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Editorial Policy

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IOBE

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

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FOREWORD

This is the second IOBE bulletin on the Greek economy for 2015. It comes at the most crucial time for the Greek economy and society since the mid 1970s, in the aftermath of the interruption of the negotiations with our EU partners, the imposition of capital controls, the referendum and amidst the turbulent negotiations for the start of the new programme. 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 prerequisites (political, economic) to surpass the particularly harsh conditions that formed in the past quarter and to overcome the economic stagnation. The remainder 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 three months of 2015, based mostly on the latest IMF report and data from other international organisations; b) an outline of the **economic climate** in Greece in the second quarter of 2015, based on data from the latest IOBE business surveys; c) an analysis of the execution of the **State Budget** in the first half of the current year.

Chapter three focuses on the performance of the Greek economy in the first quarter of 2015 and the first months of the following quarter. It includes an analysis of: the current **macroeconomic environment** and its outlook for the second half of 2015; the **developments in key production sectors** in the first quarter of 2015 and in the following months, depending on data availability; the **export performance** of the Greek economy in first four months of 2015; the developments in the **labour market** in the first quarter; the trends of **inflation** in the first half of 2015; and, finally, the trends in the **balance of payments** from January through May 2015.

The last chapter presents a IOBE study on the impact of ICT adoption and digital growth in Greece.

The report is based on data that were available up to the 21st of July 2015. IOBE's next quarterly bulletin on the Greek economy will be published in mid-October.

THE DAY AFTER

This quarterly bulletin of IOBE is being published at a time when the Greek economy is **heavily wounded**. Having escaped, but only barely, the disastrous events that could have resulted from an uncontrolled default and exit from the Eurozone, the Greek economy is now in an urgent pursuit for a new direction. Undoubtedly, the new direction will be determined by some key economic policy choices. **The conditions for a positive growth path are present but they are neither self-evident nor can they emerge automatically. As there is no more room for manoeuvre, while it has become obvious that the alternative solutions are going to be notably painful, putting together the factors that can support a course of growth for the Greek economy must now constitute a national goal rather than the object of tactical political negotiation.**

The critical examination of the agreement, which has been achieved in principle, brings forward **many positive elements that would allow for a needed base to emerge. Therefore, the agreement must receive a broad support without any hesitation or ambiguity; it has been delayed, hence it must be completed as soon as possible and it must be implemented as thoroughly as possible.** Undoubtedly, it contains a series of disputable points (e.g. increases in taxation which will push the economy towards a recession); however, this fact should not provoke any further delay and unwillingness in the implementation of the programme as a whole. After all, the progress of the economic adjustment programmes over the past five years and particularly the experience acquired over the past few months have indicated in a dramatic way that **even all delays and the preservation of uncertainty have an additional real cost**, which is heavy and much higher than any benefit that can result from any actual or hypothetical improvement following the delay.

Undoubtedly, the results caused by the recent harsh events cannot be easily reversed. **The lifting of the restrictions in the bank transactions can only happen gradually and as long as trust is regained** through the attainment of a new stabilisation of the banks as well as of the fiscal and macroeconomic figures. **These restrictions, along with the rupture of trust that has occurred, will tend to dampen economic activity in the country overall.** Income and employment will decrease over the coming months, as investment will naturally experience a sharp fall. In any case, the conditions for a robust growth cannot materialise as long as the return of trust and the stabilisation of the banking system are delayed. Therefore, the next economic policy actions (including the banking system) must be decisive and swift.

Since 2008, the international crisis has triggered a long period of deep recession in the Greek economy and the enforcement of adjustment programmes. This period has already lasted for too long and it must end as soon as possible. Certainly, this must be done through the creation of conditions that will allow the economy to finance itself from the international markets and move on a path of growth and convergence with the core of Europe. **A significant recession is expected for the current year (reversing the light recovery of 2014 and reversing the projections for significant growth in 2015), while it is expected that a negative growth, although gradually higher, will occur throughout the following year as well. However, it is possible to build the necessary conditions to return to positive growth rates as early as within the following year and to the markets before the anticipated end of the upcoming program.** This positive course of events, which is absolutely necessary, cannot be achieved without the realisation of a series of conditions for a significant and long-term stabilisation in the economic and broader policies, from early in the upcoming autumn. In these terms, the foundations for the stabilisation must be already in place before the end of this summer.

Overall, the necessary stabilisation must come about through a combination of a number of conditions.

The first condition is the **clear, irrevocable, and non-negotiable position of the definite majority of the political spectrum in favour of the country staying in the Eurozone**. The lack of consensus amongst the major political forces regarding a national programme of stabilisation and growth has proved to be the major destabilising factor that has heightened the uncertainty and the recession since 2009. This lack of consensus differentiates the Greek case from the rest of the countries in which comparable programs were enforced. Irrespective of any other kind of political developments, **the elimination of this particular problem will prove catalytic.**

The second condition is the **immediate and effectual turn towards the attraction of investments**, aiming at the doubling of their share in GDP as soon as possible. This suggests at least four separate actions: i) stabilisation of the domestic banking system with the required recapitalisation and treatment of the non-performing loans, in order to free and mobilise the available national resources, ii) mobilisation to take advantage, through the leverage of even more investment resources, of the "Juncker investment package", iii) attraction of foreign direct investments through the necessary reform interventions in the markets and in the public administration, iv) growth-oriented design and operation of the fund for the development of the state-owned property, a crucial part of the planned agreement, in such a way that it could attract additional new capitals (IOBE already made a proposal along those lines in 2011).

The third condition is **the effective implementation of the new programme.** While the previous two programmes had a series of problems in their design, the major problem was detected in their implementation, particularly where the short-term and the specific interest prevailed in political terms over the long-term and broader interest. The appropriate expert knowledge will be necessary in this effort as the current conditions are arduous and unusual. Indicatively and given the abnormal situation regarding payments at the retail level, the promotion of the electronic means of payment, with the appropriate fiscal adjustments, can become the key for combating tax evasion and promoting sound business practices. In parallel, particularly given that the recession will unfortunately continue for at least a year, **the protection of the truly financially fragile households**, through targeted and decisive measures, is crucial.

If the conditions mentioned above are fulfilled and with trust gradually restored, the Greek side would not only be entitled to, but it would ought to demand, gradual, yet significant, actions for further extension of the loan maturities and reduction of the current and future interest rates in order to ease the risk faced by the long-term investors.

Taking into consideration the dramatic events of the past month, it remains, from many points of view a paradox, how the exit of Greece from the Eurozone came to be considered such a real possibility. In their majority, the Greek people see their stay in the common currency in a positive way, acknowledging that the closer they remain to the core of Europe, the better their future can be. The Greek economy would have much to lose in the case of an exit, not only due to medium-term turmoil (from which we already had a bitter foretaste), but also due to the dramatic decline of the strength of the domestic institutions and of investment. Meanwhile, the Eurozone itself would have suffered a significant decrease in its credibility in the medium term. So, how did we reach this very difficult point?

During the last five years, whereas significant progress has been made, there has been a lack of clarity and credibility in the economic policy particularly in relation to the required structural reforms. **A myth that the problem can be solved without a true convergence of the economy with the rest of the Eurozone was systematically fabricated.** With the prolonged uncertainty and very weak investment, the deep recession was inevitable. **This culminated in the past few months in a situation where the economic policy appeared to be executed in ignorance of all the crucial limitations and actual facts.**

With the new agreement, there are important challenges ahead. Nonetheless, within the negative developments a framework of positive preconditions may be created. **If the real convergence about the basic and necessary elements for every modern and competitive economy takes place and is not overthrown, it can soon lead to the lifting of the prevailing uncertainty. As a result, the necessary turn towards growth could finally be achieved** and in fact it could be particularly strong. However, hoping for such an outcome is not enough; we must make sure to exclude any other potential developments as such developments would be dramatic and undesirable and they would affect in particular the most vulnerable parts of the Greek economy and society.

1. BRIEF OVERVIEW - CONCLUSIONS

The world economy keeps growing steadily in 2015

After a short-lived slowdown in the fourth quarter of 2014, the global economic activity increased by 3.3% year on year in the first quarter of 2015. In the OECD countries, GDP increased year on year by 1.9% during the first quarter of 2015. Among the developed countries, in Japan the recession carried over to one more quarter, as the economy contracted by 1.0%. Growth strengthened slightly in the US economy (from 2.4% in the fourth quarter to 2.7%), while the gradual recovery in the Eurozone continued, recording a growth rate of 1.0%. Among the developing economies, the recession in Brazil persisted for the fourth consecutive quarter, stronger in comparison to the previous quarters, as the economy contracted by 1.0%. In China, the pace of growth remained high in the beginning of the current year, at around 7.0%, however it slowed further down from the fourth quarter of 2014 (+7.3%).

It is estimated that the trends in the main groups of economies during the previous year will carry over to the current year. Among the developed economies, the Eurozone will benefit from the positive effects that the fall in oil prices has on real household disposable income and on profit margins. The quantitative easing decided by the European Central Bank is expected to stimulate investment and consumption. The devaluation of the euro in relation to the dollar will boost the European exports and put pressure on the prices of imported products, causing a rise in the prices and offsetting the deflationary trends. In the US economy, the growth of private consumption, the strong labour market, and the boost of disposable income due to low inflation remain the key growth drivers. The loose fiscal policy will continue to contribute to economic growth and counterweigh the negative effects of the appreciation of the dollar on the international competiveness of its exports. Japan, with the monetary policy that it follows and the effect from the lower oil prices, is expected to gradually achieve economic recovery. Under these conditions, **this year the GDP growth in the developed economies is expected to stand slightly below 2.5%.**

Regarding the developing economies, the low oil prices and the quantitative easing policy will continue to drive the economic growth in China, however at a slower pace than before. On the other hand, potential disturbing factors for its economy remain a possible instability in the property market and the financial system. The decline of investment and the deceleration of private consumption, in conjunction with the significant capital flight and the rapid increase of the cost of capital due to the loss of trust owing to the military conflict in Ukraine, will hit hard on the Russian economy. In addition, the sudden drop of the oil prices hampers the country's exports. **Overall,**

the growth rate in the developing countries will decelerate further, reaching only 4.0%. In conjunction with the acceleration of the developed economies, it is estimated that the global GDP will grow for the third consecutive year at around 3.5%, or less.

Marginal growth in the Greek economy in early 2015

The GDP growth of Greece in the first quarter of 2015 reached only 0.4%, compared to a growth of rate of 1.3% in the last quarter of 2014, and a recession of 0.3% in the same quarter of the previous year. The new, significant slowdown is due to the escalation of the political uncertainty during the election period, which peaked in February during the negotiations with the European Commission, the European Central Bank and the International Monetary Fund (regarding the second economic adjustment programme, envisaged to be completed by the end of that month). The lower quarter-on-quarter GDP growth in the first quarter of the current year is due to the acute deceleration of export growth. On the other hand, investment increased significantly, while the growth of household consumption strengthened and the contraction of public consumption weakened. The growth of private consumption contributed to the high growth of imports, which was nevertheless milder compared to late 2014, and in conjunction with the limited rise in exports, did not further aggravate the balance of the external sector in national accounting terms.

In greater detail, regarding the trends of the GDP components in the first quarter of 2015, **the domestic consumption expenditure was higher by 1.0% in comparison to the same period in 2014,** when they increased slightly by 0.4%, as they did in the last quarter of the previous year. The trends in the key components of domestic consumption during the previous year carried over to early 2015, **as the new rise was exclusively due to the increase of the household consumption expenditure by 1.6%,** while the public sector consumption slightly decreased (-0.2%), less than in the second quarter of 2014 (-3.06%).

A steep growth, the strongest in the last nine years, was recorded in investment in the first quarter of 2015 (+27.6%), at variation to their strong contraction a year ago (-19.36%). The increase resulted mainly from stronger fixed capital formation (+14.6%), however at the same time a relatively large increase of inventories was also recorded (€522 million), a fact that proves the presence of excess capacity in relation to actual demand at both national and international level for the Greek products. The categories of fixed capital that recorded strongest growth were Machinery (+23.6%) and Transportation equipment (+116.5%).

A significant change was recorded in exports, as their high rate of growth

in the fourth quarter in the previous year (10.0%) was followed by only a slight increase (1.3%) in early 2015, which was much lower in comparison to their expansion in the first quarter of 2014 (+7.8%) as well. Growth slowed down significantly in the exports of goods (+0.9 from +5.2 a year ago) as much as in the exports of services (+2.2% from +10.7%). However, note that **after the rise of exports in the first quarter, for the fourth consecutive year, they reached their second highest level in constant prices on record for the specific period, at €13.9 billions,** slightly less than their maximum rate in January-March of 2008 (€14.6 billions).

The steady recovery of consumption demand for a year, mainly due to the expansion of household consumption expenditure, preserves the rise of imports, which benefited also from growth in certain fixed capital categories (vehicles, machinery) during the first quarter of this year. In particular, **imports in the first quarter of this year were higher by 10.3% in comparison to the respective period of 2014, when imports had grown by only +0.3%.** In conjunction with the low increase of exports in the beginning of the current year, the deficit of the external sector of the economy in national accounting terms expanded in the first quarter of this year to €1.86 billion (4.0% of GDP), against €561 million (1.2%) in the previous year.

Return of the recession in the Greek economy in 2015, due to the capital controls and the new fiscal measures

The already heightened uncertainty during the first quarter of the year, due to the elections and the extension of the second economic adjustment programme by four months (in order to complete its review and agree on the necessary measures-policies for the continuation of the fiscal adjustment and to ensure debt sustainability), deteriorated further in the second quarter (due to the constant failure of the two sides to reach an agreement, mainly regarding the reforming priorities, the fiscal measures, and the need for intervention regarding the public debt). The failure to conclude the evaluation of the second program and its direct consequences (loss of envisaged financing of the Greek state to service its debt, debt moratorium vis-a-vis the IMF, refusal to extend the financing of the banks by the ECB through the Emergency Liquidity Assistance (ELA), imposition of capital controls), in conjunction with the announcement of the referendum, created unprecedented conditions for the Greek economy and society. The duration and the extent of the impact of these new conditions cannot be predicted for the time being.

On the other hand, the achievement initially of an agreement regarding particular reforms between the Greek government and the Eurozone partners, (in order to begin the negotiations - following the implementation of the reforms - for a new program and the passing of some of the reforms through parliament), limit the loss of credibility and the possibility of negative economic developments in the following months, without however eliminating them. The extent to which the distrust within the country and abroad will continue to weaken depends on the normalisation of the government function and the adoption of the necessary decisions for the implementation of the prior actions for the new program, as well as of the reforms that will be included in the programme itself.

In greater detail, regarding the trends in key economic indicators in the second quarter of the current year, the liquidity of the banking system deteriorated sharply. According to the latest data of the Bank of Greece, the deposits in the domestic monetary - financial institutions decreased by €39.2 billion (-22.1%) from December to May, out of which deposits of €21.7 billion were withdrawn after the elections. As a result, the deposits by the end of May did not surpass the amount of €138.6 billion, reaching their lowest level in 11 years (since June 2004). This reaction from the households and the enterprises is interpreted mainly as the effort to safeguard their wealth against currency risks. The prolonged lack of funding of the Greek state for the past 10 months, as no evaluation of the economic adjustment programme was completed, limited its liquid assets to a minimum.

Despite the extensive flight of deposits from the banking system since the last month of 2014 and the support of its liquidity since then through the Emergency Liquidity Assistance (ELA), the credit flows towards the private sector of the economy did not deteriorate in the months following the elections, until well into April. In the first four months of 2015, the rate of credit contraction was at around 1.5% clearly lower than in the last quarter of 2014. A credit expansion to companies was recorded for the first time since late 2009. However, in May the credit to the private sector declined anew by 2.8%.

The prolonged lack of funding led to the concentration of all the available resources (mainly cash reserves of general government entities), for the payment of ordinary expenditure (wages, pensions, benefits etc.) and the servicing of public debt. In the most recent data regarding the execution of the State Budget, primary expenditure was lower than the target by €2.6 billion, of which €1.3 billion came from growth of arrears to suppliers of the public sector, thus deteriorating further the liquidity in the private sector.

It is very likely that the households, in order to secure their wealth against currency risks, turned the deposits that they withdrew into financial investments abroad, which deteriorated the financial account. From the €16.5 billion of the growth of Other Investment in the financial account in the first four months of this year, €5.4 billion came from a net rise of the deposits and repos of Greek residents abroad. In contrast, the domestic receivables in portfolio investments decreased by €6 billion.

The realization of more and, up to a point, hurried purchases of internationally produced goods by households and enterprises (durables and capital goods) is one more action aimed at safeguarding their wealth. Indicatively, already from the first quarter of 2015 the seasonally adjusted turnover of the motor vehicles sector was higher by 16.9% year on year. During the same period, the seasonally adjusted sales of machinery and equipment were higher by 23.6%, recording their strongest growth since the second quarter of 2008. Certainly, the rise in the aforementioned categories of expenditure favours imports, burdening further the external balance of the Greek economy.

The persistent growth of international tourism, at least in the first half of the year, partly offsets the negative effects of hurried consumption and investment expenditure on the external balance of the economy. In particular, the latest data from the Bank of Greece indicate that international arrivals increased in Greece by 28.3% in April, with even larger growth overall in the first four months (+39.3%), while the boost of travel receipts was less pronounced (+14.4%). It seems that despite the international concern about the negotiations of the Greek government with its lenders, the persistently low value of the euro against the dollar and other currencies (pound sterling, Canadian dollars) has significantly boosted Greece as a tourist destination. In contrast, the failure to achieve an agreement with the country's partners in order to complete the second Economic Adjustment Programme and the imposition of capital controls is considered to have hampered significantly the global attractiveness of the Greek tourist resorts.

Regarding the latest trends in other sections of economic activity, the improvement recorded in the first quarter of the year is weakening in the second quarter (data until May). Indicatively, industrial production fell by about 1.5% in April and May 2015, compared with 2.3% growth in the first quarter of the year. Construction activity experienced steady growth in the first three months of 2015, by about 30%, both in terms of surface and volume, which however was interrupted in April (-6.3% in terms of surface, -3.6% in terms of volume).

Beside the downturn appearing during the second quarter in particular groups and activities, the trend in the Greek economy in the rest of the current year, as well as its medium-term outlook, at least until the middle of 2017, will be affected by the recent and current, sharp political and social developments (the imposition of capital controls, the outcome of the negotiations for the third bailout programme and the implementation of the fiscal measures and reforms included in the new programme). Taking into account the implementation of the capital controls in Cyprus almost two years ago, the complete lifting of the capital controls in Greece is not expected to take place in 2015, while it is quite possible that the capital controls would be maintained and gradually relaxed for the bigger part of 2016. The impact of this, rather negative, development will mainly manifest itself in the following:

i) Significant shift in the buying – consumption priorities of the households and reduction of their consumption expenditure

ii) Significant difficulty in conducting imports – exports of products

iii) Reduction or suspension of production, due to low domestic/international demand and the difficulties in the imports of raw materials/exports of products

iv) Suspension of payments by and to the state

v) Decline of international tourist arrivals

vi) Suspension of the implementation of investment plans

vii) High accumulation of inventories, mainly in products with abruptly declining demand, such as durables and capital goods

In detail regarding the medium-term outlook of key macroeconomic figures, **the implementation of capital controls, even if they are gradually lifted, will cause a contraction in household consumption, following its temporal rise while the negotiations with the country's lenders were interrupted.** A weakening of the growth of household consumption from the first half of the year into the second was expected anyhow only because of the changes in the VAT rates, which had been included in the measures under discussion already since the previous autumn. The contractionary trends in consumption will depend on consumer confidence, which will be formed by the course of the negotiations with the country's partners on the new program. The speed of the progress in the negotiations will also define the rate with which the capital controls will be relaxed, a parameter which will also significantly affect expectations and liquidity. **Consequently, consumption will decrease in 2015, possibly mildly, as it will be moderated by its rise in the first half of the year.**

Regarding the other part of domestic consumption expenditure (public consumption), the trend will be defined by the developments around public sector employment and the extent of repayment of the 2012 wage cuts. Although the target of the economic adjustment programme for the recruitment of 15.000 new employees in the public sector is not feasible, if the forthcoming negotiations reach an agreement that the target includes the re-hiring of 7.500 past-year redundancies (teachers in vocational senior high schools, employees of the state broadcasting company ERT, school security staff, administrative staff of universities, maintenance staff of the Ministry of Finance, etc.), this will exert a mild upward pressure on public consumption. Possible severance/compensation payments for the 2012 wage cuts, which have still not started, would also push public expenditure up. The execution of the respective expenses will depend on the level of liquidity of the Greek state, which is not expected to improve earlier than the end of the third quarter, provided the new program is agreed by then. **Consequently, provided that these potentially positive effects on public consumption will take place at least partly in the current year, they will keep public consumption close to its last year level or mildly above it.**

In the area of investment, the recent turbulence in the banking system and its impact on capital adequacy, in conjunction with the anticipation for the outcome of the negotiations for the new programme, will constitute the main restraining factors for the vast majority of business investments in the second half of 2015. Apart from the acute financial difficulties and the decrease of domestic and foreign demand (due to the bank holiday and the capital controls), the extensive loss of confidence in the abilities of the Greek economy to complete the fiscal consolidation process and achieve a steady recovery damages the intentions for investment in Greece. Besides, the small rise in fixed capital formation in the previous year by 2.9% came precisely from the gradual repairing of trust due to the achievement of primary fiscal surplus and positive current account balance in 2013, as well as the perceptible improvement in the capital adequacy of the banks after their successive recapitalisations.

Lacking implementation of the reforms, at least since the second quarter of 2014, the laxity in the effort for fiscal consolidation, the prolonged, ineffective negotiations for the completion of the second programme, the turbulence in the banking system and the arrears on public debt have obviously undermined the confidence in the Greek state and the Greek economy. Consequently, to improve the investment environment, it is necessary firstly to implement all the policies that are agreed with the partners, and secondly to stabilise particular parameters of the economy that affect significantly the return on investment, such as the taxation system, the labour relations and the robustness of the banking system. The required time to regain the trust of the investors has noticeably increased and it undoubtedly exceeds the current year.

Regarding **public investment** in particular, the early disbursement of the last €500 million from EU funds as part of NSRF 2007-2013, to cover 100% of the financing of select projects, will lift the financial difficulties on the implementation of PIP that come from the Greek side. However, this implies reduction of NSRF 2007-2013 by €2 billion, due to the suspension of investments that would have been realised with these community funds, if the national contribution was also available. Consequently, the implementation of PIP this year will fall short of the target for €6.4 billion expenditure. Even wider shortfall than that is expected in the current year in the implementation of the privatisation - concessions programme. The concession for the exclusive right to a mutual horse-betting license was the only successfully completed procedure by the Hellenic Republic Asset Development Fund (HRADF) in the first half of 2015. **Overall, the aforementioned developments in the parameters of investing activity will shape investment below their 2014 level.**

The capital controls will have a crucial impact on the trends in **the external balance of the Greek economy** in the coming months. As far as exports are concerned, a direct negative effect will come from the difficulties in processing transactions for the exports of goods (issuance of guarantees and letters of credit), while the political uncertainty already has and will continue to have a rather negative effect on attracting international tourism. On the other hand, the rise in the exports of goods during the first half of the current year was curbed mainly by the noticeably lower exports of petroleum products. This negative effect will weaken significantly in the second half of the year, when the oil price will be around the levels of the previous year. **Provided that the domestic political flux recedes soon and the bank transactions as far as exports are concerned become easier, the growth of the exports of goods except petroleum products from the first months of 2015 will carry over, moderating the fall of total exports from the decline of the exports of services.**

The strong growth of **imports** during the first half of 2015 is expected to cease, due to the sudden decline of household consumption and the sluggish investment activity. Apart from the reduction of demand, the realisation of imports will face problems from the processing of these transactions, mainly due to difficulties in securing credit insurance and guarantees for exports to Greece by the European suppliers of Greek importers. **The strong shift of the trend in imports in the third quarter onwards, at the latest, will counterweigh the deterioration of the external balance from the decrease in exports, leading to lower current account deficit and moderating the recession of the Greek economy.**

As a result of the above trends in the GDP components, economic activity will decline in 2015, with the Greek economy returning to recession. However, the speed and the extent of the fall will depend on the domestic political developments, the process of reaching an agreement on the new program with the country's partners, the terms of the new programme (fiscal and growth measures) and the capital adequacy of the banking system, after the extensive flight of deposits and the deteriorating situation regarding the non-performing loans. **As output in the first half of the current year is estimated to have remained**

close to the level of the previous year, the recession in the current half of the year will lead to a GDP decline for 2015 overall by 2.0-2.5%.

The targets of the State Budget for this year are being met with extraordinary interventions mainly on the expenditure side

In the available **preliminary data on the execution of the State Budget (SB)** for the first half of 2015, **the results substantially exceed the targets**, as the deficit of the State Budget is three times smaller in comparison to the target (-€1.42 billion against -4.60 billion), while the primary balance is very positive with a surplus of €1.88 billions, instead of the envisaged deficit of -€1.24 billion. Nonetheless, the much better than anticipated results continue to come from **certain extraordinary factors.**

In particular, the low deficit results mainly from keeping **the State Budget expenditure below targets by €4.1 billion**, mainly from the suspension of primary expenditure by €2.6 billion, as well as the expenditure of the Public Investment Programme (PIP) by €1.1 billion (withholding the national contribution to co-financed projects). As a matter of fact, the decrease in the PIP payments took place despite the fact that the inflows of EU funds were higher than anticipated by €0.7 billion. The stronger than anticipated flow of EU funds moderated the revenue shortfall of the State Budget to €906 millions, as the ordinary revenue was short of the target by €1.67 billion. Revenue was significantly boosted by extraordinary (ad-hoc) receipts.

Regardless of the results of the SB execution so far, provided that the recent Euro summit agreement leads to fruitful negotiations with the international creditors, the fiscal goals will shift down, which will probably be reflected in a revised budget for 2015, to be drafted as part of the new programme.

Unemployment will most likely increase in 2015

The unemployment rate increased in the first quarter for a second consecutive quarter, quarter on quarter, to reach 26.6%. Nonetheless, year on year, unemployment was lower by 1.2 percentage points. The increase of unemployment in the first quarter of the current year is related to the expanded tourist period in 2014, which preserved the employment in the tourism-related businesses until the middle of the fourth quarter, as revealed in the data of the Labour Force Survey (-24.300 jobs in the first quarter of this year, in comparison to the fourth quarter of 2014).

The political uncertainty and the capital controls are estimated to have the greatest effect on sectors, such as accommodation, food services and retail-wholesale trade, which drove the mild growth of the Greek economy in the previous year and in early 2015, creating many jobs in the process. The latest developments will have a negative impact on the international appeal of Greece as a tourist destination, affecting negatively the activity and the employment of tourist businesses. The weakening of the household consumption expenditure, after a short-lived increase to secure certain basic necessities, will have a negative impact on the turnover of trade companies, leading to a reduction in their employment.

In addition, the implementation of the envisaged in the programme for 2015 recruitment of 15,000 employees in the public sector has stalled, which is in part counterbalanced by the rehiring of 7,500 public sector employees that had been dismissed in the past few years. Consequently, most of the anticipated developments contribute to the rebound of unemployment in the second half of 2015. The extent of the unemployment growth will depend on the duration of the political instability. As long as the conditions for stability of the political and social environment (new program, government stability) are not present, the uncertainty in Greece and abroad for its macroeconomic perspectives will remain rather high, while the activity in the sectors that contributed to the fall of unemployment in the previous year will continue to contract, with a corresponding impact in employment. **Therefore, it is not currently possible to predict whether the increase in unemployment from the third quarter of 2015 onwards will result in higher or lower unemployment for the year overall, compared with the previous year.**

End of deflation in the second half of the current year

The strong deflationary trend carried on in the Greek economy throughout the first half of 2015 and as a result the Consumer Price Index was lower by 2.3%, compared to the same period of the previous year, when it was decreasing by 1.3%. This year's drop was the heaviest in that particular period of the year for at least the last 55 years.

The political and social turbulence and the capital controls resulted in a significant increase of the sales of particular categories of products, such as food products, and other basic necessities, moderating the strong deflation recorded until June. However, the need to preserve a relatively high liquidity due to the capital controls will probably weaken demand at a later stage.

The perspective for the achievement of an agreement regarding a new program relatively soon is expected to contribute to the easing of the uncertainty and the initiation of the relaxation of the capital controls, leading to growth in transactions and prices. The restructuring of the VAT that has already been implemented will pass on to final prices to a significant extent, as evident from the past experience of indirect tax hikes in Greece over the past few years. The end of the deflationary impact on CPI from the fall in oil prices a year ago will facilitate the return of inflation in Greece in the coming six months. **Therefore, it appears that there are no effects that will pre-**

serve the strong deflation from the first half of 2015 to the rest of the year. The duration and the strength of the aforementioned factors will determine whether the strong deflation of the first half of the year will recede substantially or there will be a rise in prices. The second development is considered more likely, as the changes in the VAT rates will be in force for half of the year.

IOBE study: ICT adoption and digital growth in Greece

The present study examines the benefits for the economy, in terms of exports, competiveness and transparency, but also in terms of creating job positions and innovation, expected to result from the implementation of four interventions:

- **Digital signature in the public administration**
- **Development of open data**
- **Enhancement of e-skills**
- **Boost of digital entrepreneurship and innovative SMEs**

In greater detail, we estimated that the digitalisation of the public sector can **lead to the saving of €380 million per year.** In addition, a raise of 100% in the diffusion of open data in Greece is expected to lead to a significant improvement of the country's rankings, in terms of competiveness by 25 positions (from the 56th to the 31st) and in terms of transparency by 33 positions (from the 80th to the 47th), and to the **creation of 6.332 new businesses.** Regarding the effect of e-skills enhancement, as the analysis points out, **for every 1000 people that will improve their level of e-skills Greek exports would increase by €13.9 million** and **72 new businesses would be created in the country**. Finally, the adoption of ICT by the Greek SMEs would **increase their probability to innovate** approximately by 4-9 percentage points, while it would also **facilitate significantly their internationalisation,** as it would increase their likelihood to export by 1.5-4 percentage points.

2. ECONOMIC DEVELOPMENTS

2.1 Trends και Prospects of the Global Economy

The Global Environment

Following a slight slowdown in the fourth quarter of 2014, the first quarter of 2015 saw a 3.3% year-on-year increase in the world economic activity (data for G20).[1] A slight acceleration of global growth from 3.4% to 3.5% is foreseen in 2015 due to the gradual recovery of the advanced economies, coupled with the unaltered growth in emerging markets this year. Although the expansion of world trade weakened at the end of 2014 as a result of the curb on imports by emerging markets (primarily those of Asia), which offset the increase in imports in the advanced economies (Eurozone, Japan), the outlook for 2015 is positive. Therefore, world trade growth is expected to reach 3.7%, from 3.4% last year. Nevertheless, note that the 2015 forecasts were revised down in the past quarter, primarily due to weaker investment in equipment, as well as several structural factors that affect adversely the world economy and global trade.

The positive outlook is based on three main pillars. First and foremost, the low prices of oil and energy in general have triggered an improvement in consumer confidence, an increase in household disposable income, a reduction in the operational costs of businesses, and a stronger investment outlook. Secondly, the European Central Bank's decision to purchase government bonds under the program of quantitative easing will stimulate consumption and investment, thereby strengthening growth prospects. Finally, the euro's devaluation against the dollar will enhance European exports, while simultaneously placing an upward pressure on the prices of imported goods. The increased price of imported goods will work to offset the deflationary trends.

Among the advanced economies, the US economy continues to display steady and strong growth prospects. Despite the fact that the US economy's rate of GDP growth did not meet expectations in the final quarter of 2014, thereby resulting in a GDP growth rate that did not exceed 2.4%, the expectations for 2015 are bullish. These expectations have come to fruition in the first quarter of 2015, which exhibited a 2.7% growth year on year. According to recently revised forecasts, the increase in private consumption, coupled with the strong labour market and the boost of disposable income due to low inflation, are decisive factors that will act as a catalyst for a projected growth rate of 3.1% for 2015.

In Japan, the sudden recession exhibited in the second quarter of 2014 (-0.4% year on year), combined with the lower than expected GDP growth in the fourth quarter, offset the growth in the first half of the year resulting in a null growth rate overall for 2014. In light of the current monetary policy and the low oil prices, a

[1] OECD Quarterly National Accounts, G20, May 2015

gradual recovery of the Japanese economy is forecasted for 2015 and 2016. Despite the fact that the first quarter of 2015 displayed a year-on-year contraction by 1.0%, the Japanese economy is expected to grow by 1.0% in 2015 and by 1.2% in 2016, primarily because of stronger domestic demand.

In China, the growth outlook for the current year remains strong, expected to total 6.6%. However, the forecasted growth is weaker compared with the 7.4% rate of 2014. Note that a 7.0% rate of GDP growth was recorded in the first quarter of 2015. This growth was triggered by a variety of factors, namely low oil prices, rapid growth of the Asian economies, as well as a quantitative easing programme, put into effect in order to boost domestic demand. Nevertheless, potential adverse disruptions, such as the volatile housing market and financial system, continue to threaten the Chinese economy.

In Russia, the contraction of investment activity and the deterioration of private consumption, coupled with the substantial capital outflows and the rapid escalation of borrowing costs, triggered by the Ukrainian conflict and the increase in inflation, led to a slowdown in the rate of growth that ultimately totalled 0.6% in 2014. In addition to these factors that adversely impacted the Russian economy, the dramatic decline in oil prices undermined exports. Therefore, a recession of 3.9% is forecasted for 2015. Despite the adverse effects of the aforementioned parameters on the Russian economy, the resilience of manufacturing will have a positive impact on the economy.

The Business Climate Index for the global economy, compiled by IFO, improved in the second quarter of 2015, totalling 99.5 units compared with the 95.9 units of the previous quarter. The current value reveals a return of the index to the levels recorded in the third quarter of 2013, following a drastic decrease in the value of the index in the fourth quarter of 2014. Similarly, the second quarter of 2015 exhibited an improvement in the assessments of the current business situation as well as the expectations for the next six months.

A careful examination of the business climate index in the main economic regions of the world reveals a variety of trends for the global economy. In Europe, the business climate index in the second quarter of 2015 maintained its value well above the average of the index, as it totalled 120.4 units, increasing by 11.7 units quarter on quarter. Conversely, in North America, the business climate index dramatically decreased in the second quarter of 2015, by 9.2 units, to reach 97.9 units. Nevertheless, the index continues to fluctuate at significantly higher levels than the average of the past 15 years (90.7 units). Finally, the business climate index in Asia displayed a slight increase of 2.6 units quarter on quarter, reaching 93.0 units (compared with a long term average at 92.5 units).

