resources, capital and labour to more productive activities become more straightforward? How can we truly protect the weakest participants in the economy? Instead of planning solutions in the aforementioned and other related directions, one often gets the impression that in some cases the basic economic logic is not being followed. In particular, **it has to be clear that the exit from the crisis cannot come from the excessive taxation of the production factors in the economy, but, on the contrary, from the creation of a framework for their reward. Solace in the public sector and the expansion of such activity might stabilise the system in the medium term, but this undermines the real growth prospects.**

The aforementioned principles can be tailored to some of the ongoing issues. In the **social insurance system,** given the importance of the relative expenditure in total income, the solution cannot be postponed for the future, neither can it burden with extra measures the next generations and the taxpayers of today. The pensions of today (as much as possible) and definitely of the future should have a strong proportionality (apart from a common minimum level) to the total contributions during the working life of the insured. **Taxation**, should support production and income generation. Instead of unreasonably increasing the income tax coefficients, there may be a room for significant rationalisation and efficiency boost by associating the tax-free thresholds with electronic payments in order to widen the tax base. A commitment to no further increase of the tax burden on natural and legal persons for a set period time, with any needed adjustments made on the public expenditure side, would also be beneficial. In the non-performing **private loans,** the freeing of resources for new investments is the main and urgent priority. The creation of a fund for **public property** has been significantly delayed. The possibility of a significant growth of the value of assets in a reasonable time frame makes this the proper vehicle for attracting private capital in the short term. As far as the **public debt** is concerned, the country has a right that it must claim from its partners and creditors for a restructuring, where the servicing costs would not burden the public finances beyond a small agreed amount for the foreseeable future, possibly by adjusting the interest rates on the loans.

The above can and should be specialised further in the framework of a medium-term growth plan and model, which, according to the July agreement, should have been already finalised (in March).

It is true that from the countries of the European periphery that were found in a need of an adjustment program during the recent and ongoing crisis, Greece had

to face the most complicated and steep path. This was partially due to the high accumulated debt, an element which made uncertainty stronger and prolonged the solving of the problem, though mostly due to structural distortions. The capital inflows, strengthened by the entry of the country in the Eurozone in the early 2000s, were not translated in an increase of competitiveness, but were largely used to strengthen already distorted and introvert structures. As a result, the necessary adjustments for the Greek economy were and have remained important. Thus, while a significant progress has taken place in a number of sectors, the general lack of consent and the non-visibility of a reliable goal, increased the level of difficulty, deepening and very much prolonging the crisis. The course of reversal will begin, and consequently, uncertainty will start to drastically decrease, only when the implemented policy acquires elements of credibility, something which was long missing.

It has to be stressed that one of the fundamental elements of credibility is that economic policy cannot be combating in practice the purposes that it has to nominally serve. From its creation, the Euro is an expensive currency - economies of low production and competitiveness do not benefit from its strength and face systematic difficulties. Therefore, **as long as it remains true that at a European level the institutions must strengthen and the economic union should deepen, it is more than obvious that economies, such as that of Greece, cannot afford to refrain from policy reforms that enhance productivity** and facilitate the real convergence with the union's core. In this regard, the Greek economy has very significant, unexploited advantages and potential, which, under conditions, can indeed lead to much higher growth than that of other Eurozone economies.

As a final point, we ought to refer to the institutional framework and the external environment. The functioning of the economy is closely related with the functioning of the state and of the rest of the institutions. The strengthening of the institutions, which are working efficiently, independently from the government, is a vital element for the functioning of the economy and of society in general. This entails, inter alia, properly functioning justice system, universities, independent authorities and media. In particular, **in a country in which the boundaries between the state and the government priorities are very often blurred, the transgression of these boundaries is a huge mistake.** Lastly, the urgency of the current situation should be felt stronger. The exit of the country from the economic crisis as soon as possible and without delay is not only vital for the citizens, and especially for the unemployed and the young. It is also crucial for the economy to be able to face external disruptions. The refugee crisis and possible complications of the EU relations with the UK are only two of the existing challenges, while nothing precludes others from appearing in the future. Hence, there is no room for delays.

1. BRIEF OVERVIEW - CONCLUSIONS

Slight slowdown of world growth in 2015, expectations for stronger performance in 2016

The growth rate of global economic activity deteriorated for the second consecutive quarter in the final quarter of 2015. In contrast with the preceding quarter, the new slowdown came from a deceleration of growth in firstly, the strongest economies and secondly, in the developing ones. In the first group of states, the largest loss of growth momentum was recorded in Japan (0.7% against 1.6% in the third quarter), where the expansionary monetary policy led to a depreciation of the yen, putting pressure on the purchasing power of households and exports, in Germany (1.3% from 1.7%), which is facing the consequences of the decline of demand in developing economies, in the US (1.3% against 1.8%), due to the high exchange rate of the dollar, which hampered the competitiveness of its industry and the new decline of the price of oil, which discouraged investment in the extractive industry. Concerning emerging – developing economies, the recession intensified for another quarter in Brazil (-6.0% from -4.5%), but output declined marginally in Russia (by 0.1%). The Chinese economy slowed down further at a similar pace, while India was the sole major developing economy to end 2015 without any losses in its growth momentum. Following these trends in the major economies, **the GDP growth of the world economy slowed down to 3.1% in 2015, from 3.4% in the previous year. After three years of no change in the rate, the world economy recorded its lowest rate of growth since 2010 in 2015.**

Regarding the trends in the world economy in 2016, the slowdown of trade activity in the previous year (the volume of international trade outside the EU increased at its lowest rate since 2010) and the fall in key commodity prices (e.g. petroleum), which hit the emerging and oil-exporting countries, are not expected to carry on, stabilising thus their trade balance. However, the major effects of the subdued international trade last year probably do not reside so much in the deterioration of their export performance, as in the uncertainty regarding their capital markets and the revealed fiscal complications, issues that cannot be dealt with solely with a recovery of global demand. The handling of these problems in certain countries is hampered by the fact that at the same time they are facing a political crisis (e.g. Brazil, Argentine) or are involved in geopolitical conflicts (Russia, Middle East countries). Therefore, even if the global conditions become favourable, a series of policy actions should take place in these countries, for their economies to succeed.

In most developed economies, the low cost of raw materials and mainly petroleum will continue to create favourable conditions. In the Euro area, the accommodative monetary policy, which was strengthened further by the measures announced by the ECB in March, will act as an additional growth driver. That said, the effects from the referendum in the UK in June, which cannot yet be quantified, particularly if it results in the UK leaving the EU, would be crucial for the EU economy overall. In contrast to the EU, the monetary policy is expected to be reined in in the US, where the FED intervention rate already increased, a change that increases its pull on the world investment capital resources. The accommodative monetary policy and the expansion of public spending will drive growth in Japan. In summary, **there are opportunities to end the five-year slowdown of growth in the developing and emerging economies and to accelerate growth in the developed economies in 2016. The richest economies can provide a boost to world economic activity, raising slightly their growth rates. Given that in 2015 it stood at 3.1%, the growth rate of the world economy can strengthen in the current year to 3.3%, its level from 2014.**

The Greek economy returned to recession in 2015

The GDP contraction of the Greek economy weakened in the final quarter of 2015, to 0.8%, from 1.7% in the preceding quarter, compared to a growth by 0.9% in the final quarter of 2014. As a result, **the Greek economy returned to a recession, albeit with a low intensity, overall in 2015 (--0.3%)**, after a modest growth in 2014 (+0.7%).

Regarding the trends in the GDP components in 2015, **domestic consumption was marginally higher than in 2014 (+0.2%)**. The growth in household consumption expenditure during the first six months of the year by 1.2% led to a growth by 0.3% overall during the year and consequently to the marginal growth in domestic consumption spending. Despite the significant stimulus in the last quarter of the year from the funds of the new loan agreement (+2.8%), public consumption remained essentially unchanged in 2015 (-0.1%), compared though with a reduction by 2.4% in the preceding year.

After an extensive decline in the final quarter of last year, albeit at a lower rate than in the two preceding quarters, **investment returned to a downward trajectory in 2015, after a brief interruption of the prolonged decline in 2014.** Nevertheless, **the decline of investment by 13.2% came exclusively from a reduction in inventories,** in contrast with 2014, when inventories accumulation had led to their growth by 9.8%. **Fixed capital formation increased in 2015, albeit marginally, for the first time since 2007,** by 0.9%. Therefore, despite the high political uncertainty from January until July 2015, the enterprises increased their investment in the first half and overall in the year that passed.

In the external sector of the economy, **exports decreased in 2015, for the first time since 2011, by 3.7%, following their strongest growth in nine years in 2014, by 7.4%.** The sharp decline of the exports of services in the second half of 2015, by more than 22%, caused their fall overall in the previous year (-11.2%). They also set the trend for total exports, as the exports of goods were growing, albeit at a lower rate, throughout the past year (+3.2%). As evident from the balance of payments data of the Bank of Greece, the imposition of capital controls and the general strong anxiety about the prospects of the Greek economy in the second half of the previous year had a negative impact mostly on the supply of international transport services and to a lesser extent that of other services.

The capital controls caused a decline of imports too. **The total imports of goods and services was lower by 6.9% compared with 2014, when they had grown for the first time in five years, by 7.8%.** The decline in the imports of services was stronger than in the imports of goods (-11.4% against -5.9%).

The recession will carry over to 2016, primarily due to the effect from the fiscal consolidation and the difficulties in raising and transferring capital

Once more, the protracted review process, together with the significant fiscal measures and structural changes for the households and the enterprises on which the negotiations have focused (income tax of individuals, property taxation, pension system, social security contributions) have forced a large part of the economic agents to adopt a wait-and-see stance in their economic decision-making process, until the relevant regulations are finalised. On the other hand, as the measures will mostly have a restrictive impact on disposable income, the procrastination in their adoption postpones their effect from this to the following year (e.g. higher income tax settlement with the filing of the tax returns for 2016 in 2017). Therefore, on the one hand, the caution against the upcoming changes is not conducive to economic activity, on the other, the delay in their adoption limits their contractionary impact in the current year.

The framework for dealing with the non-performing loans of the banks is another crucial issue with a pending resolution. The relevant decisions will have an impact on the real wealth of households, the available collateral and the liquidity of the enterprises, and the level of available capital of the banking institutions. Particularly with regard to the banks, despite their successful recent recapitalisation, the deposits of households and non-financial corporation have not returned to the bank vaults. Based on the latest data from the Bank of Greece for February of the current year, total deposits were only €854 million higher than in July, lower year on year by €18.8 billion. The persistently low level of deposits is not conducive of a further significant relaxation of the capital controls in the coming months, which has a restraining effect mostly on the international transactions of the Greek economy.

The limited liquidity of the banks, the cautious credit policy that they follow, and the reserved stance of the businesses towards the negotiations with the country's creditors are reflected in the very low flow of funds to the private sector. The rate of credit contraction increased in the first two months of the current year, with the credit contraction stronger in loans to non-financial corporations, compared with individuals and private non-profit institutions (-7.7% against -3.5%).

The liquidity conditions, the investment propensity and more broadly the economic environment are likely to change considerably after the forthcoming completion of the first review and the negotiations to settle the public debt that will follow. Following these developments, the readmission of Greek bonds as collateral from the European Central Bank (by reinstituting the corresponding waiver), at a borrowing cost considerably lower than that of the Emergency Liquidity Assistance should be considered certain. If the above chain of events takes place, the depositors' trust in the positive prospects of the Greek economy and the viability of the banking system will strengthen, resulting in a gradual return of deposits. If this turns into a relatively steady positive trend, the supply of bank credit and the elimination of the capital controls will be greatly facilitated.

The financing of the Greek state from the new loan from the European Stability Mechanism allows for a steadier execution of public expenditure since last Autumn, particularly compared with the first half of 2015, when the second programme was extended until the end of June, delaying the disbursement of the loan tranches. Despite the greater leeway for payments in the public sector, primary expenditure in the first two months of 2016 was marginally down year on year, recording significant restraint compared with the target set for that period (-€92 million and -€913 million respectively). These cuts cover most expenditure categories, with their extent larger in the categories that drive public consumption (remuneration expenses, procurement of goods and services).

In contrast to the consumption spending of the state, the expenditure of the Public Investment Programme (PIP) is notably higher year on year since the start of 2016. Given that the PIP budget is slightly higher year on year in the current year (+€344 million or +5.4%), its faster year-on-year execution is anticipated to continue. The start of the implementation of the new Partnership Agreement for Development Framework 2014-2020 is also expected to contribute to this development. As a result, the positive impact of PIP on investment will be stronger in the current year.

In the external sector of the economy, the recent decision for further relaxation of the capital controls facilitates the enterprises in their international transactions. However, as the relaxation of the capital controls and the exceptionally acute politico-economic uncertainty since last July moderated their impact mainly on the inflows to the Greek economy, the latest round of relaxation is anticipated to maintain this trend. Regarding the trends that could affect the trade transactions and the economic activity in Greece, the oil price is anticipated to remain low in the current year as well, benefiting oil-importing countries, such as Greece. The EUR/USD exchange rate is also expected to remain low, which will preserve its beneficial impact on the price competitiveness of the goods and services of the Euro area.

The flows of migrants and refugees is also a factor that affects the domestic economic environment. For the time being, it is difficult to assess its economic impact. Still, the uncertainty about the future trend in flows and about the ability of effective coordination, within the public administration and with other countries and international organisations, on issues around the current of refugees and migrants, have intensified the domestic concerns over its impact.

Taking into account the latest politico-economic developments and the forecasts on GDP components and other macroeconomic indicators, the upcoming fiscal measures and those adopted in 2015 will exert pressures on **household consumption**. The high level of household consumption spending in the first half of 2015 is another factor that impedes the growth in household consumption spending in the current year. **Therefore, private consumption is expected to return to contraction, with the extent of expected decline ranging between 1% and 2%.**

Regarding the other side of domestic consumption spending, the restart of the fiscal consolidation since last autumn contains measures that will limit **public consumption** (new remuneration scheme in the public sector, five outlays – one intake rule). The impact of these measures is already evident in the State Budget execution data (lower spending on procurement of goods and services, lower wage payments). However, **as public consumption did not increase in the previous year (-0.1%), its reduction in the current year is not expected to be deep (between 2.0% and 3.0%).**

Regarding **investment,** the exceptionally low supply of credit to businesses from the banking system in early 2016 is not expected to expand soon, as a series of developments are required in order to increase the deposits of the private sector, while the resolution of the non-performing loans issues is still pending. The capital controls and their impact preserve the low level of deposits. Besides, the pending decisions stemming from the negotiations that concern the businesses (e.g. size of employer social security contributions) holds back the implementation of investment plans. In addition, there are no indications for the time being of stronger domestic or foreign demand for the Greek products, as the exports (except ships and petroleum products), which were growing strongly in the first half of 2015, have remained for now unchanged year on year in the current year.

The limited ability of the enterprises to draw liquidity from the banks or from their profits will be offset in part by the acceleration of the PIP implementation, which will also support the execution of public works and therefore the activity in the Construction sector. Then again, the contribution of the programme of concessions and privatisations is anticipated to be subdued in the current year as well, as little activity is observed for the completion of the open competitions and the implementation of the tenders planned for the current year. Particularly with regard to foreign investors, the anticipation of a real progress in the implementation of the new programme and the continuous conflicts in the South-East Mediterranean discourage the investors to take up risk in the current period in Greece. As a combined result of the above developments, **investment is expected to decline further in 2016, to a lesser extent then in the previous year, by about 4% to 5%.**

The dynamics of **exports** in 2016 will depend primarily on the trend in the exports of goods except fuels and ships and the supply of transport services. Apart from the observed stabilisation in the exports without fuel and ships in the first two months of the current year, the high base level of comparison from the first seven months of 2015 will increase the likelihood of decline in the same period of the current year. Subsequently, the decline will most likely fade, as the anticipated low EUR/USD exchange rate will maintain the cost competitiveness of the Greek products. The raging military tensions in the Middle East and the Arab countries, together with the preservation of the unfavourable growth trends in the emerging markets, will maintain the contraction of transport services, albeit at a weaker pace than in the previous year. Then again, the geopolitical instability seems to boost the attractiveness of Greece as a tourist destination, but as about the same conditions prevailed in the previous year as well, the growth in tourism activity will be weaker in the current year. **Therefore, various counteracting forces will exert pressure on exports and as a result they are expected to remain close to their level from last year or perhaps slightly lower.**

The new decline of household disposable income from the upcoming fiscal measures and the impending decline in fixed capital investment will lead to a further decline in **imports.** However, as imports were mostly hit by the capital controls, every step of their relaxation will primarily have a positive impact on incoming trade, which will prevent imports from falling sharply again. **With this in mind, imports will continue to decline in 2016, with a slightly lower rate than in the previous year, at about 5%.**

Taking into account the latest and the upcoming developments, the above trends and outlook of the GDP components in 2016, the contraction

is expected to continue in the current year, at a rate slightly above 1%.

The State Budget execution targets were surpassed in the first two months of 2016, mostly due to coincidental factors

According to the final data on **the execution of the State Budget in 2015, its deficit reached €3.5 billion (2.0% of GDP)**, against a deficit of €0.1 billion or 0.1% of GDP as set in the preamble of the 2015 Budget. Accordingly, the **primary surplus** did not exceed **€2.3 billion (1.3% of GDP),** against an initial prediction for a surplus of €5.8 billion (3.1% of GDP). However, the overall picture is even worse given that in 2015 the **General Government generated new arrears** towards its suppliers, **of €1.6 billion**, which will eventually be covered by the State Budget.

The **revenue shortfall** was the main reason of the **large deviations** from the figures initially set in the State Budget, leading to their ad hoc, yet significant alteration in the 2016 State Budget (-€4.3 billion lower than the initial projection). This result has a particular importance, given that despite the boost of revenues from extraordinary, one-off non-tax receipts (settlement of liabilities of the banks to the Hellenic Republic stemming from the 2008 bank support programme), and from the July measures that were implemented within 2015, **the initial target was not met.**

Regarding the execution of **the State Budget in the first two months of the year, a surplus of €1.3 billion was recorded**, against a target for a deficit of €0.6 billion. Respectively, **the primary surplus reached €3.0 billion**, against a target of €1.1 billion. The improvement in relation to the 2015 figures comes from a restraint of the expenditure by €0.98 billion and from the revenues overshooting the target by €0.96 billion.

Nevertheless, these developments are considered **accidental** and do not seem to have a more permanent character. The revenue overshot, for instance, is due by two-thirds to a **growth in PIP receipts** from EU Funds, but at much larger rate than anticipated in the 2016 budget overall for the current year. The remaining one-third of the target overshot is due to much higher than budgeted ad-hoc non-tax revenue (receipts that the Hellenic Republic receives once a year from Bank of Greece dividends). Regarding expenditure, a significant containment was also recorded in the first three quarters of 2015, but in the end of the year expenditure came very closely to the predictions of the budget. Moreover, in the first two months of the year, the **arrears** of the public sector to suppliers **increased significantly** (+€716 million since December).

Stronger reduction of unemployment in 2015 – slight resurgence in 2015

The gradual end of the favourable seasonal effects on employment during the summer period, together with the impact on the labour market from the capital controls and the deterioration of the business sentiment, reflected primarily in declining employment in Manufacturing (-15,400 jobs between the third and the fourth quarter of 2015), led to resurgence of unemployment in the final quarter of last year. Nevertheless, its growth from 24.0% in the third quarter of 2015 to 24.4% in the quarter that followed is considered mild. The relatively small increase probably reflects the smoothing effect on unemployment from the structural changes that took place in the past few years in the labour market. The employment expansion in the public sector (+24,700 people between the third and he fourth quarter), coming most probably from the implementation of three community employment schemes, moderated the exacerbation of unemployment in the last quarter of the previous year. **As a result of the limited increase in the final quarter, unemployment reached 24.9% overall in 2015, 1.6 percentage points lower than in 2014.**

Regarding the unemployment trend in 2016, the persistent recession of the Greek economy will interrupt the decline of unemployment. Given that the fall of unemployment in 2014 and 2015 came mainly from a gradual expansion of domestic consumption demand, through sectors producing goods and services for the final consumer (such as Retail Trade, Food Services) with a significant contribution to employment growth, the reversal of the growth trend in domestic consumption in the current year will weaken significantly job creation from the start of the current year in these sectors, gradually turning to employment reduction over the course of the year.

Regarding tourism, the strong job creation from the previous year will not carry over to this year, due to the notably weaker growth of its activity in 2016. In Construction, the public works are expected to boost employment. The public sector will also contribute to employment through the public benefit programmes, which began in the second half of the past year. However, as the programmes will conclude in the first half of the year, while only one such programme is announced to start in the current year, the restrictive impact of the programmes on unemployment will weaken notably already from the second quarter. **Taking into account the constituent trends and prospects, unemployment is expected to increase slightly in the current year to about 25.2%.**

Prices are expected to remain stable from the counteracting forces of low oil prices and hikes in indirect taxation

Deflation, after its weakening in the final quarter of 2015 to 0.6% due to the VAT hike, slightly intensified in the first quarter of the current year, to 0.9%, remaining still notably lower than in the corresponding period of last year (-2.4%)**.** Its boost came from the decline of oil prices to even lower levels during the first two months of 2016, a development that was reflected in the fall of prices in the categories of goods and services “Housing” and “Transportation”, two of the three Consumer Price Index categories with the largest price deflation (-4.5% and -3.3% correspondingly).

The fall of disposable income, due to the direct taxation measures and the pension cuts that will be implemented shortly, is conducive to further deflation. As the fall of the oil price to even lower levels in the first quarter of 2016 has already eased, while in general the oil price is not expected to fall at equally fast pace as in the previous year, its restrictive impact on prices will be weaker than in 2015. In addition, the inflationary impact of the VAT hike since last August will carry over and strengthen from the planned new increase in the coefficients of indirect taxation. Despite the fact that the hike in indirect taxes is not fully passed on to the final prices, the upcoming changes might turn the negative CPI trend into positive at some point during the year, for a few months at least. Therefore, **prices are most likely to remain stable on average in 2016, while a further marginal decline cannot be precluded.**

Special study: «The contribution of the mining industry to the Greek economy»

IOBE completed recently a study aiming to evaluate the wider economic contribution of the mining industry in Greece and to examine the conditions for securing its sustainability, competitiveness and further development.

The contribution of the sector to the Greek economy is quantified in terms of key economic figures, such as value added of production, sales, employment and exports. Apart from these direct effects of the mining industry, the study also quantified its indirect effects in the activities that participate in its value chain, together with the induced effects from the income generated by the presence of the mining industry in Greece. The prerequisites for sustainable development of the sector in Greece include simplification and acceleration of the licencing procedures, fuller utilisation of the Institute of Geology and Mineral Exploration for the supply of information on the raw material potential in the country, reduction of the non-labour cost and elimination of the existing omissions in the regulatory framework for mining.

2. ECONOMIC ENVIRONMENT

2.1 Trends and prospects of the world economy

The global environment

The growth rate of global economic activity deteriorated for the second consecutive quarter in the final quarter of 2015. In contrast with the preceding quarter, the new slowdown came from a deceleration of growth in firstly, the strongest economies and secondly, in the developing ones. In the first group of states, the largest loss of growth momentum was recorded in Japan (0.7% against 1.6% in the third quarter), where the expansionary monetary policy led to a depreciation of the yen, putting pressure on the purchasing power of households and exports, in Germany (1.3% from 1.7%), which is facing the consequences of the decline of demand in developing economies, in the US (1.3% against 1.8%), due to the high exchange rate of the dollar, which hampered the competitiveness of its industry and the new decline of the price of oil, which discouraged investment in the extractive industry. Concerning emerging – developing economies, the recession intensified for another quarter in Brazil (-6.0% from -4.5%), but output declined marginally in Russia (by 0.1%). The Chinese economy slowed down further at a similar pace, while India was the sole major developing economy to end 2015 without any losses in its growth momentum, surpassing China in growth terms for the first time.

Following these trends in the major economies in the final quarter of 2015, the GDP of the global economy rose last year by 3.1%, according to the most recent estimates of the IMF, and the volume of world trade expanded by 2.6%. However, both figures slowed down in their increase in comparison with 2014, when they both grew by 3.4%.

Concerning the current environment in the global economy, the fundamental factors of uncertainty which might affect the global financial activity are: 1) The smooth or otherwise continuation of the structural transformation process of the economy in the direction of further growth of services and consumption, as the economy of China continues to grow with high rates, which are nevertheless lower than those of the past decade, due to the transitional phase in its economy. The completion of this process is necessary for the acceleration of its growth. 2) The pace of change of the energy cost, since a quick escalation of the current low prices will have consequences for the economic activity of the developed economies, while if they remain at current levels, or fall further, this will have a negative impact on the big oil-producing countries, the economies of which are based on oil exports. 3) The rise of US interest rates above zero, in contrast to the further strengthening of quantitative easing of the monetary policy which was recently adopted by the ECB.[1] Additionally, increased concerns for global growth are provoked by long lasting geopolitical tensions in the Middle East, and also by the uncertainty of whether or not the UK will remain in the EU, with the impact that a potential downsizing of the EU can have on its outlook and more widely, on the global economy.

In 2016, according to the recent estimates of the IMF, the growth rate of the global GDP is expected to strengthen slightly to 3.4%, while it shall advance further in 2017 to 3.6%. However, these estimates come from a downward revision of the past October figures by 0.2 percentage points for both 2016 and 2017. The downwards readjustment is due to estimates for slower growth in emerging markets. In country level, the revision is mainly due to the course of the economy of Brazil, given the high political uncertainty that exists therein, to the deteriorating of prospects of the Middle East countries, from the further weakening of the low prices of petroleum, to the anticipated course of the US economy, where the growth rate is expected to remain unchanged this year, against a previous estimate of accelerating growth.

In greater detail, concerning the prospects of the major world economies:

In the **US**, the GDP increased by 2.5% in 2015, with a similar growth outlook for 2016 (2.6%). The favourable financial conditions, the stronger real estate sector and the improving labour market continue to affect positively the recovery of the US economy. In contrast, there is a negative effect in the industrial production from the appreciation of the dollar against the euro, while the low oil prices undermine the investing activity in the sector of metal construction and equipment.

In **Japan**, according to the latest revised-up estimates, the GDP increased by 0.7% in 2015. A slight acceleration of growth is expected in 2016, with the economy expanding by 1.0%. The lower oil prices, the expansionary fiscal policy, the loosening of the monetary policy and the rising household disposable incomes are the key growth drivers.

Among the developing economies, **China** is expected to keep on taking advantage of the lower oil prices. Nevertheless, the economy is sought to shift to a different model of growth, more viable than this of the past years, when investment, funded by big capital from borrowed funds, was the key growth driver. The highly leveraged funds in an economy create risks for the sustainability of its growth. The structural reforms that the country is undergoing in the direction of further growth of its services and consumption continue smoothly. The restructuring is expected to be supplemented with appropriate macroeconomic policies, but

[1] https://www.ecb.europa.eu/press/pressconf/2016/html/is160310.en.html

it might also face some growth risks as the process of adjustment is quite complicated. In this context of policies, the growth of China is expected to further slowdown in 2016 to 6.3% from 6.9% in 2015.

Russia continues to adjust to the new conditions, i.e. the low oil prices, which have considerably hurt its exports, and the trading restrictions imposed by the western economies. The second factor is expected to stay in force at least until July of 2016, negatively influencing the growth outlook of the Russian economy. The year 2015 ended with a contraction of the GDP by 3.7%, while the predictions for 2016 point to a recession of around 1.0%.

The trend of the economic climate indicator for the global economy, estimated by IFO, reflects a slight weakening of the growth of the global economy in 2016, at least during its first few months.

Table 2.1

Global Environment – IMF, World Economic Outlook

(Annual % change, in real values)

		2015	2016	2017
GDP				
U.S.A.		2.5	2.6	2.6
Japan		0.6	1.0	0.3
Emerging Asia (excl. Japan)		6.6	6.3	6.2
of which	China	6.9	6.3	6.0
	India	7.3	7.5	7.5
AESEAN-5		4.7	4.8	5.1
Eurozone		1.5	1.7	1.7
Emerging and developing Europe		3.4	3.1	3.4
Commonwealth of Independent States (CIS)		-2.8	0.0	1.7
of which	Russia	-3.7	–1.0	1.0
Middle East and North Africa (MENA)		2.5	3.6	3.6
Latin America		-0.3	-0.3	1.6
of which	Brazil	-3.8	-3.5	0.0
Sub-saharan Africa		3.5	4.0	4.7
World economy		3.1	3.4	3.6
World Trade				
Volume of World Trade (goods and services)		2.6	3.4	4.1
Imports: Advanced Economies		4.0	3.7	4.1
Imports: Emerging and Developing Economies		0.4	3.4	4.3

Emerging Asia: Vietnam, India, Indonesia, China, Malaysia, Thailand, Philippines
AESEAN-5: Vietnam, Indonesia, Malaysia, Thailand, Philippines
Middle East and North Africa: Egypt, Algeria, Morocco, United Arab Emirates, Jordan, Iraq, Iran, Qatar, Kuwait, Lebanon, Libya, Mauritius, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia
Sub-Saharan Africa: Angola, Ethiopia, Ivory Coast, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Maurice, Botswana, Namibia, Nigeria, North Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad, etc.
Source: World Economic Outlook Update, IMF, January 2016

Table 2.2

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

Quarter/Year	I/14	II/14	III/14	IV/14	I/15	II/15	III/15	IV/15	I/16
Economic climate	103,2	102,3	105	95	95,9	99,5	95,9	89,6	87,8
Assessment of current situation	91,6	91,6	95,3	91,6	91,6	95,3	87,9	86,0	87,9
Expectations	114	112,3	114	98,2	100	103,5	103,5	93,0	87,7

Source: IFO, World Economic Survey, WES No. 01/ February 2016

After a significant fall in the final quarter of last year, from 95.9 to 89.6 points, there was a further decline in the first quarter of 2016, with the indicator reaching 87.8 points, one of its lowest level in the last 3.5 years. As a result, its distance from its long-term average (96.1) increased further. In a nutshell, the assessment of the current economic situation slightly improved, but the expectations for the next six months deteriorated.

The examination of the economic climate index of IFO in the major world economic regions points to a downward trend in all regions with the exception of Oceania, Asia and Latin America. In Oceania, the outlook has remained stable, albeit at low levels, while in Asia and Latin America the index increased.

More specifically, the economic climate index reached 110.7 points in **Europe** in the first quarter of 2016, lower quarter on quarter by 2.9 points, remaining above the long-term average (102.1). In **North America**, the economic climate index declined for the fourth consecutive quarter, reaching 85.4 points in the first quarter, 5.8 points lower quarter on quarter, with the distance from its long-term average (90.7) expanding further. In contrast, the economic climate index in **Asia** increased slightly quarter on quarter in the first quarter of 2016, by 3.5 points, reaching 78.9 points, against 75.4 points in the preceding quarter. This is the first increase of the index after five consecutive quarters of decline, running against the downward trends in the remaining regions of the world.

Table 2.3

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

Quarter/Year	I/14	II/14	III/14	IV/14	I/15	II/15	III/15	IV/15	I/16
North America	102,1	107,1	110,5	101,3	107,1	97,9	96,2	91,2	85,4
Europe	116,5	118,4	117,5	101	108,7	120,4	116,4	113,6	110,7
Asia	97,4	89,5	99,1	93,9	90,4	93,0	87,7	75,4	78,9

Source: IFO, World Economic Survey, WES, No. 01/ February 2016

The economies of the EU and the Euro area

Growth in the EU and in the Eurozone was considerably boosted in 2015 by the simultaneous impact of a series of favourable factors, such as low energy prices, low exchange rate of the euro/dollar, the loose monetary policy from the ECB and the completion or the relaxation of the fiscal consolidation in some of the countries that implemented programmes or policies with this goal. To be specific, GDP increased last year by 1.8% in the EU and by 1.5% in the Eurozone, against 1.4% and 0.8% respectively the year before the last. The majority of the member-states of the EU had positive rates of GDP change in 2015. In particular, the countries with the highest growth rates were Ireland (7.8%), Malta (6.3%), Luxembourg (4.8%) and Sweden (4.1%). Greece was the only country in the EU which experienced a recession last year.

Based on the latest forecasts of the European Commission for the current year, the annual GDP growth rate in the EU is expected to rise marginally, to 1.9%, while in the Eurozone it is expected to reach 1.7%. In fact, the GDP growth is expected to accelerate in 2016 in all EU countries, apart from Greece, where the recession will deepen. The slightly worse predictions for the global economy for 2016, in relation to the previous ones published in the end of 2015, is expected to lead to deviations in the economic performance of the EU states, depending on their foreign trade and energy relations with other countries. The result of the British referendum that will take place in June 2016, which will determine whether or not the country will remain in the EU, is also an important factor of uncertainty for the course of the European economy. The concern here stems from the long-term impact of a possible gradual fragmentation of the EU, but also to the immediate effects this will have on its financial integration.

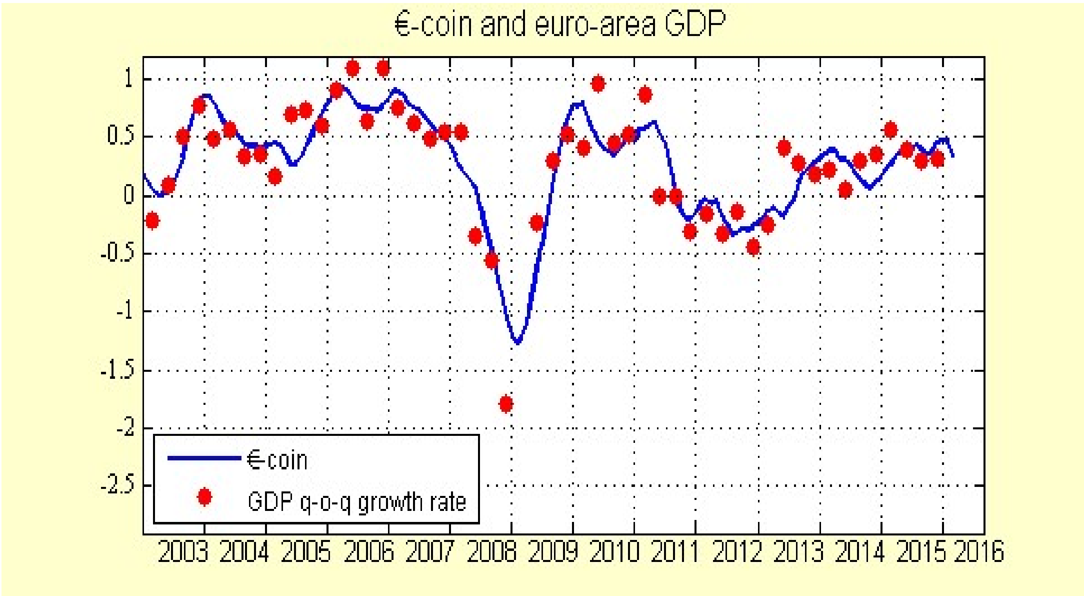
Then again, the key leading indicators of economic activity in the Eurozone and the EU signify a slowdown, as they have deteriorated in the past few months. In particular, the index €-COIN[2], which is a leading indicator of economic activity in the Eurozone, declined in the last two months (February and March) of the first quarter of 2016. Initially, the index value decreased marginally to 0.47 points, from 0.48 in January. In March, however, the index fell sharply to 0.34 points, reaching its level of last April. Nevertheless, it remained positive, which indicates quarter-on-quarter growth. The fall of the index mainly reflects assessments of a deterioration of household finances, which prevail upon optimistic outlook for growth of the industrial production.

[2] The Center of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator provides a quarterly 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.

According to the European Commission, the economic climate index has deteriorated slightly in both the EU and the Eurozone. In particular, the index was gradually decreasing in all of the months of the first quarter of 2016, to reach 103.0 points in the Eurozone and 104.6 points in the EU, falling in comparison with December 2015 by 3.8 and 4.3 points respectively. The retreat of the index in the Eurozone mainly originated from declining consumer confidence and business expectations in the areas of services and construction. The expectations remained unchanged in industry and slightly improved in retail.

Figure 2.1

Monthly Index €-COIN of CEPR



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

Table 2.4

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

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

Month	Jan-16	Feb-16	Mar-16	Apr-16	May-16	June-16	July-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
EU	106.7	105.3	104.6									
Euro area	105.0	103.9	103.0									

* The country weights and the index time series of the EU were revised due to the entry of Croatia into the EU from 1 July 2013

Source: European Commission (DG ECFIN)

A more comprehensive information about the key economic indicators that drive the formation of the GDP of the Eurozone and of the EU, as well as their potential trends in the upcoming time period are presented below in this chapter, emphasising their percentage change in 2015 and the trends anticipated for 2016.

