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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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FOREWORD

This is the second IOBE bulletin on the Greek economy for 2016. It was prepared in a particularly crucial period for the European economy, after the referendum in the UK on exit from the EU, which raised concerns over the EU prospects. In Greece, the completion of the first review (new measures, but also reinstatement of the ECB waiver) is anticipated to have an impact on the economy. As all IOBE quarterly bulletins, this report contains **four chapters** and an **appendix** with key structural indicators. The bulletin starts with a position paper on the impact of the delay, currently and in the past, of the economic restructuring, outlining specific priorities for speeding up this process. The rest of the report is structured as follows:

The **first chapter** presents a **brief overview** of the report. **Chapter two** examines the general economic conditions, including a) an analysis of the **global economic environment** in the first quarter of 2016 and its outlook for the rest of the year, based on the latest report of the International Monetary Fund and data from other international organisations; b) an outline of the **economic climate** in Greece in the second quarter of 2016, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in the first five months of 2016 and of the data on public deficit and debt in 2015 that was communicated to the Eurostat.

Chapter three focuses on the performance of the Greek economy in early 2016. It includes an analysis of: the **macroeconomic environment** (key macroeconomic figures in the first quarter of 2016) and its projected trends for the rest of the current year; the **developments in key production sectors** in the first three months of 2016; the **export performance** of the Greek economy in the first four months of 2016; the developments in the **labour market** in the first quarter of 2016; the trends of **inflation** in the first five months of 2016; and, finally, the trends in the **balance of payments** between January and April of 2016.

Chapter four presents a special study of IOBE on the economic impact of the privatisation of the Piraeus Port Authority.

The report is based on data that were available up to 30/06/2016. IOBE's next quarterly bulletin on the Greek economy will be published in mid-October of 2016.

THE RETURN TO GROWTH WILL NOT HAPPEN AUTOMATICALLY AND IS NOT GUARANTEED

The conclusion of the first review of the current programme was the most significant positive development since the publication of the last IOBE quarterly bulletin. As a result of this development, the Greek economy continues to be funded as envisaged in the agreement, while both the use of European investment funds and a liquidity boost in the economy through actions of the European Central Bank are gradually being put in place. The return to growth, already from the second half of the year, in a way that will moderate the recession from the first half and set the economy on a sustainable path from the following year, has now become the main, unequivocally pressing, goal. The objective conditions to achieve this are certainly present, but regardless of how absolutely essential this is, it is not self-evident that the return to growth will indeed be acomplished. There is a threat that after such a protracted period of deep recession, the Greek economy will remain essentially stagnant for a long time span, as the framework for a new production and growth dynamic is not being formed. This would be a particularly dismal development, not only because it would derail once more the implementation of the programme, with whatever consequences this might have, but mainly because the cost for the unemployed and for all those people that see their income and savings dwindling has become unbearable. Thus, the economic policy in the current period should not leave any room for misinterpreting its objectives - it ought to move clearly towards securing the conditions for growth.

During the negotiations and the recent conclusion of the review, of course with a significant delay relative to the initial time plan, there was a clear intention not to leave any issues open by the beginning of June. The main reason for this was that the referendum in the UK was being viewed a source of significant uncertainty and that a possible negative development should not find the Greek and the European economies still open to a round of negotiations. With the decision of the British people to leave the European Union (EU), significant new challenges in the external environment of the Greek economy have now arisen. The developments in Europe are expected to be characterised over the medium term by high volatility, in the areas of both politics and economics. The policy decisions over the coming period will have a critical significance, as they will determine whether the continental economies will manage to restart their growth or find themselves in a prolonged period of instability, with protectionism gaining ground. Despite the expectations that, gradually, a new steady state will settle in – both the British and the European economies have a considerable potential – the EU is indeed undergoing a crisis.

There are three major issues for the Greek economy in this respect. First, growth is expected to slow down further across the globe, which will reduce the demand for exports of goods and services. The developments in the EU will burden an already weak global economy, where the appetite for investment has been already low, particularly in our continent. Second, particularly with regard to the attraction of funding for investment, the medium-term outlook is negative, as the relative risks have increased, as seen by the investors, implying that higher return would be required, particularly in the weakest economies. Third, regulatory shifts and shocks are expected in the EU. Greece is no longer the core problem for our partners, however it remains under close supervision and in need for official financing. The integration in the Euro area will likely deepen, and perhaps a tighter union will emerge with only those economies that are both willing and able to follow in this endeavour, which should not find the Greek economy unprepared. The leverage of the country, which has to participate and influence these processes, depends on how quickly its economy will progress. In any case, new economic and political threats in the wider environment cannot be ruled out.

While the developments in the EU are unfavourable and dangerous, the major threats to the Greek economy still come from the domestic economic policy. Since the start of the Greek crisis, the stance that has characterised most (if not all) stakeholders has been that of postponing the difficult decisions, aiming for temporary stabilisation at best and often willing to return to the economic features of the crooked recent past. The structural transformations that were needed were attempted without vigour, while reforms with short-term cost and high medium-term benefits were postponed. Overall, there was a tendency to avoid reality, both with respect to the present constraints and to opportunities. In the current conditions, there are significant positive and significant negative elements. On the one hand, there is now a genuine consent among most political forces to support the European programme. In contrast to what has happened since 2010, both the government and most of the opposition parties agree in effect that the exit from the crisis can only take place with the conclusion of the European programme of adjustment. The political uncertainty, the lack of some minimum consensus and the extreme adversity have constituted a key impediment for the Greek economy since the start of the crisis. On the other hand, particular elements of the adopted economic policy act against the growth prospects of the Greek economy. This concerns the implemented tax policy, the delays and the lack of clarity with regard to the necessary structural changes that will attract investment and the overall functioning of institutions, such as the education system, the media and the justice system, which might not have a direct link with the economy, but shape the wider relevant environment.

Besides, we should not be forgetting that the Greek crisis did not come simply as a debt crisis, but it resulted from deep structural imbalances and distortions. In particular, production in the past was excessively directed to domestic demand and depended on the functions of the State and more generally of the public sector. Such a crisis can be met neither with (over)taxation, nor with a temporary boost of internal demand, but with a gradual realignment of the economic incentives. From this point of view, there is a double cause of concern, as the Greek economy becomes increasingly closed relative to trade and capital flows, while at the same time the Greek economy is increasingly dependent on the public sector. While these results, to a certain extent, came from the imposition of capital controls a year ago, decisive steps should be taken in the opposite direction. For instance, one might not worry about the direct impact of the external sector on national income, given that imports contracted stronger than exports, however this would be a myopic approach, as the entrenchment of the economy at its borders is not conducive to its future growth prospects. In particular, with the degree to which an economy is open to trade is measured by the sum of imports and exports over its national income, the openness of the Greek economy is declining, having already reached much lower levels in comparison to competitive European economies. Meanwhile, the continuous and, at times, extreme increase of tax rates transfers funds and economic decisions from the private sector, which is more productive, to the public sector. As a result, the role of the public sector with respect to capital investment decisions and job creation becomes even more important in the coming period, compared with the pro-crisis times.

Taking into account all of the above, the Greek economy is at an absolutely crucial junction. Even though this has happened again in the recent past, the external developments compress tightly the economic and political time, leaving no additional room for delays. On the positive side, we should take into account the fact that the fiscal and the external sector balances have now stabilised, a series of reforms have been successfully implemented and, as an overall assessment, the households and the businesses, despite the difficulties, have shown to be willing to support the European course of the country's economy, understanding the benefits that come with it. On the negative side however, we should bear in mind the persistent trend of disinvestment, the burden and the significant dysfunctionalities from the non-performing business and (to a lesser degree) housing loans, the lack of trust in the banking system due to the events from a year ago, which will ease only gradually as the Greek economy grows stronger, and the lack of political commitment to build an environment that is friendly to business and investment.

As the economy does not have the luxury not to return to growth very soon, emphasis should be placed both on the implementation together with the necessary adjustments in order to avoid mishaps. The Partnership Agreement, the Juncker plan, other European funding programmes, the reduction of the financing cost of banks by the ECB, the significant privatisation deals, and even possible favourable developments regarding the public debt, are significant tools and intermediary objectives, yet none of them can mechanistically guarantee us that the economy will grow. In essence, we need a decisive, effective and undoubted policy turn towards credibility. In particular, the creation of a stable environment that can support entrepreneurship and long-term investment, both in physical and human capital, is still pending.

In conclusion, the year that spanned between the Greek and the UK referenda, with the immediate threat of Grexit and the decision for Brexit, was particularly dense in terms of messages and outcomes. In any economy, of course, the expectations play a decisive role, while the lack of direction and credibility have a very high cost. For our economy, this implies that we need maturity and difficult decisions to be made. Greece can receive further support from abroad only if the domestic economic policy takes a clear direction and the economy returns to growth. The time for this return is now, as the pressing external developments do not leave any room for further self-deceptions, misinterpretations or delays. Growth will not come routinely and should not be taken for granted, while the responsibility for this is now growing exponentially.

1. BRIEF OVERVIEW - CONCLUSIONS

The expectations for recovery of the world economy in 2016 have weakened

According to the latest available data and indications, **the growth rate of the world economy weakened further in the first quarter of 2016. In particular, the GDP of the OECD member countries increased by 1.9%, with the growth rate falling below 2.0% for the first time since the last quarter of 2014.** Slowdown was observed in both the developed and the developing economies. At the level of the seven major world economies, GDP increased by 1.5%, marginally lower than in late 2015 (+1.6%), yet slightly stronger than in the same period of the previous year (+1.3%). In the US, GDP increased by 2.0%, at the same rate as in the last quarter of 2015, yet notably weaker compared with the first quarter of 2015 (2.9%). The strongest slowdown of growth among the major economies once more was recorded in Japan, where GDP remained unchanged year on year. In contrast, the growth rate of the German economy strengthened to 1.6%, from 1.3% in the preceding quarter and 1.1% in the same quarter of 2015. Among the developing and emerging economies, the growth rate of the Chinese economy continued to slow down for a fifth consecutive quarter (from 6.8% in Q4 of 2015 to 6.7%). However, the GDP growth accelerated in India (from 7.6% to 8.0%), while the recession in Brazil weakened (from 5.9% to 5.1%).

Regarding the environment of the world economy in the current period and the upcoming months, most key factors that could have an impact on the world economic activity are negative. These factors include: 1) weakened growth in the developing economies, as for example the economy of China is in a transitionary phase to a new model of growth; 2) slowdown of world trade, mainly as a result of lower growth in the developing economies; 3) a potential impact from the outcome of the recent referendum in the United Kingdom.

The low cost of raw materials will continue to boost the developed economies, except for the US economy, to some extent, as the low petroleum price is hurting the investment in its energy sector. However, the low prices of raw materials has a negative impact on the developing countries that produce them, weakening their demand for the products manufactured by the enterprises in the developed economies. Then again, the accommodating monetary policy of the ECB will continue to support investment. In addition, the conclusion or loosening of the fiscal consolidation programmes in Europe will allow for a recovery of domestic consumption, which will partly offset the weaker growth in the demand for exports.

While the impact of the above developments could to some extent be assessed, the same cannot be said about the effects from the Brexit vote in the recent UK referendum. The process of a member country leaving the European Union is unprecedented. For this reason, there is no clear framework of the new relationship that the UK will have with the remaining EU countries. Thus, the impact on the UK and the EU economies cannot be predicted so far, as the prospects will become clearer when the UK request to leave is submitted officially and the relevant negotiations kick off. For the time being, the uncertainty created for the above reasons will have a negative impact on the European economies and especially in those countries that have closer links with the UK. Therefore, apart from the ostensible further slowdown of growth in the emerging and developing economies in the current year, there are impediments to growth in the developed European economies, the effects of which cannot yet be assessed. As a result of this, **the forecasts of the international organisations that the world economy will grow at a rate slightly above 3.0% in the current year are going to be revised down in the coming months. Hence, the forecast for growth of the world economy by 3.3% from the previous bulletin is revised down to a level slightly below 3.0%, essentially at the 2015 rate.**

The recession of the Greek economy intensified in early 2016

The contraction of the Greek economy continued for a third consecutive quarter, intensifying in the first quarter of 2016 to reach 1.4%, against 0.9% in the preceding quarter and a slight increase in the first quarter of 2015 (+0.4%).

Regarding the trends in the GDP components in the first quarter of 2016, **domestic consumption declined by 1.3% on its level from last year when it had marginally increased (+0.3%).** The decline of consumption expenditure was of similar intensity among the households and in the public sector (-1.3% and -1.5% respectively), just as was the case with its moderate growth in the previous year (0.7% and 0.4%).

The fall of **investment slowed down significantly in the first quarter of the current year to 0.3%, from 14.5% in the preceding quarter.** As investment in the same quarter of the previous year had increased significantly, by 12.4%, their trend in the current year reflects a consolidation of their increase from the previous year. Regarding the components of fixed capital, the investment decline was restrained exclusively by strong public investment, in line with the increase of payments from the Public Investment Programme by 7.0% in the first quarter of the year. Other Construction, which includes public works, had the strongest growth in absolute terms in the first quarter (+3.3% or €58 million). Investment in agricultural machinery increased by a much smaller margin (+€1 million). The strongest contraction, for one more quarter, was recorded in residential construction (-17.2%), followed by investment in ITC equipment and transport equipment (-11.2% and -5.9% respectively).

In the external sector of the economy, **exports decreased in the first quarter of 2016, for the first time in this quarter since 2010, by 11.3%. This was the strongest quarterly decline since the global financial crisis in 2009,** in contrast to their growth by 3.7% in the first quarter of 2015. The reduction of total exports came exclusively from strong contraction of the exports of services, ranging steadily between 22% and 24% since the third quarter of last year, due to the impact of the capital controls mainly on the supply of international transport services (-44.9% in the first quarter of this year, in current prices). The exports of goods increased by 1.7%, however a year ago they were growing at 5.7%.

Imports kept falling in the first quarter of this year, at a rate stronger than exports, yet at the same rate as in the previous quarter, at about 12.5% - 13.0%, compared with a growth of 9.8% in the same period of the previous year. Among the key components of imports, the contraction was notably stronger in the imports of services, reaching 26.6%. Apart from the capital controls, their relatively high level in the same quarter of 2015 (+12.1%) contributed to this as well. The imports of goods declined by 9.2% in the first quarter of this year, compared with the same period of the previous year, when they were growing by 8.6%. Subsequently, **the strongest contraction of imports than exports improved further the balance of the external sector in national accounting terms, with the deficit falling by 23.0% to €1.25 billion (2.7% of GDP), against a deficit of €1.6 billion (3.5%) in the previous year.**

Fiscal consolidation, liquidity scarcity and stagnant foreign demand are driving the recession in 2016

The conclusion of the first review of the implementation of the new economic adjustment programme diminished quite a lot the uncertainty with respect to: a) the additional fiscal measures; b) the implementation of certain reforms (non-performing loans, new privatisation fund); and c) more broadly, the readiness to implement the new programme that was agreed in August 2015. Nevertheless, an agreement on public debt, a development that would have boosted much stronger the confidence in the sustainability of the public finances and the prospects of the Greek economy, was not achieved.

As most fiscal interventions concerned the households (pension cuts above a threshold, lower tax allowance, change in the personal income tax, higher VAT and social security contributions etc.), their real disposable income received a further hit. Significant decisions were also made on issues that concern the enterprises (e.g. increase in VAT and social security contributions). The issue of changes in the labour relations, a critical parameter of business operation is still pending.

The reinstatement of the waiver, which allowed the Greek sovereign bonds to be readmitted as collateral by the ECB, is a development connected with the conclusion of the review that under certain conditions might have a significant medium-term effect on the liquidity in the Greek economy. As a result, the banks in Greece can draw liquidity from the standing facilities of the ECB for that purpose, at a cost much lower than that of the Emergency Liquidity Assistance (ELA). This will boost the lending capacity of the banks, provided that a part of the deposits of the private sector returns to the vaults of the banks. However, according to the latest data, by the end of the first review in May, the deposits of households and non-financial corporations had increased only slightly since the imposition of the capital controls (+€1.2 billion). The upcoming Brexit and the concern that it has caused further impede the return of the deposits.

Therefore, a significant change in the cautious lending policy of the banks is not expected in the short term. As long as the level of deposits remains low, a further significant relaxation of the capital controls would not be possible, despite the ability to draw liquidity from the standing facilities of the ECB.

That said, the liquidity of the enterprises will gradually strengthen after the conclusion of the first review of the third economic adjustment programme from speeding up the payment of arrears of the state to its suppliers, as a total of €3.5 billion is envisaged to be disbursed for that purpose. The public sector has provided slightly stronger year-on-year support to investment through the execution of the Public Investment Programme (PIP) since the start of 2016 (+€143 million or +14.7% in the first five months).

Based on the actions so far in the year in the area of privatisation (Piraeus Port Authority, the renegotiation of the Hellinikon project, etc.), investment is expected to recover mainly from the coming year, as time should pass in order to start and set in motion the corresponding investment plans. Nevertheless, HRADF has achieved little progress in the ongoing and planned tenders for this year, beyond the conclusion of concessions and sales procedures that had started in previous years and except for the auctioning of certain real estate assets and the sale of two Airbus planes. The recent omnibus law (Law No. 4389/2016) established a new fund for the development of state-owned assets (Hellenic Holding and Properties Company EESP). However, the drafting of the statute of the new fund, a prior action for the disbursement of the second sub-tranche, is still pending. Given the above and other pending procedural issues, the activity of EESP is not going to start before the final quarter of 2016.

More broadly in the public sector, the effort to achieve the fiscal targets set for this year has led to a strong restraint in the primary expenditure in the first five months of the year. As a result, they have fallen below the relevant target by €2.06 billion (-11.7%).

Besides the above developments related to the implementation of the third economic adjustment programme that affect the domestic economy, the international economic environment has deteriorated as a result of the UK referendum. The upcoming Brexit ramps up sharply the uncertainty over the cohesion and the viability of the European Union and the Euro area, compelling the economic agents to wait for relevant developments and reactions, which makes them defer their major decisions.

The upcoming Brexit might have direct effects on the Greek economy and particularly on the exports of goods and services, due to the depreciation of the pound against the euro. In 2015, the exports of products to the UK reached €1.08 billion, growing year on year by 10.1%. As a result, their share in total exports increased from 3.6% to 4.2%. The supply of tourist services to residents of the UK increased both in terms of value and as a percentage of total exports. In the previous year, their value increased by €466.7 million (or +30.1%), reaching €2.02 billion, keeping the rank of UK as the second largest market after Germany. As the first half of 2016 has already passed, the lower demand from the UK will have an impact on exports only in the second half of the current year. The effects are expected to be relatively stronger in the exports of goods, as the majority of the tourist bookings have already been made and paid.

Regarding other international developments that have an impact on the domestic economic environment, the inflows of refugees and migrants to Central and Northern Europe have declined to a very large extent after the closure of the Balkan route and the implementation of the EU-Turkey agreement on the return of the illegal migrants coming to Europe through Turkey. The oil price returned to growth in March through June, when it returned to its levels from the past autumn. However, uncertainty over the Brexit impact is going to curb the demand of petroleum, at least in the coming months. As a result, the oil price is expected to decline further in 2016, yet not to the same extent as in 2015.

Taking into account the above developments, the available data on the trends in the economic figures of Greece and the forecasts on the GDP components, the extensive fiscal measures that were imposed in order to conclude the first review of the new programme will clearly limit the disposable income and the **consumption of the households** in the second half of 2016. Their impact is expected to be stronger, compared with that of the measures adopted in 2015. The restrictive impact of the capital controls on households consumption during the second half of 2015 has formed a low base of comparison for the corresponding period of the current year. This will counteract the downward pressures on private household consumption over that period. The expected slowdown in the year-on-year decline of unemployment from the second quarter will weaken the support of consumption from growing household income in the previous quarter, when employment increased year on year by 2.9%. **The above effects are anticipated to result in a decline of private consumption overall in the current year by about 1% to 2%.**

The cuts in consumption spending of the public sector in the current year, mainly in terms of cuts in remuneration spending, resulted in a decline of **public consumption** by 1.5% in the first quarter. This trend, with minor fluctuations, is expected to carry over to the remaining quarters of the year. The first phase of the streamlining of the special remuneration schemes, which is included in the prior actions of the second review of the current programme in September, is going to be implemented in the last quarter of the year, provided that the review takes its course without significant deviations from the set time plan. Therefore, it will lead to **stronger cuts in public consumption, which is expected to decline in the current year by 1.5% to 2.5%.**

Regarding **investment**, with most deposits remaining outside the banking system, the management of the "non-performing loans" after the enactment of the corresponding regulatory framework in the Law No. 4389/2016 and the uncertainty from the upcoming Brexit in the stock exchanges and the capital markets, together with the interventions of the European Central Bank, will maintain the credit policy of the banking institutions towards the enterprises unchanged for most of 2016. Despite the reinstatement of the waiver by the ECB, the supply of credit is expected to continue to contract, at a lower rate, in most months of 2016, with a likely credit expansion towards the end of the fourth quarter.

Then again, the small increase in the PIP payments and the repayment of a large part of the arrears of the state with some of the sub-tranches that were received or are going to be received soon, will slightly improve the enterprises' capital holdings. However, the demand for Greek products, both domestically and abroad, during the first half of the year was at best unchanged year on year. Apart from the decline in consumption and investment, the exports of goods other than fuel and ships increased only marginally (+0.5%). Therefore, a large part of the Greek enterprises have no reason to upgrade or extend their production capacity. Under the influence of the above ongoing and anticipated developments, **investment will most likely decline further in 2016, by about 4.0%.**

In the external sector, the stability of **exports** without ships and fuel (in current prices) in the first four months of 2016, despite their high level in the same period of 2015 and the negative impact from the capital controls, reveals that there is a growth momentum in the current half of the year. The low exchange rate of the euro against the dollar, expected to fall further due to the uncertainty surrounding the impact of the exit of the United Kingdom from the EU, will keep on boosting the competitiveness of the Greek and Euro area products. Regarding the exports of services, the slight reduction of the tourism receipts (-3.4%) probably reflects a consolidation phase after three years of steady growth in the sector. The international transport activity is expected to remain at a very low level, which will lead to a decline of the exports of services in the current year. The impact from the Brexit vote in the UK referendum is expected to be limited, as the tourist expenditure of the UK residents for this year had largely been made before the recent developments. **Taking into account the variety of effects on exports, they are expected to decline in the current year (-2.0% to -3.0%).**

The new decline in the household disposable income from the additional fiscal measures and the sluggish investment activity will lead to a further contraction of **imports.** That said, a relaxation of the capital controls will boost primarily imports, as evident from what happened after October 2015 and March 2016. Furthermore, the sharp drop of imports in the second half of 2015 will limit significantly their contraction in the same period of this year, when they might increase somewhat. **Under the influence of the above factors, imports are expected to continue to contract in the current year, at a slightly lower rate than in 2015, (-4% with -5%).**

Under the impact of the above trends on the GDP components in 2016, output is expected to continue to decline, by about 1%.

The overshooting of the State Budget targets continued in the first five months of the year

Based on the final data on **the execution of the State Budget in the first five months of the current year, the deficit during that period reached €814 million,** against a target of €3.9 billion. **The primary account was in a surplus of about €2.3 billion,** compared with a target for primary deficit of €820 million. The achievement of larger primary surplus came mainly from restraint of expenditure, by €2.7 billion, and to a much lesser extent from the revenues overshooting the target (+€328 million).

The **overshooting of the revenue targets** came primarily from **higher than anticipated other non-tax revenues** (+€423 million) and to a lesser extent from **growth in tax revenue** (+€356 million). In addition, the growth in tax revenue came largely from the **receipt of taxes occurred in previous financial years** (+€312 million), rather than from payments for the current year. Regarding expenditure, the reduction derived mainly from **lower primary expenditure by €2.06 billion.** However, given that in the first four months of the year, **the arrears of the state to its suppliers increased by €820 million,** a significant part of the expenditure restraint can be linked to this development.

Unemployment is expected to stabilise or slightly decline in 2016

The weakening of consumption demand over three consecutive quarters, the effects from the capital controls on the export-oriented sectors of the economy and the upcoming measures of the new loan agreement that affect the enterprises (increase of VAT, social security contributions) led to quarter-on-quarter deterioration of the conditions in the labour market in the first quarter of this year. Despite the effects of the above factors, unemployment stood at levels notably lower year on year. In particular, **unemployment in the first quarter of 2016 totalled 24.9% of the labour force, half a percentage point higher quarter on quarter, yet 1.7 percentage points lower year on year**, maintaining unchanged the rate of reduction from the previous quarter. The increase of employment in the public sector, by 29,200 people, mainly through programmes of temporary work for public benefit for the unemployed, run by the Manpower Employment Organization, had a decisive contribution to the year-on-year unemployment reduction. Without the impact of these jobs, the unemployment rate would have reached 25.5%.

The recession of the Greek economy for one more year, mainly from weakening domestic consumption demand, is going to slow down significantly or even completely stop the decline of **unemployment**. The job creation in sectors and activities producing goods and services for the final consumer (e.g. Retail – Wholesale Trade) has already started to decline to a small or large extent. Employment growth is expected to weaken and ever turn to contraction. The stabilisation or slight decline of activity in Tourism will also result in fewer jobs created in the current year. Employment in the Primary sector is expected to decline strongly. In contrast, employment in Construction is expected to expand, due to the public works. A significant boost of public sector employment has come from the still ongoing public-benefit employment programmes, with numerous beneficiaries, while a new programme, with 42,000 beneficiaries, has also been announced. The negotiations on the labour relations as part of the second review of the current programme are expected to affect employment in the current half of the year. **Taking into account the particular trends and the expected developments in the labour market, unemployment in 2016 is expected to reach a rate that is marginally lower than in 2015, at about 24.7%.**

Moderate deflation from low petroleum prices and falling demand, despite the VAT hike

Deflation slightly intensified in April and May, compared with the

preceding quarter, to 1.1% from 0.9%, yet it remained lower than in the same period of 2015 (2.1%). **Overall in the first five months of 2016, the consumer Price Index declined by 1.0%, compared with a 2.3% fall a year before.** The fall of prices in the first five months was strongest in the categories Housing and Transportation, by 4.6% and 3.8% respectively, due to the falling petroleum prices. In contrast, prices increased in Hotels-Restaurants-Cafes and Tobacco-Alcoholic Beverages, by 2.7% and 1.3% respectively, reflecting the inflationary impact of the VAT hike, with a significant increase of prices also observed in Health (+2.8%).

The decline of the disposable income, due to the new direct tax measures and pension cuts, is conducive to maintaining the Consumer Price Index on a declining trajectory. The continuation of deflation in the first five months of 2016 came mainly from a further decline in the oil prices. However, this trend is no longer in place, as since the end of May the oil price has returned to its level recorded before the latest episode of decline. The increase of the standard VAT rate to 24%, the lifting of the VAT discount of 30% in the Aegean islands and the shift of many categories of goods and services from the reduced to the standard rate in the islands from 1 June will contribute to the easing of the deflation and probably a small price increase in some of the remaining months of the current year. Given the negative price trends in the first five months of this year, **the forecast in the previous bulletin for stable prices in 2016 or further marginal deflation is slightly revised down to deflation, for the third consecutive year, of about 0.3%.**

Special Study: «The economic impact of the privatisation of the Piraeus Port Authority»

IOBE recently concluded a study on the economic impact of the privatisation of PPA over the next decade (2016-2025), under the terms included in the offer of COSCO Group.

In particular, the study examined the expected impact on fiscal revenue, investment and PPA activity level upon completion of the privatisation agreement. Furthermore, the study highlighted the catalytic effects in related activities, such as land transport, tourism and logistics. Finally, by taking also into account the direct and catalytic effects, the study quantified the multiplier effects, using models of the Greek economy maintained at IOBE.

The analysis showed that by the end of the examined period (2016-2025), when the investment plan would be completed, the level of GDP would be higher by 0.8%, compared with a counterfactual scenario in which the PPA shares are not sold to a strategic investor. Correspondingly, the construction of the new facilities and the additional activity, both in the port and in directly connected branches of economic activity, are expected to generate more than 31,000 new jobs overall in the Greek economy.

2. ECONOMIC ENVIRONMENT

2.1 Trends and prospects of the world economy

The global environment

According to the latest available data, the GDP of the OECD member countries increased by 1.9%, with the growth rate falling below 2.0% for the first time since the last quarter of 2014. At the level of G7, i.e. the seven major world economies, GDP increased by 1.5%, marginally lower than in late 2015 (+1.6%), yet slightly stronger year on year (+1.3%). In the European Union and the Euro area, the economic activity expanded by 1.8% and 1.7% respectively in the first quarter of the current year. In the EU, the GDP growth weakened compared with the second half of 2015, while in contrast in the Euro area the rate of change strengthened against 2015, due to the growth in total consumption. Regarding some of the largest economies, the US GDP increased by 2.0%, with a clear trend of weakening compared with the first quarter of 2015 (2.9%), while a similar but less intense change was observed in China, where the GDP growth rate declined slightly year on year (from 7.0% to 6.7%).

Overall in 2016, the world GDP is expected to expand by 3.2%, slightly stronger than in 2015, yet weaker by 0.2 percentage points than projected in January of 2016. Despite the change of the trends in the constituent economic regions since last year, the range of these changes is relatively small, and as a result the growth momentum of the world economy is not expected to change drastically. In particular, the economy is expected to slow down in Asia to 6.4%, mainly due to the change in the production model of China, with more measured investment expansion, partly offset by acceleration of growth in India. Growth is anticipated to remain stable in emerging and developing Europe (3.5%), with significant deviation across the specific countries. Meanwhile, among the developed economies, the fiscal policy is expected to approach neutrality, after a period of fiscal consolidation and expenditure cuts. Part of the acceleration at world level comes from an easing of the strongly negative GDP growth rate in the Commonwealth of Independent States, where the contraction rate is expected to fall to 1.1%, from 3.7% in 2015, mainly due to the return of the Russian economy to growth. Strong growth is anticipated in the Middle East and North Africa countries, at a rate of 2.9% in 2016, from 2.3% in 2015, while growth in the sub-Saharan Africa is expected to weaken in the current year to 3.0% from 3.4%.

The volume of world trade is expected to grow by 3.1% in 2016, from 2.8% in 2015. This projection will most probably be revised, once the impact of the outcome of the UK referendum on the global markets and the economic activity in the EU could be assessed. In the advanced economies, imports are expected to decline, a development that is observed in the EU as well, as demand turns to domestic production. In contrast, the demand for imports in the emerging and developing economies will increase in 2016 by 3%, following its very weak growth in 2015 (+0.5%).

Regarding the current environment of the world economy, the key risk factors that could have an impact on the world economic activity are:

1) Stagnant and **sluggish growth of the developed economies**, mainly due to factors that do not allow for stronger recovery momentum, such as demographic trends and low productivity growth, together with weaker growth in some of the developing economies, such as China and Brazil.
2) **Weak growth of trade**, as a result of the weakening of the emerging economies and the import substitution in the developed economies, together with the sluggish investment activity. The fall of the prices of commodities and crude petroleum, in particular, weakened demand in the countries producing these goods.
3) A potential impact from the outcome of the **UK referendum** on staying or not in the European Union. It is quite hard to assess this impact currently, as the process of separation of the UK from the EU is unprecedented, while the outline of the follow-up arrangement on the relationship of the UK with the other EU countries is still unclear. As a result, the consequences for the country and the European Union are not foreseeable and are expected to become clearer once the withdrawal request is submitted officially and the time plan on the relevant negotiations is set, so that the markets can assess the effects.
4) **High debt level** and debt risk in the developing economies. The IMF has occasionally dispatched recommendations to the emerging economies on the growth of their private debt, which could become a systemic debt issue for these economies.
5) Significant **turbulence in the capital markets**, which is closely linked with the decline in economic activity in the developing economies, primarily in the first quarter of the year. The decision to include the Chinese currency in the IMF basket of currencies and the subsequent floating of its exchange rate, ultimately aiming at expanding the use of the yuan in the global financial transactions and its introduction to the group of major reserve currencies was a key driver of the intense market fluctuations.

Due to the above factors, the scenario of weaker growth in the coming years becomes more likely, as the threats to the world economy are now quite real. In greater detail, concerning the prospects of the major world economies:

In the **US**, the GDP increased by 2.0% year-on-year in the first quarter of 2016, continuing its gradual decline since early 2015, when it had grown by 2.9%. Investment (except housing) slowed down in late 2015 and early 2016, while exports had a sluggish positive impact. Meanwhile, there were positive developments in the labour market, as the unemployment rate fell and employment increased. For 2016 overall, according to the IMF, growth is expected to marginally strengthen to 2.5% from 2.4% in the previous year, due to the expiry of public expenditure cuts, the stronger labour market and the positive outlook of the housing market. As a result, the negative impact from the appreciation of the dollar and the fall of exports, the low oil price and the weakening investment activity in the energy sector will not fully offset the positive developments.

In **Japan,** the GDP remained unchanged in the first quarter of the year, maintaining the momentum of the strong slowdown from the fourth quarter of 2015. However, the zero growth rate in the first quarter of 2016 is a notable improvement compared with the contraction rate of 0.9% from the corresponding quarter of 2015. Sluggish growth of about 0.5% is expected for 2016 overall, just as in the previous year. The appreciation of the yen against the dollar and the hike in consumption taxes will partly offset the positive outlook from the fiscal expansion and the lower energy prices.

Among the growing economies, **China** recorded a growth of 6.7% in the first quarter, against 7.0% in 2015. As in Japan, its economy has decelerated since mid-2015, due to the slowdown of world trade, as the domestic economic activity is largely determined by foreign demand. Overall in 2016, the growth rate is expected to fall to 6.5%, almost half a percentage point lower than in the previous year. The slowdown of industry and manufacturing is the key driver for this, as despite the steadily weakening foreign demand, excess supply prevails in the product markets. On the other hand, the services sector has acquired a positive outlook on the back of the transition to a new growth model, based more on consumption than investment.

The recession is expected to continue in 2016 in **Russia,** at a more moderate rate of 1.8%, against 3.7% in 2015, as the low petroleum prices together with the international sanctions will continue to impede economic activity.

Despite the turmoil in certain economic regions, the trend of the economic climate indicator for the global economy, estimated by IFO, implies that growth will strengthen in the second quarter of

2016, as both the economic climate and the expectations have improved.

In particular, the world economic climate index reached 90.5 points, from 87.8 points in the first quarter, albeit remaining lower year on year. Meanwhile, the assessment of the current economic situation deteriorated. Note also that the improvement in the expectations and the overall economic climate index was partly due to discounting a positive outcome from the UK referendum, which was ultimately not confirmed in practice.

The examination of the economic climate index of IFO in the major world economic regions points to growth in North America, decline in Europe and stable outlook in Asia.

Table 2.1
Global Environment – IMF, World Economic Outlook
(Annual % change, in real values)

	2015	**2016**	**2017**
GDP			
U.S.A.	2.4	2.5	2.5
Japan	0.5	0.5	-0.1
Emerging Asia	6.6	6.4	6.3
of which China	*6.9*	*6.5*	*6.2*
India	*7.3*	*7.5*	*7.5*
AESEAN-5	4.8	4.8	5.1
Eurozone	1.6	1.5	1.6
Emerging and developing Europe	3.5	3.5	3.3
Commonwealth of Independent States (CIS)	-2.8	-1.1	1.3
of which Russia	*-3.7*	*–1.8*	*0.8*
Middle East and North Africa (MENA)	2.3	2.9	3.3
Latin America	-0.1	-0.5	1.6
of which Brazil	*-3.8*	*-3.8*	*0.0*
Sub-saharan Africa	3.4	3.0	4.0
World economy	3.1	3.2	3.5
World Trade			
Volume of World Trade (goods and services)	2.8	3.1	3.8
Imports: Advanced Economies	4.3	3.4	4.1
Imports: Emerging and Developing Economies	0.5	3.0	3.7

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

Table 2.2
IFO – World economic climate index (Indexes, base year 2005=100)

Quarter/Year	II/14	III/14	IV/14	I/15	II/15	III/15	IV/15	I/16	II/16
Economic climate	102.3	105	95	95.9	99.5	95.9	89.6	87.8	90.5
Assessment of current situation	91.6	95.3	91.6	91.6	95.3	87.9	86.0	87.9	86.0
Expectations	112.3	114	98.2	100	103.5	103.5	93.0	87.7	94.7

Source: IFO, World Economic Survey, WES No. 02/ May 2016

Table 2.3
IFO – Economic climate index per economic region (Index, 2005=100)

Quarter/Year	II/14	III/14	IV/14	I/15	II/15	III/15	IV/15	I/16	II/16
North America	107.1	110.5	101.3	107.1	97.9	96.2	91.2	85.4	93.7
Europe	118.4	117.5	101	108.7	120.4	116.4	113.6	110.7	107.8
Asia	89.5	99.1	93.9	90.4	93.0	87.7	75.4	78.9	78.1

Source: IFO, World Economic Survey, WES, No. 02/ May 2016

In greater detail, the economic climate index reached 107.8 points in **Europe** in the second quarter of 2016, declining steadily in the last four quarters. Nevertheless, it has remained higher than its long-term average (102.1). In **North America**, the economic climate index recovered, after its fall in the preceding quarter, to 93.7 points, compared to a long-term average of 90.7. The economic climate index in **Asia** remained unchanged at about 78 points in the second quarter of 2016, notably lower year on year and clearly below its average for 2000-2015 (92.5).