Table 2.1

Global Environment – IMF, World Economic Outlook

(Annual % change, in real values)

	2014	2015	2016
GDP			
U.S.A.	2.4	3.1	3.1
Japan	-0.1	1.0	1.2
Emerging Asia	6.8	6.6	6.4
of which China	7.4	6.8	6.3
India	7.2	7.5	7.5
AESEAN-5	4.6	5.2	5.3
Eurozone	0.9	1.5	1.6
Emerging and developing Europe	2.8	2.9	3.2
Commonwealth of Independent States (CIS)	1.0	-2.6	0.3
of which Russia	0.6	-3.9	-1.1
Middle East and North Africa	2.4	2.7	3.7
Latin America	1.3	0.9	2.0
of which Brazil	0.1	-1.0	1.0
Sub-saharan Africa	5.0	4.5	5.1
Global Economy	3.4	3.5	3.8
World Trade			
Volume of World Trade (goods and services)	3.4	3.7	4.7
Imports: Advanced Economies	3.3	3.3	4.3
Imports: Emerging and Developing Economies	3.7	3.5	5.5

Emerging Asia: Vietnam, India, Indonesia, China, Malaysia, Thailand, Philippines Βιετνάμ
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 2015

Table 2.2

IFO – Assessments for the Global Economy (Indexes, 2005=100)

Quarter/Year	II/13	III/13	IV/13	I/14	II/14	III/14	IV/14	I/15	II/15
Business	96.8	94.1	98.6	103.2	102.3	105.0	95.0	95.9	99.5
Assessment of business	84.1	82.2	84.1	91.6	91.6	95.3	91.6	91.6	95.3
Business expectations	108.8	105.3	112.3	114.0	112.3	114.0	98.2	100.0	103.5

Source: IFO, World Economic Survey, WES, No. 02/ May 2015

Table 2.3

IFO – Business Climate Index in Economic Zones (Index, 2005=100)

Quarter/Year	II/13	III/13	IV/13	I/ 14	II/14	III/14	IV/14	I/15	II/15
North America	87.0	93.7	88.7	102.1	107.1	110.5	101.3	107.1	97.9
Europe	93.2	99.0	109.7	116.5	118.4	117.5	101.0	108.7	120.4
Asia	106.1	89.5	98.2	97.4	89.5	99.1	93.9	90.4	93.0

Source: IFO, World Economic Survey, WES No. 02/ May 2015

The EU and Euro zone Economies

The recovery of the European economies is expected to continuously accelerate in 2015 under the pre-condition that no disturbances arise from the Greek programme. Economic activity in the European Union and the Euro Area (EA) has gradually improved since the onset of the second quarter of 2013. The first quarter of 2015 exhibited a growth rate of 1.5% in the EU-28 and 1.0% in the EA year on year. All member-states of the European Union that published data for the first quarter of 2015 reported a positive rate of change of GDP year on year. More specifically, the member-states that displayed the highest growth rates were the Czech-Republic (4.2%), Romania (4.2%), Poland (3.5%), Hungary (3.3%), Slovakia, (2.9%), and Spain (2.7%). Overall, the forecasts for 2015 indicate increase in GDP by 1.8% in the EU-28 and by 1.5% in the Euro Area.

Overall in 2014, output increased by 1.4% in the European Union and 0.9% in the Euro Area. The main growth drivers in 2014 were domestic consumption, primarily the increase of private consumption, triggered by the expansion of disposable income and the improvement in the labour market. Following a series of successive years in which the trade balance was a crucial parameter in bolstering economic activity, external trade contributed only slightly to growth in the Eurozone in 2014.

A more detailed analysis of the GDP components in the European Union and the Euro Area, as well as the course of other key macroeconomic figures, is provided next. Particular emphasis is placed in the percentage change of the parameters recorded in the first quarter of 2015, compared with those observed in the first quarter of 2014.

According to the data provided by Eurostat for the first quarter of 2015, the exports of goods and services increased year on year by 4.3% in the European Union and 4.2% in the Euro Area. Imports increased at a more rapid rate that totalled 5.2% in the EU and 5.1% in the EA. It becomes evident that net exports in the first quarter of 2015 had an adverse effect on the rate of change of GDP. The forecasts for 2015 anticipate a increase in exports by 4.2% in the EU and by 4.4% in the EA. Sustained geopolitical tensions in Ukraine are foreseen throughout the course of 2015, thereby adversely affecting the increase in exports. Overall, net exports are not expected to contribute to GDP growth for 2015, since the expansion of domestic demand will trigger an increase in imports in the EU and the EA that will offset any boost in exports.

In the first quarter of 2015, investment increased year on year by 1.6% in the EU and 0.8% in the EA, thus contributing positively to GDP growth (+0.3 percentage point in the EU, +0.2 p.p. in the EA). Low use of available capacity, political and economic uncertainty, the process of deleveraging, as well as restricted access to investment funds in certain countries hampered stronger investment growth.

However, the forecasts for the remainder of 2015 anticipate a 2.6% rise in investment activity in the EU and a 1.7% increase in the EA.

Private consumption continues to be the main GDP growth driver both in the EU (increase of 1.1%) and the EA (increase of 0.9%). In particular, private consumption in the first quarter of 2015 increased by 2.0% in the EU and by 1.7% in the EA year on year. The growth was brought about by expansion of disposable income, slight improvements in the labour market, and a low-inflation environment. Private consumption for the entirety of 2015 will grow at a similar rate, expected to total 2.1% in the EU and 1.8% in the EA.

Public consumption in the first quarter of 2015 contributed, albeit slightly, to GDP growth (by 0.3 p.p. in the EU and by 0.2 p.p. in the EA), as it expanded year on year by 1.5% in the EU and by 0.8% in the EA. The forecasts for the remainder of 2015 indicate a more moderate increase in growth of public consumption by 0.8% and 0.6% for the EU and the EA respectively.

The conditions prevailing in the labour market continue to improve. Nevertheless, the progress is modest, while there are still significant divergences across the member-states. Employment increased year on year in the final quarter of 2014 by 0.8% in the EU and by 0.9% in the EA. For the entirety of 2014, employment improved by 1.0% in the EU and by 0.6% in the EA.

As a result, unemployment fell both in 2014 and in the first two months of 2015 for which there are data currently available. The unemployment rate totalled 9.8% in the EU and 11.3% in the EA in February 2015, lower by 0.8 and 1.2 percentage points from the unemployment peak recorded in spring 2013. At a country level, apart from the positive developments in the labour market in Germany, employment increased even in countries with high unemployment rate, such as Spain, Portugal and Greece. Based on forecasts of the European Commission for 2015, employment is growth is expected to strengthen to 0.9% in both European regions.

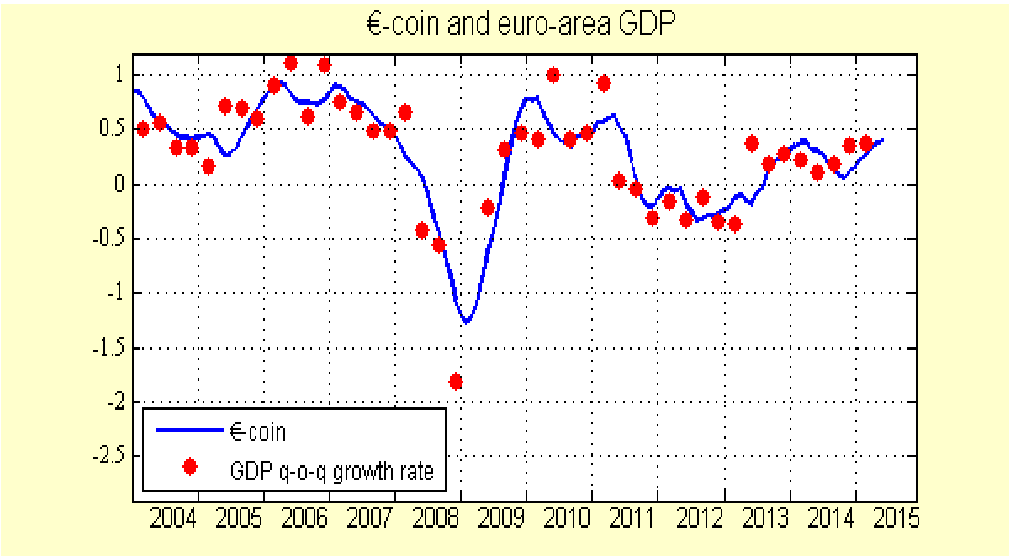
Inflation declined in late 2014 and early 2015, falling below zero in December 2014. The slowdown in inflation observed in the EA can be attributed to falling energy and food prices in the past few years, devaluation of the euro and sluggish demand. In fact, the rate of change of the consumer price index (CPI) recorded its lowest value in January 2015 (-0.5% in the EU and -0.6% in the EA) due to the further decline in oil prices. Although the plunge in the index's value was not completely eliminated, the decline in the consumer price index was more moderate in the first quarter of 2015. According to the European Commission's forecast for the current year, inflation is expected to fluctuate at relatively low levels, with a 0.1% increase in the general price level anticipated in both the EU and the EA.

Concerning the public finances, the deficit in the General Government account in 2014 is expected to have dipped below the 3% barrier, totalling 2.9% in the EU and 2.4% in the EA. These positive developments reflect the careful implementation of fiscal consolidation programmes, aimed to curb high deficits in the member-states of the EU periphery. In addition, the monetary policy adopted by the ECB will reduce the yields of several government bonds in the EA, improve their rating, and indirectly contribute to a reduction in the resources directed towards servicing public debt. For 2015, the deficit in the General Government balance is expected to decline to 2.5% of GDP in the EU and 2.0% in the EA. The upward trend of the debt-to-GDP ratio weakened in 2014, as the ratio totalled 94.2% of GDP in the EU and 88.6% of GDP in the EA. For 2015, the debt-to-GDP ratio is anticipated to pursue a downward trend in the peripheral member-states, due to the achievement of primary fiscal surpluses and an acceleration of economic growth in several of these European countries.

The improved macroeconomic performance in the EU in early 2015 is reflected in the €-COIN, a basic leading indicator of economic activity in the EA. As depicted in Figure 2.1, which shows the monthly variations of the €-COIN index, the €-COIN appears to be regaining its upward trend in the past few months. In June 2015, the index increased for the 7th consecutive month, totalling 0.39 units. The continued rise in the index is primarily due to stronger international trade, and secondarily due to an improvement in business dynamics.

Figure 2.1

Monthly Index €-COIN of CEPR



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

Table 2.4

Basic Macroeconomic Variables, EE-28, Euro zone (annual % change unless otherwise noted)

	EE-28			Eurozone		
	2014	2015	2016	2014	2015	2016
GDP	1.4	1.8	2.1	0.9	1.5	1.9
Private Consumption	1.4	2.1	1.9	1.0	1.8	1.6
Public Consumption	1.0	0.8	0.8	0.7	0.6	0.8
Investment	2.5	2.6	4.2	1.1	1.7	4.0
Employment	1.0	0.9	1.0	0.6	0.9	1.1
Unemployment (% labor force)	10.2	9.6	9.2	11.6	11.0	10.5
Inflation	0.6	0.1	1.5	0.4	0.1	1.5
Exports of goods-services	3.7	4.2	5.2	3.8	4.4	5.4
Imports of goods-services	4.2	4.6	5.6	3.9	4.6	5.9
Balance of General Government (% GDP)	-2.9	-2.5	-2.0	-2.4	-2.0	-1.7
Debt of General Government (% GDP)	88.6	88.0	86.9	94.2	94.0	92.5
Current Account (% GDP)	1.6	1.9	1.9	3.0	3.5	3.4

Source: European Economic Forecast. Spring 2015, European Commission, May 2015

Table 2.5

European Commission – Index of Economic Climate EU-28 and Eurozone (1990-2013=100)*

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	June-14	July-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
EE-28	105.0	105.0	105.6	106.5	106.6	106.6	106.1	104.8	103.8	104.3	104.1	104.2
Eurozone	101.5	101.3	102.9	102.4	102.9	102.4	102.5	100.9	100.2	100.9	100.8	100.9

Months	Jan-15	Feb-15	Mar-15	April-15	May-15	June-15
EE-28	104.8	105.2	106.1	106.4	106.4	105.5
Eurozone	101.5	102.3	103.9	103.8	103.8	103.5

*The values of the countries and the time series in the EU have been modified due to the accession of Croatia on July 1st 2013 **Source:** European Commission (DG ECFIN), July 2015

In contrast, the leading indicator of the European Commission (Economic Sentiment Indicator) points to destabilisation in both the EU and the EA. Following a stable path between March and May 2015, the value of the index fell to 105.5 units in the EU and 103.5 units in the EA. The stability of the index until May 2015 was mainly attributed to a steady course in Manufacturing, improved business sentiment in Retail Trade, deterioration of expectations in Construction and slight fluctuations in consumer confidence. These trends appear to diverge between the components of the indicator, as well as between the EU and the EA, with the indicator falling stronger in the EU.

2.2 The economic environment in Greece

A) Economic Sentiment

The economic sentiment indicator in the second quarter of 2015 deteriorated when compared with the previous period spanning January-March. The decline in the index is due to the continuous exacerbation in the economic and business climate since March. It becomes evident that the ongoing negotiations with the creditors, coupled with escalating concerns regarding the attainment of an agreement, the terms of the agreement, and the continuous financing of the Greek economy, have all limited the initial optimism, recorded mostly in households following the January elections. Besides, the lack of financing from the creditors led to an agglomeration of all available funds and resources from various sources, such as cash reserves of general government agencies (i.e. social security funds, regional governments, the Manpower Employment Organization). Furthermore, the arrears of the state to its suppliers increased. These developments have all triggered a reduction in liquidity in the economy. The persistent and intense uncertainty has plagued economic activity, with an adverse impact on the economic sentiment, which has already reflected in the official statistics on the rate of change of GDP. Up until June 22nd, when the data collection for that month was completed, the consumers and the businesses were caught up in a state of extended uncertainty until they would be able to assess the specifics of a potential deal. Therefore, the effects of the political turmoil both on a domestic and EU level, coupled with the decision to hold a referendum and the subsequent imposition of capital controls, will be reflected in the data capturing expectations and sentiment in the coming months. More specifically:

The economic sentiment indicator in Greece declined from April through June 2015 compared with the previous quarter, as it fluctuated on average at 91.6 points (from 96.8 points). These values are substantially lower than the corresponding value of last year (99.8 points on average).

The corresponding index for the European Union and the Euro-Area fluctuated at slightly higher levels during the period under examination compared with the previous quarter. In particular, the economic sentiment indicator totalled 103.7 points (from 102.6) in the Eurozone and 106.1 (from 105.3) points in the European Union. Year on year, the value was higher in the Eurozone (from 102.5), and slightly lower in the European Union (from 106.5).

At a sector level, business expectations in Greece deteriorated quarter on quarter in the second quarter of 2015 in almost all sectors, and particularly in Construction. In contrast, they slightly improved in Retail Trade, where the indicator increased by 5 points. In Manufacturing, the decline of the index did not exceed 2 points. The index decreased by 3 points in Services and by 7 points in Construction. Finally, the consumer confidence indicator deteriorated by 7 points, thereby contributing to the negative expectations that have plagued the majority of sectors.

Year on year, with the exception of Retail Trade and Consumer Confidence (increase by 5 and 24 points respectively), all the indexes declined. In particular, the index for Manufacturing decreased by 3 points, while the index for Services fell by 2. The largest slump in the value of the index was recorded in Construction, where the index fell by 15 points year on year.

The index of Consumer Confidence in Greece has fallen continuously since March 2015, as it totalled -43.6 points in the second quarter (from -37 points the previous quarter). Nevertheless, the index was higher year on year (-50.3 points). The expectations of the Greek consumers concerning the finances of their country, as well as the finances of their household, deteriorated. Furthermore, the Greek consumers remained the most pessimistic in Europe. The corresponding values of the European indexes slightly improved during the quarter under examination in both the Eurozone and the European Union. In particular, the index for the Eurozone totalled -5.3 (from -6.3 points), while the index for the European Union totalled 3.2 (from -4 points). These values are higher year on year (from -7.9 for the Eurozone and -4.8 for the European Union).

Almost all the components of the index deteriorated quarter on quarter. The negative expectations of the Greek consumers on the financial situation of their household and their country over the next 12 months worsened. Similarly, the pessimistic employment expectations strengthened. Yet, the negative value of the index capturing the intent to save remained unchanged at the same levels as the first quarter of 2015.

More specifically, the percentage of those who were pessimistic over their household's financial situation in the next 12 months dramatically increased during the quarter under investigation from 40% to 47%, while 13% (up from 11%) displayed optimism. Furthermore, the percentage of Greek consumers who expressed negative expectations over the economic situation of Greece surged to 48% (from 38% the previous year), whereas 16% (down from 22%) projected a slight or considerable improvement in the situation. As far as the percentage of households that intend to save in the next 12 months, the statistic remains roughly fixed at 88%, whereas 9-10% of respondents declared their intension to save in the next 12 months. Concerning unemployment expectations, 55% (from 43%) foresaw a deterioration of unemployment, while only 12% expressed the opposite opinion. The percentage of consumers who declared themselves to be "running into debt" stood at 13% (down from 15% in the previous quarter). Finally, the percentage of respondents who declared to be saving little was on average fixed at 8%, with the percentage of those who declared that "they were just managing to make ends meet on their income" also remaining fixed at 68%. About 10-11% of households reported having "drawn on their savings".

The Business Climate Index in **Manufacturing** totalled 85.7 points in the second quarter (from 87.1 in the first). This is considerably lower year on year (from

95.6 points). Concerning the basic economic activity statistics, the positive forecasts for short-term production remained on average fixed quarter on quarter, with the corresponding index totalling +9 points. However, the expectations for the number of orders and the level of demand displayed a downward trend, as the relevant index totalled -31 from -27 points. The positive expectations concerning the stocks of finished goods were rather high given the time period. Nevertheless, the index remained unchanged quarter on quarter at +16 points. In the remaining economic activity components, the trends for export-related variables were mostly positive, as the current assessments on the exports of the Manufacturing sector and the expectations for exports in the next quarter improved. In contrast, the assessments for the number of orders and the overall level of demand from abroad deteriorated. The employment expectations in this sector improved, as the index totalled -2 points on average (up from -8). This value is slightly higher year on year as well (from -6 points). The percentage of used capacity slightly declined, as it totalled 67% (down from 68.8%). This percentage is slightly higher year on year (from 66.3%). Finally, the months of production accounted for by the order book of the companies averaged 4.4.

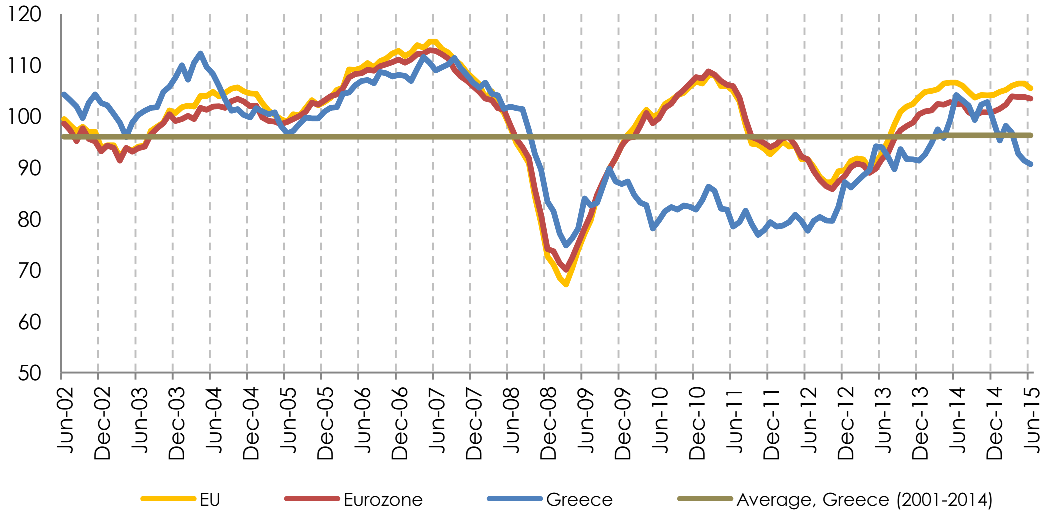
During the quarter under investigation, the Business Climate Index in **Retail Trade** increased by 5 points to reach 90.4. This value is higher year on year as well (from 86.9 points). Concerning the basic variables of the index, the average assessment of current sales improved during the current quarter, as the index rose from -8 to -4 points. About 34% (from 29%) of the companies in the retail trade sector reported that their sales had increased, while 38% (from 40%) expressed the opposite judgment. The index for expected sales totalled -1 (from -13), while the index for inventories totalled -4 (from -7 points) on average. Furthermore, the balance on the expectation of orders increased (the average value of the quarter went from -19 points to -11 points). The index for short-term employment prospects in the sector remained fixed at -3 points on average. Finally, in market prices, the deflationary expectations remained at the same level during the quarter under examination (the balance totalled -2 points), with 12% of the businesses expecting a reduction in prices and 77% expecting price stability. Business expectations improved in Food-Drinks-Tobacco, Household Appliances and Department Stores.

The Business Climate Index in the **Construction** sector declined significantly quarter on quarter in the second quarter of 2015, as the corresponding index totalled 57.6 points on average (down from 65 points). This value is considerably lower year on year (from 82.1 points on average). Concerning the basic components of the index, the substantial decrease in employment expectations in the Construction sector (from -20 points to -38) drags down the total value of the index. The pessimistic assessment of businesses on their order book weakened only slightly from -56 points to -52 points. Half the businesses in the sector (up from 39%) expect a reduction in the number of jobs, whereas only 13% (down from 19%) foresee an increase. The assessment of the businesses for the current level of activity dived abruptly, as the index totalled -44 points (from -4 points), while the months of activity accounted for by work in hand totalled 10 months (from 12.6). The negative index on the price-forecasts also deteriorated during this quarter, quarter on quarter (from -13 to -24 points), with 34% (from 26%) of the enterprises expecting a price decline in the short term and 10% (from 13%) foreseeing a price increase. The percentage of businesses declaring that they were not facing obstacles to the proper functioning of their business was maintained at 9%. Among the remaining businesses, 25% reported that the biggest obstacle was low demand, 38% cited inadequate financing, and 25% declared other factors such as the general financial situation of the country, the crisis, high taxation, lack of projects and payment delays.

In the **Services** sector, the Business Climate Index decreased quarter on quarter in the second quarter of 2015, as it totalled 73.2 point (from 76.4). This value was 14 points lower year on year. Concerning the basic components of the index, the assessment for current demand declined, with the index totalling -12 points (from -7) on average. The assessment for the current level of business of the respondents' company followed a similar path, with the index totalling -8 points (from -1). Forecasts for the short-term demand of businesses in the sector remained fixed at -6 points, while employment expectations slightly improved, with the average index rising from -11 to -7 points (from +5 points during the corresponding period of last year). The deflationary expectations slightly eased, as the average index gained 6 points to reach -10 points. About 16% (from 18%) of the businesses foresaw a decline in price, while 78% (from 81%) were expecting price stability. Finally, the percentage of respondents, declaring that there were no significant obstacles to their business operation totalled 17% (from 15%). About 32% reported a lack of demand as the basic obstacle to the proper functioning of their business, 24% cited a lack of capital, 2-3% stated a deficiency in equipment and labour, and the remaining 23% reported other factors as obstacles, such as the general economic situation and the crisis, the international state of affairs, the inability to borrow, high taxation, delayed payments, etc. Finally, at branch level the expectations improved in Various Business Services, Hotels, Restaurants, Travel Agencies and Financial Intermediaries, deteriorating in the remaining branches of the Services sector.

Figure 2.2

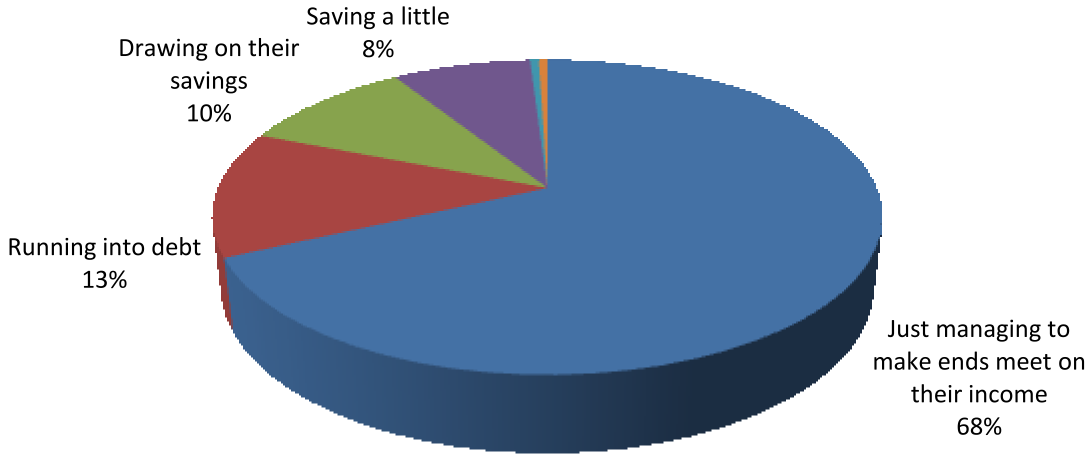
Economic Climate Indicators: EU, Eurozone and Greece, (1990-2013=100, seasonally adjusted data)



Source: European Commission, DG ECFIN

Figure 2.3

Consumer Survey data on their household's financial situation
(April - June 2015, average values)



Source: IOBE

Table 2.6

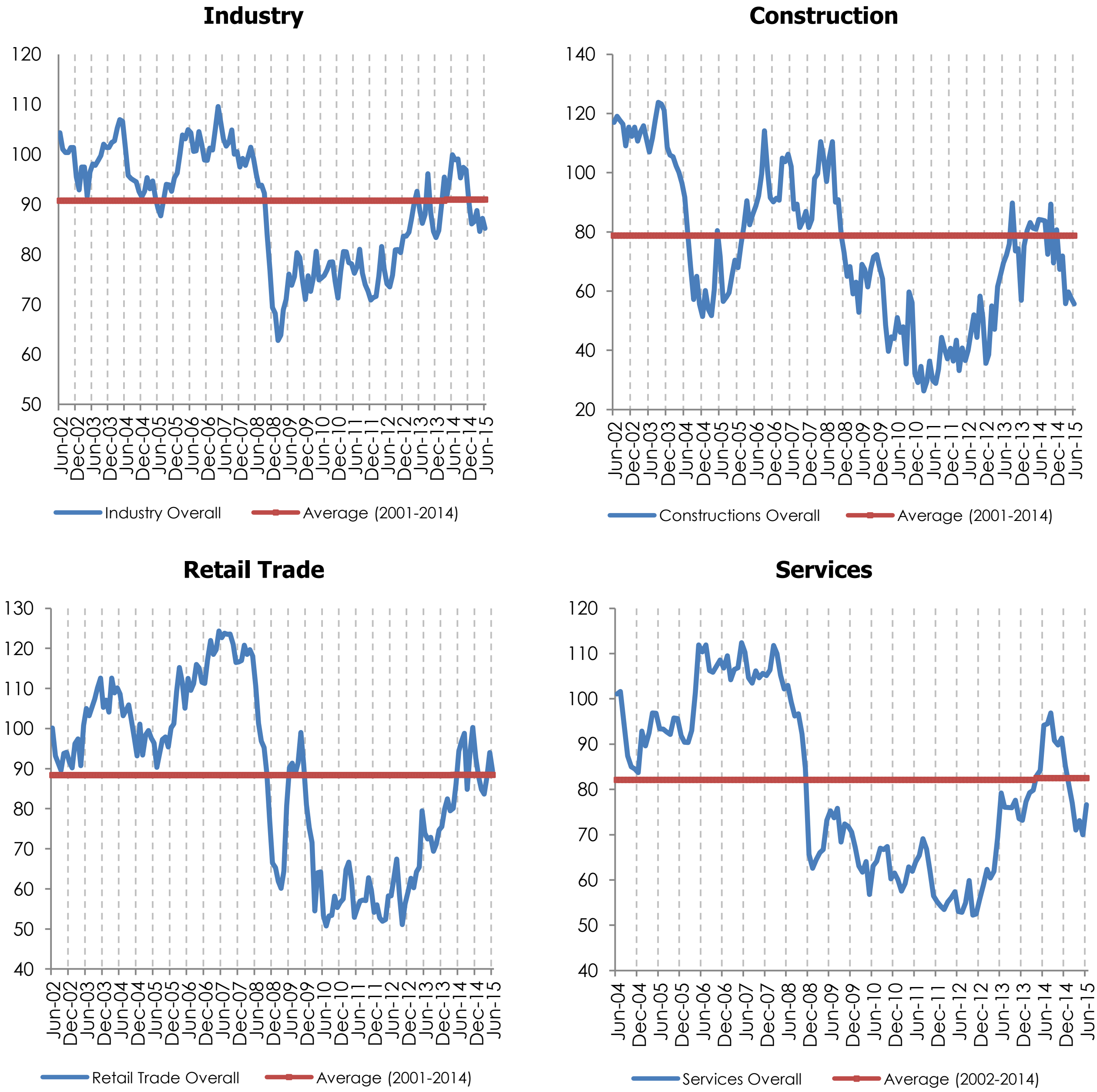
Short-term economic sentiment indicators

Month/Year	Economic Sentiment Indicator[1]		Business Climate Indexes[2] (Greece)				Consumer Confidence Index[1] (Greece)
	EU	Greece	Manufacturing	Construction	Retail Trade	Services	
2002	97.3	102.0	101.2	114.0	93.3	82.8	-27.5
2003	95.4	100.1	97.9	115.0	102.0	85.5	-39.4
2004	103.3	104.8	99.1	81.5	104.8	94.6	-25.8
2005	100.8	98.1	92.6	63.0	96.8	93.6	-33.8
2006	108.3	104.9	101.5	91.1	110.8	103.7	-33.3
2007	111.0	108.4	102.8	92.5	120.8	106.6	-28.5
2008	93.3	97.4	91.9	95.2	102.5	97.8	-46.0
2009	79.3	79.7	72.1	65.5	80.4	70.1	-45.7
2010	101.2	79.3	76.2	45.2	59.5	62.9	-63.4
2011	100.3	77.6	76.9	34.2	58.9	61.7	-74.1
2012	90.9	80.0	77.2	43.2	57.1	54.8	-74.8
2013	95.7	90.4	87.8	65.0	70.2	70.4	-69.3
2014	105.1	99.3	94.6	81.5	89.1	87.2	-55.0
Q1 2014	105.0	95.0	90.0	79.6	80.6	78.8	-63.1
Q2 2014	106.4	99.4	95.6	82.1	86.9	87.1	-52.4
Q3 2014	104.7	101.4	97.8	80.1	93.5	94.1	-52.7
Q4 2014	104.2	101.3	95.0	84.2	95.6	88.8	-51.6
Q1 2015	105.4	96.8	87.2	65.0	85.5	76.4	-37.0
Q2 2015	106.1	91.6	85.7	57.6	90.4	73.2	-43.6

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

Figure 2.4

Business Climate Index



Source: IOBE

B) Fiscal developments and outlook

The analysis and assessment of the fiscal developments in the first half of the current year are particularly difficult, due to the extraordinary circumstances and conditions under which this year's budget is executed. However, despite the difficulties, two clear trends can be discerned in the data for the first five months of 2015. First, the large revenue shortfall that has started since December 2014 (due to the political developments) has carried over. Second, there is a very large budget expenditure restraint compared with the corresponding targets (monthly and annual).

However, as noted by the Ministry of Finance[2] "*The lower expenditures are mainly due to the rearrangement of the cash payments projection, according to the prevailing conditions. It is estimated that after the stabilization of the conditions, expenditure will revert to the levels of budget targets.*" If this assessment is confirmed, the expenditure will increase significantly over the coming months. Besides, the analysis of the revenues for the first five months of the year[3] shows that the revenues received a significant boost from extraordinary (ad-hoc) receipts, even though these are not enough to fully compensate for the shortage (see Table 2.9). For these reasons, the developments in the first half of the year are not representative and the data should be interpreted with special care. With this in mind, the data on the state budget execution for the first half of the year reveal, prima facie, can be seen in positive light.

The State Budget (SB) deficit is three times lower than the target for the first half, while the primary SB surplus is almost thrice as high than the corresponding target (Table 2.7).

However, the analysis that follows shows that these developments are based on (temporary) restraint of the SB expenditure by about €4.1 billion, against the target for the first half, and by a reduction of the SB revenue shortfall to about €0.9 billion, with the collection of significant extraordinary (mostly non-tax) revenues (Tables 2.8 and 2.9).

Note also that the collection of certain funds from various state-owned entities (such as the Financial Stability Fund, National Organization for Health Care Services Provision, etc.), which were recorded as Ordinary Budget (OR) revenues, most probably do not constitute revenues at the General Government (GG) level, as the transfer of funds between GG entities cannot increase the revenues on a consolidated basis.

Therefore, the positive assessment for the first half of the year is only temporary, stemming from extraordinary circumstances, it does not conform with the overall economic developments and is reversible. It is quite possible that the trends from the first five months of the year will not carry over to the rest of the year, with a negative impact on the results and the overall assessment of the Budget.

[2] See e.g. the press release on the State Budget Execution January-March, 2015 (24 April 2015).

[3] There are no detailed data on revenue and expenditure for the first half of the year.

Table 2.7
State Budget Execution 2015

	January- June			% change		2013	Actual	Budget	% change	
	2013	2014	2015	2014/2013	2015/2014		2014	2015	2014/2013	2015B/2014
I. SB Revenue (1+2)	**22,571**	**23,615**	**21,820**	**4.6**	**-7.6**	**53,079**	**51,366**	**55,603**	**-3.2**	**8.2**
1. OB net revenue	20,841	20,646	19,791	-0.9	-4.1	48,414	46,650	50,871	-3.6	9
Revenue before Tax Refunds [1]	21,441	22,203	21,119	3.6	-4.9	51,433	50,020	53,748	-2.7	7.5
Tax refunds	*600*	*1,558*	*1,328*	*159.7*	*-14.8*	*3,105*	*3,370*	*2,877*	*8.5*	*-14.6*
2.PIP Revenues	1,730	2,969	2,029	71.6	-31.7	4,665	4,717	4,732	1.1	0.3
EU Funds	*1,683*	*2,934*	*1,762*	*74.3*	*-39.9*	*4,511*	*4,649*	*3,982*	*3.1*	*-14.3*
II. SB Expenditure (3+4)	**27,562**	**26,034**	**23,242**	**-5.5**	**-10.7**	**58,456**	**55,063**	**55,705**	**-5.8**	**1.2**
3.OB expenditure	25,790	23,672	22,088	-8.2	-6.7	51,806	48,471	49,305	-6.4	1.7
Primary expenditure[2]	22,310	20,546	18,791	-7.9	-8.5	45,762	42,902	43,405	-6.2	1.2
Net interest payments	3,480	3,127	3,298	-10.1	5.5	6,044	5,569	5,900	-7.9	5.9
4. PIP expenditure	1,772	2,362	1,154	33.3	-51.1	6,650	6,592	6,400	-0.9	-2.9
III. SB Deficit (I-II)	**-4,991**	**-2,419**	**-1,422**			**-5,377**	**-3,697**	**-102**		
% of GDP	*-2.7*	*-1.4*	*-0.8*			*-2.9*	*-2*	*-0.1*		
OB deficit/surplus	-4,949	-3,026	-2,297			-3,392	-1,821	1,566		
PIP deficit/surplus	-42	607	875			-1,985	-1,875	-1,668		
IV. SB Primary Surplus	**-1,511**	**707**	**1,876**			**667**	**1,872**	**5,798**		
% of GDP	*-0.8*	*0.4*	*1*			*0.4*	*1*	*3.1*		
GDP (current prices)	182,438	179,081	184,870			182,438	179,081	184,870	-0.3	1.6

[1] Includes privatisation proceeds
[2] Includes military procurement, called guarantees and disbursement fee to EFSF
Source: GAO, State Budget Execution Monthly Bulletin, June 2015

SB deficit and primary surplus

The SB deficit in the first half of the year was restrained at €1,422 million, compared with a target for a deficit of €4,606 million. Correspondingly, the SB primary surplus reached €1,876 million, compared with a target for primary deficit of €1,235 million (Table 2.7). The reduction of the deficit by almost €3.2 billion is exclusively due to lower SB expenditure by €4.1 billion (€2.6 billion from primary expenditure, €0.3 billion from military spending, payments of guarantees etc., and €1.1 billion from the Public Investment Programme - PIP). In contrast, the OB revenues fell short of the target for the first five months by about €1.8 billion; however the shortfall was moderated by higher than the target PIP revenues (from EU funds) by €0.8 billion.

The way the deficit in the first six months was kept low raises two questions: First, is it possible to have such a reduction of expenditure for the rest of the year? And second, did the arrears of the State to suppliers increased in the first five months?[4]

The Ministry of Finance, which notes every month that the expenditure will return to normal once the liquidity conditions allow this, has answered the first question. Regarding the second question, the General Government Monthly Bulletin for May 2015[5] shows an increase of the arrears of the State by €1.3 billion from end of December 2014 through end of May 2015. About 71.6% of the increase is recorded in March, April and May. This implies that liabilities which should have been paid in the first quarter of 2015 remained unpaid for a period of more than 90 days and showed up in the accounts in March, April and May. These liabilities concern SB, hospitals and social security funds. Thus, about 49,0% of the reduction of the expenditure in the first five months is essentially a delay in the payment of arrears. The full picture on the first half of the year, regarding the arrears, will be gradually revealed with the publication of the General Government Monthly Bulletins through September.