In greater detail, according to Eurostat data, **private consumption** increased stronger in 2015 in comparison with 2014, by 1.7% in the Eurozone and 2.0% in the EU, in comparison with 0.8% and 1.2% respectively for 2014. This mild and gradual increase of private consumption was the key growth driver in Europe last year, as it contributed 0.9% and 1.1% of the GDP growth in the Eurozone and the EU respectively. The consumption growth came from the rise in real disposable income, mainly due to the zero inflation and the improved conditions in the labour market. The rise of private consumption is expected to be marginally stronger in 2016, by 0.1 percentage points in the Eurozone and 0.2 in the EU, contributing decisively to GDP growth in the ongoing year as well.

The upward trends that prevail in **public consumption**, which increased by 1.4% in the Eurozone and by 1.5% in the EU in 2015, are less powerful than in private consumption. However, the growth of public consumption accelerated in both regions (from 0.9% and 1.2% respectively in 2014) due to the increase in public spending, mainly as a result of loosening or completion of the fiscal consolidation in countries which had taken such measures, but also to some extent in order to address the refugee flows. Public consumption had a small positive contribution to GDP in 2015, of 0.3% in both economic regions. For 2016, public spending is anticipated to remain constrained, resulting in the growth of public consumption slowing down to 1.3% in both economic regions.

Export of goods and services increased in 2015 by 5.1% in both economic regions, in comparison with 4.1% in the Eurozone and 4% in the EU in 2014. The increase in exports for 2015 mainly reflects the improvement of price competitiveness in products, from the steadily low EUR/USD exchange rate, the decrease of the relative labour cost and the growth of foreign demand. For 2016, the forecasts point to a continuation of the growth of exports, albeit at a lower rate than last year, by 4.2% in both economic regions.

On the other side of the trade balance, **imports** increased slightly faster than exports in 2015, both in the Eurozone and in the EU (5.7% and 5.6% respectively). As in exports, last year's increase was bigger than that of 2014 (4.5% in the Eurozone and 4.6% in the EU). It seems from this that the growth in private consumption benefited proportionally more the imports than the domestic production.

Table 2.5

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

	EU			Euro area		
	2015	2016	2017	2015	2016	2017
GDP	1.9	1.9	2.0	1.6	1.7	1.9
Private Consumption	2.0	2.2	1.8	1.7	1.8	1.5
Public Consumption	1.5	1.3	1.1	1.4	1.3	1.2
Investment	3.0	3.2	4.3	2.3	2.8	4.2
Employment	1.1	1.0	0.9	1.1	1.0	1.0
Unemployment (% labour force)	9.5	9.0	8.7	11.0	10.5	10.2
Inflation	0.0	0.5	1.6	0.0	0.5	1.5
Exports of goods and services	5.1	4.2	5.0	5.1	4.2	5.0
Imports of goods and services	5.6	5.1	5.5	5.7	5.0	5.6
Balance of General Government (% GDP)	-2.5	-2.2	-1.8	-2.2	-1.9	-1.6
Debt of General Government (% GDP)	87.2	86.9	85.7	93.5	92.7	91.3
Current Account (% GDP)	0.5	0.5	0.5	1.2	1.0	0.8

Source: European Economic Forecast, winter 2016, European Commission

As a result of the above changes, net exports did not contribute to the growth of the European economy in 2015, for a second year in a row. In fact, the forecasts of the European Commission for 2016 point to a slightly faster growth in imports (EU28: 5.1%, Eurozone +5.0%), in comparison with exports (4.2% in both regions), leading anew to a negative contribution of the external sector to growth. It seems that the zero or negative contribution of net exports to growth, which was observed in 2014 in the Eurozone and in the EU for the first time in the last fifteen years, has consolidated. Thus, at least in the short term net exports will not constitute a growth driver for the European economy.

Investments increased in 2015 by 2.3% in the Eurozone and by 3.0% in the EU, from 1.3% and 2.7% respectively in 2014. However, the observed growth acceleration is considered low, as the financing environment was highly favourable after the implementation of the quantitative easing by the ECB while the demand conditions were also better. In this way, the expectations that investment will drive growth are not confirmed, while there is also doubt about the view that the auspicious financial framework can contribute to the growth of investments. The investment activity is projected to increase only marginally in 2016, by 0.5 and 0.2 percentage points in the Eurozone and the EU respectively.

Inflation in the Eurozone and in the EU fell to zero levels in 2015, a development which is mainly due to deflationary pressures created by the vertical fall of the oil prices. The year before the last, inflation was found at 0.4% in the Eurozone and at 0.6% in the EU. As long as energy prices remain stable in the next few years, inflation is expected to remain at low levels. Hence, inflation is expected to rise to 0.5% in 2016 in the Eurozone but stay at zero levels in the EU.

Regarding the **fiscal performance**, the deficit of the general government totalled 2.2% in the Eurozone and 2.5% in the EU in 2015, compared with 2.6% and 3.0% respectively in 2014. It is expected to fall again in 2016 to 1.9% and 2.2% respectively. This positive development mainly reflects the benefits from the implementation of budgetary measures to restrict the deficit in many countries of the European periphery. Other factors which seem to have played a part are the economic recovery of many countries, but also the containment of the debt servicing cost due to the ECB's monetary policy, primarily by keeping the lending rates at a low level. The debt-to–GDP ratio decreased for the first time after many years in 2015, to 93.5% and 87.2% of GDP in the Eurozone and in the EU respectively, from 94.5% and 88.6% in 2014. Debt is expected to continue falling this year, with the debt-to-GDP ratio projected at 92.7% in the Eurozone and at 86.9% in the EU.

The conditions in the **labour market** continue to improve in 2015, with a faster pace than in 2014. More specifically, employment rose by 1.1% in both economic regions, against 0.6% in the Eurozone and 1.0% in the EU in 2014, while the unemployment rate reached 11.0% in the Eurozone and 9.5% in the EU (from 11.6% and 10.2% correspondingly for 2014). The forecasts of the European Commission point to a positive change in employment in 2016, approximately equal in the two European regions. In turn, the unemployment rate is expected to decrease in 2016 and to reach 10.5% in the Eurozone and 9.0% in the EU.

2.2 The economic environment in Greece

A) Economic sentiment

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

The economic sentiment indicator improved the first quarter of the new year in comparison with the last quarter of 2015. It is probable that the expectation for completion of the first review of the bailout programme contributes positively to the overall economic climate, as it reaffirms the place of Greece in the Eurozone and in the world economy and heralds a new settlement on the servicing of public debt. That said, some negative developments from the completion of the negotiations, such as the finalisation of the new tax measures and the changes to the pension system, decisions that will have an immediate negative impact mainly on the demand side of the economy, i.e. on the households, are reasonably discounted in the indicator. On the business side, the outcome of the review relates to labour market parameters (e.g. size of employer social contributions), but also to easier access to capital, the tightness of which is particularly strong in early 2016, from the restoration of ECB's waiver that would provide the Greek banks access to its basic liquidity supply mechanism. Especially for the consumer confidence, the handling of the refugee and immigration flows is negatively assessed, influencing accordingly their expectations. More specifically:

The Economic Sentiment Indicator for Greece increased quarter on quarter in the first quarter of this year, totalling on average 90.2 (from 86.7) points, a level that is lower year on year (from 97.3 points).

In Europe, the corresponding indicator declined quarter on quarter both in the Eurozone and in the EU. In particular, the economic sentiment indicator stood at 104 (from 106.2) and 105.5 (from 107.7) points in the Eurozone and the EU respectively, slightly higher, however, year on year in both regions.

At the sectoral level, the business expectations in Greece improved quarter on quarter in the first quarter of the new year in all sectors except Services, but consumer confidence significantly weakened, offsetting the growth in business expectations. On a quarterly basis, the quarter-on-quarter rise of the index in the first quarter of the year reached 8 points in Industry, 9 points in Construction and 11 points in Retail Trade. In Services, the quarter average of the indicator declined marginally, while in Consumer Confidence, the decline of the index reached 6 points.

Compared with the corresponding period of last year, the indicators increased on average in all sectors, except again in Services, but also in Consumer Confidence, which declined sharply. In particular, the indicators in increased by 4 and 8 points correspondingly in Industry and Retail Trade, and by 3 in Constructions. In contrast, the relevant indicator in Services lost 7 points last year on year. Consumer Confidence lost 31 points year on year in the examined quarter. In greater detail:

The **Consumer Confidence** indicator reached on average -67.5 points in the first quarter of 2015 (from -61.6 in the preceding quarter), noticeably lower year on year (from -37 points). At country level, the Greeks are by far the most pessimistic consumers in the EU. The corresponding average European indices slightly diminished q-o-q in the examined quarter, both in the Eurozone and in the EU, to -8.3 (from -6.4) and -6 (from -4.7) points respectively, levels which are lower in comparison with those of last year (-6.2 and -4.2 points on average, respectively).

The trends in the individual elements that make up the overall index are negative in the current quarter in the expectations of the Greek consumers for the economic situation of their household in the next 12 months and the expectations for the economic situation of the country. As for the unemployment expectations and the intent to save, the indicators remained essentially unchanged on average quarter on quarter.

In particular, during the first quarter of the year, the percentage of those who were pessimistic about the economic situation of their household in the following 12 months increased on average to 70% (from 68%), with 22% believing that the economic situation will improve. The percentage of Greek consumers holding negative expectations about the economic situation of the country widened slightly to 79% (from 77%), with 5% (7%) believing that it would improve slightly or significantly. Regarding the intention to save, the percentage of households not likely to consider making any savings in the next 12 months remained on average at 89%. Concerning the unemployment expectations, the percentage of those foreseeing that the situation will deteriorate slightly declined to 75%, while 6% on average expressed the opposite opinion. The percentage of consumers who reported to be "running into debt" fell in the first quarter of 2016 to 13% (from 15% in the fourth quarter of 2015 and 13% in the same period of last year) while the percentage of respondents who declared to be saving little or a lot stood at 8% (from 9%). Lastly, the percentage of those reporting that they were "just about managing to make ends meet on their income" rose to 67% (from 63%) and the percentage of households reporting that they were "drawing on their savings" remained at 11-12%.

The Business Climate Indicator in **Industry** amounted to 90.7 points in the first quarter of 2016, higher than in the final quarter of 2015 (82.9 points) and the corresponding period of last year (87.1 points). Concerning the key figures on economic activity, the short-term production forecasts remained unchanged quarter on quarter (at 1 point), while the assessment for the number of orders and the level of demand improved from -34 to -27 points. The expectations concerning the stocks of finished goods were relatively stable, suggesting relatively bloated inventories for the given time period (at 13 points). In the remaining economic activity components, the trends for export-related variables are mixed, given that the expectations for exports in the next quarter have slightly improved, while the assessment for the number of orders and demand from abroad and the assessments on the current level of exports of the sector deteriorated. The average quarterly balance of employment expectations rose by 9 points to -5, a better performance year on year as well (from -8 points in the first quarter of 2015). The industrial capacity utilisation rate remained almost unchanged during the quarter in question, at 65.9%, lower year on year (from 67%). Finally, the months of production accounted for by the order book of the companies remained on average mostly unchanged quarter on quarter at 3.9.

The Business Climate Indicator **in Retail Trade** recovered quarter on quarter to 93.6 points, a better performance compared with the same quarter of last year as well (85.5 points). Concerning the key components of the index, the average assessment of current sales increased to -1 (from -24) in the first quarter. The percentage of the companies in the sector reporting growth of sales increased to 37% (from 26%). The index for expected sales also rebounded significantly to -2 (from -20) points, while the index for inventories stood at -13 (from -16) points on average. Of the remaining activity indicators, the balance of expected orders from suppliers improved (to -4 from -14, quarterly average), while the short-term employment expectations turned from negative (-3) to positive (+2 points). Finally, the balance of price expectations rose slightly this quarter, to +2 points, with 7% of the companies expecting price deflation and 84% expecting price stability. The business sentiment improved quarter on quarter in the first quarter of the year in all constituent branches, with the strongest rise recorded in Food-Beverage-Tobacco and Household Appliances.

Business expectations in **Construction** improved in the first quarter of 2016 compared with the previous one, with the relevant balance standing at 68 (58.8) points on average. This performance is slightly better year on year as well (from 65 points on average). In the basic components of the index, the noticeable improvement in the negative employment expectations in the sector by 20 points (to -17 points) was not offset by the slightly more pessimistic expectations of the businesses on their order book (to -53 from -51 points). About 38% (from 62%) of the businesses were expecting job reduction and 21% (from 11%) were foreseeing employment growth in the sector. The assessment of the businesses of their current level activity mildly improved in the first quarter, with the relative balance reaching -30 (from -36 points), while the months of activity accounted for by work in hand remained at 9.6. The negative balance of price expectations slightly widened quarter on quarter in the quarter under examination, by 5 points, reaching -29, with 1/3 of the businesses expecting further reduction in the long term and 5% (from 8%) expecting prices to rise.

Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business declined to 7% (from 11%), while among the remaining businesses, 35% selected low demand as the major obstacle, 36% insufficient funding and 20% factors such as the general economic situation of the country, the capital controls, high taxes, lack of projects and late payments by the state. At branch level, the rise of business sentiment in the sector in the first quarter came from positive development in Private Construction (with the index reaching 89,1 from 46 points on average) given that the index in Public Works declined (to 59.3 points from 64 points on average).

In **Services,** the Business Climate Indicator slightly declined quarter on quarter in the first quarter of 2016, to 69 (from 70,5) points on average, lower year on year as well (from 76.4 points). From the basic components of the index, the assessment for current demand lost ground, with the indicator falling by 5 points (to -15 points on average). The assessment of the current level of business activity slightly declined (to -23 from -19 points on average), while the short-term demand expectations of the businesses of the sector mildly recovered (to -4 from -7 points). Regarding the rest of the activity indicators, the employment expectations improved, with the average balance of the index growing from -16 points to -11 points (also -16 in the corresponding period of last year). The deflationary price expectations slightly eased, with the index standing on average at -5 (from -8) points and 12% of the businesses expecting a price reduction. Finally, the percentage of respondents, declaring that there were no significant obstacles to their business operation remained at 15%, with 33% stating insufficient demand as the main obstacle to the proper functioning of their business, 22% citing insufficient working capital, another 4% lack of labour, and 2% insufficiency of capital equipment. The remaining 25% reported other factors, such as the general economic situation and the crisis, the capital controls, inability to borrow, high taxes, and delay in payments.

The business climate indicators deteriorated quarter on quarter in the first quarter of the year in all constituent branches of Services, apart from Various Business Activities and Information Services, where the climate improved.

Table 2.6

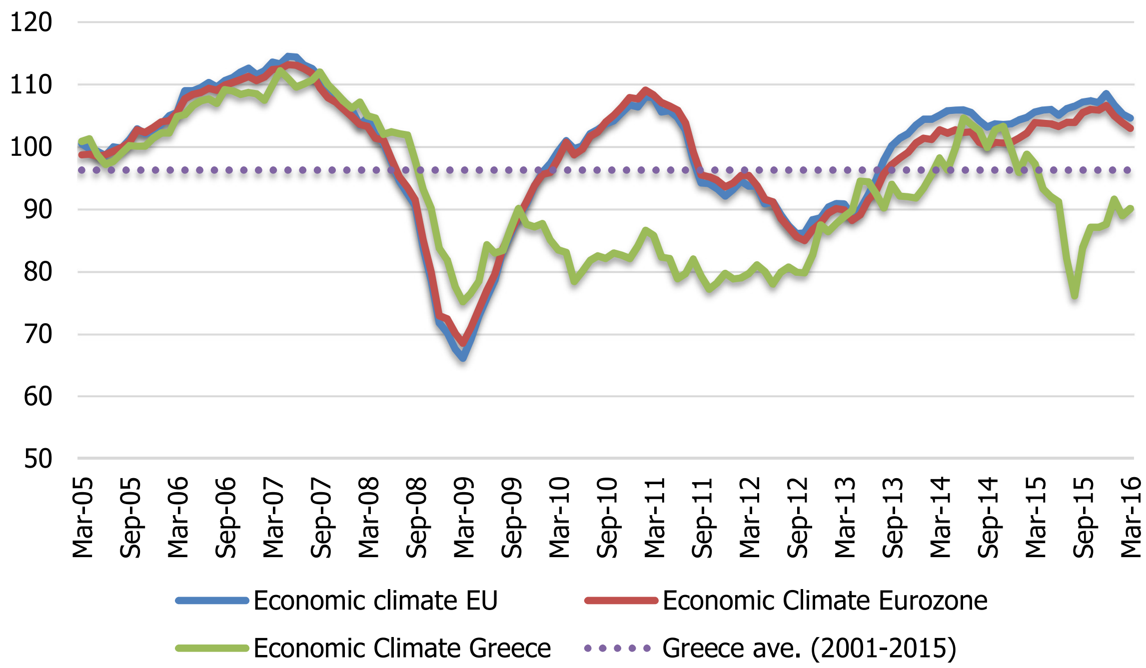
Economic sentiment indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	90.6	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	93.8	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	101.6	99.3	94.6	81.5	89.1	87.2	-55.0
2015	106.7	104.3	88.7	81.9	56.4	81.0	70.6	-50.7
Q1 2015	105.4	102.6	96.8	87.2	65.0	85.5	76.4	-37.0
Q2 2015	106.1	103.7	91.6	85.7	57.6	90.4	73.2	-43.6
Q3 2015	107.1	104.6	79.9	71.9	44.0	65.8	62.4	-60.6
Q4 2015	108.0	106.3	86.7	82.9	58.8	82.4	70.5	-61.6
Q1 2016	105.5	104.0	90.2	90.7	68.0	93.6	69.0	-67.5

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

Figure 2.2

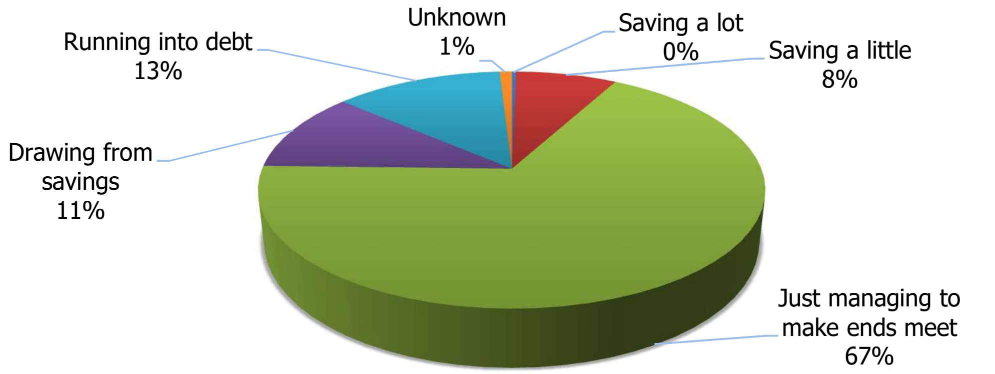
Economic Sentiment Indicators: EU, Eurozone and Greece, (1990-2014=100, seasonally adjusted data)



Source: DG ECFIN, European Commission

Figure 2.3

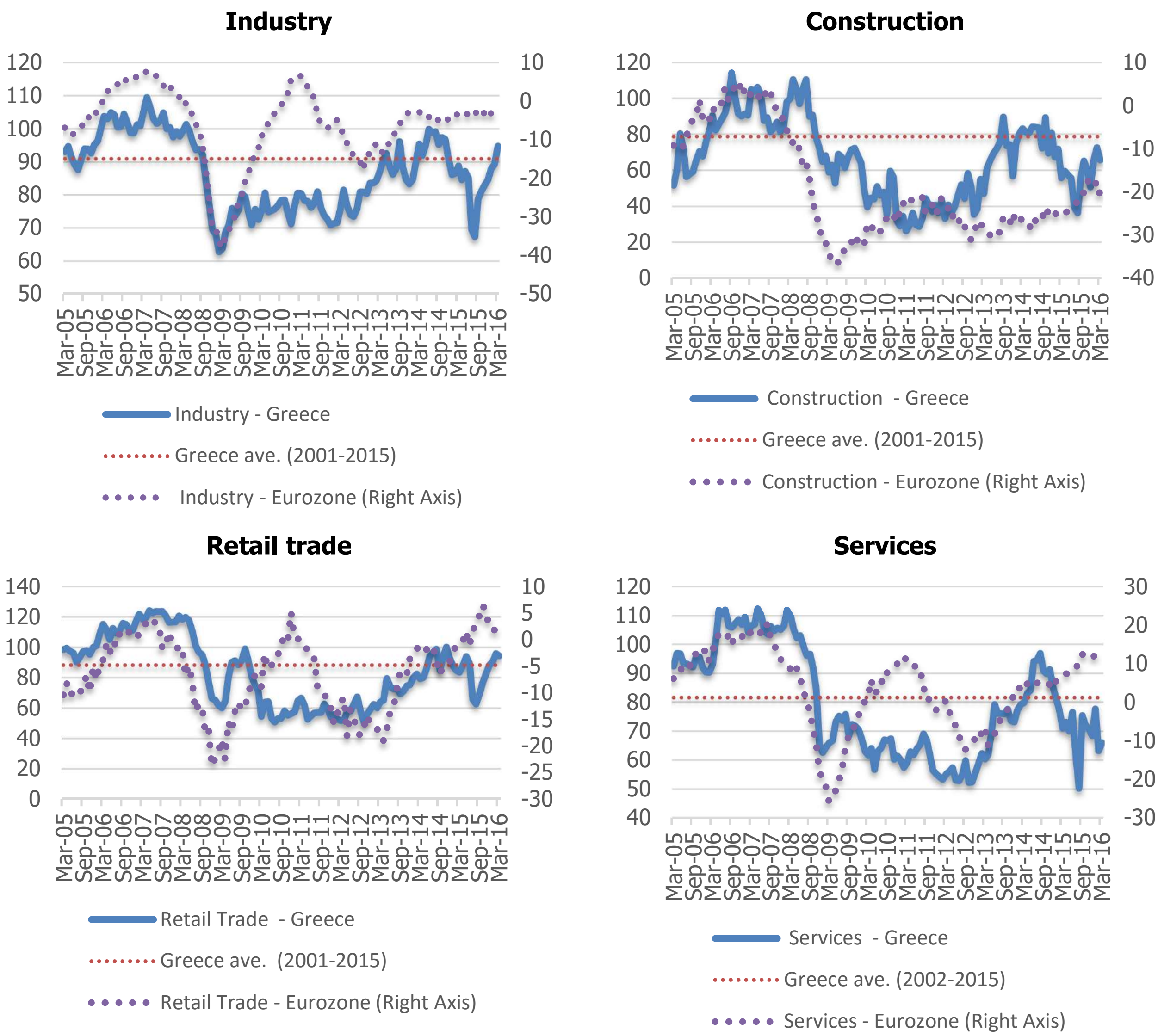
Consumer Survey data on their household's financial situation *(average of January - March 2016)*



Source: IOBE

Figure 2.4

Business Climate Index



Source: IOBE

B) Fiscal developments and outlook

Finalisation of the 2015 Budget figures

The 2015 State Budget was executed under extraordinarily difficult conditions and catalytic uncertainty. This had a negative influence on the fiscal developments, caused strong fluctuations in the budgetary aggregates throughout the year and finally led to an alteration of the initial budget for last year, which was initially approved in early December 2014.

More specifically, due to high revenue shortfalls, the State Budget was revised ad hoc, yet substantially, in November,[3] with revenues lowered by €4.3 billion.[4] At the same time, however, €1.9 billion of anticipated revenue from new sources was added to the budget. This amount referred to revenues from the transfer of the profits from holding Greek sovereign bonds, acquired as part of the ANFA and SMP programmes, from the central banks of the Eurosystem to the Greek State that had not been collected in 2014.[5] These revenues would have been collected if the first review of the third bailout program were completed on time, thus they have not been yet collected. Indicative of the strong fluctuations is the fact that, as analysed below, many of the revised predictions of November (both in revenues and expenditure) were significantly changed in December (see table 2.7).

Deficit and primary surplus

The deficit of the State Budget for 2015 was initially predicted to be at €0.1 billion, or 0.1% of GDP, but in the end it reached €3.5 billion, or 2.0% of GDP. Accordingly, the primary surplus did not exceed €2.3 billion (1.3% of GDP) against an initial prediction for a surplus of €5.8 billion or 3.1% of GDP (see table 2.7). An important part of this deterioration was recorded between November and December (see table 2.7). However, the overall picture is even worse given that in 2015 the General Government generated new arrears towards its suppliers, of €1.6 billion (which will eventually be covered by the State Budget).

As already mentioned, the revenue shortfall was the main reason of the large deviations from the State Budget. This result has a particular importance, given that the revenues were strengthened by extraordinary, one-off non-tax receipts, and from the July measures that were implemented within 2015. All of these were not included in the (initial) 2015 Budget.

[3] The revision of the budgetary figures was outlined in the Introductory Report of the 2016 Budget (p.64, table 3.5) and in the Budget Execution Bulletin of November 2015.

[4] This breaks down into a net revenue of €4.0 billion of the Ordinary Budget and €0.3 billion of the Public Investment Programme (PIP).

[5] After the addition of ANFA and SMP in 2014, the relevant receivable amount (cumulative for 2014 and 2015) reached €3.9 billion, from only €2.0 billion until October (Introductory Report of the 2016 Budget, p. 64).

Ordinary Budget Revenue

The revenue shortfall was the most clear and strong trend, evident from the beginning of last year's budget implementation until the end of September.[6] Revenues were significantly behind the monthly targets but also against the corresponding receipts of 2014, despite their boost with extraordinary, non-tax revenues in the spring.[7] For this reason, the extraordinary yet significant review of the Budget, mentioned above, took place.

The course of the revenues (against the monthly targets) returned to normal in October, when the pressure for revenue collection increased, and the first instalment of the property tax for 2015 was collected (while in 2014, the first instalment had been collected in September). At the same time, some of the tax measures[8] of July and August that came into force last year started to pay off. Note that in December, the (monthly) collections from the property tax and from the income tax of individuals were exceptionally high, overshooting the monthly targets. However, only €0.3 billion were collected from the budgeted ANFA's and SMP's of 2014 and 2015, of a total of €3.9billion, and as a result the revenues of the Ordinary Budget of 2015 lagged in relation with the November predictions by €2.5 billion (see table 2.7 and 2.8).

More specifically, the revenues of the Ordinary Budget before tax refunds in 2015 stood in the end at €49.5 billion, against an initial prediction of €53.7 billion and a reviewed goal of €52.0 billion (see table 2.7 and 2.8). These earnings were also lower by 1.0% against 2014. Apart from the loss of ANFA's and SMP's, the shortfall in relation to 2014 occurred mainly in direct taxes (-3.5%) and especially in the revenues from the property taxes (-8.5%) and the taxes of previous financial years (-11.8%), despite the regulations that allowed for a settlement of tax obligations with 100 instalments that came into force in the spring of 2015 (see table 2.8).

[6] Basically the trend that had started to form in the last two months of 2014, when it became clear that the country was heading to elections, carried over and strengthened in 2015.

[7] These revenues were not envisaged in the 2015 Budget.

[8] These measures are noted in the 4th quarterly bulletin of IOBE for 2015 (p. 45-46).

Table 2.7

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

	2013	2014	2015 Budget estimates	2015 November estimates	2015 Final figures	2016 Budget	% change 14/13	% change 15/14	% change 16B/15
I. SB Revenues (1+2)	**53,079**	**51,367**	**55,603**	**53,091**	**51,421**	**53,527**	**-3.2**	**0.1**	**4.1**
1. OB net revenues	48,415	46,650	50,871	48,618	46,589	49,107	-3.6	-0.1	5.4
Revenues before tax refunds[9]	51,520	50,020	53,748	51,988	49,510	52,375	-2.9	-1.0	5.8
Minus Tax refunds	*3,105*	*3,370*	*2,877*	*3,370*	*2,922*	*3,268*	*8.5*	*-13.3*	*11.8*
2. PIP Revenues	4,665	4,717	4,732	4,473	4,832	4,420	1.1	2.4	-8.5
Of which: revenues from EU	*4,511*	*4,649*	*3,982*	*3,943*	*3,900*	*4,170*	*3.1*	*-16.1*	*6.9*
II. SB Expenditure (3+4)	**58,459**	**55,063**	**55,705**	**55,664**	**54,951**	**55,751**	**-5.8**	**-0.2**	**1.5**
3. OB expenses	51,809	48,472	49,305	49,264	48,545	49,001	-6.4	0.2	0.9
Primary expenses[10]	45,766	42,902	43,405	43,435	42,744	43,071	-6.3	-0.4	0.8
Interest rates	6,044	5,569	5,900	5,830	5,800	5,930	-7.9	4.1	2.2
4. PIP Expenses	6,650	6,592	6,400	6,400	6,406	6,750	-0.9	-2.8	5.4
III. SB Deficit (I-II)	**-5,380**	**-3,696**	**-102**	**-2,573**	**-3,530**	**-2,224**			
% of GDP	*-3.0*	*-2.1*	*-0.1*	*-1.5*	*-2.0*	*-1.3*			
OB Deficit/Surplus	-3,394	-1,822	1,566	-646	-1,956	106			
PIP Deficit	-1,985	-1,875	-1668	-1,927	-1,574	-2,330			
IV. SB Primary Surplus	**664**	**1,873**	**5,798**	**3,257**	**2,270**	3,706			
% of GDP	*0.4*	*1.1*	*3.1*	*1.9*	*1.3*	2.1			
GDP (current prices)	180,389	177,559	184,870	175,658	175,658	174,438	-1.6	-1.1	-0.7

[9] Includes proceeds from concessions of licences

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

The revenues from the indirect taxes remained at their 2014 levels (€23.8 billion). This development was due to the increase of the VAT coefficients in July, resulting in a significant boost of the revenues in the second half of the year, while in the first one, the VAT revenues were lower by 3.4% year on year. Thus, on a yearly basis, these revenues were slightly higher against 2014, despite the significant drop of fuel prices. Also, the receipts from consumption taxes increased by 0.7% against 2014, due to the high revenue from car registration and circulation fees, as the car market showed signs of recovery in the first half of last year.

Table 2.8

State Budget Revenues (million €)

Revenue categories	**2013**	**2014**	**2015**	**2016 Budget**	**% 14/13**	**% 15/14**	**% 16B/15**
1. Net SB revenue	**53,079**	**51,367**	**51,421**	**53,527**	**-3.2**	**0.1**	**4.1**
2. OB net revenue	**48,415**	**46,650**	**46,589**	**49,107**	**-3.6**	**-0.1**	**5.4**
Tax refunds	3,105	3,370	2,922	3,268	8.5	-13.3	11.8
3. OB revenue	**51,520**	**50,020**	**49,510**	**52,375**	**-2.9**	**-1.0**	**5.8**
Direct taxes	20,058	20,464	19,758	20,028	2.0	-3.5	1.4
--Income tax	11,489	12,207	12,093	12,025	6.2	-0.9	-0.6
--Property tax	2,991	3,474	3,180	3,788	16.1	-8.5	19.1
--Direct taxes of previous years	2,826	1,928	1,700	1,379	-31.8	-11.8	-18.9
--Other direct taxes	2,752	2,855	2,785	2,836	3.7	-2.5	1.8
Indirect taxes	24,556	23,776	23,773	24,738	-3.2	-0.0	4.1
--Transaction taxes	14,673	14,224	14,254	14,875	-3.1	0.2	4.4
(of which VAT)	(13,856)	(13,618)	(13,629)	(14,376)	(-1.7)	(0.1)	(5.5)
--Consumption taxes	8,995	8,702	8,760	9,102	-3.3	0.7	3.9
--Indirect taxes of previous years	533	469	450	385	-12.0	-4.1	-14.4
--Other indirect taxes	355	381	310	376	7.3	-18.6	21.3
Non-tax revenues	6,905	5,780	5,979	7,610	-16.3	3.4	27.3
--Receipts from the EU	183	196	428	325	7.1	118.4	-24.1
--Non-ordinary revenue	3,626	1,817	1,825	2,269	-49.9	0.4	24.3
(of which: ANFA, SMP)	(2,715)	(580)	(291)	(1,691)	(-78.6)	-49.8	481.1
--Permits and rights	86	384	254	1,802	346.5	-33.9	609.4
--Other	3,010	3,383	3,472	3,214	12.4	2.6	-7.4
4. PIP revenues	**4,665**	**4,717**	**4,832**	**4,420**	**1.1**	**2.4**	**-8.5**

Source: Preamble of the 2016 State Budget, Ministry of Finance, November 2015 and State Budget Execution Bulletin January 2016, GAO, February 2016

Lastly, the non-tax revenue strengthened significantly last spring, from the extraordinary inflow of €0.8 billion, which were not included in the initial budget, but also from receipts from the bank support programme of €1.2 billion,[11] while the budget predicted revenue of approx. €0.1 billion. In this way, in combination with the high transfers from the EU (rise of 118.4%), the loss of ANFA's and SMP's was offset and the non-tax revenue increased by 3.4% against 2014 (see table 2.8).

In the Introductory Report of the 2016 Budget, there is no reference as to what will happen with the uncollected ANFA's and SMP's of 2014 and 2015, which amount to €3.6 billion in total. In the Introductory Report only the ANFA's and SMP's of 2016 are mentioned, with a total of €1.7 billion. Given the shortfall in revenues despite the additional measures, **if revenues of €3.6 billion are scrapped, due to the protracted negotiations that led to non-completion of the last negotiation cycle of the previous programme and to a delay of the conclusion of the first review of the new programme, this would be a great loss for the country.**

Ordinary Budget Expenditure

From the beginning of the year until September, there was a big restraint of expenditure, due to the liquidity difficulties that were created from the bad course of revenue collection and the inability to borrow funds. However, this restraint was **temporary** and to a large extent **superficial**. Every month, the Budget Execution Bulletin referred that, when the liquidity conditions return back to normal, expenditure will reach the budgeted levels. At the same time, ever since January, new outstanding arrears towards the suppliers of the Public Sector were piling up, totalling €1.6 billion on an annual base.

In that context, when the 2016 budget was put to parliament in last November, its 2015 figures on expenditure of 2015 remained largely unchanged from their initial levels, despite the downward revision of the revenues.[12] However, in December there was a sudden fall of expenditure, by €719 million, in comparison with the estimates performed one month earlier.

As a result of the above developments, the expenditure of the Ordinary Budget was kept at €48.5 billion in 2015, against an initial target of €49.3 billion. In comparison with 2014, expenditure increased marginally by 0.2% (see table 2.9). Note that the expenditure for 2015 in not directly comparable to that of 2014 for two main reasons. Firstly, in 2014, a so-called "social dividend" of €490 million was paid out, an expenditure that did not take place in 2015. Secondly, in 2014, arrears of the Public Sector towards its suppliers from 2013 and earlier years of €1,175 million **were repaid**, while in 2015 **new arrears**

[11] The banks settled the payables to the State stemming from the 2008 measures (Law N. 3723/2008).

[12] The expenditure of the ordinary budget was originally budgeted at €49,305 million, with a revised November estimate at €49,264 million. That is to say, they were revised down by €41 million, when the revenue estimate was lowered by €2.4 billion, as shown in table 2.7.

of €1,609million were generated. If for comparison reasons we make the necessary adjustments, then an increase of the 2015 Ordinary Budget expenditure of about 7.2% would transpire. This is a worrying development, especially if one takes into account the problematic course of revenues.

The primary expenditure of the Ordinary Budget decreased by 0.4% in relation to 2014. Among the sub-categories, a significant decrease against 2014 was recorded in payments for social protection (-18%), earmarked funds (-15.4%), consumption expenses (-13.5%) and grants to institutions by 9.4% (see table 2.9).

The subsidies to National Organization for Health Care Services EOPYY (-19.8%) and the Insurance Fund of the Self Employed OAEE (-11.8%) also declined.

Table 2.9

State Budget Expenditure 2013 – 2016 (million €)

Expenditure category	**2013**	**2014**	**2015**	**2016 Budget**	**% Change**		
					2014/13	**2015/14**	**2016B/15**
1. State Budget Expenditure	**58,459**	**55,063**	**54,951**	**55,751**	**-5.8**	**-0.2**	**1.5**
2. Ordinary Budget Expenditure	**51,809**	**48,472**	**48,545**	**49,001**	**-6.4**	**0.2**	**0.9**
Interest	6,044	5,569	5,800	5,930	-7.9	4.1	2.2
Primary expenditure	45,766	42,902	42,744	43,071	-6.3	-0.4	0.8
--Salaries & pensions	18,422	18,478	18,740	18,201	0.3	1.4	-2.9
Wages	12,278	12,105	12,104	11,461	-1.4	0.0	-5.3
Other allowances	294	280	288	273	-4.8	2.9	-5.2
Pensions	5,850	6,093	6,348	6,467	4.2	4.2	1.9
--Social expenditure	14,268	12,971	13,099	12,615	-9.1	1.0	-3.7
Grants to Social Security Funds	12,262	10,669	11,058	10,571	-13.0	3.6	-4.4
Social protection	1,462	1,813	1,486	1,451	24.0	-18.0	-2.4
Grants to OAED	477	431	499	535	-9.6	15.8	7.2
Other	67	58	56	58	-13.4	-3.4	3.6
--Operational and other	9,526	8,157	8,118	8,001	-14.4	-0.5	-1.4
Transfers	1,936	1,666	1,508	1,255	-13.9	-9.4	-16.8
Consumption	1,732	1,746	1,510	1,567	0.8	-13.5	3.8
Conditional	2,669	2,321	2,365	2,338	-13.0	1.9	-1.1
Other*	3,189	2,424	2,735	2,841	-24.0	12.8	3.9
--Earmarked revenue	3,549	3,295	2,787	3,254	-7.2	-15.4	16.8
--Reserves	--	--	--	1,000	--	--	--
3. PIP expenditures	**6,650**	**6,592**	**6,406**	**6,750**	**-0.9**	**-2.8**	**5.4**

Source: Preamble of the 2015 State Budget, Ministry of Finance, November 2014 and State Budget Execution Bulletin January 2016, GAO, February 2016

* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees.