The economies of the EU and the Euro area

The stronger growth in the EU and the Euro area in 2015, due to the favourable developments that took place, such as the fall in the energy prices, the depreciation of the euro-dollar exchange rate and the loosening of the monetary policy by the ECB was confirmed in the revised estimates of the European Commission in April. In particular, GDP increased by 2.0% in the European Union and 1.7% in the Euro area, compared with the previous estimate for growth by 1.9% and 1.6% respectively. In the current year, the growth rates are expected to decline slightly to 1.8% in the EU and 1.6% in the Euro area. The slowdown is not expected to come from consumption, which is expected to strengthen marginally, but from a weakening of the growth of investment activity in the EU and from lower export growth in the Euro area. The GDP of almost all countries in the European Union, except for Greece, had positive rates of growth in the previous year. In particular, the countries with the highest growth rates were Ireland (7.8%), Malta (6.3%), Luxembourg (4.8%) and the Czech Republic (4.2%).

The impact from the decision of the UK to leave the European Union should also be taken into account in the assessment of the outlook of the European Economy. The third largest country in the EU, with a share of about 18% of EU's GDP, undoubtedly has a significant impact on the remaining countries in the union. The UK is tightly linked with the EU not only through the institutional framework but also at economic level, as about 45% of the UK exports go to EU countries. In addition, a significant part of its imports (about 53%) come from the EU. As a result, about 3 million jobs depend on the trade of the UK with the EU. The EU economy is expected to be affected from the UK exit also by the fact that 40% of the UK foreign direct investment takes place in the EU,[1] while its contribution to the EU budget also has significant effects.

The role of London as a financial centre after the Brexit decision is a major issue, given that it is the largest financial centre in the EU. Already many financial institutions have expressed their intent to look for new locations for their headquarters, perhaps in other European countries. Many of them, subsidiaries of third-country (mainly US) companies, were using London as a gateway to the European single market. The ability of London to serve this role is now put in doubt. For this reason, many institutions consider moving to France, Germany or other countries with more favourable tax treatment of financial capital, but always within the single market. All the above reveal the tight, significant economic linkages between the UK and the EU and hence the pressure that Brexit creates on both regions. The ultimate strength of the impact will depend on the framework of the new economic and institutional cooperation between the UK and the EU.

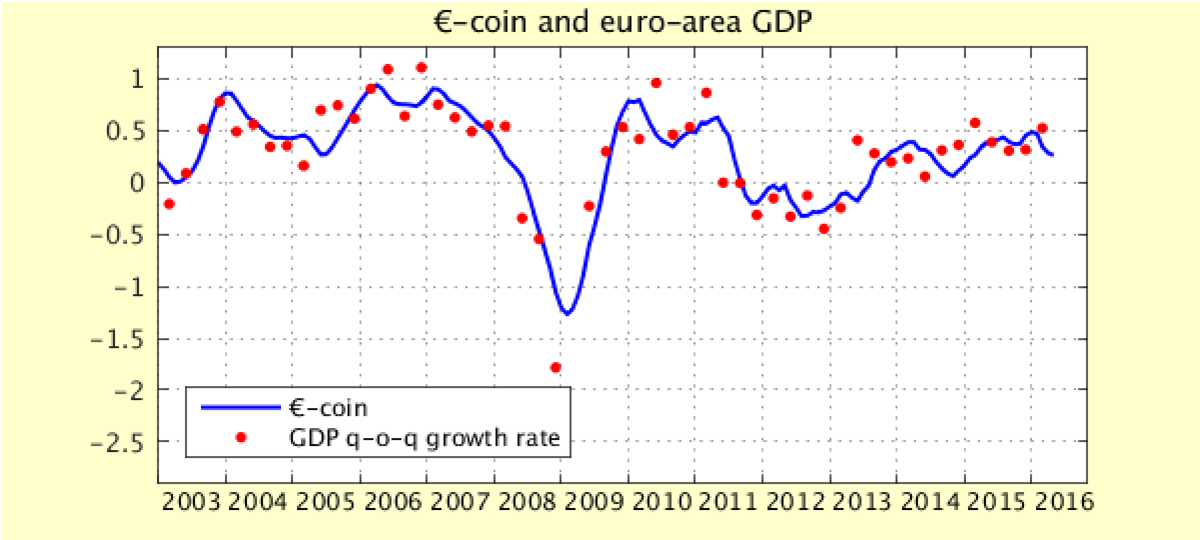
The key leading indicators of economic activity in the Euro area and the EU signify that the economic activity will slow down. In particular, the index €-COIN[2], which is a leading indicator of economic activity in the Euro area, declined in the last four months, after a period of gradual improvement between October 2015 and January 2016. The value of the index reached 0.26 points in May, from 0.28 points in April, significantly lower year on year (from 0.36 points in May 2015). The fall of the index in the past few months mainly reflects the sluggish industrial production and the persistent stability of the price level, as the fall in the oil prices has offset the inflationary pressures from the quantitative easing programme. In any case, however, the positive range of the index values indicates quarter-on-quarter growth in economic activity.

[1] Georgette Zolota, "Countdown to the referendum on UK staying or not in the EU", Kathimerini, 12 June 2016.

[2] The Center of Economic Policy Research in collaboration with the Bank of Italy estimates every month the leading indicator of economic activity €-COIN for the Eurozone. The indicator provides a quarterly forecast of GDP growth and is constructed from a range of different data, such as the course of industrial production and of prices, as well as labour market and financial data.

Figure 2.1

Monthly Index €-COIN of CEPR



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

According to the European Commission, the economic climate index improved in the second quarter of 2016 in the European Union, with a marginal increase in June to higher levels than in the previous year. In the Euro area, after a period of growth from March to May, the index declined slightly in June. In particular, the index increased in the EU to 105.7 points in June, from 105.6 points in the previous month, while in the Euro area, despite the fall from 104.6 in May to 104.4 in June, the index remained higher year on year.

The growth of the index in June in the EU mainly originated from stronger business expectations in industry. In contrast, the business expectations in services, retail trade and construction weakened. Consumer confidence remained almost unchanged in June. In the Euro area, both the expectations in industry and consumer confidence weakened as well, ultimately leading to a deterioration in the overall economic climate index. Note that the UK referendum on staying in the EU did not have a significant impact on the economic climate, despite the indications from the polls that the leave vote might prevail, as the investors and the consumers were perhaps anticipating that ultimately the country will remain in the EU. Therefore, any turmoil from the outcome of the referendum would be reflected in subsequent values of the index. More comprehensive information about the key economic indicators that drive the formation of the GDP of the Eurozone and of the EU, as well as their potential trends in the upcoming time period, is presented below in this chapter, emphasising their percentage year-on-year change in the first quarter of 2016, and the trends anticipated for 2016 and 2017.

In greater detail, according to Eurostat data, **private consumption** strengthened in the EU in the first quarter of 2016, growing year on year by 2.1%, against an increase of 1.9% in 2015. The mild and gradual increase of private consumption was the key growth driver in Europe last year, with its contribution to GDP growth at 0.9% and 1.1% in the Eurozone and the EU respectively. The improved conditions in the labour market, both in the EU and the Euro area, had a significant positive impact, as private consumption increased by 1.7% in the first quarter in the Euro area, stronger than in 2015. Overall in 2016, private consumption is expected to increase by 2.1% in the EU and by 1.8% in the Euro area, due to the favourable economic conditions that drive consumption (low petroleum prices, low interest rates, etc.).

Table 2.4

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

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

Month	Jan-16	Feb-16	Mar-16	Apr-16	May-16	June-16	July-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
EU	106.7	105.3	104.6	105.1	105.6	105.7						
Euro area	105.1	103.9	103.0	104.0	104.6	104.4						

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

Source: European Commission (DG ECFIN)

Table 2.5

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

	EU			Euro area		
	2015	2016	2017	2015	2016	2017
GDP	2.0	1.8	1.9	1.7	1.6	1.8
Private Consumption	2.0	2.1	1.8	1.7	1.8	1.5
Public Consumption	1.4	1.5	1.2	1.3	1.4	1.2
Investment	3.4	3.0	3.8	2.9	2.9	3.8
Employment	5.3	3.5	4.6	5.2	3.5	4.7
Unemployment (% labour force)	5.9	4.7	5.1	6.0	4.6	5.3
Inflation	1.1	1.0	0.9	1.1	1.0	1.0
Exports of goods and services	9.4	8.9	8.5	10.9	10.3	9.9
Imports of goods and services	0.0	0.3	1.5	0.0	0.2	1.4
Balance of General Government (% GDP)	-2.4	-2.1	-1.8	-2.1	-1.9	-1.6
Debt of General Government (% GDP)	86.8	86.4	85.5	92.9	92.2	91.1
Current Account (% GDP)	2.0	2.2	2.1	3.6	3.7	3.6

Source: European Economic Forecast, Spring 2016, European Commission

Public consumption continued to expand in the first quarter of 2016, at a similar rate as in the last quarter of 2015, at 1.7% and 1.6% in the European Union and the Euro area respectively. These rates were higher than in the preceding quarters. Public consumption increased significantly in the first quarter (and in the last quarter of 2015 as well) in Germany, due to the increased expenditure on addressing the refugee flows, while expenditure also increased in Malta, Poland and the Czech Republic. In contrast, cuts in public consumption expenditure were recorded in Greece, Bulgaria and Belgium. Overall in 2016, public consumption is expected to strengthen slightly, by 1.5% and 1.4% in the EU and the Euro area respectively.

Investment in the EU increased in the first quarter of 2016 by 3.4%, against 3.1% in 2015, while in the Euro area the growth of investment reached 3.9%, from only 1.6% a year ago. At country level, investment increased significantly in Latvia, Malta and Sweden, while in contrast it contracted in Lithuania and Belgium. Overall in 2016, investment is expected to increase by 3.0% in the European Union, from 3.4% in 2015, while in the Euro area the investment growth is expected to remain at 2.9%.

The **exports** of goods and services increased in the first quarter of the current year by 3.0% and 3.1% in the European Union and the Euro area respectively. This rate of growth is notably lower than in the last quarter of 2015 and is the lowest in 2.5 years. The export growth rate weakened in 21 countries, due to the slowdown in world trade, with the turmoil in the Chinese economy in the first quarter of the year contributing to this development. Overall in 2016, the growth rate of exports is expected to decline to 3.5% in both economic regions, from 5.3% in 2015.

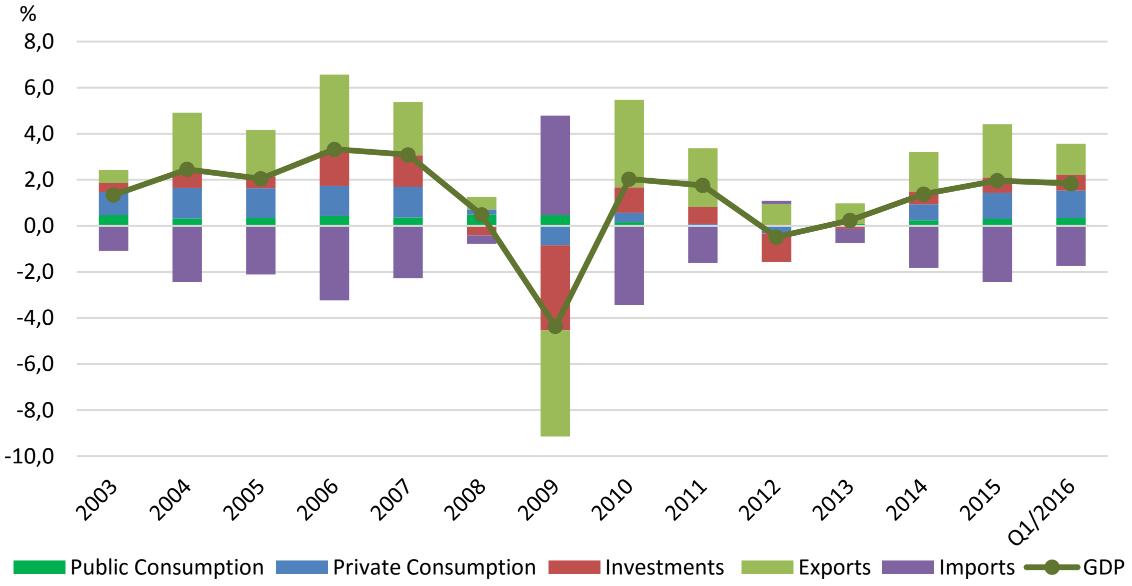
Imports followed a similar trend with exports and as a result the trade balance remained almost unchanged in the first half of 2016. In particular, imports increased by 4.1% and 4.3% in the EU and the Euro area respectively, against 6.5% and 6.1% in the first quarter of 2015. The European market has a significant share in the international flows of goods and services, hence the fall of demand from Europe is one of the causes of the sluggish course of world trade in the current year. The growth of consumption during that period was not accompanied with a growth of imports, which was conducive to a boost of the industrial production index in the EU and the Euro area. Overall for 2016, imports are expected to expand by 4.7% in the EU and 4.6% in the Euro area.

Using data on the components of the EU GDP to examine the contribution of each component to the overall GDP growth rate, we can see that the contribution of private consumption was quite significant in 2015 and in early 2016. Private consumption had a similarly high contribution for the last time in 2007. Similarly, the contribution of public consumption at 0.4% and 0.3% in 2015 and the first quarter of 2016 respectively was stronger than the average for the period from 2010 to 2014. Investment fluctuated significantly during that period, while exports, which had a strong and growing contribution from 2013 to 2015, offered weak support in early 2016. As a result, the growth drivers shifted from those supporting external demand to those propping internal consumption in the first quarter in the EU. This development came from weakening of world trade and the conclusion or the loosening of fiscal consolidation programmes in quite a few countries, which strengthened consumption.

The **inflation** rate in the Euro area and the EU stood at 0.0% in the first quarter of the year, as overall in 2015. There were significant deviations across the EU countries, with the strongest deflation observed in Romania (-2.0%) and Cyprus (-1.8%), while in contrast the largest inflation rate was recorded in Belgium (+1.5%) and Sweden (+1.1%). Moderate inflation is projected overall in 2016, of about 0.3% in the EU and 0.2% in the Euro area, based on expectations that the oil price will not fall further, while the impact from the quantitative easing programme will strengthen.

Figure 2.2

Contribution to growth of the GDP components (EU)



Source: Eurostat

The conditions in the **labour market** improved year on year in the first quarter of 2016, as employment increased by 1.5% and 1.6% in the EU and the Euro area respectively, stronger than in the preceding quarters. Strong employment growth, above 3.0%, was recorded in Malta, Hungary and Spain, while employment declined in Croatia and Romania. Overall in 2016, employment is projected to increase by 1.0% in both economic regions. As a result, unemployment is expected to decline in the European Union to 8.9% overall in 2016, from 9.4% in 2015, and to 10.3% from 10.9% in the Euro area.

Regarding the **fiscal performance**, according to the revised data the general government deficit stood at 2.4% of GDP in the EU and 2.1% of GDP in the Euro area in 2015. The deficit is expected to improve in the current and the coming year. Corresponding decline is anticipated in the debt to GDP ratio, which is expected to reach 86.4% in the EU and 92.2% in the Euro area. The positive impact from the low interest rates due to the quantitative easing programme of the European Central Bank would have had a more extensive positive impact on public debt and deficit, if they were also accompanied with acceleration of the GDP growth.

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 quarter on quarter in the second quarter of 2016. The conclusion of the first review of the third economic adjustment programme does not seem to have had any impact, negative or positive, on expectations, perhaps largely due to the fact that this outcome was already discounted by most economic agents. However, the coming period will be particularly crucial for the Greek economy, as the tourism activity will determine to a significant extent the trend in exports, while the implementation of the new policy measures will reveal their impact on household income, consumption and taxpaying capacity, which in turn will have an impact on whether the fiscal targets will be met. Then again, the repayment of some of the arrears of the State from the first instalment of the loan tranche after the review seems to be evaluated positively by the business community in the affected branches of the economy. However, Europe is entering a period of uncertainty, as a result of the recent sudden developments in the European environment, with the leave campaign winning the vote in the UK referendum, which most probably will have an impact on expectations globally and domestically in Greece. In particular:

The Economic Sentiment Indicator in Greece remained almost unchanged quarter on quarter in the second quarter of this year, totalling on average 89.2 (from 90.2) points, a level that is lower year on year (from 92.2 points).

In Europe, the corresponding indicator remained unchanged quarter on quarter both in the Euro area and in the EU. In particular, the economic sentiment indicator stood at 104.3 (from 104.0) and 105.5 points in the Euro area and the EU respectively, marginally higher year on year in the Euro area.

At sector level, the business expectations in Greece improved quarter on quarter in the second quarter in all sectors except Construction, but consumer confidence offset the growth in business expectations, declining anew. On a quarterly basis, the index increased marginally in Industry (1 point), declined by 5 points in Construction and increased by 7 and 5 points respectively in Retail Trade and Services. Lastly, the Consumer Confidence index declined by 4 points.

Compared with the corresponding period of last year, the indicators increased on average in all sectors, except for Consumer Confidence, which declined sharply. In particular, the indicators increased by 6 and 10 points correspondingly in Industry and Retail Trade, by 3 points in Constructions and by 1 point in Services. Consumer Confidence lost 28 points year on year in the examined quarter. In greater detail:

The **Consumer Confidence** indicator reached on average -71.2 points in the second quarter (from -67.5 in the preceding quarter), noticeably lower year on year (from -43.6 points). At country level, the Greeks are by far the most pessimistic consumers in the EU. The corresponding average European indices remained largely unchanged in the examined quarter, both in the Euro area and in the EU, reaching -7.9 (from -8.3) and -6.1 points respectively, levels which are lower in comparison with those of last year (-5.2 and -3.4 points on average, respectively).

Regarding the components of the overall index, the trends are negative in the current quarter in the expectations of the Greek consumers for the economic situation of their household in the next 12 months, in the expectations for the economic situation of the country and in the unemployment expectations. The intent to save has essentially remained on average unchanged quarter on quarter.

In particular, during the second 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 73% (from 70%), with 5% (from 4%) believing that their economic situation will improve. The percentage of Greek consumers holding negative expectations about the economic situation of the country widened to 81% (from 77%), with 6% (from 5%) believing that it would improve slightly or significantly. Regarding the intention to save, the percentage of households not likely to consider making any savings in the next 12 months remained on average at 90%. Concerning the unemployment expectations, the percentage of those foreseeing that the situation will deteriorate slightly increased to 78% (from 75%), while 7% (from 6%) on average expressed the opposite opinion. The percentage of consumers who reported to be "running into debt" remained at 13-14% in the second quarter of 2016, unchanged year on year, while the percentage of respondents who declared to be saving little or a lot stood at 10% (from 8%). Lastly, the percentage of those reporting that they were "just about managing to make ends meet on their income" declined to 64% (from 67%) and the percentage of households reporting that they were "drawing on their savings" remained at 11-12%.

The Business Climate Indicator in **Industry** amounted to 91.9 points in the second quarter of 2016 (from 90.6 points in the preceding quarter), higher year on year as well (from 85.6 points). Concerning the key figures on economic activity, the short-term production forecasts deteriorated quarter on quarter (+13 from +17 points on average), while the assessment for the number of orders and the level of demand improved (from -27 to -21 points). The expectations concerning the stock of finished goods implied a slight scale-down of inventories, with the index declining to +11 form +13 points. In the remaining economic activity components, the trends for export-related variables are in general positive, as the expectations for exports in the next quarter and the assessments on the current level of exports of the sector improved, while the assessment for the number of orders and demand from abroad remained unchanged. The average quarterly balance of employment expectations rose by 3 points to -2, a similar level as in the second quarter of 2015. The industrial capacity utilisation rate increased during the quarter in question to 68.8%, slightly up year on year as well (from 67%). Finally, the months of production accounted for by the order book of the companies reached 4.5 on average (from 3.9), unchanged year on year.

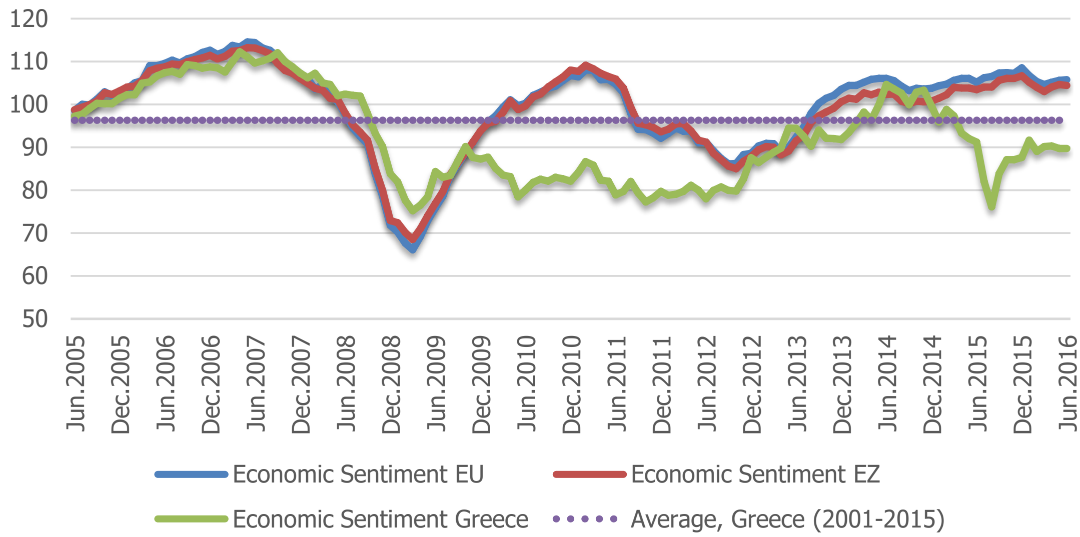
The Business Climate Indicator **in Retail Trade** recovered quarter on quarter to 100.2 points (from 93.6), a better performance compared with the same quarter of last year as well (78.9 points). Concerning the key components of the index, the average assessment of current sales increased to +8 (from -1) in the second quarter. The percentage of the companies in the sector reporting growth of sales increased to 42% (from 37%). The index for expected sales also rebounded significantly to +27 (from -2) points, while the index for inventories stood at +4 (from -13) points on average. Of the remaining activity indicators, the balance of expected orders from suppliers improved (to +7 from -4 points on average per quarter), while the short-term employment expectations increased sharply from +2 to +24 points. Finally, the balance of price expectations rose to +16 from +2 points in the preceding quarter, with 6% of the companies expecting price deflation and 73% (from 84%) expecting price stability. The business sentiment improved quarter on quarter in the second quarter of the year in Food-Beverage-Tobacco, Household Appliances and Department Stores and weakened in Vehicles – Spare Parts.

Business expectations in **Construction** declined in the second quarter of 2016 compared with the previous one, with the index standing at 62.8 (from 68) points on average. This performance is slightly better year on year as well (from 57.6 points on average). Regarding the components of the index, the employment expectations did not change on average in the quarter under examination, with the index remaining at -16 points. About 33% (from 38%) of the businesses were expecting job losses and 17% (from 21%) were foreseeing employment growth in the sector. However, the expectations of the businesses on their order book became more pessimistic, with the index falling to -64 from -53. The assessment of the businesses of their current level activity mildly improved in the second quarter, with the index reaching -23 (from -30 points), while the months of activity accounted for by work in hand remained once more at 9.6. The negative balance of price expectations slightly widened quarter on quarter in the quarter under examination, by 2 points, reaching -31, with 36% (from 33%) of the businesses expecting further reduction in the short term and 5% expecting prices to rise. Finally, the percentage of companies reporting that they were not facing any obstacles to the proper functioning of their business declined to 4% (from 7%), while among the remaining businesses, 46% selected as the major obstacle low demand, 36% insufficient funding and 13% 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 sub-sector level, the decline of the business sentiment in the sector in the second quarter came both from Private Construction (with the index reaching 82.6 from 89.1 points on average) and Public Works (to 53 points from 59.3 points on average).

In **Services,** the Business Climate Indicator increased quarter on quarter in the second quarter of 2016, to 74.3 (from 69) points on average, slightly higher year on year as well (from 70.5 points). Among the basic components of the index, the assessment for current demand gained some ground, with the indicator growing by 3 points (to -12 points on average). The assessment of the current level of business activity increased (to -10 from -23 points on average), while the short-term demand expectations of the businesses of the sector mildly recovered (to +1 from -4 points). Regarding the remaining activity indicators, the employment expectations improved, with the average balance of the index growing from -11 points to -7 points (against -7 in the corresponding period of last year). The deflationary price expectations remained unchanged, with the index standing on average at -4 points and with 12% of the businesses expecting a price reduction. Finally, the percentage of respondents, declaring that there were no significant obstacles to their business operation slightly increased to 18% (from 15%), with 31% stating as the main obstacle to the proper functioning of their business insufficient demand, 22% citing insufficient working capital, another 2% lack of labour, and 3% insufficiency of capital equipment. The remaining 25% reported other factors, such as the general economic situation and the crisis, the capital controls, inability to borrow, high taxes, and delay in payments. Among the constituent branches of Services, the business climate indicators increased quarter on quarter in the second quarter of the year in Land Transport, Hotels, Restaurants and Travel Agencies, declining in Various Business Activities and Information Services.

Figure 2.3

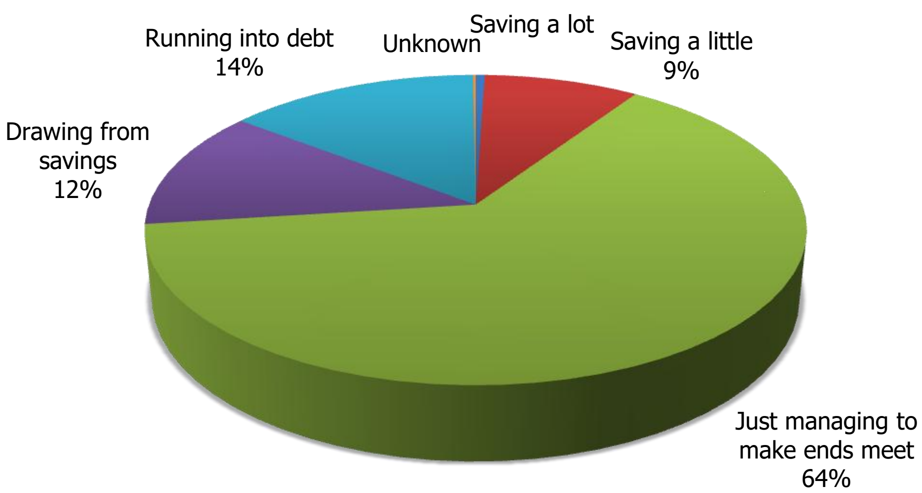
Economic Sentiment Indicators: EU, Eurozone and Greece, (1990-2014=100, seasonally adjusted data)



Source: DG ECFIN, European Commission

Figure 2.4

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



Source: IOBE

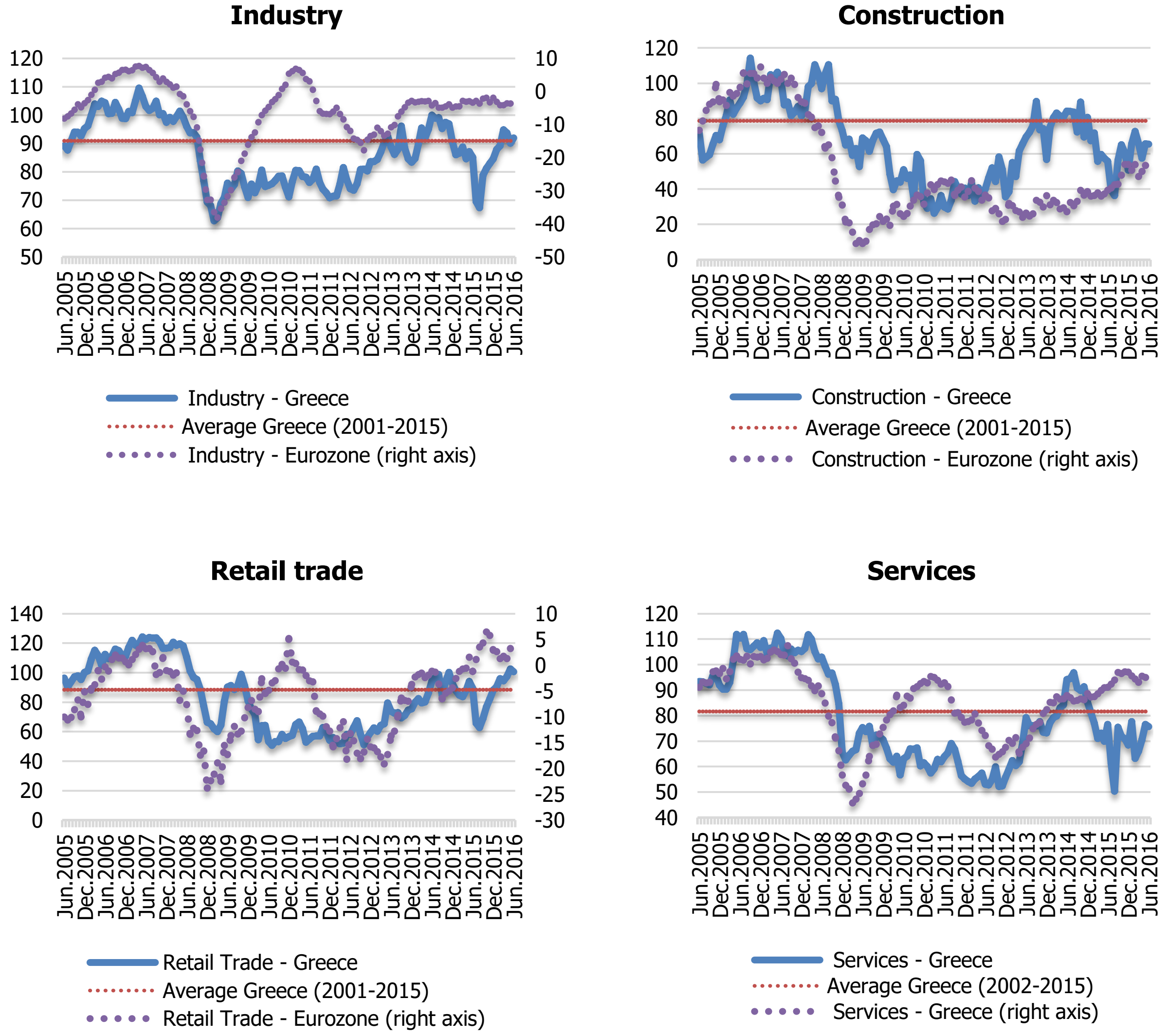
Table 2.6

Economic sentiment indicators

Time period	Economic Sentiment Indicator[1]			Business Climate Index[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Euro area	Greece	Industry	Construction	Retail Trade	Services	
2002	97.3	96.8	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	101.6	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	100.5	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	110.6	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	94.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	80.2	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	101.6	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	102.4	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	90.6	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	93.8	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	101.6	99.3	94.6	81.5	89.1	87.2	-55.0
2015	106.7	104.3	88.7	81.9	56.4	81.0	70.6	-50.7
Q1 2015	105.4	102.6	96.8	87.2	65.0	85.5	76.4	-37.0
Q2 2015	106.1	103.7	91.6	85.7	57.6	90.4	73.2	-43.6
Q3 2015	107.1	104.6	79.9	71.9	44.0	65.8	62.4	-60.6
Q4 2015	108.0	106.3	86.7	82.9	58.8	82.4	70.5	-61.6
Q1 2016	105.5	104.0	90.2	90.7	68.0	93.6	69.0	-67.5
Q2 2016	105.5	104.3	89.9	91.9	62.9	100.2	74.3	-71.2

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

Figure 2.5
Business Climate Index



Source: IOBE

B) Fiscal developments and outlook

General Government Figures: 2011-2015

According to the latest General Government data (in ESA 2010 national accounting terms), notified to the Eurostat in April 2016, the General Government deficit stood at 3.2% of GDP in 2015, with the primary surplus reaching 0.6% of GDP (Table 2.7). This amount does not include the expenditure on the capital recapitalisation of the banks.

The large deviations from the initial targets[3] indicate the particularly difficult conditions and circumstances that prevailed in 2015 in the Greek economy, which, inter alia, had a

[3] Preamble to the 2015 State Budget, Ministry of Finance, p. 99.

negative impact on the fiscal developments.[4]

As analysed in detail in the first quarterly bulletin of IOBE for 2016, these negative effects caused primarily a significant shortfall in the revenues of the Ordinary Budget, despite the significant non-tax revenues in March and April and the tax measures for boosting revenues in July and August of 2015.

General Government Debt

In 2015 the consolidated debt of the General Government declined to €311,452 million, from €319,718 million in 2014, due to the inability of the country to borrow (Table 2.8). In absolute values, the debt reached its peak in 2011, remained at notably lower levels after the PSI, albeit with certain fluctuations, and then followed a negative trend after 2013.

In contrast, the debt to GDP ratio has remained at its very high 2011 levels (between 160% and 180% of GDP), due to the contraction of the denominator. Essentially, since 2011 the trajectory of the debt to GDP ratio is driven by the GDP and not the debt.

Indicatively, in order to highlight the significance of the denominator, note that if the GDP had remained unchanged at its 2008 level (€242,096 million), then the debt to GDP ratio in 2015 would have stood at 128.7% and not 176.9% of GDP.

[4] The first quarterly bulleting of IOBE for 2016 had a already noted the ad hoc revision of the State Budget in 2015 due to the bad revenue performance.

Table 2.7

General Government Accounts*

(% of GDP, National Accounting data, ESA 2010)

	2011	2012	2013	2014	2015	
					Initial target	Final Figures
General Government Balance	-10.5	-6.1	-2.4	-3.7	-0.2	3.2
General Government Primary Balance	-3.3	-1.0	1.6	0.3	4.0	0.6

Source: Notification from 18 April 2016 and ELSTAT Press Release from 21 April 2016.
*Without the effects from the capitalisation of the financial institutions

Table 2.8

Consolidated General Government Debt

	2011	2012	2013	2014	2015
Consolidated GG Debt (€ million)	356,003	305,094	320,510	319,718	311,452
Debt as % of GDP	172.0	159.6	177.7	180.1	176.9
GDP (€ million)	207,029	191,204	180,389	177,559	176,023

Source: Notification from 18 April 2016 and ELSTAT Press Release from 21 April 2016.

State Budget Execution, January-April 2016

The execution of the State Budget (SB) in the first four months of 2016 was quite similar with that in the corresponding period of 2015. Given that protracted negotiations with uncertain outcome characterised both periods, it seems that similar approaches were followed in the SB execution.

In particular, in both period the Ordinary Budget (OB) expenditure is considerably lower than the target (-€1.6 billion in 2015 and -€2.1 billion in 2016), while the OB revenues (without permits and rights) were slightly higher than the target (+€0.1 billion in 2015 and +€0.4 billion in 2016). Likewise, the Public Investment Programme (PIP) had a large surplus in both periods (€0.7 billion in 2015, €1.0 billion in 2016), against large deficits in the initial annual budgets. Besides, the growth in arrears did not differ significantly (€1.1 billion in 2015 and €0.8 billion in 2016). As a result, in both periods the SB deficit was much lower than the target in the budget (lower by €2.4 billion in 2015 and €2.1 billion in 2016) and correspondingly the primary surplus was much larger (+€2.4 billion in 2015 and +€2.2 billion in 2016).

According to the provisional SB execution data for the first five months of the year, most similarities were maintained during this period as well. Indicatively, the OB expenditure was similarly short of target (-€1.9 billion in 2015 and -€2.3 billion in 2016), while the PIP budget was equally in surplus (€0.6 billion in 2015 and €0.8 billion in 2016). In contrast, the OB revenues overshot the target by €0.9 billion in the current year, compared with a shortfall of €1 billion in the same period of the previous year due to lower than the target receipts from direct and indirect taxes. Despite the difference in revenues, the primary surplus in both periods was significantly larger than the target (+€2.1 billion in 2015 and +€3.1 billion in 2016).

As a result, from the final data on the budget execution in the first four months and the provisional data on the first five months of the year, prima facie the fiscal performance seems positive, just as in the corresponding period of 2015. However, similarly to 2015, this impression is not substantiated and is only temporary, as provided that the budget is executed in full, this performance is not expected to carry over to the rest of the year.

SB deficit and primary surplus

The SB deficit in the first four months of the year was limited to €154 million, i.e. it was almost eliminated, against a target for a deficit of €2,284 million. At the same time, the SB primary surplus increased to €2,715 million, against a target of €566 million (Table 2.9). Respectively, the deficit in the first five months reached €828 million, against a target of €3,880 million, with the primary surplus reaching €2,267 million, against a target for €820 million.

This positive performance is only transient, as it mainly came from temporary restraints on SB primary expenditure against the target by €2,278 million (OB: €2,077 million, PIP: €201 million) and secondarily from collecting higher non-tax revenues, which exceeded the target for the first four months by €575 million.

Ordinary Budget Revenues

The revenues of the Ordinary Budget (before tax refunds) reached €15,082 million in the first four months of the year, overshooting the initial target by €384 million. However, year on year the revenues declined slightly, by 1.0% (Table 2.10). This to a certain extent came from the fact that the revenues in the first four months of 2015 and particularly in March and April had received a significant boost from extraordinary non-tax revenues by about 0.5% of GDP.