Ordinary Budget Revenue

Two trends formed in the OB revenues in the first five months of the year for which detailed data is available. First, there is a large revenue shortfall, with a parallel increase of arrears of taxpayers to the State by €5.2 billion. Second, the revenues received a significant boost from extraordinary receipts of mostly non-tax revenues.

In particular, in the first five months, the total OB receipts (tax and non-tax revenues, before tax returns), fell by 2.2% year on year to reach €18,158 million (Tables 2.7 and 2.8). In addition, they fell short of the corresponding budget target by 5.4% (or €1,035 million).

[4] There are no data for the first six months, for the time being.
[5] Issued monthly by the General Accounting Office, with two-month time lag of the data.

Table 2.8
State Budget Revenues January-May 2015
(million euro)

Revenue category	January – May		% Change
	2014	2015	2015/2014
1. Net SB revenue (2+4)	**19.600**	**18.626**	**-5,0**
2. OB net revenue	**17.300**	**17.048**	**-1,5**
Tax refunds	1.269	1.110	-12,5
3. OB revenue	**18.569**	**18.158**	**-2,2**
Direct taxes	6.947	5.814	-16,3
--Income tax	3.724	3.149	-15,4
--Property tax	1.165	940	-19,3
--Direct taxes of previous years	1.172	967	-17,5
--Other direct taxes	886	758	-14,4
Indirect taxes	9.113	8.973	-1,5
--Transaction taxes	5.790	5.568	-3,8
(of which VAT)	(5.560)	(5.403)	-2,8
--Consumption taxes	2.900	2.968	2,3
--Indirect taxes of previous years	265	298	12,5
--Other indirect taxes	158	140	-11,4
Non-tax revenues	2.509	3.371	34,4
--Receipts from the EU	75	58	-22,7
--Non-ordinary revenue	796	1.236	55,3
--Permits and rights	0	196	-
--Other	1.638	1.881	14,5
4. PIP revenue	**2.300**	**1.577**	**-31,4**

Source: GAO, State Budget Execution Monthly Bulletin, June 2015

Overall, the OB tax revenue fell short of the target by €1,746 million in the first five months of the year. The revenue analysis shows that the shortfall mainly came from direct tax revenue and particularly from corporate income tax (-€695 million), from overdue direct taxes of preceding financial years (-€373 million) and from income tax of households (-€256 million). In addition, a significant shortfall from the targets is recorded in indirect taxes as well, especially in VAT revenues (-€369 million) and overdue indirect taxes of preceding financial years (-€105 million). It is noted that the above revenue categories also fell significantly year on year (see Table 2.8). In contrast, the revenues from new vehicle registration, vehicle circulation and fuel excise duties exceeded the targets for the first five months, due to the recovery recorded in December and in early 2015 in the car market. The revenue shortfall was partly offset by the collection of extraordinary, mostly non-tax revenue, which exceeded the corresponding target by €763 million.

The above tax revenue shortfall seems to be largely connected with the expectations of the taxpayers, created since December, for a more favourable settlement of their arrears and the possibility of elimination or reduction of certain taxes (e.g. the single property tax). Moreover, it seems that in the past few months the tax payers have taken a "wait-and-see stance", as evident from the slow rate of income tax return submissions. Lastly, there are indications of a widespread avoidance of issuing tax receipts and intensifying tax avoidance, especially in the case of VAT. All the above hold particularly strong for June, with the revenues falling to €2,961 million, against €3,634 million in the same month of 2014 and €3,515 million in 2013.

As noted previously, the tax revenues shortfall in the first five months of the year (by €1,746 million) is significantly larger than the overall revenue shortfall (€979 million), as the OB revenues received a boost from extraordinary, mostly non-tax, revenues, which exceeded the corresponding targets for the first five months of the year by €763 million (see Table 2.9).

This revenue was collected mostly in March and April and, with the exception of the receipts from the first settlement of arrears[6], the remaining receipts most probably do not constitute revenues at General Government level (consolidated national account basis).

Note lastly that in order to avoid a shortfall at the end of the ear and to meet the annual budget targets, revenue should increase by 17.4% year on year in the second half of the year. Given that in the first half revenue fell by 4.9%, such an improvement is considered as essentially unfeasible.

Ordinary Budget Expenditure

The OB expenditure in the first half of the year reached €22,088 million, against the target of €25,132 million. This translates into a saving of €3,044 million.[7] Moreover, the expenditure for the first five months of the year is lower by 3.8% year on year (Table 2.10). However, according to all indications, a significant part of the expenditure reduction comes from a delay in the payment of arrears and other OB liabilities and not from actual cost cutting.

The temporary reduction mostly concerned primary expenditure (including military spending, payment of guarantees, etc.), where it reached €2,971 million, while interest payments were also slightly below the target for the first six months (lower by €74 million).

Regarding primary expenditure, the reduction in the first five months of the year concerns grants to hospitals to cover their liabilities (-€500 million),[8] earmarked funds (-€505 million), procurement of military equipment (-€219 million) and other grants (-€210 million). In addition, the expenditure for January-May 2014 included social dividend payments of €169 million, which was not the case in the current year. As a result of the reduction of OB grants, the arrears of hospitals

[6] The second settlement of 100 instalments was taken into account when the budget was drafted.

[7] The SB expenditure in the first six months is short of the target by €4,090 million. Out of this, €3,044 million come from the OB and €1,046 million from the PIP.

[8] The figures in brackets refer mostly to year-on-year changes, as the data from the Finance Ministry (Budget Execution Bulletin) does not list in detail the targets for the first five months of each expenditure category.

increased in the first five months[9] by €416 million, while the arrears of social security funds increased by €465 million. This adds to the overall increase of arrears by €1,283 million.

As mentioned previously, the crucial question here is what will happen for the remainder of the year, as the OB expenditure is planned to increase by 1.7% from 2014, while it fell by 6.7% in the first six months.

Public Investment Programme

The PIP in the first half of the year recorded a surplus of €875 million, responsible for 46.6% of the primary surplus of the SB (Table 2.7). The PIP surplus came on the one hand from investment expenditure being short of the target by €1,046 million and by higher than the target revenues by €759 million. As a result, while the PIP target for the first six months envisaged a deficit of €930 million, PIP turned out to have a surplus of €875 million.

The investment expenditure was down year on year by 51.1% (Tables 2.7 and 2.10).

If this trend carries over until the end of the year, then public investment would fall by about €3,200-€3,300 million, against an annual target of €6,400 million, with very negative consequences for the economy and the implementation of the public projects.

Outlook

The fiscal developments in the first five months, together with the intensification of the political uncertainty, due to the elections and the prolonged negotiations with the lenders thereafter, reveal that the course of the public finances until the end of the year will be difficult, even if the budget is executed without shortfalls. The interruption of the negotiations with the lenders a few days before the end of the extension of the second economic adjustment programme, the referendum and the likelihood of a new round of elections, which cannot be ruled out for now, would result in the budget veering completely off course. If this is combined with other possible politico-economic developments, e.g. at a European level, the consequences could be very dismal.

[9] The data on the first six months at the General Government level is not available.

Table 2.9
Extraordinary OB revenue January-May 2015
(million euro)

Hellenic Telecommunications & Post Commission	114.0
Refunds from public entities	142.0
(out of which from the National Organization for Health Care Services Provision)	(90.0)
Financial Stability Fund	555.0
Total extraordinary non-tax revenue	**811.0**
Arrears settlement (one-week maturity)	147.0
Total extraordinary tax revenue	**147.0**
Total extraordinary revenue	**958.0**

Source: GAO, State Budget Execution Monthly Bulletin, May, June 2015

Table 2.10
State Budget Expenditure January-May 2015
(million euro)

Expenditure category	January-May		% Change 2015/2014
	2014	**2015**	
1. State Budget Expenditure	**21,590**	**20.025**	**-7.2**
2. Ordinary Budget Expenditure	**19,810**	**19.053**	**-3.8**
Interest	2,697	2.905	7.7
Primary expenditure	17,113	16.148	-5.6
--Salaries & pensions	7,630	7.797	2.2
Wages	4,990	5.020	0.6
Other allowances	121	114	-5.8
Pensions	2,519	2.663	5.7
--Social expenditure	4,905	4.934	0.6
Grants to Social Security Funds	4,338	4.533	4.5
Social protection	348	253	-27.3
Grants to OAED	202	135	-33.2
Other	17	13	-23.5
--Operational and other	3,026	2.369	-21.7
Transfers	571	314	-45.0
Consumption	322	268	-16.8
Conditional	1,032	1.160	12.4
Other*	1,101	627	-43.1
--Earmarked revenue	1,552	1.048	-32.5
3. PIP expenditure	**1,780**	**971**	**-45,4**

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

3. PERFORMANCE AND OUTLOOK

3.1 Macroeconomic Developments

Recent macroeconomic developments in Greece

The growth of the Greek economy slowed down substantially in the first quarter of 2015, to 0.4%, compared with a 1.3% growth rate in the last quarter of 2014, according to the latest National Accounts data from ELSTAT.[10] Nevertheless, with the result for the first quarter, the Greek economy has completed a full year of positive quarterly growth rates. The sudden intensification of the political uncertainty during the election period and its peak in February, during the negotiations with the European Union, the ECB and the IMF, were the key drivers of the politico-economic developments in early 2015, as already noted in the previous IOBE report on the Greek economy. Their impact on the GDP components, negative and positive, manifested themselves mainly in consumer behaviour and the course of the external balance of the Greek economy. In particular, the reduction of the GDP growth rate in the first quarter of the current year, compared with the preceding quarter, came from a strong slowdown of the growth of exports. In contrast, investment grew significantly and the growth of household consumption slightly strengthened, while the fall of public consumption expenditure slowed down. The new boost of private consumption was reflected in the strong growth of imports, which however was weaker than in late 2014 and, combined with the small export growth, did not lead to further deterioration of the external sector in national accounting terms.

In greater detail regarding the trends in the GDP components in the first quarter of the year, **domestic consumption increased by 1.0% compared with the same period of 2014,** when it had grown only marginally by 0.4%. **The growth of consumption strengthened from the preceding quarter (from 0.5%).** The trends in the key components of domestic consumption carried over from the previous year to early 2015. **The further growth is exclusively due to household consumption, which increased by 1.6%, compared with 0.5% growth a year before.** Public sector consumption fell marginally in early 2015, by 0.2%. This contraction was less pronounced than in the second half of 2014 (-3.0%), while in the same period of 2014 it had grown by 0.6%.

Investment increased sharply in the first quarter of this year (+27.6%), against a contraction a year before (-19.3%), **recording its strongest boost in the past nine years. The increase came mostly from stronger fixed capital formation (+14.6%), while the inventory accumulation was also quite large (€552 million)**,

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

in the aftermath of a small reduction of inventories in the corresponding period of the previous year (-€73 million).

The sharp increase of investment activity came from two fixed capital categories, machinery and equipment (+23.6%) and transport equipment - mainly passenger cars (+116.5%), compared with a decline by 14.6% and growth by 23.7% respectively in the same quarter of 2014. **In contrast, residential construction continued to decline for a seventh consecutive year, at a great speed (-30.5%),** with the cumulative fall since the first quarter of 2007 reaching 91.2%. The contraction in other constructions came next (-20.4%), offsetting its growth from the previous year (+19.3%). Stability was the dominant trend in other products (+0.3%) and agriculture products (-0.2%), compared with stronger growth in both categories in the previous year (+3.1% and +10.9% respectively).

The strong growth of exports in the last quarter of 2014 (10.0%) did not carry over to early 2015, when they increased by only 1.3%, significantly weaker compared with the same quarter of the previous year as well (+7.8%). Growth slowed down both in the exports of goods (+0.9%, from +5.2% in the previous year) and in the exports of services (+2.2% from +10.7%). Nevertheless, note that **as a result of their growth in the first quarter, for a fourth consecutive year, exports reached their second highest level in history for that particular quarter, at €13.9 billion,** slightly lower than their 2008 peak (€14.6 billion).

The steady recovery of consumption demand for a year, by about 1.0%, mostly from the boost of household consumption expenditure, has resulted in a growth of imports, which also benefited in the first quarter of this year from growth in fixed capital categories (vehicles, machinery). In particular, imports increased by 10.3% year on year in the first quarter, compared with relative stability in the same period of the previous year (+0.3%). **Combined with the small increase of exports in the beginning of the current year, the significant increase of imports widened the external deficit in national accounting terms to €1.86 billion (4.0%) in the first quarter, from only €561 million (1.2%) a year before.**

On the supply side, output grew only marginally in the first quarter, by only 0.2%, at a similar rate with that observed in the same quarter of 2014 (+0.1%), compared with 0.6% growth in the fourth quarter of 2014. The key sectors of the Greek economy are equally distributed between those that grow and those that contract. **The strongest growth of production value added was recorded in Wholesale-Retail Trade, Repair of Motor Vehicles-Motorcycles and Accommodation and Food Service Activities (+5.0%), as in the previous year (+4.3%).** Its growth in the last two years came from a boost of household consumption and stronger international tourist flows. Economic activity in Professional – Scientific – Technical – Administrative – Support Service Activities increased by 2.8%, against a significant drop by 9.7% in the first quarter of 2014. Mining-Quarrying came next, where output grew, albeit slightly (+0.9%), for the first time on a quarterly basis since 2008, while in the same period of the previous year it had declined by a similar rate (-1.0%). Moderate growth was also recorded in Agriculture-Forestry-Fishing (0.6%, from -1.2%) and Real Estate Activities (+0.2% in both quarters).

Given the new, strong decline in residential and other construction in the first few months of 2015, as described previously, the contraction of activity in the Construction sector by 27.6% should not be seen as a surprise. It exceeded substantially the fall in the first quarter of 2014 (-9.0%). Since 2007, when the fall of activity in Construction had started, the cumulative output contraction has reached 81.2%. As a result, the Construction sector now has the lowest output among the 10 main sectors, climbing down from 5th place. The contraction of activity in Arts-Entertainment-Recreation (-3.3%) was significantly weaker, yet it interrupted a two-year recovery of about 7.0%. The marginal decline in Information-Communication observed in the first quarter of the previous year (-0.5%) intensified in the current year (-2.1%). In contrast, the contraction in Financial-Insurance Activities eased significantly (-0.6%, from -6.3%). The recession returned to the public sector (-1.4%, from +0.7%).

The political uncertainty and the slowdown of the growth momentum in the first quarter of this year already seem to have an impact on the labour market, despite the anticipated boost to employment from the stronger recovery in the second half of 2014. **The unemployment rate increased for a second quarter in a row, reaching 26.6%, higher by half a percentage point quarter on quarter. However, year on year unemployment was lower by 1.2 percentage points.** The growth of unemployment in the first quarter of the current year is also related to the prolonged tourism period in the previous year, which is estimated to have lasted until about the middle of the third quarter, maintaining until than a significant part of the jobs in tourism-related enterprises. This development is reflected in the data on employment per sector, as employment fell most quarter-on-quarter in Accommodation – Food Service Activities (-24,300 jobs), followed by Construction and Information-Communication (-9,500 and -9,400 jobs respectively). However, year on year most jobs were created in the Tourism sector (+27,600), while a significant employment boost was also recorded in Wholesale-Retail Trade-Repair of Motor Vehicles and Motorcycles (+20,600) and Manufacturing (+11,900).

Deflation intensified further in the first quarter of 2015, to approach its all-time high in January (2.8%, from

2.9% in November 2013). **Overall in the first quarter, deflation reached its all-time high quarterly rate (-2.4%), higher year on year by 1.1 percentage points.** However, in contrast with the first deflation period, from early 2013 until mid 2014, which came from demand contraction and the lack of new indirect tax hikes, the intensification of deflation now came from the significant, steady reduction of global oil prices. The oil price reduction exerts significant deflationary pressures on the price in two of the three main groups of goods and services that form the Consumer Price Index (CPI), i.e. Transport and Housing. As noted in the previous report, the transport cost has also declined due to the reduction of ticket prices for the Athens public transport. In addition, prices in Education continued to decline, by 3.1%, even though this particular category of services is much less important for the formation of the CPI trends than the previous two categories.

To sum up, the impact on the Greek economy from the return and the intensification of the political uncertainty during the first quarter of the current year led to a further weakening of the recovery of the Greek economy. Meanwhile, unemployment continued to grow for a second consecutive quarter, increasing by one percentage point from October 2014 through March 2015.

The effects of the uncertainty, primarily on the outcome of the negotiations with the country's lenders, include: a) intense liquidity crunch, due to the withdrawal of deposits from the banks by businesses and households, the lack of disbursement of tranches from the EU-IMF loans since last August and the decision by the European Central Bank in February to lift the waiver that allowed it to accept Greek sovereign bonds as collateral, b) weakening of the confidence of potential investors in the outlook of the Greek economy, due to the lack of implementation of the structural reforms that were agreed with the country's partners and due to pre and post election announcements on economic aspects that affect substantially the return on investments, c) reduction of the attractiveness of Greek products and services (e.g. tourism), d) extraordinary consumption expenditure, driven from the perceived currency risk, which has resurfaced since the first quarter of this year.

These effects should be noted also because they carried over to the second quarter, some of them stronger than in the first. In addition, some of these effects are expected to persist for the rest of 2015, with a further impact on economic activity and GDP, as analysed in the section that follows.

Table 3.1

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

Quarter	GDP		Final Consumption		Investment		Exports		Imports	
	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change	€ million	Annual rate of change
2000	190,243	**4.2%**	164,487	**3.3%**	43,696	**9.4%**	43,680	**23.8%**	63,324	**21.3%**
2001	197,112	**3.7%**	171,540	**4.2%**	44,386	**1.7%**	43,021	**0.6%**	62,323	**1.2%**
2002	203,306	**3.2%**	178,926	**4.2%**	44,512	**0.3%**	39,856	**-7.3%**	60,247	**-3.4%**
2003	216,597	**6.6%**	186,580	**4.3%**	53,420	**20.1%**	39,558	**-0.7%**	63,775	**5.8%**
2004	227,176	**5.0%**	194,468	**4.3%**	53,398	**0.0%**	46,689	**18.5%**	67,943	**7.1%**
2005	229,749	**0.9%**	203,375	**4.5%**	45,430	**-15.0%**	48,869	**3.4%**	68,778	**-0.7%**
2006	242,947	**5.8%**	210,411	**3.5%**	57,779	**27.2%**	51,405	**5.2%**	77,996	**13.7%**
2007	251,165	**3.5%**	218,433	**3.9%**	64,013	**10.9%**	56,416	**10.6%**	88,657	**15.1%**
2008	250,065	**-0.4%**	222,226	**1.8%**	59,488	**-7.0%**	58,395	**3.5%**	90,622	**2.6%**
2009	239,162	**-4.4%**	221,573	**-0.4%**	43,034	**-27.7%**	47,803	**-18.5%**	73,252	**-19.6%**
Q1 2010	58,984	0.3%	54,251	-1.4%	10,126	5.2%	12,482	-0.6%	18,704	2.8%
Q2 2010	57,372	-4.9%	52,908	-4.5%	9,722	-6.3%	12,621	4.4%	17,372	-4.0%
Q3 2010	55,426	-7.7%	50,656	-9.8%	9,659	-8.3%	11,917	1.6%	16,700	-8.9%
Q4 2010	54,618	-9.0%	49,677	-9.7%	8,930	-28.6%	12,820	12.1%	16,477	-11.6%
2010*	**226,399**	**-5.3%**	**207,491**	**-6.4%**	**38,437**	**-10.7%**	**49,840**	**4.3%**	**69,253**	**-5.5%**
Q1 2011	53,125	-9.9%	48,016	-11.5%	9,597	-5.2%	12,471	-0.1%	16,574	-11.4%
Q2 2011	52,316	-8.8%	47,408	-10.4%	8,420	-13.4%	12,553	-0.5%	16,337	-6.0%
Q3 2011	51,210	-7.6%	46,879	-7.5%	7,549	-21.8%	12,555	5.4%	15,910	-4.7%
Q4 2011	49,676	-9.0%	45,062	-9.3%	6,524	-26.9%	12,764	-0.4%	15,021	-8.8%
2011*	**206,327**	**-8.9%**	**187,364**	**-9.7%**	**32,091**	**-16.5%**	**50,343**	**1.0%**	**63,842**	**-7.8%**
Q1 2012	49,173	-7.4%	44,881	-6.5%	6,617	-31.1%	12,703	1.9%	14,756	-11.0%
Q2 2012	48,308	-7.7%	43,605	-8.0%	6,535	-22.4%	12,364	-1.5%	14,326	-12.3%
Q3 2012	47,832	-6.6%	42,943	-8.4%	5,494	-27.2%	12,698	1.1%	14,146	-11.1%
Q4 2012	47,354	-4.7%	42,358	-6.0%	6,746	3.4%	13,059	2.3%	14,600	-2.8%
2012*	**192,668**	**-6.6%**	**173,788**	**-7.2%**	**25,393**	**-20.9%**	**50,825**	**1.0%**	**57,828**	**-9.4%**
Q1 2013	46,523	-5.4%	42,046	-6.3%	6,089	-8.0%	12,762	0.5%	14,276	-3.3%
Q2 2013	46,338	-4.1%	42,000	-3.7%	5,266	-19.4%	12,924	4.5%	13,970	-2.5%
Q3 2013	46,112	-3.6%	41,908	-2.4%	5,524	0.5%	13,164	3.7%	14,408	1.9%
Q4 2013	46,024	-2.8%	42,435	0.2%	4,328	-35.9%	12,739	-2.5%	13,500	-7.5%
2013*	**184,998**	**-4.0%**	**168,389**	**-3.2%**	**21,207**	**-16.5%**	**51,589**	**1.5%**	**56,154**	**-2.9%**
Q1 2014	46,372	-0.3%	42,225	0.4%	4,911	-19.3%	13,753	7.8%	14,313	0.3%
Q2 2014	46,493	0.3%	42,468	1.1%	5,046	-4.2%	14,080	8.9%	15,173	8.6%
Q3 2014	46,803	1.5%	42,641	1.7%	4,863	-12.0%	14,246	8.2%	14,914	3.5%
Q4 2014	46,611	1.3%	42,635	0.5%	5,911	4.0%	14,018	10.0%	15,894	17.7%
2014*	**186,278**	**0.7%**	**169,969**	**1.0%**	**20,731**	**-2.2%**	**56097**	**8.7%**	**60,294**	**7.4%**
Q1 2015	46,535	0.4%	42,650	1.0%	6,266	27.6%	13,931	1.3%	15,783	10.3%

* provisional data

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

Medium-term outlook

The already heightened uncertainty during the first quarter of the year, from the elections and the extension of the second economic adjustment programme by four months (in order to complete its progress review and take the necessary measures and policies to ensure the continuation of the fiscal consolidation and debt sustainability), peaked in the second quarter from the constantly recurring weakness of the two sides to agree on the reform priorities, the fiscal targets and the anticipated impact of the fiscal measures, the need for interventions on the Greek debt and the size of the current and medium-term financing needs, to be covered by the official sector lenders of Greece. Understandably, the unsuccessful completion of the review of the second programme and its direct effects (loss of envisaged financing of the Greek state to service its debt, debt moratorium vis-a-vis the IMF, refusal to extend the financing of the banks by the ECB through the Emergency Liquidity Assistance (ELA), imposition of capital controls), together with the decision to hold a referendum, created unprecedented for the Greek economy and society conditions. It is not feasible, for the time being, to predict the duration and the size of the impact of these new conditions.

On the other hand, reaching agreement in principle on certain reforms between the Greek government and its Eurozone partners, so that negotiations on a new programme can start after their implementation, and their passing through parliament that followed, limit, but do not eliminate, the loss of credibility and the likelihood of negative economic developments in the coming months. The extent to which the distrust within the country and abroad will continue to weaken will depend on the normalisation of the government function after the recent reshuffle and the adoption of all the decisions necessary for the implementation of the prior actions on the new reform programme and those reforms that will be included in the programme.

In greater detail, regarding the trends in key economic figures during the second quarter of the current year, the uncertainty due to the prolonged negotiations, without a significant increase of the likelihood of achieving agreement at any point, were mainly reflected in a decline of the economic sentiment, after its strong boost after the elections, and in a dramatic deterioration of the liquidity conditions in the Greek economy. The last development also came as part of the effects from the return of the fear of exit from the euro (currency risk) in the decision making of households and firms.

Reflecting the gradual weakening of the post-election boost of expectations in the country and the escalating concern on the outcome of the negotiations, the Economic Sentiment Indicator of the European Commission, which for Greece is compiled by IOBE, after its increase in February, driven by improvement in consumer confidence, was continuously falling until June, a trend which is expected to strengthen particularly after the politico-economic developments at the end of that month. The deterioration of the economic sentiment in the last four months comes mainly from its key growth driver in the preceding months, namely from a weakening of the consumer confidence. Regarding the key sectors of the Greek economy, the strongest decline of expectations was observed in Construction, mainly in public works, which suffer from implementation delays. The expectations in Services were less optimistic than in early 2015 and year on year. The sentiment in Retail Trade varied slightly at about the same level throughout the first half of the year, which was slightly lower year on year, while a similar path was recorded in Manufacturing, where the year-on-year deterioration and return of pessimism was stronger.

The liquidity conditions in the banking sector deteriorated rapidly in the second quarter of the current year, while the lack of financing of the Greek state, for a tenth consecutive month (as the review of the Economic Adjustment Programme by the IMF and the EC was not concluded during this period), pushed to the limit its liquid reserves.

In particular, according to the latest data from the Bank of England, the deposits in domestic financial institutions declined by €39.2 billion (-22.1%) from December through May, out of which €21.7 billion were withdrawn after the elections. As a result, deposits at the end of May did not exceed €138.6 billion, their lowest level in 11 years (since June 2004). The largest part of the deposit flight was observed in household deposits (-€24.6 billion from December to May, -€14.1 billion since February), while the reduction of corporate deposits was lower in absolute terms (-€9.8 billion and -€4.1 billion respectively). This reaction of households and enterprises is seen as an attempt to protect their wealth from the currency risk.

To cover these losses, the banks made use of the Emergency Liquidity Assistance (ELA) of the ECB. The liquidity drawn by the domestic banking system through this mechanism increased from €44.9 billion in November, to nearly €82 billion after six months, an increase of about €37 billion, which is slightly less than the deposit flight during the same period. Nevertheless, it is estimated that the turmoil in households and firms from the last stages of the negotiations and their interruption at the end of June, accompanied by a strong flight of deposits, has resulted in a significantly lower balance in the banks, despite the imposition of capital controls.

Still, it should be noted that despite the strong deposit flight from the banking system since the last month of 2014 and its liquidity support largely from ELA, the flow of credit to the private sector of the economy did not deteriorate in the months after the elections, except for May. From January through April, the contraction rate of credit to the private sector varied around 1.5%, significantly below the 2.7% rate from the last quarter of 2014. However, in May business credit declined further, by 3.0%.[11] The slowdown of the credit contraction is exclusively due to corporate credit expansion since January, for the first time since November 2009. Corporate loans increased by 0.5% in the first four months of the current year. In contrast, the household credit contraction continued in 2015 at the same rate with the previous year, by about 3.5%. Naturally, the turmoil at the level of available liquidity in the banking sector, generated from the interruption of the negotiations, the lack of further expansion of ELA by the ECB and the imposition of capital controls, is estimated to exacerbate the trends and the terms of credit provision by the banks.

The access of the banks to liquidity from the global markets, in order to cover the flight of deposits and part of the domestic business needs, particularly of large corporations, was significantly hampered by the downgrade of the credit rating of Greece in the past few months.

The protracted lack of funding of the Greek state resulted in the concentration of all available resources from the reserves of General Government entities (e.g. social security funds, the Prefecture of Athens, the Manpower Employment Organization) to pay ordinary expenses (wages, pensions, benefits, etc.) and to service public debt. Meanwhile, a restraint of primary expenditure by €2.6 billion, out of which €1.1 billion came from expansion of the arrears of the state to its suppliers, as evident from the latest data on the execution of the State Budget, exacerbated further the liquidity crunch in the private sector.[12]

As already mentioned, the decline of household and corporate deposits came as a result of the return of the currency risk in the decision making of households and enterprises. To safeguard their wealth, many households would likely invest the deposits that they withdrew from the banking system abroad, deteriorating the country's financial account. The strong growth of receivables in the "other investments" category of the financial account, which includes deposits of residents of Greece abroad and the extension of credit to non-residents of Greece, by €16.5 billion in the first four months of 2015, compared with a declined by €3.0 billion in the corresponding period of 2014, is a relevant indication. The growth mostly reflects a statistical adjustment, related to the above-limit issue of banknotes by the Bank of Greece. It also incorporates, however, a net increase by €5.4 billion of deposits and repos of Greek residents abroad. On the other hand, the domestic receivables in "portfolio investments" fell in the first four months of the current year by €6 billion, compared with a €691 million increase a year before.

The realisation of more and hurried, to some extent, purchases by households and enterprises of products produced abroad, particularly of durables and capi-

[11] Bank Credit to the Domestic Private Sector Bulletins, Bank of Greece

[12] GAO, State Budget Execution Bulleting June 2015, July 2015

tal goods, is one more action aimed at safeguarding their wealth. Indicatively, already from the first quarter of 2015, the seasonally adjusted turnover of the motor vehicles sector was 16.9% higher year on year. During the same period, the seasonally adjusted sales of machinery and equipment increased by 23.6%, recording their strongest growth since the second quarter of 2008. Of course, besides the direct impact from the boost of private consumption and investment respectively, the increase in these two expenditure categories led to a boost of imports, exacerbating further the external balance of the Greek economy. In part, their growth is estimated to be due to increase of the imports of goods by 10% in the first quarter this year, compared with no change a year earlier, which is estimated to carry over and intensify during the second quarter.

The lack of new fiscal measures boosted consumption expenditure in the first half of 2015, despite the concern over the outcome of the negotiations. The (seasonally adjusted) volume of Retail Trade, except for Fuels, grew year on year by 1.8% on average in the first quarter, in contrast with the same period of 2014, when it had contracted by 3.7%. In April, the indicator declined, which however is considered to have come mainly from base effects, due to the high level of the indicator in the corresponding month of the previous year. The upward trend of consumption will be interrupted by the uncertainty caused by the sudden recent political developments and the imposition of capital controls.

The persistent growth of international tourism, at least in the first half of the year, partly offsets the negative effects of the hurried consumption and investment expenditure on the external balance of the economy. The steady trend since the beginning of the year forebodes that Accommodation – Food Services will continue to have a crucial role for the shaping of domestic economic activity in the current year. In particular, the latest data from the Bank of Greece indicate that international arrivals increased in Greece by 28.3% in April, with even larger growth overall in the first four months (+39.3%).[13] The boost of travel receipts was less pronounced than the growth in international arrivals, growing by 14.4% in the first four months of the current year. The surplus of the travel account increased by 36.8%. It seems that despite the international concern about the negotiations of the Greek government with its lenders, the persistent low value of the euro against the dollar and other currencies (pound sterling, Canadian dollars) has significantly boosted Greece as a tourist destination, a trend that is expected to have carried over at least until the end of the first half of the year. In contrast, the failure to achieve an agreement with the country's partners in order to complete the second Economic Adjustment Programme and the imposition of capital controls, is considered to have hampered significantly the

[13] Developments in the balance of travel services – April 2015, Bank of Greece, 23/06/2015

global attractiveness of the Greek tourist resorts. The extent of the impact of this development on the international tourist flows and travel receipts will reflect on the data in the coming months. It cannot be ruled out that this will offset the improvement recorded in the first half of 2015, bringing the surplus of the travel account back to its level from last year.

Regarding the latest trends in other sections of economic activity, the improvement recorded in the first quarter of the year is weakening in the second quarter (data until May). Despite the carry-over effect from the recovery of the economy in 2014 to the beginning of the year, the protracted uncertainty on the outcome of the negotiations and its impact on demand, domestic and foreign, have interrupted the growth observed in the first quarter.

In greater detail, industrial production fell by about 1.5% in April and May 2015, compared with 2.3% growth in the first quarter of the year and a similar decrease (-1.8%) in the same period of last year. The reduction came exclusively from a year-on-year fall of industrial production in May by 4.0%.[14] The reversal of the trend came from a fall in Manufacturing, which had maintained a positive growth until April. The year-on-year increase in Water Supply had a clearly lesser importance for the growth of the overall indicator. The contraction in both Mining-Quarrying and Electricity Generation-Distribution carried over stronger from the first quarter, reaching 13.3% (from 11.6%) and 6.2% (from 4.9%) respectively. Construction activity, in the aftermath of uninterrupted strong contraction between 2008 and 2014, experienced steady growth in the first three months of 2015, by about 30%, both in terms of surface and volume. The growth of building permits was weaker (+7.9% in the first quarter), reflecting the start of large construction projects (e.g. factories, hotels, shopping malls). However, this growth was interrupted in April, when the surface of new buildings declined year on year by 6.3%, while their volume was lower by 3.6%. The significant increase in Civil Engineering, which includes public sector projects, during the same period (+53.5%), as a result of the carryover of the effect from their restart in 2014 (+56.3%) to the current year, shaped the growth in the overall production index of Construction to 38.6% year on year in the first quarter.

Regarding the trends on the demand side, the course of Retail Trade was analysed previously. Wholesale trade experienced a modest decline in the first quarter of the year (-1.0%), compared with a similar decline in the last quarter of the previous year, slightly stronger than earlier in 2014 (-0.3% in the first quarter). The strong deflation persisted until June, remaining above 2.0% since the beginning of the year (-2.3% on average), compared with a deflation of 1.3% in the same period of last year. The strong price decline continues to be driven mainly by the signifi-

[14] The data on 2015 come either from ELSTAT or Bank of Greece. The indicated changes refer to year-on-year variations.

cantly lower year on year oil price and not from demand contraction, as evident from the data on Retail Trade. As noted in the discussion on the first quarter trends, the lower oil price limits both housing cost and transport cost, two of the three categories of goods and services with the largest contribution to the shaping of the Consumer Price Index. Nevertheless, this particular effect will end by the end of the third quarter, with the completion of a year since the start of the oil price decline.

The foreign demand for goods and services, based on the latest data from the Bank of Greece, declined slightly in the first four months, by 2.8%, compared with 5.4% growth in 2014, exclusively due to the fall of the foreign demand for goods and in particular the exports of fuels. The exports of services increased by 2.9% in the current year, against a growth of 12.3% in the previous year. The growth in the current year came mostly from tourist services and transport. Nevertheless, the Greek exports did not seem to take advantage from the devaluation of the euro against the dollar, as anticipated in early 2015. The negative impact from declining exports on the balance of products and services was more than offset by the larger decline of imports by 3.7%. Their contraction came from a reduction of the imports of goods by €1.05 billion (or -7.5%), in the aftermath of a mild growth in early 2014 (+1.3%). The boost of the domestic demand for transport and other services increased the imports of services by 10.1%, much stronger than in the previous year (+1.7%). The stronger import contraction, compared with the contraction of exports, resulted in a lower deficit in the external balance by €250 million or 7.1%, which reached €3.25 billion from €3.5 billion.