In contrast, the expenditure for pensions of civil servants (4.2%), the grants to the social insurance funds (3.6%) and the grants towards the Manpower Employment Organization OAED (15.8%) increased against 2014. The expenditure for wages remained at its 2014 levels, while other allowances increased by 2.9% (see table 2.9). Regarding the pension funds (12.7%), a big increase was recorded in the grants to the Insurance Fund for the Agricultural Sector OGA, which reached €3.3 billion. Also, the grants for the Complementary Pension Allowance EKAS (apart from the pensioners and the public sector) increased by 27.6% against 2014 and reached €920 million.

In contrast with the primary expenditure, the expenditure for interest payments increased by 4.1% in 2015 and is expected to increase further by 2.2% in 2016 (table 2.9). This increase took place despite the fact that that nominal value of public debt decreased both in 2014 and in 2015 (2013: €319.2 billion, 2014: €317.2 billion, 2015: between €300.1 and €301.9 billion in the three first quarters of the year).[13] This shows that the Hellenic Republic is borrowing at higher interest rates, when the ECB has, for a long time now, brought the main refinancing rate to zero levels, while the quantitative easing (QE) programme has been in operation since March 2015. Unfortunately, Greece is the only country of the Eurozone which does not takes part in the QE and is not benefiting from the zero main refinancing rate of the ECB, as the last review of the second bailout programme was never finished, while the first review of the third bailout programme is still ongoing.

Thus, the delays and the endless negotiations not only made uncertain the receipt of €3.6 billion from the ANFA's and SMP's of 2014 and 2015, but the Hellenic Republic is borrowing at (short-term) interest rates of almost 3.0%, when all of the countries of the Eurozone are borrowing at almost zero interest rates. At the same time, the Greek banking system has committed €15.0 billion in Greek treasury bills, instead of granting loans to businesses.

Public Investment Programme (PIP)

As in the case of the Ordinary Budget, the execution of the PIB fluctuated a lot during the year. More specifically, until the end of August, the disbursements totalled only €1.6 billion. Subsequently, the (monthly) payments accelerated, reaching €2.7 billion (or 42.3% of the annual target) in December alone. In the end, the 2015 PIP expenditure met the initial predictions of the budget at €6.4 billion (see table 2.7)

The PIB revenue overshot the budgeted amount by €100 million to reach €4,832 million. Meanwhile, the composition of these revenues also changed. In particular, while until 2014 the revenue from domestic PIP sources ranged between 1.5% and 3.3% of the total PIB revenue, in 2015 they reached 19.3%. At first, the domestic revenue sources were budgeted at €750 million, but in the

[13] ELSTAT, The Greek Economy, Athens, 4 March 2016

November revision, they were lowered to €530 million. However, a month later they reached €932million, while for 2016 they are budgeted at only €250 million. Also, the receipts from various EU funds decreased by 16.1% against 2014, and did not exceed €3,900 million, significantly lower than the average of 2013-2014 (€4,580). As a result of all this, the PIP deficit of 2015 was lower by €93 million, in comparison with the initial predictions of the budget (see table 2.7).

2016 Budget, January-February

As evident from the latest available data of the State Budget execution in the first two months of the current year, the deficit is significantly lower, both year on year and against the targets for the first two months. This improvement is equally due to a restraint of expenditure, which is much lower than budgeted, and the overshot of certain types of revenues, most of which are collected once a year.

In greater detail, in the first two months of the year **the State Budget had a surplus of €1.3 billion**, against a target for deficit of €0.6 billion. Respectively, **the primary surplus reached €3.0 billion**, against a target of €1.1 billion. The improvement in relation to the 2015 figures is similar (see table 2.10). The improvement comes from a restraint of the expenditure by €0.98 billion and from the revenues overshooting the target by €0.96 billion.

Table 2.10

State Budget Execution: January-February 2016 (€ million)

	January - February			**% Change**	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
SB Net Revenue	9,463	7,790	9,622	-17.7	23.6
1. OB net revenue	7,869	7,293	8,100	-7.3	11.1
a. Revenue before Tax Refunds[1]	8,366	7,901	8,644	-5.6	9.5
b. Tax refunds	497	608	544	22.3	-10.5
2. PIP Revenues	1,594	496	1,522	-68.9	206.9
SB Expenditure	8,975	7,984	8,301	-11.0	4.0
3. OB expenditure	8,369	7,746	7,941	-7.4	2.5
α. Primary expenditure *	6,793	6,314	6,225	-7.1	-1.4
β. Interest payments	1,576	1,432	1,717	-9.1	19.9
4. PIP expenditure	606	238	360	-60.7	51.3
SB Balance	487	-194	1,321		
% of GDP	*0.3*	*-0.1*	*0.8*		
SB Primary Balance	2,063	1,238	3,038		
% of GDP	*1.2*	*0.7*	*1.7*		
GDP (in current prices)	177,559	175,658	174,438		

Source: State Budget Execution Monthly Bulletin February 2016, GAO, March 2016
* Includes military procurement, called guarantees and disbursement fee to EFSF.

Nevertheless, as analysed below, these developments are **accidental** and do not seem to have a more permanent character. The revenue overshot, for instance, is due by two-thirds to the high PIP receipts from EU Funds (increase by 260.9%), while on a yearly basis they are expected to increase by only 6.9% (see table 2.7 and 2.10).

The remaining one-third of the target overshot is due to much higher than budgeted ad-hoc non-tax revenue. Regarding expenditure, a significant containment was also recorded in the first three quarters of 2015, but in the end of the year expenditure came very closely to the predictions of the budget. Moreover, in the first two months of the year, the arrears of the public sector to suppliers increased significantly. For these reasons, and due to the short period that the available data covers, it is not possible to draw reliable conclusions on the course of the budget for the whole of the year.

Ordinary Budget Revenue

The revenue of the Ordinary Budget (before tax refunds) reached €8,645 million in the first two months of the year, overshooting the initial target by €274 million. Even bigger was the increase in revenue in comparison with 2015 (increase by 9.4%, see table 2.11). The increase was recorded in February[14], and came from the outperformance of non-tax revenues by €429 million. In contrast, the revenue from direct and indirect taxes lagged behind the two-month period targets.

The revenue from direct taxes increased by 5.0% against 2015 and reached €2,888 million, just short of the target for the first two months (see table 2.11). Among the constituent categories, income tax revenue met the target of €1,290 million, but was lower by 4.7% against 2015. Property tax revenue did not reach the target (€984 million), reaching only €766 million, but was higher year on year (increase of 12.2%). Direct tax revenue of previous fiscal years totalled €479 million, increasing significantly year on year (20.7%), and overshooting the two-month target. However, it has to be reminded that in the corresponding period of 2015, the taxpayers were expecting a favourable revision of the legislation on settling tax arrears with 100 instalments (see table 2.11).

In indirect taxes, receipts (€3,988million) increased by 5.4% against 2015, yet they fell short of the target by €127million. The VAT revenue did not reach the target, despite their growth by 6.2% against 2015. This growth is due to a hike of the coefficients and the transfer of several items from the reduced to the standard rate in last July, as well as from the fact that an extension had been given for the submission of VAT returns in early 2015, resulting in slight delay in the tax collection (base effect). In contrast, the low fuel prices which prevail today, had a negative impact in the revenue of VAT from the sale

[14] In January, the revenue fell short of its target (revenue €3,933 million, target €4,007 million)

of fuels. The receipts from the excise duties, of €1.122million, were lower both against the target and year on year (-2.1%). This shortfall is traced in the excise duties on energy products, firstly due to the mild winter (which limited the demand for heating oil) and secondly, possibly due to the increase in the number of private cars running on diesel. The receipts of indirect taxes of previous fiscal years increased significantly, by 44.9%, for the same reason that affected the direct taxes of previous fiscal years (see table 2.11).

Finally, the non-tax revenues increased significantly, by 29.4%, against 2015, and largely defined the course of the Ordinary Budget revenue in the first two months of the year (see table 2.11). This is due to the exceptionally high receipts that the Hellenic Republic receives from dividends once a year from the Bank of Greece, which reached €775 million in 2016, against a target of €450 million. The corresponding amount was €350 million in 2015 and €480 million in 2014.

Table 2.11

State Budget Revenues (million €)

Revenue categories	January-February			% Change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. Net SB revenue (2+4)	**9,463**	**7,790**	**9,622**	**-17.7**	**23.5**
2. OB net revenue	**7,869**	**7,293**	**8,100**	**-7.3**	**11.1**
Tax refunds	497	608	544	22.3	-10.5
3. OB revenue	**8,366**	**7,901**	**8,645**	**-5.6**	**9.4**
Direct taxes	2,918	2,751	2,888	-5.7	5.0
--Income tax	1,313	1,354	1,290	3.1	-4.7
--Property tax	553	683	766	23.5	12.2
--Direct taxes of previous years	682	397	479	-41.8	20.7
--Other direct taxes	369	318	353	-13.8	11.0
Indirect taxes	3,961	3,784	3,988	-4.5	5.4
--Transaction taxes	2,568	2,411	2,557	-6.1	6.1
(of which VAT)	(2,508)	(2,353)	(2,500)	(- 6.2)	(6.2)
--Consumption taxes	1,191	1,146	1,122	-3.8	-2.1
--Indirect taxes of previous years	149	178	258	19.5	44.9
--Other indirect taxes	53	49	51	-7.5	4.1
Non-tax revenues	1,487	1,366	1,768	-8.1	29.4
--Receipts from the EU	7	7	8	0.0	14.3
--Non-ordinary revenue	554	420	450	-24.2	7.1
(of which: ANFA & SMP)	(338)	(291)	(375)	(-13.9)	(28.9)
--Permits and rights	0	0	12	--	--
--Other	926	939	1,298	1.4	-86.3
4. PIP revenues	**1,594**	**496**	**1,522**	**-68.9**	**206.9**

Source: State Budget Execution Monthly Bulletin February 2016, GAO, March 2016

Overall, the revenue in the first two months of the year were positively influenced by a significant "basis effect[15]", which will gradually disappear, and from high lump-sum revenues. On the other side, new significant tax measures are expected to take effect in the upcoming months, which will, even temporarily, stimulate revenue. For these reasons, it is not possible to make reliable predictions for now on the course of the OB revenue for the rest of the year.

Ordinary Budget Expenditure

In the first two months of the year, the Ordinary Budget expenditure rose by 2.5% against 2015, to reach €7,941million. However, in relation to the target for the two months, expenditure was short by €960 million, with the restraint traced solely in primary expenditure[16], which was lower both against 2015 (-1.4%) and the target (see table 2.12). In contrast, interest payments increased in the first two months by 19.9%.

Among the primary expenditure categories, a significant year-on-year growth was observed in earmarked funds (42.0%), grants to hospitals[17] (262.8%) and expenditure for social protection (see table 2.12). The expenditure for the Complementary Pension Allowance EKAS also increased (2015: €115 million, 2016: €150 million). Then again, a decrease was recorded in the expenditure for wages and pensions (1.4%), grants to pension funds (4.7%) and conditional expenditure (see table 2.12). Note also that the arrears of the public sector to its suppliers have increased in the first two months of this year by €716 million, which corresponds to 75% of the expenditure restraint during the same period.

Given that a) in 2015, there was a great restraint of expenditure during the first three quarters, but in the end of the year it came close to the budgeted levels, b) that the negotiations with the official creditors are still ongoing and c) that the fiscal policy has not been finalised, for the time being, it is not feasible to make reliable forecasts on the course of expenditure throughout the year.

Public Investment Programme (PIP)

The large surplus in the State Budget mainly came from higher PIP receipts from EU Funds. More precisely, the PIP revenues increased by 206.9% year on year in the first two months, and reached €1,522 million (from which only €28 million came from domestic sources). On a yearly basis, the PIP revenue is expected to decrease by 8.5% against 2015 (see tables 2.10 and 2.11).

[15] The revenues in the first two months of 2015 were coincidentally lower for many reason, such as the election period, the expectation of a more favourable settlement of tax arrears etc.

[16] Primary expenditure in Table 6 includes armaments expenditure, hospital subsidy, called guarantees and EFSF supplies.

[17] In table 2.9, these subsidies are included in the category of "the rest" of "Operating Costs"

Table 2.12

State Budget Expenditure (million €)

Expenditure category	January - February			% Change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. State Budget Expenditure	**8,976**	**7,984**	**8,301**	**-11.1**	**4.0**
2. Ordinary Budget Expenditure	**8,369**	**7,746**	**7,941**	**-7.4**	**2.5**
Interest	1,576	1,432	1,717	-9.1	19.9
Primary expenditure	6,793	6,313	6,224	-7.1	-1.4
--Salaries & pensions	2,953	3,103	2,986	5.1	-3.8
Wages	1,917	1,984	1,902	3.5	-4.1
Other allowances	32	34	33	6.3	-2.9
Pensions	1,004	1,085	1,051	8.1	-3.1
--Social expenditure	1,833	1,946	1,913	6.2	-1.7
Grants to Social Security Funds	1,674	1,824	1,737	9.0	-4.7
Social protection	61	46	99	-24.6	115.2
Grants to OAED	95	75	75	-21.1	0.0
Other	3	1	2	-66.7	100.0
--Operational and other	1,419	890	794	-37.3	-10.8
Transfers	176	127	113	-27.8	-11.0
Consumption	32	79	51	146.9	-35.4
Conditional	536	634	464	18.3	-26.8
Other*	675	50	166	-92.6	232.0
--Earmarked revenue	588	374	531	-36.4	42.0
3. PIP expenditures	**606**	**238**	**360**	**-60.7**	**51.3**

Source: State Budget Execution Monthly Bulletin February 2016, GAO, March 2016
* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees.

The payments for investments also increased, by 51.3%, to reach €360 million. This significant percentage change mainly reflects the very low expenditure of 2015 (until August), and not a significant boost of investment activity. As evident from table 2.12, investment payments in the first two months of 2014 was €606 million.

The next few months, the satisfactory balance of PIP from the first two months (a surplus of €1,162 million) will be reversed completely, as if the budget is executed without deviations, on a yearly basis the PIP will have a deficit of €2,330 million.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

The GDP contraction of the Greek economy weakened in the final quarter of 2015, to 0.8%, from 1.7% in the preceding quarter, compared to a growth by 0.9% in the final quarter of 2014.[18] As a result, **the Greek economy returned to a recession, albeit with a low intensity, overall in 2015 (-0.3%), after a modest growth in 2014 (+0.7%).**

Undoubtedly, the conclusion of an agreement on a new financing programme from the European Stability Mechanism in mid-August and subsequently the mitigation (but not the end) of the political uncertainty since the second elections in 2015 eased towards the end of the third quarter the exceptionally unfavourable conditions and expectations, formed as a result of the interrupted negotiations with the official creditors, the referendum, the bank holiday and the capital controls. In addition, the implementation of some of the prior actions for the first review of the new economic adjustment programme (e.g. Law N. 4337/2016, concession agreement on a licence to organise and conduct mutual betting horse races, concession agreement on 14 regional airports) in the final quarter of 2015 strengthened the expectations that the programme would be implemented without major delays and deviations. The effective raising of capital to cover the capital requirements of the major Greek banks, based on estimates from the ECB stress tests, which turned out to be much lower than initially anticipated in the decision of the Euro Summit of 12 July 2015, eased the intense concern about the robustness of the domestic banking system. Under the influence of these developments, at least some of the economic agents in the country gradually abandoned the wait-and-see stance that had prevailed during the summer with respect to the politico - economic developments, as they sought to return to the lifestyle and activities that they had prior to July 2015. The structural changes in the labour markets, adopted in the past few years prevented sharp changes in the labour market, both during the summer months, as a result of the unprecedented politico-economic developments, and during the autumn.

The direct effects on GDP from the resumption of the funding of the Greek state transpired mainly as a rise in public consumption. The easing of the intense uncertainty was mainly reflected in growth in fixed capital formation, even though the extensive decline of inventories reduced overall investment. On the other hand, the capital controls continued to affect the international transactions in the final quarter of last year, as they were not relaxed further during that period.

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

Regarding the trends in the GDP components in 2015, **domestic consumption was marginally higher than in 2014 (+0.2%)**, when the continued decline since 2009 was interrupted. The growth in household consumption expenditure during the first six months of the year by 1.2% led to a growth by 0.3% overall during the year and consequently to the marginal growth in domestic consumption spending. Despite the significant stimulus in the last quarter of the year from the funds of the new loan agreement (+2.8%), public consumption remained essentially unchanged in 2015 (-0.1%), compared though with a reduction by 2.4% in the preceding year. As already noted in previous IOBE quarterly bulletins, the non-implementation of public sector reforms, planned for 2015, and the hiring back of about 7500 people laid off in the preceding years (employees of ERT, administrative university staff, school guards, maintenance staff of the Finance Ministry, etc.) offset the restrictive impact of the lack of funding of the Greek state for almost a full year (15/08/2014 – 16/07/2015) on public consumption.

After an extensive decline in the final quarter of last year, albeit at a lower rate than in the two preceding quarters, **investment returned to a downward trajectory in 2015, after a brief interruption of the prolonged decline in 2014.** Nevertheless, **the decline of investment by 13.2% came exclusively from a reduction in inventories (-€2.02 billion),** in contrast with 2014, when inventories accumulation had led to their growth by 9.8%. **Fixed capital formation increased in 2015, albeit marginally, for the first time since 2007,** by 0.9%. Gross capital formation declined only in the third quarter, with growth returning in the final quarter. Therefore, despite the high political uncertainty from January until July 2015, the enterprises increased their investment in the first half and overall in the year that passed.

The slight boost of fixed capital formation in the previous year came from a growth of investment in transport equipment (+18.8%) and ITC equipment and machinery (+5.2%), following their larger increase in 2014, by 40.1% and 8.1% respectively. In contrast, the strongest contraction was recorded in agricultural machinery (-30.3%), following their slight reduction in 2014 (-1.0%). However, as their share in total investment was very small (0.33%), they did not influence the overall trend. Residential constructions declined strongly once again (-23.3%), and as a result their level fell by 94% from their peak in 2007. Other constructions also declined, albeit to a lesser extent (-5.9%), following their slight growth in 2014 (+1.7%). Other Products was the only category of capital goods with no change in investment in 2015.

In the external sector of the economy, **exports decreased in 2015, for the first time since 2011, by 3.7%, following their strongest growth in nine years in 2014, by 7.4%.** The sharp decline of the exports of services in the second half of 2015, by more than 22%, caused their fall overall in the previous year (-11.2%). They also set the trend for total exports, as the exports of goods were growing, albeit at a lower rate, throughout the past year (+3.2%). As evident from the balance of payments data of the Bank of Greece, the imposition of capital controls and the general strong anxiety about the prospects of the Greek economy in the second half of the previous year had a negative impact mostly on the supply of international transport services. The base effect from their high level in the previous year exacerbated further the decline in the exports of services.

The capital controls, despite their relaxation in the last quarter of 2015, caused a decline of imports in the previous year, given their growth in the first half of the year. **The total imports of goods and services was lower by 6.9% compared with 2014, when they had grown for the first time in five years, by 7.8%.** The decline in the imports of services was stronger than in the imports of goods (-11.4% against -5.9%) while their growth in the preceding year had been weaker than that of goods (+5.1% against +8.4%). As noted in previous quarterly bulletins of IOBE, the extensive decline in inventories, which carried over to the last quarter of 2015, sharpened the fall in imports, as both the marginal decline of consumption demand in the second half of the year and the slight decline of fixed capital investment during the same period, sufficed to maintained the flow of imports at a high level. **The stronger contraction of imports, compared with exports, resulted in a positive impact on the balance of the external sector in national accounting terms. Its deficit declined by 41.2% to €2.9 billion (1.6% of GDP), compared with a deficit of €4.9 billion (2.7%) in 2014.**

On the supply side, gross value added increased in 2015 for a second year in a row, by 0.3%, almost as fast as in 2014 (0.4%). Given the growth in value added of production in 2015, the recession came from a reduction in taxes on products (-€691 million), which according to the national accounting approach correspond to the share of output value that is paid to the state. The recovery of production came from higher output in four of the ten key economic sectors. **In particular, throughout 2015 the strongest output growth was recorded in Professional – Scientific – Technical – Administrative – Support Service Activities (+6.8%), compared with a decline in the preceding year (-1.6%).** Wholesale-Retail Trade, Repair of Motor Vehicles-Motorcycles and Accommodation and Food Service Activities came next, at a growth rate that was significantly lower than in the preceding year (+1.7%, against +7.4%), followed by Public Administration – Defence – Compulsory Social Security – Education (+0.9%), after a small consolidation in 2014 (-0.4%). The growth in Real Estate Services remained marginal since early 2015 (+0.2%), compared with a stronger growth by 1.6% in the previous year.

In contrast, the strong decline in the two key components of investment in construction in 2015 led to a strong contraction of activity in the Construction sector, which reached 12% from less than 4.3% in 2014. The contraction in Information-Communication was significantly milder (at -4.2% against -3.1%). Arts-Entertainment-Recreation, Financial-Insurance Activities and Agriculture-Forestry-Fishing came next, with about the same rate (in the range of -1.6% to -1.7%), compared with very differing trends in the preceding year (+1.1%, -4.3% and +10.0% respectively). Industry recorded the smallest contraction, as output essentially remained stable (-0.2%), whereas in 2014 this sector recorded the largest contraction among the key economy sectors. **Cumulatively between 2008 and 2015, Agriculture – Forestry – Fishing and Real Estate Services were the only sectors with output growth, with about the same rate** (+26.2% and +24.0% respectively). **The Construction sector experienced the largest output contraction** (-70.7%), followed by Information – Communication (-44.8%), Professional – Scientific – Technical – Administrative – Support Service Activities (-41.0%) and Industry (-40.4%) at similar contraction rates, significantly higher than that of the economy overall. Wholesale-Retail Trade, Repair of Motor Vehicles-Motorcycles and Accommodation and Food Service Activities, Arts-Entertainment-Recreation (-28.4% in both sectors) and Financial-Insurance Activities (-26.0%) contracted to a similar extent with GDP over that period. **The weakest contraction among the sectors with falling output was recorded in Public administration – Defence – Compulsory social security – Education** (18.4%).

The gradual end of the favourable seasonal effects on employment during the summer period, together with the impact on the labour market from the capital controls and the deterioration of the business sentiment from the measures of the new loan agreement (particularly from the hike in VAT) led to resurgence of unemployment in the final quarter of last year, for the first time after three consecutive quarters of unemployment reduction. Nevertheless, its growth from 24.0% in the third quarter of 2015 to 24.4% in the quarter that followed is considered mild, given that year on year unemployment declined by 1.7 percentage points. The relatively small increase probably reflects the smoothing effect on unemployment from the structural changes that took place in the past few years in the labour market. **As a result of the limited increase in the final quarter, unemployment reached 24.9% overall in 2015, 1.6 percentage points lower than in 2014.**

The year – on - year decline of unemployment during the last quarter of 2014 came, as in the preceding quarters, from year-on-year growth of employment in Wholesale-Retail Trade-Repair of Motor Vehicles and Motorcycles (+41,000 people or +6.5%), Tourism (+26,200 or +8.7%) and from a sector with no employment growth for a number of years - Public Administration – Defence – Compulsory Social Security – Education (+33,900 or +11.4%). The large employment boost in the public sector exceeds by far the 7,500 recalled employees that were laid off in the past, and is most probably related to temporary employment, such as the public benefit employment programmes implemented in local authorities with 31,200 beneficiaries, which were fully ongoing mainly in the last quarter of 2015. Among the few sectors (five) with employment decline, Agriculture - Forestry – Fisheries came first (-27,600 or -6.6%), followed by Construction (-8,600 or -5.7%). About 82.8% of the jobs lost since the last quarter of 2014 were recorded in these two sectors.

The weakening of the contraction of household consumption demand in the final quarter of 2014, the effects from the VAT hike, completed with its implementation in six large islands since October, and the price boosting base effect from the relatively low level of CPI in the final quarter of 2014, **lowered deflation in the final quarter of 2015 to less than 1% (0.6%), for the first time during that year. The deflation rate was significantly down year on year (from 1.8%). Overall in 2015, CPI declined by 1.7%,** a larger deflation than in 2014 (-1.3%) and at least for the last 56 years. Prices increased at the highest rate in "Food – Non-alcoholic Beverages", "Tobacco – Alcoholic Beverages" and "Hotels – Cafes – Restaurants", the three categories that were primarily affected by the changes in VAT, which reveals the restraining impact of the VAT hike on deflation.

To sum up, the growth trends in certain GDP components in the final quarter of last year (public consumption and gross fixed capital formation) revealed the positive impact from the conclusion of the new loan agreement with the European Stability Mechanism in the third quarter on economic sentiment and on the funding and capital flows in the Greek economy. The slight relaxation of the capital controls that followed and the swift assessment and resolution of the capital needs of the banks in Greece also played a positive role in this. On the other hand, the gradual relaxation of the capital controls resulted in faster easing of the import contraction, as predicted in the previous bulletin of IOBE on the Greek economy, restraining the positive impact of the external sector on GDP. In addition, the full implementation in the final quarter of 2015 of the fiscal measures, included as prior actions in the new agreement, had a negative impact on both disposable income (pension cuts) and purchasing power (VAT hike), intensifying slightly the contraction of household consumption. The further relaxation of capital controls and the adoption of new fiscal measures portend that the trends that emerged in the balance of the external sector and private consumption in the final quarter of 2015 will carry over and strengthen at least in the first half of the current year. Given the constraints on public finances from the return to full implementation of the programme for the whole of the current year, investment will be the key driver of the trends in GDP in 2016, as revealed in the following section.

Table 3.1

Trends in key macroeconomic figures – National Accounts (seasonally adjusted data, constant 2010 prices)

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change
2000	**189,917**	**4.1%**	**165,171**	**2.8%**	**43,060**	**12.4%**	**43,519**	**23.3%**	**62,972**	**22.6%**
2001	**197,894**	**4.2%**	**171,590**	**3.9%**	**44,976**	**4.4%**	**42,921**	**-1.4%**	**62,110**	**-1.4%**
2002	**205,814**	**4.0%**	**179,613**	**4.7%**	**45,975**	**2.2%**	**39,836**	**-7.2%**	**59,973**	**-3.4%**
2003	**217,778**	**5.8%**	**187,066**	**4.1%**	**54,527**	**18.6%**	**39,532**	**-0.8%**	**64,425**	**7.4%**
2004	**228,019**	**4.7%**	**193,955**	**3.7%**	**54,170**	**-0.7%**	**46,640**	**18.0%**	**67,033**	**4.0%**
2005	**229,955**	**0.9%**	**200,660**	**3.5%**	**48,413**	**-10.6%**	**48,702**	**4.4%**	**68,713**	**2.5%**
2006	**242,756**	**5.6%**	**207,985**	**3.7%**	**59,935**	**23.8%**	**51,208**	**5.1%**	**77,774**	**13.2%**
2007	**250,428**	**3.2%**	**216,953**	**4.3%**	**65,028**	**8.5%**	**56,309**	**10.0%**	**88,872**	**14.3%**
2008	**249,888**	**-0.2%**	**221,511**	**2.1%**	**59,041**	**-9.2%**	**58,339**	**3.6%**	**89,805**	**1.0%**
2009	**239,145**	**-4.3%**	**219,938**	**-0.7%**	**43,181**	**-26.9%**	**47,742**	**-18.2%**	**71,680**	**-20.2%**
Q1 2010	59,007	0.4%	54,377	-0.1%	9,654	-2.4%	12,427	-0.8%	18,397	2.7%
Q2 2010	57,230	-5.3%	52,747	-4.0%	10,003	-8.1%	12,582	4.3%	17,360	-2.5%
Q3 2010	55,268	-7.9%	50,496	-9.4%	9,256	-13.2%	11,998	2.2%	16,506	-9.8%
Q4 2010	54,514	-9.1%	49,476	-9.7%	9,650	-17.8%	12,819	12.3%	16,950	-4.0%
2010	**226,019**	**-5.5%**	**207,096**	**-5.8%**	**38,562**	**-10.7%**	**49,826**	**4.4%**	**69,213**	**-3.4%**
Q1 2011	52,990	-10.2%	47,825	-12.0%	9,199	-4.7%	12,442	0.1%	16,142	-12.3%
Q2 2011	52,073	-9.0%	47,566	-9.8%	8,255	-17.5%	12,564	-0.1%	16,295	-6.1%
Q3 2011	51,073	-7.6%	47,212	-6.5%	7,102	-23.3%	12,604	5.0%	16,168	-2.0%
Q4 2011	49,136	-9.9%	45,490	-8.1%	5,592	-42.1%	12,638	-1.4%	14,904	-12.1%
2011	**205,273**	**-9.2%**	**188,094**	**-9.2%**	**30,148**	**-21.8%**	**50,247**	**0.8%**	**63,510**	**-8.2%**
Q1 2012	48,562	-8.4%	45,232	-5.4%	5,718	-37.8%	12,706	2.1%	14,642	-9.3%
Q2 2012	47,726	-8.3%	43,670	-8.2%	5,968	-27.7%	12,385	-1.4%	14,245	-12.6%
Q3 2012	47,012	-8.0%	42,762	-9.4%	5,029	-29.2%	12,645	0.3%	14,316	-11.5%
Q4 2012	46,934	-4.5%	42,285	-7.0%	6,190	10.7%	13,041	3.2%	14,340	-3.8%
2012	**190,234**	**-7.3%**	**173,949**	**-7.5%**	**22,905**	**-24.0%**	**50,777**	**1.1%**	**57,543**	**-9.4%**
Q1 2013	46,078	-5.1%	41,707	-7.8%	5,977	4.5%	12,752	0.4%	14,250	-2.7%
Q2 2013	46,063	-3.5%	41,797	-4.3%	5,058	-15.2%	12,964	4.7%	13,844	-2.8%
Q3 2013	46,163	-1.8%	42,235	-1.2%	5,012	-0.3%	13,164	4.1%	14,399	0.6%
Q4 2013	46,009	-2.0%	42,334	0.1%	4,377	-29.3%	12,741	-2.3%	13,375	-6.7%
2013	**184,312**	**-3.1%**	**168,073**	**-3.4%**	**20,425**	**-10.8%**	**51,621**	**1.7%**	**55,869**	**-2.9%**
Q1 2014	46,276	0.4%	42,069	0.9%	4,995	-16.4%	13,408	5.1%	14,225	-0.2%
Q2 2014	46,147	0.2%	41,894	0.2%	5,614	11.0%	13,575	4.7%	15,187	9.7%
Q3 2014	46,786	1.3%	42,076	-0.4%	5,816	16.0%	14,372	9.2%	15,259	6.0%
Q4 2014	46,423	0.9%	41,998	-0.8%	6,010	37.3%	14,081	10.5%	15,538	16.2%
2014*	**185,632**	**0.7%**	**168,038**	**0.0%**	**22,435**	**9.8%**	**55,436**	**7.4%**	**60,208**	**7.8%**
Q1 2015	46,416	0.3%	42,181	0.3%	5,613	12.4%	13,849	3.3%	15,546	9.3%
Q2 2015	46,560	0.9%	42,386	1.2%	4,613	-17.8%	13,779	1.5%	14,689	-3.3%
Q3 2015	46,000	-1.7%	41,781	-0.7%	4,091	-29.7%	12,891	-10.3%	12,240	-19.8%
Q4 2015	46,059	-0.8%	41,942	-0.1%	5,145	-14.4%	12,842	-8.8%	13,591	-12.5%
2015*	**185,035**	**-0.3%**	**168,290**	**0.2%**	**19,463**	**-13.2%**	**53,360**	**-3.7%**	**56,066**	**-6.9%**

* provisional data

Source: National Accounts, February 2016, EL.STAT.

Medium-term outlook

The negotiation on the completion of the first review of the implementation of the new bailout agreement remained at the forefront of the politico-economic developments in the first four months of the current year. Once more, the protracted review process, together with the significant fiscal measures and structural changes for the households and the enterprises on which the negotiations have focused (income tax of individuals, property taxation, pension system, social security contributions) have forced a large part of the economic agents to adopt a wait-and-see stance in their economic decision-making process, until the relevant regulations are finalised. On the other hand, as the measures will mostly have a restrictive impact on disposable income, the procrastination in their adoption postpones their effect from this to the following year (e.g. higher income tax settlement with the filing of the tax returns for 2016 in 2017). Therefore, on the one hand, the caution against the upcoming changes is not conducive to economic activity, on the other, the delay in their adoption limits their contractionary impact in the current year, while their medium- and long-term effect will depend on their contribution to the fiscal consolidation, the viability of the social security system, etc.

The framework for dealing with the non-performing loans of the banks is another crucial issue with a pending resolution. The relevant decisions will have an impact on the real wealth of households, the available collateral and the liquidity of the enterprises, and the level of available capital of the banking institutions. Particularly with regard to the banks, despite their successful recent recapitalisation, the deposits of households and non-financial corporation have not returned to the bank vaults. Based on the latest data from the Bank of Greece for February of the current year, total deposits were only €854 million higher than in July, lower year on year by €18.8 billion. The small growth since last summer came exclusively from the growth of business savings by €2.07 billion, as the households have reduced their deposits by €1.3 billion since then. It seems that the households have remained particularly cautious with respect to the robustness of the banking system, despite the recent recapitalisation. In addition, despite the fact that the deposits of the enterprises have increased, their level is not following a steady upward trend, varying between €14.5 and €14.8 billion since last September. Regardless of the causes behind the saving decisions in the private sector, the low level of deposits is not conducive of a further significant relaxation of the capital controls in the coming months, which has a restraining effect mostly on the international transactions of the Greek economy.

The limited liquidity of the banks, the cautious credit policy that they follow, and the reserved stance of the businesses towards the negotiations with the country's creditors are reflected in the in the very low flow of funds to the private sector. The rate of credit contraction increased in the first two months of the current year to 4.9%, from 3.6% in the second half of the previous year. The credit contraction was stronger in loans to non-financial corporations (-7.7% against -6.1%). The contraction of credit to individuals and private non-profit institutions, which had a lower rate compared with the credit to corporations in the previous year, accelerated as well but to a lesser extent (-3.5% against -3.1%). The very low rate of new credit to corporations in 2016 is expected to reflect correspondingly on their investment activity during the current half of the year.

Regarding aspects of the new economic adjustment programme on entrepreneurship and investment environment, there has not been much progress in the implementation of structural reforms, such as the recommendations of the OECD Toolkits I and II (e.g. on food manufacturing, pharmaceuticals, petroleum products, tourist accommodation, environment), the reforms in the labour market and with respect to the water supply companies, despite the fact that the bailout agreement of August 2015 envisaged that these measures would be adopted and implemented within 2015 and in early 2016. The new delay in the implementation of reforms, without any set time frame, acts as an additional restrictive factor in the creation of businesses and investment in the current year. In addition with respect to the programme of concessions and privatisations, apart from the completion of the concession of regional airports and the sale of the shares of the Piraeus Port Authority, which were launched a few years back, no progress has been achieved in the remaining, ongoing from the past and newly scheduled, tenders, despite the fact that almost a third of 2016 has already passed. This weakens the opportunities for a significant recovery of investment activity at least in the current year through actions in this field of structural changes. Nevertheless, regarding the revenues from the programme, the receipts of €1.6 billion from the regional ports and PPA in the current year cover large part of the target set in the 2016 Budget (€1,993 million). As the budget target is expected to be met, the concessions and privatisations programme will provide the anticipated contribution to state revenues.

The inflow of refugees and migrants since the closure of the Balkan route to Central and Northern Europe is another factor that affects the economic environment. Its economic effects are hard to assess for the time being, as there are large variations after the closure of the northern borders of Greece, while there are problems and a lack of clarity in how the migrant flow is dealt with in practice, in cooperation with other countries, NATO, etc. The uncertainty regarding the future inflows and the possibility of a good and effective coordination, both within the public administration and with other countries, on the examination of asylum requests of incomers to the country, the processing of the relevant bureaucratic procedures, the return of the migrants to the country that they had come from, etc. has escalated the concern in the country on the effects of the flow of refugees and migrants. Therefore, notable progress on this issue is necessary in order to moderate this source of uncertainty and improve expectations.

