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Editorial Policy

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IOBE

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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Sponsor of the issue:

Foundation for Economic and Industrial Research (IOBE)
11, Tsami Karatassou St, 117 42 Athens, Tel.: (+30210 921120010), Fax: (+30210 9233977), www.iobe.gr

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Foreword

This is the first IOBE bulletin on the Greek economy for 2017. The prolonged negotiations for the second review of the third economic adjustment programme have raised once more the uncertainty on the prospects of the Greek economy. Besides, significant issues, such as the finalisation of the medium-term debt measures and the country's entry in the ECB's quantitative easing programme depend on the outcome of the negotiations. As every IOBE quarterly bulletin, this report includes **four chapters** and an **appendix** with key structural indicators. The bulletin starts with an analysis of the threats and the opportunities of the Greek economy under the current conditions. 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 2016 and its outlook for 2017, based on the latest report of the International Monetary Fund and the European Commission; b) an outline of the **economic climate** in Greece in the first quarter of 2017, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in 2016 and in the first two months of 2017.

Chapter three focuses on the performance of the Greek economy in 2016 and early 2017. It includes an analysis of: the **macroeconomic environment** during the second half of 2016 and its projected trends in early 2017; the **developments in key production sectors** in the first two months of 2017; the **export performance** of the Greek economy in 2016; the developments in the **labour market** in 2016; the trends in **inflation** in the first quarter of 2017; and, finally, the trends in the **balance of payments** in 2016.

Chapter four presents an analysis of the impact, the trends in the composition of the arrears of the public sector to its suppliers.

The report is based on data that were available up to 21/04/2017. IOBE's next quarterly bulletin on the Greek economy will be published in late July 2017.

OPPORTUNITIES AND RISKS

The publication of this quarterly report takes place while the Greek economy is entering yet another critical phase of its adjustment programme. The achievement of a significant primary (and overall, albeit small) surplus in 2016 marks a consolidation of the country's public finances, irrespective of the specific characteristics of the evolution of public expenditure and revenue. At the same time, last year was another year of stagnation in the economy, with GDP remaining virtually unchanged for the third consecutive year. Moreover, the long delay in completing the current review has led to a weaker growth of the economy, compared with the initial expectations in early 2017, as it has prolonged the uncertainty, has hindered investment and has delayed the implementation of liquidity improvement measures. A question that arises, therefore, is how the economy is expected to evolve in the current year, in terms of both public finances and economic activity. Whether the economy is gradually being set on a path of growth, maintaining at the same time significant budgetary surpluses, however, is a more critical issue.

Overall, the current conditions are suitable for an assessment of the opportunities and the challenges for the economy. There is a real opportunity for steps in a positive direction, but there are also very serious risks, many of which related to possible misinterpretations of the developments. A first possible mistake would be to consider the achievement of high budget surpluses as the measure of positive economic change, especially when the surpluses are achieved with a large increase in tax revenues. A second potential error would be to assume that a temporary recovery of the economy ensures a path of sustained growth over the medium term. A third mistake that could be made when assessing the current situation in the economy is to ignore the challenges and opportunities, coming from the European and global environment.

The Greek economy is in a recession already since 2008, for almost nine years now, and in an adjustment programme since 2010, for almost seven years. This period is particularly long, and yet uncertainty has remained regarding both the immediate and the medium-term prospects of the country. The economy seems to have reached a new equilibrium, with low levels of income and wellbeing. There are specific elements and features that could support significant growth rates. These include both the performance of certain businesses and industries, which show that the economy has a pulse and a potential, and the very achievement of the budget surplus, which confirms that the country, although on the brink of bankruptcy in recent years, cut off from the markets, is not poor overall and can, under certain conditions, be put on a path to prosperity. However, in general, the economy sails without a compass and so any positive features and efforts are not able to upend the climate of uncertainty, disinvestment, and stagnation. It is indicative that in the measurement of the economic climate by IOBE, consumer confidence is at its lowest point in 3.5 years, while in enterprises the sentiment has generally stagnated at a low level. The decisions to be taken within the country in the coming months are particularly critical, as they may potentially mark the beginning of a growth cycle or, alternatively, the prolongation of the stagnation and, consequently, the intensification of risks, especially as the current programme approaches its conclusion.

Regarding the fiscal developments, one can observe that the surplus is a positive development, as it increases the credibility of the state in view of a future return to the bond markets. There are two main questions. How does the budget surplus relate to the growth rate of the economy and is it sustainable in the medium term? The surplus comes largely from interventions in the social security system (both in terms of reduction in the level of pensions and increase in contributions) and, to a lesser extent, from higher tax revenues. It appears that if taxes were lower as regards the creation of new income, in particular, the growth rate for the past year would have been positive. The effect of the use of electronic means of payment, which allowed for an additional part of the economic activity to be officially recorded, also seems to be significant. In a special survey, IOBE highlighted in a timely manner the beneficial impact of the payments with electronic means on tax revenue. A significant part of the recorded increase in private consumption can be attributed to this factor.

This remark has two implications. First, to the extent that part of the economic activity is transferred from the non-official to the official segment of the economy, the officially recorded growth rates might overestimate the evolution of total economic activity. Therefore, the recession brought to the economy by the capital controls might not be fully recorded, precisely because of the effect of these controls on the use of payment methods. Second, if the support of such electronic payments had been launched in a timely and effective manner, the same or even better revenue collection (both tax and social security contributions) could have been achieved, but with lower tax rates. In particular, the excessive tax and social security burden on labour and entrepreneurship, together with the distortive taxes on real estate, create a significant drag on economic activity and shrink its production base. Thus, their rationalisation must be a priority.

As presented in this report, the economic activity indicators for the first few months of this year have a mixed performance, pointing to further stagnation. Overall, in the current year, the economy can be expected to grow by 1.5% in real terms. Private consumption is expected to increase on the assumption that the completion of the programme review will not be delayed further, as the decline in unemployment (albeit at a low and weakening rate) is having a positive effect, as is the further shift to electronic payments. Private investment is also expected to grow, albeit much slower than the desired pace, as it starts from a low base, while public investment can also recover over the course of the year. The overall impact of the external balance is expected to be negative, despite the income growth in the countries we export, as a significant part of the increase in consumption will leak abroad as imports.

Although the growth target of 2.7% in the budget is very ambitious, rates of around 1.5% (or slightly lower, depending on when the current review is completed) are feasible. We should also take into account the rise in prices, which is expected to be about 1.5%, mainly due to higher taxes and fuel prices. Regarding the fiscal developments, the main concern stems from the gradual depletion of the capacity of households and businesses to provide tax revenue. Therefore, the achievement of the revenue targets for the current and next years will depend largely on achieving adequate growth rates.

Currently, the economy has returned to an equilibrium with a low level of activity, after the conclusion of the developments that hurt it, on either side of the summer of 2015. A recovery is expected for the current year, but the issue now is whether the economy evolves and is transformed in such a way as to be set on a path of sustained growth. There are worrying signs related to the low total investment rate (also taking into account the slow pace of public property development and the management of non-performing loans), the very slow progress, or even digression, in the reform of public administration, public education, health and the justice system, and the anaemic performance of exports.

Overall, two related points should also be made. First, the Greek crisis transpired in the notorious twin deficits, fiscal and external, as the economy was both overly dependent on the domestic market and the state. As long as the export-oriented and innovation-driven entrepreneurship does not decisively strengthen, income is being simply recycled (and indeed with public sector support), at a low level of activity, and with a gradual depletion of savings. Attracting investment and increasing exports are the key factors that will mark the exit from the crisis and will create conditions for sustainable growth. The fiscal consolidation is certainly a precondition for growth, but the pooling of resources into public control cannot be an end in itself of the economic policy.

Second, the expectations for the future course of the economy, perhaps even over a decade, will determine the rate of attraction of investments, and ultimately the current growth rates. In this respect, there are two critical issues – to ensure that the service of public debt will not overburden the economy in the foreseeable future (even if there is no need for adjustment to its nominal terms) and to achieve progress (let alone prevent a fall-back) in structural reforms.

In the evolution of the Greek programmes so far, the main driving force was essentially the fear of an uncontrolled negative development, sometimes for the creditors and certainly for the country. There was no substantial support for an inspirational growth plan that would put the economy on track to achieve higher level of incomes in a sustainable way. This may have happened because of a lack of confidence in the potential of the economy, but mainly because of the mistaken impression that past individual privileges can be hard to break and that reform of the production base is a luxury or an unreachable goal. The current risk is that, without real strong support for building a competitive economy, a temporary recovery this year and the achievement of the fiscal targets can lead not only to complacency but also to a reversal on reforms. Similarly outside Greece, there is a risk that the surplus is going to be misinterpreted as the final proof of the programme's success and that therefore no support for structural reforms or further easing of the debt service are required.

Taking into account the particular developments, the fiscal consolidation that was achieved once again can be seen as a double-edged sword. If the fiscal consolidation is combined with a policy of attracting investment, reducing the state burden and making economic activity more open in a systematic way, the economy will come out of the crisis with improved structural characteristics. However, if the increase in taxation is considered a substitute for improving the structural characteristics of the economy and for making the necessary breaks with the past, then we should expect a further shrinking of the production base, a deteriorating outlook for the return to the markets and a deeper recession in the medium term. Besides, it has been pointed out that systematically, since the beginning of the programme, that much more emphasis has been placed on the fiscal rather than on the structural measures, with a joint responsibility of those who planned and applied the programmes. These choices will evolve over the coming months and the outcome will transpire by the end of the year. In any case, the key to this critical choice and to the start of potential positive developments is to increase the credibility of the programme, which is still stuck at a low level.

1. Brief Overview - Conclusions

Consolidation of world growth in 2016, stronger growth most likely in 2017

The growth of the world economy strengthened in the final quarter of 2016. Indicatively, the GDP of the OECD member states increased year on year by 2.0% in the fourth quarter of 2016, while the rate of growth in the first three quarters had stood at 1.7%. Then again, the growth at the end of last year did not exceed the rate recorded in the same period of 2015 (2.1%). The growth rate marginally increased in both the developed and the developing economies. In the G7 economies, the average growth rate in the final quarter of 2016 reached 1.8%, higher than in the first quarters of 2016 and in the corresponding quarters of 2015. Among these economies, the strongest quarter-on-quarter boost of growth was recorded in Japan, from 1.1% to 1.6% and in Canada, from 1.4% to 1.9%. Growth did not slow down in any of the G7 economies. Regarding the major developing economies of Asia, the growth rate in China remained at around 6.8% in late 2016 for the sixth consecutive quarter, remaining unchanged in India as well (7.2%). In Latin America, the recession continued to ease in Brazil for the fourth consecutive quarter, to reach 2.5%. According to the latest estimates of the IMF for 2016 overall, the growth rate of the world economy remained unchanged at 3.1%.

The world economy activity strengthened in the final quarter of 2016 mainly due to expansionary fiscal and monetary policies in major economies (e.g. USA, China), stronger manufacturing and higher prices of many commodities, mainly oil, after the curb on daily output at the end of the third quarter, which boosted income in developing economies. In addition, it seems that the impact on the world economy from the turmoil in the Asian capital markets in early 2016 and the outcome of the Brexit referendum in the United Kingdom, were overestimated, at least over the short-term in the latter case.

The positive, in principle, effects from the above factors have carried over to 2017. The effects from higher commodity prices will boost the developing economies of Asia and Latin America, together with the Russian economy, giving it the boost in order to end the recession. The higher short-term rates and the fiscal policy of the new US administration maintain the capital flows, boosting expectations. The quantitative easing of ECB strengthens the liquidity in the Euro area, with a positive impact on investment. However, if these developments are maintained over a long term or intensify, they might have the opposite than the initial outcome. For example, a continuous increase of the petroleum price will hamper the expansion of economic activity and world trade. Further hike in the interest rates will have a similar impact. Furthermore, if the expansionary fiscal policies are maintained, this will impair the viability of public finances. The monetary policy in the Euro area has modified the structural characteristics of its growth model, which now depends on domestic demand, rather than net exports.

Regarding the European Union in particular, the outcome of elections in its major economies, which will affect the momentum of the protectionism wave that started with the referendum in the United Kingdom, and the Brexit process will determine the coming developments.

Regarding the developments in the major developing economies, the implementation of accommodative fiscal policy in China continues to support its economy. However, no measure are taken to deal with its structural problems, such as the high corporate debt, especially of state-owned enterprises. In India, the transition to new banknotes creates obstacles to economic growth.

Under these conditions and prospects of the world economy, **IOBE anticipates slightly higher growth rate of the world GDP in 2017, perhaps slightly below 3.5%.**

Return to recession in Q4 of last year, stagnation overall in 2016

The Greek economy returned to recession in the final quarter of 2016, when its GDP fell by 1.1%, after a climb by 2.0% in the third quarter and against an increase of 0.7% in the same quarter of 2015. The sudden trend change between the quarters of the second half of last year confirms the interpretation given in the previous quarterly IOBE report on the GDP growth in the third quarter, namely that it came from a base effect, due to low GDP in the same quarter of 2015. **After the fall in the final quarter of 2016, the GDP of Greece essentially remained unchanged overall in 2016 (-0.05%), against a marginal contraction in 2015 (-0.3%).** The year 2016 is the third consecutive year with a small year-on-year output change. As a result, GDP has remained at around €184 billion for a fourth year in a row and the Greek economy has been stagnant throughout this period.

In greater details regarding the GDP components in 2016, **domestic consumption expanded by 0.6% year on year, against a small decline by 0.3% a year earlier**. Though small, the increase in consumption last year was the highest since 2009. The increase came solely from growing private consumption in the second half, by 3.5%, its highest growth since the first half of 2008. More broadly, the increase in digital payments has helped the expansion of household consumption throughout last year. Public consumption expenditure was falling in all quarters of 2016, resulting in their reduction for the whole year by 2.1%, against no change in the preceding year.

After strong growth in the first half of 2016, **investment** declined extensively throughout the second half of the year. **The strong decline of investment in the second half of 2016 exceeded their significant growth in the first**

half and determined their contraction trend for the year overall. Nevertheless, the decline in investment last year was marginal, by 0.9%, against a contraction by 8.7% in 2015. Its small decrease came exclusively from the large fall in stocks, since the formation of fixed capital did not change overall. As the contraction of investment in 2015 also came almost exclusively from the change in stocks, investment in fixed capital stood at €21.1 billion for the third year in a row.

In the external sector of the economy, the expansion of exports continued in the final quarter of last year, to a smaller extent than in the previous quarter (5.7% against 11.0%). **The rise in exports between July and December of last year by 8.3% was not enough to offset their decline by 10.4% in the preceding half of the year. As a result, exports declined in 2016 by 1.5%, for the first time since 2009,** following their increase the year before by 3.1%. The small decline of exports came mainly from the extensive contraction of the exports of services in the first half, by 23.5%, which set their trend for the year overall (-7.3%). The exports of goods increased by 3.0% in 2016, despite the capital controls. **Following their further expansion, the exports of goods reached a new all-time record, at least since 1960, in both absolute terms (€31.1 billion) and in terms of share in GDP (16.9%).**

The growth of imports also slowed down in the final quarter, from 13.8% to 3.0%. **Imports widened on average by 8.0% in the second half, exceeding their decline by 6.1% in the first half of the year, and leading to a marginal increase of 0.3% overall in 2016,** similar to 2015 (0.5%). After their new, slight increase, imports remained on an upward trend for the third consecutive year. Their growth came from stronger domestic demand for imported goods, by 3.3% on average. The domestic demand for foreign services significantly declined, compared to 2015 (-16.9%). **The slight increase of imports, combined with the marginal decline in exports, led to higher deficit of the external sector in national accounting terms for the first time in three years, by €1.2 billion (+39.1%), to €4.2 billion (2.3% billion of GDP).**

Recovery of the Greek economy in 2017, weaker than anticipated

The progress in the negotiations on the second review of the implementation of the third economic adjustment programme has remained at the centre of the political and economic developments domestically in the initial four months of 2017 as well. The review process is once again delayed, which has the same consequences as it has had in the past, such as the exacerbation of uncertainty in Greece and abroad about its outcome and the postponement of decisions by households and businesses until the new fiscal measures and reforms are finalised, developments with negative effects on economic activity. However, as the new fiscal measures will concern 2019 and

2020, as decided at the Eurogroup meeting on 7 April, no additional burden will arise for 2017.

The upcoming effects from the policies to be decided in the second review are expected to come from structural changes. The most important changes concern the labour market (collective bargaining, mass layoffs, the labour minister's veto on layoffs), which are not yet finalised. Regulatory reforms on engaging in economic activity in three sectors (food-beverages, tourist accommodation, restaurants-theatres-cinemas), in bankruptcy code and the new spatial planning, which have already been legislated, are also considered important. Their favourable effects are going to be felt if the politico-economic environment returns to normal, a development which is mainly related to the implementation of the Economic Adjustment Programme and the medium-term measures to reduce public debt.

The most significant negative effect of the prolonged negotiations is perhaps the postponement of the decision on the integration of Greece into the quantitative easing mechanism of the European Central Bank (ECB), which was extended until the end of 2017. As repeatedly pointed out in previous IOBE quarterly reports, the entry of Greece in the quantitative easing mechanism will significantly strengthen the liquidity of the banks and stimulate the confidence in their financial health. For the time being, despite the continuing capital controls, deposits continue to decline, mainly due to the uncertainty caused by the prolonged negotiation process. By the end of February, business and household deposits reached €119.1 billion, their lowest level since October 2001. The reluctance of the depositors is maintained by the delay of the possibilities to settle non-performing loans, including the out-of-court settlement mechanism.

The pressures in the availability of funds in the banking system has accelerated the credit contraction in the first two months of the current year. Once the review has been successfully completed and positive developments in the banking sector have taken place (quantitative easing, new governance), the deposits are anticipated to start growing, gradually, at a slow pace. As a significant increase in deposits is not expected over the rest of the current year, the proceeds from the eventual entry into the quantitative easing mechanism are likely to be used mainly to strengthen the capital adequacy of the banks, in view of the next regular pan-European stress test by the ECB in January 2018. Subsequently, no major changes to the provision of credit are anticipated. The credit contraction will continue, to a lesser extent, restricting further the sources of capital for businesses and household, with a negative impact on investment activity.

The difficulty of raising funds from the banking system faced by businesses was slightly mitigated by the significant acceleration of payments of arrears of the State to its suppliers. The disbursement of €3.5 billion exclusively for this purpose through the two loan sub-tranches associated with the first review of the current programme contributed decisively to this development. Arrear payments of €3.3 billion were made from July 2016 until the end of February.

Irrespective of the effects of the measures and the policies to be decided in the context of the current review, and the developments that may result from its completion, the fiscal measures adopted during the first review have affected households and businesses, mainly small and medium-sized enterprises and self-employed. The effect on the individuals include reduction of the tax credit, increase in social security contributions, further pension cuts, increase in VAT and certain excise duties, and imposition of new taxes. The increase in VAT also has an impact on the freelancers, which are also affected by higher progressivity of the profit tax rate and by changes in the calculation of the social security contributions. The new corporate income tax coefficients concern all legal persons and the legal entities with single-entry accounting books.

Regarding the developments in other fields that will have an effect on the momentum of the Greek economy in 2017, the delays in the implementation of the actions to make the new privatisation agency (Hellenic Corporation of Assets and Participations) operational, which are prerequisites for the current review, also affect the revival of investment activity. In addition, only 21% of the privatisation revenue envisaged for the current year, exclusively from activities of HRADF, comes from tenders to be implemented in 2017. That said, the higher number of privatisation deals in 2016, compared to the preceding years, will reflect in investment in the current year, but most likely towards its end, when the first of the these investment plans is going to be fully licensed. The under-execution of the Public Investment Programme, both in relation to the target and last year's implementation, mainly due to the low rate of absorption of EU funds, implies that the support that it provides to investment activity is going to be weak.

In the economy's external sector, the available data on the course of total imports and exports (goods and services) are not sufficient to predict their trend in 2017, as they concern only January. From the preliminary trends in exports and imports, a positive trend in exports emerges, primarily due to stronger foreign demand for services. The larger increase in imports, which exacerbated the balance of the external sector, highlights the needs of businesses and households for imports accumulated due to the capital controls, which they rush to cover after each relaxation round. Recall that the latest changes to the capital controls, concerning the international transactions, adopted in July 2016, favoured imports.

Regarding the exogenous to the Greek economy factors that may affect it in the current year, the developments and events in Turkey and Egypt strengthen the security concern in these countries, favouring the Greek tourist destinations.

Finally, the remaining for months at a very low level dry cargo transport fares affect shipping activity, which is reflected in the sharp increase in ship sales in early 2017, as evident from the balance of payments data. This impact is reflected in the latest data on international tourist bookings in Greece, which point to stronger year-on-year growth. After its growth in last autumn, the price of Brent oil has ranged between $52 and $56, without a further, steady positive trend. Therefore, the energy cost of the businesses does not seem to be affected notably by the curb of oil production that was decided at the International Energy Forum last September. The aggravated political and economic uncertainty in the Euro area, due to the contested elections in some of its countries, and the still impossible to predict Brexit effects, favour the outflow of capital. The anticipated expansionary fiscal policy by the new US administration and the adopted monetary policy constitute an attraction pole for capital, maintaining the exchange rate of the euro against the dollar at low levels, boosting the competitiveness of the Euro are goods and services.

Taking into account the trends in economic indicators, the latest politico-economic events (mainly those linked to the completion of the second review of the economic adjustment programme) and the anticipated developments for the forecasting of the GDP components and other macroeconomic indicators, the growth of **household consumption** of last year will carry over to this year, but at a lower rate. The boost to private consumption will mainly come from a further, weaker than in 2016, decline in unemployment, due to the increase in employment mainly in export-oriented Manufacturing, Tourism and Transport. The expansion of digital payments in order to take advantage of the income tax deduction, will expand official economic activity, boosting private consumption.

The fiscal measures taken in the context of the first review, particularly those that cause a reduction in disposable income, have inhibited the growth of private consumption, already since the final quarter of last year. For the freelancers, in particular, the negative impact on their income are going to be felt within 2017, as the measures were enforced since the beginning of 2017. **Taking into account the various factors that will have an effect on it this year, private consumption is expected to increase slightly, by 1.2%.**

Regarding **public consumption**, the prolonged second review of the third programme has led to its restraint. However, with the disbursement of the tranche linked to the second review, most (if not all) of the expenditure shortage is going to be covered. **Therefore, public consumption will most likely remain around or perhaps slightly below its level from last year.**

The tightness of the sources of funding for **business investment**, in both the private and the public sectors will constitute, for one more, its major impediment. The successful completion of the review will allow the assessment of the country's application to enter the ECB's quantitative easing programme, which will expand the relevant options. When this is achieved, it would be possible to strengthen the capital adequacy and the confidence of depositors and investors, in Greece and abroad, in the Greek banking system, which will boost the inflow of capital and thus the capability of banks to provide credit to businesses. As these developments are anticipated to take place in the second half of 2017, the credit policy of the banks and hence their support to investment, is not expected to change significantly. The upcoming stress tests by the ECB in early 2018 constitute one more factor that probably impedes the supply of credit from the banks.

The low absorption of EU funds for the co-financed part of the Public Investment Programme should accelerate in order to enhance the supply of investment funds by the public sector. If no progress is achieved in this field, the under-execution of PIP will carry over to the rest of the year, limiting its contribution to total investment. A boost of investment activity from action of the public administration will also come from the privatisation and concession deals completed in 2016. However, their impact is going to be limited, as in many cases their formal completion and the licencing of the investment plans are being delayed.

The progress achieved in implementing the reforms that are prior actions for the second review will also affect the investment climate. The most important of these reforms concern characteristics of the labour market. Changes in the regulatory framework of three sectors and the bankruptcy have already been legislated. However, the successive changes in the taxation of businesses and freelancers over the past two years, and the overall sense of volatility of the regulatory framework in Greece, continue to be a major deterrent in taking investment risk.

At the sector level, the steady growth in export demand favour the execution of investment in some of the Manufacturing branches, in Tourism and in Transport. As no changes are expected in the property taxation of households and businesses, the long-standing contraction of building activity is most likely to end.

The change in stocks is a technical factor which is expected to have a positive, possibly significant, impact on investment activity in 2017. **Taking into account the effects of various relevant factors, investment is expected to expand in the current year by about 10% to 12%, mainly due to investment in Manufacturing and Tourism, and the positive technical effect of the change in stocks.**

In the external sector of the economy, the international demand for most categories of services showed a steady, strong growth throughout the second half of 2016 and in early 2017, a trend that is expected to carry over to the rest of the year. In Tourism, the receipts might increase, provided that the early indications on international tourist bookings are confirmed. The opposing trends in the categories of product exports do not provide reliable indications on the evolution of their total for this year. However, **the strong positive momentum of the exports of services will likely lead to a growth of total exports by 5.0-5.5%.**

On the import side, the stronger domestic demand, its high correlation with the demand for foreign products and services and the impact of the capital control relaxation of last July, will lead to a considerably higher level of imports compared with 2016. **Taking into account the above trends in factors that affect the components of GDP, the growth of the Greek economy in 2017 is projected at around 1.5%, or perhaps a little lower than that.**

Significant overshot of the 2016 budget targets

According to the first **notification of fiscal data** from ELSTAT to Eurostat, as part of the excessive deficit procedure, the **primary balance of the General Government** was very **positive**, at about **€6.94 billion (or 3.9% of GDP)**, against a **target of €2.25 billion (or 1.3% of GDP)** in the 2017 budget. The overall **balance of the General Government** was also in **surplus**, by **1.3 billion (or 0.7% of GDP)**, for **the first time at least since 1995,** the first year with available data following the Eurostat methodology. The **corresponding estimate in the Budget** for the current year was of a **€3.8 billion deficit** (2.2% of GDP).

Among the **key sectors of General Government**, the **performance exceeded the estimates** for 2016 **in this year's Budget mostly in Central Government, where the deficit did not exceed €1.3 billion, against a projection for €3.9 billion. The performance of the Social Security Funds was notably better than anticipated,** as they achieved a surplus of €2.05 billion, against a projection for a deficit of €206 million. In the **Local Authorities the surplus overshot the target by €280 million**, to reach €572 million. The **interest expenditure** of the General Government **were lower than the projected €5.65 billion by €370 million.**

Execution of the 2017 State Budget: Worse than last year, yet better than the targets

The available provisional data on the State Budget execution in the first quarter of the year point to a **significant deterioration compared with 2016.** In particular, the SB **deficit** reached **€1,367 million, against €595 million in the corresponding quarter of 2016**. Meanwhile, the **primary surplus decreased by almost €800 million, to €1.07 billion**. That said, the performance in the first quarter is **slightly better against the set targets** for a deficit of €1,408 million and a primary surplus of €992 million. The **year on year**

deterioration of performance was exclusively due to lower revenues. The largest shortage, by €900 million, was observed in the **revenues of the Public Investment Programme**, due ot low absorption of EU funds. The net revenues of the Ordinary Budget were lower year on year by €180 million, **as a result of not collection €1.2 billion from the concession of the regional airports.** As this sum was collected in early April, the results for that month will reflect this development.

Further decline of unemployment in the current year, less strongly than in 2016

Unemployment continued to decline year on year in the final quarter of 2016. In particular, the unemployment rate decreased by 0.8 percentage points than in the same period of 2015, to reach 23.6%. That said, its decrease was clearly weaker than in the previous quarters of 2016, when it stood at one and a half percentage points on average. **After the new decline in the fourth quarter of the year, unemployment reached 23.5% of the labour force overall in 2016, 1.4 percentage points lower than a year earlier. The average unemployment rate last year was the lowest of the last five years.** The strongest boost to employment on average in 2016 was recorded in Public Administration-Defence-Compulsory Social Security (+18,600 jobs or +6.0%), Transportation and Storage (+16,600 or +9.8%), Tourism (+15,600 or +4.8%) and Manufacturing (+13,200 or +3.9%).

The expected output growth in export-oriented Manufacturing activities, Tourism and Transport, which contributed to the decline of unemployment last year, will have a positive impact on employment in these sectors as well. Job creation, mainly linked to investment, is expected to benefit from the upcoming changes in the regulatory framework of the labour market. That said, changes in direct taxation and social security contributions of freelancers since the start of 2017 will lead, at least in the first instance, to a decline of employment in the relevant branches. The significant job creation from OAED programmes is likely to continue. Recently, the employment of almost 23.000 beneficiaries in municipalities has begun under a public benefit programme run by OAED. Through another program, 3.150 long-term unemployed are going to be employed in the Health Sector. **Under the simultaneous influence of the above factors, unemployment will decline further in 2017, for the fourth consecutive year. However, its decrease is going to be a little weaker than last year, by slightly more than a percentage point (to 22.2%).**

Price growth in 2017, mainly due to higher oil price and indirect taxes

The Consumer Price Index (CPI) increased by 1.4% in the first quarter of 2017, for the first time in four years, while a year earlier it was falling by 0.9%. The rising international oil price, together with the increase of the excise duty on petroleum products, gradually since the final quarter of last year until the beginning of the current year, are the most likely causes of the inflation return. Their impact is reflected in the rise in prices in the first three months of this year in Housing and Transport, recording the highest inflation rate among the CPI constituent categories (+6.8% and 3.8% respectively). The increase in the excise duty on tobacco and cigarettes and the imposition of a levy on fixed telephony and coffee have also exerted inflationary pressures since January, as evident from the trends in the corresponding categories of goods and services. **The impact of the factors that led to price growth in the first quarter of 2017 will carry over to the rest of the year. As a result, the Consumer Price Index will increase in 2017, for the first time in four years, by about 1.5%.**

As a result, **higher international oil prices and increases in indirect taxes will eliminate the deflation of the previous four years, leading to an increase in the General Consumer Price Index in 2017 by 1.5%.**

Arrears of the Public Sector: Evolution, structure and effect on public finances

Part of the public debate, since the start of the fiscal crisis in Greece, has focused on the evolution of arrears of the public sector. Their size affects both the credibility of the Public Sector and the liquidity of the businesses that book these arrears as receivables.

Chapter four starts with the definition of arrears of the public sector. Then, it examines their impact on public finances, namely the General Government balance and debt.

The legal framework on the monitoring of the arrears of the public sector is also presented. Finally, the chapter contains an analysis of their trend and composition (per category of public bodies).

2. Economic Environment

2.1 Trends and Prospects of the World Economy

The Global Environment

The growth of the world economy remained weak in 2016, yet the economic conditions improved in the second half of the year. The GDP of the OECD member states increased year on year by 2.0% in the fourth quarter of 2016, compared with 2.1% in the preceding quarter of the year, while the rate of growth in the first three quarters had stood at 1.7%. In the G7 economies, the average growth rate in the final quarter of 2016 reached 1.8%, higher than in the first quarters of 2016 and in the corresponding quarters of 2015.[1] The significant shocks during the first six months of the preceding year, such as the turbulence in the Asian capital markets and the strong volatility and uncertainty arising from the UK referendum, weakened somewhat in the second half of the year, driven by other factors, such as the fiscal expansion in major economies, and the price growth in many commodities, which pushed up income in developing economies. As a result, the initial forecasts improved.

Among the developed countries, the growth rate in the United States improved steadily after the first quarter of 2016. In the last quarter, the GDP growth rate stood at 2.0%, against 1.9% in the corresponding quarter of 2015. In the Euro area, the growth rate remained constant at 1.8% in late 2016, unchanged quarter on quarter, but lower year on year (2.0% in the last quarter of 2015). In the United Kingdom, the potential consequences of Brexit do not seem to have had a negative impact on growth, as the growth rate stood at 1.9% in the last quarter of the preceding year, from 2.0% in the first quarter and 1.7% in the fourth quarter of 2015. Regarding the developing economies, China maintained a growth rate close to 6.8% in late 2016 for a consecutive quarter. During the same time period, the growth rate in India stayed constant for the second quarter in a row at 7.2%, lower compared to 2015 (7.7%). Brazil continued to be in a state of recession until the end of 2016, yet its intensity was lower than in the preceding year; at 2.5% against 5.8%. Finally, in Turkey the initial prediction about a recession in the third quarter of last year, turned into marginal growth (+0.7%), which accelerated to 3.4% in the following quarter.

According to the latest estimates of the IMF for 2016 overall, the growth rate of the world economy remained unchanged at 3.1%. The previous estimate for 2017 of past January was marginally revised up to 3.5%, from 3.4%, while further small boost is expected in 2018 (3.6%). The

[1] Source: Quarterly National Accounts - Quarterly Growth Rates of real GDP, change over previous quarter: http://stats.oecd.org/index.aspx?queryid=350

initial forecasts for 2017 in the developed economies slightly improved, as the rather cautious estimates due to the numerous sources of uncertainty in early 2016 were confirmed in part and as a result they performed slightly better than expected in the second half of 2016, which will carry over to the current year. In the developing economies, the growth rate forecast for 2018 was upped slightly as well.

In particular, the GDP is expected to increase by 2.0% in 2017 and 2018 in the developed economies, faster compared with the earlier estimates for 2017. The list of the countries with the largest positive revision of the growth rate includes the UK, Japan and Spain, while the outlook also improved in the three largest Euro area economies (Germany, France and Italy).

The growth of the developing countries of Asia is expected to remain at 6.4% in 2017 and 2018, with a slightly more positive forecast for 2018, due to a more positive outlook on the Chinese economy. That said, India will surpass China in growth terms, as initially anticipated. The emerging and developing countries of Europe are expected to see a growth in GDP of 3.0% in 2017, which is slightly lower than predicted in January. Yet, a slight increase to 3.3% is expected in 2018. Faster growth in comparison to the predictions given in January and October is expected in the Commonwealth of Independent States, as a result of the trends in the Russian economy. The oil price rise in the fourth quarter is expected to benefit the Russian economy and result in its growth by 1.4% for the following two years, in contrast to the recession of 0.2% recorded in 2016. The growth forecasts for the Middle Eastern and North African countries worsened by 0.5 points compared to the initial prediction (2.6%). Similarly, the predictions about the economies of sub-Saharan African deteriorated, resulting in a growth rate forecast for 2017 of 2.6% as well.

The volume of world trade expanded by 2.2% in 2016, against an earlier estimate of 1.9%, yet at a lower rate than in 2015 (2.7%). The improvement in the volume of world trade came as a result of the developing countries experiencing an expansion of 2.4% compared to 2.0% predicted earlier this year. The rate of growth of world trade is expected to strengthen significantly in 2017 and 2018, to 3.8% and 3.9% respectively.

As stated above, two opposing trends characterised the prospects of the world economy in 2016. In early 2016, uncertainties stemming from turmoil in the capital markets of Asia and the forthcoming UK referendum led to unfavourable predictions. In the second half of the year, these predictions eased from an increase in demand, mainly for investment. Furthermore, trade and manufacturing improved as well. The direct economic effects of the referendum were rather transient. Moreover, calm returned to the Asian capital markets. At the same time, the decrease in investments in the petroleum extraction industry, together with the decision of the members of OPEC to limit the production of oil, led to oil price growth. As a result, income in the oil-producing countries strengthened. The prices of basic commodities also moved in the same direction, strengthening further the emerging and developing economies.

The combination of the factors stated above led, by the end of 2016, to an improvement of the predictions concerning the world economy, with their positive impact carrying over to the current year. Regarding the challenges that the world economy faces in the current year, the underutilised production capacity, low productivity and high inequality remain significant sources of instability. At the same time, the factors that worked in favour of world trade, such as low fuel prices and interest rates, free trade, stronger global value chains and financial deepening, are expected to have no contribution or even follow the opposite trend. More specifically, a protectionist approach from big economies such as the USA and UK, a stronger than expected increase in the US interest rates and upward trend in oil prices could potentially dampen the expansion of world trade over the coming period.

In greater detail, regarding the outlook of the major world economies:

The growth rate of the US economy is estimated to have reached 1.6%, while growth is anticipated to strengthen in 2017 and 2018 to 2.3% and 2.5% correspondingly. The positive climate formed since mid-2016 due to improvements in stocks, strong expansion of consumption and expectations for expansionary fiscal policy will be conducive to growth over the medium term. In the coming period, high interest rates might inhibit the growth momentum, while in the long term the growth of the American economy is expected to weaken due to aging population and falling productivity.

In Japan, the growth rate estimate for 2016 was revised to a higher level at 1.0%, as a result of taking into account new data. Net exports rose more than expected, which was also conducive to a higher growth rate in 2016. The positive contribution of net exports is expected to carry over in 2017, with an estimated growth rate of 1.2%. However, growth is expected to weaken after 2017, as according to what we know so far the fiscal expansion will expire while imports will recover, offsetting investment during the preparation for the Olympic games.

In China, the growth rate reached 6.7% in 2016, as result of favourable conditions in the second half of the year, when the concerns caused by the financial market earlier in the year eased. The positive momentum is expected to carry over to 2017, backed by expansionary economic policy in terms of credit and investment growth. However, in the medium and long term, the Chinese economy will remain in partial disequilibrium due to its transition to a new growth model that is less dependent on exports and pays more attention to services and domestic demand.

In Russia, the recession ended in 2016, as the economy is expected to return to growth in 2017, at a rate of 1.4% in 2017 and 2018. The rise in oil prices, already since the fourth quarter of 2016, together with the increase of domestic demand due to strengthening economic sentiment, were the key drivers of this development.

The World Economic Climate indicator[2] of IFO strengthened in late 2016 and early 2017, having weakened in mid-2016. In particular, the balance of responses about the world economic climate returned to positive territory in the first quarter of 2017, after five consecutive quarters of negative values, reflecting the positive conditions that emerged in mid-2016. The assessment of the current economic situation remained negative (-9.1 points), but with a steady improvement since the second quarter of 2016. In the expectations sub-index, the positive responses dominated in the first quarter of 2017 (+15 points), forming a positive outlook for the coming period.

In the Euro area, in particular, the positive balance of the index increased spectacularly to 17.2 points, reflecting the positive developments in the labour market and the acceleration of inflation, which is approaching the ECB target of about 2%. In the assessment of the current economic situation, the balance reached 8.0 points, from 2.3 points in the final quarter of 2016, gaining further distance from its negative value in the second quarter of last year that came with the uncertainty caused by the UK referendum. Finally, the expectations sub-index dragged up the overall economic sentiment, growing significantly to 26.9 points, from 14.3 points in late 2016 and only 3.0 points in the third quarter.

The Economies of the EU and the Euro Area

The growth of the economies of the EU and the Euro area, in particular, was stronger than anticipated in 2016. The GDP in the EU increased by 1.9% last year, in contrast to predictions for GDP growth of 1.8%, while in the Euro area it expanded by 1.7%. Several factors, such as employment growth, low oil prices despite their increase in late 2016, low exchange rate and moderately expansionary fiscal policy in certain countries, contributed to this positive development. These factors allowed for the upward revision of the growth expectations already since mid-2016, while the growth momentum is expected to carry over to the current year. However, the EU as well as the Euro area remain in a state of uncertainty not only as a result of the impact from the Brexit during its implementation, but also due to the coming elections (e.g. in France) that have an effect on the economy.

[2] Since early 2017, the IFO expectations indicators are based on the balance of positive and negative responses. Meanwhile, there are still no recent data on regions other than the Euro area.

Table 2.1

Global Environment – IMF, World Economic Outlook
(Annual % change, in real values)

	2016	2017	2018
GDP			
USA	1.6	2.3	2.5
Japan	1.0	1.2	0.6
Emerging Asia	6.4	6.4	6.4
of which China	*6.7*	*6.6*	*6.2*
India	*6.8*	*7.2*	*7.7*
AESEAN-5	4.9	5.0	5.2
Euro area	1.7	1.7	1.6
Emerging and developing Europe	3.0	3.0	3.3
Commonwealth of Independent States (CIS)	0.3	1.7	2.1
of which Russia	*-0.2*	*1.4*	*1.4*
The Middle East and North Africa (MENA)	3.9	2.6	3.4
Latin America	-1.0	1.1	2.0
of which Brazil	*-3.6*	*0,2*	*1,7*
Sub-Saharan Africa	1.4	2,6	3,5
World economy	**3.1**	**3,5**	**3,6**
World Trade			
Volume World Trade (goods and services)	**2.2**	**3.8**	**3.9**
Exports – Advanced Economies	2.4	4.0	4.0
Exports – Emerging & Developing Economies	1.9	4.5	4.3
Imports – Advanced Economies	2.1	3.5	3.2
Imports - Emerging & Developing Economies	2.5	3.6	4.3

Emerging Asia: East Timor, Vanuatu, Vietnam, India, Indonesia, Cambodia, China, Malaysia, Thailand, Philippines, Kiribati, Laos, Malaysia, Maldives, Myanmar, Mongolia, Bangladesh, Bhutan, Brunei, Nepal, the Marshall Islands, Solomon Islands, Federated States of Micronesia, Palau, Papua New Guinea, Samoa, Sri Lanka, Thailand, Tonga, Tuvalu, Philippines, Fiji
AESEAN-5: Vietnam, Indonesia, Malaysia, Thailand, Philippines
The Middle East and North Africa: Egypt, Algeria, Morocco, United Arab Emirates, Jordan, Iraq, Iran, Qatar, Kuwait, Lebanon, Libya, Mauritius, Bahrain, Oman, Saudi Arabia, Soudan, Syria, Yemen, Djibouti, Tunisia
Sub-Saharan Africa: Angola, Ethiopia, Ivory Coast, Gabon, Equatorial Guinea, Cameroon, Kenya, Congo, Maurice, Botswana, Namibia, Nigeria, North Africa, Uganda, Cape Verde, Seychelles, Swaziland, Tanzania, Chad, etc.
Source: World Economic Outlook, IMF, April 2017

Table 2.2

IFO – World Economic Climate (Balances)

Quarter/Year	**I/15**	**II/15**	**III/15**	**IV/15**	**I/16**	**II/16**	**III/16**	**IV/16**	**I/17**
Economic climate	5.6	8.8	2.4	-5.7	-7.5	-4.0	-7.1	-1.2	2.6
Assessment of economic situation	-5.5	-3.9	-15.5	-18.1	-14.7	-17.9	-17.2	-15.4	-9.1
Economic expectations	17.3	22.3	22.0	7.6	-0.1	11.0	3.7	14.1	15.0

Source: IFO, World Economic Survey, WES, No. 01/ February 2017

Table 2.3

IFO – Economic Climate in the Euro area (Balances)

Quarter/Year	**I/15**	**II/15**	**III/15**	**IV/15**	**I/16**	**II/16**	**III/16**	**IV/16**	**I/17**
Economic climate	4.4	24.3	18.9	16.9	13.2	6.5	4.5	8.2	17.2
Assessment of economic situation	-29.2	-4.4	-1.0	3.9	1.6	-2.6	6.0	2.3	8.0
Economic expectations	44.5	57.3	40.8	30.8	25.5	16.1	3.0	14.3	26.9

Source: IFO, World Economic Survey, WES, No. 01/ February 2017

Regarding the GDP components, public and private consumption gave a boost to growth in both the EU and the Euro area in 2016. On the other hand, the contribution of investment and net exports to growth weakened. It is important to note that 2016 was the first year after 2009 where there was no negative growth rate of GDP in any EU country. The highest rates of growth were observed in Ireland (5.2%), Malta (5.0%) and Romania (4.8%). In contrast, Italy (0.9%) and France (1.2%) had low rates of growth. The GDP of the Greek economy essentially remained unchanged.