The revenues from direct taxes increased by 1.9% year on year, to reach €4.776 million, just short of the target for the first four months (Table 2.11). Among the constituent categories, income tax revenues (individuals and companies) totalled €2,409 million, short of the target and lower year on year by 7.8% (Table 2.10).

In contrast, the property tax revenue increased by 2.8% year on year, albeit remaining short of the target. Direct tax revenues of previous fiscal years increased year on year by 3.8%, overshooting the corresponding target. This development came from the fact that until March 2015 the taxpayers were anticipating a favourable revision of the legislation on settling tax arrears with 100 instalments, which indeed took place in April (base effect). In addition, in the last few months the tax collection apparatus has become more active in collecting arrears of tax payers to the State.

In indirect taxes, receipts (€7,735 million) increased by 5.2% against 2015, yet they fell short of the target by €160 million. The VAT revenues did not reach the target, despite their y-o-y growth by 6.4%. This growth is due to a hike of the VAT coefficients and the transfer of several items from the reduced to the standard rate in last July (Law No. 4334/2015). In contrast, the low fuel prices which prevailed throughout the first four months, together with the mild winter and perhaps stronger tax evasion, had a negative impact in the revenue of VAT from the sale of fuels (drop by 20.8%).

Table 2.9
State Budget Execution 2016 (€ million)

	January – April			% change		2014	2015 Final figures	2016 Budget	% change	
	2014	2015[3]	2016	2015/2014	2016/2015				2014/2013	2015B/2014
I. SB Revenues (1+2)	**16,136**	**15,815**	**16,014**	**-2.0**	**1.3**	**51,367**	**51,421**	**53,527**	**0.1**	**4.1**
1. OB net revenues	13,842	14,290	14,104	3.2	-1.3	46,650	46,589	49,107	-0.1	5.4
Revenues before tax refunds[1]	14,748	15,234	15,082	3.3	-1.0	50,020	49,510	52,375	-1.0	5.8
Minus Tax refunds	*906*	*943*	*978*	*4.1*	*3.7*	*3,370*	*2,922*	*3,268*	*-13.3*	*11.8*
2. PIP Revenues	2,295	1,525	1,910	-33.6	25.2	4,717	4,832	4,420	2.4	-8.5
Of which: revenues from EU	*2,271*	*1,437*	*1,853*	*-36.7*	*28.9*	*4,649*	*3,900*	*4,170*	*-16.1*	*6.9*
II. SB Expenditure (3+4)	**17,282**	**16,324**	**16,168**	**-5.5**	**-1.0**	**55,063**	**54,951**	**55,751**	**-0.2**	**1.5**
3. OB expenses	15,884	15,503	15,249	-2.4	-1.6	48,472	48,545	49,001	0.2	0.9
Primary expenses [2]	13,693	12,891	12,381	-5.9	-4.0	42,902	42,744	43,071	-0.4	0.8
Interest	2,192	2,612	2,869	19.2	9.8	5,569	5,800	5,930	4.1	2.2
4. PIP Expenses	1,398	821	919	-41.3	11.9	6,592	6,406	6,750	-2.8	5.4
III. SB Deficit (I-II)	**-1,146**	**-509**	**-154**			**-3,696**	**-3,530**	**-2,224**		
% of GDP	*-0.7*	*-0.3*	*-0.1*			*-2.1*	*-2*	*-1.3*		
OB Deficit/Surplus	-2,042	-1,213	-1,145			-1,822	-1,956	106		
PIP Deficit	896	704	991			-1,875	-1,574	-2,330		
IV. SB Primary Surplus	**1,046**	**2,103**	**2,715**			**1,873**	**2,270**	**3,706**		
% of GDP	*0.6*	*1.2*	*1.6*			*1.1*	*1.3*	*2.1*		
GDP (current prices)	177,559	176,023	174,791			177,559	176,023	174,791	-0.9	-0.7

Source: State Budget Execution Bulletin – April 2016 final figures, GAO, May 2016
[1] Includes proceeds from concessions of licences
[2] Includes military procurement, called guarantees and disbursement fee to EFSF.
[3] Includes revenues of €555 million from the Financial Stability Fund, revenues of €191 million from granting licences, revenues of €284 million from the settlement of arrears (one week, 100 installments, etc.).

Table 2.10

State Budget Revenues (million €)

Revenue categories	January – April			% change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. Net SB revenue (2+4)	**16,136**	**15,815**	**16,014**	**-2.0**	**1.3**
2. OB net revenue	**13,842**	**14,290**	**14,104**	**3.2**	**-1.3**
Tax refunds	906	943	978	4.1	3.7
3. OB revenue	**14,748**	**15,234**	**15,082**	**3.3**	**-1.0**
Direct taxes	5,259	4,869	4,776	-7.4	-1.9
--Income tax	2,582	2,614	2,409	1.2	-7.8
--Property tax	963	884	909	-8.2	2.8
--Direct taxes of previous years	1,010	755	784	-25.2	3.8
--Other direct taxes	704	616	674	-12.5	9.4
Indirect taxes	7,329	7,352	7,735	0.3	5.2
--Transaction taxes	4,669	4,537	4,812	-2.8	6.1
(of which VAT)	(4,523)	(4,416)	(4,699)	(-2.4)	(+6.4)
--Consumption taxes	2,329	2,444	2,432	4.9	-0.5
--Indirect taxes of previous years	224	262	380	17.0	45.0
--Other indirect taxes	107	109	111	1.9	1.8
Non-tax revenues	2,160	3,013	2,571	39.5	-14.7
--Receipts from the EU	70	50	216	-28.6	332.0
--Non-ordinary revenue	719	1,077	516	49.8	-52.1
(of which: ANFA, SMP)	(338)	(291)	(375)	(-13.9)	28.9
--Permits and rights	-	191	52	-	-72.8
--Other	1,371	1,695	1,787	23.6	5.4
4. PIP revenues	**2,295**	**1,525**	**1,910**	**-33.6**	**25.2**

Source: State Budget Execution Bulletin – April 2016 final figures, GAO, May 2016

The receipts from excise duties, of €2,432 million, were lower both against the target and year on year (-0.5%). This shortfall is traced in the excise duties on energy products, in tobacco taxation and in other excise duties. The receipts of indirect taxes of previous fiscal years increased significantly, by 45,0%, exceeding the corresponding target and offsetting about half of the shortfall in indirect taxes. This development was due to the same reasons that affected the direct taxes of previous fiscal years (see Table 2.10).

Finally, the non-tax revenues declined year on year by 14.7%, overshooting significantly the corresponding target notwithstanding. The year-on-year decline came from the fact that the non-tax revenues in the first four months of 2015 were exceptionally high (Table 2.10). Hence, the non-tax revenues of the current year are quite high (particularly from the receipts that the Hellenic Republic receives from dividends once a year from the Bank of Greece), yet the corresponding non-tax revenues were even higher in 2015.

Overall, revenues (except for the non-tax revenues) in the first four months of the year were positively influenced by a significant "base effect", which will most probably disappear over the course of the year, and from high lump-sum receipts. Likewise, the tax measures adopted in July and August of 2015, which were implemented either from the start of the second half of 2015 or from 1 January 2016, had a positive impact on revenues. In the remaining months of the year, the tax measures that were adopted in May, such as the increase in the standard VAT rate from 23% to 24%, will boost public revenues. The impact of these measures on 2016 revenues is estimated at around €350 to €370 million.

Ordinary Budget Expenditure

In the first four months of the year, the Ordinary Budget expenditure declined by 1.6% year on year, to reach €15,249 million. Likewise, expenditure was short of the target for the first four months by €2,077 million, with the restraint traced solely in primary expenditure.[5] In contrast, interest payments increased in the first four months by 9.8% to reach €2,869 million, marginally exceeding the corresponding target.

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

Table 2.11

State Budget Expenditure (million €)

Expenditure category	January - April			% change	
	2014	**2015**	**2016**	**2015/14**	**2016/15**
1. State Budget Expenditure	**17,282**	**16,324**	**16,168**	**-5.5**	**-1.0**
2. Ordinary Budget Expenditure	**15,884**	**15,503**	**15,249**	**-2.4**	**-1.6**
Interest	2,192	2,612	2,869	19.2	9.8
Primary expenditure	13,692	12,890	12,381	-5.9	-3.9
--Salaries & pensions	6,088	6,152	5,970	1.1	-3.0
Wages	3994	3,943	3,797	-1.3	-3.7
Other allowances	80	71	68	-11.3	-4.2
Pensions	2014	2138	2105	6.2	-1.5
--Social expenditure	3,803	3899	3822	2.5	-2.0
Grants to Social Security Funds	3460	3554	3415	2.7	-3.9
Social protection	158	240	235	51.9	-2.1
Grants to OAED	172	95	160	-44.8	68.4
Other	13	10	12	-23.1	20.0
--Operational and other	2591	2040	1718	-21.3	-15.8
Transfers	455	290	295	-36.3	1.7
Consumption	178	182	235	2.2	29.1
Conditional	873	983	807	12.6	-17.9
Other*	1085	585	381	-46.1	-34.9
--Earmarked revenue	1210	799	871	-34.0	9.0
3. PIP expenditures	**1,398**	**821**	**919**	**-41.3**	**11.9**

Source: State Budget Execution Bulletin – April 2016 final figures, GAO, May 2016

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

Among the primary expenditure categories, a significant year-on-year growth was observed in earmarked funds (9.0%), consumption expenditure (29.1%) and grants to the Manpower Employment Organization OAED (68.4%). However, the expenditure size (in absolute terms) in the last two categories is small. Transfers also increased slightly (Table 2.11).

In contrast, all other expenditure categories declined year on year in the first four months of 2016. In particular, reduction was recorded in the expenditure for wages (-3.7%), pensions (-1.5%), grants to pension funds (-3.9%) and conditional expenditure (-17.9%). However, as already noted, the arrears of the public sector to its suppliers increased in the first four months of this year by €820 million, which corresponds to 39.5% of the expenditure restraint during the same period, hence the "restraint" in many expenditure categories is illusionary and transient.

Public Investment Programme (PIP)

The near elimination of the SB deficit in the first four months (only €154 million or 0.1% of GDP) came (by 46.5%) from the surplus of the PIP (€991 million). The PIP receipts from EU Funds increased year on year by 28.9%, to reach €1,910 million. However, overall in 2016 they are anticipated to increase by only 6.9% (Table 2.9). The payments for investments also increased year on year, by 11.9%, to reach €919 million. This significant percentage change mainly reflects the very low expenditure of 2015 (until August), and not a significant boost of investment activity in 2016. As evident from table 2.11, investment payments in the first four months of 2014 totalled €1,389 million, much higher than in 2015 and 2016.

In the next few months, the PIP surplus from the first four months will change completely, as provided that the budget is executed without deviations, the PIP will have a deficit of €2,330 million on a yearly basis (Table 2.9). Indicatively, according to the provisional data on the SB execution in the first five months, the PIP surplus declined to €831 million, from executing payments of €195 million in May, without a corresponding growth in revenues, which partly explains the increase in the SB deficit to €828 million by the end of May 2016.

Outlook

The viability of a fiscal consolidation process and in general the sustainability of any "fiscal position" depends largely on the course of GDP. As the Greek experience of the past few years showed, the continuous contraction of the economy makes it almost impossible to achieve a sustainable fiscal position and demands the continuous adoption of new fiscal measures. The contraction of economic activity also has particularly negative effects on debt sustainability (debt to GDP ratio).

On the other hand, economic development is not something simple.

The economic growth process is exceptionally complex, exceeding the purely economic sphere. It demands stability and change of mentality, institutions and common practices. In the best of cases, in a free economy, measures can be taken that create the prerequisites for growth. The structural reforms contained in the three economic adjustment programmes aimed precisely at the creation of these prerequisites. Unfortunately, the timely implementation of the structural reforms proved to be more difficult than the adoption of the fiscal measures.

The fiscal consolidation mix, that is the extent to which the consolidation would come from expenditure reduction or higher taxation, is also exceptionally important for achieving sustainable fiscal consolidation, as it has an impact on expectations and the growth process. Many empirical studies since the 1980s until today have shown that when the consolidation is based on higher taxation, it leads to deeper and more protracted recession, undermining in this way the sustainability of the fiscal adjustment. In contrast, it has been proven that when the consolidation is based (at least by 70%) on permanent expenditure cuts, this improves the expectations and the economic climate, contributes to growth and secures the sustainability of the fiscal adjustment process.

In this regard, it is not certain that the recent fiscal measures that are almost exclusively based on raising a number of taxes and contributions are conducive to achieving a sustainable fiscal position. The increase of taxation has direct negative impact on investment (which the Greek economy desperately needs), GDP, the stock exchange, the economic sentiment (as already reflected in the corresponding indicator estimated by IOBE), the extent of tax evasion and lastly on the viability of the fiscal consolidation process and thus on debt sustainability.

For these reasons, the medium-term fiscal prospects cannot be assessed with certainty in the current period.

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic developments

Recent macroeconomic developments in Greece

The contraction of the Greek economy continued for a third consecutive quarter, intensifying in the first quarter of 2016 to reach 1.4%, against 0.9% in the preceding quarter and slight growth in the first quarter of 2015 (+0.4%).[6] Once more, the prolonged review process of the Economic Adjustment Programme, together with the particularly significant for the real household disposable income fiscal measures and structural reforms that were the focus of the negotiations (personal income taxations, indirect taxes, non-performing loans), heightened the uncertainty quarter on quarter, postponing the decision making process. Nevertheless, the uncertainty eased notably compared to the same period of the previous year, when the households had made unplanned purchases, which had temporarily boosted their consumption. In contrast, the extension of the fiscal consolidation process exerted downward pressures on public consumption, which strengthened from the fact that one year ago the operation of the public sector was affected by the election cycle and the political events of that period.

The enterprises, expecting changes in the social insurance contributions and the regulations on non-performing loans, were not keen to make investment and employment decision, in anticipation of the outcome of the negotiations. Besides, the supply of capital from the banking system remained low, despite the successful recapitalisation of the banks. The coming changes in property taxation impeded construction activity, at least temporarily. In contrast, the acceleration of the Public Investment Programme in the last quarter of 2015, which carried over to early 2016, confined the weakening of investment activity. Regarding the external sector, the imposition of capital controls continued to impede international transactions, particularly on the side of imports, as the decline of exports intensified.

In detail regarding the trends in the GDP components in the first quarter of 2016, **domestic consumption declined by 1.3% on its level from last year when it had marginally increased (+0.3%).** The decline of consumption expenditure was of similar intensity among the households and in the public sector (-1.3% and -1.5% respectively), just as was the case with their moderate growth in the previous year (0.7% and 0.4%). Apart from the cuts in certain public sector expenditure categories, the reduction of consumption spending came

[6] 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.

also from the continuous expansion of arrears.

The sharp fall of **investment** in the final quarter of 2015 (-14.5%) gave way to their **marginal decrease in the first quarter of the current year, by 0.3%.** As investment in the same quarter of the previous year had increased significantly, by 12.4%, their trend in the current year reflects a consolidation of their growth from the previous year. On the other hand, without the small increase of inventories (+€123 million), their decline would have been slightly stronger at about 2.7%. Furthermore, as already noted and as evident from the trends in the fixed capital categories, the investment decline was restrained exclusively by the strong public investment, while in early 2015 private investment had boosted investment activity.

Regarding the components of fixed capital, **Other Construction, which includes public works, had the strongest growth in absolute terms in the first quarter (+3.3%)**, compared with posting the second strongest contraction a year before (-12.5%). Investment in agricultural machinery increased by 4.4%, in contrast with their strong contraction a year before (-17.1%). Nevertheless, taking into account their very small share in investment activity (0.3%), their fluctuation, no matter how strong, cannot influence the overall trend. Among the remaining fixed capital categories, the largest contraction, for one more quarter, was recorded in residential construction (-17.2%), following their strong fall in early 2015, by 30.7%. The investment in ITC equipment and transport equipment followed in terms of contraction intensity (-11.2% and -5.9% respectively), two categories with the strongest growth in the corresponding quarter of 2015 (+32.9% and +94.3% respectively). Investment in Machinery-Equipment and Other Products contracted the least (-2.4% and -1.7%), while a year before investment in the former category was growing significantly (+22.5%), with investment in the latter contracting at a similar rate as in the current year (-1%).

In the external sector of the economy, **exports decreased in the first quarter of 2016, for the first time in this quarter since 2010, by 11.3%. This was the strongest quarterly decline since the global financial crisis in 2009,** in contrast to their growth by 3.7% in the first quarter of 2015. The reduction of total exports came exclusively from strong contraction of the exports of services, ranging steadily between 22% and 24% since the third quarter of last year, due to the impact of the capital controls mainly on the supply of international transport services, as evident from the balance of payments data of the Bank of Greece (-44.9% in the first quarter of this year, in current prices). Exports increased by 1.7%, however a year ago they were growing at 5.7%. Note the significant difference in the year-on-year change of the exports of goods when measured in constant and current prices, as in constant prices they slightly increased, while in current prices they declined notably (9.8%), due mainly to the new decline in the oil price.

Imports kept falling in the first quarter of this year, at a rate stronger than exports, yet at the same rate as in the previous quarter at about 12.5% - 13.0%, compared with a growth of 9.8% in the same period of the previous year. Among the key components of imports, the contraction was notably stronger in the imports of services, reaching 26.6%. Apart from the capital controls, their relatively high level in the same quarter of 2015 (+12.1%) contributed to this as well. The imports of goods declined by 9.2% in the first quarter of this year, compared with the same period of the previous year, when they were growing by 8.6%. Subsequently, **the strongest contraction of imports than exports improved further the balance of the external sector in national accounting terms, with the deficit falling by 23.0% to €1.25 billion (2.7% of GDP), against a deficit of €1.6 billion (3.5%) in the previous year.**

On the supply side, gross value added declined in the first quarter of the current year by 0.9%, offsetting its growth in the same period of 2015 by 0.8%. The change in the trend came from the sector with the main contribution to output growth in the past year, namely Wholesale-Retail Trade, Repair of Motor Vehicles-Motorcycles and Accommodation and Food Service Activities. The value added of this sector declined by 2.6%, in contrast to its growth by 4.2% a year before. Conversely, the sector with the strongest contraction in early 2015 and overall for that year, Construction, together with Arts-Entertainment-Recreation, had the strongest growth rate in the first quarter of this year (+1.7% and +5.6% respectively, against a reduction by 23.5% and 4.2% in the previous year). The strongest output contraction in percentage terms was recorded in Agriculture-Forestry-Fishing (-4.7%) and Information-Communications (-3.9%), against growth (+2.0%) and similar decline (-4.1%) respectively in the same period of 2015. Yet, the contribution of these two sectors to GDP is significantly lower than that of the Trade-Tourism sector. Financial-Insurance Activities came next (-2.9%), followed by Industry (-1.0%), with the contraction intensifying in both sectors compared with the same quarter of 2015 (-0.6% in both sectors). The gross value added did not change much year on year in Public Administration – Defence – Compulsory Social Security – Education (-0.4% against +0.9%), Real Estate Activities (+0.2% in both quarters) and Professional – Scientific – Technical – Administrative – Support Service Activities (+0.3%, from +9.9%).

The weakening of consumption demand over three consecutive quarters, the effects from the capital controls on the export-oriented sectors of the economy, such as

Manufacturing, and the upcoming measures of the new loan agreement that affect the enterprises (increase of VAT, social security contributions) led to quarter-on-quarter deterioration of the conditions in the labour market in the first quarter of this year. Despite the effects of the above factors, unemployment stood at levels notably lower year on year. The increase of employment in the public sector, through programmes of temporary work for public benefit for the unemployed, run by the Manpower Employment Organization, had a decisive contribution to the year-on-year unemployment reduction. In particular, **unemployment in the first quarter of 2016 totalled 24.9% of the labour force, half a percentage point higher quarter on quarter, yet 1.7 percentage lower year on year**, maintaining unchanged the rate of reduction from the previous quarter.

At branch level, the continuation of the decline of unemployment came from growth of employment in Public Administration – Defence – Compulsory Social Security – Education (+29,200 or +9.9%) and Tourism (+26,200 or +9.6%). Wholesale – Retail Trade – Repair of Motor Vehicles and Motorcycles came next with notably weaker growth than a year before (+13.500 people or +2.1%, against +20,600), followed by Professional – Scientific – Technical Activities (+12,800 or +6.5%) and Construction, where stronger output growth resulted in a direct positive impact on employment in the sector (+12,600 or 7.5%). Among the four sectors with employment decline, Agriculture – Forestry – Fisheries came first at a distance from the rest (-31,000 or -6.5%), which is consistent with the output contraction in the sector presented previously. Employment also declined in peripheral sectors of Services (Activities of Households as Employers, Other Service Activities and Administrative and Support Service Activities).

The impact from the decline in the price of petroleum on the prices of products derived from it (heating oil, motor oil, gasoline, etc.) and the intensifying contraction of household consumption demand, offset the inflationary impact from higher VAT. As a result, **the deflation strengthened slightly in the first quarter of this year to 0.9%**, from 0.6% in the last quarter of 2015. The impact from the fall in the petroleum prices was reflected in falling prices in Housing and Transport, categories of goods and services in the Consumer Price Index, which together with Clothing – Footwear, recorded the strongest deflation (-4.5%, -3.3% and -3.6% respectively).

To sum up, the stronger decline in consumption demand set the GDP trend in the first quarter of this year, while it also had a significant impact on other macroeconomic figures, such as the Consumer Price Index and unemployment. Beyond the critical role of domestic consumption in this particular period, as in the past, these developments reveal the weakness of the remaining GDP components to offset the negative impact of consumption and act as growth drivers. Of course, the capital controls limit the ability of exports to have an impact on economic activity. Therefore, investment is the component that could have had a stronger contribution to output.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change
2005	**229,958**	**0.8%**	**200,664**	**3.5%**	**48,414**	**-10.6%**	**48,699**	**4.4%**	**68,713**	**2.5%**
2006	**242,759**	**5.6%**	**207,988**	**3.7%**	**59,936**	**23.8%**	**51,204**	**5.1%**	**77,774**	**13.2%**
2007	**250,431**	**3.2%**	**216,957**	**4.3%**	**65,030**	**8.5%**	**56,309**	**10.0%**	**88,872**	**14.3%**
2008	**249,891**	**-0.2%**	**221,514**	**2.1%**	**59,043**	**-9.2%**	**58,342**	**3.6%**	**89,805**	**1.0%**
2009	**239,149**	**-4.3%**	**219,942**	**-0.7%**	**43,183**	**-26.9%**	**47,744**	**-18.2%**	**71,680**	**-20.2%**
Q1 2010	59,017	0.5%	54,381	-0.1%	9,645	-2.3%	12,427	-0.7%	18,397	2.7%
Q2 2010	57,234	-5.3%	52,754	-4.0%	9,999	-8.1%	12,582	4.3%	17,360	-2.5%
Q3 2010	55,263	-7.9%	50,494	-9.4%	9,257	-13.2%	11,999	2.2%	16,506	-9.8%
Q4 2010	54,510	-9.1%	49,473	-9.7%	9,664	-17.8%	12,819	12.3%	16,950	-4.0%
2010	**226,023**	**-5.5%**	**207,102**	**-5.8%**	**38,565**	**-10.7%**	**49,827**	**4.4%**	**69,213**	**-3.4%**
Q1 2011	52,988	-10.2%	47,826	-12.1%	9,184	-4.8%	12,443	0.1%	16,142	-12.3%
Q2 2011	52,073	-9.0%	47,566	-9.8%	8,250	-17.5%	12,564	-0.1%	16,295	-6.1%
Q3 2011	51,076	-7.6%	47,214	-6.5%	7,107	-23.2%	12,604	5.0%	16,168	-2.0%
Q4 2011	49,137	-9.9%	45,491	-8.0%	5,612	-41.9%	12,631	-1.5%	14,904	-12.1%
2011	**205,274**	**-9.2%**	**188,097**	**-9.2%**	**30,152**	**-21.8%**	**50,241**	**0.8%**	**63,510**	**-8.2%**
Q1 2012	48,562	-8.4%	45,233	-5.4%	5,699	-37.9%	12,711	2.2%	14,642	-9.3%
Q2 2012	47,727	-8.3%	43,671	-8.2%	5,960	-27.7%	12,384	-1.4%	14,245	-12.6%
Q3 2012	47,013	-8.0%	42,762	-9.4%	5,035	-29.1%	12,638	0.3%	14,315	-11.5%
Q4 2012	46,934	-4.5%	42,285	-7.0%	6,216	10.8%	13,036	3.2%	14,340	-3.8%
2012	**190,236**	**-7.3%**	**173,952**	**-7.5%**	**22,910**	**-24.0%**	**50,770**	**1.1%**	**57,543**	**-9.4%**
Q1 2013	46,080	-5.1%	41,710	-7.8%	5,952	4.5%	12,764	0.4%	14,250	-2.7%
Q2 2013	46,064	-3.5%	41,797	-4.3%	5,048	-15.3%	12,965	4.7%	13,844	-2.8%
Q3 2013	46,162	-1.8%	42,235	-1.2%	5,020	-0.3%	13,158	4.1%	14,399	0.6%
Q4 2013	46,005	-2.0%	42,331	0.1%	4,410	-29.1%	12,725	-2.4%	13,375	-6.7%
2013	**184,312**	**-3.1%**	**168,073**	**-3.5%**	**20,431**	**-10.8%**	**51,611**	**1.7%**	**55,869**	**-2.9%**
Q1 2014	46,284	0.4%	42,079	0.9%	4,963	-16.6%	13,442	5.3%	14,225	-0.2%
Q2 2014	46,149	0.2%	41,895	0.2%	5,602	11.0%	13,576	4.7%	15,187	9.7%
Q3 2014	46,782	1.3%	42,071	-0.4%	5,825	16.0%	14,353	9.1%	15,258	6.0%
Q4 2014	46,406	0.9%	41,980	-0.8%	6,053	4.0%	14,035	10.3%	15,537	16.2%
2014*	**185,621**	**0.7%**	**168,025**	**0.1%**	**22,443**	**9.8%**	**55,406**	**7.4%**	**60,208**	**7.8%**
Q1 2015	46,450	0.4%	42,221	0.3%	5,580	12.4%	13,939	3.7%	15,546	9.3%
Q2 2015	46,568	0.9%	42,391	1.2%	4,619	-17.5%	13,782	1.5%	14,689	-3.3%
Q3 2015	45,980	-1.7%	41,757	-0.7%	4,130	-29.1%	12,843	-10.5%	12,239	-19.8%
Q4 2015	46,008	-0.9%	41,884	-0.2%	5,177	-14.5%	12,736	-9.3%	13,591	-12.5%
2015*	**185,006**	**-0.3%**	**168,254**	**0.1%**	**19,506**	**-13.1%**	**53,300**	**-3.8%**	**56,066**	**-6.9%**
Q1 2016	45,784	-1.4%	41,674	-1.3%	5,564	-0.3%	12,312	-11.7%	13,557	-12.8%

* provisional data

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

The significant increase of the payments of the Public Investment Programme in late 2015 and early 2016, which was reflected in growth in other construction in the first quarter, stronger than in other fixed capital categories, and the improved capital adequacy of the banking institutions after their recapitalisation in the autumn of 2015, did not suffice to boost investment in the first quarter of this year from their low level in the previous year. Anticipating the contractionary impact of the new fiscal measures on the purchasing power of the households and of the capital controls on the activity of the external sector, the investment momentum remains the crucial element for the course of GDP in 2016, as predicted in the previous report.

Medium-term outlook

The conclusion of the first review of the implementation of the new economic adjustment programme diminished quite a lot the uncertainty with respect to: a) the additional fiscal measures for the current and next year; b) the implementation of certain reforms that took centre stage in the negotiations (non-performing loans, new privatisation fund); and c) more broadly, the readiness to implement the new programme that was agreed in August 2015. Nevertheless, despite the political decision to disburse the loan tranche from the ESM, the implementation of certain prior actions, such as particular reforms in activities and sectors, together with tasks for speeding up the privatisation process, that are needed for the approval of the second sub-tranche, is still pending. Certain particularly critical issues have been put to negotiations as part of the coming review in early Autumn. Nevertheless, an agreement on public debt, a development that would have boosted much stronger the confidence in the sustainability of the public finances and the prospects of the Greek economy, was not achieved. That said, the conclusion of the review set in motion significant developments for improving the liquidity of the banking system.

At an international level, the outcome of the recent referendum in the United Kingdom will have an impact on the European and the world economy, mainly on the stock exchanges and the capital markets, on the robustness of the banking system in the United Kingdom and in certain countries in the Euro area and on trade transactions, however the duration, strength and reach of these effects cannot be assessed as yet. The Greek economy does indeed have relations with the UK, however their limited strength and the timing of the referendum do not imply that there would be extensive direct effects from this particular event. There is going to be an impact on Greece, though, from developments that have already transpired in the economy of the Euro area. The migration inflows from the Middle East and Asia to Greece, after the agreement between the EU and Turkey, weakened substantially, however the continuation of its implementation after 1 July remains uncertain, as there has not been a confirmation that all the conditions for lifting the visa restrictions on the entry of Turkish nationals to the EU have been met.

In greater detail, the finalisation of the new fiscal measures, regardless of their impact, has lifted the uncertainty that had prevailed during the first quarter of the year, impeding the decision making process. As most fiscal interventions concern the households (pension cuts above a threshold, change in the personal income tax, higher VAT and social security contributions etc.), their real disposable income received a further hit.

Significant decisions were also made on issues that concern the enterprises (e.g. increase in VAT and social security contributions). The issue of changes in the labour relations, a critical parameter of business operation, planned to conclude in September, as part of the next review of the programme, is still pending. The new regulatory framework that would result from this will affect not only those already employed, but also the decisions on investment by established businesses and potential investors, domestic and foreign.

The reinstatement of the waiver, which allowed the Greek sovereign bonds to be readmitted as collateral by the ECB from the end of June, after almost 18 months, is a development, connected with the conclusion of the review, that under certain conditions might have a significant medium-term effect on the liquidity in the Greek economy. As a result, the banks in Greece can draw liquidity from the standing facilities of the ECB for that purpose, at a cost much lower than that of the Emergency Liquidity Assistance (ELA). This will boost the lending capacity of the banks, provided that a significant part of the deposits of the private sector, which were withdraw in the first half of 2015, returns to the vaults of the banks. The availability of capital and the supply of credit by the domestic banking system is quite likely to strengthen further by gaining access to the Quantitative Easing programme of the ECB.

However, according to the latest data from the Bank of Greece, by the end of the first review in May, the deposits of households and non-financial corporations had increased only slightly since the imposition of the capital controls (+€1.2 billion), due exclusively to growth in corporate deposits (+€2.7 billion), as the households had restricted further their deposits since July (-€1.5 billion). Evidently, the political developments until that time had not improved the confidence of the depositors in the prospects of the Greek economy and the health of the banking system, despite its recent recapitalisation.

Unless there is a significant shift in confidence and in the deposit trend after the conclusion of the first review in the coming months, an event with reduced probability after the Brexit decision and the concerns that it has raised, the banks are expected initially to utilise their regained access to the ECB's standing facilities, in order to limit gradually their exposure to the ELA. Therefore, a significant change in the cautious lending policy of the banks is not expected in the second half of 2016, with the credit contraction carrying over at a lower rate being the most likely outcome. Nevertheless, given the protracted credit crunch, which intensified after June 2015, the lack of capital will cause significant problems for the operation of some of the enterprises.

In addition, as long as the level of deposits remains low, a further significant relaxation of the capital controls would not be possible, despite the ability to draw liquidity from the standing facilities of the ECB, which would continue to impede primarily the international transactions of the Greek economy.

That said, the liquidity of the enterprises will gradually strengthen after the conclusion of the first review of the third economic adjustment programme from speeding up the payment of arrears of the state to its suppliers, as €1.8 billion from the first sub-tranche, which was disbursed in June, are earmarked for this purpose. A similar amount of about €1.7 billion are set aside for paying arrears in the second sub-tranche of €2.8 billion. Provided that the corresponding prior actions are implemented without significant delays from the set deadlines, a total of €3.5 billion will be disbursed within 2016 for that purpose.

Based on the actions so far in the year in the area of privatisation (Piraeus Port Authority, the renegotiation of the Hellinikon project, etc.), investment is expected to recover mainly from the coming year, as time should pass in order to start and set in motion the corresponding investment plans. The omnibus law with the measures and policies on the conclusion of the review included the establishment of a new fund for the development of state-owned assets (Hellenic Holding and Properties Company EESP), with a duration of 99 years. The new fund will incorporate four subsidiaries, including the Hellenic Republic Asset Development Fund (HRADF), which will maintain its autonomy and asset portfolio, together with the Public Properties Company ETAD and the new Public Holding Company S.A. (EDIS), which was established with the same law in order to hold and manage the participation of the state in public companies. However, the drafting of the statute of the new fund and the transfer of the second set of state-owned enterprises to it, prior actions for the disbursement of the second sub-tranche, are still pending. Given the above and other pending procedural issues, the activity of EESP is not going to start before the final quarter of 2016, while the first procedures on developing the state-owned private property that it will own will conclude in 2017.

Regarding HRADF, apart from the conclusion of concessions and sales procedures in the first quarter of the year that had started in previous years, there is still little progress in the ongoing and planned tenders for this year, except for the auctioning of certain real estate assets and the sale of two Airbus planes. Despite the repeated extensions, granted for the submission of offers (e.g. for TRAINOSE and ROSCO), the revenue target in the State Budget for 2016 (€1.99 billion) is expected to be met out of the receipts from the regional airports and the Piraeus Port Authority, which total €1.6 billion in the current year, and the completion of certain other tender procedures.

Despite the sluggish privatisation activity, the public sector provides slightly stronger year-on-year support to investment through the execution of the Public Investment Programme (PIP) in early 2016. The PIP expenditure in the first five months of the current year increased year on year by €143 million (or +14.7%), yet in the previous year they stood at particularly low level. Despite the faster execution of PIP in the current year, its expenditure is short of the target set in the 2016 budget by €371 million (-25%).[7] The shortfall is anticipated to be covered, as in the past, in the last quarter, provided that the revenues from the income and property taxes are not short of the corresponding targets. In the most likely scenario, the PIP payments will approach closely the target set for this year (€6.75 billion), slightly higher than in the previous year (from €6.4 billion). Together with the more front-loaded execution, the public investment expenditure will boost to a small extent the investment activity.

The effort to achieve the fiscal targets set for this year has led to a strong restraint in the primary expenditure in the first five months of the year, even compared with the same period of the previous year (-€166 million or -1.1%), falling below the target by €2.06 billion (-11.7%). Among the key expenditure categories, the largest year-on-year reduction was recorded in earmarked expenditure (-€178 million or -15.3%), followed (in percentage-change terms) by remuneration expenditure (-€149 million or -3.8%), which is the main component of public consumption, and by grants to social security funds (€158 million or -3.4%).[8] As already noted in previous bulletins, the reduction in remuneration spending comes from the implementation of the new remuneration scheme, set in Law no. 4354/2015, and from the reinstatement of the rule "five outlays – one intake", while no rehiring of previously laid-off employees is going to take place in the current year, in contrast to 2015. For these reasons and due to the fiscal consolidation, the reduction in spending categories included in public expenditure is expected to carry over to the remaining months of the year.

Besides the above developments in major issues and significant figures of the domestic economy, the international economic environment is very volatile in the current period as a result of the

[7] State Budget Execution Bulletin – May 2016 (final data), GAO, June 2016

[8] Ibid.

outcome of the referendum on the United Kingdom staying or not in the European Union. As this is an unprecedented event in the EU history, its impact not only on the economy, but also on the operation of its institutions, where many UK representative are actively involved, cannot be assessed in such a short time. In addition, further geopolitical events in the area (e.g. Scottish independence) cannot be ruled out. More broadly, the Brexit ramps up sharply the uncertainty over the cohesion and the viability of the European Union and the Euro area, compelling the economic agents to wait for relevant developments and reactions and deferring their major decisions in the process.

The upcoming changes in the operation of the EU financial system, from its new relations with the financial centre of London, are going to be critical for the EU economy. It is quite instructive that the transaction settlement agencies are situated in London and their operation is not closely supervised by the European Central Bank. Last year, the Court of Justice of the European Union rejected the ECB decision, according to which the settlement agencies that manage transactions in shares and bonds of daily value above €5 billion should be situated within the Euro area, in an attempt of a more closer supervision by the ECB. In addition, non-EU banks, such as the US financial institutions, were using the United Kingdom as a gateway to the single market. This option is going to be lost, once the exit of the UK from the EU is completed, which would make the international banks look for new headquarters in the EU countries. Regarding the current operation of the European capital markets, the ECB actions in March of this year to boost the Quantitative Easing (QE) programme, together with any additional action that it might take from now on, are considered sufficient in order to prevent prolonged turmoil in the markets, which has been avoided thus far.[9]

The upcoming Brexit might have direct effects on the Greek economy and particularly on the exports of goods and services, as the depreciation of the pound against the euro will limit the purchasing power of the UK residents. In the previous year, the exports of products to the UK reached €1.08 billion, growing year on year by 10.1%. As a result, their share in total exports increased from 3.6% to 4.2%.[10] The positive trend from 2015 did not carry over to this year, as the exports of products remained essentially unchanged year on year in the first quarter of 2015 (+€1.3 million or +0.5%). The supply of tourist services to residents of the UK increased both in terms of value and as a percentage of total exports. In the previous year, their value increased significantly, by €466.7 million (or +30.1%), reaching €2.02

[9] Recall that on 16 March 2016, the ECB stated that it raised the monthly limit on the purchase of bonds by 33.3% to €80 billion. In addition, it announced that from June it would introduce four new liquidity supply facilities (TLTRO II), with four year maturity and a low cost: https://www.ecb.europa.eu/press/pressconf/2016/html/is160310.en.html

[10] Source: Panhellenic Exporters Association, Q1 2015 and 2016, year total 2015

billion.[11] As a result, their share in the total value of foreign tourist services increased from 11.6% to 14.3%, with the UK remaining the second largest market after Germany. The Brexit outcome from the recent referendum will weaken the demand for both goods and services, but the extent of the reduction cannot be assessed for the time being. The effects are expected to be relatively stronger in the exports of goods, as the majority of the tourist bookings have already been made and paid.