Apart from the contraction of activity of some sectors of the Greek economy already from the start of the second quarter, the trends in the economy overall and its sectors for the remainder of the year, with minor exceptions, together with their medium-term prospects, until mid 2017 at least, are expected to be driven by the current sharp politico-economic developments, namely the imposition of capital controls, the arrears to the IMF and chiefly the outcome of the negotiations on the third bailout programme. Taking into account that in Cyprus the capital controls lasted for almost two years, their full elimination is not expected to take place within 2015. It is quite possible that capital controls would be maintained and gradually relaxed throughout 2016. Some of the effects from this exceptionally unfavourable development were already presented. Without the possibility of quantification at this stage, the impact of the capital controls is expected to be reflected mainly on:

a) Significant shift in the bying-consumption priorities of the households and curb of their consumption expenditure.
b) Significant difficulties in exports-imports of products

c) Reduction or suspension of production, due to lower domestic demand and obstacles in the imports of raw materials/exports of goods
d) Suspension/cancelation of payments from and to the state
e) Decline of international tourist arrivals
f) Suspension of the implementation of investment plans
g) Strong accumulation of inventories, particularly for products whose demand fell sharply, such as durables and capital goods

The missed IMF loan payments, together with the downgrade of the credit ratings (to CCC from CC by Fitch, to Caa3 from Caa2 by Moody's, and to CCC- (selective default) from CCC for the Greek banks by Standard & Poor's) and the request for a third bailout programme, is expected to cut off the Greek economy from the global capital markets at least until the end of 2017, even in the case that a new deal with the EU partners is signed. As a result, the capital cost for the enterprises will remain exceptionally high.

In detail regarding the medium-term outlook of key macroeconomic figures, **the capital controls, even with a gradual relaxation, will bring contraction of household consumption, which was growing when the negotiations with the country's lenders were interrupted and the concern of the households over this development had peaked.** In parallel, the structure of consumption will shift, mainly towards consumption goods and services, with a sharp drop in the demand for durables, such as dwellings and vehicles. Nevertheless, weakening of the growth of household consumption from the first half of the year into the second was expected from the changes in the VAT rates, which had been part of the discussed measures since last autumn. The contractionary pressures on consumption will depend on consumer confidence, which will be formed by the course of the negotiations with the country's partners on the new programme and its features, primarily with regards to its fiscal targets. The speed of the progress of the negotiations will also determine the rate with which the capital controls will be relaxed, a parameter which will also influence significantly the expectations in the current half of the year. **Therefore, the reduction of household consumption demand will not be avoided, however, it will probably be mild for the year in total, as it will be moderated by the increase of consumption in the first half.**

As household consumption expenditure is the key source of indirect taxation, the stronger than initially anticipated fall in consumption due to the imposition of capital controls will have a negative impact on tax revenues, due also to the shift of consumption to basic essentials, which have a lower VAT. The recent VAT hikes will ease the shortfall of the tax revenues against the 2015 targets, which will perhaps be revised down when the design of the new programme is completed and the revised budget is submitted to parliament.

On the other side of domestic consumption expenditure, the trends in public consumption will be set by the developments around public sector employment and the extent of repayment of the 2012 wage cuts. Despite the fact that the target of the Economic Adjustment Programme for 15,000 new recruits is not considered feasible, if the negotiations reach an agreement that the target includes the recently rehired 7,500 redundancies from past years (teachers in vocational senior high schools, employees of the state broadcasting company ERT, school security staff, administrative staff of universities, maintenance staff of the Ministry of Finance, etc.), this will exert a mild upward pressure on public consumption. Possible severance/compensation payments for the 2012 wage cuts, which has still not started, would also push public expenditure up. The execution of the corresponding expenditure will depend on the liquidity level of the Greek state, which in turn is positively related with the drafting of a new programme, a development that is not expected before the end of the third quarter. **Therefore, as long as these positive effects on public consumption take place at least partly in the current year, they will keep public consumption close to its level from the previous year or raise it a bit.**

Otherwise, taking into account the current year-on-year decline in public revenue (see section 2.2 B of this report), and the difficulties for paying tax liabilities due to the bank holiday and the lingering political uncertainty, together with the assessment on shortfall of revenue from indirect taxation against the 2015 budget, the manifestation of intense difficulties and inability to pay ordinary consumption expenditure of the Greek state in the remaining months of the current year cannot be ruled out.

Regarding investment activity, the strong uncertainty surrounding the domestic political developments, the anticipation for the outcome of the negotiations on a new programme and its features, and the recent turmoil in the banking system, with its impact on their capital adequacy, which has not yet been fully assessed, is expected to become a key restraining factor for the vast majority of business investment projects in the second half of 2015. At this point, note that the small increase in fixed capital formation in the previous year, by 2.9%, came from a gradual restoration of the credibility of the Greek economy. The achievement of primary fiscal surplus in 2013 (1.2% of GDP, based on the programme's definition), earlier than anticipated, together with the achievement of a small current account surplus (0.6%, due also to the payment of ANFAs and SMPs by the ECB), boosted significantly the confidence abroad, on the one hand in the ability of the Greek state to make its public finances viable and on the other in the presence of a strong momentum of correcting the structural imbalances of the Greek economy. Meanwhile, the recapitalisation of the domestic "systemic" banks and the outcome of two stress tests (BoG, ECB) ensured their capital adequacy, which had a positive impact by the end of last year and in early 2015 on the rate of corporate credit expansion, turning positive for the first time since 2009. Naturally, these particularly positive developments should not lead us to ignore the delays and the poor performance in other economic policy aspects, which had an impact on economic activity, such as the structural changes in sectors of economic activity and the public sector, and in the area of privatisation and concessions.

Lacking reform implementation at least since the second half of 2014, suspension of the effort of fiscal consolidation during the current year, protracted negotiations to complete the second Economic Adjustment Programme, the bank holiday and the capital controls, the arrears on public debt repayments, have understandably hurt the above past performance, critically undermining the confidence in the Greek state and economy. Adjusting the analysis in the previous quarterly report of IOBE on the potential impact of the negotiations to the new conditions, if the negotiations on a new programme that will ensure the completion of the fiscal consolidation and the sustainability of the public finances, the restart of the necessary reforms in the operation of the state and the structural changes in markets, start and finish, this development will improve the sentiment in the Greek economy, eliminating the uncertainty regarding the currency risk and the financing of the country.

However, the restoration of trust of the potential investors regarding the implementation of all agreed measures and the stability of certain features of the economy that affect significantly the return on investment, such as the tax system, the labour relations, the robustness of the banking system and the access to corporate credit, is essential in order to improve the investment climate.

In particular regarding **public investment,** the significant shortfall from the target of expenditure of the Public Investment Programme during the first half of the year, by 51.1% (€1.15 billion from €2.36 billion), despite higher than budgeted inflows from the EU funds (€1.76 billion against €1.05 billion), is primarily due to lack of payment of the required national contribution to the co-financed projects and secondarily the significant underutilisation of the purely national component of PIP (€115 million against €237 million). The course of the domestic component of public expenditure reflects saving of funds in order to cover other, primary expenditure of the state, given the lack of financing from its lenders. On the other hand, the early disbursement of the last €500 million from the EC as part of NSRF 2007-2013, to cover 100% of the financing of select projects, as envisaged in the 12 July agreement, will moderate the financing difficulties on the implementation of PIP that come from the Greek side. However, this implies a reduction of NSRF 2007-2013 by €2 billion, due to the suspension of investment projects that would have taken place if the national contribution was also available. As a result, the PIP implementation in the current year will fall short of the target for €6.4 billion expenditure, with a corresponding impact on domestic investment activity.

Even wider shortfall than that of the PIP is expected in the current year in the implementation of the privatisation - concessions programme. The concession for the exclusive right to a mutual horse-betting license was the only successfully completed procedure by the Hellenic Republic Asset Development Fund (HRADF) in the first half of 2015. The sale of the electricity transmission system operator ADMIE is the only prior action on privatisation or concessions included in the commitments to start the negotiations on a third programme that were voted through parliament recently, granting also the possibility to take measures of equivalent effect on the competitiveness in the relevant market. Therefore, the acts of privatisation-concession that will be completed this year will be much fewer than the target, which will have an impact on the earlier anticipated boost of investment and GDP from privatisations and concessions. Note that the sharp decline of HRADF activity takes place against expectations for strong activity in the current and coming years, as a result of the delays in the procedures that had taken place in the previous years.

Buildings and structures could be a category of investment that could experience growth, albeit small, in 2015, after several years of strong contraction. The positive impact on this type of investment from certain large projects in early 2015, as evident in the corresponding data from ELSTAT, will carry over at least until the end of the first half of the current year. In addition, the pre-election pledges for a reduction of property taxation and the lingering lack of clarity on how property would be taxed, moderated the negative impact on construction works and activity from taxation in the previous years. Regardless of the trends in construction activity, **the strong contractionary pressure of the bank holiday and the capital controls on the financing of private investment, the underutilisation of PIP, the limited activity of HRADF and chiefly the loss of credibility regarding the stability of the Greek economy, after the failure to complete the second programme and under the uncertainty on agreeing and implementing a new programme, will push investment significantly below its 2014 level.**

In the **external balance of the Greek economy**, the capital controls will have a crucial impact on the trends in both exports and imports in the coming months. Regarding **exports,** the difficulties experienced in financial transactions for the exports of goods (e.g. issuance of guarantees and letters of credit), which will remain in place until special measure are taken to address these problems, will have a direct negative impact. The political instability already has and will continue to have negative effects on attracting international tourism. Given the very good performance of the exports of services in the second half of 2014, primarily due to the large wave of tourist arrivals, the exports of services will decline year-on-year. On the other hand, as the weak export growth during the first half of the current year came exclusively from notably lower exports of petroleum products (see section 3.3), due to the extensive drop of the oil price already from the third quarter of 2014, this particular negative influence will weaken significantly in the second half of the year, when the oil price will meet its level from the previous year. **Provided that the domestic political turmoil ends soon, strong indications of convergence with the international lenders on a new programme become evident and the bank transactions regarding exports become easier,[15] the growth of the exports of goods except petroleum products from the first months of 2015 will carry over, moderating the fall of total exports due to the decline of the exports of services.**

The strong growth of **imports** during the first half of 2015 is expected to cease, due to the sudden decline of household consumption, analysed above, and the sluggish investment activity. Apart from the reduction of demand, the realisation of imports will face problems from the processing of these transactions, mainly due to difficulties in securing credit insurance and guarantees for exports to Greece by the European suppliers of the Greek enterprises. Until the end of June, the guarantees to companies in Greece for making imports were provided by state-owned export credit agencies, with a complete reinsurance by the corresponding finance ministries, as envisaged in a relevant decision by the European Commission, which facilitated imports. **The strong reversal of the trend in imports in the third quarter, at the latest, is expected to outweigh the deterioration of the external balance from the reduction of exports, leading to lower current account deficit and moderating the recession of the Greek economy.**

The above analysis of the trends in the key components of GDP reveals the direct, multifaceted and significant consequences of the domestic political turmoil, the lack of funding for the Greek state and the imposition of capital controls. Note that the extend and strength of the impact from these particular developments are tightly linked with their duration and further turns they might take, which in turn will depend on the progress in achieving agreement with the country's partners. As a result, the course of the Greek economy in the second half of 2015 and most probably in the coming years will depend fully on political devel-

[15] In a press release dated 1/7/2015 with the title "Interventions of PEA on external trade after the imposition of capital controls", the Panhellenic Exporters Association presents the challenges for the international trade transactions due to the capital controls and makes proposals to overcome these challenges.

opments that cannot be predicted in the current period. Therefore, making specific, numeric predictions for some of the key macroeconomic figures, such as unemployment and inflation, is not feasible. As evident from the above analysis, an outline of a general trend for each magnitude, based on certain assumptions, which do not exhaust all possibilities, is the only currently feasible option.

Given this approach in analysing macroeconomic developments, consumption demand is expected to weaken in the current half of the year, due mainly to the capital controls, the suspension of certain consumption expenditures by the households until the completion of the negotiations with the lenders and the new fiscal measures that served as prior actions to start the negotiations. Public consumption will stabilise or slightly increase, provided that the reemployment that took place will count against part of agreed new recruitment for the current year, while it may also be boosted by the payment of compensations for the 2012 wage cuts. The significant credibility loss of the Greek state and economy, from the delayed servicing of debt liabilities, the imposition of capital controls and the lack of reform implementation in the first half of the year will lead to suspension of the vast majority of investment projects planned for the rest of 2015. The same developments have immobilised the implementation of investment projects and activities by the public sector as well (NSRF 2007-2013, privatisations-concessions).

The difficulties in the international bank transactions under the current extraordinary payment conditions have an impact both on exports and imports. In particular, international tourism, responsible for large part of the export growth in 2014, will suffer from the political instability. However, as long as the political turmoil subsides and banking practices that facilitate international transactions are adopted, the growth of the exports of goods except petroleum products from the first months of the current year might carry over to the rest of the year, moderating the fall of exports overall for 2015. In imports, the sharp fall of demand will add to the negative impact from the significant transaction obstacles. Combining the trends in the GDP components, economic activity is expected to fall in 2015, with the Greek economy returning to recession. However, the speed and extent of the fall will depend on the domestic political developments, the process of agreeing on a new programme with our partners, the terms of the programme (fiscal and growth measures) and the capital adequacy of the banking system, after the extensive flight of deposits and deteriorating situation regarding the non-performing loans. **As output in the first half of the year is estimated to have remained close to its level from last year and given that the Greek government is on a course of reaching agreement with the international lenders on a new programme, the impact on the Greek economy from the acute political turmoil in late June – early July and the bank holi-**

days will not be very severe. Therefore, the recession in the current half of the year will lead to a GDP decline for 2015 overall by about 2.0%-2.5%.

The steady downward momentum in unemployment for more than a year, since the second quarter of 2014, with negative year-on-year changes, will most probably end in the third quarter. The recent largely unexpected political developments and the extraordinary regime of bank transactions will have a negative impact on economic magnitudes and sectors that set the Greek economy on a mild growth path in 2014 and early 2015, creating many jobs in the process, as in Accommodation – Food Services and Retail – Wholesale Trade.

The political instability and the capital controls are expected to have major impact in these sectors and activities. These developments have negative effects on the international appeal of Greece as tourist destination, which will curb activity and employment in the tourism enterprises. In addition, the weakening of household consumption expenditure, after a short-lived increase to secure certain basic necessities, will have a negative impact on the turnover of trade companies, leading to a reduction in their employment.

The political processes around the negotiations brought a suspension of the envisaged in the programme recruitment of 15,000 people in the public sector. The forecast made in late 2014 and early 2015 on further decrease of unemployment in the current year were based inter alia on the anticipation that the new public sector recruitment would take place. However, the number of re-employed individuals that lost their jobs in the public sectors in the past few years is much lower than the programme target. In addition the 12th July agreement with the country's partners does not include any measures on employment in the public sector.

All the specific developments that were mentioned above contribute to a rebound of unemployment in the second half of 2015. **The extent of unemployment growth is a function of the duration of the political instability, which in turn depends on reaching an agreement on a new economic adjustment programme. As long as the conditions on stabilisation of the politico-economic environment are not present, the uncertainty within Greece and abroad on the political developments and its medium-term outlook will remain exceptionally heightened, while activity in the economy overall and in sectors that contributed to the fall of unemployment in the previous year will continue to contract, with a corresponding effect on employment.**

Therefore, it is not currently feasible to make a prediction on whether the hike in unemployment from the third quarter of 2015 onwards will result in higher or lower unemployment for the year overall, compared to 2014 or previous years.

Table 3.2
Domestic Expenditure and Gross Domestic Product – European Commission estimates
(at constant 2010 prices)

	2013	2014	2015	2016
Annual Percentage Changes				
GDP	- 3.9	0.8	0.5	2.9
Private Consumption	- 2.0	1.3	0.6	2.4
Public Consumption	- 6.5	-0.9	-0.6	-0.3
Gross Fixed Capital Formation	- 9.5	2.7	-3.1	7.2
Exports of Goods and Services	2.1	9.0	4.1	5.1
Imports of Goods and Services	- 1.6	7.4	2.0	3.6
Employment	- 3.8	0.7	0.5	2.9
Compensation of Employees per capita	- 7.1	-1.6	0.1	1.7
Real Unit Labor Cost	- 4.9	1.0	1.4	1.0
Harmonised Index of Consumer Prices	- 0.9	-1.4	-1.5	0.8
Contribution to real GDP growth				
Final Domestic Demand	-3.9	1.0	-0.1	2.4
Net Exports	1.1	0.2	0.6	0.5
Inventories	-1.1	-0.5	0.0	0.0
As a percentage of GDP				
General Government Balance	-12.2	-3.5	-2.1	-2.2
Current Account Balance	-2.3	-2.2	-1.6	-1.3
General Government Gross Debt	174.9	177.1	180.2	173.5
In percentage terms				
Unemployment (% of labor force)	27.5	26.5	25.6	23.2

Source: European Economic Forecast, spring 2015, European Commission, May 2015

Table 3.3
Comparison of forecasts for selected economic indicators for the years 2014 - 2016
(at constant 2010 prices, annual % changes)

	MinFin			EC			OECD			IMF		
	2013	*2014*	*2015*	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*	*2014*	*2015*	*2016*
GDP	-3.9	0.6	2.9	0.8	0.5	2.9	0.8	2.3	3.3	0.8	2.5	3.7
Final Demand	:	:	:	2.4	0.9	3.0	-0.4	0.9	2.0	:	:	:
Private Consumption	-2.0	0.2	1.6	1.3	0.6	2.4	0.3	0.7	1.9	:	:	:
Harmonised Index of Consumer Prices (%)	-0.9	-1.0	0.3	-1.4	-1.5	0.8	-1.0	-0.7	-0.3	-1.4	-0.3	0.3
Gross Fixed Capital Formation	:	:	:	2.7	-3.1	7.2	-3.5	6.8	7.7	:	:	:
Unemployment (%)	25.5*	24.8*	22.6*	26.5	25.6	23.6	26.4	25.2	24.1	26.5	24.8	22.1
General Government Balance (% GDP)	-1.6	-0.9	-0.2	-3.5	-2.1	-2.2	-1.0	-0.5	0.2	:	:	:
Current Account Balance (% GDP)	:	:	:	-2.2	-1.6	-1.3	1.2	1.0	1.8	0.9	1.4	1.1
Gross Public Debt (% GDP)	174.9	177.7	171.4	177.1	180.2	173.5	176.1	174.3	171.4	177.1**	176.7**	169.7**

* On a national accounts basis
** Preliminary Draft Debt Sustainability Analysis, IMF, June 2015
Sources: Introductory Report for the 2015 Budget, Ministry of Finance, November 2014 – European Economic Forecast, spring 2015, European Commission, May 2015 - OECD Economic Outlook No. 96, November 2014 –World Economic Outlook, IMF, April 2015

The public concern peaked with the very high political instability and the imposition of capital controls, which will determine the trends in demand and prices in the coming months. Initially, this led to a significant increase of the sales of certain product categories, such as food and other basic necessities, moderating the strong deflation recorded until June. However, the need to maintain relatively high liquidity due to the capital controls will most probably lead to weakening of demand at a later stage.

The further developments in consumption demand and prices will depend on the duration of the politico-economic turmoil and capital controls. The prospect of agreement on a new programme relatively soon, within the coming two months, will contribute to the easing of uncertainty and the start of the relaxation of the capital controls, leading to transaction and price growth. The VAT changes that were voted already will largely be passed on to final prices, as evident from the past experience on indirect tax hikes in Greece in the previous years. The end of the deflationary impact on CPI from the fall in oil prices a year ago will facilitate the return of inflation in Greece in the coming six months. **Therefore, there seem to be no effects that would carry over the strong deflation from the first half of 2015 to the rest of the year. The duration and strength of the above factors, most of which create inflationary pressures, will determine whether the strong deflation from the first half of the year will weaken significantly or the inflation rate for 2015 overall will turn to positive territory.** The second development is considered more likely, as the change in the VAT rates will be in force for about half of the year.

3.2 Developments and outlook in key sectors of the economy

Industry

The industrial production index increased by 0.8% during the first five months of 2015, against 2.2% contraction in the corresponding period of 2014. However, note that in May the growth momentum from the previous months (from February through April) dwindled, which is considered to be related to the wider uncertainty due to the protracted negotiations and the failure to reach an agreement between the Greek government and the institutions.

During the same period, industrial production in the Euro area continued to grow, by 0.8%, at a slower rate than in the same period of 2014 (+1.4%).

In key sectors, the largest contraction was recorded in Mining, where output declined by 10.5% in the first five months, against a growth by 6.9% in the same period of 2014. Electricity generation came next, where output contraction eased to -6.7% from -10.9%. In contrast, growth was observed in Water Supply (+5.7% from -2.8% in 2014) and Manufacturing, where output increased by 3.7%, compared with a marginal decline by 0.1% in the corresponding period of last year.

In **Mining** the decline of the index came from a significant output drop in Extraction of crude petroleum and natural gas (-18.5% from +1.6% in the previous year), output reduction in Mining of metal ores (-9.8% from -1.9%) and a similar change in Mining of coal and lignite (-14.9% from +2.5%). Lastly, output in Other mining and quarrying increased by 1.8%, compared with a significantly stronger growth by 27.3% in the first five months of 2014.

In **Manufacturing**, output declined in 8 of its 24 branches in the first five months of 2015. In branches that are particularly important for the Greek economy, output increased in Basic Metals (6.1%, from 9.8% in 2014) and in Basic Pharmaceutical Products by 3.3% (from 1.7% contraction in the corresponding period of 2014). Lastly, Manufacture of Food Products increased as well, with the index growing by 1.9%, compared with a more modest growth by 0.9% in the previous year.

In the remaining manufacturing branches during the first five months of 2015, the largest output decline was recorded in Footwear (-18.6%, against -17.1% in the same period of 2014), followed by Wearing Apparel (-11.0% from -8.2% in the previous year). Repair and Installation of Machinery and Equipment declined further by 9.5% (from -12.2% in the first five months of 2014). The output of Wood-Cork decreased by 8.3% (from -18.4%), followed by Printing and Reproduction of Recorded Media (-6.3% from -1.2%). In contrast, the branches with the highest growth rates include Manufacture of Computer, Electronic and Optical Products (+41.0%, on top of 48.9% increase in the previous year), Manufacture of Tobacco Products (+29.7%, compared with 13.7% contraction in the first five months of 2014) and Manufacture of Coke and Refined Petroleum Products (+7.0%, against 1.2% contraction in the previous year).

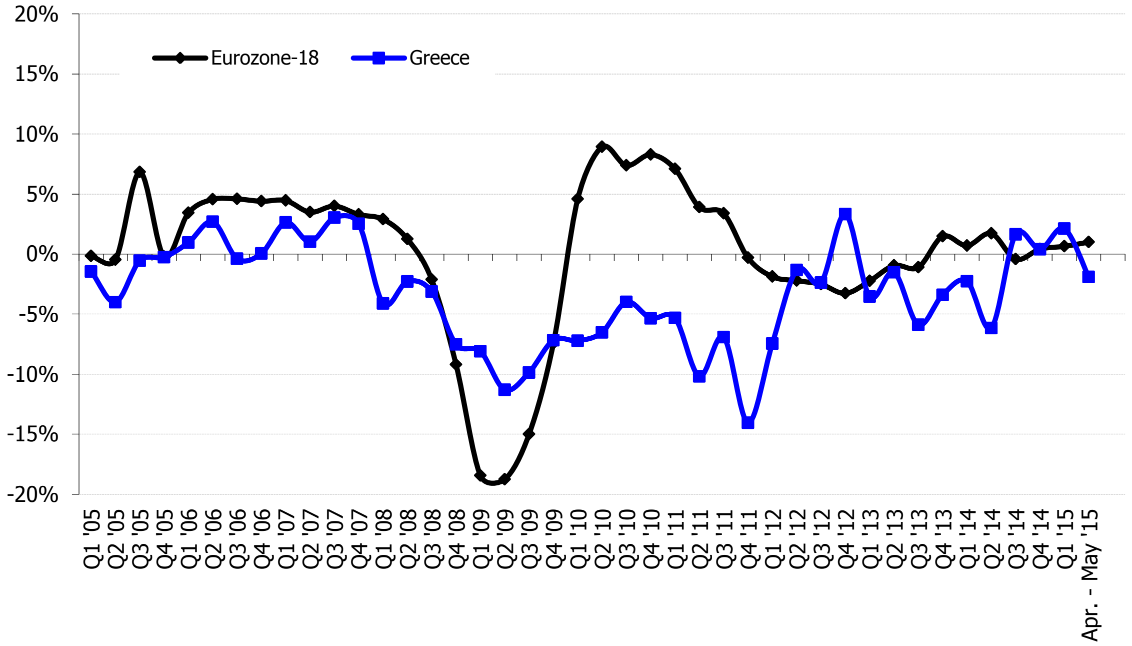
Output increased in the first five months of the year in all major categories of industrial products. In particular, output increased most in durable consumption goods (+3.3%, from a contraction of 9.0% in 2014), followed by non-durable consumption goods (+3.0%, from -1.0%). The output of capital goods increased by 2.7% (compared with 0.6% contraction in the previous year), while intermediate goods increased by 2.5%, compared with 3.5% growth in the same period of the previous year.

Construction

The trend from the past few years in Construction was interrupted in the first quarter of 2015, as the production index increased by 38.4% year on year, compared with a 7.5% contraction in the same period of the previous year.

Figure 3.1

Industrial production indicators in Greece and in the Euro Area (% year-on-year change)



Source: ELSTAT, Eurostat

Regarding its constituent categories, the Construction of Buildings increased by 23.0% year on year, compared with a significant contraction by 12.6% in the first quarter of 2014. The output of Civil Engineering increased for the first time in five years, by 53.5%, compared with a 1.8% decline in the same period of the previous year.

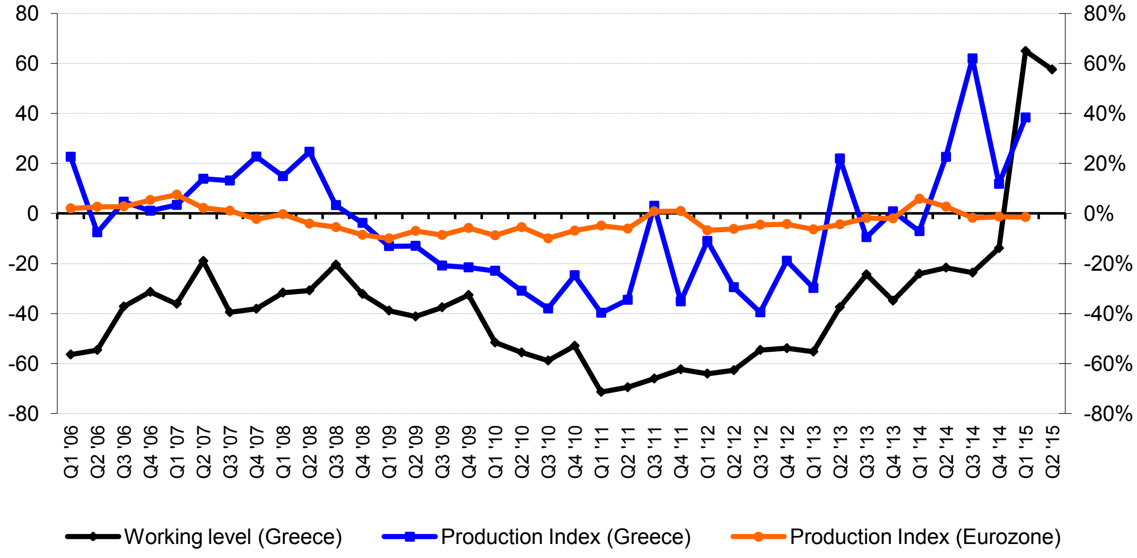
In contrast, marginal decline was recorded in the Euro area, where the indicator fell by 1.5%, compared with a significant growth by 5.8% in the same period of the previous year.

Meanwhile, the number of building permits in Greece increased year on year by 7.4% in the first quarter of 2015 (3,948 permits). The surface indicator increased by 18.5%, while the volume index grow year on year by 20.7%. The growth of permits was observed in almost all regions of the country, except for East Macedonia-Thrace and Western Greece. In contrast, the largest growth was recorded in the Ionian Islands (+54.7%) and the North Aegean (+53.0%).

Lastly, according to data published by the Bank of Greece, residential property transactions fell year on year by 23.9% in the first quarter of 2015. Residential property appraisals suffered a similar reduction (-28.2%). Meanwhile, the interest rate on mortgage loans with more than 5 year duration remained unchanged in February, March and April of 2015 (2.8%).

Figure 3.2

Index of Production in Construction and Turnover Index



Source: ELSTAT, Eurostat

Retail Trade

During the first four months of 2015, the volume index in retail trade increased, albeit marginally, by 0.6%, compared with a 1.1% decline in the first four months of 2014.

Turnover increased in four of the sector's eight branches. In particular, the branches with the strongest growth in the first four months of 2015 include Clothing - Footwear (8.2% from 6.2% in the previous year) and Books – Stationary (5.0% from 6.4% in 2014). Supermarkets came next (1.6%), followed by Automotive Fuel and Lubricants (0.9% from 3.4% in 2014).

In contrast, the contraction intensified in the turnover of Food and Beverages (-4.9% from -0.3% in the previous year), Department Stores (-3.9% from 9.5% contraction) and Furniture and Electric Appliances (-3.1% from -1.1%). Lastly, the sales of Pharmaceuticals and Cosmetics kept falling, albeit slowing down from last year (-1.3% from -7.5%).

The expectations in retail trade slightly improved in the first half of 2015, according to the corresponding indicators in the **Business Surveys** conducted by IOBE. Note that the business sentiment does not take into account the latest political and economic developments in the country (announcement of the referendum, capital controls, arrears to IMF and official default). Besides, the improvement of expectations was weaker compared with the same period of the previous year, as the indicator for retail trade increased by only 4.3 points, compared with a 17 point growth in the previous year. In the constituent branches, the sentiment deteriorated only in Textiles-Clothing-Footwear (-14.5, compared with 27.5 points increase in the previous year). In contrast, the expectations improved strongly in Department Stores (+34, against -5 in the previous year), Food-Beverages-Tobacco (+6.2, against +17.4), Household Appliances (+2.3 against +6.7 in 2014) and Motor Vehicles – Spare Parts (+1.4, against an increase of 36.7 in the previous year).

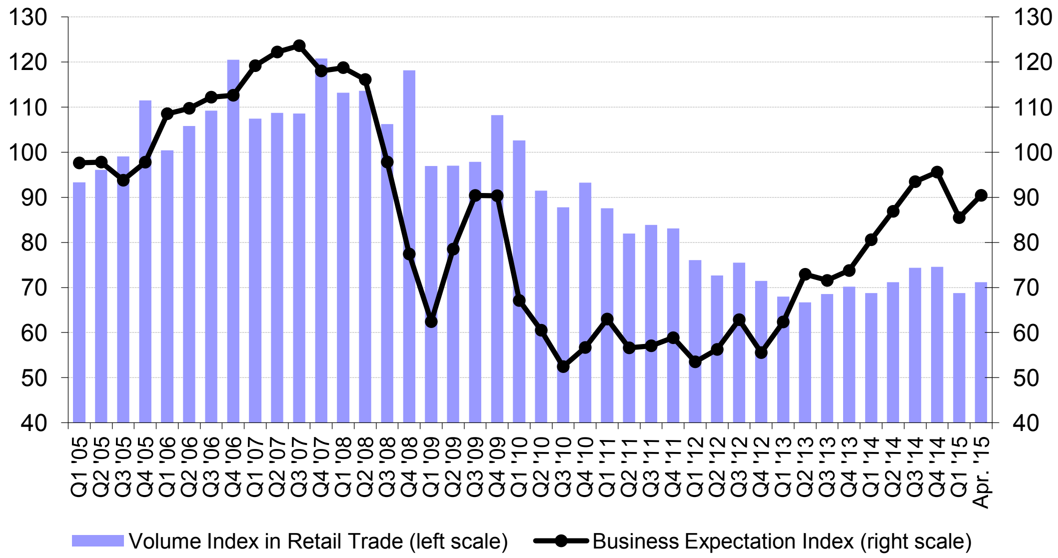
In greater detail, the business sentiment indicator for Motor Vehicles reached 93 points in the first half of 2015, from 107.6 in 2014. The growth from 2014 weakened, however the indicator remained higher than in 2012 and 2013 (54.2 and 75.4 points respectively). Regarding the components of the indicator, the balance of current sales returned to negative levels (-4), from a positive level in 2014 (+6). Meanwhile, about 70% of the enterprises perceived stocks to be at normal levels. Regarding the outlook, about 1/3 of the enterprises were expecting decline of the orders in the coming quarter, with the balance taking a negative sign in the first half of the year (-14), from +7 in 2014. A similar change in the trend is observed in the sales expectations, with a change of the indicator from positive to negative. Lastly, regarding employment, the signs of stabilisation remained quite strong. According to the official statistics, the car sales increased by 15.7% in the first six months of 2015, in the aftermath of a similar increase by 19.4% in 2014.

Wholesale trend

During the first quarter of 2015, the turnover in wholesale trade fell by 1.7%, compared with 0.3% reduction during the first quarter of 2014.

Figure 3.3

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



Source: ELSTAT, IOBE

Table 3.4

Annual changes in the volume index in retail trade

Category of Retail Trade Stores	Volume Index (2005=100)				
	Q1 2013	**Q1 2014**	**Q1 2015**	**Change 2014/2013**	**Change 2015/2014**
Overall Index	70.5	69.7	70.2	-1.1%	0.6%
Overall Index (excluding motor fuels and lubricants)	71.7	70.2	71.2	-2.2%	1.5%
Per Categories of Stores					
Supermarkets	77.4	77.43	78.65	0.0%	1.6%
Department Stores	82.2	74.38	71.50	-9.5%	-3.9%
Fuels and Lubricants for automobiles	65.4	67.63	68.20	3.4%	0.9%
Food - Drinks - Tobacco	66.3	66.18	62.90	-0.3%	-4.9%
Pharmaceuticals - Cosmetics	72.4	66.90	66.03	-7.5%	-1.3%
Clothing - Footwear	62.3	66.08	71.50	6.0%	8.2%
Furniture - Electric Household Appliances – Household Equipment	59.7	58.98	57.13	-1.1%	-3.1%
Books - Stationery - Other gift items	80.0	85.13	89.38	6.4%	5.0%

Source: ELSTAT

Table 3.5

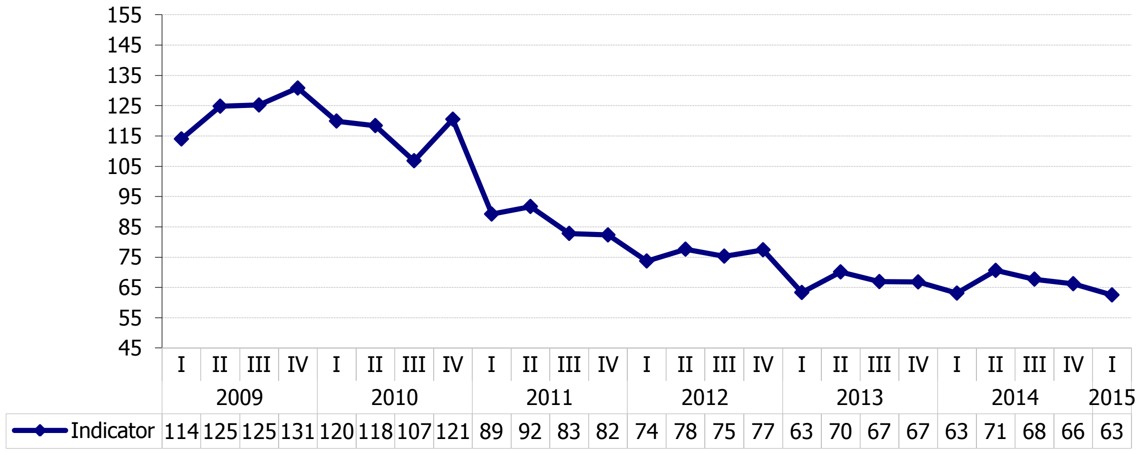
Business Sentiment Indicators in Retail Trade per sub-sector (1996-2006=100)

	Jan. – June 2013	**Jan. – June 2014**	**Jan. - June 2015**	**Annual Change % '14/'13**	**Annual Change % '15/'14**
Food-Drinks-Tobacco	65.4	82.8	89.0	26.6%	7.5%
Textiles-Clothing-Footwear	71.3	98.8	84.3	38.6%	-14.7%
Household Equipment	63.4	70.1	73.3	10.6%	4.6%
Vehicles-Spare Parts	66.4	103.1	104.5	55.3%	1.4%
Department Stores	57.9	52.9	87.0	-8.6%	64.5%
Retail Trade Total	**67.6**	**83.7**	**88.0**	**23.8%**	**5.1%**

Source: IOBE

Figure 3.4

Turnover Index in Wholesale Trade (2005=100)



Source: ELSTAT

Services

The contraction in services showed signs of weakening during the first quarter of 2015, with turnover falling in only three of the ten branches that comprise the sector.