The key leading indicators of economic activity in the Euro area and the EU, such as the index €-COIN[3], increased in the second half of 2016. This increase confirms the positive climate that was reflected in the growth rates. The increase of the index continued in the first quarter of 2017, to reach 0.72 points on average, from 0.47 points in the last quarter of 2016 and 0.43 in the corresponding quarter of the previous year.

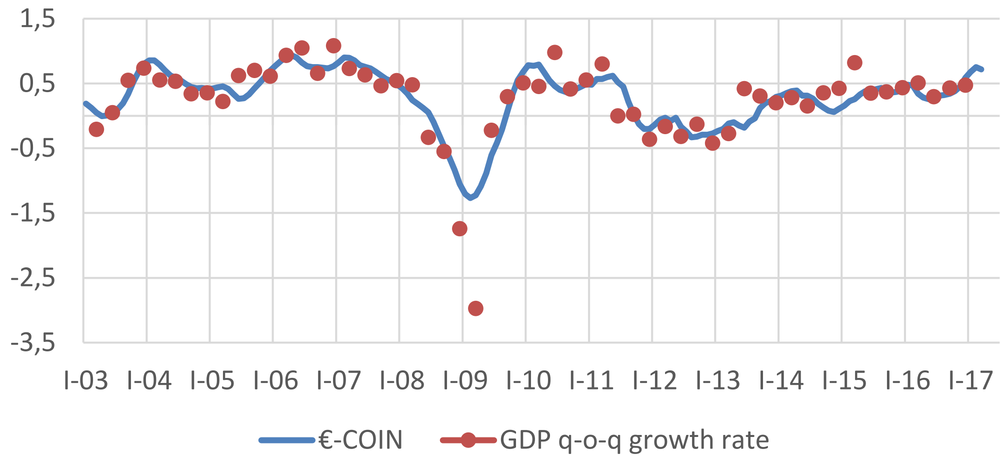
The economic sentiment indicator of the European Commission has also improved since the end of 2016. It stood at 108 points in the EU and the Euro area in the first quarter of 2017 which is higher than the corresponding levels of last year. During the first three months of 2017 the index remained almost unchanged, at higher levels year on year. In greater detail, the economic sentiment indicator in the European Union stood at 109.1 points in March, almost unchanged from February, but significantly higher year on year (from 104.5 points). In the Euro area, the economic sentiment indicator stood at 107.9 points, slightly lower than in February, but higher than in March of 2016 (102.9 points). The marginal decline in the Euro area between February and March was a result of a small decrease in industry and construction and a significant drop in services, which was partly offset by stronger consumer confidence. At the country level, the sentiment improved month on month in Croatia (+3.7), Luxembourg (+3.2%) and Cyprus (+2.2%), while it deteriorated most in Slovakia, Spain and Bulgaria.

More comprehensive information about the key economic indicators that drive the formation of the GDP of the Euro area and of the EU, as well as their potential trends in the upcoming time period, is presented below in this chapter. In particular, we outline the latest data of 2016 and the anticipated trends for 2017 and 2018, as presented in the latest forecasts of the European Commission.

[3] The Centre of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Euro area. 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.

Figure 2.1

Monthly Index €-COIN of CEPR



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

Table 2.4

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

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
EE-28	106.6	105.2	104.5	105.0	105.5	105.5	104.6	103.7	105.4	106.8	107.2	109.0
Euro area	105.0	103.9	102.9	103.9	104.5	104.3	104.4	103.4	104.8	106.3	106.5	107.8

Month	Jan-17	Feb-17	Mar-17	Apr-17	May-17	June-17	July-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
EE-28	108.6	108.9	109.1									
Euro area	107.9	108.0	107.9									

Source: European Commission (DG ECFIN)

According to Eurostat data for 2016 in total, **private consumption** in the EU increased by 2.3%, compared to an initial estimate at 2.1%. In 2017 and 2018, it is expected to grow by 1.8% and 1.6% respectively. In the Euro area, private consumption increased by 1.9% in 2016, against an initial estimate of 1.7%. It is expected to grow by 1.5% in both 2017 and 2018. Employment growth was one of the factors that contributed to the strengthening of private consumption. According to the annual report of the European Central Bank (ECB), the increase came from expansion of employment rather than wage growth. Among the EU countries, private consumption increased strongly in Romania (7.4%), Lithuania (5.6%) and Hungary (5.0%). In contrast, once more private consumption saw only a slight increase in Belgium and Luxembourg, by 0.7% and 1.0% respectively.

Table 2.5

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

	EU-28			Euro area		
	2016	2017	2018	2016	2017	2018
GDP	1.9	1.8	1.8	1.7	1.6	1.8
Private Consumption	2.3	1.8	1.6	1.9	1.5	1.6
Public Consumption	1.9	1.4	1.3	2.0	1.4	1.4
Investment	2.3	2.9	3.1	2.8	2.9	3.4
Exports of goods and services	2.8	3.5	3.8	2.7	3.3	3.7
Imports of goods and services	3.5	3.9	4.1	3.3	3.8	4.3
Employment	1.3	0.8	0.8	1.3	1.0	1.0
Unemployment (% labour force)	8.8	8.1	7.8	10.0	9.6	9.1
Inflation	0.3	1.8	1.7	0.2	1.7	1.4
Balance of General Government (% GDP)	-1.9	-1.7	-1.6	-1.7	-1.4	-1.4
Debt of General Government (% GDP)	85.1	84.8	83.6	91.5	90.4	89.2
Current Account (% GDP)	2.1	1.9	1.9	3.6	3.2	3.1

Source: European Economic Forecast, Winter 2017, European Commission

Public consumption strengthened in the European Union and the Euro area. In the EU, it increased by 1.9% while its growth rate is expected to weaken to 1.4%-1.3% in the next two years. In the Euro area, public consumption increased by 2.0%, which represents its highest growth rate in 7 years. In 2017 and 2018, it is expected to increase by 1.4% each year. The EU countries with the largest increase are Ireland (+5.0%), Romania (+4.5%) and Germany (+4.5%). In contrast, public consumption declined in Malta (-3.1%), Greece (-2.1%) and Cyprus (-1.4%). In Greece, public consumption has been in constant decline for the last 7 years.

Investment in the EU and the Euro area increased by 2.3% and 2.8% respectively, but the overall rate of growth was lower than the EC autumn forecasts. For the next two years, investment is anticipated to grow by close to 3% or higher. In 2016, investment increased significantly in Ireland (+46.2%), Cyprus (+14.3%) and Sweden (+6.1%). In contrast, contraction of investment was recorded in 11 countries, with the highest in Lithuania (-8.5%) and Hungary (-5.0%).

The **exports** of goods and services strengthened in 2016 by 2.8%, as opposed to the prediction last fall of 3.0% growth. Meanwhile, exports in the Euro area grew as predicted, by 2.7%. The forecasts for the EU and the Euro area for 2017 remained unchanged at 3.5% and 3.3% respectively, while the 2018 projections significantly weakened, reflecting an assessment of world trade contraction due to protectionism. The strongest export growth, by 8.4%, was recorded in Poland, followed by Romania (8.3%). In contrast, exports declined in Greece (-2.0%) and increased weakly in Finland (0.5%) and France (1.2%).

Imports increased by slightly more than exports in 2016, with their growth rate reaching 3.5% in the EU and 3.3% in the Euro area. The growth of imports is expected to strengthen by 2018 to 4.1%

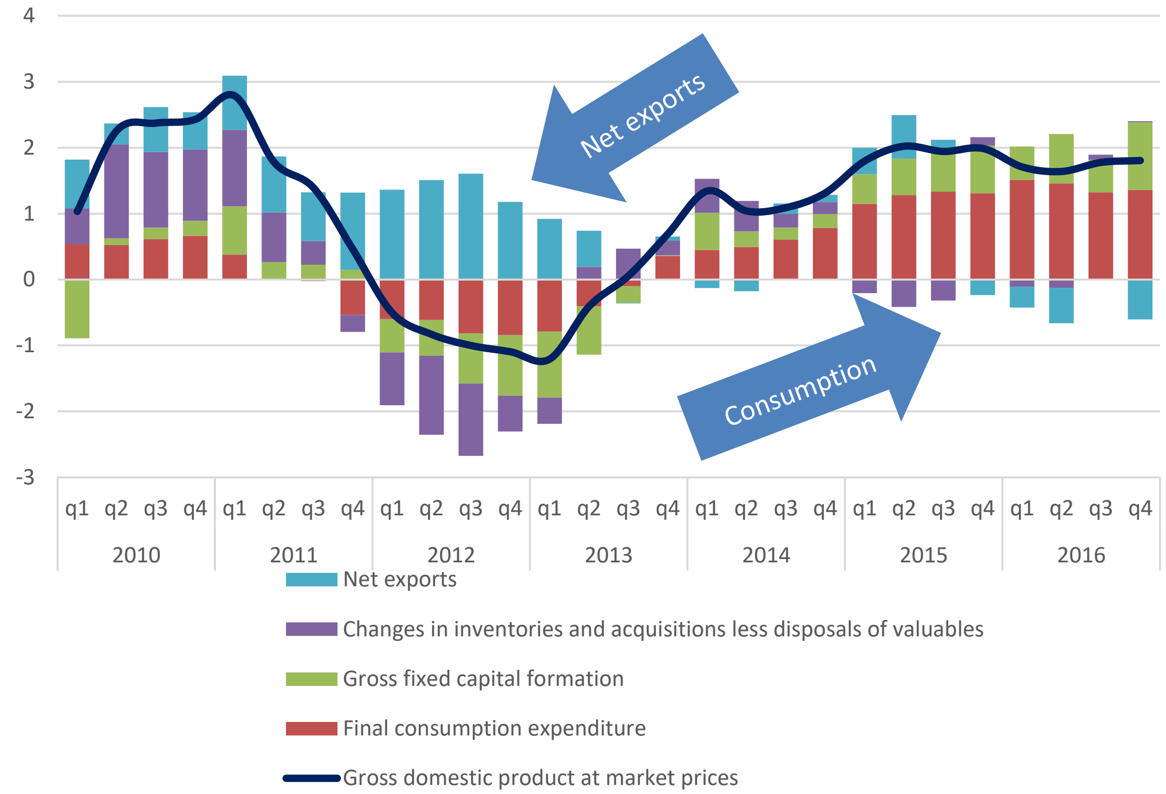
and 4.3% respectively, lower than anticipated earlier. The strongest import growth was recorded in Ireland (10.3%) and Romania (9.8%) while a slight decline by 0.4% was recorded in Greece.

Judging from the trends in the GDP components for the Euro area between 2010 and 2016, all components contributed to the recovery of the Euro area from the global economic crisis in 2008, up until 2011, while in 2012 net exports were the main GDP growth driver. However, gradually from 2014 and quite strongly in 2015, private and public consumption became the key growth drivers in the Euro area, while net exports had a negative contribution during that period. During those two years, fixed capital investment had a positive contribution to growth, boosting the growth model focused on domestic demand. The shift in the growth drivers from the external sector to domestic demand is considered to come from both internal and external developments. The internal developments include income growth due to employment expansion and the strengthening of public expenditure in big economies like Germany. At the same time, the volume of international trade weakened significantly.

In 2016, **harmonised inflation** strengthened to 0.3% in the EU and to 0.2% in the Euro area. In 2017, it is expected to increase to 1.8% and 1.7% respectively. In other words, inflation is anticipated to approach the target set by the European Central Bank (1.8%-2.0%). Both the quantitative easing programme and the increase in oil prices since late-2016 contributed to this development. In 2016, the highest inflation rate was recorded in Belgium (1.8%) and Sweden (1.1%). In contrast, deflation was witnessed in 10 countries, with the highest rate observed in Bulgaria (-1.3%) and Cyprus (-1.2%). In the first quarter of 2017, the inflation rate in the EU and the Euro area stood at 1.8%. Higher inflation, at around 3.0%, was recorded in Latvia, Estonia, Belgium and Lithuania. Low inflation was recorded in Ireland and Romania, at 0.4%.

Figure 2.2

Analysis of the GDP components of the Euro area



Source: Eurostat

Employment increased at a lower rate in 2016 than initially predicted by the European Commission, at 1.3% in both the EU and the Euro area. The rate of employment growth is anticipated to weaken further to 0.8% in the EU and to 1.0% in the Euro area in 2017 and 2018. Significant employment growth was recorded last year in Malta (3.7%), Luxembourg (3.0%), Ireland, Spain and Cyprus (2.7% in all three). In contrast, employment declined in Romania (-0.9%) and Latvia (-0.1%). According to data from the Labour Force Survey of Eurostat, the unemployment rate declined in 2016 in the EU and the Euro area to 8.8% and 10.0% respectively. Meanwhile, it is expected to decline further in the next two years to 7.8% and 9.1% respectively.

The **fiscal performance** improved in both regions, as the general government deficit declined in 2016 to 1.9% in the EU and 1.7% in the Euro area, from 2.0% and 1.8% respectively a year ago. The deficits is expected to decline to 1.6% in the EU and 1.4% in the Euro area until 2018. In 2016, public debt decreased to 85.1% of GDP in the EU and 91.5% of GDP in the Euro area, while further improvement is anticipated until 2018.

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 remained unchanged in the first quarter of 2017, compared with the fourth quarter of 2016. As the second review of the Economic Adjustment Programme is ongoing, the enterprises essentially seem to keep a stance of wait-and-see, with minor exceptions. Even though parts of the real economy follow their own momentum, the uncertainty in the domestic politico-economic environment and the persistently tight credit conditions, given that the assessment of the entry of Greece in the quantitative easing programme is still pending, have an impact on expectations. On the consumer side, the change in the calculation of the social security contributions of freelancers and farmers since the beginning of 2017 has put an additional burden on their financial situation. Overall, the uncertainty caused by the delay of the review of the programme and the delay of any positive effects that could come from the completion of the review, mainly in terms of better liquidity conditions, have an effect on the economic environment. In particular:

The Economic Sentiment Indicator in Greece remained almost unchanged quarter on quarter in the first quarter of 2017. On average, it varied around 93.8 points (from 94.1), up year on year (from 90.6 points).

In Europe, the corresponding indicator increased quarter on quarter in the examined period both in the EU and in the Euro area. In particular, the economic sentiment indicator in the first quarter of 2017 totalled 107.9 points on average (from 106.9 in the preceding quarter) in the Euro area and 108.9 points (from 107.8) in the EU.

At the sector level, the business expectations in Greece improved quarter on quarter in the first quarter of the new year in Construction and, to a lesser extent, in Industry. In contrast, business expectations worsened in Services and Retail Trade. On the demand side, consumer confidence deteriorated. Year on year, the indicators increased on average in Industry and Services and decreased in Construction, while consumer confidence also deteriorated. Retail trade remained relatively stable. In greater detail:

The Consumer Confidence indicator in Greece averaged -71.8 points in the first quarter of this year (from -65 points in the preceding quarter), lower year on year as well (from -67.5 points). Compared to the EU other countries, the Greeks are by far the most pessimistic consumers. The corresponding European indices improved slightly quarter on quarter in the examined quarter in both the Euro area (to -5.3 from -6.4 points), and the EU (to -4.6 from -5.6 points). Year on year, the performance improved in both the EU and the Euro area (from -8.3 points in the EU and -6 point in the Euro area).

The quarter-on-quarter trends in the components of the overall index are mostly negative in the current quarter. 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 worsened. The unemployment expectation and the intent to save worsened as well.

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 75% (from 72%), with 23% (from 27%) believing that their economic situation would remain unchanged. The percentage of Greek consumers holding negative expectations about the economic situation of the country also increased to 83% (from 78%), with 10% (from 13%) believing that it would stay the same. Regarding the intention to save, the percentage of households not likely to consider making any savings in the next 12 months increased to 93% (from 90%). Concerning the unemployment expectations, the percentage of those foreseeing that the situation would deteriorate remained at 77%, while on average 5% (from 7%) expressed the opposite opinion. The percentage of consumers who reported to be "running into debt" increased to 16% (from 13% in the corresponding quarter of last year), while the percentage of respondents who declared to be saving little or a lot stood declined to 6% (from 9%). Lastly, the percentage of those reporting that they were "just about managing to make ends meet on their income" stayed at 62-63% and the percentage of households reporting that they were "drawing on their savings" increased to 15% (from 12% the fourth quarter of 2016).

The Business Climate Indicator in **Industry** totalled 92 points in the first quarter of the year (from 91.1 in the preceding quarter), slightly higher year on year (from 90.6 points). Concerning the key economic activity indicators, the short-term production forecast indicator doubled quarter on quarter in the current quarter to an average of +18 points, while the assessment of the number of orders and the level of demand declined to -24 (from -19). The expectations index concerning the stock of finished goods slightly increased to +13 from +12 points. In the remaining economic activity components, the trends for export-related variables remained mixed. The expectations for exports in the next quarter improved, while the assessments on the current level of exports and the assessment for the number of orders and demand from abroad slightly deteriorated. The average quarterly balance of employment expectations improved to +2 (from -6 points), performing better year on year as well (from -5 points). The industrial capacity utilisation rate declined to 68,2% (from 69.6%), up year on year as well (from 65.9%). Finally, the months of production accounted for by the order book of the companies increased to 4.2 (from 3.9 months last year).

The Business Climate Indicator in **Retail Trade** significantly declined in the current quarter to 94 points (from 99.5 the preceding quarter), coming closer to its level from the same quarter of last year (93.6 points). Concerning the key components of the index, the average assessment of current sales declined to +9 (from +14) points. The percentage of the companies in the sector reporting growth of sales increased to 45%, with 36% (30%) reporting the opposite result. The index for expected sales decreased to +10 (from +19) points, while the index for inventories increased to +8 points (from +4) points. Regarding the remaining activity indicators, the balance of expected orders from suppliers declined (to -4 from +7 points on average). In contrast, short term employment expectations strengthened to +22 (from +11) points. Finally, the balance of price expectations slightly declined this year to +6 (from +8), with 7% (from 5%) of the companies expecting price deflation and 80% (from 82%) expecting prices to remain stable.

In all the constituent branches, the business sentiment deteriorated in the first quarter of the year, except for Textiles-Clothing-Footwear, and Vehicles – Spare Parts.

The business expectations in **Construction** improved in the first quarter of 2017, with the index totalling 52 (from 48.1) points on average. That said, the index declined compared to last year (68 points). Regarding the components of the index, the employment expectations improved by 2 points on average, with the index reaching -50 points, as about 57% (from 60%) of the businesses were expecting job losses. In contrast, the expectations of the businesses about their order book became less pessimistic (with the index at -51 from -56). The assessment of the businesses of their current level of activity improved in the current quarter, with the index increasing to -21 (from -32) points. The months of activity accounted for by work in hand reached 8.1 (from 8.4). The negative balance of price expectations eased by 3 points, reaching -28, with 34% (from 39%) of the businesses expecting a reduction in the short term and 6% (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 stood at 6-7%, while among the remaining businesses, 29% selected as the major obstacle low demand, 42% insufficient funding and 17% factors such as the general economic situation of the country, the capital controls, high taxes, lack of projects and late payments by the state.

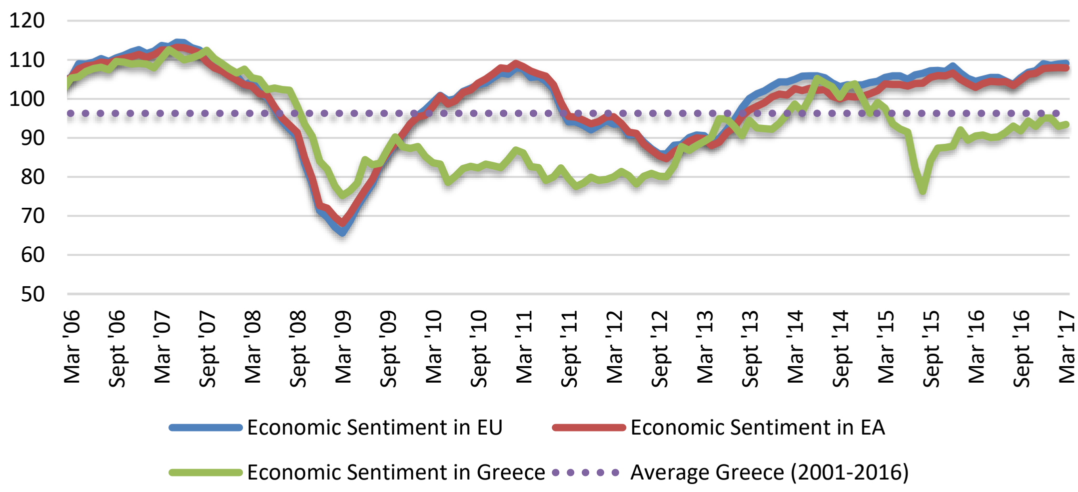
At the branch level, the stronger business sentiment in the sector in the current quarter came from Private Construction (with the index growing to 76.2 from 78.5 points on average) and Public Works (to 37.6 points from 33 points on average).

In **Services,** the Business Climate Indicator declined in the first quarter of 2017 to 77.9 points on average (from 82 the preceding quarter), higher compared to the corresponding quarter of the previous year (79 points). Among the basic components of the index, the assessment for current demand lost ground, with the indicator declining to -4 (from +4) points on average. The assessment of the current level of business activity also decreased (to -7 from +5 points on average). In contrast, the short-term demand expectations of the businesses of the sector slightly improved (to +2 from -3 points). Regarding the remaining activity indicators, the average balance of the employment expectations index improved (at -6 from -8 on average). The deflationary price expectations eased, with the index standing on average at -3 (from -10) points. Finally, the percentage of respondents, declaring that there were no significant obstacles to their business operation, ranged 21-22%, with 33% stating as the main obstacle to the proper functioning of their business insufficient demand, and 19% citing insufficient working capital. The remaining enterprises (21%) 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 deteriorated in the first quarter of the current year in all branches of Services, except for Financial Intermediaries, where the indicator increased.

Figure 2.3

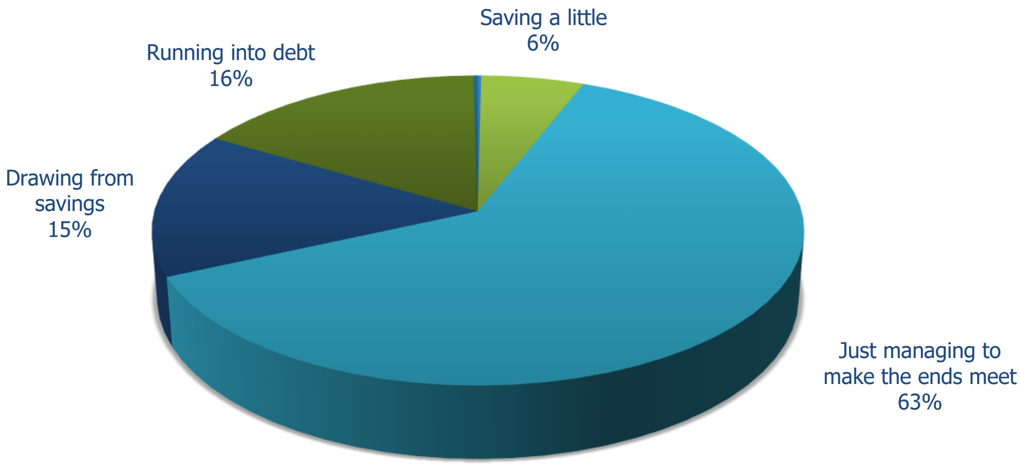
Economic Sentiment Indicators: EU, Euro area and Greece, (1990-2015=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.4

Consumer Survey data on the financial situation of households *(average of October – December 2016)*



Source: IOBE

Table 2.6

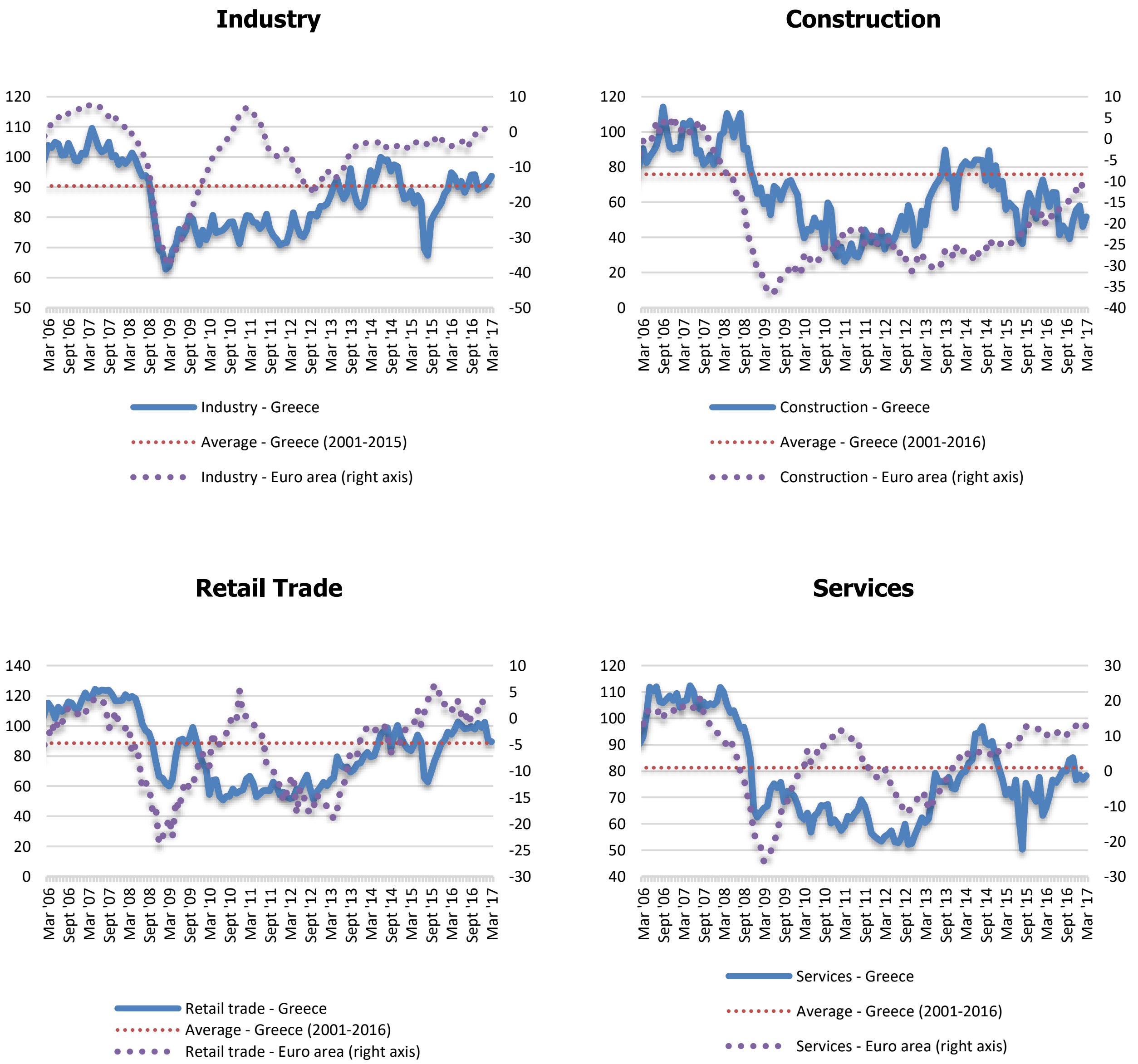
Economic sentiment indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU-27	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2002	97.3	96.8	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	101.6	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	100.5	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-741
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	106.2	104.2	89.4	81.9	56.4	81.0	70.6	-50.7
2016	105.9	104.9	91.3	91.3	55.7	98.0	76.1	-68.0
Q1 2016	105.5	104.0	90.2	90.7	68.0	93.6	69.0	-67.5
Q2 2016	105.5	104.3	89.9	91.9	62.9	100.2	74.3	-71.2
Q3 2016	104.7	104.3	91.6	91.1	43.9	98.6	79.3	-68.4
Q4 2016	107.8	106.9	93.6	91.2	48.1	99.5	82.0	-65.0
Q1 2017	108.9	107.9	93.8	92.0	52.0	94.1	77.9	-71.8

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

Figure 2.4

Business Climate Index



Source: IOBE

B) Fiscal developments and outlook

Execution of the 2016 State Budget, final data

The good revenue performance, both compared with 2015 and the initial targets of the 2016 budget, was the main feature of the State Budget (SB) execution in 2016. Already from the first half, the Ordinary Budget (OB) revenues before tax refunds had exceeded the target by €957 million. Yet, on an annual basis, the target overshot was limited to €748 million, due to several reasons discussed below.[4]

The excess of revenue, together with the collection of the second instalment of the current programme,[5] at €10.3 billion, significantly improved the cash liquidity of the State in the second half of the year. Despite this improvement, the expenditure of both the Ordinary Budget (OB) and the Public Investment Programme (PIP) were significantly restrained overall in the previous year. Indicatively, by the end of November, the OB expenditure fell below the target for the first eleven months by €2.3 billion. During the same period, only 51.0% of the investment support was disbursed, compared with 58.0% in 2015, despite the major cash difficulties of the State during that year. As a result, public investment was cut by €250 million in 2016, without any evident reason, to a lower level than in 2015 (Table 2.6).

The restraint on expenditures, together with the over-performance of income, created a very positive result from the execution of the 2016 budget. The SB deficit reached only half of its budgeted level, while the primary surplus reached €4.4 billion, exceeding the corresponding target by €0.7 billion (Table 2.6).

The good performance at the State Budget level came as a result of both further increase in taxation and public investment decline. At the same time, for yet another year there were delays in the privatisation process, in the management of non-performing loans, in the entry of Greece into the quantitative easing mechanism. These are developments that hamper the recovery of the confidence in the financial system of the country and the normalisation of its operation. These factors affect negatively the growth prospects of the economy and hence its fiscal consolidation.

The outperformance of the fiscal targets at the SB level ensures the meeting of the targets at the level of the General Government[6] as well, in national accounting terms in 2016. However, the existing fiscal policy mix (tax hikes instead of a permanent reduction and rationalisation of expenditure), the delay in the privatisation and the reforms and the procrastination with the resolution of the problem with the non-performing loans, undermine the return of the economy to a path of growth. However, the lack of growth puts in danger the fiscal consolidation itself.

[4] The monthly targets are indicated in the Introductory Report of the 2016 Budget, Table 3.20, p. 97.

[5] About €7.5 billion were collected in June 2016 and €2.8 billion in the autumn. Of this amount, €3.5 billion was envisaged to be spent on paying arrears of the State.

[6] Note, however, that there are significant pending issues with respect to about 150,000 pensions, which either have not been granted yet (about 55,000), or have been granted on a temporary basis (about 95,000) at a lower level than the permanent pensions.

Table 2.7

State Budget Revenues, Expenditures and Balance (€ million)

	2014	2015	2016 Budget	2016 November predictions	2016 Final	2017 Budget	% change		
							15/14	16/15	17E/16
I. SB Net Revenues	**51,367**	**51,421**	**53,527**	**52,352**	**54,038**	**54,411**	**0.1**	**5.1**	**0.7**
OB net revenues	46,650	46,589	49,107	47,976	49,860	50,256	-0.1	7.0	0.8
Revenues before tax refunds [1]	50,020	49,510	52,375	51,263	53,124	53,545	-1.0	7.3	0.8
Tax refunds	3,370	2,922	3,268	3,287	3,263	3,289	-13.3	11.7	0.8
PIP Revenues	4,717	4,832	4,420	4,376	4,178	4,155	2.4	-13.5	-0.6
of which: EU funds	4,649	3,900	4,170	4,196	3,861	3,975	-16.1	-1.0	3.0
II. SB Expenditure	**55,063**	**54,951**	**55,751**	**55,970**	**55,179**	**56,079**	**-0.2**	**0.4**	**1.6**
OB expenses	48,472	48,545	49,001	49,220	48,891	49,329	0.2	0.7	0.9
Primary expenses [2,3]	42,902	42,744	43,071	43,619	43,314	43,779	-0.4	1.3	1.1
Interests	5,569	5,800	5,930	5,600	5,577	5,550	4.1	-3.8	-0.5
PIP Expenses	6,592	6,406	6,750	6,750	6,288	6,750	-2.8	-1.8	7.3
III. SB Balance (I-II)	**-3,696**	**-3,530**	**-2,224**	**-3,618**	**-1,140**	**-1,668**			
% GDP	-2.1	-2,0	-1.3	-2.1	-0.7	-0.9			
OB Balance	-1,822	-1,956	106	-1,244	970	927			
PIP Balance	-1,875	-1,574	-2,330	-2,374	-2,110	-2,595			
IV. SB Primary Balance	**1,873**	**2,270**	**3,706**	**1,983**	**4,437**	**3,882**			
% GDP	1,1	1,3	2.1	1.1	2.5	2.2			
GDP (current prices)	177,941	175,697	174,438	174,908	175,888	180,817	-1.3	-0.1	2.8

1. Includes the revenues from granting of licences and rights
2. Includes military procurement, called guarantees and disbursement fee to EFSF. **Does not include** expenditure for the repayment of arrears of the state to the amount of €3.5 billion in 2016.
3. For comparability reasons, the called guarantees are recorded on a "net basis" for all years, while GAO records them on a gross basis since 2017. For this reason, the 2017 expenditure and revenues are lower than the GAO totals by €207 million and €118 million respectively.

Sources: Introductory Report 2017 Budget, Ministry of Finance, November 2016, and State Budget Execution Monthly Bulletins, December 2016 and February 2017, GAO

SB account and primary surplus

According to the latest data for 2016, the SB had a deficit of €1,140 million or 0.7% of GDP, compared to a €3,530 million deficit in 2015 and an initial target of a €2,224 million deficit. Correspondingly, the SB primary surplus totalled €4,437 million (or 2.5% of GDP), compared to the initial target of €3,706 million (or 2.1% of GDP). The deficit came exclusively from the PIP, as the OB had a surplus (Table 2.6).

The overachievement of the targets came mainly from: a) a restraint on the SB expenditure by €462million; b) outperformance of the OB revenues by €749 million, exclusively due to the excess of the tax revenues against the target by €2,753 million; and c) the decrease of interest expenditure by €353 million, due to a decline in the European interest rates. The latest development did not come as a result of actions by the Greek authorities and can change at any time. In contrast, the OB primary expenditure exceeded the initial target by €243 million. Therefore, it is clear that the positive outcome came as a result of higher taxes, public investment cuts and lower interest rate expenditure. The performance of revenues, in particular, was much better than the set targets. However, the targets were achieved with measures such as higher direct and indirect taxation. These measures are quite likely to reduce the likelihood of a steady, fast growth of the Greek economy, which is necessary for the viability of public finances as well.[7]

OB revenues

The good performance of revenues, both against the monthly targets and in comparison with 2015, was a very clear trend since the beginning of the year, strengthening in the second half. The outperformance of revenues against the initial targets came mainly from income tax collection, taxes from previous years, VAT and the participation of the public sector in the very high profits of the Bank of Greece.

The revenue increase came as a result of: (a) the tax measures taken between July 2015[8] and June 2016, (b) the collection of ad-hoc non-budgeted revenues,[9] (c) the increase of payment card use after the imposition of capital controls[10] and (d) the intensified tax audits in the summer of 2016.

[7] According to a recent OECD study, Greece was the country with the largest taxation increase (including social security contributions) among all OECD countries in 2016 (Source: Taxing Wages 2017).

[8] The 2015 measures had a full-year annual impact from 2016.

[9] As analysed below, this essentially concerns non-tax revenues.

[10] Bank of Greece, 2016 Monetary Policy Intermediate Report, December 2016, pp. 109-112.

Table 2.8

State Budget Revenue (€ million)

Revenue Categories	2014	2015	2016	2017 Budget	% Change		
					15/14	16/15	17/16
1. SB Net Revenues	**51,367**	**51,421**	**54,038**	**54,411**	**0.1**	**5.1**	**0.7**
2. OB net revenues	**46,650**	**46,589**	**49,860**	**50,256**	**-0.1**	**7.0**	**0.8**
Tax refunds	3,370	2,922	3,263	3,289	-13.3	11.7	0.8
3. OB revenue	**50,020**	**49,510**	**53,124**	**53,545**	**-1.0**	**7.3**	**0.8**
Direct taxes	20,464	19,758	21,839	20,415	-3.5	10.5	-6.5
--Income tax	12,207	12,093	13,379	13,659	-0.9	10.6	2.1
--Property tax	3,474	3,180	3,604	3,132	-8.5	13.3	-13.1
--Direct taxes	1,928	1,700	1,765	1,291	-11.8	3.8	-26.9
--Other direct taxes	2,855	2,785	3,091	2,393	-2.5	11.0	-24.5
Indirect taxes	23,776	23,773	25,680	26,443	-0.0	8.0	3.0
--Transaction taxes	14,224	14,254	15,540	15,985	0.2	9.0	2.9
(of which VAT)	(13,618)	(13,629)	(15,010)	(15,476)	(0.1)	(10.1)	(3.1)
--Consumption taxes	8,702	8,760	9,033	9,547	0.7	3.1	5.7
--Indirect taxes	469	450	753	549	-4.1	67.3	-27.1
--Other indirect taxes	381	310	354	362	-18.6	14.2	2.3
Non-tax revenues*	5,780	5,979	5,605	6,687	3.4	-6.3	19.3
--Receipts from the EU	196	428	415	523	118.4	-3.0	26.0
--Non-ordinary revenue	1,817	1,825	804	618	0.4	-55.9	-23.1
(of which: ANFA, SMP)	(580)	(291)	(375)	(345)	(-49.8)	(28.9)	(-8.0)
--Permits and rights	384	254	106	2,044	-33.9	-58.3	1828.3
--Other	3,383	3,472	4,280	3,502	2.6	23.3	-18.2
4. PIP Revenue	**4,717**	**4,832**	**4,178**	**4,155**	**2.4**	**-13.5**	**-0.6**

Sources: Introductory Report 2017 Budget, Ministry of Finance, November 2016, and State Budget Execution Monthly Bulletins, December 2016 and February 2017, GAO

* For comparability reasons, the revenues are reduced by €118 million in 2017 and €126 million in 2016, as the called guarantees are recorded on a net basis.

Note that the composition of OB revenues is significantly different from what was initially set in the budget. In particular, two of the non-tax revenue categories, revenue from the granting of licences and revenue from the holding of Greek sovereign bonds by the Euro area central banks, were short of the target by €3,012 million, which was offset by the increase in tax revenues (Table 2.7).

In 2016, the revenues from direct taxation increased by 10.5% compared to 2015, reaching €21.8 billion. Compared to the initial target, the revenues were higher by €1.8 billion[11] (Table 2.7).

This positive development came largely from higher receipts from income taxes on legal entities by 37.1% compared to 2015, which totalled €3,969 million (against the target of €2,945 million), depriving, however, working capital from the enterprises. The increase was due to higher tax coefficient and the large increase in the advance tax payment requirement. In addition, the receipts from

[11] Even against the revised target set in November 2016, the direct tax revenues outperformed by €1.1 billion.

legal entities include receipts from the liquidation of Olympic Airways.

The revenues from income taxes on individuals increased by 4.5% compared to 2015, exceeding the initial target by €337 million. This result came from the introduction of a new tax scale for income received from 1/1/2016, which had an effect on withholding tax, decreased the income tax credit and increased the advance tax payment for certain tax-payer categories (e.g. farmers, freelancers). These changes were implemented with Law No. 4387/2016.