Regarding other international developments that have an impact on the domestic economic environment, the inflows of refugees and migrants to Central and Northern Europe have declined to a very large extent after the closure of the Balkan route and the implementation of the EU-Turkey agreement on the return of the illegal migrants that have come to Europe through Turkey. There are administrative problems for those that are situated in Greece, but the fact that their number has remained almost constant in the second quarter has made it more feasible to handle this issue successfully.

After its new decline between October 2015 and February 2016, the oil price returned to growth in March through June, when it returned to its levels from the past autumn. However, the uncertainty over the impact of Brexit is going to curb the demand of petroleum, at least in the coming months. As a result of the various trends and effects, the oil price is expected to be lower on average in 2016, compared to the previous year, yet not to the same extent as in 2015 when it fell strongly. As a result, this will benefit countries, such as Greece, that buy petroleum, and energy-intensive sectors (e.g. Manufacturing). Under the uncertainty caused by the exit of the United Kingdom from the European Union regarding the prospects of the EU and the Euro area, the euro will depreciate against the dollar in the short term and perhaps for a longer time period. However, the intervention instruments of the ECB and the central banks of the major economies, such as the FED, in the global capital markets will most likely prevent sharp variations in the euro-dollar exchange rate, maintaining it close to the average recorded in the first half of the current year or perhaps at a slightly lower level.

The capital controls, imposed more than a year ago, continue to limit significantly the international transactions of the Greek economy and its attractiveness. Their slight further relaxation in March facilitated the enterprises in their international transactions. However, as already mentioned in previous bulletins of IOBE and confirmed by the data on exports and imports, the relaxation of the capital controls moderated their impact mostly on the import side of the Greek economy, while it does not seem to benefit exports, even without petroleum products and ships. After the

[11] Source: Bank of Greece, Quarterly data on receipts per country of origin.

reinstatement of the waiver for the Greek banks and provided that there is a relatively steady return of the deposits to the banking system, a new relaxation of the capital controls would slow down the contraction mostly of imports.

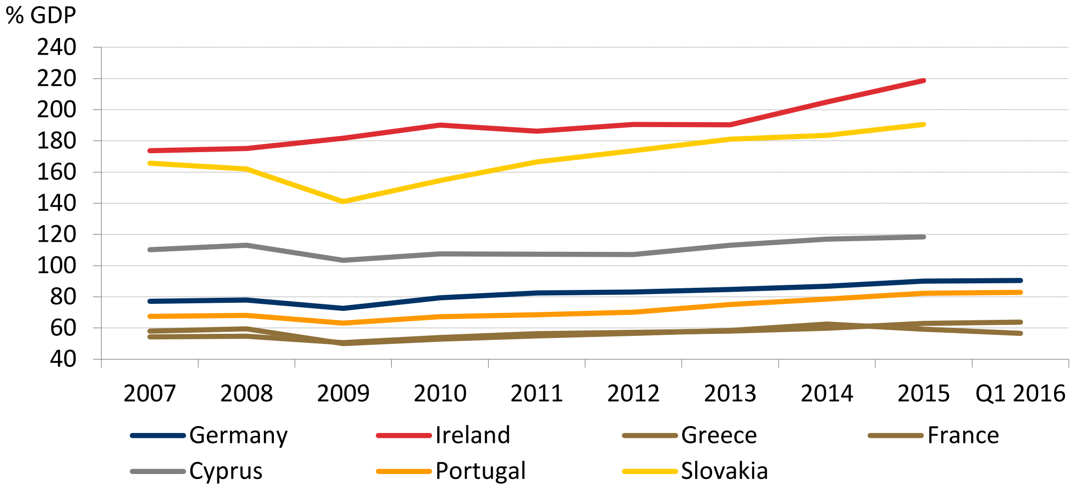
In any case, the imposition of capital controls has further limited the degree to which the Greek economy is open to international trade. A high degree of exposure of an economy to international trade transactions is considered one of the key prerequisites for the creation of relations with other economies and for economic development based on this. In indicator terms, the issue of how open an economy is can be approached by the sum of its total imports and exports over its GDP. The estimates of this index for Greece and other six countries of the Euro area, together with the difference in their level of development, are presented in Figure 3.1. It shows that the Greek and the French economies were the least prone over time to make transactions with other economies (degree of openness of about 60% of GDP). The capital controls limited further the international economic relations of the Greek economy. In contrast, in Ireland and Slovakia, the links with the other economies are exceptionally strong and as a result their total imports and exports often exceed 150% of their GDP.

The impact of the factors analysed above is reflected in the performance of the external balance of the Greek economy. Based on the latest Bank of Greece data, the contraction of exports strengthened slightly in April, compared with the first quarter of 2016, while that of imports eased. Note that for the first time since the imposition of the capital controls, the fall of exports, in percentage and value terms, exceeds that of imports. In particular, the exports of goods and services declined year on year by 20.9% in April, compared with a decline by 19.5% in the first quarter of the year. Meanwhile, total imports declined by 15.6%, against a fall by 17.6% in the first three months of the year.

The exports of services declined stronger than the exports of goods (-34.0%, against -6.4%), with transport services at nearly half their level from last year (-48.6%). Travel receipts declined less, but still strongly, at the rate of 7.0%. The exports of goods except ships and fuel declined less (-0.7%), with the exports of ships remaining sluggish over the past 10 months. On the import side, the imports of goods without ships and fuel increased by +1.5%, following their slight decline by 1.4% in the first quarter of the year. The marginally stronger decline of the value of exports compared with imports led to a deterioration of the balance of goods and services in April, with the deficit reaching €838.4 million, 3.9% larger year on year.

Figure 3.1

Degree of «openness» of an economy



Source: Eurostat

As in the external balance, the negative trend from early 2016 has carried over to most sectors of domestic economic activity and to most short-term indicators. An exception to this is the industrial production index, which increased significantly in April, after its slightly stronger contraction in February and March.

In greater detail, industrial production kept fluctuating in April as in the preceding quarter, growing by 2.8%, after its decline by 0.5% in the first quarter of the year and expansion by 0.5% in the same month of 2015.[12] The change in the trend came mainly from stronger Manufacturing growth (from 1.7% in Q1 to 5.8% in April) and to a lesser extent from a trend change in Water Supply (+2.6%, from -2.1%). In Electricity, the production contraction eased (-1.0%, from -4.2%), while in contrast in Mining-Quarrying the strong decline in the first quarter intensified further (from -14.1% to -24.3%).

With respect to construction activity, the latest available data refer to March and therefore they do not contain information that extends beyond the first quarter of the year. At the end of the quarter, the contraction of construction works intensified, reaching very high rates in both surface and volume terms (-27.1% and -32.4% respectively).

Regarding the indicators that reflect the sentiment on the demand side of the economy, the seasonally adjusted index of Retail Trade volume kept falling in April (-1.5%), at a lower rate than in the first quarter of the year (-3.3%). Deflation slightly intensified in April and May, compared with the preceding quarter, to 1.1% from 0.9%, yet it remained lower

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

than in the same period of 2015 (2.1%). The fall of prices was strongest in the categories Housing and Transportation, by 4.7% in both, which came as a result of the impact from the falling petroleum prices. In contrast, prices increased in Hotels-Restaurants-Cafes and Tobacco-Alcoholic Beverages, by 2.7% and 1.3%, reflecting the inflationary impact of the VAT hike, with a significant increase of prices also observed in Health (+2.6%).

The analysis so far reveals that after the conclusion of the first review of the new programme, there is a transition period until its positive impact (improved bank liquidity, gradual payment of arrears to suppliers of the state, recovery of expectations, possible further relaxation of the capital controls) can take effect. During this period, the Greek government should implement certain prior actions in order to receive the whole tranche and prepare for the upcoming review. The changes in the labour relations that would be set in the new review are of high interest to the enterprises, hence many of them are anticipating the conclusion of the corresponding negotiations before making any major employment or investment decisions. In the current half of the year, the trends in the Greek economy will depend significantly on the impact of the new fiscal measures, which will affect stronger the households. The Brexit outcome from the UK referendum is a recent additional driver for the economic developments in Greece and abroad. On the other hand, the likelihood of an impact on the Greek economy from large migrant flows has notably diminished.

Taking into account the latest and the anticipated politico-economic developments and the forecasts on the GDP components and other macroeconomic indicators in Greece, the extensive fiscal measures that were imposed in order to conclude the first review of the new programme will clearly limit the disposable income and the **consumption of the households** in the second half of 2016. Their impact is expected to be stronger, compared with that of the measures adopted in July and August of the previous year, given that they will take effect over more months of the year in which they were adopted. That said, the restrictive impact of the capital controls on households consumption during the second half of 2015 has formed a low base of comparison for the corresponding period of the current year. This will counteract the downward pressures on private household consumption over that period, without definitely offsetting them. Previously, precisely for the opposite reason, the notably higher private consumption in the second quarter of the previous year, compared with the other quarters of 2015, will result in easing of its contraction from the first quarter of this year a year later.

The vehicle sales, after the increase of the registration tax since 1 June, will partly contain the fall of private consumption. The expected slowdown in the year-on-year decline of unemployment from the second quarter will weaken the support of consumption from growing household income in the previous quarter, when employment increased year on year by 2.9%. **The above effects are anticipated to prevent a substantial growth of private consumption in any of the 2016 quarters. As in the previous bulletin of IOBE, private consumption is expected to contract by about 1% to 2% on average in 2016.**

The cuts in consumption spending of the public sector in the current year, mainly in terms of cuts in remuneration spending, resulted in a decline of **public consumption** by 1.5% in the first quarter. This trend, with minor fluctuations, is expected to carry over to the remaining quarters of the year. The first phase of the streamlining of the special remuneration schemes, which is included in the prior actions of the second review of the current programme in September, is going to be implemented in the last quarter of the year, provided that the review takes its course without significant deviations from the set time plan. Therefore, it will lead to stronger cuts in public consumption during that period. As a result, **public consumption is expected to decline in the current year, by 1.5% to 2.5%.**

Regarding **investment,** the conclusion of the first review allowed the banking system to have access to capital at much lower, essentially zero, cost. However, as mentioned above, until May at least, the gradual return of deposits that would have strengthened the disposable capital of the banks, allowing them to change significantly their supply of credit, had not taken place. Hence, the reservations with respect to the completion of the fiscal consolidation, the recovery of the Greek economy and the stability of the banking system have not subsided sufficiently.

Besides, the main priority for the banks in the current period is the management of their "non-performing loans", after the enactment of the corresponding regulatory framework in the recent omnibus law on issues related to the first review (Law No. 4389/2016). The outcome of the process is a key prerequisite for the planning of the credit policy that they will follow from now on. Understandably, the effects from the upcoming Brexit on the stock exchanges and the capital markets, together with the interventions of the European Central Bank and other central banks, are additional factors that would be taken into account in the bank's asset management decisions. In any case, there is going to be a period of monitoring the relevant developments, which would restrict some of the decisions of the banking institutions. For all of the above reasons, a significant change in the trend of the supply of credit by the banking system is not expected in the coming months and for the rest of 2016.

The execution of the Public Investment Programme since late 2015 has boosted investment activity. Given the recent conclusion of the review and the disbursement of the large sub-tranche of €7.5 billion and the course of the budget execution in the first five months of the year, problems with the regular execution of payments of the state, including those related to PIP from national resources, are not anticipated. However, no further substantial contribution to investment in the current year is expected to come from other institutions which manage state-owned assets, such as HRADF, the activity of which is often riddled with delays and extensions, and the newly established Hellenic Holdings and Property Company S.A., with activity that would have an impact on investment from 2017.

Apart from the scarcity of banking capital, the enterprises continue to have problems in carrying out investment due to the capital controls. In addition, they face low domestic demand and foreign demand that is stagnant since last year, in contrast to its strong growth in the first eight months of 2015, which had offset the weakening of the domestic market during the second half of the year. In particular, in the first four months of 2015, the exports of goods other than fuel and ships was growing by 15.4%, while a year later the corresponding growth was only marginal (0.5%). Therefore, taking into account the decline in domestic demand since the third quarter of 2015, for a large part of the Greek enterprises there are no reasons for upgrading or extending their production capacity.

Particularly with respect to Construction, except for public works supported by the PIP, the construction activity declined significantly in the first quarter of the year. This was perhaps due to the anticipated then revision of the property tax legislation. The hikes in the property tax, which were enacted with Law No. 4389/2016, will exert downward pressure on private construction works of both households and enterprises. Under the influence of the above ongoing and anticipated developments, **investment will most likely decline further in 2016, by about 4.0%.**

In the external sector, the stability of **exports** without ships and fuel (in current prices) in the first four months of 2016, despite their high level in the same period of 2015 and the negative impact from the capital controls, reveals that there is a growth momentum in the current half from the technical base effect of their low level in the same period of 2015 due to the capital controls. Apart from this technical effect, which is expected to transpire from August onwards, the low exchange rate of the euro against the dollar will keep on boosting the competitiveness of the Greek and Euro area products. This impact is expected to strengthen from the modest depreciation of the euro against the major currencies due to the uncertainty surrounding the impact of the exit of the United Kingdom from the EU. Regarding fuel, the sharp increase of their price since March reflects the strengthening of their demand, which might ease from developments in production due to Brexit.

On the other side of exports, that of services, the slight reduction of the tourism receipts (-3.4%) probably reflects a consolidation phase after three years of steady growth in the sector. As the United Kingdom is a significant tourist market for Greece, if its economy suffers significant losses due to the decision to exit from the EU and the exchange rate of the pound with respect to the euro shifts steadily to a new lower level, Greek tourism might take a hit. That said, as the vast majority of bookings for this year (mostly all-inclusive holiday packages) have already been made, the tourist expenditure of the UK residents for this year had largely been made before the recent developments. Any reduction in tourist flows will be felt from next year.

Then again, the continuous geopolitical turmoil in the South East Mediterranean region, with a weaker intensity than in 2015, and the terror attacks boost the attractiveness of Greece as a tourist destination. Nevertheless, the international transport activity is expected to remain at a very low level, which will lead to a decline of the exports of services in the current year. **Taking into account the variety of effects on exports, they are expected to decline slightly in the current year (-2.0% to -3.0%).**

The new decline in the household disposable income from the additional fiscal measures and the sluggish investment activity will lead to a further contraction of **imports.** That said, a relaxation of the capital controls will boost primarily imports, as evident from what happened after October 2015 and March 2016. Furthermore, the sharp drop of imports in the second half of 2015 will limit significantly their contraction in the same period of this year, when they might increase somewhat, mainly in the third quarter. **Under the influence of the above factors, imports are expected to continue to contract in the current year, at a slightly lower rate than in 2015, in the range of -4% with -5%.**

Summarising the forecasts of the trends in the key GDP components in 2016, the new fiscal measures will limit further the disposable income of the households and thus their consumption, perhaps more than the measures from the summer of 2015. However, due to the impact of the capital controls on private consumption in the second half of 2015, it has already reached relatively low level of comparison, which will limit the restrictive impact of the new measures a year later. The implementation of the fiscal consolidation measures in the public sector (single remuneration scheme, five outlays – one intake, etc.) has started to lead to a reduction in public consumption, which will carry over to the rest of 2016. Regarding investment, the conclusion of the first review of the third programme improves significantly the credit capacity, directly with the reinstatement of the waiver and indirectly with the gradual restoration of the trust in the state and in the banking system, prerequisites for the return of deposits and for inflow of capital. However, the low level of funding from the banking system is not going to expand, at least in the coming months, as the deposits of the private sector have increased only marginally since July 2015, while the resolution of the non-performing loans issue, based on the new regulatory framework, is still ongoing. The banks, in Greece and abroad, will take into account in their capital management in the coming months the current and potential effects from the upcoming Brexit on the stock exchanges and the capital markets. Besides, both the domestic and the foreign demand for Greek products in the first half of the year was at best unchanged on its level from last year. Hence, most enterprises would not benefit from an upgrade or extension of their production capacity. The PIP payments, which have accelerated since last year, will strengthen investment, boosting public works and by extension the construction sector, which however will not receive support from private construction activity for one more year.

In the external sector of the economy, the resilience of exports except ships and fuel in the first half of the year, which will most likely developed into growth in the second half, together with the consolidation of the volume of fuel exports, will moderate the restrictive impact on total exports from weaker international transport and the slight reduction or consolidation of the tourism revenues. The impact from the outcome of the UK referendum is expected to be small, mainly on the exports of goods. As a result, the exports of goods and services are going to decline slightly from their last year level. The restrictive impact on private consumption from the new measures and the declining business investment are going to weaken the import flows. However, the sharp fall of imports in the second half of 2015 due to the capital controls has rolled over a large part of the import demand to the future, which is being served by the gradual lifting of the capital controls, preventing thus their new large decline. **Under the impact of the above trends on the GDP components in 2016, output is expected to continue to decline, by about 1%.**

The recession of the Greek economy in the current year, mainly from weakening domestic consumption demand, is going to slow down significantly or even completely stop the decline of **unemployment**, recorded in the past two years. As predicted in previous bulletins, the job creation in sectors and activities producing goods and services for the final consumer that were largely responsible for the growth of employment in 2014 and 2015 (e.g. Retail – Wholesale Trade) has already started to decline to a small or large extent.

Employment growth is expected to weaken and ever turn to contraction. The stabilisation or slight decline of activity in Tourism will also result in fewer jobs created in the current

year. Employment in the Primary sector is expected to decline strongly. In contrast, employment in Construction is expected to expand, due to the public works. A significant boost of public sector employment has come from the still ongoing public-benefit employment programmes, with numerous beneficiaries, while a new programme, with 42,000 beneficiaries, has also been announced. The negotiations on the labour relations as part of the second review of the current programme are expected to affect employment in the current half of the year. Taking into account the particular trends and the expected developments in the labour market, unemployment in 2016 is expected to reach a rate that is marginally lower than in 2015, at about 24.7%.

Table 3.2

Domestic Expenditure and Gross Domestic Product – European Commission estimates

(at constant 2010 prices)	**2014**	**2015**	**2016**	**2017**
Annual Percentage Changes				
GDP	0.7	-0.2	-0.3	2.7
Private Consumption	0.5	0.3	-0.4	1.8
Public Consumption	-2.6	0.0	-0.5	-0.1
Gross Fixed Capital Formation	-2.8	0.7	-0.9	11.6
Exports of Goods and Services	7.5	-3.8	0.5	4.2
Imports of Goods and Services	7.7	-6.9	-0.1	3.8
Employment	0.1	1.9	0.5	2.0
Compensation of Employees per capita	-2.1	-1.7	-0.8	1.5
Real Unit Labour Cost	-0.4	1.1	0.2	0.0
Harmonised Index of Consumer Prices	-1.4	-1.1	-0.3	0.6
Contribution to real GDP growth				
Final Domestic Demand	-0.6	0.3	-0.5	2.5
Net Exports	-0.3	1.2	0.2	0.1
Inventories	1.5	-1.7	0.0	0.0
As a percentage of GDP				
General Government Balance	-3.6	-7.2	-3.1	-1.8
Current Account Balance	-3.0	-0.2	0.6	1.3
General Government Gross Debt	180.1	176.9	182.8	178.8
In percentage terms				
Unemployment (% of labour force)	26.5	24.9	24.7	23.6

Source: European Economic Forecast, spring 2016, European Commission, May 2016

Table 3.3

Comparison of forecasts for selected economic indicators for the years 2014 - 2017

	MinFin			**EC**			**OECD**			**IMF**		
	2014	*2015*	*2016*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*	*2015*	*2016*	*2017*
GDP	0.7	0.0	-0.7	-0.2	-0.3	2.7	-0.3	-0.2	1.9	-0.2	-0.6	2.7
Final Demand	:	:	:	-2.0	-0.3	2.9	0.3	-0.1	1.2	:	:	:
Private Consumption	0.5	0.5	-0.7	0.3	-0.4	1.8	0.3	-0.1	1.3	:	:	:
Harmonised Index of Consumer Prices (%)	-1.4	-1.0	0.5	-1.1	-0.3	0.6	-1.1	-0.5	0.0	-1.1	0.0	0.6
Gross Fixed Capital Formation	-2.8	-8.4	-3.7	0.7	-0.9	11.6	0.9	3.6	4.0	:	:	:
Unemployment (%)	26.5*	25.4*	25.4*	24.9	24.7	23.6	24.9	24.0	23.2	25.0	25.0	23.4
General Government Balance (% GDP)	-1.2**	0.05**	0.03**	-7.2	-3.1	-1.8	-7.3	-1.9	-0.5	:	:	:
Current Account Balance (% GDP)	:	:	:	-0.2	0.6	1.3	-0.1	-1.6	-0.9	0.0	-0.2	-0.3
Gross Public Debt (% GDP)***	178.6	180.2	187.8	176.9	182.8	178.8	177.4	176.9	172.7	:	:	:

* On a national accounts basis
** According to the methodology of the third Economic Adjustment Programme
*** The forecasts on Groo Public Debt include estimates on the expenditure to recapitalise the banks

Sources: Preamble of the State Budget 2016, Ministry of Finance, November 2015 – European Economic Forecast, spring 2016, European Commission, May 2016 - OECD Economic Outlook No. 99, June 2016 – World Economic Outlook, IMF, April 2016

Regarding **prices**, the decline of the disposable income, due to the new direct tax measures and pension cuts, is conducive to maintaining the Consumer Price Index on a declining trajectory. The continuation of deflation in the first five months of 2016 came mainly from a further decline in the oil prices. However, this trend is no longer in place, as since the end of May the oil price has returned to its level recorded before the latest episode of decline. Hence, its restrictive effect on prices is expected to weaken substantially in the coming months, provided that the uncertainty created by the Brexit vote is not going to last long, undercutting global growth and thus the demand of petroleum. The increase of the standard VAT rate to 24%, the lifting of the VAT discount of 30% in the Aegean islands and the shift of many categories of goods and services from the reduced to the standard rate in the islands from 1 June will contribute to the easing of the deflation and probably a small price increase in the second half of the current year. Given the negative price trends in the first quarter of this year, **the forecast in the previous bulletin for stable prices in 2016 or further marginal deflation is slightly revised down to deflation, for the third consecutive year, of about 0.3%.**

3.2 Developments and outlook in key sectors of the economy

Industry

The industrial production index in Greece marginally increased (by 0.2%) in the first four months of 2016. This performance was notably weaker than in the same period of last year (+2.0%).

During the same period, industrial production in the Euro area increased by 1.7%, at a similar rate as in the first four months of 2015. The uncertainty from the outcome of the UK referendum and the turmoil that it would cause on the European capital markets, overall production activity and industrial production in particular are expected to have an effect on this positive trend, at least over the coming months of this year.

At sector level, the largest contraction was recorded in Mining-Quarrying, where production fell by 17.0% in the first four months of 2016, compared with 9.3% decline in the preceding year. Electricity generation came next (-3.6% against -6.3%), followed by Water Supply (-0.9% against +6.1%). Production increased only in the manufacturing sector, but only by about half of the growth rate recorded in the same period of last year (+2.6% against +5.3%).

Three of the four **Mining** subsectors experiences significant growth. Indicatively, Extraction of Crude Petroleum and Natural Gas essentially doubled, growing by 96.2% (compared with 11.6% reduction in 2015), while production in Mining of Metal Ores increased at a more moderate rate (+11.0% against -10.3%). However, the above growth was overcompensated by the decline in the Mining of Coal and

Lignite (-34.3% against -11.6%), which set the trend in the Mining sector.

In **Manufacturing**, production declined in 9 of its 24 subsectors in the first four months of 2016. Among the branches of particular importance for the Greek economy, production rose in Basic Pharmaceutical Products (+5.9% against +2.9% in the preceding year), Food Products (+3.6% against +1.5%) and Basic Metals, where production increased marginally by 0.6%, against 4.6% in the same period of 2015.

In the remaining Manufacturing subsectors, the biggest decline was observed in Motor Vehicles and Trailers (-55.5%, against growth of 9.9% in the previous year) and Computers, Electronic and Optical Products (-29.9%, against +36.5% in 2015). Production losses were likewise recorded in Wearing Apparel (-14.1% against -10.4%) and in Printing and Reproduction of Recorded Media (-5.8% against -5.5%).

In contrast, production increased most in Tobacco Products (+23.0% against +32.5%) and Non-Metallic Minerals (+16.5% against -3.3%). The production of Chemical Products also increased (+8.8% against +5.0% in 2015). The manufacturing of Leather and Related Products came next (+8.0% against -22.4%), followed by Furniture (+4.9% against +4.2%) and Beverages (+4.0% against +0.4%).

Regarding the main groups of industrial products, production declined in Capital Goods (-14.5% against +5.4%), Durable Consumer Goods (-4.2% against +2.1%) and Energy (-3.5% against +1.2%). In contrast, production increased in Non-Durable Consumption Goods (+4.8% against +2.8%) and in Intermediate Goods (+4.0% against +1.9%).

Construction

During the first quarter of 2016, the production index in the Construction sector declined by 9.3%, compared with a significant growth by 47.1% in the corresponding period of 2015.

Regarding its constituent categories, the volume index of production in Buildings declined by 1.9%, when at the same period of last year it had grown by 36.1%. The trend inversion was even stronger in Civil Engineering Works, where the positive trend during the first quarter of 2015 (+57.9%) gave way to a significant contraction in the same period of 2016 (-15.5%).

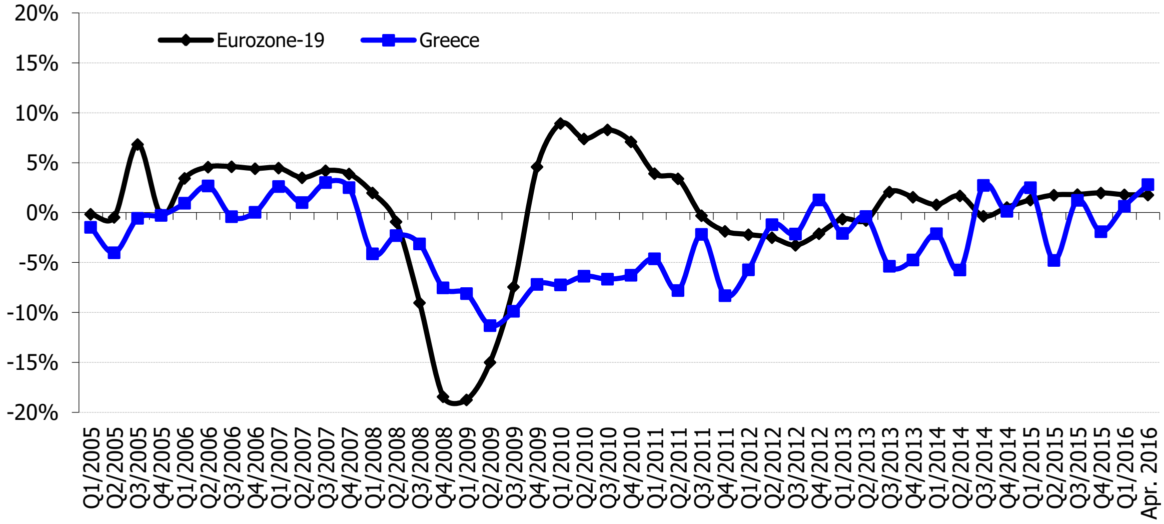
In contrast, the decline observed in Construction in the Euro area in the first quarter of 2015, when the index was decreasing by 1.4%, turned into growth in the corresponding period of 2016, when it increased by 16.5%.

In addition, building permits in the first quarter of 2016 in Greece declined year on year by 14.0%, to reach 2.710 permits. The surface area and volume indicators decreased year on year by 20.6% and 13.9% respectively.

The trend in the real estate market is reflected also in the volume of disbursed mortgage loans. According to data from the Bank of Greece, during the first five months of 2016, the banking institutions disbursed €331.3 for housing purposes. As a result, the funding of Greek financial institutions for the purchase of residential property contracted by 4.2% in the specific time period, following the decline of 2.0% in the same period of 2015.

Figure 3.2

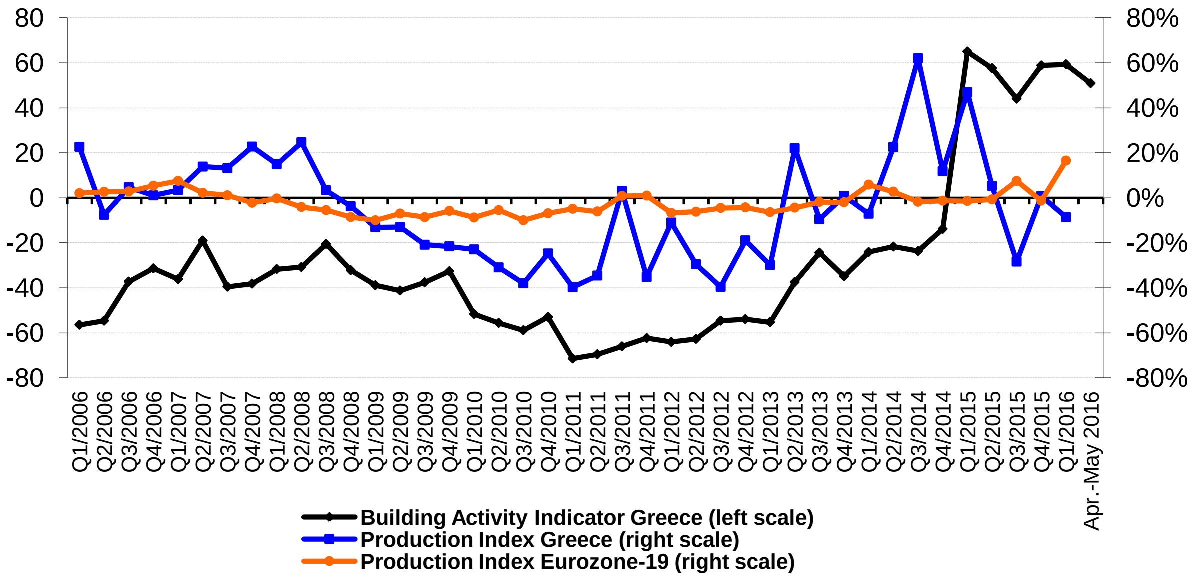
Industrial Production Index in Greece and in the Euro Area (year-on-year % change)



Source: ELSTAT, Eurostat

Figure 3.3

Production Index in Construction και Building Activity Index



Source: ELSTAT, Eurostat

Retail Trade

The volume index of Retail Trade declined in the first quarter of 2016 by 3.4%, compared with stability of the index during the same period of 2015.

The volume index expanded in only three of the eight subsectors of Retail Trade. The strongest growth in the first quarter of 2016 was recorded in Department Stores (+12.9% against a contraction of 1.7% in the previous year) and Food-Beverages-Tobacco (+3.9% against -7.9%). Clothing-Footwear came next (+1.9% against +11.9%).

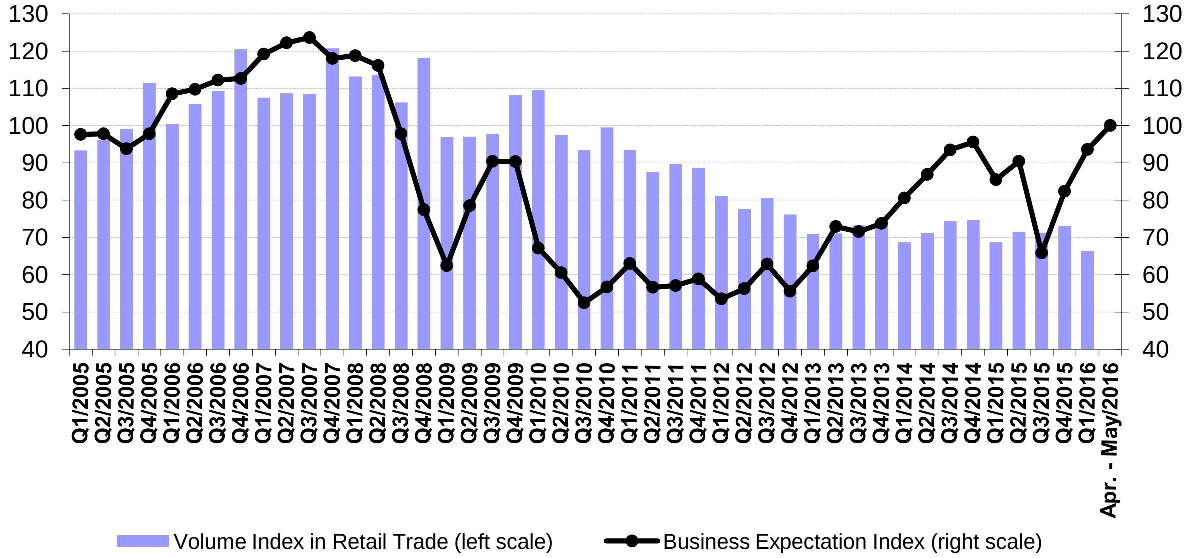
In contrast, the strongest contraction in the first quarter of 2016 was observed in Automotive Fuel, where the index declined by 6.8%, in the aftermath of a more modest decline (by 0.8%) in the corresponding period of 2015. Books-Stationery came next (-3.8% against +7.3%), followed by Pharmaceutical Products-Cosmetics (-3.3% against +0.6%). Turnover also declined in Supermarkets (-2.4%), after its marginal growth in the same period of 2015 (+0.7%).

In contrast to the volume index of trade, the expectations of the retail trade enterprises improved during the first five months of 2016, according to **the leading indicators of the Business Surveys conducted by IOBE**. The indicator for the overall Retail Trade sector increased by 8.5 points, compared with 6.1 points growth in the previous year. Among the constituent branches of retail trade, the indicator declined only in Motor Vehicles (-4.7 points against -0.3 points in the previous year). The expectations improved most in Food-Beverages (+23.2 points, compared with a more modest growth of 7 points in the previous year) and in Household Appliances (+10.4 points against +7.7 points in the same period of 2015). Expectations also improved in Department Stores, but to a lesser extent than in the first five months of 2015 (+9.1 points against +24.0 points), and in Clothing-Footwear (+5.2 points against a decline of 12.5 points).

In greater detail, the business sentiment indicator for Motor Vehicles declined year on year in the second quarter of 2016. In particular, it reached 93 points on average, against 101 points in 2015. The uncertainty regarding the tax measures until the conclusion of the negotiations with the institutions and in particular the anticipated expiry of the cash-for-clunkers scheme seem to have affected the assessment of the enterprises in this subsector. In the constituent elements of the indicator, the balance of **current sales** declined already from the first few months of 2016, as the balance of positive versus negative responses stood at -15 points, rom +2 points in the same period of 2015. In contrast, the **sales prospects** for the following quarter improved, despite the fact that in June the index was negative, as it seems that the enterprises were anticipating in April significant future sales from bringing forward car purchases due to the looming expiry of the cash-for-clunkers scheme and the acceleration of the customs clearance and the car purchases by the enterprises and the consumers correspondingly. The balance of **inventories** stood at 11 points, against -5 points in 2015, as many enterprises considered their stock levels too high. Regarding other activity data of this subsector, the expectations on **orders** in the following quarter deteriorated to -16 points in the second quarter, from 24 points in the first quarter of the year.