The liquidity conditions, the investment propensity and more broadly the economic environment are likely to change considerably after the forthcoming completion of the first review and the negotiations to settle the public debt that will follow. Following these developments, the readmission of Greek bonds as collateral from the European Central Bank (by reinstituting the corresponding waiver), at a borrowing cost considerably lower than that of the Emergency Liquidity Assistance should be considered certain. In addition, the access of the banking institutions to the Quantitative Easing programme of the ECB is also likely, after a certain period of time. The programme was recently strengthened, expanding the monthly limit of purchasing bonds by 33.3% to €80 billion. In addition, ECB will introduce in the coming June four new targeted longer-term refinancing operations (TLTRO II), with a low cost and a maturity of four years and.[19] The strengthening of the existing and the creation of new instruments will boost significantly the capacity of ECB to support states and banks.

If the above chain of events takes place, the depositors' trust in the positive prospects of the Greek economy and the viability of the banking system will strengthen, resulting in a gradual return of deposits. If this turns into a relatively steady positive trend, the supply of bank credit and the elimination of the capital controls will be greatly facilitated.

Regardless of the positive developments, particularly at the level of expectations and liquidity in the economy, which could come from the completion of the first review and the agreement on easing the public debt servicing needs, the financing of the Greek state from the new loan from the European Stability Mechanism allows for a steadier execution of public expenditure since last Autumn, particularly compared with the first half of 2015, when the second programme was extended until the end of June, delaying the disbursement of the loan tranches that were linked with the completion of the programme review.

Despite the greater leeway for payments in the public sector, primary expenditure in the first two months of 2016 was marginally down year on year (-€92 million or -1.5%), recording significant restraint compared with the target set for that period (-€913 million or -12.8%).[20] These cuts cover most expenditure categories, with their extent larger in transfers (-€100 million or -2.9%), procurement of goods and services (-€57 million or -22.1%) and remuneration expenses (-€61 million or -3.2%).[21] The overall reduction in these public spending categories, mainly in

[19] https://www.ecb.europa.eu/press/pressconf/2016/html/is160310.en.html

[20] State Budget Execution Bulletin – February 2016, GAO, March 2016

[21] General Government Monthly Bulletin - February 2016, GAO, April 2016

wages and procurement of goods and services, is expected to lead to a small fall in public consumption in the first quarter of this year. The restraint in wage expenditure is due to the implementation of the single remuneration system in the public sector, adopted with Law No. 4354/2015. Taking into account the return of the rule "five exits – one intake" in 2016 and the fact that rehiring of redundancies are not planned for this year, unlike 2015, the wage bill, which is the key component of public consumption, is expected to decline year on year.

In contrast to the consumption spending of the state, the expenditure of the Public Investment Programme (PIP) is notably higher year on year since the start of 2016 (+€122 million or +51.3% in the first two months), in line with the corresponding target in the Budget. The very backloaded implementation of the PIP in the previous year, when €2.7 billion of the €6.4 billion annual budget were dispensed in December, will also support investment activity in the first quarter of the current year. Given that the PIP budget is slightly higher year on year in the current year (+€344 million or +5.4%), its faster year-on-year execution is anticipated to continue. The start of the implementation of the new Partnership Agreement for Development Framework 2014-2020 is also expected to contribute to this development. As a result, the positive impact of PIP on investment will be stronger in the current year.

In the external sector of the economy, the decision of 16 March 2016 for further relaxation of the capital controls facilitates the enterprises in their international transactions, by raising the daily limit on foreign transactions that are initiated directly from a bank branch to €10,000. This amount covers most business transactions. However, as predicted in previous IOBE bulletins and confirmed by the import-export data for the final quarter of 2015, the relaxation of the capital controls and the exceptionally acute politico-economic uncertainty since last July, moderated their impact mainly on the inflows to the Greek economy, which initially were much stronger on the side of imports than exports. The latest round of relaxation is anticipated to maintain this trend, but not to an extent that would make the trend in imports stronger than that of exports in 2016. Particularly with regard to tourist services, there are indications for growth in foreign bookings in the current year as well. The fact that the military conflicts continue with the same intensity in the South East Mediterranean (i.e. in countries of the Middle East and North Africa) favour this trend, repelling the tourist interest in the region and turning it to other tourist destinations, such as Greece.

Regarding the trends that could affect the trade transactions and the economic activity in Greece, the oil price is anticipated to remain low in the current year as well, perhaps slightly lower year on year, as an extensive reduction of supply is not evident to take place within the current year, benefiting oil-importing countries, such as Greece, and at sector level, the production activities with high energy intensity (e.g. Manufacturing). The EUR/USD exchange rate is expected to remain low, albeit with variations due to the forthcoming referendum in the United Kingdom, which will preserve its beneficial impact on the price competitiveness of the goods and services of the Euro area from the previous year.

As the latest balance of payment data from the Bank of Greece refer to January, they are not sufficient to assess the trends in the external balance components for the current year. Still, no noticeable changes can be discerned in the trends observed since the start of the final quarter of 2015, as the exports of goods and services in January are down 25.8% year on year, while imports are lower by 21.8%. As in the second half of the previous year, the fall in exports is much stronger on the side of services (-44.6%, against -9.4% for products), due to the "slump" in transport services (-54.4%), while the fall in travel payments is modest (-4.7%). The exports of goods decline in all key categories, which was first observed in the final quarter of 2015, with a weaker contraction observed in the exports of goods except ships and fuel (-4.6%), while the exports of ships have remained sluggish since July. In imports, the contraction in absolute terms is about the same for both goods and services. The contraction is strong in all constituent categories, with the imports of goods except fuels and ships recording a weaker contraction rate (-7.4%). Despite the slightly stronger rate of contraction of exports, compared with imports, the external balance of goods and services continued to improve in early 2016, due to the larger weight of imports in this calculation. The deficit of the balance reached €908.6 million in January, 7.7% lower year on year.

Just as in the above case with imports and exports, the latest data on the domestic segments of economic activity and on the short-term economic indicators for 2016 (except for inflation) cover a small time period which extends at most to the first two months of the year. Therefore, most of them are not sufficient in order to assess the underlying trends.

In greater detail, industrial production remained on a growth path in the first two months of the year, growing by 0.6%, clearly lower than in the final quarter of the previous year (+2.0%) and in the same period of 2015 (+1.0%).[22] Note that the small increase in industrial production came exclusively from a significant jump in January (+4.6%). At industrial sector level, the growth of industrial production came exclusively from Manufacturing (+3.0%), as all other sectors contracted, with the largest reduction observed in Mining – Quarrying (-9.6%), followed by Electricity (-3.9%) and Water Supply (-2.2%).

With respect to construction activity, the latest available data refer to December and

[22] The data for early 2016 or late 2015 come either from ELSTAT or the Bank of Greece. The indicated variations refer to year-on-year changes.

therefore they do not contain information for the current year. Still, there was a large shift in construction works at the end of the previous year, with the indicators in this sector (number, surface and volume of permits) turning from strongly negative in October to strongly positive in the last month of 2015.

Regarding the indicators that reflect the sentiment on the demand side of the economy, the initial data on Retail Trade activity in 2016 indicate that the fall in the seasonally adjusted volume of trade indicator from the final quarter of 2015 has carried over at a similar rate to January (-2.2%). Deflation, after its weakening in the final quarter of 2015 to 0.6% due to the VAT hike, slightly intensified in the first quarter of the current year, to 0.9%. Its boost came from the decline of oil prices to even lower levels during the first two months of 2016, a development that was reflected in the fall of prices in the categories of goods and services "Housing" and "Transportation", two of the three Consumer Price Index categories with the largest price deflation (-4.5% and -3.3% correspondingly). The fall of prices was also extensive in the category Clothing – Footwear during the same period (-3.6%).

In the labour market, (non-seasonally adjusted) unemployment increased notably in January, for a third month in a row, to 25.7%. Usually, unemployment increases somewhat in the first month of each year, after the end of the favourable seasonal effects on employment in December, but the growth in the current year was the strongest in the last three years and the second strongest since 2004. As a result, the year-on-year reduction of unemployment since the start of the current year fell to 0.3 percentage points, against 1.6 points in the last quarter of the previous year.

The analysis so far reveals the primary importance of the conclusion of the first review of the new programme and the negotiations for the public debt, so that key parameters of the functioning of the economy (e.g. tax system, social security system, non-performing loans) are clarified, facilitating the economic agents in their decision-making process and easing the current uncertainty, especially abroad, about the implementation progress of the new programme. The immediate positive effects from the completion of the negotiations will result in easing the financing needs of the Greek state, more leeway of the banks to draw liquidity from the ECB at a lower cost, which in turn will boost their capacity to finance their customers, and acceleration of the easing of capital controls. The flows of migrants and refugees is also a factor that will have an impact on the domestic socio-economic developments in the current and probably the coming years, in a way and extent which cannot be currently determined.

Taking into account the latest politico-economic developments and the forecasts on GDP components and other macroeconomic indicators, the fiscal measures that were imposed in the second half of 2015 (e.g. cuts in supplementary pensions and higher advance payment of taxes by freelancers) and those that are upcoming (changes in income taxation of individuals, property taxation, pension cuts) will clearly limit the disposable income and the **consumption of the households**, mainly from the end of the second quarter of the current year when the new measures will take effect. In the current half of the year, the pending fiscal measures and cuts do not exert pressures on consumption spending, which is anticipated to receive a boost from the expected year-on-year increase in employment by about 1.5%, due to the fall of unemployment and the expansion of the labour force. On the other hand, the growth in household consumption spending in the first half of 2015, due to the heightened political flux, has formed a relatively high comparison base, which would probably prevent the growth in household consumption spending in the same period of the current year. **Therefore, for various reasons, private consumption is not expected to increase in any of the two halves of 2016. Overall in the current year, private consumption is expected to contract by about 1% to 2%.**

Regarding the other side of domestic consumption spending, measures included in the new agreement, such as the new remuneration scheme in the public sector and the return of the rule "five outlays – one intake", which have started to have an impact on the official data (e.g. lower wage payments in the State Budget execution), will result in lower **public consumption** in the current year. However, **as public consumption did not increase in the previous year (-0.1%), its reduction in the current year is not expected to be deep, ranging between 2.0% and 3.0%.**

Regarding **investment,** the wait-and-see stance of the enterprises for the conclusion of the first review, which would finalise the changes in the social security system, with likely hikes in the employer contributions, the obstacles created by the capital controls in the import of capital equipment and for exports, and mainly the very low liquidity remain the key barriers to the implementation of investment plans, at least during the first quarter of the current year. In fact, since the start of 2016 the banks have cut their credit to the private sector, and mainly to the businesses, faster than before, as evident from the relevant data presented above. Then again, the disbursement of subsidies of about €4.0 billion through the PIP during the final quarter of last year temporarily eases the pressures on the availability of investment capital from the very low supply of funds from the banking system. Taking into account the above effects on investment activity and the relatively high level of investment in the first quarter of the previous year, when it had increased by 12.4%, investment is most likely to continue to contract during the same period of the current year, at a high (double-digit) rate.

As already noted, the conclusion of the review and of the negotiations for the restructuring of public debt in the coming time period is likely to lead to a significant improvement of the business sentiment and the access of the banks to liquidity, through reinstatement of the ECB waiver. These developments would also boost the frail confidence of the households in the Greek economy and the banking system, favouring first the return of deposit and then the supply of credit and the acceleration of the relaxation of the capital controls. Then again, if this chain of events takes place without significant delays, the positive impact on investment will not be felt before the second half of the year (most probably during the final quarter), given their phases, the duration of their realisation and the time lag for the materialisation of their effects. Therefore, they will not have a significant impact on investment activity during the current year.

The weakening of foreign demand for Greek products, except fuel and ships, is another trend that emerged after the imposition of the capital controls, which could have a deterring impact on investment, if it continues in the future. In the first half of the previous year, despite the fact that total exports of goods declined by 1.9%, the exports of goods without fuel and ships increased significantly (+12.8%). Immediately after the imposition of capital controls, the exports without fuels and ships showed relative resilience, growing by 6.2% in July and August. However, between October and February, their trend oscillated repeatedly between negative and positive, and as a result they now stand at about the same level year on year (-€2.1 million or -0.03%).

The loss of the strong growth momentum from the first half of the previous year in the beginning of the subsequent time period reflects the direct impact of the capital controls. Then again, the fact that the trend in exports without fuel and ships fluctuates, with a negative sign not during the difficult first few months after the imposition of the capital controls, but a quarter after that, despite the fact that they slightly eased, does not allow us to fully correlate the trend in exports with the capital controls. A decline of the competitiveness of the Greek economy during this particular (small) time period, consistent with the fluctuation of exports is also not evident. Besides, the EUR/USD exchange rate was low, maintaining their cost competitiveness. The sharp change in the foreign demand for domestically produced goods might come from the loss of counterparty credibility of the Greek enterprises and more broadly from lower trust in the Greek economy, in the aftermath of the events from the past summer. Therefore, appropriate political measures (continuation of the fiscal consolidation, the reforms, etc.) are required in order to gradually restore this credibility. Regardless of the causes that drive the fluctuation of exports without fuels and ships, if the negative average trend carries on, the loss of their compensatory role to the low domestic demand with their continuous significant growth in the preceding years, will at least postpone the execution of the investment plans of the enterprises.

In contrast, the Public Investment Programme, with an execution that is significantly more front-loaded than in the previous year and with a slightly higher budget, will provide significantly stronger boost on investment activity in 2016 than in the past. The support of ongoing public works that had stalled and of newly announced projects, as part of the effort to accelerate the PIP, will have a corresponding impact on the activity in the Construction sector. Then again, the contribution of the state to investment through the programme of concessions and privatisations is anticipated to be subdued in the current year as well, as little activity is observed for the completion of the open competitions and the implementation of the tenders planned for the current year. Even if the relevant procedures are accelerated after the conclusion of the current review, as about one third of 2016 has already passed, the deals will contribute cash to debt servicing needs, but their positive impact on investment is expected to take place in the coming year.

Apart from the impact of public works, the continuous expansion of foreign tourist flows since 2013, with demand reaching steadily high levels in the past few years, will start reflecting in the construction and expansion of tourist facilities and infrastructure. The severe credit crunch for mortgage loans to households will weaken the impetus to Construction from these factors, while already from the first four months of the current year, the forthcoming revision of the property taxation has dampened the property transactions. Overall, there are significant prospects for a weakening or interruption of the continuous since 2007 sharp decline in the Constructions sector.

Particularly with regard to foreign investors, the anticipation of a real progress in the implementation of the new programme and the finalisation of basic parameters of the investment environment (profit taxation, social security contributions, etc.), which also depends on policy measures to be taken after the conclusion of the first review, and the continuous geopolitical tensions and conflicts in the South-East Mediterranean, discourage the investors to take up risk in the current period in Greece. As a combined result of the above developments, **investment is expected to decline further in 2016, to a lesser extent then in the previous year, by about 4.8%.**

Given the analysis above, the dynamics of **exports** in 2016 will depend on the trend in the exports of goods except fuels and ships, while in the exports of services, the supply of transport services will be the critical factor. Apart from the likely causes of fluctuations in the trend in the exports without fuel and ships, analysed previously, the high base level of comparison from the first seven months of 2015 will increase the likelihood of decline in the same period of the current year. Besides, the anticipated low EUR/USD exchange rate throughout 2016 will maintain the cost competitiveness of the Greek products for the whole duration of the year. In addition, the dampening effect of the exports of fuel in the previous year will ease notably in 2016 and might even disappear, as the oil price and global demand will no longer be lower year on year. The raging military tensions in the Middle East and the Arab countries, which do not seem to ease any time soon, together with the preservation of the unfavourable growth trends in the emerging markets, will maintain the contraction of transport services, albeit at a weaker pace than in the previous year. The geopolitical instability seems to boost the attractiveness of Greece as a tourist destination, but as about the same conditions prevailed in the previous year as well, the growth in tourism activity and receipts will be weaker in the current year. **Therefore, various counteracting forces will exert pressure on exports and as a result they are expected to remain close to their level from last year or perhaps slightly lower.**

The new decline of household disposable income from the upcoming fiscal measures and the impending decline in fixed capital investment will lead to a further decline in **imports.** Besides, the extraordinary purchases that took place in the first half of the previous year due to the political instability then, leading to large growth of imports in the first quarter of 2015 (+9.3%), are not going to reappear this year. However, as imports were mostly hit by the capital controls, every step of their relaxation will primarily have a positive impact on incoming trade. In any case, the vertical drop of imports after the imposition of capital controls and until the end of 2015 will limit significantly their year-on-year decline in the same period of this year, when they might increase, particularly during the summer quarter. **With this in mind, imports will continue to decline in 2016, with a slightly lower rate than in the previous year, at about 5%.**

Summarising the forecasts of the trends in the key GDP components in 2016, the upcoming fiscal measures, together with those taken in July and August of the previous year, some of which will be implemented in the current year (e.g. 100% advance tax payment), will exert pressures on the consumption of the households. The restart of the fiscal consolidation process since last autumn contains measures which will restrain public consumption (common remuneration scheme, the 5 outlays – 1 intake rule). Regarding investment, the current exceptionally low level of funding from the banking system will not expand as a result of the conclusion of the first review and the public debt negotiations, as the deposits in the private sector have essentially remained fixed since last July, while the issue with the non-performing loans is still pending. Besides, there are no indications, for the time being, both with regard to the domestic and the foreign demand for Greek products, that are conducive with an expansion of production capacity. The lack of progress in the implementation of the new programme and the turmoil in the Middle East and the Arab countries have a dampening effect on investment from foreign investors. The limited ability of the enterprises to draw liquidity from the banks or from their profits will be offset in part by the acceleration of the PIP implementation, which will also support the execution of public works and therefore the activity in the Construction sector.

In the external sector of the economy, various opposing forces are expected to act on the components of exports, which will most likely decline slightly compared with the previous year. The restrictive impact of the new measures on private consumption and the dwindling business investment will weaken the flow of imports. However, the sharp fall of imports in the second half of 2015 due to the capital controls has shifted a large part of the demand for imports to the future. The gradual relaxation of the capital controls will facilitate imports to meet this demand, restraining the possibility of a new extensive fall in imports. **Under the influence of the above trends in the GDP components in 2016, the output contraction is expected to continue at a rate slightly above 1%.**

The persistent recession of the Greek economy in the current year, mainly from weaker domestic consumption demand, will interrupt the decline of unemployment, observed in the past two years. In sectors and activities that produce goods and services for the final consumer, such as Retail Trade, Food Services, and other branches of services with significant a contribution to the growth of employment in 2014 and 2015, the job creation will weaken significantly from the start of the current year, gradually turning to employment reduction over the course of the year. Regarding tourism, the strong job creation from the previous year will not carry over to this year, due to the notably weaker growth of its activity in 2016, but will consolidate. In Constructions, the public works are expected to boost employment. The public sector will also contribute to employment through the public benefit programmes, which began in the second half of the past year, with a significant number of beneficiaries. However, as the programmes will conclude in the first half of the year, while only one such programme is announced to start in the current year, the restrictive impact of the programmes on unemployment will weaken notably already from the second quarter. Taking into account the constituent trends and prospects, unemployment is expected to increase slightly in the current year to about 25.2%.

Regarding prices, the fall of disposable income, due to the direct taxation measures and the pension cuts that will be implemented shortly, is conducive to further deflation. The fall of the oil price to even lower levels in the first quarter of 2016 boosted further the deflation rate. However, as the oil price is not expected to fall at equally fast pace as in the previous year, its restrictive impact on prices will be weaker than in 2015.

Table 3.2

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

	2014	2015	2016	2017
Annual Percentage Changes				
GDP	0.7	0.0	-0.7	2.7
Private Consumption	0.5	0.5	-0.7	1.7
Public Consumption	-2.6	-2.6	-1.0	-0.9
Gross Fixed Capital Formation	-2.8	-8.4	-3.7	14.7
Exports of Goods and Services	7.5	0.0	1.9	4.1
Imports of Goods and Services	7.7	-1.9	0.6	3.7
Employment	0.1	1.4	0.9	2.0
Compensation of Employees per capita	-2.1	-3.7	-2.2	0.8
Real Unit Labour Cost	- 0.4	-1.2	0.2	-0.6
Harmonised Index of Consumer Prices	-1.4	-1.1	-0.7	0.9
Contribution to real GDP growth				
Final Domestic Demand	-0.6	-0.7	-1.1	2.4
Net Exports	-0.3	0.7	0.4	0.3
Inventories	1.5	0.0	0.0	0.0
As a percentage of GDP				
General Government Balance	-3.6	-7.6	-3.6	-2.2
Current Account Balance	-3.0	-1.8	-0.3	0.1
General Government Gross Debt	178.6	179.0	185.0	181.8
In percentage terms				
Unemployment (% of labour force)	26.5	25.1	24.0	24.4

Source: European Economic Forecast, winter 2016, European Commission, February 2016

Table 3.3

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

	MinFin			EC			OECD			IMF		
	2014	*2015*	*2016*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*	*2014*	*2015*	*2016*
GDP	0.7	0.0	-0.7	0.0	-0.7	2.7	-1.4	-1.2	2.1	0.8	-2.3	-1.3
Final Demand	:	:	:	-0.5	-1.6	2.5	-0.7	-1.1	2.3	:	:	:
Private Consumption	0.5	0.5	-0.7	0.5	-0.7	1.7	0.5	-0.8	1.1	:	:	:
Harmonised Index of Consumer Prices (%)	-1.4	-1.0	0.5	-1.1	-0.7	0.9	-0.9	0.7	0.5	-1.5	-0.4	0.0
Gross Fixed Capital Formation	-2.8	-8.4	-3.7	-8.4	-3.7	14.7	-16.0	-17.0	8.1	:	:	:
Unemployment (%)	26.5*	25.4*	25.4*	25.1	24.0	24.4	25.2	24.8	23.4	26.5	26.8	27.1
General Government Balance (% GDP)	-1.2**	0.05**	0.03**	-7.6	-3.6	-2.2	-4.3	-7.7	-1.5	-3.9**	-4.2**	-3.6**
Current Account Balance (% GDP)	:	:	:	-1.8	-0.3	0.1	-0.3	1.2	1.9	0.9	0.7	0.5
Gross Public Debt (% GDP)***	178.6	180.2	187.8	179.0	185.0	181.8	190.0	200.0	197.4	177.1	196.9	206.6

* On a national accounts basis
** According to the methodology of the third Economic Adjustment Programme
*** The forecasts on Groo Public Debt include estimates on the expenditure to recapitalise the banks
Sources: Preamble of the State Budget 2016, Ministry of Finance, November 2015 – European Economic Forecast, winter 2016, European Commission, February 2016 - OECD Economic Outlook No. 98, December 2015 – World Economic Outlook, IMF, October 2015 – Fiscal Monitor, IMF, October 2015

In addition, the inflationary impact of the VAT hike since last August on the Consumer Price Index (CPI), which outweighed the opposing forces of shrinking demand and falling oil prices during that period and slowed down the deflation rate, will carry over and strengthen from the planned new increase in the coefficients of indirect taxation.[23] Despite the fact that the hike in indirect taxes is not fully passed on to the final prices, the upcoming changes might turn the negative CPI trend into positive at some point during the year, for a few months at least. Therefore, **prices are most likely to remain stable on average in 2016, while a further marginal decline cannot be precluded.**

3.2 Developments and outlook in key sectors of the economy

Industry

The decline of industrial production in 2015 gave way to a significant rise in January 2016 (+4.6%, against 0.1% in January 2015). However, this trend was disrupted to a great extent in the following month, with the indicator falling by 3.0% year on year, against an increase of 1.8% in the same month of the preceding year. This reveals great fluctuations in the production of the industrial sector in the beginning of this year, mainly coming from the Electricity sector. Overall in the first two months of 2016, the indicator slightly increased, by 0.6%, compared with slightly better performance in the same period of last year (+1.0%).

At the same time, industrial production for the first month of 2016 in the Euro area, according to the latest available data, strengthened with a slightly faster pace in relation to 2015. The industrial production indicator increased by 1.5%, against 0.7% in the same period of 2015.

At the sector level, production in Manufacturing rose by 3.0% in the first two months of 2016, against an increase of 4.3% a year before. Production declined in all other sectors. Indicatively, Mining decreased by 9.6%, following greater losses by 12.6% last year. Electricity generation fell by 3.9% (against -5.8% in 2015), while a decline was also recorded in Water Supply, with the corresponding indicator decreasing by 2.2%, against an increase of 6.4% in the same period of 2015.

Specifically for **Manufacturing**, production declined in 14 of the 24 subsectors in the first two months of 2015. Among the branches of particular importance for the Greek economy, production rose in Manufacture of Food Products (2.7% against 1.3%), Basic Metals (0.4% against 4.6%) and Basic Pharmaceutical Products (7.3% against -1.5%).

In the remaining Manufacturing subsectors, the biggest decline was

[23] The examined changes include higher taxes on unleaded gasoline, natural gas, liquid petroleum gas, tobacco products, mobile and Internet telecommunications, and imported used cars, and the imposition of a new tax on TV subscriptions.

observed in Motor Vehicles and Trailers, where the index fell by 64.8% in relation to the clearly milder losses of 10.5% last year. Production in Computers, Electronic and Optical Products followed with a decline of 47.5%, in relation to a boost of 55.9% in the same period of last year. Production losses were likewise recorded in Wearing Apparel (-16.5% in relation to -9.5%) and in Machinery and Equipment (-8.3% against -6.8%), followed by Printing and Reproduction of Recorded Media (-6.8% against losses of 5.9%). Production also contracted in Paper products (-6.5% against a rise of 2.7% a year ago) and Other Manufacturing (-5.0% against +7.3%).

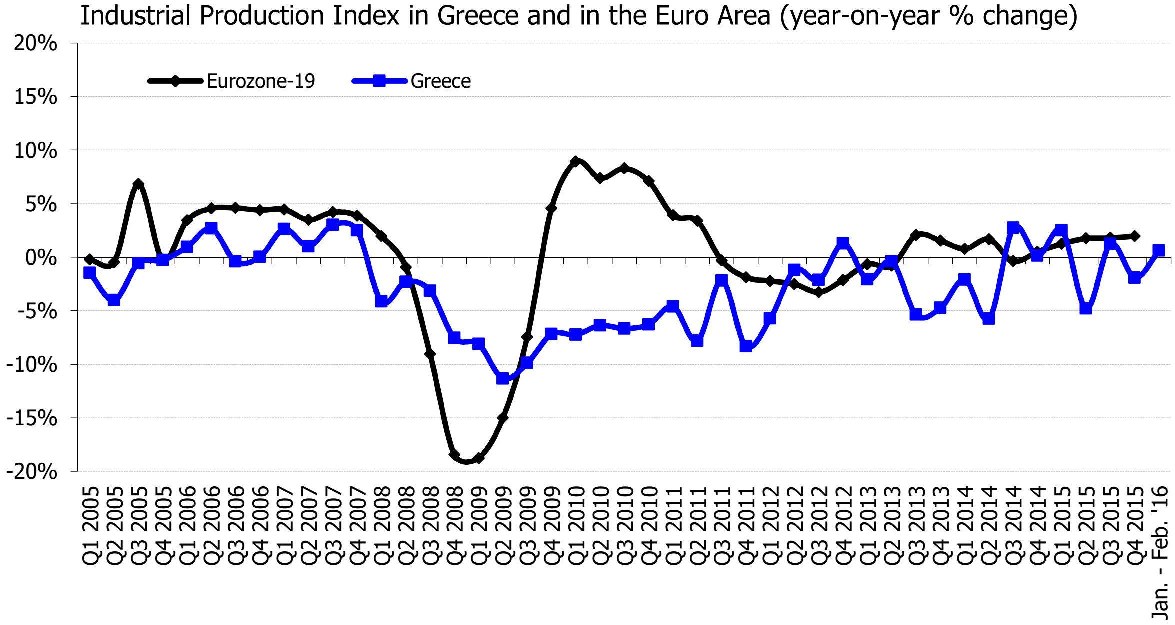
Regarding the main groups of industrial products, Capital Goods production contracted by 18.4% in the first two months of 2016 (against a 7.1% rise in the same period last year). Contraction was also recorded in Durable Consumer Goods (-7.4% against -5.2%) and Energy, where the index declined by 2.3%, against an increase in output by 0.9% in the respective period of 2015. In contrast, production increased by 3.3% in Intermediate Goods, against marginal losses of 0.5% a year ago.

Construction

The recovery in the Construction sector in 2014 (15.1%) halted in 2015, when the production index declined by 2.4%. Note that the index's year-on-year growth in the first half of last year was offset by the exceptionally low activity during the following period.

Figure 3.1

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



Sources: ELSTAT, Eurostat

Regarding its constituent categories, the volume index of production in Buildings slightly increased in 2015, by 1.6%, when at the same period of last year, it fell by 0.3%. Civil Engineering Works had a similar course, with a growth in 2014 reversed in 2015, ending the year with losses of 6.1%.

In contrast, the decline observed in 2014 in Construction in the Euro Area, with the relative index decreasing by 1.0%, turned into growth in 2015, when it increased by 1.5%.

In addition, building permits in 2015 in Greece declined by 1.6% in relation to 2014, to reach 13,257 permits. Note that even though the actual number of issued permits declined, the surface area and volume indicators both increased year on year, by 7.0% and 27.8% respectively. The different trend in issued permits, on one hand, and in both surface and volume, on the other, reflects the start of big construction works during the previous year.

The trend in the real estate market is reflected in the volume of disbursed mortgage loans. According to data from the Bank of Greece, during the first two months of 2016, the banking institutions disbursed €133.3 for housing purposes. As a result, the funding of Greek financial institutions for the purchase of residential property contracted by 4.1% in the specific time period, following the decline of 1.6% in the same period of 2014.

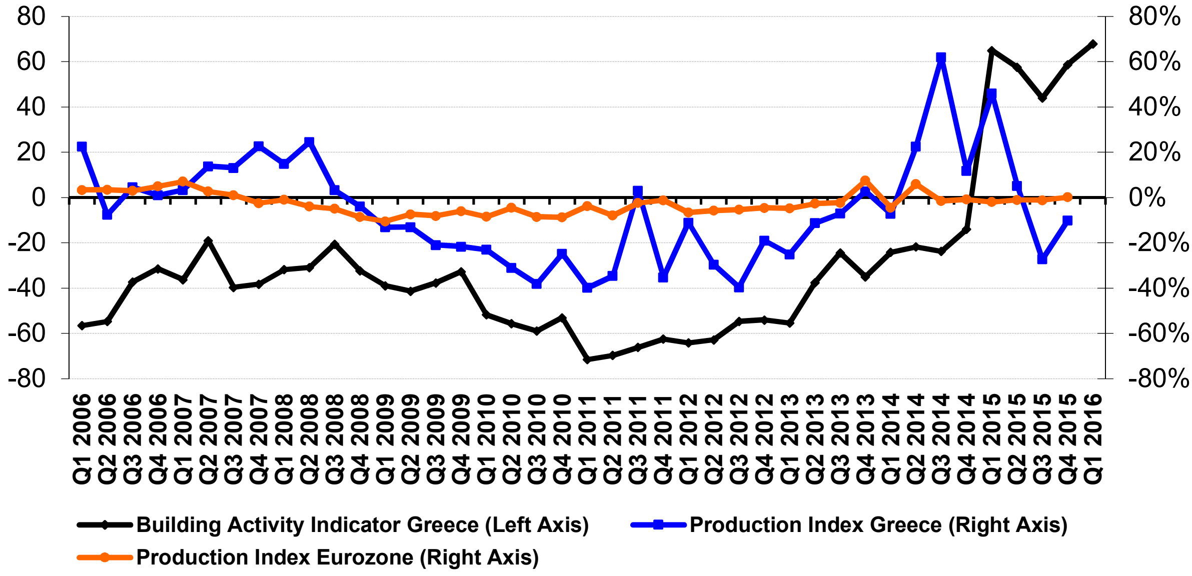
Retail Trade

The intense political and economic uncertainty from the events of 2015 (prolonged negotiations with the creditors, two parliamentary elections, imposition of capital controls) was one of the main reasons for the decline of activity in Retail Trade, to a larger extent than in 2014, when the decline of activity was the smallest in five years (-1.5% against -0.4%). There are data for the current year solely for January, which is not sufficient to draw conclusions for the prevailing trend in Retail Trade in the current year. Still, the (seasonally adjusted) volume index continued to fall (-2.2%) in January 2016, in contrast with 2015, when the index strengthened by 0.6%.

In 2015, the volume index contracted in six from the eight subsectors. The biggest decline was recorded in Furniture and Electrical Appliances and in Household Appliances, (-3.8% against -1.4% in 2014), in Food-Beverages (-3.3% against an increase of 5.4%) and in Department Stores (-1.8% against an increase of 1.1% in 2014), as well as in Automotive fuels (-1.6% in relation to an increase of 1.1% in 2014).

Figure 3.2

Production Index in Construction και Building Activity Index



Sources: ELSTAT, Eurostat

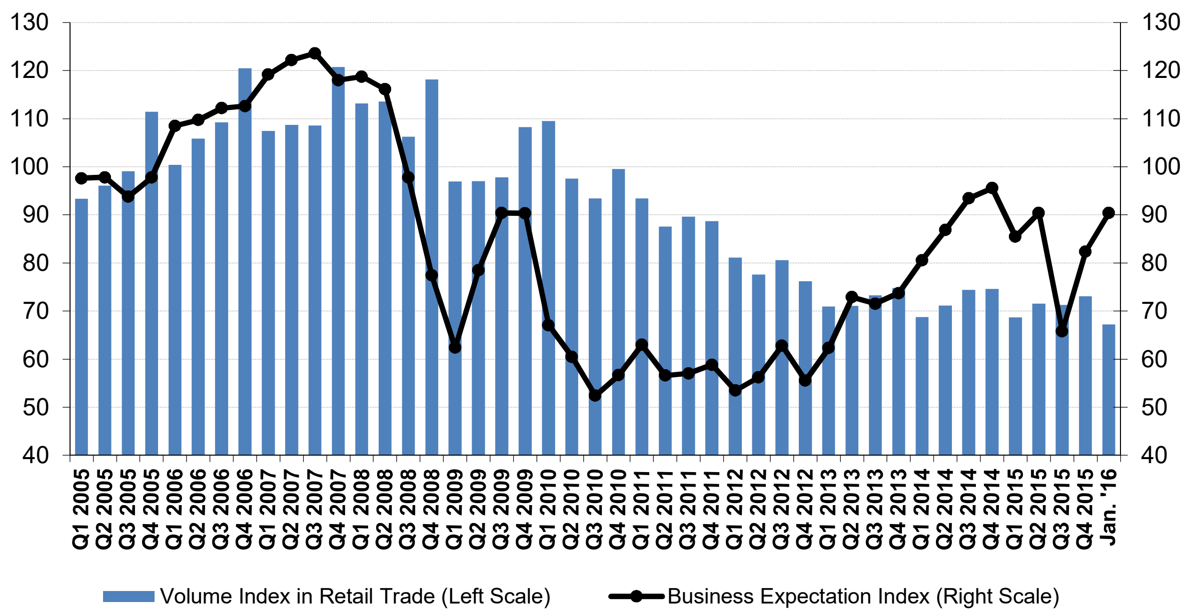
A contraction, milder than in 2014, was observed in Pharmaceutical Products-Cosmetics, with the relative index decreasing by 0.5% after 1.7% in 2014. In contrast, turnover increased in Clothing-Footwear (+7.9% in relation to an increase of 5.4% in 2014)and in Books- Stationery-Other Goods (+7.0%, upon a similar rise in 2014).

The contraction of the retail trade in 2015 was reflected in the leading indicators of the Business Surveys conducted by IOBE, as noted in the previous Economic Bulletin for the Greek Economy (4/15) as well. In fact, the climate of pessimism seems to have strengthened during the first three months of 2016, as the index fell in almost all the constituent branches of Retail Trade. More specifically, the sentiment deteriorated in Clothing-Footwear (-11 units against -5 units in the respective quarter of last year), in Motor Vehicles (-11 units against the rise of 5 units), in Food- Beverages (-3 units against +2 units) and in Household Appliances (-1 unit against +4 units). In contrast, the expectations improved in Department Stores, where the index increased by 6 units in relation to the first quarter of 2015, when it was increasing with a faster pace (+14 units).