The revenues from property taxes increased by 13.3% year on year, to reach €3,604 million. This increase came as a result of collecting an additional instalment of the single property tax (ENFIA) in 2016 compared to the previous year. In addition, its tax base widened, while the collection from the first instalment was much higher than in the past, as more taxpayers paid the tax in full with the use of credit cards. Lastly, the threshold of the complementary tax (in terms of total property value) was reduced to €200,000, from €300,000 (Table 2.7).

The collection of direct taxes of previous years increased by 3.8%, exceeding the set target by €385 million.

Finally, the receipts from other direct taxes increased by 11.0% to reach €3,091 million, exceeding the initial target by €250 million. This increase came from higher receipts from the solidarity contribution levy, due to the increase of its coefficients. Furthermore, the receipts received a boost from the widening of the base of the luxury tax and the business tax collections.

Indirect taxation followed a similar trend, as its revenues increased by 8.0%, reaching €25.7 billion, thus exceeding the initial target[12] by €942 million. This increase came mainly from higher receipts of tobacco and alcohol taxes and from indirect taxes of previous years (Table 2.7).

In particular, the receipts from VAT increased by 10.1% to reach €15.0 billion, compared to the initial target of €14.4 billion. This increase came as a result of: (a) transfer of many goods and services from the reduced (13.0%) to the standard rate in July 2015 (23.0%); b) increase of the standard rate from 23.0% to 24.0% since 1 June 2016; c) abolition of the VAT rate discount in specific islands; d) the wider use of electronic means of payment.

The revenues from excise duties increased by 3.1% compared to 2015, totalling €9,033 million. Yet, they fell short of the target by €69 million. Their failure to reach the target came from the excise duty on fuels, which declined by 2.0% year on year, falling short of the target by €31 million. In contrast, an increase came from the excise duty on tobacco products, where the revenues increased by 5.5% year on year, meeting the set target. This increase most probably came from the fact

[12] The revised target, set in November 2016, was also exceeded, by €572 million.

that the tobacco companies increased their stock in anticipation of the change in the package from June 2016 and the increase in taxation from January 2017. The receipts from the excise duties on alcohol also increased significantly, by 21.5%.

The revenues from indirect taxes of previous years increased significantly by 67.3% compared to 2015, reaching €753 million, while the initial prediction was for only €385 million. This increase came from VAT of previous years[13] and most probably is due to the forced collection measures.

Finally, the non-tax revenues decreased by 6.3% compared to the previous year. Additionally, non-tax revenues fell short of the set target by €2.0 billion. The loss of revenues came from two income categories. First, the receipts from the gains of the central banks holding Greek sovereign bonds (ANFA and SMP programmes) were limited to €375 million, coming exclusively from the Bank of Greece, against a target of €1,691 million.[14] Second, the receipts from permits and rights did not exceed €106 million, against a target of €1,802 million. This difference came mostly from the delay in collecting the concession fee of the regional airports (approximately €1.2 billion), which finally took place in April 2017. The revenue shortage of these two categories was offset by the increased revenue from the participation of the Hellenic Republic in the profits of Bank of Greece, which reached €775 million (against a target of €350 million), by higher withdrawals from EU funds and by extraordinary, non-budgeted revenues from the restructuring of the Hellenic Civil Aviation Authority.

OB Expenditure

In 2016, the OB expenditures increased by 0.7% year on year, to reach €48.9 billion, yet this amount is lower than the expenditure target (€49.0 billion) by €110 million (Table 2.8). The expenditure restraint came exclusively from interest payments, as the primary expenditure exceeded the target. Note that primary expenditure includes the ad-hoc expenditure of €630 million, spent as handout to pensioners with low main pension. In greater detail, the primary expenditure increased by 1.3% compared to 2015, to reach €43.3 billion, exceeding the target by €243 million (Table 2.8). The largest category of primary expenditures – salaries and pensions – declined by 3.6% compared to the preceding year. This reduction was largely artificial, as from January 2016, the funds for call duties of doctors and other hospital expenses of about €321 million[15] were transferred from "wages" to "other operating expenditure" (Table 2.8.). Moreover, the payments for

[13] That is, VAT liabilities incurred prior to 2016

[14] The third loan facility agreement envisages the Greece will not receive each year the ANFA's and SMP's revenues, nor will it enter the corresponding amounts in its budget, as was the case during the second programme. An exception is made for the funds coming from the Bank of Greece. Perhaps, these revenues would be settled against a reduction of the public debt, if considered necessary, and when such a decision is made. In this regard, the entry of these amounts in the 2016 Budget raises reasonable questions. It should be stressed that only €345 million, coming from the Bank of Greece, are entered in the 2017 budget, as envisaged in the third loan facility agreement.

[15] Estimated from Table 3.9 (p. 67) of the Introductory Report of the 2017 Budget.

the staff of the national emergency services EKAB was moved from "wages" to "transfers to other entities." It is estimated that if the 2016 figures are made comparable to those of previous years, then the expenditure restraint falls from 3.6% to 1.0%. Part of this restraint comes from payments of pensions, which declined by 0.5% year on year, as a result of interventions in the social security system in May 2016 (Law No. 4387/2016 - Table 2.8). Social spending increased by 7.0% to reach €14.0 billion, exceeding the target by €1,402 million. This increase is mainly seen in the grants to social security funds that increased by 6.7% and exceeded the goal by €1,213 million. This development came from non-budgeted payment of €630 million for the assistance of pensioners with low pensions and from grants to EFKA of about €580 million for the payment of public sector pensions in January 2017. The increase of social protection expenditure by 12.4%, exceeding the target by € 219 million, also contributed to the growth of social spending (Table2.8).

The operational expenditures declined by 1.7%, totalling €7,984 million, marginally below the target (by €15 million).

In contrast, payments from earmarked revenues increased by 16.5%, within the set target (16.8%). These payments, concerning exclusively transfers to the local authorities, returned to their long-term trend, following their significant drop in 2015.

Finally, interest payments decreased by 3.8% to €5,577 million, against a target of €5,930 million. This restraint came from a significant decrease in the interest rates in the European markets throughout 2016, together with the fact that a large part of the public debt has flexible interest rates.

Note that, €3.5 billion arears of the State were repaid due to contractual obligations, but this amount is not included in the cash expenditure of the OB.[16] The funds came from the second tranche, after the completion of the first review of the third programme and was thus accounted for in the public debt directly. The arrears rapidly increased in the first half of 2016, reaching €6.1 billion by the end of June (excluding tax refunds).

[16] Introductory Report, page 64.

Table 2.9

State Budget Expenditure (million €)

Expenditure category	2014	2015	2016	2017[4]	%change		
					15/14	16/15	17/16
1. State Budget Expenditure	**55,063**	**54,951**	**55,179**	**56.079**	**-0.2**	**0.4**	1.6
2. Ordinary Budget Expenditure	**48,472**	**48,545**	**48,891**	**49.330[4]**	**0.2**	**0.7**	**0.9**
Interest	5,569	5,800	5,577	5,550	4.1	-3.8	-0.5
Primary Expenditure	42,902	42,744	43,314	43,779	-0.4	1.3	1.1
--Salaries & pensions	18,478	18,740	18,066	12,337	1.4	-3.6	-31.7
Wages[1]	12,105	12,104	11,454	11,901	0.0	-5.4	3.9
Other allowances	280	288	297	273	2.9	3.1	-8.1
Pensions	6,093	6,348	6,315	124	4.2	-0.5	-98.0
--Social expenditure	12,971	13,099	14,017	18,587	1.0	7.0	32.6
Grants to Social Security Funds [2]	10,669	11,058	11,784	15,809	3.6	6.7	34.2
Social protection	1,813	1,486	1,670	2,216	-18.0	12.4	32.7
Grants to OAED	431	499	505	505	15.8	1.2	0.0
Other	58	56	58	57	-3.4	3.6	-1.7
--Operational and other [17]	8,157	8,118	7,984	8,736	-0.5	-1.7	9.4
Transfers	1,666	1,508	1,442	1,311	-9.4	-4.4	-9.1
Consumption	1,746	1,510	1,572	1,990	-13.5	4.1	26.6
Conditional	2,321	2,365	2,295	2,453	1.9	-3.0	6.9
Other[3]	2,424	2,735	2,675	2,982	128	-2.2	11.5
-- Earmarked revenue	3,295	2,787	3,248	3,119	-15.4	16.5	-4.0
--Reserves	--	--	-	1,000	--	-	-
3. PIP expenditures	**6,592**	**6,406**	**6,288**	**6,750**	**-2.8**	**-1.8**	**7.3**

Sources: Introductory Report 2017 Budget, Ministry of Finance, November 2016, and State Budget Execution

1. Since 2016 the expenditure for call-duty of doctors of the national health service and other benefits to hospital personnel have been transferred from the category "wages" to "other operating expenditure". Likewise, the payments to the staff of the emergency medical services EKAB were transferred to grants to other institutions. The total amount of these transfers is estimated at €400-450 million.
2. The 2016 figures include €630 million for the ad-hoc payment to pensioners with a low main pension.
3. Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees.
4. For comparability reasons, the 2017 expenditure is lower than the GAO total by €207 million, as the called guarantees are recorded on a "net basis" in the table, while GAO records them on a gross basis since 2017.

By the end of December, this amount declined to €3.3 billion. Note that the introductory report of the 2017 Budget stated that the disbursement began in July 2016 and is going to be adjusted according to the course of ESM funding.[18] Therefore, the repayment of arrears will largely depend on the funding from the European

[17]

[18] Introductory Report 2017 Budget, p. 36-37 and 69.

Stability Mechanism and not from ordinary revenue. Meanwhile, the introductory report also states that with the repayment of the arrears the economy receives invaluable liquidity,[19] with strongly positive effects on the real economy (liquidity boost, higher employment, improved macroeconomic performance).[20] Given that the significant positive effects of repaying arrears are acknowledged, this should be pursued with own state funds as well, to the extent that this is feasible.

Public Investment Programme

The PIP had a deficit of about €2.1 billion or 1.2% of the GDP in the examined period, which is €220 million less than the budget target. The deficit reduction came mainly from investment expenditure cuts. Both revenue and expenditure declined compared to 2015, lower than the budget forecast as well (Table 2.6).

In particular, PIP expenditure decreased by 1.8% compared to 2015, while towards the end of the year it fell short of the target, by €462 million.[21] Throughout 2016, the disbursements were both lower year on year and lagging behind the set monthly targets. The observed shortage and eventually cuts of investment, despite the fact that the cash position of the State was significantly stronger than in 2015, are hard to explain in economic terms. Due to the extensive under-execution, IOBE had noted that the PIP expenditure is quite likely to lag behind by the end of the year.[22]

The PIP revenues also saw a decrease by 13.5%, falling short of the 2016 budget target by €242 million.[23] This outcome came from weaker receipts from EU funds, which were less than expected by €309 million. Note that the receipts have followed a negative trend since 2014, remaining below €4.0 billion (Table 2.6). The decline in revenues from the EU and the investment expenditure cuts remain a puzzle, since that the primary target in Greece is the return to economic growth.

2017 Budget (January – March)[24]

The 2017 budget forecasts a significant further improvement in the fiscal indicators compared with last year.[25] This improvement is based firstly on the tax measures adopted in June 2016 and January 2017, and secondly on an optimistic macroeconomic scenario. In particular, the Greek economy is forecasted to grow by 2.7% in 2017, despite the strongly contractionary fiscal policy and the de facto restrictive monetary policy.

According to the 2017 Budget,[26] the conditions to achieve this ambitious

[19] Introductory Report, p. 20.
[20] Introductory Report, p. 56.
[21] The cuts took place in December, given that until the end of November, the annual forecast had remained at €6,750 million. See the State Budget Execution Monthly Bulletin November 2016, GAO, December 2016, Table 1A.
[22] IOBE, Quarterly Bulletin 4/16, vol. 86, January 2017, p. 55.
[23] The revenue was even short of the revised targets set in November, by €198 million.
[24] The analysis of the total figures is based on provisional quarterly results. However, the analysis of the revenue and expenditure components is based on the detailed data for the first two months, as the detailed data for the first quarter are not yet available.
[25] For a detailed presentation and analysis of the 2017 Budget, see IOBE, Quarterly Bulletin 4/16, vol. 86, January 2017.
[26] Introductory Report, pp. 27 and 28.

macroeconomic scenario are: a) consistent implementation of the new bailout programme; b) gradual relaxation of the capital controls; c) progress with the settlement of non-performing loans; and d) continuation of the consultations and gradual implementation of specific short-term, medium-term and long-term measures to reduce the public debt burden.

Even though the first quarter of 2017 has passed, none of the above targets have been achieved. Once more, the completion of the evaluation is being delayed, together with the corresponding prior actions, such as the finalisation of the legal framework for the extra-judicial settlement of non-performing loans. Moreover, the entry into the quantitative easing mechanism of the ECB is not feasible. The short-term public debt measures were finalised at the Eurogroup of 5 December, however the same cannot be said about the medium term measures. As a result, uncertainty has risen again. The bank deposit, which prevents the relaxation of the capital controls, is one of the effects of this. Mainly as a result of the above developments, the 2017 growth rate forecasts of various institutions are gradually being revised down, putting in danger the achievement of the fiscal targets. In addition, there are issues related to the revenues of the social security fund EFKA (e.g. finalisation of the social security contributions of freelancers) and the 150,000 pensions pending approval.

Unfortunately, as the available data concern a short time period, there are not sufficient to allow the drawing of credible conclusions on the course of fiscal indicators for the rest of the current year.

SB primary surplus and account

The available provisional data on the SB execution in the first quarter of the year point to a significant deterioration compared with 2016. In particular, the SB deficit reached €1,367 million, against €595 million in the corresponding quarter of 2016. Moreover, the primary surplus decreased to €1,068 million, from €1,863 million in 2016 (Table 2.9). That said, the performance in the first quarter is slightly better against the set targets.[27] The fiscal indicators will most likely improve further in April, given that €1.2 billion were collected in the beginning of the month from the concession of the regional airports.

However, the fact that total figures met the quarterly targets conceals significant deviations, both on the revenue and the expenditure side. In particular, the SB net revenues fell short of the target by €1,000 billion. The shortage came from the OB revenues (by €613 million), the PIP revenues (by €136 million) and the excess of tax refunds by €252 million. The OB revenue shortage was due exclusively to the delay in the collection of the regional

[27] The quarterly targets are: SB account deficit of €1,408 million and primary surplus of €992 million.

airports concession fee, which finally took place in April. The remaining revenues exceeded the target by €600 million, yet detailed quarterly data is not yet available in order to explain this development. Meanwhile, the SB expenditure fell short of the quarterly target by €1,042 million, which contributed decisively in the achievement of the SB account targets. The OB expenditure and the investment expenditure were restrained by €756 million and €285 million respectively.

In order to assess the OB expenditure restraint, the figures for the arrears of the State in March should also be known.[28] Note, however, that investment expenditure continues to decline, as the quarterly payments were limited to €366 million, their lowest level in five years.[29]

Note that the developments in the first quarter are transitory, as there are still no clear trends in the fiscal indicators. For example, the expenditure restraint is partly due to a significant decline in public investment. However, this trend will most likely be overturned in the following months. The PIP revenues in the first quarter were much lower year on year (-58.2%), yet they are budgeted to increase by 3.0% overall in 2017, which will also boost the corresponding expenditure.

Table 2.10

State Budget Execution: January-March 2017 (€ million)

	January- March			**% Change**	
	2015	**2016**	**2017**	**16/15**	**17/16**
Net SB revenues	12,020	12,498	11,415	4.0	-8.7
1. Net OB revenues	10,571	10,944	10,764	3.5	-1.6
α. OB revenues before tax refunds	11,367	11,706	11,778	3.0	0.6
β. Tax refunds	796	762	1,014	-4.3	33.1
2. PIP revenues	1,449	1,554	650	7.2	-58.2
SB expenditures	12,522	13,093	12,781	4.6	-2.4
3. OB expenditures	11,980	12,513	12,416	4.4	-0.8
α. Primary expenditures*	9,746	10,056	9,981	3.2	-0.7
Other (primary) expenditures*	-	544	192	-	-64.7
β. Interest payments	2,235	2,457	2,434	9.9	-0.9
4. PIP expenditures	542	580	366	7.0	-36.9
SB balance	-503	-595	-1,367		
% of GDP	*-0.3*	*-0.3*	*-0.8*		
SB primary balance	1,732	1,863	1,068		
% of GDP	*1.0*	*1.1*	0.6		
GDP (in current prices)	175,697	175,888	180,817		

Sources: State Budget Execution Bulletin January-February 2017, GAO, March 2017
* Includes military procurement, EFSF disbursement fee, called guarantees and debt assumption.

[28] These data are going to be made available in about a month.

[29] Quarterly expenditure - 2013: €479 million, 2014: €918 million, 2015: €542 million, 2016: €580 million and 2017: €366 million.

For these reasons and due to the short time period that the data cover, it is not possible to draw credible conclusions on the budget execution overall in the current year.

OB revenues

The OB revenues (before tax refunds) declined marginally, by 0.2%, year on year in the first two months of the year, to reach €8,630 million. Yet, they exceeded the corresponding target by €513 million (Table 2.10). Over time, 68% of the target overshot was achieved in January, while in February the receipts received a significant boost from €334 million ad-hoc revenues,[30] without which they would have fallen behind the monthly target. The revenues will strengthen significantly in April from the collection of the concession fee of the regional airports.

The revenues from direct taxes declined by 13.1% year on year, to reach €2,510 million. This development reflects the reduction of receipts by 45.6% from property taxes, coming from the fact that only one instalment of the ENFIA tax was collected so far in 2017, against two instalments in the same period of 2016.

The revenues from income taxes are higher by 2.5% year on year, which comes mostly from shipping tax receipts. The receipts from direct taxes of previous years also increased, by 11.7% (Table 2.10).

Table 2.11

State Budget revenues (€ million)

Revenue categories	January-February			% Change	
	2015	2016	2017	2016/15	2017/16
1. SB net revenues (2+4)	**7,790**	**9,623**	**8,343**	**23.5**	**-13.3**
2. OB net revenues	**7,293**	**8,101**	**7,985**	**11.1**	**-1.4**
Tax refunds	608	544	645	-10.5	18.6
3. OB revenues	**7,901**	**8,646**	**8,630**	**9.4**	**-0.2**
Direct taxes	2,751	2,888	2,510	5.0	-13.1
--Income taxes	1,354	1,290	1,322	-4.7	2.5
--Property taxes	683	766	417	12.2	-45.6
--Direct taxes of previous fiscal years	397	479	535	20.7	11.7
--Other direct taxes	318	353	236	11.0	-33.1
indirect taxes	3,784	3,988	4,237	5.4	6.2
--Transaction taxes	2,411	2,557	2,631	6.1	2.9
of which: VAT	(2,353)	(2,500)	(2,568)	(6.2)	(2.7)
--Consumption taxes	1,146	1,122	1,216	-2,1	8.4
--Indirect taxes of previous fiscal years	178	258	335	44.9	29.8
--Other indirect taxes	49	51	56	4.1	9.8
Non-tax revenues	1,366	1,768	1,883	29.4	6.5
-- Receipts from the EU	7	8	123	14.3	1437.5
--Non-ordinary revenue	420	450	424	7.1	-5.8
(of which: ANFA. SMP)	(291)	(375)	(345)	(28.9)	(-8.0)
--Permits and rights	0	12	34	--	183.3
--Other	939	1,299	1,302	38.3	0.2
4. PIP revenues	**496**	**1,522**	**358**	**206.9**	**-76.5**

Sources: State Budget Execution Bulletin January-February 2017, GAO, March 2017

[30] Beyond the €400 million envisaged in the budget.

In indirect taxation, the receipts increased by 6.2%, reaching €4,237 million. The excise duty receipts strengthened, as a result of coefficient hikes since 1 January 2017.[31] The revenues from the excise duty on fuels increased in the first two months by 19.2%, while the receipts from the excise duty on alcoholic drinks increased by 26.0%. In contrast, despite the increase of the coefficients, the receipts from tobacco taxes declined by 22.7%, due to the stockpiling that took place in early 2016. The VAT revenues increased by 2.7%, to €2,568 million. The VAT revenues from fuels were particularly higher (+59.3%), contributing decisively to the overall increase. In contrast, the VAT receipts from all other product categories[32] declined by 3.1%, despite the increase in the standard rate from 23% to 24% in June 2016,[33] and the heightened use of digital payments since January 2017. In addition, the revenues from indirect taxes of previous years increased by 29.8%.

Lastly, the non-tax revenues increased by 6.5% in the first two months, to reach €1,883 million, as a result of stronger withdrawals from EU funds and ad-hoc non-tax revenues. In addition, the receipts from the participation of the Hellenic Republic in the earnings of the Bank of Greece reached €734 million, against a forecast for €400 million revenues in the Budget[34] (Table 2.10).

OB expenditure

On the expenditure side, payments were significantly restrained in the first two months of the year, as in the two preceding years. In particular, the OB expenditure declined by 4.8% year on year, to €7,735 million, against an annual target of 0.9% growth. In addition, expenditure was lower than the two-month target by €835 million (Table 2.6 and 2.11).

The spending restraint concerned exclusively the primary OB expenditure, which decreased by 5.9% year on year, against a forecast for 1.1% growth overall in the current year. Against the target, primary expenditure was lower by €866 million. In contrast, interest payments were higher than the target, yet marginally lower than in 2016 (Table 2.11).

The spending category "salaries and pensions" declined by 33.7% due to the transfer, from 1/1/2017, of the public sector pensions to EFKA. In contrast, the wage payments increased by 2.0% year on year, albeit remaining short of the target by €74 million. However, social spending increased by 49.5%, as the grants to social security funds increased by 55.3%, so that EFKA can pay the public sector pensions. Nevertheless, the total social expenditure have remained so far below the target, by €276 million.

[31] The coefficients for heating oil had increased already from October 2016.
[32] Excluding fuels, tobacco and construction.
[33] This change provides a full-year result for the first time in 2017.
[34] These revenues are indicated in the subcategory "other" of the non-tax revenues of Table 5.

Operating and other expenditure declined strongly, by 24.2%, despite the assumption of €192 million debt of General Government bodies. Note that the debt assumption appeared for the first time as SB expenditure for the first time in the Introductory Report of the 2017 Budget[35], as expenditure concerning 2016, while no such item was budgeted for 2017.

Part of the restraint came from grants to hospitals, which were almost fully cut in the first two months of 2017 (only €4 million), from €156 million in 2016. Expenditure from ear-marked revenues declined as well year on year, by 15.1% (Table 2.11). Against the two-month target, the total of the ear-marked revenue and operating expenditure[36] was short by €423 million.

Note that due to the expenditure restraint in the first two months of the current year, the arrears of the Hellenic Republic increased by €474 million. This led to better SB results, without being the only improvement driver.

Table 2.11

State Budget Expenditure (€ million)

Expenditure Category	**January-February**			**% change**	
	2015	**2016**	**2017**	**2016/15**	**2017/16**
1. State Budget Expenditure	**7,984**	**8,488**	**7,909**	**6.3**	**-6.8**
2. Ordinary Budget Expenditure	**7,746**	**8,128**	**7,735**	**4.9**	**-4.8**
Interest	1,432	1,717	1,700	19.9	-1.0
Primary Expenditure	6,313	6,411	6,034	1.6	-5.9
--Salaries & pensions	3,103	2,986	1,980	-3.8	-33.7
Wages	1,984	1,902	1,940	-4.1	2.0
Other allowances	34	33	20	-2.9	-39.4
Pensions	1,085	1,051	21	-3.1	-98.0
Social Expenditures	1,946	1,913	2,859	-1.7	49.5
Grants to Social Security Funds	1,824	1,737	2,697	-4.7	55.3
Social protection	46	99	86	115.2	-13.1
Grants to OAED	75	75	75	0,0	0.0
Other	1	2	1	100.0	-50.0
--Operational and other	890	980	743	10.1	-24.2
Transfers	127	113	90	-11.0	-20.4
Consumption	79	51	27	-35.4	-47.1
Conditional	634	464	427	-26.8	-7.8
Other*	50	352	199	604.0	-43.5
of which: Debt assumption	-	186	192	-	3.2
--Earmarked revenue	374	531	451	42.0	-15.1
3. PIP expenditures	**238**	**360**	**174**	**51.3**	**-51.7**

Sources: State Budget Execution Bulletin January-February 2017, GAO, March 2017
* Includes transfers to cover deficits and arrears of hospitals, military procurement, EFSF disbursement fee and called guarantees and debt assumption of General Government bodies.

[35] Table 3.2, p. 57. The 2016 figures total €554 million.
[36] The monthly targets, indicated in the Introductory Report (Table 3.16, p. 95) show only the total of operating expenditure and ear-marked revenues, which was envisaged at €1,617 million, while the payments reached €1,194 million.

Public Investment Programme

The investment spending restraint also contributed to the significant SB surplus during the first two months of the year. In particular, the investment payments declined to €174 million, lower by 51.7% year on year and by 53.0% against the target of €370 million (Tables 2.9 and 2.11). Indicatively, investment payments in the first two months corresponded to only 28.7% of the corresponding disbursements in 2014 (€606 million). The PIP revenues, which came mostly from EU funds, reached €358 million, falling short of the target by €205 million. The large year-on-year reduction came mostly from very high receipts in the preceding year (Tables 2.8 and 2.9).

As a result of the above developments, PIP had a surplus of €184 million, against an annual deficit of €2,595 million in the Budget.

3. Performance and Outlook

3.1 Macroeconomic Developments

Recent macroeconomic developments in Greece

The Greek economy returned to recession in the final quarter of 2016, after the rise in GDP in the previous quarter. In particular**, GDP in the fourth quarter of last year fell by 1.1%,** after a climb by 2.0% in the third quarter and against an increase of 0.7% in the same quarter of 2015.[37] The sudden trend change between the quarters of the second half of last year confirms the interpretation given in the previous quarterly IOBE report on the GDP growth in the third quarter, namely that it came from a base effect, due to low GDP in the same quarter of 2015. **After the fall in the final quarter of 2016, the Greek GDP essentially remained unchanged overall in 2016 (-0.05%), against a marginal contraction in 2015 (-0.3%).** The year 2016 is the third consecutive year with a small year-on-year output change. As a result, GDP has remained at around €184 billion for a fourth year in a row and the Greek economy has been stagnant throughout this period.

The GDP contraction in the final quarter of 2016 came from the sharp decline in investment, due to both shrinking fixed capital formation and widespread decline of inventories. The investment decline was not offset by the much smaller than in the third quarter rise in private consumption. The weaker consumption growth came mainly from the effects of the new fiscal measures, which gradually came into force in the third quarter (higher social security contributions, higher personal income tax, pension cuts and higher indirect taxes). The gradual escalation of uncertainty regarding the course of the negotiations about the second review of the current Economic Adjustment Programme also contributed to this development. Contrary to what was expected, the restraint of public consumption strengthened in the final quarter of last year, contributing to a return to recession. Not even the small improvement in the external sector balance, due to stronger growth of exports than imports, prevented the GDP decline.

In greater details regarding the GDP components in 2016, **domestic consumption expanded by 0.6% year on year, against a small decline by 0.3% a year earlier**. Though small, the increase in consumption last year was the highest since 2009. The increase came solely from growing private consumption in the second half, by 3.5%, its highest growth since the first half of 2008. The strong household consumption expenditure during that period over-

[37] 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.

compensated their decline by 0.6% in the first half, resulting in a growth by 1.4% overall in 2016, also the highest growth rate since 2008, against a small contraction a year earlier (-0.3%). As highlighted in previous IOBE quarterly reports, the rise in private consumption in the third quarter of last year, which primarily contributed to its annual growth, came from its sharp contraction in the corresponding quarter of the preceding year. More broadly, the increase in digital payments has helped its expansion throughout last year. Public consumption expenditure was falling in all quarters of 2016, resulting in their reduction for the whole year by 2.1%, against no change in the preceding year.

Investment kept falling during the second half of the year, with their contraction staggering over time, to an average of 24.2%. Almost 90% of this decline came from stronger year-on-year contraction of inventories by €2.26 billion. The main component of investment, the formation of fixed capital, decreased by 2.3%. **The strong decline of investment in the second half of 2016 exceeded their significant growth in the first half and determined their contraction trend for the year overall. Nevertheless, the decline in investment last year was marginal, by 0.9%, against a contraction by 8.7% in 2015.** Its small decrease came exclusively from the fall in stocks, since the formation of fixed capital did not change overall. As the contraction of investment in 2015 also came almost exclusively from the change in stocks, investment in fixed capital stood at €21.1 billion for the third year in a row.

Regarding the trends in the fixed capital categories, **investment in mechanical equipment gained most last year, by 5.6%,** almost as the year before last (5.0%). Other construction followed, with 4.8%, which also had expanded by 5.0% one year earlier. The rise in other products was marginal, just 0.2%, against 2.0% growth in 2015. Investment expenditure declined in the other categories of fixed capital formation, with the strongest contraction for yet another year recorded in housing, albeit quite less than in the preceding year (-12.6% against -26%). The cumulative retreat in this category of fixed capital since 2007 exceeded 98.7%. In transport equipment, the fall reached 10.1%, slightly less than in the previous year (-11.5%). Investment in information and communication technology equipment, which in 2015 had the biggest increase (+6.8%), declined by 4.1%. The smallest fall was recorded for the second consecutive year in agricultural equipment (-1.4%, from -1.9%).

In the external sector of the economy, the expansion of exports continued for the second consecutive quarter, to a smaller extent than in the previous quarter (5.7% against 11.0%). As mentioned in the previous IOBE report on the Greek economy, the change in the export trend from contraction to growth came from the completion of a full year since the imposition of capital controls at the end of the second quarter of last year, which had

had an adverse effect on export activity since the third quarter of 2015. This effect was technically neutralized one year after their imposition. **The rise in exports between July and December of last year by 8.3% was not enough to offset their decline by 10.4% in the preceding half of the year. Consequently, exports declined in 2016 by 1.5%, for the first time since 2009,** following their increase the year before by 3.1%. An alternative assessment of the trend of export activity in 2016 could be done by comparing it with that in 2014, when the obstacles in the cross-border trade that capital controls create were not present. According to this approach, exports overall in 2016 were higher by 1.5% than in 2014.

As for the trends in the two basic components of exports last year, the exports of goods and services, and their impact on total exports, the small decline came mainly from the extensive contraction of the exports of services in the first half, by 23.5%. Their increase by 13.2% in the following six months moderated their decline overall in 2016 to 7.3%, yet the contraction trend strengthened compared to the year before (-2.7%). According to the balance of payments data of the Bank of Greece, the decline in the exports of services in the first half of 2016 was caused by sluggish demand for international transport and other services, while tourist receipts declined to a much lesser extent. The exports of goods increased by 3.0%, despite the capital controls. That said, their growth was notably weaker than in 2015 (8.6%). **Nevertheless, following their further expansion, the exports of goods reached a new all-time record, in both absolute terms (€31.1 billion) and in terms of share in GDP (16.9%). Both figures are the highest since at least 1960.**[38]

The positive effect from the technical cessation of the impact of the capital controls since the third quarter led to more moderate results in the following quarter on the **import** side as well. The growth of imports in the final quarter did not exceed 3.0%, from 13.8% in the previous quarter. **Imports widened on average by 8.0% in the second half, exceeding their decline by 6.1% in the first half of the year, and leading to a marginal increase of 0.3% overall in 2016,** similar to 2015 (0.5%). After their new, slight increase, imports remained on an upward trend for the third consecutive year. Their growth came from stronger domestic demand for imported goods, by 3.3% on average, similar to their increase the year before (+3.4%). Despite their strong growth in the second half (+19.9%), the imports of services declined by 16.9% than in 2015, due to their sharp contraction in the first half of 2016, by 31.2%. **The slight increase of imports, combined with the marginal decline in exports, led to higher deficit of the external sector in national**

[38] Based on data from the online database AMECO of the European Commission

accounting terms for the first time in three years, by €1.2 billion (+39.1%), to €4.2 billion (2.3% billion of GDP).

On the supply side, the domestic gross value added also remained almost unchanged (-0.1%), following its small reduction in 2015 (0.3%). The marginal increase in the second half of 2016 (+0.22%) did not fully offset the decrease in the previous half of the year (-0.4%). **Output increased in five sectors, albeit marginally so in some cases, declining in four sectors and remaining unchanged in one sector. In particular, the strongest output growth in 2016 was recorded in Industry (+1.6%), surpassing its small advance in the previous year (+0.2%).** Slightly weaker output growth was observed in Arts - Entertainment (+1.4%) and Construction (+1.3%), after a contraction in both sectors in 2015, by 3.5% and 1.2% respectively. A marginal increase was recorded in Real Estate and Public Administration – Defence – Compulsory Insurance – Education, by 0.2% in both sectors, while in 2015 the former had experienced the second largest rise (+1.2%) and output in the latter had declined by 1.5%.

In contrast, activity in Professional – Scientific – Technical – Administrative Activities declined by 4.2%, the strongest among all sectors, against an increase of 1.9% in 2015, the strongest increase that year. The decline in financial and insurance activities was less pronounced (-2.1%), yet it surpassed the growth recorded in 2015 (+0.9%). Productivity decline of 1.3% was recorded in Agriculture – Forestry – Fishing, following a 2.2% decline a year earlier. A slight decrease was recorded in Wholesale Trade – Retail Trade (-0.7%, from -0.6%). Finally, the activity in Information and Communication stabilised, after falling 1.2% in 2015.

Regarding the developments in the labour market in the last quarter of the previous year, unemployment continued to decline year on year, despite the activity contraction over the same period. In particular, the unemployment rate decreased by 0.8 percentage points than in the same period of 2015, to reach 23.6%. That said, its decrease was clearly weaker than in the previous quarters of 2016, when it stood at one and a half percentage points on average. **After the new decline in the fourth quarter of the year, unemployment reached 23.5% of the labour force overall in 2016, 1.4 percentage points lower than a year earlier. The average unemployment rate last year was the lowest of the last five years.**

The new decline in unemployment did not come from seasonal factors, as the year-on-year expansion of employment in Tourism was limited to just 0.6% or 1,800 jobs. Also, the significant contribution of Public Administration-Defence-Compulsory Social Security to the containment of unemployment in the previous quarters considerably, as the employment growth in the sector weakened to 4,900 jobs (or +1.5%). The further fall in unemployment came from strong employment growth in

Transportation and Storage (+16,200 or +9.6%), Manufacturing (+12,600 or +3.8%), Information – Communication (+8,300 or +11.1%) and Financial – Insurance Activities (+5,000 or +5.5%). In contrast, the strongest employment contraction was recorded in Professional, Scientific and Technical Activities (-12,900 or -6.1%), Other Service Activities (-10,100 or -3.6%), Agriculture – Forestry - Fisheries (-7,800 or -11.6%) and in Wholesale – Retail Trade (-7,200 or -1.1%), the leading sector in boosting employment in 2014 and 2015.

On average in 2016, the greatest employment growth occurred in Public Administration-Defence-Compulsory Social Security (+18,600 or +6.0%), Transportation-Storage (+16,600 or +9.8%), Tourism (+15,600 or +4.8%) and Manufacturing (+13,200 or +3.9%). The job losses were more pronounced in Agriculture–Forestry-Fisheries (-11,200 or -2.4%), Other Service Activities (-7,000 or -9.4%) and Professional-Scientific-Technical Activities (-6,900 or -14.6%).

The effects of the recession rebound in the final quarter of 2016, but above all the sharp drop in international oil prices, were reflected in the consumer price trends. Deflation weakened in the last quarter to 0.4% from 1.0% in the first nine months of last year. Last December, the price index remained unchanged year on year, for the first time in almost four years (February 2013). The main cause of the rapid deceleration of deflation, which resulted in price stagnation, is the opposite of the cause of its intensity in recent years: domestic fuel prices rose in the fourth quarter of last year, as a result of the rise in the international oil price and the increase in the excise duty on heating oil. This effect on the Consumer Price Index is reflected in the sharp change of the trend in the categories of goods – services “Housing” (+0.6%, from -4.4% in the first nine months) and “Transport” (+0.5%, from -3.7%). Note that in the categories of goods and services affected by the VAT increase in June, either the price growth weakened (“Hotels – Cafe – Restaurants”), or process declined (“Food– Non-alcoholic Drinks”). This development is seen as indicative of the significant weakening of household consumption demand, as reflected in the relevant national accounts data as well.

Summing up, the return of the recession in the Greek economy in the fourth quarter of 2016 confirms the analysis made in the same section of previous IOBE quarterly report on the significant GDP growth in the third quarter. It was pointed out that the growth came mainly from the low level of comparison in the same period of the preceding year, due to then politico-economic shocks, the bank holiday and the imposition of capital controls. Subsequently, the probability of a significant slowdown in the Greek economy in the final quarter of last year was high.

Table 3.1

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

Quarter	GDP		Final Consumption		Investments		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	**189,939**	**4.1%**	**165,194**	**2.8%**	**43,082**	**12.4%**	**43,475**	**23.2%**	**62,881**	**22,4%**
2001	**197,900**	**4.2%**	**171,610**	**3.9%**	**44,988**	**4.4%**	**42,934**	**-1.2%**	**62,128**	**-1,2%**
2002	**205,775**	**4.0%**	**179,618**	**4.7%**	**45,982**	**2.2%**	**39,834**	**-7.2%**	**59,990**	**-3,4%**
2003	**217,720**	**5.8%**	**187,088**	**4.2%**	**54,538**	**18.6%**	**39,530**	**-0.8%**	**64,442**	**7,4%**
2004	**228,136**	**4.8%**	**193,973**	**3.7%**	**54,182**	**-0.7%**	**46,681**	**18.1%**	**67,069**	**4,1%**
2005	**229,943**	**0.8%**	**200,678**	**3.5%**	**48,435**	**-10.6%**	**48,689**	**4.3%**	**68,668**	**2,4%**
2006	**242,775**	**5.6%**	**208,001**	**3.6%**	**59,922**	**23.7%**	**51,201**	**5.2%**	**77,729**	**13,2%**
2007	**250,471**	**3.2%**	**216,981**	**4.3%**	**64,995**	**8.5%**	**56,327**	**10.0%**	**88,891**	**14,4%**
2008	**249,878**	**-0.2%**	**221,550**	**2.1%**	**59,019**	**-9.2%**	**58,339**	**3.6%**	**89,842**	**1,1%**
2009	**239,119**	**-4.3%**	**219,961**	**-0.7%**	**43,182**	**-26.8%**	**47,711**	**-18.2%**	**71,697**	**-20.2%**
2010	**226,073**	**-5.5%**	**207,101**	**-5.8%**	**38,604**	**-10.6%**	**49,852**	**4.5%**	**69,230**	**-3.4%**
2011	**205,322**	**-9.2%**	**188,127**	**-9.2%**	**30,187**	**-21.8%**	**50,226**	**0.8%**	**63,464**	**-8.3%**
Q1 2012	48,515	-8.5%	45,249	-5.4%	5,555	-39.4%	12,725	2.1%	14,617	-9.3%
Q2 2012	47,737	-8.4%	43,665	-8.2%	5,917	-27.8%	12,358	-1.6%	14,221	-12.6%
Q3 2012	47,065	-7.9%	42,795	-9.4%	5,242	-27.8%	12,604	0.2%	14,330	-11.8%
Q4 2012	46,968	-4.3%	42,254	-7.1%	6,225	11.9%	13,060	3.4%	14,347	-3.3%
2012	**190,286**	**-7.3%**	**173,963**	**-7.5%**	**22,940**	**-24.0%**	**50,747**	**1.0%**	**57,515**	**-9.4%**
Q1 2013	46,007	-5.2%	41,652	-7.9%	5,984	7.7%	12,609	-0.9%	14,168	-3.1%
Q2 2013	46,069	-3.5%	41,739	-4.4%	5,036	-14.9%	12,896	4.4%	13,748	-3.3%
Q3 2013	46,229	-1.8%	42,190	-1.4%	5,273	0.6%	13,123	4.1%	14,390	0.4%
Q4 2013	45,940	-2.2%	42,223	-0.1%	4,369	-29.8%	12,679	-2.9%	13,271	-7.5%
2013	**184,245**	**-3.2%**	**167,804**	**-3.5%**	**20,661**	**-9.9%**	**51,307**	**1.1%**	**55,577**	**-3.4%**
Q1 2014	46,271	0.6%	42,032	0.9%	5,049	-15.6%	13,294	5.4%	14,171	0.0%
Q2 2014	46,080	0.0%	41,979	0.6%	5,322	5.7%	13,476	4.5%	14,981	9.0%
Q3 2014	46,583	0.8%	42,067	-0.3%	5,626	6.7%	14,363	9.5%	15,168	5.4%
Q4 2014	46,032	0.2%	41,964	-0.6%	5,517	26.3%	14,119	11.4%	15,476	16.6%
2014	**184,965**	**0.4%**	**168,041**	**0.1%**	**21,514**	**4.1%**	**55,252**	**7.7%**	**59,795**	**7.6%**
Q1 2015	46,323	0.1%	42,276	0.6%	5,054	0.1%	14,933	12.3%	16,311	15.1%
Q2 2015	46,277	0.4%	42,285	0.7%	4,169	-21.7%	15,001	11.3%	15,584	4.0%
Q3 2015	45,475	-2.4%	41,065	-2.4%	4,669	-17.0%	13,274	-7.6%	13,031	-14.1%
Q4 2015	46,341	0.7%	41,989	0.1%	5,740	4.0%	13,752	-2.6%	15,053	-2.7%
2015*	**184,416**	**-0.3%**	**167,615**	**-0.3%**	**19,632**	**-8.7%**	**56,959**	**3.1%**	**59,979**	**0.3%**
Q1 2016	45,994	-0.7%	41,722	-1.3%	5,882	16.4%	13,293	-11.0%	14,684	-10.0%
Q2 2016	46,113	-0.4%	41,918	-0.9%	5,686	36.4%	13,516	-9.9%	15,256	-2.1%
Q3 2016	46,387	2.0%	42,715	4.0%	3,908	-16.3%	14,739	11.0%	14,834	13.8%
Q4 2016	45,823	-1.1%	42,255	0.6%	3,979	-30.7%	14,532	5.7%	15,507	3.0%
2016*	**184,318**	**-0.1%**	**168,610**	**0.6%**	**19,454**	**-0.9%**	**56,080**	**-1.5%**	**60,281**	**0.5%**

* provisional data

Source: Quarterly National Accounts, November 2016, ELSTAT.