The largest decline was recorded in Publishing Activities (branch 58), where turnover fell by 12.0%, compared to weaker contraction by 4.6% in the first quarter of 2014. Postal and Courier Activities (branch 53), where turnover fell by 6.8% (from 2.0% growth in the previous year) came next. Lastly, the weak demand conditions dragged down Cleaning Activities (branch 81.2) as well, where the demand contraction reached 4.6%, from 17.2% a year earlier.

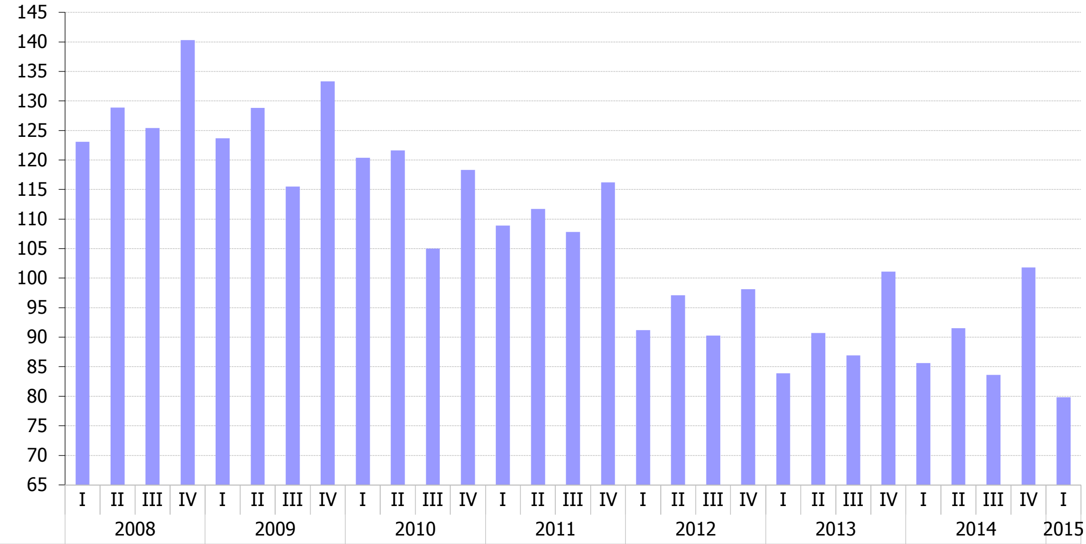
In contrast, in most branches with turnover growth, the improvement was stronger than in the previous year. In particular, the largest growth was recorded in Information Service Activities (branch 63), where the index increased by 31.6%, compared with a weaker growth by 5.2% in 2014. Other Professional, Scientific and Technical Activities (branch 74) came next, with a growth rate that was almost twice as high as in the previous year (22.4% against 12.0%). Turnover increased significantly in Employment Activities (branch 78) by 19.9%, compared with a 6.0% contraction in the previous year and in Legal and Accounting Activities (branch 69) by 11.9%, compared with a 7.4% growth in the same period of 2014.

Lastly, turnover in Accommodation and Food Services (branches 55 & 56) increased by 6.0% in the first quarter of 2015, compared with a sharp increase by 44% in the corresponding period of the previous year.

Despite the improvement in turnover terms, **the sentiment in the branches of Services, as recorded in the business surveys compiled by IOBE for the first half of 2015 clearly worsened year on year.** In fact, the deterioration so far does not incorporate the latest politico-economic developments, which will have an impact on the results for July and are expected to dampen further the expectation, perhaps even below their level from 2010 and 2012. In particular, the business sentiment indicator for Services declined by 9.9%, compared with a growth by 27.1% in the first half of 2014. Pessimism prevailed in four of the five constituent branches of Services. In greater detail, the respondents were particularly pessimistic in Information Services branch (-23 points decline, wiping out the gain in the index from the previous year) and Financial Intermediaries (where the indicator declined by almost 23 points, outweighing the gain by 11 points in the first half of 2014). Various Business Services (-12.3 points, after a 9 point increase in the previous year) and Travel agencies (-14 points, correcting for an extensive growth of 44.5 points in the previous year) came next. In contrast, the expectations in Hotels – Restaurants remained practically unchanged, after a significant increase of the index in 2014, by 22.5 points.

Figure 3.5

Turnover Index in the sector of Postal and courier activities (sector 53)

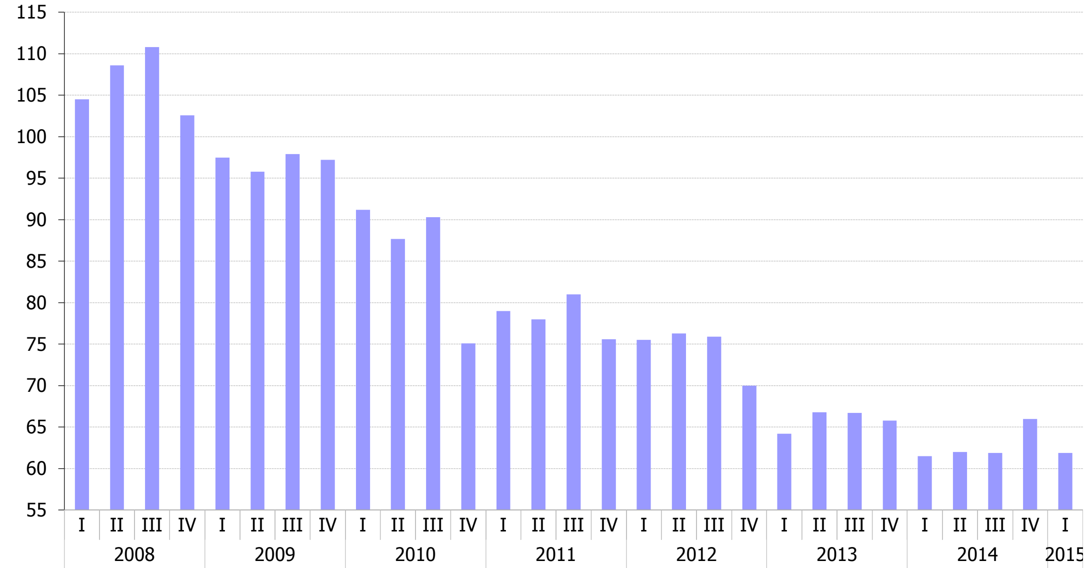


	2008 I	2008 II	2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II	2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I
Indicator	123	129	125	140	124	129	116	133	120	122	105	118	109	112	108	116	91	97	90	98	84	91	87	101	86	92	84	102	80

Source: ELSTAT

Figure 3.6

Turnover Index in the sector of Telecommunications Services (sector 61)

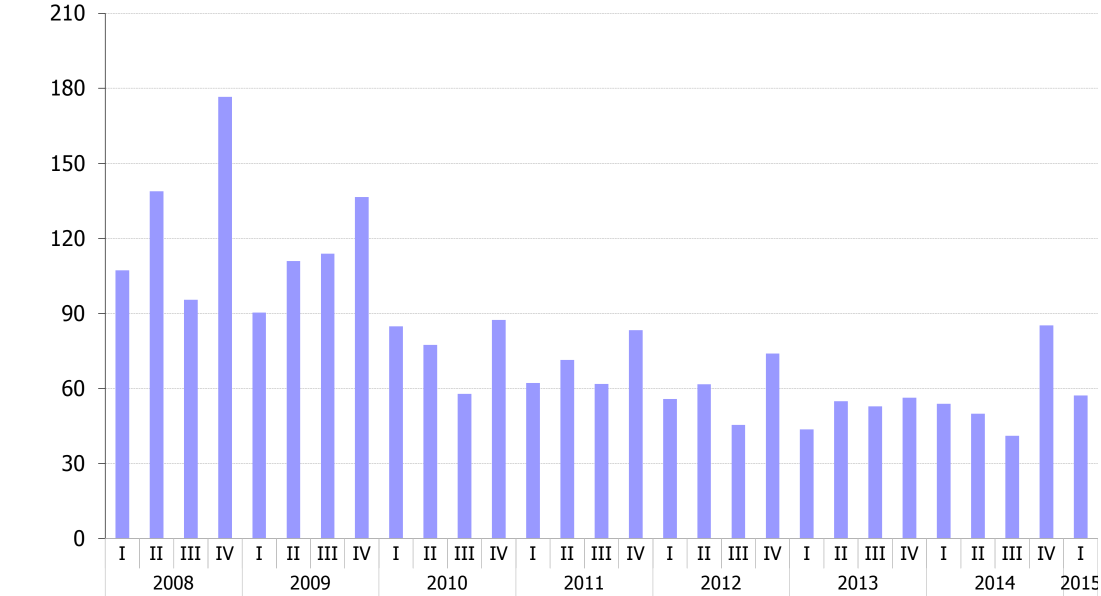


	2008 I	2008 II	2008 III	2008 IV	2009 I	2009 II	2009 III	2009 IV	2010 I	2010 II	2010 III	2010 IV	2011 I	2011 II	2011 III	2011 IV	2012 I	2012 II	2012 III	2012 IV	2013 I	2013 II	2013 III	2013 IV	2014 I	2014 II	2014 III	2014 IV	2015 I
Indicator	105	109	111	103	98	96	98	97	91	88	90	75	79	78	81	76	76	76	76	70	64	67	67	66	62	62	62	66	62

Source: ELSTAT

Figure 3.7

Turnover Index in the sector of Information Technology Services (sector 62)

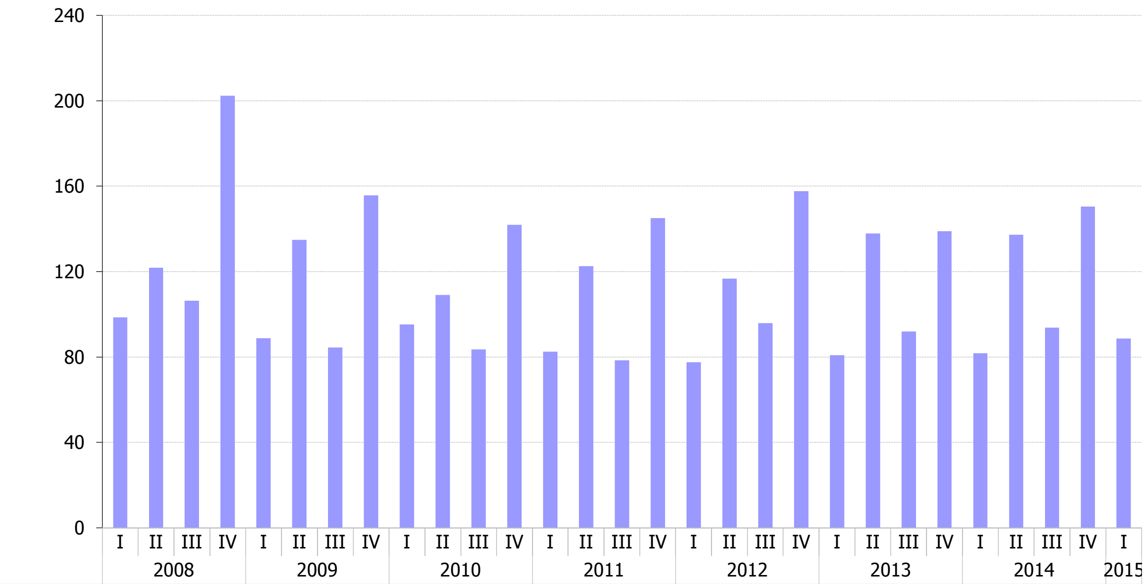


	2008 I	II	III	IV	2009 I	II	III	IV	2010 I	II	III	IV	2011 I	II	III	IV	2012 I	II	III	IV	2013 I	II	III	IV	2014 I	II	III	IV	2015 I
Indicator	107	139	96	177	90	111	114	137	85	78	58	87	62	71	62	83	56	62	46	74	44	55	53	56	54	50	41	85	57

Source: ELSTAT

Figure 3.8

Turnover Index in the sector of Legal, Accounting & Management consulting activities (sectors 69 and 70.2)

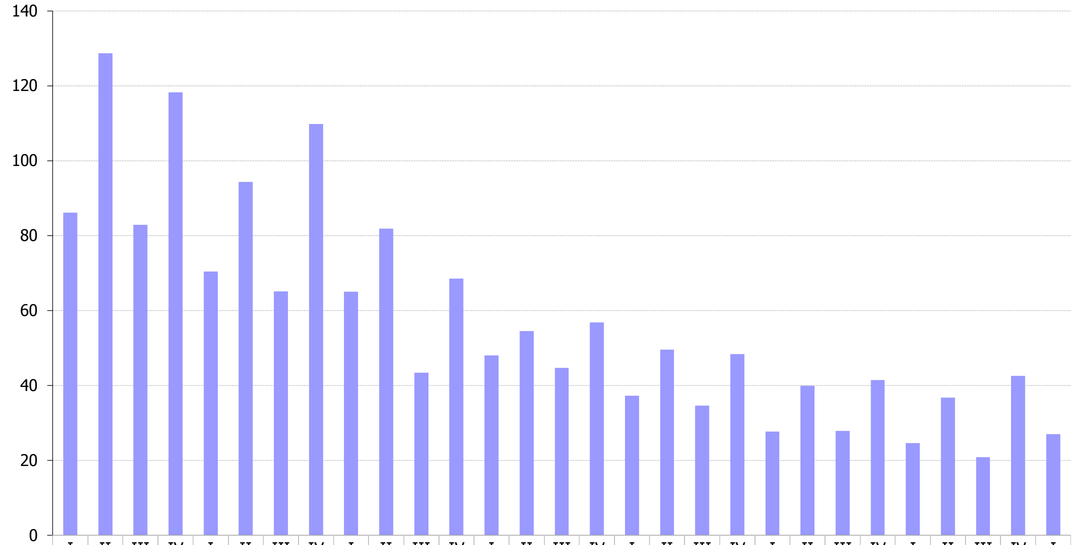


	2008 I	II	III	IV	2009 I	II	III	IV	2010 I	II	III	IV	2011 I	II	III	IV	2012 I	II	III	IV	2013 I	II	III	IV	2014 I	II	III	IV	2015 I
Indicator	99	122	106	202	89	135	84	156	95	109	84	142	83	123	79	145	78	117	96	158	81	138	92	139	82	137	94	150	89

Source: ELSTAT

Figure 3.9

Turnover Index in advertising, market research and public opinion polling (sector 73)

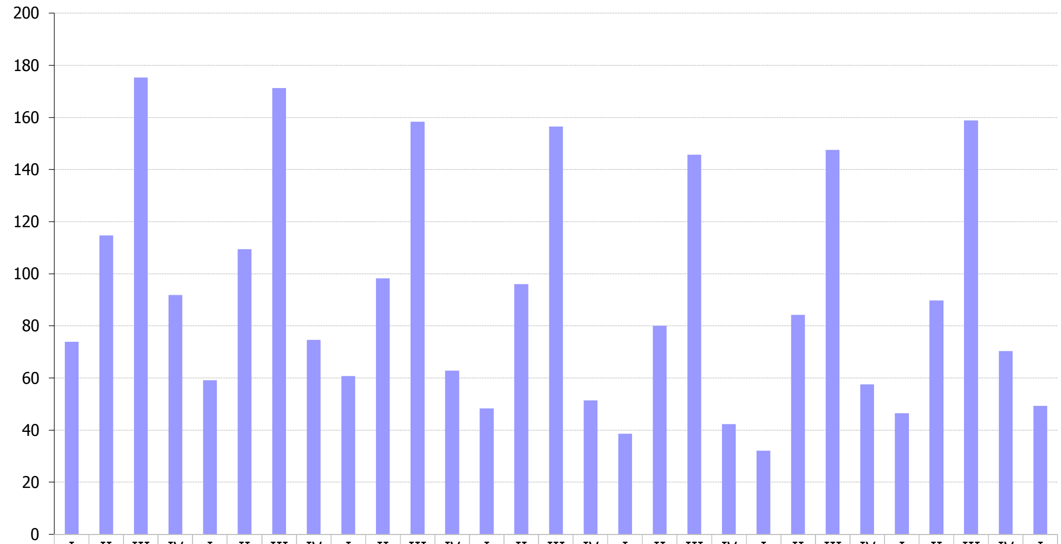


	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
	2008				2009				2010				2011				2012				2013				2014				2015
Indicator	86	129	83	118	70	94	65	110	65	82	43	69	48	55	45	57	37	50	35	48	28	40	28	42	25	37	21	43	27

Source: ELSTAT

Figure 3.10

Turnover Index in Tourism (Accommodation and Food Services) (sectors 55 and 56)



	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
	2008				2009				2010				2011				2012				2013				2014				2015
Indicator	74	115	175	92	59	109	171	75	61	98	158	63	48	96	157	51	39	80	146	42	32	84	148	58	47	90	159	70	49

Source: ELSTAT

Table 3.6

Turnover Index (year-on-year changes, 2005 = 100)

	Q1 2013	Q1 2014	Q1 2015	Annual change % '14/'13	Annual change % '15/'14
Car Trade	43.6	51.6	60.1	18.3%	16.5%
Land transports & transport via pipelines	83.2	81.3	78.1	-2.3%	-3.9%
Water Transports	54.8	44.4	42.2	-19.0%	-5.0%
Air Transports	64.8	65.1	67.1	0.5%	3.1%
Auxiliary to transport services & warehouse activities	70.0	74.2	81.3	6.0%	9.6%
Travel agencies	19.5	21.7	26.7	11.3%	23.0%
Postal and courier services	83.9	85.6	79.8	2.0%	-6.8%
Publishing services	45.9	43.8	38.6	-4.6%	-12.0%
Telecommunications	64.2	61.5	61.9	-4.2%	6.1%
Informatics	45.4	54.4	57.3	19.8%	5.3%
Data processing	143.3	150.7	198.3	31.6%	5.3%
Legal, accounting, consulting services	110.2	118.3	132.4	7.4%	11.9%
Architectural – Engineering services	36.9	27.6	29.8	-25.2%	7.8%
Advertising, market research, polls	28.4	24.6	27.0	-13.3%	9.8%
Administrative office works	67.7	69.7	85.2	2.9%	22.2%
Tourist services	32.1	46.5	49.3	44.9%	6.0%

Source: ELSTAT

Table 3.7

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

	Jan. – June 2013	Jan. – June 2014	Jan. – June 2015	Annual Change % '14-'13	Annual Change % '14-'15
Hotels - Restaurants	72.4	95.1	95.3	31.4%	0.2%
Travel agencies and tour operators	80.4	124.9	110.9	55.3%	-11.2%
Other Services to Enterprises	57.3	66.2	54.9	15.5%	-17.1%
Financial Intermediation	71.9	82.8	60.1	15.2%	-27.4%
Information Services	60.6	83.8	60.5	38.3%	-27.8%
Total Services	**65.3**	**83**	**74.8**	**27.1%**	**-9.9%**

Source: ELSTAT

3.3 Export Performance of the Greek Economy

The **exports of goods** in the first four months of 2015 reached €8.3 billion, from €8.4 billion in the corresponding period of 2014, recording a **small reduction by 0.6%**. Not taking into account the **exports of petroleum products, the exports of the remaining goods increased by 13.9% during the same period** to reach €5.9 billion in 2015, from €5.2 billion in the previous year. This development is considered to reflect the positive impact on the competitiveness of the Greek exports from the devaluation of the euro against the dollar. The much lower exports of petroleum products came from the sharp drop of the oil prices globally, hence the change in volume terms is significantly different. Meanwhile, imports decreased by 4.8% during the same period, reaching €14.5 billion, from €15.2 billion in 2014. As a result of the above, the **trade deficit** declined by €667 million (-9.9%) to €6.2 billion, from €6.8 billion. Consequently, the **value of the exports of goods** produced in Greece **corresponded to 57.5% of imports**, from 55% in the first four months of the previous year.

In greater detail, the exports of Agriculture Products (Table 3.7) increased by 19.8% in the first four months of 2015, to reach €1.7 billion from €1.4 billion in the previous year. Meanwhile, the exports of Fuels declined by 23.9%, falling below €2.4 billion in 2015, from €3.2 billion in 2014. Note that these two product categories represent about 49.4% of Greek exports (55% in 2014). The growth in Agriculture Products came mostly from the very large increase by 236.8% in the demand for Animal and Vegetable Oils and Fats, the value of which exceeded €303 million, compared with €90 million in 2014. As a result, their share in this category of products increased from 1.1% in 2014 to 3.6% in 2015. The exports of Food and Raw Animals, which represents about 69.7% of the exports of Agriculture Products, slightly declined, by 1.7%, from €1.14 billion in 2014 to €1.16 billion in 2015. The foreign demand for Beverages and Tobacco, which represent 12.1% of the exports of Agriculture Products, amounted to €202 million, higher by 26.9% compared with the first four months of 2014, when it had reached €160 million.

The exports of Manufactured Goods increased by 12.3% in the first four months of 2015, with their value reaching €3.6 billion, from €3.2 billion in the previous year. The increase is largely explained with the growth of the demand for Machinery and Transport Equipment, by 28%, with their value reaching €837 million from €654 million in the previous year. The exports of Manufactured Goods Classified Chiefly by Material also increased significantly, by 16.1% (from €1.18 million in 2014 to €1.37 million in 2015). Improved export performance was also recorded in Miscellaneous Manufactured Articles by 2.5% (from €1.69 billion in 2014 to €1.73 billion in 2015) and Other Manufactured Goods, by 4.6% (from €533.5 million in 2014 to €557.9 million in 2015). The exports of Chemicals and Related Products reached €869 million in the first four months of 2015, remaining unchanged year on year (from €868 million).

Lastly, the exports of Raw Materials also increased, by 4.8% (from €332 million in 2014 to €348 million in 2015), with the exports of Commodities and Transactions Not Classified Elsewhere growing by 13% (from €192.3 million in 2014 to €217.3 million in 2015).

Regarding the export trends per geographical area, the exports to the Euro area countries, which absorbed about 1/3 of the Greek exports in the first four months of 2015, increased by 18.1%, approaching €3.1 billion in the current year, from €2.7 billion in the same period of 2015. Meanwhile, the increase in the

EU was lower (14.5%), with the exports increasing by €562.4 million (from €3.9 billion in 2014 to €4.4 billion in the current year). Among the countries in the Euro area with the largest share of Greek products, large growth was recorded in Italy, by 34.7% (from €767 million to €1.03 billion), with the exports contracting in France by 7.7% (from €224 million to €207 million) and in Austria by 6.1% or €3.8 million (from about €63 million in the previous year to €59.5 million in 2015). In contrast, the exports to Cyprus and Belgium increased, by 13.7% and 24% respectively, reaching €428 billion (from about €377 million in 2014) and €115.5 million (from €93 million) correspondingly. Note that the largest percentage contraction of exports in the first four months of 2015 in the Euro area was recorded in Estonia, where the exports fell by 20.8% (from €2.2 million a year before to €2 million in the current year), while the largest percentage growth was observed in Slovenia (+312.1% or €51 million).

Among the remaining countries of the European Union, where total exports grew by 6.6% or €80.2 million (from €1.22 billion in 2014 to €1.3 billion in 2015), Bulgaria was the main destination for Greek products, with a year-on-year decline by 7% or €29.9 million. In contrast, exports increased in other countries that absorb a large share of exports in this category of countries, as for example in the United Kingdom and Romania, where they grew by 14.5% or €40.3 million (to reach €318.7 million), and by 19.3% or €37.8 million (amounting to €233.6 million) respectively. The largest percentage growth, by 30.7%, was recorded in Denmark, where Greek exports increased by €10.8 million (from €35 million to €45.8 million).

Regarding the remaining countries in Europe, Greek exports declined by 24.1% in total (from €1.9 billion in 2014 to €1.4 billion in the current year). The exports to Albania declined by 18% (from €133.2 million in 2014 to €109.2 million in the current year), while in Turkey, one of the major export destination for Greek products, exports fell by 25.5%, from €889 million in the previous year, to €662 million in 2015.

In the countries of North America, exports increased by 46.7% (from €326 million to €478 million) mainly due to the growth of exports to the US market, from €256 million to about €376 million (+47.2%), together with the export growth in Mexico and Canada by 49.1% (€43 million) and 41.9% (€58.7 million) respectively.

The exports to the countries of the Middle East and North Africa increased by 1% (from €1.17 billion to €1.18 billion), mainly due to growth in the exports to North African countries, such as Egypt (+41%, from €260 million to €367 million) and Tunisia (118.4% from €34.3 million to €75 million). The growth of exports was moderated by a significant decline in the United Arab Emirates (-66.8%), where exports reached €56.2 million from €169.5 million and in Libya (-49.9%), where they fell to €52.2 million, from €104.1 million. The exports to two other significant destinations in the Middle

East increased by 50.4% in Lebanon, to reach €237 million, declining by 4.1% in Saudi Arabia to reach €217.1 million.

The flow of exports to Oceania remained unchanged, with their value reaching €43.9 million in the first four months of 2015, from €43.8 million in the same period of 2014. The growth of exports to Australia was limited to only 0.5% (from €39.9 million in 2014 to €40.1 million in 2015), while in New Zealand exports decreased by 4.2% (from €3.9 million in 2014 to €3.7 million in 2015).

The exports to the Latin American countries increased significantly, by 73.5%, in the first four months of 2015, with their values reaching €50.8 million from €29.3 million a year before. The growth of exports to these countries is mainly due to the increase of demand for Greek products in Panama, by 163.3%, where their value reached €27.9 million in 2015 from €10.6 million in 2014.

In contrast, the demand for Greek products in Asia weakened, as in the first four months of 2015 exports fell by 11.4% year on year to €423.2 million from €477.5 million. This development came mostly from export contraction in Singapore (-51.6% to €78.8 million from €162.9 million) and Georgia (-62.1%, to €22.9 million, from €60.3 million in 2014).

Table 3.8

Exports per category in current prices (million €)

PRODUCT	VALUE		% CHANGE	% COMPOSITION	
	2015*	2014*	2015*/2014*	2015*	2014*
AGRICULTURAL PRODUCTS	1,667.6	1,391.9	19.8%	20.1%	16.6%
Food and Live Animals	1,162.0	1,142.3	1.7%	14.0%	13.7%
Drinks and Tobacco	202.4	159.5	26.9%	2.4%	1.9%
Oils and Fats of animal or plant origin	303.2	90.0	236.8%	3.6%	1.1%
RAW MATERIALS	348.4	332.3	4.8%	4.2%	4.0%
Non-edible Raw Materials excluding Fuels	348.4	332.3	4.8%	4.2%	4.0%
FUELS	2,439.2	3,204.4	-23.9%	29.3%	38.3%
Minerals, Fuels, Lubricants etc.	2,439.2	3,204.4	-23.9%	29.3%	38.3%
INDUSTRIAL PRODUCTS	3,640.8	3,241.0	12.3%	43.8%	38.8%
Chemicals and Related Products	868.6	867.7	0.1%	10.4%	10.4%
Industrial Products Sorted by Raw Material	1,376.9	1,185.6	16.1%	16.6%	14.2%
Transport Equipment	837.4	654.2	28.0%	10.1%	7.8%
Various Manufactured Goods	557.9	533.5	4.6%	6.7%	6.4%
OTHER	217.3	192.3	13.0%	2.6%	2.3%
Goods and Transactions not sorted by Category	217.3	192.3	13.0%	2.6%	2.3%
TOTAL EXPORTS	8,313.3	8,361.8	-0.6%	100.0%	100.0%

* Provisional data

Sources: ELSTAT, PSE-KEEM

In contrast, the exports of Greek products increased in South-East Asia and particularly in Taiwan, by 545.5%, where exports reached €30 million from €4.7 million in the previous year, South Korea by 23.3% (€93.1 million in 2015 from €75.5 million in 2014) and Hong Kong by 60.8% (€28.5 million in 2015 from €17.7 million in 2014).

To sum up, the growth of exports in the first four months of 2015 came mainly from increase in the exports of Agriculture Products (+19.8%) and Animal and Vegetable Oils and Fats in particular (+236.8%), as well as in Manufactured Goods (+12.3%), despite the significant reduction of the exports of Fuels (-€765.2 million or -23.9%). Regarding the geographic distribution of exports, growth momentum was observed in two of the major geographical destination for Greece, namely in the European Union and the countries in the Middle East-North Africa. In contrast, the exports to the remaining regions of Asia and Africa declined.

Given the evident positive impact of the devaluation of the euro against the dollar on exports, except for petroleum products, with their value increasing significantly during the first four months of the current year, the trends in total exports (including petroleum products) for the rest of 2015 and for the year overall will be primarily determined by domestic factors, linked to the rate of recovery of the normal operation of the banking system, after the recent bank holiday and the imposition of the capital controls. The negative impact from the low price of oil on exports will ease in the second half of this year, given that the fall in the oil prices took place a year before. Therefore, provided that the bank transactions returned back to normal relatively soon, the carryover of the growth in exports of the remaining categories to the second half of the year will result in positive growth rate for the year overall.

Table 3.8

Exports by destination January-April 2015 and 2014*

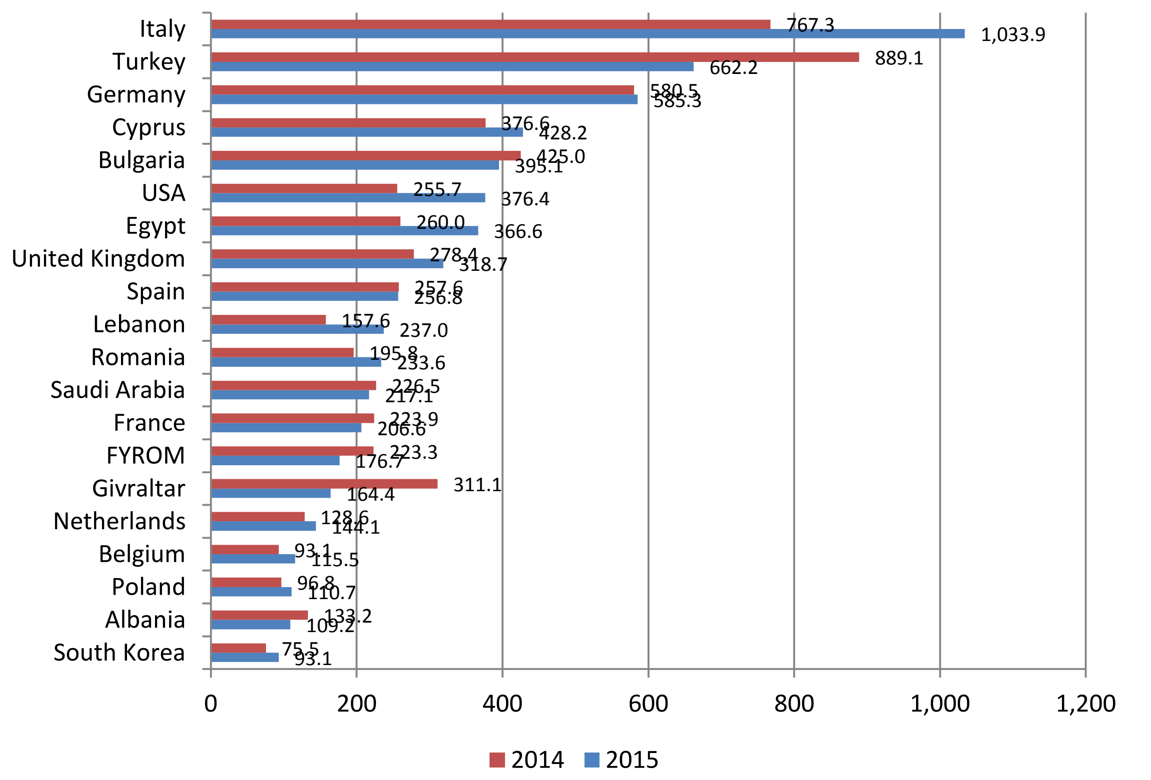
REGION	EXPORTS		% CHANGE	% COMPOSITION	
	2015	2014	2015/2014	2015	2014
World	**8,313.3**	**8,361.8**	**-0.6%**	**100.0%**	**100.0%**
OECD	4,744.0	4,294.3	10.5%	57.1%	51.4%
EU	4,448.8	3,886.4	14.5%	53.5%	46.5%
Euro Area	3,146.6	2,664.4	18.1%	37.8%	31.9%
G7	2,584.2	2,150.6	20.2%	31.1%	25.7%
North America	478.1	325.9	46.7%	5.8%	3.9%
BRICS	174.3	195.5	-10.8%	2.1%	2.3%
Middle East & North Africa	1,185.8	1,174.5	1.0%	14.3%	14.0%
Rest of Africa	566.7	493.6	14.8%	6.8%	5.9%
Oceania	43.9	43.8	0.1%	0.5%	0.5%
Latin America	50.8	29.3	73.5%	0.6%	0.4%
Rest of Asia	423.2	477.5	-11.4%	5.1%	5.7%
OPEC	441.4	635.3	-30.5%	5.3%	7.6%

* Provisional data

Source: ELSTAT, KEEM

Figure 3.11

Countries with the largest share in exports of Greek products (in million €), January-April 2015 και 2014



Source: P.S.E.-K.E.E.M. **Data Processing**: IOBE

3.4 Employment - Unemployment

According to data from the Labour Force Survey of ELSAT, **unemployment in Greece increased for a second consecutive quarter, reaching 26.6%, from 26.1% in the last quarter of 2014.** However, year on year it decreased by 1.2 percentage points (27.8% in the first quarter of 2014). As a result, unemployment in Greece was lower year on year for a fourth consecutive quarter. Note that according to non-seasonally adjusted data for April, the unemployment rate continued to decline, to 25.5% from 27.2% in the same month of 2014 (-1.7 percentage points) and from 27.4% in March this year. As a result, the number of unemployed declined from 1,299,800 in April 2014 to 1,231,500 in April 2015 (reduction by about 68,300 people).

The unemployment rate in Greece has remained the highest in the Euro area since the third quarter of 2012. In most countries that joined the Support Mechanism, unemployment is falling. In Spain, unemployment reached 23.1% in the first quarter of the current year, declining since the third quarter of 2013. A similar trend was observed in Portugal, where unemployment declined for an eighth consecutive quarter in the first quarter of 2014 to reach 13.5%. In Ireland, the unemployment rate fell for a seventh quarter in a row, while for the first time since the fourth quarter of 2008 it reached a single digit level (9.9%). Lastly, in Cyprus unemployment has hovered at around 16% for about a year.

The lowest unemployment rate in the Euro area during the first quarter of 2015 – as in the previous quarters – was recorded in Germany (4.8%, from 5.1% in the same quarter of 2014), Austria (5.5%, from 5.6%), Luxembourg (5.7% from 6%) and Malta (5.9% from 6%).

In the other two large economies of the Euro area, France and Italy, unemployment increased year-on-year in the former, to 10.5% from 10.1% and declined marginally in the latter to 12.4% from 12.7%. Still, unemployment has remained relatively stable in both countries since the first quarter of 2013, varying around 12.4% in Italy and around 10.3% in France. Lastly, in Lithuania, which became the 19th member of the Euro area in 1 January 2015, unemployment has fallen steadily since the last quarter of 2010 (17.6%) to reach 9.2% in the first quarter of this year.

The increase of unemployment from 2009 to 2013 came exclusively from reduction of employment. Since the first quarter of 2008, when the number of employed reached its peak (4,639,600 people), employment was falling steadily year on year until the first quarter of 2014. Since then, the number of employed has grown slightly but steadily. In the first quarter of the current year, the number of employed were higher year on year by 20,700 people or 0.6% (3,504,400 employed against 3,483,700 employed in the first quarter of 2014).