The business sentiment indicator for Motor Vehicles stood at 106.6 units in the first quarter of 2016, against 108.4 units in the same period of 2015, above its 2014 levels (102 units). After an increase of 6.4% in 2015, which came from a strong concern over the outcome of the negotiations with the creditors, which led to unplanned purchases in the first half of the year, the total sales of passenger cars declined year on year by about 16%, despite the anticipated amendment of the cash-forclinkers scheme, with a reduction of the benefits to the buyers, within the current half of the year,. In the constituent elements of the indicator in the first quarter of 2016, the balance of current sales returned to neutral levels, as the share of businesses with declining sales increased. The balance of inventories remained stable, as the percentage of businesses which reported that stocks were at normal levels has prevailed over time. Regarding the sales prospects and orders in the following quarter, the relevant indicators strengthened in relation to 2015. Note, however, that the increase of the indicator mainly came from the March data, when a decision was made to continue the incentives programme. Finally, the employment indicator returned to negative levels (-4), against a positive level in 2015 (+3), with 65% of the businesses anticipating employment to remain stable.

Figure 3.3

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



Source: IOBE

Table 3.4

Annual Changes in the Volume Index in Retail Trade

Category of Retail Trade Stores	Volume Index (2010=100)					
	2013	2014	2015	Change 2014/2013	Change 2015/2014	Change Jan. 2016/2015
Overall Index	72.5	72.2	71.2	-0.4%	-1.5%	-2.2%
Overall Index (excluding automotive fuels)	73.8	73.3	72.9	-0.7%	-0.5%	-0.6%
Store Categories						
Supermarkets	80.4	81.3	79.8	1.0%	-1.8%	-3.7%
Department Stores	86.3	82.5	79.8	-4.4%	-3.3%	14.4%
Automotive Fuels	67.3	68.1	67.0	1.1%	-1.6%	-9.0%
Food – Drink – Tobacco	71.5	67.6	65.4	-5.4%	-3.3%	5.3%
Pharmaceuticals – Cosmetics	68.9	67.7	67.4	-1.7%	-0.5%	0.5%
Clothing – Footwear	63.0	66.4	71.7	5.4%	7.9%	9.0%
Furniture – Electric Equipment – H. Appliances	66.2	65.3	62.8	-1.4%	-3.8%	-1.4%
Books – Stationary	83.2	89.0	95.3	7.0%	7.0%	-0.6%

Source: ELSTAT

Table 3.5

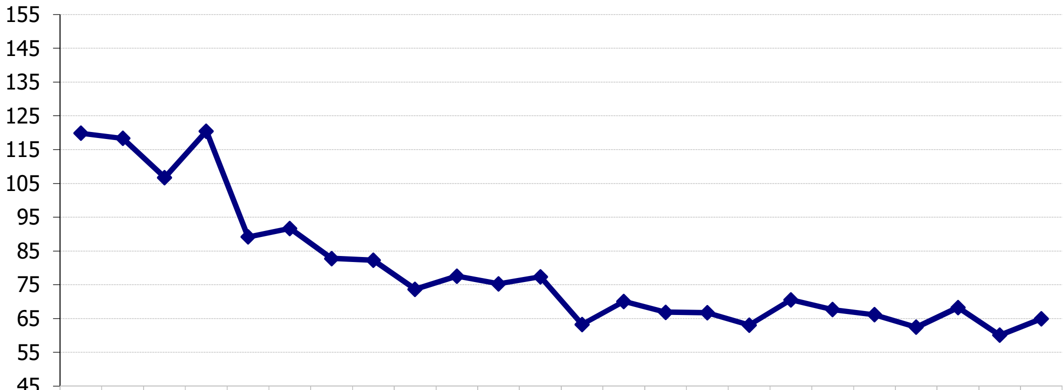
Business Expectations Indices in Retail Trade per sub-sector (1996-2006=100)

	Q1 2014	Q1 2015	Q1 2016	Q1 2015/2014	Q1 2016/2015
Food-Drinks-Tobacco	83.4	85.4	82.0	2.4%	-4.0%
Textiles - Clothing – Footwear	95.0	90.0	79.2	-5.3%	-12.0%
Household Appliances	63.5	67.7	66.4	6.6%	-1.9%
Vehicles-Spare Parts	102.8	108.4	97.3	5.4%	-10.2%
Department Stores	60.1	73.8	79.5	22.8%	7.7%
Total Retail Trade	**80.6**	**85.5**	**81.0**	**6.1%**	**-5.3%**

Source: IOBE

Figure 3.4

Turnover Index in Wholesale Trade



	2010				2011				2012				2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	120	118	107	121	89	92	83	82	74	78	75	77	63	70	67	67	63	71	68	66	63	68	60	65

Source: EL.STAT.

Wholesale Trade

The deterioration of Retail Trade, outlined in the previous section, was also reflected in Wholesale Trade, where the turnover indices fell by 4.1 in 2015, compared with a marginal increase of 0.1% in 2014. A characteristic of the downward trend is that turnover declined in all quarters of 2015, with the largest decline recorded in the last one (-11.2% against 1.2%).

Services

The trends in Services were somewhat better than in Construction and Trade last year, as turnover contracted year on year in five of its ten subsectors.

A significant growth was observed in Architects and Engineers (branch 71), where turnover rose by 17.5% (after a decrease of 15.0% in 2014), in Information Service Activities (branch 63), where turnover increased by 9.2% against losses of 3.1% last year, as well as in Computer Programming (branch 62), where it increased by 7.6% against +0.5% in 2014.

In contrast, turnover declined anew by 7.7% (against -7.0% in 2014) in Advertising and Market Research (branch 73), but also in Legal and Accounting Activities - Management Consultancy (branches 69 &70.2), where it fell by 6.9%, against a marginal increase by 0.9% in 2014. Milder losses were recorded in Telecommunications (branch 61), with the relative index falling by 1.5%, following losses of 4.5% in 2014. Turnover declined in Postal and Courier Services (branch 53) by 1.1%, offsetting the increase of 0.6% in 2014. Lastly, turnover in Accommodation and Food Service Activities (branches 55 & 56) remained on an upward trend, increasing by 3.5%, albeit less than in 2014 (11.8%).

Table 3.6

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

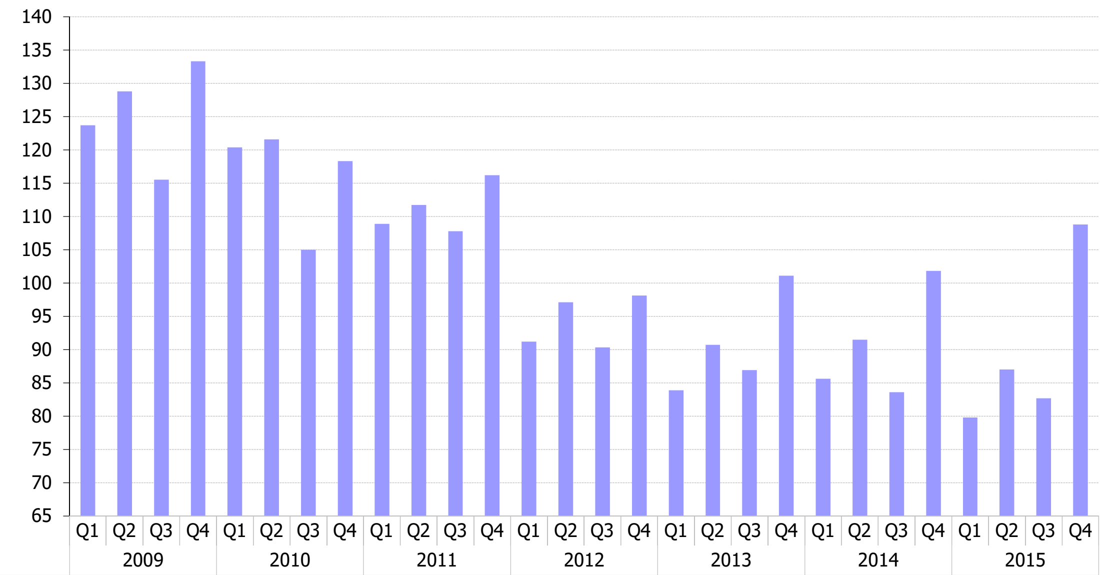
	2013	**2014**	**2015**	**%Δ '14/'13**	**%Δ '15/'14**
Trade of motor vehicles	50.4	59.8	64.4	**18.7%**	**7.8%**
Land transport and transport via pipelines	91.0	87.3	82.1	**-4.1%**	**-5.9%**
Water transport	76.3	70.1	66.4	**-8.2%**	**-5.4%**
Air transport	112.0	109.1	119.7	**-2.6%**	**9.7%**
Warehousing and support activities for transportation	81.6	86.1	88.4	**5.5%**	**2.8%**
Postal and courier activities	90.1	90.6	89.6	**0.6%**	**-1.1%**
Publishing activities	45.1	45.6	38.8	**0.2%**	**-15.0%**
Telecommunications	65.8	62.9	61.9	**-4.5%**	**-1.5%**
Computer programming. consultancy and related activities	57.9	58.2	62.6	**0.5%**	**7.6%**
Information service activities	132.4	128.4	140.1	**-3.1%**	**9.2%**
Legal. accounting and management consultancy activities	112.8	113.0	107.8	**0.9%**	**-6.9%**
Architectural and engineering activities	52.7	44.8	52.6	**-15.0%**	**17.5%**
Advertising and market research	33.6	31.2	28.8	**-7.0%**	**-7.7%**
Office administrative activities	44.9	42.7	45.2	**7.1%**	**5.8%**
Tourism	80.4	91.4	96.2	**13.7%**	**3.5%**

Source: ELSTAT

According to **the leading indicators of the Business Surveys conducted by IOBE** for the first quarter of 2016, the respondents in the sectors of Services are found overall to be more pessimistic year on year. In particular, the relevant indicator declined in Tourism (Hotels-Restaurants- Travel Agencies) by about 19 points, as the developments which have to do with the refugee flows have increased the pessimism in this subsector, against an increase of 2.5 units in the corresponding period of 2015. The indicator also declined in Various Business Services (-10.6 units against +2.5 in 2015). In contrast, the strong pessimism of last year eased in Financial Intermediaries after the recent recapitalisation (+2.1 against -36.9 units) and in Computer Programming, probably due to the good exporting performance of the sector (+9.2 against -11.8).

Figure 3.5

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

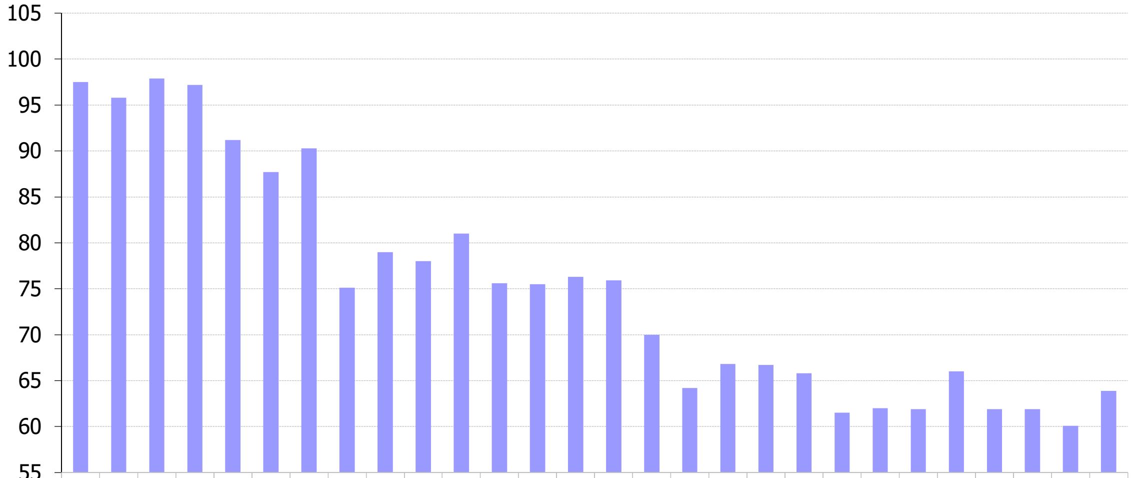


	2009				2010				2011				2012				2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	124	129	116	133	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86	92	84	102	80	87	83	109

Source: ELSTAT

Figure 3.6

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

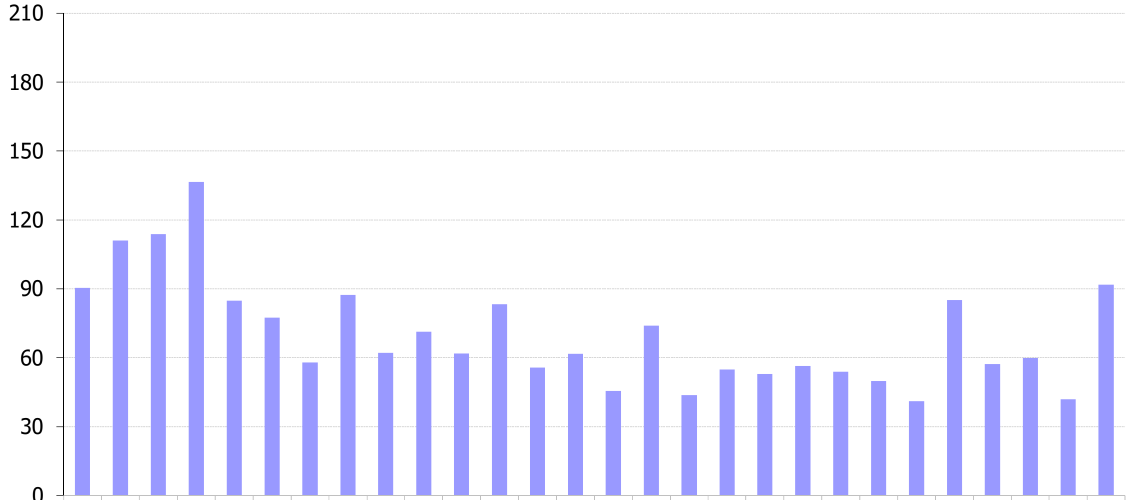


	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2009				2010				2011				2012				2013				2014				2015			
Index	98	96	98	97	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62	62	66	62	62	60	64

Source: ELSTAT

Figure 3.7

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

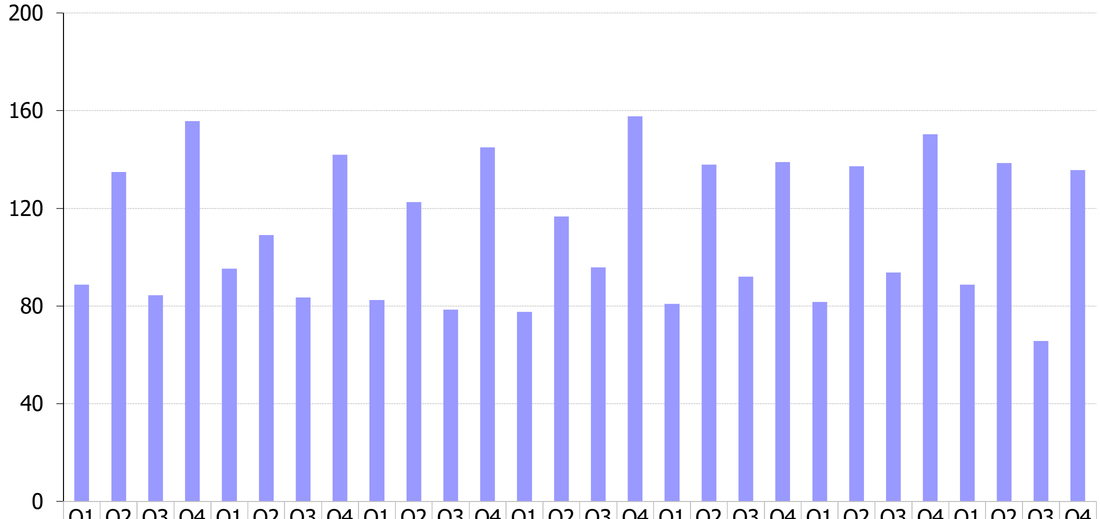


	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2009				2010				2011				2012				2013				2014				2015			
Index	90	111	114	137	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41	85	57	60	42	92

Source: ELSTAT

Figure 3.8

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



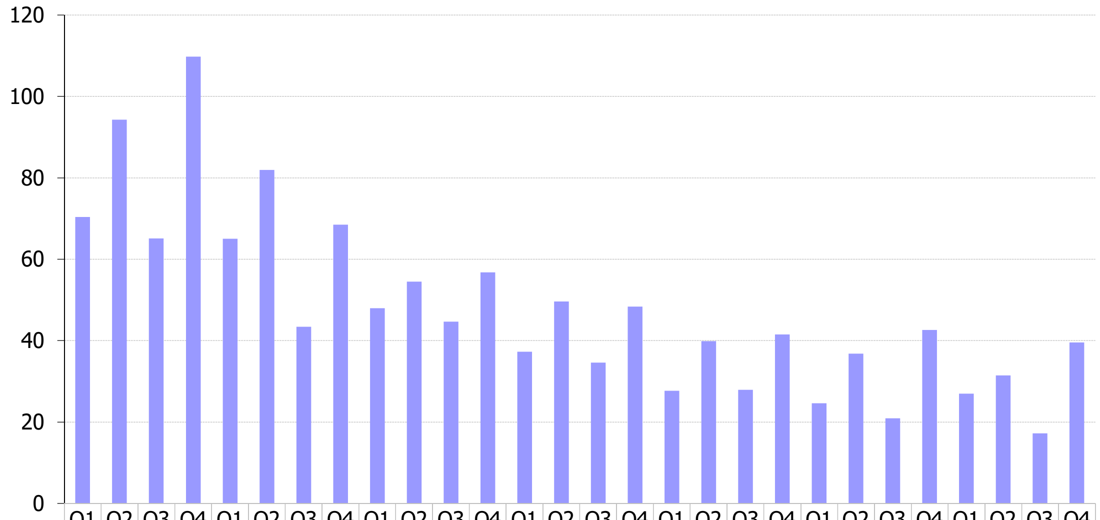
	2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	89	135	84	156	95	109	84	142	83	123	79	145	78	117	96	158

	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	81	138	92	139	82	137	94	150	89	139	66	136

Source: ELSTAT

Figure 3.9

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



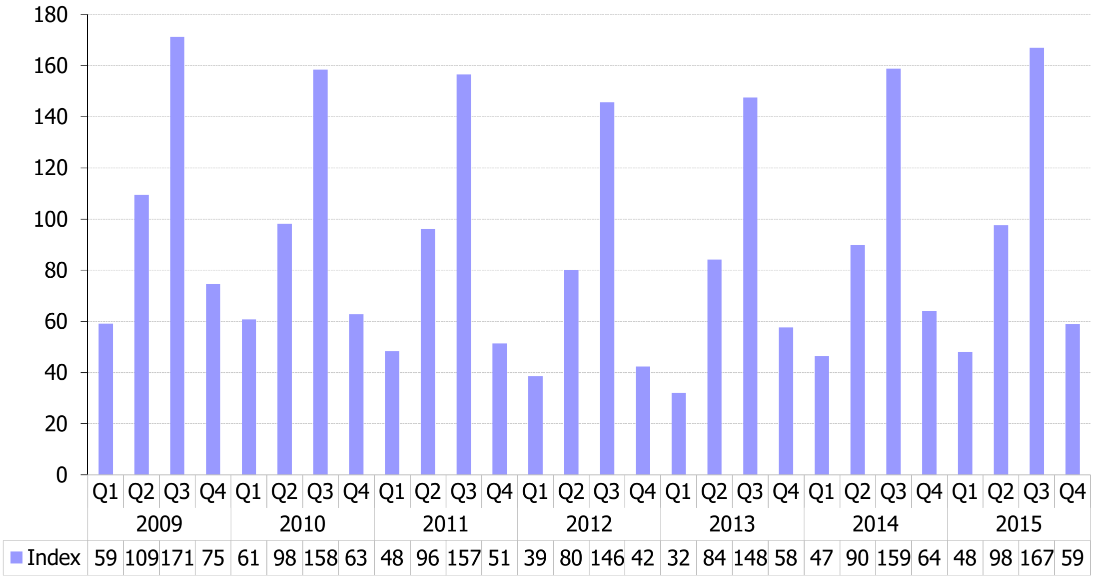
	2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	70	94	65	110	65	82	43	69	48	55	45	57	37	50	35	48

	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Index	28	40	28	42	25	37	21	43	27	32	17	40

Source: ELSTAT

Figure 3.10

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



Source: ELSTAT

Table 3.7

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

	Q1 2014	Q1 2015	Q1 2016	%Δ '15-'14	%Δ '16-'15
Hotels – Restaurants – Travel Agencies	91.2	93.7	75.1	2.7%	-19.9%
Other Business Services	63.8	66.3	55.8	3.9%	-15.8%
Financial Intermediation	90.7	53.8	55.9	-40.7%	3.9%
Information Services	79.0	67.2	76.4	-14.9%	13.7%
Total Services	**78.8**	**76.4**	**69**	**-3.0%**	**-9.7%**

Source: IOBE

3.3 Export Performance of the Greek Economy

The **exports of goods** reached €25.5 billion in 2015, against €26.9 billion in 2014, **recording a contraction of 5.3%.** Not taking into account **the exports of petroleum products and ships, the exports of the remaining goods increased last year by 7.6%,** as they totalled €17.9 billion, against €16.6 billion in 2014 (figure 3.11). Note that the much lower exports of petroleum products came from the sharp drop in the oil prices globally; hence, the reduction in value is not reflected in a reduction in volume terms. Meanwhile, imports in 2015 decreased by 9.8%, reaching €42.6 billion from €47.2 billion a year earlier. As a result, the **trade deficit** declined last year by €3.2 billion to reach €17.1 billion, from €20.1 billion in 2014 (-15.8%). Consequently, **the value of the exports of goods** of the Greek economy **corresponded to 59.8% of its imports**, while in 2014 this ratio was at

56.9%. From the **preliminary data for the first two months of 2016**, one can see that the contraction of total exports strengthened in relation to the 2015 trend (-7.6%), while the growth in the exports except ship and petroleum products became sluggish (+0.4%).

In greater detail, the exports of Agriculture Products increased by 12.4% in 2015, reaching €5.2 billion, against €4.6 billion last year, while the exports of Mineral Fuels decreased by 26.4%, to no more than €7.6 billion last year, from €10.3 billion in 2014 (Table 3.8). Note that these two product categories represented 50.1% of Greek exports last year (from 55.1% in 2014). The increase in Agriculture Products mainly came from the big increase, by 124.4% in the demand for Oils and Fats of Animal or Plant Origin, the value of which reached €713 million (from €317.7 million a year ago). As a result, their share in total exports increased from 1.2% in 2014 to 2.8% last year. In Food-Live Animals, which represented almost 73.6% of the exports of Agriculture Products, exports increased by 2.7%, from €3.7 billion in 2014 to €3.8 billion in 2015. The demand for Beverages and Tobacco, which represented 12.7% of the exports of Agriculture Products, stood at €657.7 million last year, higher by 12.6% in relation to 2014 (€584.1 million).

The exports of Manufactured Good increased by 6.8% in 2015, with their value reaching €11 billion, from €10.3 billion a year ago. This increase was largely explained by the growth of foreign demand for Machinery and Transport Equipment, and Manufactured Goods Classified Chiefly by Raw Material, by 14.4% and 9.3% respectively, with their value totalling €2.6 billion (from €2.2 billion in 2014) and €4 billion (from €3.7 billion in 2014). Additionally, the export performance of Miscellaneous Manufactured Articles strengthened by 0.5%, while exports also increased in Chemicals and Related Products, by 1% (at €2.67 billion in 2015 from €2.65billion in 2014).

Finally, the exports of Raw Materials decreased by 0.3% (from €1.02 billion in 2014 to €1.01billion in 2015), while the exports of Commodities and Transactions Not Classified by Category rose by 3.8% (from €575.6 million in 2014, to €597.7million in 2015).

Figure 3.11

Total export activity and exports of goods except fuels and ships

Source: ELSTAT, **Data processing:** IOBE

Regarding the export trends per geographical area, the exports to the countries of the Eurozone expanded by 13.5%, approaching €9.5billion from €8.4billion in 2014. As a result, more than a third of the Greek exports were transported to this region in 2015. The exports to the EU increased less, by +10.6 or €1,3 billion, with exports reaching €13.6 billion in the current year, from €12.3 billion last year. Among the Eurozone countries that absorb the largest part of Greek exports, growth was recorded in Italy by 15.9% (from €2.5 billion in 2014 to €2.9 billion) and Germany by 4.2% (from €1.76 billion to €1.84 billion); exports also increased towards Spain by 3.2% (from €667.8 million to €689.2 million). Estonia was the only export destination in the Euro area with contraction of Greek exports in 2015, reaching 6.1% (from almost €8.3 million in 2014 and €7.3 million in 2015), while the higher percentage change was observed in Luxemburg (+575.5% or increase by €26.9 million).

Among the remaining countries of the EU, where total exports grew by 4.3% or by €168.8 million (from €3.9 billion in 2014 to €4 billion in 2015), Bulgaria remained the main destination for Greek products, despite the decline in relation to 2014 by 5.9% or by €80 million. In contrast, exports increased in two other countries that absorb a large share of exports in this category of countries, the UK and Romania, where they grew by 10% or €97.1 million (to €1 billion in total) and by 10.7% or €67.6 million (to €702.2 million in total) respectively. The biggest increase of 26.8% was recorded in Denmark, where Greek exports increased by €26.4 million (from €98.5 million to €125 million).

Regarding the remaining countries in Europe, Greek exports declined by 33.8% (from €6.3 billion in 2014 to €4.1 billion in

2015). The export to Turkey, one of the major export destinations of Greek products, fell abruptly by 46.8% (€1,264.9 billion), that is to say from €2.7 billion last year to €1.4 billion in 2015.

In the countries to North America, exports increased by 46.6% (from €1 billion in 2014 to €1.5 billion 2015) mainly due to a rise in the exports towards the US by 54.6%, from €806.2 million to €1.2 billion, and secondly, from the rise of exports towards Mexico and Canada by 30.7% (increase by €39.9 million) and 11.7% (increase by €14.8 million) respectively.

The exports to the countries of the Middle East and North Africa increased slightly by 1% (from €3.74 billion in 2014 to €3.78 billion last year), mainly due to the increase of exports towards Egypt (+38%), where exports amounted to €1.02 billion in 2015 against €77.5 million in 2014. The growth in export activity was moderated by a significant decrease of exports towards some countries of North Africa, that is to say, Tunisia (-42.2%, from €271.9 million to €157.2 million), Algeria (-30.4%, from €281.1 million to €165.7 million) and Libya (-32.8%, from €222 million to €149.3 million). The exports to two other significant destinations in the Middle East - Saudi Arabia and the United Arab Emirates - decreased by 6% (to €737.1 million) and by -24.9% (to €269.7 million) respectively.

Table 3.8

Exports per category in current prices (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2015*	2014*	2015*/2014*	2015*	2014*
AGRICULTURAL PRODUCTS	5,188.8	4,618.4	12.4%	20.3%	16.7%
Food and Live Animals	3,818.3	3,716.6	2.7%	15.0%	13.8%
Drinks and Tobacco	657.5	584.1	12.6%	2.6%	2.2%
Oils and Fats of animal or plant origin	713.0	317.7	124.4%	2.8%	1.2%
RAW MATERIALS	1,019.5	1,022.4	-0.3%	4.0%	3.8%
Non-edible Raw Materials excluding Fuels	1,019.5	1,022.4	-0.3%	4.0%	3.8%
FUELS	7,599.5	10,331.6	-26.4%	29.9%	38.4%
Minerals, Fuels, Lubricants etc.	7,599.5	10,331.6	-26.4%	29.9%	38.4%
INDUSTRIAL PRODUCTS	11,052.9	10,346.0	6.8%	43.4%	38.5%
Chemicals and Related Products	2,677.0	2,650.0	1.0%	10.5%	9.9%
Industrial Products Sorted by Raw Material	4,073.3	3,725.2	9.3%	16.0%	13.9%
Transport Equipment	2,559.4	2,236.8	14.4%	10.1%	8.3%
Various Manufactured Goods	1,743.1	1,734.0	0.5%	6.8%	6.4%
OTHER	597.7	575.6	3.8%	2.3%	2.1%
Goods and Transactions not sorted by Category	597.7	575.6	3.8%	2.3%	2.1%
TOTAL EXPORTS	25,458.4	26,894.0	-5.3%	100.0%	100.0%

* Provisional data
Sources: ELSTAT, PSE-KEEM

The flow of Greek exports to Oceania strengthened, with their value reaching €150.7 million in 2015, from €143.2 million a year earlier. The exports to Australia increased by 6.2% (from €130.7 million to €138.7 million in 2015), while in contrast in New Zealand exports declined by 4.3% (€12.5 million in 2014, €12 million in 2015).

A significant growth of exports, by 141.6%, was recorded in 2015 in the markets of the Central-Latin American countries, with their value growing to €208.4 million in 2015, from €91.2 million a year ago. The growth of exports to these countries is mainly because of stronger demand for Greek products in Panama, by 433%, where their value reached €98.5 million in 2015, from €18.5 million in 2014.

In contrast, the demand for Greek products in Asia weakened, as exports fell by 9.2% in relation to 2014, to €1.2 billion from €1.4 billion. This development mostly came from export contraction in Singapore (-34.7% to €264.1 million from €172.5 million in 2014), and China (-16.6% to €228.2 million from €273.5 million in 2014). In contrast, the exports of Greek products increased significantly in South Korea (€298.1 million last year, €269.2 million in 2014), and by 72.1% towards Hong Kong (€90.6 million in 2015 from €52.7 million).

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To sum up, 2015 ended with a contraction of exports for a third year in a row, but also, with impressive performances of some sectors (strong export growth of olive oil by 124%, machinery by 14.2% and beverage-tobacco products by 12.8%), which brought large changes in the product composition and the geographical dispersion of the exports of Greek products. The realignment that took place came mainly from the decrease in global oil prices, which also affected the Greek exports. Last year, the exports of fuel declined by €2.7 billion (or -26.4%). Total exports declined despite the significant boost of exports of Agriculture Products by 12.4% (+€570 million) and Manufactured Goods by +6.8% (€707 million).

Regarding the geographical distribution of exports, growth gained momentum in two major geographical destinations for Greece, namely in the Euro Area (+€1.1 billion or +13.5%), and in the countries of North America (€495 million or +46.6%). In contrast, the largest contraction was observed in the exports to OPEC countries (-€330.2 million or -17.7%).

Table 3.9

Exports by destination 2015 and 2014*

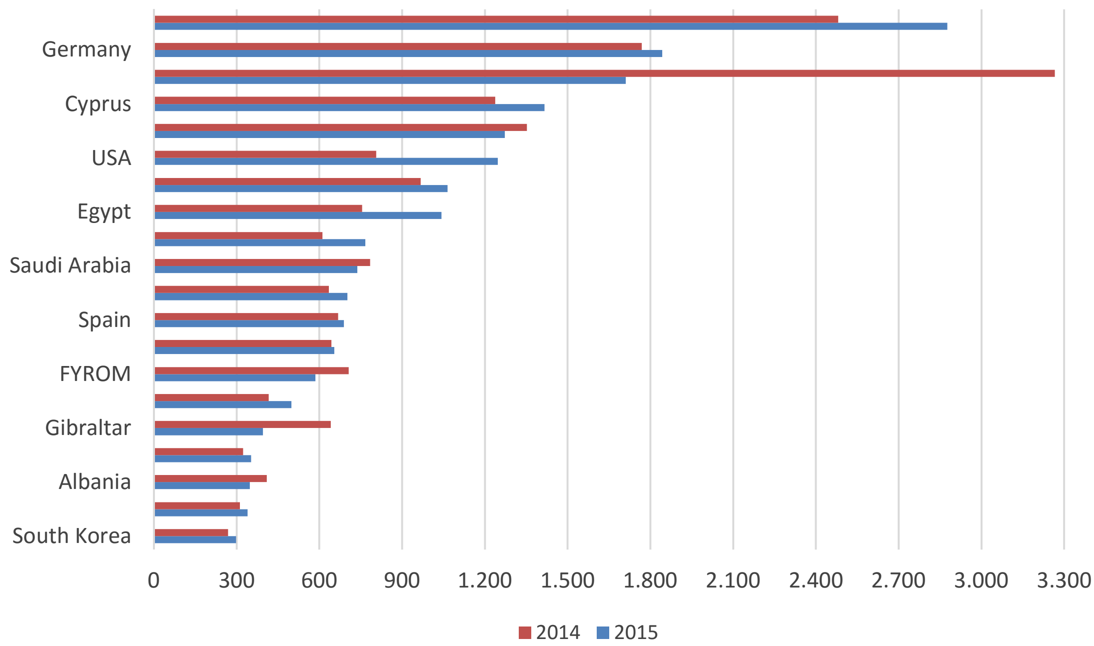
REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2015	2014	2015/2014	2015	2014
World	25,458.4	26,894.0	-5.3%	100.0%	100.0%
OECD	14,179.6	13,952.0	1.6%	55.7%	51.9%
EU	13,557.4	12,262.8	10.6%	53.3%	45.6%
Euro Area	9,491.2	8,365.4	13.5%	37.3%	31.1%
G7	7,887.9	6,839.6	15.3%	31.0%	25.4%
North America	1,558.2	1,063.1	46.6%	6.1%	4.0%
BRICS	587.5	768.1	-23.5%	2.3%	2.9%
Middle East & North Africa	3,779.4	3,741.9	1.0%	14.8%	13.9%
Rest of Africa	1,558.2	1,063.1	46.6%	6.1%	4.0%
Oceania	150.7	143.2	5.2%	0.6%	0.5%
Latin America	208.4	91.2	128.5%	0.8%	0.3%
Rest of Asia	1,249.6	1,376.3	-9.2%	4.9%	5.1%
OPEC	1,531.1	1,861.3	-17.7%	6.0%	6.9%

* Provisional data for 2014 and for 2015

Source: ELSTAT, KEEM

Figure 3.12

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



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

Of course, the capital controls imposed at the end of June 2015 created unprecedented barriers to trade. This was a measure with consequences that could not be estimated ahead of its implementation. Having gone through the half of last year with capital controls in place, a first estimation of their effects is possible. In particular, the total exports of goods declined by 1.9% in the first half of 2015, while the exports of petroleum products and ships rose by 12.8%. In the subsequent half of the year, the negative trend for total exports of goods significantly strengthened (-9.1% on average), while exports except petroleum products and ships slightly rose (+2.3%). As there was no other significant event to influence strongly and/or for a significant period of time the international transactions, one can say that the sharp change in the exports of goods can be attributed mainly to the consequences of capital controls.

In the first data for 2016, which are not sufficient to draw certain conclusions on this year's trend, there are indications that the trend of weakening of the exports of goods, which emerged in the second first half of last year, will carry over to this year. In January, the exports of all goods were lower by 8.3% year on year. The exports except fuel and ships, which have continuously retreated since last October (with the exception of December), were also lower than last year. The oil price fluctuation during the first quarter of this year at levels lower than those of 2014, is expected to lead the a new fall of the total exports of goods.

However, in March, the oil price gradually ceased to decline and then returned to the low levels of 2015. As the big oil producing countries do not seem to come close to making a decision in the near future to restrict their oil production, the price will likely remain at the same levels as last year. Subsequently, the fall of petroleum exports will significantly weaken this year, easing the pressures that it exerts on the value of total export of goods.

That said, even the slight fall of exports of goods other than petroleum products and ships is problematic, even if it is partially due to limitations of capital controls. Given their relatively high level throughout the first half of 2015, these exports will most likely fall in the same period of this year. Therefore, in the first half of the current year, there are no evident factors that can drive their growth.

Regarding the second half of the year, the low exports of last year present a low comparison base, which provides the needed support for better export performance. However, an important factor for the smooth functioning of the exporting businesses is the further easing of capital controls, which is directly connected with the outcome of the current first review of the new bailout programme. Upon its conclusion, the access to lower cost funding from the ECB , which Greek banks will recover after more than a year, will ease the lifting of the capital controls, which is conducive to stronger exports.

Nevertheless, as the depositors have not returned to the bank the savings that they withdrew in the first half of last year, the lifting of the capital controls cannot occur quickly, limiting the potential benefits of the supply of liquidity by the ECB at low interest rates, or from new tools of liquidity supply, used since last year (e.g. TLTROs). **Assuming that such a sequence of political and economic events and effects, with delays and deviations that do not affect the final outcome, takes place in the remaining months of 2016, the contraction of exports is expected to reach about 3.0%.**

3.4 Employment-Unemployment

According to the Labour Force Survey of ELSTAT, **unemployment in Greece in the last quarter of 2015 decreased by 1.7 percentage points year on year.** More specifically, the unemployment rate stood at 24.4% against 26.1% in the fourth quarter of 2014, while the number of unemployed declined from 1,245,900 in the last quarter of 2014 declined to 1,174,700 in the same period of 2015. **In the whole of last year, unemployment declined for the second consecutive year,** descending to 24.9% from 26.5% in 2014 (decline by 1.5 percentage points). Correspondingly, the number of unemployed decreased last year by 6.1% (or -77,500) to 1,197,000, against 1,274,400 in 2014, while the number of employed increased by 74,400 to 3,610,700 from 3,536,300 a year ago (+2.1%). According to the latest unemployment data for last January, the (non-seasonally adjusted) unemployment rate increased to 25.7%, 1.2 percentage points higher than in December 2015, and only 0.3 percentage units lower than in last January.