That said, the steady upward momentum of activity that some sectors have shown last year, irrespective of the fluctuations in GDP, is a fact that, under conditions mainly related to the implementation of the current Economic Adjustment Programme, could contribute to the exit of Greece from the economic crisis. In particular, Industry and Construction have expanded their output in all quarters last year, except for Construction in the final quarter. Continuous improvement during 2016 was also observed in Tourism, resulting in a new, small increase in its turnover for the fourth consecutive year. As the dynamics in Industry and Tourism are to a large extent due to foreign demand, it is likely to remain relatively stable in the medium term. Also, based on the employment figures outlined above, the upward output trends in the above sectors are positively reflected in their employment, contributing to both GDP growth and the weakening of unemployment.

Medium-term outlook

The progress in the negotiations on the second review of the implementation of the third economic adjustment programme has remained at the centre of the political and economic developments domestically in the initial four months of 2017 as well. The review process is once again prolonged, as it began in early November. This has the same consequences as it has had in the past, such as the exacerbation of uncertainty in Greece and abroad about its outcome and the postponement of decisions by households and businesses until the new fiscal measures and reforms are finalised, developments with negative effects on economic activity. However, as the new fiscal measures will concern 2019 and 2020, amounting to 1% of GDP each year, as decided at the Eurogroup meeting on 7 April, no additional burden will arise for 2017. Additionally, note that the envisaged measures do not concern businesses. As a result, the corporate tax environment is projected to be stable over the coming four years until 2020, albeit with higher tax rates than in the past.

The upcoming effects from the policies to be decided in the second review are expected to come from structural changes. Given the prior actions of the review, the most important changes concern the labour market (collective bargaining, mass layoffs, labour minister's veto on layoffs), which are not yet finalised. It is estimated that they will mainly affect the creation of new jobs, which in many cases will be linked to investment, while their impact on existing jobs is likely to be limited, as the labour market has been extensively restructured in recent years. Regulatory reforms on engaging in economic activity in three sectors (food-beverages, tourist accommodation, restaurants-theatres-cinemas), in bankruptcy code and the new spatial planning, which have already been legislated, are also considered important. Other actions expected to have a positive impact in the business environment and the international attractiveness of the Greek economy include the measures to make the new privatisation body (Hellenic Corporation of Assets and Participations) operational, the change of bank governance boards and the Financial Stability Fund, and the amendment of the legal framework for the out-of-court settlement of non-performing loans. Their favourable effects are going to be felt if the politico-economic environment returns to normal, a development which is mainly related to the implementation of the Economic Adjustment Programme and the medium-term measures to reduce public debt.

In the current and the coming period, possibly the most significant negative effect of the prolonged negotiations is the postponement of the decision on the integration of Greece into the quantitative easing mechanism of the European Central Bank (ECB). With the ECB decision of 8 December 2016, the bond purchase programme was extended for one year. As repeatedly pointed out in previous IOBE quarterly reports, the entry of Greece in the quantitative easing mechanism will significantly strengthen the liquidity of the banks, stimulate the confidence in their robustness, boost their capacity to finance businesses, and improve the growth prospects of the Greek economy. Until the negotiations are completed, the inclusion of Greece in the quantitative easing mechanism is not feasible to be considered, and the potential and the opportunities that it provides cannot be utilised. In addition, the period over which these opportunities are going to be available is becoming shorter, on the basis of the extension given to the operation of the mechanism so far. In any case, the ECB decision on the programme expansion states that if the outlook becomes less favourable or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the programme in terms of size and/or duration. Therefore, this unconventional instrument of liquidity enhancement may well be available beyond 2017.

The observed new outflow of business and household deposits, despite the continuing capital controls is another negative impact of the current multi-month negotiations process and the uncertainty that this causes for the state and prospects of the banking system, as the reforms affecting it (e.g. out-of-court settlement of non-performing loans, changes in the governance of the banks) are being delayed. After the steady increase since May 2016, when the first review of the implementation of the third programme was completed, until last November, when the private sector deposits reached their highest level since May 2015 (€124.8 billion), they have steadily declined, at least until February of this year. According to the latest data, business and household deposits decreased by €5.7 billion at the end of this month than in November, to reach €119.1 billion, their lowest level since October 2001. As the share of households in total private sector deposits exceeds 80%, the shrinking of total deposits came mainly from households (-€3.5 billion), yet the decline in business deposits (-€2.2 billion) was larger in percentage terms.

Consequently, despite the possibility to withdraw without a limit cash deposited after 22 July 2016, which essentially removes the capital controls for this type of flows, instead of increase in deposits, there is a reduction, for the reasons set out at the beginning of the previous paragraph. Hence, it is now likely that the deposits will continue to decline until the end of the current review, as they did last year. If it then the deposit flight slows down, stops or is superseded by a return of the deposits to the bank system, evidently depends on the outcome of the review and whether Greece will join the ECB quantitative easing mechanism. Once the review has been successfully completed and positive developments in the banking sector have taken place (quantitative easing, new governance), the deposits are anticipated to start growing, gradually, at a slow pace. The reluctance of the depositors is maintained by the delay of the possibilities to settle non-performing loans, including the out-of-court settlement mechanism. Consequently, the deposits are not expected to substantially strengthen the liquidity of the banks in the medium term. The very low level of deposits will inhibit the further relaxation of capital controls.

The significant reduction in deposits has increased the need for banks to raise liquidity from the ECB. Indicative of the intensity of this need is the reversal of the reduction of their exposure to the Emergency Liquidity Assistance on 22 March this year, for the first time since 22/6/2016, despite the fact that since then, the banks have regained access to the ECB key funding mechanism. The capital raised from ELA declined by €22.9 billion between June and the beginning of March, to €46.2 billion. On 22/6/2017, the ELA limit was raised slightly to €46.6 billion.

The pressures in the availability of funds do not allow for a change in the credit policy of the banking institutions from credit contraction to expansion. After the easing of the average rate of credit contraction to non-financial corporations from 6.0% in the first half of 2016 to 1.7% in the subsequent six months, it rose to 2.5% in the first two months of this year. The credit contraction to households was stronger: from 3.6% in the first eleven months of last year, it steadily exceeded 7% between December and February. As a significant increase in deposits is not expected over the rest of the current year, the proceeds from the eventual entry into the quantitative easing mechanism are likely to be used mainly to strengthen the capital adequacy of the banks, in view of the next regular pan-European stress test by the ECB in January 2018. Subsequently, no major changes to the provision of credit are anticipated. The credit contraction will continue, to a lesser extent, restricting further the sources of capital for businesses and household, with a negative impact on investment activity.

The delays in the implementation of the actions to make the new privatisation agency (Hellenic Corporation of Assets and Participations) operational, which are prerequisites for the current review, also affect the revival of investment activity. As long as there is no progress on this issue, it is not possible to develop the assets which have been assigned to the new privatisation body. That said, this issue was discounted when drafting the Introductory Report of the 2017 Budget. This assessment is based on the fact that the privatisations chapter envisages revenue €2.6 billion for this year, coming exclusively from the HRADF. Of these, €1.93 billion relate to revenues from tenders for which binding offers have been submitted and the first instalment is expected to be paid in 2017. More than half of these revenues (€1.23 billion) were collected with the recent concession of the 14 regional airports to Fraport. Approximately €100 million come from completed transactions of previous years, unrelated to the HRADF tenders of this year, which are projected to bear only €560 million. Currently, in progress are the competitions for the sale of 67% of the Thessaloniki Port Authority equity capital and the acquisition of 100% of ROSCO SA (EESSTY). Also, a new timetable for the tender process was announced for the marina and port of Pylos, according to which bids will be submitted in July. There is still no announcement to launch a new DESFA tender. Taking into account the aforementioned activities of the HRADF, the execution of the privatisation programme can be seen as lagging behind. In any case, the higher number of privatisation deals in 2016, compared to the preceding years, will reflect in investment in the current year, but most likely from the fourth quarter, when the first of the these investment plans is going to be fully licensed.

Irrespective of the effects of the measures and the policies to be decided in the context of the current review, and the developments that may result from its completion, the fiscal measures adopted during the first review and implemented gradually from June 2016 to early 2017 have affected households and businesses, mainly small and medium-sized enterprises and self-employed. The effect on the individuals include reduction of the tax credit, increase in social security contributions, further pension cuts, increase in VAT and the excise duties on heating oil, diesel oil and tobacco, and imposition of new taxes (fixed telephony, coffee). The increase in VAT also has an impact on the freelancers, which are also affected by higher income tax rate and by changes in the calculation of the social security contributions. The new corporate income tax coefficients concern all legal persons and the legal entities with single-entry accounting books, while all enterprises will feel the effect from higher indirect taxes. The impact of the changes on freelancers in the second half of last year, together with the months of uncertainty about the calculation of their social security contributions, is reflected in the decline of their output during that period by 4.8%, the largest contraction among the key sectors of the Greek economy, and the extensive job contraction (-10,600).

The pressures on personal income from the fiscal measures and the uncertainty from the protracted negotiations are reflected in the course of the Consumer Confidence Index, compiled each month by IOBE. During the first quarter of this year, the indicator stood at -71.8 points, its lowest level since the final quarter of 2013. The rate of consumers pessimistic about their household's financial situation in the next 12 months, as well as the country's economic situation over the same period was particularly high (75% and 83% respectively). On the business side, the expectations have slightly deteriorated in the first quarter in all key sectors apart from construction (industry, retail, services), compared to the second half of the previous year, when the first review of the third Economic Adjustment Programme was completed. Year on year, the pessimism intensified in the construction sector, eased in services and remained essentially unchanged in industry and retail trade. Consequently, the year-on-year trends differ across the sectors, implying that at least in some of them, if not in all, the conditions are determined by sector-specific events, and not only from the general politico-economic developments. Probably, the fact that new fiscal interventions which concern businesses were not raised as an issue during the second review and in addition, that several of the planned reforms help the enterprises to adapt easier to the prevailing economic conditions (labour market, regulatory framework in three areas, new bankruptcy code) has prevented a deterioration in their expectations.

Moving on to developments in other fields which may affect the dynamics of the Greek economy in 2017, the difficulty of raising funds from the banking system faced by businesses was slightly mitigated by the significant acceleration of payments of arrears of the State to its suppliers. The disbursement of €3.5 billion exclusively for this purpose through the two loan sub-tranches associated with the first review of the current programme contributed decisively to this development. This amount has already been made available in full to the central and general government bodies. Payments of €3.3 billion were made from July 2016 until the end of February. However, arrears declined by exactly €2 billion in this period, remaining above €5.05 billion. Therefore, together with the faster repayment of old arrears, new arrears of €1.2 billion were created. Note that since January the stock of arrears has risen again, growing by €530 million in the first two month of the year. The formation of new arrears is mainly reflected in tax refunds, as even though €411 million were paid out since July, they were reduced by only €98 million. The further expansion of the State's arrears is linked to the prolonged second review and the subsequent delay in the disbursement of the accompanying loan tranche, which hampers the smooth execution of payments by the public sector. Therefore, when the review is completed, the payment of arrears is likely to accelerate. That said, as the disbursement of a specific amount from the next tranche is not envisaged for this purpose, the further reduction in arrears is not going to be extensive. In particular, the stock of arrears will most probably stay close to the level at which they would have been if no new arrears were created.[39]

[39] Chapter 4 of the present IOBE report on the Greek economy contains an extensive analysis of the composition and trends of the arrears of the State.

The implementation of the Public Investment Programme (PIP) in the first two months of this year seems also to be influenced by the attempt to restrain the expenditure of the State Budget as long as the negotiations with the official lenders are ongoing. In the first two months of the year, only €174 million of grants were disbursed, an amount corresponding to 47% of the target of that time period (€370 million).[40] The payment lag is similar compared with the same period of 2016, when €360 million were disbursed. However, as the Greek state was also in protracted negotiations a year ago, which delayed the payment of the second tranche of the loan, the PIP under-execution in the first two months of this year is probably also due to other reasons. It is quite possible that this development has been caused by the much lower than expected EU inflows since the beginning of the year, which did not exceed €358 million, falling short of the target by €200 million, against €1.5 billion a year ago. The shortage of revenue from the EU corresponds to the difference between the actual and the PIP expenditure, and is thus considered to be largely relevant.

Therefore, to accelerate the PIP execution in the current year, the absorption of EU investment funds should strengthen. This need also arises from their projected total size for this year, which is a multiple of the two-month inflows, slightly surpassing their last year total (€3.98 billion against €3.86 billion). Furthermore, the stronger the shortage of PIP execution, in relation to the target and last year's implementation, the weaker the support that it provides to investment activity.

Regarding the economy's external sector, the transactions will continue to be affected by the capital controls. The most recent changes that affect transactions, adopted in July 2016, favour imports. The daily maximum of the total value of imports and the maximum weekly value for all businesses that can be approved per bank were raised. The available data from the Bank of Greece on the course of total imports and exports (goods and services), are not sufficient to predict their trend in 2017, as they concern only January. However, by combining them with data on exports and imports of goods and services from ELSTAT, some preliminary indications can be induced.

In particular, according to the Bank of Greece data, the exports of goods and services grew in the first month of this year by 27.6%. Their rise came almost equally from stronger exports of goods (+25.1%) and stronger exports of services (+32.3%). The corresponding ELSTAT data confirm the strong growth of the exports of goods in January, which carried over somewhat weakened to February, resulting in the expansion of exports of goods by 17.1% in the first two months of this year. However, this growth came almost exclusively from petroleum products. Without fuels, exports increased by only 2.4%. Among the main categories of products and services, the largest

[40] State Budget Execution Monthly Bulletin – February 2017 (final data), GAO, March 2017

increase in exports in absolute terms was recorded in petroleum products (+80.9%), transport (+36.4%) and other services (+48.1%). Tourism receipts marginally declined (-2.4%). However, a large part of the boost of the exports of petroleum products came from the growing global oil prices, which increased by about 30% since October, after the decision at the International Energy Forum in Algeria to curb international oil extraction. Therefore, the growth in export value did not come only from the larger volume of oil exports.

The stronger import expansion outweighs the positive effect on the external balance from the increase in exports: Aided by the relaxation of the capital controls, the inflows of products and services in Greece were 27.0% higher in January than in the same month a year before. The import growth came from both goods (+26.4%) and services (+29.5%). The ELSTAT data also point to an increase in the imports of goods in January, much stronger than the growth recorded in the Bank of Greece data, which also carried over weakened to February. As a result, the imports of goods increased by +31.2% in the first two months. As on the export side, imports were primarily strengthened by petroleum products, followed by goods other than fuel and ships and other services. As a result of the growth on both sides of the external balance, its deficit widened by 25.2%. The same trend, at a stronger rate, is induced from the data on goods (+48.9% in the first two months of 2017).

From the above, preliminary trends in exports and imports, a positive trend in exports emerges, primarily due to stronger international demand for services. The larger increase in imports, which exacerbated the balance of the external sector, highlights the needs of businesses and households for imports accumulated due to the capital controls, which they rush to cover after each relaxation round.

Moving on to the trends in key figures of the world economy which affect the prospects of all national economies, as mentioned earlier, the price of Brent oil rose after the decision at the International Energy Forum last September. That said, its growth is not strong and steady. It lasted with fluctuations until December, reaching $56, from $42 last year in August. Then the oil price varied around this level for two months and in March it fell to $51-$52. The recent escalation of hostilities in Syria has brought a further little boost to about $56. The evolution of the oil price in the second half of 2016 and in the first quarter of this year could probably be explained with the restriction of production rather than an increase in international demand. The world economy has remained at a transition stage, mainly due to the administration change in the USA, Brexit, and elections in Europe, which is not conducive to a clear acceleration of global growth, and therefore of energy demand. Subsequently, this factor is not expected to lead to a further rise in the price of oil. The oil price trend will most likely depend on the developments in the war in Syria. Consequently, the international cost competitiveness of the Greek products, which has improved in recent years due to the fall in oil costs as well, will depend on these developments.

The exchange rate of the euro against the dollar has not yet recovered after the decline following the US elections, from the range of 1.13 to 1.05. As highlighted in the previous IOBE report on the Greek economy, the rise in short-term interest rates in December by the US Federal Reserve and the expectations for an expansive fiscal policy from the new administration, which will sustain an increase in inflation and the interventionist monetary policy of the Fed, have led to significant capital inflows from emerging markets. The aggravated political and economic uncertainty in the Euro area, due to the recent and the upcoming, contested elections in some of its countries, and the still impossible to predict Brexit effects, also favour the transfer of funds to the US. As a result of the above, the pressures on the exchange rates of economic zones and countries from which funds are being transferred to the US have persisted. That said, the relentlessly low euro exchange rate is conducive to the competitiveness of goods and services produced in the Euro area and thus Greece. This positive effect is tempered by the increase in the price of oil. As the sources of concern or problems in European politics and economy are not expected to weaken or disappear for most of the remainder of 2017, no major recovery in the euro exchange rate against the dollar is anticipated.

The list of other, exogenous to the Greek economy, factors that may affect it in the current year, includes the developments in the war in Syria and the refugee flows it causes, the political developments in Turkey after the recent referendum and their potential impact on its relations with the EU, and the course of negotiations on Cyprus. The latest data on international tourist bookings in Greece point to stronger growth since the beginning of this year. Evidently, developments and events in Turkey and Egypt strengthen the security concern in these countries, favouring the Greek tourist destinations. Finally, the remaining for months at a very low level dry cargo transport fares affect shipping activity, which is reflected in the sharp increase in ship sales in early 2017, as evident from the balance of payments data.

The latest data on domestic economic activity components and short-term economic indicators in the first months of this year mostly point to a slowdown or a halt of the growth momentum from the previous quarters. Industrial production is an exception here, as its growth seems to be accelerating. In greater detail, the latest data point to a stronger growth in industrial production in the first two months of 2017. In particular, output increased by 9.0%, notably stronger than in the fourth quarter of 2016 (+3.8%), against a marginal growth a year earlier (+0.4%).[41] Output increased in all industry sectors, albeit at very different rates. The

[41] All data on short-term indicators come either from ELSTAT or the Bank of Greece. All variations are expressed in terms of year-on-year changes.

unprecedented growth was mainly driven by Electricity (+30.0%), after a contraction of 4.4% a year before and, to a lesser extent, by Manufacturing (+3.7%), which retained its growth momentum from 2016 (+2.9%). The output growth was much weaker in Mines - Quarries (+1.9%) and Water Supply (+1.6%), against a decline in production in both sectors one year ago (-9.3% and -2.1% respectively). The latest data on construction activity are from January, which is not sufficient to allow for an estimate of the trend for this year. The surface of new buildings increased slightly year on year (+1.1%), yet their volume decline (-12.4%), despite the growth in the number of licences by 11.1%. The January changes in the surface and volume of new buildings are close to the trends in the last quarter of the previous year.

Regarding the indicators that reflect the climate and the propensities on the demand side of the economy, the seasonally adjusted volume index in Retail Trade did not change in January compared to the corresponding month of 2016. Its stability came after a 1.6% growth in the fourth quarter of last year. On average in the past year, the volume of Retail Trade declined by 0.6%. However, the available data for 2017 are not considered sufficient to assess its trend for this year.

The momentum of consumption demand can also be assessed by examining the trend in the prices of consumption goods and services. They increased by 1.4% on average in the first quarter of this year, after their mild retreat by 0.4% in the previous quarter. In the first quarter of last year the deflation had reached 0.9%. It was the first steady rise in the Consumer Price Index (CPI) throughout a quarter since the second quarter of 2013, i.e. after almost four years. As already stated in the previous IOBE report on the Greek economy, the increase of the international oil price and the excise duty on heating oil, motor diesel and liquefied petroleum gas was the main cause of the rapid deceleration of deflation in the last quarter of 2016 and the growth in prices from the beginning of 2017. Their impact is reflected in the rise in prices in the first three months of this year in Housing and Transport, recording the highest inflation rate among the CPI constituent categories (+6.8% and 3.8% respectively). The increase in the excise duty on tobacco and cigarettes and the imposition of a levy on fixed telephony and coffee have also exerted inflationary pressures since January. The prices of Alcoholic Beverages – Tobacco, Communications and Hotels – Cafes – Restaurants increased by 2.6%, 2.1% and 1.6% respectively, coming immediately after Housing and Transport. Food – Non Alcoholic Beverages was the only other category with price growth, by 1.3%, over the same period, probably because of the VAT hike in June 2016. In the remaining six constituent categories of CPI, which were not affected by hikes in indirect taxes, the price decline continued. Hence, the return of inflation is related to the simultaneous effect of international price trends and higher indirect taxes. The analysis of the consumer price trends also does not indicate any substantial increase in household consumption.

Taking into account the above trends in economic indicators, the latest politico-economic events (mainly those linked to the completion of the second review of the economic adjustment programme) and the anticipated developments for the forecasting of the GDP components and other macroeconomic indicators, the growth of **household consumption** of last year will carry over to this year, but at a lower rate. The boost to private consumption will mainly come from a further, mild decline in unemployment, due to the increase in employment mainly in export-oriented Manufacturing, Tourism and Transport. However, the easing of unemployment will be weaker than in 2016, due to raised social security contributions and higher income taxation, particularly for freelancers. The expansion of digital payments in order to take advantage of the income tax deduction, will expand official economic activity, boosting private consumption.

That said, the fiscal measures taken in the context of the first review, particularly those that cause a reduction in disposable income, such as the reduction in tax allowance and the supplementary pension cuts have inhibited the growth of private consumption, already since the final quarter of last year. The measures are in full effect since the beginning of 2017 (including the changes in direct taxation and the social security contributions of the self-employed) and so is their negative impact. Additional burden may arise from fiscal interventions to be finalised during the second review, e.g. wage cuts for particular public sector categories (armed forces and security services, health services, teachers). **Taking into account the above factors that will have an effect on it this year, private consumption is expected increase moderately, by 1.2%.**

Regarding the other side of domestic consumer spending, **public consumption**, the preliminary data on public spending for this year point to a slight reduction. Indicatively, the General Government remuneration expenditure, which is the main component of public consumption spending, strengthened by 1.9% at current prices in the first two months of the year, from €2.5 to €2.55 billion. Their growth was offset by cuts in the purchase of goods and services by 10.7%, from €438 to €390 million. The prolonged second review of the third programme, which delays the disbursement of the corresponding loan tranche, is expected to lead to a restraint in public consumption in the first half of 2017. With the disbursement of the tranche, consumption expenditure will increase, covering most (if not all) of the delays and arrears created in the first half. **Therefore, public consumption will most likely remain around or perhaps slightly below its level from last year.** Note that such a public spending policy is not in contradiction with the central fiscal policy objective for this year, namely to achieve a higher primary surplus, which is primarily driven by stronger tax revenues.

The tightness of the sources of funding for **business investment**, in both the private and the public sectors, was already mentioned in this section. The credit scarcity has come mainly from the prolonged second review and the low absorption rate of EU funds for the co-financed part of the Public Investment Programme. The successful completion of the review will allow the country to enter the ECB's quantitative easing programme, which will make it possible to strengthen the capital adequacy of the banking system and its capability to provide credit to businesses.

Of course, the "closure" of the review also implies a number of other developments in the banking system, which will improve its operation and will enhance investor confidence, in Greece and abroad, about its robustness, in view of the next stress test by the ECB, in early 2018. The developments will come from the implementation of the corresponding prior actions, namely the appointment of new boards of directors in the banks and the Hellenic Financial Stability Fund and the finalisation of the legal framework for the out-of-court settlement of non-performing loans. Clearly, in the event that these issues are not resolved and Greece does not enter the quantitative easing program, the bank credit will further decline.

As repeatedly pointed out, the investor decisions will also depend on factors other than the robustness and the prospects of the banking system. In particular, the investors are interested in the conditions prevailing in the business environment and the actions taken to improve them. Hence, the progress achieved in implementing the reforms that are prior actions for the second review will also affect the investment climate. The most important of these reforms concern characteristics of the labour market, such as collective bargaining and mass layoffs. On these issues, the discussions took place at the beginning of the second review, without leading to policy measures. A part of the business community will anticipate if and what decisions are going to be made on these issues, especially those concerning the start-up or expansion or change of activity and thus the creation of new jobs, before proceeding with any investment. Therefore, these investments have been currently postponed.

Other structural changes scheduled for the current review and already legislated include the implementation of the OECD Toolkit III recommendations, the new regulatory framework for the exercise of economic activity in three areas (food - drinks, tourist accommodation, restaurants - theatres - cinema), the new bankruptcy code and the new spatial plan. Their legislation improves the conditions for doing business and the investment prospects, while at the same time strengthening the confidence in the economic policy. Then again, the successive changes in the taxation and the social security contribution of businesses and freelancers over the past two years, and the overall sense of volatility of the tax and social security systems in Greece, continue to be a major deterrent in taking investment risk.

Apart from possible developments and events related to the current review that affect the investment conditions in some or most sectors, there are other conditions in parts of the economic activity, which also affect their investment. In particular, the expected steady growth in export demand in the current year and the energy cost remaining at low levels despite the recent rise in oil prices, favour the execution of investment in some of the Manufacturing branches and in Tourism. In Construction, the expansion of activity in public works last year will probably not carry over to this year. However, as no changes are expected in the property taxation of households and businesses, the long-standing contraction of building activity is most likely to end in the current year, with the indicator staying close to its last year level or even recording some growth.

Regarding investment co-funded by the public sector or dependent on its actions, e.g. concessions or privatisations of its assets, the apparently back-loaded (compared to last year) execution of the PIP and its revised down budget, will give less impetus to investment. That said, the preparation of investment plans and their implementation in privatisations and concessions, such as the Hellinikon project, the regional airports and the Asteras resort, will boost investment activity. However, the delays in their formal completion (e.g. regional airports) and licensing (e.g. Hellinikon) will mitigate their contribution to investment.

The change in stocks is a technical factor which is expected to have a positive, possibly significant, impact on investment activity in 2017. Their extensive reduction in 2016, which reached €1.6 billion, the largest since 2010, was the sole cause of investment contraction during that year. This creates a low base of comparison, implying that any reduction of stocks would be much smaller this year, while their mild expansion cannot be precluded. Indicatively, with unchanged fixed capital formation, as it happened last year, a further decline of stocks by €400 million will result in higher investment by 6.2%. **Taking into account the effects of various relevant factors, investment is expected to expand in the current year. Their growth, in the range between 10% and 12%, will mainly come from investment in Manufacturing and Tourism, from a small recovery in building activity, and from the positive technical effect of the change in stocks.**

As for the prospects for the external sector of the Greek economy, the **exports** of services are expected to set the trend in total exports this year. The international demand for transport and other services showed a steady, strong growth throughout the second half of 2016 and in early 2017. Then again, receipts from tourism decreased over that period. Yet, their decline significantly weakened over that period, from 13% in August last year to around 2.5% in the first month this year. Given the escalation of the clashes in Syria and the turmoil in Turkey, which dampen the tourist interest, the revenue from tourism might increase, albeit at a low rate, provided that the early indications on international tourist bookings are confirmed.

The trend in the exports of goods, excluding fuels and ships, changed from positive to negative between November 2016 and February 2017, based on ELSTAT data. The strong increase in the value of fuel exports comes largely from higher international oil prices and does not reflect changes in volume. Furthermore, the collapse of dry cargo transport fares has hampered shipping activity, which may lead to a significant increase in ship sales, at least until the transport costs return to growth. The opposing trends in the categories of product exports do not provide reliable indications on the evolution of their total for this year. Therefore, for the time being they are assumed to remain unchanged at around their level from last year. However, **the strong positive momentum of the exports of services will likely set the trend, leading to a growth of total exports by 5.0-5.5% from last year.**

The growth of **imports** in the second half of the previous year seems to be strengthening in the first few months of this year. This holds particularly for the domestic demand for goods produced abroad. This development is considered to be primarily due to the relaxation of the capital controls related to imports in July 2016. Therefore, this trend will continue at least during the current semester, until one year has elapsed since this change and its technical effect on annual changes in imports has been eliminated. Clearly, any further relaxation of the capital controls will facilitate further the flow of goods. The expected increase in domestic demand in 2017, both from higher private consumption and from investment, which will be channelled to a large extent to goods and services which are not produced domestically, will also be conducive to growth of imports. In contrast, the rise in the price of oil, the increase in the excise duty on oil products and the low exchange rate of the euro against the dollar will act in the opposite direction. All these changes have a restrictive effect on purchasing power. Taking into account the high correlation between domestic demand and imports, and the relaxation of capital controls in July 2016, **imports are projected to increase by about 6.0% in 2017.**

Summing up the projections for the trends in the key components of GDP in 2017, private consumption will continue to grow for the third consecutive year, due to the further, weaker than in the two previous years, decrease of unemployment, as a result of employment growth in export-oriented branches (e.g. Manufacturing, Tourism). The expending use of digital payments, the effect of which is already considered to be noticeable since last year, will also contribute to consumption growth. Then again, the fiscal measures taken in the context of the first review, in full effect since the beginning of 2017, will inhibit the growth of private consumption. As any additional measures will concern 2019 and 2020, no additional pressures from fiscal measures on household disposable income are expected in the current year. The delay of the second review of the current programme has led to the containment of public consumption. However, when the associated tranche is disbursed, most (if not all) of the expenditure under-execution is going to be covered. Taking into account that in the current year the emphasis of the fiscal consolidation process is placed on enhancing tax revenue, consumption spending is projected to stay near its last year level or slightly fall below it.

The scarcity of resources, both in the private and the public sectors, is going to be the major impediment to the implementation of investment for yet another year. The completion of the second evaluation will expand the relevant options, as it will allow the assessment of Greece entering the ECB's quantitative easing program and the relaxation of the capital controls, developments that will boost the confidence of international investors in the Greek economy. The low absorption of EU funds for the co-financed part of the Public Investment Programme should accelerate in order to enhance the availability of investment funds. The completion of the review will also imply that developments have taken place on some structural issues affecting the investment environment. The most important such issues concern the labour market, anticipated by many companies in their investment planning. In any case, the successive changes in the taxation of businesses and freelancers and the general feeling of volatility of the regulatory framework in Greece are among the major deterrents to investment risk-taking. On sector level, the steady growth in export demand encourages investment in some branches of Manufacturing, Tourism and Transport. Investment activity will also receive a boost from privatisations and concessions completed in 2016, yet this boost is going to be small, as in many cases their formal completion and the licensing of investment plans are being delayed. The change in stocks is a technical factor expected to have a positive, potentially significant, impact on investment activity in 2017.

The stronger domestic demand, its high correlation with the demand for foreign products and services and the impact of the capital control relaxation of last July, will lead to a considerably higher level of imports compared with 2016. **Taking into account the above trends in factors that affect the components of GDP, the growth of the Greek economy in 2017 is projected at around 1.5%, or perhaps a little lower than that.**

As for the labour market developments in the current year, the expected output growth in export-oriented Manufacturing activities, Tourism and Transport, will also have a positive impact on employment in these sectors. Job creation is expected to benefit from the upcoming changes in the regulatory framework of the labour market. That said, changes in direct taxation and social security contributions of freelancers since the start of 2017 will lead, at least in the first instance, to a decline of employment in the relevant branches. The significant job creation from OAED programmes is likely to continue, as a provision is made for short-term job opportunities for 52.000 long-term unemployed in the draft State Budget for 2017, to protect vulnerable social groups, among other things, while 43.000 unemployed people are going to be employed in public works.

Recently, the employment of almost 23.000 beneficiaries in municipalities has begun under a public benefit programme run by OAED. Through another program, 3.150 long-term unemployed are going to be employed in the Health Sector. **Under the simultaneous influence of the above factors, unemployment will decline further in 2017, for the fourth consecutive year. However, its decrease is going to be a little weaker than last year, by slightly more than a percentage point (to 22.2%).**

Finally, regarding the **price** forecast, the fall of the oil price, a key factor sustaining deflation since the autumn of 2014, has ended since last October, following the decision at the International Energy Forum to limit the daily oil production.

Nevertheless, the oil price has varied between $52 and $56 since the end of December 2016, without showing a new, steady positive trend. Still, it remains at a much higher level than in the corresponding 2016 period. The hikes in indirect taxes on motor diesel and liquefied petroleum gas also push up the retail prices of petroleum products since the beginning of 2017, an effect that will persist throughout this year. Similar trends have already been observed and are expected to continue with the rise in other indirect taxes (tobacco, cigarettes, fixed telephony and coffee) from 1 January 2017, maintaining the positive CPI inflation, as these goods and services have a considerable weight in shaping the overall price index.

As a result, **higher international oil prices and increases in indirect taxes will eliminate the deflation of the previous four years, leading to an increase in the Consumer Price Index in 2017 by 1.5%.**

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates

(in constant 2010 market prices)

	2015	**2016**	**2017**	**2018**
Annual percentage changes				
GDP	-0.2	-0.3	2.7	3.1
Private Consumption	-0.2	0.6	1.6	1.6
Public Consumption	0.0	-0.6	0.2	0.0
Gross Fixed Capital Formation	-0.2	4.0	12.0	14.2
Exports of Goods and Services	3.4	0.7	3.9	4.7
Imports of Goods and Services	0.3	1.5	3.2	4.2
Employment	0.5	2.2	2.1	2.2
Compensation of Employees per capita	-2.9	0.2	1.0	2.0
Real Unit Labour Cost	-1.2	2.0	-0.9	0.0
Harmonised Index of Consumer Prices	-1.1	0.0	1.3	1.0
Contribution to real GDP growth				
Final Domestic Demand	-0.2	0.7	2.6	2.9
Net Exports	1.0	-0.3	0.2	0.1
Inventories	-1.0	-0.2	0.0	0.1
As a percentage of GDP				
General Government Balance	-7.5	-1.1	-1.1	0.7
Current Account Balance	0.0	-0.7	-0.7	-0.6
General Government Gross Debt	177.4	179.7	177.2	170.6
In Percentage Terms				
Unemployment (% of labour force)	24.9	23.4	22.0	20.3

Source: European Economic Forecast, Winter 2017, European Commission, February 2017

Table 3.3

Comparison of forecasts for select economic indicators for the years 2015 - 2018

(in constant 2010 market prices, annual % change)

	MinFin			**EC**			**OECD**			**IMF**		
	2015	*2016*	*2017*	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*	*2016*	*2017*	*2018*
GDP	-0.2	-0.3	2.7	-0.3	2.7	3.1	0.0	1.3	1.9	0.0	2.2	2.7
Final Demand	:	:	:	0.7	2.5	2.9	0.6	0.8	1.6	:	:	:
Private Consumption	-0.2	-0.6	1.8	0.6	1.6	1.6	-0.9	0.8	1.6	:	:	:
Harmonised Index of Consumer Prices (%)	-1.1	0.0	0.6	0.0	1.3	1.0	0.1	1.1	1.4	0.0	1.3	1.4
Gross Fixed Capital Formation	-0.2	3.3	9.1	4.0	12.0	14.2	3.3	4.3	4.6	:	:	:
Unemployment (%)*	24.9	23.7	22.6	23.4	22.0	20.3	23.5	23.1	22.7	23.8	21.9	21.0
General Government Balance (% GDP)	-7.5	-2.2	-0.8	-1.1	-1.1	0.7	-2.0	-0.2	0.5	0.0	-1.5	-1.0
Current Account Balance (% GDP)	:	:	:	-0.7	-0.7	-0.6	-1.0	-0.6	-0.1	-0.6	-0.3	0.0
Gross Public Debt (% GDP)	177.4	180.3	176.5	179.7	177.2	170.6	179.7	176.6	171.5	181.3	180.7	181.5

* According to the Labour Force Survey methodology

Sources: Introductory Report 2017 Budget, Ministry of Finance, November 2016 – European Economic Forecast, winter 2017, European Commission, February 2017 - OECD Economic Outlook No. 100, November 2016 – World Economic Outlook, IMF, April 2017 - Fiscal Monitor, IMF, April 2017

3.2 Developments and outlook in key sectors of the economy

Industry

In 2016, industrial production in Greece marginally increased compared to 2015, by 0.5%. However, the weak 2016 expansion is superseded by a significant boost in the first two months of 2017, when the corresponding index rose by 9.0%, against a small increase by 1.0% in the same period of the previous year.

In 2016, the prices of industrial products declined by 5.7%, against a 7.2% drop in 2015. The marginally larger production volume and declining prices led to a 5.3% decline in turnover, yet less than in 2015 (-11.3%). During the first months of 2017, the above trends are disrupted. The increase in prices in the first two months (+10.3% instead of -9.4% a year ago) has a positive impact on the turnover of the Greek industry, which in January 2017 strengthened by 26.9%, against -14.2% last year.

In the Euro area in 2016, industrial production remained unchanged, against growth by +2.3% in 2015. The trends in the first two months of the year are also subdued, with the relative index rising by 0.5%, against 2.3% in the same period of last year.

At the level of key industries in Greece in 2016, production declined in Mining – Quarrying by 14.7%, following a weaker decline by 6.5% in 2015. In contrast, production increased in all other sectors. In greater detail, the strongest growth in 2016 was recorded in Manufacturing (+4.2%, against +1.8% in 2015), followed by Electricity (+1.7%, against +0.5%) and Water Supply (+0.4%, compared with +1.9% the year before last). In the first two months of 2017, output increased in all key industry sectors. Electricity strengthened by 30.0%, against losses by 4.4% a year ago. Next came Manufacturing (3.7%, against 2.9%), Mining-Quarrying (1.9%, against -9.3%) and Water Supply (1.6%, against -2.1%).

During the same period in the Mining sector, output growth was recorded only in Coal-Lignite, by 13.7%, against 21.4% contraction in the same period of last year. The output of crude oil extraction remained unchanged, in contrast to the surge by 66.5% in the first two months of 2016. In contrast, output declined in Mining of Metallic Minerals (-22.6%, against +12.7%) and Other Mining Activities (-11.9%, against +8.7%).

In Manufacturing, output declined in 13 of the 24 sub-sectors in the first two months of this year Among the branches with special significance for the Greek economy, production increased in Basic Metals by 34.0% (from +0.6% in 2016) and in Basic Pharmaceuticals by 10.7% (from +5.8%). In contrast, Food production decreased by 1.3% (against +1.0 % in 2016).

Among the other manufacturing sectors, the strongest downturn in the first two months of 2017 was recorded in Tobacco production (-32.9%, against +25.6% in the previous year), Other Transport

Equipment (-11.4%, against +0.5%) and Prints (-10.8%, against -5.4%). Slight losses were recorded in Clothing (-6.7%, against -14.6%), Footwear (-5.2%, against +13.4%) and Chemicals (-4.0%, against+12.2%).

The list of sectors with output growth include Motor Vehicles, where production more than tripled (340%) compared with a 65.5% decrease in the corresponding period of the previous year, followed by Electronic Products (+27.7%, against -47.7%), Metal Products (+17.9%, against 3.7%) and Electrical Equipment (+14.0%, against -2.6%).