Regarding the characteristics of unemployment, **it has persistently been**

affecting women far more than men. In the first quarter of 2018, the unemployment rate among women was 6.6 percentage points higher than the corresponding rate for men (29.3% versus 22.7%). Year on year, the unemployment rate among women and men declined almost by the same margin (1.4 and 1.7 percentage points respectively). Still, the male and female unemployment rates have steadily declined year on year since the second quarter of 2014. Note that overtime in the Euro area, the unemployment gap between men and women was almost negligible, standing at 0.3 percentage points in the first quarter of 2015 (11.1% among men and 11.4% among women).

Regarding **the age structure of unemployment**, the rate decreased year-on-year in five of the six age groups. In the age groups 15-19, 20-24, 25-29, 30-44 and above 65 years old, unemployment declined by 11.9 p.p. (from 71.6% to 59.7%), 3.6 p.p. (from 54.6% to 51%), 2.7 p.p. (from 42.4% to 39.7%), one p.p. (from 26.7% to 25.7%) and 3.3 p.p. (from 12.6% to 9.3%). In the 45-64 age group, unemployment marginally increased to 20.4% from 20.3%. Nevertheless, the problem of youth unemployment has remained acute, since the unemployment of individuals aged 15-24 and 25-29 remained well above the national average (51.9% and 39.7% respectively, from 56.7% and 42.3% in the previous quarter). Meanwhile, for the productive age group of 30-44 years, the problem of unemployment was less severe (25.7%).

The problem of long-term unemployment (unemployed individuals who are out of job for periods of time that exceed one year) remained acute in early 2015. Even though the percentage of long-term unemployed slightly declined for a second consecutive quarter, it remained marginally higher year on year (71.6% from 71.4%). However, the number of long-term unemployed is lower than a year ago, at 910,600 from 958,700, due to the reduction of the labour force.

Concerning the education level, the data demonstrates that the unemployment rate decreased year on year in all educational attainment levels, except for those that did not receive any education and among university graduates. In the former education group, unemployment increased substantially, by 17.9 percentage points (from 38.4% in the first quarter of 2014 to 56.3% in the first quarter of 2015), while in the latter it increased by only 1.1 percentage points (19.8% from 18.7%). Regarding the remaining education categories, the holders of master's or doctoral degrees had the lowest unemployment rates (12.9% in the first quarter of this year, from 15.3% in the previous year), while the unemployment rate was similar to the national average among primary education graduates (26.5% from 27.6%) and graduates of short-cycle tertiary education (27.2% from 29.2%). The unemployment rate is higher than the national average among the graduates of upper secondary education (29.3% in the first quarter of this year, from 31.1% in the same quarter of

2014) and lower secondary education (31% from 33.1%), while the individuals with early childhood education still have a very high unemployment rate, despite a recent decline (41.7% from 45%). Note that unemployment in all education groups, apart from tertiary education graduates and the individuals with early childhood education or no education at all, declined year on year for a fourth consecutive quarter.

Concerning the **regional trends**, unemployment declined year on year in the first quarter of the year in eight of the thirteen regions of Greece (Eastern Macedonia - Thrace, Central Macedonia, Epirus, Western Greece, Central Greece, Attica, South Aegean and North Aegean). In contrast, unemployment surged in four of the thirteen regions (Western Macedonia, Thessaly, Ionian Islands, Peloponnesus and Crete). The regions with unemployment higher than the national average include Central Macedonia (27.4%, from 29.9% in the first quarter of 2014) and Western Macedonia (29%, from 28.4%), which have faced an acute unemployment problem for a long time. The Ionian Islands (from 27.4% to 28.9%) and Western Greece (from 29.7% to 29%) came next. The lowest unemployment rate in the first quarter of the year was recorded in the North Aegean (20.2%, from 24.4% in the previous year) and Peloponnesus (23.9%, from 23.4% in 2014). In Attica, which concentrates the largest section of the country's population, unemployment fell from 28% in the first quarter of 2014 to 26.7% in the same period of this year. Meanwhile, in Central Greece, which concentrates significant industrial activity, unemployment fell from 27.6% to 26.4%. Lastly, unemployment has been falling for a fourth consecutive quarter in East Macedonia – Thrace, Central Macedonia, Central Greece, Attica and the North Aegean, and for a third consecutive quarter in Epirus and Western Greece.

In terms of key economic sectors, employment in the secondary sector increased year-on-year for the first time since at least 2009, to reach 527,800 from 527,000. Meanwhile, employment in the tertiary sector increased for a fifth consecutive quarter, by 0.9% or 23,200 people (from 2,477,100 to 2,500,300 people). In contrast, employment in the primary sector, following its increase in the previous quarter, declined by 0.7%, from 479,600 in the first quarter of 2014 to 476,300 in the same quarter of this year.

Employment increased in 12 of the 21 branches of economic activity, including some that have a significant weight in the Greek economy, such as Manufacturing and Retail Trade. Employment in Manufacturing increased by 3.8% (from 315,300 in the first quarter of 2014 to 327,200 people a year later). Meanwhile, employment in Retail Trade increased by 3.3% (from 621,100 to 641,700 people). Employment increased sharply in Tourism as well, by 11.1% (from 248,900 to 276,500). However, the largest percentage boost of employment was recorded in Real Estate Activities, where the number of employed increased by 76.7% or 2,300 people (to 5,300 in the first quarter of 2015). Employment also increased in Professional, Scientific and Technical Activities by about 2.1% (from 193,300 to 197,300 people) and Education by 2.9% (from 290,300 to 298,600 people). In contrast the number of employed declined in Public Administration and Defence by 27,400 people (-8.5%) and Financial and Insurance Activities by 18,900 people (-18.2%). Lastly, the number of employed fell by 4.9% or 7,300 people in Construction.

In conclusion, the employment data indicate that the year-on-year surge in employment in the first quarter of the current year was primarily due to:

- Tourism (+27,600 people), from a year-on-year growth in tourist arrivals by 28.8% or about 181,200 people in the first quarter (from 629,600 to 810,800 people[16])
- Retail Trade (+20,600 people), mainly due to the boost of household consumption by 1.6% during the same period, which was reflected also in the fact that both turnover and sales volume in Retail Trade (except fuels-lubricants) increased by 0.9% and 1.7% respectively
- Manufacturing (+11,900 people), reflecting the year-on-year boost of the industrial production index by 2.3% in the first quarter of the year

The expansion in employment was not offset by the decline in Public Administration and Defence (-27,400 people) and Financial and Insurance Activities (-18,900 people), primarily due to voluntary redundancy programmes in the Banking sector.

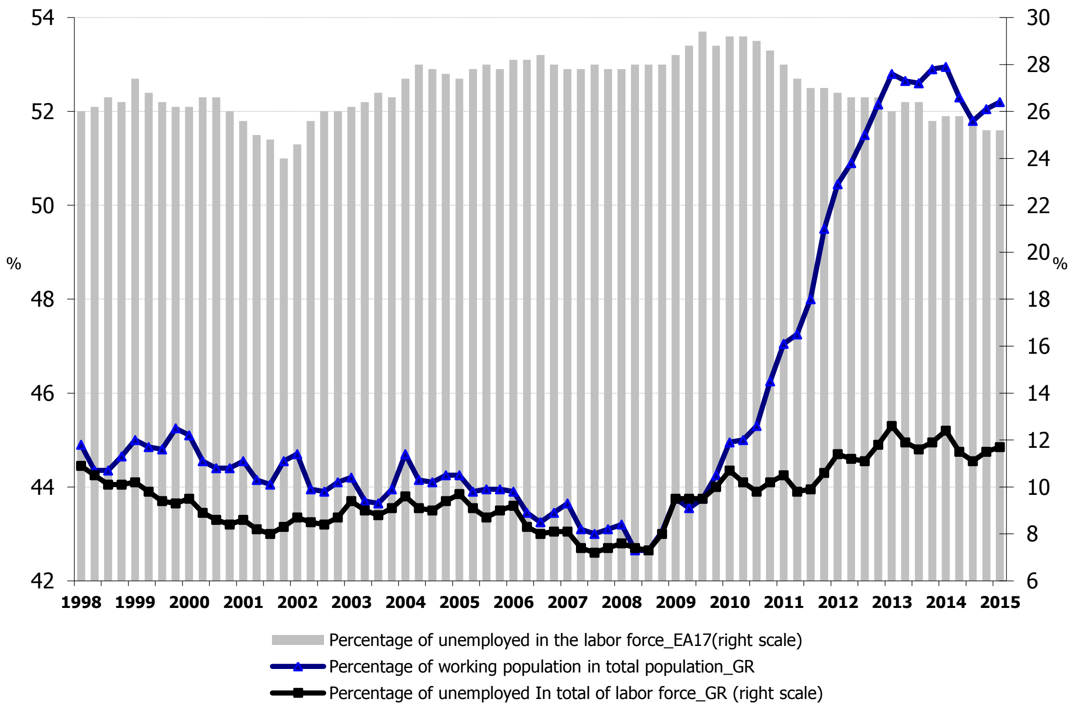
Labour costs in the public sector were falling to a greater extent than the costs in the private sector between the fourth quarter of 2011 and the fourth quarter of 2012. Afterwards, the change in costs between the two sectors was similar, until the first quarter of 2014, when the fall in the public sector was interrupted.

According to the latest data on labour costs for the third quarter of 2014, the private sector recorded a slight increase of 0.9 percentage points year on year. Concerning the public sector, labour costs rose for a third consecutive quarter. More specifically, the third quarter of 2014 saw labour costs in the public sector increase by 2%. Note that the parallel path of change in the two sectors since the last quarter of 2012 was interrupted in the second quarter of 2014.

[16] According to data from the association of Greek tourist enterprises SETE on international tourist arrivals in the main 13 airports of Greece

Figure 3.12

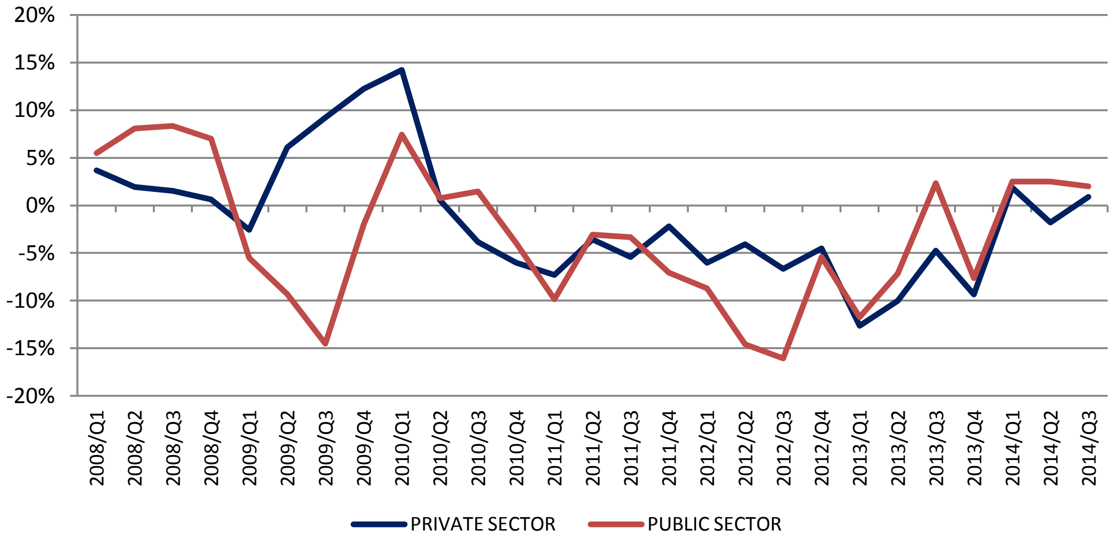
Labour participation and unemployment rates



Source: ELSTAT –Labour Force Survey, Eurostat

Figure 3.13

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



Source: Eurostat, ELSTAT

Table 3.10

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

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

Source: EL.STAT, Labour Force Survey

Medium-term Outlook

The steady downward trend of unemployment for over a year, since the second quarter of 2014, with the unemployment rate falling year-on-year, will most probably dwindle in the third quarter. The recent, largely unexpected political developments and the extraordinary regime of bank transactions, will have a negative impact on economic magnitudes and sectors that had set the Greek economy on a mild growth path in 2014 and early 2015, creating many jobs in the process. In particular, the very strong international tourist flows in 2014, for a second year in a row, led to larger employment growth in Accommodation – Food Services (+41,600 people) than in any other branch of economic activity. The significant employment boost in Tourism carried over to the first quarter of 2015 (+27,600 people year on year). Retail-Wholesale Trade-Repair of Motor Vehicles & Motorcycles came next (+20,600), a branch that benefited from the steady growth of household consumption expenditure for a year and a half.

The current political instability and the capital controls are expected to have major impact in these sectors and activities. These developments have negative effects on the international attractiveness of Greece as tourist destination, which will curb activity and employment in the tourism enterprises from the third quarter, the peak of the tourist season, onwards. In addition, the weakening of household consumption expenditure, after a short-lived increase to secure certain basic necessities, will have a negative impact on the turnover of trading companies, leading to a reduction in their employment.

Regarding the employment in the public sector, the target in the Economic Adjustment Programme for 15,000 new recruits in the current year will most probably not be achieved, however the re-employment of 7,500 people made redundant in the past few years that has taken place since the beginning of the year would partly offset this. The 12th July agreement with the country’s partners does not include any measures on employment in the public sector, however such provisions are expected to be included in the forthcoming negotiations with the lenders.

The low rate of execution of the employment programmes for the unemployed, compared with last year, will curb employment. The programmes had contributed to the interruption of the growth of unemployment in 2014, for the first time since 2008.

All the specific developments that were mentioned above contribute to a rebound of unemployment in the second half of 2015. **The extent of unemployment growth is a function of the duration of political instability, which in turn depends on reaching an agreement on a new economic adjustment programme. As long as the conditions for stabilisation of the politico-economic environment are not present, the uncertainty within Greece and abroad on the political developments and its medium-term outlook will remain exceptionally heightened, while activity in the economy overall and in sectors that contributed to the fall of unemployment in the previous year will continue to contract, with a corresponding effect on employment. Therefore, it is not currently feasible to make a prediction on whether the hike in unemployment from the third quarter of 2015 onwards will result in higher or lower unemployment for the year overall, compared to 2014 or previous years.**

According to the latest IOBE business surveys, **the changes in the short-term employment outlook differed across the sectors of the Greek economy in the second quarter of 2015.** In greater detail:

The employment expectations deteriorated quarter on quarter in the

second quarter of 2015 only in the Construction sector, remaining stable in Retail Trade and improving in Services and Industry. Year on year, the expectations deteriorated in all sectors, except Industry, with the strongest decline recorded in Construction. In particular:

In Industry, the negative balance of employment expectations improved by 5 points quarter on quarter in the second quarter of 2015, thus averaging -2 points. Year on year, the average quarterly index was 4 points higher. The percentage of industrial businesses that were foreseeing growth in employment in the near term reached 12% (from 14%), while the percentage of businesses expecting a contraction in the number of jobs increased to 9% (from 6%). The vast majority of businesses in the sector (80%) were expecting employment to remain unchanged.

In Construction, the expectations deteriorated significantly in the quarter under examination, with the quarterly average of the relevant index falling by 18 points to reach -38. As a result, the index is also significantly lower year-on-year (from 18 on average). About half (from 39%) of the companies in the sector were foreseeing fewer jobs, while the share of companies expecting an increase of employment fell to 13% (from 20%). With respect to individual sectors, the decline in the overall index stems from the deterioration in Public Works (-35 points on average from -20) and Private Construction (to -52 from -14).

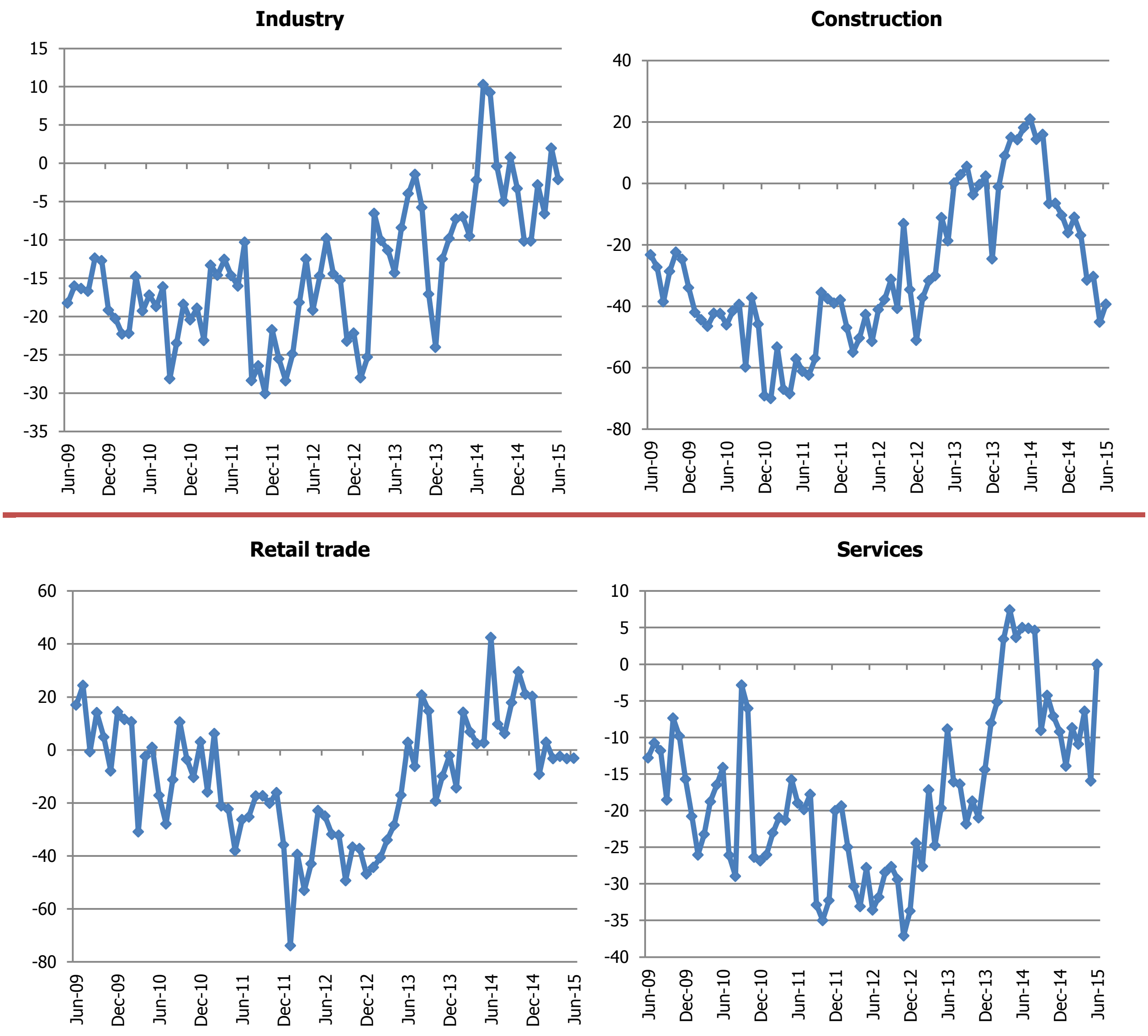
In Services, the employment expectations in the second quarter of 2015 slightly improved quarter on quarter, deteriorating however year on year. The index gained ground in the last quarter from -11 points to -7 points (compared with +5 points in the second quarter of 2014). About 25% of the companies in the sector (from 20%) were expecting a further decrease in employment in the near term, while the percentage of companies that were foreseeing an increase in employment increased to 17% (from 9%). An upward quarter-on-quarter trend dominated across most subsectors. An exception to this trend was observed in Various Business Activities, where the index declined substantially, and in Information Services, where the employment expectations remained stable.

The index of employment expectations in Retail Trade remained unchanged quarter on quarter in the second quarter of this year, at -3. This level is considerably lower than in the corresponding period of last year (16 points).

About 5% (from 7%) of the businesses in this sector were foreseeing a further contraction in jobs, with 2% (from 4%) expecting employment growth and 92% foreseeing employment to remain stable. With respect to subsectors, employment expectations remained unchanged in Department Stores, increased slightly in Household Appliances and declined in the remaining sectors, with more pronounced deterioration in Textiles – Clothing - Footwear.

Figure 3.14

Employment expectations (difference of positive – negative responses)



Source: IOBE

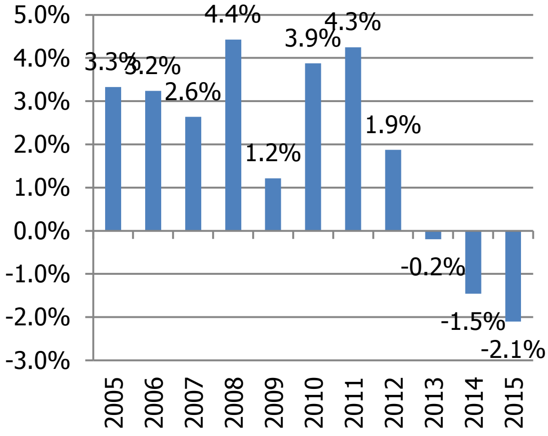
3.5 Consumer Prices

Recent developments

The strong deflation in the Greek economy carried over to the second quarter of 2015. In particular, the Consumer Price Index (CPI) was lower year on year by 2.1% on average, compared with -1.2% year-on-year change in the same period of 2014. As a result, the price fall in the second quarter, albeit weaker than in the previous one (-2.4%), was the strongest for that particular quarter of the year for at least the past 55 years. Deflation overall in the first half of the year reached its highest rate on record as well, at 2.3%, one percentage point higher year on year. As it has been the case since the last quarter of 2014, the significant slump in CPI came from the strong decline of oil prices, which exerted deflationary pressures on two of the three basic categories of goods and services that form the CPI trends (i.e. Transport and Housing).

Figure 3.15

Average CPI change in Greece (Jan. - June, 2005-2015)



Source: ELSTAT, data processing IOBE

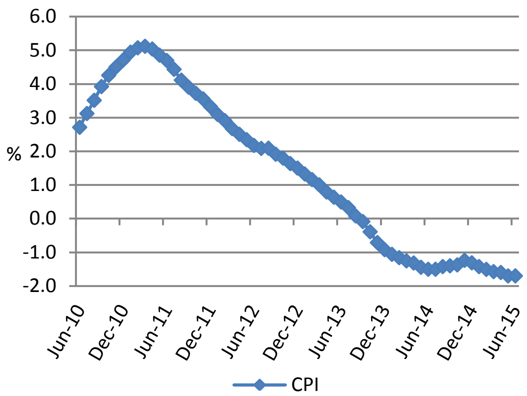
Regarding the trends at sector level in the first half of 2015, the price index in Food Products and Non-Alcoholic Beverages rebounded to positive rates of year-on-year change (+2%). Prices in Clothing (-0.2%) and Recreation (-0.9%) continued their decline, albeit with weaker intensity than in the first half of 2014. Price stability was observed in Communications. The deflation in Housing (-0.4%), Durables (-1.1%) and other goods (-46%) intensified, compared with the same period of 2014.

The Harmonised Index of Consumer Prices (HICP) declined less than the CPI in the second quarter of this year, by 1.4%, compared with 1.7% deflation in the previous year. However, overall in the first half of the year, its decline was stronger than in the previous year (-1.8% from -1.5%), evidently due to the record high deflation in the first quarter of 2015.

At Eurozone level, Greece is in the small group of countries with a negative change of the HICP. In May, Greece reported the second highest rate of deflation in Europe after Cyprus (-1.7%).

Figure 3.16

CPI in Greece (annual percentage change)



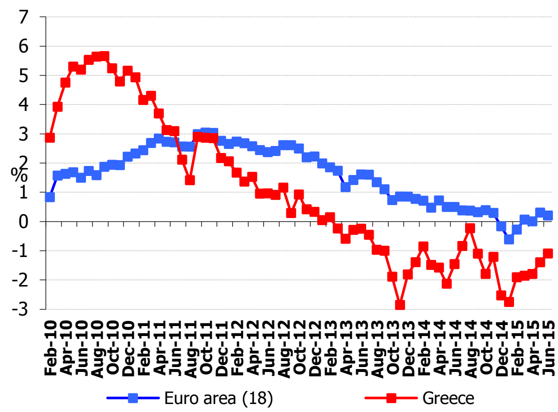
Source: ELSTAT, data processing IOBE

Trailing Greece were Slovenia (-0.8%), Spain (-0.3%) and Lithuania with Slovakia (-0.1%). In the remaining member-states of the Euro area, the HICP increased, albeit only slightly: Finland (+0.1%), Ireland, Italy (+0.2%), France (0.4%) and Austria with Portugal (1%).

According to the latest available data, the Producer Price Index (domestic and foreign markets) decreased by 5.7%, at a rate which was higher year on year by a factor of four and a half (compared with -1.2%).

Figure 3.17

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



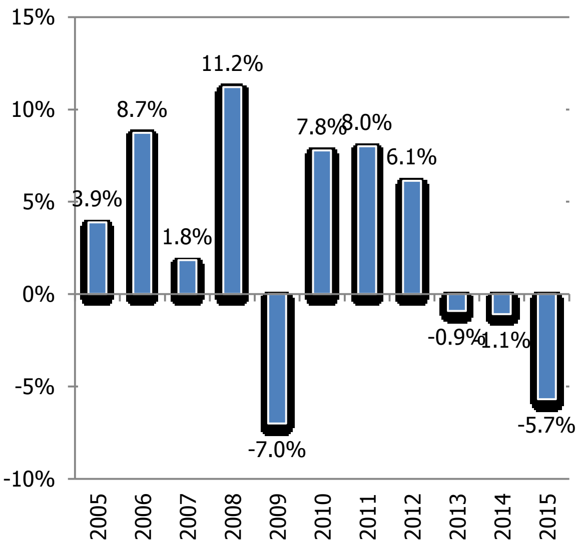
Source: Eurostat, data processing IOBE

In greater detail on the individual sectors of economic activity, the largest contraction in the first six months of this year was recorded in Electricity - Gas Supply (-5.4%), Extraction of Crude Petroleum (-5.2%) and Mining - Quarrying (-2.2%). Prices also declined in Beverages, Wood, Other equipment and Computers.

The producer prices in the other industries increased, with the biggest positive change on average in the first six months of the year recorded in Coke - Refined Petroleum Products (+14.8%), and Coal – Lignite (+4.1%). Weaker producer price inflation was observed in Manufactured Products, Tobacco, Electrical Equipment, Leather and Textiles.

Figure 3.18

Annualised change of CPI in Greece for the past decade
(Jan. – June average)



Source: EL.STAT, data processing: IOBE

The import price index increased in the first six months of 2015 (+3.0%), in contrast with the large decline in the first half of 2014 (-12.4%). In the Euro area, the import price index declined in Lithuania (-10.3%) and Switzerland (-7.2%), while the largest positive change was recorded in the Netherlands (+3.7%) and Slovakia (+2.5%). Greece had the third strongest decline in import prices among the Eurozone countries.

Medium-term Outlook

The public concern peaked with the dramatic recent developments, very high political instability and the imposition of capital controls. These factors will determine the trends in demand in the coming months. They are considered to have already brought a change in the composition of household consumption. Initially, these factors have led to a significant increase of sales of certain product categories, such as food and other basic essentials, moderating the strong deflation recorded until June. However, the need to maintain relatively high liquidity due to the capital controls will most probably lead to weakening of demand at a later stage.

The further developments in consumption demand and prices will depend on the duration of the politico-economic turmoil and capital controls. The prospect of agreement on a new programme relatively soon, within the coming two months, will contribute to the easing of uncertainty and the start of the relaxation of the capital controls, leading to transaction and price growth. The VAT changes that were voted already will largely be passed on to final prices, as evident from the past experience on indirect tax hikes in Greece in the previous years. The end of the deflationary impact on CPI from the fall in oil prices a year ago will facilitate the return of inflation in Greece in the coming six months. **Therefore, there seem to be**

no effects that would carry over the strong deflation from the first half of 2015 to the rest of the year. The duration and strength of the factors that create inflationary pressures will determine whether the strong deflation from the first half of the year will weaken significantly or the inflation rate for 2015 overall will turn positive. The second development is considered more likely, as the change in the VAT rates will be in force for about half of the year.

3.6 Balance of payments

Current account[17]

The **Current Account** (CA) deficit increased in the first five months of 2015 to €2.7 billion, from €2.6 billion in 2014, remaining however below its 2013 level (€3.5 billion). The deficit growth largely came from the (primary and secondary) income account, while the deficit in the Goods[18] and Services Account decreased.

Regarding the CA components, the deficit of the **Goods Account** reached €6.8 billion in the first five months of 2015, decreasing by 11.8% (-€911 million).[19] Imports declined by €1.6 billion, while exports decreased by €716 million. In contrast with the overall account, the deficit in the Goods Account without fuel and ships increased by 20.7% to reach €3.8 billion, as the exports of goods slightly increased, by €38 million, compared with a boost of imports by €704 million. The exports of fuel declined by €612 million, while the imports of fuel dropped by €1.4 billion. As a result, the fuel balance declined to €2.6 billion.

The surplus in the **Services Account** remained unchanged in the first five months of 2015, at €4.3 billion, with receipts increasing to €9.3 billion (+€354 million) and payments growing to €5.0 billion (+€368 million). Regarding receipts, the revenues from tourism reached €2.2 billion, growing by 15%, while lower increase by 2.5% was recorded in transport receipts. Other receipts decreased by 3.4%. Travel payments increased, at about €820 million, while the payments for transport and other services increased by €251 million and €67 million respectively.

The surplus of the **Primary Income Account**[20] declined in the first few months of 2015, to reach €112 million, from €891 million in 2014. Receipts declined by 13.2% to €3.2 billion, while payments increased by 10.5% to €3.1 billion. In greater detail, receipts from employment remained almost unchanged

[17] Since January 2015, the balance of payments for Greece has been compiled using the methodology of the International Monetary Fund's sixth edition of the Balance of Payments Manual (BPM6). As a result of this change, the new available time series presently span 2009-2014. More details are available from the **Bank of Greece** at: http://www.bankofgreece.gr/Pages/el/Bank/News/PressReleases/DispItem.aspx?Item_ID=4930&List_ID=1af869f3-57fb-4de6-b9ae-bdfd83c66c95&Filter_by=DT

[18] Based on the new methodology BPM6, the Trade Balance is renamed as Goods Account.

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

[20]According to the announcement of the BoG, the main changes concern the development of two new terms, namely, the **Primary Income Account** and **Secondary Income Account**. These terms substituted the previous terms of balance of income and current transfers, respectively, in order to achieve greater consistency with the national accounts. The primary income account now includes, apart from labor income (wages, salaries) and investment income (interest, dividends, gains), some additional flows as well, which were previously incorporated in the category of current transfers. These flows are incorporated in the category of other primary income. They primarily include taxes and subsidies on products and production. Meanwhile, the secondary income account, which resembles closer the old current transfers, will henceforth have lower revenues due to the fact that receipts from some EU funds have been reclassified to the category of other primary income.

at €80 million, from investment declined to €192 million, while other primary income (subsidies and taxes on production) declined by 13% to €1.9 billion. Payments for compensation of employees rose by 42.9% to €75 million, while payments for income from investment increased by 9.4% to €2.7 billion. Finally, payments for other primary income, such as subsidies and taxes on production, declined by 6.6% to €171 million.**The Secondary Income Account**[21] recorded a deficit of €322 million in 2015, compared with a deficit of €84 million in 2014. The revenues totalled €1.1 billion, compared with €1.2 billion in 2014, while payments increased by 4.3% to €1.4 billion.

Capital Account

The balance of the **Capital Account**[22] stood at €473 million, compared with €1.4 billion in 2013. This is attributed to a fall in receipts by 59.8% to €622 million, while payments increased by 59.8% to €148 million.Finally, the deficit in the combined **balanced of the current and capital accounts**, indicative of an economy's position as lender or borrower with respect to the rest of the world, deteriorated to reach €2.3 billion, compared with a deficit of €1.1 billion in 2014.

Financial Account

The **Financial Account** (FA) had a deficit of €2.6 billion in the first five months of 2015, compared to €998 million deficit in 2014. Regarding the FA components, **Direct Investment**[23] stood at €93 million, as receivables from investments made by residents abroad increased by €108 million, while liabilities to non-residents increased by €15 million.

In **Portfolio Investment**, the claims by residents towards non-residents decreased by €5.1 billion, as the holdings of residents in foreign bonds and treasury bills decreased by €11,0 billion, while their holdings of foreign stock increased by €5.8 billion. The liabilities to non-residents decreased by €2.8 billion with the flight of holdings of non-residents in Greek sovereign bonds, treasury bill and stock. In the category of **other investments**, the receivables of residents from non-residents increased by €18.8 billion in 2015, as the deposits and repos of Greek residents abroad recorded a net increase by €6.0 billion. The liabilities also increased, by €18.9 billion, as the deposits and repos of non-residents in Greece increased by €19.5 billion.

Finally**,** the **Reserve Assets** of the country in late May 2014 totalled €5.2 billion, up from €5.0 billion in May 2014.

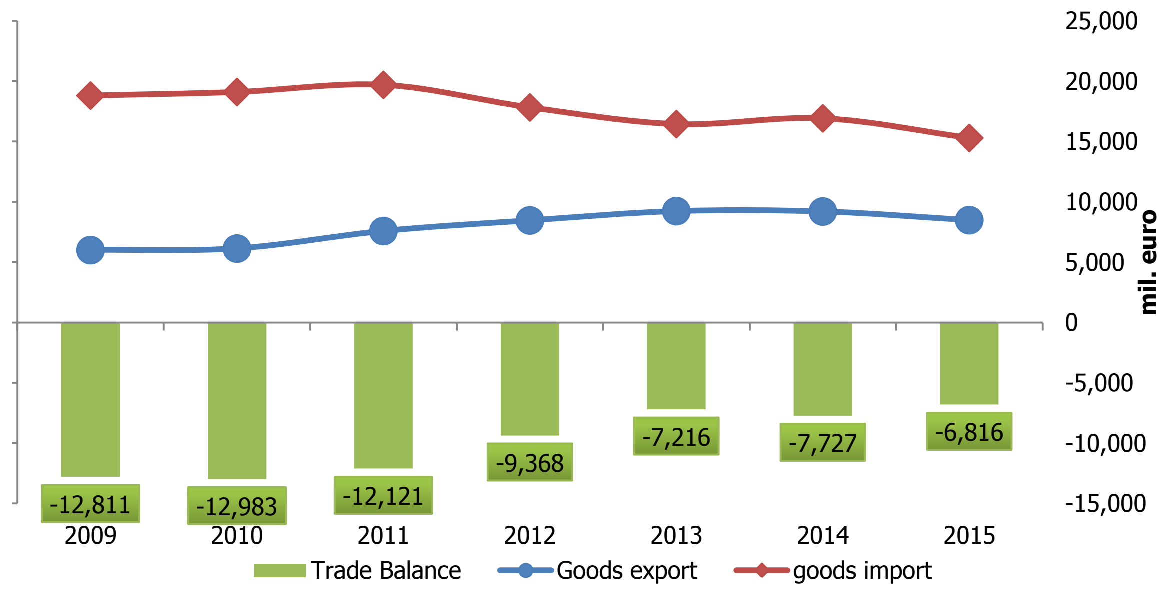
[21] The secondary income account primarily incorporates a portion of the transfers (receipts) from the European Union budget to the General Government (such as receipts from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund and the European Social Fund), the contributions (payments) of Greece to the Community budget, as well as migrant remittances.

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

[23]The recording of direct investments is now based on the principle of receivables / liabilities, instead of the direction of investment that was in effect until recently. Thus, the presentation of direct investment data is based on whether they are assets or liabilities in the reporting country (for instance, investments by Greek residents abroad are recorded as receivables). The new method does not affect the net flow, but only the amount of assets and liabilities. Finally, the sign of receivables is interpreted differently, since a positive sign implies an increase in receivables, while a negative sign implies a reduction of receivables. An identical interpretation will also be applied for liabilities.