Despite the gradual decline of unemployment in the past two years, it has remained the highest in the Euro area since the third quarter of 2011. The rates of unemployment were also falling, albeit staying high, in all the remaining countries that had entered support mechanisms in the recent past. In Spain, which had the second highest rate of unemployment in the Euro area, unemployment decreased for the second consecutive year, to 22.1% last year, from 24.5% in 2014 and 26.1% in 2013. In Cyprus, the unemployment rate decreased from 16.1% in 2014 to 15.6% in 2015, while in Portugal it decreased from 15.5% in 2013 to 14.1% in 2014 and to 12.6% last year. Finally, in Ireland unemployment has decreased for the fourth consecutive year, to 9.5% from 14.7% in 2012.

In the ongoing decade, the lowest rates of unemployment are observed in Germany, Malta and Austria. In Germany, unemployment has been decreasing since 2010, when it stood at 7%, to reach 4.7% in 2015, while in Malta, unemployment has slowly yet constantly decreased since 2011 (from 6.4%)- with the exception of 2013 - to stand at 5.4% in 2015. Finally, in Austria unemployment has remained stable in 2015 (at 5.7%), after a constant yet marginal growth since 2012 (4.9%).

Regarding the remaining major European economics, in France unemployment remained at about the same level last year against 2014 (at 10.4% against 10.3%), while in Italy it decreased from 12.7% to 11.9%. Finally, in the UK unemployment declined from 6.1% in 2014 to 5.4% in 2015, remaining on a downwards course since 2012 (7.9%).

As mentioned repeatedly, unemployment in Greece **affects women more than men.** In 2015, the unemployment rate among women was 7.2 percentage points higher than that of men (28.9% against 21.7%), with this gap widening in relation to 2014 (6.5 percentage points, 30.2% and 23.7% respectively). Since 2007, the unemployment rate gap between men and women in Greece has varied on average around 6.7 percentage points, while in the EU-19, this difference does not exceed 0.6 percentage points. In the EU, the unemployment rate stood in 2015 at 10.7% for men (from 11.5% in 2014) and at 11% for women (11.8% in 2014).

Regarding the age structure of unemployment, the rate decreased year-on-year last year in all age groups, , while in the age groups of 15-19, 20-24, 26-29 and 30-44 years old, unemployment decreased for the second consecutive year. The highest percentage is recorded in the age groups of 15-19 and 20-24 years old, where unemployment reached 59% and 48.8% in 2015 from61.5% and 51.2% respectively two years ago. The unemployment problems are less intense in the age groups of 45-64 and 65 and over, where the unemployment rate is notably lower than the national average, at 19.2% (from 19.5%) and 10% (from 10.8%) respectively. The biggest decline was recorded in the age group of 25-29 years old, where unemployment decreased by 4 percentage points (to 36.8% in 2015 from 40.8% in 2014). The trend does not differ in the latest quarterly data. In all age groups, the unemployment rates are found reduced year on year in the fourth quarter of 2015 , with the exception of the 15-19 years old age group, where unemployment increased to 61.6% from 53.1%, after seven consecutive years of decline, while higher rates are also observed among young individuals (15-19 and 20-24 years old).

Regarding **long-term unemployment**, the upward trend since 2009 (40.4% or 195,600 people) until 2014 (73.6%), ceased in 2015, when it stood at 73.2%, while the number of long-term unemployed declined by 6.6%, from 936,800 in 2014 to 875,200 last year (-61,600). On a quarterly basis, the percentage of long-term unemployed increased to 74.3% in the fourth quarter of 2015, from 73% unemployed a year earlier, despite the decline in the number of long-term unemployed by 37.200 people (from 909,400 to 872,200 people). This development is due to an expansion of the workforce.

Concerning the **education level**, the unemployment rate decreased year on year in all education attainment levels in 2015, except for those that did not receive any education. The largest reduction was recorded among those that received but did not finish primary education, as their unemployment rate declined from 41.5%

in 2014 to 36.4% in 2015, while the smallest reduction was found among the graduates of upper secondary education, from 19.5% in 2014 to 19.5% in 2015. In contrast, among those that never received any education, unemployment increased by 13.5 percentage units (from 36.8% in 2014 to 50.3% in 2015), to reach the highest rate among all educational levels. The lowest unemployment rate over time (at least since 2008) is found among holders of postgraduate or doctoral degree (12.9% last year from 13.6% in 2014). Regarding the last quarter of 2015, the holders of postgraduate or doctoral degree still have the lowest unemployment rates (19.6% from 19.8% in the fourth quarter of 2014 and 13.7% from 13.1% respectively), while the highest rates were recorded among people that have a low education level (attended primary school) or never received any education (from 43% to 38% in the fourth quarter of 2015 and from 41% to 45.6% respectively).

Regarding the **regional composition** of unemployment, it weakened in the past two years in ten out of the country's thirteen regions (Eastern Macedonia, Thrace, Central Macedonia, Epirus, Ionian Islands, Western Greece, Central Greece, Attica, Peloponnese, North Aegean and South Aegean) and strengthened in the remaining three (Western Macedonia, Thessaly and Crete). The highest rates were recorded in Western Macedonia, Western Greece and Thessaly at 30.7% in 2015 (from 27.6% in 2014), 28.5% (from 28.7%) and 26.9% (from 25.4% in 2014) respectively. In Central Macedonia, where unemployment is also higher than the country average, the rate declined by 2.8 percentage points (from 28.8% in 2014 to 26% in 2015). The biggest reduction was observed in the North and South Aegean, where it reached 4.9 (from 20.1% to 15.2%) and 4.3 (from 22.3% and 18%) percentage points respectively. Note that the North and South Aegean are the regions with the lowest unemployment rates nationally. Finally, in Attica, unemployment decreased for the second consecutive year, to 25.2% from 27.3% in 2014, and 28.7% in 2013, while in Central Greece, a region with significant manufacturing activity, unemployment also decreased for the second consecutive year to 25.9% from 26.9% in 2014 and 28.2% in 2013. As in the previous unemployment breakdowns, the year on year trends in the data of the last quarter of 2015 do not differ from those on the whole of last year.

In terms of **key economic sectors,** there is a strong reduction in the employment of the primary sector. Since 2010, when the number of employed in this specific sector totalled 544,200, employment has constantly declined (with the exception of 2013) and in 2015, it did not exceed 456,700 (a reduction by 78,500 or 14.4% between 2010 and 2015). In the secondary sector, the unemployment drop that had begun at least since 2008 (1,024,400) was interrupted for the first time in 2015, when the number of employed rose by 1.8% to 539,400 from 529,700 in the preceding year (+9.700 employees). Similar is the trend in the tertiary sector, which gathered on average 70% of the domestic employment between 2008 and 2015, with employment, after the steady fall between 2008 and 2013 (from 3,072,300 to 2,485,500) strengthened in 2014 and 2015 by 3.1% or 78.900 people (from 2,526,700 in 2014 to 2,605,600 in 2015). In the last quarter of 2015, employment in the primary sector contracted by 5.7% (from 480,400 in the last quarter of 2014 to 452,800 a year later) while in the secondary sector it increased by 2.5% (from 526,800 in the last quarter of 2014 to 539,800 the last quarter of 2015). Lastly, in the tertiary sector, employment rose for the eighth consecutive quarter, with the increase in the last quarter of 2015 reaching 4.8% (2,649,000 employees against 2,528,100 in the last quarter of 2014).

In the **branches of economic activity** with significant weight to the Greek economy, such as Tourism, Professional - Scientific Activities, Manufacturing and Retail-Wholesale Trade, employment increased in 2014 and 2015. In greater detail, the strongest growth, by 52.9%, was recorded in Real Estate Services, where employment rose from 3,900 in 2014 to 6,000 in 2015. In contrast, employment has fallen constantly since 2008 in Construction, where it decreased by 4.2% or 6,400 in 2015 (to 145,200 from 151,600 in 2014). Employment increased significantly in Tourism, by 9.6% or 28,400 (to 325,600 from 297,100), followed by Manufacturing (+5.7% or +18,100 to 334,500 from 316,500) and Retail-Wholesale Trade (+5.6% or +35,200, to 660,800 from 625,600). In contrast, the strongest employment contraction was recorded in Mining-Quarrying and Financial - Insurance Activities, at 7.8% (to 10,400 employees in 2015, from 11,300 in 2014) and 5.1% (to 88,300 in last year from 93,00 in 2014), respectively. In the latest quarterly data, most notable was the increase of employment in Public Administration - Defence - Compulsory insurance, by 11.4% or 33,900 (at 330,700, against 296,800 in the last quarter of 2014), after only a slight increase by 1,200 employees in the preceding quarter. This strong shift in the trend is considered to be due to the progressive recruitment, during the second half of last year and especially in its last quarter, of 5,000 unemployed through three community service programmes of the Greek Manpower Employment Organization OAED.

In summary, from the yearly data of employment in the constituent sectors, one can say that the 2015 employment growth mainly came from:

- Increase in Wholesale-Retail Trade (+35,200 people or +5.6%), even though the Turnover Index in Wholesale trade fell by 4.6% last year, with a more modest decline in the Volume Index in Retail Trade (-1.5%)
- Employment growth in Manufacturing (+18,100 people or +5.7%), even though the increase of the production activity in 2015

was less pronounced (0.7% growth of the production index)

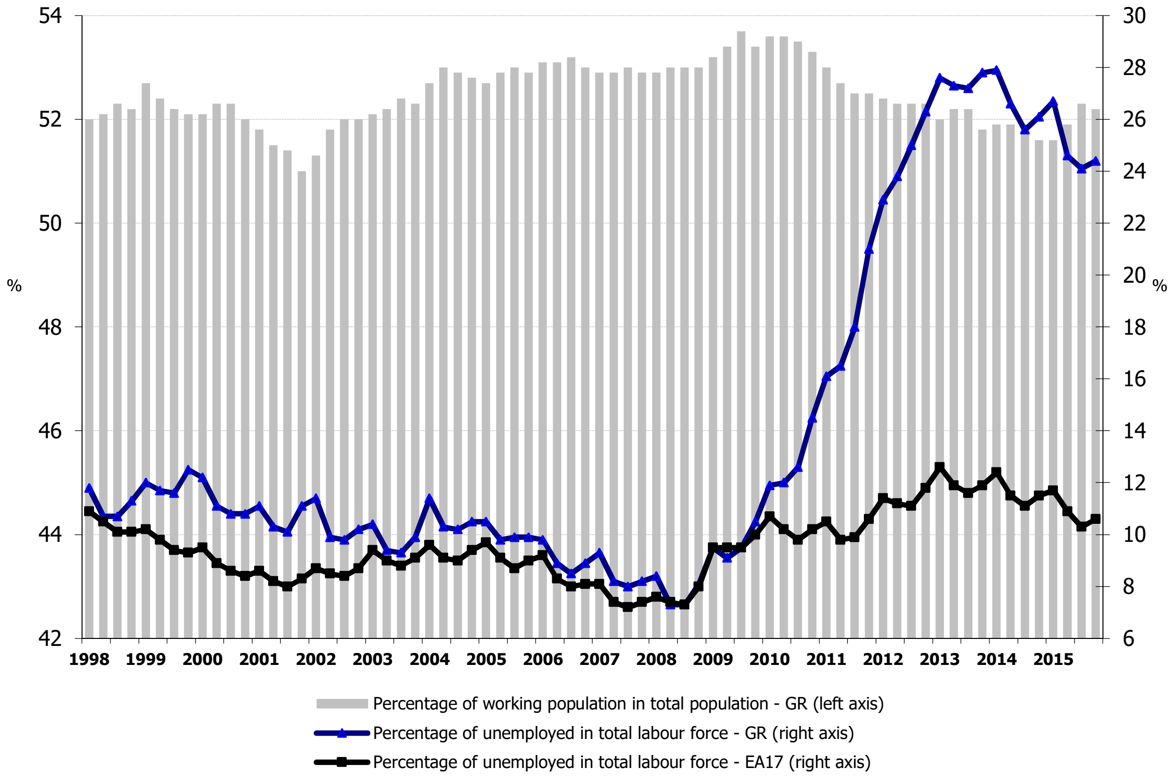
Increase in Tourism (+28,400 people or 9.6%), in accordance with the growth of the Turnover Index of the sector by 3.4% and despite the fall of employment in the primary sector (-14,200 people) and in Construction (-10,700 people).

Medium-Term Outlook

As outlined in the previous subsection, the new decrease of unemployment in 2015 mainly came from a boost of employment in a sector with activity that is strongly connected with domestic final consumption expenditure - Wholesale-Retail Trade - and also from the increase of jobs in Tourism, where the output trend is mainly determined by international tourist flows, with the domestic market not showing any significant fluctuations.

Figure 3.12

Labour force participation and unemployment rates



Source: ELSTAT –Labour Force Survey, Eurostat

Table 3.10

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

Quarter/Year	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
2000	8,839.8	52.2	4,088.5	88.6	523.5	11.4
2001	9,156.0	51.4	4,202.1	89.2	508.4	10.8
2002	9,188.3	51.8	4,265.0	89.7	492.7	10.4
2003	9,234.9	52.3	4,353.2	90.2	472.7	9.8
2004	9,285.3	52.9	4,389.5	89.4	520.0	10.6
2005	9,332.4	52.9	4,443.6	90.0	493.6	10.0
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
Q1 2011	9,374.4	53.0	4,165.5	83.9	799.6	16.1
Q2 2011	9,373.1	52.7	4,124.2	83.5	815.6	16.5
Q3 2011	9,372.2	52.5	4,040.8	82.1	883.5	17.9
Q4 2011	9,371.7	52.5	3,886.9	79.1	1,028.6	20.9
2011	**9,372.9**	**52.7**	**4,054.4**	**82.2**	**881.8**	**17.9**
Q1 2012	9,364.7	52.4	3,785.0	77.2	1,119.1	22.8
Q2 2012	9,351.2	52.3	3,729.9	76.2	1,163.0	23.8
Q3 2012	9,338.0	52.3	3,668.0	75.1	1,218.4	24.9
Q4 2012	9,325.3	52.3	3,597.0	73.8	1,279.9	26.2
2012	**9,344.8**	**52.3**	**3,695.0**	**75.6**	**1,195.1**	**24.4**
Q1 2013	9,316.5	52.0	3,504.2	72.4	1,336.0	27.6
Q2 2013	9,311.7	52.2	3,535.0	72.7	1,327.9	27.3
Q3 2013	9,307.1	52.2	3,533.7	72.8	1,320.3	27.2
Q4 2013	9,302.7	51.8	3,479.9	72.2	1,337.2	27.8
2013	**9,309.5**	**52.1**	**3,513.2**	**72.5**	**1,330.4**	**27.5**
Q1 2014	9,295.8	51.9	3,483.7	72.2	1,342.3	27.8
Q2 2014	9,286.6	51.9	3,539.1	73.4	1,280.1	26.6
Q3 2014	9,277.5	51.9	3,586.9	74.5	1,229.4	25.5
Q4 2014	9,268.5	51.6	3,535.3	73.9	1,245.9	26.1
2014	**9,282.1**	**51.8**	**3,536.3**	**73.5**	**1,274.4**	**26.5**
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0
Q4 2015	9,234.1	52.2	3,641.7	75.6	1,174.7	24.4
2015	**9,246.6**	**52.0**	**3,610.7**	**75.1**	**1,197.0**	**24.9**

Source: EL.STAT, Labour Force Survey

The significant increase in private consumption in the first half of last year came from the special conditions of that period, which had strengthened the uncertainty about the prospects of the economy and the country as a whole, urging the consumers to make unplanned purchases, which was conducive to employment growth in a number of branches, but mainly in Wholesale-Retail Trade. As this year, the reasons for this increase are not present, while anticipated changes in the tax and pension systems will limit the disposable income of households, the employment growth is not expected to continue in this sector, with a small reduction considered as the most likely possibility.

Meanwhile, the indications for the international tourist flows to Greece for 2016 are positive, for the fourth consecutive year. However, the increase of arrivals is not expected to be stronger than last year (7.1% according to the data of the Bank of Greece). Furthermore, the increase of international travel receipts in the previous year is lower than that of tourists (+6.0%). Therefore, even if both figures increase this year, this growth is going to be weaker, with the corresponding effect on employment in Tourism.

More generally in the private sector, the prevailing lack of liquidity, with the contraction of credit to businesses from the banking system escalating in early 2016 (-7.7% in the first two months), hampers the implementation of investment plans that could potentially create jobs. Nevertheless, the liquidity in the banking system is expected to improve upon the conclusion of the first review of the bailout programme, when the banks are expected to gain direct access to the ECB funding instruments with the reinstatement of the waiver. If this development is accompanied by return of deposits from households to banks, something which is not happening for now, the banks will be able to expand the credit to businesses, supporting thus investment and indirectly the creation of new jobs. However, such developments are not possible to have a long-term positive impact on the labour market. If they do occur, the effects will be felt in the second half of this year, probably in its end.

The opportunities for temporary employment, provided by the programmes of the Manpower Employment Organization OAED, are expected to have an impact on the labour market in the current year. Their reinforcing effect on employment was outlined above, in the significant increase of employment in Public Administration - Defence - Compulsory Insurance in the last quarter of last year, a development which is associated with the gradual implementation of three community service programmes in the second half of 2015. All programmes will expire during the first half of 2016, while another community service programme, aiming at 19.574 beneficiaries, was also recently announced. Thus, the deterrent effect of such and other OAED labour market interventions will continue to stimulate employment in the public sector and beyond.

Taking into account the trends and prospects mentioned above and provided that a powerful unexpected event does not take place, such as a fallout in the negotiations with the country's creditors, unemployment in 2016 is expected to be slightly higher than last year, in the area of 25.2%.

According to the latest IOBE business surveys, **the expectations on the short-term prospects for employment once more improved quarter on quarter in all examined sectors of the Greek economy in the first quarter of this year.** In particular:

The employment expectations strengthened quarter on quarter in the first quarter of the year in all sectors, with the positive change

more pronounced in Construction. In addition, the expectations also improved year on year in all sectors except Services, where they stayed constant. Despite the increase, however, the balance of employment expectations remained negative in all sectors, except Retail Trade. In greater detail:

In Industry, the negative balance of employment expectations improved by 8 points in the first quarter of 2016, from -14 on average in the preceding quarter. Year on year, the average quarterly index increased by 2 points. In the examined quarter, the share of industrial enterprises foreseeing growth in employment in the coming period stayed again at 5%, while the percentage of those expecting a fall in the number of jobs fell to 10% (from 18%). The vast majority of the sector undertakings (85% from 77%) expected employment stability.

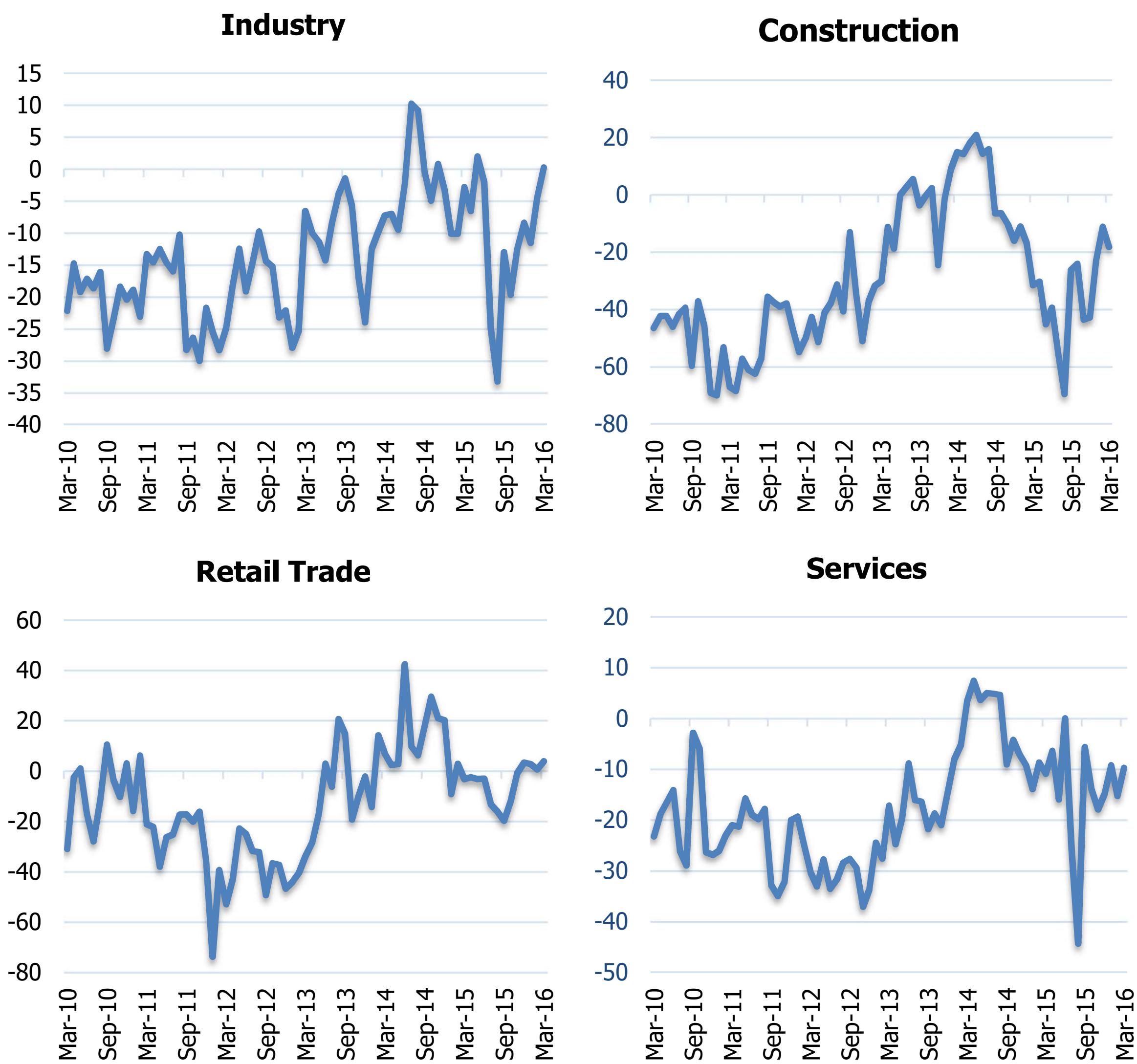
In Construction, the expectation also recovered in the quarter under review, with the quarterly average of the indicator standing at -17.2 points, higher by 19 points year on year. In the first quarter of 2016, 38% (from 52%) of the undertakings in the sector were anticipating job losses, while the percentage of respondents expecting a rise in employment stood at 21% (from 16%). In terms of individual sectors, the rise in the overall index came from growth in the average index of Public Works (-25 from -34 units on average), but also from the notable increase in Private Construction (+3 from -45 units).

In Services, the employment expectations in the first quarter of the year also gained ground quarter on quarter, remain at the same level year on year. Thus, the balance of -16 points in the previous quarter eased to -11 points. Of the companies in the sector, 24% (from 29%) were expecting a decrease in employment in the coming period, with the proportion of those predicting an increase remained at 13%. At subsector level, the expectations improved quarter on quarter in Hotels, Restaurants, Travel Agencies, Land Transport-Pipelines and Information Services.

The employment expectations in Retail Trade increased quarter on quarter in the first quarter of the year, to +2 points (from -3 points in the fourth quarter). This outcome is higher year on year as well (from -3 points). About 7% (from 9%) of the undertakings in the sector were expecting job cuts, while 9% (from 6%) were predicting employment growth, with 84% expecting job stability. In the constituent branches, the balance of employment expectations increased in Household Appliances, Vehicles & Parts and Department Stores.

Figure 3.14

Employment expectations (difference of positive – negative responses)



Source: IOBE

3.5 Consumer Prices

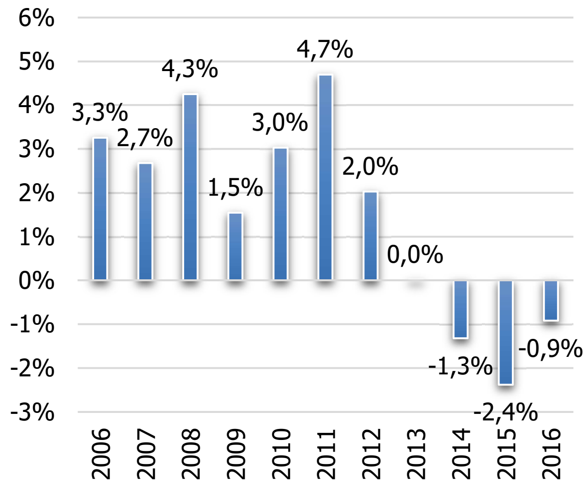
Recent Developments

For the third consecutive year, the Greek economy is in a deflation in the first quarter of the year. In particular, the Consumer Price Index (CPI) fell on average by 0.9% year on year. The corresponding change last year was more than twice as high, at -2.4%, which was the highest level of deflation over time, at least in the last 56 years. Quarter on quarter, deflation slightly strengthened (from -0.6% in the final quarter of 2015).

On the one hand, deflation significantly slowed down in the current year compared with the preceding two years. The VAT increase, which was fully implemented (in all six major islands) last October, contributed to this development. On the other hand, the change in CPI has remained negative in early 2016 due to the further decline in the oil price in the first two months of 2016, an effect which is reflected in the price cuts in Housing and Transport, as shown below.

Figure 3.15

Average annual CPI changes in Greece (January-March, 2006-2016)



Source: ELSTAT, **Data processing:** IOBE

With regard to the changes in individual groups of goods and services in the first quarter of 2016, the indicators varied as follows: The sub-index for alcoholic beverages and tobacco products continued to grow (+1.3% compared to +2.1% in 2015). The same trend was observed in Food - Non-Alcoholic Beverages (+0.6% versus +0.4% in 2015).

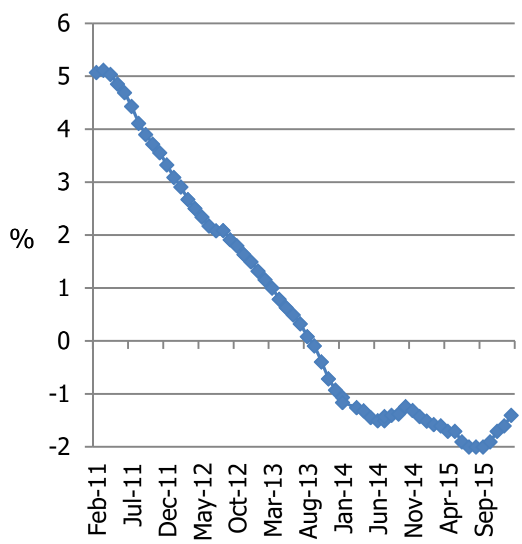
The price reduction in durable goods from last year was halted (+0.3% against -2.3% in 2015). Additionally, prices returned to a positive rate of year-on-year change in Hotels - Cafes - Restaurants (+2.7% against -0.6% in 2015) and in Health Services (+2.9% vs. -1.7% last year).

The prices in a number of groups of goods and services continued to decline in 2015. In particular, Housing saw the strongest decline of 4.5% (compared to -7.2% in 2015, when deflation was once more strongest in this category), followed by Clothing – Footwear, where the deflation intensified to 3.6% (from 2.5% last year), Transport, where prices declined by about 3.3% (versus -5.5%). The price decline reached 2.9% in Other Goods (after -2.3% in 2015) and 1.8% in Recreation – Culture (from -1.3%), while in Education the deflation rate eased to 1.3% (from -3.1% in 2015). Finally, prices in Communications decreased marginally by 0.02%, remaining essentially at the level of 2015.

The Harmonized Index of Consumer Prices (HICP) slightly decreased (-0.03%) in the first two months of 2016, against a deflation of 2.3% in the same period of 2015. In the Euro area, prices remained relatively stable. In particular, a marginal negative change was presented in Finland as well (-0.06%).

Figure 3.16

CPI in Greece (annual percentage change)



Source: ELSTAT, **Data processing:** IOBE

A small price drop in the first two months of 2016 was observed in Ireland (-0.1%), Latvia (-0.4%) and Slovakia (-0.5%). Slightly larger negative change was recorded in Spain (-0.7%) and Slovenia (-0.8%). The strongest deflation occurred for one more period in Cyprus (-1.6%).

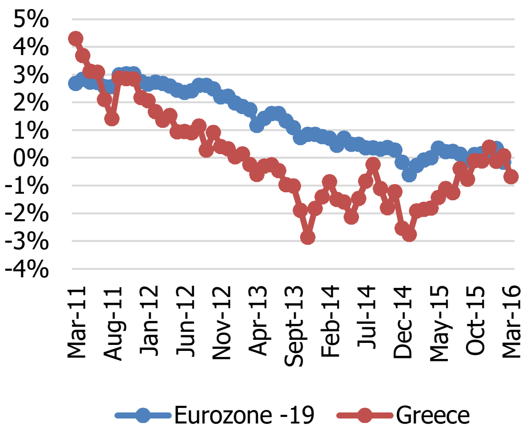
Countries with negligible positive change in the HICP include Luxembourg (+0.07%), Germany, Italy and France (+0.1%), Estonia (+0.2%) and the Netherlands (+0.3%). A slightly bigger positive change was reported by Portugal (+0.4%), Lithuania (+0.6%) and Malta (+0.9%). The highest increases were observed in the HICP of Austria (+1.2%) and Belgium (+1.5%).

According to the latest available data (February 2016), the Producer Price Index of the domestic and foreign markets as a whole fell by 9.4% in the first two months of 2016. This decrease is the greatest for this period at least over the last decade.

Figure 3.17

HICP in Greece and the Euro area

(annual percentage change)



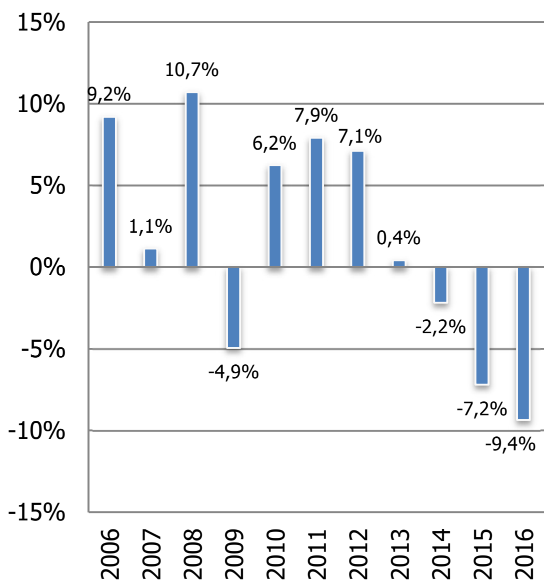
Source: ELSTAT, data processing IOBE

In particular, the highest price decline among the constituent subsectors in the first two months of 2016 was recorded in Coke – Refined Petroleum Products (-33%), obviously reflecting the effects of the new retreat of oil prices in the international markets. Smaller, but still significant negative changes were recorded in Electricity - Gas (-10%), Basic Metals (-7%), Electrical Equipment (-6.6%) and Extraction of Crude Petroleum - Natural Gas (-5.2%). Prices remained on a downward path in Wood Products (-2.3%), Paper (-2%), Leather Products (-1.8%) and Chemical Products (-1.5%).

In contrast, significant price growth occurred in Coal - Lignite (+4.1%), Other Manufactured Goods (+2.6%) and Textiles (+2.1%), while the inflation was milder in Tobacco Products (+1.1%).

Figure 3.18

Annualised change of CPI in Greece (January - February)



Source: ELSTAT, data processing IOBE

Finally, based on the latest available data (January 2016), there is a marked decline in the Import Price Index, by 8.3%, compared with a more rapid fall in 2015 (-12%).

Medium-term outlook

As already mentioned, the continuation of deflation in the initial quarter of 2016 came from a further decline in oil prices in the first two months of this year. However, this trend has already softened and a decline in oil prices is not generally expected with the same high rates as last year. Subsequently, its restrictive effect on prices will be less intense than that in 2015. However, the restrictive effect of the direct tax measures and pension cuts, which will soon be implemented, on disposable income and, as a result, on the purchasing power of households, is conducive to the continuation and escalation of deflation.

On the other hand, the inflationary impact of the VAT increase since last August outweighed the opposing forces of the then falling oil prices and the fiscal measures of last summer, significantly slowing down the deflation from September to December. This effect is expected to continue and be strengthened by the planned new rise of indirect tax coefficients, in the context of measures for the continuation of the fiscal consolidation. The anticipated changes include higher taxation of unleaded gasoline, natural gas, LPG, cigarettes, mobile telecommunication and / or Internet use, a new tax on pay TV etc. Whichever of these changes are eventually implemented, they will possibly shift the trend of CPI from downward to upward in the course of this year, probably for a few months and not continuously. Hence, **stabilising trends will probably prevail in prices overall in 2016, while a further marginal price decline cannot be precluded.**

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

The quarter-on-quarter trends in price expectations during the first quarter of 2016 are mixed. Still, most indicators continue to bear negative signs, maintaining thus the deflationary trend of the last six years. In particular, the negative balance of price expectations from the final quarter of 2015 deteriorated further in the first quarter of this year in Manufacturing and in Private Construction, while it weakened in Services. The balanced price expectations in Retail Trade at the end of 2015 became marginally positive, indicating estimates for a small increase of prices in the sector. Year on year, the price expectations declined only in Manufacturing, whereas in the other sectors, the indicators increased. In greater detail:

In Manufacturing, the price expectations in the first quarter of the year slightly declined quarter on quarter, with the index moving from -9 to -11 points, 6 points lower year on year. Of the companies in the sector, 17%

(from 13%) on average were expecting a price reduction in the near future, with 78% (from 84%) expecting price to remain stable and 6% (from 4%) expecting them to increase.

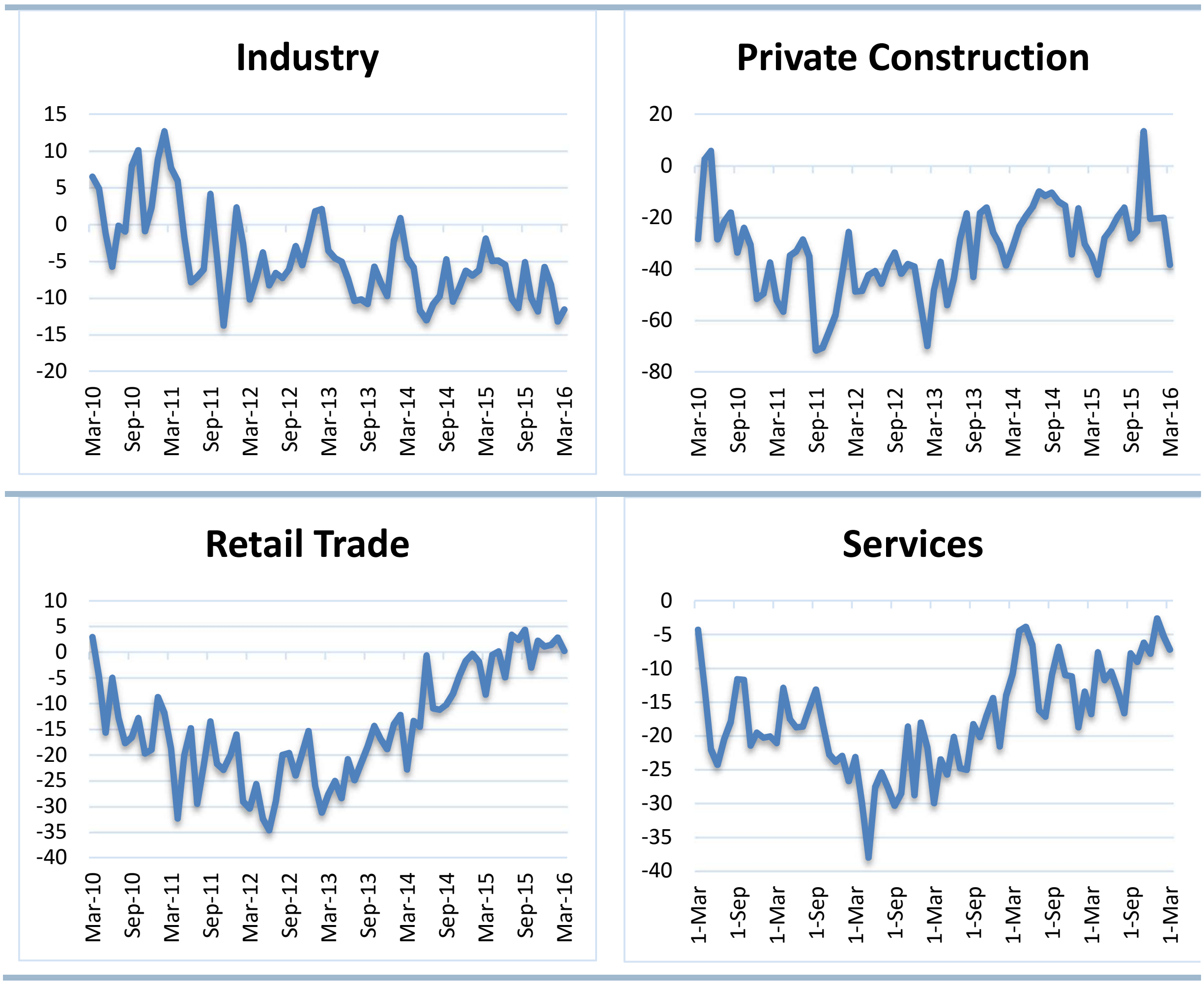
In Retail Trade, the balanced price expectations index of the previous quarter, was succeeded by a positive balance in the examined quarter (+2, from -3 points in the corresponding period of last year). In the current quarter, 7% of the sector companies (from 8%) were expecting falling prices in the short term, 9% (from 8%) were expecting price to rise and the remaining 84% were expecting price stability. In the constituent subsectors of Retail Trade, the price expectations strengthened quarter on quarter in the first quarter of this year in Food-Beverage-Tobacco, in Vehicles & Parts and in Household Appliances, and weakened in the remaining subsectors.