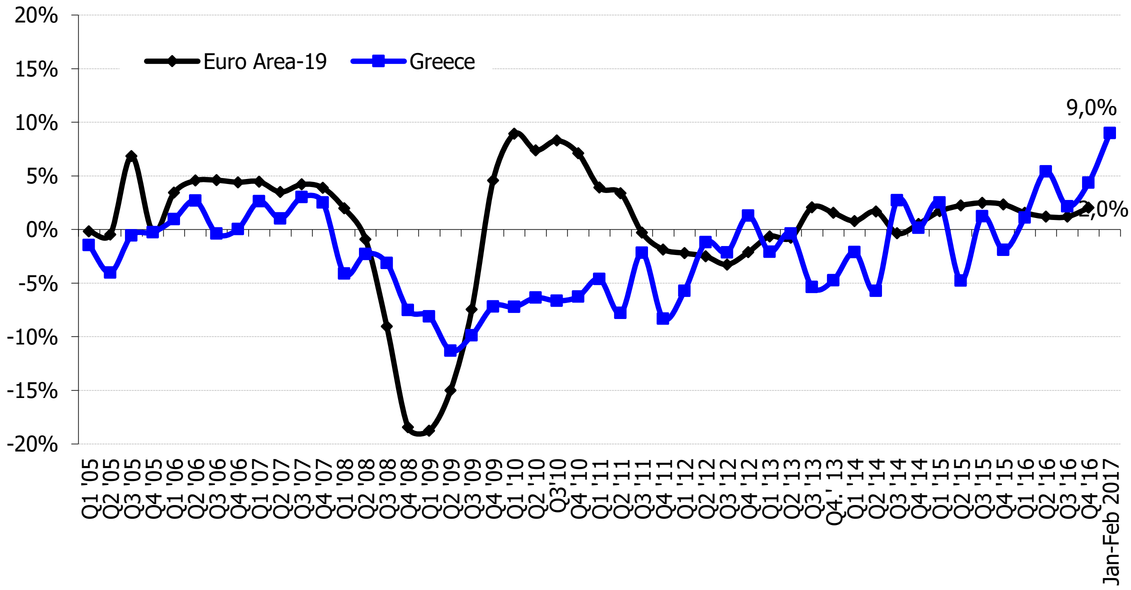
Among the main groups of industrial products in 2016, output contracted only in durable consumer goods (-1.4%, against an increase of 2.4% in 2015). Production increased in all other major groups. In the first two months of 2017, output increased in 4 of the 5 groups of industrial goods. In particular, the production of capital goods was up by 18.9%, compared with a 15.1% decrease in the corresponding period of 2016. Next came Energy Products (+16.9% against -2.5%), Intermediate Goods (+8.7% against +4.7%) and Consumer Durables (+3.3% against -6.7%). Production declined only in non-durable consumer goods (-4.5% against +4.5%).

Construction

In 2016, the production index in the construction sector increased on average by 23.5%, rising much stronger than in 2015 (+2.5%). The performance of the indicator in the third quarter, when it increased by 75.6% year on year, contributed significantly to this growth.

Figure 3.1

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



Sources: ELSTAT, Eurostat

The trends in the sub-indices were similar. In particular, the Construction of Buildings grew by 18.5%, when in 2015 it increased by 11.6%. Meanwhile, Civil Engineering increased by 27.5%, against losses of 3.8% the year before. However, the strong upward trend in construction in 2016 is incompatible with the figures for new private and public building activity, according to which the surface of the new buildings declined by 12.9% and their volume by 34.0%.

Similarly, Construction output increased by 4.4% in the Euro area in 2016, after a marginal decline by 0.3% in 2015.

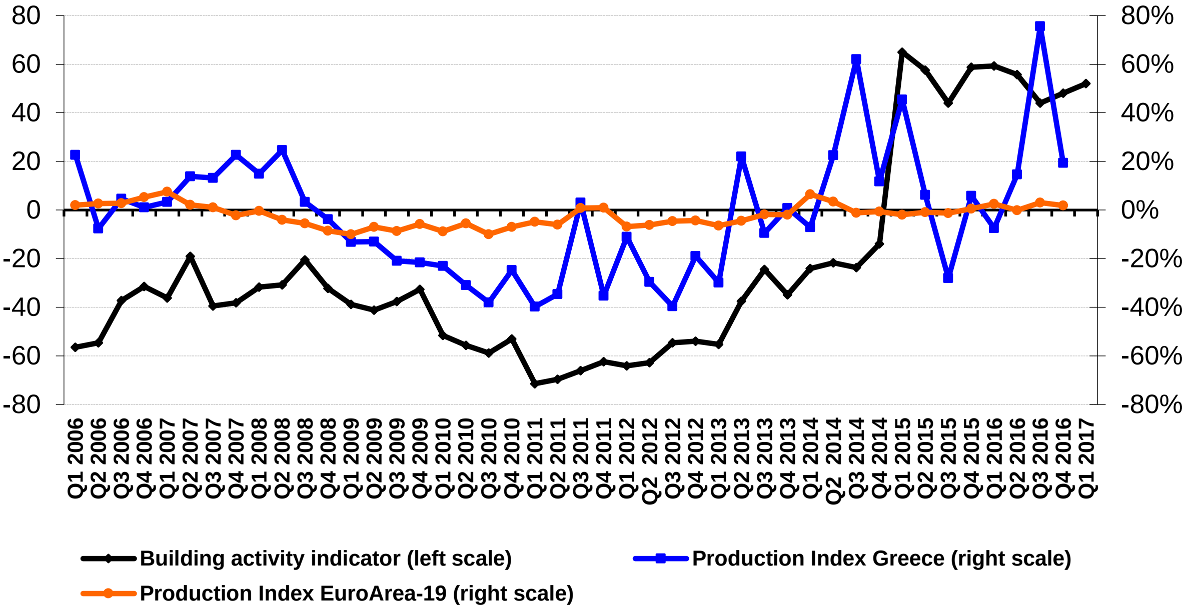
Retail Trade

In 2016, the volume index in retail trade showed signs of consolidation, as it decreased by just 0.6%, after falling by 1.4% in 2015. A similar trend was observed in January 2017, with the index remaining practically unchanged year on year (-0.1%, against -1.7%).

In 2016, output strengthened in 4 of the 8 sub-sectors of Retail Trade. The sectors with output growth last year include Department Stores (+6.6%, against -3.3% in the preceding year), Clothing-Footwear (+5.4%, after +8.0%), Books-Stationery (+4.3%, against +7.1%) and the Supermarkets (+0.4%, from -1.7%). In contrast, output declined stronger than in 2015, yet at a low rate, in Automotive Fuel, where the indicator decreased by 4.1%, following a decline of 1.6% in 2015.

Figure 3.2

Production Index in Construction και Building Activity Index



Source: ELSTAT – Eurostat

Next came Pharmaceuticals-Cosmetics (-2.7%, against -0.4%), Food-Drinks-Tobacco (-1.6%, against -3.3%) and Furniture-Electric Appliances (-1.2%, against 3.8%).

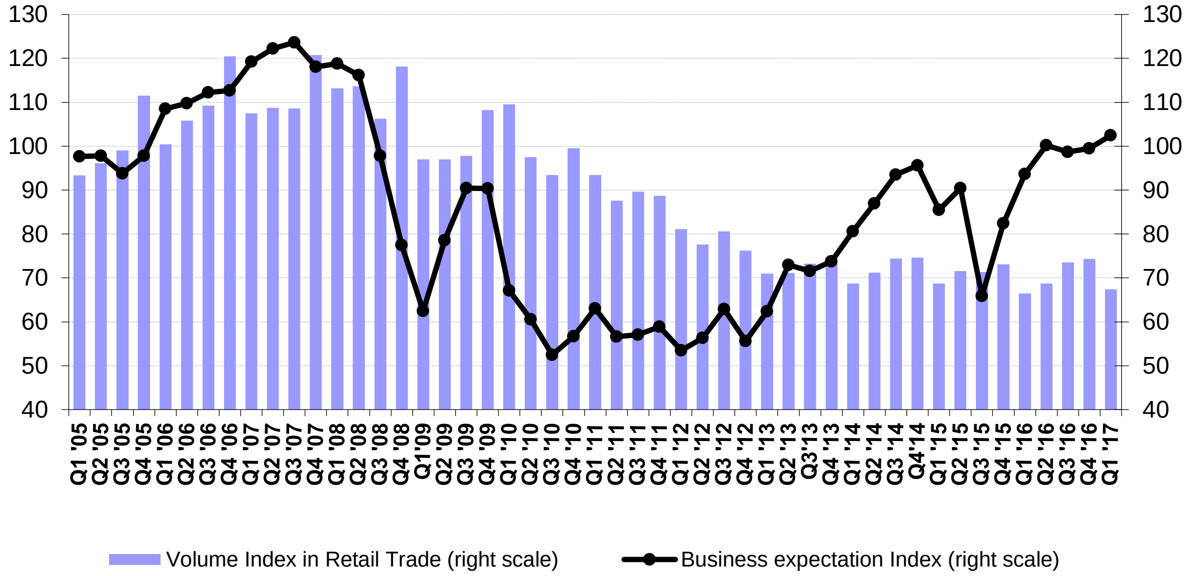
In January 2017, the volume index in retail trade was virtually unchanged, compared with a year ago when it declined by 1.6%. The sharp decline in Food-Drinks, where the index fell by 11.7%, compared with an increase of 5.9% in January 2016, is rather impressive. Significant losses were also recorded in Department Stores (-8.1%, against +14.4%), Furniture-Electrical Appliances (-7.9%, against -0.7%) and Pharmaceuticals-Cosmetics (-2.8%, against +1.8%). Output increased, albeit less than in 2016, in Clothing-Footwear (+5.7%, against +8.5%) and Supermarkets (+2.3%, against -3.3%).

The expectations in the retail trade sector as a whole remained largely unchanged year on year in the first quarter of 2017, according to the leading indicators of the **Business Surveys conducted by IOBE**. The index for retail trade overall was virtually unchanged, compared with an increase of 8 points in the corresponding period of 2016. The pessimism strengthened in Textiles-Clothing-Footwear (-13.4 points, against a drop of 1.6 points last year), Household Equipment (-11.3 points, against +14.7) and Vehicles – Spare Parts (-3.3, against -1.8). The respondents from the Food-Drinks-Tobacco subsector were less pessimistic (a boost by 9 points, against +16 last year), which also holds for Department Stores (+8 points, against +18 points in the first quarter of 2016).

In Motor Vehicles, the index stood at 103.3 points in the first quarter of 2017, compared with 106.6 points in 2016 and 108.4 points in 2015. The total car sales increased by 37.7% year on year in the first quarter of 2017. This increase was also reflected in the current sales balance of the business expectations index, which reached 13 points, as the percentage of those who reported increased sales strengthened to 38%, with a corresponding drop in the percentage of respondents reporting contraction of sales. Regarding stocks, the balance of responses remained stable (79%), while a surge was recorded in the balance regarding sales in the coming quarter, to 14 points, with an increase of those expecting stronger sales. That said, the order expectations deteriorated, as the percentage of respondents expecting an increase in orders declined while those expecting fewer orders in the next period increased. Finally, the employment expectations strengthened, as the percentage of businesses expecting employment growth increased.

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)						
	2014	**2015**	**2016**	**Jan. 2017**	**Change 2015/2014**	**Change 2016/2015**	**Change Jan. '17/'16**
Overall Index	72.2	71.2	70.8	67.4	-1.4%	-0.6%	-0.1%
Overall Index (excluding automotive fuels and lubricants)	73.3	72.9	73.2	68.9	-0.5%	0.5%	-0.3%
Store Categories							
Supermarkets	81.2	79.8	80.1	74.7	-1.7%	0.4%	2.3%
Department Stores	82.5	79.8	85.1	79.4	-3.3%	6.6%	-8.1%
Automotive Fuels	68.1	67.0	64.2	61.5	-1.6%	-4.1%	-5.4%
Food – Drink – Tobacco	67.6	65.4	64.4	52.7	-3.3%	-1.6%	-11.7%
Pharmaceuticals – Cosmetics	67.7	67.4	65.6	62.0	-0.4%	-2.7%	-2.8%
Clothing – Footwear	66.4	71.7	75.6	94.3	8.0%	5.4%	5.7%
Furniture – Electric Equipment – H. Appliances	65.3	62.8	62.1	51.5	-3.8%	-1.2%	-7.9%
Books – Stationary	89.0	95.3	99.4	92.6	7.1%	4.3%	5.6%

Source: ELSTAT

Table 3.5

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

	Q1 2015	Q1 2016	Q1 2017	2016/2015	2017/2016
Food-Drinks-Tobacco	85.4	101.3	110.0	18.6%	8.6%
Textiles - Clothing – Footwear	90.0	88.4	75.0	-1.8%	-15.2%
Household Appliances	67.7	82.4	71.1	21.7%	-13.7%
Vehicles-Spare Parts	108.4	106.6	103.3	-1.7%	-3.1%
Department Stores	73.8	91.5	99.8	24.0%	9.1%
Total Retail Trade	**85.5**	**93.6**	**94.0**	**9.5%**	**0.4%**

Source: IOBE

Wholesale Trade

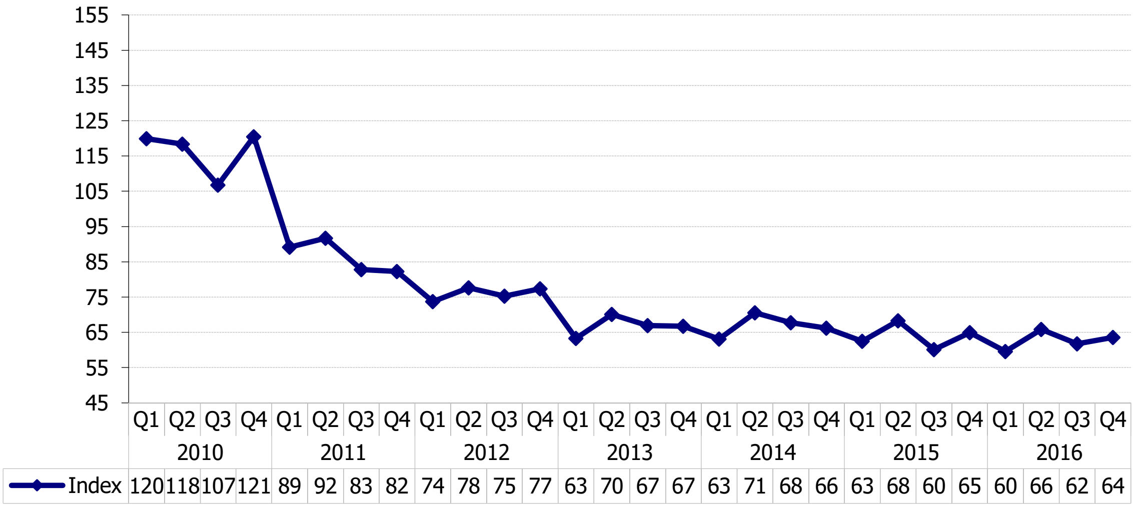
The contraction of wholesale trade continued in 2016, albeit at a slower pace. In particular, the index declined by 2.0%, compared with stronger contraction in 2015 (-4.4%). The index stood at 62.7 points on average in 2016, its worst performance in 6 years. After the new fall, the contraction since 2010 reached almost 40%.

Services

Turnover fell in nine of the thirteen sub-sectors of Services in 2016. Indicatively, turnover in Other Professional and Scientific Services was down by 43.5%, against an increase by 21.8% in 2015. Similar losses occurred in Advertising Services (branch 73), where turnover declined by 40.9%, compared with a marginal growth by 1.0% a year before that.

Figure 3.4

Turnover Index in Wholesale Trade



Source: ELSTAT

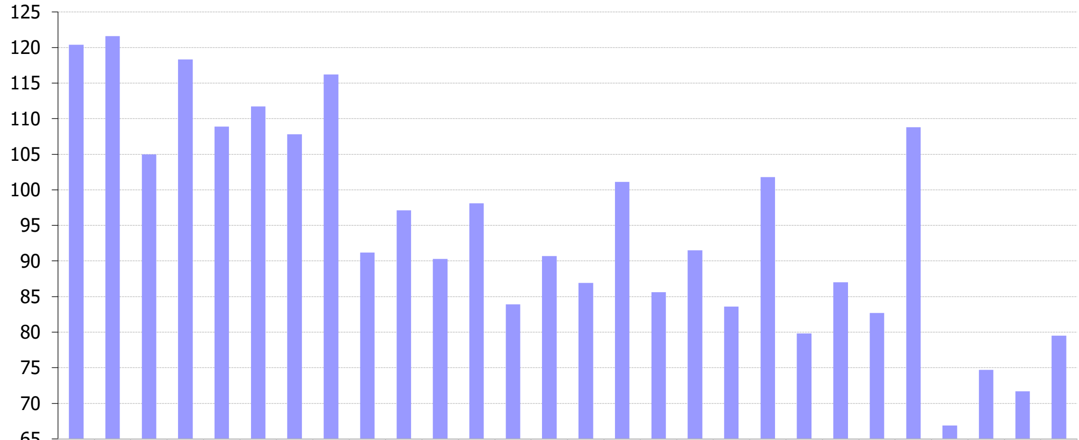
Next, Computer Programming (branch 62) came with a decline by 23.1%, against an increase by 7.6% in 2015, followed by Cleaning Activities (branch 81.2), with a decrease of 23.0%, against -32.0%. In Information Services (branch 63), output declined by 15.7%, following an increase by 45.0% a year before, while similar contraction was recorded in Telecommunications (branch 61), with the turnover falling by about 14.1% (-1.3% in 2015).

In contrast, turnover increased by 18.1% in Legal and Accounting Services (branch 69 & 70.2), against losses by 12.7% in 2015. Employment Services (branch 78) also performed well, with the relative index rising by 17.7%, against an increase by 24.2% in 2015. In Administrative Services (branch 82), turnover increased by 15.2%, from 5.8% in 2015.

According to leading indicators from the business surveys compiled by IOBE for the first quarter of 2017 in Services, in most sub-sectors the expectations improved year on year. The overall index rose by 9 points compared to the first quarter of 2016, when it lost 7.4 points. At the branch level, the representatives of Tourism were more optimistic as their expectations strengthened by 17.5 points, offsetting the heavy losses from last year (-18.3 points). A similar improvement was recorded in Financial Intermediaries (+17 points, against +2 points in 2016). In contrast, the representatives of Computer Programming became more pessimistic, as their index decreased by 5.4 points, against an increase by 9 points a year ago.

Figure 3.5

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

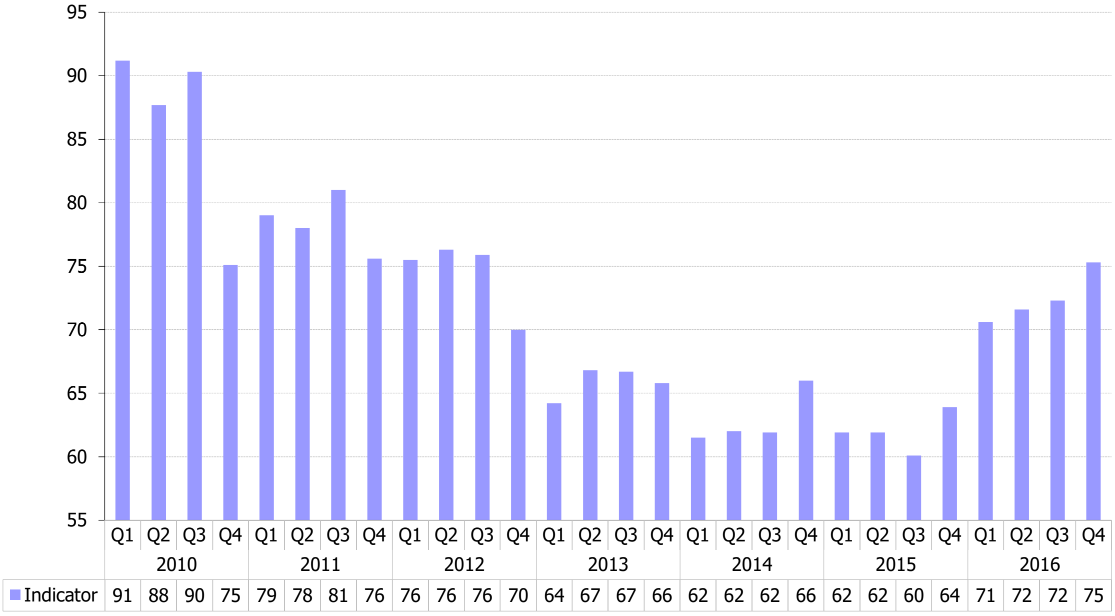


	2010				2011				2012				2013				2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Indicator	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86	92	84	102	80	87	83	109	67	75	72	80

Source: ELSTAT

Figure 3.6

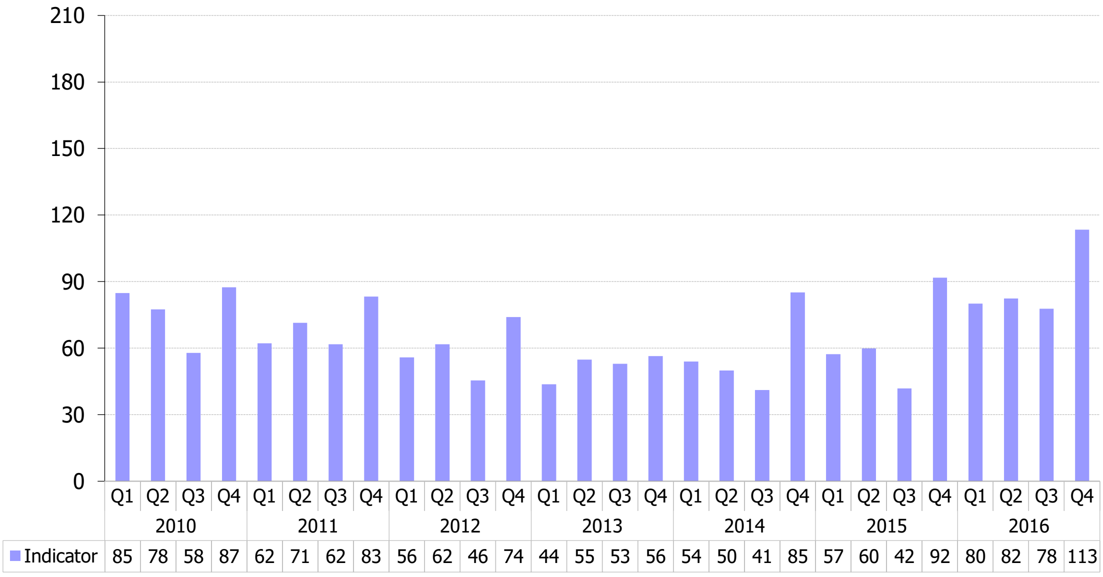
Turnover Index in Telecommunication Services **(branch 61)**



Source: ELSTAT

Figure 3.7

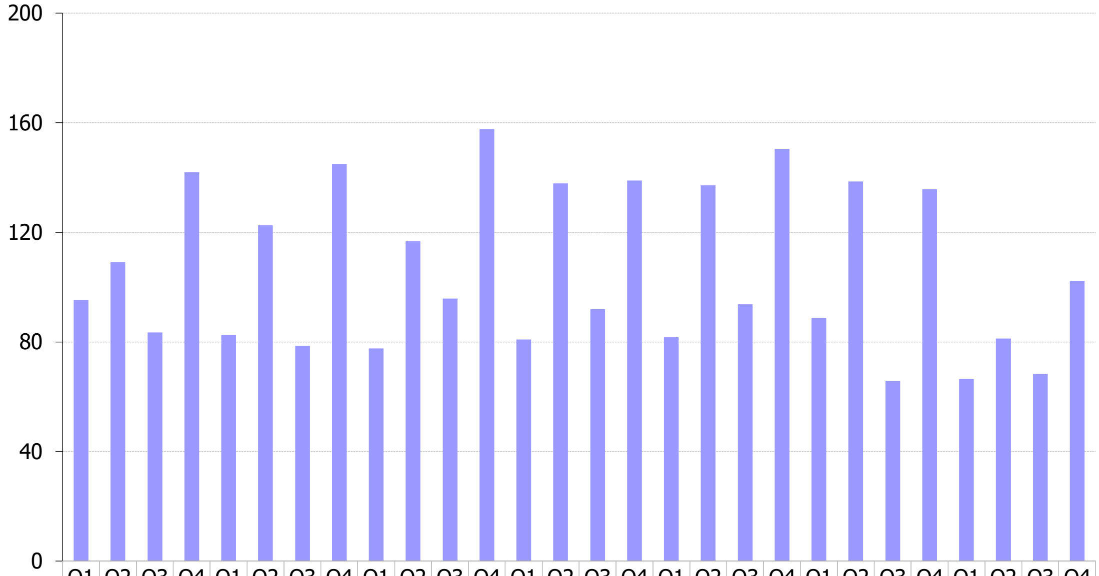
Turnover Index in Information Services **(branch 62)**



Source: ELSTAT

Figure 3.8

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

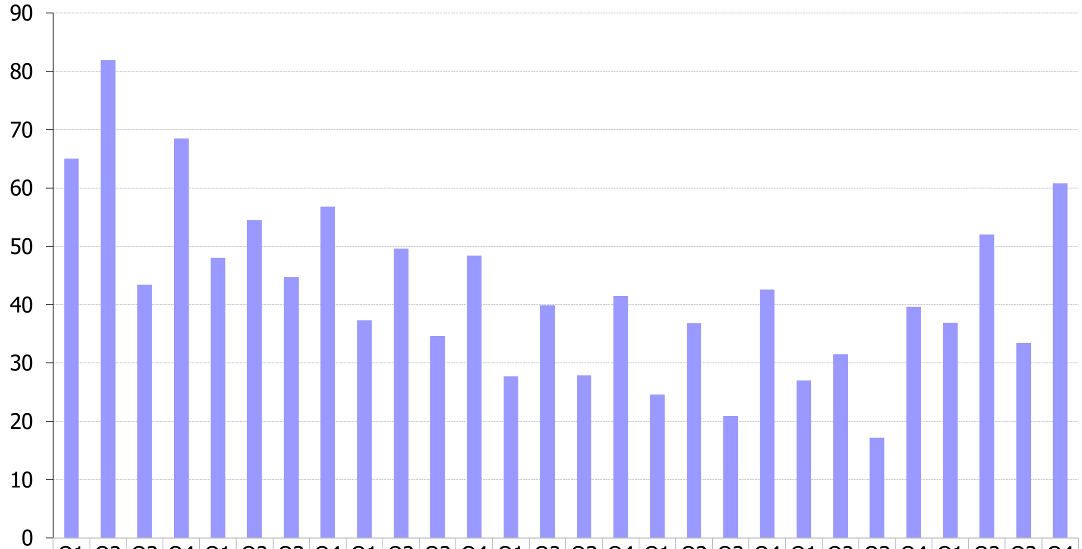


	2010				2011				2012				2013				2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Indicator	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94	150	89	139	66	136	66	81	68	102

Source: ELSTAT

Figure 3.9

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

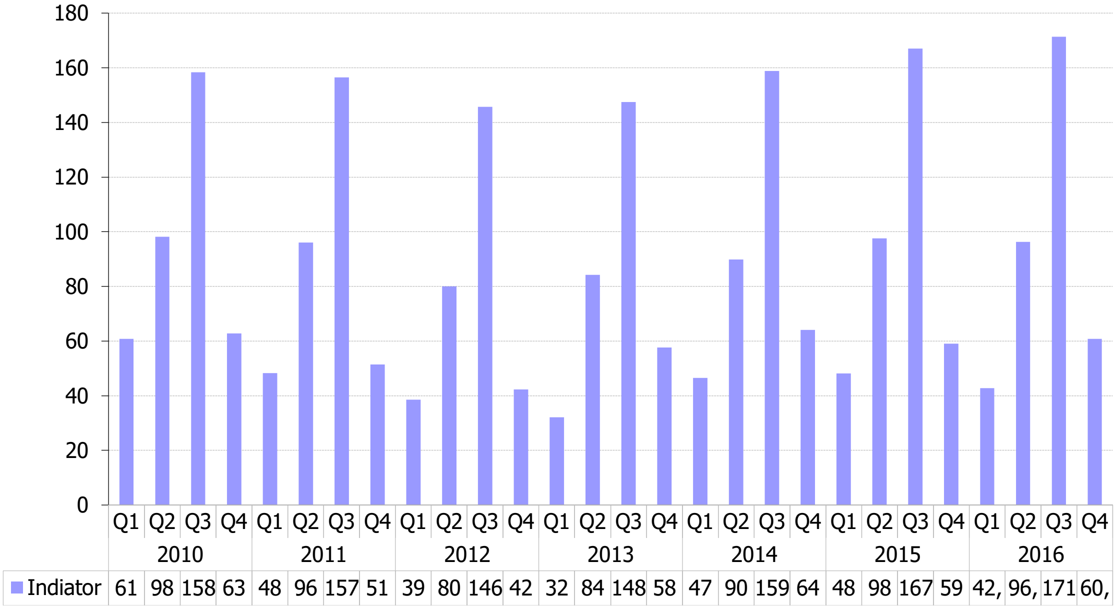


	2010				2011				2012				2013				2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Indicator	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21	43	27	32	17	40	37	52	33	61

Source: ELSTAT

Figure 3.10

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



Source: ELSTAT

Table 3.6

Turnover Indices (annual change, 2010=100)

	2014	2015	2016	% change '15/'14	% change '16/'15
Trade of Motor Vehicles	59.8	64.4	69.1	**7.8%**	**7.3%**
Land transport and transport via pipelines	87.3	82.1	80.5	**-5.9%**	**-1.9%**
Water Transport	70.1	66.4	63.3	**-5.3%**	**-4.6%**
Air Transport	109.1	117.5	122.6	**7.8%**	**4.3%**
Warehousing and support activities for transportation	86.1	88.2	95.3	**2.4%**	**8.0%**
Postal and Courier Activities	77.9	75.3	73.2	**-5.7%**	**0.9%**
Publishing Activities	59.8	51.2	47.0	**-17.4%**	**-6.1%**
Telecommunications	73.0	72.1	61.9	**-0.6%**	**0.1%**
Computer programming. consultancy and related activities	75.6	81.4	62.6	**11.0%**	**15.6%**
Information service activities	74.3	108.9	91.8	**28.3%**	**-9.9%**
Legal. accounting and management consultancy activities	104.6	91.2	107.8	**-14.9%**	**-7.0%**
Architectural and Engineering activities	51.5	53.9	52.6	**0.3%**	**-0.9%**
Advertising and market research	48.3	48.7	28.8	**2.5%**	**-6.1%**
Office administrative activities	42.7	104.3	120.1	**63.0%**	**27.4%**
Tourism	91.4	92.6	92.8	**1.3%**	**0.2%**

Source: ELSTAT

Table 3.7

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

	Q1 2015	Q1 2016	Q1 2017	% change '16-'15	% change '17-'16
Hotels - Restaurants- Travel Agencies	93.4	75.1	92.6	-19.6%	23.3%
Other Business Services	66.3	55.8	56.9	-15.8%	2.0%
Financial Intermediation	53.8	55.9	73.2	3.9%	30.9%
Information Services	67.2	76.4	71.0	13.7%	-7.1%
Total Services	**76.4**	**69.0**	**77.9**	**-9.7%**	**2.0%**

Source: IOBE.

3.3 Export Performance of the Greek Economy

The exports of goods amounted to €25.1 billion in 2016, compared to €25.5 billion in 2015, marking a **decline of 1.5%.** However, if the **exports of fuel and ships are not taken into account, the remaining exports increased by 1.2% last year**, as they stood at €18.4 billion, from €18.2 billion in 2015 (Figure 3.11). Note that the decline in oil exports came from lower oil price than in 2015, especially in the first quarter of last year. Therefore, the contraction of their value did not come from corresponding changes in quantities. Imports rose by 0.5% in 2016 and stood at €42.9 billion, from €42.7 billion a year earlier. As a result of the above trends in the main components of the external balance, the trade deficit increased by €606.5 million last year, up from a year earlier (+3.5%) to €17.8 billion, from €17.2 billion. Subsequently, the **value of the exports of goods** of the Greek economy **accounted for 58.5% of its imports**, from 56.7% in 2015. From **the provisional data for the first two months of 2017**, exports increased by 0.2%, while exports excluding fuel and ships increased by 1.6% year on year.

In greater detail, the exports of Agricultural Products increased by 7.6% last year, reaching €5.6 billion, compared with €5.2 billion in 2015, while the exports of Fuel decreased by 9.1%, thus not exceeding €6.9 billion last year, from €7.6 billion in 2015 (Table 3.8). Note that the aforementioned two product categories accounted for 49.8% of the Greek exports last year (from 50.3% in the previous year). The growth in Agricultural Products came mainly from the 10.7% increase in the demand for Drinks - Tobacco Products, the value of which stood at €729 million (from €658.3 million a year ago), thus increasing their share in total exports, from 2.6% in 2015 to 2.9% last year. In the Food and Live Animals category, which accounts for about 75.1% of the agricultural exports, exports grew by 9.7%, from €3.9 billion to €4.2 billion in 2016. In Fats-Oils of Animal or Plant Origin, which represent 11.9% of the exports of Agricultural Products, demand stood at €666.9 million last year, down by 6.7% compared to 2015 (€714.6 million).

The exports of Industrial Products declined by 0.1% in 2016, reaching € 11.04 billion from € 11.05 billion a year ago. This decline is largely due to a 3.8% reduction in foreign demand for Manufactured Goods Classified Chiefly by Raw Material by 3.8%, to €3.9 billion (from €4 billion in 2015).

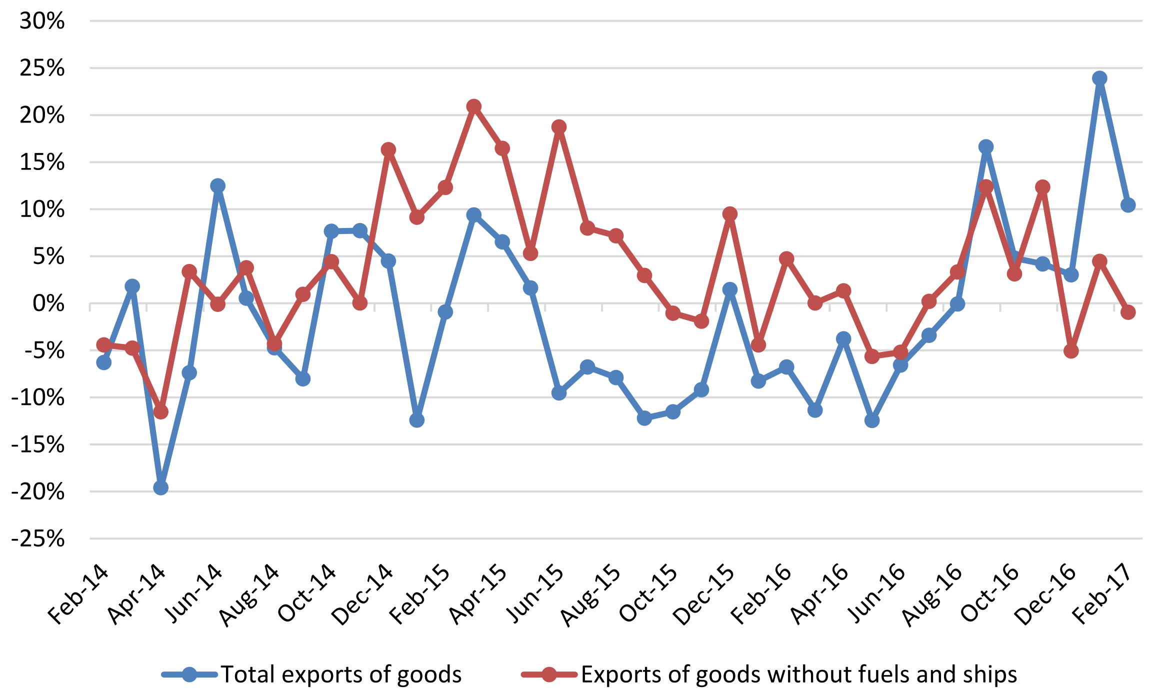
The exports of Machinery-Transport Equipment also declined, by 0.6%, while Various Industrial Goods increased by 8.4% (to €1.9 billion in 2016, from €1.7 billion), and Chemicals and Related Products by 0.6% (to €2.69 billion in 2016, from €2.68 billion a year ago).

Finally, the exports of Raw Materials fell by 0.6% (from €1.017 billion in 2015, to €1.011 billion in 2016), while the exports of Commodities and Transactions Not Classified by Category dropped by 10.5% (from €600.4 million to €537.2 million in 2016).

Regarding the export trends by geographical area, the exports to the Euro area countries expanded by 2.8%, reaching €9.8 billion, from €9.5 billion in 2015, absorbing almost 40% of the exports of Greek products in 2016. The exports to the EU increased by 2.9%, or by €397.4 million, reaching €13.97 billion, from €13.58 billion in 2015. Among the Euro area countries absorbing most of the Greek exports, growth was recorded in Cyprus, by 7.2% (from €1.4 billion to €1.5 billion in 2016), and in Germany by 4.1% (from €1.8 billion in 2015, to €1.9 billion), while the exports to Italy decreased by 3.4% (from €2.9 billion, to €2.8 billion).

Figure 3.11

Total export activity and exports of goods except for fuels and ships (% change)



Source: ELSTAT **Data processing:** IOBE

Note that the largest percentage decline of exports to the Euro area in 2016 was recorded in Latvia, which reached 33.2% (from about €24.7 million in 2015 to €16.5 million 2016), while the greatest percentage growth was observed in Estonia (+41.1% or increase by €3.2 million).

Among the remaining of member countries of the European Union, where total exports rose by 3.2% or €130 million (from €4 billion in 2015 to €4.2 billion in 2016), Bulgaria is still the most important export destination, despite the decrease in outflows compared to 2015 by 2.2% or by €27.9 million. In contrast, positive developments emerged in two other countries from this specific group which absorb a significant share of Greek exports, Romania and Poland, where exports increased by 5.3% or €37.4 million (to €744.3 million) and 17.3% or €58.2 million (to €394.4 million) respectively. The largest increase, by 32.3%, was recorded in Denmark, where the Greek exports increased by €40.4 million (from €125.2 million to €165.6 million in 2016).

In the other European countries the demand for Greek exports declined by 9%, from €4.2 billion in 2015 to €3.8 billion in 2016. In Turkey, one of the major export destinations for Greece, exports fell sharply by 21%, from €1.7 billion in 2015 to €1.35 billion in 2016. The largest contraction of exports in absolute terms last year occurred in our neighbouring country.

The exports to North American countries fell by 10% (from €1.6 billion in 2015 to €1.4 billion in 2016), mainly due to the decline in exports to the US, by 12.1%, from €1.2 billion to €1 billion last year, and to a lesser extent due to fewer exports to Canada by 3.3% (drop of €4.7 million).

The exports to the Middle East and North Africa declined by 2.6% (from €3.8 billion in 2015 to €3.7 billion last year), mainly due to a decline in exports to Egypt (-28.1%), where exports stood at €750.1 million last year, compared to €1 billion in 2015.

The decline in export activity was moderated by the rise in some North African countries, such as Lebanon (+37.1%, from €767 million in 2015 to €1 billion in 2016) and Libya (+122.3%, from €149.3 million to €331.8 million). These were the two largest increases in absolute terms that occurred in 2016. In contrast, exports declined in two other major export destinations in the Middle East, Saudi Arabia and the United Arab Emirates, by 39.3% (to €447.1 million) and 10.4% (to €241.7 million) respectively.

The flow of Greek products to Oceania was also reduced, with their value reaching €141.6 million in 2016, from €150.7 million a year earlier. A significant increase of 31.6% was recorded in the exports to the markets of Central and Latin America in 2016, with their value rising to €277.6 million from €210.9 million a year before.

The improvement in export performance to the countries of the region mainly came from the strong escalation in the demand for Greek products from Brazil, by 161.4%, which pushed their value to €94.7 million in 2016, from €36.2 million a year before.

Similarly, the demand for Greek goods increased in the Asian countries, by 5% compared to 2015, to €1.3 billion from €1.2 billion. This development was mainly due to higher demand from Singapore (+62.2%, to €264.1 million, from €172.5 million in 2015), and China (+44% to €328.1 million, from €227.9 million). In contrast, a sharp decline in the exports of Greek products, by 55.3%, was recorded in South Korea (from €298.1 million in 2015, to €133.3 million in 2016) and by 83.4% in Taiwan (from €70.7 million in 2015, to €11.7 million in 2016).

Summing up, the total value of exports stood at € 25.1 billion in 2016, compared with € 25.5 billion a year ago, marking a decline of 1.5%. The exports of goods except fuel and ships increased from €18.2 billion in 2015 to €18.4 billion in 2016. The annual growth was achieved, despite the constant shifts in the trend, from positive to negative and vice versa, throughout the year and especially during its first half.

The significance of this performance is reinforced by the fact that it was achieved with the capital controls in place throughout the year, whereas in 2015 these were in force only in the second half of the year.