Figure 3.4

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)				
	Q1 2014	Q1 2015	Q1 2016	% change 2015/2014	% change 2016/2015
Overall Index	68.7	68.7	66.4	0.0%	-3.4%
Overall Index (excluding automotive fuels and lubricants)	68.8	69.8	68.3	1.4%	-2.1%
Store Categories					
Supermarkets	75.8	76.4	74.6	-2.4%	-2.4%
Department Stores	72.8	71.6	80.8	12.9%	12.9%
Automotive Fuels	68.1	67.5	62.9	-6.8%	-6.8%
Food – Drink – Tobacco	63.4	58.4	60.7	3.9%	3.9%
Pharmaceuticals – Cosmetics	65.7	66.1	63.9	-3.3%	-3.3%
Clothing – Footwear	65.0	72.8	74.2	1.9%	1.9%
Furniture – Electric Equipment – H. Appliances	59.4	58.9	54.6	-7.3%	-7.3%
Books – Stationary	83.2	89.2	85.8	-3.8%	-3.8%

Source: ELSTAT

Table 3.5

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

	Jan. - May 2014	Jan. - May 2015	Jan. - May 2016	% change 2015/2014	% change 2016/2015
Food-Drinks-Tobacco	80.7	88.0	111.2	9.0%	26.4%
Textiles - Clothing – Footwear	96.9	84.4	89.6	-12.9%	6.2%
Household Appliances	66.6	74.3	84.7	11.6%	14.0%
Vehicles-Spare Parts	106.2	105.9	101.2	-0.3%	-4.4%
Department Stores	59.3	83.3	92.4	40.5%	10.9%
Total Retail Trade	**81.6**	**87.7**	**96.2**	**7.5%**	**9.7%**

Source: IOBE

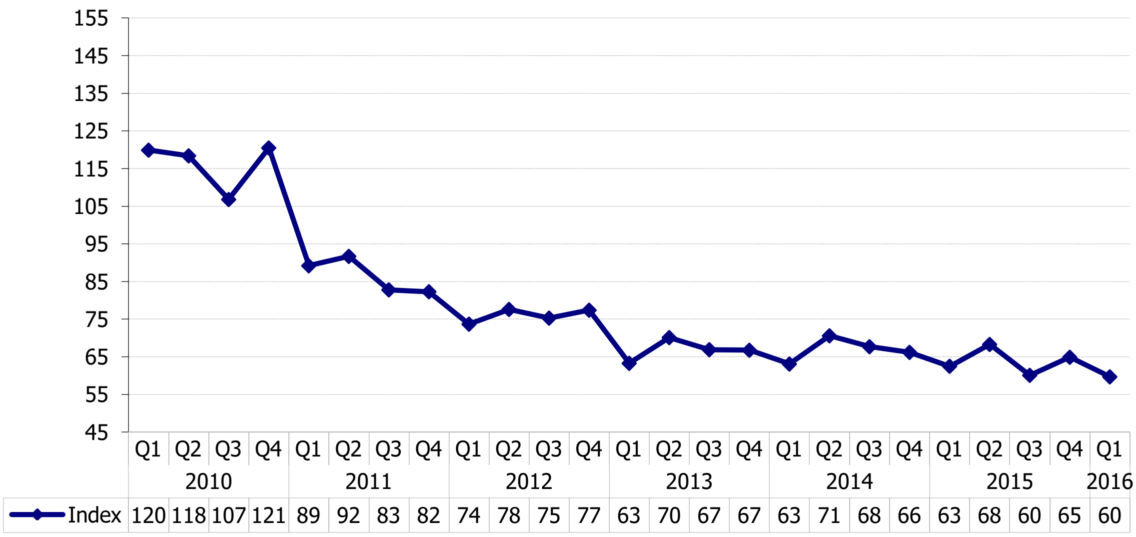
Finally, the employment expectations indicator stood at 22 points on average, against -42 points in 2015. The positive sign of the indicator implies that more enterprises were expecting growth rather than decline of employment. As a result, the negative employment expectations from the first quarter of the year have eased. Overall in the first half of 2016, the employment expectations have remained unchanged year on year.

Wholesale Trade

The decline of Retail Trade activity, outlined in the previous section, was also reflected in the Wholesale Trade trends, where the turnover index fell by 4.5% in the first quarter of 2016, after falling by 0.1% in the same period of 2015. This is the strongest first quarter contraction of Wholesale Trade since 2010.

Figure 3.4

Turnover Index in Wholesale Trade



Source: EL.STAT.

Services

Turnover contracted year on year in the first quarter of 2016 in six of the 15 subsectors of Services.

The largest contraction was recorded in Publishing Activities (branch 58), where turnover declined by 13.0%, in the aftermath of similar contraction in the same quarter of 2015 (-12.0%). Advertising and Market Research (branch 73) came next with 11.5% contraction, against 9.9% growth in the first quarter of 2015. Turnover in Cleaning Activities declined by 8.8%, at almost double the contraction rate from the previous year (-4.6%). The contraction in Postal and Courier Services (branch 53) eased year on year (-1.3%, against -6.7%).

An inversion of the trend from positive in 2015 to negative in the current year was observed in Other Professional, Scientific and Technical Activities (-7.2%, against growth of 22.4%). Similar development was recorded in Information Service Activities (-1.9%, against +31.6%) and Telecommunications (-1.8%, compared with 0.5%).

The strongest turnover growth in the first quarter of 2016 was observed in Architectural and Engineering Activities (branch 71), where turnover rose by 28.0%, after a more modest growth in the same quarter of 2015 (+11.3%). Employment Activities came next (+13.2% against +25.8%), followed by Security and Investigation Activities (+11,0% against +7.5%) and Office Administrative Activities (+1.1% against +22.2%).

Lastly, turnover in Accommodation and Food Service Activities (branches 55 & 56) declined in the first quarter of 2016 by 11,7%, compared with modest growth in the same quarter of 2015 (+3.5%).

According to **the leading indicators of the Business Surveys conducted by IOBE** for the first five months of 2016, the respondents in the sectors of Services were found to be more pessimistic year on year. In particular, the overall indicator for services declined by 3.7 points, having lost 6 points already from the first quarter of 2015. Among the constituent subsectors, the strongest deterioration of expectations was recorded in Hotels-Restaurants (-17.4 points against +2 points in the previous year) and in Financial Intermediaries (-4.5 points, after stronger contraction by 26.6 points in the corresponding period of the previous year). In contrast, the pessimism eased among the representatives of the Computer Programming subsector, where the index increased by about 11 points, covering some of the decline from the previous year (-17.7 points).

Table 3.6

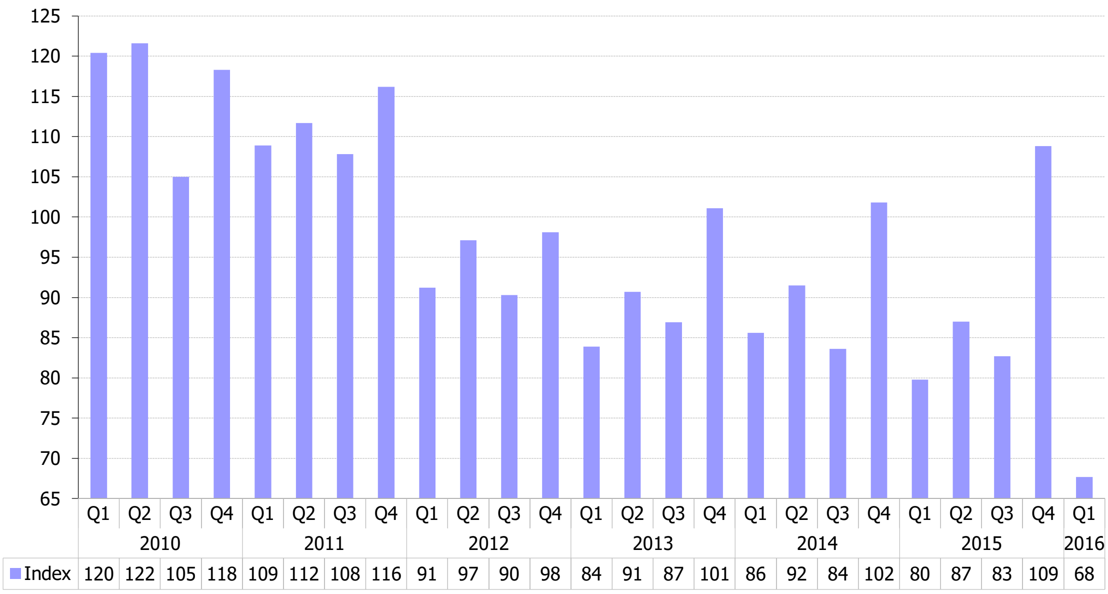
Turnover Indices (annual change, 2005=100)

	Q1 2014	Q1 2015	Q1 2016	% change 2015/2014	% change 2016/2015
Trade of motor vehicles	51.6	60.4	59.3	**17.1%**	**-1.8%**
Land transport and transport via pipelines	81.3	78.1	75.8	**-3.9%**	**-2.9%**
Water transport	44.3	42.3	42.1	**-4.5%**	**-0.5%**
Air transport	65.1	67.1	71.3	**3.1%**	**6.3%**
Warehousing and support activities for transportation	74.2	81.2	88.6	**9.4%**	**9.1%**
Postal and courier activities	85.6	79.8	67.7	**-6.7%**	**-1.3%**
Publishing activities	43.8	38.6	44.0	**-12.0%**	**-13.0%**
Telecommunications	61.5	61.9	70.6	**0.5%**	**1.8%**
Computer programming. consultancy and related activities	54.4	57.3	74.9	**5.3%**	**0.6%**
Information service activities	150.7	198.3	112.7	**31.6%**	**-1.9%**
Legal. accounting and management consultancy activities	81.7	88.7	78.9	**8.6%**	**0.2%**
Architectural and engineering activities	27.6	30.7	45.3	**11.3%**	**28.1%**
Advertising and market research	24.6	27.0	36.9	**9.9%**	**-11.5%**
Office administrative activities	69.7	85.2	120.0	**22.2%**	**1.1%**
Tourism	46.5	49.3	42.5	**3.5%**	**-11.7%**

Source: ELSTAT

Figure 3.6

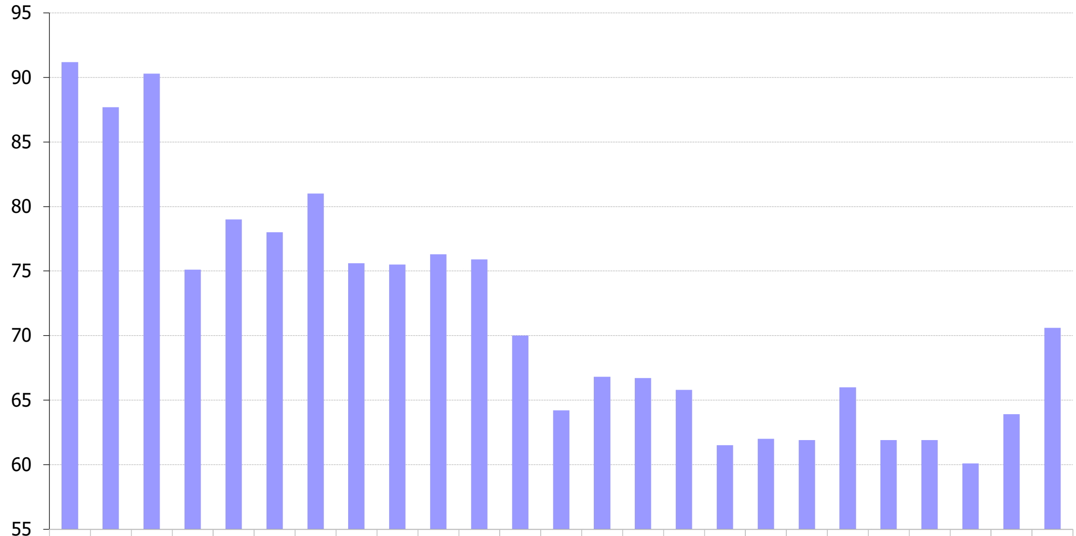
Turnover Index in Postal and Courier Services **(branch 53)**



Source: ELSTAT

Figure 3.7

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

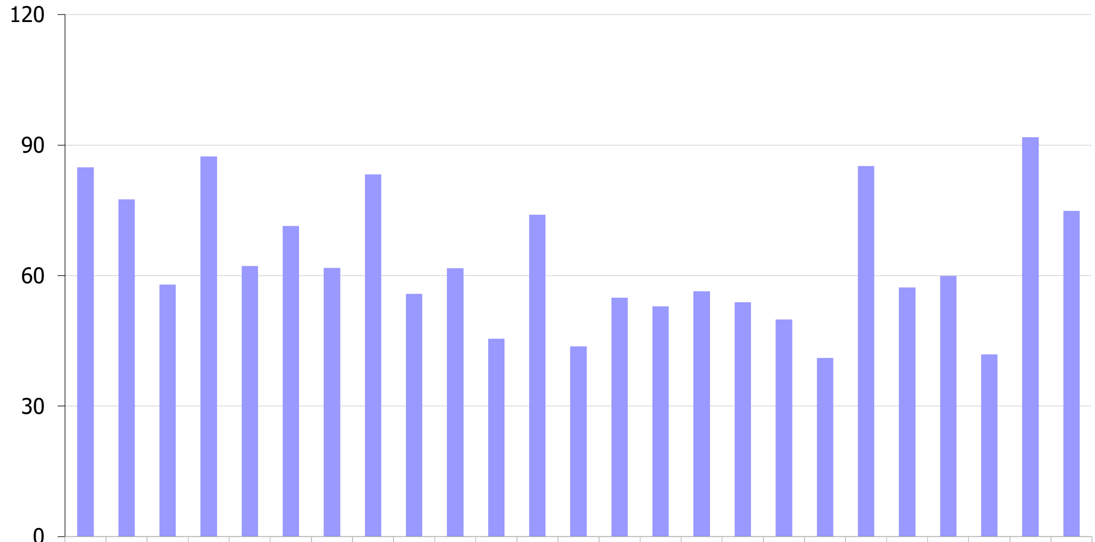


	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	2010				2011				2012				2013				2014				2015				2016
Index	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62	62	66	62	62	60	64	71

Source: ELSTAT

Figure 3.8

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

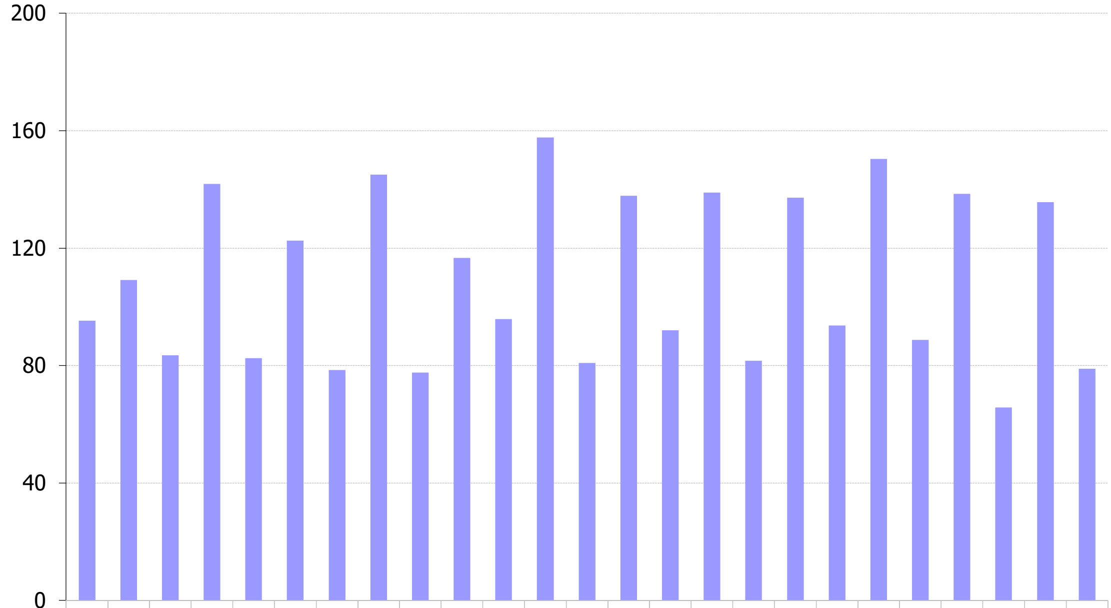


	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	2010				2011				2012				2013				2014				2015				2016
Index	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41	85	57	60	42	92	75

Source: ELSTAT

Figure 3.9

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

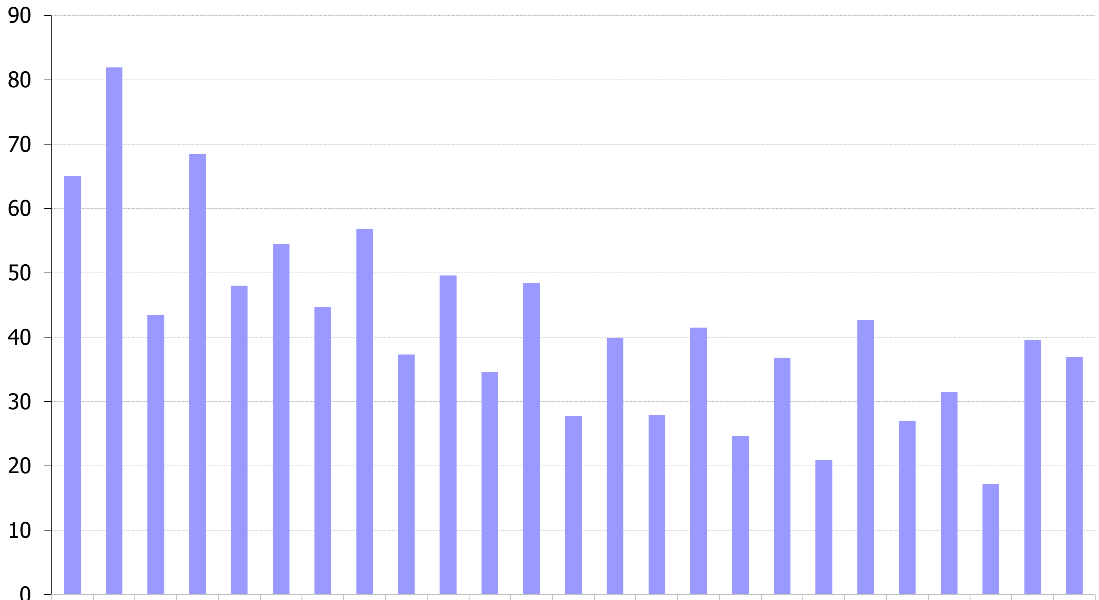


	2010				2011				2012				2013				2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Index	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94	150	89	139	66	136	79

Source: ELSTAT

Figure 3.10

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

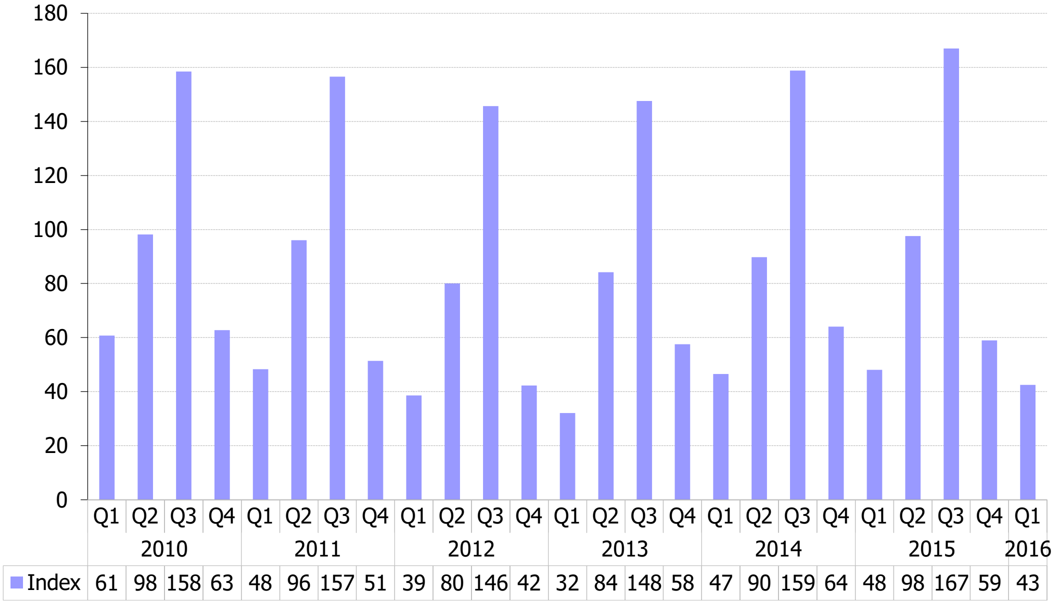


	2010				2011				2012				2013				2014				2015				2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Index	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21	43	27	32	17	40	37

Source: ELSTAT

Figure 3.11

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



Source: ELSTAT

Table 3.7

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

	Jan. - May 2014	Jan. - May 2015	Jan. - May 2016	% change 2015/2014	% change 2016/2015
Hotels – Restaurants – Travel Agencies	94.6	96.2	78.8	1.7%	-18.1%
Other Business Services	63.8	56.5	53.5	-11.4%	-5.3%
Financial Intermediation	84.7	58.1	53.6	-31.4%	-7.7%
Information Services	80.5	62.8	73.9	-22.0%	17.7%
Total Services	**80.7**	**74.5**	**70.8**	**-7.7%**	**-5.0%**

Source: IOBE

3.3 Export performance of the Greek economy

The **exports of goods** reached €7.7 billion in the first four months of 2016, against €8.3 billion in 2015, **recording a contraction of 7.8%.** However if **the exports of petroleum products and ships are not taken into account, the exports of the remaining goods increased by 0.5%,** totalling €6.03 billion in the current year, against €6.00 billion in 2015 (Figure 3.11). Note that the much lower exports of petroleum products came from the sharp drop in the oil prices globally; hence, the reduction in value is not reflected in a reduction in volume terms. Meanwhile, imports decreased by 4.4% in the first four months of 2016, to reach €13.9 billion from €14.6 billion a year earlier. As a result of the above trends in the components of the external balance, the **trade deficit** increased year on year by €15.5 million to reach €6.25 billion, from €6.23 billion in the previous year (0.2%). Consequently, **the value of the exports**

of goods of the Greek economy **corresponded to 55.2% of its imports**, while in 2015 this ratio stood at 57.2%.

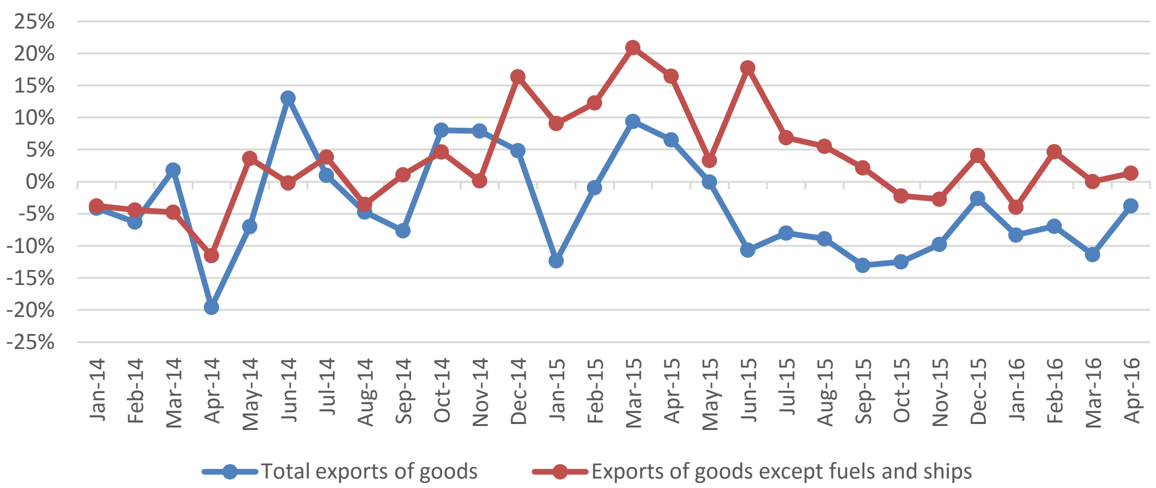
In greater detail, the exports of Agriculture Products increased by 5.5% in the first four months of 2016, to reach €1.8 billion, against €1.7 billion last year, while the exports of Mineral Fuels decreased by 27.4%, to no more than €1.8 billion, from €2.4 billion in 2015 (Table 3.7).

Note that these two product categories represented 46.2% of Greek exports (from 49.4% in the previous year). The increase in Agriculture Products mainly came from growth in the demand for Beverages and Tobacco, the value of which reached €228.2 million (from €203 million a year ago). As a result, their share in total exports increased from 2.4% in 2015 to 3% in the current year. In Food-Live Animals, which represented almost 72.2% of the exports of Agriculture Products, exports increased by 8.9%, from €1.18 billion in 2015 to €1.28 billion in 2016. The demand for Oils and Fats of Animal or Plant Origin, which represented 15% of the exports of Agriculture Products, stood at €267.5 million in the first four months of 2016, lower by 12.6% in relation to 2015 (€305 million).

The exports of Manufactured Good slightly decreased, by 0.6%, in the first four months of 2016, with their value approaching €3.67 billion, from €3.65 billion a year ago. This increase was largely explained by the growth of foreign demand for Miscellaneous Manufactured Articles by 9.4%, with their value totalling €614.3 million (from €561.3 million in 2015).

Figure 3.11

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



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

In contrast, the export performance of Manufactured Goods Classified Chiefly by Raw Material declined by 6.9% (from €1.38 billion in 2015 to €1.28 billion in the current year, while growth of exports was observed in Chemicals and Related Products, by 2.6% (at €893.5 million in 2016, from €871,1 million a year ago) and in Machinery and Transport Equipment, by 4.9% (at €880.2 million in 2016, from €839.3 million a year earlier).

Finally, the exports of Raw Materials decreased by 12.6% (from €348.3 million in the first four months of 2015 to €304.3 million in 2016), while the exports of Commodities and Transactions Not Classified by Category declined by 25.6% (from €221.9 million in 2015, to €165 million in 2016).

Regarding the export trends per geographical area, the exports to the countries of the Euro area expanded by 1%, approaching €3.2 billion in the first four months of 2016, from €3.1 million in the same period of 2015. As a result, more than 41% of the Greek exports were transported to this region in 2016. The exports to the EU increased less, by +0.5% or €22.6 million. Among the Eurozone countries that absorb the largest part of Greek exports, the largest growth was recorded in the Netherlands by 32.3% (from €146.9 million in 2015 to €194.3 million in 2016) and in Germany by 6.9% (from €584.5 million in the previous year to €624.9 million in the current year). Exports also increased towards France, by 3.9% (from €208 million to €216.2 million). In contrast, contraction of exports was observed in Spain, by 2.3%, to €251.2 million (from €257.2 million in 2015) and in Italy, by 8.8%, to €958.4 million (from €1 billion in 2015). Note that the largest percentage contraction of exports in the first quarter of 2016 among the Euro area countries was recorded in Latvia, where exports declined by 28.5% or €1.5 million (from €5.4 million a year earlier to €3.9 million in the current year), while the highest percentage increase was observed in Luxemburg (+47.1%).

Among the remaining EU countries, where total exports declined by 0.7% or by €9.4 million (from €1.31 billion in first four months of 2015 to €1.30 billion in the same period of 2016), Bulgaria remained the main destination for Greek products, despite the year-on-year decline by 7.1% or €28.5 million. In contrast, the export performance strengthened in two other countries that absorb a large share of exports in this category of countries, Romania and Poland, where exports grew by 10.2% or €24 million (to €258.5 million) and by 24.5% or €27.3 million (to €138.4 million) respectively. The biggest contraction of 22.1% was recorded in the exports to Croatia, where the Greek exports decreased by €24.2 million (from €46.2 million in 2015 to €22 million in the current year).

Regarding the remaining countries in Europe, Greek exports declined by 20.7% (from €1.4 billion in 2015 to €1.1 billion in 2016). The exports to Turkey, one of the major export destinations of Greek products, fell abruptly by 38.4% (€254.1 million), that is to say from €662 million in the first four months of last year to €407.9 million in 2016.

In the countries of North America, exports decreased by 13.3% (from €473.7 million in 2015 to €410.8 million n 2016), mainly due to a rise in the exports towards the US markets by 16.9%, from €292.6 million in the first four months of 2015, to €240 million in the current year, and secondarily, from the decline of exports to Canada and Mexico by 6.3% and 0.5% respectively.

The exports to the countries of the Middle East and North Africa declined by 12.1% (from €1.18 billion in 2015 to €1.04 billion in the current year), mainly due to the contraction of exports to Tunisia (-76.7%), where exports totalled €17.5 million in the current year against €74.9 million in 2015. The growth in export activity was moderated by a decrease of exports towards some countries of North Africa, such as Egypt (-27.9%, from €364.5 million to €262.7 million) and Algeria (-4.7%, from €62.5 million to €59.6 million). The exports to two other significant destinations in the Middle East - Saudi Arabia and the United Arab Emirates - decreased by 35.3% (to €140.4 million) and increased by 14.3% (to €64.2 million) respectively.

Table 3.8

Exports per category in current prices (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2016*	2015*	2016*/2015*	2016*	2015*
AGRICULTURAL PRODUCTS	1,781.1	1,688.7	5.5%	23.1%	20.2%
Food and Live Animals	1,285.4	1,180.7	8.9%	16.7%	14.1%
Drinks and Tobacco	228.2	203.0	12.4%	3.0%	2.4%
Oils and Fats of animal or plant origin	267.5	305.0	-12.3%	3.5%	3.7%
RAW MATERIALS	304.3	348.3	-12.6%	4.0%	4.2%
Non-edible Raw Materials excluding Fuels	304.3	348.3	-12.6%	4.0%	4.2%
FUELS	1,770.6	2,437.4	-27.4%	23.0%	29.2%
Minerals, Fuels, Lubricants etc.	1,770.6	2,437.4	-27.4%	23.0%	29.2%
INDUSTRIAL PRODUCTS	3,672.8	3,652.0	0.6%	47.7%	43.7%
Chemicals and Related Products	893.5	871.1	2.6%	11.6%	10.4%
Industrial Products Sorted by Raw Material	1,284.8	1,380.4	-6.9%	16.7%	16.5%
Transport Equipment	880.2	839.3	4.9%	11.4%	10.1%
Various Manufactured Goods	614.3	561.3	9.4%	8.0%	6.7%
OTHER	165.0	221.9	-25.6%	2.1%	2.7%
Goods and Transactions not sorted by Category	165.0	221.9	-25.6%	2.1%	2.7%
TOTAL EXPORTS	7,693.8	8,348.3	-7.8%	100.0%	100.0%

* Provisional data
Sources: ELSTAT, PSE-KEEM

The flow of Greek exports to Oceania weakened, with their value reaching €43.4 million in the first four months of 2016, from €43.7 million a year earlier. The exports to Australia decreased by 1.5% (from €40.1 million to €39.4 million in 2016), while in contrast in New Zealand exports increased by 6.1% (€3.7 million in 2015, €3.9 million in 2016).

A significant growth of exports, by 32.8%, was recorded in the first four months of 2016 in the markets of the Central and Latin American countries, with their value growing to €67.1 million, from €50.5 million in the same period of 2015. The growth of exports to these countries came mainly from stronger demand for Greek products in Brazil, by 75.8%, where their value reached €17.8 million in 2016, from €10.1 million in 2015.

In contrast, the demand for Greek products in Asia weakened, as exports fell by 24.4%, to €319.2 million in the first four months of 2016, from €422.1 million in the same period of 2015. This development mostly came from export contraction in South Korea (-67.3%, to €30.5 million in the current year, from €93.1 million in 2015) and Taiwan (-89.73%, to €3.2 million from €30 million in the previous year). In contrast, the exports of Greek products increased significantly, by 39.6%, in China (from €63 million last year to €87.9 million in the current year).

To sum up, the contraction of exports from 2015 carried over to the current year, at a similar rate. As in the previous year, the contraction came mainly from the decline in the exports of fuel. However, in contrast to the previous year, the exports of other goods are not increasing, as their change by 0.2% in the first four months of 2016 essentially kept them unchanged year on year (+€32 million).

Table 3.9

Exports by destination from January to April 2016 and 2015*

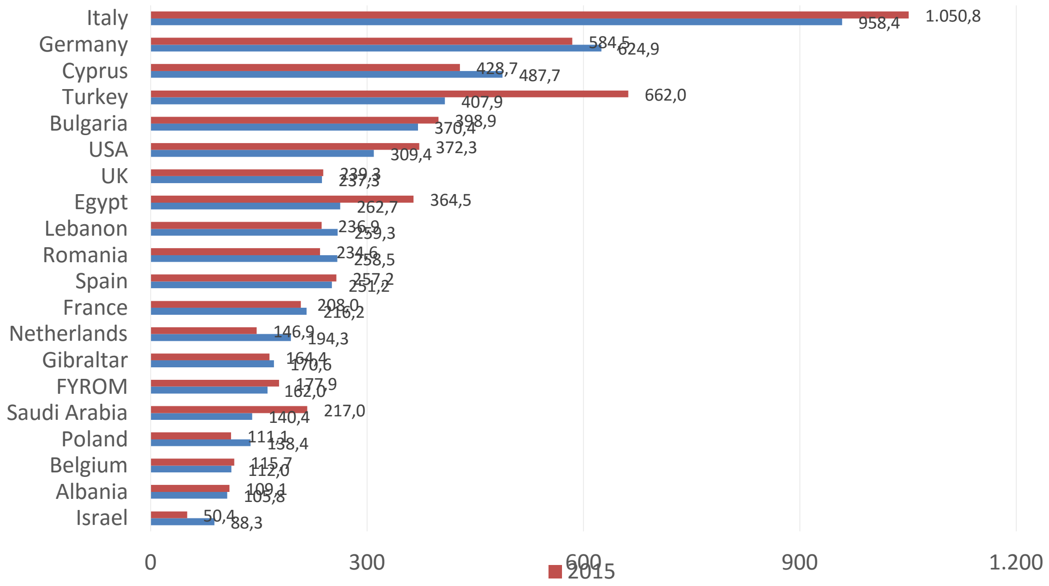
REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2016	2015	2016/2015	2016	2015
World	7,693.8	8,348.3	-7.8%	100.0%	100.0%
OECD	4,441.4	4,698.5	-5.5%	57.7%	56.3%
EU	4,508.6	4,486.0	0.5%	58.6%	53.7%
Euro Area	3,205.3	3,173.4	1.0%	41.7%	38.0%
G7	2,483.2	2,602.3	-4.6%	32.3%	31.2%
North America	410.8	473.7	-13.3%	5.3%	5.7%
BRICS	181.6	173.5	4.7%	2.4%	2.1%
Middle East & North Africa	1,040.5	1,183.4	-12.1%	13.5%	14.2%
Rest of Africa	423.4	564.5	-25.0%	5.5%	6.8%
Oceania	43.4	43.7	-0.9%	0.6%	0.5%
Latin America	67.1	50.5	32.8%	0.9%	0.6%
Rest of Asia	319.2	422.1	-24.4%	4.1%	5.1%
OPEC	390.5	441.2	-11.5%	5.1%	5.3%

* Provisional data for both years

Source: ELSTAT, KEEM

Figure 3.13

Countries with the largest share in the exports of Greek products (in million €), January – April 2016 and 2015



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

The year-to-date trend in exports was largely driven by the new decline in petroleum prices, from October 2015 until February 2016, with the prices remaining notably lower year on year in the subsequent months as well. The capital controls also played a role. The repercussions of the Brexit will also have an effect on the exports of goods in the coming period. The United Kingdom was the seventh largest trade destination for the Greek products and the 14th largest supplier of Greece. The exports of products to the UK increased by 10.1% against 2014, reaching €1.08 billion in 2015. As a result, their share in total exports increased from 3.6% to 4.2%.[13] On the other hand, the exports of products remained essentially unchanged year on year in the first quarter of 2015 (+€1.3 million or +0.5%).

Regarding the effects from the latest developments, the most immediate impact will transpire in a reduction of demand from the United Kingdom, due to the depreciation of the pound against the euro, which will make not only the Greek but all the Euro area products more expensive to the British consumers. This impact will be partly or fully offset, at least in the short term, by the depreciation of the euro against other currencies, such as the US dollar, due to the concerns over the cohesion and the prospects of the European Union and the Euro area, a development which will boost the competitiveness of the prices of the domestically produced goods. In

[13] Source: Panhellenic Exporters Association, Q1 2015 and 2016, year total 2015

addition, the Brexit decision will have an impact only during the second half of the year, which will moderate the impact on exports overall for 2016.

Regarding the other factors that will have an effect on the trend of the exports of goods, the steady rise in the price of petroleum between March and May of the current year and its stability ever since will moderate the decline in the value of fuel exports, provided that the negative trend in oil prices does not reappear as a result of the uncertainty on the world economy that the Brexit decision has brought. The base effect coming from the low level of exports in the second half of the previous year, after the imposition of the capital controls, will also limit the fall of exports. The envisaged payments of VAT arrears of the State to the exporting enterprises, with some of the €3.5 billion disbursed after the recent conclusion of the review of the third Economic Adjustment Programme is a very significant development, which will improve the operation of these enterprises.

Taking into account the above trends, the fall of the exports of goods will ease in the second half of the year, while a small expansion in some of the fourth quarter months of the current year cannot be ruled out. Therefore, the exports of goods are expected to decline by about 3.0%-3.5% overall in 2016.

3.4 Employment-Unemployment

According to the Labour Force Survey of ELSTAT, **unemployment in Greece in the first quarter of 2016 slightly increased quarter on quarter to 24.9%, from 24.4% in the last quarter of 2015. However, year on year it declined by 1.7 percentage points, from 26.6% in the first quarter of 2015.** The number of unemployed declined by 77,400 people year on year (from 1,272,500 to 1,195,100) while the number of employed increased to 3,606,300 in the first quarter of the current year, from 3,504,400 a year ago (increase by 101,900 people or 2.9%).

Unemployment in Greece has remained the highest in the Euro area since the third quarter of 2011, despite its decline since the second quarter of 2014. Spain had the second highest rate of unemployment in the Euro area, at 21% in the first quarter of the current year, from 23.8% a year before, reporting a year-on-year fall of unemployment for the tenth consecutive quarter. In Cyprus, unemployment has been falling since the second quarter of 2015, with the unemployment rate falling year on year by 4.6 percentage points (to 13.2% from 17.8%). In another country that requested support – Portugal – unemployment decreased from 17.8% in the first quarter of 2013 to 12.6% in the same period of the current year, falling by 1.3 percentage points year on year (from 13.9% in 2015). Finally, in Ireland unemployment decreased for the 15th

consecutive quarter, to 8.4% from 10% in the first quarter of 2015.