Figure 3.19

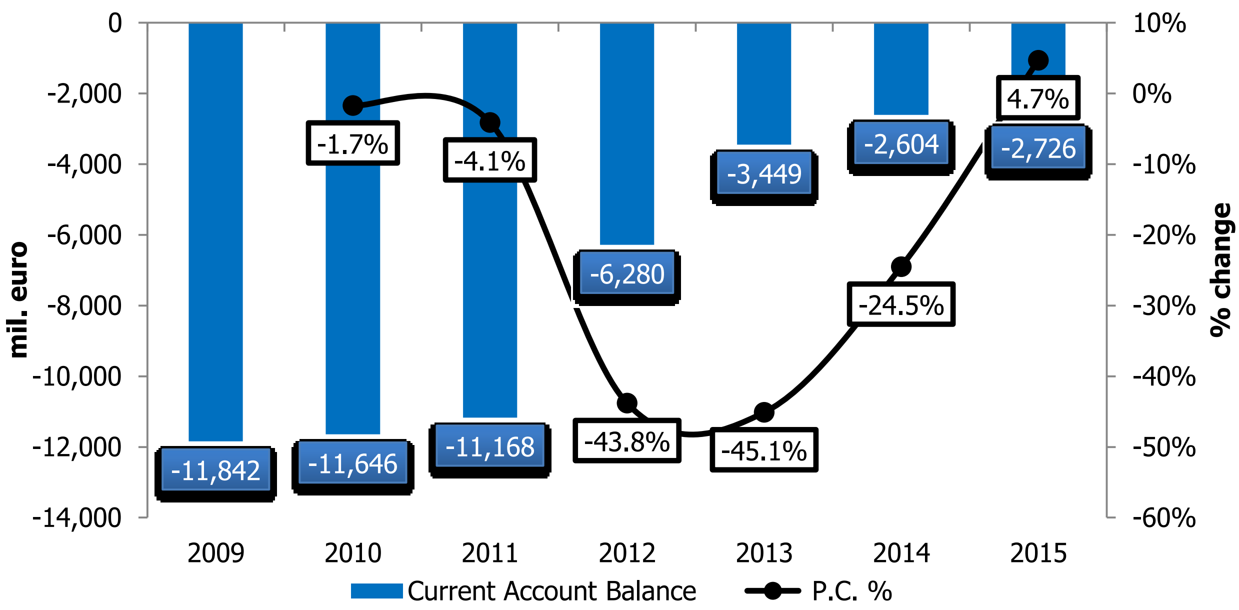
Imports-Exports (January – May 2009-2015)



Source: Bank of Greece – Data processing IOBE

Figure 3.20

Current Account (January - May 2009-2015)



Source: Bank of Greece – Data processing IOBE

Table 3.11

Balance of Payments in € million

		January – May			May		
		2013	2014	2015	2013	2014	2015
I	**CURRENT ACCOUNT (I.A + I.B + I.C + I.D)**	**-3,449.2**	**-2,604.1**	**-2,725.7**	**43.9**	**-299.3**	**407.2**
	GOODS AND SERVICES ACCOUNT (I.A + I.B)	**-3,699.0**	**-3,411.4**	**-2,515.5**	**269.6**	**89.8**	**725.4**
I.A	**GOODS ACCOUNT (I.A.1 - I.A.2)**	**-7,215.8**	**-7,726.7**	**-6,816.4**	**-1,131.3**	**-1,461.2**	**-984.9**
	Oil balance	-3,261.2	-3,407.3	-2,616.3	-368.3	-702.6	-60.0
	Trade balance excluding oil	-3,954.7	-4,319.4	-4,200.1	-763.0	-758.6	-924.9
	Ships balance	-552.8	-1,109.8	-324.8	-84.5	-95.9	-121.7
	Trade balance excluding ships	-6,663.1	-6,616.9	-6,491.6	-1,046.8	-1,365.3	-863.2
	Trade balance excluding oil and ships	-3,401.9	-3,209.6	-3,875.3	-678.5	-662.7	-803.2
I.A.1	**Exports**	**9,237.7**	**9,207.1**	**8,490.8**	**1,928.2**	**1,906.4**	**1,769.4**
	Oil	3,389.2	3,190.4	2,578.0	740.5	627.6	583.0
	Ships (sales)	207.1	289.9	147.6	52.1	73.1	24.6
	Goods excluding oil and ships	5,641.5	5,726.8	5,765.2	1,135.6	1,205.6	1,161.8
I.A.2	**Imports**	**16,453.6**	**16,933.8**	**15,307.2**	**3,059.5**	**3,367.6**	**2,754.3**
	Oil	6,650.3	6,597.6	5,194.3	1,108.8	1,330.2	643.0
	Ships (buying)	759.8	1,399.7	472.5	136.6	169.0	146.3
	Goods excluding oil and ships	9,043.4	8,936.4	9,640.4	1,814.1	1,868.3	1,965.0
I.B	**SERVICES ACCOUNT (I.B.1-I.B.2)**	**3,516.8**	**4,315.2**	**4,300.9**	**1,400.9**	**1,551.0**	**1,710.3**
I.B.1	**Receipts**	**8,117.9**	**8,994.0**	**9,348.4**	**2,357.5**	**2,522.7**	**2,702.1**
	Travel	1,766.8	1,919.7	2,207.7	1,062.2	1,038.3	1,215.1
	Transportation	4,852.9	5,189.6	5,319.7	991.1	1,029.2	1,094.7
	Other services	1,498.3	1,884.7	1,821.0	304.2	455.2	392.3
I.B.2	**Payments**	**4,601.0**	**4,678.8**	**5,047.4**	**956.6**	**971.7**	**991.8**
	Travel	705.3	768.5	819.1	194.6	165.5	217.9
	Transportation	2,348.2	2,181.0	2,432.3	440.2	445.3	471.4
	Other services	1,547.5	1,729.3	1,796.0	321.8	360.9	302.5
I.C	**PRIMARY INCOME ACCOUNT (I.C.1-I.C.2)**	**408.1**	**891.0**	**112.3**	**-145.2**	**-286.5**	**-195.6**
I.C.1	**Receipts**	**3,420.3**	**3,677.3**	**3,189.9**	**473.3**	**330.1**	**386.5**
	From work(wages, compensation)	88.3	85.2	81.0	16.4	20.5	16.1
	From investments (interest, dividends, profit)	1,319.0	1,356.0	1,164.1	277.5	273.1	225.6
	Other primary income	2,013.0	2,236.1	1,944.8	179.4	36.4	144.8
I.C.2	**Payments**	**3,012.2**	**2,786.3**	**3,077.7**	**618.5**	**616.6**	**582.1**
	From work(wages, compensation)	196.1	174.9	250.0	41.0	34.6	44.3
	From investments (interest, dividends, profit)	2,618.2	2,428.3	2,656.4	545.7	556.2	508.4
	Other primary income	198.0	183.1	171.3	31.8	25.8	29.4
I.D	**SECONDARY INCOME ACCOUNT (I.D.1-I.D.2)**	**-158.3**	**-83.6**	**-322.5**	**-80.4**	**-102.6**	**-122.5**
I.D.1	**Receipts**	**1,271.5**	**1,237.6**	**1,055.1**	**161.6**	**105.5**	**121.5**
	General government	671.0	745.4	648.3	59.8	12.1	48.3
	Other sectors	600.5	492.3	406.8	101.8	93.4	73.2
I.D.2	**Payments**	**1,429.9**	**1,321.2**	**1,377.6**	**242.1**	**208.1**	**244.0**
	General government	1,121.7	1,037.7	970.6	180.3	146.3	166.5
	Other sectors	308.1	283.6	407.0	61.8	61.8	77.5
II	**CAPITAL ACCOUNT (II.1-II.2)**	**1,119.1**	**1,434.6**	**473.1**	**-13.9**	**-12.4**	**11.6**
II.1	**Receipts**	**1,273.9**	**1,549.5**	**621.6**	**7.7**	**6.9**	**33.2**
	General government	1,238.6	1,521.1	597.1	0.4	0.5	28.1
	Other sectors	35.3	28.4	24.5	7.3	6.4	5.1
II.2	**Payments**	**154.8**	**114.9**	**148.4**	**21.6**	**19.3**	**21.6**
	General government	1.6	5.8	3.1	0.3	0.3	0.4
	Other sectors	153.2	109.0	145.3	21.3	19.0	21.2
	BALANCE OF CURRENT AND CAPITAL ACCOUNT (I+II)	***-2,330.1***	***-1,169.5***	***-2,252.5***	***30.0***	***-311.7***	***418.8***
III	**FINANCIAL ACCOUNT (III.A+III.B+III.C+III.D)**	**-2,021.2**	**-998.3**	**-2,638.7**	**349.1**	**-273.8**	**161.7**
III.A	**DIRECT INVESTMENT***	**-529.1**	**-751.3**	**93.1**	**67.0**	**-639.6**	**-36.5**
	Assets	-99.3	209.6	108.1	29.5	28.7	28.3
	Liabilities	429.8	960.9	15.0	-37.5	668.3	64.8
III.B	**PORTFOLIO INVESTMENT****	**9,342.3**	**-5,076.9**	**-2,243.3**	**11,934.8**	**357.7**	**934.2**
	Assets	3,022.1	2,554.2	-5,061.5	6,987.5	1,862.9	946.8
	Liabilities	-6,320.2	7,631.1	-2,818.2	-4,947.4	1,505.3	12.7
III.C	**OTHER INVESTMENT***	**-10,841.3**	**4,235.8**	**-100.5**	**-11,642.8**	**232.2**	**-46.0**
	Assets	-17,871.2	-2,518.8	18,836.5	-1,758.7	520.7	2,290.9
	Liabilities	-7,029.9	-6,754.7	18,937.0	9,884.1	288.5	2,336.9
	(Loans of general government)	22,128.4	3,867.1	-4,421.9	14,190.5	-686.9	-760.6
III.D	**CHANGE IN RESERVE ASSETS*****	**7.0**	**594.0**	**-388.0**	**-10.0**	**-224.0**	**-690.0**
IV	**BALANCE ITEMS (I +II +IV +V = 0)**	**308.9**	**171.2**	**-386.2**	**319.1**	**37.9**	**-257.1**
	RESERVE ASSETS (STOCK)***				**4,862**	**4,961**	**5,247**

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 recei are 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 re of foreign exchange reserves with a negative sign.

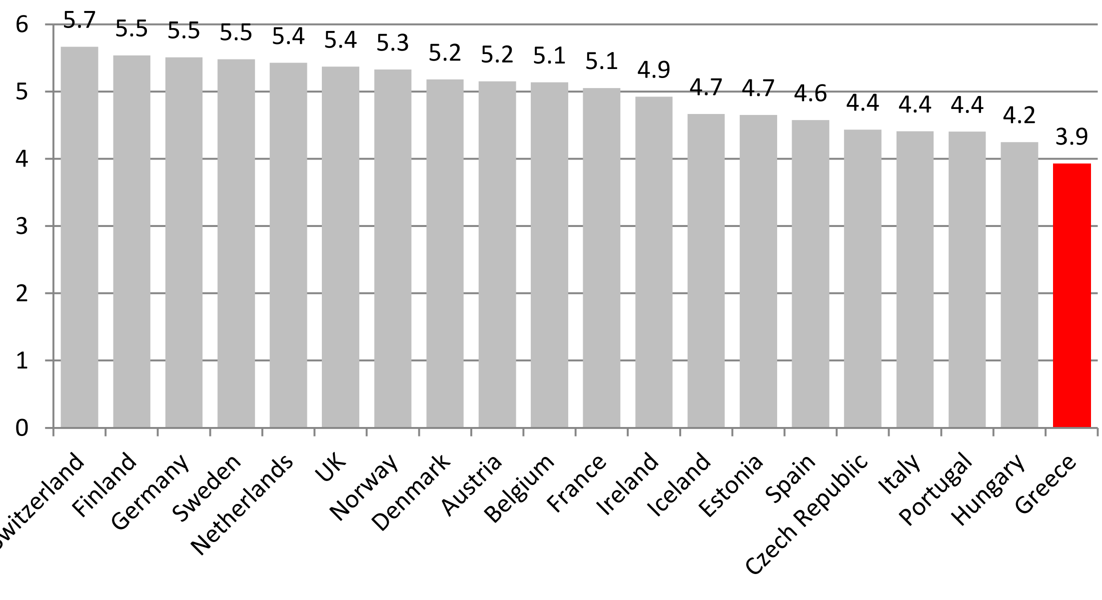
* * * Reserve assets, as defined by the European Central Bank, include only monetary gold, the "reserve position" with the IMF, "Special Drawing Rights" and the requirements of the Ba Greece in foreign currency on residents countries outside the euro area. Conversely, they do not include claims in euro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

4. ICT ADOPTION AND DIGITAL GROWTH IN GREECE

Nowadays, the **rapid evolution of digital technologies** and especially of **Information and Communication Technologies (ICT)** creates great challenges for a **smart, sustainable and inclusive growth**, being thus a crucial flagship **initiative of the Europe Strategy 2020**. Governments around the world design and implement ICT adoption and digital growth strategies in order to improve efficiency and transparency in public administration; stimulate new business formation, job creation, competitiveness, innovativeness and export activity of businesses; improve social welfare and the quality of life for citizens. At the same time **new technologies and especially ICTs create a new business environment** that represents the so called **transition to a digital economy**. This transformation creates new business opportunities of high added value and offer more dynamic patterns for a smart, sustainable and inclusive growth.

Greece has not yet captured the benefits of ICT adoption since it still **falls below EU average in 65 out of 84 ICT indicators** based on the **European Digital Agenda (Digital Agenda Scoreboard, 2013)**. Greece has **low performance in broadband penetration, the frequency of internet use, the use of electronic transactions and electronic procurement.** These shortcomings become even more important today. Policy makers are currently facing a great challenge to support the recovery process within a difficult fiscal environment. The challenge for the Greek government refers to its role as a motivator, contributor, carrier, facilitator or source of the digital growth process. Some of the tools that could help in this direction are discussed in this study.

Figure 4.1
Competitiveness of European countries based on Global Competitiveness Index



Source: World Economic Forum's Global Competitiveness Index (2013)

The implementation of four digital projects identified in this study is thought to render big benefits for the economy in terms of exports, country's competitiveness & transparency, job creation, innovation, etc. The **key priority areas** under examination include:

- **enhancement of e-skills**
- **development and use of digital solutions regarding the transactions between public administration and citizens/businesses**
- **development of open data**
- **creation of new opportunities for innovative SME's and start-ups**

The choice of the specific 4 priority areas was driven by the strategic framework in digital growth designed for the period 2014-2020 at European and Greek policy level of analysis. To explain the economic importance and potential benefits that could be derived from the implementation for each digital project suggested in this report, we provided four separate investigations. These investigations provide hard quantitative results on some of the benefits that we can achieve, by rapidly implementing such "digital projects".

4.1 Digital Signatures

The **broad use and adoption of digital signature solutions in the public and private sectors could simplify** to a great extent **the transaction of citizens** with these sectors and consequently **the quality of life of the citizens is expected to improve**. Apart from the undoubted benefits of electronic signatures to social welfare, their **exploitation** has a high probability to make **the operation of public administration more efficient** and **reduce the operational cost of businesses**. The diffusion of electronic communication and e-commerce **necessitate** the use of 'electronic signatures' and related services allowing **data authentication**. The **electronic signature** is also thought to **prompt** the wide **diffusion** mainly **of e-government and e-banking applications**.

Table 4.1
Benefits of using digital signatures

<table>
<tr><th>Benefit to government</th><th>Benefit to private sector</th><th>Benefit to NGOs / civil society</th></tr>
<tr><td rowspan="2">Diffusion of E-government applications</td><td>Wide use of Ecommerce applications</td><td>Increased trust and confidence in the digital world</td></tr>
<tr><td>Diffusion of E-banking applications</td><td>Increased user satisfaction due to cost cutting, ease of use and efficiency gains</td></tr>
<tr><td colspan="3">Increased cost savings due to minimization of printing and postal costs</td></tr>
<tr><td colspan="3">Efficiency gains through digitization and automation of processes</td></tr>
<tr><td colspan="3">New business opportunities since cross-border online services favours travelling, working and studying across the Union</td></tr>
</table>

Transforming the administrative process **from paper-intensive to paper-free**, including all of the signature-dependent workflows, is an **ambitious** but yet high **promising project**. Relying on an example of Arx Company that sells the CoSign digital solution,[24] we estimated that in the **first year of the adoption of the digital signature solution, the Greek public administration is expected to cut costs by about €380 million.** The above results become even more illustrative when they are compared to other cost savings mechanisms that have been used in the Public sector during the fiscal consolidation process that is underway for the last 4 years in Greece. More specifically the fiscal impact of the mobility and firing schemes that are expected in the Public Sector is around €100 million. This is a clear indication that the diffusion of such solution to the Public sector – even if only partially implemented – is by far more effective than personnel reductions. If designed properly, the Digital signature project can provide the policy makers with a wider set of options when introducing human resource management policies in the Public Sector.

Recommended policy actions to support the efficient adoption and use of digital signatures in public administration are:

- Establishment of a clear and simple regulatory/legislative framework for digital signature and wide use of the electronic stamp and especially in aspects related to the manner in which the electronic identities of individuals are checked, the processes for assigning signature privileges and the authentication method for an individual
- Facilitation of the communication between public sector and businesses/citizens via e-mail
- Maintaining integrity of the document, report, record to which the e-signature is applied
- Binding together digitized seals to documents and signatory

4.2 Open Data

Every minute the **world generates 1,7 million billion bytes** of data, equivalent to 360,000 standard DVDs.[25] More digitized data was created in the last two years than in the rest of human history. This trend and the **mountains of data** it produces is **called "Big data**". The big data sector is growing at a rate of 40% a year. Correspondingly, the **public sector constantly produces data**, across all its activities and administration levels. The open provision of this information is called "open (government) data (OGD)".

Open data has not been actively and systematically harnessed in **Greece**. According to Open Data Barometer (2013) which analyzes global trends, and ranks countries and regions based on 1) readiness to secure the benefits of open data 2) actual levels of imple-

[24] Also, other companies such as Max MD provide relevant methods based on the ROI calculations of digital signatures. Moreover, several recent studies and reports describe practical deployment strategies for electronic signatures (e.g. Fiatech, 2012; ARX, 2012).

[25] European Commission, "What is big data?" Memo 13/965, 07/11/2013

mentation 3) impact of such initiatives, Greece holds one of the last positions compared to other European countries. However, among all countries in the index, Greece is ranked 27th out of 77 countries, outperforming most countries in Africa, Middle East and Central Asia.

It is widely believed, that **open government data can help increase the effectiveness and efficiency in the government operation**. For instance, putting data and information online helps save service time for government bodies and administrative costs. Moreover, apart from cost efficiency, **the public sector** has further and considerable **benefits in terms of transparency**. In particular, open data is a necessary condition for transparency and accountability in the public administration. In this manner all citizens are able to question and control the decision making processes of the public administration and are empowered to act accordingly. Open data can also be used for informative purposes. In addition to that, a **very important aspect** to open data is the fact that **many types of services can be crowdsourced and / or delegated to the private sector**. For instance, applications re-using environmental data and offering, say, pollution maps or easy route-planning solutions help governments save time while at the same time providing opportunity to generate income to the private sector.

Table 4.2
Benefits of using open data

Benefit to government	Benefit to private sector	Benefit to NGOs / civil society
Increased tax revenues through increased economic activity	New business opportunities for services / goods	Better informed monitoring
Creation of jobs	Reduced costs for data conversion (no need to convert into raw formats anymore)	New venues for project action: building tools/applications
Reduction in data transaction costs		
Increased service efficiency through linked data)	Better decision-making based on accurate information	Increased sustainability potential through increased capacity
Increased GDP	Better-skilled workforce	
Encouraged entrepreneurship (economic growth)		

We applied OLS regression techniques in order to measure the **effect of open data on competitiveness**, transparency and new jobs creation (dependent variables). According to empirical results a 100% increase in the diffusion of open data in Greece will provoke:

- **Significant increase in its ranking position in terms of competitiveness** from the current (56th) to the 31st.
- **Significant increase in its ranking position in terms of transparency** from the current (80th) to the 47th.
- **Creation of 6,332 new businesses**.

The results especially in terms of creating new businesses are reinforcing the fact that **open data** can provide **a new test bed for entrepreneurship**. New activities, products and services can be developed over a wide area of possible meta – data uses. With an unemployment rate of 27% Greece is urgently looking for sectors that can fuel job creation and boost sustainable entrepreneurial ventures that can offer innovative services. That is why promoting open data policies represents a top priority issue and should not be acknowledged as a minor technical aspect of the digital agenda.

Policy suggestions to support the development of open data are the following:

- **Recording and diffusing knowledge** on the available data per public organisation
- **Supporting partnerships** between public sector and private data centres
- **Creating a platform** for government practitioners to **exchange ideas and/or experiences** on open data projects
- **Development of a guide for government practitioners** to foster public sector information and data reuse
- **Educating and informing government practitioners** via workshops on how to publish public data online

4.3 E-skills

It has been widely recognised that the competitiveness, innovativeness and social cohesion in the European economy are heavily dependent on the strategic and efficient use of digital technologies as well as on the knowledge, skills, and capabilities of the European labour force and citizens. Digital skills seem to be essential for employees and leaders working in SME's, for young people, for unemployed individuals. Given the rapid development of the digital economy, individuals with high knowledge on ICT-use seem to face greater challenges and opportunities.

Table 4.3
Benefits of e-skills

Benefit to public sector	Benefit to private sector	Benefit to citizens
Contribution to economic growth	Enhanced **competitiveness** and **innovation** capability	Increased **social cohesion**
Strengthened regional productivity**,** competitiveness **and** innovation	Better implementation results of ICT adoption in industry	Reduction of **unemployment** rates in ICT literate workers
		Increased **job security**

According to the results **if 1000 individuals upgraded their e-skills**, **exports in Greece would increase by 13.9 million euro and 72 new businesses would be created.**

There is a **wide consensus** that **the new growth model** of Greece should be **focused on exports and investment**. But being export oriented is not an easy option. It means that we need to invest in building capabilities, skills and technology, so our business practices can support this export-oriented model. Augmenting e-skills can have a major impact on this process as they provide these dynamic capabilities that are necessary to have a global view on markets, clients and competitors.

The study makes the following policy suggestions for the stimulation of digital and ICT skills:

- **Expanding lifelong ICT learning** programmes
- **Taking initiatives to support technology careers in workforce**, e.g. by including mentoring programmes and high-school/university work experience/internships in ICT sector and by establishing a Technology Education and Careers Council
- **Providing ICT training programmes** for immigrants and women

4.4 Digital Entrepreneurship and Innovative SMEs

The ICT penetration in businesses and especially in SMEs contributes significantly to the improvement and stimulation of productivity, innovativeness, internationalisation and generally to the competitiveness of businesses. New digital technologies and innovations evolve rapidly affecting many industries and value chains. Also, they reduce entry barriers for potential new start-ups, and at the same time may motivate established businesses to follow a creative destruction process in order to sustain their competitive advantage. In general, digital technologies create great challenges and opportunities for the emergence of high-quality start-ups, i.e. new entrepreneurs with a high potential to grow, create jobs, innovate and export. **Fostering innovation-driven entrepreneurship** seems to become a **basic policy priority** for developed economies (for example see United Nations, 2012 and World Economic Forum, 2014). **Digital entrepreneurs** are characterised by a **high dependence on new digital technologies** (e.g. key enabling technologies, open and big data, mobile and cloud solutions), in order to improve business operations and introduce smart solutions in their transactions with customers and suppliers.

According to the empirical results ICT adoption in Greek SME's

- **increases their probability to innovate** by about 4 - 9 percentage points
- **increases their likelihood to export** by about 1.5 - 4 percentage points

Improving the value added of the products / services produced by the Greek productive system **is a key component for improving international competitiveness**. Greece cannot efficiently compete with low cost economies that focus on low labour cost and unskilled labour. Such a strategy is myopic and does not build on the capabilities that the human capital of the country possesses. But in order to increase the value content of our production we need to foster innovation and knowledge based entrepreneurship. The adoption and diffusion of ICTs in the productive process can provide cost and innovative advantages that go beyond the labour cost. That is why investing in **ICTs is not a luxury type of investment**, even in times of tight fiscal condition, but rather a precondition for innovative growth.

Table 4.4

Benefits of enhancing digital entrepreneurship and innovative ecosystem

Benefit to government/public sector	Benefit to businesses	Benefit to society/citizens
Encouraging collaborations **between public sector – businesses – universities etc.**	Facilitating the entry into the market of **new and dynamic players**	**Job creation**
Enhancing technology transfer	Strengthening **business networks** between SME's and large-sized firms	**Reducing unemployment rate** at regional and national levels
Increasing and ensuring tax returns	Making possible for SME's becoming fully integrated **international business partners**	**Knowledge diffusion** within and between regional locations
Increasing GDP **and improving** productivity **and** competitiveness **of the economy**	**Streamlining** business processes	**Improving skills** of human capital within a region
	Increasing **returns on ICT investment**	
	Improving **business transactions**	
	Reducing administrative **costs** and **errors**	

Policy suggestions to enhance digital entrepreneurs and innovative SMEs are the following:

- **Harmonisation of the relevant laws** and regulations with international norms mainly on issues related to the internationalisation of SMEs, commercialisation, protection of intellectual property rights
- **Motivating the establishment of joint research ICT laboratories** e.g. by providing fiscal incentives
- **Establishment of technology transfer** offices within universities
- **Facilitating the access to external finance** for innovative-driven start-ups, e.g. through the development business-angels networks at National and European level, hybrid public-private funds, crowd-sourcing
- **Stimulating the participation of SMEs and universities in cross-border open innovation**
- **Selection and dissemination of information on international best practices** of how to promote digital entrepreneurs.

5. APPENDIX: STRUCTURAL INDICATORS

Table 1: GDP growth

	Annual data (%)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	2.4	3.7	3.6	1.5	-3.8	1.9	3.1	0.9	0.2	0.4
Belgium	1.8	2.7	3	1	-2.6	2.5	1.6	0.1	0.3	1.1
Bulgaria	6.4	6.5	6.4	6.2	-5.5	0.7	2	0.5	1.1	1.7
Croatia	4.3	4.9	5.1	2.1	-6.9	-2.3	-0.2	-2.2	-0.9	-0.4
Cyprus	3.9	4.1	5.1	3.6	-1.9	1.4	0.3	-2.4	-5.4(p)	-2.3(p)
Czech Republic	6.8	7	5.7	3.1	-4.5	2.3	2	-0.8	-0.7	2
Denmark	2.4	3.4	1.6	-0.8	-5.7	1.6	1.2	-0.7	-0.5	1.1
Estonia	8.9	10.2	7.3	-4.1	-14.1	2.5	8.3	4.7	1.6	2.1(p)
EU (28 countries)	2.2	3.4	3.2	0.4	-4.5	2.1	1.7	-0.5	0	1.3
Euro area (18 countries)	1.7	3.3	3	0.4	-4.5	2	1.6	-0.8	-0.5	0.8
Finland	2.9	4.4	5.3	0.3	-8.5	3	2.6	-1.4	-1.3	-0.4(e)
France	1.8	2.5	2.3	-0.1	-3.1	2	2.1	0.3	0.3	0.2
Germany	0.7	3.7	3.3	1.1	-5.1	4.1	3.6	0.4	0.1	1.6
Greece	2.3	5.5	3.5	-0.2	-3.1	-5.4(p)	-8.9(p)	-6.6(p)	-3.9(p)	0.8(p)
Hungary	4	3.9	0.1	0.9	-6.8	0.8	1.8	-1.5	1.5	3.6(p)
Ireland	6.1	5.5	5	-2.2	-6.4	-0.3	2.8	-0.3	0.2	4.8
Italy	0.9	2.2	1.7	-1.2	-5.5	1.7	0.3	-2.2	-1.7	-0.4
Latvia	10.1	11	10	-2.8	-17.7	-2.9	5	4.8	4.2	2.4
Lithuania	7.8	7.8	9.8	2.9	-14.8	1.6	6.1	3.8	3.3	2.9
Luxemburg	5.3	4.9	6.6	-0.7	-5.6	5.1	2.6	-0.2	2	5.6
Malta	3.6	2.6	4.1	3.9	-2.8	3.5	2.3	2.5	2.7	3.5
Netherlands	2	3.4	3.9	1.8	-3.7	1.1	1.7	-1.6	-0.7(p)	1(p)
Poland	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2	1.7	3.3
Portugal	0.8	1.4	2.4	0	-2.9	1.9	-1.8	-4	-1.6	0.9
Romania	4.2	7.9	6.3	7.3	-6.6	-1.7	1.1	1.6	3.4(p)	2.8(p)
Slovakia	6.7	8.3	10.5	5.8	-4.9	4.8	2.7	1.6	1.4	2.4
Slovenia	4	5.8	7	3.4	-7.9	1.2	0.6	-2.6	-1	2.6
Spain	3.6	4.1	3.5	0.9	-3.8(p)	0(p)	-0.6(p)	-2.1(p)	-1.2(p)	1.4(p)
Sweden	3.2	4.3	3.3	-0.6	-5	6	2.7	-0.3	1.3	2.3p)
United Kingdom	3.2	2.8	3.4	-0.8	-5.2	1.9	1.6	0.7	1.7	3

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

Table 2: General Government Debt as %GDP

	Annual data (%)								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	60.6	58.4	61.8	66.8	82.4	82.1	81.5	80.9	84.5
Belgium	87.9	84	89.2	96.6	99.6	102	103.8	104.4	106.5
Bulgaria	21.6	17.2	13.7	14.6	15.9	15.7	18	18.3	27.6
Croatia	35.7	33.3	30	36.6	52.8	63.7	69.2	80.6	85
Cyprus	64.7	58.8	48.9	58.5	56.5	66	79.5	102.2	107.5
Czech Republic	27	26.7	27.5	33.1	36.2	39.9	44.6	45	42.6
Denmark	31.1	26.4	32.6	39.5	42.9	46.4	45.6	45	45.2
Estonia	4.4	3.6	4.5	7	6.5	6	9.7	10.1	10.6
EU (28 countries)	:	:	:	:	:	80.9	83.7	85.5	86.8
Euro area (18 countries)	:	:	:	:	:	85.9	89.3	91.1	92
Finland	38.1	33.9	32.5	41.4	47.1	48.5	52.9	55.8	59.3
France	62	62.3	66.1	77	81.5	85.2	89.6	92.3	95
Germany	65.8	63.1	64.6	72.1	80.3	77.9	79.3	77.1	74.7
Greece	107.5	107.2	112.9	129.7	146	171.3	156.9	175	177.1
Hungary	64.9	65.8	71.9	78.2	80.9	81	78.5	77.3	76.9
Ireland	24.6	24.9	44.2	64.4	87.4	111.2	121.7	123.2	109.7
Italy	102.5	99.7	102.3	112.4	115.3	116.4	123.1	128.5	132.1
Latvia	10.7	9	19.8	36.9	46.8	42.7	40.9	38.2	40
Lithuania	17.9	16.8	15.5	29.3	36.3	37.2	39.8	38.8	40.9
Luxemburg	6.8	7	14.4	15.3	19.6	19.1	21.9	24	23.6
Malta	60.4	58.8	59.3	64.6	67.6	69.7	67.4	69.2	68
Netherlands	44.6	42.5	54.7	56.4	59	61.3	66.5	68.6	68.8
Poland	47.7	45	47.1	50.9	53.6	54.8	54.4	55.7	50.1
Portugal	67.2	66	68.9	80.4	96.2	111.1	125.8	129.7	130.2
Romania	12.4	12.8	13.4	23.6	29.9	34.2	37.3	38	39.8
Slovakia	30.5	29.6	27.9	35.6	41.1	43.4	52.1	54.6	53.6
Slovenia	26	22.7	21.6	34.5	37.9	46.5	53.7	70.3	80.9
Spain	39.7	36.3	40.2	54	60.1	69.2	84.4	92.1	97.7
Sweden	43	38.1	36.7	40.2	36.7	36.2	36.6	38.7	43.9
United Kingdom	42.7	43.7	51.9	67.1	76.4	81.8	85.8	87.3	89.4

Table 3: General Government Balance as %GDP

	Annual data (%)								
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Austria	-2.5	-1.3	-1.5	-5.3	-4.5	-2.6	-2.2	-1.3	-2.4
Belgium	0.3	0.0	-1.1	-5.5	-4.0	-4.1	-4.1	-2.9	-3.2
Bulgaria	1.8	1.1	1.6	-4.2	-3.2	-2.0	-0.7	-0.9	-2.8
Croatia	-3.3	-2.5	-2.7	-5.9	-6.0	-7.5	-5.3	-5.4	-5.7
Cyprus	-1.1	3.2	0.9	-5.6	-4.8	-5.8	-5.8	-4.9	-8.8
Czech Republic	-2.3	-0.7	-2.1	-5.5	-4.4	-2.7	-3.9	-1.2	-2.0
Denmark	5.0	5.0	3.2	-2.8	-2.7	-2.1	-3.7	-1.1	1.2
Estonia	:	:	:	:	0.2	1.2	-0.2	-0.2	0.6
EU (28 countries)	:	:	:	:	-6.4	-4.1	-3.6	-2.9	-2.4
Euro area (18 countries)	:	:	:	:	-6.1	-4.5	-4.2	-3.2	-2.9
Finland	3.9	5.1	4.2	-2.5	-2.6	-1.0	-2.1	-2.5	-3.2
France	-2.3	-2.5	-3.2	-7.2	-6.8	-5.1	-4.8	-4.1	-4.0
Germany	-1.5	0.3	0.0	-3.0	-4.1	-0.9	0.1	0.1	0.7
Greece	-6.1	-6.7	-9.9	-15.2	-11.1	-10.2	-8.7	-12.3	-3.5
Hungary	-9.4	-5.1	-3.7	-4.6	-4.5	-5.5	-2.3	-2.5	-2.6
Ireland	2.8	0.2	-7.0	-13.9	-32.4	-12.7	-8.1	-5.8	-4.1
Italy	-3.6	-1.5	-2.7	-5.3	-4.2	-3.5	-3.0	-2.9	-3.0
Latvia	-0.6	-0.6	-4.0	-8.9	-8.2	-3.3	-0.8	-0.7	-1.4
Lithuania	-0.4	-1.0	-3.3	-9.3	-6.9	-8.9	-3.1	-2.6	-0.7
Luxemburg	1.4	4.2	3.3	-0.5	-0.6	0.4	0.1	0.9	0.6
Malta	-2.6	-2.3	-4.2	-3.3	-3.3	-2.6	-3.6	-2.6	-2.1
Netherlands	0.2	0.2	0.2	-5.5	-5.0	-4.3	-4.0	-2.3	-2.3
Poland	-3.6	-1.9	-3.6	-7.3	-7.6	-4.9	-3.7	-4.0	-3.2
Portugal	-4.3	-3.0	-3.8	-9.8	-11.2	-7.4	-5.6	-4.8	-4.5
Romania	-2.2	-2.9	-5.6	-8.9	-6.6	-5.3	-2.9	-2.2	-1.5
Slovakia	-3.6	-1.9	-2.4	-7.9	-7.5	-4.1	-4.2	-2.6	-2.9
Slovenia	-1.3	-0.1	-1.8	-6.1	-5.7	-6.6	-4.0	-14.9	-4.9
Spain	2.2	2.0	-4.4	-11.0	-9.4	-9.4	-10.3	-6.8	-5.8
Sweden	2.2	3.3	2.0	-0.7	0.0	-0.1	-0.9	-1.4	-1.9
United Kingdom	-2.9	-3.0	-5.1	-10.8	-9.6	-7.6	-8.3	-5.7	-5.7