Table 3.8

Exports per category in current prices (million €)

Product	Value		% Change	% Composition	
	2016*	2015*	2016*/2015*	2016*	2015*
AGRICULTURAL PRODUCTS	5,606.5	5.212,4	7.6%	22.3%	20.5%
Food and Live Animals	4,210.5	3.839,5	9.7%	16.8%	15.1%
Drinks and Tobacco	729.0	658,3	10.7%	2.9%	2.6%
Oils and Fats of animal or plant origin	666.9	714,6	-6.7%	2.7%	2.8%
RAW MATERIALS	1,011.8	1.017,5	-0.6%	4.0%	4.0%
Non-edible Raw Materials excluding Fuels	1,011.8	1.017,5	-0.6%	4.0%	4.0%
FUELS	6,908.9	7.597,8	-9.1%	27.5%	29.8%
Minerals, Fuels, Lubricants etc.	6,908.9	7.597,8	-9.1%	27.5%	29.8%
INDUSTRIAL PRODUCTS	11,043.0	11.054,3	-0.1%	44.0%	43.4%
Chemicals and Related Products	2,697.9	2.681,6	0.6%	10.7%	10.5%
Industrial Products Sorted by Raw Material	3,918.9	4.075,5	-3.8%	15.6%	16.0%
Transport Equipment	2,546.6	2.563,1	-0.6%	10.1%	10.1%
Various Manufactured Goods	1,879.6	1.734,1	8.4%	7.5%	6.8%
Other	537.2	600,4	-10.5%	2.1%	2.4%
Goods and Transactions not sorted by Category	537.2	600,4	-10.5%	2.1%	2.4%
TOTAL EXPORTS	25,107.4	25.482,4	-1.5%	100.0%	100.0%

* Provisional Data
Source: ELSTAT, PSE-KEEM

Table 3.9

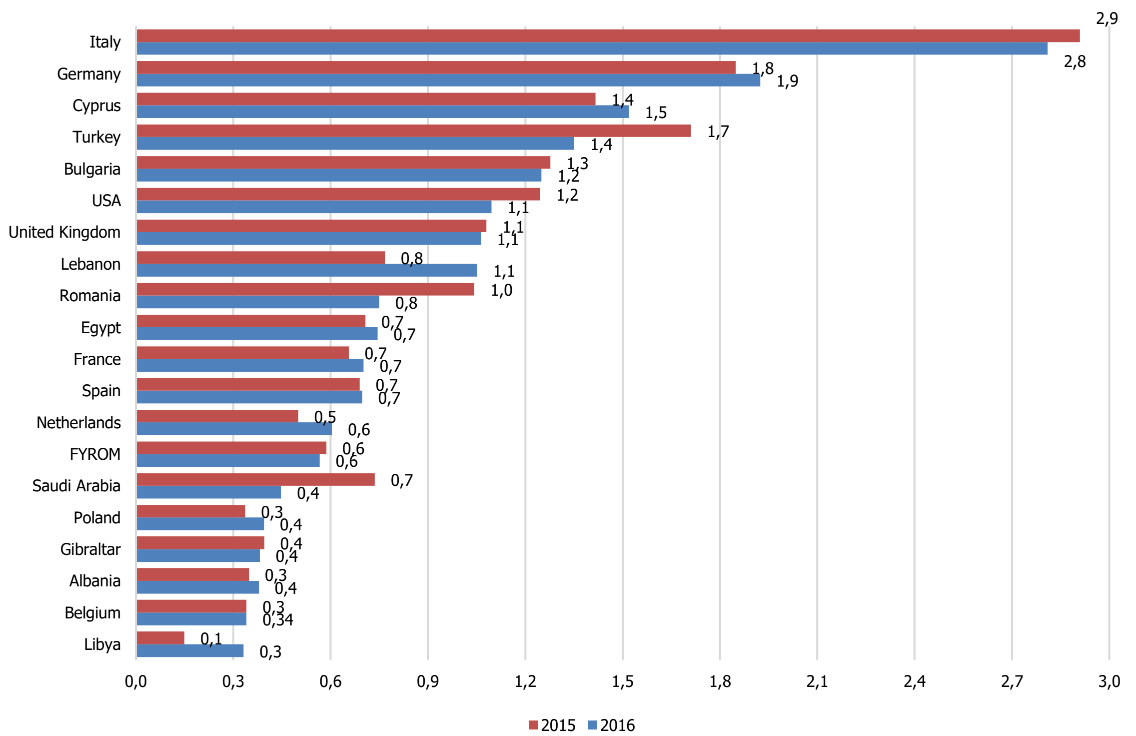
Exports by destination in 2016 and 2015*

ECONOMIC UNION – GEOGRAPHIC REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2016	2015	2016/2015	2016	2015
World	25,107.4	25,482.4	-1.5%	100.0%	100.0%
OECD	13,832.6	14,024.6	-1.4%	55.1%	55.0%
E.U. (28)	13,978.3	13,580.8	2.9%	55.7%	53.3%
Euro Area	9,772.2	9,504.8	2.8%	38.9%	37.3%
G7	7,786.7	7,942.1	-2.0%	31.0%	31.2%
North America	1,402.7	1,557.9	-10.0%	5.6%	6.1%
BRICS	753.7	587.1	28.4%	3.0%	2.3%
Middle East & North Africa	3,682.5	3,778.9	-2.6%	14.7%	14.8%
Rest of Africa	1,475.5	1,590.2	-7.2%	5.9%	6.2%
Oceania	141.6	150.7	-6.1%	0.6%	0.6%
Latin America	277.6	210.9	31.6%	1.1%	0.8%
Rest of Asia	1,311.3	1,249.2	5.0%	5.2%	4.9%
OPEC	1,382.5	1,530.2	-9.6%	5.5%	6.0%

* Provisional data for both years
Source: ELSTAT, KEEM

Figure 3.12

Countries with the largest share in the exports of Greek products (in billion €), 2016 and 2015



Source: KEEM. **Data processing: IOBE**

With regard to the expected dynamics of product exports this year, the rise in the international oil price since last September, following the decision at the International Energy Forum to limit its daily production, will boost their total value. Note, however, that the oil price growth is not strong and steady. It lasted with fluctuations until December, reaching $56, from $42 last year in August. Then it varied around this level for about two months, and in March it fell to $51-$52. With the recent escalation of hostilities in Syria, it returned to $56. Consequently, there is no apparent growth momentum. Regarding the exports of goods except fuel and ships, the trend continues to shift in early 2017. However, the persistently low exchange rate of the euro against the dollar continues to favour the international competitiveness of product exports. **Taking into account the trends in the relevant factors, the exports of goods are expected to expand this year, by more than 12%, mainly if not exclusively from the growth in petroleum products. The demand for the remaining goods is likely to remain unchanged.**

3.4 Employment-Unemployment

According to the latest data from the Labour Force Survey of ELSTAT, **unemployment in Greece decreased, for the third year in-a-row, in 2016, as it reached 23.5%, down by 1.4 percentage points in comparison to 2015 (24.9%).** The number of unemployed people decreased from 1,197,000 two years ago to 1,130,900 in 2016, that is by 66,000 or 5.5%. On a quarterly basis, the unemployment rate decreased in the final quarter of the previous year to 23.6%, against 24.4% in the 4th quarter of 2015. As a result, unemployment declined year on year for the eleventh consecutive quarter. **According to the latest unemployment data for January, the non-seasonally adjusted unemployment rate reached 24%, 1.7 percentage points lower than in January 2016 (25.7%) and 0.4 percentage points higher than in December 2016 (23.6%).**

Although the unemployment rate decreased for a third year in a row in Greece, still it has remained the highest in the Euro area-for the fourth year. Spain had the second highest annual unemployment rate after Greece, at 19.6% in 2016 from 22.1% in 2015, falling for the third year in a row. In Cyprus, unemployment decreased for the second consecutive year, to 13.1% from 14.9% in 2015. Next came, with similar unemployment rate, Italy (11.5% from 11.9% before 2 years) and Portugal (11.2% in 2016 from 12.6% in 2015).

The lowest unemployment rate in 2016 was recorded in Germany, where unemployment decreased for the seventh year in a row, to 4.1% from 4.7% two years earlier. Malta came next, where the unemployment rate decreased from 5.4% in 2015 to 4.7% in 2016, followed by the Netherlands and Austria, with the same unemployment rate of 6% (from 6.9% and 5.7% respectively).

In the meantime, in two other major European economies, France and the United Kingdom, unemployment decreased to 10.1% and 4.9% respectively, from 10.4% and 5.4% the year before.

Unemployment in Greece has hit women stronger than men over time. In 2016, the unemployment rate among women was 8.3 percentage points higher than the unemployment rate among men (28.1% against 19.9%). The gender gap widened in comparison to 2015, when it stood at 7.1% (28.9% and 21.8% respectively). In the Euro area, the 2016 unemployment rate stood at 9.7% for men (from 10.7% in 2015) and 10.4% for women (from 11% in 2015), implying a gender gap of unemployment at 0.7 p.p. Since 2007, the difference in unemployment rates between men and women in Greece has stood on average at 6.8 p.p., while in the Euro area it has totalled 0.6 p.p.

Regarding the **age composition**, unemployment decreased last year stronger amongst the young. In particular, the largest drop was observed among people aged 25-29 years old (from 36.8% in 2015 to 33.8% in 2016), followed by those aged 15-19 years old and 20-24 years old, where the unemployment rate decreased by 2.5 p.p. (from 59% to 56.5% and from 48.8% to 46.2% respectively). The decrease of unemployment was lower among people aged 30-44 years old, where it totalled 22.3% from 24% the year before last. In contrast, the unemployment rate increased by 0.2 p.p. and 2.8 p.p. among people aged 45-64 years old and those aged above 65 years old respectively (to 19.4%, from 19.2% and to 12.8%, from 10%, respectively).

Regarding the **long-term unemployment**, the downward trend that emerged for the first time in 2015, after five years of steady expansion, remained in 2016, as the rate of long-term unemployment decreased to 72% from 73.2% in 2015, while the number of long-term unemployed fell to 813,900 from 875,200 (decrease by 61,300 people or 7%).

With regard to the **education level**, unemployment declined among all categories, except for the holders of primary school certificate, for whom the unemployment rate remained unchanged. The strongest decrease by 18.9 p.p., from 50.3% in 2015 to 31.4% in 2016, was recorded among those that never attended school. Next, with a much weaker decrease of unemployment, came the category of people who received but did not finish primary education (from 36.4% to 31.1%). Among the remaining education levels, the people with lower secondary education had an unemployment rate of 27.7% in 2016. Among those with upper secondary education certificate, the unemployment rate declined to 25.7% in 2016 from 27% in 2015. Finally, among the university graduates and the holders of postgraduate degrees, which have recorded the lowest unemployment rates over time, unemployment fell to 17.9% in 2016 from 19.5% in 2015 and to 11.7%, from 12.9%, respectively.

Regarding the **regional composition**, the unemployment rate decreased in 9 of the 13 regions of the country. In 3 of the 4 remaining regions, unemployment increased only marginally. The strongest decrease of unemployment in 2016, by 3.1 p.p., was recorded in Peloponnese and the Ionian Islands. The unemployment rate fell in Peloponnese from 22.3% to 19.2% and in the Ionian Islands from 19.3% to 16.2%. In the biggest region, Attica, unemployment declined for the third year in a row, from 25.2% to 23%. The same decrease of unemployment (1.5 p.p.) was recorded in Thessaly and Central Macedonia, to 25.5% from 26.9% in the former and to 24.5% from 26% in 2015 in the latter. In the regions with the highest unemployment rate, West Macedonia and Western Greece, unemployment increased in 2016, by 0.5 p.p. (from 30.7% in 2015 to 31.2% in 2016) and 1.4 p.p. (from 28.5% to 29.9%) respectively. Finally, in the region with the lowest unemployment, the South Aegean, the rate totalled 17.5%, from 15.2% in 2015, which means that it increased by 2.3 p.p., the strongest increase among the Greek regions.

Regarding the **basic economic sectors**, employment has steadily declined in the Primary Sector since 2011, with the exception of 2013. In 2016, the employment in this sector fell by 2.4% or 11,200 people (from 465,700 in 2015 to 454,500 in 2016). In the Secondary and Tertiary sectors, employment increased for the second and the third consecutive year respectively. In the former, employment increased by 3.8% in 2016, to 560,000 from 539,400 in 2015, while in the latter it increased by 2% or 53,400 (from 2,605,600 to 2,659,000).

Employment increased in 15 of the 21 **branches of economic activity**, including significant for the Greek economy subsectors. In Manufacturing, employment expanded for the second year in a row in 2016, to reach 347,700 from 334,500 people in 2015. In Tourism, the number of employed people increased for the third consecutive year, to 342,100 in 2016 from 325,600 in 2015. In Public Administration and Defence, employment expanded for the second year in a row, to 331,300 from 312,700 in 2015. In Construction, the employment rate increased for the second consecutive year, reaching 147,100 from 145,200 in 2015. In contrast, in Wholesale and Retail Trade, which absorbs ¼ of the total number of employed people, the employment rate marginally declined in 2016, by 2,900 people (from 660,800 to 657,900). The fall of employment was stronger in Professional-Scientific-Technical Activities, by 3.3% (from 208,600 to 201,700). Finally, in Education and Health-Social Work Activities, employment increased for the third (+0.4%, from 294,000 to 295,100) and for the second year in a row (+1.9%, from 214,200 to 218,400) respectively.

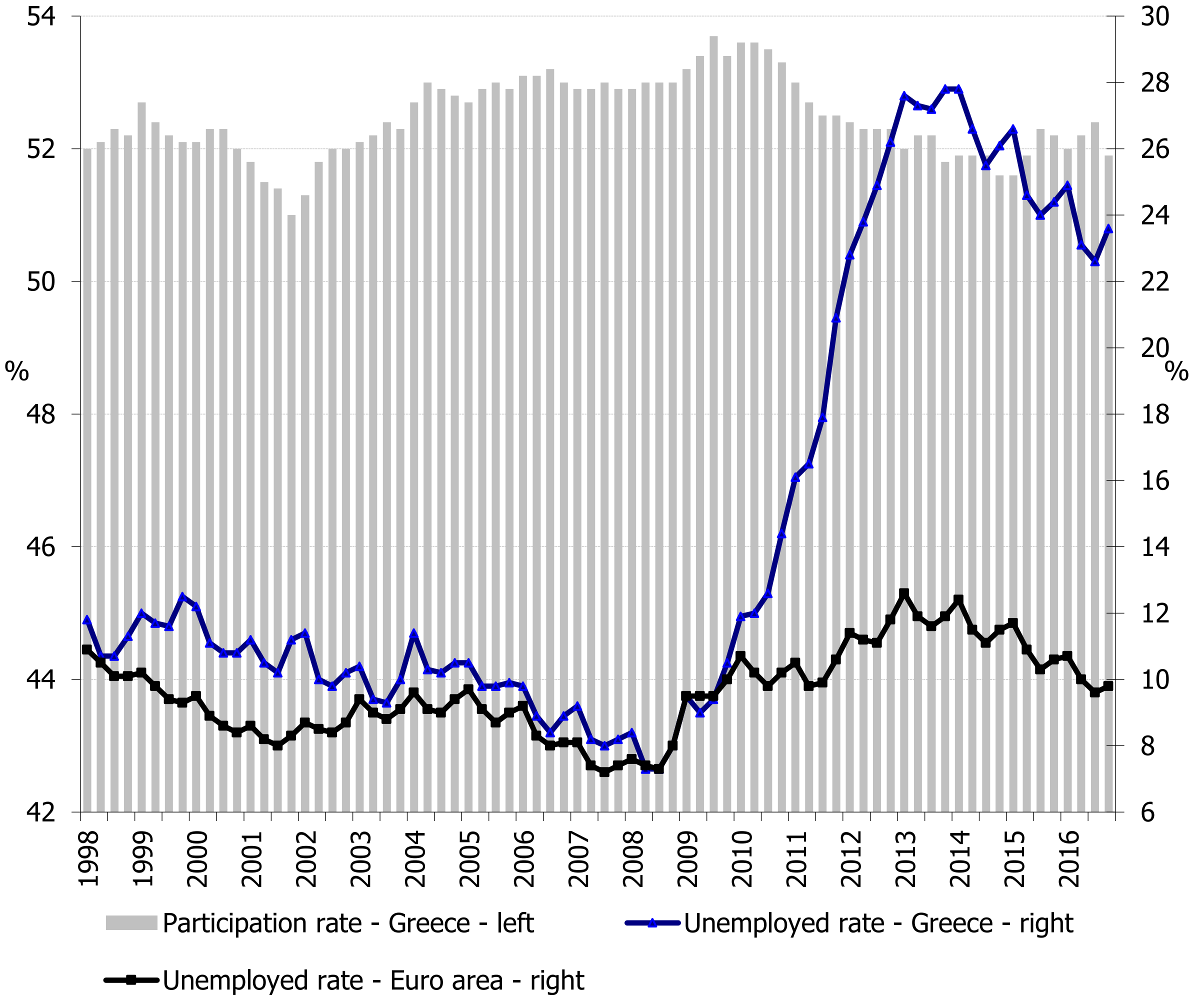
In conclusion, the annual employment data at the sector level shows that the increase in employment rate in 2016 mainly came from:

- Increase of employment in Public Administration-Defence (+18,600 or 6%), mainly as a result of the execution and completion of community work programmes
- Employment growth in Transport-Storage (+16,600 or 9.8%)
- Growth in Tourism (+15,600 or +4.8%)
- Increase of employment in Manufacturing (+13,200 or +3.9%), consistent with the increase of the Industrial Production Index last year by 2.4%.

Total employment increased despite the further job losses in the Primary Sector (-11,200 or -2.4%) and in Professional-Scientific-Technical Activities (-6,900 or -3.3%).

Figure 3.12

Labour force participation and unemployment rates



Source: ELSTAT – Labour Force Survey, Eurostat

Medium-term outlook

Given the data for the course and structure of unemployment in Greece for 2016, it is evident that its decline came primarily from employment growth in the public sector. The positive effect on employment from the sectors of Transport, Tourism and Manufacturing came next.

In the current year, provided that the second review of the Economic Adjustment Programme will conclude successfully and after that the mid-term measures for public debt restructuring will be clarified, developments that would greatly limit the uncertainty concerning the prospects of the economy and the country in general, the labour market is expected to strengthen further. At the sector level, positive effect will come from most of the sectors that drove the fall of unemployment last year.

The expected boost of the demand for export and thus of the activity of export-oriented sectors, which include certain Manufacturing branches, Tourism and Transportation, will have a positive impact on their employment, too. In Tourism in particular, the Greek Tourism Confederation SETE is forecasting an increase of foreign tourist arrivals by two million. Tourism revenues are also projected to grow, by 9%, after their decline by 6.4% in the previous year. According to the latest data from SETE, concerning the first quarter of 2017, there is already an uptick in international arrivals at the main airports of the country, by 1.7% year on year (from 883,700 to 898,800). If these predictions are confirmed, the employment rate in Tourism in the current year is going to be one of the major drivers of unemployment decline.

Regarding employment in the construction sector, the expansion of public works in recent years will probably not carry over to this year. However, as no changes are expected in the taxation of real estate property for households and businesses, it is now likely that the long-term contraction in building activity will no longer continue.

Moreover, from the second half of the year, especially in its last quarter, new job creation in this sector is expected due to investment related to privatisations - concessions completed last year, but expected to mature later in the current year.

Regarding employment in the Public Sector, as stated in the previous report, according to the 2017 Draft State Budget, 43,000 temporary jobs are expected to be created in community work for the unemployed, together with short-term employment opportunities for additional 52,000 long-term unemployed. Recently, almost 23,000 beneficiaries were hired as part of an OAED-run programme of community work in municipalities. Through another programme, 3,150 long-term unemployed are going to be employed in the health sector. As a result, the public sector will also exercise a positive impact on employment.

Table 3.10

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

Quarter/Year	Total	Percentage (%) of population	Employed	Percentage (%) of the labour force	Unemployed	Percetage (%) Of the labour force
1998	8,680.4	52.1	4,017.9	88.8	507.9	11.2
1999	8,764.5	52.3	4,031.4	87.9	554.7	12.1
2000	8,839.8	52.2	4,088.5	88.6	523.5	11.4
2001	9,156.0	51.4	4,202.1	89.2	508.4	10.8
2002	9,188.3	51.8	4,265.0	89.7	492.7	10.4
2003	9,234.9	52.3	4,353.2	90.2	472.7	9.8
2004	9,285.3	52.9	4,389.5	89.4	520.0	10.6
2005	9,332.4	52.9	4,443.6	90.0	493.6	10.0
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
2011	**9,372.9**	**52.7**	**4,054.4**	**82.2**	**881.8**	**17.9**
2012	**9,344.8**	**52.3**	**3,695.0**	**75.6**	**1,195.1**	**24.4**
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**
Q1 2016	9,226.3	52.0	3,606.3	75.1	1,195.1	24.9
Q2 2016	9,217.2	52.2	3,702.6	76.9	1,112.1	23.1
Q3 2016	9,208.3	52.4	3,736.7	77.4	1,092.6	22.6
Q4 2016	9,199.4	51.9	3,648.6	76.4	1,124.0	23.6
2016	**9,7212.8**	**52.1**	**3,673.6**	**76.5**	**1,130.9**	**23.5**

Source: ELSTAT, Labour Force Survey

In contrast, the new increase in indirect taxes (e.g. excise duty on fuel and cigarettes) and the imposition of new taxes (coffee), together with the fiscal measures that have exerted pressure on the disposable income of individuals since the fourth quarter of the previous year (tax allowance reduction, cuts in supplementary pensions) will also negatively affect their consumption demand. Subsequently, similar effects will occur on the activity of Wholesale and Retail Trade, the major branch of the Greek economy in employment terms, and its jobs.

Taking into account the above effects, unemployment is expected to remain on a downward path for the fourth consecutive year. That said, its decrease is going to be weaker than last year, by slightly more than a percentage point, to 22.2%.

According to the latest data from the IOBE Business and Consumer Surveys, **the short-term employment expectations strengthened quarter on quarter in the first quarter of 2017 in all sectors, to a greater extent in Retail Trade and Industry and to a lesser extent in Construction and Services.**

Year on year, expectations strengthened in all sectors, except Construction, where the balance deteriorated. The employment expectations indicators have remained negative in Construction and Services.

In greater detail:

In Industry, the negative balance of the previous quarter strengthened by 8 points in the first quarter of the new year to +2 points. Year on year, the average quarterly index increased by 7 points. In the examined quarter, the share of industrial enterprises expecting a rise in employment in the next period doubled to 10%, while the percentage of those expecting job losses dropped to 8% (from 11%). The vast majority of businesses in the sector (82% from 84%) were expecting employment to remain stable.

In Construction, the expectations strengthened by 2 points from a relatively low level on average, to -50 points, by 33 points lower year on year. In the first quarter of 2017, 58% (from 60%) of the companies in the sector were expecting fewer jobs, with 8% of the respondents expecting employment growth.

At the sector level, the rise in Public Works (-66, from -69 points on average) compensates for the fall in Private Construction (-18, from -16).

In Services, the employment expectations also marginally improved, both quarter on quarter and year on year. The balance of expectations increased from -8 points in the previous quarter, to -6 points the first quarter, when in the same period of last year, it stood at -11 points on average. Of the companies in the sector, 17% were expecting once again a fall in employment, with those expecting growth increasing to 11% (from 9%).

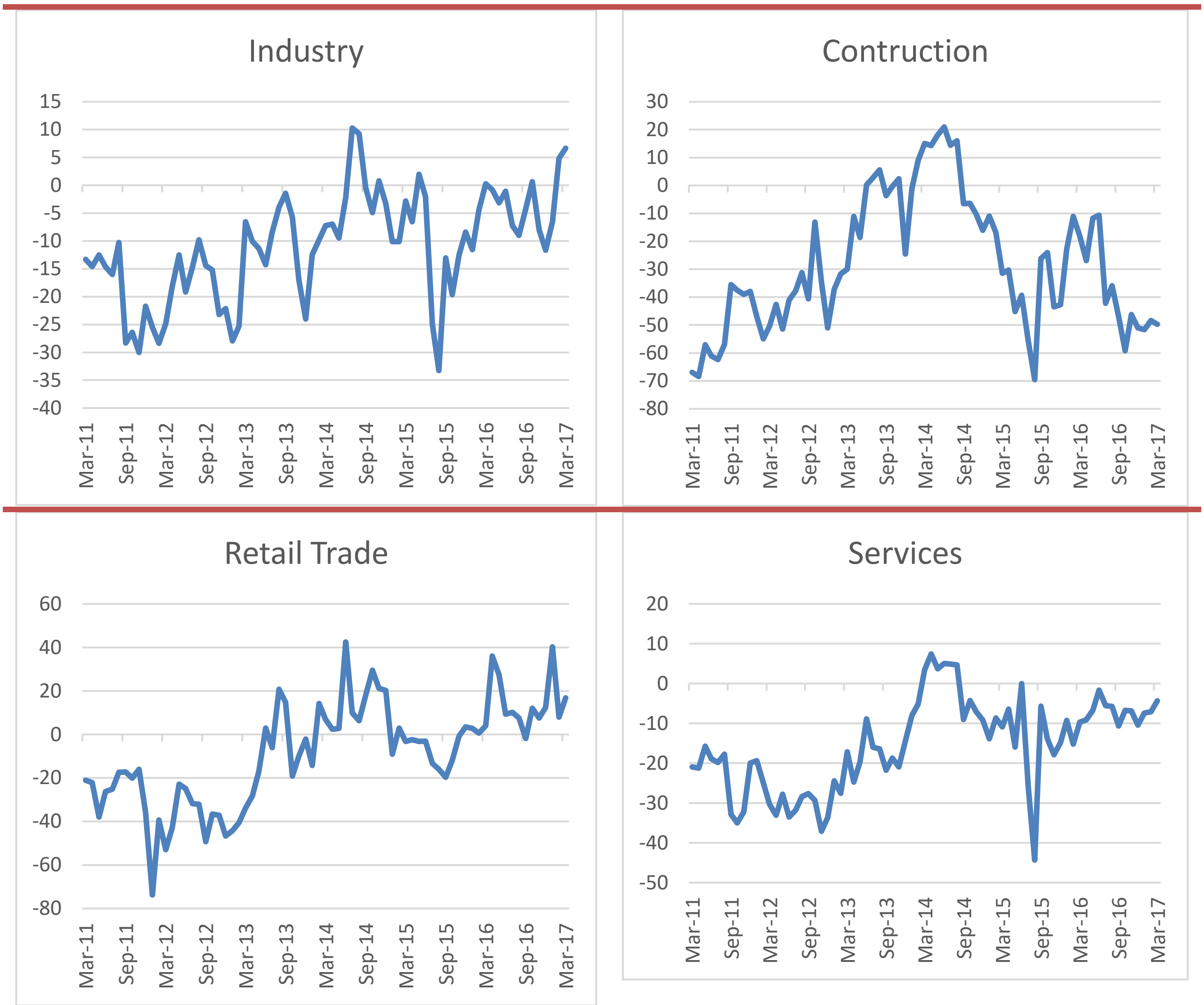
At the sector level, the trend is mainly positive, with the exception of Information Services and Financial Intermediaries, where the employment expectations indicator decreased in the first quarter of the year.

The employment expectations indicator increased quarter on quarter in Retail Trade in the first quarter of the year, to +22 (from +11) points. This performance is notably better than in the previous year (+2 points). About 6% of the businesses in the sector were still expecting job cuts, while 27% (from 13%) were expecting employment growth, with the share of those expecting no change in employment falling to 67% (from 84%) of the total.

The employment expectations strengthened in all constituent branches in the first quarter of 2017, except for Household Appliances, where the indicator declined notably.

Figure 3.13

Employment expectations (difference of positive – negative responses)



Source: IOBE

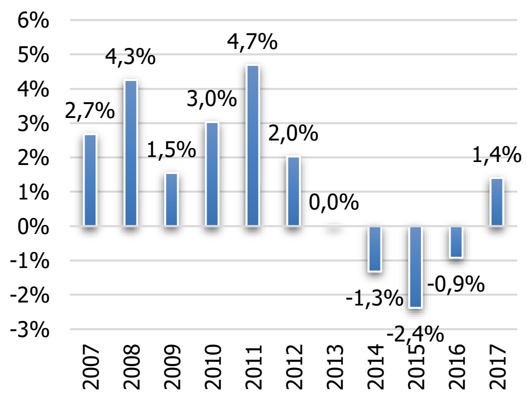
3.5 Consumer Prices

The Greek Economy, after almost four years of continuous deflation, experienced a 1.4% inflation in the first quarter of 2017. The corresponding change of the Consumer Price Index (CPI) in 2016 was negative, by 0.9%.

The rising international oil price since last October, together with the increase of the excise duty on motor oil and liquefied petroleum gas since the beginning of current year, are the most likely causes of the upward price trend since the beginning of the year. The increase of the excise duty on tobacco and cigarettes, and the levy of new taxes on landline telephony and coffee, also from 1 January 2017, contributed as well to the upswing of prices. The effects of these developments are reflected in the price movements of specific categories of goods and services, comprising the CPI.

Figure 3.13

Average annual CPI changes in Greece (January-March, 2007-2017)



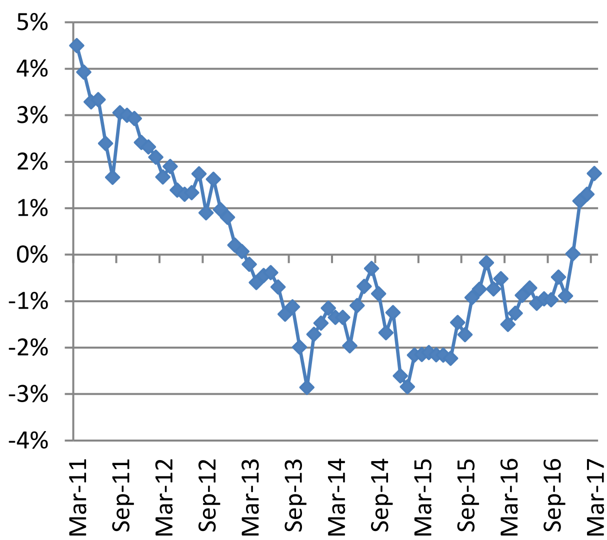
Source: ELSTAT, data processing IOBE

Prices increased in the first quarter in half of the 12 categories of goods and services. In particular, the strongest price growth was recorded in Transport (+6.8%, from -3.3% in 2016) and Housing (+3.8%, from -4.5%). The prices in these specific categories of services are greatly affected by the oil price and the indirect taxes on petroleum products, which increased significantly, as mentioned before. Next came Alcoholic Drinks - Tobacco (+2.6%, from +1,3% in 2016), Telecommunications (+2.1%, from no price change) and Hotels-Cafes-Restaurants (+1.6%, from +2.7% in the previous year). All these categories were affected by higher indirect taxes. Food – Non-alcoholic drinks is the category with the smallest price increase (+1.3% from +0.6%), perhaps driven by the VAT hike in June 2016.

Prices declined over the same period in Education, by 0.3% (from -1.3% in 2016), Recreation by 1.3% (from -1.8% in 2016), Other Goods by 1.6% (from 2.9%), Health by 1.8% (from +2.9% in 2016) and Durables 2.6% (from +0.2% last year). The strongest deflation was recorded in Clothing (-3.0%, from -4.1% in 2016).

Figure 3.14

CPI in Greece (annual percentage changes)



Source: ELSTAT, data processing IOBE

The Harmonized Index of Consumer Prices (HICP) in Greece increased in the first quarter of 2017 by 1.5%, compared with 0.3% decline last year. In the Euro area, where the average inflation rate reached 1.8%, HICP increased in all the countries in the first quarter of 2017. Greece was placed very close to the middle of the ranking.

Stronger inflation than Greece was observed in Latvia and Estonia (+3.1% in both), Belgium and Lithuania (+3.0% in both), Spain (+2.7%), Luxemburg (+2.6%), Austria (+2.2%), Slovenia (+2.0%) and Germany (+1.9%).

Weaker price changes than in Greece were recorded in France (+1.5%), Portugal and Italy (1.4% in both), the Netherlands and Malta (+1.3% in both), Cyprus (+1.1%), Finland (+1.1%), Slovakia (1%) and Ireland (+0.4%).

According to the latest data, the Producer Price Index (PPI) of the domestic and foreign markets overall increased by 10.5% in the first quarter of this year. That was the second highest increase in the last eleven years for the specific period of the year, after that in 2008. It came after a strong PPI drop in the corresponding period of last year (-9.4%).

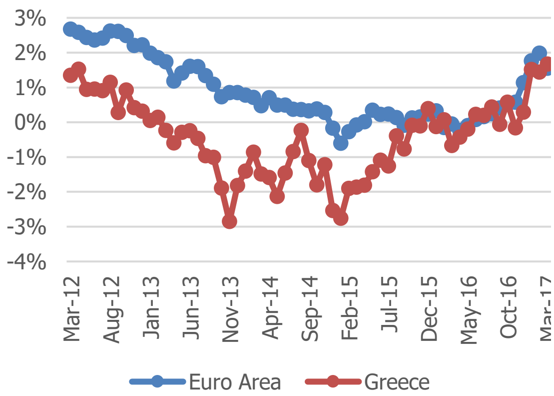
At the sector level, the strongest inflation in the first quarter was recorded in Energy goods except electricity (+56%), Energy goods (+27%), and Mining-Quarrying-Manufacturing (+13%). Weaker inflation was recorded in Intermediate goods (capital or not) and Durables.

According to the latest data on the first two months of 2017, Greece experienced the greatest increase of the import price index among the Euro area countries, by 11.8%.

Figure 3.15

HICP in Greece and the Euro area

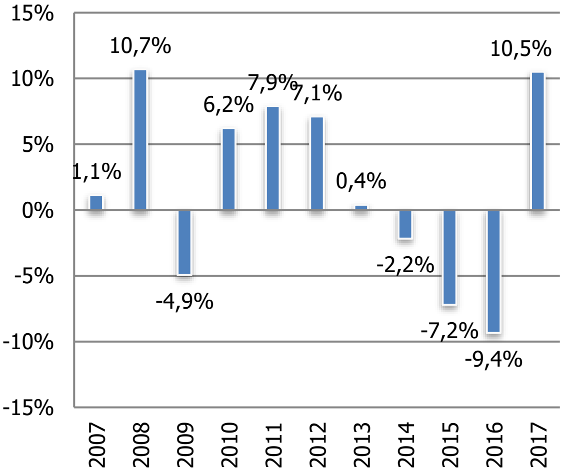
(annual percentage changes)



Source: Eurostat, data processing IOBE

Figure 3.16

Average change of PPI in Greece (January-February, 2007-2017)



Source: ELSTAT, data processing IOBE

The index increased in all the Euro area countries with available data. In particular, the import price index increased in the Netherlands (9.7%), Spain (9.4%), Estonia (6.5%), Germany (6.4%), France (5.8%), Italy (5.2%), Slovenia (4.9%), Latvia (4.8%) and Denmark (2.3%).

Medium-term outlook

As evident from the analysis of the Consumer Price Index movements in the first quarter in 2017, the key deflation driver from the autumn of 2014 to the end of 2016, the fall of oil prices, has reversed its course since last October, after the decision at the International Energy Forum for reduction of the daily oil production. That said, since the end of December 2016, the oil price is fluctuating between $52-$56, without a steady, positive trend. Nevertheless, it has remained at a level, way higher than in the corresponding period of 2016. Increases in indirect taxes on motor oil and LPG have pushed up the retail prices of petroleum products since the start of 2017, an impact that is going to be preserved in the current year. Similar trends were observed and are expected to persist from the increase of the remaining indirect taxes from 1st January 2017, on tobacco and cigarettes, landline telephony and coffee, preserving the increase of CPI, as these taxes concern goods and services of wide consumption, with a great weight in the calculation of the overall index. As a result, **higher oil prices and indirect taxes will bring the deflation of the previous four years to an end, leading to an increase of CPI in 2017 at about 1.5%.**

Valuable 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 are mixed in the first quarter of 2017, with the balance in Private Construction retaining its negative sign. In particular, the balance of price expectations in the examined quarter slightly increased quarter on quarter in Industry and more notably in Private Construction, while in contrast it decreased slightly in Retail Trade and stronger in Services. Year on year, the price expectations strengthened in all sectors, except Services.

In particular:

In Industry, the prices expectations in the first quarter of the year increased by 4 percentage points quarter on quarter, with the index changing sign and growing to +3 points, higher year on year by 14 percentage points. Among the companies of the sector, about 9% on average expected further decrease of prices over the coming period, with 79% (from 83%) expecting price stability and 12% (from 8%) inflation.

In Retail Trade, the price expectations index of +8 points from the preceding quarter moved to +6 points in the quarter under examination (from +2 points in the corresponding quarter of last year). Among the companies of the sector, 7% (from 5%) were expecting prices to fall in the short term, while 13% were once more expecting prices to increase, with the remaining 80% (from 82%) expecting price stability.

In the Retail Trade subsectors, the price expectations weakened quarter on quarter in Food-Drinks-Tobacco, Textiles-Clothing-Footwear and Household Appliances, strengthened in Motor Vehicles and remained unchanged in Department Stores.

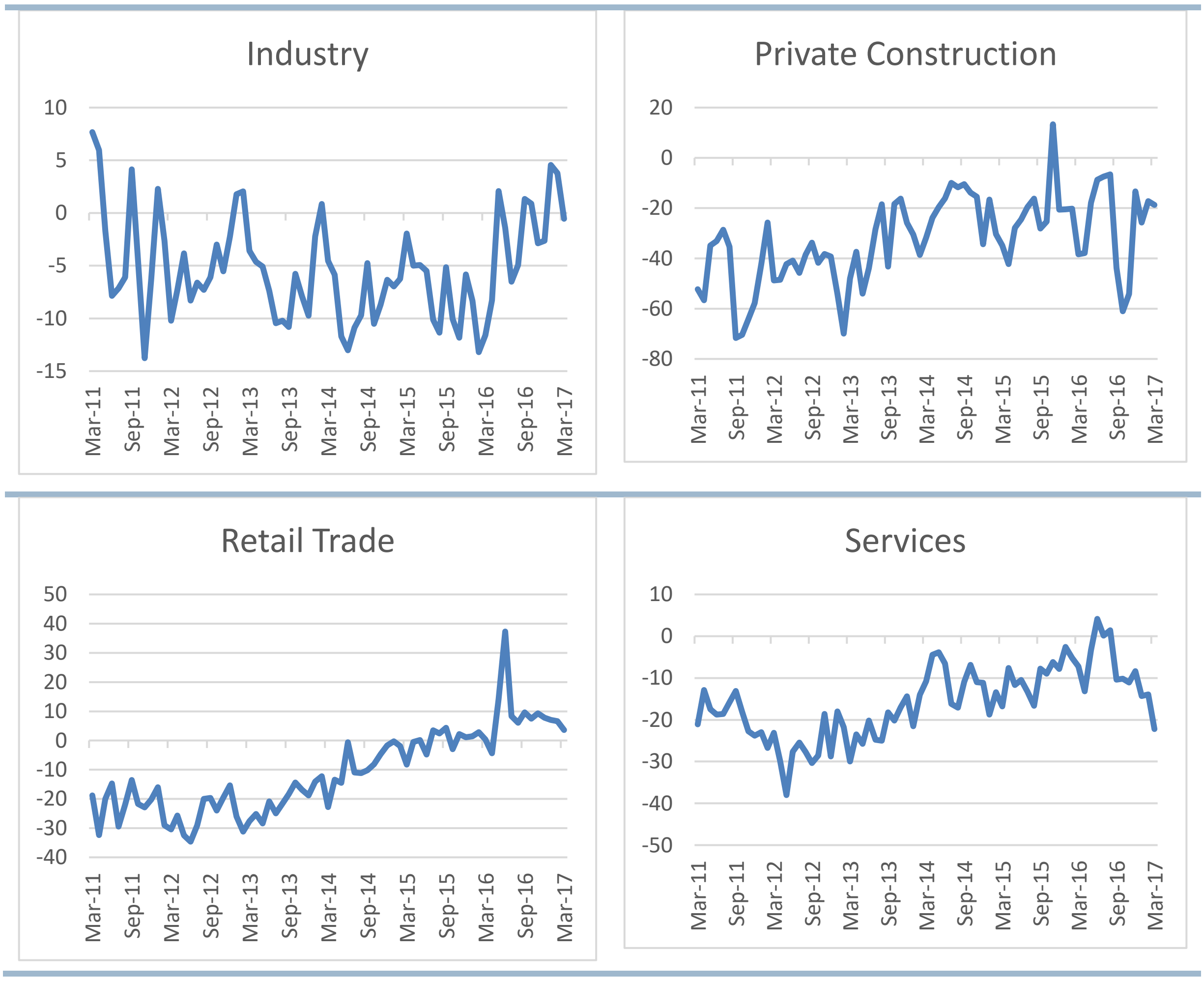
The average index of price expectations in Services fell quarter on quarter in the examined quarter, to -17 (from -10) points, lower year on year as well (from -5 points). About 21% (from 14%) of the companies in the sector were expecting price to decrease and 4% were anticipating inflation.

In the subsectors, the index increased in Hotels-Restaurants, Travel Agencies and Financial Intermediaries, falling in the remaining subsectors.

Finally, in Private Construction, the negative balance of price expectations eased, to -21 (from -43) points, slightly higher year on year (from -26 points on average). About 22% (from 43%) of the companies in the sector were predicting prices to decrease, while the percentage of those who expecting price growth was marginally positive (from zero).

Figure 3.17

Price expectations (% difference between positive and negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account - January-February 2017

In the first two months of 2017, the Current Account eased to €1.2 billion, from €1.6 billion in the same period of the previous year. In 2017, the deficit of the goods account expanded to €3.1 billion, from €2.6 billion in the first two months of the previous year, mainly due to stronger growth of imports compared to exports of goods, partly due to fuel price growth. In contrast, the surplus of the services account increased to €656 million, compared to €403 million in 2016, as the receipts from transport and other services strengthened, while tourism receipts weakened. The Primary Income Account gave a significant boost to the Current Account balance in the first two months of 2017. As a result, stronger surpluses in these two accounts overcame the expansion of the deficit of the Goods Account.

In 2016 overall, the **Current Account Balance**[42] was in deficit of €1.1 billion, compared with a surplus of €205.8 million in 2015. The contraction in the trade deficit was offset by the significant decline in the services surplus resulting in a change of the sign of the current account balance in 2016.