The average index of expected price changes in Services increased quarter on quarter by 3 points in the examined quarter, reaching -5 points, higher year and year as well (16 points). In the current quarter, 12% (from 13%) of the existing firms were expecting a price decrease in the next quarter and 7% (from 6%) were predicting prices to increase. The indicator increased in the first quarter of 2016 in all constituent subsectors, except Financial Intermediaries, where it decreased.

Lastly, in the Private Construction sector, the negative balance of **price** expectations **of the previous quarter significantly widened in the first quarter of 2016, by 15 units, to -26 units, a level that is slightly higher year on year. In the quarter under review, 26% (from 20%) of the businesses in the sector were expecting a decline in industry prices, while not a single respondent was expecting prices to rise (from 9%).**

Figure 3.19

Price expectations (% difference between positive and negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **Current Account (CA)**[24] **deficit** was almost reduced to zero in 2015, against a deficit of €3.8 billion in 2014. The decline in the surplus of the Services Account was overcompensated by the significant improvement in the Goods Account.

In January 2016 the CA deficit swelled to €742 million, against a deficit of €281 million a year ago, as the narrowing of the deficit in the Goods Account was not sufficient to cover the substantial reductions in Services Account and in Primary Income.

Regarding the CA components in 2015, the **Goods Account** deficit stood at €17.3 billion, lower by 22.6% or €5.0 billion. Exports amounted to €24.8 billion, lower by

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

7,5% (-€2.0 billion)[25], with the decrease coming primarily from the contraction of fuel exports (€2.4 billion). Imports amounted to €42.0 billion, lower by 14.3% (-€7.0 billion). The deficit of the Goods Account excluding oil and ships narrowed by the clearly more moderate pace of 9.0%, to reach -€12.6 billion, as the exports of goods increased by €786 million, compared to a reduction of imports by -€453 million.

The surplus of the **Services Account** fell in 2015, to €17.0 billion from €18.3 billion in 2014, due to a stronger decline in receipts than in payments. Total receipts amounted to €28.0 billion, lower by 9.9% (-€3.0 billion), while payments amounted to €11.0 billion, declining by 14.1% (-€1.8 billion). The receipts from Tourism reached €14.2 billion, higher by 6.0%, while the revenues from Transport decreased by 24.1% (-€3.1 billion) and from other services by 15.5% (-€702 million). Travel payments remained almost at the same level, close to €2.0 billion, while the payments for transport services fell by 13.2% to €5.4 billion. The payments for other services fell by 20.8% to € 3.5 billion.

The **Primary Income Account** had a surplus of €739.3 million in 2015, compared to €573.6 million in 2014. Receipts declined by 13.5% to €5.9 billion, while payments declined by 17.3% to € 5.2 billion. In greater detail, the receipts from employment fell by 26.7% to €153.8 million, from investments declined by 19% to €2.6 billion, while other primary income (subsidies and taxes on production) decreased by 7.4% to €3.2 billion. The payments for compensation of employees decreased by 22.8% to € 379.4 million, while payments for income from investment declined by -16.8% to €4.5 billion. There is a marked decrease of -17.5% in payments for other primary incomes (to €299.1 million).

The **Secondary Income Account** recorded a deficit at €512.2 million, against a deficit of €334.7 million in 2014. Receipts amounted to €1.9 billion, against €2.5 billion in 2014, as payments fell to €2.4 billion, from € 2.9 billion in 2014.

Capital Account

The **Capital Account**[26] balance stood at €2.0 billion, against €2.5 billion in 2014, with a significant decline of receipts by €497 million, while payments increased by €25 million.

Finally, the **Current and Capital Account**, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, stood at a surplus of €1.9 billion, against a deficit of € 1.3 billion in 2014.

Financial Account

The balance of the **Financial Account (FA)** reached €3.1 billion in 2015, against €631 million in 2014.

[25] The figures in parentheses represent absolute change compared with the corresponding period of the previous year, unless stated otherwise.

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

Regarding the FA components, the net receivables from **direct investments** made by residents abroad increased by €345.4million, while the liabilities to non-residents increased by €257.6million.

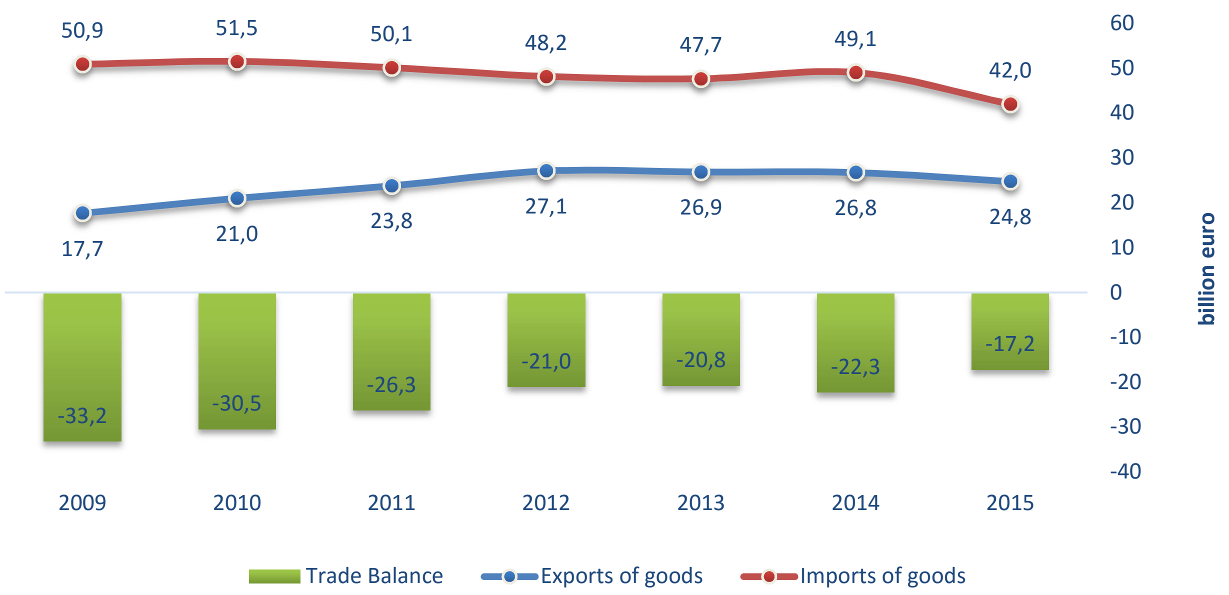
In **Portfolio Investment**, the claims of the residents to non-residents increased by €7.0 billion, as according to the Bank of Greece the holdings of residents in foreign stocks increased by €6.4 billion. The liabilities to non-residents decreased by €1.4 billion, as the holdings of non-residents in Greek sovereign bonds, treasury bills and stocks declined.

In the category of **other investments**, the receivables of residents from non-residents rose by €16.7 billion in 2015, while a net increase of €1.3 billion was recorded in deposits and repos of non-residents in Greece. The liabilities also increased, by €22.9 billion, with a net increase of €5.3 billion of deposits and repos of non-residents in Greece.

Lastly, the **Reserve Assets** of the country at the end of December 2015 totalled €5.5 billion, from €5.1 billion in 2014.

Figure 3.20

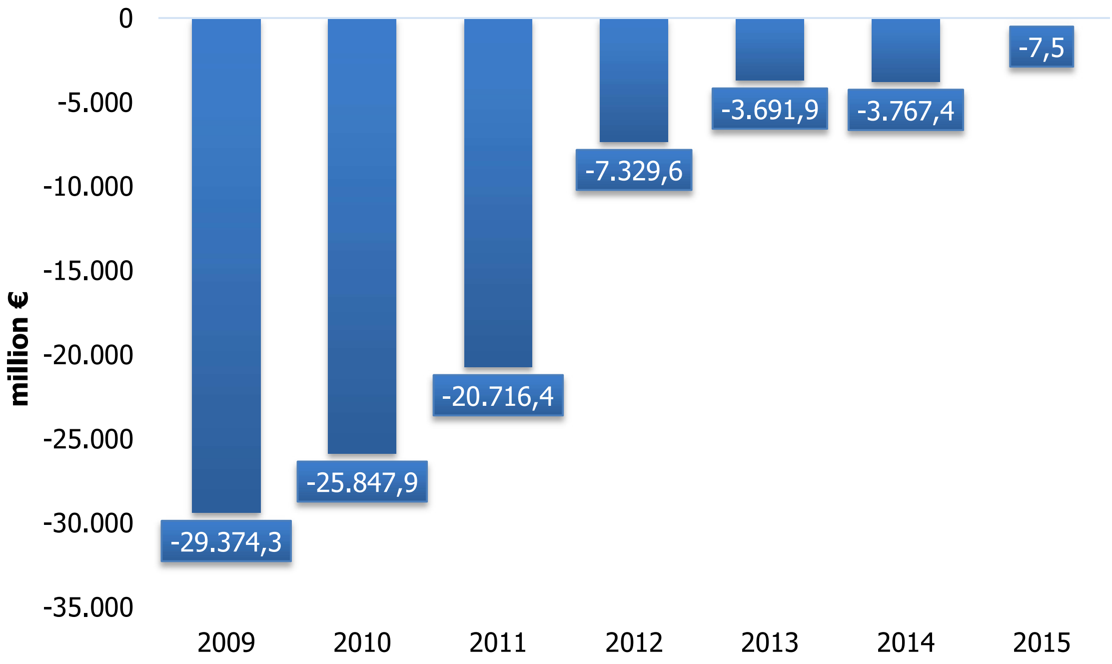
Imports-Exports (2009-2015)



Source: Bank of Greece – Data processing IOBE

Figure 3.21

Current Account 2009-2015



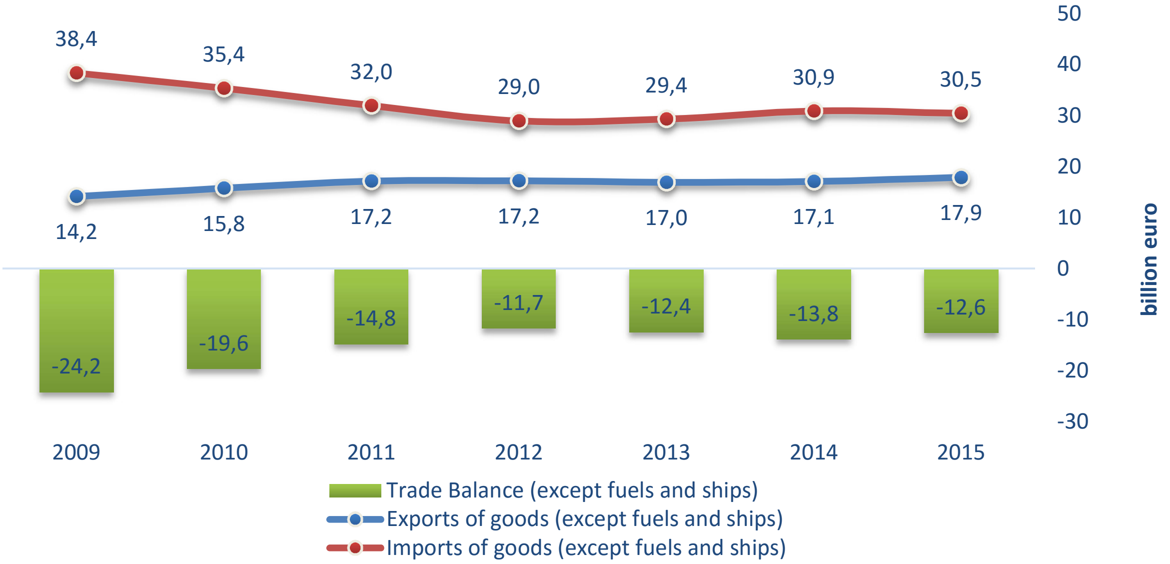
Source: Bank of Greece - Data Processing: IOBE

Assessment

After the sharp decline of exports and imports (goods and services) in 2009, export growth was recorded between 2010 and 2014, while imports continued to fall. The increase in exports was mainly from the exports of goods, with a significant contribution from the rise in fuel exports. As a result, the exports of goods and services expanded at a rate of +3.1% on average between 2010 and 2014, though with significant fluctuations within this period, while imports declined in the same period at an average rate of 3.2%. Overall, the two opposing trends narrowed the deficit in the category of goods and services. However, the trend changed in 2014 on both sides of the balance of goods and service, as exports increased at a high rate (+7.5%), but, at the same time, imports strengthened with a slightly higher rate (+7.7%). In 2015, the intense political and economic volatility during the first half of the year and the imposition of capital controls in July led to a decline in the imports of goods and services by 6.9%, while exports shrank less by 3.8%. However, the 2015 variations are considered to have come from exceptional circumstances. Regardless of these variations, the weight of exports in the Greek economy has changed significantly compared to 2009, as their share in GDP stood at 30.1% in 2015, compared with just 19% in 2009, while imports accounted for roughly the same percentage as exports in 2015 (30.3%), compared with 28.8% in 2009.

Figure 3.22

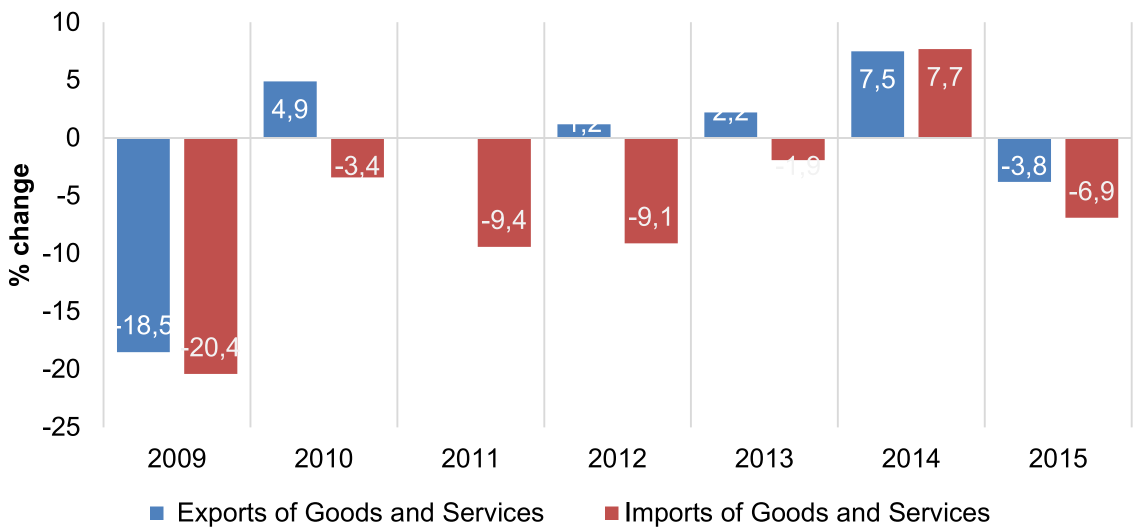
Imports – Exports without fuels and ships (2009-2015)



Source: Bank of Greece - Data Processing: IOBE

Figure 3.23

Exports and Imports of Goods and Services, constant 2010 prices (% change)



Source: Eurostat - Data Processing: IOBE

Table 3.11 Balance of Payments in € million

		January - December			January		
		2013	2014	2015	2014	2015	2016
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-3,691.9**	**-3,767.4**	**-7.5**	**-403.7**	**-281.3**	**-742.4**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-5,030.9**	**-4,006.3**	**-234.6**	**-1,343.8**	**-984.7**	**-908.6**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-20,780.3**	**-22,279.4**	**-17,247.8**	**-1,776.1**	**-1,432.6**	**-1,138.9**
	Oil balance	-6,913.5	-6,275.4	-4,208.1	-554.2	-269.9	-147.8
	Trade balance excluding oil	-13,866.8	-16,004.0	-13,039.7	-1,221.9	-1,162.8	-991.1
	Ships balance	-1,483.3	-2,173.1	-447.8	-171.4	-58.9	-6.1
	Trade balance excluding ships	-19,297.0	-20,106.3	-16,800.1	-1,604.7	-1,373.7	-1,132.8
	Trade balance excluding oil and ships	-12,383.6	-13,830.9	-12,591.9	-1,050.5	-1,103.9	-985.0
I.A.1	**Exports**	**26,895.6**	**26,788.0**	**24,787.2**	**2,083.5**	**1,841.6**	**1,668.3**
	Oil	9,485.1	9,049.8	6,713.7	790.0	445.2	364.1
	Ships (sales)	443.0	626.0	175.5	16.3	37.2	8.1
	Goods excluding oil and ships	16,967.6	17,112.1	17,898.0	1,277.2	1,359.2	1,296.1
I.A.2	**Imports**	**47,675.9**	**49,067.4**	**42,035.0**	**3,859.6**	**3,274.2**	**2,807.2**
	Oil	16,398.5	15,325.2	10,921.8	1,344.1	715.1	511.9
	Ships (buying)	1,926.2	2,799.2	623.2	187.7	96.1	14.2
	Goods excluding oil and ships	29,351.1	30,943.0	30,489.9	2,327.8	2,463.0	2,281.1
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**15,749.4**	**18,273.2**	**17,013.2**	**432.2**	**448.0**	**230.3**
I.B.1	**Receipts**	28,045.8	31,051.3	27,987.7	1,516.6	1,597.5	884.4
	Travel	12,152.2	13,393.1	14,194.4	155.5	169.0	161.1
	Transportation	12,060.9	13,130.8	9,968.3	1,038.9	1,051.7	479.4
	Other services	3,832.7	4,527.4	3,825.0	322.2	376.8	243.9
I.B.2	**Payments**	12,296.4	12,778.1	10,974.5	1,084.4	1,149.5	654.2
	Travel	1,835.2	2,076.4	2,025.1	150.4	157.6	129.0
	Transportation	6,492.2	6,258.6	5,430.0	525.3	592.2	316.7
	Other services	3,969.1	4,443.1	3,519.4	408.7	399.7	208.5
I.Γ	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**-457.0**	**573.6**	**739.3**	**788.5**	**623.7**	**172.9**
I.Γ.1	**Receipts**	6,458.1	6,867.4	5,942.8	1,075.2	1,012.7	295.8
	From work(wages, compensation)	209.3	209.9	153.8	14.4	13.9	8.0
	From investments (interest, dividends, profit)	3,213.7	3,241.5	2,624.4	301.2	251.5	241.7
	Other primary income	3,035.1	3,416.1	3,164.6	759.6	747.3	46.1
I.Γ.2	**Payments**	6,915.1	6,293.8	5,203.5	286.7	389.0	122.9
	From work(wages, compensation)	453.0	491.7	379.4	33.9	59.9	17.2
	From investments (interest, dividends, profit)	6,097.1	5,439.6	4,525.0	222.2	302.6	99.0
	Other primary income	365.0	362.6	299.1	30.6	26.5	6.7
I.Δ	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**1,796.1**	**-334.7**	**-512.2**	**151.6**	**79.7**	**-6.6**
I.Δ.1	**Receipts**	4,652.8	2,550.7	1,909.7	385.1	339.1	72.0
	General government	3,375.5	1,441.7	1,054.9	253.2	249.1	15.4
	Other sectors	1,277.3	1,109.0	854.9	131.9	90.0	56.7
I.Δ.2	**Payments**	2,856.7	2,885.5	2,421.9	233.4	259.4	78.6
	General government	2,068.1	2,054.7	1,695.0	173.5	150.0	38.1
	Other sectors	788.6	830.8	726.9	60.0	109.4	40.6
II	**CAPITAL ACCOUNT (II.1-II.2)**	**3,040.8**	**2,510.6**	**1,988.6**	**-13.2**	**50.4**	**388.1**
II.1	**Receipts**	3,380.6	2,866.2	2,369.5	5.9	72.9	409.7
	General government	3,298.9	2,789.8	2,319.3	0.4	68.1	406.3
	Other sectors	81.7	76.4	50.2	5.5	4.9	3.4
II.2	**Payments**	339.8	355.6	380.9	19.1	22.5	21.6
	General government	9.7	8.8	4.1	3.4	1.0	0.1
	Other sectors	330.1	346.7	376.8	15.7	21.5	21.5
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	-651.1	-1,256.8	1,981.1	-416.9	-230.8	-354.2
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**2,562.5**	**634.1**	**3,143.5**	**274.7**	**-1,028.8**	**-146.8**
III.A	**DIRECT INVESTMENT***	**-2,713.6**	**-577.4**	**602.9**	**158.3**	**74.2**	**74.6**
	Assets	-534.2	685.0	345.4	99.0	44.1	63.6
	Liabilities	2,179.4	1,262.5	-257.6	-59.3	-30.1	-11.0
III.B	**PORTFOLIO INVESTMENT****	**6,583.1**	**6,978.0**	**8,348.3**	**2,369.1**	**3,521.1**	**1,093.0**
	Assets	-1,023.6	8,910.1	6,996.0	843.8	2,090.3	677.5
	Liabilities	-7,606.7	1,932.1	-1,352.4	-1,525.3	-1,430.8	-415.6
III.Γ	**OTHER INVESTMENT***	**-1,414.0**	**-6,222.5**	**-6,162.2**	**-2,441.7**	**-4,932.1**	**-1,269.4**
	Assets	-21,187.9	-6,888.7	16,699.8	-987.8	9,436.6	-294.8
	Liabilities	-19,773.9	-666.2	22,861.9	1,453.8	14,368.7	974.6
	(Loans of general government)	30,061.2	4,000.2	11,921.6	-355.6	-440.7	-461.1
III.Δ	**CHANGE IN RESERVE ASSETS*****	**107.0**	**456.0**	**354.4**	**189.0**	**308.0**	**-45.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	3,213.6	1,890.9	1,162.3	691.6	-798.0	207.4
	RESERVE ASSETS (STOCK)***				**4,559**	**5,882**	**5,644**

Source: Bank of Greece

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

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

4. THE CONTRIBUTION OF THE MINING INDUSTRY TO THE GREEK ECONOMY[27]

4.1 Introduction

The extraction of mineral raw materials is a particularly significant economic activity for Greece. Mining gives rise to economic activity, utilising domestic resources that would have otherwise remained idle. Meanwhile, this sector has a strong export orientation, as a significant part of its production is sold in the global markets. In addition, mining provides mineral raw materials that facilitate other significant domestic economic activities, such as electricity generation, manufacturing of basic metals, cement production and construction, providing a further boost to the Greek economy. The scope of the study presented below is to evaluate the wider economic contribution of the mining industry[28] in Greece and to examine the conditions for securing its sustainability, competitiveness and further development.

4.2 Key figures

The total turnover of the mining industry in Greece stood at €2.1 billion in 2013 while for 2014 it is anticipated to have increased to €2.3 billion (in nominal terms). Compared to 2009, turnover in 2013 was lower by 15%. This decline came primarily from a drastic reduction in cement production and aggregates, as some of the other categories experienced variable trends or even strong growth. Between 2007 and 2014, the volume of production declined by 37.8% in aggregates, 24.4% in cement and 21.9% in energy minerals. In contrast, the production of marbles and basic metals increased significantly, by 44.4% and 32.9% respectively.

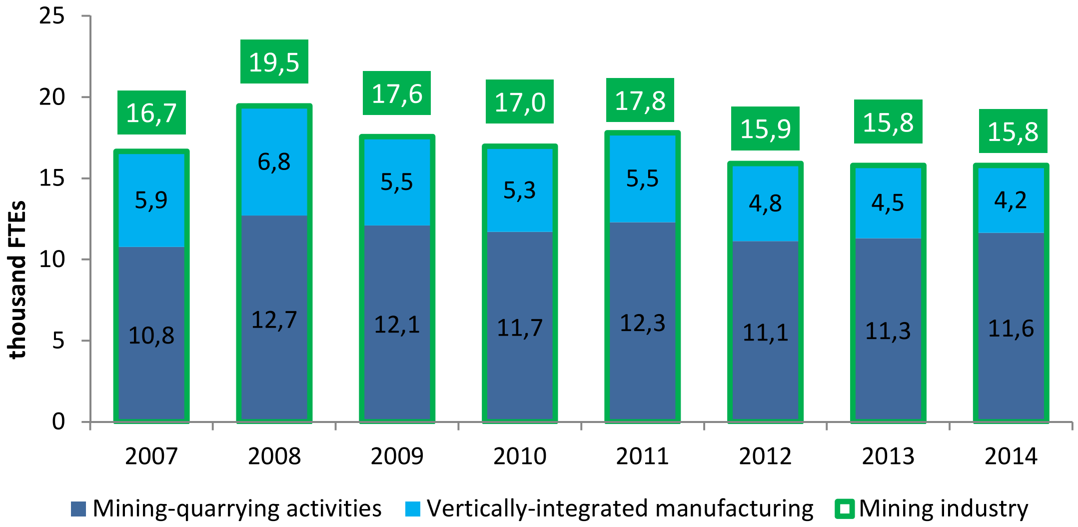
The value added of the mining industry stood at €795 million in 2014, in the aftermath of a continuous decline since 2007, when it totalled €1.6 billion. The fall of construction activity, which led to a drop in the demand for cement, was the key driver for the decline up to 2013, while the recovery in 2014 come from a boost in aluminium and to a lesser extent from a small growth in mining-quarrying activities. The share of the mining industry in the value added of the Greek industry sector stood at 3.9% in 2014. The mining industry had a strong presence in domestic investment as well, as between 2007 and 2014 it invested €2.1 billion overall in the Greek economy, representing 7.8% of total investment in Greek industry in 2014.

[27] The study was sponsored by the Greek Mining Enterprises Association. The full text of the study is available in Greek in the webpage of IOBE (http://iobe.gr/research_dtl.asp?RID=123).
[28] The mining industry, according to the definition given in this study, includes the extraction of solid mineral raw materials and the manufacturing of basic metals and cement with the use of domestic mineral raw materials.

The employment in the mining industry approached 15,800 full-time equivalents (FTEs) in 2014. The job loss during the crisis was relatively limited (-5.2% since 2007 – Figure 4.1), despite the significant reduction of gross value added (-50.3% during the same period). As a result, the share of the sector's employment in Greek industry increased from 2.9% in 2007 to 4.1% in 2014.

Figure 4.1

Employment in the mining industry (2007-2014)



Source: Eurostat, National Accounts, Greek Mining Enterprises Association

4.3 Openness of the mining industry

A feature of the domestic mining industry is its openness, which is not limited to the high share of exports in sales. The internationalisation of the mining industry is also revealed by the fact that some domestic enterprises are subsidiaries of multinational corporations, while others have joint ventures, mining activities and export trade networks in many foreign destinations.

The sales in the global markets take up a significant share of the turnover of the companies in the mining industry. The value of exports reached €1.1 billion in 2013, exceeding 50% of the total turnover in the sector, while there are indications for growth by about 8% in 2014. The export orientation is particularly strong in products, such as marbles, industrial minerals and metals, where the export value exceeds 70% of the turnover.

At the product level, each of the three products with the largest share of exports (cement, aluminium and nickel) take up about 1/5 of the total value of exports. Marbles and alumina come next with about 10% each while the magnesium products (refractories, dead-burned magnesia and caustic calcined magnesia) also have a significant share in exports.

The export orientation of the domestic mining industry draws on its significant competitive advantages, particularly with relation to the easy access to ports and thus to water transport (due to the extensive coastline of Greece), but also from the pivotal geographical position of the country. However, there is still a significant lack of basic infrastructure (mainly in terms of rail transport). The upgrade of the rail links between the production facilities of the mining industry on one hand and the domestic ports, but also the industry centres in Central and Eastern Europe, on the other, is anticipated to contribute significantly to further internationalisation and stronger presence of the sector on the global trade map.

4.4 Financial analysis

The economic crisis had a strong negative impact on all categories of financial indicators at the industry level between 2010 and 2013, however the trend in quite a few indicators turned positive in 2014. At the level of particular sub-sectors, the performance is mixed, primarily due to the different exposure of the sub-sectors to the variations in economic activity in Greece and abroad, in international commodity prices and in the cost of inputs (energy in particular).

Indicatively, the decline in the sales of industrial minerals, observed since 2012, did not carry over to 2014, but the profitability indicators remained negative due to a significant negative impact from extraordinary financial expenses. In aggregates, the significant losses from 2011 eased gradually in the following two years, with the profitability indicators turning positive in 2014. The profitability in the category of marbles remained strong throughout the observed period. In contrast, the profitability in metallic minerals and in the manufacturing of basic metals declined significantly between 2010-2013, returning to positive levels in 2014. In addition, total assets increased notably in metallic minerals, due largely to the development of mixed sulphide ores in Chalkidiki.

4.5 Economic impact

The contribution of the mining industry to the Greek economy is not limited to the key economic figures of the constituent mining and manufacturing activities. Taking into account the indirect effects in sectors that participate in the value chain of the mining industry, together with the induced effects from the income generated by its operation, the total contribution of the mining industry to GDP is estimated at €4.1 billion (2.2% of GDP), out of which about €2.7 billion comes from mining-quarrying activities alone. If we also take into account electricity generation with lignite, which would not be possible without the support of the domestic mining sector, the contribution to GDP stands at €6.2 billion (3.4% of GDP). In employment terms, the contribution of the mining industry is estimated respectively at about 84,000 full-time equivalents (2.2% of domestic employment), out of which 55,000 FTEs come from the impact of mining-quarrying activities. The employment impact increases to 118,000 FTEs (3.4% of domestic employment) when we take into account the electricity generation fuelled by lignite (Table 4.1).

Table 4.1

Wider economic impact of the mining industry

Activity	Direct	Indirect	Induced	Total
Wider impact on GDP (€ million)				
Mining	741	407	1,547	**2,696**
Manufacturing	324	247	743	**1,314**
Electricity generation	772	553	875	**2,200**
Total	**1,837**	**1,207**	**3,164**	**6,209**
Wider impact on GDP (FTEs)				
Mining	11,196	11,191	32,490	**54,877**
Manufacturing	5,866	6,557	15,593	**28,017**
Electricity generation	6,833	9,424	18,565	**34,822**
Total	**23,895**	**27,173**	**66,648**	**117,716**

Source: IOBE multiregional input-output model, Eurostat

It should be stressed that the economic contribution of the mining industry is particularly strong in certain administrative regions of the country. In particular, about 11% of the employment and almost 12% of the value added of Central Greece is attributed directly or indirectly to the activities of the domestic mining industry. The contribution is also significant in West Macedonia, particularly if we take into account the effects from lignite-fuelled electricity generation (22% of employment in the region in terms of total impact). The contribution of the mining industry is also particularly high in East Macedonia-Thrace, Thessaly and the South Aegean, but also in the Peloponnese when we take into account the lignite-fuelled electricity generation.

4.6 Growth outlook

The consolidation and recovery of the Greek economy and the strengthening of the global trade factors are significant factors for maintaining and boosting the economic impact of the mining industry. On the one hand, the forecasts for stronger growth in the European Union, and on the other the continuous economic difficulties for Greece in 2015 and 2016, with the economic recovery anticipated to start in 2017, create a mixed short-term outlook of the mining industry. In particular, assuming that the product prices will remain unchanged, the output of metallic minerals, industrial minerals and marbles is expected to increase only slightly. In contrast, the output of cement and energy minerals is expected to decline somewhat. Stronger growth and a return to growth respectively is expected from 2017 for these two broad groups of products. As a result, the output of the mining industry overall is expected to be higher by 13.6% in 2020, compared with 2014, provided that the growth forecasts for Greece and the EU are realised as planned and the investment climate in the country is not jeopardised further.

Regarding the investment plans of the enterprises in the mining industry, there is a clear propensity for an investment growth in the coming years. In particular, according to estimates of 19 companies, members of the Greek Mining Enterprises Association (GMEA), more than €1.7 billion investment expenditure is planned over the next few years, most of which is scheduled for 2016 and 2017. However, the speed with which the investment plans will be implemented will depend on the economic conditions that will form along the way, both in Greece and in the world economy, as the enterprises of the sector already face significant financial, administrative and regulatory obstacles to their operation.

4.7 Policy implications

The Greek Ministry of Environment and Energy announced a National Policy for the Exploitation of Mineral Raw Materials (NPEMRM) in 2012. However, the national policy has not yet materialised in the form of legislative texts and thus it is not implemented in practice. As a result, there are still significant obstacles to the further development of the mining industry.

In particular, the licencing procedures for the exploitation of raw materials remain time-consuming, without clearly defined methodology. Overregulation and red tape in the existing regulatory framework contribute to the delays in the licencing process. The convoluted legal system leads to numerous appeals in the courts, causing significant delays in the implementation of investments. Meanwhile, the Institute of Geology and Mineral Exploration (IGME) has not been fully utilised and, as a result, the information on the raw material potential in the country is relatively limited. Together with the unfavourable trends in non-labour cost (such as fees, loyalties, other taxation and the cost of energy), the pending issues in the regulatory framework impede the competitiveness and the growth of the mining industry in Greece.

The elimination of the existing omissions in the regulatory framework and in the broader policy for mineral raw materials is a key prerequisite for a fuller utilisation of the growth potential of the mining industry. The specification and the implementation of the NPEMRM is a key step in this direction. The actions envisaged in the NPEMRM could be grouped in five policy priorities – land use planning, licencing, other regulatory issues, education-research-knowledge diffusion and the social licence to operate.