Over time, the lowest rates of unemployment were observed in Germany, where unemployment has been decreasing since the second quarter of 2010, while in the first quarter of the current year it fell to 4.4% from 5%. Malta, where it declined by 0.8 percentage points (from 5.7% in the first quarter of 2015 to 4.9% in the same period of the current year) followed. Austria came next (from 5.8% to 6.3%), followed by Luxembourg (from 6.5% to 6.4%).

Regarding the remaining major European economics, in France unemployment marginally declined, from 10.8% in the first quarter of last year to 10.6% in the current year, while in the UK it has been falling since the third quarter of 2012, declining anew from 5.5% in the first quarter of 2015 to 5.5% in the same period of the current year.

As mentioned repeatedly, unemployment in Greece **affects women more than men.** In the first quarter of 2016, the unemployment rate among men (21.3%) was lower by 8.4 percentage points than that of women (29.7%), declining year on year by 2.2 percentage points. The unemployment rate among women in the current year also declined, by 0.9 percentage points (from 30.6% in the first quarter of 2015). Compared with the average for the Euro area, the unemployment rate among men in Greece was higher by 10.8 percentage points (against 10.5% in the first quarter of this year and 11.6% in the previous year), while the unemployment rate among women was higher than the EA average by 18.8 percentage points (against 10.9% in the first quarter of 2016 and 11.7% in the same period of 2015).

Regarding the **age structure of unemployment**, unemployment eased in half of the age groups in the first quarter of the current year, increased in two age groups and in one age group it remained unchanged. In particular, unemployment among the youngest part of the labour force declined by 1.4 percentage points (among the 20-24 years old) and 3.8 percentage points (among the 25-29 years old). In the age group of 20-24 years old, unemployment declined from 51% in the first quarter of 2015 to 49.6% in the current year, declining year on year for the ninth consecutive quarter. In the age group of 25-29 years old, unemployment fell from 39.7% to 35.9%, while among the 30-44 years old, it fell by 2.3 percentage points (from 25.7% to 23.4%). In the age group of 45-64 years old, the unemployment rate remained unchanged at 20.4%, after three consecutive quarter of decline, while for those aged 65 and older, the unemployment rate increased by 3 percentage points (from 9.3% to 12.3%).

Regarding **long-term unemployment**, the number of long-term unemployed declined year on year by 70,800 people in the first quarter of 2016 (from 910,600 to 839,800), falling steadily since the fourth quarter of 2014. As a result, the rate of long-term unemployed declined from 71.6% in the first quarter of 2015 to 70.3% in the same period of this year (-1.3 percentage points).

Concerning the **education level**, the unemployment rate decreased year on year in the first quarter of 2016 in all education attainment levels in 2015, except for those that received but did not finish primary education. The largest reduction was recorded among those that never received any education, by 12.4 percentage points (from 56.3% in the first quarter of 2015 to 43.9% in the same period of 2016). The decline in this category came after five quarters of uninterrupted unemployment growth. The reduction of unemployment (for the eight consecutive quarter) among upper secondary education graduates came next at a distance, reaching 2.2 percentage points in the first quarter of 2016 (from 29.3% in the previous year to 27.1% in the current year). In the education category with the highest unemployment rate (graduates of lower secondary education), unemployment declined marginally, by 0.2 percentage points (from 31% in the first quarter of the previous year to 30.8% a year later), while among those with the lowest unemployment rate (holders of postgraduate or doctoral degree), it declined by 1.6 percentage points (from 12.9% to 11.3%). Lastly, among those that received but did not finish primary education, the unemployment rate increased by 4.5 percentage points (from 41.7% to 46.2%), after four consecutive quarters of steady reduction.

Regarding the **regional composition** of unemployment, it eased in seven out of the country's thirteen regions, by 0.9 to 0.3 percentage points, and intensified in the remaining six, by 0.2 to 4.3 percentage points. In particular, in Western Macedonia, which has had among the highest unemployment rates over time, unemployment increased for the fifth consecutive quarter, to 33.3% from 29% in the first quarter of the previous year, while in Western Greece, another region with high unemployment rates over time, unemployment increased from 29% in the first quarter of 2015 to 30% in the first quarter of 2016. In contrast, in the Ionian Islands, which have among the lowest unemployment rate over time, unemployment declined for the fourth quarter in a row, by 9.3 percentage points, from 28.9% in the first quarter of 2015, to 19.6% in the first quarter of 2016. In the South Aegean unemployment decreased by 4.2 percentage points (25.4% last year and 21.2% in the current year). In Attica, which has a large share in the country's population, unemployment decreased for the ninth consecutive quarter, to 23.4% in the first quarter of 2016 from 26.7% in the same period of last year (a decline by 3.3 percentage points). Finally, in Central Greece, a region with significant manufacturing activity, unemployment increased by 1.3 percentage points (27.7% from 26.4%) after eight consecutive quarters of uninterrupted reduction.

In terms of **key economic sectors,** firstly there is a steady reduction of employment in the primary sector since the first quarter of 2015. As a result, the number of employed in this sector totalled 445,300, from 476,300 in the first quarter of 2015 (decline by 6.5% or 31,000 people). In the tertiary sector, which gathers on average 7 out of 10 employees in Greece over time, the number of employed strengthened for the ninth consecutive quarter, by 4.5% or 112,100 employees (from 2,500,300 people in the first quarter of 2015 to 2,612,400 in the current year). Lastly, employment in the secondary sector increased for the fifth consecutive quarter, higher year on year in the first quarter of 2016 by 3.9% or 20,800 people (from 527,800 in the first quarter of the previous year to 548,600 in the current year).

Employment increased year on year in the first quarter of 2016 in almost all **branches of economic activity**, except for Agriculture, Forestry and Fishing (-6.5% or 31,000 fewer employees), Administrative and Support Service Activities (-3.8% or -3,100 people), Other Service Activities (-2.2% or -1,600 people) and Activities of Households as Employers (-12.2% or 5,800 fewer employees). The largest percentage growth of employment was recorded in Mining-Quarrying (+26.7%, from 10,500 to 13,300) and Real Estate Services (+20.8%, from 5,300 to 6,400), where employment increased for the ninth consecutive quarter. Among the major sectors of the Greek economy, such as Manufacturing, employment strengthened year on year for the fifth consecutive quarter (+3.5%, from 327,200 to 338,700), while in Wholesale-Retail Trade it increased for a sixth quarter in a row (+2.1%, from 641,700 to 655,200). In Accommodation and Food Service Activities, employment has been rising steadily since the first quarter of 2015, growing year on year by 9.6% or 26,500 people in the first quarter of the current year (from 276,500 to 303,000 employees). Lastly, employment in Public Administration and Defence increased for the third consecutive quarter (+9.9%, from 296,400 people in the first quarter of 2015 to 325,600 a year later), while in Education it increased for the tenth consecutive quarter (+2.1%, from 298,600 to 304,900 employees in the first quarter of 2016).

In summary, from the available data of employment at branch level, we can conclude that employment increased in the first quarter of the current year, despite the new decline of employment in the Primary Sector (-31,000 people), mainly due to:

- Increase in Public Administration – Defence (+29,200 people or +9.9%), which came first for the first time, mainly due to the implementation of public-benefit employment programmes.

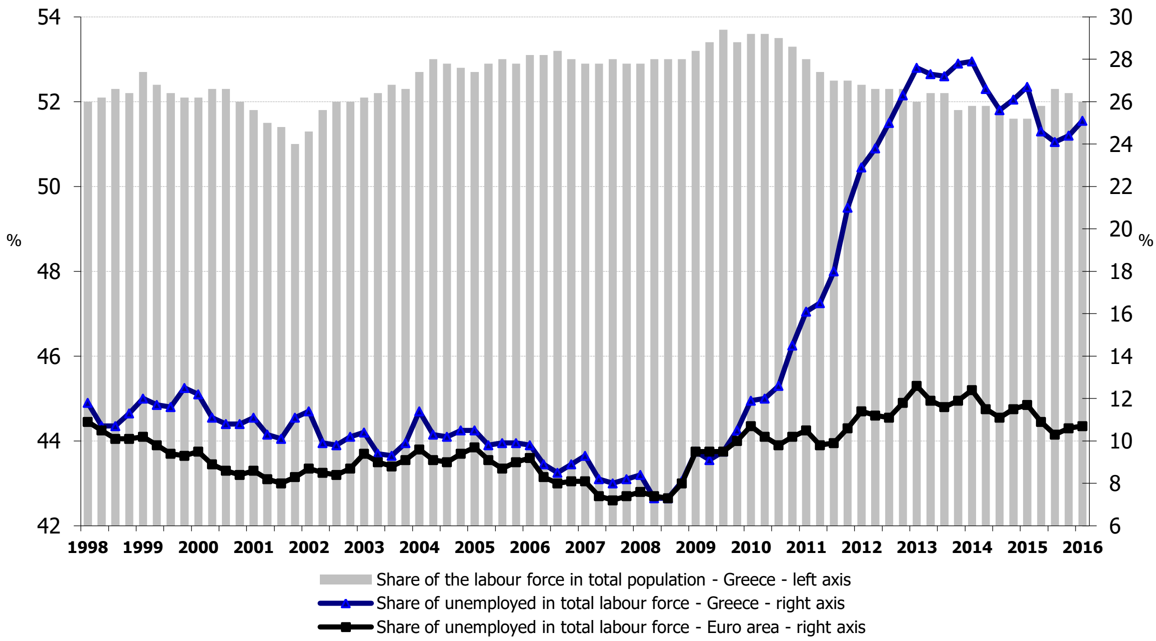
- Growth in Tourism (+26,500 people or +9.6%), as the international arrivals continued to increase in the first quarter of 2016, by 8.5% year on year (from 814,500 to 883,700 people), even though the turnover index in Tourism declined during the same period by 11.6%.

- Employment boost in Wholesale-Retail Trade (+13,500 people or +2.1%), despite the fact that the activity indicators declined year on year during the same period (4.5% fall in the Turnover Index in Wholesale Trade and 3.4% decline in the Volume Index in Retail Trade).

In order to highlight the significance of the employment growth in Public Administration – Defence for the decline in unemployment between the first quarter of 2015 and 2016, if we subtract its impact in both quarters (+29,200 in the current year, -27,400 in 2015), the growth of employment falls from 101,900 to 45,300 people. Furthermore, the unemployment rate becomes 26.1% (from 26.6%) and 25.5% (from 24.9%) respectively. Therefore, without the contribution of the public sector to employment, the unemployment rate would have been higher by 0.6 percentage points in the first quarter of the current year, while its decline would not have exceeded 0.6 percentage points.

Figure 3.14

Labour force participation and unemployment rates



Source: ELSTAT –Labour Force Survey, Eurostat

Table 3.9

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

Quarter/Year	Total	% of Population	Employed	Percentage (%) of the labour force	Unemployed	Percentage (%) of the labour force
1998	8,680.4	52.1	4,017.9	88.8	507.9	11.2
1999	8,764.5	52.3	4,031.4	87.9	554.7	12.1
2000	8,839.8	52.2	4,088.5	88.6	523.5	11.4
2001	9,156.0	51.4	4,202.1	89.2	508.4	10.8
2002	9,188.3	51.8	4,265.0	89.7	492.7	10.4
2003	9,234.9	52.3	4,353.2	90.2	472.7	9.8
2004	9,285.3	52.9	4,389.5	89.4	520.0	10.6
2005	9,332.4	52.9	4,443.6	90.0	493.6	10.0
2006	9,374.1	53.1	4,527.5	91.0	448.2	9.0
2007	9,412.3	52.9	4,564.1	91.6	418.4	8.4
2008	9,435.1	53.0	4,610.5	92.3	387.9	7.8
2009	9,431.1	53.4	4,556.0	90.4	484.7	9.6
2010	9,399.4	53.5	4,389.8	87.3	639.4	12.7
Q1 2011	9,374.4	53.0	4,165.5	83.9	799.6	16.1
Q2 2011	9,373.1	52.7	4,124.2	83.5	815.6	16.5
Q3 2011	9,372.2	52.5	4,040.8	82.1	883.5	17.9
Q4 2011	9,371.7	52.5	3,886.9	79.1	1,028.6	20.9
2011	**9,372.9**	**52.7**	**4,054.4**	**82.2**	**881.8**	**17.9**
Q1 2012	9,364.7	52.4	3,785.0	77.2	1,119.1	22.8
Q2 2012	9,351.2	52.3	3,729.9	76.2	1,163.0	23.8
Q3 2012	9,338.0	52.3	3,668.0	75.1	1,218.4	24.9
Q4 2012	9,325.3	52.3	3,597.0	73.8	1,279.9	26.2
2012	**9,344.8**	**52.3**	**3,695.0**	**75.6**	**1,195.1**	**24.4**
Q1 2013	9,316.5	52.0	3,504.2	72.4	1,336.0	27.6
Q2 2013	9,311.7	52.2	3,535.0	72.7	1,327.9	27.3
Q3 2013	9,307.1	52.2	3,533.7	72.8	1,320.3	27.2
Q4 2013	9,302.7	51.8	3,479.9	72.2	1,337.2	27.8
2013	**9,309.5**	**52.1**	**3,513.2**	**72.5**	**1,330.4**	**27.5**
Q1 2014	9,295.8	51.9	3,483.7	72.2	1,342.3	27.8
Q2 2014	9,286.6	51.9	3,539.1	73.4	1,280.1	26.6
Q3 2014	9,277.5	51.9	3,586.9	74.5	1,229.4	25.5
Q4 2014	9,268.5	51.6	3,535.3	73.9	1,245.9	26.1
2014	**9,282.1**	**51.8**	**3,536.3**	**73.5**	**1,274.4**	**26.5**
Q1 2015	9,259.1	51.6	3,504.4	73.4	1,272.5	26.6
Q2 2015	9,250.7	51.9	3,625.5	75.4	1,180.1	24.6
Q3 2015	9,242.3	52.3	3,671.1	76.0	1,160.5	24.0
Q4 2015	9,234.1	52.2	3,641.7	75.6	1,174.7	24.4
2015	**9,246.6**	**52.0**	**3,610.7**	**75.1**	**1,197.0**	**24.9**
Q1 2016	9,226.3	52.0	3,606.3	75.1	1,195.1	24.9

Source: EL.STAT, Labour Force Survey

Medium-term outlook

As evident from the analysis of the sector trends in employment in the first quarter of the current year, the employment growth which led to decline in unemployment came from Public Administration – Defence, Tourism and Wholesale – Retail Trade. Except for the second of these sectors, which reports indications for growth for a fourth consecutive year, the employment growth in the other two sectors seems either to come from transient factors or that particular trends in the economy will slow down that growth.

In particular, as the growth of employment in the public sector came mainly from the public-benefit employment programmes, the expiry of most of these programmes in the second quarter and the continuation or the start of other such programmes with much fewer beneficiaries, together with the return of the rule "five outlays – one intake" from the start of 2016 will limit notably the positive contribution of Public Administration - Defence to the reduction of unemployment from the first quarter of 2016. The contraction of activity in Retail – Wholesale Trade at the start of the second quarter as well, according to the latest data from ELSAT (-1.5% in April), which will intensify with the new fiscal measures (hike in direct taxation coefficients, reduction of the tax allowance, pension cuts, VAT hikes, etc.) through their impact on the disposable income of the households and demand, will gradually limit the employment growth in this sector, eventually resulting in employment decline. Besides, its growth in the first quarter of 2016 was rather limited, compared with the last quarter of 2015 (+13,500, against +41,000 people). The employment growth momentum in Manufacturing has dwindled, due to the fluctuations in the sector's production since the fourth quarter of the previous year, and if this trend is maintained, this might lead to a decline in the employment in the sector in the last quarter of the current year.

On the other hand, the latest data on arrivals in the major airports of the country for the first five months of the current year, international arrivals continue to grow, by 5.5% year on year (+179,100 more visitors). Regardless if this leads to higher tourism receipts, it consolidates the growth from last year and contributes to the creation of additional jobs for servicing the needs of the tourists. Of course, the developments in the UK caused by the recent referendum will have a negative impact on the demand for tourist services in the second largest market for Greece globally, however most bookings for this year have already been made. Therefore, the consequences from the Brexit will be revealed from the following year.

Employment is also expected to grow in Construction, due to the acceleration of the execution of the Public Investment Programme. Employment in Professional, Scientific and Technical Activities also follows a path of moderate yet steady growth.

Apart from the trends in particular sectors, employment in the current half of the year is expected to be affected by the negotiations on the second review of the current programme with regard to the labour relations. Certain enterprises might postpone their employment decisions until the new regulatory framework is finalised.

Taking into account the particular trends and the expected developments in the labour market, unemployment in 2016 overall is expected to reach a rate that is marginally lower than in 2015, at about 24.7%.

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

The employment expectations strengthened quarter on quarter in the first quarter of the year in all sectors, with the positive change more pronounced in Retail Trade. The expectations improved in all sectors year on year as well, with the strongest improvement recorded in Retail Trade, followed by Construction. Despite the increase, however, the balance of employment expectations remained negative in all sectors, except Retail Trade. In greater detail:

In Industry, the negative balance of employment expectations improved quarter on quarter by 4 points in the second quarter of 2016 to reach -5 points. Year on year, the average quarterly index increased by 1 point. In the examined quarter, the share of industrial enterprises foreseeing growth in employment in the coming period increased to 9% (from 5%), while the percentage of those expecting a fall in the number of jobs remained at 10%. The vast majority of the sector undertakings (80% from 85%) were expecting employment to remain unchanged.

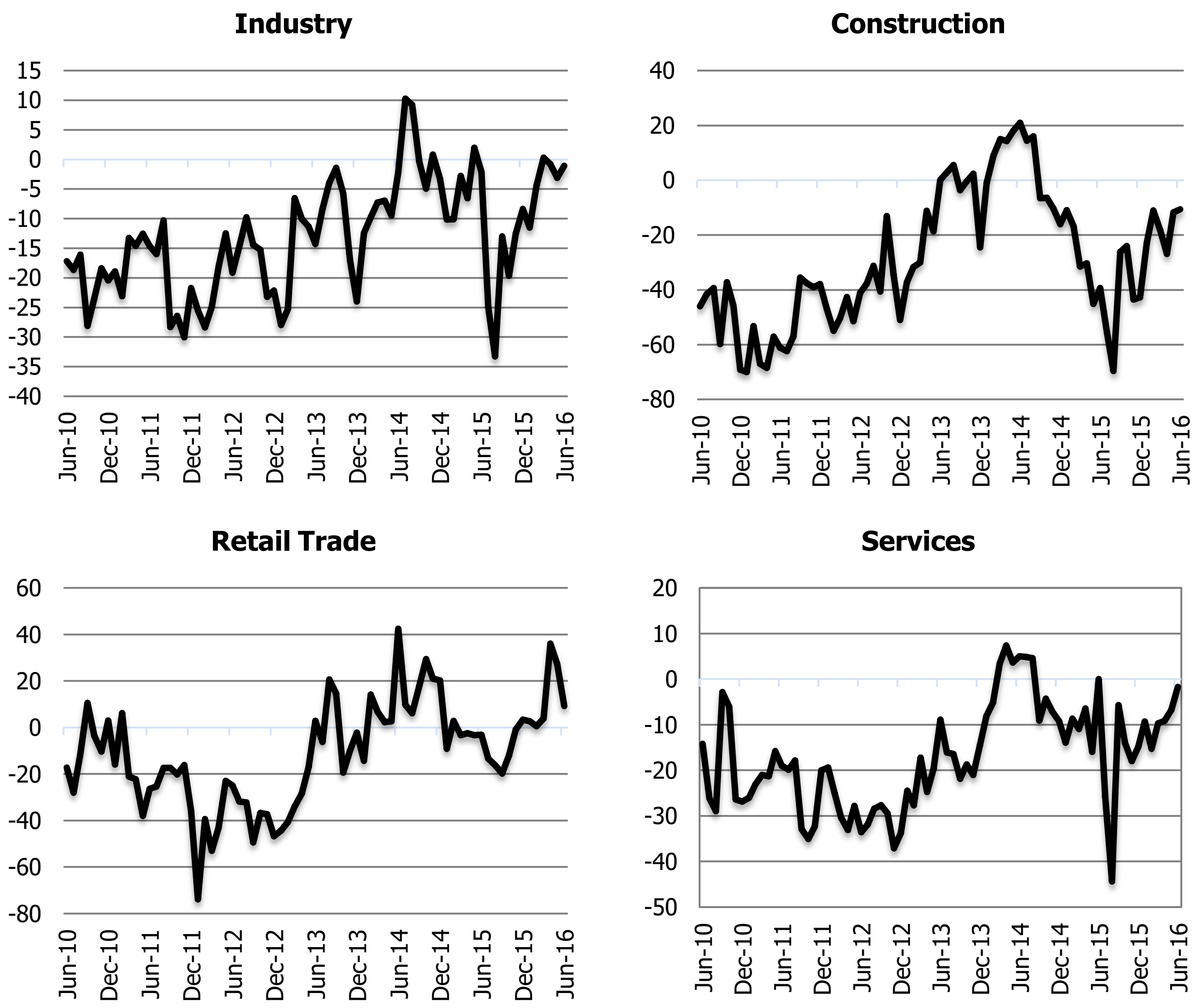
In Construction, the sentiment also recovered in the quarter under review, but only marginally, with the quarterly average of the indicator standing at -16 points. Year on year, however, the indicator improved by 22 points. In the second quarter of 2016, 33% (from 38%) of the undertakings in the sector were anticipating job losses, while the percentage of respondents expecting a rise in employment stood at 17% (from 21%). In terms of individual sectors, the rise in Private Construction (to +10 from +3 points) was largely offset by the decline in Public Works (-28 from -25 points on average).

In Services, the employment expectations in the second quarter of the year gained ground both quarter on quarter and year on year. Thus, the balance of -11 points in the previous quarter eased to -6 points in the second quarter. Among the companies in the sector, 20% (from 24%) were expecting a decrease in employment in the coming period, with the proportion of those predicting an increase remaining at 13%-14%. At subsector level, the expectations improved quarter on quarter in Hotels, Restaurants, Travel Agencies, Land Transport-Pipelines and Information Services.

The employment expectations in Retail Trade increased notably quarter on quarter in the second quarter of the year to +24 points (from +2 points in the first quarter). This outcome is higher year on year as well (from -3 points). About 3% (from 7%) of the undertakings in the sector were expecting job cuts, while 27% (from 9%) were predicting employment growth, with 70% (from 84%) expecting job stability. The balance of employment expectations increased in all constituent branches, with the strongest growth recorded in Vehicles & Parts, Household Appliances and Food–Beverages–Tobacco.

Figure 3.15

Employment expectations (difference of positive – negative responses)



Source: IOBE

3.5 Consumer Prices

Recent Developments

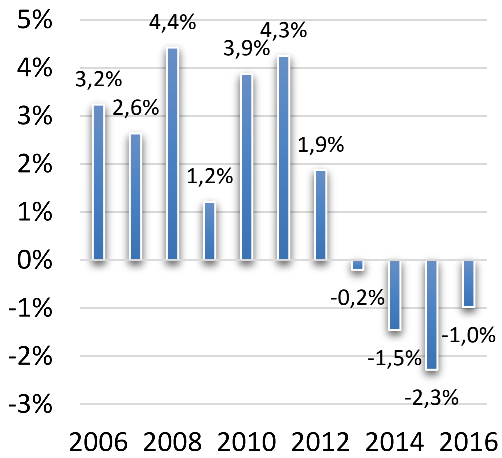
For the third consecutive year, the Greek economy is in a deflation in the first five months of the year. In particular, the Consumer Price Index (CPI) fell on average by 1% year on year. The corresponding change last year stood at -1.5%. Since the last quarterly bulletin was published, the CPI deflation reached 1.1% in April and May, at almost the same rate as in the first quarter of the current year and one percentage point lower year on year.

Therefore, while the deflation carried over from the previous year, it did not strengthen. The VAT increase since last July contributed to this development. On the other hand, the change in CPI remained negative in the first five months of 2016 due to the further decline in the oil price from October until February of the current year. Since then, the petroleum price has grown, returning to the levels observed in the autumn of last year. Nevertheless, its impact has continued to be reflected in price falls in Housing and Transport, as shown below.

With regard to the changes in individual groups of goods and services in the first five months of 2016, the indicators varied as follows: The sub-index for alcoholic beverages and tobacco products continued to grow, yet at a lower rate than in the previous year (+1.3%, compared to +2% in 2015). The same trend was observed in Food - Non-Alcoholic Beverages (+0.3% versus +1% in 2015).

Figure 3.16

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



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

The price reduction in durable goods from last year slowed down (-0.5%, against -2% in 2015). In addition, prices returned to a positive rate of change in Hotels - Cafes - Restaurants (+2.7%, against -1% in 2015) and in Health Services (+2.8%, against -2% last year).

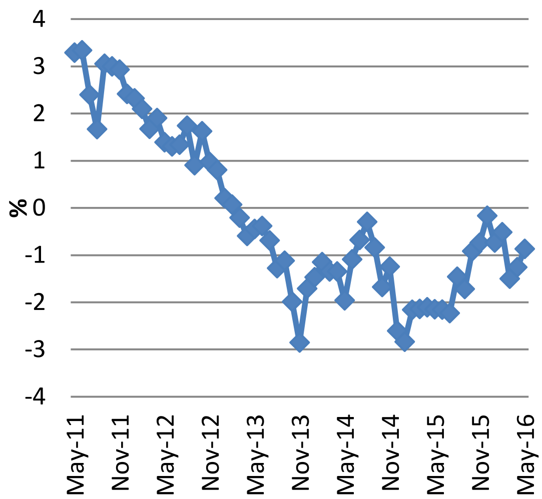
The prices of a number of categories of goods and services continued to decline in 2015. In particular, Housing saw the strongest decline at 4.6% (compared to -7% in 2015, when deflation was once more strongest in this category), followed by Transport, where prices declined by about 3.9% (versus -5.5%) and Clothing – Footwear, where the deflation rate reached 2.6% (from -3% last year). The price decline reached 2.3% in Other Goods (after -3% in 2015) and 1.6% in Recreation – Culture (from -3%), while in Education the deflation rate eased to 1.3% (from -3% in 2015). Finally, prices in

Communications remained unchanged from their 2015 level.

The Harmonized Index of Consumer Prices (HICP) slightly decreased in the first five months of 2016 (-0.03%), against a deflation of 2% in the same period of 2015. In the Euro area, prices remained relatively stable, as in most countries they either increased little or remained unchanged. A small price drop was recorded in the first five months of this year in Italy (-0.1%), Ireland (-0.2%), Luxembourg (-0.3%), Latvia (-0.6%) and Slovakia (-0.5%). Slightly stronger deflation was observed in Spain (-0.9%) and Slovenia (-0.8%). Once more, prices declined most in Cyprus (-1.9%).

Figure 3.17

CPI in Greece (annual percentage change)



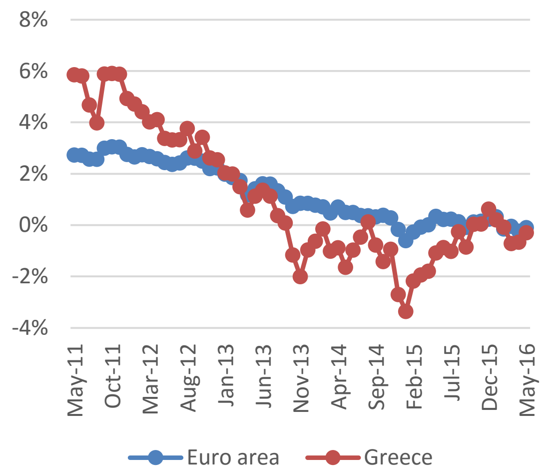
Source: ELSTAT, **Data processing:** IOBE

In France and Germany, the HICP changed negligibly. A small positive change in the HICP was recorded in the Netherlands, Finland (+0.1%) and Estonia (+0.2%). A slightly stronger positive change was reported by Portugal (+0.5%) and Lithuania (+0.6%). Lastly, the highest increases were observed in the HICP of Malta, Austria (+0.9%) and Belgium (+1.5%).

According to the latest available data (April 2016), the Producer Price Index of the domestic and foreign markets as a whole fell by 9.8%.

Figure 3.18

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



Source: Eurostat, data processing IOBE

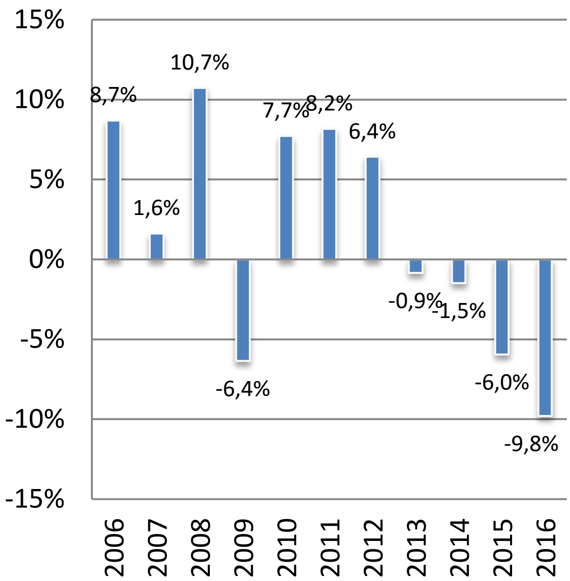
In particular, the highest price decline among the constituent subsectors in the first four months of 2016 was recorded in Coke – Refined Petroleum Products (-33%), reflecting the effects of the new retreat of the oil prices in the international markets. Prices declined equally strong in the energy goods sector (-18.5%). Smaller, but still significant negative changes were recorded in Basic Metals (-7.5%), Electrical Equipment (-6.8%) and Mining-Quarrying-Manufacturing (-8%). Prices remained on a downward path in Extraction of Crude Petroleum and Natural Gas (-4%), Wood Products (-2.3%), Paper (-1.9%), Leather Products (-1.8%) and Chemical Products (-1.7%).

In contrast, significant price growth occurred in Coal - Lignite (+6.5%), Other Manufactured Goods (+2.7%), Textiles (+2%) and Metallic Ores (+1.6%). Limited inflation was observed in Tobacco Products (+0.2%), Publishing Activities (+0.5%), Fabricated Metal Products except Machinery (+0.7%) and Motor Vehicles – Trailers (+0.5%).

The price level remained essentially unchanged in Other Transport Equipment (0.0%), Repair and Installation of Machinery and Equipment (+0.07%) and Water Supply (-0.05%).

Figure 3.19

Annualised change of CPI in Greece (January - April)



Source: ELSTAT, data processing IOBE

Finally, based on the latest available data (April 2016), the Import Price Index declined by 10% during the first four months of the current year, compared with a similar fall in the same period of 2015 (-11%).

Medium-term outlook

As already mentioned, the deflation carried over to the first five months of 2016 mainly due to a further decline in the petroleum prices. However, this trend is no longer in place, as the petroleum price has returned to its level recorded before the latest episode of decline since the end of May. Hence, its restrictive effect on prices is expected to weaken substantially in the coming months, provided that the uncertainty created by the Brexit vote is not going to last long, undercutting global growth and thus the demand of petroleum.

The increase of the standard VAT rate to 24%, the lifting of the VAT discount of 30% in the Aegean islands and the shift of many categories of goods and services from the reduced to the standard rate in the islands from 1 June will contribute to the easing of the deflation and probably a small price increase in the second half of the current year. Price rises as a result of the VAT hike are expected to take place in food services, electrical and electronic appliances, transport, processed foods, automobiles – motorcycles, services, fuel, tobacco products – alcoholic beverages, telecommunications, etc. The new fiscal measures, which will limit household disposable income (pension cuts, lower tax allowance, change in the personal income tax coefficients, etc.) will moderate the inflationary impact on prices from the VAT hike. **Given the negative price trends in the first quarter of this year, the forecast in the previous bulletin for stable prices in 2016 or further marginal deflation is slightly revised down, to deflation for the third consecutive year, of about 0.3%.**

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

The deflationary expectations eased quarter on quarter in the second quarter of 2016, with most indicators still bearing negative signs, maintaining thus the deflationary trend of the past six years. The stronger price expectations came from the June survey result, due to the hike in the VAT coefficients. In particular, the balance of price expectations increased quarter on quarter in the second quarter in Manufacturing, Private Construction, Services and Retail Trade. Note that Retail Trade is the only sector with positive balance of price expectations in the second quarter. Year on year, the price expectations also increased in all sectors, with the strongest growth observed in Retail Trade. In greater detail:

In Manufacturing, the price expectations in the second quarter of the current year increased quarter on quarter, with the index moving from -11 to -3 points, 3 points higher year on year. Among the companies in the sector, 10% (from 17%) on average were expecting a price reduction in the near future, with 83% (from 78%) expecting prices to remain stable and 6%-7% expecting them to increase.

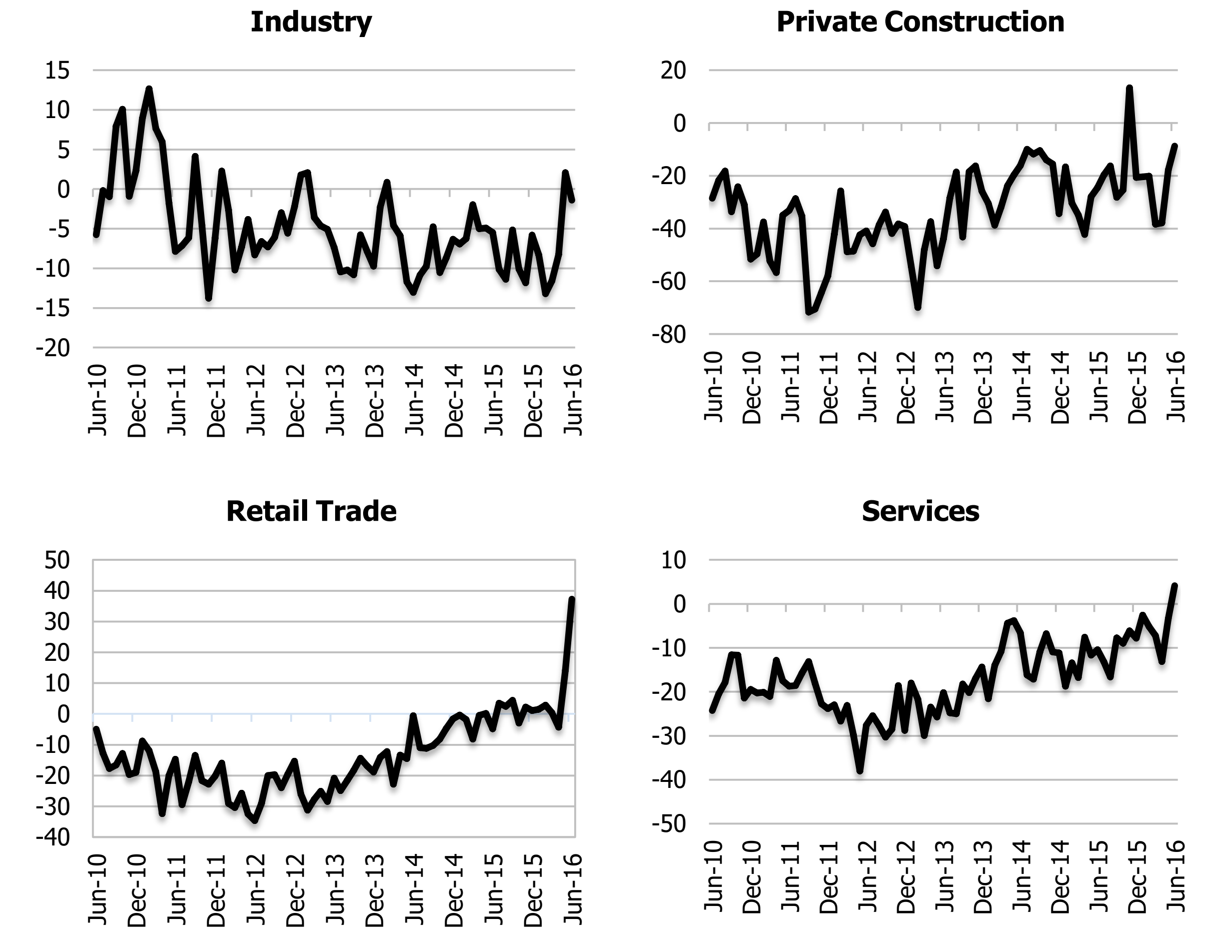
In Retail Trade, the price expectations index of +2 in the previous quarter was succeeded by a balance of +16 points in the examined quarter (from -2 points in the corresponding period of last year). In the current quarter, 6%-7% of the sector companies were expecting prices to fall in the short term, while the share of companies expecting prices to rise increased significantly to 21% (from 9%), with the remaining 73% (from 84%) expecting price stability. The price expectations strengthened quarter on quarter in the second quarter of this year in all constituent subsectors of Retail Trade, with the strongest growth observed in Food-Beverage-Tobacco and Department Stores.

The average index of expected price changes in Services increased marginally quarter on quarter in the examined quarter, reaching -4 points, higher year and year as well (from -10 points). In the current quarter, 12% of the firms were expecting once more a price decrease in the next quarter and 7-8% were predicting prices to increase. Among the constituent subsectors, the index increased in the second quarter of 2016 in Financial Intermediaries and Hotels – Food Services – Travel Agencies.