Regarding its components, the **Goods Account** deficit stood at €16.6 billion as it shrunk by 3.8% or €649 million, compared with a stronger decline of €5.0 billion in 2015 in 2015, mainly due to imports. Exports stood at €24.5 billion, slightly down by 1.2% (-€301 million).[43] The decrease mainly came fuel exports (-€558 million). Imports stood at €41.1 billion, down by 2.3% (-€950 million). In 2016, the deficit of the **Goods Account excluding fuel and ships** expanded by 8.1%, as exports increased by €277 million, with a significant increase in imports by €1.3 billion.

The surplus in the **Services Account** declined again in 2016, to €15.3 billion, from €16.9 billion in 2015, due to a stronger decrease in receipts than payments. Total receipts amounted to €25.0 billion, down 10.4% (€2.9 billion), while payments stood at €9.7 billion, down by 11.7% (€1.3 billion). Tourism receipts stood at €13.2 billion, down 6.5%, while transport receipts declined by 21.6% (€2.1 billion). Finally, receipts from other services increased by 4.4% (+€169 million). The payments for travel declined slightly, by 1.6% to €2.0 billion, while transport payments declined by 18.0% to €4.5 billion. Payments for other services declined by 7.8%, to €3.2 billion.

The surplus in the **Primary Income Account** fell to €750.1 million in 2016, from €1.0 billion in 2015. Revenues decreased by 11.6% to €6.6 billion, while

[37] 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). 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

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

payments fell by 9.2% to €5.9 billion. In greater detail, income from labour declined by 12.9% to €134.0 million, from investment fell by 17.6% to €3.5 billion, while other primary income (subsidies and taxes on production) decreased by 3.6%, to €3.0 billion. Payments for labour income decreased by 38.5%, to €233.2 million, while for investment income they decreased by 9.8%, to €5.2 billion. In contrast, the payments for other primary income increased by 40.5% to €420.1 million.

The deficit of the **Secondary Income Account** reached €598.2 million, from €521.5 million in 2015. The receipts amounted to €1.8 billion, compared with €1.9 billion in 2015, while the payments reached €2.4 billion, with a slight decline compared to 2015.

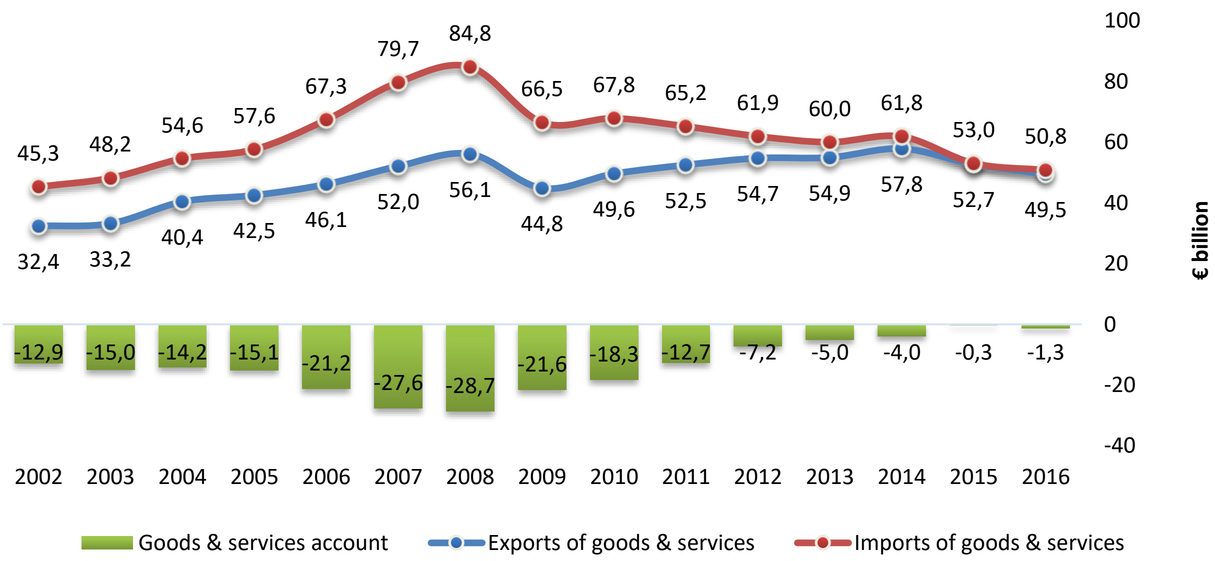
Capital Account

The **Capital Account**[44] surplus fell to €1.0 billion, from €2.0 billion in 2015, due to a significant decrease in receipts (-€1.1 billion), while payments decreased less, by €138 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, was marginally in deficit (-€82.9 million), compared with a surplus of €2.2 billion in 2015.

Figure 3.18

Imports-Exports of Goods and Services (January - December) 2002-2016

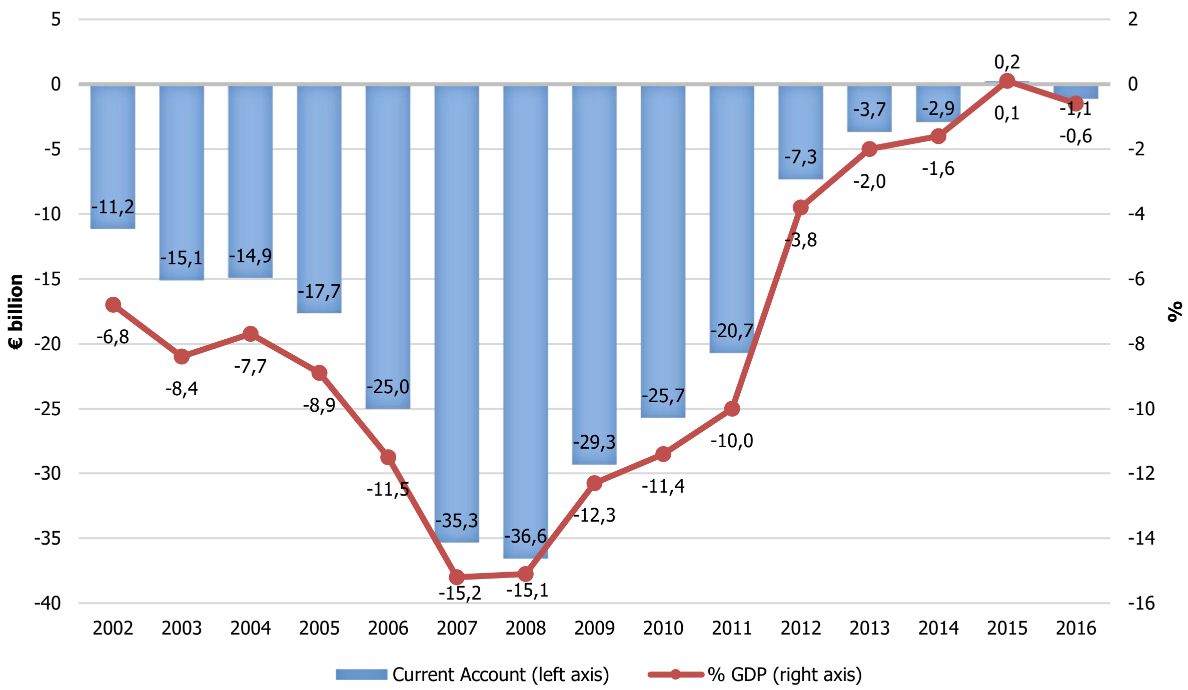


Source: Bank of Greece- Data Processing: IOBE

[44] 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 to the General Government (receipts from the Structural Funds – excluding the European Social Fund - and the Cohesion Fund under the Community Support Frame-work).

Figure 3.19

Current Account (January - December) 2002-2016



Source: Bank of Greece – data processing IOBE

Financial Account

The **Financial Account** had a negative balance of -€138.5 million in 2016, compared with a surplus of €3.4 billion in 2015.

In greater detail, the net receivables of residents from **direct investment** abroad decreased by €622.2 million, while the net liabilities to non-residents increased by €2.8 billion. The investment of Greek residents abroad declined sharply in the Services sector, and in particular, in Financial Intermediaries (-€1.0 billion), a reduction which was partly offset by stronger investment of Greek residents abroad in Trade (+€308 million). The investment of non-residents in Greece in 2016 increased most in Financial Intermediaries, reaching €1.2 billion, while significant growth was also recorded in the transport and tourism sectors (+€935 million). Foreign investment in Communications declined by €261 million.

In the **portfolio investment** category, the claims of residents from non-residents increased by €7.1 billion, as according to the Bank of Greece, the placements of residents in bonds and treasury bills increased by €9.8 billion, partly offset by a decrease of residents' holdings in foreign equities by €2.7 billion. The liabilities of residents to non-residents decreased by €2.6 billion, mainly driven by a decline of placements in Greek bonds and treasury bills by non-residents.

In the category of **other investment**, the claims of residents from non-residents decreased by €15.5 billion in 2016, with a net decrease of €9.7 billion in the deposits and repos of residents (credit institutions and institutional investors) abroad. The liabilities also contracted by €8.5 billion.

Finally, the country's foreign **reserve assets** stood at €6.5 billion at the end of December, from €5.5 billion in 2015, while in February 2017 the foreign exchange reserves reached

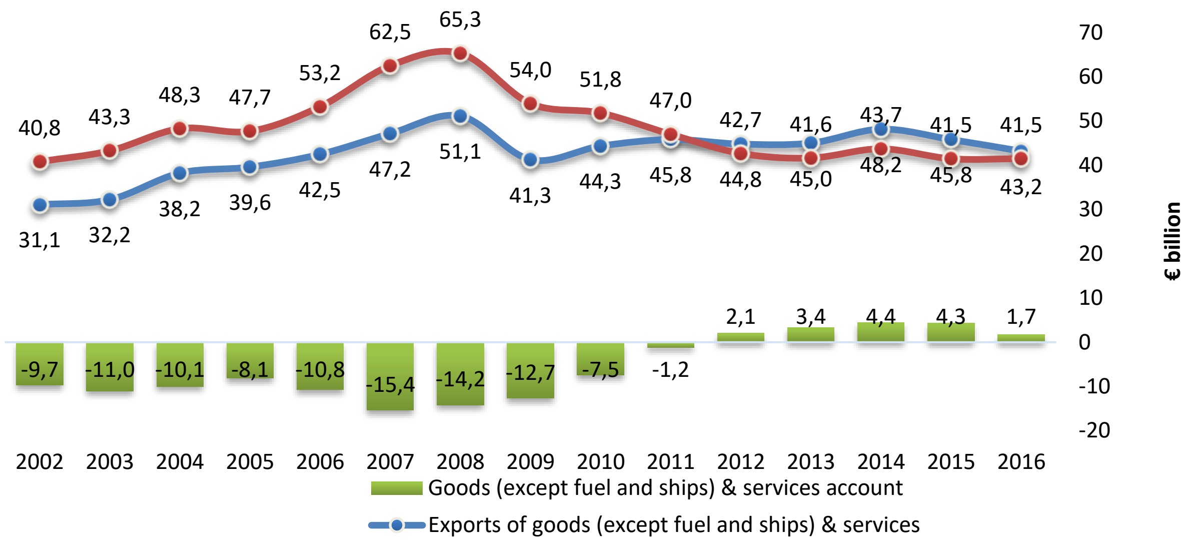
€6.6 billion, compared to €6.4 billion in the corresponding month of 2016.

Assessment

The Euro area entered the 2009 crisis with a significant degree of heterogeneity among its countries, as there were high deficits, fiscal and external, in some of them and surpluses in others. The debt crisis of some of the euro area countries that followed has sparked intense debate and uncertainty about the fiscal governance framework in the Euro area. Since 2011, when the Stability and Growth Pact was revised, the oversight of the national budgets at the community level has strengthened. Fiscal Compact, which required government budget surpluses, was adopted in 2012, resulting in a more rigid fiscal policy in the Euro area member countries. The bibliography on the relationship between fiscal policy and the external balance is quite rich, with several opposing approaches. The positive relationship between the two accounts, i.e. the State Budget and the Current Account, known as twin deficits (or surpluses), a well-known theory, seems to be verified in the case of the Euro area countries. Figure 3.21 depicts the ratio of the two balances in the EA countries in 2008 and 2016. The positive correlation of these two magnitudes is evident. As stated, the tightening of fiscal policy, with an effort to curb the high deficits in many Euro area countries, is also expected to have contributed in part to limiting the deficits in the current account. In fact, only 3 countries experienced twin surpluses in 2008 (the Netherlands, Luxembourg and Finland), while Germany had a strong trade surplus and a very small budget deficit at the time. In 2016, 12 of the Euro area countries recorded a surplus in the current account, of which 8 also had a surplus in the state budget account. Looking at the differences between 2008 and 2016, the balance in the state budget improved or remained unaffected in 14 countries, while the current account improved in 16 Euro area countries. Thus, without downplaying the impact of other factors (world economy growth, trade agreements, exchange rates, etc.), the reduction of the state budget deficits, as a result of the new fiscal governance framework, until 2016, was quite likely accompanied by a significant improvement in the external sector balance.

Figure 3.20

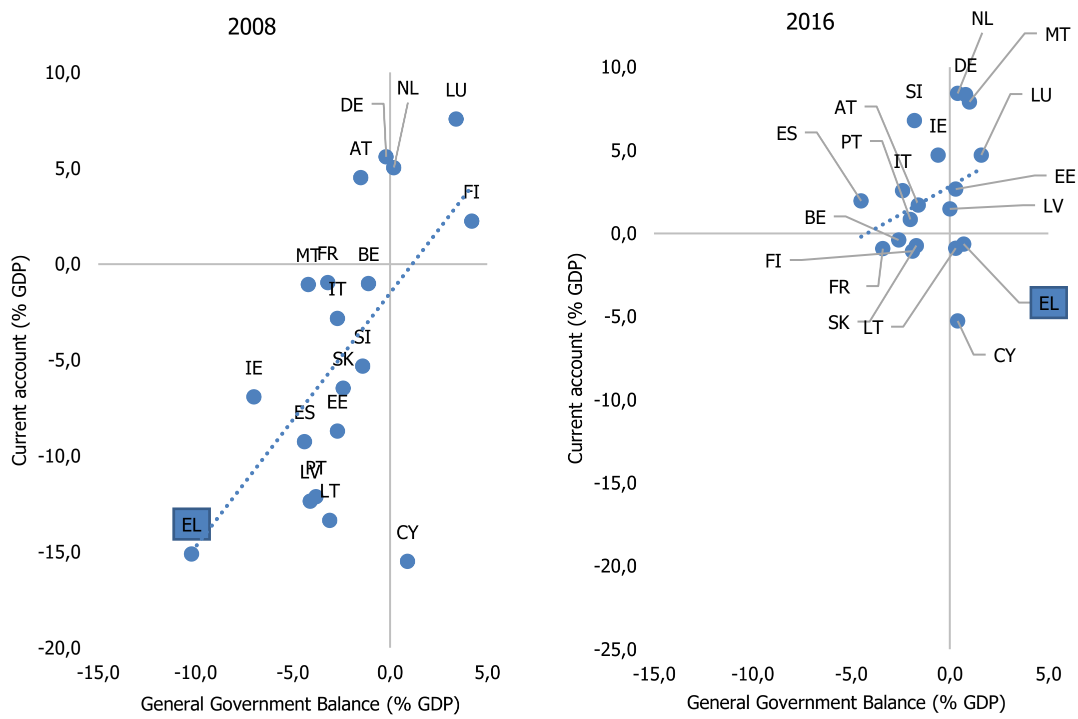
Imports-Exports of Goods and Services without Fuel and Ships (January - December) 2002-2016



Source: Bank of Greece- data processing IOBE

Figure 3.21

Current Account and General Government Balance (% GDP)



Source: Eurostat- data processing IOBE

Table 3.11 Balance of Payments (million €)

		January – December			January - February		
		2014	**2015**	**2016**	**2015**	**2016**	**2017**
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-2,912.6**	**205.8**	**-1,118.6**	**-1,687.9**	**-1,599.4**	**-1,208.0**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-3,979.0**	**-298.8**	**-1,270.5**	**-2,188.7**	**-2,183.7**	**-2,442.3**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-22,252.2**	**-17,231.2**	**-16,581.9**	**-3,018.6**	**-2,587.0**	**-3,098.6**
	Oil balance	-6,275.4	-4,208.1	-2,832.5	-602.1	-370.8	-724.3
	Trade balance excluding oil	-15,976.8	-13,023.1	-13,749.3	-2,416.5	-2,216.2	-2,374.3
	Ships balance	-2,145.9	-431.2	-141.3	-155.8	-8.5	-19.0
	Trade balance excluding ships	-20,106.3	-16,800.0	-16,440.6	-2,862.7	-2,578.5	-3,079.6
	Trade balance excluding oil and ships	-13,830.9	-12,591.9	-13,608.0	-2,260.6	-2,207.7	-2,355.3
I.A.1	**Exports**	**26,788.0**	**24,787.2**	**24,486.7**	**3,813.6**	**3,501.0**	**4,133.5**
	Oil	9,049.8	6,713.7	6,156.1	1,000.0	747.1	1,242.0
	Ships (sales)	626.0	175.5	156.1	54.3	13.4	54.3
	Goods excluding oil and ships	17,112.1	17,898.0	18,174.5	2,759.3	2,740.5	2,837.2
I.A.2	**Imports**	**49,040.2**	**42,018.4**	**41,068.6**	**6,832.2**	**6,088.0**	**7,232.1**
	Oil	15,325.2	10,921.8	8,988.7	1,602.1	1,118.0	1,966.3
	Ships (buying)	2,771.9	606.7	297.3	210.2	21.9	73.3
	Goods excluding oil and ships	30,943.0	30,489.9	31,782.6	5,019.9	4,948.2	5,192.6
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**18,273.2**	**16,932.4**	**15,311.4**	**829.9**	**403.4**	**656.3**
I.B.1	**Receipts**	**31,051.3**	**27,919.2**	**25,014.6**	**3,079.8**	**1,885.8**	**2,288.0**
	Travel	13,393.1	14,125.8	13,206.7	312.2	318.5	309.9
	Transportation	13,130.8	9,968.3	7,814.2	2,047.1	1,077.4	1,279.2
	Other services	4,527.4	3,825.0	3,993.6	720.5	489.8	699.0
I.B.2	**Payments**	**12,778.1**	**10,986.8**	**9,703.2**	**2,249.9**	**1,482.4**	**1,631.7**
	Travel	2,076.4	2,037.4	2,005.3	297.1	273.4	246.3
	Transportation	6,258.6	5,430.0	4,453.4	1,112.8	667.8	766.4
	Other services	4,443.1	3,519.4	3,244.5	840.0	541.2	619.0
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**1,401.2**	**1,026.2**	**750.1**	**531.1**	**548.0**	**911.1**
I.C.1	**Receipts**	**8,458.3**	**7,519.2**	**6,648.0**	**2,267.2**	**1,697.2**	**1,957.4**
	From work (wages, compensation)	209.9	153.8	134.0	29.6	16.6	20.7
	From investments (interest, dividends, profit)	4,832.4	4,200.8	3,462.2	768.6	607.5	563.2
	Other primary income	3,416.1	3,164.6	3,051.8	1,469.0	1,073.1	1,373.5
I.C.2	**Payments**	**7,057.1**	**6,493.0**	**5,897.9**	**1,736.1**	**1,149.3**	**1,046.3**
	From work (wages, compensation)	491.7	379.4	233.2	107.9	33.4	42.6
	From investments (interest, dividends, profit)	6,202.9	5,814.5	5,244.6	1,538.3	1,056.3	961.1
	Other primary income	362.6	299.1	420.1	89.9	59.6	42.6
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**-334.7**	**-521.5**	**-598.2**	**-30.3**	**36.3**	**323.2**
I.D.1	**Receipts**	**2,550.7**	**1,909.7**	**1,803.7**	**657.1**	**464.9**	**673.4**
	General government	1,441.7	1,054.9	1,017.3	489.7	357.7	457.8
	Other sectors	1,109.0	854.9	786.4	167.5	107.2	215.6
I.D.2	**Payments**	**2,885.5**	**2,431.2**	**2,401.9**	**687.5**	**428.6**	**350.1**
	General government	2,054.7	1,695.0	1,825.9	509.4	337.7	241.7
	Other sectors	830.8	736.2	576.1	178.1	90.9	108.5
II	**CAPITAL ACCOUNT (II.1-II.2)**	**2,510.6**	**1,988.6**	**1,035.7**	**159.1**	**631.9**	**252.7**
II.1	**Receipts**	**2,866.2**	**2,369.5**	**1,278.4**	**199.5**	**673.8**	**275.5**
	General government	2,789.8	2,319.3	1,198.2	189.9	667.0	267.2
	Other sectors	76.4	50.2	80.2	9.6	6.8	8.3
II.2	**Payments**	**355.6**	**380.9**	**242.7**	**40.3**	**41.9**	**22.8**
	General government	8.8	4.1	28.5	1.7	0.3	0.5
	Other sectors	346.7	376.8	214.2	38.6	41.6	22.4
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-402.0***	***2,194.4***	***-82.9***	***-1,528.8***	***-967.5***	***-955.3***
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**1,461.7**	**3,430.3**	**-138.5**	**-1,628.0**	**-519.1**	**-470.1**
III.A	**DIRECT INVESTMENT***	**250.1**	**889.8**	**-3,403.1**	**187.4**	**77.2**	**-66.5**
	Assets	2,275.9	1,921.7	-622.2	344.5	259.7	282.9
	Liabilities	2,025.8	1,032.0	2,780.9	157.1	182.5	349.3
III.B	**PORTFOLIO INVESTMENT****	**6,978.0**	**8,348.3**	**9,622.6**	**-5,295.9**	**2,282.4**	**-1,199.4**
	Assets	8,910.1	6,996.0	7,059.0	-7,456.6	1,887.5	-945.9
	Liabilities	1,932.1	-1,352.4	-2,563.6	-2,160.6	-394.9	253.6
III.C	**OTHER INVESTMENT***	**-6,222.5**	**-6,162.2**	**-6,939.5**	**3,172.4**	**-3,236.8**	**1,078.8**
	Assets	-6,888.7	16,699.8	-15,458.9	12,215.8	-344.9	-804.5
	Liabilities	-666.2	22,861.9	-8,519.3	9,043.4	2,891.8	-1,883.4
	(Loans of general government)	4,000.2	11,921.6	6,492.9	-1,200.8	-467.4	-1,987.4
III.D	**CHANGE IN RESERVE ASSETS*****	**456.0**	**354.4**	**581.5**	**308.0**	**358.0**	**-283.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**1,863.7**	**1,235.9**	**-55.6**	**-99.2**	**448.4**	**485.2**
	RESERVE ASSETS (STOCK)***	**5,117**	**5,535**	**6,539**	**5,723**	**6,442**	**6,561**

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.

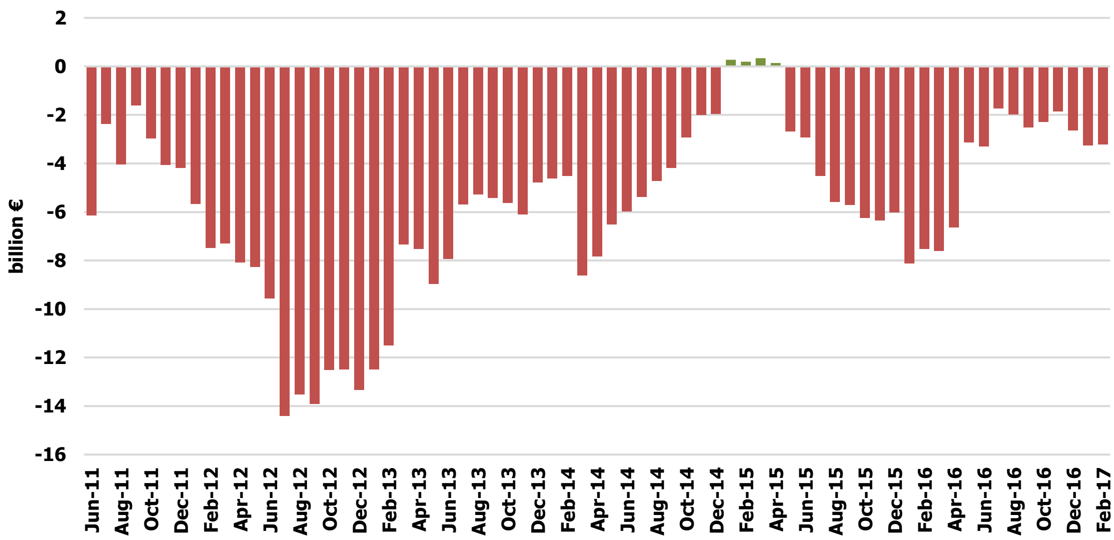
*** Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" with the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in 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. ARREARS OF THE PUBLIC SECTOR: EVOLUTION, STRUCTURE AND EFFECT ON PUBLIC FINANCES

Part of the public debate, both during the period when the fiscal crisis strengthened in Greece and beyond, has focused on the evolution of arrears of the public sector. The public sector's liabilities to third parties (e.g. hospital suppliers, construction companies, VAT refunds to export companies) are defined as arrears when they are not paid within 90 days since the date they were due.[45] The proper recording of the liabilities of the General Government bodies and their regular payment strengthen the State's credibility. Meanwhile, as businesses and households have found it difficult to draw credit in order to finance their investment, operating and consumer needs from the banking system since the third quarter of 2011, due to the significant credit crunch that has taken place since then, the regular payment of arrears strengthens significantly the economy's liquidity (Figure 4.1).

Figure 4.1

Credit Expansion/Contraction to Non-Monetary Financial Institutions*



* Change in the outstanding balance of loans at the end of the month, compared with the same month of the previous year
Source: Bank of Greece, **Data Processing:** IOBE

The current chapter starts with an analysis of the impact of arrears on public finances, i.e. on the General Government balance and debt. The legal framework on recording the arrears of the public sector to third parties is presented briefly thereafter, followed by an outline of their evolution over time, starting from the first, limited and patchy, available data for the 2000s. An extensive analysis of their trend and composition (per category of public bodies) is provided for the period from September 2012 until February 2017, for which detailed data

[45] See also "General Government Monthly Bulletin", February 2017, p. 23.

are available. The analysis ends with the evolution of arrears in Portugal, another country that implemented an economic adjustment programme.

4.2 Effect of arrears on the fiscal balance - legal framework for their monitoring

The public sector outstanding obligations, including its arrears, affect the annual general government balance, calculated under the European System of Accounts 2010 (ESA 2010), as evident from official documents. In particular, according to the latest Eurostat manual on General Government deficit and debt,[46] liabilities, whether overdue or not, of General Government bodies are recorded in the stock of liabilities of each entity when they are created, and not when their repayment begins or when they are repaid. The calculation of the General Government's annual balance includes the change in the stock of liabilities as of 31 December of each year, relative to the same date one year earlier. When all or part of a liability (overdue or not) is repaid, then the stock of liabilities is reduced by the amount of this repayment. As an expense is incurred for the specific liability payment, the Budget expenditure increases accordingly. Therefore, a partial or total repayment of a liability has a neutral fiscal result. The process of monitoring the public sector receivables is the same.

In addition, if the state needs to borrow in order to repay a liability, then the General Government debt is affected. For example, the Greek government borrowed in 2016 under the current facility with the European Stability Mechanism in order to pay its arrears. The impact on General Government debt is reflected in the chapter of the Introductory Report of the 2017 Budget on government debt and guarantees.[47]

Specific reforms have taken place in recent years in the context of the proper monitoring of the liabilities of the General Government bodies and their timely payment. The most important of these is the establishment of Commitment Register (Law No. 3871/2010 and Presidential Decree 113/2010), mandatory for all the General Government bodies. Prior to any undertaking any liability, the General Government bodies commit the necessary funds from their budgets to ensure that they are available to repay the liability. In addition, according to Law 4270/2014, as amended by Law 4337/2015, the General Government entities are required to submit a monthly budget execution bulletin and set quarterly spending targets, in order to ensure that the targets are constantly monitored and adjusted if needed according to the course of revenues.

Meanwhile, the role of the General Directorates of Financial Services, established in 2010, with a responsibility to ensure proper fiscal management, at both the ministries and the supervised bodies, is anticipated to strengthen shortly. All responsibilities related to the audit,

[46] "Manual on Government Deficit and Debt, Implementation of ESA 2010", 2014 edition, p. 384.
[47] Table 4.3, p. 127.

settlement and payment of public expenditure are envisaged to be transferred to these directorates within 2017.[48]

4.3 Trends in Public Sector arrears

The public sector had delays in paying its obligations before the domestic fiscal crisis in 2010 as well. However, the available data on arrears prior to this is minimal. They concern specific categories of general government entities, for certain periods.

In particular, according to the report of the Fiscal Data Reliability Committee[49], accumulated liabilities of hospitals formed a large part of the arrears. From 2005 to 2008, they totalled approximately €5.2 billion, while in 2009 alone they reached €2.2 billion. The European Commission's report on Greek government deficit and debt statistics indicates that hospital arrears in the period 2005-2008 were in the order of €3.3 billion. However, the then National Statistical Service of Greece, superseded by ELSTAT, reported €2.3 billion of liabilities for this period, as part of the data reporting to Eurostat under the Excessive Deficit Procedure in April and on 2 October 2009. An additional € 2.5 billion of liabilities were reported in the notification to Eurostat on 21 October 2009.[50]

The Ministry of Finance, as part of the commitments included in the first Economic Adjustment Programme for Greece, first published data on general government arrears for January-August 2010. Since then, according to the Economic Adjustment Programme, these data should be updated and published on a monthly basis. The data are collected by the General Accounting Office and are initially recorded in the General Government Monthly Bulletin, which is uploaded on the website of the Ministry of Finance. Since September 2016, the State Treasury has also issued with a special bulletin on arrears (Transfers/Grants - Payments of General Government Arrears). Following changes to the website of the Ministry of Finance, older General Government Monthly Bulletins are no longer available. Detailed data on the evolution of general government arrears since September 2012 was collected from the ministry's web site and from a wider internet search.

In particular, the arrears decreased significantly from December 2012 to December 2013 by 46.8%, from €8.8 billion to €4.7 billion (Figure 4.2). Their contraction came from the fact that in late December 2012, the Ministry of Finance began a systematic process of repayment of arrears. As a result, by the end of December 2013, €6.8 billion were disbursed, out of a special transfer of €8 billion. In effect, 85% of the total funds for clearing arrears was transferred to the public sector bodies for this purpose. The final payments reached €6.2

[48] See the Introductory Report of the 2017 Budget, p. 36.
[49] Report of the Fiscal Data Reliability Committee, January 2010, p. 29-30.
[50] "Report on Greek Government Deficit and Debt Statistics", COM (2010) 1 final, p. 26-27

billion in December 2013.[51] While arrears of this amount were repaid, the fact that their total stock declined from €8.8 billion to €4.7 billion in 2013 implies that new arrears of €2.1 billion were created in the meantime.

In 2014, the arrears declined much less than in 2013. By the end of December 2014, they were lower by 19.5% compared to December 2013, from €4.7 billion to €3.8 billion (-€911 million). This development came mainly as a result of a significant decrease of €600 million in June 2014[52] and €500 million in November of the same year.[53]

Since January 2015, the arrears followed an upward trend, as they kept growing until September of that year. Compared to December 2014, in July 2015 they were higher by about €2 billion (to €5.8 billion). A marginal expansion followed in the following two months, ending at €6.06 billion in September. The dramatic events that took place in the first nine months of 2015 (extension of the final review of the second programme from February to June 2015, its unsuccessful conclusion and the referendum call on 27 June, negotiations to start discussions on a new loan agreement and to conclude it, and finally the call for early parliamentary elections), which resulted in no funding from the official lenders of Greece for almost a year, from August 2014 to mid-July 2015, constituted the driver for the strong rise of arrears:. Following the conclusion of the current ESM loan facility agreement, the arrears fell by around €700 million by December 2015, to €5.4 billion. Year on year, however, they increased by 43.4%.

The arrears returned to growth between January and June 2016. During that period, they increased by €2.0 billion, reaching €7.4 billion. Their further growth was probably related to the protracted first review of the current programme, during which the Greek state did not have access to ESM funding, which ended in May. From July, the arrears followed a downward trend. By the end of 2016, they fell to €4.5 billion. This development came from the provision of funding under the second tranche of the ESM loan facility, solely to limit the outstanding liabilities of the State to third parties, amounting to €3.5 billion. The total amount was disbursed to General Government entities during the second half of last year, which resulted in payments of €3.13 billion, equal to the total disbursements made in 2016.

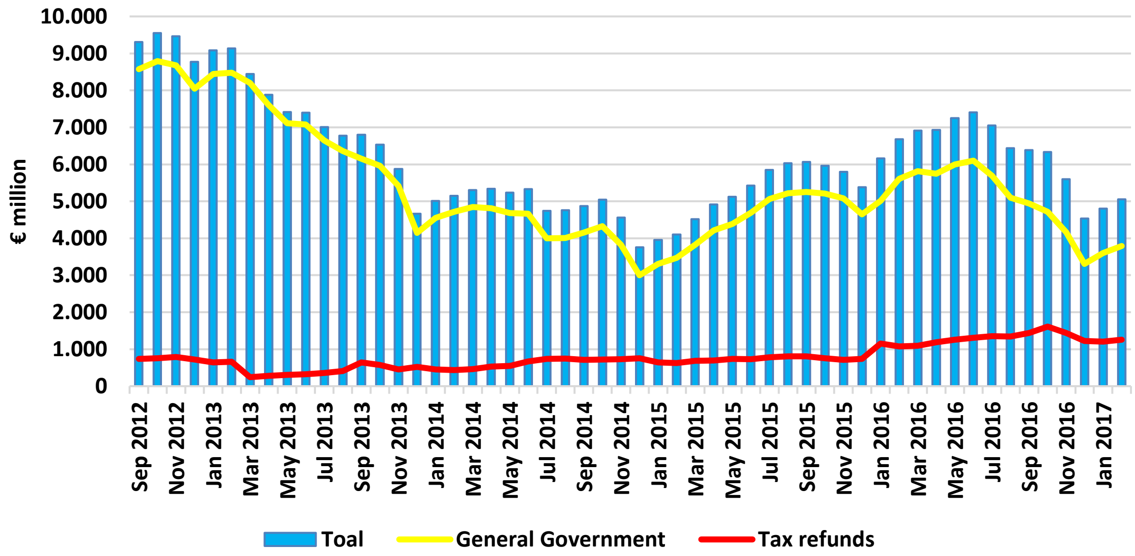
Finally, the arrears increased again in the first two months of 2017, by approximately €500 million, to reach €5.0 billion, mainly as a result of the increase in arrears to hospitals and social security funds.

[51] See the announcement of the Deputy Finance Minister on the course of arrears settlement in December 2013 (09/01/2014).
[52] See the announcement of the Deputy Finance Minister on the course of arrears settlement in July 2014 (04/09/2014).
[53] See the announcement of the Deputy Finance Minister on the course of arrears settlement over the period from January to Nobember 2014 (09/01/2015).

An alternative way to examine the evolution of arrears can be made by analysing their share of total government expenditure. Under this approach, the general government arrears steadily declined from 8.7% in the final quarter of 2012 to 4.3% of total government spending in the first quarter of 2015 (Table 4.1). Since then, they increased to 8.3% by mid-2016, but then eased back again to 6.4% in the final quarter of 2016.

Figure 4.2

Arrears of the State (09/2012-02/2017)



Source: Monthly General Government Bulletin Data, **Data Processing:** IOBE

In terms of their composition, the arrears of Social Security Funds had the largest proportion of arrears (49% on average) over the examined period (Figure 4.3). The national health service organisation EOPYY was responsible for 62.1% of the arrears. The arrears of hospitals followed, accounting for 17.6% of the total arrears, followed by tax refund arrears (13.5% of the total, on average). The arrears of local authorities and the ministries (Central Government) accounted for 8.1% and 6.9% respectively of the total arrears. Finally, the arrears of other legal entities did not exceed 5.1% on average.

Table 4.1

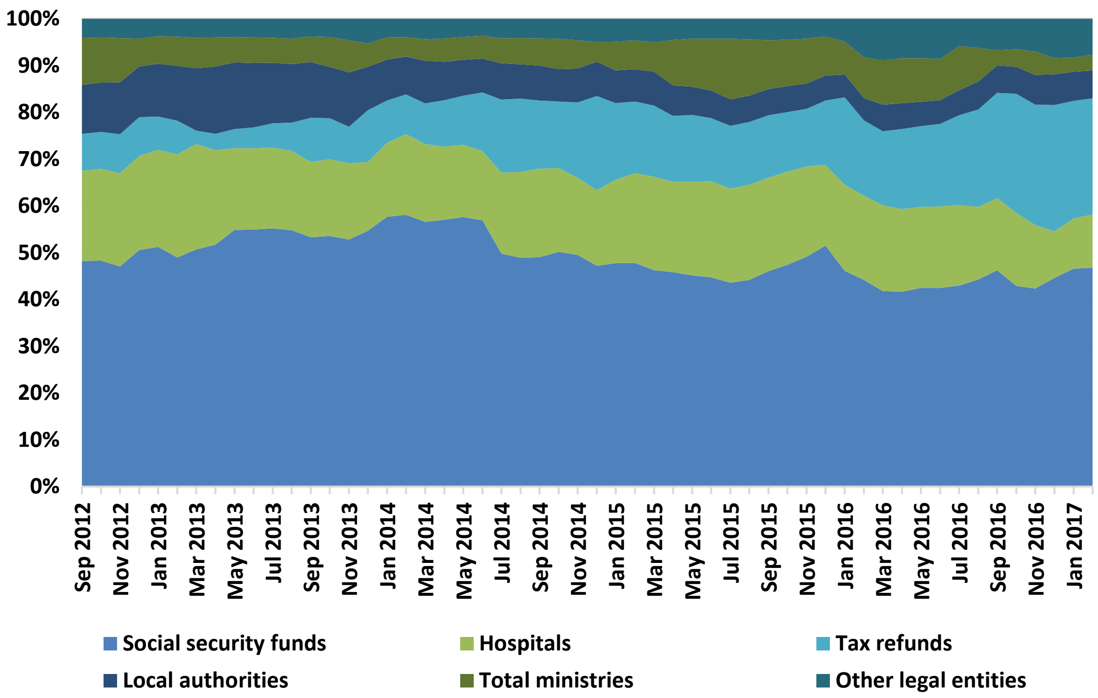
Arrears as a percentage of general government expenditure

	Arrears (€ million)	General Government Expenditure (€ million)	Arrears as % General Government Expenditure
4Q/2012	9,263	105,960	8.7%
1Q/2013	8,890	112,473	7.9%
2Q/2013	7,565	112,473	6.7%
3Q/2013	6,860	112,473	6.1%
4Q/2013	5,690	112,473	5.1%
1Q/2014	5,154	90,048	5.7%
2Q/2014	5,300	90,048	5.9%
3Q/2014	4,788	90,048	5.3%
4Q/2014	4,452	90,048	4.9%
1Q/2015	4,192	95,247	4.4%
2Q/2015	5,154	95,247	5.4%
3Q/2015	5,979	95,247	6.3%
4Q/2015	5,714	95,247	6.0%
1Q/2016	6,584	86,185	7.6%
2Q/2016	7,194	86,185	8.3%
3Q/2016	6,622	86,185	7.7%
4Q/2016	5,489	86,185	6.4%

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

Figure 4.3

Composition of arrears



Source: General Government Monthly Bulletin, **Data Processing:** IOBE

4.4 Arrears in Portugal during its economic adjustment programme

Difficulties in the timely settlement of public sector liabilites also occurred in other countries that implemented a fiscal consolidation programme, resulting in the accumulatiom of arrears. Such is the case of Portugal, which implemented a fiscal consolidation programme from May 2011 to June 2014.

The available data for Portugal cover the period May 2011-June 2014 (Table 4.2), that is the whole period over which the country was in a fiscal consolidation programme.

Table 4.2

Arrears - Portugal

(€ million)	May-11	Nov-11	May - 12	Nov - 12	May - 13	Nov - 13	May - 14	Jul-14
Central Government (except hospitals)	289	325	135	105	56	51	36	34
Hospitals under the General Government	429	266	202	24	14	22	13	12
Autonomous entities	90	77	61	33	19	17	0	0
Local authorities	1.745	1.709	1.613	1.373	970	735	629	531
Regional Government	401	1.321	1.261	1.280	1.053	580	486	474
Total I	**2.954**	**3.698**	**3.272**	**2.815**	**2.112**	**1.405**	**1.164**	**1.051**
Other entities outside the General Government								
Other organisations (except hospitals)	12	14	32	50	51	97	132	139
Hospitals of the autonomous region of Madeira	1.501	1.725	1.996	1.018	858	825	773	817
Total II	**1.513**	**1.739**	**2.028**	**1.068**	**909**	**922**	**905**	**956**
Overall Total (I+II)	**4.467**	**5.437**	**5.300**	**3.883**	**3.021**	**2.327**	**2.069**	**2.007**

Source: European Commission (2014), "The Economic Adjustment Programme for Portugal 2011-2014", Occasional Papers 202, October 2014

Local authorities had the highest share of arrears (32.1% on average over that period), together with hospitals (36.6% on average).[54]

However, until the end of the fiscal consolidation programme, total arrears significantly declined. In particular, total arrears decreased by 55.1% between May 2011 and July 2014, from €4.5 billion to €2.01 billion, mainly as a result of the reduction of arrears of the local authorities by 69.6% (from €1.75 billion to €531 million), the hospitals classified to the General Government by 97.2% (from €429 million to €12 million) and the hospitals in the autonomous region of Madeira by 45.6% (from €1.5 billion to €817 million).