Summing up, the mining activity in Greece is considerable, with a significant economic contribution. The contribution is particularly strong in regions, such as Central Greece and West Macedonia, which host many of the sector's activities. Given the strategic importance of securing access to mineral raw materials globally, the mining industry has the potential for further growth, respecting the principles of sustainability. However, a fuller use of this potential requires the implementation of a series of measures, envisaged in the national policy on mineral raw materials. These measures aim at safeguarding business operation, facilitating new investment, protecting the environment and securing social cohesion.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: GDP growth

	Annual data (%)									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	2.1	3.4	3.6	1.5	-3.8	1.9	2.8	0.8	0.3	0.4
Belgium	2.1	2.5	3.4	0.7	-2.3	2.7	1.8	0.2	0	1.3
Bulgaria	7.2	6.8	7.7	5.6	-4.2	0.1	1.6	0.2	1.3	1.5
France	1.6	2.4	2.4	0.2	-2.9	2	2.1	0.2	0.7	0.2
Germany	0.7	3.7	3.3	1.1	-5.6	4.1	3.7	0.4	0.3	1.6
Denmark	2.4	3.8	0.8	-0.7	-5.1	1.6	1.2	-0.1	-0.2	1.3
Czech Republic	6.4	6.9	5.5	2.7	-4.8	2.3	2	-0.9	-0.5	2
EU	2.1	3.3	3.1	0.5	-4.4	2.1	1.8	-0.5	0.2	1.4
Greece	0.6	5.7	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7
Estonia	9.4	10.3	7.7	-5.4	-14.7	2.5	7.6	5.2	1.6	2.9
Euro area	1.7	3.2	3.1	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9
United Kingdom	3	2.7	2.6	-0.5	-4.2	1.5	2	1.2	2.2	2.9
Ireland	6.3	6.3	5.5	-2.2	-5.6	0.4	2.6	0.2	1.4	5.2
Spain	3.7	4.2	3.8	1.1	-3.6	0	-1	-2.6	-1.7	1.4
Italy	0.9	2	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	-0.3
Croatia	4.2	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4
Cyprus	3.9	4.5	4.9	3.7	-2	1.4	0.4	-2.4	-5.9	-2.5
Latvia	10.7	11.9	10	-3.6	-14.3	-3.8	6.2	4	3	2.4
Lithuania	7.7	7.4	11.1	2.6	-14.8	1.6	6	3.8	3.5	3
Luxemburg	3.2	5.1	8.4	-0.8	-5.4	5.7	2.6	-0.8	4.3	4.1
Malta	3.8	1.8	4	3.3	-2.5	3.5	1.9	2.8	4.1	3.7
Netherlands	2.2	3.5	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.5	1
Hungary	4.4	3.8	0.4	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7
Poland	3.5	6.2	7.2	3.9	2.6	3.7	5	1.6	1.3	3.3
Portugal	0.8	1.6	2.5	0.2	-3	1.9	-1.8	-4	-1.1	0.9
Romania	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.5	3
Slovakia	6.4	8.5	10.8	5.7	-5.5	5.1	2.8	1.5	1.4	2.5
Slovenia	4	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3
Sweden	2.8	4.7	3.4	-0.6	-5.2	6	2.7	-0.3	1.2	2.3
Finland	2.8	4.1	5.2	0.7	-8.3	3	2.6	-1.4	-0.8	-0.7

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

Table 2: General Government Debt as %GDP

	Annual data (%)								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	67	64.8	68.5	79.7	82.4	82.2	81.6	80.8	84.2
Belgium	90.9	86.9	92.4	99.5	99.6	102.2	104.1	105.1	106.7
Bulgaria	20.9	16.2	13	13.7	15.5	15.3	17.6	18	27
France	64.4	64.4	68.1	79	81.7	85.2	89.6	92.3	95.6
Germany	66.4	63.6	65	72.5	81	78.4	79.7	77.4	74.9
Denmark	31.5	27.3	33.4	40.4	42.9	46.4	45.6	45	45.1
Czech Republic	27.9	27.8	28.7	34.1	38.2	39.9	44.7	45.2	42.7
EU	60.4	57.8	61	73	78.4	81	83.8	85.5	86.8
Greece	103.5	103.1	109.4	126.7	146.2	172	159.4	177	178.6
Estonia	4.4	3.7	4.5	7	6.6	5.9	9.5	9.9	10.4
Euro area	67.3	64.9	68.5	78.3	83.8	86	89.3	91.1	92.1
United Kingdom	42.4	43.5	51.7	65.7	76.6	81.8	85.3	86.2	88.2
Ireland	23.6	23.9	42.4	61.8	86.8	109.3	120.2	120	107.5
Spain	38.9	35.5	39.4	52.7	60.1	69.5	85.4	93.7	99.3
Italy	102.5	99.7	102.3	112.5	115.3	116.4	123.2	128.8	132.3
Croatia	38.3	37.1	38.9	48	57	63.7	69.2	80.8	85.1
Cyprus	59.1	53.9	45.1	53.9	56.3	65.8	79.3	102.5	108.2
Latvia	9.9	8.4	18.7	36.6	47.5	42.8	41.4	39.1	40.6
Lithuania	17.2	15.9	14.6	29	36.2	37.2	39.8	38.8	40.7
Luxemburg	7	7.2	14.4	15.5	19.6	19.2	22.1	23.4	23
Malta	64.6	62.4	62.7	67.8	67.6	69.8	67.6	69.6	68.3
Netherlands	44.5	42.4	54.5	56.5	59	61.7	66.4	67.9	68.2
Hungary	64.7	65.6	71.6	78	80.6	80.8	78.3	76.8	76.2
Poland	47.1	44.2	46.6	49.8	53.3	54.4	54	55.9	50.4
Portugal	69.2	68.4	71.7	83.6	96.2	111.4	126.2	129	130.2
Romania	12.3	12.7	13.2	23.2	29.9	34.2	37.4	38	39.9
Slovakia	30.8	29.9	28.2	36	40.8	43.3	51.9	54.6	53.5
Slovenia	26	22.7	21.6	34.5	38.2	46.4	53.7	70.8	80.8
Sweden	43.2	38.3	36.8	40.4	37.6	36.9	37.2	39.8	44.9
Finland	38.2	34	32.7	41.7	47.1	48.5	52.9	55.6	59.3

Table 3: General Government Balance as %GDP

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

Table 4: Share of persons at risk of poverty
http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:At_risk_of_poverty_or_social_exclusion_(AROPE)

	Annual data (%)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	17.4	17.8	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2
Belgium	22.6	21.5	21.6	20.8	20.2	20.8	21	21.6	20.8	21.2
Bulgaria	:	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48	40.1
France	18.9	18.8	19	18.5	18.5	19.2	19.3	19.1	18.1	18.5
Germany	18.4	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3	20.6
Denmark	17.2	16.7	16.8	16.3	17.6	18.3	18.9	19	18.3	17.9
Czech Republic	19.6	18	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8
EU	:	:	:	:	:	23.8	24.3	24.7	24.6	24.5
Greece	29.4	29.3	28.3	28.1	27.6	27.7	31	34.6	35.7	36
Estonia	25.9	22	22	21.8	23.4	21.7	23.1	23.4	23.5	26
Euro area	22	22.1	21.9	21.7	21.6	22	22.9	23.3	23.1	23.5
United Kingdom	24.8	23.7	22.6	23.2	22	23.2	22.7	24.1	24.8	24.1
Ireland	25	23.3	23.1	23.7	25.7	27.3	29.4	30	29.5	27.6
Spain	24.3	24	23.3	23.8	24.7	26.1	26.7	27.2	27.3	29.2
Italy	25.6	25.9	26	25.5	24.9	25	28.1	29.9	28.5	28.3
Croatia	:	:	:	:	:	31.1	32.6	32.6	29.9	29.3
Cyprus	25.3	25.4	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4
Latvia	46.3	42.2	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7
Lithuania	41	35.9	28.7	28.3	29.6	34	33.1	32.5	30.8	27.3
Luxemburg	17.3	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19	19
Malta	20.5	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24	23.8
Netherlands	16.7	16	15.7	14.9	15.1	15.1	15.7	15	15.9	16.5
Hungary	32.1	31.4	29.4	28.2	29.6	29.9	31.5	33.5	34.8	31.8
Poland	45.3	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7
Portugal	26.1	25	25	26	24.9	25.3	24.4	25.3	27.5	27.5
Romania	:	:	45.9	44.2	43.1	41.4	40.3	41.7	40.4	40.2
Slovakia	32	26.7	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4
Slovenia	18.5	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4
Sweden	14.4	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4	16.9
Finland	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16	17.3

Table 5: Inflation

	Annual data (%)			Jan-Feb (%)			Change (%)	
	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	2.1	1.5	0.8	1.5	0.5	1.2	-1.0	0.7
Belgium	1.2	0.5	0.6	1.0	-0.5	1.5	-1.5	2.0
Bulgaria	0.4	-1.6	-1.1	-1.7	-2.0	-0.7	-0.3	1.4
France	1.0	0.6	0.1	0.9	-0.3	0.1	-1.3	0.5
Germany	1.6	0.8	0.1	1.1	-0.2	0.1	-1.3	0.3
Denmark	0.5	0.4	0.2	0.6	-0.2	0.3	-0.8	0.5
Czech Republic	1.4	0.4	0.3	0.3	-0.1	0.5	-0.4	0.6
EU	1.5	0.5	0.0	0.9	-0.4	0.1	-1.2	0.4
Greece	-0.8	-1.4	-1.1	-1.1	-2.3	0.0	-1.2	2.3
Estonia	3.3	0.5	0.1	1.3	-0.4	0.2	-1.7	0.6
Euro area	1.4	0.4	0.0	0.7	-0.4	0.1	-1.2	0.5
United Kingdom	2.6	1.5	0.1	1.8	0.2	:	-1.7	:
Ireland	0.5	0.3	0.0	0.2	-0.4	-0.1	-0.6	0.3
Spain	1.5	-0.2	-0.6	0.2	-1.3	-0.7	-1.5	0.6
Italy	1.3	0.2	0.1	0.5	-0.2	0.1	-0.7	0.3
Croatia	2.3	0.2	-0.3	0.1	-0.5	-0.4	-0.6	0.1
Cyprus	0.4	-0.3	-1.5	-1.4	-0.8	-1.6	0.7	-0.9
Latvia	0.0	0.7	0.2	0.5	-0.2	-0.4	-0.7	-0.3
Lithuania	1.2	0.2	-0.7	0.3	-1.4	0.6	-1.7	2.0
Luxemburg	1.7	0.7	0.1	1.1	-0.7	0.1	-1.9	0.8
Malta	1.0	0.8	1.2	1.2	0.7	0.9	-0.6	0.2
Netherlands	2.6	0.3	0.2	0.6	-0.6	0.3	-1.1	0.8
Hungary	1.7	0.0	0.1	0.5	-1.2	0.6	-1.7	1.8
Poland	0.8	0.1	-0.7	0.6	-1.2	-0.3	-1.8	0.9
Portugal	0.4	-0.2	0.5	0.0	-0.2	0.4	-0.2	0.7
Romania	3.2	1.4	-0.4	1.2	0.4	-1.8	-0.8	-2.3
Slovakia	1.5	-0.1	-0.3	-0.1	-0.6	-0.5	-0.5	0.1
Slovenia	1.9	0.4	-0.8	0.5	-0.6	-0.8	-1.1	-0.2
Sweden	0.4	0.2	0.7	0.1	0.5	1.0	0.4	0.5
Finland	2.2	1.2	-0.2	1.7	-0.1	-0.1	-1.8	0.1

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

	Annual Data (%)								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	125	123	124	126	126	128	131	131	130
Belgium	117	115	114	116	119	119	121	120	119
Bulgaria	38	41	44	45	45	45	46	46	47
France	107	107	106	108	108	108	107	109	107
Germany	115	116	116	115	119	122	122	122	124
Denmark	124	121	123	122	126	126	126	127	125
Czech Republic	81	84	81	83	81	83	82	83	85
EU	100	100	100	100	100	100	100	100	100
Greece	94	92	94	95	87	77	74	74	73
Estonia	64	68	68	62	63	69	74	75	76
Euro area	108	108	108	108	108	108	107	107	107
United Kingdom	123	118	114	112	108	106	107	108	109
Ireland	146	147	132	129	130	132	132	132	134
Spain	103	103	102	101	97	94	92	91	91
Italy	106	105	105	105	104	103	101	98	96
Croatia	58	61	63	62	59	60	60	59	59
Cyprus	99	100	105	106	103	96	91	84	82
Latvia	55	60	60	53	52	56	60	62	64
Lithuania	56	61	63	56	60	65	70	73	75
Luxemburg	257	260	256	248	254	263	259	265	266
Malta	79	78	81	84	86	84	84	85	84
Netherlands	136	137	139	137	135	134	133	133	131
Hungary	62	61	63	64	65	65	65	67	68
Poland	50	53	54	59	62	64	67	67	68
Portugal	79	79	79	81	81	78	77	77	78
Romania	38	42	48	49	50	51	54	54	55
Slovakia	62	67	72	71	73	73	75	76	77
Slovenia	86	87	89	85	83	83	81	81	83
Sweden	125	127	126	123	126	127	127	125	123
Finland	115	118	120	116	115	117	116	113	110

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

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

	Annual data								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	113.8	112.8	112.8	114.8	113.6	113.1	115.2	115.6	115.5
Belgium	137.7	136.1	135	136.2	138.5	136.8	136.3	135.7	135.5
Bulgaria	37.1	39.3	40.3	41.4	41.8	42.3	43.2	42.6	43.4(p)
France	130.6	129.6	128.7	129.9	128.9	128.5	125.9	128.3	127.7
Germany	127.4	127.2	126.9	124.9	126.2	127.2	125.7	125.3	126.9
Denmark	122.3	121.8	123.9	123.6	130.1	128.6	130.3	127.7	126.9
Czech Republic	70.1	73	70.4	71.6	69.1	70.5	69.6	70.2	71.5
EU	100	100	100	100	100	100	100	100	100
Greece	78	77.2	78.6	78.2	75.3	70.8	70.5	71.5	71.6(p)
Estonia	50.9	55	55.5	58.9	60.7	60.6	63.5	63.6	64.7
Euro area	111.5	111.7	111.8	112.2	111.9	112	111.6	112	112.2
United Kingdom	116.3	113.2	111.4	109.2	104.9	102.5	100.8	99.6	99.5
Ireland	122.6	124.2	116.9	123.2	129.1	134.1	132	127.6	128.9
Spain	97.5	98.8	98.9	102.1	99.6	99.1	100.3	101	101(p)
Italy	103.3	103.4	105.2	105.2	103.8	103.3	103.2	102.4	101.4
Croatia	:	:	61.5	58.2	56.4	59.3	61.4	62	60.6
Cyprus	82.4	81.6	85.5	85.8	84.2	81	80.1	78.9	78.5(p)
Latvia	47.4	50.6	47.7	47.7	49.7	51.2	53	52.8	54.4
Lithuania	51.9	54.7	56.2	54.4	58.8	62.6	64	65.6	66.2
Luxemburg	185	183.4	176.4	171.9	174.1	179.5	174.3	178.9	180.8
Malta	72.6	72.2	73.1	74.5	76	74.9	74	73.2	72.4
Netherlands	137.8	137.7	138.6	134.7	132.3	131.4	129.3	129.5	129.3(p)
Hungary	56.9	56.5	59.7	61.2	67.4	68	66.6	67.1	65.6
Poland	48.2	49.4	49.2	51.9	56	58	59.1	59	58.9
Portugal	66.4	66.7	66.9	68.5	68.7	68.1	69.8	70.3	70(e)
Romania	34.9	38	43.5	43.3	43.7	44.1	50.2	50.3	51.1(p)
Slovakia	67.2	71.3	74.1	73.4	74.9	73.3	74	76.1	77.3
Slovenia	83	83.5	83.2	78.4	77.7	79.5	79.3	78	79.3
Sweden	121.4	122.9	121.8	118.7	118.2	117.7	117.1	114.6	113.5
Finland	110.1	112.9	113.9	111.3	110.1	110.8	108.4	107.3	106.8

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

Table 8: Employment rate of workers aged 20-64(*)

	Annual data (%)								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	72.8	73.8	73.4	73.9	74.2	74.4	74.6	74.2	74.3
Belgium	67.7	68.0	67.1	67.6	67.3	67.2	67.2	67.3	67.2
Bulgaria	68.4	70.7	68.8	64.7	62.9	63.0	63.5	65.1	67.1
France	69.9	70.5	69.5	69.3	69.2	69.4	69.5	69.4	69.6
Germany	72.9	74.0	74.2	75.0	76.5	76.9	77.3	77.7	:
Denmark	79.0	79.7	77.5	75.8	75.7	75.4	75.6	75.9	76.5
Czech Republic	72.0	72.4	70.9	70.4	70.9	71.5	72.5	73.5	:
EU	69.8	70.3	69.0	68.6	68.6	68.4	68.4	69.2	:
Greece	65.8	66.3	65.6	63.8	59.6	55.0	52.9	53.3	54.9
Estonia	76.9	77.1	70.0	66.8	70.6	72.2	73.3	74.3	76.5
Euro area	69.9	70.2	68.8	68.4	68.4	68.0	67.7	68.1	68.8
United Kingdom	75.2	75.2	73.9	73.5	73.5	74.1	74.8	76.2	76.9
Ireland	73.8	72.2	66.9	64.6	63.8	63.7	65.5	67.0	68.8
Spain	69.7	68.5	64.0	62.8	62.0	59.6	58.6	59.9	62.0
Italy	62.7	62.9	61.6	61.0	61.0	60.9	59.7	59.9	60.6
Croatia	63.9	64.9	64.2	62.1	59.8	58.1	57.2	59.2	60.5
Cyprus	76.8	76.5	75.3	75.0	73.4	70.2	67.2	67.6	68.0
Latvia	75.2	75.4	66.6	64.3	66.3	68.1	69.7	70.7	72.5
Lithuania	72.7	72.0	67.0	64.3	66.9	68.5	69.9	71.8	73.4
Luxemburg	69.6	68.8	70.4	70.7	70.1	71.4	71.1	72.1	70.9
Malta	58.6	59.2	59.0	60.1	61.6	63.1	64.8	66.4	67.8
Netherlands	77.8	78.9	78.8	76.8	76.4	76.6	75.9	75.4	:
Hungary	62.3	61.5	60.1	59.9	60.4	61.6	63.0	66.7	68.9
Poland	62.7	65.0	64.9	64.3	64.5	64.7	64.9	66.5	:
Portugal	72.5	73.1	71.1	70.3	68.8	66.3	65.4	67.6	69.1
Romania	64.4	64.4	63.5	64.8	63.8	64.8	64.7	65.7	:
Slovakia	67.2	68.8	66.4	64.6	65.0	65.1	65.0	65.9	67.7
Slovenia	72.4	73.0	71.9	70.3	68.4	68.3	67.2	67.7	69.1
Sweden	80.1	80.4	78.3	78.1	79.4	79.4	79.8	80.0	80.5
Finland	74.8	75.8	73.5	73.0	73.8	74.0	73.3	73.1	72.9

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

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

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	36.0	38.8	39.4	41.2	39.9	41.6	43.8	45.1	46.3
Belgium	34.4	34.5	35.3	37.3	38.7	39.5	41.7	42.7	44.0
Bulgaria	42.6	46.0	46.1	44.9	44.6	45.7	47.4	50.0	53.0
France	38.2	38.2	38.9	39.7	41.4	44.5	45.6	46.9	48.7
Germany	51.3	53.7	56.1	57.8	60.0	61.6	63.6	65.6	:
Denmark	58.9	58.4	58.2	58.4	59.5	60.8	61.7	63.2	64.7
Czech Republic	46.0	47.6	46.8	46.5	47.7	49.3	51.6	54.0	:
EU	44.5	45.5	45.9	46.2	47.2	48.7	50.1	51.8	:
Greece	42.7	43.0	42.4	42.4	39.5	36.5	35.6	34.0	34.3
Estonia	59.9	62.3	60.3	53.8	57.5	60.5	62.6	64.0	64.6
Euro area	43.3	44.4	45.1	45.7	47.0	48.6	50.0	51.7	:
United Kingdom	57.4	58.0	57.5	57.2	56.7	58.1	59.8	61.0	62.2
Ireland	53.9	53.9	51.3	50.2	50.0	49.3	51.3	53.0	55.6
Spain	44.5	45.5	44.0	43.5	44.5	43.9	43.2	44.3	46.9
Italy	33.7	34.3	35.6	36.5	37.8	40.3	42.7	46.2	48.3
Croatia	36.6	37.1	39.4	39.1	38.2	37.5	37.8	36.2	39.0
Cyprus	55.9	54.8	55.7	56.3	54.8	50.7	49.6	46.9	48.2
Latvia	58.0	59.1	52.5	47.8	50.5	52.8	54.8	56.4	59.4
Lithuania	53.2	53.0	51.2	48.3	50.2	51.7	53.4	56.2	60.4
Luxemburg	32.0	34.1	38.2	39.6	39.3	41.0	40.5	42.5	38.5
Malta	29.5	30.1	29.1	31.9	33.2	34.7	36.3	37.8	40.4
Netherlands	50.9	53.0	55.1	53.7	55.2	57.6	59.2	59.9	:
Hungary	32.2	30.9	31.9	33.6	35.3	36.1	37.9	41.7	45.3
Poland	29.7	31.6	32.3	34.1	36.9	38.7	40.6	42.5	:
Portugal	51.0	50.7	49.7	49.5	47.8	46.5	46.9	47.8	49.9
Romania	41.4	43.1	42.6	40.7	39.9	41.6	41.8	43.1	:
Slovakia	35.6	39.2	39.5	40.5	41.3	43.1	44.0	44.8	47.0
Slovenia	33.5	32.8	35.6	35.0	31.2	32.9	33.5	35.4	36.6
Sweden	70.0	70.1	70.0	70.4	72.0	73.0	73.6	74.0	74.5
Finland	55.0	56.5	55.5	56.2	57.0	58.2	58.5	59.1	60.0

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

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

	Annual data (%)			Q3 (%)			Change (%)	
	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	1.1	0.5	0.9	0.6	0.8	0.6	0.2	-0.2
Belgium	0.3	-0.3	0.4	-0.4	0.4	0.7	0.8	0.3
Bulgaria	-2.5	-0.4	0.4	-0.1	0.7	0.2	0.8	-0.5
France	0.3	0.0	0.4	0.0	0.5	0.4	0.5	-0.1
Germany	1.2	0.6	0.9	0.6	0.9	0.8	0.3	-0.1
Denmark	-0.3	0.0	0.8	0.5	0.7	1.1	0.2	0.4
Czech Republic	0.4	0.3	0.6	0.1	0.6	1.2	0.5	0.6
EU	-0.5	-0.7	0.6	-0.3	1.2	1.1	1.5	-0.1
Greece	-7.8	-3.8	0.7	-2.2	0.8	1.9	3.0	1.1
Estonia	1.7	1.2	0.8	0.3	1.3	4.4	1.0	3.1
Euro area	-0.4	-0.3	1.0	-0.6	0.8	1.1	1.4	0.3
United Kingdom	1.1	1.2	2.3	1.1	2.3	1.4	1.2	-0.9
Ireland	-0.6	2.4	1.7	3.2	1.4	3.0	-1.8	1.6
Spain	-3.7	-2.6	1.3	-2.6	1.5	3.0	4.1	1.5
Italy	-0.3	-1.8	0.1	-1.9	0.4	0.9	2.3	0.5
Croatia	-3.6	-2.6	2.7	-4.4	4.9	-0.3	9.3	-5.2
Cyprus	-4.2	-5.2	-1.9	-6.5	0.1	0.8	6.6	0.7
Latvia	1.4	2.3	-1.3	1.8	-3.0	2.4	-4.8	5.4
Lithuania	1.8	1.3	2.0	0.8	3.0	0.1	2.2	-2.9
Luxemburg	2.4	1.8	2.4	1.8	2.5	2.6	0.7	0.1
Malta	2.3	4.2	4.5	4.0	5.0	0.9	1.0	-4.1
Netherlands	-0.2	-0.9	-0.2	-0.7	-0.3	1.1	0.4	1.4
Hungary	0.1	0.9	3.1	1.1	5.3	2.7	4.2	-2.6
Poland	0.1	-0.1	1.7	0.0	1.9	1.1	1.9	-0.8
Portugal	-4.1	-2.9	1.4	-2.3	1.9	0.4	4.2	-1.5
Romania	-4.8	-0.6	0.8	-1.0	1.4	0.0	2.4	-1.4
Slovakia	0.1	-0.8	1.4	-0.9	1.4	2.2	2.3	0.8
Slovenia	-0.9	-1.4	0.6	-1.3	0.8	1.3	2.1	0.5
Sweden	0.7	0.9	1.4	0.9	1.9	1.1	1.0	-0.8

Table 11: Unemployment rate – Total population

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6	:
Belgium	7.5	7.0	7.9	8.3	7.2	7.6	8.4	8.5	8.3
Bulgaria	6.9	5.6	6.8	10.3	11.3	12.3	13.0	11.4	9.4
France	8.0	7.4	9.1	9.3	9.2	9.8	10.3	10.3	10.4
Germany	8.5	7.4	7.6	7.0	5.8	5.4	5.2	5.0	4.6
Denmark	3.8	3.4	6.0	7.5	7.6	7.5	7.0	6.6	6.2
Czech Republic	5.3	4.4	6.7	7.3	6.7	7.0	7.0	6.1	5.1
EU	7.2	7.0	9.0	9.6	9.7	10.5	10.9	10.2	9.4
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	24.9
Estonia	4.6	5.5	13.5	16.7	12.3	10.0	8.6	7.4	:
Euro area	7.5	7.6	9.6	10.2	10.2	11.4	12.0	11.6	10.9
United Kingdom	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1	5.3
Ireland	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3	9.4
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	22.1
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7	:
Croatia	9.9	8.6	9.2	11.7	13.7	16.0	17.3	17.3	16.6
Cyprus	3.9	3.7	5.4	6.3	7.9	11.9	15.9	16.1	15.6
Latvia	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8	9.9
Lithuania	4.3	5.8	13.8	17.8	15.4	13.4	11.8	10.7	9.1
Luxemburg	4.2	4.9	5.1	4.6	4.8	5.1	5.9	6.0	6.1
Malta	6.5	6.0	6.9	6.9	6.4	6.3	6.4	5.8	5.3
Netherlands	4.2	3.7	4.4	5.0	5.0	5.8	7.3	7.4	6.9
Hungary	7.4	7.8	10.0	11.2	11.0	11.0	10.2	7.7	6.8
Poland	9.6	7.1	8.1	9.7	9.7	10.1	10.3	9.0	7.5
Portugal	9.1	8.8	10.7	12.0	12.9	15.8	16.4	14.1	12.6
Romania	6.4	5.6	6.5	7.0	7.2	6.8	7.1	6.8	6.8
Slovakia	11.2	9.6	12.1	14.5	13.7	14.0	14.2	13.2	11.5
Slovenia	4.9	4.4	5.9	7.3	8.2	8.9	10.1	9.7	9.1
Sweden	6.1	6.2	8.3	8.6	7.8	8.0	8.0	7.9	7.4
Finland	6.9	6.4	8.2	8.4	7.8	7.7	8.2	8.7	9.4

Table 12: Unemployment rate among men

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	4.5	3.9	5.5	5.0	4.6	5.0	5.4	5.9	:
Belgium	6.7	6.5	7.8	8.1	7.1	7.7	8.7	9.0	8.8
Bulgaria	6.5	5.5	6.9	10.9	12.3	13.5	13.9	12.3	10.1
France	7.6	7.0	9.0	9.0	8.9	9.8	10.4	10.5	10.9
Germany	8.4	7.3	8.0	7.4	6.1	5.6	5.5	5.3	5.0
Denmark	3.4	3.2	6.6	8.4	7.7	7.5	6.7	6.4	5.9
Czech Republic	4.2	3.5	5.9	6.4	5.8	6.0	5.9	5.1	4.2
EU	6.6	6.6	9.0	9.7	9.6	10.4	10.8	10.1	9.3
Greece	5.3	5.1	7.0	10.1	15.2	21.6	24.5	23.7	21.7
Estonia	5.4	5.8	16.7	19.3	13.1	10.9	9.1	7.9	:
Euro area	6.7	6.9	9.5	10.1	10.0	11.2	11.9	11.5	10.7
United Kingdom	5.5	6.1	8.5	8.6	8.7	8.4	8.0	6.4	5.5
Ireland	5.0	7.6	15.0	17.1	17.8	17.7	15.0	12.9	10.9
Spain	6.4	10.1	17.7	19.6	21.1	24.6	25.6	23.6	20.8
Italy	4.9	5.5	6.7	7.5	7.5	9.8	11.5	11.9	:
Croatia	8.8	7.1	7.9	11.1	13.7	16.0	17.7	16.5	16.0
Cyprus	3.4	3.2	5.3	6.2	8.1	12.6	16.6	17.1	15.6
Latvia	6.5	8.4	20.9	22.7	18.6	16.2	12.6	11.8	11.1
Lithuania	4.2	6.0	17.1	21.2	17.9	15.2	13.1	12.2	10.1
Luxemburg	3.4	4.1	4.5	3.8	3.9	4.5	5.6	5.8	5.4
Malta	5.8	5.6	6.5	6.7	6.0	5.7	6.5	6.1	5.5
Netherlands	3.3	3.0	3.9	4.5	4.6	5.5	7.2	7.2	6.5
Hungary	7.1	7.7	10.3	11.6	11.1	11.3	10.2	7.6	6.6
Poland	9.0	6.4	7.8	9.4	9.0	9.4	9.7	8.5	7.3
Portugal	8.7	8.6	11.0	11.9	12.6	15.9	16.3	13.8	12.4
Romania	7.2	6.5	7.3	7.6	7.7	7.4	7.7	7.3	7.5
Slovakia	10.0	8.4	11.5	14.3	13.7	13.5	14.0	12.8	10.4
Slovenia	4.0	4.0	5.9	7.5	8.2	8.4	9.5	9.0	8.0
Sweden	5.9	5.9	8.6	8.7	7.8	8.2	8.2	8.2	7.5
Finland	6.5	6.1	8.9	9.1	8.4	8.3	8.8	9.3	9.9

Table 13: Unemployment rate among women

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	5.3	4.4	5.1	4.6	4.6	4.8	5.3	5.4	:
Belgium	8.5	7.6	8.1	8.5	7.2	7.4	8.2	7.9	7.6
Bulgaria	7.4	5.8	6.7	9.6	10.1	10.8	11.8	10.4	8.5
France	8.5	7.9	9.2	9.5	9.6	9.8	10.2	10.0	9.8
Germany	8.7	7.6	7.2	6.5	5.6	5.2	4.9	4.6	4.2
Denmark	4.2	3.7	5.3	6.5	7.5	7.5	7.3	6.8	6.4
Czech Republic	6.7	5.6	7.7	8.5	7.9	8.2	8.3	7.4	6.1
EU	7.9	7.5	8.9	9.6	9.8	10.5	10.9	10.3	9.5
Greece	12.9	11.5	13.3	16.4	21.5	28.2	31.4	30.2	28.9
Estonia	3.8	5.1	10.3	14.1	11.6	9.1	8.2	6.8	:
Euro area	8.5	8.3	9.8	10.3	10.4	11.5	12.1	11.8	11.0
United Kingdom	5.0	5.1	6.4	6.9	7.4	7.4	7.1	5.8	5.1
Ireland	4.3	4.9	8.2	9.9	10.8	11.0	10.7	9.4	7.7
Spain	10.7	12.8	18.1	20.2	21.8	25.1	26.7	25.4	23.6
Italy	7.8	8.5	9.2	9.6	9.5	11.8	13.1	13.8	:
Croatia	11.4	10.4	10.7	12.4	13.8	16.1	16.8	18.3	17.3
Cyprus	4.6	4.3	5.5	6.4	7.7	11.1	15.2	15.1	15.7
Latvia	5.6	7.1	14.1	16.3	13.8	14.0	11.1	9.8	8.6
Lithuania	4.3	5.6	10.5	14.5	12.9	11.6	10.5	9.2	8.2
Luxemburg	5.1	5.9	5.9	5.5	6.0	5.8	6.2	6.4	7.0
Malta	7.9	6.8	7.6	7.1	7.1	7.3	6.3	5.3	5.0
Netherlands	5.2	4.5	4.9	5.5	5.4	6.2	7.3	7.8	7.3
Hungary	7.7	8.0	9.7	10.7	11.0	10.6	10.1	7.9	7.0
Poland	10.3	7.9	8.6	10.0	10.4	10.9	11.1	9.6	7.8
Portugal	9.6	9.0	10.3	12.2	13.2	15.6	16.6	14.5	12.9
Romania	5.2	4.4	5.4	6.2	6.5	6.1	6.3	6.1	5.8
Slovakia	12.8	11.0	12.9	14.7	13.7	14.5	14.5	13.6	12.8
Slovenia	5.9	4.8	5.8	7.1	8.2	9.4	10.9	10.6	10.3
Sweden	6.5	6.6	8.0	8.5	7.7	7.7	7.9	7.7	7.3
Finland	7.2	6.7	7.6	7.6	7.1	7.1	7.5	8.0	8.8

Table 14: Long term unemployment rate(*)

	Annual data (%)				Q3 (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	26.3	24.9	24.6	27.2	1.4	1.5	1.6	0.1	0.1
Belgium	48.3	44.7	46.1	49.9	4.0	4.3	4.2	0.3	-0.1
Bulgaria	55.7	55.2	57.3	60.4	7.8	6.6	5.2	-1.2	-1.4
France	41.1	40.0	40.5	42.8	4.4	4.3	4.4	-0.1	0.1
Germany	47.9	45.4	44.7	44.3	2.3	2.1	1.9	-0.2	-0.2
Denmark	24.4	28.0	25.5	25.2	1.6	1.7	1.6	0.1	-0.1
Czech Republic	40.6	43.4	43.4	43.5	2.8	2.6	2.4	-0.2	-0.2
EU	45.2	46.4	49.8	52.6	5.3	4.9	4.3	-0.4	-0.6
Greece	49.3	59.1	67.1	73.5	19.6	19.3	17.7	-0.3	-1.6
Estonia	57.3	54.7	44.5	45.3	3.6	3.2	1.9	-0.4	-1.3
Euro area	43.0	44.5	47.3	49.5	6.2	5.9	5.3	-0.3	-0.6
United Kingdom	33.5	34.7	36.2	35.8	2.6	2.1	1.5	-0.5	-0.6
Ireland	59.3	61.7	60.6	59.2	7.3	6.6	5.2	-0.7	-1.4
Spain	41.6	44.4	49.7	52.8	13.4	12.6	10.8	-0.8	-1.8
Italy	52.0	53.2	56.9	61.4	7.4	7.4	6.2	0.0	-1.2
Croatia	61.3	63.7	63.6	58.4	11.4	9.7	10.4	-1.7	0.7
Cyprus	20.8	30.1	38.3	47.7	6.8	7.7	6.6	0.9	-1.1
Latvia	54.5	52.1	48.6	43.0	5.2	4.5	4.9	-0.7	0.4
Lithuania	52.1	49.2	42.9	44.7	4.7	4.3	3.6	-0.4	-0.7
Luxemburg	28.8	30.3	30.4	27.4	1.8	1.6	1.6	-0.2	0.0
Malta	47.3	48.5	45.7	46.9	3.0	2.6	2.2	-0.4	-0.4
Netherlands	33.2	33.7	35.8	40.0	2.9	2.8	2.9	-0.1	0.1
Hungary	47.6	45.3	48.6	47.5	4.9	3.4	3.0	-1.5	-0.4
Poland	37.2	40.3	42.5	42.7	4.4	3.6	2.7	-0.8	-0.9
Portugal	48.4	48.8	56.4	59.6	9.0	8.0	6.9	-1.0	-1.1
Romania	41.0	44.2	45.2	41.1	3.4	2.6	3.0	-0.8	0.4
Slovakia	67.9	67.3	70.2	70.2	10.3	9.0	7.6	-1.3	-1.4
Slovenia	44.2	47.9	51.0	54.5	5.4	4.9	4.8	-0.5	-0.1
Sweden	19.6	18.9	18.5	18.9	1.5	1.4	1.5	-0.1	0.1
Finland	22.2	21.4	20.7	22.4	1.7	1.9	2.4	0.2	0.5

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

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	9.4	8.5	10.7	9.5	8.9	9.4	9.7	10.3	:
Belgium	18.8	18.0	21.9	22.4	18.7	19.8	23.7	23.2	21.2
Bulgaria	14.1	11.9	15.1	21.9	25.0	28.1	28.4	23.8	21.5
France	19.5	19.0	23.6	23.3	22.7	24.4	24.9	24.2	25.1
Germany	11.8	10.4	11.1	9.8	8.5	8.0	7.8	7.7	7.3
Denmark	7.5	8.0	11.8	13.9	14.2	14.1	13.0	12.6	10.8
Czech Republic	10.7	9.9	16.6	18.3	18.1	19.5	18.9	15.9	12.6
EU	15.9	15.9	20.3	21.4	21.7	23.3	23.7	22.2	20.4
Greece	22.7	21.9	25.7	33.0	44.7	55.3	58.3	52.4	49.7
Estonia	10.1	12.0	27.4	32.9	22.4	20.9	18.7	15.0	:
Euro area	15.6	16.1	20.7	21.4	21.3	23.6	24.4	23.7	22.4
United Kingdom	14.3	15.0	19.1	19.9	21.3	21.2	20.7	16.9	14.6
Ireland	9.1	13.3	24.0	27.6	29.1	30.4	26.8	23.9	20.9
Spain	18.1	24.5	37.7	41.5	46.2	52.9	55.5	53.2	48.3
Italy	20.4	21.2	25.3	27.9	29.2	35.3	40.0	42.7	:
Croatia	25.2	23.7	25.2	32.4	36.7	42.1	50.0	45.5	44.6
Cyprus	10.2	9.0	13.8	16.6	22.4	27.7	38.9	36.0	33.2
Latvia	10.6	13.6	33.3	36.2	31.0	28.5	23.2	19.6	16.3
Lithuania	8.4	13.3	29.6	35.7	32.6	26.7	21.9	19.3	16.3
Luxemburg	15.6	17.3	16.5	15.8	16.4	18.0	16.9	22.3	14.0
Malta	13.5	11.7	14.5	13.2	13.3	14.1	13.0	11.7	12.1
Netherlands	9.4	8.6	10.2	11.1	10.0	11.7	13.2	12.7	11.3
Hungary	18.1	19.5	26.4	26.4	26.0	28.2	26.6	20.4	17.3
Poland	21.6	17.2	20.6	23.7	25.8	26.5	27.3	23.9	20.9
Portugal	21.4	21.6	25.3	28.2	30.2	38.0	38.1	34.7	32.0
Romania	19.3	17.6	20.0	22.1	23.9	22.6	23.7	24.0	21.7
Slovakia	20.6	19.3	27.6	33.9	33.7	34.0	33.7	29.7	26.4
Slovenia	10.1	10.4	13.6	14.7	15.7	20.6	21.6	20.2	15.7
Sweden	19.2	20.2	25.0	24.8	22.8	23.7	23.6	22.9	20.4
Finland	16.5	16.5	21.5	21.4	20.1	19.0	19.9	20.5	22.4