Lastly, in the Private Construction sector, the negative balance of price expectations of the previous quarter eased in the second quarter of 2016, by 5 units, to -21 points, a level that is slightly higher year on year as well (from -32 points). In the quarter under review, 23% (from 26%) of the businesses in the sector were expecting a decline in prices, while few respondents were expecting prices to rise (at 2% from none in the previous quarter).

Figure 3.20

Price expectations (% difference between positive and negative answers)



Source: IOBE

3.6 Balance of Payments

Current Account

The **Current Account (CA)**[14] **deficit** declined by 27.6% year on year in the first four months of 2016. As a result, the deficit stood at €3.1 billion, from €4.3 billion in the previous year. The decline in the surplus of the Services Account was overcompensated by a significant improvement in the Goods Account, an increase in the primary income surplus and a change in the secondary income account from deficit to surplus.

Regarding the CA components in the first quarter of 2016, the deficit of the **Goods Account** stood at €5.5 billion, lower by 17.2% or €1.1 billion. Exports totalled €7.6 billion, lower by 8.3% (-€682 million)[15], with the decrease coming primarily from the contraction of the exports of fuel by €577

[14] Since January 2013, the balance of goods is based on foreign trade data from ELSTAT, instead of settlements data on bank transactions that were used until December 2012. In addition, since January 2015, the balance of payments for Greece has been compiled using the methodology of the International Monetary Fund's sixth edition of the Balance of Payments Manual (BPM6). As a result of this change, the new available time series presently span 20092014. 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

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

billion and ships by €96 million. Imports declined to €13.0 billion (-€1.8 billion), with the drop once more coming from fuel and ships. The deficit of the Goods Account excluding fuel and ships declined by 1.4% to reach €4.6 billion, as the exports of goods remained almost unchanged at €5.9 billion, while imports declined by €75 million to reach €10.5 billion.

The surplus of the **Services Account** fell in the first four months of 2016 by 40.8%, to €1.3 billion from €2.1 billion in 2015, due to a stronger decline in receipts than in payments. Total receipts amounted to €4.3 billion, lower by 35.7% (-€2.4 billion), while payments amounted to €3.0 billion, declining by 33.2% (-€1.5 billion). The receipts from Tourism reached €959 billion, lower by 6.0%, while the revenues from Transport decreased by 45.9% (-€1.9 billion) and from other services by 28.0% (-€399 million). Travel payments declined minimally, remaining close to €600 million, while the payments for transport services declined by 38.8% to €1.4 billion. The payments for other services fell by 36.9% to €995 million.

The **Primary Income Account** had a surplus of €1.1 billion in the first four months of 2016, compared to €446 million in 2015. Receipts declined by 8.9% to €2.6 billion, while payments declined by 38.5% to €1.5 billion. In greater detail, the receipts from employment fell by 40.0% to €39 million, from investments declined by 8.7% to €868 million, while other primary income (subsidies and taxes on production) decreased by 7.8% to €1.7 billion. The payments for compensation of employees decreased by 64.6% to €73 million, the payments for income from investment declined by -36.6% to €1.3 billion, while the payments for other primary income declined by 27.5% to €103 million.

The **Secondary Income Account** recorded a surplus of €40 million, against a deficit of €202 million in the first four months of 2015. Receipts totalled €783 million, against €934 million in 2015, as payments fell to €743 million, from €1.1 billion in 2015.

Capital Account

The **Capital Account**[16] balance stood at €675 million, against €462 million in 2015, with a significant decline of receipts by €766 million, while payments increased by €90 million.

Finally, the **Current and Capital Account**, indicative of an economy's position as a lender or a borrower with respect to the rest of the world, stood at a deficit of €2.4 billion, against a deficit of €3.8 billion in 2015.

Financial Account

The balance of the **Financial Account (FA)** reached €1.7 billion in the first four months of 2016, against €3.1 billion in 2015.

Regarding the FA components, the net receivables from **direct investments**

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

abroad made by residents increased by €452 million, while the liabilities to non-residents decreased by €31 million.

In **Portfolio Investment**, the claims of the residents to non-residents increased by €3.0 billion, as according to the Bank of Greece the holdings of residents in foreign bonds and treasury bills increased by €3.4 billion. The liabilities to non-residents increased by €87 million.

In the category of **other investments**, the receivables of residents from non-residents declined by €2.4 billion, as the deposits and repos of Greek residents abroad declined. The liabilities increased by €3.5 billion, with an increase of the deposits and repos of non-residents in Greece.

Lastly, the **Reserve Assets** of the country totalled €6.8 billion by the end of April 2016, from €5.9 billion in 2015.

Assessment

The deficit of the Current Account could become a significant destabilising factor in an economy, particularly if the deficit is sustained over a number of years. Of course, there are cases when the deficit is necessary, e.g. in the aftermath of a major natural disaster when humanitarian help flows into a country. Apart from the duration of the deficit, however, the mode of its financing is also an important factor. By definition, the Balance of Payments is always balanced, as a deficit in the Current Account is covered by a surplus in the Financial Accounts, i.e. by inflows of capital. However, the channels of financing and capital flows have an important role for the robustness of the Balance of Payment and the economy overall. For example, the financing of the deficit through direct investment is considered the most suitable route,[17] as apart from capital the direct investment brings know-how and innovation and creates jobs. In contrast, the financing through portfolio and other investment has a short-term horizon, while the use of reserve assets can become a significant destabilising factor, if it takes large proportions. In addition, the Capital Account constitutes an alternative source of finance, incorporating funds from the EU institutions.

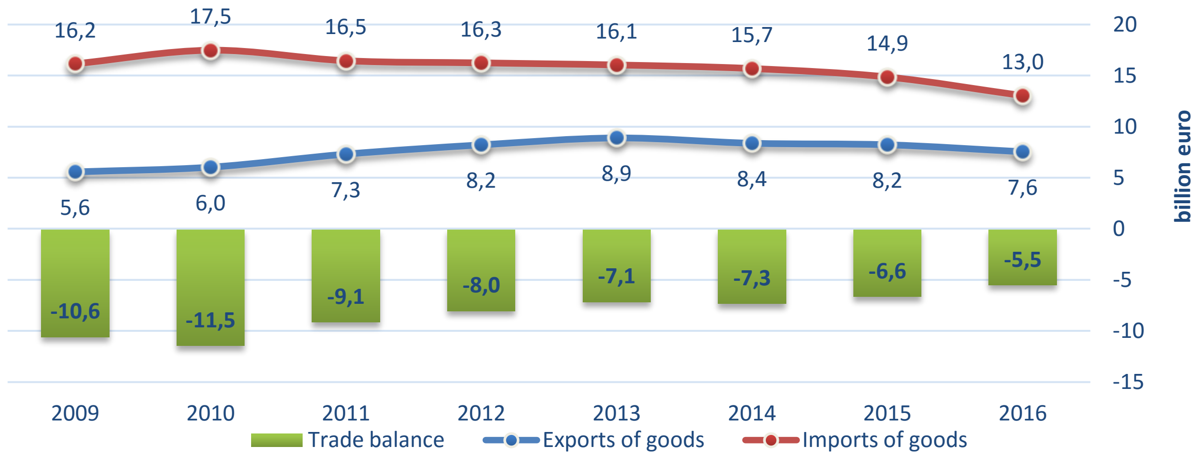
According to data from the Bank of Greece for the period from 2000 to 2008, the cumulative deficit of the Current Account reached €159.3 billion. The key source of finance over that period was portfolio investment, with an inflow of €104.7 billion, i.e. 65% of the total deficit. The investment of this kind is not considered the most suitable for this purpose, as due to its short-term nature and the ability of immediate withdrawal of funds from the Greek financial system it is not a viable mode of financing. The Capital Account took second place in the ranking of funding sources of the Current Account deficit, with 14.7% or €23.4 billion, as a result of the inflow of funds from the EU institutions, while a small share (10%) was covered with reserve assets, followed by other investment with 8.7% of the total. Direct investment came next, with 0.5% or only €0.3 billion in total over the period from 2000 to 2008, which is

[17] Current Account in Greece: Causes of imbalances and policy proposals. Chapter 5: The financing of the Current Account: Composition, trends and policy measures.

indicative of the low attractiveness of the Greek economy to foreign investors. The reasons for this are many, enforcing each other, such as bureaucracy, lack of land planning, continuous tinkering of the tax system, and rigidities in the regulatory framework of sectors, activities and markets, such as the labour market. The short-term nature of portfolio investment was reflected in what happened over the following years (2009-2015), when it posted a capital flight of €140 billion in total. This flow was offset with the supply of funds by our partners with the support programme and with an increase of other investment, by €202 billion from 2009 to 2015, with most transactions taking place in 2012 with the PSI programme. Compared with the period from 2000 to 2008, the inflow of foreign investment increased by €2.4 billion since 2009, while the largest share (18.3%) of the deficit was covered with community funds.

Figure 3.21

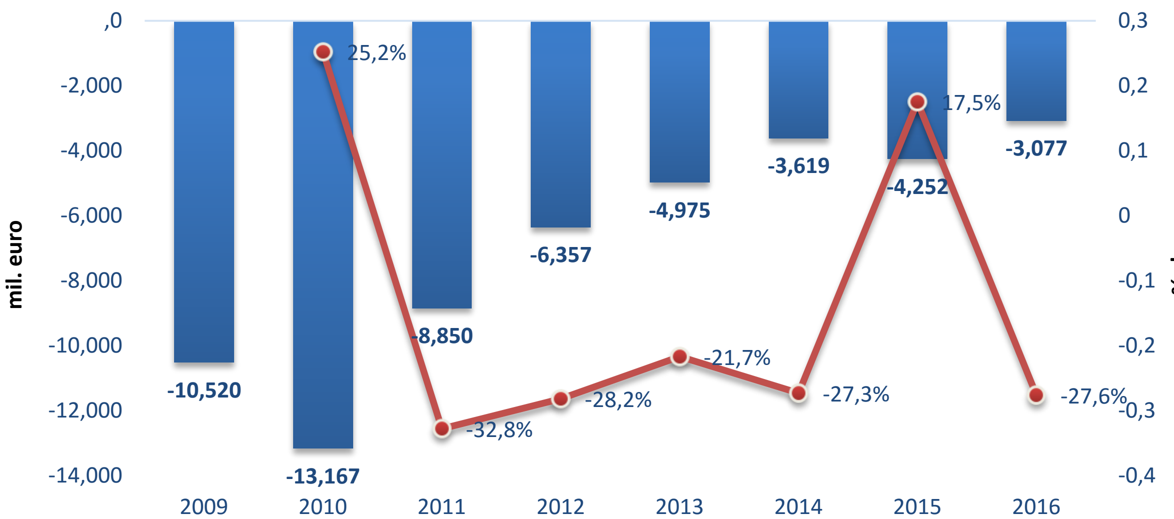
Imports-Exports (January-April, 2009-2016)



Source: Bank of Greece – Data processing IOBE

Figure 3.22

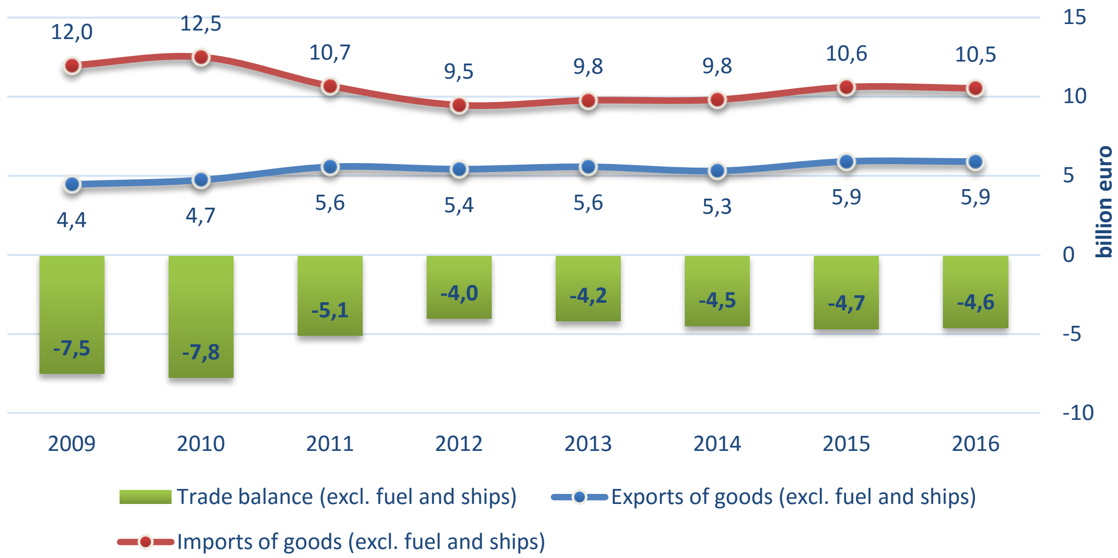
Current Account (January-April, 2009-2016)



Source: Bank of Greece - Data Processing: IOBE

Figure 3.23

Imports – Exports without fuels and ships (January-April, 2009-2016)



Source: Bank of Greece - Data Processing: IOBE

Table 3.11

Financing of the deficit of the Current Account 2000-2015

in billion €	2000-2008	2009-2015*
Current Account	-159,3	-90,8
Capital Account	23,4	16,6
Direct Investment	0,5	2,4
Portfolio Investment	104,7	-139,8
Other Investment	13,9	202,3
Change in Reserve Assets	16,5	-1,7

Source: Bank of Greece - Data Processing: IOBE

* The methodology of compiling the Balance of Payments has changed since 2009 (Balance of Payment Methodology No.6, IMF).

Table 3.12 Balance of Payments in € million

		January – April			April		
		2014	**2015**	**2016**	**2014**	**2015**	**2016**
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-3,612.1**	**-4,252.5**	**-3,076.7**	**-1,627.4**	**-1,038.2**	**-822.0**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-4,946.7**	**-4,496.5**	**-4,226.0**	**-1,377.0**	**-806.8**	**-838.4**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-7,312.1**	**-6,639.1**	**-5,493.7**	**-2,117.9**	**-1,652.2**	**-1,376.5**
	Oil balance	-1,801.0	-1,737.3	-727.2	-431.2	-532.1	-168.7
	Trade balance excluding oil	-5,511.1	-4,901.8	-4,766.5	-1,686.7	-1,120.1	-1,207.8
	Ships balance	-1,007.2	-203.1	-133.7	-494.8	-9.8	-46.9
	Trade balance excluding ships	-6,304.9	-6,436.0	-5,360.0	-1,623.0	-1,642.4	-1,329.6
	Trade balance excluding oil and ships	-4,503.9	-4,698.7	-4,632.8	-1,191.9	-1,110.3	-1,160.9
I.A.1	**Exports**	**8,383.3**	**8,235.0**	**7,553.0**	**2,126.5**	**2,150.0**	**2,011.6**
	Oil	2,873.6	2,220.8	1,643.8	627.4	549.4	466.4
	Ships (sales)	216.8	123.0	26.7	131.2	50.0	5.5
	Goods excluding oil and ships	5,292.9	5,891.1	5,882.5	1,368.0	1,550.7	1,539.7
I.A.2	**Imports**	**15,695.4**	**14,874.1**	**13,046.7**	**4,244.4**	**3,802.2**	**3,388.1**
	Oil	4,674.6	3,958.1	2,371.0	1,058.6	1,081.5	635.1
	Ships (buying)	1,224.0	326.2	160.4	626.0	59.8	52.4
	Goods excluding oil and ships	9,796.8	10,589.8	10,515.3	2,559.8	2,661.0	2,700.7
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**2,365.4**	**2,142.6**	**1,267.7**	**740.8**	**845.4**	**538.2**
I.B.1	**Receipts**	**6,441.4**	**6,617.2**	**4,255.9**	**1,816.0**	**1,924.1**	**1,270.0**
	Travel	881.5	992.7	958.7	410.0	476.8	443.3
	Transportation	4,135.6	4,201.0	2,273.1	1,023.8	1,098.6	564.6
	Other services	1,424.4	1,423.5	1,024.1	382.2	348.8	262.1
I.B.2	**Payments**	**4,076.0**	**4,474.5**	**2,988.2**	**1,075.2**	**1,078.8**	**731.9**
	Travel	603.0	602.6	588.6	187.9	166.1	163.7
	Transportation	2,029.8	2,294.0	1,404.7	490.9	585.8	360.9
	Other services	1,443.3	1,577.9	994.9	396.4	326.8	207.3
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**1,315.6**	**446.0**	**1,109.2**	**-100.6**	**-111.4**	**64.6**
I.C.1	**Receipts**	**3,359.4**	**2,815.6**	**2,565.7**	**331.0**	**298.6**	**277.0**
	From work(wages, compensation)	64.7	64.9	39.5	16.3	18.8	12.7
	From investments (interest, dividends, profit)	1,095.1	950.7	867.5	267.1	227.0	211.0
	Other primary income	2,199.6	1,800.0	1,658.7	47.6	52.9	53.3
I.C.2	**Payments**	**2,043.8**	**2,369.6**	**1,456.5**	**431.6**	**410.0**	**212.4**
	From work(wages, compensation)	140.3	205.7	72.9	36.0	45.8	18.8
	From investments (interest, dividends, profit)	1,746.2	2,022.1	1,281.0	360.7	338.6	178.1
	Other primary income	157.3	141.9	102.6	34.9	25.7	15.5
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**19.0**	**-202.0**	**40.0**	**-149.8**	**-120.0**	**-48.2**
I.D.1	**Receipts**	**1,132.1**	**933.6**	**782.8**	**105.2**	**100.9**	**79.3**
	General government	733.2	600.0	552.9	15.9	17.6	17.8
	Other sectors	398.9	333.6	229.9	89.4	83.2	61.5
I.D.2	**Payments**	**1,113.1**	**1,135.6**	**742.8**	**255.0**	**220.9**	**127.5**
	General government	891.3	804.2	581.2	197.7	145.4	87.6
	Other sectors	221.8	331.4	161.6	57.3	75.5	40.0
II	**CAPITAL ACCOUNT (II.1-II.2)**	**1,447.0**	**461.5**	**675.5**	**-14.2**	**-18.8**	**-13.4**
II.1	**Receipts**	**1,542.6**	**588.3**	**765.7**	**6.1**	**5.4**	**4.4**
	General government	1,520.6	569.0	751.8	0.5	0.6	0.4
	Other sectors	22.0	19.4	13.9	5.6	4.9	4.0
II.2	**Payments**	**95.5**	**126.8**	**90.2**	**20.3**	**24.3**	**17.8**
	General government	5.5	2.7	0.6	0.4	0.6	0.1
	Other sectors	90.1	124.1	89.6	19.8	23.6	17.7
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	**-2,165.1**	**-3,790.9**	**-2,401.3**	**-1,641.6**	**-1,057.1**	**-835.4**
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**-886.4**	**-3,108.3**	**-1,673.5**	**-1,817.2**	**-886.8**	**-577.9**
III.A	**DIRECT INVESTMENT***	**26.5**	**267.7**	**501.3**	**93.3**	**48.8**	**26.4**
	Assets	193.2	92.0	470.3	18.3	31.2	25.0
	Liabilities	166.7	-175.7	-31.1	-75.0	-17.6	-1.4
III.B	**PORTFOLIO INVESTMENT****	**-5,434.5**	**-3,177.5**	**2,924.4**	**-5,321.6**	**209.8**	**541.0**
	Assets	691.3	-6,008.3	3,011.6	683.4	-138.2	537.1
	Liabilities	6,125.8	-2,830.9	87.1	6,005.0	-348.0	-3.9
III.C	**OTHER INVESTMENT***	**3,703.6**	**-554.5**	**-5,904.3**	**3,632.1**	**-1,126.4**	**-1,176.3**
	Assets	-3,189.5	16,295.6	-2,412.9	-243.5	2,509.0	-451.6
	Liabilities	-6,893.1	16,850.2	3,491.3	-3,875.6	3,635.4	724.8
	(Loans of general government)	4,553.9	-3,661.3	-2,195.0	6,279.6	-482.7	-462.6
III.D	**CHANGE IN RESERVE ASSETS*****	**818.0**	**356.0**	**805.0**	**-221.0**	**-19.0**	**31.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**1,278.7**	**682.6**	**727.8**	**-175.5**	**170.2**	**257.5**
	RESERVE ASSETS (STOCK)***				**5,215**	**5,877**	**6,783**

Source: Bank of Greece

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

** (+) Increase (-) decrease - According to the new balance of payments methodology training BPM6, the increase in foreign reserves is now presented with a positive sign, while the reduction of foreign exchange reserves with a negative sign.

*** Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" with the IMF, "Special Drawing Rights" and the claims of the Bank of Greece in foreign currency from residents of countries outside the euro area. Conversely, they do not include claims in euro from residents of countries outside the euro area, claims in foreign currency and in euros from residents of euro area countries and the participation of the Bank of Greece in the capital and the reserve assets of the ECB

4. The economic impact of the privatisation of the Piraeus Port Authority[18]

4.1 Introduction

The port of Piraeus, as a pillar of the Greek port system, plays a decisive role in the economy of Greece. To the extent that the port's infrastructure is properly developed and utilised, it could become a lever for further growth in relation to shipping, cruise tourism and many other economic activities. In this regard, the sale of a majority stake in the Piraeus Port Authority (PPA) to a strategic investor is a measure of particular significance for the Greek economy.

The scope of the study is to determine the economic impact of the privatisation of PPA over the next decade (2016-2025), under the terms included in the offer of COSCO Group. In particular, the study examines the expected impact on fiscal revenue, investment, administrative cost and PPA activity level upon completion of the privatisation agreement.[19] Furthermore, we highlight the catalytic effects in related activities, such as land transport, tourism and logistics. Finally, by taking also into account the direct and catalytic effects, we quantify the macroeconomic multiplier effects, using models of the Greek economy maintained at IOBE.

4.2 Fiscal revenue from the privatisation of PPA

Based on the assumptions of the analysis, the net fiscal benefit remains positive throughout the examined period (2016-2025). The highest net benefit is estimated for 2016 (€277.5 million) and for 2022 (€106.3 million), when according to the proposed schedule, the shares of PPA are sold for €280.5 million and €88.0 million respectively (Table 4.1).

Table 4.1

Fiscal benefit per scenario, 2016-2025

€ million	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	PV*
Privatisation	312,5	39,6	47,6	49,1	52,7	56,0	146,4	61,2	63,2	65,2	893,5	808,9
Baseline	35,0	32,7	34,5	35,6	37,4	38,8	40,2	41,5	42,9	44,2	382,9	334,2
Net benefit	**277,5**	**6,9**	**13,1**	**13,5**	**15,2**	**17,3**	**106,3**	**19,7**	**20,3**	**20,9**	510,6	474,7

Note: * Present value of the expected fiscal revenues between 2016 and 2025, discounted at 2.97% rate
Source: PPA, HRADF **Data processing:** IOBE

Even without the inflow from the sale of shares, the net fiscal benefit grows steadily over time, due to increased activity and higher efficiency as a result of the privatisation. In particular, other net fiscal revenues increase from €6.9 million in 2017 to €20.9 million in

[18] The full text of the study is available in Greek in the webpage of IOBE (http://iobe.gr/research_dtl.asp?RID=122).

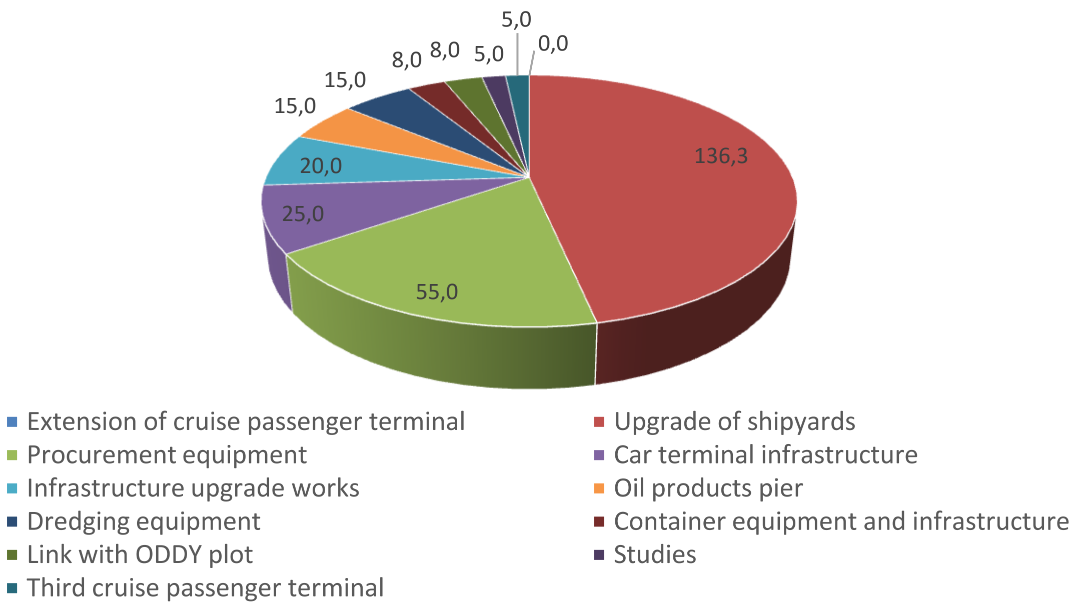
[19] Since fiscal revenues would continue to be collected, irrespectively of the ownership status of PPA, we estimate the (incremental) revenues to the State treasury in terms of net benefit from the privatisation, subtracting the fiscal revenues that would be collected in the hypothetical case of no change in the current shareholder structure of PPA.

2025. The cumulative benefit over the period from 2016 to 2025 is estimated to stand at €511 million or €475 million in present value terms.

4.3 Investment

In addition, the concession agreement between PPA and the Hellenic Republic envisages particular investments that should be implemented over two five-year CAPEX periods. A large part of the investment programme in the first CAPEX period concerns an upgrade of the cruise passenger terminal (about €136.3 million), which is expected to be implemented using both equity capital and funds from the European structural funds (Partnership Agreement 2014-2020). In addition, a significant part of the investment (€50 million) is directed at upgrading the shipyard zone, aiming at the supply of modern maintenance services to the fleet that is going to approach the logistics centre of Piraeus (Figure 4.1).

Figure 4.1:
Contractual investment, first CAPEX period (2016-2020), € million



Source: Concession agreement PPA – Hellenic Republic

4.4 Economic activity of PPA and impact on its ecosystem

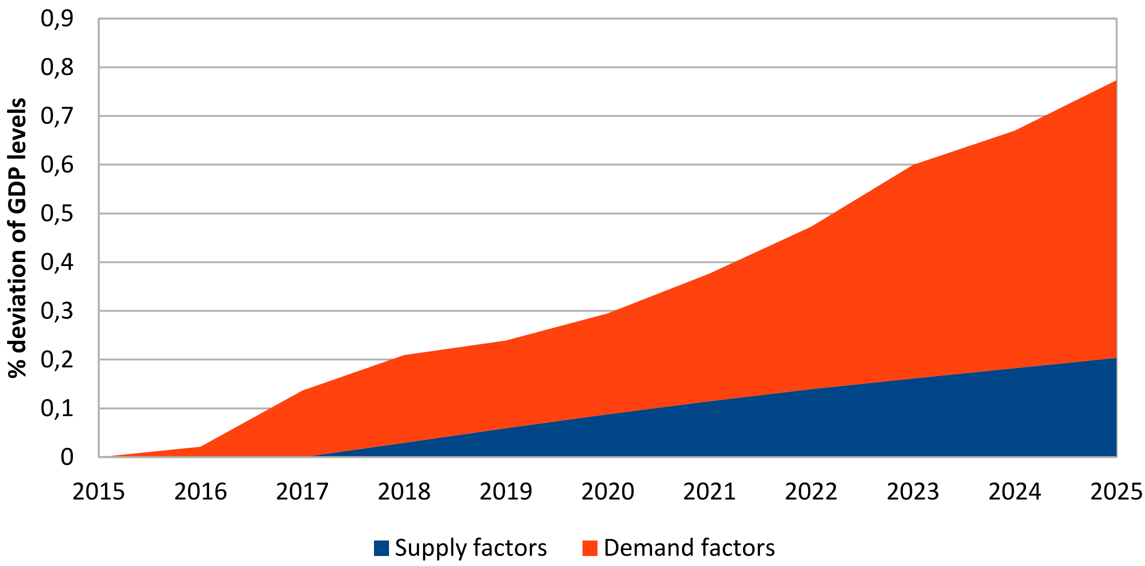
The privatisation of the port and its operation under the conditions of high efficiency is expected to have a positive impact on the port turnover as well (e.g. in the shipyards and the cruise terminal) and in related economy sectors, such as logistics and rail transport. If a set of particular actions is implemented, the incremental annual output in the Greek economy will range from €17 million in 2016 to €2.6 billion in 2025. This estimate does not include the impact on other branches that might benefit indirectly from an upgrade in the freight transport infrastructure (such as manufacturing and tourism).

4.5 Macroeconomic impact

Using suitable econometric models that describe the interaction of the main macroeconomic aggregates, we estimated the positive impact on the Greek GDP and the support of the fiscal stabilisation effort and debt reduction, emanating from the sale of PPA. Overall, by the end of the examined period (2016-2025), when the investment plan would be completed, the level of GDP would be higher by 0.8%, compared with a counterfactual scenario in which the PPA shares are not sold to a strategic investor (Figure 4.2).

Figure 4.2:

Total impact of the demand and supply factors on GDP



Source: IOBE estimates

Note: The depicted result comes from comparing the level of GDP of the Greek economy under two scenarios – with and without the sell of the PPA shares.

The real wages[20] grow steadily over the examined period while the inflationary pressures remain exceptionally weak. The demand factors related to construction works and the operation of the port create more than 31,000 new jobs overall. Moreover, effects of a more permanent nature come from supply factors that express the growth of productivity and potential production capacity, with an impact lasting beyond the completion of the construction works. Furthermore, the investment in the port contributes to a long-term reduction of public debt by 2.3 percentage points of GDP. Taking into account the regional composition of GDP and employment in Greece (about 50% of the Greek GDP is produced in the Attica region), the aforementioned impact will be felt stronger in the regions of Attica and in the area of Piraeus, in particular.

[20] The real wage is estimated dividing the compensation per employee (including the social insurance contributions) with the consumer price index.

It should be stressed that the estimations in the study are limited to the effects that are directly related to this particular agreement, which however is an element of a wider dynamic for the revival of production activity in the country. The attraction of a large investment in a key sector of the Greek economy, such as transport, may signal a significant change of the investment climate and provide the impetus for further growth in the sectors examined in the study, such as transport services and tourism, but also in other sectors of the economy in need of foreign direct investment (such as manufacturing, water supply, energy, waste management and other services). Therefore, the study estimates should be considered relatively conservative, with the impact likely to surpass the estimates in practice, if other factors contribute to the task of improving the conditions and prospects for the Greek economy.

4.6 Conclusions

One of the key problems faced by the Greek economy today is the lack of domestic savings that can prop up an investment programme, strong enough to ensure satisfactory growth rates and to help with the ambitious fiscal targets set by the adopted economic adjustment programme. The current feebleness of the banking system to play its intermediation role in an effective manner hinders the process of turning savings into investment, exacerbating this problem. The inflow of foreign resources is a necessary condition and essentially the only solution to set the country on a path of growth and ultimate exit from the crisis. Therefore, what is required today is a boost of the country's credibility in order to make it a safe investment destination and to attract the required resources.

The sale of the shares of PPA to COSCO and the further development of the port of Piraeus could play a catalytic role in the direction described above, sending a strong signal to the markets that Greece is a safe and advantageous investment destination. The development of the port of Piraeus and the creation of an international hub for logistics, trade, cruise shipping and other forms of tourism, is expected to have multiple positive effects on the domestic economy and society, through direct investment effects, synergies and other vertically integrated business activities.