[54] All corresponding expenditure is categorised under General Government, except for those belonging to the autonomous region of Madeira.

4.5 Conclusions

The public sector arrears are not a new phenomenon. It characterises the behavior of the Greek State even before the domestic fiscal crisis and did not stem from it, due to the funding difficulties throughout its duration. The envisaged method to record and monitor all obligations under the European System of Accounts ESA 2010 shows that all states have unpaid liabilities, whether they are overdue or not. Their accumulation does not entail a change in the budget balance, according to the ESA 2010 methodology.

The arrears have gradually and slowly declined over the years, in absolute terms and as a percentage of the General Government expenditure. However, the reduction of arrears is closely related to the provision of funding either under the previous economic adjustment programmes or the current loan facility agreement.

In any case, the accumulation of arrears is a phenomenon that affects the credibility of the State in terms of its ability to enter into financial obligations and to repay them in time. At the same time, it deprives valuable resources from the real economy, which could be directed to productive investment. The latter impact is particularly strongly felt at a time when liquidity in the banking system is limited and at the same time, investment is necessary in order to achieve lasting and sustainable growth.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: Rate of Growth GDP

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	3.6	1.5	-3.8	1.9	2.8	0.7	0.1	0.6	1	0.2
Belgium	3.4	0.7	-2.3	2.7	1.8	0.1	-0.1	1.7	1.5	0.7
Boulgaria	73	6	-3.6	1.3	1.9	0	0.9	1.3	3.6	4.1
France	2.4	0.2	-2.9	2	2.1	0.2	0.6	0.6	1.3	0.9
Germany	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	1.6	1.7	0.6
Denmark	0.9	-0.5	-4.9	1.9	1.3	0.2	0.9	1.7	1.6	0.5
Czech Republic	5.5	2.7	-4.8	2.3	2	-0.8	-0.5	2.7	4.5	2.2
EU (28 countries)	3.1	0.4	-4.4	2.1	1.7	-0.5	0.2	1.6	2.2	1.5
Greece	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.4	-0.2	:
Estonia	7.7	-5.4	-14.7	2.3	7.6	4.3	1.4	2.8	1.4	1.4
Eurozone (19 countries)	3	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.2	2	1.4
United Kingdom	2.6	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.1
Ireland	38	-4.4	-4.6	2	0	-1.1	1.1	8.5	26.3	4.3
Spain	3.8	1.1	-3.6	0	-1	-2.9	-1.7	1.4	3.2	3.1
Italy	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	0.1	0.7	1.1
Croatia	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.5	1.6	3.5
Cyprus	4.8	3.9	-1.8	13	0.3	-3.2	-6	-1.5	1.7	2.2
Latvia	9.9	-3.6	-14.3	-3.8	6.2	4	2.9	2.1	2.7	2.8
Lithuania	11.1	2.6	-14.8	1.6	6	3.8	3.5	3.5	1.8	3.6
Luxembourg	8.4	-0.8	-5.4	5.8	2	0	4.2	4.7	3.5	1.6
Malta	4	3.3	-2.5	3.5	1.4	2.7	4.6	8.4	7.4	3.9
Holland	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.2	1.4	2	1.6
Hungry	04	0.9	-6.6	0.7	1.7	-1.6	2.1	4	3.1	2.2
Poland	7	4.2	2.8	3.6	5	1.6	1.4	3.3	3.9	2.9
Portugal	2.5	0.2	-3	1.9	-1.8	-4	-1.1	0.9	1.6	1.7
Romania	6.9	8.5	-7.1	-0.8	1.1	0,6	3.5	3.1	3.9	5.1
Slovakia	10.8	5.6	-5.4	5	2.8	1.7	1.5	2.6	3.8	3.1
Slovenia	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.1	2.3	2.4
Sweden	3.4	-0.6	-5.2	6	2.7	-0.3	1.2	2.6	4.1	2
Finland	5.2	0.7	-8.3	3	2.6	-1.4	-0.8	-0.7	0.2	1.1

Table 2: General Government Debt as % of GDP

	Annual data (%)									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Austria	65.1	68.8	80.1	82.8	82.6	82	81.3	84.4	85.5	84.6
Belgium	87	92.5	99.5	99.7	102.3	104.1	105.6	106.7	106.0	105.9
Bulgaria	16.3	13	13.7	15.3	15.2	16.7	17.0	27.0	26.0	29.5
France	64.3	68	78.9	81.6	85.2	89.5	92.3	94.9	95.6	96.0
Germany	63.7	65.1	72.6	81	78.7	79.9	77.5	74.9	71.2	68.3
Denmark	27.3	33.4	40.4	42.9	46.4	45.2	44.0	44.0	39.6	37.8
Czech Republic	27.8	28.7	34.1	38.2	39.8	44.5	44.9	42.2	40.3	37.2
EU	65	68.6	78.4	83.8	86.1	89.5	85.7	86.7	84.9	83.5
Greece	103.1	109.4	126.7	146.2	172.1	159.6	177.4	179.7	177.4	179.0
Estonia	3.7	4.5	7	6.6	6.1	9.7	10.2	10.7	10.1	9.5
Euro area	57.5	60.7	72.8	78.4	81.1	83.8	91.4	92.0	90.3	89.2
United Kingdom	42	50.2	64.5	76	81.6	85.1	86.2	88.1	89.0	89.3
Ireland	23.9	42.4	61.7	86.3	109.6	119.5	119.5	105.3	78.7	75.4
Spain	35.5	39.4	52.7	60.1	69.5	85.7	95.5	100.4	99.8	99.4
Italy	99.8	102.4	112.5	115.4	116.5	123.3	129.0	131.8	132.1	132.6
Croatia	37.7	39.6	49	58.3	65.2	70.7	82.2	86.6	86.7	84.2
Cyprus	53.5	44.7	53.4	55.8	65.2	79.3	102.2	107.1	107.5	107.8
Latvia	8.4	18.7	36.6	47.4	42.8	41.3	39.0	40.9	36.5	40.1
Lithuania	15.9	14.6	28	36.2	37.2	39.8	38.7	40.5	42.7	40.2
Luxemburg	7.8	15.1	16	19.9	18.8	21.8	23.4	22.4	21.6	20.0
Malta	62.4	62.7	67.8	67.6	70	67.6	68.7	64.3	60.6	58.3
Netherlands	42.7	54.8	56.9	59.3	61.6	66.4	67.7	67.9	65.2	62.3
Hungary	65.6	71.6	77.8	80.5	80.7	78.2	76.6	75.7	74.7	74.1
Poland	44.2	46.3	49.4	53.1	54.1	53.7	55.7	50.2	51.1	54.4
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129.0	130.6	129.0	130.4
Romania	12.7	13.2	23.2	29.9	34.2	37.3	37.8	39.4	38.0	37.6
Slovakia	30.1	28.5	36.3	41.2	43.7	52.2	54.7	53.6	52.5	51.9
Slovenia	22.8	21.8	34.6	38.4	46.6	53.9	71.0	80.9	83.1	79.7
Sweden	39	37.5	41	38.3	37.5	37.8	40.4	45.2	43.9	41.6
Finland	34	32.7	41.7	47.1	48.5	53.9	56.5	60.2	63.7	63.6

Table 3: General Government Balance as % of GDP

	Annual data (%)									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Austria	-1.4	-1.5	-5.4	-4.5	-2.6	-2.2	-1.4	-2.7	-1.1	-1.6
Belgium	0.1	-1.1	-5.4	-4.0	-4.1	-4.2	-3.1	-3.1	-2.5	-2.6
Bulgaria	1.1	1.6	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.6	0.0
France	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.0	-3.9	-3.6	-3.4
Germany	0.2	-0.2	-3.2	-4.2	-1.0	0.0	-0.2	0.3	0.7	0.8
Denmark	5.0	3.2	-2.8	-2.7	-2.1	-3.5	-1.0	1.4	-1.3	-0.9
Czech Republic	-0.7	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-1.9	-0.6	0.6
EU	-0.9	-2.4	-6.6	-6.4	-4.6	-4.3	-3.3	-3.0	-2.4	-1.7
Greece	-6.7	-10.2	-15.1	-11.2	-10.3	-8.8	-13.1	-3.7	-5.9	0.7
Estonia	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	0.3
Euro area	-0.6	-2.2	-6.3	-6.2	-4.2	-3.6	-3.0	-2.6	-2.1	-1.5
United Kingdom	-2.9	-4.9	-10.2	-9.6	-7.6	-8.3	-5.6	-5.7	-4.3	-3.0
Ireland	0.3	-7.0	-13.8	-32.1	-12.6	-8.0	-5.7	-3.7	-2.0	-0.6
Spain	2.0	-4.4	-11.0	-9.4	-9.6	-10.5	-7.0	-6.0	-5.1	-4.5
Italy	-1.5	-2.7	-5.3	-4.2	-3.7	-2.9	-2.9	-3.0	-2.7	-2.4
Croatia	-2.4	-2.8	-6.0	-6.2	-7.8	-5.3	-5.3	-5.4	-3.4	-0.8
Cyprus	3.2	0.9	-5.4	-4.7	-5.7	-5.8	-5.1	-8.8	-1.2	0.4
Latvia	-0.7	-4.1	-9.1	-8.5	-3.4	-0.8	-1.0	-1.6	-1.3	0.0
Lithuania	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.7	-0.2	0.3
Luxemburg	4.2	3.4	-0.7	-0.7	0.5	0.3	1.0	1.4	1.4	1.6
Malta	-2.3	-4.2	-3.3	-3.2	-2.5	-3.6	-2.6	-2.0	-1.3	1.0
Netherlands	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.3	-2.1	0.4
Hungary	-5.1	-3.6	-4.6	-4.5	-5.5	-2.3	-2.6	-2.1	-1.6	-1.8
Poland	-1.9	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.5	-2.6	-2.4
Portugal	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4	-2.0
Romania	-2.8	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0
Slovakia	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.7	-1.7
Slovenia	-0.1	-1.4	-5.9	-5.6	-6.7	-4.1	-15.1	-5.4	-2.9	-1.8
Sweden	3.3	1.9	-0.7	-0.1	-0.2	-1.0	-1.4	-1.5	0.3	0.9
Finland	5.1	4.2	-2.5	-2.6	-1.0	-2.2	-2.6	-3.2	-2.7	-1.9

Table 4: Share of population at risk of poverty or social exclusion*

	Annual data (%)									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	17.8	16.7	20.6	19.1	18.9	19.2	18.5	18.8	19.2	18.3
Belgium	21.5	21.6	20.8	20.2	20.8	21	21.6	20.8	21.2	21.1
Bulgaria	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48	40.1	41.3
France	18.8	19	18.5	18.5	19.2	19.3	19.1	18.1	18.5	17.7
Germany	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3	20.6	20
Denmark	16.7	16.8	16.3	17.6	18.3	17.6	17.5	18.3	17.9	17.7
Czech Republic	18	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8	14
EU	:	:	:	:	23.7	24.3	24.7	24.6	24.4	23.7
Greece	29.3	28.3	28.1	27.6	27.7	31	34.6	35.7	36	35.7
Estonia	22	22	21.8	23.4	21.7	23.1	23.4	23.5	26	24.2
Euro area	22.1	21.9	21.7	21.6	22	22.9	23.3	23.1	23.5	23
United Kingdom	23.7	22.6	23.2	22	23.2	22.7	24.1	24.8	24.1	23.5
Ireland	23.3	23.1	23.7	25.7	27.3	29.4	30	29.5	27.6	:
Spain	24	23.3	23.8	24.7	26.1	26.7	27.2	27.3	29.2	28.6
Italy	25.9	26	25.5	24.9	25	28.1	29.9	28.5	28.3	28.7
Croatia	:	:	:	:	31.1	32.6	32.6	29.9	29.3	29.1
Cyprus	25.4	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4	28.9
Latvia	42.2	35.1	34.2	37.9	38.2	40.1	36.2	35.1	32.7	30.9
Lithuania	35.9	28.7	28.3	29.6	34	33.1	32.5	30.8	27.3	29.3
Luxemburg	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19	19	18.5
Malta	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24	23.8	22.4
Netherlands	16	15.7	14.9	15.1	15.1	15.7	15	15.9	16.5	16.4
Hungary	31.4	29.4	28.2	29.6	29.9	31.5	33.5	34.8	31.8	28.2
Poland	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8	24.7	23.4
Portugal	25	25	26	24.9	25.3	24.4	25.3	27.5	27.5	26.6
Romania	:	47	44.2	43	41.5	40.9	43.2	41.9	40.3	37.4
Slovakia	26.7	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4
Slovenia	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4	19.2
Sweden	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4	16.9	16
Finland	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16	17.3	16.8

(*) For the exact definition of the indicator, see the end of this section

Table 5: Inflation

	Annual data (%)			Q1			Change (%)	
	2014	2015	2016	2015	2016	2017	2016/15	2017/16
Austria	1.5	0.8	1.0	0.6	1.0	2.2	0.4	1.2
Belgium	0.5	0.6	1.8	-0.4	1.5	3.0	1.9	1.5
Bulgaria	-1.6	-1.1	-1.3	-1.7	-1.1	0.8	0.6	1.9
France	0.6	0.1	0.3	-0.2	0.0	1.5	0.3	1.4
Germany	0.8	0.1	0.4	-0.1	0.1	1.9	0.2	1.8
Denmark	0.4	0.2	0.0	0.0	0.1	0.8	0.1	0.8
Czech Republic	0.4	0.3	0.7	0.0	0.4	2.5	0.4	2.1
EU	0.5	0.0	0.2	-0.3	0.1	1.8	0.4	1.7
Greece	-1.4	-1.1	0.0	-2.2	-0.2	1.5	2.0	1.8
Estonia	0.5	0.1	0.8	-0.2	0.3	3.1	0.6	2.7
Euro area	0.4	0.0	0.2	-0.3	0.0	1.8	0.4	1.7
United Kingdom	1.5	0.1	0.6	0.1	0.4	2.1	0.3	1.8
Ireland	0.3	0.0	-0.2	-0.3	-0.3	0.4	0.1	0.6
Spain	-0.2	-0.6	-0.3	-1.2	-0.8	2.7	0.4	3.5
Italy	0.2	0.1	0.0	-0.1	0.0	1.3	0.1	1.3
Croatia	0.2	-0.3	-0.6	-0.3	-0.6	1.1	-0.2	1.7
Cyprus	-0.3	-1.5	-1.2	-1.0	-1.8	1.2	-0.9	3.0
Latvia	0.7	0.2	0.1	0.1	-0.5	3.1	-0.6	3.6
Lithuania	0.2	-0.7	0.7	-1.3	0.7	3.0	2.0	2.3
Luxemburg	0.7	0.1	0.0	-0.5	-0.1	2.6	0.3	2.7
Malta	0.8	1.2	0.9	0.6	0.9	1.3	0.3	0.3
Netherlands	0.3	0.2	0.1	-0.5	0.3	1.3	0.8	1.0
Hungary	0.0	0.1	0.5	-0.9	0.4	2.7	1.3	2.3
Poland	0.1	-0.7	-0.2	-1.2	-0.3	1.7	0.9	2.0
Portugal	-0.2	0.5	0.6	0.0	0.5	1.4	0.5	1.0
Romania	1.4	-0.4	-1.1	0.6	-2.0	0.4	-2.6	2.4
Slovakia	-0.1	-0.3	-0.5	-0.5	-0.5	1.0	0.0	1.5
Slovenia	0.4	-0.8	-0.2	-0.5	-0.9	2.0	-0.3	2.9
Sweden	0.2	0.7	1.1	0.6	1.1	1.6	0.5	0.5
Finland	1.2	-0.2	0.4	-0.1	0.0	1.1	0.0	1.1

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

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	124	124	126	126	128	131	131	130	128
Belgium	117	116	118	121	120	121	120	120	119
Bulgaria	41	43	44	45	45	46	46	46	47
France	108	107	108	108	108	107	109	107	106
Germany	117	117	117	120	123	124	124	125	124
Denmark	123	125	125	129	128	127	128	127	127
Czech Republic	82	84	85	83	83	83	84	86	87
EU	100	100	100	100	100	100	100	100	100
Greece	93	93	94	85	75	72	72	70	68
Estonia	69	69	64	65	71	74	75	76	75
Euro area	109	109	109	108	108	107	107	107	106
United Kingdom	111	109	107	107	105	107	107	109	108
Ireland	148	134	129	130	131	132	133	137	177
Spain	103	101	101	96	93	91	90	90	90
Italy	107	107	106	104	104	102	99	97	96
Croatia	61	63	62	59	60	60	59	59	58
Cyprus	104	106	105	100	96	91	84	81	82
Latvia	57	59	52	53	57	60	62	64	64
Lithuania	60	63	56	60	66	70	73	75	75
Luxemburg	262	259	250	256	263	259	261	267	264
Malta	79	79	81	84	83	84	86	86	88
Netherlands	138	139	137	134	133	133	134	131	128
Hungary	60	62	64	64	66	65	67	68	68
Poland	53	55	60	62	65	67	67	68	69
Portugal	81	81	82	82	77	75	77	77	77
Romania	43	49	50	52	52	54	55	55	57
Slovakia	67	71	71	74	75	76	77	77	77
Slovenia	87	90	85	83	83	82	81	83	83
Sweden	128	127	123	125	126	127	125	124	124
Finland	119	121	117	116	117	115	113	111	109

Table 7: Average labour productivity (euro per hour worked, EU=100)

	Annual data								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	116	115.8	115.7	114.7	114.6	116.3	116.2	115.6	115
Belgium	130.2	128.4	129.8	131.4	129.8	130.9	130.2	131	130.1
Bulgaria	37.7	39.4	39.5	41.3	42.2	43.6	43	43.5	44.2
France	117.5	116.6	117.6	117.1	116.7	115	116.3	115.4	115.3
Germany	108	107	104.3	105.2	106.5	105.4	104.8	106.2	106
Denmark	106.2	107.7	109.7	115.3	114.7	114.5	115.4	114.8	114.5
Czech Republic	76.6	77.6	79.1	77	77.4	76.2	76.7	79.3	80
EU	100	100	100	100	100	100	100	100	100
Greece	98.1	98.5	98.2	89.6	85.6	86	87.1	85.6	82.6
Estonia	66.5	66.1	66.7	70.6	72.1	73.4	73.2	73.7	71.1
Euro area	108.9	108.6	108.7	107.9	107.8	107.2	107.3	107.3	107.2
United Kingdom	106.7	105.3	103.2	103.2	101.4	101.7	101.3	101.7	101.2
Ireland	139.5	130.7	134.9	140.8	143.6	145.1	141.6	145.1	186
Spain	100.6	100.9	105.6	102	101.3	103.2	103.5	103.2	101.5
Italy	114.1	115	115	112.9	112.3	110.2	108.8	107.7	107.4
Croatia	70.6	70.6	68.5	67.1	70.1	72.4	73.1	70.3	68.8
Cyprus	93.9	95	95.4	91.6	90	88.7	86.8	85.2	85.2
Latvia	54.5	56.1	56.2	58.8	61.4	62.8	62.4	64.5	64.5
Lithuania	62	65.1	61.3	67.2	71.4	73.1	74.3	74.5	73.2
Luxemburg	173.7	167.6	160	161.8	165.4	161.6	163.2	167.8	166.3
Malta	92.4	94	96.9	97.1	91.8	90.3	89.5	90.2	92.2
Netherlands	118	118.4	115.8	113.5	112.2	112	113.9	112.9	111.1
Hungary	65.9	70.3	72.2	72.7	73.8	72.5	72.9	71	70.3
Poland	61.4	62.1	65.4	70.2	72.7	74.1	74	73.9	74.3
Portugal	77.8	77.5	79.6	79.9	76.5	76.8	79.7	79	78.2
Romania	43.6	50	49.9	51.1	51.9	55.7	56.3	57	59.4
Slovakia	75.9	79.4	79.3	83.6	81.6	82.5	83.8	84.1	83.3
Slovenia	83	83.8	80.2	79.6	80.8	80.1	79.8	81.7	81.5
Sweden	119.2	118.3	116.4	116.8	116.3	116.4	114.2	113	113.4
Finland	113.2	114	111.4	111.1	111.4	109.2	108	106.9	106.9

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

	Annual data (%)					Change (%)	
	2012	**2013**	**2014**	**2015**	**2016**	**2016/15**	**2015/14**
Austria	74.4	74.6	74.2	74.3	74.8	0.5	0.1
Belgium	67.2	67.2	67.3	67.2	67.7	0.5	-0.1
Bulgaria	63.0	63.5	65.1	67.1	67.7	0.6	2.0
France	69.4	69.5	69.4	69.5	70.0	0.5	0.1
Germany	76.9	77.3	77.7	78.0	78.7	0.7	0.3
Denmark	75.4	75.6	75.9	76.5	77.4	0.9	0.6
Czech Republic	71.5	72.5	73.5	74.8	76.8	2.0	1.3
EU	68.4	68.4	69.2	70.1	71.1	1.0	0.9
Greece	55.0	52.9	53.3	54.9	56.2	1.3	1.6
Estonia	72.2	73.3	74.3	76.5	76.6	0.1	2.2
Euro area	68.0	67.7	68.1	68.8	69.9	1.1	0.7
United Kingdom	74.1	74.8	76.2	76.9	77.6	0.7	0.7
Ireland	63.7	65.5	67.0	68.8	70.3	1.5	1.8
Spain	59.6	58.6	59.9	62.0	63.9	1.9	2.1
Italy	60.9	59.7	59.9	60.6	61.6	1.0	0.7
Croatia	58.1	57.2	59.2	60.5	61.4	0.9	1.3
Cyprus	70.2	67.2	67.6	68.0	68.8	0.8	0.4
Latvia	68.1	69.7	70.7	72.5	73.2	0.7	1.8
Lithuania	68.5	69.9	71.8	73.4	75.2	1.8	1.6
Luxemburg	71.4	71.1	72.1	70.9	70.7	-0.2	-1.2
Malta	63.1	64.8	66.4	67.8	69.6	1.8	1.4
Netherlands	76.6	75.9	75.4	76.4	77.1	0.7	1.0
Hungary	61.6	63.0	66.7	68.9	71.5	2.6	2.2
Poland	64.7	64.9	66.5	67.8	69.3	1.5	1.3
Portugal	66.3	65.4	67.6	69.1	70.6	1.5	1.5
Romania	64.8	64.7	65.7	66.0	66.3	0.3	0.3
Slovakia	65.1	65.0	65.9	67.7	69.8	2.1	1.8
Slovenia	68.3	67.2	67.7	69.1	70.1	1.0	1.4
Sweden	79.4	79.8	80.0	80.5	81.2	0.7	0.5
Finland	74.0	73.3	73.1	72.9	73.4	0.5	-0.2

(*) 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 (%)					Change (%)	
	2012	**2013**	**2014**	**2015**	**2016**	**2016/15**	**2015/14**
Austria	41.6	43.8	45.1	46.3	49.2	2.9	1.2
Belgium	39.5	41.7	42.7	44.0	45.4	1.4	1.3
Bulgaria	45.7	47.4	50.0	53.0	54.5	1.5	3.0
France	44.5	45.6	46.9	48.7	49.8	1.1	1.8
Germany	61.6	63.6	65.6	66.2	68.6	2.4	0.6
Denmark	60.8	61.7	63.2	64.7	67.8	3.1	1.5
Czech Republic	49.3	51.6	54.0	55.5	58.5	3.0	1.5
EU	48.7	50.1	51.8	53.3	55.3	2.0	1.5
Greece	36.5	35.6	34.0	34.3	36.3	2.0	0.3
Estonia	60.5	62.6	64.0	64.5	65.3	0.8	0.5
Euro area	48.6	50.0	51.7	53.3	55.3	2.0	1.6
United Kingdom	58.1	59.8	61.0	62.2	63.4	1.2	1.2
Ireland	49.3	51.3	53.0	55.6	57.2	1.6	2.6
Spain	43.9	43.2	44.3	46.9	49.1	2.2	2.6
Italy	40.3	42.7	46.2	48.3	50.3	2.0	2.1
Croatia	37.5	37.8	36.2	39.0	38.1	-0.9	2.8
Cyprus	50.7	49.6	46.9	48.2	52.1	3.9	1.3
Latvia	52.8	54.8	56.4	59.4	61.4	2.0	3.0
Lithuania	51.7	53.4	56.2	60.4	64.6	4.2	4.2
Luxemburg	41.0	40.5	42.5	38.5	39.6	1.1	-4.0
Malta	34.7	36.3	37.8	40.4	44.0	3.6	2.6
Netherlands	57.6	59.2	59.9	61.7	63.5	1.8	1.8
Hungary	36.1	37.9	41.7	45.3	49.9	4.6	3.6
Poland	38.7	40.6	42.5	44.3	46.2	1.9	1.8
Portugal	46.5	46.9	47.8	49.9	52.1	2.2	2.1
Romania	41.6	41.8	43.1	41.1	42.8	1.7	-2.0
Slovakia	43.1	44.0	44.8	47.0	49.1	2.1	2.2
Slovenia	32.9	33.5	35.4	36.6	38.6	2.0	1.2
Sweden	73.0	73.6	74.0	74.5	75.5	1.0	0.5
Finland	58.2	58.5	59.1	60.0	61.4	1.4	0.9

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

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

	Annual data (%)				Change (%)	
	2013	**2014**	**2015**	**2016**	**2016/15**	**2015/14**
Austria	0.4	0.1	0.9	1.7	0.8	-0.9
Belgium	0.1	0.3	0.2	0.8	0.6	-0.2
Bulgaria	-0.2	1.3	1.7	-0.5	-2.2	-1.7
France	-0.1	2.3	0.1	0.6	0.5	-0.1
Germany	0.8	0.7	0.9	2.9	2	-0.9
Denmark	0.0	0.7	1.4	3.2	1.8	-1.4
Czech Republic	0.7	0.8	1.4	1.9	0.5	-1.4
EU	-0.3	1.3	1.1	1.6	0.5	-1.1
Greece	-4.9	0.6	2.1	1.7	-0.4	-2.1
Estonia	0.9	0.5	2.6	0.6	-2	-2.6
Euro area	-0.6	0.9	1.0	1.8	0.8	-1
United Kingdom	0.9	2.2	1.7	1.4	-0.3	-1.7
Ireland	2.1	1.5	2.6	2.9	0.3	-2.6
Spain	-2.7	1.2	3.0	2.7	-0.3	-3
Italy	-1.8	0.2	0.8	1.3	0.5	-0.8
Croatia	-2.3	3.2	1.3	0.3	-1	-1.3
Cyprus	-4.9	-0.4	-1.3	2.5	3.8	1.3
Latvia	1.7	-0.9	1.3	-0.3	-1.6	-1.3
Lithuania	1.6	1.9	1.2	2.0	0.8	-1.2
Luxemburg	1.0	2.8	4.8	1.2	-3.6	-4.8
Malta	3.1	2.8	2.3	2.9	0.6	-2.3
Netherlands	-0.9	-0.9	1.0	1.3	0.3	-1
Hungary	1.8	5.4	2.7	3.4	0.7	-2.7
Poland	-0.2	1.8	1.4	0.7	-0.7	-1.4
Portugal	-2.3	2.3	1.1	1.2	0.1	-1.1
Slovakia	-2.3	2.3	-0.9	-1.0	-0.1	0.9
Slovenia	-0.5	0.9	2.6	2.8	0.2	-2.6
Sweden	0.0	1.4	0.1	-0.3	-0.4	-0.1
Czech Republic	-2.0	0.5	1.4	1.5	0.1	-1.4
Finland	1.0	0.9	-0.4	0.5	0.9	0.4

Table 11: Unemployment rate – Total population

	Annual data (%)					Change (%)	
	2012	2013	2014	2015	2016	2016/15	2015/14
Austria	4.9	5.4	5.6	5.7	5.8	0.1	0.1
Belgium	7.6	8.4	8.5	8.5	7.7	-0.8	0.0
Bulgaria	12.3	13.0	11.4	9.2	7.5	-1.7	-2.2
France	9.8	10.3	10.3	10.4	9.7	-0.7	0.1
Germany	5.4	5.2	5.0	4.6	4.1	-0.5	-0.4
Denmark	7.5	7.0	6.6	6.2	5.8	-0.4	-0.4
Czech Republic	7.0	7.0	6.1	5.1	3.9	-1.2	-1.0
EU	10.5	10.9	10.2	9.4	8.4	-1.0	-0.8
Greece	24.5	27.5	26.5	24.9	23.5	-1.4	-1.6
Estonia	10.0	8.6	7.4	6.2	6.8	0.6	-1.2
Euro area	11.4	12.0	11.6	10.9	9.9	-1.0	-0.7
United Kingdom	7.9	7.6	6.1	5.3	4.3	-1.0	-0.8
Ireland	14.7	13.1	11.3	9.4	7.7	-1.7	-1.9
Spain	24.8	26.1	24.5	22.1	19.3	-2.8	-2.4
Italy	10.7	12.1	12.7	11.9	11.6	-0.3	-0.8
Croatia	16.0	17.3	17.3	16.3	12.5	-3.8	-1.0
Cyprus	11.9	15.9	16.1	15.1	13.0	-2.1	-1.0
Latvia	15.0	11.9	10.8	9.9	9.8	-0.1	-0.9
Lithuania	13.4	11.8	10.7	9.1	8.0	-1.1	-1.6
Luxemburg	5.1	5.9	6.0	6.4	5.9	-0.5	0.4
Malta	6.3	6.4	5.8	5.4	4.3	-1.1	-0.4
Netherlands	5.8	7.3	7.4	6.9	5.4	-1.5	-0.5
Hungary	11.0	10.2	7.7	6.8	5.0	-1.8	-0.9
Poland	10.1	10.3	9.0	7.5	6.1	-1.4	-1.5
Portugal	15.8	16.4	14.1	12.6	11.2	-1.4	-1.5
Romania	6.8	7.1	6.8	6.8	5.7	-1.1	0.0
Slovakia	14.0	14.2	13.2	11.5	9.4	-2.1	-1.7
Slovenia	8.9	10.1	9.7	9.1	8.1	-1.0	-0.6
Sweden	8.0	8.0	7.9	7.4	6.3	-1.1	-0.5
Finland	7.7	8.2	8.7	9.4	8.2	-1.2	0.7

Table 12: Unemployment rate among men

	Annual data (%)					Change (%)	
	2012	2013	2014	2015	2016	2016/15	2015/14
Austria	5.0	5.4	5.9	6.1	6.3	0.2	0.2
Belgium	7.7	8.7	9.0	9.1	8.0	-1.1	0.1
Bulgaria	13.5	13.9	12.3	9.8	8.1	-1.7	-2.5
France	9.8	10.4	10.5	10.8	9.9	-0.9	0.3
Germany	5.6	5.5	5.3	5.0	4.5	-0.5	-0.3
Denmark	7.5	6.7	6.4	5.9	5.3	-0.6	-0.5
Czech Republic	6.0	5.9	5.1	4.2	3.4	-0.8	-0.9
EU	10.4	10.8	10.1	9.3	8.2	-1.1	-0.8
Greece	21.6	24.5	23.7	21.8	19.8	-2.0	-1.9
Estonia	10.9	9.1	7.9	6.2	7.3	1.1	-1.7
Euro area	11.2	11.9	11.5	10.7	9.6	-1.1	-0.8
United Kingdom	8.4	8.0	6.4	5.5	4.4	-1.1	-0.9
Ireland	17.7	15.0	12.9	10.9	9.0	-1.9	-2.0
Spain	24.6	25.6	23.6	20.8	17.8	-3.0	-2.8
Italy	9.8	11.5	11.9	11.3	10.8	-0.5	-0.6
Croatia	16.0	17.7	16.5	15.7	11.8	-3.9	-0.8
Cyprus	12.6	16.6	17.1	15.2	12.7	-2.5	-1.9
Latvia	16.2	12.6	11.8	11.1	11.0	-0.1	-0.7
Lithuania	15.2	13.1	12.2	10.1	9.2	-0.9	-2.1
Luxemburg	4.5	5.6	5.8	5.8	5.7	-0.1	0.0
Malta	5.7	6.5	6.1	5.5	4.0	-1.5	-0.6
Netherlands	5.5	7.2	7.2	6.5	5.0	-1.5	-0.7
Hungary	11.3	10.2	7.6	6.6	5.0	-1.6	-1.0
Poland	9.4	9.7	8.5	7.3	6.0	-1.3	-1.2
Portugal	15.9	16.3	13.8	12.4	11.2	-1.2	-1.4
Romania	7.4	7.7	7.3	7.5	6.4	-1.1	0.2
Slovakia	13.5	14.0	12.8	10.3	8.5	-1.8	-2.5
Slovenia	8.4	9.5	9.0	8.1	7.6	-0.5	-0.9
Sweden	8.2	8.2	8.2	7.5	6.7	-0.8	-0.7
Finland	8.3	8.8	9.3	9.9	8.6	-1.3	0.6

Table 13: Unemployment rate among women

	Annual data (%)					Change (%)	
	2012	2013	2014	2015	2016	2016/15	2015/14
Austria	4.8	5.3	5.4	5.3	5.3	0.0	-0.1
Belgium	7.4	8.2	7.9	7.8	7.4	-0.4	-0.1
Bulgaria	10.8	11.8	10.4	8.4	6.9	-1.5	-2.0
France	9.8	10.2	10.0	9.9	9.6	-0.3	-0.1
Germany	5.2	4.9	4.6	4.2	3.7	-0.5	-0.4
Denmark	7.5	7.3	6.8	6.4	6.3	-0.1	-0.4
Czech Republic	8.2	8.3	7.4	6.1	4.6	-1.5	-1.3
EU	10.5	10.9	10.3	9.5	8.6	-0.9	-0.8
Greece	28.2	31.4	30.2	28.9	28.2	-0.7	-1.3
Estonia	9.1	8.2	6.8	6.1	6.1	0.0	-0.7
Euro area	11.5	12.1	11.8	11.0	10.2	-0.8	-0.8
United Kingdom	7.4	7.1	5.8	5.1	4.2	-0.9	-0.7
Ireland	11.0	10.7	9.4	7.7	6.2	-1.5	-1.7
Spain	25.1	26.7	25.4	23.6	21.1	-2.5	-1.8
Italy	11.8	13.1	13.8	12.7	12.6	-0.1	-1.1
Croatia	16.1	16.8	18.3	17.0	13.2	-3.8	-1.3
Cyprus	11.1	15.2	15.1	14.9	13.3	-1.6	-0.2
Latvia	14.0	11.1	9.8	8.6	8.6	0.0	-1.2
Lithuania	11.6	10.5	9.2	8.2	6.8	-1.4	-1.0
Luxemburg	5.8	6.2	6.4	7.2	6.3	-0.9	0.8
Malta	7.3	6.3	5.3	5.2	4.7	-0.5	-0.1
Netherlands	6.2	7.3	7.8	7.3	6.0	-1.3	-0.5
Hungary	10.6	10.1	7.9	7.0	5.0	-2.0	-0.9
Poland	10.9	11.1	9.6	7.7	6.1	-1.6	-1.9
Portugal	15.6	16.6	14.5	12.9	11.2	-1.7	-1.6
Romania	6.1	6.3	6.1	5.8	4.8	-1.0	-0.3
Slovakia	14.5	14.5	13.6	12.9	10.6	-2.3	-0.7
Slovenia	9.4	10.9	10.6	10.1	8.6	-1.5	-0.5
Sweden	7.7	7.9	7.7	7.3	5.8	-1.5	-0.4
Finland	7.1	7.5	8.0	8.8	7.8	-1.0	0.8

Table 14: Long-term unemployment rate (*)

	Annual data (%)					Change (%)	
	2012	2013	2014	2015	2016	2016/15	2015/14
Austria	24.9	24.6	27.2	30.5	33.7	3.2	3.3
Belgium	44.7	46.1	49.9	52.9	52.8	-0.1	3.0
Bulgaria	55.2	57.3	60.4	61.9	59.6	-2.3	1.5
France	40.0	40.5	42.8	45.4	47.2	1.8	2.6
Germany	45.4	44.7	44.3	45.3	42.7	-2.6	1.0
Denmark	28.0	25.5	25.2	29.8	25.5	-4.3	4.6
Czech Republic	43.4	43.4	43.5	48.2	42.8	-5.4	4.7
EU	46.4	49.8	52.6	50.2	48.6	-1.6	-2.4
Greece	59.1	67.1	73.5	73.6	72.4	-1.2	0.1
Estonia	54.7	44.5	45.3	40.0	32.6	-7.4	-5.3
Euro area	44.5	47.3	49.5	52.8	51.5	-1.3	3.3
United Kingdom	34.7	36.2	35.8	33.9	30.3	-3.6	-1.9
Ireland	61.7	60.6	59.2	59.4	57.3	-2.1	0.2
Spain	44.4	49.7	52.8	52.5	49.2	-3.3	-0.3
Italy	53.2	56.9	61.4	59.7	59.1	-0.6	-1.7
Croatia	63.7	63.6	58.4	66.2	53.2	-13.0	7.8
Cyprus	30.1	38.3	47.7	46.7	45.3	-1.4	-1.0
Latvia	52.1	48.6	43.0	46.2	41.8	-4.4	3.2
Lithuania	49.2	42.9	44.7	43.3	38.8	-4.5	-1.4
Luxemburg	30.3	30.4	27.4	30.3	37.0	6.7	2.9
Malta	48.5	45.7	46.9	48.2	45.3	-2.9	1.3
Netherlands	33.7	35.8	40.0	48.0	47.4	-0.6	8.0
Hungary	45.3	48.6	47.5	46.8	47.7	0.9	-0.7
Poland	40.3	42.5	42.7	40.1	35.9	-4.2	-2.6
Portugal	48.8	56.4	59.6	59.1	56.9	-2.2	-0.5
Romania	44.2	45.2	41.1	45.1	51.7	6.6	4.0
Slovakia	67.3	70.2	70.2	66.9	61.4	-5.5	-3.3
Slovenia	47.9	51.0	54.5	53.0	53.9	0.9	-1.5
Sweden	18.9	18.5	18.9	24.1	22.4	-1.7	5.2
Finland	21.4	20.7	22.4	27.5	29.4	1.9	5.1

(*) long term unemployed (12 months or more) as a % of total unemployed

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)					Change (%)	
	2012	2013	2014	2015	2016	2016/15	2015/14
Austria	9.4	9.7	10.3	10.6	11.2	0.6	0.3
Belgium	19.8	23.7	23.2	22.1	20.1	-2.0	-1.1
Bulgaria	28.1	28.4	23.8	21.6	17.3	-4.3	-2.2
France	24.4	24.9	24.2	24.7	24.6	-0.1	0.5
Germany	8.0	7.8	7.7	7.2	7.1	-0.1	-0.5
Denmark	14.1	13.0	12.6	10.8	12.0	1.2	-1.8
Czech Republic	19.5	18.9	15.9	12.6	10.5	-2.1	-3.3
EU	23.3	23.7	22.2	20.4	18.7	-1.7	-1.8
Greece	55.3	58.3	52.4	49.	47.4	-1.6	-3.4
Estonia	20.9	18.7	15.0	13.1	13.5	0.4	-1.9
Euro area	23.6	24.4	23.7	22.4	20.9	-1.5	-1.3
United Kingdom	21.2	20.7	16.9	14.6	13.0	-1.6	-2.3
Ireland	30.4	26.8	23.9	20.9	17.2	-3.7	-3.0
Spain	52.9	55.5	53.2	48.3	44.5	-3.8	-4.9
Italy	35.3	40.0	42.7	40.3	37.8	-2.5	-2.4
Croatia	42.1	50.0	45.5	43.0	31.3	-11.7	-2.5
Cyprus	27.7	38.9	36.0	32.8	29.1	-3.7	-3.2
Latvia	28.5	23.2	19.6	16.3	17.3	1.0	-3.3
Lithuania	26.7	21.9	19.3	16.3	14.5	-1.8	-3.0
Luxemburg	18.0	16.9	22.3	17.3	18.7	1.4	-5.0
Malta	14.1	13.0	11.7	11.8	11.1	-0.7	0.1
Netherlands	11.7	13.2	12.7	11.3	10.8	-0.5	-1.4
Hungary	28.2	26.6	20.4	17.3	13.0	-4.3	-3.1
Poland	26.5	27.3	23.9	20.8	17.6	-3.2	-3.1
Portugal	38.0	38.1	34.7	32.0	27.9	-4.1	-2.7
Romania	22.6	23.7	24.0	21.7	20.6	-1.1	-2.3
Slovakia	34.0	33.7	29.7	26.5	22.2	-4.3	-3.2
Slovenia	20.6	21.6	20.2	16.3	15.3	-1.0	-3.9
Sweden	23.7	23.6	22.9	20.4	18.8	-1.6	-2.5
Finland	19.0	19.9	20.5	22.4	19.9	-2.5	1.9

(*) For the exact definition of the indicator "At Risk of Poverty or Social Exclusion Rate" refer to:
http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16664385&RdoSearch=BEGIN&TxtSearch=&CboTheme=36940331&IsTer=TERM&IntCurrentPage=4&ter_valid=0

http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=27697382&RdoSearch=BEGIN&TxtSearch=&CboTheme=36940331&IsTer=TERM&IntCurrentPage=44&ter_valid=0