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

	Annual data (%)								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Austria	16.8	17.8	16.7	18.6	17	18.9	19.2	18.5(b)	18.8
Belgium	22.6	21.5	21.6	20.8	20.2	20.8	21	21.6	20.8
Bulgaria	:	61.3	60.7	44.8(b)	46.2	49.2	49.1	49.3	48
Croatia	:	:	:	:	:	31.1	32.6	32.6	29.9
Cyprus	25.3	25.4	25.2	23.3(b)	23.5	24.6	24.6	27.1	27.8
Czech Republic	19.6	18	15.8	15.3	14	14.4	15.3	15.4	14.6
Denmark	17.2	16.7	16.8	16.3	17.6	18.3	18.9	19	18.9
Estonia	25.9	22	22	21.8	23.4	21.7	23.1	23.4	23.5
EU (28 countries)	:	:	:	:	:	23.7	24.3	24.7	24.5
Euro area (18 countries)	21.7	22	21.8	21.7	21.4	21.9	22.9	23.2	23.1
Finland	17.2	17.1	17.4	17.4	16.9	16.9	17.9	17.2	16
France	18.9	18.8	19	18.5(b)	18.5	19.2	19.3	19.1	18.1
Germany	18.4	20.2	20.6	20.1	20	19.7	19.9	19.6	20.3
Greece	29.4	29.3	28.3	28.1	27.6	27.7	31	34.6	35.7
Hungary	32.1	31.4	29.4	28.2	29.6	29.9	31	32.4	33.5
Ireland	25	23.3	23.1	23.7	25.7	27.3	29.4	30	29.5
Italy	25	25.9	26	25.3	24.7	24.5	28.2	29.9	28.4
Latvia	46.3	42.2	35.1	34.2(b)	37.9	38.2	40.1	36.2	35.1(b)
Lithuania	41	35.9	28.7	27.6	29.6	34	33.1	32.5	30.8
Luxemburg	17.3	16.5	15.9	15.5	17.8	17.1	16.8	18.4	19
Malta	20.5	19.5	19.7	20.1	20.3	21.2	22.1	23.1	24
Netherlands	16.7	16	15.7	14.9	15.1	15.1	15.7	15	15.9
Poland	45.3	39.5	34.4	30.5(b)	27.8	27.8	27.2	26.7	25.8
Portugal	26.1	25	25	26	24.9	25.3	24.4	25.3	27.5
Romania	:	:	45.9	44.2	43.1	41.4	40.3	41.7	40.4
Slovakia	32	26.7	21.3	20.6	19.6	20.6	20.6	20.5	19.8(p)
Slovenia	18.5	17.1	17.1	18.5	17.1	18.3	19.3	19.6	20.4
Spain	24.3	24	23.3	24.5	24.5	26.7	27.7	27.2	27.3
Sweden	14.4	16.3	13.9	14.9	15.9	15	16.1	15.6	16.4
United Kingdom	24.8	23.7	22.6	23.2	22	23.2	22.7	24.1(b)	24.8

b=break in time series, p=provisional

(*) For the exact definition see the link below:
http://ec.europa.eu/eurostat/statistics-explained/index.php/Thematic_glossaries

Table 5: Harmonised Consumer Price Index

	Annual data (%)				January – June (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	3.6	2.6	2.1	1.5	2.4	1.5	0.8	-0.9	-0.8
Belgium	3.4	2.6	1.2	0.5	1.2	0.9	0.2	-0.3	-0.8
Bulgaria	3.4	2.4	0.4	-1.6	1.6	-1.7	-1.2	-3.3	0.6
Croatia	2.2	3.4	2.3	0.2	3.3	0.2	-0.2	-3.1	-0.3
Cyprus	3.5	3.1	0.4	-0.3	1.0	-0.7	-1.4	-1.7	-0.7
Czech Republic	2.1	3.5	1.4	0.4	1.6	0.3	0.3	-1.3	0.1
Denmark	2.7	2.4	0.5	0.3	0.7	0.4	0.2	-0.3	-0.2
Estonia	5.1	4.2	3.2	0.5	3.8	0.9	0.1	-2.9	-0.8
EU (28 countries)	3.1	2.6	1.5	0.6	1.6	0.6	-0.1	-1.0	-0.7
Euro area (18 countries)	2.7	2.5	1.3	0.4	1.8	0.7	-0.1	-1.1	-0.8
Finland	3.3	3.2	2.2	1.2	2.5	1.3	0.0	-1.1	-1.3
France	2.3	2.2	1.0	0.6	1.1	0.8	0.0	-0.3	-0.8
Germany	2.5	2.1	1.6	0.8	1.7	1.0	0.1	-0.7	-0.8
Greece	3.1	1.0	-0.9	-1.4	-0.2	-1.5	-1.8	-1.3	-0.3
Hungary	3.9	5.7	1.7	0.0	2.3	0.2	-0.3	-2.1	-0.4
Ireland	1.2	1.9	0.5	0.3	0.8	0.3	-0.1	-0.5	-0.4
Italy	2.9	3.3	1.3	0.2	1.7	0.4	0.0	-1.3	-0.4
Latvia	4.2	2.3	0.0	0.7	1.8	0.3	-0.8	-1.5	-1.1
Lithuania	4.1	3.2	1.2	0.2	0.1	0.6	0.4	0.5	-0.2
Luxemburg	3.7	2.9	1.7	0.7	2.0	1.1	-0.1	-0.9	-1.2
Malta	2.5	3.2	1.0	0.8	1.4	0.9	0.9	-0.4	0.0
Netherlands	2.5	2.8	2.6	0.3	3.1	0.4	0.0	-2.7	-0.4
Poland	3.9	3.7	0.8	0.1	0.9	0.5	-0.9	-0.4	-1.4
Portugal	3.6	2.8	0.4	-0.2	0.6	-0.2	0.4	-0.8	0.5
Romania	5.8	3.4	3.2	1.4	4.6	1.3	0.4	-3.3	-0.8
Slovakia	4.1	3.7	1.5	-0.1	2.2	0.7	-0.7	-1.5	-1.4
Slovenia	2.1	2.8	1.9	0.4	2.0	-0.1	-0.3	-2.1	-0.2
Spain	3.1	2.4	1.5	-0.2	2.3	0.1	-0.7	-2.2	-0.9
Sweden	1.4	0.9	0.4	0.2	0.4	0.1	0.6	-0.3	0.4
United Kingdom	4.5	2.8	2.6	1.5	2.7	1.7	0.0	-1.0	-1.7

Table 6: GDP per capita (in PPS, EU-28=100)

	Annual data (%)								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Austria	126	124	124	126	126	128	129	128	128
Belgium	118	116	116	118	120	120	120	119	119
Bulgaria	38	40	43	44	43	44	45	45	45
Croatia	60	62	65	63	60	60	61	61	59
Cyprus	93	94	99	100	102	96	94	89	85
Czech Republic	80	83	81	82	81	83	82	82	84
Denmark	124	122	124	123	126	126	125	124	124
Estonia	66	70	69	64	63	68	71	73	73
EU (28 countries)	100	100	100	100	100	100	100	100	100
Euro area (18 countries)	109	109	108	108	109	108	108	107	107
Finland	114	117	119	114	115	117	116	113	110
France	108	108	107	109	108	108	107	107	107
Germany	115	115	116	115	119	122	123	122	124
Greece	92	90	93	95	87	77	74	73	72
Hungary	63	61	64	65	66	65	65	66	68
Ireland	145	146	131	128	129	130	130	130	132
Italy	105	104	104	104	104	103	101	99	97
Latvia	53	57	58	54	55	57	60	64	64
Lithuania	58	62	64	58	60	65	69	73	74
Luxemburg	270	274	263	252	254	265	264	258	263
Malta	79	78	81	84	87	84	85	86	85
Netherlands	131	132	134	132	135	135	133	131	130
Poland	52	54	56	60	62	64	66	67	68
Portugal	79	79	78	80	80	78	76	78	78
Romania	39[b]	43	49	50	50	51	53	54	54
Slovakia	63	68	72	73	74	73	74	75	76
Slovenia	88	88	91	86	84	83	82	82	83
Spain	105	105	103	103	98	95	94	94	93
Sweden	123	125	124	120	126	127	126	127	124
United Kingdom	122	118	114	112	108	106	107	109	108

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

Table 7: Labour productivity per person employed (GDP in PPS per hour worked, EU-28=100)

	Annual data								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	118.5	119.2	117.1	116.5	116.3	115.1	115.6	115	113.5
Belgium	130.6	129.3	127.7	126.9	127.9	129.8	128.6	128.6	127.4
Bulgaria	35.8	36.4	37.5	39.7	39.7	40.9	43	44.5	43.4
Croatia	74.7	73.7	77.3	78.3	76.3	75.2	77.2	80.4	80.2
Cyprus	83	84.2	85.3	90.9	92.3	91	89.9	92.6	91.9
Czech Republic	73.1	74	76.3	74.1	75.9	74.3	74.6	73.9	72
Denmark	107.3	107.1	104.8	105.9	106.9	112.9	111.5	112.2	111.1
Estonia	60.9	62.4	66.7	65.7	66.1	69.7	69.7	70.2	70
EU (28 countries)	100	100	100	100	100	100	100	100	100
Euro area (18 countries)	108.4	108.3	108.4	108.6	108.7	108.7	108.7	108.7	108.7
Finland	111.3	110.7	113.6	113.3	110.2	109.4	109.7	109.1	107.2
France	116.5	115.4	115.6	115.3	117.3	116.7	116.7	116.3	116.1
Germany	108.7	108.8	108.4	107.9	104.3	106.8	108.2	107.1	107.1
Greece	96	97.2	95.5	97.6(p)	98.3(p)	93(p)	89.9(p)	91.8(p)	92.8(p)
Hungary	67.7	67.8	66.6	70.6	72.4	71.7	72.6	71.2	70.7
Ireland	135.6	135.6	136.5	127.1	133(p)	137.9(p)	141.2(p)	141.9(p)	135.6(p)
Italy	112.1	111.2	111.6	112.9	112.6	111.6	110.4	109.4	108.9
Latvia	47.9	48.9	54	55.1	57.3	60.8	63.8	66.3	67
Lithuania	55	56.8	59.6	62	58	68.2	72.3	74.1	74.7
Luxemburg	170.3	179.6	180	168.4	159.5	164.2	165.5	162.8	164.1
Malta	94.6	93.2	92.3	94.4	97.2	97.9	94.6	93.1	91.9
Netherlands	114.6	114.5	114.5	115.4	112.7	110.7	110	108.5	108.9
Poland	61.8	61.2	62.2	62.4	65.5	70.1	72	73.7	74.4
Portugal	73	73.2	74	73.5	76.1	76.7	74.5(p)	76.1(p)	76.8(p)
Romania	36.2	39.8	43.4	49.1	49.4	49.7	50.5	51.1	51.7
Slovakia	68.8	71.7	76.4	79.8	80	82.4	81.6	82.1	82.7
Slovenia	83.3	83.4	83.2	83.7	80.1	79.5	81.1	80.9	81.2
Spain	101.5	102.8	103.1	104.3	109.4	106.6	106.2	109.7	111.4
Sweden	112.1	113.1	114.9	114.3	112.2	114.2	114.1	114.4	114.6
United Kingdom	115.1	114.5	111.9	109	107	102.5	100.3	99.3	99.5

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

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

	Annual data (%)				1st quarter (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	74.2	74.4	74.6	74.2	73.7	73.2	73.4	-0.5	0.2
Belgium	67.3	67.2	67.2	67.3	66.7	67.0	67.4	0.3	0.4
Bulgaria	62.9	63.0	63.5	65.1	61.7	63.0	65.0	1.3	2.0
Croatia	59.8	58.1	57.2	59.2	55.4	57.1	58.5	1.7	1.4
Cyprus	73.4	70.2	67.2	67.6	67.4	66.3	67.2	-1.1	0.9
Czech Republic	70.9	71.5	72.5	73.5	71.6	72.7	74.0	1.1	1.3
Denmark	75.7	75.4	75.6	75.9	75.0	74.4	75.9	-0.6	1.5
Estonia	70.6	72.2	73.3	74.3	72.2	72.4	74.4	0.2	2.0
EU (28 countries)	68.6	68.4	68.4	69.2	67.7	68.3	69.1	0.6	0.8
Euro area (18 countries)	68.4	68.0	67.7	68.1	67.1	67.3	68.0	0.2	0.7
Finland	73.8	74.0	73.3	73.1	72.3	72.0	71.8	-0.3	-0.2
France	69.3	69.4	69.5	69.4	68.9	69.0	68.9	0.1	-0.1
Germany	76.5	76.9	77.3	77.7	76.6	77.1	77.6	0.5	0.5
Greece	59.6	55.0	52.9	53.3	52.6	52.5	53.1	-0.1	0.6
Hungary	60.4	61.6	63.0	66.7	60.9	65.6	67.3	4.7	1.7
Ireland	63.8	63.7	65.5	67.0	64.3	66.0	67.7	1.7	1.7
Italy	61.0	60.9	59.7	59.9	59.6	59.3	59.7	-0.3	0.4
Latvia	66.3	68.1	69.7	70.7	68.8	70.4	71.5	1.6	1.1
Lithuania	66.9	68.5	69.9	71.8	68.5	70.3	72.2	1.8	1.9
Luxemburg	70.1	71.4	71.1	72.1	70.7	71.5	71.1	0.8	-0.4
Malta	61.6	63.1	64.8	66.3	64.0	65.8	66.1	1.8	0.3
Netherlands	76.4	76.6	75.9	75.4	75.9	74.8	76.0	-1.1	1.2
Poland	64.5	64.7	64.9	66.5	63.6	65.1	66.7	1.5	1.6
Portugal	68.8	66.3	65.4	67.6	64.1	66.5	67.9	2.4	1.4
Romania	63.8	64.8	64.7	65.7	63.2	64.2	63.7	1.0	-0.5
Slovakia	65.0	65.1	65.0	65.9	64.9	65.1	66.8	0.2	1.7
Slovenia	68.4	68.3	67.2	67.8	66.4	66.4	67.5	0.0	1.1
Spain	62.0	59.6	58.6	59.9	58.0	58.5	60.5	0.5	2.0
Sweden	79.4	79.4	79.8	80.0	78.7	78.8	79.2	0.1	0.4
United Kingdom	73.5	74.1	74.8	76.2	74.3	75.6	76.5	1.3	0.9

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

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

	Annual data (%)				1st quarter (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	39.9	41.6	43.8	45.1	42.1	43.5	45.1	1.4	1.6
Belgium	38.7	39.5	41.7	42.7	40.5	41.0	42.9	0.5	1.9
Bulgaria	44.6	45.7	47.4	50.0	45.5	47.9	50.2	2.4	2.3
Croatia	38.2	37.5	37.8	36.2	36.5	34.8	37.5	-1.7	2.7
Cyprus	54.8	50.7	49.6	46.9	50.4	45.2	46.7	-5.2	1.5
Czech Republic	47.7	49.3	51.6	54.0	50.3	52.7	54.5	2.4	1.8
Denmark	59.5	60.8	61.7	63.2	60.4	61.5	64.4	1.1	2.9
Estonia	57.5	60.5	62.6	64.0	62.9	59.5	61.8	-3.4	2.3
EU (28 countries)	47.2	48.7	50.1	51.8	48.9	50.8	52.2	1.9	1.4
Euro area (18 countries)	47.0	48.5	49.9	51.6	48.9	50.6	52.3	1.7	1.7
Finland	57.0	58.2	58.5	59.1	57.6	58.7	59.2	1.1	0.5
France	41.5	44.5	45.6	46.9	45.1	46.0	48.0	0.9	2.0
Germany	60.0	61.6	63.6	65.6	62.3	64.8	65.3	2.5	0.5
Greece	39.5	36.5	35.6	34.0	35.3	34.7	33.0	-0.6	-1.7
Hungary	35.3	36.1	37.9	41.7	36.3	40.2	43.0	3.9	2.8
Ireland	50.0	49.3	51.3	53.0	50.2	52.4	54.3	2.2	1.9
Italy	37.8	40.3	42.7	46.2	40.9	44.9	47.5	4.0	2.6
Latvia	50.5	52.8	54.8	56.4	53.2	56.0	58.7	2.8	2.7
Lithuania	50.2	51.7	53.4	56.2	52.4	55.1	58.7	2.7	3.6
Luxemburg	39.3	41.0	40.5	42.5	40.3	40.4	42.1	0.1	1.7
Malta	33.2	34.7	36.3	37.7	35.6	37.3	37.2	1.7	-0.1
Netherlands	55.2	57.6	59.2	59.9	58.3	59.0	61.1	0.7	2.1
Poland	36.9	38.7	40.6	42.5	39.0	41.1	42.9	2.1	1.8
Portugal	47.8	46.5	46.9	47.8	45.6	47.6	48.6	2.0	1.0
Romania	39.9	41.6	41.8	43.1	39.8	41.6	38.4	1.8	-3.2
Slovakia	41.3	43.1	44.0	44.8	44.3	42.8	45.9	-1.5	3.1
Slovenia	31.2	32.9	33.5	35.4	32.0	33.0	35.3	1.0	2.3
Spain	44.5	43.9	43.2	44.3	42.6	43.3	45.9	0.7	2.6
Sweden	72.0	73.0	73.6	74.0	72.7	73.5	74.1	0.8	0.6
United Kingdom	56.7	58.1	59.8	61.0	58.7	60.8	61.6	2.1	0.8

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

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

	Annual data (%)			1st quarter (%)			Change (%)	
	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	1.2	0.7	0.8	0.4	1.2	0.7	0.8	-0.5
Belgium	0.3	-0.3	0.4	-0.2	0.1	0.6	0.3	0.5
Bulgaria	-2.5	-0.4	0.4	-1.7	0.3	0.8	2.0	0.5
Croatia	-3.6	-2.6	2.7	-4.4	2.6	2.2	7.0	-0.4
Cyprus	-4.2	-5.2	-1.9	-4.8	-3.7	0.0	1.1	3.7
Czech Republic	0.4	0.4	0.4	0.5	0.5	1.1	0.0	0.6
Denmark	-0.3	0.0	0.7	-0.5	0.7	0.8	1.2	0.1
Estonia	1.7	1.2	0.8	1.9	-1.1	3.6	-3.0	4.7
EU (28 countries)	-0.5	-0.7	0.6	-0.9	0.2	0.8	1.1	0.6
Euro area (18 countries)	-0.4	-0.3	1.0	-0.5	0.7	1.1	1.2	0.4
Finland	0.9	-1.5	-0.4	-1.1	-0.9	0.0	0.2	0.9
France	0.3	0.0	0.3	0.0	0.3	0.0	0.3	-0.3
Germany	1.1	0.6	0.8	0.6	0.7	0.7	0.1	0.0
Greece	-7.8	-3.8	0.7	-6.2	-0.5	0.7	5.7	1.2
Hungary	0.1	0.9	3.1	0.4	3.3	3.4	2.9	0.1
Ireland	-0.6	2.4	1.7	:	:	:	:	:
Italy	-0.3	-1.8	0.1	-1.5	-0.5	0.3	1.0	0.8
Latvia	1.4	2.3	-1.3	3.9	0.1	0.0	-3.8	-0.1
Lithuania	1.8	1.3	2.0	1.2	2.3	1.7	1.1	-0.6
Luxemburg	2.4	2.0	2.3	1.9	2.2	:	0.3	:
Malta	2.3	4.2	4.5	3.0	4.4	2.7	1.4	-1.7
Netherlands	-0.2	-0.9	-0.2	-1.1	-0.8	0.6	0.3	1.4
Poland	0.1	-0.1	1.7	-0.5	1.7	1.6	2.2	-0.1
Portugal	-4.1	-2.9	1.4	-5.4	1.5	1.4	6.9	-0.1
Romania	-4.8	-0.6	0.8	-0.3	0.6	1.0	0.9	0.4
Slovakia	0.1	-0.8	1.4	-1.0	0.6	1.8	1.6	1.2
Slovenia	-0.8	-1.5	0.7	-2.1	0.3	1.0	2.4	0.7
Spain	-3.7	-2.6	1.3	-3.6	-0.2	2.9	3.4	3.1
Sweden	0.7	1.0	1.4	0.7	0.9	1.8	0.2	0.9
United Kingdom	1.1	1.2	2.3	1.3	2.3	1.9	1.0	-0.4

Table 11: Unemployment rate – Total population

	Annual data (%)				1st quarter (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	4.6	4.9	5.4	4.6	5.4	5.6	5.5	0.2	-0.1
Belgium	7.2	7.6	8.4	7.2	8.3	8.4	8.7	0.1	0.3
Bulgaria	11.3	12.3	13.0	11.3	13.0	12.3	9.9	-0.7	-2.4
Croatia	8.4	10.7	12.1	12.7	17.0	17.4	17.1	0.4	-0.3
Cyprus	13.7	16.0	17.3	17.3	14.6	15.7	16.3	1.1	0.6
Czech Republic	7.8	8.0	8.0	7.9	7.2	6.6	5.9	-0.6	-0.7
Denmark	7.6	7.5	7.0	7.6	7.2	6.8	6.2	-0.4	-0.6
Estonia	12.3	10.0	8.6	7.4	9.1	7.9	6.2	-1.2	-1.7
EU (28 countries)	6.7	7.0	7.0	6.1	10.9	10.5	9.7	-0.4	-0.8
Euro area (18 countries)	9.7	10.5	10.9	10.2	12.0	11.8	11.2	-0.2	-0.6
Finland	7.8	7.7	8.2	8.7	8.1	8.4	9.2	0.3	0.8
France	9.2	9.8	10.3	9.2	10.3	10.1	10.3	-0.2	0.2
Germany	5.8	5.4	5.2	5.8	5.4	5.1	4.8	-0.3	-0.3
Greece	17.9	24.5	27.5	26.5	26.9	27.1	25.9	0.2	-1.2
Hungary	5.0	5.8	7.3	7.4	10.9	7.9	7.4	-3.0	-0.5
Ireland	8.1	7.9	7.6	6.1	13.7	12.1	10.0	-1.6	-2.1
Italy	21.4	24.8	26.1	24.5	11.8	12.7	12.4	0.9	-0.3
Latvia	7.9	11.9	15.9	16.1	12.6	11.6	9.9	-1.0	-1.7
Lithuania	16.2	15.0	11.9	10.8	12.4	11.3	9.2	-1.1	-2.1
Luxemburg	15.4	13.4	11.8	10.7	5.6	6.0	5.8	0.4	-0.2
Malta	4.8	5.1	5.9	5.9	6.3	6.0	5.9	-0.3	-0.1
Netherlands	6.4	6.3	6.4	5.9	6.8	7.8	7.1	1.0	-0.7
Poland	11.0	11.0	10.2	7.7	10.6	9.8	8.0	-0.8	-1.8
Portugal	9.7	10.1	10.3	9.0	17.3	14.9	13.5	-2.4	-1.4
Romania	12.9	15.8	16.4	14.1	7.0	7.0	6.9	0.0	-0.1
Slovakia	7.2	6.8	7.1	6.8	14.2	13.8	12.1	-0.4	-1.7
Slovenia	13.7	14.0	14.2	13.2	10.3	10.1	9.2	-0.2	-0.9
Spain	14.7	14.7	13.1	11.3	26.2	25.3	23.1	-0.9	-2.2
Sweden	8.2	8.9	10.1	9.7	8.1	8.1	7.8	0.0	-0.3
United Kingdom	10.1	11.4	12.0	11.6	7.8	6.7	5.5	-1.1	-1.2

Table 12: Unemployment rate - Male

	Annual data (%)				1st quarter (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	4.6	5.0	5.4	5.9	5.6	5.7	5.8	0.1	0.1
Belgium	7.1	7.7	8.7	9.0	8.6	9.0	9.2	0.4	0.2
Bulgaria	12.3	13.5	13.9	12.3	14.2	13.1	10.5	-1.1	-2.6
Croatia	7.5	9.8	11.5	11.9	17.1	16.3	17.2	-0.8	0.9
Cyprus	13.7	16.0	17.7	16.5	14.9	16.3	16.7	1.4	0.4
Czech Republic	7.8	8.2	8.2	8.2	6.3	5.5	5.0	-0.8	-0.5
Denmark	7.7	7.5	6.7	6.4	6.9	6.3	6.1	-0.6	-0.2
Estonia	13.1	10.9	9.1	7.9	9.5	8.2	6.4	-1.3	-1.8
EU (28 countries)	5.8	6.0	5.9	5.1	10.9	10.5	9.7	-0.4	-0.8
Euro area (18 countries)	9.6	10.4	10.8	10.1	11.9	11.7	11.1	-0.2	-0.6
Finland	8.4	8.3	8.8	9.3	8.8	9.0	9.7	0.2	0.7
France	8.8	9.8	10.3	10.5	10.4	10.4	10.7	0.0	0.3
Germany	6.1	5.6	5.5	5.3	5.6	5.3	5.1	-0.3	-0.2
Greece	15.2	21.6	24.5	23.7	24.2	24.4	22.8	0.2	-1.6
Hungary	4.6	5.5	7.2	7.2	11.2	7.6	7.3	-3.6	-0.3
Ireland	8.7	8.4	8.0	6.4	15.9	13.8	11.5	-2.1	-2.3
Italy	21.1	24.6	25.6	23.6	11.0	12.0	11.9	1.0	-0.1
Latvia	8.1	12.6	16.6	17.1	13.9	13.1	10.3	-0.8	-2.8
Lithuania	18.6	16.2	12.6	11.8	13.9	12.7	10.1	-1.2	-2.6
Luxemburg	17.9	15.2	13.1	12.2	5.2	5.9	5.5	0.7	-0.4
Malta	3.9	4.5	5.6	5.9	6.1	6.3	6.1	0.2	-0.2
Netherlands	6.0	5.7	6.5	6.2	6.7	7.6	6.8	0.9	-0.8
Poland	11.1	11.3	10.2	7.6	9.8	9.3	7.6	-0.5	-1.7
Portugal	9.0	9.4	9.7	8.5	17.5	14.8	12.9	-2.7	-1.9
Romania	12.6	15.9	16.3	13.8	7.5	7.6	7.5	0.1	-0.1
Slovakia	7.7	7.4	7.7	7.3	13.7	13.8	11.3	0.1	-2.5
Slovenia	13.7	13.5	14.0	12.8	9.5	9.3	8.4	-0.2	-0.9
Spain	17.8	17.7	15.0	12.9	25.8	24.6	22.0	-1.2	-2.6
Sweden	8.2	8.4	9.5	9.0	8.3	8.3	7.9	0.0	-0.4
United Kingdom	9.9	11.2	11.9	11.5	8.2	7.0	5.7	-1.2	-1.3

Table 13: Unemployment rate - Female

	Annual data (%)				1st quarter (%)			Change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	4.6	4.8	5.3	5.4	5.1	5.6	5.2	0.5	-0.4
Belgium	7.2	7.4	8.2	7.9	8.0	7.7	8.1	-0.3	0.4
Bulgaria	10.1	10.8	11.8	10.4	11.6	11.5	9.2	-0.1	-2.3
Croatia	9.5	11.8	13.1	13.8	16.9	18.6	16.9	1.7	-1.7
Cyprus	13.8	16.1	16.8	18.3	14.3	15.0	15.9	0.7	0.9
Czech Republic	7.7	7.7	7.9	7.7	8.4	7.9	6.9	-0.5	-1.0
Denmark	7.5	7.5	7.3	6.8	7.5	7.3	6.3	-0.2	-1.0
Estonia	11.6	9.1	8.2	6.8	8.8	7.7	6.0	-1.1	-1.7
EU (28 countries)	7.9	8.2	8.3	7.4	11.0	10.6	9.9	-0.4	-0.7
Euro area (18 countries)	9.8	10.5	10.9	10.3	12.2	11.9	11.4	-0.3	-0.5
Finland	7.1	7.1	7.5	8.0	7.3	7.8	8.6	0.5	0.8
France	9.5	9.8	10.2	10.1	10.2	9.9	10.0	-0.3	0.1
Germany	5.6	5.2	4.9	4.6	5.1	4.8	4.5	-0.3	-0.3
Greece	21.5	28.2	31.4	30.2	30.5	30.7	29.8	0.2	-0.9
Hungary	5.4	6.2	7.3	7.8	10.4	8.3	7.5	-2.1	-0.8
Ireland	7.4	7.4	7.1	5.8	11.1	10.1	8.2	-1.0	-1.9
Italy	21.8	25.1	26.7	25.4	12.9	13.5	13.1	0.6	-0.4
Latvia	7.7	11.1	15.2	15.1	11.4	10.2	9.4	-1.2	-0.8
Lithuania	13.8	14.0	11.1	9.8	10.9	9.9	8.3	-1.0	-1.6
Luxemburg	12.9	11.6	10.5	9.2	6.1	6.1	6.2	0.0	0.1
Malta	6.0	5.8	6.2	6.0	6.7	5.6	5.6	-1.1	0.0
Netherlands	7.1	7.3	6.3	5.4	6.8	8.0	7.5	1.2	-0.5
Poland	11.0	10.6	10.1	7.9	11.4	10.4	8.4	-1.0	-2.0
Portugal	10.4	10.9	11.1	9.6	17.1	14.9	14.1	-2.2	-0.8
Romania	13.2	15.6	16.6	14.5	6.3	6.2	6.0	-0.1	-0.2
Slovakia	6.5	6.1	6.3	6.1	14.9	13.7	13.2	-1.2	-0.5
Slovenia	13.7	14.5	14.5	13.6	11.1	11.0	10.2	-0.1	-0.8
Spain	10.8	11.0	10.7	9.4	26.7	26.0	24.5	-0.7	-1.5
Sweden	8.2	9.4	10.9	10.6	7.9	7.8	7.6	-0.1	-0.2
United Kingdom	10.4	11.5	12.1	11.8	7.3	6.4	5.3	-0.9	-1.1

Table 14: Long term unemployment rate(*)

	Annual data (%)				1st quarter (%)			change (%)	
	2011	2012	2013	2014	2013	2014	2015	2014/13	2015/14
Austria	26.3	24.9	24.6	27.2	21.1	26.1	27.3	5	1.2
Belgium	48.3	44.7	46.1	49.9	45.5	47.2	52.3	1.7	5.1
Bulgaria	55.7	55.2	57.3	60.4	54.9	58.6	59.1	3.7	0.5
Croatia	61.3	63.7	63.6	58.4	61.1	53.1	59.7	-8	6.6
Cyprus	20.8	30.1	38.3	47.7	34.7	44.3	43.1	9.6	-1.2
Czech Republic	40.6	43.4	43.4	43.5	43.3	41.1	45.7	-2.2	4.6
Denmark	24.4	28.0	25.5	25.2	24.7	28.0	27.3	3.3	-0.7
Estonia	57.3	54.7	44.5	45.3	45.9	43.7	42.2	-2.2	-1.5
EU (28 countries)	43.0	44.5	47.3	49.5	45.3	48.5	48.2	3.2	-0.3
Euro area (18 countries)	45.2	46.5	49.8	52.6	47.5	51.4	51.1	3.9	-0.3
Finland	22.2	21.4	20.7	22.4	20.6	20.8	23.1	0.2	2.3
France	41.5	40.4	40.5	42.8	37.9	41.7	41.8	3.8	0.1
Germany	47.9	45.4	44.7	44.3	42.6	44.0	43.1	1.4	-0.9
Greece	49.3	59.1	67.1	73.5	63.6	71.4	71.6	7.8	0.2
Hungary	47.6	45.3	48.6	47.5	42.8	49.3	43.1	6.5	-6.2
Ireland	59.3	61.7	60.6	59.2	62.4	61.4	60.7	-1	-0.7
Italy	52.0	53.2	56.9	61.4	55.4	59.1	57.7	3.7	-1.4
Latvia	54.5	52.1	48.6	43.0	53.8	43.6	43.7	-10.2	0.1
Lithuania	52.1	49.2	42.9	44.7	45.3	41.6	42.2	-3.7	0.6
Luxemburg	28.8	30.3	30.4	27.4	34.8	23.4	25.5	-11.4	2.1
Malta	47.3	48.5	45.7	46.8	51.2	47.1	47.4	-4.1	0.3
Netherlands	33.2	33.7	35.8	40.0	33.1	37.8	43.5	4.7	5.7
Poland	37.2	40.3	42.5	42.7	39.8	42.8	40.3	3	-2.5
Portugal	48.4	48.8	56.4	59.6	52.8	57.0	57.2	4.2	0.2
Romania	41.0	44.2	45.2	41.1	42.9	39.1	43.0	-3.8	3.9
Slovakia	67.9	67.3	70.2	70.2	67.8	72.0	65.0	4.2	-7
Slovenia	44.2	47.9	51.0	54.5	46.9	52.8	50.6	5.9	-2.2
Spain	41.6	44.4	49.7	52.8	47.1	52.3	52.3	5.2	0
Sweden	19.6	18.9	18.5	18.9	18.7	18.1	19.3	-0.6	1.2
United Kingdom	33.5	34.7	36.2	35.8	36.2	37.4	32.7	1.2	-4.7

(*) % 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 (%)				1st quarter (%)			Change (%)	
	2011	**2012**	**2013**	**2014**	**2013**	**2014**	**2015**	**2014/13**	**2015/14**
Austria	8.9	9.4	9.7	10.3	9.3	10.9	9.1	1.6	-1.8
Belgium	18.7	19.8	23.7	23.2	22.5	23.5	21.1	1	-2.4
Bulgaria	25.0	28.1	28.4	23.8	28.1	26.1	21.6	-2	-4.5
Croatia	36.7	42.1	50.0	45.5	52.5	45.1	43.6	-7.4	-1.5
Cyprus	22.4	27.7	38.9	36.0	35.6	37.2	34.4	1.6	-2.8
Czech Republic	18.1	19.5	18.9	15.9	19.4	16.9	14.4	-2.5	-2.5
Denmark	14.2	14.1	13.0	12.6	13.0	13.6	10.5	0.6	-3.1
Estonia	22.4	20.9	18.7	15.0	20.0	17.4	12.5	-2.6	-4.9
EU (28 countries)	21.7	23.3	23.7	22.2	23.8	23.0	20.9	-0.8	-2.1
Euro area (18 countries)	21.2	23.5	24.4	23.8	24.5	24.2	22.7	-0.3	-1.5
Finland	20.1	19.0	19.9	20.5	19.8	20.1	22.1	0.3	2
France	22.6	24.4	24.8	24.0	25.5	23.5	24.7	-2	1.2
Germany	8.5	8.0	7.8	7.7	7.7	7.9	7.2	0.2	-0.7
Greece	44.7	55.3	58.3	52.4	59.9	56.7	51.8	-3.2	-4.9
Hungary	26.0	28.2	26.6	20.4	28.2	21.0	19.1	-7.2	-1.9
Ireland	29.1	30.4	26.8	23.9	27.6	26.0	22.0	-1.6	-4
Italy	29.2	35.3	40.0	42.7	39.0	43.4	41.9	4.4	-1.5
Latvia	31.0	28.5	23.2	19.6	23.5	20.5	15.7	-3	-4.8
Lithuania	32.6	26.7	21.9	19.3	23.3	20.6	17.2	-2.7	-3.4
Luxemburg	16.4	18.0	16.9	22.0	18.5	18.1	20.4	-0.4	2.3
Malta	13.3	14.1	13.0	11.8	13.3	13.0	10.8	-0.3	-2.2
Netherlands	10.0	11.7	13.2	12.7	12.5	13.6	11.2	1.1	-2.4
Poland	25.8	26.5	27.3	23.9	27.5	25.6	21.7	-1.9	-3.9
Portugal	30.2	38.0	38.1	34.7	40.7	36.1	33.2	-4.6	-2.9
Romania	23.9	22.6	23.7	24.0	23.3	24.7	23.3	1.4	-1.4
Slovakia	33.7	34.0	33.7	29.7	34.2	31.9	26.2	-2.3	-5.7
Slovenia	15.7	20.6	21.6	20.2	21.0	21.3	17.0	0.3	-4.3
Spain	46.2	52.9	55.5	53.2	55.4	54.2	50.2	-1.2	-4
Sweden	22.8	23.7	23.6	22.9	24.2	23.3	21.4	-0.9	-1.9
United Kingdom	21.3	21.2	20.7	16.9	20.6	18.8	15.7	-1.8	-3.1