5. APPENDIX: KEY ECONOMIC INDICATORS

Table 1: GDP growth

	Annual data (%)									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	3.4	3.6	1.5	-3.8	1.9	2.8	0.8	0.3	0.4	0.9
Belgium	2.5	3.4	0.7	-2.3	2.7	1.8	0.2	0.0	1.3	1.4
Bulgaria	6.8	7.7	5.6	-4.2	0.1	1.6	0.2	1.3	1.5	3.0
France	2.4	2.4	0.2	-2.9	2.0	2.1	0.2	0.7	0.2	1.3
Germany	3.7	3.3	1.1	-5.6	4.1	3.7	0.4	0.3	1.6	1.7
Denmark	3.8	0.8	-0.7	-5.1	1.6	1.2	-0.1	-0.2	1.3	1.2
Czech Republic	6.9	5.5	2.7	-4.8	2.3	2.0	-0.9	-0.5	2.0	4.2
EU	3.3	3.1	0.5	-4.4	2.1	1.8	-0.5	0.2	1.4	2.0
Greece	5.7	3.3	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.2
Estonia	10.3	7.7	-5.4	-14.7	2.5	7.6	5.2	1.6	2.9	1.1
Euro area	3.2	3.1	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9	1.7
United Kingdom	2.7	2.6	-0.5	-4.2	1.5	2.0	1.2	2.2	2.9	2.3
Ireland	6.3	5.5	-2.2	-5.6	0.4	2.6	0.2	1.4	5.2	7.8
Spain	4.2	3.8	1.1	-3.6	0.0	-1.0	-2.6	-1.7	1.4	3.2
Italy	2.0	1.5	-1.1	-5.5	1.7	0.6	-2.8	-1.7	-0.3	0.8
Croatia	4.8	5.2	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4	1.6
Cyprus	4.5	4.9	3.7	-2.0	1.4	0.4	-2.4	-5.9	-2.5	1.6
Latvia	11.9	10.0	-3.6	-14.3	-3.8	6.2	4.0	3.0	2.4	2.7
Lithuania	7.4	11.1	2.6	-14.8	1.6	6.0	3.8	3.5	3.0	1.6
Luxemburg	5.1	8.4	-0.8	-5.4	5.7	2.6	-0.8	4.3	4.1	4.8
Malta	1.8	4.0	3.3	-2.5	3.5	1.9	2.8	4.1	3.7	6.4
Netherlands	3.5	3.7	1.7	-3.8	1.4	1.7	-1.1	-0.5	1.0	2.0
Hungary	3.8	0.4	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7	2.9
Poland	6.2	7.2	3.9	2.6	3.7	5.0	1.6	1.3	3.3	3.6
Portugal	1.6	2.5	0.2	-3.0	1.9	-1.8	-4.0	-1.1	0.9	1.5
Romania	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.5	3.0	3.8
Slovakia	8.5	10.8	5.7	-5.5	5.1	2.8	1.5	1.4	2.5	3.6
Slovenia	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.9
Sweden	4.7	3.4	-0.6	-5.2	6.0	2.7	-0.3	1.2	2.3	4.2
Finland	4.1	5.2	0.7	-8.3	3.0	2.6	-1.4	-0.8	-0.7	0.5

Table 2: General Government Debt as %GDP

	Annual data (%)								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	64.8	68.5	79.7	82.4	82.2	81.6	80.8	84.2	86.2
Belgium	86.9	92.4	99.5	99.6	102.2	104.1	105.1	106.7	106
Bulgaria	16.2	13	13.7	15.5	15.3	17.6	18	27	26.7
France	64.4	68.1	79	81.7	85.2	89.6	92.3	95.6	95.8
Germany	63.6	65	72.5	81	78.4	79.7	77.4	74.9	71.2
Denmark	27.3	33.4	40.4	42.9	46.4	45.6	45	45.1	40.2
Czech Republic	27.8	28.7	34.1	38.2	39.9	44.7	45.2	42.7	41.1
EU	57.8	61	73	78.4	81	83.8	85.5	86.8	85.2
Greece	103.1	109.4	126.7	146.2	172	159.4	177	178.6	176.9
Estonia	3.7	4.5	7	6.6	5.9	9.5	9.9	10.4	9.7
Euro area	64.9	68.5	78.3	83.8	86	89.3	91.1	92.1	90.7
United Kingdom	43.5	51.7	65.7	76.6	81.8	85.3	86.2	88.2	89.2
Ireland	23.9	42.4	61.8	86.8	109.3	120.2	120	107.5	93.8
Spain	35.5	39.4	52.7	60.1	69.5	85.4	93.7	99.3	99.2
Italy	99.7	102.3	112.5	115.3	116.4	123.2	128.8	132.3	132.7
Croatia	37.1	38.9	48	57	63.7	69.2	80.8	85.1	86.7
Cyprus	53.9	45.1	53.9	56.3	65.8	79.3	102.5	108.2	108.9
Latvia	8.4	18.7	36.6	47.5	42.8	41.4	39.1	40.6	36.4
Lithuania	15.9	14.6	29	36.2	37.2	39.8	38.8	40.7	42.7
Luxemburg	7.2	14.4	15.5	19.6	19.2	22.1	23.4	23	21.4
Malta	62.4	62.7	67.8	67.6	69.8	67.6	69.6	68.3	63.9
Netherlands	42.4	54.5	56.5	59	61.7	66.4	67.9	68.2	65.1
Hungary	65.6	71.6	78	80.6	80.8	78.3	76.8	76.2	75.3
Poland	44.2	46.6	49.8	53.3	54.4	54	55.9	50.4	51.3
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129	130.2	129
Romania	12.7	13.2	23.2	29.9	34.2	37.4	38	39.9	38.4
Slovakia	29.9	28.2	36	40.8	43.3	51.9	54.6	53.5	52.9
Slovenia	22.7	21.6	34.5	38.2	46.4	53.7	70.8	80.8	83.2
Sweden	38.3	36.8	40.4	37.6	36.9	37.2	39.8	44.9	43.4
Finland	34	32.7	41.7	47.1	48.5	52.9	55.6	59.3	63.1

Table 3: General Government Balance as %GDP

	Annual data (%)								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	-1.3	-1.4	-5.3	-4.4	-2.6	-2.2	-1.3	-2.7	-1.2
Belgium	0.1	-1.1	-5.4	-4.0	-4.1	-4.1	-2.9	-3.1	-2.6
Bulgaria	1.1	1.6	-4.1	-3.2	-2.0	-0.6	-0.8	-5.4	-2.1
France	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.1	-4.0	-3.5
Germany	0.2	-0.2	-3.2	-4.2	-1.0	-0.1	-0.1	0.3	0.7
Denmark	5.0	3.2	-2.8	-2.7	-2.1	-3.6	-1.3	1.5	-2.1
Czech Republic	-0.7	-2.1	-5.5	-4.4	-2.7	-4.0	-1.3	-1.9	-0.4
EU	-0.9	-2.5	-6.7	-6.4	-4.5	-4.3	-3.3	-3.0	-2.4
Greece	-6.7	-10.2	-15.2	-11.2	-10.2	-8.8	-12.4	-3.6	-7.2
Estonia	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.1	0.8	0.4
Euro area	-0.6	-2.2	-6.3	-6.2	-4.2	-3.7	-3.0	-2.6	-2.1
United Kingdom	-3.0	-5.1	-10.8	-9.7	-7.7	-8.3	-5.7	-5.6	-4.4
Ireland	0.3	-7.0	-13.8	-32.3	-12.5	-8.0	-5.7	-3.8	-2.3
Spain	2.0	-4.4	-11.0	-9.4	-9.5	-10.4	-6.9	-5.9	-5.1
Italy	-1.5	-2.7	-5.3	-4.2	-3.5	-3.0	-2.9	-3.0	-2.6
Croatia	-2.4	-2.7	-5.8	-5.9	-7.8	-5.3	-5.4	-5.5	-3.2
Cyprus	3.2	0.9	-5.5	-4.8	-5.7	-5.8	-4.9	-8.9	-1.0
Latvia	-0.7	-4.1	-9.1	-8.5	-3.4	-0.8	-0.9	-1.6	-1.3
Lithuania	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.7	-0.2
Luxemburg	4.2	3.3	-0.5	-0.5	0.5	0.2	0.7	1.7	1.2
Malta	-2.3	-4.2	-3.3	-3.2	-2.6	-3.6	-2.6	-2.0	-1.5
Netherlands	0.2	0.2	-5.4	-5.0	-4.3	-3.9	-2.4	-2.4	-1.8
Hungary	-5.1	-3.6	-4.6	-4.5	-5.5	-2.3	-2.5	-2.3	-2.0
Poland	-1.9	-3.6	-7.3	-7.5	-4.9	-3.7	-4.0	-3.3	-2.6
Portugal	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7	-4.8	-7.2	-4.4
Romania	-2.9	-5.6	-9.1	-6.9	-5.4	-3.2	-2.2	-0.9	-0.7
Slovakia	-1.9	-2.3	-7.9	-7.5	-4.1	-4.2	-2.6	-2.7	-3.0
Slovenia	-0.1	-1.4	-5.9	-5.6	-6.6	-4.1	-15.0	-5.0	-2.9
Sweden	3.3	2.0	-0.7	0.0	-0.1	-0.9	-1.4	-1.6	0.0
Finland	5.1	4.2	-2.5	-2.6	-1.0	-2.1	-2.5	-3.2	-2.7

Table 4: Share of population at risk of poverty*

	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	:
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	:
Germany	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3	20.6	:
Denmark	16.7	16.8	16.3	17.6	18.3	18.9	19	18.3	17.9	17.7
Czech Republic	18	15.8	15.3	14	14.4	15.3	15.4	14.6	14.8	:
EU	:	:	:	:	23.8	24.3	24.7	24.6	24.5	:
Greece	29.3	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	:
Euro area	22.1	21.9	21.7	21.6	22	22.9	23.3	23.1	23.5	:
United Kingdom	23.7	22.6	23.2	22	23.2	22.7	24.1	24.8	24.1	:
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	:
Croatia	:	:	:	:	31.1	32.6	32.6	29.9	29.3	:
Cyprus	25.4	25.2	23.3	23.5	24.6	24.6	27.1	27.8	27.4	:
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	:
Luxemburg	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19	19	:
Malta	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24	23.8	:
Netherlands	16	15.7	14.9	15.1	15.1	15.7	15	15.9	16.5	16.8
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	:
Portugal	25	25	26	24.9	25.3	24.4	25.3	27.5	27.5	26.6
Romania	:	45.9	44.2	43.1	41.4	40.3	41.7	40.4	40.2	:
Slovakia	26.7	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	:
Slovenia	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4	20.4	:
Sweden	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4	16.9	:
Finland	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16	17.3	16.8

(*) For the precise defition of the index, see below:
http://ec.europa.eu/eurostat/statistics-explained/index.php/Thematic_glossaries

Table 5: Inflation

	Annual data (%)			January - May (%)			Change (%)	
	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	2.1	1.5	0.8	1.5	0.8	0.9	-0.8	0.1
Belgium	1.2	0.5	0.6	0.8	0.0	1.5	-0.8	1.5
Bulgaria	0.4	-1.6	-1.1	-1.7	-1.3	-1.7	0.4	-0.4
France	1.0	0.6	0.1	0.9	-0.1	0.0	-0.9	0.1
Germany	1.6	0.8	0.1	1.0	0.1	0.0	-0.8	-0.1
Denmark	0.5	0.4	0.2	0.4	0.1	0.0	-0.3	-0.2
Czech Republic	1.4	0.4	0.3	0.3	0.2	0.4	-0.1	0.1
EU	1.5	0.5	0.0	0.7	-0.1	0.0	-0.9	0.1
Greece	-0.8	-1.4	-1.1	-1.5	-2.0	-0.3	-0.5	1.7
Estonia	3.3	0.5	0.1	1.0	0.0	0.2	-0.9	0.2
Euro area	1.4	0.4	0.0	0.6	-0.1	0.0	-0.8	0.1
United Kingdom	2.6	1.5	0.1	1.7	0.1	0.3	-1.6	0.3
Ireland	0.5	0.3	0.0	0.3	-0.2	-0.2	-0.5	0.0
Spain	1.5	-0.2	-0.6	0.1	-0.9	-0.9	-1.0	0.0
Italy	1.3	0.2	0.1	0.4	-0.1	-0.1	-0.5	-0.1
Croatia	2.3	0.2	-0.3	0.1	-0.2	-0.8	-0.3	-0.5
Cyprus	0.4	-0.3	-1.5	-0.9	-1.3	-1.9	-0.4	-0.6
Latvia	0.0	0.7	0.2	0.6	0.4	-0.6	-0.2	-1.0
Lithuania	1.2	0.2	-0.7	0.3	-0.9	0.6	-1.2	1.5
Luxemburg	1.7	0.7	0.1	1.1	-0.2	-0.3	-1.3	-0.1
Malta	1.0	0.8	1.2	1.0	0.9	0.9	-0.1	0.0
Netherlands	2.6	0.3	0.2	0.4	-0.2	0.1	-0.6	0.3
Hungary	1.7	0.0	0.1	0.2	-0.4	0.3	-0.7	0.7
Poland	0.8	0.1	-0.7	0.5	-1.0	-0.4	-1.5	0.6
Portugal	0.4	-0.2	0.5	-0.2	0.3	0.5	0.4	0.2
Romania	3.2	1.4	-0.4	1.3	0.7	-2.3	-0.6	-3.0
Slovakia	1.5	-0.1	-0.3	-0.1	-0.3	-0.5	-0.2	-0.2
Slovenia	1.9	0.4	-0.8	0.6	-0.6	-0.8	-1.3	-0.1
Sweden	0.4	0.2	0.7	0.1	0.6	1.0	0.5	0.4
Finland	2.2	1.2	-0.2	1.4	0.0	0.1	-1.5	0.1

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

	Annual data (%)								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	123	124	126	126	128	131	131	130	127
Belgium	115	114	116	119	119	121	120	119	117
Bulgaria	41	44	45	45	45	46	46	47	46
France	107	106	108	108	108	107	109	107	106
Germany	116	116	115	119	122	122	122	124	125
Denmark	121	123	122	126	126	126	127	125	124
Czech Republic	84	81	83	81	83	82	83	85	85
EU	100	100	100	100	100	100	100	100	100
Greece	92	94	95	87	77	74	74	73	71
Estonia	68	68	62	63	69	74	75	76	74
Euro area	108	108	108	108	108	107	107	107	106
United Kingdom	118	114	112	108	106	107	108	109	110
Ireland	147	132	129	130	132	132	132	134	145
Spain	103	102	101	97	94	92	91	91	92
Italy	105	105	105	104	103	101	98	96	95
Croatia	61	63	62	59	60	60	59	59	58
Cyprus	100	105	106	103	96	91	84	82	81
Latvia	60	60	53	52	56	60	62	64	64
Lithuania	61	63	56	60	65	70	73	75	74
Luxemburg	260	256	248	254	263	259	265	266	271
Malta	78	81	84	86	84	84	85	84	89
Netherlands	137	139	137	135	134	133	133	131	129
Hungary	61	63	64	65	65	65	67	68	68
Poland	53	54	59	62	64	67	67	68	69
Portugal	79	79	81	81	78	77	77	78	77
Romania	42	48	49	50	51	54	54	55	57
Slovakia	67	72	71	73	73	75	76	77	77
Slovenia	87	89	85	83	83	81	81	83	83
Sweden	127	126	123	126	127	127	125	123	123
Finland	118	120	116	115	117	116	113	110	108

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

	Annual data								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Austria	112.8	112.8	114.8	113.6	113.1	115.2	115.6	115.5	114.8
Belgium	136.1	135	136.2	138.5	136.8	136.3	135.7	135.5	:
Bulgaria	39.3	40.3	41.4	41.8	42.3	43.2	42.6	43.4	43.2
France	129.6	128.7	129.9	128.9	128.5	125.9	128.3	127.7	127.7
Germany	127.2	126.9	124.9	126.2	127.2	125.7	125.3	126.9	126.9
Denmark	121.8	123.9	123.6	130.1	128.6	130.3	127.7	126.9	126.6
Czech Republic	73	70.4	71.6	69.1	70.5	69.6	70.2	71.5	71.7
EU	100	100	100	100	100	100	100	100	100
Greece	77.2	78.6	78.2	75.3	70.8	70.5	71.5	71.6	68.2
Estonia	55	55.5	58.9	60.7	60.6	63.5	63.6	64.7	62.2
Euro area	111.7	111.8	112.2	111.9	112	111.6	112	112.2	111.6
United Kingdom	113.2	111.4	109.2	104.9	102.5	100.8	99.6	99.5	101
Ireland	124.2	116.9	123.2	129.1	134.1	132	127.6	128.9	138.1
Spain	98.8	98.9	102.1	99.6	99.1	100.3	101	101	99.8
Italy	103.4	105.2	105.2	103.8	103.3	103.2	102.4	101.4	100.6
Croatia	:	61.5	58.2	56.4	59.3	61.4	62	60.6	61.5
Cyprus	81.6	85.5	85.8	84.2	81	80.1	78.9	78.5	77.6
Latvia	50.6	47.7	47.7	49.7	51.2	53	52.8	54.4	55.3
Lithuania	54.7	56.2	54.4	58.8	62.6	64	65.6	66.2	63.2
Luxemburg	183.4	176.4	171.9	174.1	179.5	174.3	178.9	180.8	184.9
Malta	72.2	73.1	74.5	76	74.9	74	73.2	72.4	73.9
Netherlands	137.7	138.6	134.7	132.3	131.4	129.3	129.5	129.3	127.4
Hungary	56.5	59.7	61.2	67.4	68	66.6	67.1	65.6	64.4
Poland	49.4	49.2	51.9	56	58	59.1	59	58.9	59.3
Portugal	66.7	66.9	68.5	68.7	68.1	69.8	70.3	70	68.8
Romania	38	43.5	43.3	43.7	44.1	50.2	50.3	51.1	53.1
Slovakia	71.3	74.1	73.4	74.9	73.3	74	76.1	77.3	76.7
Slovenia	83.5	83.2	78.4	77.7	79.5	79.3	78	79.3	79.1
Sweden	122.9	121.8	118.7	118.2	117.7	117.1	114.6	113.5	114.3
Finland	112.9	113.9	111.3	110.1	110.8	108.4	107.3	106.8	105.8

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

	Annual data (%)				Q1			Change (%)	
	2012	**2013**	**2014**	**2015**	**2014**	**2015**	**2016**	**2015/14**	**2016/15**
Austria	74.4	74.6	74.2	74.3	73.2	73.4	73.7	0.2	0.3
Belgium	67.2	67.2	67.3	67.2	67.0	67.4	66.9	0.4	-0.5
Bulgaria	63.0	63.5	65.1	67.1	63.0	65.0	66.5	2.0	1.5
France	69.4	69.5	69.4	69.5	69.0	68.9	69.5	-0.1	0.6
Germany	76.9	77.3	77.7	78.0	77.1	77.6	78.2	0.5	0.6
Denmark	75.4	75.6	75.9	76.5	74.4	75.9	77.1	1.5	1.2
Czech Republic	71.5	72.5	73.5	74.8	72.7	74.0	75.7	1.3	1.7
EU	68.4	68.4	69.2	70.1	68.3	69.1	:	0.8	:
Greece	55.0	52.9	53.3	54.9	52.5	53.1	55.1	0.6	2.0
Estonia	72.2	73.3	74.3	76.5	72.4	74.4	75.1	2.0	0.7
Euro area	68.0	67.7	68.1	68.8	67.4	68.1	:	0.7	:
United Kingdom	74.1	74.8	76.2	76.9	75.6	76.5	77.2	0.9	0.7
Ireland	63.7	65.5	67.0	68.8	66.0	67.7	:	1.7	:
Spain	59.6	58.6	59.9	62.0	58.5	60.5	62.8	2.0	2.3
Italy	60.9	59.7	59.9	60.6	59.3	59.7	60.6	0.4	0.9
Croatia	58.1	57.2	59.2	60.5	57.1	58.5	:	1.4	:
Cyprus	70.2	67.2	67.6	68.0	66.3	67.2	66.7	0.9	-0.5
Latvia	68.1	69.7	70.7	72.5	70.4	71.5	72.8	1.1	1.3
Lithuania	68.5	69.9	71.8	73.4	70.3	72.2	74.2	1.9	2.0
Luxemburg	71.4	71.1	72.1	70.9	71.5	71.1	70.5	-0.4	-0.6
Malta	63.1	64.8	66.4	67.8	65.8	66.3	68.5	0.5	2.2
Netherlands	76.6	75.9	75.4	76.4	74.8	76.0	76.4	1.2	0.4
Hungary	61.6	63.0	66.7	68.9	65.6	67.3	70.0	1.7	2.7
Poland	64.7	64.9	66.5	67.8	65.1	66.7	68.4	1.6	1.7
Portugal	66.3	65.4	67.6	69.1	66.5	67.9	69.3	1.4	1.4
Romania	64.8	64.7	65.7	66.0	64.2	63.7	:	-0.5	:
Slovakia	65.1	65.0	65.9	67.7	65.1	66.8	69.0	1.7	2.2
Slovenia	68.3	67.2	67.7	69.1	66.4	67.5	68.3	1.1	0.8
Sweden	79.4	79.8	80.0	80.5	78.8	79.2	80.0	0.4	0.8
Finland	74.0	73.3	73.1	72.9	72.0	71.8	72.2	-0.2	0.4

(*)% 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 (%)				Q1			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	41.6	43.8	45.1	46.3	43.5	45.1	47.9	1.2	1.2
Belgium	39.5	41.7	42.7	44.0	41.0	42.9	44.0	0.8	1.0
Bulgaria	45.7	47.4	50.0	53.0	47.9	50.2	52.8	2.6	1.8
France	44.5	45.6	46.9	48.7	46.0	48.0	49.2	1.1	1.0
Germany	61.6	63.6	65.6	66.2	64.8	65.3	67.8	0.5	1.8
Denmark	60.8	61.7	63.2	64.7	61.5	64.4	65.4	1.9	1.6
Czech Republic	49.3	51.6	54.0	55.5	52.7	54.5	56.5	2.1	1.8
EU	48.7	50.1	51.8	53.3	50.8	52.2	:	1.1	:
Greece	36.5	35.6	34.0	34.3	34.7	33.0	35.5	-0.9	2.4
Estonia	60.5	62.6	64.0	64.5	59.5	61.8	61.7	2.3	1.0
Euro area	48.6	50.0	51.7	53.3	50.7	52.4	:	1.3	:
United Kingdom	58.1	59.8	61.0	62.2	60.8	61.6	62.9	0.8	0.7
Ireland	49.3	51.3	53.0	55.6	52.4	54.3	:	1.9	:
Spain	43.9	43.2	44.3	46.9	43.3	45.9	48.6	2.2	2.2
Italy	40.3	42.7	46.2	48.3	44.9	47.5	49.2	1.7	1.8
Croatia	37.5	37.8	36.2	39.0	34.8	37.5	:	1.9	:
Cyprus	50.7	49.6	46.9	48.2	45.2	47.0	49.7	1.8	1.2
Latvia	52.8	54.8	56.4	59.4	56.0	58.7	60.2	0.6	1.0
Lithuania	51.7	53.4	56.2	60.4	55.1	58.7	63.2	2.1	3.7
Luxemburg	41.0	40.5	42.5	38.5	40.4	42.1	39.9	-1.2	0.0
Malta	34.7	36.3	37.8	40.4	37.3	37.4	42.0	0.5	3.4
Netherlands	57.6	59.2	59.9	61.7	59.0	61.1	62.7	1.4	1.2
Hungary	36.1	37.9	41.7	45.3	40.2	43.0	47.9	2.5	4.4
Poland	38.7	40.6	42.5	44.3	41.1	42.9	45.0	1.5	1.5
Portugal	46.5	46.9	47.8	49.9	47.6	48.6	50.0	1.3	1.2
Romania	41.6	41.8	43.1	41.1	41.6	38.4	:	-2.9	:
Slovakia	43.1	44.0	44.8	47.0	42.8	45.9	47.5	2.1	2.2
Slovenia	32.9	33.5	35.4	36.6	33.0	35.3	38.2	2.1	1.2
Sweden	73.0	73.6	74.0	74.5	73.5	74.1	74.5	0.6	0.7
Finland	58.2	58.5	59.1	60.0	58.7	59.2	60.5	0.2	0.6

(*)% 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 (%)			Q4 (%)			Change (%)	
	2013	2014	2015	2013	2014	2015	2014/13	2015/14
Austria	0.5	0.9	0.9	0.3	0.5	1.4	0.2	0.9
Belgium	-0.3	0.4	0.2	-0.1	1.1	-0.2	1.2	-1.3
Bulgaria	-0.4	0.4	1.7	-0.7	2.0	2.4	2.7	0.4
France	0.0	0.4	0.0	-0.1	2.4	0.1	2.5	-2.3
Germany	0.6	0.9	0.9	0.9	0.9	1.2	0.0	0.3
Denmark	0.0	0.8	1.4	-0.2	2.6	1.0	2.9	-1.7
Czech Republic	0.3	0.6	1.4	0.8	1.2	1.2	0.4	0.0
EU	-0.7	0.6	1.1	0.1	1.5	1.2	1.4	-0.3
Greece	-3.8	0.7	2.1	-3.3	1.6	3.0	4.8	1.4
Estonia	1.2	0.8	2.6	0.1	2.3	1.4	2.2	-0.9
Euro area	-0.3	1.0	1.0	-0.2	1.3	1.2	1.5	-0.2
United Kingdom	1.2	2.3	1.5	1.3	2.0	1.7	0.7	-0.3
Ireland	2.4	1.7	2.6	3.3	1.5	2.3	-1.8	0.8
Spain	-2.6	1.3	3.0	-1.2	2.5	3.0	3.7	0.5
Italy	-1.8	0.1	0.8	-1.3	0.7	0.8	2.0	0.1
Croatia	-2.6	2.7	1.5	1.0	1.8	2.0	0.7	0.3
Cyprus	-5.2	-1.9	-1.2	-4.9	0.5	-1.2	5.4	-1.7
Latvia	2.3	-1.3	1.3	0.8	-2.0	2.0	-2.8	4.0
Lithuania	1.3	2.0	1.2	2.3	1.8	1.2	-0.5	-0.6
Luxemburg	1.8	2.4	4.8	0.3	4.6	2.2	4.3	-2.4
Malta	4.2	4.5	2.3	4.5	2.0	3.0	-2.6	1.0
Netherlands	-0.9	-0.2	1.0	-1.0	0.2	0.5	1.3	0.3
Hungary	0.9	3.1	2.7	2.7	4.3	2.8	1.6	-1.5
Poland	-0.1	1.7	1.4	0.5	1.9	1.6	1.4	-0.3
Portugal	-2.9	1.4	1.1	0.7	0.5	1.6	-0.2	1.0
Romania	-0.6	0.8	-0.9	-0.7	0.7	-0.8	1.3	-1.5
Slovakia	-0.8	1.4	2.6	0.6	2.7	2.6	2.2	-0.2
Slovenia	-1.4	0.6	0.1	-1.4	0.5	0.0	1.8	-0.5
Sweden	0.9	1.4	1.4	1.4	1.4	1.6	0.0	0.2
Finland	-0.7	-0.8	-0.4	-1.0	-0.2	-0.2	0.8	0.0

Table 11: Unemployment rate – Total population

	Annual data (%)				Q1			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	4.9	5.4	5.6	5.7	6.0	5.9	6.3	-0.2	0.5
Belgium	7.6	8.4	8.5	8.5	8.8	8.8	8.4	0.1	-0.5
Bulgaria	12.3	13.0	11.4	9.2	13.1	10.7	8.7	-2.4	-2.0
France	9.8	10.3	10.3	10.4	10.7	10.9	10.8	0.2	-0.1
Germany	5.4	5.2	5.0	4.6	5.5	5.1	4.6	-0.4	-0.5
Denmark	7.5	7.0	6.6	6.2	7.6	6.8	6.5	-0.8	-0.3
Czech Republic	7.0	7.0	6.1	5.1	6.9	6.0	4.4	-0.8	-1.6
EU	10.5	10.9	10.2	9.4	11.2	10.3	:	-0.8	:
Greece	24.5	27.5	26.5	24.9	28.0	26.9	25.1	-1.2	-1.8
Estonia	10.0	8.6	7.4	6.2	8.7	6.7	6.7	-1.9	-0.1
Euro area	11.4	12.0	11.6	10.9	12.5	11.8	:	-0.7	:
United Kingdom	7.9	7.6	6.1	5.3	6.8	5.6	5.1	-1.2	-0.5
Ireland	14.7	13.1	11.3	9.4	12.3	10.2	:	-2.1	:
Spain	24.8	26.1	24.5	22.1	26.0	23.9	21.1	-2.1	-2.8
Italy	10.7	12.1	12.7	11.9	13.7	13.2	12.3	-0.6	-0.9
Croatia	16.0	17.3	17.3	16.3	18.8	18.3	:	-0.6	:
Cyprus	11.9	15.9	16.1	15.1	17.2	17.9	14.3	0.8	-3.6
Latvia	15.0	11.9	10.8	9.9	12.1	10.4	10.5	-1.7	0.1
Lithuania	13.4	11.8	10.7	9.1	12.6	10.1	8.5	-2.4	-1.6
Luxemburg	5.1	5.9	6.0	6.4	6.6	7.3	5.9	0.8	-1.4
Malta	6.3	6.4	5.8	5.4	6.0	5.8	5.0	-0.3	-0.8
Netherlands	5.8	7.3	7.4	6.9	8.2	7.5	6.9	-0.6	-0.7
Hungary	11.0	10.2	7.7	6.8	8.3	7.8	6.1	-0.5	-1.8
Poland	10.1	10.3	9.0	7.5	10.7	8.7	7.1	-2.0	-1.6
Portugal	15.8	16.4	14.1	12.6	15.7	14.3	12.9	-1.4	-1.3
Romania	6.8	7.1	6.8	6.8	7.5	7.6	:	0.2	:
Slovakia	14.0	14.2	13.2	11.5	14.1	12.5	10.4	-1.7	-2.0
Slovenia	8.9	10.1	9.7	9.1	11.0	9.9	9.0	-1.0	-0.9
Sweden	8.0	8.0	7.9	7.4	8.8	8.5	7.8	-0.3	-0.6
Finland	7.7	8.2	8.7	9.4	9.2	9.9	9.8	0.7	-0.1

Table 12: Unemployment rate among men

	Annual data (%)				Q1			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	5.0	5.4	5.9	6.1	6.2	6.4	6.9	0.2	0.5
Belgium	7.7	8.7	9.0	9.1	9.3	9.5	8.9	0.1	-0.6
Bulgaria	13.5	13.9	12.3	9.8	14.1	11.5	9.5	-2.5	-2.1
France	9.8	10.4	10.5	10.8	11.2	11.4	11.3	0.3	-0.2
Germany	5.6	5.5	5.3	5.0	6.0	5.6	4.9	-0.4	-0.7
Denmark	7.5	6.7	6.4	5.9	7.3	6.8	6.2	-0.5	-0.6
Czech Republic	6.0	5.9	5.1	4.2	5.9	5.3	3.9	-0.6	-1.4
EU	10.4	10.8	10.1	9.3	11.2	10.3	:	-0.9	:
Greece	21.6	24.5	23.7	21.8	25.2	23.7	21.3	-1.5	-2.3
Estonia	10.9	9.1	7.9	6.2	9.5	7.7	7.5	-1.8	-0.2
Euro area	11.2	11.9	11.5	10.7	12.6	11.8	:	-0.8	:
United Kingdom	8.4	8.0	6.4	5.5	7.2	5.8	5.3	-1.3	-0.6
Ireland	17.7	15.0	12.9	10.9	14.2	11.8	:	-2.4	:
Spain	24.6	25.6	23.6	20.8	25.5	22.9	19.6	-2.6	-3.3
Italy	9.8	11.5	11.9	11.3	13.2	12.7	11.8	-0.5	-0.8
Croatia	16.0	17.7	16.5	15.7	17.4	18.4	:	0.8	:
Cyprus	12.6	16.6	17.1	15.2	18.0	18.5	14.1	0.4	-4.2
Latvia	16.2	12.6	11.8	11.1	14.0	11.2	11.3	-2.8	0.1
Lithuania	15.2	13.1	12.2	10.1	14.3	11.2	9.8	-2.9	-1.4
Luxemburg	4.5	5.6	5.8	5.8	8.4	6.4	5.3	-2.0	-1.0
Malta	5.7	6.5	6.1	5.5	6.5	6.0	4.9	-0.5	-1.1
Netherlands	5.5	7.2	7.2	6.5	8.0	7.1	6.4	-0.8	-0.7
Hungary	11.3	10.2	7.6	6.6	8.1	7.8	6.0	-0.4	-1.7
Poland	9.4	9.7	8.5	7.3	10.4	8.6	7.1	-1.8	-1.5
Portugal	15.9	16.3	13.8	12.4	15.8	13.7	13.0	-2.0	-0.7
Romania	7.4	7.7	7.3	7.5	8.4	8.6	:	0.3	:
Slovakia	13.5	14.0	12.8	10.3	14.3	11.7	9.4	-2.6	-2.3
Slovenia	8.4	9.5	9.0	8.1	10.3	9.1	8.5	-1.1	-0.6
Sweden	8.2	8.2	8.2	7.5	9.2	8.7	8.4	-0.5	-0.2
Finland	8.3	8.8	9.3	9.9	10.0	10.8	10.5	0.7	-0.3

Table 13: Unemployment rate among women

	Annual data (%)				Q1			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	4.8	5.3	5.4	5.3	5.9	5.4	5.7	-0.5	0.3
Belgium	7.4	8.2	7.9	7.8	8.1	8.1	7.8	-0.1	-0.2
Bulgaria	10.8	11.8	10.4	8.4	12.1	9.8	7.8	-2.3	-1.9
France	9.8	10.2	10.0	9.9	10.2	10.3	10.2	0.1	-0.1
Germany	5.2	4.9	4.6	4.2	5.0	4.5	4.2	-0.4	-0.3
Denmark	7.5	7.3	6.8	6.4	8.0	6.8	6.8	-1.2	0.0
Czech Republic	8.2	8.3	7.4	6.1	8.1	7.0	5.2	-1.1	-1.8
EU	10.5	10.9	10.3	9.5	11.1	10.3	:	-0.8	:
Greece	28.2	31.4	30.2	28.9	31.6	30.9	29.7	-0.9	-1.1
Estonia	9.1	8.2	6.8	6.1	7.8	5.6	5.8	-2.1	-0.1
Euro area	11.5	12.1	11.8	11.0	12.4	11.8	:	-0.6	:
United Kingdom	7.4	7.1	5.8	5.1	6.4	5.3	4.9	-1.1	-0.3
Ireland	11.0	10.7	9.4	7.7	10.0	8.1	:	-1.8	:
Spain	25.1	26.7	25.4	23.6	26.7	25.1	22.9	-1.6	-2.2
Italy	11.8	13.1	13.8	12.7	14.5	13.9	13.0	-0.6	-0.9
Croatia	16.1	16.8	18.3	17.0	20.5	18.3	:	-2.3	:
Cyprus	11.1	15.2	15.1	14.9	16.2	17.4	14.5	1.1	-2.9
Latvia	14.0	11.1	9.8	8.6	10.3	9.7	9.7	-0.5	0.0
Lithuania	11.6	10.5	9.2	8.2	11.0	9.1	7.3	-2.0	-1.8
Luxemburg	5.8	6.2	6.4	7.2	4.3	8.5	6.7	4.2	-1.8
Malta	7.3	6.3	5.3	5.2	5.2	5.3	5.1	0.1	-0.3
Netherlands	6.2	7.3	7.8	7.3	8.4	7.9	7.3	-0.6	-0.5
Hungary	10.6	10.1	7.9	7.0	8.5	7.9	6.1	-0.7	-1.7
Poland	10.9	11.1	9.6	7.7	11.1	8.9	7.1	-2.2	-1.8
Portugal	15.6	16.6	14.5	12.9	15.6	14.8	12.7	-0.8	-2.0
Romania	6.1	6.3	6.1	5.8	6.4	6.2	:	-0.1	:
Slovakia	14.5	14.5	13.6	12.9	14.0	13.4	11.7	-0.6	-1.7
Slovenia	9.4	10.9	10.6	10.1	11.8	10.8	9.5	-0.9	-1.3
Sweden	7.7	7.9	7.7	7.3	8.4	8.3	7.2	-0.2	-1.0
Finland	7.1	7.5	8.0	8.8	8.3	9.0	9.1	0.6	0.2

Table 14: Long-term unemployment rate(*)

	Annual data (%)				Q1 (%)			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	24.9	24.6	27.2	29.2	26.1	27.3	29.0	1.2	1.8
Belgium	44.7	46.1	49.9	51.7	47.3	52.3	50.4	5.1	-2.0
Bulgaria	55.2	57.3	60.4	61.2	58.5	59.1	55.9	0.5	-3.0
France	40.0	40.5	42.8	42.6	43.1	43.0	44.3	0.0	1.1
Germany	45.4	44.7	44.3	43.6	43.9	43.1	38.9	-0.9	-4.2
Denmark	28.0	25.5	25.2	26.9	28.0	27.1	24.8	-0.7	-2.6
Czech Republic	43.4	43.4	43.5	47.3	41.2	45.8	45.9	4.6	0.1
EU	46.4	49.8	52.6	48.2	48.6	48.3	:	-0.4	:
Greece	59.1	67.1	73.5	73.1	71.4	71.5	70.2	0.2	-1.3
Estonia	54.7	44.5	45.3	38.3	43.2	41.7	25.0	-1.5	-17.6
Euro area	44.5	47.3	49.5	51.2	51.4	51.2	:	-0.3	:
United Kingdom	34.7	36.2	35.8	30.7	37.3	32.4	28.2	-4.7	-4.4
Ireland	61.7	60.6	59.2	56.2	61.4	60.7	:	-0.7	:
Spain	44.4	49.7	52.8	51.6	52.3	52.3	48.4	0.0	-3.9
Italy	53.2	56.9	61.4	58.1	59.1	57.7	58.0	-1.4	0.3
Croatia	63.7	63.6	58.4	63.0	53.0	59.7	:	6.6	:
Cyprus	30.1	38.3	47.7	45.3	44.2	43.2	41.2	-1.0	-2.1
Latvia	52.1	48.6	43.0	45.3	43.5	43.6	45.4	0.1	1.8
Lithuania	49.2	42.9	44.7	42.9	41.5	42.0	39.5	0.6	-2.7
Luxemburg	30.3	30.4	27.4	28.4	23.7	25.6	34.9	2.1	9.6
Malta	48.5	45.7	46.9	43.6	46.8	46.7	46.5	0.1	-0.4
Netherlands	33.7	35.8	40.0	42.9	37.3	42.8	41.3	5.7	-1.9
Hungary	45.3	48.6	47.5	45.6	49.3	43.0	46.4	-6.2	3.4
Poland	40.3	42.5	42.7	39.3	42.7	40.3	36.3	-2.5	-3.9
Portugal	48.8	56.4	59.6	57.4	56.8	57.0	53.3	0.2	-3.9
Romania	44.2	45.2	41.1	43.9	39.1	42.9	:	3.9	:
Slovakia	67.3	70.2	70.2	65.8	72.0	65.0	61.6	-7.0	-3.5
Slovenia	47.9	51.0	54.5	52.3	52.8	50.6	51.1	-2.2	0.5
Sweden	18.9	18.5	18.9	19.6	18.2	19.5	19.1	1.2	-0.4
Finland	21.4	20.7	22.4	24.4	20.8	23.1	25.1	2.3	1.9

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

Table 15: Unemployment rate of persons aged 15-24

	Annual data (%)				Q1			Change (%)	
	2012	2013	2014	2015	2014	2015	2016	2015/14	2016/15
Austria	9.4	9.7	10.3	10.6	11.4	9.6	11.7	-1.8	2.1
Belgium	19.8	23.7	23.2	22.1	26.3	20.4	19.8	-5.9	-0.6
Bulgaria	28.1	28.4	23.8	21.6	26.9	23.2	18.4	-3.7	-4.8
France	24.4	24.9	24.2	24.7	24.3	25.5	25.2	1.2	-0.3
Germany	8.0	7.8	7.7	7.2	8.0	7.3	7.3	-0.7	0.0
Denmark	14.1	13.0	12.6	10.8	14.0	10.7	11.4	-3.3	0.7
Czech Republic	19.5	18.9	15.9	12.6	16.5	13.9	9.7	-2.6	-4.2
EU	23.3	23.7	22.2	20.4	23.7	21.5	:	-2.2	:
Greece	55.3	58.3	52.4	49.	56.7	51.9	50.9	-4.8	-1.0
Estonia	20.9	18.7	15.0	13.1	17.4	13.8	15.1	-3.6	1.3
Euro area	23.6	24.4	23.7	22.4	25.0	23.3	:	-1.7	:
United Kingdom	21.2	20.7	16.9	14.6	18.4	15.2	13.0	-3.2	-2.2
Ireland	30.4	26.8	23.9	20.9	25.3	21.5	:	-3.8	:
Spain	52.9	55.5	53.2	48.3	55.5	51.4	46.5	-4.1	-4.9
Italy	35.3	40.0	42.7	40.3	46.2	44.9	40.3	-1.3	-4.6
Croatia	42.1	50.0	45.5	43.0	49.7	46.8	:	-2.9	:
Cyprus	27.7	38.9	36.0	32.8	39.6	37.0	29.8	-2.6	-7.2
Latvia	28.5	23.2	19.6	16.3	18.2	14.8	15.0	-3.4	0.2
Lithuania	26.7	21.9	19.3	16.3	21.2	19.9	14.5	-1.3	-5.4
Luxemburg	18.0	16.9	22.3	17.3	18.5	18.9	17.0	0.4	-1.9
Malta	14.1	13.0	11.7	11.8	13.7	9.8	9.2	-3.9	-0.6
Netherlands	11.7	13.2	12.7	11.3	14.4	11.9	12.0	-2.5	0.1
Hungary	28.2	26.6	20.4	17.3	21.0	19.4	14.2	-1.6	-5.2
Poland	26.5	27.3	23.9	20.8	27.2	23.3	19.6	-3.9	-3.7
Portugal	38.0	38.1	34.7	32.0	37.5	34.4	31.0	-3.1	-3.4
Romania	22.6	23.7	24.0	21.7	25.7	24.7	:	-1.0	:
Slovakia	34.0	33.7	29.7	26.5	32.1	26.4	24.3	-5.7	-2.1
Slovenia	20.6	21.6	20.2	16.3	23.9	19.2	17.8	-4.7	-1.4
Sweden	23.7	23.6	22.9	20.4	25.6	23.7	21.9	-1.9	-1.8
Finland	19.0	19.9	20.5	22.4	23.5	24.6	23.1	1.1	-1.5